Avanti Communications Group plc

Interim Report December 2009

We sell wholesale satellite broadband to service providers.

FINANCIAL HIGHLIGHTS

- **Revenue £3.3m**
  (2008: £3.2m)
- **Operating loss £0.45m**
  (2008: loss £1.0m)
- **Cash balances £24.7m before receipt of £89.0m placing proceeds**

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CHAIRMAN'S STATEMENT

I am pleased to announce results in line with market expectations and to report on a period during which our core business for HYLAS 1 improved significantly and our management team completed an exceptional transaction to raise £283 m to fully fund our second satellite, HYLAS 2.

HYLAS 1 is in its final phase of testing in Bangalore which will be completed in the second quarter prior to its shipment to the launch site in French Guyana. We will update the market further on the precise launch date following the completion of the final round of thermal vacuum testing. As we approach launch it is evident from service providers that demand is increasing and the prices we are able to secure for pre-sales are rising. Because demand particularly in rural broadband is so high, we are confident that capacity will sell quickly after launch and for this reason we have seen some of our earlier customers return to negotiate additional capacity over extended periods in order to lock in prices and availability. We expect this trend to accelerate.

In October we announced a contract and strategic partnership with Hughes Network Services, the World's leading supplier of satellite network services and equipment. Hughes purchased an initial £7.5 m of capacity on HYLAS 1 in order to continue to grow its own established enterprise network and broadband business. We have purchased equipment from Hughes for the network control centre and have agreed a framework supply agreement for our customers to purchase dishes and modems at attractive rates. We are also working in partnership with Hughes to sell HYLAS 1 capacity through its extensive distribution base. During the period we completed a trial with a major mobile phone company using satellite capacity for cellular backhaul and are moving forward in negotiations with several such companies for HYLAS capacity. We now expect this to

I have great confidence in our ability to grow shareholder value substantially during 2010.

be a major market for us since many rural base stations are capacity constrained for network connectivity and HYLAS 1 and 2 solve this problem. We signed a number of contract amendments with existing customers to increase the size and term of their purchase and also won new contracts taking our total customer list to 54.

Shortly before the end of the reporting period we announced that the Company had secured £194m debt funding for its second satellite, HYLAS 2, involving the US EXIM Bank and COFACE. Further to this, on 6 January 2010, the shareholders approved a placing of 22.3 million shares at 400p to fund the £89 m equity portion of the HYLAS 2 project. Thus, this financing (which is currently proceeding through completion of conditions precedent and other documentation) renders HYLAS 2 fully financed. A good start has been made on the manufacture of the satellite which is expected to launch in the first half of 2012.

We estimate that the addressable market in the Europe, Middle East and African ("EMEA") countries selected to be served by HYLAS 1 and 2 is at least 100 million homes and business. Furthermore, we believe that we will obtain a number of key strategic advantages from the deployment of HYLAS 2: i) we create the security and resilience of back up capacity; ii) by using our spectrum we can deploy services across a wide area to establish significant asset value and create barriers to entry; iii) we will consolidate long term relationships with our customers who value the ability to expand into our new capacity; and iv) an increase in overall capacity will create economies of scale and make better use of overheads.

Results

Revenue for the six months to December 2009 was £3.3 m slightly ahead of the same period last year.

We continue to contain our operating costs and direct overheads and have therefore seen a further fall in our loss from operations to £0.45 m (2008 loss: £1.0 m), which also includes other operating income of £1.6m of liquidated damages from a supplier in respect of schedule delays. This leaves a loss before taxation of £0.44 m.

During the period there was extensive budgeted expenditure for HYLAS 1 in property, plant and machinery which increased to £92.4 m (30 June 2009: £51.5 m) with major milestone payments being made to Astrium and Arianespace. In addition there was some initial expenditure (£2.8 m) on HYLAS 2.

However, cash balances remain almost unchanged from the year end at £24.7 m following the receipt of the June placing proceeds of £31.5 m which, in addition to a further milestone receipt from the ESA contract, offset the capital expenditure.

Share incentives

The shareholders at the Extraordinary General Meeting in January 2010 authorised the Company to issue an additional 1.5 million ordinary shares into the Employee Benefit Trust to be set aside for option grants for new staff. These options will have both time lapse and a £10 share price vesting criteria. The first share based payment charge for these new options will arise in the current financial year.

