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Go where you want to go

Avanti Communications Group plc

Annual Report and Accounts 2012

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Avanti Communications sells satellite data communications services to telecoms companies which use them to supply enterprise, institutional and consumer users.

Avanti's first satellite, called HYLAS 1, launched in November 2010 and was the first superfast Ka-band satellite launched in Europe. Avanti's second satellite, called HYLAS 2, was launched in August 2012 and extends Avanti's coverage to Africa, the Caucasus and the Middle East. HYLAS 3 will also serve Africa in 2015.

Highlights

HYLAS 1: first anniversary of satellite launch and service launch

HYLAS 3: fully financed and construction commenced

HYLAS 2: successfully launched shortly after the financial year-end

This has been a year of very strong growth for Avanti. The momentum of launching our second satellite in as many years to expand coverage to a total of 53 countries has created very significant demand. Within the emerging markets that Avanti serves our flexible and resilient technology is winning business from customers who urgently need reliable, high quality communications.

John Brackenbury CBE, Chairman

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Backlog increased very significantly during the last year, as our sales efforts in preparation for HYLAS 2 launch generated noticeable success. We are already almost fully sold out on a number of our beams with good progress in many others. Middle East and Southern Africa are particularly strong markets.

David Williams, Chief Executive

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Over the year the build of HYLAS 2 and the ground station infrastructure was completed with fixed asset additions of £68.6 million leaving a net book value of £372.3 million

Nigel Fox, Group Finance Director

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Chairman's Statement

The launch of service on HYLAS 2 over Africa and the Middle East gives us access to markets showing high economic and structural growth in demand for telecoms services. We look forward to the continued development of Avanti with growing confidence.

I am pleased to present the results for the year ended 30th June 2012, a year of significant achievement. With the first full year of revenues from HYLAS 1, the launch of our second satellite, HYLAS 2 shortly after the financial year end and the commencement of construction of our third satellite, HYLAS 3, Avanti now has a significant presence in the satellite industry.

With two operational satellites, Avanti is now a resilient, market leading operator of genuine scale, and this is reflected in changing customer perceptions and the order intake which results. Avanti has broader international Ka-band coverage than any other satellite operator in the World, and having pioneered unique technologies and business models is at the forefront of developments in the emerging markets which it prioritises.

The very significant increase in our Backlog of contracted customer orders during the year results from several factors. Firstly, HYLAS 1 continues to grow in the high value added, higher margin applications areas we target in Europe. Secondly, the experience of operating HYLAS 1 for over a year has given great confidence to our customers in Africa and the Middle East, who have been able to test real services in advance of the HYLAS 2 launch and see for themselves the quality and resilience Avanti has designed into its system. Thirdly, the emerging markets are experiencing high demand resulting from strong underlying economic growth and poor existing telecoms supply. The financial performance we expect to deliver in the next few years is increasingly well underpinned by Backlog. Performance for the year to June 2012 was in line with management expectations.

Moreover, we have consistently achieved the target of an average £11 million of new backlog every month that we set ourselves in December 2011. This is a useful metric and is the key performance measure applied to our sales efforts. If we continue to sign contracts to this value each month, then we could expect to achieve our target to have finished filling our current fleet in 2016. Backlog of customer contracted revenues has increased from £171m to £268m. We are approaching full capacity on a number of our beams.

Whilst backlog is strong, it is a little more back-ended than expected as customers have typically committed to five year contracts with bandwidth usage which sharply escalates during the later period of the contract. Thus they lock in availability whilst minimising risks as they build their business. The benefit of 18 months selling on both satellites now gives the Board more empirical data with which to plan future activity, and the Company has used this data to offer conservative guidance to the market.

During the year, we entered into an agreement for the construction of HYLAS 3 in a project on a spacecraft shared with the European Space Agency (“ESA”). ESA’s project has been in preparation for a number of years and we were very pleased to be chosen as their partner following a competitive tender. At the same time as finalising contracts with ESA, we were able to raise £75m in equity to finance fully the entire HYLAS 3 project. ESA played a critical role in the development of HYLAS 1 and we are pleased to have HYLAS 3 under construction and scheduled for launch in late 2015.

With HYLAS 3 fully financed and under construction, 83% of Avanti’s capacity addresses emerging markets. This focus is critical for Avanti. These countries continue to exhibit strong economic growth, and this, combined with the limited telecoms infrastructure, presents a strong opportunity, capitalised upon by our early backlog success. We are also pleased that our focus on building resilient, flexible networks is bearing fruit. As a result of this and product innovation we made significant breakthroughs this year in carrier services and enterprise markets where margins are strong and we have technological advantages. We are also playing to our strengths in broadband, choosing our partners carefully and focussing on areas of technical advantage.

The Board believes that a move to the Full List is in the best interests of the Company and Shareholders and is actively working on preparations for this. The Company also continues to evaluate options for additional satellites, but only if they can be prudently debt financed without recourse to shareholders. Bearing in mind these forthcoming activities, the Board has adopted an increasingly conservative accounting treatment for certain FY12 transactions, particularly relating to the deferral of income over the lifetime of contracts, regardless of upfront cash inflows. We continue to prepare the Board and corporate governance standards for life on the Full List.

Finally, I am pleased to announce that HYLAS 2 has completed all test and commissioning activities, and is now open for business in all beams and territories. Following a successful campaign, we have also verified that the conservative engineering margins that were built into our plans are no longer necessary. This means that we now have 11GHz of capacity available for sale to customers, rather than the 9GHz originally planned.

This has been a year of very strong growth for Avanti. The momentum of launching our second satellite in as many years to expand coverage to a total of 53 countries has created very significant demand. This is now evidenced in our contract backlog which grew by 57% in the year. Within the emerging markets that Avanti serves our flexible and resilient technology is winning business from customers who urgently need reliable, high quality communications. The formal launch of service on HYLAS 2 over Africa and the Middle East gives us access to markets showing high economic and structural growth in demand for telecoms services. We look forward to the continued development of Avanti with growing confidence. I should like to take this opportunity to give the Board’s appreciation to our executive team and staff for their dedication to a successful launch of HYLAS 2 and the good work this year in building the Company.

John Brackenbury, CBE
Chairman

Our Strategy

We prioritise flexibility, resilience and quality of service in order to meet the complex and changing needs of service providers in many geographies and application markets.

Our strategy is underpinned by four Axioms which have remained unchanged since we first embarked on our journey in 2002.

Avanti Axioms

Data usage will continue to grow in double digits for the foreseeable future

Penetration rates will increase:

- Only 32.7% of global population had internet access at December 2011
- Developed World penetration rates are 60%–80%. Emerging markets are <40%. Africa is only 13.5%

Data usage per user will increase:

- Global mobile data usage grew 230% in 2011
- Avanti has seen average MB downloaded per user double in 5 years
- New applications are developing, such as asset tracking, which will massively increase the number of devices requiring data connectivity

Strategic Drivers

We target data traffic of all kinds

Terrestrial infrastructure will not satisfy universal demand

Existing terrestrial technologies all have limits:

- Copper, Fibre and 4g have limitations that prevent more than 98% coverage in even the most advanced and densely populated countries like the UK. Coverage is far lower in less developed countries

There is inadequate capital to roll-out terrestrial networks in emerging economies

Many applications are just better suited to satellite (security and defence, video, ubiquitous networks)

Strategic Drivers

We spread our coverage widely to offer ubiquity of our service

Predicting the direction and quantum of data growth is impossible, but flexible satellite design can address it

New devices and applications are constantly developing and changing usage patterns

Avanti has focused on providing broad and flexible satellite coverage to enable us to capture growth in demand for bandwidth, wherever it comes from

Strategic Drivers

We prioritise flexibility in network design and also resilience and security to win on Quality of Service

Emerging markets are the most attractive

The highest supply/demand imbalance
The highest potential delta on GDP growth

The greatest acceptance of satellite technology with the most limited physical infrastructure

Strategic Drivers

We continue to strive to maintain early mover advantage in new territories

Our Model

Our sights are entirely focussed on reaching customers wherever they are, and providing them with the means to communicate effectively and consistently.

Avanti Differentiators

Flexibility

- Our satellites are designed to move capacity between countries and regions to accommodate differentials in demand growth and mitigate risks
- Our design clusters country beams together at single Earth Stations to give maximum control to national customers
- We offer raw bandwidth, managed megabit and customer account styles of purchase, to accommodate different customer appetites for control and systems integration
- We offer a multi-vendor platform in ground equipment to accommodate customer choice

Security

- Avanti builds strong and safe spacecrafts and launches on the most reliable launch vehicles to guarantee customers' success
- We design the highest level of encryption and security into our satellite communications
- Our earth infrastructure is highly resilient. We pioneered a novel system for managing dual redundant gateway antenna, ensuring both the high availability and quality of our service
- Overlapping satellites and beams provide redundancy

Growth

- We are extending our capacity and coverage to serve our customers better
- The launch of HYLAS 2 has resulted in a 280% increase in our capacity
- We are continually researching and developing new products as well as improving the efficiency of our satellites so we can serve more customers

Our Satellites

Avanti's satellites are unique in offering flexible capacity.

We build-in the ability to move power between beams and even steer beams to different regions. This enables us to target growing markets and ensure demand throughout each satellite's life.

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.

H1 can variably re-deploy power between beams and can change the frequency at which it operates.

Orbital Location: 33.5° W

Lift Off Mass: 2300 Kg

Life: 15 years

Payload Power: >2.0 kW

Capacity: up to 3 GHz

Geography: Europe

HYLAS 2

HYLAS 2 launched in August 2012 and uses the latest Ka-band technology to deliver high speed, low cost two-way data communications. Deploying 24 fixed beams and one steerable beam, HYLAS 2 provides customers with the flexibility to address current and future markets across Europe, the Middle East, Caucasia and Africa.

H2 can switch power between beam pairs.

Orbital Location: 31.0° E

Lift Off Mass: 3200 Kg

Life: 15 years

Payload Power: 5.0 kW

Capacity: up to 11 GHz

Geography: Europe, Middle East, Caucasia and Africa

HYLAS 3

HYLAS 3 is being constructed under a joint venture agreement with the European Space Agency. It will consist of eight beams within a single steerable antenna that can provide coverage of an area equivalent to a region the size of Southern Africa. It will be positioned covering Africa and the Middle East. The project is fully financed.

Coverage can be moved entirely from day-to-day with a steerable array.

Launch Date: 2015

Life: 15 years

Capacity: up to 4.0 GHz

Geography: Middle East and Africa

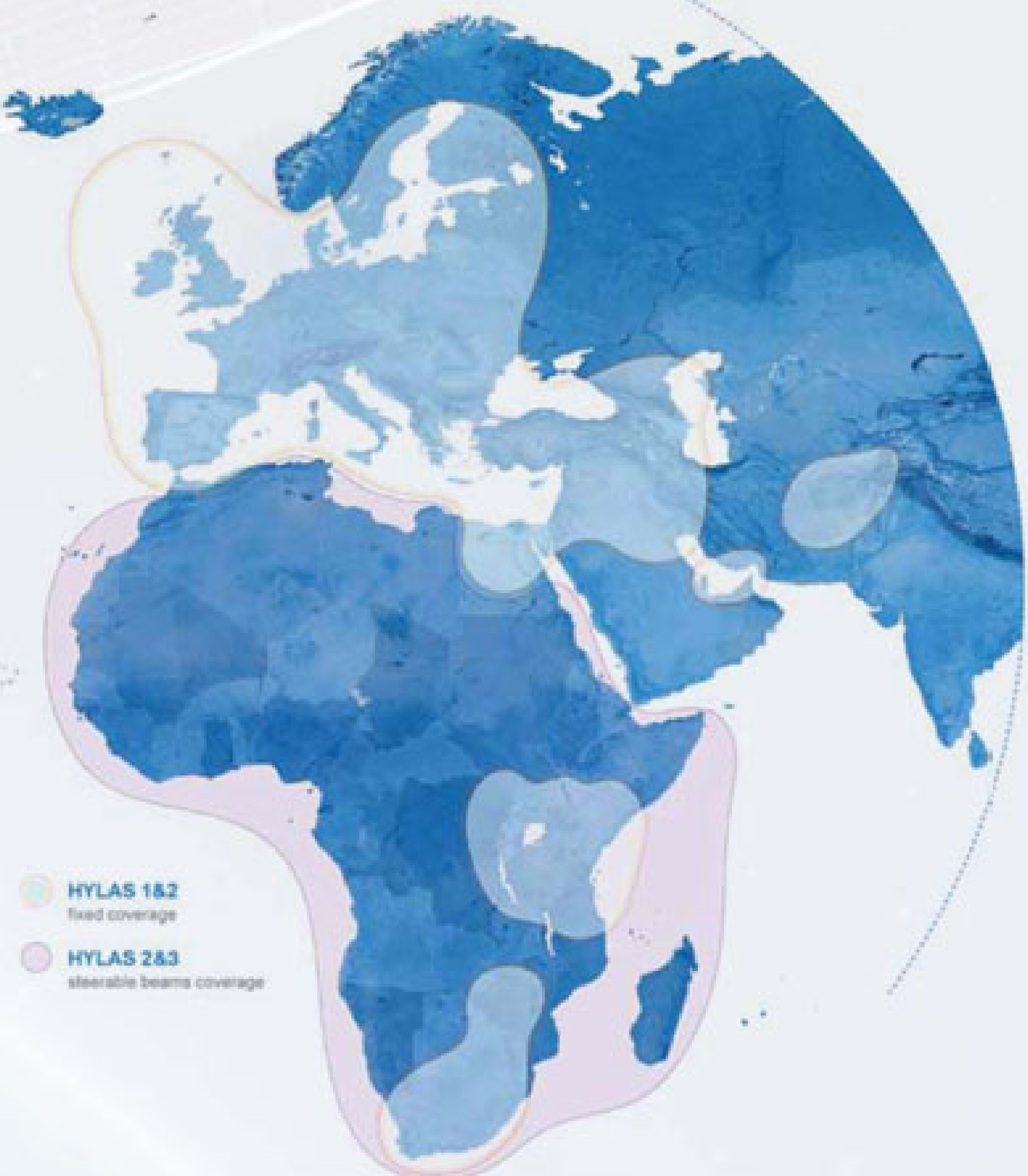
Watch the launch of HYLAS 2

www.avantiplc.com/hylas2

Avanti's second satellite, HYLAS 2, launched on 2 August 2012 and brings superfast Ka-band satellite capacity to the Middle East, Caucasia and Africa.

Geographic reach

We combine steerable capacity and the ability to shift power between beams to enable us to meet changes in market demand across Europe, the Middle East, Caucasia and Africa.



Our Business

Our technology has fundamentally changed the economics of high-speed data communications.

Our Customers

Enterprise

Avanti is committed to helping Enterprises compete and grow. Our Ka-band infrastructure, flexibility and security help address data communications needs across a wide variety of sectors.

Modern companies make widely differing demands of their telecoms networks. Some need to move vast amounts of data from point to point, others need to trickle tiny volumes of data from large numbers of sites. What is common in the Enterprise sector is – a) a need for ubiquitous service across territories to avoid the problems of integrating different technology platforms; b) a need for the highest level of security and encryption; c) a demand for very high resilience and up-time; and d) rapid, easy deployment. Our network addresses these requirements perfectly. Not only are the advantages of supra-national high speed coverage evident, but Avanti has designed its network with a higher degree of encryption, security, resilience and flexibility than is common in the industry.

The applications for our technology in Enterprise include: Satellite News Gathering (or "outside broadcasting"), Telemetry for utility companies, remote medical data collection, EPOS data collection as well as bespoke, proprietary corporate networking.

