# Inmarsat Group Limited

## Annual Financial Information Disclosure

## For the year ended 31 December 2012

## FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. These forward-looking statements include all matters that are not historical facts. Statements containing the words “believe”, “expect”, “intend”, “may”, “estimate” or, in each case, their negative and words of similar meaning are forward-looking.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that the Group’s actual financial condition, results of operations and cash flows, and the development of the industry in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this document. In addition, even if the Group’s financial condition, results of operations and cash flows, and the development of the industry in which we operate are consistent with the forward-looking statements in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important facts that could cause the Group’s actual results of operations, financial condition or cash flows, or the development of the industry in which we operate, to differ from current expectations include those risk factors disclosed in the sections entitled “Business”, “Operating and Financial Review” and “Risk Factors”.

As a consequence, the Group’s future financial condition, results of operations and cash flows, as well as the development of the industry in which we operate, may differ from those expressed in any forward-looking statements made by us or on the Group’s behalf.

## INDUSTRY AND MARKET DATA

We operate in an industry for which it is difficult to obtain precise industry and market information. Market data and certain economic and industry data and forecasts used in, and statements regarding our position in the industry made in, this document were estimated or derived based upon assumptions we deem reasonable, including, *inter alia*, from internal surveys, market research, government and other publicly available information, reports prepared by consultants and independent industry publications. While we believe these statements to be reliable, they have not been independently verified, and we make no representation or warranty as to the accuracy or completeness of such information as set forth in this document. Additionally, industry publications and such reports generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed and in some instances state that they do not assume liability for such information. We cannot therefore assure you of the accuracy and completeness of such information as we have not independently verified such information.

## NON-IFRS FINANCIAL MEASURES

In addition to International Financial Reporting Standards (“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. Where such non-IFRS measures are given, this is clearly indicated and the comparable IFRS measure is also given.

### *Net Borrowings*

Net Borrowings is defined as total borrowings less cash at bank and in hand less short-term deposits with an original maturity of less than three months. We use Net Borrowings as a part of our internal debt analysis. We believe that Net Borrowings is a useful measure as it indicates the level of borrowings after taking account of the financial assets within our business that could be utilised to pay down the outstanding borrowings. In addition the Net Borrowings balance provides an indication of the Net Borrowings on which we are required to pay interest.

### *Free Cash Flow*

We define free cash flow (“FCF”) as cash generated from operations less capital expenditure (including own work capitalised), net interest and cash tax payments. Other companies may define FCF differently and, as a result, our measure of FCF may not be directly comparable to the FCF of other companies.

FCF is a supplemental measure of our performance and liquidity under IFRS that is not required by, or presented in accordance with IFRS. Furthermore, FCF is not a measurement of our performance or liquidity under IFRS and should not be considered as an alternative to profit for the period and operating profit as a measure of our performance and net cash generated from operating activities as a measure of our liquidity, or any other performance measures derived in accordance with IFRS.

We believe FCF is an important financial measure for use in evaluating our financial performance and liquidity, which measures our ability to generate additional cash from our business operations. We believe it is important to view FCF as a measure that provides supplemental information to our entire statement of cash flows.

*EBITDA*

We define EBITDA as profit before interest, taxation, depreciation and amortisation, loss on disposal of assets, acquisition-related adjustments, impairment losses and share of profit of associates. Other companies may define EBITDA differently and, as a result, our measure of EBITDA may not be directly comparable to the EBITDA of other companies.

EBITDA and the related ratios are supplemental measures of our performance and liquidity under IFRS that are not required by, or presented in accordance with IFRS. Furthermore, EBITDA is not a measurement of our financial performance under IFRS and should not be considered as an alternative to profit for the period, operating profit or any other performance measures derived in accordance with IFRS.

We believe EBITDA among other measures facilitates operating performance comparisons from period to period and management decision-making. It also facilitates operating performance comparisons from company to company. EBITDA eliminates potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation and amortisation of tangible and intangible assets (affecting relative depreciation and amortisation expense). We also present EBITDA because we believe it is frequently used by securities analysts, investors and other interested parties in evaluating similar issuers, the vast majority of which present EBITDA when reporting their results.

## CONTENTS

## SCOPE

The following disclosure document, unless otherwise stated, covers the period from 1 January 2012 to 25 April 2013, the date on which the disclosure document and consolidated financial statements of Inmarsat Group Limited were approved by the Directors. The consolidated financial statements are presented for years ended 31 December 2012 and 2011.

We have included the 2011 audited Consolidated Financial Statements as Appendix B to this Disclosure Document. The 2011 Consolidated Financial Statements present the 2011 and 2010 results. Commentary on the results of operations for 2011 compared to 2010 has previously been presented in the Annual Financial Information Disclosure document for Inmarsat Group Limited for the year ended 31 December 2011 and can be accessed via our website at www.inmarsat.com.

## BUSINESS

We believe that we are the leading provider of global mobile satellite communications services ("MSS"), providing data and voice connectivity to end-users worldwide, with over 30 years of experience in designing, launching and operating an L-band satellite-based network. With an in-orbit fleet of 9 owned and operated geostationary satellites, our Inmarsat Global business provides a comprehensive portfolio of wholesale global MSS for use on land, at sea and in the air. These include voice and broadband data services, which support safety communications, as well as standard office applications such as email, internet, secure VPN access and video conferencing. Our Inmarsat Solutions business, comprising our direct and indirect distribution business, offers a broad portfolio of remote telecommunications solutions to end-user customers, offering services over the mobile and fixed satellite systems of a number of global and regional satellite system operators, predominantly the Inmarsat satellite system, and through owned and operated microwave and satellite telecommunications facilities.

We have a successful launch and operating record. We have launched three generations of satellites and have never experienced a satellite failure either upon launch or in orbit. Our current fleet of satellites includes one Inmarsat-2 satellite, launched in the early 1990s, five Inmarsat-3 satellites, launched between 1996 and 1998, and three Inmarsat-4 satellites, launched in March and November 2005 and August 2008. Our Inmarsat-2 and Inmarsat-3 satellites have remained in commercial operation beyond their original design lives. We currently expect that the last of our Inmarsat-2 satellites will be in commercial operation until 2014, and expect that the last of our Inmarsat-3 satellites will be in commercial operation until 2018. Our Inmarsat-2 and Inmarsat-3 satellites are used to offer our existing and evolved services ("**Existing and Evolved Services**"), which include all of our services offered prior to the start of services on our Inmarsat-4 satellites. Our Inmarsat-4 satellites provide our broadband services, global satellite phone service ("**GSPS**") and certain machine-to-machine ("**M2M**") services, as well as provide continuity for our Existing and Evolved Services.

Our Alphasat satellite and Inmarsat-5 satellites are currently under construction. Our Alphasat satellite, scheduled to launch in 2013, will supplement and add resilience to our Inmarsat-4 constellation of satellites. Our three Inmarsat-5 satellites, scheduled to launch in 2013 and 2014, will enable us to provide Ka-band services which will be significantly faster than those we are able to offer over our L-band satellite constellations. We refer to these Ka-band services as Global Xpress ("**Global Xpress**"). The Inmarsat-5 satellites, when launched, will add significant capacity to our network and will have an expected commercial life beyond 2028.

Data rates for our services have increased with each satellite generation. Our Existing and Evolved Services are available at transmission rates of up to 128 kbps, although higher rates are possible where multiple terminals are used in conjunction with channel bonding equipment. Our broadband services include our broadband global area network ("**BGAN**") service to the land mobile sector, our FleetBroadband service to the maritime sector and our SwiftBroadband service to the aviation sector. Our Inmarsat-4 satellites provide BGAN service at transmission rates of up to 492 kbps, FleetBroadband service at transmission rates of up to 432 kbps and SwiftBroadband service at transmission rates of up to 432 kbps. Our broadband services support higher-bandwidth applications, including videoconferencing, live videostreaming and large file transfer, together with standard office applications such as e–mail, internet, secure local area network ("**LAN**") access and voice telephony. These services have the same characteristics that our end-users have historically enjoyed, including reliability, ease of use and security, and are supported by terminals that are smaller, more portable and less expensive than the terminals used to access our Existing and Evolved Services.

In July 2011, we launched XpressLink ("**XpressLink**"), a global broadband service for the maritime industry. XpressLink offers enhanced Ku-band coverage and bandwidth, and leverages the global capabilities of FleetBroadband's L-band service to offer a fully-integrated managed service. XpressLink also provides a pathway to our Ka-band service by offering service agreements that will automatically migrate to our Global Xpress service when commercial service begins. We are currently implementing our Global Xpress programme, which will enable us to offer seamless global coverage and deliver MSS broadband speeds of up to 50Mbps for users in the government, maritime, energy, enterprise and aviation sectors. Global Xpress will combine the services offered on our new Ka-band Inmarsat-5 satellites with our highly resilient existing L-band services, which we believe will present a compelling service package to our customers offering choice, quality and reliability.

We operate our business in two segments: Inmarsat Global and Inmarsat Solutions.

Inmarsat Global sells our global MSS services on a wholesale on-demand basis via a well-established, global network of distribution partners, including our Inmarsat Solutions business. Inmarsat Global's distribution partners provide our services to end-users, either directly or indirectly through service providers. Inmarsat Global has a network of over 30 distribution partners and over 700 service providers who are present in more than 100 countries on six continents and who provide our services to end-users worldwide. Inmarsat Global continues to target and evaluate new distribution opportunities as they arise. Pursuant to its distribution agreements ("**Distribution Agreements**"), Inmarsat Global charges its distribution partners wholesale rates according to the types of services they distribute to end-users.

Inmarsat Solutions offers a broad portfolio of remote telecommunications solutions to end-user customers either directly or indirectly through service providers, offering services over the mobile and fixed satellite systems of a number of leading global and regional satellite system operators, predominantly the Inmarsat satellite system, and through their owned and operated microwave and satellite telecommunications facilities. Inmarsat Solutions also provides secure internet protocol ("**IP**") managed solutions and services to government defence users, including the U.S. Army and other U.S. military services and government agencies.

**Key Strengths**

We believe that we are the leader in the global mobile satellite communications industry, with leading positions in the maritime, land mobile and aviation sectors. The following key strengths enhance our position:

- ***Unique Global Communications Network***. Inmarsat Global owns and operates an in-orbit fleet of 9 geostationary satellites, including three Inmarsat-4 satellites, all of which use the L-band spectrum, which is suited to mobile communications, to provide a comprehensive portfolio of on-demand and leased data and voice services on a global basis. We have global spectrum rights which we believe would be difficult for any new market entrant to replicate. The quality and coverage of our network is further underpinned by the fact that we are currently the only provider of satellite services for the operation of the Global Maritime Distress and Safety Service ("**GMDSS**"), which maritime sector regulations require for all cargo vessels over 300 gross tons and for all passenger vessels that travel in international waters. In addition, we also comply with International Civil Aviation Organisation ("**ICAO**") standards for the provision of aviation safety systems, such as air traffic management and aircraft operational control.

- ***Large Installed End-User Base.*** As of 31 December 2012, we had over 364,800 active terminals accessing our data, voice and broadband services, which in many instances are accessed by multiple end-users, such as those on board ships and aircraft. We also had over 229,800 active terminals accessing our M2M services. We believe that this large installed base of active terminals contributes to our stable revenues, due to the significant cost and effort required by end-users to switch to an alternative communications system. Government and military end-users, in particular the U.S. Department of Defense and the UK Ministry of Defence, are large users of our communications network. We believe that government and military end-users account for between 30% and 35% of our revenues. We believe that their rapidly growing mobile high-speed data and voice communications needs, together with an increasing willingness to procure from commercial service providers, positions us favourably to increase sales of our services. Our corporate end-users tend to have a high degree of day-to-day reliance on our services to support mission critical operations which contributes to our revenue stability. International aid organisations rely on our services when responding to global events, including aid relief missions in response to natural disasters.

- ***Established Global Distribution Network***. Inmarsat Global currently has over 30 distribution partners (this includes our owned distributors within Inmarsat Solutions) who sell our services to end-users, either directly or through a network of over 700 service providers. Some of our distribution partners and service providers specialise in the delivery of services to key end-user market sectors and offer specialist applications and value-added services in addition to our airtime. We believe our Inmarsat Solutions business and the terms of Inmarsat Global's Distribution Agreements increase our ability to influence the price and positioning of our services to end-users and improve the performance of our business over time.

- ***High Margins and Strong EBITDA Growth***. For the past 12 years, Inmarsat Global's EBITDA margin (excluding revenue and EBITDA associated with our Cooperation Agreement with LightSquared) has exceeded 63% and Inmarsat Global's EBITDA (excluding our Cooperation Agreement with LightSquared) has grown from US$289.7m in 2000 to US$545.3m for the year ended 31 December 2012. In 2012 Inmarsat Global's EBITDA margin (excluding our Cooperation Agreement with LightSquared) was 70%. Inmarsat Global's wholesale business model results in our distribution partners and service providers incurring most of the marketing and associated subscriber, or end-user, acquisition costs, and consequently we believe that Inmarsat Global's EBITDA margins compare favourably to those of other communications service providers.

- ***Global Services Portfolio in Place to Capitalise on Growth Opportunities***. We offer broadband services into each of our three market sectors. We believe our broadband services enable us to capitalise on the growth opportunities presented by increasing demand for high-bandwidth mobile communication services. In July 2010 we launched IsatPhone Pro, a handheld global satellite phone service, and had over 84,000 active subscribers at the end of 2012. In addition, in July 2011, we launched our XpressLink service, a global broadband service for the maritime industry which offers enhanced Ku-band coverage and bandwidth and leverages the global capabilities of FleetBroadband's L-band service to offer a fully-integrated managed service. Through their service agreements, XpressLink customers will automatically migrate to our Global Xpress service when commercial service begins.

- ***Over 30-Year History of Innovation, Technical Excellence and Reliability***. We have over 30 years of experience in designing, implementing and operating global mobile satellite communications networks, and have a track record of high-quality services and reliability. We have never experienced a satellite failure in our operating history and, throughout our operating history; we have pioneered innovations in satellite communication services to make higher data speeds available to smaller and lighter mobile terminals. In addition, over the three years ended 31 December 2012, our average satellite communications network availability exceeded 99.9%. We believe our reliability is particularly attractive to government, military and enterprise-level users whose operations typically require mission and business critical communications support. This reliability will be further strengthened from 2013 following the successful launch of our new Alphasat satellite which will provide in-orbit redundancy for the Inmarsat-4 network.

- ***Experienced Management Team***. We have a highly experienced management team with a proven record of managing growth-oriented companies. Members of our senior management team have held senior positions at a number of public companies. Our Chief Technology Officer, Senior Vice President of Satellite and Network Operations and Vice President of Satellite and Launch Vehicles each have over 20 years of experience in the satellite industry with many successful launch campaigns and satellite deployments and are supported by a world class technical team that has been in place since Inmarsat launched the Inmarsat-2 satellites in the early 1990s.

**Strategy**

Our goal is to grow our existing business and find new growth opportunities. We plan to:

- ***Maintain Revenue Growth and Strong Cash Flow Generation by Increasing Sales of Our Existing Services and Rolling Out New Services***. We intend to maintain revenue and cash generation by leveraging our portfolio of services and our leading position in the maritime, land mobile and aviation sectors to increase sales of our existing services, while maintaining our cost control. We continue to experience new subscriber take-up of our broadband services: FleetBroadband, BGAN and SwiftBroadband. In addition, we are gaining market share in the market for handheld satellite phones and our IsatPhone Pro service had reached over 84,000 active subscribers at the end of 2012. We are targeting further growth from our new XpressLink service and from opportunities in in-flight passenger connectivity services and M2M services. In addition, we are continuing to develop new service enhancements for existing services to retain and grow user revenues.

- ***Launch Our Inmarsat-5 Satellites and Introduce Global Xpress Services***. We are implementing our US$1.2 billion Inmarsat-5 programme, which will enable us to offer seamless global coverage and deliver Global Xpress services at broadband speeds of up to 50Mbps for users in the government, maritime, energy, enterprise and aviation sectors at highly competitive price points. Global Xpress services will be available over a global network of three Ka-band Inmarsat-5 satellites, which are currently under construction, with the first expected to launch in 2013, providing regional service, and two further launches in 2014, supporting global coverage. Global Xpress will combine the services offered on our new Ka-band Inmarsat-5 satellites with our highly resilient existing L-band services which we believe will present a compelling service package to our customers offering choice, quality and reliability.

- ***Leverage the Assets and Capabilities of Inmarsat Solutions to Provide Unique Solutions to End Users.*** On 3 January 2012, we announced an internal reorganisation into business units aimed at bringing us closer to our end customers while maintaining our reliance on a primarily independent distribution channel. This reorganisation has improved our ability to respond more quickly and flexibly to customer requirements and support full end-to-end customer solutions.

- ***Seek to Develop Appropriate Value Realisation Opportunities from Our Spectrum Allocations.*** In December 2007, we entered into a cooperation agreement with LightSquared LP, SkyTerra (Canada) Inc. and LightSquared Inc. (collectively, "**LightSquared**") for the efficient use of L-band spectrum over North America (the "**Cooperation Agreement**"). We believe that our Cooperation Agreement with LightSquared is indicative of a likelihood that spectrum shortages may become common in many countries and that some regulatory authorities will therefore adopt an increasingly flexible approach to the terrestrial usage of the radio spectrum currently allocated for satellite usage. We will seek to create value from our spectrum allocations where this can be achieved in a way that is consistent with our other strategic objectives, while also ensuring that the provision of our existing services is protected.

## THE MOBILE SATELLITE COMMUNICATIONS SERVICES INDUSTRY

We believe that we are the leading provider of global MSS. We were established by the International Maritime Organisation, a United Nations body (the "**IMO**"), as the first provider of MSS, initially to provide mobile satellite communications and safety services to ships at sea. Since that time, we have developed and expanded our service offerings from low-speed analogue voice and data services offered to maritime end-users, to high-speed digital voice and data services to a variety of end-users, including land and aeronautical end-users.

A network of satellites can provide communications services virtually anywhere on the globe. Accordingly, satellite networks can play an important role in augmenting and complementing terrestrial communications networks by extending offerings of communications services to users beyond the reach of those networks. MSS operators can provide connectivity to the ocean regions, meeting the needs of the commercial and leisure maritime community. Many of the regions where significant natural disasters and political conflicts occur are also beyond the reach of high-bandwidth terrestrial wireline and wireless networks, and these types of networks are often unavailable at such times. Similarly, commercial and private aircraft can only access terrestrial wireless networks when flying over populated areas where such networks are available and have to rely on satellite services elsewhere.

MSS operators use satellites that are located either in geostationary orbit ("**GEO**", orbiting approximately 22,300 miles above the earth), medium earth orbit ("**MEO**", orbiting approximately 5,000 to 10,000 miles above the earth) or low earth orbit ("**LEO**", orbiting approximately 300 to 1,000 miles above the earth).

Our satellites are in geostationary orbit, orbiting the earth above the equator at the same speed as the earth rotates, and therefore remain above the same point relative to the earth's surface. A geostationary orbit reduces the number of satellites required to provide global network coverage. Three such geostationary satellites are sufficient to provide coverage for most of the earth's surface, and consequently, users rarely have to switch from one satellite to another, thus reducing the possibility of an interrupted signal. Lower orbit satellites (i.e., MEO and LEO, which include those used today by our competitors, Iridium and Globalstar, and those planned by O3b Networks) move relative to the earth's rotation, requiring more complicated tracking equipment and operations. Since they are closer to the earth, these lower orbit satellites "see" a smaller portion of the earth's surface, requiring "constellations" of up to several dozen satellites to provide equivalent geographical coverage.

Orbital slots for geostationary satellites are points on the geostationary arc where satellites are permitted to operate. Orbital slots are designated by both location and frequency band. The number of orbital slots is limited. The right to use an orbital slot must be authorised under national and international regulatory regimes for the frequency bands in which a satellite will operate, and satellites operating in the same frequency bands must be sufficiently far apart to avoid interference with one another. Once the use of particular frequencies at an orbital slot has been licensed and coordinated, the use is protected against interference from other operations at the same or adjacent slots.

Frequency allocation across the various areas of the globe is managed by the International Telecommunication Union ("**ITU**"), an organisation related to the United Nations within which public and private sectors cooperate for the regulation, standardisation, coordination and development of international telecommunications.

The most common frequency bands used on geostationary satellites are as follows:

- *Ku- and Ka-bands (10-30 GHz)*. Ku- and Ka-band radio frequencies have much greater bandwidth than the other frequencies discussed herein, and are typically used for direct-to-home TV broadcasting and broadband communications, as well as for very small aperture terminals ("**VSAT**") services, including mobile applications. Ku- and Ka-band radio frequencies are more susceptible to atmospheric interference, and user equipment requires highly-stabilised antennae with high-performance pointing systems to operate effectively.

- *C-band (4-8 GHz)*. The C-band radio frequency has generally been used by fixed satellite service ("**FSS**") and VSAT operators for TV distribution, data and voice communications. C-band frequencies are less susceptible to terrestrial and atmospheric interference than Ku- and Ka-bands, but still require larger stabilised antennae (oriented to face at a satellite at all times) to transmit and receive signals effectively.

- *L- and S-bands (1.5-1.6 GHz and 2-2.5 GHz, respectively)*. L- and S-band radio frequencies have longer wavelengths, which makes them less prone to degradation from external noise, such as rain, than services provided over the higher-frequencies discussed here. The user equipment does not require the same ability to focus on a satellite as higher frequency services and tend to be small and portable. However, L- and S-band frequencies typically deliver less bandwidth than other frequencies discussed above.

L-band system operators have successfully increased the aggregate bandwidth capabilities of their satellite communications services through the use of technologies that allow a satellite to direct and shape separate, narrow spot beams to different areas of the earth. Spot beams concentrate extra power in areas of high demand. By narrowing the satellite's beam, the same frequency can be used simultaneously in a number of geographic areas, as well as making it possible to supply standard services to smaller, simpler terminals. Accordingly, the aggregate bandwidth available for services can be increased.

We currently operate our services at frequencies in the L- and C-band spectrum and will offer services in the Ka-band spectrum in due course through our new Global Xpress programme. Global Xpress will comprise high bandwidth, global, fixed and mobile satellite communications services.

We also currently offer a hybrid service called XpressLink which combines Ku- and L-band services in an offering targeting the maritime market. We plan to migrate our XpressLink customers to our Global Xpress once commercial service begins.

**The Demand for MSS**

The demand for MSS has grown rapidly during the past two decades. We believe that a number of factors will continue to drive growth in the demand for MSS, such as the increasing reliance by businesses on communications networks, together with advances in portable computing and more mobile workforces. We also believe that demand among businesses for data-intensive content, applications and services delivered over communications networks is growing. We expect this increased demand in turn to drive growth in the use of high-bandwidth mobile communications networks.

Demand for voice, video and other bandwidth-intensive communications services from government, media and aid organisations tends to increase substantially in areas affected by political conflict and natural disasters. Past events in Afghanistan and Iraq have resulted both in substantial short-term, and sustained, increases in our revenues from the provision of MSS.

**Geographical Markets**

Our Inmarsat Global business operates in one business segment, principally the supply of wholesale airtime, equipment and services to distribution partners and other wholesale partners of the Inmarsat Global business, including entering into spectrum coordination agreements.

Our Inmarsat Solutions business (comprising the acquired businesses of Stratos, Segovia, Ship Equip and NewWave Broadband Limited ("**NewWave**")) also operates in one business segment, principally the supply of advanced mobile and fixed-site remote telecommunications services, the provision of customised turnkey remote telecommunications solutions, value-added services, equipment and engineering services to service providers and end-users. Our Inmarsat Solutions business segment includes the results of Ship Equip from 28 April 2011 and NewWave from 13 January 2012.

Revenues are allocated to countries based on the billing address of the customer. For Inmarsat Global this is the distribution partner who receives the invoice for the service, because these distribution partners sell services directly or indirectly to end-users, who may be located elsewhere, and as we do not contract directly with them, it is not possible for us to provide the geographical distribution of end-users. For our Inmarsat Solutions business, this is the billing address of the customer for whom the service is provided.

## OUR SERVICES

### Inmarsat Global

#### *Inmarsat Global Services*

Inmarsat Global's principal services are MSS, which, in 2012, accounted for 88% of our revenue, as compared with 75% in 2011. End-users access our services at sea, on land and in the air. We provide mobile data and voice services on a wholesale, on-demand basis through user terminals that vary based on bandwidth capability, size, mobility, and cost and lease capacity. Some of our services are available only in specified sectors (e.g., maritime-only applications), while others are available across a number of market sectors.

*Our Existing and Evolved Services*

Existing and Evolved Services are those services that were introduced on our Inmarsat-2 and Inmarsat-3 satellites. All of our current Existing and Evolved Services can also be supported by our Inmarsat-4 satellites. Since 1982, our Existing and Evolved digital data and voice products have been improving, with the introduction of higher data speeds, helping to consolidate our position in the maritime sector, facilitating our entry into the land mobile and aviation sectors and adding increasingly high-speed data products to our portfolio which we have grown for over 30 years.

*Our Broadband Services*

The broadband capability offered by our Inmarsat-4 satellites has allowed us to introduce a new generation of broadband MSS. These services are referred to as BGAN, FleetBroadband and SwiftBroadband. These services use Internet Protocol ("**IP**") technology to provide higher data speeds than are possible using Existing and Evolved Services.

FleetBroadband (Maritime)

Our FleetBroadband services were first launched in November 2007 and have been available globally since February 2009 targeting the maritime sector. These services offer voice and high-speed IP data service at transmission rates of up to 432 kbps. FleetBroadband was the first maritime communications service to provide cost-effective broadband data and voice, simultaneously, on a global basis. Operational systems can run online while multiple users simultaneously access e-mail, the internet and make phone calls, all via a single terminal. In 2009, we began to actively encourage the migration of our maritime end-users from our Existing and Evolved Services to our FleetBroadband service. We did this by announcing certain termination dates and price increases for older services, as well as through offering lower prices on FleetBroadband, for example per megabyte transmitted.

We launched our FleetBroadband 150 service in May 2009. FleetBroadband 150 is a lower cost variant of our FB range and was introduced to target and expand the addressable markets for smaller vessels, coastal merchant vessels and the fishing and marine leisure sectors. Fleet Broadband 150 offers voice connection of landline quality, accessible simultaneously with an internet connection of up to 150 kbps, and simple-to-use SMS.

BGAN (Land Mobile)

Our BGAN service was our first broadband service. BGAN was first launched in December 2005 and has been available on a global basis since February 2009. BGAN offers end-users secure, reliable broadband internet and telephony capability for high-speed data applications using portable terminals connecting via USB, Bluetooth, Wi-Fi or Ethernet, depending on terminal type. The service supports data transmission rates of up to 492 kbps, similar to, and in some cases higher than, the transmission rates for third generation ("**3G**") terrestrial wireless networks, with the option of 64 kbps Integrated Services Digital Network ("**ISDN**") or IP streaming at certain rates between 8 and 384 kbps. BGAN also offers a premium X-Stream service allowing a guaranteed minimum symmetrical video streaming rate of up to 450 kbps.

SwiftBroadband (Aviation)

In October 2007, we launched our SwiftBroadband services to the aviation sector, which can be accessed by end-users through dedicated terminals specifically designed for use on aircraft. SwiftBroadband offers simultaneous voice and data connectivity of up to 432 kbps.

SwiftBroadband is suitable for a range of applications from aircraft operation and management to cabin applications such as voice, e-mail, internet access, SMS text messaging and integration into in-flight entertainment systems. SwiftBroadband is also being deployed commercially and in trials for the in-flight use of cellular phones, personal digital assistants ("**PDAs**"), such as BlackBerrys, and for Wi-Fi browsing services.

In October 2010, we introduced a new class of our SwiftBroadband service, SwiftBroadband 200 ("**SB200**"). SB200 is designed to extend the benefits of Inmarsat aviation services to smaller aircraft and provides a lower cost option for IP data service up to 200 kbps.

We are currently developing aviation safety services to be supported by SwiftBroadband. These services continue to build on our heritage of providing safety services through our Existing and Evolved Services to the aviation market.

*Other Inmarsat-4 Services*

GSPS

In June 2010, we launched our first global handheld satellite phone service, the IsatPhone Pro. The IsatPhone Pro is the first handheld satellite phone to be purpose-built for the Inmarsat network. The IsatPhone Pro is targeted primarily at professional users in the government, media, aid, oil and gas, mining and construction sectors. It offers satellite telephony, with Bluetooth for hands-free use, voicemail, SMS and email messaging, with a data capability which became available at the end of March 2011.

Machine-to-Machine Services ("**M2M**")

Inmarsat Global has a range of services targeting the M2M market. In August 2011, together with our partner SkyWave Mobile Communications, we announced the launch of IsatData Pro, a new service designed to enable data packet communication with remote assets at much greater data speeds than are possible with any comparable competitive terminal. In January 2012, we launched a new M2M terminal based on our BGAN service. The BGAN M2M service offers an end-to-end IP data capability for real-time applications, including smart metering, SCADA, monitoring and other infrastructure telemetry solutions. In addition we have established M2M services using our Inmarsat D+ and IsatM2M terminals. Among our target markets for this new service are utilities, oil and gas and asset tracking.

XpressLink

In July 2011, we launched XpressLink, a managed global broadband service for the maritime industry. XpressLink offers enhanced Ku-band coverage and bandwidth, packaged with the global capabilities of FleetBroadband's L-band service on a fully-integrated basis. XpressLink also provides customers with a bridge to our Ka-band service by offering upgradable terminals to our Global Xpress service. XpressLink is designed to compete with existing maritime VSAT service offerings that often rely on Inmarsat services to provide back-up and resilience in areas where VSAT may be unavailable or affected by adverse weather. XpressLink is unique in bundling a Ku-band VSAT service, originally developed by Ship Equip, with our FleetBroadband service for a fixed monthly subscription. Through their service agreements, XpressLink customers will automatically mirgrate to our Global Xpress service when commercial service begins.

*Global Xpress Services*

Global Xpress services will be available over a global network of three Ka-band Inmarsat-5 satellites, which are currently under construction by Boeing Space and Intelligence Systems, with the first expected to launch in 2013, providing regional service, and two further launches in 2014, supporting global coverage. Global Xpress will combine the services offered on our new Ka-band Inmarsat-5 satellites with our highly resilient existing L-band services which we believe will present a compelling service package to our customers offering choice, quality and reliability. Global Xpress will offer mobile connectivity at speeds (up to 50Mbps to antennas of 60cm diameter) which are significantly faster than we are able to offer over our L-band satellites and significantly greater than VSAT competitors using Ku-band, which is currently the industry standard. We expect to offer terminals which will allow users to access the Global Xpress services on fixed and mobile platforms at sea, on land, and in the air.

***Services to End-Users***

*Services to Maritime End-Users*

We provide MSS to the maritime sector. In 2012, the maritime sector represented 56% of our total MSS revenues, of which approximately 19% was generated by voice services and 81% was generated by data services (as compared with 50%, 25% and 75%, respectively, in 2011).

We provide the following Existing and Evolved Services to the maritime sector: Inmarsat B, Inmarsat C, Inmarsat M, Mini M and Fleet. We also offer a broadband service, FleetBroadband, as well as leasing services to the maritime sector. These products offer voice services and data transmission rates ranging from 600 bps to 432 kbps.

End-users of our services in the maritime sector include companies engaged in merchant shipping, passenger transport, fishing, energy and leisure, as well as government and maritime patrol organisations (such as navies and coast guards). Merchant shipping accounts for the bulk of our maritime revenues, as those ships spend the majority of their time at sea away from coastal areas and out of reach of terrestrial communication services.

All of our existing maritime services are available globally (excluding extreme polar regions).

Maritime end-users utilise our satellite communications services for the following:

- *Data and information applications*. Ships' crews and passengers use our services to send and receive e-mail and data files, and to receive other information services such as electronic newspapers, weather reports, emergency bulletins and electronic charts and their updates. The new data speeds we now offer through FleetBroadband allow video conferencing and internet browsing for business and crew welfare purposes.

- *Vessel management, procurement and asset tracking*. Ship operators use our services to manage inventory on board ships and to transmit data, such as course, speed and fuel stock. Our services can be integrated with a global positioning system to provide a position reporting capability. Many fishing vessels are required to carry terminals using our services to monitor catches and to ensure compliance with geographic fishing restrictions. Furthermore, pursuant to the IMO resolution relating to long range identification and tracking, new security regulations have been introduced requiring tracking of merchant vessels in territorial waters.

- *Voice services for passengers and crew*. Voice services are used for both vessel operations and social communications for crew welfare. Merchant shipping operators increasingly use our services to provide phone cards and/or payphones for crew use with preferential rates.

- *Safety.* In addition to our commercial activities, we provide GMDSS safety services to the maritime sector. Ships in distress use our safety services to alert a maritime rescue coordination centre of their situation and position. The rescue coordination centre then uses our services to coordinate rescue efforts among ships in the area. The IMO requires all cargo vessels over 300 gross tons and all passenger vessels, irrespective of size, that travel in international waters to carry distress and safety terminals that use our services. We are currently recognised by the IMO as the only provider of the satellite communications services required for GMDSS. We have also introduced further safety services: "505" for maritime users who do not have access to GMDSS services and our FleetBroadband voice distress service.

*Services to Land Mobile End-Users*

We provide MSS to the land mobile sector globally, providing services to areas not served or not served adequately by existing terrestrial communications networks. We believe that increasing workforce mobility and widespread demand for reliable mobile communications devices capable of delivering higher data rates should contribute to increasing demand for our land mobile data services by users operating outside the coverage of terrestrial networks.

For 2012, the land mobile sector represented 18% of our total MSS revenues, of which voice services generated approximately 11% and data services generated approximately 89% (as compared with 21%, 5% and 95%, respectively, in 2011).

Military and government agencies constitute the largest end-users in the land mobile sector and, similar to maritime end-users, demand reliable, high quality services. In addition to military and government users, aid organisations, media, construction, energy and transport companies utilise our land mobile services. Global security concerns, such as the recent conflicts and events in Afghanistan, Iraq and North Africa as well as relief missions in response to natural disasters tend to drive periods of increased usage of our services.

We provide the following Existing and Evolved Services to the land mobile sector: Inmarsat B, Inmarsat C, Inmarsat D+, Inmarsat M, Mini M and GAN. We also offer BGAN, GSPS and further M2M services which include IsatM2M, IsatData Pro and BGAN M2M. These products offer data transmission rates up to 492 kbps (or higher, where multiple terminals are bonded).

Our land mobile end-users utilise our satellite communications services for:

- *Voice, Data and Videophone*. Media companies and multinational corporations use our services for video conferencing, business telephony and to provide pay telephony services for employees in communities inadequately served by terrestrial networks. Media organisations transmit live broadcast-quality voice, live videophone and store-and-forward video footage and still images using our services.

- *Mobile and Remote Office Connectivity*. A variety of enterprises use our services to place and receive voice calls, access data, e-mail, digital images, internet and facilitate corporate network connectivity.

- *M2M Services*. Our M2M services are used to monitor the location of assets or transport fleets and to conduct two-way communications with drivers. Governments and multinational corporations use our services to run applications that enable the remote operation of facilities such as lighthouses, oil pipelines and utilities networks.

We offer both data and voice services to land mobile sector end-users. All of our land mobile services are available globally (excluding the extreme polar regions).

*Services to Aviation End-Users*

We provide MSS to the aviation sector. In 2012, the aviation sector represented 14% of our total MSS revenues, unchanged from 2011. In the aviation sector, our satellite communications services are used by government users, corporate jet operators, and commercial airlines. Avionics from our hardware partners have become factory options or standard equipment on a range of aircraft in business aviation and air transport.

We provide the following Existing and Evolved Services to the aviation sector: Aero C, Aero H/H+, Aero I, Aero L, Mini M and Swift 64. We also offer a broadband service, SwiftBroadband, to the aviation sector. These services offer voice and data communication rates ranging from 600 bps up to 432 kbps per channel. The Aero L, I, H and H+ services are compliant with ICAO's standards for provision of safety services.

Aviation users utilise our satellite communications services for:

- *Air Traffic Control Communications ("**safety services**")*. Aircraft crew and air traffic controllers use our services for data and voice communication between the flight deck and ground based control facilities. This includes ADS (Automatic Dependent Surveillance) for waypoint position reporting, ACARS/FANS (Aircraft Communication and Reporting System/Future Air Navigation System) for data link messages between the controller and an aircraft and CPDLC (Controller Pilot Data Link Communication) for clearance and information services. Examples of our safety services include user coordinated revisions of flight plans en route and transmission of aircraft systems' data to the ground.

- *Operational Communications*. Aircraft crew and airline ground operations use our services for air-to-ground telephony and data communications. For example, aircraft systems' "mission critical" condition data can be transmitted to the ground or administrative data can be transferred to the aircraft.

- *In-flight Passenger Communications*. Our services are used for air-to-ground telephony, data services, and communications and as the enabler for in-flight mobile phone systems allowing passengers to communicate using their own mobile phones, BlackBerrys and other PDAs or to access the internet via Wi-Fi services.

***Leasing***

We lease capacity on our satellites to distribution partners who in turn provide the capacity to end-users. We entered into the Lease Agreements that took effect from 15 April 2009 with our distribution partners that lease our satellite capacity to end-users for exclusive use for a prearranged, fixed term (as opposed to on-demand services). Typically, the end-user lease contracts are short-term, with terms of up to one year, although they can be as long as five years. We also lease specialised satellite navigation transponders on our Inmarsat-3 and Inmarsat-4 satellites primarily for the provision of navigation services to U.S. and European civil aviation organisations, for up to five years. In 2012, the leasing sector represented 12% of our total MSS revenues, as compared with 15% for the year ended 31 December 2011.

***Other Income***

We also generate revenue from the provision of operational support to other satellite operators, the provision of conference facilities, leasing surplus office space to external organisations and from the sale of terminals and other communication equipment primarily in respect of our GSPS service. Other income also includes revenue under our Cooperation Agreement with LightSquared (see below).

***LightSquared Cooperation Agreement***

In December 2007, we entered into a Cooperation Agreement with LightSquared designed to enable ancillary terrestrial component ("**ATC**") services in North America, while protecting the continued deployment and growth of our own MSS business. The agreement was originally structured in two Phases. Under Phase 1, we agreed to transition to a modified spectrum plan that would facilitate the deployment by LightSquared of ATC services. Under Phase 2, we agreed to transition to a further spectrum plan that would increase the total spectrum available to LightSquared for ATC services. Both Phase 1 and Phase 2 contained defined payment plans whereby Inmarsat would receive agreed payments from LightSquared for the delivery and completion of Phase 1 and for the delivery of Phase 2 on an ongoing basis until terminated by LightSquared.

On 17 August 2010, LightSquared triggered Phase 1 of the Cooperation Agreement under which we were entitled to receive US$118.8m for the Phase 1 transition. In addition, we were entitled to receive US$250.0m towards the costs associated with implementing the Phase 1 transition.

On 28 January 2011, we received notice from LightSquared triggering Phase 2 of the Cooperation Agreement under which we were entitled to receive payments of US$115.0m per annum (payable quarterly in advance), increasing at a rate of 3% annually.

On 15 April 2011, we signed an amendment to the Cooperation Agreement, under which we agreed (at our option) to accelerate delivery of part of the spectrum plan under Phase 2 by up to nine months from the date that we originally agreed with LightSquared in December 2007. Under the terms of the amendment, which we referred to as Phase 1.5, we received a payment of US$40.0m in April 2011.

On 20 April 2012, following regulatory and other challenges faced by LightSquared, we announced an agreement with LightSquared to further amend the Cooperation Agreement. Under the terms of the amendment, Phase 1.5 ceased to be operative and Phase 2 was renegotiated and suspended until 31 March 2014. In connection with the amendment, LightSquared made a completion payment under Phase 1 of the agreement. The amended terms of the Cooperation Agreement are designed to provide LightSquared with additional time to secure regulatory consents that may ultimately lead to the deployment of its ATC network in North America. As a result of the amendment, we do not expect to receive any further payments under the Cooperation Agreement until the Phase 2 suspension period ends. However, as LightSquared may elect to terminate the Cooperation Agreement before any further payments become due, any future payments arising from the Cooperation Agreement should be considered highly uncertain.

LightSquared has made total payments to us in respect of all phases of the Cooperation Agreement of US$546.4m, of which US$85.8m was received during 2012. We have thus far recognised US$285.1m of revenue and US$19.9m of operating costs under all phases of the Cooperation Agreement.

We are accounting for Phase 1 payments using the percentage of completion method. Including the previous Phase 1.5, we have recognised US$30.6m of revenue and US$8.3m of operating costs during 2012 in respect of Phase 1. Under Phase 2, revenue has been recognised on a straight-line basis over the period of commencement of the original Phase 2 until 31 March 2012. We recognised US$29.6m of revenue during 2012 and do not expect to recognise any further revenue until this phase recommences.

***End-User Terminals***

Our data and voice services are provided over a range of communications terminals with different bandwidth capabilities, sizes, mobility and cost. Some of these terminals also provide maritime and aviation safety services. As size and portability are not as critical for maritime- and aviation-based users, the terminals available to these users are often larger, more expensive and satisfy the users' requirements for stabilisation and more stringent pointing capabilities.

Specialised third parties manufacture our user terminals (and will manufacture our Global Xpress terminals) and, except in the case of GSPS terminals, sell them to end-users directly or via their own independent sales channels, as do our distribution partners and service providers. In the case of GSPS terminals, we sell these terminals directly to our distribution partners. We establish the performance specifications of all terminals used to access our services with the terminal manufacturers. This helps us to ensure that our service quality objectives are met.

Inmarsat Global manufactures GSPS terminals using a contract manufacturer and sells these to our GSPS distribution partners for onward sale to service providers and end-users.

Our broadband and GSPS terminals are designed to provide access via our Inmarsat-4 satellites. These terminals use the same Subscriber Identity Module ("**SIM**") cards as terrestrial wireless terminals. This interoperability enables distribution partners and service providers to deliver a single bill to users for both their mobile satellite and terrestrial communications services.

***Distribution***

We appoint distribution partners who we believe will be effective in selling our services. Inmarsat Global currently has over 30 distribution partners who provide our services to end-users, either directly or indirectly through a network of over 700 service providers. Inmarsat Solutions is Inmarsat Global's largest distribution partner and accounted for 39% of Inmarsat Global's MSS revenues in 2012 (2011: 41%). Astrium Services is our largest independent distribution partner and accounted for 29% of Inmarsat Global's MSS revenues in 2012 (2011: 33%).

Our distribution partners have all signed Distribution Agreements with us. With respect to Inmarsat services, Inmarsat Solutions remains subject to the terms of our Distribution Agreements and purchases services from Inmarsat Global on a basis consistent with terms offered to other distributors. The majority of our Distribution Agreements came into force in April 2009 and provided us with improved terms and flexibility when compared with the previous agreements. Our Distribution Agreements have no fixed term and include provisions allowing for new services to be added in the future without requiring a new agreement.

While our Distribution Agreements specify the prices distributors pay for our services on a wholesale basis, we do not control or set the price charged by our independent distributors to end-users or service providers. Similarly, Inmarsat Solutions is free to set and change end-user pricing, which therefore provides flexibility to implement pricing strategies which we believe will be effective in driving demand.

***Land Earth Station Operators***

Our Existing and Evolved Services are transmitted via land earth stations ("**LESs**") owned by us and by certain of our distributors. Where our distributors own LESs, these arrangements are governed by separate bilateral agreements. Our broadband services, GSPS and certain other services are transmitted exclusively on our owned Inmarsat-4 ground network infrastructure and this arrangement is captured within our Distribution Agreements.

**Inmarsat Solutions**

Our Inmarsat Solutions segment offers a broad portfolio of remote telecommunications solutions to end-user customers, offering services over the mobile and fixed satellite systems of a number of leading global and regional satellite system operators, predominantly the Inmarsat satellite system, and through their owned and operated microwave and satellite telecommunications facilities. Inmarsat Solutions also provides customised turnkey remote telecommunications solutions, value-added services, equipment and engineering services.

*Inmarsat MSS*

Inmarsat Solutions provides MSS over the Inmarsat satellite system directly to end-users, or through a network of service providers. Inmarsat Global's Existing and Evolved Services are provided through its own terrestrial network, including LESs located in Australia, Canada, the Netherlands and New Zealand. Revenues from services provided over the Inmarsat satellite system, Inmarsat MSS revenues, in 2012 accounted for approximately 49% of the Inmarsat Solutions revenue, compared to 56% for 2011.

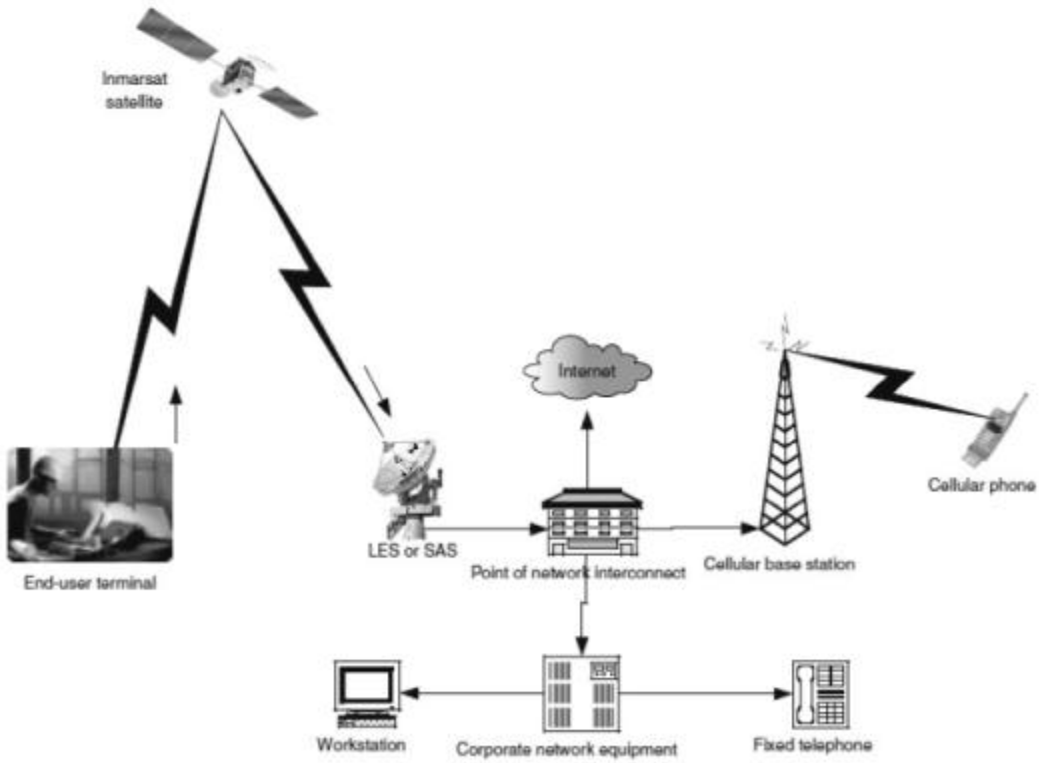
*Broadband and Other MSS*

Broadband and Other MSS revenues primarily consists of sales of VSAT and microwave services, mobile terminal and equipment sales, rental and repairs, mobile telecommunications services sourced on a wholesale basis from other MSS providers, network services provided to certain distributors and other ancillary services. Also included within Broadband and Other MSS are revenues from our Inmarsat Government and Inmarsat Maritime business units (being substantially the legacy Segovia and Ship Equip businesses, respectively), including revenues from our XpresssLink services.

Inmarsat Solutions provides VSAT services, with space segment sourced on a wholesale basis from a number of leading fixed satellite system operators, with VSAT hubs located in the United States, the United Kingdom, Canada and Russia. The VSAT network enables integrated data and voice telecommunications for maritime users and between remote fixed sites and land-based offices. In addition, Inmarsat Solutions operates an extensive digital microwave network in the U.S. Gulf of Mexico, utilised primarily by oil and gas companies operating offshore rigs and platforms in the Gulf of Mexico. Services also include the sale and rental of equipment and repairs and maintenance associated with microwave and VSAT technologies as well as turnkey engineering services for construction and internal and external communication requirements. Inmarsat Government provides secure IP managed solutions and services to U.S. government agencies and other commercial customers. During 2012, the total revenue derived from Broadband and Other MSS accounted for approximately 51% of total Inmarsat Solutions revenues, compared to 44% in 2011.

**Our Network**

The following diagram illustrates how our network carries a data or voice transmission from an end-user terminal to a terrestrial network for delivery to a wireless telephone, or to a computer or telephone connected to a corporate network.




Our network is one of the largest satellite-based global mobile communications networks in the world. It comprises:

- our in-orbit fleet of 9 owned satellites in geostationary orbit located approximately 22,300 miles above the earth;
- LESs owned by us and our distribution partners that transmit and receive our Existing and Evolved Services to and from our satellites;
- three satellite access stations ("**SASs**") comprising a total of seven antennae, all of which transmit and receive traffic for our broadband and certain other Inmarsat-4 services to and from our satellite network;

- in respect of GSPS, to transmit and receive our GSPS traffic to and from our satellite network, we have established a gateway in Subic Bay (Philippines) in cooperation with Philippines Long Distance Telephone Company and gateways in Fucino (Italy) and Paumalu, Hawaii (U.S.) which are part of our SAS facilities; and

- a range of wireline communications links to terrestrial communications networks, which in some cases, are procured or provided by our distribution partners.

Our network is supported by four prime and three back-up tracking, telemetry and control stations and four principal network coordination stations owned by third parties located at different points around the globe. Our network operations centre and satellite control centre are in London. These facilities are further supported by a fully redundant disaster recovery site elsewhere.

**Our Satellites**

The key characteristics of our existing geostationary satellites are summarised in the following table:

| Key characteristics | Inmarsat-2 | Inmarsat-3 | Inmarsat-4 |
|---|---|---|---|
| Number of satellites................. | 4 (1 in orbit) | 5 (all in orbit) | 3 (all in orbit) |
| Coverage and spot beams....... | Global beam | Global beam and six wide spot beams (1) | Global beam, 19 wide spot beams (1) and 200+ narrow spot beams (2) |
| Launch dates........................... | October 1990 - April 1992 | April 1996 - February 1998 | March 2005; November 2005; and August 2008 |
| Orbital position (on the equator) | 142W | 64E, 15.5W, 178E, 54W, 25E | 143.5E, 25E, 98W |
| Geographic coverage .............. | Regional | Global (other than extreme polar regions) | Global (other than extreme polar regions) |
| Manufacturer ........................... | British Aerospace | Lockheed Martin | Astrium |
| Payload (3)................................ | Hughes | Marconi | Astrium |
| Launch vehicle ........................ | Delta, Ariane | Atlas Centaur, Proton, Ariane | Atlas V (first launch), Sea Launch (second launch), and Proton (third launch) |
| Cost (including launch insurance) | US$675.0m | US$895.0m | US$1.1bn |
| End of Life (4)............................ | 2014 | 2018 | 2023 |

(1) A wide spot beam has an average diameter of approximately 3,400 kilometres (2,100 miles), covering an area approximately the size of the continental United States.

(2) A narrow spot beam has an average diameter of approximately 800 kilometres (500 miles), when pointed directly at the geographical regional immediately below the satellite (the "**sub-satellite point**"). This equates to an area approximately the size of Kenya. As the spot beam geographical coverage progressively moves away from the sub-satellite point, the geographical area covered by a narrow spot beam also progressively increases.

(3) Payload refers to communications subsystem.

(4) We calculate end of life estimates for our fleet of in-orbit satellites based on the latest information available for several factors. These factors include operational history, projections for remaining fuel on board, and the observed degradation of on-board systems in comparison to available redundancy. End of life estimates are subject to change and involve a degree of uncertainty.

*Inmarsat-2 and Inmarsat-3 Satellites*

Each of our Inmarsat-2 satellites and Inmarsat-3 satellites covers up to one third of the earth's surface, giving our existing services global reach (except for the extreme polar regions).

Our satellites take advantage of the relatively wide coverage patterns of the antennae of mobile ground terminals with which they communicate to operate in orbits slightly inclined to the equator, thus reducing their station-keeping fuel requirements and thereby extending their operating lifetimes. The satellites contain on board fuel to support both regular position maintenance manoeuvres and possible relocations to new orbital locations. All manoeuvres consume on-board fuel and therefore reduce the remaining operating life of a satellite. We have managed the manoeuvres of our satellites in order to optimise the usable life of our satellite fleet.

We de-orbited the first two Inmarsat-2 satellites in 2006 and 2012, respectively. In April 2013 we completed the process of de-orbiting our third Inmarsat-2 satellite. We currently have one Inmarsat-2 satellite remaining operational in orbit.

*Inmarsat-4 Satellites*

Each of our Inmarsat-4 satellites has more than 200 narrow spot beams and 19 wide spot beams in addition to its global beam. These satellites support our broadband data services by incorporating higher-power transponders that can be focused into narrower beams than our earlier satellites. The satellites also employ technology that enables us to adjust the size, shape and power of spot beams to meet changing user demand. The design of the spot beams on our Inmarsat-4 satellites allows us to use the available spectrum more than 12 times more efficiently than is possible on our Inmarsat-3 satellites. Each Inmarsat-4 satellite is 60 times more powerful than an Inmarsat-3 satellite (measured by maximum equivalent isotopic radiated power ("**EIRP**") on the narrowest spot beam), and each of our Inmarsat-4 satellites is capable of providing approximately 16 times more communications capacity than each of our Inmarsat-3 satellites, based on estimates of forward and return data rates of GAN services on the Inmarsat-3 satellites and BGAN on our Inmarsat-4 satellites.

*Alphasat Programme*

On 8 November 2007, Inmarsat entered into a contract with Astrium for the construction of Alphasat, a new satellite to be deployed over the EMEA region. The Alphasat programme is currently on schedule for delivery and launch in 2013. We are contracted with Arianespace for the launch of this satellite using an Ariane 5 ECA launch vehicle. The launch of Alphasat will enhance our Inmarsat-4 network and provide resilience to the risk of a satellite failure. With Alphasat deployed we will have in-orbit redundancy, meaning a failure of either Alphasat or any one Inmarsat-4 satellite would not affect our ability to continue to offer global coverage via the remaining satellites. Alphasat has a design life of 15 years.

The Alphasat satellite will be capable of providing our services across the complete 41 MHz of L-band mobile satellite spectrum available over the EMEA region. This capability provides greater flexibility in spectrum utilisation compared to the current Inmarsat-4 satellite for the EMEA region which is limited to providing service across 27 MHz of the L-band. In addition, we expect Alphasat's advanced digital processor capability and optimised antenna coverage will allow up to 50% more capacity for our services as compared to an Inmarsat-4 satellite. The total cost of the Alphasat programme, including manufacture and launch of the satellite, is expected to be in the region of US$350.0m.

*Inmarsat-5 Satellites and the Global Xpress Programme*

In August 2010, we announced a contract with Boeing Satellite Systems for the delivery of three Ka-band Inmarsat-5 satellites. The Inmarsat-5 satellites will form the space segment component of a major new investment programme to deliver Global Xpress services. Global Xpress will deliver super-fast broadband, global, fixed and mobile satellite communications services, and represents an incremental long-term growth opportunity. The total expected cost of the Global Xpress programme is approximately US$1.2 billion, including the three satellites, launch services, insurance, ground infrastructure and network, terminal development and other related costs. We currently expect to launch the first Inmarsat-5 satellite in 2013 and to complete global coverage in 2014. Each Inmarsat-5 satellite has a design life of 15 years.

In July 2011, we signed a contract with International Launch Services ("ILS") for the launch of our Inmarsat-5 satellites using the Proton launch vehicle. The Proton launch vehicle has a very strong operational success record and was previously successfully used by Inmarsat for launch of an Inmarsat-4 satellite. However, during 2012 Proton experienced two launch failures, including a failure on 8 December 2012. Subsequently, in February 2013, the Failure Review Oversight Board, which investigated the reason for the December 2012 failure, made recommendations designed to prevent a similar failure and, on each of 27 March and 15 April 2013, the Proton vehicle successfully launched satellites for other satellite operators.

There are currently five further Proton launches for other commercial satellite operators scheduled ahead of our first Inmarsat-5. These missions will provide a continuing opportunity to verify the performance of the Proton vehicle across multiple launches. Although the normal failure review process may have resulted in a delay to the launch of the satellites scheduled for launch ahead of us, the resumption of successful Proton launches provides us with confidence that a material delay to the launch of our first Inmarsat-5 satellite is now less likely.

As part of the Global Xpress programme, we have also signed contracts for the development of the ground segment and terminals. On 18 February 2011, we signed a contract with iDirect covering the development of the Inmarsat-5 ground network, deployment of certain ground equipment (RFS antennas and hub equipment) at six SASs providing dual site redundancy per satellite, the development of satellite terminal core module ("CM") technology, the subsequent sale and distribution of CMs, and the supply of 27 Satellite

Reference Terminals. In addition, we have signed contracts with SeaTel Inc., Intellian, JRC and Thrane & Thrane for the manufacture of maritime stabilised satellite terminals, with availability starting in 2013. In 2012 we signed contracts with Honeywell for the implementation and manufacture of an aviation terminal and with Skyware Global and Cobham Satcom for the implementation and manufacture of transportable land terminals.

In October 2012 we signed a contract with Cisco for the development of certain networking and service integration features. This infrastructure will provide hybrid Ka and L-Band network routing, standardised interfaces to all provisioning and billing functions, service implementation and support portals and an application hosting environment. These capabilities will be integrated and made available starting with the commercial launch of Global Xpress services.

**Ground Infrastructure**

*Ground Infrastructure for our Inmarsat-2 and Inmarsat-3 Satellites*

Our existing Inmarsat-2 and Inmarsat-3 satellites receive and transmit our Existing and Evolved Services through a network of LESs that are owned by us or our distribution partners. Inmarsat Solutions operates a terrestrial-based network, including LESs located in Australia, Canada, the Netherlands and New Zealand. These LESs procure or provide the connections required to link our satellite system with terrestrial communications networks.

Our satellites are controlled from our satellite control and network operations centre in London via tracking, telemetry and control ground stations situated in the United States, Canada, Italy, Norway, China, New Zealand and Russia. Typically, with a repetition rate of about every 16 seconds, our satellites transmit a set of data about themselves comprising thousands of parameters. From our satellite control centre we manage each satellite's on-board system, maintain each satellite within its designated orbital location and monitor the performance data transmitted from each satellite, taking corrective actions as required. Our network coordination stations allocate channels among the LESs in their regions. Our satellite control centre, our six ground stations, our one backup station and our four principal network coordination stations are all connected by a redundant MPLS network.

Our operation and control infrastructure is designed to ensure that redundant facilities are available should components in our operation and control system fail. Most of our satellites can be controlled from two ground stations and we have a fully redundant backup control centre that mirrors the functionality of our primary satellite control and network operations centre in London. During the three years ended 31 December 2012, our satellite communications network average availability exceeded 99.9%.

*Ground Infrastructure for Our Inmarsat-4 Satellites*

Our existing Inmarsat-4 satellites receive and transmit our broadband services and certain other services through a network of SASs that are owned by us. Two of our SASs, located at Fucino (Italy) and at Burum (the Netherlands), transmit and receive our services via the EMEA satellite, located at 25 East longitude. These two stations provide complete site redundancy in case of partial or total outage of one SAS. In early 2009, a new SAS located at Paumalu, Hawaii (U.S.) commenced operations for the Americas satellite at 98 West longitude and the Asia-Pacific satellite at 143.5 East longitude.

For our SAS sites in Italy and the U.S. we incur costs for the operation of these facilities as part of respective service contracts with Telespazio S.p.A and Intelsat Limited that form part of our network and satellite operations costs.

In respect of GSPS over the Asia-Pacific satellite, we have additionally established a gateway in Subic Bay, Philippines in cooperation with Philippine Long Distance Telephone Company.

*Ground Infrastructure for Our Inmarsat-5 Satellites*

We have entered into a contract with iDirect for the development of the Inmarsat-5 ground segment infrastructure. Sites in Greece and Italy have been selected as the Global Xpress SASs for the Indian Ocean region satellite. Contracts with OTE S.A. and Telespazio S.p.A for these sites have also been signed. SAS sites have also been selected for the Atlantic Ocean region satellite, and the SASs are under construction in Lino Lakes (Minnesota) and Winnipeg (Canada). The Pacific Ocean region satellites SAS sites agreements are currently in final stages of negotiation.

**Billing**

Our billing systems collect and process data relating to all of the communications services we provide.

For our Inmarsat Global business, the majority of services are charges on a usage basis, either by connection duration measured in minutes or by volume of data transmitted measured in kilobytes or megabytes. We also offer a number of rate plans, some of which feature advance payment in return for reduced rates and the facility to utilise the associated traffic allowance over an extended period of time or multiple terminals. We also utilise certain of our satellites to provide dedicated leased capacity to our distribution partners for several of our services, and to provide specialised navigational transponder facilities. Lease charges are determined by satellite availability, lease duration, and the capacity, measured by service type, power and bandwidth, provided under the lease.

Services provided on a usage basis are invoiced monthly and payable by the distribution partner on a monthly basis. Where capacity is leased, invoices are generated and payable by the distribution partner on a basis appropriate to the duration of the lease. Typically, for leases of 12 months or less, invoices are payable for the entire period prior to commencement of the lease. Leases which are high value or for longer than 12 months are typically payable quarterly in advance.

Within our Inmarsat Solutions business, charges for telecommunication services that are usage-based are typically billed monthly determined on the number of dedicated circuits or data lines provided or leased, data units transmitted or minutes used. In addition, Inmarsat Solutions offers numerous rate plans which have separate billing arrangements depending on the plan structure. Charges for equipment, prepaid telecommunication cards and other services are billed upon fulfilment of the goods or service in accordance with the customer contract.

The non-MSS businesses of Inmarsat Solutions, such as the microwave network previously operated by Stratos, the VSAT network previously operated by Ship Equip, and the managed network services previously provided by Segovia, each make use of their own billing systems appropriate for the nature of the services provided. These services generally provide a certain amount of network capacity for a certain period rather than being provided on a usage basis.

**Insurance of Our Business and Insurable Assets**

*In-orbit Insurance*

We maintain in-orbit insurance for our fleet of three Inmarsat-4 satellites. Our current in-orbit insurance policy is renewable in August 2013. The cost of obtaining insurance may vary as a result of either satellite failures or general conditions in the insurance market. For future years, in-orbit insurance for our Inmarsat-4 satellites may not continue to be available on commercially reasonable terms, or at all.

We do not maintain in-orbit insurance for our Inmarsat-2 or Inmarsat-3 satellites due to the high level of operational flexibility and redundancy in our satellite fleet as a whole.

*Launch Insurance*

We have obtained launch insurance for our Alphasat and Inmarsat-5 satellites. Launch insurance typically covers the "net book value" of the insured satellite, which for this purpose includes the cost of the relevant satellite, related launch insurance premiums, the cost of purchasing a satellite launch vehicle and related services and capitalized costs. Our launch insurance includes one year of in-orbit insurance for each satellite. We have also obtained a level of in-orbit insurance for our Alphasat and Inmarsat-5 satellites for a further four years.

*Third-party Liability Insurance*

We also maintain third-party legal liability insurance. This insurance cover is in respect of sums which we may become legally obligated to pay for bodily injury or property damage caused by an occurrence related to services provided through our network or arising out of the ownership and/or operation of the Inmarsat fleet of satellites and including liability arising under the Convention on International Liability for Damage Caused by Space Objects (TIAS 7762) and the United Kingdom Outer Space Act 1986.

**Intellectual Property**

*Our Brand*

Our main brand is "Inmarsat". The word "Inmarsat" is a trade mark licensed to us exclusively and perpetually by the International Mobile Satellite Organisation ("IMSO"). We have the right to have IMSO apply for registration of this trade mark in the name of the IMSO in any country in the world. The trade mark is currently registered for equipment and services that are important to our business in many countries, including

Australia, Brazil, Canada, the Netherlands, Belgium, Luxembourg, China, France, Germany, Norway, Singapore, Mexico, New Zealand, the United Arab Emirates, Egypt, Japan, Russia, South Africa, the United Kingdom, Turkey, Ukraine, Poland, Switzerland, Republic of Korea, Malaysia, India, Indonesia, Hong Kong, Cuba and the United States.

Our licence from IMSO allows us to grant sub-licences. We have granted non-exclusive and royalty-free sub-licences to, among others, our distribution partners and service providers to use the Inmarsat brand on the basis of the IMSO Licence.

*Protecting Our Technological Developments*

We use reasonable efforts to protect certain significant technology by filing patent applications in key jurisdictions. Our key jurisdictions vary depending on the technology involved. Patent applications have ordinarily been filed in the United States, key European countries, Hong Kong, China, Canada, Republic of Korea, Australia, Singapore, Mexico, the United Arab Emirates and Japan. Priority applications are usually filed in the United Kingdom.

In addition to the above, or where patent protection is not possible or practicable for us to obtain, we seek to protect significant information about our technology, or “know-how”, by releasing it only to those third parties who have a reasonable need to access it and who have signed confidentiality agreements or licence agreements containing strict confidentiality obligations.

*Key Operational Software*

We own some of the key operational software used in our satellite control and network operations centre because it was created by our employees or by outside consultants who have transferred their intellectual property rights in that software to us. The main software suites of this kind are an off–air monitoring system, an Inmarsat network monitoring system, both of which are used in our network operations centre, and the Inmarsat storm satellite support system suite of software used to control our satellite fleet and ground stations. In certain circumstances we commercially supply our satellite control software to third parties, as a way of reducing maintenance costs, funding additional safety features for satellite control and retaining critical operational skills in the business.

The rest of our operational software is custom software designed by either third parties who have retained the intellectual property rights in it, but licensed those rights to us (normally on a non–exclusive, royalty–free, perpetual, worldwide basis) for use for Inmarsat purposes, or by our employees based on existing software supplied by third parties who have granted to us licences to adapt that software.

All of our key operational software is supported by appropriate technical maintenance and support arrangements that are either provided by our own employees or by third parties.

**Competition**

The global communications industry is highly competitive. We face competition from a number of communications technologies in a number of the target sectors for our services. It is likely that we will continue to face significant competition in some or all of our target sectors in the future.

*Global MSS Competitors*

We currently face competition from two MSS operators: Iridium, which provides satellite services on a global basis, and Globalstar, which provides satellite services on a multi-regional basis. Both Iridium and Globalstar operate in different frequencies to us (the “big LEO” band), and as a result, their operations do not interfere with our L-band operations or compete for spectrum in the L-band.

After commencing operations in 1998, Iridium filed for U.S. bankruptcy protection in March 2000 and recommenced service in early 2001. Since then, we have faced competition from Iridium in voice and lower speed data services in the maritime and land mobile sectors. Iridium has also launched higher rate data services, OpenPort and Iridium Pilot, targeted at the maritime sector and which compete with our Existing and Evolved Services and the low end of our FleetBroadband capability.

Iridium has announced plans to deploy a constellation of new satellites, called Iridium NEXT, with enhanced service capability including broadband data services. In June 2010, Iridium announced a contract for new satellites with Thales Alenia Space and currently expects to begin launching the new satellites in 2015. As a result, competition from Iridium in our MSS sectors could intensify after the deployment of the Iridium NEXT satellites.

Globalstar, which operates a multi-regional low-earth orbit system, began introducing commercial services in 2000. In February 2002, Globalstar filed for U.S. bankruptcy protection, which it exited in 2004 following its acquisition by Thermo Capital Partners. Despite near-global satellite coverage, Globalstar's service is available only on a multi-regional basis as a consequence of gaps in its ground transmission facilities and the fact that, unlike the Iridium fleet, its satellites do not contain inter-satellite links for the space-routing of transmissions to its ground transmission facilities. Although Globalstar has announced plans to reduce such gaps, their coverage of oceanic areas remains limited and affects their ability to compete in the maritime and aviation sectors. The Globalstar system provides data and voice services at transmission rates of up to 9.6 kbps.

In February 2007, Globalstar announced that it was experiencing accelerated degradation of the amplifiers for its satellite communications in many of its satellites. This degradation resulted in an adverse impact on Globalstar's ability to provide uninterrupted two-way voice and data services on a continuous basis in any given location. Despite successfully launching eight spare satellites during 2007 (which do not have the amplifier problem), two-way service availability remained limited and resulted in a lower level of competition from Globalstar since the degradation problems were announced.

In December 2006, Globalstar signed a contract with Thales Alenia Space for a new constellation of 48 satellites and in February 2013 completed the launch of the first 24 of these satellites. Although Globalstar has not announced plans for the remaining 24 satellites, Globalstar's service quality and availability is expected to improve during the course of 2013. As a result, the level of competition we face from Globalstar may increase in certain of our MSS sectors.

*Regional MSS Competitors*

Our regional mobile satellite competitors currently include Thuraya, principally in the Middle East, Africa and Asia, and LightSquared in the Americas. Thuraya offers voice and data services at transmission rates of up to 444 kbps in Europe, Northern and Central Africa, the Middle East, much of Asia and Australia over two geostationary satellites. Thuraya also supports GSM roaming services.

In addition to its plans for 4G-LTE ATC services, LightSquared also offers voice and low-speed data or M2M services in the Americas using vehicle-mounted devices that are smaller in size and less expensive than comparable Inmarsat terminals and compete with terminals offered by SkyWave.

On 14 November 2010 LightSquared launched the first of two new satellites, SkyTerra 1, to support its ATC services. A second satellite was also contracted to be built and may be launched in due course. Although LightSquared has indicated that the primary purpose of the new satellites is to support ATC services that do not compete directly with our MSS services, the new satellites may extend the life of the previously existing LightSquared M2M services or provide the capability to offer services that may compete with us in the future over the Americas. Thuraya and LightSquared both operate in the L-band, LightSquared in Region 2 (the Americas) and Thuraya in Region 3 (Asia and Australia) and Region 1 (Europe, Middle East and Africa), and therefore compete with us for spectrum allocations in the L-band.

We may face additional competition in regional markets in the future. DBSD North America, Inc. ("**DBSD**") (formerly ICO) and TerreStar Networks Inc. ("**TerreStar**") have previously announced that they are planning to deploy an integrated MSS/ATC service in North America and have each successfully launched one satellite for this purpose. However, DBSD and Terrestar entered bankruptcy proceedings in 2009 and 2010 respectively. In March 2012, DISH Network Corporation ("**DISH**"), announced the completion of the acquisition of DBSD and of substantially all the assets of Terrestar. DISH has indicated that the primary purpose of the acquisitions is to make use of those companies' spectrum allocations for ATC purposes in the United States. It is, however, possible that renewed satellite investment in these networks could increase competition for our MSS business in the future.

O3b Networks ("**O3b**") was formed in 2007 and expects to begin the deployment of a constellation of MEO Ka-band satellites in 2013. O3b currently expects to launch 8 satellites in 2013 and a further 16 satellites on subsequent launches to complete a network that will offer satellite communications services within 45 degrees north and south latitude. Although the O3b business plan is expected to principally focus on IP trunking and mobile services backhaul, O3b has also stated that they plan to target MSS opportunities for government and other users. If O3b is successful in targeting MSS sectors, we will face increased competition for our L-band and Global Xpress services.

*VSAT Service Competitors*

We face competition, principally in our maritime sector, from communications providers of VSAT services. For maritime customers, these providers include Harris CapRock Communications, Astrium Services, MTN Satellite Communications, KVH Industries and Intelsat. For aviation customers, these providers include Panasonic Avionics Corporation, Arinc and Row 44. These and other operators operate private networks using VSATs or hybrid systems to target government and commercial users. VSATs are fixed, transportable or mobile terminals that access higher bandwidth services provided over satellite systems operating in the C-band, Ku-band and Ka-band frequencies. As well as new operators entering this area, the addition of further FSS satellite capacity and coverage is providing further competitive price pressure on the cost to end-users of VSAT services. Communication services provided by VSATs are primarily targeted at users who have a need for high-volume or high-bandwidth data services, although new entrants into the sector are offering lower volume and bandwidth products in competition with our services. The coverage area of VSAT services is not as extensive as the coverage area of MSS services, but is growing rapidly to meet demand and is expected to be substantially global within the next few years.

Technological innovation in VSAT equipment, together with increased C-band, Ku-band and Ka-band coverage, has increased, and we believe will continue to increase the competitiveness of VSAT and hybrid systems in some traditional MSS sectors by permitting smaller, more flexible and less expensive VSAT systems. In addition, our recently announced plans to enter the VSAT market with our Global Xpress service may have the effect of intensifying competition from VSAT service providers.

Certain satellite operators are investing in Ka-band capacity to support business plans primarily aimed at consumer broadband and enterprise services. These include Eutelsat, Viasat and Hughes Network Services. Although satellites designed for these services typically have limited geographic coverage to focus service delivery on specific geographic markets, they will have the ability to offer other types of service, including MSS. These operators may be able to use these satellite systems to offer regional or multiregional MSS services in competition with our Global Xpress services.

*Terrestrial Competitors*

We generally provide services primarily in areas that terrestrial networks do not serve at all or for which they are not the most cost effective or technologically best suited solution.

However, gradual extensions of terrestrial wireline and wireless communications networks and technologies to areas not currently served by them may reduce demand for our existing services and other services that we expect to provide. We expect that future extensions of terrestrial networks will be driven by economic returns generated by extending wireline or wireless networks. We also expect that many underdeveloped areas will be too sparsely populated to generate returns on investment required to build terrestrial communications networks. Unlike our terrestrial competitors, we can provide communications services to these underdeveloped areas at no incremental cost.

