Speedcast International Limited

ACN 600 699 241

Appendix 4D and Financial Statements for the

Half Year Ended 30 June 2018

APPENDIX 4D

For the half year ended 30 June 2018

Results for Announcement to the Market

All comparisons are to the half year ended 30 June 2017 unless otherwise stated.

All amounts are in US$ million unless otherwise specified.

	2018 US$ million	Up/Down	Movement %
Revenue from ordinary activities	304.9	Up	24%
Profit/(Loss) after tax from ordinary activities attributable to the owners of the Company	0.5	Up	(110%)

Dividend Information

	Amount per share (AUD cents)	Franked % per share
Final dividend for 2017 (paid on 23 May 2018)	4.80	100
Proposed interim dividend for 2018	2.40	100

On 27 August 2018, the Board approved an interim dividend of AUD 2.40 cents per share for the six months ended 30 June 2018. The dividend will be paid on 12 October 2018 to all shareholders registered on the record date of 10 September 2018. The ex-dividend date for dividend entitlement will be 7 September 2018. The dividend will be fully franked for Australian taxation purposes.

No dividend reinvestment plan was in operation during the half year ended 30 June 2018.

Net Asset Backing

	30 June 2018 (US$ cents)	31 December 2017 (US$ cents) (restated)
Net tangible asset backing per security	(135)	(134)
Net asset backing per security	119	127

Net tangible assets are defined as the net assets of the Speedcast group excluding goodwill and intangibles. The number of shares on issue at 30 June 2018 was 239,398,281 (31 December 2017: 238,992,149).

Details of entities where control has been gained during the half year

The Group did not gain control over any companies during the half year.

Information presented in this report should be read in conjunction with the 2017 Annual Financial Report of Speedcast International Limited and its controlled entities and any public announcements made in the period by Speedcast International Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Listing Rules.

Additional information supporting the Appendix 4D disclosure requirements can be found in the Directors' Report and the consolidated financial statements for the half year ended 30 June 2018.

This report is based on the consolidated financial statements for the half year ended 30 June 2018 of Speedcast International Limited and its controlled entities, which have been reviewed by PricewaterhouseCoopers. The Independent Auditor's Review Report provided by PricewaterhouseCoopers is included in the consolidated financial statements for the half year ended 30 June 2018.

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of Speedcast International Limited (the Company) and its subsidiaries (together referred to as the Group, Speedcast), for the half year ended 30 June 2018 and the auditor's report thereon.

About Speedcast International Limited

Speedcast International Limited (ASX: SDA) is the largest provider of remote communications and IT services in the world. Speedcast's fully managed service is delivered via a leading global, multi-access-technology, multi-band and multi-orbit network of 70+ satellites and an interconnecting global terrestrial network, bolstered by extensive on the ground local support from 40+ countries. This global "network of networks" allows customers to fully rely on the most robust, integrated infrastructure available in the market for their mission critical applications. Speedcast is uniquely positioned as a strategic partner, tailoring communications, IT and digital solutions to meet unique customer needs and enable business transformation. Speedcast extends its managed services through differentiated technology offerings including cyber-security, crew welfare, content solutions, data and voice applications and network systems integrations services. With a passionate customer focus and a strong safety culture, Speedcast services more than 2,000 customers in over 140 countries in sectors such as Maritime, Energy, Mining, Enterprise, Media, Cruise, NGOs and Government. Learn more at www.speedcast.com.

Information on Directors

The names of each person who has been a director during the half year and to the date of this report, unless otherwise stated are:

John Mackay
Pierre-Jean Beylier
Grant Ferguson
Peter Jackson
Michael Malone
Edward Sippel
Michael Berk (resigned 17 May 2018)
Caroline van Scheltinga (appointed 11 April 2018)

Review of Operations

Highlights

- Group revenue grew 24% to US$304,850,000 (1H 2017: US$246,315,000);
- Underlying EBITDA grew 14% to US$60,384,000 (1H 2017: US$53,175,000);
- Underlying NPATA grew 37% to US$21,101,000 (1H 2017: US$15,421,000);
- Strong operating cash flows (89% of Underlying EBITDA) generated as a result of improved working capital discipline;
- Net debt increased from US$388,236,000 at 31 December 2017 to US$429,508,000 at 30 June 2018 as a result of investment in growth including debt refinancing costs and US$20,000,000 for the UltiSat acquisition earnout; and
- The Board declared a fully franked interim dividend of AU$2.40 cents per share for the six-month period ended 30 June 2018.

