

AVANTI COMMUNICATIONS GROUP PLC

ANNUAL REPORT AND ACCOUNTS 2019

COMPANY NUMBER 06133927

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STRATEGIC REPORT

CHIEF EXECUTIVE'S STATEMENT

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.

Highlights

We have more than doubled our bandwidth revenues over the last year. This dramatic growth is as a result of the new strategic focus on the three key markets of Wholesale, Government and Carriers implemented towards the end of 2018.

We have delivered positive EBITDA (before restructuring costs incurred through our cost optimisation programme) for the first time in the Company's history. This was achieved through substantial bandwidth revenue growth, allied to a highly effective cost optimisation programme which reduced our operating cost base by in excess of 25%.

Following the successful launch of HYLAS 4 in 2018 we completed our capital expenditure cycle with the launch and deployment of HYLAS 3, a hosted payload on the ESA EDRS-C satellite in August of 2019. We now have 50 Ghz of capacity over EMEA, including 13 powerful steerable beams on HYLAS 2, 3 and 4. These will be the key drivers for our business in 2020.

Strategy

Our primary strategic focus is on the three key markets of Wholesale, Government and Carriers.

The satellite industry has always bought capacity from each other and historically that was an opportunity from which we had not seen any traction. Our wholesale division, which was established towards the end of 2018, made a significant contribution to 2019 with bandwidth contracts with, amongst others, Viasat, Inmarsat, Turksat and Yahsat.

The US Government is the single largest buyer of commercial satellite capacity in the world. During the year, we invested in our reach into that market by developing relationships with a number of US DoD prime contractors. Our first service and revenues from this market commenced in the first quarter of 2020 and we are actively pursuing a significant pipeline of opportunities.

HYLAS 4 is 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. In 2019 we were appointed as the preferred supplier of Ka-band services for MTN across Africa. This success has driven an encouraging start to 2020 with service now being delivered in a number of territories for MTN. We expect this area to be a significant revenue stream for HYLAS 4 over time.

Consumer Broadband remains part of our strategy but, over time, will become a smaller constituent of our bandwidth revenues.

Operating Review

We can be proud at the pace of progress we have made in the last twelve months. Upon joining the business, I was delighted to find that I had inherited a world class network and I recognised that the focus

needed to be on the business strategy in order to monetise the investment you had made in that network.

Our objectives at the start of 2019 were to significantly increase bandwidth revenues and to optimise our cost structure. We have more than doubled our bandwidth revenues over the last year. This dramatic growth is as a result of the new strategic focus on the three key markets and, in particular, excellent progress made in the Wholesale market.

We established a cost optimisation programme at the end of 2018 which has driven a reduction in our operating cost base in excess of 25%. This was achieved by aligning the business' cost base with our strategy to sell to a relatively small number of large, well-funded customers and tightly controlling our spend.

I am pleased to say that by achieving both of those objectives we delivered EBITDA of \$1.5 million prior to one off restructuring charges of \$4.1 million, compared to an EBITDA loss of \$41.6 million for the 18 month period to December 2018. The operating leverage of the Avanti business is such that our forecast growth in bandwidth revenue and reduction in our operating cost base will drive increased EBITDA and cash generation.

Looking to our satellite network assets, following the successful launch of HYLAS 4 in 2018 we completed our capital expenditure cycle with the launch and deployment of HYLAS 3, a hosted payload on the ESA EDRS-C satellite, in August of 2019. We now have 50 Ghz of capacity over EMEA including 13 powerful steerable beams on HYLAS 2, 3 and 4. These will be the key drivers for our business in 2020.

The successful launch of HYLAS 3 brings additional civilian and military steerable ka-band capacity to our offering. From its orbital slot at 31 degrees East, this flexible payload can provide dynamic coverage from the Atlantic through Africa and the Middle East through to Northern and Central India.

COVID-19

The COVID-19 pandemic has impacted all of our lives in ways we could not have imagined when I wrote to you last year. Unlike many industries, we are able to continue to work very effectively despite the physical restrictions in place.

I am immensely proud of the way in which the Avanti team has seamlessly transitioned to full remote working, continued to deliver service excellence to our customers, and continued the transformation of the Avanti business apace during these difficult times.

Our customers have relied on the critical connectivity we provide more than ever before. The services and solutions we provide have helped businesses to continue to operate, children to continue schooling, healthcare to be provided and ensured governments can lead their response effectively. Also, during periods of physical isolation, we have enabled families, friends and loved ones to remain connected.

Whilst we have been able to continue to work with our customers, we have invested heavily in looking after our staff from not only an engagement and physical perspective, but also from a mental health point of view.

STRATEGIC REPORT

CHIEF EXECUTIVE'S STATEMENT CONTINUED

Outlook

The business set out a new strategic focus on the three key markets of Wholesale, Government and Cellular backhaul toward the end of 2018.

This bore early fruit in 2019 with bandwidth revenue increasing by more than 100%. 2019 also saw significant investment in the customer relationships that were needed in order to drive further significant revenue growth in 2020. In the Government market this included US DoD partners such as Bringcom and Peraton and in the Carrier market with MTN.

The cost optimisation programme that was so successful during 2019 very much continues into 2020 with a target to drive our annual operating cost base down below \$55 million from its peak of \$80 million 18 months ago.

For these reasons, in addition to the HYLAS 3 steerable cluster of beams coming into service, I started 2020 with a bullish view of the company's forecast performance for the coming year.

So far during 2020, we have seen that our existing business and revenues have been largely unaffected by COVID-19 with inbound enquiries, particularly in the Wholesale market, increasing. Indeed we have signed new business in the Wholesale sector with a total contract value close to \$20m in the first half of 2020. We have also seen that physical restriction of movement has significantly delayed certain activities, such as the performance of proofs of concept, needed to close new business, particularly in the Government market.

Looking ahead, the Super Senior Facility, which currently stands at \$147.5 million, matures on 31 December 2020. The Group expects to refinance this facility in the second half of 2020. Completing the refinancing of this first lien debt in a year in which the first half of the year has seen significant disruption to debt capital markets is not ideal. Nevertheless, management are confident that this can be achieved given the first lien nature of this debt, significant asset coverage and security available to the holders of such debt and the significant and on-going transformation of the business being delivered. In the unlikely event that this process is unsuccessful, and no extension to the existing facility can be secured, the Group would need to find alternative sources of financing and may well require the assistance of the existing lenders.

We are confident of closing 2020 with the shape of business from a bandwidth revenue and cost base perspective that we planned to at the start of the year and of successfully refinancing our first lien debt, the combination of which will put the Avanti business in a strong commercial and financial position.

Kyle Whitehill
Chief Executive

STRATEGIC REPORT FINANCIAL REVIEW

Income Statement

The comparative financial information presented in the Income Statement is for the 18 month period ended 31 December 2018. As a result, the income statement commentary is primarily based on the reported 12 month period to 31 December 2019 and the 12 month period to 31 December 2018 as presented below.

Revenue for the year was \$66.9 million, an increase on revenue for the 12 months to December 2018 of \$13.4 million or 25%. Revenue for the 18 month comparative period was \$73.7 million.

Importantly, bandwidth revenues from the HYLAS fleet, which exclude low margin project and equipment revenues, more than doubled to \$60.6million (12 months to December 2018 - \$26.7 million). Bandwidth revenues from the HYLAS fleet for the 18 month comparative period were \$36.9 million.

This dramatic growth is as a result of the new strategic focus on the three key markets and, in particular, excellent progress made in the Wholesale market.

Cost of sales and operating costs for the year were \$65.4 million, a decrease on the 12 months to December 2018 of \$14.6 million or 18%.

Critically, the cost base of the business excluding low margin project and equipment revenues, reduced by \$12.0m from \$70.4m to \$58.4m.

We established a cost optimisation programme at the end of 2018 which has driven a reduction in the bandwidth operating cost base by in excess of 25% from its peak of \$80m 18 months ago to approximately \$58 million today. This was achieved by aligning the business' cost base with our strategy to sell to a relatively small number of large, well-funded customers and by tightly controlling our spend. Restructuring costs of \$4.1 million were incurred during the year directly related to this programme such as staff redundancy payments and the costs of renegotiating supplier contracts. The programme continues with a target to drive the cost base below \$55 million.

I am pleased to say that by achieving both of those objectives we delivered EBITDA of \$1.5 million prior to one off restructuring charges of \$4.1 million. This compares to an EBITDA loss of \$41.6 million for the 18 month period to December 2018.

The operating leverage of the Avanti business is such that our forecast growth in bandwidth revenue and reduction in our operating cost base will drive increased EBITDA and cash generation.

Depreciation related to our satellite and network assets increased from \$43.0 million to \$54.4 million. This was due to the impact of 2019 incorporating a full year's depreciation for the HYLAS 4 satellite, the effect of which was mitigated by lower depreciation following the impairment charges recognised in 2018. Overall the depreciation, amortisation and impairment charge decreased from \$125.3 million in 2018 to \$103.5 million primarily due to a reduction in impairment charge from \$79.6 million in 2018 to \$47.2 million in 2019 (as described further on page 5).

On 4 March 2019 the Group handed back control of Filiago GmbH & Co ("Filiago") to its founder as a part of the Group's new strategic focus and cost optimisation programme, resulting in a \$4.1m loss on disposal being recognised.

Finance expense for the year was \$71.8 million. The expense for the 12 months to December 2018 was similar at \$75.0 million however that figure included two significant items that did not recur in 2019. The first was \$40.3 million of finance expense related to \$557.0 million of 12%/17.5% Senior Secured Notes due 2023 which were repaid in April 2018 through a debt for equity swap. The second was the capitalisation of \$33.8 million of finance expense against the HYLAS 4 asset which was under construction at the time.

The result before tax in 2019 was a loss of \$181.0m (12 months to December 2018 – profit of \$83.2m), with the 2018 performance having benefitted from an exceptional gain from substantial modification of our debt.

	12 months ended	
	31 Dec	(unaudited)
	2019	31 Dec
		2018
Revenue	66.9	53.5
Costs of Sale (excluding depreciation)	(30.2)	(33.5)
Staff costs	(23.8)	(30.7)
Other operating expenses	(12.4)	(17.7)
Other operating income	1.0	1.9
EBITDA before restructuring costs	1.5	(26.5)
Restructuring costs	(4.1)	-
EBITDA after restructuring costs	(2.6)	(26.5)
Depreciation, amortisation and impairment	(103.5)	(125.3)
Loss on disposal of subsidiary	(4.1)	-
Operating Loss	(110.2)	(151.8)
Finance income	1.0	1.3
Finance expense	(71.8)	(75.0)
Exceptional gain on restructuring of debt	-	308.7
Profit/(loss) before taxation	(181.0)	83.2

STRATEGIC REPORT

FINANCIAL REVIEW CONTINUED

Cash Flow

Net cash outflow from operating activities during the 12 months ended December 31, 2019 was \$20.7 million as compared to an outflow of \$49.2 million during the 18 months ended December 31, 2018. The reduction from 2018 was driven by the improved trading performance. 2019 cash outflow from operating activities was higher than the reported EBITDA as a result of trade liabilities settled during the year and significant customer payments related to 2019 revenue being received early in 2020.

Capital expenditure in the 12 month period to 31 December 2019 was \$20.9 million, compared to \$84.7 million in the 18 month period to 31 December 2018, reflecting the completion and launch of the HYLAS 3 payload.

In May 2019, the Group agreed a 1.5 lien debt facility of \$75 million which was put in place to complete the Group's capex cycle and support the working capital of the business. \$55m was raised from this facility in May 2019 with a further \$5m in November of the same year. Interest paid was \$13.8 million (2018: \$14.7 million) and primarily relates to the coupon payments due on the Super Senior Facility. Interest payments on the new 1.5 Lien debt facility and High Yield Bonds were settled through the issue of additional notes rather than payments of cash.

Impairments

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

HYLAS 2 is now 7 years into service and whilst we expect that its revenues will continue to grow as a result of the new strategic focus, an impairment provision of \$23.7 million has been made as a result of the decreasing market prices and finite life remaining within which to effectively make up for the lower than forecast revenue growth in the earlier years of the asset.

In addition the impairment review identified that, due to low utilisation rates in the period, it was appropriate to recognise an impairment provision of \$23.5 million against the HYLAS 2B asset.

No indicators of impairment were identified related to the HYLAS 1 satellite which is fully utilised, or the recently launched HYLAS 3 payload and HYLAS 4 satellite which have their full service life ahead of them and promising revenue development.

Details around the impairment calculation and associated sensitivities are included in note 12 to these financial statements on page 38 and 39.

Liquidity

The group currently meets its day to day working capital requirements from operating cash flow. The Group's capital structure is comprised of equity and debt facilities, as detailed further in note 24 to the accounts.

In May 2019, the Group agreed a 1.5 lien debt facility of \$75 million which was put in place to complete the Group's capex cycle. At the same time, an option to extend the maturity of the Super Senior facility by 6 months to December 2020 was secured. This option was exercised in March 2020.

Looking ahead, the Super Senior Facility, which currently stands at \$147.5 million, matures on 31 December 2020. The Group expects to refinance this first lien debt in the second half of 2020, together with a related extension to the maturity of the 1.5 Lien Facility beyond the current maturity of June 2021. Completing the refinancing of this first lien debt in a year in which the first half of the year has seen significant disruption to debt capital markets is not ideal. Nevertheless, management are confident that this can be achieved given the first lien nature of this debt, significant asset coverage and security available to the holders of such debt and the significant and on-going transformation of the business being delivered by the current management team. In the unlikely event that this process is unsuccessful, and no extension to the existing facility can be secured, the Group would need to find alternative sources of financing and may well require the assistance of the existing lenders. This material uncertainty has been discussed further in note 2 to the accounts.