Outlook

As we approach the launch of HYLAS 1 our sales teams are now fully focussed on signing new contracts for HYLAS 1. We expect revenue in the second half to be at similar levels to this period and, with the exception of the share based payment charge, the results for the year to June 2010 will be in line with market expectations.

It is now clear that the demand for Ka band services worldwide will be large. Following the early lead of Avanti customers including the Scottish Government, other governments, such as Australia and France have announced the procurement of such services to address their own digital divide problems. This government action can only serve to increase the demand pressure for services that we are seeing from the commercial market. Given the high barriers to entry and long lead times of this industry, competition in our sector remains low and so the lead generated by Avanti's bold move into Ka band is expected to enable us to quickly fill HYLAS 1 and 2.

Our order book and sales pipeline for HYLAS 1 is strong with over 14% already committed for the first year of HYLAS 1's operations. We have several new large contracts with major telecommunications customers under negotiation which should enable us to exceed our own internal targets for launch pre-sales. The management team have also been thrilled by the strength of inbound enquiries resulting from the announcement of HYLAS 2, particularly in the Middle East, and have a number of significant contracts under negotiation for that region which we hope to announce during the current financial year. Whilst the launch of HYLAS 1 is the major near term event, the financing of HYLAS 2 greatly strengthens Avanti's market leadership and minimises business risks. With an intercontinental satellite network now fully financed, I have great confidence in our ability to grow shareholder value substantially during 2010.

FEJG Brackenbury, CBE
Chairman

5 February 2010

CONSOLIDATED UNAUDITED INCOME STATEMENT
for the six months ended 31 December 2009

	Note	Unaudited Half year 31 Dec 09 £'000	Unaudited Half year 31 Dec 08 £'000	Audited Year ended 30 Jun 09 £'000
Revenue		**3,263**	3,223	8,041
Cost of sales		**(1,768)**	(1,648)	(5,068)
Gross Profit		**1,495**	1,575	2,973
Operating expenses		**(3,705)**	(3,517)	(7,086)
Other operating income	7	**1,760**	956	2,727
(Loss) from operations		**(450)**	(986)	(1,386)
Financing exchange and derivatives	8	**56**	3,649	2,932
Finance income		**32**	199	417
Finance expense		**(78)**	(105)	(162)
(Loss)/Profit before taxation		**(440)**	2,757	1,801
Income tax	5	**170**	(786)	(752)
(Loss)/Profit for the period attributable to equity holders of the company		**(270)**	1,971	1,049
Basic (loss)/earnings per share (pence)		**(0.65p)**	7.10p	3.78p
Diluted (loss)/earnings per share (pence)		**(0.60p)**	6.37p	3.39p

CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 31 December 2009

	Unaudited Half year 31 Dec 09 £'000	Unaudited Half year 31 Dec 08 £'000	Audited Year ended 30 Jun 09 £'000
Loss/(profit) for the period	**(270)**	1,971	1,049
Other comprehensive income/(loss) for the period	**–**	–	–
Total comprehensive (loss)/income attributable to:			
Equity holders of the company	**(270)**	1,971	1,049

The accompanying notes form an integral part of this condensed consolidated interim financial information.

CONSOLIDATED UNAUDITED BALANCE SHEET
as at 31 December 2009

	Note	Unaudited 31 Dec 09 £'000	Unaudited 31 Dec 08 £'000	Audited 30 Jun 09 £'000
ASSETS				
Non–current assets				
Property, plant and equipment	9	**92,447**	49,625	51,534
Intangible assets		**16**	27	21
Deferred tax assets		**280**	144	5
Total non–current assets		**92,743**	49,796	51,560
Current assets				
Inventories		**1,525**	259	352
Unpaid share capital		**–**	–	31,500
Trade and other receivables		**13,958**	12,923	14,584
Cash and cash equivalents		**24,650**	26,558	24,615
Total current assets		**40,133**	39,740	71,051
Total assets		**132,876**	89,536	122,611
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables		**15,250**	12,069	12,164
Provisions for other liabilities		**30**	39	30
Interest bearing liabilities		**275**	332	402
Total current liabilities		**15,555**	12,440	12,596
Non–current liabilities				
Trade and other payables		**7,228**	2,899	2,899
Provisions for other liabilities		**48**	100	63
Interest bearing liabilities		**45,521**	39,261	42,574
Total non–current liabilities		**52,797**	42,260	45,536
Total liabilities		**68,352**	54,700	58,132
Equity				
Share capital		**417**	277	417
Share premium		**34,041**	3,858	34,041
Retained earnings and other reserves		**30,066**	30,701	30,021
Total shareholders' equity		**64,524**	34,836	64,479
Total liabilities and equity		**132,876**	89,536	122,611

The accompanying notes form an integral part of this condensed consolidated interim financial information.