DIRECTORS' REPORT (continued)

Review of Operations (continued)

Operational and Divisional Highlights

- Maritime division revenue grew 10% to US$106,498,000 in 1H 2018 from US$96,917,000 in 1H 2017. This strong organic increase was driven primarily by high growth in Commercial Shipping from increased VSAT activations and some bandwidth growth in Cruise;
- Energy division revenue in 1H 2018 was down 17% to US$76,349,000 from US$91,772,000 in 1H 2017 due to the delayed recovery in the Offshore Energy sector, which caused higher than expected industry churn (rig count attrition) and pricing pressure, as well as delays in new projects;
- EEM revenue grew organically by 29% to US$74,512,000 from US$57,626,000. This strong growth included the first phase of the NBN contract in Australia and growth in wholesale voice activity; and
- Government division revenue from the UltiSat acquisition was US$47,491,000 during the period. This acquisition closed in November 2017 and was not included in the results for the half year to 30 June 2017.

Statutory reconciliations

The underlying financial results have been presented to provide a better understanding of Speedcast's financial performance and are intended to exclude items which are non-recurring in nature, such as acquisition related costs, integration costs and restructuring costs.

Non-IFRS measures such as EBITDA and NPATA have also been presented to provide a better understanding of Speedcast's financial performance.

	Half Year 30 June 2018 US$'000	Half Year 30 June 2017 (restated) US$'000
Underlying revenue	304,850	246,315
Underlying EBITDA	60,384	53,175
Depreciation	(18,182)	(21,857)
Amortisation	(19,720)	(14,184)
Underlying EBIT	22,482	17,134
Underlying finance costs, net	(14,995)	(11,291)
Income tax expense	(1,570)	(1,188)
Underlying NPAT	5,917	4,655
Add back: Amortisation (net of tax)	15,184	10,766
Underlying NPATA	21,101	15,421

Statutory reconciliations (continued)

	Half Year 30 June 2018 US$'000	Half Year 30 June 2017 (restated) US$'000
Statutory revenue	304,850	246,315
Statutory net profit/(loss) after tax attributable to owners of the Company	540	(5,182)
Acquisition related costs	397	5,953
Integration costs	1,005	764
Restructuring costs	615	3,646
Fair value loss on deferred consideration	-	550
Gain on extinguishment of interest rate hedges	(3,031)	-
Foreign exchange gain	(1,896)	(370)
Accelerated amortisation of capitalised facility fees on borrowing – finance cost	8,619	-
Interest expense on deferred consideration – finance cost	812	-
Unwinding of fair value adjustments on acquisitions – finance cost	251	414
Tax effect of above items	(1,395)	(1,120)
Underlying NPAT	5,917	4,655
Add back: Amortisation (net of tax)	15,184	10,766
Underlying NPATA	21,101	15,421

Analysis of statutory to underlying reconciliations

- There was no difference between underlying and statutory revenue;
- Acquisition-related costs such as due diligence, M&A, consultants and legal fees totalling US$397,000 have been excluded from the underlying financial results;
- US$1,620,000 of Integration and restructuring costs were incurred during the period;
- As a consequence of the 1H 2018 refinancing, the amortisation of prior loan establishment costs has been accelerated, resulting in a US$8,619,000 expense;
- On repayment of previous loans, certain interest rate swaps were cancelled. The fair value of the swaps was recycled through profit and a gain of US$3,031,000 was recognised;
- Foreign exchange gains of $1,896,000 have been excluded from the underlying result;
- The collective tax impact of the above adjustments is a credit of US$1,395,000;
- Underlying NPAT for the period after these adjustments was US$5,917,000;
- After adding back the amortisation of intangibles (net of tax) the underlying NPATA of the Group is US$21,101,000 compared with US$15,421,000 in 1H 2017.

DIRECTORS' REPORT (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

Rounding of amounts

The Company is of a kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and consolidated financial statements have been rounded off in accordance with that class order to the nearest thousand dollars.

This Directors' Report is signed in accordance with a resolution of the Board of Directors.

Pierre-Jean Beylier
Chief Executive Officer, Executive Director
27 August 2018

Auditor's Independence Declaration

As lead auditor for the review of Speedcast International Limited for the half-year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Speedcast International Limited and the entities it controlled during the period.

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
27 August 2018

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Half Year 30 June 2018 US$'000	Half Year 30 June 2017 (restated) US$'000
Revenue from continuing operations	2	304,850	246,315
Cost of equipment and bandwidth services		(165,082)	(120,189)
Other gains/(losses)	3	5,199	(318)
Staff costs		(52,432)	(46,172)
Acquisition related costs		(397)	(5,953)
Integration costs		(1,005)	(764)
Restructuring costs		(615)	(3,646)
Other expenses		(27,191)	(26,593)
Depreciation of property, plant and equipment		(18,182)	(21,857)
Amortisation of intangible assets		(19,720)	(14,184)
Finance costs, net	4	(24,677)	(11,705)
Profit/(loss) before income tax		748	(5,066)
Income tax expense		(175)	(69)
Profit/(loss) for the half year		573	(5,135)
Attributable to:			
Owners of the Company		540	(5,182)
Non-controlling interests		33	47
Other comprehensive income			
Items that may be reclassified to profit and loss			
Currency translation difference		(7,767)	11,796
Change in fair value of interest rate swap cash flow hedges		544	23
Items that may not be reclassified to profit and loss			
Recycled change in fair value of interest rate swap cash flow hedges		(2,121)	-
Other comprehensive income for the half year		(9,344)	11,819
Total comprehensive income for the half year		(8,771)	6,684
Attributable to:			
Owners of the Company		(8,808)	6,617
Non-controlling interests		37	67

