# Inmarsat Group Limited
(Registered Number: 4886115)

## Annual Report and Financial Statements
For the year ended 31 December 2018

## Principal activities

Inmarsat Group Limited (the 'Company' or together with its subsidiaries, the 'Group') is the leading provider of global mobile satellite communications services ("MSS"), providing data and voice connectivity to end-users worldwide, with 40 years of experience in designing, launching and operating satellite-based networks. The Group has an in-orbit fleet of thirteen owned and operated satellites in geostationary orbit. This includes eight satellites on our L-band platform, four satellites on our Ka-band platform and one satellite on our S-band platform. In addition to our established L-band satellite services business, in December 2015 we brought GX into commercial service. GX offers seamless global coverage and delivers Ka-band satellite services with broadband speeds of up to 50 Mbps for users in the Government, Maritime, Enterprise and Aviation sectors. Our fourth GX satellite was launched in 2017. The Inmarsat-6 satellites, comprised of two dual payload (L-band and Ka-band) satellites are on track to be launched at the start of the next decade and ensure the re-orientation of our L-band capabilities towards new growth opportunities and our fifth GX satellite is currently scheduled for launch at the end of 2019 which will bring additional Ka-band capacity.

## Change in accounting policies

In the current period the Group has adopted IFRS15, IFRS16 and IFRS9. Additionally, the Group has updated its policy in relation to launch slots to reflect the changes in technology and operations. The impact of these changes has been discussed in detail within note 2. Other than those discussed, the accounting policies used are consistent with the prior period.

## Key financial and other performance indicators

The Group's key financial and other performance indicators during the year were as follows:

| ($ in millions) | 2018 | 2017 (restated) | Change |
|---|---|---|---|
| Revenue | 1,465.2 | 1,391.7 | 5.3% |
| EBITDA | 770.8 | 739.3 | 4.2% |
| Operating profit | 289.4 | 324.2 | (10.7%) |
| Profit after tax | 170.6 | 197.9 | (13.8%) |
| Net assets | 1,842.5 | 1,514.1 | (21.7%) |
| Average number of employees | 1,823 | 1,852 | (1.6%) |

2018 Group Revenue increased $73.5m (5.3%) to $1,465.2m, mainly driven by double-digit growth in Aviation, as well as strong Government performance. Aviation revenue was driven higher by continuing strong growth in our Core business and revenues in our IFC ('in flight connectivity') services more than doubling. Government performance was driven in particular by our US Government business supported by several new business wins in the year. There was further progress in the Boeing Take-or-Pay contract, with a further material increase in underlying revenues in the year.

Operating profit decreased by $34.8m (10.7%) driven by an increase in depreciation and amortisation of $56.5m as a result of the I-5 F4 and S-Band satellites being depreciated throughout all of 2018 and fixed and tangible asset impairments of $14.5m. These costs were slightly mitigated by higher EBITDA of $35.1m.

The tax charge for the year was $51.1m, a decrease of $0.7m (2017: $50.4m). This is mainly driven by the decrease in profit, partly offset by an increase in the effective tax rate. The effective tax rate for 2018 was 25.5% (2017: 20.9%) compared to an average statutory rate for the UK for 2017 of 19.0% (2017: 19.25%).

Profit after tax was $170.6m, compared to $197.9m in 2017 which is driven by the fall in operating profit.

## Alternative Performance Measures

In addition to IFRS measures the Group uses a number of Alternative Performance Measures (APMs) in order to provide readers with a better understanding of the underlying performance of the business, and to improve comparability of our results for the period. More detail on IFRS and APMs can be found on page 53.

## 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.

- Event leads to sharp reduction of air traffic - The world has had few events like this in the last twenty years, e.g. 9/11, SARS, the ash cloud. Similar events in the future could reduce air traffic volumes sharply, which would in turn impact our business. Our customers may ask us to cancel or halt ongoing contracts, and it would be difficult to sign new contracts

- Geo-political risk, political uncertainty including Brexit impact - Downturns in the economy of a country and/or the world economy, trade wars, as well as very low or very high oil prices could all have large effects on world trade and consequently our business. Armed conflicts, including war in space could also have an impact, locally and globally. We may suffer a terrorist attack or a natural disaster on one of our locations. We do a large amount of business with governments across the globe. Political uncertainty with policy changes, decisions and sanctions could impact our business. Brexit negotiations outcomes including a no-deal exit could have both expected and unexpected effects. We could fail to comply with applicable international legislation and international reporting requirements. Our staff and their families may suffer a local epidemic or global pandemic.

- Competition – tech disruption, new entrants and business plans - We may fail to optimally assess our market, technological changes, customer requirements, capacity needs and competitors' strategy and therefore fail 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 the market requirements. Competitors and new entrants may launch disruptive technology, or new business plans with for example connectivity at very low prices or for free. Our competitors may consolidate with an impact on our competitive positions. We may fail to roll out new services including migrating existing customers. We may fail to develop competitive technology and product roadmaps, competitive pricing, to differentiate ourselves, to obtain applicable licences or fail to deliver on our contracts. Products may become obsolete. Our competitors may provide better products to the market sooner than us and at more competitive prices. We may fail to enable or incentivise our distribution partners enough so they choose to sell our competitors' products instead.

- **Not enough network capacity** - We may fail to keep up with the developing business needs of our existing and new customers. We may fail to optimally assess our market, technological changes, customer requirements and competitors' strategy, so we have not enough capacity to meet the demands. We may not be able to meet capacity needs for various reasons such as network or satellite issues, which would impact our ability to generate revenues.
- **Major operational failure** - We face risks when our satellites are in orbit. Our satellites, our control of them or our network may fail technically or be sabotaged. Elements of our ground network may fail or be damaged. Our network may suffer a cyberattack that damages our service offering and reputation. If our service is interrupted, it may cause physical and financial damage with possible legal and financial consequences for our business.
- **Satellite launch failure**- We face risks when we launch our satellites. There are only a few satellite launch companies and if they encounter problems, our launch risk may increase.
- **Protectionism affects our business operations**- Growing protectionism including policy changes, sanctions and trade wars could impact our business, including our supply chain and our ability to do installations. 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 are very reliant on the USD and a disagreement with the US Government could restrict our access to US banks and USD settlements.
- **Security risk** - We may suffer damage to satellites, networks, information/data, systems, processes and our services to customers as a result of malicious or flawed code, unauthorised access, service denial ransom/coercion, or security compromise. Data or IP could be stolen. This could also have consequential impact on reputation, business plans and operations, and future revenue from risk averse customers.
- **Loss of or failed customer or supplier**- We rely on our distribution channel for part of our revenue and they might not sell our services effectively or competitively. Relying on some critical customers may increase our financial exposure if they fail to make payments for our services. We may lose customers due to poor quality service delivery or operations, or fail to keep up with the business needs. We may fail to roll out new services including migrating existing customers. A competitor may buy a critical customer or partner. Partners may merge or grow and as a result outcompete smaller partners. Partners may prefer selling our competitors' services due to better terms and conditions. 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. A critical supplier may fail financially or one of their systems may fail.
- **Spectrum, orbital slots and market access risk** - We rely on radio spectrum, which has historically been allocated without charge, to provide our services. 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. Channel consolidation may drive down prices and ARPU. 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. 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, which restricts our services being offered. We may lose licences after they have been obtained due to noncompliance or legal challenges.
- **Financing risk**- The company finances the business through operating cash flow and capital market instruments. Our ability to finance the business in the medium term could be affected by the closure of capital markets, by failing to materially deliver on our business plans and strategy, or by downturns in the economy of a country and/or the world economy.
- **Currency risk** - Downturns in the economy of a country and/or world economy, armed conflicts and trade restrictions could impact currency exchange rates and our business and strategy. We have significant costs in GBP, so a drastic change in GBP value could impact our business. USD rate changes may only have translational effects in our accounts and results.
- **Loss of people and key skills** - We may fail to hire skilled people or adequately improve skills to maintain and grow our business, deliver our strategy and complete programmes and projects. We may lose highly technical and specialist employees who have very specific skill sets that are vital to the business. We may lose knowledge with employees and consultants that leave the company. Brexit negotiations outcomes could impact EU citizens working in London and UK citizens in Europe. We may lose employee engagement and motivation. Our employees may suffer injury from terrorist attacks or natural disasters in our locations

## Future developments

The Group are targeting mid-single digit percentage revenue growth (excluding Ligado) on average over the next five years, with EBITDA and cash flow generation (both excluding Ligado) expected to improve steadily as a result of the combined impact of this growing revenue base, an improved revenue mix, tightly managed overhead costs and new, lower cost, satellite technologies being implemented that are expected to drive a meaningful moderation in annual infrastructure capex over the medium-term.

The Company is part of the Inmarsat plc group, and more details about future developments are incorporated within the Business Overviews and Strategic Report of the Inmarsat plc 2018 annual report.

## Post balance sheet events

Since the balance sheet date there have been no significant events which would require disclosure in the 31 December 2018 Annual Report.

By order of the Board

**ALISON HORROCKS FCIS**

Company Secretary
22 March 2018

The Directors submit 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 2018. Details of future developments and post balance sheet events and included in the strategic report page 1.

## Directors and their interests

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

- Tony Bates
- Alison Horrocks
- Rupert Pearce
- Andrew Sukawaty

No Directors had during the year or at the end of the year any material interested in any contract of significance to the Company's business.

## Principal activities

The Company is a member of the Inmarsat plc group, providing services to other companies in the Inmarsat plc group. For more information see above within the strategic report

The Directors do not envisage any change to the nature of the business in the foreseeable future.

## Results and dividends

The Group's results for the financial year are shown in the Consolidated Income Statement on page 7.

During 2018, $45.9m of the 2018 interim dividend and the full 2017 final dividend of $50.8m were paid to the Company's shareholders. During 2017, the Company paid dividends of $95.0m for the 2017 interim dividend and $185.0m for the 2016 final dividend.

During the year ended 31 December 2018, a total of 100 (2017: nil) ordinary shares of €0.0005 each were allotted and issued by the Company.
No final dividend for the year ended 31 December 2018 has been declared or paid.

## Research and development

The Group continues to invest in new services and technology necessary to support its activities through research and development programmes. While investment in innovation is clearly important, having talented and experienced teams who understand how technology and innovation can work together is essential. Our teams monitor what happens in the macro environment and see how this affects future innovation so we produce services our customers want to use in a way which takes into account how we can work with our satellite manufacturers to ensure their processes are as environmentally friendly as possible and also how our launch providers are also responding to this. SpaceX, with whom we have had a successful launch, is an example of a launch provider which reuses some of its launch vehicles and we expect a focus on greener technology to be adopted more by all connected with the satellite industry.

## Going concern

In determining whether the Company's financial statements can be prepared on a going concern basis the Directors have considered all the factors likely to affect its future development, performance and its financial position including the matters disclosed in the Strategic Report and Directors' Report. The Company is part of the Inmarsat plc group (the 'plc Group') and the going concern review completed at the date of signing of the plc Group accounts is set out within the Inmarsat plc 2018 annual report which does not form part of this report. The going concern of the Company is dependent on the going concern of the plc Group. Additionally, the Company is reliant on the plc Group's financing facilities.

At the date of signing of these financial statements the Directors have considered all the factors impacting the Company's and plc Group's business, including downside sensitivities. The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Company's financial statements.

## Financial risk management

Details of the financial risk management objectives and policies of the Group, including exposure of the entity to market risk, credit risk, liquidity risk and cash flow risk are given in notes 3 and 31 to the financial statements.

## Employees

To support our vision, we have developed a three-year Diversity and Inclusion plan with actions at multiple stages of the employee life cycle from attraction to recruitment to development, and there are a number of initiatives focused on 'life at Inmarsat' – creating and maintaining an engaging and inspiring place to work.

When recruiting, we value diversity in its broadest definition and work to provide opportunities for all, including for disabled employees by reviewing the requirements of their working environment to accommodate practical changes as far as possible to allow them to continue in their daily work routine. If such changes were unrealistic to implement, we would review alternative employment options for the individual within the Group. We do not tolerate discrimination in any form – race, gender, age, culture, nationality and disability – against our employees, either from other employees or third parties.

We have established policies which address key corporate objectives in the management of employee relations, communications and employee involvement, training and personal development and equal opportunities.

We have elected employee forums in the UK and Batam in Indonesia, a Works Council in the Netherlands and an Enterprise Agreement in Perth, Australia. These groups enable two-way open communications between employees and the Executive Management Team, in a trust based environment listening and taking into

consideration the views of employees. In the UK, the Staff Forum is an elected body constituted in accordance with prevailing legislation to provide the formal means of consultation on contractual matters, as and when required. In other countries, these bodies are constituted according to local requirements.

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 Group and one of his objectives relates to ensuring there are appropriate health and safety measures in operation across the Group. We have a dedicated Health and Safety Manager who is located in our London headquarters office and our subsidiary operations have identified managers responsible for health and safety. Our goal is to encourage strong leadership in championing the importance of, and a common-sense approach to health and safety in the workplace. We recognise the need to provide a safe working environment for our employees, contractors and any visitors. During the year we introduced a global policy on Electromagnetic Fields ('EMF') and there is active EMF monitoring across the Inmarsat plc group. We believe our 'healthy wellbeing programme' has a positive impact on staff productivity and effectiveness of the business, the programme aims to improve the general health and wellbeing of the working-age population and support staff with health conditions.

We have identified five continuing health and safety priorities based on business activities and the potential harm to staff:

- DSE (display screen equipment) related ill health (musculoskeletal disorders)
- Working at height
- Work related stress
- Manual handling
- Lone working

We provide training and awareness materials to staff providing them with information on how to deal with these specific areas of work.

## Directors' indemnity

Each of the Directors benefit from an indemnity given by the Company under its Articles of Association. This indemnity is in respect of liabilities incurred by the Director in the execution and discharge of his or its duties.

In addition, each of the Directors who is an individual benefits from an indemnity given by another Group undertaking, Inmarsat plc. This indemnity is in respect of liabilities arising out of third party proceedings to which the Director is a party by reason of his engagement in the business of the Company.

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statement for each financial year. Under that law the Directors have prepared the financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements 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, IAS 1 required the Directors to:

- properly select and apply accounting policies;
- present information, including accounting policies in a manner that provided relevant, reliable and comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS 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 adequate 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities

## Disclosure of information to auditors

As far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware and the Directors have taken all the steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Independent auditors

Deloitte LLP are deemed to be re-appointed in accordance with an elective resolution made under section 386 of the Companies Act 1985 which continues in force under the Companies Act 2006.

The Company is not required to hold Annual General Meetings. Subject to the receipt of any objections as provided under section 485 Companies Act 2006 Deloitte are deemed re-appointed in accordance with section 485 Companies Act 2006.

This report has been prepared taking advantage of the small companies' exemption in accordance with section 415A of the Companies Act 2006.

By order of the Board

**ALISON HORROCKS FCIS**

Company Secretary
22 March 2019

# INMARSAT GROUP LIMITED
# AUDIT REPORT
for the year ended 31 December 2018

## Opinion
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Inmarsat Group Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 36.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

## Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

## Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

## Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Use of our report

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.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Paul Franek, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
**London, United Kingdom**
22 *March 2019*

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

| ($ in millions) | Note | 2018 | 2017 (restated) [3] |
|---|---|---|---|
| Revenues | | 1,465.2 | 1,391.7 |
| Employee benefit costs[1] | 7 | (293.3) | (303.7) |
| Network and satellite operations costs | | (183.3) | (192.8) |
| Impairment of financial assets | 18 | (18.1) | (3.0) |
| Other operating costs | | (237.4) | (202.0) |
| Own work capitalised | | 37.7 | 49.1 |
| Total net operating costs | | (694.4) | (652.4) |
| EBITDA | | 770.8 | 739.3 |
| Depreciation and amortisation | 6 | (468.3) | (411.8) |
| Impairment loss on fixed and intangible assets | 6 | (14.5) | – |
| Loss on disposal | 6 | (2.5) | (7.3) |
| Share of profit of associates | 16 | 3.9 | 4.0 |
| Operating profit | | 289.4 | 324.2 |
| Financing income | 9 | 9.1 | 8.0 |
| Financing cost | 9 | (76.8) | (83.9) |
| Net financing costs | 9 | (67.7) | (75.9) |
| Profit before tax | | 221.7 | 248.3 |
| Taxation charge | 10 | (51.1) | (50.4) |
| Profit for the year | | 170.6 | 197.9 |
| Attributable to: | | | |
| Equity holders | | 169.8 | 197.3 |
| Non-controlling interest[2] | | 0.8 | 0.6 |

1 Employee benefit costs for 2017 includes the one-off restructuring charge of $19.9m
2 Non-controlling interest relates to the Group's 51% shareholding in Inmarsat Solutions ehf
3 2017 figures have been restated to reflect the adoption of IFRS15 and the accounting policy change for unallocated launch slots. The Group has also adopted IFRS 16 and IFRS 9 as of 1 January 2018. Please refer to note 2 of this document for further details

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

| ($ in millions) | Note | 2018 | 2017 (restated)[1] |
|---|---|---|---|
| Profit for the year | | 170.6 | 197.9 |
| Other comprehensive income | | | |
| *Items that may be reclassified subsequently to the Income Statement:* | | | |
| Foreign exchange translation differences | | (0.2) | – |
| Gains / (losses) on cash flow hedges | 27 | (5.2) | 14.1 |
| *Items that will not be reclassified subsequently to the Income Statement:* | | | |
| Re-measurement of the defined benefit and post-employment asset/liability | 29 | 19.7 | 12.7 |
| Tax charged directly to equity | 10 | (3.1) | (2.9) |
| Other comprehensive income net of tax | | 11.2 | 23.9 |
| Total comprehensive income, net of tax | | 181.8 | 221.8 |
| Attributable to: | | | |
| Equity holders | | 181.0 | 221.2 |
| Non-controlling interest | | 0.8 | 0.6 |

1 Comparatives have been restated as a result of initial application of IFRS 15 and the change in accounting policy for unallocated launch slots discussed in note 2

# CONSOLIDATED BALANCE SHEET

at 31 December 2018

| ($ in millions) | Note | 2018 | 2017 (restated)[2] | 2016 (restated)[2] |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 13 | **3,356.1** | 3,258.2 | 2,979.9 |
| Intangible assets | 14 | **800.4** | 808.1 | 802.8 |
| Investments | 16 | **18.8** | 16.2 | 13.2 |
| Right-of-use assets | 15 | **62.4** | – | – |
| Other receivables | 18 | **35.2** | 17.5 | 5.3 |
| Deferred tax assets | 23 | **52.5** | 35.4 | 38.6 |
| Derivative financial instruments | 31 | **–** | 0.3 | 0.1 |
| | | **4,325.4** | 4,135.7 | 3,839.9 |
| **Current assets** | | | | |
| Cash and cash equivalents | 17 | **138.3** | 143.2 | 259.7 |
| Short-term deposits[1] | | **145.7** | 342.0 | 395.0 |
| Trade and other receivables | 18 | **400.9** | 358.8 | 337.0 |
| Inventories | 19 | **50.7** | 33.9 | 34.3 |
| Current tax assets | 23 | **4.6** | 13.8 | 8.5 |
| Derivative financial instruments | 31 | **0.3** | 1.2 | 1.7 |
| Restricted cash | 24 | **2.4** | 2.3 | 2.3 |
| | | **742.9** | 895.2 | 1,038.5 |
| **Total assets** | | **5,068.3** | 5,030.9 | 4,878.4 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Borrowings | 20 | **123.2** | 563.6 | 459.7 |
| Trade and other payables | 21 | **777.1** | 622.5 | 526.5 |
| Provisions | 22 | **14.3** | 16.2 | 1.9 |
| Current tax liabilities | 23 | **189.0** | 148.7 | 144.5 |
| Derivative financial instruments | 31 | **2.4** | 7.9 | 5.9 |
| Lease obligations | 15 | **10.4** | – | – |
| | | **1,116.4** | 1,358.9 | 1,138.5 |
| **Non-current liabilities** | | | | |
| Borrowings | 20 | **1,772.9** | 1,884.9 | 1,906.5 |
| Other payables | 21 | **13.9** | 25.0 | 41.5 |
| Provisions | 22 | **11.1** | 9.7 | 2.8 |
| Deferred tax liabilities | 23 | **250.3** | 236.2 | 208.3 |
| Derivative financial instruments | 31 | **1.6** | 2.1 | 20.1 |
| Lease obligations | 15 | **59.6** | – | – |
| | | **2,109.4** | 2,157.9 | 2,179.2 |
| **Total liabilities** | | **3,225.8** | 3,516.8 | 3,317.7 |
| **Net assets** | | **1,842.5** | 1,514.1 | 1,560.7 |
| **Shareholders' equity** | | | | |
| Ordinary shares | 25 | **0.4** | 0.4 | 0.4 |
| Share premium | | **1,118.5** | 677.4 | 677.4 |
| Other reserves | | **435.5** | 423.8 | 396.9 |
| Retained earnings | | **287.3** | 411.9 | 485.4 |
| **Equity attributable to shareholders** | | **1,841.7** | 1,513.5 | 1,560.1 |
| **Non-controlling interest** | | **0.8** | 0.6 | 0.6 |
| **Total equity** | | **1,842.5** | 1,514.1 | 1,560.7 |

