Speedcast International Limited

ACN 600 699 241

CONSOLIDATED FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

Registered Office

Unit 4F Level 1, 12 Lord Street,

Botany, NSW, 2019

OPERATING AND FINANCIAL REVIEW

This Operating and Financial Review forms part of the Directors' Report included at page 15 of the Consolidated Financial Report for the year ended 31 December 2018 of Speedcast International Limited (henceforth "SIL" or "the Company"), and its controlled entities (the "Group" or "Speedcast").

YEAR IN REVIEW

Statutory Financial Performance USD'000	2018 USD'000	2017 restated USD'000	Change %
Revenue	623,095	514,173	21%
Profit for the year before tax	4,764	7,748	(39)%
Profit for the year after tax attributable to the owners of the Company	1,847	6,001	(69)%

Overview

- Revenue grew 21% to USD623.1 million, including USD7.5m contribution from two acquisitions completed in 2018 and the full year impact of acquisitions completed in 2017.
- In 2018, Speedcast achieved strong organic growth across three of its divisions (Maritime, Government, and Enterprise and Emerging Markets (EEM)), however Energy division revenue continued to decline due to ongoing delays in the offshore energy market recovery. Despite a challenging year the Company had several significant achievements, including signing the two biggest customer contracts in company history, completing the strategic Globecomm acquisition (at an attractive valuation and doubling revenue in the high growth Government division), and establishing a back office shared service center model including transitioning to a common ERP system.
- Maritime revenue grew 10% to USD219.7 million. This growth was driven primarily by VSAT activations in Commercial Shipping and bandwidth growth and customer wins in the Cruise business.
- Energy revenue was down 14% to USD158.3 million due to continued delays in the recovery of the offshore energy sector. However, second half 2018 revenues were 8% higher than first half 2018 revenues.
- EEM revenue grew 27% to USD147.9 million. This strong growth was driven by the first phase of the NBN contract in Australia as well as growth in wholesale voice activity.
- Government revenue was USD97.3 million in 2018. On a pro forma basis[1] this represents a 16% increase, driven primarily by growth in intelligence, surveillance and reconnaissance services and increased U.S. defence spending.
- Divisional performances are discussed in more detail on pages 5 to 10.
- Statutory profit for the year after tax attributable to owners of the Company decreased by 69% to USD1.9 million. The statutory results include costs which are non-recurring in nature, such as acquisition-related costs, integration costs, accelerated amortisation of loan establishment costs and foreign exchange gains on forward contracts undertaken in relation to acquisition funding. The financial performance of the Group excluding these non-recurring factors has also been presented in this report and is identified as being the "underlying" result.

[1] UltiSat was acquired on 1 November 2017. Pro forma compares Government division revenue in 2018 to UltiSat revenue for the full twelve months in 2017.

Statutory to underlying reconciliations

- Underlying financial results are 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 transaction costs, integration costs and restructuring costs.
- Non-IFRS measures such as Underlying EBITDA and Underlying NPATA have also been presented to provide a better understanding of Speedcast's financial performance. EBITDA is defined as earnings before interest, tax, depreciation and amortization and is used to measure the underlying performance of the Group, excluding non-cash items such as depreciation and amortization. NPATA is defined as net profit after tax but prior to the amortisation of intangibles, net of tax effect.

	2018 USD'000	2017 restated USD'000
Revenue	**623,095**	**514,173**
Profit for the year after tax	1,928	5,992
Acquisition related costs	4,354	9,212
Integration costs	4,109	4,044
Restructuring costs	2,202	6,307
Fair value loss on deferred consideration	-	550
Gain on extinguishment of interest rate hedges	(3,031)	-
Foreign exchange loss	2,673	73
Accelerated amortisation of loan establishment costs – finance costs	8,619	-
Interest expense on deferred consideration – finance costs	1,170	134
Unwinding of fair value adjustments – finance costs	446	650
Tax effect of non-recurring costs on underlying results	(5,151)	(2,440)
Underlying NPAT	**17,319**	**24,522**
Add back: Amortisation (net of tax)	30,802	21,486
Underlying NPATA	**48,121**	**46,008**

	2018 USD'000	2017 restated USD'000	Change (%)
Underlying EBITDA	**132,032**	**123,332**	**7%**
Depreciation	(37,513)	(42,516)	(12)%
Amortisation	(40,003)	(28,610)	40%
Underlying EBIT	**54,516**	**52,206**	**4%**
Underlying finance costs, net	(29,210)	(23,488)	24%
Underlying income tax expense	(7,987)	(4,196)	90%
Underlying NPAT	**17,319**	**24,522**	**(29)%**
Add back: Amortisation (net of tax)	30,802	21,486	43%
Underlying NPATA	**48,121**	**46,008**	**5%**

- Underlying EBITDA grew 7% to USD132.0 million. Underlying EBITDA margin reduced from 24.0% to 21.2% due to dilution from the UltiSat acquisition, which closed in November 2017, phase 1 of the NBN contract in the EEM division, and the mix-effect of reduced earnings in the Energy division.

- Underlying NPATA grew 5% to USD48.1 million.

Operating cash flow

- Operating cash flows of USD68.1 million were 14% lower than the prior year, due to higher finance cost payments and higher tax payments, partially offset by improved underlying EBITDA and result.
- The Group maintained a strong focus on working capital management resulting in 91% underlying cash conversion. Underlying cash conversion is calculated by dividing Underlying EBITDA by cash from operations excluding the cash impact of non-recurring integration and restructuring costs of USD6.3 million.
- In aggregate the Group achieved a neutral working capital position at year end, reflecting a temporary net working capital investment in Phase 1 of the NBN project offset by improved working capital management across the rest of the Group.

Capital expenditure

- Capital expenditure of USD60.3 million was USD31.2 million higher than the prior year, reflecting investment in growth projects across the divisions, in corporate platform improvements for the Group (primarily IT systems), and ongoing maintenance capital expenditure (c.1.5% of revenue). In addition, items previously classified as expenses are now classified as capital expenditure as a result of AASB 15 accounting changes (USD6.0 million).

Balance sheet and debt management

- Net debt as at 31 December 2018, comprising interest-bearing liabilities net of the fair value of interest rate swaps and cash at bank and on deposit (other than cash used as collateral), was USD581.9 million, up from USD389.0 million as at 31 December 2017. The increase was primarily driven by the additional debt incurred in connection with the Globecomm acquisition as well as the increase in capital expenditure and the USD20.0 million earn-out payment for the UltiSat acquisition paid in April 2018. The pro forma net leverage of the Group was 3.5x Underlying EBITDA.
- In May 2018, Speedcast refinanced its pre-existing bank loans, which included a USD385.0 million Senior Secured Bank loan and a USD60 million Accordion Facility with the proceeds of a new USD425.0 million, 7 year, Senior Secured Credit Facility in the U.S. Institutional Term Loan B market. In addition, on the same date, the Group entered into a new USD100.0 million, 5 year, Senior Secured Revolving Credit Facility. The new facilities diversify Speedcast's funding sources, extend its debt maturity profile and improve the Group's operational flexibility.
- In December 2018 the Group incurred an incremental USD175 million under the Senior Secured Credit Facility. The proceeds of the incremental debt were used to fund the acquisition of Globecomm and the related transaction fees and expenses, and to partially repay the Senior Secured Revolving Credit Facility.
- Interest payable on the new term loan facility is subject to a floating margin component. This exposes the Group to interest rate risk. To hedge this risk, the Group has entered into floating to fixed interest rate swap contracts over a notional amount equal to approximately 70% of the Senior Secured Credit Facility, effectively fixing the interest rate for this portion of the loan. Refer to note 3 to the Financial Report for further detail.

- Speedcast's liquidity position was strong with cash interest cover[2] in 2018 of 4.3x.
- Speedcast established and maintained credit ratings during the year. Standard and Poor's rating at the end of the period and at the date of this report is BB- (stable outlook) and Moody's Investor Services' rating at the end of the period and at the date of this report is Ba3 (negative outlook).

Dividends

- Speedcast's dividend policy considers current earnings and cash flows, future cash flow requirements and targeted net leverage metrics.
- In line with the dividend policy, the Board has declared an unfranked final dividend of AUD 4.8 cents per share. This takes the full-year dividend to AUD 7.2 cents per share, in line with the prior year. The final dividend will be paid on 23 May 2019 to shareholders on the Company's register on 8 March2019, the record date for the final dividend.
- The Company has stated that deleveraging is a priority in 2019. In addition, the Board has indicated that it will review the decision to declare future dividends with this priority in mind.

DIVISIONS

- Speedcast operates across four key business verticals: Maritime, Energy, Enterprise & Emerging Markets (EEM) and Government.

Maritime

Our business

- Speedcast provides remote and secure communications services primarily to Commercial Shipping, Cruise and Ferry customers as part of its Maritime division. It also serves some yachting customers.
- Commercial Shipping is a core part of our Maritime business. Speedcast uses a combination of VSAT, L-band, land-based 4G/LTE networks to deliver communications across oceans and along the most rugged coastlines in the world. Our Maritime division has been optimising business operations and minimising in-port maintenance time with better monitoring and reporting through IoT and M2M technologies.
- Speedcast serves about 50% of the ocean-going cruise ships globally, ranging from large ocean cruise ships to adventure cruise ships and also caters for river cruise ships. The renewal of our contract with Carnival Cruise Line, the world's largest leisure travel company, confirms our status as the preferred partner in the industry.

2018 review

USDm	2018	2017	*% var.*
Revenue	219.7	200.2	***9.7%***
Services	194.3	181.1	*7.3%*
Equipment & Installation	25.4	19.1	*33.0%*

- Speedcast's Maritime division achieved 10% revenue growth in 2018. Excluding USD1.5 million of Maritime revenue contribution from Globecomm, which was acquired in December 2018, the Maritime division achieved organic revenue growth of approximately 9% in 2018.

[2] Cash interest cover is calculated by dividing Underlying EBITDA by net cash interest paid in the period.

- The Commercial Shipping market continues to see migration from narrowband to broadband connectivity, which is the main driver of revenue growth in this sub-segment. Speedcast added a net 763 VSAT vessels in 2018 and ended the year with a total of 2,352 VSAT vessels, or 3,036 VSAT vessels including Globecomm. In addition, the number of L-band terminals increased to 10,969, or 13,308 including Globecomm.
- Speedcast has renewed contracts with the top two global cruise fleets since 2017 and, in 2018, won contracts on 36 new cruise ships and ferries. The main drivers of revenue growth in the Cruise sub-segment are growth in number of ships and passengers, rapid increases in onboard bandwidth demands and Speedcast's ability to win new customers. There is currently a significant shift occurring in the Cruise market towards delivering passengers a connectivity experience more similar to what they experience at home. In 2018 the highest throughput Speedcast delivered to a single ship was approximately 3.174 Gbps, although for a short period of time (ship inauguration), up from 520 Mbps in 2017.
- Equipment and installation revenue increased significantly by 33% in 2018, which also underpins service revenue growth into 2019.

Challenges

- The Commercial Shipping market may be impacted by macroeconomic factors that could slow down the transition of vessels from narrowband to broadband. In addition, logistical and resourcing issues that sometimes arise in connection with the transitioning of vessels from narrowband to VSAT may slow Speedcast's growth rate in Commercial shipping
- The Cruise market is relatively concentrated and Speedcast's cruise contracts are among the largest in the Group's portfolio, although each represents less than 10% of total Group revenue. To mitigate this concentration risk, Speedcast works to develop and nurture long-standing partnerships with its customers, built on a long track record of successful delivery and focus on customer needs.

Outlook

- Speedcast expects to continue to generate organic revenue growth in its Maritime division.
- In Commercial Shipping, organic growth will be driven by continued migration of vessels from narrowband to VSAT broadband partially offset by some known revenue churn in 2019 from the discontinuation of services provided to a satellite operator. The Company had a backlog of 520 vessels at December 2018 and will continue to activate this backlog while also adding to it by developing its pipeline of opportunities for VSAT migration. Speedcast is also assessing opportunities for VSAT migration within Globecomm's contracted narrowband vessels.
- In Cruise and Ferry, medium term organic growth prospects are promising due to bandwidth growth and new customer wins. 28 of the 36 cruise ships and ferries won in 2018 have been activated and will drive revenue growth in 2019. In addition, Speedcast renewed its largest VSAT contract with Carnival Corporation at the end of 2018 and expects revenue and EBITDA growth from this contract over the three year term of the renewed contract.
- To support further organic growth, Speedcast continues to build upon its robust suite of value-added services (VAS). These include extended capabilities of our SIGMA gateway, 4G/LTE solutions, cybersecurity, remote security, telemedicine, entertainment, training and remote video streaming/CCTV. These have the potential to increase revenue and profitability of Speedcast's maritime business in the future. The focus on VAS in the maritime ecosystem provides cost-effective solutions for ever-increasing customer needs that differentiate Speedcast from other maritime service integrators, while enhancing the on-board experience.
- In addition to Commercial Shipping and Cruise & Ferry, Speedcast is developing Yachting, which is very small today but has promising growth prospects.

Energy

Our business

- Speedcast currently serves the top players in all segments of the energy industry: drilling, engineering services, and production. Though the recovery in the energy market has been delayed, energy companies are still actively assessing their IT and network assets in an effort to streamline operations and improve operational efficiencies. This has led to the relocation of assets and a focus on improving operational performance and returns on investment.
- Whether onshore or offshore, a readily available network is critical to operations and safety. To support the need for constant connectivity, Speedcast provides the expertise, infrastructure and network capacity needed to keep their vital applications running and their crews connected.

2018 review

USDm	2018	2017	*% var.*
Revenue	**158.3**	**183.2**	***(13.6)%***
Services	148.2	174.9	*(15.3)%*
Equipment & Installation	10.1	8.3	*21.5%*

- 2018 was another challenging year for Speedcast's Energy division, with revenue declining 14% from 2017. This decrease was largely the a result of ongoing deepwater rig demobilisation (stacking) in the latter part of 2017 and into 2018 and some limited customer churn in the first half of 2018. The second half of 2018 saw more positive momentum, with revenue increasing 8% over the first half. This was the result of solid onshore activity, continued transitioning of Noble Drilling's global fleet, from a competitor to Speedcast, and growth in systems integration revenue. Revenue activations exceeded churn in the second half of 2018 and the equipment sales growth achieved supports future service revenue growth.

Challenges

- Uncertainties in the oil and gas industry may continue to impact our Energy division. The fundamentals of the oil and gas industry were challenging in 2018, particularly as it relates to the deep water offshore segment where Speedcast has a strong market leading position. Although oil prices increased in 2017 and the first three quarters of 2018 from their 2016 lows, the energy environment continues to be uncertain.
- Generally, an extended period of lower oil prices decreases exploration and investment activity. This reduces the utilisation of rigs and overall activity levels in the global oil and gas sector that our Energy division serves. The average price of Brent crude, a key indicator of activity for the oil and gas industry, increased during most of 2018, but then fell in late 2018, before increasing again in early 2019. Following this volatility, although the offshore drilling contracting environment remains challenged, drilling contractors appear cautiously optimistic about a gradual demand recovery.

Outlook

- Speedcast expects revenue growth in 2019, driven mainly by specific tailwinds such as the full year impact of the Noble Drilling rig fleet that was partially transitioned in 2018, additional systems integration revenue from some large new projects and continuous growth with a major engineering services firm, primarily related to onshore activity.
- Speedcast is not forecasting any significant recovery in deep water offshore activity in 2019 but does expect the Energy market recovery will accelerate in 2020. This is in line with commentary from most major drilling contractors and oil producers. In the meantime, Speedcast maintains a very strong competitive position in deepwater drilling rigs with 64% of market share. Accordingly, Speedcast is well positioned to benefit from a future recovery in energy activity levels.

- In addition, Speedcast is developing strategies to grow its share of shallow water rigs from a current low base whilst also expanding the scope of services that it provides to customers in the Energy division to include value added services and products such as CrewWiFi, LTE connectivity, cybersecurity, IoT, entertainment, Systems Integration services and IT outsourcing services.

Enterprise & Emerging Markets (EEM)

Our business

- Speedcast's EEM division is very diverse and addresses multiple markets, including cellular and telecom operators, humanitarian organisations, utilities, mining and media. We have a strong position in the Pacific, South East Asia, South America, and the Sub-Sahara region. The Globecomm acquisition adds strength in the United States.
- Our extensive satellite network is designed to provide connectivity for telecom operators, enterprises and organisations in remote areas. For example, Speedcast technology enables cellular operators to expand their 3G and 4G services beyond urban areas and provides backup protection to primary terrestrial backhaul circuits in the event of cable cuts or natural disaster. In remote regions satellite solutions are the best way to reach unserved populations and enable people to access the internet and thus bridging the digital divide. Speedcast's experienced engineering teams carry out network design, installation, maintenance, network operations, satellite capacity procurement and integration into the carriers' backbone.
- For humanitarian organisations and disaster response teams, Speedcast offers mobile, flexible and ready to deploy communications solutions to be used in the harshest environments at the most unexpected times.
- Speedcast's media solutions help broadcasters and media companies unlock new opportunities and expand offerings, with managed services and system integration, as consumer demand for IP video grows and cloud-based content delivery becomes ubiquitous. Speedcast Media Network can deliver content from anywhere to everywhere.

2018 review

USDm	2018	2017	*% var.*
Revenue	**147.9**	**116.6**	***26.8%***
Services	86.2	88.5	*(2.5)%*
Wholesale Voice	24.0	20.3	*18.0%*
Equipment & Installation	37.7	7.9	*378.5%*

- EEM achieved strong organic growth of 25% in 2018 (adjusting for USD2.6 million of revenue contribution from Globecomm and In Aria!). This growth was driven by growth in Wholesale Voice and the start of Phase 1 of the NBN project in Australia, which is reflected in the significant growth in equipment and installation revenue. Services revenue declined in 2018 as a result of some customer churn in late 2017 and in 2018. This was primarily due to technology displacement with increased penetration of fibre across the Pacific region as well as the loss of a customer in Indonesia and in aviation.

Challenges

- The EEM division is highly fragmented and serves customers all over the world, including in some developing markets where the customer and political risks are higher.
- The EEM division has the greatest level of competition of Speedcast's divisions, the lowest barriers to entry and greatest displacement risk. This is due to the fact that the division involves a greater proportion of contracts which provide simple and less critical fixed connectivity solutions (rather than more complex mobility network solutions) with more limited technical support needs.

