

Inmarsat Group Limited reports First Quarter Results 2017

Financial Headlines

\$ in millions	First Quarter		
	2017	2016	% change
Group revenue	332.2	298.6	11.3%
Maritime	139.1	143.1	(2.8%)
Government	86.0	68.7	25.2%
Aviation	44.2	31.2	41.7%
Enterprise	29.4	34.0	(13.5%)
Other ¹	33.5	21.6	55.1%
EBITDA²	181.8	165.6	9.8%
PAT	55.9	50.8	(10.0)%

Performance Highlights

- Solid performance in Q1 2017, despite markets which continue to be challenging:
 - Group revenue grew 11.3% to \$332.2m, (grew 7.5% to \$301.7m, excluding Ligado)
 - EBITDA² grew 9.8% to \$181.8m (grew 2.4% to \$151.3m, excluding Ligado)
- Outlook and future guidance, disclosed on 8 March 2017, remain unchanged
- Continued positive impact of Global Xpress (“GX”):
 - GX delivered revenue of \$32.1m in Q1 2017, mainly from Government customers
 - Continue to expect launch of I-5 F4 satellite during Q2 2017
- Maritime:
 - Now over 10,000 vessels committed to Fleet Xpress (“FX”)
 - Distribution agreement signed with Satlink to install FX on over 1,500 vessels
 - Resilient performance from FleetBroadband (“FB”)
- Government:
 - Another strong performance, despite continued market uncertainty
 - FirstNet contract win provides further validation of our strong US Government relationships
- Aviation:
 - Core business continued to grow, with over 16,500 connected terminals, and the first installations of JetConneX completed
 - Further positive momentum achieved in in-flight connectivity (“IFC”), with 65 GX terminals installed by the end of the quarter, and over 950 expected aircraft under signed contracts
 - Commitments to GX announced by AirAsia and Qatar Airways so far in second quarter, representing an additional 250 aircraft to utilise GX for IFC services
 - On track for commercial service introduction of European Aviation Network (“EAN”) during H2 2017, with launch of S-band satellite expected to take place by end of Q2 2017

¹ “Other” revenue comprises revenue contribution from Central Services and Ligado Networks.

² EBITDA is defined as profit before net financing costs, taxation, depreciation and amortisation, gains/losses on disposal of assets, impairment losses and share of profit of associates and, as a non-statutory metric, has been reconciled to profit after tax on p.9 of this announcement. EBITDA is a commonly used industry measure which helps investors to understand the contributions made by each of our business units.

- Enterprise:
 - Key end markets remain challenging, in particular Oil & Gas
 - On-going focus on commercial opportunities around “Internet of Things”

Outlook & future guidance

We remain confident about the medium to long term outlook for the business. However, whilst we delivered robust performances in both the fourth quarter of 2016 and in the first quarter of 2017, our markets remain challenging and the outlook continues to be difficult to predict, as we highlighted in our FY 2016 results in March 2017. As outlined at that time, our performance in 2017 and 2018 will be particularly determined by our results in the IFC market and in the Government sector.

Given the combination of these factors, we reiterate the guidance disclosed in March of:

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

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

We do not expect any significant changes to consensus forecasts for 2017 and 2018 as a consequence of our performance in Q1 2017.

Conference call details

Inmarsat management will discuss the first quarter results in a conference call on Thursday 4 May at 08.00 hrs London time. The call can be accessed by dialling +44(0) 20 3427 1905 (from the UK and Europe) or +1 646 254 3361 (from the US), with a passcode of 7987611. A web-cast of the call can be accessed via our website: www.inmarsat.com.

Forward looking Statements

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

OPERATING AND FINANCIAL REVIEW OF Q1 2017 RESULTS

The following is a discussion of the unaudited consolidated results of the operations and financial condition of Inmarsat Group Limited (the "Company" or, together with its subsidiaries, the "Group") for the three months ended 31 March 2017. This should be reviewed together with the whole of this document including the historical consolidated financial results and the notes. The consolidated financial results were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. In addition to IFRS measures, we use a number of non-IFRS measures in order to provide readers with a better understanding of the underlying performance of our business, and to improve comparability of our results for the periods concerned. All discussion of results relates to the three months ended 31 March 2017, and all comparisons are with the three months ended 31 March 2016, unless specifically stated otherwise.

Introduction

Structural change will continue to impact the satellite communications industry, driven by potential technological and market disruption in the future. Inmarsat is well positioned as a leading incumbent operator to address and capitalise upon these market dynamics, particularly in mobility markets, where we have established a solid core business with material growth potential in the years ahead.

Our GX platform, which is now fully operational and gaining traction, will continue to support our growth ambitions, as we look to achieve our target of an annual revenue run rate of \$500m from the first three GX satellites by the end of 2020. In the first quarter of 2017, GX delivered \$32.1m of revenue, driven predominantly by our customers in Government, which establishes a strong platform for growth from GX for the remainder of 2017 and beyond.

Furthermore, in the period, we made good progress in starting to upgrade our GX proposition and service levels, having achieved throughput rates of 330 Mbps to a terminal in over-the-air testing to a live GX satellite in orbit, a significant improvement from our current throughput rates of around 50 Mbps to a terminal. This enhanced capability will be gradually introduced to the GX network during 2018 and 2019.

