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Inmarsat plc reports Preliminary Full Year Results 2017

Well positioned for future growth

London, UK: 9 March 2018. Inmarsat plc (LSE: ISAT.L), ("Inmarsat", "The Group"), the leading provider of global mobile satellite communications services, today announces financial results for the year ended 31 December 2017.

Financial highlights:

$ in millions	Fourth Quarter				Full Year			
	2017	2016	Change ($m)	Change (%)	2017	2016	Change ($m)	Change (%)
Group revenue	**353.7**	**358.1**	**(4.4)**	**(1.2%)**	**1,400.2**	**1,329.0**	**71.2**	**5.4%**
Maritime	143.6	142.8	0.8	0.6%	564.7	575.3	(10.6)	(1.8%)
Government	90.8	105.0	(14.2)	(13.5%)	366.7	330.5	36.2	11.0%
Aviation	51.0	42.1	8.9	21.1%	195.0	142.6	52.4	36.7%
Enterprise	32.1	34.5	(2.4)	(7.0%)	132.6	144.6	(12.0)	(8.3%)
Other[1]	36.2	33.7	2.5	7.4%	141.2	136.0	5.2	3.8%
EBITDA[2]	**163.7**	**221.8**	**(58.1)**	**(26.2%)**	**731.5**	**794.8**	**(63.3)**	**(8.0%)**
PAT	**32.7**	**67.1**	**(34.4)**	**(51.3%)**	**182.3**	**243.4**	**(61.1)**	**(25.1%)**
Adjusted EBITDA[3]	**183.6**	**221.8**	**(38.2)**	**(17.2%)**	**751.4**	**794.8**	**(43.4)**	**(5.5%)**
Adjusted PAT[4]	**25.3**	**85.3**	**(60.0)**	**(70.3%)**	**190.7**	**298.4**	**(107.7)**	**(36.1%)**

Operational highlights:

- **2017 Group Revenue** increased $71.2m (5.4%) to $1,400.2m ($1,273.5m, excluding Ligado):
  - **Maritime:** strong progress and return to quarterly year-on-year revenue growth, with high bandwidth Fleet Xpress ("FX") product gaining increasing market traction. Over 2,600 FX vessels by year end (2016: 335 vessels)
  - **Government:** material revenue growth in 2017, with new contract wins more than offsetting the pressures of on-going budgetary constraints and low operational tempo in our customer base
  - **Aviation:** double digit revenue growth, reflecting In-Flight Connectivity ("IFC") installation revenues, with 194 aircraft now installed with Global Xpress ("GX") terminals (2016: 20) and another year of strong growth in our Core businesses in Business & General Aviation ("BGA") and Safety & Operational Services ("SOS")
  - **Enterprise:** strong growth in M2M services partially offset decline in legacy services revenue
  - **GX:** airtime and related revenues of $142.3m (2016: $78.5m), supporting competitive positions in Maritime and Government and access to the fast-growing IFC market
  - **Q4 Group Revenue:** reduced by $4.4m mainly reflecting one-off US Government airtime contract in Q4 2016
- **2017 Adjusted EBITDA**[3]**:** down $43.4m (5.5%) at $751.4m ($626.7m, excluding Ligado):
  - **Key drivers**: revenue growth of $71.2m offset by further planned investment in IFC market capture and service delivery (an increase of $23.5m) and in developing our networks and back office infrastructure (an increase of $41.9m), as well as changes in revenue mix ($46.7m)
  - **Q4 Adjusted EBITDA**[3]**:** $38.2m lower, mainly reflecting lower revenues and adverse revenue mix (including one-off US Government airtime contract in 2016)

[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, it 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 contribution made by each of our business units. This is an Alternative Performance Measure ("APM").
[3] Adjusted EBITDA excludes one-off restructuring charge of $19.9m, incurred in Q4 2017. This is an APM.
[4] Adjusted PAT is defined as Profit after Tax excluding restructuring costs, the non-cash impact of the unrealised movement in the fair value of the conversion liability component of the 2023 convertible bond and the realised movement in the loss on redemption of the 2017 convertible bonds in 2016. This is an APM.

- **Profit After Tax**: down $61.1m (25.1%) to $182.3m, mainly due to lower EBITDA and higher depreciation
- **Network development:** Inmarsat-5 F4 and Inmarsat-S EAN satellites successfully launched in H1 2017, European Aviation Network ("EAN") progressing to commercial launch, design and build programmes for the 5th GX satellite and Inmarsat-6 F1 & F2 L-band replacement satellites on track
- **Headcount reduction programme:** implemented in Q4 2017, as part of our ongoing tight control of overheads, at a cost of $19.9m (excluded from adjusted EBITDA) to reduce our legacy costs and ensure that we have the capacity to invest in new skills to support the future growth of the business
- **Capital expenditure:** increased to $598.7m (2016: $412.9m), mainly due to investment in major infrastructure projects, including the two successful satellite launches
- **Dividend:** the Board has today taken the decision to reduce the level of annual dividend payment to 20 cents per share, to ensure that the Group has sufficient financial resources to support delivery of a leading position in IFC through the current infrastructure investment period

Rupert Pearce, Chief Executive Officer, commented on the results:

"Inmarsat delivered further operational and strategic progress in 2017, comprising both gratifying near term revenue growth as well as several important strategic proof-points around exciting medium term growth opportunities, especially in IFC.

"Our investment in Global Xpress, our high bandwidth global mobile satellite network, is starting to show material returns, generating over $140m of revenue in the year. Our strategic investment in GX will enable us to retain and develop our competitive positions in Maritime and Government and will ensure that we are well placed to access the substantial opportunity in IFC in Aviation.

"In Maritime, we made important strategic progress in securing the long term future for Fleet Xpress, with significant commitments signed with leading distribution partners. After a challenging year in 2016, which continued into Q1 2017, we delivered quarter-on-quarter growth throughout the year, and year-on-year revenue growth in the fourth quarter. In Government, we delivered on our strategy to diversify our contracted revenue base and product base, supported by another excellent operational performance during the year. In Aviation, we further established our market position in IFC, through commercial momentum and strategic investment, and our Core business delivered double digit revenue growth throughout 2017. In Enterprise, notwithstanding current challenges, we remain optimistic about the long term future demand for M2M connectivity in the emerging global internet of things ("IoT") market.

"Given Inmarsat's track record, unique capabilities and differentiated market position, we are well placed to continue to grow our revenues in 2018 and beyond and to capture significant additional medium term growth opportunities available to us, particularly in in-flight connectivity."

Outlook

The Board remains confident in the medium to long term growth outlook for the business. This confidence reflects the strong long term growth anticipated in Inmarsat's key mobile satellite communications markets, Inmarsat's market-leading global broadband GX capabilities, our unique competitive position within each of the fast-growing Aviation markets, the resilience and agility of our established L-band business and its future growth potential, the power of our global distribution channels and our full-service global mobile telecommunications offering.

Together, these elements ensure that Inmarsat will continue to be strongly positioned for further growth over the medium to long term in our chosen markets. In Maritime, we are confident that our future growth will be founded on continued progress in penetrating the maritime VSAT market segment and on diversification of our L-band business into new market segments. In Government, we remain well-placed to capture value over the medium term as the trusted provider of unique space-based capabilities to governments as and when near-term budgetary and operational tempo headwinds start to ease. In Enterprise, future growth is targeted in the emerging IoT opportunity, where we expect satellite services to play a substantial global role over the medium term. Finally, we expect that Aviation will be the largest individual growth driver for the Group in the coming years, through the consistent double-digit growth trajectory of our Core Aviation business and through the exceptional medium term growth potential of the fast-emerging and substantial IFC segment, in which we have a burgeoning market presence.

For the Group as a whole, building on the strong positive momentum achieved in 2017, and based on our recent contract wins in a number of markets, we expect further revenue growth in the short term to come mainly from material new GX revenue streams.

We also expect our L-band business to remain resilient over the medium term, given its differentiated characteristics, with future growth coming from the emergence of new market opportunities, such as IoT, services to smaller vessels and aircraft, and next generation maritime and aviation safety services.

Future guidance

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

Specific financial guidance for the future performance of the business is as follows:

- **Group revenue**:
  - 2018 revenue, excluding Ligado, of $1,300m to $1,500m (unchanged);
  - Annual GX revenues at a run rate of $500m by the end of 2020 (unchanged).
- **Group capex**:
  - Over 2018 to 2020, we expect that capital expenditure will be within a range of $500m to $600m per annum;
  - Based on current management plans, infrastructure capex is expected to meaningfully moderate after 2020 as we bring to bear our next generation network augmentation plans and become increasingly driven by IFC revenues.
- **Group leverage**:
  - Net Debt: EBITDA to normally remain below 3.5x (unchanged).

Dividend

In the course of 2017, and in particular during the second half of 2017, two factors have become more important, specifically:

- The lack of visibility over future cash payments from Ligado Networks beyond the end of 2018; and
- The increasingly clear opportunity that exists for Inmarsat in the fast-growing and substantial IFC segment in Aviation.

Given these factors, and the Board's requirement to ensure that the Group has sufficient financial resources to support delivery of a leading position in IFC through the current infrastructure investment period, the Board has taken a decision to reduce the annual dividend to 20 cents per share.

The annual dividend is expected to stay at these levels until the cash flow of the business rebuilds sufficiently to make an increase appropriate, having regard to the level of investment required to pursue attractive opportunities for sustained long term profitable growth, to providing competitive returns to our shareholders and to the capital structure of the business. It should be noted in this context that the Group has a long, established track record of paying substantial dividends, having returned over $2.1 billion to shareholders since our IPO in 2005.

The Board will propose to shareholders a 2017 final dividend of 12 cents per share, based on the reduced annual level of dividend of 20 cents per share and Inmarsat's historic allocation of 60% of the full year dividend to the final dividend. Added to the interim dividend already paid of 21.62 cents per share, the total dividends paid and proposed in respect of the year ended 31 December 2017 will be 33.62 cents per share.

Results presentation

Inmarsat management will host a presentation of the results on Friday 9 March at the company's offices at 99 City Road, London EC1Y 1AX, starting at 09.00 hrs London time.

To register to attend the presentation please contact Geeta Chambers at Inmarsat on +44 207 728 1206 or Geeta.Chambers@inmarsat.com.

A live web-cast of the presentation will also be available through our website at www.inmarsat.com and via a simultaneous conference call, accessible by calling +44 (0)330 336 9411 (from the UK and Europe), +1 323-794-2094 (from the US), with a dial-in code of 6914120.

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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.

INMARSAT IS WELL POSITIONED TO CAPTURE SIGNIFICANT GROWTH OPPORTUNITIES

Driven by the on-going surge in data utilisation by users on the move and around the world, the current demand for global mobile satellite broadband services continues to grow more rapidly than in many other satellite segments, whilst lower speed, high resilience satellite connectivity services to support emerging IoT applications offer significant growth potential over the medium to long term. Both of these areas are evidenced by the on-going growth in demand for mobile connectivity services in our Maritime, Government, Aviation and Enterprise end markets.

Inmarsat, with two complementary global satellite communications networks, each with in-orbit redundancy, fully focused on mobility markets, and a 38 year history and reputation of delivering reliable and agile connectivity services to customers, is very well positioned to retain or capture a leading market position in these two major growth opportunities. Inmarsat's confidence is supported by our:

- **Unrivalled presence in key end markets**, with a disciplined focus on end users for whom our services are highly differentiated and mission critical. We are the current global leaders in the supply of satellite telecommunications services to the maritime, government and aviation sectors;

- **Long-standing and sustainable advantage in global coverage**, enabling our customers to utilise a seamless, consistent service wherever they are in the world, ensuring they have reliable, always-on connectivity across our truly global technology platforms;

- **Owner economics**, ensuring we provide a high quality service to customers, meeting their capacity requirements and delivering for them an optimised value proposition;

- **Established global distribution networks**, both through direct and indirect channels, supported by strong local market access, providing a diversified route to market, global access and reach, specialisation and customer intimacy;

- **Clear technology roadmap**, based on an open network architecture, enabling the agglomeration of diverse future technologies, as appropriate, with a unique ability to:

  - **Augment our global GX network** through new, agile, lower cost technologies, focused on areas of high demand, to remain a leader in innovation, capability, capacity and cost. This will translate over the medium term into high relative returns on investment and ensure that we continue to efficiently deliver the benefits of a lower cost per bit to our customers, whilst maintaining tight control over the timing and extent of our capex;

  - **Renew our valuable and differentiated L-band services** with the current once-in-a-generation investment in the Inmarsat-6 satellites, which will replace our ageing Inmarsat-4 series after more than 20 years and will help us to pursue complementary medium term L-band growth opportunities, particularly in emerging global IoT markets.