# REGULATION

## Introduction

Our business is regulated by a number of national and international regulatory authorities. We are subject to the regulatory authority of the UK government, as well as of the national authorities in the countries in which we operate. We are also subject to the regulations of various international organisations, including the ITU, IMSO and the European Union.

The regulation of our business can be divided into three broad categories:

(i) rules governing the operation of our satellite system, which can in turn be divided into four areas:

- launch and operation of satellites;
- allocation and licensing of space orbital locations and associated electromagnetic spectrum;
- licensing of ground infrastructure; and
- licensing of end-user terminals (at sea, on land or in the air) and telecommunications services;

(ii) antitrust and competition laws, which are generally applicable to national and international businesses; and

(iii) other regulations, including rules restricting the export of satellite-related equipment and technology and public service obligations applicable to our business.

## Regulation of Our Satellite System

*UK Outer Space Act 1986*

Our activities in outer space are regulated by the UK Outer Space Act 1986, which implements into UK law obligations under various international treaties. The Outer Space Act prohibits us from, among other things, operating a space object and carrying on any activity in outer space without a licence from the UK Secretary of State for Business, Innovation and Skills issued under the Outer Space Act. Accordingly, we have obtained licences under the Outer Space Act for our ten in-orbit satellites.

Under the UK Outer Space Act, we are obliged to provide an indemnity to the UK government for an unlimited amount for any claims brought against it as a result of our licensed activities (for example, any actions brought against the UK government if one of our satellites were to collide with another spacecraft). We are also required by our licences to obtain insurance of up to £60.0m per satellite to be used to pay any sums to the UK government in respect of this indemnity, which amount may be increased in the future by the UK government. We have obtained the required insurance for all our in-orbit satellites.

## International Telecommunication Union Filings and Coordination Procedures

The ITU is the United Nations treaty organisation responsible for worldwide cooperation and standardisation in the telecommunications sector. The ITU registers radio frequency bands and orbital locations used by satellites and publishes the ITU's radio regulations (the "**Radio Regulations**"), which set out detailed rules for use of radio spectrum.

Pursuant to the Radio Regulations, national regulators are required to file technical information with the ITU relating to the proposed satellite systems of operators under their jurisdiction. Ground-based transmission facilities operated by us or our distribution partners, called LESs, which connect our satellites to terrestrial communications networks, are also subject to the Radio Regulations.

All necessary filings for our in-orbit satellites have been made on our behalf by the UK Radiocommunications Agency (which, from 29 December 2003, was incorporated into and replaced by The Office of Communications ("**Ofcom**")). Once filings have been made with the ITU, a frequency coordination process follows to ensure that each operator's services do not cause unacceptable interference to the services of other operators. The negotiations are conducted by the national administrations with the assistance of satellite operators. The timetable and procedures for coordination are also governed by the Radio Regulations. We have coordinated frequencies in the mobile satellite services spectrum at L-band (1.5

and 1.6 GHz) for communication between our satellites and end-user terminals, as well as frequencies in the C-band (4 and 6 GHz) for communications between LESs and our satellites. We also have coordinated frequencies in the C-band for our tracking, telemetry and command signals to and from our satellites.

Frequencies in the L-band are allocated in a regional multilateral coordination process which should take place annually through two separate and independent regional operator review meetings among satellite operators using frequencies in the L-band. One meeting involves operators whose satellites cover North America, while the other involves operators whose satellites cover Europe, Africa, Asia and the Pacific. The outcome of these meetings also determines the use of frequencies in South America. In each case, satellite operators coordinate frequencies and assign spectrum by consensus. It is always possible to agree frequency allocation and coordination on a bilateral basis between operators outside this multilateral process, subject to non-interference with third parties. With respect to the Americas, there has not been a unanimous agreement among all operators for a number of years. Instead we have successfully operated through a combination of maintaining consistency with the last agreed parameters, and bilateral arrangements with other operators.

The 2007 World Radio Conference considered the identification of frequency bands for terrestrial International Mobile Telecommunications ("**IMT**") (3rd and 4th generation mobile) systems. C-band (3400 - 4200 MHz), which is used for our satellite feeder and telemetry links, was one of the candidate bands. The ubiquitous use of these systems is not compatible with the operation of satellite earth stations, such as the LESs/SASs, in the same band and in the same geographical area. As a result, in countries where IMT systems are deployed in the C-band, the existing LESs/SASs could suffer interference and accordingly, we may be unable to deploy new earth stations. Many countries have already licenced broadband wireless access systems, which are similar to IMT systems, in the C-band and others are expected to follow suit.

At the 2007 World Radio Conference ("**WRC**"), the "no change" campaign, led by Inmarsat and other major satellite players, successfully prevented a global C-band identification for IMT services. The lack of harmonised identification for IMT contributed in slowing down the momentum for IMT deployment in C-band. There were, however, several countries which identified the C-band portion of 3400-3600 MHz for IMT through country footnotes to the Radio Regulations. These footnotes included technical constraints which will help to ensure protection of earth stations from IMT operations in neighbouring countries. However, protection within national boundaries of countries intending to deploy IMT in the C-band still needs to be discussed with the individual administrations. As a result, we are continuing to pursue protection of each LES and SAS through registration of stations with the ITU and discussion with LES operators and national administrations.

The 2012 WRC included in the agenda for the 2015 WRC an item on identification of additional spectrum for IMT, with no limitation on the amount or frequency range to be considered. It is expected that C-band will be targeted again and potentially L-band and S-band could also be considered. We intend to work with the ITU and other regulatory organisations in preparation for, and during, the 2015 World Radio Conference to ensure the continued protection of the frequency bands of interest to Inmarsat.

In December 2007 we signed the Cooperation Agreement with LightSquared for the efficient use of L-band spectrum over North America. The Cooperation Agreement includes conditional provisions for the coordination of the parties' respective existing and planned satellites serving the Americas and for the reorganisation of our spectrum and that of LightSquared over the Americas to provide contiguous spectrum in larger blocks for both our operations and efficient re-use of L-band spectrum. The purpose of the agreement is to increase spectrum efficiency and protect both MSS and ATC operations from inter-system interference.

The Cooperation Agreement also provides for the parties to cooperate with a view to facilitating the deployment by LightSquared of a North American hybrid MSS/ATC network, subject to certain preconditions which have not yet been satisfied. Should LightSquared deploy such a network, it is obliged both to support our activities necessary to implement the necessary inter-system and spectrum coordination, as well as pay us substantial sums in return for increasing the total spectrum capacity available to LightSquared. However, in the event that LightSquared is found to be in breach of the Cooperation Agreement, the parties have made provision for the unwinding of their ATC collaboration to an agreed spectrum coordination outcome that is expected to support each party's respective independent business activities in the Americas for the foreseeable future. As detailed below, LightSquared is currently facing regulatory challenges to its plans for deploying its planned network, and the future of its MSS/ATC network is uncertain.

In August 2010, Inmarsat announced plans for a new constellation of three satellites, called Inmarsat-5, in the Ka-band to provide a mobile broadband service known as Global Xpress. These three satellites will be deployed respectively at orbital locations in the Indian Ocean Region ("**IOR**"), Atlantic Ocean Region ("**AOR**") and Pacific Ocean Region ("**POR**") in order to provide global coverage for Global Xpress services. In order to secure rights to orbital slots and spectrum for these satellites, Inmarsat has made a number of ITU networks filings, both through Ofcom and through the Norwegian Post and Telecommunication Authority. The number of filings made will provide flexibility in the frequency coordination process. Coordination of these filings is ongoing and is expected to result in coordinated access to orbital locations for the Inmarsat-5 satellites in time for launch. Coordination agreements have already been concluded with some of the operators potentially affected by Inmarsat-5.

Some frequency bands planned to be used by Global Xpress user terminals are shared with terrestrial services. In these cases, coordination is required. Such coordination will be undertaken on a country by country basis as part of the licensing process.

In general, increased competition for spectrum and orbital locations (and/or disputes with parties to regional coordination processes) may make it difficult for us to retain rights to use the spectrum and orbital resources we require either generally or in relation to particular regions or countries. We cannot guarantee that in the future we will be able to retain spectrum and orbital rights sufficient to provide our existing or future services. We also cannot determine to what extent regulatory authorities will charge us or our distribution partners for the use of MSS spectrum or how much would need to be paid to acquire or retain such spectrum in the future. To the extent we or our distribution partners are unable to retain the rights to use such spectrum or are required to pay for such use (by spectrum auctions or otherwise), our ability to provide services may either be limited or become more costly, which may harm our business or our results of operations.

**Use of Mobile Satellite Service Spectrum to Provide Terrestrial Communications Services**

In January 2003, under the ATC Ruling, the Federal Communication Commission ("**FCC**") decided to permit mobile satellite service operators to use their assigned mobile satellite service frequencies to provide ancillary terrestrial wireless communication services in the United States as part of an integrated MSS/ATC service.

On 8 November 2004, the FCC issued an order granting LightSquared (then known as MSV, and later known as SkyTerra) an ATC licence and approving several waivers of the ATC Ruling that LightSquared requested, while deferring ruling on certain additional waivers. On 10 February 2005, following a series of petitions and requests for reconsideration, the FCC clarified the ATC Ruling by a memorandum order and opinion which, *inter alia*, settled the applicable rules on inter-system interference and other general requirements for integrated MSS/ATC systems. The Cooperation Agreement entered into between Inmarsat and LightSquared provides a framework for collaboration on hybrid MSS/ATC services in the L-band, and would provide the vehicle for these companies to participate in an MSS/ATC deployment. LightSquared subsequently received approval from the U.S. FCC for a modification of its ATC authorisation relating to waivers of certain technical rules applicable to its ATC licence, to reflect the multilateral coordination agreement reached between LightSquared and Inmarsat.

In early 2011, LightSquared received a waiver of the FCC's ATC rules to allow it to provide terrestrial-only handsets, but this waiver was subject to a pre-condition that LightSquared be able to demonstrate that its deployment did not create unacceptable interference to GPS transmissions. This issue became controversial over the course of 2011 and early 2012, with GPS interests claiming that LightSquared would interfere with GPS, culminating in the FCC seeking comment in a Public Notice released in February 2012 on whether it should vacate its 2011 waiver, and also suspending LightSquared's underlying ATC authorisation because of the GPS interference concerns. The FCC has not yet issued a ruling in response to that Public Notice.

On 14 May 2012, LightSquared and certain of its affiliates filed petitions for relief under Chapter 11 of the United States Bankruptcy Code and they now operate as debtors-in-possession. Subsequently, on 28 September 2012, LightSquared filed a Petition for Rulemaking with the FCC seeking development of operating parameters for terrestrial use of the 1526-1536 MHz portion of LightSquared's L-band downlink spectrum in a manner that they assert will be compatible with GPS receivers. The Commission sought public comment on the rulemaking request through a Public Notice released on 16 November 2012. In addition, concurrently on 28 September 2012, LightSquared filed an application with the FCC to modify its ATC licence proposing to relinquish its right to deploy terrestrial downlink operations at 1545-1555 MHz and relocate those terrestrial operations instead to 1670-1680 MHz. On 16 November 2012, the FCC released a Public Notice seeking comment on LightSquared's licence modification request and that comment cycle closed on 11 January 2012. These requests remain pending before the Commission.

Globalstar was granted an ATC licence in early 2006. On 31 October 2008, the FCC granted Globalstar's request that its ATC authority be modified to authorise the provision of MSS/ATC services using TDD WiMAX, WCDMA, TD-CDMA and LTE packet switched data protocols. The FCC also allowed Globalstar to lease a portion of its spectrum to Open Range Communications, Inc. ("**Open Range**") for ATC use and granted a temporary waiver of certain ATC gating criteria, including satellite coverage, integrated service, and spare satellite requirements. In September 2010, the FCC denied Globalstar's request for an extension of the temporary waiver and suspended Globalstar's ATC authority until it comes into compliance with the gating criteria. The FCC also granted special temporary authority to allow Open Range to continue ATC operations using spectrum leased from Globalstar. Open Range filed for bankruptcy in October 2011, discontinued service in November, and is currently in the process of liquidating its assets. On 18 March 2011, the FCC authorized Globalstar to operate U.S. earth stations to access its French-licensed second-generation satellites. Globalstar launched 18 second-generation satellites in 2010 and 2011, and launched an additional six second-generation satellites in February 2013 (for a total of 24). The authorisation included the same ATC authority covered under Globalstar's first-generation satellite licence, but did not modify or lift the suspension of Globalstar's ATC authority pending compliance with the gating criteria.

On 19 November 2012, Globalstar filed a petition for rulemaking with the FCC seeking to reform the Commission's regulatory framework for the terrestrial use of the Big LEO MSS band to develop a plan to utilise its licensed spectrum for LTE-based mobile broadband and a separate plan to utilise only the Upper Big LEO band (2483.5-2495 MHz) for a new terrestrial low-power service offering. The FCC placed Globalstar's request on public notice on 30 November 2012 and sought comment. On 11 February 2013, Iridium filed a separate rulemaking seeking to reallocate 2.725 megahertz of Big LEO spectrum from Globalstar's spectrum and shared Globalstar/Iridium spectrum to Iridium and to proceed with licence modifications to allow Iridium exclusive use of the entire reallocated spectrum. Iridium has requested that the two rulemaking petitions be combined, which Globalstar opposes, and those proceedings remain pending before the Commission.

Previously, the FCC granted DBSD and TerreStar ATC authority on their MSS spectrum on an integrated basis with their MSS satellite networks. Both DBSD and TerreStar subsequently entered bankruptcy. In September 2010, TerreStar began providing commercial wholesale satellite roaming service as part of an AT&T Mobility offering and continued the service during bankruptcy.

On 2 March 2012, the FCC approved the transfer of 2 GHz MSS and ATC authorisations held by DBSD and TerreStar to DISH, which consummated the transaction on 12 March 2012. At the same time, the FCC denied the parties' request for a waiver of the integrated service and spare satellite gating requirements to enable terrestrial-only service. However, the FCC initiated a rulemaking proceeding proposing flexible terrestrial use of spectrum in the 2 GHz band and concluded that rulemaking on 11 December 2012, providing significantly increased flexible use of the 2 GHz MSS band (2000-2020 MHz and 2180-2200 MHz). Specifically, the FCC removed regulatory barriers to terrestrial mobile use of this spectrum, and adopted service, technical, and licensing rules that eliminated previous MSS regulatory barriers, including the MSS gating requirements.

The implementation of ATC services by MSS operators in the United States or other countries may result in increased competition for the right to use L-band spectrum, and such competition may make it difficult for us to obtain or retain spectrum resources we require for our existing and future services. In addition, the FCC's decision to permit integrated MSS/ATC services was based on certain assumptions, particularly relating to the level of interference that the provision of integrated MSS/ATC services would likely cause to other MSS operators, such as us, who use the L-band spectrum. If the FCC's assumptions with respect to the use of L-band spectrum for integrated MSS/ATC services prove inaccurate, or a significant level of integrated MSS/ATC services is provided in the United States, the provision of integrated MSS/ATC services could interfere with our satellites and user terminals, which may adversely impact our services. For example, the use of certain L-band spectrum to provide integrated MSS/ATC services in the United States could interfere with our satellites providing communications services outside the United States where the "footprint" of those satellites overlaps the United States. Such interference could limit our ability to provide services that are transmitted through any satellite visible to the United States. Our Inmarsat-2, three of our Inmarsat-3 and two of our Inmarsat-4 satellites are visible to the United States. In addition, users of our terminals in the United States could suffer interruptions to our services if they try to use their terminals near ATC terrestrial base stations used to provide integrated MSS/ATC services. In the event that we anticipate significant usage of mobile user terminals near ATC terrestrial base stations, it may be necessary for the manufacturers of the mobile terminals to modify their products to make them less susceptible to interference, or for us to develop new call set-up procedures which will redirect traffic to frequencies that are adequately removed from transmissions by nearby ATC base stations. Certain provisions in our Cooperation Agreement with LightSquared are also designed to offset the impact that deployment of ATC in the United States would have on users of Inmarsat services.

Other jurisdictions are considering and could implement similar regulatory regimes in the future. In May 2004, Industry Canada, the Canadian regulator, decided in principle to allow ATC services in Canada. The European Commission Decision 2007/98/EC of 14 February 2007 on the harmonised use of radio spectrum in the 2 GHz frequency bands for the implementation of systems providing mobile satellite services confirms this as being satellite spectrum and allows the installation of a complementary terrestrial component. On 13 May

2009, following the ESAP, the European Commission selected two operators, Inmarsat Ventures Limited and Solaris Mobile Limited, as the successful applicants and awarded each of them 30 MHz each of contiguous 2 GHz frequencies for use in a pan-European satellite and complementary terrestrial deployment. Following the expiry in May 2011 of a two-year period in which to deploy the system, the European Commission adopted on 10 October Decision 2011/667, which allows it to coordinate the efforts of EU Member States to decide on an additional "reasonable time to comply" and deploy a commercial service or, if need be, to adopt appropriate enforcement measures. A formal review process was commenced by the EU in December 2012, soliciting input from the Member States regarding Inmarsat's performance to date. A meeting of the EU's COCOM committee is expected to take place in May 2013, following which the EU and the Member States may require additional commitments from Inmarsat in order to continue to perform under the EC Decision.

**Other National Satellite Operator Authorisations**

While in the majority of countries we have not been required to obtain specific telecommunications or spectrum licences to transmit our satellite signals or offer our existing services, we have obtained specific telecommunications or frequency licences with respect to our existing services in a number of countries. We have also registered as a provider of space capacity, as required by national laws, in several countries. Additional countries are considering whether to implement such licence requirements. In some countries, we have been required to comply with additional or unique licensing requirements. To date, the requirements imposed on us to obtain these licences have been minimal and the associated costs are reasonable.

Increasingly, regulatory authorities are imposing fees and introducing new regulatory requirements on businesses that use radio frequencies, which could significantly affect our business, such as by imposing new and unforeseen additional costs and limiting our ability to provide existing or new services. We cannot determine to what extent regulatory authorities will charge us or our distribution partners for the use of spectrum, or how much would need to be paid to acquire or retain such spectrum in the future. To the extent we or our distribution partners are unable to retain the rights to use such spectrum or are required to pay large amounts for such use (by spectrum auctions or otherwise), our ability to provide services may either be limited or become more costly, which may harm our business or the results of our operations.

**Regulation of Use of Ground Infrastructure**

Our agreements with our distribution partners who operate the LESs that connect our satellites to terrestrial communications networks include provisions to ensure that they hold the appropriate licences to operate their LESs. We provide assistance to our distribution partners both by ensuring they are aware of licences they may be required to hold in the jurisdictions where they sell our services, and by assisting them to obtain the necessary licences.

Our satellite control and network operations centre in London does not require individual licences under UK communications law. The ground stations that control and monitor our satellites are operated by third parties (under service contracts with us) who are responsible for ensuring that they are appropriately licensed under national regulations.

The ground infrastructure that we use for our broadband services comprises fewer LESs than we have relied upon for the distribution of our Existing and Evolved Services. However, it is possible that the regulatory authorities in some countries may require us to establish SASs in their countries as a condition of distributing our broadband services in those countries. In respect of the SASs for our L-band broadband services, which we own and/or operate in Italy and the Netherlands, we have already obtained the necessary licences for the operation of those stations as network facilities. We have also obtained licences from the FCC for operation of several antennae at a SAS that we own and operate in Paumalu, Hawaii (U.S.) for our broadband, some Existing and Evolved Services and our GSPS service. The Paumalu SAS is similar in design and operation to the SASs in Italy and the Netherlands.

For Global Xpress, sites have been selected in Italy and Greece and the appropriate national licences to operate the antennas have been obtained in both countries. Additional sites have been selected for the AOR in the United States and Canada and for the POR satellite in New Zealand, and licence applications are in process.

**Licensing of End-User Terminals and Provision of Telecommunications Services**

We, together with our distribution partners and their service providers, are subject to increasing regulation in many countries with respect to the distribution of our services to end-users, particularly in the land mobile sector.

Different regulatory regimes apply to the use of end-user terminals depending on where they are located and whether they are installed in ships or aircraft or are for land use.

Regulatory authorities in approximately 180 countries permit the use of terminals to access our services. Most of these countries require end-users (and, in some cases, distribution partners) to obtain a licence for such use. We have assessed the conditions of use that will apply to our planned Global Xpress service in over 100 countries and we are working closely with our distribution partners to develop optimal access strategies for each of these jurisdictions, particularly with respect to in-country provision of service.

***Maritime Terminals***

Terminals for using our services installed on board ships are licensed by the country to whose jurisdiction the ship in question is subject. The licensing of terminals is generally part of a broader licence that covers all the communications equipment on the ship. The International Agreement on the Use of Inmarsat Ship Earth Stations within the Territorial Sea and Ports came into force on 12 September 1993. 46 countries are parties to this agreement, which permits the operation of terminals in the territorial seas and ports of the signatory countries. In countries which are not party to this agreement, national law may nevertheless permit the use of our terminals. For example, in the United States, (which is not party to this international agreement), foreign ships are authorised to use their communications equipment in domestic territorial waters and ports under Section 306 of the U.S. Communications Act of 1934, as amended (the "**Communications Act**").

***Land Terminals***

In many of the countries that permit terminals to be used in their territory, the end-users and/or distribution partners of our services must obtain licences under national laws relating to use of radio frequency. In addition, distribution partners may be required to obtain licences relating to the provision of telecommunications services.

A number of countries, particularly in the Middle East and Central Europe, continue to maintain a monopoly on providing communication services or have onerous national security requirements that may effectively prevent us from offering (or restrict our ability to offer) satellite communications services to land-based users. In some countries, end-users are required to apply and obtain permission to use terminals to access our existing and new services, and in some cases to pay relatively high application fees. These requirements could deter some end-users from using terminals in those countries.

In Europe, terminals do not generally require individual licences. This eliminates the need for the regulator to issue individual licences for multiple, identical terminals. This follows the spirit of EU Directive 2002/20/EC on the authorisation of electronic communications networks and services which foresees that "*the least onerous authorisation system possible should be used to allow the provision of electronic communications networks and services in order to stimulate the development of new electronic communication services and pan-European communications networks and services and to allow service providers and consumers to benefit from the economies of scale of the single market*". The subject of free circulation of satellite terminals has also been dealt with substantially in the European Conference of Postal and Telecommunications Administration/The Electronic Communications Committee, which has recently adopted a decision that encourages administrations not to require any licence of any kind as a condition to allow for free circulation and use of mobile satellite terminals. In March 2013 Decision ECC/DEC/(13)01 has been adopted for ESOMPs (Earth Stations on Mobile Platforms) which covers Ka-band terminals. However, it is expected that the circulation of terminals will continue to be subject to licences resulting from those administrations seeking payment for the use of frequencies or seeking to licence the service or network.

For our planned Global Xpress services, certain regions have no allocation in the Ka-band spectrum for MSS. We therefore plan to provide services using existing FSS allocations in these regions. There are already existing precedents for the introduction of mobility in allocations for FSS in C- and Ku-band. Moreover, there are reports from ITU and CEPT that recommend the framework and conditions for Ka-band allocations. However, certain countries may take time or may require an explicit ITU endorsement before allowing the use of mobile terminals in the Ka-band.

The terms of and cost to the end-user of obtaining individual licences vary by jurisdiction. We have actively participated in the European Conference of Postal and Telecommunications Administration project teams and working groups and proposed a harmonisation of the interpretation of "free circulation" to mean an exemption at all levels of any kind of licencing burden which many administrations within the European Union have endorsed. In general, the cost of terminal licences is decreasing worldwide, and the period of time an end-user may remain in a jurisdiction with a terminal before requiring a licence is increasing.

In the United States, the FCC issues blanket licences for many types of communications devices. Various companies have applied for, and been granted, blanket licences to cover a number of different types of terminals, which access our services in the United States. On 22 October 2009, Inmarsat Hawaii Inc. was awarded by the FCC a blanket-user terminal licence for certain land Existing and Evolved and BGAN terminals. In addition, on 3 September 2009, the FCC granted Inmarsat Hawaii Inc. authority to provide international facilities-based service in accordance with Section 214 of the Communications Act.

***Aviation Terminals***

For aviation services, Inmarsat complies with the internationally recognised framework of authorising aeronautical terminals and/or the use of frequencies in countries where Inmarsat aeronautical services are provided. Under the International Convention on Civil Aviation, all radio equipment on board an aircraft must be duly authorised by the aircraft's flagging state. Aircraft owners/operators carrying Inmarsat equipment are responsible for compliance with this requirement. Fulfilling this requirement is often enough to satisfy any additional requirement that other countries may have for frequency authorisations. In the case of countries for which this is not sufficient, Inmarsat or its designated service providers and distribution partners secure the necessary national frequency authorisations in the countries in which the Inmarsat service is offered.

***Equipment Testing and Verification***

In addition to licences for the use of spectrum, terminals must also comply with applicable technical requirements. These technical requirements are intended to minimise radio interference to other communications services and ensure product safety.

In Europe, there is full harmonisation of these standards and associated type approvals. European Directive 99/5 provides that European Union member states will allow a mobile satellite terminal to be placed on the market if it bears a mark confirming conformity with the technical requirements of the Directive.

In the United States, the FCC is responsible for ensuring that communications devices comply with technical requirements for minimising radio interference and human exposure to radio emissions. The FCC requires that equipment be tested either by the manufacturer or by a private testing organisation to ensure compliance with the applicable technical requirements. For other classes of device, the FCC requires submission of an application, which must be approved by the FCC, or in some instances may be approved by a private testing organisation.

In the Asia-Pacific region, in the case of Japan, completion of national type testing and verification approval is an integral part of the authorisation of new telecommunication services.

**Other Communications Regulatory Issues**

***Universal Service Funds***

Some countries, such as the United States, India, Kenya and Australia, require a number of telecommunications service providers to contribute funds to "universal service" programmes. These programmes in turn use the funds to subsidise consumers' access to services in high-cost areas, such as rural markets, subsidise access for low-income customers and provide other services deemed to be socially desirable. We, as well as our distribution partners and their service providers, may be required to make contributions to these programmes, which may increase the cost of providing services over our system.

***Law Enforcement and National Security Requirements***

Generally, communications networks operate under national regulations that require operators to provide assistance to law enforcement and security agencies. These national regulations typically require operators of communications networks to assist in call interception by providing to such agencies call interception or information relating to persons or organisations subject to security or criminal investigations, surveillance or prosecutions under the relevant national jurisdictions.

We and our distribution partners who operate LESs are required to comply with these regulations in a number of jurisdictions, which may restrict our ability to offer our services in some countries or increase our costs.

## Antitrust and Competition Laws

### *EU Law & U.S. Competition laws*

European competition laws and the competition laws of individual EU Member States are generally applicable to us and our distribution partners operating in Europe. These laws prohibit anti-competitive behaviour and agreements and the abuse of dominance. Antitrust authorities may determine that we or our distribution partners have market power in one or more business sectors.

U.S. antitrust laws are generally applicable to our distribution partners and, under some circumstances, could be applicable to us. These laws prohibit, among other things, the monopolisation of markets (including attempted monopolisation and conspiracies to monopolise) and agreements that restrain trade, such as agreements among competitors to fix prices.

If U.S. or European authorities were to determine that we and/or our distribution partners have violated any U.S. antitrust or EU competition laws, heightened regulatory burdens and/or sanctions (including fines) could be imposed.

We have implemented an antitrust compliance programme to decrease our risk of anti-competitive behaviour or engaging in any business practices that might be considered abusive.

## Other Regulation

### *U.S. Export Control Requirements*

The United States regulates the export and re-export of commercial communications satellites and most satellite-related components, subsystems, software and technology as defence articles under the Arms Export Control Act. Exports of these items from the United States require licensing by the U.S. Department of State after consultation with the U.S. Department of Defense. Technical cooperation arrangements between U.S. and UK companies also require approval. The launch location and launch-related technical arrangements for U.S. satellites, and for foreign satellites containing regulated U.S. origin components, also require separate approval by the U.S. State Department. The timing of U.S. licence processing can be difficult to predict, licences are often issued with commercially significant conditions and restrictions, and the use of some launch locations that may have pricing or other advantages may not be approved.

A number of satellite components and satellite-related services for our Inmarsat-4 satellites were sourced from U.S. suppliers and we have successfully obtained all relevant licences and approvals from the U.S. State Department. We cannot, however assure you that our U.S. suppliers will be able to secure requisite licences in a timely fashion, that those licences will permit transfer of all items requested, that launches will be permitted in locations that we may prefer, or that licences, when approved, will not contain conditions or restrictions that pose significant commercial or technical problems. Such occurrences could delay the launch of any future satellites.

Our sale of GSPS terminals to our distribution partners is also governed by U.S. export and re-export controls. While we contractually require our distribution partners to implement these controls within their distribution chain and with end-users, there is no assurance that end-users comply with these controls.

### *IMSO Requirements*

IMSO oversees our provision of satellite communications services to support GMDSS. If we were to breach this public service obligation, IMSO has various powers to compel us to perform those obligations. The IMO has agreed to the admission of other GMDSS suppliers subject to relevant approvals of their GMDSS services being obtained. We are currently the sole provider of satellite communications services required for GMDSS.

IMSO holds a special rights non-voting redeemable preference share in Inmarsat Ventures Limited (the "**Special Share**"). The Special Share carries rights including an effective veto power over any amendment to our public service obligations for GMDSS and over any resolution to affect the voluntary winding up of Inmarsat Ventures Limited.

# OPERATING AND FINANCIAL REVIEW

*The following is a discussion of the audited consolidated results of operations and financial condition of Inmarsat Group Limited (the "Company" or together with its subsidiaries, the "Group") for the year ended 31 December 2012. 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. Our consolidated financial results are presented in US Dollars. Some of the financial information appearing in this disclosure document has been rounded and, as a result, the totals of the information presented in this disclosure document may vary slightly from the actual arithmetic totals of such information.*

### *Vertical Market Reorganisation*

On 3 January 2012, we announced a new organisational structure for our Inmarsat Solutions business that aligns its operations more closely to our core vertical market segments and strengthens our ability to support our direct and indirect distribution channels.

With the reorganisation, Inmarsat Solutions became responsible for our global direct and indirect sales, marketing and delivery, and operates through four market-facing business units:

- Inmarsat Maritime, focusing on worldwide commercial maritime opportunities;
- Inmarsat Government, focusing on US government opportunities, both military and civil;
- Inmarsat Global Government, focusing on worldwide (i.e. non-US) civil and military government opportunities; and
- Inmarsat Enterprise, focusing on worldwide energy, industry, media, carriers, commercial aviation and M2M opportunities.

The former Stratos, Segovia and Ship Equip operations are now providing their services within the relevant business units and are using the 'Inmarsat' brand name. As the new business units continue to separately address wholesale and retail sales activities, the reorganisation has had no impact on our two primary reporting segments, Inmarsat Global and Inmarsat Solutions. However, during the course of 2013 we expect to provide additional revenue disclosures of Inmarsat plc revenue by business unit. We expect these reporting changes to be implemented by the time of our first quarter Interim Management Statement. We believe these changes will also be helpful to analysts and investors and allow for a better understanding of operational trends within our business.

## Significant Factors Affecting Our Results of Operations

### *Effect of Customer Migration to FleetBroadband*

Beginning in 2009, we began to actively encourage the migration of our maritime end-users from our Existing and Evolved Services to our FleetBroadband service. To encourage migration we have used a number of price-based market incentives and we also announced that one of our Existing and Evolved Services, Inmarsat-B, would be switched off at the end of 2014. A key incentive for end-users to migrate has been a lower cost of service using FleetBroadband, for example per megabyte transmitted.

In 2012, our maritime revenue growth was still being adversely impacted by faster-than-expected migration of customers to our FleetBroadband service (although to a lesser extent than in 2011 and 2010). Customer migration has constrained our rate of maritime data revenue growth as the price of services using FleetBroadband is typically lower than the price of equivalent services on the terminals being replaced. However, in 2012 we saw strong growth in FleetBroadband average revenue per user ("**ARPU**") as the year progressed. Growth in FleetBroadband ARPU has been driven by higher usage and by the impact of certain price initiatives which have also encouraged the adoption of higher value subscription-based service packages. We believe that maritime customers are increasing their usage with FleetBroadband and that this trend is now offseting the revenue impact of service migration.

While the pace of customer migration has constrained our maritime revenue growth, we believe that, in the longer term, customer migration has many benefits. New terminals which are installed on ships typically have extended life, sometimes exceeding 10 years, which means that we can expect to retain customers for a long period. The newer services offer more capability and increase customer satisfaction and usage, resulting in higher ARPU being achieved. In addition, FleetBroadband services are more efficient, reducing the burden on our network, particularly in respect of spectrum utilisation.

As a further result of the migration process, we have continued to see maritime voice revenues being negatively impacted by product mix changes, as users transition from our older services to our newer FleetBroadband service where the price of voice services is lower, and also by the effect of users substituting voice usage with email and Voice Over IP ("**VOIP**"), which we record as data revenues.

***Effect of Reduced Traffic Levels from Government Users in Afghanistan***

Our services are used by government and aid agencies in response to events around the world, including in areas of unrest. Such event-related usage is typically seen in our land mobile and aviation sectors and is mainly driven by our BGAN and Swift 64 services. In the past we experienced significant usage of our services due to events, such as those in Iraq, which today have reduced to normalised levels. In recent years, we experienced similar high usage patterns principally due to military action in Afghanistan and, in 2011, from events in Japan and North Africa. In 2011, although our MSS revenue from Afghanistan declined materially, much of this decline was offset by high usage levels from the events in Japan and North Africa. We believe our revenue from Afghanistan will continue to decline due to reduced military activity and gradual troop withdrawal programmes. In 2012, although we continued to see growth in BGAN usage from new subscribers, this growth has not fully offset reduced revenue from Afghanistan. As a result, we expect the results reported for certain MSS revenue categories to continue to be adversely impacted by lower revenue from Afghanistan.

***Effect of LightSquared Cooperation Agreement***

In December 2007, we entered into a Cooperation Agreement with LightSquared. On 20 April 2012, we announced an agreement with LightSquared to amend our Cooperation Agreement. As a result, LightSquared made a completion payment due under Phase 1 of the Agreement to Inmarsat of US$56.25m. Under the terms of the amendment, we renegotiated and agreed to suspend Phase 2 of the Cooperation Agreement until 31 March 2014. The amended terms of the Cooperation Agreement are designed to allow LightSquared additional time to secure regulatory consents that may ultimately lead to the deployment of its ATC network in North America.

LightSquared has made total payments to us in respect of all the phases of the Cooperation Agreement of US$546.4m, of which US$85.8m was received during 2012. We have, thus far, recognised US$281.5m of revenue and US$19.9m of operating costs under all the phases of the Cooperation Agreement. At 31 December 2012, we recorded a balance of US$264.9m of deferred income, within trade and other payables on the Balance Sheet.

The table below sets out the contribution of our Cooperation Agreement with LightSquared to our profit for the periods indicated:

| (US$ in millions) | **2012** | **2011** |
|---|---|---|
| Revenue | 60.2 | 203.8 |
| Net operating costs | (8.3) | (11.2) |
| **EBITDA** | **51.9** | **192.6** |
| Income tax expense | (12.7) | (51.0) |
| **Profit for the year** | **39.2** | **141.6** |

Under Phase 1 (including the previous Phase 1.5), LightSquared has made payments to us totalling US$408.7m. We are accounting for the Phase 1 payments using the percentage of completion method. We have recognised US$30.6m of revenue and US$8.3m of operating costs during 2012 (2011: US$95.7m and US$11.2m, respectively).

Under the Phase 2, LightSquared has made payments to us totalling US$137.7m. Revenue has been recognised on a straight-line basis over the period from commencement of the original Phase 2 until 31 March 2012. We have recognised US$29.6m of revenue during 2012 (2011: US$108.1m). As a result of the suspension of Phase 2, we do not expect to recognise any further revenue under Phase 2 of the Cooperation Agreement until this phase recommences.

***Effect of Fluctuations in US Dollar Relative to Pound Sterling***

We use the US Dollar as our functional and reporting currency. While almost all of our revenues are denominated in US Dollars, a significant portion of our operating expenses and a proportion of our capital expenditures are denominated in currencies other than the US Dollar.

Our primary exchange rate risk is against the Pound Sterling. Our existing currency hedging arrangements largely mitigate fluctuations in the US Dollar against the Pound Sterling. As our hedging arrangements are relatively short-term (generally up to 24 months), continued fluctuation in the US Dollar will affect our results of operations in 2013 and future periods.

Our hedged rate between US Dollar and Pound Sterling for the year ended 31 December 2012 was US$1.48/£1.00. Our hedged rate between US Dollar and Pound Sterling for the year ended 31 December 2011 was US$1.51/£1.00. We have completed our hedging arrangements for our anticipated Sterling costs in 2013 and as a result expect our hedged rate of exchange for 2013 to be US$1.57/£1.00.

**Results of Operations**

The results are the consolidated results of operations and financial condition of Inmarsat Group for the year ended 31 December 2012. We report two operating segments: Inmarsat Global and Inmarsat Solutions. The Inmarsat Solutions segment includes the operations of formerly acquired businesses: Stratos, Segovia, Ship Equip (acquired on 28 April 2011) and NewWave (acquired on 13 January 2012).

The table below sets out the results of the Group for the years indicated:

| (US$ in millions) | **2012** | **2011** | **Increase/ (decrease)** |
|---|---|---|---|
| **Revenue** | **1,337.8** | **1,408.5** | **(5.0%)** |
| Employee benefit costs | (233.0) | (206.5) | 12.8% |
| Network and satellite operations costs | (295.1) | (241.7) | 22.1% |
| Other operating costs | (139.2) | (127.2) | 9.4% |
| Own work capitalised | 24.1 | 21.1 | 14.2% |
| **Total net operating costs** | **(643.2)** | **(554.3)** | **16.0%** |
| **EBITDA** | **694.6** | **854.2** | **(18.7%)** |
| Depreciation and amortisation | (255.2) | (245.8) | 3.8% |
| Loss on disposal of assets | (0.5) | – | – |
| Acquisition-related adjustments | – | (2.1) | (100.0%) |
| Impairment losses | (94.7) | (141.5) | (33.1%) |
| Share of profit of associates | 2.1 | 1.5 | 40.0% |
| **Operating profit** | **346.3** | **466.3** | **(25.7%)** |
| Interest receivable and similar income | 2.9 | 4.9 | (40.8%) |
| Interest payable and similar charges | (60.9) | (76.2) | (20.1%) |
| **Net interest payable** | (58.0) | (71.3) | (18.7%) |
| **Profit before income tax** | **288.3** | **395.0** | **(27.0%)** |
| Income tax expense | (74.4) | (120.2) | (38.1%) |
| **Profit for the year** | **213.9** | **274.8** | **(22.2%)** |

***Revenues***

Total Group revenues for 2012 decreased by 5.0%, compared with 2011. However, underlying revenues (excluding LightSquared) increased by US$72.9m, or 6.1%, as a result of growth in our wholesale MSS revenues, new US Government contracts in Segovia and a full year contribution from Ship Equip. The table below sets out the components, by segment, of the Group's total revenue for each of the years indicated:

| (US$ in millions) | **2012** | **2011** | **Increase/ (decrease)** |
|---|---|---|---|
| Inmarsat Global: | | | |
| Wholesale MSS | 738.0 | 720.3 | 2.5% |
| LightSquared | 60.2 | 203.8 | (70.5%) |
| Other | 37.7 | 34.3 | 9.9% |
| Total Inmarsat Global segment | 835.9 | 958.4 | (12.8%) |
| Inmarsat Solutions segment | 810.3 | 758.2 | 6.9% |
| | 1,646.2 | 1,716.6 | (4.1%) |
| Intercompany eliminations and adjustments | (308.4) | (308.1) | |
| **Total revenue** | **1,337.8** | **1,408.5** | **(5.0%)** |

### *Net operating costs*

Total Group net operating costs for 2012 increased by 16.0%, compared with 2011. Cost increases primarily arose from additional costs to support the new contracts in Segovia and the full year impact of costs from Ship Equip. The table below sets out the components, by segment, of the Group's net operating costs for each of the years indicated:

| (US$ in millions) | 2012 | 2011 | Increase |
|---|---|---|---|
| Inmarsat Global | 238.7 | 235.9 | 1.2% |
| Inmarsat Solutions | 713.2 | 625.3 | 14.1% |
| | 951.9 | 861.2 | 10.5% |
| Intercompany eliminations and adjustments | (308.7) | (306.9) | |
| **Total net operating costs** | **643.2** | **554.3** | **16.0%** |

### *EBITDA*

Group EBITDA for 2012 decreased by 18.7%, compared with 2011; this was primarily as a result of decreased revenue from our Cooperation Agreement with LightSquared. As a consequence, EBITDA margin has decreased to 51.9% for 2012, compared with 60.6% for 2011. Below is a reconciliation of profit for the year to EBITDA for each of the years indicated:

| (US$ in millions) | 2012 | 2011 | Increase/ (decrease) |
|---|---|---|---|
| **Profit for the year** | 213.9 | 274.8 | (22.2%) |
| Add back: | | | |
| Income tax expense | 74.4 | 120.2 | (38.1%) |
| Net interest payable | 58.0 | 71.3 | (18.7%) |
| Depreciation and amortisation | 255.2 | 245.8 | 3.8% |
| Loss on disposal of fixed assets | 0.5 | – | – |
| Acquisition-related adjustments | – | 2.1 | (100.0%) |
| Impairment losses | 94.7 | 141.5 | (33.1%) |
| Share of profit of associates | (2.1) | (1.5) | 40.0% |
| **EBITDA** | **694.6** | **854.2** | **(18.7%)** |
| ***EBITDA margin %*** | ***51.9%*** | ***60.6%*** | |

### *Depreciation and amortisation*

The increase in depreciation and amortisation of US$9.4m is due to an impairment recognised in the year through accelerated depreciation of previously capitalised S-band assets and the inclusion of depreciation on the assets acquired through the purchase of Ship Equip. In addition, in 2012 there was amortisation of the intangible assets recognised in the NewWave acquisition and additional depreciation on additions to tangible fixed assets in our Inmarsat Solutions segment. Partially offsetting the increase was a decrease in depreciation and amortisation in Inmarsat Global due to the Inmarsat-3 satellites becoming fully depreciated and a decrease in amortisation as a result of the reduction in the carrying amount of the Stratos, Segovia and Ship Equip trade names to US$nil at the end of 2011.

### *Acquisition-related adjustments*

During 2011, we recorded an adjustment of US$2.1m (2012: US$nil) relating to increased consideration in respect of our acquisition of Segovia in 2010. This was due to the better-than-expected performance of the Segovia business against previously agreed financial targets. In line with IFRS 3, the contingent consideration adjustment was charged as an expense to the income statement.

### *Impairment losses*

During the year we continued to implement operational changes arising from our vertical market reorganisation and our preparations for the introduction of GX services. These changes, and certain other external factors, gave rise to an impairment loss within our Inmarsat Solutions segment of US$94.7m for the year ended 31 December 2012 (2011: US$141.5m). Some of the factors that gave rise to the impairment within the Inmarsat Solutions segment will have an offsetting positive benefit within the Inmarsat Global segment and therefore should not result in an equivalent gross impact at the Group level. This loss is related to a partial impairment of the goodwill that was originally recognised when we acquired the Stratos and Ship

Equip businesses (impairment of US$58.7m and US$36.0m, respectively). Operating profit forecasts for the Stratos and Ship Equip cash-generating units ("CGUs") have been adjusted downwards due to both internal and external factors. Internally, the Group has made certain business decisions during the year which will affect the future profitability of each CGU, but with offsetting benefits elsewhere in the Inmarsat Group. In relation to the Stratos CGU, the Group has appointed a number of significant service providers as distribution partners of the Inmarsat Global segment for GX, therefore redirecting future revenues to the Inmarsat Global segment that would previously have been forecast as received in the Stratos CGU. In addition, certain revenue development plans for value-added services are now expected to be progressed within the Inmarsat Global segment and therefore not contribute to the Stratos CGU. For the Ship Equip CGU, we now intend for Ship Equip to become a Value-Added Reseller for GX, which carries lower margins at the CGU level than its historic stand-alone VSAT business. Externally, we have considered two further factors in our CGU forecasts. Firstly, we have seen delays in purchase decision-making for maritime VSAT systems, impacting the Ship Equip CGU. We believe these delays are due to ship operators preferring to wait for the launch of our GX services in order to compare GX to existing VSAT alternatives. Secondly, for the Stratos CGU there has been a decline in demand for certain products throughout 2012 resulting from reduced military activities in Afghanistan, reduced event-driven traffic and termination of some lease business. The combination of these factors is expected to result in reduced operating profits at the Inmarsat Solutions level and have therefore been reflected in the revised forecasts, giving rise to the impairment of the Stratos and Ship Equip CGUs.

In 2011, the total US$141.5m impairment loss related to a US$120.0m impairment of the goodwill that was originally recognised when we acquired Stratos and a write-off of US$21.5m of intangible assets associated with the Stratos, Segovia and Ship Equip trade names following the rebranding and reorganisation of the Inmarsat Solutions business. The prior year impairment of the Stratos goodwill was again a combination of internal and external factors which resulted in profit forecasts to be revised downwards. In 2011, changes in prices between Inmarsat Global and the distribution channel were not passed onto the end customers of Stratos, resulting in reduced margins for the Stratos CGU. In addition, commitments under our LightSquared Cooperation Agreement resulted in the expected discontinuance of certain customer leases for Inmarsat B and certain other services which directly impacted the Stratos CGU. While this business was expected to be partly retained through agreements using non-lease services, these are at a lower margin. There was also a reduction in Inmarsat MSS revenues, changes in product mix and competitive pricing, all of which contributed to lower than expected revenues.

***Operating profit***

As a result of the factors discussed above, operating profit during 2012 was US$346.3m, a decrease of US$120.0m, or 26%, compared with 2011.

***Interest***

Net interest payable for 2012 was US$58.0m, a decrease of US$13.3m, or 18.7%, compared with 2011.

Interest payable for 2012 was US$60.9m, a decrease of US$15.3m, or 20%, compared with 2011. During 2012 there was a significant increase in the amount of interest that we are required to capitalise in the year. During 2012 we capitalised US$42.9m of interest that was attributable to the construction of our Alphasat and Inmarsat-5 satellites and associated ground infrastructure, compared with US$24.4m capitalised in 2011. In addition, in 2011, we recorded US$7.9m of interest in respect of unwinding of the discount we applied to the Segovia acquisition deferred consideration, compared with US$nil in 2012, and wrote off unamortised issue costs of US$3.8m following the refinancing of our previous Senior Credit Facility. The decrease was partially offset by increased interest following further drawdowns of our Ex-Im Bank Facility and the issue of additional Senior Notes due 2017.

Interest receivable for 2012 was US$2.9m, compared with US$4.9m for 2011. The decrease is primarily due to a non-recurring hedge accounting gain of US$3.0m recorded in 2011 in relation to the repayment of Ship Equip long-term debt.

***Profit before tax***

For 2012, profit before tax was US$288.3m, a decrease of US$106.7m, or 27%, compared with 2011. The reduction is due primarily to decreased revenues from our Cooperation Agreement with LightSquared and increased net operating costs, partially offset by a reduced impairment charge during 2012.

***Income tax expense***

The tax charge for 2012 was US$74.4m, a decrease of US$45.8m, or 38%, compared with 2011. The decrease in the tax charge is largely driven by the underlying decrease in profits for 2012, together with a prior year adjustment for the year ended 31 December 2012 which resulted in a non-recurring tax credit of US$13.2m (prior year adjustment for the year ended 31 December 2011 resulted in a US$11.5m non-recurring tax credit). The reduction in the substantively enacted tax rate at which deferred tax is recognised from 25% to 23% has also given rise to a non-recurring tax credit of US$8.4m on the revaluation of deferred tax liabilities (there was a non-recurring tax credit of $5.4m as a result of the reduction in the substantively enacted tax rate from 27% to 25% in 2011).These adjustments are offset by the non-deductible impairment of goodwill (tax effect US$23.2m) and other non-deductible items (tax effect US$1.4m) for the year ended 31 December 2012. For the year ended 31 December 2011 the tax effect relating to the non-deductible impairment of Stratos goodwill was US$31.8m.

The effective tax rate for 2012 was 25.8%, compared with 30.4% for 2011. In the absence of the above adjustments, the effective rates would have been 24.8% for 2012 and 26.7% for 2011. This decrease is primarily due to the reduction in the UK main rate of corporation tax from 26% to 24%. While the reduction did not become effective until 1 April 2012, this has the effect of lowering the average UK statutory rate for 2012 to 24.5%. The average UK statutory tax rate for the year ended 31 December 2011 was 26.5%.

***Profit for the period***

As a result of the factors discussed above, profit for 2012 was US$213.9m, a decrease of US$60.9m, or 22%, compared with 2011.

## Inmarsat Global Results

***Revenues***

During 2012, although revenues from Inmarsat Global were US$835.9m, a decrease of US$122.5m, or 12.8%, compared with 2011, MSS revenues increased by US$17.7m, or 2.5%, year-on-year. The decrease in total revenues in 2012 is due to the reduction in revenues recognised in relation to our Cooperation Agreement with LightSquared.

The MSS revenue growth was primarily driven by increased activations and usage of our FleetBroadband and SwiftBroadband services and by the effect of price initiatives for maritime data services. We have also seen encouraging growth in our land mobile IsatPhone Pro service. As in recent periods, this growth has been partly offset by the continued expected decline in revenues from our BGAN and GAN services due to the combination of troop withdrawals from Afghanistan and lower event revenues in 2012 compared to 2011. In addition, we experienced a decline in maritime voice revenues due to the impact of product mix changes and, more generally, we have experienced a decline in revenues from older services such as Inmarsat B, Mini M, Fleet, GAN and Swift 64, year-on-year. The results also reflect the termination of certain lease business during the year, which was expected.

The table below sets out the components of Inmarsat Global's revenue for each of the years indicated:

| (US$ in millions) | 2012 | 2011 | Increase/ (decrease) |
|---|---|---|---|
| **Revenue** | | | |
| **Maritime sector:** | | | |
| Voice services | 79.7 | 90.2 | (11.6%) |
| Data services | 331.5 | 268.7 | 23.4% |
| **Total maritime sector** | **411.2** | **358.9** | **14.6%** |
| **Land mobile sector:** | | | |
| Voice services | 14.3 | 7.7 | 85.7% |
| Data services | 118.1 | 144.0 | (18.0%) |
| **Total land mobile sector** | **132.4** | **151.7** | **(12.7%)** |
| Aviation sector | 100.8 | 99.5 | 1.3% |
| Leasing | 93.6 | 110.2 | (15.1%) |
| **Total MSS revenue** | **738.0** | **720.3** | **2.5%** |
| Other income (including LightSquared) | 97.9 | 238.1 | (58.9%) |
| **Total revenue** | **835.9** | **958.4** | **(12.8%)** |

Total active terminal numbers as at 31 December 2012 increased by 14.5%, compared with 31 December 2011. The table below sets out the active terminals by sector for each of the years indicated:

| (000's) | As at 31 December 2012 | 2011 | Increase |
|---|---|---|---|
| Active terminals[(a)] | | | |
| Maritime | 188.1 | 186.9 | 0.6% |
| Land mobile | 161.3 | 118.3 | 36.3% |
| Aviation | 15.4 | 13.5 | 14.1% |
| **Total active terminals** | **364.8** | **318.7** | **14.5%** |

(a) Active terminals is the number of subscribers or terminals that have been used to access commercial services (except certain handheld terminals) at any time during the preceding twelve-month period and registered at 31 December. Active terminals also include the average number of certain handheld terminals active on a daily basis during the final month of the period. Active terminals exclude terminals (Inmarsat D+, IsatM2M, IsatData Pro and BGAN M2M) used to access our M2M services. At 31 December 2012, we had 229,881 (2011: 220,453) M2M terminals.

The growth of active terminals in the maritime sector is primarily due to take-up of our FleetBroadband service, where we have seen active terminal numbers grow by 31% year-over-year. This growth has been partially offset by the expected decline in active terminals of older services such as Inmarsat B and Fleet, where users have been migrating to our FleetBroadband service. The growth of active terminals in the land mobile sector is predominantly due to our IsatPhone Pro service, which was introduced in 2010. In the aviation sector, we have seen growth in SwiftBroadband active terminals of 52%, year-over-year, partially offset by the decline in our other older aviation services.

***Maritime sector.*** During 2012, revenues from the maritime sector were US$411.2m, an increase of US$52.3m, or 14.6%, compared with 2011.

Revenues from data services in the maritime sector during 2012 were US$331.5m, an increase of US$62.8m, or 23%, compared with 2011. Growth in our maritime data revenues was primarily driven by pricing and service package changes implemented in January and May 2012 and increased take-up and usage of our FleetBroadband terminals. During the year we have seen significant migration of end-users from usage-based pricing plans to subscription-based plans with higher monthly fees and inclusive usage. We estimate that at the end of the year nearly half of our FleetBroadband revenues now come from recurring customer subscriptions. We have also seen strong terminal activations and increasing average revenue per user ("ARPU"). During 2012, we added 7,980 FleetBroadband subscribers. Despite the overall revenue growth reported, customer migration to FleetBroadband from older services continues to be a constraint on our rate of revenue growth as the price of FleetBroadband services is typically lower than the price of equivalent services on the terminals being replaced.

Revenues from some older services continue to decline due to the natural run-off and migration of these services, for example, active Inmarsat B and Fleet terminal numbers are reducing due to older ships being decommissioned or refitted with FleetBroadband terminals.

Revenues from voice services in the maritime sector during 2012 were US$79.7m, a decrease of US$10.5m, or 11.6%, compared with 2011. We have continued to see voice revenues being negatively impacted by product mix changes as users transition from our older services to our FleetBroadband service where the price of voice services is lower and also by the substitution effect of voice usage moving to email and Voice Over IP, which we record as data revenues.

We continue to believe that the current economic environment for the shipping industry and increased competition are also factors impacting revenues in the maritime sector. In addition, the take-up of XpressLink by ships currently using our existing L-band maritime services is expected to increasingly impact the wholesale maritime revenues we report for Inmarsat Global, as the customer revenue on a ship-by-ship basis will largely migrate to our Inmarsat Solutions segment. While this impact has so far been limited due to the early stage of the XpressLink service, customer interest is gaining traction and the impact may be more pronounced in future reporting periods.

***Land Mobile sector.*** During 2012, revenues from the land mobile sector were US$132.4m, a decrease of US$19.3m, or 12.7%, compared with 2011.

Revenues from data services in the land mobile sector during 2012 were US$118.1m, a decrease of US$25.9m, or 18.0%, compared with 2011. This expected decline in revenues is due to the combination of troop withdrawals from Afghanistan and the comparative impact of significant event revenue in 2011. We estimate that Afghanistan and events in North Africa and Japan in 2011 contributed US$30m more revenue year-over-year, compared with 2012. Although we continue to see growth in BGAN usage from new subscribers, this growth is unable to fully offset the impact of reduced revenues from Afghanistan and other world events.

Revenues from voice services in the land mobile sector during 2012 were US$14.3m, an increase of US$6.6m, or 86%, compared with 2011. The increase is due to growth in revenues from our IsatPhone Pro service. Take-up of the IsatPhone Pro service has remained strong and we ended the year with over 84,000 active subscribers, compared to approximately 43,000 at the beginning of the year. The increase in our installed subscriber base is driving overall traffic growth and is the primary contributor to our voice revenue growth. In addition, our IsatPhone Pro revenues also benefited from pricing and package changes made in June 2012 and, during the fourth quarter, we recognised approximately US$1.0m of non-recurring revenues which related to a customer contract adjustment and the unused portion of certain expired prepay agreements.

***Aviation sector.*** During 2012, revenues from the aviation sector were US$100.8m, an increase of US$1.3m, or 1.3%, compared with 2011. We have seen strong growth in revenues from our SwiftBroadband service, year-over-year. However, this increase has been offset by a decline in Swift 64 revenues, due to a reduction in usage by certain government customers, including usage related to reduced activity in Afghanistan.

***Leasing.*** During 2012, revenues from leasing were US$93.6m, a decrease of US$16.6m, or 15.1%, compared with 2011. The expected decrease is predominantly due to a reduction in revenues from a number of government maritime contracts. In addition, we terminated some Inmarsat-B leases in connection with our Cooperation Agreement with LightSquared.

***Other income.*** Other income for 2012 was US$97.9m, a decrease of US$140.2m, or 59% compared with 2011. The decrease is due to lower revenues from LightSquared (US$60.2m, in 2012, compared with US$203.8m for 2011). During 2012, we had US$23.5m of revenues from the sale of terminals and accessories (predominantly in relation to IsatPhone Pro), compared with US$18.1m in 2011.

***Net operating costs***

Net operating costs for 2012 increased by 1.2%, compared with 2011. Included within net operating costs for 2012 are net costs in relation to our GX programme totalling US$15.6m (2011: US$11.2m) and costs in relation to the LightSquared Cooperation Agreement of US$8.3m (2011: US$11.2m).

The table below sets out the components of Inmarsat Global's net operating costs for each of the periods indicated:

| (US$ in millions) | 2012 | 2011 | Increase/ (decrease) |
|---|---|---|---|
| Employee benefit costs | 109.4 | 105.1 | 4.1% |
| Network and satellite operations costs | 39.6 | 45.7 | (13.3%) |
| Other operating costs | 108.8 | 101.5 | 7.2% |
| Own work capitalised | (19.1) | (16.4) | 16.5% |
| **Net operating costs** | **238.7** | **235.9** | **1.2%** |

***Impact of hedged foreign exchange rate.*** The functional currency of the Group's principal subsidiaries is US Dollars. Approximately 50% of Inmarsat Global's costs are denominated in Pounds Sterling. Inmarsat Global's hedged rate of exchange for 2012 was US$1.48/£1.00, compared to US$1.51/£1.00 in 2011, which did not give rise to a material variance in comparative costs. We have completed our hedging arrangements for our anticipated Sterling costs in 2013 and as a result expect our hedged rate of exchange for 2013 to be US$1.57/£1.00.

***Employee benefit costs.*** Employee benefits costs increased by US$4.3m, or 4.1%, for 2012, compared with 2011, primarily due to an increase in total full-time equivalent headcount (on average in 2012 there were 569 employees compared to 546 in 2011), primarily to support our GX programme. During the fourth quarter, we recognised additional employee benefit costs of approximately US$3.3m in relation to some limited employee redundancies. In addition, the phasing of costs in the fourth quarter was more pronounced in 2012 than in previous years.

***Network and satellite operations costs.*** Network and satellite operations costs fell by US$6.1m, or 13.3%, for 2012, compared with 2011, primarily due to lower in-orbit insurance costs following the annual contract renewals in August 2012. In addition, costs of service contracts, warranties and maintenance decreased year-on-year.

***Other operating costs.*** Other operating costs for 2012 increased by US$7.3m, or 7.2%, compared with 2011. The increase relates to higher direct cost of sales due to IsatPhone Pro terminal sales and increased interconnect charges as voice traffic grew. In addition, in 2012 a US$5.4m provision was made against certain trade receivables and a foreign exchange translation loss of US$5.1m was recorded (2011: US$1.4m). Partially offsetting the increase was a decrease in professional fees incurred in 2012, including reduced professional fees incurred in relation to our Cooperation Agreement with LightSquared and the absence of US$2.0m non-recurring professional fees expensed in 2011 in relation to our acquisition of Ship Equip.

***Own work capitalised.*** Own work capitalised increased by US$2.7m, or 16.5%, compared with 2011, predominantly a result of increased activity on our GX programme.

***Operating profit***

| (US$ in millions) | 2012 | 2011 | Increase/ (decrease) |
|---|---|---|---|
| Total revenue | 835.9 | 958.4 | (12.8%) |
| Net operating costs | (238.7) | (235.9) | 1.2% |
| **EBITDA** | **597.2** | **722.5** | **(17.3%)** |
| *EBITDA margin %* | *71.4%* | *75.4%* | |
| EBITDA excluding LightSquared and Global Xpress | 560.9 | 541.1 | 3.7% |
| *EBITDA margin % excluding LightSquared and Global Xpress* | *72.3%* | *71.7%* | |
| Depreciation and amortisation | (158.1) | (161.9) | (2.3%) |
| **Operating profit** | **439.1** | **560.6** | **(21.7%)** |

The decrease in operating profit for 2012 of US$121.5m, compared with 2011, is primarily a result of decreased revenues from our Cooperation Agreement with LightSquared, partially offset by higher MSS revenues year-on-year.

## Inmarsat Solutions Results

On 28 April 2011, we completed the acquisition of Ship Equip. On 13 January 2012, we completed the acquisition of NewWave. We include the operations of formerly acquired businesses: Stratos, Segovia, Ship Equip and NewWave in a single reporting segment, Inmarsat Solutions.

### *Revenues*

During 2012, revenues from Inmarsat Solutions increased by US$52.1m, or 6.9%, compared to 2011. The table below sets out the components of Inmarsat Solutions' revenues for each of the years indicated:

| (US$ in millions) | **2012** | **2011** | **Increase/ (decrease)** |
|---|---|---|---|
| Inmarsat MSS | 400.5 | 423.4 | (5.4%) |
| Broadband and Other MSS[(a)] | 409.8 | 334.8 | 22.4% |
| **Total revenue** | **810.3** | **758.2** | **6.9%** |

(a) Includes Ship Equip from 28 April 2011 and NewWave from 13 January 2012.

***Inmarsat MSS.*** Revenues derived from Inmarsat MSS for 2012 decreased by US$22.9m, or 5.4%, compared to 2011. The decrease in Inmarsat MSS revenue at the Inmarsat Solutions level was driven primarily by a combination of lower leasing revenue and by lower BGAN revenue from Afghanistan and other world events year-over-year. As Inmarsat Solutions has a disproportionately higher share of both our leasing and BGAN business, the negative impact of these factors contributed to an overall decrease in revenue, even though Inmarsat Solutions benefited from strong growth in maritime revenues and other factors that contributed to an overall increase in MSS revenues at the wholesale level.

In addition, growth in maritime MSS revenues at Inmarsat Solutions lagged the growth reported at the Inmarsat Global level as effective wholesale price increases, resulting from the elimination of certain volume discounts in January 2012, were not wholly passed on by Inmarsat Solutions to end-users. As a result, certain price increases at the Inmarsat Global wholesale level did not result in equivalent revenue increases at the Inmarsat Solutions retail level.

For 2012, Inmarsat Solutions' share of Inmarsat Global's MSS revenues was 39%, slightly lower than the 41% share for 2011.

***Broadband and Other MSS.*** 'Broadband and Other MSS' revenues primarily consist of sales of VSAT and microwave services, mobile terminal and equipment sales, rental and repairs, mobile telecommunications services sourced on a wholesale basis from other MSS providers, network services provided to certain distributors and other ancillary services. Also included within 'Broadband and Other MSS' are revenues from our Inmarsat Government business unit (primarily drawn from the operations of Segovia), relating to the provision of secure IP managed solutions and services to United States government agencies and an element of revenues from our Inmarsat Maritime business unit (primarily drawn from the operations of Ship Equip), relating to the provision of VSAT maritime communications services, including our XpressLink service, to the shipping, offshore energy and fishing markets.

Revenues from 'Broadband and Other MSS' during 2012 increased by US$75.0m, or 22%, compared with 2011. The increase is due to increased revenues in our Inmarsat Government business unit from growth in network services and equipment sales and the inclusion of Ship Equip for the full year in 2012 compared to the period from 28 April to 31 December in 2011. There were also increases in mobile terminal and equipment sales and other ancillary revenues from other business units, which were partially offset by a reduction in VSAT revenues from energy operations.

### *Net operating costs*

Net operating costs in 2012 increased by US$87.9m, or 14.1%, compared to 2011, primarily as a result of increased costs in Inmarsat Government related to the increased revenue, the inclusion of Ship Equip for the full year in 2012 compared to the period from 28 April to 31 December in 2011 and increased cost for airtime from Inmarsat Global as a result of price increases. The table below sets out the components of Inmarsat Solutions' net operating costs and shows the allocation of costs to the Group's cost categories for each of the periods indicated:

| (US$ in millions) | 2012 | 2011 | Increase |
|---|---|---|---|
| Cost of goods and services | 602.6 | 538.0 | 12.0% |
| Operating costs | 110.6 | 87.3 | 26.7% |
| **Total operating costs** | **713.2** | **625.3** | **14.1%** |
| | | | |
| Allocated as follows: | | | |
| Employee benefit costs | 123.6 | 101.4 | 21.9% |
| Network and satellite operations costs[(a)] | 555.6 | 497.2 | 11.7% |
| Other operating costs | 38.7 | 31.4 | 23.2% |
| Own work capitalised | (4.7) | (4.7) | – |
| **Net operating costs** | **713.2** | **625.3** | **14.1%** |

(a) Includes the cost of airtime from satellite operators, including intercompany purchases from Inmarsat Global.

***Cost of goods and services***. Cost of goods and services includes variable expenses such as the cost of airtime and satellite capacity purchased from satellite operators (predominantly from Inmarsat Global), cost of equipment, materials and services, and variable labour costs related to our repair and service workforce. Cost of goods and services also includes costs such as network infrastructure operating costs, customer support centre costs, telecommunications services purchased from terrestrial providers, rents and salaries that do not vary significantly with changes in volumes of goods and services sold.

Cost of goods and services during 2012 increased by US$64.6m, or 12.0%, compared to 2011. The increase is predominantly due to increased costs in Inmarsat Government, related to the increased revenues, the inclusion of Ship Equip for the full year in 2012 compared to the period from 28 April to 31 December in 2011 and increased cost for airtime from Inmarsat Global as a result of price increases.

***Operating costs.*** Operating costs during 2012 increased by US$23.3m, or 27%, compared to 2011. The increase is primarily due to increased costs in Inmarsat Government related to an increased number of employees, increased benefits and higher sales, marketing and rent costs and the inclusion of Ship Equip for the full year in 2012 compared to the period from 28 April to 31 December in 2011. Within the fourth quarter, we recognised certain costs that are not expected to be recurring in nature. These costs amount to approximately US$5.0m, of which US$2.2m relates to some limited employee redundancies.

### *Operating loss*

| (US$ in millions) | 2012 | 2011 | Increase/ (decrease) |
|---|---|---|---|
| Total revenue | 810.3 | 758.2 | 6.9% |
| Cost of goods and services | (602.6) | (538.0) | 12.0% |
| **Gross margin** | **207.7** | **220.2** | **(5.7%)** |
| *Gross margin %* | *25.6%* | *29.0%* | |
| Operating costs | (110.6) | (87.3) | 26.7% |
| **EBITDA** | **97.1** | **132.9** | **(26.9%)** |
| *EBITDA margin %* | *12.0%* | *17.5%* | |
| Depreciation and amortisation | (97.1) | (83.9) | 15.7% |
| Loss on the disposal of assets | (0.5) | – | – |
| Acquisition-related adjustments | – | (2.1) | (100.0%) |
| Impairment losses | (94.7) | (141.5) | (33.1%) |
| Share of profit of associates | 2.1 | 1.5 | 40.0% |
| **Operating loss** | **(93.1)** | **(93.1)** | – |

Inmarsat Solutions' operating loss for 2012 was US$93.1m, in line with 2011. US$94.7m of impairment losses were recognised in 2012 relating to the impairment of goodwill, compared to US$120.0m in 2011 relating to the impairment of goodwill and US$21.5m in 2011 for the reduction of the carrying amounts of the

Stratos, Segovia and Ship Equip trade names to US$nil. Offsetting the decrease in impairment losses year-on-year was a decrease in EBITDA and an increase in depreciation and amortisation. The EBITDA reduction is due primarily to a decreased contribution from the sales of Inmarsat MSS as a result of lower revenues, an increase in the cost of airtime from Inmarsat Global, increased operating costs and changes in product mix. The increase in depreciation and amortisation is primarily a result of the inclusion of Ship Equip for the full year in 2012 compared to the period from 28 April to 31 December in 2011, the amortisation of NewWave intangibles and increased capital expenditures, partially offset by a decrease in amortisation as a result of the reduction in the carrying amount of the Stratos, Segovia and Ship Equip trade names to US$nil at the end of 2011.

Gross margin consists of revenues less cost of goods and services. Gross margin and gross margin percentage have decreased by US$12.5m and 3.4%, respectively, in 2012 compared to 2011. These decreases are a result of a decrease in Inmarsat MSS revenue along with increased cost of airtime from Inmarsat Global and migration to newer lower margin services, as well as reduced gross margin percentages in Inmarsat Government and Inmarsat Maritime as a result of the newer revenues being at lower margins and changes in product mix. These decreases have been partially offset by the additional operations of Ship Equip which has a higher gross margin.

***Group liquidity and capital resources***

At 31 December 2012, the Group had cash and cash equivalents of US$331.3m and available but undrawn borrowing facilities of US$1,052.4m under our Senior Credit Facility and Ex-Im Bank Facility. We believe our liquidity position is more than sufficient to meet the Group’s needs for the foreseeable future. In addition, we remain well-positioned to access the capital markets when needed, to meet new financing needs or to improve our liquidity or change the mix of our liquidity sources.

The Group continually evaluates sources of capital and may repurchase, refinance, exchange or retire current or future borrowings and/or debt securities from time to time in private or open-market transactions, or by any other means permitted by the terms and conditions of our borrowing facilities and debt securities.

On 11 April 2012, our subsidiary Inmarsat Finance plc, issued a further US$200m aggregate principal amount of our 7.375% Senior Notes due 1 December 2017 (“Senior Notes due 2017”). The aggregate gross proceeds were US$212m, including US$12m premium on issuance and we capitalised issuance costs of US$3.8m.

The Group’s net borrowings (gross of deferred finance costs) are presented below:

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| EIB Facility | 264.3 | 308.4 |
| Ex-Im Bank Facility | 397.6 | 277.3 |
| Senior Notes due 2017 | 850.0 | 650.0 |
| – Net issuance premium/(discount) | 7.5 | (3.6) |
| Deferred satellite payments | 28.7 | 34.7 |
| Intercompany loan | – | 6.0 |
| Bank overdrafts | 0.8 | 1.2 |
| **Total borrowings** | **1,548.9** | **1,274.0** |
| Cash and cash equivalents | (331.3) | (165.7) |
| **Net borrowings** (gross of deferred finance costs) | **1,217.6** | **1,108.3** |

The table below shows the condensed consolidated cash flow for the Group for the years ended 31 December 2012 and 2011:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| Net cash from operating activities | 661.2 | 882.2 |
| Net cash used in investing activities excluding capital expenditure | (15.1) | (171.0) |
| Capital expenditure, including own work capitalised | (484.0) | (531.0) |
| Dividends paid | (225.7) | (323.4) |
| Net cash from/(used in) financing activities, excluding dividends paid | 229.6 | (14.9) |
| Foreign exchange adjustment | – | 0.2 |
| **Net increase/(decrease) in cash and cash equivalents** | **166.0** | **(157.9)** |

The decrease in net cash generated from operating activities in 2012, compared with 2011, of US$221.0m primarily relates to decreased EBITDA in 2012 and movements in working capital, partially offset by lower cash tax paid. Our LightSquared Cooperation Agreement contributed to US$219.4m of the decrease in net cash from operating activities year-on-year (this excludes the impact on cash tax paid due to reduced profit before tax year-on-year).

The decrease in net cash used in investing activities excluding capital expenditure in 2012, compared with 2011, was US$155.9m. During 2012 we acquired 100% of the outstanding shares of NewWave for a total cash consideration of US$7.7m (net of cash acquired) and paid US$7.4m of deferred consideration in relation to previous acquisitions. During 2011 we purchased Ship Equip for a cash consideration of US$113.2m (excluding the repayment of debt which was treated as a financing activity and net of cash acquired and foreign exchange risk hedging gains), paid US$54.5m of deferred consideration in relation to previous acquisitions and paid US$3.2m relating to Inmarsat Solutions' acquisition of certain operational assets.

Capital expenditure, including own work capitalised, decreased by US$47.0m in 2012, compared with 2011. Capital expenditure may fluctuate with the timing of milestone payments on current projects.

During 2012 the Company paid dividends of US$225.7m, compared with US$323.4m in 2011.

During 2012 net cash from financing activities, excluding the payment of dividends was US$229.6m, compared to net cash used in financing activities, excluding the payment of dividends of US$14.9m in 2011. During 2012 we received gross proceeds of US$212.0m on the April 2012 issue of additional Senior Notes due 2017, we drew down US$120.3m of our Ex-Im Bank Facility and we received US$42.7m from intercompany funding. In addition, we paid cash interest of US$92.5m, repaid US$44.1m of our EIB Facility and paid fees in relation to debt issuance of US$8.1m.

During the year ended 31 December 2011, we repaid US$200.0m outstanding under our old Senior Credit Facility, repaid US$44.7m of outstanding debt in Ship Equip (net of US$3.0m of hedge gains), paid cash interest of US$74.7m and paid arrangement costs in respect of new borrowings of US$22.4m. In addition, we received US$277.3m from the drawdown of the Ex-Im Bank Facility during 2011 and received US$50.0m of shareholder funding.