Outlook

- The NBN project in Australia will transition into Phase 2 in 2019, which is expected to result in a decline in equipment and installation revenue compared to 2018. Excluding the impact of NBN, Speedcast expects to deliver organic service revenue growth in 2019 from the implementation of some new projects at the end of 2018 and the backlog of projects for implementation in 2019. Cellular backhaul and rural connectivity solutions remain key growth areas in 2019, particularly in Latin America and South East Asia.
- We continue to see strong demand for connectivity in emerging markets, as telecom operators aim to expand their mobile networks in order to provide services to people and business that are not connected today or that are not satisfied with their current communications options.
- In addition, the Globecomm acquisition adds scale and capabilities to our media business, which is expected to drive growth in this sector.
- The Globecomm acquisition also brings very interesting IoT capabilities which will benefit the EEM division. As at December 2018, Globecomm connected 16,000 devices (up from 200 devices at the end of 2017). The Company views IoT as a significant growth opportunity as Globecomm's capabilities are fully integrated into the Speedcast Group and revenue synergy opportunities are realised in EEM and across other divisions.

Government

Our business

- Speedcast's government division is a recognised leader in secure, reliable, end-to-end managed communications, airborne Intelligence Surveillance and Reconnaissance (ISR)/Communications-On-The-Move (COTM) solutions, and professional services for mission-critical applications.
- The division delivers high-value solutions to end users in some of the most remote and harsh locations in over 135 countries on 7 continents around the globe. With customer networks that vary from a few sites to hundreds of locations, its technical expertise and technology-agnostic approach ensures that customers get best-fit/best-value solutions. Government division customers include U.S. government agencies, defence contractors and Intergovernmental Organizations (IGOs).

2018 review

USDm	2018	2017[3]	*% var.*
Revenue	**97.3**	**83.9**	***16.0%***
Services	90.8	80.2	*13.2%*
Equipment & Installation	6.5	3.7	*75.7%*

- Government delivered strong revenue growth of 16% in 2018. Excluding the USD3.6 million contribution of Globecomm, which was acquired in December 2018, the division generated healthy organic growth of 12%.
- According to the Office of the Under Secretary of the Department of Defence (Comptroller), U.S. defence spending increased 10% in 2018 and was a driver of growth in this division. In addition, airborne ISR and COTM is an area in which Speedcast's Government division has built unique expertise, which was a significant contributor to the organic growth of the division, with revenue growing by 34% in 2018.

[3] Includes revenue for the full twelve months of UltiSat, which was acquired in November 2017.

- The strong growth in equipment and installation revenue is also expected to underpin future network and professional service revenue growth.

Challenges

- U.S. government contracts are funded on 12 month cycles, which can cause uncertainty. Changing budget priorities may impact ongoing and new contracts. The potential of U.S. government shutdowns may impact near-term task order awards and/or contract closure cycles. Recent announcements by the Trump administration related to troop withdrawals from certain areas of military operations may impact existing programs and pipeline development opportunities.

Outlook

- Speedcast expects the Government division to continue growing organically in 2019 and beyond in line with the U.S government spending trends and the growing investment in ISR services. We are entering 2019 with a stronger market position following the Globecomm acquisition, which closed in December and nearly doubles the revenue of the Government division. Revenue synergies from the acquisition are expected to contribute to growth over the next three years through both cross-selling opportunities and increased win rates.
- The government division had a strong backlog of USD28 million at December 2018 and we are also working on a more aggressive push into global government as NATO countries are expected to increase their defence budgets.

OUTLOOK FOR THE GROUP

- Speedcast is confident in its ability to take advantage of its market leading position and unique scale and capabilities to deliver organic growth.
- Industry fundamentals are creating several tailwinds for Speedcast, in particular a significant growth in data connectivity needs across our divisions. Capacity supply is strong and our customers are demanding more fully managed services with service partners who can deliver on a global basis. There is no company in the managed network and information services space that is more global and has more people on the ground than Speedcast.
- Our increasingly diversified business provides numerous growth opportunities which are expected to create long term value for shareholders.
- Specifically in 2019, Speedcast is well placed to deliver moderate organic revenue growth. This outlook reflects:
    - A positive outlook for Maritime with strong backlog and pipeline in Commercial Shipping and in Cruise as we increase market share and customers' connectivity needs continue to grow
    - Although the timing of the Energy market recovery is uncertain, Speedcast's market share and strong customer base position it well to benefit from the anticipated market recovery
    - A reduction in revenue in EEM from the transition into Phase 2 of the NBN contract is expected to be partially offset by organic growth in the rest of the division
    - Government revenue is expected to continue to grow strongly in 2019 albeit at a slightly lower rate than in 2018. With the scale that was added to this division with the acquisition of Globecomm, Speedcast expects to be in a stronger position to win contracts across the combined customer base in the medium term
- The outlook for each Division is discussed in more detail on pages 5 to 10.

RISKS

- The Group takes a proactive approach to risk management. The Board is responsible for ensuring that business risks are identified quickly and that appropriate risk mitigation steps are taken in a proactive and timely manner. The Board assesses the risks with the Group's overall strategic objectives and activities in mind. Current key risks identified for the Group are:

Speedcast financial targets are compromised by ongoing global reduction in bandwidth costs

- Global bandwidth costs continue to decline. This is caused by bandwidth oversupply, technological innovation and increased competition. These reductions may impact Speedcast's future financial performance.

Macro-Economic Risks

- Changes in macroeconomic conditions can affect Speedcast's business. As an example, Speedcast's FY18 results have been adversely affected by ongoing weakness in global energy markets. Other future risks include potential reductions in government spending and reduced international trade, inter alia.

Consolidation of the satellite service industry could change the competitive landscape

- The satellite service industry is undergoing a period of consolidation. Some of Speedcast's distributors have been acquired by competitors and Speedcast anticipates that other distributors of its services may be acquired by competitors in the future.

Satellite service providers face competition from a range of new communication services and new technologies

- Satellite communication competes with a number of different methods of transmission, including fibre-optic, Wi-Fi, and WiMax. As competing networks expand, satellite communication's competitive advantage in providing connectivity to users outside established networks is reduced.

Geo-political risks

- As a consequence of the geographic areas that Speedcast operates in, the Group is exposed to geo-political and strategic risks. These risks have increased as the Group has grown larger and moved into new markets. The risks include disruption as a result of war, civil unrest, security issues and government intervention. These risks exist predominantly in the Middle East, Russia and certain parts of Latin America, Africa and Asia.

Loss of, or inability to attract, key personnel

- Speedcast's success depends to a significant extent on its key personnel. There is significant competition for strong candidates with experience in the satellite services industry, and this competition is expected to increase. The loss of key personnel or the inability to recruit personnel may adversely affect Speedcast's future financial performance.

Risks relating to acquisitions

- Speedcast has historically experienced rapid growth through acquisition. This growth has placed, and may continue to place, significant demands on management, information reporting resources, and financial and internal controls and systems. In addition, Speedcast's ongoing performance depends on the effective and timely integration of acquisitions.

Foreign exchange rates

- Speedcast's financial reports are presented in United States dollars. However, a substantial proportion of Speedcast's sales revenue, expenditures and cash flows are generated in various other currencies, including Euros. Further, as Speedcast expands its operations it is expected that it will be exposed to additional currencies. Any adverse exchange rate fluctuations or volatility in the currencies in which Speedcast generates its revenues and cash flows, and incurs its costs, would have an adverse effect on Speedcast's future financial performance and position.

BOARD OF DIRECTORS

JOHN ANGUS MACKAY AM

DIRECTOR, CHAIRMAN

BA, BEc, Hon Phd (UC),

Term: Director since 14 July 2014 *

Skills and experience: John has over 15 years of experience as a Chairman and Director of major companies across the communications, utilities, health, construction and education sectors. Previously, John held the role of Chairman of TransACT Communications, a regional integrated telecommunications and subscription TV operator. He was the Chairman and CEO of ACTEW Corporation and CEO, Chairman and founder of its joint venture with AGL. He was Chancellor of the University of Canberra and Chairman of the Strategic Advisory Board of the National Arboretum Canberra.

Directorships of listed entities (last three years), other directorship/offices (current and recent):

- Chairman of CommsChoice Group Ltd (ASX: CCG)
- Director of Energy Action Ltd (ASX: EAX)

Special Responsibilities:

- Chair of Board
- Audit, Business Risk and Compliance Committee

* **John** was initially appointed as a director of Speedcast Acquisitions Ltd (SAL) in Oct 2013. Following the IPO, Speedcast undertook a capital reconstruction and as a result acquired all of the issued capital of SAL.

GRANT SCOTT FERGUSON

DIRECTOR

BSc (Hons) (ABS), CA, CPA

Term: Director since 14 July 2014 *

Skills and experience: Grant has held senior roles in the telecommunications industry for over 20 years, including as CEO of Astro Overseas Ltd, and as CFO of Astro All Asia Network Plc, one of Asia's leading integrated multimedia groups. Previously, Grant was a Managing Director, Telecommunications, Media and Technology at sovereign wealth fund Temasek Holdings, CFO of Total Access Communications in Thailand and Metro Pacific in the Philippines, and treasurer for the First Pacific Group in Hong Kong after starting his career with Price Waterhouse. Between 2014 and 2017 Grant served on the board of Italian football club Inter Milan. He currently serves as an advisor to and Non-Executive Director of a number of businesses across Asia.

Directorships of listed entities (last three years), other directorship/offices (current and recent):

- Director of Fortrec Holdings Pte Ltd
- Director of SRG Asia Pacific Sdn Bhd
- Director of Disruptive Media Pte Ltd
- Director of The Alice Smith School, Kuala Lumpur

Special Responsibilities:

- Audit, Business Risk and Compliance Committee
- Remuneration and Nominations Committee

* **Grant** was initially appointed as a director of Speedcast Acquisitions Ltd (SAL) in Oct 2012. Following the IPO, Speedcast undertook a capital reconstruction and as a result acquired all of the issued capital of SAL.

PETER EDWARD JACKSON

DIRECTOR

Term: Director since 14 July 2014 *

Skills and experience: Peter has more than 40 years of experience in the satellite and telecommunications sectors. He served as the CEO at AsiaSat from 1993 – 2010 and as its Executive Chairman from 2010-2011. He was Non-Executive Director of AsiaSat until 2018. Prior to joining AsiaSat, Peter spent 20 years with Cable and Wireless. He served as a Director and Chairman at Daum, a South Korean Internet provider.

Directorships of listed entities (last three years), other directorship/offices (current and recent):

- Director of We Solutions Ltd (HKSE: 860)
- Director of Asia Satellite Telecommunications Holdings Ltd (HKSE: 1135)
- Director of LeoLabs, Inc.
- Director of WeLab Holdings Ltd

Special Responsibilities:

- Chair of Remuneration and Nominations Committee

* **Peter** was initially appointed as a director of Speedcast Acquisitions Ltd (SAL) in Oct 2012. Following the IPO, Speedcast undertook a capital reconstruction and as a result acquired all of the issued capital of SAL.

MICHAEL MARTIN MALONE

DIRECTOR

BSc, GradDipEd (WA)

Term: Director since 14 July 2014 *

Skills and experience: Michael is the founder and former CEO of ASX-listed internet provider iiNet, a position he held from 1999 to 2013. He served as the President of the Western Australian Internet Association from 1996 to 2002. Michael is also the former Deputy Chairman of Autism West. He was a winner of the Western Australian Information Technology and Telecommunications awards lifetime achievement award in 2005, and in 2006 was awarded the Business News Award for the most outstanding business leader in Western Australia under 40 and the Young Leader of the Year award for the JML Australia Human Capital Leadership Awards.

Directorships of listed entities (last three years), other directorship/offices (current and recent):

- Chairman of Sky and Space Global Ltd (ASX: SAS)
- Director of Seven West Media Ltd (ASX: SWM)
- Director of Superloop Ltd (ASX: SLC)
- Director of NBN Corporation Ltd

Special Responsibilities:

- Audit, Business Risk and Compliance Committee
- Remuneration and Nominations Committee

*** Michael** was initially appointed as a director of Speedcast Acquisitions Ltd (SAL) in May 2014. Following the IPO, Speedcast undertook a capital reconstruction and as a result acquired all of the issued capital of SAL.

CAROLINE VAN SCHELTINGA

DIRECTOR

LLB,LLM (Leiden University), MBA (Insead)

Term: Director since 5 April 2018

Skills and experience: Caroline has over 23 years of investment banking experience at global firms including Jefferies & Company, Lehman Brothers and Credit Suisse in New York.

Caroline is currently the Chairman and CEO at Waterloo Investment Holdings, a BSX-listed holding company operating across a number of sectors with assets in the Caribbean and Latin America.

Directorships of listed entities (last three years), other directorship/offices (current and recent):

- Chairman & CEO of Waterloo Investment Holdings Ltd (BSX: WIHL.BH)

PIERRE-JEAN ('PJ') JOSEPH ANDRE BEYLIER

DIRECTOR

PGE (EM Lyon), MBA (USC)

Term: Director since 14 July 2014 *

Skills and experience: PJ joined Speedcast in 2000 as Head of Sales and Marketing. He was appointed Chief Executive Officer of Speedcast in 2004. PJ has been instrumental to the success of Speedcast, having managed the transition to its current technology platform and guided the development of Speedcast's strategic focus. He has over 20 years of experience in international sales and marketing across Black and Decker in France, and at Rhodia, a French manufacturer of specialised industrial chemicals where he held a number of roles including export sales manager for one of the divisions, responsible for Southern and Eastern Europe, Middle East and Africa, and then managed key e-business projects in the Group.

*** PJ** was initially appointed as a director of Speedcast Acquisitions Ltd (SAL) in Sep 2012. Following the IPO, Speedcast undertook a capital reconstruction and as a result acquired all of the issued capital of SAL.

EDWARD FRANCIS SIPPEL	MICHAEL STUART BERK
DIRECTOR (to 31 December 2018)	**DIRECTOR** (to 17 May 2018)
BA (Georgetown)	A.B. (Harvard), JD (Harvard Law School), MBA (Harvard Business School)
Term: Director since 14 July 2014 *	**Term**: Director since 14 July 2014 *
Skills and experience: Edward is a Managing Director of TA Associates and Co-Head of TA Associates in Asia.	**Skills and experience**: Michael is a Managing Director of TA Associates.
* **Edward** was initially appointed as a director of Speedcast Acquisitions Ltd (SAL) in Aug 2012. Following the IPO, Speedcast undertook a capital reconstruction and as a result acquired all of the issued capital of SAL.	* **Michael** was initially appointed as a director of Speedcast Acquisitions Ltd (SAL) in Sep 2012. Following the IPO, Speedcast undertook a capital reconstruction and as a result acquired all of the issued capital of SAL.

Dividends

	2018 USD'000	2017 USD'000
Dividends declared during the year		
Interim dividend declared for the year ended 2018: AUD 2.40 cents (fully franked), 2017: AUD 2.40 cents (fully franked)	4,252	4,494
Final dividend declared for the year ended 2017: AUD 4.80 cents (fully franked), 2016: AUD 2.40 cents (fully franked)	9,282	4,292
	13,534	8,786

In addition to the above declared dividends, on 25 February 2019, the Board approved a final dividend of AUD 4.8 cents per share for the year ended 31 December 2018. The dividend will be paid on 23 May 2019 to all shareholders registered on the record date of 8 March 2019. The ex-dividend date for dividend entitlement will be 7 March 2019. The dividend will be unfranked for Australian taxation purposes.

The final dividend of AUD 4.8 cents per share brings the 2018 total dividend to AUD 7.2 cents per share, in-line with the total dividend for 2017.

Principal Activities

Speedcast's core business vision is to be a global leader in the provision of remote communications and IT services. We seek to achieve this vision through the delivery of high quality, innovative and tailored solutions combined with exceptional customer service. Speedcast provides products and services in the following categories:

Network Services
Speedcast offers managed satellite, cellular and fibre network services. We also design, deploy, operate and maintain telecommunications networks for our customers.

Value Added Services
Speedcast offers its customers a range of value-added services, including user applications (cyber security, email, voice, video conferencing, video surveillance), network optimisation (firewalls, filtering, data compression) and network monitoring and management (including reporting tools and remote access for IT technicians).

Professional Services
Speedcast offers Professional Services to its customers, including project management, network design and optimisation, managed cyber-security services, training services and remote IT management and support services.

Wholesale Voice:
Speedcast sells wholesale Voice services to telecom customers, which are then re-sold to end users.

Equipment Sales
Speedcast sells network equipment directly to customers, including satellite terminals, modems, routers and other types of equipment related to the provision of Network and Value Added Services.

System Integration
Speedcast provides network and IT systems integration services to public safety, utility, oil and gas telecom, and maritime clients around the world.

Directors and Company Secretary

The following persons were directors of Speedcast International Ltd during the whole of the financial year and up to the date of this report unless otherwise stated:

- John Angus Mackay
- Grant Scott Ferguson
- Peter Edward Jackson
- Michael Martin Malone
- Pierre-Jean ('PJ') Joseph Andre Beylier
- Caroline Van Scheltinga was appointed as a director on 5 April 2018 and continues in office at the date of this report.
- Michael Stuart Berk was a director from the beginning of the financial year until his resignation on 17 May 2018.
- Edward Francis Sippel was a director from the beginning of the financial year until his resignation on 31 December 2018.

The joint company secretaries are Dominic Thomas Edward Gyngell and Clive Cuthell, who were both appointed to the position on 28 June 2018. Dominic also holds the position of General Counsel in the Company and Clive is Speedcast's Chief Financial Officer. The company secretary until 28 June 2018 was Andrew William Metcalfe.

Directors' meetings

During the financial year, 11 Board, 5 Audit and Risk Committee and 1 Nomination and Remuneration Committee meetings were held. Attendances by each Director and sub-committee member during the year were as follows:

Directors	Principal Board Meeting	Ad-hoc Board Meeting	Audit and Risk Committee Meeting	Nomination and Remuneration Committee Meeting
John Angus Mackay	6	5	5	
Pierre-Jean ("PJ") Joseph Andre Beylier	6	5		
Grant Scott Ferguson	6	4	5	1
Peter Edward Jackson	6	4		1
Edward Francis Sippel	5	5	2	1
Michael Martin Malone	6	3	4	1
Michael Stuart Berk	1			
Caroline Van Scheltinga	5	4		
Total held	**6**	**5**	**5**	**1**

Indemnification and insurance of directors and officers

Speedcast International Limited, paid a premium during the period from 1 January to 31 December 2018 of USD332,000 (2017: USD171,500) to insure the Directors and Officers of the Company and its worldwide controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This insurance does not cover liabilities that arise from conduct involving wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain an advantage for themselves or someone else or to cause detriment to the Group.