As a result of these factors, Inmarsat remains well placed to access the significant growth opportunities in each of our chosen end markets in the coming years.

Maritime markets

We continue to expect strong demand for our services from merchant shipping fleets, predominantly in order to improve their business efficiency and effectiveness. The major growth opportunity for Inmarsat in Maritime is in the high bandwidth Very Small Aperture Terminal ("VSAT") segment. The addressable market for VSAT services is expected to double over the next decade, from around 20,000 vessels today to around 40,000 vessels at the start of the next decade, with the segment worth around $1 billion at retail at that point[1].

With our large legacy user base (to migrate to VSAT services), global distribution network, unique product and service range, and trusted heritage, Inmarsat remains in a strong position to be able to garner a leading position in this major segment opportunity. Our high bandwidth GX-based product, Fleet Xpress ("FX"), is well on the way to establishing itself as the leading service proposition in this segment, with fast-growing revenues from both our direct sales channel and, increasingly, through our long-established distribution partner community.

[1] Source: Inmarsat, Clarksons, Euroconsult, Futurenautics. Estimated segment sizes are retail.

We now have more than 10,000 ships committed to Fleet Xpress over the coming years (including commitments from our key strategic distribution partners as well as vessels committed to be migrated from our interim VSAT product, XpressLink ("XL"), to Fleet Xpress), ensuring a strong foundation for our growth ambitions going forward.

The mid-market segment in Maritime is where Inmarsat has been a leader for many years, with our core L-band product, FleetBroadband ("FB") setting the standard for maritime connectivity services. This segment comprises the merchant, offshore, high-end fishing and high-end leisure sub-segments and numbers around 60,000 vessels today, with a total segment value at retail of around $540m[1]. Over the medium term, we expect a moderate decline in the size of this segment, driven principally by the migration of vessels into the VSAT segment (see above) on an ARPU accretive basis. In the mid-market segment, we expect FB to continue to be highly competitive, bolstered by material cost, form factor and capability improvements which will become available following the launch of our Inmarsat-6 series satellites in the early 2020s and which will maintain our position as the leading L-band services innovator.

The size of the addressable opportunity to serve the smaller vessel segment, which includes fishing and leisure vessels, is around 690,000 vessels today, and is expected to see moderate growth over the next decade to around 725,000 vessels, valuing the segment at retail at around $780 million[1]. We see significant potential over the medium to long term to serve this large segment, where the small form-factor, low cost and unique service capabilities of our newly launched L-band offering, Fleet One, will have sustained differentiation.

Government markets

The commercial provision to Government customers of satellite communications services is expected to grow in aggregate value from around $800m in 2017 to nearly $1.4 billion by 2025, on a wholesale basis (source: NSR). This will be driven by internationalisation of demand beyond the established space-equipped nations, major events, budgetary stimulus, technology obsolescence and new opportunities emerging from a structural shift from government procurement of proprietary space infrastructure to the acquisition by governments of off-the-shelf services from commercial partners to replace or complement proprietary capabilities. We also believe that many governments will embrace the power of space-based communications in areas of high policy importance such as first response and emergency readiness and interoperability, e-citizenship, bridging the digital divide, security and efficiency of infrastructure (including energy and water systems) and next generation transportation and logistics networks. Consequently, government agencies' operational reliance on commercially-provided space-based capabilities is expected to become an increasingly common feature of the industry.

Inmarsat is well placed to participate in this potential emerging new government market segment over the long term, both because of its leading-edge global broadband and high resilience networks and through having invested significantly in global MILSATCOM augmentation in recent years, both in Ka-band and L-band, in particular to ensure that GX is fully fungible with the US Government's proprietary satellite systems in the future.

Aviation markets – In-Flight Connectivity ("IFC")

The major growth opportunity for Inmarsat in the coming years is expected to be the provision of IFC services to customers in the commercial air transport segment. According to 2017 research conducted by Inmarsat in conjunction with the London School of Economics, connectivity is expected to transform commercial aviation markets in the medium term, with related ancillary revenues from activities (for example targeted advertising, e-commerce and the delivery of premium content and entertainment) becoming increasingly important to airline profitability. This research forecasts that airlines will become gatekeepers to a $130 billion incremental revenue opportunity for all related parties by 2035, empowered by IFC services, with the airlines themselves capturing around 25% of this value. This will be driven by digitalisation across the industry, consistent growth in passenger demand for connectivity and new technologies, powered by satellite communications and air-to-ground networks. Consequently, the retail value for satellite operators and services providers delivering IFC connectivity services to the industry is predicted to grow from around $1bn in 2017 to $5.4bn by 2026 (source: Euroconsult).

[1] Source: Inmarsat, Clarksons, Euroconsult, Futurenautics. Estimated segment sizes are retail.

Furthermore, there is expected to be a ramp-up in the number of connected aircraft in operation in the future – from 6,000 in 2015 to over 20,000 by the middle of the next decade (source: Valour). Over 70% of these new aircraft are expected to be based in the relatively nascent IFC markets of Europe, Asia Pacific, the Middle East and Latin America. These regions will drive the majority of the future growth of the global air transport industry and are therefore key target areas for Inmarsat.

Inmarsat, with a current estimated segment share in IFC of over 30% (excluding North America and based on our signed aircraft under contract for GX Aviation services), is targeting to become the market leader in this rapidly developing market segment. With our unique global broadband networks (including both GX and our integrated satellite/air-to-ground, the EAN), complemented by our global high resilience & safety networks (deployed across our SwiftBroadband and SB-Safety services), and supported by our strong and highly experienced distribution channel and hardware partners (as well as our own newly created direct sales, marketing and service delivery capability), we are well-placed to continue to drive towards market leadership in this high-growth sector over the coming years. Although we currently remain in the market capture and infrastructure investment phase regarding the global IFC opportunity, we remain confident that over the medium term our IFC business will become highly profitable and cash generative on a long term, sustained basis.

Aviation markets – BGA and SOS

The retail value of the BGA segment is expected to treble in size, from $250m in 2017 to $1bn by 2026 (source: Euroconsult), driven by a continued steady increase in aircraft in service and an increased bandwidth requirement per aircraft, partly driven by innovation in cabin and cockpit applications.

The SOS segment is expected to double in size from $55m in 2017 to $150m in 2026 (source: Inmarsat internal estimates), on a wholesale basis, driven by the transition of legacy safety communications systems to next generation IP networks, key regulatory mandates coming into force over the medium term, the rise of next generation safety services, the increasing prevalence of cockpit satellite communications and revolutionary ‘connected aircraft’ services becoming the norm in the industry.

Inmarsat has strong legacy market positions and new product offerings in both of these markets, as well as an exceptionally experienced and capable distribution channel to market, and we expect to continue to deliver strong revenue and profit growth, based on further product and service upgrades which will drive customer usage in the future. Specifically, we believe that SwiftBroadband has room to continue to grow in both the BGA and SOS segments, especially in the fast-emerging smaller aircraft sub-segment and for connected aircraft applications, that Jet ConneX (our GX Aviation service offering for the BGA segment) has exceptional immediate growth potential in the BGA segment, and that our soon-to-be-launched SB-Safety product has strong medium term growth potential in the SOS segment, including for both next generation safety services and air traffic management services (for example, in the European IRIS project).

Enterprise markets

In recent years, we have successfully established a land-based commercial mobile satellite services business focused on providing highly portable satellite communications services to remote communities and/or for use when terrestrial networks are not available, for example in diverse sectors such as first response, media, aid and mining and construction. Whilst we expect these activities to remain relatively stable in the years to come, we expect significant new growth potential over the medium term to arise from emerging new market opportunities associated with the ‘digital society’ and/or global 5G deployments, including IoT.

The ability of satellite services to extend the range of terrestrial networks and to narrow the digital divide, to enhance resiliency (especially cyber resilience) and redundancy and to provide a range of unique complementary capabilities such as broadcast services and precision navigation services is expected to drive significant medium to longer term growth opportunities for Inmarsat, especially in new market segments such as logistics & transportation, smart cities and smart agriculture.

OPERATING AND FINANCIAL REVIEW

The following is a discussion of the audited consolidated results of the operations and financial condition of Inmarsat plc (the "Company" or, together with its subsidiaries, the "Group") for the year ended 31 December 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 the measurement requirements of International Financial Reporting Standards ("IFRS") as adopted by the European Union. In addition to IFRS measures, we use a number of Alternative Performance 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 twelve and three month period ended 31 December 2017, and all comparisons are with the same periods ended 31 December 2016, unless stated otherwise. This report includes additional disclosure relating to year-on-year trends in direct and indirect costs, with data from recent quarters available on the Company's website: www.inmarsat.com.

Group Financial Highlights

	Three months ended 31 December			Year ended 31 December		
($ in millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenue						
Satellite services	321.6	327.6	(1.8%)	1,273.5	1,209.6	5.3%
Ligado revenue	32.1	30.5	5.2%	126.7	119.4	6.1%
Total revenue	**353.7**	**358.1**	**(1.2%)**	**1,400.2**	**1,329.0**	**5.4%**
Direct costs	(61.5)	(33.4)	84.1%)	(207.0)	(145.6)	(42.2%)
Gross Margin	**292.2**	**324.7**	**(10.0%)**	**1,193.2**	**1,183.4**	**0.8%**
Indirect costs	(108.6)	(102.9)	(5.5%)	(441.8)	(388.6)	(13.7%)
Adjusted EBITDA	**183.6**	**221.8**	**(17.2%)**	**751.4**	**794.8**	**(5.5%)**
Adjusted EBITDA margin %	*51.9%*	*61.9%*	–	*53.7%*	*59.8%*	–
Restructuring	(19.9)	–	–	(19.9)	–	–
EBITDA	**163.7**	**221.8**	**(26.2%)**	**731.5**	**794.8**	**(8.0%)**
Cash capital expenditure[1]	**200.7**	**173.9**	**(15.4%)**	**598.7**	**412.9**	**(45.0%)**

Group revenues increased in 2017 by $71.2m mainly driven by the growth in Aviation, as well as Government. Q4 2017 revenue declined by $4.4m, including the impact of a one-off US Government airtime contract in Q4 2016.

In 2017, direct costs increased by $61.4m, rising faster than revenues, in response to the changing revenue mix across the business, particularly as we sought to capture share in key markets, including the addition of installation revenues in Aviation (with related direct costs up $22.9m in the year), a higher level of equipment sales in Maritime and the continued ramp-up of the CSSC contract in Government. In addition, in Central Services, there were higher costs, mainly related to capacity leasing. A combination of these factors particularly impacted Q4, when direct costs were up by $28.1m (including an increase of $6.1m in Maritime, $5.5m in Government, $7.2m in Aviation, $2.3m in Enterprise and $7.0m in Central Services).

Indirect costs in the year grew by $53.2m, including an increase of $5.7m in Q4, reflecting increased IFC capability in Aviation (an increase of $23.5m in 2017) and higher central operational delivery costs (an increase of $41.9m in 2017), but a reduction of $12.2m in indirect costs elsewhere in the business, reflecting tight cost control more generally.

