

AVANTI COMMUNICATIONS GROUP PLC

ANNUAL REPORT AND ACCOUNTS 2018

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STRATEGIC REPORT

KEY STRENGTHS

1. Quality

Our network mirrors the quality of service that terrestrial communications offer. We have market-beating Service Level Agreements and no in-country coverage gaps.

2. Flexibility

Avanti has a unique Cloud-based customer interface that provides a single point of co-ordination and control, allowing partners to become virtual network operators without the need to deploy their own capital or expertise.

3. Innovation

We've developed proprietary and patented technology which is deployed throughout our network.

4. Very high throughput

The HYLAS fleet uses Ka-band which enables our High Throughput Satellites ('HTS') to transmit over 10 times more data per satellite than legacy systems.

5. High speed

Our network can provide download speeds of up to 380Mbps, no matter how challenging the location.

6. Affordability

Ka-band HTS services are far cheaper than traditional and HTS Ku-band systems.

STRATEGIC REPORT HIGHLIGHTS

- Changed financial year end to 31 December 2018
- Revenue of \$73.7m for the 18 month period (12 months to June 2017: \$56.6m)
- Appointed new CEO, Kyle Whitehill, and strengthened the Senior Executive team
- Successful launch of HYLAS 4 in April 2018
- Completed the debt for equity restructuring
- Successfully recovered outstanding debt from Government of Indonesia after an arbitration process
- Transitioned the business to delivering improved bandwidth revenue from a higher quality customer base
- Raised additional 1.5 lien debt financing post period end
- Impairment provision against HYLAS 2 & HYLAS 2B as a consequence of higher WACC and lower average yields

STRATEGIC REPORT

CHAIRMAN'S STATEMENT

2018 was a year of significant change for Avanti. I must first thank Alan Harper for stepping in as Interim Chief Executive until April 2018. Alan provided steady experienced leadership for the business through what can often be a vulnerable time.

It is clear that whilst Avanti has a very good set of assets in its satellites, ground segment network and orbital slots, it has for some time struggled to deliver sufficient bandwidth revenue from these assets. This has led to the need for Avanti to find a new direction and has resulted in the impairment of HYLAS 2 and 2B reflected in the accounts. I believe that this has now been achieved and that the company has started to transition towards a stronger future path.

Three key events occurred in April 2018 that have set the foundations for a new start for Avanti. Firstly, we welcomed our new Chief Executive, Kyle Whitehill, who in a very short period of time has transformed the focus and priorities of the business which he discusses in his review that follows. Kyle has held various CEO roles in the Telecommunications industry, most recently CEO of Liquid Telecom South Africa, formerly known as Neotel. Previously Kyle spent 15 years with Vodafone Group plc, holding various CEO, COO and Executive Board Member roles in 4 continents.

Secondly, and of equal importance, was the successful launch of HYLAS 4. This excellent spacecraft completes our coverage of sub-Saharan Africa and, with four powerful steerable Ka-band beams, provides dynamic flexibility that is both scarce and in high demand. We are grateful to Orbital Sciences and to Arianespace for the safe delivery of this key asset which more than triples our available capacity.

Finally, we completed our balance sheet restructuring. On 26 April, our shareholders agreed to issue new shares to repay all of the 2023 notes which reduced the Group's debt by \$557m. In addition, the Board agreed with our Bondholders to reduce the interest rate on the 2021 notes to 9% with the ability to pay cash or roll up the interest as appropriate and to extend the maturity of the notes to 2022. I would like to thank all of our stakeholders that helped us through this process.

As recently announced, subsequent to the balance sheet date, the Group has successfully completed a consent solicitation process over debt facilities amendments that has enabled it to enter into a new 1.5 lien debt facility of up to \$75m. As part of the consented amendments, we have agreed an option to extend the maturity of our existing Super Senior Facility by 6 months to December 2020. This additional funding will enable the Group to meet its remaining capital expenditure requirements related to the HYLAS 3 and HYLAS 4 projects, whilst also providing the cash to meet the Group's working capital needs and support future EBITDA growth.

HYLAS 3 is now due for launch in quarter 3 of this year and will complete our investment cycle for the foreseeable future. It will supplement HYLAS 4 over Africa and provide additional steerable capacity.

As I said at the beginning, 2018 has laid the foundations for a new start for Avanti and the changes that Kyle had made to the Executive team means that the Company has new momentum and a bright future. After 5 years as Chairman I will be stepping down at the General Meeting in June and, as previously announced, will be handing over the Chair to Alan Harper, knowing that, despite falling capacity prices and increased competition in some markets, we have a strong and focused Executive team with supportive shareholders.

Thank you to our employees, customers, suppliers and investors for their ongoing support.

Paul Walsh
Chairman

STRATEGIC REPORT

CHIEF EXECUTIVE'S REVIEW

Our satellites provide high performance, affordable connectivity to governments, businesses and individuals across EMEA either directly through satellite dishes installed at the user location, or by providing backhaul connectivity to mobile networks.

As I start my second year as your Chief Executive I can reflect on the changes that have happened over the last 12 months. Upon joining the business, I was delighted to find that I had inherited a world class network and recognised that the focus needed to be on the strategy to monetise the investment you had made in that network.

Strategy

Historically our bandwidth revenues had been earned from the consumer broadband sector. Avanti had been successful in winning a reasonable proportion of that market. It became clear to me that, in order to fill our fleet quickly and at good yields, our focus needed to be elsewhere. Consumer Broadband remains part of our strategy but, over time, will be a smaller constituent of our bandwidth revenues.

The satellite industry has always bought capacity from each other and historically that was an opportunity from which we had not seen any traction. It is now one of our main priorities and we have developed a wholesale division which is already beginning to win material bandwidth contracts.

The US Department of Defence is the single largest buyer of commercial satellite capacity in the world and we have established a small operation in Washington DC to help us access that market. We have also signed an agreement with SD Comsat who are an approved supplier into the US Government.

HYLAS 4 is ideally designed to complement the existing networks in Africa to assist the major mobile and fibre operators with their cellular backhaul requirements. We already provide a resilient backhaul service to EE and the Home Office for emergency services in the UK, and have now been appointed as the preferred supplier of Ka-band services for MTN across Africa. Over time we expect this area to be a significant revenue stream for HYLAS 4.

We intend to build on our experience with iMlango, where we have connected 500 schools in Kenya and Tanzania with not only connectivity but also content and hardware, and will work with outside agencies to roll out further initiatives. Educating Africa is a key priority for many aid agencies and we will endeavour to contribute with the experience we have gained over the last five years.

Trading

During the first 12 months of the 18 month financial period new business was extremely slow as customers considered the state of the Company's balance sheet and then latterly absorbed the impact of the debt for equity swap. However, during the final 6 months of the period we executed against our new strategy, closing significant contracts in the wholesale and government sectors, more than doubling the value of our backlog.

Whilst HYLAS 4 is our main satellite to serve the government and carrier markets in Africa and the Middle East and has seen encouraging early business signed up since its launch, the consumer broadband sector has continued to be subject to aggressive pricing competition, resulting in a lower average yield, which has resulted in our need to impair the carrying values of HYLAS 2 and 2B.

Seven-Year Wholesale Capacity Agreement

In September 2018, Avanti signed a seven-year capacity wholesale agreement, worth US\$ 84 million over the period, with a major international satellite service provider. The Company will receive \$12 million per annum in quarterly instalments for the duration of the agreement once commenced. The agreement is expected to commence in Q3 of the Company's next financial year ending 31 December 2019. The capacity agreement will increase significantly the Company's usage and fill-rates for its HYLAS-fleet of satellites.

\$10 million Contract with ViaSat

In June 2018, Avanti signed our first HYLAS 4 contract for steerable capacity with ViaSat. The contract is worth \$10 million over two years.

Master Distribution Agreement agreed with Comsat

Avanti is establishing a strategic presence in Washington, D.C. which will be focused on selling our Mil-Ka capacity to the US Government and related agencies.

We have concluded a unique Master Distribution Agreement with Comsat Inc, USA. They are a fully approved, long term satellite communications supplier to the US Department of Defense, US Government and other related agencies. The seven-year contract enables Avanti to immediately access these key growth markets to offer its HTS network.

Pricing

As we reported at the end of the last financial year, in order to win volume in certain markets where end-customers are highly price sensitive, such as broadband in Europe, we have adjusted our prices. Our products are sold as Mb or managed accounts or as fully integrated projects but we calculate the Price, or Yield, per MHz per month. Global pricing for satellite capacity is falling in many markets, although each region is different.

STRATEGIC REPORT

CHIEF EXECUTIVE'S REVIEW CONTINUED

Satellite assets

Following its successful launch in April 2018, HYLAS 4 was brought into service in late 2018 and has some early stage customers including two of the four steerable beams. The Company has also deployed one of its steerable beams on HYLAS 4 over Mozambique to assist humanitarian efforts following the recent typhoon and flooding.

HYLAS 3 is in the final stages of preparation for launch which is due in Q3 2019. The Company anticipates bringing this 4GHz payload into service during Q4 2019. Whilst this tactical 4GHz payload is extremely late, its steerable capability of 8 beams, including Mil-Ka capacity, is of significant interest to many Government customers. HYLAS 3 is steerable over most of the African continent and we expect to announce capacity contracts later in the year.

Customers on HYLAS 1 have been successfully migrated onto HYLAS 4. HYLAS 1 is currently undertaking two specific short-term bandwidth projects for wholesale customers, which will occupy most of the remainder of 2019. After this time the capacity on HYLAS 1 will be fully utilised by a single wholesale customer, previously announced. HYLAS 1 will generate \$12 million of bandwidth revenues annually over the remainder of its 7 year life. This contract will commence in quarter 4 of the current fiscal year.

Steady progress continues with HYLAS 2 sales and the Company expects to make further contract announcements over the coming months.

HYLAS 2B is currently providing coverage over France, Germany, Poland and the Baltic Sea. This capacity is also steerable and we may consider re-deploying that capacity over the UK where we are experiencing significant demand.

Whilst we have a strong fleet of satellites that provide future growth for the company, falling capacity prices and a higher WACC have meant we have taken impairment charges against HYLAS 2 and HYLAS 2B. Details can be found in note 13 on pages 58 to 59.

Working Capital

During 2017 we had to make a significant bad debt provision against a receivable from the Government of Indonesia (Gol). Avanti had used the Artemis satellite to support Gol's need to bring into use and maintain its orbital slot at 123 degrees East. The total contract value was in excess of \$30 million. Avanti performed all of its obligations under the contract and had extended payment deadlines for Gol to assist with administrative delays. Avanti followed the contractual arbitration process and received full value for the outstanding amounts in August 2018. The provision of \$13.9 million was reversed and \$4.3 million of deferred revenue recognised. Artemis was re-orbited during the period.

Outlook

2018 saw a re-setting of the shape of the balance sheet and the strategic direction of the business. With the balance sheet restructuring completed in April 2018, the business refined its strategy to focus on Wholesale, Government and Cellular backhaul opportunities. This bore fruit in the second half of 2018 with over \$100 million of long term bandwidth contracts signed.

Revenues for the 18 month period were \$73.7 million of which bandwidth revenues for the 18 month period were \$41.2 million, and for the 12 months to December 2018 were \$31 million. Bandwidth revenues are exclusive of low margin project and equipment revenues. Total revenues are forecast to increase by 67% in 2019 and a further 30% in 2020. The growth is anticipated to come from Government business on HYLAS 4 and HYLAS 3, once operational.

Costs of delivering bandwidth are around \$80 million for a 12 month period. However, the Company has instigated a cost optimisation project, which is expected to reduce the costs associated with bandwidth sales by at least 15% per annum by 2020.

These measures should result in a positive EBITDA in 2019, with further material growth in 2020.

After the balance sheet date, the Group was successful in obtaining consents from its existing investors over debt facilities amendments that has enabled it to enter into a new 1.5 lien debt facility of up to \$75m, whilst also agreeing an option to extend the maturity of our existing Super Senior Facility by 6 months to December 2020. This additional funding, noting that \$20 million of the facility remains uncommitted, will enable the Group to meet its remaining capital expenditure requirements related to the HYLAS 3 and HYLAS 4 projects, whilst also providing the cash to meet the Group's working capital needs and support the budgeted future EBITDA growth. Whilst the Board is confident for the future, there remains some risk around the delivery of our budgets and the future refinancing of our debt facilities.

We can look forward to a positive future. We have an enviable network of assets, demand in our coverage is growing and the actions taken in the last 12 months to re-focus the business and to bring in new commercial talent to the executive team should bring rewards in the near term.

Kyle Whitehill

Chief Executive

STRATEGIC REPORT

MARKET OVERVIEW

Satellites provide data communications and broadcasting services around the world. Satellites are used versus terrestrial infrastructure in situations where they can provide superior economics to customers or where other forms of communication are not available.

Avanti operates in the fixed data communications part of the satellite market. Avanti has pioneered the use of Ka-band technology, which enables us to service this market at a lower cost than legacy operators.

In turn, this vastly increases the addressable market for satellite data communications, particularly in the high growth geographies where Avanti's capacity is focused, but also closer to home where Avanti can offer universal superfast broadband across Europe.

In these areas, dispersed populations and huge land areas make terrestrial communications uneconomic to deploy. For example, Africa has the same land mass as Europe, USA, China and India combined, yet a population the same as just India alone.

As a result of this low population density, fibre will not be deployed in European equivalent scale in the local loop during the lifetime of our satellites and so Africa is moving directly to wireless. In wireless technology, Ka-band HTS satellite is the best way to deliver high capacity, low cost, data services.

US National Security (i.e. Defence + Intelligence) spends an estimated US\$2 billion p.a. on commercial satellite capacity, representing over 40% of global Milsatcom spending and c.15% of the total global satellite capacity market.

STRATEGIC REPORT

OUR BUSINESS MODEL AND STRATEGY

Our business model

Avanti generates revenue from the commercial exploitation of its space and network assets. These assets include its spectrum rights, satellites, intellectual property and ground earth stations.

Avanti charges its service provider customers for the use of its network and other assets in a number of ways: broadband packages, managed capacity, fully integrated project fees, raw capacity, pure spectrum and a number of other product categories and charging models to suit customer and market circumstances.

Avanti connects people wherever they are – in their homes, businesses, in government and on mobiles. Through the HYLAS satellite fleet serving customers in 118 countries, the network provides ubiquitous internet service to a quarter of the world's population. Avanti delivers the level of quality and flexibility that the most demanding telecoms customers seek.

Technology

Avanti's technology platform is made up of three operational satellites and one hosted payload in orbit, one satellite under construction, and a ground segment infrastructure delivering comprehensive coverage of Europe, the Middle East and Sub-Saharan Africa.

These assets, along with the associated spectrum rights, are turned into a virtual network service accessible by our customers. This is done using the Avanti Cloud, a software based control system that allows all parts of the Avanti network to be controlled and configured online.

Avanti has developed proprietary and patented technology which is deployed throughout its network. This technology has been developed in house by its employees, who are amongst the most experienced in the industry.

Avanti uses the high frequency Ka-band spectrum. This enables our High Throughput Satellites to transmit over 10 times more data per satellite than legacy systems, significantly reducing end-user costs and creating a larger addressable market.

A combination of the efficiencies that are inherent in the use of Ka-band and Avanti's high-powered network design also make our systems significantly more efficient than the Ku-band high throughput networks.

Industry

Avanti's business model is differentiated from those of legacy satellite operators primarily by its use of Ka-band technology and the Avanti Cloud. The Avanti Cloud enables the sale of satellite capacity as a service, rather than as an infrastructure purchase.

Like other infrastructure companies, Avanti's business model involves significant upfront capital expenditure to launch services and a largely fixed operating cost base. This is expected to result in initial cash outflows being followed by strong cash inflows as the business grows.

The satellite industry has very high barriers to entry. These include the intellectual capital that is needed to design and run a satellite network and the requirement for orbital slots and spectrum. Avanti believes that terrestrial wireless services are rapidly consuming all of the available spectrum globally and recent industry debates show that there is great pressure on spectrum. Thus Avanti's estate of spectrum rights should provide secure long term value to the business.

Avanti seeks to lease and sell spectrum rights to third parties where opportunities arise and to commercially exploit its satellite and ground station assets outside of the operation of its own satellites, for example through satellite interim missions, consultancy projects, engineering services, satellite control services and ground station operation services.

The risks to Avanti's business model through technological change are low, primarily due to the very long lead times needed to develop and launch new satellite technologies.

Our strategy

The Group has performed a review of its go to market strategy during the period. Avanti is well positioned in the attractive High Throughput Services market with a strategy to pursue a focused B2B channel push strategy to become the satellite wholesale partner of choice to its target customers.

Avanti's strategy is founded on the assumptions that data usage will continue to grow strongly for the foreseeable future; that terrestrial infrastructure will not satisfy demand; and that high growth markets offer the highest returns.

Avanti's end user application segments are:

- Commercial Mobility
- Enterprise Data – including cellular backhaul
- Government & Military
- Broadband Access

Avanti's focus is on developing deep relationships with a small number of significant partners in the following three distribution channels:

- Satellite Operators
- Government & Government Agencies
- Major Mobile / Telecom Carriers

STRATEGIC REPORT FINANCIAL REVIEW

Income Statement

For the early part of 2018 the business continued to be held back by the finalisation of the balance sheet restructuring. However, during the final two quarters we started to see the benefits of the refined sales and marketing strategy as new contracts were concluded.

The 18 month period to 31 December 2018 was one of considerable change for Avanti as we transitioned from the founding CEO, via our interim Alan Harper, to Kyle Whitehill in April 2018.

The trading in the first 10 months of this period were largely overshadowed by the need to restructure our balance sheet which was concluded in late April 2018. In those 10 months we continued to serve our existing customers maintaining our excellent performance SLA.

In the remaining 8 months key management changes took place and the strategy was refined as described on page 7. This resulted in some significant contract wins in late 2018 with over \$100 million of bandwidth contracts signed. Whilst little of this flowed through the income statement in the period under review, we were able to increase bandwidth revenue in the last 6 months of the period.

Revenue in the period increased to \$73.7 million from \$56.6 million in 2017. The vast majority of this is due to the extended reporting period for 2018.

Costs of sale reduced to \$51.8 million from \$60.6 million in 2017. The increases associated with the longer 2018 reporting period were more than offset by the reversal, in the same period, of the bad debt provision previously made in 2017 against the amounts due from the Government of Indonesia (\$13.9m credit in FY18, \$12.5m expense in FY17).

Staff costs increased substantially to \$44.1 million from \$19.7 million in 2017. A combination of factors contributed to this including the extended period, headcount (12% increase), bonuses (\$5.8m) and additional short term contractors during 2018.

Other operating expenses increased to \$23.4 million from \$12.0 million in 2017. The factors affecting this were primarily the extended reporting period in combination with rent reviews, US travel costs and legal fees.

Other operating income increased to \$4.0 million from \$3.2 million. The increase reflected proceeds from the arbitration with the Government of Indonesia.

As a result of the combination of the above variances EBITDA losses increased to \$41.6 million from \$32.5 million.

12 month comparatives

Given the change in year end from 30 June to 31 December, the income statement commentary is based on the 12 month periods to 31 December 2018 and 30 June 2017 as shown opposite.

Revenue decreased from \$56.6m to \$53.5 million primarily as a result of lower bandwidth revenue generated by Artemis in 2018 prior to being re-orbited during the period (2018: \$4m; 2017: \$12 m).

Costs of sale were distorted across the two periods due to the provision of \$13.9 million made against the Government of Indonesia receivable in 2017 which was reversed in 2018 after our successful arbitration. The funds of \$20.1 million were received by Avanti in August 2018.

Staff costs were inflated in 2018 mainly because of the change of year end which meant that two staff bonuses were included in 2018 - one for the 12 month period to June 2018 and a smaller one for the 6 month period to 31 December 2018, compared to none for the 12 months to June 2017. In addition, included within staff costs in 2018 are additional short term contractor costs who have been brought in as part of the review of strategy.

Other operating expenses were negatively affected by a combination of rent reviews, US travel costs and legal fees associated with the re-financing.

Depreciation, amortisation and impairment reduced significantly in 2018 following the impairment charge against HYLAS 1 and 2 in 2017.

Both twelve month periods benefitted from exceptional gains from substantial modifications of our debt resulting in a profit before tax for the 12 months to 31 December 2018 of \$83.2 million (2017: loss \$77.7 million).

	12 months ended	
	(unaudited)	
	31 Dec 2018	30 Jun 2017
Revenue	53.5	56.6
Costs of Sale (excluding depreciation)	(33.5)	(59.4)
Staff costs	(30.7)	(19.7)
Other operating expenses	(17.7)	(12.0)
Other operating income	1.9	2.0
EBITDA*	(26.5)	(32.5)
Depreciation, Amortisation and impairment	(125.3)	(171.2)
Operating Loss	(151.8)	(203.7)
Finance income	1.3	-
Finance expense	(75.0)	(93.2)
Exceptional gain on restructuring of debt	308.7	219.2
Profit/(loss) before taxation	83.2	(77.7)

* Before interest, tax and depreciation. The Group uses EBITDA as a measure of underlying operational performance due to the greater comparability of this measure.

STRATEGIC REPORT

FINANCIAL REVIEW continued

Tax

There was a tax charge of \$31.4m to the income statement (2017: \$12.0m credit). The effective tax rate is impacted by the de-recognition of previously recognised deferred tax assets (\$56.8m charge), the non recognition of deferred tax assets arising in the current year (\$60.3m charge), offset by the non-taxable credit recognised as a result of the debt for equity swap (\$84.0m credit).

Corporate Interest Restrictions

With effect from April 1st 2017, the tax deductibility of interest costs was broadly restricted to 30% of 'UK Tax EBITDA' (a new measure based on taxable profit). Disallowed interest is carried forward indefinitely, but only becomes deductible if interest costs fall below 30% of UK Tax EBITDA in a future period.

Group forecasts suggest that interest is unlikely to fall beneath 30% of UK Tax EBITDA, which would result in the disallowed interest being carried forwards indefinitely. Therefore, no deferred tax asset has been recognised on these amounts (\$28.5m at 31 December 2018). However, if the Group's performance exceeds current expectations, or future debt/interest levels fall, future interest costs may fall beneath 30% of UK Tax EBITDA such that the disallowed interest costs would become deductible in the future.

Changes to Loss Utilisation Rules

With effect from 1 April 2017, restrictions were introduced in the UK on the use of brought forward losses, which broadly limit the use of brought forward losses to 50% for taxable profits above £5m. This will result in a slower utilisation of those losses.

Loss for the period

The loss for the period was \$38.2 million (2017: \$65.7 million loss) resulting in a basic and diluted loss per share of 3.50 cents (2017: loss 44.7 cents).

Balance Sheet

Impairments

At each reporting date the Group considers the carrying value of its assets and looks for indications of impairment.

HYLAS 2 is now 6 years into service and by today's standards has a relatively high cost per MHz. With lower than forecast growth in the earlier years of the asset combined with decreasing market prices we have made an impairment provision of \$67.1 million.

In addition the impairment review identified that due to low utilisation rates and price decrease in the 18 month period it was necessary to recognise an impairment provision of \$12.5 million against the HYLAS 2B asset.

The details around this impairment calculation and associated sensitivities are included in note 13 on page 58 and 59.

Shortly after the period end Avanti handed back control of Filiago to its founder and local management. As a result, Filiago will no longer be consolidated into the results of Avanti, and the balance of the intangible asset has been impaired in the results for the period.

