inmarsat

Inmarsat plc reports Preliminary Full Year Results 2016

Solid performance in a challenging environment

London, UK: 8 March 2017. Inmarsat plc (LSE: ISAT.L), ("Inmarsat", "The Group"), the leading provider of global mobile satellite communications services, today announces financial results for the year ended 31 December 2016.

Financial Headlines

$m	Fourth Quarter			Full Year		
	2016	**2015**	**% change**	**2016**	**2015**	**% change**
Group revenue	**358.1**	**334.8**	**7.0%**	**1,329.0**	**1,274.1**	**4.3%**
Maritime	142.8	145.9	(2.1%)	575.3	593.2	(3.0%)
Government	105.0	72.2	45.4%	330.5	286.6	15.3%
Enterprise	34.5	40.5	(14.8%)	144.6	159.5	(9.3%)
Aviation	42.1	36.3	16.0%	142.6	126.8	12.5%
Central Services	3.2	4.2	(23.8%)	16.6	19.4	(14.4%)
Ligado Networks	30.5	35.7	(14.6%)	119.4	88.6	34.8%
EBITDA[1]	**221.8**	**203.1**	**9.2%**	**794.8**	**726.0**	**9.5%**
PAT	67.1	88.2	(23.9%)	243.3	282.0	(13.7%)

Performance Highlights

- 2016 Group revenue grew 4.3% to $1,329.0m ($1,209.6m, excluding Ligado) and EBITDA[1] grew 9.5% to $794.8m ($675.4m, excluding Ligado):
  - Q4 2016 revenue up 7.0% to $358.1m ($327.6m, excluding Ligado) and EBITDA up 9.2% to $221.8m ($191.3m, excluding Ligado) - positively impacted by a short term Government contract for bandwidth on our Global Xpress ("GX") platform
  - Strong performances in Government and Aviation in 2016 were moderately offset by weaker revenue in Maritime and Enterprise, as a result of challenging markets and a decline in legacy product revenue
- GX gaining market traction with unique global Ka-band coverage in place from the start of the year:
  - 2016 GX revenue of $78.5m, mainly from Government customers
  - In Maritime, distribution contracts established for over 5,000 ships with Marlink, Speedcast and Navarino, with additional agreement signed with Satlink in Q1 2017 for over 1,500 ships
  - Terminal certification and operational introduction now substantially complete
  - Planned launch of I-5 F4 satellite by end of Q2 2017
- Further foundations laid in Aviation to maximise the material opportunity in In-Flight Connectivity ("IFC") to commercial aircraft:
  - Over 950 expected aircraft under signed contracts, with active pipeline in excess of 3,000 aircraft
  - Continued progress in development of European Aviation Network ("EAN"), with expected launch of the S-band satellite during Q2 2017 and commercial service introduction of the complementary ground component during H2 2017
- $1.05bn of new capital raised in H2 2016, lengthening the tenure of the Group's debt profile and helping to provide a firm financial foundation for the future
- Final dividend increased by 5% to 33.37 cents per share (2015: 31.78 cents per share)

[1] EBITDA is defined as profit before net financing costs, taxation, depreciation and amortisation, gains/losses on disposal of assets, impairment losses and share of profit of associates and, as a non-statutory metric, has been reconciled to profit after tax on p.12 of this announcement. EBITDA is a commonly used industry measure which helps investors to understand the contributions made by each of our business units.

Rupert Pearce, Chief Executive Officer, commented:

"Despite a challenging operating environment in our markets, we delivered a robust performance in 2016, supported by the first material revenues from our GX platform and a successfully negotiated upgrade of the Ligado agreement. As a result, Inmarsat remains well-positioned to take advantage of a number of significant growth opportunities in the coming years, supported by our unique skills and experience in global, mobile, broadband services, our solutions-based offerings, our strong global networks and our market-leading distribution channels.

Our investment strategy is targeted towards maximising these future growth opportunities, particularly in the area of IFC, where we need to invest quickly and decisively to ensure we become a leader in a new sector that is emerging at pace, and that has very distinct service requirements.

We delivered our first GX IFC services to customers in 2016, with installations beginning for the Deutsche Lufthansa Group during the fourth quarter. Negotiations with many other airlines are continuing, with IAG, Air New Zealand, Singapore Airlines and Norwegian Air Shuttle also now being committed to using Inmarsat's IFC services. Our planning for the EAN remains on track, with our objective for this innovative hybrid network to be operational during the second half of 2017.

In Maritime, we saw the first installations of Fleet Xpress last year and momentum here is expected to grow strongly in 2017, assisted by several material new strategic distribution agreements signed over the last 12 months. It was also important to see growth in both our core FleetBroadband revenues and average revenue per user ("ARPU"), despite on-going depressed maritime markets, demonstrating our value to the new digital shipping environment.

Over the year, our Government businesses delivered good growth, driven by GX, whilst Enterprise was impacted by relatively weak demand in all of its key markets.

Our progress in 2016 will provide a solid foundation for continued delivery of the growth and diversification of Inmarsat into the future."

Outlook & future guidance

We remain confident about the medium to long term outlook for the business. This reflects a market background of strong long term growth in the demand for satellite communications services, our market-leading global broadband capabilities of GX, our unique position within Aviation, the resilience and differentiation of our L-band franchise, the power of our global distribution channels and our full-service global mobile offer that together strongly position Inmarsat in our chosen markets.

As a result of these factors, growth is expected to be achieved from the anticipated impact of material new revenue streams from GX and from the IFC market in the future. However, our markets continue to be challenging, with sustained pressure on customer expenditure, increasing competition and the arrival of new satellite capacity in some of our markets.

The combination of all of these dynamics means that the outlook continues to be difficult to predict. Consequently, there is expected to be an unusually wide range of possible outcomes for the performance of the business in 2017 and 2018. Our performance in both years will be particularly determined by our results in the IFC market, based on the timing of potential deal closures, revenue mix and installation timing, and in the Government sector, where individual transactions can be particularly material. We consequently provide the following guidance of:

- 2017 revenue, excluding Ligado, of $1,200m to $1,300m, in line with current market expectations;
- 2018 revenue, excluding Ligado, of $1,300m to $1,500m, in line with current market expectations, and including an expected contribution from I-5 F4. Higher outcomes continue to be possible, depending principally on our performance in IFC and Government, as noted above;
- Capex at $500m to $600m per annum for each of 2017 and 2018 (unchanged);
- Annual GX revenues at a run rate of $500m by the end of 2020 (unchanged); and
- Leverage to normally remain below 3.5x (unchanged).

As previously flagged, the Group's EBITDA margin will be adversely impacted by the inclusion of additional lower margin service revenues related to IFC, by the cost of investment in our Aviation capabilities to ensure we deliver on the IFC opportunity, and, in addition, there will be higher GX operational delivery costs.

Results Presentation

Inmarsat management will host a presentation of the results on Wednesday 8 March at the company's offices at 99 City Road, London EC1Y 1AX, starting at 12.00 hrs London time (07.00 hrs EST).

To register to attend the presentation please contact Andi Marcz at Inmarsat on +44 207 728 1206 or andi.marcz@inmarsat.com.

A live web-cast of the presentation will also be available through our website at www.inmarsat.com and via a simultaneous conference call, accessible by calling +44 (0)20 3427 1912 (from the UK and Europe), +1 212 444 0895 (from the US), with a dial-in code of 9650325.

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Forward looking Statements

This announcement contains 'forward-looking statements' within the meaning of the US Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those projected in the forward-looking statements. These factors include: general economic and business conditions; changes in technology; timing or delay in signing, commencement, implementation and performance or programmes, or the delivery of products or services under them; structural change in the satellite industry; relationships with customers; competition; and ability to attract personnel. You are cautioned not to rely on these forward-looking statements, which speak only as of the date of this announcement. We undertake no obligation to update or revise any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances.

Other Information

While Inmarsat plc is the ultimate parent company of our group, our subsidiary Inmarsat Group Limited is required by the terms of our Senior Notes to report consolidated financial results on a quarterly basis. A copy of the resulting financial report for Inmarsat Group Limited will be available via the Investor Relations section of our website.

OPERATING AND FINANCIAL REVIEW

The following is a discussion of the audited consolidated results of the operations and financial condition of Inmarsat plc (the "Company" or, together with its subsidiaries, the "Group") for the year ended 31 December 2016. You should read the following discussion together with the whole of this document including the historical consolidated financial results and the notes. The consolidated financial results were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

In addition to IFRS measures, we use a number of non-IFRS measures in order to provide readers with a better understanding of the underlying performance of our business, and to improve comparability of our results for the periods concerned. All discussion of results relates to the year ended 31 December 2016, and all comparisons are with the year ended 31 December 2015, unless specifically stated otherwise.

Financial Highlights

Year ended 31 December 2016

($ in millions)	Maritime 2016	Government 2016	Enterprise 2016	Aviation 2016	Central Services 2016	Total 2016	Total 2015
Revenue							
Revenue	575.3	330.5	144.6	142.6	16.6	1,209.6	1,185.5
Ligado revenue	–	–	–	–	119.4	119.4	88.6
Total revenue	**575.3**	**330.5**	**144.6**	**142.6**	**136.0**	**1,329.0**	**1,274.1**
Operating costs	(120.5)	(86.5)	(38.7)	(45.2)	(243.3)	(534.2)	(548.1)
EBITDA	**454.8**	**244.0**	**105.9**	**97.4**	**(107.3)**	**794.8**	**726.0**
EBITDA margin %	79.1%	73.8%	73.2%	68.3%	–	59.8%	57.0%
Capital expenditure[1]	**43.8**	**6.1**	**0.4**	**153.0**	**209.6**	**412.9**	**493.6**

Three months ended 31 December 2016

($ in millions)	Maritime 2016	Government 2016	Enterprise 2016	Aviation 2016	Central Services 2016	Total 2016	Total 2015
Revenue							
Revenue	142.8	105.0	34.5	42.1	3.2	327.6	299.1
Ligado revenue	–	–	–	–	30.5	30.5	35.7
Total revenue	**142.8**	**105.0**	**34.5**	**42.1**	**33.7**	**358.1**	**334.8**
Operating costs	(27.9)	(22.2)	(9.4)	(14.3)	(62.5)	(136.3)	(131.7)
EBITDA	**114.9**	**82.8**	**25.1**	**27.8**	**(28.8)**	**221.8**	**203.1**
EBITDA margin %	80.5%	*78.9%*	*72.8%*	*66.0%*	–	*61.9%*	*60.7%*
Capital expenditure[1]	**12.0**	**4.6**	**0.1**	**89.2**	**68.0**	**173.9**	**177.8**

[1] Capital expenditure is stated on a cash basis. Cash capital expenditure is the cash flow relating to tangible and intangible asset additions, it includes capitalised labour costs and excludes capitalised interest. It has been reconciled to capital expenditure on an accruals basis in note 3 of this announcement. Cash capex indicates our continued investment in the growth and development of our network and infrastructure as well as our investment in the future technologies of the business.

OPERATING REVIEW

Introduction

The satellite communications industry is in the midst of major structural change, driven by new capacity, new technology and changing end user behaviours.

Growth in demand remains uneven and, whilst there are a number of competing satellite systems planning to launch in the coming years, the majority of these will not focus on the mobility markets in which Inmarsat primarily operates.

Consequently, Inmarsat remains strongly positioned to address the various significant global mobility market opportunities which are expected to develop in the coming years, given our strong background in global mobile satellite services which require different skillsets, a different infrastructure, different network management and a different business model to those of fixed satellite operators.

