inmarsat

# Inmarsat plc reports Interim Results 2017

## Revenue and EBITDA growth

London, UK: 3 August 2017. Inmarsat plc (LSE: ISAT.L), ("Inmarsat", the "Group"), the leading provider of global mobile satellite communications services, today provided the following unaudited information for the half year and second quarter ended 30 June 2017.

### Financial Headlines – H1 and Q2 2017

| $ in millions | Second Quarter | | | | First Half | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change ($m) | Change (%) | 2017 | 2016 | Change ($m) | Change (%) |
| **Group revenue** | **356.0** | **330.4** | **25.6** | **7.7%** | **688.2** | **629.0** | **59.2** | **9.4%** |
| Maritime | 139.3 | 146.6 | (7.3) | (5.0)% | 278.4 | 289.7 | (11.3) | (3.9)% |
| Government | 101.5 | 72.0 | 29.5 | 41.0% | 187.5 | 140.7 | 46.8 | 33.3% |
| Aviation | 45.9 | 33.4 | 12.5 | 37.4% | 90.1 | 64.6 | 25.5 | 39.5% |
| Enterprise | 32.9 | 38.5 | (5.6) | (14.5)% | 62.3 | 72.5 | (10.2) | (14.1)% |
| Other[1] | 36.4 | 39.9 | (3.5) | (8.8)% | 69.9 | 61.5 | 8.4 | 13.7% |
| **EBITDA**[2] | **195.0** | **202.2** | **(7.2)** | **(3.6)%** | **376.5** | **368.4** | **8.1** | **2.2%** |
| Adjusted PAT[3] | 57.6 | 76.8 | (19.2) | (25.0)% | 109.8 | 122.4 | (12.6) | (10.3)% |
| Statutory PAT[3] | 43.7 | 76.8 | (33.1) | (43.1)% | 37.6 | 122.4 | (84.8) | (69.3)% |

### Performance Highlights – H1 2017

- **Revenues up 9.4%,** in spite of still challenging markets, driven by Government, Aviation and Global Xpress ("GX"):
  - **Maritime:** against a tough comparator in Q2 2017, strong growth in higher bandwidth services, resilient L-band revenues, and legacy product continuing to decline, as anticipated, with further improved revenue mix expected in H2 2017
  - **Government:** continued outperformance, reflecting material new business win, particularly impacting Q2, first CSSC revenue, increased Boeing revenue & higher operational tempo
  - **Aviation:** sustained double digit revenue growth in Core business and further positive momentum in In-Flight Connectivity ("IFC"), with Avianca and Qatar Airways contract wins, bringing total aircraft expected under signed contracts to 1,200, and service with Deutsche Lufthansa Group going live
  - **Enterprise:** growth in M2M but continuing difficult markets otherwise
  - **Ligado:** revenues up $9.3m to $62.7m, reflecting exercise of 30MHz option in March 2016
  - **GX** revenues of $59.9m in H1 2017, including $27.8m in Q2 2017
- **EBITDA**[2] **up 2.2%,** reflecting growth in revenues, continued investment in Aviation IFC market capture and higher operational delivery costs (which will continue through H2 2017)
- **Successful launches** of Inmarsat-5 F4 and Inmarsat-S EAN satellites, build of 5th GX satellite announced and European Aviation Network ("EAN") on track for commercial deployment in Q4 2017
- **Outlook** and future guidance remain unchanged
- **Interim dividend** increased by 5% to 21.62 cents per share (2016: 20.59 cents per share)

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[1] "Other" revenue comprises revenue contribution from Central Services and Ligado Networks.

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

[3] Adjusted PAT is defined as Profit after Tax excluding the non-cash impact of an unrealised increase in the fair value of the conversion liability component of the convertible bond, shown in the net financing charge of $72.2m in H1 2017 (2016: nil). Statutory PAT includes this impact.

**Rupert Pearce, Chief Executive Officer, commented:**

"With our on-going focus on operational execution, Inmarsat has continued to move forward in 2017, building on a strong performance towards the end of last year, despite on-going challenging markets.

In the Maritime market, Fleet Xpress is rapidly becoming a compelling product for our customers, establishing itself with fast-growing revenues from both our direct sales channel and through our distribution partners. During this period, we have added more key distributors, which has increased the number of committed ships to Fleet Xpress to over 10,000, and driven the pace of net installations to 266 ships per quarter during the first half (compared to an average of 136 VSAT ship additions per quarter during 2016). The expected future escalation in take-up of Fleet Xpress provides our Maritime business with a strong foundation for future growth. FleetBroadband remains a solid performer, despite the expected continued ARPU-accretive migration of customers to Fleet Xpress, and we continue to see further market development opportunities, for example from our recently launched Fleet One product in the sizeable, and largely untapped, small vessel market.

Our Government business continued to outperform against the competition. In the US, our partnership with Boeing continued to deliver material GX revenues. We also saw new contributions both from the CSSC contract, which we won last year, and a number of other confidential new contracts, one of which materially impacted the second quarter. Our successful participation in the FirstNet contract award, announced during the period, is another positive sign of our growing presence in the US market, but the contract will have no impact on our 2017 results. Outside the US, with the benefit of higher operational tempo, and further contract wins, we have sustained our business despite tough markets.

Our core Aviation business (Business and General Aviation ("BGA") and Safety and Operational Services "SOS")) delivered further solid growth over both quarters, with both ARPU and customer numbers rising. We continue to put in place the foundations for further growth, having achieved line-fit certification with all four of the leading manufacturers of business jets and installed 64 terminals for JetConneX, our GX product for BGA, by the end of the period.

In IFC, we signed further contracts for GX connectivity services during the period, in particular with Qatar Airways in the Middle East and Avianca in Latin America and now have over 1,200 aircraft expected under signed IFC contracts. Discussions continue with many other airlines, whose fleets' aggregate connectivity requirements are of around 3,000 aircraft. The installation programme with Deutsche Lufthansa Group continues, bringing the number of installations to 101 aircraft, up from 65 at the end of the first quarter.

Whilst revenue in our legacy Enterprise business declined in H1 2017, it remains a business area with strong medium to long term growth potential, both in the Energy segment with GX and, with next generation L-band services, in the emerging "Internet of Things" markets, such as transportation, e-logistics, agriculture, smart cities and mining & construction.

In the first half we successfully delivered two important satellite launches. In May, a 4$^{th}$ GX satellite, Inmarsat-5 F4, was launched to provide in-orbit redundancy and additional capacity for our global GX network. Then, in June, the Inmarsat-S EAN satellite was launched to provide one of the foundations of the European Aviation Network, which remains on track to be commercially deployed towards the end of this year. Following the award to Inmarsat of the Qatar Airways IFC contract, we also announced the design and build of our 5$^{th}$ GX satellite, which is expected to be launched during 2019, to enhance and supplement our existing global network.

We have also continued to build out the ground infrastructure and operational capability to support both GX and our evolving businesses. We are investing in our organisational infrastructure, cyber capabilities and our IT systems and processes to ensure that we have the sound foundations to support our demanding growth agenda.

Our robust performance in the first half of 2017 validates Inmarsat's powerful position as the leading operator in global mobility markets, our operational and commercial strength, the uniqueness of our connectivity offerings and our continued success in commercialising our technology to service the requirements of our customers. We will continue to build on these strong foundations, supported by further investment into our organisational capabilities, using GX and the EAN to drive into new satellite broadband markets and to reposition our core L-band network for next generation opportunities."

**Outlook & future guidance**

We remain confident about the medium to long term outlook for Inmarsat. However, whilst we have delivered a robust performance in recent quarters, our markets remain challenging and the outlook continues to be difficult to predict. Inmarsat's performance in 2017 and 2018 will continue to be particularly determined by our results in the IFC market and in the Government sector, as we outlined at our 2016 preliminary results in March 2017.

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

- 2017 revenue, excluding Ligado, of $1,200m to $1,300m;
- 2018 revenue, excluding Ligado, of $1,300m to $1,500m, including a contribution from I-5 F4;
- Capex at $500m to $600m per annum for each of 2017 and 2018;
- Annual GX revenues at a run rate of $500m by the end of 2020; and
- Leverage (Net debt: EBITDA) to normally remain below 3.5x, compared to 2.5x as at 30 June 2017.

As previously highlighted, going forward, the Group's EBITDA margin will be adversely impacted by the inclusion of additional lower margin service revenues related to IFC, by the cost of investment in IFC market capture and by higher central operational delivery costs.

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

**Results presentation**

Inmarsat management will discuss the first half results in a presentation on Thursday 3 August at 08.30 London time at the company's offices at 99 City Road, London, EC1Y 1AX. The presentation can be accessed by dialling +44(0) 20 3427 1908 (from the UK and Europe) or +1 646 254 3365 (from the US), with a passcode of 9115927. A web-cast of the presentation can be accessed via our website: www.inmarsat.com.

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**Forward looking Statements**

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

**Other Information**

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

## OPERATING AND FINANCIAL REVIEW OF H1 & Q2 2017 RESULTS

*The following is a discussion of the unaudited consolidated results of the operations and financial condition of Inmarsat plc (the "Company" or, together with its subsidiaries, the "Group") for the half year ended 30 June 2017. This should be reviewed together with the whole of this document including the historical consolidated financial results and the notes. The consolidated financial results were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. In addition to IFRS measures, we use a number of non-IFRS measures in order to provide readers with a better understanding of the underlying performance of our business, and to improve comparability of our results for the periods concerned. All discussion of results relates to the half year ended 30 June 2017, and all comparisons are with the half year ended 30 June 2016, unless stated otherwise.*

### Market Context

The structural change which continues to impact satellite communications is expected to remain a key feature of our industry for the foreseeable future, driven by significant potential investment from existing operators, as well as new players, opening up new market opportunities in our sector in the years to come.