Our fourth GX spacecraft, I-5 F4, will be launched by SpaceX during Q2 2017 to provide both in-orbit redundancy and additional capacity and capabilities to deploy into new regional growth opportunities, thereby further strengthening our confidence around GX as a major platform for Inmarsat's future growth.

Financial Highlights & Summary

	Maritime	Government	Enterprise	Aviation	Central	Total	Total
(\$ in millions)	2017	2017	2017	2017	Services	2017	2016
Revenue							
Revenue	139.1	86.0	29.4	44.2	3.0	301.7	280.7
Ligado revenue	–	–	–	–	30.5	30.5	17.9
Total revenue	139.1	86.0	29.4	44.2	33.5	332.2	298.6
Operating costs	(28.3)	(21.7)	(7.3)	(18.7)	(74.4)	(150.4)	(133.0)
EBITDA	110.8	64.3	22.1	25.5	(40.9)	181.8	165.6
<i>EBITDA margin %</i>	79.7%	74.8%	75.2%	57.7%	–	54.7%	55.5%
Capital expenditure¹	10.8	3.1	–	45.4	70.9	130.2	38.5

Inmarsat produced a solid overall performance in Q1 2017, with revenues increasing by \$33.6m (11.3%) to \$332.2m (Q1 2016: \$298.6m) with growth in Aviation (\$13.0m), Government (\$17.3m) and Ligado income (\$12.6m) partially offset by reduced contributions from Maritime (\$4.0m) and Enterprise (\$4.6m).

Net operating costs in the quarter increased by \$17.4m to \$150.4m (Q1 2016: \$133.0m) mainly reflecting revenue growth, increased investment in our IFC capability in Aviation, an increase in central operational delivery costs and a gain in foreign exchange movements.

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

Whilst EBITDA increased by \$16.2m (9.8%) to \$181.8m (Q1 2016: \$165.6m), EBITDA margin decreased slightly to 54.7%, from 55.5%, reflecting the growth in revenue offset by higher growth in operating costs described above.

Maritime

(\$ in millions)	Three months ended 31 March		
	2017	2016	Change
Revenue	139.1	143.1	(2.8%)
Operating costs	(28.3)	(30.8)	(8.1%)
EBITDA	110.8	112.3	(1.3%)
<i>EBITDA margin %</i>	<i>79.7%</i>	<i>78.5%</i>	
Cash capex	10.8	11.6	(0.8)

Whilst the merchant shipping environment remains in a cyclical downturn, the addressable market for high bandwidth Very Small Aperture Terminal (“VSAT”) connectivity services is expected to almost double in size in the coming years, on the back of strong demand for broadband connectivity. This market will drive Inmarsat’s growth prospects in Maritime over the medium to long term. Early signs of this potential growth trajectory continue to emerge, with our VSAT product offerings, XpressLink (“XL”) and Fleet Xpress (“FX”), delivering year-on-year revenue growth of 17.7% in the first quarter of 2017, as outlined in the following table:

	Revenue		Number of vessels		Average Revenue per User (“ARPU”)	
	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016
FB – Standalone	\$87.8m	\$89.7m	37,746	39,515	\$772	\$755
FB – Inc. VSAT back-up ¹			40,926	42,022	\$714	\$712
VSAT (XL and FX)	\$29.2m	\$24.8m	3,259	2,601	\$3,100	\$3,248
Other products	\$22.1m	\$28.6m				

The installation programme for FX, our GX product for Maritime, is running ahead of schedule, with strong progress being made through both our internal capability and the installation networks of our distribution partners. In the first quarter of 2017, we signed an additional take-or-pay distribution agreement with Satlink, as well as FX installation commitments from Hapag-Lloyd and Fleet Management Limited. With these agreements, together with our previously agreed distribution and installation contracts and our internal plan to migrate our XL customers to FX, we now have over 10,000 vessels committed to FX.

By the end of the period, there were 808 vessels installed with FX, up from 335 at the end of 2016. Growth in our FX installed base included 237 migrations from XL, 145 migrations from FleetBroadband (“FB”) and 91 new customers - all installed during the first quarter of 2017.

As anticipated, VSAT Average Revenue per User (“ARPU”) in the first quarter was 4.6% lower than the same period in 2016, mainly reflecting early 2016 issues, including the impact of more lay-ups, the decline of legacy contracts, (with higher ARPU), and a weaker Norwegian Kroner. VSAT ARPU has remained stable over the last four quarters but is expected to start to decline as wholesale revenues are added to the mix. Our VSAT installation order book increased to around 650 vessels, up from around 500 vessels at the end of 2016.

Revenues for FleetBroadband, our core product, declined by 2.1% during the quarter, as outlined in the table above, primarily as a result of a decline in vessels utilising the product. This was mainly driven by the ARPU-accretive migration of ships up to FX and ongoing market weakness.

FB ARPU increased year-on-year as a result of the continued transitioning of FB customers to higher value communication packages and price increases in the prior year, partially offset by the migration of vessels to FX, and bandwidth usage optimisation by some customers.

¹ FB is utilised by customers on a standalone basis, but also as an integrated element of our VSAT products, as an L-band back-up, for utilisation in turbulent weather conditions.

Fleet One continued to grow, with over 340 new users added during the first quarter, taking the Fleet One customer base to over 1,600 vessels by the end of the period. Our Fleet One deal pipeline remains strong and indicative of strong growth potential for this new service.