In addition, a headcount reduction programme was implemented in Q4 2017, with an associated one-off cost of $19.9m in the quarter, to reduce our legacy costs, ensuring that we have the capacity to invest in new skills to support the future growth of the business. As a result of the above, Adjusted EBITDA in 2017, decreased by $43.4m from the prior year, and Adjusted EBITDA margin decreased to 53.7%, from 59.8% in 2016.

Capital expenditure for the year increased by $185.8m, including an increase of $26.8m in Q4, mainly due to major infrastructure projects (GX, including GX-5, S-band and I-6 satellites) in which we have continued to invest throughout the year, including the cost of two launches during H1 2017.

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.

Maritime

($ in millions)	Three months ended 31 December 2017	2016	Change	Year ended 31 December 2017	2016	Change
Revenue	143.6	142.8	0.6%	564.7	575.3	(1.8%)
Direct costs	(24.4)	(18.3)	(33.3%)	(86.4)	(79.5)	(8.7%)
Gross Margin	**119.2**	**124.5**	**(4.3%)**	**478.3**	**495.8**	**(3.5%)**
Indirect costs	(10.9)	(9.6)	(13.5%)	(36.4)	(41.0)	11.2%
EBITDA	**108.3**	**114.9**	**(5.7%)**	**441.9**	**454.8**	**(2.8%)**
EBITDA margin %	*75.4%*	*80.5%*	–	*78.3%*	*79.1%*	–
Cash capex	**10.1**	**12.0**	**15.8%**	**43.4**	**43.8**	**0.9%**

Full year	Revenue ($ in millions) 2017	2016	Number of vessels 2017	2016	Average Revenue per User ("ARPU") 2017	2016
FleetBroadband ("FB") – Standalone	349.2	368.2	36,105	38,088	780	787
VSAT (XL and FX)	124.4	102.9	4,332	3,028	2,885	3,112
Fleet One	5.0	3.2	3,083	1,276	100	98
Other products	86.1	101.0	n/a	n/a	n/a	n/a

Fourth Quarter	Revenue ($ in millions) 2017	2016	Number of vessels 2017	2016	Average Revenue per User ("ARPU") 2017	2016
FleetBroadband ("FB") – Standalone	86.9	91.3	36,105	38,088	794	793
VSAT (XL and FX)	32.9	27.8	4,332	3,028	2,646	3,112
Fleet One	1.8	1.4	3,083	1,276	111	101
Other products	22.0	22.3	n/a	n/a	n/a	n/a

After a challenging year in 2016, which continued into Q1 2017, Maritime delivered three consecutive quarters of sequential growth, including year-on-year growth in Q4 2017, with revenues for the year as a whole consequently declining by 1.8%.

Revenue from our VSAT products, XL and FX, increased by 20.9% in 2017, including 18.3% growth in Q4, 25.8% in Q3, 21.0% in Q2 and 17.7% in Q1, highlighting the on-going increase in customer usage of our high bandwidth products. There were 4,332 VSAT vessels at the end of the year (2016: 3,028), including 2,614 FX vessels (2016: 335).

The VSAT installation order book has also increased, rising to around 720 vessels at the end of 2017, from around 630 vessels at the end of Q3 2017, and from around 500 at the end of 2016. The pace of FX installations continued to accelerate, driven by the continued ramp-up of our internal installation capability and the growing engagement of our distribution partners, with an increase of 651 vessels in the fourth quarter (626 increase in Q3, 529 increase in Q2 and 473 increase in Q1). The overall proportion of completely new customer installations remained high during the year at 26%, including 31% in Q4 (Q3[1]: 25%. Q2: 22%, Q1: 19%):

Installed Fleet Xpress installations	FY 2017	Q4 2017	Q3 2017[1]	Q2 2017	Q1 2017
Opening balance of installed FX vessels	**335**	**1,963**	**1,337**	**808**	**335**
XpressLink migrations	876	241	200	198	237
FleetBroadband upgrades	833	208	267	213	145
New customers	570	202	159	118	91
Total installations & migrations during period	**2,279**	**651**	**626**	**529**	**473**
Closing balance of installed FX vessels	**2,614**	**2,614**	**1,963**	**1,337**	**808**

Q3 2017 FleetBroadband upgrade and new customer figures restated from 132 and 294, respectively, reflecting minor data errors at Q3 2017.

By the end of Q4, 624 installed FX vessels were with our distribution partners (Q3: 423, Q2: 243, Q1: 97).

As anticipated, VSAT Average Revenue per User ("ARPU") declined by 7.3% to $2,885 per month in 2017, reflecting the on-going impact of wholesalers continuing to increase their share of this mix, a trend which is expected to accelerate. Retail ARPU for XL vessels remained stable during the year at around $3,000 per month, with around 1,700 vessels to be migrated to FX in the coming years.

FB performed solidly in 2017. Vessels using the product declined to 36,105 at the end of 2017, from 38,088 at the end of 2016. Around 40% of this decline in FB vessel numbers (around 830 vessels) related to the managed, ARPU-accretive migration of these vessels up to FX. The remainder (around 1,100 mainly low ARPU vessels) were lost as a result of scrappage and increased competition at the low end of the market (which we are addressing through new service propositions, including Fleet One). As a result of these factors, FB revenues declined by 5.1% in 2017, with the rate of decline improving to 4.8% in the fourth quarter (from 6.8% in the third quarter).

FB ARPU has remained resilient over the year at around $780 per month, with the positive impact of customers moving to higher value packages within FB, broadly offsetting a number of customers with higher value FB packages migrating to FX, a trend which is expected to continue in the coming years.

Revenue from our mainly lower margin and legacy products declined by 14.8% in 2017, and by just 1.4% in Q4, as a result of the sales of FX terminals which contributed an increase in revenue of $7.1m in 2017, including $4.2m in Q4 2017. FX and Fleet One terminal sales become a regular feature of our revenue mix, as we further our efforts to capture and build share in the VSAT and Smaller Vessel markets. Excluding this positive impact, the underlying revenue decline in our legacy product base was 21% in Q4 2017.

Fleet One delivered $5.0m of airtime and equipment revenue in 2017, up from $3.2m in 2016, predominantly as a result of increased vessel numbers. Around 400 new Fleet One terminals were installed during the fourth quarter, taking the products' customer base to 3,083 vessels by the end of the year, an increase of around 1,800 from the end of 2016. Fleet One's average ARPU held stable at around $100 per month.

Against the backdrop of flat revenues, direct costs increased by $6.9m in the year, including $6.1m in the fourth quarter, reflecting a change in revenue mix, due to the impact of lower margin FX and Fleet One terminal sales to capture market share. Indirect costs decreased by $4.6m in the year, driven by the impact of an internal reorganisation in July 2016, which moved costs of c.$4m during 2016 from Maritime into Central Services.

As a result of the above factors, EBITDA in 2017 declined by $12.9m and by $6.6m in the fourth quarter. EBITDA margin decreased to 78.3% in the year, (from 79.1% in 2016), and to 75.4% in the fourth quarter (from 80.5% in 2016).

Maritime capex decreased by $1.9m in the fourth quarter due to timing issues around success-based capex, related to the ramp-up in FX installations and migrations, but was relatively flat for the year.

Government

	Three months ended 31 December			**Year ended 31 December**		
($ in millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenue	90.8	105.0	(13.5%)	366.7	330.5	11.0%
Direct costs	(14.8)	(9.3)	(59.1%)	(54.4)	(41.2)	(32.0%)
Gross Margin	**76.0**	**95.7**	**(20.6%)**	**312.3**	**289.3**	**8.0%**
Indirect costs	(13.1)	(12.9)	(1.6%)	(47.1)	(45.3)	(4.0%)
EBITDA	**62.9**	**82.8**	**(24.0%)**	**265.2**	**244.0**	8.7%
EBITDA margin %	*69.2%*	*78.9%*	–	*72.3%*	*73.8%*	–
Cash capex	**2.5**	**4.6**	**45.7%**	**9.9**	**6.1**	**(62.3%)**

Our Government business delivered revenue growth of 11.0% in 2017, reflecting another strong operational performance. However, revenue in Q4 was down by 13.5% year-over-year, as a result of a one-off US Government airtime contract positively impacting our US Government results in Q4 2016 and a material reduction in exceptional operational revenues outside the US from Q3 2017, as previously highlighted. Despite several years of strong revenue growth in Government, budget and operational tempo headwinds persist with many of our core customers. Consequently, near-term future revenue growth is expected to be modest, as the Boeing take or pay contract reduces to normalised levels, the exceptional revenues of 2017 are not repeated and contract wins continue to be lumpy and irregular.

US Government revenues grew by 21.4% in 2017, driven by the impact of short term higher operational tempo activity during Q3, a material new business win in Q2 and approximately three quarters of revenue from the US Navy Commercial Broadband Satellite Program Satellite Services Contract ("CSSC"). In addition, there was another full year of revenue from our Take or Pay contract with Boeing, which is expected to decline to normalised levels that will be established in the next few years. However, Q4 revenue was down by 13.5%, due to the challenging comparator, as outlined above.

Outside the US, Government revenues fell by 5.1% in 2017 and by 13.6% in Q4, mainly reflecting the material reduction in exceptional operational revenues, outlined above, which had been received since Q3 2015.

Direct costs during 2017 increased by $13.2m, including an increase of $5.5m in Q4, due to increased revenues from the CSSC contract, which is relatively low margin, and a challenging comparator, as outlined above. Indirect costs increased by $1.8m in 2017, including an increase of $0.2m in Q4. EBITDA increased by $21.2m in the year, but fell by $19.9m in Q4, as a result of the increase in direct costs. EBITDA margin declined to 72.3% in 2017, and fell to 69.2% in Q4.

Aviation

	Three months ended 31 December			Year ended 31 December		
($ in millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenue	51.0	42.1	21.1%	195.0	142.6	36.7%
Direct costs	(8.5)	(1.3)	(553.8%)	(26.1)	(3.2)	(715.6%)
Gross Margin	**42.5**	**40.8**	**4.2%**	**168.9**	**139.4**	**21.2%**
Indirect costs	(14.8)	(13.0)	(13.8%)	(65.5)	(42.0)	(56.0%)
EBITDA	**27.7**	**27.8**	**(0.4)%**	**103.4**	**97.4**	**6.2%**
EBITDA margin %	*54.3%*	*66.0%*	–	*53.0%*	*68.3%*	–
Cash capex	**24.6**	**89.2**	**72.4%**	**130.9**	**153.0**	**14.4%**

Core / IFC	Three months ended 31 December				Year ended 31 December			
($ in millions)	**Core**		**IFC**		**Core**		**IFC**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Revenue	36.6	32.1	14.4	10.0	132.5	113.3	62.5	29.3
Direct costs	(0.4)	0.0	(8.1)	(1.3)	(1.0)	0.0	(25.1)	(3.2)
Gross Margin	**36.2**	**32.1**	**6.3**	**8.7**	**131.5**	**113.3**	**37.4**	**26.1**
Indirect costs	(2.2)	(3.1)	(12.6)	(9.9)	(9.8)	(10.0)	(55.7)	(32.0)
EBITDA	**34.0**	**29.0**	**(6.3)**	**(1.2)**	**121.7**	**103.3**	**(18.3)**	**(5.9)**

Revenue in our Core business, which comprises SwiftBroadband and JetConneX for BGA, Classic Aero for SOS and other legacy products, increased by $19.2m, 16.9%, to $132.5m in 2017, including an increase of $4.5m in Q4 2017 to $36.6m.

In BGA, SwiftBroadband revenues grew by 16.2% in 2017 to $75.3m (2016: $64.8m), including 11.1% growth in Q4 to $21.1m (Q4 2016: $19.0m), driven by an increase in number of installed aircraft and higher ARPA, which increased to $1,665 per month, from $1,496 per month at the end of 2016, as a result of higher airtime usage. By the end of 2017, there were 3,818[1] active aircraft with SwiftBroadband services in BGA (2016: 3,609). The installation programme for JetConneX, our new GX-based product for the BGA market, gained continued traction during the year, with 165 terminals now installed, generating airtime revenue of $4.6m in 2017 (2016: $0.3m). JetConneX is now line fit on the five large OEM platforms (Gulfstream, Bombardier, Dassault, Embraer and Cessna), which we expect to drive accelerated growth over the medium term.