On the demand side, end user requirements continue to evolve, driven by an ever-increasing thirst for data, ubiquitous connectivity needs and high bandwidth services. In the longer term, the rise of a digital society, powered by applications to support the "Internet of Things", will create sizeable new addressable markets which will need satellite communications and technology as an essential piece of the overall solution, and create a shift in our industry towards managed services and solutions.

From a supply perspective, the risk of over-capacity remains, driven by the planned launch of large, potentially disruptive, High-Throughput Satellites in the coming years. However, this risk continues to be relevant only in certain geographies and for specific technologies, particularly related to fixed satellite operations. We believe that mobile satellite operations are relatively well insulated from this threat, with some specific niche applications likely to be impacted. In fact, there is likely to be a requirement for more usable capacity in certain mobility markets, which are particularly focused on areas of higher demand, for example around key routes and hubs in Aviation.

Despite an increasingly competitive environment in mobility, as fixed operators look to retrofit their models, networks and propositions for mobility utilisation, we believe the supply and demand dynamics of our industry present a significant growth opportunity for Inmarsat, as the leading provider of global mobility services, as we drive into new satellite mobile broadband markets in the future.

### Progress on GX

During the first half of 2017, we made progress in accessing this opportunity, by continuing to commercialise our technology, supported in particular by our on-going efforts to optimise our GX platform.

GX generated airtime and related revenue of $59.9m during the first half of the year, from an increasingly diversified customer base. In partnership with SpaceX, we successfully launched our fourth spacecraft, Inmarsat-5 F4, to provide in-orbit redundancy for our global GX network and additional capacity to deploy into new regional growth opportunities. Inmarsat-5 F4 will initially be positioned over Europe, the Middle East and the Indian Sub-Continent, to support our customers in those regions, but is expected to have subsequent missions thereafter.

During the period, we also announced the design and build of a 5$^{th}$ GX satellite for a total investment of around $200m, including launch and insurance costs, adding depth in capacity to service areas of higher demand, in particular aviation routes in support of our customers' IFC requirements.

## Financial Highlights & Summary

### Half Year ended 30 June

| ($ in millions) | Maritime H1 2017 | Government H1 2017 | Aviation H1 2017 | Enterprise H1 2017 | Central Services H1 2017 | Total H1 2017 | Total H1 2016 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Operations & central | 278.4 | 187.5 | 90.1 | 62.3 | 7.2 | 625.5 | 575.6 |
| Ligado revenue | – | – | – | – | 62.7 | 62.7 | 53.4 |
| **Total revenue** | **278.4** | **187.5** | **90.1** | **62.3** | **69.9** | **688.2** | **629.0** |
| Operating costs | (58.0) | (49.7) | (39.6) | (18.7) | (145.7) | (311.7) | (260.6) |
| **EBITDA** | **220.4** | **137.8** | **50.5** | **43.6** | **(75.8)** | **376.5** | **368.4** |
| *EBITDA margin %* | *79.2%* | *73.5%* | *56.0%* | *70.0%* | – | *54.7%* | *58.6%* |
| **Capital expenditure**[1] | **22.4** | **4.9** | **78.9** | **0.1** | **194.5** | **300.8** | **139.1** |

### Three months ended 30 June

| ($ in millions) | Maritime Q2 2017 | Government Q2 2017 | Aviation Q2 2017 | Enterprise Q2 2017 | Central Services Q2 2017 | Total Q2 2017 | Total Q2 2016 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Operations & central | 139.3 | 101.5 | 45.9 | 32.9 | 4.2 | 323.8 | 294.9 |
| Ligado revenue | – | – | – | – | 32.2 | 32.2 | 35.5 |
| **Total revenue** | **139.3** | **101.5** | **45.9** | **32.9** | **36.4** | **356.0** | **330.4** |
| Operating costs | (29.7) | (28.0) | (20.9) | (11.4) | (71.0) | (161.0) | (128.2) |
| **EBITDA** | **109.6** | **73.5** | **25.0** | **21.5** | **(34.6)** | **195.0** | **202.2** |
| *EBITDA margin %* | *78.7%* | *72.4%* | *54.5%* | *65.3%* | – | *54.8%* | *61.2%* |
| **Capital expenditure**[1] | **11.6** | **1.8** | **33.5** | **0.1** | **123.6** | **170.6** | **100.6** |

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

Overall, Inmarsat delivered a robust performance during the first half of 2017, with total Group revenue up by $59.2m, or 9.4%, to $688.2m (H1 2016: $629.0m), including growth of $25.6m, or 7.7%, to $356.0m in the second quarter (Q2 2016: $330.4m).

The Group's revenue performance was driven by growth in Government (up $46.8m in H1 2017, including an increase of $29.5m in Q2 2017) and Aviation (up $25.5m in H1 2017, including an increase of $12.5m in Q2 2017). These performances were offset by declines in Maritime (down $11.3m in H1 2017, including a decrease of $7.3m in Q2 2017, against a strong prior year comparator) and Enterprise (down $10.2m in H1 2017, including a decrease of $5.6m in Q2 2017). Ligado income increased by $9.3m to $62.7m during the first half of 2017, but declined by $3.3m to $32.2m during Q2 2017. This reflected the payment by Ligado of $5m in the second quarter of 2016, which was not repeated in 2017.

Operating costs in the first half of 2017 increased by $51.1m to $311.7m, from $260.6m in the prior year, including an increase of $32.8m to $161.0m in the second quarter, from $128.2m in the prior year. Foreign exchange rate movements had an immaterial impact on operating costs in the first half.

Direct costs increased during the first half of 2017 by $23.5m to $94.3m, including an increase of $17.0m to $53.8m in the second quarter, mainly reflecting revenue growth and changing revenue mix, including the addition of new, low margin, installation revenues in Aviation.

Indirect costs increased during the first half of 2017 by $27.6m to $217.4m, including an increase of $15.8m to $107.2m in the second quarter of 2017, reflecting increased investment in our IFC capability in Aviation (c. $13m in H1 2017) and an underlying increase in central operational delivery costs (c. $12m in H1 2017). Excluding these focused investments, tight cost control was maintained across the business.

As a result, total Group EBITDA for the first half of 2017 increased by $8.1m, or 2.2%, to $376.5m (H1 2016: $368.4m), but declined by $7.2m, or 3.6%, to $195.0m in the second quarter of 2017 (Q2 2016: $202.2m). The Group's EBITDA margin consequently decreased to 54.7% in H1 2017 (H1 2016: 58.6%), including 54.8% in Q2 2017 (Q2 2016: 61.2%).

Adjusted PAT declined by $12.6m to $109.8m in H1 2017, including a decline of $19.2m to $57.6m in Q2 2017, reflecting the increase in EBITDA, outlined above, offset by higher depreciation and amortisation charges.

Statutory PAT declined by $84.8m to $37.6m in H1 2017, including a decline of $33.1m to $43.7m in Q2 2017, reflecting the decline in adjusted PAT and the non-cash impact of an unrealised increase in the first half of $72.2m (including $13.9m in the second quarter) in the fair value of the conversion liability component of the convertible bond on the net financing charge (H1 and Q2 2016: nil).

**Maritime**

| | **Three months ended 30 June** | | | **Half year ended 30 June** | | |
|---|---|---|---|---|---|---|
| ($ in millions) | **2017** | **2016** | **Change** | **2017** | **2016** | **Change** |
| Revenue | 139.3 | 146.6 | (5.0)% | 278.4 | 289.7 | (3.9)% |
| Operating costs | (29.7) | (31.8) | (6.6)% | (58.0) | (62.6) | (7.3)% |
| **EBITDA** | **109.6** | **114.8** | **(4.5)%** | **220.4** | **227.1** | **(3.0)%** |
| *EBITDA margin %* | *78.7%* | *78.3%* | | *79.2%* | *78.4%* | |
| **Cash capex** | **11.6** | **9.5** | **22.1%** | **22.4** | **21.1** | **6.2%** |

| | **Revenue** | | **Number of vessels** | | **Average Revenue per User ("ARPU")** | |
|---|---|---|---|---|---|---|
| | **Q2 2017** | **Q2 2016** | **Q2 2017** | **Q2 2016** | **Q2 2017** | **Q2 2016** |
| FleetBroadband ("FB") – Standalone | $87.9m | $94.3m | 37,532 | 38,978 | $778 | $801 |
| FB – Inc. VSAT back-up[1] | | | 41,038 | 41,684 | $714 | $751 |
| VSAT (XL and FX) | $30.5m | $25.2m | 3,563 | 2,803 | $2,981 | $3,135 |
| Other products | $20.9m | $27.1m | | | | |

[1] FB is utilised by customers on a standalone basis, but also as an integrated element of our VSAT products, as an L-band back-up.

Against the backdrop of a tough comparator in Q2 2017, we delivered continued strong growth in our higher bandwidth VSAT services, whilst our L-band revenues remained resilient and our older legacy products continued to decline as expected. This revenue mix is expected to continue to improve in the second half of 2017.

Despite a continued weak market environment in commercial shipping, customer demand for high bandwidth Very Small Aperture Terminal ("VSAT") connectivity remains strong, providing a key driver for Inmarsat's future growth prospects in Maritime. With a foundation of over 10,000 vessels committed to Fleet Xpress ("FX"), our GX product for Maritime, over the coming years, a strengthened internal installation capability and a market-leading distribution network, we remain well placed to capture the significant future growth opportunity that this fast-growing, high-ARPU, addressable market represents.