Earnings per share		
■ Basic profit/(loss) per share (cents)	0.23	(2.17)
■ Diluted profit/(loss) per share (cents)	0.22	(2.17)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2018 US$'000	31 December 2017 (restated) US$'000
ASSETS			
Current assets			
Cash and cash equivalents		50,261	54,844
Trade and other receivables		171,136	147,709
Inventories		23,484	15,661
Income tax receivable		5,146	4,196
Total current assets		250,027	222,410
Non-current assets			
Property, plant and equipment		102,833	95,188
Goodwill and intangible assets		606,896	623,013
Deferred tax assets		18,890	9,739
Trade and other receivables		9,591	2,574
Derivative financial instruments	11	-	1,506
Total non-current assets		738,210	732,020
Total assets		988,237	954,430
LIABILITIES			
Current liabilities			
Trade and other payables		196,245	166,293
Income tax payable		2,085	5,255
Total current liabilities		198,330	171,548
Non-current liabilities			
Borrowings	6	469,674	432,213
Trade and other payables		20,906	29,538
Deferred tax liabilities		14,164	18,043
Derivative financial instruments	11	747	-
Total non-current liabilities		505,491	479,794
Total liabilities		703,821	651,342
Net assets		284,416	303,088
EQUITY			
Contributed equity	7	365,108	364,690
Other reserves		(7,904)	1,190
Accumulated losses		(73,530)	(63,497)
Equity attributable to owners of the Company		283,674	302,383
Non-controlling interests		742	705
Total equity		284,416	303,088

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of Speedcast International Limited				Non-controlling interests	Total equity
	Contributed equity US$'000	Accumulated losses US$'000	Other reserves US$'000	Total US$'000	US$'000	US$'000
Balance at 1 January 2017	361,392	(57,224)	(13,915)	290,253	-	290,253
Impact of applying AASB 9 (note 14)	-	(3,490)	-	(3,490)	-	(3,490)
Balance at 1 January 2017 (restated)	361,392	(60,714)	(13,915)	286,763	-	286,763
Profit/(loss) for the half year (restated)	-	(5,182)	-	(5,182)	47	(5,135)
Other comprehensive income	-	-	11,799	11,799	20	11,819
Total comprehensive income	-	(5,182)	11,799	6,617	67	6,684
Shares to be issued in relation to deferred consideration	-	-	3,150	3,150	-	3,150
Business combination	-	-	-	-	572	572
Dividends (note 8)	-	(4,292)	-	(4,292)	-	(4,292)
Employee share scheme – issue of shares (note 7)	77	-	(77)	-	-	-
Employee share scheme – value of employee services	-	-	622	622	-	622
	77	(4,292)	3,695	(520)	572	52
Balance at 30 June 2017 (restated)	361,469	(70,188)	1,579	292,860	639	293,499
Balance at 1 January 2018 (restated)	364,690	(63,497)	1,190	302,383	705	303,088
Impact of applying AASB 15 (note 14)	-	(1,291)	-	(1,291)	-	(1,291)
Balance at 1 January 2018 after implementation of AASB 15	364,690	(64,788)	1,190	301,092	705	301,797
Profit/(loss) for the half year	-	540	-	540	33	573
Other comprehensive income	-	-	(9,348)	(9,348)	4	(9,344)
Total comprehensive income	-	540	(9,348)	(8,808)	37	(8,771)
Dividends (note 8)	-	(9,282)	-	(9,282)	-	(9,282)
Employee share scheme – issue of shares (note 7)	418	-	(418)	-	-	-
Employee share scheme – value of employee services	-	-	672	672	-	672
	418	(9,282)	254	(8,610)	-	(8,610)
Balance at 30 June 2018	365,108	(73,530)	(7,904)	283,674	742	284,416