Revenue from our mainly lower margin and legacy products continued to decline, as expected, falling 22.7% to \$22.1m in the first quarter of 2017, from \$28.6m in the prior year.

Operating costs for the quarter decreased by \$2.5m (8.1%), mainly reflecting the impact of an internal reorganisation in July 2016 which moved nearly \$3m per quarter of costs from Maritime into Central Services. EBITDA in the quarter decreased by \$1.5m (1.3%) compared with the prior year period, and the EBITDA margin improved to 79.7% from 78.5%.

Government

(\$ in millions)	Three months ended 31 March		
	2017	2016	Change
Revenue	86.0	68.7	25.2%
Operating costs	(21.7)	(20.0)	8.5%
EBITDA	64.3	48.7	32.0%
<i>EBITDA margin %</i>	<i>74.8%</i>	<i>70.9%</i>	
Cash capex	3.1	0.2	2.9

Despite continued downward pressure on the satellite industry in the Government sector, as a result of a range of cyclical and financial headwinds, Inmarsat remains well-placed to be able to offer our Government customers differentiated and high value-added services including interoperability with military satellite resources. This was evident during the first quarter of 2017, when our Government revenues increased year-on-year by 25.2% to \$86.0m.

During the period, the adoption of GX gained further traction across our Government customer base, with our major take-or-pay contract with Boeing, a key channel partner in the US for military Ka-band services, continuing to be the key driver of our performance. Mainly as a result of the impact of this contract, our US Government revenues grew by 37.0% in the first quarter. Our performance in the US was also supported by initial revenue generation from the US Navy's Commercial Broadband Satellite Program Satellite Services Contract ("CSSC"), won in 2016. During the period, we announced our inclusion in AT&T's consortium to provide satellite-based solutions for FirstNet, a planned nationwide emergency response network in the US which will be implemented over the coming years.

Outside the US, Government revenues rose by 9.6% during the quarter, as we continued to benefit from sustained operational tempo in one region, which began in Q3 2015.

Despite operating costs for the quarter increasing by 8.5% in response to the growth in revenue, EBITDA improved by 32.0% to \$64.3m, from \$48.7m in the prior period, reflecting higher revenues and an improved revenue mix. Consequently, the EBITDA margin increased to 74.8%, from 70.9% in the prior period.

Aviation

(\$ in millions)	Three months ended 31 March		
	2017	2016	Change
Revenue	44.2	31.2	41.7%
Operating costs	(18.7)	(8.8)	112.5%
EBITDA	25.5	22.4	13.8%
<i>EBITDA margin %</i>	<i>57.7%</i>	<i>71.8%</i>	
Cash capex	45.4	3.0	42.4

Our Aviation business remains well positioned for growth and produced a strong performance in the first quarter of 2017, in both the core Aviation business (serving the Business & General Aviation ("BGA") and Safety & Operations Services ("SOS") segments) and in IFC – in customer installations of GX, in winning new mandates in this area and in continuing to roll-out our service infrastructure.

Inmarsat's core Aviation business delivered revenue growth of 27.3% in the quarter, mainly from SwiftBroadband and Classic Aero, our L-band based products, which ended the period with over 16,500 connected terminals.

	Revenue		Number of installed aircraft		Average Revenue per User (ARPU)	
	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016
SwiftBroadband	\$26.3m	\$20.6m	8,356	7,563	\$1,050	\$930
Classic Aero	\$9.6m	\$7.6m	8,230	7,877	\$393	\$322

In the first quarter of 2017, SwiftBroadband delivered revenue growth of 27.7%, including growth from our L-band based IFC services in commercial aviation, whilst Classic Aero produced revenue growth of 26.3%. The performance of both products was supported by strong growth in the number of installed aircraft and ARPU, driven by robust demand and customer usage. In addition, we were successful in completing the first installations of JetConneX, our new GX-based product for BGA, during the period.

In IFC, we made good progress in on-boarding customers to GX. By the end of the period, a total of 65 Deutsche Lufthansa Group aircraft had been installed with GX terminals, up from 20 at the end of 2016, resulting in \$3.9m of relatively low margin pass-through installation revenues (there were an additional 15 installations in April 2017, taking the total number of installations to 80 to date). As a result of this installation programme, capital expenditure in Aviation increased to \$45.4m, from \$3.0m in the prior year.

We have signed contracts which are expected to involve the provision of IFC services to over 950 aircraft. In addition, during the second quarter, AirAsia announced a Memorandum of Understanding for GX and Qatar Airways announced their intention to install GX across their flagship A350 and 777 fleets. These additional airline-announced commitments represent an additional 250 aircraft utilising GX for IFC services. We remain in late stage discussions with a number of other airlines and we expect to steadily convert a proportion of our active pipeline of around 3,000 aircraft into contracts in due course.

We continue to expect the EAN to enter commercial service during the second half of 2017. The launch of the S-band satellite is planned for Q2 2017 with Arianespace, whilst Deutsche Telekom continues to make good progress with the build-out of our complementary ground component network. We remain confident that the final outstanding European regulatory approvals for the EAN will be obtained as the system moves into live operation. We have all 28 EU territory MSS authorisations plus Norway and Switzerland. In addition, 27 countries have provided us with authorisations or in-principle approvals for the CGC.

