SpeedCast International Limited

ACN 600 699 241

Preliminary Financial Report and Appendix 4E for the

Year Ended 31 December 2014

SpeedCast International Limited

Preliminary Financial Report and Appendix 4E for the Year Ended 31 December 2014

Contents

Results for Announcement to the Market

Current Reporting Period: Year ended 31 December 2014
Previous Reporting Period: Year ended 31 December 2013

The following information is given to the ASX under listing rule 4.3A.
All amounts are in US$ million unless otherwise specified.

Financial Performance	**2014 $m**	**Movement %**
Revenue from ordinary activities	117.7	+30%
Loss for the year after tax	(6.9)	(56%)
Loss for the year after tax attributable to the owners of the Company	(6.9)	(56%)

Other Financial Metrics	**2014 $m**	**Movement %**
Pro forma revenue	121.5	+8%
Pro forma earnings before interest, tax, depreciation and amortisation ("EBITDA")	20.7	+18%
Pro forma net profit after tax	6.5	+78%
Pro forma net profit after tax but prior to the amortisation of acquisition related intangibles (net of tax effect) ("NPATA")	11.1	+34%

Please see page 5 for the reconciliation of statutory to pro forma financial performance.

Overview of Financial Performance

Revenue is up 30% to $117.7 million (2013: $90.7 million). The increase in revenue includes the full year impact of acquisitions as well as significant growth in maritime revenue driven by strong demand from new customers and vessels and the continuing trend of service upgrades from the existing customer base. Strong growth has also been achieved in the wholesale voice business underpinned by the Group's leadership position in the Pacific region.

Results for Announcement to the Market (continued)

Loss after tax for the year decreased 56% to $6.9 million (2013: $15.6 million) and was impacted by one-off costs relating to the restructuring of the group and the Initial Public Offering completed in August 2014 as well as transaction costs relating to the acquisitions of Oceanic and SatComms during the year.

Net cash flows from operating activities increased 25% to $13,654,000 (2013: $10,952,000).

Dividends	**Amount per share Cents (AUD)**	**Franked amount per share %**
Interim dividend	-	-
Proposed final dividend for 2014	3.36	100

An interim preference dividend of US$30,000,000 was paid on 1 April 2014 by SpeedCast Acquisitions Limited prior to the Initial Public Offering and the restructuring of the SpeedCast group.

On 24 February 2015, the Board approved a final dividend of AUD3.36 cents per share for the six months ending 31 December 2014. The dividend will be paid on 2 April 2015 to all shareholders registered on the record date of 6 March 2015. The ex-dividend date for dividend entitlement will be 4 March 2015. The dividend will be fully franked for Australian taxation purposes.

Net Tangible Asset Backing	**31 December 2014 (cents)**	**31 December 2013 (cents)**
Net tangible asset backing per security	(20)	(49)

Net tangible assets are defined as the net assets of the SpeedCast group excluding goodwill and intangibles. The number of shares on issue at 31 December 2014 was 120,168,325 (2013: 80,054,193, when adjusted to be on a comparable basis to 31 December 2014).

A net tangible liability position exists as the SpeedCast group has significant acquired goodwill and intangibles assets through acquisitions. These acquisitions have been partially funded through external bank debt.

Other Financial Metrics

EBITDA is not a financial measure recognised by International Financial Reporting Standards ("IFRS"). This measure is used as it provides a close approximation to the Group's net cash flows from operating activities before capital expenditure and is a widely used performance measure.

Results for Announcement to the Market (continued)

Other Financial Metrics (continued)

Pro forma EBITDA and pro forma NPAT provide a useful understanding of the Group's underlying operating results by removing the impact of significant non-recurring items.

Pro forma NPAT prior to the amortisation of acquisition related intangibles (net of tax effect) ("NPATA") provides a proxy for sustainable earnings by removing the impact of non-cash amortisation relating to previously acquired intangible assets.

