27 December 2017

AVANTI COMMUNICATIONS GROUP PLC

2017 Full Year Results

Avanti Communications Group plc ("Avanti" or the "Group"), a leading provider of satellite data communications services in Europe, the Middle East and Africa, issues the following results for the financial year ended 30 June 2017.

Highlights

- Revenue of $56.6m for the full year (2016: $82.8m)
- Significant provision against receivable from the Government of Indonesia
- Impairment charges against HYLAS 1, HYLAS 2, and Filiago
- Finance restructuring plan launched to equitise all of the 2023 notes, and to reduce the interest rate on the 2021 notes
- Cash at year end of $32.7m (2016: $56.4m)
- Net debt[1] at year end of $562.0m (2016: $588.9m)
- David Williams, CEO, steps down shortly after the year end

[1] Net debt comprises current and non-current loans and borrowings less cash and cash equivalents

Alan Harper Avanti's CEO said:

"The disruption of the early part of the year led to a lengthening of the sales cycle which caused revenue to be significantly lower than initially expected. However as recently announced the restructuring of the balance sheet aims to correct the capital structure and provide the platform for success over the medium term."

For further information please contact:

Avanti: Alan Harper / Nigel Fox, +44 (0)207 749 1600

Cenkos Securities: Max Hartley Nicholas Wells, +44 (0)207 397 8900

Montfort: Nick Miles / James Olley, +44 (0)203 770 7909

Chairman's statement

In the first half of the financial year, Avanti's financial position suffered disruption when the additional debt facilities sought were not forthcoming on suitable terms. After a period of very hard work, our existing bondholders and long term investors supported the Company through a refinancing transaction that provided $242million of additional liquidity through a mixture of new money and interest deferrals.

The disruption of the first six months of the year led to a lengthening of the sales cycle as our customers and potential customers waited for the refinancing and strategic review to be completed. Following the completion of the transaction, some confidence did return to the customer base, but the lag in the sales cycle has taken some time to reverse, meaning that our revenues for the year were significantly lower than initially expected.

Nevertheless, Avanti did win some significant business towards the end of the year. The award of a new 3 year contract worth up to $21 million to deploy several hundred services to government sites across Africa with an existing government customer strengthens our business with governments across our target markets. Furthermore, the SaT5G (Satellite and Terrestrial network for 5G) project has started well. This project will research, develop and validate key technologies required to enable the plug-and-play integration of satellite communications into 5G networks. The project will trial and assess these through live testbed demonstrations across Europe.

Shortly after the year end David Williams, Chief Executive and co-founder, left the business. Alan Harper, who at the time was a non-executive director of the Company, agreed to take up the role of interim Chief Executive. Alan has 25 years of experience in European and African telecoms markets. He has worked at Vodafone as Group Strategy Director and more recently founded and ran Eaton Towers, which served most of the major telco that are a key part of the strategy for expansion at Avanti. Alan is focussed on rebuilding the sales momentum of the business and ensuring that the Group has a go to market strategy that is fit for the current market. The search for a full time replacement is underway and we hope to make an announcement shortly.

As recently announced, the Board has launched a restructuring of the Company's balance sheet. The restructuring is aimed at correcting the capital structure that has developed given recent trading and will provide the platform for success over the medium-term. It is proposed to issue new shares to repay all of the 2023 notes which would reduce the Group's debt by in excess of $500m. This is subject to the agreement of the shareholders at a General Meeting to be held in early 2018. In addition, the Board has agreed with our Bondholders, subject to necessary consents, to reduce the interest rate on the 2021 notes to 9% with the ability to pay cash or roll up the interest as appropriate. The combined impact of these two developments will reduce the Group's annual interest charge by approximately 70%. I hope that you see fit to support this initiative which will give Avanti a significantly strengthened balance sheet and remove a significant impediment to sales growth.

I would also like to thank our employees, customers, suppliers and investors for their ongoing support.

Operating review

Chief executive's review

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

Trading in the first half of the year was slower than hoped for primarily as a result of the uncertainty associated with the strategic review which the Company initiated in July 2016.

This uncertainty manifested itself in lower than normal levels of pipeline conversion and an extension in the sales cycle. Of the high probability pipeline that existed at 30 June 2016, 30% was signed by 31 December 2016 compared to historic conversion rates of over 60%. Since the conclusion of the strategic review and the successful provision of additional financing, we won some significant new business and believe that the pipeline conversion rate should now accelerate.

Chief executive's review continued

In late December 2016 we received significant new tender awards and signed contracts in the wi-fi and cellular backhaul markets and in government networks. We also picked up new customers for broadband in Europe, spurred by our launch of new 40Mb platforms – the highest speed satellite broadband in Europe.

In the second half of the year we saw some confidence return to our customer base and secured some excellent contract wins across all four markets of Broadband, Government, Enterprise and Backhaul. A few notable examples are:

Satellite and Terrestrial Network for 5G (SaT5G). This project will research, develop and validate key technologies required to enable the plug-and-play integration of satellite communications into 5G networks. The project will trial and assess these through live testbed demonstrations across Europe. The goal of the project is to deliver the seamless, and economically viable, integration of satellite into 5G networks to ensure ubiquitous 5G access everywhere. The project has identified a range of primary research areas to address the integration of satellite into 5G networks, which include extending 5G security to satellite and multicast for content distribution. Each research area will deliver outputs and benefits in relation to 5G ecosystem stakeholders. Live demonstrations and validations will take place at the testbeds for the project which are located in the UK, Germany and Finland. The project will also drive standardisation, mainly in 3GPP and ETSI, contributing to the definition of the 5G system and integration of satellite communications.

The ERDF contract, which was signed in August 2016, will support the deployment of 40Mbps broadband services to rural businesses across Cornwall and Isles of Scilly. Services are available through Avanti's certified service providers, Bentley Walker and SSW. The service will provide the highest satellite broadband speeds available in Europe via Avanti's Ka-band HYLAS 1 and HYLAS 2 satellites to Cornish businesses, no matter how rural the location.

In March, the Company announced a partnership with leading international telecommunications company Millicom, to bring broadband connectivity to consumer, enterprise and government applications. This will include the deployment of the Avanti ECO initiative across Sub-Saharan Africa, which will provide ECO Wi-Fi services to schools and communities, addressing the digital divide in the region. By combining Avanti's world leading satellite technology with the market reach expertise from Millicom, the partnership will additionally commission a new Gateway Earth Station (GES) in Senegal.

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

Our average price per MHz in the last 12 months across the fleet was $1,400.

You will note from the financial statements that we have impaired the carrying value of HYLAS 1 and HYLAS 2.

HYLAS 1 is 7 years old now and its cost per MHz is high in comparison to the new generation of High Throughput Satellites. The finite life of the satellite combined with falling capacity prices resulted in an accounting impairment of $53.3m. HYLAS 1 remains an integral part of the Avanti fleet, is forecast to generate good EBITDA and cash flows, and continues to serve some important customers in Western Europe.

Chief executive's review continued

In addition we have impaired HYLAS 2 by $60.8m, once again reflecting falling capacity prices and the finite life of the satellite. This impairment effectively eliminates previously capitalised financing costs leaving the carrying value close to the Net Book Value of the procured asset cost. HYLAS 2 is expected to generate strong EBITDA and cash flows as revenues grow over the largely fixed operating costs of the business.

The 3GHz 'HYLAS 2-B' satellite payload that joined the fleet in 2015 came online in the period with coverage over France, Germany, Poland and the Baltic Sea. The addition of this new capacity, which increases available capacity from 14GHz to 17GHz means the utilisation metric has been re-based. The amended fleet utilisation is in the 30-35% band (June 2016 re-based: 25-30% band).

The tactical 4 GHz HYLAS 3 is a hosted payload flying on board a European Space Agency ('ESA') satellite, for which the ESA is presently declaring a late-2018 launch which could slip further. We are disappointed in the performance of the manufacturer of this system and are considering all options.

The construction of Avanti's key 28GHz HYLAS 4 satellite is at an advanced stage but has experienced some delays in the factory. The spacecraft is now expected to be delivered in January 2018 with a launch in March 2018. HYLAS 4 will complete Avanti's coverage of EMEA. This will materially enhance the Group's revenue generation potential, largely within the existing fixed cost base. The efficient procurement of HYLAS 4 will bring the overall fleet cost per MHz down significantly, mitigating some of the effects of falling global prices for satellite bandwidth.