1 Short-term deposits are cash held on deposit with original maturity of between three and 12 months

2 The Group has adopted IFRS 15 using the fully retrospective method and changed the accounting policy for unallocated launch slots. The 31 December 2016 balance sheet has been provided to show the impact on the opening position of the prior period

The consolidated financial statements of the Group on pages 7 to 11 were approved by the Board of Directors on 22 March 2019 and were signed on its behalf by

**TONY BATES**
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

| ($ in millions) | Notes | Ordinary share capital | Share premium account | Share option reserve | Cash flow hedge reserve[1] | Other[2] | Retained earnings (restated)[5] | Non-controlling interest[3] | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2017 | | 0.4 | 677.4 | 92.7 | (23.3) | 327.5 | 485.4 | 0.6 | 1,560.7 |
| Share-based payments[4] | | – | – | 11.3 | – | – | (0.6) | – | 10.7 |
| Dividend declared | 12 | – | – | – | – | – | (280.0) | (0.6) | (280.6) |
| Losses on cash flow hedges capitalised to tangible assets | | – | – | – | 1.5 | – | – | – | 1.5 |
| Comprehensive income: | | | | | | | | | |
| Profit for the year (restated) | | – | – | – | – | – | 197.3 | 0.6 | 197.9 |
| Other comprehensive loss – before tax | | – | – | – | 14.1 | – | 12.7 | – | 26.8 |
| Other comprehensive loss – tax | | – | – | – | – | – | (2.9) | – | (2.9) |
| Total comprehensive income for the year | | – | – | – | 14.1 | – | 207.1 | 0.6 | 221.8 |
| Balance at 31 December 2017 | | 0.4 | 677.4 | 104.0 | (7.7) | 327.5 | 411.9 | 0.6 | 1,514.1 |
| Share-based payments[4] | | – | – | 8.2 | – | – | 1.0 | – | 9.2 |
| Dividend declared | 12 | – | – | – | – | – | (312.0) | (0.6) | (312.6) |
| Issue of share capital | | – | 441.1 | – | – | – | – | – | 441.1 |
| Losses on cash flow hedges capitalised to tangible assets | | – | – | – | 8.9 | – | – | – | 8.9 |
| Comprehensive income: | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | 169.8 | 0.8 | 170.6 |
| Other comprehensive gain – before tax | | – | – | – | (5.2) | (0.2) | 19.7 | – | 14.3 |
| Other comprehensive gain – tax | | – | – | – | | | (3.1) | – | (3.1) |
| Total comprehensive income for the year | | – | – | – | (5.2) | (0.2) | 186.4 | 0.8 | 181.8 |
| Balance at 31 December 2018 | | 0.4 | 1,118.5 | 112.2 | (4.0) | 327.3 | 287.3 | 0.8 | 1,842.5 |

1 Refer to note 26 for a reconciliation of this account
2 The 'other' reserve relates to the capital contribution reserve of $327.8m, the currency reserve debit of $1.1m (2017: $1.2m) and the revaluation reserve of $0.6m (2017: $0.9m)
3 Non-controlling interest ('NCI') refers to the Group's 51% shareholding in Inmarsat Solutions ehf
4 Represents the fair value of share option awards, net of tax, recognised in the year
5 Comparatives have been restated as a result of initial application of IFRS 15 and the change in accounting policy for unallocated launch slots discussed in note 2

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2018

| ($ in millions) | Note | 2018 | 2017 (restated)[2] |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Cash generated from operations | 24 | 720.4 | 779.7 |
| Interest received | | 6.0 | 5.5 |
| Tax received/(paid) | | 2.3 | (19.8) |
| Net cash inflow from operating activities | | 728.7 | 765.4 |
| Cash flow from investing activities | | | |
| Purchase of property, plant and equipment | | (460.3) | (454.3) |
| Additions to intangible assets | | (93.0) | (110.7) |
| Own work capitalised | | (37.4) | (49.1) |
| Proceeds from short-term deposits[1] | | 459.5 | 455.1 |
| Repayments of short-term deposits[1] | | (263.2) | (402.0) |
| Investment in financial asset | 16 | – | (1.1) |
| Net cash used in investing activities | | (394.4) | (562.1) |
| Cash flow from financing activities | | | |
| Dividends paid | | (97.3) | (280.0) |
| Repayment of borrowings | | (563.3) | (80.8) |
| Drawdown of borrowings | | – | 78.4 |
| Interest paid | | (103.5) | (95.0) |
| Arrangement costs of financing | | (4.8) | (1.1) |
| Cash payments for the principal portion of the lease obligations | 15 | (12.3) | – |
| Net proceeds from the issue of ordinary shares | | 441.1 | - |
| Related party financing | | - | 63.0 |
| Other financing activities | | (1.6) | (1.9) |
| Net cash (used in)/generated from financing activities | | (341.7) | (317.4) |
| Net (decrease)/increase in cash and cash equivalents | | (7.4) | (114.1) |
| | | | |
| Cash and cash equivalents | | | |
| At the beginning of the year | | 142.9 | 259.2 |
| Net (decrease)/increase in cash and cash equivalents | | (7.4) | (114.1) |
| Foreign exchange gains/(losses) on cash and cash equivalents | | 2.8 | (2.2) |
| At the end of the year (net of bank overdrafts) | | 138.3 | 142.9 |
| Comprising: | | | |
| Cash at bank and in hand | 17 | 138.3 | 108.2 |
| Short-term deposits with original maturity of less than three months | 17 | – | 35.0 |
| Cash and cash equivalents | | 138.3 | 143.2 |
| Bank overdrafts | 20 | – | (0.3) |
| Net cash and cash equivalents at the end of the year | | 138.3 | 142.9 |

1 Proceeds from and repayments of short-term deposits are net of interest and have an original maturity of more than 3 months

2 Comparatives have been restated as a result of initial application of IFRS 15 and the change in accounting policy for unallocated launch slots discussed in note 2

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

Inmarsat Group Ltd (the 'Company' or, together with its subsidiaries, the 'Group') is a company incorporated in the United Kingdom and domiciled in England and Wales. The address of its registered office is 99 City Road, London EC1Y 1AX, United Kingdom.

The company's parent undertaking is Inmarsat Holdings Limited and the 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

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented unless otherwise stated.

### BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, the Companies Act 2006 and Article 4 of the EU IAS Regulation. The financial statements have been prepared under the historical cost convention except for certain financial instruments that have been measured at fair value, as described later in these accounting policies.

### GOING CONCERN

The Group has a robust and resilient business model, positive 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 its business risks successfully. After considering current financial projections and facilities available and after making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, Inmarsat plc continues to adopt the going concern basis in preparing the consolidated financial statements.

### BASIS OF ACCOUNTING

The consolidated financial statements are presented in US Dollars, which is the functional currency of the Company and most of the Group's subsidiaries. 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 year. Although these estimates are based on management's best estimate of the amount, event or actions, the actual results ultimately may differ from these estimates. Further discussion on these estimates and assumptions are disclosed in note 4.

### ACCOUNTING POLICY CHANGES

#### New and amended accounting standards adopted by the Group

##### IFRS 15 'Revenue from contracts with customers'

The Group has adopted IFRS 15 Revenue from Contract with Customers ('revenue standard') for the year ended 31 December 2018 using the fully retrospective method.

Two revenue streams were identified as areas requiring Group policy change to align with IFRS 15. These are installation revenues and revenues from the Ligado contract.

Installation revenues have previously been recognised in full on completion of work. Under IFRS 15, installation on equipment owned by the Group is not considered a distinct performance obligation. The price charged to the customer is added to the transaction price and is spread over the related contract period. Similarly installation costs, which were previously expensed on installation, are now capitalised and depreciated over the contract period.

Revenues relating to Ligado was previously recognised when amounts fell due. This differs from the treatment under IFRS 15 which requires the full transaction price to be apportioned over the contract term. This has been calculated using an output measure. A finance component in relation to deferred payments has been recognised.

The table below shows the combined impact on Group comprehensive income:

| | Income statement for year ended 31 December 2017 | | |
|---|---|---|---|
| ($ in millions) | Reported | IFRS 15 adjustment | Restated |
| Revenues | 1,400.2 | (8.5) | 1,391.7 |
| Other operating costs | (218.3) | 16.3 | (202.0) |
| EBITDA | 731.5 | 7.8 | 739.3 |
| Depreciation and amortisation | (406.7) | (5.1) | (411.8) |
| Operating profit | 321.5 | 2.7 | 324.2 |
| Financing income | 6.7 | 1.3 | 8.0 |
| Profit before tax | 244.3 | 4.0 | 248.3 |
| Tax | (49.1) | (1.3) | (50.4) |
| Profit after tax | 195.2 | 2.7 | 197.9 |

On the balance sheet, property, plant and equipment increased due to the capitalisation of installation costs. Additionally an increase in trade and other payables in the form of deferred income was recognised, reflecting the corresponding delay in the recognition of installation revenue.

The Ligado impact is largely limited to the balance sheet with payments which were contractually deferred and were previously offset against deferred revenue now being recognised as receivables.

IFRS 15 has resulted in an increase to property, plant and equipment, trade and other receivables and trade and other payables of 8.5m, 11.0m and 29.4m respectively on the 2017 opening balance sheet. This has led to a decrease in the opening retained earnings of $9.9m.

| | Balance sheet as at 31 December 2017 | | |
|---|---|---|---|
| ($ in millions) | Reported | IFRS 15 adjustment | Restated |
| Non-current assets | | | |
| Property, plant and equipment | 3,239.3 | 18.9 | 3,258.2 |
| Deferred income tax asset | 35.6 | (0.2) | 35.4 |
| Current assets | | | |
| Trade and other receivables[1] | 346.6 | 25.0 | 371.6 |
| Total assets | 4,987.2 | 43.7 | 5,030.9 |
| Current liabilities | | | |
| Trade and other payables | 572.7 | 49.8 | 622.5 |
| Non-current liabilities | | | |
| Deferred income tax liabilities | 235.1 | 1.1 | 236.2 |
| Total liabilities | 3,465.9 | 50.9 | 3,516.8 |
| Net assets (Equity) | 1,521.3 | (7.2) | 1,514.1 |

1 Trade and other receivables do not include the adjustment for the change in accounting policy relating to unallocated launch slots

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

In the cash flow statement, the impact of the accounting policy change is limited to the reclassification of installation costs from cash generated from operations into investing activities. The overall movement in cash remains unchanged.

| | Cashflow as at 31 December 2017 | | |
|---|---|---|---|
| ($ in millions) | Reported | IFRS 15 adjustment | Restated |
| Cash generated from operations | 764.3 | 15.4 | 779.7 |
| Net cash inflow from operating activities | 750.0 | 15.4 | 765.4 |
| Purchase of property, plant and equipment | (438.9) | (15.4) | (454.3) |
| Net cash used in investing activities | (546.7) | (15.4) | (562.1) |
| Net (decrease)/increase in cash and cash equivalents | (114.1) | – | (114.1) |

In terms of the Group's financial performance for 2018, EBITDA is $7.5m higher under IFRS 15 compared to the previous standard, as revenues removed of $2.5m did not exceed costs removed of $10.0m.

Profit after tax was $4.5m higher driven by the increased EBITDA and finance income of $2.4m and offset by increased depreciation of $5.4m.

### IFRS 16 'Leases'

IFRS 16 'Leases,' as issued by the IASB in January 2016, has been adopted by the Group on 1 January 2018 in advance of its effective date. The Group has applied IFRS 16 using the modified retrospective approach. This approach allows the recognition of the lease liability and asset as at 1 January 2018 with no restatement of prior period financial statements. The Group has also applied the practical expedient on transition to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group has adopted the practical expedients relating to short term and low value assets which allow these to be expensed through the income statement.

The main impact is around property leases where the Group is the lessee. The Group also has a number of unrecognised non-cancellable contractual commitments relating to network service contracts and maintenance contracts, which have varying terms. These do not constitute identified assets and do not meet the definition of a lease under IFRS 16. These have therefore continued to be expensed through the income statement.

The adjustments as at 1 January 2018 to the Group's Balance Sheet are the recognition of right-of-use assets and lease liabilities. These are shown in the table below.

| | Balance sheet as at 1 January 2018 | | |
|---|---|---|---|
| ($ in millions) | Reported | IFRS 16 adjustment | Post IFRS 16 adjustment |
| Non-current assets | | | |
| Right of use asset | – | 75.7 | 75.7 |
| Total Assets | 4,987.2 | 75.7 | 5,062.9 |
| Current liabilities | | | |
| Trade and other payables | 572.7 | (11.5) | 561.2 |
| Lease obligations | – | 13.1 | 13.1 |
| Non-current liabilities | | | |
| Lease obligations | – | 74.1 | 74.1 |
| Total liabilities | 3,465.9 | 75.7 | 3,541.6 |
| Net assets (Equity) | 1,521.3 | – | 1,521.3 |

The lease liability of $87.2m has been calculated as at 1 January 2018 using the present value of the unpaid lease payments over the lease term specific to each lease, using the incremental borrowing rate as the discount rate. The liability has been separated between a current ($13.1m) and a non-current liability ($74.1m). A right of use asset of $75.7m has been created based on being equal to the lease liability, adjusted by $11.5m of accruals related to the phasing of lease payments. The weighted average lessee's incremental borrowing rate applied to the lease liabilities recognised at the date of initial application was 3.6%

In terms of the Group's financial performance for 2018, EBITDA is $12.8m higher under IFRS 16 compared to the previous standard (excluding the gain on revaluation of lease liabilities), as lease costs are removed from operating costs and used to reduce the liability. Profit before tax is only $0.6m higher as the right-of-use assets attract depreciation and the unwinding of the discounted cash flows result in an interest charge.

### IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments,' as issued by the IASB in July 2014, has been adopted by the Group on the effective date of 1 January 2018. IFRS 9 supersedes the existing accounting guidance in IAS 39 'Financial Instruments: Recognition and Measurement' and the related interpretations. The standard was applied using the modified retrospective approach for year ended 31 December 2018 with the exception of hedge accounting. The Group has not restated prior periods or recognised any adjustments in opening retained earnings

The new standard covers the accounting treatment of the following three areas:

- classification and measurement of financial assets and liabilities
- impairment of financial assets
- hedge accounting

**Classification and measurement of financial assets and liabilities**

IFRS 9 requires financial asset classification to be based on contractual cash flow characteristics and the objective of the Group in holding the financial asset. The new measurement model results in the reclassification of all financial assets due to the reduction in classification categories to amortised cost, fair value through profit and loss and fair value through other comprehensive income. The changes have not had a quantitative impact on the financial statements with accounting treatment remaining unchanged.

The table below shows the assessment performed by the Group.

| Financial Asset | IAS 39 Classification | IAS 39 Measurement | IFRS 9 Classification & measurement |
|---|---|---|---|
| Trade receivables | Loans and receivables | Amortised cost | Amortised cost |
| Accrued income | Loans and receivables | Amortised cost | Amortised cost |
| Other receivables | Loans and receivables | Amortised cost | Amortised cost |
| Cash and cash equivalents | Fair value through profit and loss | Fair value through profit and loss | Fair value through profit and loss |
| Short term deposits | Loans and receivables | Amortised cost | Amortised cost |

**Impairment of financial assets**

The IAS 39 'incurred loss model' is replaced by the IFRS 9 forward looking 'expected credit loss model'. The new model requires either 12-month expected credit losses ('ECLs'), or lifetime ECLs to be recognised for all financial assets at initial recognition, before an impairment event occurs.

The Group has applied the simplified approach under the expected credit loss model, which leads to lifetime expected credit losses always being recognised. Under the standard, a provisioning matrix can be used to group financial assets and calculate the expected credit losses based on these groupings. The Group uses a matrix based on ageing and internal credit ratings which are allocated to all debtors. Refer to note 18 for further details.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

There has been no material impact on 2018 or the prior year due to the adoption of the ECL model.

### Hedge Accounting

Given the Group's limited hedging activities and the lack of benefit to financial statement users for adopting the hedging requirements of IFRS 9, the Group has elected not to adopt this until mandatory and has maintained the treatment under IAS 39.

### IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

IFRIC 22 is effective from 1 January 2018 and is applied prospectively. The interpretation clarifies how to account for transactions that involve advance consideration paid or received in a foreign currency. This has had no impact on the Group.

## Revised accounting policies adopted by the Group

### Unallocated launch slots

Following significant investment in future growth combined with rapid changes in technologies, the Group has refined operational processes to be more agile and adaptive in order to capture and secure market share. In turn the Group have reassessed their current accounting policies specifically around the launch process to ensure these are reflective of the operational changes. The Group consider the need for a portfolio of launch slots to provide flexibility to launch satellites as and when they are required. Previously unallocated launch slots were recorded in prepayments. These have been reclassified to intangible assets.

As a result, the comparative financial numbers for the year 2017 have been restated and intangible assets have increased by $19.2m to $808.1m and total prepayments have decreased by $19.2m to $30.7m. There has been no impact to total assets.

## New and amended accounting standards that have been issued but are not yet effective and have not been adopted by the Group

### IFRIC 23 'Uncertainty over Income Tax Treatments'

IFRIC 23 will be effective for periods beginning on or after 1 January 2019. The interpretation clarifies the application of recognition and measurement requirements in IAS 12 for uncertain tax positions. Guidance is provided on a number of areas including whether uncertain tax positions should be considered separately or together, the appropriate method to reflect uncertainty, and how to account for changes in facts or circumstances.

When IFRIC 23 is adopted, it can be applied either on a full retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, where possible without the use of hindsight or with the cumulative retrospective impact of IFRIC 23 applied as an adjustment to equity on the date of adoption. The Group is expected to adopt IFRIC 23 retrospectively on the 1 January 2019 with the cumulative effect recognised in equity on the date of adoption.

The Group has assessed the impact that IFRIC 23 will have on the uncertain tax positions as at 31 December 2018. The material impact of the adoption of IFRIC 23 is a change in the most appropriate method to reflect the uncertainty in the uncertain tax positions. The expected adjustment as at 1 January 2019 in the Group's Balance Sheet is an increase of $7.5m to the current tax creditor and an increase of $6.2m to the deferred tax creditor, while opening 2019 retained earnings are expected to decrease by $13.7m.

### IFRS 17 'Insurance Contracts'

IFRS 17 will be effective for periods beginning on or after 1 January 2021 and supersedes IFRS 4 'Insurance Contracts,' subject to endorsement by the EU. Neither standard is applicable to the Group.

## Amendments to accounting standards that are effective for the current period

The following standards have all been endorsed by the EU and are effective for the current period. The Group has considered all the below amendments and has determined that these do not have a material impact.

- Amendments to IAS 40: Transfers of Investment Property
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

## BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all its subsidiaries, and incorporate the share of the results of associates using the equity method of accounting.

The results of subsidiary undertakings established or acquired during the period are included in the consolidated income statement 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.

Non-controlling interests in the net assets of consolidated subsidiaries, which consist of the amounts 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 combination, are not material to the Group's financial statements.

## BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. When the Group acquires a business, it identifies the assets and liabilities of the acquiree at the date of acquisition and measures them at fair value. Only separately identifiable intangible assets are recognised. Any assets or disposal groups held for sale at the acquisition date are measured at fair value less costs to sell.

Consideration is the fair value at the acquisition date of the assets transferred and liabilities incurred in acquiring the business and includes the fair value of any contingent consideration. Changes in fair value of contingent consideration after the acquisition date are recognised in the income statement. Acquisition-related costs are expensed as incurred and included in operating costs.