As outlined in our FY 2016 results press release, as we on-board the necessary capabilities to support our proposition in IFC in the short term, our financial performance in Aviation will be adversely affected by the net cost of this investment. In Q1 2017, operating costs in Aviation increased by \$9.9m, or 112.5%, to \$18.7m (Q1 2016: \$8.8m), due to increased headcount and other overhead costs associated with the pursuit and delivery of the major growth opportunities in IFC as well as an increase in direct costs due to additional lower margin installation revenues being added to the revenue mix. Overhead, or indirect, costs in Aviation are expected to increase to around \$70m for FY2017.

As a result of these factors, despite EBITDA in the first quarter of 2017 increasing by \$3.1m, or 13.8%, to \$25.5m, the EBITDA margin decreased to 57.7%, from 71.8% in the prior year period.

Enterprise

(\$ in millions)	Three months ended 31 March		
	2017	2016	Change
Revenue	29.4	34.0	(13.5%)
Operating costs	(7.3)	(7.9)	(7.6%)
EBITDA	22.1	26.1	(15.3%)
<i>EBITDA margin %</i>	<i>75.2%</i>	<i>76.8%</i>	
Cash capex	-	0.3	(0.3)

Our markets in Enterprise remain challenging, with continued competitive pressures and the effect of a depressed Oil and Gas sector. This particularly impacted the performance of our Broadband Global Area Network ("BGAN") product, where revenues declined by 17.2% year-on-year in the first quarter.

GSPS revenues, comprising both terminals and airtime, were 13.1% below the prior period, as a result of a tough comparator and an overall decline in customer usage, despite a slight increase in the number of connected terminals to over 160,000 at the end of the quarter. Fixed-to-mobile revenues decreased by 17.6%, reflecting expected continued decline in the voice market, including the on-going migration to Voice-over-IP.

Revenues in the Machine to Machine (“M2M”) segment continued to rise steadily, growing by 4.9% in the quarter. The number of connected M2M terminals increased to over 335,000 by the end of the period.

Operating costs for the quarter decreased to \$7.3m, from \$7.9m in the prior period but, as a result of the decline in revenue in the period, EBITDA was 15.3% lower at \$22.1m, from \$26.1m in the prior period, with EBITDA margin consequently declining to 75.2%, from 76.8% in the prior period.

We made good progress in driving initiatives based on medium to long term commercial opportunities around the Internet of Things (“IoT”) especially in the connected transport and smart agriculture segments. At the start of the second quarter, in line with our drive to maximise this opportunity, we made a small minority investment in Actility, an IoT solutions specialist, following our recently established partnership with them to extend the reach of our satellite networks through the addition of a Low Power Wide Area Network extension for IoT applications globally.

Central Services

(\$ in millions)	Three months ended 31 March		
	2017	2016	Change
Revenue			
Ligado Networks	30.5	17.9	70.4%
Other	3.0	3.7	(18.9%)
Total revenue	33.5	21.6	55.1%
Operating costs	(74.4)	(65.5)	13.6%
EBITDA	(40.9)	(43.9)	(6.8%)
Cash capex	70.9	23.4	47.5

Revenue from Ligado Networks (“Ligado”) in the quarter increased by \$12.6m, or 70.4%, to \$30.5m, reflecting the impact of the exercise of the 30MHz option by Ligado in March 2016. Full details of that exercise are set out in the interim results announcement for 2016. Ligado revenue in the quarter includes \$3.5m of deferred revenue released to reflect the economic cost of the revenue deferral arising under the revised transition agreement. There have been no other developments in respect of this agreement in the quarter. At 31 March 2017 we continue to hold \$194.3m of deferred revenue on the balance sheet in respect of the expected costs of implementation of this agreement.

Operating costs increased by \$8.9m, or 13.6%, to \$74.4m (Q1 2016: \$65.5m) due to the transfer of around \$3m of activities from Maritime, as part of a mid-year internal reorganisation in 2016, as outlined above, and additional central operational delivery costs.

Capital expenditure increased to \$70.9m, from \$23.4m in the prior year, as a result of increased infrastructure spend, on the GX, I-6 and S-band satellite infrastructures, and further investment in operational infrastructure, including IT and Cyber Security.

Reconciliation of EBITDA to profit after tax

(\$ in millions)	Three months ended 31 March		
	2017	2016	Change
EBITDA	181.8	165.6	9.8%
Depreciation and amortisation	(96.5)	(90.5)	6.6%
Other	0.4	0.6	(33.3%)
Operating profit	85.7	75.7	13.2%
Net financing costs	(22.5)	(10.7)	110.3 %
Taxation charge	(7.3)	(14.2)	(48.6%)
(Loss)/profit after tax	55.9	50.8	10.0%

Depreciation and amortisation increased by \$6.0m to \$96.5m as a result of increased capital expenditure.

Net financing costs for the quarter increased by \$11.8m to \$22.5m (Q1 2016: \$10.7m). The increase is primarily due to \$6.5m of interest on the new senior notes due 2024.

The tax charge for the quarter was \$7.3m, a decrease of \$6.9m versus the prior year, due to the more favourable treatment of profits under the patent box regime secured in 2017 and applied retrospectively, resulting in some profit being taxed at 10%, rather than the statutory rate of 19.25%. The normalised effective tax rate for the quarter was 18.9% compared to 19.4% for the first quarter of 2016, mainly reflecting the reduction in UK tax rate from 20% in 2016, to 19.25% in 2017.