In November 2017, we successfully re-orbited Artemis.

The Company had to make a significant provision against a government receivable at the end of the year. Avanti had contracted with the Government of Indonesia (GoI) to lease capacity on its Artemis satellite to support GoI's need to bring into use and maintain its orbital slot at 123 degrees East. The total contract value was in excess of $30 million. Avanti performed all of its obligations under the contract and had extended payment deadlines for GoI to assist with administrative delays. However, having received in excess of $12m in the earlier stages of the contract, Avanti received no payments for over a year. As a result, Avanti terminated the contract and has initiated arbitration proceedings in London. The outstanding amount at 30 June was $16.8 million and has been fully provided in these accounts. GoI has not disputed that the amounts are due and payable. Avanti is confident that the arbitration panel will rule in the Group's favour and has provided for the debt at the year end until the uncertainty related to the arbitration and particularly enforcing the Group's expectation of the arbitration panel's ruling has been sufficiently reduced.

HYLAS 4 is due for launch in March 2018 with a target of being in orbital position ready for service at the start of the next financial year. We are in discussion with a number of current and new distributors to sign up master partnership distribution agreements with Avanti to market this new capacity which is largely over sub Saharan Africa countries.

Our strategy

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

Chief executive's review continued

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

Avanti's end user application segments, which remain unchanged, are:

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

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

- Satellite Operators
- Major Mobile / Telecom Carriers
- Major Satellite Resellers, Integrators and ISPs

Financial Review

Outlook

During the last 18 months, Avanti has taken steps to address the appropriateness of its balance sheet given the current levels of trading experienced in the recent periods and the capital commitments required to launch HYLAS 4.

As reported last year, Avanti entered a period of strategic review in July 2016. As a result the majority of the interest due on 1 October 2016 was rolled into the principal of the outstanding loan notes.

In January 2017, the Company announced that it had reached agreement with its major bondholders to provide additional financing of up to $242 million through new money and the ability to P.I.K coupons on both the 2021 and the 2023 notes. We were also pleased at that point to welcome onto the Board Craig Chobor, Michael Leitner and Peter Reed as representatives of key stakeholders.

This new facility also paved the way to add a super senior facility at the top of the security structure. In July 2017 HPS provided an additional $100 million of financing at an annual rate of 7.5% with a maturity of June 2020. After the drawdown of the HPS funds in July 2017 the gross debt of the Company was $926.5 million, as set out in the table below:

	Maturity		Interest Rate	Face Value	Book Value
		Cash (%)	PIK (%)	$ millions	$ millions
Super Senior	June 2020	7.5	n/a	100.0	95.8
2021 notes	October 2021	10.0	15.0	300.8	287.6
2023 notes	October 2023	12.0	17.5	512.2	293.6
Finance lease	Various	various	n/a	13.5	13.5

TOTAL	926.5	689.5

Financial Review continued

In December 2017, the Board announced that subject to the agreement of the bondholders and of the shareholders at a General Meeting in early 2018, the entirety of the 2023 notes will be repaid by issuing new ordinary shares in Avanti Communications Group plc ("debt for equity swap"). In addition, subject to agreement from the 2021 bondholders, the maturity of these notes will be extended by 12 months to October 2022 and the interest rate reduced to 9% for both cash and PIK.

As a result of the financial restructuring in January 2017, there was a substantial modification to the 2023 notes. Therefore we have recorded the liability on the balance sheet at the market value immediately after the restructuring had been completed. The carrying value of the 2023 notes was reduced from $481.6 million to $245.6 million with the difference being credited to the income statement (note 9), along with accelerated amortisation of previously capitalised bond costs of $16.8m.

Income Statement

As previously mentioned, the strategic review caused some disruption to the business in the six months to December 2016 which included a significant lengthening of the sales cycle. This has taken some months to reverse and has had a direct impact on the revenue recognised in the year to June 2017. As a consequence, we have reported revenue of $56.6 million down from $82.8 million in 2016.

As a result of the significant provision made against the Government of Indonesia debt, total operating costs rose from $75.5 million in 2016 to $89.1 million. Excluding this provision of $13.9 million, costs fell by 0.4%.

Staff costs fell slightly to $23.6 million (2016: $24.3 million) of which $3.9 million (2016: $4.5 million) was capitalised as costs relating to staff working on the construction of HYLAS 3 and HYLAS 4.

We have taken impairment charges through the income statement as described in notes 6 and 7 below.

Tax

There was a tax credit of $12.0m to the income statement (2016: $2.2m charge). The credit primarily arose from the recognition of deferred tax on losses (credit $15.6m) offset by the impact of changes in the UK tax rate on the deferred tax balances largely driven by future HYLAS 4 profits (charge $3.3m).

Corporate Interest Restrictions

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

Group forecasts currently assume the Group will not increase its debt from the current (post debt for equity swap) level. This results in the disallowed interest arising in the next few years becoming deductible in the future, supporting the recognition of a deferred tax asset on that disallowed interest ($0.4m at 30 June 2017).

However, if the Group increases its indebtedness (e.g. to finance future missions) interest costs may never fall beneath 30% of UK Tax EBITDA. As a result the disallowed interest costs would become permanently lost.

Financial Review continued

Changes to Loss Utilisation Rules

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

Loss for the year

The loss for the year was $65.7 million (2016: $69.2 million) resulting in a basic loss per share of 44.7 cents (2016: loss 49.3 cents).

Balance Sheet

Impairments

Each year the Group considers the carrying value of its assets and looks for indications of impairment. Falling market prices for satellite services have reduced the ability of future cash generation to make-up for the slower than expected revenue generation in the earlier years of HYLAS 1 and HYLAS 2. With the satellites having a finite life the Group has concluded that it would be appropriate to impair the carrying value of HYLAS 1 and HYLAS 2. With a construction cost of $192.3 million and a carrying value of $117.2 million, HYLAS 1 has a historic cost of $541 per MHz per month. With a construction cost of $389.8 million and a carrying value of $287.6 million, HYLAS 2 has a historic cost of $381 per MHz per month. Using current selling prices and anticipated fill rates together with a discount rate of 10.4% the Company has concluded that more appropriate carrying values are $58.1 million and $234.8 million respectively. As a result an impairment charge of $114.1 million was made at the year end.

In addition, Filiago has not achieved the targets set in the recent past. The Group has decided to make significant changes to the way that business is managed. However, until those changes deliver the required targets the Group has decided to impair the carrying value by $9.9 million.

Artemis

The Artemis satellite was re-orbited from its position at 123E in November 2017. This ends the life of the former ESA spacecraft that was launched in July 2001.

Financial Review continued

Receivables

Receivables at 30 June were $60.6 million (2016: $79.5 million).

After the year end, in November 2017, the Group reluctantly terminated a contract with the MOD of Indonesia for persistent non-payment and has initiated arbitration proceedings in London. Given the materiality of the outstanding amounts at the year-end ($16.8 million) the Directors deemed it appropriate to make a full provision for the outstanding amounts in these accounts. Revenue was recognised on this contract during the year on the basis that regular dialogue with the Government of Indonesia was undertaken, formal commitments to pay were received and the debt remains undisputed. Avanti is confident that the arbitration panel will rule in the Group's favour and has provided for the debt at the year end until the uncertainty related to enforcing the arbitration panel's expected ruling has been sufficiently reduced.

During the year we terminated a contract with Qsat in Ireland for consistent non-payment. Avanti had the right in its contract to "step-in" and moved the majority of customers to one of our UK based service providers. As a result we made provisions of $0.7 million and $2.5 million against receivables and accrued income respectively associated with the Qsat contracts.

High yield debt

As described above, the 2023 notes were amended in a consent solicitation process during December 2016 and January 2017. Under the relevant accounting standards, the modification of the terms were deemed to be substantial. As a result the original bonds are required to be de-recognised and the new bonds recorded at market value at that date. In the period after the modification was ratified through the consent solicitation process, the bonds traded down to 51 cents /$1. The consequence was that the carrying value of this tranche of debt was reduced to $245.6 million with the resulting credit of $219.2 million recognised in the income statement as an Exceptional gain on substantial modification of debt. The carrying value of the debt will accrete up to the face value over the maturity of the bonds, giving rise to a higher finance expense than would otherwise be recorded.