Deferred tax assets

The closing deferred tax asset recognised at 31 December 2018 is \$nil (2017: \$30.8m). Management consider it is no longer appropriate to recognise the deferred tax asset due to the Group's history of recent losses and the debt restructuring in the period. Therefore, management has concluded that there is insufficient convincing other evidence to support the recognition of the deferred tax assets.

Receivables

Receivables at 31 December were \$33.5 million (30 June 2017: \$60.6 million). This fall is primarily due to the early settlement of long term receivables which have decreased from \$14.6 million to \$nil at the balance sheet date.

Spectrum stock

In November 2017, the Group paid \$17.0m to exercise an option giving the Group exclusive spectrum rights at 21.5E, which were subsequently brought into use during HYLAS 4 in-orbit testing. These spectrum rights, purchased with the intention of resale, are recognised in inventory at cost.

Cash flow

Net cash outflow from operating activities during the 18 months ended December 31, 2018 was \$49.2 million as compared to an outflow of \$4.1 million during the 12 months ended June 30, 2017.

Interest paid was \$14.7 million (2017: \$3.5 million), the increase being due to the coupon payments due on the Super Senior Facility which was drawn down in July 2017. Coupon payments on existing debt were settled through the issue of additional notes rather than payments of cash.

Capital expenditure in the 18 month period to 31 December 2018 was \$84.7 million, compared to \$66.5 million in the 12 month period to 30 June 2017, reflecting the completion and launch of the HYLAS 4 satellite.

Trapped cash

Avanti has cash balances of \$3.1 million in a bank account in Zimbabwe. Exchange controls in place require local customers to pay locally. Due to the illiquid nature of US dollars in Zimbabwe, Avanti has not been able to extract those balances. The Group continues to review its options. However, there remains a risk that this cash balance may be impaired in the future if there is an adverse change in circumstances that prevents management from being able to realise economic benefit from this asset.

Insurance

Avanti maintains a full suite of insurance policies covering not only space assets, but also business interruption associated with the failure of its ground earth stations. The HYLAS 1 and 2 in-orbit insurance policies were renewed in November 2018 with an insured value of £100m and \$200m respectively.

STRATEGIC REPORT

FINANCIAL REVIEW

Insurance continued

The HYLAS 4 launch +1 policy was taken out in early 2018 for \$325 million. The in-orbit policy for the year commencing 5 April 2019 was taken out for an insured value of \$325 million.

HYLAS 3 is insured for launch + 1 year for \$85 million.

HYLAS 2B is not insured, given that it is a hosted payload.

Backlog

Our backlog comprises our customers' committed contractual expenditure under existing contracts for the sale of bandwidth, satellite services, consultancy services and equipment sales over their current terms. Backlog does not include the value arising from potential renewal beyond a contract's current term or projected revenue from framework contracts. Our backlog totalled \$166.4m as of December 31, 2018.

Principal risks and uncertainties

The Group faces a number of risks and uncertainties that may adversely affect our business, operations, liquidity, financial position or future performance, not all of which are wholly within our control or known to us. Some such risks may currently be regarded as immaterial and could turn out to be material. We accept risk is an inherent part of doing business, and we manage the risks based on a balance of risk and reward determined through careful assessment of both the potential likelihood and impact as well as risk appetite. The Group faces a number of ongoing operational risks including credit and foreign exchange risk.

Fleet utilisation and pricing

With the launch of HYLAS 4 during the year available capacity increased from 17Ghz to 49Ghz. Fleet utilisation will be a key KPI going forward. Average pricing has fallen over the last year, although yields do vary significantly by geography and by application. The mix of revenue could have a positive or negative effect on average yield.

Liquidity risk

Liquidity risk is the risk that we may have difficulty in obtaining funds in order to be able to meet both our day-to-day operating requirements and our debt servicing obligations. We manage our exposure to liquidity risk by regularly monitoring our 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.

Future liquidity is also affected by the rate at which we fill the satellites and the yield achieved.

Launch of HYLAS 3

At this time HYLAS 3 is due for launch in late July 2019. Whilst the risk of launch failure is historically very low when using the Arianespace 5 launch vehicle, and the spacecraft is insured for \$85 million, any failure would impact the business model. A replacement vehicle would take approximately 30 months to procure.

Global economy

The global economy remains fragile and it continues to be difficult to predict customer demand. Avanti is susceptible to decreased growth rates within high growth markets and/or continued economic and market downturn in developing markets. The effects could lead to a decline in demand and deteriorating financial results, which in turn could result in the Group not realising its financial targets.

There are significant trade receivables with customers operating in the African and Middle East regions. These businesses are often operating in immature emerging markets for satellite communication services and may have cashflow difficulties due to the market and geopolitical environment in which they operate.

Brexit

Continued uncertainty around the shape and timing of Brexit is unhelpful. However, from our perspective, we expect that whatever the outcome, the impact on Avanti should be minimal. With the majority of our European capacity sold, our focus is firmly on the African coverage of HYLAS 3 and HYLAS 4. We continue to have operations and legal entities within the EU in Germany, Cyprus and Sweden and we would continue to use those operations as appropriate.

The continued uncertainty regarding the terms of the UK's exit from the EU may have some effect on our ability to attract suitable UK-based staff.

Foreign exchange risk

We operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the pound Sterling and the Euro. In order to mitigate the foreign currency risk, the Group monitors the level at which natural hedges occur and continually reviews the need to enter into forward contracts in order to mitigate any material forecast exposure. Our reported results of operations and financial condition are affected by exchange rate fluctuations due to both transaction and translation risks.

Interest rate risk

We borrow in US Dollars and pounds Sterling at fixed rates of interest and do 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.

Credit risk

Credit risk is the risk of financial loss arising from a counterparty's inability to repay or service debt in accordance with contractual terms. Credit risk includes the direct risk of default and the risk of deterioration of creditworthiness. We assess the credit quality of major customers before trading commences, taking into account customers' financial position, past experience and other factors. Generally when a balance becomes more than 90 days past its due date, we consider that the amount will not be fully recoverable.

STRATEGIC REPORT

FINANCIAL REVIEW *continued*

Post balance sheet events

At the end of February 2019, Avanti handed back control of Filiago to its founder and local management. As a result, Filiago will no longer be consolidated into the results and balance sheet of Avanti with effect from 1 March 2019.

Going Concern

As fully described in note 2 on page 41, these accounts have been prepared on a going concern basis.

In arriving at the conclusion, the Board of Directors has considered the forecast for the next 2 years in conjunction with the progress made with the new strategy and the cost optimisation program. Furthermore, the Board has approved additional funding of \$75 million, of which \$55m is fully committed, by way of a 1.5 lien. This facility will be non-cash paying with the interest rolling up over time. In addition to this funding, our Super Senior lender has agreed an option to extend the maturity of that loan from June 2020 to the end of December 2020.

The Directors have accordingly formed the judgement that it is appropriate to prepare the financial statements on a going concern basis. However, this judgement is formed on the basis of: achieving significant growth in bandwidth revenue through the remainder of 2019 and through 2020; delivery of the forecast annualised cost savings; successfully negotiating the deferral of an embarkation fee due ahead of the launch of HYLAS 3; the drawdown of a further \$20 million of 1.5 lien debt; and the refinancing of the Super Senior Facility ahead of its maturity at the end of December 2020.

Accordingly, these matters represent a material uncertainty that may cast significant doubt on the group and the parent company's ability to continue as a going concern. The group and the parent company may, therefore, be unable to continue realising their assets and discharging their liabilities in the normal course of business, but the financial statements do not include any adjustments that would result if the going concern basis of preparation is inappropriate.

Nigel Fox

Group Finance Director

STRATEGIC REPORT

SUSTAINABILITY

Avanti recognises that the long term sustainability of the Group is secured by managing the current impacts of its operations and products, and anticipating the future global business environment.

Avanti's sustainability strategy is designed to ensure that we have in place the following:

- Responsible business practices to underpin business activities and support employees in making the right decisions to drive business performance;
- A safe work environment for employees; and
- A diverse range of talented employees with a broad range of skills and capabilities to deliver against global customer requirements.

The Chief Executive, supported by the Board, has overall responsibility for the Group's ongoing commitment to sustainability to ensure that there are appropriate policies, systems, reporting structures and metrics in place to achieve the Group's sustainability objectives. All Avanti employees also have some responsibility for sustainability, whether it is in their interactions with service providers or making efficiencies to support our environmental aims. The effectiveness of policies and processes is monitored and reviewed on an ongoing basis and risks or opportunities are assessed and managed.

We use targets and metrics to measure our performance and to enhance future performance by learning from our past successes and challenges. Avanti evaluates possible sustainability issues based on their relevance to our current operations and the potential future impact on the business in order to ascertain our priorities. Priorities may change as the business develops and as we receive feedback from our stakeholders, and we therefore review these on a regular basis. For areas identified as having a high importance, we have either already developed strategies and have controls in place and are reporting on performance, or we are developing more detailed strategies within our existing systems to focus on specific aspects. By monitoring our performance in this way we will also get valuable feedback for use in the continual improvement of our policies, processes and procedures. Stakeholder engagement is important to Avanti.

Talent/Avanti people

To have a sustainable business, Avanti must attract, develop and retain talent and manage it across the business. Avanti contributes to the wider community through the course of its business by creating employment, offering work experience and graduate training opportunities to young people and by investing in good causes that are relevant to the business.

Attract and retain

Like many companies operating in the technology industry in the UK, Avanti has concerns about current and future talent shortages in the technology and engineering sectors. This is a particular issue as the labour market becomes more fluid. Maximising the available talent pool is at the heart of our recruitment strategy and Avanti uses a diverse range of recruitment methods to achieve this, including; utilising social media and our own database of interested candidates, harnessing our employees' networks, online advertising, and building relationships with universities and other groups.

The measure of voluntary employee turnover provides insight into retention at Avanti. Avanti monitors this on a monthly basis and regular feedback ensures that any potential issues are identified and dealt with. Avanti's target for voluntary turnover (over a 12 month period) is under 15%. This level reflects the current average levels of turnover experienced in London-based commercial businesses, with an appropriate level of churn to refresh the talent base.

To improve retention, Avanti has developed a programme to increase employee engagement. This change has had a positive impact on retention. In the UK currently only 6% of the engineering workforce is female. Avanti continues to buck this trend. Engineers make up 60% of Avanti's workforce and of those 11.6% are female.

At Avanti we continue to actively promote the industry to young people and women through work with universities and colleges and to promote fair and open recruitment and selection practices. Avanti employs people from 33 countries speaking more than 27 languages. Through encouraging diversity within its workforce, Avanti aims to reflect better the diversity of its customer base in order to respond better to its demands.

Working with young people

Avanti aims to encourage the workforce of the future by supporting science, technology and engineering education through building links with local colleges and universities, in particular through involvement with the National Space Centre. Avanti also offers internships and voluntary work experience placements as well as providing expert technical talks to universities.

STRATEGIC REPORT

SUSTAINABILITY continued

Avanti key behaviours

Avanti's key behaviours set out the principles and standards of business conduct expected of all employees wherever they operate and in whatever role. These behaviours are embedded into our induction and performance review processes. Avanti's key behaviours play a large role in ensuring that the strong values of the Company are maintained as it grows in size. Avanti's culture is an important factor in driving quality and flexibility for customers and other stakeholders in the business.

Human rights

Avanti requires that its business be conducted with honesty and integrity, and in full compliance with all applicable laws. Company policies establish clear ethical standards and guidelines for how we do business and establish accountability. The Company has clear accountability mechanisms in place to monitor and report on compliance with these directives. Additionally, Avanti supports and upholds the elimination of discriminatory practices with respect to employment and occupation, and promotes and embraces diversity in all aspects of its business operations.

Developing talent

Robust appraisal and performance management processes are in place to ensure that Avanti is able to deliver quality and flexibility throughout all areas of work by identifying and developing skills and knowledge within the business and empowering employees to suggest improvements and innovation. Avanti offers development opportunities across the business in technical and management skills to ensure that our workforce is ready to adapt to changes in technology and markets. In the 18 months leading up to December, Avanti provided over 400 training sessions for employees and the development activity is paying off. Avanti is proud of its record of developing talent and promoting from within; in the last year, 18% of all vacancies were filled by internal promotion.

Key next steps

Avanti continues to develop and diversify its recruitment practices and grow its links with relevant universities and other groups to promote engineering and the satellite industry. We also continue to review and improve our practices and policies to ensure that we remain an attractive employer as the labour market is predicted to become more challenging, and that our workforce is flexible and able to adapt quickly to change and growth.

Health and safety

Avanti wants employees to work in a safe, healthy environment. To achieve this we continue to review and update our policies, procedures and practices to assess and mitigate against any risks. Avanti has a robust health and safety audit and improvement process, and encourages employees to report potential issues and suggest improvements.

Environment

At Avanti we feel an environmental responsibility to both our service providers and their wider communities. Fortunately, our technology enables us and our service providers to behave in an environmentally responsible way. Services and applications such as teleworking, video conferencing, distance learning and ecommerce allow service providers to exchange information and ideas without actually travelling, saving energy and reducing pollution. Today, service providers can use our wireless services to make the distribution of goods more efficient; help reduce energy use in workshops, offices and homes; and take advantage of telemedicine and distance learning. To reduce the environmental impact, Avanti encourages all employees to avoid all unnecessary travel by providing full telephone or video conferencing in meeting rooms at Avanti sites. Employees are expected to consider the necessity of their journeys and to use alternative methods of communication where possible, such as remote accreditation of partners and supporting partners via video conferencing. We also carefully monitor energy usage and waste in our head office in London, and hope to roll out this monitoring across other sites in the near future.

Stakeholders

Avanti's principal stakeholders include investors, employees, partners, suppliers, government and non-government organisations and the communities in which it operates. Avanti aims to communicate openly with stakeholders about its business in order to better understand their views and concerns, and explain the Company's approach.

Organisational departments

The structure at Avanti is designed to promote flexibility and excellent customer service by encouraging accountability and allowing for focused working. This is achieved by grouping the functions whose main purposes are customer facing (the partner support, deployment and logistics teams), sales and revenue generation (marketing, sales and pre-sales) and technical operations and innovation (procurement, satellite operations, ground operations and networks). Interdepartmental working is encouraged through the use of project teams and regular meetings of the management team, as well as regular cross-Company training.

The Strategic Report on pages 1 to 13 was approved by the Board of Directors on 7 June 2019 and signed on its behalf by:

Kyle Whitehill
Chief Executive

Nigel Fox
Group Finance Director

GOVERNANCE

BOARD OF DIRECTORS

Paul Walsh

Chairman

Committees: Chair of Nominations, Member of Remuneration

Paul joined the Board of Avanti in 2012 and was appointed as Chairman in November 2013. In addition to his directorships at Avanti, Paul also serves as Chairman of food and services company, Compass Group Plc and Chime Communications Limited, and also holds non-executive director positions with FedEx Corporation and RM2 International S.A.. Mr. Walsh was Chairman, President and Chief Executive Officer of The Pillsbury Company, a wholly owned subsidiary of Diageo plc, from 1996 to 2000, and Chief Executive Officer of The Pillsbury Company from 1992 to 1996. He was previously a director of Centrica plc, HSBC Holdings plc, Ontex Group NV, Pace Holdings Corp. and Unilever PLC.

Kyle Whitehill

Chief Executive Officer

Kyle has held various CEO roles in the telecommunications industry, most recently CEO of Liquid Telecom South Africa, formerly known as Neotel. Previously Kyle spent 15 years with Vodafone Group plc, holding various CEO, COO and Executive Board Member roles in 4 continents. CEO of Vodafone Qatar 2013-2016, CEO of Vodafone Ghana 2010 – 2013. COO India and Chairman of Vodafone India PTY - 2008 to 2010. Prior to that Kyle spent 7 years in Vodafone UK, most latterly as Enterprise Business Unit Director and Board member.

Alan Harper

Deputy Chairman and Senior Independent Non-Executive Director

Committees: Chair of Remuneration, Member of Audit and Nominations

Alan is Deputy Chairman and Senior Independent Non-Executive Director of Avanti. Alan is also Chairman of Azuri Technologies, a Non-Executive Director at MTN, and is a leading figure in the mobile network industry for both the UK and Africa. Alan co-founded Eaton Towers in 2008, a leading telecom tower company and held the position of Chief Executive Officer until early 2015. Operational since 2010, Eaton Towers serves major mobile operators such as Airtel, MTN, Orange, Tigo, Vodacom and Vodafone. Prior to founding Eaton Towers, Alan spent 12 years at Vodafone Group PLC in various roles including MD of Vodafone Ltd and as the Group Strategy Director, focusing notably on growth in emerging markets.

Nigel Fox

Group Finance Director

Nigel is a chartered accountant and has held various senior finance roles before joining Avanti 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. Nigel is responsible for all aspects of Finance and Administration of the Group.

John Slámečka

Non-Executive Director

John joined the Board in December 2018. He leads the Global Account Solutions-EMEA team for AT&T as Region President. He joined AT&T in 1986, serving strategic and executive leadership roles in marketing, asset protection, sales, product and finance in Europe and Latin America. John is an experienced global leader with an extensive background of successfully managing global teams.

Paul Johnson

Non-Executive Director

Committees: Chair of Audit

Paul is a Fellow of the Institute of Chartered Accountants in England and Wales. He spent 24 years as a partner in KPMG, working with companies in a variety of different industries in both the listed and private sectors. For the last 12 years he was Chairman of KPMG's London Region. Paul is the Chairman of the Audit Committee.

Richard Mastoloni

Non-Executive Director

Committees: Member of Audit

Richard Mastoloni is an experienced senior executive working in the satellite industry for the past 20 years. From 1997 until 2013, Richard was Senior Vice President and Treasurer at Loral Space & Communications Inc., a multi-billion dollar US based satellite telecommunications company which owned the fourth largest satellites services company, Telesat Canada, as well as one of the largest satellite manufacturers, Space Systems Loral. Prior to Loral, he was a senior banker for JP Morgan Securities.

Craig Chobor

Non-Executive Director

Committees: Member of Audit

Craig Chobor is a Managing Director and Director of Research at Solus Alternative Asset Management. Craig joined Solus at its inception in July 2007 and is the analyst responsible for the telecommunications, media and technology space. Over the last 19 years, he has been directly involved in transactions and restructurings for some of the largest TMT companies. Prior to his current position at Solus, Craig was part of the CDO and hedge fund teams at Stanfield Capital Partners covering a variety of industries including retail, cable, euro cable, printing, publishing, television, radio, media, wireless, and satellite telecommunication. Craig holds the Chartered Financial Analyst designation and is a member of the New York Society of Securities Analysts and the Association of Investment Management and Research. In connection with his role at Solus, he currently also serves as a board member for TerreStar Corp., Nextwave Holdco LLC, and Panavision Corp.

GOVERNANCE

BOARD OF DIRECTORS *continued*

Adam Kleinman

Non-Executive Director

Committees: Member of Remuneration

Adam was appointed to the Board in March 2019, replacing Peter Reed. Adam is the President and Chief Operating Officer of Great Elm Capital Group, Inc., the Chief Operating Officer, General Counsel and Chief Compliance Officer of Great Elm Capital Management, Inc. and the Chief Compliance Officer of Great Elm Capital Corp. Prior to joining Great Elm, Adam was a Partner and the Chief Operating Officer and General Counsel at a Boston-based registered investment adviser from 2009 to 2017.

Michael Leitner

Non-Executive Director

Committees: Member of Remuneration

Michael is a Managing Partner of Tennenbaum Capital Partners, LLC and a member of its Management Committee. Prior to joining TCP in 2005, he served as Senior Vice President of Corporate Development for WiTel Communications, and before that as President and Chief Executive Officer of GlobeNet Communications, leading the company through a successful turnaround and sale. Previously, Michael was Vice President of Corporate Development of 360networks developing and managing its global colocation services business. Prior to 360networks, he served as Senior Director of Corporate Development for Microsoft Corporation, and Vice President in the M&A group at Merrill Lynch. Mr. Leitner currently serves as a Director on the boards of Globecom Systems and Core Media.

GOVERNANCE

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

Avanti firmly supports the upholding of good principles of corporate governance, not only because it is required for compliance purposes, but because effective corporate governance serves to ensure that the business is run properly and in the interests of all of its stakeholders.

The Board recognises that it is accountable to shareholders for the Company's activities and that it is responsible for the effectiveness of corporate governance practices.

On 18 September 2018, the Company adopted the OCA Corporate Governance Code (the OCA Code). The OCA Code takes key elements of good governance and sets these out in ten broad principles (the Principles) and a set of disclosures. By adopting these Principles and effectively communicating the measures adopted by the Company to apply them, the directors can ensure a consistent culture of good governance appropriate for the size and nature of the Company's business.

Further information regarding the Principles and their application is available on the Avanti website at:

<https://investor.avantiplc.com/leadership-and-governance/>

In addition to ensuring appropriate application of the OCA Code, as a Board, we closely monitor developments in legislation, regulation and industry guidelines to ensure that our corporate governance policies are kept up to date and that the Board committees take into account all of the latest guidance in their areas of activity.

The Board takes all appropriate measures to ensure that no conflict of interest can exist between members of the Board and other stakeholders in the Company.

Compliance statement

Throughout the financial period ended 31 December 2018, the Board considers that the Company complied in all material respects with those parts of the U K Corporate Governance Code, and from September 2018 the OCA Code, that it considers appropriate for the size and maturity of our business. This Corporate Governance Report, the Report of the Board, the Audit Committee Report, and the Remuneration Report detail how the Company has applied the Principles of the OCA Code.

Paul Walsh

Chairman

GOVERNANCE

CORPORATE GOVERNANCE REPORT

Role of the Board

The Board has a collective duty to promote the long term success of the Company for its shareholders. The Board sets the Company's strategy and ensures that the necessary resources are in place to achieve the strategic priorities.

In determining the long term strategy and objectives of the Company, the Board takes into account its duties and responsibilities not just to its shareholders but also to customers, employees and other stakeholders and makes its decisions objectively. It reviews management and financial performance, monitors the delivery of strategy and achievement of objectives and works within a rigorous framework of internal controls and risk management. The Board develops and promotes the collective vision of the Company's purpose, objectives, values and key behaviours.

Board Composition and Changes

As at the date of this Report, the Board is made up of 10 members comprising the non-executive Chairman, seven other non-executive directors and two executive directors.

During the extended financial period, co-founder David Williams took the decision to step down as Chief Executive, and non-executive Alan Harper was appointed interim CEO. In April 2018, the Company welcomed experienced teleco executive, Kyle Whitehill, as permanent Chief Executive, replacing Alan Harper. Kyle brings with him significant knowledge of the African telecommunications market with over 15 years at Vodafone Group primarily serving non-domestic regions, and through his former CEO role at Liquid Telecom in South Africa. Alan remains on the Board and has since been appointed Deputy Chairman and Senior Non-Executive in place of Andrew Green who stepped down in January 2019.

Further changes during the financial period include the appointment of Nigel Fox as executive director of the Board in September 2017, and the departure of David Bestwick who stepped down as executive director in June 2018. Chris McLaughlin stepped down as non-executive director in June 2018 to become a senior executive heading-up Avanti's Regulatory department and managing the Company's external affairs.

The balance of the Board, together with the advice sought from other members of senior management and the Company's external advisors, ensures that no individual has unfettered powers of decision.

Re-appointment of Directors

All directors are required to retire every three years and may offer themselves for re-appointment, which is not automatic. As a Company with a long-term growth strategy, it is appropriate for directors to serve on the Board for more than a single term, subject to continuing satisfactory performance.

Chairman and the Chief Executive

The Board is chaired by Paul Walsh who provides leadership that demonstrates the values and behaviours of the Company. The Chairman is responsible for creating the conditions for overall Board and individual director effectiveness.

