Speedcast International Limited

ACN 600 699 241

Appendix 4D and Financial Statements for the

Half Year Ended 30 June 2019

APPENDIX 4D

For the half year ended 30 June 2019

Results for Announcement to the Market

All comparisons are to the half year ended 30 June 2018 unless otherwise stated.

All amounts are in US$ million unless otherwise specified.

	2019 US$ million	Up/Down	Movement %
Revenue from ordinary activities	357.6	Up	17%
Loss after tax from ordinary activities attributable to the owners of the Company	(175.6)	Down	35,220%

Dividend Information

	Amount per share (AUD cents)	Franked % per share
Final dividend for 2018 (paid on 23 May 2019)	4.80	NIL
Proposed interim dividend for 2019	NIL	NIL

On 27 August 2019, the Board announced that no interim dividend would be paid for the half year ended 30 June 2019.

No dividend reinvestment plan was in operation during the half year ended 30 June 2019.

APPENDIX 4D (continued)

Net Asset Backing

	30 June 2019 (US$ cents)	31 December 2018 (US$ cents)
Net tangible asset (liability) backing per security	(185)	(178)
Net asset backing per security	39	119

Net tangible assets are defined as the net assets of the Speedcast group excluding goodwill and intangibles. The number of shares on issue at 30 June 2019 was 239,741,258 (31 December 2018: 239,426,631).

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

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

Information presented in this report should be read in conjunction with the 2018 Annual Financial Report of Speedcast International Limited and its controlled entities and any public announcements made in the period by Speedcast International Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Listing Rules.

Additional information supporting the Appendix 4D disclosure requirements can be found in the Directors' Report and the consolidated financial statements for the half year ended 30 June 2019.

This report is based on the consolidated financial statements for the half year ended 30 June 2019 of Speedcast International Limited and its controlled entities, which have been reviewed by PricewaterhouseCoopers. The Independent Auditor's Review Report provided by PricewaterhouseCoopers is included in the consolidated financial statements for the half year ended 30 June 2019.

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of Speedcast International Limited (the Company) and its subsidiaries (together referred to as the Group, Speedcast), for the half year ended 30 June 2019 and the auditor's report thereon.

About Speedcast International Limited

Speedcast International Ltd (ASX: SDA) is the world's largest remote communications and IT services provider. The company delivers critical communications solutions through its multi-access technology, multi-band and multi-orbit network of 80+ satellites and an interconnecting global terrestrial network, bolstered by extensive local support from 40+ countries. Speedcast is uniquely positioned as a strategic partner, tailoring communications, IT and digital solutions to meet customer needs and enable business transformation. The company provides managed information services with differentiated technology offerings, including cybersecurity, crew welfare, content solutions, data and voice applications, IoT solutions and network systems integration services. With a passionate customer focus and a strong safety culture, Speedcast serves more than 3,200 customers in over 140 countries in sectors such as Maritime, Energy, Mining, Enterprise, Media, Cruise, Humanitarian and Government. Learn more at www.speedcast.com.

Information on Directors

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

John Mackay
Grant Ferguson
Peter Jackson
Michael Malone
Caroline van Scheltinga
Pierre-Jean Beylier

Review of Operations

Highlights

- Group revenue grew 17% to US$357.6m (half year ended 30 June 2018: US$304.8m);
- Underlying EBITDA grew 11% to US$66.8m (half year ended 30 June 2018: US$60.4m) including the favourable impact of adopting AASB 16 Leases, of US$4.6m;
- Underlying NPATA decreased 30% to US$14.7m (half year ended 30 June 2018: US$21.1m);
- Operating cash flows were 35% of Underlying EBITDA, due to higher working capital level;
- Net debt increased 7% to US$625.4m at 30 June 2019 from US$581.9m at 31 December 2018;
- The Board announced that no interim dividend would be paid for the half year ended 30 June 2019.