Cash flow

Net cash outflow from operating activities during the year ended June 30, 2017 was $4.1 million as compared to an outflow of $31.8 million during the year ended June 30, 2016.

Interest paid was $3.5 million (2016: $60.5 million), the significant decrease being due to the coupon payments due on debt being settled through the issue of additional notes rather than the payment of cash.

Capital expenditure fell from $95.7 million in 2016 to $66.5 million in 2017.

Additional financing net of restructuring costs brought in $51.9 million compared to $123.6 million raised in 2016.

Exchange losses accounted for net cash outflow of $1.5 million leaving cash at the year-end of $32.7 million (2016: $56.4 million).

Financial Review continued

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 2017 with an insured value of £112m and $306m respectively.

Backlog

Our backlog comprises our customers' committed contractual expenditure under existing contracts for the sale of bandwidth, satellite services, consultancy services and equipment sales over their current terms. Backlog does not include the value arising from potential renewal beyond a contract's current term or projected revenue from framework contracts. Our backlog totalled $103.9m as of June 30, 2017.

Due to political and economic difficulties in some of the regions we operate, a number of the contracts signed with partners in the early years of operations are proving to be impaired. We have chosen to remove these from backlog whilst at the same time working with those partners to find more appropriate terms on which to continue to work. In addition the definition of backlog no longer includes the run rate of consultancy projects.

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.

Global economy

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

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

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

Financial Review continued

Foreign exchange risk

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

Interest rate risk

We borrow in US Dollars and pounds Sterling at fixed rates of interest and do not seek to mitigate the effect of adverse movements in interest rates. Cash and deposits earn interest at fixed rates based on banks' short-term treasury deposit rates. Short-term trade and other receivables are interest free.

Credit risk

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

Liquidity risk

Liquidity risk is the risk that we may have difficulty in obtaining funds in order to be able to meet both our day-to-day operating requirements and our debt servicing obligations. We manage our exposure to liquidity risk by regularly monitoring our liabilities. Cash and cash forecasts are monitored on a daily basis, and our cash requirements are met by a mixture of short term cash deposits, debt and finance leases.

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

Launch of HYLAS 4

At this time the launch of HYLAS 4, the most advanced and efficient spacecraft of the Avanti fleet, is critical. Whilst the risk of launch failure is historically very low when using the Arianespace 5 launch vehicle, and the spacecraft is insured for $325 million, any failure would significantly impact the business model. A replacement vehicle would take approximately 30 months to procure.

Post balance sheet events

In July 2017 the Company drew down $100 million of the super senior facility agreed in June 2017.

In November 2017 the Group terminated its contract with MOD of Indonesia and made provisions against the year-end debt of $16.8 million.

Financial Review continued

Post balance sheet events continued

In December 2017 the Company announced that it had reached agreement with the majority of its bondholders and significant equity shareholders to repay the 2023 notes by issuing new shares in Avanti Communication Group plc. In addition the 2021 notes will extend their maturity by one year and the interest rate will be reduced to 9% for both cash and PIK (previously 12%). This remains subject to a formal consent solicitation process with the bondholders and a shareholder vote to be held in early 2018.

Going Concern

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

In arriving at the conclusion, the Board of Directors were pleased to announce on 13 December 2017 that it proposed to convert the entire 2023 notes into equity, whilst at the same time extending the maturity to the 2021 notes by 12 months and reducing the cash and PIK coupons to 9%. These changes require the formal consent of both the debt holders and the shareholders. With a significant proportion of both parties signatories to the restructuring agreement and lock-up letters, the directors are confident that the restructuring will proceed.

The Directors have concluded that, based on the group's expectation that the Consent Solicitation for a financial restructure will be successful, together with the planned additional fund raise and substantial achievement of cash flow forecasts, 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. The Directors 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 required consents will be received or that the refinancing will be successfully completed. Accordingly, successful completion of the refinancing, planned fund raise and the substantial achievement of cash flow forecasts represent a material uncertainty that may cast significant doubt on the group and the parent company's ability to continue as a going concern. The group and the parent company may, therefore, be unable to continue realising their assets and discharging their liabilities in the normal course of business, but the financial statements do not include any adjustments that would result if the going concern basis of preparation is inappropriate.

Consolidated Income Statement

Year ended 30 June 2017

	Notes	Year ended 30 June 2017 $'m	Year ended 30 June 2016 $'m
Revenue			
Capacity, services & equipment	3	56.6	74.5
Sale of exclusivity rights[1]	3	–	8.3
Total Revenue		56.6	82.8
Cost of sales – capacity, services & equipment (excluding satellite depreciation)		(59.4)	(40.9)
Staff costs		(19.7)	(19.8)
Other operating expenses		(12.0)	(16.3)
Other operating income		2.0	1.5
EBITDA[2]		(32.5)	7.3
Depreciation and amortisation		(47.2)	(47.3)
Impairment of satellites in operation		(114.1)	–
Impairment of goodwill		(9.9)	–
Operating loss		(203.7)	(40.0)
Finance income		–	13.9
Finance expense		(93.2)	(40.9)
Exceptional gain on substantial modification of debt	9	219.2	–
Loss before taxation		(77.7)	(67.0)
Income tax	4	12.0	(2.2)
Loss for the year		(65.7)	(69.2)
Loss attributable to:			
Equity holders of the parent		(65.2)	(68.7)
Non-controlling interests		(0.5)	(0.5)
Basic loss per share (cents)	5	(44.74c)	(49.27c)
Diluted loss per share (cents)	5	(44.74c)	(49.27c)

1 There were no directly attributable costs related to the sale of spectrum rights or exclusivity rights

2 Earnings before interest, tax, depreciation and amortisation and impairment of non-current assets

Consolidated Statement of Comprehensive income

Year ended 30 June 2017

	Year ended 30 June 2017 $'m	Year ended 30 June 2016 $'m
Loss for the year	(65.7)	(69.2)
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	3.7	13.8
Monetary items that form part of the net investment in a foreign operation	(9.7)	(58.9)
Total comprehensive loss for the year	(71.7)	(114.3)
Attributable to:		
Equity holders of the parent	(71.2)	(113.8)
Non-controlling interests	(0.5)	(0.5)

Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	30 June 2017 $'m	30 June 2016 $'m
ASSETS			
Non-current assets			
Property, plant and equipment	6	671.8	775.1
Intangible assets	7	9.3	10.8
Deferred tax assets		30.8	18.6
Total non-current assets		711.9	804.5
Current Assets			
Inventories		2.6	1.9
Trade and other receivables	8	60.6	79.5
Cash and cash equivalents		32.7	56.4
Total current assets		95.9	137.8
Total assets		807.8	942.3
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		70.3	82.8
Loans and other borrowings	9	2.1	3.3
Total current liabilities		72.4	86.1
Non-current liabilities			
Trade and other payables		9.1	12.7
Loans and other borrowings	9	592.6	642.0
Total non-current liabilities		601.7	654.7
Total liabilities		674.1	740.8
Equity			
Share capital		2.7	2.5
EBT shares		(0.1)	(0.1)
Share premium		519.4	515.9
Retained earnings		(317.7)	(252.7)
Foreign currency translation reserve		(67.5)	(61.5)
Total parent shareholders' equity		136.8	204.1
Non-controlling interests		(3.1)	(2.6)
Total equity		133.7	201.5
Total liabilities and equity		807.8	942.3