It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Remuneration of Directors and Key management Personnel

The Remuneration Report is set out on pages 20 to 31, and forms part of this Directors' Report.

Share Options

At the balance sheet date, the unissued ordinary shares of Speedcast International Limited under options are as follows:

Scheme	Grant Date	Vesting Date	Number of unissued shares under Option
Long Term Incentive Plan 2015	9 September 2015	31 December 2018	314,626
Long Term Incentive Plan 2017	15 May 2017	31 December 2019	575,367
Long Term Incentive Plan 2018	15 May 2018	31 December 2020	869,139
			1,759,132

118,401 shares were issued in the year in relation to the vesting of options under the restricted management rights scheme and 316,077 shares were issued in the year in relation to the 2014 and 2015 Long Term Incentive Plans. 314,626 rights related to the LTIP 2015 scheme vested on 31 December 2018 and shares remained unissued as at 31 December 2018.

Option holders do not have any rights to participate in any issues of shares or other interests in the Company or any entity.

For details of options issued to Directors and other Key Management Personnel as remuneration, refer to the Remuneration Report on pages 20 to 31 of this report.

Review of results and operations

Speedcast's operations, financial position, business strategies and outlook are detailed in the Operating and Financial Review on pages 2 to 11 of this report.

Significant changes in the state of affairs

On 28 August 2018, the Group entered into a definitive agreement to acquire 100% of the business of Globecomm Systems Inc., a leading provider of remote communications networks, especially in the Government, Maritime and Media markets.

The acquisition was completed on 14 December 2018. The acquisition was funded by a USD175m incremental term loan add-on to its existing USD425m U.S. Term Loan B facility (due 2025).

Events after the reporting date

On 8 March 2019 314,626 shares were issued in full settlement of the 2015 LTIP scheme. Refer to note 12 of the Financial Report.

Other than the above, there have been no other material post balance sheet events since 31 December 2018.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

Non-audit services

The Board of Directors, in accordance with advice from the Audit and Risk Committee, are satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Audit and Risk Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standard Board.

The following fees were paid or payable to the external auditors for non-audit services provided:

	2018 USD	2017 USD
Remuneration of auditor of the parent entity PricewaterhouseCoopers Australia ("PwC")		
Taxation services	66,732	448,790
Transaction related services	-	172,553
Total remuneration of PwC for non-audit services	66,732	621,343
Remuneration to other related entities of PwC		
Taxation services	494,918	144,065
Transaction related services	-	60,456
Other services	-	7,626
Total remuneration of other related entities of PwC for non-audit services	494,918	212,147
Remuneration to auditors other than PwC or its related entities		
Taxation services	334,932	274,473
Transaction related services	10,881	9,662
Total remuneration to auditors other than PwC or its related entities for non-audit services	345,813	284,135

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included at page 32 of this report.

Environmental regulations

The Group's operations are not regulated by any significant environmental regulations in any of its operating countries.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Corporate governance

Speedcast International Limited and the Board are committed to achieving and demonstrating the highest standards of corporate governance.

Speedcast has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council. The 2018 corporate governance statement is dated 31 December 2018 and reflects the corporate governance practices in place throughout the 2018 financial year. The 2018 corporate governance statement was approved by the Board on 28 March 2019. A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed at https://www.speedcast.com/investor-relations/corporate-governance.

Rounding

The Company is of a kind referred to in the ASIC Legislative 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 financial statements have been rounded off in accordance with that class order to the nearest thousand dollars unless otherwise stated.

REMUNERATION REPORT

This Remuneration Report details remuneration information as it applies to Speedcast International Ltd Key Management Personnel ("KMP") and Directors for the year ended 31 December 2018 in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations.

This information has been audited as required by section 208(3C) of the Act. Our remuneration disclosures aim to maintain a high standard of clarity and transparency in communications with all stakeholders. KMP holding office during the financial year are listed below.

Non-Executive Directors

John Angus Mackay	
Michael Stuart Berk	(resigned 17 May 2018)
Grant Scott Ferguson	
Peter Edward Jackson	
Michael Martin Malone	
Edward Francis Sippel	(resigned 31 December 2018)
Caroline Van Scheltinga	(appointed 5 April 2018)

Executive Directors

Pierre-Jean Joseph Andre Beylier	Chief Executive Officer

Other KMP

Clive Cuthell[1]	Chief Financial Officer and Joint Company Secretary
Ian Baldwin[2]	Chief Financial Officer
Keith Johnson	Chief Operating Officer, Executive Vice President, Energy
Athina Vezyri	Executive Vice President, Maritime
Erwan Emilian	Executive Vice President, Enterprise & Emerging Markets
Richard Carden[3]	Executive Vice President, Integration

[1] Clive Cuthell joined Speedcast as Chief Financial Officer on 9 April 2018 and was appointed Joint Company Secretary on 28 June 2018
[2] Ian Baldwin resigned as Chief Financial Officer on 2 March 2018
[3] Richard Carden left the company on 28 February 2018

Remuneration Policy

The Board's objective is to ensure that Speedcast's remuneration supports achievement of the group's strategy, and drives performance and behaviours which are in the group's best interests. Remuneration matters are handled by the Nomination and Remuneration Committee, which is a sub-committee of the Board.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee recommends to the Board the remuneration packages for the KMP on an annual basis. In carrying out its duties, the Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration on a periodic basis, by reference to relevant local employment market conditions. The overall objective is to ensure maximum stakeholder benefits from the attraction and retention of a high quality executive team. The Nomination and Remuneration Committee forms its own independent decisions on KMP remuneration.

The key principles which govern the group's remuneration framework are to:

- Link executive rewards to the creation of shareholder value;
- Provide market-competitive remuneration package, with appropriate balance of fixed and variable remuneration;
- Ensure variable portion of executive remuneration is dependent upon meeting pre-determined performance objectives;
- Ensure that performance objectives for variable remuneration are aligned to the drivers of the Group's success and the achievement of overall business objectives; and
- Allow for Board discretion to be applied, in order to ensure that remuneration outcomes are appropriate for the Company's circumstances.

KMP incentive arrangement

Speedcast has established a number of incentive arrangements to enable attraction, motivation and retention of KMP of Speedcast.

The remuneration awarded for 2018 contains the following elements:

- Base salary;
- Allowances and non-monetary benefits;
- Short-term incentive "STI" (Cash Bonus); and
- Long-term incentive "LTI".

The target allocation of KMP remuneration between base salary and variable remuneration (excluding allowances and non-monetary benefits) for 2018 was as follows.

	Base Salary	STI	LTI*
Pierre-Jean ("PJ") Joseph Andre Beylier	36%	28%	36%
Clive Cuthell	43%	22%	35%
Ian Baldwin	56%	22%	22%
Keith Johnson	42%	16%	42%
Athina Vezyri	42%	16%	42%
Erwan Emilian	53%	21%	26%
Richard Frank Carden	63%	25%	12%

*LTI percentage is calculated based on the value of the shares over which options are granted at the date of issuance of the option and not the fair value of the share option itself.

Fixed remuneration (base salary and fixed allowance) is reviewed on an annual basis taking into consideration individual performance and competency, the consolidated entity's performance and market conditions relevant to the role and location.

Both the cash-based short-term incentive and the long-term equity-based incentive are subject to achievement of key performance indicators "KPI" or hurdles set and assessed by the Board.

Remuneration Policy (continued)

KMP incentive arrangement (continued)

For the CEO, the target STI bonus is 75% of base salary, and for other KMP it ranges between 40% and 50% of base salary. Both Financial and non-Financial Key performance indicators "KPI" are set each year and measured at the end of each year. The STI bonus is paid entirely at the discretion of the board.

The achievement of the full 2018 STI for the CEO was weighted towards performance of KPI on the following areas:

- 40% - Group Revenue
- 40% - Group EBITDA
- 20% - EBITDA Cash Conversion

Portion of target STI paid to CEO: 0%

The achievement of the full 2018 STI for other KMP was weighted towards performance of KPI on the following areas:

- 25% - Group Revenue
- 25% - Group EBITDA
- 50% - Role specific quantitative measures, including divisional revenue, contribution margin, DSO and capacity utilisation targets, among other measure

Portion of target STI paid to other KMP: 0%

For 2018, after considering various factors (including financial performance), it was determined that the STI bonus would be nil.

The above measures were chosen as they represent the key milestones on the path to delivering the Group's strategy.

The Board retains discretion to increase or decrease incentive payments to take account of significant events and/or other factors that were not anticipated when the targets were established. To the extent that an individual outperforms the ambitious targets set, it is possible for payout to be received that is in excess of 100% of their STI target.

The Group has very high expectations of Management and sets rigorous targets in each of the performance measures, as it seeks to continue to drive maximum performance. The table below shows the KMP remuneration compared to key performance indicators (KPIs) of the Group. With the exception of FY 2017, the KPIs disclosed have not been updated for the impacts of new accounting standards. FY 2017 KPIs have been restated to account for the impacts of AASB 9 – Financial instruments.

	2018	2017 restated	2016	2015	2014
Underlying revenue ($m)	623.1	514.2	218.0	167.6	121.5
Underlying EBITDA ($m)	132.0	123.3	41.5	29.3	20.7
Underlying NPATA ($m)	48.1	46.0	19.2	14.8	11.1
Statutory profit ($m)	1.9	6.0	5.9	4.3	(6.9)
Dividend payment* ($m)	13.5	13.8	7.8	5.9	33.1**
Dividend payout ratio (%) (statutory profit)	710.5%	230.0%	133.0%	137.7%	n/a
Dividend payout ratio (%) (underlying NPATA)	28.1%	33.3%	40.9%	40.0%	n/a
Increase/ (decrease) in share price*** (%)	(45.7%)	53.1%	(7.9%)	125.5%	(5.6%)****
Total KMP remuneration as a percentage of underlying EBITDA for the year (%)	2.4%	3.0%	5.9%	8.4%	14.1%

* 2018 final dividend to be paid in 2019 estimated based on exchange rate at date of declaration and shares to be issued
** $30m dividend was declared pre-IPO
*** Compound yearly share price growth rate since listing is 11.8%
**** Decrease in share price since date of IPO to 31 December 2014

In addition to setting KPIs at a stretch level, the Group also requires the below conditions to be met in order for an individual to become entitled to receive payments under the STI:

- KMP still employed when bonus is paid;
- Group meeting all bank covenants (this operates to ensure that in the pursuit of challenging revenue targets, the executive team is also required to maintain suitable financial discipline in order to receive any bonus).

Remuneration Policy (continued)

The STI is not the exclusive method of providing incentive remuneration for employees of Speedcast and the Board has discretion to provide other forms of incentive remuneration in appropriate circumstances.

Long-term Incentive Plan (LTIP)

LTIP’s have been established in order to:

- Align the interests of Speedcast’s executives with those of shareholders;
- Encourage outperformance against the market; and
- Encourage the retention of key executives.

Participation in the plan, which is approved by the Board, is based on sustained individual performance and value to the Company.

For 2014, 2015, 2017 and 2018, LTIP awards have been in the form of performance rights, which on vesting entitle the executive to receive a fully-paid ordinary share in Speedcast, for no consideration. The Board considers that this method of delivering the LTIP allows for the best alignment between the interests of executives and shareholders, as the value of the LTIP will change in tune with the Company’s share price. There were no LTIP awards in 2016.

Key terms of all LTIP awards are given below.

Eligibility	Offers may be made at the Board's discretion to employees of Speedcast or any other person that the Board determines to be eligible to receive a grant under the plan.
Types of securities	The Plan Rules provide flexibility for Speedcast to grant one or more of the following securities as incentives, subject to the terms of individual offers: ▪ Performance rights ▪ Options; and ▪ Restricted shares. Options are an entitlement to receive a share upon payment of an applicable exercise price. Performance rights and restricted shares are an entitlement to receive a share for no consideration.
Offers under the Plan	Offers are made at the Board's discretion. The Board can set the terms and conditions on which it will offer performance rights, options and restricted shares in individual offer documents. The offer documents must contain the information required by the Plan Rules. Offers must be accepted by the employee and can be made on an opt-in or opt-out basis.
Issue price	Unless the Board determines otherwise, no payment is required for a grant of a performance right, option or restricted share under the Plan.
Vesting	Vesting of performance rights, options and restricted shares under the Plan is subject to any vesting or performance conditions determined by the Board and specified in the offer document. Options must be exercised by the employee and the employee is required to pay the exercise price before shares are allocated. Subject to the Plan Rules and the terms of the specific offer document, any performance rights, options or restricted shares will either lapse or be forfeited if the relevant vesting and performance conditions are not satisfied.
Cessation of employment	Under the Plan Rules, the Board has a broad discretion in relation to the treatment of entitlements on cessation of employment. It is intended that individual offer documents will provide more specific information on how the entitlements will be treated if the participating employee ceases employment.
Clawback and preventing inappropriate benefits	The Plan Rules provide the Board with broad "clawback" powers if, amongst other things: The participant has acted fraudulently or dishonestly, has wilfully breached their duties, or the Company is required or entitled under law or company policy to reclaim remuneration from the participants; or The participant's entitlements vest as a result of a fraud, dishonesty or wilful breach of duty of any other person and the Board is of the opinion that the incentives would not have otherwise vested.
Change of control	The Board may determine that all or a specified number of a participant's performance rights, options or restricted shares will vest or cease to be subject to restrictions in a change of control event in accordance with the Plan Rules.
Other terms	The Plan contains customary and usual terms for dealing with administration, variation, suspension and termination of the Plan. The terms of the Plan may be varied in cases where domestic legislation requires.

2018 LTIP Offer

The key terms of the 2018 LTIP arrangements are summarised in the table below:

Participants and value of grant	The participation of the Chief Executive Officer required approval by shareholders at the annual general meeting. The Board obtained approval to grant 112,907 performance rights to Mr Beylier, with a face value of USD 210,230. Participation of other KMP who are not directors of the Company was as follows: ▪ Chief Financial Officer – 80% of base salary; ▪ Other KMP – 40-100% of base salary.
Grant of performance rights	The 2018 LTIP offer comprised of performance rights. A performance right entitles the holder to acquire a share for nil consideration at the end of the performance period, subject to meeting specific performance conditions. The number of performance rights granted was based on a fixed percentage of the relevant participant's annual fixed remuneration and was issued to the participant at no cost.
Performance conditions, performance period and vesting	The performance condition must be satisfied in order for the performance right to vest. For the LTIP schemes: ▪ 50% of the total performance rights will vest subject to the achievement of a Total Shareholder Return (TSR) performance target for the Company that exceeds the performance of the S&P/ASX Small Ordinaries Index (AUD) (Index) over the performance period and subject to the participant being an employee at the end of the performance period ("TSR component"); and ▪ 50% of the performance rights will vest solely subject to the participant being an employee at the end of the performance period ("service component"). Performance against the above conditions will be assessed by the Board as soon as practicable following the completion of the performance period (31 December 2020). Performance rights that remain unvested following this assessment will lapse immediately.
Vesting conditions – TSR component	Full vesting of the TSR component can only occur when the TSR performance of the Company is at least equal to the performance of the Index over the performance period. Where the Company's TSR performance does not meet this threshold, there is no vesting unless the Board exercises its discretion to allow partial vesting of up to 50% of the TSR component.
Rights associated with performance rights	The performance rights do not attract dividends, voting rights or any capital distributions.
Restrictions on dealing	Participants must not sell, transfer, encumber, hedge or otherwise deal with performance rights.
Cessation of employment	If the participant ceases employment for death, permanent disability or is otherwise determined to be a "good leaver" by the Board, unvested performance rights will vest in full, unless otherwise determined by the Board. If the participant ceases employment in any other circumstances, all unvested performance rights will lapse, unless otherwise determined by the Board.
Change of control	In a situation where there is likely to be a change of control, the Board has the discretion to accelerate vesting of some or all of the performance rights. Where only some of the performance rights are vested on a change of control, the remainder of the performance rights will immediately lapse.

For the 2018 LTIP award, the Board determined that the relative TSR measure against a comparator group comprising the ASX/S&P Small Ordinaries Index was appropriate for measuring the long-term performance of the executive team, as Speedcast was competing for investment with other companies in that index. The Board is considering whether a change in comparator groups is appropriate for future awards.

The Board has determined that linking the remainder of the LTI performance rights to continued service with Speedcast is in the best interests of retaining the talented executives who are necessary to the achievement of the Company's strategy. Speedcast operates in a highly specialised field, and many of its senior executives are based in markets (such as Hong Kong, USA and certain other key markets) where longer-term incentives are typically linked solely or partially to continued service.

Legacy LTI - Restricted Management Rights

Restricted Management Rights ("RMR") were issued by the Company under the equity incentive plan in previous financial years. The RMR effectively replace certain rights to shares of Speedcast Acquisitions Limited which were issued by Speedcast Acquisitions Limited to certain employees of Speedcast prior to the Prospectus Date. The issue of RMR in substitution for existing rights held by Management comprises an additional component of the corporate restructure undertaken during that year.

The Company made an offer of rights to acquire Shares in the Company to the affected members of Senior Management. The offer of RMR is made on the terms set out below and pursuant to the Plan Rules.

Further details of the offer are set out below:

Participants	The RMR was granted to certain members of the Senior Management that the Board determines to be eligible to receive a right.
Grant date, grant conditions and timing of future offers	The RMR was granted in October 2013, February 2014 and June 2014. There will be no future grants of RMR.
Grants of RMR	Each RMR will entitle the holder to acquire a share for nil consideration at the end of the relevant vesting period, subject to meeting the vesting condition. The number of RMR granted was 1,120,674 and RMR were issued to the participants at no cost. No exercise price is payable in respect of the RMR.
Vesting condition and vesting periods	The offer is divided into tranches of RMR with different vesting periods. Each tranche of RMR will vest subject to the satisfaction of the vesting condition over the vesting period relevant to that tranche. The vesting condition is continued employment with Speedcast. Vesting will occur over a total period of four years from grant date. For each tranche, the vesting condition must be satisfied at the end of the relevant vesting period for that tranche in order for the RMR to vest. The tranches and vesting period is as follows: • 25% of the RMR will vest 12 months after grant date if the participant remains in employment with Speedcast (first tranche); and • Following vesting of the first tranche, at the end of each three month period another 6.25% of the RMR will vest of the participant remains in the employment with Speedcast. The RMR in each tranche will lapse immediately if the vesting condition for that tranche is not satisfied at the end of the relevant vesting period.
Entitlements associated with RMR	The RMR do not attract dividends, voting rights or any capital distributions.
Restrictions on dealing	Participants must not sell, transfer, encumber, hedge or otherwise deal with RMR. Shares acquired by participants on vesting of their RMR will be subject to the Company's Securities Dealing Policy.
Cessation of employment	If the participant resigns or the Company terminates the participant's employment in accordance with their employment contract, all unvested RMR will lapse, unless otherwise determined by the Board.
Change of control	In a situation where there is likely to be a change of control, the Board has the discretion to accelerate vesting of some or all of the RMR. Where only some of the RMR are vested on a change of control, the remainder of the RMR will immediately lapse.

