10 June 2019

AVANTI COMMUNICATIONS GROUP PLC

Audited results for the 18 months ended 31 December 2018

Avanti Communications Group plc (“Avanti”, the “Company” or the “Group”), a leading provider of satellite data communications services in Europe, the Middle East and Africa, issues the following audited results for the financial period ended 31 December 2018. The report and accounts for the 18 months ended 31 December 2018will shortly be available from the Company’s website www.avantiplc.com.

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 to fully fund the current business plan
- Impairment provision against HYLAS 2 & HYLAS 2B as a consequence of higher WACC and lower average yields

Kyle Whitehill Avanti’s CEO said:

“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.”

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 ("**MAR**"). Upon the publication of this announcement, the inside information is now considered to be in the public domain for the purposes of MAR.

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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 steadying 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.

Operating review

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.

Our 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.

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 on 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.

Working Capital

During 2017 we had to make a significant bad debt provision against a receivable from the Government of Indonesia (GoI). Avanti had used the Artemis satellite to support GoI'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 GoI 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 from the bandwidth business 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.

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 was 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. 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 FY!7).

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 in the table below.

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: $12m).

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).

	Notes	(unaudited) 12m ended 31 December 2018 $'m	Year ended 30 June 2017 $'m
Total Revenue		53.5	56.6
Cost of sales – capacity, services & equipment (excluding satellite 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 substantial modification of debt		308.7	219.2
Profit/(loss) before taxation		83.2	(77.7)

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 year

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.

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 31 December 2018 was $49.2 million as compared to an outflow of $4.1 million during the 12 months ended 30 June 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 $84.6 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.

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.

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 below, 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.

Consolidated Income Statement

18 month period ended 31 December 2018

	Notes	18m period ended 31 December 2018 $'m	Year ended 30 June 2017 $'m
Revenue			
Capacity, services & equipment	3	73.7	56.6
Total Revenue		73.7	56.6
Cost of sales – capacity, services & equipment (excluding satellite depreciation)		(51.8)	(60.6)
Staff costs		(44.1)	(19.7)
Other operating expenses		(23.4)	(12.0)
Other operating income		4.0	3.2
EBITDA[2]		(41.6)	(32.5)
Depreciation and amortisation		(63.2)	(47.2)
Impairment of satellites in operation		(79.6)	(114.1)
Impairment of other intangible assets		(1.0)	–
Impairment of goodwill		(0.1)	(9.9)
Operating loss		(185.5)	(203.7)
Finance income		2.5	–
Finance expense		(132.5)	(93.2)
Exceptional gain on substantial modification of debt		308.7	219.2
Loss before taxation		(6.8)	(77.7)
Income tax	4	(31.4)	12.0
Loss for the year		(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)	5	(3.50c)	(44.74c)
Diluted loss per share (cents)	5	(3.50c)	(44.74c)

Consolidated Statement of Comprehensive income

18 month period ended 31 December 2018

	18m period ended 31 December 2018 $'m	Year ended 30 June 2017 $'m
Loss for the year	(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 year	(43.0)	(71.7)
Attributable to:		
Equity holders of the parent	(42.0)	(71.2)
Non-controlling interests	(1.0)	(0.5)

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	6	714.4	671.8
Intangible assets	7	9.1	9.3
Deferred tax assets		–	30.8
Total non-current assets		723.5	711.9
Current assets			
Inventories		19.5	2.6
Trade and other receivables	8	33.5	60.6
Cash and cash equivalents		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		60.4	70.3
Loans and other borrowings		1.4	2.1
Provisions		0.6	–
Total current liabilities		62.4	72.4
Non-current liabilities			
Trade and other payables		7.3	9.1
Loans and other borrowings		465.7	592.6
Provisions		3.6	–
Total non-current liabilities		476.6	601.7
Total liabilities		539.0	674.1
Equity			
Share capital		30.6	2.7
EBT shares		(0.1)	(0.1)
Share premium		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

Consolidated Statement of Cash Flows

18 month period ended 31 December 2018

		Group	
	Notes	18m period ended 31 December 2018 $'m	*Restated Year ended 30 June 2017 $'m
Cash flow from operating activities			
Cash absorbed by operations	10	(49.2)	(4.1)
Interest paid		(14.7)	(3.5)
Interest received		2.5	–
Debt restructuring costs		(7.8)	(23.2)
Taxation		(0.4)	–
Net cash absorbed by operating activities		(69.6)	(30.8)
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
Net proceeds from share issue		0.2	0.2
Payment of finance lease liabilities		(2.8)	(3.8)
Net cash received from financing activities		146.0	75.1
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)
Cash and cash equivalents at the beginning of the financial year		32.7	56.4
Cash and cash equivalents at the end of the financial year		24.0	32.7

* 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.

Consolidated Statement of Changes in Equity

18 month period ended 31 December 2018

	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

Notes to the preliminary statement

1. Basis of preparation

The financial information set out above does not constitute the Group's statutory financial statements for the periods ended 31 December 2018 or 30 June 2017. Statutory consolidated financial statements for the Group for the year ended 30 June 2017, prepared in accordance with adopted IFRS, have been delivered to the Registrar of Companies and those for 31 December 2018 will be delivered in due course. The auditors have reported on those accounts: their report on the accounts for the periods ended 30 June 2017 and 31 December 2018 were (i) unqualified and (ii) drew attention by way of emphasis without qualifying their report to a material uncertainty in respect of going concern and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This financial information for the period ended 31 December 2018 has been prepared by the directors based upon the results and position that are reflected in the consolidated financial statements of the Group. The consolidated financial statements of Avanti Communications Group plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards as adopted by the EU as relevant to the financial statements of Avanti Communications Group plc.

Full disclosure of the group accounting policies can be found in the 2017 Annual Report and Accounts as presented on the Avanti Communications Group plc website. These have been consistently applied throughout the 2018 financial period and the disclosures made in this statement. See below for additional disclosure with regard to going concern.

2. Principal accounting policies

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, 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.

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.

3. Revenue

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
Capacity, services & 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 countries outside Europe and $31.3m (2017: $20.2m) from the United Kingdom.

4. Income Tax

	18m ended 31 December 2018 $'m	Year ended 30 June 2017 $'m
Current tax		
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 (credit)/charge recognised in the Income Statement	31.4	(12.0)

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.

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.

Prior year restatement

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 above.

5. Loss per share

	31 December 2018 cents	30 June 2017 cents
Basic and diluted loss per share	(3.50)	(44.74)

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

	30 June 2017	30 June 2016
Loss for the year 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

6. Property, plant and equipment

	Leasehold improvement $'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 year	–	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.

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:

- 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
- 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
- Satellite life - The discounted cash flow forecast is prepared over the estimated remaining useful economic life of the asset of 9.3 years
- 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
- 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 reasonable 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.

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.

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:

- 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
- 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
- Satellite life - The discounted cash flow forecast is prepared over the estimated remaining useful economic life of the asset of 10 years.
- 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 reasonable 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.

7. 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.

8. 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	1.5	4.8
	33.5	60.6	722.6	164.1

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.

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 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 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.

9. Loans and borrowings

	Group current		Group non-current	
	31 December 2018 $'m	30 June 2017 $'m	31 December 2018 $'m	30 June 2017 $'m
Secured at 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

(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 12.5%/17.5% 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.
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.

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

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

10. Cash absorbed by operations

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

11. 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

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

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
- 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.