Over the first half, revenue from our VSAT products, XpressLink ("XL") and FX, grew by 19.5% to $59.7m, reflecting growth of 18.0% in the first quarter and 21.0% in the second quarter.

Furthermore, our installation order book also grew, rising to around 680 at the end of the first half of 2017, (from around 650 at the end of the first quarter). We made good progress in our FX installation programme, with the pace of net installations increasing to 266 ships per quarter during the first half, compared to an average of 136 VSAT ship additions per quarter during 2016. This was driven by the ramping up of our strengthened internal installation capability as well as the successful initial efforts in installing FX by our distribution partners. Consequently, there were 1,337 FX vessels installed by the end of the period, as a result of migrations from XL and FB, as well as a number of new customer wins.

| Fleet Xpress installations | H1 2017 | H1 2016 | Q2 2017 | Q1 2017 |
|---|---|---|---|---|
| **Opening balance of installed FX vessels** | **335** | **–** | **808** | **335** |
| XpressLink migrations | 435 | – | 198 | 237 |
| FleetBroadband upgrades | 358 | – | 213 | 145 |
| New customers | 209 | – | 118 | 91 |
| **Total installations and migrations during the period** | **1,002** | **–** | **529** | **473** |
| **Closing balance of installed FX vessels** | **1,337** | **–** | **1,337** | **808** |

As anticipated, VSAT Average Revenue per User ("ARPU") in the second quarter was 4.9% lower than the same period in 2016. This mainly reflected the initial impact of a change in mix towards wholesale revenues (as growth becomes increasingly driven by our channel partners), as well as the impact of issues experienced in early 2016, particularly in the second quarter, including more lay-ups and a decline of higher-ARPU legacy contracts. As previously highlighted, VSAT ARPU is expected to continue to decline as further wholesale revenues are added to the mix and as price breaks awarded to our strategic partners (in return for their commitments) begin to flow through.

Revenues for FB, our core L-band product, declined by 4.5% in the first half to $175.7m, including a decline of 6.8% to $87.9m during the second quarter. This was due to the overall ARPU-accretive migration of 358 vessels up to FX during the first half and a loss of vessels using the product, as a result of the weak market environment, both of which offset the positive impact of customers moving to higher value packages during the period. In addition, Q2 2017 faced a particularly difficult comparative in the prior year, due to the short term favourable impact of the price changes implemented in Q1 2016, the effect of which fell away during H2 2016, with customers optimising their packages.

Fleet One, our new L-band product for the smaller vessel market, continued to grow, with over 400 new users added during the second quarter, taking the Fleet One customer base to over 2,000 vessels by the end of the first half, with an average ARPU of around $90 per month. The new business pipeline for Fleet One remains strong, with a number of important commercial opportunities being pursued.

Revenue from our mainly lower margin and legacy products continued to decline, as expected, falling by $12.7m , or 22.8% to $43.0m in H1 2017, including a decline of $6.2m or 22.9% to $20.9m in Q2 2017.

Total operating costs for the half decreased by $4.6m (7.3%), including a decrease of $2.1m (6.6%) in the second quarter. Direct costs during the first half were flat at $41.5m, reflecting lower revenues but higher bad debt provisions in the period. An underlying increase of $1.4m in indirect costs to drive marketing and sales activity around new product launches was more than offset by the impact of an internal reorganisation in July 2016. This reorganisation moved costs of $6.2m during the half (including $2.7m in the second quarter) from Maritime into Central Services.

EBITDA in the first half decreased by $6.7m (3.0%) compared with the prior year period, including a decrease of $5.2m (4.5%) in the second quarter, reflecting the decline in revenue. EBITDA margin increased to 79.2% in the first half of 2017 (from 78.4% in the prior year), including 78.7% in the second quarter (from 78.3% in the prior year).

Maritime capex increased by $1.3m to $22.4m in the first half, including an increase of $2.1m to $11.6m in the second quarter, due to growth in success-based capex, related to the ramp-up in FX installations during the period.

### Government

| | Three months ended 30 June | | | Half year ended 30 June | | |
|---|---|---|---|---|---|---|
| ($ in millions) | **2017** | **2016** | **Change** | **2017** | **2016** | **Change** |
| Revenue | 101.5 | 72.0 | 41.0% | 187.5 | 140.7 | 33.3% |
| Operating costs | (28.0) | (19.5) | 43.6% | (49.7) | (39.5) | 25.8% |
| **EBITDA** | **73.5** | **52.5** | **40.0%** | **137.8** | **101.2** | **36.2%** |
| *EBITDA margin %* | *72.4%* | *72.9%* | | *73.5%* | *71.9%* | |
| **Cash capex** | **1.8** | **0.5** | **260.0%** | **4.9** | **0.7** | **600.0%** |

Inmarsat remains well positioned in Government to be able to offer customers high value-added services including interoperability with military satellite communications services. We continue to outperform a market which remains impacted by cyclical and financial headwinds. In the first half of 2017, our Government revenues increased year-on-year by 33.3% to $187.5m, including an increase of 41.0% to $101.5m in the second quarter.

Our US Government revenues grew by 57.2% in first half, including 78.0% in the second quarter, driven predominantly by our contract with Boeing, a key channel partner in the US for military Ka-band services. There was also a material new, confidential and high margin contract in the second quarter which positively impacted our performance in US Government.

In addition, in the second quarter there was a full quarter's revenue contribution from the US Navy's Commercial Broadband Satellite Program Satellite Services Contract ("CSSC") award, albeit at a relatively low margin.

During the period, we also announced our involvement in AT&T's consortium to provide satellite-based solutions for FirstNet, a planned nationwide emergency response network in the US which will be implemented over the coming years, though it will have no impact on our 2017 results.

Outside the US, Government revenues rose by 4.3% during the first half, including a flat second quarter, supported by the continued benefit of higher operational tempo in one region, which began in Q3 2015.

Total operating costs increased by 25.8% in the first half, including an increase of 43.6% in the second quarter, in relation to the growth in revenue. Direct costs during H1 2017 increased by $9.5m to $27.2m, in line with revenue growth, whilst indirect costs were unchanged at $22.5m, due to continued tight cost control.

EBITDA consequently improved by 36.2% to $137.8m in the first half, including an increase of 40.0% to $73.5m in the second quarter. EBITDA margin increased to 73.5% in the first half, from 71.9% in the prior period, but was slightly down in the second quarter to 72.4%, from 72.9% in the prior period.

It should be noted that, mainly due to the one-off nature of a portion of our Government revenue, the significant increase in revenue in the Government business in the first half of 2017 will not be sustained during the second half of the year. Furthermore, EBITDA margins in H2 2017 will be moderately lower than in H1 2017, reflecting lower revenues and a different revenue mix.

### Aviation

| | Three months ended 30 June | | | Half year ended 30 June | | |
|---|---|---|---|---|---|---|
| ($ in millions) | **2017** | **2016** | **Change** | **2017** | **2016** | **Change** |
| Revenue | 45.9 | 33.4 | 37.4% | 90.1 | 64.6 | 39.5% |
| Operating costs | (20.9) | (10.6) | 97.2% | (39.6) | (19.4) | 104.1% |
| **EBITDA** | **25.0** | **22.8** | **9.6%** | **50.5** | **45.2** | **11.7%** |
| *EBITDA margin %* | *54.5%* | *68.3%* | | *56.0%* | *70.0%* | |
| **Cash capex** | **33.5** | **30.0** | **11.7%** | **78.9** | **33.0** | **139.1%** |

| | Revenue | | Number of installed aircraft | | Average Revenue per User ("ARPU") | |
|---|---|---|---|---|---|---|
| | **Q2 2017** | **Q2 2016** | **Q2 2017** | **Q2 2016** | **Q2 2017** | **Q2 2016** |
| SwiftBroadband | $28.9m | $21.2m | 8,977 | 8,035 | $1,111 | $907 |
| Classic Aero | $9.7m | $9.3m | 8,308 | 7,671 | $392 | $398 |

We are executing and delivering on our Aviation strategy. With continued strong growth in the first half in our Core business, and anchor customer wins and further progress made in our GX installation programme in IFC.

**Aviation – Core business**

Inmarsat's Core Aviation business, Business & General Aviation ("BGA") and Safety & Operations Services ("SOS"), delivered revenue growth of 26.2% in the first half, including 26.4% in the second quarter, mainly from SwiftBroadband and Classic Aero, our L-band based products, which ended the period with over 17,000 connected terminals.

In the first half of 2017, SwiftBroadband delivered revenue growth of 31.7%, including growth of 36.2% in the second quarter, supported by a strong performance in BGA and another good contribution from our L-band based IFC services in commercial aviation. SwiftBroadband produced strong growth in the number of installed aircraft and in ARPU, both of which were driven by continued high demand and customer usage.

So far this year, we have installed 64 terminals for JetConneX, our new GX-based product for the BGA market. Furthermore, during the period, we obtained further line-fit certifications for JetConneX, and the product is now line-fit certified with the four leading business jet manufacturers in the industry - Bombardier, Gulfstream, Dassault and Embraer.

Classic Aero produced revenue growth of 14.9% in the first half of 2017, including 4.3% in the second quarter, supported by an increase in number of installed aircraft. ARPU was relatively unchanged from the prior year, reflecting stable traffic volumes and pricing.