Trapped cash

Avanti has cash balances of \$4.5 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 2019 with an insured value of £75m and \$175m respectively.

The HYLAS 4 in-orbit policy for the year commencing 5 April 2020 was taken out for an insured value of \$290 million and the HYLAS 3 payload is currently insured for launch plus 1 year at an insured value of \$85 million.

STRATEGIC REPORT

FINANCIAL REVIEW CONTINUED

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.

Bandwidth revenue – COVID-19

We completed our capital expenditure cycle with the launch and deployment of HYLAS 3, a hosted payload on the ESA EDRS-C satellite in August of 2019. We now have 50 Ghz of capacity over EMEA, including 13 powerful steerable beams on HYLAS 2, 3 and 4. These will be the key drivers for our business in 2020.

So far during 2020, we have seen that our existing business and revenues have been largely unaffected by COVID-19. We have also seen that physical restriction of movement has significantly delayed certain activities, such as the performance of proofs of concept, needed to close new business, particularly in the Government market.

The rate at which freedom of movement returns will have a significant bearing on the rate at which we are able to continue to grow our bandwidth revenues.

Liquidity risk

The company finances the business through operating cash flow and debt instruments. Our ability to finance the business in the short and medium term could be affected by the closure of capital markets, by failing to materially deliver on our business plans and strategy, or by downturns in the economy of a region or that impacts one of our three core market segments of Government, Carrier and Wholesale.

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.

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.

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 almost exclusively in US Dollars 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.

Rob Plews

Chief Financial Officer

STRATEGIC REPORT

OUR STAKEHOLDERS

Section 172 Statement

Our stakeholders are central to our ability to deliver our primary strategic focus – to significantly grow bandwidth revenue in our key market segments of Wholesale, Government and Carrier. Our key stakeholders include our investors, employees, partners and customers, communities and certain regulatory and governmental bodies. This is our section 172 statement.

Stakeholders and Board decision making

The Board takes the interests of stakeholders into account when making decisions. The Directors continue to have regard to the interests of the Company's employees and other stakeholders, the impact of its activities on the community, the environment and the Company's reputation for good business conduct, when making decisions. In this context, acting in good faith and fairly, the Directors consider what is most likely to promote the success of the Company for its members in the long term. The relevance of each stakeholder group may increase or decrease by reference to the issue in question, so the Board seeks to understand the needs and priorities of each group during its discussions

This, together with the combination of the consideration of long-term consequences of decisions and the maintenance of our reputation for high standards of business conduct, is integral to the way the Board operates.

Stakeholder engagement is on the Board agenda twice a year to assess whether the identity and priorities of our stakeholders have changed, and whether the Board has sufficient engagement with each stakeholder group. The Company Secretary plays a key role in ensuring that stakeholders' interests are fully considered and addressed during the course of the Board's discussions.

Employee Engagement

The Board considers the employees as one of the key stakeholders within the Group. The interests of the employees are always considered when determining the strategic direction and vision of the Group.

To improve engagement and retention, Avanti has developed a programme to increase employee engagement which includes:

- **The Headlines:** A regular, all employee call hosted by the CEO and Group HR Director. A forum to openly discuss business and strategy updates, and engagement initiatives.
- **Strategy Day:** A bi-annual event attended by all employees where the Group's progress against its strategy is communicated and all employees are engaged in refining that strategy and related execution plans for the coming six months.
- **Meet the NEDs:** For the first time this year, we held a 'Meet the NEDs' event for employees which we held immediately after our January 2020 Board Meeting. This was a great opportunity for employees to hear about our Non-executive Directors'

career paths, what attracted them to the Avanti Board and what they most enjoy and find most challenging about being on the Board.

Communities

The nature of the connectivity service that is at the core of the Avanti business means that the Board's decision making related to providing connectivity to remote and rural areas means that we empower people and strengthen communities. Ways in which the Board has engaged with and contributed to communities within our network include:

- Improving educational outcomes in maths and literacy to over 300,000 school children across Africa.
- Partnering with UNHCR, the UN refugee agency, to bring connectivity to some of the largest refugee camps in East Africa.
- Working with the Red Cross Society and the Ministry of Interior of Kenya to improve disaster recovery responses.
- Providing connectivity in rural maternity clinics in DRC, enabling Satellite enhanced telemedicine.
- Sitting alongside names such as Coca-Cola, Diageo, Google, MasterCard, Microsoft and more, Avanti is one of the 17 Business Avengers who have joined forces in 2019 to help achieve the United Nations Global Goals by 2030. Avanti is responsible for Quality Education – in reflection of our wider commitment to improve education across Africa.

Investors

Our Executive Directors held meetings with shareholders representing more than half the register by value during the year. The Group's AGM, Annual Reporting cycle and quarterly headline performance updates published on our website provide further information and engagement with our shareholders. Our private investors are encouraged to give feedback and communicate with the Directors via the Company Secretary throughout the year.

Similarly our Executive Directors held a number of meetings as a part of a regular programme of engagement with all of our 1st and 1.5 Lien debt investors and debt holders representing more than half of the 2nd Lien by value.

Business relationships with suppliers, customers and others

The Board recognises that the success of the Company is reliant on the stakeholders of the business. 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.

STRATEGIC REPORT OUR STAKEHOLDERS

The likely consequences of any decision in the long-term

Annually the company reviews its medium to long term plan which focuses on the strategic direction of the Group as well as looking at the threats and opportunities it is facing.

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.

Key Decisions Made in the Year

The key decisions made in the year are set out below:

Significant events/decisions	Key s172 matter(s) affected	Actions and impact
Change in strategy to focus on Wholesale, Government and Carrier market segment	Investors – equity & debt Employees Customers	<ul style="list-style-type: none"> Investor consultation took place through direct engagement between the Executive Directors and the Group's major investors Employee engagement commenced during the June 2018 Strategy Day and continued through weekly Headlines calls into 2019 The Group remains committed to delivering service excellence to its existing customer and engaged directly with certain small customers as a part of a plan to create a regional Master Distribution model
Cost optimisation programme	Investors – equity & debt Employees	<ul style="list-style-type: none"> Decisions were made by the executive team in consultation with the Board after carefully considering employee impact. Impacted departments were consulted in respect of changes to organisation structure, intended operating model and job descriptions. Investor consultation took place through direct engagement between the Executive Directors and the Group's major investors
De-listing of equity shares from AIM	Investors – equity & debt Employees	<ul style="list-style-type: none"> Equity shareholders were engaged with through the issue of a comprehensive de-listing circular and through the option to attend and vote at a General Meeting where the motion to de-list the Company from AiM was approved The Executive Directors also engaged with a number of shareholders directly where enquiries were raised

DIRECTORS' REPORT

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Annual Report together with the audited Financial Statements for the year ended 31 December 2019.

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.

Going Concern

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

In arriving at their conclusion, the Board has considered the forecast for the next 18 months in conjunction with the continued progress made with the revised strategy, the cost optimisation programme, and the Group's capital structure. The Group's Super Senior Facility matures within 12 months of the end of the reporting period and has accordingly been presented as a current liability in these financial statements. Management has noted that this has resulted in the Group's Balance Sheet showing a net current liability position at the year-end.

The Directors have 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: delivering FY20 EBITDA performance such that sufficient cash is generated from operations to meet the Group's cash interest and covenant obligations on its Super Senior Facility; and the refinancing of the Super Senior Facility ahead of its maturity at the end of December 2020, and the related extension to the maturity of the 1.5 Lien Facility beyond the current maturity of June 2021.

Management acknowledges that completing the refinance of its Super Senior Facility during market uncertainty (e.g. due to COVID-19) could represent a challenge. However, the Directors are confident that this can be achieved, particularly given the additional 1.5 Facility funding closed subsequent to the year-end in April 2020. In the unlikely event that this process is unsuccessful, and no extension to the existing facility can be secured, the Group would need to find alternative sources of financing and may well require the assistance of the existing lenders.

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.

Results and dividends

The results for the 12 months ended 31 December 2019 are shown on page 15. No equity dividend was paid in the 12 months ended 31 December 2019 (18 months ended 30 June 2018: \$nil). No final dividend is proposed at the year-end (2018: \$nil). The loss for the period transferred to shareholders' funds was \$180.3m (2018: loss of \$38.2m). The net asset position at period end is \$81.2 m (2018: \$261.5m).

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.

Directors

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

A Harper
K Whitehill
NAD Fox (resigned 26 May 2020)
P R Johnson (resigned 31 March 2020)
P Walsh (resigned 24 June 2019)
R Mastoloni
R Alden (appointed 2 March 2020)
C Chobor
M Leitner
C McLaughlin (appointed 20 June 2019)
J Slámečka
P Reed (resigned 12 March 2019)
A Green (resigned 31 January 2019)
A Kleinman (appointed 12 March 2019)

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' REPORT

REPORT OF THE DIRECTORS

Employees

The Company employed 239 people at 31 December 2019 (31 December 2018: 272 people).

As described in the Section 172 statement, our 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 a zero tolerance approach to discrimination in any form.

Political donations

During the period the Company made no political donations (2018: \$nil).

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 12 months ended 31 December 2019, 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.

Bridget Sheldon-Hill

Company Secretary

GOVERNANCE

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 financial statements for each financial year. Under that law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) 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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website (www.avantiplc.com) is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Kyle Whitehill
Chief Executive

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AVANTI COMMUNICATIONS GROUP PLC

Opinion

We have audited the financial statements of Avanti Communications Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Consolidated Income Statement, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated and Company Statement of Cash Flows, the Consolidated and Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2019 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 to the financial statements, which indicates that the Group and Company is reliant on refinancing the Super Senior Facility ahead of its maturity in December 2020 as well as substantially achieving the forecasts such that existing facilities remain available and covenants are met. As stated in Note 2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Because of the judgements made by management, and the significance of this area, we have determined Going Concern to be a key area of focus for the audit.

We obtained management's cash flow forecasts for the period to 31 December 2021. We assessed the key underlying assumptions, including forecast levels of expenditure and revenues used in preparing these forecasts. In doing so, we considered factors such as actual performance against budget and third party contracted commitments and revenues.

We performed sensitivity analysis in respect of the key assumptions underpinning the forecasts, including the cost savings modelled, increase in debt costs such as interest and a reduction in revenue and assessed the level of cash under such sensitivities. We also assessed the impact of delaying any forecasted increases in cash flows. Our sensitivity analysis also included an assessment of covenant compliance.

The trading position is dependent upon the cash flows associated with a successful refinance of the super senior facility, forecast for H2 2020. We have discussed Management's plans to raise funds in the near future and verified evidence of these plans and discussion.

We have evaluated Management's COVID-19 impact assessment and consider it appropriate. COVID-19 is not expected to have a material impact on the Group's budgeted cash flow. However, the impact on the international capital markets may make it more difficult to raise the capital required for the refinance.

We assessed the appropriateness of the disclosures related to going concern included in the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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 key audit matter and is described in the above section of our report. In arriving at our audit opinion above, the other key audit matters were as follows.

1. Carrying Value of Satellite Assets

As at 31 December 2019, the Group's Satellite assets totalled \$651.3m and details of these assets and the related critical judgments and estimates are disclosed in note 3(a) and note 12.

Management are required to assess whether there are any indicators that the Group's assets may be impaired at year-end. If an indication of impairment exists, Management are required to perform an impairment test to ensure that the Group's assets are carried at no more than their recoverable amount. Management consider each satellite to be a separate cash-generating unit ("CGU") and therefore assess the impairment of each CGU separately.

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

CONTINUED

The recoverable amount of the assets is dependent on the life of the asset and various significant judgments and estimates, including the discount rate and associated cash flows. The subjectivity of the judgments and estimates and the significant carrying value of the assets make this a key area of focus for the financial statements.

Management do not consider there to be indicators of impairment on HYLAS 1, 3 or 4. Accordingly, Management have not prepared a full impairment review of these satellites. However Management have identified indicators of impairment on HYLAS 2 & 2B and as such a full impairment review has been undertaken on these assets.

How our audit addressed the key audit matter

- We carried out a review for indicators of impairment on HYLAS 1, 3 & 4, we have agreed the revenue assumptions, within the cash flow forecasts, to supporting contractual agreements;
- We used our modelling experts to test the integrity of Management's models for HYLAS 2 & 2B and check for errors in the mechanics applied.;
- We evaluated the assumptions used, in particular those relating to the Group's forecast revenue specific to each asset, testing a sample through to the underlying revenue contracts. We have assessed the cost assumptions against the Group's budget and costs incurred in 2019.
- We used our valuation experts to assist in verifying the calculation of WACC, which is used to discount future cash flows to ensure it was appropriate. We compared the inputs to externally obtainable information;
- We looked at the current cash flow performance of the Satellite assets vs. the forecasted performance to understand areas of revenue growth and cost saving;
- We undertook sensitivity analysis and considered scenarios whereby cost savings were not achieved or the revenue growth was slower than anticipated and their impact on the outcome of the impairment assessment;
- We have compared the salvage value assumptions to comparable companies and publically available information; and
- We assessed the Group's disclosures in respect of carrying values and impairment to check they were adequately transparent and correctly communicate the key assumptions and risks inherent in the carrying value of the assets.