He ensures that both executive directors and non-executive directors alike make available sufficient time to execute their duties in an appropriate manner; that all directors receive sufficient financial and operational information and that there is proper debate at Board meetings. He is also responsible, in consultation with the Chief Executive and the Company Secretary, for setting the agenda for the Board's meetings.

The Chief Executive is supported by the Finance Director and his executive team, and is responsible for the day-to-day management of the Company. He provides the leadership required to ensure successful planning and execution of the objectives and strategy agreed by the Board.

The roles of the Chairman and Chief Executive are separate, with each having clearly defined duties and responsibilities.

Non-Executive Directors

Avanti benefits from the extensive experience of the non-executive directors in areas critical to the long term future success of the Company, encompassing a deep understanding of the industry, technology, corporate strategy, finance and investment. The non-executive directors help the executive directors by contributing independent challenge and rigour to the Board's deliberations and assisting in the development of the Company's strategy. In addition, they are responsible for monitoring the performance of the executive directors against agreed goals and objectives. Their views are essential in overseeing the performance of the Company.

Induction and ongoing training

All directors have access to advice from the Company Secretary and independent professionals at the Company's expense. Training is available for directors as necessary. New directors receive an induction programme and all the directors are encouraged to continue professional education programmes.

Matters reserved for the Board

The Board recognises that, to ensure the long term success of the Company, certain specific matters should be reserved for the consideration and decision of the Directors alone. Decisions specifically reserved for approval by the Board are formally recorded and include:

- Annual and interim accounts and Financial Statements;
- Dividend policy;
- Board appointments;
- Company strategy and annual operating budget;
- Changes to the Company's capital structure;
- Changes to the Company's management and control structure;
- Major capital expenditure, acquisitions and disposals;
- Treasury policies;
- Risk management strategy;
- Company corporate governance policy; and
- Environmental, health and safety and sustainability policies.

GOVERNANCE

CORPORATE GOVERNANCE REPORT CONTINUED

Board meetings

The Board met on nine occasions during the extended financial period. The directors additionally maintained an open dialogue throughout the financial period, and ad hoc meetings and calls were held as required to discuss specific matters.

Board attendance for the financial period 1 July 2017 to 31 December 2018

		Member Since	Number of Meetings Attended ¹	% of Meetings Attended
Chairman	Paul Walsh	January 2012	11/11	100%
Executive Directors	Kyle Whitehill	April 2018	5/5	100%
	Nigel Fox	September 2017	10/10	100%
	David Bestwick ²	March 2007	8/8	100%
Non-Executive Directors	Alan Harper	March 2017	11/11	100%
	Paul Johnson	January 2013	11/11	100%
	Richard Mastoloni	December 2016	11/11	100%
	John Slámecka	December 2018	1/1	100%
	Chris McLaughlin ³	September 2017	6/6	100%
	Andrew Green ⁴	November 2014	11/11	100%
	Craig Chobor	January 2017	11/11	100%
	Peter Reed	January 2017	11/11	100%
	Michael Leitner	January 2017	11/11	100%

1. Shown as the number of meetings attended and the maximum number of meetings that the member was eligible to attend.

2. Stepped down from the Board on 30 June 2018

3. Stepped down from the Board on 1 June 2018

4. Stepped down from the Board on 31 January 2019

During the period, the Chairman continued the practice of maintaining a 12-month agenda for Board and committee meetings. Agenda items included permanent items such as progress reports from the Chief Executive and Group Finance Director and the Company Secretary, as well as periodic items such as updates from the Board Committees, review of the risk register and internal controls, strategy and succession planning.

Whenever a Director is a related party or interested in a particular transaction being considered by the Board, the Chairman will ensure that the relevant Director will recuse himself/herself from any decisions made in relation to that transaction.

In advance of each meeting, the Board is provided with monthly management reports and other relevant information in a timely manner and in a form and quality that it considers appropriate.

The Chairman and the Board have confidence that the way in which the Board meetings are conducted ensures that they cover all the matters required to be discussed and that sufficient time is allowed for discussion of each matter at the most appropriate meeting in the period, enabling the members of the Board to discharge their duties as directors effectively.

The Company Secretary attends all Board meetings and is available to advise on any corporate governance issues that may arise.

Board Committees

The Board has established a number of committees to assist in the discharge of its responsibilities. The principal committees are the Audit Committee, the Nominations Committee and the Remuneration Committee. The responsibilities of each of these Board committees are set out in their individual Terms of Reference.

Committee meetings are held independently of Board meetings and invitations to attend are extended by the committee Chairman to the other directors, the Company's advisors and management as appropriate.

GOVERNANCE

CORPORATE GOVERNANCE REPORT *continued*

Audit Committee

The Audit Committee is comprised of four non-executive directors: Paul Johnson, Alan Harper, Craig Chobor and Richard Mastoloni. The Committee is chaired by Paul Johnson. Through their other business activities, each member of the Committee has significant experience in financial matters. The Company considers that the composition of the Audit Committee is in accordance with the UK Corporate Governance Code. Further information on the activities of the Committee is set out in the Audit Committee Report on pages 22 to 23.

Nominations Committee

The Nominations Committee is comprised of two non-executive directors: Paul Walsh and Alan Harper. It is chaired by Paul Walsh. For further information on the activities of the Committee please refer to page 24.

Remuneration Committee

The Remuneration Committee is comprised of four Non-Executive Directors: Paul Walsh, Alan Harper, Adam Kleinman and Michael Leitner. It is chaired by Alan Harper.

Executive Directors and senior management attend Remuneration Committee meetings at the invitation of the Committee Chairman only. The Remuneration Committee meets according to the Company's requirements at least twice a year.

The Remuneration Committee determines, within agreed Terms of Reference, specific remuneration packages for the Chairman, the Executive Directors, Company Secretary and other executive management of the Company. This includes implementation of Company share incentive plans. In accordance with the Committee's Terms of Reference, no Director may participate in discussions relating to his or her own terms and conditions of service or remuneration.

Further information on the activities of the Committee is set out in the Remuneration Committee Report on pages 25 to 27.

Maintaining a dialogue with shareholders and stakeholders

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the AGM and one-to-one meetings with key shareholders. All historical annual reports (including the Audit and Remuneration Committee Reports) and notices of meeting are available on the Company website.

The Board receives regular updates on the views of shareholders through briefings and reports from the Chief Executive Officer, Chief Financial Officer and the Company's brokers.

As soon as practicable after any general meeting has concluded, the results of the meeting are released through a regulatory news service and a copy of the announcement is posted on the Company's website.

Financial reporting

At each half year and the period end, all operating Group companies are required to produce Financial Statements to comply with local accounting regulations and to produce sufficient information to enable the central finance team to produce IFRS-compliant Consolidated Financial Statements.

The Board presents a balanced and understandable assessment of the Company's position and prospects in all interim and price sensitive public reports whilst also reporting to regulators all information required to be presented by statutory requirements.

GOVERNANCE

CORPORATE GOVERNANCE REPORT continued

Internal control and risk management

The Board has overall responsibility for the Company's system of internal control to safeguard Company assets and shareholders' investments. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure in order to achieve the Company's objectives.

The Board has reviewed the effectiveness of the system of internal control for the period ended 31 December 2018 and up to the date of the signing of the Annual Report and Accounts. The Board will continue to develop and implement internal control procedures appropriate to the Company's nature and scale.

The Company does not have an internal audit function due to the small size of the Company's administrative function and the high level of Director review and authorisation of transactions. The Audit Committee believes that these internal controls are adequate for the Group's current size and does not feel that a separate internal audit function is currently warranted. This situation is kept under regular review.

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 Company 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 approval and certain authorities delegated to the Executive Directors.

The key features of the Group's system of internal control are as follows:

- **Management responsibility and accountability:** There are clearly defined management responsibilities, reporting lines and limits of authority. The Chief Executive and the Finance Director meet regularly with the Executive Directors and other members of senior management to review progress on financial, commercial, operational, supply chain, HR, health, safety and environmental issues as well as regulatory and legal compliance matters.
- **Strategy and planning:** The Company updates its strategic plan each year and this is approved by the Board.
- **Budgeting and reporting:** Detailed management accounts are prepared each month, consolidated and reviewed in detail with senior management.

- **Expenditure approval:** Authorisation and control procedures are in place for capital expenditure and other major projects. There is also a process to review capital expenditure projects post completion to highlight any issues and improve future projects. Authorisation procedures for operating costs and contractual commitments are reviewed regularly.
- **Independence of the finance function:** The finance function is encouraged to act independently of general management in the course of its preparation of monthly accounts and exercising of control procedures.
- **Insurance and risk management policies:** This includes a formal annual risk review report to the Board. Regular meetings are held with insurance and risk advisors to assess the risks throughout the Group.
- **Documented policies:** There are documented policies for a range of areas including HR matters, expenditure, treasury and financial reporting.
- **Cash:** The cash and debt position at Group and operational level is monitored daily and any variances from forecast levels are investigated thoroughly. Working capital balances are reviewed on a monthly basis at Group level, and any significant variances are analysed and investigated.
- **Effectiveness:** The Board continually reviews the effectiveness of the systems of internal control and risk management procedures throughout the year.

Ethics

The Company prides itself on carrying out its business in a fair, honest and open manner, ensuring that it complies with all relevant laws and regulations.

Under the Companies Act 2006, a director of a company must avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts or may possibly conflict with the interests of the company.

The Company has a formal procedure in place to manage the disclosure consideration and, if appropriate, the authorisation of any such possible conflict. Directors are aware of the requirement to notify the Board as soon as they become aware of any possible future conflict or a material change to an existing authorisation. Only directors who have no interest in the matter being considered are able to take the relevant decision.

Details of the directors' service contracts, emoluments, the interests of the Directors in the share capital of the Company and options to subscribe for shares in the Company are provided in the Remuneration Report on pages 25 to 27.

GOVERNANCE

CORPORATE GOVERNANCE REPORT *continued*

Bribery Act 2010

The Board performs an ongoing assessment of the risk environment and has implemented a framework to ensure that the Company trades in compliance with the UK Bribery Act 2010 and all other relevant anti-bribery and corruption legislation.

Modern Slavery Act 2015

The Company has taken, and is continuing to take, steps to ensure that modern slavery is not taking place within its business or supply chain. A zero tolerance approach to any form of modern slavery has been implemented and the Company is fully committed to acting ethically, transparently and with integrity in all business dealings.

The Company's commitment to conducting business in an ethical and transparent manner is reflected in several of its policies, including its Anti-bribery Policy, Code of Conduct, New Supplier Selection Policy and Supplier Policy. These policies not only set the values expected of the Company's own staff but also the behaviours and values required in the Company's supply chain.

To ensure all service providers comply with these values, the Company undertakes due diligence on all new and existing suppliers. In addition, the Company contracts on the basis that these organisations have in place similar policies to its own, ensuring no part of their business operations contradicts the Company's ethics.

GOVERNANCE

AUDIT COMMITTEE REPORT

Three of the four members of the Audit Committee are independent Non-Executive Directors and the majority have significant, recent and relevant financial experience. The Board is confident that the collective experience of the Audit Committee members enables them, as a group, to act as an effective Committee.

By invitation, the meetings of the Audit Committee may be attended by the Chairman, Chief Executive Officer, Group Finance Director and deputy CFO. The KPMG LLP audit engagement partner is present at the audit committee meetings to ensure full communication of matters relating to the audit. The Chairman of the Audit Committee meets regularly with the Group Finance Director and the external Auditor.

The Audit Committee has particular responsibility for monitoring the financial reporting process, the adequacy and effectiveness of the operation of internal controls and risk management and the integrity of the Financial Statements. This includes a review of significant issues and judgements, policies and disclosures. Its duties include keeping under review the scope and results of the audit and its cost effectiveness, consideration of management's response to any major external audit recommendations and the independence and objectivity of the external Auditor.

During the period to 31 December 2018 the Audit Committee reviewed and endorsed, prior to submission to the Board, half year and full year Financial Statements, interim management statements and results announcements. It considered internal management reports and risk management updates, agreed external audit plans, received updates on management responses to audit recommendations and approved the review of accounting policies.

The Committee also reviewed the detail of the debt for equity swap in conjunction with the Group Finance Director, General Counsel and the external auditors. The Company continued with limited quarterly reporting and the Audit Committee additionally required KPMG to carry out reviews on revenue recognition and analytical reviews of the quarterly Financial Statements with management. The Audit Committee also reviewed the preparations and impacts for the implementation of IFRS 9, 15 and 16. These are described in detail in note 2 on page 42 and 43.

Significant accounting matters

During 2018, the Audit Committee considered the significant accounting matters described below. In addressing these issues the Committee considered the appropriateness of management's accounting estimates and key judgements, outlined in note 3 to the consolidated financial statements. The Committee discussed these with the external auditor during the year and, having considered the views and findings of the external auditor in addition to management's judgements, concluded that each area was appropriately treated and disclosed in the Annual Report.

1. Impairment of space assets (HYLAS 2 and HYLAS 2B)

The group assesses its space assets for impairment by reviewing forecast performance over the remaining life of the assets in order to estimate the recoverable amounts. There is an inherent uncertainty involved in forecasting and discounting the future cash flows on which this impairment assessment is based. The review resulted in impairments of \$67.1m and \$12.5m against the HYLAS 2 and HYLAS 2B CGUs respectively.

2. Revenue recognition on Government services contracts

The group enters into fixed price contracts with customers, and recognises revenue based on a stage of completion calculation. The subjective inputs into the stage of completion calculation rely on management judgement.

3. Recoverability of parent company's investments in and receivables due from subsidiaries

The carrying amount of the parent company's investments in and receivables due from subsidiaries is significant. There is a risk that these amounts may not be recoverable due to the performance of subsidiary entities. There is an inherent uncertainty involved in forecasting and discounting the future cash flows on which this impairment assessment is based. The review resulted in an impairment of \$148.6m against investments and \$236.4m against intercompany receivables in the period.

4. Recoverability of deferred tax assets

The group has significant unrecognised deferred tax assets. In determining whether deferred tax assets are or are not recognised, management are required to estimate future taxable profits. There is an inherent uncertainty involved in forecasting future performance of the business. During the period, the group concluded that it was appropriate to write-off the deferred tax asset held in the previous year due to the group's history of recent losses and the debt restructuring in the period. Therefore, management has concluded that there is insufficient convincing other evidence to support the recognition of the asset.

GOVERNANCE

AUDIT COMMITTEE REPORT continued

Going Concern

As more fully explained in note 2 to the financial statements, in determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

In assessing the Group's ability to meet its obligation as they fall due, management prepared cash flow forecasts based on the business plan for a period of 30 months. Management considered various downside scenarios to test the Group's resilience against operational risk, particularly in the context of EBITDA covenants under the Super Senior Facility, including:

- The failure to achieve the forecast revenue
- The Group being unable to deliver the forecast level of cost savings
- An extension to the time taken for the Group to recover debtor balances
- Adverse movements in Sterling and Euro exchange rates against US Dollar

In addition, management considered other downside scenarios, including the Group being unable to successfully negotiate the deferral of the embarkation fee due on HYLAS 3, being unable to refinance the Super Senior Facility ahead of maturity, and being unable to draw down an additional \$20 million of 1.5 lien debt as permitted under the Facility agreement, but which is subject to the lenders agreeing to subscribe for this debt.

The Committee challenged management on the key assumptions used in the cash projections and sensitivities applied to arrive at a downside scenario. The Committee was satisfied that the key assumptions had been appropriately scrutinised, stress tested and were sufficiently robust. The Committee was further satisfied that the going concern disclosures in the financial statements were appropriate and that an appropriate basis of preparation of the financial statements had been arrived at.

The auditor explained their audit procedures on management's going concern assessment and considered the Group's disclosure on the subject. On the basis of their audit work, the auditor considered that the going concern basis of preparation of the financial statement is appropriate and included an emphasis of matter in relation to the material uncertainty regarding the need for successfully negotiating the deferral of the HYLAS 3 embarkation fee, the requirement that the additional \$20 million 1.5 lien facility will be subscribed for, and the substantial achievement of cash flow forecasts such that existing facilities remain available and that the Super Senior Facility can be successfully refinanced ahead of maturity.

The Audit Committee considered management's assessment and the factors that they disclose as material uncertainties. The Committee agreed that these were appropriate and that, based on the evidence provided, the going concern basis of preparation was appropriate. KPMG presented their findings concurring with the basis of preparation but included an EOM to highlight the material uncertainties disclosed by management.

External Auditor

Auditor objectivity and independence is safeguarded through a variety of mechanisms. To ensure the auditor's independence, the Committee annually reviews the Company's relationship with KPMG. Following the last review, the Company concluded that it continues to have an objective and professional relationship with KPMG and that there are sufficient controls and processes in place to ensure the required level of independence. In addition, the auditor is required to review and confirm its independence to the Committee on a regular basis.

Non-audit services

The Company's auditor may also be employed where, as a result of its position as auditor, it either must, or is best placed to, perform the work in question.

Conclusion

Following its review, the Committee was of the opinion that the 2018 Annual Report and Accounts is representative of the period and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

Paul Johnson

Audit Committee Chairman

GOVERNANCE

NOMINATIONS COMMITTEE REPORT

The Nominations Committee comprises two independent non-executive directors. It meets as and when necessary and details of the membership of the Committee are shown on pages 14 to 15. The Committee has responsibility for nominating to the Board candidates for appointment as directors, bearing in mind the need for diversity and a broad representation of skills across the Board, and its principal responsibility is to ensure that the Board comprises individuals with the most appropriate balance of experience, skills and knowledge to help and support the Company strategy.

The Nominations Committee will also make recommendations to the Board concerning the re-appointment of any independent non-executive director at the conclusion of his or her specified term, the election and re-election of any director by shareholders and changes to senior management, including executive directors.

The Nominations Committee gives full consideration to succession planning in the course of its work, taking into account the challenges and opportunities facing the Company, how to take account of diversity and what skills and expertise are needed on the Board and from senior management in the future. As a result, job specifications, search processes and selection criteria are focused on appointing candidates who not only meet criteria for the role but who can also offer different perspectives.

In the financial period to 31 December 2018, the Committee, in consultation with a number of the other non-executive directors, met a number of times and was heavily involved in the appointment of the new directors to the Board, including the appointment of the new Chief Executive.

Paul Walsh

Nominations Committee Chairman

GOVERNANCE

REMUNERATION COMMITTEE REPORT

The Remuneration Committee comprises four Non-Executive Directors. The Committee, on behalf of the Board, meets as and when necessary to review and approve, as appropriate, the remuneration of the Executive Directors and senior management and major remuneration plans for the Company.

The Committee consists of Alan Harper (Chairman, who replaced Andrew Green in January 2019), Paul Walsh, Adam Kleinman (who replaced Peter Reed in March 2019) and Michael Leitner.

During the period, the Remuneration Committee met twice.

Remuneration policy

The Company's policy on remuneration of Directors is to attract, retain and motivate the best people, recognising the input they make to the ongoing success of the business. Consistent with this policy, the remuneration and benefits package awarded to Directors is intended to be competitive and comprises a mix of performance related and non-performance related elements designed to incentivise Directors in the short and longer term, and align their interests with those of shareholders. Their remuneration accordingly consists of base pay, annual bonus, Long Term Incentive Plan ('LTIP'), share options, pension contributions and other benefits such as health care.

Remuneration 2018

The remuneration of the Directors for the period ended 31 December 2018 is set out below, the previous financial year's figures being shown in the following table for comparison. Remuneration is paid in Sterling, but reported in US Dollars, the exchange rates used being USD 1.33 in 2018 and USD 1.27 in 2017.

Mr Williams resigned as CEO on 10 August 2017. As part of the termination negotiations, the Company exercised discretion allowed for in the remuneration policy and offered a severance package totalling \$892,151, reflecting the aggregate of one year's salary and accrued bonus and post-employment benefits, in addition to amounts included in the table below.

For the period ended 31 December 2018

	Salaries \$	Bonus \$	Other benefits \$	Post- employment benefits \$	Total 2018 \$	Total GBP £
Executive						
K Whitehill (appointed 3 April 2018)	*611,189	591,850	2,857	-	1,205,896	906,689
NAD Fox (re-appointed 12 September 2017)	*547,405	249,116	16,289	47,786	860,596	647,065
A Harper (appointed 10 August 2017, resigned 3 April 2018)	***621,943	-	-	-	621,943	467,627
D J Williams (resigned 10 August 2017)	**50,142	-	1,887	63,573	115,602	86,919
D J Bestwick (resigned 30 June 2018)	**407,804	73,867	35,555	32,688	549,914	413,469
Non-Executive						
P Walsh	469,942	-	-	-	469,942	353,340
A Green (resigned 31 January 2019)	190,693	-	-	-	190,693	143,378
P R Johnson	155,415	-	-	-	155,415	116,853
R Mastoloni	94,763	-	-	-	94,763	71,250
A Harper (resigned 10 August 2017, re-appointed 3 April 2018)	***96,704	-	-	-	96,704	72,709
C McLaughlin (appointed 1 September 2017, resigned 1 June 2018)	**67,228	-	-	-	67,228	50,547
J Slámečka (appointed 1 December 2018)	*7,439	-	-	-	7,439	5,593
Total	3,320,667	914,833	56,588	144,047	4,436,135	3,335,439

* Where directors have been appointed in the period the salary disclosed relates to the period from the date of appointment

** Where directors have resigned in the period the salary disclosed relates to the period 1 July 2017 until the date of resignation

*** Alan Harper's remuneration includes the period for which he held the position of Interim CEO (10 August 2017 until 3 April 2018)

GOVERNANCE

REMUNERATION COMMITTEE REPORT continued

For the year ended 30 June 2017

	Salaries \$	Bonus \$	Other benefits \$	Post-employment benefits \$	Total 2017 \$	Total GBP £
Executive						
D J Williams (Resigned 10 August 2017)	582,975	119,786	55,635	52,630	811,026	638,499
D J Bestwick	418,382	87,845	53,018	43,922	603,167	474,857
NAD Fox (Stepped down 27 January 2017, Re-appointed 12 September 2017)	*201,736	70,173	23,175	25,301	320,385	252,231
Non-Executive						
P Walsh	251,538	–	–	–	251,538	198,029
A Green	90,810	–	–	–	90,810	71,492
P R Johnson	78,078	–	–	–	78,078	61,469
R Mastoloni (Appointed 20 December 2016)	**30,265	–	–	–	30,265	23,827
A Harper (Appointed 17 March 2017)	**18,972	–	–	–	18,972	14,936
CR Vos (Resigned 27 January 2017)	64,387	–	–	–	64,387	50,690
M Walker (Resigned 27 January 2017)	64,387	–	–	–	64,387	50,690
C Eggberry (Resigned 27 January 2017)	***101,293	–	–	667	101,960	80,270
Total	1,902,823	277,804	131,828	122,520	2,434,975	1,916,990

* Nigel Fox's salary reflects the period 1 July 2016 to 27 January 2017 only

** Where directors have been appointed in the year the salary disclosed relates to the period from the date of appointment

*** Charmaine Eggberry's salary reflects a longer notice period

Basic salary

Base salary is set by the Committee and reviewed annually, taking into account an individual's performance and experience measured by appraisal and market practice. The Executive Directors did not receive a base salary increase for the period ended 31 December 2018.

Pension

The Company does not operate a specific pension scheme for the Executive Directors. The Executives are entitled to a Company contribution to their private pensions equal to 12.5% of their base salary. All Directors are entitled to participate in the Group workplace pension scheme.