Executive Service Agreements

Remuneration and other employment terms for the CEO and other Key Management Personnel are formalised in a contract of employment. The main terms and conditions of the contracts are set out below.

Name	Term	Employment location	Notice Period	Termination Period[1]
Pierre-Jean ("PJ") Joseph Andre Beylier	Open Ended	Hong Kong	3 months	3 months
Clive Cuthell	Open Ended	Australia	3 months	3 months
Keith Johnson	Open Ended	U.S.A.	3 months	3 months
Athina Vezyri	Open ended	Greece	3 months	3 months
Erwan Emilian	Open ended	Switzerland	3 months	3 months

Loans to KMP

There are no outstanding loans to KMP as at 31 December 2018 (2017: nil).

Non-Executive Directors

The Board decides the remuneration from the Company to which each non-executive Director is entitled for his or her services as a Director. The total amount provided to all Directors for their services as Directors in any financial year must not exceed in aggregate the amount fixed by the Company in the annual general meeting. This amount has been fixed at USD 500,000 (2017: USD 500,000).

For 2018, the annual base amounts paid to each non-executive Director by the Company are USD 113,750 to the Chairman, USD 75,000 to each other non-executive Director and an additional USD 10,000 to the chair of the Audit, Business Risk and Compliance Committee and an additional USD 5,000 to the chair of the Nomination and Remuneration Committee.

Michael Berk and Edward Sippel did not receive fees for acting as Directors of Speedcast.

Remuneration of Key Management Personnel

Name	Position		Short term benefits				Post-employment		
			Cash Salary and Fees USD	Fixed Allowance USD	Short Term Incentive (Cash Bonus) USD	Non-Monetary benefits USD	Superannuation or equivalent USD	Share-based payments USD	Total Remuneration USD
Non-Executive Directors									
John Angus Mackay	Independent Non-Executive Director	2018	113,750	-	-	-	-	-	113,750
		2017	102,500	-	-	-	-	-	102,500
Michael Stuart Berk	Non-Executive Director	2018	-	-	-	-	-	-	-
		2017	-	-	-	-	-	-	-
Grant Scott Ferguson	Independent Non-Executive Director	2018	85,000	-	-	-	-	-	85,000
		2017	85,000	-	-	-	-	-	85,000
Peter Edward Jackson	Independent Non-Executive Director	2018	80,000	-	-	-	-	-	80,000
		2017	80,000	-	-	-	-	-	80,000
Michael Martin Malone	Independent Non-Executive Director	2018	75,000	-	-	-	-	-	75,000
		2017	75,000	-	-	-	-	-	75,000
Edward Francis Sippel	Non-Executive Director	2018	-	-	-	-	-	-	-
		2017	-	-	-	-	-	-	-
Caroline Van Scheltinga	Independent Non-Executive Director	2018	56,250	-	-	-	-	-	56,250
		2017	-	-	-	-	-	-	-
Sub-total Non-Executive Directors		**2018**	**410,000**	**-**	**-**	**-**	**-**	**-**	**410,000**
		2017	**342,500**	**-**	**-**	**-**	**-**	**-**	**342,500**
Executive Directors									
Pierre-Jean Joseph Andre	Chief Executive Officer	2018	512,142	60,410	-	11,791	76,821	382,105	1,043,269
Beylier		2017	480,855	44,084	120,220	12,245	72,128	312,839	1,042,371
Other KMP									
Clive Cuthell	Chief Financial Officer	2018	273,560	-	-	-	11,479	54,693	339,732
		2017	-	-	-	-	-	-	-
Ian Baldwin	Chief Financial Officer	2018	71,518	-	-	-	1,659	63,319	136,496
		2017	289,071	-	-	-	19,710	75,898	384,679
Keith Johnson	Chief Operating Officer, Executive	2018	349,226	7,200	-	22,219	21,048	154,879	554,572
	Vice President, Energy	2017	309,750	7,200	64,531	24,085	12,372	83,710	501,648
Athina Vezyri	Executive Vice President, Maritime	2018	325,586	-	-	35,876	14,010	92,824	468,296
		2017	279,269	-	62,500	19,437	18,571	33,404	413,181
Erwan Emilian[1]	Executive Vice President, Enterprise &	2018	241,023	-	-	5,725	7,961	21,533	276,242
	Emerging Markets	2017	68,544	-	9,792	-	11,946	-	90,282

Remuneration of Key Management Personnel (continued)

Name	Position		Short term benefits				Post-employment		
			Cash Salary and Fees USD	Fixed Allowance USD	Short Term Incentive (Cash Bonus) USD	Non-Monetary benefits USD	Superannuation or equivalent USD	Share-based payments USD	Total Remuneration USD
Other KMP (continued)									
Richard Frank Carden[2]	Executive Vice President, Integration	2018	10,537	-	-	-	3,846	(62,682)	(48,299)
		2017	129,620	-	-	1,714	8,968	93,010	233,312
Piers Cunningham[3]	Executive Vice President, Maritime	2018	-	-	-	-	-	-	-
		2017	105,263	8,290	-	-	9,398	28,002	150,953
Chung Wai Kit[4]	Senior Vice President, Operations &	2018	-	-	-	-	-	-	-
	Engineering	2017	81,439	256	6,787	3,853	12,216	18,397	122,948
Andrew Burdall[5]	Executive Vice President, Enterprise &	2018	-	-	-	-	-	-	-
	Emerging Markets	2017	181,048	4,382	-	-	15,120	(18,768)	181,782
David Kagan[6]	Chief Operating Officer	2018	-	-	-	-	-	-	-
		2017	262,500	-	-	18,179	-	-	280,679
Total KMP remuneration		**2018**	**2,193,592**	**67,610**	**-**	**75,611**	**136,824**	**706,671**	**3,180,308**
		2017	**2,529,859**	**64,212**	**263,830**	**79,513**	**180,429**	**626,492**	**3,744,335**

1 Erwan Emilian joined Speedcast on 15 September 2017
2 Richard Frank Carden left Speedcast on 28 February 2018
3 Piers Cunningham ceased as Executive Vice President, Maritime on 20 September 2017
4 Chung Wai Kit no longer deemed to be in Key Management Personnel as of 31 May 2017
5 Andrew Burdall left Speedcast on 18 October 2017
6 David Kagan joined Speedcast on 6 March 2017 and resigned as Chief Operating Officer on 1 December 2017

Fixed Allowance	Education allowance to PJ Beylier, Car allowance to Keith Johnson,
Non-monetary benefits	Company Car, Medical, Dental and Life insurance to PJ Beylier, Business travel, Group Health, Dental and Disability insurance to Keith Johnson, Company car and Medical insurance to Athina Vezyri, Accident and sick leave insurance for Erwan Emilian.

Movement in Performance Rights for the year ended 31 December 2018

Name	Held at 1 January 2018	Granted	Exercised	Forfeited	Lapsed	Held at 31 December 2018	Vested during the year [1]	Vested and exercise-able at 31 December 2018
Executive Directors								
Pierre-Jean Joseph Beylier	428,821	112,907	(117,030)	-	(49,287)	375,411	(147,861)	147,861
Other KMP								
Clive Cuthell	-	74,236	-	-	-	74,236	-	-
Ian Baldwin	99,808	-	(60,667)	(39,141)	-	-	-	-
Keith Johnson	114,033	82,603	-	-	(15,321)	181,315	(45,963)	45,963
Athina Vezyri	47,886	72,681	-	-	(5,266)	115,301	(15,798)	15,798
Erwan Emilian	-	29,227	-	-	-	29,227	-	-
Richard Frank Carden	93,147	-	(44,751)	(48,396)	-	-	-	-
Total	**783,695**	**371,654**	**(222,448)**	**(87,537)**	**(69,874)**	**775,490**	**209,622**	**209,622**

[1] Amounts vested on 31 December 2018 and are included within the total amount held as disclosed above. On the 25 February 2019, the board reviewed the performance of the company over the vesting period and the contribution of the employees holding options and decided to issue all shares within the TSR component that were under their discretion to issue.

Movement in Restricted Management Rights for the year ended 31 December 2018

Name	Held at 1 January 2018	Granted	Exercised	Forfeited	Held at 31 December 2018	Vested during the year	Vested and exercisable at 31 December 2018
Other KMP							
Richard Frank Carden	100,060	-	(33,353)	(66,707)	-	-	-

No management rights lapsed during the year

Key Management Personnel Shareholdings

Name	Total shares held as at 31 December 2017	Movements during the year	Total shares held as at 31 December 2018	% of shareholding
Non-Executive Directors				
John Mackay	289,210	6,085	295,295	0.12%
Michael Berk[1]	-	-	-	n/a
Grant Ferguson	432,016	35,000	467,016	0.20%
Peter Jackson	279,210	33,700	312,910	0.13%
Michael Malone	272,376	10,000	282,376	0.12%
Edward Sippel[2]	-	125,000	125,000	0.05%
Caroline Van Scheltinga	-	15,000	15,000	0.01%
Executive Director				
PJ Joseph Andre Beylier	8,157,903	207,900	8,365,803	3.49%
Other KMP				
Clive Cuthell	-	19,746	19,746	0.01%
Ian Baldwin	-	60,667	n/a	n/a
Keith Johnson	-	-	-	-
Athina Vezyri	1,425,497	-	1,425,497	0.60%
Erwan Emilian	-	-	-	-
Richard Frank Carden	595,667	78,104	n/a	n/a
Total	**11,451,879**	**591,202**	**11,308,643**	

[1] Michael Berk has an indirect interest in shares held by TA investors IV, L.P. Sold down on 2 March 2018. He resigned on 17 May 2018. There were no share movements during his period as a director.
[2] Edward Sippel has an indirect interest in shares held by TA investors IV, L.P. Sold down on 2 March 2018. He resigned on 31 Dec 2018. The share movements were during his period as a director.

Auditor's Independence Declaration

As lead auditor for the audit of Speedcast International Limited for the year ended 31 December 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 audit; and

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

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

Andrew Forman
Partner
PricewaterhouseCoopers

Adelaide
29 March 2019

Consolidated Statement of Profit and Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 USD'000	2017 restated USD'000
Revenue from continuing operations	6	623,095	514,173
Cost of equipment and bandwidth services		(336,931)	(245,810)
Other gains/(losses)	7	619	(1,078)
Staff costs	8	(95,709)	(91,520)
Acquisition related costs		(4,354)	(9,212)
Integration costs		(4,109)	(4,044)
Restructuring costs		(2,202)	(6,307)
Other expenses	9	(58,683)	(53,056)
Depreciation of property, plant and equipment	17	(37,513)	(42,516)
Amortisation of intangible assets	18	(40,003)	(28,610)
Finance costs, net	10	(39,446)	(24,272)
Profit before income tax		4,764	7,748
Income tax expense	11	(2,836)	(1,756)
Profit for the year		1,928	5,992
Attributable to:			
Owners of the Company	23	1,847	6,001
Non-controlling interests	23	81	(9)
Other comprehensive income			
Item that may be reclassified to profit and loss			
Currency translation difference	23	(7,132)	13,176
Change in fair value of interest rate swap cash flow hedges	23	(3,272)	1,054
Item that will not be reclassified to profit and loss			
Change in fair value of cancelled interest rate swap cash flow hedges	23	(2,121)	-
Other comprehensive income/(loss) for the year		(12,525)	14,230
Total comprehensive income/(loss) for the year		(10,597)	20,222
Attributable to:			
Owners of the Company		(10,693)	20,233
Non-controlling interests		96	(11)
Earnings per share			
• Basic profit per share (cents)	25	0.77	2.51
• Diluted profit per share (cents)	25	0.76	2.49

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	2018 USD'000	2017 restated USD'000
ASSETS			
Current assets			
Cash and cash equivalents	14	79,654	54,844
Trade and other receivables	15	232,469	147,609
Inventories	16	28,926	14,930
Income tax receivable		4,489	4,196
Total current assets		345,538	221,579
Non-current assets			
Property, plant and equipment	17	140,208	95,188
Goodwill and intangible assets	18	710,159	623,944
Deferred tax assets	19	21,624	9,739
Other receivables	15	2,489	2,574
Derivative financial instruments	22	-	1,506
Total non-current assets		874,480	732,951
Total assets		1,220,018	954,530
LIABILITIES			
Current liabilities			
Trade and other payables	20	252,833	165,729
Borrowings	21	6,004	-
Income tax payable		3,441	5,255
Total current liabilities		262,278	170,984
Non-current liabilities			
Borrowings	21	625,391	432,213
Trade and other payables	20	24,469	29,538
Derivative financial instruments	22	6,199	-
Deferred tax liabilities	19	19,921	18,707
Total non-current liabilities		675,980	480,458
Total liabilities		938,258	651,442
Net assets		281,760	303,088
EQUITY			
Equity attributable to owners of the Company			
Contributed equity	23	365,128	364,690
Other reserves	23	(10,330)	1,190
Accumulated losses	23	(76,475)	(63,497)
Equity attributable to owners of the Company		278,323	302,383
Non-controlling interests	23	3,437	705
Total equity		281,760	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 USD'000	Accumulated losses USD'000	Other reserves USD'000	Total USD'000	USD'000	USD'000
Balance at 1 January 2017	361,392	(57,224)	(13,915)	290,253	-	290,253
Impact of applying AASB 9 (note 35)	-	(3,488)	-	(3,488)	-	(3,488)
Balance at 1 January 2017 (restated)	361,392	(60,712)	(13,915)	286,765	-	286,765
Profit for the year (restated)	-	6,001	-	6,001	(9)	5,992
Other comprehensive income	-	-	14,232	14,232	(2)	14,230
Total comprehensive income	-	6,001	14,232	20,233	(11)	20,222
Dividends (note 24)	-	(8,786)	-	(8,786)	-	(8,786)
Shares issued in relation to SAIT deferred consideration	3,150	-	-	3,150	-	3,150
Business combinations (note 27)	-	-	-	-	716	716
Employee share scheme – issue of shares (note 23)	148	-	(148)	-	-	-
Employee share scheme – value of employee services (notes 8 and 12)	-	-	1,021	1,021	-	1,021
	3,298	(8,786)	873	(4,615)	716	(3,899)
Balance at 31 December 2017 (restated)	364,690	(63,497)	1,190	302,383	705	303,088
Impact of applying AASB 15 (note 35)	-	(1,291)	-	(1,291)	-	(1,291)
Balance at 1 January 2018 (restated)	364,690	(64,788)	1,190	301,092	705	301,797
Profit/(loss) for the year	-	1,847	-	1,847	81	1,928
Other comprehensive income	-	-	(12,540)	(12,540)	15	(12,525)
Total comprehensive income	-	1,847	(12,540)	(10,693)	96	(10,597)
Dividends (note 24)	-	(13,534)	-	(13,534)	-	(13,534)
Business combinations (note 27)	-	-	-	-	2,636	2,636
Employee share scheme – issue of shares (note 23)	438	-	(438)	-	-	-
Employee share scheme – value of employee services (notes 8 and 12)	-	-	1,458	1,458	-	1,458
	438	(13,534)	1,020	(12,076)	2,636	(9,440)
Balance at 31 December 2018	365,128	(76,475)	(10,330)	278,323	3,437	281,760

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

Consolidated Statement of Cash Flows

	Note	2018 USD'000	2017 USD'000
Cash flows from operating activities			
Cash receipts from customers		640,166	536,963
Cash paid to suppliers		(526,896)	(430,331)
Finance costs paid		(30,693)	(15,859)
Interest received		316	1,090
Taxes paid		(14,774)	(12,804)
Net cash inflows from operating activities	26	68,119	79,059
Cash flows from investing activities			
Payments for acquisition of businesses, net of cash acquired	27	(154,059)	(477,891)
Receipt of funds held in escrow		-	422,380
Business acquisition transaction costs		(3,796)	(12,028)
Payments for property, plant and equipment		(48,591)	(26,948)
Proceeds from disposal of property, plant and equipment		818	3,371
Payments for intangible assets		(12,575)	(5,558)
Net cash (outflows) from investing activities		(218,203)	(96,674)
Cash flows from financing activities			
Transaction costs of issuance of ordinary shares		-	(550)
Proceeds from borrowings, net of transaction costs		629,325	61,945
Repayment of borrowings		(443,080)	(1,723)
Dividend paid		(12,768)	(8,750)
Proceeds from cancellation of interest rate swap		3,031	-
Repayments of obligations under finance leases		(224)	(3,065)
Net cash inflows from financing activities		176,284	47,857
Net increase in cash and cash equivalents		26,200	30,242
Cash and cash equivalents at beginning of the year		54,844	25,341
Effects of exchange rate changes on cash and cash equivalents		(1,390)	(739)
Cash and cash equivalents at the end of the year	14	79,654	54,844

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

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

1 Background and summary of significant changes

This financial report covers the consolidated financial statements and notes of Speedcast International Limited (henceforth "SIL" or "the Company"), and its controlled entities (the "Group" or "Speedcast").

During the year, the financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

- The acquisition of Globecomm through the purchase of 100% of the share capital of HCT Acquisition LLC, the parent entity of the Globecomm group. Globecomm is a leading provider of remote communications and multi-network infrastructure. The acquisition strengthens Speedcast's global leadership with enhanced competitive positions in Government, Maritime and Enterprise. The acquisition was debt funded;
- The acquisition of 20% of the share capital of In Aria! Limited. Control is exercised through the substantive rights to acquire the remaining 80% of the company for a price that is not prohibitive. The acquisition enhanced Speedcast's overall product line in protected video transmission, it also added to the Group's capabilities in providing services to the Media industry; and
- The implementation of two new accounting standards AASB 15 *Revenue from contracts with customers* and AASB 9 *Financial instruments.*

2 Summary of significant accounting policies

SIL is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX").

The financial report was authorised for issue by the Board of Directors on 29 March 2019**.** The Directors have the power to amend and reissue the financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The financial statements are for the consolidated entity consisting of Speedcast and its subsidiaries.

Where appropriate, comparative information has been amended to be consistent with current year disclosures.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. The Company is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

These financial statements also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for the circumstances when fair value method has been applied as detailed in the accounting policies below.