Non-IFRS measures have been calculated using inputs measured in accordance with IFRS as follows:

Statutory revenue to pro forma revenue reconciliation	**2014 $m**	**2013 $m**
Statutory revenue	**117.7**	**90.7**
Pro forma impact of acquisitions	3.8	20.6
Pro forma revenue	**121.5**	**111.3**

Statutory net loss after tax to pro forma NPATA reconciliation	**2014 $m**	**2013 $m**
Statutory net loss after tax	**(6.9)**	**(15.6)**
Pro forma impact of acquisitions	0.4	2.2
Pro forma share of profit of joint ventures	0.1	0.3
Acquisition transaction costs	0.8	2.6
Non-recurring foreign exchange (gain)/loss	(1.6)	5.8
Amortisation	2.0	7.1
Share based payments	1.2	-
Net finance cost adjustment	5.9	6.5
Public company costs	(0.2)	(0.8)
IPO transaction costs	6.8	-
Tax effect of pro forma adjustments	(2.0)	(4.3)
Pro forma NPAT	**6.5**	**3.6**
Add back: Amortisation (net of tax)	4.6	4.7
Pro forma NPATA	**11.1**	**8.3**

Results for Announcement to the Market (continued)

Details of entities where control has been gained or lost during the year

On 2 June 2014, the Group acquired 100% of the shares of Satellite Communications Australia Pty Limited, a satellite service provider based in Queensland, Australia.

On 1 July 2014, the Group acquired 100% of the shares of Oceanic Broadband Solutions Pty Limited, a VSAT service provided based in Australia.

Audit Report

This preliminary financial report is based on the financial statements which are in the process of being audited.

Consolidated Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2014

	Note	2014 US$'000	2013 US$'000
Revenue from continuing operations		117,679	90,708
Cost of equipment and bandwidth services		(72,162)	(55,455)
Other gain/(loss)	3	201	(211)
Staff costs	3	(17,406)	(13,298)
Depreciation of property, plant and equipment		(4,256)	(3,224)
Amortisation of intangible assets		(7,872)	(12,719)
IPO and transaction related costs		(7,662)	(2,560)
Other expenses		(9,115)	(7,770)
Finance costs, net	3	(6,287)	(14,013)
Share of profit from interest in joint venture		45	-
Loss before tax		(6,835)	(18,542)
Income tax (expense)/credit	4	(109)	2,909
Loss for the year attributable to owners of the Company		(6,944)	(15,633)
Other comprehensive income			
Item that may be reclassified to profit and loss - Currency translation difference		(5,246)	4,527
Total comprehensive loss for the year attributable to members of the entity		(12,190)	(11,106)

Earnings per share

	Cents
- Basic loss per share	7.3
- Diluted loss per share	7.3

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

Consolidated Statement of Financial Position
as at 31 December 2014

	Note	2014 US$'000	2013 US$'000
ASSETS			
Current assets			
Cash and cash equivalents	6	10,079	12,250
Trade and other receivables		23,695	17,416
Inventories		3,238	1,580
Total current assets		37,012	31,246
Non-current assets			
Interests in joint ventures		45	-
Property, plant and equipment		14,527	11,483
Goodwill and intangible assets		52,743	61,694
Deferred tax assets		2,183	1,322
Total non-current assets		69,498	74,499
Total assets		106,510	105,745
LIABILITIES			
Current liabilities			
Trade and other payables		31,874	26,937
Obligations under finance leases		67	34
Borrowings		-	3,315
Derivative financial instruments		10	211
Income tax payable		94	1,681
Total current liabilities		32,045	32,178
Non-current liabilities			
Borrowings		41,278	44,587
Deferred tax liabilities		4,472	6,410
Obligations under finance leases		50	68
Other payables		66	26
Total non-current liabilities		45,866	51,091
Total liabilities		77,911	83,269
Net assets		28,599	22,476
EQUITY			
Equity attributable to owners of the Company			
Contributed equity	7	84,126	35,864
Other reserves		(487)	4,708
Accumulated losses		(55,040)	(18,096)
Total equity		28,599	22,476

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

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Preliminary Financial Report and Appendix for the Year Ended 31 December 2014