DIRECTORS' REPORT (continued)

Review of Operations (continued)

Operational and Divisional Highlights

- **Maritime:** Total revenue was up 12.0% to US$119.3 million (H1 2018: US$106.5 million) driven by the contribution from Globecomm. Excluding Globecomm, Maritime revenue was down 1.7% to US$104.7 million.
- **Enterprise and Emerging Markets:** Total revenue was up 6.8% to US$79.6 million (H1 2018: US$74.5 million) driven by the contribution from Globecomm. Excluding Globecomm, Enterprise and Emerging Markets' revenue was down 21.4% to US$58.6 million, mainly due to the phasing of the nbn project. This Division's performance is now improving with service revenue stabilised and good momentum in several markets.
- **Government:** Total revenue was up 69.3% to US$80.4 million (H1 2018: US$47.5 million) driven predominantly by the contribution from Globecomm, with underlying organic revenue flat. However, new customer programs are expected to drive growth in services revenue once the implementation cycle is complete in H2 2019.
- **Energy:** Total revenue was up 2.6% to US$78.3 million (H1 2018: US$76.3 million) mainly due to the contribution from Globecomm, with underlying organic revenue up 0.2%. The oil & gas sector and our Energy business have stabilised. A stronger H2 2019 is expected driven by sizeable Systems Integration revenue, continued growth in onshore oil services and slight pick-up in offshore drilling activity.

Statutory to Underlying Reconciliations

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

Non-IFRS measures such as Underlying EBITDA and Underlying NPATA have also been presented to provide a better understanding of the Group's financial performance. Non-IFRS measures included in the tables below has not been subject to any specific audit or review procedures by our auditor but has been extracted from the accompanying financial report.

	Half Year 30 June 2019 US$ million	Half Year 30 June 2018 US$ million
Underlying revenue	**357.6**	**304.8**
Underlying EBITDA	66.8	60.4
Depreciation	(27.4)	(18.2)
Amortisation	(26.3)	(19.7)
Underlying EBIT	**13.1**	**22.5**
Underlying finance costs, net	(20.6)	(15.0)
Income tax expense	1.9	(1.6)
Underlying NPAT	**(5.6)**	**5.9**
Add back: Amortisation (net of tax)	20.3	15.2
Underlying NPATA	**14.7**	**21.1**

Underlying EBITDA for the half year ended 30 June 2019 includes the favourable impact of adopting AASB 16 Leases of US$4.6m.

DIRECTORS' REPORT (continued)

Statutory reconciliations (continued)

	Half Year 30 June 2019 US$ million	Half Year 30 June 2018 US$ million
Statutory revenue (1)	**357.6**	**304.8**
Statutory net (loss)/ profit after tax attributable to owners of the Company	**(175.5)**	**0.5**
Acquisition related costs (2)	2.7	0.4
Integration costs (3)	10.0	1.0
Restructuring costs (4)	-	0.6
Impairment	154.8	-
Gain on extinguishment of interest rate hedges	-	(3.0)
Foreign exchange loss/(gain) (5)	4.8	(1.9)
Accelerated amortisation of capitalised facility fees on borrowing – finance cost	-	8.6
Interest expense on deferred consideration – finance cost	0.3	0.8
Unwinding of fair value adjustments on acquisitions – finance cost	0.2	0.3
Tax effect of above items (6)	(2.9)	(1.4)
Underlying NPAT	**(5.6)**	**5.9**
Add back: Amortisation (net of tax)	20.3	15.2
Underlying NPATA	**14.7**	**21.1**

Analysis of statutory to underlying reconciliations:

(1) There was no difference between underlying and statutory revenue;
(2) Acquisition-related costs such as due diligence, consultants and legal fees in connection with M&A have been excluded from the underlying financial results. Staff costs of $1.0m for the half year ended 30 June 2019 and $0.4m for the half year ended 30 June 2018 are included in acquisition-related costs;
(3) Integration costs relating to the integration of Globecomm, acquired on 14 December 2018 have been excluded from the underlying financial results. Staff costs of $4.3m for the half year ended 30 June 2019 and $0.7m for the half year ended 30 June 2018 are included in intergaration costs;
(4) Restructuring costs of US$0.6m were incurred during the half year ended 30 June 2018. There have been no restructuring costs incurred in the half year ended 30 June 2019. Staff costs of $0.2m for the half year ended 30 June 2018 are included in restructuring costs;
(5) Foreign exchange gains and losses derived from fluctuations in foreign currencies have been excluded from the underlying result;
(6) The collective tax impact of the above adjustments is a credit of US$2.9m.

The Underlying NPAT for the period after these adjustments was a US$5.6m loss;
After adding back the amortisation of intangibles (net of tax) the underlying NPATA of the Group is US$14.7m compared with US$21.1m in the half year ended 30 June 2018. An effective tax rate of 23% was applied in the half year ended 30 June 2019 for the amortisation add back, the same rate as applied to the half year ended 30 June 2018 amortisation add back.