New and amended standards adopted by the Group

The Group adopted the following new or revised accounting standards, which became effective for the reporting period commencing on 1 January 2018:

- AASB 15 *Revenue from contracts with customers* and AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB15; and*
- AASB 9 *Financial instruments (revised December 2014)* and AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*

Revisions to accounting policies as a result of these new standards have been incorporated into this note. The financial impact of the accounting standards is given in note 35. The standards have also introduced new disclosure requirements that have been incorporated throughout the financial statements.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 16 *Leases*

AASB 16 *Leases* specifies how to recognise, measure and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for almost all leases. AASB 16 applies to annual reporting periods beginning on or after 1 January 2019.

As at the reporting date, the Group has non-cancellable undiscounted operating lease commitments of USD 62,295,000 refer to note 28. The Group predominantly leases land and buildings for use in its operations. The following impacts are expected:

- the total assets and liabilities on the balance sheet will increase, as a liability is recorded representing the fair value of future lease payments and a corresponding asset is also recorded;
- a decrease in the Group's net assets is expected due to the reduction of the capitalised asset being on a straight line basis whilst the liability reduces by the principle amount of repayments. Net current assets will show a larger decrease due to an element of the liability being disclosed as current;
- the profit and loss of the consolidated entity will be more susceptible to changes in foreign currency exchange rates. Entities within the Group predominantly have USD functional currencies due to the majority of the sales and cost of sales being incurred in USD. Operating leases tend to be denominated in the currency of the country of operation. The right of use asset is held at cost and not revalued however the liability is financial in nature so is subject to revaluations through the statement of profit or loss;
- interest expenses of the Group will be higher on application of the new standard due to the unwinding of the effective interest rate implicit in the initial liability recognised. Interest expenses on a specific lease will be higher early in the life of a lease due to the higher principal liability and lower later in the life of a lease, hence causing profit volatility over the course of a leases life. This effect is expected to be partially mitigated due to the number of leases held with varying start and end dates; and
- operating cash flows will be higher as repayment of the principle portion of all lease liabilities will be classified as financing activities.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of adopting the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

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 financial statements have been rounded off in compliance with that class order to the nearest thousand dollars.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 32.

2 Summary of significant accounting policies (continued)

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 31 December 2018 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is gained by the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

(c) Foreign currency translation

(i) *Functional currency* - The functional currency for each entity in the Group, is the currency of the primary economic environment in which that entity operates. For many entities, this is United States Dollars ("US$, "USD" or "US Dollar") but for certain entities this is the currency of the country in which they are located.

(ii) *Transactions and balances* **-** Transactions denominated in other currencies are converted to the functional currency at the exchange rate prevailing at the date of the transaction or valuation where items are re-measured. Monetary assets and liabilities denominated in foreign currencies are retranslated at year end exchange rates.

Foreign exchange gains and losses arising from settlement of transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies that are not designated as net hedges in foreign investments are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income within 'Other gains/(losses)'.

(iii) *Presentation currency* **-** The Group's financial statements are presented in United States Dollars, as that presentation currency most reliably reflects the global business performance of the Group as a whole. On consolidation, income statement items for each entity are translated from the functional currency into USD at average rates of exchange where the average is a reasonable approximation of rates prevailing on the transaction date. The Consolidated Statement of Financial Position items are translated into USD at period end exchange rates.

Exchange differences arising from the translation of the net assets of entities with functional currencies other than USD are recognised directly in the 'Foreign currency translation reserve'. These translation differences are shown as other comprehensive income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

2 Summary of significant accounting policies (continued)

(d) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value as at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be a financial liability are recognised in profit and loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Where the Group has not finalised the fair value assessment and verifications of individual assets or liabilities of acquired businesses are in progress as at the reporting date, the fair value of individual assets or liabilities acquired during the current financial year and the amounts of goodwill to be recorded are based on the Director's best estimation. Any adjustments will be recorded upon finalisation of the purchase price allocation, which must occur within twelve months of acquisition date.

(e) Revenue recognition

Speedcast generates four 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 Voice* - Voice (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 revenue, is recognised.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (continued)

(f) Goodwill

Goodwill arises on the acquisition of a business and represents the excess of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree and the value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from a business combination upon which goodwill arose. Each cash-generating unit or groups of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, being the operating segments.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of cash-generating units are compared to their recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is taken first to goodwill and is recognised immediately as an expense and is not subsequently reversed.

(g) Intangible assets

Intangible assets have been identified by the Group in the form of customer relationships, supplier contracts, trademarks and brand names, research and development and software.

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortisation.

Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the project;
- management intends to complete the project and either use or sell it;
- there is an ability to use or sell the asset;
- it can be demonstrated how the asset will generate probable future economic benefit;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the asset during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the asset include employee costs and an appropriate portion of relevant overheads.

Research costs are expenses as incurred unless they are acquired through a business combination. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Amortisation is calculated using the straight-line method over the expected life of the assets, as follows:

Customer relationships	4 to 5 years
Supplier contracts	5 years
Trademarks and Brand names	4 to 20 years
Software	1 to 7 years
Research and Development	6 years

2 Summary of significant accounting policies (continued)

(h) Impairment of assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested for impairment annually, or more frequently if indicators of impairment exist. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with financial institutions, other short term and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Trade receivables

Trade receivables are amounts due from customers for equipment sold or services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(k) Financial assets

(i) *Loans and receivables* - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

(ii) *Impairment of financial assets carried at amortised cost* - The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. An expected credit loss model is applied under which an impairment loss is recorded for the difference between the probability weighted estimate of the present value of expected cash flows and the present value of contractual cash flows from a financial asset or group of financial assets.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The criteria that the Group considers in estimating the probability weighted present value of expected cash flows include;

- sovereign risk of the country of operation of the issuer;
- significant financial difficulty of the issuer or obligor; and
- a breach of contract, such as default or delinquency in interest or principal payments.

2 Summary of significant accounting policies (continued)

(k) Financial assets (continued)

(ii) *Impairment of financial assets carried at amortised cost (continued)* - The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of the probability weighted average estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Consolidated Statement of Profit or Loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases the reversal of the previously recognised impairment loss is recognised in the Consolidated Statement of Profit or Loss.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average cost method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable costs necessary to make the sale.

(m) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income during the financial year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, at the following rates per annum:

Office equipment	5 to 7 years
Plant and equipment	2 to 17 years
Leasehold improvements	2 to 10 years
Motor vehicles	3 to 5 years

Assets held under finance lease are depreciated over the shorter of their expected useful lives or the term of the lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognised within 'Other gains/(losses)' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

2 Summary of significant accounting policies (continued)

(n) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(o) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and service providers. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, unless the effect of discounting is insignificant and in which case they are stated at historical cost.

(p) Provisions

Provisions for asset retirement obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in a provision due to passage of time is recognised as interest expense.

2 Summary of significant accounting policies (continued)

(q) Employee benefits

(i) *Pension obligations* - The Group participates in defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) *Performance-based bonus* - The expected costs of performance-based bonuses are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for performance-based bonuses are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) *Share-based compensation* - The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions;
- excluding the impact of any service and nonmarket performance vesting conditions (for example, profitability and sales growth targets); and
- including the impact of any non-vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, with a corresponding adjustment to equity.

(iv) *Leave provisions* - The liability for accruing annual leave and long service leave is recognised in 'Employee provisions' and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(r) Leases

(i) *Operating leases* **-** Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the period of the lease.

(ii) *Finance leases* - The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the Consolidated Statement of Profit or Loss and Other Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2 Summary of significant accounting policies (continued)

(s) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowing costs are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period in which they are incurred.

(t) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The Group designates certain derivatives as either:

- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions; or
- hedges of a net investment in a foreign operation (net investment hedges).

At the inception of the hedging transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivatives that qualify as net investment hedges are recognised within the 'Foreign currency translation reserve'. Changes in fair value of derivatives that qualify as cash flow hedges are recognised within the 'Fair value reserve'. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised immediately within 'Other gains/(losses)' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

2 Summary of significant accounting policies (continued)

(u) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of ordinary shares and share options which vest immediately are recognised as deduction from equity, net of any tax effects.

(v) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period, but not distributed at the end of the reporting period.

(w) Earnings per share

The Group presents basic and diluted earnings per share information for its ordinary shares.

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share adjusts the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(x) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer ("CEO").

(y) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the relevant tax authority. Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the relevant tax authority is included as part of receivables or payables in the Consolidated Statement of Financial Position.

Cash flows in the Consolidated Statement of Cash Flows are included on a gross basis amount and the GST component of cash flow arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

2 Summary of significant accounting policies (continued)

(z) Parent entity financial information

The financial information for the parent entity, SIL, disclosed in note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below:

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in financial statements of SIL. Dividends received from subsidiaries and associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

(ii) Tax consolidation legislation

SIL and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, SIL, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, SIL also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and tax credits assumed from entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate SIL for any current tax payable assumed and are compensated by SIL for any current tax receivables and deferred tax assets relating to unused tax losses or tax credits that are transferred to SIL under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the owned entities' financial statements.

The amounts receivable (or payable) under the tax funding agreement are due on receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amount receivable from or payable to other entities in the Group.

Any differences between the amounts assumed and amounts receivable or payable under tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(iii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(iv) Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution to that subsidiary. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary, with a corresponding credit to equity.

Notes to the Consolidated Financial Statements

3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk.

The Board of Directors generally adopts conservative strategies which focus on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Market Risk

Foreign exchange risk

The Group trades with international customers and suppliers and is exposed to foreign exchange risk arising from operating in various currencies. Foreign exchange risk arises from those transactions denominated in a currency other than the functional currency of the entity entering into the transaction. Foreign currency risk also arises from assets and liabilities denominated in currencies other than the functional currency of the Group's entities to which they relate.

The Group operates in an industry for which commercial transactions are primarily denominated in US dollars and as such a large proportion of the Group's revenues and costs are denominated in US dollars. The Group's most significant foreign currency exposures are in relation to Australian dollar ("AUD"), Euro and Great British Pounds.

Net investment in foreign entity and respective hedges

In addition to investments in share capital during the period, entities within the Group held intercompany loans denominated in US dollars, Great British Pounds, Euro and Angolan Kwanza which are deemed to meet the criteria of net investments in a foreign entity. In addition, SIL held external borrowings denominated in US dollars which were designated as fair value hedges of net investments in foreign entities. The combined net foreign exchange loss on these loans in 2018 of USD 34,603,000 (2017: gain USD 15,220,000) has been recognised in 'Other comprehensive income' within the 'Foreign currency translation reserve'. There was no ineffectiveness recorded from net investment in foreign entity hedges during the period.

Cash flow interest rate risk

The Group is exposed to interest rate risk. The Group's interest rate risk arises principally from long-term borrowings. Interest payable on debt facilities is subject to a floating margin component. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. To hedge this risk, and as a requirement of the agreement, the Group holds interest rate swaps to partially hedge the cash flow risk.

All interest rate swaps held at year end are fully effective, designated hedges and any change in fair value of the hedges are recorded in other comprehensive income as such any impact of changes in interest rate at the balance sheet date would have nil impact on the current year reported profit (2017: nil).

As at the end of the reporting period, the Group had the following variable rate cash and cash equivalents, borrowings and interest rate swaps.

	2018 Weighted avg interest rate	Balance USD'000	2017 Weighted avg interest rate	Balance USD'000
Cash and cash equivalents (note 14)	0.57%	79,654	3.76%	54,844
Borrowings (note 21)	5.52%	(644,637)	4.86%	(443,080)
Notional value of interest rate swaps		423,760		184,980
Net exposure to cash flow interest rate risk		(141,223)		(203,256)

Notes to the Consolidated Financial Statements

3 Financial risk management (continued)

Market Risk (continued)

Fair values

The following table analyses financial instruments carried at fair value by valuation hierarchy:

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
At 31 December 2018				
Deferred contingent consideration	-	-	-	-
Derivative financial instruments				
- Interest rate swap contracts (note 22)	-	(6,199)	-	(6,199)
At 31 December 2017				
Deferred contingent consideration	-	-	(13,879)	(13,879)
Derivative financial instruments				
- Interest rate swap contracts (note 22)	-	1,506	-	1,506

The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Only that portion of the deferred consideration that remains contingent as at the balance sheet date is held at fair value. The deferred contingent consideration held as at 31 December 2017 related to the purchase of UltiSat (note 27). As forecast at 31 December 2017 UltiSat exceeded the thresholds for the maximum consideration to be paid. As at 31 December 2018 the deferred consideration remains unpaid but is no longer contingent on future operating results.

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 to their fair value as their interest rates 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.

3 Financial risk management (continued)

Credit risk

The Group has no significant concentrations of credit risk. Credit risk of the Group arises from credit exposures to its customers and cash and cash equivalents. The Group only places cash and deposits with reputable banks and financial institutions.

For credit exposure to customers, the Group trades only with recognised, credit worthy third parties. The Group's policy is to carry out credit verification procedures on new customers before grant of credit terms. In addition, the Group may request customers to make deposits and advance payments before delivery of services or goods. Further disclosure of credit risk of customers is set out in note 15.

Liquidity risk

The Group regularly monitors current and expected cash requirements, and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Group has sufficient committed facilities to fund its operations.

The Directors of the Company have reviewed the Group's profit and cash flow projections prepared by Management. The projections make key assumptions with regard to the anticipated sales, profit margins and cash flows from the Group's operations. These assumptions include an assessment of the impact of the uncertainties surrounding the industry but do not include the potential impact of any significant worsening of the various conditions that the Group is operating in and around the globe. The Directors, after making due enquiries, believe that there will be sufficient financial resources available to the Group at least in the coming twelve months to meet its financial obligations as and when they fall due. Accordingly, the Directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The Group had access to the following undrawn borrowing facilities:

	2018 USD'000	2017 USD'000
Syndicated facility		
Expiring within 1 year	-	-
Expiring between 1 and 5 years	46,140	4,980

Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time in either AUD or USD and have maturity of 4 years (2017: 2 years). The undrawn banking facilities are subject to annual review.

3 Financial risk management (continued)

Liquidity risk (continued)

The table below analyses the Group's financial liabilities as at the end of each year into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For variable rate borrowings the cash flows have been estimated based on the interest rates applicable at the end of the reporting period including the effect of designated cash flow hedges.

	Within 1 year USD'000	1 to 5 years USD'000	Greater than 5 years USD'000	Total contractual cash flows USD'000	Carrying amount of liabilities USD'000
At 31 December 2018					
Trade and other payables	204,230	26,671	-	230,901	227,446
Borrowings and interest	42,072	116,692	614,402	773,166	631,395
Deferred consideration	16,045	-	-	16,045	15,756
	262,347	143,363	614,402	1,020,112	874,597
At 31 December 2017					
Trade and other payables	119,441	16,059	723	136,223	135,604
Borrowings and interest	21,432	453,645	-	475,077	432,213
Deferred consideration	25,206	15,000	-	40,206	39,085
	166,079	484,704	723	651,506	606,902

4 Capital management

The Group's objectives when managing capital are to:

- safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain an optimal capital structure to reduce the cost of capital.

The Group operates a policy to have available liquid funds of USD 50,000,000 and has a long term commitment to de-lever such that the ratio of net debt to underlying EBITDA is reduced to 2.5.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, raise new debt facilities or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors net debt on the basis of the ratio of net debt to pro forma underlying EBITDA. Capital management initiatives are undertaken when the ratio is forecast to approach limits imposed by the loan covenants.

Loan covenants

Under the terms of the Group's borrowing facilities, the Group is required to comply 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 underlying 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.

Dividends

Relevant information on dividends paid during the year, and approved since the end of the year, has been included in note 24.

Notes to the Consolidated Financial Statements

5 Critical accounting estimates and judgments

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes assumptions concerning the future and the resulting accounting estimates may, by definition, differ from the related actual results. The accounting estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Recognition and measurement of identifiable assets acquired and liabilities assumed in acquisition of a business and subsidiaries

The determination, and allocation, of the consideration fair value to the identifiable assets acquired and liabilities assumed in business combinations is based on various assumptions and valuation methodologies requiring considerable judgment. For further information refer to note 2 (d).

Useful lives of acquired customer relationships

The Group estimates the period over which customer relationships, recognised through business combinations, are expected to provide benefit, or that similar relationships could be developed. The lower period becomes the useful life over which the customer relationship is then amortised. The assessment of useful lives at acquisition date, and subsequent reassessments, involves significant judgement. For further information refer to note 2 (g).

Income and indirect taxes

The Group is subject to income and indirect taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for these taxes, including the recognition of deferred tax assets to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognises liabilities for uncertain tax positions, if any, based on the judgmental probability of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts recorded, such differences will impact the income tax or, in the case of indirect taxes, other operating expenses in the period in which such determination is made. For further information refer to note 2 (n) and note 2 (y).

Consolidation of UltiSat Inc.

100% of the share capital of UltiSat Inc. was acquired on 1 November 2017. The company and its subsidiaries (“UltiSat”) are managed through a Proxy agreement as required by the US National Industrial Security Program (“NISP”). The Proxy agreement enables UltiSat to enter into contracts with the US Department of Defence that contain certain classified information.

The Proxy agreement is an instrument designed to mitigate the risk of foreign ownership, control or influence over a US entity that has security clearance under the NISP. The Proxy agreement conveys the owner’s voting rights to the Proxy board and places some restrictions on shareable information and interactions with other Group companies. There are three members of the Proxy Board that are all US citizens, cleared and approved by the US Defence Security Service (DSS).

The Group maintains its involvement with UltiSat’s activities through normal business activity and liaison with the Chair of the Proxy Board. The operational and governance activities and results are reviewed by Speedcast management. Speedcast exercises its right within the Proxy agreement to make suggestions on the running of UltiSat and whilst these suggestions are non-binding the Proxy Board must act in good faith, as reasonably prudent persons, to protect the legitimate economic interests of Speedcast. These activities are all performed within the confines of the Proxy agreement such that UltiSat operates its business within the requirements necessary to protect the US national security interest.

An assessment has been performed in accordance with AASB 10 *Consolidated financial statements* of whether, for accounting purposes, the Group controls UltiSat. The Group is exposed to variable returns from its investment in UltiSat and there is deemed to be sufficient power within the confines of the Proxy agreement for the Group to use its influence to affect those returns. As such, under AASB 10, it is deemed that the Group controls UltiSat and therefore the results of UltiSat are consolidated in to the Group’s consolidated accounts.