Goodwill is initially measured at cost as the difference between the fair value of the consideration for the acquisition and fair value of the net identifiable assets acquired, including any identifiable intangible assets other than goodwill. If the assessment of goodwill results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the income statement. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ('CGUs') that are expected to benefit from the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

## FOREIGN CURRENCY TRANSLATION

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

Foreign exchange gains and losses resulting from the settlement of transactions and the translation of monetary assets and liabilities denominated in foreign currencies at period end exchange rates are recognised in the income statement line which most appropriately reflects the nature of the item or transactions.

On consolidation, assets and liabilities of foreign operations are translated into the Group's presentation currency at the prevailing spot rate at year end. The results of foreign operations are translated into US Dollars at the average rates of exchange for the year. Foreign currency translation differences resulting from consolidating foreign operations are recognised in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## REVENUE

The Group applies the 5 step-model as required by IFRS 15 in recognising its revenues. A contract's transaction price is allocated to each distinct performance obligation and recognised as revenue when, or as, the performance obligation is satisfied.

Mobile satellite communications service revenues result from utilisation charges that are recognised as revenue over the minimum contract period. The selection of the method to measure progress towards completion requires judgement and is based on the nature of the products or services to be provided. Because of control transferring over time, revenue is recognised based on the extent of progress towards completion of the performance obligation. 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.

The Group enters into minimum spend contracts with customers, known as 'take-or-pay' contracts, whereby customers agree to purchase a minimum value of mobile satellite communications services over a fixed period. Any unused portion of the prepaid contracts or the take-or-pay contracts ('breakage') that is deemed highly probable to occur by the expiry date is estimated at contract inception and recognised over the contract period in line with the pattern of actual usage of units by the customer.

Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime and subsequently recognised over time. Breakage from prepaid credit deferrals which is considered highly probable is estimated and recognised at contract inception. Mobile satellite communications service revenues from capacity sold are recognised 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 from spectrum coordination agreements (such as Ligado Networks), is recognised at a point in time based on standalone selling prices. Revenue from service contracts is recognised as the service is provided over time based on the contract period.

Revenue of terminals and other communication equipment sold are recognised at the point in time when control is transferred to the customer. Installation revenues relating to this are also recognised at a point in time. Revenue from installation of terminals and other communication equipment owned by Inmarsat and used in the delivery of the service to the customer is however recognised over the contract term.

The Group offers certain products and services as part of multiple deliverable arrangements. Consistent with all other contracts, the Group will assess whether the performance obligations are distinct by considering whether 1) the customer can benefit from good or service on its own; or together with other readily available resources 2) the good or service is distinct in the context of the contract. The transaction price is allocated to each performance obligation based on its stand-alone selling price relative to the total of all performance obligations' stand-alone selling prices under the contract.

The nature of the contracts within the Group may give rise to variable consideration. This is estimated as the most likely amount based largely on an assessment of the anticipated performance and all information (historical, current and forecasted) that is reasonably available and is included in the transaction price to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue will not occur.

Where a contract contains a significant financing component, the Group adjusts the transaction price to a present value where the effect of discounting is deemed to be material. The Group has adopted the practical expedient whereby it is not required to adjust the transaction price for the effects of a significant financing component if, at contract inception, the period between customer payment and the transfer of goods or services is expected to be one year or less. For contracts with an overall duration greater than one year, the practical expedient also applies if the period between performance and payment for that performance is one year or less.

A contract asset or a contract liability will arise when the performance of either party exceeds the performance of the other. Contract assets are rights to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditional on something other than the passage of time. Contract liabilities are obligations to transfer goods or services to a customer for which the entity has received consideration, or for which an amount of consideration is due to the customer. These are referred to as deferred income within the Group.

Contract costs to obtain a contract and fulfil a contract are capitalised and amortised on a systematic basis, consistent with the pattern of transfer of the goods or services to which the capitalised cost relates. As a practical expedient, a cost to obtain contract with a customer will be immediately expensed if it has an amortisation period of one year or less.

## FINANCING INCOME AND FINANCING COST

Financing income comprises interest receivable on funds invested in short-term deposits.

Financing costs comprise interest payable on borrowings including the Senior Notes, amortisation of deferred financing costs, the unwind of the discount on deferred satellite liabilities, interest on lease liabilities and interest on the net defined benefit and post-employment asset/liability. Finance charges are recognised in the income statement at the effective interest rate.

## FINANCIAL ASSETS

### Trade and other receivables

Trade and other receivables, including prepaid and accrued income, are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. The Group stratifies trade debtors based on internal credit ratings. The Group calculates the loss allowance for trade receivables and contract assets based on lifetime expected credit losses under the IFRS 9 simplified approach.

### Cash and cash equivalents

Cash and cash equivalents, measured at fair value, comprises cash balances, deposits held on call with banks, money market funds and other short-term, highly liquid investments with an original maturity of three months or less. Bank overdrafts are shown as current liabilities within borrowings on the balance sheet.

## FINANCIAL LIABILITIES AND EQUITY

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the net assets of the Group. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue cost.

### Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

### Borrowings

Borrowings, comprising interest-bearing bank loans and overdrafts, are initially recognised at fair value which equates to the proceeds received, net of direct transaction and arrangement costs. They are subsequently measured at amortised cost. Finance charges related to borrowings, including amortisation of direct transaction costs, are charged to the income statement over the term of the borrowing using the effective interest rate method.

Borrowings are generally classified as current liabilities unless the Group has the unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date, in which case borrowings are classified as non-current liabilities.

### Senior Notes

The Group has issued Senior Notes that are included within borrowings, and are initially recognised at fair value which equates to the proceeds received, net of direct transaction costs and any premium or discount.
These instruments are subsequently measured at amortised cost. Finance charges, including amortisation of direct transaction costs and any premium or discount, are recognised in the income statement over the term of the borrowing at the effective interest rate method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### Net borrowings

Net borrowings consists of total borrowings less cash and cash equivalents and short-term investments. Borrowings exclude accrued interest and any derivative financial liabilities.

### Derivative financial instruments

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading or speculative purposes.

Derivatives are initially recognised at fair value on the date the contract is entered into and subsequently measured at fair value. The gain or loss on remeasurement is recognised in the income statement, except where the derivative is used to hedge against risks such as fluctuations in interest rates or foreign exchange rates. The accounting policy for hedging follows below.

### Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and accumulated in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement within financing costs.

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 and Thales for the construction of the I-6 and GX-5 satellites.

Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised, or when a forecast sale occurs. When the hedged item is the future purchase of a non-financial asset or non-financial liability, the amount recognised as other comprehensive income is transferred to the initial carrying amount of the non-financial asset or liability.

## 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 obligations 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. The estimated future benefit is discounted to its present value, from which the fair value of any plan assets is deducted to calculate the plan's net asset/liability position. The calculations are performed by qualified actuaries 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 also 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.

The Group issues equity-settled share options and awards to employees. Equity-settled share option awards are measured at fair value of the options at the date of the grant. The fair value of the options 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.

## TAXATION

### 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 as it excludes items of income or expense that are taxable or deductible in other years and 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 tax

Deferred tax is provided on temporary differences arising between assets and liabilities' tax bases and their carrying amounts (the balance sheet method). Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred 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 tax liabilities are provided on all taxable temporary differences except on those:

- arising from the 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
- associated with investments in subsidiaries and associates, but only to the extent that the Group controls the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set them off, when they relate to income taxes levied by the same taxation authority and if the Group intends to settle its current tax assets and liabilities on a net basis.

### Uncertain tax positions

The Group's policy is to comply with all enacted laws in the relevant jurisdictions in which the Group prepares its tax returns. However, tax legislation, especially as it applies to corporate taxes, is not always prescriptive and more than one interpretation of the law may be possible. In addition, tax returns in many jurisdictions are filed in arrears a year or more after the end of the accounting period to which they relate. The tax authorities often have a significant period in which to enquire into these returns after their submission. As a result, differences in view, or errors in returns, may not come to light until some time after the initial estimate of tax due is determined. This necessarily leads to a position of uncertain tax positions.

Where the Group is aware of significant areas where the law is unclear and where this has been relied upon in a filing position of a tax return, or, in an area where different outcomes and interpretations are possible and may lead to a different result, the Group provides for the uncertain tax position. A provision is made when, based on the available evidence, the Group considers that it is probable that further amounts will be payable, or a recoverable tax position will be reduced, and the adjustment can be reliably estimated. The Group calculates the uncertain tax position using a single best estimate of the most likely outcome on a case-by-case basis.

## PROPERTY, PLANT AND EQUIPMENT

### General

Property, plant and equipment assets are initially recognised at cost and subsequently treated under the cost model: at cost less accumulated depreciation and any accumulated impairment losses.

### 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 milestones, 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. Depreciation on space segment assets is recognised over the life of the satellites

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

from the date they become operational and are placed into service. The associated liability is stated at its net present value and included within borrowings.

### Assets in the course of construction

These assets are carried at cost with no depreciation charged whilst in the course of construction. The 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.

### Capitalised borrowing costs

The Group incurs borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for its intended use or sale. Such borrowing costs are capitalised as part of the cost of the asset. Capitalisation commences when the Group begins to incur the borrowing costs and related expenditures for the asset, and when it undertakes the activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete.

### Other fixed assets

Other fixed assets are initially recognised at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

### 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 into account any changes in circumstances or expectations. When determining useful lives, the principal factors considered 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. Any change in useful lives are accounted for prospectively. The Group also reviews the residual values and depreciation methods on an annual basis.

### Derecognition

An item of property plant or equipment is derecognised upon disposal or when no future economic benefit is expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in the income statement.

## GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. A grant that relates to an expense item is recognised as income on a systematic basis over the period(s) that the related costs are expensed. A grant that relates to an asset is deducted from the cost of the relevant asset, thereby reducing the depreciation charge over the useful life of the asset.

## INTANGIBLE ASSETS

Intangible assets comprise goodwill, trademarks, software, terminal development and network access costs, spectrum rights, orbital slots, unallocated launch slots and licences, customer relationships and intellectual property.

Intangible assets acquired separately are initially recognised at cost. Intangible assets acquired as part of a business combination are initially recognised at their fair values as determined at acquisition date. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

### Research and development costs

Research costs related to internally generated intangibles are expensed in the period that the expenditure is incurred.

Development costs are expensed when the costs are incurred unless it meets criteria for capitalisation under IAS 38. Development costs are only capitalised if the technical feasibility, availability of appropriate technical, financial and other resources and commercial viability of developing the asset for subsequent use or sale have been demonstrated and the costs incurred can be measured reliably. Capitalised development costs are amortised in the income statement on a straight-line basis over the period of expected future benefit.

### Amortisation

Intangible assets with a finite useful life are amortised on a straight-line basis over the useful life of the asset. The amortisation period and method are reviewed on an annual basis. Intangible assets with an indefinite useful life, such as goodwill, are not amortised but reviewed annually for impairment.

## IMPAIRMENT REVIEWS

Goodwill is not amortised, but is tested annually for impairment.

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the full carrying amount may not be recoverable. Indicators of impairment may include changes in technology and business performance. An asset is tested for impairment on an individual basis as far as possible to determine its recoverable amount. Where this is not possible, assets are grouped and tested for impairment in a cash generating unit. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An asset will be impaired if the carrying amount exceeds its recoverable amount, which is the higher of the fair value less costs to sell the asset and the value in use. The impairment loss will be recognised in the income statement.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Subsequent to an impairment loss, if indications exist that an asset’s recoverable amount might have increased, the recoverable amount will be reassessed and any impairment reversal recognised in the income statement. An impairment loss is reversed only to the extent that the asset’s carrying amount will not exceed the depreciated historical cost (what the carrying amount would have been had there been no initial impairment loss).

Impairment losses in respect of goodwill are not reversed.

## LEASES

Contracts which convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases by the Group. At the commencement date, the Group, as lessee, recognises a right-of-use asset and a lease liability. The lease liability is measured at the present value of the lease payments that are not paid at that date, discounted using the rate implicit in the lease, unless such a rate is not readily determinable, in which case the incremental borrowing rate is used. The right-of use asset comprises the amount of the initial measurement of the lease liability, adjusted for any lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs incurred by the Group. Lease term is determined as the non-cancellable period of a lease adjusted for any reasonably certain extension or termination option.

After commencement date, the right-of use asset is depreciated on a straight line basis to the end of the lease term. The lease liability is accounted for by reducing the carrying amount to reflect the lease payments made, and increasing the carrying amount to reflect the interest on the lease liability.

As lessor for operating leases, the Group recognises lease payments as income. The underlying asset is depreciated on a straight line basis over its expected useful life.

## NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Non-current assets and disposal groups are classified as ‘held for sale’ when their carrying values will be recovered through a sales transaction rather than through continued use. This classification is subject to meeting the following criteria:

- management is committed to a plan to sell and the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- the asset is available for immediate sale
- the sale is highly probable to be concluded within 12 months of classification as held for sale and

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

- it is unlikely that the plan to sell will be significantly changed or withdrawn

Disposal groups are groups of assets and associated liabilities to be disposed of together in a single transaction. At the reporting date they are separately disclosed as current assets and liabilities on the balance sheet.

When non-current assets or disposal groups are classified as held for sale, depreciation and amortisation will cease and the assets are remeasured at the lower of their carrying amount and fair value less costs to sell. Any resulting impairment loss is recognised in the income statement, except for assets treated under the revaluation model, where the adjustment would first decrease the revaluation reserve before any excess will be recognised as an impairment loss in the income statement. Any remainder in the revaluation reserve will be released to the income statement on the date of sale.

### 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.

### PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The expense relating to a provision is recognised in the income statement, except where the obligation is to dismantle or restore an item of property, plant or equipment, in which case the amount is capitalised to the cost of the asset. The capitalised amount is subsequently depreciated to the income statement over the remaining useful life of the underlying asset.

Provisions are discounted to a present value at initial recognition where the effect of discounting is deemed to be material. Discounted provisions will unwind over time using the amortised cost method with finance cost recognised in the income statement. Provision estimates are revised each reporting date and adjustments recognised in line with the provision's initial recognition (either in the income statement or recognised against the cost of the asset).

#### 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.

### ALTERNATIVE PERFORMANCE MEASURES

In addition to IFRS measures the Group uses Alternative Performance Measures ('APMs') in order to provide readers with a better understanding of the underlying performance of the business, and to improve comparability of our results for the period. More detail on IFRS and APMs can be found on page 53.

## 3. FINANCIAL RISK MANAGEMENT

### BREXIT

The United Kingdom leaving the European Union on 29 March 2019 is not expected to have a significant financial impact on the Group. The majority of revenue, capital expenditure and long term borrowings are denominated in US Dollars reducing our exposure to a weakening Sterling. Additional costs incurred from professional fees for legal advice and work permits for employees are expected to be limited.

### 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 adverse effects on the financial performance of the Group by using forward exchange contracts to limit exposure to foreign currency risk and to limit the impact of fluctuating interest rates by minimising the amount of floating rate long-term borrowings.

The Board of Directors has delegated to the treasury department the responsibility for setting and implementing the financial risk management policies applied by the Group. The treasury department has an operating manual that sets out specific guidelines for managing foreign exchange risk, interest rate risk and credit risk (see note 32). 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 Inmarsat Group Limited is the US Dollar. Apart from the deferred satellite liability, all of the Group's long-term borrowings are denominated in US Dollars, the majority of its revenue is earned in US Dollars and the 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, the Group operates internationally, resulting in approximately 3% and 16% of total revenue and total expenditure, respectively, being denominated in currencies other than the US Dollar. Approximately 28% (2017: 27%) of the Group's operating costs are denominated in Pounds Sterling. The Group's exposure therefore needs to be carefully managed to avoid variability in future cash flows and earnings caused by volatile foreign exchange rates.

As at 31 December 2018 it is estimated that a hypothetical 10% increase in the US Dollar/Sterling year-end exchange rate (US$1.27/£1.00 to US$1.4/£1.00) would have decreased the 2018 profit before tax by approximately $2.9m (2017: $5.0m). Management believes that a 10% 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

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has interest-bearing assets such as cash and cash equivalents, short-term deposits, and non-current other receivables however interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk; however, as at 31 December 2018, the Group has no borrowings issued at variable. The Senior Notes due 2022 and 2024 and the Ex-Im Bank Facilities are all at fixed 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. A debt will be deemed uncollectable and therefore written off based on one or more of the following criteria:

- Insolvency (formal or just ceased trading).
- Debtor cannot be located.
- Debt uneconomical to pursue.

For any write-offs, a standard procedure is followed with authorisations obtained in-line with the Group's framework.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The maximum exposure to credit risk as at 31 December is:

| ($ in millions) | Note | 2018 | 2017 |
|---|---|---|---|
| Cash and cash equivalents | 17 | 138.3 | 143.2 |
| Short term deposits | 17 | 145.7 | 342.0 |
| Trade receivables, other receivables and accrued income | 31 | 380.0 | 302.5 |
| Derivative financial instruments | 31 | 0.3 | 1.5 |
| Total credit risk | | 664.3 | 789.2 |

The Group's average age of trade receivables as at 31 December 2018 was approximately 79 days excluding Ligado and approximately 72 days including Ligado (2017: 57 days excluding Ligado and 52 days including Ligado).

At 31 December 2018, $257.5m (2017: $170.0m) 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 collection processes for overdue accounts. The Group maintains provisions for potential credit losses that are assessed on an ongoing basis. The provision for uncollectible trade receivables has increased to $28.4m as at 31 December 2018 (2017: $12.5m).

For 2018, no customer comprised greater than 10% of the Group's total revenues (2017: no customer).

### (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 available liquidity of the Group as at 31 December is:

| ($ in millions) | Note | 2018 | 2017 |
|---|---|---|---|
| Cash and cash equivalents | 17 | 138.3 | 143.2 |
| Available but undrawn borrowing facilities[1] | 20 | 750.2 | 500.5 |
| Total available liquidity | | 888.5 | 643.7 |

1 Relates to the Senior Revolving Credit Facility (see note 20)

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 KEY JUDGEMENTS

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.

### ESTIMATES AND ASSUMPTIONS

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The following key estimates have been made:

### (A) TAXATION

The calculation of the Group's uncertain tax provisions involves estimation 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. 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.

In the event that all such enquiries were settled entirely in favour of the authorities, the Group would incur a cash tax outflow of $110m, excluding interest, during 2019. The quantum and timing of this cost remains uncertain but it is substantially provided for and the enquiries remain ongoing at this time. The Group anticipates an initial conclusion in respect of the most significant enquiry in 2019.

### (B) REVENUE IN RESPECT OF THE LIGADO NETWORKS COOPERATION AGREEMENT

In December 2007, Inmarsat and Ligado Networks (formerly LightSquared LP, Skyterra (Canada) Inc. and LightSquared Inc.) 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 Ligado in North America.

In March 2016, Ligado Networks agreed to take the 30MHz option (the '30MHz Plan') under Phase 2 of the Cooperation Agreement between the companies. In exchange for the deferral of some payments from Ligado to Inmarsat, the parties agreed to delay the transition to the 30MHz Plan, with Ligado providing Inmarsat enhanced spectrum usage rights for its satellite operations for a minimum period of two years.

The timing of the revenue recognition and related costs is dependent on when Ligado receive their FCC licence, which remains uncertain. Key estimates relating to the determination of the transaction price have been made driven by the expected contract term and payment profile.

For the year ended 31 December 2018, the Group recognised $130.7m of revenue with $0.1m operating costs (year ended 31 December 2017: $126.7m and $2.0m respectively).

### JUDGEMENTS

In the process of applying the Group's accounting policies, the following judgements have been made, which have the most significant effect on the amounts recognised in the consolidated financial statements:

### (C) REVENUE IN RESPECT OF THE LIGADO NETWORKS COOPERATION AGREEMENT

At 31 December 2018, deferred income in respect of the Cooperation Agreement of $206.7m was recorded on the balance sheet. Although the cash has been received, the timing of the recognition of this deferred income, together with any related future costs and taxes, is dependent upon when Ligado receive their FCC licence, which remains uncertain. An accounting judgement has been made in assuming that there remains a future obligation. During 2018, $0.1m was recognised in relation to costs incurred on interference.