DIRECTORS' REPORT (continued)

Auditor's independence declaration

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

Rounding of amounts

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

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

Pierre-Jean Beylier
Chief Executive Officer, Executive Director
27 August 2019

Auditor's Independence Declaration

As lead auditor for the review of Speedcast International Limited for the half-year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Scott Walsh
Partner
PricewaterhouseCoopers

Sydney
27 August 2019

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Speedcast International Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2019

	Note	Consolidated 30 June 2019 US$m	Consolidated 30 June 2018 US$m
Revenue from continuing operations	2	357.6	304.8
Total revenue		357.6	304.8
Expenses			
Cost of equipment and bandwidth services		(197.9)	(165.1)
Other (losses)/gains	3	(4.7)	5.2
Staff costs		(65.8)	(53.7)
Acquisition related costs		(1.7)	-
Integration costs		(5.7)	(0.3)
Restructuring costs		-	(0.4)
Other expenses		(32.5)	(27.2)
Depreciation of property, plant and equipment		(27.4)	(18.2)
Amortisation of intangible assets		(26.3)	(19.7)
Impairment	16	(154.8)	-
Finance costs, net	4	(21.1)	(24.7)
Total expenses		(537.9)	(304.1)
(Loss)/profit before income tax benefit/ (expense)		(180.3)	0.7
Income tax benefit/ (expense)		4.8	(0.2)
(Loss)/profit after income tax benefit/ (expense) for the half-year attributable to the owners of Speedcast International Limited		(175.5)	0.5
Attributable to:			
Owners of the Company		(175.6)	0.5
Non-controlling interests		0.1	-
		(175.5)	0.5
Other comprehensive income/(loss)			
Item that may be reclassified to profit and loss			
Currency translation difference		4.4	(7.7)
Change in fair value of interest rate swap cash flow hedges		(9.7)	0.5
Item that may not be reclassified to profit and loss			
Change in fair value of cancelled interest rate swap cash flow hedges		-	(2.1)
Other comprehensive income/(loss) for the half-year, net of tax		(5.3)	(9.3)
Total comprehensive income/(loss) for the half-year attributable to the owners of Speedcast International Limited		(180.8)	(8.8)
Attributable to:			
Owners of the Company		(180.9)	(8.8)
Non-controlling interests		0.1	-
Earnings per share:			
Basic (loss)/profit per share (cents)		(73.3)	0.2
Diluted (loss)/profit per share (cents)		(73.3)	0.2

Speedcast International Limited
Consolidated statement of financial position
As at 30 June 2019

	Note	Consolidated 30 June 2019 US$m	Consolidated 31 Dec 2018 US$m
Assets			
Current assets			
Cash and cash equivalents		54.6	79.7
Trade and other receivables		261.8	232.5
Inventories		40.6	28.9
Income tax receivable		4.7	4.5
Total current assets		361.7	345.6
Non-current assets			
Property, plant and equipment	6	197.4	140.2
Intangibles		537.2	710.1
Deferred tax		28.3	21.6
Other receivable		5.2	2.5
Total non-current assets		768.1	874.4
Total assets		1,129.8	1,220.0
Liabilities			
Current liabilities			
Trade and other payables		268.1	252.8
Borrowings	7	4.7	6.0
Income tax payable		-	3.4
Lease liabilities		8.3	-
Total current liabilities		281.1	262.2
Non-current liabilities			
Borrowings	7	649.9	625.4
Trade and other payables		15.9	24.5
Derivative liabilities	12	20.2	6.2
Deferred tax liability		18.1	19.9
Lease liabilities		50.5	-
Total non-current liabilities		754.6	676.0
Total liabilities		1,035.7	938.2
Net assets		94.1	281.8
Equity			
Contributed equity	8	365.5	365.1
Other reserves		(14.9)	(10.3)
Accumulated losses		(260.0)	(76.4)
Equity attributable to the owners of Speedcast International Limited		90.6	278.4
Non-controlling interest		3.5	3.4
Total equity		94.1	281.8

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Speedcast International Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2019