Consolidated Statement of Cash Flows

Year ended 30 June 2017

	Notes	Group Year ended 30 June 2017 $'m	 Year ended 30 June 2016 $'m
Cash flow from operating activities			
Cash (absorbed)/generated by operations	10	(4.1)	(31.8)
Interest paid		(3.5)	(60.5)
Interest received		–	–
Net cash (absorbed)/generated by operating activities		(7.6)	(92.3)
Cash flows from investing activities			
Payments for other financial assets and investments		–	–
Payments for property, plant and equipment		(66.5)	(95.7)
Proceeds from sale and leaseback		–	2.2
Net cash used in investing activities		(66.5)	(93.5)
Cash flows from financing activities			
Proceeds from bond issue		78.7	115.0
Proceeds from share issue		0.2	10.7
Payment of finance lease liabilities		(3.8)	(4.1)
Debt issuance costs		(23.2)	(0.2)
Net cash received from financing activities		51.9	121.4
Effects of exchange rate on the balances of cash and cash equivalents		(1.5)	(1.4)
Net (decrease)/increase in cash and cash equivalents		(23.7)	(65.8)
Cash and cash equivalents at the beginning of the financial year		56.4	122.2
Cash and cash equivalents at the end of the financial year		32.7	56.4

Consolidated Statement of Changes in Equity

Year ended 30 June 2017

	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
2016								
At 1 July 2015		2.4	(0.1)	505.3	(184.4)	(16.4)	(2.1)	304.7
Loss for the year		–	–	–	(68.7)	–	(0.5)	(69.2)
EBT issue		–	–	–	–	–	–	–
Other comprehensive income		–	–	–	–	(45.1)	–	(45.1)
Issue of share capital		0.1	–	10.6	–	–	–	10.7
Share based payments		–	–	–	0.4	–	–	0.4
At 30 June 2016		2.5	(0.1)	515.9	(252.7)	(61.5)	(2.6)	201.5
2017								
At 1 July 2016		2.5	(0.1)	515.9	(252.7)	(61.5)	(2.6)	201.5
Loss for the year		–	–	–	(65.2)	–	(0.5)	(65.7)
Other comprehensive income		–	–	–	–	(6.0)	–	(6.0)
Issue of share capital		0.2	–	3.5	–	–	–	3.7
Share based payments		–	–	–	0.2	–	–	0.2
At 30 June 2017		2.7	(0.1)	519.4	(317.7)	(67.5)	(3.1)	133.7

Notes to the preliminary statement

1. Basis of preparation

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 30 June 2017 or 2016. Statutory consolidated financial statements for the Group for the year ended 30 June 2016, prepared in accordance with adopted IFRS, have been delivered to the Registrar of Companies and those for 2017 will be delivered in due course. The auditors have reported on those accounts: their report on the accounts for 2017 was (i) unqualified and (ii) drew attention by way of emphasis without qualifying their report to a material uncertainty in respect of going concern and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Their report on the accounts for 2016 was (i) unqualified and (ii) drew attention by way of emphasis without qualifying their report to a material uncertainty in respect of going concern and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This financial information for the year ended 30 June 2017 has been prepared by the directors based upon the results and position that are reflected in the consolidated financial statements of the Group.

The consolidated financial statements of Avanti Communications Group plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards as adopted by the EU as relevant to the financial statements of Avanti Communications Group plc.

2. Principal accounting policies

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

Going concern

The financial statements have been prepared on a going concern basis. In reaching their assessment, the Directors have considered a period extending at least 12 months from the date of approval of these financial statements. This assessment has focused on the status of the financial restructuring announced by the Group on 13 December as well as those factors considered on an annual basis such as forecast trading performance of the Group for the foreseeable future, key assumptions, sensitivities and available cash balances and facilities. As at the date of approval of these financial statements, the successful completion of the financial restructuring is conditional upon the Consent Solicitation and Scheme of Arrangement processes described further below and while the Directors believe that these processes will be completed successfully, there remains a material uncertainty until the remaining consents and approvals have been received.

Going concern continued

As described in Note 9, the Group has the following debt instruments, excluding finance leases, as at the date of approval of the financial statements:

Instrument	Nominal Value	Lien	Due
Super Senior Facility	$118.0m*	1st lien	21 June 2020
PIK Toggle Notes	$323.0m	2nd lien	1 October 2021
Amended Existing Notes	$557.0m	3rd lien	1 October 2022

*$118m was drawn down from the super senior facility post year-end.

The financial restructuring announced on 13 December comprised the following components which are described in further detail below:

1. Debt for equity Swap - Exchange of all of the Amended Existing Notes for ordinary share capital of the Company
2. Amendment to the economic terms of the PIK Toggle Notes

The restructuring culminated on 13 December 2017 when a Lock-Up & Restructuring Agreement was signed by the Company with a group of its largest holders of PIK Toggle Notes, Amended Existing Notes and ordinary share capital ('Initial Consenting Investors'). The Company and the Initial Consenting Investors, representing approximately:

- 62% of the aggregate principal amount of the existing PIK Toggle Notes
- 55% of the aggregate principal amount of the existing Amended Existing Notes and
- 34% of the ordinary share capital

entered into the Restructuring Agreement on 13 December 2017 pursuant to which the Initial Consenting Investors contractually agreed to:

- approve the Amended Existing Notes restructuring by voting in favour of the Scheme, tendering their Amended Existing Notes in the exchange offer and voting in favour of the related shareholder resolutions;
- approve the PIK Toggle Notes restructuring by delivering Consents in connection with the Solicitation, or approvals in connect with the scheme of arrangement.

1. Repayment of the Amended Existing Notes

The exchange of all of the Amended Existing Notes for 92.5% of Avanti's enlarged outstanding share capital. This debt for equity swap will involve the settlement of the 3rd lien debt with a nominal value of $557.0m and accrued interest of approximately $22.4m through the issue of approximately 2.0 billion ordinary shares of 1p each in the Company. The holders of the current Amended Existing Notes will hold 92.5% of the Company's enlarged share capital following completion of this restructuring.

Going concern continued

The debt for equity swap approval will be sought under an English law scheme of arrangement (the 'Scheme') which requires approval from 75% of the holders of the Amended Existing Notes.

The Scheme of Arrangement will commence in early January 2018 and the process will last for approximately 6-8 weeks. This process will result in one of the two following outcomes:

1. Receipt of consents from note holders equating to at least 75% of the Existing Notes by number and value. This will result in the terms of the restructuring being approved and applied to 100% of the Amended Existing Notes. The Initial Consenting Investors are contractually committed to providing their consents and equate to 55% of the Existing Notes.
2. Consents will be received amounting to less than 75% of the Existing Noteholders. This is considered unlikely given that the Initial Consenting Investors are contractually committed to providing their consents and equate to 55% of the Existing Notes. In this scenario, the restructuring would fail and the Group would need to successfully complete an alternative restructuring or raise new money in order to have sufficient resources to continue in operational existence for the foreseeable future.

2. Amendment to economic terms of the 2021 Notes

The amendment to the terms of the 2nd lien as follows:

- extend the final maturity date from October 1, 2021 to October 1, 2022;
- change the interest rate payable on the 2021 Notes from 10% Cash / 15% PIK to 9% Cash / 9% PIK for all remaining interest periods commencing October 1, 2017;
- eliminate the step up in interest payable on the 2021 Notes if the relevant minimum consolidated LTM EBITDA threshold is not met;
- eliminate the Maintenance of Minimum Consolidated LTM EBITDA covenant contained in the indenture governing the 2021 Notes;
- require interest payments on the 2021 Notes for all remaining interest periods commencing October 1, 2017 (but excluding the final interest payment) to be made in cash so long as Avanti has sufficient cash, pro forma, to satisfy the applicable interest coupon, the next cash interest payment due on the Super Senior Debt and any necessary working capital requirements (i.e. 'Pay If You Can' Interest).

The amendment to the economic terms of the PIK Toggle Notes will be sought under a Consent Solicitation process. Under the terms of the PIK Toggle Notes Indenture, consent to the changes is required from holders of 90% of the PIK Toggle Notes. Should approval not be received from 90% or more of the PIK Toggle Note holders, an English law scheme of arrangement will be prepared which requires approval from 75% of the holders of the PIK Toggle Notes.