Avanti's customers are represented across a broad range of industry sectors including energy, broadcast, construction, oil & gas and finance. Every one of our customers benefits from our integrated support systems, 24/7 customer service and low cost Ka-band space segment.

For case study, see p10

Broadband

Traditional methods of broadband internet provision are not possible in many parts of the world. The HYLAS fleet of satellites provides high speed coverage over those areas that other network operators cannot service in Europe, the Middle East and Africa.

Satellite broadband is ideal where there is limited or no terrestrial connection available. It is independent of distance to the telephone exchange, quick to install and competitively priced. Avanti has exceptional experience of deploying high speed satellite broadband to support homes and businesses that require internet access but cannot get a fixed-line fibre, copper or cable connection.

Avanti has worked in the most challenging locations – and always delivers consistent, reliable services based on our world leading technology platform that provides high-speed connectivity to customers across the EMEA region.

For case study, see p16

Carrier Service

Fixed line and wireless carriers' revenues are proportional to their ability to provide breadth and consistent quality of connectivity to their customers. Carriers are constantly looking for new ways to extend their network coverage, appealing to new customers whilst improving existing overburdened infrastructure to deliver a great customer experience.

Avanti has established a leading position in the deployment of small cell mobile telephone solutions, which provide mobile and Wi-Fi network operators with the capability to extend their network reach or deal with network traffic overload.

We provide the lowest cost IP Trunking solution for ISPs, delivering many hundreds of Mb/s into POPs at prices previously only possible with fibre.

We support network operators who want to extend their networks, improve coverage quality or build satellite into their backhaul strategy. Avanti's range of satellite solutions offers the flexibility to facilitate this in a rapid and cost effective manner.

For case study, see p20

Defence & Security

Ka-band is revolutionising the delivery of high-speed operational and welfare services for the defence, homeland and civil security sectors. Ka-band offers significant cost savings without compromising on data throughput or security.

HYLAS 2 is equipped with a steerable beam which enables a fast response to crises and the ability to deploy additional capacity at any time to any location within the satellite's view of the earth. In addition, Avanti's ground infrastructure and high levels of encryption in military spectrum bands provides a secure and resilient base for national and international operations.

For case study, see p26

Go capture

An example of the many specialist applications served in the Enterprise market.

Enterprise

Satellite News Gathering (SNG) for the IP Generation

The Challenge

Satellite communication is vitally important for news gathering organisations which rely on secure, robust connectivity for reporting from some of the most remote areas of the world. This includes regions where communications infrastructure is non-existent or has been badly impacted by wars or natural disasters.

The Solution

Avanti's Satellite News Gathering (SNG) proposition delivers a flexible, resilient and secure service. Simple and transparent tariffs, which include bookable capacity, bookable throughput and immediate use, ensure all broadcast requirements are covered. Our competitive pricing and service levels address the growing requirements for high bandwidth and cost effective content contribution.

The Benefit

Avanti provides a flexible and cost effective service perfectly suited to the fast-paced and often unpredictable world of news gathering. The proposition will operate over HYLAS satellites, providing coverage across EMEA. Developed in close association with Europe's leading terminal manufacturers, Avanti's approach will ensure broadcasters have a wide choice of technical solutions available to them 24 hours a day, 7 days a week.

Chief Executive's Statement

During the year, the HYLAS 1 Orbital filings at 33.5°West were finalised in the ITU Master Register, and Avanti's Bringing Into Use of its filings at 31°East were accepted by the ITU BR and are therefore progressing towards finalisation in the usual way. We have received the necessary Space Licenses for HYLAS 1 and 2 from the UK Space Agency. It is significant for a satellite operator to achieve these milestones, as it provides underpinning to the solidity and future capabilities of the business.

Our results for the year show the first full year of revenues from HYLAS 1. In the year we made significant progress with products in Enterprise and Carrier Services. We made good progress in broadband in Northern Europe, although Southern Europe remains challenging.

The experience of operating this satellite has also greatly assisted us in building backlog for HYLAS 2 to a level which now provides significant underpinning to trading. Backlog increased very significantly during the last year, as our sales efforts in preparation for HYLAS 2 launch generated noticeable success. We are already almost fully sold out on a number of our beams with good progress in many others. Middle East and Southern Africa are particularly strong markets and demand has been evenly split between Carrier Services, Enterprise and Broadband, with some Defence and Security orders coming through slowly.

The construction of HYLAS 2 was finished within budget and the satellite launched shortly after the year-end, only a couple of months beyond the original guidance. We are pleased to announce that HYLAS 2 is open for service on all beams. Also it is satisfactory to note that the significant margin for error built into the satellite design by our engineers has not been necessary, and as a result we are able to sell 11GHz of capacity, not the 9GHz originally planned. Advances made in customer modems in the last few years are also resulting in very high efficiency in converting raw capacity into IP services. We are therefore delighted with the outcome of the HYLAS 2 procurement, and have a highly competitive, as well as resilient and flexible service offering. During the year, the HYLAS 1

Orbital filings at 33.5°West were finalised in the ITU Master Register, and Avanti's Bringing Into Use of its filings at 31°East were accepted by the ITU BR and are therefore progressing towards finalisation in the usual way. We have received the necessary Space Licenses for HYLAS 1 and 2 from the UK Space Agency. It is significant for a satellite operator to achieve these milestones, as it provides underpinning to the solidity and future capabilities of the business.

During the year we also signed contracts for the construction of HYLAS 3 and raised the capital to fully finance it. With 83% of our satellite capacity focused on emerging markets, we are very encouraged by the resilience that these economies are showing in the current global environment and that demand is coming through strongly.

Current Trading and Outlook

Our Backlog of contracted orders and the Pipeline of potential contracts have both increased sharply during the year. Backlog has jumped by 57% and now stands at £268 million, (2011: £171 million) while Pipeline has increased to £552 million (2011: £473 million). We are satisfied that orders are flowing at the level necessary to meet our long term targets to fill our fleet, although the shape of the curve to get us there varies a little from plan. We are applying the right strategy in Europe, focussing on high value added business opportunities with our unique technical advantages. We are also delighted to have launched service in Africa and the Middle East during a period of unprecedented high demand growth in those regions.

HYLAS 3 procured and fully financed

In January 2012, Avanti was selected by ESA as its partner in a new satellite project following a competitive tendering process and in February we raised £75 million to enable us to fully finance our share of the project. We have now commenced the construction of HYLAS 3 in a partnership with them. Avanti and ESA have worked together successfully in the past on projects: in particular ESA and Avanti collaborated on ESA's first Public Private Partnership which led to the successful launch of HYLAS 1. We are very pleased to have been selected by them to participate in this innovative project.

HYLAS 3 will provide Avanti with a payload under our control delivering 4GHz of Ka-band capacity. This will be configured across eight beams within a single steerable antenna that can provide coverage of an area equivalent to a region the size of Southern Africa and can be moved anywhere in Africa and the Middle East throughout the life of the satellite. Delivery into orbit is expected in 2015.

The advantage for us of entering into a partnership agreement with ESA is that Avanti reduces costs relating to the satellite platform, launch vehicle, insurance and project management. We have entered into fixed price contracts for our payload and launch. Given the overlapping geographic coverage of HYLAS 2 and HYLAS 3, there should be little additional operating expenditure relating to HYLAS 3.

Business Overview

We have delivered strong service quality on HYLAS 1 and a flawless launch and entry into service of HYLAS 2. Our focus on prioritising flexibility to customers in terms of how they buy and use our services, along with the very high resilience we have built in space and ground infrastructure, is winning us a good reputation with expert customers.

We have continued to see steady growth in orders and enquiries for our services on HYLAS 1 and 2. The extra credibility we have from operating two satellites covering a significant part of the Globe has led to a compression in the average sales cycle, although larger transactions are still taking longer than six months to conclude. The opportunity for HYLAS 2 potential customers to trial products on HYLAS 1 before they enter into contracts helped us to speed up the buying process on that satellite.

We are also seeing a significant number of existing customers make repeat purchases in existing territories, or extending their operations into new territories. We have a full strength field sales force of seventeen professionals (plus sales support staff), with offices in South Africa, Kenya, Cyprus and UK. We made significant improvement in marketing in the year, creating a new communications plan, undergoing a modest re-brand and further refining and developing our end-user Applications, which can be summarised as follows:

Enterprise

Our Enterprise applications include for example Business Internet Continuity, SCADA for utilities, connections for oil rigs, and movie distribution for Digital Cinema projects. Our flexible, resilient, power networks are uniquely well suited to the demands of professional users in challenging environments. Our networks can be customised to a very high degree, enabling Avanti to say "Yes" to a customer request far more often than our competitors can. During the year, we also chose to launch a number of discrete products to Enterprise users targeting specific niches with common needs. For example, in September 2012 we announced the launch of our Satellite News Gathering ("SNG") product which uses our pioneering Ka band technology to deliver a flexible range of services to news gathering organisations operating on the move. Our SNG products are already contracted by one national broadcaster with another on trial.

Chief Executive's Statement continued

Broadband

Avanti's broadband customers range from governments and incumbent telcos to small resellers. The flexibility of our networks, platforms and commercial approaches enables us to accommodate almost every market strategy. Good demand in Northern Europe has been evident during the year, and in order to convert the demand to sales Avanti has focused its marketing resources on supporting a small number of key service providers in their drive to increase penetration. In Southern Europe, the picture is weaker, with service providers struggling to make commitments to their own sales and marketing expenditure necessary. For this reason, Avanti launched a ground breaking Pay As You Go product, whereby a service provider is billed only for the data actually used by each customer. The flexibility of our Network, and the advanced Business Operations System which we designed and built ourselves makes such a product technically straight forward for Avanti, and this is creating helpful marketing differentiation. In Africa, not only is broadband demand very strong, but also it is not very price sensitive amongst the early movers. High end consumers and businesses in Africa simply cannot be without broadband, and today the services available even in big cities are often low quality, if available at all. This has been partly responsible for driving the growth in backlog on HYLAS 2.

Carrier Services

Fixed line and wireless network operators are constantly looking for new ways to extend their network coverage and also to cope with the ever increasing demand for bandwidth from existing customers. The relatively slow pace of terrestrial infrastructure growth caused by cost and operational difficulties has led to significant opportunities for Avanti's products. Having proven our capabilities with HYLAS 1, we have launched products in both IP Trunking and wireless backhaul in the year.

- We launched our IP Trunking product in May. The advances made in ground equipment have been significant recently, and Avanti's flexible network is well positioned to benefit. This enables communications for voice and data at speeds of up to 365 Mbps, providing fibre equivalent speeds across large markets that would otherwise never experience such a high level of service. Combined with the very high power and efficiency available on HYLAS 2, we are now experiencing spectral efficiency on HYLAS 2 of greater than five times, meaning that IP trunking customers with special purpose ground equipment can realise effective pricing as low as they would achieve over fibre in some markets. This makes a major difference to the efficiency of ISPs in many African countries, and the product has already driven significant purchase of capacity in Southern and Eastern Africa.
- Avanti has established a leading position in the deployment of small cell wireless backhaul solutions, which provide wireless operators with the capability to extend their network reach and to provide service on a seasonal or occasional basis. Avanti signed its first fully commercial wireless backhaul service and launched the network with good performance. Two other network operators are now trialling the products in Europe with further traction expected in Africa.

We see strong potential growth in Carrier Services as operators compete to extend their networks and mobile phone companies continue to seek ways to shift rapidly growing data traffic off their limited spectrum. The commercial breakthroughs made in the year position Avanti strongly to benefit from these trends. The full roll-out of a small number of these networks could fully consume our available capacity, and so it has been very important that we prioritised R&D in this market and we are delighted to see the results coming through.

Defence & Security

Ka-band is revolutionising the delivery of high-speed operational and welfare services for the defence and homeland security sectors. Ka-band offers significant cost savings without compromising on data throughput or security. The flexibility and resilience of Avanti's satellites puts us at the forefront of providing this service. A number of our service providers are already providing welfare services, and we also completed trials in a number of more advanced application areas during the year.

Financial Review

Turnover and Other Operating Income for the year increased 246% to £15.0 million (2011: £6.1 million). This reflects the benefit of a 12 month period of sales for HYLAS 1 and is in line with the acceleration we expected. Revenue from HYLAS 2 will start to be realised in the fourth quarter of calendar 2012.

Our performance was in line with our management expectations for the year. The Board, giving consideration to the move to the Full List elected to adopt more conservative accounting treatments for certain FY12 transactions, particularly relating to the deferral of income over the lifetime of contracts, regardless of upfront cash inflows.

The Group reported an EBITDA loss of £5.3 million, which is down from £9.9 million in 2011. As anticipated, costs increased during the year as we incurred a full 12 month's depreciation on HYLAS 1 as opposed to only three months in 2011, and we continued to invest heavily in our staff. Staff numbers, which increased by 41 overall to 152, were involved principally in the ramp up of the HYLAS 3 project and in boosting our sales and marketing teams in the run-up to HYLAS 2's launch.

Reconciliation of EBITDA:

	2012 £'000s	2011 £'000s
Loss from operations	(15,759)	(12,859)
Add back: satellite depreciation net of ESA grant release	8,973	2,126
Add back: other depreciation and amortisation	1,484	813
	(5,302)	(9,920)

Avanti continues to hedge all currency exposures as they become certain. The HYLAS 2 companies have a functional currency of US dollars and have borrowings similarly denominated, creating a natural hedge for our current major exposures. Transactional exposures are hedged using a variety of low risk instruments available from our banking relationships.

As we reported in the interim statements we settled an on-going dispute with a former supplier fully in our favour. The settlement was made by way of new goods and services from the Supplier that will be used during the current financial year. The other operating income represents the value agreed at the arbitration.

The loss from operations was £15.8 million (2011: £12.9 million).

After an interest charge of £0.3 million, the Group reported a loss before tax of £16.0 million (2011: loss £12.7 million). The Group has carried forward net tax losses of £22.0 million (2011: £12.0 million). The loss per share was 14.86p (2011: 12.14p loss).

During the year, we raised £75.0 million in an equity placing to fully fund HYLAS 3, our joint venture project with ESA. We have a stable long-term balance sheet structure with an extended debt repayment profile.

In addition, as the construction of HYLAS 2 approached its close, we drew an additional $76.0 million (£48.5 million) on our Export Credit Agency debt facilities. Our gross debt at the year-end increased from £119.0 million to £175.0 million.

David Williams
Chief Executive

Go anywhere

An example of Avanti's flexible and high quality approach to serving the varying needs of broadband service providers around the world.

Broadband

A new innovative broadband product

The Challenge

Until now, both the provision and terms of high speed broadband has been an issue for second home owners and other occasional users. Many simply have no access to broadband at all, being located some distance from the nearest fibre optic cables, while others are unwilling to sign a 12 or 24 month contract when they only require the service for several weeks a year.

The Solution

Avanti is the first Ka-band operator to develop and bring to the market a Pay As You Go (PAYG) broadband proposition. The service provides high speed satellite broadband for homes and businesses, in any location across Europe, but with no fixed term contract; instead customers pay for their service up front and can use it whenever they wish. Top-ups for more data are available when required.

The Benefits

The new PAYG proposition allows infrequent users to purchase service on demand to match their usage requirements, wherever they are, and for however long they need. The service is ideal for:

- Holiday home owners looking to use internet connectivity to make their properties more attractive to the holiday rental market
- Those who need to stay in touch with the office while on holiday, or who can extend their holiday by being able to stay in touch
- Families with children looking to access digital entertainment during their holiday (making the fortnight in the remote country farmhouse less stressful!)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Finance & Operating Review

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

Following the first full year of operations, revenues and other operating income have increased by 246% to £15.0 million (2011: £6.1 million). HYLAS 1 has beams spread across Northern and Southern Europe. Northern Europe is performing well with Southern Europe showing some signs of weakness. However, power on HYLAS 1 is being shifted away from the Southern European beams and into those in the North.