	Contributed equity US$m	Accumulated losses US$m	Other reserves US$m	Non-controlling interests US$m	Total equity US$m
Consolidated					
Balance at 1 January 2018	364.7	(64.8)	1.2	0.7	301.8
Profit for the half year	-	0.5	-	-	0.5
Other comprehensive loss	-	-	(9.3)	-	(9.3)
Dividends (note 9)	-	(9.3)	-	-	(9.3)
Employee share scheme – issue of shares (note 8)	0.4	-	(0.4)	-	-
Employee share scheme – value of employee services	-	-	0.7	-	0.7
Balance at 30 June 2018	365.1	(73.6)	(7.8)	0.7	284.4

	Contributed equity US$m	Accumulated losses US$m	Other reserves US$m	Non-controlling interests US$m	Total equity US$m
Consolidated					
Balance at 1 January 2019	365.1	(76.4)	(10.3)	3.4	281.8
Profit/(loss) for the half year	-	(175.6)	-	0.1	(175.5)
Other comprehensive loss	-	-	(5.3)	-	(5.3)
Dividends (note 9)	-	(8.0)	-	-	(8.0)
Employee share scheme – issue of shares (note 8)	0.4	-	(0.4)	-	-
Employee share scheme – value of employee services	-	-	1.1	-	1.1
Balance at 30 June 2019	365.5	(260.0)	(14.9)	3.5	94.1

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Speedcast International Limited
Consolidated statement of cash flows
For the half-year ended 30 June 2019

	Consolidated	
	30 June 2019 US$m	**30 June 2018 US$m**
Cash flows from operating activities		
Cash receipts from customers	357.8	324.6
Cash paid to suppliers	(343.9)	(272.2)
Finance income	0.2	0.2
Finance costs	(18.7)	(13.5)
Taxes paid	(2.2)	(11.5)
Net cash (outflow)/inflow from operating activities	(6.8)	27.6
Cash flows from investing activities		
Payments for acquisition of businesses, net of cash acquired	-	(21.8)
Business acquisition cost	(2.7)	(0.6)
Payments for property, plant and equipment	(21.4)	(21.1)
Payments for intangible assets	(7.7)	(7.5)
Proceeds from disposal of property, plant and equipment	-	0.3
Net cash used in investing activities	(31.8)	(50.7)
Cash flows from financing activities		
Proceeds from borrowings, net of transaction costs	30.0	469.0
Repayment of borrowings	(8.0)	(443.1)
Proceeds from cancellation of interest rate swap	-	3.0
Dividend paid	(8.0)	(8.7)
Net cash from financing activities	14.0	20.2
Net decrease in cash and cash equivalents	(24.6)	(2.9)
Cash and cash equivalents at the beginning of the financial half-year	79.7	54.8
Effects of exchange rate changes on cash and cash equivalents	(0.5)	(1.7)
Cash and cash equivalents at the end of the financial half-year	54.6	50.2

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

1. Basis of preparation

This condensed consolidated interim financial report for the half year reporting period ended 30 June 2019 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made by Speedcast International Limited (the "Company") during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

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

The half year financial statements were authorised for issuance by the Board of Directors on 27 August 2019.

The Half Year Financial Report has been prepared on the basis that Speedcast is a going concern, able to realise assets in the ordinary course of business and settle liabilities as and when they are due.

The Group has experienced challenging operating conditions during the period to 30 June 2019. The Group's loss before tax for the six month period ended 30 June 2019 was $180.3m (2018: profit of $0.7m). The operating cashflow for the six month period to 30 June 2019 was a cash outflow of $6.8m (2018: inflow of $27.6m). This included the impact of a deterioration in working capital and the impact of certain non-recurring cash costs, including acquisition integration costs. After including Net Cash Used in Investing Activities and Dividends, the total cash outflow was $46.6m (2018: outflow $31.8m). This was funded by an increase in borrowings of $22.0m and a reduction in cash balances of $24.6m.

The Group's borrowing arrangements at 30 June 2019 are detailed in Note 7. At 30 June 2019 the Group had drawn $72.2m of borrowings under the $100m Revolving Credit Facility. After adjusting for other uses of the facility, the Group had $18m available to be drawn at 30 June 2019. During the period to 30 June 2019, the Group remained in compliance with its borrowing agreements and covenants at all relevant times. In addition, as detailed in Note 7, on 30 July 2019, the Group secured an amendment to its borrowing arrangements, to increase the maximum net leverage ratio from 4.0 times to 4.5 times. The Group's key borrowing facilities mature in 2023 (for the $100m Revolving Credit Facility) and 2025 (for the $600m Term Loan).