***Group free cash flow***

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| Cash generated from operations | 728.9 | 992.1 |
| Capital expenditure, including own work capitalised | (484.0) | (531.0) |
| Net cash interest paid | (91.0) | (72.0) |
| Cash tax paid | (69.2) | (112.6) |
| **Free cash flow** | **84.7** | **276.5** |

Free cash flow decreased by US$191.8m, or 69%, during 2012, compared with 2011. The decrease is due to a reduction in cash generated from operations (of which US$219.4m related to our Cooperation Agreement with LightSquared) and an increase in net cash interest paid, partially offset by lower capital expenditure and reduced cash tax paid.

*Group balance sheet*

The table below shows the consolidated Group balance sheet at 31 December 2012 and 2011:

| (US$ in millions) | **As at 31 December 2012** | **As at 31 December 2011** |
|---|---|---|
| Non-current assets | 3,099.1 | 2,937.1 |
| Current assets | 656.7 | 457.3 |
| **Total assets** | **3,755.8** | **3,394.4** |
| Current liabilities | (773.9) | (812.9) |
| Non-current liabilities | (1,658.1) | (1,368.3) |
| **Total liabilities** | **(2,432.0)** | **(2,181.2)** |
| **Net assets** | **1,323.8** | **1,213.2** |

The increase in the Group's non-current assets of US$162.0m is due primarily to an increase in property, plant and equipment due to additions in 2012 predominantly as a result of our GX and Alphasat programmes. Offsetting the increase was a US$94.7m impairment relating to partial impairments of goodwill previously recognised when we acquired our Stratos and Ship Equip businesses of US$58.7m and US$36.0m, respectively.

The increase in current assets of US$199.4m is due predominantly to an increase in cash and cash equivalents from US$165.7m at 31 December 2011 to US$331.3m at 31 December 2012. The increase in cash and cash equivalents is due primarily to the gross proceeds of US$212.0m received on the April 2012 issue of additional Senior Notes due 2017. In addition, trade and other receivables increased by US$33.3m to US$293.6m at 31 December 2012.

The decrease in current liabilities of US$39.0m relates to a US$45.4m decrease in amounts due to parent undertakings to US$103.9m at 31 December 2012, a US$21.2m decrease in income tax liabilities to US$39.2m at 31 December 2012 and a US$32.6m decrease in trade payables to US$169.0m at 31 December 2012. The decrease has been partially offset by a US$64.8m increase in accruals and deferred income to US$384.8m at 31 December 2012, included in the increase is a US$25.6m increase in deferred revenue recognised in relation to our Cooperation Agreement with LightSquared during 2012.

The increase in non-current liabilities of US$289.8m relates primarily to an increase in non-current borrowings of US$271.9m to US$1,466.8m at 31 December 2012. The increase in non-current borrowings is primarily due to the additional Senior Notes due 2017 issued in April 2012 (gross proceeds of US$212.0m) and the drawdown of US$120.3m of our Ex-Im Bank Facility, partially offset by the repayment of US$44.1m of our EIB Facility. In addition, during 2012, deferred income tax liabilities increased US$30.7m to US$140.2m at 31 December 2012.

### Contractual Obligations

The following table summarises contractual obligations, commercial commitments and principal payments under our debt instruments as of 31 December 2012.

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| | (US$ in millions) | | | | |
| Long-term debt obligations [1] | 1,475.3 | — | 141.1 | 1,036.1 | 298.1 |
| Short-term debt obligations [2] | 44.9 | 44.9 | — | — | — |
| Capital commitments [3] | 740.3 | 496.3 | 211.9 | 23.9 | 8.2 |
| Operating leases [4] | 159.1 | 17.5 | 26.5 | 27.6 | 87.5 |
| Other non-cancellable agreements [5] | 26.7 | 11.7 | 12.4 | 2.4 | 0.2 |
| **Total contractual obligations** | **2,446.3** | **570.4** | **391.9** | **1,090.0** | **394.0** |

(1) Includes US$220.2m under the EIB Facility, US$397.6m under the Ex-Im Bank Facility, US$850.0m in aggregate principal amount of the Senior Notes and US$7.5m of premium on the Senior Notes. In addition, the values exclude interest obligations on the EIB Facility, Ex-Im Bank Facility and the Senior Notes.
(2) Includes US$44.1m under the EIB Facility and a US$0.8m overdraft. Our interest obligation on the EIB Facility has not been included.
(3) Includes our obligations in respect of the deferred satellite payments.
(4) Relates primarily to the 25-year lease of our head office building at 99 City Road, London, United Kingdom.
(5) Relates to network service contracts and maintenance contracts.

### Parent Company Obligations

*Dividends.* Our ultimate parent company, Inmarsat plc, has a dividend policy that is designed to make distributions to public shareholders from the underlying cash flow generation of all its subsidiaries. Since Inmarsat plc was listed on the London Stock Exchange in June 2005, holders of the ordinary shares have received dividend payments twice a year, usually paid in May and October.

*Share repurchase programme*. On 4 August 2011, Inmarsat plc announced a US$250m on-market share repurchase programme. As at 31 December 2012, a total of 15,252,658 Inmarsat plc shares had been repurchased for a total of US$108.3m of which 1,344,908 shares had been repurchased for a total aggregate consideration of US$9.9m between 1 January 2012 and 31 December 2012. All shares purchased were subsequently cancelled. No Treasury shares were held during the year.

*Convertible bonds*. On 16 November 2007, Inmarsat plc issued US$287.7m in principal amount of 1.75% convertible bonds due 2017 (the "Convertible Bonds"). The Convertible Bonds are convertible into ordinary shares of Inmarsat plc and have a 1.75% per annum coupon payable semi-annually and an original yield to maturity of 4.50%. At the issue date, the conversion price of the bonds was US$12.694 and the total number of ordinary shares to be issued upon conversion was 22.7m shares. The conversion price is subject to periodic adjustment if dividends paid on Inmarsat plc's ordinary shares exceed certain defined levels. In 2012, the conversion price was adjusted to US$12.490 and the total number of shares to be issued upon conversion increased to 23.0m shares. Inmarsat plc has an option to call the Convertible Bonds after seven years at their accreted principal amount under certain circumstances. In addition, holders of the Convertible Bonds have the right to require Inmarsat plc to redeem their Convertible Bonds at their accreted principal amount on 16 November 2014 or following the occurrence of certain change of control events. Although holders of the Convertible Bonds also had the right to require Inmarsat plc to redeem their bonds at the accreted principal amount on 16 November 2012, none of the holders exercised this right and no bonds were redeemed.

Subject to our operating performance and the terms of the Senior Notes, we expect to make dividend payments to Inmarsat Holdings Limited in connection with Inmarsat plc's dividend policy. In addition, from time to time, we may pay additional dividends to Inmarsat Holdings Limited in connection with other general corporate purposes of Inmarsat plc, including its share repurchase programme and its obligations under the Convertible Bonds described above.

### Research and Development

Our research and development include costs relating to the development of our satellites, new technologies and products and related network infrastructure. Research and development costs were US$12.8m during the year ended 31 December 2012 (2011: US$6.3m).

**Off-Balance Sheet Arrangements and Contingencies**

We do not currently have any off-balance sheet arrangements other than operating leases. See note 29 to our audited consolidated financial statements for the year ended 31 December 2012.

**Critical Accounting Policies**

Our accounting policies are more fully described in the notes to our audited consolidated financial statements included elsewhere in this document. However, certain of our accounting policies are particularly important to the presentation of our results of operations and require the application of significant judgment made by our management.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make certain 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 reported period. These assumptions and estimates are generally based on factors such as historical experience, trends in our industry and information available from our customers and third parties. The amounts that actually arise in future periods may differ from these estimates, with changes being recognised in the profit and loss account as and when the carrying value is changed.

Our management believes that the most critical accounting policies that involve management judgments and estimates are those set forth below:

**Estimated impairment of goodwill**

The Group annually undertakes tests to determine whether goodwill has suffered any impairment.

For the purpose of testing for impairment, goodwill is specifically allocated to one of four CGUs which have been identified, being Inmarsat Global, Stratos, Segovia and Ship Equip. It has been determined that goodwill that arose on the acquisition of Inmarsat Ventures Limited represented goodwill of the Inmarsat Global CGU only. Goodwill that arose on the acquisition of Stratos, Segovia and Ship Equip has been allocated to the Stratos, Segovia and Ship Equip CGU, respectively. As at 31 December 2012, the carrying amount of goodwill allocated to the Inmarsat Global, Stratos, Segovia and Ship Equip CGUs was US$406.2m, US$76.8m, US$34.2m and US$33.5m, respectively (2011: US$406.2m, US$142.5m, US$27.2m and US$66.6m, respectively). During 2012, the Stratos CGU sold its Stratos Government Services Inc. business to the Segovia CGU. As a result, US$7.0m of goodwill was reallocated from the Stratos CGU to the Segovia CGU.

Goodwill is tested for impairment by comparing the carrying amount of the CGU with its value in use. The key assumptions used in calculating the value in use are as follows:

***Recoverable amount***

The recoverable amount of each CGU is based on the value in use, which is determined using cash flow projections derived from financial plans approved by management covering a five-year period. They reflect management's expectations of revenue, EBITDA growth, capital expenditure, working capital and operating cash flows, based on past experience and future expectations of business performance. Cash flows beyond the five-year period have been extrapolated using perpetuity growth rates.

***Growth rates***

Long-term growth rates of between 2.5%–3.0% (2011: 2.5%–3.0%) have been applied to extrapolate the cash flows into perpetuity. The growth rate has been determined using long-term historical growth rates of the CGU and management's conservative expectation of future growth.

***Discount rate***

The pre-tax rates used to discount the cash flow projections in respect of the Group for 2012 were between 9.76% –12.72% (2011: 11.6%–17.2%). The discount rates reflect the time value of money and are derived from the Group's weighted average cost of capital, adjusted for the risk associated with each individual CGU.

An impairment charge of US$94.7m in respect of goodwill was recorded in the year ended 31 December 2012 (2011: US$120.0m). This loss related to the partial impairment of the goodwill that was originally recognised when the Group acquired the Stratos and Ship Equip businesses (impairment of US$58.7m and US$36.0m, respectively). Operating profit forecasts for the Stratos and Ship Equip CGUs have been adjusted downwards due to both internal and external factors. Internally, the Group has made certain business decisions during the year which will affect the future profitability of each CGU, but with offsetting benefits elsewhere in the Inmarsat Group. In relation to the Stratos CGU, the Group has appointed a number of significant service providers as distribution partners of the Inmarsat Global segment for Global Xpress, therefore redirecting future revenues to the Inmarsat Global segment that would previously have been forecast as received in the Stratos CGU. In addition, certain revenue development plans for value-added services are now expected to be progressed within the Inmarsat Global segment and therefore not contribute to the Stratos CGU. For the Ship Equip CGU, the Group now intends for Ship Equip to become a Value-Added Reseller for Global Xpress, which carries lower margins at the CGU level than its historic stand-alone VSAT business. Externally, the management has considered two further factors in its CGU forecasts. Firstly, the Group has seen delays in purchase decision-making for maritime VSAT systems, impacting the Ship Equip CGU. The management believes these delays are due to ship operators preferring to wait for the launch of our GX services in order to compare GX to existing VSAT alternatives. Secondly, for the Stratos GCU there has been a decline in demand for certain products throughout 2012 resulting from reduced military activities in Afghanistan and reduced event-driven traffic and termination of some lease business. The combination of these factors is expected to result in reduced operating profits at the Inmarsat Solutions level and have therefore been reflected in the revised forecasts, giving rise to the impairment of the Stratos and Ship Equip CGUs. In Group terms, some of the factors that give rise to the impairment at the Inmarsat Solutions level have an offsetting positive benefit at the Inmarsat Global level and should not give rise to an equivalent gross impact at the Group level. A long-term growth rate of 2.5% was applied to extrapolate the Stratos and Ship Equip CGU cash flow projections into perpetuity and a pre-tax discount rate of 12.72% was used to discount the cash flow projections.

The US$120.0m impairment charge in respect of the Stratos CGU in the year ended 31 December 2011 also related to operating profit forecasts for the Stratos CGU being adjusted downwards due to both internal and external factors. The changes in prices between Inmarsat Global and the distribution channel were not passed onto the end customers of Stratos, resulting in reduced margins for the Stratos CGU. In addition, commitments under our LightSquared Cooperation Agreement resulted in the expected discontinuance of certain customer leases for Inmarsat B, and certain other services which directly impacted the Stratos CGU. While this business was expected to be partly retained through agreements using non-lease services, these are at a lower margin. There was also a reduction in Inmarsat MSS revenues, changes in product mix and competitive pricing, all of which contributed to lower than expected revenues. In 2011, a long-term growth rate of 2.5% was applied to extrapolate the Stratos CGU cash flow projections into perpetuity and a pre-tax discount rate of 13.8% was used to discount the cash flow projections.

**Pension arrangements and post-employment benefit assumptions**

The Group has applied a weighted average rate of return on assets of 6.68% p.a. (2011: 6.65% p.a.) which represents the expected return on asset holdings in the future. The weighted average discount rate used to calculate the pension and post-employment benefits liabilities was 4.60% (2011: 4.74%).

**Income tax**

The Group’s income tax balance is the sum of the total current and deferred tax balances. The calculation of this, and of the Group’s potential liabilities or assets, necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority, or, as appropriate, through a formal legal process. Issues can, and often do, take a number of years to resolve. The amounts recognised or disclosed are derived from the Group’s best estimation and judgement. However, the inherent uncertainty regarding the outcome of these means eventual realisation could differ from the accounting estimates and therefore impact the Group’s results and cash flows.

A contingent liability has been disclosed for the year ended 31 December 2012 in respect of the financing of a finance and operating leaseback transaction entered into in 2007 (see note 33 to our audited consolidated financial statements for the year ended 31 December 2012).

**Revenue in respect of the LightSquared Cooperation Agreement**

In December 2007, Inmarsat and LightSquared LP, Skyterra (Canada) Inc. and LightSquared Inc. (together ‘LightSquared’) entered into a Cooperation Agreement for the efficient use of L-band spectrum over North America. The Cooperation Agreement was segregated into phases and designed to enable and support the deployment of an ATC network by LightSquared in North America. To date, LightSquared has made payments under the agreement totalling US$546.4m, of which US$85.8m has been received during 2012 (2011: US$308.1m). The Group has, thus far, recognised US$281.5m of revenue and US$19.9m of operating costs under all phases of the agreement. For the year ended 31 December 2012, the Group recognised US$60.2m of revenue and US$8.3m of operating costs, in respect of all phases (year ended 31 December 2011: US$203.8m and US$11.2m, respectively).

On 20 April 2012, Inmarsat and LightSquared reached an agreement to suspend the Cooperation Agreement until 31 March 2014. The period of suspension is designed to allow LightSquared time to secure certain regulatory consents and, during this period, LightSquared will not be required to make any further payments to Inmarsat. On 1 April 2014, or any earlier date as may be required or elected by LightSquared, payments under the agreement will recommence from that date based on a restructured payment plan that will be dependent on certain future outcomes with regard to deployment of the LightSquared ATC network.

In connection with our accounting for different phases of the Cooperation Agreement, we have used the accounting method considered most appropriate to the individual phase, including the percentage of completion method and straight line method in the case of both revenues and costs. Where the percentage of completion method was used, we have had to measure the number of man-hours undertaken against our estimate of the total man-hours required to complete the phase or activity. Similarly, we have measured costs incurred against our estimate of the total costs required to complete the phase or activity. The key area of estimation uncertainty relates to the Directors' estimates of the total time/costs that will be incurred and the Directors' estimate of the percentage of completion of the time and costs that the Group has incurred.

**Recently Issued Accounting Pronouncements**

Certain new standards, amendments and interpretations to existing standards were in issue but not yet effective (and in some cases had not yet been adopted by the EU), and have not been applied to the audited consolidated financial statements included elsewhere in this document. The new standards are as follows:

IFRS 7 (as amended) – Financial Instruments: Disclosures – Amendments to facilitate comparison between financial statements prepared under IFRS and under US GAAP (effective for financial years beginning on or after 1 July 2013);

IFRS 9 Financial Instruments – Classification and Measurement (effective for financial years beginning on or after 1 January 2015);

IFRS 10 (as amended) – Consolidated Financial Statements (effective for financial years beginning on or after 1 January 2013);

IFRS 11 (as amended) – Joint Arrangements (effective for financial years beginning on or after 1 January 2013);

IFRS 12 (as amended) – Disclosures of Interests in Other Entities (effective for financial years beginning on or after 1 January 2013);

IFRS 13 – Fair Value Measurement (effective for financial years beginning on or after 1 January 2013);

IAS 1 (as amended) – Presentation of Financial Statements – Amendments to revise the way other comprehensive income is presented (effective for financial years beginning on or after 1 July 2012);

IAS 19 (as amended) – Employee Benefits – Amended standard resulting from the Post-Employment Benefits and Termination Benefits projects (effective for financial years beginning on or after 1 January 2013);

IAS 27– Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in 2011) (effective for financial years beginning on or after 1 January 2013);

IAS 28 – Investments in Associates – Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) (effective for financial years beginning on or after 1 January 2013);

IAS 32 (as amended) – Financial Instruments: Presentation – Amended application guidance to clarify offsetting of financial assets and liabilities on the balance sheet (effective for financial years beginning on or after 1 January 2014);

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine (effective for financial years beginning on or after 1 January 2013); and

Amendments resulting from the 'Annual Improvements 2009-2011 cycle' paper issued in May 2012 (effective for financial years beginning on or after 1 January 2013).

We anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

**Employees**

The following table sets out the average numbers of persons we employed for the years ended 31 December 2012 and 2011 by main category of activity:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Inmarsat Global** | **Inmarsat Solutions** | **Total** | **Inmarsat Global** | **Inmarsat Solutions** | **Total** |
| Category of activity | | | | | | |
| Operations | 218 | 528 | 746 | 203 | 455 | 658 |
| Sales and marketing | 109 | 209 | 318 | 96 | 188 | 284 |
| Development and engineering | 94 | 74 | 168 | 94 | 71 | 165 |
| Administration | 146 | 238 | 384 | 146 | 290 | 436 |
| **Total** | **567** | **1,049** | **1,616** | **539** | **1,004** | **1,543** |

In 2012, the total compensation paid to (or accrued with respect to) our employees was US$233.0m as compared with US$206.5m in 2011.

Our multicultural workforce comprises more than 45 nationalities, which is important to the operation of our global business.

We do not recognise an official labour union although some of our employees have individual membership in such unions.

We believe that relations with our employees are good. We have ensured that employees are fully informed and involved in the business through the use of various communications methods including briefing sessions and discussions with groups of employees, circulation of newsletters, company announcements, information releases and dissemination of information through normal management channels. Employees are actively encouraged to attend internal training courses to learn about our business, products and services. Staff forums and a works council are established in some of the operating businesses in accordance with local legislative requirements.

We have a positive attitude towards the development of all our employees and do not discriminate between employees or potential employees on grounds of race, ethnic or national origin, sex, age, marital status or religious beliefs.

We give full consideration to applications from disabled persons and to the continuing employment of staff that become disabled, including making reasonable adjustments where appropriate or considering such staff members for alternative positions.

**Facilities**

The table below sets out information regarding certain of our material facilities.

| **Facility** | **Principal Use** | **Owned/ Leased** | **Area (ft$^2$)** | **Lease expiration** |
|---|---|---|---|---|
| 99 City Road, London, United Kingdom | Head office | Leased | 39,000 | 2029 |

The lease for 99 City Road is a 25 year operating lease which has an average annual rental over this period of approximately £6.0 million.

We believe that our current facilities are in good condition and adequate to meet the requirements of our present operations.

**Legal Proceedings**

As of the date of this document, we are not engaged in or aware of any pending or threatened legal or arbitration proceedings that could have a material effect on our financial position.

*The risks and uncertainties we describe below are not the only ones we face. Additional risks and uncertainties of which we are not aware or that we currently believe are immaterial may also adversely affect our business, financial condition and results of operations. If any of the possible events described below were to occur, our business, financial condition and results of operations may be materially and adversely affected. If that happens, we and the Issuer may not be able to pay interest or principal on the Senior Notes when due and you could lose all or part of your investment.*

*This disclosure document contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described below and elsewhere in this disclosure document.*

**Risks Relating to Our Business**

***The difficult global business environment could negatively affect our business, results of operations and financial condition.***

The global economy has recently been experiencing a period of sustained weakness, and the banking system and financial markets have been experiencing high levels of volatility and disruption. The difficult economic and market conditions and disruptions in the credit markets have led to reduced levels of capital expenditures, an increase in commercial and consumer delinquencies, rising unemployment, declining consumer and business confidence, bankruptcies and a widespread reduction of business activity generally. These conditions, combined with continued concerns about the systemic impact of potential long-term and widespread economic recession, volatile energy costs, geopolitical issues, unstable housing and mortgage markets, labour and healthcare costs, and other macroeconomic factors affecting spending behaviour have contributed to diminished expectations for the global economy.

As a result of the economic and market conditions, many of our distributors and end-users have experienced or may experience deterioration of their businesses, cash flow shortages, difficulty obtaining financing or insolvency. Existing or potential end-users may reduce or postpone spending in response to tighter credit, negative financial news or declines in income or asset values. In particular, the shipping industry, which represents a large component of demand for our products and services, has historically exhibited cyclical economic conditions, primarily due to fluctuations in the demand for shipping services and the global supply of shipping capacity. Further, reductions in government spending and defence budgets could result in response to declining economic conditions. For example, a number of governments have announced austerity measures and reduced government spending. In the US federal budget sequestration took effect on 1 March 2013, with mandated reductions of over 5% in defence spending outlays over the next two years. While the US government has not stipulated which programmes or contracts will be affected by sequestration, the cuts are expected to impact a broad set of US defence services and US defence contractors. Any reduction in spending by our end-users could have a material negative effect on the demand for our products and services. If the global economic slowdown continues for a significant period or there is significant further deterioration in the global economy, our business, financial condition and results of operations could be materially adversely affected.

***The global communications industry is highly competitive. It is likely that we will face significant competition in the future from other network operators, which may adversely affect end-user take-up of our services and our revenues.***

The global communications industry is highly competitive. We face competition today from a number of communications technologies in the various target sectors for our services. It is likely that we will continue to face increasing competition from other network operators in some or all of our target sectors in the future, particularly from satellite network operators. Competition from Iridium Communications Inc. ("**Iridium**"), a global MSS operator, has been increasing. Iridium provides a maritime service that offers a 128 kbps capability and competes with the low end of our FleetBroadband capability. In addition, we also face regional competition for data and voice services from regional MSS operators such as Globalstar, Inc. ("**Globalstar**") and Thuraya Telecommunications Company ("**Thuraya**") and to a lesser extent other regional MSS operators, which has influenced the price at which our distribution partners and service providers offer our services. Globalstar recently completed the launch of 24 new satellites and expects to reintroduce certain two-way services that will increase the level of competition we face. Iridium has plans to bring a new generation of satellites into service and, when completed, these satellites may increase further MSS competition. Thuraya, a leader in the provision of handheld satellite phones on a regional basis, offers a 444 kbps mobile data communications service also on a regional basis and a regional maritime 60 kbps data service.

Communications providers who operate private networks using VSAT or hybrid systems also continue to target users of mobile satellite services. Technological innovation in VSAT, together with increased C-band, Ku-band and Ka-band coverage and commoditisation, have increased, and we believe may continue to increase, the competitiveness of VSAT and hybrid systems in traditional MSS sectors, including the maritime and aviation sectors. Furthermore, the gradual extension of terrestrial wireline and wireless communications networks to areas not currently served by them may reduce demand for some of our services in those areas.

***Sales to our key distribution partners represent a significant portion of our wholesale MSS revenues and the loss of any of these distribution partners could adversely affect our revenues, profitability and liquidity.***

Although we have wholly-owned distribution capabilities through our Inmarsat Solutions segment, our Inmarsat Global segment continues to rely to a large extent on other third party distribution partners and service providers to sell our services to end-users and they determine the prices end-users pay. Accordingly, there is a risk that our distribution partners or service providers could fail to market or distribute our services effectively, or fail to offer services at prices which are competitive, which could adversely affect our revenues, profitability, liquidity and brand image. In addition, the loss or merger of any key distribution partners could materially affect our routes to market, increase our reliance on a few key distributors, reduce customer choice or represent a significant bad debt risk. For 2012, one of our distribution partners, Astrium Services, accounted for 29% of our Inmarsat Global MSS revenues.

***The development of combined satellite and terrestrial networks could interfere with our services.***

On 29 January 2003, the FCC promulgated a general ruling (the "**ATC Ruling**") that MSS spectrum, including the L-band spectrum we use to operate our services, could be used by MSS operators to integrate ancillary terrestrial component ("**ATC**") services into their satellite networks in order to provide combined terrestrial and satellite communications services to mobile terminals in the United States. Since the time of the ATC Ruling, a number of MSS operators, including LightSquared, have proposed or discussed such services.

The implementation of ATC services by MSS operators in the United States or other countries may result in increased competition for the right to use L-band spectrum, and such competition may make it difficult for us to obtain or retain the spectrum resources we require for our existing and future services. In addition, the FCC's decision to permit integrated MSS/ATC services was based on certain assumptions, particularly relating to the level of interference that the provision of integrated MSS/ATC services would likely cause to other MSS operators, such as us, who use the L-band spectrum. If the FCC's assumptions with respect to the use of L-band spectrum for integrated MSS/ATC services prove inaccurate, or a significant level of integrated MSS/ATC services is provided in the United States, the provision of integrated MSS/ATC services could interfere with our satellites and user terminals, which may adversely impact our services. For example, the use of certain L-band spectrum to provide integrated MSS/ATC services in the United States could interfere with our satellites providing communications services outside the United States where the satellites' "footprint" overlaps the United States. Such interference could limit our ability to provide services that are transmitted through any satellite visible to the United States. Two of our three Inmarsat-4 satellites, three of our Inmarsat-3 satellites and our Inmarsat-2 satellites are currently visible to the United States. In addition, users of our terminals in the United States could suffer interruptions to our services if they tried to use their terminals near ATC terrestrial base stations used to provide integrated MSS/ATC services. In the event that we anticipate significant usage of mobile user terminals near ATC terrestrial base stations, it may be necessary for the manufacturers of the mobile terminals to modify their products to make them less susceptible to interference and for us to replace or upgrade existing user terminals to avoid harmful interference. Although in the case of our Cooperation Agreement with LightSquared we have received payments to compensate us for the costs anticipated to protect our network from interference from the proposed LightSquared network, such compensation may not be sufficient and our interference mitigation strategy may not be successful.

Jurisdictions other than the United States are considering, and could implement, similar regulatory regimes in the future. In May 2004, Industry Canada, the Canadian regulator, decided in principle to allow ATC services in Canada.

We cannot assure you that the development of hybrid networks in the United States, Canada, Europe or in other countries will not result in harmful interference to our operations. If we are unable to prevent such interference it could have an adverse effect on our business, financial condition and results of operations.

***We may not retain sufficient rights to the spectrum required to operate our existing satellite system to its expected capacity, to take full advantage of future business opportunities or to operate our proposed Global Xpress service.***

We rely on radio spectrum to provide our services. This has historically been allocated by the ITU without charge, and usage has to be coordinated with other satellite operators in our spectrum band. In the future, we may not be successful in coordinating our satellite operations under applicable international regulations and procedures or in obtaining sufficient spectrum or orbital resources necessary for our operations.

We must retain rights to use sufficient L-band and C-band spectrum necessary for the transmission of signals between our satellites and end-user terminals and between our satellites and our control stations. Our access to L-band spectrum and C-band spectrum is obtained through frequency coordination under ITU procedures. The L-band coordination is governed, in part, by sharing arrangements with other satellite operators that are re-evaluated and re-established through two annual, regional multilateral meetings of those satellite operators—one for operators whose satellites cover the Americas, and a second for those whose satellites cover Europe, Africa, Asia and the Pacific.

We agreed L-band spectrum allocations for 2012 at the most recent Europe, Africa, Asia and Pacific operators' review meeting. We, together with LightSquared, also collectively have the rights to the majority of the L-band spectrum allocation in the Americas. As a result of the Cooperation Agreement we signed with LightSquared in December 2007 for spectrum reuse and reorganisation of our respective L-band spectrum across the Americas, and the recent exercise of certain implementation notices by LightSquared, we have agreed allocations for the Americas with LightSquared for the foreseeable future. We believe those agreements provide sufficient spectrum to support our existing services for the duration of the agreements. As part of our business planning we may need to apply for additional spectrum to support our future services and existing services growth.

Competition for Ka-band, L-band and C-band spectrum from new operators or for new services or business opportunities could make it more difficult for us to retain rights to spectrum or to take full advantage of future business opportunities by obtaining access to further Ka-band, L-band and C-band spectrum. If we were unable to retain sufficient rights to Ka-band, L-band and C-band spectrum, our ability to provide our services in the future could be prejudiced, which could have an adverse effect on our business, financial condition and results of operations.

***We may be subject to operational and financial risks in relation to our Cooperation Agreement with LightSquared.***

Our Cooperation Agreement with LightSquared may present us with operational and financial risks. If fully implemented, the Cooperation Agreement will ultimately result in a reduction in available L-band spectrum for Inmarsat services over North America and the need for our L-band services to coexist in North America with ATC services in adjacent frequencies. Whilst we believe that we can continue to operate our services over North America with minimal impact to our users following the launch of ATC services, there is a risk that our L-band services may be congested, interrupted and/or interfered with, which could have an adverse effect on our future L-band service performance in North America. In order to mitigate this risk, we will continue to encourage users to progressively upgrade to much more spectrum-efficient BGAN, SwiftBroadband and FleetBroadband services, as well as to our Global Xpress service once launched. The process of migrating customers from our Existing and Evolved Services to our broadband services gives rise to the risk of customers choosing to move to other competitive services, which could have an adverse effect on our business, financial condition and results of operations.

***Third-party distribution partners provide ground infrastructure for our Existing and Evolved Services.***

We sell our Existing and Evolved Services, which currently constitute a substantial portion of our MSS revenues, to third-party distribution partners, many of whom operate the LESs that transmit and receive those services to and from our satellites. If any of these distribution partners fail to provide or maintain these facilities, we would be forced to migrate the affected traffic to our own LES facilities. Although in such an event we have plans in place to migrate traffic to our own facilities, our Existing and Evolved Services would likely be interrupted whilst the migration takes place, which could adversely affect our business, financial condition and results of operations.

***We rely on third parties to manufacture and supply terminals for end-users to access our services and, as a result, we cannot control the availability of such terminals.***

Terminals used to access our services are built by a limited number of independent manufacturers. Although we provide manufacturers with key performance specifications for the terminals, these manufacturers could:

- reduce production of, or cease to manufacture, some of the terminals that access our services;
- manufacture defective terminals that fail to perform to our specifications;
- fail to build or upgrade terminals that meet end-users' requirements within our target sectors;
- fail to meet delivery schedules or to market or distribute terminals effectively; or
- sell some of our terminals at prices that end-users or potential end-users do not consider attractive.

If any of these third parties decides to cease manufacturing terminals to access our services, we may not be able to immediately find a replacement supplier on favourable terms, if at all. Also, if any of our suppliers have difficulty manufacturing or obtaining the necessary parts or material to manufacture our products, our business may be adversely affected.

Any of the foregoing could adversely affect the ability of our distribution partners to sell our services, which, in turn, could adversely affect our business, financial condition and results of operations.

***We are subject to foreign exchange risk.***

We use the US Dollar as our functional and reporting currency. While almost all of our revenues are denominated in US Dollars, a substantial portion of our operating expenses and, from time to time, a small proportion of our capital expenditures, are denominated in currencies other than the US Dollar. Our primary exchange rate risk is against the Pound Sterling. Although we generally hedge our foreign currency exposure in the short-term, there is no assurance that we will be able to adequately manage our foreign currency exposure in the longer-term or that our results of operations would not be affected by fluctuations of the US Dollar against the Pound Sterling.

***We may not be able to recruit and retain the number and calibre of management or employees necessary for our business, which may adversely affect our revenues, profitability and liquidity.***

Technological competence and innovation are critical to our business and depend, to a significant degree, on the work of technically skilled employees. The market for the services of these types of employees is competitive. We may not be able to attract and retain these employees. If we are unable to attract and retain adequate technically skilled employees, including those supporting the development and provision of our higher bandwidth services, our business, financial condition and results of operations could be materially adversely affected.

**Risks Relating to Our Technology and the Operation and Development of Our Network**

***Our satellites are subject to significant operational risks while in orbit which, if they were to occur, could adversely affect our revenues, profitability and liquidity.***

Satellites are subject to significant operational risks while in orbit. These risks include malfunctions, commonly referred to as "anomalies" that have occurred in our satellites and the satellites of other operators as a result of various factors, such as satellite manufacturers' errors, problems with the power or control systems of the satellites and general failures resulting from operating satellites in the harsh environment of space.

Although we work closely with satellite manufacturers to determine and eliminate the cause of anomalies in new satellites and provide redundancy for many critical components in our satellites, we may experience anomalies in the future, either of the types described above or arising from the failure of other systems or components.

Any single anomaly or series of anomalies could materially adversely affect our operations, as well as our ability to attract new customers for our services. Anomalies could also reduce the expected useful life of a satellite, thereby reducing the revenue that we could generate with that satellite, or create additional expenses due to the need to provide replacement or back-up satellites. The occurrence of future anomalies could materially adversely affect our ability to insure our satellites at commercially reasonable premiums, if at all.

Meteoroid events pose a potential threat to all in-orbit satellites. The probability that a meteoroid will damage a satellite increases significantly when the earth passes through the particulate stream left behind by comets. Occasionally, increased solar activity poses a potential threat to all in-orbit satellites and there has been an increase in solar activity in recent years. While we have designed our satellites to withstand such solar events, there can be no assurance that high levels of solar activity will not degrade satellite performance in the future.

Some decommissioned spacecraft are in uncontrolled orbits that pass through the geostationary belt at various points, and present hazards to operational spacecraft, including our satellites. The loss, damage or destruction of any of our satellites as a result of collision with meteorites, space debris, solar activity, malfunction or other event could have a material adverse effect on our business, financial condition and results of operations.

***Our ground network is subject to significant operational risks which, if they were to occur, could adversely affect our revenues, profitability and liquidity.***

Our satellite system includes eight tracking, telemetry and control ground stations and four network coordination stations located around the world. If two or more of these stations were to fail at the same time, our ability to operate our satellites effectively may be limited, which could adversely affect our revenues, profitability or liquidity. Inmarsat also operates three SASs for our broadband services via our three Inmarsat-4 satellites. Two of these SASs provide service redundancy for the EMEA region, our busiest traffic area. However, the third SAS, located in Hawaii, is currently providing services to two Inmarsat-4 satellites over the Americas and Asia-Pacific regions. While significant on-site redundancy has been incorporated into the Hawaii SAS, no redundant site is currently available in case of a failure of the Hawaii SAS. As a result, a failure of our Hawaii SAS could result in a material adverse effect on our business, financial condition and results of operations. In addition we operate LESs for our Existing and Evolved Services in the Netherlands, Canada, Australia and New Zealand. Whilst we do not have site redundancy for the landing of this traffic in our network, this traffic could alternatively be landed at the LESs operated by our third party distributors. Migrating our traffic to LESs operated by third party distributors could be disruptive, which could adversely affect our business, financial condition and results of operations.

***Our next generation services are being developed and are subject to implementation risk.***

Our next generation service, Global Xpress, which will be deployed over a global network of Ka-band Inmarsat-5 satellites, is currently being developed. The development, which includes the Inmarsat-5 satellites, ground network, terminals and related services, may be subject to delays and material cost overruns. There can be no assurance that the development of new satellites, ground networks, and terminals and the introduction of new services will proceed according to anticipated schedules or cost estimates, or that the level of demand for the new services will justify the cost of setting up and providing such new services. In addition, as we are relying on our contractual counterparties to perform under our contracts relating to the development and launch of our Inmarsat-5 satellites and Global Xpress service, we are at risk that these parties may not perform as anticipated and disputes may arise as to their contractual obligations. Failure or a delay in the completion of such networks or services or the launch or deployment or operation of such satellites or new services, or increases in the associated costs, could have a material adverse effect on our business, financial condition and results of operations.

***Our networks and those of our distribution partners may be vulnerable to security risks.***

We expect the secure transmission of confidential information over our networks to continue to be a critical element of our operations. Our network and those of our distribution partners have in the past been, and may in the future be, vulnerable to unauthorised access, computer viruses and other security problems. Persons who circumvent our security measures could wrongfully obtain or use information on our network or cause interruptions, delays or malfunctions in our operations, any of which could have a material adverse effect on our revenues, profitability and liquidity. We may be required to expend significant resources to protect against the threat of security breaches or to alleviate problems, including reputational harm and litigation, caused by any such breaches. Although we have implemented and intend to continue to implement industry-standard security measures, these measures may prove to be inadequate and may result in system failures and delays that could have a material adverse effect on our business, financial condition and results of operations.

***New or proposed satellites, such as Alphasat and the Inmarsat-5s, are subject to construction and launch delay and launch failures, including a launch that fails to deliver a satellite to its designated orbital location after launch, or other satellite damage or destruction during launch, which could result in a total or partial satellite loss, the occurrence of which could have a material adverse effect our business, financial condition and results of operations.***

Our Alphasat and Inmarsat-5 satellites are under construction, and we expect to launch the first of these satellites in 2013. The construction and launch of satellites requires significant capital expenditure (the total capital expenditure for Alphasat and Inmarsat-5 satellites is estimated to be US$1.55 billion), and are subject to the risk of delay and other problems. Delays can result from the delays in the construction of satellites and launch vehicles, the periodic unavailability of reliable launch opportunities, possible delays in obtaining regulatory approvals and launch failures. Launch failures result in significant delays in the deployment of satellites because of the need both to construct replacement satellites, which could take up to 36 months or sometimes longer, and to obtain other launch opportunities. Such significant delays could adversely affect our operations and our revenues. Delay caused by launch failures may also preclude us from pursuing new business opportunities and undermine our ability to implement our business strategy. Any significant delay in the commencement of service of any satellite could affect our plans to replace an in-orbit satellite prior to the end of its service life. Launch vehicles may also underperform, in which case the satellite may still be placed into service by using its on board propulsion systems to reach the desired orbital location, but which would result in a material reduction in its service life. The failure to implement our satellite deployment plan on schedule could have an adverse effect on our business, financial condition and results of operations.

***If we are required to shorten the expected useful lives of our satellites, our profitability could be adversely affected.***

A number of factors affect the useful lives of the satellites, including, among other things, the quality of their construction, the durability of their component parts, the ability to continue to maintain proper orbit and control over the satellites' functions, the efficiency of the launch vehicle used and the remaining on board fuel following orbit insertion. The minimum design life of our Inmarsat-2 satellites was ten years, while our Inmarsat-3 and Inmarsat-4 satellites each have a minimum design life of 13 years. The Inmarsat-5 and Alphasat satellites have design lives of 15 years each. The actual useful lives of our satellites can vary from their design lives. Changes in useful lives can have a significant effect on our depreciation charge and affect profitability, and we regularly reassess the useful economic lives of our satellites for financial reporting purposes. In October 2005, we changed the useful lives of the Inmarsat-4 satellites from 13 years to 15 years to reflect the better than expected performance of the launch vehicles and the adoption of an optimised mission strategy which are expected to extend the orbital lives of these satellites beyond their initial design life. However, there can be no assurance that in the future we will not be required to shorten the useful economic lives of our current or future satellites which could adversely affect our business, financial condition and results of operations.

***We may be unable to obtain and maintain insurance for our satellites, and the insurance we obtain may not cover all losses we experience. Even if our insurance were sufficient, delays in launching a replacement satellite could adversely affect our revenues, profitability and liquidity.***

We have in-orbit insurance cover for our fleet of three Inmarsat-4 satellites until August 2013 and expect to maintain commercially prudent levels of insurance in the future. We have also recently obtained launch and in-orbit insurance covering the launch and the first year in orbit of our Alphasat and Inmarsat-5 satellites. We have also obtained a level of in-orbit insurance for our Alphasat and Inmarsat-5 satellites for a further four years.

The price, terms and availability of insurance have fluctuated significantly since we began offering commercial satellite services. The cost of obtaining insurance can vary as a result of either satellite failures or general conditions in the insurance industry. Insurance policies on satellites may not continue to be available on commercially reasonable terms, or at all. In addition to higher premiums, insurance policies may provide for higher deductibles, shorter coverage periods and additional satellite health-related policy exclusions. An uninsured failure of one or more of our primary satellites could have a material adverse effect on our financial condition, revenue, profitability and liquidity. In addition, higher premiums on insurance policies would increase our costs, thereby reducing our operating income.

Even where we have obtained in-orbit insurance for a satellite, this insurance coverage will not protect us against all losses that might arise as a result of a satellite failure. Our current in-orbit insurance policies contain, and any future policies can be expected to contain, specified exclusions and material change limitations customary in the industry at the time the policy is written. These exclusions typically relate to losses resulting from acts of war, insurrection or military action, government confiscation, as well as lasers, directed energy beams, or nuclear or anti-satellite devices or radioactive contamination.

In addition, should we wish to launch another satellite to replace a failed operational satellite, the timing of such launch would be dependent on the completion of manufacture of such a replacement satellite and prior commitments made by potential suppliers of launch services to other satellite operators. Our insurance does not protect us against lost or delayed revenue, business interruption or lost business opportunities.

We also maintain third-party liability insurance. This insurance may not be adequate or available to cover all third-party damages that may be caused by any of our satellites, and we may not in the future be able to renew our third-party liability cover on reasonable terms and conditions, if at all.

***New technologies introduced by our competitors may reduce demand for our services or render our technologies obsolete, which may have a material adverse effect on the cost structure and competitiveness of our services, possibly resulting in a negative effect on our revenues, profitability and liquidity.***

The space and communications industries are subject to rapid advances and innovations in technology. We expect to face competition in the future from companies using new technologies and new satellite and terrestrial systems. Advances or innovations in technology could render our technologies obsolete or less competitive by satisfying consumer demand in more attractive or cost-effective ways, or by introducing standards that are incompatible with ours. Obsolescence of the technologies that we use could have a material adverse effect on our business, financial condition and results of operations.

***Our business relies on intellectual property, some of which third parties own, and we may inadvertently infringe upon their patents and proprietary rights.***

Many entities, including some of our competitors, currently (or may in the future) hold patents and other intellectual property rights that cover or affect products or services related to those that we offer. We cannot assure you that we are aware of all intellectual property rights that our products may infringe upon. In general, if a court were to determine that one or more of our products infringe upon intellectual property held by others, we may be required to cease developing or marketing those products, to obtain licences from the holders of the intellectual property or to redesign those products in such a way as to avoid infringing upon others' patents. We cannot estimate the extent to which we may be required in the future to obtain intellectual property licences or the availability and cost of any such licences. To the extent that we are required to pay royalties to third parties to whom we are not currently making payments, these increased costs of doing business could negatively affect our profitability or liquidity.

In addition, if a competitor holds intellectual property rights, it may not allow us to use its intellectual property at any price, which could adversely affect our business, financial condition and results of operations.

**Regulatory Risks**

***Our business is subject to regulation and we face increasing regulation with respect to the transmission of our satellite signals and the provision of our MSS in some countries, which could require us to incur additional costs, could expose us to fines and could limit our ability to provide existing and new services in some countries.***

The maintenance and expansion of our business is dependent upon, among other things, our ability (and/or the ability of our distribution partners and/or their service providers) to obtain required government licences and authorisations in a timely manner, at reasonable costs and on satisfactory terms and conditions.

Our business is subject to the regulatory authority of the government of the United Kingdom and the national authorities of the countries in which we operate, as well as to the regulations of various international organisations. Government authorities generally regulate, among other things, the construction, launch and operation of satellites, the use of satellite spectrum at specific orbital locations, the licensing of earth stations and mobile terminals, and the provision of satellite services.

In particular, under the UK Outer Space Act 1986, we must obtain licences to conduct our business, including for the launch of our satellites. The terms of these licences provide that we indemnify the UK government without limit for any claim brought against it as a result of our licensed activities or in respect of any loss suffered by the UK government as a result of any breach of the terms of the licence. We also must maintain insurance of up to £100.0 million per satellite to be used to pay any sums to the UK government in respect of this indemnity.

Increasingly, regulatory authorities are imposing fees and introducing new regulatory requirements on businesses that use spectrum or offer communications services. This could significantly adversely affect our business. In addition to the licences issued to us by the UK government for the launch and operation of our satellites, to date we have obtained specific telecommunications, network or frequency licences with respect to our existing services in most countries where this sort of licence is required, and are currently discussing terms and conditions with several other countries. Additional countries are considering whether to implement such licence requirements. These licence requirements could require us to incur new and unforeseen additional costs, could expose us to fines if we were unable to obtain or retain any licences or meet all regulatory requirements, and could limit our ability to provide existing or new services in some countries, which could adversely affect our revenues, profitability or liquidity. While we have in the past been able to negotiate exemptions or fees that are proportionate to our business and the amount of spectrum actually used in a country, this cost could be higher in countries served by multiple beams, particularly in Ka-band.

It is also possible that regulatory authorities in some countries may require us to establish an earth station or a point of presence in their countries as a condition to distribute our services in those countries. This has, in particular, been a barrier to entry in India. Some countries may also require us to provide traffic reports on a regular basis or maintain a domestic billing database for their country. To the extent we own and/or operate the earth stations for our broadband, GSPS services and any future services such as Global Xpress, we are required to obtain licences for the operation of those stations as network facilities, and also will need to obtain rights to C-band and/or Ka-band spectrum for communications between the stations and our satellites. Approval of the offering of our services or operation of earth stations will be contingent upon us or our distribution partners providing any countries as they may so require, with the ability to monitor calls made to or from such countries and/or to intercept traffic. Although we believe that we will be able to address the concerns of many of these countries as they arise, there is no assurance that we (and/or our distribution partners and/or their service providers) will be able to do so. In addition, some countries in which we or our distribution partners, or their service providers, operate have laws and regulations relating to privacy and the protection of data which may impair our ability to obtain licences or offer our services on a timely basis.

Laws, policies and regulations affecting the satellite industry are subject to change in response to industry developments, new technology or political considerations. Legislators or regulatory authorities in various countries are considering, and may in the future adopt, new laws, policies and regulations or changes to existing regulations regarding a variety of matters that could, directly or indirectly, affect our operations or the operations of our distribution partners, or increase the cost of providing services over our system. Changes to current laws, policies or regulations or the adoption of new regulations could affect our ability to obtain or retain required government licences and authorisations or could otherwise have a material adverse effect on our business, financial condition and results of operations.

***Our contractual relationships with our distribution partners may be subject to regulatory challenge, which could require us to renegotiate the contractual relationships and could result in the imposition of fines.***

Our overall relationship with our distribution partners is governed by our Distribution Agreements. There is a risk that regulatory authorities or other third parties could challenge the Distribution Agreements, for example under European Union competition laws. As of 1 May 2004, it is no longer possible to obtain an exemption from European Union competition rules by notifying an agreement to the European Commission, and parties must make their own assessment as to whether their agreements fulfil European Union competition requirements. We have previously conducted a regulatory review of the terms of our Distribution Agreements, and of our competitive position in the sectors in which we operate. We do not believe that we are party to any agreement that is, in the current competitive environment, anticompetitive, or otherwise faces a significant risk of regulatory challenge. However, the competitive environment may change, and regulatory risk analysis is by its nature subjective. Therefore, we cannot assure you that either we, or the Distribution Agreements, or our distribution partners face no risk of challenge. For example, competition authorities could determine that we have market power in one or more business sectors, and could challenge us, or the Distribution Agreements or our distribution partners as anticompetitive. A successful regulatory challenge could result in portions, or all, of the Distribution Agreements being declared unenforceable, could require us to modify or replace certain provisions of the Distribution Agreements in order to achieve compliance and, in certain circumstances, could result in the imposition of fines. Competition authorities generally have powers to impose fines, including for breaches of competition laws, which in the case of the European Commission, is up to a maximum of 10% of a company's worldwide annual group revenues. In addition, third parties could initiate civil litigation claiming damages caused by alleged anticompetitive practices and agreements.

***We may not be aware of certain foreign government regulations.***

We, our customers and the companies with which we or our customers do business may be required to have authority from each country in which we or such companies provide services or provide our or their customers with the use of our satellites. We may not be aware of whether some of our customers and/or companies with which we or our customers do business, do not hold the requisite licences and approvals as required in such countries.

Because regulatory schemes vary by country and evolve over time, we may be subject to regulations in foreign countries of which we are not presently aware. If that were to be the case, we could be subject to sanctions by a foreign government that could materially adversely affect our ability to operate in that country. Our current regulatory approvals could now be (or could become) insufficient in the view of foreign regulatory authorities, any additional necessary approvals may not be granted on a timely basis (or at all), in all jurisdictions in which we wish to offer services, and applicable restrictions in those jurisdictions could become unduly burdensome. The failure to obtain the authorisations necessary to operate satellites internationally could have a material adverse effect on our business, financial condition and results of operations.

***Our distribution partners and service providers face increasing regulation in many countries, and end-users often require licences to operate end-user terminals. This regulatory burden could increase the costs of our distribution partners and service providers or restrict their ability to sell our products.***

Our distribution partners and service providers require licences and regulatory consents (including national type approval of Inmarsat products where applicable) to offer our services in many countries where they operate. In addition, end-users often require licences to use our terminals. Furthermore, we expect that our distribution partners, their service providers and end-users will require licences for our handheld services in many jurisdictions in which they distribute our services or use our terminals, and they may fail to obtain those licences. Any delay or failure by our distribution partners, their service providers or end-users to obtain required licences in connection with the distribution of our services or use of terminals could prevent our services from being distributed, sold or used in some countries or lead to unauthorised use that could adversely affect the reputation of our brand, which could have a material adverse effect on our business, financial condition and results of operations.

***We may not be successful in coordinating our satellite operations under applicable international regulations and procedures or in obtaining spectrum and orbital resources we require for our operations.***

The ITU regulates the use of radio frequency bands and orbital locations used by satellite networks to provide communications services. The use of spectrum and orbital resources by us and other satellite networks must be coordinated pursuant to the Radio Regulations in order to avoid causing harmful interference between or among the respective satellite networks. In the case of the L-band, the ITU process has been affected on the basis of agreements between the relevant national administrations whereby the use of frequencies by our satellite network and other satellite networks is coordinated in regional operator review meetings and negotiations. It is not always possible to achieve unanimous agreement amongst operators. However, as a result of the Cooperation Agreement with LightSquared, we have agreed allocations for the Americas for the foreseeable future. The increased competition for spectrum and orbital locations may make it difficult for us to obtain additional L-band spectrum allocations we require for our forecasted requirements. In the future, we may not be able to coordinate our satellite operations successfully under international telecommunications regulations and we may not be able to obtain or retain the spectrum and orbital resources we require to provide our existing or future services.

Competition for orbital locations in the Ka-band is intense and coordination can be challenging, in particular since Inmarsat has no previous coordination rights in this band. We may not be able to coordinate orbital locations for all Inmarsat-5 satellites, may experience delays in obtaining the required agreements, or may not be able to coordinate access to optimum locations.

***Risks related to our Senior Notes due 2017***

Holders of our Senior Notes are subject to risks which we have described in the offering documentation at the time of issue. These risks include risks relating to:

- our outstanding debt and our ability to incur debt in the future;
- our ability to generate sufficient cash to make payments on the Senior Notes;

- structural considerations in relation to the subordination of the Senior Notes and guarantees;
- the impact of restrictive covenants in the Senior Notes and in our other debt; and
- other risks.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### Management of Inmarsat Finance plc and Inmarsat Group Limited

#### *Board of Directors*

The directors of Inmarsat Finance plc and Inmarsat Group Limited are Andrew Sukawaty, Rupert Pearce, Alison Horrocks and Rick Medlock.

#### *Audit Committees*

The audit committee of each of Inmarsat Finance plc and Inmarsat Group Limited comprises Andrew Sukawaty, Rupert Pearce and Alison Horrocks, none of whom the board of directors of Inmarsat Finance plc nor the board of directors of Inmarsat Group Limited considers to be an audit committee financial expert, and none of whom is independent. We believe that the members of the audit committee of each of Inmarsat Finance plc and Inmarsat Group Limited have sufficient experience to perform their responsibilities. Neither Inmarsat Finance plc nor Inmarsat Group Limited is required under its respective law of incorporation to include financial experts on its audit committee.

### Management of Inmarsat plc

#### *Board of Directors*

Inmarsat plc is the ultimate parent company of Inmarsat Finance plc and Inmarsat Group Limited.

The table below sets out the names of the directors of Inmarsat plc and their current positions.

| Name | Position |
| --- | --- |
| Andrew Sukawaty | Executive Chairman |
| Rupert Pearce | Executive Director and Chief Executive Officer |
| Rick Medlock | Executive Director and Chief Financial Officer |
| Sir Bryan Carsberg | Non-executive Director—Independent Director |
| Stephen Davidson | Non-executive Director—Independent Director |
| Admiral James Ellis Jr (ret.) | Non-executive Director—Independent Director |
| Kathleen Flaherty | Non-executive Director—Independent Director |
| Janice Obuchowski | Non-executive Director—Independent Director |
| John Rennocks | Non-executive Director—Independent Director and Deputy Chairman |

The address for each director is c/o Inmarsat plc, 99 City Road, London EC1Y 1AX, United Kingdom.

**Andrew Sukawaty** joined the Board as Chairman in December 2003 and was appointed Chief Executive Officer in March 2004. Mr Sukawaty moved to the sole role of Executive Chairman on 1 January 2012. He is non-executive chairman of Ziggo BV. Between 1996 and 2000, he served as chief executive officer and president of Sprint PCS (NYSE). He was chief executive officer of NTL Limited from 1993 to 1996. Previously, he held various management positions with U.S. West and AT&T. He has served on various listed company boards as a non-executive director. Mr Sukawaty holds a BBA from the University of Wisconsin and an MBA from the University of Minnesota.

**Rupert Pearce** joined the Board as an executive director in July 2011 and became our Chief Executive Officer in January 2012. His previous positions in Inmarsat were as General Counsel and Senior Vice President, Inmarsat Enterprises. Previously he worked for Atlas Venture, a venture capital company, where he was a partner working with the firm's European and U.S. investment teams on investment, divestment, M&A and corporate finance transactions and was a member of the firm's investment and exit committees. He was previously a partner at the international law firm Linklaters, where he spent 13 years specialising in corporate finance, M&A and private equity transactions. He received an MA in Modern History from Oxford University and won the 1995 Fulbright Fellowship in U.S. securities law, studying at the Georgetown Law Centre.

**Rick Medlock** joined the Board in September 2004 and is Chief Financial Officer. Between 1996 and 2004, he had served as chief financial officer and company secretary of NDS Group plc (Nasdaq and Euronext). Mr Medlock previously served as chief financial officer of several private equity backed technology companies in the United Kingdom and the United States. Mr Medlock is also a non-executive director of Momondo Group Limited (formerly Cheapflights Media Limited) and Edwards Vacuum Ltd. He is chairman of their Audit Committees. He is a Fellow of the Institute of Chartered Accountants of England and Wales. Mr Medlock holds an MA in Economics from Cambridge University.

**Sir Bryan Carsberg** joined the Board in June 2005 as a non-executive director. He is an independent, non-executive director of Novae Group plc. He was the first Director General of Telecommunications (Head of Oftel, the telecommunications regulator that preceded Ofcom) from 1984 to 1992, Director General of Fair Trading from 1992 to 1995 and Secretary General of the International Accounting Standards Committee (predecessor of the International Accounting Standards Board) from 1995 to 2001. He has been an independent, non-executive chairman and director of various other companies as well. Sir Bryan is a Fellow of the Institute of Chartered Accountants of England and Wales and an Honorary Fellow of the Institute of Actuaries; he was knighted in January 1989. He holds an M.Sc. (Econ) from the University of London (London School of Economics).

**Stephen Davidson** joined the Board in June 2005 as a non-executive director. Mr Davidson is Chairman of Datatec Limited and Mecom Group plc and is also a non-executive director of several other companies. He has held various positions in investment banking, most recently at West LB Panmure where he was Global Head of Media and Telecoms Investment Banking then Vice Chairman of Investment Banking. From 1992 to 1998 he was Finance Director then Chief Executive Officer of Telewest Communications plc. He was Chairman of the Cable Communications Association from 1996 to 1998. He holds an MA (first class) in Mathematics and Statistics from the University of Aberdeen.

**Admiral James Ellis Jr (ret.)** joined the Board in June 2005, as a non-executive director. He was President and Chief Executive Officer of the Institute of Nuclear Power Operations until 2012. Admiral Ellis also serves as a Director of the Lockheed Martin Corporation and Level 3 Communications. Admiral Ellis retired from the U.S. Navy in 2004 as Commander, United States Strategic Command. He was responsible for the global command and control of U.S. strategic forces to meet decisive national security objectives. Admiral Ellis is a graduate of the U.S. Naval Academy and was designated a Naval Aviator in 1971 and held a variety of sea and shore assignments in the United States and abroad. He holds Master of Science degrees in Aerospace Engineering and in Aeronautical Systems.

**Kathleen Flaherty** joined the Board in May 2006 as a non-executive director. She is a non-executive director of hibu plc (formerly Yell Group plc) and a member of the McCormick Advisory Board and sits on its executive committee of Northwestern University. She previously served as a non-executive director of GenTek, Inc. (Nasdaq), Marconi Corporation plc, telent plc, CMS Energy Corporation (NYSE) and Consumers Energy Company (NYSE). Previous executive positions include Chief Marketing Officer at AT&T; President and Chief Operating Officer of Winstar International; Senior Vice President, Global Product Architecture for MCI Communications, Inc and Marketing Director for National Business Communications at BT. Ms Flaherty graduated from Northwestern University with a Ph.D. in Industrial Engineering and Management Sciences.

**Janice Obuchowski** joined the Board in May 2009 as a non-executive director. Mrs Obuchowski has held several senior positions, both in the U.S. government and in the private sector. She served as Head of Delegation and as the U.S. Ambassador to the World Radiocommunications Conference 2003 and was Assistant Secretary for Communications and Information at the Department of Commerce leading the National Telecommunications and Information Administration under President George H.W. Bush. Earlier in her career she held several positions at the FCC, including Senior Advisor to the Chairman. She is currently a non-executive director on the public company boards of Orbital Sciences Corporation and CSG Systems, Inc where she has responsibility for chairing committees for both those companies. Mrs Obuchowski is President and founder of Freedom Technologies, Inc. Mrs Obuchowski has previously held non-executive director positions with Qualcomm and Stratos.

**John Rennocks** joined the Board in January 2005 as a non-executive director. He is our Deputy Chairman and Senior Independent Director. He is a non-executive chairman of Diploma plc and a non-executive director of Greenko Group plc. He has broad experience in emerging energy sources, support services and manufacturing. Mr Rennocks previously served as a director of Inmarsat Ventures plc, and as Executive Director-Finance for British Steel plc/Corus Group plc, Powergen plc and Smith & Nephew plc. Mr Rennocks is a Fellow of the Institute of Chartered Accountants of England and Wales.

*Senior Management*

In addition to the executive directors on the Board, our day-to-day management is conducted by the following senior managers:

| Name | Position |
|---|---|
| Frank Coles | President, Inmarsat Maritime |
| Rich Harris | Senior Vice President—Legal and Regulatory Affairs |
| David Helfgott | President, Inmarsat Government (US) |
| Alison Horrocks | Senior Vice President—Corporate Governance and Company Secretary |
| Debbie Jones | Senior Vice President—Corporate Development |
| Leo Mondale | Managing Director, Global Xpress |
| Ruy Pinto | Chief Technology Officer |
| Ronald Spithout | President, Inmarsat Enterprise |
| Andy Start | President, Inmarsat Global Government |

The following is a brief biography of the above senior managers:

**Frank Coles** became President, Inmarsat Maritime in 2012. Prior to his appointment as head of the maritime business, Frank was Senior Director of Maritime Market Development for Inmarsat Global Xpress, based in Washington D.C. He started his career in 1977 as a Merchant Marine Deck Officer, working for a wide range of ship management companies and serving on a variety of merchant vessels. After leaving the Merchant Navy in 1989, he spent five years as a lawyer at Richards Butler (London) and Stephenson Harwood & Lo (Hong Kong) before becoming general manager for Pacific Basins Bulk Shipping Agencies in 1995. He joined Sperry Marine Systems in 1998, where he became Vice President of Business Development and Information technology. In 1999 he became President and CEO for Globe Wireless, a maritime satcoms retailer and service provider and now a distribution partner for Inmarsat. Frank has a Master Mariner qualification from the South Glamorgan Institute in Cardiff, Wales and a Masters in Maritime Law from University of Wales, Cardiff.

**Rich Harris** was appointed Inmarsat's Senior Vice President, Legal and Regulatory Affairs in January 2012. Previously he served as Senior Vice President and Chief Legal Officer at Segovia, Inmarsat's wholly-owned subsidiary in Herndon, Virginia (USA). From 2004 through 2010, he served as Senior Vice President, Chief Legal Officer and Corporate Secretary at Stratos Global Corporation, prior to and following the acquisition by Inmarsat. Before Stratos, he served as General Counsel of Worldwide Retail Exchange, now Agentrics, an internet platform for the consumer retail market. He received a BA in Economics from the University of Pennsylvania and a JD from the Yale Law School.

**David Helfgott** joined Inmarsat in 2011 and is currently President, Inmarsat Government, our U.S. government business unit. He was previously Senior Vice President of Business Development and Strategy. Prior to joining Inmarsat, he held leadership positions in the satellite communications and intelligence, surveillance, reconnaissance (ISR) technology market including as president of the wireless ISR technology business unit of Cobham plc, as president and CEO of DataPath Inc. and SES Americom Government Services. Mr Helfgott holds an MBA from the Darden School and a bachelor's degree from the University of Virginia.

**Alison Horrocks** joined us in 1999 and is our Senior Vice President, Corporate Governance and Company Secretary. She has acted as Secretary to the Board since its inception and also serves the boards of Inmarsat plc's other main operating companies. She is Chairman of the Trustee Company responsible for Inmarsat's UK pension plans. Between 1988 and 1999, she was group company secretary of International Public Relations plc, a worldwide public relations company. She is a Fellow of the Institute of Chartered Secretaries and Administrators.

**Debbie Jones** joined us in 2000. She is currently our Senior Vice President, Corporate Development. Ms Jones is a non-executive director of Capital Law LLP. Between 1995 and 2000, she was the senior human resources adviser for Eversheds Solicitors. Between 1988 and 1995, she was the head of personnel at Companies House in Cardiff. Prior to this, Ms Jones held various operational, information technology supervisory and management positions at the Department of Trade and Industry and the Office for National Statistics. She is a member of the Chartered Institute of Personnel and Development.

**Leo Mondale** joined Inmarsat in 2004 and since September 2010 has been the Managing Director for our Global Xpress programme. Previously he served as Vice President of Business Development and Strategy. Before joining Inmarsat, Mr Mondale held a variety of senior positions in the satellite and aerospace industries, including as partner in Thaler Associates, a defense industry advisory firm, and as President of Arianespace Inc., responsible for the European launch services firm's sales, marketing and governmental affairs in the United States. Mr Mondale also held a range of posts, including Senior VP and Chief Financial Officer at Iridium. Mr Mondale holds a Bachelor of Arts degree from the University of Minnesota and was awarded a Juris Doctor degree from the George Washington University, Washington, D.C.

**Ruy Pinto** joined Inmarsat in 1990 and became our Chief Technical Officer in January 2012. From 2009 to 2011, Mr Pinto was Vice President of Satellite and Network Operations responsible for network and satellite operations, spectrum management and yield optimisation functions for the product portfolio, as well as navigation services. His previous roles in Inmarsat focused on satellite operations. Mr Pinto is Chair of UK Space, the UK space industry trade association. He has a background in electronics and data communications. Mr. Pinto graduated with a degree in Electronics Engineering from the Rio de Janeiro Catholic University in Brazil, followed by a post-graduate degree in Digital Telecommunications Systems.

**Ronald Spithout** was appointed President, Inmarsat Enterprise in January 2012. He came to Inmarsat from Stratos Global, which was acquired by Inmarsat in April 2009. From July 2006 until December 2011, Mr Spithout was Senior Vice President, MSS Marketing and Sales, Worldwide, for Stratos Global, with global responsibility for the MSS marketing and sales organisation. Prior to that, he was was responsible for Stratos MSS Sales for all countries except North America. He came to Stratos from Xantic B.V., a satellite communications company headquartered in The Netherlands, which was acquired by Stratos in early 2006. At Xantic, Mr Spithout served as Executive Vice President Marketing and Sales, and was previously responsible for Xantic's Network and Service Operations, including the Land Earth Stations and its customer service activities. Mr Spithout held various sales positions in the late 1980s for KPN (the Royal Dutch Telecom Operator) in the Netherlands and has held numerous positions with several of KPN's JV companies. Mr Spithout holds a degree in electrical engineering from HTS-Rotterdam, the Rotterdam Institute for Technology. He also served in the Dutch military as a reserve Lieutenant in the Dutch Cavalry.

**Andy Start** joined Inmarsat in 2012 and is President, Inmarsat Global Government. Prior to joining Inmarsat he was President of Harris Corporation's international tactical radio business, Managing Director of BAE Systems Platform Solutions Business, and Director of EADS Astrium's Military Space Business. During his time at EADS Astrium he was responsible for the Skynet 4 program and was instrumental in the creation of the Skynet 5 service provision that enables UK MOD to exploit military and commercial satellite communications across the complete array of military tasks and operations. Andy has completed two Government secondments: one into the UK MOD, the other into the Department of Trade and Industry where he was responsible to the Secretary of State for leading the development of the UK's National Aerospace Strategy.

There are no family relationships between any director and senior management.

## Board Practices

### *Corporate Governance*

Inmarsat plc has established audit, remuneration and nominations committees.

*Audit Committee*

The audit committee of the Board comprises John Rennocks (Chairman), Sir Bryan Carsberg, Stephen Davidson and Janice Obuchowski. All members of the audit committee are independent, non–executive directors and three of the members have significant, recent and relevant financial experience. By invitation, the meetings of the audit committee may be attended by the Executive Chairman, Chief Executive Officer, Chief Financial Officer and the internal and external auditor.

The audit committee has particular responsibility for monitoring the adequacy and effectiveness of the operation of internal controls and risk management and ensuring that our financial statements present a true and fair view of our financial position. Its duties include keeping under review the scope and results of the audit and its cost effectiveness, consideration of management's response to any major external or internal audit recommendations and the independence and objectivity of the internal and external auditor.

During 2012, the audit committee reviewed and endorsed, prior to submission to the Board, half–year and full–year financial statements, interim management statements and results announcements and the quarterly financial reports for Inmarsat plc and Inmarsat Group Limited. It considered internal audit reports and risk management updates, agreed external and internal audit plans and received updates on management responses to audit recommendations and approved the review of accounting policies. Reviews by the committee of audit plans and risk reports include all Group operations. Detailed standardised risk reporting is used for all Group companies. The new Senior Statutory Auditor took responsibility for reporting on results for the 2011 financial year and the 2012 audit is the second year of his reporting five year term.

Our Secretary, as Chairman of the Disclosure Committee, reported on matters that affected the quality and timely disclosure of financial and other material information to the Board, to the public markets and to shareholders. This enabled the audit committee to review and clarify the completeness of financial reporting disclosures prior to their release by the Board.

*Remuneration Committee*

The remuneration committee of the Board comprises Stephen Davidson (Chairman), Sir Bryan Carsberg, Admiral James Ellis Jr (ret.) and Kathleen Flaherty. All committee members are independent, non–executive directors.

The remuneration committee, on behalf of the Board, meets as and when necessary to review and approve as appropriate the remuneration of the executive directors and senior management and major remuneration plans for Inmarsat Group Limited and its subsidiaries as a whole. The remuneration committee appraises the Executive Chairman against written objectives. Similarly, the Executive Chairman appraises the other executive directors and makes a recommendation to the remuneration committee relating to their bonus achievements. The remuneration committee approves the setting of objectives for all of the executive directors and authorises their annual bonus payments for achievement of objectives. The remuneration committee provides remuneration packages necessary and sufficient to attract, retain and motivate executive directors. The remuneration committee is empowered to recommend the grant of share awards and options under the existing share plans and to make awards under the short and long–term incentive plans. The remuneration committee considers there to be an appropriate balance between fixed and variable remuneration and between short and long–term variable components of remuneration. All of the decisions of the remuneration committee on remuneration matters in 2012 were reported to and endorsed by the Board.

*Nominations Committee*

The nominations committee of the Board comprises Andrew Sukawaty (Chairman), John Rennocks, Admiral James Ellis Jr (ret.) and Stephen Davidson.

The nominations committee meets as and when necessary. The nominations committee has responsibility for nominating to the Board, candidates for appointment as directors, bearing in mind the need for diversity and a broad representation of skills across the Board. The nominations committee will also make recommendations to the Board concerning the re–appointment of any independent, non–executive director of the Board at the conclusion of his or her specified term; the election and re–election of any director by shareholders in accordance with the provisions of the UK Corporate Governance Code; and changes to senior management, including executive directors.

## MATERIAL CONTRACTS

The following is a summary of material contracts to which we are a party.

### Alphasat Contracts

The material terms of the Alphasat material contracts are set out below. Our estimated investment cost for the satellite to be launched into orbit, excluding insurance, is approximately EUR 260 million.

***Alphasat Phase B/C/D/E1 Contract with the European Space Agency ("ESA")***

On 8 November 2007, we entered into an agreement with ESA to:

(a) procure the build and launch of Alphasat by 31 December 2013;

(b) embark certain technology demonstration payloads; and

(c) operate Alphasat for a period of three years after commissioning and provide ESA with telemetry data on technology demonstration payloads during commissioning and the first three years of operation.

*Term*

The agreement terminates three years after the commissioning of Alphasat.

*Price*

In addition to providing us with the Alphabus satellite platform, ESA will pay us an amount as a contribution towards the production of Alphasat and launch services costs and pay its contribution in relation to Alphasat to our main subcontractors (Astrium and Astrium Limited) directly in accordance with a milestone delivery schedule.

*Consequences of Failure to Perform*

If we fail to launch before 31 December 2013, we have an option to require further extension of the launch period until 31 December 2015. If we exercise this option, we shall pay liquidated damages for any launch delay beyond 31 March 2014 up to an agreed amount. The payment shall be in lieu of any or all rights to terminate the agreement before 1 January 2016.

*Termination*

ESA may terminate the agreement in the following circumstances:

- if we become insolvent or legal action leading to bankruptcy is taken against us by creditors;
- if we resort to fraudulent practices in connection with the agreement or the progress or delivery requirements;
- if we fail to continue to meet the technical requirements of the agreement;
- if we fail to launch Alphasat by 31 December 2013, or if the option to extend the launch period is exercised by 31 December 2015; or
- if we transfer the agreement or conclude subcontracts without ESA's consent.

***Alphasat Contract with Astrium***

On 8 November 2007, we entered into an agreement with Astrium to design, develop, manufacture, test, integrate and prepare Alphasat for launch. The satellite is due for delivery to the launch site in 2013.

*Term*

The agreement terminates 40 calendar quarters after Alphasat's successful injection into its orbital location.

*Price*

The price to be paid includes the manufacture and integration of Alphasat and post–launch milestone and incentive payments. Payments are broken down between an ESA payment stream and an Inmarsat payment stream and will be made in accordance with a milestone delivery schedule. In addition to milestone payments, Astrium may receive performance incentive payments from us for Alphasat being successfully operated during 40 calendar quarters after successful orbital injection. The aggregate of post-launch milestone and incentive payments is 10% of the Inmarsat payment stream.

*Option*

Astrium has granted us the following options under the agreement:

- an option to order up to four other spacecraft by 31 December 2015, or such other date as we and Astrium may agree, at a base price subject to a currency conversion formula;

- an option to require Alphasat to be stored for a period of up to five years at any time prior to launch. The first six months' storage is free. At certain times we must pay storage, testing, maintenance and insurance, as well as interest on performance incentives to Astrium. If we do not launch within five years both parties in good faith shall renegotiate performance incentives;

- an option to purchase a payload control system by 30 June 2009 (which was exercised);

- an option to obtain launch support for other launch services no later than ten months prior to shipping Alphasat; and

- an option to purchase a beam weight engine by 31 December 2009 (which was exercised).

*Consequences of Failure to Perform*

We are entitled to certain payments and have recourse to certain remedies against Astrium in the following circumstances:

(i) if Alphasat is delivered late, we receive liquidated damages for each day of lateness after the first 90 days of lateness up to an agreed maximum;

(ii) if Astrium anticipates that it cannot deliver Alphasat by an agreed date and in the absence of a negotiated alternative, we notify Astrium that we are treating the contract as discharged with respect to all or part of the work related to the breach and choose between the following remedies:

  - take over the work and pay Astrium a fair and reasonable price for the work. Astrium shall reimburse us for any and all increased costs reasonably incurred up to a maximum percentage of the contract price; or

  - receive a refund of all amounts paid by us with interest at the EURIBOR rate calculated from the date of each payment until the date of reimbursement.

(iii) if Astrium fails promptly to correct satellite deficiencies, we can choose:

  - to have all deficiencies rectified by other means at Astrium's cost (up to a maximum of 5% of the price of the spacecraft); or

  - not to have the deficiency corrected but to negotiate in good faith an equitable reduction in the price and an appropriate limitation on the satellite performance incentive payment.