CONSOLIDATED UNAUDITED CASH FLOW STATEMENT
for the six months ended 31 December 2009

	Unaudited Half year 31 Dec 09 £'000	Unaudited Half year 31 Dec 08 £'000	Audited Year ended 30 Jun 09 £'000
Cash flow from operating activities			
Loss from operations before taxation	**(450)**	(986)	(1,386)
Net foreign exchange loss/(gain)	**222**	(956)	(1,183)
Depreciation of property, plant and equipment	**401**	383	768
Amortisation of intangible assets	**5**	45	51
Provision for impairment of trade receivables	**(51)**	12	172
Onerous lease provision	**(15)**	(75)	(123)
Share-based payments expense	**211**	237	652
	323	(1,340)	(1,049)
Movement in working capital			
Decrease/(increase) in inventories	**(1,173)**	(10)	(102)
Decrease/(increase) in trade and other receivables	**184**	(4,267)	(5,626)
Increase/(decrease) in trade and other payables	**7,467**	(5)	(4,569)
Cash generated from/(used by) operations	**6,801**	(5,622)	(11,346)
Interest received	**32**	647	951
Interest paid	**(78)**	(83)	(162)
Net cash generated from/(used by) operating activities	**6,755**	(5,058)	(10,557)
Cash flows from investing activities			
Payments for property, plant and equipment	**(36,332)**	(5,818)	(2,850)
Net cash used in investing activities	**(36,332)**	(5,818)	(2,850)
Cash flows from financing activities			
Repayment of borrowings	**–**	(14)	(21)
Proceeds from share issue	**31,500**	–	–
Share issue costs	**(1,177)**	–	–
Proceeds from finance leases	**–**	–	802
Finance lease paid	**(238)**	(283)	(592)
Net cash received from/(used by) financing activities	**30,085**	(297)	189
Effects of exchange rate on the balances of cash and cash equivalents	**(473)**	2,490	2,592
Net increase/(decrease) in cash and cash equivalents	**35**	(8,683)	(10,626)
Cash and cash equivalents at the beginning of the period	**24,615**	35,241	35,241
Cash and cash equivalents at the end of the period	**24,650**	26,558	24,615

The accompanying notes form an integral part of this condensed consolidated interim financial information.

CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY
for the six months ended 31 December 2009

	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Total Reserves £'000
2008				
At 1 July 2008	277	3,858	28,600	32,735
Profit for the period	–	–	1,971	1,971
Share–based payments	–	–	237	237
Tax expense taken directly to reserves		–	(107)	(107)
At 31 December 2008 (Unaudited)	**277**	**3,858**	**30,701**	**34,836**
2009				
At 1 January 2009	277	3,858	30,701	34,836
Loss for the period	–	–	(922)	(922)
Premium on shares issued	140	30,183	–	30,323
Share-based payments	–	–	415	415
Tax expense taken directly to reserves		–	(173)	(173)
At 30 June 2009 (Audited)	**417**	**34,041**	**30,021**	**64,479**
At 1 July 2009	417	34,041	30,021	64,479
Loss for the period	–	–	(270)	(270)
Share-based payments	–	–	211	211
Tax credit taken directly to reserves		–	104	104
At 31 December 2009 (Unaudited)	**417**	**34,041**	**30,066**	**64,524**

The accompanying notes form an integral part of this condensed consolidated interim financial information.

NOTES TO THE ACCOUNTS

1. General Information

Avanti Communications Group plc ('the Company') is a public company incorporated and domiciled in the United Kingdom. The address of its registered office is 74 Rivington Street, London EC2A 3AY. The Company is listed on AIM.

These unaudited condensed consolidated interim financial statements were approved for issue on 5 February 2010.

2. Basis of Preparation

These unaudited condensed consolidated financial statements ("the financial statements") for the six months ended 31 December 2009 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2009, which have been prepared in accordance with International Financial Reporting Standards ("IFRS's").

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2009, as described in those annual financial statements.

The financial statements have not been audited or reviewed and do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The audited statutory accounts for the year ended 30 June 2009 were approved by the Board of Directors on 24 September 2009 and have been delivered to the Registrar of Companies.