At 30 June 2019 and the date of this report, certain amounts due to trade creditors were significantly overdue some of which remain overdue at the date of this report. The Group enjoys a positive working relationship with key creditors, based upon longstanding strategic partnerships.

To address the Group's need for additional funding:

- A cost optimisation program has been established to reduce costs and improve profitability.
- A cashflow improvement program has been established to improve working capital and other aspects of the Group's cashflows
- Discussions are underway with funding providers and advisors, to secure additional sources of liquidity

Management and Board are focussed on implementing these plans and other initiatives. Accordingly, the Group expects cashflow to improve during the six months to December 2019 and thereafter. However, full realisation of profitability, cashflow plans and targets and access to additional funding is not certain, creating a material uncertainty that may cast significant doubt as to whether Speedcast will be able to continue as a going concern, and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts in this report.

After considering all relevant factors, the Directors believe that there are reasonable grounds to believe that the use of the going concern basis remains appropriate as there is an expectation that the Group will be successful in the above matters.

Accordingly, the Directors have prepared this Half Year Financial Report on a going concern basis. This Half Year Financial Report does not include adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

1. Basis of preparation (continued)

New and amended standards and interpretations adopted by the Company

In the current reporting period, the Company adopted AASB 16 Leases, effective for the reporting period commencing on 1 January 2019. This new standard has resulted in changes in accounting policy which, along with the impact on the financial statements, are disclosed in note 15. Speedcast has adopted the modified retrospective method of applying AASB 16 Leases. As such, the prior year amounts exclude the impact of the new standard.

There are a number of other new and amended accounting standards and interpretations that became applicable for annual reporting periods commencing on or after 1 January 2019 but are not material for the Group as at 30 June 2019.

2. Revenue from continuing operations

Consolidated - 30 June 2019	Maritime US$m	Energy US$m	Government US$m	EEM US$m	Total US$m
Managed network services	106.1	61.7	67.6	54.9	290.3
Managed network services – Equipment rental	5.2	12.3	-	1.4	18.9
Wholesale VoIP	-	-	-	9.6	9.6
Equipment sales and installation	8.0	4.3	12.8	13.7	38.8
Total revenue from continuing operations	119.3	78.3	80.4	79.6	357.6

Consolidated - 30 June 2018	Maritime US$m	Energy US$m	Government US$m	EEM US$m	Total US$m
Managed network services	87.5	61.6	44.6	39.3	233.0
Managed network services – Equipment rental	6.6	10.6	0.2	1.4	18.8
Wholesale VoIP	-	-	-	12.3	12.3
Equipment sales and installation	12.4	4.1	2.7	21.5	40.7
Total revenue from continuing operations	106.5	76.3	47.5	74.5	304.8

3. Other (losses)/gains

	Consolidated 30 June 2019 US$m	Consolidated 30 June 2018 US$m
Foreign exchange (loss)/gain	(4.8)	1.9
Gain on disposal of property, plant and equipment	0.1	0.2
Gain on extinguished interest rate hedges	-	3.1
Total	(4.7)	5.2

4. Finance costs, net

	Consolidated 30 June 2019 US$m	Consolidated 30 June 2018 US$m
Finance Income	0.2	0.2
Finance Cost	(21.3)	(24.9)
Total	(21.1)	(24.7)

5. Income tax

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the half year ended 30 June 2019 is 2.7%, compared to 59.5% for the year ended 31 December 2018. The tax rate was higher in 2018 due to the effect of losses for which no deferred tax asset was recognised. The tax rate was lower in 2019 due to the effect of the impairment change set out in note 16.

6. Operating Segments

Identification of reportable segments

The Group has identified its operating segments based on the reports reviewed by the Chief Executive Officer ("CEO") that are used to make strategic decisions. All of the entities within the Group generate income from the provision of managed network services, wholesale VoIP and equipment in various geographical markets. The Group has two operating segments: Speedcast Government, which operates under a Proxy Board, and Speedcast Non Government (the rest of the Group). In 2018 the Group identified one operating segment, Speedcast Group. Speedcast Government was identified as separate operating segment in 2019 due to expansion of this part of the buisness after the Globecomm acquisition. The Group has aggregated the Speedcast Government and Speedcast Non Government operating segments into one reporting segment as the segments meet the criteria for aggregation.

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 revenue relates to a vessel, revenue is included in the Maritime category.