If an amount in excess of an agreed figure remains unpaid for 30 days after it is due and payable, Astrium may give us a notice of suspension of work. Astrium may immediately suspend work under the contract for as long as such amount remains unpaid and the parties shall enter into good faith negotiations. Astrium shall obtain an equitable increase in the contract price and a day-to-day increase in the delivery schedule in respect to any such period of suspension.

After a further 150 days' suspension (or such longer period as Astrium may allow), Astrium may elect to terminate the agreement.

If we fail to cure any other breach of the agreement within 30 days after it receives notification from Astrium of the breach, Astrium may seek any remedy legally available to them.

*Warranty*

Astrium provides a warranty that covers equipment (including spacecraft) and services including, launch vehicle interfaces and support services, mission support, transportation and storage. The warranty provides that all equipment is free from any defects in design, materials and workmanship and that services shall be performed in a skilful and workmanlike manner and that both shall conform to the requirements of the contract. The warranty period for equipment and software shall commence at the time of final acceptance for the duration of one year. The warranty period for services shall commence upon their completion, also for a duration of one year.

The warranty in relation to spacecraft shall commence at the time of final acceptance and shall run for one year or until launch whichever occurs first or if placed in storage, five years.

*Termination*

In addition to the circumstances which may give rise to a right to terminate summarised under "*Consequences of Failure to Perform*", the agreement may be terminated:

- by either party, in whole or in part at any time, if either party becomes insolvent or goes into liquidation, or resorts to fraudulent practices in carrying out the contract;
- by us, in whole or in part, at our convenience (in which case, we must pay termination charges, including a fixed profit element, to Astrium), at any time except in relation to a satellite that we have finally accepted; and
- by us, if force majeure events delay delivery by more than 180 days or permanently prevent Astrium from complying with the timetable (in which case, we must pay Astrium a portion of the termination charge we would have paid if we had terminated for convenience).

***Launch Services Contract with Arianespace***

In May 2009, we entered into an agreement with Arianespace for the provision of launch services in support of our Alphasat satellite development programme. We may launch Alphasat in a one month contractual slot from 1 July 2013 up to and including 31 July 2013.

Arianespace intends to use an Ariane 5 ECA launch vehicle to support our launch and the launch of a nominated co-passenger satellite INSAT 3D.

*Term*

The agreement has no predetermined termination date. We have a launch window that can be moved into the future at additional cost outside the pre-agreed time frame. Both parties have termination rights, which are discussed below. There is also a pre-agreed termination profile in case of termination for convenience, where naturally the termination costs to the customer increase with time.

*Price*

The price payable by us to Arianespace includes the cost of all services required to enable us to launch our Alphasat satellite, which will be an Inmarsat-provided deliverable under the contract. The price is fixed for the period from May 2009 when the parties entered into the agreement until 31 December 2013. Should we postpone launch for more than 18 months, a new price for launch services may be negotiated between the parties. Payments will be made in accordance with a milestone delivery schedule.

*Consequences of Failure to Perform*

We are entitled to certain payments and have certain remedies against Arianespace in the following circumstances:

- should Arianespace postpone any agreed launch period due to co–passenger unavailability. Arianespace will be liable to pay Inmarsat liquidated damages amounting to an agreed amount per calendar day of postponement in excess of a period of grace equal to a total of 60 calendar days of postponement per launch; or
- we may request a replacement launch should the launch mission or satellite mission prove to be a failure following launch. Such replacement launch will be provided no later than 10 months following

Inmarsat's request for a replacement launch. The written request for a replacement launch shall be received by Arianespace no later than the last day of the second month following the month in which the cause of the failure has been established but in no event later than, in the case of a satellite mission failure, 27 months following the date of the launch.

*Warranty*

Due to the nature and complexity of the services provided there is not a warranty provision or undertaking for either party and both expressly disclaim all potential liability arising from the agreement.

*Termination*

We may terminate the agreement in the following circumstances:

- unavailability of a co–passenger for a period in excess of seven months; or
- twelve–months postponement by the contract for any reason; or
- for convenience, at any time, with our liability limited to a predetermined schedule of charges.

Arianespace may terminate in the event that we fail to pay properly submitted invoices 30 days from notification of such late payment by Arianespace, provided such late payment is not subject to the pre–agreed arbitration and dispute resolution provisions.

***Launch and In-Orbit Insurance Contract for the Alphasat Satellite***

Inmarsat Launch Company Limited has placed launch and in-orbit insurance for the Alphasat satellite through Willis, its UK insurance brokers (operating through Willis Group, The Willis Building, 51 Lime Street, London EC3M 7DQ).

*Key terms:*

*Term*

The policy period runs from 1 May 2012 to 1 May 2015 (the period within which the launch may take place).

The total amount of insurance cover taken is US$349.4 million comprising:

- Launch + 1 year in-orbit cover of US$266 million;
- Launch phase only cover of US$8.4 million (covering the period from launch until separation of the satellite from the launch vehicle); and
- Launch + 5 year in-orbit cover of US$75 million.

*Cover*

Total loss and or partial loss of capacity according to a loss formula based on engineering parameters.

*Price*

The total commitment is based on a premium, before taking into account receipt of any no claims bonus that might become due, and before insurance premium tax (IPT) that may be levied. A deposit premium of 5% was paid on inception of the policy and the balance is to be paid 30 days before launch.

*Termination*

The policies terminate upon the earliest of the following: at the end of the period of cover; or when the satellite is agreed to be a Constructive Total Loss or a Total Loss; or when agreed claims equal the Amount of Insurance.

The policies may be cancelled only by mutual agreement between the Named Insured and the Insurers, or unilaterally by the Insurers for non-payment of Premium.

*Other Terms*

There are no non-market-standard exclusions.

The policies may be assigned to other Inmarsat group companies with prior written permission of the insurers.

The policy is subject to the laws of England and Wales.

**Inmarsat-5 Contracts**

The material terms of our Inmarsat-5 contracts are set out below.

***Inmarsat-5 Spacecraft Contract with Boeing Satellite Systems International, Inc***

On 5 August 2010 ("**EDC**"), we entered into an agreement with Boeing Satellite Systems International, Inc. ("**Boeing**") to design, develop, manufacture, test, integrate and prepare three Ka-band Inmarsat-5 spacecraft for launch with an Option to purchase an additional two spacecraft. The first spacecraft is due for delivery to the launch site on or before 35 months from EDC and the following two are due at six-monthly intervals thereafter.

*Term*

The agreement terminates 10 years after the last of the Ka-band Inmarsat-5 spacecraft's successful injection into its orbital location.

*Price*

The price to be paid including Contract Change Notices includes the manufacture and integration of three Ka-band Inmarsat-5 spacecraft, launch operations and services, post-launch milestone and "warranty payback" incentive payments. Payments will be made in accordance with a milestone delivery schedule. In addition to milestone payments, Boeing will receive performance incentive payments from us for Ka-band being successfully operated during the 10 years after successful orbital injection.

*Options*

Boeing has granted us the following options under the agreement:

- an option to order up to two other spacecraft at a base price subject to a price escalation formula;
- an option to require the Inmarsat-5 spacecraft to be stored for a period of up to five years at any time up to Pre Shipment Review ("**PSR**");
- an option to purchase Launch and Operation Support for the Optional Spacecraft; and
- an option to purchase Operations and Services for the Optional Spacecraft.

*Warranty*

Boeing provides a warranty that covers equipment (including three Inmarsat-5 spacecraft and ancillary equipment) and services, such as launch support, transportation and storage services. The warranty provides that all equipment is free from defects in materials or workmanship and be designed and manufactured to conform to applicable specifications (unless waived by us in writing), that services will be performed in a skilful and workmanlike manner, and that both will conform to the requirements specified in the contract.

For the spacecrafts this warranty will run from the date of final spacecraft acceptance until intentional ignition of the spacecraft or for five years in storage. For services and all other equipment the warranty period will be one year from completion or final acceptance, respectively.

In the case of defective or non-conforming equipment or services, we may require Boeing to repair or replace the same at its own expense.

*Distribution*

On 5 August 2010, Inmarsat SA, a subsidiary company, signed a Strategic Distribution Agreement ("**SDA**") with Boeing.

Inmarsat Global has also agreed to enter into a distribution agreement with Boeing for the sale of L-band Satellite Services on similar terms to existing DPs.

The term of the SDA is 10 years or at such date as the Parties mutually agree to Terminate.

***Inmarsat-5 Ground Segment and Terminal Development Contract with iDirect Inc. ("iDirect")***

On 18 February 2011, we signed a contract with iDirect which covers a turn-key solution for the development of the Inmarsat-5 Ground Segment, deployment of equipment (radio frequency subsystem ("**RFS**") antennas and hub equipment) at three SAS sites, the development of satellite terminal core module (CM) technology, the subsequent sale and distribution of CMs, and supply of additional Satellite Reference Terminals. Options are available for an additional three propagation/redundancy sites.

*Price*

The baseline contract includes three SASs without Rain Diversity provision and the contract includes various options for an additional three antennas and iDirect HUBs for the back-up sites. Annual maintenance will be paid (for three SASs) following expiry of the warranty period. The maintenance fee is inclusive of software releases/upgrades to iDirect's core software. On 14 December 2011, we signed a Contract Change Notice to procure equipment for the additional SAS sites. On 13 February 2012 we signed a Contract Change Notice for additional RFS equipment. In February 2013 we signed Contract Change Notices for (i) antenna de-icing at one of the redundancy sites and (ii) network management interface support and architectural support to interface to the Service Enablement Platform being developed by Cisco.

*Key Terms*

*Warranty*

Warranty for each SAS runs for 12 months from Over Satellite Acceptance Test (OSAT).

*Intellectual Property Rights ("**IPR**"):*

iDirect's solution is based on its standard commercial off-the-shelf hardware and software. Items of Foreground IPR have been classified into three categories where Inmarsat will own the rights in one limited category and receive in the other two categories a non-exclusive, royalty-free, worldwide right to use, sell and further sublicense the two categories solely for Inmarsat purposes.

*IPR Indemnity*

In the event of a claim that any IPR of a third party is infringed and becomes enjoined and iDirect has been unable to negotiate a licence with the claimant to resolve the dispute or modify/substitute the item so that the modified/substituted item is not subject to the enjoinment, Inmarsat may either terminate the contract or continue with it.

*Termination*

Inmarsat has the right to terminate the Contract if:

- iDirect fails to promptly complete Critical Milestones (Critical Design Review, Core Module Prototype Delivery, Final Design Review, Factory Acceptance Test, Delivery of Satellite Reference Terminal and SAT at SAS sites 1, 2 and 3) and has failed to remedy within 60 days of notice to rectify;
- iDirect is in breach of a material obligation and has failed to remedy it within 60 days of notice to rectify;
- iDirect is insolvent; or
- there is a Change of Control of iDirect.

In such circumstances Inmarsat has option to take over the work plus receive increased costs of completion subject to a maximum amount of the Contract Price or receipt of money back plus increased re-procurement costs capped at a certain level of the Contract Price.

*Liquidated Damages*

Liquidated Damages for late delivery on Factory Acceptance Test and SAS 1 OSAT will be applied. Remedies for Unsatisfactory Service and Support:

The Contract includes a provision that entitles Inmarsat to receive remedies for periods of unsatisfactory service if the operational SASs are unavailable.

In the event of Chronic Unsatisfactory Performance Inmarsat may elect to terminate the Contract.

*Limitation of Liability*

With the exception of death or personal injury, general liability (including Liquidated Damages) is limited to the Contract Price. Inmarsat has an agreed limit of liability in relation to wilful misuse of iDirect IPR.

*Technology Transfer Package*

The Contract includes provisions which would enable Inmarsat to access source code and design documentation that iDirect has put into escrow upon the occurrence of certain events.

*Licence Grant of Air Interface Specification to Third Parties*

Inmarsat has agreed terms under which iDirect will licence the Air Interface Specification to a third party nominated by Inmarsat.

*Core Module Supply Agreement*

The contract includes a Core Module Supply Agreement for the supply of production core modules to the distribution chain on Fair Reasonable and Non-Discriminatory terms.

***Inmarsat-5 Launch Services Contract between ILS International Launch Services, Inc. and Inmarsat SA***

On 29 July 2011 ("**EDC**"), Inmarsat SA ("**Inmarsat**") entered into an agreement with ILS International Launch Services, Inc ("**ILS**") to procure three Firm Launch Services for Inmarsat-5 with an option to procure two additional Launch Services. With effect from 30 November 2012 Inmarsat SA transferred its rights, obligations and liabilities under the agreement to Inmarsat Launch Company Limited.

*Key Terms*

*Term*

ILS shall furnish three Firm Launch Services in accordance with the agreed Launch Schedule. The option Launch Services must be exercised by 1 July 2014.

*Price*

The prices to be paid are determined based on the year of the midpoint of the originally scheduled Launch Semester.

There are agreed payment milestones based on a launch services payment schedule.

Payments of invoices for other than scheduled launch service payments will be made on 60-day terms following receipt of a properly submitted invoice.

*Indemnities*

Inmarsat and ILS have agreed to a reciprocal waiver of liability where each party agrees not to bring a claim or sue the other party, the U.S. Government, the Government of the Russian Federation, the Government of the Republic of Kazakhstan, Her Majesty's Government (HMG), UK Dependent or Crown Territories and, respectively, their contractors and subcontractors at any tier or related third parties for any property loss or damage it sustains arising with the performance carried out pursuant to the Contract.

Except for the obligation to indemnity provided elsewhere in the Contract, ILS's Limitation of Liability shall not exceed the Contract Price paid by Inmarsat for the affected Launch Service as of the date of such claim.

Inmarsat's Limitation of Liability, except beyond payment due for services performed and for obligation to indemnify provided elsewhere in the Contract, shall not exceed the amount of the Contract Price for the affected Launch Service relating to such claim.

*Termination*

Inmarsat has the right to terminate the Contract:

- At its convenience at any time prior to Launch ILS shall be entitled to agreed Termination Charges;
- If ILS has excessive launch postponements. ILS shall reimburse Inmarsat for all payments made for the terminated Launch Service; or

- If ILS fails to meet certain contractual obligations. If Inmarsat terminates, it shall be entitled to be reimbursed by ILS for all payments made, however no payments shall be reimbursed for any individual Launch Services after launch of that Launch Service.

ILS has the right to terminate the Contract:

- If Inmarsat fails to make any payment to ILS relating to a Launch Service on the agreed due date. ILS shall be entitled to retain the agreed Termination Charge; or

- If Inmarsat has excessive launch postponements. ILS shall be entitled to retain the agreed Termination Charge.

***Build and Delivery of a Core Network Platform and a Service Delivery Platform Contract with Cisco ("Cisco")***

On 4 October 2012, we signed a suite of agreements with Cisco which covers three elements: the build and delivery of a Core Network Platform and a Service Delivery Platform; Operation and Maintenance of a Core Network Platform; and Network Service Device and a Content Delivery Solution.

*Price*

The agreement prices include Build, Test and Delivery: 3 year operates maintenance and software and hardware release including SLA, for each of three SAS sites and a Network Service Device.

*Key Terms*

*Warranty*

Hardware – Cisco warrants to Inmarsat from date of shipment and continuing for a period of the longer of (a) ninety (90) days or (b) the applicable express warranty given by Cisco that the hardware will be free from defects in material and workmanship, under normal use.

Software – Cisco warrants to Inmarsat from date of shipment and continuing for a period of the longer of (a) ninety (90) days or (b) the applicable express warranty given by Cisco that (a) the media on which the Software is furnished is free from defects in material and workmanship, under normal use and (b) the Software substantially conforms to its published specifications.

Technical and Functional Warranty - Cisco warrants from the date of commencement of the Operations and Maintence services for each site and continuing for a period of ninety (90) days thereafter that the work and Deliverables shall conform to all the technical and functional requirements specified in the agreement.

*System Design*

Cisco shall not:

(1) utilise the System Design within any of its offerings to third parties, including any preparation for such an offering;

(2) make the System Design available to any third party;

(3) discuss the subject matter or existence of the System Design with any third party; or

(4) use or exploit the System Design except for the purpose of complying with the Cisco's obligations under this Contract.

*IPR Indemnity*

Cisco will defend any Indemnitee against a claim that a Product or Deliverable or the Solution infringes any third party Intellectual Property Rights and will indemnify such Indemnitees against all costs, damages and liabilities (including, without limitation, reasonable legal costs) arising out of a Claim, provided that Inmarsat:

(1) promptly notifies Cisco in writing of the Claim; and

(2) cooperates with Cisco in the defence of the Claim, and grants Cisco full and exclusive control of the defence and settlement of the Claim and any subsequent appeal.

*Termination*

Inmarsat has the right to terminate if:

(1) Cisco commits a material breach of any of its material obligations under this Contract and (if such breach is remediable) fails to remedy that breach within a period of thirty (30) days after receipt of notice in writing requiring it to do so;

(2) an Insolvency Situation occurs in respect of Cisco;

(3) Inmarsat is entitled to terminate under certain Force Majeure conditions; or

(4) Inmarsat is entitled to terminate if certain recognised key milestones are delayed for more than four weeks beyond their completion dates.

In such circumstances Inmarsat has option to take over all or part of the work plus receive any increased costs reasonably incurred in completing the work or be reimbursed for all amounts previously incurred and Cisco shall be liable for any costs reasonably incurred in procuring alternative goods and services.

Cisco has the right to terminate if:

(1) an Insolvency Situation occurs in respect of Inmarsat;

(2) fees due hereunder are not paid when due and payment has not been received within thirty (30) days after written notice from Cisco of such past due payment; or

(3) Inmarsat commits a material breach of any of its other material obligations and (if such breach is remediable) fails to remedy that breach within a period of thirty (30) days after receipt of notice in writing requiring it to do so.

Upon termination by Cisco for Inmarsat's breach:

(1) Cisco reserves the right to cease all further delivery of Products, Services or Deliverables;

(2) all outstanding invoices immediately become due and payable;

(3) all rights and licences of Inmarsat under this Contract shall terminate, subject to certain rights; and

(4) If Cisco agrees to complete delivery of any further Work, Product, Deliverables or Services due against any existing Purchase Orders then Inmarsat shall pay for such Work, Product, Deliverables or Services in advance by wire transfer.

*Liquidated Damages*

Cisco shall be liable for liquidated damages for late delivery of certain Key Milestones.

*Limitation of Liability*

With the exception of death or personal injury, general liability (including Liquidated Damages) is limited to the greater of $20,000,000 (twenty million US Dollars) or money paid to Cisco under the agreement. Inmarsat has an agreed limit of liability in relation to breach of Cisco's End User Licence Agreement and breach of confidentiality.

***Launch and In-Orbit Insurance Contract for the Three Inmarsat-5 Satellites***

Inmarsat Launch Company Limited has placed launch and in-orbit insurance for the three Inmarsat-5 satellites through Willis, its US insurance brokers (operating through Willis Group, Willis of Maryland, Inc. 12505 Park Potomac Avenue, Suite300 Potomac, Maryland MD 20854. United States of America. Registration Nr. 52-0559369).

*Key terms*

*Term*

The policy period runs from 1 May 2012 to 1 May 2015 (the period within which the three launches may take place).

The total amount of insurance cover taken for each satellite (on average) is US$358.2 million comprising:

- Launch + 1 year in-orbit cover of US$267 million;
- Launch phase only cover of US$16.2 million on average for each satellite (covering the period from launch until separation of each satellite from the launch vehicle); and
- Launch + 5 year in-orbit cover of US$75 million.

*Cover*

Total loss and or partial loss of capacity according to a loss formula based on engineering parameters.

*Price*

The total commitment is based on a premium, before taking into account receipt of any no claims bonus that might become due, and before insurance premium tax (IPT) that may be levied. A deposit premium of 5% was paid on inception of the policy and the balance for each satellite separately is to be paid 30 days before launch.

*Termination*

The policies terminate upon the earliest of the following in respect of each satellite separately: at the end of the period of cover; or when the satellite is agreed to be a Constructive Total Loss or a Total Loss; or when agreed claims equal the Amount of Insurance.

The policies may be cancelled only by mutual agreement between the Named Insured and the Insurers, or unilaterally by the Insurers for non-payment of Premium.

*Other Terms*

There are no non-market-standard exclusions.

The policies may be assigned to other Inmarsat group companies with prior written permission of the insurers.

The policy is subject to the laws of England and Wales.

***Honeywell GX Aero Terminal Contract***

Contract agreed for the purpose of Honeywell manufacture four GX versions of terminals, two for Business Aviation segment and two for Commercial Air transport.

*Term*

The Term of this Contract is 10 years following global coverage.

*Exclusivity*

Inmarsat has agreed not to Type Approve another Suppliers satellite terminals other than Honeywell for the Business Aviation and Commercial Air transport markets during the Exclusivity Period being six years from Global coverage (this excludes dual-use terminals operating over Ka-band and any other band).

*Warranty*

Hardware warranty of 36 months.

*Price*

There is no investment by Inmarsat with respect to these terminals.

*Liability*

Except for disclosure of confidential information, neither party shall be liable for special, indirect or consequential loss, product liability shall not exceed $25,000,000, liability cap for Patent and Copyright infringement by Honeywell shall not exceed $35,000,000, Inmarsat's total general liability cap $10,000.

*Termination*

Inmarsat can terminate if final acceptance is not achieved for key milestones dates, if the license agreement with iDirect for core modules is terminated for any reason, or if Honeywell fails to meet market demand.

Honeywell can terminate if IPR claims result from the use of the terminal over Inmarsat's network. If Honeywell ceases to supply a product for this reason, Inmarsat is entitled to withdraw type approval of the terminal and type approve third party solutions to operate over the network.

Both parties can terminate for usual reasons such as insolvency, material breach, fraud etc.

**LightSquared Cooperation Agreement**

In December 2007, we entered into a Cooperation Agreement with LightSquared (formerly SkyTerra) which provides a framework for a phased L-Band spectrum collaboration in preparation for the deployment by LightSquared of a North American hybrid MSS/ATC network.

In August 2010, the Cooperation Agreement was consolidated and restated to reflect amendments agreed since 2007, and subsequently the agreement was amended in April 2011 (the "**2011 Amendment**") and again in April 2012 (the "**2012 Amendment**")

Under the Cooperation Agreement, LightSquared was obliged to make payments to us in respect of transition to spectrum plans associated with the relevant phases of the agreement. LightSquared had the right to trigger transition to the relevant phases and associated payment obligations by serving notice to us. On 17 August 2010, LightSquared triggered Phase 1 of the Cooperation Agreement which entitled us to receive US$368.8 million in connection with "Phase 1 Transition". On 28 January 2011, LightSquared delivered notice triggering "Phase 2 Transition". Under Phase 2, we were entitled to receive US$115.0 million per annum (payable quarterly in advance), increasing at a rate of 3% annually with effect from 28 January 2011.

Pursuant to the 2011 Amendment, we agreed (at our option) to accelerate delivery of an interim "Phase 1.5" spectrum plan. In connection with Phase 1.5 we received a payment of US$40.0 million.

Pursuant to the 2012 Amendment, Phase 1.5 ceased to be operative and Phase 2 was renegotiated and suspended until 31 March 2014. In connection with the 2012 Amendment, LightSquared made the final completion payment under Phase 1 of the agreement.

In addition to its payment obligations, should LightSquared deploy a hybrid MSS/ATC network, LightSquared must comply with the agreed technical and operating parameters relating to inter-system and spectrum coordination that apply during the relevant phase of the agreement. Certain provisions are also designed to offset the impact that deployment of ATC in the United States would have on users of our services.

The term of the Cooperation Agreement (subject to earlier termination) expires on 31 December 2107. Each party may terminate if the other party (i) becomes subject to insolvency proceedings (subject to certain conditions); or (ii) is in uncured material breach. Certain provisions, including pre-agreed spectrum plans, survive termination.

**Distribution Agreements**

The material terms of our Distribution Agreements are set out below.

***Space Segment Access Agreements*** (“**SSAAs**”)

All of our distribution partners have executed a replacement SSAA with us, except those who provide only our broadband services, BGAN, FleetBroadband or SwiftBroadband or our GSPS services. The new SSAAs came into effect on 15 April 2009.

*Services*

These SSAAs relate to the following services:

- our Existing and Evolved Services; and
- any other service that is substantially based on existing services which we elect to offer to our distribution partners.

A distribution partner may enter into arrangements with any reseller, whereupon it shall be responsible for its resellers’ actions.

The distribution partner must use its reasonable efforts to promote the use of the services that it chooses to provide. To that end, it may work with us to achieve marketing goals we have jointly agreed and can develop value-added services. It must also participate in dual branding, market information and customer service programmes.

*Term*

Each SSAA commenced on 15 April 2009 (or such later date as a SSAA is executed by ourselves and a distribution partner where no agreement on terms was reached prior to 15 April 2009) and will continue until we elect to terminate the agreement by giving to a distribution partner not less than two years’ prior written notice, subject always to a minimum term ending 14 April 2014 (and subject to other rights to terminate earlier under individual provisions contained in the SSAA).

*Price*

For each of our services that a distribution partner provides through its LES, it will pay us the wholesale charge specified in its SSAA. The price for the provision by us of the services are currently expressed in US Dollars per chargeable unit, though there is provision for us to denominate all or any part of such charges in any of US Dollars, Euro or Pounds Sterling after 31 December 2010, for that service, multiplied by the volume of traffic that it generates in respect of that service.

*New Distribution Authorisation*

Each SSAA provides that:

- we may authorise other entities, on a non-exclusive basis, to operate LESs in order to provide the services to which the SSAAs relate via our satellites; and
- we may also, either ourselves or via an affiliate or jointly with other third parties, sell or otherwise provide services to third parties directly (that is, other than via a distribution partner).

We also agree not to unreasonably prefer or differentiate between entities when offering terms and conditions for the distribution of the same services.

*Restriction or Withdrawal of a Service*

Each SSAA provides that we may restrict or withdraw a service (or an element of a service) in one or more ocean regions if:

- we give six months prior written notice to the affected distribution partner;
- we give reasons for the restriction or withdrawal;
- no later than thirty days following notice from us, at the request of a distribution partner or partners, we convene a meeting of the distribution partners to consider their views and the consequences of

the withdrawal to their end-users, as well as consider any investments made by our distribution partners in equipment and facilities; and

- where possible, we apply the restriction or withdrawal in a non-discriminatory manner to all distribution partners that provide the relevant service(s) in the relevant region.

*Competition/Non-exclusivity*

Nothing in the SSAA prevents a distribution partner from becoming a distributor of the services of, or holding any economic interest in, any entity that provides mobile satellite telecommunications services, regardless of whether such entity competes with us, provided that the distribution partner does not unfairly or unreasonably favour such services or entity, or unfairly or unreasonably discriminate against the services distributed under the SSAA.

*Service Levels/Network Availability*

In providing satellite services to the distribution partners we must use our reasonable endeavours to achieve the following network performance objectives:

(i) Satellite Availability

- minimum performance: 99.0% per year;
- target performance: 99.9% per year.

(ii) Satellite Capacity Grade of Service

- we must manage the satellite capacity grade of service to deliver, to the extent possible, a commercially acceptable service across our portfolio of services.

(iii) Network Availability

- minimum performance level for network availability: 99.9% over any period of three months or greater; and
- target performance level for network availability: 99.96% over any period of three months or greater.

If we fail to meet the minimum network performance objectives outlined above, then a distribution partner will receive outage credits for any traffic commitment owed to us or other fixed period service affected by such outage, provided that:

- no allowance or credit will be made for any unavailability, delay or interruption in the availability of a service which is of less than one hour's duration;
- any unavailability, delay or interruption which is of one hour or more in duration shall be credited to the distribution partner in an amount equal to the proportionate charge in one hour multiples for each hour, or major fraction thereof during which such unavailability, delay or interruption has occurred; and
- in the event that we relocate a satellite or substitute a satellite of one generation with a satellite of another generation which results in a distribution partner being unable to meet a traffic commitment that it undertakes prior to such relocation or substitution, then the distribution partner shall be excused from that commitment.

*Intellectual Property*

We give a warranty in each SSAA stating that we own or have a valid licence to use certain patents, trade secrets, copyrights and other intellectual property rights contained in our LES technical criteria and operating procedures (the "**LES Criteria and Procedures**").

When we enter into a SSAA, we also grant to the distribution partner:

- a royalty-free licence to use certain of our patents and other intellectual property embodied in our LES Criteria and Procedures while the distribution partner provides our services to end-users; and

- a royalty-free trade mark licence to use certain of our trade marks for the same purpose.

*Limits on Liabilities*

We have no liability under any SSAA to any of our distribution partners, their affiliates, resellers, customers or other end-users for any direct or indirect loss of profit, indirect or consequential loss, damage or expense (including loss of goodwill, anticipated savings, business opportunity, profits or revenues or distribution rights, abortive expenditure or damage to property or person) arising from any telecommunications breakdown (i.e. any unavailability, delay or interruption to the communication services we provide over our satellites) or any suspension of service to an end-user terminal resulting from our good faith actions at the request of the distribution partner or operators of the LESs under the procedures for restricting access to our services by specific user terminals for non-payment or other causes. However, we may be liable for a telecommunications breakdown caused by our wilful or reckless act, or our knowing or reckless omission, if we knew, or if we ought to have known, that such act or omission would result in a telecommunications breakdown. Our maximum liability to all distribution partners for all occurrences arising from the same cause in any calendar year may not exceed US$10.0 million.

Under each SSAA, the distribution partner must use commercially reasonable efforts to incorporate, and to require resellers to incorporate, in the terms and conditions applicable to any end-user, substantially similar disclaimers of liability for us, our affiliates and the distribution partner.

Each distribution partner is liable to us for any loss or damage (capped at US$100.0 million per calendar year) to a satellite caused by any act or omission of the distribution partner, its resellers, contractors, employees, agents, lessees or assignees, unless we or the relevant SSAA authorised, in writing, the manner of provision of those services which caused the loss or damage.

Our distribution partners are not liable to us for charges arising from technological fraud (including cloning) in connection with certain services when they have complied with our fraud prevention procedures, unless we have previously informed the distribution partner that we have reason to believe an end-user terminal is being operated fraudulently, or the distribution partner has received non-refundable payment for the relevant services from the end-user in question.

*Variation of Services*

We may vary the specification of our services at any time provided that such variation applies in a non-discriminatory manner and we give our distribution partners written notice at least 30 days prior to the date of implementation of the variation, except that no notice is required where the variation is in the case of an operational emergency.

*Amendments*

Neither us nor any of our distribution partners can amend or modify any of the terms or conditions contained in the SSAA without the written agreement of the other, except that we may amend or vary any of the annexes to the SSAA by giving either 60 days prior written notice to our distribution partners, or by complying with such other notice periods and/or procedures for consultation set out in the particular annexes. Within such 60-day period, or such other period as stated in the relevant annexes to be amended or modified, as the case may be, we must attempt to facilitate a 30-day consultation period.

*Suspension and Termination*

We may suspend a distribution partner’s authorisation to provide the services under the SSAA if:

- the distribution partner fails to comply with any material term of the SSAA and fails to remedy such non-compliance within 30 days from the date we send to the distribution partner a notice outlining the nature of the breach and requiring its rectification; or

- the distribution partner fails to comply with the LES Criteria and Procedures, subject to giving ten days’ advance notice, or without giving any prior notice where any of the services or LESs are not compliant with the requirements of the LES Criteria and Procedures and such failure to comply has led to the occurrence of, or has the potential to create, an operational emergency, reduces the capability to support maritime or aeronautical distress traffic, or reduces the capacity of the space segment, and

provided that such suspension shall be lifted from the date upon which the distribution partner resumes compliance with the relevant term(s) or procedure(s).

Any SSAA may be terminated in the following cases:

- by the distribution partner where it ceases to distribute the services for any reason (other than a force majeure event) on six months' prior written notice to us, or for convenience on 12 months' prior written notice to us;
- by us, if the relevant distribution partner has failed to pay charges due to us, which charges remain outstanding for more than 90 days from receipt of a written notice from us requesting payment, or upon written notice from us upon a change of control of a distribution partner;
- by either party to a SSAA for the other party's unremedied breach of a material term of the SSAA (other than a default in payment of the charges by the distribution partner), unless the breach is remedied within 45 days from receipt by the defaulting party of notification of the breach; and
- by either party to a SSAA if the other party is subject to bankruptcy procedures.

*Force Majeure*

Each SSAA contains a substantive list of events (including acts of God, war, riot, civil commotion, malicious damage, compliance with a law or governmental order, rule, regulation or direction, breakdown or unavailability of plant or machinery, fire, flood, storm, externally caused transmission failure or satellite failure or satellite launch failure or delay or satellite malfunction) that constitutes a force majeure. Where a force majeure event continues for more than six months, each SSAA provides that either party may elect to terminate upon the provision to the other party of no less than 30 days prior to written notice.

***Network Service Distribution Agreements***

All of our distribution partners have signed bilateral NSDAs with us. The NSDAs govern the provision of demand-assigned services, to land-based, sea-based and air-based end-users for our broadband and GSPS services. Whereas individual NSDAs may contain variations, the terms below may be found in all of the NSDAs currently negotiated.

*Term*

The NSDAs each have minimum term of at least five years. We may terminate on two years' notice.

*Price*

For the services that a distribution partner provides to end-users pursuant to an NSDA, it must pay us the fixed price specified in the agreement (expressed in US Dollars per chargeable unit) for that service, multiplied by the volume of traffic that it generates in relation to that service. From 1 January 2011 we have the right to denominate charges in US Dollars, Euro and/or Pounds Sterling on 180 days' notice.

Existing prices and discounts in respect of services provided under the NSDAs are subject at all times to the ability to revise those prices subject to the notice provisions laid out in the NSDAs.

*Eligibility*

Each NSDA includes or incorporates provisions that enable us to appoint distribution partners (including distribution partners who are not currently distribution partners under our existing distribution arrangements) for services provided under that NSDA.

We may recruit service providers of our existing distribution partners and will not have restrictions on recruiting in core segments of any market.

*Service Level*

Each NSDA contains a draft service level agreement for the relevant service(s) provided by each distributor and may also include a proposal for potential compensation level for breach of such service level agreement.

*Intellectual Property*

We grant to each distribution partner a royalty-free trademark licence to use certain of our trademarks for the purpose of providing BGAN Services to end-users.

*Performance*

The distribution partner must use its reasonable efforts to promote the use of the services that it provides and additionally assumes customer service and other obligations.

Each NSDA contains provisions for an annual performance review. Such review is the distribution partner's opportunity to agree wholesale revenue targets with us. Each NSDA also includes certain revenue performance targets which, if not met, could lead us to reduce resources to support the distribution partner.

*Limits on Liabilities*

Aside from potential credits under the service level agreement, we are not liable to distribution partners under the NSDAs for any direct loss to the distribution partner or third parties arising from any unavailability, delay, interruption or degradation in the services or business support system save to the extent caused by our gross negligence, wilful misconduct or fraud.

Neither party shall be liable to the other or any third parties for consequential or indirect loss.

Except for death or personal injury caused by negligence, each party's liability under a relevant NSDA is limited to the greater of the value of the wholesale charges incurred pursuant to the NSDA, over the preceding twelve-month period or US$5.0 million.

Under each NSDA, a distribution partner is required to make reasonable efforts to include provisions stating that we are not liable to any party for any losses in any contracts entered into with either service providers or subscribers.

*Termination*

Each NSDA may be terminated in the following cases:

- either party may terminate for a material breach by the other party if the breach is not remedied within 30 days;
- either party may terminate if the other party becomes insolvent or is or likely to be wound up or declared bankrupt;
- either party may terminate if a force majeure event occurs and subsists for more than six months;
- we may terminate for late payment in excess of 90 days by the distribution partner;
- we may terminate if a distribution partner has failed to commence providing a service(s) new to it within 90 days of the distribution partner's service scheduled launch date of any such service;
- we may terminate immediately upon written notice to a distribution partner upon a change of control of the distribution partner; and
- the distribution partner may terminate by giving 12 months' prior notice of its intention to cease providing broadband and handheld services.

The termination of one service by a distributor provided under an NSDA entitles us to terminate any other or all services under the NSDA with such distributor at our discretion.

***Lease Services Provider Agreements***

We had lease agreements with entities wishing to provide satellite resources for a prearranged, fixed term (as opposed to on-demand services) for an end-user's exclusive use. These agreements were replaced on 15 April 2009 by new bilateral Lease Agreements between us and each distribution partner of lease services. New distribution partners for lease services appointed after 15 April 2009 will execute new Lease Agreements with us at the time of appointment. Radio-determination services are excluded from these agreements. We have discretion under our Lease Agreements to vary, amend or restrict the lease services we offer. A relatively small number of our distribution partners have elected to provide lease services and enter into a Lease Agreement.

Our relationship with each distribution partner is non-exclusive so that we may enter into separate agreements with other distribution partners. Each distribution partner who has entered into a Lease Agreement may describe themselves as our "Authorised Lease Service Provider". Each Lease Agreement has annexed to it, among other documents, model terms and conditions for a specific lease contract and a lease policy governing the lease process, to which the model terms and conditions conform.

*Term*

Lease Agreements have a minimum term of five years subject to prior termination in accordance with its terms. Each Lease Agreement may extend beyond this minimum period subject to our right to terminate on two years' notice. Lease Agreements are framework agreements and termination or expiry of a Lease Agreement does not affect the term of any specific lease, which is governed by the termination provisions of the lease contract. Lease contracts granted by us prior to 14 April 2009 (based on the previous terms and conditions) therefore may have survived the termination of the previous lease agreements on 14 April 2009.

*Eligibility*

To be eligible to enter into a Lease Agreement:

- where the lease services are to be provided via a lease services provider's LES, the lease services provider must provide or procure the provision of the LES; and

- where the lease services are to be provided via our ground infrastructure on our Inmarsat-4 or subsequent generation satellites, the lease services provider is not required to provide a LES.

*Pricing*

We may vary the price of our lease service offerings in accordance with the principles set out in the lease policy, with a regular yearly review held during the third quarter of each year to take effect on 1 January of the subsequent year. Such changes do not apply to any lease contracts that are in place and operational but are limited to lease services contracted for or renewed after the applicable date.

All prices are denominated in US Dollars. We may at any time after 31 December 2010 denominate all or part of such charges in either US Dollars, or Euro, or Pounds Sterling if we give 180 days prior written notice and apply such changes in a non-discriminatory manner from either 1 January or 1 July of a calendar year.

We apply the principles of non-price discrimination to lease service providers regarding the general principles we apply to our wholesale charges for lease services.

Payment terms for wholesale charges under each lease contract are to be agreed on a case-by-case basis with each lease service provider. Other charges are payable to us within 30 days of date on invoice.

*Amendments*

We may amend certain parts of any Lease Agreement, primarily the model terms and conditions and lease policy, with advance notice and consultation.

*Service Level*

We must use our reasonable endeavours to meet the following network performance objectives:

- a minimum satellite availability of 99% per annum and a target availability of 99.9% per annum; and

- a minimum network availability of 99.9% over any period of no less than three months and a target performance level of 99.96% over the same period.

*Warranties and Liability*

We warrant that we have obtained all clearances, relevant telecommunication licences, consents and approvals necessary to perform our obligations under each Lease Agreement.

Except for any loss of or damage or degradation to any of our Satellites, spectrum or network resources, our lease service providers' aggregate liability under a lease contract is limited to the greater of US$500,000 or the total payments due to us over the twelve–month period immediately preceding the event giving rise to the liability.

The lease service providers remain liable to an unlimited amount for claims by any third party against us caused by any act or omission by such lease service provider (and its resellers, contractors, employees, agents) subject to the other provisions of the Lease Agreement or lease contract.

*Termination*

Termination may occur in the following circumstances:

- lease services providers may terminate for convenience upon 30 days' notice if they have no lease contracts in effect;
- either party may terminate a Lease Agreement where the other party is in default in their performance of a material term under the agreement which is not capable of being remedied;
- either party may terminate a Lease Agreement where the other party is in default in the performance of any material term under the agreement and has failed to cure the default within 60 days from the date of written notice from the terminating party;
- either party to a Lease Agreement may terminate if the other party becomes insolvent, enters into administration or liquidation or otherwise ceases or threatens to cease business;
- either party may terminate a Lease Agreement if a force majeure event continues for more than six months (starting on the day the force majeure starts) by giving the other party 30 days' written notice. Force majeure includes (not exclusively) externally caused transmission failure or externally caused satellite failure or satellite launch failure or delay or satellite malfunction which in every case is not reasonably foreseeable and is beyond the reasonable control and without the fault or negligence of the affected party; and
- by mutual agreement between the parties to a Lease Agreement.

*Confidentiality*

Except where provided for expressly to the contrary, each party to the Lease Agreement or lease contract will keep confidential the other party's confidential information and will ensure and procure that any third party to whom such information is disclosed (in accordance with the agreements) complies with such obligations as well.

*Dispute Resolution and Choice of Laws*

Disputes under each Lease Agreement or the lease contract are to be handled by an internal dispute resolution mechanism first before being escalated to arbitration. Any such arbitration is required to be in accordance with the Arbitration Rules of the London Court of International Arbitration.

Each Lease Agreement and each lease contract including all matters and disputes arising from them is governed by the laws of England and Wales.

***Global Xpress Distribution Agreements***

In 2012 we signed Global Xpress Subscription Services Agreements with companies appointed as Value-Added Resellers ("**VARs**") in both the maritime and aviation markets (Commercial Air Transport market segment). The material terms of our Global Xpress Subscription Service Agreements ("**GX-SSA**") are set out below.

The appointed VARs have signed bilateral agreements with us. The agreements signed to date govern the provision of on-demand-assigned services, to sea-based and air-based end-users for our intended GX services. Whereas individual agreements may contain variations, the terms below may be found in all of the agreements currently negotiated.

*Term*

The maritime agreements each have minimum service term of five years from Global Launch and we have the ability to withdraw services upon 12 months' prior written notice.

The Commercial Air Transport agreements each have a service term of 12 years from effective date of contract and we have the right to withdraw services on not less than 48 months prior written notice.

*Price*

For the services that a VAR provides to end-users pursuant to these agreements, it must pay us the fixed price for the relevant subscription service plan specified in the agreement (expressed in US Dollars per chargeable unit).

*Ability to Make Changes*

We have the ability to make changes to the agreements (except where specifically stated otherwise in the annexes to the agreements) subject to the notice provisions as set out in the respective agreements.

*Service Level*

Each agreement contains a service level agreement.

*Intellectual Property*

We grant to each VAR a royalty-free trademark licence to use certain of our trademarks for the purpose of providing Services to end-users.

*Performance*

The VAR must use its reasonable efforts to promote the use of the services that it provides and additionally assumes customer service and other obligations. Each agreement contains provisions for an annual performance review.

*Limits on Liabilities*

Aside from potential credits under the service level agreement, we are not liable to VARs under the GX-SSAs for any direct loss to the VAR or third parties arising from any unavailability, delay, interruption or degradation in the services or business support systems, save to the extent caused by our wilful misconduct or fraud.

Neither party shall be liable to the other or any third parties for consequential or indirect loss.

Except for death or personal injury caused by negligence, each party's liability under a relevant GX-SSA is limited to the greater of the value of the wholesale charges incurred pursuant to the GX-SSA, over the preceding twelve-month period or US$5.0 million.

Under each agreement, a VAR is required to make reasonable efforts to include provisions stating that we are not liable to any party for any losses in any contracts entered into with either service providers or subscribers.

*Termination*

Each agreement may be terminated in the following cases:

- either party may terminate for a material breach by the other party if the breach is not remedied within 30 days;
- either party may terminate if the other party becomes insolvent or is or likely to be wound up or declared bankrupt;
- either party may terminate if a force majeure event occurs and subsists for more than six months;
- we may terminate for late payment in excess of 90 days by the VAR;
- we may terminate if a VAR has failed to commence providing services within 90 days of Service Availability Date;
- we may terminate immediately upon written notice to a VAR upon a change of control of the VAR; and

- the VAR may terminate by giving 12 months' prior notice of its intention to cease providing broadband and handheld services.

***Master Distribution Agreement with Honeywell International Inc.***

On 5 October 2012 we signed a Master Distribution Agreement (MDA) with Honeywell International Inc for the distribution of Global Xpress airtime in the Business Aviation Sector which includes a Minimum Revenue Commitment from Honeywell.

*Term*

The MDA has a service term of exclusivity of five years from the earlier of Global Service Availability Date or 31 March 2015. We have the right to terminate the exclusivity if any of the following occur:

(a) Honeywell directly or indirectly procures any Ka-band services for the authorised market segment from a third party supplier except as specified in the Agreement;

(b) Honeywell procures any Ku-band services for the authorised market segment from any third party supplier except as specified in the Agreement; and

(c) Honeywell fails to meet its cumulative Minimum Revenue Commitment by a certain threshold at the end of year three.

*Appointment*

Honeywell is obliged to offer services to its appointed distribution partners on fair, reasonable and non-discriminatory terms and conditions. Honeywell may not offer the Services directly to subscribers for the first three years following Global Service Availability Date. After this date, Honeywell may request our written approval to offer services to specified subscribers. Approval is at our discretion on a case by case basis.

*Price*

For the services Honeywell provides to its distribution partners it must pay us the fixed price specified in the agreement (expressed in US Dollars per chargeable unit) for the service, multiplied by the volume of traffic that it generates in relation to that service.

Subscription Service Plans provided under the MDA are subject at all times to the ability to revise those prices subject to the notice provisions laid out in the MDA.

*Service Level*

The MDA contains a service level agreement.

*Intellectual Property*

We grant a royalty-free trademark licence to use certain of our trademarks for the purpose of providing Services to distribution partners.

*Performance*

Honeywell must use its reasonable efforts to promote the use of the services that it provides and additionally assumes customer service and other obligations. The MDA contains provision for an annual performance review.

*Limits on Liabilities*

Aside from potential credits under the service level agreement, we are not liable to Honeywell under the MDA for any direct loss to Honeywell or third parties arising from any unavailability, delay, interruption or degradation in the services or business support system save to the extent caused by our wilful misconduct or fraud.

Neither party shall be liable to the other or any third parties for consequential or indirect loss.

Except for death or personal injury caused by negligence, each party's liability under the MDA is limited to an aggregate liability of US$12.5 million. We also provide a third party IP indemnity to Honeywell which is subject to this cap.

Under the MDA Honeywell is required to make reasonable efforts to include provisions stating that we are not liable to any party for any losses in any contracts entered into with either distribution partners or subscribers.

*Termination*

The MDA may be terminated in the following cases:

- either party may terminate for a material breach by the other party if the breach is not remedied within 45 days;
- either party may terminate if the other party becomes insolvent or is or likely to be wound up or declared bankrupt;
- either party may terminate if a force majeure event occurs and subsists for more than six months;
- we may terminate for late payment in excess of 120 days;
- we may terminate if Honeywell has failed to commence providing the services within 90 days of the Global Service Availability Date;
- we may terminate immediately upon written notice to a distribution partner upon a change of control of Honeywell to a Company Denied Party; and
- Honeywell may terminate for convenience (a) within the two year period from Global Service Availability Date on three months prior notice and (b) following the expiry of two years from Global Service Availablity on 12 months' prior notice.

## PRINCIPAL SHAREHOLDERS

### Principal Shareholders

Inmarsat Group Limited is an indirect wholly-owned subsidiary of Inmarsat plc. We do not know of any arrangements that may, at a subsequent date, result in a change in control. As of 31 March 2013, there were the following direct and indirect interests in more than 3%. of the voting rights of Inmarsat plc:

| | As at 31 March 2013 | |
|---|---|---|
| **Substantial shareholdings** | **Holding** | **Percentage of issued Share Capital (1)** |
| Lansdowne Partners Limited Partnership | Indirect | 13.38% |
| Blackrock, Inc | Indirect | 10.0% |
| KDDI Corporation | Direct | 4.85% |
| F&C Asset Management | Indirect | 4.28% |
| Legal & General plc | Indirect | 3.81% |
| Allianz SE | Indirect/direct | 3.09% |
| Andrew Sukawaty | | * |
| Rupert Pearce | | * |
| Rick Medlock | | * |
| Alison Horrocks | | * |
| Ruy Pinto | | * |
| Debbie Jones | | * |
| Rich Harris | | * |
| Leo Mondale | | * |
| Executive officers and directors as a group (8 persons) (2) | | 0.54% |

* Represents beneficial ownership of less than 1 per cent. of ordinary shares outstanding.

(1) Percentages are based on the issued ordinary share capital as at the date of the respective notifications adjusted for the issued share capital as at 31 March 2013.

(2) As at 31 March 2013, in addition, the Trust held 0.20% of the issued ordinary share capital, which may be allocated to senior management and employees in the future. None of these shares have been issued as of 31 March 2013.

As at 31 March 2013, the executive directors and management of Inmarsat plc beneficially owned individually and in aggregate (including shares which may be allocated from within the Trust) 0.74% of the issued ordinary share capital of Inmarsat plc.

The shareholders who hold 3% or more of the issued share capital of Inmarsat plc do not have different voting rights to other shareholders.

#### *KDDI*

KDDI Corporation is a provider of a comprehensive range of voice, data, IP and mobile services to both business customers and consumers. KDDI Msat, a wholly-owned subsidiary of KDDI, offers mobile and IT-based solutions using Inmarsat products.

### Description of Share Capital

As of the date of this document, Inmarsat Finance plc has an authorised share capital of £50,000 of which 50,000 shares have been issued, partly paid at a par value of £1.00 each, 49,999 of which are held by Inmarsat Group Limited and one of which is held by Inmarsat Holdings Limited, the direct parent company of Inmarsat Group Limited.

A description of the share capital of Inmarsat Group Limited and the Subsidiary Guarantors is as follows:

| Name | Issued and fully paid share capital | Nature of business/activity |
|---|---|---|
| Inmarsat Group Limited ............ | 610,500,000 ordinary shares of €0.0005 each | Holding company |
| Inmarsat Investments Limited... | 534,900,000 ordinary shares of €0.0005 each | Holding company |
| Inmarsat Ventures Limited........ | 656,557,751 ordinary shares of £0.10 each and 1 special rights non-voting redeemable preference share of £1.00 | Holding company |
| Inmarsat Global Limited............ | 473,935,601 ordinary shares of £1.00 each | Satellite telecommunications |
| Inmarsat Leasing (Two) Limited | 1,061 ordinary shares of £1.00 each | Satellite leasing |
| Inmarsat Launch Company Limited .............................................. | 4,000 ordinary shares of US$1.00 each 11,000 preference shares of US$1.00 each | Launch insurance company |
| Inmarsat SA ............................. | 100,000 registered shares of CHF 1 each | Operating company |
| Inmarsat Solutions BV .............. | 200 ordinary shares of €1,000 each | Operating company |
| Inmarsat Solutions (Canada) Inc. | 100,100 common shares and 251,555,781 Preferred Series 1 shares of $1 CAN each. | Operating company |

**Inmarsat Ventures Limited Special Share**

IMSO owns one special-rights, non-voting, non-transferrable redeemable preference share, par value £1.00 of Inmarsat Ventures Limited. The special share does not confer any right to participate in our profits.

As holder of the special share, IMSO has effective veto power over the following events:

(i) any amendment, or removal, or change in the effect of:

(a) our obligations to provide maritime and distress and safety services to the maritime community;

(b) the right of IMSO to request an extraordinary meeting of shareholders of Inmarsat Ventures Limited; or

(c) our obligations to comply with the public service requirements set out in clause 8 of the memorandum and articles of association of Inmarsat Ventures Limited;

(ii) the voluntary winding-up of Inmarsat Ventures Limited, the passage of a special resolution to the effect that Inmarsat Ventures Limited should be wound up by a court, the presentation of a petition for the winding-up of Inmarsat Ventures Limited by a court or any proposal for any of the foregoing, unless winding-up of Inmarsat Ventures Limited is occasioned by virtue of it being unable to pay its debts (in terms of section 123 of the Insolvency Act 1986); and

(iii) removal, or the alteration of the effect of all or any of the provisions of the memorandum and articles of association of Inmarsat Ventures Limited, insofar as they relate to the provision and support of maritime and distress and safety services.

IMSO may, after consulting us and unless otherwise required by law, require us to redeem the special share at par. This can take place at any time by giving written notice and delivering the relevant share certificate to us.

In a distribution of capital in the event of a winding-up of Inmarsat Ventures Limited, IMSO would be entitled to repayment of the capital paid up (or for the purposes of the Companies Act treated as paid up) on the special share in priority to any repayment of capital to any other shareholder of Inmarsat Ventures Limited.

## GLOSSARY OF TERMS

| | |
|---|---|
| "**active terminals**" | active terminals are the number of subscribers or terminals that have been used to access our commercial services (except certain handheld terminals) at any time during the preceding twelve-month period and registered at 31 December of the relevant year. Active terminals also include the average number of certain handheld terminals active on a daily basis during the final month of the period, but exclude terminals used to access our M2M services. |
| "**Americas**" | consisting of the continents of North America and South America with their associated islands and regions. |
| "**analogue**" | a method of storing, processing or transmitting information through a continuous varied (rather than pulsed) signal. |
| "**Asia-Pacific**" | the area encompassing littoral East Asia, South Asia, Southeast Asia and Australasia near the Pacific Ocean, plus the states in the ocean itself (Oceania). |
| "**atmospheric interference**" | the attenuation of radio frequency signals due to the presence of moisture in the atmosphere. |
| "**avionics**" | electronics designed for use in aerospace vehicles. |
| "**bandwidth**" | a range of frequencies, expressed in hertz ("**Hz**") occupied by a modulated carrier or the range of frequencies which can be transmitted through a communications system. Bandwidth is one measure of the information carrying capacity of a transponder. The wider the bandwidth, the more information that can be transmitted. |
| "**beam**" | the directed electromagnetic rays emanating from a satellite or ground station. On satellites, typically refers to aggregates of these rays such as a China (coverage) beam or global (coverage) beam. |
| "**BGAN**" | our broadband global area network service used by land end-users. |
| "**broadband**" | high capacity bandwidth. |
| "**Broadband family/broadband services**" | collectively refers to our broadband services comprising our land BGAN, aviation SwiftBroadband and maritime FleetBroadband services. |
| "**C-band**" | in satellite communications used to refer to downlink frequencies between 3.4 GHz and 4.2 GHz and uplink |

frequencies between 5.85 GHz and 7.075 GHz. Often referred to as 4/6 GHz.

| | |
|---|---|
| "**cellular**" | public mobile radio telecommunications service. Cellular systems are based on multiple base stations, or "cells", that permit efficient frequency reuse and on software that permits the system to band mobile cells from cell to cell as subscribers move through the cellular service area. |
| "**design life**" | the minimum years of operation for a satellite as specified in the satellite manufacturing contract. |
| "**digital**" | referring to a method of storing, processing, or transmitting information through a pulsed (rather than continuously varied) signal. |
| "**downlink**" | the receiving portion of a satellite circuit extending from the satellite to the earth. |
| "**earth station**" | the dishes, receivers, transmitters and other equipment needed on the ground to transmit and receive satellite communications signals. |
| "**EIRP**" | equivalent isotopic radiated power, a standard of comparison of performance of radio transmitters. |
| "**Existing and Evolved Services**" | services that include all our services offered prior to the start of services on our Inmarsat-4 satellites. |
| "**Fixed satellite service or FSS**" | a radio communication service between earth stations at specified fixed points when one or more satellites are used; in some cases this service includes satellite-to-satellite links or feeder links for other space radio communications services. |
| "**FleetBroadband**" | our L-band maritime broadband service. |
| "**GAN**" | our global area network service which is an Existing and Evolved Service. |
| "**GEO**" | geostationary orbit, located approximately 22,300 miles above the earth, where satellites turn at the same angular speed as the earth and thus appear to be on a fixed spot. |
| "**GHz**" | gigahertz, a measure of frequency. One billion cycles per second. |
| "**Global Xpress or GX**" | services we plan to offer using our Inmarsat-5 satellites and Ka-band frequencies. |

| | |
|---|---|
| "**GMDSS**" | global maritime distress and safety service which is a system designed to automate a vessel's radio distress alert, eliminating the need for manual watchkeeping of distress channels. |
| "**GSM**" | Global System for Mobile communications. |
| "**GSPS**" | our global satellite phone service. |
| "**hertz**" | unit of frequency equal to number of cycles per second. |
| "**IP**" | Internet Protocol, the method or protocol by which data is sent from one computer to another on the Internet. |
| "**IsatPhone Pro**" | our handheld satellite phone service, part of our GSPS range. |
| "**ISDN**" | Integrated Services Digital Network. Digital telephone line typically offering data rates of 64 kbps or multiples thereof. |
| "**ITU**" | International Telecommunication Union is the United Nations treaty organisation responsible for worldwide cooperation and standardisation in the telecommunication sector. The ITU holds periodic conferences at which telecommunications issues of global importance are discussed; the main conferences are the World Radio Conference and the World Telephone and Telegraph Conference. |
| "**Ka-band**" | in satellite communications, used to refer to downlink frequencies between 18 GHz and 22 GHz and uplink frequencies between 27 GHz and 31 GHz. Often referred to as 20/30 GHz. |
| "**kbps**" | kilobits per second, a unit of data transmission speed. |
| "**Ku-band**" | in satellite communications, used to refer to downlink frequencies between 10.7 GHz and 12.74 GHz and uplink frequencies between 13.75 GHz and 14.8 GHz. Often referred to as 11/14 or 12/14 GHz. |
| "**L-band**" | in satellite communications, used to refer to uplink and downlink frequencies between satellites and mobile users between 1.5 GHz and 1.6 GHz. |
| "**LAN**" | local area network, which is a group of computers and associated devices that share a common communications line or wireless link and typically share the resources of a single processor or server within a small geographic area. |

“**LEO**”

low-earth orbit, located approximately 300 to 1,000 miles above the earth.

“**LES**”

land earth station, which is a facility that routes Existing and Evolved Service calls to and from mobile stations via satellite to and from terrestrial telephone networks.

“**M2M”**

services used to provide telemetry information for mobile assets or to monitor the operation of facilities or assets.

“**Mbps**”

a unit of data transfer equal to 1,000,000 bits per second.

“**MEO**”

medium-earth orbit, located approximately 5,000 to 10,000 miles above the earth.

“**MHz**”

megahertz, a measure of frequency. One million cycles per second.

“**microwave**”

radio frequency carrier waves with wavelengths of less than one metre-frequencies above 300 MHz. Typically used to refer to frequencies above 1 GHz, but nominally includes all ultra high frequency.

“**orbital slots**”

for GEO satellites these are points on the GEO arc where satellites are permitted to operate. Orbital slots are designated by both location and frequency band.

“**PDA**”

personal digital assistant, which is typically a handheld device that combines computing, telephone/fax, internet and networking functionality.

“**radio frequency**”

a frequency that is higher than the audio frequencies but below the infrared frequencies, usually above 20 KHz.

“**S-band**”

mobile satellite band between 2 and 2.5 GHz.

“**signal**”

a physical, time-dependent energy value used for the purpose of conveying information through a transmission line.

“**spectrum**”

the range of electromagnetic radio frequencies used in transmission of voice, data and television.

“**SwiftBroadband**”

our broadband aviation service.

“**telemetry**”

radio transmission of coded or analogue data from a satellite to a ground station.

“**transponder**”

a microwave repeater on a satellite which provides a discrete path to receive communications signals, translate and amplify such signals and retransmit them to earth or another satellite.

“**uplink**”

in satellite communications, the signal from the earth station to the space station (satellite).

“**useful life**”

the period over which a satellite will be depreciated in our financial statements based on estimates of the time for which a satellite is capable of operating in its allotted position. The expected end of a satellite’s in-orbit operational life is mainly based on the period during which the satellite’s on board fuel permits proper station-keeping manoeuvres.

“**VPN**”

virtual private network, a network that is constructed using public wires to connect nodes.

“**VSAT**”

very small aperture terminal. A system for the reception and transmission of satellite signals using a small dish diameter, typically fixed and requiring a licence to use.

“**XpressLink**”

our combined L-band and Ku-band service for maritime end-users.

**APPENDIX A - 2012 CONSOLIDATED FINANCIAL STATEMENTS OF INMARSAT GROUP LIMITED**

**INDEX TO FINANCIAL STATEMENTS**

# Inmarsat Group Limited

**(Registered Number: 4886115)**

**Directors' Report and Financial Statements**
**For the year ended 31 December 2012**

# Inmarsat Group Limited
# Directors' Report
# For the year ended 31 December 2012

## Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements for Inmarsat Group Limited (the 'Company' or together with its subsidiaries, the 'Group') for the year ended 31 December 2012.

## Principal activities

The Group is the leading provider of global mobile satellite communications services ('MSS'), providing data and voice connectivity to end-users worldwide. We have over 30 years of experience in designing, launching and operating a satellite-based network. With a fleet of 10 owned and operated geosynchronous satellites, we provide a comprehensive portfolio of global mobile satellite communications services for use on land, at sea and in the air; a broad portfolio of remote telecommunications services to end-user customers, offering services over mobile and fixed satellite systems, at L-band, Ku-band or VSAT, and through our owned and operated microwave and satellite telecommunications facilities. We also provide secure, end-to-end telecommunication solutions for US government operations worldwide.

The results for the period are disclosed in the financial statements for the Company on pages 55 to 57 and for the Group on pages 8 to 53. Both the level of business and financial position of the Company and the Group are satisfactory to the Directors. The Company Balance Sheet on page 55 and the Group's Balance Sheet on page 9, show the Company's and the Group's financial position at 31 December 2012.

## Business review

The Group's key financial and other performance indicators during the year were as follows:

| (US$ in millions) | 2012 | 2011 | Increase/(decrease) |
|---|---|---|---|
| Revenue | 1,337.8 | 1,408.5 | (5.0%) |
| Operating profit | 346.3 | 466.3 | (25.7%) |
| Profit after tax | 213.9 | 274.8 | (22.2%) |
| Net assets | 1,323.8 | 1,213.2 | 9.1% |
| Average number of employees | 1,616 | 1,543 | 4.7% |

Revenue decreased year-on-year due to reduced revenues from the LightSquared Cooperation Agreement, which was partially offset by growth in our wholesale MSS revenues, new US Government contracts in Segovia and a full year contribution from Ship Equip. Operating profit decreased year-on-year due to the reduced revenues, an increase in net operating costs due to support the new contracts in Segovia and the full year impact of costs from Ship Equip, which was partially offset by a reduction in the impairment charge year-on-year. Profit after tax decreased year-on-year due to the factors described above being partially offset by a reduced income tax expense year-on-year.

## Going concern

The Directors acknowledge the latest guidance on going concern. Despite the current volatility in financial markets and uncertain economic outlook, the Directors believe that the Group has a resilient business model, strong free cash flow generation and is compliant with all its financial covenants. In making their assessment of going concern, the Directors considered the Inmarsat plc Board-approved budget, the 15-month rolling forecast, the cash flow forecast and the most recent five-year long range financial plan. In addition, the Directors considered the maturity profile of existing debt facilities, other liabilities as well as actual and forecast covenant calculations. Furthermore, the forecasts and covenant calculations were stress tested by applying a set of downside scenarios. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, Inmarsat continues to adopt the going concern basis in preparing the consolidated financial statements.

Further details regarding the adoption of the going concern basis can be found in note 2 to the consolidated financial statements.

## Results and dividends

The results for the year are disclosed in the Company financial statements on page 57 and of the Group in the Consolidated Income Statement on page 8. The Company's profit after tax for the year amounted to

US$127.5m (2011: US$423.4m) and the Group's profit after tax for the year amounted to US$213.9m (2011: US$274.8m).

The Company paid dividends during the year ended 31 December 2012 of US$75.7m and US$50.0m for the 2012 interim dividend and the 2011 final dividend, respectively (year ended 31 December 2011: US$68.9m and US$104.5m for the 2011 interim dividend and the 2010 final interim dividend, respectively. Additionally, in the year ended 31 December 2011, the Company declared one-off dividends totalling US$250m, to fund a share repurchase programme by Inmarsat plc, the ultimate parent company).

**Research and development**

The Group continues to invest in new services and technology necessary to support its activities through research and development programmes.

**Charitable and political donations**

During the year, the Group donated in aggregate US$367,458 (2011: US$370,889) to charities worldwide. This amount included a donation of US$200,000 to the telecommunications relief aid organisation, Télécoms Sans Frontières and a payment of US$111,000 to the World Maritime University as part of our support for the education of maritime specialists. In addition, Inmarsat Global provides satellite telecommunication services and equipment, in conjunction with support offered by its DPs and manufacturers, to service providers and customers in support of disaster relief management in affected areas of the world. Our subsidiary companies also made contributions to local charitable causes.

No political donations were made during the year. It remains the policy of the Company not to make political donations or incur political expenditure. However, the Directors recognise that occasions arise where it may be in the best interests of shareholders for the Company to be able, if appropriate, to participate in public debate and opinion-forming on matters which affect its business. To avoid inadvertent infringement of the requirements of the Companies Act 2006, shareholders of the ultimate parent company, Inmarsat plc, are asked annually to give authority at that company's Annual General Meeting for Inmarsat plc and its subsidiaries to make political donations and to incur political expenditure.

**Financial instruments**

Details of the financial risk management objectives and policies of the Company are the same as the Group. These details are explained in notes 3 and 31 to the consolidated financial statements.

**Post balance sheet events**

Details of material post balance sheet events are included in note 36 to the consolidated financial statements.

**Directors and their interests**

The Directors who served during the year and who were in office on 1 January 2012 were as follows:

- Alison Horrocks
- Rick Medlock
- Andrew Sukawaty
- Rupert Pearce

None of the Directors, at any time during the year ended 31 December 2012 or subsequently, have had any interests in any shares of the Company or its subsidiaries.

**Employees**

The Company has no directly employed staff.

Employee involvement in the Inmarsat plc group's share and share option schemes is encouraged. Details of employee share awards and option schemes are shown in note 25 to the financial statements.

**Health and safety**

The Inmarsat plc Board receives an annual update on Health and Safety activity across the Group. Rupert Pearce, CEO, has been identified as having responsibility for health and safety issues within the Inmarsat Global operations. Our subsidiary operations have various managers responsible for health and safety across their operations. Our goal is to encourage strong leadership in championing the importance of, and a common-sense approach to, health and safety in the workplace.

The Group recognises its legal responsibilities to ensure the well-being, safety and welfare of its employees and to maintain a safe and healthy working environment for them and for visitors and contractors. Regular health and safety audits are undertaken at operating sites across the Group, with inspections during 2012 at premises in the UK, Canada and the US. Across the Group, less than 20 accidents were reported, and we had no fatalities. We held our first worldwide health and wellbeing programme across all our offices which received very positive feedback from our global workforce.

We have identified five continuing health and safety priorities based on business activities:

- DSE (display screen equipment) related ill-health (musculoskeletal disorders);
- Working at height;
- Work-related stress;
- Manual handling; and
- Lone working.

**Policy and practice on payment of creditors**

It is our policy to agree terms of payments with suppliers when entering into contracts and to meet our obligations accordingly. We do not follow any specific published code or standard on payment practice. At 31 December 2012, the Group's trade creditors represented 62 days equivalent of aggregate amounts invoiced by suppliers during the year (2001: 66 days).

**Share capital and control**

The following information is given pursuant to the Companies Act 2006, specifically s992.

Details of the authorised and issued share capital of the Company are given in note 24 to the financial statements.

There are no restrictions on transfer, or limitations on the holding of any shares and no requirements for prior approval of any transfers. None of the shares carry any special rights with regard to control of the Company. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights.

Details of employee share schemes are set out in note 25. Shares of Inmarsat plc (the Company's ultimate parent company) acquired through Company share schemes and plans rank pari passu with the shares in issue and have no special rights.

The powers of the Directors are determined by UK legislation and the Articles of Association in force from time to time. The rules about the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by shareholders in accordance with legislation in force from time to time.

**Significant contracts**

The Group has in place several significant agreements, which include, inter alia, its banking and debt arrangements, distribution agreements with its distribution partners ('DPs'), manufacturing agreements and contracts for the in-orbit insurance of its satellites. Subject to the identity of a third-party bidder, in the event of a change of control following a takeover bid, the Group does not believe that these agreements would suffer a material adverse effect or be subject to termination. However, there are customary clauses in the long-term debt funding agreements specifying that in the event of a change of control following a takeover bid, the lenders have the option to have the debt repaid under the specific terms of each type of debt.

The majority of the space segment revenue of Inmarsat Global is derived from sales to its DPs who operate in accordance with a suite of agreements regarding the distribution of Inmarsat's services. Our subsidiary companies, Stratos and Segovia Commercial Services Inc are two of the DPs to whom these distribution agreements apply. Both have operating agreements with their own customers. These contracts vary in monetary value and length of term.

In addition, we have significant ongoing contracts with our suppliers regarding the construction of the Alphasat satellite and its subsequent launch, and for the Global Xpress programme which includes the construction of three Ka-band satellites and its related ground infrastructure; and with third parties for the manufacture and production of new terminals for the Alphasat and Global Xpress programmes and also for our global satellite phone service ('GSPS').

None of the current Directors had a material interest in any contract to which the Company or any of its subsidiary undertakings was a party during the financial year.

**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.

Our principal risks and uncertainties are discussed below; however this summary is not intended to be an exhaustive analysis of all risks and uncertainties affecting our business. Some risks and uncertainties may be unknown to us and other risks and uncertainties, currently regarded as immaterial, could turn out to be material. All of them have the potential to impact our business, operations, liquidity, financial position or future performance adversely.

**Satellites**

Our satellites are subject to significant operational risks at launch or while in orbit which, if they were to occur, could adversely affect our revenues, profitability and liquidity. Although we maintain in-orbit insurance on our Inmarsat-4 satellite fleet and have obtained launch insurance for Alphasat and our Inmarsat-5 satellites, this may be insufficient to cover all losses if we had a satellite failure. Even if our insurance cover was sufficient, delays in building and launching a replacement satellite could adversely affect our revenues, profitability and liquidity.

**Distribution**

We continue to rely in part on other third party distribution partners and service providers to sell our services to end-users and they determine the prices end-users pay. There is a risk that our distribution partners or service providers could fail to distribute our services effectively, or fail to offer services at prices which are competitive. In addition, the loss of any key distribution partners could materially affect our routes to market, reduce customer choice or represent a significant bad debt risk.

**Spectrum**

We rely on radio spectrum to provide our services. This has historically been allocated by the International Telecommunications Union without charge, and usage is coordinated with other satellite operators in our spectrum band. In the future, we may not be successful in coordinating our satellite operations under applicable international regulations and procedures or in obtaining sufficient spectrum or orbital resources necessary for our operations.

**Development of hybrid networks, including ATC**

Proposed ATC services in North America or other countries may result in increased competition for the right to use L-band spectrum, and such competition may make it difficult for us to obtain or retain the spectrum resources we require for our existing and future services. We cannot be certain that the development of hybrid networks, including ATC, in North America or other countries will not result in harmful interference to our operations. If we are unable to prevent or mitigate against such interference it could have an effect on our operations, revenues, profitability and liquidity.

**LightSquared Cooperation Agreement**

Our Cooperation Agreement with LightSquared may present us with operational and financial risks. If fully implemented, the Cooperation Agreement will ultimately result in a reduction in available L-band spectrum for Inmarsat services over North America and the need for our L-band services to coexist in North America with ATC services in adjacent frequencies. Whilst we believe that we can continue to operate our services over North America with minimal impact to our users following the launch of ATC services, there is a risk that our L-band services may be congested, interrupted and/or interfered with, which could have an adverse effect on our future L-band service performance in North America.

**Regulation**

Our business is subject to regulation and we face increasing regulation with respect to the transmission of our satellite signals. The provision of our mobile satellite communication services in some countries could cause us to incur additional costs, could expose us to fines and could limit our ability to provide services.

**Next generation services and satellites**

We are currently implementing a major investment programme, Global Xpress, which includes the deployment of a global network of Ka-band satellites. This programme, which includes satellites, ground network, terminals and related services, may be subject to delays and/or material cost overruns. There can be no assurance that the development of new satellites, ground networks, or terminals and/or the introduction of new services will proceed according to anticipated schedules or cost estimates, or that the level of demand for the new services will justify the cost of setting up and providing such new services. A delay in the completion of such networks and/or services and/or the launch or deployment or operation of such satellites and/or new services, or increases in the associated costs, could have a material adverse effect on our revenue, profitability and liquidity.

**Competition**

Although Inmarsat is a market leader in MSS, the global communications industry is highly competitive. We face competition today from a number of communications technologies in the various target sectors for our services. It is likely that we will continue to face increasing competition from other network operators in some or all of our target sectors in the future, particularly from existing mobile satellite network operators. In addition, communications providers who operate private networks using VSAT or hybrid systems also continue to target MSS users. Technological innovation in VSAT, together with increased C-band, Ku-band and Ka-band coverage and commoditisation, have increased, and we believe will continue to increase, the competitiveness of VSAT and hybrid systems in some traditional MSS sectors, including maritime and aviation sectors. Furthermore, the gradual extension of terrestrial wireline and wireless communications networks to areas not currently served by them may reduce demand for some of our land mobile services in those areas. We believe that our acquisition of Ship Equip and our investment in GX will position us favourably to compete with alternate technology providers and reduce the impact of such competition on our L-band MSS business.