With a full year of depreciation of HYLAS 1 in costs of sale, together with the pre-operational ground infrastructure costs for HYLAS 2, this has generated a gross loss of £4.3 million (2011: loss £2.2 million). Excluding the satellite depreciation charge of £9.8 million a gross profit of £5.5 million would have been recorded.

We have continued to invest heavily in our sales and marketing activities which has resulted in operating expenditure increasing to £14.0 million (2011: £11.3 million). We have increased our sales teams significantly with representatives now in all the major HYLAS 2 regions including South Africa, Kenya, Tanzania, Middle East and Eastern Europe. We closed the year with staff of 152 (2011: 111 FTE) with average numbers of 132 compared to 97 during 2011.

Other operating Income

A total of £2.6 million (2011: £0.6 million) has been recognised as other operating income in the 12 months to 30 June 2012.

During the year, the Company reached a successful conclusion to its dispute with a former supplier. Having been through a lengthy arbitration process Avanti was awarded €2.2 million, resulting in £1.8 million being recognised in the interim statements to 31 December 2011. The balance of the other operating income is a government grant and exchange gains on trade receivables and payables balances.

Taxation

The Group tax credit was £2.1 million (2011: £3.0 million credit), resulting in an effective tax rate of 13.3% (2011: 23.8%). The rate has been negatively affected by the fall in the UK corporation tax rate and we have not recognised an element of deferred tax assets which may not be recovered.

Loss per share

Loss attributable to shareholders is £13.4 million resulting in a loss per share was 14.86 pence (2011: loss 12.14 pence).

Financing and treasury

In February 2012, the Company successfully completed the placing of 26,785,714 ordinary shares at 280 pence per share. This was done to fully finance the procurement and launch of HYLAS 3 which will be a hosted payload aboard a European Space Agency EDRS satellite which is due to be launched in Q4 2015. The gross proceeds were £75 million (net £73.9 million).

This placing increases the issued share capital to 111,736,849 shares (2011: 84,951,135 shares) of which 4,266,060 are currently held in the Avanti Employee Benefit Trust.

We have continued to drawdown the HYLAS 2 facility from US EXIM and COFACE. At 30 June 2012 the gross debt was $266 million (£169.6 million) (2011: $190.3 million (£118.7 million)). The total facility is $328 million which will be utilised in calendar Quarter 4 2012. Net debt stood at £98.3 million (2011: £80.2 million).

As at 30 June 2012 HYLAS 2 had not yet launched. It had, however, been fully insured for a value of $328 million at a rate of 8.4%. In addition, the Company had also taken out DSU insurance which covered the debt service payments if there was a 3 month delay in the launch of HYLAS 2. Subsequent to the year-end HYLAS 2 was successfully launched on 2 August 2012.

Key Performance Indicators

As the business develops a track record of our KPI’s will also be updated. At the moment the key metrics are in relation to backlog, both in terms of its absolute value, but also the average monthly rate at which new business is added. Our target remains to add £11 million of new business on average each month which should enable the Hylas 1 and Hylas 2 satellites to be full by 2014 and 2016 respectively. Total backlog is now £268 million (2011: £171 million).

Currency hedging and exchange rates

Our policy remains to hedge all currency exposures as soon as they become certain through a combination of natural offset hedging and the use of low risk products through our relationship banks. Our most significant exposure is the HYLAS 2 debt which is denominated in US dollars. Given that the majority of our HYLAS 2 revenues will be US dollar denominated, the HYLAS 2 companies have a functional currency of US dollars thus hedging this exposure.

Balance sheet

There have been significant changes on the balance sheet in the last 12 months. Over the year the build of HYLAS 2 and the ground station infrastructure was completed with fixed asset additions of £68.6 million (2011: £148.3 million) leaving a net book value of £372.3 million (2011: £315.4 million).

Also during the year, following increased security over financing given to a key customer, Filiago GmbH & Co. ("Filiago") the Group is now deemed to have effective control of that business and is required to consolidate the results and balance sheet of Filiago as if it had been acquired. As a result, the long term financial asset of £9.1 million shown on the balance sheet at 30 June 2011, is now treated as part the cost of control for the deemed acquisition and resultant intangibles. Full details of the constituent parts of the goodwill and intangibles are disclosed in note 13 on page 54.

Cash flow

Net cash balances increased to £76.7 million (2011: £38.8 million) following the equity placing in February 2012.

Post Balance Sheet Events

On 2 August 2012, HYLAS 2 successfully launched from French Guyana on board an Ariane 5. On 10 September 2012, Avanti announced that we had successfully completed the in orbit testing of HYLAS 2. HYLAS 2 is located at 31°E and the commercial service has started.

Principal risk and uncertainty

- Fill rates on HYLAS 1 and 2
- Pricing
- Counterparty credit risk

As in prior years the two key risks to the profitability and liquidity of the business is the rate at which we can fill both satellites and the prices at which we can do that. We have maintained our guidance that we expect to fill HYLAS 1 within 3 years of service launch and 4 years for HYLAS 2. Our backlog continues to grow in line with our expectations to achieve these targets. To date we have not seen evidence of any significant downward price pressure.

With the enhanced geographical spread with HYLAS 2, Avanti has developed processes to ensure that credit risk is minimised. Customers are generally invoiced in either quarterly or monthly in advance of the service being provided. Non-payment of advance payments can ultimately lead to service being withdrawn.

Global economic environment

HYLAS 1 and HYLAS 2 will cover regions which are experiencing quite different economic fortunes.

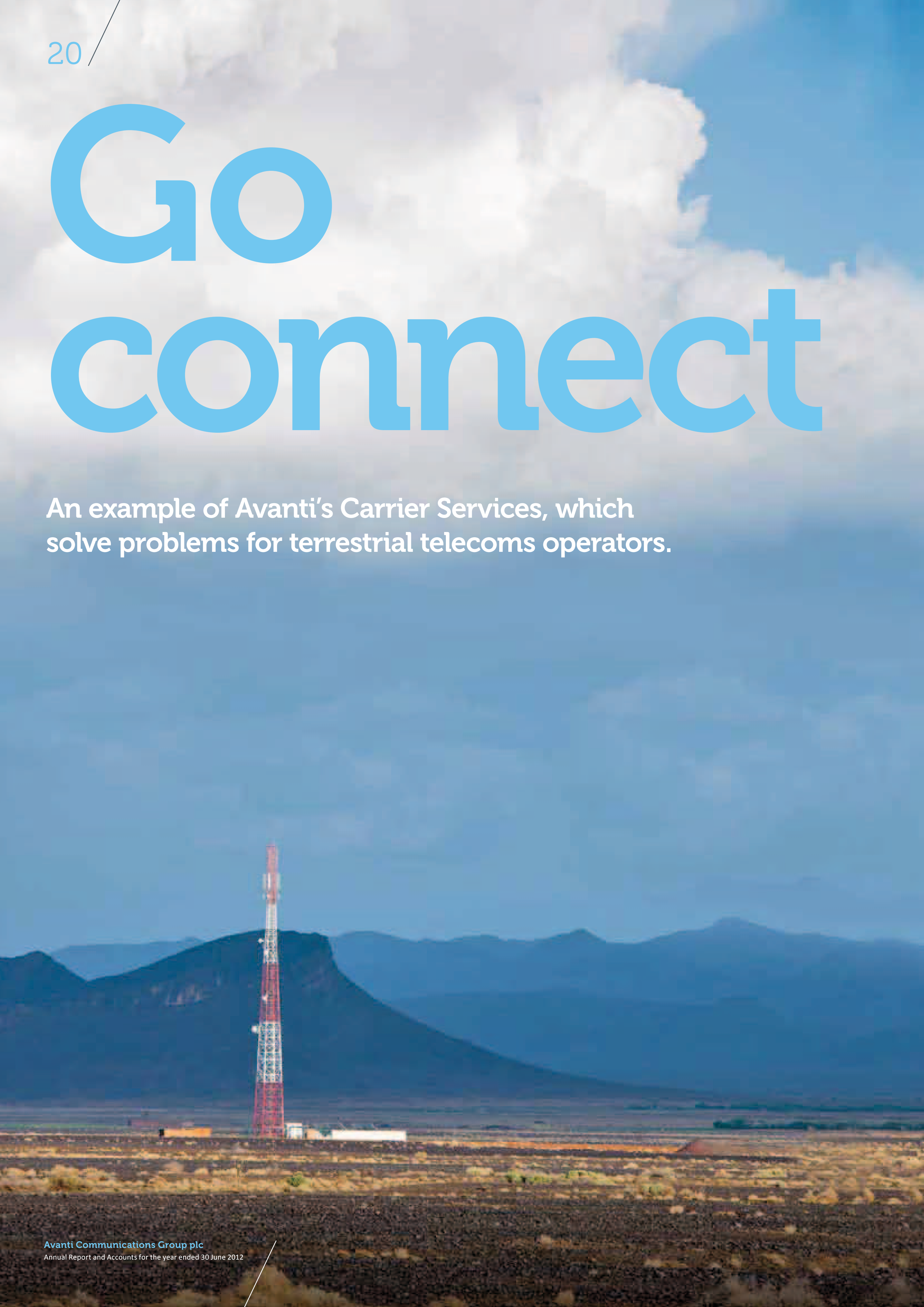
HYLAS 1 which covers primarily Western Europe has been in service now for 15 months. The economic uncertainty in the whole of Western Europe has undoubtedly affected confidence not only in consumers but also small, medium and large companies alike. The continued debate about the future of the Euro dominates the headlines in Europe. Similar to last year it is difficult to show that recession is affecting our business. It probably is, but not in a profound or enduring way. 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 often distressed and thus not highly price sensitive.

In the HYLAS 2 coverage area demand is strong across our four business streams of Enterprise, Broadband, Carrier services and Defence. HYLAS 2 customers have been able to trial the services provided through HYLAS 1 which provides confidence in making commitments to HYLAS 2 capacity. Demand has been further enhanced by our focus on prioritising flexibility to customers in terms of how they buy and use our services, along with the very high resilience we have built in space and ground infrastructure. As a result a number of beams are approaching capacity.

Critical accounting estimates and judgements

Details of our critical accounting estimates and judgements are in Note 1 to the consolidated Annual Report.

Nigel Fox
Chief Financial Officer



Go connect

An example of Avanti's Carrier Services, which solve problems for terrestrial telecoms operators.

Carrier Services

Helping wireless operators grow their network

The Challenge:

Wireless network operators aim to provide to their customers a resilient, high speed service with wide geographical network coverage. Uptime is vital, therefore network capacity must accommodate the high volumes of customers logged on at any one time. However this goal is often compromised by the limitations of the deployed network infrastructure in terms of reach and throughput.

A pan-European wireless operator's strategy of aggressive coverage roll out and coverage quality was vital to retain its market lead. However, it was unable to cost effectively extend its service beyond the limitations of the fibre and ADSL footprint it relied upon.

The Solution

Avanti worked closely with the wireless operator to look at new ways in which they could increase their coverage reach and quality. The result was a partnership where Avanti's satellite fleet was able to allow the partner to not only extend their network beyond the physical boundaries of traditional ground infrastructure but was also able to improve the quality of coverage by providing high bandwidth backhaul for locations where the existing ADSL infrastructure could not.

The Benefit

Avanti allows wireless operators to extend their network quickly and even across borders, providing cost effective high speed broadband access to locations where terrestrial broadband cannot.

- The coverage of Fibre and ADSL networks is either limited to urban areas, or drops off rapidly with distance from the exchange. Avanti's satellites provide coverage in even the remotest of locations
- Network Homogeneity – Utilising a number of network providers and access technologies can mean complex and costly supplier management and networks. Wireless operators can leverage Avanti satellite as a single network solution, reducing complexity and cost of operation
- Network Performance – Unlike ADSL or 3G services satellite provides high speed data rates regardless of where sites are throughout the footprint
- Resilience – Satellite networks are able to operate independent of local terrestrial communications networks, often a critical consideration for rural and remote locations where terrestrial networks typically lack resilience and have poor reliability

Board of Directors

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Strong and experienced Board

1. John Brackenbury CBE* + •
Chairman
John is founder Chairman of Avanti, he was awarded a CBE in June 2000 for his contribution to Tourism, Education and Employment. He is a leading industrialist with over 40 years of 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 Chairman of the Nominations Committee of Avanti Communications Group plc.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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.

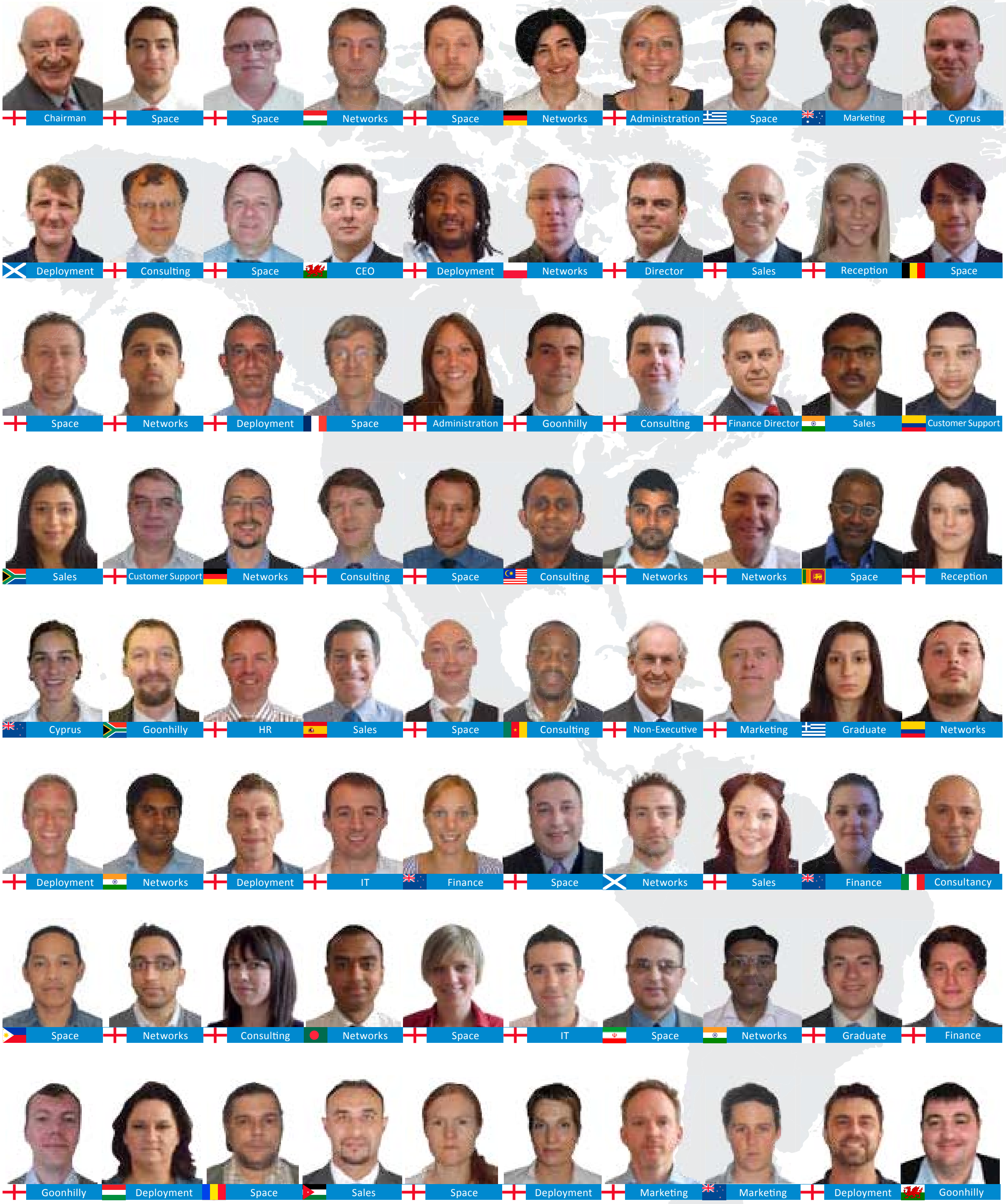
8. Richard Vos*
Non-Executive
Richard is a telecommunications and satellite professional, with international experience, gained over 40 years working in the industry. His previous positions included Chairman of SatCom Group Holdings plc, Inmedia Communications Ltd. and of Inmarsat Ventures PLC, and Head 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.