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

Cash Flow

(\$ in millions)	Three months ended 31 March	
	2017	2016
EBITDA	181.8	165.6
Non-cash items	7.6	1.5
Change in working capital	(10.8)	33.9
Cash generated from operations	178.6	201.0
Capital expenditure	(130.2)	(38.5)
Net interest paid	(21.3)	(10.8)
Tax paid	(13.7)	(17.1)
Free cash flow	13.4	134.6
Dividends paid to shareholders	–	(0.4)
Other movement including foreign exchange	3.8	0.9
Net cash flow	17.2	135.1
Increase in cash from transfer from short-term deposits with maturity >3 months	150.0	–
Repayment of borrowings	(40.9)	(40.4)
Net increase in cash and cash equivalents	126.3	94.7
Opening net borrowings¹	1,711.5	1,735.4
Net cash flow	(17.2)	(135.1)
Non-cash movements ²	8.6	4.8
Closing net borrowings¹	1,702.9	1,605.1

Free cash flow decreased by \$121.2m to \$13.4m (Q1 2016: \$134.6m) driven primarily by an increase of \$91.7m in capital expenditure (see below) and a negative movement in working capital, driven primarily by the timing of receipts from Ligado. There was also \$10.5m higher cash interest paid as a result of the refinancing in Q3 2016. In addition, there was a scheduled payment of \$41.0m on the Ex-IM bank facility during the period.

¹ Net borrowings is less cash, cash equivalents and short term deposits.

² Includes the impact of deferred financing costs.

Capital Expenditure

(\$ in millions)	Three months ended	
	31 March	
	2017	2016
Major infrastructure projects	76.2	33.9
Success-based capex	30.0	12.6
Other capex (e.g. maintenance, product development)	29.8	21.4
Cash flow timing	(5.8)	(29.4)
Total cash capital expenditure	130.2	38.5

“Major infrastructure projects” capex consists of satellite design, build and launch costs and ground network infrastructure costs. In Q1 2017, expenditure in this category related primarily to the GX, I-6 and S-band satellite infrastructures.

“Success-based capex” consists of capital equipment installed on ships, aircraft and other customer platforms. This expenditure ties closely to near term new revenues. During Q1 2017 this principally related to expenditure in Maritime and Aviation, relating to the installation of GX terminals for customers.

“Other capex” investments consist primarily of infrastructure maintenance, IT and capitalised product and service development costs.

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.

Risk	Background and impact
1. Failure to expand into the broadband market by attracting new customers and successfully migrating existing L-band customers	<p>We may fail to optimally assess our market, technological changes, customer requirements and competitors' strategy and to exploit market opportunities. We may fail to effectively address the significant changes going on in the industry, e.g. price and capacity, plus a greater focus on digital enablement. We may develop next generation broadband services that will not meet these market opportunities, or these developments could have delays or cost overruns impacting on our market position, revenue or returns on investment.</p>
2. Failure to at least maintain our existing L-band business	<p>We may not be able to maintain our market share of L-band business or we may fail to keep up with the business needs of our customers. The L-band business currently makes up a large portion of our revenue stream and is vital to the continued growth of the business.</p> <p>We may fail to correctly assess our market, technological changes, customer requirements and competitors' strategy and therefore not target market opportunities.</p>
3. Failure to successfully seize the Aviation passenger connectivity opportunity	<p>We may fail to optimally assess our market, technological changes, customer requirements and competitors' strategy and to exploit the aviation in-flight connectivity ("IFC") market opportunity.</p> <p>Our competitors may provide better products to the market sooner than us. Our access to the market may be restricted by regulatory and capacity issues.</p>
4. Failure to maintain and grow our Maritime business	<p>We may not be able to grow our existing levels of revenue in the maritime industry through either competitor pressure, further decline in the overall maritime sector or our inability to identify adequate opportunities in the maritime market.</p> <p>The Maritime business currently makes up a large portion of our revenue stream and is vital to the continued growth of the business.</p> <p>We may fail to optimally assess our market, technological changes, customer requirements and competitors' strategy and to exploit market opportunities.</p>
5. Failure to deliver the Solutions strategy	<p>We are aiming to implement a new solutions-based strategy rather than being a product-only based solution. There is a risk that the transition to offer solutions and digital services may not go smoothly and we may fail to meet targets on our new solutions-based revenue.</p>
6. Failure of satellites or networks	<p>We face risks when we launch our satellites and while they are in operation. There are only a few companies who provide services to build and launch satellites and if they encounter problems, our launch may be delayed or fail.</p> <p>Our network may not be able to cope with the demand from users. Our network may suffer a cyber attack that damages our service offering and reputation.</p> <p>Elements of our ground network may fail which will affect our ability to provide service to our partners and customers.</p>