Cash bonus

Bonus awards, which are not pensionable, are made to the Executive Directors based on Group financial and individual performance. Bonus payments are generally only payable if the Group meets a specific target threshold. Personal performance is appraised against the achievement of challenging objectives set at the start of each financial year, and is linked to the Group's strategic and operational performance.

GOVERNANCE

REMUNERATION COMMITTEE REPORT continued

Directors' share interests

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

	Fully paid Ordinary Shares of 1p each	
	31 December 2018	30 June 2017
D J Williams	n/a	1,714,848
D J Bestwick	n/a	1,301,954
N A D Fox	166,623	134,580
P Walsh	284,762	230,000
P R Johnson	12,381	10,000
A Green	27,099	21,888

Directors' Long Term Incentive Plans

The Remuneration Committee approved a long term incentive plan for the executive directors and certain senior management in 2013 ("2013 Scheme"). This 2013 Scheme came into operation in July 2013 with all unvested shares allocations held in separate sub funds within the in the Employee Benefit Trust ('EBT'). Under the 2013 Scheme shares would vest if specific targets were met after a fixed period of years after they are allocated with automatic revocation after this period should the criteria not be met.

In 2017, the Remuneration Committee determined that the criteria for 2017 awards under the 2013 Scheme had not been met and that the awards should therefore lapse.

The Committee has since decided to review the relevance of the 2013 Scheme to the Group's longer-term ambitions prior to consideration of any further LTIP awards. This new LTIP Scheme ("2019 Scheme") will broadly follow the rules of the 2013 Scheme in that it will be based on specific performance criteria to be met over a fixed number of years after the grant. This 2019 Scheme is being drafted based on the advice and assistance of independent third party advisers to reflect current best practice and relevant changes in legislation, and is subject to approval by the Committee.

N Fox currently has 344,940 outstanding potentially vesting options relating to the 2013 Scheme.

Alan Harper

Remuneration Committee Chairman

GOVERNANCE

REPORT OF THE BOARD OF DIRECTORS

The Directors have pleasure in presenting their Annual Report together with the audited Financial Statements for the 18 months ended 31 December 2018.

Principal activities

The principal activity of the Group is the commercial exploitation of its space and network assets. These assets include its spectrum rights, satellites, intellectual property and ground station assets. Avanti charges its service provider customers for the use of its network and other assets in a number of ways: broadband packages, managed capacity, fully integrated project fees, raw capacity, pure spectrum and a number of other product categories and charging models to suit customer and market circumstances.

The services are principally provided via Ka-band satellites.

Avanti had four satellites (HYLAS 1, HYLAS 2, ARTEMIS and HYLAS 4) and one hosted payload (HYLAS 2B) in-orbit during the period. A further satellite is under construction (HYLAS 3). The ARTEMIS satellite was re-orbited during the period on 15 December 2017. Construction of HYLAS 4 completed in Q1 2018, and the satellite was successfully launched in April 2018. HYLAS 3 is a payload on the EDRS-C satellite and is scheduled for launch in 2019.

A review of the Group's business and developments during the period is included in the Chairman's Statement, the Chief Executive's Review and the Strategic Report.

Going Concern

As fully described in note 2 on page 41, these accounts have been prepared on a going concern basis.

In arriving at the conclusion, the Board of Directors has considered the forecast for the next 2 years in conjunction with the progress made with the new strategy and the cost optimisation program. Furthermore, the Board has approved additional funding of \$75 million, of which \$55m is fully committed, by way of a 1.5 lien. This facility will be non-cash paying with the interest rolling up over time. In addition to this funding, our Super Senior lender has agreed an option to extend the maturity of that loan from June 2020 to the end of December 2020.

The Directors have accordingly formed the judgement that it is appropriate to prepare the financial statements on a going concern basis. However, this judgement is formed on the basis of: achieving significant growth in bandwidth revenue through the remainder of 2019 and through 2020; delivery of the forecast annualised cost savings; successfully negotiating the deferral of an embarkation fee due ahead of the launch of HYLAS 3; the drawdown of a further \$20 million of 1.5 lien debt; and the refinancing of the Super Senior Facility ahead of its maturity at the end of December 2020.

Accordingly, these matters represent a material uncertainty that may cast significant doubt on the group and the parent company's ability to continue as a going concern. The group and the parent company may, therefore, be unable to continue realising their assets and discharging their liabilities in the normal course of business, but the financial statements do not include any adjustments that would result if the going concern basis of preparation is inappropriate.

Business review and key performance indicators

Avanti has historically operated two performance indicators in order to give investors better insight into the progress that the business is making. The first performance indicator is Top-20 Customer Bandwidth Revenue Growth, which helps to track Avanti's growth trajectory from core service sales, excluding non-recurring items, and is calculated by comparing the revenues from Avanti's current leading customers on a last 12 month basis, to the 12 months preceding that.

The second performance indicator is Fleet Utilisation, which helps to track capacity uptake and gives an indication of revenue potential when Avanti's fleet is mature, and is calculated by dividing average utilised capacity by total available capacity for the fleet.

During the 18 month period under review there was a significant change to the level of capacity available for sale due to the successful launch of HYLAS 4 which added 32 GHz of Capacity to the Avanti HYLAS fleet. This has distorted the fleet utilisation metric making it unsuitable for measuring our performance during the period under review.

Results and dividends

The results for the 18 months ended 31 December 2018 are shown on page 36. No equity dividend was paid in the 18 months ended 31 December 2018 (year ended 30 June 2017: \$nil). No final dividend is proposed at the year-end (2017: \$nil). The loss for the period transferred to shareholders' funds was \$37.2m (2017: loss of \$65.2m). The net asset position at period end is \$261.5m (2017: \$133.7m).

Share capital

The Company issued 2,001,199,636 new Ordinary Shares during the 18 months ended 31 December 2018 (2017: 14,739,599 new shares). Details of the Company's share capital are given in Note 23 and Note 26 to the Consolidated Financial Statements.

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

A discussion of the Company's financial risk management objectives and policies and the exposure of the Company to interest rate, foreign exchange, credit and liquidity risk is included on pages 71 to 75 in Note 25 to the Consolidated Financial Statements.

Research and development

The Company continues to invest in new services and technology through its research and development programmes 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.

GOVERNANCE

REPORT OF THE BOARD OF DIRECTORS CONTINUED

Directors

The Directors who served during the period and were in office up to the date of signing were as follows:

P Walsh
K Whitehill (appointed 3 April 2018)
NAD Fox (appointed 12 September 2017)
P R Johnson
R Mastoloni
C Chobor
M Leitner
A Harper
C McLaughlin (appointed 1 September 2017, resigned 1 June 2018)
J Slámečka (appointed 1 December 2018)
P Reed (resigned 12 March 2019)
A Green (resigned 31 January 2019)
D J Williams (resigned 10 August 2017)
D J Bestwick (resigned 30 June 2018)

A biography for each Director is provided on pages 14 and 15. In accordance with the Company's Articles of Association, all Directors offer themselves for re-election every three years. The Board believes that the members of the Board continue to be effective and to demonstrate commitment to their roles, the Board and the Company.

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 ongoing success of the business. Consistent with this policy, the benefit package awarded by Avanti Communications Group plc to its Directors is intended to be competitive. It comprises a mix of performance related and non-performance related remuneration designed to incentivise the Directors and align their interest with those of shareholders and consists of base pay, annual bonus, LTIP, pension contributions and other benefits such as healthcare.

Major shareholders

At 31 March 2019, the Company had been notified, pursuant to the Financial Conduct Authority's Disclosure & Transparency Rules, of the following notifiable voting rights in the Company's issued Ordinary Share capital:

Solus Alternative Asset Management	41.51%
Tennenbaum Capital Partners	11.63%
Great Elm Capital Management	9.06%
Rimrock Capital Management	7.14%
MSD Capital	4.05%

Employees

The Company employed 272 people at 31 December 2018 (30 June 2017: 254 people).

Employees are key to the Company's success and we rely on the workforce being committed to helping us achieve our business objectives.

Employees are regularly updated about market and industry developments.

Communication between the Board and employees at all levels is highly valued and this is achieved through regular staff presentations given by the Chief Executive and regular email communication.

The Company believes in equal opportunities for all employees and prospective employees irrespective of nationality, ethnicity, religion, age, gender, sexuality or disability. The Company has zero tolerance of discrimination in any form.

GOVERNANCE

REPORT OF THE BOARD OF DIRECTORS CONTINUED

Political donations

During the period the Company made no political donations (2017: \$nil).

Corporate Governance

The Corporate Governance Report is provided on pages 17 to 27 and includes reports from the Board's Audit, Nominations and Remuneration Committees.

Notice of Annual General Meeting

The notice of the Company's AGM was sent to shareholders on 31 May 2019.

Disclosure of information to the auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

1. So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware.
2. The Director has taken all steps that he ought to have taken as a Director in order to make him aware of any relevant audit information and to ensure that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Directors' and Officers' liability insurance

The Company maintains appropriate insurance to cover Directors' and Officers' liability for itself and its subsidiaries. At the date upon which this report was approved and for the 18 months ended 31 December 2018, the Company provided an indemnity in respect of all of the Company's Directors in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities as Directors to the extent permitted by the Companies Act 2006 and the Company's Articles of Association.

Natalie Mitchell

Company Secretary

GOVERNANCE

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and they have elected to prepare the parent Company financial statements on the same basis.

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 parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

Kyle Whitehill
Chief Executive

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AVANTI COMMUNICATIONS GROUP PLC

1. Our opinion is unmodified

We have audited the financial statements of Avanti Communications Group plc ("the Company") for the 18 months ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated and Company Statement of Cash Flows and Consolidated and Company Statement of Changes in Equity, and the related notes, including the accounting policies in note 2.

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 31 December 2018 and of the Group's loss for the 18 months then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. Material uncertainty related to going concern

Key audit matter – Going concern

Risk versus 2017

We draw attention to note 2 to the financial statements which indicates that the Group's and the parent company's ability to continue as a going concern is dependent on the availability of sufficient future funding which will be affected by agreement on the expected deferral of the HYLAS 3 \$30 million embarkation fee, the willingness of existing lenders to subscribe for the additional \$20 million uncommitted 1.5 lien facility, the substantially achievement of forecasts such that existing facilities remain available and that the Super Senior Facility can be successfully refinanced ahead of maturity.

These events and conditions, along with the other matters explained in note 2 to the financial statements, constitute a material uncertainty that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The risk – Disclosure quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company.

That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

The risks most likely to adversely affect the Group's and Company's available financial resources over this period were:

- agreement on the deferral of the HYLAS 3 \$30 million embarkation fee,
- the lenders willingness to subscribe for the additional uncommitted \$20 million 1.5 lien facility,
- that the forecasts will be substantially achieved such that existing facilities remain available, and
- that the Super Senior Facility can be successfully refinanced ahead of maturity

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. If so, that fact is required to be disclosed (as has been done) and, along with a description of the circumstances, is a key financial statement disclosure.

Our response

Our procedures included:

- Funding assessment: Inspection of the debt facility amendment documentation including terms of the new 1.5 facility and the option to extend the super senior facility;
- Historical comparisons: Evaluating track record of forecasts vs actual cash flows achieved in the year and previously;
- Key dependency assessment: Assessing the projections and assumptions by reference to our knowledge of the business. Assessing the appropriateness of key assumptions used in preparing the cash flow forecasts, with a specific focus on revenue projections; timing of the HYLAS 3 embarkation fee payment, refinancing of the super senior facility and drawdown of remaining \$20 million debt on the 1.5 lien facility. Evaluating the key assumptions via enquiries with the Group CFO and Director of Finance;
- Sensitivity analysis: Considering key inputs into the cash flow forecasts and assessed sensitivities analysis on reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively whilst considering the effect on the level of available financial resources;
- Evaluating directors' intent :Evaluating the achievability of the actions the Directors consider they would take to improve the position should the risks materialise;
- Assessing transparency: Assessing the completeness and accuracy of the matters covered in the going concern disclosure by reviewing the disclosure

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVANTI COMMUNICATIONS GROUP PLC

CONTINUED

3. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Going concern is a significant key audit matter and is described in section 2 of our report. In arriving at our audit opinion above, the other key audit matters, in decreasing order of audit significance, were as follows. We continue to perform procedures over the recoverability of trade receivables and deferred tax. However, following a reduction in aged trade receivables and the write off of the deferred tax asset, we have not assessed these as one of the most significant risks in our current year audit and, therefore, they are not separately identified in our report this year.

Group: Impairment of space assets (HYLAS 2 and HYLAS 2B)

Risk versus 2017 ▲

HYLAS 2: \$110.8 million carrying value and \$67.1 million impairment charge; 2017: \$234.8 million carrying value and \$60.8 million impairment charge

HYLAS 2B: \$25.5 million carrying value and \$12.5 million impairment charge; 2017: \$33.4 million carrying value and \$nil impairment charge

Refer to page 22 (Audit Committee Report), page 48 (accounting policy) and pages 58 to 59 (financial disclosures)

The risk – Subjective estimate

Given the lack of track record and ongoing challenges around fleet utilisation, and falling market prices for Ka band services, there is a risk of impairment of certain space assets (HYLAS 2 and HYLAS 2B assets).

Other space assets have been reviewed for indicators of impairment with none noted. HYLAS 4 was launched in Q2 2018 and HYLAS 3 is due to be launched in Q3 2019, and HYLAS 1 has sufficient committed contracts and revenues to support its carrying value.

The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of the space assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 13) disclose the sensitivity estimated by the Group.

Our response

Our procedures included:

- Our sector experience: evaluating assumptions used, in particular those relating to the Group's forecast revenue growth specific to each asset;
- Historical comparisons: evaluating track record of assumptions used, such as forecast revenue, versus actual results;
- Benchmarking assumptions: comparing the group's assumptions to externally derived data in relation to key inputs such as discount rates;
- Sensitivity analysis: considering reasonably possible changes in assumptions including forecast revenue and discount rate, and their impact on the outcome of the impairment assessment; and
- Assessing transparency: assessing whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the carrying value of the space assets.

Group: Revenue recognition on Government services contracts

Risk versus 2017 ◀▶

Revenue recognised \$22.6 million; 2017: \$16.8 million

Refer to page 22 (Audit Committee Report), pages 44 and 45 (accounting policy) and page 50 and 51 (financial disclosures).

The risk - Subjective estimate

The group enters into fixed price contracts with Government customers. There is judgement involved in determining the subjective inputs into the stage of completion calculation and the consequential revenue recognised in the reporting period.

The estimated revenue is subjective due to the inherent uncertainty involved in forecasting costs to complete. The effect of these matters is that, as part of our risk assessment, we determined that the revenue on incomplete fixed price contracts has a high degree of estimation uncertainty.

Our response

Our procedures included:

- Historical comparison: evaluating the track record of assumptions such as forecast costs to complete versus actual performance; and
- Our sector experience: challenging management estimates of forecasts to complete by using our sector experience, discussions with project level staff and inspecting post year end costs incurred; and
- Test of details: challenging the percentage of completion by reference to cash receipts from customers and acceptance of deliverable from the customer or other evidence that demonstrates the amount of effort incurred;
- Assessing transparency: assessing the adequacy of the Group's disclosures in respect of assessing stage of completion as a significant estimate

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVANTI COMMUNICATIONS GROUP PLC

CONTINUED

Parent: Recoverability of investments in and receivables due from subsidiaries

Risk versus 2017 ▲

Recoverability of investments in subsidiaries \$0.1 million, impairment of \$147.6 million; 2017: \$148.7 million

Receivables due from subsidiaries \$685.5 million, impairment of \$236.4million; 2017: \$747.1 million, impairment of \$400 million

Refer to page 22 (Audit Committee Report), page 48 (accounting policy) and page 61 and 64 (financial disclosures).

The risk - Forecast-based estimate

The carrying amount of the parent company's investments in and receivables due from subsidiaries is significant and at risk of not being recoverable due to the ongoing challenges around fleet utilisation, and falling market prices for Ka band services. The estimated recoverable amount of these balances is subjective including forecast revenue and discount rate including, and their impact on the outcome of the impairment assessment.

The recoverable amount of these investments is related to and determined in a similar way to the recoverable amount of the space assets, being discounted cash flows generated by the asset of the subsidiary.

The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of the cost of investment in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

Our response

Our procedures included:

- Our sector experience: evaluating assumptions used, in particular those relating to the Group's forecast revenue growth specific to each asset;
- Historical comparisons: evaluating track record of assumptions used, such as forecast revenue, versus actual results;
- Benchmarking assumptions: comparing the group's assumptions to externally derived data in relation to key inputs such as discount rates;
- Sensitivity analysis: considering reasonably possible changes in assumptions including forecast revenue and discount rate, and their impact on the outcome of the impairment assessment; and
- Assessing transparency: assessing whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the estimation of the parent's investment in and receivables from subsidiaries.

4. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at \$6.5m (2017: \$8m), determined with reference to a benchmark of total assets (of which it represents 0.8% (2017: 1%)).

Materiality for the parent company financial statements as a whole was set at \$0.5m (2017: \$3m), determined with reference to a benchmark of company total assets, of which it represents 1% (2017: 2%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$0.32m (2017: \$0.4m), in addition to other identified misstatements that warranted reporting on qualitative grounds

Of the group's 25 (2017: 25) reporting components, we subjected six (2017: six) to full scope audits for group purposes.

The components within the scope of our work accounted for 94% of total group revenue, 95% of group loss before tax and 98% of total group assets.

The remaining 6% (2017: 5%) of total group revenue, 5% (2017: 6%) of group profit before tax and 2% (2017: 3%) of total group assets is represented by 19 (2017: 19) reporting components, none of which individually represented more than 5% (2017: 4%) of any of total group revenue, group profit before tax or total group assets. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team approved the component materialities, which ranged from \$0.5m to \$4.8m (2017: \$0.3m to \$6.7m), having regard to the mix of size and risk profile of the Group across the components. The work on all components was performed by the Group team, including the audit of the parent company.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AVANTI COMMUNICATIONS GROUP PLC

CONTINUED

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 31, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Robert Seale (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

7 June 2019

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

Period ended 31 December 2018

	Notes	18m ended 31 December 2018 \$'m	Year ended 30 June 2017 \$'m
Revenue			
Bandwidth, services and equipment	4	73.7	56.6
Total Revenue		73.7	56.6
Cost of sales - bandwidth, services and equipment (excluding satellite depreciation)		(51.8)	(60.6)
Staff costs	7	(44.1)	(19.7)
Other operating expenses	5	(23.4)	(12.0)
Other operating income	8	4.0	3.2
EBITDA		(41.6)	(32.5)
Depreciation and amortisation	5	(63.2)	(47.2)
Impairment of satellites in operation	5	(79.6)	(114.1)
Impairment of other intangible assets	5	(1.0)	-
Impairment of goodwill	5	(0.1)	(9.9)
Operating loss		(185.5)	(203.7)
Finance income	9	2.5	-
Finance expense	9	(132.5)	(93.2)
Exceptional gain on restructuring of debt	9	308.7	219.2
Loss before taxation		(6.8)	(77.7)
Income tax	10	(31.4)	12.0
Loss for the period		(38.2)	(65.7)
Loss attributable to:			
Equity holders of the parent		(37.2)	(65.2)
Non-controlling interests		(1.0)	(0.5)
Basic loss per share (cents)	11	(3.50c)	(44.74c)
Diluted loss per share (cents)	11	(3.50c)	(44.74c)

The Notes on pages 41 to 81 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Period ended 31 December 2018

	Notes	18m ended 31 December 2018 \$'m	Year ended 30 June 2017 \$'m
Loss for the period		(38.2)	(65.7)
Other comprehensive income			
Exchange differences on translation of foreign operations and investments that may be recycled to the Income Statement:			
Foreign currency translation differences on foreign operations		(3.6)	3.7
Monetary items that form part of the net investment in a foreign operation		(1.2)	(9.7)
Total comprehensive loss for the period		(43.0)	(71.7)
Attributable to:			
Equity holders of the parent		(42.0)	(71.2)
Non-controlling interests		(1.0)	(0.5)

The Notes on pages 41 to 81 are an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	31 December 2018 \$'m	30 June 2017 \$'m
ASSETS			
Non-current assets			
Property, plant and equipment	13	714.4	671.8
Intangible assets	14	9.1	9.3
Deferred tax assets	20	–	30.8
Total non-current assets		723.5	711.9
Current assets			
Inventories	18	19.5	2.6
Trade and other receivables	19	33.5	60.6
Cash and cash equivalents	21	24.0	32.7
Total current assets		77.0	95.9
Total assets		800.5	807.8
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	22	60.4	70.3
Loans and other borrowings	23	1.4	2.1
Provisions	24	0.6	–
Total current liabilities		62.4	72.4
Non-current liabilities			
Trade and other payables	22	7.3	9.1
Loans and other borrowings	23	465.7	592.6
Provisions	24	3.6	–
Total non-current liabilities		476.6	601.7
Total liabilities		539.0	674.1
Equity			
Share capital	26	30.6	2.7
EBT shares	26	(0.1)	(0.1)
Share premium	26	1,104.4	519.4
Retained earnings		(797.0)	(317.7)
Foreign currency translation reserve		(72.3)	(67.5)
Total parent shareholders' equity		265.6	136.8
Non-controlling interests		(4.1)	(3.1)
Total equity		261.5	133.7
Total liabilities and equity		800.5	807.8

The financial statements of company number 6133927 on pages 36 to 81 were approved by the Board of Directors on 7 June 2019 and signed on its behalf by:

Nigel Fox

Group Finance Director

FINANCIAL STATEMENTS
COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	31 December 2018 \$'m	Restated* 30 June 2017 \$'m
ASSETS			
Non-current assets			
Investments	16	0.1	148.7
Loan receivable	19	–	663.0
Total non-current assets		0.1	811.7
Current assets			
Trade and other receivables	19	722.5	164.1
Cash and cash equivalents	21	9.1	0.9
Total current assets		731.6	165.0
Total assets		731.7	976.7
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	22	55.1	110.9
Loans and other borrowings	23	0.8	1.4
Total current liabilities		55.9	112.3
Non-current liabilities			
Loans and other borrowings	23	456.9	582.9
Deferred tax liabilities	20	–	–
Total non-current liabilities		456.9	582.9
Total liabilities		512.8	695.2
Equity			
Share capital	26	30.6	2.7
EBT shares	26	(0.1)	(0.1)
Share premium	26	1,104.4	519.4
Retained earnings		(900.1)	(224.6)
Foreign currency translation reserve		(15.9)	(15.9)
Total shareholders' equity		218.9	281.5
Total liabilities and equity		731.7	976.7

*See Note 20, Deferred Tax

The financial statements of company number 6133927 on pages 36 to 81 were approved by the Board of Directors on 7 June 2019 and signed on its behalf by

Nigel Fox

Group Finance Director

FINANCIAL STATEMENTS

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

Period ended 31 December 2018

	Notes	Group		Company	
		18m ended 31 December 2018 \$'m	Restated* Year ended 30 June 2017 \$'m	18m ended 31 December 2018 \$'m	Restated* Year ended 30 June 2017 \$'m
Cash flow from operating activities					
Cash absorbed by operations	31	(49.2)	(4.1)	(119.9)	(48.7)
Interest paid		(14.7)	(3.5)	(11.4)	(3.4)
Interest received		2.5	–	0.3	–
Debt restructuring costs		(7.8)	(23.2)	(7.8)	(23.2)
Taxation		(0.4)	–	–	–
Net cash absorbed by operating activities		(69.6)	(30.8)	(138.8)	(75.3)
Cash flows from investing activities					
Payments for property, plant and equipment		(84.7)	(66.5)	–	–
Net cash used in investing activities		(84.7)	(66.5)	–	–
Cash flows from financing activities					
Net proceeds from debt issue		148.6	78.7	148.6	78.7
Net proceeds from share issue		0.2	0.2	0.2	0.2
Payment of finance lease liabilities		(2.8)	(3.8)	(1.8)	(2.7)
Net cash received from financing activities		146.0	75.1	147.0	76.2
Effects of exchange rate on the balances of cash and cash equivalents		(0.4)	(1.5)	–	–
Net (decrease)/increase in cash and cash equivalents		(8.7)	(23.7)	8.2	0.9
Cash and cash equivalents at the beginning of the financial period		32.7	56.4	0.9	–
Cash and cash equivalents at the end of the financial period	21	24.0	32.7	9.1	0.9

* The consolidated and company statement of cash flows for the year ended 30 June 2017 has been restated to classify Debt restructuring costs as a cash flow from operating activities, which the directors believe to be more consistent with the chosen accounting policy to classify interest as an operating cash flow. Debt restructuring costs were previously classified as a cash flow from financing activities. This has reduced Net cash absorbed by operating activities by \$23.2 million in both consolidated and company cash flows and increased Net cash received from financing activities by the same amount.