Final operational proving trials for our next-generation secure SOS product, SwiftBroadband-Safety, have started with international airlines, including United Airlines. Approval for trans-oceanic use is expected before the end of 2017.

**Aviation – IFC**

In IFC, our progress in installing GX terminals on Deutsche Lufthansa Group aircraft remains on track, with 101 aircraft now installed across the Lufthansa, Austrian Airlines and Eurowings fleets (from 65 at the end of Q1 2017 and 20 at the end of 2016). These activities generated $8.6m of relatively low margin GX installation revenue during the first half of 2017 (including $3.7m in the second quarter).

During the period, we signed additional contracts for the provision of IFC services via GX with Qatar Airways in the Middle East and Avianca in Latin America. We now have around 1,200 aircraft expected under signed contracts for IFC services and our active pipeline continues to be around 3,000 aircraft.

The commercial deployment of the EAN remains on track for the end of 2017, following the successful launch of our S-band satellite with Arianespace in June 2017 and Deutsche Telekom's on-going progress in building out the complementary ground component network ("CGC") across the region. We have all 28 EU territory MSS regulatory authorisations required for the EAN to operate, plus Norway and Switzerland. In addition, 27 countries have provided us with authorisations or in-principle approvals for the CGC.

Contrary to claims made by some of our competitors, Inmarsat is delivering the EAN system in accordance with the framework established by European laws and implemented by national regulatory authorities, and we remain confident that this unique and highly innovative integrated network will be commercially deployed across Europe towards the end of 2017.

As previously advised, as we on-board the necessary capabilities to capture meaningful market share in IFC, our financial performance in Aviation will be adversely affected by the net cost of this investment. In H1 2017, total operating costs in Aviation increased by $20.2m, or 104.1%, to $39.6m (including an increase of $10.3m, or 97.2%, to $20.9m in the second quarter). In the first half of 2017, direct costs increased by $7.1m to $8.3m as a result of additional lower margin GX installation revenues being added to the revenue mix, whilst indirect costs increased by $13.1m to $31.3m due to increased headcount and other overhead costs associated with the pursuit and delivery of the major growth opportunities in IFC. We continue to expect that indirect costs in Aviation will increase to around $70m for FY2017.

EBITDA increased strongly in the first half of 2017, rising $5.3m, or 11.7%, to $50.5m, including an increase of $2.2m, or 9.6%, to $25.0m in the second quarter. EBITDA margin decreased to 56.0% in the first half, from 70.0% in the prior year period, and to 54.5% in the second quarter, from 68.3% in the prior year period, reflecting the changing revenue mix and higher indirect costs.

As previously highlighted, we currently expect that, over the next five years, the near term consequence of the changing revenue mix in Aviation will be a reduction in overall Aviation EBITDA margins from over 60% in 2016 towards 40%, before rising volumes drive margins closer to 2016 levels.

Cash capex increased by $45.9m to $78.9m in the first half, including an increase of $3.5m to $33.5m in the second quarter, mainly due to investment related to the S-band satellite as well as growth in success-based capex in relation to the GX equipment installations for Deutsche Lufthansa Group.

### Enterprise

| | Three months ended 30 June | | | Half year ended 30 June | | |
|---|---|---|---|---|---|---|
| ($ in millions) | **2017** | **2016** | **Change** | **2017** | **2016** | **Change** |
| Revenue | 32.9 | 38.5 | (14.5)% | 62.3 | 72.5 | (14.1)% |
| Operating costs | (11.4) | (10.6) | 7.5% | (18.7) | (18.5) | 1.1% |
| **EBITDA** | **21.5** | **27.9** | **(22.9)%** | **43.6** | **54.0** | **(19.3)%** |
| *EBITDA margin %* | *65.3%* | *72.5%* | | *70.0%* | *74.5%* | |
| **Cash capex** | **0.1** | **–** | **–** | **0.1** | **0.3** | **(66.7)%** |

Key markets in Enterprise remain challenging, particularly Energy, and this trend of on-going market pressure continues to impact many of our product lines. However, following the re-focusing of our Enterprise business in 2016 towards specific market sectors, we are confident that the business will differentiate itself in the market, to deliver more sustainable long term growth. Reflecting this, there was an improvement in new business wins in the second quarter of 2017, compared to the first quarter. Nevertheless, in the near term, we expect the current revenue trends to continue.

Revenue in our Broadband Global Area Network ("BGAN") product declined by 21.4% year-on-year in the first half, including a decline of 26.1% in the second quarter, mainly as a result of the increasingly competitive market environment, where land-based Ka-band and Ku-band and cellular alternatives are gaining traction.

GSPS terminal sales and airtime revenues were down 19.9% in the first half, including 23.5% in the second quarter, due to continued decline in customer usage, despite an increase in the number of connected terminals to over 165,000 at the end of the quarter.

Fixed-to-mobile revenues decreased by 29.3% in the first half, including 39.4% in the second quarter, reflecting a continued decline of satellite-based voice products, partly driven by an on-going migration to Voice-over-IP.

Machine to Machine ("M2M") revenue increased by 7.7% in the first half, including 10.6% in the second quarter. The number of connected M2M terminals increased to over 342,000 by the end of the period. Our performance in M2M continues to provide us with a strong foundation from which to nurture and grow potential development opportunities around the "Internet of Things" applications.

Total operating costs for the first half increased to $18.7m, from $18.5m in the prior period, including an increase to $11.4m in the second quarter, from $10.6m in the prior period. During H1 2017, direct costs increased by $0.8m to $9.7m, as a result of a deteriorating revenue mix, whilst indirect costs were reduced by $0.6m to $9.0m, reflecting a transfer of personnel to the centre.

EBITDA was 19.3% lower at $43.6m in the first half, from $54.0m in the prior year, and down 22.9% in the second quarter to $21.5m, from $27.9m in the prior year. EBITDA margin declined to 70.0% in the first half, from 74.5% in the prior period, including 65.3% in the second quarter of 2017, from 72.5%.

## Central Services

| | Three months ended 30 June | | | Half year ended 30 June | | |
|---|---|---|---|---|---|---|
| ($ in millions) | 2017 | 2016 | Change | 2017 | 2016 | Change |
| **Revenue** | | | | | | |
| Ligado Networks | 32.2 | 35.5 | (9.3)% | 62.7 | 53.4 | 17.4% |
| Other | 4.2 | 4.4 | (4.5)% | 7.2 | 8.1 | (11.1)% |
| **Total revenue** | **36.4** | **39.9** | **(8.8)%** | **69.9** | **61.5** | **13.7%** |
| Operating costs | (71.0) | (55.7) | 27.5% | (145.7) | (120.6) | 20.8% |
| **EBITDA** | **(34.6)** | **(15.8)** | **119.0%** | **(75.8)** | **(59.1)** | **28.3%** |
| **Cash capex** | **123.6** | **60.6** | **104.0%** | **194.5** | **84.0** | **131.5%** |

Revenue from Ligado Networks ("Ligado") in the first half increased by $9.3m, or 17.4%, to $62.7m, including a decrease of $3.3m, or 9.3%, in the second quarter, following the exercise of the 30MHz option by Ligado in June 2016. Full details of that exercise are set out in the HY16 results announcement. Ligado revenue in the first half includes $7.0m of deferred revenue released to reflect the economic cost of the revenue deferral arising under the revised transition agreement. There have been no other developments in respect of this agreement in the half year period. At 30 June 2017 we held $190.0m of deferred revenue on the balance sheet in respect of expected costs of implementation of this agreement.

We continue to invest in organisational capability, with a number of important initiatives well underway to improve our operational effectiveness and efficiency. In the first half of 2017, these included consolidating our billing systems into one global platform, improvements to our service delivery and service assurance platforms, the on-going roll-out of a global IT transformation programme, an enhanced cyber security system and the first stage of streamlining our customer interface.

During the first half of 2017, total operating costs increased by $25.1m, or 20.8%, to $145.7m (2016: $120.6m), including an increase of $15.3m, or 27.5%, in the second quarter. Over the first half, direct costs increased by $5m to $7m reflecting higher inventory and bad debt provisions. Indirect costs increased by $20m reflecting $7m for activities transferred from Maritime and Enterprise and $13m mainly in respect of higher GX operational costs and further investment in our organisational capability noted above. We expect Central Services total operating costs in the second half of 2017 to continue at similar levels to those experienced in the first half.

Central Services capital expenditure increased to $194.5m, from $84.0m in the prior year, including $123.6m in the second quarter, from $60.6m in the prior year. This increase was a result of further expenditure on the GX and I-6 satellite infrastructure, including the launch and insurance costs of the I-5 F4 satellite during the second quarter. In addition, there was further investment in organisational capability, including IT and Cyber Security.

### Reconciliation of EBITDA to profit after tax

| | Three months ended 30 June | | | Half year ended 30 June | | |
|---|---|---|---|---|---|---|
| ($ in millions) | 2017 | 2016 | Change | 2017 | 2016 | Change |
| **EBITDA** | **195.0** | **202.2** | **(3.6)%** | **376.5** | **368.4** | **2.2%** |
| Depreciation and amortisation | (95.4) | (84.1) | 13.4% | (191.9) | (174.6) | 9.9% |
| Other | (0.8) | (0.5) | 60.0% | (0.4) | 0.1 | (500.0)% |
| **Operating profit** | **98.8** | **117.6** | **(16.0)%** | **184.2** | **193.9** | **(5.0)%** |
| Net financing costs | (37.6) | (21.7) | 73.3% | (122.4) | (39.5) | 209.9% |
| Taxation charge | (17.5) | (19.1) | (8.4)% | (24.2) | (32.0) | (24.4)% |
| **Profit after tax** | **43.7** | **76.8** | **(43.1)%** | **37.6** | **122.4** | **(69.3)%** |
| Addback of change in fair value of derivative | 13.9 | – | – | 72.2 | – | – |
| **Adjusted profit after tax** | **57.6** | **76.8** | **(25.0)%** | **109.8** | **122.4** | **(10.3)%** |

Depreciation and amortisation in the first half increased by $17.3m to $191.9m (including an increase of $11.3m to $95.4m in the second quarter) as a result of increased capital expenditure.