3. Accounting Policies

Except as described below, the same accounting policies, presentation and methods of computation are followed in these condensed consolidated interim financial statements as were applied in the preparation of the Group's annual financial statements for the year ended 30 June 2009.

The condensed consolidated financial information presented does not comply with the full disclosure requirements of all applicable IFRS's.

The Group has adopted IFRS 8, 'Operating segments'. Please refer to note 4 for an explanation of the impact of adopting IFRS 8 on these unaudited condensed consolidated financial statements,

In addition, the following standards and interpretations, issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC"), are effective for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position:

- IFRS 2 (as amended) – Share–based Payment: Vesting Conditions and Cancellations (effective for financial years beginning on or after 1 January 2009).
- IAS 1 (as amended) – Presentation of Financial Statements – Capital Disclosures (effective for financial years beginning on or after 1 January 2009).
- IAS 23 (revised) – Borrowing costs (effective for financial years beginning on or after 1 January 2009).

4. Segmental reporting

The Group has adopted IFRS 8, 'Operating Segments'. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker (the Avanti Executive Board) to allocate resources and assess performance.

All resources are allocated on the basis of satellite services. As a result, Avanti Communications Group plc are disclosing one segment being satellite services.

NOTES TO THE ACCOUNTS continued

5. Taxation

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 30 June 2010 is 28.0% (the estimated tax rate for the six months ended 31 December 2009 was 28.0%).

6. Earnings per share

The calculations of the earnings per ordinary share are based on the profit on the ordinary earnings after taxation and the weighted number of shares in issue in the reporting period.

	Unaudited Half year 31 Dec 09 £'000	Unaudited Half year 31 Dec 08 £'000	Audited Year ended 30 Jun 09 £'000
(Loss)/Profit attributable to equity holders	**(270)**	1,971	1,049
Weighted average number of ordinary shares for the purpose of basic earnings per share	**41,809,357**	27,751,215	27,787,491
Dilutive effect of share options	**3,112,708**	3,170,850	3,172,930
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**44,922,065**	30,922,065	30,960,421
Basic (loss)/earnings per share	**(0.65p)**	7.10p	3.78p
Diluted (loss)/earnings per share	**(0.60p)**	6.37p	3.39p

7. Other operating income

	Unaudited Half year 31 Dec 09 £'000	Unaudited Half year 31 Dec 08 £'000	Audited Year ended 30 Jun 09 £'000
Exchange gain on trade receivables and payables	**159**	956	1,355
Liquidated damages received	**1,601**	–	1,372
Total other operating income	**1,760**	956	2,727

Liquidated damages were received from Astrium due to the late delivery of HYLAS. These damages were accrued daily until the contracted date of November 2009. These damages compensate for the additional costs incurred as a result of the late delivery of the satellite.

8. Financing exchange and derivatives

	Unaudited Half year 31 Dec 09 £'000	Unaudited Half year 31 Dec 08 £'000	Audited Year ended 30 Jun 09 £'000
Fair value gain on derivatives	**528**	1,159	340
Financing exchange (loss)/gain	**(472)**	2,490	2,592
Financing exchange and derivatives	**56**	3,649	2,932

NOTES TO THE ACCOUNTS continued

9. Property, plant and equipment

During the period, fixed asset additions totalled £40.9 million. The additions relate to capitalised costs associated with the launch and construction of the satellite.

10. Capital commitments

As at 31 December 2009, Avanti Space Limited had contracted for satellite expenditure totalling £21.9 million. Part of the total price amounting to €10.7 million, is due to be paid directly from the European Space Agency (ESA) to the satellite contractor, Astrium EADS Limited and €12.5 million to Arianespace thereby reducing the commitment due directly from the Group.

Following the confirmation of the equity placing at the EGM on 6 January 2010, the Group entered into contracts in relation to their new satellite HYLAS 2 for £161.3 million.

11. Post balance sheet event

The Group received £86.8 million, net of fees, on 7 January 2010 in payment for 22.25 million shares issued on 6 January 2010.

OFFICERS AND PROFESSIONAL ADVISERS

Directors

F E J G Brackenbury CBE
Chairman

D J Williams
Chief Executive

D J Bestwick
Chief Technology Officer

N A D Fox
Group Finance Director

M J O'Connor
Chief Operating Officer

D A Foster
Non-Executive Director

W P Wyatt
Non-Executive Director

C R Vos
Non-Executive Director

I C Taylor MBE, MP
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