**Indemnities and insurance**

Inmarsat plc maintains appropriate insurance to cover Directors' and Officers' liability for itself and its subsidiaries as permitted under the Articles of Association. The insurance covers individual Directors' and Officers' personal legal liability and legal defence costs for claims arising out of actions taken in connection with Group business. Neither the insurance nor the indemnity provides cover where the Director/Officer is proved to have acted fraudulently or dishonestly. The Directors, the Company Secretary, and certain employees serving as directors of subsidiaries at the Group's request have been granted indemnities on terms consistent with the applicable statutory provisions. No amount has been paid under any of these indemnities during the year.

**Auditor**

Each of the Directors has confirmed that:

i) so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

ii) the Director has taken all the steps that he/she ought to have taken as a Director to make him/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006. An elective resolution was passed on 12 July 2004 dispensing with the requirement to appoint an auditor annually. Therefore, Deloitte LLP are deemed to continue as auditor.

**Directors' responsibilities statement**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors are required to prepare the Company's financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under IFRSs as adopted by the European Union. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board
Alison Horrocks FCIS
Company Secretary
25 April 2013

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INMARSAT GROUP LIMITED

We have audited the group financial statements of Inmarsat Group Limited for the year ended 31 December 2012 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely 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 this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**
In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Other matter**
We have reported separately on the parent company financial statements of Inmarsat Group Limited for the year ended 31 December 2012.

Stephen Griggs, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
25 April 2013

## Inmarsat Group Limited
## Consolidated Income Statement
## For the year ended 31 December 2012

| (US$ in millions) | Note | 2012 | 2011 |
|---|---|---|---|
| **Revenues** | | **1,337.8** | **1,408.5** |
| Employee benefit costs | 7 | (233.0) | (206.5) |
| Network and satellite operations costs | | (295.1) | (241.7) |
| Other net operating costs | | (139.2) | (127.2) |
| Own work capitalised | | 24.1 | 21.1 |
| **Total net operating costs** | | **(643.2)** | **(554.3)** |
| **EBITDA** | | **694.6** | **854.2** |
| Depreciation and amortisation | 6 | (255.2) | (245.8) |
| Loss on disposal of assets | | (0.5) | - |
| Acquisition-related adjustments | | - | (2.1) |
| Impairment losses | 6 | (94.7) | (141.5) |
| Share of profit of associates | | 2.1 | 1.5 |
| **Operating profit** | | **346.3** | **466.3** |
| Interest receivable and similar income | 9 | 2.9 | 4.9 |
| Interest payable and similar charges | 9 | (60.9) | (76.2) |
| Net interest payable | 9 | (58.0) | (71.3) |
| **Profit before income tax** | 6 | **288.3** | **395.0** |
| Income tax expense | 10 | (74.4) | (120.2) |
| **Profit for the year** | | **213.9** | **274.8** |
| **Attributable to:** | | | |
| **Equity holders** | | **213.6** | **274.6** |
| **Non-controlling interest** | | **0.3** | **0.2** |

## Consolidated Statement of Comprehensive Income
## For the year ended 31 December 2012

| (US$ in millions) | Note | 2012 | 2011 |
|---|---|---|---|
| **Profit for the year** | | **213.9** | **274.8** |
| **Other comprehensive income** | | | |
| Actuarial gains from pension and post-employment benefits | 27 | 4.4 | 13.4 |
| Net gains/(losses) on cash flow hedges | 26 | 11.4 | (2.7) |
| Foreign exchange translation differences | | - | 0.4 |
| Tax charged directly to equity | 10 | (3.7) | (4.2) |
| **Other comprehensive income for the year, net of tax** | | **12.1** | **6.9** |
| **Total comprehensive income for the year, net of tax** | | **226.0** | **281.7** |
| **Attributable to:** | | | |
| **Equity holders** | | **225.7** | **281.5** |
| **Non-controlling interest** | | **0.3** | **0.2** |

# Inmarsat Group Limited
# Consolidated Balance Sheet
# As at 31 December 2012

| (US$ in millions) | Note | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 2,081.6 | 1,820.1 |
| Intangible assets | 14 | 970.5 | 1,081.7 |
| Investments | 15 | 31.6 | 31.0 |
| Other receivables | 17 | 15.4 | 4.2 |
| Derivative financial instruments | 31 | - | 0.1 |
| **Total non-current assets** | | **3,099.1** | **2,937.1** |
| **Current assets** | | | |
| Cash and cash equivalents | 16 | 331.3 | 165.7 |
| Trade and other receivables | 17 | 293.6 | 260.3 |
| Inventories | 18 | 25.4 | 23.5 |
| Derivative financial instruments | 31 | 6.4 | 7.8 |
| **Total current assets** | | **656.7** | **457.3** |
| **Total assets** | | **3,755.8** | **3,394.4** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Borrowings | 19 | 53.2 | 53.2 |
| Trade and other payables | 20 | 664.6 | 682.2 |
| Provisions | 21 | 5.5 | 2.9 |
| Current income tax liabilities | 22 | 39.2 | 60.4 |
| Derivative financial instruments | 31 | 11.4 | 14.2 |
| **Total current liabilities** | | **773.9** | **812.9** |
| **Non-current liabilities** | | | |
| Borrowings | 19 | 1,466.8 | 1,194.9 |
| Other payables | 20 | 25.7 | 28.1 |
| Provisions | 21 | 25.4 | 26.7 |
| Deferred income tax liabilities | 22 | 140.2 | 109.5 |
| Derivative financial instruments | 31 | - | 9.1 |
| **Total non-current liabilities** | | **1,658.1** | **1,368.3** |
| **Total liabilities** | | **2,432.0** | **2,181.2** |
| **Net assets** | | **1,323.8** | **1,213.2** |
| | | | |
| **Shareholders' equity** | | | |
| Ordinary shares | 24 | 0.4 | 0.4 |
| Share premium | | 677.4 | 677.4 |
| Other reserves | | 381.1 | 362.3 |
| Retained earnings | | 263.8 | 172.2 |
| **Equity attributable to Parent Company** | | 1,322.7 | 1,212.3 |
| **Non-controlling interest** | | 1.1 | 0.9 |
| **Total equity** | | **1,323.8** | **1,213.2** |

The accompanying notes are an integral part of the financial statements.

The consolidated financial statements of Inmarsat Group Limited, registered number 4886115, on pages 8 to 53 were approved by the Board of Directors on 25 April 2013 and signed on its behalf by:

**Rupert Pearce**
Director

**Rick Medlock**
Director

## Inmarsat Group Limited
## Consolidated Statement of Changes in Equity
## For the year ended 31 December 2012

| (US$ in millions) | Ordinary Share capital | Share premium account | Share option reserve | Revaluation reserve | Currency reserve | Cash flow hedge reserve | Capital contribution reserve | Retained earnings | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2011** | **0.4** | **677.4** | **35.5** | **0.6** | **—** | **(7.5)** | **2.1** | **312.9** | **0.7** | **1,022.1** |
| Share options charge/(credit) | — | — | 9.4 | — | — | — | — | (2.3) | — | 7.1 |
| Dividends paid | — | — | — | — | — | — | — | (423.4) | — | (423.4) |
| Capital contribution | — | — | — | — | — | — | 325.7 | — | — | 325.7 |
| Comprehensive income: | | | | | | | | | | |
| Profit for the period | — | — | — | — | — | — | — | 274.6 | 0.2 | 274.8 |
| Other comprehensive income – before tax | — | — | — | — | 0.4 | (2.7) | — | 13.4 | — | 11.1 |
| Other comprehensive income – tax | — | — | — | — | — | (1.2) | — | (3.0) | — | (4.2) |
| **Balance as at 31 December 2011** | **0.4** | **677.4** | **44.9** | **0.6** | **0.4** | **(11.4)** | **327.8** | **172.2** | **0.9** | **1,213.2** |
| Share options charge | — | — | 9.9 | — | — | — | — | 0.5 | — | 10.4 |
| Dividends paid | — | — | — | — | — | — | — | (125.7) | (0.1) | (125.8) |
| Capital contribution | — | — | — | — | — | — | — | — | — | — |
| Comprehensive income: | | | | | | | | | | |
| Profit for the period | — | — | — | — | — | — | — | 213.6 | 0.3 | 213.9 |
| Other comprehensive income – before tax | — | — | — | — | — | 11.4 | — | 4.4 | — | 15.8 |
| Other comprehensive income – tax | — | — | — | — | — | (2.5) | — | (1.2) | — | (3.7) |
| **Balance as at 31 December 2012** | **0.4** | **677.4** | **54.8** | **0.6** | **0.4** | **(2.5)** | **327.8** | **263.8** | **1.1** | **1,323.8** |

## Inmarsat Group Limited
## Consolidated Cash Flow Statement
## For the year ended 31 December 2012

| (US$ in millions) | Note | 2012 | 2011 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash generated from operations | 23 | 728.9 | 992.1 |
| Interest received | | 1.5 | 2.7 |
| Income taxes paid | | (69.2) | (112.6) |
| **Net cash inflow from operating activities** | | **661.2** | **882.2** |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | | (437.2) | (489.7) |
| Additions to capitalised development costs, including software | | (22.9) | (20.0) |
| Own work capitalised | | (23.9) | (21.3) |
| Acquisition of subsidiaries and other investments | 28 | (15.1) | (171.0) |
| **Net cash used in investing activities** | | **(499.1)** | **(702.0)** |
| **Cash flow from financing activities** | | | |
| Dividends paid to Parent Company | 12 | (225.7) | (323.4) |
| Repayment of Previous Senior Credit Facility | 19 | — | (200.0) |
| Repayment of EIB Facility | 19 | (44.1) | — |
| Drawdown of Ex-Im Bank Facility | 19 | 120.3 | 277.3 |
| Gross issuance proceeds of Senior Notes due 2017 | 19 | 212.0 | — |
| Repayment of Ship Equip long-term debt | | — | (44.7) |
| Interest paid on borrowings | | (92.5) | (74.7) |
| Arrangement costs of financing | 19 | (8.1) | (22.4) |
| Intercompany funding | | 42.7 | 50.0 |
| Other financing activities | | (0.7) | (0.4) |
| **Net cash from/(used in) financing activities** | | **3.9** | **(338.3)** |
| Foreign exchange adjustment | | — | 0.2 |
| **Net increase/(decrease) in cash and cash equivalents** | | **166.0** | **(157.9)** |
| | | | |
| **Movement in cash and cash equivalents** | | | |
| At beginning of year | | 164.5 | 322.4 |
| Net increase/(decrease) in cash and cash equivalents | | 166.0 | (157.9) |
| **As reported on Balance Sheet (net of bank overdrafts)** | 16 | **330.5** | **164.5** |
| **At end of year, comprising** | | | |
| Cash at bank and in hand | 16 | 56.2 | 63.2 |
| Short-term deposits with original maturity of less than three months | 16 | 275.1 | 102.5 |
| Bank overdrafts | 16 | (0.8) | (1.2) |
| | | **330.5** | **164.5** |

### 1. General information

The principal activity of Inmarsat Group Limited (the 'Company' or together with its subsidiaries, the 'Group') is the provision of mobile satellite communications services. The nature of the Group's operations and its principal activities are set out in note 5.

The Company's parent undertaking is Inmarsat Holdings Limited and ultimate controlling party is Inmarsat plc, both incorporated in the United Kingdom and registered in England and Wales. The largest and smallest groups into which the results of the Company are consolidated are headed by Inmarsat plc and the Company respectively.

### 2. Principal accounting policies

**Basis of preparation**
The principal accounting policies adopted in the preparation of the consolidated financial statements for the years ended 31 December 2012 and 2011 (the 'consolidated financial statements') are set out below.

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union ('EU') and therefore the Group's financial statements comply with Article 4 of the EU International Accounting Standards ('IAS') regulation and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial assets and financial liabilities, as described later in these accounting policies.

The Group has a robust and resilient business model, strong free cash flow generation and is compliant with all covenants. As a consequence and despite the continuing uncertain economic climate, the Directors believe that the Group is well placed to manage its business risks successfully. After considering current financial projections and facilities available and after making enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, Inmarsat Group Limited continues to adopt the going concern basis in preparing the consolidated financial statements.

**Basis of accounting**
The preparation of the consolidated financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the Balance Sheet dates and the reported amounts of revenue and expenses during the reported period. Although these estimates are based on management's best estimate of the amounts, events or actions, the actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The following Standards and Interpretations, as adopted by the EU, are effective for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position:

- IFRS 7 (as amended) – Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets (effective for financial years beginning on or after 1 July 2011); and
- IAS 12 (as amended) – Income Taxes – Limited scope amendment (recovery of underlying assets) (effective for financial years beginning on or after 1 January 2012).

At the date of approval of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 7 (as amended) – Financial Instruments: Disclosures – Amendments to facilitate comparison between financial statements prepared under IFRS and under US GAAP (effective for financial years beginning on or after 1 July 2013);
- IFRS 9 Financial Instruments – Classification and Measurement (effective for financial years beginning on or after 1 January 2015);
- IFRS 10 (as amended) – Consolidated Financial Statements (effective for financial years beginning on or after 1 January 2013);
- IFRS 11 (as amended) – Joint Arrangements (effective for financial years beginning on or after 1 January 2013);

**2. Principal accounting policies (continued)**

- IFRS 12 (as amended) – Disclosures of Interests in Other Entities (effective for financial years beginning on or after 1 January 2013);
- IFRS 13 – Fair Value Measurement (effective for financial years beginning on or after 1 January 2013);
- IAS 1 (as amended) – Presentation of Financial Statements – Amendments to revise the way other comprehensive income is presented (effective for financial years beginning on or after 1 July 2012);
- IAS 19 (as amended) – Employee Benefits – Amended standard resulting from the Post-Retirement Benefits and Termination Benefits projects (effective for financial years beginning on or after 1 January 2013);
- IAS 27– Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in 2011) (effective for financial years beginning on or after 1 January 2013);
- IAS 28 – Investments in Associates – Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) (effective for financial years beginning on or after 1 January 2013);
- IAS 32 (as amended) – Financial Instruments: Presentation – Amended application guidance to clarify offsetting of financial assets and liabilities on the balance sheet (effective for financial years beginning on or after 1 January 2014);
- IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine (effective for financial years beginning on or after 1 January 2013); and
- Amendments resulting from the 'Annual Improvements 2009-2011 cycle' paper issued in May 2012 (effective for financial years beginning on or after 1 January 2013).

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

**Basis of consolidation**
The consolidated financial statements include the accounts of the Company and its domestic and overseas subsidiary undertakings.

Subsidiary undertakings include all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The results of subsidiary undertakings established or acquired during the period are included in the consolidated profit and loss account from the date of establishment or acquisition of control. The results of subsidiary undertakings disposed of during the period are included until the date of disposal.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All transactions, balances, income and expenses with and between subsidiary undertakings have been eliminated on consolidation.

On the acquisition of a company or business, fair values reflecting conditions at the date of acquisition are attributed to the identifiable separable assets, liabilities and contingent liabilities acquired. Where the fair value of the total consideration, both paid and deferred, exceeds the fair value of the identifiable separable assets, liabilities and contingent liabilities acquired, the difference is treated as purchased goodwill. Fees and similar incremental costs incurred directly in making the acquisition are recorded in the Income Statement as incurred, in line with IFRS 3.

Where the deferred consideration is payable in cash, the liability is discounted to its present value. Where the deferred consideration is contingent upon future trading performance, an estimate of the present value of the deferred consideration payable is made. The contingent deferred consideration is reassessed annually and any gain or loss on remeasurement is recorded in the Income Statement.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests share of changes in equity since the date of the original combination.

## 2. Principal accounting policies (continued)

### Foreign currency translation

**a) Functional and presentation currency**

The functional currency of the Company and all of the Group's subsidiaries and the presentation currency of the Group is the US Dollar, as the majority of operational transactions are denominated in US Dollars.
The hedged rate between US Dollar and Pound Sterling for 2012 for Inmarsat Global's Sterling operating expenditure was US$1.48/£1.00 (2011: US$1.51/£1.00).

**b) Transactions and balances**

Transactions not denominated in the functional currency of the respective subsidiary undertakings of the Group during the year have been translated using the spot rates of exchange ruling at the dates of the transactions. Differences on exchange arising on the settlement of the transactions denominated in currencies other than the respective functional currency are recognised in the Income Statement.

Monetary assets and liabilities not denominated in the functional currency of the respective subsidiary undertaking of the Group have been translated at the spot rates of exchange ruling at the end of each month. Differences on exchange arising from the translation of monetary assets and liabilities denominated in currencies other than the respective functional currency are recognised in equity to the extent that the foreign exchange exposure is hedged while the remaining differences are recognised in the Income Statement.

### Financial instruments and hedging activities

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions. Financial instruments are initially measured at fair value. Subsequent measurement depends on the designation of the instrument. Non-derivative financial assets are classified as trade receivables, other receivables, accrued income, short-term deposits or cash and cash equivalents. They are stated at amortised cost using the effective-interest method, subject to reduction for allowances for estimated irrecoverable amounts. For interest-bearing assets, their carrying value includes accrued interest receivable. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts, which are included as current borrowings in liabilities on the Balance Sheet. Non-derivative financial liabilities are all classified as borrowings, trade payables, other payables and accruals and stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as unamortised issue costs.

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational and financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting under IAS 39 are accounted for as trading instruments. Derivatives are initially recognised and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on remeasurement is taken to the Income Statement except where the derivative is a designated cash flow hedging instrument.

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at each period end to ensure that the hedge remains highly effective.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. Where the forecast transaction results in a financial asset or liability, gains or losses previously recognised in equity are reclassified to the Income Statement in the same period as the asset or liability impacts income. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the Income Statement in the same period as the underlying income or expenditure. The ineffective portions of the gain or loss on the hedging instrument are recognised immediately in the Income Statement.

Where a hedge no longer meets the effectiveness criteria, any gains or losses deferred in equity are only transferred to the Income Statement when the committed or forecasted transaction is recognised in the Income Statement. However, where the Group has applied cash flow hedge accounting for a forecasted or committed transaction that is no longer expected to occur, then the cumulative gain or loss that has been recorded in equity is transferred to the Income Statement. When a hedging instrument expires or is sold, any cumulative gain or loss existing in equity at that

**2. Principal accounting policies (continued)**

time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement.

**Revenue recognition**
Mobile satellite communications services revenue results from utilisation charges that are recognised as revenue in the period during which the services are provided. Deferred income attributable to mobile satellite communications services or subscription fees represents the unearned balances remaining from amounts received from customers pursuant to prepaid contracts. Mobile satellite communications services lease revenues are recorded on a straight-line basis over the term of the contract concerned, which is typically between one and 12 months, unless another systematic basis is deemed more appropriate.

Revenue also includes income from spectrum coordination agreements, services contracts and income from the sale of terminals and other communication equipment. Revenue from spectrum coordination agreements is recognised using the percentage of completion or straight-line approach depending on the underlying terms of the agreement (see note 4(d)). Revenue from service contracts is recognised as the service is provided. Sales of terminals and other communication equipment are recognised when the risks and rewards of ownership are transferred to the purchaser.

The Company offers certain products and services as part of multiple deliverable arrangements. Multi-deliverable arrangements are divided into separate units of accounting provided, 1) the deliverable has a standalone value to the customer if it is sold separately, and 2) the fair value of the item can be objectively and reliably determined. Consideration for these items is measured and allocated to each separate unit based on their relative fair values and the Company's relevant revenue recognition policies are applied to them.

**Employee benefits**
Wages, salaries, social security contributions, accumulating annual leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are performed by the employees of the Group.

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it has demonstrably committed to either terminate the employment of current employees or to provide termination benefits, as a result of an offer made to encourage voluntary redundancy.

The Group recognises liabilities relating to defined benefit pension plans and post-employment benefits in respect of employees. The Group's net obligation in respect of defined benefit pension plans and post-employment benefits are calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are immediately recognised in the Statement of Comprehensive Income.

The Group operates a number of defined contribution pension schemes. Pension costs for the defined contribution schemes are charged to the Income Statement when the related employee service is rendered.

Inmarsat plc, the ultimate holding company issues equity-settled share options and awards to employees of the Group. Equity-settled share option awards are measured at fair value at the date of the grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

**Current tax**
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**2. Principal accounting policies (continued)**

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary deductible differences or tax loss carry forwards can be utilised.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Research and development**
Research expenditure is expensed when incurred. Development expenditure is expensed when incurred unless it meets criteria for capitalisation. Development costs are only capitalised once the technical feasibility and commercial viability of a business case has been demonstrated and they can be measured reliably. Capitalised development costs are amortised on a straight-line basis over their expected useful economic life.

**Property, plant and equipment**

**Space segment assets**
Space segment assets comprise satellite construction, launch and other associated costs, including ground infrastructure. Expenditure charged to space segment projects includes invoiced progress payments, amounts accrued appropriate to the stage of completion of contract milestone payments, external consultancy costs and direct internal costs. Internal costs, comprising primarily staff costs, are only capitalised when they are directly attributable to the construction of an asset. Progress payments are determined on milestones achieved to date together with agreed cost escalation indices. Deferred satellite payments represent the net present value of future payments dependent on the future performance of each satellite and are recognised in space segment assets when the satellite becomes operational. The associated liability is stated at its net present value and included within liabilities. These space segment assets are depreciated over the life of the satellites from the date they become operational and are placed into service. Borrowing costs attributable to the construction of assets which take a substantial period of time to get ready for intended use (‘qualifying assets’) are added to the costs of those assets.

**Assets in course of construction**
Assets in course of construction primarily relate to the Alphasat satellite, Inmarsat-5 satellites and Global Xpress service infrastructure. These assets will be transferred to space segment assets and depreciated over the life of the satellites or services once they become operational and placed into service. No depreciation has been charged on these assets.

**Other fixed assets**
Other fixed assets are stated at historical cost less accumulated depreciation.

**Depreciation**
Depreciation is calculated to write off the historical cost less residual values, if any, of fixed assets, except land, on a straight-line basis over the expected useful lives of the assets concerned. The Group selects its depreciation rates and residual values carefully and reviews them annually to take account of any changes in circumstances. When setting useful economic lives, the principal factors the Group takes into account are the expected rate of technological developments, expected market requirements for the equipment and the intensity at which the assets are expected to be used.

**2. Principal accounting policies (continued)**

**Asset retirement obligations**
The fair value of legal obligations associated with the retirement of tangible property, plant and equipment is recognised in the financial statements in the period in which the liability is incurred. Upon initial recognition of a liability for an asset retirement obligation, a corresponding asset retirement cost is added to the carrying amount of the related asset, which is subsequently amortised to income over the remaining useful life of the asset. Following the initial recognition of an asset retirement obligation, the carrying amount of the liability is increased for the passage of time by applying an interest method of allocation to the liability with a corresponding accretion cost reflected in operating expenses.

Revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognised each period as an adjustment to the carrying amount of the asset retirement obligation.

**Government grants**
Government grants have been received in relation to the purchase and construction of certain assets. Government grants are deducted from the cost of the relevant assets to arrive at carrying amount. The grants are therefore recognised as income over the lives of the assets by way of a reduced depreciation charge.

**Gains and losses on disposals of tangible and intangible assets**
Gains and losses on disposals are determined by comparing net proceeds with the carrying amount. These are included in the Income Statement.

**Intangible assets**
Intangible assets comprise goodwill, patents, trademarks, software, terminal development costs, spectrum rights, orbital slots and licences, customer relationships and intellectual property.

Intangible assets arise from separate purchases and acquisitions as part of business combinations. In addition, internally-generated intangible assets are recognised only if all the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be reliably measured.

Development costs directly relating to the development of new services are capitalised as intangible assets. Costs are capitalised once a business case has been demonstrated as to technical feasibility and commercial viability.

Intangible assets with a finite useful life are amortised on a straight-line basis over the life of the asset and the amortisation period and method are reviewed each financial year**.** Intangible assets with an indefinite useful life are reviewed annually for impairment.

**Impairment of non-financial assets**
At each balance sheet date, the Group reviews the carrying amounts of assets that are subject to amortisation and depreciation to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, an impairment review is conducted. Intangible assets with an indefinite life are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Impairment testing involves a comparison of the carrying amount of the asset with its recoverable amount, which is the higher of fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

CGUs are identified as groups of assets, liabilities and associated goodwill that generate cash flows that are largely independent of other cash flow streams. The assets and liabilities include those directly involved in generating the cash flows and an appropriate proportion of corporate assets.

### 2. Principal accounting policies (continued)

An impairment loss is recognised in the Income Statement whenever the carrying amount of an asset exceeds its recoverable amount. The carrying amount will only be increased where an impairment loss recognised in a previous period for an asset other than goodwill either no longer exists or has decreased, up to the amount that it would have been had the original impairment not occurred. Any impairment to goodwill recognised in a previous period is not reversed.

**Investments**
Investments in equity instruments that do not have quoted market prices in active markets are recorded at cost. Investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be fully recoverable.

**Trade receivables**
Trade receivables are stated at their nominal value and reduced by appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are recognised in other operating costs when there is objective evidence that trade receivables are impaired. Larger accounts are specifically reviewed to assess a customer’s ability to make payments.

**Leases**
Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases by the lessee. Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the term of the lease.

**Interest and finance costs**
Interest on borrowings and other financial liabilities is recognised in the Income Statement using the effective interest rate method.

Borrowing costs attributable to qualifying assets are added to the costs of those assets.

**Inventories**
Inventories are stated at the lower of cost (determined by the weighted average cost method) and net realisable value. Allowances for obsolescence are recognised in other operating costs when there is objective evidence that inventory is obsolete.

**Cash and cash equivalents**
Cash and cash equivalents, measured at fair value, includes cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown as current liabilities within borrowings on the Balance Sheet.

**Provisions**
Provisions, other than in respect of pension and post-employment benefits, are recognised when the Group has a legal or constructive obligation to transfer economic benefits arising from past events and the amount of the obligation can be estimated reliably. Provisions are not recognised unless the outflow of economic benefits to settle the obligation is more likely than not to occur.

**Borrowings**
Borrowings are initially recognised as proceeds received, net of transaction and arrangement costs incurred. Borrowings are subsequently stated at amortised cost. Transaction and arrangement costs of borrowings and the difference between the proceeds and the redemption value are recognised in the Income Statement over the life of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**Earnings before interest, tax, depreciation and amortisation (‘EBITDA’)**
EBITDA is a non-GAAP performance measure used by analysts and investors, and is defined as profit before interest, taxation, depreciation and amortisation, loss on disposal of assets, acquisition-related adjustments, impairment losses and share of profit of associates.

### 3. Financial risk management

**Financial risk factors**
The Group's operations and significant debt financing expose it to a variety of financial risks that include the effects of changes in debt market prices, foreign currency exchange rates, credit risks, liquidity risks and interest rates. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by using forward exchange contracts to limit exposure to foreign currency risk and interest rate swaps to reduce the impact of fluctuating interest rates on its floating rate long-term debt.

The Board of Directors of Inmarsat plc has delegated to a sub-committee, the Treasury Review Committee, the responsibility for setting the risk management policies applied by the Group. The policies are implemented by the treasury department which receives regular reports from the operating companies to enable prompt identification of financial risks so that appropriate actions may be taken. The treasury department has a policy and procedures manual that sets out specific guidelines for managing foreign exchange risk, interest rate risk and credit risk (see note 31). The management of the Group does not hold or issue derivative financial instruments for speculative or trading purposes.

**(a) Market risk**
(i) Foreign exchange risk
The functional currency of the Group is the US Dollar. The Group's long-term borrowings are denominated in US Dollars, the majority of its revenue is earned in US Dollars and the vast majority of capital expenditure is denominated in US Dollars, which are therefore not subject to risks associated with fluctuating foreign currency rates of exchange. However, approximately 50% (2011: 50%) of Inmarsat Global's operating costs are denominated in Pounds Sterling. Inmarsat Solutions operate internationally, resulting in approximately 9% and 16% of revenue and expenditure, respectively, being denominated in currencies other than the US Dollar. The Group's exposures therefore need to be carefully managed to avoid variability in future cash flows and earnings caused by volatile foreign exchange rates.

The foreign currency hedging policy of the Group is to economically hedge a minimum of 50% of anticipated foreign currency exposure in operating expenses for the next 12 months and up to a maximum of 100% for the next three years on a rolling basis.

As at 31 December 2012 it is estimated that:

- A hypothetical 1% inflation of the hedged US Dollar/Sterling exchange rate (US$1.48/£1.00 to US$1.49/£1.00) would have decreased the 2012 profit before tax by approximately US$0.9m (2011: US$1.1m).;
- A hypothetical 1% inflation of the US Dollar/Sterling foreign currency spot rate at 31 December 2012, would have reduced the 2012 profit before tax by approximately US$0.2m (2011: US$0.2m), primarily as a result of the translation of Sterling denominated monetary assets and liabilities. This analysis includes only outstanding foreign currency denominated monetary items and adjusts the translation of these items at the period end for a 1% change in foreign currency rates; and
- A hypothetical 1% deflation in the US Dollar/Sterling and a 1% deflation in the US Dollar/Euro foreign currency spot rates at 31 December 2012, would have decreased equity by US$1.0m and US$0.6m, respectively (2011: US$1.0m and US$1.0m, respectively) primarily as a result of the changes in fair value of derivative instruments designated as cash flow hedges.

Management believes that a 1% sensitivity rate provides a reasonable basis upon which to assess expected changes in foreign exchange rates.

(ii) Price risk
The Group is not exposed to significant equity securities price risk or commodity price risk.

**(b) Interest rate risk**
Given the Group has no significant interest-bearing assets (except cash and cash equivalents), income and operating cash flows are substantially independent of changes in market interest rates. Interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The EIB Facility is at a variable rate whilst the Senior Notes due 2017 and the Ex-Im Facility are at fixed rates.

The policy of the Group is to ensure certainty of the interest charge by fixing interest rates on 60%-100% of forecast net debt for the next two years on a rolling basis. The Group manages its cash flow interest rate risk by using floating-

**3. Financial risk management (continued)**

to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specific intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

As at 31 December 2012, if interest rates on net borrowings changed by 1%, with all other variables held constant, the Group's profit after tax for the year would have been impacted by US$2.7m (2011: US$2.1m). This is primarily due to the Group's exposure to interest rates on its variable rate borrowings and cash and cash equivalents. The sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at each balance sheet date was outstanding for the whole year. Management believes that a 1% sensitivity rate provides a reasonable basis upon which to assess expected changes in interest rates.

**(c) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially subject the Group to a concentration of credit risk consist of cash and cash equivalents, short-term deposits, trade receivables, other receivables, accrued income and derivative financial instruments. The credit risk on liquid funds (cash and cash equivalents and short-term deposits) and derivative financial instruments is limited because the counterparties are highly rated financial institutions.

The maximum exposure to credit risk is:

| (US$ in millions) | Note | 2012 | 2011 |
|---|---|---|---|
| Cash and cash equivalents | 16 | 331.3 | 165.7 |
| Trade receivables, other receivables and accrued income | 17 | 262.6 | 231.0 |
| Derivative financial instruments | 31 | 6.4 | 7.9 |
| **Total credit risk** | | **600.3** | **404.6** |

The Group's average age of trade receivables as at 31 December 2012 (excluding the impact of LightSquared) was approximately 58 days (as at 31 December 2011: 50 days). At 31 December 2012, US$156.5m (2011: US$139.3m) of trade receivables were not yet due for payment. No interest is charged on trade receivables until the receivables become overdue for payment. Thereafter, interest may be charged at varying rates depending on the terms of the individual agreements. The Group has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and utilises both internal and third party collections processes for overdue accounts. The Group maintains provisions for potential credit losses that are assessed on an ongoing basis.

The following table sets out the Group's provision for uncollectable trade receivables and revenue adjustments:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| As at 1 January: | 11.2 | 11.2 |
| Charged to the provision in respect of the current year | 13.8 | 10.3 |
| Utilised in the year | (6.5) | (9.6) |
| Provision released in the year | (0.2) | (0.7) |
| **As at 31 December**[(a)] | **18.3** | **11.2** |

(a) The maturity of the Group's provision for uncollectable trade receivables and revenue adjustments for the year ended 31 December 2012 is US$2.1m current, US$2.9m between 1 and 30 days overdue, US$6.5m between 31 and 120 days overdue and US$6.8m over 120 days overdue (2011: US$2.9m, US$2.5m, US$2.4m and US$3.4m respectively).

### 3. Financial risk management (continued)

For 2012, one (2011: one) distribution partner, which is reported in the Inmarsat Global segment, comprised approximately 16.2% (2011: 16.7%) of the Group's total revenues. This same customer comprised 19.7% (2011: 24.0%) of the Group's trade receivables balance as at 31 December 2012. No other customer accounted for 10% or more of the Group's revenue and accounts receivable at 31 December 2012. In addition, for 2012, revenue from our Cooperation Agreement with LightSquared made up approximately 4.5% (2011: 14.5%) of the Group's total revenues.

The following table sets out the maturity of the Group's trade receivables that are past due, net of provisions for uncollectible trade receivables and revenue adjustments:

| (US$ in millions) | Note | 2012 | 2011 |
|---|---|---|---|
| Between 1 and 30 days overdue | | 30.6 | 19.0 |
| Between 31 and 120 days overdue | | 12.1 | 5.8 |
| Over 120 days overdue | | 2.4 | 1.6 |
| **As at 31 December** | 17 | **45.1** | **26.4** |

**(d) Liquidity risk**
The Group is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and short-term deposits and the availability of funding through an adequate amount of committed credit facilities.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The following table sets out total available liquidity of the Group:

| (US$ in millions) | Note | 2012 | 2011 |
|---|---|---|---|
| Cash and cash equivalents | 16 | 331.3 | 165.7 |
| Available but undrawn borrowing facilities[(a)] | 19 | 1,052.4 | 1,172.7 |
| **Total available liquidity** | | **1,383.7** | **1,338.4** |

(a) Relates to the Senior Credit Facility and Ex-Im Bank Facility (see note 19).

The Directors believe the Group's liquidity position is more than sufficient to meet its needs for the foreseeable future.

### 4. Critical accounting estimates and judgements in applying accounting policies

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the Balance Sheet dates and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. The more significant estimates are discussed below:

**(a) Estimated impairment of goodwill**
The Group annually undertakes tests to determine whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The carrying amounts of goodwill and intangible assets are given in note 14.

For the purpose of testing for impairment, goodwill is specifically allocated to one of four CGUs which have been identified, being Inmarsat Global, Stratos, Segovia and Ship Equip. It has been determined that goodwill that arose on the acquisition of Inmarsat Ventures Limited represented goodwill of the Inmarsat CGU only. Goodwill that arose on the acquisition of Stratos, Segovia and Ship Equip has been allocated to the Stratos, Segovia and Ship Equip CGU, respectively. As at 31 December 2012, the carrying amount of goodwill allocated to the Inmarsat Global, Stratos, Segovia and Ship Equip CGUs was US$406.2m, US$76.8m, US$34.2m and US$33.5m, respectively (2011: US$406.2m, US$142.5m, US$27.2m and US$66.6m, respectively). During 2012, the Stratos CGU sold its Stratos Government Services Inc. business to the Segovia CGU. As a result, US$7.0m of goodwill was reallocated from the Stratos CGU to the Segovia CGU.

Goodwill is tested for impairment by comparing the carrying amount of the CGU with its value in use. The key assumptions used in calculating the value in use are as follows:

### 4. Critical accounting estimates and judgements in applying accounting policies (continued)

**Recoverable amount**

The recoverable amount of each CGU is based on the value in use, which is determined using cash flow projections derived from financial plans approved by management covering a five-year period. They reflect management's expectations of revenue, EBITDA growth, capital expenditure, working capital and operating cash flows, based on past experience and future expectations of business performance. Cash flows beyond the five-year period have been extrapolated using perpetuity growth rates.

**Growth rates**

Long-term growth rates of between 2.5%-3.0% (2011: 2.5%-3.0%) have been applied to extrapolate the cash flows into perpetuity. The growth rate has been determined using long-term historical growth rates of the CGU and management's conservative expectation of future growth.

**Discount rate**

The pre-tax rates used to discount the cash flow projections in respect of the Group for 2012 were between 9.76%-12.72% (2011: 11.6%-17.2%). The discount rates reflects the time value of money and are derived from the Group's weighted average cost of capital, adjusted for the risk associated with each individual CGU.

An impairment charge of US$94.7m in respect of goodwill was recorded in the year ended 31 December 2012 (2011: US$120.0m). This loss related to the partial impairment of the goodwill that was originally recognised when the Group acquired the Stratos and Ship Equip businesses (impairment of US$58.7m and US$36.0m, respectively). Operating profit forecasts for the Stratos and Ship Equip CGUs have been adjusted downwards due to both internal and external factors. Internally, the Group has made certain business decisions during the year which will affect the future profitability of each CGU, but with offsetting benefits elsewhere in the Inmarsat Group. In relation to the Stratos CGU, the Group has appointed a number of significant service providers as distribution partners of the Inmarsat Global segment for Global Xpress, therefore redirecting future revenues to the Inmarsat Global segment that would previously have been forecast as received in the Stratos CGU. In addition, certain revenue development plans for value-added services are now expected to be progressed within the Inmarsat Global segment and therefore not contribute to the Stratos CGU. For the Ship Equip CGU, the Group now intends for Ship Equip to become a Value-Added Reseller for Global Xpress, which carries lower margins at the CGU level than its historic standalone VSAT business. Externally, the management has considered two further factors in its CGU forecasts. Firstly, the Group has seen delays in purchase decision-making for maritime VSAT systems, impacting the Ship Equip CGU. The management believes these delays are due to ship operators preferring to wait for the launch of our GX services in order to compare GX to existing VSAT alternatives. Secondly, for the Stratos GCU there has been a decline in demand for certain products throughout 2012 resulting from reduced military activities in Afghanistan and reduced event-driven traffic and termination of some lease business. The combination of these factors is expected to result in reduced operating profits at the Inmarsat Solutions level and have therefore been reflected in the revised forecasts, giving rise to the impairment of the Stratos and Ship Equip CGUs. In Group terms, some of the factors that give rise to the impairment at the Inmarsat Solutions level have an offsetting positive benefit at the Inmarsat Global level and should not give rise to an equivalent gross impact at the Group level. A long-term growth rate of 2.5% was applied to extrapolate the Stratos and Ship Equip CGU cash flow projections into perpetuity and a pre-tax discount rate of 12.72% was used to discount the cash flow projections.

The US$120.0m impairment charge in respect of the Stratos CGU in the year ended 31 December 2011 also related to operating profit forecasts for the Stratos CGU being adjusted downwards due to both internal and external factors. The changes in prices between Inmarsat Global and the distribution channel were not passed onto the end customers of Stratos, resulting in reduced margins for the Stratos CGU. In addition, commitments under our LightSquared Cooperation Agreement resulted in the expected discontinuance of certain customer leases for Inmarsat B, and certain other services which directly impacted the Stratos CGU. While this business was expected to be partly retained through agreements using non-lease services, these are at a lower margin. There was also a reduction in Inmarsat MSS revenues, changes in product mix and competitive pricing, all of which contributed to lower than expected revenues. In 2011, a long-term growth rate of 2.5% was applied to extrapolate the Stratos CGU cash flow projections into perpetuity and a pre-tax discount rate of 13.8% was used to discount the cash flow projections.

### 4. Critical accounting estimates and judgements in applying accounting policies (continued)

**(b) Pension arrangements and post-employment benefit assumptions**
The Group has applied a weighted rate of return on assets of 6.68% p.a. (2011: 6.65% p.a.) which represents the expected return on asset holdings in the future. The weighted average discount rate used to calculate the pension and post-employment benefits liability was 4.60% (2011: 4.74%) (see note 27).

**(c) Income tax**
The Group's income tax balance is the sum of the total current and deferred tax balances. The calculation of this, and of the Group's potential liabilities or assets, necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority, or, as appropriate, through a formal legal process. Issues can, and often do, take a number of years to resolve. The amounts recognised or disclosed are derived from the Group's best estimation and judgement. However, the inherent uncertainty regarding the outcome of these means eventual realisation could differ from the accounting estimates and therefore impact the Group's results and cash flows.

A contingent liability has been disclosed for the year ended 31 December 2012 in respect of the financing of a financing and operating leaseback transaction entered in 2007 (see note 33).

**(d) Revenue in respect of the LightSquared Cooperation Agreement**
In December 2007, Inmarsat and LightSquared LP, Skyterra (Canada) Inc. and LightSquared Inc. (together 'LightSquared') entered into a Cooperation Agreement for the efficient use of L-band spectrum over North America. The Cooperation Agreement was segregated into phases and designed to enable and support the deployment of an ATC network by LightSquared in North America. To date, LightSquared has made payments under the agreement totalling US$546.4m, of which US$85.8m has been received during 2012 (2011: US$308.1m). The Group has, thus far, recognised US$281.5m of revenue and US$19.9m of operating costs under all phases of the agreement. For the year ended 31 December 2012, the Group recognised US$60.2m of revenue and US$8.3m of operating costs, in respect of all phases (year ended 31 December 2011: US$203.8m and US$11.2m, respectively).

On 20 April 2012, Inmarsat and LightSquared reached an agreement to suspend the Cooperation Agreement until 31 March 2014. The period of suspension is designed to allow LightSquared time to secure certain regulatory consents and, during this period, LightSquared will not be required to make any further payments to Inmarsat. On 1 April 2014, or any earlier date as may be required or elected by LightSquared, payments under the agreement will recommence from that date based on a restructured payment plan that will be dependent on certain future outcomes with regard to deployment of the LightSquared ATC network.

In connection with our accounting for different phases of the Cooperation Agreement, we have used the accounting method considered most appropriate to the individual phase, including the percentage of completion method and straight line method in the case of both revenues and costs. Where the percentage of completion method was used, we have had to measure the number of man-hours undertaken against our estimate of the total man-hours required to complete the phase or activity. Similarly, we have measured costs incurred against our estimate of the total costs required to complete the phase or activity. The key area of estimation uncertainty relates to the Directors' estimates of the total time/costs that will be incurred and the Directors' estimate of the percentage of completion of the time and costs that the Group has incurred.

### 5. Segmental information

IFRS 8, 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ('CODM') to allocate resources and assess performance. The CODM of Inmarsat plc is the Chief Executive Officer who is responsible for assessing the performance of the individual segments.

Information reported to the CODM for the purposes of resource allocation and assessment of segment performance is specifically focused on the individual performance of each of the divisions within the Group, namely Inmarsat Global and Inmarsat Solutions.

### 5. Segmental information (continued)

The Group's reportable segments are therefore as follows:

- Inmarsat Global – principally the supply of wholesale airtime, equipment and services to distribution partners and other wholesale partners of mobile satellite communications by the Inmarsat Global business, including entering into spectrum coordination agreements. The segment also includes income from technical support to other operators, the provision of conference facilities and leasing surplus office space to external organisations, all of which are not material on a standalone basis and in aggregate;
- Inmarsat Solutions – the supply of advanced mobile and fixed-site remote telecommunications services, the provision of customised turnkey remote telecommunications solutions, value-added services, equipment and engineering services to end-users; and
- 'Unallocated' – includes Group borrowings and the related interest expense, cash and cash equivalents and current and deferred tax balances, which are not allocated to each segment.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profit represents the profit earned by each segment without allocation of investment revenue, finance costs and income tax expense.

**Business segments:**

| | 2012 | | | | |
|---|---|---|---|---|---|
| (US$ in millions) | Inmarsat Global | Inmarsat Solutions(a) | Unallocated | Eliminations | Total |
| **Revenue** | | | | | |
| External sales | 540.7 | 797.1 | — | — | 1,337.8 |
| Inter-segment | 295.2 | 13.2 | — | (308.4) | — |
| **Total revenue** | **835.9** | **810.3** | **—** | **(308.4)** | **1,337.8** |
| **EBITDA** | **597.2** | **97.1** | **—** | **0.3** | **694.6** |
| Segment result (operating profit) before operating profit from LightSquared and impairment losses | 387.2 | 1.6 | — | 0.3 | 389.1 |
| Operating profit from LightSquared | 51.9 | — | — | — | 51.9 |
| Impairment losses | — | (94.7) | — | — | (94.7) |
| **Segment result (operating profit/(loss))** | **439.1** | **(93.1)** | **—** | **0.3** | **346.3** |
| Net interest charged to the Income Statement | — | — | (58.0) | — | (58.0) |
| **Profit before income tax** | | | | | **288.3** |
| Income tax expense | | | | | (74.4) |
| **Profit for the year** | | | | | **213.9** |
| Segment assets | 3,002.8 | 824.8 | 334.9 | (406.7) | 3,755.8 |
| Segment liabilities | (504.4) | (164.3) | (1,803.3) | 40.0 | (2,432.0) |
| Investment (included in segment assets)(b) | 23.5 | — | — | — | 23.5 |
| Capital expenditure(c) | (433.6) | (56.3) | — | 0.1 | (489.8) |
| Depreciation | (138.8) | (49.5) | — | — | (188.3) |
| Amortisation of intangible assets | (19.3) | (47.6) | — | — | (66.9) |

(a) Includes NewWave Broadband Limited ('NewWave') from 13 January 2012 (see note 28).
(b) Relates to 19% stake in SkyWave Mobile Communications ('SkyWave') (see note 15).
(c) Capital expenditure stated using accruals basis.

### 5. Segmental information (continued)

| | 2011 | | | | |
|---|---|---|---|---|---|
| (US$ in millions) | Inmarsat Global | Inmarsat Solutions(a) | Unallocated | Eliminations | Total |
| **Revenue** | | | | | |
| External sales | 661.6 | 746.9 | — | — | 1,408.5 |
| Inter-segment | 296.8 | 11.3 | — | (308.1) | — |
| **Total revenue** | **958.4** | **758.2** | **—** | **(308.1)** | **1,408.5** |
| **EBITDA** | **722.5** | **132.9** | **—** | **(1.2)** | **854.2** |
| Segment result (operating profit) before operating profit from LightSquared and impairment losses | 368.0 | 48.4 | — | (1.2) | 415.2 |
| Operating profit from LightSquared | 192.6 | — | — | — | 192.6 |
| Impairment losses | — | (141.5) | — | — | (141.5) |
| **Segment result (operating profit/(loss))** | **560.6** | **(93.1)** | **—** | **(1.2)** | **466.3** |
| Net interest charged to the Income Statement | — | — | (71.3) | — | (71.3) |
| **Profit before income tax** | | | | | **395.0** |
| Income tax expense | | | | | (120.2) |
| **Profit for the year** | | | | | **274.8** |
| Segment assets | 2,731.0 | 920.5 | 168.8 | (425.9) | 3,394.4 |
| Segment liabilities | (531.6) | (141.2) | (1,567.2) | 58.8 | (2,181.2) |
| Investment (included in segment assets)(b) | 23.5 | — | — | — | 23.5 |
| Capital expenditure(c) | (577.2) | (47.6) | — | 0.2 | (624.6) |
| Depreciation | (140.8) | (39.2) | — | — | (180.0) |
| Amortisation of intangible assets | (21.1) | (44.7) | — | — | (65.8) |

(a) Includes Ship Equip International A.S. ('Ship Equip') from 28 April 2011.
(b) Relates to 19% stake in SkyWave (see note 15).
(c) Capital expenditure stated using accruals basis.

**Geographical segments**

The Group mainly operates in the geographic areas shown in the table below. The home country of the Group is the United Kingdom, with its head office and central operations located in London.

Revenues are allocated to countries based on the billing address of the customer. For Inmarsat Global this is the distribution partner who receives the invoice for the service, and for Inmarsat Solutions this is the billing address of the customer for whom the service is provided.

Assets and capital expenditure are allocated based on the physical location of the assets.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| (US$ in millions) | Revenue | Non-current segment assets(a) | Revenue | Non-current segment assets(a) |
| Europe | 499.1 | 1,668.1 | 509.3 | 1,462.1 |
| North America | 547.5 | 827.0 | 630.2 | 794.9 |
| Asia Pacific | 243.2 | 14.7 | 211.0 | 15.5 |
| Rest of the world | 48.0 | — | 58.0 | — |
| Unallocated(b) | — | 589.3 | — | 664.5 |
| | **1,337.8** | **3,099.1** | **1,408.5** | **2,937.0** |

(a) In line with IFRS 8, 'Operating Segments', non-current assets exclude derivative financial instruments.
(b) Unallocated items relate to satellites which are in orbit.

## 6. Profit before income tax

Costs are presented by the nature of the expense to the Group. Network and satellite operations costs comprise costs to third parties for network service contracts, operating lease rentals and services. A further breakdown of employee benefit costs is given in note 7.

Profit before income tax is stated after charging the following items:

| (US$ in millions) | Note | 2012 | 2011 |
|---|---|---|---|
| Depreciation of property, plant and equipment | 13 | 188.3 | 180.0 |
| Amortisation of intangible assets | 14 | 66.9 | 65.8 |
| Impairment of goodwill | 4 | 94.7 | 120.0 |
| Impairment of trademarks | 14 | — | 21.5 |
| Operating lease rentals: | | | |
| — Land and buildings | | 19.2 | 16.7 |
| — Services equipment, fixtures and fittings | | 1.3 | 1.2 |
| Cost of inventories recognised as an expense | | 79.4 | 66.6 |
| Research and development costs expensed | | 12.8 | 6.3 |

The analysis of the Auditor's remuneration is as follows:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| Fees payable to the Company's Auditor for the audit of the Company's annual accounts | — | — |
| Fees payable to the Company's Auditor for other services to the Group: | | |
| — The audit of the Company's subsidiaries, pursuant to legislation | 1.0 | 0.9 |
| Total audit fees | **1.0** | **0.9** |
| Fees payable to the Company's Auditor for other services to the Group: | | |
| — Audit-related assurance services | 0.2 | 0.1 |
| — Tax compliance services | 0.2 | 0.2 |
| — Tax advisory services | 1.3 | 1.3 |
| — Services relating to corporate finance transactions | — | 0.3 |
| — Other services | 0.2 | — |
| **Total Auditor's remuneration** | **2.9** | **2.8** |

In addition to the fees disclosed above, Inmarsat Global's pension plan incurred audit fees from our auditor of US$22,876 for the 2012 financial year (2011: US$23,890).

At 31 December 2012, Inmarsat Global had contractually committed to US$0.3m of services to be completed in the 2013 financial year (31 December 2011: US$nil of services to be completed in the 2012 financial year).

## 7. Employee benefit costs (including the Directors)

| (US$ in millions) | Note | 2012 | 2011 |
|---|---|---|---|
| Wages and salaries | | 195.0 | 169.4 |
| Social security costs | | 15.8 | 14.1 |
| Share options charge (including employers' National Insurance contribution) | 25 | 10.8 | 13.0 |
| Defined contribution pension plan costs | | 7.9 | 6.5 |
| Defined benefit pension plan costs[(a)] | 27 | 3.1 | 2.6 |
| Post-employment benefits costs[(a)] | 27 | 0.4 | 0.9 |
| **Total employee benefit costs** | | **233.0** | **206.5** |

(a) Defined benefit pension plan costs and post-employment benefits costs for 2012 and 2011 reflect the service cost (see note 27).

## 7. Employee benefit costs (including the Directors) (continued)

**Employee numbers**
The average monthly number of people (including the Executive Directors) employed during the year by category of employment:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Inmarsat Global | Inmarsat Solutions | Total | Inmarsat Global | Inmarsat Solutions(a) | Total |
| Operations | 218 | 528 | 746 | 203 | 455 | 658 |
| Sales and marketing | 109 | 209 | 318 | 96 | 188 | 284 |
| Development and engineering | 94 | 74 | 168 | 94 | 71 | 165 |
| Administration | 146 | 238 | 384 | 146 | 290 | 436 |
| | **567** | **1,049** | **1,616** | **539** | **1,004** | **1,543** |

## 8. Executive and Non-Executive Directors' remuneration

The Directors of the Company are also Directors of the ultimate parent company Inmarsat plc and other subsidiary companies within the Inmarsat plc group. The total Directors remuneration for Inmarsat plc is shown below; it is not practicable to allocate this between their services as Directors of Inmarsat plc, the Company and other companies within the Inmarsat plc group.

Executive and Non-Executive Directors' remuneration for Inmarsat plc (the ultimate parent company) was:

| (US$ in thousands) | 2012 | 2011 |
|---|---|---|
| Aggregate emoluments | 4,800 | 3,583 |
| Company contributions to defined contribution pension schemes | 158 | 151 |
| | **4,958** | **3,734** |

On 6 July 2011, Rupert Pearce became an Executive Director of Inmarsat plc. With effect from 1 January 2012, Rupert Pearce became the Chief Executive Officer.

Two Directors (2011: two) are members of the Group's defined contribution pension plan. One Director is a member of the US 401k Plan (2011: one).

***Key management***
As at 31 December 2012, the Executive Chairman, the Executive Directors and the Chief Executive Officer's direct reports are the key management of the business (see note 34).

## 9. Net interest payable

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| Interest on Senior Notes and credit facilities | 81.5 | 65.0 |
| Interest on Inmarsat Solutions borrowings | 0.4 | 0.5 |
| Pension and post-employment liability finance costs | 0.5 | 0.5 |
| Interest rate swaps | 9.1 | 12.7 |
| Unwinding of discount on deferred satellite liabilities | 2.2 | 2.6 |
| Unwinding of discount on Segovia deferred consideration | — | 7.9 |
| Amortisation of debt issue costs[(a)] | 6.4 | 9.9 |
| Amortisation of discount on Senior Notes due 2017 | — | 0.6 |
| Intercompany interest payable | 3.3 | 0.3 |
| Other interest | 0.4 | 0.6 |
| **Interest payable and similar charges** | **103.8** | **100.6** |
| Less: Amounts included in the cost of qualifying assets[(b)] | (42.9) | (24.4) |
| **Total interest payable and similar charges** | **60.9** | **76.2** |
| Bank interest receivable and other interest | 2.0 | 4.7 |
| Net amortisation of premium on Senior Notes due 2017 | 0.9 | — |
| Intercompany interest receivable | — | 0.2 |
| **Total interest receivable and similar income** | **2.9** | **4.9** |
| **Net interest payable** | **58.0** | **71.3** |

(a) 2011 includes the write-off of unamortised issue costs of US$3.8m in relation to the refinancing of our previous US$500.0m Senior Credit Facility.
(b) Borrowing costs included in the cost of qualifying assets during the year are calculated by applying a capitalisation rate to expenditure on such assets. The average interest capitalisation rate for the year was 5.87% (2011: 7.99%).

## 10. Income tax

Income tax expense recognised in the Income Statement:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| **Current tax expense:** | | |
| Current year | (52.0) | (128.5) |
| Adjustments in respect of prior periods: | | |
| — Other | 3.0 | 6.8 |
| **Total current tax expense** | **(49.0)** | **(121.7)** |
| **Deferred tax (expense)/credit:** | | |
| Origination and reversal of temporary differences: | | |
| — Other temporary differences | (44.0) | (8.6) |
| Adjustment due to reduction in the corporation tax rate from 25% to 23% (2011: 27% to 25%) | 8.4 | 5.4 |
| Adjustments in respect of prior periods: | | |
| — Other | 10.2 | 4.7 |
| **Total deferred tax (expense)/credit** | **(25.4)** | **1.5** |
| **Total income tax expense** | **(74.4)** | **(120.2)** |

### 10. Income tax (continued)

Reconciliation of effective tax rate:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| Profit before tax | 288.3 | 395.0 |
| Income tax at 24.5% (2011: 26.5%) | (70.6) | (104.7) |
| Differences in overseas tax rates | 1.0 | (2.9) |
| Adjustments in respect of prior periods: | | |
| — Other | 13.2 | 11.5 |
| Effect of the reduction in the corporation tax rate from 25% to 23% (2011: 27% to 25%) on: | | |
| — Current year movement in deferred tax | 8.4 | 5.4 |
| Impact of current and prior year losses | (1.8) | 1.7 |
| Non-deductible impact of Inmarsat Solutions goodwill impairment | (23.2) | (31.8) |
| Other non-deductible expenses/non-taxable income | (1.4) | 0.6 |
| **Total income tax expense** | **(74.4)** | **(120.2)** |

Tax charged to equity:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| Current tax credit on share options | 0.2 | 0.3 |
| Deferred tax credit/(charge) on share options | 0.3 | (2.6) |
| Deferred tax charge relating to gains on cash flow hedges | (2.5) | (1.2) |
| Deferred tax charge on actuarial gains and losses from pension and post-employment benefits | (1.2) | (3.0) |
| **Total tax charged to equity** | **(3.2)** | **(6.5)** |

### 11. Net foreign exchange losses

| (US$ in millions) | Note | 2012 | 2011 |
|---|---|---|---|
| Pension and post-employment benefits liability | 27 | 0.6 | (0.4) |
| Other operating costs | | 6.0 | 0.5 |
| **Total foreign exchange losses** | | **6.6** | **0.1** |

### 12. Dividends

The Company paid dividends during the year ended 31 December 2012 of US$75.7m and US$50.0m for the 2012 interim dividend and the 2011 final dividend, respectively (year ended 31 December 2011: US$68.9m and US$104.5m for the 2011 interim dividend and the 2010 final interim dividend, respectively. Additionally, in the year ended 31 December 2011 the Company declared one-off dividends totalling US$250.0m, to fund a share repurchase programme by Inmarsat plc, the ultimate parent company).

No final dividend for the year ended 31 December 2012 has been declared or paid.

### 13. Property, plant and equipment

| (US$ in millions) | Freehold land and buildings | Services equipment, fixtures and fittings | Space segment | Assets in the course of construction | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| 1 January 2011 | 14.3 | 228.7 | 1,994.1 | 142.8 | 2,379.9 |
| Additions | 0.5 | 30.0 | 22.0 | 542.8 | 595.3 |
| Acquisitions | — | 3.1 | 46.6 | — | 49.7 |
| Disposals | — | (0.5) | (0.3) | — | (0.8) |
| Transfers | — | 2.7 | 0.1 | (2.8) | — |
| **31 December 2011** | **14.8** | **264.0** | **2,062.5** | **682.8** | **3,024.1** |
| Additions | 1.9 | 24.7 | 24.9 | 398.5 | 450.0 |
| Acquisitions | — | 0.6 | — | — | 0.6 |
| Disposals | (0.3) | (2.7) | (11.6) | — | (14.6) |
| **31 December 2012** | **16.4** | **286.6** | **2,075.8** | **1,081.3** | **3,460.1** |
| **Accumulated depreciation:** | | | | | |
| 1 January 2011 | (5.1) | (144.4) | (874.7) | — | (1,024.2) |
| Charge for the year | (0.9) | (34.5) | (144.6) | — | (180.0) |
| Disposals | — | 0.1 | 0.1 | — | 0.2 |
| **31 December 2011** | **(6.0)** | **(178.8)** | **(1,019.2)** | **—** | **(1,204.0)** |
| Charge for the year | (0.9) | (41.5) | (145.9) | — | (188.3) |
| Disposals | 0.3 | 2.2 | 11.3 | — | 13.8 |
| **31 December 2012** | **(6.6)** | **(218.1)** | **(1,153.8)** | **—** | **(1,378.5)** |
| **Net book amount at 31 December 2011** | 8.8 | 85.2 | 1,043.3 | 682.8 | 1,820.1 |
| **Net book amount at 31 December 2012** | **9.8** | **68.5** | **922.0** | **1,081.3** | **2,081.6** |

The lives assigned to significant tangible fixed assets are:

| | |
|---|---|
| Space segment assets: | |
| Satellites | 13–15 years |
| Other space segment assets, including ground infrastructure | 5–12 years |
| Fixtures and fittings, and services-related equipment | 3–15 years |
| Buildings | 20 years |

At 31 December 2012 and 2011, freehold land and buildings for Inmarsat Global were carried at cost less accumulated depreciation (US$nil). Had the freehold land and buildings been revalued on a market basis, their carrying amount at 31 December 2012 would have been US$14.6m (based on the 31 December 2012 exchange rate between the US Dollar and Pounds Sterling of US$1.63/£1.00) (2011: US$14.0m). Market valuation is based on the Directors' best estimates.

In 2012, the Group received government grants in relation to the purchase and construction of certain assets. The grants have been deducted from the cost of the relevant asset to arrive at the carrying amount. Government grants received in 2012 were US$4.6m (2011: US$9.7m).

### 14. Intangible assets

| (US$ in millions) | Goodwill | Trademarks | Software | Patents | Terminal development costs | Customer relationships | Spectrum Rights, Orbital Slots & Licences | Intellectual property | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | |
| 1 January 2011 | 695.9 | 40.6 | 129.3 | 14.0 | 118.5 | 341.1 | 5.7 | 0.7 | 1,345.8 |
| Additions | – | – | 21.3 | – | 5.7 | – | 2.3 | – | 29.3 |
| Acquisitions | 66.6 | 9.3 | 16.8 | – | – | 38.0 | 1.8 | – | 132.5 |
| **31 December 2011** | **762.5** | **49.9** | **167.4** | **14.0** | **124.2** | **379.1** | **9.8** | **0.7** | **1,507.6** |
| Additions | – | – | 26.9 | – | 5.9 | – | 7.0 | – | 39.8 |
| Acquisitions | 2.9 | – | – | – | – | 7.7 | – | – | 10.6 |
| **31 December 2012** | **765.4** | **49.9** | **194.3** | **14.0** | **130.1** | **386.8** | **16.8** | **0.7** | **1,558.0** |
| **Accumulated amortisation and impairment losses:** | | | | | | | | | |
| 1 January 2011 | – | (12.5) | (80.9) | (13.9) | (41.1) | (66.9) | (2.6) | (0.7) | (218.6) |
| Charge for the year | – | (3.2) | (20.3) | (0.1) | (11.9) | (29.0) | (1.3) | – | (65.8) |
| Impairment losses | (120.0) | (21.5) | – | – | – | – | – | – | (141.5) |
| **31 December 2011** | **(120.0)** | **(37.2)** | **(101.2)** | **(14.0)** | **(53.0)** | **(95.9)** | **(3.9)** | **(0.7)** | **(425.9)** |
| Charge for the year | – | (1.1) | (20.5) | – | (11.9) | (31.5) | (1.9) | – | (66.9) |
| Impairment losses | (94.7) | – | – | – | – | – | – | – | (94.7) |
| **31 December 2012** | **(214.7)** | **(38.3)** | **(121.7)** | **(14.0)** | **(64.9)** | **(127.4)** | **(5.8)** | **(0.7)** | **(587.5)** |
| **Net book amount 31 December 2011** | 642.5 | 12.7 | 66.2 | – | 71.2 | 283.2 | 5.9 | – | 1,081.7 |
| **Net book amount 31 December 2012** | **550.7** | **11.6** | **72.6** | **–** | **65.2** | **259.4** | **11.0** | **–** | **970.5** |

Goodwill represents the excess of consideration paid on an acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to CGUs for the purpose of impairment testing. At 31 December 2012, the Directors believe the goodwill in relation to the Stratos and Ship Equip CGUs to be impaired and consequently have recorded impairment charges of US$58.7m (2011: US$120.0m) and US$36.0m (2011: US$nil), respectively, in the Income Statement (see note 4(a)).

Patents and trademarks are being amortised on a straight-line basis over their estimated useful lives, which are seven years and between seven and 20 years, respectively. During the year ended 31 December 2011, an impairment loss of US$21.5m was recognised in the Income Statement to reduce the carrying amount of the Stratos, Segovia and Ship Equip trade names to US$nil. During the year ended 31 December 2011, the Group comprised Inmarsat, Stratos, Segovia and Ship Equip, all acting as relatively independent business units. From 1 January 2012, Stratos, Segovia and Ship Equip were rebranded as 'Inmarsat' and therefore the previous trade names are no longer used and were impaired.

The capitalised software relates to the Group's BGAN billing system and other internally developed operational systems and purchased software and is being amortised on a straight-line basis over its estimated useful life of three to 12 years. Internally developed technology acquired as a result of the acquisition of Stratos is being amortised on a straight-line basis over its estimated useful life of five years.

The Group capitalises development costs associated with the development of user terminals as intangible fixed assets. Costs directly relating to the development of the user terminals for the BGAN and GSPS services are being amortised over the estimated sales life of the services which is five to 10 years.

Customer relationships acquired in connection with Stratos, Segovia and Ship Equip are being amortised over the expected period of benefit of between 12 and 14 years, using the straight-line method.

Spectrum rights relate to the acquisition of ACeS and Stratos. Spectrum rights acquired as a result of the ACeS collaboration in September 2006 are being amortised on a straight-line basis over the remaining useful lives of two years. Spectrum rights acquired as a result of the acquisition of Stratos are being amortised over their useful lives of three to 10 years.

Orbital slots and licences relate to the Global Xpress programme and other licences acquired. Each individual asset is reviewed to determine whether it has a finite or indefinite useful life, amortisation of the Global Xpress programme finite life assets will commence when the Inmarsat-5 satellites are operational. Indefinite life assets will be tested annually for impairment.

Intellectual property relates to the acquisition of ACeS and is now fully amortised.

### 15. Investments

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| Investments held at cost: | | |
| SkyWave | 23.5 | 23.5 |
| **Total investments held at cost** | **23.5** | **23.5** |
| Interest in associates: | | |
| Navarino | 7.5 | 7.0 |
| JSAT Mobile | 0.6 | 0.5 |
| **Total interest in associates** | **8.1** | **7.5** |
| **Total investments** | **31.6** | **31.0** |

The Group has an ownership interest of approximately 19% in the privately held SkyWave. The ownership in SkyWave has been recorded at cost, including capitalised transaction costs.

The Group owns a 49% ownership interest in Navarino Telecom SA and NTS Maritime Limited (together, 'Navarino'). Cash dividends received for the year ended 31 December 2012 totalled US$1.5m (2011: US$1.4m).

The Group owns 26.67% of JSAT Mobile Communications Inc. and the interest has been treated as an associate using the equity method of accounting. The aggregated assets, liabilities, revenue and profit of associates are deemed to be immaterial for reporting purposes.

### 16. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and for the purposes of the Cash Flow Statement also includes bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| Cash at bank and at hand | 56.2 | 63.2 |
| Short-term deposits with original maturity of less than three months | 275.1 | 102.5 |
| **Cash and cash equivalents** | **331.3** | **165.7** |

Cash and cash equivalents include the following for the purposes of the Cash Flow Statement:

| (US$ in millions) | Note | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|---|
| Cash and cash equivalents | | 331.3 | 165.7 |
| Bank overdrafts | 19 | (0.8) | (1.2) |
| **Net cash and cash equivalents** | | **330.5** | **164.5** |

### 17. Trade and other receivables

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| **Current:** | | |
| Trade receivables | 201.6 | 165.7 |
| Other receivables | 21.0 | 21.8 |
| Amounts due from Parent undertakings | 3.6 | 3.1 |
| Prepayments and accrued income | 67.4 | 69.7 |
| | **293.6** | **260.3** |

### 17. Trade and other receivables (continued)

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| **Non-current:** | | |
| Pension asset | 12.0 | — |
| Prepayments and accrued income | 3.4 | 4.2 |
| | **15.4** | **4.2** |

The Directors consider the carrying value of trade and other receivables to approximate to their fair value.

### 18. Inventories

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| Finished goods | 23.7 | 22.3 |
| Work in progress | 1.7 | 1.2 |
| | **25.4** | **23.5** |

The Directors consider the carrying value of inventories to approximate to their fair value.

### 19. Borrowings

| | At 31 December 2012 | | | At 31 December 2011 | | |
|---|---|---|---|---|---|---|
| (US$ in millions) | Principal amount | Deferred finance cost | Net balance | Principal amount | Deferred finance cost | Net balance |
| **Current:** | | | | | | |
| Bank overdrafts | 0.8 | — | 0.8 | 1.2 | — | 1.2 |
| Deferred satellite payments[(b)] | 8.3 | — | 8.3 | 7.9 | — | 7.9 |
| EIB Facility[(c)(e)] | 44.1 | — | 44.1 | 44.1 | — | 44.1 |
| **Total current borrowings** | **53.2** | **—** | **53.2** | **53.2** | **—** | **53.2** |
| **Non-current:** | | | | | | |
| Deferred satellite payments[(b)] | 20.4 | — | 20.4 | 26.8 | — | 26.8 |
| Senior Notes due 2017[(d)(e)] | 850.0 | (11.0) | 839.0 | 650.0 | (9.2) | 640.8 |
| — Net issuance premium/(discount) | 7.5 | — | 7.5 | (3.6) | — | (3.6) |
| EIB Facility[(c)(e)] | 220.2 | (1.6) | 218.6 | 264.3 | (2.2) | 262.1 |
| Ex-Im Bank Facility[(e)(f)] | 397.6 | (16.3) | 381.3 | 277.3 | (14.5) | 262.8 |
| Intercompany loan | — | — | — | 6.0 | — | 6.0 |
| **Total non-current borrowings** | **1,495.7** | **(28.9)** | **1,466.8** | **1,220.8** | **(25.9)** | **1,194.9** |
| **Total borrowings[(g)]** | **1,548.9** | **(28.9)** | **1,520.0** | **1,274.0** | **(25.9)** | **1,248.1** |

(a) Borrowings are recorded net of unamortised deferred finance costs in the balance sheet.

(b) Deferred satellite payments represent amounts payable to satellite manufacturers which become payable annually depending on the continued successful performance of the satellite. The gross amounts of the deferred satellite payments have been discounted to net present value at 7%.

(c) On 15 April 2010, the Group signed an eight-year facility agreement from the European Investment Bank (the 'EIB Facility'). Under the agreement, the Group was able to borrow up to €225m at any time before 23 December 2010. The facility was available in Euros and US Dollars. An initial drawdown of US$180.0m was made on 30 April 2010 and a final draw down of US$128.4m was made on 28 October 2010. This facility matures on 30 April 2018 and is repayable in equal annual instalments on both tranches beginning 30 April 2012. Interest is equal to three-month USD LIBOR plus a margin payable in April, July, October and January each year.

(d) On 12 November 2009, the Group issued US$650.0m aggregate principal amount of 7.375% Senior Notes due 1 December 2017 ('Senior Notes due 2017'). The aggregate gross proceeds were US$645.2m, net of US$4.8m issuance discount and the Group capitalised US$12.5m of issuance costs. On 11 April 2012, a further US$200.0m aggregate principal amount of the Group's Senior Notes due 2017 was issued. The aggregate proceeds were US$212.0m, including US$12.0m premium on issuance and the Group capitalised US$3.8m of issuance costs.

### 19. Borrowings (continued)

(e) Inmarsat Finance plc is 99.9% owned by the Company, and 0.1% owned by Inmarsat Holdings Limited, which is the parent of the Company. The Company's ability to obtain funds from its subsidiaries by dividend or loan is limited by the Senior Credit Facility and the indenture governing the Senior Notes. The Senior Credit Facility, the EIB Facility and the Ex-Im Bank Facility all contain negative covenants that, among other things, generally restrict or prohibit the indirect subsidiary Inmarsat Investments Limited and its subsidiaries from making any repayment of principal under the indentures governing the Senior Notes and from declaring or paying certain dividends or making certain other distributions to shareholders. In addition, the indentures governing the Senior Notes contain covenants that, among other things, directly or indirectly restrict the Company's ability to make certain payments, including dividends or other distributions, prepay or redeem subordinated debt or equity. Substantially all of the net assets of the Company's unconsolidated and consolidated subsidiaries as of the end of 31 December 2012 are restricted net assets.

(f) On 11 May 2011, the Group signed a 12.5-year US$700.0m direct financing agreement with the Export-Import Bank of the United States (the 'Ex-Im Bank Facility'). The facility has a total availability period of four years and will then be repayable in equal instalments over a further 8.5 years. Drawings under the facility will incur interest at a fixed rate of 3.11% for the life of the loan.

(g) On 30 June 2011, the Group signed a five-year US$750.0m Senior Credit Facility with a group of commercial banks as lenders. Under the terms of the facility the full US$750.0m amount is available to draw in the form of a revolving credit facility and does not amortise during the five-year availability period. Advances under the facility bear interest at a rate equal to the applicable USD LIBOR, plus a margin of between 1.00% and 2.50% determined by reference to the Group's ratio of net debt to EBITDA. As at 31 December 2012 and 2011 there were no drawings on the Senior Credit Facility.

The maturity of non-current borrowings is as follows:

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| Between one and two years | 58.1 | 47.0 |
| Between two and five years | 1,116.7 | 202.5 |
| After five years | 292.0 | 945.4 |
| | **1,466.8** | **1,194.9** |

The borrowings of the Group are mostly at fixed rates. The Senior Notes due 2017 and the Ex-Im Bank Facility are at fixed rates.

The Directors consider the carrying value of borrowings, other than the Senior Notes due 2017 to approximate to their fair value (see note 31).

The effective interest rates, excluding the impact of the Group's interest rate hedging policy, at the balance sheet dates were as follows:

| Effective interest rate % | 2012 | 2011 |
|---|---|---|
| Bank overdrafts | 2.05 | 1.8 |
| Senior Credit Facility | — | — |
| EIB Facility | 1.65 | 1.75 |
| Senior Notes due 2017 | 7.375 | 7.375 |
| Ex-Im Bank Facility | 3.11 | 3.11 |
| Deferred satellite payments | 7.0 | 7.0 |
| Intercompany loan | — | 5.5 |

### 20. Trade and other payables

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| **Current:** | | |
| Trade payables | 169.0 | 201.6 |
| Deferred consideration[(a)] | 2.1 | 6.5 |
| Other taxation and social security payables | 3.9 | 3.6 |
| Other creditors | 0.9 | 1.2 |
| Amounts due to Parent undertakings | 103.9 | 149.3 |
| Accruals and deferred income[(b)] | 384.8 | 320.0 |
| | **664.6** | **682.2** |

(a) Deferred consideration includes US$1.1m SkyWave deferred consideration (see note 15) (2011: US$2.2m), US$nil Segovia deferred consideration (2011: US$3.3m) and US$1.0m other short-term deferred consideration (2011: US$1.0m). During 2011, the majority of the remaining value of the contingent deferred consideration on the Segovia acquisition was settled ahead of the scheduled payout dates (see note 28).