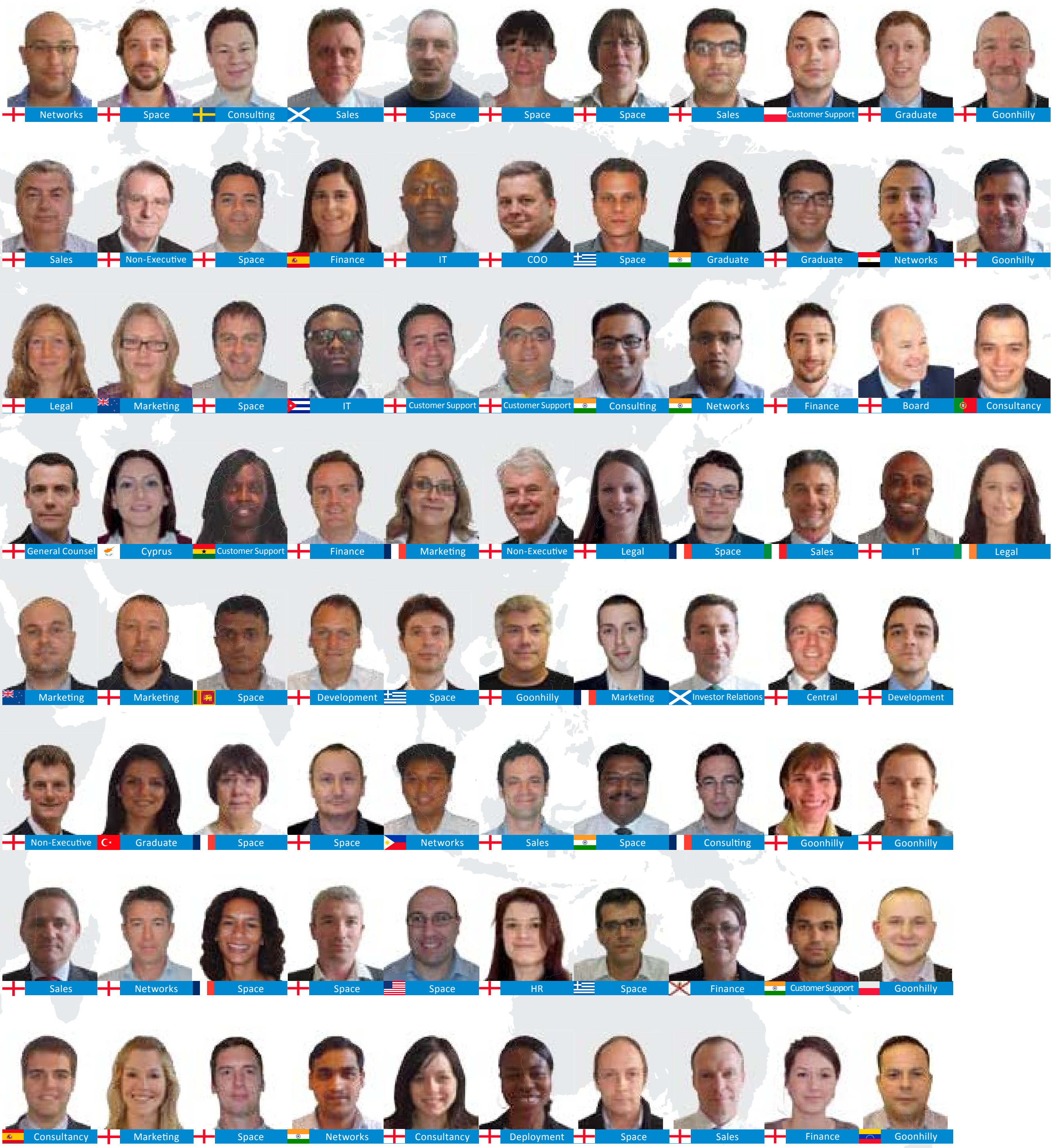
9. William Wyatt* + •
Non-Executive
Will is Chief Executive Officer of Caledonia Investments plc. He is also a Non-Executive Director on the boards of Bristow Group Inc, Cobepa, Melrose Resources plc, REI plc, TGE Marine AG, and Terrace Hill plc.

10. Paul Walsh
Company Director
Paul Walsh is the CEO of Diageo plc. He was appointed to this position on 1 September 2000. Paul was chief operating officer of Diageo from 1 January 2000 to 31 August 2000. Paul joined GrandMet's brewing division in 1982 and became Finance Director in 1986. He held financial and commercial positions with Inter-Continental Hotels and in the GrandMet food business, becoming CEO of the Pillsbury Company in 1992. Paul was appointed to the GrandMet Board in October 1995, and to the Diageo Board in December 1997.

* Audit committee
+ Remuneration committee
• Nominations committee

Our employees




Networks
Space
Consulting
Sales
Space
Space
Space
Sales
Customer Support
Graduate
Goonhilly
Sales
Non-Executive
Space
Finance
IT
COO
Space
Graduate
Graduate
Networks
Goonhilly
Legal
Marketing
Space
IT
Customer Support
Customer Support
Consulting
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General Counsel
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Legal
Marketing
Marketing
Space
Development
Space
Goonhilly
Marketing
Investor Relations
Central
Development
Non-Executive
Graduate
Space
Space
Networks
Sales
Space
Consulting
Goonhilly
Goonhilly
Sales
Networks
Space
Space
Space
HR
Space
Finance
Customer Support
Goonhilly
Consultancy
Marketing
Space
Networks
Consultancy
Deployment
Space
Sales
Finance
Goonhilly

Go secure

From securing assets in the UK, to connecting soldiers in Helmand to their families at home, Avanti serves Defence & Security markets with great value for money.

Defence & Security

Bringing security and protection to construction sites

The Challenge
A bridge construction project is expected to take five and a half years to complete. Throughout this time the site requires internet access, project management monitoring and most importantly, security surveillance. It is paramount that the construction site stays secure. The UK Home Office estimates the construction industry in the UK alone loses approximately £1 million a week in plant theft, with an indirect cost estimated at £400 million per year.

The Solution
Avanti provides secure and resilient satellite uplinks for security communications. This enables the smooth operation of security cameras, such as live streaming cameras, which need to transfer large amounts of data quickly. Our solution requires no fixed telecom line, which makes them ideal for temporary construction site locations.

The Benefit
Not only can the site be protected by CCTV cameras and access wireless internet, the HYLAS satellites provide high speed data transfer allowing the cameras to be used for project management. This allows the developers to keep track of the progress of the site without having to be present on the site itself, allowing for a more productive development.

The service Avanti provides is:
- Quick to deploy, and to dismantle, sites can be up and running in no time and once the construction project is complete the service can be easily ceased
- Cost effective – especially in streaming live CCTV cameras
- Reliable – any construction site, however rural, can have access to high speed communications
- 100% Coverage – no matter what the location, premises can be protected with CCTV

Corporate Social Responsibility

Initiatives to support the development of the British space industry

The British space industry is estimated to generate revenues of £5.9bn for the British economy and employ around 19,100 people with a sector productivity of more than four times the national average – contributing some £145,000 per worker to UK GDP. Avanti is committed to supporting its growth through encouraging the development of students to become experienced staff capable of ensuring the long history of growth is maintained. By providing training and long term career prospects, we believe we are enhancing our industry's prospects.

Graduate Recruitment Scheme

Our first intake of Graduate recruits started during the financial year. Our objective in commencing the Graduate Recruitment Scheme was to develop graduates with good, relevant science degrees into talented engineers and provide the platform for Avanti's future growth from the inside. Since starting, our Graduates have rotated through different departments, enabling them to get a broad overview of our activities and see how the academic theory they focused on when at university marries with practical implementation. They have also had the opportunity to help on some of the more challenging aspects facing Avanti in the run up to the launch of HYLAS 2. They will now enter the second year of their programme by finalising their rotation before returning to a department that will enable them to develop their individual skills, whether it is in satellite procurement, satellite operations, sales & marketing, network operations or customer services.

Following this success, we have a new intake in the current financial year and look forward to helping them as they contribute to the on-going success of the UK Space Industry.

Apprenticeship Scheme

We have continued our Apprenticeship Scheme. This enables young people the opportunity to gain valuable work experience whilst earning a salary and it is a viable alternative to going to university. The scheme allows school leavers the ability to obtain valuable, nationally recognised NVQ Level 2 qualifications that also recognises their contribution to Avanti's success.

Working with Hackney Community College

As a new initiative this year, we have started working closely with our local Sixth Form and Higher Education college, Hackney Community College. We support them in a number of ways:

- Our Apprenticeship Trainees will receive their NVQ training at the college to support them in obtaining their qualifications.
- We have also assisted the college as it establishes Hackney University Technical College (UTC). This is a new college focused on vocational training in new technologies for those approaching GCSEs. The UTC works closely with local industry to ensure courses taught to students reflect the requirements of future employers. To this end, we have helped the UTC with the development of its curriculum and will be delivering specialist units throughout the school year.
- Avanti employees also offer themselves to the UTC Mentoring scheme which connects students with those working in relevant local businesses.
- A member of Avanti's Management Team sits on the UTC Board of Governors.

Continuing our relationship with SOS Children

Avanti has partnered with the African children's charity, SOS Children, for the last five years. SOS Children is the world's largest orphan charity, caring for children in 123 countries. We are proud to help them in achieving their vision of a loving home for every child.

This year we continued our activities through payroll giving, individual staff donations and staff fund raising initiatives.

Directors' Report

The directors have pleasure in presenting their annual report together with the audited financial statements for the year ended 30 June 2012.

Principal activities

The principal activity of the Company is the provision of satellite communication services and is expected to be for the foreseeable future. The services are principally provided via Ka-band satellites. The first Avanti satellite, HYLAS 1 was launched in November 2010, and brought into full commercial service in April 2011. Our second satellite, HYLAS 2, was successfully launched on 2nd August 2012, one month after the year end.

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 18 to 19, 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 development of the satellite fleet and sale of capacity. The primary KPIs are the absolute level of backlog and the average monthly targeted addition to backlog of £11m. 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 2012 are shown on page 37. No equity dividend was paid in the year ended 30 June 2012 (2011: £nil). No final dividend is proposed at the year-end (2011: £nil). The loss for the year transferred to Shareholder's funds was £13.4m (2011: loss of £9.7m). The net asset position at the year end is £269.6m (2011: £207.4m).

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 and are in office up to the date of signing were as follows:

F E J G Brackenbury CBE
D J Williams
D J Bestwick
N A D Fox
M J O'Connor
D A Foster
C R Vos
W P Wyatt
M Walker
P Walsh (appointed 3rd January 2012)

Directors' emoluments

Remuneration policy

The Company's policy on remuneration of directors is to attract, retain and motivate the best people, recognising the input they have to the on-going success of the business. Consistent with this policy, the benefit package awarded by Avanti Communications Group plc to directors is intended to be competitive. They comprise a mix of performance-related and non-performance related remuneration designed to incentivise directors and align their interests with those of shareholders. The remuneration consists of base pay, annual bonus, long term incentive plan, share options, pension contributions and other benefits such as health care.

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

For the year ended 30 June 2012

	Salaries £	Bonus £	Other benefits £	Post employment benefits £	Total 2012 £
Executive					
D J Williams	314,000	314,000	82,443	39,250	749,693
D J Bestwick	232,365	230,000	112,745	25,296	600,406
N A D Fox	184,000	127,000	35,347	23,000	369,347
M J O'Connor	168,000	95,000	23,337	21,000	307,337
Non-executive					
F E J G Brackenbury CBE	110,000	–	5,608	–	115,608
D A Foster	40,000	–	–	–	40,000
W P Wyatt	35,000	–	–	–	35,000
M Walker	35,000	–	–	–	35,000
P Walsh	17,500	–	–	–	17,500
C R Vos	40,000	–	–	–	40,000
Total	1,175,865	766,000	259,480	108,546	2,309,891

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
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	6,250	–	–	–	6,250
I C Taylor MBE	30,000	–	–	–	30,000
C R Vos	35,000	–	–	–	35,000
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.

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	137,501	50,000	50,000	237,501
M J O'Connor	139,238	69,445	69,445	278,128
Total	1,192,960	679,570	679,213	2,551,743

Outstanding allocations	Core	Exceptional	Extraordinary	Total
D J Williams	80,783	–	279,884	360,667
D J Bestwick	50,106	–	279,884	329,990
N A D Fox	19,643	–	250,000	269,643
M J O'Connor	19,891	–	269,445	289,336
Total Executive	170,423	–	1,079,213	1,249,636

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.

In the year ended 30 June 2011 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. These expire on 30 June 2013.

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. 6/7ths of this core grant is not automatically revocable.

ii) The Exceptional Achievement Tranche
The exceptional achievement tranche has now vested.

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

	2012	2011	Exercised in the year
F E J G Brackenbury CBE	15,715	31,431	15,716
D A Foster	3,750	7,500	3,750
C R Vos	–	15,000	15,000
Total	19,465	53,931	34,466

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.

The total theoretical gain of the options exercised in the year by the above directors would have been £60,000 based on the average share price on the day of exercise.

Directors' share interests

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

	Fully paid Ordinary Shares of 1p each		
	18 October 2012*	30 June 2012	30 June 2011
D J Williams	1,651,901	1,643,801	1,587,092
D J Bestwick	1,247,848	1,231,648	1,211,648
N A D Fox	112,977	109,677	109,677
M O'Connor	177,200	154,009	154,009
F E J G Brackenbury CBE	420,076	415,076	380,432
D A Foster	392,500	392,500	388,750
W P Wyatt	25,342	25,342	25,342
C R Vos	21,030	21,030	6,030
M Walker	–	–	–
P Walsh	87,428	67,428	–

* date of signing this report.

At 30 September 2012, 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.

M & G Investment Management Ltd.	London	21,790,683
Caledonia Investments plc	London	15,347,000
Government of Singapore Investment Corp	Singapore	7,012,044
The Capital Group Companies, Inc.	London/Los Angeles	6,942,112
Avanti Communications Group EBT	London	4,261,060
Legal & General Investment Management Ltd. (UK)	London	4,134,976
Directors & Related	–	3,906,150
Barclays, Plc.	Geneva/London/Madrid	3,504,460

In addition, 1.25 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 2012, the Company did not have any trade creditors (2011: nil).

Political and charitable donations

During the year the Group made no political donations. (2011: £4,000).

Corporate Governance

The Company's statement on corporate governance can be found in the corporate governance report on page 35 of these financial statements. The corporate governance report forms part of this directors' report and is incorporated into it by cross reference.

AGM Notice

The notice of the Company's AGM can be found in the AGM notice on pages 75 to 80 of these financial statements.