Risk	Background and impact
7. Failure of critical customers and/or distribution channel	<p>We rely on our distribution channel for part of our revenue and they might not sell our services effectively or competitively. We have critical GX and FX contracts which require careful management to ensure successful execution. Relying on some critical customers may increase our financial exposure if they fail to make payments for our services.</p> <p>We provide our services to many government organisations around the world which may have conflicting requirements, and our revenue may be affected by governments' reduction in spending and their other political priorities. We may fail to keep up with the business needs of our customers.</p> <p>We may encounter delays in bringing new products and services to market. Our inability to control our retail company specialising in US Government contracts, Inmarsat Government, may restrict our business activities.</p>
8. Cyber risk	<p>Our satellites, networks, systems and processes may be vulnerable to security risks from unauthorised access, computer viruses, denial of services and other cyber attacks. Our customers may not use our services if we could not demonstrate that our services are reliable and meet certain cyber security requirements.</p>
9. Spectrum, orbital slots and market access risk	<p>We rely on radio spectrum, which has historically been allocated without charge, to provide our services. We must agree how it is used in coordination with other satellite operators and need to coordinate its ongoing availability. We may not be able to coordinate usage in the future and/or may be charged for the spectrum which could affect our ability to provide services.</p> <p>We require orbital slots to place our satellites in the correct position to provide adequate coverage and deliver our services. We may not be able to obtain adequate orbital slots or we may miss deadlines to bring orbital slots into use.</p> <p>Given the nature of the satellite business it is important to have access to all areas of the globe and provide coverage world-wide. This requires licensing from multiple national authorities. We may not be able to gain these licenses for various reasons. Market access may not be allowed in certain countries which restricts our services being offered.</p>
10. Failure of critical suppliers	<p>We rely on a limited number of third party suppliers and partners in the production of our satellites, launch providers' systems, terminals and products and we may have limited control over availability, quality and delivery of these goods.</p> <p>A satellite manufacturer or a supplier to the satellite manufacturer, may fail or have serious damage to a production facility that delays the delivery of our satellite.</p> <p>A satellite launch provider may additionally have a launch failure which affects the timing of our planned launches.</p>
11. Failure to effectively deliver products and services	<p>We may fail to keep up with the developing business needs of our customers. We may fail in developing products and services that match their needs or encounter delays in bringing new products and services to market.</p> <p>We may not be able to take to market our products and services for various reasons such as competitor pressure, network/satellite issues and/or technological difficulties which would impact our ability to generate revenues.</p>

Risk	Background and impact
12. People and skills risk	<p data-bbox="626 191 1395 247">We may fail to hire skilled people or adequately improve skills to maintain and grow our business, or to deliver our strategy.</p> <p data-bbox="626 262 1395 401">Given the highly technical and specialist nature of the satellite industry, there are certain employees in our company who have very specific skill sets that are vital to the business. Further it is vital for the future of the business to keep hiring talented individuals and training existing staff across the business.</p>
13. Geo-political risk	<p data-bbox="626 436 1395 548">Downturns in the economy of a country and/or world economy could impact our business and strategy. Armed conflicts as well as a low oil price may have large effects on world trade and consequently on our business, strategy and currency exchange rates too.</p> <p data-bbox="626 562 1395 705">We do a large amount of business with governments across the globe including the US Government. Major political decisions, such as Brexit, may impact our business. We may suffer a terrorist attack on one of our network or office locations. Our staff and their families may suffer a local epidemic or global pandemic.</p>

INMARSAT GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
For the three months ended 31 March (unaudited)

(\$ in millions)	2017	2016
Revenues	332.2	298.6
Employee benefit costs	(68.0)	(65.7)
Network and satellite operations costs	(45.0)	(43.3)
Other operating costs	(49.0)	(33.2)
Own work capitalised	11.6	9.2
Total net operating costs	(150.4)	(133.0)
EBITDA	181.8	165.6
Depreciation and amortisation	(96.5)	(90.5)
Impairment loss	(0.4)	–
Share of profit of associates	0.8	0.6
Operating profit	85.7	75.7
Financing income	2.0	1.3
Financing costs	(24.5)	(12.0)
Net financing costs	(22.5)	(10.7)
Profit before tax	63.2	65.0
Taxation charge	(7.3)	(14.2)
(Loss)/profit for the period	55.9	50.8
Attributable to:		
Equity holders	55.7	50.6
Non-controlling interest¹	0.2	0.2

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three months ended 31 March (unaudited)

(\$ in millions)	2017	2016
(Loss)/profit for the period	55.9	50.8
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to the Income Statement:		
Foreign exchange translation differences	(0.2)	0.1
Net (loss)/gains on cash flow hedges	2.5	0.8
Other comprehensive income/(loss) for the period, net of tax	2.3	0.9
Total comprehensive (loss)/income for the period, net of tax	58.2	51.7
Attributable to:		
Equity holders	58.0	51.5
Non-controlling interest	0.2	0.2

¹ Non-controlling interest ("NCI") refers to the Group's 51% shareholding in Inmarsat Solutions ehf.