(b) As at 31 December 2012, includes US$264.9m (2011: US$239.3m) of deferred income relating to payments received from LightSquared. During 2012, US$60.2m was released to the Income Statement to reflect revenue earned, based on the percentage of completion method (2011: US$203.8m).

## 20. Trade and other payables (continued)

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| **Non-current:** | | |
| Deferred consideration[(a)] | 1.9 | 4.9 |
| Other payables | 23.8 | 23.2 |
| | **25.7** | **28.1** |

(a) Deferred consideration includes US$1.1m SkyWave deferred consideration (see note 15) (2011: US$2.0m), US$nil Segovia deferred consideration (2011: US$1.9m) and US$0.8m other long-term deferred consideration (2011: US$1.0m). During 2011, the majority of the remaining value of the contingent deferred consideration on the Segovia acquisition was settled ahead of the scheduled payout dates (see note 28).

The Directors consider the carrying value of trade and other payables to approximate to their fair value.

## 21. Provisions

| (US$ in millions) | Other provision | Asset retirement obligations | Total |
|---|---|---|---|
| **Current:** | | | |
| As at 1 January 2011 | 0.1 | 0.3 | 0.4 |
| Charged in respect of current year[(a)] | 2.6 | — | 2.6 |
| Utilised in current year | — | (0.1) | (0.1) |
| **As at 31 December 2011** | **2.7** | **0.2** | **2.9** |
| Charged in respect of current year[(b)] | 6.5 | — | 6.5 |
| Utilised in current year | (3.8) | (0.1) | (3.9) |
| **As at 31 December 2012** | **5.4** | **0.1** | **5.5** |

(a) In the year ended 31 December 2011, the Group announced the intention to restructure the organisation to operate the Group with business units aligned to vertical market sectors. As a result of the reorganisation, a small number of individual positions ceased to exist as business functions were combined. The restructuring provision at 31 December 2011 was US$2.7m, all of which was utilised during 2012 (2011: US$nil).

(b) In addition, in the year ended 31 December 2012 a further US$6.5m was charged to the restructuring provision, of which US$1.1m was utilised during the year. Management expects to utilise the US$5.4m restructuring provision that remains at 31 December 2012 during 2013.

| (US$ in millions) | Post-employment benefits | Pension | Asset retirement obligations | Other | Total |
|---|---|---|---|---|---|
| **Non-current:** | | | | | |
| As at 1 January 2011 | 29.8 | 9.1 | 3.0 | 0.6 | 42.5 |
| Acquisition of Ship Equip | — | 1.3 | — | — | 1.3 |
| Charged to Income Statement in respect of current year | 2.4 | 1.6 | 0.3 | 0.1 | 4.4 |
| (Credited)/charged directly to Comprehensive Income in respect of current year | (16.6) | 3.2 | — | — | (13.4) |
| Contributions paid | — | (7.4) | — | — | (7.4) |
| Utilised in current year | (0.3) | (0.9) | — | — | (1.2) |
| Revision in estimated cash flows and timing of settlement | — | — | 0.5 | — | 0.5 |
| **As at 31 December 2011** | **15.3** | **6.9** | **3.8** | **0.7** | **26.7** |
| Charged to Income Statement in respect of current year | 2.0 | 2.0 | 0.3 | — | 4.3 |
| Credited directly to Comprehensive Income in respect of current year | (0.5) | (3.9) | — | — | (4.4) |
| Contributions paid | — | (11.9) | — | — | (11.9) |
| Utilised in current year | (0.3) | (0.9) | — | (0.1) | (1.3) |
| Transferred to non-current assets[(a)] | — | 12.0 | — | — | 12.0 |
| **As at 31 December 2012** | **16.5** | **4.2** | **4.1** | **0.6** | **25.4** |

(a) At 31 December 2012 the Inmarsat Global defined benefit pension plan was in an asset position, and this balance has therefore been transferred to non-current trade and other receivables (see note 17).

### 21. Provisions (continued)

The Trustee and the Company have agreed that to reduce the Pension Plan (the 'Plan') deficit additional annual contributions of £2.2m will be paid to the Plan starting in November 2009 and continuing annually thereafter, up to and including November 2015. During 2012, the actual additional cash contribution the Group made to the Plan was £6.0m or US$9.6m (2011: US$5.4m). As a result of the additional contributions in the year the Plan is no longer in a deficit position, therefore no further additional cash contributions are expected under the agreement.

Asset retirement obligations have been recognised in respect of the expected costs of removal of equipment from leased premises by Inmarsat Solutions.

### 22. Current and deferred income tax assets and liabilities

The current income tax liability of US$39.2m (2011: US$60.4m) represents the income tax payable in respect of current and prior periods less amounts paid.

**Recognised deferred income tax assets and liabilities**
The movements in deferred income tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

| | As at 31 December 2012 | | | As at 31 December 2011 | | |
|---|---|---|---|---|---|---|
| (US$ in millions) | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Property, plant and equipment and intangible assets | — | 138.9 | 138.9 | — | 120.2 | 120.2 |
| Other | (7.4) | 21.3 | 13.9 | (6.9) | 8.0 | 1.1 |
| Pension and post-employment benefits asset | (1.4) | — | (1.4) | (4.0) | — | (4.0) |
| Share options | (3.3) | — | (3.3) | (2.5) | — | (2.5) |
| Loss carry forwards | (7.9) | — | (7.9) | (5.3) | — | (5.3) |
| **Net deferred income tax liabilities** | **(20.0)** | **160.2** | **140.2** | **(18.7)** | **128.2** | **109.5** |

Movement in temporary differences during the year:

| (US$ in millions) | As at 1 January 2012 | NewWave acquisition | Recognised in income | Recognised in equity | As at 31 December 2012 |
|---|---|---|---|---|---|
| Property, plant and equipment and intangible assets | 120.2 | 1.9 | 16.8 | — | 138.9 |
| Other | 1.1 | — | 10.3 | 2.5 | 13.9 |
| Pension and post-employment benefits asset | (4.0) | — | 1.4 | 1.2 | (1.4) |
| Share options | (2.5) | — | (0.5) | (0.3) | (3.3) |
| Loss carry forwards | (5.3) | — | (2.6) | — | (7.9) |
| **Total** | **109.5** | **1.9** | **25.4** | **3.4** | **140.2** |

| (US$ in millions) | As at 1 January 2011 | Ship Equip acquisition | Recognised in income | Recognised in equity | As at 31 December 2011 |
|---|---|---|---|---|---|
| Property, plant and equipment and intangible assets | 113.6 | 17.7 | (11.1) | — | 120.2 |
| Other | (2.6) | — | 2.5 | 1.2 | 1.1 |
| Pension and post-employment benefits asset | (8.5) | — | 1.5 | 3.0 | (4.0) |
| Share options | (5.3) | — | 0.2 | 2.6 | (2.5) |
| Loss carry forwards | (10.7) | — | 5.4 | — | (5.3) |
| **Total** | **86.5** | **17.7** | **(1.5)** | **6.8** | **109.5** |

### 22. Current and deferred income tax assets and liabilities (continued)

Total unprovided deferred tax assets:

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| Temporary timing differences | (8.9) | (18.3) |
| Unused income tax losses | (13.9) | (14.8) |
| Unused capital losses | (29.1) | (31.6) |
| **Total** | **(51.9)** | **(64.7)** |

Overseas dividends received are largely exempt from UK tax but may be subject to foreign withholding taxes. The unrecognised deferred tax liability in respect of the unremitted earnings of those overseas subsidiaries affected by such taxes is US$5.2m (2011: US$4.6m). No deferred tax liability is recognised on these temporary differences as the Group is able to control the timing of reversal and it is probable that this will not take place in the foreseeable future.

The Finance Act 2012 reduced the main rate of corporation tax to 23% with effect from 1 April 2013. This rate reduction was substantively enacted on 3 July 2012.

In the Budget on 20 March 2013, the Chancellor announced further periodic reductions to the main rate of corporation tax, until a rate of 20% is reached with effect from 1 April 2015.

The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 23%. Whilst detailed calculations have not been prepared at this stage, it is estimated that the impact of the remaining annual corporation tax rate reductions would reduce the value of the Group's deferred tax liabilities at the balance sheet date by approximately US$27.5m and reduce the value of the Group's deferred tax assets at the balance sheet date by approximately US$1.7m.

### 23. Cash generated from operations

Reconciliation of operating profit to net cash inflow from operating activities:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| Profit for the year | 213.9 | 274.8 |
| Adjustments for: | | |
| Depreciation and amortisation | 255.2 | 245.8 |
| Income tax charge | 74.4 | 120.2 |
| Interest payable | 60.9 | 76.2 |
| Interest receivable | (2.9) | (4.9) |
| Non-cash employee benefit costs | 10.8 | 11.5 |
| Forward exchange contracts | 1.1 | 0.7 |
| Share of profit of associates, net of dividends received | (0.6) | (0.3) |
| Loss on disposal of fixed assets | 0.5 | — |
| Acquisition-related adjustments | — | 2.1 |
| Impairment losses | 94.7 | 141.5 |
| Non cash foreign exchange movements | 1.0 | (1.6) |
| Changes in net working capital: | | |
| (Increase)/decrease in trade and other receivables | (26.5) | 43.5 |
| Increase in inventories | (1.9) | (2.7) |
| Increase in trade and other payables[(a)] | 43.2 | 87.5 |
| Increase/(decrease) in provisions | 5.1 | (2.2) |
| **Cash generated from operations** | **728.9** | **992.1** |

(a) Includes US$25.6m increase relating to deferred revenue recognised in respect of payments received from LightSquared (2011: US$104.3m) (see note 20).

### 24. Share capital

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| **Authorised:** | | |
| 630,780,000 ordinary shares of €0.0005 each (2011: 630,780,000) | 0.4 | 0.4 |
| **Allotted, issued and fully paid:** | | |
| 610,500,000 ordinary shares of €0.0005 each (2011: 610,500,000) | 0.4 | 0.4 |

Shares issued by the Company denominated in a currency other than US Dollars are translated at the rates ruling at the date of issue.

### 25. Employee share options and awards

In line with IFRS 2, 'Share-based Payment', the Group recognised US$10.8m (2011: US$13.0m) in total share compensation costs across all its share plans for the 2012 financial year. Total share-based compensation costs are recognised over the vesting period of the options and share awards ranging from one to four years. Given that these schemes operate at an Inmarsat plc group level, the information below is for the Inmarsat plc group as a whole.

In November 2004, the Company adopted the Staff Value Participation Plan (the '2004 Plan') making awards in November 2004, January and May 2005. All options granted under the 2004 Plan and held by optionholders have now vested and are exercisable. Whenever options are exercised under the 2004 Plan, the holder must pay a de minimis charge of €1 for each tranche of options exercised. The options expire 10 years from the date of grant. Shares are transferred to the optionholders from the Inmarsat Employees' Share Ownership Plan Trust (the 'Trust') (resident in Guernsey). No new shares have been issued to satisfy the exercise of these options.

A summary of share activity within the Trust, which reflects the options outstanding under the 2004 Plan as at 31 December 2012 is as follows:

| | Shares available for grant | 2004 Plan Options outstanding | Weighted average exercise price per option |
|---|---|---|---|
| **Balance at 1 January 2011** | **1,170,780** | **103,130** | **£3.71** |
| Exercised re 2004 Plan | **–** | **(7,347)** | **£5.83** |
| Exercise re International Sharesave Plan | **(1,421)** | **–** | |
| Exercise re International Share Incentive Plan | **–** | **–** | |
| **Balance at 31 December 2011** | **1,169,359** | **95,783** | **£3.72** |
| Exercised re 2004 Plan | **–** | **(18,757)** | **£5.00** |
| Exercise re International Sharesave Plan | **(47,998)** | **–** | |
| Exercise re International Share Incentive Plan | **(3,365)** | **–** | |
| Exercise re CEO Plans | **(303,308)** | **–** | **£5.73** |
| **Balance at 31 December 2012** | **814,688** | **77,026** | **£3.72** |
| **Exercisable at 31 December 2012** | | **77,026** | |
| **Exercise Price per tranche** | | **€1.00** | |

The weighted average of the remaining contractual life for the 2004 Plan at 31 December 2012 is two years.

The Company also operates a Bonus Share Plan ('BSP'). Awards have been made regularly under the BSP to the Executive Directors and certain members of senior management.

Awards are made in the form of a conditional allocation of shares. The performance conditions attached to the BSP are non market-based performance conditions. Dividends will accrue and be added as additional shares upon vesting. Details of the awards made to the Executive Directors in 2012 and the operation of the BSP can be found in the Inmarsat plc Annual Report, pages 54 and 55.

The rules of the BSP provide that the Remuneration Committee has the discretion to satisfy the awards using cash instead of shares. It is, however, the intention of the Company to generally satisfy the awards using newly-issued shares.

**25. Employee share options and awards (continued)**

As the BSP provides free share awards with no market-based performance conditions attached, and which carry an entitlement to dividends paid in cash or shares during the vesting period, the fair value of the awards is the value of the grant. This is due to the fact that regardless of the market price at the time the award of shares is made, the total value of shares to be awarded (excluding shares added in lieu of dividends) will not change.

The Company also operates a Performance Share Plan ('PSP') and regular annual awards are made to the Executive Directors and certain members of senior management. Participants are entitled to receive the value of any dividends that are paid between the date of award to the date of vesting in the form of additional shares. Any such additional shares are only added to the number of shares which will vest subject to performance conditions being satisfied.

The PSP shares will not normally be transferred to participants until the third anniversary of the award date. The transfer of shares is dependent upon the performance conditions being satisfied over the three consecutive financial years starting in the financial year the award date falls. The rules of the PSP provide that the Remuneration Committee of Inmarsat plc has the discretion to satisfy the awards using cash instead of shares. It is, however, the intention of the Company to satisfy the awards using newly-issued shares at the end of the relevant three-year period. Details of the awards made to the Executive Directors in 2012 and the operation of the PSP can be found in the Inmarsat plc Annual Report, pages 53, 54 and 56.

The performance conditions for the PSP are based on the Group's Total Shareholder Return ('TSR') relative to constituents of the FTSE 350 Index (excluding investment trusts) and a non market-based condition, based on EBITDA measured over a three-year period. The vesting schedule for PSP awards up to and including the award made in 2011 is determined by a combination of TSR and EBITDA performance. For the award made in March 2012, the vesting schedule is structured so that 50% of the reward is linked to the performance of TSR and EBITDA as individual performance measures. The market-based performance condition has been incorporated into the fair value.

The fair value of the allocation and the assumptions used in the calculation are as follows:

| | Performance Share Plan | | | | | |
|---|---|---|---|---|---|---|
| Grant date | 19 March 2008 | 20 March 2009 | 14 May 2009 | 26 March 2010 | 18 May 2011 | 30 March 2012 |
| Grant price | £4.39 | £4.57 | £5.35 | £7.905 | £6.07 | £4.603 |
| Exercise price | nil | nil | nil | nil | nil | nil |
| Bad leaver rate | 0% | 0% | 0% | 0% | 0% | 0% |
| Vesting period | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years |
| Volatility | 28.5% | 34.9% | 36.2% | 35.7% | 32.1% | 33.9% |
| Fair value per share option | £2.40 | £3.21 | £3.30 | £5.62 | £3.17 | £3.61 |

Both the BSP and PSP share awards expire 10 years after date of grant or such shorter period as the Inmarsat plc Remuneration Committee may determine before the grant of an award. For shares outstanding at the period end the weighted average of the remaining contractual life for both the BSP and PSP share awards at 31 December 2012 is 1.5 and 1.7 years respectively.

The CEO Award, made in 2007, reached its maturity date on 30 September 2012 and vested in November 2012. The share price for assessing the performance of the CEO Award was £5.7299. Of the total 1.7 million shares potentially available under the award, 160,631 shares, including shares in lieu of accrued dividends, vested and were issued to the former Chief Executive Officer (now Executive Chairman).

In addition, the deferred share bonus award of 125,000 shares (share price of £6.59 per share) made to the former Chief Executive Officer (now Executive Chairman) in December 2009 reached its maturity date on 30 September 2012. The performance condition of EBITDA growth relating to the 2010 financial year had already been satisfied. 142,677 shares, including shares issued in lieu of accrued dividends, vested and were issued to the former Chief Executive Office (now Executive Chairman) in November 2012.

### 25. Employee share options and awards (continued)

| Grant date | CEO Award<br>28 September 2007 | CEO Deferred Share Bonus Award<br>16 December 2009 |
|---|---|---|
| Grant price | £4.49 | £6.59 |
| Exercise price | nil | nil |
| Bad leaver rate | 0% | 0% |
| Vesting period | 5 years | 3 years |
| Expected correlation between any pair of shares in PSP comparator group | n/a | n/a |
| Volatility | 28% | n/a |
| Fair value per share option | £2.65 | £6.59 |

In addition, the Company operates a HM Revenue & Customs approved UK Sharesave Scheme. The grant made in December 2008 with an option price of £3.06 per ordinary share (reflecting the maximum discount permitted of 20%) matured in February 2012. A new grant was made in December 2012 with an option price of £4.59 (reflecting the maximum discount permitted of 20%) which will mature in February 2016.

The Company also operates an International Sharesave Plan which mirrors the operation of the UK Sharesave Scheme as closely as possible. Participants receive either the opportunity to receive options in the same way as the UK Sharesave Scheme, or receive the spread between the share price at the date of exercise and the grant price, delivered (at the Company's discretion) in cash or shares. It is the Company's intention to satisfy the awards using shares – some of which are held by the Trust and some of which will be newly-issued. A grant under the International Sharesave Plan made in December 2008 with an option price of £3.06 per ordinary share matured in February 2012. A new grant was made in December 2012 with an option price of £4.59 which will mature in February 2016.

Options under the UK Sharesave Scheme and International Sharesave Plan expire after a maximum of 3.5 years following the initial savings payments having been made. The remaining contractual life for the current grant of the UK Sharesave Scheme and International Sharesave Plan at 31 December 2012 is 3.5 years for each plan.

In 2012, the Company introduced a new Employee Stock Purchase Plan (ESPP), for US and Canadian employees to purchase the Company's stock at a 15% discount using funds accumulated by an aggregate of 24 monthly contributions through payroll. This plan will be put to shareholders for approval at Inmarsat plc's Annual General Meeting in May 2013. A grant was made under the scheme in November 2012 with an option price of £4.94 (reflecting the maximum discount permitted of 15%) which will mature in January 2015. Options under the ESPP expire after a maximum of 2.25 years. The remaining contractual life for the current grant of the ESPP is 2.2 years.

Options under the UK Sharesave Scheme, International Sharesave Plan and ESPP have been valued using the Black-Scholes model with the following assumptions:

| Grant date | Sharesave Scheme (UK and International)<br>15 December 2008 | Sharesave Scheme (UK and International)<br>18 December 2012 | Employee Stock Purchase Plan<br>26 November 2012 |
|---|---|---|---|
| Market price at date of grant | £4.44 | £5.93 | £5.93 |
| Exercise price | £3.06 | £4.59 | £4.94 |
| Bad leaver rate | 3% pa | 3% pa | 3% pa |
| Vesting period | 3 years | 3 years | 2 years |
| Volatility | 33.2% | 33.1% | 36.5% |
| Dividend yield assumption | 3.36% | 4.53% | 4.53% |
| Risk free interest rate | 2.46% | 0.46% | 0.36% |
| Fair value per option | £1.50 | £1.45 | £1.34 |

Several awards have been made under a HM Revenue & Customs approved UK Share Incentive Plan ('SIP'). Arrangements were put in place for eligible overseas employees to replicate the awards made under the SIP as closely as possible. The same market values per ordinary share were used as for the SIP for each award.

### 25. Employee share options and awards (continued)

A summary of share awards and option activity as at 31 December 2012 (excluding the 2004 Plan which is noted previously) is as follows:

| | SIP (UK) | SIP (International) | BSP | CEO Share Plans | PSP | Sharesave (UK) | Sharesave (International) | ESPP | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2011** | 675,916 | 41,898 | 1,377,761 | 1,125,000 | 989,802 | 738,431 | 152,641 | – | 5,101,449 |
| Granted/Allocated | – | – | 1,335,364 | 46,937 | 834,710 | 626,904 | 312,771 | 126,402 | 3,283,088 |
| Forfeited and lapsed | (706) | – | (151,335) | (868,629) | (584,644) | (6,524) | (54,821) | – | (1,666,659) |
| Exercised | – | – | – | – | – | (731,907) | (97,820) | – | (829,727) |
| Transferred/Sold | (102,739) | (3,365) | (913,223) | (303,308) | (20,398) | – | – | – | (1,343,033) |
| **Balance at 31 December 2012** | **572,471** | **38,533** | **1,648,567** | **–** | **1,219,470** | **626,904** | **312,771** | **126,402** | **4,545,118** |
| **Exercisable at 31 December 2012** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Exercise Price per share** | **n/a** | **n/a** | **nil** | **nil** | **nil** | **(a)** | **(a)** | **(b)** | |

(a) The grants made under the UK Sharesave scheme and Sharesave International schemes in 2012 have an exercise price of £4.59 per share.
The grants made under the UK Sharesave scheme and Sharesave International schemes in 2008 had an exercise price of £3.06 per share.
The weighted average exercise price at 31 December 2012 is £4.59 (31 December 2011: £3.06).
The weighted average exercise price of options exercised during the year was £3.06 per share.
(b) The weighted average exercise price at 31 December 2012 was £4.94 per share.

### 26. Reserves

Cash flow hedge reserve:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| Balance as at 1 January | (11.4) | (7.5) |
| Gain/(loss) recognised on cash flow hedges: | | |
| Forward exchange contracts[(a)] | 4.6 | (5.1) |
| Interest rate swaps | 7.8 | 5.6 |
| Income tax charged directly to equity | (2.9) | (1.0) |
| Reclassified to the Income Statement[(b)] | | |
| Forward exchange contracts | (0.6) | (3.5) |
| Interest rate swaps | — | 3.1 |
| Fx movement through cash flow hedge reserve | (0.2) | — |
| Income tax credited/(charged) related to amounts transferred to the Income Statement[(b)] | 0.4 | (0.2) |
| Reclassified and capitalised on the Balance Sheet[(c)] | | |
| Forward exchange contracts | (0.2) | (2.8) |
| **Balance as at 31 December** | **(2.5)** | **(11.4)** |

The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the Income Statement or capitalised on the Balance Sheet when the hedged transactions impacts the Income Statement/Balance Sheet. All of the outstanding balance as at 31 December 2012 relates to expenditure which is expected to take place in 2013. Any capital items will be subsequently depreciated in line with the underlying asset.

(a) Includes US$0.3m of ineffective hedges which will be capitalised on the Balance Sheet when the hedged transactions occur, and subsequently depreciated.

(b) Gains and losses reclassified from equity into the Income Statement during the period are included in the following Income Statement lines:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| Total net operating costs | (0.8) | (3.5) |
| Interest payable and similar charges | — | 3.1 |
| Income tax expense/(credit) | 0.4 | (0.2) |
| **Total reclassified (credited) to the Income Statement in the year** | **(0.4)** | **(0.6)** |

### 26. Reserves (continued)

(c) Gains and losses reclassified from equity and capitalised on the Balance Sheet during the period are included in the following Balance Sheet lines:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| Property, plant and equipment | (0.2) | (2.8) |
| **Total reclassified and capitalised on the Balance Sheet in the year** | **(0.2)** | **(2.8)** |

### 27. Pension arrangements and post-employment benefits

The Group operates pension schemes in each of its principal locations. The Group's pension plans are provided through both defined benefit schemes and defined contribution arrangements.

The Group operates defined benefit pension schemes in the United Kingdom, the Netherlands and Norway. The Group's principal defined benefit pension scheme is the UK scheme for Inmarsat Global, which is a funded scheme with assets held in a separate fund administered by a corporate trustee; the scheme is closed to new employees.

The Inmarsat Global defined benefit plan was valued using the projected unit credit method with the valuation undertaken by professionally qualified and independent actuaries as at 31 December 2011. The results of the valuation have been updated for any material transactions and material changes in circumstances (including changes in market prices and interest rates) up to 31 December 2012. The results of this updated valuation as at 31 December 2012, for the purposes of the additional disclosures required by IAS 19, are set out below.

The Group also provides post-employment benefits for some of its employees. The Group's principal scheme is Inmarsat Global's post-retirement healthcare benefit scheme, which is the provision of healthcare to retired employees (and their dependants) who were employed before 1 January 1998. Employees who have 10 years of service at the age of 58 and retire are eligible to participate in the post-retirement healthcare benefit plans. Membership of this plan is multinational, although most staff are currently employed in the UK. The plans are self-funded and there are no plan assets from which the costs are paid. The cost of providing these benefits is actuarially determined and accrued over the service period of the active employee groups.

Schemes denominated in local currencies are subject to fluctuations in the exchange rate between US Dollars and local currencies.

The principal actuarial assumptions used to calculate the Group's pension and post-employment benefits liabilities under IAS 19 are:

| | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| **Weighted average actuarial assumptions used at 31 December:** | | |
| Discount rate | 4.60% | 4.74% |
| Expected return on plan assets | 6.68% | 6.65% |
| Future salary increases | 3.05% | 4.55% |
| Medical cost trend rate[a] | 3.60% | 3.70% |
| Future pension increases | 2.93% | 3.09% |

(a) With effect from 1 January 2012, an inflationary cap on premiums for the post-retirement healthcare benefits was introduced, set at CPI plus 1%. The Group will pay the annual premium and any increase in percentage terms to the premium, up to a percentage amount capped at no more than CPI plus 1%. Any increase to the annual premium above the inflationary cap will be payable by the members of the scheme.

### 27. Pension arrangements and post-employment benefits (continued)

Mortality assumptions have been updated to reflect experience and expected changes in future improvements in life expectancy. The average life expectancy assumptions for the Company's pension and post-employment benefits liabilities are as follows:

| | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| Male current age 65 | 88.0 | 87.4 |
| Female current age 65 | 89.9 | 90.3 |

Mortality assumptions used are consistent with those recommended by the individual scheme actuaries and reflect the latest available tables, adjusted for the experience of the Group where appropriate. For the Inmarsat Global defined benefit pension scheme and the Inmarsat Global post-retirement healthcare benefits for 2012 and 2011, mortality has been assumed to follow the SAPS Series 1 Normal Health tables, with long cohort improvements from 2003 based on year of birth, subject to minimum funding improvements of 1% per annum.

The assets held in respect of the Group's defined benefit scheme and the expected and actual rates of return were:

| | As at 31 December 2012 | | | As at 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | Long-term rate of return expected % | Value (US$ in millions) | Percentage of total plan assets % | Long-term rate of return expected % | Value (US$ in millions) | Percentage of total plan assets % |
| Equities | 7.40% | 69.1 | 71.90% | 7.50% | 52.8 | 74.26% |
| Cash | 0.56% | 9.4 | 9.78% | 5.00% | 0.1 | 0.14% |
| Bonds | 4.16% | 15.4 | 16.03% | 4.17% | 15.3 | 21.52% |
| Other | 4.42% | 2.2 | 2.29% | 5.34% | 2.9 | 4.08% |
| **Fair value of scheme assets** | | **96.1** | | | **71.1** | |
| Actual return on plan assets (loss) | | (7.9) | | | (3.2) | |

Amounts recognised in the Balance Sheet are:

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| Present value of funded defined benefit obligations (pension) | (86.5) | (75.6) |
| Present value of unfunded defined benefit obligations (pension) | (1.8) | (2.4) |
| Present value of unfunded defined benefit obligations (post-employment benefits) | (16.5) | (15.3) |
| Fair value of defined benefit assets | 96.1 | 71.1 |
| **Net defined benefit liability recognised in the Balance Sheet** | **(8.7)** | **(22.2)** |

The above net liability is recognised in the Balance Sheet as follows:

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| Pension asset | 12.0 | — |
| Defined benefit liability | (20.7) | (22.2) |

### 27. Pension arrangements and post-employment benefits (continued)

Analysis of the movement in the present value of the defined benefit obligations is as follows:

| (US$ in millions) | Defined benefit pension plan | Post-employment benefits |
|---|---|---|
| At 1 January 2011 | 74.5 | 29.8 |
| Acquisition of Ship Equip | 2.6 | — |
| Current service cost | 2.6 | 0.9 |
| Interest cost | 4.0 | 1.6 |
| Actuarial gain | (4.8) | (16.6) |
| Foreign exchange gain | (0.8) | (0.1) |
| Benefits paid | (1.4) | (0.3) |
| Contributions by pension participants | 1.3 | — |
| **At 31 December 2011** | **78.0** | **15.3** |
| Current service cost | 3.1 | 0.4 |
| Interest cost | 3.5 | 0.9 |
| Actuarial gain | (0.1) | (0.5) |
| Foreign exchange loss | 4.2 | 0.7 |
| Benefits paid | (1.7) | (0.3) |
| Contributions by pension participants | 1.3 | — |
| **At 31 December 2012** | **88.3** | **16.5** |

Analysis of the movement in the fair value of the assets of the defined benefit pension plans is as follows:

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| **At 1 January** | 71.1 | 65.4 |
| Acquisition of Ship Equip | — | 1.3 |
| Expected return on plan assets | 4.5 | 4.7 |
| Actuarial gain/(loss) | 3.8 | (8.0) |
| Contributions by employer | 11.9 | 7.4 |
| Contributions by pension participants | 1.3 | 1.3 |
| Benefits paid | (0.8) | (0.5) |
| Foreign exchange gain/(loss) | 4.3 | (0.5) |
| **At 31 December** | **96.1** | **71.1** |

Amounts recognised in the Income Statement and Statement of Comprehensive Income in respect of the plans are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| (US$ in millions) | Defined benefit pension plan | Post-employment benefits | Defined benefit pension plan | Post-employment benefits |
| **Recognised in Income Statement:** | | | | |
| Current service cost | 3.1 | 0.4 | 2.6 | 0.9 |
| Interest cost | 3.5 | 0.9 | 4.0 | 1.6 |
| Expected return on pension assets | (4.5) | — | (4.7) | — |
| Foreign exchange (gain)/loss | (0.1) | 0.7 | (0.3) | (0.1) |
| | **2.0** | **2.0** | **1.6** | **2.4** |
| **Recognised in Statement of Comprehensive Income:** | | | | |
| Net actuarial (gains)/losses[(a)] | (3.9) | (0.5) | 3.2 | (16.6) |
| Cumulative pre-tax actuarial losses/(gains) | 5.3 | (5.8) | 9.2 | (5.3) |

(a) As a result of the inflationary cap on premiums for the post-retirement healthcare benefits set at CPI plus 1% (effective from 1 January 2012), a one-off actuarial gain of US$12.4m was recognised in the statement of comprehensive income in respect of the post-retirement provision for the year ended 31 December 2011.

### 27. Pension arrangements and post-employment benefits (continued)

Current service costs for 2012 are included within employee benefit costs (note 7). The net financing costs together with foreign exchange gains are included within interest payable (note 9).

A history of experience gains and losses is provided below for the Group's principal defined benefit pension scheme (Inmarsat Global), for the Group as a whole and for the post-employment benefits:

| | 2012 | | |
|---|---|---|---|
| | Inmarsat Global defined benefit pension plan | Total Group defined benefit pension plan | Post-employment benefits |
| Present value of defined benefit obligations (US$ in millions) | (80.8) | (88.3) | (16.5) |
| Fair value of plan assets (US$ in millions) | 92.8 | 96.1 | — |
| Surplus/(deficit) in plans (US$ in millions) | **12.0** | **7.8** | **(16.5)** |
| Experience (losses)/gains on plan liabilities (US$ in millions) | (0.6) | 0.7 | 0.1 |
| Percentage of plan liabilities | 0.7% | (0.8%) | (0.6%) |
| Experience gains on plan assets (US$ in millions) | 4.0 | 3.9 | — |
| Percentage of plan assets | 4.3% | 4.1% | — |

| | 2011 | | |
|---|---|---|---|
| | Inmarsat Global defined benefit pension plan | Total Group defined benefit pension plan | Post-employment benefits |
| Present value of defined benefit obligations (US$ in millions) | (71.2) | (78.0) | (15.3) |
| Fair value of plan assets (US$ in millions) | 68.9 | 71.1 | — |
| Deficit in plans (US$ in millions) | **(2.3)** | **(6.9)** | **(15.3)** |
| Experience gains on plan liabilities (US$ in millions) | 6.4 | 6.4 | 1.0 |
| Percentage of plan liabilities | 9.0% | 8.2% | 6.5% |
| Experience losses on plan assets (US$ in millions) | (8.0) | (8.0) | — |
| Percentage of plan assets | (11.6%) | (11.3%) | — |

| | 2010 | | |
|---|---|---|---|
| | Inmarsat Global defined benefit pension plan | Total Group defined benefit pension plan | Post-employment benefits |
| Present value of defined benefit obligations (US$ in millions) | (70.4) | (74.5) | (29.8) |
| Fair value of plan assets (US$ in millions) | 65.0 | 65.4 | — |
| Deficit in plans (US$ in millions) | **(5.4)** | **(9.1)** | **(29.8)** |
| Experience (losses)/gains on plan liabilities (US$ in millions) | — | (0.2) | 4.1 |
| Percentage of plan liabilities | 0.0% | (0.3%) | 13.8% |
| Experience gains on plan assets (US$ in millions) | 2.9 | 2.9 | — |
| Percentage of plan assets | 4.5% | 4.4% | — |

| | 2009 | | |
|---|---|---|---|
| | Inmarsat Global defined benefit pension plan | Total Group defined benefit pension plan | Post-employment benefits |
| Present value of defined benefit obligations (US$ in millions) | (68.6) | (73.0) | (33.2) |
| Fair value of plan assets (US$ in millions) | 53.8 | 53.8 | — |
| Deficit in plans (US$ in millions) | **(14.8)** | **(19.2)** | **(33.2)** |
| Experience (losses)/gains on plan liabilities (US$ in millions) | (0.3) | 0.2 | 0.1 |
| Percentage of plan liabilities | (0.4%) | 0.3% | 0.3% |
| Experience gains on plan assets (US$ in millions) | 5.8 | 5.8 | — |
| Percentage of plan assets | 10.8% | 10.8% | — |

### 27. Pension arrangements and post-employment benefits (continued)

| | 2008 | | |
|---|---|---|---|
| | Inmarsat Global defined benefit pension plan | Total Group defined benefit pension plan | Post-employment benefits |
| Present value of defined benefit obligations (US$ in millions) | (41.9) | (46.7) | (19.8) |
| Fair value of plan assets (US$ in millions) | 35.0 | 35.0 | — |
| Deficit in plans (US$ in millions) | (6.9) | (11.7) | (19.8) |
| Experience gains/(losses) on plan liabilities (US$ in millions) | — | 0.2 | (7.1) |
| Percentage of plan liabilities | 0.0% | 0.4% | (35.9%) |
| Experience losses on plan assets (US$ in millions) | (14.7) | (14.7) | — |
| Percentage of plan assets | (42.0%) | (42.0%) | — |

The estimated contributions expected to be paid into the Group defined benefit pension plan during 2013 are US$2.5m (2012: actual US$11.9m).

The healthcare cost trend rate assumption for Inmarsat Global's post-retirement healthcare benefits has a significant effect on the amounts recognised in the Income Statement in respect of the post-retirement medical benefits. Increasing the assumed healthcare cost trend rate by one percentage point would have increased the post-retirement medical benefit obligation as of 31 December 2012 by US$3.5m (2011: US$3.5m) and the aggregate of the service cost and interest cost by US$0.2m (2011: US$0.8m). Decreasing the assumed healthcare cost trend rate by one percentage point would have reduced the post-retirement medical benefit obligation as of 31 December 2012 by US$2.7m (2011: US$2.7m), and the aggregate of the service cost and interest cost by US$0.2m (2011: US$0.6m).

### 28. Acquisitions

**Acquisition of NewWave Broadband Limited**

On 13 January 2012, the Group acquired all of the outstanding and issued common shares of NewWave Broadband Limited for a total consideration of US$7.7m (net of cash acquired). The acquisition has been accounted for using the purchase method of accounting in accordance with IFRS 3, 'Business Combinations'. Goodwill recognised on this acquisition amounts to US$2.9m.

**Acquisition of Ship Equip**

On 28 April 2011, the Group acquired 100% of the outstanding ordinary shares of Ship Equip for a total cash consideration of US$113.2m (net of cash acquired and after hedging the foreign exchange risk). The allocation of the purchase consideration was finalised during the year ended 31 December 2011.

The revenue included in the Income Statement for the year ended 31 December 2011, contributed by Ship Equip since the acquisition date, was US$42.1m. Ship Equip also contributed a loss after tax of US$1.6m, during the year ended 31 December 2011. Ship Equip's contribution to revenue and profit after tax for the year ended 31 December 2011, assuming the transaction had occurred on 1 January 2011, would have been US$60.3m and a loss of US$4.6m, respectively.

**Acquisition of Segovia**

In the year ended 31 December 2011, the Inmarsat plc Group comprised Inmarsat, Stratos, Segovia and Ship Equip all operating as relatively independent business units. Effective from 1 January 2012, the Group has been operating with business units aligned to vertical market sectors as part of Inmarsat Solutions. The original acquisition of Segovia on 12 January 2010 involved an element of deferred consideration. To enable effective operation of the new Inmarsat Government – US business unit, in December 2011, the majority of the remaining value of the contingent deferred consideration on the Segovia acquisition relating to the calendar years ending 31 December 2011 and 2012 was settled ahead of the scheduled payout dates in 2012 and 2013. As a result of accelerating the settlement of the deferred consideration, the Group recorded an additional charge of US$5.6m in the 2011 Income Statement, in line with IFRS 3. US$2.1m of the charge represents the better than expected performance in 2011 and was recorded in the acquisition-related adjustments line in the Income Statement and US$3.5m was recorded in interest payable, representing the effect of the acceleration of the settlement of the liability ahead of schedule.

### 28. Acquisitions (continued)

**Acquisition of Blue Ocean Wireless**
In addition, in July 2011, the Group acquired most of the operational assets of Blue Ocean Wireless ('BOW') for a total consideration of US$3.4m.

### 29. Operating lease and other commitments

The Group's future aggregate minimum lease payments under non-cancellable operating leases and other unrecognised contractual commitments are as follows:

| | As at 31 December 2012 | | | As at 31 December 2011 | | |
|---|---|---|---|---|---|---|
| (US$ in millions) | Non-cancellable operating leases | Other unrecognised contractual commitments | Total | Non-cancellable operating leases | Other unrecognised contractual commitments | Total |
| Within one year | 17.5 | 11.7 | 29.2 | 17.2 | 7.9 | 25.1 |
| Within two to five years | 54.2 | 14.8 | 69.0 | 51.9 | 13.9 | 65.8 |
| After five years | 87.4 | 0.2 | 87.6 | 97.1 | 0.2 | 97.3 |
| | **159.1** | **26.7** | **185.8** | **166.2** | **22.0** | **188.2** |

Operating lease commitments relate primarily to leased office space, including the Group's head office located at 99 City Road, London. Other unrecognised non-cancellable contractual commitments relate to network service contracts and maintenance contracts, which have varying terms.

In addition the Group has the following purchase commitments, relating to future obligations to purchase space segment capacity:

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| Within one year | 40.1 | 42.7 |
| Within two to five years | 42.9 | 87.7 |
| | **83.0** | **130.4** |

The total of future sublease payments expected to be received under non-cancellable subleases at 31 December 2012 relating to the above head office lease is US$3.7m over three years (as at 31 December 2011: US$5.5m over four years).

The Group has various agreements deriving revenue from designated leased capacity charges. These amounts are recorded as revenue on a straight-line basis over the respective lease terms and represent the majority of the Group's future aggregate minimum lease payments under non-cancellable operating leases expected to be received:

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| Within one year | 67.5 | 32.5 |
| Within two to five years | 5.4 | — |
| After five years | 2.3 | — |
| | **75.2** | **32.5** |

### 30. Capital risk management

The following table summarises the capital of the Group:

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| **As per Balance Sheet** | | |
| Cash and cash equivalents | (331.3) | (165.7) |
| Borrowings | 1,520.0 | 1,248.1 |
| Net debt | 1,188.7 | 1,082.4 |
| Equity attributable to Parent | 1,322.7 | 1,212.3 |
| **Capital** | **2,511.4** | **2,294.7** |

The Group's objective when managing its capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group continually evaluates sources of capital and may repurchase, refinance, exchange or retire current or future borrowings and/or debt securities from time to time in private or open-market transactions, or by any other means permitted by the terms and conditions of borrowing facilities and debt securities. Additionally, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group uses a maximum ratio of net borrowings to EBITDA as an internal planning parameter and in regular forecasting and monitoring activities. In addition, movements in cash and borrowings as well as total available liquidity are monitored regularly.

The net borrowing (gross of deferred finance costs) to EBITDA ratio for the year ending 31 December 2012 is 1.75 (2011: 1.30).

The Group's liquidity is disclosed in note 3(d).

No changes were made in the Group's objectives, policies or processes for managing capital in the years ended 31 December 2012 and 2011.

### 31. Financial instruments

**Treasury management and strategy**
The Group's treasury activities are managed by its corporate finance department under the direction of a Treasury Review Committee whose chairman is the Chief Financial Officer, and are consistent with Board-approved treasury policies and guidelines. The overriding objective of treasury activities is to manage financial risk.

Key features of treasury management include:

- ensuring that the Group is in a position to fund its obligations in appropriate currencies as they fall due;
- maintaining adequate undrawn borrowing facilities;
- economically hedging both contracted and anticipated foreign currency cash flows on a minimum 12 month rolling basis with the option of covering exposures up to a maximum of three years forward;
- interest rate hedging; and
- maximising return on short-term investments based on counter-party limits and credit ratings.

Treasury activities are only transacted with counter-parties who are approved relationship banks.

Treasury foreign exchange policy is implemented primarily through the use of forward purchases of foreign currencies. The treasury department is, however, authorised to use purchased options, futures and other derivative instruments, but only to the extent that such instruments form part of the hedging policy so as to establish a known rate of exchange.

Having arranged the purchase of foreign currency in line with the anticipated requirement for that currency over each financial year, an average rate of exchange is calculated from the agreed currency transactions. This average rate is applied as per requirements of IAS 21. The policy is designed to minimise the impact of currency gains and losses in

### 31. Financial instruments (continued)

the Income Statement; gains and losses will arise to the extent that the level of actual payments in the period is different from those that were forecast.

**Financial Instrument by category**
The following table sets out the categorisation of financial assets and liabilities in terms of IAS 39:

| | As at 31 December 2012 | | | As at 31 December 2011 | | |
|---|---|---|---|---|---|---|
| (US$ in millions) | Loans and receivables | Derivatives used for hedging | Total | Loans and receivables | Derivatives used for hedging | Total |
| **Assets as per Balance Sheet** | | | | | | |
| Trade receivables, other receivables and accrued income[(a)] | 262.6 | — | 262.6 | 234.1 | — | 234.1 |
| Cash and cash equivalents | 331.3 | — | 331.3 | 165.7 | — | 165.7 |
| Derivative financial instrument | — | 6.4 | 6.4 | — | 7.9 | 7.9 |
| | **593.9** | **6.4** | **600.3** | **399.8** | **7.9** | **407.7** |

(a) Consists of trade receivables, other receivables, accrued income and amounts due from Parent undertakings (see note 17).

| | As at 31 December 2012 | | | As at 31 December 2011 | | |
|---|---|---|---|---|---|---|
| US$ in millions) | Derivatives used for hedging | Other financial liabilities | Total | Derivatives used for hedging | Other financial liabilities | Total |
| **Liabilities as per Balance Sheet** | | | | | | |
| Borrowings | — | 1,520.0 | 1,520.0 | — | 1,248.1 | 1,248.1 |
| Trade payables, other payables and accruals[(a)] | — | 335.5 | 335.5 | — | 417.7 | 417.7 |
| Derivative financial instrument | 11.4 | — | 11.4 | 23.3 | — | 23.3 |
| | **11.4** | **1,855.5** | **1,866.9** | **23.3** | **1,665.8** | **1,689.1** |

(a) Consists of trade payables, deferred consideration, other payables, accruals and amounts due to Parent undertakings (see note 20).

The table below analyses the Group's financial liabilities and net-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying values as the impact of discounting is not significant.

| | As at 31 December 2012 | | | | |
|---|---|---|---|---|---|
| (US$ in millions) | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
| Borrowings[(a)] | 132.3 | 141.6 | 1,354.2 | 380.1 | 2,008.2 |
| Derivative financial instruments | 11.4 | — | — | — | 11.4 |
| Trade payables, other payables and accruals | 309.8 | 1.6 | 1.8 | 22.3 | 335.5 |
| | **453.5** | **143.2** | **1,356.0** | **402.4** | **2,355.1** |

(a) Includes interest obligations on the Senior Notes due 2017, EIB Facility and Ex-Im Bank Facility. The interest obligations do not take into account the impact of interest rate swaps and assume no changes in floating interest rates from the year end.

| | As at 31 December 2011 | | | | |
|---|---|---|---|---|---|
| (US$ in millions) | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
| Borrowings[(a)] | 114.7 | 112.0 | 388.3 | 1,022.9 | 1,637.9 |
| Derivative financial instruments | 14.2 | 9.1 | — | — | 23.3 |
| Trade payables, other payables and accruals | 389.6 | 1.2 | 5.9 | 21.0 | 417.7 |
| | **518.5** | **122.3** | **394.2** | **1,043.9** | **2,078.9** |

(a) Includes interest obligations on the Senior Notes due 2017, EIB Facility and Ex-Im Bank Facility. The interest obligations do not take into account the impact of interest rate swaps and assume no changes in floating interest rates from the year end.

### 31. Financial instruments (continued)

**Net fair values of derivative financial instruments**
The Company's derivative financial instruments as at 31 December 2012 consist of forward foreign currency contracts and interest rate swaps. The interest rate swaps and approximately 90% of forward foreign currency contracts (2011: 90%) are designated cash flow hedges.

The net fair values at the balance sheet date were:

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| **Contracts with positive fair values:** | | |
| Forward foreign currency contracts - designated cash flow hedges | 6.2 | 7.5 |
| Forward foreign currency contracts - undesignated | 0.2 | 0.4 |
| **Contracts with negative fair values:** | | |
| Forward foreign currency contracts - designated cash flow hedges | (2.0) | (6.1) |
| **Total forward exchange currency contracts** | **4.4** | **1.8** |
| Interest rate swap - designated cash flow hedge | (9.4) | (17.2) |
| **Total net fair value** | **(5.0)** | **(15.4)** |
| **Less non-current portion** | | |
| Forward foreign currency contracts - designated cash flow hedges | — | (0.6) |
| Interest rate swap - designated cash flow hedge | — | (8.4) |
| **Current portion** | **(5.0)** | **(6.4)** |

The full value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability if the maturity of the hedged item is less than 12 months.

The fair value of foreign exchange contracts performed by management are based upon a valuation provided by the counterparty and are classified as level 2 in the fair value hierarchy according to IFRS 7. The fair value of foreign exchange contracts are based upon 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 interest rate swaps performed by management are based upon a valuation provided by the counterparty and are classified as level 2 in the fair value hierarchy according to IFRS 7. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

**Forward foreign exchange**
The following table sets out the face value and fair value of forward exchange contracts outstanding for the Group as at 31 December 2012 and 2011.

| | As at 31 December 2012 | | | | |
|---|---|---|---|---|---|
| Outstanding forward foreign exchange contracts (in millions) | Face value | Maturing within 1 year | Maturing between 1 and 2 years | Maturing between 2 and 5 years | Fair value (US$) |
| GBP contracts | £63.5 | £63.5 | — | — | 3.3 |
| Euro contracts | €45.6 | €45.6 | — | — | 0.9 |
| Canadian Dollar contracts | C$12.0 | C$12.0 | — | — | 0.2 |
| | | | | | **4.4** |

| | As at 31 December 2011 | | | | |
|---|---|---|---|---|---|
| Outstanding forward foreign exchange contracts (in millions) | Face value | Maturing within 1 year | Maturing between 1 and 2 years | Maturing between 2 and 5 years | Fair value (US$) |
| GBP contracts | £70.5 | £68.0 | £2.5 | — | 4.4 |
| Euro contracts | €85.1 | €78.2 | €6.9 | — | (2.1) |
| Canadian Dollar contracts | C$19.5 | C$16.5 | C$3.0 | — | (0.5) |
| | | | | | **1.8** |

### 31. Financial instruments (continued)

**Interest rate swap**

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding for the Group as at 31 December 2012 and 2011:

| | Average contracted fixed interest rate | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| Outstanding floating for fixed contracts | 2012 % | 2011 % | 2012 (US$ in millions) | 2011 (US$ in millions) | 2012 (US$ in millions) | 2011 (US$ in millions) |
| Less than one year | 4.93% | — | 200.0 | — | (9.4) | (8.8) |
| One to two years | — | 4.93% | — | 200.0 | — | (8.4) |
| Two to five years | — | — | — | — | — | — |
| Five years + | — | — | — | — | — | — |
| | | | **200.0** | **200.0** | **(9.4)** | **(17.2)** |

Under the interest rate swaps the Group receives quarterly floating interest (three-month USD LIBOR) to offset floating interest payable. Gains or losses will reverse in the Income Statement when the swaps expire.

**Non derivative financial assets and financial liabilities**

Non derivative financial assets consist of cash at bank, short-term investments, trade receivables, other receivables, accrued income and amounts due from Parent undertakings.

Non-derivative financial liabilities consist of borrowings, trade payables, deferred consideration, other payables, accruals and amounts due to Parent undertakings.

**Fair value of non-derivative financial assets and financial liabilities**

With the exception of the Senior Notes due 2017, the fair values of all non-derivative financial instruments approximate to the carrying value in the Balance Sheet.

The following methods and assumptions have been used to determine fair values:

- The fair values of cash at bank, overdrafts and short-term deposits approximate their carrying values because of the short-term maturity of these instruments (see note 16);
- The fair value of trade and other receivables and payables, accrued income and costs, deferred consideration and amounts due from and to Parent undertakings approximate their carrying values (see note 17 and 20 respectively);
- The carrying amount of deferred satellite payments represents the present value of future payments discounted, using an appropriate rate, at the period end. This carrying amount approximately equals fair value (see note 19);
- The Senior Notes due 2017 are reflected in the Balance Sheet as at 31 December 2012 net of unamortised arrangement costs and net issuance premium of US$11.0m and US$7.5m, respectively (2011: US$9.2m and US$3.6m of unamortised arrangement costs and net issuance discount, respectively) (see note 19). The fair value of the Senior Notes is based on the market price of the bonds as at 31 December 2012 and is reflected in the table below;
- The EIB Facility is reflected in the Balance Sheet as at 31 December 2012 net of unamortised arrangement costs of US$1.6m (2011: US$2.2m). The fair value approximates the carrying value (see note 19); and
- The Ex-Im Bank Facility is reflected in the Balance Sheet as at 31 December 2012 net of unamortised arrangement costs of US$16.3m (2011: US$14.5m). The fair value approximates the carrying value (see note 19).

| | At 31 December 2012 | | At 31 December 2011 | |
|---|---|---|---|---|
| (US$ in millions) | Carrying amount | Fair value amount | Carrying amount | Fair value amount |
| Senior Notes due 2017 | 850.0 | 912.7 | 650.0 | 677.6 |

### 32. Capital commitments

The Group had authorised and contracted but not provided for capital commitments as at 31 December 2012 of US$740.3m (2011: US$1,086.7m). These amounts primarily represent commitments in respect of the Alphasat and Global Xpress programmes.

### 33. Contingent liability

The Group has received an enquiry from Her Majesty's Revenue and Customs ('HMRC') into the financing of a finance lease and operating leaseback transaction entered into in 2007 in respect of the Inmarsat-4 satellites. The full tax benefit of the transaction of US$218.6m was recognised and disclosed in the Group's financial statements for the year ended 31 December 2008. The potential current tax liability in relation to the element of the transaction subject to the HMRC enquiry is estimated to be in the region of US$65m. The Group has sought external advice and management do not believe that a material economic outflow is probable; therefore no provision has been recorded in these financial statements. However, this disclosure has been made in light of the enquiries being made by HMRC.

No accurate estimation of the time required to settle this matter can currently be given.

### 34. Related party transactions

In the normal course of operations Inmarsat Solutions engages in transactions with its equity owned investees Navarino Telecom SA and NTS Maritime Limited (together 'Navarino') and JSAT Mobile Communications Inc. These transactions represent sales of airtime and equipment and are measured at the amounts exchanged. Group revenue from the related parties for the 2012 financial year was US$24.7m and US$18.5m respectively (2011: US$21.3m and US$11.4m respectively). The amount receivable from the related party at 31 December 2012 was US$15.5m and US$3.3m, respectively (2011: US$12.2m and US$1.5m, respectively).

Aggregate remuneration for key management personnel, being the Executive Staff (including Executive Directors) of Inmarsat plc, during the year is as follows:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| Short-term employee benefits[(a)] | 9.7 | 7.1 |
| Post-employment benefits | 0.3 | 0.2 |
| Termination benefits | 0.5 | — |
| Share-based payment[(a)] | 7.5 | 6.7 |
| **Total remuneration** | **18.0** | **14.0** |

(a) Includes employers National Insurance or other social security contributions.

The amount owing to the Executive Staff (including Executive Directors) as at 31 December 2012 and 2011 was US$3.5m and US$2.8m, respectively.

The post-employment benefits and defined benefit pension plans are related parties (see note 27).

Management believes that all related party transactions were made on an arm's length basis.

The table below sets out transactions with related parties, being fellow subsidiary companies of the Group:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| **Transactions with Inmarsat plc:** | | |
| Intercompany interest payable | 3.3 | 0.3 |
| Receipt of intercompany funding | 100.0 | — |
| Repayment of amounts due to fellow group companies | 49.3 | — |
| Other net trading | 0.2 | — |
| **Transactions with Inmarsat Holdings Limited:** | | |
| Intercompany interest receivable | — | 0.2 |
| Other net trading | 0.5 | — |
| Repayment of amounts due to fellow group companies | 100.0 | — |
| Capitalisation of outstanding loan | — | 325.7 |

### 34. Related party transactions (continued)

The table below sets out balances with related parties, being fellow subsidiary companies of the Group:

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| **Outstanding balances with Inmarsat plc:** | | |
| Loan due to fellow Group companies | — | (6.0) |
| Amounts due to fellow Group companies | (103.9) | (49.3) |
| Amounts due from fellow Group companies | 1.0 | — |
| **Outstanding balances with Inmarsat Holdings Limited:** | | |
| Amounts due from fellow Group companies | 2.6 | 3.1 |
| Amounts due to fellow Group companies | — | (100.0) |

### 35. Principal subsidiary undertakings

At 31 December 2012, the Company had investments in the following principal subsidiaries that have a significant impact on the consolidated results and total assets of the Group. To avoid a statement of excessive length, details of subsidiaries and associates which are not significant have been omitted from this list. A full list of subsidiaries and associates will be annexed to the Company's next annual return to be filed with the Registrar of Companies.

| | Principal activity | Country of incorporation and operation | Interest in issued ordinary share capital at 31 December 2012 | Interest in issued ordinary share capital at 31 December 2011 |
|---|---|---|---|---|
| Inmarsat Finance plc | Finance company | England and Wales | 100% | 100% |
| Inmarsat Global Limited | Satellite telecommunications | England and Wales | 100% | 100% |
| Inmarsat Investments Limited | Holding company | England and Wales | 100% | 100% |
| Inmarsat Leasing (Two) Limited | Satellite leasing | England and Wales | 100% | 100% |
| Inmarsat Navigation Ventures Limited | Operating company | England and Wales | 100% | 100% |
| Inmarsat SA | Operating company | Switzerland | 100% | 100% |
| Inmarsat Employment Company Limited | Employment company | Jersey | 100% | 100% |
| Inmarsat Hawaii Inc. | Satellite telecommunications | USA | 100% | 100% |
| Inmarsat Canada Holdings Inc. | Holding company | Canada | 100% | 100% |
| Inmarsat Solutions B.V.[(a)] | Operating company | The Netherlands | 100% | 100% |
| Inmarsat Solutions (US) Inc.[(b)] | Operating company | USA | 100% | 100% |
| Segovia, Inc. | Operating company | USA | 100% | 100% |
| Inmarsat Solutions Pte Limited | Operating company | Singapore | 100% | 100% |
| Stratos Government Services Inc. | Operating company | USA | 100% | 100% |
| Inmarsat Solutions AS [(c)] | Operating company | Norway | 100% | 100% |
| Stratos Mobile Networks Inc. | Operating company | USA | 100% | 100% |
| Inmarsat New Zealand Limited [(d)] | Operating company | New Zealand | 100% | 100% |
| Stratos Offshore Services Company | Operating company | USA | 100% | 100% |
| Inmarsat Solutions (Canada) Inc. [(e)] | Operating company | Canada | 100% | 100% |
| Moskovsky Teleport | Operating company | Russia | 80% | 80% |
| Inmarsat Solutions Global Limited [(f)] | Operating company | England and Wales | 100% | 100% |

(a) Stratos B.V. was renamed Inmarsat Solutions B.V. in February 2012.
(b) Stratos Communications Inc. was renamed Inmarsat Solutions (US) Inc. in February 2012.
(c) Ship Equip AS was acquired on 28 April 2011 (see note 28). It was renamed Inmarsat Solutions AS in February 2012.
(d) Stratos New Zealand Limited was renamed Inmarsat New Zealand Limited in November 2012.
(e) Stratos Wireless Inc. was renamed Inmarsat Solutions (Canada) Inc. in March 2012.
(f) Stratos Global Limited was renamed Inmarsat Solutions Global Limited in April 2012.

### 36. Events after the balance sheet date

Subsequent to 31 December 2012, other than the events discussed above, there have been no other material events which would affect the information reflected in the consolidated financial statements of the Group.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INMARSAT GROUP LIMITED

We have audited the Parent Company financial statements of Inmarsat Group Limited for the year ended 31 December 2012 which comprise the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely 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 this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Other matter**

We have reported separately on the group financial statements of Inmarsat Group Limited for the year ended 31 December 2012.

Stephen Griggs, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
25 April 2013

# Inmarsat Group Limited
# Company Balance Sheet
# As at 31 December 2012

| (US$ in millions) | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Investments[(a)] | 1,003.7 | 1,003.7 |
| **Total non-current assets** | **1,003.7** | **1,003.7** |
| **Current assets** | | |
| Trade and other receivables[(b)] | — | 100.0 |
| **Total current assets** | **—** | **100.0** |
| **Total assets** | **1,003.7** | **1,103.7** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables[(c)] | 0.1 | 100.1 |
| **Total current liabilities** | **0.1** | **100.1** |
| **Total liabilities** | **0.1** | **100.1** |
| **Net assets** | **1,003.6** | **1,003.6** |
| | | |
| **Shareholders' equity** | | |
| Ordinary shares | 0.4 | 0.4 |
| Share premium | 677.5 | 677.5 |
| Capital contribution reserve | 325.7 | 325.7 |
| Retained earnings | — | — |
| **Total shareholders' equity** | **1,003.6** | **1,003.6** |

(a) Investments consist of US$1,003.6m (2011: US$1,003.6m) investment in Inmarsat Investments Limited and US$0.1m (2011: US$0.1m) investment in Inmarsat Finance plc.
(b) Trade and other receivables as at 30 December 2011 related to amounts due from Group companies (2012: US$nil).
(c) Trade and other payables consist of US$0.1m due to Group companies (2011: US$100.1m).

The financial statements of Inmarsat Group Limited, registered number 4886115, on pages 55 to 57 were approved by the Board of Directors on 25 April 2013 and signed on its behalf by:

**Rupert Pearce**
Director

**Rick Medlock**
Director

## Inmarsat Group Limited
## Company Statement of Changes in Equity
## As at 31 December 2012

| (US$ in millions) | Ordinary share capital | Share premium account | Capital contribution reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| Balance as at 1 January 2011 | 0.4 | 677.5 | — | — | 677.9 |
| Profit for the year | — | — | — | 423.4 | 423.4 |
| Dividends paid | — | — | — | (423.4) | (423.4) |
| Capital contribution | — | — | 325.7 | — | 325.7 |
| **Balance as at 31 December 2011** | **0.4** | **677.5** | **325.7** | **—** | **1,003.6** |
| Profit for the year | — | — | — | 127.5 | 127.5 |
| Dividends paid | — | — | — | (127.5) | (127.5) |
| **Balance as at 31 December 2012** | **0.4** | **677.5** | **325.7** | **—** | **1,003.6** |

## Company Cash Flow Statement
## For the year ended 31 December 2012

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| **Net cash generated from operating activities** | **—** | **—** |
| **Cash flow from investing activities** | | |
| Dividend received from Group companies | 127.5 | 323.4 |
| **Net cash from investing activities** | **127.5** | **323.4** |
| **Cash flow from financing activities** | | |
| Dividends paid to Parent Company | (127.5) | (323.4) |
| **Net cash used in financing activities** | **(127.5)** | **(323.4)** |
| **Net increase in cash and cash equivalents** | **—** | **—** |
| | | |
| **Movement in cash and cash equivalents** | | |
| At beginning of year | — | — |
| Net increase in cash and cash equivalents | — | — |
| **As reported on balance sheet (net of bank overdrafts)** | **—** | **—** |
| **At end of year, comprising** | | |
| Cash at bank and in hand | — | — |
| | **—** | **—** |

### Basis of accounting

In the 2012 and 2011 financial statements the Directors have applied International Financial Reporting Standards ('IFRS') as adopted by the European Union and IFRS as issued by the International Accounting Standards Board.

The accounting policies and financial risk management policies and objectives, where relevant to the Company, are consistent with those of the consolidated Group as set out in notes 2 and 3 to the consolidated financial statements.

### Income Statement

The Company has taken advantage of the exemption available under section 408 of Companies Act 2006 and has not presented an Income Statement. The profit for the year ended 31 December 2012 was US$127.5m (2011: US$423.4m).

### Auditor's remuneration

The Auditor's remuneration incurred for the audit of the Company, amounting to US$10,000 (2011: US$10,000) was paid by a company within the Inmarsat Group. No recharge was made.

### Employee costs and Directors' remuneration

The Company does not have any directly employed employees.

### Foreign currency translation

Accounting for foreign currency transactions of the Company is consistent with that of the Group, which is disclosed in note 2 to the consolidated financial accounts.

### Financial Instruments

The IFRS 7, 'Financial Instruments' disclosures of the Company are consistent with that of the Group as set out in note 31 of the consolidated financial statements.

The differences between the Group and the Company in relation to intercompany balances are US$nil (2011: US$100.0m) amounts due from Group companies and US$0.1m (2011: US$100.1m) amounts due to Group companies. The Directors consider the carrying value of the intercompany balances to approximate to their fair value.

### Cash generated from operations

Reconciliation of operating profit to net cash inflow from operating activities:

| (US$ in millions) | 2012 | 2011 |
|---|---|---|
| Profit for the year | 127.5 | 423.4 |
| Adjustments for: | | |
| Dividend receivable | (127.5) | (423.4) |
| **Cash generated from operations** | **—** | **—** |

## APPENDIX B - 2011 CONSOLIDATED FINANCIAL STATEMENTS OF INMARSAT GROUP LIMITED

## INDEX TO FINANCIAL STATEMENTS

# Inmarsat Group Limited

**(Registered Number: 4886115)**

**Directors' Report and Financial Statements**
**For the year ended 31 December 2011**

# Inmarsat Group Limited
# Directors' Report
# For the year ended 31 December 2011

### Directors' Report

The Directors have pleasure in submitting their report and the audited financial statements for Inmarsat Group Limited (the 'Company' or together with its subsidiaries, the 'Group') for the year ended 31 December 2011.

### Principal activities

The Group is the leading provider of global mobile satellite communications services ('MSS'), providing data and voice connectivity to end-users worldwide. We have over 30 years of experience in designing, launching and operating a satellite-based network. With a fleet of 10 owned and operated geostationary satellites, we provide a comprehensive portfolio of global mobile satellite communications services for use on land, at sea and in the air. We also offer a broad portfolio of remote telecommunications services to end user customers, offering services over mobile and fixed satellite systems, at L-band, Ku-band or VSAT, and through our owned and operated microwave and satellite telecommunications facilities. We also provide secure, end-to-end telecommunication solutions for US Government operations worldwide.

The results for the period are disclosed in the financial statements for the Company on pages 60 to 62 and for the Group on pages 9 to 58. Both the level of business and financial position of the Company and the Group are satisfactory to the Directors. The Company Balance Sheet on page 60 and the Group's Balance Sheet on page 10, show the Company's and the Group's financial position at 31 December 2011.

### Business review

The Group's key financial and other performance indicators during the year were as follows:

| (US$ in millions) | 2011 | 2010 | Increase |
|---|---|---|---|
| Revenue | 1,408.5 | 1,171.6 | 20.2% |
| Operating profit | 466.3 | 460.1 | 1.3% |
| Profit after tax | 274.8 | 271.7 | 1.1% |
| Net assets | 1,213.2 | 1,022.1 | 18.7% |
| Average number of employees | 1,543 | 1,354 | 14.0% |

Operating profit and profit after tax both increased year on year, due to the contribution from the LightSquared Cooperation Agreement, partially offset by impairment losses.

### Going concern

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, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in note 2 to the consolidated financial statements.

### Results and dividends

The results for the year are disclosed in the Company financial statements on page 62 and of the Group in the Consolidated Income Statement on page 9. The Company's profit after tax for the year amounted to US$423.4m (2010: US$165.0m) and the Group's profit after tax for the year amounted to US$274.8m (2010: US$271.7m).

The Company paid dividends during the year ended 31 December 2011 of US$68.9m and US$104.5m for the 2011 interim dividend and the 2010 final dividend, respectively. In addition, in the year ended 31 December 2011, the Company declared one-off dividends totalling US$250.0m to fund a share repurchase programme by Inmarsat plc (the ultimate parent company) (year ended 31 December 2010: US$64.3m and US$100.7m for the 2010 interim dividend and the 2009 second interim dividend, respectively).

### Research and development

The Group continues to invest in new services and technology through its research and development programmes. These include pure research into new products as well as developing those services which have been demonstrated to have a profitable business case.

### Charitable and political donations

During the year, the Group donated in aggregate US$370,889 to charities worldwide. This amount included a donation of US$250,000 to the telecommunications relief aid organisation, Télécoms Sans Frontières and a payment of US$108,700 to the World Maritime University as part of our support for the education of maritime specialists. In addition, Inmarsat Global provides satellite telecommunication services and equipment, in conjunction with support offered by its DPs and manufacturers to service providers and customers in support of disaster relief management in affected areas of the world.

Our subsidiary companies also made contributions to local charitable causes.

No political donations were made during the year. It remains the policy of the Company not to make political donations or incur political expenditure. However, the Directors recognise that occasions arise where it may be in the best interests of shareholders for the Company to be able, if appropriate, to participate in public debate and opinion-forming on matters which affect its business. To avoid inadvertent infringement of the requirements of the Companies Act 2006, shareholders of the ultimate parent company, Inmarsat plc, are asked annually to give authority at that company's AGM for Inmarsat plc and its subsidiaries to make political donations and to incur political expenditure.

### Financial instruments

Details of the financial risk management objectives and policies of the Company are the same as the Group. These details are explained in notes 3 and 31 to the consolidated financial statements.

### Post balance sheet events

Details of material post balance sheet events are included in note 35 to the consolidated financial statements.

### Directors and their interests

The Directors who served during the year and who were in office on 1 January 2011, except as noted, were as follows:

- Alison Horrocks
- Rick Medlock
- Andrew Sukawaty
- Rupert Pearce (appointed 1 January 2012)

None of the Directors, at any time during the year ended 31 December 2011 or subsequently, have had any interests in any shares of the Company or its subsidiaries.

### Employees

The Company has no directly employed staff.

Employee involvement in the Inmarsat plc group's share and share option schemes is encouraged. Details of employee share awards and option schemes are shown in note 25 to the financial statements.

### Health and safety

The Company is committed to maintaining high standards of health and safety for all its stakeholders and anyone affected by its business activities.

### Policy and practice on payment of creditors

The Group's policy and practice on payment of creditors is:

- to pay all suppliers within the time limit agreed with each at the start of business with that supplier;
- to ensure that suppliers are aware of the terms of payment; and
- to pay in accordance with the contractual and other legal obligations whenever it is satisfied that the supplier has provided goods and services in accordance with the agreed terms and conditions.

At 31 December 2011, the Company had no trade creditors (2010: nil).

**Share capital and control**
The following information is given pursuant to the Companies Act 2006, specifically s992.

Details of the authorised and issued share capital of the Company are given in note 24 to the financial statements.

There are no restrictions on transfer, or limitations on the holding of any shares and no requirements for prior approval of any transfers. None of the shares carry any special rights with regard to control of the Company. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights.

Details of employee share schemes are set out in note 25. Shares of Inmarsat plc (the Company's ultimate parent company) acquired through Company share schemes and plans rank pari passu with the shares in issue and have no special rights.

The powers of the Directors are determined by UK legislation and the Articles of Association in force from time to time. The rules about the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by shareholders in accordance with legislation in force from time to time.

**Significant contracts**
The Group has in place several significant agreements, which include, inter alia, its banking and debt arrangements, distribution agreements with its distribution partners ('DPs'), manufacturing agreements and contracts for the in-orbit insurance of its satellites. Subject to the identity of a third-party bidder, in the event of a change of control following a takeover bid, the Group does not believe that these agreements would suffer a material adverse effect or be subject to termination upon a change of control. However, there are customary clauses in the long-term debt funding agreements specifying that in the event of a change of control following a takeover bid, the lenders have the option to have the debt repaid under the specific terms of each type of debt.

The majority of the space segment revenue of Inmarsat Global is derived from sales to its DPs who operate in accordance with a suite of agreements regarding the distribution of Inmarsat's services. Stratos is one of the DPs to whom these distribution agreements apply. Stratos itself has operating agreements with its own customers. These contracts vary in monetary value and length of term.

In addition, we have significant on-going contracts with our partners regarding the construction of the Alphasat satellite and its subsequent launch, and for the Global Xpress programme which includes the construction of three Ka-band satellites and its related ground infrastructure; and with third parties for the manufacture and production of our GSPS service.

**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.

Our principal risks and uncertainties are discussed below, however this summary is not intended to be an exhaustive analysis of all risks and uncertainties affecting the business. Some risks and uncertainties may be unknown to us and other risks and uncertainties, currently regarded as immaterial, could turn out to be material. All of them have the potential to impact our business, operations, liquidity, financial position or future performance adversely.

***Satellites***
Our satellites are subject to significant operational risks while in orbit which, if they were to occur, could adversely affect our revenues, profitability and liquidity. Although we have in-orbit insurance on our Inmarsat-4 satellite fleet, this may be insufficient to cover all losses if we had a satellite failure. Even if our insurance were sufficient, delays in building and launching a replacement satellite could adversely affect our revenues, profitability and liquidity.

**Principal risks and uncertainties (continued)**

***Distribution***

We continue to rely on other third party distribution partners and service providers to sell our services to end-users and they determine the prices end-users pay. There is a risk that our distribution partners or service providers could fail to distribute our services effectively, or fail to offer services at prices which are competitive. In addition, the loss of any key distribution partners could materially affect our routes to market, reduce customer choice or represent a significant bad debt risk. Since the acquisition of Stratos, Segovia and Ship Equip and the signing of new distribution agreements and new distribution partners, this risk has been mitigated to some extent.

***Spectrum***

We rely on radio spectrum to provide our services. This has historically been allocated by the International Telecommunications Union without charge, and usage has to be co-ordinated with other satellite operators in our spectrum band. In the future, we may not be successful in co-ordinating our satellite operations under applicable international regulations and procedures or in obtaining sufficient spectrum or orbital resources necessary for our operations.

***Development of hybrid networks, including ATC***

The implementation of ATC services by MSS operators in North America or other countries may result in increased competition for the right to use L-band spectrum, and such competition may make it difficult for us to obtain or retain the spectrum resources we require for our existing and future services. We cannot be certain that the development of hybrid networks, including ATC, in North America or other countries will not result in harmful interference to our operations. If we are unable to prevent or mitigate against such interference it could have an effect on our operations, revenues, profitability and liquidity.

***LightSquared Cooperation Agreement***

Our Cooperation Agreement with LightSquared presents us with operational and financial risks. If fully implemented, the Cooperation Agreement will ultimately result in a reduction in available L-band spectrum for Inmarsat services over North America and the need for our L-band services to co-exist in North America with ATC services in adjacent frequencies. Whilst we are confident that we can continue to operate our services over North America with minimal impact to our users following the launch of ATC services, there is a risk that our L-band services may be congested, interrupted and/or interfered with, which could have an adverse affect on our future L-band service performance in North America. In order to mitigate this risk, we have already taken measures as part of the migration programme envisaged under the Cooperation Agreement to offer enhanced services for customers (such as the Inmarsat B to FleetBroadband migration incentive and safety services over SwiftBroadband programme), and we will continue to encourage users to progressively upgrade to much more spectrum-efficient BGAN, SwiftBroadband and FleetBroadband services. The migration of customers off our Existing and Evolved services to our broadband services gives rise to the risk of customers choosing to move to other competitive services, which could have an adverse effect on our revenues and profitability.