	Maritime US$m	Australia US$m	Pacific Islands US$m	EMEA and other US$m	Asia US$m	Americas US$m	Total US$m
Revenue							
Half year ended 30 June 2019	119.3	23.1	17.6	26.2	22.2	149.2	357.6
Half year ended 30 June 2018	106.5	35.6	19.0	36.0	15.9	91.8	304.8

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

	Maritime US$m	Australia US$m	Pacific Islands US$m	EMEA and Other US$m	Asia US$m	Americas US$m	Total US$m
Property, plant and equipment							
As at 30 June 2019	27.9	13.1	0.8	31.6	35.0	89.0	197.4
As at 31 December 2018	20.7	8.6	0.6	17.0	22.2	71.1	140.2

7. Borrowings

During the half year ended 30 June 2019 there were no new borrowing facilities established. The net increase in borrowings under existing facilities was $22m.

7. Borrowings (continued)

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

	Consolidated	
	30 June 2019 US$m	31 Dec 2018 US$m
Portion of bank loans due for repayment within 12 months	6.0	6.0
After 1 year but within 24 months	6.0	6.0
After 2 years but within 25-60 months	90.2	65.0
Greater than 61 months	564.4	567.6
Less: Prepaid facilities fees current	(1.3)	-
Less: Prepaid facilities fees non current	(10.7)	(13.2)
Total borrowings (current and non-current)	654.6	631.4

Significant terms and conditions

The Group's borrowings and credit lines under the Syndicated Facility Agreement dated 15 May 2018, as amended from time to time, are subject to compliance with certain covenants, including a maximum net leverage ratio covenant that applies when the Revolving Credit Facility (RCF) is drawn more than 35% and is tested semi-annually. This net leverage covenant is the sole financial covenant under the Group's Syndicated Facility Agreement. During the half year ended 30 June 2019, the net leverage covenant required that the net leverage ratio (net debt to pro forma Underlying EBITDA), as defined in the Syndicated Facility Agreement, did not exceed 4.00:1.00.

Under the Syndicated Facility Agreement, pro forma Underlying EBITDA is based on the previous 12 months, as if all Group members as at the balance date were Group members for the whole of the 12 month period. In addition, pro forma Underlying EBITDA includes the benefit of identified cost synergies, and re-organisation & cost reduction initiatives.

On 30 July 2019, the Group secured an amendment to the Syndicated Facility Agreement. Following the amendment, the net leverage covenant requires that the net leverage ratio does not exceed 4.50:1.00. The increased maximum net leverage ratio applies from the period ending 31 December 2019 through to, and including, the period ending 31 December 2020. If the Group pays any dividend during this period and the net leverage ratio is greater than 3.50:1:00, the maximum net leverage ratio will reduce to 4.00:1.00. The net leverage covenant continues to apply when the RCF is drawn more than 35%.

8. Contributed equity

Details	Date	Shares	US$m
Balance	1 January 2019	239,426,631	365.1
Issue of shares in fulfilment of LTIP schemes		314,627	0.4
Balance	30 June 2019	239,741,258	365.5

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

The Group has a long term incentive plan ("LTIP") in order to facilitate remuneration for the Group's senior management and to enhance the alignment of their interests with those of shareholders. During the half year ended 30 June 2019, the Group issued 314,627 shares in fulfilment of the 2015 LTIP scheme.

On 23 May 2019, the Board granted awards of performance rights under the LTIP scheme to the CEO, CFO and other members of Senior Management ("the 2019 LTIP"). In total 3,574,875 performance rights, with a nil exercise price, were issued. The performance conditions that must be satisfied in order for the performance rights to vest have been amended from previous LTIP schemes.

9. Dividends

Dividends paid during the financial half-year were as follows:

	Consolidated	
	30 June 2019 US$m	**30 June 2018 US$m**
Final dividend paid for the year ended 31 December 2018 AUD 4.80 cents (2017: AUD 4.80 cents)	8.0	9.3

On 27 August 2019, the Board of Directors announced that no interim dividend would be paid for the half year ended 30 June 2019.

10. Business combinations

No new acquisitions were completed during the half year ended 30 June 2019.

Prior year acquisitions

During 2018, the Group acquired Globecomm Systems Inc. and 20% of In Aria! Limited. The fair value of identifiable assets acquired and liabilities assumed was disclosed in note 27 to the financial statements for the year ended 31 December 2018. There have been no material changes.