Inmarsat operates GX - the only commercial global Ka-band broadband satellite network in service today. Following the launch of a third satellite in August 2015, this unique new global platform started to gain market traction in 2016, generating airtime and related revenues of $78.5m during the year.

We anticipate that GX will continue to gain momentum in the coming years, supporting a diverse range of customers across a variety of industries and applications.

Our confidence in GX will be further bolstered once the fourth satellite, I-5 F4, is launched during Q2 2017, to provide in-orbit redundancy and additional growth opportunities.

Maritime

The merchant shipping market remains in recession, with sluggish demand, low prices, over-supply and an on-going focus on costs and efficiencies, compounded by continued volatility in the oil and gas sector. In this market environment, we have seen a relatively high rate of scrappages and lay-offs continue during 2016, with fewer new vessels being commissioned and built.

The medium term market opportunity for Inmarsat in this sector, however, remains robust, with the addressable market for high bandwidth Very Small Aperture Terminals ("VSAT") expected to significantly increase over the coming years - from 22,000 vessels today to nearly 40,000 vessels by 2020. With our large user base, global distribution and maintenance network and unique product range, Inmarsat remains in a very strong position to address this market opportunity.

Our position was further bolstered in 2016, initially with the launch in the first half of the year of Fleet Xpress ("FX"), our GX product for the maritime industry. We had installed 335 vessels with FX by the end of the year. This launch was followed by the announcement of substantial take-or-pay agreements with three of the largest VSAT distributors in the maritime communications industry – Marlink, SpeedCast and Navarino – who have committed to installing FX on over 5,000 vessels in aggregate in the coming years. In Q1 2017, we announced a further agreement with another key channel partner, Satlink, to install FX on over 1,500 vessels.

FleetBroadband, our core product, which contributes around 64% of our revenue in Maritime, delivered a strong performance in 2016, driven by continued success in transitioning customers to higher value communication packages.

Government

There continues to be downward pressure on the satellite industry in the Government sector, as a result of on-going budget and programme reductions. Overall, Government agencies, both military and civil, continue to look for more cost efficient and high quality solutions in remote and mobile connectivity.

The opportunity for Inmarsat in the Government sector is to be able to offer our customers unique reliability, affordability and seamless interoperability with military satellite resources.

In particular, our ability to augment existing military satellite systems through the global availability of end-to-end L-band and Ka-band (both commercial and military) networks will enable us to continue to deliver highly resilient communication capabilities with increased flexibility in support of our customers' mission-critical programmes.

The adoption of GX continued to make progress in the Government sector globally across multiple nations. Our major take or pay contract with Boeing, a key channel partner in the US for military Ka-band services, favourably impacted results during the year.

In addition, we were awarded the US Navy's Commercial Broadband Satellite Program Satellite Services Contract ("CSSC"), for a one-year period with four one-year option periods until 2021. Meaningful revenues from this contract will begin in 2017.

In 2016, we added to our list of global GX customers by signing a contract to supply satellite services to Shared Services Canada ("SSC") and its clients for up to 5 years. The contract ensures the continued supply of L-band services for all Canadian Government departments while also enabling an introduction of GX for SSC clients.

Enterprise

Within Enterprise, a number of key markets remain challenging, with many of our legacy products facing increasing competition. The continued downturn in the global Oil and Gas industry impacted the performance of our Broadband Global Area Network ("BGAN") product in 2016.

Our revenue and connected terminals in the Machine to Machine ("M2M") segment continued to grow last year, and we will continue to focus on developing the next generation of our M2M proposition in the coming years. This is in response to the growth in mission-critical "Internet of Things" applications which is driving demand for connectivity with unprecedented reach, range and reliability on a global basis.

Further projects and initiatives are underway to take advantage of other potentially significant opportunities around the "Internet of Things", including connected transport and smart agriculture, which are expected to arise over the next decade.

Furthermore, the re-focusing of our Enterprise business during the year, away from a simple product focus, towards delivering added value solutions into specific market sectors, will help the business differentiate itself in the market and drive sustainable long term growth.

Aviation – Business & General and Safety & Operations Services

Inmarsat's core Aviation business, serving the Business & General Aviation ("BGA") and Safety & Operations Services ("SOS") segments, delivered double digit growth in 2016, with over 16,000 aircraft now using our L-band based products.

Our leading position in SOS in the cockpit, which has been well served by our Classic Aero product historically, will be further improved by the introduction of SwiftBroadband Safety ("SBS"), which is being launched in 2017. This innovative product, which is undergoing successful pan-oceanic trials, offers superior L-band throughput, with secure features, reliability and the availability of real-time, in-air information for pilots, crew and air traffic management. SBS is a key enabler for next generation air traffic management and Airbus has already selected the product as their advanced cockpit communication solution. The first aircraft on order with SBS are scheduled for delivery to Hawaiian Airlines by the end of 2017.

In BGA, a market which is expected to see compound growth of 14% over the next 9 years, our core product, SwiftBroadband ("SBB"), delivered good growth in revenue and installed aircraft numbers in 2016.

We expect SBB to deliver continued success into the smaller aircraft market in this segment, whilst our new GX-based product for BGA, JetConneX, is already being installed in the larger aircraft market.

Our track record and heritage in the BGA and SOS segments has helped us to establish a platform from which to take advantage of potential opportunities in other areas of the Aviation sector in the coming years.

Aviation – IFC

In the IFC segment, the number of connected aircraft is expected to grow from around 6,000 in 2016 to around 15,000 by 2020. Inmarsat is well-placed to capitalise on this opportunity, as the combination of our new and unique broadband networks, GX and EAN, are expected to provide Inmarsat with the global coverage, high bandwidth and an excellent value proposition to ensure we remain competitive in a fast-emerging market.

We now have over 950 expected aircraft under signed contracts for IFC services. In 2016, we made sound progress with a number of airlines, winning mandates from international airlines, including IAG, (today confirmed as our launch customer for the EAN), Norwegian Air Shuttle (through Rockwell Collins), Singapore Airlines (through SITAOnAir), Air New Zealand (where GX will be integrated to work with the airline's existing IFE provider), Eurowings and Austrian Airlines. In the fourth quarter we began to install GX terminals on Deutsche Lufthansa Group aircraft.

With an active pipeline in excess of 3,000 aircraft, we are in late stage discussions with a number of other major airlines and are confident of advancing several current IFC prospects into contract this year.

Our planning for the deployment of the EAN continues, with the hybrid network expected to enter commercial service during the second half of 2017. The system makes it uniquely qualified for European airspace, where aircraft size, flight density and frequent aircraft manoeuvring are challenging to broadband satellite-only systems. The launch of the S-band satellite is planned for Q2 2017 with Arianespace, whilst Deutsche Telekom has made good progress with the build-out of the complementary ground component ("CGC") network across Europe, and we have completed successful test flights over Southern England. We remain confident that the small number of outstanding European regulatory approvals for the EAN will be obtained as the system moves into live operation. We now have all 28 EU territory MSS authorisations plus Norway and Switzerland. In addition, 27 countries have provided us with authorisations or in-principle approvals for the CGC.

In 2016, GX Aviation terminals for both commercial aviation and BGA went through final trials to airworthiness certification successfully, with Honeywell's JetWave™ GX aircraft terminal awarded final certification in the second half of the year. The majority of commercial and business aircraft now have certified GX terminal options available.

The IFC market, though still in its early stages of development, is expected to be a multi-billion dollar market in the next decade. Inmarsat is well-placed to earn a material share of that market but the building of capability to win appropriate market share and deliver new IFC services will, to some degree, necessarily precede revenue and EBITDA generation. Consequently, in the near term, as we bring on board the necessary satellite, people and infrastructure capabilities, our financial performance will be adversely affected by the net cost of this investment. In 2016, our results include approximately $2m of relatively low margin revenues, related to Deutsche Lufthansa Group aircraft installations of GX terminals, $153m of capital expenditure and around $32m of indirect overhead costs, specifically related to the IFC opportunity.

Ligado Networks

During the year, Ligado Networks elected for the 30MHz option (the "30MHz Plan") under the Cooperation Agreement between Inmarsat and Ligado, and the parties subsequently agreed an amendment to that agreement which significantly benefits both parties. In exchange for deferral of some payments from Ligado to Inmarsat, the parties agreed to delay the transition to the 30MHz Plan, with Ligado providing Inmarsat with enhanced spectrum usage rights for its satellite operations for a minimum period of two years.

Ligado consequently made quarterly cash payments to Inmarsat of an annual total of $108m in respect of 2016 and will make aggregate cash payments of approximately $111m and $118m in respect of 2017 and 2018 respectively, payable in quarterly instalments.

Over the period 2016 to 2018 inclusive, up to around $35m of additional contracted payments will be deferred. Inmarsat has also granted Ligado a deferral of the c. $132m due in 2019. From 1 January 2020, quarterly payments will recommence at the level of approximately $136m per annum, escalating at 3% per annum, in accordance with the existing terms of the Cooperation Agreement.

Payment deferrals will stop from the date of FCC approval of Ligado's spectrum for terrestrial use. All the deferred amounts will be increased by the agreed amounts and repaid to Inmarsat on 30 June 2021 or earlier in certain circumstances.

The impact of the exercise by Ligado of the 30 MHz option on the deferred revenue balance of $197.8m (as at 31 December 2016) carried by Inmarsat in respect of the costs of implementation of this agreement is still to be determined. During 2016, Inmarsat recognised $11.0m of deferred income as revenue to reflect the impact of the revenue deferral arising under the revised transition agreement.

Investment in organisational infrastructure

2016 saw continued investment in Inmarsat’s organisational infrastructure, with a number of important initiatives now well underway designed to drive our operational effectiveness and efficiency. These included consolidating our billing systems into one global platform, the roll-out of a global IT transformation programme and the first stage of streamlining our customer interface.

Further programmes are planned as we continue to ensure that our organisational infrastructure provides a strong backbone to support the growth of the business in the future.

Dividend

The Board is recommending a final dividend of 33.37 cents per share in respect of the year ended 31 December 2016 (2015: 31.78 cents), to be paid on 26 May 2017 to ordinary shareholders on the share register at the close of business on 21 April 2017.

Inmarsat currently provides shareholders with the option of a scrip dividend alternative for dividend payments. At the interim stage, this option was taken up by shareholders holding a total of 43m shares, representing 9.54% of our issued share capital. The scrip dividend resulted in the issue of 946,283 new shares (0.21% of the then issued share capital) with an issue value of $8.9m. These shares were issued on 21 October 2016. Inmarsat plc now has 452,062,811 shares in issue.

Shareholders will be asked to approve the final dividend payment at the Annual General Meeting on 4 May 2017. Dividend payments will be made in Pounds Sterling based on the exchange rate prevailing in the London market four business days prior to payment.

The 2016 final dividend is not recorded as a liability in the financial statements at 31 December 2016.The total dividends paid and proposed in respect of the year ended 31 December 2016 total 53.96 cents per ordinary share, an increase of 5% over 2015.

Liquidity and Leverage

In the third quarter of 2016, the Group took steps to further lengthen the tenure of its debt profile, thereby providing a firm foundation from which to maximise future growth opportunities.

Over the autumn, the Group issued $650m of new 3.875% convertible bonds due 2023 and issued $400m of 6.5% senior notes due 2024. The proceeds were initially used to fund the $389.5m repurchase of the convertible bonds due 2017 and $106.5m was used to repay the EIB loan facility, which had final repayment due in October 2018. The remaining proceeds will be used to address the upcoming maturity of other existing facilities and to provide investment capital for the business.