At 31 December 2018, a receivable of $35.0m has been recorded on the balance sheet relating to the deferrals. This was previously netted off within the deferred income, however has been disclosed separately on the adoption of IFRS 15. The Group believe that this receivable is recoverable.

### (D) CAPITALISATION OF SPACE SEGMENT ASSETS AND ASSOCIATED BORROWING COSTS

The net book value of space segment assets is currently $2,231.5m (2017: $2,510.3m). There have been additions of $0.6m in the year (2017: $174.9m). The key judgements involved in the capitalisation of space segment assets and associated borrowings costs are:

- whether the capitalisation criteria of the underlying IAS have been met;
- whether an asset is ready for use and as a result further capitalisation of costs should cease and depreciation should commence and;
- whether an asset is deemed to be substantially complete and as a result capitalisation of borrowing costs should cease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### (E) PROXY BOARD ARRANGEMENT

The Group has made key judgements in determining the appropriateness of consolidating Inmarsat Government Inc.

The U.S. Government element of Inmarsat's Government business unit is managed through the U.S. trading entity, Inmarsat Government Inc., a wholly-owned subsidiary of the Group. The business is managed through a Proxy agreement as required by the U.S. National Industrial Security Program ('NISP'). A Proxy agreement is an instrument intended to mitigate the risk of foreign ownership, control or influence when a foreign person owns, acquires or merges with a U.S. entity that has a facility security clearance under the NISP. The Proxy agreement conveys the foreign owner's voting rights to the Proxy Holders, comprised of the Proxy board. There are three Proxy holders who are U.S. citizens cleared and approved by the U.S. Defence Security Service ('DSS').

The Proxy holders have a fiduciary duty, and agree, to perform their role in the best interests of the Group (including the legitimate economic interest), and in a manner consistent with the national security interests of the U.S.

The DSS requires Inmarsat Government Inc. to enter into a Proxy agreement because it is indirectly owned by the Group and it has contracts with the Department of Defence which contain certain classified information. The Proxy agreement enables Inmarsat Government Inc. to participate in such contracts with the U.S. Government despite being owned by a non-U.S. corporation.

Under the Proxy agreement, the Proxy holders have the power to exercise all privileges of share ownership of Inmarsat Government Inc. In addition, as a result of the Proxy agreement, certain limitations are placed on the information which may be shared, and the interaction which may occur, between Inmarsat Government Inc. and other Group companies.

The Group maintains its involvement in Inmarsat Government Inc.'s activities through normal business activity and liaison with the Chair of the Proxy Board. Inmarsat Government Inc.'s commercial and governance activity is included in the business update provided in regular Executive reports to the Board. This activity is always subject to the confines of the Proxy regime to ensure that it meets the requirement that Inmarsat Government Inc. must conduct its business affairs without direct external control or influence, and the requirements necessary to protect the U.S. national security interest.

In accordance with IFRS 10 'Consolidated financial statements', an assessment is required to determine the degree of control or influence the Group exercises and the form of any control to ensure that the financial statement treatment is appropriate. On the basis of the Group's ability to affect the financial and operating policies of the entity, we have concluded that the Group meets the requirements of IFRS 10 in respect of control over the entity and, therefore, consolidates the entity in the Group's consolidated accounts. There have been no changes in circumstances which impact any of the key judgements made by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 5. SEGMENTAL 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
- U.S. Government, focusing on U.S. civil and military government services
- Global Government, focusing on worldwide civil and military government services
- Aviation, focusing on commercial, business and general aviation services
- Enterprise, focusing on worldwide energy, industry, media, carriers, and M2M services

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 U.S. Government and Global Government operating segments into one reporting segment as the segments have a similar type of customer for the products and services and meet the criteria for aggregation under IFRS. Therefore, the Group's reportable segments are Maritime, Government, Aviation, Enterprise, 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 by the Chief Operating Decision Maker at the EBITDA level without the allocation of central costs, depreciation and amortisation, net financing costs and taxation.

### SEGMENT RESULTS

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| ($ in millions) | Maritime | Government | Aviation | Enterprise | Central Services | Total |
| Revenue | 552.8 | 381.0 | 256.1 | 130.0 | 14.6 | 1,334.5 |
| Ligado revenue | – | – | – | – | 130.7 | 130.7 |
| Total revenue | 552.8 | 381.0 | 256.1 | 130.0 | 145.3 | 1,465.2 |
| Net operating costs | (123.8) | (110.8) | (124.2) | (47.7) | (287.9) | (694.4) |
| EBITDA | 429.0 | 270.2 | 131.9 | 82.3 | (142.6) | 770.8 |
| Depreciation and amortisation | | | | | | (468.3) |
| Other[1] | | | | | | (13.1) |
| Operating profit | | | | | | 289.4 |
| Net financing cost | | | | | | (67.7) |
| Profit before tax | | | | | | 221.7 |
| Taxation | | | | | | (51.1) |
| Profit for the year | | | | | | 170.6 |

| | At 31 December 2018 |
|---|---|
| ($ in millions) | Total |
| Timing of revenue recognition | |
| At a point in time | 262.4 |
| Over time | 1,202.8 |
| Total | 1,465.2 |

1 Other relates to the share of profit from associates ($3.9m), loss on disposal of assets ($2.5m) and impairment of assets ($14.5m)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

| ($ in millions) | 2017 (restated) | | | | | |
|---|---|---|---|---|---|---|
| | Maritime | Government | Aviation | Enterprise | Central Services | Total |
| Revenue | 567.3 | 366.7 | 181.8 | 132.6 | 14.5 | 1,262.9 |
| Ligado revenue | – | – | – | – | 128.8 | 128.8 |
| Total revenue | 567.3 | 366.7 | 181.8 | 132.6 | 143.3 | 1,391.7 |
| Net operating costs | (120.3) | (101.5) | (77.9) | (40.7) | (312.0) | (652.4) |
| EBITDA | 447.0 | 265.2 | 103.9 | 91.9 | (168.7) | 739.3 |
| Depreciation and amortisation | | | | | | (411.8) |
| Other[1] | | | | | | (3.3) |
| Operating profit | | | | | | 324.4 |
| Net financing cost | | | | | | (75.9) |
| Profit before tax | | | | | | 248.3 |
| Taxation | | | | | | (50.4) |
| Profit for the year | | | | | | 197.9 |

| ($ in millions) | At 31 December 2017 Total |
|---|---|
| Timing of revenue recognition | |
| At a point in time | 227.7 |
| Over time | 1,164.0 |
| Total | 1,391.7 |

1 Other relates to the share of profit from associates ($4.0m) and loss on disposal of assets ($7.3m)

### SEGMENTAL ANALYSIS BY GEOGRAPHY

The Group's operations are located in the geographical regions listed below. Revenues are allocated to countries based on the billing address of the customer. For wholesale customers, this is the distribution partner who receives the invoice for the service, and for retail customers 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.

| ($ in millions) | 2018 | | 2017 (restated) | |
|---|---|---|---|---|
| | Revenue | Non-current segment assets | Revenue | Non-current segment assets |
| United Kingdom | 71.4 | 1,047.5 | 78.9 | 862.8 |
| Rest of Europe | 444.7 | 1,059.2 | 420.2 | 861.9 |
| North America | 594.0 | 121.1 | 561.5 | 117.4 |
| Asia and Pacific | 257.4 | 114.3 | 246.1 | 116.8 |
| Rest of the world | 97.7 | 0.3 | 85.0 | 0.1 |
| Unallocated[1] | – | 1,899.6 | – | 2,123.2 |
| | 1,465.2 | 4,242.0 | 1,391.7 | 4,082.2 |

1 Unallocated items relate to satellites which are in orbit

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### REMAINING PERFORMANCE OBLIGATIONS

The table below shows the remaining revenue to be derived from unsatisfied (or partially unsatisfied) performance obligations under non-cancellable contracts with customers at the end of the year.

| | At 31 December 2018 |
|---|---|
| ($ in millions) | Total |
| Within one year | 509.8 |
| Between two to five years | 926.0 |
| Greater than five years | 254.1 |
| | 1,689.9 |

All other contracts are for periods of one year or less or are billed based on time incurred. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed. As permitted under the transitional provisions in IFRS 15, the transaction price allocated to partially unsatisfied performance obligations as of 31 December 2017 is not disclosed.

## 6. OPERATING PROFIT

Costs are presented by the nature of the expense to the Group. Network and satellite operation costs comprise costs to third parties for network service contracts and services. A breakdown of employee benefit costs is given in note 7.

Operating profit is stated after charging the following items:

| ($ in millions) | Note | 2018 | 2017 (restated) |
|---|---|---|---|
| Depreciation of property, plant and equipment | 13 | 370.1 | 328.6 |
| Amortisation of intangible assets | 14 | 86.8 | 83.2 |
| Depreciation of right-of-use assets | 15 | 11.4 | – |
| Restructuring costs | | – | 19.9 |
| Loss on disposal of assets | | 2.5 | 7.3 |
| Impairment[1] | | 14.5 | – |
| Operating lease rentals: | | | |
| Land and buildings | | – | 13.8 |
| Cost of inventories recognised as an expense | | 115.3 | 62.3 |
| Write downs of inventories recognised as an expense | 19 | 2.1 | 5.1 |
| Research costs expensed | | 8.9 | 8.0 |

Remuneration payable to the Group’s auditor Deloitte LLP and its associates in the year is analysed below:

| ($ in millions) | 2018 | 2017 |
|---|---|---|
| Audit fees: | | |
| Audit of subsidiaries | 0.9 | 0.9 |
| Total audit and audit-related fees | 0.9 | 0.9 |
| Other services | 0.3 | – |
| Total non-audit fees | 0.3 | – |
| Total auditor’s remuneration | 1.2 | 0.9 |

1 Relates to $1.2m and $13.3m of tangible and intangible asset impairments respectively

## 7. EMPLOYEE BENEFIT COSTS

| ($ in millions) | Note | 2018 | 2017 |
|---|---|---|---|
| Wages and salaries | | 251.1 | 242.7 |
| Social security costs | | 24.5 | 20.2 |
| Share-based payments (including employers’ national insurance contribution) | | 5.0 | 12.5 |
| Defined contribution pension plan costs | | 10.9 | 6.0 |
| Defined benefit pension plan costs[1] | 28 | 1.4 | 2.0 |
| Post-employment benefits costs[1] | 28 | 0.4 | 0.4 |
| Restructuring charge | | – | 19.9 |
| Total employee benefit costs | | 293.3 | 303.7 |

1 Defined benefit pension plan costs and post-employment benefits costs include current service cost and gain on curtailment for 2017 (see note 28)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### EMPLOYEE NUMBERS

The average monthly number of employees (including the Executive Directors) employed during the year:

| | 2018 | 2017 |
|---|---|---|
| By activity: | | |
| Operations | 849 | 823 |
| Sales and marketing | 334 | 394 |
| Development and engineering | 237 | 250 |
| Administration | 403 | 385 |
| | 1,823 | 1,852 |
| By segment: | | |
| Maritime | 103 | 107 |
| Government | 184 | 199 |
| Enterprise | 63 | 65 |
| Aviation | 197 | 171 |
| Central Services | 1,276 | 1,310 |
| | 1,823 | 1,852 |

The employee headcount numbers presented above refer to permanent full time and part time employees and exclude contractors and temporary staff. Employee benefit costs of $24.8m (2017: $30.1m) relating to contractors and temporary staff have been included in the cost table above.

## 8. KEY MANAGEMENT COMPENSATION

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 key management compensation 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:

| ($ in millions) | 2018 | 2017 |
|---|---|---|
| Short-term benefits | 4.1 | 3.8 |
| Share-based payments[1] | 4.4 | 4.8 |
| | 8.5 | 8.6 |

1 Includes employers' national insurance or other social security contributions

## 9. NET FINANCING COSTS

| ($ in millions) | 2018 | 2017 (restated) |
|---|---|---|
| Bank interest receivable and other interest | (8.1) | (7.8) |
| Related party interest income | (1.0) | (0.2) |
| Total financing income | (9.1) | (8.0) |
| Interest on Senior Notes and credit facilities | 92.8 | 93.9 |
| Related party interest expenses | 11.2 | 19.4 |
| Amortisation of debt issue costs | 12.2 | 6.7 |
| Amortisation of discount on Senior Notes due 2022 | 1.0 | 1.0 |
| Unwinding of discount on deferred satellite liabilities | 0.2 | 0.4 |
| Net interest on the net defined benefit asset and post-employment liability | 0.3 | 1.9 |
| Interest on lease obligations | 2.9 | – |
| Other interest | 0.6 | 3.5 |
| Financing costs | 121.2 | 126.8 |
| Less: Amounts capitalised in the cost of qualifying assets | (44.4) | (42.9) |
| Financing costs excluding derivative adjustments | 76.8 | 83.9 |
| Net financing cost | 67.7 | 75.9 |

Borrowing costs capitalised in the cost of qualifying assets during the year are calculated by applying a capitalisation rate to expenditures on such assets. The average interest capitalisation rate for the year was 7.7% (2017: 9.5%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 10. TAXATION

The tax charge for the year recognised in the income statement:

| ($ in millions) | 2018 | 2017 (restated) |
|---|---|---|
| Current tax: | | |
| Current year | 54.8 | 25.4 |
| Adjustments in respect of prior years | 1.3 | (5.0) |
| Total current tax | 56.1 | 20.4 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (11.9) | 13.8 |
| Adjustments due to reduction in corporation tax rates | 0.2 | 7.1 |
| Adjustments in respect of prior years | 6.7 | 9.1 |
| Total deferred tax | (5.0) | 30.0 |
| Total taxation charge | 51.1 | 50.4 |

The effective tax rate is 23.0% (2017: 20.3%) and is reconciled below:

| ($ in millions) | 2018 | 2017 (restated) |
|---|---|---|
| Profit before tax | 221.7 | 248.3 |
| Income tax at 19.0% (2017: 19.25%) | 42.1 | 47.8 |
| Differences in overseas tax rates | (4.4) | (6.3) |
| Adjustments in respect of prior periods | 8.0 | 2.1 |
| Adjustments due to reduction in the corporation tax rate | 0.2 | 9.1 |
| Impact of UK patent box regime | (1.7) | (3.2) |
| Other non-deductible expenses/non-taxable income | 6.9 | 0.9 |
| Total taxation charge | 51.1 | 50.4 |

Tax credited directly to equity:

| ($ in millions) | 2018 | 2017 |
|---|---|---|
| Deferred tax credit/(charge) on share-based payments | 0.8 | (0.1) |
| Deferred tax credit/(charge) on pensions | 0.3 | – |
| Total tax credited directly to equity | 1.1 | (0.1) |

Tax (charged)/credit directly to other comprehensive income:

| ($ in millions) | 2018 | 2017 |
|---|---|---|
| Deferred tax (charged)/credit on remeasurement of defined benefit asset and post-employment benefits | (3.1) | (2.3) |
| Total tax (charged)/credited directly to other comprehensive income | (3.1) | (2.3) |

## 11. NET FOREIGN EXCHANGE GAIN/(LOSS)

| ($ in millions) | Note | 2018 | 2017 |
|---|---|---|---|
| Defined benefit plan and post-employment benefits | 28 | 0.2 | 1.5 |
| Other operating income | | (1.9) | (0.3) |
| Total foreign exchange (gain)/loss | | (1.7) | 1.2 |

## 12. DIVIDENDS

In January 2018, the Company declared the dividend of $312m (51 cents per ordinary share). During the year, $96.7m was paid to the Company's shareholders comprising $45.9m of the 2018 interim dividend and $50.8m of the 2017 final dividend.

During 2017, the Company paid dividends of $95.0m for the 2017 interim dividend and $185.0m for the 2016 final dividend.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 13. PROPERTY, PLANT AND EQUIPMENT

| ($ in millions) | Freehold land and buildings | Service equipment, fixtures and fittings (restated) [2] | Space segment | Assets in the course of construction | Total |
|---|---|---|---|---|---|
| Cost: | | | | | |
| 1 January 2017 (restated) | 20.6 | 359.9 | 3,652.6 | 861.8 | 4,894.9 |
| Additions | – | 88.5 | 174.9 | 354.3 | 617.7 |
| Disposals | – | (226.7) | (99.9) | (0.9) | (327.5) |
| Transfers from assets in the course of construction and reclassifications[1] | – | 64.2 | 565.6 | (629.8) | – |
| 31 December 2017 (restated) | 20.6 | 285.9 | 4,293.2 | 585.4 | 5,185.1 |
| Additions | – | 24.4 | 0.6 | 450.3 | 475.3 |
| Disposals | – | (84.8) | (160.4) | (0.4) | (245.6) |
| Transfers from assets in the course of construction and reclassifications[1] | – | 96.2 | 20.9 | (117.1) | – |
| 31 December 2018 | 20.6 | 321.7 | 4,154.3 | 918.2 | 5,414.8 |
| | | | | | |
| Accumulated depreciation: | | | | | |
| 1 January 2017 | (10.5) | (289.1) | (1,615.4) | – | (1,915.0) |
| Charge for the year | (0.5) | (60.7) | (267.4) | – | (328.6) |
| Disposals | – | 216.8 | 99.9 | – | 316.7 |
| 31 December 2017 (restated) | (11.0) | (133.0) | (1,782.9) | – | (1,926.9) |
| Charge for the year | (0.4) | (69.6) | (300.1) | – | (370.1) |
| Impairment | – | – | – | (1.2) | (1.2) |
| Disposals | – | 79.3 | 160.2 | – | 239.5 |
| 31 December 2018 | (11.4) | (123.3) | (1,922.8) | (1.2) | (2,058.7) |
| Net book amount at 31 December 2017 | 9.6 | 152.9 | 2,510.3 | 585.4 | 3,258.2 |
| Net book amount at 31 December 2018 | 9.2 | 198.4 | 2,231.5 | 917.0 | 3,356.1 |

1 Reclassifications relate to movements between tangible and intangible asset categories throughout the year to align accounting policies across the Group

2. The numbers restated have been discussed in note 2

Depreciation of property, plant and equipment is charged using the straight-line method over the estimated useful lives, as follows:

| | |
|---|---|
| Space segment assets: | |
| Satellites | 13–15 years |
| Other space segment, including ground infrastructure | 5–12 years |
| Fixtures and fittings, and services-related equipment | 3–15 years |
| Buildings | 50 years |

Freehold land is not depreciated. At 31 December 2018 and 2017, the Group was carrying certain freehold land and buildings with a net book value of $9.2m (2017: $9.6m). Had they been revalued on a market basis, their carrying amount at 31 December 2018 would have been $32.9m (2017: $30.4m). Market valuation is based on the Directors' best estimates.

In 2018 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 2018 were $2.5m (2017: $5.7m).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 14. INTANGIBLE ASSETS

| ($ in millions) | Goodwill | Trademarks | Software | Intellectual property | Terminal development and network access costs | Customer relationships | Other (restated) | Total |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| 1 January 2017 | 781.3 | 25.5 | 276.3 | 0.7 | 212.6 | 396.1 | 61.7 | 1,754.2 |
| Additions | – | 0.1 | 54.9 | – | 17.9 | – | 15.9 | 88.8 |
| Disposals | – | – | (64.2) | (0.1) | (13.8) | – | (3.4) | (81.5) |
| 31 December 2017 | 781.3 | 25.6 | 267.0 | 0.6 | 216.7 | 396.1 | 74.2 | 1,761.5 |
| Additions | – | – | 44.8 | – | 45.4 | – | 7.8 | 98.0 |
| Disposals | – | – | (12.8) | – | – | – | (8.6) | (21.4) |
| 31 December 2018 | 781.3 | 25.6 | 299.0 | 0.6 | 262.1 | 396.1 | 73.4 | 1,838.1 |
| | | | | | | | | |
| Accumulated amortisation: | | | | | | | | |
| 1 January 2017 | (359.2) | (13.1) | (185.1) | (0.7) | (116.1) | (261.0) | (16.2) | (951.4) |
| Charge for the year | – | (1.0) | (36.2) | – | (12.5) | (29.1) | (4.4) | (83.2) |
| Disposals | – | – | 63.9 | 0.1 | 13.8 | – | 3.4 | 81.2 |
| 31 December 2017 | (359.2) | (14.1) | (157.4) | (0.6) | (114.8) | (290.1) | (17.2) | (953.4) |
| Charge for the year | – | (1.0) | (39.8) | – | (16.4) | (25.3) | (4.3) | (86.8) |
| Impairment | – | – | (6.3) | – | – | – | (7.0) | (13.3) |
| Disposals | – | – | 13.1 | – | – | – | 2.7 | 15.8 |
| 31 December 2018 | (359.2) | (15.1) | (190.4) | (0.6) | (131.2) | (315.4) | (25.8) | (1,037.7) |
| Net book amount at 31 December 2017 | 422.1 | 11.5 | 109.6 | – | 101.9 | 106.0 | 57.0 | 808.1 |
| Net book amount at 31 December 2018 | 422.1 | 10.5 | 108.6 | – | 130.9 | 80.7 | 47.6 | 800.4 |

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.