6 Revenue from continuing operations

	Maritime USD'000	Energy USD'000	Government USD'000	EEM USD'000	Total USD'000
Year ended 31 December 2018					
Managed network services	185,218	128,450	90,564	83,321	487,553
Managed network services – Equipment rental	9,061	19,742	240	2,878	31,921
Wholesale Voice	-	-	-	23,957	23,957
Equipment sales and Installation	25,385	10,082	6,451	37,746	79,664
	219,664	158,274	97,255	147,902	623,095
Year ended 31 December 2017					
Managed network services	181,075	174,941	13,718	88,452	458,186
Wholesale Voice	-	-	-	20,298	20,298
Equipment sales and Installation	19,082	8,295	424	7,888	35,689
	200,157	183,236	14,142	116,638	514,173

As described in note 35, 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 retrospective adaption and restatement has not been performed, where information is available prior year revenues have been reclassified with Wholesale Voice revenue and Equipment sales and installation revenue disclosed to aid comparability.

The majority of the contracts the Group enters into run for periods of between 1 and 10 years with the majority being over a 3 year period.

7 Other gains/(losses)

	2018 USD'000	2017 USD'000
Gain on extinguishment of interest rate hedges	3,031	-
Foreign exchange gain/(loss)	(2,673)	(73)
Gain/(loss) on disposal of property, plant and equipment	261	(455)
Fair value gain/(loss) on deferred consideration	-	(550)
	619	(1,078)

8 Staff costs

	2018 USD'000	2017 USD'000
Salaries and other short term benefits	94,251	90,499
Share-based payment expense (note 12)	1,458	1,021
	95,709	91,520

9 Other expenses

Included within other expenses are the following items:

	2018 USD'000	2017 restated USD'000
Operating lease payments	7,755	7,248
Provision for impairment of trade receivables (restated) (note 15)	(428)	1,335

10 Finance costs, net

	2018 USD'000	2017 USD'000
Finance income:		
Interest income	316	1,584
	316	1,584
Interest expenses on:		
Borrowings	(24,912)	(19,024)
Obligations under finance leases	-	(10)
Deferred consideration	(1,170)	(134)
Amortisation of loan establishment costs	(3,031)	(4,917)
Accelerated amortisation of loan establishment costs	(8,619)	-
Unwinding of fair value adjustments	(446)	(650)
Finance charges:		
Fees on undrawn facilities	(228)	(443)
Other bank charges	(1,356)	(678)
Finance costs	(39,762)	(25,856)
Finance costs, net	(39,446)	(24,272)

Notes to the Consolidated Financial Statements

11 Income tax expense

	2018 USD'000	2017 restated USD'000
Current tax	14,907	10,111
(Over)/under provision for prior years	(1,671)	580
Deferred income tax (note 19)	(10,400)	(8,935)
Total income tax expense	2,836	1,756

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate prevailing in the countries in which the Group operates as follows:

	2018 USD'000	2017 restated USD'000
Profit before income tax	4,764	7,748
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	1,096	1,748
Tax effects of:		
Expenses not deductible for tax purposes	2,308	3,726
Other assessable income	235	256
Non-assessable income	(802)	-
Under/(over) provision for prior years	(1,671)	580
Unrecognised tax losses	1,670	-
Recognition of previously unrecognised temporary differences	-	(534)
Effect of change in enacted tax rates	-	(4,020)
Income tax expense	2,836	1,756

The aggregate current and deferred tax arising in the reporting period which is not recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income is as follows:

	2018 USD'000	2017 USD'000
Tax expense on other comprehensive income recorded directly in equity	(7,458)	5,018

Notes to the Consolidated Financial Statements

12 Share-based payment

Restricted Management Rights

Restricted Management Rights ("RMR") were issued by the Company under the equity incentive plan on 12 August 2014, the IPO date. The RMR effectively replaced certain rights to shares of Speedcast Acquisitions Limited which were issued by Speedcast Acquisitions Limited to certain employees prior to the IPO.

Each RMR entitles the holder to acquire a share for nil consideration at the end of the relevant vesting period, subject to meeting vesting condition. A total of 1.1 million RMR, representing approximately 0.9% of the issued share capital of the Company, were issued on 12 August 2014 to the participants at no cost. No exercise price is payable in respect of the RMR.

The offer was divided into tranches of RMR with differing vesting periods. Each tranche of RMR will vest subject to the satisfaction of the vesting condition over the vesting period relevant to that tranche. The vesting condition is continued employment with the Group. Vesting will occur over a total period of approximately 4 years from grant date.

The tranches and vesting periods are as follows:

(i) 25% of the RMR will vest 12 months after grant date; and
(ii) Following vesting of first tranche, at the end of each 3-month period another 6.25% of the RMR will vest if the participant remains in employment with the Company.

The RMR in each tranche will lapse immediately if the vesting condition for that tranche is not satisfied at the end of the relevant vesting period.

The RMR do not attract dividends, voting rights or any capital distributions.

Participants must not sell, transfer, encumber, hedge or otherwise deal with RMR. If the participant resigns, or the Company terminates the participants' employment in accordance with their employment contract, all unvested RMR will lapse, unless otherwise determined by the Board. In a situation where there is likely to be a change of control, the Board has the discretion to accelerate vesting of some or all of the RMR. Where only some of the RMR are vested on a change of control, the remainder of the RMR will immediately lapse.

All RMR had been issued as at 31 December 2018. The weighted average remaining contractual life of RMR outstanding as at 31 December 2017 was 0.3 years.

The fair value of the RMR granted to employees is deemed to represent the value of employee service received over the vesting period. Fair value was determined using the Monte Carlo simulation method. The factors considered in the valuation included the terms and structure of the share scheme, price and volatility of companies in similar industries and any other relevant information in relation to the shares such as dividend policy.

Long term incentive plan

In 2014, Speedcast established a long term incentive plan ("LTIP") in order to facilitate remuneration for the Group's Senior Management and enhance the alignment of their interests with those of shareholders.

Offers may be made at the Board's discretion to employees of the Group or any other person that the Board determines to be eligible to receive a grant under the Plan.

The Plan Rules provide flexibility for the Company to grant one or more of the following securities as incentives, subject to the terms of individual offers:

(i) Performance rights;
(ii) Options; and
(iii) Restricted shares.

12 Share-based payment (continued)

Long term incentive plan (continued)

Options are entitlements to receive a share on payment of any applicable exercise price. Performance rights and restricted shares are an entitlement to receive shares for no consideration.

The Board may make offers at its discretion and any offer document must contain the information required by the Plan Rules. The Board has the discretion to set the terms and conditions on which it will offer performance rights, options and restricted shares in individual offer documents. Offers must be accepted by the employee and can be made on an opt-in or opt out basis. Unless the Board determines otherwise, no payment is required for a grant of a performance right, option or restricted share under the Plan.

In 2018, the Board made offers to the CEO, CFO and other members of Senior Management to receive a grant of the LTIP ("the 2018 LTIP"). The 2018 LTIP award was made on 15 May 2018, and comprised performance rights.

In 2017, the Board made offers to the CEO, CFO and other members of Senior Management to receive a grant of the LTIP ("the 2017 LTIP"). The 2017 LTIP award was made on 15 May 2017, and comprised performance rights.

There were no LTIP offers in 2016.

In 2015, the Board made offers to the CEO, CFO and other members of Senior Management to receive a grant of the LTIP ("the 2015 LTIP"). The 2015 LTIP award was made on 9 September 2015, and comprised performance rights.

In 2014, the Board made offers to the CEO, CFO and other members of Senior Management to receive a grant of the LTIP ("the 2014 LTIP"). The 2014 LTIP award was made on 12 August 2014, the IPO date and comprised performance rights.

A performance right entitles the holder to acquire a share for nil consideration at the end of the performance period, subject to meeting specific performance conditions. The number of performance rights granted will be based on a fixed percentage of the relevant participant's annual fixed remuneration and will be issued to the participant at no cost. No exercise price is payable in respect of the performance rights.

Performance rights granted as part of all LTIP offers will vest subject to the satisfaction of performance conditions. The performance conditions cover a performance period of at least 3 years.

- the 2018 LTIP performance period commenced on 1 January 2018 and ends on 31 December 2020.
- the 2017 LTIP performance period commenced on 1 January 2017 and ends on 31 December 2019.
- the 2015 LTIP performance period commenced on 9 September 2015 and ended on 31 December 2018.
- the 2014 LTIP performance period commenced on 12 August 2014 and ended on 31 December 2017.

The performance condition must be satisfied in order for the performance right to vest. For the LTIP schemes:

(i) 50% of the total performance rights will vest subject to the achievement of the Total Shareholder Return (TSR) performance target for the Company exceeding the performance of the S&P/ASX Small Ordinaries Index (AUD) (Index) over the performance period and subject to the participant being an employee at the end of the performance period ("TSR component"); and

(ii) 50% of the performance right will vest solely subject to the participant being an employee at the end of the performance period ("service component").

If the performance target for the TSR component is not met the Board may at its absolute discretion issue up to 50% of the TSR component.

Any performance rights that remain unvested at the end of the performance period will lapse immediately.

The performance rights do not attract dividends, voting right or any capital distributions.

Participants must not sell, transfer, encumber, hedge or otherwise deal with performance rights.

12 Share-based payment (continued)

Long term incentive plan (continued)

If the participant ceases employment for death, permanent disability or is otherwise determined to be a 'good leaver' by the Board, unvested performance rights will vest in full, unless otherwise determined by the Board. If the participant ceases employment in any other circumstances, all unvested performance rights will lapse, unless otherwise determined by the Board. In a situation where there is likely to be a change of control, the Board has the discretion to accelerate vesting of some or all of the performance rights. Where only some of the performance rights are vested on a change of control, the remainder of the performance rights will immediately lapse.

The fair value of the LTIP rights granted to an employee is deemed to represent the value of employee service received over the vesting period. The fair value is determined using the Monte Carlo simulation method. The factors considered in the valuation included the terms and structure of the share schemes, price and volatility of companies in similar industries and any other relevant information such as dividend policy and expected exercise pattern of the shares.

Movement in performance rights

A summary of the movement in unvested performance rights of the Company's shared based compensation schemes is as follows:

	RMR	LTIP 2014	LTIP 2015[1]	LTIP 2017	LTIP 2018	Total
Grant date	Aug 2014	Aug 2014	Sep 2015	May 2017	May 2018	
Expiry date	July 2018	Dec 2017	Dec 2018	Dec 2019	Dec 2020	
Exercise price	nil	nil	nil	nil	nil	
As at 1 January 2017	465,276	278,130	592,741	-	-	1,336,147
Granted	-	-	-	894,042	-	894,042
Vested	(265,876)	(255,410)	-	-	-	(521,286)
Forfeited	(14,292)	(22,720)	(63,871)	(222,201)	-	(323,084)
As at 31 December 2017	185,108	-	528,870	671,841	-	1,385,819
As at 1 January 2018	185,108	-	528,870	671,841	-	1,385,819
Granted	-	-	-	-	892,854	892,854
Vested	(118,401)	-	(375,293)	-	-	(493,694)
Lapsed	-	-	(104,875)	-	-	(104,875)
Forfeited	(66,707)	-	(48,702)	(96,474)	(23,715)	(235,598)
As at 31 December 2018	-	-	-	575,367	869,139	1,444,506

[1] The issue of LTIP 2015 incentives to the CEO were subject to receiving Shareholder approval at the Company's Annual General Meeting in 2016.

The TSR component of the LTIP 2015 shares was not met, as such 50% of the total TSR component of the LTIP scheme lapsed. On the 25 February 2019, the board reviewed the performance of the Company over the vesting period and the contribution of the employees holding options and decided to issue all shares within the TSR component that were under their discretion to issue. As such on 31 December 2018 314,626 rights had vested but were unissued (31 December 2017: 255,410). The shares were issued on 8 March 2019. 60,667 options related to the LTIP 2015 scheme vested at the board's discretion and were issued to the outgoing CFO Ian Baldwin on 1 March 2018.

The weighted average share price at the date of exercise of rights during the year ended 31 December 2018 was AUD 5.48 (2017: AUD 4.18).

Total expenses arising from share-based payment transactions recognised during the year in relation to shares issued under the RMR and LTIP were USD 1,458,000 (2017 : USD 1,021,000).

Notes to the Consolidated Financial Statements

13 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 Voice and equipment in various geographical markets. The Group has one operating segment (2017: 2 operating segments meeting the aggregation criteria. 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 USD'000	Australia USD'000	Pacific Islands USD'000	EMEA and other USD'000	Asia USD'000	Americas USD'000	**Total USD'000**
Year ended 31 December 2018	219,664	73,557	39,127	73,060	29,326	188,361	623,095
Year ended 31 December 2017	200,157	60,465	38,471	68,411	36,727	109,942	514,173

The table below presents geographical information of the Group's Property, Plant and Equipment.

	Maritime USD'000	Australia USD'000	Pacific Islands USD'000	EMEA and other USD'000	Asia USD'000	Americas USD'000	**Total USD'000**
As at 31 December 2018	20,684	8,607	577	17,000	22,194	71,146	140,208
As at 31 December 2017	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 2018 or 2017.

14 Cash and cash equivalents

	2018 USD'000	**2017 USD'000**
Cash at bank and in hand	79,654	54,844

Cash and cash equivalents includes USD 10,764,000 (2017: USD 2,309,000) which is restricted by legal or contractual arrangements.

15 Trade and other receivables

	2018 USD'000	2017 restated USD'000
Trade receivables	136,586	99,110
Less: Provision for impairment of trade receivables	(21,078)	(10,180)
Trade receivables, net	115,508	88,930
Deposits and prepayments	20,369	25,144
Accrued income	75,477	27,780
Other receivables	23,604	8,329
	234,958	150,183
Less: Non-current portion		
Other receivables	(2,489)	(2,574)
Current portion	232,469	147,609

The carrying values of the trade and other receivables approximate their fair values.

The majority of the Group's sales are with credit terms of 30 to 60 days. As at 31 December 2018, trade receivables of USD 67,938,000 were past due (2017: USD 51,371,000).

Movement of the provision for impairment of trade receivables is as follows:

	2018 USD'000	2017 restated USD'000
At beginning of year	10,180	8,901
Net provision for impairment of trade receivables (note 9)	(428)	1,335
Unwind of acquisition fair values	11,934	-
Provision utilised	-	(319)
Exchange differences	(608)	263
At 31 December	21,078	10,180

The creation and release of provision for impaired receivables has been included in 'Other expenses' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Trade receivables are generally written off when there is no reasonable expectation of recovery.

On acquisition of businesses the deemed cost of the trade receivable is its fair value that effectively includes a provision for non-recovery. Initial net balances may be recovered at an amount greater than fair value or written off. Receivable balances generated since acquisition have been provided against. The net impact of these transactions is accounted for under the net provision for impairment of trade receivables within the profit and loss however the effect is to effectively gross up the trade receivable balance and the provision for non-recovery as disclosed in the table above under the heading unwind of acquisition fair values.

Notes to the Consolidated Financial Statements

16 Inventories

	2018 USD'000	2017 restated USD'000
Equipment and spares	36,825	16,498
Work in progress	703	464
Less: Provision for Impairment	(8,602)	(2,032)
	28,926	14,930

On acquisition of businesses the deemed cost of inventory is its fair value that effectively includes a provision for impairment. Initial net balances may be recovered at an amount greater than fair value or scrapped. Inventory purchases since acquisition have been provided against as required. The net impact of these transactions is accounted for through profit and loss however the effect is to effectively gross up the inventory balance and the provision for impairment as disclosed in the table above.

Notes to the Consolidated Financial Statements

17 Property, plant and equipment

	Communi-cations equipment USD'000	Motor vehicles USD'000	Office equipment USD'000	Leasehold Improve-ments USD'000	Land and buildings USD'000	Total USD'000
Year ended 31 December 2017						
Opening net book amount	40,864	247	691	1,096	1,891	44,789
Acquisitions	61,271	-	2,896	2,269	2,724	69,160
Additions	21,355	-	1,050	624	118	23,147
Disposals	(1,627)	(77)	(4)	(10)	(37)	(1,755)
Depreciation	(41,013)	(66)	(752)	(553)	(132)	(42,516)
Exchange differences	2,047	11	33	128	144	2,363
Closing net book amount	82,897	115	3,914	3,554	4,708	95,188
As at 31 December 2017						
Cost	186,961	452	6,016	5,424	4,831	203,684
Accumulated depreciation	(104,064)	(337)	(2,102)	(1,870)	(123)	(108,496)
Net book amount	82,897	115	3,914	3,554	4,708	95,188
Year ended 31 December 2018						
Opening net book amount	82,897	115	3,914	3,554	4,708	95,188
Impact of applying AASB 15	6,391	-	-	-	-	6,391
Acquisitions	26,071	-	383	63	4,947	31,464
Additions	43,964	76	2,958	787	43	47,828
Disposals	(180)	-	(364)	(13)	-	(557)
Depreciation	(35,318)	(102)	(1,113)	(686)	(294)	(37,513)
Exchange differences	(1,613)	(9)	(160)	(28)	(783)	(2,593)
Closing net book amount	122,212	80	5,618	3,677	8,621	140,208
As at 31 December 2018						
Cost	262,974	502	8,369	6,124	8,893	286,862
Accumulated depreciation	(140,762)	(422)	(2,751)	(2,447)	(272)	(146,654)
Net book amount	122,212	80	5,618	3,677	8,621	140,208

18 Goodwill and intangible assets

	Goodwill USD'000	Customer relationship USD'000	Supplier contracts USD'000	Trademark and Brands USD'000	Other[1] USD'000	Total USD'000
Year ended 31 December 2017						
Opening net book amount	134,857	23,843	3,130	5,616	3,955	171,401
Acquisitions (restated)	343,061	98,520	-	3,483	16,831	461,895
Additions	-	-	-	-	5,497	5,497
Amortisation	-	(20,077)	(3,130)	(1,971)	(3,432)	(28,610)
Exchange differences	11,952	1,771	-	(18)	56	13,761
Closing net book amount (restated)	489,870	104,057	-	7,110	22,907	623,944
As at 31 December 2017						
Cost (restated)	489,870	134,627	19,051	19,274	26,877	689,699
Accumulated amortisation	-	(30,570)	(19,051)	(12,164)	(3,970)	(65,755)
Net book amount	489,870	104,057	-	7,110	22,907	623,944
Year ended 31 December 2018						
Opening net book amount	489,870	104,057	-	7,110	22,907	623,944
Implementation of AASB 15	-	-	-	-	973	973
Acquisitions	74,063	34,600	-	2,841	7,242	118,746
Additions	-	-	-	-	12,575	12,575
Amortisation	-	(30,034)	-	(1,364)	(8,605)	(40,003)
Exchange differences	(5,278)	(766)	-	(20)	(12)	(6,076)
Closing net book amount	558,655	107,857	-	8,567	35,080	710,159
As at 31 December 2018						
Cost	558,655	167,268	-	21,283	47,588	794,794
Accumulated amortisation	-	(59,411)	-	(12,716)	(12,508)	(84,635)
Net book amount	558,655	107,857	-	8,567	35,080	710,159

[1] Other includes, capitalised development costs, software and licences, and costs incurred as a result of winning customer contracts.