These new convertible bonds will eventually be redeemed on a net settlement basis meaning that, if the conversion price is reached, only the excess over the face value of the bonds will be settled in equity. The balance will be redeemed in cash.

Following the issue of these new securities, at 31 December 2016, the Group had total available liquid resources of $1,235.9m: $262.0m in the form of cash and cash equivalents, $395.0m of short term deposits with maturity of greater than 3 months and available but undrawn borrowing facilities of $578.9m under our Senior Credit Facility and the 2014 Ex-Im Bank Facility.

As a consequence of these new financing facilities, the tenure of the Group's debt profile has been lengthened and the Group's balance sheet remains robust, with net debt declining $91.0m in 2016 from the prior year. The Group expects net debt to be normally maintained at less than 3.5x total Group EBITDA.

FINANCIAL REVIEW

Consolidated Group Results – overview

During the year ended 31 December 2016 Group revenues increased by $54.9m (4.3%) to $1,329.0m (2015: $1,274.1m) with growth in Aviation ($15.8m), Government ($43.9m) and Ligado income ($30.8m), partially offset by lower contributions from Maritime ($17.9m) and Enterprise ($14.9m) driven by stress in core markets for these Business Units.

Total Group revenues for the year included Wholesale MSS revenue of $904.5m, 8.6% higher than last year (2015: $832.8m) largely driven by growth in Government and Aviation MSS revenue.

During the fourth quarter, Group revenues increased by $23.3m (7.0%) to $358.1m (Q4 2015: $334.8m) with growth in Aviation ($5.8m) and Government ($32.8m) partially offset by reduced contributions from Maritime ($3.1m), Enterprise ($6.0m) and Ligado income ($5.2m).

The majority of Group revenues are US$ denominated and so the relative strength of the US Dollar has had a small negative impact on reported revenues in 2016 but some markets, for example Russia and Brazil, have weakened as our US Dollar-denominated services become more expensive locally.

Net operating costs decreased by $13.9m to $534.2m for the year (2015: $548.1m) reflecting mainly an improved product mix (c.$19m) and foreign exchange gains (c.$33m) which more than offset increased investment in our IFC capability (c.$22m) and an increase in GX operations costs (c.$6m). Net operating costs in the fourth quarter increased by $4.6m to $136.3m (2015: $131.7m), including a benefit of around $9m from foreign exchange movements.

EBITDA for the year ended 31 December 2016 increased by $68.8m (9.5%) to $794.8m (2015: $726.0m) and the Group's EBITDA margin increased to 59.8%, from 57.0%, reflecting the growth in revenue and decline in operating costs described above. EBITDA for the fourth quarter increased by $18.7m (9.2%) to $221.8m (Q4 2015: $203.1m) and the Group's EBITDA margin increased to 61.9%, from 60.7%.

Maritime

	Three months ended 31 December			Year ended 31 December		
($ in millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenue	142.8	145.9	(2.1%)	575.3	593.2	(3.0%)
Operating costs	(27.9)	(33.3)	(16.2%)	(120.5)	(133.8)	(9.9%)
EBITDA	**114.9**	**112.6**	**2.0%**	**454.8**	**459.4**	**(1.0%)**
EBITDA margin %	*80.5%*	*77.2%*		*79.1%*	*77.4%*	
Cash capex[1]	**12.0**	**8.8**	**36.4%**	**43.8**	**30.1**	**45.5%**

In Maritime we continue to employ diverse routes to market including both market-leading partner distribution networks as well as our own retail sales and installation capabilities.

Maritime revenues in 2016 decreased by $17.9m (3.0%) to $575.3m (2015: $593.2m), including a decrease of $3.1m to $142.8m in Q4. Within these overall totals we saw strong revenue growth from both our market leading FleetBroadband ("FB") product and in our newer VSAT offerings (XpressLink "XL" and Fleet Xpress "FX") which together accounted for 82% of 2016 Maritime revenues (2015: 76%). This growth was however more than offset by the anticipated continued decline in our other, mainly lower margin, legacy products, including Fleet, as anticipated.

Changes in the key elements of our product portfolio during the year are outlined below:

	Revenue		Number of vessels		Average Revenue per User (ARPU)	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
FB – Standalone	$368.2m	$359.7m	38,088	39,712	$787	$756
FB – Inc. VSAT back-up			41,032	41,942	$737	$724
VSAT (XL and FX)	$102.9m	$91.8m	3,028	2,484	$3,112	$3,433
Other products	$104.2m	$141.7m				

[1] Throughout this report, prior year and current year capital expenditure figures for each Business Unit have been restated to a cash basis, rather than accruals basis, as previously presented. For a reconciliation between the cash and accruals bases, please refer to Note 3 of this announcement.

FB revenue grew by $8.5m, or 2.4%, to $368.2m, including an increase of $1.6m to $91.3m in Q4. Average revenue per user ("ARPU") increased in 2016, incorporating the impact of price changes in H1 2016 and the migration of users to higher rate plans during the year. The number of vessels generating FB revenue fell, reflecting ongoing market softness, particularly in lower ARPU vessels, migration to our new Fleet One product and the generally ARPU-accretive migration of 533 ships up to VSAT.

VSAT revenue (including XL and FX) grew by $11.1m, or 12.1%, to $102.9m, including growth of $3.2m in Q4 to $27.8m, with the number of vessels rising 21.9% from 2015. On FX, there were 205 ships migrated to this new product from other VSAT products and 130 new FX installations were completed, bringing the total FX installations to 335 vessels by the end of the year.

VSAT ARPU was 9.3% lower than 2015, driven mainly by the renewal of old contracts at current prices, more ships being laid up (and the enforced moving on to reduced charges) and the start of a change in mix towards wholesale distribution agreements. Following the launch of FX and the major distribution deals signed during 2016 with Marlink, SpeedCast and Navarino, as well as with Satlink in Q1 2017, we expect our position in this fast growing market segment to strengthen materially, whilst average ARPU will continue to decline, reflecting the higher wholesale mix in our VSAT business and lower market prices. The VSAT installation order book remained material at over 500 vessels.

Revenue from our other mainly lower margin and legacy products continued to decline, as expected, falling by $37.5m, or 26.5%, to $104.2m in 2016 (the level of decline in 2015 was 32.0%), including a decline of $7.9m to $23.7m in Q4. Within these totals, Fleet revenue continued to decline in line with past trends, falling by $19.4m, or 55.1%, to $15.9m in 2016, including a decline of $3.8m to just $2.8m in Q4.

Fleet One has continued to grow strongly with 245 new Fleet One users installed during the fourth quarter. This takes the Fleet One customer base to over 1,250 vessels, with an annualised revenue run rate of around $1.4m.

Operating costs for the year decreased by $13.3m (9.9%), mainly reflecting the impact of an internal reorganisation in July which has moved approximately $4m of costs (including $2.5m in Q4) from Maritime into Central Services and the weakness of Sterling versus the US Dollar.

Maritime EBITDA decreased by $4.6m (1.0%) compared with the full year 2015, despite an increase of $2.3m to $114.9m in Q4, and the EBITDA margin for the year improved to 79.1% from 77.4%.

Government

	Three months ended 31 December			**Year ended 31 December**		
($ in millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenue	105.0	72.2	45.4%	330.5	286.6	15.3%
Operating costs	(22.2)	(23.4)	(5.1%)	(86.5)	(95.6)	(9.5%)
EBITDA	**82.8**	**48.8**	**69.7%**	**244.0**	**191.0**	**27.7%**
EBITDA margin %	*78.9%*	*67.6%*		*73.8%*	*66.6%*	
Cash capex	**4.6**	**–**	**–**	**6.1**	**4.4**	**38.6%**

Despite underlying downward pressure in the Government satellite communications sector in 2016, Government revenues increased by $43.9m, or 15.3%, to $330.5m (2015: $286.6m), including an increase of $32.8m to $105.0m in Q4.

In the US, Government revenues grew by 19.5% in 2016, including growth of 81.1% in Q4 2016, primarily due to the growth in higher margin GX-related revenues under the take or pay agreement with our partner, and a short term, one-off, bandwidth contract in Q4.

Outside the US, Government revenues rose by 9.5% during the year, including 3.6% in Q4, as we benefitted from operational tempo in one region, which initially started in Q3 2015.

Operating costs for the year decreased by 9.5%, including a decline of 5.1% in Q4, mainly reflecting improved revenue mix in our US business, with lower margin third-party Ku-band revenue being replaced with high margin GX revenue.

Government EBITDA in the year increased by $53.0m (27.7%) to $244.0m (2015: $191.0), including growth of $34.0m to $82.8m in Q4 2016 (Q4 2015: $48.8m), reflecting uniquely higher Q4 revenues and improved revenue mix. The EBITDA margin similarly increased to 73.8% (2015: 66.6%).

Enterprise

	Three months ended 31 December			Year ended 31 December		
($ in millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenue	34.5	40.5	(14.8%)	144.6	159.5	(9.3%)
Operating costs	(9.4)	(8.3)	13.3%	(38.7)	(46.4)	(16.6%)
EBITDA	**25.1**	**32.2**	**(22.0%)**	**105.9**	**113.1**	**(6.4%)**
EBITDA margin %	*72.8%*	*79.5%*		*73.2%*	*70.9%*	
Cash capex	**0.1**	**–**	**–**	**0.4**	**0.3**	**33.3%**

Enterprise revenues fell by $14.9m (9.3%) to $144.6m (2015: $159.5 m), including a decline of $6.0m to $34.5m in Q4.

BGAN revenues were 21.2% lower, including a decline of 11.3% in Q4 2016, reflecting weaker markets, particularly in Oil and Gas. The overall number of terminals increased in this sector, but customers are optimising their price plans and usage profiles, resulting in lower revenues.

GSPS revenues, comprising both terminals and airtime, were 8.4% ahead of the prior year, which was heavily impacted by third-party manufacturing issues. However, as a result of a restock in Q4 2015, following those manufacturing issues, GSPS revenues in Q4 2016 were 12.5% lower than the prior year, as a result of a tough comparator in the prior year period. The number of connected GSPS terminals was around 158,000 at the end of the year (2015: 141,000).

Fixed to mobile revenues grew by $4.7m in 2016 following price rises in February, to align with market prices, despite underlying volume decreases as voice moves to VOIP, which particularly impacted Q4, when revenues fell by $0.8m.

M2M revenues were 3.1% higher than the prior year, including a 6.0% increase in Q4 2016. The number of connected M2M terminals was around 333,000 at the end of the year (2015: 326,000).

Operating costs for the year decreased by $7.7m, or 16.6%, to $38.7m (2015: $46.4m), including an increase of $1.1m in Q4 to $9.4m, with higher costs from the increased supply of GSPS terminals being offset by reductions in other direct costs during the year.

Consequently, Enterprise EBITDA was $7.2m or 6.4% lower at $105.9m (2015: $113.1m), including a decline of $7.1m to $25.1m in Q4 2016, with the EBITDA margin slightly higher at 73.2% (2015: 70.9%).

Aviation

	Three months ended 31 December			Year ended 31 December		
($ in millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenue	42.1	36.3	16.0%	142.6	126.8	12.5%
Operating costs	(14.3)	(8.9)	60.7%	(45.2)	(23.1)	95.7%
EBITDA	**27.8**	**27.4**	**1.5%**	**97.4**	**103.7**	**(6.1%)**
EBITDA margin %	*66.0%*	*75.5%*		*68.3%*	*81.8%*	
Cash capex[1]	**89.2**	**28.1**	**217.4%**	**153.0**	**64.4**	**137.6%**

In Aviation, our strong track record in BGA and SOS has put us in a good position from which to maximise the potentially significant IFC opportunity in the coming years.