At 30 June 2019 the Group has an outstanding claim with the vendors of Globecomm Systems Inc. The claim relates the finalisation of the acquisition price. Resolution of the outstanding claim is expected in the next 3 months.

11. Contingent liabilities

During the half year ended 30 June 2019, a major supplier satellite failure occurred which affected many of the Group's customers.

The Group's contracts with its customers generally include standard *"force majeure"* clauses designed to protect the Group from customer claims arising from the occurrence of events beyond its reasonable control. The Group invoked these protections where it was able to do so. No significant claims have been received and no provisions have been recorded in respect of this matter.

Other than as noted above, the Group did not have any other material contingent assets or liabilities at 30 June 2019.

12. Derivative liabilities

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

	Level 1 US$m	**Level 2 US$m**	**Level 3 US$m**	**Total US$m**
Interest rate swap contracts liabilities				
At 30 June 2019	-	(20.2)	-	(20.2)
At 31 December 2018	-	(6.2)	-	(6.2)

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

The carrying amount of the Group's financial assets, including trade and other receivables, and cash and cash equivalents, and the Group's other current financial liabilities, including trade and other payables, lease obligations and borrowings, approximate their fair values. The carring amounts of the Group's non-current liabilities, including lease liabilities and borrowings, approximate their fair value as their interest rates are approximate to market interest rates.

13. Capital commitments

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

	Consolidated	
	30 June 2019 US$m	**31 Dec 2018 US$m**
Property, plant and equipment	6.7	8.8

14. Events after the reporting period

The Board of Directors announced on 27 August that no interim dividend would be paid for the half year ended 30 June 2019.

On 30 July 2019, the group secured an amendment to its borrowing agreements, as outlined in note 7.

Other than the above, there have been no other matters or circumstances that have arisen since 30 June 2019 that have significantly affected, or may significantly affect, the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

15. Changes in accounting policy

This note explains the impact of the adoption of AASB 16 Leases on the group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The group has adopted AASB 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. Underlying EBITDA for the half year ended 30 June 2019 includes the impact of adopting AASB 16 Leases, of US$4.6m. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Adjustments recognised on adoption of AASB 16

On adoption of AASB 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.73%.

	US$m
Operating lease commitments disclosed as at 31 December 2018	62.3
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(8.2)
Less: Other adjustments	(0.2)
Add: adjustments as a result of a different treatment of extension and termination options	9.2
Lease liability recognised as at 1 January 2019	63.1

Of which are:

Current lease liabilities	8.7
Non-current lease liabilities	54.4

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and onerous lease provisions relating to these leases recognised in the balance sheet as at 1 January 2019.

15. Changes in accounting policy (continued)

The recognised right-of-use assets relate to the following types of assets:

	Consolidated 30 June 2019 US$m	Consolidated 1 Jan 2019 US$m
Properties	51.8	55.8
Equipment	0.3	0.4
Motor vehicles	0.3	0.3
Total	52.4	56.5

(i) Impact on segment disclosures and earnings per share

Underlying EBITDA, segment assets and segment liabilities for June 2019 all increased as a result of the change in accounting policy. Earnings per share decreased by 0.24 cents per share for the half year end 30 June 2019 as a result of the adoption of AASB 16.

(ii) Practical expedients applied

In applying AASB 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were onerous lease contracts of $5.8m that required an adjustment to the right-of-use assets at the date of initial application.
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

15. Changes in accounting policy (continued)

The group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the group relied on its assessment made applying AASB 117 and Interpretation 4, Determining whether an Arrangement contains a Lease.

(b) The group's leasing activities and how these are accounted for

The group leases various offices, warehouses, equipment and cars. Rental contracts are typically made for fixed periods of 3 to 8 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability, at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss 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 right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Extension and termination options are included in a number of property and equipment leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

16. Impairment

Impairment considerations

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered and is written down to its recoverable amount. For the purposes of assessing impairment, assets are allocated to cash-generating units (CGUs), which are the lowest level of assets for which separately identifiable cash flows can be attributed. For the half year ended 30 June 2019, the Group has two CGUs that consist of a unit of the Group managed under a proxy board in the US (Speedcast Government CGU) and then the remaining business (Speedcast NonGovernment CGU). The previous aggregation of assets for identifying the CGU utilised as at 31 December 2018 identified only one CGU, consistent with the rationale noted in disclosure note 6.