Trademarks are being amortised on a straight-line basis over their estimated useful lives, which are between seven and 20 years.

Software includes the Group's billing system and other internally developed operational systems and purchased software, which are being amortised on a straight-line basis over its estimated useful life of three to eight years.

The Group capitalises costs associated with the development and enhancement of user terminals and associated network access costs as intangible assets and amortises these over the estimated sales life of the related services, which range from five to ten years.

Customer relationships acquired in connection with acquisitions are being amortised over the expected period of benefit of between 12 and 14 years, using the straight-line method.

Other consists of orbital slots, licences, spectrum rights and unallocated launch slots. Orbital slots and licences relate to the Group's satellite programmes, and each individual asset is reviewed to determine whether it has a finite or indefinite useful life. Orbital slots are amortised over the useful life of the satellite occupying them. Amortisation of the GX programme finite life assets commenced when the Inmarsat-5 satellites went operational in December 2015. Unallocated launch slots are not amortised until allocated to a satellite asset where they are re-classed to Property, Plant and Equipment and depreciated in-line with Group policy discussed in note 2.

As at December 2018, the Group has no indefinite useful life intangible assets other than Goodwill.

Government grants received in 2018 were $nil (2017: $0.1m). The grants have been deducted from the cost of the relevant asset to arrive at the carrying amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### ANNUAL IMPAIRMENT REVIEW: GOODWILL

Impairment reviews of goodwill are performed at the level of the Group's cash-generating units ('CGUs'). For the Group, these are considered to be the Maritime, Enterprise, Aviation, U.S. Government and Global Government business units. The recoverable amount of each CGU has been determined based on value in use calculations. The key assumptions used by management in these calculations are the cash flow projections, long-term growth rates and discount rates for each CGU.

The impairment review conducted annually has identified sufficient headroom in the recoverable value of each CGU above their carrying value. A sensitivity analysis has been undertaken by changing key assumptions used for each CGU. Based on this sensitivity analysis, no reasonably possible change in the assumptions resulted in the recoverable amount of the CGUs being reduced to their carrying value. We do not anticipate any changes over the next 12 months that would result in the recoverable amount of the CGUs being reduced to their carrying value.

Key assumptions used to calculate the recoverable amount of the CGUs were as follows:

| ($ in millions) | Allocated goodwill | Pre-tax discount rate | Long-term growth rate |
|---|---|---|---|
| Maritime | 215.5 | 8.5% | 2.0% |
| Enterprise | 54.8 | 8.5% | 2.0% |
| Aviation | 46.4 | 8.5% | 2.0% |
| U.S. Government | 50.6 | 8.5% | 2.0% |
| Global Government | 54.8 | 8.5% | 2.0% |
| Total Group | 422.1 | | |

#### Cash flow projections

The recoverable amount of each CGU is based on the value in use, which is determined using cash flow projections derived from the most recent financial budgets and forecasts approved by management covering a five-year period. The short and medium-term cash flows reflect management's expectations of future outcomes taking into account past experience, adjusted for anticipated growth from both existing and new business in line with our strategic plans for each segment of our business. The cash flows also take into consideration our assessment of the potential impact of external economic factors.

#### Long-term growth rates

A long-term growth rate has been applied to extrapolate the cash flows into perpetuity. The growth rate has been determined using long-term industry growth rates and management's conservative expectation of future growth. The long-term growth rates are consistent across each of the CGUs given the similarities in exposure to economic and competitive conditions.

#### Discount rates

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 the CGUs. The risk premium, when compared with the Group discount rate, was consistent across each of the CGUs given the similarities in exposure to economic and competitive conditions.

## 15. LEASES

### RIGHT OF USE ASSETS

The right-of-use assets for the Group's property and vehicle leases are presented in the table below.

| ($ in millions) | Property | Vehicles | Total |
|---|---|---|---|
| Net carrying amount: | | | |
| 1 January 2018 | 75.2 | 0.5 | 75.7 |
| Additions and changes in terms | (1.8) | 0.3 | (1.5) |
| Impairment | (0.4) | – | (0.4) |
| Charge for the year | (11.0) | (0.4) | (11.4) |
| 31 December 2018 | 62.0 | 0.4 | 62.4 |

One property lease and two vehicle leases expired in the current financial year. The expired contracts were replaced by new leases for identical underlying assets. In total there were additions to right-of-use assets of $1.8m in 2018. The Group does not hold options to purchase any leased assets for a nominal amount at the end of the lease term.

The Group expenses short-term leases and low-value assets as incurred which is in accordance with the recognition exemption in IFRS 16. Expenses for short term leases and low-value assets were less than $0.1m in 2018. As at 31 December 2018, the Group is committed to less than $0.1m of short-term leases and low-value assets.

The Group received less than $0.1m in relation to income from the subleasing of right-of-use assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### LEASE LIABILITIES

Lease liabilities are calculated at the present value of the lease payments that are not paid at the commencement date. The Group's lease liabilities as of 31 December 2018 comprise the transition of existing contracts, as well as contracts entered into during the financial year 2018. The table below presents the split of these liabilities by category:

| ($ in millions) | Property | Vehicles | Total |
|---|---|---|---|
| Lease liability non-current | 59.5 | 0.1 | 59.6 |
| Lease liability current | 10.1 | 0.3 | 10.4 |
| | 69.6 | 0.4 | 70.0 |

The average lease term of the Group's property and vehicle leases is 3.3 and 1.2 years respectively. The maturity profile of the Group's leases is shown in the table below.

| | At 31 December 2018 | | |
|---|---|---|---|
| ($ in millions) | Property | Vehicles | Total |
| Within one year | 10.1 | 0.3 | 10.4 |
| Between two to five years | 40.8 | 0.1 | 40.9 |
| Greater than five years | 18.7 | – | 18.7 |
| | 69.6 | 0.4 | 70.0 |

The table below reconciles the difference between the presentation of operating leases under IAS 17 and IFRS 16 as at 31 December 2017.

| | At 31 December 2017 | | | |
|---|---|---|---|---|
| | Lease maturity under IAS 17 | IFRS 16 Differences[1] | Lease maturity under IFRS 16 | Other unrecognised contractual commitments[2] |
| Within one year | 12.7 | 0.4 | 13.1 | 6.9 |
| Within two to five years | 46.6 | (6.7) | 39.9 | 40.3 |
| After five years | 29.3 | 4.9 | 34.2 | 0.4 |
| | 88.6 | (1.4) | 87.2 | 47.6 |

1 IFRS 16 differences are caused by the discounting of cash flows, as well as cash flows for renewal periods being included in lease liability under the new standard

2 Other unrecognised contractual commitments relate to the Group's network service contracts and maintenance contracts, which have varying terms. Under IFRS 16, these do not constitute identified assets and do not meet the definition of a lease. These contracts continue to be expensed through the income statement

For the year ended 31 December 2018, the weighted average discount rate applied was 3.7%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The total cash flow relating to all lease obligations in 2018 was $12.3m with lease obligations denominated in various currencies. Total lease interest paid was $2.8m.

The Group does not face a significant liquidity risk with regard to its lease liabilities. The Group's obligations are secured by the lessors' title to the leased assets for such leases.

## 16. INVESTMENTS

| ($ in millions) | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Interest in associates | 17.7 | 15.1 |
| Other investments | 1.1 | 1.1 |
| Total investments | 18.8 | 16.2 |

Interest in associates represents the Group's investments which have been treated as associates and have all been accounted for using the equity method of accounting. Individually, all of the investments in associates are deemed to be immaterial and as a result the associates' assets, liabilities, revenues and profits have not been presented.

Other investments represent the Group's 0.6% investment in Actility S.A. which was made on 5 April 2017 and is accounted for as fair value through profit and loss.

Cash dividends received from the associates for the year ended 31 December 2018 total $1.3m (2017: $2.1m). The Group's aggregate share of its associates' profits for the year is $3.9m (2017: $4.0m) and has been recognised in the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include 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.

| ($ in millions) | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Cash at bank and in hand | 138.3 | 108.2 |
| Short-term deposits with original maturity of less than three months | – | 35.0 |
| Cash and cash equivalents | 138.3 | 143.2 |

At 31 December 2018, the Group has $145.7m of cash held in short-term deposits with an original maturity of between three and 12 months (2017: $342.0m). This amount is presented separately within current assets in the balance sheet.

Cash and cash equivalents include the following for the purposes of the cash flow statement:

| ($ in millions) | Note | At 31 December 2018 | At 31 December 2017 |
|---|---|---|---|
| Cash and cash equivalents | | 138.3 | 143.2 |
| Bank overdrafts | 20 | – | (0.3) |
| Net cash and cash equivalents | | 138.3 | 142.9 |

## 18. TRADE AND OTHER RECEIVABLES

| ($ in millions) | At 31 December 2018 | At 31 December 2017 (restated) |
|---|---|---|
| Current: | | |
| Trade receivables | 285.0 | 222.8 |
| Other receivables | 34.9 | 25.5 |
| Accrued income | 13.6 | 52.7 |
| Prepayments | 25.2 | 30.7 |
| Amounts due from parent undertaking | 42.2 | 27.1 |
| Total trade and other receivables | 400.9 | 358.8 |
| Non-current: | | |
| Prepayments and accrued income | – | (0.6) |
| Defined benefit pension asset | 30.9 | 18.1 |
| Other receivables | 4.3 | – |
| Total other receivables | 35.2 | 17.5 |

The Group applies the simplified approach under IFRS 9 for the impairment of receivables and contract assets. A provisioning matrix based on internal debtor credit ratings has been used in order to calculate the lifetime loss allowances for each grouping.

Debtors have been grouped based on ageing and each debtor's internal credit rating. This rating is a measure from A to E (with E being the highest risk of default) and considers the debtors financial strength, history and magnitude of past defaults, personal credit history with the Group and the associated level of sovereign and market risk. The information used in assigning ratings is both historical and forward looking as regular contact with debtors is maintained to understand if there is any additional risk forecast. Specific allowances are made to reflect any additional risk identified.

The table below presents the lifetime expected credit losses for trade receivables within each debtor category. No loss allowance has been recognised for other receivables, accrued income and amounts due from parent undertakings.

| ($ in millions) | Internal rating A | Internal rating B | Internal rating C | Internal rating D/E | 2018 Total |
|---|---|---|---|---|---|
| Carrying value of trade receivables (gross)[1] | 66.4 | 149.9 | 116.6 | 1.7 | 334.6 |
| Lifetime ECL | 0.7 | 3.2 | 6.4 | 1.7 | 12.0 |
| Specific Allowances | – | – | 16.4 | – | 16.4 |
| Group Loss Allowance | 0.7 | 3.2 | 22.8 | 1.7 | 28.4 |

1 This is presented gross of credit note allowances of $21.2m

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The Group's trade and other receivables are stated after impairments. Movements during the year were as follows:

| ($ in millions) | 2018 | 2017 |
|---|---|---|
| At 1 January | 12.5 | 13.7 |
| Charged in the year | 24.5 | 9.7 |
| Utilised in the year | (2.2) | (4.2) |
| Released in the year | (6.4) | (6.7) |
| At 31 December[1] | 28.4 | 12.5 |

1 The maturity of the Group's provision for uncollectable trade receivables for the year ended 31 December 2018 is $4.2m current, $5.0m between one and 30 days overdue, $8.0m between 31 and 120 days overdue and $11.2m over 120 days overdue (2017: $0.9m between one and 30 days overdue, $4.8m between 31 and 120 days overdue and $6.8m over 120 days overdue)

The Directors consider the carrying value of trade and other receivables to approximate to their fair value. Related party receivables are all repayable on demand.

## 19. INVENTORIES

| ($ in millions) | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Finished goods | 50.0 | 33.3 |
| Work in progress | 0.7 | 0.6 |
| Total inventories | 50.7 | 33.9 |

The Group's inventories are stated after allowances for obsolescence. Movements in the allowance during the year were as follows:

| ($ in millions) | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| At 1 January | 11.6 | 12.8 |
| Charged to the allowance in respect of the current year | 6.2 | 3.9 |
| Released in the year | (2.1) | (5.1) |
| At 31 December | 15.7 | 11.6 |

## 20. NET BORROWINGS

| | At 31 December 2018 | | | At 31 December 2017 | | |
|---|---|---|---|---|---|---|
| ($ in millions) | Amount | Deferred financing cost | Net balance | Amount | Deferred financing cost | Net balance |
| Current: | | | | | | |
| Bank overdrafts | – | – | – | 0.3 | – | 0.3 |
| Deferred satellite payments | 1.0 | – | 1.0 | 3.1 | – | 3.1 |
| Ex-Im Bank Facilities | 122.2 | – | 122.2 | 122.2 | – | 122.2 |
| Related party loan | – | – | – | 438.0 | – | 438.0 |
| Total current borrowings | 123.2 | – | 123.2 | 563.6 | – | 563.6 |
| Non-current: | | | | | | |
| Deferred satellite payments | 4.4 | – | 4.4 | 5.6 | – | 5.6 |
| Senior Notes due 2022 | 1,000.0 | (3.9) | 996.1 | 1,000.0 | (5.1) | 994.9 |
| – Net issuance discount | (3.4) | – | (3.4) | (4.5) | – | (4.5) |
| Senior Notes due 2024 | 400.0 | (4.2) | 395.8 | 400.0 | (4.9) | 395.1 |
| Ex-Im Bank Facilities | 386.5 | (6.5) | 380.0 | 508.7 | (14.9) | 493.8 |
| Total non-current borrowings | 1,787.5 | (14.6) | 1,772.9 | 1,909.8 | (24.9) | 1,884.9 |
| Total borrowings | 1,910.7 | (14.6) | 1,896.1 | 2,473.4 | (24.9) | 2,448.5 |
| Cash and cash equivalents | (138.3) | – | (138.3) | (143.2) | – | (143.2) |
| Short-term deposits | (145.7) | – | (145.7) | (342.0) | – | (342.0) |
| Net borrowings | 1,626.7 | (14.6) | 1,612.1 | 1,988.2 | (24.9) | 1,963.3 |

### EX-IM BANK FACILITIES

The Group has two direct financing agreements with the Export-Import Bank (the 'Ex-Im Bank Facilities') of the United States.

The $700.0m facility signed in 2011 was available to be drawn down for four years and is now repayable in equal semi-annual instalments over a further 7.5 years. This facility will mature in 2023. Drawings under this facility incur interest at a fixed rate of 3.11% for the life of the loan.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The $185.9m facility signed in 2014 was available for two years and is now repayable in equal semi-annual instalments over a further five years and will mature in 2021. Drawings under this facility incur interest at a fixed rate of 1.96% for the life of the loan.

### SENIOR NOTES DUE 2022 AND 2024

On 4 June 2014, the Group issued $1.0bn of 4.875% Senior Notes due 15 May 2022. The aggregate gross proceeds were $992.1m, net of $7.9m issuance discount. On 22 September 2016, the Group issued $400.0m of 6.5% Senior Notes due 1 October 2024.

### SENIOR REVOLVING CREDIT FACILITY

On 16 July 2018, the Group signed a new five-year $750.2m revolving credit facility ('Senior Revolving Credit Facility') to replace the previous $500m facility, on substantially the same terms. Advances under the facility bear interest at a rate equal to the applicable USD LIBOR or, in relation to any loan in euro, EURIBOR, plus a margin of between 0.7% and 2.0% determined by reference to the ratio of net debt to EBITDA. At 31 December 2018, there were no drawings under the Senior Revolving Credit Facility.

### EFFECTIVE INTERST RATE

The Directors consider the carrying value of borrowings, other than the Senior Notes and the Ex-Im Bank 2011 Facility to approximate to their fair value (see note 31). The effective interest rates at the balance sheet dates were as follows:

| Effective interest rate % | 2018 | 2017 |
|---|---|---|
| Bank overdrafts | 7.5% | 6.5% |
| Senior Notes due 2022 | 5.1% | 4.9% |
| Senior Notes due 2024 | 6.7% | 6.5% |
| Ex-Im Bank 2011 Facility | 4.4% | 3.1% |
| Ex-Im Bank 2014 Facility | 3.7% | 3.6% |
| Deferred satellite payments | 1.7% | 3.0% |

Reconciliation of movements in liabilities to cash flows arising from financing activities:

| ($ in millions) | At 31 December 2016 | Drawdowns and repayments | Cashflows | Transfers[1] | Interest expense | Arrangement cost amortisation | Other cash movements | At 31 December 2017 |
|---|---|---|---|---|---|---|---|---|
| Short term borrowings | 103.8 | (80.8) | (3.1) | 105.1 | 3.2 | – | (2.6) | 125.6 |
| Long term borrowings | 1,906.5 | 78.4 | (92.0) | (105.1) | 90.7 | 6.4 | – | 1,884.9 |
| Related party loan | 355.9 | 63.0 | (0.3) | – | 19.4 | - | – | 438.0 |
| Total liabilities from financing activities | 2,366.2 | 60.6 | (95.4) | – | 113.3 | 6.4 | (2.6) | 2,448.5 |

| ($ in millions) | At 31 December 2017 | Drawdowns and repayments | Cashflows | Transfers[1] | Interest expense | Arrangement cost amortisation | Other cash movements | At 31 December 2018 |
|---|---|---|---|---|---|---|---|---|
| Short term borrowings | 125.6 | (122.2) | (3.5) | 122.2 | 3.4 | – | (2.3) | 123.2 |
| Long term borrowings | 1,884.9 | – | (87.6) | (122.2) | 87.1 | 11.3 | (0.6) | 1,772.9 |
| Related party loan | 438.0 | (441.0) | (8.2) | – | 11.2 | - | – | - |
| Total liabilities from financing activities | 2,448.5 | (563.2) | (99.3) | – | 101.7 | 11.3 | (2.9) | 1,896.1 |

1 Transfers comprise debt maturing from long term to short term borrowings

## 21. TRADE AND OTHER PAYABLES

| ($ in millions) | At 31 December 2018 | At 31 December 2017 (restated) |
|---|---|---|
| Current: | | |
| Trade payables | 134.6 | 210.4 |
| Other taxation and social security payables | 6.4 | 6.1 |
| Other payables | 4.7 | 2.6 |
| Amounts due to related parties | 242.7 | - |
| Accruals | 84.4 | 107.6 |
| Deferred income[1] | 304.3 | 295.8 |
| Total trade and other payables | 777.1 | 622.5 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

| | | |
|---|---|---|
| Non-current: | | |
| Other payables | 2.5 | 7.5 |
| Defined benefit pension and post-employment liability | 11.4 | 17.5 |
| Total other payables | 13.9 | 25.0 |

1 The deferred income balance includes $206.7m (2017: $206.8m) relating to payments received from Ligado Networks. During the current financial year, $0.1m (2017: $2.0m) of these payments were released to the income statement

The Directors consider the carrying value of trade and other payables to approximate to their fair value.

### DEFERRED INCOME

Deferred income represents obligations to transfer goods or services to a customer for which the entity has received consideration and is therefore considered a contract liability. The group has recognised the following movements in deferred income throughout the year:

| ($ in millions) | 2018 | 2017 |
|---|---|---|
| At January | 295.8 | 285.7 |
| Contract liability raised in the year | 297.8 | 289.6 |
| Contract liability utilised in the year | (289.3) | (279.5) |
| At December | 304.3 | 295.8 |

## 22. PROVISIONS

Movements in the current portion of the Group's provisions were as follows:

| ($ in millions) | Current provisions | Non-current provisions | Total |
|---|---|---|---|
| At 1 January 2017 | 1.9 | 2.8 | 4.7 |
| Charged in respect of current year | 21.8 | 6.9 | 28.7 |
| Utilised in current year | (7.5) | – | (7.5) |
| At 31 December 2017 | 16.2 | 9.7 | 25.9 |
| Charged in respect of current year | 10.1 | 2.0 | 12.1 |
| Utilised in current year | (12.0) | (0.6) | (12.6) |
| At 31 December 2018 | 14.3 | 11.1 | 25.4 |

The Group's current provisions mainly consist of a $7.4m (2017: nil) contract obligation and a $5.1m (2017: $16.0m) restructuring provision. The associated cash flows in respect of both provisions outstanding at 31 December 2018 are expected to occur within one year.