In 2016, Aviation revenue grew by $15.8m, or 12.5%, to $142.6m (2015: $126.8m), including growth of $5.8m, or 16.0%, to $42.1m in Q4 2016 (Q4 2015: $36.3m). Changes in the key elements of our two existing L-band based products, SwiftBroadband and Classic Aero, during the year are outlined below:

	Revenue		Number of installed aircraft		Average Revenue per User (ARPU)	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
SwiftBroadband	$92.0m	$84.6m	8,340	7,189	$979	$1,098
Classic Aero	$36.3m	$29.2m	8,097	7,744	$393	$327

SwiftBroadband revenues grew by 8.7%, including growth of 4.9% in Q4 2016, supported by strong year on year growth in the number of installed aircraft. This was offset by the ongoing overall market reduction in usage, particularly in Europe and the Middle East, which impacted ARPU.

[1] All success-based capital expenditure is allocated to the business unit to which it relates. All major infrastructure project capital expenditure is currently reflected within Central Services, with the exception of the S-band project which is reported in the Aviation business unit.

Classic Aero services revenues grew strongly in the year. Revenue grew by 24.3%, including growth of 32.4% in Q4 2016, with an increase in both the number of installed aircraft and ARPU.

In IFC, the first 20 Deutsche Lufthansa Group aircraft were installed with GX terminals in the fourth quarter, resulting in $1.6m of relatively low margin pass-through installation revenues.

Total operating costs in Aviation increased by $22.1m, or 95.7%, to $45.2m (2015: $23.1), including an increase of $5.4m to $14.3m in Q4 2016, due primarily to increased headcount and other overhead costs associated with the pursuit and delivery of the major growth opportunities in IFC. We will continue to invest in these areas in order to maximise significant longer-term growth opportunities and further overhead cost increases are consequently expected. In addition, further increases in direct costs should be expected as additional lower margin installation revenues are added to the revenue mix.

Aviation EBITDA in 2016 decreased by $6.3m, or 6.1%, to $97.4m (2015: $103.7m) and the EBITDA margin in the year decreased to 68.3% (2015: 81.8%) mainly due to increased business development and delivery costs. In Q4 2016, EBITDA increased by $0.4m, or 1.5%, to $27.8m (Q4 2015: $27.4m) as a result of the drop-through of increased revenue in the quarter, whilst the EBITDA margin in the quarter decreased to 66.0% (Q4 2015: 75.5%) mainly due to an increase in indirect costs and the generation of lower margin installation revenues during the period.

Central Services

	Three months ended 31 December			Year ended 31 December		
($ in millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenue						
Ligado Networks	30.5	35.7	(14.6%)	119.4	88.6	34.8%
Other	3.2	4.2	(23.8%)	16.6	19.4	(14.4%)
Total revenue	33.7	39.9	(15.5%)	136.0	108.0	25.9%
Operating costs	(62.5)	(57.8)	8.1%	(243.3)	(249.2)	(2.4%)
EBITDA	**(28.8)**	**(17.9)**	**60.9%**	**(107.3)**	**(141.2)**	**(24.0%)**
Cash capex[1]	**68.0**	**140.9**	**(51.7%)**	**209.6**	**394.4**	**(46.9%)**

Revenue from Ligado Networks in the year increased by $30.8m, or 34.8%, to $119.4m, reflecting the impact of the exercise of the 30MHz option by Ligado. In the year, Inmarsat recognised $11.0m, including $3.7m in Q4, of the Ligado deferred revenue to reflect the economic cost of the revenue deferral arising under the revised transition agreement. Ligado exercised its option under the Cooperation Agreement in March 2016. Full details of that exercise are set out in the interim results announcement for 2016. There have been no other developments in respect of this agreement in the quarter. At 31 December 2016 we continue to hold $197.8m of deferred revenue on the balance sheet in respect of the expected costs of implementation of this agreement.

Reported operating costs decreased by $5.9m, or 2.4%, to $243.3m (2015: $249.2m) with an underlying cost increase of $18.0m being compounded by the transfer of around $4m of activities from Maritime, as part of a mid-year internal reorganisation, as outlined above. This was more than offset by currency gains, in particular the lower US$ value of these mainly Sterling denominated costs. The underlying cost increase is mainly due to additional operating costs for the new GX ground infrastructure. In Q4, operating costs increased by $4.7m to $62.5m including $2.5m in respect of the internal reorganisation.

Reconciliation of EBITDA to profit after tax

	Three months ended 31 December			Year ended 31 December		
($ in millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
EBITDA	**221.8**	**203.1**	**9.2%**	**794.8**	**726.0**	**9.5%**
Depreciation and amortisation	(87.1)	(85.1)	2.4%	(349.4)	(311.2)	12.3%
Other	0.4	0.6	(33.3%)	1.7	11.6	(85.3%)
Operating profit	**135.1**	**118.6**	**13.9%**	**447.1**	**426.4**	**4.9%**
Net financing costs	(42.8)	(30.7)	39.4%	(147.9)	(88.4)	67.3%
Taxation (charge)/ credit	(25.2)	0.3	(8500.0%)	(55.8)	(56.0)	(0.4%)
Profit after tax	**67.1**	**88.2**	**(23.9%)**	**243.4**	**282.0**	**(13.7%)**

[1] All success-based capital expenditure is allocated to the business unit to which it relates. All major infrastructure project capital expenditure is currently reflected within Central Services, with the exception of the S-band project which is reported in the Aviation business unit.

Operating profit

Depreciation and amortisation for the year ended 31 December 2016 increased by $38.2m to $349.4m as the I-5 satellites entered commercial service during 2015.

Other includes $2.4m of share of profit of associates (2015: $2.5m) partially offset by a $1.2m impairment loss on the disposal of fixed assets (2015: $0.2m). In 2015 there was a gain of $9.3m from the disposal of the SkyWave investment in the first quarter.

As a result of the factors discussed above, operating profit for the year was $447.1m, an increase of $20.7m (4.9%), compared with 2015.

Net financing cost

Net financing costs for the year increased by $59.5m to $147.9m (2015 $88.4m). The increase was primarily due to a one-off cost of $32.8m on the early repurchase of the Group's existing convertible bonds due 2017, a charge of $28.8m due to an unrealised increase in the fair value of the conversion liability component of the new convertible bonds and $7.1m interest on the new senior notes due 2024. These increases were partially offset by a $5.9m reduction in the interest due on uncertain tax provisions and a $1.3m reduction in commitment fees payable on the senior credit facility due to the revised terms of the agreement in May 2015.

The early redemption of the existing convertible bonds also led to an $8.8m charge (including a 1.5% premium paid on redemption) against the equity reserve created on the issuance of these bonds. Following redemption, the $48.1m closing balance of this equity reserve was transferred to retained earnings.

The combination of the one-off cost of $32.8m and the $48.1m release in respect of the convertible bond issue and redemption have led to a net increase of $15.3m in closing retained earnings.

Taxation

The tax charge for 2016 was $55.8m a decrease of $0.2m compared with 2015. The effective tax rate for 2016 was 18.6% (2015: 16.6%) compared to an average statutory rate for the UK for 2016 of 20% (2015: 20.25%).

The difference between the effective and statutory rates is mainly due to the cost of the change in the fair value of the conversion liability component (a non-taxable amount included in pre-tax earnings) and a credit of $10.3m arising on the revaluation of the Group's deferred tax liabilities, arising as a result of the reduction in the UK corporation tax rate from 18% to 17% in 2020, which was substantively enacted in Q3 2016.

The Group maintains tax provisions in respect of ongoing enquiries with tax authorities. In the event that all such enquiries were settled as currently provided for, we estimate that the Group would incur a cash tax outflow of approximately $90m over 2017 or 2018. The enquiries remain ongoing at this time.

Earnings per share

Basic and diluted earnings per share for profit attributable to the equity holders of the Company were 54 cents and 53 cents, respectively, compared with 63 cents and 62 cents respectively in 2015.

Basic and diluted earnings per share adjusted to exclude the post-tax impact of the early repurchase of the 2017 Convertible Bonds and the change in the fair value of the conversion liability component of the new 2023 Convertible Bonds were 65 cents and 64 cents respectively, compared with 63 cents and 62 cents respectively in 2015.

Cash Flow

	Three months ended 31 December		Year ended 31 December	
($ in millions)	**2016**	**2015**	**2016**	**2015**
EBITDA	221.8	203.1	794.8	726.0
Non-cash items	2.0	2.4	14.4	15.7
Change in working capital	(30.2)	(58.8)	(3.7)	(24.7)
Cash generated from operations	193.6	146.7	805.5	717.0
Capital expenditure	(173.9)	(177.8)	(412.9)	(493.6)
Net interest paid	(27.7)	(28.4)	(82.5)	(78.1)
Tax paid	(6.4)	(17.7)	(35.6)	(12.9)
Free cash flow	**(14.4)**	**(77.2)**	**274.5**	**132.4**
Proceeds on disposal of assets	–	–	–	32.9
Dividends paid to shareholders	(84.5)	(87.8)	(228.5)	(223.7)
Other movement including foreign exchange	3.1	0.6	7.4	2.4
Net cash flow	**(95.8)**	**(164.4)**	**53.4**	**(56.0)**
Decrease in cash from transfer to short-term deposits with maturity >3 months	–	–	(395.0)	–
Increase/(decrease) in cash from borrowings	(107.1)	68.2	428.4	26.3
Net increase/(decrease) in cash and cash equivalents	**(202.9)**	**(96.2)**	**86.8**	**(29.7)**
Opening net borrowings	**1,792.8**	**1,815.8**	**1,985.8**	**1,900.7**
Net cash flow	95.8	164.4	(53.4)	56.0
Non-cash movements[1]	6.2	5.6	(37.6)	29.1
Closing net borrowings	**1,894.8**	**1,985.8**	**1,894.8**	**1,985.8**

During the year, free cash flow increased by $142.1m to $274.5m (2015: $132.4m) driven primarily by $88.5m higher cash generated from operations and a reduction of $80.7m in capital expenditure (see below) offset by higher cash interest and tax paid of $4.4m and $22.7m respectively.

Cash generated from operations was $88.5m higher than the prior year mainly due to $68.8m higher EBITDA, as described above, and $21.0m lower working capital outflow, which included the impact of the timing of the Q4 cash payments from Ligado. The Q4 2015 Ligado payment was accrued and received shortly after the year end, whereas the Q4 2016 payment was received before the year end.

Cash tax paid in the year of $35.6m (2015: $12.9m) is higher than in 2015 due to a large refund of UK corporation tax that was overpaid in 2014 and refunded in January 2015. Cash tax was $20.2m lower than tax charged in the income statement due mainly to the deferred tax charge caused by the difference in timing of accounting depreciation and the tax deduction on the I-5 satellites.

Capital Expenditure

	Three months ended 31 December		Year ended 31 December	
($ in millions)	**2016**	**2015**	**2016**	**2015**
Major infrastructure projects[2]	139.4	128.9	279.2	354.1
Success-based capex[2]	33.2	11.3	78.8	29.1
Other capex (e.g. maintenance, product development)[2]	40.4	23.5	92.1	78.6
Cash flow timing[3]	(39.1)	14.1	(37.2)	31.8
Total cash capital expenditure	**173.9**	**177.8**	**412.9**	**493.6**

"Major infrastructure projects" capex consists of satellite design, build and launch costs and ground network infrastructure costs. In 2016, expenditure in this category related primarily to the GX, I-6 and S-band satellite infrastructure.