Going concern continued

The Consent Solicitation will commence in early January 2018 and will last for a maximum of 10 business days. This process will result in one of the following outcomes:

1. Receipt of consents from note holders equating to at least 90% of the 2021 Notes by number and value. This will result in the terms of the restructuring being approved and applied to 100% of the 2021 Notes. The Initial Consenting Investors are contractually committed to providing their consents and equate to 62% of the Existing Notes.
2. Receipt of consents will be received amounting to less than 90% of the Existing Noteholders. In this scenario, an English law scheme of arrangement would commence, seeking approval via an alternative mechanism for the amendment to the economic terms of the PIK Toggle Notes. The Scheme of Arrangement would run for approximately 6-8 weeks and would result in one of the two following outcomes:
3. Receipt of consents from note holders equating to at least 75% of the Existing Notes by number and value. This will result in the terms of the restructuring being approved and applied to 100% of the Amended Existing Notes. The Initial Consenting Investors are contractually committed to providing their consents and equate to 62% of the Existing Notes.
4. Consents will be received amounting to less than 75% of the Existing Noteholders. This is considered unlikely given that the Initial Consenting Investors are contractually committed to providing their consents and equate to 62% of the Existing Notes. In this scenario, the restructuring would fail and the Group would need to successfully complete an alternative restructuring or raise new money in order to have sufficient resources to continue in operational existence for the foreseeable future.

In addition to the consents required from the holders of the Amended Existing Notes to have their notes converted into ordinary share capital, the holders of the Company's ordinary share capital pre-reorganisation also need to approve three shareholder resolutions in order for the debt for equity swap to be successfully completed:

1. An ordinary resolution to approve the issue of approximately 2.0 billion new ordinary shares of 1p each in the Company. This resolution requires greater than 50% of votes cast to be passed.
2. A special resolution to disapply pre-emption rights with respect to the issue of these shares. This resolution requires greater than 75% of votes cast to be passed.
3. A resolution for the waiver of rights of independent shareholders to receive a mandatory takeover offer from one of the Initial Consenting Investors who will hold in excess of 30% of the ordinary share capital of the Company following the proposed restructuring. This resolution requires greater than 50% of votes cast by independent shareholders to be passed.

Going concern continued

Should any of these shareholder resolutions not be passed, the restructuring of the Amended Existing Notes would fail and the Group would need to successfully complete an alternative restructuring or raise new money in order to have sufficient resources to continue in operational existence for the foreseeable future. The Initial Consenting Investors hold 34% of the ordinary share capital in the Company and are committed to voting in favour of these resolutions.

Additional fund raise

Following and contingent upon completion of the restructuring, an additional fund raising will be completed in the form of equity, new PIK Toggle Notes or a combination of both instruments. The minimum value is likely to be $30.0m but may be adjusted dependent on demand. The directors of the Company have received assurances from members of the Initial Consenting Investors that they will participate in the additional fund raising. Should this additional fund raising not be completed successfully, the Group would need to raise cash through another route such as an alternative fund raising or asset sale in order to have sufficient resources to continue in operational existence for the foreseeable future.

Following the signing of the Lock-Up & Restructuring Agreement, which is the platform for a successful financial restructuring, and in order to prepare and approve these Financial Statements, the Directors have assessed forecast future cash flows for the foreseeable future, being a period of at least a year following the approval of the accounts. In assessing the Group's ability to meet its obligation as they fall due, management prepared cash flow forecasts based on the business plan for a period of 12 months. Management considered various downside scenarios to test the Group's resilience against operational risk including:

- Slower build in fleet/satellite utilisation
- Planned revenue from exploitation of spectrum rights and satellite interim missions doesn't materialise

However, were those downside scenarios to materialise, Management would take mitigating actions, notably the ability to PIK interest payable in October 2018 on the 2021 Notes. Management therefore concluded that the Group's Capital Structure after the planned financial restructuring comprising of the debt for equity swap, and amendment to the economic terms of the PIK Toggle Notes, together with the planned additional fund raise and the substantial achievement of cash flow forecasts, provides sufficient headroom to cushion against downside operational risks.

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Going concern continued

In summary, the Directors have concluded that, based on the group's expectation that the Consent Solicitation for a financial restructure will be successful, together with the planned additional fund raise and substantial achievement of cash flow forecasts, 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. The Directors 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 required consents will be received or that the refinancing will be successfully completed. Accordingly, successful completion of the refinancing, planned fund raise and the substantial achievement of cash flow forecasts represent a material uncertainty that may cast significant doubt on the group and the parent company's ability to continue as a going concern. The group and the parent company may, therefore, be unable to continue realising their assets and discharging their liabilities in the normal course of business, but the financial statements do not include any adjustments that would result if the going concern basis of preparation is inappropriate.

3. Revenue

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

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

Revenue generated for the year was as follows:

	30 June 2017 $'m	30 June 2016 $'m
Capacity, services & equipment revenue	56.6	74.5
Exclusivity rights	-	8.3
Total revenue	56.6	82.8

The majority of total revenue for the year represents the sale of satellite broadband capacity and related services provided to external customers and the sale of terminals and other satellite communications equipment. Of this, $5.3m (2016: $13.2m) relates to the sale of terminals and other satellite communications equipment.

The Group derived $11.1m (2016: $19.9m) of its turnover from European countries outside the United Kingdom, $25.3m (2016: $39.7m) from countries outside Europe and $20.2m (2016: $23.2m) from the United Kingdom.

Sale of exclusivity rights

$8.3m was recognised during the prior financial year from the sale of exclusivity rights.

During the year ended 30 June 2016, the Group entered into an agreement with Eurona Wireless Telekom SA ('Eurona'), a Spanish based Internet service provider, under which Eurona were sold the exclusive rights in perpetuity to the provision of services to the consumer broadband market in Spain and Portugal ('Iberia') from any existing or future Avanti satellite.

Sale of exclusivity rights continued

Eurona are required to pay a fixed, non-refundable fee of €7.5m under a non-cancellable agreement in consideration for the rights. As a result, Eurona have sole rights to sell capacity directed over Iberia on any Avanti satellite for use in delivering service to the consumer broadband market. The exclusivity right does not convey or include any satellite capacity, which must be purchased separately.

At the same time, Eurona entered into an agreement to purchase substantial initial capacity over Iberia with a value of €17.2m over a 10 year period. The provision of capacity commenced in the 2017 financial year and revenue has been recognised within the sale of capacity, services and equipment. The sale of €2.5m of satellite communications equipment was recognised during the prior financial year and a further €1.5m was recognised in the current year under a modification to the original agreement.

The agreement with Eurona was assessed under the Group's accounting policy for multi-deliverable arrangements. An assessment was made as to whether the sale of exclusivity rights, capacity and equipment represented separate units of account. This assessment concluded that each component was separable on the basis that each deliverable has stand-alone value to Eurona and the fair-value of the item can be objectively and reliably determined.

The fair value of the undelivered components (residual value method) was used to assess the fair value of the exclusivity rights and equipment recorded in the prior year, and the equipment recorded in the current year. This assessment led to the conclusion that there was no material difference between the contractual value of $8.3m (€7.5m) and the fair value of the exclusivity components, and of the contractual value and fair value of the equipment components.

4. Income Tax

	30 June 2017 $'m	30 June 2016 $'m
Current tax		
Current tax expense	–	–
Overseas tax	–	0.1
Adjustment in respect of prior periods	0.2	0.1
Total current tax	0.2	0.2
Deferred tax		
Origination and reversal of temporary differences	(15.9)	(4.2)
Adjustment in respect of prior periods	0.4	4.1
Impact of change in UK tax rate	3.3	2.1
Total deferred tax	(12.2)	2.0
Total income tax (credit)/charge	(12.0)	2.2

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

	30 June 2017 $'m	30 June 2016 $'m
Loss before tax	(77.7)	(67.2)
Tax credit at the UK corporation tax rate of 19.75% (2016: 20.00%)	(15.3)	(13.4)
Tax effect of non-deductible expenses	13.1	–
Adjustment in respect of prior periods	0.5	4.2
Effect of tax rates in foreign jurisdictions	–	1.0
Impact of change in UK tax rate	3.3	2.1
Temporary differences for which no deferred tax has been recognised	2.4	14.1
Recognition of previously unrecognised temporary differences	(30.3)	(5.8)
Derecognition of previously recognised temporary differences	14.3	–
Income tax (credit)/charge recognised in the Income Statement	(12.0)	2.2

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 19.75% (2016: 20.0%).