In SOS, our Classic Aero product delivered revenue growth of 15.2% to $41.8m in 2017, (2016: $36.3m), including growth of 15.3% in Q4 to $11.3m (Q4 2016: $9.8m), with an increase in number of total aircraft to 9,224 (2016: 8,951) and as a result of higher ARPA, which increased to $380 per month, from $338 per month in 2016, reflecting higher customer airtime usage.

[1] SwiftBroadband and Classic Aero usage figures, including ARPU, previously based on number of SIMs. Now revised to reflect number of aircraft.

Revenue in our other legacy products in our Core business decreased slightly to $11.0m in 2017, (2016: $12.4m).

IFC revenues, comprising our SwiftBroadband-based IFC services for commercial aviation, as well as our GX Aviation services for IFC, grew by $33.2m to $62.5m in 2017, including an increase of $4.4m to $14.4m in Q4 2017.

Our SwiftBroadband-based IFC services in commercial aviation delivered revenue growth of 41.6% to $39.0m in 2017 (2016: $27.6m), including growth of 27.7% to $10.6m in Q4 2017 (Q4 2016: $8.3m). This growth was driven by increased usage by a number of key customers during the year, with around 900 active aircraft currently using the service. Over the medium term, we expect to transition a portion of these customers on to GX for Aviation IFC services.

A substantial number of new airline customers signed up for the provision of GX for Aviation IFC services during 2017, including Qatar Airways, Avianca, AirAsia, Philippine Airlines and Air Astana, and we now have over 1,300 aircraft expected under signed contracts for IFC services, (2016: 950 aircraft), with around 3,000 aircraft in our new business pipeline.

During the year, several customers made progress with their GX terminal installation programmes, including Deutsche Lufthansa Group, and we continue to support them in preparation for active service. There were 194 GX-installed aircraft across a number of our customers at the end of 2017 (from 141 at the end of Q3 2017, 101 at the end of Q2 2017 and 20 at the end of 2016 – all of which directly related to Lufthansa). Consequently, $23.6m of GX-related IFC revenue was generated in 2017, (2016: $1.6m, which was generated in Q4 2016 only). The vast majority of this revenue was relatively low margin installation revenue. This included revenue of $3.8m in Q4 2017 (a relatively small contribution compared to previous quarters, due to the impact of the seasonality of installation schedules of our customers).

The complementary ground component of the EAN is now complete, and we are working to activate aircraft for trials, with European roll-out of the service expected to take place into 2019. We now have substantially all the required regulatory authorizations for this phase.

Direct costs in our Core business remained fairly immaterial at $1.0m in 2017, given the dynamics of this business (which are based on the sales of airtime exclusively through partners and resellers). Indirect costs in the Core business remained stable at $9.8m, with EBITDA increasing to $121.7m during the year (2016:$103.3m), reflecting revenue growth and related operational gearing in that business.

In IFC, direct costs increased to $25.1m in 2017 (2016: $3.2m), as a result of additional lower margin GX installation revenues being added to the revenue mix. Indirect costs in IFC increased by $23.7m to $55.7m, due to increased headcount and other overhead costs associated with the pursuit and delivery of the major growth opportunities in IFC. Consequently, EBITDA in IFC, during the current phase of investment in market capture and delivery, declined to $(18.3)m (2016: $(5.9)m).

EBITDA for the overall Aviation business increased by $6.0m in 2017, but remained flat in Q4, with EBITDA margin declining to 53.0% in the year, from 68.3% in 2016, reflecting the changing revenue mix and higher indirect costs in IFC.

We continue to expect that Aviation EBITDA margins will remain negatively impacted in the short term by our efforts to build our market position in IFC. Revenues will initially be low margin installation revenues rather than higher margin air time revenues, as we drive equipment installation programmes for certain customers. In addition, indirect Aviation costs will continue to rise in the short term (albeit more slowly than in 2016 and 2017) as we continue to invest in IFC market capture and delivery.

However, over the medium term we expect IFC margins to rebuild as higher margin airtime revenues come to the fore and as our indirect costs to support the business stabilise in support of a business that can then scale. As previously outlined, we expect that, over the years 2016 to 2021, EBITDA margins in Aviation will fall from over 60% in 2016 to around 50% in 2017 and then to around 40% in 2018, after which higher revenues, improved revenue mix and more stable indirect costs start to deliver a return to 2016 margins in Aviation.

Cash capex decreased by $22.1m in the year, including a decrease of $64.6m in Q4, as a result of significant infrastructure investment in the S-band satellite in Q4 2016, ahead of its launch in Q2 2017. Aside from infrastructure investment, all other cash capex in Aviation relates to the IFC business.

Enterprise

($ in millions)	Three months ended 31 December 2017	2016	Change	Year ended 31 December 2017	2016	Change
Revenue	32.1	34.5	(7.0%)	132.6	144.6	(8.3%)
Direct costs	(6.4)	(4.1)	(56.1%)	(23.4)	(18.8)	(24.5%)
Gross Margin	**25.7**	**30.4**	**(15.5%)**	**109.2**	**125.8**	**(13.2%)**
Indirect costs	(4.0)	(5.3)	24.5%	(17.3)	(19.9)	13.1%
EBITDA	**21.7**	**25.1**	**(13.5%)**	**91.9**	**105.9**	**(13.2%)**
EBITDA margin %	*67.6%*	*72.8%*	–	*69.3%*	*73.2%*	–
Cash capex	–	**0.1**	–	–	**0.4**	–

In 2017, Enterprise revenues declined by 8.3% in the year, including 7.0% in Q4, as a result of on-going market pressures.

Revenue in our Broadband Global Area Network (“BGAN”) product declined by 8.0% to $27.8m in the year, including a decline of 3.5% to $7.0m in Q4. Satellite phone terminal sales and airtime revenues were also down, falling 10.0% to $30.8m, including a decline of 22.4% to $7.3m in Q4.

Whilst both product lines benefited from the short term impact of hurricane-related activity during Q3, they continue to be negatively impacted by an increasingly competitive market environment, particularly from land-based Ka-band and Ku-band and cellular alternatives.

Fixed-to-mobile revenues decreased by 29.1% to $16.6m during the year, including a decline of 29.8% to $3.2m in Q4, 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 9.5% to $18.3m during the year, including an increase of 12.6% to $4.8m in Q4, with the number of connected M2M terminals increasing to over 358,000 by the end of the year, highlighting continued strong demand for M2M in commercial applications.

Direct costs increased by $4.6m in 2017, including an increase of $2.3m in Q4, as a result of a combination of lower revenue and a change in revenue mix, whilst indirect costs were reduced by $2.6m in the year, including a reduction of $1.3m in Q4. As a result of the increase in direct costs, EBITDA was down by $14.0m in 2017 and down by $3.4m in Q4. EBITDA margin declined to 69.3% in 2017, and to 67.6% in Q4.

Central Services

($ in millions)	Three months ended 31 December 2017	2016	Change	Year ended 31 December 2017	2016	Change
Revenue						
Ligado Networks	32.2	30.5	5.6%	126.7	119.4	6.1%
Other	4.0	3.2	25.0%	14.5	16.6	12.7%
Total revenue	**36.2**	**33.7**	**7.4%**	**141.2**	**136.0**	**3.8%**
Direct costs	(7.4)	(0.4)	(1750.0%)	(16.7)	(3.1)	(438.7%)
Gross Margin	**28.8**	**33.3**	**(13.5%)**	**124.5**	**132.9**	**(6.3%)**
Indirect costs	(65.8)	(62.1)	(6.0%)	(275.5)	(240.2)	(14.7%)
Adjusted EBITDA	**(37.0)**	**(28.8)**	**(28.5%)**	**(151.0)**	**(107.3)**	**(40.7%)**
Restructuring	(19.9)	-		(19.9)	-	
EBITDA	**(56.9)**	**(28.8)**	**(97.6%)**	**(170.9)**	**(107.3)**	**(59.3%)**
Cash capex	**163.5**	**68.0**	**(140.4%)**	**414.5**	**209.6**	**(97.8%)**

Revenue from Ligado for the year increased by $7.3m, including an increase of $1.7m in Q4. $5m of the yearly increase is attributable to deferred income recognised.

In total, $16.0m (2016: $11.0m) of deferred income was recognised during the year with the majority reflecting the impact of the revenue deferral arising under the revised transition agreement finalised in 2016.

At 31 December 2017, the Group held $181.8m of deferred revenue on the balance sheet in respect of expected costs of implementation of this agreement. There have been no other developments in respect of this agreement in the period.

Direct costs increased by $13.6m to $16.7m in 2017, including an increase of $7.0m to $7.4m in Q4 2017, mainly as a result of increased capacity leasing costs.

Indirect costs increased by $35.3m in the year, including $3.7m in Q4, due to higher underlying central operational delivery costs of $41.9m in 2017, relating to increased expenditure on the GX network and our operational capabilities including Cyber and IT and the transfer of c$4m of costs from Maritime.

We implemented a major headcount reduction programme in Q4 2017, with related one-off costs of $19.9m in Q4 2017, to reduce our legacy costs, ensuring that we have the capacity to invest in new skills to support the future growth of the business.

We continue to expect a higher level of central operational delivery costs, reflecting not only the impact of the new GX related ground infrastructure being implemented but also increased investment in both IT and cyber security capabilities across the organisation, with the growth in central operational delivery costs in 2018 expected to be in the single digits, in percentage terms.

Central Services capital expenditure in the year increased by $204.9m, including an increase of $95.5m in Q4, due to further expenditure on GX, including initial investment in the design and build programme for the 5th GX satellite and I-6 satellite infrastructure, as well as further investment in organisational capability.

Ligado update

The lack of visibility over the cash payments from Ligado beyond the end of 2018 continues. Contractually, payments from Ligado will pause in 2019 and then resume in 2020 at c. $136m per annum, growing thereafter at 3% compound over the next 99 years. Should Ligado obtain its licence from the Federal Communications Commission in 2018, there would be no pause in 2019. Any payments not made in 2019, together with payments deferred between 2016 and 2018 (approximately $35m) will be due for payment by Ligado with interest at the earlier of commissioning their network or 30 June 2021.

Whilst the outlook for Ligado remains uncertain there are many ways in which the Ligado position could evolve positively for the Group. Ligado has been through bankruptcy once already with Inmarsat's contract enduring this event as without that contract, Ligado's stated business model and potential high market valuation are not viable. Whilst Inmarsat will continue to adopt a prudent approach to Ligado in its financial planning, the Group's contract provides material possible upside value.

Reconciliation of EBITDA to Profit after tax

	Three months ended 31 December			**Year ended 31 December**		
($ in millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Adjusted EBITDA	**183.6**	**221.8**	**(17.2%)**	**751.4**	**794.8**	**(5.5%)**
Restructuring change	(19.9)	–	(100.0%)	(19.9)	–	(100.0%)
EBITDA	**163.7**	**221.8**	**(26.2%)**	**731.5**	**794.8**	**(8.0%)**
Depreciation and amortisation	(112.6)	(87.1)	(29.3%)	(406.7)	(349.4)	(16.4%)
Other	0.1	0.4	(75.0%)	(3.3)	1.7	(294.1%)
Operating profit	**51.2**	**135.1**	**(62.1%)**	**321.5**	**447.1**	**(28.1%)**
Net financing costs	(5.6)	(42.8)	86.9%	(91.7)	(147.9)	38.0%
Taxation charge	(12.9)	(25.2)	48.8%	(47.5)	(55.8)	14.9%
Statutory profit after tax	**32.7**	**67.1**	**(51.3%)**	**182.3**	**243.4**	**(25.1%)**
Addback of change in fair value of derivative (2023 convertible bond)	(23.5)	18.2	229.1%	(7.7)	28.8	126.7%
Addback, post-tax, of cost of early redemption of 2017 convertible bond	–	–	–	–	26.2	–
Addback restructuring charge after tax	16.1	–	–	16.1	–	–
Adjusted profit after tax	**25.3**	**85.3**	**(70.3%)**	**190.7**	**298.4**	**(36.1%)**

Operating profit

As noted above, restructuring costs of $19.9m incurred in Q4 reduced operating profit when compared to the prior period. Depreciation and amortisation for year ended 31 December 2017 and Q4 increased by $57.3m and $25.5m respectively as a result of the I-5 F4 and S-Band satellites coming into commercial service in the fourth quarter of 2017. As a result, operating profits for the year ended 31 December 2017 and Q4 decreased by $125.6m and $83.9m respectively compared with 2016.