"Success-based capex" consists of capital equipment installed on ships, aircraft and other customer platforms. This expenditure ties closely to near term new revenues. During 2016 this principally related to expenditure on Aviation and airtime customer equipment and the increase from 2015 is mainly due to the commencement of installation of GX terminals for Aviation.

[1] Includes the impact of deferred financing costs.

[2] Capital expenditure is shown on an accrual basis, excluding capitalised interest.

[3] Cash flow timing represents the difference between accrued capex and the actual cash flows.

"Other capex" investments consist primarily of infrastructure maintenance, IT and capitalised product and service development costs, which were weighted towards Q4 in 2016.

Group Balance Sheet

The table below shows the condensed consolidated Group Balance Sheet:

($ in millions)	At 31 December 2016	At 31 December 2015
Non-current assets	3,832.1	3,712.3
Current assets	1,011.2	533.8
Total assets	**4,843.3**	**4,246.1**
Current liabilities	(748.9)	(719.6)
Non-current liabilities	(2,854.1)	(2,276.6)
Total liabilities	**(3,603.0)**	**(2,996.2)**
Net assets	**1,240.3**	**1,249.9**

The increase in the Group's non-current assets of $119.8m is largely due to our ongoing investment in new technology and infrastructure, including Global Xpress, the S-Band programme and the I-6 constellation, less depreciation of existing assets in service. Over $300m was invested in these three programmes during the year, including capitalised interest. The net increase in current assets of $477.4m is primarily due to an increase of $479.7m in cash and cash equivalents and short term deposits following the refinancing in September 2016, which will be used to address the upcoming maturity of other existing facilities and to provide investment capital for the business. This was partially offset by a $17.8m decrease in trade and other receivables to $306.9m (2015: $324.7m) due to timing of receipt of payments from Ligado.

The increase in current liabilities of $29.3m to $748.9m (2015: $719.6m) is largely due to the following three items. The current tax liability increased by $5.8m, representing a current tax charge in excess of payments made in the year. Trade and other payables increased by $43.4m to $508.3m (2015: $464.9m) mainly due to the timing of settlement of trade payables at the end of the year. Offsetting these increases was a $25.6m reduction in current borrowings due to the repayment of the EIB facility in October 2016 which reduced current borrowings by $44.1m and an increase in the current portion of the Ex-Im Facilities by $18.6m as the 2014 Facility has now become repayable in semi-annual instalments. The increase in non-current liabilities of $577.5m is due to the refinancing that occurred during the year.

The issuance of the new Convertible Bond and Senior Notes and redemption of the old Convertible Bond due 2017 caused a net increase in non-current borrowings of $414.3m to $2,448.0m (2015: $2,033.7m). As discussed above, the new Convertible Bond due 2023 is a net share settled instrument and upon issuance is bifurcated between the cash debt component which is recognised in borrowings and a derivative liability component. The derivative liability represents the value of the conversion rights associated with the instrument and is accounted for at fair value through profit and loss. The closing fair value of the instrument at 31 December 2016 was $153.5m (2015: nil).

PRINCIPAL RISKS AND UNCERTAINTIES

The Group faces a number of risks and uncertainties that may adversely affect our business, operations, liquidity, financial position or future performance, not all of which are wholly within our control. Although many of the risks and uncertainties influencing our performance are macroeconomic and likely to affect the performance of businesses generally, others are particular to our operations in mobile satellite services.

- **Failure of satellites and our network -** we face risks when we launch our satellites and while they are in operation. There are only a few companies who provide service to build and launch satellites and if they encounter problems, our launch may be delayed or fail. Our network may not be able to cope with the demand from users. *Risk Elements:* operational satellite failures, failure of SCC, NOC, LES, SAS, third party satellite failure, catastrophic disaster, safety services (technical provision), attack on satellites or RF network, significant failure of web-based operational tools

- **Failure to expand into the broadband market -** we may fail to correctly assess our market, technological changes, customer requirements and competitors' strategy and to exploit market opportunities. We may develop next generation broadband services that will not meet these market opportunities, or these developments could have delays or cost overruns impacting on our market position, revenue or returns on investment. *Risk Elements*: satellite development, manufacturing and launch (I-5 F4 and I-6 satellites), OBE delivery, stability of GX gateway and networks, GX Honeywell terminals, GX commercial launch readiness and revenue growth, L-band enhancement

- **Failure to successfully grasp the IFC opportunity -** we may fail to fully grasp the large expansion opportunity in IFC in the aviation sector. Our competitors may provide better products to market or our access to market may be restricted by regulatory issues. *Risk Elements*: satellite development, manufacturing and launch (I5-F4, S-band, and I-6 satellites), EAN ground network, S-band regulatory approvals, regulatory hurdles to market access, failure to secure S-band launch customers

- **Spectrum, Orbital slots and Market access risk -** we rely on radio spectrum, which has historically been allocated without charge, to provide our services. We must agree how it is used in coordination with other satellite operators. We may not be able to coordinate usage in the future and/or may be charged for the spectrum which could affect our ability to provide services. Further, we require orbital slots to place our satellites in the correct position to provide adequate coverage and deliver our services. We may not be able to obtain adequate orbital slots or we may miss deadlines to bring orbital slots into use. For the purpose of our scenario modelling we have incorporated this risk into various scenarios surrounding satellite delays and business growth given the large overlap in contributing factors and resulting outcomes. *Risk Elements*: orbital slots, satellite capacity and congestion, L-band and Ka-band spectrum allocation, S-band licenses

- **Cyber Security -** our satellites, networks, systems and processes may be vulnerable to security risks from unauthorised access, computer viruses, denial of services and other security attacks. Our customers may not use our services if we could not demonstrate that our services are reliable and meet certain cyber security requirements. *Risk Elements*: cyber security risks to computing infrastructure & services, corporate (Back Office) IT security & disaster recovery, cyber security accreditation, national gateways / SASs, providing cyber as a service

- **Failure of Critical Customers -** we rely on our distribution channel for part of our revenue and they might not sell our services effectively or competitively. We provide our services to many government organisations around the world which may have conflicting requirements, and our revenue may be affected by governments' reduction in spending and their other political priorities. *Risk Elements*: downstream distribution consolidation, relationship with DPs & ISPs, customer retention, change in aviation distribution strategy, loss of ability to do business with USG, increased engagement with China, Russia, Northrop Grumman subcontract non-renewal, migration of leasing services, market risks, delays in introducing new product, high value end-user and broadband commercial risks, GMDSS safety services franchise

- **Failure of Critical Suppliers -** we rely on a limited number of third party suppliers and partners in the production of our satellites, systems, terminals and products and we may have limited control over availability, quality and delivery. From our internal research and discussion with relevant specialists we have determined that the risk posed by a loss of a critical supplier would be a short term operational risk, which could be mitigated with minimal financial outflow, rather than a long term risk to viability, as such we have not modelled a relevant scenario. *Risk Elements*: Supplier issues/dependence, major satellites, network and terminal development programmes

- **Failure to deliver the Solutions strategy -** we are aiming to implement a new solutions based rather than a product based strategy. There is a risk that the transition may not go smoothly and we may fail to meet targets on our new solutions based revenue. From analysis of the forecast solutions figures, we have determined that the failure of the solutions strategy would not be materially different from the impact of other principal risks, such as failure to expand the narrowband business and failure to grow the maritime business. As such we have not generated a specific scenario to cover a failure to deliver the solutions strategy but rather modelled it through our other scenarios

- **Failure to at least maintain our existing narrowband business -** the narrowband business currently makes up a large portion of our revenue stream and is vital to the continued growth of the business. We may not be able to maintain our market share of narrowband business or we may fail to keep up with the business needs of our customers

- **Failure to maintain and grow the Maritime business -** we may not be able to grow on our existing levels of revenue in the maritime industry through either competitor pressure or further decline in the overall maritime sector. We may not identify adequate opportunities in the maritime market. From analysis, we believe this risk to be closely linked to others in terms of cause and effect, as such for the purpose of scenario testing we have considered this risk as parallel to others and included it within the revenue decline and growth decline scenarios

- **Failure to effectively deliver products and services -** we may not be able to take to market our products and services for various reasons such as competitor pressure, network/satellite issues, technological difficulties etc. This would directly impact our revenue streams and cause serious concern amongst customers and investors alike. This is a very broad risk covering our entire business, as such we believe this risk is covered by multiple plausible scenarios below

- **People and skills risk -** given the highly technical and specialist nature of the satellite industry, there are certain employees in our company who have very specific skill sets that are vital to the business. Further it is vital for the future of the business to keep hiring talented individuals to all roles across the business. Through our internal research we have determined that increased staff costs have been already included in the long term business plan, further the total "specialist" staff costs are not material to the business and as such a large percentage increase to these costs, in order to retain the key skills, would not have a material impact on the company's viability

- **Geo-political risk -** downturns in the economy of a country and/or world economy could impact our business and strategy. Armed conflicts as well as a low oil price may have large effects on world trade and consequently on our business. Large currency fluctuations, especially against the US Dollar may have a material impact on our business. We do a large amount of business with governments across the globe including the US government. Major political decisions such as Brexit, may impact our business

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INMARSAT PLC ON THE PRELIMINARY ANNOUNCEMENT OF INMARSAT PLC

We confirm that we have issued an unqualified opinion on the full financial statements of Inmarsat plc.

Our audit report on the full financial statements sets out the following risks of material misstatement which had the greatest effect on our audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those risks:

Accounting for the Ligado (formerly LightSquared) Cooperation Agreement	
Risk description	The Group continues to hold a material deferred revenue balance of $197.8m (2015: $208.8m) in respect of the Ligado Cooperation Agreement ("the Agreement"). In March 2016 the agreement was amended resulting in the existing deferred income being recognised against obligations in respect of both Phase 1 and Phase 2 of the Agreement. The Group's accounting policy in respect of the Agreement is summarised in note 4c to the financial statements. We have identified a significant risk that the timing and amount of revenue and margin recognition is not in accordance with IFRS with respect to this deferred income since the revenue in respect of Phase 1 of the Agreement is being recognised on a percentage completion basis and the estimate of the future costs to be incurred in respect of Phase 1 are subject to a high degree of estimation uncertainty and management judgement. Last year our risk also included a cut-off risk in respect of Ligado revenue recognition. Following Ligado's emergence from Chapter 11 bankruptcy protection in December 2015, this is no longer considered to be a significant risk.
How the scope of our audit responded to the risk	We have tested the design and implementation of controls over the recognition of previously deferred revenue in respect of Phase 1 of the Agreement. We have obtained and reviewed the amendment to the Agreement, signed in March 2016, and considered whether the deferred income recognised under the amended agreement is in accordance with the principles of IAS 18. We have met with senior management throughout the year to corroborate our understanding of the commercial developments with Ligado and to understand any potential impact these may have on accounting for the agreement, as well as any technical and commercial developments which may impact the quantum of future costs incurred. We have obtained and scrutinised management's analysis of estimated costs to complete, which contains a number of scenarios, challenging the reasonableness of the assumptions which underpin the model and sought evidence to corroborate and understand the key drivers of the calculation through agreeing to third party information where possible and discussions with Inmarsat's technical specialists and Inmarsat business unit management. Further, we performed testing on the revenues recognised and recalculated the deferred income released in respect of Phase 2 of the contract to verify that the appropriate amount of revenue was recognised.
Key observations	We concur with the conclusions of management's analysis of the possible scenarios that could unfold over the period of the Ligado contract, along with associated estimates of the costs to complete Phase 1 of the contract under each scenario. Based on the range of cost outcomes indicated by the cost scenarios, we were satisfied that the cost to complete was sufficiently uncertain that no margin should be recognised on Phase 1 of the contract.