The Notes on pages 41 to 81 are an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

Period ended 31 December 2018

Consolidated

Notes	Share capital \$'m	Employee benefit trust (EBT) \$'m	Share premium \$'m	Retained earnings \$'m	Foreign currency translation reserve \$'m	Non-controlling interests \$'m	Total equity \$'m
2017							
At 1 July 2016	2.5	(0.1)	515.9	(252.7)	(61.5)	(2.6)	201.5
Loss for the year	–	–	–	(65.2)	–	(0.5)	(65.7)
Other comprehensive income	–	–	–	–	(6.0)	–	(6.0)
Issue of share capital	0.2	–	3.5	–	–	–	3.7
Share based payments	–	–	–	0.2	–	–	0.2
At 30 June 2017	2.7	(0.1)	519.4	(317.7)	(67.5)	(3.1)	133.7
2018							
At 1 July 2017	2.7	(0.1)	519.4	(317.7)	(67.5)	(3.1)	133.7
Profit/(loss) for the period	–	–	–	(37.2)	–	(1.0)	(38.2)
Other comprehensive income	–	–	–	–	(4.8)	–	(4.8)
Issue of share capital	27.9	–	142.7	–	–	–	170.6
Transfer*	–	–	442.3	(442.3)	–	–	–
Share based payments	–	–	–	0.2	–	–	0.2
At 31 December 2018	30.6	(0.1)	1,104.4	(797.0)	(72.3)	(4.1)	261.5

Company

Notes	Share capital \$'m	Employee benefit trust (EBT) \$'m	Share premium \$'m	Retained earnings \$'m	Foreign currency translation reserve \$'m	Total equity \$'m
2017						
At 1 July 2016	2.5	(0.1)	515.9	(1.2)	(15.9)	501.2
Profit/(loss) for the year	–	–	–	(223.6)	–	(223.6)
Issue of share capital	0.2	–	3.5	–	–	3.7
Share based payments	–	–	–	0.2	–	0.2
At 30 June 2017	2.7	(0.1)	519.4	(224.6)	(15.9)	281.5
2018						
At 1 July 2017	2.7	(0.1)	519.4	(224.6)	(15.9)	281.5
Profit/(loss) for the period	–	–	–	(233.4)	–	(233.4)
Issue of share capital	27.9	–	142.7	–	–	170.6
Transfer*	–	–	442.3	(442.3)	–	–
Share based payments	–	–	–	0.2	–	0.2
At 31 December 2018	30.6	(0.1)	1,104.4	(900.1)	(15.9)	218.9

* A gain on debt for equity swap was recognised in the income statement in the 18 months to 31 December 2018 being the difference between the carrying amount of the liability extinguished, and the fair value of the equity instruments issued as consideration in the transaction. Under UK company law, the amount to be credited to share capital and share premium is based on the value of the consideration received for the issue of shares, in this case the face value of the liability. Therefore a transfer has been made between equity components.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS

1. General information

The consolidated financial statements of Avanti Communications Group plc (the 'Group') for the 18 months ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 7 June 2019.

Avanti Communications Group plc (the 'Company' or together with its subsidiaries, the 'Group') is a company incorporated in the United Kingdom and domiciled in England and Wales. The address of its registered office is Cobham House, 20 Black Friars Lane, London, EC4V 6EB. The nature of the Group's operations and its principal activities are set out in note 2.

The Company is a public limited company, which is listed on the Alternative Investment Market ('AIM') and trades under the ticker 'AVNL' on the London Stock Exchange.

2. Principal accounting policies

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 Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'), International Financial Reporting Interpretations Committee Interpretations, and the Companies Act 2006 applicable to companies preparing their accounts under IFRS. The financial statements have been prepared under the historical cost convention except for certain financial instruments that have been measured at fair value, as described later in these accounting policies.

The Company has taken the exemption under section 408 of the Companies Act 2006 to not present the parent Company Income Statement or Statement of Comprehensive Income.

Going concern

The financial statements have been prepared on a going concern basis. In reaching their assessment, the Directors have considered a period extending at least 12 months from the date of approval of these financial statements. Following the successful closure of the debt facilities amendments announced by the Group on 28 May 2019 (see note 33), the group meets its day to day working capital requirements from:

- a Super Senior Facility (\$152.5m, fully drawn), which is subject to EBITDA covenants, a breach of which would result in the amounts becoming repayable on demand, and matures in June 2020 with an option to extend to December 2020;
- a '1.5 Facility' (\$75m, of which \$9.2m is drawn and \$20m is uncommitted), which is not subject to covenants and matures in May 2021, or in July 2021 if the Super Senior Facility maturity is extended; and
- PIK Toggle notes (\$360.1m, fully drawn), which are not subject to covenants and mature in October 2022

The Directors' assessment has focused on the ability of the business to meet FY19 and FY20 EBITDA covenants in the Super Senior Facility agreement, as well as those factors considered on an annual basis such as forecast trading performance of the Group for the foreseeable future, deferral of certain payments, key assumptions, sensitivities and available cash balances and facilities.

Forecast cash flows

Following the closure of the debt facilities amendments, and in order to prepare and approve these Financial Statements, the Directors have assessed forecast future cash flows for the foreseeable future. In assessing the Group's ability to meet its obligations as they fall due, management prepared cash flow forecasts based on the business plan for a period in excess of 30 months. The forecasts include the following key assumptions:

- Growth in bandwidth revenues of 125% in 2019 and at least a further 40% in 2020
- The delivery of a cost optimisation project, which is expected to reduce costs associated with bandwidth sales by at least 15% per annum by 2020
- The successful negotiation of the deferral of a \$30m embarkation fee, currently due ahead of the launch of the HYLAS 3 payload, by at least 12 months
- The drawdown of the remaining 1.5 Facility committed facility of \$45.2 million together with the uncommitted \$20m of that facility, as permitted under the 1.5 Facility agreement. The draw of the \$20 million is subject to the lenders agreeing to subscribe for this debt
- The refinancing of the Super Senior Facility ahead of maturity, that currently occurs in June 2020 but which the Group now has the option to extend to the end of December 2020

Following recent refinancing negotiations, management is of the opinion that the Group will be well-positioned to refinance the Super Senior Facility ahead of its maturity if it substantially achieves its forecast revenue and EBITDA performance for FY19 and into FY20.

In addition, there is no indication currently available which suggests that the lenders would not be willing to subscribe for the additional \$20 million of the 1.5 lien debt.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies *continued*

Forecast cash flows *continued*

Management has also considered various downside scenarios to test the Group's resilience against operational risks including:

- The failure to achieve the forecast revenue
- The Group being unable to deliver the forecast level of cost savings
- An extension to the time taken for the Group to recover debtor balances
- Adverse movements in Sterling and Euro exchange rates against US Dollar

The directors consider the Group to be in a strong position with regards to the negotiation of the embarkation fee deferrals, based upon the extremely late launch of the payload alongside the response to negotiations that have occurred to date, though there can be no certainty that this deferral will be agreed. In the absence of a deferral of this amount, reasonably possible changes in the base case forecasts indicate that the available facilities will not be sufficient to enable the group to meet its liabilities as they fall due and the directors would need to seek additional debt (and possibly equity) funding.

Based on the sensitised forecasts, should a scenario materialise in which the Group's achievement of revenue and cost-savings in aggregate results in an EBITDA underperformance against forecast of \$13.1m in FY19 and \$18.8m in FY20, (which are considered reasonably possible scenarios) the Group would be in breach of the covenants in the Super Senior Facility agreement. Such a scenario could result in the facility being withdrawn and immediately becoming repayable.

The absence of the additional \$20 million of the 1.5 lien debt would worsen the shortfalls in the various downside scenarios noted above.

Assuming that the existing facilities remain available, the Directors have concluded that the Group's Capital Structure following the debt facilities amendments and including the assumed drawdown of an additional \$20m of 1.5 lien funding, together with the ability to defer the payment of interest on the PIK Toggle notes, provides sufficient headroom in the cash position of the business.

In the event that the Super Senior Facility remains available but the Group does not achieve the forecast revenue and EBITDA performance, a refinancing of the Super Senior Facility on maturity in June 2020 or, if extended, December 2020, may not be possible and may well require the assistance of the existing lenders.

The Directors believe that the Group will be able to have sufficient liquidity and will be able to meet its obligations as they fall due and have accordingly formed the judgement that it is appropriate to prepare the financial statements on a going concern basis. There can, however, be no certainty that the Group will reach agreement on the expected deferral of the HYLAS 3 embarkation fee, that the additional \$20 million 1.5 lien facility will be subscribed for, that the forecasts will be substantially achieved such that existing facilities remain available, or that the Super Senior Facility can be successfully refinanced ahead of maturity. These matters represent a material uncertainty that may cast significant doubt on the group and the parent company's ability to continue as a going concern. The group and the parent company may, therefore, be unable to continue realising their assets and discharging their liabilities in the normal course of business, but the financial statements do not include any adjustments that would result if the going concern basis of preparation is inappropriate.

Basis of accounting

The consolidated financial statements are presented in US Dollars, the functional currency of the Company and most of the Group's subsidiaries. The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the year. Although these estimates are based on management's best estimate of the amount, event or actions, the actual results ultimately may differ from these estimates. Further discussion on these estimates and assumptions are disclosed in Note 3.

Accounting Policy Changes

New and amended accounting standards adopted by the Group

There are no new IFRS or IFRIC Interpretations that are effective for this financial year that have had a material impact on the Group.

New standards and interpretations

There were no new or amended accounting standards relevant to the Group's results that are effective for the first time in the period that have a material impact on the Group's consolidated financial statements.

The following standards and interpretations have an effective date after the date of these financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 has been endorsed by the EU and is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Group on 1 January 2019.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies *continued*

IFRS 9 Financial Instruments *continued*

IFRS 9 impacts the classification and measurement of the Group's financial instruments and requires certain additional disclosures. IFRS 9 also introduces changes to impairments of financial assets, which will result in the Group moving from an incurred loss model to an expected loss model. Although the new standard impacts the way in which bad debt provisions are calculated, the Group does not anticipate that the impact of this change will be material.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, as amended, is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Group on 1 January 2019. IFRS 15 provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. It replaces the separate models for goods, services and construction contracts currently included in IAS 11 Construction Contracts and IAS 18 Revenue.

The Group has undertaken analysis of how IFRS 15 should be implemented and the resulting impact on the financial statements. As permitted by IFRS 15 we will apply the new standard using the modified retrospective method. We will recognise the cumulative effect of applying the new standard at the date of initial application, 1 January 2019, with no restatement of the comparative period presented.

Our impact assessment is ongoing, thus far the implementation of IFRS 15 is expected to have limited impact for Avanti. IFRS 15 is a complex standard that introduces far more prescriptive requirements than were previously included in IAS 18. Although reframed and with some changes, Avanti's core revenue recognition principles remain broadly the same.

IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 and is effective for periods beginning on or after 1 January 2019. The Group will adopt IFRS 16 on 1 January 2019 and it is expected to have a material impact on the financial statements for the period ended 31 December 2019.

IFRS 16 replaces the current leasing standard, IAS 17 Leases, and details the requirements for the classification, measurement and recognition of lease arrangements. IFRS 16 ends the distinction between finance leases and operating leases that was characteristic of IAS 17. Instead, IFRS 16 requires the majority of leases to be recognised on the Statement of Financial Position.

Assets that are deemed to be of low value are outside the scope of IFRS 16. The Group defines low value assets as items that would have a value of \$5,000 or less when new. Similarly, leases with a term of 12 months or less are also outside the scope of IFRS 16. There will be no changes to the Group's accounting for low value or short term leases.

The Group will transition to IFRS 16 using the modified retrospective approach. Under this approach the lease liability will be measured as the present value of the minimum lease payments that are unpaid on 1 January 2019 discounted at the incremental borrowing rate at the transition date of 1 January 2019. However the right of use asset will be measured as though IFRS 16 had been applied from the lease commencement date, but discounted using the incremental borrowing rate at the transition date, and subsequently depreciated over the life of the lease on a straight line basis.

The cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings on 1 January 2019. The Group is not permitted to restate its comparative financial statements under the modified retrospective approach.

Based on the above method of implementation Avanti have assessed the impact of applying the new standard on all current leases from 1 January 2019. On transition there would be an approximate increase to non-current assets of \$13.4m, an increase in total Group liabilities of \$16.9m and a decrease of \$3.5m in equity. In the period ending 31 December 2019 operating costs would reduce by approximately \$2.3m, depreciation would increase by \$1.6m and finance costs would increase by \$0.9m. Overall, EBITDA will be \$2.3m higher as the current operating lease costs will be replaced with depreciation and interest expense. Also operating cash flows will be higher, as payments will be reflected within financing activities in the statement of cash flows.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its controlled undertakings ('subsidiaries'), after the elimination of all material inter-company transactions. Subsidiaries are consolidated from the date the Company obtains control until such time as control ceases. Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. For details regarding the subsidiaries included in the consolidated financial statements see Note 17.

Non-controlling interests in the net assets of consolidated subsidiaries which consist of the amounts of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination, are not material to the Group's financial statements.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies *continued*

Business Combinations

Business combinations are accounted for using the acquisition method. When the Group acquires a business, it identifies the assets and liabilities of the acquiree at the date of acquisition and measures them at fair value. Only separately identifiable intangible assets are recognised.

Consideration is the fair value at the acquisition date of the assets transferred and liabilities incurred in acquiring the business. Acquisition-related costs are expensed as incurred and included in operating costs.

Goodwill is initially measured at cost as the difference between the fair value of the consideration for the acquisition and fair value of the net identifiable assets acquired, including any intangible assets other than goodwill. If the assessment of goodwill results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the income statement. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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.

Revenue recognition

Business Model

The Group's business model is the commercial exploitation of its space assets, namely its spectrum rights, satellites, intellectual property and ground station assets. The Group generates its revenues from the commercialisation of these assets either directly or through the Group's extensive partner base using product categories and charging models to suit customer and market circumstances.

The Group generates its revenues primarily from:

- Bandwidth - Sale of satellite capacity to customers
- Spectrum - Sale and leasing of spectrum rights
- Services - Sale of services in addition to satellite broadband capacity, typically to Government customers
- Equipment - Sale of terminals and other satellite communications equipment
- Exclusivity rights - Sale of exclusivity rights across a region or product type

Additional product categories and charging models which generate revenue include, and are not limited to, satellite interim missions, the sale of exclusive distribution rights, consultancy projects, engineering services, satellite control services and ground station operation services.

Bandwidth, services and equipment

Revenue for satellite broadband communications services is recognised for Avanti's four main products as follows:

Pure – access to satellite spectrum to support high speed connectivity across Europe, Middle East and Africa. It is designed for satellite operators and/or satellite integrators who need extra satellite capacity to cover unmet demand and network gaps. The proportion of the total contract value recognised as revenue in a period equates to the proportion of the total contracted capacity provided in that period.

Adapt – provides enterprises, government and service providers the capability to design and offer their own bespoke connectivity solution to their end users. It enables Partners to operate as a Virtual Network Operators. The proportion of the total contract value recognised as revenue in a period equates to the proportion of the total contracted capacity provided in that period.

Connect – broadband packages for consumers and business on a low or no commitment basis, Standard service packages are set up and managed by Avanti, providing partners with ordering and in service support tools through Avanti's OSS and Portal. Revenues are recognised in the period in which the service is delivered based on the number of user accounts and contracted prices per account.

Serve – Bespoke satellite managed service for customers who require tailored satellite solutions, customised service wraps for Avanti connectivity products and/or proactive end-to-end management of satellite networks against defined SLAs.

Bandwidth revenue includes the sale of transponders in addition to the sale of indefeasible rights of use where the revenue recognition criteria are met.

Revenue from services sold as a fully integrated package with satellite capacity, consultancy and other services contracts connected with the utilisation of the Group's 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 their nature, these projects require a certain element of judgement by management. Contract costs are recognised as an expense in the period they are incurred. Where Avanti is judged to be the prime partner, revenues are recognised on a gross basis in line with the risks and rewards of the contract.

Revenue from the sale of terminals and other satellite communication equipment is recognised when the risks and rewards of ownership have transferred to the customer.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies *continued*

Revenue recognition *continued*

Spectrum co-ordination

Revenue from spectrum co-ordination agreements is typically recognised on a straight-line basis over the period where spectrum is leased and immediately where the Group sells spectrum assets in perpetuity.

Exclusivity rights

Revenue from the sale of exclusive distribution rights across a region or product type for a fixed term are recognised over the period of the agreement. Revenue from the sale of exclusive distribution rights in perpetuity are recognised immediately where the revenue recognition criteria are met. Revenue recognition criteria are met where the sale is for a fixed, non-refundable fee under a non-cancellable agreement and there is no significant further managerial involvement required.

Government Services

Revenue from Government Services projects of \$22.6m (2017: \$16.8m) includes amounts earned through arrangements structured as grants from government bodies. Consistent with other revenue streams described here, these are reported as revenue as they represent the core operating activities of the group which is the exploitation of its space assets.

Policies applicable to all revenue streams

The Group offers certain products and services as part of multi-deliverable arrangements. Multi-deliverable arrangements are divided into separate units of accounting provided: 1) the deliverable has a stand-alone value to the customer if it is sold separately, and 2) the fair value of the item can be objectively and reliably determined. Consideration for these items is measured and allocated to each separate unit based on its relative fair value and the relevant revenue recognition policy is applied to it.

Where goods or services are provided in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received where these can be reliably measured, otherwise at the fair value of the goods or services given up, adjusted by the amount of cash or cash equivalents received.

The Group discloses the amount of each significant category of revenue recognised during the year in a note to the Financial Statements. The Group presents revenue from a given transaction or revenue stream separately on the face of the Income Statement when such presentation is relevant to an understanding of the Group's financial performance. Factors including the nature and function of items of revenue are considered in determining the appropriate presentation.

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.

Indefeasible rights of use

Where the Group enters into an arrangement which constitutes an indefeasible right of use ('IRU'), the arrangement is reviewed to establish whether the IRU is a lease, a service contract or a sale of goods. Whether an arrangement contains a lease is assessed by considering whether the provision of a service depends on the use of one or more specific assets and whether the agreement conveys a right to use those assets.

Once it has been determined that an IRU is, or contains, a lease, the arrangement is accounted for in accordance with the leased assets accounting policy.

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.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies *continued*

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 US Dollars.

On consolidation, assets and liabilities of foreign undertakings are translated into US Dollars at year end exchange rates. The results of foreign undertakings are translated into US Dollars 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 participate in the Group's defined contribution pension scheme or to establish their own pension scheme to which the Group will match employee contributions up to a maximum amount. There is no ongoing liability to the Group beyond the period that the contributions are made. The costs 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 include any market based performance criteria and the impact of vesting 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 profit differs 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.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal 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 differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that there is insufficiently convincing evidence 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. Depreciation on satellite assets commences once in-orbit testing has been completed and the satellite is available for use.

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. Property, plant and equipment is depreciated using the straight line method based on the following rates:

Motor vehicles 25% per annum	Plant and machinery 25% per annum
Network assets 14–25% per annum	Leasehold improvements 25% per annum
Fixtures and fittings 25% per annum	Satellite in construction Nil
Satellite in operation 5.2%–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.

Satellites in construction assets 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 20%–25%. Newly acquired intangible assets as part of the business combination, customer lists and trade names 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.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies *continued*

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.

For the purpose of impairment testing of goodwill, goodwill is allocated to a group of CGUs (being subsidiaries acquired in each acquisition). Such group of CGUs represent the lowest level within the Group for which the goodwill is monitored for internal management purposes.

Investments

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

Investments in subsidiaries are stated at cost less provision for impairment, and reviewed for indicators of impairment on an annual basis.

If such indicators exist and an impairment review is required, the impairment review comprises a comparison of the carrying amount of the investment 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 investment could be disposed of. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the investment'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 investment exceeds its recoverable amount.

Grant funding

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.

Spectrum rights

Where spectrum rights are acquired and held with the intention of resale, in line with the core operating activities of the Group, the asset is accounted for as inventory. Where spectrum rights are acquired with the intention of being utilised by one of the Group's satellites, the asset is accounted for as an intangible asset. Spectrum rights acquired without cost are not recognised on the balance sheet.

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.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies *continued*

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 cost of sales.

Appropriate allowances for estimated irrecoverable amounts are recognised as an expense when there is objective evidence that trade receivables are impaired.

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position are comprised of cash in hand and demand deposits, and other short term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents are stated net of outstanding bank overdrafts.

Provisions

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

Borrowings

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

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

Where a substantial modification to the terms of existing debt has taken place, the original debt is de-recognised and 'new' debt recorded at market value at the date of modification. The difference is taken to the income statement.

Where a financial liability is extinguished all or in part through the issue of equity instruments as consideration, in accordance with IAS 39, the financial liability which has been extinguished is derecognised and new shares issued are measured at fair value at the date of issue, where fair value can be reliably measured. The difference is recognised in the income statement.

Trade payables

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

Derivative financial instruments

Financial assets and financial liabilities are recognised on the Group's Statement of Financial Position 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 remeasured 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 identified as the Avanti Executive Board.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

3. 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 Government services projects. Use of the percentage of completion ("POC") method requires the Group to estimate the services performed to date as a proportion of the total services to be performed. The Group assesses the level of completion at the balance sheet date by reference to a combination of time or cost incurred to date compared to the forecast total required to deliver each service and project. The subjective inputs into the stage of completion calculation rely on management judgement. Management gain comfort over this estimate through regular and detailed review of projects and performance to budget. Revenue recognised up until 31 December 2018, including prior reporting periods, on projects which were not completed at that date and accordingly rely upon management judgement over the POC under IAS 11, totalled \$17.6m. A 10% increase in the POC applied to these projects would have resulted in an increase in revenue recognised of \$1.8m, whilst a 10% decrease in the POC applied to these projects would have resulted in an equivalent decrease in revenue recognised.

The group also enters into multi-element contracts where there is judgement involved in determining the relative fair value of the delivered and undelivered elements on the contract. The Group assess relative fair value by reference to standalone selling prices, and bandwidth capacity renewal rates.

(b) Satellite impairment review

The Group has recognised an impairment charge against the carrying amount of satellite assets HYLAS 2 & HYLAS 2B of \$79.6m in the current financial period. As is more fully disclosed in Note 13, the impairment charge is an estimate that is based on the Group's discounted cash flow forecast for the assets. Should the yield, capacity ramp-up, satellite life and factors behind the discount rate in future financial periods materially diverge from the assumptions made in this assessment, the impairment recognised in the current financial period may be materially in excess of what was required or a further impairment charge may be required in a future financial period.