Directors' Report continued

Post Balance Sheet Events

On 2 August 2012, HYLAS 2 successfully launched from French Guyana on board an Ariane 5. On 10 September 2012, Avanti announced that we had successfully completed the in orbit testing of HYLAS 2. HYLAS 2 is located at 31°E and commercial service has started.

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 2012, 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, www.avantiplc.com. 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

18 October 2012

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 six 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 four times 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 College Hill Associates Limited in writing to College Hill Associates Limited, The Registry, Royal Mint Court, London EC3N 4QN.

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 2012 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 pages 34, 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 and express an opinion on 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 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 Annual Report and Accounts 2012 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 2012 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

18 October 2012

Consolidated Income Statement

year ended 30 June 2012

	Notes	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Revenue	2	12,461	5,462
Cost of sales		(16,781)	(7,678)
Gross loss		(4,320)	(2,216)
Operating expenses	3	(13,998)	(11,279)
Other operating income	6	2,559	636
Loss from operations		(15,759)	(12,859)
Finance income	7	454	428
Finance expense	7	(702)	(296)
Net financing (expense)/income		(248)	132
Loss before taxation		(16,007)	(12,727)
Income tax credit	8	2,122	3,027
Loss for the year		(13,885)	(9,700)
Loss attributable to:			
Equity holders of the parent		(13,400)	(9,700)
Non-controlling interests		(485)	–
Basic loss per share (pence)	9	(14.86p)	(12.14p)
Diluted loss per share (pence)	9	(14.86p)	(12.14p)

The notes on pages 42 to 74 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

year ended 30 June 2012

	Notes	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Loss for the year		(13,885)	(9,700)
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations and investments		1,489	(4,335)
Total comprehensive loss for the year		(12,396)	(14,035)
Attributable to:			
Equity holders of the parent		(11,911)	(14,035)
Non-controlling interests		(485)	–

Items in the statement above are net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 18.

The notes on pages 42 to 74 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 30 June 2012

	Notes	30 June 2012 £'000	30 June 2011 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	372,278	315,390
Intangible assets	12	9,008	3
Deferred tax assets	18	5,591	3,386
Other financial assets	13	–	9,135
Total non-current assets		386,877	327,914
Current Assets			
Inventories	16	881	1,284
Trade and other receivables	17	13,475	7,916
Derivative financial instruments	23	129	–
Cash and cash equivalents	19	76,700	38,829
Total current assets		91,185	48,029
Total assets		478,062	375,943
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	20	18,157	30,395
Derivative financial instruments	23	–	83
Provisions for other liabilities	21	3	30
Loans and other borrowings	22	4,967	397
Total current liabilities		23,127	30,905
Non-current liabilities			
Trade and other payables	20	15,347	18,997
Provisions for other liabilities	21	–	3
Loans and other borrowings	22	170,001	118,678
Total non-current liabilities		185,348	137,678
Total liabilities		208,475	168,583
Equity			
Share capital	24	1,117	849
Share premium	24	262,319	188,678
Foreign currency translation reserve		(652)	(2,141)
Retained earnings		7,288	19,974
Total parent shareholders' equity		270,072	207,360
Non-controlling interests		(485)	–
Total equity		269,587	207,360
Total liabilities and equity		478,062	375,943

The financial statements of company number 6133927 on pages 36 to 74 were approved by the Board of Directors on 18 October 2012 and signed on its behalf by:

Nigel Fox
Finance Director

18 October 2012

Company Statement of Financial Position

as at 30 June 2012

	Notes	30 June 2012 £'000	30 June 2011 £'000
ASSETS			
Non-current assets			
Deferred tax assets	18	282	191
Investments	14	97,725	84,728
Total non-current assets		98,007	84,919
Current Assets			
Trade and other receivables	17	165,946	105,190
Derivative financial instruments	23	129	–
Total current assets		166,075	105,190
Total assets		264,082	190,109
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	20	31	3
Derivative financial instruments	23	–	83
Loans and other borrowings	22	232	–
Total current liabilities		263	86
Non-current liabilities			
Loans and other borrowings	22	349	–
Total liabilities		612	86
Equity			
Share capital	24	1,117	849
Share premium	24	262,319	188,678
Foreign currency translation reserve		174	174
Retained earnings		(140)	322
Total shareholders' equity		263,470	190,023
Total liabilities and equity		264,082	190,109

The financial statements of company number 6133927 on pages 36 to 74 were approved by the Board of Directors on 18 October 2012 and signed on its behalf by:

Nigel Fox
Finance Director

18 October 2012

Consolidated and Company Statement of Cash Flows

year ended 30 June 2012

		Group		Company	
	Notes	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000	Year ended 30 June 2012 £'000	Year ended 30 June 2011 £'000
Cash flow from operating activities					
Cash absorbed by operations	30	(12,314)	(1,025)	(60,913)	(24,936)
Interest received		34	38	–	–
Interest paid		(9)	(87)	–	–
Derivative cash received		–	718	–	–
Net cash absorbed by operating activities		(12,289)	(356)	(60,913)	(24,936)
Cash flows from investing activities					
Payments for other financial assets and investments		–	(8,857)	(12,996)	(43,409)
Payments for property, plant and equipment		(77,222)	(119,261)	–	–
Receipt on sale of motor vehicles		10	3	–	–
Cash received as part of business combination		2	–	–	–
Net cash used in investing activities		(77,210)	(128,115)	(12,996)	(43,409)
Cash flows from financing activities					
Proceeds from borrowings		48,452	118,475	–	–
Repayment of borrowings		–	(53,606)	–	–
Proceeds from share issue		75,000	70,000	75,000	70,000
Share issue costs		(1,091)	(1,655)	(1,091)	(1,655)
Proceeds from lease and lease back		5,337	567	–	–
Finance lease paid		(590)	(448)	–	–
Net cash received from financing activities		127,108	133,333	73,909	68,345
Effects of exchange rate on the balances of cash and cash equivalents		262	(214)	–	–
Net increase in cash and cash equivalents		37,871	4,648	–	–
Cash and cash equivalents at the beginning of the financial year		38,829	34,181	–	–
Cash and cash equivalents at the end of the financial year	19	76,700	38,829	–	–

The notes on pages 42 to 74 are an integral part of these consolidated financial statements.

Consolidated and Company Statement of Changes in Equity

year ended 30 June 2012

Consolidated

	Notes	Share Capital £'000	Share premium £'000	Retained earnings £'000	Foreign currency translation reserve £'000	Non-controlling interests £'000	Total equity £'000
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
2012							
At 1 July 2011		849	188,678	19,974	(2,141)	–	207,360
Loss for the year		–	–	(13,400)	–	(485)	(13,885)
Other comprehensive income		–	–	–	1,489	–	1,489
Issue of share capital	24	268	73,641	–	–	–	73,909
Share based payments	25	–	–	631	–	–	631
Tax credit taken directly to reserves	18	–	–	83	–	–	83
At 30 June 2012		1,117	262,319	7,288	(652)	(485)	269,587

Company

	Notes	Share Capital £'000	Share premium £'000	Retained earnings £'000	Foreign currency translation reserve £'000	Non-controlling interests £'000	Total equity £'000
2011							
At 1 July 2010		686	120,496	776	174	–	122,132
Loss for the year		–	–	(504)	–	–	(504)
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
2012							
At 1 July 2011		849	188,678	322	174	–	190,023
Loss for the year		–	–	(480)	–	–	(480)
Issue of share capital	24	268	73,641	–	–	–	73,909
Share based payments	25	–	–	27	–	–	27
Tax expense taken directly to reserves	18	–	–	(9)	–	–	(9)
At 30 June 2012		1,117	262,319	(140)	174	–	263,470

The notes on pages 42 to 74 are an integral part of these consolidated financial statements.

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 activity of the Company is the provision of satellite communication services. The services are principally provided via Ka band satellites.

The Company is a public limited company, which is listed on the Alternative Investment Market ("AIM") and domiciled and incorporated in the UK.

The registered office of the Company is 74 Rivington Street, London, UK.

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 consolidated 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 or statement of comprehensive income.

New and amended standards adopted by the Group

The following new standards, amendments to standards or interpretations were mandatory for the first time for the financial year beginning 1 July 2011 but are not currently relevant for the Group, or have had no material impact:

Amendments to various IFRSs and IASs arising from 2010 Annual Improvements to IFRS (effective 1 January 2011)
Amendment to IFRS 7, 'Financial instruments disclosure' (effective 1 July 2011)
IAS 34 (revised), 'Interim financial reporting' (effective 1 January 2011)
Amendment to IFRIC 14, 'Pre-payments of a Minimum Funding Requirement' (effective 1 July 2011)
Revised IAS 24 (revised), 'Related party disclosures' (effective 1 January 2011)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2011 and not early adopted

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income' – The main change resulting from these amendments is a requirement for entities to group items presented in Other comprehensive income (OCI) on the basis of whether they are potentially recycled to the income statement (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendments are generally applicable for annual periods beginning after 1 July 2012.

IFRS 9, 'Financial instruments' – This is the first part of a new standard on classification and measurement of financial assets and financial liabilities, that will replace IAS 39, 'Financial instruments: Recognition and measurement'. The changes proposed will mainly affect financial institutions. The amendments are generally applicable for annual periods beginning after 1 January 2015 subject to EU Endorsement.

IFRS 10, 'Consolidated financial statements' and IAS 27 (revised 2011), 'Separate financial statements' – This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries. The amendments are generally applicable for annual periods beginning after 1 January 2013 subject to EU Endorsement.

IFRS 12, 'Disclosures of interests in other entities' – This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The amendments are generally applicable for annual periods beginning after 1 January 2013 subject to EU Endorsement.

IAS 27 (revised 2011) 'Separate financial statements' – This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. This will be applicable for periods beginning after 1 January 2013 subject to EU Endorsement.

IFRS 13, 'Fair value measurement' – This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. This will be applicable for periods beginning after 1 January 2013 subject to EU Endorsement.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 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.

(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 and 2 satellites, the sale of capacity is progressing well and in line with plans. The Group will assess impairment annually.

(c) European Space Agency ("ESA") Funding and Sale of Capacity

In April 2006, the Group entered into a contract with ESA to receive funding for the build of the HYLAS 1 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 as revenue on a straight line basis over a 3 year period. This 3 year period commenced when HYLAS 1 became operational in April 2011. 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 is released to cost of sales 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 £450,000.

(d) Impairment of Goodwill arising as part of business combinations

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews will be undertaken annually. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment would be recognised immediately as an expense and would not subsequently be reversed.

Going concern

Based on cash flow forecasts and available cash resources and facilities the Directors have determined that it is appropriate to prepare the financial statements 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 Filiago GmbH & Co. and 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.

Notes to the accounts continued

1 Accounting Policies continued

Basis of consolidation continued

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The Group applies the acquisition method to account for business combinations. The cost of control for the acquisition of a subsidiary is the fair values of the assets transferred, the settlement of pre-existing relationships, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the aggregate of the cost of control and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this cost of control is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

The financial statements of legal 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. In the current year, revenue from the sale of satellite broadband services on HYLAS 1 is the key revenue stream of the business with space consultancy contracts being a smaller proportion of the total revenues. In future years, revenue from the sale of satellite broadband services will be from the HYLAS fleet.

Broadband satellite communications services revenues are recorded in accordance with the contracted amounts or the actual usage of the customer.

Revenues also include sales of terminals recognised 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 reporting 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.

Other grant income which has capital expenditure and job creation/safeguarding targets is recognised on a straight line basis over the relevant period irrespective of cash and claims, and is disclosed as other operating income.

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 statement of financial position. Those held under hire purchase and finance lease contracts are depreciated over the shorter of either their estimated useful lives or the term of the lease. The interest element of these obligations is charged to the income statement 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 reporting 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, the Black Scholes model or Monte Carlo simulations, whichever is most appropriate to the award.

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.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

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 reporting date.

Notes to the accounts continued

1 Accounting Policies continued

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 reporting 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 substantively enacted by the reporting 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 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 income statement 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.

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 of assets, other than assets under construction, over their estimated useful lives using the straight-line method. The amortisation rate on computer software is 25%. Newly acquired intangible assets as part of the business combination, customer lists and trade name, are amortised over 15 and 5 years respectively.

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 income statement 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 have an indefinite useful life, for example, goodwill or intangible assets not ready for use, are not subject to amortisation and will be tested annually for impairment.

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 is being recognised as revenue over 3 years on a straight line basis.

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 statement of financial position are comprised 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.

Notes to the accounts continued

1 Accounting Policies continued

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 reporting date.

Trade payables

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

Business combinations

Business combinations are recognised in the consolidated financial statements from the time of acquisition . The comparative figures are not restated for acquisitions.

Acquisitions are accounted for using the acquisition method and the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition.

Any excess of the cost of control over the fair value of the acquired assets and liabilities is recognised as Goodwill, with intangible assets. Intangible assets are amortised over their useful life and any Goodwill is tested annually for impairment.

Derivative financial instruments

Financial assets and financial liabilities are recognised on the Group's statement of financial positions 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. Fair value is measured using the closing bank rate compared with the contract rate.

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

Segment reporting

Operating segment(s) are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment(s), has been indentified as the Avanti Executive Board who make the strategic decisions.

2. Revenue

As stated 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 £12,461,000 (2011: £5,462,000) 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. Of this, £1,780,000 (2011: £576,000) relates to 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 36.1% (2011: 20.6%) of total revenue.

The Group derived £4,471,000 (2011: £1,081,000) of its turnover from European countries outside the United Kingdom, and £7,990,000 (2011: £4,381,000) from the United Kingdom.

3. Operating expenses

Operating expenses by function are as follows:

	30 June 2012 £'000	30 June 2011 £'000
Distribution	1,405	990
Administration	12,593	10,289
	13,998	11,279

Loss from operations for the year is stated after charging the following:

	30 June 2012 £'000	30 June 2011 £'000
Operating expenses:		
Depreciation of property, plant and equipment	1,389	805
Amortisation of intangible assets	95	8
Research and development costs written off as incurred	16	19
Employee benefit expense	7,287	5,433
Operating lease expenses:		
– Minimum lease payments	619	588
– Sublease payments received	(50)	(50)
– Onerous lease provision utilised	(30)	(30)
Cost of sales:		
Space asset depreciation	9,831	2,311
Release of ESA grant	(858)	(185)
Satellite services	3,176	3,005
Materials purchased	2,472	1,634
Sub contractors	–	529

4. Auditors' remuneration

	30 June 2012 £'000	30 June 2011 £'000
Fees payable to Company's auditor for the audit of parent Company and consolidated financial statements	150	95
Fees payable to the Company's auditor and its associates for other services:		
– The audit of Company's subsidiaries pursuant to legislation	20	20
– Tax services	31	541
– Other services	48	36
	249	692

For the year ended 30 June 2011, £520,000 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 and comparative for the current year relates to fees for normal ongoing tax advice and compliance assistance.

Notes to the accounts continued

5. Employee benefit costs

The aggregate remuneration of all employees comprised:

	30 June 2012 £'000	30 June 2011 £'000
Wages and salaries	8,448	6,073
Social security costs	1,080	666
Pension costs	172	168
Share based payment expense	634	776
	10,334	7,683
Less: costs capitalised as satellite in construction	(3,047)	(2,250)
	7,287	5,433

Employee numbers

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

	30 June 2012 No. employees	30 June 2011 No. employees
Operations	33	23
Sales and marketing	29	29
Development and engineering	39	23
Administration and executive	31	22
	132	97

6. Other operating income

	30 June 2012 £'000	30 June 2011 £'000
Exchange gain on trade receivables and payable balances	84	209
Other grant income	654	–
Arbitration settlement	1,821	–
Interest Income	–	427
	2,559	636

The arbitration settlement of £1,821,462 includes interest of £25,299.