Revenue recognition – accuracy, completeness and occurrence of manual adjustments to airtime revenue	
Risk description	Airtime revenue, both subscription and usage-based, is the largest revenue stream within the business. This revenue principally relates to I-3 and I-4 services sold on a wholesale and retail basis, along with the resale of capacity from other satellite providers. Airtime revenue of $822.9m (2015: $845.8m) was earned in the year. Each month manual postings are made to revenue accounts to adjust for items such as deferred revenue, accrued income, sales provisions, bundled transactions and breakage recognised under take or pay agreements to ensure revenue recognition meets the requirements of IAS 18. Due to the highly material nature of airtime revenue, the high volume of transactions and the inherent risk that manual postings are susceptible to manipulation, a significant risk has been identified that if these postings are not accurate, complete or related to transactions which have occurred, revenue could be materially misstated. The accounting policy for the recognition of revenue is set out in note 2 to the financial statements and includes the policies on the deferral of revenue and multiple-element contracts.
How the scope of our audit responded to the risk	We have tested the design, implementation and operating effectiveness of the key automated and manual controls relating to the recognition of airtime revenue across the Group's principal billing systems. We have tested the mechanical accuracy of the underlying schedules for a sample of manual postings to determine their completeness and accuracy and whether they are prepared consistently with the principles of IAS 18. We have met with management, both from within finance and in the market-facing business to discuss results in each business unit and as a whole to evaluate the completeness and occurrence of manual postings. Additionally, we performed a monthly profit margin analysis by product and business unit and a monthly revenue trend analysis, corroborating and understanding unusual variances. Further, we used subscriber numbers, usage reports and pricing information in order to develop an independent expectation of airtime revenue by product type to compare to airtime revenue recognised in order to assess the completeness, accuracy and occurrence of recorded revenue.
Key observations	The results of our audit testing were satisfactory and we reported no findings to the Audit Committee.
Revenue Recognition – 'Take or Pay' revenue cut-off	
Risk description	A small number of the Group's satellite capacity contracts with customers have a 'take or pay' element. The accounting policy for such agreements is set out in note 2 to the financial statements. There is a risk that revenue associated with take or pay arrangements could be recorded in an incorrect period, leading to a material error within the financial statements. This risk is especially pertinent due to the material nature of these contracts, their non-standard terms, the fact that any new contracts entered into may not necessarily run concurrently with calendar years, and the need to estimate breakage where a customer has not utilised all of the airtime they have contracted to use and pay for.
How the scope of our audit responded to the risk	We have tested the design and implementation of controls around the process of revenue recognition in relation to take or pay agreements. We have obtained and reviewed the underlying contracts for the Group's material take or pay agreements. We have considered the terms of these contracts to evaluate whether the revenue recognised is in accordance with management's accounting policy and IAS 18 and other accounting standards and guidance. We have corroborated our understanding of the existence of such take or pay agreements through meeting with senior management both within finance and the market-facing business units to understand the commercial developments during the financial year. We have discussed all material take or pay contracts with the market-facing business unit leaders to determine whether there are any contracts we are not aware of. In respect of material contracts we have reviewed the contract to determine whether revenue recognition is in accordance with IAS 18. We have obtained breakage calculations and recalculated the breakage recognised, including agreeing all material items to invoices and cash payments.

Key observations	The results of our audit testing were satisfactory. We reported no findings to the Audit Committee.
Accounting for capitalised development expenditure	
Risk description	The Group capitalises significant internal labour costs, external costs and qualifying borrowing costs in respect of major capital projects, most notably relating to satellite programmes and associated infrastructure such as the Global Xpress programme, European Aviation Network and the Inmarsat-6 fleet of satellites. There is a risk in respect of valuation and allocation of assets, that costs which do not meet the criteria for capitalisation in accordance with IAS 16, IAS 38 and IAS 23 are inappropriately recorded on the balance sheet rather than expensed or that costs continue to be held on the balance sheet despite no longer meeting the relevant capitalisation criteria. The Group's policy on the capitalisation of assets is included in note 2 to the financial statements. Included in note 13 to the financial statements (and shown on the Balance Sheet within this announcement) is property, plant and equipment with a net book value of $2,971.4m, of which $2,037.2m relates to space segment assets and $861.8m relates to assets in the course of construction. Included in note 14 to the financial statements (and shown on the Balance Sheet within this announcement) are intangible assets with a net book value of $796.4m. As disclosed in note 9 to the financial statements (and included within note 4 of this announcement), capitalised borrowing costs totalled $36.1m in the year.
How the scope of our audit responded to the risk	We have tested the design and implementation of the controls in respect of the processes and procedures which govern the capitalisation of development costs. We have met the project leaders for the most financially significant capital projects, which account for 74% of current year capital expenditure, to corroborate the project status, feasibility of completion, and performance against budget, including investigating any deviations from budget. Furthermore, we have carried out sample-based testing in relation to each element of capitalised costs including inspecting supporting evidence for a sample of the costs capitalised, understanding the nature of these costs and considering both whether they are consistent with the originally approved budget and meet the capitalisation requirements of IAS 18 and IAS 36. We reviewed the ageing profile of assets in the course of construction, to determine whether the on-going technical feasibility and intended completion of the project could be demonstrated. For a sample of assets which entered service in the period we inspected supporting evidence to determine whether depreciation was commenced at a time in accordance with IAS 16. In relation to borrowing costs we obtained the supporting calculations and verified the inputs to the calculation, including testing a sample of cash payments. Additionally, we tested the mechanical accuracy of the model and reviewed the model to determine whether the borrowing costs for completed projects are no longer being capitalised and accounting is therefore in line with the requirements of IAS 23.
Key observations	We identified a number of deficiencies in key controls within the capital expenditure cycle, which were reported to the Audit Committee. As a consequence, we determined we could not rely on the effectiveness of controls in this area to reduce the amount of audit work that we needed to perform. Our audit testing was completed satisfactorily, and we concur with the judgements management has taken in determining that their capital assets meet the capitalisation criteria of IAS 16 and IAS 38. We did not identify any audit adjustments.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on these matters.

Our liability for this report, and for our full audit report on the financial statements is to the company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for our audit report or this report, or for the opinions we have formed.

Deloitte LLP

Chartered Accountants and Statutory Auditor

INMARSAT PLC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Three months ended 31 December		Year ended 31 December	
($ in millions)	**2016**	**2015**	**2016**	**2015**
Revenues	358.1	334.8	1,329.0	1,274.1
Employee benefit costs	(68.5)	(61.4)	(267.7)	(260.4)
Network and satellite operations costs	(41.2)	(43.6)	(168.6)	(180.0)
Other operating costs	(37.3)	(37.4)	(139.9)	(147.2)
Own work capitalised	10.7	10.7	42.0	39.5
Total net operating costs	(136.3)	(131.7)	(534.2)	(548.1)
EBITDA	221.8	203.1	794.8	726.0
Depreciation and amortisation	(87.1)	(85.1)	(349.4)	(311.2)
Gain on disposal[1]	–	–	0.5	9.3
Impairment loss	–	(0.1)	(1.2)	(0.2)
Share of profit of associates	0.4	0.7	2.4	2.5
Operating profit	135.1	118.6	447.1	426.4
Financing income	2.4	0.4	4.3	1.8
Financing costs	(27.0)	(31.1)	(123.4)	(90.2)
Change in fair value of derivative[2]	(18.2)	–	(28.8)	–
Net financing costs	(42.8)	(30.7)	(147.9)	(88.4)
Profit before tax	92.3	87.9	299.2	338.0
Taxation (charge)/ credit	(25.2)	0.3	(55.8)	(56.0)
Profit for the period	67.1	88.2	243.4	282.0
Attributable to:				
Equity holders	66.9	88.0	242.8	281.4
Non-controlling interest[3]	0.2	0.2	0.6	0.6
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in $ per share)				
— Basic	0.15	0.20	0.54	0.63
— Diluted	0.15	0.19	0.53	0.62
Adjusted earnings per share for profit attributable to the equity holders of the Company during the period (expressed in $ per share)				
— Basic	0.18	0.20	0.65	0.63
— Diluted	0.17	0.19	0.64	0.62

[1] The gain on disposal of assets in the prior year relates primarily to the gain on disposal of the SkyWave investment.

[2] The change in fair value of derivatives relates to the mark-to-market valuation of the conversion liability component of the new convertible bonds due 2023.

[3] Non-controlling interest refers to the Group's 51% shareholding in Inmarsat Solutions ehf.

INMARSAT PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Three months ended 31 December		**Year ended 31 December**	
($ in millions)	**2016**	**2015**	**2016**	**2015**
Profit for the period	67.1	88.2	243.4	282.0
Other comprehensive income/(loss)				
Items that may be reclassified subsequently to the Income Statement:				
Transfer to income statement on disposal of available-for-sale financial asset	–	–	–	(9.4)
Foreign exchange translation differences	(0.1)	(0.7)	0.1	(0.7)
Net (loss)/gains on cash flow hedges	(7.9)	1.8	(24.3)	2.9
Tax credited directly to equity	0.1	(0.1)	0.1	1.0
Items that will not be reclassified subsequently to the Income Statement:				
Remeasurement of the defined benefit asset and post employment benefits	(15.8)	3.6	(13.4)	3.0
Tax credited / (charged) directly to equity	3.8	(0.7)	2.6	(0.6)
Other comprehensive loss for the period, net of tax	(19.9)	3.9	(34.9)	(3.8)
Total comprehensive income for the period, net of tax	47.2	92.1	208.5	278.2
Attributable to:				
Equity holders	47.0	91.9	207.9	277.6
Non-controlling interest	0.2	0.2	0.6	0.6

INMARSAT PLC

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

($ in millions)	2016	2015
Assets		
Non-current assets		
Property, plant and equipment	2,971.4	2,860.2
Intangible assets	796.4	772.0
Investments	13.2	12.1
Other receivables	11.7	23.4
Deferred tax asset	39.3	44.6
Derivative financial instruments	0.1	–
	3,832.1	3,712.3
Current assets		
Cash and cash equivalents	262.0	177.3
Short-term deposits[1]	395.0	–
Trade and other receivables	306.9	324.7
Inventories	34.3	25.0
Current tax assets	8.5	3.8
Derivative financial instruments	1.7	–
Restricted cash	2.8	3.0
	1,011.2	533.8
Total assets	4,843.3	4,246.1
Liabilities		
Current liabilities		
Borrowings	103.8	129.4
Trade and other payables	508.3	464.9
Provisions	1.9	1.8
Current tax liabilities	129.0	123.2
Derivative financial instruments	5.9	0.3
	748.9	719.6
Non-current liabilities		
Borrowings	2,448.0	2,033.7
Other payables	41.5	42.9
Provisions	2.8	2.5
Deferred tax liabilities	208.3	197.5
Derivative financial instruments	153.5	–
	2,854.1	2,276.6
Total liabilities	3,603.0	2,996.2
Net assets	1,240.3	1,249.9
Shareholders' equity		
Ordinary shares	0.3	0.3
Share premium	700.4	687.6
Equity reserve	–	56.9
Other reserves	61.8	71.8
Retained earnings	477.2	432.7
Equity attributable to shareholders	1,239.7	1,249.3
Non-controlling interest	0.6	0.6
Total equity	1,240.3	1,249.9

[1] Short-term deposits are cash held on deposit with a maturity of between 3 and 12 months.