Consolidated Statement of Changes in Equity
for the year ended 31 December 2014

	Attributable to owners of SpeedCast International Limited			
	Contributed equity US$'000	Accumulated losses US$'000	Other reserves US$'000	Total US$'000
Balance at 1 January 2013	**31,885**	**(2,463)**	**462**	**29,884**
Loss for the year	-	(15,633)	-	(15,633)
Other comprehensive income	-	-	4,527	4,527
Total comprehensive income/(loss) for the year	**31,885**	**(18,096)**	**4,989**	**18,778**
Transactions with owners in their capacity as owners				
Share based payment – fair value of finance costs	-	-	2,872	2,872
Issue of preference shares	3,979	-	(3,310)	669
Employee share scheme – value of employee services	-	-	157	157
	3,979	-	(281)	3,698
Balance at 31 December 2013	**35,864**	**(18,096)**	**4,708**	**22,476**
Loss for the year	-	(6,944)	-	(6,944)
Other comprehensive income	-	-	(5,246)	(5,246)
Total comprehensive (loss) for the year	**-**	**(6,944)**	**(5,246)**	**(12,190)**
Transactions with owners in their capacity as owners				
Dividends	-	(30,000)	-	(30,000)
Issue of preference shares	991	-	-	991
Transfer from share based payment reserve for vested performance shares	1,391	-	(1,391)	-
Issue of ordinary shares	48,327	-	-	48,327
Capital raising costs, net of tax	(2,447)	-	-	(2,447)
Employee share scheme – value of employee services	-	-	1,442	1,442
	48,262	(30,000)	51	18,313
Balance at 31 December 2014	**84,126**	**(55,040)**	**(487)**	**28,599**

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

SpeedCast International Limited
Preliminary Financial Report and Appendix for the Year Ended 31 December 2014

Consolidated Statement of Cash Flows
for the year ended 31 December 2014

	Note	2014 US$'000	2013 US$'000
Cash flows from operating activities			
Cash generated from operations		20,727	16,841
Interest paid		(3,621)	(4,896)
Taxes paid		(3,229)	(993)
Net cash inflow from operating activities		13,877	10,952
Cash flows from investing activities			
Payments for acquisition of subsidiaries, net of cash acquired		(9,296)	(23,708)
Business acquisitions and transaction cost		(543)	(2,560)
Payments for property, plant and equipment		(6,555)	(4,316)
Proceeds from disposal of property, plant and equipment		104	50
Interest received		44	57
Net cash (outflow) from investing activities		(16,246)	(30,477)
Cash flows from financing activities			
Proceeds from initial public offering		48,326	-
Transaction costs of initial public offering		(8,703)	-
Proceeds from issuance of preference shares		991	187
Proceeds from borrowings, net of transaction costs		73,352	47,800
Repayment of borrowings		(83,064)	-
Proceeds from loan from ultimate holding company		-	5,000
Repayment of loan from ultimate holding company		-	(24,000)
Repayment of amount due to ultimate holding company		-	(359)
Transaction costs of borrowings		-	(413)
Dividends	8	(30,000)	-
Repayments of obligations under finance leases		34	42
Net cash inflow from financing activities		936	28,257
Net (decrease)/increase change in cash and cash equivalents		(1,433)	8,733
Cash and cash equivalents at beginning of the year		12,250	3,070
Effects of exchange rate changes on cash and cash equivalents		(738)	447
Cash and cash equivalents at the end of the year	6	10,079	12,250

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

Notes to the Preliminary Financial Report

1 Background and summary of significant changes in the current reporting period

These preliminary consolidated financial statements relate to SpeedCast International Limited and the entities it controlled at the end of, or during the year ended 31 December 2014 and has been prepared in accordance with rule 4.3A of the ASX listing rules (Appendix 4E).

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

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 Company was incorporated as an Australian public company on 14 July 2014 and undertook an initial public offering ("IPO") on 12 August 2014.

The Company acquired all of the issued share capital of SpeedCast Acquisitions Limited ("SAL"), and in return issued shares to the security holders of SAL in the same proportion as their holdings in SAL. The Company determined that the acquisition of SAL did not represent a business combination as defined by Australian Accounting Standard AASB 3 *Business Combinations*. This is because the reorganisation is considered to be a combination of entities under common control immediately prior to the IPO, and such common control transactions are outside the scope of AASB 3 *Business Combinations*.