As at 31 December 2018, the recoverable amount of Cash Generating Units ("CGUs") were determined based on value-in-use calculations. These calculations used cash flow projections for a 5-year period based on financial budgets approved by the Board of Directors. The pre-tax discount rate and the terminal growth rate after the 5-year budgeted period applied to the cash flow projections was 12% and 2% respectively. The budgeted gross profit margin and net profit margin were determined by management for the CGUs based on past performance and its expectations for market development.

Discount rates reflect the Group's estimate of the time value of money and risks specific to each CGU that are not already reflected in the cash flows. In determining appropriate discount rates regard has been given to the weighted cost of capital of the Group and business risks.

Management assessment of possible changes in the key assumptions has not identified any reasonably possible changes that would cause the carrying amount of the CGUs assets, including goodwill, to be higher than the recoverable amount of the CGUs.

Notes to the Consolidated Financial Statements

19 Deferred tax

Deferred taxes comprise temporary differences attributable to:

	Deferred tax assets 2018 USD'000	Deferred tax assets 2017 restated USD'000	Deferred tax liabilities 2018 USD'000	Deferred tax liabilities 2017 restated USD'000
Intangible assets	1,072	1,125	(25,722)	(22,801)
Unrealised FX gains/(losses)	5,420	3,131	(576)	(49)
Property plant and equipment	3,752	4,430	(33)	(511)
IPO costs	-	368	-	-
Accruals and provisions	8,993	4,965	-	-
Tax losses	4,607	1,583	-	-
Other	4,348	255	(158)	(1,464)
Total deferred tax assets/(liabilities)	28,192	15,857	(26,489)	(24,825)
Balances subject to offset	(6,568)	(6,118)	6,568	6,118
Deferred tax assets/(liabilities)	21,624	9,739	(19,921)	(18,707)

The following outlines the expected settlement of deferred tax balances:

	2018 USD'000	2017 restated USD'000
Settled within 12 months	9,003	5,389
Settled after more than 12 months	(7,300)	(14,357)
Net deferred tax liabilities	1,703	(8,968)

The movement on the net deferred tax amounts is as follows:

	2018 USD'000	2017 restated USD'000
Net deferred tax liabilities at beginning of year	(8,968)	(2,259)
Implementation of AASB 15	426	-
Acquisitions – net deferred tax liabilities (note 27)	(6,749)	(11,192)
Tax expense on other comprehensive income recorded directly in equity	7,458	(5,018)
Credited to tax expense (note 11)	10,400	8,935
Exchange differences	(864)	566
Net deferred tax liabilities at 31 December	1,703	(8,968)

19 Deferred tax (continued)

The deferred tax balance includes an amount of USD 4,607,000 (2017: USD 1,583,000) which relates to carried forward tax losses of subsidiaries in the Group. The increase in recognised tax losses is predominantly due to the acquisition of Globecomm. For each subsidiary where the losses have been carried forward, Management estimates that future taxable income will be available to recover the net deferred tax asset in each of these subsidiaries based on the business plans and budgets.

The following table shows the unrecognised tax losses of the Group

	2018 USD'000	2017 restated USD'000
Tax losses for which no deferred tax asset has been recognised	209,786	216,521
Potential tax benefit at domestic rates applicable to respective countries	35,843	36,901

The unrecognised tax losses were incurred by overseas subsidiaries where there is insufficient evidence to support the generation of taxable income in the foreseeable future. The unrecognised tax losses predominantly relate to losses incurred on subsidiaries prior to acquisition by Speedcast.

20 Trade and other payables

	2018 USD'000	2017 restated USD'000
Trade payables due to third parties	112,779	58,166
Other payables		
Accrued charges and other creditors	89,934	61,117
Employee provisions	13,305	10,339
Customer deposits	9,665	5,955
Deferred revenue	33,938	16,415
Deferred consideration	15,756	39,085
Accrued interest payable	162	4,163
Obligations under finance leases	1,763	27
	164,523	137,101
Total trade and other payables	277,302	195,267
Less: non-current portion		
Other non-current liabilities	(23,304)	(15,641)
Deferred contingent consideration	-	(13,879)
Obligations under finance leases	(1,165)	(18)
	(24,469)	(29,538)
Current portion	252,833	165,729

Trade payables are unsecured and usually payable 30–90 days from recognition.

Deferred consideration is payable on the UltiSat acquisition (2017: Ultisat and SAIT). A portion of the consideration as at 31 December 2017 was contingent on the future results of UltiSat.

21 Borrowings

On 15 May 2018, the Group entered into a new USD 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 USD 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 USD 385 million Senior Secured Bank loan and a USD 60 million Accordion Facility.

On 27 September 2018 Speedcast secured a USD 175 million incremental term loan add-on to the Senior Secured Credit Facility, The incremental term loan add-on was fully drawn down on the 14 December 2018 and used to fund the acquisition and related expenses of the Globecomm business (refer to note 27) and to repay a portion of the Revolving Credit Facility.

The total facility limit of the Senior Secured Credit Term Loan B Facility decreases by 1% every year.

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

Interest payable on the facilities is subject to a floating margin component. This exposes the Group to interest rate risk. To hedge this risk and as a requirement of the agreement, the Group has entered into interest rate swaps contracts refer to note 3.

At 31 December 2018, interest-bearing bank loans and overdrafts were due for payment as follows:

	2018 USD'000	2017 USD'000
Portion of bank loans due for repayment within 1 year	6,004	-
After 1 year but within 5 years	71,219	443,080
After 5 years	567,414	-
Less: Prepaid facility fees	(13,242)	(10,867)
	631,395	432,213

Notes to the Consolidated Financial Statements

21 Borrowings (continued)

Assets pledged as security

The Group has pledged a significant portion of its assets as security against the syndicated facility. The carrying amounts of assets pledged for borrowings as at 31 December are:

	2018 USD'000	2017 restated USD'000
Current assets		
Cash and cash equivalents	58,442	21,719
Trade and other receivables	160,192	95,153
Inventories	16,240	9,819
Amount due from related companies	89,028	79,456
Current tax receivable	3,111	4,196
Non-current assets		
Investments in subsidiaries	121,381	47,309
Property, plant and equipment	115,681	68,468
Goodwill and intangible assets	557,399	488,727
Deferred tax assets	12,260	5,619
Other	933	1,804
Derivative financial instruments	-	1,506
Total Group assets pledged as security	1,134,667	823,776

22 Derivative financial instruments

	2018 USD'000	2017 USD'000
Carried at fair value		
Interest rate swap contracts (liability)/asset	(6,199)	1,506
	(6,199)	1,506

Notes to the Consolidated Financial Statements

23 Equity

Contributed equity

	2018		2017	
	No. of shares	USD'000	No. of shares	USD'000
Balance as at 1 January	238,992,149	364,690	237,468,482	361,392
Issue of ordinary shares – acquisitions	-	-	1,257,791	3,150
Issue of ordinary shares – share-based payments	434,482	438	265,876	148
	239,426,631	365,128	238,992,149	364,690

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

Accumulated losses

	2018 USD'000	2017 restated USD'000
Balance brought forward	(63,497)	(57,224)
Impact of applying AASB 9	-	(3,488)
Impact of applying AASB 15	(1,291)	-
Profit for the year attributable to owners of the Company	1,847	6,001
Dividend declared	(13,534)	(8,786)
Balance as at 31 December	(76,475)	(63,497)

The Final dividend for the year ended 31 December 2017 was paid in May 2018 and an Interim dividend for the year ended 31 December 2018 was paid in October 2018. For details, please refer to note 24.

Foreign currency translation reserve

	2018 USD'000	2017 USD'000
Balance as at 1 January	(1,336)	(14,514)
Currency translation difference	(12,293)	17,744
Deferred tax impact of designated hedges	5,146	(4,566)
Balance as at 31 December	(8,483)	(1,336)

Exchange differences arising on translation of the foreign controlled entity are recognised in 'Other comprehensive income' and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed.

23 Equity (continued)

Share-based payment reserve

	2018 USD'000	2017 USD'000
Balance as at 1 January	1,472	599
Value of employee services	1,458	1,021
Issue of shares	(438)	(148)
Balance as at 31 December	2,492	1,472

The share-based payments reserve is used to recognise the fair value of options at grant date issued to employees and Directors. When shares are issued, the amount recognised in this reserve in relation to those shares is transferred to contributed equity.

For information relating to share options including details of options issued, exercised and lapsed during the financial year and the options outstanding at year end please refer to the Directors' Report and note 12.

Fair value reserve

	2018 USD'000	2017 USD'000
Balance as at 1 January	1,054	-
Gain/(loss) in the year	(4,674)	1,506
Deferred tax impact of (gain)/loss	1,402	(452)
Gain recycled through profit and loss	(3,031)	-
Tax impact of gain recycling through profit and loss	910	-
Balance as at 31 December	(4,339)	1,054

The fair value reserve is used to recognise the change in fair value of financial instruments designated as qualifying cash flow hedges.

Non-controlling interests

	2018 USD'000	2017 USD'000
Balance as at 1 January	705	-
Business combinations (note 27)	2,636	716
Profit/(loss) for the year	81	(9)
Currency translation difference	15	(2)
Balance as at 31 December	3,437	705

The non-controlling interests reserve is used to record the portion of equity ownership of controlled subsidiaries that are not attributable to the Group.

24 Dividends

	2018 USD'000	2017 USD'000
Dividends declared during the year		
Interim dividend declared for the year ended (2018: AUD 2.40 cents, 2017: AUD 2.40 cents)	4,252	4,494
Final dividend declared for the year ended (2017: AUD 4.80 cents 2016: AUD 2.40 cents)	9,282	4,292
	13,534	8,786

On 25 February 2019, the Board approved a final dividend of AUD 4.80 cents per share for the year ended 31 December 2018. The dividend will be paid on 23 May 2019 to all shareholders registered on the record date of 8 March 2019. The dividend is unfranked. The ex-dividend date for dividend entitlement is 7 March 2019.

	2018 USD'000	2017 USD'000
Franking credit balance		
Franking credit available for future financial years (tax paid basis, 30% tax rate)	-	2,125

The above amount represents the balance of the franking accounts as at the end of the period, adjusted for:

(i) Franking credits that will arise from the payment of income tax payable at the end of the period; and
(ii) Franking debits that will arise from the payment of dividends provided at the end of the period.

25 Earnings per share

	2018 Cents	2017 restated Cents
Basic profit per share attributable to ordinary equity holders of the Group	0.77	2.51
Diluted profit per share attributable to ordinary equity holders of the Group	0.76	2.49

	2018 Number	2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	239,374,306	238,822,243
Weighted average number of Restricted Management Rights and Long Term Incentive Plan Rights	2,374,988	2,048,935
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	241,749,294	240,871,178

26 Reconciliation of profit before income tax to net cash inflows from operating activities

	2018 USD'000	2017 USD'000
Profit before income tax	4,764	7,748
Adjustments for:		
Depreciation of property, plant and equipment	37,513	42,516
Amortisation of intangible assets	40,003	28,610
(Gain)/loss on disposal of property, plant and equipment	(261)	455
Share-based payment expense	1,458	1,021
Fair value loss on deferred consideration	-	550
Finance costs	12,820	5,061
Foreign exchange (gain)/losses	(39)	(131)
Transaction costs	4,354	9,212
Proceeds from cancellation of interest rate swap	(3,031)	-
Changes in working capital:		
(Increase)/decrease in inventories	(12,252)	(3,848)
(Increase) in trade and other receivables	(57,652)	(9,442)
(Decrease)/increase in trade and other payables	55,216	10,111
Tax paid	(14,774)	(12,804)
Cash generated from operating activities	68,119	79,059

27 Business combinations

Current year acquisitions

Globecomm Systems Inc.

On 14 December 2018, Speedcast completed the acquisition of Globecomm through the purchase of 100% of the share capital of HCT Acquisition LLC the parent entity of the Globecomm group. Globecomm is a leading provider of remote communications and multi-network infrastructure and the acquisition strengthens Speedcast's global leadership with enhanced competitive positions in Government, Maritime and Enterprise.

	USD'000
Consideration	
Cash	144,676
Total consideration	144,676
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents (unrestricted)	11,173
Cash and cash equivalents (restricted)	2,356
Trade and other receivables	26,643
Inventory	1,586
Corporation tax receivable	706
Property, plant and equipment (note 17)	31,464
Intangibles (note 18)	42,281
Trade and other payables	(38,546)
Deferred tax liabilities (note 19)	(6,330)
Total identified net assets	71,333
Goodwill (note 18)	73,343

The purchase price allocation remains provisional due to the proximity of the acquisition to the year end.

The goodwill is attributable to the expected future profitability and expertise of Globecomm, as well as the synergies expected to be achieved from integrating the business into the Group. No goodwill is expected to be deductible for tax purposes.

Globecomm contributed revenues of USD 7,190,000 and profit of USD 317,000 to the Group during the period from acquisition to 31 December 2018.

Notes to the Consolidated Financial Statements

27 Business combinations (continued)

Current year acquisitions (continued)

In Aria!

On the 30 October 2018, Speedcast acquired 20% of the share capital of In Aria! Limited whilst at the same time obtaining a call option for the remaining 80% of the share capital. Control is exercised through the substantive rights to acquire the remaining 80% of the company for a price that is not prohibitive. The acquisition enhanced Speedcast's overall product line in protected video transmission, it also added to the Group's capabilities in providing services to the Media industry.

	USD'000
Consideration	
Cash	1,364
Total consideration	1,364
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	2,626
Trade and other receivables	1,315
Inventory	154
Intangible assets (note 18)	2,402
Deferred tax liabilities (note 19)	(419)
Trade and other payables	(2,798)
Non-controlling interests	(2,636)
Total identified net assets	644
Goodwill (note 18)	720

The purchase price allocation remains provisional due to the proximity of the acquisition to the year end.

The goodwill is attributable to the expected future profitability and expertise of In Aria!, as well as the synergies expected to be achieved from integrating the business into the Group and Speedcast's sales channels. No goodwill is expected to be deductible for tax purposes.

Speedcast have opted to recognise the non-controlling interest at the proportionate share of the fair value of the net identifiable assets at the date of the acquisition.

In Aria! Contributed revenues of USD 317,000 and profits of USD 115,000 to the Group during the period from acquisition to 31 December 2018.

27 Business combinations (continued)

Prior year acquisitions

Harris CapRock

On 1 November 2016, the Group entered into a definitive agreement to acquire 100% of the businesses of Harris CapRock, a leading provider of communications networks for remote and harsh environments, primarily in the maritime and energy markets.

The initial close was completed on 1 January 2017. The acquisition was funded via a fully-underwritten AUD 295 million Accelerated Renounceable Entitlement Offer, with the balance funded by a fully-underwritten syndicated debt facility. All consideration has been paid in full in the year.

	USD'000
Consideration	
Cash	417,091
Deferred contingent consideration	2,134
Total consideration	419,225
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	4,044
Trade and other receivables	61,199
Inventory	3,737
Property, plant and equipment (note 17)	66,818
Intangible assets (note 18)	81,759
Deferred tax assets (note 19)	3,006
Trade and other payables	(63,530)
Fair value of bandwidth supply contracts	(15,165)
Non-controlling interests	(716)
Total identified net assets	141,152
Goodwill (note 18)	278,073

The goodwill is attributable to the expected future profitability and expertise of Harris CapRock, as well as the synergies expected to be achieved from integrating the business into the Group.

27 Business combinations (continued)

Prior year acquisitions (continued)

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 following table summarises the consideration paid, the fair value of assets and liabilities acquired at the acquisition date. The purchase price accounting exercise was finalised in the year and the fair value of inventory, trade receivables, trade and other payables, intangible assets and deferred tax positions was updated.

	USD'000
Consideration	
Cash	63,696
Deferred contingent consideration	38,465
Total Purchase Consideration	102,161
Provisional fair value of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	2,000
Trade and other receivables	16,231
Inventory	1,014
Property, plant and equipment (note 17)	2,342
Intangible assets (note 18)	37,075
Current tax receivable	2,554
Trade and other payables	(9,845)
Deferred tax liabilities (note 19)	(14,198)
Total identified net assets	37,173
Goodwill (note 18)	64,988

The goodwill is attributable to the expected future profitability and expertise of UltiSat in the government sector, as well as the synergies expected to be achieved with the Group subject to the confines of the Proxy Agreement. No goodwill is expected to be deductible for tax purposes.

Additional information

Acquisition related costs of USD 4,354,000 (2017: USD 9,212,000) have been charged to transaction related costs in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018.

28 Commitments

Capital commitments

Capital expenditure contracted for at the end of the year but not yet purchased is as follows:

	2018 USD'000	2017 USD'000
Purchase of property, plant and equipment	8,834	2,587

Operating lease commitments

The Group leases certain of its office premises under non-cancellable operating leases. Leases are normally negotiated for an average term of 1 to 5 years. The lease expenditure charged in the Consolidated Statement of Profit or Loss and Other Comprehensive Income during the year is disclosed in note 9.

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

	2018 USD'000	2017 USD'000
No later than 1 year	10,449	5,187
Later than 1 year and no later than 5 years	24,756	15,227
Later than 5 years	27,090	8,740
	62,295	29,154

29 Related party transactions

The following transactions were carried out with related parties:

Key Management Personnel compensation

Key Management Personnel includes the Chief Executive Officer, Chief Financial Officer, Head of Operations, Business Unit Heads and the Board of Directors. Their remuneration included within employee expenses for the year is shown below:

	2018 USD	2017 USD
Short-term employee benefit	2,473,637	3,117,843
Share-based payments	706,671	626,492
	3,180,308	3,744,335

The Remuneration Report presented at the beginning of the annual report contains details of the remuneration paid or payable to each member of the Group's Key Management Personnel for the year ended 31 December 2018.