The recoverable amount is the greater of fair value less costs of disposal (FVLCD) or the asset's value is use (VIU). In assessing FVLCD, the recoverable amount of a CGU is assessed using market based valuation techniques such as discounted cash flow analysis, comparable transactions and observable trading multiples. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate.

As a result of the impairment testing, the Group recognised impairment losses of $154.8 million during the half year ended 30 June 2019 on write-down of Goodwill allocated to Non Government businesses. There were no other classes of assets impaired and there were no reversals of impairment losses recognised during the half year ended 30 June 2019.

Goodwill and goodwill impairment testing

Goodwill is tested at least annually for impairment, or whenever any indicators of impairment exist. On 2 July 2019, the Group announced a reduction to the full year ending 31 December 2019 outlook. The resultant decline in the stock price and the associated market capitalisation gave rise to an indicator of impairment.

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired in a business combination. Goodwill is allocated to CGUs for which separately identifiable cash flows can be attributed. The majority of the Group's goodwill at 30 June 2019 relates to historic acquisitions including Harris CapRock, Ultisat, and Globecomm. The Ultisat goodwill and a portion of the Globecomm goodwill has been allocated to the Speedcast Government CGU. All other goodwill remaining has been allocated to the Speedcast Non Government CGU.

	30 June 2019 US$m	31 Dec 2018 US$m
Carrying Value of Goodwill		
Speedcast Government CGU	128.1	128.1
Speedcast Non Government CGU	431.0	430.6
Impairment of Speedcast Non Government CGU	(154.8)	-
Total	404.3	558.7

Key assumptions used for fair value less costs of disposal

The recoverable amount of the Speedcast Non Government CGU was calculated on the basis of fair value less costs of disposal using a discounted cash flow model, consistent with the method used as at 31 December 2018. Future cash flows were projected for four and a half years, with key assumptions being: CGU earnings, synergy and cost savings initiatives, improved operational leverage, capital expenditure forecasts, discount rates, terminal growth rates, and future technology paths.

The Speedcast Government CGU was evaluated and showed no impairment. The Company has considered and assessed reasonably possible changes to key assumptions of Speedcast Government CGU and have not identified any instances that could cause the carrying amount of Speedcast Government assets to exceed its recoverable amount.

16. Impairment (continued)

For the Speedcast Non Government CGU, a compounded annual growth rate of 1.0% was applied to revenue for the next four and a half years, with a terminal growth rate of 2.0% being applied. Growth projections are based on past experience of organic growth adjusted for continued recovery in the Energy market, realisation of synergies and cost improvement plans, and continued improvement in operational leverage. The terminal growth rate is determined based on the long-term anticipated growth rate of the business. An after-tax discount rate of 12.0% was utilised.

Sensitivity

The estimates and judgements included in the calculations (including the four and a half year projected business plan period and terminal value) are based on historical experience and other factors, including management's and the Board's expectations of future events that are believed to be reasonable under the current circumstances.

The inherent nature of projected results means that, by definition, the resulting accounting estimates will seldom equal the related actual results. The recoverable amount is particularly sensitive to key assumptions including EBITDA growth and the discount rate.

The Group evaluated impairment of the Speedcast Non Government CGU as follows using a 12% discount rate and a 2% long term growth rate:

	Impact on Impairment of a +0.2% change in EBITDA CAGR US$m	Impact on Impairment of a -0.2% change in EBITDA CAGR US$m	Impact on Impairment of a +0.5% change in discount rate US$m	Impact on Impairment of a -0.5% change in discount rate US$m
Non Government CGU	6.2	(6.2)	(18.2)	20.1

DIRECTORS' DECLARATION

In the Directors' opinion:

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

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the half year ended on that date; and

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

This declaration is made in accordance with a resolution of the Directors dated on 27 August 2019.

Pierre-Jean Beylier
Chief Executive Officer, Executive Director
27 August 2019

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Speedcast International Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration for the Speedcast International Group (the Group). The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Speedcast International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

1. giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the half-year ended on that date;

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss before tax of $180.3m for the six month period ended 30 June 2019 and operating cash outflows for the same period of $6.8m. As at that date, the Group's borrowings were $654.6m. The Group's ability to continue as a going concern is dependent on the Group having a continued appropriate level of funding from its existing lenders and creditors and/or other sources for at least the next twelve months from the date of this report. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers

PricewaterhouseCoopers

Scott Walsh
Partner

Sydney
27 August 2019