Accordingly the IPO and related restructuring represents a reorganisation of the economic entity historically known as SAL Group and results in the Company becoming the new parent entity of that group. As such, the consolidated financial statements of the Company reflect a continuation of the existing SAL consolidated financial statements.

2 Summary of significant accounting policies

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

The principal accounting policies adopted in the preparation of the consolidated financial statements included in this preliminary financial report are set out below. The financial statements are for the consolidated entity consisting of SpeedCast and its subsidiaries.

Notes to the Preliminary Financial Report (continued)

(a) Basis of preparation

The preliminary financial report has been prepared in accordance with the recognition and measurement requirements of 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.

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.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 31 December 2014 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 that control is transferred to 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, and for joint arrangements and associates, is the currency of the primary economic environment in which that entity operates. For many 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.

Notes to the Preliminary Financial Report (continued)

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss and other comprehensive income within "finance costs, net". All other foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income within “Other expenses”.

(iii) Presentation currency
The Group’s financial statements are presented in United States dollars, US$, 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 US dollars 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 US dollars at period-end exchange rates.

Exchange differences arising from the translation of the net assets of entities with functional currencies other than US dollars 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.

(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 values 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 their fair values 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 asset or liability is recognised in accordance with AASB 139 ‘Financial Instruments – Recognition and Measurement’ either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

(e) Joint ventures

Joint ventures are those joint arrangements which provide the venture with the right to the net assets of the arrangements. Interest in joint ventures are accounted for using the equity method in accordance with AASB 128 ‘Investments in Associates and Joint Ventures’.

Under this method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor’s share of profit or loss and other comprehensive income of the investee after the date of acquisition.

If the ventures share of losses of a joint venture equals or exceeds its interest in the joint venture, the venture discontinues recognising its share of further losses.

Adjustments are made to the joint venturers accounting policies where they are different from those of venturer for the purpose of the consolidated financial statements.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivables, and represents amounts receivable for goods supplied, net of discounts returns and value added taxes.

The Group recognises revenue when the amount of revenue and costs can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(i) Broadband access revenue

Broadband access revenue is recognised when the broadband access services are rendered.

(ii) Sale of broadband services equipment

Sale of broadband services equipment is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and title is passed.

(iii) Interest income

Interest income is recognised using the effective interest method.

(g) Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business is allocated to each of the individual entities, or groups of entities, that is expected to benefit from the synergies of the combination. Each entity or group of entities to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Within the group goodwill is monitored at the operating segment level.

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

(h) Intangible assets

Intangibles have been identified by the group in the form of customer relationships, supplier contracts, trademarks and brand names.

The acquired customer relationships and trademark 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. Amortisation is calculated using the straight-line method over the expected life of the assets, as follows:

Customer relationship	7 to 12 years
Supplier contracts	5 years
Trademark	5 to 20 years
Brand name	5 years

Notes to the Preliminary Financial Report (continued)

(i) Impairment of assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. 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 (cash-generating units – "CGU"). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with financial institutions, other short term, 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.

(k) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

(l) 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 maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables are 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. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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 uses to determine that there is objective evidence of an impairment loss include:

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

The Group first assesses whether objective evidence of impairment exists.

Notes to the Preliminary Financial Report (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) 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 and other comprehensive income. 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. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first out (FIFO) 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 variable selling expenses.

(n) 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 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	15% - 20%
2-way equipment	20% - 50%
Teleport equipment	20%
Computer equipment	25% - 50%
Leasehold improvements	2-10 years over the unexpired period of the lease, whichever is shorter
Network operations center ("NOC") equipment	6% - 20%
Remote content servers ("RCS") equipment	50%
Motor vehicles	20% - 33%

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.

Notes to the Preliminary Financial Report (continued)

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognised within "Other expenses or other gains" in the consolidated statement of profit or loss and other comprehensive income.

(o) 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 difference 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 taxes 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.

(p) 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.

(q) 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.

Notes to the Preliminary Financial Report (continued)

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 the provision due to passage of time is recognised as interest expense.