In addition, following the notice of default issued to LightSquared on 20 February 2012 in respect of the non-payment of US$56.25m compensation for the completion of "Phase 1 transition", we are subject to the risk that LightSquared may not remedy the payment before the expiry of the 60 calendar day remedy period as set out in the Cooperation Agreement. Inmarsat would then be entitled to enforce its rights and remedies under the Cooperation Agreement for payment default, including pre-agreed spectrum arrangements and termination of certain LightSquared rights. Inmarsat and LightSquared have entered into discussions regarding the future of the Cooperation Agreement, but Inmarsat cannot provide any assurance that these discussions will result in any further payments being received from LightSquared.

***Regulation***

Our business is subject to regulation and we face increasing regulation with respect to the transmission of our satellite signals. The provision of our mobile satellite communication services in some countries could cause us to incur additional costs, could expose us to fines and could limit our ability to provide services.

### Principal risks and uncertainties (continued)

***Next generation services and satellites***

Our major new investment project, Global Xpress, which will be deployed over a global network of Ka-band satellites, is currently being developed. The development, which includes the satellites, ground network, terminals and related services, may be subject to delays and/or material cost over-runs. There can be no assurance that the development of new satellites, ground networks, or terminals and/or the introduction of new services will proceed according to anticipated schedules or cost estimates, or that the level of demand for the new services will justify the cost of setting up and providing such new services. Failure or a delay in the completion of such networks and/or services and/or the launch or deployment or operation of such satellites and/or new services, or increases in the associated costs, could have a material adverse effect on our revenue, profitability and liquidity.

***Competition***

Although Inmarsat is a market leader in MSS, the global communications industry is highly competitive. We face competition today from a number of communications technologies in the various target sectors for our services. It is likely that we will continue to face increasing competition from other network operators in some or all of our target sectors in the future, particularly from existing mobile satellite network operators. In addition, communications providers who operate private networks using VSAT or hybrid systems also continue to target users of mobile satellite services. Technological innovation in VSAT, together with increased C-band, Ku-band and Ka-band coverage and commoditisation, have increased, and we believe will continue to increase, the competitiveness of VSAT and hybrid systems in some traditional MSS sectors, including maritime and aviation sectors. Furthermore, the gradual extension of terrestrial wireline and wireless communications networks to areas not currently served by them may reduce demand for some of our land mobile services in those areas. We believe that our acquisition of Ship Equip and our investment in Global Xpress will position us favourably to compete with alternate technology providers and reduce the impact of such competition on our L-band MSS business.

### Directors' and Officers' liability insurance

The Inmarsat plc group maintains appropriate insurance to cover Directors' and Officers' liability for itself and its subsidiaries. The insurance does not provide cover where the Director is proved to have acted fraudulently or dishonestly.

### Auditor

Each of the Directors has confirmed that:

i) so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
ii) the Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

An elective resolution was passed on 12 July 2004 dispensing with the requirement to appoint auditors annually. Therefore, Deloitte LLP are deemed to continue as auditor.

### Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors are required to prepare the Company's financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

### Directors' responsibilities statement (continued)

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board
Alison Horrocks FCIS
Company Secretary
4 April 2012

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INMARSAT GROUP LIMITED

We have audited the Group financial statements of Inmarsat Group Limited for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

This report is made solely 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 this report, or for the opinions we have formed.

### Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the financial statements, the Company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board ('IASB').

In our opinion the financial statements comply with IFRSs as issued by the IASB.

### Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INMARSAT GROUP LIMITED (continued)

## Other matter

We have reported separately on the Company financial statements of Inmarsat Group Limited for the year ended 31 December 2011.

**Stephen Griggs FCA (Senior statutory auditor)**
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
4 April 2012

## Inmarsat Group Limited
## Consolidated Income Statement
## For the year ended 31 December 2011

| (US$ in millions) | Note | 2011 | 2010 |
|---|---|---|---|
| **Revenues** | | **1,408.5** | **1,171.6** |
| Employee benefit costs | 7 | (206.5) | (181.7) |
| Network and satellite operations costs | | (241.7) | (217.1) |
| Other net operating costs | | (127.2) | (94.3) |
| Own work capitalised | | 21.1 | 17.1 |
| **Total net operating costs** | | **(554.3)** | **(476.0)** |
| Depreciation and amortisation | 6 | (245.8) | (234.6) |
| Acquisition-related adjustments | | (2.1) | (2.1) |
| Impairment losses | 6 | (141.5) | — |
| Share of results of associates | | 1.5 | 1.2 |
| **Operating profit** | | **466.3** | **460.1** |
| Interest receivable and similar income | 9 | 4.9 | 2.3 |
| Interest payable and similar charges | 9 | (76.2) | (114.5) |
| Net interest payable | 9 | (71.3) | (112.2) |
| **Profit before income tax** | 6 | **395.0** | **347.9** |
| Income tax expense | 10 | (120.2) | (76.2) |
| **Profit for the year** | | **274.8** | **271.7** |
| **Attributable to:** | | | |
| **Equity holders** | | **274.6** | **271.5** |
| **Non-controlling interest** | | **0.2** | **0.2** |

## Consolidated Statement of Comprehensive Income
## For the year ended 31 December 2011

| (US$ in millions) | Note | 2011 | 2010 |
|---|---|---|---|
| **Profit for the year** | | **274.8** | **271.7** |
| **Other comprehensive income** | | | |
| Actuarial gains from pension and post retirement healthcare benefits | 27 | 13.4 | 9.9 |
| Net losses on cash flow hedges | 26 | (2.7) | (9.0) |
| Foreign exchange translation differences | | 0.4 | — |
| Tax (charged)/credited directly to equity | 10 | (4.2) | 2.7 |
| **Other comprehensive income for the year, net of tax** | | **6.9** | **3.6** |
| **Total comprehensive income for the year, net of tax** | | **281.7** | **275.3** |
| **Attributable to:** | | | |
| **Equity holders** | | **281.5** | **275.1** |
| **Non-controlling interest** | | **0.2** | **0.2** |

## Inmarsat Group Limited
## Consolidated Balance Sheet
## As at 31 December 2011

| (US$ in millions) | Note | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 1,820.1 | 1,355.7 |
| Intangible assets | 14 | 1,081.7 | 1,127.2 |
| Investments | 15 | 31.0 | 30.8 |
| Other receivables | 17 | 4.2 | 5.2 |
| Derivative financial instruments | 31 | 0.1 | 6.9 |
| **Total non-current assets** | | **2,937.1** | **2,525.8** |
| **Current assets** | | | |
| Cash and cash equivalents | 16 | 165.7 | 323.1 |
| Trade and other receivables | 17 | 260.3 | 268.2 |
| Inventories | 18 | 23.5 | 20.2 |
| Derivative financial instruments | 31 | 7.8 | 7.4 |
| **Total current assets** | | **457.3** | **618.9** |
| **Total assets** | | **3,394.4** | **3,144.7** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Borrowings | 19 | 53.2 | 59.0 |
| Trade and other payables | 20 | 682.2 | 349.8 |
| Provisions | 21 | 2.9 | 0.4 |
| Current income tax liabilities | 22 | 60.4 | 51.0 |
| Derivative financial instruments | 31 | 14.2 | 12.9 |
| **Total current liabilities** | | **812.9** | **473.1** |
| **Non-current liabilities** | | | |
| Borrowings | 19 | 1,194.9 | 1,448.6 |
| Other payables | 20 | 28.1 | 58.3 |
| Provisions | 21 | 26.7 | 42.5 |
| Deferred income tax liabilities | 22 | 109.5 | 86.5 |
| Derivative financial instruments | 31 | 9.1 | 13.6 |
| **Total non-current liabilities** | | **1,368.3** | **1,649.5** |
| **Total liabilities** | | **2,181.2** | **2,122.6** |
| **Net assets** | | **1,213.2** | **1,022.1** |
| | | | |
| **Shareholders' equity** | | | |
| Ordinary shares | 24 | 0.4 | 0.4 |
| Share premium | | 677.4 | 677.4 |
| Other reserves | | 362.3 | 30.7 |
| Retained earnings | | 172.2 | 312.9 |
| **Equity attributable to Parent Company** | | 1,212.3 | 1,021.4 |
| **Non-controlling interest** | | 0.9 | 0.7 |
| **Total shareholders' equity** | | **1,213.2** | **1,022.1** |

The accompanying notes are an integral part of the financial statements.

The consolidated financial statements of Inmarsat Group Limited, registered number 4886115, on pages 9 to 58 were approved by the Board of Directors on 4 April 2012 and signed on its behalf by:

**Rick Medlock**
Director

**Alison Horrocks**
Director

# Inmarsat Group Limited
# Consolidated Statement of Changes in Equity
# For the year ended 31 December 2011

| (US$ in millions) | Ordinary share capital | Share premium account | Share option reserve | Revaluation reserve | Currency reserve | Cash flow hedge reserve | Capital contribution reserve | Retained earnings | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2010** | 0.4 | 346.3 | 26.3 | 0.6 | — | (2.6) | 2.1 | 197.9 | 0.5 | 571.5 |
| Issue of share capital | — | 331.1 | — | — | — | — | — | — | — | 331.1 |
| Share options charge | — | — | 9.2 | — | — | — | — | — | — | 9.2 |
| Dividends paid | — | — | — | — | — | — | — | (165.0) | — | (165.0) |
| Comprehensive Income: | | | | | — | | | | | |
| Profit for the period | — | — | — | — | — | — | — | 271.5 | 0.2 | 271.7 |
| Other Comprehensive Income – before tax | — | — | — | — | — | (9.0) | — | 9.9 | — | 0.9 |
| Other Comprehensive Income – tax | — | — | — | — | — | 4.1 | — | (1.4) | — | 2.7 |
| **Balance as at 31 December 2010** | **0.4** | **677.4** | **35.5** | **0.6** | **—** | **(7.5)** | **2.1** | **312.9** | **0.7** | **1,022.1** |
| Share options charge | — | — | 9.4 | — | — | — | — | (2.3) | — | 7.1 |
| Dividends paid | — | — | — | — | — | — | — | (423.4) | — | (423.4) |
| Capital contribution | — | — | — | — | — | — | 325.7 | — | — | 325.7 |
| Comprehensive Income: | | | | | | | | | | |
| Profit for the period | — | — | — | — | — | — | — | 274.6 | 0.2 | 274.8 |
| Other Comprehensive Income – before tax | — | — | — | — | 0.4 | (2.7) | — | 13.4 | — | 11.1 |
| Other Comprehensive Income – tax | — | — | — | — | — | (1.2) | — | (3.0) | — | (4.2) |
| **Balance as at 31 December 2011** | **0.4** | **677.4** | **44.9** | **0.6** | **0.4** | **(11.4)** | **327.8** | **172.2** | **0.9** | **1,213.2** |

# Inmarsat Group Limited
# Consolidated Cash Flow Statement
# For the year ended 31 December 2011

| (US$ in millions) | Note | 2011 | 2010 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash generated from operations | 23 | 992.1 | 786.2 |
| Interest received | | 2.7 | 1.2 |
| Income taxes paid | | (112.6) | (42.9) |
| **Net cash inflow from operating activities** | | **882.2** | **744.5** |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | | (489.7) | (141.4) |
| Additions to capitalised development costs, including software | | (20.0) | (25.3) |
| Own work capitalised | | (21.3) | (14.0) |
| Acquisition of subsidiaries and other investments | 28 | (171.0) | (114.8) |
| **Net cash used in investing activities** | | **(702.0)** | **(295.5)** |
| **Cash flow from financing activities** | | | |
| Dividends paid to Parent Company | 12 | (323.4) | (165.0) |
| Repayment of Previous Senior Credit Facility | 19 | (200.0) | (90.0) |
| Drawdown of EIB Facility | 19 | — | 308.4 |
| Drawdown of Ex-Im Bank Facility | 19 | 277.3 | — |
| Repayment of the Stratos Senior Credit Facility | 19 | — | (209.2) |
| Redemption of the Stratos Senior Unsecured Notes | 19 | — | (65.5) |
| Repayment of Ship Equip long-term debt | | (44.7) | — |
| Arrangement costs of new borrowing facilities | 19 | (22.4) | (3.3) |
| Purchase of own securities, including discount | 19 | — | (24.4) |
| Interest paid on borrowings | | (74.7) | (88.3) |
| Intercompany funding | | 50.0 | (14.9) |
| Other financing activities | | (0.4) | (0.1) |
| **Net cash used in financing activities** | | **(338.3)** | **(352.3)** |
| Foreign exchange adjustment | | 0.2 | (0.1) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(157.9)** | **96.6** |
| | | | |
| **Movement in cash and cash equivalents** | | | |
| At beginning of year | | 322.4 | 225.8 |
| Net (decrease)/increase in cash and cash equivalents | | (157.9) | 96.6 |
| **As reported on Balance Sheet (net of bank overdrafts)** | 16 | **164.5** | **322.4** |
| **At end of year, comprising** | | | |
| Cash at bank and in hand | 16 | 63.2 | 73.4 |
| Short-term deposits with original maturity of less than three months | 16 | 102.5 | 249.7 |
| Bank overdrafts | 16 | (1.2) | (0.7) |
| | | **164.5** | **322.4** |

# Inmarsat Group Limited
# Notes to the Financial Statements
# For the year ended 31 December 2011

## 1. General information

The principal activity of Inmarsat Group Limited (the 'Company' or together with its subsidiaries, the 'Group') is the provision of mobile satellite communications services. The nature of the Group's operations and its principal activities are set out in note 5.

The Company's parent undertaking is Inmarsat Holdings Limited and ultimate controlling party is Inmarsat plc, both incorporated in Great Britain and registered in England and Wales. The largest and smallest groups into which the results of the Company are consolidated are headed by Inmarsat plc and the Company respectively.

## 2. Principal accounting policies

**Basis of preparation**

The principal accounting policies adopted in the preparation of the consolidated financial statements for the years ended 31 December 2011 and 2010 (the 'consolidated financial statements') are set out below.

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board and as endorsed by the European Union ('EU') and therefore the Group's financial statements comply with Article 4 of the EU International Accounting Standards ('IAS') regulation and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial assets and financial liabilities, as described later in these accounting policies.

The Group has strong free cash flow generation and is compliant with all covenants. As a consequence and despite the continuing uncertain economic climate, the Directors believe that the Group is well placed to manage its business risks successfully. After considering current financial projections and facilities available and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, Inmarsat Group Limited continues to adopt the going concern basis in preparing the consolidated financial statements.

**Basis of accounting**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the Balance Sheet dates and the reported amounts of revenue and expenses during the reported period. Although these estimates are based on management's best estimate of the amount, event or actions, the actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The following standards and interpretations, as adopted by the EU, are effective for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position:

- IAS 24 (as revised) – Related Party Disclosures – Revised definition of related parties (effective for financial years beginning on or after 1 January 2011);
- IAS 32 (as revised) – Financial Instruments: Presentation – Classification of rights issues (effective for financial years beginning on or after 1 February 2010);
- IFRIC 14 (as amended) – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – November 2009 Amendments with respect to voluntary prepaid contributions (effective for financial years beginning on or after 1 January 2011);
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 July 2010); and
- Amendments resulting from the May 2010 Annual Improvements to IFRSs (effective for financial years beginning on or after 1 January 2011, except for IFRS 3 and IAS 27 which are effective for financial years beginning on or after 1 July 2010).

**2. Principal accounting policies (continued)**

At the date of approval of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 7 (as amended) – Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets (effective for financial years beginning on or after 1 July 2011);
- IFRS 9 – Financial Instruments – Classification and Measurement (effective for financial years beginning on or after 1 January 2013);
- IFRS 10 – Consolidated Financial Statements (effective for financial years beginning on or after 1 January 2013);
- IFRS 11 – Joint Arrangements (effective for financial years beginning on or after 1 January 2013);
- IFRS 12 – Disclosures of Interests in Other Entities (effective for financial years beginning on or after 1 January 2013);
- IFRS 13 – Fair Value Measurement (effective for financial years beginning on or after 1 January 2013);
- IAS 1 (as amended) – Presentation of Financial Statements – Amendments to revise the way other comprehensive income is presented (effective for financial years beginning on or after 1 July 2012);
- IAS 12 (as amended) – Income Taxes – Limited scope amendment (recovery of underlying assets) (effective for financial years beginning on or after 1 January 2012);
- IAS 19 (as amended) – Employee Benefits – Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects (effective for financial years beginning on or after 1 January 2013);
- IAS 27– Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in 2011) (effective for financial years beginning on or after 1 January 2013);
- IAS 28 – Investments in Associates – Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) (effective for financial years beginning on or after 1 January 2013); and
- IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine (effective for financial years beginning on or after 1 January 2013).

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

**Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its domestic and overseas subsidiary undertakings.

Subsidiary undertakings include all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The results of subsidiary undertakings established or acquired during the period are included in the consolidated profit and loss account from the date of establishment or acquisition of control. The results of subsidiary undertakings disposed of during the period are included until the date of disposal.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All transactions, balances, income and expenses with and between subsidiary undertakings have been eliminated on consolidation.

On the acquisition of a company or business, fair values reflecting conditions at the date of acquisition are attributed to the identifiable separable assets, liabilities and contingent liabilities acquired. Where the fair value of the total consideration, both paid and deferred, exceeds the fair value of the identifiable separable assets, liabilities and contingent liabilities acquired, the difference is treated as purchased goodwill. Fees and similar incremental costs incurred directly in making the acquisition are recorded in the Income Statement as incurred, in line with IFRS 3.

Where the deferred consideration is payable in cash, the liability is discounted to its present value. Where the deferred consideration is contingent upon future trading performance, an estimate of the present value of the deferred consideration payable is made. The contingent deferred consideration is reassessed annually and any gain or loss on remeasurement is recorded in the Income Statement.

## 2. Principal accounting policies (continued)

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests share of changes in equity since the date of the original combination.

**Group Reorganisation**

On 30 June 2010, we completed a reorganisation plan under which the ownership of Inmarsat Finance III Limited ('Finance III') and all its subsidiaries (including Stratos Wireless Inc. and its subsidiaries 'Stratos'), was transferred within the Inmarsat group (the 'Group Reorganisation'). The ownership in Finance III was passed down the Inmarsat chain of companies to Inmarsat Ventures Limited by way of a series of share-for-share transactions. As a result of the Group Reorganisation, Stratos became an indirect wholly-owned subsidiary of Inmarsat Group Limited.

Accounting for internal reorganisations is outside the scope of IFRS 3, 'Business Combinations' and IFRS does not contain additional guidance. Therefore, in accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', the Group is entitled to consider the pronouncements of other standard setting bodies, such as UK GAAP. Therefore, we have accounted for the Group Reorganisation using merger accounting principles. The key features of this accounting are:

- the carrying value of the assets and liabilities 'acquired' by the Group are not adjusted to fair values on consolidation;
- any difference between the value of consideration provided and net assets acquired is not recognised as goodwill, but is adjusted against reserves;
- the premium above nominal value for any shares issued is recognised as a group reconstruction reserve rather than as share premium;
- the results and cash flows of all the combining entities are recognised in the consolidated financial statements from the beginning of the financial period in which the combination occurred; and
- the corresponding prior year figures are restated as if Inmarsat Group Limited had always been the parent undertaking of the new group of companies.

**Foreign currency translation**

**a) Functional and presentation currency**

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

The hedged rate between US Dollar and Pounds Sterling for 2011 for Inmarsat Global was US$1.51/£1.00 (2010: US$1.49/£1.00).

**b) Transactions and balances**

Transactions not denominated in the functional currency of the respective subsidiary undertakings of the Group during the year have been translated using the spot rates of exchange ruling at the dates of the transactions. Differences on exchange arising on the settlement of the transactions denominated in currencies other than the respective functional currency are recognised in the Income Statement.

Monetary assets and liabilities not denominated in the functional currency of the respective subsidiary undertaking of the Company have been translated at the spot rates of exchange ruling at the end of each month. Differences on exchange arising from the translation of monetary assets and liabilities denominated in currencies other than the respective functional currency are recognised in equity to the extent that the foreign exchange exposure is hedged while the remaining differences are recognised in the Income Statement.

Shares issued by the Company and denominated in a currency other than US Dollars are translated at the rates ruling at the date of issue.

## 2. Principal accounting policies (continued)

### Financial instruments and hedging activities

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions. Financial instruments are initially measured at fair value. Subsequent measurement depends on the designation of the instrument. Non-derivative financial assets are classified as accounts receivable, short-term deposits or cash and cash equivalents. They are stated at amortised cost using the effective-interest method, subject to reduction for allowances for estimated irrecoverable amounts. For interest-bearing assets, their carrying value includes accrued interest receivable. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts, which are included as current borrowings in liabilities on the Balance Sheet. Non-derivative financial liabilities are all classified as other liabilities and stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as unamortised issue costs.

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational and financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting under IAS 39 are accounted for as trading instruments. Derivatives are initially recognised and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on remeasurement is taken to the Income Statement except where the derivative is a designated cash flow hedging instrument.

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at each period end to ensure that the hedge remains highly effective.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. Where the forecast transaction results in a financial asset or liability, gains or losses previously recognised in equity are reclassified to the Income Statement in the same period as the asset or liability impacts income. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the Income Statement in the same period as the underlying income or expenditure. The ineffective portions of the gain or loss on the hedging instrument are recognised immediately in the Income Statement.

Where a hedge no longer meets the effectiveness criteria, any gains or losses deferred in equity are only transferred to the Income Statement when the committed or forecasted transaction is recognised in the Income Statement. However, where the Group has applied cash flow hedge accounting for a forecasted or committed transaction that is no longer expected to occur, then the cumulative gain or loss that has been recorded in equity is transferred to the Income Statement. When a hedging instrument expires or is sold, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement.

### Revenue recognition

Mobile satellite communications services revenue results from utilisation charges that are recognised as revenue in the period during which the services are provided. Deferred income attributable to mobile satellite communications services or subscription fees represents the unearned balances remaining from amounts received from customers pursuant to prepaid contracts. Mobile satellite communications services lease revenues are recorded on a straight-line basis over the term of the contract concerned, which is typically between one and 12 months, unless another systematic basis is deemed more appropriate.

Revenue also includes income from spectrum coordination agreements, services contracts and income from the sale of terminals and other communication equipment. Revenue from spectrum coordination agreements is recognised using the percentage of completion or straight-line approach depending on the underlying terms of the agreement (see note 4(d)). Revenue from service contracts is recognised as the service is provided. Sales of terminals and other communication equipment are recognised when the risks and rewards of ownership are transferred to the purchaser.

**2. Principal accounting policies (continued)**

The Company offers certain products and services as part of multiple deliverable arrangements. Multi-deliverable arrangements are divided into separate units of accounting provided, 1) the deliverable has a standalone value to the customer if it is sold separately, and 2) the fair value of the item can be objectively and reliably determined. Consideration for these items is measured and allocated to each separate unit based on their relative fair values and the Company's relevant revenue recognition policies are applied to them.

**Employee benefits**
Wages, salaries, social security contributions, accumulating annual leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are performed by the employees of the Group.

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it has demonstrably committed to either terminate the employment of current employees or to provide termination benefits, as a result of an offer made to encourage voluntary redundancy.

The Group recognises liabilities relating to defined benefit pension plans and post-retirement healthcare benefits in respect of employees. The Group's net obligation in respect of defined benefit pension plans and post-retirement healthcare benefits are calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are immediately recognised in the Statement of Comprehensive Income.

The Group operates a number of defined contribution pension schemes. Pension costs for the defined contribution schemes are charged to the Income Statement when the related employee service is rendered.

Inmarsat plc, the ultimate holding company issues equity-settled share options and awards to employees of the Group. Equity settled share option awards are measured at fair value at the date of the grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

**Current tax**
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**2. Principal accounting policies (continued)**

**Research and development**
Research expenditure is expensed when incurred. Development expenditure is expensed when incurred unless it meets criteria for capitalisation. Development costs are only capitalised once the technical feasibility and commercial viability of a business case has been demonstrated and they can be measured reliably. Capitalised development costs are amortised on a straight-line basis over their expected useful economic life.

**Property, plant and equipment**

**Space segment assets**
Space segment assets comprise satellite construction, launch and other associated costs, including ground infrastructure. Expenditure charged to space segment projects includes invoiced progress payments, amounts accrued appropriate to the stage of completion of contract milestone payments, external consultancy costs and direct internal costs. Internal costs, comprising primarily staff costs, are only capitalised when they are directly attributable to the construction of an asset. Progress payments are determined on milestones achieved to date together with agreed cost escalation indices. Deferred satellite payments represent the net present value of future payments dependent on the future performance of each satellite and are recognised in space segment assets when the satellite becomes operational. The associated liability is stated at its net present value and included within liabilities. These space segment assets are depreciated over the life of the satellites from the date they become operational and are placed into service. Borrowing costs attributable to the construction of assets which take a substantial period of time to get ready for intended use ('qualifying assets') are added to the costs of those assets.

**Assets in course of construction**
Assets in course of construction primarily relate to the Alphasat satellite, Inmarsat-5 satellites and Global Xpress services. These assets will be transferred to space segment assets and depreciated over the life of the satellites once they become operational and placed into service. No depreciation has been charged on these assets.

**Other fixed assets**
Other fixed assets are stated at historical cost less accumulated depreciation.

**Depreciation**
Depreciation is calculated to write off the historical cost less residual values, if any, of fixed assets, except land, on a straight-line basis over the expected useful lives of the assets concerned. The Group selects its depreciation rates and residual values carefully and reviews them annually to take account of any changes in circumstances. When setting useful economic lives, the principal factors the Group takes into account are the expected rate of technological developments, expected market requirements for the equipment and the intensity at which the assets are expected to be used.

**Asset retirement obligations**
The fair value of legal obligations associated with the retirement of tangible property, plant and equipment is recognised in the financial statements in the period in which the liability is incurred. Upon initial recognition of a liability for an asset retirement obligation, a corresponding asset retirement cost is added to the carrying amount of the related asset, which is subsequently amortised to income over the remaining useful life of the asset. Following the initial recognition of an asset retirement obligation, the carrying amount of the liability is increased for the passage of time by applying an interest method of allocation to the liability with a corresponding accretion cost reflected in operating expenses.

Revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognised each period as an adjustment to the carrying amount of the asset retirement obligation.

**Government grants**
Government grants have been received in relation to the purchase and construction of certain assets. Government grants are deducted from the cost of the relevant assets to arrive at carrying amount. The grants are therefore recognised as income over the lives of the assets by way of a reduced depreciation charge.

**Gains and losses on disposals of tangible and intangible assets**
Gains and losses on disposals are determined by comparing net proceeds with the carrying amount. These are included in the Income Statement.

**2. Principal accounting policies (continued)**

**Intangible assets**
Intangible assets comprise goodwill, patents, trademarks, software, terminal development costs, spectrum rights, orbital slots and licences, customer relationships and intellectual property.

Intangible assets arise from separate purchases and acquisitions as part of business combinations. In addition, internally-generated intangible assets are recognised only if all the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be reliably measured.

Development costs directly relating to the development of new services are capitalised as intangible assets. Costs are capitalised once a business case has been demonstrated as to technical feasibility and commercial viability.

Intangible assets with a finite useful life are depreciated on a straight-line basis over the life of the asset and the amortisation period and method are reviewed each financial year**.** Intangible assets with an indefinite useful life are reviewed annually for impairment.

**Impairment of non-financial assets**
At each balance sheet date, the Group reviews the carrying amounts of assets that are subject to amortisation and depreciation to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, an impairment review is conducted. Intangible assets with an indefinite life are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Impairment testing involves a comparison of the carrying amount of the asset with its recoverable amount, which is the higher of fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating units ('CGU') to which the asset belongs. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

CGUs are identified as groups of assets, liabilities and associated goodwill that generate cash flows that are largely independent of other cash flow streams. The assets and liabilities include those directly involved in generating the cash flows and an appropriate proportion of corporate assets.

An impairment loss is recognised in the Income Statement whenever the carrying amount of an asset exceeds its recoverable amount. The carrying amount will only be increased where an impairment loss recognised in a previous period for an asset other than goodwill either no longer exists or has decreased, up to the amount that it would have been had the original impairment not occurred. Any impairment to goodwill recognised in a previous period is not reversed.

**Investments**
Investments in equity instruments that do not have quoted market prices in active markets are recorded at cost. Investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be fully recoverable.

**Trade receivables**
Trade receivables are stated at their nominal value and reduced by appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are recognised in other operating costs when there is objective evidence that trade receivables are impaired. Larger accounts are specifically reviewed to assess a customer's ability to make payments.

## 2. Principal accounting policies (continued)

**Leases**
Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases by the lessee. Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the term of the lease.

**Interest and finance costs**
Interest on borrowings and other financial liabilities is recognised in the Income Statement using the effective interest rate method.

Borrowing costs attributable to qualifying assets are added to the costs of those assets.

**Inventories**
Inventories are stated at the lower of cost (determined by the weighted average cost method) and net realisable value. Allowances for obsolescence are recognised in other operating costs when there is objective evidence that inventory is obsolete.

**Cash and cash equivalents**
Cash and cash equivalents, measured at fair value, includes cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings as current liabilities on the Balance Sheet.

**Provisions**
Provisions, other than in respect of pension and post-retirement healthcare benefits, are recognised when the Group has a legal or constructive obligation to transfer economic benefits arising from past events and the amount of the obligation can be estimated reliably. Provisions are not recognised unless the outflow of economic benefits to settle the obligation is more likely than not to occur.

**Borrowings**
Borrowings are initially recognised as proceeds received, net of transaction and arrangement costs incurred. Borrowings are subsequently stated at amortised cost. Transaction and arrangement costs of borrowings and the difference between the proceeds and the redemption value are recognised in the Income Statement over the life of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**Earnings before interest, tax, depreciation and amortisation (‘EBITDA’)**
EBITDA is a non GAAP performance measure used by analysts and investors, and is defined as profit before income tax, net interest payable, depreciation and amortisation, acquisition-related adjustments, impairment losses and share of results of associates.

## 3. Financial risk management

**Financial risk factors**
The Group’s operations and significant debt financing expose it to a variety of financial risks that include the effects of changes in debt market prices, foreign currency exchange rates, credit risks, liquidity risks and interest rates. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by using forward exchange contracts to limit exposure to foreign currency risk and interest rate swaps to reduce the impact of fluctuating interest rates on its floating rate long-term debt.

The Board of Directors of Inmarsat plc has delegated to a sub-committee, the Treasury Review Committee, the responsibility for setting the risk management policies applied by the Group. The policies are implemented by the treasury department which receives regular reports from the operating companies to enable prompt identification of financial risks so that appropriate actions may be taken. The treasury department has a policy and procedures manual that sets out specific guidelines for managing foreign exchange risk, interest rate risk and credit risk (see note 31). The management of the Group does not hold or issue derivative financial instruments for speculative or trading purposes.

### 3. Financial risk management (continued)

**(a) Market risk**

(i) Foreign exchange risk

The functional currency of the Group is US Dollars. The Group's long-term borrowings are denominated in US Dollars, the majority of its revenue is earned in US Dollars and the vast majority of capital expenditure is denominated in US Dollars, which are therefore not subject to risks associated with fluctuating foreign currency rates of exchange. However, approximately 50% (2010: 60%) of Inmarsat Global's operating costs are denominated in Sterling. Inmarsat Solutions operate internationally, resulting in approximately 5%-10% of revenue and expenditure being denominated in currencies other than the US Dollar. The Group's exposures therefore need to be carefully managed to avoid variability in future cash flows and earnings caused by volatile foreign exchange rates.

The foreign currency hedging policy of the Group is to economically hedge a minimum of 50% of anticipated foreign currency exposure in operating expenses for the next 12 months and up to a maximum of 100% for the next three years on a rolling basis.

As at 31 December 2011 it is estimated that:

- A hypothetical 1% inflation of the hedged US Dollar/Sterling exchange rate (US$1.51/£1.00 to US$1.53/£1.00) would have decreased the 2011 profit before tax by approximately US$1.1m (2010: US$1.1m).
- A hypothetical 1% inflation of the US Dollar/Sterling foreign currency spot rate at 31 December 2011, would have reduced the 2011 profit before tax by approximately US$0.2m (2010: US$0.2m), primarily as a result of the translation of Sterling denominated monetary assets and liabilities. This analysis includes only outstanding foreign currency denominated monetary items and adjusts the translation of these items at the period end for a 1% change in foreign currency rates.
- A hypothetical 1% deflation (2010: inflation) in the US Dollar/Sterling and a 1% deflation in the US Dollar/Euro foreign currency spot rates at 31 December 2011, would have decreased equity by US$1.0m and US$1.0m, respectively (2010: US$1.8m and US$1.3m, respectively) primarily as a result of the changes in fair value of derivative instruments designated as cash flow hedges.

Management believes that a 1% sensitivity rate provides a reasonable basis upon which to assess expected changes in foreign exchange rates.

(ii) Price risk

The Group is not exposed to significant equity securities price risk or commodity price risk.

**(b) Interest rate risk**

Given the Group has no significant interest-bearing assets (except cash and cash equivalents), income and operating cash flows are substantially independent of changes in market interest rates. Interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Senior Credit Facility and the EIB Facility are at variable rates whilst the Senior Notes due 2017 and the Ex-Im Facility are at fixed rates.

The policy of the Group is to ensure certainty of the interest charge by fixing interest rates on 60%-100% of forecast net debt for the next two years on a rolling basis. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specific intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

As at 31 December 2011, if interest rates on net borrowings changed by 1%, with all other variables held constant, the Group's profit after tax for the year would have been impacted by US$2.1m (2010: US$0.5m). This is primarily due to the Group's exposure to interest rates on its variable rate borrowings and cash and cash equivalents. The sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at each balance sheet date was outstanding for the whole year. Management believes that a 1% sensitivity rate provides a reasonable basis upon which to assess expected changes in interest rates.

### 3. Financial risk management (continued)

#### (c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially subject the Group to a concentration of credit risk consist of cash and cash equivalents, short-term deposits, trade receivables and derivative financial instruments. The credit risk on liquid funds (cash and cash equivalents and short-term deposits) and derivative financial instruments is limited because the counterparties are highly rated financial institutions.

The maximum exposure to credit risk is:

| (US$ in millions) | Note | 2011 | 2010 |
|---|---|---|---|
| Cash and cash equivalents | 16 | 165.7 | 323.1 |
| Trade receivables and other receivables | 17 | 187.5 | 203.0 |
| Derivative financial instruments | 31 | 7.9 | 14.3 |
| **Total credit risk** | | **361.1** | **540.4** |

The Group's average age of trade receivables as at 31 December 2011 (excluding the impact of LightSquared) was approximately 50 days (as at 31 December 2010: 59 days). At 31 December 2011, US$139.3m (2010: US$146.3m) of trade receivables were not yet due for payment. No interest is charged on trade receivables until the receivables become overdue for payment. Thereafter, interest may be charged at varying rates depending on the terms of the individual agreements. The Group has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and utilises both internal and third party collections processes for overdue accounts. The Group maintains provisions for potential credit losses that are assessed on an ongoing basis.

The following table sets out the Group's provision for uncollectable trade receivables and revenue adjustments:

| (US$ in millions) | 2011 | 2010 |
|---|---|---|
| As at 1 January: | 11.2 | 12.9 |
| Charged to the provision in respect of the current year | 10.3 | 9.7 |
| Utilised in the year | (9.6) | (10.0) |
| Provision released in the year | (0.7) | (1.4) |
| **As at 31 December**[(a)] | **11.2** | **11.2** |

(b) The maturity of the Group's provision for uncollectable trade receivables and revenue adjustments for the year ended 31 December 2011 is US$2.9m current, US$2.5m between 1 and 30 days overdue, US$2.4m between 31 and 120 days overdue and US$3.4m over 120 days overdue (2010: US$2.0m, US$1.1m, US$1.1m and US$7.0m respectively).

For 2011, one (2010: one) distribution partner, which is reported in the Inmarsat Global segment, comprised approximately 16.7% (2010: 21.3%) of the Group's total revenues. This same customer comprised 24.0% (2010: 34.0%) of the Group's trade receivables balance as at 31 December 2011. In addition, for 2011, revenue from our Cooperation Agreement with LightSquared made up approximately 14.5% (2010: 1.5%) of the Group's total revenues. No other customer accounted for 10% or more of the Group's revenue and accounts receivable at 31 December 2011.

The following table sets out the maturity of the Group's trade receivables that are past due, net of provisions for uncollectible trade receivables and revenue adjustments:

| (US$ in millions) | Note | 2011 | 2010 |
|---|---|---|---|
| Between 1 and 30 days overdue | | 19.0 | 34.6 |
| Between 31 and 120 days overdue | | 5.8 | 3.2 |
| Over 120 days overdue | | 1.6 | 0.5 |
| **As at 31 December** | 17 | **26.4** | **38.3** |

#### (d) Liquidity risk

The Group is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and short-term deposits and the availability of funding through an adequate amount of committed credit facilities.

### 3. Financial risk management (continued)

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The following table sets out total available liquidity of the Group:

| (US$ in millions) | Note | 2011 | 2010 |
|---|---|---|---|
| Cash and cash equivalents | 16 | 165.7 | 323.1 |
| Available but undrawn borrowing facilities[(a)] | 19 | 1,172.7 | 300.0 |
| **Total available liquidity** | | **1,338.4** | **623.1** |

(b) Relates to the Senior Credit Facility and Ex-Im Bank Facility (see note 19).

We believe our liquidity position is more than sufficient to meet the Group's needs for the foreseeable future.

### 4. Critical accounting estimates and judgements in applying accounting policies

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the Balance Sheet dates and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. The more significant estimates are discussed below:

**(a) Estimated impairment of goodwill**
The Group annually undertakes tests to determine whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The carrying amounts of goodwill and intangible assets are given in note 14.

For the purpose of testing for impairment, goodwill is specifically allocated to one of four CGUs which have been identified, being Inmarsat Global, Stratos, Segovia and Ship Equip. It has been determined that goodwill that arose on the acquisition of Inmarsat Ventures Limited represented goodwill of the Inmarsat CGU only. Goodwill that arose on the acquisition of Stratos has been allocated to the Stratos CGU. Goodwill that arose on the acquisition of Segovia and Ship Equip has been allocated to the Segovia and Ship Equip CGU, respectively. As at 31 December 2011, the carrying amount of goodwill allocated to the Inmarsat, Stratos, Segovia and Ship Equip CGUs was US$406.2m, US$142.5m, US$27.2m and US$66.6m, respectively.

As at 31 December 2010, the Stratos goodwill was allocated between two separate CGUs, Stratos MSS and Stratos Broadband. In performing the impairment test for the year ended 31 December 2011, the impact of internal restructuring which began in December 2010 was taken into account. Based on the operation of the new structure, interdependency of assets and bundling of revenue, it is no longer possible to identify cash flows attributable to the previous CGUs. Therefore, for the 2011 financial year the use of two separate CGUs was no longer appropriate and they were combined into one joint 'Stratos' CGU. As at 31 December 2010, the carrying amount of goodwill allocated to the Inmarsat Global, Stratos MSS, Stratos Broadband and Segovia CGUs was US$406.2m, US$241.4m, US$21.1m and US$27.2m, respectively. Goodwill of US$262.5m which was previously allocated between the old Stratos MSS and Stratos Broadband CGUs has been combined to form goodwill of the single Stratos CGU.

Goodwill is tested for impairment by comparing the carrying amount of the CGU with its value in use. The key assumptions used in calculating the value in use are as follows:

**Recoverable amount**
The recoverable amount of each CGU is based on the value in use, which is determined using cash flow projections derived from financial plans approved by management covering a five-year period. They reflect management's expectations of revenue, EBITDA growth, capital expenditure, working capital and operating cash flows, based on past experience and future expectations of business performance. Cash flows beyond the five-year period have been extrapolated using perpetuity growth rates.

**Growth rates**
Long-term growth rates of between 2.5%-3.0% (2010: 2.5%-3.0%) have been applied to extrapolate the cash flows into perpetuity. The growth rate has been determined using long-term historical growth rates of the CGU and management's expectation of future growth.

### 4. Critical accounting estimates and judgements in applying accounting policies (continued)

**Discount rate**

The pre-tax rate used to discount the cash flow projections in respect of the Group for 2011 was between 11.6%-17.2% (2010: 10.5%-14.0%). The discount rate reflects the time value of money and is derived from the Group's weighted average cost of capital, adjusted for the risk associated with each individual CGU.

An impairment charge of US$120.0m in respect of the Stratos CGU was recorded in the year ended 31 December 2011 (2010: US$nil). Operating profit forecasts for the Stratos CGU have been adjusted downwards due to both internal and external factors. Firstly, price increases implemented by Inmarsat Global have not been passed onto Stratos' end-customers, resulting in reduced margins for the Stratos CGU. Secondly, a reduction in Inmarsat MSS revenues, changes in product mix and competitive pricing have all contributed to lower revenues during 2011. The combination of these factors will continue to erode operating profits at the Inmarsat Solutions level, particularly in respect of the Stratos CGU, and therefore have been reflected in the revised forecasts, giving rise to the impairment of the Stratos CGU. A long-term growth rate of 2.5% was applied to extrapolate the Stratos CGU cash flow projections into perpetuity and a pre-tax discount rate of 13.8% used to discount the cash flow projections.

**(b) Pension arrangements and post-retirement healthcare benefit assumptions**

The Group has applied a rate of return on assets of 6.65% p.a. (2010: 7.78% p.a.) which represents the expected return on asset holdings in the future. The discount rate used to calculate the pension and post-retirement healthcare benefits liability was 4.74% (2010: 5.40%) (see note 27).

**(c) Income tax**

The Group's income tax balance is the sum of the total current and deferred tax balances. The calculation of this, and of the Group's potential liabilities or assets, necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority, or, as appropriate, through a formal legal process. Issues can, and often do, take a number of years to resolve. The amounts recognised or disclosed are derived from the Group's best estimation and judgement. However, the inherent uncertainty regarding the outcome of these means eventual realisation could differ from the accounting estimates and therefore impact the Group's results and cash flows.

**(d) Revenue in respect of the LightSquared Cooperation Agreement**

In December 2007, Inmarsat and LightSquared LP, Skyterra (Canada) Inc. and LightSquared Inc. (together 'LightSquared') entered into a Cooperation Agreement for the efficient use of L-band spectrum over North America. To date, LightSquared has made payments totalling US$490.2m, of which US$308.1m has been received during 2011 and US$29.6m in January 2012. The Group has, thus far, recognised US$221.3m of revenue and US$11.6m of operating costs under all phases of the Cooperation Agreement. For the year ended 31 December 2011, the Group recognised US$203.8m of revenue and US$11.2m of operating costs, in respect of all phases of the Cooperation Agreement (year ended 31 December 2010: US$17.5m and US$0.4m, respectively).

On 17 August 2010, LightSquared triggered Phase 1 of this agreement under which the Group will receive payments totalling US$118.8m in respect of its work to transition to a modified spectrum plan, which will be accounted for based on the time spent by Inmarsat's engineers as a percentage of the expected time to complete the spectrum re-banding exercise over an 18-month transition period. In addition, Inmarsat will receive US$250.0m towards the costs that the Group will incur on network and terminal modifications which will be recognised according to the costs incurred to date as a percentage of management's best estimate of the total that will be incurred. These costs are expected to be incurred over the period to 2014. Under Phase 1 of the Cooperation Agreement, LightSquared has made payments totalling US$312.5m. During the year ended 31 December 2011, the Group has recognised US$95.6m of revenue and US$11.1m of operating costs in respect of Phase 1 (year ended 31 December 2010: US$17.5m and US$0.4m, respectively).

### 4. Critical accounting estimates and judgements in applying accounting policies (continued)

On 28 January 2011, Inmarsat received notice from LightSquared triggering Phase 2 of the Cooperation Agreement. Under Phase 2, the Group will support a phased transition to a further spectrum plan that increases the total capacity available to LightSquared. In return, the Group will receive payments of US$115.0m per annum, increasing at a rate of 3% annually, with effect from January 2011. The deliverables under Phase 2 can be split into two distinct periods: 1) To transition to a spectrum plan (Plan 2B) which is necessary for LightSquared to operate their proposed services over North America. Work on this will be continuous and the opportunity cost affects the entire period from commencement of Phase 2 equally, therefore revenue will be recognised on a straight-line basis over the entire period. 2) To provide the necessary spectrum on an ongoing basis, this period will commence on the signing over of the Phase 2B spectrum plan to LightSquared. The payments in respect of this element will also be recognised on a straight-line basis over the period to which the payment relates. As at 31 December 2011, LightSquared had made payments totalling US$108.1m under Phase 2 of the Cooperation Agreement. During the year ended 31 December 2011, the Group has recognised US$108.1m of revenue and US$nil of operating costs in respect of Phase 2.

On 15 April 2011, Inmarsat signed an amendment to the Cooperation Agreement, in which the Group might (at our option) accelerate delivery of part of the spectrum plan under Phase 2 by up to nine months from the date that Inmarsat originally agreed with LightSquared in December 2007. Under the terms of the amendment, which we refer to as Phase 1.5, LightSquared has agreed to pay the Group certain amounts dependent on when we deliver that part of the Phase 2 spectrum plan. In connection with Phase 1.5, the Group has already received a payment of US$40.0m on 29 April 2011 and the maximum total amount that could be earned under the amendment is US$105.0m. The total costs to deliver Phase 1.5 are not expected to exceed the payment already received and will be recognised as incurred, with revenue recognised based on the percentage of completion approach relative to the total Phase 1.5 costs. Under Phase 1.5 of the Cooperation Agreement, LightSquared has made payments totalling US$40.0m. During the year ended 31 December 2011, the Group has recognised US$0.1m of revenue and US$0.1m of operating costs in respect of Phase 1.5.

See note 35 for LightSquared events after the balance sheet date.

The key area of estimation uncertainty relates to our estimates of the total time/costs that will be incurred and our estimate of the percentage of completion of the time and costs that we have incurred.

### 5. Segmental information

IFRS 8, ‘Operating Segments’ requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker (‘CODM’) to allocate resources and assess performance. The CODM of Inmarsat plc is the Chief Executive Officer who is responsible for assessing the performance of the individual segments.

Information reported to the CODM for the purposes of resource allocation and assessment of segment performance is specifically focused on the individual performance of each of the divisions within the Group, namely Inmarsat Global and Inmarsat Solutions (previously named Stratos).

The Group’s reportable segments are therefore as follows:

- Inmarsat Global – principally the supply of wholesale airtime, equipment and services to distribution partners and other wholesale partners of mobile satellite communications by the Inmarsat Global business, including entering into spectrum coordination agreements. The segment also includes income from technical support to other operators, the provision of conference facilities and leasing surplus office space to external organisations, all of which are not material on a standalone basis and in aggregate.
- Inmarsat Solutions – the supply of advanced mobile and fixed-site remote telecommunications services, the provision of customised turnkey remote telecommunications solutions, value-added services, equipment and engineering services to end-users; and
- ‘Unallocated’ – includes Group borrowings and the related interest expense, cash and cash equivalents and current and deferred tax balances, which are not allocated to each segment.

The accounting policies of the reportable segments are the same as the Group’s accounting policies described in note 2. Segment profit represents the profit earned by each segment without allocation of investment revenue, finance costs and income tax expense.

## 5. Segmental information (continued)

### Business segments:

| | 2011 | | | | |
|---|---|---|---|---|---|
| **(US$ in millions)** | **Inmarsat Global** | **Inmarsat Solutions[a]** | **Unallocated** | **Eliminations** | **Total** |
| **Revenue** | | | | | |
| External sales | 661.6 | 746.9 | — | — | 1,408.5 |
| Inter-segment | 296.8 | 11.3 | — | (308.1) | — |
| **Total revenue** | **958.4** | **758.2** | **—** | **(308.1)** | **1,408.5** |
| Segment result (operating profit) before operating profit from LightSquared and impairment losses | 368.0 | 48.4 | — | (1.2) | 415.2 |
| Operating profit from LightSquared | 192.6 | — | — | — | 192.6 |
| Impairment losses | — | (141.5) | — | — | (141.5) |
| **Segment result (operating profit/(loss))** | **560.6** | **(93.1)** | **—** | **(1.2)** | **466.3** |
| Net interest charged to the Income Statement | — | — | (71.3) | — | (71.3) |
| **Profit before income tax** | | | | | **395.0** |
| Income tax expense | | | | | (120.2) |
| **Profit for the year** | | | | | **274.8** |
| Segment assets | 2,731.0 | 920.5 | 168.8 | (425.9) | 3,394.4 |
| Segment liabilities | (531.6) | (141.2) | (1,567.2) | 58.8 | (2,181.2) |
| Investment (included in segment assets)[b] | 23.5 | — | — | — | 23.5 |
| Capital expenditure[c] | (577.2) | (47.6) | — | 0.2 | (624.6) |
| Depreciation | (140.8) | (39.2) | — | — | (180.0) |
| Amortisation of intangible assets | (21.1) | (44.7) | — | — | (65.8) |

(b) Includes Ship Equip International A.S. ('Ship Equip') from 28 April 2011.
(b) Relates to 19% stake in SkyWave Mobile Communications ('SkyWave') (see note 15).
(c) Capital expenditure stated using accruals basis.

### 5. Segmental information (continued)

| | 2010 | | | | |
|---|---|---|---|---|---|
| **(US$ in millions)** | **Inmarsat Global** | **Inmarsat Solutions[(a)]** | **Unallocated** | **Eliminations** | **Total** |
| **Revenue** | | | | | |
| External sales | 461.0 | 710.6 | — | — | 1,171.6 |
| Inter-segment | 303.1 | 6.2 | — | (309.3) | — |
| **Total revenue** | **764.1** | **716.8** | **—** | **(309.3)** | **1,171.6** |
| Segment result (operating profit) before operating profit from LightSquared | 385.8 | 57.4 | — | (0.2) | 443.0 |
| Operating profit from LightSquared | 17.1 | — | — | — | 17.1 |
| **Segment result (operating profit)** | **402.9** | **57.4** | **—** | **(0.2)** | **460.1** |
| Net interest charged to the Income Statement | — | — | (112.2) | — | (112.2) |
| **Profit before income tax** | | | | | **347.9** |
| Income tax expense | | | | | (76.2) |
| **Profit for the year** | | | | | **271.7** |
| Segment assets | 2,327.8 | 905.7 | 330.6 | (419.4) | 3,144.7 |
| Segment liabilities | (364.8) | (162.4) | (1,648.7) | 53.3 | (2,122.6) |
| Investment (included in segment assets)[(b)] | 23.5 | — | — | — | 23.5 |
| Capital expenditure[(c)] | (157.6) | (30.6) | — | 0.1 | (188.1) |
| Depreciation | (145.6) | (27.5) | — | — | (173.1) |
| Amortisation of intangible assets | (23.8) | (37.7) | — | — | (61.5) |

(a) Includes Segovia from 12 January 2010.
(b) Relates to 19% stake in SkyWave (see note 15).
(c) Capital expenditure stated using accruals basis.

**Geographical segments**
The Group mainly operates in the geographic areas shown in the table below. The home country of the Group is the United Kingdom, with its head office and central operations located in London.

Revenues are allocated to countries based on the billing address of the customer. For Inmarsat Global this is the distribution partner who receives the invoice for the service and for Inmarsat Solutions this is the billing address of the customer for whom the service is provided.

Assets and capital expenditure are allocated based on the physical location of the assets.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **(US$ in millions)** | **Revenue** | **Non-current segment assets[(a)]** | **Revenue** | **Non-current segment assets[(a)]** |
| Europe | 509.3 | 1,462.1 | 560.5 | 1,333.6 |
| North America | 630.2 | 794.9 | 357.3 | 414.7 |
| Asia Pacific | 211.0 | 15.5 | 184.9 | 22.9 |
| Rest of the world | 58.0 | — | 68.9 | — |
| Unallocated[(b)] | — | 664.5 | — | 747.7 |
| | **1,408.5** | **2,937.0** | **1,171.6** | **2,518.9** |

(c) In line with IFRS 8, 'Operating Segments', non-current assets exclude derivative financial instruments and deferred income tax assets.
(d) Unallocated items relate to satellites which are in orbit.

### 6. Profit before income tax

Costs are presented by the nature of the expense to the Group. Network and satellite operations' costs comprise costs to third parties for network service contracts, operating lease rentals and services. A further breakdown of employee benefit costs is given in note 7 below.

Profit before income tax is stated after charging the following items:

| (US$ in millions) | Note | 2011 | 2010 |
|---|---|---|---|
| Depreciation of property, plant and equipment | 13 | 180.0 | 173.1 |
| Amortisation of intangible assets | 14 | 65.8 | 61.5 |
| Impairment of goodwill | 4 | 120.0 | — |
| Impairment of trademarks | 14 | 21.5 | — |
| Operating lease rentals: | | | |
| — Land and buildings | | 16.7 | 16.8 |
| — Services equipment, fixtures and fittings | | 1.2 | 0.6 |
| — Space segment | | 20.1 | 17.4 |
| Cost of inventories recognised as an expense | | 66.6 | 63.5 |
| Research and development costs expensed | | 6.3 | 4.4 |

The analysis of the Auditor's remuneration is as follows:

| (US$ in millions) | 2011 | 2010 |
|---|---|---|
| Fees payable to the Company's Auditor for the audit of the Company's annual accounts | — | — |
| Fees payable to the Company's Auditor for other services to the Group: | | |
| — The audit of the Company's subsidiaries, pursuant to legislation | 0.9 | 0.9 |
| — Audit-related assurance services | 0.1 | 0.1 |
| — Tax compliance services | 0.2 | 0.6 |
| — Tax advisory services | 1.3 | 2.1 |
| — Services relating to corporate finance transactions | 0.3 | — |
| **Total Auditor's remuneration** | **2.8** | **3.7** |

(a) In addition to the fees disclosed above, Inmarsat Global's pension plan incurred audit fees from our auditor of US$23,890 for the 2011 financial year (2010: US$18,480).
(b) At 31 December 2011, Inmarsat Global had contractually committed to US$nil of services to be completed in the 2012 financial year (31 December 2010: US$0.6m of tax services to be completed in the 2011 financial year).

### 7. Employee benefit costs (including the Directors)

| (US$ in millions) | Note | 2011 | 2010 |
|---|---|---|---|
| Wages and salaries | | 169.4 | 148.6 |
| Social security costs | | 14.1 | 12.6 |
| Share options charge (including employers' national insurance contribution) | 25 | 13.0 | 11.4 |
| Defined contribution pension plan costs | | 6.5 | 5.9 |
| Defined benefit pension plan costs[(a)] | 27 | 2.6 | 2.2 |
| Post-retirement healthcare plan costs[(a)] | 27 | 0.9 | 1.0 |
| **Total employee benefit costs** | | **206.5** | **181.7** |

(a) Defined benefit pension plan costs and post-retirement healthcare plan costs for 2011 and 2010 reflect the service cost (see note 27).

### 7. Employee benefit costs (including the Directors) (continued)

**Employee numbers**

The average monthly number of people (including the Directors) employed during the year by category of employment:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Inmarsat Global | Inmarsat Solutions[a] | Total | Inmarsat Global | Inmarsat Solutions | Total |
| Operations | 203 | 455 | 658 | 191 | 358 | 549 |
| Sales and marketing | 96 | 188 | 284 | 92 | 143 | 235 |
| Development and engineering | 94 | 71 | 165 | 78 | 98 | 176 |
| Administration | 146 | 290 | 436 | 139 | 255 | 394 |
| | **539** | **1,004** | **1,543** | **500** | **854** | **1,354** |

(a) Includes 136 people employed by Ship Equip, which was acquired on 28 April 2011.

### 8. Executive and Non-Executive Directors' remuneration

None of the Directors received emoluments in respect of his/her service to the Company in the years ended 31 December 2011 and 2010.

Executive and Non-Executive Directors' remuneration for Inmarsat plc are disclosed in the Inmarsat plc annual report.

**Key management**

The Directors and the Executive Staff (comprising the Chief Executive Officer and his direct reports) are the key management of the business (see note 33).

### 9. Net interest payable

| (US$ in millions) | 2011 | 2010 |
|---|---|---|
| Interest on Senior Notes and credit facilities | 65.0 | 62.0 |
| Interest on Inmarsat Solutions borrowings[a] | 0.5 | 14.7 |
| Pension and post-retirement liability finance costs | 0.5 | — |
| Interest rate swaps | 12.7 | 13.7 |
| Unwinding of discount on deferred satellite liabilities | 2.6 | 2.8 |
| Unwinding of discount on deferred consideration | 7.9 | 5.1 |
| Amortisation of debt issue costs[b] | 9.9 | 6.9 |
| Amortisation of discount on Senior Notes due 2017 | 0.6 | 0.6 |
| Premium on purchase of Stratos Senior Unsecured Notes | — | 1.4 |
| Intercompany interest payable | 0.3 | 12.6 |
| Other interest | 0.6 | 1.3 |
| **Interest payable and similar charges** | **100.6** | **121.1** |
| Less: Amounts included in the cost of qualifying assets[c] | (24.4) | (6.6) |
| **Total interest payable and similar charges** | **76.2** | **114.5** |
| Bank interest receivable and other interest | 4.7 | 1.1 |
| Pension and post-retirement liability finance gains | — | 0.1 |
| Intercompany interest receivable | 0.2 | 1.1 |
| **Total interest receivable and similar income** | **4.9** | **2.3** |
| **Net interest payable** | **71.3** | **112.2** |

(a) 2010 includes US$8.9m non-recurring items in connection with the Stratos refinancing. This consists of the write-off of unamortised issue costs of US$1.9m and US$3.9m in relation to the repayment of the Stratos Senior Credit Facility and the redemption of the Stratos Senior Unsecured Notes, respectively, as well as the recognition of the net redemption premium of US$3.1m in respect of the Stratos Senior Unsecured Notes (see note 19).
(b) 2011 includes the write-off of unamortised issue costs of US$3.8m in relation to the refinancing of our previous US$500.0m Senior Credit Facility (see note 19).
(c) Borrowing costs included in the cost of qualifying assets during the year are calculated by applying a capitalisation rate to expenditure on such assets. The average interest capitalisation rate for the year was 7.99% (2010: 7.33%).

### 10. Income tax

Income tax expense recognised in the Income Statement:

| (US$ in millions) | 2011 | 2010 |
|---|---|---|
| **Current tax expense:** | | |
| Current year | (128.5) | (70.6) |
| Adjustments in respect of prior periods | | |
| — Other | 6.8 | 10.8 |
| **Total current tax expense** | **(121.7)** | **(59.8)** |
| **Deferred tax (credit)/expense:** | | |
| Origination and reversal of temporary differences | | |
| — Other temporary differences | (8.6) | (20.0) |
| Adjustment due to reduction in the corporation tax rate from 27% to 25% (2010: 28% to 27%) | 5.4 | 0.8 |
| Adjustments in respect of prior periods | 4.7 | 2.8 |
| **Total deferred tax credit/(expense)** | **1.5** | **(16.4)** |
| **Total income tax expense** | **(120.2)** | **(76.2)** |

Reconciliation of effective tax rate:

| (US$ in millions) | 2011 | 2010 |
|---|---|---|
| Profit before tax | 395.0 | 347.9 |
| Income tax at 26.5% (2010: 28%) | (104.7) | (97.4) |
| Differences in overseas tax rates | (2.9) | (3.4) |
| Adjustments in respect of prior periods: | | |
| — Other | 11.5 | 13.6 |
| Effect of the reduction in the corporation tax rate from 27% to 25% (2010: 28% to 27%) on: | | |
| — Current year movement in deferred tax | 5.4 | 0.8 |
| Impact of current and prior year losses | 1.7 | (0.8) |
| Non deductible impact of Stratos goodwill impairment | (31.8) | — |
| Other non-deductible expenses/non taxable income[a] | 0.6 | 11.0 |
| **Total income tax expense** | **(120.2)** | **(76.2)** |

(a) In 2010, includes a non-recurring tax credit of US$7.0m.

Tax (charged)/credited to equity:

| (US$ in millions) | 2011 | 2010 |
|---|---|---|
| Current tax credit on share options | 0.3 | 0.4 |
| Deferred tax (charge)/credit on share options | (2.6) | 0.8 |
| Deferred tax (charge)/credit relating to gains on cash flow hedges | (1.2) | 4.1 |
| Deferred tax charge on actuarial gains and losses from pension and post-retirement healthcare benefits | (3.0) | (2.6) |
| **Total tax (charged)/credited to equity** | **(6.5)** | **2.7** |

### 11. Net foreign exchange losses/(gains)

| (US$ in millions) | Note | 2011 | 2010 |
|---|---|---|---|
| Pension and post-retirement liability | 27 | (0.4) | (1.6) |
| Other operating costs | | 0.5 | 0.6 |
| **Total foreign exchange losses/(gains)** | | **0.1** | **(1.0)** |

### 12. Dividends

The Company paid dividends during the year ended 31 December 2011 of US$68.9m and US$104.5m for the 2011 interim dividend and the 2010 final dividend, respectively. In addition, in the year ended 31 December 2011, the Company declared one-off dividends totalling US$250.0m to fund a share repurchase programme by Inmarsat plc (the ultimate parent company) (year ended 31 December 2010: US$64.3m and US$100.7m for the 2010 interim dividend and the 2009 second interim dividend, respectively).

No final dividend for the year ended 31 December 2011 has been declared or paid.

### 13. Property, plant and equipment

| (US$ in millions) | Freehold land and buildings | Services equipment, fixtures and fittings | Space segment | Assets in the course of construction | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| 1 January 2010 | 12.4 | 200.4 | 1,905.6 | 98.1 | 2,216.5 |
| Additions | 1.1 | 24.3 | 15.6 | 119.7 | 160.7 |
| Acquisitions | 0.8 | 2.2 | — | — | 3.0 |
| Disposals | — | (0.3) | — | — | (0.3) |
| Transfers | — | 2.1 | 72.9 | (75.0) | — |
| **31 December 2010** | **14.3** | **228.7** | **1,994.1** | **142.8** | **2,379.9** |
| Additions | 0.5 | 30.0 | 22.0 | 542.8 | 595.3 |
| Acquisitions | — | 3.1 | 46.6 | — | 49.7 |
| Disposals | — | (0.5) | (0.3) | — | (0.8) |
| Transfers | — | 2.7 | 0.1 | (2.8) | — |
| **31 December 2011** | **14.8** | **264.0** | **2,062.5** | **682.8** | **3,024.1** |
| **Accumulated depreciation:** | | | | | |
| 1 January 2010 | (4.3) | (116.0) | (731.0) | — | (851.3) |
| Charge for the year | (0.8) | (28.6) | (143.7) | — | (173.1) |
| Disposals | — | 0.2 | — | — | 0.2 |
| **31 December 2010** | **(5.1)** | **(144.4)** | **(874.7)** | **—** | **(1,024.2)** |
| Charge for the year | (0.9) | (34.5) | (144.6) | — | (180.0) |
| Disposals | — | 0.1 | 0.1 | — | 0.2 |
| **31 December 2011** | **(6.0)** | **(178.8)** | **(1,019.2)** | **—** | **(1,204.0)** |
| **Net book amount at 31 December 2010** | 9.2 | 84.3 | 1,119.4 | 142.8 | 1,355.7 |
| **Net book amount at 31 December 2011** | **8.8** | **85.2** | **1,043.3** | **682.8** | **1,820.1** |

The lives assigned to significant tangible fixed assets are:

| | |
|---|---|
| Space segment assets: | |
| Satellites | 13–15 years |
| Other space segment assets, including ground infrastructure | 5–12 years |
| Fixtures and fittings, and services-related equipment | 3–15 years |
| Buildings | 20 years |

At 31 December 2011 and 2010, freehold land and buildings for Inmarsat Global were carried at cost less accumulated depreciation (US$nil). Had the freehold land and buildings been revalued on a market basis, their carrying amount at 31 December 2011 would have been US$14.0m (based on the 31 December 2011 exchange rate between the US Dollar and Pounds Sterling of US$1.55/£1.00) (2010: US$14.1m). The Directors determined the market valuation.

In 2011, the Group received government grants in relation to the purchase and construction of certain assets. The grants have been deducted from the cost of the relevant asset to arrive at the carrying amount. Government grants received in 2011 were US$9.7m (2010: US$6.8m).

# Inmarsat Group Limited
# Notes to the Financial Statements (continued)
# For the year ended 31 December 2011

## 14. Intangible assets

| (US$ in millions) | Goodwill | Trademarks | Software | Patents | Terminal development costs | Customer relationships | Spectrum Rights, Orbital Slots & Licences | Intellectual property | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | |
| 1 January 2010 | 668.7 | 35.8 | 113.1 | 14.0 | 106.9 | 232.2 | 5.7 | 0.7 | 1,177.1 |
| Additions | – | – | 15.9 | – | 11.6 | – | – | – | 27.5 |
| Acquisitions | 27.2 | 4.8 | 0.3 | – | – | 108.9 | – | – | 141.2 |
| **31 December 2010** | **695.9** | **40.6** | **129.3** | **14.0** | **118.5** | **341.1** | **5.7** | **0.7** | **1,345.8** |
| Additions | – | – | 21.3 | – | 5.7 | – | 2.3 | – | 29.3 |
| Acquisitions | 66.6 | 9.3 | 16.8 | – | – | 38.0 | 1.8 | – | 132.5 |
| **31 December 2011** | **762.5** | **49.9** | **167.4** | **14.0** | **124.2** | **379.1** | **9.8** | **0.7** | **1,507.6** |
| **Accumulated amortisation and impairment losses:** | | | | | | | | | |
| 1 January 2010 | – | (9.4) | (61.8) | (12.1) | (31.1) | (40.0) | (2.0) | (0.7) | (157.1) |
| Charge for the year | – | (3.1) | (19.1) | (1.8) | (10.0) | (26.9) | (0.6) | – | (61.5) |
| **31 December 2010** | **–** | **(12.5)** | **(80.9)** | **(13.9)** | **(41.1)** | **(66.9)** | **(2.6)** | **(0.7)** | **(218.6)** |
| Charge for the year | – | (3.2) | (20.3) | (0.1) | (11.9) | (29.0) | (1.3) | – | (65.8) |
| Impairment losses | (120.0) | (21.5) | – | – | – | – | – | – | (141.5) |
| **31 December 2011** | **(120.0)** | **(37.2)** | **(101.2)** | **(14.0)** | **(53.0)** | **(95.9)** | **(3.9)** | **(0.7)** | **(425.9)** |
| **Net book amount 31 December 2010** | 695.9 | 28.1 | 48.4 | 0.1 | 77.4 | 274.2 | 3.1 | – | 1,127.2 |
| **Net book amount 31 December 2011** | **642.5** | **12.7** | **66.2** | **–** | **71.2** | **283.2** | **5.9** | **–** | **1,081.7** |

Goodwill represents the excess of consideration paid on an acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to CGUs for the purpose of impairment testing. At 31 December 2011, we believe the goodwill in relation to the Stratos CGU to be impaired and consequently have recorded an impairment charge of US$120.0m in the Income Statement (see note 4(a)).

Patents and trademarks are being amortised on a straight-line basis over their estimated useful lives, which are seven years and between seven and 20 years, respectively. During the year ended 31 December 2011, an impairment loss of US$21.5m was recognised in the Income Statement to reduce the carrying amount of the Stratos, Segovia and Ship Equip trade names to US$nil. During the year ended 31 December 2011, the Group comprised Inmarsat, Stratos, Segovia and Ship Equip, all acting as relatively independent business units. From 1 January 2012, Stratos, Segovia and Ship Equip were rebranded as 'Inmarsat' and therefore the previous trade names are no longer used and have been impaired.

The software capitalised relates to the Group's BGAN billing system and other internally developed operational systems and purchased software and is being amortised on a straight-line basis over its estimated useful life of three to 12 years. Internally developed technology acquired as a result of the acquisition of Stratos is being amortised on a straight-line basis over its estimated useful life of five years.

The Group capitalises development costs associated with the development of user terminals as intangible fixed assets. Costs directly relating to the development of the user terminals for the BGAN and GSPS services are being amortised over the estimated sales life of the services which is five to 10 years.

Customer relationships acquired in connection with Stratos, Segovia and Ship Equip are being amortised over the expected period of benefit of 12 and 14 years, respectively using the straight-line method.

Spectrum rights relate to the acquisition of ACeS and Stratos. Spectrum rights acquired as a result of the ACeS collaboration in September 2006 are being amortised on a straight-line basis over the remaining useful lives of three years. Spectrum rights acquired as a result of the acquisition of Stratos are being amortised over their useful lives of three to 10 years.

Orbital slots and licences relate to the Global Xpress programme. Each individual asset is reviewed to determine whether it has a finite or indefinite useful life, amortisation of finite life assets will commence when the Inmarsat-5 satellites are operational. Indefinite life assets will be tested annually for impairment.

Intellectual property relates to the acquisition of ACeS and is now fully amortised.

### 15. Investments

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| Investments held at cost: | | |
| SkyWave | 23.5 | 23.5 |
| **Total investments held at cost** | **23.5** | **23.5** |
| Interest in associates: | | |
| Navarino | 7.0 | 6.7 |
| JSAT Mobile | 0.5 | 0.6 |
| **Total interest in associates** | **7.5** | **7.3** |
| **Total investments** | **31.0** | **30.8** |

The Group has an ownership interest of approximately 19% in the privately held SkyWave. The ownership in SkyWave has been recorded at cost, including capitalised transaction costs.

The Group owns a 49% ownership interest in Navarino Telecom SA and NTS Maritime Limited (together, 'Navarino'). Cash dividends received for the year ended 31 December 2011 totalled US$1.4m (2010: US$1.4m).

The Group owns 26.67% of JSAT Mobile Communications Inc. and the interest has been treated as an associate using the equity method of accounting. The aggregated assets, liabilities, revenue and profit of associates are deemed to be immaterial for reporting purposes.

### 16. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and for the purposes of the Cash Flow Statement also includes bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| Cash at bank and at hand | 63.2 | 73.4 |
| Short-term deposits with original maturity of less than three months | 102.5 | 249.7 |
| | **165.7** | **323.1** |

Cash and cash equivalents include the following for the purposes of the Cash Flow Statement:

| (US$ in millions) | Note | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|---|
| Cash and cash equivalents | | 165.7 | 323.1 |
| Bank overdrafts | 19 | (1.2) | (0.7) |
| | | **164.5** | **322.4** |

### 17. Trade and other receivables

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| **Current:** | | |
| Trade receivables | 165.7 | 184.6 |
| Other receivables | 21.8 | 18.4 |
| Amounts due from Parent undertakings | 3.1 | 7.5 |
| Prepayments and accrued income | 69.7 | 57.7 |
| | **260.3** | **268.2** |

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| **Non-current:** | | |
| Prepayments and accrued income | 4.2 | 5.2 |
| | **4.2** | **5.2** |

The Directors consider the carrying value of trade and other receivables to approximate to their fair value.

### 18. Inventories

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| Finished goods | 22.3 | 19.4 |
| Work in progress | 1.2 | 0.8 |
| | **23.5** | **20.2** |

The Directors consider the carrying value of inventories to approximate to their fair value.

## 19. Borrowings

| | At 31 December 2011 | | | At 31 December 2010 | | |
|---|---|---|---|---|---|---|
| **(US$ in millions)** | **Principal amount** | **Deferred finance cost** | **Net balance** | **Principal amount** | **Deferred finance cost** | **Net balance** |
| **Current:** | | | | | | |
| Bank overdrafts | 1.2 | — | 1.2 | 0.7 | — | 0.7 |
| Deferred satellite payments[b] | 7.9 | — | 7.9 | 8.3 | — | 8.3 |
| Senior Credit Facility[c] | — | — | — | 50.0 | — | 50.0 |
| EIB Facility[d][f] | 44.1 | — | 44.1 | — | — | — |
| **Total current borrowings** | **53.2** | **—** | **53.2** | **59.0** | **—** | **59.0** |
| **Non-current:** | | | | | | |
| Deferred satellite payments[b] | 26.8 | — | 26.8 | 32.5 | — | 32.5 |
| Senior Credit Facility[c][f] | — | — | — | 150.0 | (6.1) | 143.9 |
| Senior Notes due 2017[e][f] | 650.0 | (9.2) | 640.8 | 650.0 | (10.8) | 639.2 |
| — Issuance discount | (3.6) | — | (3.6) | (4.2) | — | (4.2) |
| EIB Facility[d][f] | 264.3 | (2.2) | 262.1 | 308.4 | (2.6) | 305.8 |
| Ex-Im Bank Facility[g][f] | 277.3 | (14.5) | 262.8 | — | — | — |
| Subordinated Parent Company Loan:[f][h] | — | — | — | 325.7 | — | 325.7 |
| Intercompany loan | 6.0 | — | 6.0 | 5.7 | — | 5.7 |
| **Total non-current borrowings** | **1,220.8** | **(25.9)** | **1,194.9** | **1,468.1** | **(19.5)** | **1,448.6** |
| **Total borrowings** | **1,274.0** | **(25.9)** | **1,248.1** | **1,527.1** | **(19.5)** | **1,507.6** |

(a) Borrowings are recorded net of unamortised deferred finance costs in the balance sheet.

(b) Deferred satellite payments represent amounts payable to satellite manufacturers which become payable annually depending on the continued successful performance of the satellite. The gross amounts of the deferred satellite payments have been discounted to net present value at 7%.