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Half Year 30 June 2018 US$'000	Half Year 30 June 2017 US$'000
Cash flows from operating activities		
Cash receipts from customers	324,584	261,536
Cash paid to suppliers	(272,220)	(215,312)
Finance income	185	8
Finance costs	(13,457)	(5,006)
Taxes paid	(11,480)	(3,888)
Net cash inflows from operating activities	27,612	37,338
Cash flows from investing activities		
Payments for acquisition of businesses, net of cash acquired	(21,779)	(413,047)
Receipt of funds held in escrow	-	422,380
Business acquisition transaction costs	(622)	(7,384)
Payments for property, plant and equipment	(21,105)	(10,054)
Payments for intangible assets	(7,539)	(1,395)
Proceeds from disposal of property, plant and equipment	322	2,160
Net cash outflows from investing activities	(50,723)	(7,340)
Cash flows from financing activities		
Transaction costs of issuance of ordinary shares	-	(550)
Proceeds from borrowings, net of transaction costs	469,015	1,799
Repayment of borrowings	(443,080)	-
Proceeds from cancellation of interest rate swap	3,031	-
Dividend paid	(8,690)	(4,292)
Repayments of obligations under finance leases	(18)	(3,059)
Net cash inflows/(outflows) from financing activities	20,258	(6,102)
Net increase/(decrease) in cash and cash equivalents	(2,853)	23,896
Cash and cash equivalents at beginning of the year	54,844	25,341
Effects of exchange rate changes on cash and cash equivalents	(1,730)	524
Cash and cash equivalents at the end of the half year	50,261	49,761

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation

This condensed consolidated interim financial report for the half year reporting period ended 30 June 2018 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by Speedcast International Limited (the "Company") during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period unless otherwise stated.

Speedcast International Limited is a company domiciled and incorporated in Australia. The half year financial statements are for the consolidated entity consisting of the Company and its subsidiaries (together referred to as "Speedcast" or the "Group").

The half year financial statements were authorised for issuance by the Board of Directors on 27 August 2018.

New and amended standards and interpretations adopted by the Company

The Company adopted the following new or revised accounting standards which are relevant to the Group and became effective for the reporting period commencing on 1 January 2018:

- AASB 15 Revenue from Contracts with Customers; and
- AASB 9 Financial Instruments.

These new standards have resulted in changes in accounting policy which, along with the impact on the financial statements, are disclosed in note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2 Revenue from continuing operations

	Maritime US$'000	Energy US$'000	Government US$'000	EEM US$'000	Total US$'000
Half year ended 30 June 2018					
Managed network services	87,500	63,507	44,559	39,286	234,852
Managed network services – Equipment rental	6,584	8,735	240	1,393	16,952
Wholesale VoIP	-	-	-	12,312	12,312
Equipment sales and Installation	12,414	4,107	2,692	21,521	40,734
Total revenue from continuing operations	106,498	76,349	47,491	74,512	304,850
Half year ended 30 June 2017					
Managed network services (restated)	90,899	90,336	-	45,460	226,695
Wholesale VoIP	-	-	-	8,990	8,990
Equipment sales (restated)	6,018	1,436	-	3,176	10,630
Total revenue from continuing operations	96,917	91,772	-	57,626	246,315

As described in note 14 changes in accounting policy, Speedcast have adopted the modified retrospective method of applying AASB 15 Revenue from contracts with customers, as such the prior year figures exclude the impact of the new standard. Whilst full retrospective application and restatement has not been performed Wholesale VoIP revenue and revisions to equipment sales income have been disclosed to aid in comparability.

3 Other gains/(losses)

	Half Year 30 June 2018 US$'000	Half Year 30 June 2017 US$'000
Foreign exchange gain	1,896	370
Gain/(loss) on disposal of property, plant and equipment	272	(138)
Gain on extinguished interest rate hedges	3,031	
Fair value loss on deferred consideration	-	(550)
Other gains/(losses)	5,199	(318)

4 Finance costs, net

	Half Year 30 June 2018 US$'000	Half Year 30 June 2017 US$'000
Finance income	185	8
Finance expense	(24,862)	(11,713)
Finance costs, net	(24,677)	(11,705)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 Operating Segments

Identification of reportable segments

The Group has identified its operating segment based on the reports reviewed by the Chief Executive Officer ("CEO") that are used to make strategic decisions. All of the entities within the Group generate income from the provision of managed network services, wholesale VoIP and equipment in various geographical markets. The Group has one operating segment as during the period the reporting to the CODM of UltiSat Inc. ("UltiSat"), which operates under a Proxy Board, was integrated with the rest of the Group.

The CEO also monitors revenues by vertical being Maritime, Energy, Government, and Enterprise and Emerging Markets ("EEM") and the information reviewed is consistent with that presented in note 2.

Geographical information

The table below presents geographical information of total revenue based on customers' geography, where that relates to a vessel revenue is included in the Maritime category.

	Maritime US$'000	Australia US$'000	Pacific Islands US$'000	EMEA and other US$'000	Asia US$'000	Americas US$'000	Total US$'000
Half year ended 30 June 2018	106,498	35,594	18,994	35,982	15,854	91,928	304,850
Half year ended 30 June 2017	96,917	23,514	18,724	46,694	15,216	45,250	246,315

The table below presents geographical information of the Group's non-current assets.