INMARSAT GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(\$ in millions)	As at 31 March 2017 (unaudited)	As at 31 December 2016 (audited)	As at 31 March 2016 (unaudited)
Assets			
Non-current assets			
Property, plant and equipment	3,041.3	2,971.4	2,854.2
Intangible assets	775.7	796.4	769.1
Investments	13.5	13.2	12.4
Other receivables	10.8	11.7	22.6
Deferred tax asset	39.7	38.6	42.7
Derivative financial instruments	–	0.1	1.5
	3,881.0	3,831.4	3,702.5
Current assets			
Cash and cash equivalents	385.9	259.7	268.5
Short-term deposits ¹	245.0	395.0	–
Trade and other receivables	325.4	326.0	325.1
Inventories	35.4	34.3	23.4
Current tax assets	10.0	8.5	5.4
Derivative financial instruments	1.6	1.7	0.3
Restricted cash	2.3	2.3	2.3
	1,005.6	1,027.5	625.0
Total assets	4,886.6	4,858.9	4,327.5
Liabilities			
Current liabilities			
Borrowings	464.8	459.7	208.5
Trade and other payables	518.7	497.1	509.9
Provisions	1.2	1.9	1.3
Current tax liabilities	134.4	144.5	121.3
Derivative financial instruments	11.0	5.9	0.2
	1,130.1	1,109.1	841.2
Non-current liabilities			
Borrowings	1,869.0	1,906.5	1,665.1
Other payables	25.9	41.5	43.2
Provisions	2.8	2.8	2.7
Deferred tax liabilities	212.7	208.3	203.6
Derivative financial instruments	12.5	20.1	–
	2,122.9	2,179.2	1,914.6
Total liabilities	3,253.0	3,288.3	2,755.8
Net assets	1,633.6	1,570.6	1,571.7
Shareholders' equity			
Ordinary shares	0.4	0.4	0.4
Share premium	677.4	677.4	677.4
Other reserves	402.1	396.9	413.5
Retained earnings	552.9	495.3	479.6
Equity attributable to shareholders	1,632.8	1,570.0	1,570.9
Non-controlling interest	0.8	0.6	0.8
Total equity	1,633.6	1,570.6	1,571.7

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

INMARSAT GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
For the three months ended 31 March

(\$ in millions)	Share capital	Share premium	Equity reserve	Share option reserve	Cash flow hedge reserve	Other ¹	Retained earnings	NCI ⁴	Total
Balance at 1 January 2016 (audited)	0.4	677.4	327.8	81.6	0.9	(0.5)	429.0	0.6	1,517.2
Share-based payments ²	–	–	–	2.8	–	–	–	–	2.8
Issue of share capital ³	–	–	–	–	–	–	–	–	–
Comprehensive Income:									
Profit for the quarter	–	–	–	–	–	–	50.6	0.2	50.8
OCI – before tax	–	–	–	–	0.8	0.1	–	–	0.9
Balance at 31 March 2016 (unaudited)	0.4	677.4	327.8	84.4	1.7	(0.4)	479.6	0.8	1,571.7
Balance at 1 January 2017 (audited)	0.4	677.4	327.8	92.7	(23.3)	(0.4)	495.3	0.6	1,570.5
Share-based payments ²	–	–	–	3.1	–	–	1.8	–	4.9
Comprehensive Income:									
Profit for the quarter	–	–	–	–	–	–	55.7	0.2	55.9
OCI – before tax	–	–	–	–	2.5	(0.2)	–	–	2.3
Balance at 31 March 2017 (unaudited)	0.4	677.4	327.8	95.8	(20.8)	(0.6)	552.8	0.8	1,633.6

¹ The 'other' reserve relates to the currency reserve debit of \$0.6m (2016: \$1.0m) and the revaluation reserve of \$nil (2016: \$0.6m).

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

³ Issue of share capital relates to the issue of shares by the company under its employee share schemes.

⁴ Non-controlling interest ("NCI") refers to the Group's 51% shareholding in Inmarsat Solutions ehf.

INMARSAT GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT
For the three months ended 31 March (unaudited)

(\$ in millions)	2017	2016
Cash flow from operating activities		
Cash generated from operations	178.6	201.0
Interest received	0.6	0.2
Tax paid	(13.7)	(17.1)
Net cash inflow from operating activities	165.5	184.1
Cash flow from investing activities		
Purchase of property, plant and equipment	(112.6)	(31.3)
Additions to intangible assets	(6.0)	–
Own work capitalised	(11.6)	(7.2)
Short-term cash deposits >3 months	150.0	–
Net cash from/(used in) investing activities	19.8	(38.5)
Cash flow from financing activities		
Dividends paid	–	(0.4)
Drawdown of Intercompany loan	5.4	–
Repayment of borrowings	(40.4)	(40.4)
Interest paid	(21.9)	(11.0)
Arrangement costs of financing	(1.1)	–
Net proceeds from the issue of ordinary shares	–	–
Other financing activities	0.3	0.3
Net cash generated used in financing activities	(57.7)	(51.5)
Foreign exchange adjustment	(1.3)	0.6
Net increase in cash and cash equivalents	126.3	94.7
Cash and cash equivalents		
At beginning of the period	259.2	172.9
Net increase in cash and cash equivalents	126.3	94.7
At end of the period (net of bank overdrafts)	385.5	267.6
Comprising:		
Cash at bank and in hand	24.9	70.6
Short-term deposits with original maturity of less than three months	361.0	197.9
Bank overdrafts	(0.4)	(0.9)
Net cash and cash equivalents at end of period	385.5	267.6

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. General information

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

2. Principal accounting policies

Basis of preparation

The condensed consolidated interim financial statements for the three months ended 31 March 2017 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. They were approved by the Board of Directors on 4 May 2017. The same accounting policies and methods of computation are followed in the interim statements as in the most recent annual financial statements, at 31 December 2016.