(c) On 30 June 2011, we refinanced our previous US$500.0m Senior Credit Facility, which was due to mature in May 2012, with a new five-year US$750.0m Senior Credit Facility. Under the terms of the new facility the full US$750.0m amount is available to draw in the form of a revolving credit facility and does not amortise during the five-year availability period. Advances under the new facility bear interest at a rate equal to the applicable USD LIBOR, plus a margin of between 1.00% and 2.50% determined by reference to our ratio of net debt to EBITDA. The amount outstanding on the previous facility on the date of prepayment was US$200.0m and this amount was funded from available cash balances on 30 June 2011. As a result, as at 31 December 2011 there were no drawings on the new Senior Credit Facility.

(d) On 15 April 2010, we signed an eight-year facility agreement from the European Investment Bank (the 'EIB Facility'). Under the agreement, we were able to borrow up to €225m at any time before 23 December 2010. The facility was available in Euros and US Dollars. An initial drawdown of US$180.0m was made on 30 April 2010 and a final draw down of US$128.4m was made on 28 October 2010. This facility matures on 30 April 2018 and is repayable in equal annual instalments on both tranches beginning 30 April 2012. Interest is equal to three-month USD LIBOR plus a margin payable in April, July, October and January each year.

(e) On 12 November 2009, our 99.9% owned subsidiary company Inmarsat Finance plc issued US$650.0m aggregate principal amount of 7.375% Senior Notes due 1 December 2017 ('Senior Notes Due 2017'). The aggregate gross proceeds of the new notes issued were US$645.2m net of US$4.8m issuance discount and we capitalised US$12.5m of issuance costs.

(f) Inmarsat Finance plc is 99.9% owned by the Company, and 0.1% owned by Inmarsat Holdings Limited, which is the parent of the Company. The Company's ability to obtain funds from its subsidiaries by dividend or loan is limited by the Senior Credit Facility and the indenture governing the Senior Notes. The Senior Credit Facility, the EIB Facility and the Ex-Im Bank Facility all contain negative covenants that, among other things, generally restrict or prohibit the indirect subsidiary Inmarsat Investments Limited and its subsidiaries from making any repayment of principal under the indentures governing the Senior Notes and from declaring or paying certain dividends or making certain other distributions to shareholders. In addition, the indentures governing the Senior Notes contain covenants that, among other things, directly or indirectly restrict the Company's ability to make certain payments, including dividends or other distributions, prepay or redeem subordinated debt or equity. Substantially all of the net assets of the Company's unconsolidated and consolidated subsidiaries as of the end of 31 December 2011 are restricted net assets.

(g) On 11 May 2011, we signed a 12.5-year US$700.0m direct financing agreement with the Export-Import Bank of the United States (the 'Ex-Im Bank Facility'). The facility has a total availability period of four years and will then be repayable in equal instalments over a further 8.5 years. Drawings under the facility will incur interest at a fixed rate of 3.11% for the life of the loan.

(h) A review of the Group's structure in November 2011 led to a capital contribution from the Company's parent company (Inmarsat Holdings Limited) eliminating the previous subordinated parent company loan.

The maturity of non-current borrowings is as follows:

| **(US$ in millions)** | **As at 31 December 2011** | **As at 31 December 2010** |
|---|---|---|
| Between one and two years | 47.0 | 192.1 |
| Between two and five years | 202.5 | 144.6 |
| After five years | 945.4 | 1,111.9 |
| | **1,194.9** | **1,448.6** |

### 19. Borrowings (continued)

The borrowings of the Group are mostly at fixed rates. The Senior Notes due 2017 and the Ex-Im Bank Facility are at fixed rates.

The Group has a US$750.0m Revolving Credit Facility that has no restrictions and as at 31 December 2011 was drawn down by US$nil (as at 31 December 2010: the previous Revolving Credit Facility was drawn down by US$nil).

The Directors consider the carrying value of borrowings, other than the Senior Notes due 2017 to approximate to their fair value (see note 31).

The effective interest rates, excluding the impact of the Group's interest rate hedging policy, at the Balance Sheet dates were as follows:

| **Effective interest rate %** | **2011** | **2010** |
|---|---|---|
| Bank overdrafts | 1.8 | 1.8 |
| Senior Credit Facility | — | 2.54 |
| EIB Facility | 1.75 | 1.65 |
| Senior Notes due 2017 | 7.375 | 7.375 |
| Ex-Im Facility | 3.11 | — |
| Subordinated Parent Company Loan | — | 0.0 |
| Deferred satellite payments | 7.0 | 7.0 |
| Intercompany loan | 5.5 | 5.5 |

### 20. Trade and other payables

| **(US$ in millions)** | **As at 31 December 2011** | **As at 31 December 2010** |
|---|---|---|
| **Current:** | | |
| Trade payables | 201.6 | 100.2 |
| Deferred consideration[(a)] | 6.5 | 19.8 |
| Other taxation and social security payables | 3.6 | 2.7 |
| Other creditors | 1.2 | 15.0 |
| Amounts due to Parent undertakings | 149.3 | 3.6 |
| Accruals and deferred income[(b)] | 320.0 | 208.5 |
| | **682.2** | **349.8** |

(a) Deferred consideration includes US$2.2m SkyWave deferred consideration (see note 15) (2010: US$6.1m), US$3.3m Segovia deferred consideration (2010: US$12.7m) and US$1.0m other short-term deferred consideration (2010: US$1.0m). During 2011, the majority of the remaining value of the contingent deferred consideration on the Segovia acquisition was settled ahead of the scheduled payout dates (see note 28).
(b) As at 31 December 2011, includes US$239.3m (2010: US$135.0m) of deferred income relating to payments received from LightSquared.

| **(US$ in millions)** | **As at 31 December 2011** | **As at 31 December 2010** |
|---|---|---|
| **Non-current:** | | |
| Deferred consideration[(a)] | 4.9 | 36.2 |
| Other payables | 23.2 | 22.1 |
| | **28.1** | **58.3** |

(a) Deferred consideration includes US$2.0m SkyWave deferred consideration (see note 15) (2010: US$4.0m), US$1.9m Segovia deferred consideration (2010: US$31.0m) and US$1.0m other long-term deferred consideration (2010: US$1.2m). During 2011, the majority of the remaining value of the contingent deferred consideration on the Segovia acquisition was settled ahead of the scheduled payout dates (see note 28).

The Directors consider the carrying value of trade and other payables to approximate to their fair value.

### 21. Provisions

| (US$ in millions) | Other provision | Asset retirement obligations | Total |
|---|---|---|---|
| **Current:** | | | |
| As at 1 January 2010 | 0.5 | 0.4 | 0.9 |
| Utilised in current year | (0.4) | (0.4) | (0.8) |
| Asset retirement obligation transferred from non-current liability | — | 0.3 | 0.3 |
| **As at 31 December 2010** | **0.1** | **0.3** | **0.4** |
| Charged in respect of current year[(a)] | 2.6 | — | 2.6 |
| Utilised in current year | — | (0.1) | (0.1) |
| **As at 31 December 2011** | **2.7** | **0.2** | **2.9** |

(c) In the year ending 31 December 2011, the Group announced the intention to restructure the organisation to operate the Group with business units aligned to vertical market sectors. As a result of the restructure, a small number of individual positions will cease to exist as business functions are combined. The amount charged to the restructuring provision for the year ended 31 December 2011 is US$2.6m, of which US$nil was utilised during the year. Management expects to utilise the US$2.7m restructuring provision that remains at 31 December 2011 during 2012.

| (US$ in millions) | Post-retirement healthcare benefits | Pension | Asset retirement obligations | Other | Total |
|---|---|---|---|---|---|
| **Non-current:** | | | | | |
| As at 1 January 2010 | 33.2 | 19.2 | 2.9 | 0.5 | 55.8 |
| Charged to Income Statement in respect of current year | 1.7 | 1.4 | 0.3 | 0.2 | 3.6 |
| Credited directly to Comprehensive Income in respect of current year | (4.8) | (5.1) | — | — | (9.9) |
| Contributions paid | — | (5.4) | — | — | (5.4) |
| Utilised in current year | (0.3) | (1.0) | (0.1) | (0.1) | (1.5) |
| Revision in estimated cash flows and timing of settlement | — | — | 0.2 | — | 0.2 |
| Transfer to current liability | — | — | (0.3) | — | (0.3) |
| **As at 31 December 2010** | **29.8** | **9.1** | **3.0** | **0.6** | **42.5** |
| Acquisition of Ship Equip | — | 1.3 | — | — | 1.3 |
| Charged to Income Statement in respect of current year | 2.4 | 1.6 | 0.3 | 0.1 | 4.4 |
| (Credited)/charged directly to Comprehensive Income in respect of current year | (16.6) | 3.2 | — | — | (13.4) |
| Contributions paid | — | (7.4) | — | — | (7.4) |
| Utilised in current year | (0.3) | (0.9) | — | — | (1.2) |
| Revision in estimated cash flows and timing of settlement | — | — | 0.5 | — | 0.5 |
| **As at 31 December 2011** | **15.3** | **6.9** | **3.8** | **0.7** | **26.7** |

The Trustee and the Company agreed that minimum additional annual contributions of £2.2m will be paid to the Inmarsat Pension Plan (the 'Plan') starting in November 2009 and continuing annually thereafter, up to and including November 2015. During 2011, the actual additional cash contribution the Group made to the Plan was £3.4m or US$5.4m (2010: US$3.5m) to reduce the pension deficit.

Asset retirement obligations have been recognised in respect of the expected costs of removal of equipment from leased premises by Stratos.

Other provisions in 2011 and 2010 relate to a legally required provision for eventual severance payments to employees based overseas.

### 22. Current and deferred income tax assets and liabilities

The current income tax liability of US$60.4m (2010: US$51.0m) represents the income tax payable in respect of current and prior periods less amounts paid.

**Recognised deferred income tax assets and liabilities**
The movements in deferred income tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

| | As at 31 December 2011 | | | As at 31 December 2010 | | |
|---|---|---|---|---|---|---|
| **(US$ in millions)** | **Assets** | **Liabilities** | **Net** | **Assets** | **Liabilities** | **Net** |
| Property, plant and equipment and intangible assets | — | 120.2 | 120.2 | — | 113.6 | 113.6 |
| Other | (6.9) | 8.0 | 1.1 | (12.2) | 9.6 | (2.6) |
| Pension asset | (4.0) | — | (4.0) | (8.5) | — | (8.5) |
| Share options | (2.5) | — | (2.5) | (5.3) | — | (5.3) |
| Loss carry forwards | (5.3) | — | (5.3) | (10.7) | — | (10.7) |
| **Net deferred income tax liabilities** | **(18.7)** | **128.2** | **109.5** | **(36.7)** | **123.2** | **86.5** |

Movement in temporary differences during the year:

| **(US$ in millions)** | **As at 1 January 2011** | **Ship Equip acquisition** | **Recognised in income** | **Recognised in equity** | **As at 31 December 2011** |
|---|---|---|---|---|---|
| Property, plant and equipment and intangible assets | 113.6 | 17.7 | (11.1) | — | 120.2 |
| Other | (2.6) | — | 2.5 | 1.2 | 1.1 |
| Pension asset | (8.5) | — | 1.5 | 3.0 | (4.0) |
| Share options | (5.3) | — | 0.2 | 2.6 | (2.5) |
| Loss carry forwards | (10.7) | — | 5.4 | — | (5.3) |
| **Total** | **86.5** | **17.7** | **(1.5)** | **6.8** | **109.5** |

| **(US$ in millions)** | **As at 1 January 2010** | **Recognised in income** | **Recognised in equity** | **As at 31 December 2010** |
|---|---|---|---|---|
| Property, plant and equipment and intangible assets | 106.2 | 7.4 | — | 113.6 |
| Other | (6.7) | 8.2 | (4.1) | (2.6) |
| Pension asset | (12.7) | 1.6 | 2.6 | (8.5) |
| Share options | (4.4) | (0.1) | (0.8) | (5.3) |
| Loss carry forwards | (10.0) | (0.7) | — | (10.7) |
| **Total** | **72.4** | **16.4** | **(2.3)** | **86.5** |

Total unprovided deferred tax assets:

| **(US$ in millions)** | **As at 31 December 2011** | **As at 31 December 2010** |
|---|---|---|
| Temporary timing differences | (18.3) | (4.1) |
| Unused income tax losses | (14.8) | (4.3) |
| Unused capital losses | (31.6) | (33.0) |
| **Total** | **(64.7)** | **(41.4)** |

### 22. Current and deferred income tax assets and liabilities (continued)

Overseas dividends received are largely exempt from UK tax but may be subject to foreign withholding taxes. The unrecognised deferred tax liability in respect of the unremitted earnings of those overseas subsidiaries affected by such taxes is US$4.6m (2010: US$3.6m). No deferred tax liability is recognised on these temporary differences as the Group is able to control the timing of reversal and it is probable that this will not take place in the foreseeable future.

The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 25%. In March 2012, the Chancellor announced that the main rate of corporation tax for the year commencing 1 April 2012 will be 24% and that there will be further progressive annual reductions of 1% until a rate of 22% is reached with effect from 1 April 2014.

Whilst detailed calculations have not been prepared at this stage, it is estimated that the impact of the remaining annual corporation tax rate reductions would reduce the value of the group's deferred tax liabilities at the balance sheet date by approximately US$13.0m and reduce the value of the group's deferred tax assets at the balance sheet date by approximately US$1.0m.

### 23. Cash generated from operations

Reconciliation of profit for the year to net cash generated from operations:

| (US$ in millions) | 2011 | 2010 |
|---|---|---|
| Profit for the year | 274.8 | 271.7 |
| Adjustments for: | | |
| Depreciation and amortisation | 245.8 | 234.6 |
| Income tax charge | 120.2 | 76.2 |
| Interest payable | 76.2 | 114.5 |
| Interest receivable | (4.9) | (2.3) |
| Non-cash employee benefit costs | 11.5 | 14.6 |
| Forward exchange contracts | 0.7 | 0.6 |
| Share of results of associates, net of dividends received | (0.3) | 0.3 |
| Acquisition-related adjustments | 2.1 | 2.1 |
| Impairment losses | 141.5 | — |
| Non cash foreign exchange movements | (1.6) | 0.2 |
| Changes in net working capital: | | |
| Decrease/(increase) in trade and other receivables | 43.5 | (20.1) |
| Increase in inventories | (2.7) | (9.1) |
| Increase in trade and other payables[(a)] | 87.5 | 106.6 |
| Decrease in provisions | (2.2) | (3.7) |
| **Cash generated from operations** | **992.1** | **786.2** |

(a) The increase is primarily due to deferred revenue in respect of payments received from LightSquared (see note 20).

### 24. Share capital

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| **Authorised:** | | |
| 630,780,000 ordinary shares of €0.0005 each (2010: 630,780,000) | 0.4 | 0.4 |
| **Allotted, issued and fully paid:** | | |
| 610,500,000 ordinary shares of €0.0005 each (2010: 610,500,000) | 0.4 | 0.4 |

Shares issued by the Company denominated in a currency other than US Dollars are translated at the rates ruling at the date of issue.

### 25. Employee share options and awards

In line with IFRS 2, 'Share-based Payment', the Group recognised US$13.0m (2010: US$11.4m) in total share compensation costs across all its share plans for the 2011 financial year. Total share-based compensation costs are recognised over the vesting period of the options and share awards ranging from one to four years. Given that these schemes operate at an Inmarsat plc group level, the information below is for the Inmarsat plc group as a whole.

In November 2004, the Company adopted the Staff Value Participation Plan (the '2004 Plan') making awards in November 2004, January and May 2005. All options granted under the 2004 Plan and held by optionholders have now vested and are exercisable. Whenever options are exercised under the 2004 Plan, the holder must pay a de minimis charge of €1 for each tranche of options exercised. The options expire 10 years from the date of grant. Shares are transferred to the optionholders from the Inmarsat Employees' Share Ownership Plan Trust (the 'Trust') (resident in Guernsey). No new shares have been issued to satisfy the exercise of these options.

A summary of share activity within the Trust and options outstanding under the 2004 Plan as at 31 December 2011 is as follows:

| | Shares available for grant | Options outstanding | Weighted average exercise price per option |
|---|---|---|---|
| **Balance at 1 January 2010** | 1,015,294 | 163,174 | £3.67 |
| Market purchase of shares (11 March 2010) | 125,000 | – | |
| Subscription for International Share Incentive Plan | 43,936 | – | |
| Exercised | – | (60,044) | £7.24 |
| Exercise re International Sharesave Plan | (823) | – | |
| Exercise re International Share Incentive Plan | (12,627) | – | |
| **Balance at 31 December 2010** | **1,170,780** | **103,130** | **£3.71** |
| Exercised | **–** | **(7,347)** | **£5.83** |
| Exercise re International Sharesave Plan | **(1,421)** | **–** | |
| Exercise re International Share Incentive Plan | **–** | **–** | |
| **Balance at 31 December 2011** | **1,169,359** | **95,783** | **£3.72** |
| **Exercisable at 31 December 2011** | **–** | **95,783** | |
| **Exercise Price per tranche** | **–** | **€1.00** | |

The weighted average of the remaining contractual life for the 2004 Plan at 31 December 2011 is three years.

The Company also operates a Bonus Share Plan ('BSP'). Awards have been made regularly under the BSP to the Executive Directors and certain members of senior management.

Awards are made in the form of a conditional allocation of shares. The performance conditions attached to the BSP are non-market based performance conditions. Dividends will accrue and be added as additional shares upon vesting. Details of the awards made in 2011 and the operation of the BSP can be found in the Inmarsat plc Annual Report, pages 48 and 49.

The rules of the BSP provide that the Remuneration Committee has the discretion to satisfy the awards using cash instead of shares. It is the intention, however, of the Company to generally satisfy the awards using newly-issued shares.

As the BSP provides free share awards with no market-based performance conditions attached, and which carry an entitlement to dividends paid in cash or shares during the vesting period, the fair value of the awards is the value of the grant. This is due to the fact that regardless of the market price at the time the award of shares is made, the total value of shares to be awarded will not change.

The Company also operates a Performance Share Plan ('PSP') and regular annual awards are made to the Executive Directors and certain members of senior management. Participants are entitled to receive the value of any dividends that are paid during the vesting period in the form of cash or additional shares.

### 25. Employee share options and awards (continued)

The PSP shares will not normally be transferred to participants until the third anniversary of the award date. The transfer of shares is dependent upon the performance conditions being satisfied over the three consecutive financial years starting in the financial year the award date falls. The rules of the PSP provide that the Remuneration Committee has the discretion to satisfy the awards using cash instead of shares. It is the intention, however, of the Company to satisfy the awards using newly-issued shares at the end of the relevant three-year period unless a participant leaves and is entitled under the Rules to receive a proportionate award and the performance condition has been met. Details of the awards made in 2011 and the operation of the PSP can be found in the Inmarsat plc Annual Report, page 48.

The performance conditions for the PSP are based on the Group's Total Shareholder Return ('TSR') relative to constituents of the FTSE 350 Index (excluding investment trusts) and a non-market based condition, based on EBITDA measured over a three-year period. The vesting schedule for PSP awards has been structured so that the shape of the vesting schedule is determined by both TSR and EBITDA performance. This will be changed for awards made in 2012 onwards. The market-based performance condition has been incorporated into the valuation. The fair value of the allocation and the assumptions used in the calculation are as follows:

| | Performance Share Plan | | | | |
|---|---|---|---|---|---|
| Grant date | 19 March 2008 | 20 March 2009 | 14 May 2009 | 26 March 2010 | 18 May 2011 |
| Grant price | £4.39 | £4.57 | £5.35 | £7.905 | £6.07 |
| Exercise price | nil | nil | nil | nil | nil |
| Bad leaver rate | 0% | 0% | 0% | 0% | 0% |
| Vesting period | 3 years | 3 years | 3 years | 3 years | 3 years |
| Volatility | 28.5% | 34.9% | 36.2% | 35.7% | 32.1% |
| Fair value per share option | £2.40 | £3.21 | £3.30 | £5.62 | £3.17 |

Both the BSP and PSP share awards expire 10 years after date of grant. The weighted average of the remaining contractual life for both the BSP and PSP share awards at 31 December 2011 is 4.9 and 4.2 years respectively.

In September 2007, the Inmarsat plc Remuneration Committee made the Chief Executive Officer an exceptional award of one million incentive shares conditional upon the delivery of significant share price growth. The mid-market closing share price on 27 September 2007 was £4.49 per share. On 1 October 2009, at the request of the Nominations Committee on behalf of the Inmarsat plc Board of Directors, the Remuneration Committee agreed changes to the existing CEO Award. No shares will be earned unless, by 30 September 2012, the share price reaches a minimum price of £5.50. For performance above this level, shares will be earned pro rata up to a share price of £7.25 at which the full award will be earned. A further award over 700,000 shares could be earned if, at the time that performance is assessed, the share price has reached £9.25. If the share price is below £7.25, none of the additional shares would be earned and if between £7.25 and £9.25, shares would be earned pro rata up to a share price of £9.25.

A deferred share bonus award of 125,000 shares to the Chief Executive Officer was made in December 2009. The mid-market closing share price on 15 December 2009 was £6.59 per share. The performance condition of EBITDA growth related to the 2010 financial year has been satisfied; therefore the shares will vest in September 2012.

| | CEO Award | CEO Deferred Share Bonus Award |
|---|---|---|
| Grant date | 28 September 2007 | 16 December 2010 |
| Grant price | £4.49 | £6.59 |
| Exercise price | nil | nil |
| Bad leaver rate | 0% | 0% |
| Vesting period | 3 years | 3 years |
| Expected correlation between any pair of shares in PSP comparator group | n/a | n/a |
| Volatility | 28% | n/a |
| Fair value per share option | £2.65 | £6.59 |

The weighted average of the remaining contractual life for both the CEO Award and CEO Deferred Share Bonus Award at 31 December 2011 is 5.7 and 8.0 years respectively.

### 25. Employee share options and awards (continued)

The Company also operates a HM Revenue & Customs approved UK Sharesave Scheme. Two grants have been made so far; the first grant matured on 1 September 2008. A second grant which was made in December 2008 with an option price of £3.06 per ordinary share (reflecting the maximum discount permitted of 20%) matured on 1 February 2012.

The Company also operates an International Sharesave Plan which mirrors the operation of the UK Sharesave Scheme as closely as possible. However, instead of receiving a share option, participants receive the spread between the share price at the date of exercise and the grant price, delivered (at the Company's discretion) in cash or shares. It is the Company's intention to satisfy the awards using shares only – some of which are held by the Trust and some of which will be newly-issued.

Two grants have been made so far; the first grant matured on 1 September 2008. A second grant under the International Sharesave Plan which was made in December 2008 with an option price of £3.06 per ordinary share matured on 1 February 2012.

Options under the UK Sharesave Scheme and International Sharesave Plan expire after a maximum of 3.5 years following the initial savings payments having been made. The weighted average of the remaining contractual life for the current grant of the UK Sharesave Scheme and International Sharesave Plan at 31 December 2011 is 0.5 years for each plan.

Options under the UK Sharesave Scheme and International Sharesave Plan have been valued using the Black-Scholes model with the following assumptions:

| Grant date | Sharesave Scheme (UK and International) 15 December 2008 |
|---|---|
| Market price at date of grant | £4.44 |
| Exercise price | £3.06 |
| Bad leaver rate | 3%pa |
| Vesting period | 3 years |
| Volatility | 33.2% |
| Dividend yield assumption | 3.36% |
| Risk free interest rate | 2.46% |
| Fair value per option | £1.50 |

Several awards have been made under the UK Share Incentive Plan ('SIP'). Details of the operation of the SIP can be found in the Inmarsat plc Annual Report, page 49.

Arrangements were put in place for eligible overseas employees to replicate the awards made under the SIP as closely as possible. The same market values per ordinary share were used as for the SIP for each award.

### 25. Employee share options and awards (continued)

A summary of share awards and option activity as at 31 December 2011 (excluding the 2004 Plan which is noted previously) is as follows:

| | SIP (UK) | SIP (International and Unapproved) | BSP | CEO Share Plans[(a)] | PSP | Sharesave (UK) | Sharesave (International) | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2010** | 779,254 | 43,319 | 1,358,432 | 1,125,000 | 1,019,064 | 766,664 | 158,037 | 5,249,770 |
| Granted/Allocated | – | – | 813,736 | – | 331,548 | – | – | 1,145,284 |
| Forfeited and expired | (666) | – | – | – | – | (22,538) | (5,396) | (28,600) |
| Exercised | (48,963) | (1,421) | (794,407) | – | – | (5,695) | – | (850,486) |
| Transferred/Sold | (53,709) | – | – | – | (360,810) | – | – | (414,519) |
| **Balance at 31 December 2011** | **675,916** | **41,898** | **1,377,761** | **1,125,000** | **989,802** | **738,431** | **152,641** | **5,101,449** |
| **Exercisable at 31 December 2011** | **–** | **–** | **–** | **–** | **–** | **738,431** | **152,641** | **891,072** |
| **Exercise Price per share** | **n/a** | **n/a** | **nil** | **nil** | **nil** | **(b)** | **(c)** | |

(a) The CEO Share Plans comprises (i) the CEO Award of one million shares, where as described previously, a further award over 700,000 shares could be earned if the share price has reached £9.25 per share; and (ii) the CEO Deferred Share Bonus Award of 125,000 shares.
(b) The second grant under the UK Sharesave scheme in 2008 has an exercise price of £3.06.
The weighted average exercise price at 31 December 2011 was £3.06 per share (31 December 2010: £3.06 per share).
The weighted average exercise price of options exercised during the year as £3.06 per share.
(c) The second grant under the International Sharesave plan in 2008 has an exercise price of £3.06.
The weighted average exercise price at 31 December 2011 was £3.06 per share (31 December 2010: £3.06 per share).
The weighted average exercise price of options exercised during the year as £3.06 per share.

### 26. Reserves

Cash flow hedge reserve:

| **(US$ in millions)** | **2011** | **2010** |
|---|---|---|
| Balance as at 1 January | (7.5) | (2.6) |
| (Loss)/gain recognised on cash flow hedges: | | |
| Forward exchange contracts | (5.1) | 0.8 |
| Interest rate swaps | 5.6 | (0.2) |
| Fx movement through cash flow hedge reserve | — | (0.1) |
| Income tax charged directly to equity | (1.0) | — |
| Reclassified to the Income Statement[(a)] | | |
| Forward exchange contracts | (3.5) | (7.9) |
| Interest rate swaps | 3.1 | — |
| Fx movement through cash flow hedge reserve | — | 1.3 |
| Income tax (charged)/credited related to amounts transferred to the Income Statement | (0.2) | 4.1 |
| Reclassified and capitalised on the Balance Sheet[(b)] | | |
| Forward exchange contracts | (2.8) | (3.5) |
| Fx movement through cash flow hedge reserve | — | 0.6 |
| **Balance as at 31 December** | **(11.4)** | **(7.5)** |

The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the Income Statement or capitalised on the Balance Sheet when the hedged transactions impacts the Income Statement/Balance Sheet.

(c) Gains and losses reclassified from equity into the Income Statement during the period are included in the following Income Statement lines:

| **(US$ in millions)** | **2011** | **2010** |
|---|---|---|
| Total net operating costs | (3.5) | (6.6) |
| Interest payable and similar charges | 3.1 | — |
| Income tax (credit)/expense | (0.2) | 4.1 |
| **Total reclassified (credited) to the Income Statement in the year** | **(0.6)** | **(2.5)** |

### 26. Reserves (continued)

(b) Gains and losses reclassified from equity and capitalised on the Balance Sheet during the period are included in the following Balance Sheet lines:

| (US$ in millions) | 2011 | 2010 |
|---|---|---|
| Property, plant and equipment | (2.8) | (2.9) |
| **Total reclassified and capitalised on the Balance Sheet in the year** | **(2.8)** | **(2.9)** |

### 27. Pension arrangements and post-retirement healthcare benefits

The Group operates pension schemes in each of its principal locations. The Group's pension plans are provided through both defined benefit schemes and defined contribution arrangements.

The Group operates defined benefit pension schemes in the United Kingdom, the Netherlands and Norway. The Group's principal defined benefit pension scheme is the UK scheme for Inmarsat Global, which is a funded scheme with assets held in a separate fund administered by a corporate trustee; the scheme is closed to new employees.

The Inmarsat Global defined benefit plan was valued using the projected unit credit method with the valuation undertaken by professionally qualified and independent actuaries as at 31 December 2010. The results of the valuation have been updated for any material transactions and material changes in circumstances (including changes in market prices and interest rates) up to 31 December 2011. The results of this updated valuation as at 31 December 2011, for the purposes of the additional disclosures required by IAS 19, are set out below.

Inmarsat Global also provides post-retirement medical benefits for its employees. The post-retirement healthcare benefits are the provision of healthcare to retired employees (and their dependants) who were employed before 1 January 1998. Employees who have 10 years of service at the age of 58 and retire are eligible to participate in the post-retirement healthcare benefit plans. The plan is self-funded and there are no plan assets from which the costs are paid. The cost of providing retiree healthcare is actuarially determined and accrued over the service period of the active employee group. Membership of this plan is multi-national, although most staff are currently employed in the UK.

Both the Inmarsat Global defined benefit pension plan and the post-retirement healthcare benefits plan are denominated in Pounds Sterling and are subject to fluctuations in the exchange rate between US Dollars and Pounds Sterling.

The principal actuarial assumptions used to calculate the Group's pension and post-retirement healthcare benefits liabilities under IAS 19 are:

| | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| **Weighted average actuarial assumptions used at 31 December:** | | |
| Discount rate | 4.74% | 5.40% |
| Expected return on plan assets | 6.65% | 7.78% |
| Future salary increases | 4.55% | 5.30% |
| Medical cost trend rate[(a)] | 3.70% | 7.75% |
| Future pension increases | 3.09% | 3.59% |

(b) With effect from 1 January 2012, an inflationary cap on premiums for the post-retirement healthcare benefits was introduced, set at CPI plus 1%. The Group will pay the annual premium and any increase in percentage terms to the premium, up to a percentage amount capped at no more than CPI plus 1%. Any increase to the annual premium above the inflationary cap will be payable by the members of the scheme.

### 27. Pension arrangements and post-retirement healthcare benefits (continued)

Mortality assumptions have been updated to reflect experience and expected changes in future improvements in life expectancy. The average life expectancy assumptions for the Company's pension and post-retirement healthcare benefits liabilities are as follows:

| | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| Male current age 65 | 87.4 | 87.3 |
| Female current age 65 | 90.3 | 90.2 |

Mortality assumptions used are consistent with those recommended by the individual scheme actuaries and reflect the latest available tables, adjusted for the experience of the Group where appropriate. For the Inmarsat Global defined benefit pension scheme and the post-retirement healthcare for 2011 and 2010, mortality has been assumed to follow the SAPS Series 1 Normal Health tables, with long cohort improvements from 2003 based on year of birth, subject to minimum funding improvements of 1% per annum.

The assets held in respect of the Group's defined benefit scheme and the expected and actual rates of return were:

| | As at 31 December 2011 | | | As at 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | Long-term rate of return expected | Value | Percentage of total plan assets | Long-term rate of return expected | Value | Percentage of total plan assets |
| | % | (US$ in millions) | % | % | (US$ in millions) | % |
| Equities | 7.50% | 52.8 | 74.26% | 8.05% | 52.2 | 79.82% |
| Cash | 5.00% | 0.1 | 0.14% | 5.00% | 0.4 | 0.61% |
| Bonds | 4.17% | 15.3 | 21.52% | 4.90% | 11.0 | 16.82% |
| Other | 5.34% | 2.9 | 4.08% | 6.15% | 1.8 | 2.75% |
| **Fair value of scheme assets** | | **71.1** | | | **65.4** | |
| Actual return on plan assets (loss)/gain | | (3.2) | | | 6.8 | |

Amounts recognised in the Balance Sheet are:

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| Present value of funded defined benefit obligations (pension) | (75.6) | (71.2) |
| Present value of unfunded defined benefit obligations (pension) | (2.4) | (3.3) |
| Present value of unfunded defined benefit obligations (post-retirement healthcare) | (15.3) | (29.8) |
| Fair value of defined benefit assets | 71.1 | 65.4 |
| **Net defined benefit liability recognised in the Balance Sheet** | **(22.2)** | **(38.9)** |

### 27. Pension arrangements and post-retirement healthcare benefits (continued)

Analysis of the movement in the present value of the defined benefit obligations is as follows:

| (US$ in millions) | Defined benefit pension plan | Post-retirement healthcare benefits |
|---|---|---|
| At 1 January 2010 | 73.0 | 33.2 |
| Current service cost | 2.2 | 1.0 |
| Interest cost | 3.7 | 1.7 |
| Actuarial gain | (2.2) | (4.8) |
| Foreign exchange gain | (2.1) | (1.0) |
| Benefits paid | (1.2) | (0.3) |
| Contributions by pension participants | 1.1 | — |
| **At 31 December 2010** | **74.5** | **29.8** |
| Acquisition of Ship Equip | 2.6 | — |
| Current service cost | 2.6 | 0.9 |
| Interest cost | 4.0 | 1.6 |
| Actuarial gain | (4.8) | (16.6) |
| Foreign exchange gain | (0.8) | (0.1) |
| Benefits paid | (1.4) | (0.3) |
| Contributions by pension participants | 1.3 | — |
| **At 31 December 2011** | **78.0** | **15.3** |

Analysis of the movement in the fair value of the assets of the defined benefit pension plans is as follows:

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| **At 1 January** | 65.4 | 53.8 |
| Acquisition of Ship Equip | 1.3 | — |
| Expected return on plan assets | 4.7 | 3.9 |
| Actuarial (loss)/gain | (8.0) | 2.9 |
| Contributions by employer | 7.4 | 5.4 |
| Contributions by pension participants | 1.3 | 1.1 |
| Benefits paid | (0.5) | (0.2) |
| Foreign exchange loss | (0.5) | (1.5) |
| **At 31 December** | **71.1** | **65.4** |

### 27. Pension arrangements and post-retirement healthcare benefits (continued)

Amounts recognised in the Income Statement and Statement of Comprehensive Income in respect of the plans are as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **(US$ in millions)** | **Defined benefit pension plan** | **Post-retirement healthcare benefits** | **Defined benefit pension plan** | **Post-retirement healthcare benefits** |
| **Recognised in Income Statement:** | | | | |
| Current service cost | 2.6 | 0.9 | 2.2 | 1.0 |
| Interest cost | 4.0 | 1.6 | 3.7 | 1.7 |
| Expected return on pension assets | (4.7) | — | (3.9) | — |
| Foreign exchange gain | (0.3) | (0.1) | (0.6) | (1.0) |
| | **1.6** | **2.4** | **1.4** | **1.7** |
| **Recognised in Statement of Comprehensive Income:** | | | | |
| Net actuarial losses/(gains)[(a)] | 3.2 | (16.6) | (5.1) | (4.8) |
| Cumulative pre-tax actuarial losses/(gains) | 9.2 | (5.3) | 6.0 | 11.3 |

(b) As a result of the inflationary cap on premiums for the post-retirement healthcare benefits set at CPI plus 1% (effective from 1 January 2012), an additional actuarial gain of US$12.4m was recognised in the statement of comprehensive income in respect of the post-retirement provision for the year ended 31 December 2011.

Current services costs for 2011 are included within employee benefit costs (note 7). The net financing costs together with foreign exchange gains are included within interest payable (note 9).

A history of experience gains and losses is provided below for the Group's principal defined benefit pension scheme (Inmarsat Global), for the Group as whole and for the post-retirement healthcare benefits:

| | 2011 | | |
|---|---|---|---|
| | **Inmarsat Global defined benefit pension plan** | **Total Group defined benefit pension plan** | **Post-retirement healthcare benefits** |
| Present value of defined benefit obligations (US$ in millions) | (71.2) | (78.0) | (15.3) |
| Fair value of plan assets (US$ in millions) | 68.9 | 71.1 | — |
| Deficit in plans (US$ in millions) | (2.3) | (6.9) | (15.3) |
| Experience gains on plan liabilities (US$ in millions) | 6.4 | 6.4 | 1.0 |
| Percentage of plan liabilities | 9.0% | 8.2% | 6.5% |
| Experience losses on plan assets (US$ in millions) | (8.0) | (8.0) | — |
| Percentage of plan assets | (11.6%) | (11.3%) | — |

| | 2010 | | |
|---|---|---|---|
| | **Inmarsat Global defined benefit pension plan** | **Total Group defined benefit pension plan** | **Post-retirement healthcare benefits** |
| Present value of defined benefit obligations (US$ in millions) | (70.4) | (74.5) | (29.8) |
| Fair value of plan assets (US$ in millions) | 65.0 | 65.4 | — |
| Deficit in plans (US$ in millions) | (5.4) | (9.1) | (29.8) |
| Experience (losses)/gains on plan liabilities (US$ in millions) | — | (0.2) | 4.1 |
| Percentage of plan liabilities | 0.0% | (0.3%) | 13.9% |
| Experience losses on plan assets (US$ in millions) | 2.9 | 2.9 | — |
| Percentage of plan assets | 4.4% | 4.4% | — |

### 27. Pension arrangements and post-retirement healthcare benefits (continued)

| | 2009 | | |
|---|---|---|---|
| | **Inmarsat Global defined benefit pension plan** | **Total Group defined benefit pension plan** | **Post-retirement healthcare benefits** |
| Present value of defined benefit obligations (US$ in millions) | (68.6) | (73.0) | (33.2) |
| Fair value of plan assets (US$ in millions) | 53.8 | 53.8 | — |
| Deficit in plans (US$ in millions) | (14.8) | (19.2) | (33.2) |
| Experience (losses)/gains on plan liabilities (US$ in millions) | (0.3) | 0.2 | 0.1 |
| Percentage of plan liabilities | (0.4%) | 0.3% | 0.3% |
| Experience losses on plan assets (US$ in millions) | 5.8 | 5.8 | — |
| Percentage of plan assets | 10.8% | 10.8% | — |

| | 2008 | | |
|---|---|---|---|
| | **Inmarsat Global defined benefit pension plan** | **Total Group defined benefit pension plan** | **Post-retirement healthcare benefits** |
| Present value of defined benefit obligations (US$ in millions) | (41.9) | (46.7) | (19.8) |
| Fair value of plan assets (US$ in millions) | 35.0 | 35.0 | — |
| Deficit in plans (US$ in millions) | (6.9) | (11.7) | (19.8) |
| Experience gains/(losses) on plan liabilities (US$ in millions) | — | 0.2 | (7.1) |
| Percentage of plan liabilities | 0.0% | 0.4% | (35.9%) |
| Experience gains on plan assets (US$ in millions) | (14.7) | (14.7) | — |
| Percentage of plan assets | (42.0%) | (42.0%) | — |

| | 2007 | | |
|---|---|---|---|
| | **Inmarsat Global defined benefit pension plan** | **Total Group defined benefit pension plan** | **Post-retirement healthcare benefits** |
| Present value of defined benefit obligations (US$ in millions) | (58.2) | (66.1) | (22.3) |
| Fair value of plan assets (US$ in millions) | 51.6 | 51.6 | — |
| Deficit in plans (US$ in millions) | (6.6) | (14.5) | (22.3) |
| Experience gains on plan liabilities (US$ in millions) | — | — | 0.3 |
| Percentage of plan liabilities | 0.0% | 0.0% | 1.3% |
| Experience gains on plan assets (US$ in millions) | (0.3) | (0.3) | — |
| Percentage of plan assets | (0.6%) | (0.6%) | — |

The estimated contributions expected to be paid into the Group defined benefit pension plan during 2012 are US$5.4m (2011: actual US$7.4m).

The healthcare cost trend rate assumption for Inmarsat Global's post-retirement healthcare benefits has a significant effect on the amounts recognised in the Income Statement in respect of the post-retirement medical benefits. Increasing the assumed healthcare cost trend rate by one percentage point would have increased the post-retirement medical benefit obligation as of 31 December 2011 by US$3.5m (2010: US$8.0m) and the aggregate of the service cost and interest cost by US$0.8m (2010: US$0.8m). Decreasing the assumed healthcare cost trend rate by one percentage point would have reduced the post-retirement medical benefit obligation as of 31 December 2011 by US$2.7m (2010: US$6.0m), and the aggregate of the service cost and interest cost by US$0.6m (2010: US$0.6m).

### 28. Acquisitions

**Acquisition of Ship Equip**

On 28 April 2011, we acquired 100% of the outstanding ordinary shares of Ship Equip for a total cash consideration of US$113.2m (net of cash acquired and after hedging the foreign exchange risk). Immediately following the transaction, we repaid Ship Equip's external long-term debt amounting to US$44.7m (net of gains from hedging the foreign exchange risk). Inmarsat financed the acquisition of the shares and the debt repayment from available liquidity.

We have acquired Ship Equip as it is ideally positioned to support the evolution of maritime services to our new Global Xpress services after its expected launch in 2013. Ship Equip has a large installed base of VSAT customers, who we expect to be in the forefront of the transition to Global Xpress services, as well as a management team with extensive knowledge of VSAT operations and customers which will help us develop our Global Xpress offering.

The acquisition of Ship Equip has been accounted for using the purchase method of accounting in accordance with IFRS 3, 'Business Combinations'. The consolidated results of the Group for 2011 include the financial results of Ship Equip for the period from 28 April 2011 to 31 December 2011. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

During the year ended 31 December 2011, the allocation of the purchase consideration was finalised. As a result of this review, we recognised identifiable intangible assets of US$63.9m (refer to table below) and goodwill of US$66.6m. Goodwill represents the excess of the purchase consideration over the fair value of the assets and liabilities acquired. Qualitatively, goodwill represents among other factors, the assembled workforce, which is not separately identified as part of the purchase price allocation. In addition, the Group believes that Ship Equip's expertise in delivering VSAT maritime communications services to the shipping, offshore oil and gas and fishing markets, will generate value for the Group through future customer relationships. During the year ended 31 December 2011, we recognised US$2.0m of transaction costs directly associated with the acquisition of Ship Equip as an expense in the Income Statement.

The final allocation of the purchase consideration to the net assets and liabilities of Ship Equip, is as follows:

| (US$ in millions) | Book value | Fair value adjustments | Fair value at acquisition date |
|---|---|---|---|
| **Net assets acquired:** | | | |
| Intangible assets[(a)] | 1.3 | 62.6 | 63.9 |
| Property, plant and equipment | 48.4 | — | 48.4 |
| Other assets | 0.3 | — | 0.3 |
| **Total Non-current assets** | **50.0** | **62.6** | **112.6** |
| Trade and other receivables[(b)] | 8.7 | — | 8.7 |
| Inventories | 6.2 | — | 6.2 |
| Other assets | 4.1 | — | 4.1 |
| **Total Current assets** | **19.0** | — | **19.0** |
| Trade and other payables | (11.1) | — | (11.1) |
| Deferred revenue | (8.5) | — | (8.5) |
| Deferred tax liability | (0.2) | (17.5) | (17.7) |
| Long term debt | (47.7) | — | (47.7) |
| **Total liabilities** | **(67.5)** | **(17.5)** | **(85.0)** |
| **Identifiable net assets** | **1.5** | **45.1** | **46.6** |

| | |
|---|---|
| Allocated purchase consideration: | |
| Cash consideration | 119.8 |
| Less: hedge accounting gains | (6.6) |
| **Total allocated purchase consideration** | **113.2** |
| **Goodwill recognised**[(c)] | **66.6** |

## 28. Acquisitions (continued)

(a) The intangible assets consists of US$37.8m of customer relationships, US$9.3m in relation to the Ship Equip trade name and US$16.8m for technology, which are to be amortised over their useful lives of 14, 15 and seven years, respectively. Subsequently, due to the vertical market reorganisation in Inmarsat Solutions, the Ship Equip trade name has been written-off.
(b) The book value of trade receivables of US$8.4m, included within trade and other receivables, approximates to their fair value and the entire balance is deemed collectable.
(c) The total goodwill recognised of US$66.6m is not deductible for tax purposes.

The revenue included in the Income Statement for the year ended 31 December 2011, contributed by Ship Equip since the acquisition date, was US$42.1m. Ship Equip also contributed a loss after tax of US$1.6m, during the year ended 31 December 2011. Ship Equip's contribution to revenue and profit after tax for the year ended 31 December 2011, assuming the transaction had occurred on 1 January 2011, would have been US$60.3m and a loss of US$4.6m, respectively.

**Acquisition of Segovia**
On 12 January 2010, we completed the acquisition of the business and assets of Segovia Inc ('Segovia'). The allocation of the purchase consideration was finalised during the year ended 31 December 2010.

In the year ending 31 December 2011, the Inmarsat plc Group comprised Inmarsat, Stratos, Segovia and Ship Equip all operating as relatively independent business units. Effective from 1 January 2012, the Group is operating with business units aligned to vertical market sectors as part of Inmarsat Solutions. To enable effective operation of the new Inmarsat Government - US business unit, in December 2011, the majority of the remaining value of the contingent deferred consideration on the Segovia acquisition relating to the calendar years ending 31 December 2011 and 2012 was settled ahead of the scheduled payout dates in Q1 2012 and 2013. As a result of accelerating the settlement of the deferred consideration, we recorded an additional charge of US$5.6m in the Income Statement, in line with IFRS 3. US$2.1m of the charge represents the better than expected performance in 2011 (2010: US$2.1m charge reflecting better than expected performance in 2010) and was recorded in the acquisition-related adjustments line in the Income Statement and US$3.5m recorded in interest payable, representing the effect of the acceleration of the settlement of the liability ahead of schedule.

**Acquisition of Blue Ocean Wireless**
In addition, in July 2011, we acquired most of the operational assets of Blue Ocean Wireless ('BOW') for a total consideration of US$3.4m. The acquisition of BOW has been accounted for using the purchase method of accounting in accordance with IFRS 3, 'Business Combinations'. No goodwill was recognised on the acquisition. The final purchase price allocation will be finalised in due course in line with IFRS 3.

## 29. Operating lease commitments

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

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| Within one year | 25.1 | 43.0 |
| Within two to five years | 65.8 | 60.3 |
| After five years | 97.3 | 92.9 |
| | **188.2** | **196.2** |

Operating lease commitments relate to leased office space, primarily of the Group's head office located at 99 City Road, London, and various non-cancellable network service contracts and maintenance contracts, which have varying terms.

### 29. Operating lease commitments (continued)

In addition the Group has the following purchase commitments, relating to future obligations to purchase space segment capacity:

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| Within one year | 42.7 | 35.1 |
| Within two to five years | 87.7 | 20.2 |
| | **130.4** | **55.3** |

The total of future sub-lease payments expected to be received under non-cancellable sub-leases at 31 December 2011 relating to the above head office lease is US$5.5m over four years (as at 31 December 2010: US$6.8m over five years).

The Group has various agreements deriving revenue from designated leased capacity charges. These amounts are recorded as revenue on a straight-line basis over the respective lease terms. The Group's future aggregate minimum lease payments under non-cancellable operating leases expected to be received (including Inmarsat Global and Inmarsat Solutions but excluding intragroup amounts) are as follows:

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| Within one year | 32.5 | 85.2 |
| Within two to five years | — | 8.3 |
| | **32.5** | **93.5** |

### 30. Capital risk management

The following table summarises the capital of the Group:

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| **As per Balance Sheet** | | |
| Cash and cash equivalents | (165.7) | (323.1) |
| Borrowings | 1,248.1 | 1,507.6 |
| Net debt | 1,082.4 | 1,184.5 |
| Equity attributable to Parent | 1,212.3 | 1,021.4 |
| **Capital** | **2,294.7** | **2,205.9** |

The Group's objective when managing its capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group continually evaluates sources of capital and may repurchase, refinance, exchange or retire current or future borrowings and/or debt securities from time to time in private or open-market transactions, or by any other means permitted by the terms and conditions of borrowing facilities and debt securities. Additionally, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group uses a maximum ratio of net borrowings to EBITDA as an internal planning parameter and in regular forecasting and monitoring activities. In addition, movements in cash and borrowings as well as total available liquidity are monitored regularly.

The net borrowing to EBITDA ratio for the year ending 31 December 2011 is 1.30 (2010: 1.70).

The Group's liquidity is disclosed in note 3(d).

### 30. Capital risk management (continued)

No changes were made in the Group's objectives, policies or processes for managing capital in the years ended 31 December 2011 and 2010.

### 31. Financial instruments

**Treasury management and strategy**
The Group's treasury activities are managed by its corporate finance department under the direction of a Treasury Review Committee whose chairman is the Chief Financial Officer, and are consistent with Board-approved treasury policies and guidelines. The overriding objective of treasury activities is to manage financial risk.

Key features of treasury management include:

- ensuring that the Group is in a position to fund its obligations in appropriate currencies as they fall due;
- maintaining adequate undrawn borrowing facilities;
- economically hedging both contracted and anticipated foreign currency cash flows on a minimum 12 month rolling basis with the option of covering exposures up to a maximum of three years forward;
- interest rate hedging; and
- maximising return on short-term investments based on counter-party limits and credit ratings.

Treasury activities are only transacted with counter-parties who are approved relationship banks.

Treasury foreign exchange policy is implemented primarily through the use of forward purchases of foreign currencies. The treasury department is, however, authorised to use purchased options, futures and other derivative instruments, but only to the extent that such instruments form part of the hedging policy so as to establish a known rate of exchange.

Having arranged the purchase of foreign currency in line with the anticipated requirement for that currency over each financial year, an average rate of exchange is calculated from the agreed currency deals. This average rate is applied as per requirements of IAS 21. The policy is designed to minimise the impact of currency gains and losses in the Income Statement; gains and losses will arise to the extent that the level of actual payments in the period is different from those that were forecast.

**Financial Instrument by category**
The following table sets out the categorisation of financial assets and liabilities in terms of IAS 39:

| (US$ in millions) | As at 31 December 2011 Loans and receivables | Derivatives used for hedging | Total | As at 31 December 2010 Loans and receivables | Derivatives used for hedging | Total |
|---|---|---|---|---|---|---|
| **Assets as per Balance Sheet** | | | | | | |
| Trade and other receivables[a] | 190.6 | — | 190.6 | 210.5 | — | 210.5 |
| Cash and cash equivalents | 165.7 | — | 165.7 | 323.1 | — | 323.1 |
| Derivative financial instrument | — | 7.9 | 7.9 | — | 14.3 | 14.3 |
| | **356.3** | **7.9** | **364.2** | **533.6** | **14.3** | **547.9** |

(a) Consists of trade receivables, other receivables and amounts due from Parent undertakings (see note 17).

| (US$ in millions) | As at 31 December 2011 Derivatives used for hedging | Other financial liabilities | Total | As at 31 December 2010 Derivatives used for hedging | Other financial liabilities | Total |
|---|---|---|---|---|---|---|
| **Liabilities as per Balance Sheet** | | | | | | |
| Borrowings | — | 1,248.1 | 1,248.1 | — | 1,507.6 | 1,507.6 |
| Trade and other payables[a] | — | 385.5 | 385.5 | — | 181.9 | 181.9 |
| Derivative financial instrument | 23.3 | — | 23.3 | 26.5 | — | 26.5 |
| | **23.3** | **1,633.6** | **1,656.9** | **26.5** | **1,689.5** | **1,716.0** |

(a) Consists of trade payables, deferred consideration, other payables and amounts due to Parent undertakings (see note 20).

## 31. Financial instruments (continued)

The table below analyses the Group's financial liabilities and net-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the Balance Sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying values as the impact of discounting is not significant.

| | As at 31 December 2011 | | | | |
|---|---|---|---|---|---|
| **(US$ in millions)** | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** | **Total** |
| Borrowings[(a)] | 114.7 | 112.0 | 388.3 | 1,022.9 | 1,637.9 |
| Derivative financial instruments | 14.2 | 9.1 | — | — | 23.3 |
| Trade and other payables | 357.4 | 1.2 | 5.9 | 21.0 | 385.5 |
| | **486.3** | **122.3** | **394.2** | **1,043.9** | **2,046.7** |

(a) Includes interest obligations on the Senior Notes due 2017, EIB Facility and Ex-Im Bank Facility. The interest obligations do not take into account the impact of interest rate swaps and assume no changes in floating interest rates from the year-end.

| | As at 31 December 2010 | | | | |
|---|---|---|---|---|---|
| **(US$ in millions)** | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** | **Total** |
| Borrowings[(a)] | 116.8 | 255.2 | 304.3 | 1,216.0 | 1,892.3 |
| Derivative financial instruments | 12.9 | 7.9 | 5.7 | — | 26.5 |
| Trade and other payables | 123.6 | 21.3 | 15.9 | 21.1 | 181.9 |
| | **253.3** | **284.4** | **325.9** | **1,237.1** | **2,100.7** |

(a) Includes interest obligations on the Senior Notes due 2017, Senior Credit Facility and EIB Facility. Interest obligations on the Revolving Credit Facility assume the current balance is held to maturity in May 2012. The interest obligations do not take into account the impact of interest rate swaps and assume no changes in floating interest rates from the year-end.

### Net fair values of derivative financial instruments

The Company's derivative financial instruments as at 31 December 2011 consist of forward foreign currency contracts and interest rate swaps. The interest rate swaps and approximately 90% of forward foreign currency contracts (2010: 90%) are designated cash flow hedges.

The net fair values at the balance sheet date were:

| **(US$ in millions)** | **As at 31 December 2011** | **As at 31 December 2010** |
|---|---|---|
| **Contracts with positive fair values:** | | |
| Forward foreign currency contracts - designated cash flow hedges | 7.5 | 13.4 |
| Forward foreign currency contracts - undesignated | 0.4 | 0.9 |
| **Contracts with negative fair values:** | | |
| Forward foreign currency contracts - designated cash flow hedges | (6.1) | (0.6) |
| **Total forward exchange currency contracts** | **1.8** | **13.7** |
| Interest rate swap - designated cash flow hedge | (17.2) | (25.9) |
| **Total net fair value** | **(15.4)** | **(12.2)** |
| **Less non-current portion** | | |
| Forward foreign currency contracts - designated cash flow hedges | (0.6) | 6.9 |
| Interest rate swap - designated cash flow hedge | (8.4) | (13.6) |
| **Current portion** | **(6.4)** | **(5.5)** |

The full value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability if the maturity of the hedged item is less than 12 months.

### 31. Financial instruments (continued)

The fair value of foreign exchange contracts performed by management are based upon a valuation provided by the counterparty and are classified as level 2 in the fair value hierarchy according to IFRS 7. The fair value of foreign exchange contracts are based upon 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 interest rate swaps performed by management are based upon a valuation provided by the counterparty and are classified as level 2 in the fair value hierarchy according to IFRS 7. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

**Forward foreign exchange**
The following table sets out the face value and fair value of forward exchange contracts outstanding for the Company as at 31 December 2011 and 2010.

| | As at 31 December 2011 | | | | |
|---|---|---|---|---|---|
| **Outstanding forward foreign exchange contracts (in millions)** | **Face value** | **Maturing within 1 year** | **Maturing between 1 and 2 years** | **Maturing between 2 and 5 years** | **Fair value (US$)** |
| GBP contracts | £70.5 | £68.0 | £2.5 | — | 4.4 |
| Euro contracts | €85.1 | €78.2 | €6.9 | — | (2.1) |
| Canadian Dollar contracts | C$19.5 | C$16.5 | C$3.0 | — | (0.5) |
| | | | | | **1.8** |

| | As at 31 December 2010 | | | | |
|---|---|---|---|---|---|
| **Outstanding forward foreign exchange contracts (in millions)** | **Face value** | **Maturing within 1 year** | **Maturing between 1 and 2 years** | **Maturing between 2 and 5 years** | **Fair value (US$)** |
| GBP contracts | £128.5 | £66.5 | £62.0 | — | 7.2 |
| Euro contracts | €122.1 | €74.3 | €47.8 | — | 5.6 |
| Canadian Dollar contracts | C$19.5 | C$15.6 | C$3.9 | — | 0.9 |
| | | | | | **13.7** |

As at the reporting date the aggregate amount of losses under forward exchange contracts deferred in the cash flow hedge reserve relating to these anticipated future transactions is US$5.1m (2010: gains of US$0.8m). It is anticipated that expenditure will be incurred during the next two years during which the amount deferred in equity will be released into the Income Statement.

**Interest rate swap**
The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at 31 December 2011 and 2010:

| | **Average contracted fixed interest rate** | | **Notional principal amount** | | **Fair value** | |
|---|---|---|---|---|---|---|
| **Outstanding floating for fixed contracts** | **2011** | **2010** | **2011** | **2010** | **2011** | **2010** |
| | **%** | **%** | | **(US$ in millions)** | | |
| Less than one year | — | 4.50% | — | 100.0 | (8.8) | (12.3) |
| One to two years | 4.93% | — | 200.0 | — | (8.4) | (7.9) |
| Two to five years | — | 4.93% | — | 200.0 | — | (5.7) |
| Five years + | — | — | — | — | — | — |
| | | | **200.0** | **300.0** | **(17.2)** | **(25.9)** |

Under the interest rate swaps the Group received quarterly floating interest (three month USD LIBOR) to offset floating interest payable. Gains or losses will reverse in the Income Statement when the swaps expire.

## 31. Financial instruments (continued)

### Non derivative financial assets and financial liabilities

Non derivative financial assets consist of cash at bank, short-term and long-term investments, trade debtors, other debtors and amounts due from Parent undertakings.

Non-derivative financial liabilities consist of bank overdrafts, deferred satellite payments, Senior Credit Facilities, Senior Notes due 2017, the EIB Facility, the Ex-Im Bank Facility, accrued and accreted interest on borrowings, trade creditors, deferred consideration, other payables and amounts due to Parent undertakings.

### Fair value of non derivative financial assets and financial liabilities

With the exception of the Senior Notes due 2017, the fair values of all non-derivative financial instruments approximate to the carrying value in the Balance Sheet.

The following methods and assumptions have been used to determine fair values:

- The fair values of cash at bank, overdrafts and short-term deposits approximate their carrying values because of the short maturity of these instruments (see note 16).
- The fair value of trade and other receivables, amounts due from Parent undertakings, trade and other payables, amounts due to Parent undertakings and deferred consideration approximate their carrying values (see note 17 and 20 respectively).
- The carrying amount of deferred satellite payments represents the present value of future payments discounted, using an appropriate rate, at the period end. This carrying amount approximately equals fair value (see note 19).
- The Senior Notes due 2017 are reflected in the Balance Sheet as at 31 December 2011 net of unamortised arrangement costs and issuance discount of US$9.2m and US$3.6m (2010: US$10.8m and US$4.2m), respectively (see note 19). The fair value of the Senior Notes are based on the market price of the bonds as at 31 December 2011 and are reflected in the table below.
- The EIB Facility is reflected in the Balance Sheet as at 31 December 2011 net of unamortised arrangement costs of US$2.2m (2010: US$2.6m). The fair value approximates the carrying value (see note 19).
- The Ex-Im Bank Facility is reflected in the Balance Sheet as at 31 December 2011 net of unamortised arrangement costs of US$14.5m (2010: US$nil). The fair value approximates the carrying value (see note 19).
- The Senior Credit Facility was repaid in June 2011 (see note 19).

| | At 31 December 2011 | | At 31 December 2010 | |
|---|---|---|---|---|
| **(US$ in millions)** | **Carrying amount** | **Fair value amount** | **Carrying amount** | **Fair value amount** |
| Senior Notes due 2017 | (650.0) | (677.6) | (650.0) | (683.7) |

## 32. Capital commitments

The Group had authorised and contracted but not provided for capital commitments as at 31 December 2011 of US$1,086.7m (2010: US$931.2m). These amounts primarily represent commitments in respect of the Alphasat and Global Xpress projects.

## 33. Related party transactions

In the normal course of operations Stratos engages in transactions with its equity owned investees Navarino Telecom SA and NTS Maritime Limited (together 'Navarino') and JSAT Mobile Communications Inc. These transactions represent sales of airtime and equipment and are measured at the amounts exchanged. Group revenue from the related parties for the 2011 financial year was US$21.3m and US$11.4m respectively (2010: US$22.1m and US$8.6m respectively). The amount receivable from the related party at 31 December 2011 was US$12.2m and US$1.5m, respectively (2010: US$10.0m and US$2.4m, respectively).

### 33. Related party transactions (continued)

Remuneration paid to key management personnel, being the Executive Staff (including Executive Directors) of Inmarsat plc, during the year is as follows:

| (US$ in millions) | 2011 | 2010 |
|---|---|---|
| Short-term employee benefits[(a)] | 7.1 | 8.8 |
| Post-employment benefits | 0.2 | 0.2 |
| Share-based payment[(a)] | 6.7 | 6.6 |
| **Total remuneration** | **14.0** | **15.6** |

(a) Includes employers National Insurance or other social security contributions.

The amount owing to the Executive Staff (including Executive Directors) as at 31 December 2011 and 2010 was US$2.8m and US$3.1m, respectively.

The post-retirement healthcare and defined benefit pension plans are related parties (see note 27).

Management believes that all related party transactions were made on an arm's length basis.

The table below sets out transactions with related parties, being fellow subsidiary companies of the Group:

| (US$ in millions) | 2011 | 2010 |
|---|---|---|
| **Transactions with Inmarsat plc:** | | |
| Intercompany interest receivable | — | 1.1 |
| Intercompany interest payable | 0.3 | 11.3 |
| Repayment of loan | — | 23.0 |
| Capitalisation of outstanding loan | — | 331.2 |
| Receipt of loan | — | 5.7 |
| **Transactions with Inmarsat Holdings Limited:** | | |
| Intercompany interest receivable | 0.2 | — |
| Intercompany interest payable | — | 1.3 |
| Repayment of loan | — | 57.8 |
| Capitalisation of outstanding loan | 325.7 | — |

The table below sets out balances with related parties, being fellow subsidiary companies of the Group:

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| **Outstanding balances with Inmarsat plc:** | | |
| Loan due to fellow Group companies | (6.0) | (5.7) |
| Amounts due to fellow Group companies | (49.3) | (1.1) |
| **Outstanding balances with Inmarsat Holdings Limited:** | | |
| Subordinated Parent Company loan | — | (325.7) |
| Amounts due from fellow Group companies | 3.1 | 7.5 |
| Amounts due to fellow Group companies | (100.0) | (2.5) |

### 34. Principal subsidiary undertakings

At 31 December 2011, the Company had investments in the following principal subsidiaries that have a significant impact on the consolidated results and total assets of the Group. To avoid a statement of excessive length, details of subsidiaries and associates which are not significant have been omitted from this list. A full list of subsidiaries and associates will be annexed to the Company's next annual return to be filed with the Registrar of Companies.

| | Principal activity | Country of incorporation and operation | Interest in issued ordinary share capital at 31 December 2011 | Interest in issued ordinary share capital at 31 December 2010 |
|---|---|---|---|---|
| Inmarsat Finance plc | Finance company | England and Wales | 100% | 100% |
| Inmarsat Global Limited | Satellite telecommunications | England and Wales | 100% | 100% |
| Inmarsat Investments Limited | Holding company | England and Wales | 100% | 100% |
| Inmarsat Leasing (Two) Limited | Satellite leasing | England and Wales | 100% | 100% |
| Inmarsat Navigation Ventures Limited | Operating company | England and Wales | 100% | 100% |
| Inmarsat SA | Operating company | Switzerland | 100% | 100% |
| Inmarsat Solutions B.V.[(a)] | Operating company | The Netherlands | 100% | 100% |
| Inmarsat Solutions (Canada) Inc.[(b)] | Operating company | Canada | 100% | 100% |
| Inmarsat Solutions (US) Inc.[(c)] | Operating company | USA | 100% | 100% |
| Segovia, Inc | Holding company | USA | 100% | 100% |
| Ship Equip International AS[(d)] | Operating company | Norway | 100% | - |
| Stratos Government Services Inc. | Operating company | USA | 100% | 100% |
| Stratos Mobile Networks Inc. | Operating company | USA | 100% | 100% |
| Stratos New Zealand Limited | Operating company | New Zealand | 100% | 100% |
| Stratos Offshore Services Company | Operating company | USA | 100% | 100% |

(a) Stratos B.V. was renamed Inmarsat Solutions B.V. in February 2012.
(b) Stratos Wireless Inc. was renamed Inmarsat Solutions (Canada) Inc. in March 2012.
(c) Stratos Communications Inc. was renamed Inmarsat Solutions (US) Inc. in February 2012.
(d) Ship Equip International AS was acquired on 28 April 2011 (see note 28).

### 35. Events after the balance sheet date

On 13 January 2012, Inmarsat acquired 100% of the outstanding shares of NewWave Broadband Limited ('NewWave') for a total cash consideration of US$9.0m, financed from available liquidity.

On 20 January 2012, Inmarsat delivered the 'Phase 1 transition' completion notice to LightSquared indicating that its obligations in respect of the Phase 1 spectrum reorganisation were complete. A payment of US$56.25m became due upon the completion of 'Phase 1 transition'. This payment has not been received. On 20 February 2012, Inmarsat issued a notice of default to LightSquared under the Cooperation Agreement. This notice triggers a period of 60 calendar days during which LightSquared can remedy the payment before Inmarsat is entitled to enforce its rights and remedies under the agreement for payment default, including pre-agreed spectrum arrangements and termination of certain LightSquared rights under the Cooperation Agreement.

Following Inmarsat's previous announcement of 20 February 2012, on 3 April 2012, Inmarsat announced that a further payment due from LightSquared under the terms of the Cooperation Agreement has not been received. A scheduled payment of US$29.6m in relation to Phase 2 of the Cooperation Agreement was due on 31 March 2012 and has not been received.

In relation to this non-payment, on 3 April 2012, Inmarsat issued a further notice of default to LightSquared under the Cooperation Agreement. This notice triggers a period of 60 calendar days during which LightSquared can remedy the non-payment before Inmarsat is entitled to enforce its rights and remedies under the agreement for payment default, including pre-agreed spectrum arrangements and termination of certain LightSquared rights under the Cooperation Agreement.

In addition, on 30 March 2012, Inmarsat issued a completion notice to LightSquared in relation to Phase 1.5 of the Cooperation Agreement. Under this completion notice, a further material payment from LightSquared will fall due on 4 April 2012. Given the non-payment events already announced in relation to Phase 1 and Phase 2, further payments under the Cooperation Agreement, including this payment in relation to Phase 1.5, remain highly uncertain.

Inmarsat does not plan to make any further public statements with regard to non-payment events under the Cooperation Agreement. Although Inmarsat and LightSquared remain in discussions regarding the future of the

### 35. Events after the balance sheet date (continued)

Cooperation Agreement, as previously stated, Inmarsat cannot provide any assurance that these discussions will result in any further payments being received from LightSquared.

Simultaneously with the issue of these financial statements, our 99.9% owned subsidiary company Inmarsat Finance plc commenced the issuance of a further US$200.0m aggregate principal amount of our 7.375% Senior Notes due 1 December 2017 ("Senior Notes Due 2017"). The issue of these notes may or may not proceed and the aggregate gross proceeds of the new notes issued will be dependent on the pricing achieved. Assuming that the notes are issued, the proceeds will be used for general corporate purposes, and we will capitalise issuance costs in relation to the issue of the Senior Notes due 2017.

Subsequent to 31 December 2011 other than the events discussed above there have been no other material events, which would affect the information reflected in the consolidated financial statements of the Group.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INMARSAT GROUP LIMITED

We have audited the Company financial statements of Inmarsat Group Limited for the year ended 31 December 2011 which comprise the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely 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 this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**
In our opinion the Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matters prescribed by the Companies Act 2006**
In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Company financial statements.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Other matter**
We have reported separately on the consolidated financial statements of Inmarsat Group Limited for the year ended 31 December 2011.

**Stephen Griggs FCA (Senior statutory auditor)**
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
4 April 2012

# Inmarsat Group Limited
# Company Balance Sheet
# As at 31 December 2011

| (US$ in millions) | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Investments[(a)] | 1,003.7 | 678.0 |
| Other receivables[(b)] | — | 325.7 |
| **Total non-current assets** | **1,003.7** | **1,003.7** |
| **Current assets** | | |
| Trade and other receivables[(c)] | 100.0 | — |
| **Total current assets** | **100.0** | **—** |
| **Total assets** | **1,103.7** | **1,003.7** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables[(d)] | 100.1 | 0.1 |
| **Total current liabilities** | **100.1** | **0.1** |
| **Non-current liabilities** | | |
| Borrowings[(e)] | — | 325.7 |
| **Total non-current liabilities** | **—** | **325.7** |
| **Total liabilities** | **100.1** | **325.8** |
| **Net assets** | **1,003.6** | **677.9** |
| | | |
| **Shareholders' equity** | | |
| Ordinary shares | 0.4 | 0.4 |
| Share premium | 677.5 | 677.5 |
| Capital contribution reserve | 325.7 | — |
| Retained earnings | — | — |
| **Total shareholders' equity** | **1,003.6** | **677.9** |

(a) Investments consist of US$1,003.6m (2010: US$677.9m) investment in Inmarsat Investments Limited and US$0.1m (2010: US$0.1m) investment in Inmarsat Finance plc.
(b) Other receivables in 2010 consist of US$325.7m amounts due from Group companies.
(c) Trade and other receivables consist of US$100.0m due from Group companies (2010: US$nil).
(d) Trade and other payables consist of US$100.1m due to Group companies (2010: US$0.1m).
(e) Borrowings in 2010 comprise the subordinated Parent Company loan (including accreted interest) of US$325.7m.

The financial statements of Inmarsat Group Limited, registered number 4886115, on pages 60 to 62 were approved by the Board of Directors on 4 April 2012 and signed on its behalf by:

**Rick Medlock**
Director

**Alison Horrocks**
Director

**Inmarsat Group Limited**
**Company Balance Sheet**
**As at 31 December 2011**

| (US$ in millions) | Ordinary share capital | Share premium account | Capital contribution reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| Balance as at 1 January 2010 | 0.4 | 346.3 | — | — | 346.7 |
| Issue of share capital | — | 331.2 | — | — | 331.2 |
| Profit for the period | — | — | — | 165.0 | 165.0 |
| Dividends paid | — | — | — | (165.0) | (165.0) |
| **Balance as at 31 December 2010** | **0.4** | **677.5** | **—** | **—** | **677.9** |
| Profit for the period | — | — | — | 423.4 | 423.4 |
| Dividends paid | — | — | — | (423.4) | (423.4) |
| Capital contribution | — | — | 325.7 | — | 325.7 |
| **Balance as at 31 December 2011** | **0.4** | **677.5** | **325.7** | **—** | **1,003.6** |

## Company Cash Flow Statement
## For the year ended 31 December 2011

| (US$ in millions) | 2011 | 2010 |
|---|---|---|
| **Net cash generated from operating activities** | **—** | **—** |
| **Cash flow from investing activities** | | |
| Dividend received from Group companies | 323.4 | 165.0 |
| **Net cash from investing activities** | **323.4** | **165.0** |
| **Cash flow from financing activities** | | |
| Dividends paid to Parent Company | (323.4) | (165.0) |
| **Net cash used in financing activities** | **(323.4)** | **(165.0)** |
| **Net increase in cash and cash equivalents** | — | **—** |
| | | |
| **Movement in cash and cash equivalents** | | |
| At beginning of year | — | — |
| Net increase in cash and cash equivalents | — | — |
| **As reported on balance sheet (net of bank overdrafts)** | **—** | **—** |
| **At end of year, comprising** | | |
| Cash at bank and in hand | — | — |
| | **—** | **—** |

### Basis of accounting

In the 2011 and 2010 financial statements the Directors have applied International Financial Reporting Standards (‘IFRS’) as adopted by the European Union and IFRS as issued by the International Accounting Standards Board.

The accounting policies and financial risk management policies and objectives, where relevant to the Company, are consistent with those of the consolidated Group as set out in notes 2 and 3 to the consolidated financial statements.

### Income Statement

The Company has taken advantage of the exemption available under section 408 of Companies Act 2006 and has not presented an Income Statement. The profit after tax for the year ended 31 December 2011 was US$423.4m (2010: US$165.0m).

### Auditor’s remuneration

The Auditor’s remuneration incurred for the audit of the Company amounting to US$10,000 (2010: US$10,000) was paid by a company within the Inmarsat Group. No recharge was made.

### Employee costs and Directors’ remuneration

The Company does not have any directly employed employees.

### Foreign currency translation

Accounting for foreign currency transactions of the Company is consistent with that of the Group, which is disclosed in note 2 to the consolidated financial accounts.

### Financial Instruments

The IFRS 7, ‘Financial Instruments’ disclosures of the Company are consistent with that of the Group as set out in note 31 of the consolidated financial statements.

The differences between the Group and the Company are in relation to intercompany balances; US$100.0m (2010: US$325.7m) amounts due from Group companies and US$100.1m (2010: US$325.8m) amounts due to Group companies. The Directors consider the carrying value of the intercompany balances to approximate to their fair value.

### Cash generated from operations

Reconciliation of profit for the year to net cash inflow from operating activities:

| **(US$ in millions)** | **2011** | **2010** |
|---|---|---|
| Profit for the year | 423.4 | 165.0 |
| Adjustments for: | | |
| Interest payable | — | 0.8 |
| Interest receivable | — | (0.8) |
| Dividend receivable | (423.4) | (165.0) |
| Changes in net working capital: | | |
| Decrease in trade and other receivables | — | 1.5 |
| Decrease in trade and other payables | — | (1.5) |
| **Cash generated from operations** | **—** | **—** |