## 23. CURRENT AND DEFERRED TAXATION

The current tax asset of $4.6m and current tax liability of $189.0m (2017: $13.8m and $148.7m, respectively), represent the tax payable in respect of current and prior periods less amounts paid.

### RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) for the year are shown below:

| | At 31 December 2018 | | | At 31 December 2017 (restated) [1] | | |
|---|---|---|---|---|---|---|
| ($ in millions) | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Property, plant and equipment and intangible assets | (35.1) | 220.8 | 185.7 | (25.8) | 230.9 | 205.1 |
| Borrowing costs capitalised in the cost of qualifying assets | – | 46.2 | 46.2 | – | 25.6 | 25.6 |
| Other | (9.9) | 0.9 | (9.0) | (11.4) | 2.5 | (8.9) |
| Pension and post-employment benefits | – | 3.6 | 3.6 | (0.2) | 1.1 | 0.9 |
| Share options | (2.9) | – | (2.9) | (1.5) | – | (1.5) |
| Tax losses | (25.8) | – | (25.8) | (20.4) | – | (20.4) |
| Net deferred tax liabilities | (73.7) | 271.5 | 197.8 | (59.3) | 260.1 | 200.8 |

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The value of deferred income tax assets and liabilities included in the net deferred income tax balance is shown below:

| ($ in millions) | At 31 December 2018 | At 31 December 2017 (restated) [1] |
|---|---|---|
| Deferred tax assets | (52.5) | (35.4) |
| Deferred tax liabilities | 250.3 | 236.2 |
| Net deferred tax liabilities | 197.8 | 200.8 |

1 Comparatives have been restated as a result of initial application of IFRS 15 and the change in accounting policy for unallocated launch slots discussed in note 2

Movement in temporary differences during the year:

| ($ in millions) | At 1 January 2018 | Recognised in income | Recognised in equity | Recognised in other comprehensive income | At 31 December 2018 |
|---|---|---|---|---|---|
| Property, plant and equipment and intangible assets | 205.1 | (19.4) | – | – | 185.7 |
| Borrowing costs capitalised in the cost of qualifying assets | 25.6 | 20.6 | – | – | 46.2 |
| Other | (8.9) | (0.1) | – | – | (9.0) |
| Pension and post-employment benefits | 0.9 | (0.1) | (0.3) | 3.1 | 3.6 |
| Share-based payments | (1.5) | (0.5) | (0.8) | – | (2.8) |
| Tax losses | (20.4) | (5.5) | – | – | (25.9) |
| Total | 200.8 | (5.0) | (1.1) | 3.1 | 197.8 |

| ($ in millions) | At 1 January 2017 | Recognised in income | Recognised in equity | Recognised in other comprehensive income | At 31 December 2017 (restated) |
|---|---|---|---|---|---|
| Property, plant and equipment and intangible assets | 165.7 | 39.4 | – | – | 205.1 |
| Borrowing costs capitalised in the cost of qualifying assets | 33.7 | (8.1) | – | – | 25.6 |
| Other | (9.2) | 0.3 | – | – | (8.9) |
| Pension and post-employment benefits | (2.0) | 0.6 | – | 2.3 | 0.9 |
| Share-based payments | (3.0) | 1.5 | – | – | (1.5) |
| Tax losses | (15.4) | (5.0) | – | | (20.4) |
| Total | 169.8 | 28.7 | – | 2.3 | 200.8 |

Total unprovided deferred tax assets:

| ($ in millions) | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Unused income tax losses | (3.3) | (2.4) |
| Unused capital losses | (17.7) | (23.0) |
| Total | (21.0) | (25.4) |

Deferred tax assets are recognised to the extent there is probable utilisation of the underlying temporary difference using existing tax laws and forecasts of future taxable profits based on Board-approved business plan forecasts.

Unprovided deferred tax assets in respect of unused income tax losses of $13.2m (2017: $9.1m) include $6.9m of losses that will expire if not used within 5 years, $1.4m of losses that will expire if not used within 20 years and $4.8m of losses with no expiry date. The unused capital losses of $104.1m (2017: $121.0m) have no expiry date.

Overseas dividends received are largely exempt from UK tax but may be subject to foreign withholding taxes. The unrecognised gross temporary difference in respect of the unremitted earnings of those overseas subsidiaries affected by such taxes is $nil (2017: nil), resulting in a deferred tax liability of $nil (2017: nil).

The unrecognised gross temporary difference in respect of the investments in associates is $1.7m (2017: $1.4m), resulting in an unrecognised deferred tax liability of $0.5m (2017: US$0.4m).

The Budget announced by the Chancellor on 16 March 2016 included changes to the main rates of corporation tax for UK companies. The standard rate of corporation tax reduced to 19% with effect from 1 April 2017, and there will be a further reduction to 17% from 1 April 2020. The deferred tax assets and liabilities at the balance sheet date are calculated taking account of the forecast impact of the reduction of the corporation tax rate from 20% to the substantively enacted rate of 17%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

On 22 December 2017 the US President signed the Tax Cuts and Jobs Act, which included changes to the Federal tax rate. The Federal tax rate reduced from 35% to 21% with effect from 1 January 2018. The deferred tax assets and liabilities at the balance sheet date are calculated taking account of this reduction of the Federal tax rate.

## 24. RECONCILIATION OF CASH GENERATED FROM OPERATIONS

Reconciliation of profit for the year to cash generated from operations:

| ($ in millions) | 2018 | 2017 (restated) |
|---|---|---|
| Profit for the year | 170.6 | 197.9 |
| Adjustments for: | | |
| Taxation charge | 51.1 | 50.4 |
| Financing costs | 76.8 | 83.9 |
| Financing income | (9.1) | (8.0) |
| Operating profit | 289.4 | 324.2 |
| Depreciation and amortisation | 468.3 | 411.8 |
| Impairment loss | 14.5 | – |
| Loss on disposal of assets | 2.5 | 7.3 |
| Share of profit of associates | (3.9) | (4.0) |
| EBITDA | 770.8 | 739.3 |
| Dividends received from associates | 1.3 | 2.1 |
| Non-cash employee benefit costs | 6.9 | 12.8 |
| Non-cash foreign exchange movements | (7.2) | 3.0 |
| Changes in net working capital: | | |
| Decrease in restricted cash[1] | (0.1) | – |
| (Increase)/decrease in trade and other receivables | (275.7) | (46.3) |
| Decrease/(Increase) in inventories | (16.8) | 0.4 |
| Increase/(decrease) in trade and other payables | 241.0 | 53.8 |
| Increase in provisions | 0.2 | 14.6 |
| Cash generated from operations | 720.4 | 779.7 |

1 At 31 December 2018, the Group has $2.4m (2017: $2.8m) of restricted cash on the balance sheet, the majority of which are funds held in escrow in relation to the disposal of SkyWave

## 25. SHARE CAPITAL

| ($ in millions) | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Authorised: | | |
| 630,780,000 ordinary shares of €0.0005 each (2017: 630,780,000) | 0.4 | 0.4 |
| | 0.4 | 0.4 |
| Allotted, issued and fully paid: | | |
| 610,500,100 ordinary shares of €0.0005 each (2017: 610,500,000) | 0.4 | 0.4 |
| | 0.4 | 0.4 |

Shares issued by the Company which are denominated in a currency other than US Dollars are translated at the rates ruling at the date of issue. During the year ended 31 December 2018, a total of 100 (2017: nil) ordinary shares of €0.0005 each were allotted and issued by the Company for a total value of $441.1m.

## 26. EMPLOYEE SHARE OPTIONS AND AWARDS

Inmarsat plc operates a number of share plans used to award options and shares to Directors and employees as part of their remuneration packages. In 2014, the Inmarsat plc Executive Share Plan ('ESP') was approved by shareholders and replaced the previous Executive Share Plans. Share awards since May 2014 have been made in accordance with the new share plan rules. Under the ESP, Inmarsat plc can grant Bonus Share Awards ('BSA') and Performance Share Awards ('PSA'). The costs of these awards are recognised in the income statement (see note 7) based on the fair value of the awards on the grant date. Further information on how these are calculated can be found on the next page and under 'Employee benefits' in the principal accounting policies on page 16. Given that these schemes operate at an Inmarsat plc group level, the information below is for the Inmarsat plc group as a whole.

### INMARSAT EMPLOYEES' SHARE OWNERSHIP PLAN TRUST

Under the legacy Staff Value Participation Plan (the '2004 Plan'), shares were transferred to the Inmarsat Employees' Share Ownership Plan Trust (the 'Trust') (resident in Jersey). These options have now vested and expired, but some remaining shares are still held by the Trust and can be used to satisfy vesting under other existing share plans.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

A summary of all share activity within the Trust as at 31 December 2018, is as follows:

| ($ in millions) | Shares available for grant |
|---|---|
| Balance at 1 January 2018 | 77,276 |
| Exercised | – |
| Balance at 31 December 2018 | 77,276 |
| Available at 31 December 2018 | 77,276 |

## BONUS SHARE AWARD

Awards have been made regularly under the BSA to 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 BSA are non-market-based performance conditions. Any dividends paid by Inmarsat plc will accrue and be added as additional shares upon vesting.

Under the rules of the BSA, the Remuneration Committee has the discretion to satisfy the awards using cash instead of shares. It is, however, the intention to generally satisfy the awards using newly-issued shares.

As the BSA provides non-contributory share awards that have an entitlement to dividends and no market-based performance conditions attached, 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 increase, although may decrease subject to performance conditions not being achieved, and/or discretion by the Remuneration Committee being exercised.

## PERFORMANCE SHARE AWARD

The PSA makes regular annual awards to Executive Directors and certain members of senior management. Further information on awards granted to Directors can be found in the Remuneration Report. Participants are entitled to receive the value of any dividends that are paid between the date of award and 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 PSA shares will not ordinarily be transferred to participants until the third anniversary of the award date. The transfer of shares is dependent upon performance conditions being satisfied over the three consecutive financial years starting in the financial year the award date falls. The rules of the PSA provide that the Remuneration Committee has the discretion to satisfy the awards using cash instead of shares. It is, however, the intention to satisfy the awards using newly-issued shares at the end of the relevant three-year period. Executive Directors are required, for the PSA award made in 2017 onwards, to hold a net number of shares after deduction of tax for a further two-year period after the expiry of the three-year performance period.

The performance conditions for the Executive Directors for the PSA are based on the Group's Total Shareholder Return ('TSR') relative to constituents of the FTSE 50-150 (excluding investment trusts), and on EBITDA growth measured over a three-year period. The vesting schedule is structured so that 30% of the reward is linked to the performance of TSR for Executive Directors (for any participants below Executive Director level this is linked to revenue growth over the three-year period of the awards), 30% is linked to EBITDA and 40% is linked to strategic objectives set out prior to the grant date of the scheme. The market-based performance condition has been incorporated into the fair value. The proposed new Remuneration Policy has new performance measures to be used for the 2019 PSA awards which will be made to the Executive Directors.

A Stochastic model has been used to value the TSR element attached to 30% of the Executive Directors' awards, for all other elements a Black-Scholes model has been used. The fair values and the assumptions used in the calculation of PSA awards vesting or due to vest in 2019 or after are presented in the table below. Volatility has been calculated taking account of the historical return index (the share price plus dividends reinvested) over a period commensurate with the reminder of the performance period at grant.

| | Performance Share Awards | | |
|---|---|---|---|
| Grant date | 12 March 2018 | 22 March 2017 | 23 March 2016 |
| Grant price | £4.33 | £7.62 | £9.30 |
| Market price at date of grant | £4.10 | £7.63 | £9.43 |
| Exercise price | nil | nil | nil |
| Bad leaver rate | 12% | 12% | 12% |
| Vesting period | 3 years | 3 years | 3 years |
| Volatility | 33.1% | 28.6% | 22.5% |
| Fair value per share option (Executive Director level) | £1.64 | £4.43 | £4.39 |
| Fair value per share option (below Executive Director level) | £4.10 | £7.63 | £9.43 |

Both the BSA and PSA share awards expire 10 years after date of grant or such shorter period as the Remuneration Committee may determine before the grant of an award. For share awards outstanding at the period end the weighted average of the remaining contractual life for the BSA and PSA share awards at 31 December 2018 is 1.6 and 1.5 years, respectively.

## UK SHARESAVE SCHEME AND INTERNATIONAL SHARESAVE PLAN

The UK Sharesave Scheme is an approved HM Revenue and Customs scheme. A grant made in May 2018 with an option price of £3.01 (reflecting the maximum discount permitted of 20%) will mature in July 2021. A grant made in June 2017 with an option price of £6.04 (reflecting the maximum discount permitted of 20%) will mature in August 2020.

The International Sharesave Plan mirrors the operation of the UK Sharesave Scheme as closely as possible. Participants are given either the opportunity to receive options in the same way as the UK Sharesave Scheme, or the spread between the share price at the date of exercise and the grant price, delivered (at Inmarsat plc's

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

discretion) in cash or shares. It is Inmarsat plc'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 made in May 2018 with an option price of £3.01 (reflecting the maximum discount permitted of 20%) will mature in August 2021. A grant made in June 2017 with an option price of £6.04 (reflecting the maximum discount permitted of 20%) will mature in August 2020.

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 2018 is 2.4 and 2.2 years respectively for each plan.

## EMPLOYEE STOCK PURCHASE PLAN

The Employee Stock Purchase Plan ('ESPP') is for U.S. and Canadian employees to purchase Inmarsat plc's stock at a 15% discount using funds accumulated from monthly contributions. A grant made under the scheme in December 2015 with an option price of £9.22 (reflecting the maximum discount permitted of 15%) matured in March 2018. A grant made under the scheme in June 2017 with an option price of £7.16 (reflecting the maximum discount permitted of 15%) will mature in July 2019. A grant made under the scheme in May 2018 with an option price of £3.03 (reflecting the maximum discount permitted of 15%) will mature in June 2020. The weighted average of the remaining contractual life for the ESPP schemes as at 31 December 2018 is 1.4 years.

Options under the UK Sharesave Scheme, International Sharesave Plan and ESPP have been valued with a Black-Scholes model using the following assumptions:

| Grant date | Sharesave Scheme (UK and International) 30 May 2018 | Sharesave Scheme (UK and International) 6 June 2017 | Sharesave Scheme (UK and International) 30 June 2016 | ESPP 30 May 2018 | ESPP 6 June 2017 |
|---|---|---|---|---|---|
| Market price at date of grant | £3.63 | £8.43 | £8.05 | £3.63 | £8.43 |
| Exercise price | £3.01 | £6.04 | £5.68 | £3.03 | £7.16 |
| Bad leaver rate | 3% pa | 3% pa | 3% pa | 3% pa | 3% pa |
| Vesting period | 36 months | 36 months | 36 months | 25 months | 25 months |
| Volatility | 32.7% | 27.9% | 24.6% | 35.7% | 32.7% |
| Dividend yield assumption | 6.8% | 5.1% | 4.5% | 6.8% | 5.0% |
| Risk-free interest rate | 0.7% | 0.1% | 0.1% | 0.6% | 0.1% |
| Fair value per option | £0.66 | £1.93 | £1.85 | £0.68 | £1.61 |

## UK SHARE INCENTIVE PLAN

The UK Share Incentive Plan ('SIP') has made several awards and is an approved HM Revenue and Customs scheme. The last award was made in 2010 and as the SIP holding period has passed, the shares can be transferred to participants at any time free of tax.

A summary of share awards activity as at 31 December 2018 is as follows:

| | SIP (UK) | BSA[1] | PSA[1] | Total |
|---|---|---|---|---|
| Balance at 1 January 2018 | 185,941 | 2,813,188 | 1,479,323 | 4,478,452 |
| Granted/allocated | – | 2,260,801 | 1,058,347 | 3,319,148 |
| Forfeited/lapsed | – | (311,087) | (423,705) | (734,792) |
| Exercised/sold/transferred | (27,298) | (748,608) | (149,013) | (924,919) |
| Balance at 31 December 2018 | 158,643 | 4,014,294 | 1,964,952 | 6,137,889 |
| Available at 31 December 2018 | 158,643 | – | – | 158,643 |
| Exercise price per share | n/a | nil | nil | |

A summary of share option activity as at 31 December 2018 and the weighted average exercise price per award is as follows:

| | Sharesave (UK)[1] | Weighted average exercise price | Sharesave (International) | Weighted average exercise price | ESPP | Weighted average exercise price | Total |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2018 | 905,856 | £5.86 | 708,730 | £5.86 | 105,347 | £8.11 | 1,719,933 |
| Granted/allocated | 1,824,319 | £3.01 | 1,332,687 | £3.01 | 202,845 | £3.09 | 3,359,851 |
| Forfeited/lapsed | (886,896) | £5.60 | (563,125) | £5.83 | (102,951) | £7.65 | (1,552,972) |
| Exercised | – | – | – | – | – | – | – |
| Balance at 31 December 2018 | 1,843,279 | £3.16 | 1,478,292 | £3.30 | 205,241 | £3.38 | 3,526,812 |
| Exercisable at 31 December 2018 | – | – | – | – | – | – | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 27. RESERVES

Cash flow hedge reserve:

| ($ in millions) | 2018 | 2017 |
|---|---|---|
| Balance at 1 January | (7.7) | (23.3) |
| Loss recognised on cash flow hedges: | | |
| Forward exchange contracts | (5.2) | 14.1 |
| Losses on cash flow hedges capitalised to Tangible Assets: | | |
| Forward exchange contracts | 8.9 | 1.5 |
| Balance at 31 December | (4.0) | (7.7) |

There are no gains and losses reclassified from equity included within the income statement for the period ended 31 December 2018 (2017: nil). Gains and losses relating to the effective portion of cash flow hedges are recognised in other comprehensive income and accumulated in the cash flow hedge reserve. When a hedged item is recognised in the income statement the cumulative deferred gain or loss accumulated in other comprehensive income and the cash flow hedge reserve is reclassified to the income statement. When a hedged item is recognised as a non-financial asset or liability in the balance sheet the accumulated gain or loss is removed from the cash flow hedge reserve and included directly in the initial cost of the asset or liability.

## 28. PENSIONS 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, regulated by the Pensions Regulator, and The Netherlands. The Group's principal defined benefit pension plan is the Inmarsat Global scheme, which is a UK funded scheme with assets held in a separate fund administered by a corporate trustee; the scheme is closed to new employees and the Company closed the defined benefit plan to future accruals during 2018. The trustee is required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension schemes are responsible for the investment policy with regards to the assets of the fund.

The Group is required to ensure that the plan is fully funded where the future liabilities for benefits are covered by the fund's assets. The size of the asset that can be recognised as a result of a pension surplus should not exceed the recoverable amount and is restricted to the asset ceiling per IAS 19.

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 2018. The results of the valuation, which have been updated for any material transactions and material changes in circumstances (including changes in market prices and interest rates) up to 31 December 2018, are set out below. There are no guaranteed minimum pension ('GMP') benefits held under the scheme and there was therefore no impact to the liability as a result of High Court ruling on 26 October 2018.

There have been no plan amendments, curtailments or settlements since the previous year end that we have been made aware of. The plan closed to future DB accrual with effect from 1 April 2017, and a curtailment gain (arising from the break in salary link for active members) was reflected in the 2017 year-end accounting disclosures.

The Group also provides post-employment benefits for some of its employees. The Group's principal scheme is the Inmarsat Global 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. The Group's post-retirement medical liability is capped at CPI plus 1%.

Schemes denominated in local currencies are subject to fluctuations in the exchange rate between US Dollars and local currencies.