Net financing cost

On an underlying basis net financing costs increased by $13.1m from $86.3m in 2016 to $99.4m in 2017 due to the higher average level of borrowings during the year.

On a reported basis net financing costs decreased in 2017 by $56.2m to $91.7m with the underlying $13.1m increase in net financing more than offset by the impact on the income statement of the 2017 and 2023 Convertible Bonds. There was a net credit of $7.7m in 2017 due to a decrease in the unrealised conversion liability on the 2023 Convertible Bond (2016 charge of $28.8m) driven by a fall in the convertible bond price over the period (see note 7). In addition, in 2016, a $32.8 one off charge was recognised relating to the redemption of the 2017 convertible bonds.

Taxation

The tax charge for 2017 was $47.5m, a decrease of $8.3m compared with 2016. This decrease is largely driven by the reduced profit in 2017.

The effective tax rate for 2017 was 20.7% (2016: 18.6%) compared to an average statutory rate for the UK for 2017 of 19.25% (2016: 20%). The higher effective tax rate is largely due to the revaluation of US related deferred tax assets driven by the reduction in the US Federal tax rate from 35% to 21% in Q4 2017; the impact of this was $9.8m. This deferred tax cost is partially offset by the beneficial impact of the unrealised conversion liability on the convertible bonds which is not taxable. In 2016, the effective tax rate was impacted by the revaluation of the deferred tax liabilities due to a reduction in the UK tax rate from 18% to 17% from 2020.

The underlying effective tax rate for the year (after removing the impact of the unrealised conversion liability on the convertible bonds and the revaluation of deferred tax balances) was 15.7% (2016: 19.4%). This relatively low rate and improvement on 2016 is largely due to the benefits from the Patent Box regime in the UK secured in earlier this year which results in some profits being taxed at 10%, rather than the statutory rate of 19.25% and which particularly benefited Q4.

Profit after tax

PAT declined by $61.1m in the year, mirroring the decrease in EBITDA of $63.3m. The increase in depreciation of $57.3m was offset by the decrease in net financing costs of $56.2m. The Q4 decrease of $34.4m was similarly driven by lower EBITDA with the impact of higher deprecation being more than offset by lower net financing costs and the lower tax charge.

Adjusted PAT, which excludes the impact on the income statement of the convertible bonds and the restructuring charge of $16.1m, declined by $107.7m in 2017 with a decline of $60.0m in Q4. The full year decline largely reflects the $43.4m reduction in EBITDA (before restructuring) and the $57.3m increase in deprecation with the remaining reduction due to the increase in the underlying net financing costs of $13.1m offset by the lower taxation charge. The Q4 decline was similarly mainly driven by the reduction in EBITDA and the increase in depreciation.

Earnings per share

Adjusted basic and diluted earnings per share, excluding post-tax restructuring costs, the post-tax impact of the early repurchase of the 2017 Convertible Bonds and the change in the fair value of the conversion liability component of the new 2023 Convertible Bonds were 42 and 41 cents respectively, compared with 65 and 64 cents respectively in 2016.

Basic and diluted earnings per share, including the elements outlined above, for profit attributable to the equity holders of the Company were 40 cents compared with 54 cents and 53 cents respectively in 2016.

Group Balance Sheet

The table below shows the condensed consolidated Group Balance Sheet:

($ in millions)	At 31 December 2017	At 31 December 2016
Non-current assets	4,101.5	3,832.1
Current assets	858.0	1,011.2
Total assets	**4,959.5**	**4,843.3**
Current liabilities	(864.5)	(748.9)
Non-current liabilities	(2,839.7)	(2,854.1)
Total liabilities	**(3,704.2)**	**(3,603.0)**
Net assets	**1,255.3**	**1,240.3**

The increase in the Group's non-current assets of $269.4m is largely due to our ongoing investment in new technology and infrastructure, including GX, the S-Band programme and the I-6 constellation, less depreciation of existing assets in service.

The net decrease in current assets of $153.2m is due to a decrease in short term deposits which have been used to fund additional capital investment in the business. The increase in current liabilities of $115.6m to $864.5m (2016: $748.9m) largely relates to an increase in trade and other payables of $76.3m to $584.6m (2016: $508.3m) which were impacted by the timing of the settlement of trade payables at the end of the year. The balance of the increase is due to the combination of a draw down in the Ex-Im Facilities of $78.4m, which increased current borrowings by $21.8m, and an increase in provisions of $14.3m relating to the headcount reduction programme implemented in the fourth quarter.

There has been a decrease in non-current liabilities of $14.4m to $2,839.7m (2016:2,854.1m). This is primarily driven by a decrease in derivative financial instruments of $25.7m reflecting a reduction in the unrealised conversion liability on the convertible bonds and a decrease in other payables of $16.5m due to the settlement of a long term creditor. These reductions are partially offset by an increase in deferred tax liabilities of $29.0m due to higher capital allowances.

Cash Flow[1]

	Three months ended 31 December		Year ended 31 December	
($ in millions)	2017	2016	2017	2016
EBITDA	163.7	221.8	731.5	794.8
Non-cash items	0.4	2.0	19.8	14.4
Change in working capital	32.1	(30.2)	23.1	(3.7)
Cash generated from operations	196.2	193.6	774.4	805.5
Capital expenditure	(200.7)	(173.9)	(598.7)	(412.9)
Net interest paid	(37.2)	(27.7)	(114.7)	(82.5)
Tax paid	(1.7)	(6.4)	(19.8)	(35.6)
Free cash flow	**(43.4)**	**(14.4)**	**41.2**	**274.5**
Dividends paid to shareholders	(84.9)	(84.5)	(202.9)	(228.5)
Other movement including foreign exchange	3.0	3.1	(4.7)	7.4
Net cash flow	**(125.3)**	**(95.8)**	**(166.4)**	**53.4**
Decrease in cash from/to transfer from short-term deposits with maturity >3 months	(155.3)	–	53.1	(395.0)
Increase/(decrease) in cash from borrowings	78.4	(107.1)	(3.6)	428.4
Net increase/ (decrease) in cash and cash equivalents	**(202.2)**	**(202.9)**	**(116.9)**	**86.8**

Cash and cash equivalents				
At beginning of the period	346.8	464.4	261.5	174.7
Net increase/(decrease) in cash and cash equivalents	(202.2)	(202.9)	(116.9)	86.8
At end of the period (net of bank overdrafts)	**144.6**	**261.5**	**144.6**	**261.5**

Cash flow outlined in this table is non-statutory.

Opening net borrowings[1]	**1,952.0**	**1,792.8**	**1,894.8**	**1,985.8**
Net cash flow	125.3	95.8	166.4	(53.4)
Non-cash movements[2]	1.3	6.2	17.4	(37.6)
Closing net borrowings[1]	**2,078.6**	**1,894.8**	**2,078.6**	**1,894.8**

During the year, free cash flow decreased by $233.3m, mainly due to lower cash generated from operations ($31.1m), higher capital expenditure ($185.8m) and higher cash interest paid ($32.1m) as a result of the refinancing in Q3 2016. These same factors have driven the decrease in free cash flow of $29.0m in Q4.

The change in working capital has improved both in Q4 and the full year by $62.3m and $26.8m respectively, driven by the timing of supplier payments in Q4 but also by tighter management of inventory and more timely collection of receivables.

Cash tax paid decreased to $19.8m (2016: $35.6m) due to lower UK profits and a tax refund relating to an overpayment in 2016. Cash tax was $27.7m lower than tax charged in the income statement due mainly to the $9.8m impact of the revaluation of the Group's US deferred tax asset following the reduction in US Federal tax rates

Capital Expenditure

	Three months ended 31 December		**Year ended 31 December**	
($ in millions)	**2017**	**2016**	**2017**	**2016**
Major infrastructure projects[3]	179.3	139.4	423.5	279.2
Success-based capex[4]	14.8	33.2	96.6	78.8
Other capex[5]	20.1	40.4	115.2	92.1
Cash flow timing[6]	(13.5)	(39.1)	(36.6)	(37.2)
Total cash capital expenditure	**200.7**	**173.9**	**598.7**	**412.9**

The increase in capital expenditure on major infrastructure projects in 2017, and in Q4, relates to continued investment in the GX and I-6 satellite infrastructures. Success-based capex also increased in 2017 driven by the acceleration in the installation of GX terminals in Aviation and Fleet Xpress in Maritime though it did fall in Q4 2017, due to the installation schedules of our customers in Aviation. Other capex investment also increased during the year, driven by investment in ongoing infrastructure maintenance, IT and new product and service development; spend in Q4 was lower the in 2016 due to the phasing of product and service development costs over the year.

Dividend

In the course of 2017, and in particular during the second half of 2017, two factors have become more important, specifically:

- The lack of visibility over future cash payments from Ligado Networks beyond the end of 2018; and
- The increasingly clear opportunity that exists for Inmarsat in the fast-growing and substantial IFC segment in Aviation.

Given these factors, and the Board's requirement to ensure that the Group has sufficient financial resources to support delivery of a leading position in IFC through the current infrastructure investment period, the Board has taken a decision to reduce the annual dividend to 20 cents per share.

[1] Net borrowings includes the convertible bond, total borrowings less cash and cash equivalents and short-term investments. Borrowings exclude accrued interest and any derivative liabilities.
[2] Non-cash movements relate to the amortisation of deferred financing costs.
[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.
[6] Cash capital expenditure is the cash flow relating to tangible and intangible asset additions, includes capitalised labour costs and excludes capitalised interest.

The annual dividend is expected to stay at these levels until the cash flow of the business rebuilds sufficiently to make an increase appropriate, having regard to the level of investment required to pursue attractive opportunities for sustained long term profitable growth, to providing competitive returns to our shareholders and to the capital structure of the business. It should be noted in this context that the Group has a long, established track record of paying substantial dividends, having returned over $2.1 billion to shareholders since our IPO in 2005.

The Board will propose to shareholders a 2017 final dividend of 12 cents per share, based on the reduced annual level of dividend of 20 cents per share and Inmarsat's historic allocation of 60% of the full year dividend to the final dividend. Added to the interim dividend already paid of 21.62 cents per share, the total dividends paid and proposed in respect of the year ended 31 December 2017 will be 33.62 cents per share.

Inmarsat will continue to provide shareholders with the option of a scrip dividend alternative for dividend payments, and will review this approach on a regular basis. At the interim stage, the scrip option was taken up by shareholders holding a total of 63m shares (13.9% of the then issued share capital) with an issue value of $13.7m. These shares were issued on 20 October 2017. Inmarsat plc now has 457,659,212 shares in issue.

The dividend is to be paid on 25 May 2018 to ordinary shareholders on the share register at the close of business on 20 April 2018. Shareholders will be asked to approve the final dividend payment at the Annual General Meeting on 2 May 2018. Dividend payments are made in Pounds Sterling or in shares using an exchange rate derived from the WMReuters GBP/USD 9am fix (London time) four business days prior to the date of announcement of the scrip reference price. The 2017 final dividend is not recorded as a liability in the financial statements at 31 December 2017.

IFRS 15 and IFRS 16

Inmarsat will be adopting IFRS 15 and 16 for the financial year ending 31 December 2018.