The income tax credit of $12.0m (2016: $2.2m charge) equates to an effective tax rate of 15% (2015: (3%)). This effective rate is lower than the effective rate of tax of 19.75% due to a number of items shown above. The rate is primarily driven by the Group recognising a credit in respect of tax losses arising in prior years as a result of forecast profit streams (in particular related to HYLAS 4) against which these losses can be offset, and expenses that are not deductible for tax purposes.

Factors that may affect future tax charges

Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 17% from 1 April 2020 were substantially enacted on 15 September 2016. The deferred tax balance as at the year end has been recognised at 17% (2016: 18%) which materially reflects the rate for the period in which the deferred tax assets and liabilities are expected to reverse.

Tax losses

At the balance sheet date the Group has unrecognised deferred tax assets of $29.5m (2016: $37.2m) available for offset against future profits. A deferred tax asset has been recognised in respect of $64.3m (2016: $28.0m). No deferred tax asset has been recognised in respect of the remaining 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. Conversely, if revenues generated by HYLAS 4 fall materially short of expectations there will be a negative impact to the Group’s effective tax rate.

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

5. Loss per share

	30 June 2017 cents	30 June 2016 cents
Basic and diluted loss per share	(44.74)	(49.27)

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

	30 June 2017	30 June 2016
Loss for the year attributable to equity holders of the parent Company	$(65.2)m	$(68.7)m
Weighted average number of ordinary shares for the purpose of basic earnings per share	145,625,369	139,428,427

6. Property, plant and equipment

	Leasehold improvement $'m	Network assets $'m	Fixtures and fittings $'m	Satellites in operation $'m	Satellites in construction $'m	Group total $'m
Cost						
Balance at 30 June 2015	1.8	13.0	2.6	691.0	144.6	853.0
Additions	–	2.8	0.4	0.5	167.2	170.9
Disposals	–	–	–	0.2	(8.0)	(7.8)
Effect of movements in exchange rates	(0.2)	(3.1)	(0.4)	(34.7)	(7.1)	(45.5)
Balance at 30 June 2016	1.6	12.7	2.6	657.0	296.7	970.6
Additions	–	3.0	0.1	1.4	64.0	68.5
Reclassification*	–	(1.1)	–	(5.8)	–	(6.9)
Effect of movements in exchange rates	0.1	1.4	–	(7.6)	(1.2)	(7.3)
Balance at 30 June 2017	1.7	16.0	2.7	645.0	359.5	1,024.9
Accumulated depreciation and impairment						
Balance at 30 June 2015	1.1	10.1	1.9	148.9	–	162.0
Charge for the year	0.3	1.4	0.4	45.1	–	47.2
Disposals	–	–	–	–	–	–
Effect of movements in exchange rates	(0.2)	(2.1)	(0.3)	(11.1)	–	(13.7)
Balance at 30 June 2016	1.2	9.4	2.0	182.9	–	195.5
Charge for the year	0.4	2.2	0.3	43.1	–	46.0
Reclassification*	–	(0.6)	–	(0.2)	–	(0.8)
Impairment	–	–	–	114.1	–	114.1
Effect of movements in exchange rates	(0.1)	0.7	–	(2.3)	–	(1.7)
Balance at 30 June 2017	1.5	11.7	2.3	337.6	–	353.1
Net book value						
Balance at 30 June 2017	0.2	4.3	0.4	307.4	359.5	671.8
Balance at 30 June 2016	0.4	3.3	0.6	474.1	296.7	775.1

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

Property, plant and equipment under finance lease

At 30 June 2017, the Group held assets under finance lease agreements with a net book value of $39.8m (2016: $47.8m). A depreciation charge for the year of $2.3m (2016: $1.7m) has been provided on these assets. These assets are included in network 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 – Payload received as consideration on 24 June 2015 and came into service on 7 November 2016
- ARTEMIS – Acquired on 31 December 2013

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

Satellite in construction

The satellites in construction assets of $359.5m relate to HYLAS 3 and HYLAS 4 (2016: $296.7m in relation to HYLAS 3 and HYLAS 4).

Capitalised finance costs

Included in the satellites in operation and satellites in construction are capitalised finance costs of $145.7m (2016: $97.4m) related to the HYLAS 2 and HYLAS 4 satellites.

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. An impairment review was conducted for the HYLAS 1 satellite and associated network infrastructure ('HYLAS 1'), at 30 June 2017 as a result of growth in revenues being slower than forecast.

With falling market prices for Ka-band services reducing the ability of future cash generation to make-up for the slower than expected revenue generation in the earlier years of HYLAS 1, the review showed that an impairment of $53.3m was required to bring the carrying value of HYLAS 1 to $58.1m.

The recoverable amount of HYLAS 1 was determined using value-in-use, which is calculated by using the discounted cash flow method. This method considers the forecast cash flows of the HYLAS 1 satellite and associated network infrastructure over the remaining useful economic life of the asset of approximately 9.5 years.

Estimates of future cash flows originate from the detailed budget for the year to 30 June 2018 as reviewed and approved by the Board.

Forecasts for the subsequent periods are driven by the following key assumptions:

1. Capacity ramp - The discounted cash flow forecast assumes a ramp up in capacity utilisation of 8% per year to full utilisation at the end of FY24, 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
4. Discount rate - The present value of the cash flows is calculated by using a pre-tax discount rate of 10.4% derived using the Group's incremental cost of borrowing

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. This sensitivity analysis was performed as a part of the impairment exercise in order to provide insight into the sensitivity of the impairment charge to changes in these key assumptions:

HYLAS 1 satellite impairment review continued

- a 10% decrease in the forecast yield on the uncontracted capacity over the life of the cash flow forecast would increase the impairment charge by $3.7m. A 10% increase in the forecast yield would have an equivalent impact in decreasing the impairment charge.
- a scenario in which the ramp-up of the currently unutilised capacity occurs at 80% of the forecast growth would increase the impairment charge by $7.4m.
- a 1% increase in discount factor applied would increase the impairment charge by $2.7m

The position adopted in the HYLAS 1 impairment review represent management's best estimate of the forecasts and assumptions.

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. An impairment review was conducted for the HYLAS 2 satellite and associated network infrastructure ('HYLAS 2'), at 30 June 2017 as a result of growth in revenues being slower than forecast.

With falling market prices for Ka-band services reducing the ability of future cash generation to make-up for the slower than expected revenue generation in the earlier years of HYLAS 2, the review showed that an impairment of $60.8m was required to bring the carrying value of HYLAS 2 to $234.8m.

The recoverable amount of HYLAS 2 was determined using value-in-use, which is calculated by using the discounted cash flow method.

This method considers the forecast cash flows of the HYLAS 2 satellite and associated network infrastructure over the remaining useful economic life of the asset of approximately 10.5 years.

Estimates of future cash flows originate from the detailed budget for the year to 30 June 2018 as reviewed and approved by the Board. Forecasts for the subsequent periods are driven by the following key assumptions:

1. Capacity sold - The discounted cash flow forecast assumes a ramp up in capacity utilisation of 12% per year to the end of FY23, with modest incremental growth thereafter, from a combination of contractual ramps, development of existing customer relationships and new business development
2. Yield - price per unit of capacity - The discounted cash flow forecast makes assumptions about the price per unit of capacity which is driven by both market conditions and the efficiency of data throughput which varies due to a number of factors such as customer type and hardware platform
3. Satellite life - The discounted cash flow forecast is prepared over the estimated remaining useful economic life of the asset
4. Discount rate - The present value of the cash flows is calculated by using a pre-tax discount rate of 10.4% derived using the Group's incremental cost of borrowing

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. This sensitivity analysis was performed as a part of the impairment exercise in order to provide insight into the sensitivity of the impairment charge to changes in these key assumptions.

HYLAS 2 satellite impairment review continued

- a 10% decrease in the forecast yield on the uncontracted capacity over the life of the cash flow forecast would increase the impairment charge by $19.3m. A 10% increase in the forecast yield would have an equivalent impact in decreasing the impairment charge.
- a scenario in which the ramp-up of the currently unutilised capacity occurs at 80% of the forecast growth would increase the impairment charge by $38.5m.
- a 1% increase in discount factor applied would increase the impairment charge by $13.4m.

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

Impairment of other assets

There are no indicators of impairment for any other assets within Property, plant and equipment.