	Maritime US$'000	Australia US$'000	Pacific Islands US$'000	EMEA and other US$'000	Asia US$'000	Americas US$'000	Total US$'000
As at 30 June 2018							
Property, plant and equipment	16,512	9,363	712	15,809	22,924	37,513	102,833
As at 31 December 2017							
Property, plant and equipment	13,871	11,366	892	13,747	23,832	31,480	95,188

Major customers

There are no individual customers who contributed more than 10% of the total revenue in the current or comparative period.

6 Borrowings

On 15 May 2018, the Group entered into a new US$425 million, 7 year, Senior Secured Credit Facility in the US Institutional Term Loan B market. In addition, on the same date, the Group entered into a new US$100 million, 5 year, Senior Secured Revolving Credit Facility.

Proceeds of the new facilities were used to refinance Speedcast's pre-existing bank loans, which included a US$385 million Senior Secured Bank loan and a US$60 million Accordion Facility.

The new facilities diversify Speedcast's funding sources, extend its debt maturity profile and improve the Group's operational flexibility.

Interest payable on the new facility is subject to a floating margin component. This exposes the Group to interest rate risk. To hedge this risk, the Group entered into floating to fixed interest rate swap contracts over a notional amount of US$212.5 million, equal to 50% of the Senior Secured Credit Facility. Additional interest rate swaps were entered into in July 2018 such that a total notional amount of 75% of the Senior Secured Credit Facility is covered, effectively fixing the interest rate for this portion of the loan. Refer to note 11 for further details.

Significant terms and conditions

The credit lines are subject to compliance with certain covenants, including the commitment not to exceed certain financial ratios tested semi-annually, commencing from 31 December 2018.

The covenants require that the ratio of net debt to pro-forma EBITDA, as defined in the agreement, does not exceed 4:1. Pro-forma EBITDA is based on the previous 12 months as if all Group members as at balance date were group members for the whole of the 12-month period.

Interest-bearing bank loans are due for payment as follows:

	30 June 2018 US$'000	31 December 2017 US$'000
Portion of bank loans due for repayment within one year	-	-
After 1 year but within 2 years	-	443,080
After 2 years but within 5 years	54,769	-
After 5 years	425,000	-
Less: Prepaid facility fees	(10,095)	(10,867)
Borrowings	469,674	432,213

7 Contributed equity

	Half Year 2018	
	No. of shares	US$'000
Contributed equity		
Share capital as at 1 January	238,992,149	364,690
Conversion of Restricted Management Rights to ordinary shares	90,055	56
Issue of shares in fulfilment of LTIP schemes	316,077	362
Share Capital as at 30 June	239,398,281	365,108

The Company does not have a limited amount of authorised capital or par value in respect of its shares.

As disclosed in note 12 of the 2017 annual report, a long term incentive plan ("LTIP") was established in 2014 in order to facilitate remuneration for the Group's senior management and to enhance the alignment of their interests with those of shareholders.

The Company issued 90,055 shares in fulfilment of the Restricted Management Rights scheme in the period.

In the period the Company issued 255,410 shares in fulfilment of the 2014 LTIP scheme and further accelerated and issued 60,667 shares in relation to the 2015 LTIP scheme payable to the outgoing Chief Financial Officer, Ian Baldwin.

On 15 May 2018, the Board granted awards of performance rights under the LTIP scheme to the CEO, CFO and other members of Senior Management ("the 2018 LTIP"). In total 892,854 performance rights, with a nil exercise price, were issued. The performance conditions that must be satisfied in order for the performance rights to vest are consistent with those of the 2014, 2015 and 2017 LTIP schemes, as disclosed in note 12 to the 2017 annual report.

8 Dividends

	Half Year 30 June 2018 US$'000	Half Year 30 June 2017 US$'000
Dividends declared and paid during the half year		
Final dividend paid for the year ended 31 December 2017 AUD 4.80 cents (2016: AUD 2.40 cents)	9,282	4,292

On 27 August 2018, the Directors approved the payment of a dividend of AUD 2.40 cents per share which will be fully franked.

9 Business combinations

UltiSat Inc.

On 23 July 2017, Speedcast entered into an agreement to acquire 100% of the share capital of UltiSat Inc. a leading provider of remote communications and professional services to Governments and to International Government Organisations and Non-Governmental Organisations. The acquisition closed on 1 November 2017 and the results of UltiSat Inc. are included in the Group's results from this date.

There have been no changes to the provisional fair value of identifiable assets acquired and liabilities assumed as disclosed in note 28 to the 2017 financial statements as at the 30 June 2018. The fair values remain provisional at this date.

10 Contingent liabilities

UltiSat earn-out

Potential consideration of up to US$35,000,000 as at 31 December 2017 was payable dependent on the underlying performance of the UltiSat business. US$20,000,000 become payable on the achievement of underlying EBITDA targets for the year to 31 December 2017 and, along with working capital adjustments, was paid during the period.

A maximum of US$7,500,000 is payable on achieving revenue targets and a further maximum of US$7,500,000 is payable on achieving certain gross margin targets in the year to 31 December 2018. An amount of US$14,293,000 representing the fair value of this deferred contingent consideration, is included as a current liability within trade and other payables.