Notes to the Consolidated Financial Statements

30 Principal operating subsidiaries

The following is the list of the principal operating subsidiaries of the Group as at 31 December 2018 all entities are engaged in the provision of satellite communication services:

Name	Country of incorporation	2018 Interest Held	2017 Interest Held
Speedcast Limited	Hong Kong	100%	100%
Speedcast Australia Pty. Ltd	Australia	100%	100%
Speedcast Singapore Pte. Ltd.	Singapore	100%	100%
CapRock UK Limited	United Kingdom	100%	100%
Maritime Communication Services, Inc.	United States of America	100%	100%
Speedcast Communications Inc.	United States of America	100%	100%
UltiSat Inc.	United States of America	100%	100%
Globecomm Systems Inc.	United States of America	100%	-
Globecomm Network Services Corp.	United States of America	100%	-

Notes to the Consolidated Financial Statements

31 Deed of Cross-Guarantee

The parent entity, Speedcast International Limited, and its subsidiaries listed below are parties to a deed of cross guarantee, executed on the 21 December 2017, under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

The subsidiaries subject to the deed are:

(i) Speedcast Australia Pty Ltd
(ii) Speedcast Group Holdings Pty Ltd
(iii) Speedcast Managed Services Pty Ltd
(iv) Satellite Communications Australia Pty Ltd
(v) Oceanic Broadband Solutions Pty Ltd
(vi) CapRock Communications (Australia) Pty Ltd

These companies represent a closed group for the purposes of the class order.

The Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position, comprising the closed group, after eliminating all transactions between parties to the deed of cross guarantee are shown below.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	2018 USD'000	2017 restated USD'000
Revenue from continuing operations	126,397	99,414
Cost of equipment and bandwidth services	(65,606)	(60,711)
Other gains	(9,156)	11,644
Dividend income	3,000	-
Staff costs	(11,751)	(9,557)
Other expenses	(24,122)	(13,750)
Depreciation of property, plant and equipment	(2,945)	(3,397)
Amortisation of intangible assets	(4,600)	(1,605)
Transaction related costs	7,163	(8,748)
Finance costs, net	(15,554)	(11,077)
Reversal of impairment of investment in subsidiaries	-	94,265
Profit before income tax	2,826	96,478
Income tax expense	(2,179)	(3,417)
Profit for the year	647	93,061
Other comprehensive income		
Item that may be reclassified to profit and loss		
Change in fair value of interest rate swap cash flow hedges	(3,272)	1,054
Currency translation difference	(14,878)	3,462
Items that will not be reclassified to profit and loss		
Change in fair value of cancelled interest rate swap cash flow hedges	(3,940)	-
Total comprehensive income/(loss) for the year	(21,443)	97,577

31 Deed of Cross-Guarantee (continued)

Consolidated Statement of Financial Position

	2018 USD'000	2017 restated USD'000
ASSETS		
Current assets		
Cash and cash equivalents	13,451	13,285
Trade and other receivables	50,054	19,591
Inventories	2,035	2,440
Amount due from related companies	833,493	674,888
Total current assets	899,033	710,204
Non-current assets		
Property, plant and equipment	10,129	12,258
Goodwill and intangible assets	25,360	32,766
Investment in subsidiaries	220,090	229,449
Deferred tax asset	5,952	1,739
Other receivables	151	1,538
Derivative financial instruments	-	1,506
Total non-current assets	261,682	279,256
Total assets	1,160,715	989,460
LIABILITIES		
Current liabilities		
Trade and other payables	49,015	31,674
Borrowings	6,004	-
Income tax payable	2,790	1,791
Amount due to related companies	146,507	151,518
Total current liabilities	204,316	184,983
Non-current liabilities		
Borrowings	609,391	432,214
Other payables	456	210
Derivative financial instruments	6,199	-
Total non-current liabilities	616,046	432,424
Total liabilities	820,362	617,407
Net assets	340,353	372,053
EQUITY		
Contributed equity	326,882	326,444
Other reserves	(37,151)	(17,899)
Retained earnings	50,622	63,508
Total equity	340,353	372,053

Notes to the Consolidated Financial Statements

32 Parent entity financial information

The following information has been extracted from the books and records of the parent entity, SIL, and has been prepared in accordance with Australian Accounting Standards.

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements.

Statement of Financial Position

	2018 USD'000	2017 restated USD'000
Assets		
Current assets	447,443	250,792
Non-current assets	731,004	672,734
Total assets	1,178,447	923,526
Liabilities		
Current liabilities	176,015	32,935
Non-current liabilities	615,590	432,213
Total liabilities	791,605	465,148
Equity attributable to owners of the Company		
Contributed equity	326,883	326,444
Other reserves	(69,754)	(8,216)
Retained earnings	129,713	140,150
	386,842	458,378
Profit/(loss) for the year attributable to owners of the Company	3,097	83,770
Other comprehensive income/(loss)	(61,538)	19,865
Total comprehensive income/(loss) for the year attributable to owners of the Company	(58,441)	103,635

Profit for the year includes USD nil (2017: USD 94,265,000) relating to reversals of previous investment impairments.

The parent entity had nil contingent liabilities as at 31 December 2018 (31 December 2017: nil).

33 Contingent liabilities

Outstanding legal cases arising from acquisition of Harris CapRock

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 31 December 2018.

34 Auditors' remuneration

	2018 USD	2017 USD
Remuneration of auditor of the parent entity PricewaterhouseCoopers Australia ("PwC")		
Audit and review of financial statements	773,938	739,979
Taxation services	66,732	448,790
Transaction related services	-	172,553
Total remuneration of PwC	840,670	1,361,322
Remuneration to other related entities of PwC		
Audit and review of financial statements	701,481	669,706
Taxation services	494,918	144,065
Transaction related services	-	60,456
Other services	-	7,626
Total remuneration of other related entities of PwC	1,196,399	881,853
Remuneration to auditors other than PwC or its related entities		
Audit and other assurance services	346,188	449,580
Taxation services	334,932	274,473
Transaction related services	10,881	9,662
Total remuneration to auditors other than PwC or its related entities	692,001	733,715

Notes to the Consolidated Financial Statements

35 Changes in accounting policy

As described in note 2, 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.

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.

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.

35 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 year ended 31 December 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income (extract)	2017 (prior to application) USD'000	Impact of AASB 9 USD'000	2017 restated USD'000
Other expenses	(53,831)	775	(53,056)
Profit before income tax	6,973	775	7,748
Income tax credit/(expense)	(1,436)	(320)	(1,756)
Profit for the year	5,537	455	5,992
Attributable to:			
Owners of the Company	5,546	455	6,001

35 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) USD'000	Impact of AASB 9 USD'000	31 December 2017 (restated) USD'000	Impact of AASB 15 USD'000	1 January 2018 (restated) USD'000
ASSETS					
Current assets					
Trade and other receivables	151,548	(3,939)	147,609	(835)	146,774
Total current assets	225,518	(3,939)	221,579	(835)	220,744
Non-current assets					
Property, plant and equipment	95,188	-	95,188	6,391	101,579
Goodwill and intangible assets	623,944	-	623,944	973	624,917
Deferred tax assets	9,438	301	9,739	151	9,890
Total non-current assets	732,650	301	732,951	7,515	740,466
Total assets	958,168	(3,638)	954,530	6,680	961,210
LIABILITIES					
Current liabilities					
Trade and other payables	165,729	-	165,729	4,809	170,538
Total current liabilities	170,984	-	170,984	4,809	175,793
Non-current liabilities					
Trade and other payables	29,538	-	29,538	3,437	32,975
Deferred tax liabilities	19,312	(605)	18,707	(275)	18,432
Total non-current liabilities	481,063	(605)	480,458	3,162	483,620
Total liabilities	652,047	(605)	651,442	7,971	659,413
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)	302,383	(1,291)	301,092
Total equity	306,121	(3,033)	303,088	(1,291)	301,797

Notes to the Consolidated Financial Statements

35 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 year ended 31 December 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income (extract)	2018 (excluding AASB 15 impact) USD'000	Impact of AASB 15 USD'000	2018 (as presented) USD'000
Revenue from continuing operations	621,609	1,486	623,095
Cost of equipment and bandwidth services	(340,021)	3,090	(336,931)
Staff costs	(99,015)	3,306	(95,709)
Other expenses	(58,623)	(60)	(58,683)
Depreciation of property, plant and equipment	(33,271)	(4,242)	(37,513)
Amortisation of intangible assets	(38,467)	(1,536)	(40,003)
Profit/(loss) before income tax	2,720	2,044	4,764
Income tax credit/(expense)	(2,366)	(470)	(2,836)
Profit/(loss) for the half year	354	1,574	1,928
Attributable to:			
Owners of the Company	273	1,574	1,847
Non-controlling interests	81	-	81

Notes to the Consolidated Financial Statements

35 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 31 December 2018

Consolidated Statement of Financial Position (extract)	31 December 2018 (excluding AASB 15 impact) USD'000	Impact of AASB 15 USD'000	31 December 2018 (as presented) USD'000
ASSETS			
Current assets			
Trade and other receivables	233,364	(895)	232,469
Total current assets	346,433	(895)	345,538
Non-current assets			
Property, plant and equipment	134,969	5,239	140,208
Goodwill and intangible assets	707,416	2,743	710,159
Deferred tax assets	21,521	103	21,624
Total non-current assets	866,395	8,085	874,480
Total assets	1,212,828	7,190	1,220,018
LIABILITIES			
Current liabilities			
Trade and other payables	248,870	3,963	252,833
Total current liabilities	258,315	3,963	262,278
Non-current liabilities			
Trade and other payables	21,672	2,797	24,469
Deferred tax liabilities	19,774	147	19,921
Total non-current liabilities	673,036	2,944	675,980
Total liabilities	931,351	6,907	938,258
Net assets	281,477	283	281,760
EQUITY			
Accumulated losses	(76,758)	283	(76,475)
Equity attributable to owners of the Company	278,040	283	278,323
Total equity	281,477	283	281,760

Notes to the Consolidated Financial Statements

36 Events after the balance sheet date

On 25 February 2019, the Board approved a final dividend of AUD 4.80 cents per share for the year ended 31 December 2018. The dividend will be paid on 23 May 2019 to all shareholders registered on the record date of 8 March 2019. The ex-dividend date for dividend entitlement will be 7 March 2019. The dividend will be unfranked for Australian taxation purposes.

On 8 March 2019 314,626 shares were issued in full settlement of the 2015 LTIP scheme, as set out in note 12.

Other than the above, there have been no other material post balance sheet events since 31 December 2018.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 33 to 90 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 31 December 2018 and of its performance for the financial 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; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 31 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 31.

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer as required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors dated on 29 March 2019.

Pierre-Jean Beylier

Chief Executive Officer, Executive Director

29 March 2019

Independent auditor's report

To the members of Speedcast International Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Speedcast International Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year then ended
- the Consolidated Statement of Financial Position as at 31 December 2018
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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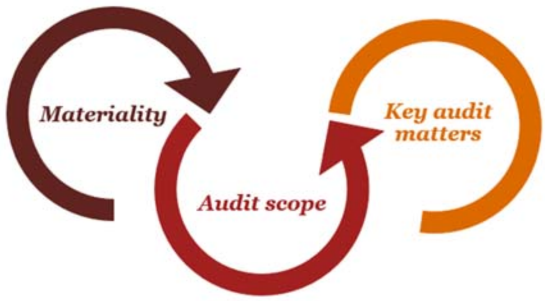
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group's activities involve the provision of satellite bandwidth services to maritime, energy, government and other markets. The Group has operations and entities in many countries, including Australia, Hong Kong, United States of America, Singapore and United Kingdom.



Materiality

- For the purpose of our audit we used overall Group materiality of $3.2 million, which represents approximately 2.5% of the Group's EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) of the Group excluding acquisition related costs.
- We chose Group EBITDA adjusted for acquisition related costs because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. The adjustment to EBITDA for specific items of revenue and expense associated with acquisitions, seeks to remove the impact of items which are not expected to recur from year to year or otherwise significantly affect the underlying trend of performance from continuing operations.
- We utilised a 2.5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group audit is planned and led by our Group audit team in Australia. We and component auditors in Malaysia and the United States of America conducted audit procedures over the financial information of the most financially significant entities, which are based in Australia, Hong Kong, Singapore and the United States of America.

- Additionally, specific risk focused audit procedures in relation to the Group's entities in the United Kingdom and Angola were performed. When determining where it was necessary to perform specific procedures, we focused on entities where our planning procedures identified specific areas of risk.
- We note that outside the entities highlighted above, the Group includes other entities which individually do not contribute materially to the overall Group result. We obtained an understanding of these entities and performed analytical procedures over their financial balances.
- Audit procedures were performed by the Group audit team over the consolidation process and balances recorded at a Group level. The audit work carried out at entity level, together with the additional procedures performed at Group level, in our view, provided us with sufficient evidence to express an opinion on the Financial Report of the Group as a whole.
- We ensured that the audit teams both at Group and at entity levels had the appropriate skills and competencies. This included engaging specialists and experts to address aspects of our audit work in relation to taxation and business combinations.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	How our audit addressed the key audit matter
Revenue Recognition *(Refer to note 2(e) and note 6)*	

Speedcast have multiple revenue streams with customers which can include the provision of equipment, bandwidth services and related support arrangements.
 	
For many Speedcast operations, broadband access fees related to bandwidth services are invoiced in advance of service delivery and an adjustment is made at each balance date by the Group so that amounts invoiced in advance are not inappropriately recorded as revenue prior to bandwidth access being supplied by Speedcast.
 	
The Group also records accrued revenue in circumstances where services have been provided but not yet invoiced at balance date.
 	
Amounts recorded in respect of deferred revenue and accrued revenue are material, as is revenue as a whole, and as such revenue recognition was a key audit matter.
	We performed the following procedures in respect of revenue recorded:
	• We developed an understanding of each significant revenue stream, being managed network services, managed network services - equipment rental, wholesale VoIP and equipment sales and installation, and the basis used to recognise revenue.
	• We tested a sample of revenue transactions (including accrued revenue) to evaluate whether they were appropriately recorded as revenue. This included:
	  ○ making enquiries of management; and
	  ○ agreeing the amounts recorded to supporting evidence, where appropriate, including customer contracts
	• For a sample of deferred revenue amounts we tested whether the amount recognised in the current period was consistent with services supplied per the terms of the customer agreement.

Revenue Recognition (continued)

The Group has also adopted AASB 15 '*Revenue from contracts with customers*' effective from 1 January 2018.

We performed the following procedures in respect of the transition to AASB 15 '*Revenue from contracts with customers*'.

Specifically:

- We understood managements' process for assessing the accounting implications of the new standard.
- We assessed the appropriateness of management's adjustments on transition to AASB15 .
- We agreed the adjustments to supporting schedules and calculations.

Accounting for business combinations

(Refer to note 27)

Speedcast made two acquisitions in the current year (InAria! Limited effective 30 October 2018 and Globecomm Systems Inc effective 14 December 2018) The purchase price accounting for these acquisitions was provisional at the date of authorisation of the financial report.

In addition, the Group finalised the accounting for the previous year's acquisition of UltiSat Inc.

The accounting for these business combinations was a key audit matter given the acquisitions of Globecomm Systems Inc. and UltiSat Inc. were material to the Group and involved significant judgements, including:

- Estimation of the purchase consideration, particularly in respect of contingent consideration payable.
- Estimation of the fair value of assets and liabilities acquired, in particular customer relationships. Under Australian Accounting Standards, the Group is required to estimate the fair value of assets and liabilities acquired. This estimate involved making judgements on the value of relationships acquired and the period over which acquired customer relationships are expected to provide benefit to Speedcast.

For the acquisition of Globecomm Systems Inc., we performed the following procedures:

- Read the sale and purchase agreement to identify any contingent purchase consideration. No contingent consideration was identified in the agreement.
- We assessed the Group's provisional estimate of the fair value of assets and liabilities acquired including the Group's basis for determination of the customer relationship intangible balance and goodwill.

For the UltiSat acquisition which was finalised in the current year, we performed the following procedures:

- We agreed the fair value of assets and liabilities acquired to valuation reports prepared by the Group's valuation adviser or separate Group calculations. The valuation reports included discounted cash flow models (the "models") calculating the value of customer relationship intangibles asset;
- For the customer relationship intangible asset we performed the following:
    - Assessed the underlying assumptions used in the models, including customer attrition rate and discount rate;and
    - Assessed whether the cash flow inputs used in the models were reasonable compared to actual performance.
- For other significant fair value adjustments not included in the valuation report, we agreed the fair value of assets and liabilities to the underlying calculations, and performed the following:
    - Assessed the appropriateness of the Group's calculation; and
    - Obtained and considered supporting documentation.
- We were assisted by valuation experts as appropriate, including in relation to the assessment of discount rates used.

Tax effect accounting
(Refer to notes 11 and 19)

Speedcast operates in a number of countries, each with different tax regimes. The Group is required to understand the tax laws in each jurisdiction and appropriately apply these to each entities' tax calculations and the overall Group tax position.

The accounting for taxes was a key audit matter because of the complexity associated with different tax jurisdictions and judgements requiring consideration when preparing the Group's tax calculations. In particular, we note there are:

- Tax calculations for individual entities with significant current or deferred tax recorded during the period which are subject to different tax jurisdictions and rules.
- Consolidated tax models used to calculate the Group tax balances which are manual and complex in nature and therefore may have an increased risk of error.
- Deferred tax assets recorded by the Group, some of which relate to tax losses, which require judgement by the Group in assessing whether there will be enough future taxable profits in order for these assets to be realised.

We performed the following procedures:

- Identified key tax jurisdictions and balances across Speedcast by developing an understanding of the nature of the Group's tax structure and controls in place to manage the Group's tax reporting requirements.
- For those individual entities identified with significant income tax expense or recorded tax payable, we agreed the key inputs in the tax calculations to the relevant general ledger balance and assessed the appropriateness of:
  - Permanent differences included in the calculation of the income tax expense; and
  - Accounting and tax bases included in the calculation of deferred tax assets and liabilities.
- For the Group tax consolidation we agreed key inputs to supporting documentation including underlying entity tax calculations. We tested the mathematical accuracy of the tax consolidation model.
- As part of our work we assessed the recoverability of deferred tax balances in particular where balances related to tax losses.

We were assisted by PwC tax experts and specialists in performing our work over tax effect accounting.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Director's Report and Operating and Financial Review. We expect the remaining other information to be made available to us after the date of this auditor's report, including the Chairman's Letter and Chief Executive Officer's Report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 31 December 2018.

In our opinion, the remuneration report of Speedcast International Limited for the year ended 31 December 2018 complies with section 300A of the *Corporations Act 2001.*

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Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Forman
Partner

Adelaide
29 March 2019