Key Observations

We found management's assessment of the carrying value of Satellite assets to be acceptable and appropriately disclosed.

2. Revenue Recognition & Adoption of IFRS 15

The Group generated revenue of \$66.9m, which was recognised in line with IFRS 15. We considered it appropriate, noting that this was the first year of application of IFRS 15, to regard revenue recognition as a key audit matter and a significant audit risk. Details of the related accounting policy are disclosed in note 2.

The Group enter into a large number of contracts with their customers. The risk is that there are a number of different streams and a variety of contractual arrangements within these, which need to be accounted for under IFRS 15.

How our audit addressed the key audit matter

- We reviewed Management's revenue recognition policy and ensured that it is compliant with IFRS 15;
- We have tested a number of contracts for each revenue stream to ensure that these have been correctly accounted for under IFRS 15, reviewing the performance obligations and checking for these that revenue has been recognised in line with the requirements of IFRS 15;
- We reviewed contracts that had been amended in the year checking amendments were accounted for in accordance with IFRS 15;
- We reviewed the transition accounting entries on adoption of IFRS 15 and agreed these to the supporting documents and agreed the compliance with the transition methodology;
- We tested a sample of revenue general ledger entries to supporting documentation; and
- We tested a sample of the accrued and deferred income through to customer contracts and checked that the revenue recorded during the period was materially correct.

Key Observations

We found the Group's revenue recognition policies to be compliant with IFRS and found that revenue is recorded in line with the Group's stated policies.

Our application of materiality

Materiality for the group financial statements as a whole was set at \$8.0m determined with reference to a benchmark of total assets (of which it represents 1%. Performance materiality for the Group was set at 75% of materiality \$6.0m.

Materiality for the parent company financial statements as a whole was set at \$0.4m determined with reference to a benchmark of company total assets, of which it represents 1%. Performance materiality for the parent company was set at 75% of materiality \$0.3m. Materiality ranged from \$0.4m to \$6.0m for the significant components of the group.

Total assets was deemed to be an appropriate benchmark for the group and the parent company given the stage of the operations and drive to stabilise and improve EBITDA.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$0.2m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

An overview of the scope of our audit

We assessed there to be 5 significant components within the Group, comprising the parent company and companies which either hold the satellite assets or generate a significant portion of revenue within the group. The components within the scope of our work accounted for 99% of total group revenue, 83% of group loss before tax and 92% of total group assets. We performed a full scope audit on each of the significant components and the group consolidation. No other auditors were used as part of our strategy.

The remaining non-significant companies within the Group were principally subject to analytical review procedures.

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

CONTINUED

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 11 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary

to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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 the Directors 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 for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matt Crane (Senior Statutory Auditor) for and on behalf of BDO LLP, Statutory Auditor

London, United Kingdom
13 August 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2019

	Notes	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Revenue			
Bandwidth, services and equipment	4	66.9	73.7
Total Revenue		66.9	73.7
Cost of sales - bandwidth, services and equipment (excluding satellite depreciation)		(30.2)	(51.8)
Staff costs	7	(23.8)	(44.1)
Other operating expenses	5	(12.4)	(23.4)
Other operating income	8	1.0	4.0
EBITDA before restructuring		1.5	(41.6)
Restructuring expenses		(4.1)	-
EBITDA after restructuring		(2.6)	(41.6)
Depreciation and amortisation	5	(56.3)	(63.2)
Impairment of satellites in operation	5	(47.2)	(79.6)
Impairment of other intangible assets	5	-	(1.0)
Impairment of goodwill	5	-	(0.1)
Loss on disposal of subsidiary	16	(4.1)	-
Operating loss		(110.2)	(185.5)
Finance income	9	1.0	2.5
Finance expense	9	(71.8)	(132.5)
Exceptional gain on restructuring of debt	9	-	308.7
Loss before taxation		(181.0)	(6.8)
Tax expense	10	(0.5)	(31.4)
Loss for the period		(181.5)	(38.2)
Loss attributable to:			
Equity holders of the parent		(181.2)	(37.2)
Non-controlling interests		(0.3)	(1.0)

The Notes on pages 20 to 65 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Loss for the period		(181.5)	(38.2)
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		4.0	(3.6)
Monetary items that form part of the net investment in a foreign operation		(1.5)	(1.2)
Total comprehensive loss for the period		(179.0)	(43.0)
Attributable to:			
Equity holders of the parent		(178.7)	(42.0)
Non-controlling interests		(0.3)	(1.0)

The Notes on pages 20 to 65 are an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31 December 2019 \$'m	31 December 2018 \$'m
ASSETS			
Non-current assets			
Property, plant and equipment	12	680.2	714.4
Intangible assets	13	9.4	9.1
Total non-current assets		689.6	723.5
Current assets			
Inventories	17	20.7	19.5
Trade and other receivables	18	35.7	33.5
Cash and cash equivalents	20	16.3	24.0
Total current assets		72.7	77.0
Total assets		762.3	800.5
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	21	83.6	60.4
Loans and other borrowings	22	149.4	-
Lease liabilities	26	2.6	1.4
Provisions	23	0.6	0.6
Total current liabilities		236.2	62.4
Non-current liabilities			
Trade and other payables	21	6.3	7.3
Loans and other borrowings	22	413.9	456.4
Lease liabilities	26	22.4	9.3
Provisions	23	3.5	3.6
Total non-current liabilities		446.1	476.6
Total liabilities		682.3	539.0
Equity			
Share capital	25	30.6	30.6
EBT shares	25	(0.1)	(0.1)
Share premium	25	1,104.4	1,104.4
Retained earnings		(984.7)	(797.0)
Foreign currency translation reserve		(70.2)	(72.3)
Total parent shareholders' equity		80.0	265.6
Non-controlling interests		-	(4.1)
Total equity		80.0	261.5
Total liabilities and equity		762.3	800.5

The financial statements of company number 6133927 on pages 15 to 65 were approved by the Board of Directors on 13 August 2020 and signed on its behalf by:

Kyle Whitehill
Chief Executive Officer

FINANCIAL STATEMENTS
COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31 December 2019 \$'m	31 December 2018 \$'m
ASSETS			
Non-current assets			
Investments	15	15.3	0.1
Total non-current assets		15.3	0.1
Current assets			
Trade and other receivables	18	626.1	722.5
Cash and cash equivalents	20	9.6	9.1
Total current assets		635.7	731.6
Total assets		651.0	731.7
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	21	17.8	55.1
Loans and other borrowings	22	149.4	-
Lease liabilities	26	0.4	0.8
Total current liabilities		167.6	55.9
Non-current liabilities			
Loans and other borrowings	22	412.9	456.4
Lease liabilities	26	0.1	0.5
Total non-current liabilities		413.0	456.9
Total liabilities		580.6	512.8
Equity			
Share capital	25	30.6	30.6
EBT shares	25	(0.1)	(0.1)
Share premium	25	1,104.4	1,104.4
Retained earnings		(1,048.6)	(900.1)
Foreign currency translation reserve		(15.9)	(15.9)
Total shareholders' equity		70.4	218.9
Total liabilities and equity		651.0	731.7

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 for the parent Company for the year ended 31 December 2019 amounted to \$145.5m (18 month period ended 31 December 2018: \$233.4m).

The financial statements of company number 6133927 on pages 15 to 65 were approved by the Board of Directors on 13 August 2020 and signed on its behalf by

:

Kyle Whitehill
Chief Executive Officer

FINANCIAL STATEMENTS
CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	Group		Company	
		Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Cash flow from operating activities					
Cash absorbed by operations	30	(20.7)	(49.2)	(36.9)	(119.9)
Interest paid		(13.8)	(14.7)	(13.8)	(11.4)
Interest received		0.1	2.5	–	0.3
Debt restructuring costs		–	(7.8)	–	(7.8)
Taxation		(0.1)	(0.4)	–	–
Net cash absorbed by operating activities		(34.5)	(69.6)	(50.7)	(138.8)
Cash flows from investing activities					
Payments for property, plant and equipment, and intangible assets		(20.9)	(84.7)	–	–
Disposal of subsidiary		(0.1)	–	–	–
Net cash used in investing activities		(21.0)	(84.7)	–	–
Cash flows from financing activities					
Net proceeds from debt issue		55.9	148.6	55.9	148.6
Net proceeds from share issue		–	0.2	–	0.2
Repayment of borrowings		(4.0)	–	(4.0)	–
Payment of lease liabilities		(4.3)	(2.8)	(0.7)	(1.8)
Net cash received from financing activities		47.6	146.0	51.2	147.0
Effects of exchange rate on the balances of cash and cash equivalents		0.2	(0.4)	–	–
Net (decrease)/increase in cash and cash equivalents		(7.7)	(8.7)	0.5	8.2
Cash and cash equivalents at the beginning of the financial period		24.0	32.7	9.1	0.9
Cash and cash equivalents at the end of the financial period	20	16.3	24.0	9.6	9.1

The Notes on pages 20 to 65 are an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

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
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

2019

At 31 December 2018		30.6	(0.1)	1,104.4	(797.0)	(72.3)	(4.1)	261.5
Adoption of IFRS 9	33	–	–	–	(3.0)	–	–	(3.0)
Adoption of IFRS 16	33	–	–	–	(3.5)	–	–	(3.5)

At 1 January 2019		30.6	(0.1)	1,104.4	(803.5)	(72.3)	(4.1)	255.0
Profit/(loss) for the period		–	–	–	(181.2)	–	(0.3)	(181.5)
Disposal of subsidiary		–	–	–	–	(0.4)	4.4	4.0
Other comprehensive income		–	–	–	–	2.5	–	2.5
At 31 December 2019		30.6	(0.1)	1,104.4	(984.7)	(70.2)	–	80.0

Company

Notes	Share capital \$'m	Employee benefit trust (EBT) \$'m	Share premium \$'m	Retained earnings \$'m	Foreign currency translation reserve \$'m	Total equity \$'m
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

2019

At 1 January 2019		30.6	(0.1)	1,104.4	(900.1)	(15.9)	218.9
Adoption of IFRS 9	33	–	–	–	(3.0)	–	(3.0)

At 1 January 2019		30.6	(0.1)	1,104.4	(903.1)	(15.9)	215.9
Profit/(loss) for the period		–	–	–	(145.5)	–	(145.5)
At 31 December 2019		30.6	(0.1)	1,104.4	(1,048.6)	(15.9)	70.4

* 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 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 year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 13 August 2020.

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 was listed on the Alternative Investment Market ('AIM') and traded under the ticker 'AVN.L.' on the London Stock Exchange. The Company cancelled its admission from trading on AIM on 5 September 2019. The Group continues to hold debt listed on the Irish Stock Exchange and the International Stock Exchange, as disclosed in Note 22.

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 and parent Company 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 18 months from the date of approval of these financial statements. The group currently meets its day to day working capital requirements from operating cash flow. The Group's capital structure is comprised of equity and the following debt facilities:

- a Super Senior Facility (\$147.5m, fully drawn), which matures in December 2020;
- a '1.5 Facility' (\$75m, of which \$68m is drawn), which matures in June 2021; and
- PIK Toggle notes (\$410.9m, fully drawn), which matures in October 2022.

Subsequent to the balance sheet date, as detailed in Note 32 and reflected in the information presented above, the Group secured additional 1.5 Facility funding of \$8m and exercised an option to extend the maturity of the Super Senior Facility. The Super Senior Facility matures within 12 months of the end of the reporting period and accordingly has been presented as a current liability in these financial statements. Management has noted that this has resulted in the Group's Balance Sheet showing a net current liability position at the year-end.

The Director's assessment has focused on factors considered on an annual basis, such as the forecast trading performance of the Group for the foreseeable future, deferral of certain payments, key assumptions, sensitivities, available cash balances and facilities, as well as the December 2020 maturity of the Super Senior Facility.

Forecast cash flows

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 18 months. The forecasts include the following key assumptions:

- Growth in bandwidth revenues of 33% in 2020, driven by the recent launch of HYLAS 3 and the continued monetisation of HYLAS 4
- The refinancing of the Super Senior Facility ahead of maturity in December 2020, and the related extension to the 1.5 Lien Facility from its current maturity in June 2021

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 FY20.

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

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

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies continued

Forecast cash flows continued

Based on the sensitised forecasts, should a scenario materialise in which the Group's cash generated from operations in the period to October 2020 underperforms against forecast by greater than \$9.7m (which is considered a reasonably possible scenario) the Group would be unable to fully settle the October 2020 Super Senior Facility coupon payment. Such a scenario would require the Directors to take mitigating action, such as drawing the remaining 1.5 Facility of \$7m (which is consented, but not committed), or to explore alternative options.

Assuming the existing facilities remain available, Management have concluded that the Group's capital structure, including the ability to defer the payment of interest on the 1.5 Facility and the PIK Toggle notes, provides sufficient headroom in the cash position of the business.

Management has commenced the activities required to progress the refinancing of the Super Senior Facility in advance of its maturity in December 2020. In the unlikely event that this process is unsuccessful, and no extension to the existing facility can be secured, the Group would need to find alternative sources of financing and may well require the assistance of the existing lenders.

The COVID-19 pandemic has not, to date, had a significant adverse impact on the Group's operations but the directors are aware that, if the current situation becomes prolonged, then this may change. This is due to the restrictions on movement making it more difficult to install equipment on the ground for prospective customers to complete testing or provide service. At the date of approval of these financial statements it is not clear how long the current circumstances are likely to last and what the long-term impact will be.