Outstanding legal cases arising from acquisitions

Entities acquired as part of past acquisitions, most notably Harris CapRock on the 1 January 2017, were subject to certain legal cases, most significantly in relation to employment law in Brazil and Angola. Adequate provision has been included in the financial statements to cover any exposure to the Group that is not subject to indemnity by Harris Corporation.

Other than as noted above, the Group did not have any other material contingent assets or liabilities as at 30 June 2018.

11 Fair value measurement of financial instruments

The following table presents the Group's financial assets and liabilities that are measured at fair value by their fair value hierarchy:

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
At 30 June 2018				
Deferred contingent consideration	-	-	(14,293)	(14,293)
Derivative financial instruments				
- Interest rate swap contracts liabilities	-	(747)	-	(747)
At 31 December 2017				
Deferred contingent consideration	-	-	(13,879)	(13,879)
Derivative financial instruments				
- Interest rate swap contracts assets	-	1,506	-	1,506

For detailed information on the definition of fair value hierarchy levels and measurement techniques applied refer to note 3 in the 2017 financial statements.

The fair value of the contingent consideration is dependent on the unobservable inputs of the risk-adjusted discount rate and the forecast financial metrics of the acquired UltiSat business. The forecast metrics of UltiSat exceed the thresholds for the maximum consideration to be paid, as such the full total of the potential amount payable has been recorded as a contingent liability discounted at a rate of 6%.

Interest rate swaps were measured at fair value on the date the derivative contracts were entered into and are subsequently remeasured to their fair value at the end of each reporting period. Fair value gains and losses are recorded in other comprehensive income and are recognised in a hedging reserve whilst the interest rate swaps remain an effective hedge.

As at 31 December 2017 interest rate swaps were held that covered a portion of the existing borrowings. On entering new borrowing facilities, as described in note 6, the pre-existing interest rate swaps became ineffective and were cancelled, the fair value at that time was recycled through profit and loss. New interest rate swaps were entered into, in conjunction with the new borrowing facilities, that remain effective hedges throughout the period since set up.

The carrying amounts of the Group's financial assets, including trade and other receivables, and cash and cash equivalents, and the Group's other financial liabilities, including trade and other payables, obligations under finance leases and borrowings, approximate their fair values due to their short maturities. The carrying amounts of the Group's non-current liabilities, including obligations under finance leases and borrowings, approximate their fair value as their interest rates are approximate to market interest rates. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

12 Capital commitments

Capital expenditure contracted for at the end of the period but not provided for is as follows:

	30 June 2018 US$'000	31 December 2017 US$'000
Purchase of property, plant and equipment	1,031	2,587

13 Events after the balance sheet date

On 27 August 2018, Speedcast entered into a definitive agreement to acquire 100% of the global business of Globecomm for upfront consideration of US$135 million net of cash and debt acquired and subject to close adjustments.

Globecomm is a provider of satellite based communications networks in several markets primarily Government, Maritime, and Enterprise and Emerging Markets.

The expected close will be prior to 31 December 2018 subject to regulatory approval. The acquisition will be funded by increasing the facility limits on the Senior Secured Credit Facility in the US Institutional Term Loan B market by US$175 million and fully drawing down on this increased facility. This additional borrowing is expected to be fully underwritten by the group's banks.

On 6 July 2018, Speedcast entered in to additional floating to fixed interest rate swap contracts for a notional amount of US$106,250,000 thus increasing the percentage of the floating interest rate on the Senior Secured Facility that is effectively hedged to 75%.

On 27 August 2018, the Board approved an interim dividend of AUD 2.40 cents per share for the six months ended 30 June 2018. The dividend will be paid on 12 October 2018 to all shareholders registered on the record date of 10 September 2018. The ex-dividend date for dividend entitlement will be 7 September 2018. The dividend will be fully franked for Australian taxation purposes.

Other than the above, there have been no other material post balance sheet events since 30 June 2018.

14 Changes in accounting policy

As described in note 1, two new accounting standards became effective for the reporting period commencing on 1 January 2018. The method of application and impact on the financial statements for each policy is described below. The new revenue policy is also disclosed as it aids in the understanding of the half year accounts.

AASB 15 Revenue from Contracts with Customers

Method of application

Speedcast has adopted the modified retrospective method of application. Under this method, all differences between the previous revenue policy and the new policy are taken to retained earnings at 1 January 2018 and prior year financial statements are not restated.

New accounting policy - Revenue

The accounting policy below replaces the policy given in the 2017 financial statements note 2 e).