(c) Deferred tax

Significant items on which the Group has exercised accounting judgement include recognition of deferred tax assets in respect of losses and accelerated capital allowances in the United Kingdom.

The recognition of deferred tax assets, particularly in respect of tax losses, is based upon whether management judge that it is more likely than not that there will be sufficient and suitable taxable profits in the relevant legal entity or tax group against which to utilise the assets in the future.

Judgement is required when determining probable future taxable profits. In assessing the level of future taxable profits reference is made to the latest available profit forecasts. Changes in the estimates which underpin those profit forecasts could have an impact on the amount of future taxable profits and could have a significant impact on the period over which the deferred tax assets would be recovered and consequently the extent to which they should be recognised.

The nature of the evidence supporting the recognition of the deferred tax assets included contracted revenue that will be recognised in future periods, revenue from new business signed in FY19, and taxable temporary differences of an appropriate type that reverse in an appropriate period.

(d) Recoverability of parent company investments in and receivables from subsidiary undertakings

The Company has recognised a provision against investments in subsidiaries and the carrying amount of receivables from group entities of \$385.0m in the current financial year.

The estimated recoverable amount of these balances is an estimate determined in a similar way to the recoverable amount of the space assets, being the discounted value of the assets of the subsidiary. Should the yield, capacity ramp-up, satellite life and factors behind the discount rate in future financial periods materially diverge from the assumptions made in this assessment, the impairment recognised in the current financial year may be materially in excess of what was required or a further impairment charge may be required in a future financial period,

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

4. Revenue

As stated in Note 2, the Group generates its revenues from the utilisation of its space assets, namely its spectrum rights and satellites. These revenues include the sale of satellite broadband services, the sale and leasing of spectrum rights, the sale of services, typically to Government customers, and the sale of terminals and other satellite communications equipment.

The Avanti Executive Board, which is the chief operating decision-maker in the Group's corporate governance structure, manages the business and the allocation of resources on the basis of the utilisation of its space assets, resulting in one segment.

Revenue generated for the period was as follows:

	18m ended 31 December 2018 \$'m	Year ended 30 June 2017 \$'m
Bandwidth, services and equipment revenue	73.7	56.6
Total revenue	73.7	56.6

The majority of total revenue for the period represents the sale of satellite broadband capacity and related services provided to external customers and the sale of terminals and other satellite communications equipment. Of this, \$9.6m (2017: \$5.3m) relates to the sale of terminals and other satellite communications equipment.

The Group derived \$16.8m (2017: \$11.1m) of its turnover from European countries outside the United Kingdom, \$6.9m (2017: \$4.8m) from Africa, \$18.7m (2017: \$20.3m) from other countries outside Europe and \$31.3m (2017: \$20.4m) from the United Kingdom.

FINANCIAL STATEMENTS
NOTES TO THE ACCOUNTS CONTINUED

5. Operating expenses

Operating expenses by function are as follows:

	18m ended 31 December 2018 \$'m	Year ended 30 June 2017 \$'m
Distribution	7.1	3.7
Administration	60.4	28.0
	67.5	31.7

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

	18m ended 31 December 2018 \$'m	Year ended 30 June 2017 \$'m
Cost of sales:		
Satellite services	26.4	21.1
Materials purchased	9.7	7.9
Sub contractors	16.9	10.3
Bad debt expense (Note 19)	(9.5)	19.1
Operating expenses:		
Employee benefit expense	44.1	19.7
Operating lease expenses	4.0	2.1
Depreciation and amortisation:		
Space asset depreciation	60.5	45.3
Depreciation of property, plant and equipment	0.3	0.7
Amortisation of intangible assets	2.4	1.2
Impairment:		
Impairment of satellites in operation (Note 13)	79.6	114.1
Impairment of other intangible assets (Note 14)	1.0	-
Impairment of goodwill (Note 14)	0.1	9.9

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

6. Auditor remuneration

Remuneration payable to the Group's auditor, KPMG LLP and its associates in the period is analysed below:

	18m ended 31 December 2018 \$'m	Year ended 30 June 2017 \$'m
Audit fees:		
Annual audit of the Company	0.5	0.2
Annual audit of subsidiary companies	–	–
Total audit fees	0.5	0.2
Transactions services	–	0.1
Total audit and audit-related fees	0.5	0.3
Tax compliance services	–	–
Total non-audit services	–	–
Total auditor's remuneration	0.5	0.3

7. Employee benefit costs

The aggregate remuneration of all employees comprised:

	18m ended 31 December 2018 \$'m	Year ended 30 June 2017 \$'m
Wages and salaries	44.5	20.6
Social security costs	4.3	2.2
Pension costs	1.1	0.6
Share based payment expense	0.2	0.2
	50.1	23.6
Less: costs capitalised as satellite in construction	(6.0)	(3.9)
	44.1	19.7

Employee numbers

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

	18m ended 31 December 2018 No. employees	Year ended 30 June 2017 No. employees
Operations	104	82
Sales and marketing	84	73
Development and engineering	21	26
Administration and executive	52	50
	261	231

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NOTES TO THE ACCOUNTS CONTINUED

8. Other operating income

	18m ended 31 December 2018 \$'m	Year ended 30 June 2017 \$'m
Arbitration award	2.0	–
Other grant income	2.0	3.2
	4.0	3.2

Arbitration award income relates to compensation awarded in the GOI arbitration settlement in June 2018.

Other grant income relates to a grant received for the HYLAS 1 asset, being recognised on a straight line basis over the life of the asset. The year ended 30 June 2017 included \$2.0m of a Regional Growth Fund grant linked to capital expenditure and job creation/safeguarding targets in the South West of the UK and is recognised on a straight line basis over 6 years.

9. Net finance expense

	18m ended 31 December 2018 \$'m	Year ended 30 June 2017 \$'m
Finance income		
Interest income	2.5	–
	2.5	–
Finance expense		
Interest expense on loans and other borrowings	(196.0)	(117.7)
Foreign exchange loss	(0.4)	0.1
Finance lease expense	(1.9)	(1.5)
Costs of refinancing	(8.1)	(22.3)
Less: interest capitalised to satellite in construction	73.9	48.2
	(132.5)	(93.2)
Exceptional gain on substantial modification of debt	53.8	219.2
Exceptional gain on debt for equity swap	254.9	–
	308.7	219.2
Net finance income	178.7	126.0

The exceptional gain on substantial modification of debt and debt for equity swap in the year arose from a component of the financial restructuring completed by the Group on 26 April 2018. The exceptional gain on substantial modification of debt in the year to 30 June 2017 arose from a component of the financial restructuring completed by the Group on 27 January 2017. See Note 23 for disclosure of the financial restructuring and the specific modification that gave rise to the exceptional gain on substantial modification of debt and debt for equity swap.

FINANCIAL STATEMENTS
NOTES TO THE ACCOUNTS CONTINUED

10. Income tax charge/(credit)

	18m ended 31 December 2018 \$'m	Year ended 30 June 2017 \$'m
Current tax		
Overseas tax	0.4	–
Adjustment in respect of prior periods	–	0.2
Total current tax	0.4	0.2
Deferred tax		
Origination and reversal of temporary differences	34.8	(15.9)
Adjustment in respect of prior periods	(0.2)	0.4
Impact of change in UK tax rate	(3.6)	3.3
Total deferred tax	31.0	(12.2)
Total income tax charge/(credit)	31.4	(12.0)

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:

	18m ended 31 December 2018 \$'m	Restated* Year ended 30 June 2017 \$'m
Loss before tax	(6.8)	(77.7)
Tax charge/(credit) at the UK corporation tax rate of 19.0% (2017: 19.75%)	(1.3)	(15.3)
Non taxable credit arising on debt for equity swap	(84.0)	–
Non taxable credit arising on substantial modification of debt	(10.2)	(43.2)
Tax effect of non-deductible expenses	3.2	13.1
Adjustment in respect of prior periods	(0.2)	0.5
Withholding taxes suffered	0.3	–
Impact of change in UK tax rate	(3.7)	9.3
Temporary differences for which no deferred tax has been recognised	96.5	39.6
Recognition of previously unrecognised temporary differences	–	(30.3)
Derecognition of previously recognised temporary differences	30.8	14.3
Income tax charge/(credit)	31.4	(12.0)

*see Note 20, Deferred Tax

The standard rate of corporation tax in the UK fell from 20% to 19% with effect from 1 April 2017. Accordingly, the Group's losses for this accounting period are taxed at an effective rate of 19% (2017: 19.75%).

The income tax charge of \$31.4m (2017: \$12.0m credit) equates to an effective tax rate of 462% (2017: 15.0%). This effective rate is higher than the effective rate of tax of 19.0% due to a number of items as shown above. The rate is primarily driven by the Group no longer recognising deferred tax assets, offset by the non-taxable credit arising as a result of the debt for equity swap.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

10. Income tax charge/(credit) *continued*

Factors that may affect future tax charges

Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 17% from 1 April 2020 were substantially enacted on 15 September 2016. The deferred tax balance as at the year end has been recognised at 17% (2017: 17%) which materially reflects the rate for the period in which the deferred tax assets and liabilities are expected to reverse.

Tax losses

At the balance sheet date the Group has unrecognised deferred tax assets of \$145.7m (2017: \$64.7m) available for offset against future profits. No deferred tax asset has been recognised (2017: \$30.8m recognised) in respect of the remaining losses and other temporary differences due to the Group's history of recent losses and because of the debt restructuring in the period. Therefore, management has concluded that there is insufficient convincing other evidence to support the recognition of the deferred tax assets.

Under present tax legislation, these losses and other temporary differences may be carried forward indefinitely. In the future if these assets are recognised there will be a positive impact to the Group's effective tax rate.

In the UK, with effect from 1 April 2017, only 50% of profits above £5m may be offset by losses brought forwards. This will slow the rate at which the deferred tax asset on losses can be utilised, and hence will result in the Group paying cash tax in the UK earlier than would otherwise be the case.

11. Profit/(loss) per share

	31 December 2018 cents	30 June 2017 cents
Loss per share	(3.50)	(44.74)
Diluted loss per share	(3.50)	(44.74)

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

	31 December 2018	30 June 2017
Loss for the period attributable to equity holders of the parent Company	\$(37.2)m	\$(65.2)m
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,065,920,979	145,625,369
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,065,920,979	145,625,369

12. Results 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 loss after tax of the parent Company for the period ended 31 December 2018 amounted to \$233.4m (2017: \$223.6m loss).

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

13. Property, plant and equipment

	Leasehold improvements \$'m	Network assets \$'m	Fixtures and fittings \$'m	Satellites in operation \$'m	Satellites in construction \$'m	Group total \$'m
Cost						
Balance at 30 June 2016	1.6	12.7	2.6	657.0	296.7	970.6
Additions	–	3.0	0.1	1.4	64.0	68.5
Reclassification*	–	(1.1)	–	(5.8)	–	(6.9)
Effect of movements in exchange rates	0.1	1.4	–	(7.6)	(1.2)	(7.3)
Balance at 30 June 2017	1.7	16.0	2.7	645.0	359.5	1,024.9
Additions	–	8.4	0.1	170.6	6.4	185.5
Disposals	–	(0.3)	–	(0.1)	–	(0.4)
Transfer**	–	–	–	307.9	(307.9)	–
Effect of movements in exchange rates	–	(0.2)	(0.1)	(7.4)	(1.0)	(8.7)
Balance at 31 December 2018	1.7	23.9	2.7	1,116.0	57.0	1,201.3
Accumulated depreciation and impairment						
Balance at 30 June 2016	1.2	9.4	2.0	182.9	–	195.5
Charge for the year	0.4	2.2	0.3	43.1	–	46.0
Reclassification*	–	(0.6)	–	(0.2)	–	(0.8)
Impairment	–	–	–	114.1	–	114.1
Effect of movements in exchange rates	(0.1)	0.7	–	(2.3)	–	(1.7)
Balance at 30 June 2017	1.5	11.7	2.3	337.6	–	353.1
Charge for the period	–	5.1	0.3	55.4	–	60.8
Impairment	–	–	–	79.6	–	79.6
Effect of movements in exchange rates	–	(0.2)	–	(6.4)	–	(6.6)
Balance at 31 December 2018	1.5	16.6	2.6	466.2	–	486.9
Net book value						
Balance at 31 December 2018	0.2	7.3	0.1	649.8	57.0	714.4
Balance at 30 June 2017	0.2	4.3	0.4	307.4	359.5	671.8

* Reclassifications relate to the reclassification of satellite control software between tangible and intangible assets.

** Transfers relate to assets under construction being brought in to use in the year

Property, plant and equipment under finance lease

At 31 December 2018, the Group held satellite assets under finance lease agreements with a net book value of \$29.5m (2017: \$33.4m) and network assets under finance lease agreements with a net book value of \$1.2m (2017: \$6.4m). A depreciation charge for the period of \$2.3m (2017: \$2.3m) has been provided on these assets.

Satellites in operation

Satellites in operation include the following:

HYLAS 1 - Came into service on 1 April 2011

HYLAS 2 - Came into service on 1 October 2012

HYLAS 2B - Indefeasible right to the use of a payload received as consideration on 24 June 2015 and which came into service on 7 November 2016

HYLAS 4 - Came into service on 1 September 2018

All four satellites and their related ground infrastructure have been depreciated from the date that they came into operational service.

Satellite in construction

The satellites in construction assets of \$57.0m relate to HYLAS 3 (2017: \$359.5m in relation to HYLAS 3 and HYLAS 4).

Capitalised finance costs

Included in the satellites in operation and satellites in construction are capitalised finance costs of \$219.6m (2017: \$145.7m) related to the HYLAS 2 and HYLAS 4 satellites. Finance costs of \$73.9m (2017: \$48.3m) were capitalised relating to HYLAS 4 in the period, with \$nil (2017: \$nil) capitalised against the HYLAS 2 satellite.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

13. Property, plant and equipment *continued*

HYLAS 1 satellite impairment review

HYLAS 1 is a 3 GHz Ka-band High Throughput Satellite that came into operational service on 1 April 2011. Each year the Group consider the carrying value of its assets and looks for indications of impairment. The carrying value of HYLAS 1 and associated ground infrastructure, considered together as the Cash Generating Unit ("CGU"), at 31 December 2018 was \$60.2 million. No impairment indicators were identified as a seven-year wholesale capacity lease agreement was signed prior to the period end. This agreement with a major international satellite service provider is worth \$84m over the period and will result in a significant increase in the satellite's usage and fill-rate.

HYLAS 2 satellite impairment review

HYLAS 2 is an 11 GHz Ka-band High Throughput Satellite that came into operational service on 1 October 2012. Each year the Group considers the carrying value of its assets and looks for indications of impairment. Impairment indicators were assessed to exist due to the falling market prices for Ka-band services in the context of the age of the asset and the slower than expected revenue generation in the earlier years of service of HYLAS 2.

The review showed that an impairment of \$67.1m was required to bring the carrying value of HYLAS 2 and associated ground infrastructure, considered together as the CGU, to \$111m.

The recoverable amount of each asset is based on the value in use, which is determined using cash flow projections derived from the most recent financial budgets and forecasts approved by management covering the remaining useful life of the asset. The cash flows reflect management's expectations of future outcomes taking into account past experience, adjusted for anticipated growth from both existing and new business in line with our strategic plans for each sector in which we operate. The cash flows also take into consideration our assessment of the potential impact of external economic factors.

Forecasts are driven by the following key assumptions:

1. Capacity sold - The discounted cash flow forecast assumes a ramp up in capacity utilisation of 6% per year to the end of FY24 with modest incremental growth thereafter, from a combination of contractual ramps, development of existing customer relationships and new business development
2. Yield - price per unit of capacity - The discounted cash flow forecast makes assumptions about the price per unit of capacity which is driven by both market conditions and the efficiency of data throughput which varies due to a number of factors such as customer type and hardware platform
3. Satellite life - The discounted cash flow forecast is prepared over the estimated remaining useful economic life of the asset of 9.3 years
4. Salvage value - Included in the cash flow model is an estimate of the salvage value of the geostationary orbital slot in which HYLAS 2 operates of \$54m
5. Discount rate - Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the industry. The discount rates are derived from the Group's post-tax weighted average cost of capital. The impairment is based upon a pre-tax WACC of 13.9%

Sensitivity analysis was carried out by management over the assumptions made in the impairment model relating to yield, growth in utilisation and the discount factor applied. The sensitivities applied were based upon reasonably possible changes in the key assumptions, and performed as a part of the impairment exercise in order to provide insight into the sensitivity of the impairment charge to those changes.

- a 10% decrease in the forecast yield on capacity over the life of the cash flow forecast would increase the impairment charge by \$15.9m. A 10% increase in the forecast yield would decrease the impairment charge by \$18.0m
- a 10% decrease in the forecast EBITDA over the life of the cash flow forecast would increase the impairment charge by \$10.7m. A 10% increase in the forecast EBITDA would decrease the impairment charge by \$10.7m
- The Group's WACC was derived with reference to the Group's incremental borrowing cost and cost of equity as assessed by the market. An increase of one percentage point in the discount rate would increase impairment by \$5.4m. A decrease of one percentage point would decrease impairment by \$5.8m

The position adopted in the HYLAS 2 impairment review represents management's best estimate of the forecasts and assumptions.

HYLAS-2B satellite impairment review

Satellites in operation also includes a Ka-band payload that the Group operates under an indefeasible right of use ('IRU') agreement entered into in June 2015 for the estimated remaining useful life of the payload. This payload is known as HYLAS 2B. The IRU agreement is accounted for as a finance lease. This is included within satellites in operation and also within the assets held under finance lease disclosure provided above. The lease liability is disclosed in Note 27.

Each year the Group considers the carrying value of its assets and looks for indications of impairment. Impairment indicators were assessed to exist due to the low utilisation rates on this asset.

The review showed that an impairment of \$12.5m was required to bring the carrying value of HYLAS 2B and associated ground infrastructure, considered together as the CGU, to \$25.5m.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

13. Property, plant and equipment continued

HYLAS-2B satellite impairment review continued

The recoverable amount of each asset is based on the value in use, which is determined using cash flow projections derived from the most recent financial budgets and forecasts approved by management covering the remaining useful life of the asset. The cash flows reflect management's expectations of future outcomes taking into account past experience, adjusted for anticipated growth from both existing and new business in line with our strategic plans for each sector in which we operate. The cash flows also take into consideration our assessment of the potential impact of external economic factors.

Forecasts are driven by the following key assumptions:

1. Capacity sold - The discounted cash flow forecast assumes a ramp up in capacity utilisation of 4% per year to the end of FY24 with modest incremental growth thereafter, from a combination of contractual ramps, development of existing customer relationships and new business development
2. Yield - price per unit of capacity - The discounted cash flow forecast makes assumptions about the price per unit of capacity which is driven by both market conditions and the efficiency of data throughput which varies due to a number of factors such as customer type and hardware platform
3. Satellite life - The discounted cash flow forecast is prepared over the estimated remaining useful economic life of the asset of 10 years.
4. Discount rate - Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the industry. The discount rates are derived from the Group's post-tax weighted average cost of capital. The impairment is based upon a pre-tax WACC of 13.5%

Sensitivity analysis was carried out by management over the assumptions made in the impairment model relating to yield, growth in utilisation and the discount factor applied. The sensitivities applied were based upon reasonably possible changes in the key assumptions, and performed as a part of the impairment exercise in order to provide insight into the sensitivity of the impairment charge to those changes.

- a 10% decrease in the forecast yield on capacity over the life of the cash flow forecast would increase the impairment charge by \$4.9m. A 10% increase in the forecast yield would result in an equivalent decrease on the impairment charge
- a 10% decrease in the forecast EBITDA over the life of the cash flow forecast would increase the impairment charge by \$3.3m. A 10% increase in the forecast EBITDA would have an equivalent impact in decreasing the impairment
- The Group's WACC was derived with reference to the Group's incremental borrowing cost and cost of equity as assessed by the market. An increase of one percentage point in the discount rate would increase impairment by \$1.5m. A decrease of one percentage point would have an equivalent impact in decreasing the impairment

The position adopted in the HYLAS 2B impairment review represent management's best estimate of the forecasts and assumptions.

HYLAS 3 satellite impairment review

HYLAS 3 is a Ka-band Spot Beam cluster which will provide Ka-band satellite services over selected new markets in Africa or the Middle-East. The carrying value of HYLAS 3 and associated ground infrastructure, considered together as the CGU, at 31 December 2018 was \$43.8 million. The asset is still under construction with expected launch in Q3 2019. The satellite will have steerable capacity, enabling Avanti and its partners to have a high degree of flexibility in terms of usage. This flexibility will allow Avanti to seek an optimum return and, when combined with a useful life of 15 years, no impairment indicators have been identified.

HYLAS 4 satellite impairment review

HYLAS 4 is a 32 GHz Ka-band High Throughput Satellite that came into operational service on 1 September 2018. The carrying value of HYLAS 4 and associated ground infrastructure, considered together as the CGU, at 31 December 2018 was \$479.2 million. HYLAS 4 is the largest satellite of the Avanti fleet which doubled the available capacity of the Group when launched, and completed Avanti's coverage Across Africa. In addition, HYLAS 4's steerable fleet capacity offers a unique market proposition whereby capacity can be placed anywhere across the Earth's disk visible from the orbital slot of the satellite. The launch configuration of HYLAS 4 provided a lower mission risk profile, with sufficient fuel to be embarked to support the satellite for up to 19 years in orbit, an increase of 27% over previous expectations. As a result there are no indicators that HYLAS 4 will not perform as expected, thus no indicators of impairment exist.

Impairment of other assets

There are no indicators of impairment for any other assets within Property, Plant and Equipment. As a part of their assessment of the presence of any indicators of impairment, management have performed a comparison of the current market capitalisation of the Group to the net asset value in the balance sheet. Management are of the opinion that the market capitalisation of the Group is suppressed by negative investor sentiment and highly illiquid free float that has arisen from the historical performance of the business, which is currently outweighing the potential value of the Group's assets under new management. As detailed in the Strategic Report, the go-to-market strategy of the business has been refined in the period which is forecast to result in the delivery of improved revenue. This, combined with the cost optimisation project, should result in a positive EBITDA in FY19 and further material growth in FY20, the impact of which is not currently reflected in the market capitalisation of the Group. Consequently, management are confident that the conclusion reached by their assessment of impairment remains appropriate.

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NOTES TO THE ACCOUNTS CONTINUED

14. Intangible assets

	Computer software \$'m	Brand name \$'m	Customer lists \$'m	Goodwill \$'m	Group total \$'m
Cost					
Balance at 30 June 2016	0.6	0.2	1.9	9.7	12.4
Additions	3.0	–	–	–	3.0
Reclassification*	6.9	–	–	–	6.9
Effect of movements in exchange rates	–	–	0.1	0.3	0.4
Balance at 30 June 2017	10.5	0.2	2.0	10.0	22.7
Additions	1.6	–	–	–	1.6
Effect of movements in exchange rates	1.1	–	–	–	1.1
Balance at 31 December 2018	13.2	0.2	2.0	10.0	25.4
Accumulated amortisation and impairment					
Balance at 30 June 2016	0.6	0.2	0.8	–	1.6
Charge for the year	1.1	–	0.1	–	1.2
Reclassification*	0.8	–	–	–	0.8
Impairment	–	–	–	9.9	9.9
Effect of movements in exchange rates	–	–	(0.1)	–	(0.1)
Balance at 30 June 2017	2.5	0.2	0.8	9.9	13.4
Charge for the year	2.2	–	0.2	–	2.4
Impairment	–	–	1.0	0.1	1.1
Effect of movements in exchange rates	(0.6)	–	–	–	(0.6)
Balance at 31 December 2018	4.1	0.2	2.0	10.0	16.3
Net book value					
Balance at 31 December 2018	9.1	–	–	–	9.1
Balance at 30 June 2017	8.0	–	1.2	0.1	9.3

* Reclassifications in the year to 30 June 2017 relate to the reclassification of satellite control software between tangible and intangible assets.