Management recognises that the COVID-19 pandemic resulted in a short-lived period of turbulence in global capital markets, and acknowledges that completing the refinance of the Super Senior Facility and the related extension to the maturity of the 1.5 Lien Facility during market uncertainty could represent a challenge. However, the Directors are confident that the refinance or restructure of this facility on acceptable terms in the second half of 2020 can be achieved, particularly given the additional 1.5 Lien Facility funding closed subsequent to the year-end in April 2020.

The directors have taken steps to utilise the various support mechanisms instigated by the UK government, including the use of the Coronavirus Job Retention Scheme. The Executive Committee began a process in early March 2020 of regular COVID-19 update calls where they discuss the Group's operational response to the evolving situation.

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 forecasts will be substantially achieved or that the Super Senior Facility and 1.5 Lien 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.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies continued

Accounting Policy Changes

New and amended accounting standards adopted by the Group

The following standards and interpretations are effective for the first time in the period reported in these financial statements without restatement of comparatives.

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 was adopted by the Group on 1 January 2019.

IFRS 9 impacts the classification and measurement of the Group's financial instruments and requires certain additional disclosures. The new measurement model results in the reclassification of all financial assets due to the reduction in classification categories. These changes have not had an impact on the reported value of assets and liabilities in these accounts.

IFRS 9 also introduces changes to impairments of financial assets, which resulted in the Group moving from an incurred loss model and instead applying the 'Simplified Approach' as defined by IFRS 9 which involves recognising a loss allowance based on lifetime expected credit losses at initial recognition of an asset, before an impairment event occurs. There has been no material impact on the financial statements in the current or prior reporting period for this change and the 'Simplified Approach' has only been applied to trade receivables.

In addition IFRS 9 removes a widely used accounting treatment for debt restructuring transactions previously allowed under IAS 39 Financial Instruments in regard to 'non-substantial' modifications of debt. A 'non-substantial' modification of debt is a modification in which the net present value of the cash flows under the new terms of the debt discounted at the original effective interest rate is no more than 10% different from the carrying amount of the original debt. This modification is not accounted for as an extinguishment of the original financial liability and the common approach was to amortise the net present value of changes to the future contractual cash flows over the remaining term of the modified liability, resulting in no immediate impact to the income statement at the restructuring date.

IFRS 9 forces entities to record an immediate impact to the income statement at the restructuring date. The amount recognised is the difference between the present value of the cash flows under the original and modified terms discounted at the original EIR. Upon first adoption of IFRS 9 the standard is required to be applied retrospectively to all previous accounting periods. Therefore upon adoption any accounting performed under IAS 39 must be updated and recalculated under IFRS 9 with any impact at the transition date being accounted for in retained earnings.

This change in accounting treatment impacts the 'non-substantial modification' accounting completed in November 2017 and November 2018 in regard to the modifications made to the Super Senior facility at those dates. In addition, the modification to the same facility occurring during the current year was accounted for under IFRS 9 with an immediate impact made to the income statement.

The accounting for any 'substantial' modifications of debt remain the same under IFRS 9 as they were under IAS 39. See notes 22 and 33 for the impact on the Financial Statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, as amended, is effective for accounting periods beginning on or after 1 January 2018 and was 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.

As permitted by IFRS 15 we have applied the new standard using the modified retrospective method and have recognised 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.

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. However, one revenue stream identified as an area requiring a Group policy change to align to IFRS 15 were the revenues arising from our Edu-Care contracts, specifically where Avanti is judged to be the prime contractor delivering on performance obligations alongside sub-contractors. For these contracts, under IAS 18, Avanti previously recognised the gross revenue of these contracts along with the related costs incurred by the sub-contractors. The rationale behind this treatment was that as prime contractor, Avanti had a greater level of control over the project and its deliverables than the other parties. Upon detailed review of Avanti's contracts in light of the adoption of IFRS 15, Avanti identified one contract where it could not justify continuing to recognise revenue for work performed by sub-contractors as the level of control Avanti held in the role of prime contractor on this particular contract was not deemed to be sufficient to meet the requirements of the new standard. The gross revenues for this contract in the previous reporting period were \$5.0m, with net revenues of \$0.4m once the sub-contractor component was excluded. In FY19, applying IFRS 15, we have recognised revenues on this contract of \$0.3m. All other Edu-Care contracts in FY19 were reviewed and deemed to meet the more prescriptive requirements set out by IFRS 15.

See note 33 for the impact on the Financial Statements.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies continued

Accounting Policy Changes continued

New and amended accounting standards adopted by the Group continued

IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 and is effective for periods beginning on or after 1 January 2019 and was adopted by the Group on 1 January 2019.

IFRS 16 replaced 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 all leases, unless not required under exemptions, to be recognised on the Statement of Financial Position.

A short-term lease exemption to IFRS 16 can be applied to leases that, at the commencement date, have a lease term of 12 months or less. This short-term lease exemption must be applied consistently to all underlying assets in the same class. The Group has elected to not take the short-term lease exemption in applying IFRS 16 in regard to its leases of office space and has applied IFRS 16 to all of its office space rentals in full.

The Group has elected not to apply the initial and subsequent recognition and measurement requirements of IFRS 16 to leases for which the underlying asset is of 'low-value'. The Group defines low value assets as items that would have a value of \$5,000 or less when new. There will be no changes to the Group's accounting for low value leases.

The Group transitioned to IFRS 16 using the modified retrospective approach. Under this approach the lease liability was measured at the present value of the minimum lease payments that were unpaid on 1 January 2019, discounted at the incremental borrowing rate at the transition date of 1 January 2019. The right of use asset was measured as though IFRS 16 had been applied from the lease commencement date, discounted using the incremental borrowing rate at the transition date, and is subsequently being depreciated over the life of the lease on a straight line basis. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed.

The cumulative effect of adopting IFRS 16 was recognised as an adjustment to the opening balance of retained earnings on 1 January 2019. There has been no restatement to the comparative financial statements. See note 33 for the impact on the Financial Statements.

As defined by IFRS 16, the Group has accounted for leases that were classified as finance leases under IAS 17 such that the carrying amount of the right-of-use asset and the lease liability at the date of initial application of IFRS 16 was equal to the carrying amount of the lease asset and lease liability immediately before the transition date, measured under IAS 17.

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 16.

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.

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.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies *continued*

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
- Services - Sale of services in addition to satellite broadband capacity, typically to Government customers
- Equipment - Sale of terminals and other satellite communications equipment

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

A principles based five-step model is applied to all sales contracts to determine revenue recognised. Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue as it satisfies performance obligations identified within customer contracts.

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

Pure	provides access to satellite spectrum to support high speed connectivity across Europe, Middle East and Africa. It is designed for our Government, military, carrier, and industry customers. The performance obligation in a period is measured as 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 performance obligation in a period is measured as the proportion of the total contracted capacity provided in that period.
Connect	provides 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.

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 with regards to performance obligations 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 contractor, revenues are recognised on a gross basis in line with the transfer of control of the contract.

Revenue from the sale of terminals and other satellite communication equipment is recognised at the point in time when control is transferred to the customer.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies *continued*

Revenue recognition *continued*

Government Services

Revenue from Government Services projects of \$8.7m (2018: \$22.6m) 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 performance obligations by considering whether: 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. A transaction price for each performance obligation is measured and allocated based on its fair value relative to the overall fair value of all performance obligations under the contract, 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.

Contract assets represent the excess of revenue recognised over amounts invoiced. Contract liabilities represent any unearned balances remaining from amounts received from customers pursuant to prepaid contracts.

Leased assets

An assessment of whether an arrangement is, or contains, a lease is made at inception of a contract. A contract is accounted for as a lease by the Group if it conveys a right to control the use of a specified asset for a period of time in exchange for consideration.

At the commencement date, the Group recognises a right-of-use asset and a lease liability in the Statement of Financial Position. The lease liability is measured at the present value of the outstanding lease payments, discounted at the rate implicit in the lease, or at the incremental borrowing rate if that rate is not easily determinable. The right-of-use asset is measured as the value of the lease liability, lease payments made before commencement date, initial direct costs of use, and end of life cost estimates. Right-of-use assets are included within the asset category within Property, Plant and Equipment to which they would belong if the asset was owned.

After the commencement date, the right-of-use asset is depreciated over the shorter of either the estimated useful life or the term of the lease on a straight-line basis. The liability is accounted for by reducing the carrying amount for lease payments made, and increasing the carrying amount to reflect interest on the outstanding liability. The interest element of these obligations is charged to the Income Statement over the relevant period.

Assets that are deemed to be of low value (defined by the Group as less than \$5,000) or leases with a term of 12 months or less are charged to the Income Statement on a straight-line basis over the period of the lease.

In the prior period IAS 17: Leases was applied; this was replaced by IFRS 16 and the Group transitioned on 1 January 2019. The accounting under IAS 17 is included in the prior period figures as no restatement was made. Under IAS 17 the Group determined whether an arrangement was, or contained, a lease based on the substance of the arrangement and required an assessment of whether the fulfilment of the arrangement was dependent on the use of a specific asset, or assets, and whether the arrangement conveyed the right to use the asset.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies continued

Leased assets continued

Leases of property, plant and equipment where the Group held substantially all the risks and rewards of ownership were classified as finance leases. Assets acquired under hire purchase or finance leases were capitalised in the Statement of Financial Position. Those held under hire purchase and finance lease contract were depreciated over the shorter of either their estimated useful lives or the term of the lease. The interest element of these obligations was charged to the Income Statement over the relevant period. The capital element of the future payments was treated as a liability.

Leases where a significant portion of the risk and rewards were held by the lessor were classified as operating leases. Rentals were charged to the Income Statement on a straight-line basis over the period of the lease.

Interest income and expense

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

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

Foreign currency

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

The presentational currency of the Group is 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. Exchange differences arising from the translation of the net investment in subsidiaries with a functional currency other than US dollars are recorded in other comprehensive income.

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.

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.

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.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies *continued*

Deferred tax *continued*

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 lease 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.

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.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies *continued*

Impairment of non-financial assets *continued*

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.

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.

Trade receivables and other financial assets

On initial recognition, the Group classifies its financial assets as measured at amortised cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL). They are not reclassified after initial recognition unless the Company changes its business model for management financial assets, in which case all affected financial assets are reclassified on the first day of adopting the new business model.

Trade and loan receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method where the time value of money is material. The Group calculates the loss allowance for trade receivables and contract assets based on lifetime expected credit losses under the IFRS9 simplified approach. Appropriate allowances for estimating irrecoverable amounts are recognised in the Income Statement where there is evidence that the specific asset is impaired. This impairment would be recognised within cost of sales.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

2. Principal Accounting Policies *continued*

Trade receivables and other financial assets *continued*

In the prior period IAS 39: Financial Instruments – Recognition and Measurement was applied; this was replaced by IFRS 9 and the Group transitioned on 1 January 2019. The accounting under IAS 39 is included in the prior period figures as no restatement was made. Under IAS 39 the Group measured trade and loan receivables at initial recognition at fair value and were subsequently measured at amortised cost using the effective interest rate method where the time value of money was material. Appropriate allowances for estimating irrecoverable amounts were recognised in the Income Statement where there was evidence that the asset was impaired. This impairment was recognised within cost of sales.

Appropriate allowances for estimated irrecoverable amounts were recognised as an expense when there was objective evidence that trade receivables were 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. Cash is measured at fair value.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the net assets of the Group. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

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 loans 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 modification to the terms of existing debt has taken place, the difference between the current and modified net present value of future cash flows is taken to the income statement.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

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) Satellite impairment review

The Group has recognised an impairment charge against the carrying amount of the HYLAS 2 & HYLAS 2B satellite assets of \$23.7m and \$23.5m respectively in the current financial period, see Note 12. As is more fully disclosed in Note 12, 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.

(b) Deferred tax

Significant items on which the Group has exercised accounting judgement include recognition of deferred tax assets in respect of losses and decelerated capital allowances in the United Kingdom, see Note 19.

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.

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

The Company has recognised a provision against the carrying amount of receivables from group entities of \$128.0m in the current financial year, see Note 18.

On application of IFRS 9 in the year, the Company was required to estimate the lifetime expected credit losses for the long term debt owed to the Company from its subsidiary undertakings. The estimated loss in the event of default by subsidiaries 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 salvage value in future financial periods materially diverge from the assumptions made in this assessment, the expected credit loss recognised in the current financial year may be materially in excess of what was required or a further provision 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:

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Bandwidth and services revenue	66.1	64.1
Equipment revenue	0.8	9.6
Total revenue	66.9	73.7

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
United Kingdom	15.1	31.3
European countries other than the United Kingdom	5.6	16.8
Africa	22.3	6.9
Middle East	12.6	9.8
United States of America	0.1	0.6
Other	11.2	8.3
Total revenue	66.9	73.7

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
<i>Timing of revenue recognition</i>		
Over a period of time	66.1	63.1
Point in time	0.8	10.6
Total revenue	66.9	73.7

Payment terms can differ in timing from the satisfaction of performance obligations and may give rise to contract assets or contract liabilities at the balance sheet date. These are included within "trade and other receivables" and "trade and other payables" on the face of the statement of financial position.