Net financing costs for the half year increased by $82.9m to $122.4m (from $39.5m in the prior year), including an increase of $15.9m to $37.6m in the second quarter (from $21.7m in the prior year). During the first half, this includes a charge of $72.2m (H1 2016: nil), including $13.9m in the second quarter (Q2 2016: nil), relating to the increase in the unrealised conversion liability component of the new convertible bonds which is largely driven by the appreciation in the share price during the first half of 2017 (see note 7 of this announcement for more details). This impact will reverse to nil if the convertible bonds reach maturity and are not converted.

Excluding this non-cash charge, net financing costs for the first half of 2017 were $50.2m, an increase of $10.7m from the same period last year, including $23.7m in the second quarter, an increase of $2.0m. The increase is primarily due to $13.0m of interest on the new senior notes due 2024 and $1.2m higher interest accrued on the new convertible bond due 2023, compared to the previous convertible bond that was due in 2016. This was offset by a $2.5m reduction in interest paid on the Ex-Im and EIB facilities and interest income of $3.7m earned on cash reserves.

The tax charge for the first half of 2017 was $24.2m, a decrease of $7.8m, compared with the same period of 2016, including $17.5m in the second quarter, down by $1.6m from the prior year. This is largely driven by the decrease in profit before tax, as outlined above as well as the more favourable treatment of profits under the Patent Box regime in the UK, which was secured in Q1 2017 and applied retrospectively, resulting in some profits now being taxed at 10%, rather than the statutory rate of 19.25%. Furthermore, the charge relating to the unrealised conversion liability component of the new convertible bonds, outlined above, is non-deductible for tax purposes, in line with UK tax legislation on derivative instruments.

The effective tax rate for the half year ended 30 June 2017 was 39.2%. The adjusted effective tax rate, after removing the unrealised conversion liability component of the new convertible bonds, outlined above, from the profit before tax, was 18.1%. The effective tax rate in 2016 was 20.7%.

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

Basic and diluted earnings per share for profit attributable to the equity holders of the Company were both 8 cents, compared to 27 cents in 2016. Adjusted basic and diluted earnings per share, excluding the non-cash, pre-tax impact of the change in the fair value of the conversion liability component of the 2023 Convertible Bonds, were both 24 cents, compared to 27 cents in 2016.

### Cash Flow

| | **Three months ended 30 June** | | **Half year ended 30 June** | |
|---|---|---|---|---|
| ($ in millions) | **2017** | **2016** | **2017** | **2016** |
| **EBITDA** | **195.0** | **202.2** | **376.5** | **368.4** |
| Non-cash items | 2.4 | 4.2 | 10.9 | 6.2 |
| Change in working capital | 13.3 | 12.1 | 6.3 | 42.8 |
| **Cash generated from operations** | **210.7** | **218.5** | **393.7** | **417.4** |
| Capital expenditure | (170.6) | (100.6) | (300.8) | (139.1) |
| Net interest paid | (33.5) | (27.7) | (54.8) | (38.5) |
| Tax paid | (2.9) | (4.5) | (16.6) | (21.6) |
| **Free cash flow** | **3.7** | **85.7** | **21.5** | **218.2** |
| Dividends paid to shareholders | (117.9) | (143.6) | (117.9) | (144.0) |
| Other movement including foreign exchange | (0.7) | (0.8) | (2.0) | 2.6 |
| **Net cash flow** | **(114.9)** | **(58.7)** | **(98.4)** | **76.8** |
| Increase in cash from transfer from short-term deposits with maturity >3 months | 128.6 | – | 278.6 | – |
| Repayment of borrowings & associated financing costs | (1.3) | (26.0) | (42.5) | (66.4) |
| **Net increase/ (decrease) in cash and cash equivalents** | **12.4** | **(84.7)** | **137.7** | **10.4** |

| | | | | |
|---|---|---|---|---|
| **Opening net borrowings**[1] | **1,884.9** | **1,857.8** | **1,894.8** | **1,985.8** |
| Net cash flow | 115.2 | 58.7 | 98.4 | (76.8) |
| Non-cash movements[2] | 5.7 | 7.4 | 12.6 | 14.9 |
| **Closing net borrowings**[1] | **2,005.8** | **1,923.9** | **2,005.8** | **1,923.9** |

[1] Net borrowings includes the convertible bond, less cash, cash equivalents and short term deposits, amortised.
[2] Includes the impact of deferred financing costs.

During the first half of 2017, free cash flow decreased by $196.7m to $21.5m (2016: $218.2m) driven primarily by an increase of $161.7m in capital expenditure (see below) and a lower contribution from working capital, mainly reflecting a change in the timing of receipts from Ligado Networks. There was also $16.3m higher cash interest paid as a result of the refinancing in Q3 2016. In addition, there was a scheduled payment of $40.4m on the Ex-Im bank facility during the period, as there was in the comparable period in 2016 (which also included an additional $25.7m payment on the EIB facility).

Dividends paid to shareholders reduced by $26.1m to $117.9m during the first half, as a result of a strong take-up of the scrip option by shareholders, in relation to the 2016 final dividend, of 20.7%.

### Capital Expenditure

| | **Three months ended 30 June** | | **Half year ended 30 June** | |
|---|---|---|---|---|
| ($ in millions) | **2017** | **2016** | **2017** | **2016** |
| Major infrastructure projects[3] | 127.3 | 66.3 | 203.5 | 100.2 |
| Success-based capex[4] | 23.4 | 10.5 | 53.4 | 23.1 |
| Other capex[5] | 29.0 | 12.8 | 58.8 | 34.2 |
| Cash flow timing | (9.1) | 11.0 | (14.9) | (18.4) |
| **Total cash capital expenditure** | **170.6** | **100.6** | **300.8** | **139.1** |

[3] "Major infrastructure projects" capex consists of satellite design, build and launch costs and ground network infrastructure costs.
[4] "Success-based capex" consists of capital equipment installed on ships, aircraft and other customer platforms.
[5] "Other capex" investment primarily includes infrastructure maintenance, IT and capitalised product and service development costs.

The increase in major infrastructure projects capital investment in the first half primarily related to an increase in capital investment in the GX and I-6 satellite infrastructures, including the majority of launch and insurance costs relating to the I-5 F4 spacecraft. Success-based capex in the period principally related to an increase in expenditure for the installation of GX terminals for Deutsche Lufthansa Group in Aviation and of VSAT terminals, in particular Fleet Xpress, for customers in Maritime, which ramped up during the first half and second quarter of 2017."Other capex" investment also increased during the period, driven by further investment in infrastructure maintenance, IT and capitalised product and service development costs.

### Group Liquidity and Capital Resources

At 30 June 2017, the Group had cash and cash equivalents of $400.0m and available but undrawn borrowing facilities of $578.9m under our Senior Credit Facility and the 2014 Ex-Im Bank Facility.

### Dividends

The Group aims to deliver dividend growth which reflects the expected sustainable long-term growth trajectory of the business. In line with this policy, the Board intends to declare and pay an interim dividend for the 2017 financial year of 21.62 cents per share, a 5% increase from the prior year (20.59 cents). The interim dividend will be paid on 20 October 2017 to ordinary shareholders on the register of members at the close of business on 15 September 2017.

With effect from the 2016 interim dividend, a full scrip dividend election opportunity was introduced for shareholders, to enable shareholders to elect in their absolute discretion to take all or any part of their cash dividend entitlement in Inmarsat shares. This option is available to shareholders in relation to the 2017 interim dividend. Dividend payments that are due to be paid in cash will be paid in Pounds Sterling based on the exchange rate from the WMReuters GBP/USD 9am fix (London time) four business days prior to the date of announcement of the scrip reference price. The procedure that will apply for scrip dividends will be advised to shareholders in due course. The 2017 interim dividend is not recorded as a liability in the financial statements at 30 June 2017.

## PRINCIPAL RISKS AND UNCERTAINTIES

As outlined in our 2016 Annual Report, the Group faces a number of risks and uncertainties that may adversely affect our business, operations, liquidity, financial position or future performance, not all of which are wholly within our control. Although many of the risks and uncertainties influencing our performance are macroeconomic and likely to affect the performance of businesses generally, others are particular to our operations in mobile satellite services.

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

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

| Risk | Background and impact |
| --- | --- |
| 12. People, skills, location and working environment risk | We may fail to hire skilled people or adequately improve skills to maintain and grow our business, or to deliver our strategy. We may lose highly technical and specialist employees who have very specific skill sets that are vital to the business. Brexit negotiations outcomes could impact EU citizens working in London and UK citizens in Europe. |
| 13. Geo-political risk | Downturns in the economy of a country and/or world economy could impact our business and strategy. Armed conflicts as well as a low oil price may have large effects on world trade and consequently on our business, strategy and currency exchange rates.<br><br>We do a large amount of business with governments across the globe including the US Government. Major political decisions, such as Brexit, may impact our business. We may suffer a terrorist attack on one of our network or office locations. Our staff and their families may suffer a local epidemic or global pandemic. |

## RELATED PARTY TRANSACTIONS

There have been no material changes in the related party transactions described on page 156 of the 2016 Inmarsat plc Annual Report and Accounts.