The interest received of £427,000 in the year to 30 June 2011 was received from Space Explorations Inc ("SpaceX") on settlement of their debt.

7. Net finance (expense)/income

	30 June 2012 £'000	30 June 2011 £'000
Finance income		
Fair value gain on derivatives	213	110
Interest income on bank deposits	241	318
	454	428
Finance expense		
Interest expense on borrowings and loans	(4,017)	(1,834)
Financing exchange loss	(514)	(214)
Finance lease expense	(179)	(23)
Less: interest capitalised to satellite in construction	4,008	1,775
	(702)	(296)
Net finance (expense)/income	(248)	132

8. Income tax (credit)/expense

	30 June 2012 £'000	30 June 2011 £'000
Current tax		
Adjustment in respect of prior periods	–	–
Total current tax	–	–
Deferred tax		
Origination and reversal of temporary differences	(3,840)	(3,332)
Adjustment in respect of prior periods	246	90
Deferred tax asset write off	649	–
Impact of change in UK tax rate	823	215
Total deferred tax	(2,122)	(3,027)
Total income tax credit	(2,122)	(3,027)

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 2012 £'000	30 June 2011 £'000
Loss before tax	(16,007)	(12,727)
Tax credit at the corporate tax rate of 25.5% (2011: 27.5%)	(4,082)	(3,500)
Tax effect of non-deductible expenses	242	168
Adjustment in respect of prior periods	246	90
Deferred tax asset write off	649	–
Impact of change in UK tax rate	823	215
Income tax credit	(2,122)	(3,027)

The standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1 April 2012. Accordingly, the Group's profits for this accounting period are taxed at an effective rate of 25.5% (2011: 27.5%)

Further reductions to the UK tax rate have been announced. The changes which are expected to be enacted separately each year, propose to reduce the tax rate by 1% per annum to 22% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date, and therefore, are not recognised in these financial statements.

9. Earnings/(loss) per share

	30 June 2012 pence	30 June 2011 pence
Basic and diluted loss per share	(14.86)	(12.14)

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 2012 £'000	30 June 2011 £'000
Loss for the year attributable to equity holders of the parent Company	(13,400)	(9,700)
Weighted average number of ordinary shares for the purpose of basic earnings per share	90,138,692	79,920,631

Notes to the accounts continued

10. Profit of the parent Company

As permitted by Section 408 of the Companies Act 2006, the income statement 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 2012 amounted to £480,000 (2011: £504,000 loss).

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 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 1 July 2011	263	6,545	670	148,730	165,309	95	321,612
Additions	–	935	87	2,745	64,242	–	68,009
Additions acquired through business combinations	–	547	–	–	–	–	547
Transfer	–	2,202	–	(2,202)	–	–	–
Disposals	–	–	–	(516)	–	(39)	(555)
Balance at 30 June 2012	263	10,229	757	148,757	229,551	56	389,613
Accumulated Depreciation							
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 1 July 2011	244	3,099	509	2,311	–	59	6,222
Charge for the year	9	1,271	92	9,831	–	17	11,220
Disposals	–	–	–	(76)	–	(31)	(107)
Balance at 30 June 2012	253	4,370	601	12,066	–	45	17,335
Net book value							
Balance at 30 June 2012	10	5,859	156	136,691	229,551	11	372,278
Balance at 30 June 2011	19	3,446	161	146,419	165,309	36	315,390

At 30 June 2012, the Group held assets under finance lease agreements with a net book value of £1,845,631 (2011: £110,625). A depreciation charge for the year of £250,344 (2011: £305,234) has been provided on these assets. These assets are included in network assets.

The satellite in construction assets of £229,551,000 now relate to HYLAS 2 and HYLAS 3/4 design (2011: £165,309,000). Included in the satellite costs are capitalised finance costs of £28,728,753 (2011: £15,224,096) related to the HYLAS 2 satellite. The finance costs on HYLAS 2 will average 5.5% over the lifetime of the facilities (2011: HYLAS 2 average 5.5%). The HYLAS 2 assets are located in Cyprus.

Satellites in operation have been depreciated from 1 April 2011 when the HYLAS 1 satellite came into commercial service. HYLAS 2 was launched on 2 August 2012. All satellite and ground station assets will be depreciated from that date.

On 1 November 2011 the Group obtained control of the trade and assets of Filiago GmbH & Co. (Filiago), located in Germany. As a result of this transaction the Group now recognises Filiago's fixed assets with a fair value of £547,000.

The lenders of the HYLAS 2 loan facility (note 22) have a fixed and floating charge over all the assets of the Group.

12. Intangible assets

	Computer software £'000	Brand name £'000	Customer lists £'000	Goodwill £'000	Group total £'000
Cost					
Balance at 1 July 2010	395	–	–	–	395
Additions	–	–	–	–	–
Disposals	–	–	–	–	–
Balance at 1 July 2011	395	–	–	–	395
Additions	–	–	–	–	–
Additions acquired through business combinations	–	181	1,389	7,530	9,100
Disposals	–	–	–	–	–
Balance at 30 June 2012	395	181	1,389	7,530	9,495
Accumulated Amortisation					
Balance at: 1 July 2010	384	–	–	–	384
Charge for the year	8	–	–	–	8
Disposals	–	–	–	–	–
Balance at: 1 July 2011	392	–	–	–	392
Charge for the year	3	26	66	–	95
Disposals	–	–	–	–	–
Balance at 30 June 2012	395	26	66	–	487
Net book value					
Balance at 30 June 2012	–	155	1,323	7,530	9,008
Balance at 30 June 2011	3	–	–	–	3

The additions of goodwill and intangible assets were generated from the Group obtaining control of Filiago GmbH & Co, located in Germany, on 1 November 2011, and resulted in the recognition of £7.5m of goodwill and £1.7m of intangible assets, representing the Filiago brand name and customer lists.

As set out in IAS 36 Impairment of Assets, a cash-generating unit is the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of the cash flows from other assets or groups of assets. For the purpose of impairment testing of goodwill, goodwill is allocated to a group of cash-generating units (being subsidiaries acquired in each acquisition). Such group of cash-generating units represent the lowest level within the Group for which the goodwill is monitored for internal management purposes.

The recoverable amount of the cash-generating units is determined using value-in-use, which is calculated by using the discounted cash flow method. This method considers the cash flows of the subsidiaries (cash-generating units) for the 10 years ending 30 June 2021 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 4% for the operation to perpetuity are used which comply with general expectations for the business. The present value of cash flows is calculated by discounting the cash flow by pre-tax interest rate of approximately 14.6%.

The brand names acquired in the course of the Filiago business combination of £0.2m are amortised on a straight-line basis over a period of five years. At the year end the NBV of the brand names is £155,000, after charging £26,000 of amortisation in the year.

The customer lists acquired in the course of the Filiago business combination of £1.4m are amortised on a straight-line basis over a period of fifteen years. At the year end the carrying amount of the customer bases is £1,323,000 after charging £66,000 of amortisation in the year.

The lenders of the HYLAS 2 loan facility (note 22) have a fixed and floating charge over all the assets of the Group.

Notes to the accounts continued

13. Business combinations

The financial asset of £9.1m recognised at 30 June 2011 has been reclassified to a business combination in line with relevant accounting standards.

On 1 November 2011 the Group took effective control of Filiago GmbH & Co ("Filiago") by enhancing the security over its loans with Filiago. From 1 November 2011 ("the date of control"), Filiago is accounted for as a subsidiary in the consolidated financial statements because of the control now held but, because the Group has not purchased any equity shares in the Company, a 100% non-controlling interest is recognised on the statement of financial position removing the impact of achieving control from shareholders' funds.

Filiago GmbH & Co is a broadband reseller and has multiple distributors in several countries as well as a large direct customer base. The fair value of net assets acquired, identifiable intangibles assets and the operating results of Filiago GmbH & Co are included in the consolidated financial statements since achieving control. From the date of control to 30 June 2012, Filiago contributed to the Group's results with revenue of £1.1m, and a loss of £0.5m. The loss of £0.5m is removed from shareholders' funds as a non-controlling interest.

The following table summarises the consideration paid for Filiago GmbH, the fair value of the assets acquired, and liabilities assumed.

	Provisional Fair Value £'000
Property, plant and equipment	547
Trade and other receivables	229
Cash and cash equivalents	2
Trade and other payables	(1,541)
Net liabilities acquired	(763)
Goodwill	7,530
Intangibles	1,681
Total cost of control	8,448

The above goodwill and intangibles have been reduced by amortisation and foreign exchange revaluations totalling £203k at 30 June 2012.

If the acquisition had occurred at the beginning of the financial year the Group revenue is estimated to be £12.9m, and a loss of £14.3m.

There are no acquisition costs.

Identified as part of this consideration are intangible assets valued at £1.7m. These intangible assets are made up of the valuation of the existing customer lists as well as the trade name.

Goodwill of £7.5m has been recognised, this represents future economic benefits of the arrangement.

14. Investments

Company

Shares in subsidiary undertakings

	30 June 2012 £'000	30 June 2011 £'000
Beginning of the year	84,728	41,320
Equity investments in Avanti HYLAS 2 Limited	12,973	43,408
Investment in Avanti Communications Germany GMBH	24	–
End of year	97,725	84,728

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	Place of incorporation
Avanti Communications Limited	Telecommunication consultancy	England & Wales
Avanti Space Limited	Satellite services	England & Wales
Avanti Space 2 Limited	Satellite services	England & Wales
Avanti Space 3 Limited	Satellite services	England & Wales
Avanti Launch Services Limited	Management services	Isle of Man
Avanti Broadband Limited	Satellite broadband business	England & Wales
Avanti Broadband (Ire) Limited	Satellite broadband business	England & Wales
Avanti (NI) Limited	Satellite broadband business	England & Wales
Avanti HYLAS 2 Limited	Satellite services	England & Wales
Avanti HYLAS 2 Launch Services Limited	Management services	Isle of Man
Avanti Communications Infrastructure Limited	Holding company	England & Wales
Avanti Caledonian Broadband Limited	Scottish satellite business	England & Wales
Avanti Employee Benefit Trust	Employee benefit trust	England & Wales
Avanti HYLAS 2 Cyprus Limited	Satellite broadband business	Cyprus
Avanti HYLAS Services Limited	Project management services	Cyprus
Avanti Communications Marketing Services Limited	Sales and marketing	England & Wales
Avanti Communications Germany GmBH	Satellite services	Germany
Avanti Communications Sweden AB	Satellite services	Sweden

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

On 1 November 2011 the Group took effective control of Filiago GmbH & Co ("Filiago") by enhancing the security over its loans with Filiago. From 1 November 2011 ("the date of control") Filiago is accounted for as a subsidiary in the consolidated financial statements because of the control now held but, because the Group has not purchased any equity shares in the Company, a 100% non-controlling interest is recognised on the statement of financial position removing the impact of achieving control from shareholders' funds (note 13).

Notes to the accounts continued

16. Inventories

Group	30 June 2012 at cost £'000	30 June 2011 at cost £'000
Finished goods	881	1,284

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 £2,472,000 (2011: £1,634,000).

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

17. Trade and other receivables

	Group		Company	
	30 June 2012 £'000	30 June 2011 £'000	30 June 2012 £'000	30 June 2011 £'000
Trade receivables	1,441	1,170	139	–
Less provision for impairment of trade receivables	(268)	(53)	–	–
Net trade receivables	1,173	1,117	139	–
Accrued income	5,967	3,133	–	–
Prepayments	3,456	2,640	644	3
Amounts due from Group companies	–	–	165,163	105,187
Other receivables	2,879	1,026	–	–
	13,475	7,916	165,946	105,190

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 2012 £'000	30 June 2011 £'000	30 June 2012 £'000	30 June 2011 £'000
Deferred tax assets	13,029	14,658	282	191
Deferred tax liabilities	(7,438)	(11,272)	–	–
	5,591	3,386	282	191
The gross movement on the deferred income tax account is as follows:				
Balance at 1 July 2011	3,386	268	191	62
Income tax recognised in the income statement	2,122	3,027	100	133
Tax credited directly to equity	83	91	(9)	(4)
Balance at 30 June 2012	5,591	3,386	282	191

Group	Opening balance £'000	Charged to the income statement £'000	Charged to equity £'000	Closing balance £'000
30 June 2012				
Tax assets				
Provisions and deferred income	6,603	(1,738)	–	4,865
Share based payment	505	56	91	652
Unused tax losses	7,550	(30)	(8)	7,512
Total tax assets	14,658	(1,712)	83	13,029
Tax liabilities				
Derivative financial asset	–	–	–	–
Property, plant and equipment	(11,272)	3,834	–	(7,438)
Total tax liabilities	(11,272)	3,834	–	(7,438)
Net deferred tax asset/(liability)	3,386	2,122	83	5,591

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				
Derivative financial asset	–	–	–	–
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

Company	Opening balance £'000	Charged to the income statement £'000	Charged to equity £'000	Closing balance £'000
30 June 2012				
Tax assets				
Share based payment	67	6	(9)	64
Unused tax losses	124	94	–	218
Total tax assets	191	100	(9)	282

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

At 30 June 2012, none of the deferred tax asset of £13.0m (2011: £14.7m) is expected to be recovered in the next 12 months.

At 30 June 2012, none of the deferred tax liability of £7.4m (2011: £11.3m) 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 from communication services provided by the HYLAS 1 and HYLAS 2 satellites.

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 2012 £'000	30 June 2011 £'000
Cash and bank balances	39,699	38,125
Short-term deposits	37,001	704
Net cash and cash equivalents	76,700	38,829

20. Trade and other payables

	Group		Company	
	30 June 2012 £'000	30 June 2011 £'000	30 June 2012 £'000	30 June 2011 £'000
Current				
Trade payables	6,686	17,961	–	–
Social security and other taxes	271	218	–	–
Other payables	1,267	2,524	23	–
Accruals and deferred income	9,933	9,692	8	3
	18,157	30,395	31	3
Non-current				
Accruals and deferred income	15,347	18,997	–	–
Included in deferred income is the ESA grant. The activity for the year is as follows:				
Current portion	5,358	5,300		
Non-current portion	15,347	18,876		
	20,705	24,176		

21. Provisions for other liabilities

Group	Current £'000	Non-current £'000	Total £'000
Onerous lease provision			
Balance at 1 July 2011	30	3	33
Released during the year	(27)	(3)	(30)
Balance at 30 June 2012	3	–	3

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 £2,500 will be released in the following financial year.

The Company does not have any provisions (2011: £nil).

Notes to the accounts continued

22. Loans and other borrowings

	Group Current		Group Non-current	
	30 June 2012 £'000	30 June 2011 £'000	30 June 2012 £'000	30 June 2011 £'000
Secured at amortised cost				
Bank loans	2,645	–	166,975	118,475
Finance lease liabilities (i) (note 26)	2,322	397	3,026	203
	4,967	397	170,001	118,678

	Company Current		Company Non-current	
	30 June 2012 £'000	30 June 2011 £'000	30 June 2012 £'000	30 June 2011 £'000
Secured at amortised cost				
Finance lease liabilities (i) (note 26)	232	–	349	–
	232	–	349	–

(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 at an interest rate of 5.5%. Included in the loan balance of £169.6m is interest of £5.8m.

This borrowing is repayable over a period of 7 years from December 2012 and the lenders have a charge over the assets of the Company. The Company has to meet certain covenant criteria which is reported to the bank every 6 months.

In accordance with IAS 23 – Borrowing Costs, qualifying borrowing costs have been capitalised as part of the cost to HYLAS 2, recognised as Satellite in Construction in Note 11.