<u>Revenue recognition</u>

Speedcast generates six main types of revenue from its customers:

(i) *Managed network services* - Revenue is earned through the provision of broadband access via VSAT (Very Small Aperture Terminal) satellite transmission that utilises small satellite dishes and antennas that send high focused beams to the satellites or through Mobile Satellite Services (MSS) through the satellite transmission of low-bit data, commonly voice, to handheld and other mobile devices. Revenue for VSAT is typically invoiced monthly on a fixed fee and is earned over time for the provision of a set bandwidth with unlimited usage. Revenue for MSS is typically invoiced monthly and earned at a point in time based on usage on a fixed price per measured unit of data used.

(ii) *Managed network services – Equipment rental* – Equipment rental revenue is earned through the provision of equipment required to receive VSAT and MSS data. Where the equipment remains the property of Speedcast and a significant portion of the risks and rewards of ownership is maintained by Speedcast this represents an operating lease and revenue is earned over time at a fixed fee.

(iii) *Wholesale VoIP* - VoIP (Voice over Internet Protocol) revenue is generated via the sale of voice data on a wholesale basis to telecom customers, the data is then on-sold to the end user or data may be sold by Speedcast direct to end users. Revenue is typically invoiced monthly and is earned at a point in time on a fixed price per measured unit of data used.

(iv) *Equipment sales and Installation* - Revenue for equipment is earned at a point in time usually when the customer takes delivery and legal title to the equipment, thus gaining control over its future use. Revenue from installation is earned over time and recognised on a percentage of completion basis calculated from the total forecast revenue on the project multiplied by the ratio of costs incurred as a percentage of total budgeted costs. Revenue is typically invoiced in arrears.

Some contracts include multiple performance obligations, such as the provision of network services, provision and installation of equipment and software to multiple sites. Where a contract includes multiple performance obligations, the revenue associated with each obligation is calculated based on the ratio of its stand-alone selling price for each obligation as a percentage of the total stand-alone selling price of all elements to the total transaction price.

When invoiced, revenue is typically payable on normal commercial terms of the country of operation. If the revenue earned exceeds the amount invoiced, accrued income is recognised. If the revenue earned is less than the amount invoiced a contract liability, deferred income, is recognised.

14 Changes in accounting policy (continued)

AASB 15 Revenue from Contracts with Customers (continued)

New accounting policy – Revenue (continued)

The only transactions entered into that have a significant financing element relate to contracts where an upfront fee is not charged for the provision of equipment and the terms of the contract is such that a finance lease is deemed to exist. In such an instance the total transaction price allocated to the provision of equipment is discounted to represent the time value of money.

Costs incurred on winning a contract that would otherwise not have been incurred, most notably sales commissions, are capitalised and amortised over the life of the contract, or, if related to several contracts, amortised over the average length of the relevant contracts.

Impact of applying AASB 15

Prior to the implementation of AASB 15, and where installation fees were recoverable from the customer, revenue and related costs were recognised as incurred at the date of installation. Under AASB 15, the installation is deemed to be part of the same performance obligation as providing the relevant equipment. As such, fees related to installation and the respective costs are recognised at the same time as the equipment revenue.

Where the equipment is leased to the customer, any fees related to installation are deferred and recognised over the length of the contract. The costs incurred in relation to the installation are capitalised to property, plant and equipment and amortised over the course of the contact. Where the equipment is sold to the customer, there is no change in the timing of recognition of revenue or expenses.

Commission costs are paid by Speedcast directly as a result of winning contracts. Under the previous policy these were expensed as they became payable per the Group's commission plan. Under the new standard, these costs are capitalised as intangible assets and amortised over the length of the contract or, if related to several contracts, amortised over the average length of the relevant contracts.

Certain costs relating to tendering for previous construction contracts were capitalised when it was deemed probable that the contract would be won. Under the new standard, these costs can only be capitalised if they were only incurred if the contract was won.

AASB 9 Financial Instruments

Method of application

Speedcast have applied full retrospective application in accordance with AASB 108 Changes in accounting policy, errors and estimates, for all impacts of AASB 9 and have not taken any of the transition provision exemptions.

Impact of applying AASB 9

Under AASB 9, the Group is required to revise its bad debt impairment methodology. Under the new model, a bad debt provision is made for "expected losses" and is calculated based on the probability weighted average of the outcome of recovery of the trade receivable, being a financial asset. Under the previous policy, a bad debt provision was calculated based on an incurred loss model such that provisions are raised on individual receivables when it is deemed probable a loss will be incurred.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics, being the country where the receivable is held and the days past due. This has resulted in an increase in the total provisions held and a small impact to the bad debt expense in the comparative period.