The primary impact of IFRS 15 will be in Maritime and Aviation where revenue and costs related to equipment installation will now be spread over the length of the contract, rather than being recognised at the time of installation. This is expected to have a marginal negative impact on revenue, whilst capital expenditure and EBITDA are both expected to increase slightly, given that installation costs will be capitalised going forward.

IFRS 16, which Inmarsat is adopting a year early to avoid restatements impacting in two successive years, requires vehicles and properties to be accounted for as "right-of-use assets". This is expected to have a small positive impact on EBITDA, due to lease costs being reclassified as depreciation and interest.

Group Liquidity and Capital Resources

At 31 December 2017, the Group had cash and cash equivalents of $144.9m and available but undrawn borrowing facilities of $500.5m under our Senior Credit Facility.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group faces a number of risks and uncertainties that may adversely affect our business, operations, liquidity, financial position or future performance, not all of which are wholly within our control. Although many of the risks and uncertainties influencing our performance are macroeconomic and likely to affect the performance of businesses generally, others are particular to our operations in mobile satellite services. Please refer to the 2017 Annual Report for further details, as well as steps taken to mitigate these risks.

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, capacity needs and competitors' strategy and therefore not target 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 fail to meet customer requirements or capacity needs, or these developments could have delays or cost overruns impacting on our market position, revenue or returns on investment. We may fail to roll-out new services including migrating existing customers. Competitors may launch disruptive technology.
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 or requirements 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. We may fail to optimally assess our market, technological changes, customer requirements, capacity needs and competitors' strategy and therefore not target market opportunities. We may fail to roll-out new services including migrating existing customers, which could be due to upgrade costs, or our developments could have delays or cost overruns. Our competitors may provide better products to the market and at more competitive prices.
3. Failure to successfully seize the Aviation passenger connectivity opportunity	We may fail to optimally assess our market, technological changes, customer requirements, capacity needs and competitors' strategy to exploit the aviation in-flight connectivity ('IFC') market opportunity. We may fail to develop a competitive technology roadmap, competitive pricing, obtain applicable licences or fail to deliver on or have delays in our contracts. Our competitors may provide better products to the market sooner than us and at more competitive prices. 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. The Maritime business currently makes up a large portion of our revenue stream and is vital to the continued growth of the business. We may fail to optimally assess our market, technological changes, customer requirements, capacity needs and competitors' strategy and exploit market opportunities. We may also lose our GMDSS authorisation or a competitor may get authorisation. We may fail to roll-out new services including migrating existing customers.
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. We may fail to correctly assess market needs. There is a risk that the transition to offer solutions and digital services may fail, be further delayed, not meet market needs, have scalability issues, have cost overruns or not go smoothly.

Risk	Background and impact
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. Our satellites, our control of them or our network may fail technically or be sabotaged. 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. Elements of our ground network may fail or be damaged, which may affect our ability to provide services to our partners and customers.
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. We may not meet customer needs with some declining legacy products. Relying on some critical customers may increase our financial exposure if they fail to make payments for our services. 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 lose customers due to poor quality service delivery or operations, or fail to keep up with the business needs of our customers. We may fail to roll-out new services including migrating existing customers. A competitor may buy a critical customer or partner. We may encounter delays in bringing new products and services to market. Our inability to directly control our retail company or business unit specialising in U.S. Government contracts, may restrict our business activities.
8. Security risk	We may suffer damage to satellites, networks, information/data, systems, processes and our services to customers as a result of malicious or flawed code, unauthorised access, service denial, ransom/coercion, or security compromise. There is also a significant risk of aggregated minor risks having an impact on service delivery. Data or IP could be stolen. This could also have consequential impact on reputation, business plans and operations, and future revenue from risk averse customers/markets.
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. Channel consolidation may drive down prices and ARPU. We require orbital slots to place our satellites in the correct position to provide adequate coverage and deliver our services. We may not be able to obtain adequate orbital slots or we may miss deadlines to bring orbital slots into use. Given the nature of the satellite business it is important to have access to all areas of the globe and provide coverage world-wide. This requires licensing from multiple national authorities. We may not be able to gain these licenses for various reasons. 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

Risk	Background and impact
	and delivery of these goods. 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. A satellite launch provider may additionally have a launch failure which affects the timing of our planned launches. A competitor may buy a critical supplier or partner. A critical supplier may fail financially or one of their systems may fail.
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. We may not be able to take to market our products and services for various reasons such as network/satellite issues, capacity constraints and/or technological difficulties which would impact our ability to generate revenues. Products may become obsolete. We may fail in our internal processes leading to violations of regulations, for example financial reporting requirements. An export control violation may affect service delivery.
12. Risk to 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. We may lose knowledge with employees and consultants that leave the Company. Brexit negotiations outcomes could impact EU citizens working in London and UK citizens in Europe. We may lose employee engagement and motivation. We may suffer a terrorist attack or a natural disaster on one of our network or office locations.
13. Geo-political risk	Downturns in the economy of a country and/or world economy, or closure of capital markets could impact our business, our ability to raise financing and impact the delivery of our strategy. We could fail to comply with applicable international legislation and international reporting requirements. 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. We do a large amount of business with governments across the globe including the US Government. Major political policy changes and decisions, such as sanctions and Brexit, may impact our business. Brexit negotiations outcomes could impact EU citizens working in London and UK citizens in Europe. We may suffer a terrorist attack or a natural disaster on one of our network or office locations. Our staff and their families may suffer a local epidemic or global pandemic.

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

As the independent auditor of Inmarsat plc we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Inmarsat plc's preliminary announcement statement of annual results for the period ended 31 December 2017.

The preliminary statement of annual results for the period ended 31 December 2017 includes the operating and financial reviews, the consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and related notes 1 to 12.

The directors of Inmarsat plc are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules".

Status of our audit of the financial statements

Our audit of the annual financial statements of Inmarsat plc is complete and we signed our auditor's report on 9 March 2018. Our auditor's report is not modified and contains no emphasis of matter paragraph.

Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those key audit matters and the key observations arising from our work:

Revenue recognition – accuracy, completeness and occurrence of manual adjustments to airtime revenue	
Key audit matter description	Airtime revenue, both subscription and usage-based, is the largest revenue stream within the business. This revenue principally relates to I-3 and I-4 services sold on a wholesale and retail basis, along with the resale of capacity from other satellite providers. Airtime revenue of $799.5m (2016: $822.9m) was earned in the year. Each month manual postings are made to revenue accounts to adjust for items such as deferred revenue, accrued income, sales provisions, bundled transactions and breakage recognised under take or pay agreements to ensure revenue recognition meets the requirements of IAS 18 *Revenue*. Due to the highly material nature of airtime revenue, the high volume of transactions and the inherent risk that manual postings are susceptible to manipulation, a significant risk, whether due to fraud or error, has been identified that if these postings are not accurate, complete or related to transactions which have occurred. The accounting policy for the recognition of revenue is set out in note 2 to the financial statements and includes the policies on the deferral of revenue and multiple-element contracts.

How the scope of our audit responded to the key audit matter	We have evaluated the design and implementation and tested the operating effectiveness of the key automated and manual controls relating to the recognition of airtime revenue across the Group's principal billing systems. This included evaluating the design and implementation of controls and testing the migration of data associated with management's implementation of a new billing system. We have met with management, both from within finance and in the market-facing business to discuss results in each business unit and as a whole to gain an understanding of significant trends and transactions and to inform our substantive testing. We have tested the mechanical accuracy of the underlying schedules for a sample of manual postings to determine their completeness and accuracy and whether they are prepared consistently with the principles of IAS 18. Additionally, we performed a monthly profit margin analysis by product and a monthly revenue trend analysis, corroborating and understanding unusual variances. Further, we used subscriber numbers, usage reports and pricing information in order to develop an independent expectation of airtime revenue by product type to compare to airtime revenue recognised in order to assess the completeness, accuracy and occurrence of recorded revenue and to respond to the risk of fraud or error.
Key observations	The results of our testing were satisfactory. We identified no misstatements in manual adjustments to airtime revenue required in relation to our substantive audit work which required reporting to the Audit Committee.
Accounting for capitalised development expenditure	
Key audit matter description	The Group capitalised significant internal labour costs, external costs and qualifying borrowing costs in respect of major capital projects, most notably relating to satellite programmes and associated infrastructure such as the Global Xpress programme, European Aviation Network and Inmarsat-6 fleet of satellites. There is a significant risk, whether due to fraud or error, in respect of valuation and allocation of assets, that costs which do not meet the criteria for capitalisation in accordance with IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets and IAS 23 Borrowing Costs are inappropriately recorded on the balance sheet rather than expensed or that costs continue to be held on the balance sheet despite no longer meeting the relevant capitalisation criteria. The Group's policy on the capitalisation of assets is included in note 2 to the financial statements. As shown in note 13 to the financial statements, property, plant and equipment of \$599.5m was capitalised in the year, of which \$174.9m relates to space segment assets and \$351.6m relates to assets in the course of construction. As shown in note 14 to the financial statements, intangible assets of \$76.0m were capitalised in the year. As disclosed in note 9 to the financial statement (and in note 4 of this announcement), capitalised borrowing costs totalled \$40.2m in the year.

How the scope of our audit responded to the key audit matter	We have evaluated the design and implementation of controls in respect of the processes and procedures which govern the capitalisation of development costs. We have met the project leaders for the most financially significant capital projects, which account for 89% of current year capital expenditure, to corroborate the project status, feasibility of completion, and performance against budget, including investigation of any deviations from budget. This process enabled us to focus on projects we considered to have a higher risk of misstatement. In addition, we have carried out sample-based testing in relation to each element of capitalised costs including inspecting supporting evidence for a sample of the costs capitalised, understanding the nature of these costs and considering whether they meet the capitalisation requirements of IAS 16 and IAS 38. We reviewed the ageing profile of assets in the course of construction, to determine whether the ongoing technical feasibility and intended completion of the project could be demonstrated. For a sample of assets which entered service in the period we inspected supporting evidence to determine whether depreciation was commenced at a time in accordance with IAS 16. In relation to borrowing costs we obtained the supporting calculations and verified the inputs to the calculation, including testing a sample of cash payments. Additionally, we tested the mechanical accuracy of the model and reviewed the model to determine whether the borrowing costs for completed projects are no longer being capitalised and accounting is therefore in line with the requirements of IAS 23. In relation to internal labour costs capitalised we carried out sample-based testing which included tracing to approved timesheets and testing the daily rates applied.
Key observations	We identified a number of deficiencies in key controls within the capital expenditure cycle, which were reported to the Audit Committee. As a consequence, we determined we would not test the operating effectiveness of controls in this area. Our audit testing was completed satisfactorily, and we concur with the judgements management has taken in determining that capital assets meet the capitalisation criteria of IAS 16, IAS 23 and IAS 38. We did not identify any audit adjustments that warranted reporting to the Audit Committee.