INMARSAT PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

($ in millions)	Share capital	Share premium	Equity reserve	Share option reserve	Cash flow hedge reserve	Other[1]	Retained earnings	NCI	Total
Balance at 1 Jan 2015	0.3	687.6	56.9	62.5	(1.6)	5.8	371.1	0.5	1,183.1
Share-based payments[2]	–	–	–	11.3	–	–	1.9	–	13.2
Dividends declared	–	–	–	–	–	–	(224.1)	(0.5)	(224.6)
Comprehensive Income:									
Profit for the year	–	–	–	–	–	–	281.4	0.6	282.0
OCI – before tax	–	–	–	–	2.9	(10.1)	3.0	–	(4.2)
OCI – taxes	–	–	–	–	(0.4)	1.4	0.6	–	0.4
Balance at 31 Dec 2015	0.3	687.6	56.9	73.8	0.9	(2.9)	432.7	0.6	1,249.9
Share-based payments[2]	–	–	–	14.1	–	–	(0.5)	–	13.6
Early repurchase of 2017 convertible bonds[3]	–	–	(8.8)	–	–	–	–	–	(8.8)
Transfer equity reserve to retained earnings[3]	–	–	(48.1)	–	–	–	48.1	–	–
Dividends declared	–	–	–	–	–	–	(235.1)	(0.6)	(235.7)
Scrip dividend cash reinvestment[4]	–	–	–	–	–	–	8.9	–	8.9
Scrip dividend share issue[4]	–	8.9	–	–	–	–	(8.9)	–	–
Issue of share capital[5]	–	3.9	–	–	–	–	–	–	3.9
Comprehensive Income:									
Profit for the year	–	–	–	–	–	–	242.8	0.6	243.4
OCI – before tax	–	–	–	–	(24.3)	0.1	(13.4)	–	(37.6)
OCI – taxes	–	–	–	–	0.1	–	2.6	–	2.7
Balance at 31 Dec 2016	**0.3**	**700.4**	**–**	**87.9**	**(23.3)**	**(2.8)**	**477.2**	**0.6**	**1,240.3**

[1] The 'other' reserve relates to ordinary shares held by the employee share trust of $2.4m (2015: $2.4m), the currency reserve of $1.0m (2015: $1.1m) and the revaluation reserve debit of $0.6m (2015: $0.6m). In the prior year the transfer to the income statement on disposal of the SkyWave investment went through the revaluation reserve.

[2] Represents the fair value of share option awards recognised in the year.

[3] The consideration paid on early repurchase of the 2017 Convertible Bonds has been allocated to the liability and equity components of the instrument consistent with the method used in the original allocation. This resulted in a charge to the equity reserve of $8.8m with the closing balance of the equity reserve transferred to retained earnings.

[4] Represents the cash value of the scrip dividend reinvested into the Company.

[5] Issue of share capital relates to the issue of shares by the company under its employee share schemes.

INMARSAT PLC

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

	Three months ended 31 December		Year ended 31 December	
($ in millions)	**2016**	**2015**	**2016**	**2015**
Cash flow from operating activities				
Cash generated from operations	193.6	146.7	805.5	717.0
Interest received	0.4	0.3	1.0	1.4
Tax paid	(6.4)	(17.7)	(35.6)	(12.9)
Net cash inflow from operating activities	**187.6**	**129.3**	**770.9**	**705.5**
Cash flow from investing activities				
Purchase of property, plant and equipment	(137.1)	(160.4)	(302.9)	(433.5)
Additions to intangible assets	(26.1)	(7.9)	(68.0)	(20.8)
Own work capitalised	(10.7)	(9.5)	(42.0)	(39.3)
Proceeds on disposal of assets	–	–	–	32.9
Short-term cash deposits >3 months	–	–	(395.0)	–
Net cash used in investing activities	**(173.9)**	**(177.8)**	**(807.9)**	**(460.7)**
Cash flow from financing activities				
Dividends paid	(84.5)	(87.8)	(228.5)	(223.7)
Proceeds from issue of long-term borrowings[1]	–	89.9	1,050.0	136.7
Repayment of borrowings	(106.5)	(18.3)	(213.0)	(103.5)
Redemption of Convertible Bonds due 2017	–	–	(389.5)	–
Interest paid	(28.1)	(28.7)	(83.5)	(79.5)
Arrangement costs of financing	(0.6)	(3.4)	(19.1)	(6.9)
Net proceeds from the issue of ordinary shares	0.7	–	3.9	–
Other financing activities	0.5	0.4	1.8	1.7
Net cash generated from/(used in) financing activities	**(218.5)**	**(47.9)**	**122.1**	**(275.2)**
Foreign exchange adjustment	1.9	0.2	1.7	0.7
Net increase/(decrease) in cash and cash equivalents	**(202.9)**	**(96.2)**	**86.8**	**(29.7)**
Cash and cash equivalents				
At beginning of the period	464.5	270.9	174.7	204.4
Net increase/(decrease) in cash and cash equivalents	(202.9)	(96.2)	86.8	(29.7)
At end of the period (net of bank overdrafts)	**261.6**	**174.7**	**261.5**	**174.7**
Comprising:				
Cash at bank and in hand	50.7	53.6	50.7	53.6
Short-term deposits with original maturity of less than three months	211.3	123.7	211.3	123.7
Bank overdrafts	(0.5)	(2.6)	(0.5)	(2.6)
Net cash and cash equivalents at end of period	**261.5**	**174.7**	**261.5**	**174.7**

[1] Gross issuance proceeds from the Convertible Bonds due 2023 and the Senior Notes due 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Inmarsat plc ('the Company' or, together with its subsidiaries, 'the Group') is a company incorporated in the United Kingdom and registered in England and Wales.

2. Principal accounting policies

Basis of preparation

The financial statements for the year ended 31 December 2016 were approved by the directors on 8 March 2017. These preliminary results for the year ended 31 December 2016 are an abridged statement of the full Annual Report and Accounts and do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2015 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2016 will be delivered to the Registrar of Companies and made available on website at www.inmarsat.com, following the Company's annual general meeting on 4 May 2017. The auditor's report in respect of both years is unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

The consolidated financial statements within the full Annual Report and Accounts are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, the Companies Act 2006 and Article 4 of the EU IAS Regulation.

Going Concern

The Group has a robust and resilient business model, strong free cash flow generation and is compliant with all banking covenants. Because of this and the relatively stable overall economic climate, the Directors believe that the Company and the Group are well placed to manage their business risks successfully. After considering current financial projections and facilities available and after making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, Inmarsat plc continues to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

Basis of accounting

The functional currency of the Company and most of the Group's subsidiaries and the presentation currency is the US Dollar, as the majority of receipts from operational transactions and borrowings are denominated in US Dollars.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the period. Although these estimates are based on management's best estimate of the amount, event or actions, the actual results may ultimately differ from these estimates.

3. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker to allocate resources and assess the performance of the Group. The Group's operating segments are aligned to five market-facing business units, being:

- Maritime, focusing on worldwide commercial maritime services;
- Enterprise, focusing on worldwide energy, industry, media, carriers, and M2M services;
- Aviation, focusing on commercial, business and general aviation services;
- US Government, focusing on US civil and military government services; and
- Global Government, focusing on worldwide civil and military government services.

3. Segment information (continued)

These five business units are supported by 'Central Services' which include satellite operations and backbone infrastructure, corporate administrative costs, and any income that is not directly attributable to a business unit such as Ligado Networks. The Group has aggregated the US Government and Global Government operating segments into one reporting segment, as the segments meet the criteria for aggregation under IFRS. Therefore, the Group's reportable segments are Maritime, Government, Enterprise, Aviation and Central Services. The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment results are assessed at the EBITDA level without the allocation of central costs, depreciation, net financing costs and taxation.

	Three months ended 31 December		**Year ended 31 December**	
($ in millions)	**2016**	**2015**	**2016**	**2015**
Revenues				
Maritime	142.8	145.9	575.3	593.2
Government	105.0	72.2	330.5	286.6
Enterprise	34.5	40.5	144.6	159.5
Aviation	42.1	36.3	142.6	126.8
Central Services[1]	33.7	39.9	136.0	108.0
Total revenues	**358.1**	**334.8**	**1,329.0**	**1,274.1**
EBITDA				
Maritime	114.9	112.6	454.8	459.4
Government	82.8	48.8	244.0	191.0
Enterprise	25.1	32.2	105.9	113.1
Aviation	27.8	27.4	97.4	103.7
Central Services[1]	(28.8)	(17.9)	(107.3)	(141.2)
Total EBITDA	**221.8**	**203.1**	**794.8**	**726.0**
Depreciation and amortisation	(87.1)	(85.1)	(349.4)	(311.2)
Other	0.4	0.6	1.7	11.6
Operating profit	**135.1**	**118.6**	**447.1**	**426.4**
Net financing costs	(42.8)	(30.7)	(147.9)	(88.4)
Profit before tax	92.3	87.9	299.2	338.0
Taxation (charge)/ credit	(25.2)	0.3	(55.8)	(56.0)
Profit for the period	**67.1**	**88.2**	**243.4**	**282.0**
Cash capital expenditure[2]				
Maritime	12.0	8.8	43.8	30.1
Government	4.6	–	6.1	4.4
Enterprise	0.1	–	0.4	0.3
Aviation	89.2	28.1	153.0	64.4
Central Services	68.0	140.9	209.6	394.4
Total cash capital expenditure	**173.9**	**177.8**	**412.9**	**493.6**
Financing costs capitalised in the cost of qualifying assets	10.4	5.8	36.1	35.3
Cash flow timing[3]	39.1	(14.1)	37.2	(31.8)
Total capital expenditure	**223.4**	**169.5**	**486.2**	**497.1**

[1] Central services includes revenue and EBITDA from Ligado.

[2] Cash capital expenditure is the cash flow relating to tangible and intangible asset additions, it includes capitalised labour costs and excludes capitalised interest.

[3] Cash flow timing represents the difference between accrued capex and the actual cash flows.

4. Net financing costs

	Three months ended 31 December		Year ended 31 December	
($ in millions)	**2016**	**2015**	**2016**	**2015**
Bank interest receivable and other interest	(2.4)	(0.3)	(4.3)	(1.4)
Net interest on the net pension asset and post-employment liability	–	(0.1)	–	(0.4)
Total financing income	(2.4)	(0.4)	(4.3)	(1.8)
Interest on Senior Notes and credit facilities	21.8	18.0	79.8	74.1
Interest on Convertible Bonds	9.3	7.9	33.6	30.7
Accelerated accretion on redemption of 2017 Convertible Bonds	–	–	32.8	–
Amortisation of debt issue costs	2.8	1.6	8.2	7.9
Amortisation of discount on Senior Notes due 2022	0.2	0.2	1.0	1.1
Unwinding of discount on deferred satellite liabilities	0.2	0.3	0.6	0.9
Net interest on the net pension asset and post-employment liability	0.2	–	0.4	–
Other interest	2.9	8.9	3.1	10.8
Financing costs	37.4	36.9	159.5	125.5
Less: Amounts capitalised in the cost of qualifying assets	(10.4)	(5.8)	(36.1)	(35.3)
Total financing costs	27.0	31.1	123.4	90.2
Change in fair value of derivative liability component of the 2023 Convertible Bonds	18.3	–	28.8	–
Net financing costs	42.9	30.7	147.9	88.4

Borrowing costs capitalised in the cost of qualifying assets during the year are calculated by applying a capitalisation rate to expenditures on such assets. The average interest capitalisation rate for the year was 7.4% (2015: 7.0%).