Filiago impairment review

The goodwill, customer lists and brand name intangibles arose from the Group obtaining control of Filiago GmbH & Co ('Filiago') on 1 November 2011. Filiago is a German based Internet service provider specialising in the sale of satellite broadband services to consumer and enterprise customers. The Filiago operation is considered a Cash Generating Unit ('CGU').

The Filiago goodwill is not subject to amortisation and so is required to be reviewed annually for impairment. A review of Filiago's forecast cash flows showed the carrying value of the customer lists and brand name was not supported. In addition, underlying the forecast cashflow is the position that Filiago's current management team have not been successful at achieving revenue targets that have been set for recent financial years. Whilst the business has been capable of maintaining a largely steady state, it has not been able to capitalise on the significant advantage it has been bestowed as a result of Avanti's HYLAS-2B payload coming into operational service early in FY17. As a result of recent and expected future performance, control of Filiago was relinquished after the period end on 1 March 2019, and the intercompany loan balances which Filiago owed to Avanti were forgiven. Since the carrying value of the assets are not expected to be recovered through future use, an impairment of the remaining \$1.1m has been recognised as at 31 December 2018. See also Note 33.

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NOTES TO THE ACCOUNTS CONTINUED

15. Impairment

Group

	31 December 2018 \$'m	30 June 2017 \$'m
Impairment of satellites in operation		
HYLAS 1	-	53.3
HYLAS 2	67.1	60.8
HYLAS 2B	12.5	-
	79.6	114.1

	31 December 2018 \$'m	30 June 2017 \$'m
Impairment of other intangible assets		
Customer lists	1.0	-

	31 December 2018 \$'m	30 June 2017 \$'m
Impairment of goodwill		
Filiago	0.1	9.9

A detailed description of the assumptions and method used to carry out the impairment reviews are in Note 13 and Note 14.

16. Investments

Company

Shares in subsidiary undertakings

	31 December 2018 \$'m	30 June 2017 \$'m
Beginning the period	148.7	148.7
Impairment of shares in subsidiary undertakings	(148.6)	-
End of the period	0.1	148.7

As a result of the continued challenges in the business achieving forecast results, and in light of the Group's new strategy, there are potential indicators of impairment as at 31 December 2018, and therefore management has performed an impairment assessment of the Company's investments in subsidiaries and outstanding receivables due from subsidiaries. Based on the underlying net assets recorded on the balance sheet of each subsidiary, the value of spectrum rights that have no corresponding balance sheet asset and the future forecast cash flows of those subsidiaries, the Directors have made a provision totalling \$385.0m against the investments in subsidiaries (\$148.6m) and against intercompany receivables (\$236.4m). The remaining investment held on the Balance Sheet relates to the Employee Benefit Trust.

A full list of the Company's subsidiaries is disclosed in Note 17.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

17. Subsidiaries

As at the end of the period the Group and Company held the following investments in subsidiary companies:

Name of subsidiary	Nature of business	Place of incorporation	Address
Avanti Communications Limited	Satellite services and consultancy	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti Space Limited	Satellite services	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti Local TV Services Limited*	Satellite services	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti Space 3 Limited*	Satellite services	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti Launch Services Limited	Management services	Isle of Man	First Floor, Millennium House, Victoria Road, Douglas, Isle of Man IM2 4RW
Avanti Broadband Limited	Satellite services	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti Broadband (Ire) Limited*	Satellite services	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti HYLAS 2 Limited	Satellite services	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti HYLAS 2 Launch Services Limited	Management services	Isle of Man	First Floor, Millennium House, Victoria Road, Douglas, Isle of Man IM2 4RW
Avanti Communications Infrastructure Limited*	Holding company	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti Employee Benefit Trust	Employee benefit trust	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti HYLAS 2 Cyprus Limited	Satellite services	Cyprus	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti HYLAS Services Limited	Project management services	Cyprus	6th Floor, Lophitis Business Centre II, 237, 28 October St., CY-3035 Limassol Cyprus
Avanti Communications Marketing Services Limited	Sales and marketing	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti Communications Germany GmbH	Satellite services	Germany	c/o Osborne Clarke, Innere Kanalstraße 15, 50823 Köln, Germany
Avanti Communications Sweden AB	Satellite services	Sweden	c/o Hellstrom Law, Kungsgatan 33, Box 7305, 103 90 Stockholm Sweden
Avanti Turkey Uydu Telekomunikasyon Limited Sirketi	Sales and marketing	Turkey	Büyükdere Cad. No: 127 Astoria A Kule, Kat: 8/9/10 34394 Esentepe, Şişli
Avanti Communications South Africa Pty Limited	Sales and marketing	South Africa	Wanderers Building, The Campus, 57 Sloane Street, Bryanston, Gauteng, 2012
Hybeam Limited	Satellite services	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti Communications Kenya Limited	Sales and marketing	Kenya	L.R. No. 209 /7587, West One, Second Floor, Parklands Road, PO Box 39860 - 00623, Nairobi Kenya
Avanti Communications Africa Infrastructure Limited*	Holding company	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti Communications Africa Infrastructure 1 Limited*	Holding company	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti Communications Africa Infrastructure 2 Limited*	Holding company	England & Wales	Cobham House, 20 Black Friars Lane, London, EC4V 6EB
Avanti Satellite Communications Services CC Limited	Sales and marketing	Nigeria	Mulliner Towers (3rd and 7th Floors) 39 Alfred Rewane Road, Ikoyi, Lagos Nigeria
Avanti Communications Tanzania Limited	Sales and marketing	Tanzania	Plot No. 18, Rukwa Street, P.O. Box 38192, Dar Es Salaam
Avanti Communications Government Solutions Inc.**	Sales and marketing	Virginia, USA	Providence Access Company, 2111 Wilson Blvd, Suite 700, Arlington, VA 22201, USA

* Company was dormant in the 18 months ending 31 December 2018

** Company was incorporated on 25 July 2018

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

17. Subsidiaries continued

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

Filiago

On 1 November 2011 (the 'date of control') the Group took effective control of Filiago by enhancing the security over its loans with Filiago. The terms of the enhanced security gave the Group power over Avanti through Board control, continued exposure to variable returns of the loans provided to Filiago and the ability for Avanti to use its power over Filiago to affect the Group's returns.

Since the date of control, Filiago has been 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 in the Statement of Financial Position.

On 4 March 2019, the Group returned control to the founder and joint Director of Filiago, and will account for this as a disposal.

Avanti Communications Jersey Limited

On 10 May 2019, Avanti Communications Jersey Limited, a 100% owned holding company, was incorporated in Jersey. The registered address of this subsidiary company is: 47 Esplanade, St Helier, Jersey, JE1 0BD.

18. Inventories

Group

	31 December 2018 \$'m	30 June 2017 \$'m
Finished goods	2.5	2.5
Spectrum	17.0	0.1
	19.5	2.6

Finished goods represent customer premises equipment which includes dishes, modems and outdoor unit transceivers. Spectrum reflects \$17.0m paid in November 2017 to exercise an option giving the Group exclusive spectrum rights at 21.5E, which were subsequently brought into use during HYLAS 4 in-orbit testing. These spectrum rights, purchased with the intention of resale, are recognised at cost.

The cost of inventories recognised as an expense during the period was \$9.7m (2017: \$7.9m).

A provision of \$0.3m was made in the period against the cost of finished goods inventory where the net realisable value has been assessed as lower than the carrying value of inventories.

19. Trade and other receivables

	Group		Company	
	31 December 2018 \$'m	30 June 2017 \$'m	31 December 2018 \$'m	30 June 2017 \$'m
Trade receivables	10.0	44.3	1.5	5.5
Less provision for impairment of trade receivables	(1.1)	(21.5)	–	–
Net trade receivables	8.9	22.8	1.5	5.5
Accrued income	6.2	13.7	33.7	17.2
Prepayments	14.1	17.7	0.4	4.0
Amounts due from Group companies	–	–	685.5	132.6
Other receivables	4.3	6.4	1.4	4.8
	33.5	60.6	722.5	164.1

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

19. Trade and other receivables *continued*

Net trade receivables and accrued income have decreased mainly as a result of the recovery of significant debts during the period. A significant debt for a government receivable, described below, has been settled in full. In addition an early settlement was reached on a long term trade receivable.

Of the accrued income balance \$2.6m (2017: \$9.6m) was due from investment grade customers who are either Governments or very well established corporations whose underlying customer is a government.

Government of Indonesia

The reduction in provisions for trade receivables is primarily due to the resolution of a dispute with the Government of Indonesia. Due to the uncertainty in relation to the recovery of this debt in the 2017 accounts, the debt had been provided for in full. The settlement has resulted in a credit to bad debt expense of \$13.9m and additional revenue in year of \$4.4m relating to services that had been provided but for which revenue had not been recognised due to the uncertainty of the recoverability of the debt.

Avanti had contracted with the Government of Indonesia (GoI) to provide services on its Artemis satellite related to GoI's need to firstly bring into use, and secondly, to maintain its orbital slot at 123 degrees east. The total contract value was in excess of \$30 million. Avanti performed all of its obligations under the contract and had extended payment deadlines for GoI to assist with administrative delays. However, after no payments had been received for a significant period of time, Avanti terminated the contract and commenced arbitration proceedings in London. The arbitration tribunal rendered a final award ordering the Government of Indonesia to pay to Avanti the total sum of \$20.1m. This was received in full during 2018.

Long Term Receivables

There are \$nil (2017: \$14.6m) long term receivables included in the Group's trade receivable balances at 31 December 2018. Long term receivables in the prior year were recovered in full or are receivable within 12 months of the balance sheet date.

For discussion of credit risk, refer to Note 25(b).

Company Receivables

The Company has non-current trade and other receivables of \$nil (2017: \$663.0m) relating to amounts due from Group companies classified as loans receivable. The Company has current trade and other receivables of \$685.5m (2017: \$138.1m) relating to amounts due from Group companies, of which \$nil (2017: \$5.5m) was included within trade receivables.

As a result of the continued challenges in the business achieving forecast results, and in light of the Group's new strategy, there are potential indicators of impairment as at 31 December 2018, and therefore management has performed an impairment assessment of the Company's outstanding receivables due from subsidiaries. Based on the underlying net assets recorded on the balance sheet of each subsidiary, the value of spectrum rights that have no corresponding balance sheet asset and the future forecast cash flows of those subsidiaries, the Directors have made a provision totalling \$385.0m against the investments in subsidiaries (\$148.6m) and against intercompany receivables (\$236.4m). The remaining carrying value of the outstanding debt of \$685.5m (Note 30) is believed to be supported by the underlying assets of the subsidiaries.

The provision against intercompany receivables is an estimate which is based on the difference between the book value of the receivables and the forecast net present value of the cash flows that the business will generate from assets held by the subsidiaries. The sensitivities referred to in the Property, Plant and Equipment note (Note 13) give an indication of how upward or downward changes in the forecast performance of the HYLAS 2 and HYLAS 2B assets would impact the impairment assessment. Those sensitivities also apply to the provision for intercompany receivables. In addition, the assessment is also based upon the carrying value of the HYLAS 3 and HYLAS 4 assets, for which no impairment indicators have been identified.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

20. 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	
	31 December 2018 \$'m	Restated 30 June 2017 \$'m	31 December 2018 \$'m	Restated 30 June 2017 \$'m
Deferred tax assets	–	30.8	–	–
Deferred tax liabilities	–	–	–	–
	–	30.8	–	–
The net movement on the deferred income tax account is as follows:				
Balance at 1 July 2017	30.8	18.6	–	0.5
Income tax recognised in the income statement	(31.0)	12.2	–	(0.5)
Effects of movements in exchange rates	0.2	–	–	–
Balance at 31 December 2018	–	30.8	–	–

Group	Opening balance \$'m	Credited/ (charged) to the income statement \$'m	Effects of movements in exchange rates \$'m	Closing balance \$'m
31 December 2018				
Tax assets				
Unused tax losses	19.0	(19.0)	–	–
Property, plant and equipment	10.1	(10.3)	0.2	–
Provisions and deferred income	1.7	(1.7)	–	–
Total tax assets	30.8	(31.0)	0.2	–
Tax liabilities				
Financial instruments	–	–	–	–
Total tax liabilities	–	–	–	–
Net deferred tax asset/(liability)	30.8	(31.0)	0.2	–

Group	Opening balance \$'m	Credited/ (charged) to the income statement \$'m	(Credited)/ charged to equity \$'m	Effects of movements in exchange rates \$'m	Closing balance \$'m
30 June 2017 (*Restated)					
Tax assets					
Unused tax losses	25.9	(6.1)	–	(0.8)	19.0
Property, plant and equipment	(9.4)	18.7	–	0.8	10.1
Provisions and deferred income	2.1	(0.2)	–	(0.2)	1.7
Share based payment	–	(0.1)	–	0.1	–
Total tax assets	18.6	12.3	–	(0.1)	30.8
Tax liabilities					
Financial instruments	–	–	–	–	–
Total tax liabilities	–	–	–	–	–
Net deferred tax asset/(liability)	18.6	12.3	–	(0.1)	30.8

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

20. Deferred taxation *continued*

Company	Opening balance \$'m	Credited/ (charged) to the income statement \$'m	(Credited)/ charged to equity \$'m	Effects of movements in exchange rates \$'m	Closing balance \$'m
31 December 2018					
Tax liabilities					
Financial instruments	-	-	-	-	-
Total tax liabilities	-	-	-	-	-
Net deferred tax asset/(liability)	-	-	-	-	-

Company	Opening balance \$'m	Credited/ (charged) to the income statement \$'m	(Credited)/ charged to equity \$'m	Effects of movements in exchange rates \$'m	Closing balance \$'m
30 June 2017 (*Restated)					
Tax assets					
Share-based payment	0.1	(0.1)	-	-	-
Unused tax losses	0.4	(0.4)	-	-	-
Total tax assets	0.5	(0.5)	-	-	-
Tax liabilities					
Financial instruments	-	-	-	-	-
Total tax liabilities	-	-	-	-	-
Net deferred tax asset/(liability)	0.5	(0.5)	-	-	-

At 31 December 2018:

- \$nil (2017: \$0.5m) of the deferred tax asset of \$nil (2017: \$30.8m) is expected to be recovered in the next 12 months
- The unrecognised deferred tax asset totalled \$145.7m (2017: \$64.7m). This is made up of unused tax losses of \$103.2m (2017: \$63.0m) and decelerated capital allowances of \$11.2m (2017: \$1.7m) and other timing differences of \$30.2m primarily related to loan relationship debits disallowed under the Corporate Interest Restriction.

Prior year adjustment

After reassessment in the current financial period, we have concluded the exceptional gain recognised upon the substantial modification of debt in January 2017 is non-taxable and the amortisation of interest in future periods is non-deductible for tax purposes. As such, for deferred tax purposes, this is a permanent timing difference and not a temporary difference as recorded in 2017. The deferred tax liability on financial instruments of \$35.0 million recognised as at 30 June 2017 has been restated to nil accordingly.

In the prior year consolidated group accounts, a deferred tax asset of \$35 million with respect to unused tax losses and temporary difference on property, plant and equipment was recognised on the basis that it would be utilised against this deferred tax liability. Consistent with the recognition of deferred tax assets in excess of deferred tax liabilities at 30 June 2017, no asset has now been recognised resulting in an overall net nil impact to the consolidated group deferred tax position at 30 June 2017 and no effect on the consolidated income statement or statement of financial position for that period.

As no deferred tax asset was recognised in the company, the company's loss for the year ended 30 June 2017 disclosed in note 12 has reduced by \$35.0 million and net assets as at 30 June 2017 have increased by \$35.0 million.

The restatement of the deferred tax liability and connected deferred tax asset has been corrected in the prior year tax reconciliation shown in Note 10.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

20. Deferred taxation continued

Deferred tax asset

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

Recognition therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised.

Significant items on which the Group has exercised accounting judgement include recognition of deferred tax assets in respect of losses and accelerated capital allowances in the United Kingdom.

The amounts recognised in the consolidated financial statements in respect of each matter are derived from the Group's best estimation and judgement as described above. The inherent uncertainty regarding the outcome of these items means eventual resolution could differ from the accounting estimates and therefore impact the Group's results and cash flows. The nature of the evidence supporting the recognition of the deferred tax asset included contracted revenue that will be recognised in future periods, revenue from new business signed in FY19, and taxable temporary differences of an appropriate type that reverse in an appropriate period.

21. Cash and cash equivalents

Cash and cash equivalents at the end of the financial period as shown in the Statement of Financial Position and the Cash Flow Statement is shown in the table below. The Group has no bank overdrafts.

	Group		Company	
	31 December 2018 \$'m	30 June 2017 \$'m	31 December 2018 \$'m	30 June 2017 \$'m
Cash and bank balances	24.0	31.4	9.1	0.9
Short-term deposits	–	1.3	–	–
Net cash and cash equivalents	24.0	32.7	9.1	0.9

As at 31 December 2018 cash and bank balances includes \$3.1m of trapped cash in Zimbabwe.

22. Trade and other payables

	Group		Company	
	31 December 2018 \$'m	30 June 2017 \$'m	31 December 2018 \$'m	30 June 2017 \$'m
Current				
Trade payables	30.5	9.9	3.2	1.1
Social security and other taxes	1.4	0.5	–	–
Other payables	0.3	7.2	–	–
Accruals	19.2	42.1	46.9	55.8
Deferred income	9.0	10.6	5.0	–
Amounts due to Group companies	–	–	–	54.0
	60.4	70.3	55.1	110.9
Non-current				
Deferred income	7.3	9.1	–	–
	7.3	9.1	–	–

Accruals above include the interest accrued in the Company of \$10.7m (2017: \$33.9m) in relation to loans and borrowings. See note 23 Loans and other borrowings for further details.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

23. Loans and other borrowings

	Group current		Group non-current	
	31 December 2018 \$'m	30 June 2017 \$'m	31 December 2018 \$'m	30 June 2017 \$'m
Amortised cost				
Super Senior Facility	–	–	150.2	–
High Yield Bonds - Amended Existing Notes	–	–	–	293.6
High Yield Bonds - PIK Toggle Notes	–	–	306.2	287.6
Finance lease liabilities (i) (note 27)	1.4	2.1	9.3	11.4
	1.4	2.1	465.7	592.6

	Company current		Company non-current	
	31 December 2018 \$'m	30 June 2017 \$'m	31 December 2018 \$'m	30 June 2017 \$'m
Amortised cost				
Super Senior Facility	–	–	150.2	–
High Yield Bonds - Amended Existing Notes	–	–	–	293.6
High Yield Bonds - PIK Toggle Notes	–	–	306.2	287.6
Finance lease liabilities (i) (note 27)	0.8	1.4	0.5	1.7
	0.8	1.4	456.9	582.9

(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 between 3 and 12.5 years.

High yield bonds Debt for Equity Swap

On 26 April 2018 the Company completed a debt for equity swap consisting of repayment of the 12%/17.5% Senior Secured Notes due 2023 of \$557.0m by issuing 1,999,676,704 new ordinary shares with a nominal value of 1 pence each in Avanti Communications Group plc. The interest accrued on the Amended Existing Notes as at 25 April 2018 was settled through the issue of additional notes, and included in the debt for equity swap. \$55.7m of Amended Existing Notes were issued in respect of interest due on these notes between 2 October 2017 and 1 April 2018. The fair value of the shares at the date of the Swap was 6.11 pence per share, giving total consideration of \$170.4m. As the fair value was derived by reference to the closing share price at the date of the Swap, it is considered to be a Level 1 fair value measurement. The carrying value of the liability at the date of the Swap was \$425.3m, after issue of the April PIK. The resulting gain of \$254.9m has been recognised in the Income Statement as an exceptional gain on debt for equity swap. Costs identified as being directly associated with the transaction, of \$0.024m, have been taken directly to share premium.

Modification of debt

On 26 April 2018 the restructuring of the 10%/15% Senior Secured Notes due 2021 completed, and from this date the interest rate reduced from 10%/15% to 9% for both cash and PIK and their maturity was extended by one year to 2022. The interest accrued on the PIK Toggle Notes as at 25 April 2018 was settled through the issue of additional notes. \$20.2m of PIK Toggle Notes were issued in respect of interest due on these notes between 2 October 2017 and 1 April 2017.

The Group performed an assessment under its accounting policies and the requirements of IAS 39 as to whether the restructuring of the terms of the PIK Toggle Notes represented a substantial modification. As the net present value of the cash flows under the original terms and the modified terms was greater than 10% different, the modification was accounted for as substantial.

As a result, on completion of the restructuring, the carrying value of the PIK Toggle Notes of \$312.4m was de-recognised and the amended PIK Toggle notes with a nominal value of \$343.7m were recognised on the balance sheet at the date of modification at their fair value of \$258.6m. The fair value of \$0.80 per Note was derived by reference to the trading price of the PIK Toggle Notes on the modification date. This is considered to be a Level 1 fair value measurement. A review of the trading price of the Notes in the period from the restructuring circular being issued and subsequent to the modification being completed did not identify any material difference in the fair value. The gain arising on substantial modification of the PIK Toggle Notes was \$53.8m which has been recognised in the Income Statement as an exceptional gain on substantial modification. All costs associated with the transaction were expensed and included within finance costs (Note 9).

Interest accrued from 26 April 2018 was settled through the issue of additional notes. \$16.3m of PIK Toggle Notes were issued in respect of interest due on these notes between 26 April 2018 and 1 October 2018.

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NOTES TO THE ACCOUNTS CONTINUED

23. Loans and other borrowings *continued*

Super senior facility bonds

In July 2017 the Company drew down \$100 million of the three-year super senior facility agreed in June 2017 which had an interest rate of 7.5%. On 2 November the Company drew down an additional \$18 million of the super senior facility at an interest rate of 7.5%. Interest on this facility has been paid in cash in October 2017, April 2018, and October 2018.

On 16 November 2018 the Company agreed an amendment to the super senior facility signed in June 2017. This amendment had the following terms:

- an incremental facility notice to increase the facility by \$34.5 million to \$152.5 million
- an increase in the interest rate on the facility from 7.5% to 8.5%

The Group performed an assessment under its accounting policies and the requirements of IAS 39 as to whether the restructuring of the terms of the June 2017 Super Senior Facility in November 2018 represented a substantial modification. As the net present value of the cash flows under the original terms and the modified terms was less than 10% different, the modification was accounted for as non-substantial.

As a result, the existing debt of \$118.0 million remained on the balance sheet at its current carrying value. The debt will be accreted up to its final redemption value over the extended term to maturity using an amended Effective Interest Rate.