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

Use of our report

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

Paul Franek FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
9 March 2018

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	Tony Bates
Chief Executive Officer	Chief Financial Officer
9 March 2018	9 March 2018

INMARSAT PLC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Three months ended 31 December		Year ended 31 December	
($ in millions)	**2017**	**2016**	**2017**	**2016**
Revenues	**353.7**	**358.1**	**1,400.2**	**1,329.0**
Employee benefit costs	(74.1)	(68.5)	(293.0)	(267.7)
Network and satellite operations costs	(49.9)	(41.2)	(192.8)	(168.6)
Other operating costs	(58.0)	(37.3)	(212.1)	(139.9)
Own work capitalised	11.9	10.7	49.1	42.0
Total net operating costs	(170.1)	(136.3)	(648.8)	(534.2)
Adjusted EBITDA	**183.6**	**221.8**	**751.4**	**794.8**
Restructuring charge	(19.9)	–	(19.9)	–
EBITDA	**163.7**	**221.8**	**731.5**	**794.8**
Depreciation and amortisation	(112.6)	(87.1)	(406.7)	(349.4)
Loss on disposal of assets	(1.8)	–	(7.3)	(0.7)
Share of profit of associates	1.9	0.4	4.0	2.4
Operating profit	**51.2**	**135.1**	**321.5**	**447.1**
Financing income	1.3	2.4	6.5	4.3
Financing costs	(30.4)	(27.0)	(105.9)	(123.4)
Change in fair value of derivative[1]	23.5	(18.2)	7.7	(28.8)
Net financing costs	(5.6)	(42.8)	(91.7)	(147.9)
Profit before tax	**45.6**	**92.3**	**229.8**	**299.2**
Taxation charge	(12.9)	(25.2)	(47.5)	(55.8)
Profit for the period	**32.7**	**67.1**	**182.3**	**243.4**
Attributable to:				
Equity holders	**32.5**	**66.9**	**181.7**	**242.8**
Non-controlling interest[2]	**0.2**	**0.2**	**0.6**	**0.6**
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in $ per share)				
— Basic	**0.07**	**0.15**	**0.40**	**0.54**
— Diluted	**0.07**	**0.15**	**0.40**	**0.53**
Adjusted earnings per share for profit attributable to the equity holders of the Company during the period (expressed in $ per share)[3]				
— Basic	**0.06**	**0.19**	**0.42**	**0.65**
— Diluted	**0.05**	**0.19**	**0.41**	**0.64**

[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 post tax impact of restructuring costs, the non-cash impact of the unrealised movement in the fair value of the conversion liability of the 2023 Convertible Bonds and the loss on redemption of the 2017 Convertible Bonds.

INMARSAT PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Three months ended 31 December		Year ended 31 December	
($ in millions)	**2017**	**2016**	**2017**	**2016**
Profit for the period	**32.7**	**67.1**	**182.3**	**243.4**
Other comprehensive income				
Items that may be reclassified subsequently to the Income Statement:				
Foreign exchange translation differences	(0.3)	(0.1)	–	0.1
Net gain/(loss) on cash flow hedges	1.6	(7.9)	15.6	(24.3)
Tax credited directly to equity	–	0.1	–	0.1
Items that will not be reclassified subsequently to the Income Statement:				
Re-measurement of the defined benefit asset	11.2	(15.8)	12.7	(13.4)
Tax credited directly to equity	(2.4)	3.8	(2.9)	2.6
Other comprehensive income/(loss) for the period, net of tax	**10.1**	**(19.9)**	**25.4**	**(34.9)**
Total comprehensive income for the period, net of tax	**42.8**	**47.2**	**207.7**	**208.5**
Attributable to:				
Equity holders	**42.5**	**47.0**	**207.1**	**207.9**
Non-controlling interest	**0.3**	**0.2**	**0.6**	**0.6**

INMARSAT PLC

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

($ in millions)	2017	2016
Assets		
Non-current assets		
Property, plant and equipment	3,236.6	2,971.4
Intangible assets	788.9	796.4
Investments	16.2	13.2
Other receivables	23.9	11.7
Deferred tax asset	35.6	39.3
Derivative financial instruments	0.3	0.1
	4,101.5	**3,832.1**
Current assets		
Cash and cash equivalents[1]	144.9	262.0
Short-term deposits[2]	342.0	395.0
Trade and other receivables	319.4	306.9
Inventories	33.9	34.3
Current tax assets	13.8	8.5
Derivative financial instruments	1.2	1.7
Restricted cash	2.8	2.8
	858.0	**1,011.2**
Total assets	**4,959.5**	**4,843.3**
Liabilities		
Current liabilities		
Borrowings	125.6	103.8
Trade and other payables	584.6	508.3
Provisions	16.2	1.9
Current tax liabilities	130.2	129.0
Derivative financial instruments	7.9	5.9
	864.5	**748.9**
Non-current liabilities		
Borrowings	2,439.9	2,448.0
Other payables	25.0	41.5
Provisions	9.7	2.8
Deferred tax liabilities	237.3	208.3
Derivative financial instruments	127.8	153.5
	2,839.7	**2,854.1**
Total liabilities	**3,704.2**	**3,603.0**
Net assets	**1,255.3**	**1,240.3**
Shareholders' equity		
Ordinary shares	0.3	0.3
Share premium	745.4	700.4
Other reserves	92.0	61.8
Retained earnings	417.0	477.2
Equity attributable to shareholders	**1254.7**	**1,239.7**
Non-controlling interest	**0.6**	**0.6**
Total equity	**1,255.3**	**1,240.3**

Cash and cash on deposit with original 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

($ in millions)	Share capital	Share premium	Equity reserve	Share option reserve	Cash flow hedge reserve	Other[1]	Retained earnings	NCI[2]	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[3]	–	–	–	14.1	–	–	**(0.5)**	–	13.6
Early repurchase of 2017 convertible bonds[4]	–	–	(8.8)	–	–	–	–	–	(8.8)
Transfer equity reserve to retained earnings[4]	–	–	(48.1)	–	–	–	**48.1**	–	–
Dividends paid	–	–	–	–	–	–	**(235.1)**	(0.6)	(235.7)
Scrip dividend cash reinvestment[5]	–	–	–	–	–	–	**8.9**	–	8.9
Scrip dividend share issue	–	8.9	–	–	–	–	**(8.9)**	–	–
Issue of share capital[6]	–	3.9	–	–	–	–	–	–	3.9
Comprehensive Income:									
Profit for the year	–	–	–	–	–	–	**242.8**	0.6	243.4
OCI – before tax	–	–	–	–	(24.3)	0.1	**(13.4)**	–	(37.6)
OCI – tax	–	–	–	–	0.1	–	**2.6**	–	2.7
Balance at 31 December 2016	**0.3**	**700.4**	**–**	**87.9**	**(23.3)**	**(2.8)**	**477.2**	**0.6**	**1,240.3**
Share-based payments[3]	–	–	–	14.6	–	–	**(1.9)**	–	12.7
Dividend declared	–	–	–	–	–	–	**(249.8)**	(0.6)	(250.4)
Scrip dividend cash reinvestment[5]	–	–	–	–	–	–	**45.0**	–	45.0
Scrip dividend share issue[5]	–	45.0	–	–	–	–	**(45.0)**	–	–
Comprehensive Income:									
Profit for the year	–	–	–	–	–	–	**181.7**	0.6	182.3
OCI[7] – before tax	–	–	–	–	15.6	–	**12.7**	–	28.3
OCI[7] – tax	–	–	–	–	–	–	**(2.9)**	–	(2.9)
Balance at 31 December 2017	**0.3**	**745.4**	–	**102.5**	**(7.7)**	**(2.8)**	**417.0**	**0.6**	**1,255.3**

The 'other' reserve relates to ordinary shares held by the Employee Share Trust debit of $2.4m (2016: $2.4m debit), the currency reserve debit of $1.3m (2016: debit $0.9m) and the revaluation reserve of $0.9m (2016: $0.6m).

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

[3] Represents the fair value of share option awards recognised in the period.

[4] The consideration paid on early repurchase of the 2017 Convertible Bonds has been allocated to the liability and equity components of the instrument consistent with the method used in the original allocation. This resulted in a charge to the equity reserve of $8.8m with the closing balance of the equity reserve of $48.1m transferred to retained earnings.

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

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

[7] OCI refers to Other Comprehensive Income.

INMARSAT PLC

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

($ in millions)	Three months ended 31 December 2017	Three months ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2016
Cash flow from operating activities				
Cash generated from operations	196.2	193.6	774.4	805.5
Interest received	1.0	0.4	5.5	1.0
Tax paid	(1.7)	(6.4)	(19.8)	(35.6)
Net cash inflow from operating activities	**195.5**	**187.6**	**760.1**	**770.9**
Cash flow from investing activities				
Purchase of property, plant and equipment	(91.3)	(137.1)	(438.9)	(302.9)
Additions to intangible assets	(97.5)	(26.1)	(110.7)	(68.0)
Own work capitalised	(11.9)	(10.7)	(49.1)	(42.0)
Short-term cash deposits >3 months	(155.3)	–	53.1	(395.0)
Investment in financial asset	–	–	(1.1)	–
Net cash used in investing activities	**(356.0)**	**(173.9)**	**(546.7)**	**(807.9)**
Cash flow from financing activities				
Dividends paid to shareholders	(84.9)	(84.5)	(202.9)	(228.5)
Proceeds from issue of long term borrowings[1]	–	–	–	1,050.0
Repayment of borrowings	–	(106.5)	(80.8)	(213.0)
Drawdown of borrowings	78.4	–	78.4	–
Redemption of Convertible Bonds due 2017	–	–	–	(389.5)
Interest paid	(38.2)	(28.1)	(120.2)	(83.5)
Arrangement costs of financing	–	(0.6)	(1.2)	(19.1)
Net proceeds from the issue of ordinary shares	–	0.7	–	3.9
Other financing activities	(0.3)	0.5	(1.9)	1.8
Net cash used in financing activities	**(45.0)**	**(218.5)**	**(328.6)**	**122.1**
Foreign exchange adjustment	3.3	1.9	(1.7)	1.7
Net (decrease)/increase in cash and cash equivalents	**(202.2)**	**(202.9)**	**(116.9)**	**86.8**
Cash and cash equivalents				
At beginning of the period	346.8	464.4	261.5	174.7
Net (decrease)/increase in cash and cash equivalents	(202.2)	(202.9)	(116.9)	86.8
At end of the period (net of bank overdrafts)	**144.6**	**261.5**	**144.6**	**261.5**
Comprising:				
Cash at bank and in hand	109.9	50.7	109.9	50.7
Short-term deposits	377.0	606.3	377.0	606.3
Cash reclassified to short term investments with original maturity of greater than three months	(342.0)	(395.0)	(342.0)	(395.0)
Bank overdrafts	(0.3)	(0.5)	(0.3)	(0.5)
Net cash and cash equivalents at end of period	**144.6**	**261.5**	**144.6**	**261.5**

[1] Gross issuance proceeds of convertible Bonds due 2023 and Senior Notes due 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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

2. Principal accounting policies

Basis of preparation

The financial statements for the year ended 31 December 2017 were approved by the directors on 8 March 2018. These preliminary results for the year ended 31 December 2017 are an abridged statement of the full Annual Report and Accounts and do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2016 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2017 will be delivered to the Registrar of Companies and made available on website at www.inmarsat.com, following the Company’s annual general meeting on Wednesday 2 May 2018. The auditor’s report in respect of both years is unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

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

Going Concern

The Group has a robust and resilient business model, positive free cash flow generation and is compliant with all banking covenants. Because of this, the Directors believe that the Company and the Group are well placed to manage 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 consolidated 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.

Accounting policy changes

An in-depth review of revenue, lease accounting and financial instruments has been undertaken in preparation for the adoption of IFRS 15 and IFRS16 and IFRS9 respectively. IFRS15 and IFRS16 will be adjusted for within the 2018 financial accounts however IFRS9 is expected to have an immaterial impact and therefore no adjustment is proposed. The Group expects revenue for 2017 to decrease by $9m, offset by decreasing costs which are expected to be capitalised, resulting in an overall increase in EBITDA of $8m. Opening retained earnings are expected to decrease by $10m. Trade receivables and deferred revenue specific to Ligado are expected to increase by $20m and $24m respectively. With regards to lease accounting, the recognition of right-of-use assets and lease liabilities amounting to an estimated $87m and $76m respectively is an expected adjustment to comparatives within the 2018 financial statements. In terms of the Group’s financial performance, EBITDA is expected to be $13m higher compared to the previous standard, as lease costs will be expensed as depreciation and interest rather than operating costs. Profit before tax is expected to be $2m lower driven by the interest charge on the lease liabilities. Further details of the impact are outlined in note 2 of the Annual Report.

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

These five business units are supported by 'Central Services' which include satellite operations and backbone infrastructure, corporate administrative costs, and any income that is not directly attributable to a business unit such as Ligado Networks. The Group has aggregated the US Government and Global Government operating segments into one reporting segment, as the segments meet the criteria for aggregation under IFRS 8. Therefore, the Group's reportable segments are Maritime, Government, Aviation, Enterprise and Central Services. The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment results are assessed by the Chief Operating Decision Maker at the EBITDA level without the allocation of central costs, depreciation, net financing costs and taxation.