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.

Consistent with covenant requirements in relation to the HYLAS 2 loan facility, the Group monitors capital on the basis of net tangible worth of certain subsidiary companies and debt service coverage ratios of the Group and certain subsidiary companies.

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 derivatives used for hedging. 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 operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. In order to hedge the foreign currency risk the Group enters into forward contracts or natural hedges. These risks are assessed on a continual basis.

The derivative asset is in respect of three forward contracts and one FX swap hedging future Euro receivables and liabilities.

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. These items are held in a US dollar denominated company and both are translated into the Group accounts at the year end exchange rate.

At 30 June 2012, if the Euro had weakened/strengthened against the sterling by 5% with all other variables held constant, post tax loss would have improved by £108,390 or worsened by £119,799 (2011: post tax profit would have improved by £68,954 or worsened by £76,212).

At 30 June 2012, 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 £62,744 or worsened by £69,348 (2011: post tax profit would have improved by £367,971 or worsened by £406,704). The US dollar cash reserves and US dollar loan are held in a US dollar denominated company and are revalued through reserves upon consolidation.

The average volatility of rates during the year compared to the year end exchange rate was 3.92% and therefore Management believes that a 5% sensitivity rate provides a reasonable basis upon which to assess expected changes in foreign exchange rates.

ii) Interest Risk Management

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

Notes to the accounts continued

23. Financial instruments and risk management continued

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.

	2012
Trade Receivables	1,173
Other Financial Assets	–
Total	1,173

	2011
Trade Receivables	1,117
Other Financial Assets	9,135
Total	10,252

The ageing of trade receivables and other financial assets 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 2012	701	162	183	127	1,173
30 June 2011	9,868	330	39	15	10,252

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

	30 June 2012 £'000	30 June 2011 £'000
At 1 July 2011	53	3
Allowances made in the period	317	53
Amounts used and reversal of unused amounts	(102)	(3)
At 30 June 2012	268	53

The provision of £268,000 (2011: £53,000) has been raised against gross trade receivables of £1,441,000 (2011: £1,170,000). 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 Group's 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.

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 2012						
Bank loans	10,274	19,821	99,828	75,607	205,530	169,620
Finance leases	2,476	2,305	805	–	5,586	5,348
Trade Payables	6,686	–	–	–	6,686	6,686
30 June 2011						
Bank loans	1,051	7,611	58,683	85,908	153,253	118,475
Finance leases	602	–	–	–	602	600
Trade Payables	17,961	–	–	–	17,961	17,961

The table below summarises the derivatives as at 30 June 2012 and 2011 and into relevant maturity groupings:

	Notional Principal £'000	Within 1 year £'000	1 to 2 years £'000	Derivative fair value Asset £'000	Derivative fair value Liability £'000
30 June 2012					
Foreign currency forward contracts	2,447	2,447	–	129	–
30 June 2011					
Foreign currency forward contracts	1,750	1,750	–	–	83

All derivatives are held in the Company.

In addition, the Company has intercompany balances carried at £146,331,000 (2011: £105,187,000). The contractual amount is equal to the carrying amount.

d) 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 has a total debt facility of $328.2m (2011: $328.2m) in relation to Hylas 2 expenditure and is fully funded in this respect.

Notes to the accounts continued

23. Financial instruments and risk management continued

e) Financial instruments by category

Group

Assets as per balance sheet	Loans and receivables £'000	Assets at fair value through the profit and loss £'000	Derivatives used for hedging £'000	Available for sale £'000	Total £'000
30 June 2012					
Derivative financial instruments	–	–	129	–	129
Other financial assets	–	–	–	–	–
Trade and other receivables (excluding prepayments)	10,019	–	–	–	10,019
Cash and cash equivalents	76,700	–	–	–	76,700
	86,719	–	129	–	86,848
30 June 2011					
Derivative financial instruments	–	–	–	–	–
Other financial assets	9,135	–	–	–	9,135
Trade and other receivables (excluding prepayments)	5,276	–	–	–	5,276
Cash and cash equivalents	38,829	–	–	–	38,829
	53,240	–	–	–	53,240

Liabilities as per balance sheet	Liabilities at fair value through the profit and loss £'000	Derivatives used for hedging £'000	Other financial liabilities at amortised cost £'000	Total £'000
30 June 2012				
Derivative financial instruments	–	–	–	–
Borrowings (excluding finance lease liabilties)	–	–	169,620	169,620
Finance lease liabilities	–	–	5,348	5,348
Trade and other payables (excluding non-financial liabilities)	–	–	33,233	33,233
	–	–	208,201	208,201
30 June 2011				
Derivative financial instruments	–	83	–	83
Borrowings (excluding finance lease liabilties)	–	–	118,475	118,475
Finance lease liabilities	–	–	600	600
Trade and other payables (excluding non-financial liabilities)	–	–	31	31
	–	83	119,106	119,189

Company

Assets as per balance sheet	Loans and receivables £'000	Assets at fair value through the profit and loss £'000	Derivatives used for hedging £'000	Available for sale £'000	Total £'000
30 June 2012					
Derivative financial instruments	–	–	129	–	129
Trade and other receivables (excluding prepayments)	165,302	–	–	–	165,302
	165,302	–	129	–	165,431
30 June 2011					
Derivative financial instruments	–	–	–	–	–
Trade and other receivables (excluding prepayments)	105,187	–	–	–	105,187
	105,187	–	–	–	105,187

Liabilities as per balance sheet	Liabilities at fair value through the profit and loss £'000	Derivatives used for hedging £'000	Other financial liabilities at amortised cost £'000	Total £'000
30 June 2012				
Derivative financial instruments	–	–	–	–
Finance lease liabilities	–	–	581	581
Trade and other payables (excluding non-financial liabilities)	–	–	31	31
	–	–	612	612
30 June 2011				
Derivative financial instruments	–	83	–	83
Finance lease liabilities	–	–	–	–
Trade and other payables (excluding non-financial liabilities)	–	–	3	3
	–	83	3	86

f) Fair value of financial instruments

The following table analyses financial instruments carried at fair value, by valuation method. The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quotes prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Notes to the accounts continued

23. Financial instruments and risk management continued

The following tables presents the Group's assets and liabilities that are measured at fair value at 30 June 2012 and 30 June 2011.

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
30 June 2012				
Derivatives used for hedging	–	129	–	129
	–	129	–	129
30 June 2011				
Derivatives used for hedging	–	–	–	–
	–	–	–	–

Liabilities	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
30 June 2012				
Derivatives used for hedging	–	–	–	–
	–	–	–	–
30 June 2011				
Derivatives used for hedging	–	83	–	83
	–	83	–	83

The directors consider the carrying value of all other financial assets and liabilities to be approximate to their fair values.

Financial instruments and risk management – 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
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
At 1 July 2011	84,951	849	188,678
Shares issued	26,785	268	74,732
Less transaction costs	–	–	(1,091)
At 30 June 2012	111,736	1,117	262,319

On 23 February 2012, the Group issued 26,785,714 shares at £2.80 per share.

25. Share based payments

The fair value of share options charged to the consolidated income statement in the period was £631,000 (2011: £776,000), and to the Company income statement was £27,000 (2011: £54,000). 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 Group has established 14 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) (July 2010)
– Unapproved share option plan (July 2011)
– Unapproved share option plan (October 2011)
– Unapproved share option plan (October 2011) – key management personnel
– Save As You Earn scheme (SAYE) (November 2011)
– Unapproved share option plan (March 2012)
– Unapproved share option plan (April 2012)

The 2012 charges and weighted average fair value for each of the plans above were as follows:

	EMI	LTIP schemes	Unapproved schemes	SAYE schemes
2012 charge	£54,465	£247,845	£305,839	£22,374
Weighted average fair value	£2.04	£3.11	£1.76	£0.79
2011 charge	£96,279	£440,203	£226,113	£13,704
Weighted average fair value	£2.04	£3.11	£1.76	£0.79

To date all options (with exception of the SAYE scheme) have been granted with a strike price of 1 pence. The strike price on the SAYE scheme 2010 is £4.70, and on the SAYE scheme 2011 is £3.09.

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:

2012

	Outstanding at start of year	Granted during year	Forfeited in year	Exercised during the year	Outstanding at end of year
EMI					
Number of options	184,815	–	(2,644)	(25,970)	156,201
Weighted average exercise price	£0.01	–	£0.01	£0.01	£0.01
Unapproved schemes					
Number of options	594,421	–	–	(30,716)	563,705
Weighted average exercise price	£0.01	–	–	£0.01	£0.01
SAYE schemes					
Number of options	58,954	81,594	(5,305)	–	135,243
Weighted average exercise price	£4.70	£3.90	£3.90	–	£3.90

Notes to the accounts continued

25. Share based payments continued

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 schemes					
Number of options	397,353	269,000	(33,000)	(38,932)	594,421
Weighted average exercise price	£0.01	£0.01	£0.01	£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

The weighted average share price for the year ended 30 June 2012 was £2.98 (2011: £5.40).

80,040 (2011: 27,046) of the EMI options, 19,465 (2011: 30,715) of the unapproved 2007 scheme, 33,333 (2011: 16,667) of the unapproved July 2010 scheme, and 1,702,107 (2011: 1,629,898) of the LTIP options had vested and were exercisable from 30 June 2012.

The exercise price of options outstanding at 30 June 2012 was £0.01 and the weighted average remaining contractual life was 4.1 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.

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 in the 2011 financial 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 five 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. This benchmark for this tranche of LTIP 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.

	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	(1,022,537)	(679,570)	1,249,636
Senior managers	125,000	62,500	62,500	–	250,000	(53,571)	(62,500)	133,929
	1,317,960	742,070	741,713	400,000	3,201,743	(1,076,108)	(742,070)	1,383,565

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.

Notes to the accounts continued

25. Share based payments continued

Unapproved Schemes

At 30 June 2012, there were 10 unapproved schemes in place, established at various dates since 2007.

Under each scheme, the options are issued for 10 years with with 25% or 33% vesting at the end of years 3, 4, 5 and 6.

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

	Unapproved 2007	Unapproved March 2010*	Unapproved July 2010	Unapproved October 2010*	Unapproved April 2011*	Unapproved July 2011*	Unapproved October 2011*	Unapproved October 2011 (KMP)	Unapproved March 2012*	Unapproved April 2012*
Share price at date of Grant	£1.86	£4.33	£4.50	£6.20	£4.48	£3.85	£2.64	£2.64	£2.56	£2.60
Weighted average exercise price	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01
Expected volatility	35%	21%	24%	20%	24%	24%	24%	24%	24%	24%
Expected life	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Risk free rate	5.5%	2.1%	1.8%	1.8%	1.8%	1.4%	1.4%	1.4%	1.4%	1.4%
Expected dividend yield	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%

* Under the schemes indicated by an asterisk, the market value of the shares must be £10.00 or more per share for a consecutive period of six months in order for the vesting conditions to be met. For all other schemes, there are no performance criteria and the options are exercisable as long as the option holder remains with the Company.

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.

Save as you earn (SAYE) schemes

The save as you earn schemes were established in July 2010 and November 2011 and were 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 three years from the date of grant. All options expire six months from their exercise date.

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

	SAYE July 2010	SAYE November 2011
Share price at date of Grant	£4.50	£2.95
Weighted average exercise price	£4.70	£3.09
Expected volatility	21%	24%
Expected Life	3 years	3 years
Risk free rate	2.1%	1.4%
Expected dividend yield	1%	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 3–5 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

	Group Minimum lease payments		Group Present value of lease payments	
	30 June 2012 £'000	30 June 2011 £'000	30 June 2012 £'000	30 June 2011 £'000
No later than one year	2,476	400	2,322	397
Later than 1 year no later than 5 years	3,110	202	3,026	203
	5,586	602	5,348	600
Less future finance charge	(238)	(2)	–	–
	5,348	600	5,348	600

	Company Minimum lease payments		Company Present value of lease payments	
	30 June 2012 £'000	30 June 2011 £'000	30 June 2012 £'000	30 June 2011 £'000
No later than one year	232	–	232	–
Later than 1 year no later than 5 years	349	–	349	–
	581	–	581	–
Less future finance charge	–	–	–	–
	581	–	581	–

	Group		Company	
Included in the financial statements as:	30 June 2012 £'000	30 June 2011 £'000	30 June 2012 £'000	30 June 2011 £'000
Current borrowings	2,322	397	232	–
Non-current borrowings	3,026	203	349	–
Present value of minimum lease payments	5,348	600	581	–

During the year, the Group entered into a 3 year sale and leaseback agreement with HSBC Equipment Finance (UK) Ltd for network assets with a fair value of £4.1m. There was no profit and loss on the transaction as the sale was conducted at the fair value of the assets.

Also, during the year the Group entered into a 3 year sale and leaseback agreement with Lombard Technology Services Limited for network equipment with a fair value of £0.4m. There was no profit and loss on the transaction as the sale was conducted at the fair value of the assets.

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 2012		30 June 2011	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
No later than one year	265	18	345	18
Within 1 to 5 years	794	13	794	30
After 5 years	331	–	595	–
	1,390	31	1,734	48

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

28. Capital commitments

As at 30 June 2012 the Group has contracted but not provided for capital commitments of £12.0m ($18.8m) (2011: £32.3m ($50.8m)). This amount relates to the procurement of Hylas 2, the Group's second satellite.

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 2012	30 June 2011
Salaries and other short term employee benefits	1,435	1,172
Bonus	766	494
	2,201	1,666
Payments into defined contribution schemes	109	161
Gain on exercise of share options	60	189
	2,370	2,016

Pension contributions amounting to £108,546 (2011: £161,424) were made into personal pension schemes in respect of four (2011: four) of the Directors.

Three non-executive directors exercised share options in the period.

The emoluments of the highest paid Director totalled £749,693 (2011: £586,966), made up of:

Total emoluments	30 June 2012	30 June 2011
Salaries and other short term benefits	396	346
Bonus	314	145
Payments into defined contribution schemes (current year)	39	96
Total emoluments	749	587

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".

Key management personnel are considered to be the general counsel, the director of investor relations and the managing director of the consulting division.

	Group		Company	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Salaries and other short term employee benefits	1,972	1,517	432	364
Bonus	1,094	667	–	82
Payments into defined contribution schemes	236	221	–	–
Share based payments	389	488	27	52
	3,691	2,893	459	498

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 2012	30 June 2011
Avanti Communications Limited	635	755
Avanti Broadband Limited	2,258	1,829
Avanti Space Limited	325	459
Avanti (NI) Limited	131	969
Avanti Caledonian Broadband Limited	271	1,634
Avanti HYLAS 2 Limited	767	213
	4,387	5,859

The parent Company had the following intercompany balances outstanding at the year end:

	30 June 2012	30 June 2011
Avanti Communications Limited	98,894	42,244
Avanti Space Limited	2,781	2,456
Avanti Space 2 Limited and Avanti Space 3 Limited	–	–
Avanti Broadband Limited	5,402	3,144
Avanti HYLAS 2 Limited	602	(141)
Avanti Communications Infrastructure Limited	57,484	57,484
	165,163	105,187

Intercompany balances are unsecured and repayable on demand.