The primary risk to which the Inmarsat Global defined benefit plan exposes the Group is the risk arising through a mismatch between the plan's assets and its liabilities. This is primarily made up of a number of strategic investment risks. The key strategic investment risks inherent in the current investment strategy are as follows:

- market risk (the risk that investment returns on assets are lower than assumed in the actuarial valuation, thereby resulting in the funding level being lower than expected)
- interest rate risk (the risk that the assets do not move in line with the value placed on the liabilities in response to changes in interest rates)
- inflation risk (similar to interest rate risk but concerning inflation)
- credit risk (the risk that payments due to corporate bond investors may not be made)
- active management risk (the risk that active managers underperform the markets in which they invest, resulting in lower-than-expected investment returns) and
- currency risk (the risk that currency market movements adversely impact investment returns)

In addition to the investment-related risks, the plan is also subject to the risk that members live longer than expected, or that the financial assumptions used in valuing the liabilities are not borne out in practice. This could lead to unexpected contributions from the Group being required to meet the benefit payments due.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The principal actuarial assumptions used to calculate the Group's pension and post-employment benefits liabilities under IAS 19 are:

| | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Weighted average actuarial assumptions: | | |
| Discount rate | 2.9% | 2.6% |
| Future salary increases | 2.4% | 2.3% |
| Medical price inflation | 3.2% | 3.2% |
| Future pension increases | 2.9% | 2.9% |

Mortality assumptions have been updated to reflect experience and expected changes in life expectancy. The average life expectancy assumptions for the Company's pension and post-employment benefits liabilities are as follows:

| | Life expectancy 2018 | Life expectancy 2017 |
|---|---|---|
| Male current age 65 | 88.2 | 88.8 |
| Female current age 65 | 89.4 | 90.0 |

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 2018, mortality has been assumed to follow the S2PA tables with -1 year age rating for males and CMI 2017 improvement with a long-term trend of 1.75% pa.

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase, mortality and healthcare cost trend rates. The sensitivity analysis below is for the Group's principal pension and post-employment benefits schemes, and has been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant.

Inmarsat Global defined benefit scheme:

| Change in assumption ($ in millions) | Impact on benefit obligation increase/ (decrease) | Impact on projected pension cost increase/ (decrease) |
|---|---|---|
| Increase in discount factor of 0.25% | (4.5) | (0.2) |
| Decrease in discount factor of 0.25% | 4.8 | 0.2 |
| Increase in inflation of 0.25% | 4.8 | 0.2 |
| Decrease in inflation of 0.25% | (4.5) | (0.1) |
| Mortality: -2 years for males and -1 year for females | 3.1 | 0.1 |

Inmarsat Global post-retirement healthcare benefit scheme:

| Change in assumption ($ in millions) | Impact on benefit obligation increase/ (decrease) | Impact on service cost increase/ (decrease) |
|---|---|---|
| Increase in discount factor of 0.5% | (0.7) | – |
| Increase in inflation of 0.5% | 0.8 | – |
| Increase in medical price inflation trend rate of 1% | 1.6 | 0.1 |
| Decrease in medical price inflation trend rate of 1% | (1.3) | – |

In reality, there is an expectation of inter-relationships between the assumptions, for example, between discount rate and inflation. The above analysis does not take the effect of these inter-relationships into account.

Amounts recognised in the balance sheet are:

| ($ in millions) | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Present value of funded defined benefit obligations (pension) | (96.3) | (126.5) |
| Present value of unfunded defined benefit obligations (pension) | (0.5) | (0.5) |
| Present value of unfunded defined benefit obligations (post-employment benefits) | (9.9) | (15.9) |
| Fair value of defined benefit assets | 126.2 | 143.5 |
| Net defined benefit asset/(liability) recognised in the balance sheet | 19.5 | 0.6 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The above net liability is recognised in the balance sheet as follows:

| ($ in millions) | Note | At 31 December 2018 | At 31 December 2017 |
|---|---|---|---|
| Defined benefit pension asset | 18 | 30.9 | 18.1 |
| Defined benefit pension and post-employment liability | 21 | (11.4) | (17.5) |

Analysis of the movement in the present value of the defined benefit obligations is as follows:

| ($ in millions) | Defined benefit pension plan | Post-employment benefits |
|---|---|---|
| At 1 January 2017 | 136.3 | 16.7 |
| Current service cost | 1.6 | 0.4 |
| Past service cost[1] | (4.1) | – |
| Interest cost | 3.6 | 0.5 |
| Remeasurement gains: | | |
| Actuarial gains arising from changes in financial assumptions | (2.6) | (3.3) |
| Foreign exchange loss | 11.3 | 1.9 |
| Benefits paid | (19.5) | (0.3) |
| Contributions by pension participants | 0.4 | – |
| At 31 December 2017 | 127.0 | 15.9 |
| Current service cost | 1.0 | 0.4 |
| Past service cost[1] | – | – |
| Interest cost | 3.1 | 0.4 |
| Remeasurement gains: | | |
| Actuarial gains arising from changes in demographic assumptions | (3.8) | (5.0) |
| Actuarial gains arising from changes in financial assumptions | (10.0) | (0.8) |
| Change in experience adjustment | (6.4) | 0.1 |
| Foreign exchange loss | (6.0) | (0.8) |
| Benefits paid | (8.3) | (0.3) |
| Contributions by pension participants | 0.2 | – |
| At 31 December 2018 | 96.8 | 9.9 |

Analysis of the movement in the fair value of the assets of the defined benefit pension plans is as follows:

| ($ in millions) | 2018 | 2017 |
|---|---|---|
| At 1 January | 143.5 | 140.0 |
| Interest income | 3.4 | 3.7 |
| Remeasurement gains/(losses): | | |
| Experience return on plan asset (excluding interest income) | (6.2) | 7.2 |
| Actuarial (loss)/gains arising from changes in financial assumptions | – | (0.4) |
| Contributions by employer | 0.8 | 1.0 |
| Contributions by pension participants | 0.2 | 0.3 |
| Benefits paid | (8.1) | (19.6) |
| Expenses paid (included in service cost) | (0.4) | (0.4) |
| Foreign exchange gain/(loss) | (7.0) | 11.7 |
| At 31 December | 126.2 | 143.5 |

1 The Group Defined Benefit Pension Plan closed to further benefit accrual on 31 March 2017 and all former active members have now become deferred members. This curtailment has resulted in a past service credit and decrease to the defined benefit obligation in 2017

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Amounts recognised in the income statement in respect of the plans are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| ($ in millions) | Defined benefit pension plan | Post-employment benefits | Defined benefit pension plan | Post-employment benefits |
| Current service cost | 1.4 | 0.4 | 2.0 | 0.4 |
| Past service gain | – | – | (4.1) | 0.0 |
| Net interest (income)/expense | (0.3) | 0.4 | (0.1) | 0.5 |
| Foreign exchange (gain)/loss | 1.0 | (0.8) | (0.4) | 1.9 |
| | 2.1 | – | (2.6) | 2.8 |

Current service cost is included within employee benefit costs (note 7). The net financing costs together with foreign exchange gains and losses are included within interest payable (note 9).

Amounts recognised in the statement of comprehensive income in respect of the plans are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| ($ in millions) | Defined benefit pension plan | Post-employment benefits | Defined benefit pension plan | Post-employment benefits |
| Actuarial gains arising from changes in demographic assumptions | (3.8) | (5.0) | – | – |
| Actuarial gains arising from changes in financial assumptions | (10.0) | (0.8) | (2.2) | (3.3) |
| Actuarial gains arising from changes in experience adjustment | (6.4) | 0.1 | – | – |
| Return on plan asset (excluding interest income) | 6.2 | – | (7.2) | – |
| Remeasurement of the net defined benefit asset and liability | (14.0) | (5.7) | (9.4) | (3.3) |

The assets held in respect of the Group's defined benefit schemes were as follows:

| | At 31 December 2018 | | At 31 December 2017 | |
|---|---|---|---|---|
| | Value ($ in millions) | Percentage of total plan assets | Value ($ in millions) | Percentage of total plan assets |
| Equities | 10.3 | 8.2% | 30.7 | 21.4% |
| Cash | 0.4 | 0.3% | 1.4 | 1.0% |
| Bonds | 87.3 | 69.2% | 80.9 | 56.4% |
| Other | 28.2 | 22.3% | 30.5 | 21.2% |
| Fair value of scheme assets | 126.2 | | 143.5 | |

All of the Plan assets are invested in pooled investment funds. The majority of these are priced daily, but are not quoted market prices. The exceptions to this are certain weekly priced funds (UCITS Alternatives Strategies) and monthly priced funds (High Income UK Property, Liquid Alternative Strategies Alternatives and Multi Asset Credit).

With regards to private debt, the portfolio will be valued on an absolute basis, using the 'best efforts' value on a quarterly basis. Therefore, fund investments are primarily valued based on the market value/capital account statements received from the underlying general partners of the underlying funds. Capital account statements and unaudited financial statements are distributed approximately 90 days after each quarter. The fund also distributes US GAAP audited financials, including capital account statements, for each 31 December fiscal year-end around 30 June of the subsequent year.

The actual allocations to each of the investment funds as at 31 December 2018 are shown in the table below. The investment portfolio seeks to mitigate the investment risks identified above through a combination of asset class diversification, underlying investment manager diversification and the use of currency hedging where appropriate.

The assets are split into two portfolios: the growth portfolio and the matching portfolio. The assets within the growth portfolio are invested so as to achieve an appropriate level of growth above that of the Plan's liabilities, ensuring a sufficiently diversified portfolio of investments provides the Plan with a variety of sources of return, without unduly exposing the Plan to a single type of risk. The assets within the matching portfolio are invested so as to reduce the level of unrewarded risk and ensure the portfolio broadly matches changes in the value of the Plan's liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The allocations to each of the investment funds as at 31 December 2018 are as follows:

| Fund | Legal structure | Allocation (%) |
|---|---|---|
| Global Fundamental (RAFI) Equity | Mercer QIF CCF | 1.8 |
| Global Low Volatility Equity | MGI Funds PLC | 1.0 |
| Global Small Cap Equity | MGI Funds PLC | 1.6 |
| Sustainable Equity | MGI Funds PLC | 1.3 |
| Global Listed Infrastructure Equity | MGI Funds PLC | 0.5 |
| Eurozone Equity | MGI Funds PLC | 0.2 |
| Emerging Markets Equity | MGI Funds PLC | 2.4 |
| Emerging Markets Debt | MGI Funds PLC | 2.0 |
| Global High Yield Bonds | MGI Funds PLC | 0.2 |
| Multi Asset Credit | Mercer QIF Fund PLC | 1.6 |
| Absolute Return Fixed Income | MGI Funds PLC | 0.8 |
| Liquid Alternatives Strategies | Mercer QIF Fund PLC | 9.3 |
| Mercer UCITS Alternatives Strategies | MGI Funds PLC | 1.7 |
| High Income UK Property | Mercer QIF CCF | 3.0 |
| Private Debt | Mercer Private Investment Partners (Offshore), LP | 2.1 |
| Total Growth Portfolio | | 29.5 |
| UK Credit | Mercer PIF Fund PLC | 14.2 |
| Tailored Credit Fund | Mercer QIF Fund PLC | 7.6 |
| UK Long Gilt Fund | MGI Funds PLC | 6.0 |
| Inflation Linked Bonds | MGI Funds PLC | 6.9 |
| Nominal LDI Bond Fund | Mercer PIF Fund plc | 3.5 |
| Medium Flexible Enhanced Matching Fixed | Mercer QIF Fund PLC | 6.5 |
| Long Flexible Enhanced Matching Fixed | Mercer QIF Fund PLC | 0.7 |
| Short Flexible Enhanced Matching Inflation | Mercer QIF Fund PLC | 6.8 |
| Short Flexible Enhanced Matching Real | Mercer QIF Fund PLC | 5.0 |
| Medium Flexible Enhanced Matching Real | Mercer QIF Fund PLC | 5.1 |
| Long Flexible Enhanced Matching Real | Mercer QIF Fund PLC | 8.2 |
| Total Matching Portfolio | | 70.5 |
| Total Assets | | 100.0 |

The investment portfolio seeks to mitigate the investment risks identified above through a combination of asset class diversification, underlying investment manager diversification and the use of currency hedging where appropriate. The assets are split into two portfolios, the growth portfolio and the matching portfolio.

The assets within the growth portfolio are invested so as to achieve an appropriate level of growth above that of the plan's liabilities, ensuring a sufficiently diversified portfolio of investments provides the plan with a variety of sources of return, without unduly exposing the plan to a single type of risk.

The assets within the matching portfolio are invested so as to minimise the level of unrewarded risk and ensure the portfolio broadly matches changes in the value of the plan's liabilities. This is achieved by investing in a range of pooled investment funds as outlined in the table above, with the allocation to each fund determined by a combination of the following: the nature of the plan's liability structure, the target level of hedging deemed appropriate to reflect the Trustee's risk tolerance and a 'fair value' assessment of market levels. Some of these funds achieve their objectives by utilising a range of bond or bond type instruments, resulting in leveraged exposure which enables the plan to match a greater proportion of its liabilities than would be possible by only holding physical securities.

Instruments utilised within the funds include fixed interest gilts, index-linked gilts, corporate bonds, gilt repos, interest rate swaps, inflation swaps and total return swaps.

The plan does not hold any direct investments in the Group; however, due to the pooled nature of the investment funds, there may be some indirect investment.

The duration of the defined benefit liabilities within the Inmarsat Global defined benefit plan is approximately 21 years. The defined benefit obligation as at December 2018 is split as follows:

| | |
|---|---|
| Active members | 0% (following the closure of the plan to future accrual effective 1 April 2017, all former active members have become deferred members) |
| Deferred members | 81% |
| Pensioner members | 19% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The average age of the deferred and pensioner members at the date of the last statutory funding valuation for the Inmarsat Global defined benefit plan (31 December 2018) was 56 years and 69 years, respectively.

The estimated contributions expected to be paid into the Inmarsat Global defined benefit pension plan during 2019 are $0.5m. In 2018 actual contributions under this plan were $nil (2017: $0.2m).

## 29. OPERATING LEASES

During the year the Group received income from various agreements deriving revenue from leased equipment. 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.

| ($ in millions) | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Within one year | 20.0 | 28.7 |
| Within two to five years | 33.5 | 18.7 |
| | 53.5 | 47.4 |

## 30. CAPITAL RISK MANAGEMENT

The following table summarises the capital of the Group:

| ($ in millions) | At 31 December 2018 | At 31 December 2017 (restated) |
|---|---|---|
| As per balance sheet | | |
| Cash and cash equivalents | (138.3) | (143.2) |
| Short-term deposits greater than three months | (145.7) | (342.0) |
| Borrowings | 1,896.1 | 2,448.5 |
| Net borrowings | 1,612.1 | 1,963.3 |
| Equity attributable to shareholders of the parent | 1,841.7 | 1,513.5 |
| Capital | 3,453.8 | 3,476.8 |

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 borrowings to EBITDA ratio for the year ended 31 December 2018 is 2.1 (2017: 2.7). 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 during the current or preceding year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 31. FINANCIAL INSTRUMENTS

### TREASURY MANAGEMENT AND STRATEGY

The Group's treasury activities are managed by its treasury department which reports into the Chief Financial Officer. The treasury department operations are bound by the Board-approved treasury policy and related treasury operating manual. 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 and
- maximising return on short-term investments based on counterparty limits and credit ratings

Treasury activities are only transacted with counterparties who are on the approved counterparty list approved by the Board.

The Group's foreign exchange policy is not to hedge its 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 and must be approved by the Chief Financial Officer prior to any hedge being undertaken.

### FINANCIAL INSTRUMENTS BY CATEGORY

The following table sets out the categorisation of financial assets and liabilities under IFRS 9:

| | At 31 December 2018 | | | | At 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ in millions) | Amortised cost | Fair value through profit and loss | Derivatives used for hedging | Total | Amortised cost | Fair value through profit and loss | Derivatives used for hedging | Total |
| Assets as per balance sheet | | | | | | | | |
| Trade receivables and other[1] | 380.0 | – | – | 380.0 | 302.5 | – | – | 302.5 |
| Cash and cash equivalents | – | 138.3 | – | 138.3 | – | 143.2 | – | 143.2 |
| Short term deposits | – | 145.7 | – | 145.7 | – | 342.0 | – | 342.0 |
| Derivative financial instruments | – | – | 0.3 | 0.3 | – | – | 1.5 | 1.5 |
| | 380.0 | 284.0 | 0.3 | 664.3 | 302.5 | 485.2 | 1.5 | 789.2 |

1 Consists of trade receivables, other receivables and accrued income (see note 18)

| | At 31 December 2018 | | | | At 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ in millions) | Amortised cost | Fair value through profit and loss | Derivatives used for hedging | Total | Amortised cost | Fair value through profit and loss | Derivatives used for hedging | Total |
| Liabilities as per balance sheet | | | | | | | | |
| Borrowings | 1,896.1 | – | – | 1,896.1 | 2,448.5 | – | – | 2,448.5 |
| Trade payables and other[1] | 468.6 | – | – | 468.6 | 316.1 | – | – | 316.1 |
| Derivative financial instruments | – | – | 4.0 | 4.0 | – | – | 10.0 | 10.0 |
| | 2,364.7 | 0.0 | 4.0 | 2,368.7 | 2764.6 | – | 10.0 | 2,774.6 |

1 Consists of trade payables, other payables and accruals (see note 21)

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.

| | At 31 December 2018 | | | | |
|---|---|---|---|---|---|
| ($ in millions) | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
| Borrowings[1] | 210.2 | 206.9 | 1,423.6 | 426.3 | 2,267.0 |
| Trade payables and other | 466.2 | 0.3 | 0.6 | 1.5 | 468.6 |
| Derivative financial instruments | 2.4 | 1.5 | 0.1 | – | 4.0 |
| | 678.8 | 208.7 | 1,424.3 | 427.8 | 2,739.6 |

1 Includes interest obligations on the Senior Notes due 2022 and 2024 and Ex-Im Bank Facilities. The interest obligations on those borrowings are at fixed rates for the term of the borrowing

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

| | At 31 December 2017 | | | | |
|---|---|---|---|---|---|
| ($ in millions) | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
| Borrowings[1] | 652.4 | 208.7 | 1,558.4 | 494.3 | 2,913.8 |
| Trade payables and other | 309.4 | 1.7 | 3.5 | 1.5 | 316.1 |
| Derivative financial instruments | 7.9 | 1.9 | 0.2 | – | 10.0 |
| | 969.7 | 212.3 | 1,562.1 | 495.8 | 3,239.9 |

1 Includes interest obligations on the Senior Notes due 2022 and 2024 and Ex-Im Bank Facilities. The interest obligations on those borrowings are at fixed rates for the term of the borrowing

## FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments consist of forward foreign currency contracts which are primarily designated as cash flow hedges.

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

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

The fair values at the balance sheet date were:

| ($ in millions) | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Financial assets: | | |
| Forward foreign currency contracts – designated cash flow hedges | 0.3 | 1.5 |
| Forward foreign currency contracts – undesignated | – | – |
| Total derivative financial assets | 0.3 | 1.5 |
| Current portion of derivative financial assets | 0.3 | 1.2 |
| Non-current portion of derivative financial assets | – | 0.3 |
| Financial liabilities: | | |
| Forward foreign currency contracts – designated cash flow hedges | 3.4 | 9.9 |
| Forward foreign currency contracts – undesignated | 0.6 | 0.1 |
| Total derivative financial liabilities | 4.0 | 10.0 |
| Current portion of derivative financial liabilities | 2.4 | 7.9 |
| Non-current portion of derivative financial liabilities | 1.6 | 2.1 |

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 values of forward foreign exchange contracts are based on the difference between the contract amount at the current forward rate at each period end and the contract amount at the contract rate, discounted at a variable risk-free rate at the period end.

The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs, ie 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.

## FORWARD FOREIGN EXCHANGE

The following tables set out the face value and fair value of forward foreign exchange contracts outstanding for the Group as at 31 December 2018 and 2017:

| | At 31 December 2018 | | | | |
|---|---|---|---|---|---|
| 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- USD:GBP[1] 1:0.73 | £24.0 | £20.1 | £3.3 | £0.6 | (1.8) |
| CAD contracts- USD:CAD[1] 1:1.30 | CAD 12.0 | CAD 9.0 | CAD 3.0 | CAD 0.0 | (0.3) |

1 Weighted Average Foreign Exchange Rate

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

| | At 31 December 2017 | | | | |
|---|---|---|---|---|---|
| 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- USD:GBP[1] 1:0.70 | £105.2 | £87.6 | £13.7 | £3.8 | (9.0) |
| CAD contracts- USD:CAD[1] 1:1.30 | CAD 30.9 | CAD 20.1 | CAD 7.8 | CAD 3.0 | 0.9 |

1 Weighted Average Foreign Exchange Rate

The Group has entered into contracts to build the I-6 satellite. The Group has entered into forward foreign exchange contracts (for terms equivalent to when the milestone payments fall due) to hedge the exchange rate risk arising from these anticipated milestone payments, which are designated as cash flow hedges.