Remaining performance obligations

The amount of remaining revenue to be recognised in future periods from unsatisfied (or partially unsatisfied) performance obligations under non-cancellable contracts with customers at the year-end are as follows:

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Within one year	38.7	44.9
Between two and five years	68.4	84.5
Over five years	19.0	37.0
	126.1	166.4

FINANCIAL STATEMENTS
NOTES TO THE ACCOUNTS CONTINUED

5. Operating expenses

Operating expenses by function are as follows:

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Distribution	5.9	7.1
Administration	30.3	60.4
	36.2	67.5

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

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Cost of sales:		
Satellite services	20.8	26.4
Materials purchased	1.0	9.7
Sub-contractors	6.1	16.9
Bad debt expense (Note 18)	–	(9.5)
Operating expenses:		
Employee benefit expense	23.8	44.1
Rental expenditure	0.2	4.0
Depreciation and amortisation:		
Space asset depreciation	52.6	60.5
Depreciation of property, plant and equipment	1.8	0.3
Amortisation of intangible assets	1.9	2.4
Impairment:		
Impairment of satellites in operation (Note 12)	47.2	79.6
Impairment of other intangible assets (Note 13)	–	1.0
Impairment of goodwill (Note 13)	–	0.1

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

6. Auditor remuneration

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

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Audit fees:		
Annual audit of the Company	0.3	0.5
Annual audit of subsidiary companies	–	–
Total audit fees	0.3	0.5
Transactions services	–	–
Total audit and audit-related fees	0.3	0.5
Tax compliance services	–	–
Total non-audit services	–	–
Total auditor's remuneration	0.3	0.5

7. Employee benefit costs

The aggregate remuneration of all Group employees comprised:

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Wages and salaries	26.2	44.5
Social security costs	3.2	4.3
Pension costs	0.7	1.1
Share based payment expense	–	0.2
	30.1	50.1
Less: costs capitalised as satellite in construction	(2.8)	(6.0)
Less: restructuring expenses	(3.5)	–
	23.8	44.1

The Parent Company had no employees (excluding the Executive Directors) in the year (2018: nil) and therefore had no employee costs (2018: \$nil). The Executive Directors were paid from elsewhere in the Group.

Employee numbers

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

	Year ended 31 December 2019 No. employees	18m ended 31 December 2018 No. employees
Operations	121	104
Sales and marketing	73	84
Development and engineering	8	21
Administration and executive	56	52
	258	261

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

7. Employee benefit costs *continued*

Directors' remuneration

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Directors' emoluments	2.0	4.3
Company contributions to defined contribution pension schemes	-	0.1
	2.0	4.4

There was 1 director in the Group's defined contribution pension scheme (2018: 3). 1 of the directors accrued benefits under the Group's defined benefit pension scheme during the year (2018: 3).

Emoluments of the highest paid director were \$1.0m (2018: \$1.2m). Company pension contributions of \$nil (2018: \$nil) were made to a pension scheme on their behalf.

During the year no director exercised or received shares under any long-term incentive scheme (2018: nil).

8. Other operating income

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Arbitration award	-	2.0
Other grant income	1.0	2.0
	1.0	4.0

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.

9. Net finance expense

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Finance income		
Interest income	0.1	2.5
Foreign exchange gain	0.9	-
	1.0	2.5
Finance expense		
Interest expense on loans and other borrowings	(70.0)	(196.0)
Foreign exchange loss	-	(0.4)
Lease liabilities	(1.8)	(1.9)
Costs of refinancing	-	(8.1)
Less: interest capitalised to satellite in construction	-	73.9
	(71.8)	(132.5)
Exceptional gain on substantial modification of debt	-	53.8
Exceptional gain on debt for equity swap	-	254.9
	-	308.7
Net finance (expense)/income	(70.8)	178.7

The exceptional gain on substantial modification of debt and debt for equity swap in the prior period arose from a component of the financial restructuring completed by the Group on 26 April 2018.

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NOTES TO THE ACCOUNTS CONTINUED

10. Income tax charge

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Current tax		
Overseas tax	0.3	0.4
Adjustment in respect of prior periods	0.2	–
Total current tax	0.5	0.4
Deferred tax		
Origination and reversal of temporary differences	-	34.8
Adjustment in respect of prior periods	-	(0.2)
Impact of change in UK tax rate	-	(3.6)
Total deferred tax	-	31.0
Total income tax charge	0.5	31.4

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:

	Year ended 31 December 2019 \$'m	18m ended 31 December 2018 \$'m
Loss before tax	(181.0)	(6.8)
Tax credit at the UK corporation tax rate of 19% (2018: 19%)	(34.4)	(1.3)
Non-taxable credit arising on 2018 debt for equity swap	-	(84.0)
Non-taxable credit arising on 2018 substantial modification of debt	-	(10.2)
Tax effect of non-deductible expenses	6.1	3.2
Adjustment in respect of prior periods	0.2	(0.2)
Effect of tax rates in foreign jurisdictions	0.3	-
Withholding taxes suffered	0.1	0.3
Impact of change in UK tax rate	-	(3.7)
Temporary differences for which no deferred tax has been recognised	28.2	96.5
Derecognition of previously recognised temporary differences	-	30.8
Income tax charge	0.5	31.4

*see Note 19, 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 profits for this accounting period are taxed at an effective rate of 19% (2018: 19%).

The income tax charge of \$0.5m (2018: \$31.4m) equates to an effective tax rate of 0.3% (2018: 462%). This effective rate is lower than the effective rate of tax of 19% due to a number of items shown above. The rate is primarily driven by the impact of not recognising deferred tax on deductible temporary differences and non-deductible expenses.

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 substantively enacted on 15 September 2016. The deferred tax balance as at the year-end has been recognised at 17% (2018: 17%). Changes, announced on 11 April 2020, to maintain the tax rate at 19% from 1 April 2020 and 2021 are not recognised as these had not been substantively enacted at 31 December 2019.

Tax losses

At the balance sheet date the Group has unrecognised deferred tax assets of \$176.8m (2018: \$145.7m) available for offset against future profits at a rate of 17% (2018: 17%). The remeasurement at a rate of 19% would result in an increase of \$20.8m. No deferred tax asset has been recognised in respect of the losses and other temporary differences on the basis that their future economic benefit is uncertain.

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.

11. 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 year ended 31 December 2019 amounted to \$145.5m (18 months ended 31 December 2018: \$233.4m loss).

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

12. Property, plant and equipment

	Leasehold improvements \$'m	Right of use assets \$'m	Network assets \$'m	Fixtures and fittings \$'m	Satellites in operation \$'m	Satellites in construction \$'m	Group total \$'m
Cost							
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
Transition to IFRS 16	–	12.9	0.3	–	–	–	13.2
Additions	0.8	0.2	0.8	0.3	5.3	43.9	51.3
Disposals	–	–	(1.5)	(0.2)	(1.4)	(1.5)	(4.6)
Transfer*	–	–	–	–	86.7	(86.7)	–
Effect of movements in exchange rates	0.2	0.2	0.6	–	8.1	(0.1)	9.0
Balance at 31 December 2019	2.7	13.3	24.1	2.8	1,214.7	12.6	1,270.2
Accumulated depreciation and impairment							
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
Charge for the period	–	1.6	3.9	0.2	48.7	–	54.4
Disposal	–	–	(1.5)	–	(1.4)	–	(2.9)
Impairment	–	–	–	–	47.2	–	47.2
Effect of movements in exchange rates	–	0.1	0.5	(0.1)	3.9	–	4.4
Balance at 31 December 2019	1.5	1.7	19.5	2.7	564.6	–	590.0
Net book value							
Balance at 31 December 2019	1.2	11.6	4.6	0.1	650.1	12.6	680.2
Balance at 31 December 2018	0.2	–	7.3	0.1	649.8	57.0	714.4

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

Property, plant and equipment under lease

At 31 December 2019, the Group held satellite assets under lease agreements, being a 13.5 year Indefeasible right of use ('IRU') agreement of HYLAS 2B, with a net book value of \$0.1m (2018: \$29.5m), network assets under lease agreements with a net book value of \$0.7m (2018: \$1.2m) and right of use assets under lease agreements with a net book value of \$11.6m (2018: \$nil). A depreciation charge for the period of \$4.4m (2018: \$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 3 - Came into service on 16 December 2019

HYLAS 4 - Came into service on 1 September 2018

All five 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 in the prior period related to HYLAS 3 which came in to service in the year. \$12.6m of assets in construction relate to Ground station assets and equipment which are not yet operational.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

12. Property, plant and equipment *continued*

Capitalised finance costs

Included in the satellites in operation and satellites in construction are capitalised finance costs of \$182.6m (2018: \$219.6m) related to the HYLAS 2 and HYLAS 4 satellites. Finance costs of \$nil (2018: \$73.9m) were capitalised relating to HYLAS 4 in the period.

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 2019 was \$52.7 million. No impairment indicators were identified as a seven-year wholesale capacity lease agreement was signed in 2018. This agreement with a major international satellite service provider is worth \$84m over the life of the contract and results in HYLAS 1 being fully utilised over a significant portion of its remaining life.

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. Whilst we expect that revenues generated by the satellite will continue to grow as a result of the new strategic focus, impairment indicators were assessed to exist due to the decreasing market prices and finite life remaining of HYLAS 2.

The review showed that an impairment of \$23.7m was required to bring the carrying value of HYLAS 2 and associated ground infrastructure, considered together as the CGU, to \$77.8m.

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 3% per year to the end of FY27, 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 7.8 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 impairment is based upon a pre-tax weighted average cost of capital of 12.2%

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 \$11.0m. 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 \$5.9m. A 10% increase in the forecast EBITDA would result in an equivalent decrease on the impairment charge.
- a 10% decrease in the salvage value would increase the impairment charge by \$2.0m. A 10% increase in the salvage value would result in an equivalent decrease on the impairment charge.
- 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 \$3.9m. A decrease of one percentage point would decrease impairment by \$3.8m.

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

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NOTES TO THE ACCOUNTS CONTINUED

12. Property, plant and equipment continued

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 lease under IFRS 16. This is included within satellites in operation and also within the assets held under lease disclosure provided above. The lease liability is disclosed in Note 26.

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 \$23.5m was required to bring the carrying value of HYLAS 2B and associated ground infrastructure, considered together as the CGU, to \$0.1m.

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 from 19% to 87% by FY26, primarily from new business development currently in active negotiation
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 10.2 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 impairment is based upon a pre-tax weighted average cost of capital of 11.9%

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. All sensitivities applied were found to have no material impact on the impairment charge this year.

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 2019 was \$87.2 million. The asset was launched in July 2019 and reached its final orbital position in December 2019. The satellite has 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 2019 was \$451.1 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. Promising revenue development on HYLAS 4, combined with a remaining useful life of 17 years has resulted in there being no indicators that HYLAS 4 will not perform as expected, thus there are no indicators of impairment.

Impairment of other assets

There are no indicators of impairment for any other assets within Property, Plant and Equipment.

Security

Substantially all of the assets of the Group are pledged as security to the noteholders of the High Yield Bonds and the respective lenders under the Super Senior Facility and the 1.5 Lien Credit Facility.

FINANCIAL STATEMENTS
NOTES TO THE ACCOUNTS CONTINUED

13. Intangible assets

	Computer software \$'m	Brand name \$'m	Customer lists \$'m	Goodwill \$'m	Group total \$'m
Cost					
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
Additions	2.4	–	–	–	2.4
Disposals	–	(0.2)	(2.0)	(9.9)	(12.1)
Effect of movements in exchange rates	–	–	–	(0.1)	(0.1)
Balance at 31 December 2019	15.6	–	–	–	15.6
Accumulated amortisation and impairment					
Balance at 30 June 2017	2.5	0.2	0.8	9.9	13.4
Charge for the period	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
Charge for the year	1.9	–	–	–	1.9
Disposals	–	(0.2)	(2.0)	(9.9)	(12.1)
Effect of movements in exchange rates	0.2	–	–	(0.1)	0.1
Balance at 31 December 2019	6.2	–	–	–	6.2
Net book value					
Balance at 31 December 2019	9.4	–	–	–	9.4
Balance at 31 December 2018	9.1	–	–	–	9.1

Filiago disposal

As detailed further in Note 16, on 4 March 2019 the Group handed back control of Filiago GmbH & Co ("Filiago") to its founder. Avanti had taken effective control of Filiago on 1 November when it enhanced the security over its loans to the entity. Filiago was accounted for as a subsidiary because of the control Avanti held over it. However, because the Group had not purchased any equity shares in the company, a 100% non-controlling interest was recognised on the statement of financial position.

At 31 December 2018 the conditions of IFRS 5 were not met in that the disposal of Filiago was not highly probable and so was consolidated in full and not treated as a disposal group. Upon handing back control of the entity the disposal of Filiago is reported in the current period as a discontinued operation, see note 16.

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NOTES TO THE ACCOUNTS CONTINUED

14. Impairment

Group

	31 December 2019 \$'m	31 December 2018 \$'m
Impairment of satellites in operation		
HYLAS 2	23.7	67.1
HYLAS 2B	23.5	12.5
	47.2	79.6

	31 December 2019 \$'m	31 December 2018 \$'m
Impairment of other intangible assets		
Customer lists	–	1.0

	31 December 2019 \$'m	31 December 2018 \$'m
Impairment of goodwill		
Filiago	–	0.1

A detailed description of the assumptions and method used to carry out the impairment reviews are in Note 12 and Note 13.