Inmarsat plc
99 City Road
London EC1Y 1AX

By order of the Board,

| | |
| --- | --- |
| Rupert Pearce<br>Chief Executive Officer<br>3 August 2017 | Tony Bates<br>Chief Financial Officer<br>3 August 2017 |

## INMARSAT PLC

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

### For the half year ended 30 June 2017 (unaudited)

| | Three months ended 30 June | | Half year ended 30 June | |
|---|---|---|---|---|
| ($ in millions) | **2017** | **2016** | **2017** | **2016** |
| **Revenues** | **356.0** | **330.4** | **688.2** | **629.0** |
| Employee benefit costs | (70.8) | (66.6) | (140.7) | (132.3) |
| Network and satellite operations costs | (51.7) | (41.5) | (96.7) | (84.8) |
| Other operating costs | (50.8) | (31.5) | (98.2) | (64.1) |
| Own work capitalised | 12.3 | 11.4 | 23.9 | 20.6 |
| Total net operating costs | (161.0) | (128.2) | (311.7) | (260.6) |
| **EBITDA** | **195.0** | **202.2** | **376.5** | **368.4** |
| Depreciation and amortisation | (95.4) | (84.1) | (191.9) | (174.6) |
| Impairment loss | (1.4) | (1.2) | (1.8) | (1.2) |
| Share of profit of associates | 0.6 | 0.7 | 1.4 | 1.3 |
| **Operating profit** | **98.8** | **117.6** | **184.2** | **193.9** |
| Financing income | 1.7 | 0.4 | 3.7 | 1.7 |
| Financing costs | (25.4) | (22.1) | (53.9) | (41.2) |
| Change in fair value of derivative[1] | (13.9) | – | (72.2) | – |
| Net financing costs | (37.6) | (21.7) | (122.4) | (39.5) |
| **Profit before tax** | **61.2** | **95.9** | **61.8** | **154.4** |
| Taxation charge | (17.5) | (19.1) | (24.2) | (32.0) |
| **Profit for the period** | **43.7** | **76.8** | **37.6** | **122.4** |
| **Attributable to:** | | | | |
| **Equity holders** | **43.6** | **76.7** | **37.3** | **122.1** |
| **Non-controlling interest**[2] | **0.1** | **0.1** | **0.3** | **0.3** |
| Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in $ per share) | | | | |
| — Basic | **0.10** | **0.17** | **0.08** | **0.27** |
| — Diluted | **0.10** | **0.17** | **0.08** | **0.27** |
| Adjusted earnings per share for profit attributable to the equity holders of the Company during the period (expressed in $ per share)[3] | | | | |
| — Basic | **0.13** | **0.17** | **0.24** | **0.27** |
| — Diluted | **0.13** | **0.17** | **0.24** | **0.27** |

[1] The change in fair value of derivatives relates to the mark-to-market valuation of the conversion liability component of the convertible bonds due 2023 that were issued in Q3 2016.
[2] Non-controlling interest (“NCI”) refers to the Group’s 51% shareholding in Inmarsat Solutions ehf.
[3] Adjusted earnings per share excludes the non-cash impact of the unrealised increase in the fair value of the conversion liability component of the 2023 Convertible Bonds. The charge of $72.2m (2016: nil) is shown above in net financing costs.

## INMARSAT PLC

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

### For the half year ended 30 June 2017 (unaudited)

| | **Three months ended 30 June** | | **Half year ended 30 June** | |
|---|---|---|---|---|
| ($ in millions) | **2017** | **2016** | **2017** | **2016** |
| **Profit for the period** | **43.7** | **76.8** | **37.6** | **122.4** |
| **Other comprehensive income** | | | | |
| **Items that may be reclassified subsequently to the Income Statement:** | | | | |
| Foreign exchange translation differences | 0.6 | (0.1) | 0.4 | – |
| Net gain/(loss) on cash flow hedges | 5.7 | (12.9) | 8.2 | (12.1) |
| **Items that will not be reclassified subsequently to the Income Statement:** | | | | |
| Remeasurement of the defined benefit asset | 1.5 | 3.0 | 1.5 | 3.0 |
| Tax credited directly to equity | (0.4) | (0.6) | (0.4) | (0.6) |
| **Other comprehensive income/(loss) for the period, net of tax** | **7.4** | **(10.6)** | **9.7** | **(9.7)** |
| **Total comprehensive income for the period, net of tax** | **51.1** | **66.2** | **47.3** | **112.7** |
| **Attributable to:** | | | | |
| **Equity holders** | **51.0** | **66.1** | **47.0** | **112.4** |
| **Non-controlling interest** | **0.1** | **0.1** | **0.3** | **0.3** |

## INMARSAT PLC

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

| ($ in millions) | As at 30 June 2017 (unaudited) | As at 31 Dec 2016 (audited) | As at 30 June 2016 (unaudited) |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 3,149.3 | 2,971.4 | 2,874.7 |
| Intangible assets | 762.2 | 796.4 | 764.5 |
| Investments | 14.7 | 13.2 | 12.9 |
| Other receivables | 16.3 | 11.7 | 22.6 |
| Deferred tax asset | 37.6 | 39.3 | 43.4 |
| Derivative financial instruments | – | 0.1 | 0.7 |
| | **3,980.1** | **3,832.1** | **3,718.8** |
| **Current assets** | | | |
| Cash and cash equivalents[1] | 400.0 | 262.0 | 185.7 |
| Short-term deposits[2] | 116.4 | 395.0 | – |
| Trade and other receivables | 297.3 | 306.9 | 274.2 |
| Inventories | 31.5 | 34.3 | 25.2 |
| Current tax assets | 14.2 | 8.5 | 5.7 |
| Derivative financial instruments | 1.9 | 1.7 | 1.0 |
| Restricted cash | 2.9 | 2.8 | 2.3 |
| | **864.2** | **1,011.2** | **494.1** |
| **Total assets** | **4,844.3** | **4,843.3** | **4,212.9** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Borrowings | 102.9 | 103.8 | 129.5 |
| Trade and other payables | 532.4 | 508.3 | 483.2 |
| Provisions | 1.2 | 1.9 | 0.9 |
| Current tax liabilities | 131.0 | 129.0 | 119.3 |
| Derivative financial instruments | 10.8 | 5.9 | 0.8 |
| | **778.3** | **748.9** | **733.7** |
| **Non-current liabilities** | | | |
| Borrowings | 2,419.3 | 2,448.0 | 1,980.1 |
| Other payables | 27.2 | 41.5 | 42.1 |
| Provisions | 13.9 | 2.8 | 2.8 |
| Deferred tax liabilities | 218.1 | 208.3 | 213.7 |
| Derivative financial instruments | 212.9 | 153.5 | 12.0 |
| | **2,891.4** | **2,854.1** | **2,250.7** |
| **Total liabilities** | **3,669.7** | **3,603.0** | **2,984.4** |
| **Net assets** | **1,174.6** | **1,240.3** | **1,228.5** |
| **Shareholders' equity** | | | |
| Ordinary shares | 0.3 | 0.3 | 0.3 |
| Share premium | 731.6 | 700.4 | 690.7 |
| Equity reserve | – | – | 56.9 |
| Other reserves | 78.2 | 61.8 | 66.9 |
| Retained earnings | 364.2 | 477.2 | 413.4 |
| **Equity attributable to shareholders** | **1,174.3** | **1,239.7** | **1,228.2** |
| **Non-controlling interest** | **0.3** | **0.6** | **0.3** |
| **Total equity** | **1,174.6** | **1,240.3** | **1,228.5** |

[1] Cash and cash on deposit with maturity of less than 3 months.

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

## INMARSAT PLC

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

### For the half year ended 30 June 2017

| ($ in millions) | Share capital | Share premium | Equity reserve | Share option reserve | Cash flow hedge reserve | Other[1] | Retained earnings | NCI[4] | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2016 (audited)** | **0.3** | **687.6** | **56.9** | **73.8** | **0.9** | **(2.9)** | **432.7** | **0.6** | **1,249.9** |
| Share-based payments[2] | – | – | – | 7.2 | – | – | (0.5) | – | 6.7 |
| Dividends paid | – | – | – | – | – | – | (143.3) | (0.6) | (143.9) |
| Issue of share capital[3] | – | 3.1 | – | – | – | – | – | – | 3.1 |
| *Comprehensive Income:* | | | | | | | | | |
| Profit for the quarter | – | – | – | – | – | – | 122.1 | 0.3 | 122.4 |
| OCI – before tax | – | – | – | – | (12.1) | – | 3.0 | – | (9.1) |
| OCI – tax | – | – | – | – | – | – | (0.6) | – | (0.6) |
| **Balance at 30 June 2016 (unaudited)** | **0.3** | **690.7** | **56.9** | **81.0** | **(11.2)** | **(2.9)** | **413.4** | **0.3** | **1,228.5** |
| | | | | | | | | | |
| **Balance at 1 January 2017 (audited)** | **0.3** | **700.4** | – | **87.9** | **(23.3)** | **(2.8)** | **477.2** | **0.6** | **1,240.3** |
| Share-based payments[2] | – | – | – | 7.8 | – | – | (0.2) | – | 7.6 |
| Dividend declared | – | – | – | – | – | – | (151.2) | (0.6) | (151.8) |
| Scrip dividend cash reinvestment[5] | – | – | – | – | – | – | 31.2 | – | 31.2 |
| Scrip dividend share issue[5] | – | 31.2 | – | – | – | – | (31.2) | – | – |
| *Comprehensive Income:* | | | | | | | | | |
| Profit for the quarter | – | – | – | – | – | – | 37.3 | 0.3 | 37.6 |
| OCI – before tax | – | – | – | – | 8.2 | 0.4 | 1.5 | – | 10.1 |
| OCI – tax | – | – | – | – | – | – | (0.4) | – | (0.4) |
| **Balance at 30 June 2017 (unaudited)** | **0.3** | **731.6** | – | **95.7** | **(15.1)** | **(2.4)** | **364.2** | **0.3** | **1,174.6** |

[1] The ‘other’ reserve relates to ordinary shares held by the Employee Share Trust of $2.4m (2016: $2.4m), the currency reserve of $0.6m (2016: debit $1.1m) and the revaluation reserve debit of $0.6m (2016: $0.6m).