Notes to the accounts continued

30. Cash generated from operations

	Group 30 June 12 £'000	Company 30 June 12 £'000	Group 30 June 11 £'000	Company 30 June 11 £'000
Loss before taxation	(16,007)	(580)	(12,727)	(638)
Derivative valuation	(213)	(213)	(109)	–
Interest receivable	(207)	–	–	–
Foreign exchange losses in operating activities	563	–	515	(107)
Depreciation and amortisation of non-current assets	10,457	–	2,936	–
Provision for doubtful debts	230	–	50	–
Onerous lease provision	(30)	–	(30)	–
Share based payment expense	631	27	773	54
(Gain)/Loss on disposal of fixed assets	(2)	–	11	–
Movement in working capital	–	–	–	–
Decrease in stock	404	–	81	–
(Increase)/decrease in debtors	(5,802)	(59,990)	3,059	(24,603)
(Decrease)/Increase in trade and other payables	(2,338)	(157)	(300)	358
Spacex settlement	–	–	4,716	–
Cash generated from operations	(12,314)	(60,913)	(1,025)	(24,936)

31. Post balance sheet events

On 2 August 2012 the Group successfully launched HYLAS 2 from French Guyana on Ariane Flight VA2508. On 10 September 2012 Avanti announced the successful completion of in-orbit testing of HYLAS 2.

During July 2012 the Company signed procurement contracts with ESA and MDA for the payload and the embarkation fees related to HYLAS 3.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held on 15 November 2012 at 9.00 am at 74 Rivington Street, London EC2A 3AY, for the following purposes:

Ordinary business

To consider, and if thought fit, to pass the following resolutions, which will be proposed as ordinary resolutions:

1. **Report and Accounts**
   To receive the audited annual accounts for the year ended 30 June 2012, together with the reports of the Directors and Auditors therein.

2. **Re-election of directors**
   2.1 To re-elect David Bestwick as a director, who retires by rotation in accordance with the Company's articles of association.

   2.2 To re-elect Matthew O'Connor as a director, who retires by rotation in accordance with the Company's articles of association.

   2.3 To re-elect Richard Vos as a director, who retires by rotation in accordance with the Company's articles of association.

3. **Election of director.**
   To elect Paul Walsh as a director of the Company, who, having been appointed since the last Annual General Meeting, offers himself for election in accordance with the Company's articles of association.

4. **Re-appointment of auditors**
   To re-appoint PricewaterhouseCoopers LLP as auditors to the Company.

5. **Auditor's remuneration**
   To authorise the directors to determine the remuneration of the auditors.

Special business

To consider, and if thought fit, to pass the following resolutions, of which resolution 6 will be proposed as an ordinary resolution, and resolution 7 will be proposed as a special resolution:

6 **Directors' authority to allot shares**
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 £372,456, such authority to expire on 15 May 2014 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.

7 **Directors' power to issue shares for cash**
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 paragraphs (a) and (b) above, of equity securities up to an aggregate nominal value equal to £55,868 and unless previously renewed, revoked, varied or extended, this power shall expire on the earlier of the date falling 18 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

18 October 2012

Shareholder Information

Notice of Annual General Meeting continued

Notes:

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those members registered in the register of members of the Company at 6.00 p.m. on 13 November 2012 (or if the Annual General Meeting is adjourned, 48 hours 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.

2. If you wish to attend the Annual General Meeting in person and 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.

3. 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 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 proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent you. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the Annual General Meeting (although voting in person at the Annual General Meeting will terminate the proxy appointment). A proxy form is enclosed. The notes to the proxy form include instructions on how to appoint the Chairman of the Annual General Meeting or another person as a proxy. You can only appoint a proxy using the procedures set out in these Notes and in the notes to the proxy form.

4. To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrar, Neville Registrars at Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA, by no later than 9.00 a.m. on 13 November 2012.

5. The notes to the proxy form include instructions on how to appoint a proxy by using the CREST proxy appointment service. You may not use any electronic address provided either in this Notice of Annual General Meeting or in any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

6. In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.

7. A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: Either by the appointment of a proxy (described in Notes 3 to 5 above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provision of the Companies Act 2006.

8. 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 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 9.00 a.m. on the day of the Annual General Meeting until its conclusion.

Notes to Notice of Annual General Meeting

Resolution 1 – Report and Accounts
All companies are required by law to lay their annual accounts and reports before a general meeting of the Company, together with the directors' report and auditor's report on the accounts. At the Annual General Meeting, the directors will present these documents to the shareholders for the financial year ended 30 June 2012.

Resolution 2 – Re-election of directors
These resolutions concern the re-appointment of David Bestwick, Matthew O'Connor and Richard Vos who are retiring at the meeting by rotation in accordance the Company's articles of association.

Biographies of these directors are set out on page 23.

Resolution 3 – Election of director
This resolution concerns the election of Paul Walsh as a director of the Company. Paul Walsh was appointed by the board on 3 January 2012 as an non-executive director. Paul Walsh is required by the Company's articles of association to offer himself for re-election at the annual general meeting following his appointment.

A biography of Paul Walsh is set out on page 23.

Resolution 4 – Re-appointment of auditors
This resolution concerns the re-appointment of PriceWaterhouseCoopers as auditors until the conclusion of the next general meeting at which accounts are laid, that is, the next Annual General Meeting.

Resolution 5 – Auditors remuneration
This resolution authorises the directors to fix the auditor's remuneration.

Resolution 6 – Directors' authority to allot shares
This resolution grants the directors authority to allot shares in the capital of the Company and other relevant securities up to an aggregate nominal value of £372,456, representing approximately 33.33% of the nominal value of the issued ordinary share capital of the Company as at 18 October 2012, being the latest practicable date before publication of this notice. The directors do not have any present intention of exercising the authorities conferred by this resolution but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities. Unless revoked, varied or extended, this authority will expire at the conclusion of the next Annual General Meeting of the Company or the date falling 18 months from the passing of the resolution, whichever is the earlier.

Resolution 7 – Directors' power to issue shares for cash
This resolution authorises the directors in certain circumstances to allot equity securities for cash other than in accordance with the statutory pre-emption rights (which require a company to offer all allotments for cash first to existing shareholders in proportion to their holdings). The relevant circumstances are either where the allotment takes place in connection with a rights issue or the allotment is limited to a maximum nominal amount of £55,868, representing approximately 5% of the nominal value of the issued ordinary share capital of the Company as at 18 October 2012 being the latest practicable date before publication of this notice. Unless revoked, varied or extended, this authority will expire at the conclusion of the next AGM of the Company or 18 months after the passing of the resolution, whichever is the earlier. The directors consider that the power proposed to be granted by resolution 7 is necessary to retain flexibility, although they do not have any intention at the present time of exercising such power.

Further notes to the Annual General Meeting
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.

Explanatory Notes to the Resolutions

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.

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	4,024,090	2,295
10,001–20,000	1,288,924	89
20,001–50,000	2,212,257	71
50,001–100,000	2,070,756	29
100,001–150,000	2,793,044	21
150,001–300,000	5,727,008	27
300,001–500,000	5,674,272	15
500,001–1,000,000	9,705,904	13
1,000,001 +	78,240,594	17

Financial Calendar

November 2012
Annual General Meeting

February 2013
Interim results for the six months ended 31 December 2012

September 2013
Preliminary results for the year ended 30 June 2013

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 75.

Dividend
The Directors have not recommended the payment of a dividend for the year ended 30 June 2012.

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.

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Shareholder Information

Proxy Form for Avanti Communications Group plc

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

Proxy form for use at the annual general meeting of Avanti Communications Group plc (the "Company") to be held at 74 Rivington Street, London EC2A 3AY on 15 November 2012 at 9.00 a.m. ("AGM" or "Meeting").

I/We

of

being a member/members of the Company entitled to receive notice, attend and vote at general meetings of the Company, hereby appoint the Chairman of the Meeting (Note 1)

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 AGM dated 18 October 2012 (the **"Resolutions"** and the **"Notice"** respectively) and any other business (including adjournments and amendments to the Resolutions) which may properly come before the Meeting or any adjournment thereof.

I/We direct my/our proxy to vote as follows in respect of the Resolutions (Note 2):

	ORDINARY BUSINESS	For	Against	Vote Withheld (Note 2)
1	To receive the report and accounts for the year ended 30 June 2012 (ordinary resolution)			
2.1	To re-elect David Bestwick as a director (ordinary resolution)			
2.2	To re-elect Matthew O'Connor as a director (ordinary resolution)			
2.3	To re-elect Richard Vos as a director (ordinary resolution)			
3	To elect Paul Walsh as a director (ordinary resolution)			
4	To re-appoint PriceWaterhouseCoopers LLP as auditors (ordinary resolution)			
5	To authorise the directors to fix the remuneration of the auditors (ordinary resolution)			
	SPECIAL BUSINESS			
6	To authorise the directors to allot relevant securities (ordinary resolution)			
7	To enable the directors to allot shares for cash without first offering them to existing shareholders (special resolution)			

(Note 3) Number of shares in relation to which proxy is authorised to act:

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

☐ This proxy appointment is signed on behalf of the member under power of attorney or other authority (Notes 5 and 6)

Signed

Dated

Proxy Form for Avanti Communications Group plc continued
(incorporated and registered in England and Wales under number 6133927) (the 'Company') continued

1 A member who is entitled to attend, speak and vote 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 AGM in order to represent you. A member wishing to appoint someone other than the Chairman of the Meeting as his or her proxy should insert that person's name in the space provided in substitution for the reference to "the Chairman of the Meeting" (and delete that reference) and initial the alteration.

2 Please indicate by inserting an "X" in the appropriate box how you wish your vote to be cast on the Resolutions. Your proxy must vote in accordance with any instructions given by you. If you mark the box "vote withheld" it will mean that your proxy will abstain from voting. A "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution. If you 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 in relation to less than your full voting entitlement, please indicate on the line provided the number 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 voting entitlement or, if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account.

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 proxy form must be deposited for each proxy appointed. Further copies of this form may be obtained from 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 on the line provided the number of shares in relation to which the person named on this form is authorised to act as your proxy, and also indicate by ticking the box provided that the proxy instruction is one of multiple instructions being given. All forms must be signed and returned to Neville Registrars Limited, the Company's registrars, at the address below, 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 the appointments invalid.

5 To be valid, this proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, must be received by post or (during normal business hours only) by hand at the offices of the Company's registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA by 9.00 a.m. on 13 November 2012. Alternatively, a member may appoint a proxy or proxies by using the CREST proxy appointment service, by following the procedure set out in Note 11 below. You can only appoint a proxy using the procedures set out in these Notes and in the notes to the Notice.

6 An individual member or his attorney must sign this form. If the member is a company, this proxy form must be executed under the company's common seal or signed on the company's behalf by a duly authorised officer or attorney of the company, stating their capacity (e.g. director, secretary).

7 The appointment of a proxy will not preclude a member from attending the Meeting and voting in person. If the member appointing the proxy does so attend and vote, any proxy appointment will terminate automatically.

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 A member wishing to change his or her proxy instructions should submit a new proxy appointment using the methods set out, and by the time limit specified, in Note 5. Any changes to proxy instructions received after that time will be disregarded. A member who requires another form should contact 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. Subject to Note 4, if a member submits more than one valid proxy appointment, the appointment received last before the time limit in Note 5 will take precedence.

10 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 or electronically by means of the facilities described in Note 11 below. The revocation notice must be received by Neville Registrars Limited by the time limit set out in Note 5. Any revocation notice received after this time will not have effect.

11 CREST members who wish to appoint a proxy or proxies through the CREST proxy appointment service may do so for the Meeting (and any adjournment thereof) by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members (and those CREST members who have appointed a voting service provider) should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("Euroclear") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message (regardless of whether it relates to the appointment of a proxy, the revocation of a proxy appointment or to an amendment to the instruction given to a previously appointed proxy) must, in order to be valid, be transmitted so as to be received by Neville Registrars Limited (ID 7RA11) by the latest time(s) for receipt of proxy appointments specified in Note 5 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Neville Registrars Limited is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members (and, where applicable, their CREST sponsors or voting service providers) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST Manual (available at www.euroclear.com/CREST) concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

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

P Walsh
Non-Executive Director

Secretary

N A D Fox

Registered Office

74 Rivington Street
London
EC2A 3AY

Company Number

6133927

Bankers

HSBC Bank Plc
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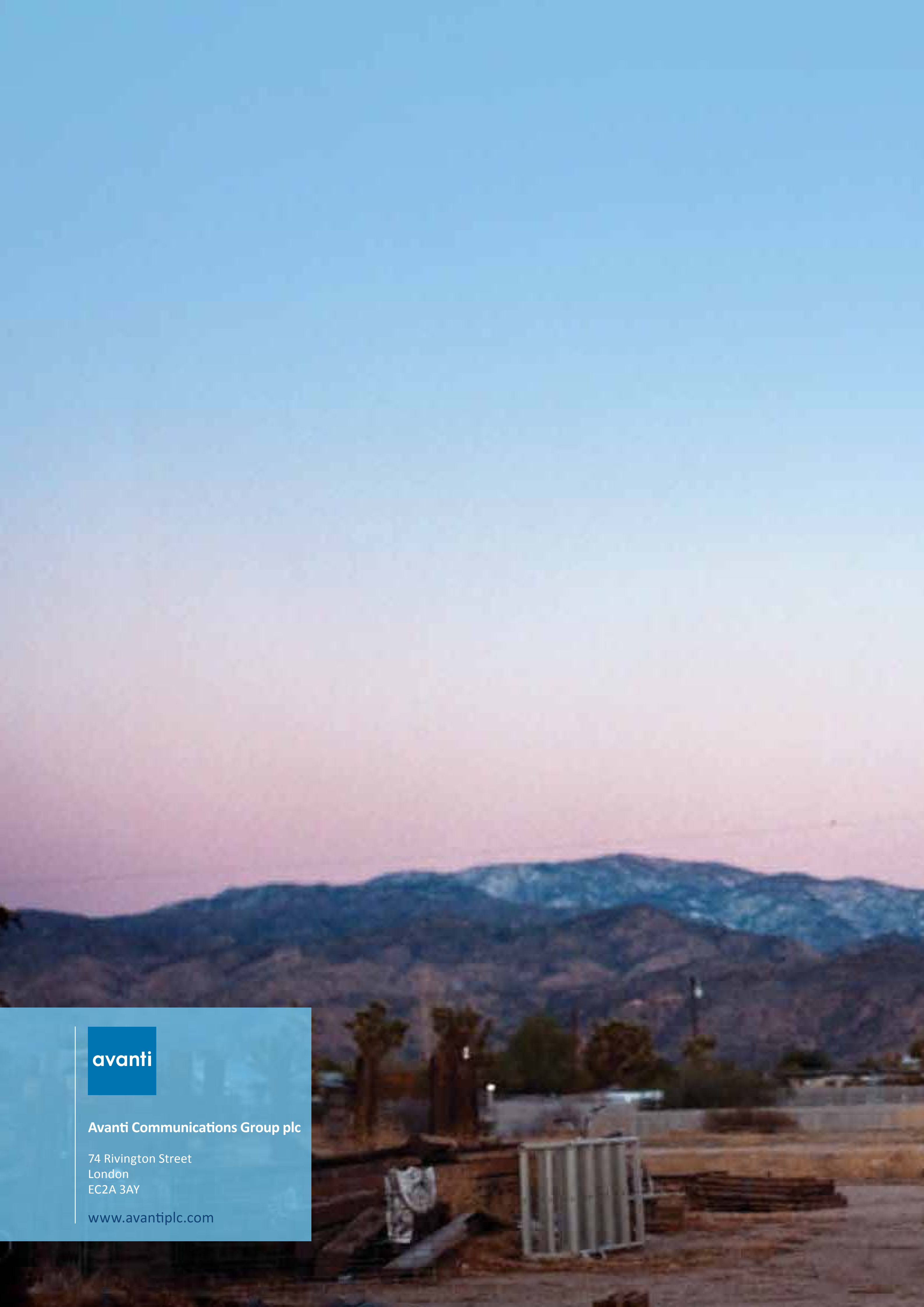

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