(r) 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: (i) including any market performance conditions; (ii) excluding the impact of any service and nonmarket performance vesting conditions (for example, profitability and sales growth targets); and (iii) 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.

(s) 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.

Notes to the Preliminary Financial Report (continued)

(ii) Finance leases (continued)

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.

(t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences 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.

(u) Borrowing costs

Borrowing costs are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which they are incurred.

(v) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the "Other (loss)/gain" in the consolidated statement of profit or loss and other comprehensive income.

(w) 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.

(x) Dividends

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

(y) 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 that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(z) 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).

Notes to the Preliminary Financial Report (continued)

(aa) Goods and Services Tax (GST)

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 Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the consolidated balance sheet.

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.

(ab) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification. An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.
A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current. Deferred tax assets and liabilities are always classified as non-current.

(ac) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement. For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Notes to the Preliminary Financial Report (continued)

3. Revenues and expenses

	2014 US$'000	2013 US$'000
Other gain/(loss)		
Fair value gain/(loss) on derivative financial instruments	201	(211)
Staff costs		
Salaries and allowances	15,489	12,638
Contributions to defined contribution plans	475	503
Share-based payment expense	1,442	157
	17,406	13,298
Finance costs, net		
Finance income	(44)	(57)
Foreign exchange (gain)/loss on borrowings	(1,631)	5,789
Finance lease interest charges	4	2
Bank and other interest charges	4,215	2,890
Interest on deferred consideration	445	-
Accelerated amortisation of loan establishment costs	3,298	-
Early repayment penalty of loan from ultimate holding company	-	1,373
Finance charge and interest of loan from ultimate holding company	-	4,016
	6,287	14,013

Notes to the Preliminary Financial Report (continued)

4. Income tax expense

	2014 US$'000	2013 US$'000
Current tax	2,128	2,629
Under/(over) provision in prior years	237	(100)
Deferred income tax	(2,256)	(5,438)
Total income tax expense/(credit)	109	(2,909)

Reconciliation between loss before tax and income tax expense/(credit)

	2014 US$'000	2013 US$'000
Loss before tax	(6,835)	(18,542)
Tax calculated at domestic tax rates applicable to profits in the respective countries	(876)	(4,343)
Tax effects of:		
Expenses not deductible for tax purposes	1,234	1,828
Income not subject to tax	(588)	(293)
Utilisation of previously unrecognised tax losses	(8)	(12)
Tax losses for which no deferred income tax asset was unrecognised	110	194
Under/(over) provision for prior years	237	(100)
Recognition of previously unrecognised temporary difference	-	(183)
Income tax expense/(credit)	109	(2,909)

5. Earnings per share

Earnings and weighted average number of ordinary shares used in calculating basic and diluted earnings per share are:

	2014 US$'000
Loss for the year after tax attributable to the owners of the Company	(6,944)

Weighted average number of shares	**Number '000**
Weighted average number of ordinary shares for basic earnings per share	95,391,242
Add effect of dilution – share options	-
Weighted average number of ordinary shares for diluted earnings per share	95,391,242

6. Cash and cash equivalents

	2014 US$'000	2013 US$'000
Cash at bank and in hand	10,079	12,250

7. Contributed equity

Movement in contributed equity as follows:

	No. of Shares	US$'000
As at 1 January 2014	23,365,400	35,864
Preference shares issued	152,805	991
Performance shares issued	1,273,438	-
Transfer from share-based payment reserve for vested performance shares	-	1,391
Conversion of preference shares to ordinary shares	69,390,614	-
Conversion of performance shares to ordinary shares	(317,347)	-
Issue of ordinary shares by SpeedCast International at IPO	26,303,415	48,327
Capital raising and share issue costs	-	(3,354)
Deferred tax recorded directly in equity	-	907
As at 31 December 2014	120,168,325	84,126

8. Dividends declared and proposed

	2014 US$'000	2013 US$'000
Ordinary shares		
Final dividend for the year ended 31 December 2014 of AUD3.36 cents per fully-paid share post-IPO (2013: nil)	3,150	-
Preference shares		
Interim dividend for the year ended 31 December 2014 of US$2.5932 per fully-paid preference share pre-IPO (2013: nil)	30,000	-

9. Segment reporting

Operating segment is 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 segment, has been identified as the Chief Executive Officer.