15. Investments

Company

Shares in subsidiary undertakings

	31 December 2019 \$'m	31 December 2018 \$'m
Beginning the period	0.1	148.7
Investment in Avanti Communications Jersey Limited	15.2	–
Impairment of shares in subsidiary undertakings	–	(148.6)
End of the period	15.3	0.1

As a result of the historic challenges in the business achieving forecast results, and in light of the change in the Group's strategy, there were potential indicators of impairment as at 31 December 2018, and therefore management 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 made a provision in the prior period totalling \$385.0m against the investments in subsidiaries (\$148.6m) and against intercompany receivables (\$236.4m).

An investment was made in the year in a new subsidiary, Avanti Communications Jersey Limited, which holds the 1.5 lien facility (note 23).

A full list of the Company's subsidiaries is disclosed in Note 16.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

16. 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	Crystalserve Business Center, 65 Spyrou Kyprianou Street, Limassol, CY-4003, Cyprus
Avanti HYLAS Services Limited	Project management services	Cyprus	Crystalserve Business Center, 65 Spyrou Kyprianou Street, Limassol, CY-4003, 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	ESENTEPE Mah. TALAT PAŞA Cad. No: 5 / 1 ŞİŞLİ / İSTANBUL TÜRKİYE
Avanti Communications South Africa Pty Limited	Sales and marketing	South Africa	Wanderers Building, The Campus, 57 Sloane Street, Bryanston, Gauteng, 2012, South Africa
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	C T Corporation System, 4701 Cox Road, Suite 285, Glen Allen, Virginia 23060
Avanti Communications Jersey Limited**	Holding company	Jersey	47 Esplanade, St Helier, Jersey, JE1 0BD

* Company was dormant in the year ending 31 December 2019

** Company was incorporated on 10 May 2019

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

16. 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 handed back control of Filiago GmbH & Co ("Filiago") to its founder. Avanti had taken effective control of Filiago on 1 November when it enhanced the security over its loans to the entity. Filiago was accounted for as a subsidiary because of the control Avanti held over it however because the Group had not purchased any equity shares in the company, a 100% non-controlling interest was recognised on the statement of financial position.

At 31 December 2018 the conditions of IFRS 5 were not met in that the disposal of Filiago was not highly probable and so was consolidated in full and not treated as a disposal group. Upon handing back control of the entity the disposal of Filiago is reported in the current period as a discontinued operation, and a loss on disposal of \$4.1m was realised. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Financial performance and cash flow information

The financial performance and cash flow information presented are for the two months ended 3 March 2019 and the 18 month period ended 31 December 2018.

	Period ended 3 March 2019 \$'m	18m ended 31 December 2018 \$'m
Revenue	0.4	3.7
Expenses	(0.7)	(4.6)
Loss before tax	(0.3)	(0.9)
Income tax	-	-
Loss after tax of discontinued operation	(0.3)	(0.9)
Attributable to non-controlling interests	(0.3)	(0.9)
Attributable to the Group	-	-
Net cash inflow/(outflow) from operating activities	(0.1)	0.1
Net cash inflow/(outflow) from investing activities	-	-
Net cash inflow/(outflow) from financing activities	-	-
Net increase/(decrease) in cash generated by the subsidiary	(0.1)	0.1

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NOTES TO THE ACCOUNTS CONTINUED

17. Inventories

Group	31 December 2019 \$'m	31 December 2018 \$'m
Finished goods	3.2	2.5
Spectrum	17.5	17.0
	20.7	19.5

Finished goods represent customer premises equipment which includes dishes, modems and outdoor unit transceivers. Spectrum reflects \$17.5m 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 \$1.0m (2018: \$9.7m).

A provision of \$nil (2018: \$0.3m) was made against the cost of finished goods inventory where the net realisable value has been assessed as lower than the carrying value of inventories.

FINANCIAL STATEMENTS
NOTES TO THE ACCOUNTS CONTINUED

18. Trade and other receivables

	Group		Company	
	31 December 2019 \$'m	31 December 2018 \$'m	31 December 2019 \$'m	31 December 2018 \$'m
Trade receivables	17.8	10.0	–	1.5
Less provision for impairment of trade receivables	(0.9)	(1.1)	–	–
Net trade receivables	16.9	8.9	–	1.5
Contract assets	8.1	6.2	5.5	–
Prepayments	7.8	14.1	0.4	0.4
Amounts due from Group companies	–	–	620.0	719.2
Other receivables	2.9	4.3	0.2	1.4
	35.7	33.5	626.1	722.5

	Group		Company	
	31 December 2019 \$'m	31 December 2018 \$'m	31 December 2019 \$'m	31 December 2018 \$'m
<i>Contract assets</i>				
At 1 January	6.2	13.7	–	–
Transfers in the period from contract assets to trade receivables	(5.3)	(11.0)	–	–
Excess of revenue recognised over cash (or rights to cash) being recognised during the period	7.2	3.5	5.5	–
At 31 December	8.1	6.2	5.5	–

Of the contract assets balance \$1.7m (2018: \$2.6m) was due from investment grade customers who are either Governments or very well established corporations whose underlying customer is a government.

Expected credit losses

The Group has applied the simplified approach under IFRS 9 using a lifetime expected credit loss provision for trade receivables and contract assets. The expected loss rates are based on the Group's historical credit losses experienced over the three year period prior to the period end.

As at 31 December 2019 the lifetime expected loss provision for trade receivables and contract assets is as follows:

	Not past due \$'000	1–30 days \$'000	31–60 days \$'000	60–90 days \$'000	90–120 days \$'000	120+ days \$'000	Total \$'000
Expected loss rate	0.38%	0.57%	1.02%	1.43%	1.74%	2.10%	
Gross carrying amount	7,200	7,800	500	300	200	900	16,900
Loss provision	27	44	5	4	3	19	102

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NOTES TO THE ACCOUNTS CONTINUED

18. Trade and other receivables continued

Company Receivables

The Company has current trade and other receivables of \$620.0m (2018: \$719.2m) relating to amounts due from Group companies, of which \$nil (2018: \$nil) was included within trade receivables.

Trade receivables due from Group companies are repayable on demand, and therefore the Company has applied the general approach under IFRS 9 using a lifetime expected credit loss model to recognise a provision in the year of \$128.0m. The total provision against intercompany receivables is \$514.4m (2018: \$386.4m). The remaining carrying value of the outstanding debt of \$620.0m (Note 30) is believed to be supported by the underlying assets of the subsidiaries.

	Company	
	31 December 2019	31 December 2018
	\$'m	\$'m
<i>Loss provision</i>		
At 1 January	386.4	400.0
Increase in the year	128.0	236.4
Written off in the year	-	(250.0)
At 31 December	514.4	386.4

Credit risk for receivables from Avanti Hylas 2 Limited, which indirectly owns the HYLAS 2 & HYLAS 2B satellite assets, were assessed to have increased due to the impairment in the value of those assets in the year. Subsequently these assets are now assessed to be Stage 3, credit impaired assets, and a lifetime expected credit loss was calculated. Credit risk for other group receivables has not increased significantly since the previous assessment.

The lifetime expected credit loss model driving the provision against the Avanti Hylas 2 Limited 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, discounted at the effective rate of interest on the intercompany loans of 4.6%. 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 1, HYLAS 3 and HYLAS 4 assets, for which no impairment indicators have been identified.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

19. 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 2019 \$'m	31 December 2018 \$'m	31 December 2019 \$'m	31 December 2018 \$'m
Deferred tax assets	-	-	-	-
Deferred tax liabilities	-	-	-	-
	-	-	-	-
The net movement on the deferred income tax account is as follows:				
Balance at 31 December 2018	-	30.8	-	-
Income tax recognised in the income statement	-	(31.0)	-	-
Effects of movements in exchange rates	-	0.2	-	-
Balance at 31 December 2019	-	-	-	-

Group	Opening balance \$'m	Credited/ (charged) to the income statement \$'m	Effects of movements in exchange rates \$'m	Closing balance \$'m
31 December 2019				
Tax assets				
Unused tax losses	-	-	-	-
Property, plant and equipment	-	-	-	-
Provisions and deferred income	-	-	-	-
Total tax assets	-	-	-	-
Tax liabilities				
Financial instruments	-	-	-	-
Total tax liabilities	-	-	-	-
Net deferred tax asset/(liability)	-	-	-	-

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	-

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

19. Deferred taxation continued

Company

At 31 December 2019:

- The Company had deferred tax assets of \$nil (2018: \$nil).
- The unrecognised deferred tax asset totalled \$176.8m (2018: \$145.7m). This is made up of unused tax losses of \$89.4m (2018: \$103.2m), decelerated capital allowances of \$38.0m (2018: \$11.2m) and other timing differences of \$49.4m primarily related to loan relationship debits disallowed under the Corporate Interest Restriction.

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.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

20. 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 2019 \$'m	31 December 2018 \$'m	31 December 2019 \$'m	31 December 2018 \$'m
Cash and bank balances	16.3	24.0	9.6	9.1
Net cash and cash equivalents	16.3	24.0	9.6	9.1

As at 31 December 2019 cash and bank balances includes \$4.5m (2018: \$3.1m) of trapped cash in Zimbabwe.

21. Trade and other payables

	Group		Company	
	31 December 2019 \$'m	31 December 2018 \$'m	31 December 2019 \$'m	31 December 2018 \$'m
Current				
Trade payables	18.7	30.5	0.8	3.2
Social security and other taxes	1.1	1.4	–	–
Other payables	1.2	0.3	–	–
Accruals	54.9	19.2	13.7	46.9
Contract liabilities	7.7	9.0	3.3	5.0
	83.6	60.4	17.8	55.1
Non-current				
Contract liabilities	6.3	7.3	–	–
	6.3	7.3	–	–

Accruals above include the interest accrued in the Company of \$13.7m (2018: \$10.7m) in relation to loans and borrowings. See note 22 Loans and other borrowings for further details.

	Group		Company	
	31 December 2019 \$'m	31 December 2018 \$'m	31 December 2019 \$'m	31 December 2018 \$'m
<i>Contract liabilities</i>				
At 1 January	9.0	10.6	5.0	–
Amounts included in contract liabilities that was recognised as revenue during the period	(7.2)	(3.8)	(1.7)	–
Cash received in advance of performance and not recognised as revenue during the period	5.9	2.2	–	5.0
At 31 December	7.7	9.0	3.3	5.0

FINANCIAL STATEMENTS
NOTES TO THE ACCOUNTS CONTINUED

22. Loans and other borrowings

	Group current		Group non-current	
	31 December 2019 \$'m	31 December 2018 \$'m	31 December 2019 \$'m	31 December 2018 \$'m
Amortised cost				
Super Senior Facility	149.4	–	–	150.2
1.5 Lien Credit Facility	–	–	60.2	–
High Yield Bonds - PIK Toggle Notes	–	–	353.7	306.2
	149.4	–	413.9	456.4

	Company current		Company non-current	
	31 December 2019 \$'m	31 December 2018 \$'m	31 December 2019 \$'m	31 December 2018 \$'m
Amortised cost				
Super Senior Facility	149.4	–	–	150.2
Unsecured loan notes	–	–	59.2	–
High Yield Bonds - PIK Toggle Notes	–	–	353.7	306.2
	149.4	–	412.9	456.4

Super senior facility

Interest charged upon the principal loan increased from 8.5% to 9.5% upon the first draw down of the 1.5 lien credit facility in May 2019. Interest accrued on the Super Senior Facility is settled in cash. \$13.0m of interest was paid during the year as well as repayments of the principal loan totalling \$4m.

Upon transition from IAS 39 Financial Statements to IFRS 9 Financial Statements all 'non substantial' modifications of debt under IAS 39 must be recalculated under IFRS 9 with any impact recognised in retained earnings. Under IFRS 9, when a debt is modified an amount is recognised in the income statement equal to the difference between the present value of the cash flows under the original and modified terms discounted at the original EIR.

There have been three modifications of the Super Senior facility. The first, in November 2017, when an additional \$18.0m was drawn down, meant upon transition a loss equal to \$1.4m was recognised in retained earnings. The second, in November 2018, when an additional \$34.5m was drawn down and the interest rate increased from 7.5% to 8.5%, resulted in a loss equal to \$2.5m to retained earnings at the transition date. The third modification occurred during the current year, in May 2019, when the interest rate increased again from 8.5% to 9.5%. This resulted in a loss equal to \$1.5m to the income statement.

1.5 lien credit facility

During the year the Group closed a new credit facility of \$75.0m; an initial \$55.0m committed with an additional \$20.0m consented but uncommitted at the closing date of 24 May 2019. The facility's maturity date is the later of two years from the closing date, being 23 May 2021, or six months after the 'termination date' of the HPS Super Senior facility. Loans were drawn down against this facility of \$9.2m in May, \$30.0m in June, \$15.8m in August, and \$5.0m in November; totalling \$60.0m.

Interest accrues at a rate of 12.5% per annum and is settled by PIK on a quarterly basis. During the period \$2.3m of interest was settled by PIK.

A 'commitment fee' equal to 2.5% of the initial \$55.0m commitment and a 'funding fee' equal to 5.0% of each draw down are added to the aggregate principal of the loan and interest charged upon them. The total commitment and funding fees added to the aggregate principal of the loan at 31 December 2019 was \$4.4m. An 'exit fee' is due upon repayment of the facility. This is equal to 2.5% of the total aggregate principal of loan, all commitment and funding fees charged and total interest accrued and PIKd. This fee is being accrued over the life time of the facility with \$0.7m accrued at the year end.