The financial information presented in this release does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2016 were approved by the Board of Directors on 8 March 2017. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

Going Concern

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

Basis of accounting

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

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

3. Segment information

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

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

3. Segment information (continued)

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

(\$ in millions)	Three months ended	
	31 March	
	2017	2016
Revenues		
Maritime	139.1	143.1
Government	86.0	68.7
Enterprise	29.4	34.0
Aviation	44.2	31.2
Central Services ¹	33.5	21.6
Total revenues	332.2	298.6
EBITDA		
Maritime	110.8	112.3
Government	64.3	48.7
Enterprise	22.1	26.1
Aviation	25.5	22.4
Central Services ¹	(40.9)	(43.9)
Total EBITDA	181.8	165.6
Depreciation and amortisation	(96.5)	(90.5)
Other	0.4	0.6
Operating profit	85.7	75.7
Net financing costs	(22.5)	(10.7)
Profit before tax	63.2	65.0
Taxation charge	(7.3)	(14.2)
(Loss)/profit for the period	55.9	50.8
Cash capital expenditure²		
Maritime	10.8	11.6
Government	3.1	0.2
Enterprise	–	0.3
Aviation	45.4	3.0
Central Services	70.9	23.4
Total cash capital expenditure	130.2	38.5
Financing costs capitalised in the cost of qualifying assets	10.3	10.5
Cash flow timing ³	5.8	29.4
Total capital expenditure	146.3	78.4

¹ Central Services includes revenue and EBITDA from Ligado.

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

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

4. Net financing costs

(\$ in millions)	Three months ended 31 March	
	2017	2016
Bank interest receivable and other interest	(2.0)	(1.3)
Total financing income	(2.0)	(1.3)
Interest on Senior Notes and credit facilities	23.7	18.6
Amortisation of debt issue costs	3.8	1.7
Amortisation of discount on Senior Notes due 2022	0.3	0.3
Unwinding of discount on deferred satellite liabilities	0.1	0.1
Net interest on the net pension asset and post-employment liability	0.7	–
Other interest	0.8	0.9
Intercompany interest payable	5.4	0.9
	34.8	22.5
Less: Amounts capitalised in the cost of qualifying assets	(10.3)	(10.5)
Total financing costs	24.5	12.0
Net financing costs	22.5	10.7

5. Net Borrowings

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

(\$ in millions)	At 31 March 2017			At 31 December 2016		
	Amount	Deferred finance costs	Net balance	Amount	Deferred finance costs	Net balance
Current:						
Bank overdrafts	0.4	–	0.4	0.5	–	0.5
Deferred satellite payments	3.5	–	3.5	3.8	–	3.8
Ex-Im Bank Facilities	99.5	–	99.5	99.5	–	99.5
Intercompany loan	361.4	–	361.4	355.9	–	355.9
Total current borrowings	464.8	–	464.8	459.7	–	459.7
Non-current:						
Deferred satellite payments	7.8	–	7.8	8.4	–	8.4
Senior Notes due 2022	1,000.0	(5.9)	994.1	1,000.0	(6.1)	993.8
– Net issuance discount	(5.2)	–	(5.2)	(5.5)	–	(5.5)
Senior Notes 2024	400.0	(5.4)	394.6	400.0	(5.6)	394.4
Ex-Im Bank Facilities	493.4	(15.7)	477.7	533.9	(18.6)	515.3
Total non-current borrowings	1,896.0	(27.0)	1,869.0	1,936.8	(30.3)	1,906.5
Total borrowings	2,360.8	(27.0)	2,333.8	2,396.5	(30.3)	2,366.2
Cash and cash equivalents	(385.9)	–	(385.9)	(259.7)	–	(259.7)
Short-term deposits	(245.0)	–	(245.0)	(395.0)	–	(395.0)
Net borrowings	1,729.9	(27.0)	1,702.9	1,741.8	(30.3)	1,711.5

For further details of the Group's debt structure please refer to note 19 of the December 2016 Annual Report.

6. Fair value of financial instruments

The Group's derivative financial instruments consist of forward foreign currency contracts which are primarily designated as cash flow hedges and the conversion liability component of the new convertible bonds due 2023 (further details are provided in note 19 of the December 2016 Annual Report).

The Group generally does not hedge foreign currency transactions. Where there is a material contract with a foreign currency exposure, a specific hedge to match the specific risk will be evaluated. At present the Group only hedges certain foreign currency milestone payments to Airbus for the construction of the I-6 satellites.

The fair values at the Balance Sheet date were:

(\$ in millions)	At 31 March 2017	At 31 December 2016
Financial assets:		
Forward foreign currency contracts – designated cash flow hedges	1.6	0.8
Forward foreign currency contracts – undesignated cash flow hedges	–	1.0
Total derivative financial assets	1.6	1.8
Financial liabilities:		
Forward foreign currency contracts– designated cash flow hedges	(23.3)	(23.9)
Forward foreign currency contracts – undesignated cash flow hedges	(0.2)	(2.1)
Total derivative financial liabilities	(23.5)	(26.0)
Net derivative financial (liabilities)/assets	(21.9)	(24.2)

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

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

(\$ in millions)	At 31 March 2017		At 31 December 2016	
	Carrying Value	Fair value	Carrying value	Fair value
Financial liabilities:				
Senior Notes due 2022	1,000.0	988.8	1,000.0	975.0
Senior Notes due 2024	400.0	415.0	400.0	408.3
Ex-Im Bank Facilities	592.9	651.4	633.4	649.4

7. Contingent liabilities

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

8. Events after the balance sheet date

There have been no material events since the balance sheet date.