HYLAS-2B

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 of 13.5 years. This payload is known as HYLAS-2B. The IRU agreement is accounted for as a finance lease and a net book value ('NBV') of $33.4m is included within satellites in operation and also within the assets held under finance lease disclosure provided above.

7. Intangible assets

	Computer software $'m	Brand name $'m	Customer lists $'m	Goodwill $'m	Group total $'m
Cost					
Balance at 30 June 2015	0.6	0.2	1.9	9.7	12.4
Effect of movements in exchange rates	–	–	–	–	–
Balance at 30 June 2016	0.6	0.2	1.9	9.7	12.4
Additions	3.0	–	–	–	3.0
Reclassification*	6.9	–	–	–	6.9
Effect of movements in exchange rates	–	–	0.1	0.3	0.4
Balance at 30 June 2017	10.5	0.2	2.0	10.0	22.7
Accumulated amortisation and impairment					
Balance at 30 June 2015	0.6	0.2	0.6	–	1.4
Effect of movements in exchange rates	–	–	0.2	–	0.2
Balance at 30 June 2016	0.6	0.2	0.8	–	1.6
Charge for the year	1.1	–	0.1	–	1.2
Reclassification*	0.8	–	–	–	0.8
Impairment	–	–	–	9.9	9.9
Effect of movements in exchange rates	–	–	(0.1)	–	(0.1)
Balance at 30 June 2017	2.5	0.2	0.8	9.9	13.4
Net book value					
Balance at 30 June 2017	8.0	–	1.2	0.1	9.3
Balance at 30 June 2016	–	–	1.1	9.7	10.8

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

Filiago impairment review

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

The Filiago goodwill is not subject to amortisation and so is required to be reviewed annually for impairment. Filiago's goodwill impairment review performed for the 30 June 2017 year end showed that an impairment of all of the goodwill was required. The impairment review also showed that the present value of the forecast cash flows supported the customer list intangible of $1.2m on the balance sheet at the year end.

The recoverable amount of the Filiago CGU was determined using the value-in-use approach. The value-in-use was estimated by preparing a discounted cash flow forecast for Filiago over a five year period with a terminal value forecast into perpetuity after that period.

Underlying the forecast cashflow is the position that Filiago's current management team have not been successful at achieving revenue targets that have been set for recent financial years. Whilst the business has been capable of maintaining a largely steady state, it has not been able to capitalise on the significant advantage it has been bestowed as a result of Avanti's HYLAS-2B payload coming into operational service early in FY17. As a result, the Group has decided to make significant changes to the way that the company is managed. However, when preparing the current year's impairment review, the Group has used forecast's based on what it is confident can be delivered, given the actual performance in recent years.

The discounted cash flow forecast assumes a revenue growth rate of 5% per annum over the 5 year forecast period with a 2% growth rate applied in the terminal value calculation. Management consider that the 5% growth rate is modest based on the commercial advantages that Filiago has as a result of access to the HYLAS 2-B platform; namely the fastest consumer satellite broadband speeds in Europe, pan-Germany coverage and access to capacity in a market where supply is limited.

Sensitivity analysis was carried out by management over the revenue growth assumptions. An increase in the growth rate to 10% from the third year of the forecast period, predicated on the new management team delivering stronger performance, would reduce the impairment charge by $2.2m. A forecast which assumes flat revenue growth during the 5 year forecast period would result in an increase in the impairment charge of $1.6m such that the Filiago intangible assets were fully impaired. Management do not consider that no growth during the forecast period is an appropriate assumption based on the commercial and market advantages Filiago has at its disposal. Similarly, in preparing this impairment review, management is exercising caution in forecasting future growth rates given the failure of the business to deliver these in recent years. Management also noted that the variance in the impairment charges under the sensitivity analysis were not material to the Group's depreciation, amortisation and impairment charge nor its profit before tax.

The present value of the forecast cash flows was calculated using the Group's estimated pre-tax cost of capital of approximately 10.5% and is not considered to have a significant impact on the impairment conclusions.

The brand names acquired in the course of the Filiago business combination have been fully amortised. The customer lists acquired of $2.4m are amortised on a straight line basis over a period of 15 years. At the year end, the carrying amount of the customer lists is $1.2m (2016: $1.1m) after charging $0.1m (2016: $0.1m) of amortisation in the year.

8. Trade and other receivables

	Group		Company	
	30 June 2017 $'m	30 June 2016 $'m	30 June 2017 $'m	30 June 2016 $'m
Trade receivables	44.3	45.8	5.5	0.1
Less provision for impairment of trade receivables	(21.5)	(6.5)	–	–
Net trade receivables	22.8	39.3	5.5	0.1
Accrued income	13.7	27.7	17.2	–
Prepayments	17.7	10.3	4.0	5.2
Amounts due from Group companies	–	–	132.6	385.4
Other receivables	6.4	2.2	4.8	–
	60.6	79.5	164.1	390.7

Net trade receivables and accrued income have decreased mainly as a result of a significant provision made against a government receivable, described below, in addition to the comparative balance being high due to contracts reaching milestones at the end of the final quarter of that financial year which resulted in invoicing or revenue accruals. Of the accrued income balance $9.6m (2016: $16.4m) was due from investment grade customers 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 with the Group's trade receivables which are in the range of 30 to 90 days.

Government of Indonesia

The provision for impairment of trade receivables includes $16.8m (2016: Nil) related to a full provision for the receivable due from the Government of Indonesia ('GoI') at the end of the year. This provision comprised a bad debt expense of $12.4m and following termination of the contract post year end, the reclassification of $4.4m from deferred income to the bad debt provision related to amounts billed but for which services had not been delivered at 30 June 2017.

Avanti had contracted with the Government of Indonesia (GoI) to provide services on its Artemis satellite related to GoI's need to firstly bring into use, and secondly to maintain its orbital slot at 123 degrees east. The total contract value was in excess of $30 million. Avanti performed all of its obligations under the contract and had extended payment deadlines for GoI to assist with administrative delays. However, after no payments had been received for a significant period of time, Avanti terminated the contract and has initiated arbitration proceedings in London. The outstanding amount is $16.8m and has been fully provided in these accounts. GoI has not disputed that the amounts are due and payable. Avanti is confident that the arbitration panel will rule in the Group's favour and has provided for the debt at the year end until the uncertainty related to enforcing the arbitration panel's ruling has been sufficiently reduced.

Long Term Receivables

Included in the Group's trade receivables balance at 30 June 2017 are two contractual long term receivables:

- $4.4m (2016: $7.2m) related to an agreement where the outstanding debt is payable in quarterly instalments ending on 30 June 2019. 63% of the original balance has already been collected as at the date of approval of this Annual Report. In addition to the instalments payable, interest is payable at 5.25% per annum.
- €10.15m (2016: €10.5m) related to an agreement where the outstanding debt is payable in quarterly instalments over periods ranging from 3-5 years. 27% of the original balance has already been collected as at the date of approval of this Annual Report. In addition to the instalments payable, interest is payable at rates ranging between 3.5% and 5.25% per annum.

Company Receivables

The Company has non-current trade and other receivables of $663.0m (2016: $642.5m) relating to amounts due from Group companies classified as loans receivable. The Company has current trade and other receivables of £5.5m relating to amounts due from Group companies.

In light of the impairment of HYLAS 1 and HYLAS 2 assets during the year, the Directors have reviewed intercompany receivables owed to the Company and as at 30 June 2017. Based on the underlying net assets recorded on the balance sheet of each subsidiary, the value of spectrum rights that have no corresponding balance sheet asset and the future forecast cash flows of those subsidiaries, the Directors have made a provision against $400.0m of intercompany receivables. The remaining carrying value of the outstanding debt of $741.6m is believed to be supported by the net assets of the subsidiaries.