Costs associated with the facility totalling \$4.1m have been capitalised and added to the principal. These will be amortised over the facility's life.

High yield bonds – PIK Toggle Notes

Interest was charged on the PIK Toggle Notes at a rate of 9.0% with all interest accrued settled through the issue of additional notes. \$33.1m of PIK Toggle Notes were issued in the year in respect of interest due on these notes between 1 October 2018 and 1 October 2019. The High Yield Bonds are listed on the Irish Stock Exchange.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

22. Loans and other borrowings continued

Group 31 December 2019

Issuer	Original notional value	Description of instrument	Due
Avanti Communications Group plc	\$152.5m	Super Senior Facility	31 December 2020*
Avanti Communications Jersey Limited	\$66.7m	1.5 Lien Credit Facility	23 June 2021
Avanti Communications Group plc	\$393.2m	PIK Toggle Notes	1 October 2022

* Extension option was exercised in April 2020 to extend the maturity of the Super Senior Facility from 30 June 2020

31 December 2018

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

A reconciliation of principal debt outstanding to carrying value is shown below:

	31 December 2019 \$'m	31 December 2018 \$'m
Super Senior notes	148.5	152.5
1.5 Lien Credit Facility	66.7	–
High yield bonds	393.2	360.1
	608.4	512.6
Less: Unamortised discount	(39.5)	(53.9)
Less: Unamortised debt issuance costs	(5.6)	(2.3)
	563.3	456.4

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 2019 was \$0.22 for each bond with a face value of \$1 (2018: \$0.81).

Company 31 December 2019

Issuer	Original notional value	Description of instrument	Due
Avanti Communications Group plc	\$152.5m	Super Senior Facility	31 December 2020*
Avanti Communications Group plc	\$62.4 m	Unsecured loan notes	2 July 2022
Avanti Communications Group plc	\$393.2m	PIK Toggle Notes	1 October 2022

* Extension option was exercised in April 2020 to extend the maturity of the Super Senior Facility from 30 June 2020

31 December 2018

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

Unsecured loan notes due 2 July 2022

Proceeds of the 1.5 lien credit facility were raised by Avanti Communications Jersey Limited, a 100% subsidiary of the Company. Avanti Communications Jersey Limited is a new funding vehicle set up during the year to raise external debt and lend to the Group. During the year the lending was in the form of unsecured loan notes issued to Avanti Communications Jersey Limited, resulting in the proceeds flowing to the Company and the rest of the Group. The Unsecured Loan Notes were admitted to the Official List of the International Stock Exchange. The fair value of the Unsecured Loan Notes is deemed to be equal to the carry amount at 31 December 2019. This conclusion has been drawn as the loan notes are not considered to be in an active market due to being fully owned by Avanti Communications Jersey Limited, neither is there another identical asset evidenced by a quoted price in an active market available for comparison.

FINANCIAL STATEMENTS
NOTES TO THE ACCOUNTS CONTINUED

23. Provisions

	Group	Company
	Satellite assets contingent payments \$'m	Satellite assets contingent payments \$'m
As at 1 January		
Current	0.6	–
Non-current	3.6	–
	4.2	–
Arising during the period	–	–
Utilised	(0.6)	–
Exchange differences	0.5	–
As at 31 December	4.1	–
	–	–
Current	0.6	–
Non-current	3.5	–
	4.1	–

The provision relates to deferred contingent consideration on the HYLAS 1 satellite construction contract, for 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 was 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.

24. Financial instruments and risk management

Group

The Group's principal financial instruments comprise Bonds, debt facilities, 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.

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 2019, 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 \$0.9m or improved by \$0.9m (2018: post tax loss would have worsened by \$0.3m or improved by \$0.3m).

At 31 December 2019, if Sterling had weakened/strengthened against the US Dollar by 5% with all other variables held constant, post tax loss would have worsened by \$1.0m or improved by \$1.0m (2018: post tax loss would have improved by \$0.2m or worsened by \$0.2m).

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 2.75% and therefore management believes that a 5% sensitivity rate provides a reasonable basis upon which to assess expected changes in foreign exchange rates.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

24. Financial instruments and risk management *continued*

Group *continued*

a) Market risk *continued*

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.

	31 December 2019 \$'m	31 December 2018 \$'m
Trade receivables	16.9	8.9
Total	16.9	8.9

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 2019	7.2	7.8	0.5	1.4	16.9
31 December 2018	7.1	0.7	0.1	1.0	8.9

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

	31 December 2019 \$'m	31 December 2018 \$'m
At 1 January 2019	1.1	21.5
Allowances made in the period	0.9	0.6
Amounts used and reversal of unused amounts	(1.1)	(21.0)
At 31 December 2019	0.9	1.1

The provision of \$0.9m (2018: \$1.1m) has been raised against gross trade receivables of \$17.8m (2018: \$10.0m). Every major customer is assessed on an individual basis and we provide for bad debts when an impairment has been identified.

As stated in note 2 the Group has adopted IFRS 9 with effect from 1 January 2019. A new expected credit loss model has been applied, and a loss recognised against trade receivables. The model applies a credit risk percentage based on historical risk of default against receivables that are grouped into age brackets. The historical loss rates have been reviewed to ensure they are reflective of current and forward looking information on macroeconomic factors affecting the ability of customers to settle the receivables.

In addition to trade receivables, the year-end balance sheet includes \$8.1m accrued income (2018: \$6.2m). \$2.2m (2018: \$1.9m) of accrued income was due from investment grade counter parties who are either Governments 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 leases.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

24. Financial instruments and risk management continued

Group continued

c) Liquidity risk management continued

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

	Within 1 year \$'m	1–2 years \$'m	2–5 years \$'m	5+ years \$'m	Contractual amount \$'m	Carrying amount \$'m
31 December 2019						
High yield bonds & debt facilities	148.5	66.7	393.2	–	608.4	563.3
Lease liabilities	4.4	3.8	11.4	14.0	33.6	25.0
Trade payables	18.7	–	–	–	18.7	18.7
31 December 2018						
High yield bonds & debt facilities	–	152.5	360.1	–	512.6	456.4
Lease liabilities	2.4	1.5	5.2	7.8	16.9	10.7
Trade payables	30.5	–	–	–	30.5	30.5

Interest is payable on the High Yield Bonds at 9% per annum over the three year remaining life of the bonds. The interest payable on the Super Senior Facility increased from 8.5% to 9.5% per annum in May 2019 and is payable at that rate over the 6 month remaining life of the loans. Interest is payable on the 1.5 Lien Credit Facility at 12.5% per annum over the 18 month remaining life of the loans.

Subsequent to the end of the reporting period, in April 2020, the Company extended the maturity of the Super Senior Facility of \$147.5m from June 2020 to December 2020. The other terms of the debt remained unchanged.

In addition, the Company has net intercompany receivables carried at \$620.0m (2018: net receivables carried at \$685.5m). The contractual amount is \$1,134.4 (2018: \$921.9m), due to a provision of \$514.4m in place at the period end (2018: \$386.4m 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 22), cash and cash equivalents (Note 20) and equity attributable to equity holders of the parent, comprising Ordinary Share capital, share premium, other reserves and retained earnings.

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

e) Financial instruments by category

Group	Financial assets \$'m	Total \$'m
Assets as per Statement of Financial Position		
31 December 2019		
Trade and other receivables (excl prepayments)	27.9	27.9
Cash and cash equivalents	16.3	16.3
	44.2	44.2
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

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

24. Financial instruments and risk management continued

Group continued

e) Financial instruments by category continued

Liabilities as per Statement of Financial Position	Financial liabilities \$'m	Total \$'m
31 December 2019		
Borrowings (excl lease liabilities)	563.3	563.3
Lease liabilities	25.0	25.0
Trade and other payables (excl non-financial liabilities)	75.9	75.9
	664.2	664.2
31 December 2018		
Borrowings (excl lease liabilities)	456.4	456.4
Lease liabilities	10.7	10.7
Trade and other payables (excl non-financial liabilities)	58.7	58.7
	525.8	525.8
Company		
Assets as per balance sheet	Financial assets \$'m	Total \$'m
31 December 2019		
Trade and other receivables (excl prepayments)	625.7	625.7
Cash and cash equivalents	9.6	9.6
	635.3	635.3
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
Liabilities as per Statement of Financial Position	Financial liabilities \$'m	Total \$'m
31 December 2019		
Borrowings (excl lease liabilities)	503.1	503.1
Lease liabilities	0.5	0.5
Trade and other payables (excl non-financial liabilities)	14.5	14.5
	518.1	518.1
31 December 2018		
Borrowings (excl lease liabilities)	456.4	456.4
Lease liabilities	1.3	1.3
Trade and other payables (excl non-financial liabilities)	50.1	50.1
	507.8	507.8

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

24. 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 other comprehensive income. All financial liabilities are carried at amortised cost and all receivables and other financial assets 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.

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 \$663.0m provision for impairment against the Company's investments in subsidiaries and receivables due from subsidiaries (2018: \$535.0m provision).

25. 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 January 2019 and at 31 December 2019	2,163,336	30.6	(0.1)	1,104.4

In April 2018 the Company completed a debt for equity swap. 1,334,963 shares were not claimed by Noteholders within the applicable Holding Period under this scheme, and therefore during the year ownership has reverted to the Company at a cost of \$nil.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

26. Lease liabilities

Leasing arrangements

Lease liabilities relate to right-of-use assets with typical lease terms of more than twelve months. The Group may have the option to purchase the equipment for a nominal value at the conclusion of the lease agreement. The Group's lease liabilities are secured by the lessor's title to the leased assets.

Also included under lease liabilities is the 13.5 year IRU agreement of HYLAS 2B described in Note 12. The present value of the minimum lease payments in relation to this agreement and included below is \$8.8m of which \$0.6m is current and \$8.2m is non-current.

The Group expenses short-term leases and low value assets as incurred as allowed by IFRS 16.

The Group's lease liabilities as at 31 December 2019 include the transition of existing contracts, as well as contracts entered in to during the financial year to 2019.

Lease liabilities

Group	Right of use assets \$'m	Network assets \$'m	Satellites in operation \$'m	31 December 2019 \$'m	31 December 2018 \$'m
No later than 1 year	1.6	0.4	0.6	2.6	1.4
Later than 1 year no later than 5 years	6.8	0.1	3.2	10.1	3.3
Later than 5 years	7.1	0.2	5.0	12.3	6.0
	15.5	0.7	8.8	25.0	10.7

Company	Network Assets \$'m	31 December 2019 \$'m	31 December 2018 \$'m
No later than 1 year	0.4	0.4	0.8
Later than 1 year no later than 5 years	0.1	0.1	0.5
	0.5	0.5	1.3

Included in the Financial Statements as:

	Group		Company	
	31 December 2019 \$'m	31 December 2018 \$'m	31 December 2019 \$'m	31 December 2018 \$'m
Current borrowings	2.6	1.4	0.4	0.8
Non-current borrowings	22.4	9.3	0.1	0.5
Present value of minimum lease payments	25.0	10.7	0.5	1.3

The table below reconciles the difference as at December 2018 in lease liabilities as a result of IFRS 16 adoption in the year. The previously unrecognised contractual commitments below correspond to the \$23.5m closing operating lease commitments (see Note 27), discounted at the incremental borrowing rate, and relate to leased office space previously accounted for as operating leases under IAS 17, now bought onto the balance sheet under IFRS 16. The most notable is the 20 year lease of the Group's head office in London, entered into on 6 May 2013.

Group	31 December 2018 \$'m	Previously unrecognised contractual commitments \$'m	1 January 2019 \$'m
No later than 1 year	1.4	1.5	2.9
Later than 1 year no later than 5 years	3.3	6.0	9.3
Later than 5 years	6.0	9.1	15.1
	10.7	16.6	27.3

FINANCIAL STATEMENTS
NOTES TO THE ACCOUNTS CONTINUED

27. Obligations under operating leases

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

	31 December 2019	31 December 2019	31 December 2018	31 December 2018
	Land & Buildings \$'m	Total \$'m	Land & Buildings \$'m	Total \$'m
No later than one year	–	–	1.6	1.6
Later than 1 year no later than 5 years	–	–	6.6	6.6
After 5 years	–	–	15.3	15.3
	–	–	23.5	23.5

Operating lease commitments in the prior year principally related 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. On adoption of IFRS 16, the previously unrecognised commitment has been brought on to the Statement of Financial Position (Note 26).

28. Capital commitments

As at 31 December 2019 the Group has contracted but not provided for capital commitments of \$nil in relation to the procurement of HYLAS 3 (2018: \$35.4m) and \$nil in relation to the procurement of HYLAS 4 (2018: \$2.4m).

29. Related party transactions and directors' emoluments

Transactions with Directors

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

	31 December 2019 \$'m	31 December 2018 \$'m
Salaries and other short term employee benefits	2.0	3.4
Bonus	–	0.9
Termination payments	–	–
	2.0	5.2
Payments into defined contribution schemes	–	0.1
	2.0	5.3

Pension contributions amounting to \$nil (2018: \$0.1m) were made into personal pension schemes in respect of one (2018: three) of the Directors.