The Chief Executive Officer examines the performance on a group perspective and has therefore identified one operating segment based on the reports reviewed by him that are used to make strategic decisions.

10. Business combinations

(a) Satcomms

On 8 May 2014, the Group entered into a share purchase agreement to purchase 100% of the share capital of Satellite Communications Australia Pty Ltd ("Satcomms"), a satellite service provider based in Queensland, Australia. The acquisition was completed on 2 June 2014.

The following table summarises the consideration paid, the estimated fair value of assets and liabilities acquired at the acquisition date.

	US$'000
Consideration:	
- Cash	845
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	83
Inventory	188
Trade and other receivables	1,291
Property, plant and equipment	1,096
Intangible assets	1,178
Deferred tax assets	464
Trade and other payables	(1,364)
Borrowings	(2,835)
Deferred tax liabilities	(353)
Total identified net liabilities	(252)
Goodwill	1,097

10. Business combinations (continued)

(b) Oceanic

On 8 May 2014, the Group entered into a share purchase agreement to purchase 100% of the share capital of Oceanic Broadband Solutions Pty Ltd ("Oceanic"), a VSAT service provider based in Australia. The acquisition was completed on 1 July 2014.

The following table summarises the consideration paid, the estimated fair value of assets and liabilities acquired at the acquisition date.

	US$'000
Consideration:	
- Cash	2,566
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	45
Inventory	30
Trade and other receivables	820
Property, plant and equipment	218
Intangible assets	1,042
Deferred tax asset	38
Accrual and other payables	(1,043)
Borrowings	(229)
Deferred tax liabilities	(313)
Total identified net assets	608
Goodwill	1,958

(c) Additional information

Acquisition-related costs of US$543,000 have been charged to transactions related costs in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

In the consolidated statement of cash flows, payment for acquisition of businesses includes the following amounts, together with payments related to prior year acquisitions:

	Satcomms US$'000	Oceanic US$'000	Total US$'000
Outflow of cash to acquire subsidiaries			
- Cash consideration paid	845	2,566	3,411
- Cash and cash equivalents of subsidiaries acquired	(83)	(45)	(128)
Cash outflow on acquisition of subsidiaries, net of cash acquired			3,283

10. Business combination (continued)

The total revenue included in the consolidated income statement since the dates of acquisitions contributed by Satcomms and Oceanic was US$6,103,000. Satcomms and Oceanic also contributed a total profit of US$321,000 for the year ended 31 December 2014. Due to financial, legal and operational re-organisations, it is impracticable to disclose either the profit or loss of the combined entities as though the acquisitions dates had been 1 January 2014, or the amount of the acquired entities' profit or loss since the acquisition included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014.

11. Investments in Joint Arrangements

Name	Type of joint arrangement	Place of incorporation and kind of legal entity	Principal activities and place of Operation	Percentage owned (%) 2014	Percentage owned (%) 2013
Satcomms Limited	Joint Venture	British Virgin Islands	Provision of satellite communications service	50	-
Satellite Communications NZ Limited	Joint Venture	New Zealand	Provision of satellite communications service in New Zealand	50	-
Vcomms Limited	Joint Venture	Papua New Guinea	Dormant	50	-

12. Post balance sheet events

On 24 February 2015, SpeedCast acquired Geolink Satellite Services for EUR7.4million.

There have been no other material post balance sheet events since 31 December 2014.

Corporate Information

Directors

Mr. John Angus Mackay (Chairman)
Mr. Pierre-Jean Joseph Andre Beylier
Mr. Michael Stuart Berk
Mr. Grant Scott Ferguson
Mr. Peter Edward Jackson
Mr. Michael Malone
Mr. Edward Francis Sippel

Company Secretary

Mr. Andrew Metcalfe

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SpeedCast International Limited shares are listed on the Australian Securities Exchange (ASX) under the ASX code SDA.