As at 31 December 2018, the aggregate amount of losses under forward foreign exchange contracts deferred in the cash flow hedging reserve relating to the exposure on these payments is $4.0m. The milestone payments will take place at irregular periods throughout each year until 2021, at which time the related cash flow hedges deferred in equity will be transferred and included in the initial carrying value of the hedged non-financial assets.

Hedge ineffectiveness can arise from changes in both the creditworthiness of counterparties hedged with and the credit risk of the Group. The hedge ineffectiveness for 2018 was less than $0.1m (2017: nil).

### NON-DERIVATIVE FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Non-derivative financial assets consist of cash at bank, short-term investments, trade receivables, other receivables and accrued income.

Non-derivative financial liabilities consist of borrowings, trade payables, other payables and accruals.

### FAIR VALUE OF NON-DERIVATIVE FINANCIAL ASSETS AND FINANCIAL LIABILITIES

With the exception of the Senior Notes and the Ex-Im Bank Facilities, the fair values of all non-derivative financial instruments approximate to the carrying value in the balance sheet. The fair value of Senior Notes and Ex-Im Bank Facilities are classified as level 2 in the fair value hierarchy according to IFRS 13.

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 17)
- the fair value of trade and other receivables and payables (including related party balances), accrued income and costs, and deferred consideration approximate their carrying values (see notes 18 and 21 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 20)
- the Senior Notes due 2022 are reflected in the balance sheet net of unamortised arrangement costs and net issuance premium of $3.9m and $3.4m, respectively (see note 20). The fair values of the Senior Notes due 2022 are based on the market price of the bonds and are reflected in the next table
- the Senior Notes due 2024 are reflected in the balance sheet net of unamortised arrangement costs of $4.2m (see note 20). The fair values of the Senior Notes due 2024 are based on the market price of the bonds and are reflected in the next table
- the Ex-Im Bank Facilities are reflected in the balance sheet net of unamortised arrangement costs of $6.5m (2017: $14.9m). The fair value of the 2011 facility has been based on the implicit interest rate of the 2014 facility (see note 20)

| | At 31 December 2018 | | At 31 December 2017 | |
|---|---|---|---|---|
| ($ in millions) | Carrying amount[1] | Fair value amount | Carrying amount | Fair value amount |
| Senior Notes due 2022 | 1,000.0 | 945.6 | 1,000.0 | 1,000.8 |
| Senior Notes due 2024 | 400.0 | 382.1 | 400.0 | 408.1 |
| Ex-Im Bank Facilities | 508.7 | 508.9 | 630.9 | 639.7 |

1 Gross of unamortised arrangement cost

## 32. CAPITAL AND PURCHASE COMMITMENTS

The Group had authorised and contracted but not provided for capital commitments as at 31 December 2018 of $492.5m (2017: $968.0m). These amounts primarily represent commitments in respect of the Group's I-6 satellite programmes. The Group has not reported the split between tangible assets and intangible assets for these capital commitments, as the necessary information is not available and the cost to develop it would be excessive.

In addition, the Group has the following purchase commitments, relating to future obligations to purchase space segment capacity:

| ($ in millions) | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Within one year | 14.0 | 24.7 |
| Within two to five years | 1.7 | 11.5 |
| | 15.7 | 36.2 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 33. CONTINGENT ASSETS AND LIABILITIES

### CONTINGENT ASSETS

In respect of the ongoing legal dispute surrounding the provision of services to RigNet, the Phase I ruling by the Centre for Dispute Resolution's Arbitration tribunal was in favour of the Group. This concluded that the Group is owed $50.8m by RigNet. This is an interim ruling and RigNet is not required to pay until the tribunal's Phase II ruling has taken place towards the end of 2019. This asset has not been recognised during the financial year as its receipt is not virtually certain and the amount is dependent on the outcome of the Phase II ruling.

### CONTINGENT LIABILITIES

In the ordinary course of business, the Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards. Failure to comply could result in restrictions in operations, damages, fines, increased tax, increased cost of compliance, interest charges, reputational damage and other sanctions. These matters are inherently difficult to quantify.

In cases where the Group has an obligation as a result of a past event existing at the balance sheet date, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated, a provision will be recognised based on best estimates and management judgement.

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events, or where the amount of the obligation cannot be measured with reasonable reliability. At 31 December 2018, the Group had no material contingent liabilities.

## 34. EVENTS AFTER THE BALANCE SHEET DATE

Since the balance sheet date there have been no other significant events which would require disclosure in the 31 December 2018 financial statements.

## 35. RELATED PARTY TRANSACTIONS

In the normal course of operations the Group engages in transactions with its equity-owned investees Navarino UK 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 2018 financial year was $39.7m and $15.6m, respectively (2017: $38.1m and $16.9m, respectively). The amount receivable from the related parties at 31 December 2018 was $17.2m and $1.7m, respectively (2017: $12.6m and $1.7m, respectively).

The post-employment benefits and defined benefit pension plans are related parties (see note 28).

The table below sets out transactions with related parties, being fellow subsidiaries of the Group.

| ($ in millions) | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Transactions with Inmarsat plc: | | |
| Related party interest income | 1.0 | 0.2 |
| Related party interest expense | (11.4) | (19.4) |
| Related party management fee expense | (8.6) | (9.4) |

| ($ in millions) | At 31 December 2018 | At 31 December 2017 |
|---|---|---|
| Outstanding balances with Inmarsat plc: | | |
| Amounts due to fellow Group company | (15.3) | (438.0) |
| Amounts due from fellow Group company | 35.4 | 20.3 |
| Outstanding balances with Inmarsat Holdings Limited: | | |
| Amounts due to fellow Group company | (227.4) | - |
| Amounts due from fellow Group company | 6.8 | 6.8 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 36. PRINCIPAL SUBSIDIARY UNDERTAKINGS

At 31 December 2018, the Company had investments in the following subsidiaries and associates:

| | Principal activity | Country of incorporation/ registered address key[1] | Interest in issued ordinary share capital at 31 December 2018 | Interest in issued ordinary share capital at 31 December 2017 |
|---|---|---|---|---|
| Inmarsat Group Limited | Holding company | England and Wales/A | 100% | 100% |
| Inmarsat Finance PLC | Finance company | England and Wales/A | 100% | 100% |
| Inmarsat Investments Limited | Holding company | England and Wales/A | 100% | 100% |
| Inmarsat Ventures SE | Operating company | England and Wales /A | 100% | 100% |
| Inmarsat Global Limited | Satellite telecommunications | England and Wales/A | 100% | 100% |
| ISAT Global Xpress OOO | Operating company | Russian Federation/X | 100% | 100% |
| Inmarsat Brasil Eireli | Dormant | Brazil/H | 100% | 100% |
| Inmarsat Leasing (Two) Limited | Satellite leasing | England and Wales/A | 100% | 100% |
| Inmarsat New Zealand Limited | Operating company | New Zealand/U | 100% | 100% |
| Inmarsat Services Limited | Operating company | England and Wales/A | 100% | 100% |
| PT ISAT | Operating company | Indonesia/Q | 100% | 100% |
| Inmarsat Communications Company LLC | Operating company | United Arab Emirates/AC | 49% | 49% |
| Inmarsat Group Holdings Inc. | Operating company | United States/C | 100% | 100% |
| ISAT US Inc. | Operating company | United States/C | 100% | 100% |
| Inmarsat Government Inc. | Operating company | United States/D | 100% | 100% |
| Stratos Government Services Inc. | Operating company | United States/D | 100% | 100% |
| Inmarsat Commercial Services Inc. | Operating company | United States/D | 100% | 100% |
| Inmarsat Solutions (US) Inc. | Operating company | United States/D | 100% | 100% |
| Inmarsat Inc. | Holding company | United States/D | 100% | 100% |
| Inmarsat US Investments Limited | Dormant | England and Wales/A | 100% | 100% |
| Europasat Limited | Operating company | England and Wales/A | 100% | 100% |
| Inmarsat Employment Company Limited | Employment company | Jersey/T | 100% | 100% |
| Inmarsat Trustee Company Limited | Dormant | England and Wales/A | 100% | 100% |
| Inmarsat Finance III Limited | Operating company | England and Wales/A | 100% | 100% |
| Inmarsat Solutions Limited | Holding company | England and Wales/A | 100% | 100% |
| Inmarsat Solutions (Canada) Inc. | Operating company | Canada/B | 100% | 100% |
| Stratos Holdings (Cyprus) Limited | Holding company | Cyprus/K | 100% | 100% |
| Inmarsat Germany (GmBH) | Operating company | Germany/L | 100% | 100% |
| Stratos Global Japan KK | Holding company | Japan/S | 100% | 100% |
| Stratos Investments BV | Holding company | The Netherlands/V | 100% | 100% |
| Inmarsat Solutions B.V. | Operating company | The Netherlands/V | 100% | 100% |
| Inmarsat Solutions SA (PTY) Limited | Operating company | South Africa/Z | 90% | 90% |
| Inmarsat Spain S.A. | Operating company | Spain/AA | 100% | 100% |
| Inmarsat Hong Kong Limited | Operating company | Hong Kong/N | 100% | 100% |
| Inmarsat (IP) Company Limited | Dormant | England and Wales/A | 100% | 100% |
| Inmarsat Hellas Satellite Services SA | Satellite telecommunications | Greece/M | 100% | 100% |
| Inmarsat Navigation Ventures Limited | Operating company | England and Wales/A | 100% | 100% |
| Inmarsat Global Xpress Limited | Operating company | England and Wales/A | 100% | 100% |
| Inmarsat SA | Operating company | Switzerland/AB | 100% | 100% |
| Inmarsat Solutions Global Limited | Operating company | England and Wales/A | 100% | 100% |
| Inmarsat Solutions AS | Operating company | Norway/W | 100% | 100% |
| Inmarsat Solutions Pte. Limited | Operating company | Singapore/Y | 100% | 100% |
| Inmarsat Solutions ehf. | Operating company | Iceland/O | 51% | 51% |
| Inmarsat Australia Pty Limited | Operating company | Australia/F | 100% | 100% |
| Inmarsat KK | Operating company | Japan/S | 100% | 100% |
| Inmarsat Solutions (Shanghai) Co. Limited | Operating company | China/J | 100% | 100% |
| Inmarsat India Private Limited | Operating company | India/P | 100% | 100% |
| Inmarsat Licences (Canada) Inc. | Holding company | Canada/B | 100% | 100% |
| Flysurfer Colombia S.A.S. | Operating company | Columbia/I | 100% | 100% |
| Flysurfer Peru S.A.C. | Operating company | Peru/R | 100% | 100% |
| Inmarsat New Ventures Limited | Operating company | England and Wales/A | 100% | – |
| Flysurfer-Ecuador S.A. | Operating company | Ecuador/AE | 100% | – |
| Inmarsat Satellite Services S.R.L. | Operating company | Romania/AF | 100% | – |
| Inmarsat BH d.o.o. | Operating company | Bosnia and Herzegovina/AG | 100% | – |
| Inmarsat Solutions doo Beograd | Operating company | Serbia/AH | 100% | – |
| Inmarsat DOOEL Skopje | Operating company | Macedonia/E | 100% | – |
| Navarino UK Limited | Associate | England and Wales/AD | 49% | 49% |
| JSAT Mobile Communications Inc. | Associate | Japan/G | 26.67% | 26.67% |

1 For the list of registered addresses please refer to the next table

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

In accordance with s479A of the Companies Act 2006, the following companies are exempt from the requirements relating to the audit of individual accounts for the year ended 31 December 2018: Inmarsat Trustee Company Limited (03688399), Inmarsat (IP) Company Limited (03930467) and Inmarsat US Investments Limited (07100989).

## REGISTERED ADDRESS KEY

| Key | Registered Address |
|---|---|
| A | 99 City Road, London EC1Y 1AX, United Kingdom |
| B | 34 Glencoe Drive, Box 5754, Donovan's Bus. Park, Mount Pearl Newfoundland A1N 4S8, Canada |
| C | 874 Walker Road, Suite C, City of Dover DE 19904, United States |
| D | 251 Little Falls Drive, Wilmington DE 19808, United States |
| E | Str. Risto Ravanovski no 13a, Skopje, Republic of Macedonia, Macedonia, the former Yugoslav Republic of |
| F | Level 40, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000, Australia |
| G | Nisso Building #22 8F, Azabudai1-11-10, Minato-ku, Tokyo 106-0041, Japan |
| H | Av Presidente Juscelino Kubitschek 50, Suite 172, Room 7, 17th Floor, São Paulo, CEP 04543-000, Brazil |
| I | Cra. 7 No. 71-52 Tower B 9th Floor, Bogota, DC, Colombia 110231 |
| J | No 20–4 Ronghui Park, Yuhua Road, Area B, Tianzhu Airport Industrial Zone, Shanyi District Beijing, China |
| K | 1, Lampousas, Nicosia, 1095, Cyprus |
| L | Aarberger Strasse 18, 12205, Berlin, Germany |
| M | 280 Kifisias Avenue, Halandri, 152 32, Greece |
| N | Suit B, 12th Floor, Two Chinachem Plaza, 135 Des Voeux Road Central, Hong Kong |
| O | Hlíðarsmára 10, 201 Kópavogi |
| P | P-24, Green Park Extension, Delhi. 110016. India |
| Q | Panbil Residence 1st – 2nd Floor, Jl. Ahmad Yani, Muka Kuning – Batam – 29433, Indonesia |
| R | Dentons Gallo Barrios Pickmann SCRL, General Córdova N° 313, Miraflores – Lima 18, Perú |
| S | Level 25 Ark Hills Sengokuyama Mori Tower, 1-9-10, Roppongi, Minato-ku, Tokyo, 106-0032, Japan |
| T | 44 Esplanade, St. Helier, Jersey JE4 9WG, Jersey |
| U | Bell Gully, Lvl 22, Vero Centre, 48 Shortland Street, Auckland, 1010, New Zealand |
| V | Loire 158-160, 2491 AL, The Hague, Netherlands |
| W | NMK – Borgundveien 340, 6009 Ålesund, Norway |
| X | Bld. 5, 13 Kasatkina Street, 129301, Moscow, Russian Federation |
| Y | 11 Lorong 3 Toa Payoh , #01-31, Jackson Square, 319579, Singapore |
| Z | Deloitte Place, The Woodlands, 20 Woodlands Drive, Woodmead, Sandton, Johannesburg, Gauteng, South Africa, 2052 |
| AA | Príncipe de Vergara 73, 28006, Madrid, Spain |
| AB | Route de Crassier 19, 1262, Eysins, Switzerland |
| AC | Al Maktoum Street, Al Reem Tower, Suite 402, P.O. Box 27313, Dubai, UAE, United Arab Emirates |
| AD | Camburgh House, 27 New Dover Road, Canterbury, Kent CT1 3DN, United Kingdom |
| AE | Republica de El Salvador N35-146 y Suecia, Edif. Prisma Norte, Piso 11, Quito, C.P. 170505, Ecuador |
| AF | 22 Tudor Vladimirescu Biv., Building Green Gate Office, Bucharest, 5th Floor 573Campus07, Sector, Bucharest, Romania |
| AG | Street Skenderpasina 1, Sarajevo, Bosnia and Herzegovina |
| AH | GTC Avenue 19, 38-40 Vladimira Popovica Street, New Belgrade, Servia, 11070, Serbia |

# COMPANY BALANCE SHEET

at 31 December 2018

| ($ in millions) | 2018 | 2017 |
|---|---|---|
| Assets | | |
| Non-current assets | | |
| Investments[1] | 1,444.8 | 1,003.7 |
| | 1,444.8 | 1,003.7 |
| Current Assets | | |
| Other receivables | 215.3 | - |
| | 215.3 | - |
| Current Liabilities | | |
| Other payables | 215.3 | - |
| | 215.3 | - |
| Net Assets | 1,444.8 | 1,003.7 |
| Shareholders' equity | | |
| Ordinary shares | 0.4 | 0.4 |
| Share premium | 1,118.6 | 677.5 |
| Capital contribution reserve | 325.7 | 325.7 |
| Retained earnings | 0.1 | 0.1 |
| Total equity | 1,444.8 | 1,003.7 |

1 Investments consist of a $1,444.7m investment in Inmarsat Investments Limited (2017: $1,003.6m) and a $0.1m investment in Inmarsat Finance plc (2017: $0.1m)

The Company reported a profit for the financial year ended 31 December 2018 of $312.0m (2017: $280.0m).

The financial statements of the Company, registered number 4886115, on pages 50 to 51 were approved by the Board of Directors on 22 March 2019 and signed on its behalf by:

**TONY BATES**
DIRECTOR

# COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

| ($ in millions) | Ordinary share capital | Share premium account | Capital contribution reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| Balance at 1 January 2017 | 0.4 | 677.5 | 325.7 | 0.1 | 1,003.7 |
| Dividends declared | – | – | – | 280.0 | 280.0 |
| Profit for the year | – | – | – | (280.0) | (280.0) |
| Balance at 31 December 2017 | 0.4 | 677.5 | 325.7 | 0.1 | 1,003.7 |
| Dividends declared | – | – | - | 312.0 | 312.0 |
| Issue of share capital | – | 441.1 | - | - | 441.1 |
| Profit for the year | – | – | – | (312.0) | (312.0) |
| Balance at 31 December 2018 | 0.4 | 1,118.6 | 325.7 | 0.1 | 1,444.8 |

## A) PRINCIPAL ACCOUNTING POLICIES

### BASIS OF ACCOUNTING

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council ('FRC'). Accordingly, the Company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, the reconciliation of net cash from operations, capital management, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions, share based payments and financial instruments. Where required, equivalent disclosures have been given in the group accounts of Inmarsat plc.

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.

## B) CRITICAL ACCOUNTING ESTIMATES AND KEY JUDGEMENTS

The critical accounting estimates and key judgements, where relevant to the Company, are consistent with those of the consolidated Group as set out in note 4 to the consolidated financial statements.

## C) 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 2018 was $312.0m (2017: $280.0m).

### AUDITOR'S REMUNERATION

The audit fee of $2,000 was paid by a company within the Inmarsat Group in both the current and preceding year (2017: $2,000). There were no non-audit services provided in the year.

### 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 statements.

### SHARE CAPITAL

The share capital of the Company is disclosed in note 25 to the Group's consolidated financial statements.

## D) FINANCIAL INSTRUMENTS

The IFRS 7, 'Financial Instruments' disclosures, where relevant to the Company, are consistent with that of the Group as set out in note 30 to the consolidated financial statements.

The differences between the Group and the Company in relation to intercompany balances are $215.4m (2017: nil) amounts due from Group companies and $215.4m (2017: nil) amounts due to Group companies, which eliminate on consolidation. The Directors consider the carrying value of the intercompany balances to approximate to their fair value. The Group has assessed the intercompany receivables under the IFRS 9 expected credit loss model and no impairment losses have been recognised.

# ADDITIONAL INFORMATION

## ALTERNATIVE PERFORMANCE MEASURES

The Directors use APMs to better understand the underlying financial performance of the Group and to provide comparability of information between reporting periods and business units. The measures are also used in discussions with the investment analyst community and the credit rating agencies. Given that APMs are not defined by International Financial Reporting Standards they may not be directly comparable with other companies who use similar measures. APMs used in these financial statements are:

| APM | Description and Reconciliation |
|---|---|
| 1. EBITDA | EBITDA is defined as profit for the year before net financing costs, taxation, depreciation and amortisation, gains/losses on disposal of assets, impairment losses and share of profit of associates. EBITDA is a commonly used industry measure which helps investors to understand the contribution made by each of our business units. It reflects how the effect of growing revenues and cost management deliver value for our shareholders. This measure has been reconciled to both operating profit and profit after tax on page 7. |

1 2018 APMs include the impact of IFRS16 and therefore may not be directly comparable