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

The emoluments of the highest paid Director totalled \$1.0m (2018: \$1.2m), made up of:

	31 December 2019 \$'m	31 December 2018 \$'m
Total emoluments		
Salaries and other short term employee benefits	1.0	0.6
Bonus	–	0.6
Payments into defined contribution schemes	–	–
Total emoluments	1.0	1.2

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

29. 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 2019	31 December 2018	31 December 2019	31 December 2018
	\$'m	\$'m	\$'m	\$'m
Total emoluments				
Salaries and other short term employee benefits	4.0	5.6	–	–
Bonus	–	1.9	–	–
Termination payments	0.4	1.3	–	–
Payments into defined contribution schemes	–	0.3	–	–
	4.4	9.1	–	–

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 Ordinary Share Capital, 1.5 lien facility and High Yield Bonds during the reporting period and at the year end.

During the year, transactions with these related parties related to accrued interest of \$17.4m, \$5.0m, and \$3.7m 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 April 2019 the accrued interest on the PIK Toggle Notes \$8.1m, \$2.3m, and \$1.7m owed to Solus, Tennenbaum, and Great Elm Capital respectively was settled through the issue of additional loan notes. On 1 August 2019, the accrued interest on the 1.5 Lien Facility Notes of \$0.4m, \$0.1m, and \$0.1m owed to Solus, Tennenbaum, and Great Elm Capital respectively was settled through the issue of additional loan notes. On 1 October 2019, the accrued interest on the 2021 Notes of \$8.3m, \$2.4m, and \$1.8m owed to Solus, Tennenbaum, and Great Elm Capital respectively was settled through the issue of additional loan notes. On 1 November 2019, the accrued interest on the 1.5 Lien Facility Notes of \$1.4m, \$0.4m, and \$0.3m owed to Solus, Tennenbaum, and Great Elm Capital respectively was settled through the issue of additional loan notes.

There was \$4.7m, \$1.4m, and \$1.0m accrued interest payable to Solus, Tennenbaum, and Great Elm Capital respectively at 31 December 2019, included within accruals.

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 2019	31 December 2018
	\$'m	\$'m
Avanti Communications Limited	3.6	9.9
Avanti Broadband Limited	6.4	6.0
Avanti Space Limited	5.8	5.0
Avanti HYLAS 2 Cyprus Limited	3.7	8.9
Avanti HYLAS 2 Limited	3.6	3.8
	23.1	33.6

FINANCIAL STATEMENTS
NOTES TO THE ACCOUNTS CONTINUED

29. Related party transactions and directors' emoluments continued

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

	31 December 2019 \$'m	31 December 2018 \$'m
Avanti Turkey Uydu Telekomunikasyon Limited	(0.2)	0.1
Avanti HYLAS 2 Limited	595.8	622.0
Avanti Communications Germany GmbH	9.4	9.6
Avanti Communications Infrastructure Limited	16.0	53.7
Avanti Satellite Communications Services Limited	1.6	-
Avanti Communications Jersey Limited	(2.6)	-
	620.0	685.4

Intercompany balances are unsecured and repayable on demand. The above is stated net of a provision against intercompany receivables of \$514.4m (FY18: \$386.4m).

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

	31 December 2019 \$'m	31 December 2018 \$'m
Avanti HYLAS 2 Cyprus Limited	-	0.1
	-	0.1

30. Reconciliations to the statement of cash flows

a) Cash (absorbed by)/generated from operations

	Group 31 December 2019 \$'m	Group 31 December 2018 \$'m	Company 31 December 2019 \$'m	Company 31 December 2018 \$'m
Loss before taxation	(181.0)	(6.8)	(148.4)	(226.1)
Adjustments for:				
Interest receivable	(0.1)	(2.5)	(46.8)	(153.6)
Interest payable	53.6	89.1	45.8	145.4
Amortised bond issue costs	17.9	54.0	16.8	53.5
Foreign exchange loss/(gain)	(0.9)	0.2	1.1	(0.1)
Disposal of subsidiary	4.1	-	-	-
Depreciation and amortisation of non-current assets	56.4	64.3	-	-
Provision for doubtful debts	(0.2)	(20.3)	128.0	485.0
Exceptional credit on substantial modification	-	(64.7)	-	(53.8)
Exceptional credit on debt for equity swap	-	(254.9)	-	(254.9)
Share based payment expense	-	0.2	-	0.2
Impairment	47.2	80.7	-	-
Movements in working capital:				
(Increase)/decrease in stock	(0.7)	(16.9)	-	-
Decrease/(increase) in debtors	(4.0)	41.9	4.4	(139.9)
(Decrease)/increase in trade and other payables	(9.6)	(6.2)	(36.3)	24.4
Effects of exchange rate on the balances of working capital	(3.4)	(7.3)	(1.5)	-
Cash absorbed by operations	(20.7)	(49.2)	(36.9)	(119.9)

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NOTES TO THE ACCOUNTS CONTINUED

30. Reconciliations to the statement of cash flows continued

b) Reconciliation of cash flows from financing activities to liabilities

Movements on liabilities from financing activities are reconciled to cash flows arising from financing activities as follows, with the opening balances post new accounting standard adjustments:

Group	Opening liability \$m	Cash flows \$m	Non-substantial modifications \$m	Interest PIK issues \$m	Unwind of discounts \$m	Lease interest \$m	Closing liability \$m
Liabilities							
Super senior facility	150.2	(4.0)	1.7	–	1.5	–	149.4
High yield bonds – PIK Toggle Notes	306.2	–	–	33.1	14.4	–	353.7
1.5 lien credit facility	–	55.9	–	2.3	2.0		60.2
Lease liabilities	27.0	(4.3)	–	–	–	2.3	25.0
Total liabilities from financing activities	483.4	47.6	1.7	35.4	17.9	2.3	588.3

Company	Opening liability \$m	Cash flows \$m	Non-substantial modification \$m	Interest PIK issues \$m	Unwind of discounts \$m	Closing liability \$m
Liabilities						
Super senior facility	150.2	(4.0)	1.7	–	1.5	149.4
High yield bonds – PIK Toggle Notes	306.2	–	–	33.1	14.4	353.7
Unsecured loan notes	–	55.9	–	2.3	2.0	60.2
Lease liabilities	1.3	(0.9)	–	–	–	0.4
Total liabilities from financing activities	457.7	51.0	1.7	35.4	17.9	563.7

31. 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 year to 31 December 2019 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)

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

32. Post balance sheet events

Extension of the maturity of the Super Senior Facility

In April 2020 the Company extended the maturity of the Super Senior Facility of \$ 147.5m from June 2020 to December 2020. The other terms of the debt remained unchanged.

Draw down of 1.5 lien

In April 2020 Avanti Communications Jersey Limited drew down an additional \$8.0m of the 1.5 lien facility. The new debt has priority in the hierarchy in the event of liquidation over the other 1.5 lien facility debt.

COVID-19

The existence of COVID-19 was confirmed in early 2020 and has progressively spread beyond its believed source, causing disruptions to business and economic activities. The Group considers this outbreak to be a non-adjusting post balance sheet event.

There are no other matters or circumstance arising since the end of the financial year, not otherwise dealt with in these financial statements, which significantly affect the financial position of the Group or Company and results of its operations.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

33. Effects of changes in accounting standards

The Group adopted IFRS 9, IFRS 15, and IFRS 16 with a transition date of 1 January 2019. The Group has chosen not to restate comparatives on adoption of any of these standards and therefore these changes have been processed at the date of initial application (i.e. 1 January 2019) and recognised in the opening equity balances.

	31 December 2018 \$'m	Changes due to IFRS 9 \$'m	Changes due to IFRS 16 \$'m	1 January 2019 \$'m
ASSETS				
Non-current assets				
Property, plant and equipment	714.4	-	13.2	727.6
Intangible assets	9.1	-	-	9.1
Deferred tax assets	-	-	-	-
Total non-current assets	723.5	-	13.2	736.7
Current assets				
Inventories	19.5	-	-	19.5
Trade and other receivables	33.5	-	(0.7)	32.8
Cash and cash equivalents	24.0	-	-	24.0
Total current assets	77.0	-	(0.7)	76.3
Total assets	800.5	-	12.5	813.0
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	60.4	-	(0.6)	59.8
Loans and other borrowings	1.4	-	1.5	2.9
Provisions	0.6	-	-	0.6
Total current liabilities	62.4	-	0.9	63.3
Non-current liabilities				
Trade and other payables	7.3	-	-	7.3
Loans and other borrowings	465.7	3.0	15.1	483.8
Provisions	3.6	-	-	3.6
Total non-current liabilities	476.6	3.0	15.1	494.7
Total liabilities	539.0	3.0	16.0	558.0
Equity				
Share capital	30.6	-	-	30.6
EBT shares	(0.1)	-	-	(0.1)
Share premium	1,104.4	-	-	1,104.4
Retained earnings	(797.0)	(3.0)	(3.5)	(803.5)
Foreign currency translation reserve	(72.3)	-	-	(72.3)
Total parent shareholders' equity	265.6	(3.0)	(3.5)	259.1
Non-controlling interests	(4.1)	-	-	(4.1)
Total equity	261.5	(3.0)	(3.5)	255.0
Total liabilities and equity	800.5	-	12.5	813.0

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

33. Effects of changes in accounting standards continued Adoption of IFRS 9 *Financial Instruments*

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement (IAS 39), and has had a significant effect on the Group in the following areas:

1. Prior to the transition to IFRS 9 there were two modifications of the Super Senior facility which were accounted for as non-substantial modifications to debt, whereby a new effective interest rate was calculated to spread the revised cash flows of the modified debt over its revised term, such that no gain or loss was recognised as part of the modification. On transition to IFRS 9 it is not appropriate to revise the original effective interest rate and instead it is necessary to discount the modified cash flows using the original effective interest rate of the debt before modification. The impact of applying IFRS 9 to the historical debt modifications on the Super Senior debt is as follows:
 - a. In November 2017 an additional \$18m was drawn down at an interest rate lower than the original effective interest rate resulting in a loss equal to \$1.4m recognised in retained earnings.
 - b. In November 2018 an additional \$34.5m was drawn down and the interest rate increased from 7.5% to 8.5% resulting in a loss equal to \$2.5m recognised in retained earnings.

Both of these losses are amortised over the life to maturity of the HPS Super Senior.

IFRS 9 transitional adjustment	31 December 2019 \$'m
Modification 1 – November 2017	1.4
Modification 1 amortisation at transition	(0.6)
Modification 2 – November 2018	2.5
Modification 2 amortisation at transition	(0.3)
	3.0

2. The Group has applied the expected credit loss model when calculating impairment losses on its financial assets measured at amortised cost, which has resulted in a slight increase in impairment provisions on trade and other receivables.

The group has chosen not to restate comparatives on adoption of IFRS 9 and, therefore, these changes have been processed at the date of initial application (i.e. 1 January 2018), and presented in the statement of changes in equity.

Adoption of IFRS 16 *Leases*

Effective 1 January 2019, IFRS 16 has replaced IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.

Under IAS 17 the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases.

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

The most notable example being the lease of the Group's headquarters, Cobham House in London. The lease incentive the Company received at commencement of this lease, which was being released over the life of the lease, was removed from contract liabilities, as was the rent prepayment at 31 December 2018 and a right of use asset and lease liability were recognised on the balance sheet with the net impact on the Statement of Financial Position taken to retained earnings.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

33. Effects of changes in accounting standards *continued*

Adoption of IFRS 16 *Leases* *continued*

The cumulative effect of adopting IFRS 16 was recognised as an adjustment to the opening balance of retained earnings on 1 January 2019. There has been no restatement to the comparative financial statements.

IFRS 16 transitional adjustment	Description	31 December 2019 \$'m
Property, plant and equipment	Recognition of right to use assets	13.2
Trade and other receivables	Removal of Cobham House rent prepayment	(0.7)
Trade and other payables	Removal of Cobham House lease incentive	0.6
Loans and other borrowings – current	Recognition of current lease liabilities	(1.5)
Loans and other borrowings – non-current	Recognition of non-current lease liabilities	(15.1)
Retained earnings	Net impact of above - due to application of modified retrospective approach, not restating prior periods	3.5
		–

Adoption of IFRS 15 *Revenue Recognition*

IFRS 15 has replaced IAS 18 *Revenue* and was adopted by the Group as at 1 January 2019. As permitted by IFRS 15 the Group has applied the new standard using the modified retrospective method and have recognised 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.

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.

One revenue stream identified as an area requiring a Group policy change to align to IFRS 15 were the revenues arising from our Edu-Care contracts, specifically where Avanti is judged to be the prime contractor delivering on performance obligations alongside sub-contractors. For these contracts, under IAS 18, Avanti previously recognised the gross revenue of these contracts along with the related costs incurred by the sub-contractors. The rationale behind this treatment was that as prime contractor, Avanti had a greater level of control over the project and its deliverables than the other parties. Upon detailed review of Avanti's contracts in light of the adoption of IFRS 15, Avanti identified one contract where it could not justify continuing to recognise revenue for work performed by sub-contractors as the level of control Avanti held in the role of prime contractor on this particular contract was not deemed to be sufficient to meet the requirements of the new standard. The gross revenues for this contract in the previous reporting period were \$5.0m, with net revenues of \$0.4m once the sub-contractor component was excluded.

The transition to IFRS 15 saw a netting off of \$0.9m between net Edu-Care partner liabilities and contract liabilities, both recognised under Trade and other payables, resulting in a netting off between creditor balances but no overall impact to the Statement of Financial Position. In FY19, applying IFRS 15, we have recognised revenues on this contract of \$0.3m. All other Edu-Care contracts in FY19 were reviewed and deemed to meet the more prescriptive requirements set out by IFRS 15.