	Three months ended 31 December		**Year ended 31 December**	
($ in millions)	**2017**	**2016**	**2017**	**2016**
Revenues				
Maritime	143.6	142.8	564.7	575.3
Government	90.8	105.0	366.7	330.5
Aviation	51.0	42.1	195.0	142.6
Enterprise	32.1	34.5	132.6	144.6
Central Services[1]	36.2	33.7	141.2	136.0
Total revenues	**353.7**	**358.1**	**1,400.2**	**1,329.0**
EBITDA[2]				
Maritime	108.3	114.9	441.9	454.8
Government	62.9	82.8	265.2	244.0
Aviation	27.7	27.8	103.4	97.4
Enterprise	21.7	25.1	91.9	105.9
Central Services[1]	(37.0)	(28.8)	(151.0)	(107.3)
Adjusted EBITDA[3]	**183.6**	**221.8**	**751.4**	**794.8**
Restructuring change	(19.9)	–	(19.9)	–
EBITDA[2]	**163.7**	**221.8**	**731.5**	**794.8**
Depreciation and amortisation	(112.6)	(87.1)	(406.7)	(349.4)
Other	0.1	0.4	(3.3)	1.7
Operating profit	**51.2**	**135.1**	**321.5**	**447.1**
Net financing (costs)/income	(5.6)	(42.8)	(91.7)	(147.9)
Profit before tax	**45.6**	**92.3**	**229.8**	299.2
Taxation (charge)/credit	(12.9)	(25.2)	(47.5)	(55.8)
Profit for the period	**32.7**	**67.1**	**182.3**	**243.4**

Central Services includes revenue and EBITDA from Ligado

[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, it 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 contribution made by each of our business units.

[3] Adjusted EBITDA excludes restructuring costs.

Cash capital expenditure[1]				
Maritime	10.1	12.0	43.4	43.8
Government	2.5	4.6	9.9	6.1
Aviation	24.6	89.2	130.9	153.0
Enterprise	–	0.1	–	0.4
Central Services	163.5	68.0	414.5	209.6
Total cash capital expenditure	**200.7**	**173.9**	**598.7**	**412.9**
Financing costs capitalised in the cost of qualifying assets	2.6	10.4	40.2	36.1
Cash flow timing[2]	13.5	39.1	36.6	37.2
Total capital expenditure	**216.8**	**223.4**	**675.5**	**486.2**

4. Net financing costs

	Three months ended 31 December		Year ended 31 December	
($ in millions)	**2017**	**2016**	**2017**	**2016**
Bank interest receivable and other interest	(1.3)	(2.4)	(6.5)	(4.3)
Total financing income	**(1.3)**	**(2.4)**	**(6.5)**	**(4.3)**
Interest on Senior Notes and credit facilities	23.0	21.8	93.9	79.8
Interest on Convertible Bonds	9.5	9.3	37.5	33.6
Amortisation of debt issue costs	(0.9)	2.8	7.9	8.2
Loss on redemption of 2017 Convertible Bonds	–	–	–	32.8
Amortisation of discount on Senior Notes due 2022	0.2	0.2	1.0	1.0
Amortisation of discount on deferred satellite liabilities	0.1	0.2	0.4	0.6
Net interest on the net pension asset and post-employment liability	0.2	0.2	1.9	0.4
Other interest	0.9	2.9	3.5	3.1
	33.0	**37.4**	**146.1**	**159.5**
Less: Amounts capitalised in the cost of qualifying assets	(2.6)	(10.4)	(40.2)	(36.1)
Financing costs excluding derivative adjustments	**30.4**	**27.0**	**105.9**	**123.4**
Change in fair value of derivative liability component of the 2023 Convertible Bonds	(23.5)	18.3	(7.7)	28.8
Net financing costs	**5.6**	**42.9**	**91.7**	**147.9**

5. Taxation

	Three months ended 31 December		Year ended 31 December	
($ in millions)	**2017**	**2016**	**2017**	**2016**
Current tax:				
Current period	(0.2)	11.9	21.8	36.3
Adjustments in respect of prior periods	(6.0)	0.9	(4.5)	3.8
Total current tax	**(6.2)**	**12.8**	**17.3**	**40.1**
Deferred tax:				
Origination and reversal of temporary differences	2.5	8.6	13.3	26.3
Adjustments relating to changes in tax rates	9.7	11.4	9.1	(10.3)
Adjustments in respect of prior periods	6.9	(7.6)	7.8	(0.3)
Total deferred tax	**19.1**	**12.4**	**30.2**	**15.7**
Total taxation charge	**12.9**	**25.2**	**47.5**	**55.8**

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

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

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

6. Net Borrowings

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

($ in millions)	At 31 December 2017			At 31 December 2016		
	Amount	Deferred finance costs	Net balance	Amount	Deferred finance costs	Net balance
Current:						
Bank overdrafts	0.3	–	0.3	0.5	–	0.5
Deferred satellite payments	3.1	–	3.1	3.8	–	3.8
Ex-Im Bank Facilities	122.2	–	122.2	99.5	–	99.5
Total current borrowings	**125.6**	**–**	**125.6**	**103.8**	**–**	**103.8**
Non-current:						
Deferred satellite payments	5.6	–	5.6	8.4	–	8.4
Senior Notes due 2022	1,000.0	(5.1)	994.9	1,000.0	(6.1)	993.9
– Net issuance discount	(4.5)	–	(4.5)	(5.5)	–	(5.5)
Senior Notes due 2024	400.0	(4.9)	395.1	400.0	(5.6)	394.4
Ex-Im Bank Facilities	508.7	(14.9)	493.8	533.9	(18.6)	515.3
Convertible Bonds due 2023	549.2	(6.6)	542.6	545.5	(7.7)	537.8
– Accretion of principal	12.4	–	12.4	3.7	–	3.7
Total non-current borrowings	**2,471.4**	**(31.5)**	**2,439.9**	**2,486.0**	**(38.0)**	**2,448.0**
Total borrowings	**2,597.0**	**(31.5)**	**2,565.5**	**2,589.8**	**(38.0)**	**2,551.8**
Cash and cash equivalents	(144.9)	–	(144.9)	(262.0)	–	(262.0)
Short-term deposits	(342.0)	–	(342.0)	(395.0)	–	(395.0)
Net borrowings	**2,110.1**	**(31.5)**	**2,078.6**	**1,932.8**	**(38.0)**	**1,894.8**

For further details of the Group's debt structure please refer to note 19 of the 2017 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 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.

The fair values at the Balance Sheet date were:

($ in millions)	At 31 December 2017	At 31 December 2016
Financial assets:		
Forward foreign currency contracts – designated cash flow hedges	1.5	0.8
Forward foreign currency contracts – undesignated cash flow hedges	–	1.0
Total derivative financial assets	**1.5**	**1.8**
Financial liabilities:		
Conversion liability component of 2023 Convertible Bond	(125.7)	(133.3)
Forward foreign currency contracts– designated cash flow hedges	(9.9)	(23.9)
Forward foreign currency contracts – undesignated cash flow hedges	(0.1)	(2.2)
Total derivative financial liabilities	**(135.7)**	**(159.4)**
Net derivative financial liability	**(134.2)**	**(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 31 December 2017, the fair value of the Convertible Bond was $687.2m and the accreted balance of the cash debt component was $561.6m, meaning the conversion liability was valued at $125.7m. As shown in the table below, the movement in the conversion liability from December 2016 to 31 December 2017 of ($7.7)m has been recognised in the income statement through net financing costs:

($ in millions)	**At 31 December 2017**	**At 31 December 2016**	**On issuance**
Cash debt component	561.6	549.2	545.5
Conversion liability component	125.7	133.4	104.5
Total fair value	**687.3**	**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 31 December 2017		**At 31 December 2016**	
($ in millions)	**Carrying Value**	**Fair value**	**Carrying value**	**Fair value**
Financial liabilities:				
Senior Notes due 2022	1,000.0	1,000.8	1,000.0	975.0
Senior Notes due 2024	400.0	408.1	400.0	408.3
Ex-Im Bank Facilities	630.9	639.7	633.4	649.4
Convertible Bonds due 2023	561.6	687.3	549.2	682.6

8. Dividends

($ in millions)	**At 31 December 2017**	**At 31 December 2016**
Final dividend for the year ended 31 December 2016 of 33.37 cents per share (2015: 31.78 cents per share)	151.2	143.3
Interim dividend for the year ended 31 December 2017 at 21.62 cents per share (2016: 20.59 cents per share)	98.6	91.8
Dividends in statements of changes in equity	**249.8**	**235.1**
Dividends settled in shares	**(45.0)**	**(8.9)**
Dividends settled in cash	**204.8**	**226.2**

The Board declared, and on 20 October 2017 paid, an interim dividend of 21.62 cents ($) per ordinary share to ordinary shareholders on the share register at the close of business on 15 September 2017. Dividend payments were 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 at 31 December 2017.

With effect from the 2016 interim dividend, we introduced a scrip dividend election opportunity for shareholders, to take their cash dividend entitlement in Inmarsat shares. For our 2017 interim dividend the scrip amounted to 1,617,973 new shares (0.35% of the then issued share capital). These shares were issued and made available for trading on 20 October 2017. As at 31 December 2017, Inmarsat plc had 457,659,212 shares in issue.

9. Earnings per share

Earnings per share for the three and twelve months ended 31 December 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.

	Three months ended 31 December		Year ended 31 December	
($ in millions)	2017	2016	2017	2016
Profit attributable to equity holders of the Company	**32.5**	**66.9**	**181.7**	**242.8**
(millions)				
Weighted average number of ordinary shares in issue	452.3	449.6	454.8	449.7
Potentially dilutive ordinary shares	5.1	4.9	5.1	4.9
Weighted average number of diluted ordinary shares	**457.4**	**454.5**	**459.9**	**454.6**
($ per share)				
Basic earnings per share	**0.07**	**0.15**	**0.40**	**0.54**
Diluted earnings per share	**0.07**	**0.15**	**0.40**	**0.53**

10. Adjusted earnings per share

Adjusted earnings per share for the year ended 31 December 2017 has been calculated based on profit attributable to equity holders adjusted for the impact of the change in the fair value of the conversion liability component of the 2023 Convertible Bonds, the post-tax impact of the loss on redemption of the 2017 Convertible bonds (2016 amounts only) and the post-tax impact of restructuring costs.

	Three months ended 31 December		Year ended 31 December	
($ in millions)	2017	2016	2017	2016
Profit attributable to equity holders of the Company	**32.5**	**66.9**	**181.7**	**242.8**
Adjusted for:				
(Decrease)/increase in fair value of conversion liability component of 2023 Convertible Bonds	(23.5)	18.2	(7.7)	23.0
Loss on Redemption of 2017 Convertible Bonds (net of tax)	-	-	-	26.2
Restructuring costs (post-tax)	16.1	-	16.1	-
Adjusted profit attributable to equity holders of the Company[1]	**25.1**	**85.1**	**190.1**	**292.0**
(millions)				
Weighted average number of ordinary shares in issue	452.3	449.6	454.8	449.7
Potentially dilutive ordinary shares	5.1	4.9	5.1	4.9
Weighted average number of diluted ordinary shares	**457.4**	**454.5**	**459.9**	**454.6**
($ per share)				
Basic adjusted earnings per share[1]	**0.06**	**0.19**	**0.42**	**0.65**
Diluted adjusted earnings per share[1]	**0.05**	**0.19**	**0.41**	**0.64**

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 are no material contingent liabilities requiring disclosure at 31 December 2017.

12. Events after the balance sheet date

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

[1] The 2017 fair value of the conversion liability component of the convertible bond is a pre-tax figure whereas the 2016 comparative is post-tax. If we were to align 2016 to 2017, the adjusted profit attributable to equity holders would be 297.8 and basic and adjusted EPS would be 66 cents.