31 December 2018

Issuer	Original notional value	Description of instrument	Due
Avanti Communications Group plc	\$360.1m	PIK Toggle Notes	1 October 2022
Avanti Communications Group plc	\$152.5m	Super Senior Facility	30 June 2020

30 June 2017

Issuer	Original notional value	Description of instrument	Due
Avanti Communications Group plc	\$512.2m	Amended Existing Notes	1 October 2022
Avanti Communications Group plc	\$300.8m	PIK Toggle Notes	1 October 2021

The bonds are disclosed in non-current loans and borrowings as detailed below:

	31 December 2018	30 June 2017
	\$'m	\$'m
High yield bonds	360.1	813.0
Super Senior notes	152.5	–
	512.6	813.0
Less: Unamortised discount	(53.9)	(218.6)
Less: Unamortised debt issuance costs	(2.3)	(13.2)
	456.4	581.2

The fair value of the High Yield Bonds, which are listed on the Irish Stock Exchange (Level 1 in the fair value hierarchy), at 31 December 2018 was \$0.81 for each bond with a face value of \$1 (2017: \$0.88).

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NOTES TO THE ACCOUNTS CONTINUED

24. Provisions

	Group	Company
	Satellite assets contingent payments \$'m	Satellite assets contingent payments \$'m
As at 1 July 2017		
Current	–	–
Non-current	–	–
	–	–
Arising during the period	4.6	–
Utilised	(0.4)	–
Exchange differences	–	–
As at 31 December 2018	4.2	–
	–	–
Current	0.6	–
Non-current	3.6	–
	4.2	–

A provision arose in the period in relation to deferred contingent consideration on the HYLAS 1 satellite construction contract. This relates to payments due to the manufacturer that are contingent on performance criteria being met between years 7 and 15 of the life of the satellite. The likelihood of these criteria being met has now been assessed under IAS 37 as probable, and can be reliably estimated, giving rise to a provision for the full amount of the potential future consideration. This unwinds in quarterly instalments until March 2026.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

25. Financial instruments and risk management

Group

The Group's principal financial instruments comprise Bonds, finance leases, and cash and short-term deposits. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and payables which arise directly from operations.

The Group is subject to the risks arising from adverse movements in interest rates and foreign currency. Credit risk and liquidity risk also arise from the Group's financial instruments. 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. As such, financial assets being cash & 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 GBP and the Euro. In order to mitigate the foreign currency risk, the Group monitors the level at which natural hedges occur and continually reviews the need to enter into forward contracts in order to mitigate any material forecast exposure.

At 31 December 2018, if the Euro had weakened/strengthened against the US Dollar by 5% with all other variables held constant, post tax loss would have worsened by \$0.3m or improved by \$0.3m (2017: post tax loss would have worsened by \$0.8m or improved by \$0.8m).

At 31 December 2018, if Sterling had weakened/strengthened against the US Dollar by 5% with all other variables held constant, post tax loss would have worsened by \$0.2m or improved by \$0.2m (2017: post tax loss would have improved by \$0.3m or worsened by \$0.3m).

The Group has a presentational currency of US Dollars. Whilst a number of companies within the Group have a functional currency that is also US Dollars, certain trading subsidiaries have a functional currency of Sterling or Euro. As a result, the Group experiences translation foreign exchange risk of assets and liabilities of non US Dollar subsidiaries on consolidation in addition to the translation of US Dollar inter-company loans to non US Dollar functional currency of subsidiaries that are accounted for as akin to Equity. These two factors drive the foreign exchange movements disclosed in the Consolidated Statement of Other Comprehensive Income.

The average volatility of rates during the year compared to the year end exchange rate was 3.75% 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 the banks' short term treasury deposit rates. Short-term trade and other receivables are interest free.

b) Credit risk management

The Group's principal financial assets are cash and short term deposits and trade and other receivables. Cash and cash equivalents are deposited with high-credit quality financial institutions with a minimum rating of A+. Trade receivables are principally from Government customers and well established corporations. The credit quality of major customers is assessed before trading commences taking into account their financial position, past experience and other factors.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

25. Financial instruments and risk management continued

Group continued

b) Credit risk management continued

	31 December 2018	30 June 2017
	\$'m	\$'m
Trade receivables	8.9	22.8
Total	8.9	22.8

The ageing of trade receivables and other financial assets which have not been impaired was as follows:

	Not past due \$'m	1–30 days \$'m	31–60 days \$'m	60+ days \$'m	Total \$'m
31 December 2018	7.1	0.7	0.1	1.0	8.9
30 June 2017	18.7	0.4	0.5	3.2	22.8

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

	31 December 2018	30 June 2017
	\$'m	\$'m
At 1 July 2017	21.5	6.5
Allowances made in the period	0.6	19.1
Amounts used and reversal of unused amounts	(21.0)	(4.1)
At 31 December 2018	1.1	21.5

The provision of \$1.1m (2017: \$21.5m) has been raised against gross trade receivables of \$10.0m (2017: \$44.3m). Every major customer is assessed on an individual basis and we provide for bad debts when an impairment has been identified.

In addition to trade receivables, the year-end balance sheet includes \$6.2m accrued income (2017: \$13.7m). \$1.9m (2017: \$9.4m) of accrued income was due from investment grade counter parties who are either Government's or very well established corporations whose underlying customer is a government. The credit terms associated with the components within accrued income are largely consistent to the Group's trade receivables which are in the range of 30 to 90 days.

c) Liquidity risk management

Liquidity risk is the risk that the Group may have difficulty in obtaining funds in order to be able to meet both its day-to-day operating requirements and its debt servicing obligations. The Group manages its exposure to liquidity risk by regular monitoring of its 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 \$'m	1–2 years \$'m	2–5 years \$'m	5+ years \$'m	Contractual amount \$'m	Carrying amount \$'m
31 December 2018						
High yield bonds	–	152.5	360.1	–	512.6	456.4
Finance leases	2.4	1.5	5.2	7.8	16.9	10.7
Trade payables	30.5	–	–	–	30.5	30.5
30 June 2017						
High yield bonds	–	–	300.8	512.2	813.0	581.2
Finance leases	3.2	2.5	5.7	10.1	21.5	13.5
Trade payables	9.9	–	–	–	9.9	9.9

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

25. Financial instruments and risk management continued

Group continued

c) Liquidity risk management continued

Interest is payable on the High Yield Bonds at 9% per annum over the three year remaining life of the bonds, and on the Super Senior Facility at 8.5% per annum over the 18 month remaining life of the bonds.

In addition, the Company has net intercompany receivables carried at \$685.5m (2017: net receivables carried at \$741.6m). The contractual amount is \$921.9m (2017: \$702.6m), due to a provision of \$386.4m in place at the period end (2017: \$400m provision).

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 borrowings (Note 23), cash and cash equivalents (Note 21) and equity attributable to equity holders of the parent, comprising Ordinary Share capital, share premium, other reserves and retained earnings.

As referred to in more detail in Note 23, during the period the Group completed a debt for equity swap that resulted in \$557.0m of 12%/17.5% Senior Secured Notes due 2023 being settled by the issuing of 1,999,676,704 new ordinary shares with a nominal value of 1 pence each in Avanti Communications Group plc.

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

e) Financial instruments by category

Group

Assets as per Statement of Financial Position	Loans and receivables \$'m	Total \$'m
31 December 2018		
Trade and other receivables (excl prepayments)	19.4	19.4
Cash and cash equivalents	24.0	24.0
	43.4	43.4
30 June 2017		
Trade and other receivables (excl prepayments)	42.8	42.8
Cash and cash equivalents	32.7	32.7
	75.5	75.5

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

25. Financial instruments and risk management continued

Group continued

e) Financial instruments by category continued

	Other financial liabilities at amortised cost \$m	Total \$m
Liabilities as per Statement of Financial Position		
31 December 2018		
Borrowings (excl finance lease liabilities)	456.4	456.4
Finance lease liabilities	10.7	10.7
Trade and other payables (excl non-financial liabilities)	58.7	58.7
	525.8	525.8
30 June 2017		
Borrowings (excl finance lease liabilities)	581.2	581.2
Finance lease liabilities	13.5	13.5
Trade and other payables (excl non-financial liabilities)	59.7	59.7
	654.4	654.4
Company		
Assets as per balance sheet		
31 December 2018		
Trade and other receivables (excl prepayments)	722.2	722.2
Cash and cash equivalents	9.1	9.1
	731.3	731.3
30 June 2017		
Trade and other receivables (excl prepayments)	160.1	160.1
Cash and cash equivalents	0.9	0.9
	161.0	161.0
Liabilities as per Statement of Financial Position		
31 December 2018		
Borrowings (excl finance lease liabilities)	456.4	456.4
Finance lease liabilities	1.3	1.3
Trade and other payables (excl non-financial liabilities)	50.1	50.1
	507.8	507.8
30 June 2017		
Borrowings (excl finance lease liabilities)	581.2	581.2
Finance lease liabilities	3.1	3.1
Trade and other payables (excl non-financial liabilities)	57.0	57.0
	641.3	641.3

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

25. Financial instruments and risk management continued

Group continued

e) Financial instruments by category continued

The Group has no financial instruments carried at fair value through profit or loss. All financial liabilities are carried at amortised cost and all loans and 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.

Company

Overall interest rate risk, foreign exchange risk, market risk, credit risk and liquidity risk are managed on a Group wide basis. All intercompany balances are repayable on demand and accruals and derivatives mature in less than 1 year. There is a \$535.0m provision for impairment against the Company's investments in subsidiaries and receivables due from subsidiaries (2017: \$400.0m provision).

26. Share capital – issued and fully paid

	Number of shares '000	Group and Company Ordinary Shares £0.01 per share \$'m	EBT shares \$'m	Group and Company share premium \$'m
At 1 July 2017	162,136	2.7	(0.1)	519.4
Issue of shares in exchange for settlement of liability	1,999,677	27.9	–	142.5
Transfer from retained earnings*	–	–	–	442.3
Issue of shares	1,523	–	–	0.2
At 31 December 2018	2,163,336	30.6	(0.1)	1,104.4

* A gain on debt for equity swap was recognised in the income statement in the 18 months to 31 December 2018 being the difference between the carrying amount of the liability extinguished, and the fair value of the equity instruments issued as consideration in the transaction. Under UK company law, the amount to be credited to share capital and share premium is based on the value of the consideration received for the issue of shares, in this case the face value of the liability. Therefore a transfer has been done between equity components, as shown in the Statement of Changes in Equity.

On 26 April 2018 the Company completed a debt for equity swap consisting of repayment of the 12%/17.5% Senior Secured Notes due 2023 of \$557.0m by issuing 1,999,676,704 new ordinary shares with a nominal value of 1 pence each in Avanti Communications Group plc. Shares were issued at fair value of 6.11 pence resulting in total consideration of \$170.4m, and a net gain on restructuring of \$254.9m (Note 23). Issue costs directly associated with this transaction of \$0.024m were capitalised against share premium.

On 27 April 2018 the Company issued 1,522,932 ordinary shares at 11.225 pence per share.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

27. Obligations under finance leases

Leasing arrangements

Finance leases relate to capital equipment with typical lease terms of three to five 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.

Also included under finance leases is the 13.5 year IRU agreement described in Note 2.

The present value of the minimum lease payments in relation to this agreement and included below is \$9.3m of which \$0.5m is current and \$8.8m is non-current.

Finance lease liabilities

	Group		Group Present value of lease payments	
	31 December 2018 \$'m	30 June 2017 \$'m	31 December 2018 \$'m	30 June 2017 \$'m
No later than 1 year	2.4	3.3	1.4	2.1
Later than 1 year no later than 5 years	6.7	8.4	3.3	4.2
Later than 5 years	7.8	10.1	6.0	7.2
	16.9	21.8	10.7	13.5
Less future finance charge	(6.2)	(8.3)	–	–
	10.7	13.5	10.7	13.5

	Company		Company Present value	
	31 December 2018 \$'m	30 June 2017 \$'m	31 December 2018 \$'m	30 June 2017 \$'m
No later than 1 year	0.8	1.6	0.8	1.4
Later than 1 year no later than 5 years	0.6	2.0	0.5	1.7
	1.4	3.6	1.3	3.1
Less future finance charge	(0.1)	(0.5)	–	–
	1.3	3.1	1.3	3.1

Included in the Financial Statements as:

	Group		Company	
	31 December 2018 \$'m	30 June 2017 \$'m	31 December 2018 \$'m	30 June 2017 \$'m
Current borrowings	1.4	2.1	0.8	1.4
Non-current borrowings	9.3	11.4	0.5	1.7
Present value of minimum lease payments	10.7	13.5	1.3	3.1

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

28. Obligations under operating leases

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

	31 December 2018	31 December 2018	30 June 2017	30 June 2017	30 June 2017
	Land & Buildings \$'m	Total \$'m	Land & Buildings \$'m	Equipment \$'m	Total \$'m
No later than one year	1.6	1.6	1.7	0.1	1.8
Later than 1 year no later than 5 years	6.6	6.6	6.7	–	6.7
After 5 years	15.3	15.3	18.1	–	18.1
	23.5	23.5	26.5	0.1	26.6

Operating lease commitments principally relate to leased office space of the Group's head office. The Group entered into a 20 year lease on the property on 6 May 2013, with annual rent of \$ 1.6m.

29. Capital commitments

As at 31 December 2018 the Group has contracted but not provided for capital commitments of \$35.4m in relation to the procurement of HYLAS 3 (2017: \$43.6m) and \$2.4m in relation to the procurement of HYLAS 4 (2017: \$77.0m).

30. 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.

	31 December 2018 \$'m	30 June 2017 \$'m
Salaries and other short term employee benefits	3.4	2.0
Bonus	0.9	0.3
Termination payments	0.9	–
	5.2	2.3
Payments into defined contribution schemes	0.1	0.1
	5.3	2.4

Pension contributions amounting to \$0.1m (2017: \$0.1m) were made into personal pension schemes in respect of three (2017: three) of the Directors.

No Non-Executive directors exercised share options in the period.

The emoluments of the highest paid Director totalled \$1.2m (2017: \$0.9m), made up of:

	31 December 2018 \$'m	30 June 2017 \$'m
Total emoluments		
Salaries and other short term employee benefits	0.6	0.7
Bonus	0.6	0.1
Payments into defined contribution schemes	–	0.1
Total emoluments	1.2	0.9

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

30. Related party transactions and directors' emoluments *continued*

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 Executive and Non-Executive Directors, and other members of the Executive Committee.

	Group		Company	
	31 December 2018 \$'m	30 June 2017 \$'m	31 December 2018 \$'m	30 June 2017 \$'m
Total emoluments				
Salaries and other short term employee benefits	5.6	3.0	-	-
Bonus	1.9	0.6	-	-
Termination payments	1.3	-	-	-
Payments into defined contribution schemes	0.3	0.2	-	-
	9.1	3.8	-	-

Other related party transactions

Of the non-executive directors, Craig Chobor is a Managing Director of Solus Alternative Asset Management ("Solus"), Michael Leitner is a managing partner of Tennenbaum Capital Partners ("Tennenbaum"), and Peter Reed during the period under review was Chief Investment Officer at Great Elm Capital Management ("Great Elm"). Each of those funds were significant holders of Avanti's High Yield Bonds during the reporting period and at the year end. Solus is also a major shareholder of the Company's Ordinary Share capital. These non-executive directors were appointed as directors on 27 January 2017 immediately following the successful completion of a debt restructuring. The Company considers that the directors became related parties from the date of their appointment as directors. The terms of the debt restructuring that immediately preceded the directors appointment was completed on the same terms for all holders of the same class of notes.

During the 18 month period, transactions with these related parties related to accrued interest of \$85.4m, \$24.5m, and \$18.7m for Solus, Tennenbaum, and Great Elm Capital respectively on the outstanding loan notes on terms consistent with the contractual terms of the notes and, as a result, consistent with all other holders of the same class of Notes.

On 1 October 2017 the accrued interest on the 2021 Notes and the 2023 Notes of \$26.5m, \$7.6m, and \$5.8m owed to Solus, Tennenbaum, and Great Elm Capital respectively was settled through the issue of additional loan notes. On 1 April 2018, the accrued interest on the 2021 Notes and the 2023 Notes of \$36.4m, \$10.5m, and \$8.1m owed to Solus, Tennenbaum, and Great Elm Capital respectively was settled through the issue of additional loan notes. On 1 October 2018 the accrued interest on the 2021 Notes of \$8.1m, \$2.3m, and \$1.8m owed to Solus, Tennenbaum, and Great Elm Capital respectively was settled through the issue of additional loan notes.

On 26 April 2018 the Company completed a debt for equity swap. As part of this, \$264.2m, \$75.8m, and \$58.8m of 12%/17.5% Senior Secured Notes due 2023 held by Solus, Tennenbaum, and Great Elm Capital respectively were exchanged for equity on terms consistent with the contractual terms reached with all other holders of the same class of Notes.

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:

	31 December 2018 \$'m	30 June 2017 \$'m
Avanti Communications Limited	9.9	5.9
Avanti Broadband Limited	6.0	3.1
Avanti Space Limited	5.0	1.6
Avanti HYLAS 2 Cyprus Limited	8.9	4.7
Avanti HYLAS 2 Limited	3.8	1.9
	33.6	17.2

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

30. Related party transactions and directors' emoluments *continued*

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

	31 December 2018 \$'m	30 June 2017 \$'m
Avanti Turkey Uydu Telekomunikasyon Limited	0.1	0.4
Avanti HYLAS 2 Limited	622.0	609.0
Avanti Communications Germany GmbH	9.6	16.7
Avanti Communications Infrastructure Limited	53.7	115.5
	685.4	741.6

Intercompany balances are unsecured and repayable on demand. The above is stated net of a provision against intercompany receivables of \$386.4m (FY17: \$400m).

The parent Company had the following trade intercompany balances outstanding at the year end included within trade and other receivables:

	31 December 2018 \$'m	30 June 2017 \$'m
Avanti Communications Limited	-	0.4
Avanti Broadband Limited	-	3.5
Avanti Space Limited	-	0.1
Avanti HYLAS 2 Cyprus Limited	0.1	1.4
Avanti Communications Marketing Services Limited	-	0.1
	0.1	5.5

31. Reconciliations to the statement of cash flows

a) Cash (absorbed by)/generated from operations

	Group 31 December 2018 \$'m	Group 30 June 2017 \$'m	Company 31 December 2018 \$'m	Company 30 June 2017 \$'m
Loss before taxation	(6.8)	(77.7)	(226.1)	178.5
Adjustments for:				
Interest receivable	(2.5)	-	(153.6)	(99.1)
Interest payable	89.1	74.4	145.4	118.7
Amortised bond issue costs	54.0	19.0	53.5	19.0
Foreign exchange loss/(gain)	0.2	(0.1)	(0.1)	(0.3)
Depreciation and amortisation of non-current assets	64.3	47.2	-	-
Provision for doubtful debts	(20.3)	15.0	485.0	-
Exceptional credit on substantial modification	(64.7)	(219.2)	(53.8)	(219.2)
Exceptional credit on debt for equity swap	(254.9)	-	(254.9)	-
Share based payment expense	0.2	0.2	0.2	0.2
Impairment	80.7	124.0	-	-
Movements in working capital:				
(Increase)/decrease in stock	(16.9)	(0.8)	-	-
Decrease/(increase) in debtors	41.9	(95.5)	(139.9)	(47.1)
(Decrease)/increase in trade and other payables	(6.2)	104.4	24.4	0.6
Effects of exchange rate on the balances of working capital	(7.3)	5.0	-	-
Cash absorbed by operations	(49.2)	(4.1)	(119.9)	(48.7)

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

31. Reconciliations to the statement of cash flows continued

b) Reconciliation of cashflows from financing activities to liabilities

Movements on liabilities from financing activities are reconciled to cash flows arising from financing activities as follows:

Group	Opening liability \$m	Cash flows \$m	Substantial modification \$m	Debt for equity swap \$m	Interest PIK issues \$m	Unwind of discounts \$m	Closing liability \$m
Liabilities							
Super senior facility	–	148.6	–	–	–	1.6	150.2
High yield bonds – Amended Existing Notes	293.6	–	–	(425.4)	100.5	31.3	–
High yield bonds – PIK Toggle Notes	287.6	–	(64.7)	–	59.3	24.0	306.2
Finance lease liabilities	13.5	(2.8)	–	–	–	–	10.7
Total liabilities from financing activities	594.7	145.8	(64.7)	(425.4)	159.8	56.9	467.1

Company	Opening liability \$m	Cash flows \$m	Substantial modification \$m	Debt for equity swap \$m	Interest PIK issues \$m	Unwind of discounts \$m	Closing liability \$m
Liabilities							
Super senior facility	–	148.6	–	–	–	1.6	150.2
High yield bonds – Amended Existing Notes	293.6	–	–	(425.4)	100.5	31.3	–
High yield bonds – PIK Toggle Notes	287.6	–	(64.7)	–	59.3	24.0	306.2
Finance lease liabilities	3.1	(1.8)	–	–	–	–	1.3
Total liabilities from financing activities	584.3	146.8	(64.7)	(425.4)	159.8	56.9	457.7

32. Subsidiary audit exemption

The Company will guarantee the debts and liabilities of the following of its UK subsidiaries at the balance sheet date in accordance with section 479C of the Companies Act 2006, and therefore will take an exemption from audit of their individual accounts for the 18 month period to 31 December 2018 in accordance with section 479A of the Companies Act 2006. The Company has assessed the probability of loss under these guarantees as remote.

- Avanti Broadband Limited (03958887)
- Avanti Space Limited (05316540)
- Avanti HYLAS 2 Limited (07072502)
- Avanti Communications Marketing Services Limited (07407494)
- Avanti Communications Infrastructure Limited (05316577)

33. Post balance sheet events

Filiago

On 4 March 2019, N Fox resigned as a director of Filiago and the Group returned control to the founder and joint Director of Filiago, and forgave the loans which have been fully provided for by the Group as at 31 December 2018.

Debt Facilities Amendments

As described in Note 23, the Group had the following debt instruments, excluding finance leases, as at 31 December 2018:

31 December 2018

Issuer	Original notional value	Description of instrument	Due
Avanti Communications Group plc	\$360.1m	PIK Toggle Notes	1 October 2022
Avanti Communications Group plc	\$152.5m	Super Senior Facility	30 June 2020

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

33. Post balance sheet events continued **Debt Facilities Amendments** continued

The debt facilities amendments announced on 28 May 2019 comprised the following components which are described in further detail below:

- Additional funding borrowed in the form of a new 1.5 lien facility (the "New 1.5 Facility")
- Extension of the maturity of the Super Senior Facility

New 1.5 Facility

On 9 May 2019, the Group commenced a consent solicitation to all holders of the PIK Toggle Notes (the "Notes") in order to give the Company the ability to raise additional funding borrowed in the form of super senior debt, including in the form of the New 1.5 Facility. Approval of the Proposed Indenture Amendments required consent from Holders representing at least 60% in aggregate principal amount of the then outstanding PIK Toggle Notes.

On 16 May 2019, the Group announced that it had received consents for the Proposed Amendments from holders representing 94.94% in aggregate principal amount of its Notes. On 28 May 2019, the Group announced that it had entered into an agreement for the New 1.5 Facility, with the following key terms:

- Initial drawdown of \$9.2m
- The commitment by lenders of an additional \$45.8m of funds to be available for drawdown from the closing date of the facility
- The ability to increase the aggregate principal amount of the New 1.5 Facility by up to \$20m in the 12 months following the closing date, subject to agreement by the lenders at the time the funds are requested
- Maturity date of May 2021 or, if the Company's existing Super Senior Facility is extended, in July 2021
- 12.5% per annum PIK interest, accruing quarterly in arrears

Extension of the maturity of the Super Senior Facility

On 28 May 2019, the Group announced that it had agreed an option to extend the maturity of its Super Senior Facility by 6 months to 21 December 2020. The amended Super Senior Facility agreement includes covenants over FY19 EBITDA, tested on an annual basis, and FY20 EBITDA, tested on a quarterly basis.