14 Changes in accounting policy (continued)

Impact on the financial statements

As a result of the changes in the Company's accounting policies, prior year financial statements have been restated for AASB 9. The adjustments arising from AASB 15 are recognised in balance sheet adjustments on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Profit and Loss impact of applying AASB 9 Financial Instruments for the half year ended 30 June 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income (extract)	Half Year 30 June 2017 (prior to application) US$'000	Impact of AASB 9 US$'000	Half Year 30 June 2017 (restated) US$'000
Other expenses	(27,343)	750	(26,593)
Profit/(loss) before income tax	(5,816)	750	(5,066)
Income tax credit/(expense)	126	(195)	(69)
Profit/(loss) for the half year	(5,690)	555	(5,135)
Attributable to:			
Owners of the Company	(5,737)	555	(5,182)

14 Changes in accounting policy (continued)

Impact on the financial statements (continued)

Balance sheet impact of applying AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers as at 31 December 2017

Consolidated Statement of Financial Position (extract)	31 December 2017 (prior to application) US$'000	Impact of AASB 9 US$'000	31 December 2017 (restated) US$'000	Impact of AASB 15 US$'000	1 January 2018 (restated) US$'000
ASSETS					
Current assets					
Trade and other receivables	151,648	(3,939)	147,709	(835)	146,874
Total current assets	226,349	(3,939)	222,410	(835)	221,575
Non-current assets					
Property, plant and equipment	95,188	-	95,188	6,391	101,579
Goodwill and intangible assets	623,013	-	623,013	973	623,986
Deferred tax assets	9,438	301	9,739	151	9,890
Total non-current assets	731,719	301	732,020	7,515	739,535
Total assets	958,068	(3,638)	954,430	6,680	961,110
LIABILITIES					
Current liabilities					
Trade and other payables	166,293	-	166,293	4,809	171,102
Total current liabilities	171,548	-	171,548	4,809	176,357
Non-current liabilities					
Trade and other payables	29,538	-	29,538	3,437	32,975
Deferred tax liabilities	18,648	(605)	18,043	(275)	17,768
Total non-current liabilities	480,399	(605)	479,794	3,162	482,956
Total liabilities	651,947	(605)	651,342	7,971	659,313
Net assets	306,121	(3,033)	303,088	(1,291)	301,797
EQUITY					
Accumulated losses	(60,464)	(3,033)	(63,497)	(1,291)	(64,788)
Equity attributable to owners of the Company	305,416	(3,033)	302,833	(1,291)	301,542
Total equity	306,121	(3,033)	303,088	(1,291)	301,797

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14 Changes in accounting policy (continued)

Impact on the financial statements (continued)

Profit and Loss impact of applying AASB 15 Revenue from Contracts with Customers for the half year ended 30 June 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income (extract)	Half Year 30 June 2018 (excluding AASB 15 impact) US$'000	Impact of AASB 15 US$'000	Half Year 30 June 2018 (as presented) US$'000
Revenue from continuing operations	304,913	(63)	304,850
Cost of equipment and bandwidth services	(167,168)	2,086	(165,082)
Staff costs	(54,046)	1,614	(52,432)
Other expenses	(27,100)	(91)	(27,191)
Depreciation of property, plant and equipment	(16,145)	(2,037)	(18,182)
Amortisation of intangible assets	(19,184)	(536)	(19,720)
Profit/(loss) before income tax	(225)	973	748
Income tax credit/(expense)	42	(217)	(175)
Profit/(loss) for the half year	(183)	756	573
Attributable to:			
Owners of the Company	(216)	756	540
Non-controlling interests	33	-	33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14 Changes in accounting policy (continued)

Impact on the financial statements (continued)

Balance sheet impact of applying AASB 15 Revenue from Contracts with Customers as at 30 June 2018

Consolidated Statement of Financial Position (extract)	1 January 2018 (excluding AASB 15 impact) US$'000	Impact of AASB 15 US$'000	30 June 2018 (as presented) US$'000
ASSETS			
Current assets			
Trade and other receivables	172,062	(926)	171,136
Total current assets	250,953	(926)	250,027
Non-current assets			
Property, plant and equipment	96,393	6,440	102,833
Goodwill and intangible assets	606,845	2,051	608,896
Deferred tax assets	18,791	99	18,890
Total non-current assets	729,620	8,590	738,210
Total assets	980,573	7,664	988,237
LIABILITIES			
Current liabilities			
Trade and other payables	191,113	5,132	196,245
Total current liabilities	193,198	5,132	198,330
Non-current liabilities			
Trade and other payables	17,729	3,177	20,906
Deferred tax liabilities	14,274	(110)	14,164
Total non-current liabilities	502,424	3,067	505,491
Total liabilities	695,621	8,200	703,821
Net assets	284,951	(535)	284,416
EQUITY			
Accumulated losses	(72,995)	(535)	(73,530)
Equity attributable to owners of the Company	284,209	(535)	283,674
Total equity	284,951	(535)	284,416

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 9 to 26 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the half year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable

This declaration is made in accordance with a resolution of the Directors dated on 27 August 2018.

Pierre-Jean Beylier
Chief Executive Officer, Executive Director
27 August 2018

Independent auditor's review report to the members of Speedcast International Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Speedcast International Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Speedcast International Limited. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Speedcast International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Speedcast International Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Forman
Partner

Adelaide
27 August 2018