The provision against intercompany receivables is an estimate which is based on the difference between the book value of the receivables and the forecast net present value of the cash flows that the business will generate from assets held by the subsidiaries. The sensitivities referred to in the Property, plant and equipment note (Note 13) give an indication of how upward or downward changes in the forecast performance of the HYLAS 1 and HYLAS 2 assets would impact the impairment assessment. Those sensitivities also apply to the provision for intercompany receivables. In addition, the assessment also notably includes HYLAS 4 cash flows forecast for a period of 19 years following that satellite coming into service. Sensitivity analysis was carried out by management over the assumptions made in the HYLAS 4 forecasts relating to yield and growth in utilisation, with the following sensitivities identified:

- a 10% decrease in the forecast yield over the life of the cash flow forecast would increase the provision by $57.7m.
- a scenario in which the ramp-up of the capacity occurs at 80% of the forecast growth would increase the provision by $126.7m.

9. Loans and borrowings

	Group current		Group non-current	
	30 June 2017 $'m	30 June 2016 $'m	30 June 2017 $'m	30 June 2016 $'m
Secured at amortised cost				
High Yield Bonds - Original notes	–	–	–	629.5
High Yield Bonds - Amended Existing Notes	–	–	293.6	–
High Yield Bonds - PIK Toggle Notes	–	–	287.6	–
Finance lease liabilities (i)	2.1	3.3	11.4	12.5
	2.1	3.3	592.6	642.0

(i) Finance lease obligations are secured by retention of title to the related assets. The borrowings are on fixed interest rate debt with repayment periods between 3 and 13.5 years.

High yield bonds

October 2016 Coupon Capitalisation

The Company had 10% Senior Secured Notes ('Original Notes') with a nominal value of $645.0m in issue at the beginning of the year. On 17 October 2016, the Company announced the result of a successful consent solicitation process. The Company received consents from holders of 89.5% of its Senior Secured Notes to permit paying the interest due on 1 October 2016 in respect of consenting holders' Senior Secured Notes in the form of additional Senior Secured Notes on the same terms as the existing Senior Secured Notes in lieu of cash. As a result, additional Senior Secured Notes with a nominal value of $40.4m were issued in lieu of $28.9m of the cash coupon due on that date. A cash coupon of $3.4m was paid to the 10.5% of holders from whom consent was not received in October 2016.

January 2017 Senior Secured Notes Restructuring

On 23 January 2017, the Group completed a financial restructuring which, inter alia, modified the Senior Secured Notes with a nominal value of $685.4m in issue at that date into two tranches of Notes as follows:

- $203.8m of the Original Notes were converted into $203.8m of 10%/15% Senior Secured Notes ('PIK Toggle Notes')
- $481.6m of the Original Notes were converted into $481.6m of 12%/17.5% Senior Secured Notes ('Amended Existing Notes')

In addition $6.5m of additional PIK Toggle Notes were issued on completion of the restructuring to settle the accrued interest on the proportion of Original Notes that were converted into PIK Toggle Notes. The accrued interest at the restructuring date on the proportion of the Original Notes that were converted into Amended Existing Notes was settled on 1 April 2017 as described below under the heading April 2017 Coupon.

PIK Toggle Notes

The PIK Toggle Notes included the following primary modifications to the terms of the Original Notes:

- the ability to PIK the April 2017 and October 2017 coupon payments, subject to a minimum cash threshold metric
- an extension of the maturity date from 1 October 2019 to 1 October 2021
- the introduction of a Margin Increase mechanism which could see the cash coupon rate of 10% and the PIK rate of 15% increase by a maximum of 2.5% in two steps of 1.25%, dependent on the Group's performance against EBITDA targets

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

As a result, the existing debt converted of $203.8m remained on the balance sheet at its current carrying value. The debt will be accreted up to its final redemption value over the extended term to maturity using an amended Effective Interest Rate.

Amended Existing Notes

The Amended Existing Notes included the following primary modifications to the terms of the Original Notes:

- an increase in the cash coupon from 10% to 12%
- the ability to PIK the April 2017, October 2017 and April 2018 coupon payments, subject to a minimum cash threshold metric
- an extension of the maturity date from 1 October 2019 to 1 October 2022
- the introduction of a Margin Increase mechanism which could see the cash coupon rate of 10% and the PIK rate of 15% increase by a maximum of 2.5% in two steps of 1.25%, dependent on the Group's performance against EBITDA targets

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

As a result, on completion of the restructuring, the carrying value of the Original Notes converted into Amended Existing Notes of $481.6m was de-recognised and the Amended Existing Notes with a nominal value of $481.6m were recognised on the balance sheet at the date of modification at their fair value of $245.6m. The fair value at the date of modification of $0.51 per note was obtained from the price of the first trade in the Amended Existing Notes after modification. The gain arising on substantial modification of $219.2m) comprises the $236.0m difference between the derecognised financial liability and fair value of the new financial liability in addition to $16.8m of unamortised costs of issues and discounts related to the substantially modified Original Notes.

New Money

As a part of the same restructuring completed on 23 January 2017, the Group issued new PIK Toggle Notes with a nominal value of $82.5m with a 3% discount.

April 2017 Coupon

The April 2017 coupon payments due on the PIK Toggle Notes and Amended Existing Notes were both settled through the issue of additional notes rather than the payment of cash. $7.9m of PIK Toggle Notes were issued in respect of interest due on these notes between 23 January 2017 and 1 April 2017. $30.6m of Amended Existing Notes were issued in respect of interest due on these notes between 2 October 2016 and 1 April 2017. The interest accrued as at 23 January 2017 on the portion of the Original Notes converted into PIK Toggle Notes was settled through the issue of $6.5m of additional PIK Toggle Notes on the date that the restructuring was completed.

30 June 2017			
Issuer	Original notional value	Description of instrument	Due
Avanti Communications Group plc	$512.2m	Amended Existing Notes	1 October 2022
Avanti Communications Group plc	$300.8m	PIK Toggle Notes	1 October 2021

30 June 2016			
Issuer	Original notional value	Description of instrument	Due
Avanti Communications Group plc	$645.0m	10% Senior Secured Notes	1 October 2019

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

	30 June 2017 $'m	30 June 2016 $'m
High yield bonds	813.0	645.0
Add: Unamortised issue premium	–	4.6
Less: Unamortised credit on substantial modification	(218.6)	–
Less: Unamortised issue discount	(13.2)	(7.8)
Less: Unamortised debt issuance costs	–	(12.3)
	581.2	629.5

10. Cash absorbed by operations

	Group 30 June 2017 $'m	Group 30 June 2016 $'m
(Loss)/profit before taxation	(77.7)	(67.2)
Interest receivable	–	–
Interest payable	74.4	38.8
Amortised bond issue costs	19.0	2.4
Foreign exchange loss/(gain)	(0.1)	(13.6)
Depreciation and amortisation of non-current assets	47.2	47.3
Provision for doubtful debts	15.0	1.5
Exceptional credit on substantial modification	(219.2)	–
Share based payment expense	0.2	0.4
Impairment	124.0	–
Decrease in stock	(0.8)	0.6
Decrease/(increase) in debtors	(95.5)	(50.9)
(Decrease)/increase in trade and other payables	104.4	10.6
Effects of exchange rate on the balances of working capital	5.0	(1.5)
Cash absorbed by from operations	(4.1)	(31.8)

11. Post balance sheet events

In July 2017 the Company drew down $100 million of the three-year super senior facility agreed in June 2017 which has an interest rate of 7.5%.

In November 2017 the Group terminated its contract with MOD of Indonesia and made provisions against the year-end debt of $16.8 million.

As described in the going concern accounting policy in Note 2, on 13 December 2017, the Company announced that it had reached agreement with noteholders representing approximately 62% of its outstanding 2021 Notes and 55% of its outstanding 2023 Notes (together, the "Majority Holders") and shareholders representing 34% of its existing issued share capital to implement a restructuring of the Group's indebtedness.

The restructuring consists of repayment of the outstanding 12%/17.5% Senior Secured Notes due 2023 of $557 million by issuing approximately 2.0 billion new ordinary shares of 1 pence each in Avanti Communication Group plc which will represent approximately 92.5% of the Company's issued ordinary share capital. This remains subject to approval by the Group's shareholders in addition to a consent solicitation process, and UK Scheme of Arrangement process if needed, which will be completed in January and February 2018.

In addition the terms of the 10%/15% Senior Secured Notes due 2021 will be revised such that the interest rate will be reduced to 9% for both cash and PIK and their maturity will be extended by one year to 2022. This remains subject to a formal UK Scheme of Arrangement process with the bondholders.