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

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

[4] Non-controlling interest (“NCI”) refers to the Group’s 51% shareholding in Inmarsat Solutions ehf.

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

## INMARSAT PLC

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

### For the half year ended 30 June 2017 (unaudited)

| | Three months ended 30 June | | Half year ended 30 June | |
|---|---|---|---|---|
| ($ in millions) | **2017** | **2016** | **2017** | **2016** |
| **Cash flow from operating activities** | | | | |
| Cash generated from operations | 210.7 | 218.5 | 393.7 | 417.4 |
| Interest received | 0.9 | 0.4 | 1.5 | 0.6 |
| Tax paid | (2.9) | (4.5) | (16.6) | (21.6) |
| **Net cash inflow from operating activities** | **208.7** | **214.4** | **378.6** | **396.4** |
| **Cash flow from investing activities** | | | | |
| Dividends received from non-controlling interest | 0.6 | – | 0.6 | – |
| Purchase of property, plant and equipment | (155.6) | (87.2) | (268.2) | (118.5) |
| Additions to intangible assets | (2.6) | – | (8.6) | – |
| Own work capitalised | (12.4) | (13.4) | (24.0) | (20.6) |
| Short-term cash deposits >3 months | 128.6 | – | 278.6 | – |
| Investment in financial asset | (1.1) | – | (1.1) | – |
| **Net cash used in investing activities** | **(42.5)** | **(100.6)** | **(22.7)** | **(139.1)** |
| **Cash flow from financing activities** | | | | |
| Dividends paid to shareholders | (117.9) | (143.6) | (117.9) | (144.0) |
| Repayment of borrowings | – | (25.7) | (40.4) | (66.1) |
| Interest paid | (34.4) | (28.1) | (56.3) | (39.1) |
| Arrangement costs of financing | (0.1) | (0.3) | (1.2) | (0.3) |
| Net proceeds from the issue of ordinary shares | – | 0.6 | – | 3.1 |
| Other financing activities | (1.2) | (1.3) | (0.9) | (1.0) |
| **Net cash used in financing activities** | **(153.6)** | **(198.4)** | **(216.7)** | **(247.4)** |
| Foreign exchange adjustment | (0.2) | (0.1) | (1.5) | 0.5 |
| **Net increase/(decrease) in cash and cash equivalents** | **12.4** | **(84.7)** | **137.7** | **10.4** |

| | | | | |
|---|---|---|---|---|
| **Cash and cash equivalents** | | | | |
| At beginning of the period | 386.8 | 269.8 | 261.5 | 174.7 |
| Net increase/(decrease) in cash and cash equivalents | 12.4 | (84.7) | 137.7 | 10.4 |
| **At end of the period (net of bank overdrafts)** | **399.2** | **185.1** | **399.2** | **185.1** |
| **Comprising:** | | | | |
| Cash at bank and in hand | 72.6 | 83.3 | 72.6 | 83.3 |
| Short-term deposits with original maturity of less than three months | 327.4 | 102.4 | 327.4 | 102.4 |
| Bank overdrafts | (0.8) | (0.6) | (0.8) | (0.6) |
| **Net cash and cash equivalents at end of period** | **399.2** | **185.1** | **399.2** | **185.1** |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. General information

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

## 2. Principal accounting policies

*Basis of preparation*

The condensed consolidated interim financial statements for the half year ended 30 June 2017 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. They were approved by the Board of Directors on 3 August 2017. The same accounting policies and methods of computation are followed in the interim statements as in the most recent annual financial statements, at 31 December 2016.

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

*Going Concern*

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

*Basis of accounting*

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

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

## 3. Segment information

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

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

## 3. Segment information (continued)

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

| | Three months ended 30 June | | Half year ended 30 June | |
|---|---|---|---|---|
| ($ in millions) | **2017** | **2016** | **2017** | **2016** |
| **Revenues** | | | | |
| Maritime | 139.3 | 146.6 | 278.4 | 289.7 |
| Government | 101.5 | 72.0 | 187.5 | 140.7 |
| Enterprise | 32.9 | 38.5 | 62.3 | 72.5 |
| Aviation | 45.9 | 33.4 | 90.1 | 64.6 |
| Central Services[1] | 36.4 | 39.9 | 69.9 | 61.5 |
| **Total revenues** | **356.0** | **330.4** | **688.2** | **629.0** |
| **EBITDA** | | | | |
| Maritime | 109.6 | 114.8 | 220.4 | 227.1 |
| Government | 73.5 | 52.5 | 137.8 | 101.2 |
| Enterprise | 21.5 | 27.9 | 43.6 | 54.0 |
| Aviation | 25.0 | 22.8 | 50.5 | 45.2 |
| Central Services[1] | (34.6) | (15.8) | (75.8) | (59.1) |
| **Total EBITDA** | **195.0** | **202.2** | **376.5** | **368.4** |
| Depreciation and amortisation | (95.4) | (84.1) | (191.9) | (174.6) |
| Other | (0.8) | (0.5) | (0.4) | 0.1 |
| **Operating profit** | **98.8** | **117.6** | **184.2** | **193.9** |
| Net financing costs | (37.6) | (21.7) | (122.4) | (39.5) |
| **Profit before tax** | **61.2** | **95.9** | **61.8** | **154.4** |
| Taxation charge | (17.5) | (19.1) | (24.2) | (32.0) |
| **Profit for the period** | **43.7** | **76.8** | **37.6** | **122.4** |
| | | | | |
| **Cash capital expenditure[2]** | | | | |
| Maritime | 11.6 | 9.5 | 22.4 | 21.1 |
| Government | 1.8 | 0.5 | 4.9 | 0.7 |
| Enterprise | 0.1 | – | 0.1 | 0.3 |
| Aviation | 33.5 | 30.0 | 78.9 | 33.0 |
| Central Services | 123.6 | 60.6 | 194.5 | 84.0 |
| **Total cash capital expenditure** | **170.6** | **100.6** | **300.8** | **139.1** |
| Financing costs capitalised in the cost of qualifying assets | 12.3 | 7.4 | 22.6 | 17.9 |
| Cash flow timing[3] | 9.1 | (11.0) | 14.9 | 18.4 |
| **Total capital expenditure** | **192.0** | **97.0** | **338.3** | **175.4** |

[1] Central Services includes revenue and EBITDA from Ligado.
[2] Cash capital expenditure is the cash flow relating to tangible and intangible asset additions, it includes capitalised labour costs and excludes capitalised interest.
[3] Cash flow timing represents the difference between accrued capex and the actual cash flows.

## 4. Net financing costs

| ($ in millions) | Three months ended 30 June 2017 | Three months ended 30 June 2016 | Half year ended 30 June 2017 | Half year ended 30 June 2016 |
|---|---|---|---|---|
| Bank interest receivable and other interest | (1.7) | (0.4) | (3.7) | (1.7) |
| **Total financing income** | **(1.7)** | **(0.4)** | **(3.7)** | **(1.7)** |
| Interest on Senior Notes and credit facilities | 23.5 | 17.4 | 47.2 | 36.8 |
| Interest on Convertible Bonds | 9.4 | 8.2 | 18.6 | 16.3 |
| Amortisation of debt issue costs | 2.5 | 1.8 | 6.5 | 3.5 |
| Amortisation of discount on Senior Notes due 2022 | 0.2 | 0.2 | 0.5 | 0.5 |
| Amortisation of discount on deferred satellite liabilities | 0.2 | 0.2 | 0.3 | 0.3 |
| Net interest on the net pension asset and post-employment liability | 0.7 | 0.2 | 1.4 | 0.2 |
| Other interest | 1.2 | 1.5 | 2.0 | 1.5 |
| | **37.7** | **29.5** | **76.5** | **59.1** |
| Less: Amounts capitalised in the cost of qualifying assets | (12.3) | (7.4) | (22.6) | (17.9) |
| **Financing costs excluding derivative adjustments** | **25.4** | **22.1** | **53.9** | **41.2** |
| Change in fair value of derivative liability component of the 2023 Convertible Bonds | 13.9 | – | 72.2 | – |
| **Net financing costs** | **37.6** | **21.7** | **122.4** | **39.5** |

## 5. Taxation

| ($ in millions) | Three months ended 30 June 2017 | Three months ended 30 June 2016 | Half year ended 30 June 2017 | Half year ended 30 June 2016 |
|---|---|---|---|---|
| **Current tax:** | | | | |
| Current period | 6.4 | 10.3 | 11.7 | 15.5 |
| Adjustments in respect of prior periods | 4.6 | (0.1) | 1.5 | 2.9 |
| **Total current tax** | **11.0** | **10.2** | **13.2** | **18.4** |
| **Deferred tax:** | | | | |
| Origination and reversal of temporary differences | 5.6 | 8.9 | 10.1 | 16.3 |
| Adjustments in respect of prior periods | 0.9 | – | 0.9 | (2.7) |
| **Total deferred tax** | **6.5** | **8.9** | **11.0** | **13.6** |
| **Total taxation charge** | **17.5** | **19.1** | **24.2** | **32.0** |