5. Taxation

	Three months ended 31 December		Year ended 31 December	
($ in millions)	**2016**	**2015**	**2016**	**2015**
Current tax:				
Current period	11.9	9.6	36.3	37.0
Adjustments in respect of prior periods	0.9	22.8	3.8	24.0
Total current tax	12.8	32.4	40.1	61.0
Deferred tax:				
Origination and reversal of temporary differences	8.6	6.3	26.3	33.7
Adjustment due to reductions in the UK corporation tax rate	11.4	(17.9)	(0.3)	(17.9)
Adjustments in respect of prior periods	(7.6)	(21.1)	(10.3)	(20.8)
Total deferred tax	12.4	(32.7)	15.7	(5.0)
Total taxation charge	25.2	0.3	55.8	56.0

6. Net Borrowings

These balances are shown net of unamortised deferred finance costs, which have been allocated as follows:

	At 31 December 2016			At 31 December 2015		
($ in millions)	Amount	Deferred finance costs	Net balance	Amount	Deferred finance costs	Net balance
Current:						
Bank overdrafts	0.5	–	0.5	2.6	–	2.6
Deferred satellite payments	3.8	–	3.8	1.8	–	1.8
EIB Facility	–	–	–	44.1	–	44.1
Ex-Im Bank Facilities	99.5	–	99.5	80.9	–	80.9
Total current borrowings	**103.8**	**–**	**103.8**	**129.4**	**–**	**129.4**
Non-current:						
Deferred satellite payments	8.4	–	8.4	14.5	–	14.5
Senior Notes due 2022	1,000.0	(6.1)	993.9	1,000.0	(7.3)	992.7
– Net issuance discount	(5.5)	–	(5.5)	(6.5)	–	(6.5)
Senior Notes 2024	400.0	(5.6)	394.4	–	–	–
EIB Facility	–	–	–	88.1	(0.4)	87.7
Ex-Im Bank Facilities	533.9	(18.6)	515.3	633.3	(18.0)	615.3
Convertible Bonds due 2017	–	–	–	326.6	–	326.6
– Accretion of principal	–	–	–	3.4	–	3.4
Convertible Bonds due 2023	545.5	(7.7)	537.8	–	–	–
– Accretion of principal	3.7	–	3.7	–	–	–
Total non-current borrowings	**2,486.0**	**(38.0)**	**2,448.0**	**2,059.4**	**(25.7)**	**2,033.7**
Total borrowings	**2,589.8**	**(38.0)**	**2,551.8**	**2,188.8**	**(25.7)**	**2,163.1**
Cash and cash equivalents	(262.0)	–	(262.0)	(177.3)	–	(177.3)
Short-term deposits	(395.0)	–	(395.0)	–	–	–
Net borrowings	**1,932.8**	**(38.0)**	**1,894.8**	**2,011.5**	**(25.7)**	**1,985.8**

A summary of changes to the Group's debt structure during the year has been provided below. For further details please refer to note 19 of the December 2016 Annual Report.

On 22 September 2016, the Group issued $400m of 6.5% Senior Notes due 2024 at an issue price of 100%.

On 31 October 2016, the Group fully repaid the EIB Facility.

In 2007, the Group issued $287.7m of 1.75% Convertible Bonds due 9 November 2017. The bonds were convertible into ordinary shares of the Company and had a 1.75% per annum coupon payable semi-annually and a yield to maturity of 4.5%. These bonds were repurchased in full on 12 September 2016.

On 9 September 2016, the Group issued $650m of 3.875% Convertible Bonds due 9 September 2023. The bonds are convertible into ordinary shares of the company and have a 3.875% per annum coupon payable semi-annually and a yield to maturity of 3.681%. The bond is a net share settled instrument, meaning that upon conversion Inmarsat will repay the principal of $650m in cash and satisfy the remaining conversion value in ordinary shares (if the market value of the Company's shares at settlement date exceeds the conversion price of $13.41). Upon issuance, in accordance with IAS 32 the instrument was bifurcated between a cash debt component and a derivative liability component, being $545.5m and $104.5m respectively. The debt component meets the definition of net borrowings and over the term of the bond will accrete up to the principal value of $650m with the cost of that accretion recognised in net financing costs. The derivative liability represents the value of the conversion rights associated with the instrument and is accounted for at fair value through profit and loss. It is excluded from net borrowings with the mark-to-market movements recognised in net financing costs.

7. Fair value of financial instruments

The Group's derivative financial instruments consist of forward foreign currency contracts which are primarily designated as cash flow hedges and the conversion liability component of the new convertible bonds due 2023 (further details provided in note 6).

Derivative financial instruments are initially measured at fair value (see further below) on the contract date and are re-measured at each reporting date. The change in the fair value is accounted for differently depending on whether the instrument qualifies for hedge accounting, (e.g. where a forward foreign currency transaction is designated as a cash flow hedge) or not (e.g. undesignated cash flow hedges and the conversion liability component of the 2023 convertible bond).

Under hedge accounting, the change in fair value initially goes through Other Comprehensive Income. At the point hedge accounting is discontinued, i.e. when the hedging instrument expires, is exercised or no longer qualifies for hedge accounting, the amounts sitting in other comprehensive income are recycled to the income statement or, where appropriate, capitalised to the balance sheet. Where hedge accounting does not apply, the change in fair value is included in net financing costs in the income statement.

The Group changed its foreign exchange policy in 2015 and no longer generally hedges foreign currency transactions. Where there is a material contract with a foreign currency exposure, a specific hedge to match the specific risk will be evaluated. At present the Group only hedges certain foreign currency milestone payments to Airbus for the construction of the I-6 satellites.

The fair values at the Balance Sheet date were:

($ in millions)	At 31 December 2016	At 31 December 2015
Financial assets:		
Forward foreign currency contracts – designated cash flow hedges	0.8	–
Forward foreign currency contracts – undesignated cash flow hedges	1.0	–
Total derivative financial assets	1.8	–
Financial liabilities:		
Conversion liability component of 2023 convertible bond	(133.4)	–
Forward foreign currency contracts– designated cash flow hedges	(23.9)	–
Forward foreign currency contracts – undesignated cash flow hedges	(2.1)	(0.3)
Total derivative financial liabilities	(159.4)	(0.3)
Net derivative financial liabilities	(157.6)	(0.3)

The fair values of forward foreign exchange contracts are based on the difference between the contract amount at the current forward rate at each period end and the contract amount at the contract rate, discounted at a variable risk-free rate at the period end. The fair value of the conversion liability component of the Convertible Bonds due 2023 is determined as the difference between the market value of the convertible bond and the carrying amount of the liability component of the convertible bond. Both are classified as level 2 in the fair value hierarchy according to IFRS 7. The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs i.e. those that would be classified as level 3 in the fair value hierarchy, nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

Except as detailed in the following table, the Directors consider that the carrying value of non-derivative financial assets and liabilities approximately equal to their fair values:

	At 31 December 2016		At 31 December 2015	
($ in millions)	Carrying Value	Fair value	Carrying value	Fair value
Financial liabilities:				
Senior Notes due 2022	1,000.0	975.0	1,000.0	996.3
Senior Notes due 2024	400.0	408.3	–	–
Ex-Im Bank Facilities	633.4	649.4	714.2	741.4
Convertible Bonds due 2017	–	–	326.6	498.6
Convertible Bonds due 2023	549.2	682.6	–	–

8. Dividends

	Year ended 31 December	
($ in millions)	**2016**	**2015**
Final dividend for the year ended 31 December 2015 of 31.78 cents per share (2014: 30.26 cents per share)	143.3	136.0
Interim dividend for the year ended 31 December 2016 at 20.59 cents per share (2015: 19.61 cents per share)	91.8	88.1
Dividends in statements of changes in equity	235.1	224.1
Dividends settled in shares	(8.9)	–
Dividends settled in cash	226.2	224.1

With effect from the 2016 interim dividend, the Group offered a scrip dividend election allowing shareholders to take their cash dividend entitlement in Inmarsat shares. This option was taken up by shareholders holding approximately 43m shares, representing 9.54% of our issued share capital. For our 2016 interim dividend the scrip amounted to 946,283 new shares (0.21% of the then issued share capital), representing an $8.9m cash dividend savings. These shares were issued and made available for trading on 21 October 2016.

The Inmarsat plc Board of Directors intends to recommend a final dividend of 33.37 cents per ordinary share in respect of the year ended 31 December 2016 to be paid on 26 May 2017 to ordinary shareholders on the share register at the close of business on 21 April 2017.

9. Earnings per share

Earnings per share for the three and twelve months ended 31 December 2016 has been calculated based on profit attributable to equity holders for the period and the weighted average number of ordinary shares in issue (excluding shares held by the Employee Benefit Trust).

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options and awards granted to employees under the employee share plans.

	Three months ended 31 December		Year ended 31 December	
($ in millions)	**2016**	**2015**	**2016**	**2015**
Profit attributable to equity holders of the Company	66.9	88.0	242.8	281.4
(millions)				
Weighted average number of ordinary shares in issue	449.6	448.3	449.7	449.2
Potentially dilutive ordinary shares	4.9	4.4	4.9	4.4
Weighted average number of diluted ordinary shares	454.5	452.7	454.6	453.6
($ per share)				
Basic earnings per share	0.15	0.20	0.54	0.63
Diluted earnings per share	0.15	0.19	0.53	0.62

10. Adjusted earnings per share

Adjusted earnings per share for the three and twelve months ended 31 December 2016 have been calculated based on profit attributable to equity holders adjusted for the post-tax impact of the early repurchase of the 2017 Convertible Bonds and the post-tax impact of the increase in the fair value of the conversion liability component of the new 2023 Convertible Bonds.

	Three months ended 31 December		Year ended 31 December	
($ in millions)	**2016**	**2015**	**2016**	**2015**
Profit attributable to equity holders of the Company	66.9	88.0	242.8	281.4
Adjustment for:				
Increase in fair value of conversion liability component of 2023 Convertible Bonds (net of tax)	12.4	–	23.0	–
Loss on Redemption of 2017 Convertible Bonds (net of tax)	–	–	26.2	–
Adjusted profit attributable to equity holders of the Company	**79.3**	**88.0**	**292.0**	**281.4**
(millions)				
Weighted average number of ordinary shares in issue	449.6	448.3	449.7	449.2
Potentially dilutive ordinary shares	4.9	4.4	4.9	4.4
Weighted average number of diluted ordinary shares	**454.5**	**452.7**	**454.6**	**453.6**
($ per share)				
Basic earnings per share	**0.18**	**0.20**	**0.65**	**0.63**
Diluted earnings per share	**0.17**	**0.19**	**0.64**	**0.62**

11. Contingent liabilities

The Group is subject to periodic legal claims in the ordinary course of its business, none of which is expected to have a material impact on the Group's financial position. There have been no material changes to the Group's contingent liabilities from those reported in the financial statements for the year ended 31 December 2015 and as such, for the year ended 31 December 2016 there are no material contingent liabilities to disclose.

12. Events after the balance sheet date

On 1 March 2017 the Company notified members of its Defined Benefit Pension Plan that the plan will close to future benefit accrual on 31 March 2017 and that from 1 April 2017 members can elect to transfer to the Group Defined Contribution plan. It is expected that the majority of members will take up this election.

Since the balance sheet date there have been no other significant events which would require disclosure in the 31 December 2016 Annual Report.