## 6. Net Borrowings

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

| ($ in millions) | At 30 June 2017 Amount | Deferred finance costs | Net balance | At 31 December 2016 Amount | Deferred finance costs | Net balance |
|---|---|---|---|---|---|---|
| **Current:** | | | | | | |
| Bank overdrafts | 0.8 | – | 0.8 | 0.5 | – | 0.5 |
| Deferred satellite payments | 2.6 | – | 2.6 | 3.8 | – | 3.8 |
| Ex-Im Bank Facilities | 99.5 | – | 99.5 | 99.5 | – | 99.5 |
| **Total current borrowings** | **102.9** | **–** | **102.9** | **103.8** | **–** | **103.8** |
| **Non-current:** | | | | | | |
| Deferred satellite payments | 7.9 | – | 7.9 | 8.4 | – | 8.4 |
| Senior Notes due 2022 | 1,000.0 | (5.6) | 994.4 | 1,000.0 | (6.1) | 993.9 |
| – Net issuance discount | (5.0) | – | (5.0) | (5.5) | – | (5.5) |
| Senior Notes due 2024 | 400.0 | (5.3) | 394.7 | 400.0 | (5.6) | 394.4 |
| Ex-Im Bank Facilities | 493.5 | (14.3) | 479.2 | 533.9 | (18.6) | 515.3 |
| Convertible Bonds due 2023 | 545.5 | (7.2) | 538.3 | 545.5 | (7.7) | 537.8 |
| – Accretion of principal | 9.8 | – | 9.8 | 3.7 | – | 3.7 |
| **Total non-current borrowings** | **2,451.7** | **(32.4)** | **2,419.3** | **2,486.0** | **(38.0)** | **2,448.0** |
| **Total borrowings** | **2,554.6** | **(32.4)** | **2,522.2** | **2,589.8** | **(38.0)** | **2,551.8** |
| Cash and cash equivalents | (400.0) | – | (400.0) | (262.0) | – | (262.0) |
| Short-term deposits | (116.4) | – | (116.4) | (395.0) | – | (395.0) |
| **Net borrowings** | **2,038.2** | **(32.4)** | **2,005.8** | **1,932.8** | **(38.0)** | **1,894.8** |

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

## 7. Fair value of financial instruments

The Group's derivative financial instruments consist of forward foreign currency contracts which are primarily designated as cash flow hedges and the conversion liability component of the Convertible Bonds due 2023.

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

The fair values at the Balance Sheet date were:

| ($ in millions) | At 30 June 2017 | At 31 December 2016 |
|---|---|---|
| **Financial assets:** | | |
| Forward foreign currency contracts – designated cash flow hedges | 1.9 | 0.8 |
| Forward foreign currency contracts – undesignated cash flow hedges | – | 1.0 |
| **Total derivative financial assets** | **1.9** | **1.8** |
| **Financial liabilities:** | | |
| Conversion liability component of 2023 Convertible Bond | (205.6) | (133.4) |
| Forward foreign currency contracts– designated cash flow hedges | (17.9) | (23.9) |
| Forward foreign currency contracts – undesignated cash flow hedges | (0.2) | (2.1) |
| **Total derivative financial liabilities** | **(223.7)** | **(159.4)** |
| **Net derivative financial liability** | **(221.8)** | **(157.6)** |

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.

On issuance the Convertible Bond 2023 was bifurcated between a cash debt and conversion liability component, as shown below. The cash debt component meets the definition of net borrowings and over the term of the bond will accrete up to the principal value of $650m with the cost of that accretion recognised in net financing costs. The conversion liability component represents the value of the conversion rights associated with the instrument and is accounted for at fair value through profit and loss.

The fair value of the conversion liability is calculated as the difference between the fair value of the Convertible Bond (being the principal multiplied by the closing bond price at the Balance Sheet date) and the accreted balance of the cash debt component. At 30 June 2017, the fair value of the Convertible Bond was $760.9m and the accreted balance of the cash debt component was $555.3m, meaning the conversion liability was valued at $205.6m. As shown in the table below, the movement in the conversion liability from December 2016 to 30 June 2017 of $72.2m has been recognised in the income statement through net financing costs:

| ($ in millions) | **At 30 June 2017** | **At 31 December 2016** | **On issuance** |
|---|---|---|---|
| Cash debt component | 555.3 | 549.2 | 545.5 |
| Conversion liability component | 205.6 | 133.4 | 104.5 |
| **Total fair value** | **760.9** | **682.6** | **650.0** |

The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs i.e. those that would be classified as level 3 in the fair value hierarchy, nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

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

| | **At 30 June 2017** | | **At 31 December 2016** | |
|---|---|---|---|---|
| ($ in millions) | **Carrying Value** | **Fair value** | **Carrying value** | **Fair value** |
| **Financial liabilities:** | | | | |
| Senior Notes due 2022 | 1,000.0 | 1,015.0 | 1,000.0 | 975.0 |
| Senior Notes due 2024 | 400.0 | 428.6 | 400.0 | 408.3 |
| Ex-Im Bank Facilities | 593.0 | 648.9 | 633.4 | 649.4 |
| Convertible Bonds due 2023 | 555.3 | 760.9 | 549.2 | 682.6 |

## 8. Dividends

| ($ in millions) | **At 30 June 2017** | **At 30 June 2016** |
|---|---|---|
| Final dividend for the year ended 31 December 2016 of 33.37 cents ($) (year ended 31 December 2015: 31.78 cents ($)) per share | 151.2 | 143.3 |

The Board intends to declare an interim dividend of 21.62 cents ($) per ordinary share, to be paid on 20 October 2017 to ordinary shareholders on the share register at the close of business on 15 September 2017. Dividend payments will be made in Pounds Sterling based on the exchange rate from the WMReuters GBP/USD 9am fix (London time) four business days prior to the date of announcement of the scrip reference price. In accordance with IAS 10, this dividend has not been recorded as a liability for the half year ended 30 June 2017.

## 9. Earnings per share

Earnings per share for the half year ended 30 June 2017 has been calculated based on the profit attributable to equity holders for the period and the weighted average number of ordinary shares in issue (excluding shares held by the Employee Benefit Trust).

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

| ($ in millions) | Three months ended 30 June 2017 | 2016 | Half year ended 30 June 2017 | 2016 |
|---|---|---|---|---|
| **Profit attributable to equity holders of the Company** | 43.6 | 76.7 | 37.3 | 122.1 |
| (millions) | | | | |
| Weighted average number of ordinary shares in issue | 453.8 | 449.5 | 453.8 | 449.6 |
| Potentially dilutive ordinary shares | 3.7 | 3.9 | 3.7 | 3.9 |
| **Weighted average number of diluted ordinary shares** | 457.5 | 453.4 | 457.5 | 453.5 |
| ($ per share) | | | | |
| **Basic earnings per share** | 0.10 | 0.17 | 0.08 | 0.27 |
| **Diluted earnings per share** | 0.10 | 0.17 | 0.08 | 0.27 |

## 10. Adjusted earnings per share

Adjusted earnings per share for the half year ended 30 June 2017 has been calculated based on profit attributable to equity holders adjusted for the pre-tax impact of the change in the fair value of the conversion liability component of the 2023 Convertible Bonds.

| ($ in millions) | Three months ended 30 June 2017 | 2016 | Half year ended 30 June 2017 | 2016 |
|---|---|---|---|---|
| **Profit attributable to equity holders of the Company** | 43.6 | 76.7 | 37.3 | 122.1 |
| Adjusted for: | | | | |
| Increase in fair value of conversion liability component of 2023 Convertible Bonds | 13.9 | – | 72.2 | – |
| **Adjusted profit attributable to equity holders of the Company** | 57.5 | 76.7 | 109.5 | 122.1 |
| (millions) | | | | |
| Weighted average number of ordinary shares in issue | 453.8 | 449.5 | 453.8 | 449.6 |
| Potentially dilutive ordinary shares | 3.7 | 3.9 | 3.7 | 3.9 |
| **Weighted average number of diluted ordinary shares** | 457.5 | 453.4 | 457.5 | 453.5 |
| ($ per share) | | | | |
| **Basic adjusted earnings per share** | 0.13 | 0.17 | 0.24 | 0.27 |
| **Diluted adjusted earnings per share** | 0.13 | 0.17 | 0.24 | 0.27 |

## 11. Contingent liabilities

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

## 12. Events after the balance sheet date

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

## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm to the best of their knowledge that:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34, "Interim Financial Reporting"

(b) the interim management report includes a fair review of the information required by Disclosure and Transparency Rule ('DTR') 4.2.7R, being an indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year; and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R, being the disclosure of related parties' transactions and changes therein.

The Directors of Inmarsat plc are listed on our website at www.inmarsat.com.

By order of the Board,

Rupert Pearce
Chief Executive Officer
3 August 2017

Tony Bates
Chief Financial Officer
3 August 2017

## INDEPENDENT REVIEW REPORT TO INMARSAT PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim balance sheet, the condensed consolidated interim statement of changes in equity, the condensed consolidated interim cash flow statement and related notes 1 to 12. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

### Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

**Deloitte LLP**
Statutory Auditor
London, United Kingdom
3 August 2017