

# **INMARSAT GROUP LIMITED**

## **CONDENSED CONSOLIDATED FINANCIAL RESULTS**

**For the three and six months ended  
30 June 2010  
(unaudited)**

## **Forward-Looking Statements**

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

*By their nature, forward-looking statements involve risks and uncertainties because they relate to events that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that the Group’s actual financial condition, results of operations and cash flows, and the development of the industry in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this document. In addition, even if the Group’s financial condition, results of operations and cash flows, and the development of the industry in which we operate are consistent with the forward-looking statements in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important facts that could cause the Group’s actual results of operations, financial condition or cash flows, or the development of the industry in which we operate, to differ from current expectations include those risk factors disclosed in the Group’s Annual Financial Information Disclosure document for the year ended 31 December 2009, which can be accessed via our website at [www.inmarsat.com](http://www.inmarsat.com).*

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

## **Non-IFRS Measures**

*In addition to International Financial Reporting Standards (“IFRS”) measures, we use a number of non-IFRS measures in order to provide readers with a better understanding of the underlying performance of our business, and to improve comparability of our results for the periods concerned. Where such non-IFRS measures are given, this is clearly indicated and the comparable IFRS measure is also given.*

### Net Borrowings

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

### Free cash flow

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

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

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

## EBITDA

*We define EBITDA as profit before interest, taxation, depreciation and amortisation, share of results of associates, gain on disposal of fixed assets and the goodwill adjustment. Other companies may define EBITDA differently and, as a result, our measure of EBITDA may not be directly comparable to the EBITDA of other companies.*

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

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

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## **Operating and Financial Review**

*The following is a discussion of the unaudited consolidated results of operations and financial condition of Inmarsat Group Limited (“the Company” or together with its subsidiaries, “the Group”) for the three and six months ended 30 June 2010. You should read the following discussion together with the whole of this document including the historical consolidated financial results and the notes. The consolidated financial results were prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union.*

### **Overview**

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Inmarsat Group Limited is the leading provider of global mobile satellite communications services (“MSS”), providing data and voice connectivity to end-users worldwide, with over 30 years of experience in designing, launching and operating its satellite-based network. With a fleet of eleven owned and operated geostationary satellites, our Inmarsat Global business provides a comprehensive portfolio of wholesale global mobile satellite communications services for use on land, at sea and in the air. These include voice and broadband data services, which support safety communications, as well as standard office applications such as email, internet, secure VPN access and videoconferencing. Our Stratos business (“Stratos”), offers a broad portfolio of remote telecommunications solutions to end-user customers, offering services over the mobile and fixed satellite systems of a number of the leading global and regional satellite system operators, predominantly the Inmarsat satellite system, and through their owned and operated microwave and satellite telecommunications facilities. To provide certain Inmarsat services, Stratos operates a terrestrial-based network, including land earth stations, or LES, located in Australia, Canada, the Netherlands and New Zealand.

The Group’s revenues for the three months ended 30 June 2010 were US\$289.2m (2009: US\$256.9m), operating profit was US\$108.7m (2009: US\$81.4m) and EBITDA was US\$168.6m (2009: US\$148.2m).

The results of the Group’s operations are reported in US dollars as the majority of revenues and borrowings are denominated in US dollars.

### **Group Reorganisation and Stratos Refinancing**

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On 30 June 2010 we completed a reorganisation plan under which the ownership of Inmarsat Finance III Limited (“Finance III”) and all its subsidiaries (including Stratos and its subsidiaries), was transferred within the Inmarsat group (the “Group Reorganisation”). The ownership in Finance III was passed down the Inmarsat chain of companies to Inmarsat Ventures Limited by way of a series of share-for-share transactions. As a result of the Group Reorganisation, Stratos became an indirect wholly-owned subsidiary of Inmarsat Group Limited and is subject to the terms of Inmarsat’s outstanding debt, including the 7.375% Senior Notes due 2017.

We have accounted for the Group Reorganisation using merger accounting principles. For the consolidated results of Inmarsat Group Limited, the adoption of merger accounting presents Inmarsat Group Limited as if it had always been the parent undertaking of the new group of companies i.e. including the results of Stratos and its subsidiaries for the three and six months ended 30 June 2010. The comparative results for the three and six months ended 30 June 2009 have been restated.

Immediately prior to the Group Reorganisation, Stratos repaid all of its outstanding indebtedness, including the Stratos Senior Credit Facility of US\$207.0m in May 2010 and the entire principal amount outstanding of US\$150.0m (US\$62.4m, net of US\$87.6m Stratos Senior Unsecured Notes held by the Group at the date of redemption) of the Stratos Senior Unsecured Notes in June 2010 (the “Stratos Refinancing”). The repayment of Stratos’ debt was funded using available liquidity from within the Group.

### ***European Investment Bank Financing***

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On 19 April 2010, Inmarsat plc announced the signing of an 8-year facility agreement from the European Investment Bank ("EIB") to fund the build and launch of the Alphasat satellite. Under the agreement, we may borrow up to €225m at any time before 23 December 2010. The facility is available in Euros and US dollars. An initial draw down of US\$180.0m was made on 30 April 2010. This facility matures on 30 April 2018 and is repayable in equal annual instalments beginning 30 April 2012. Interest is equal to 3-month USD LIBOR plus a margin and is payable in January, April, July and October each year. The borrower is Inmarsat Investments Limited, a subsidiary of Inmarsat plc and the facility ranks as a senior secured creditor pari passu with our Senior Credit Facility and ahead of our 7.375% Senior Notes due 2017.

### ***Global Satellite Phone Service***

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The first product forming part of our Global Satellite Phone Service ("GSPS"), the ISATPhone Pro, entered commercial service on 30 June 2010. The IsatPhone Pro is the first handheld satellite phone to be purpose-built for the Inmarsat network and is available on a global basis over the three Inmarsat-4 satellites, which have an expected operational lifetime into the 2020s. The IsatPhone Pro is targeted primarily at professional users in the government, media, aid, oil and gas, mining and construction sectors. It offers satellite telephony, with Bluetooth for hands-free use, voicemail, SMS and email messaging. In addition, GPS location data is available to the user to look up or send in a SMS message. ISATPhone Pro is being offered by 13 distribution partners, providing worldwide customer access. Although the suggested retail price for the IsatPhone Pro handset is US\$699, various pricing promotions have resulted in end-user prices of US\$500-600. Retail airtime rates are competitively priced at around US\$1 per minute. The IsatPhone Pro features reliable global coverage, long battery life, a robust handset, clear voice quality and ease of use.

### ***New SwiftBroadband Service***

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On 30 April 2010, we announced the introduction of a new class of our SwiftBroadband service. SwiftBroadband 200 ("SB200") is designed to extend the benefits of Inmarsat services to smaller aircraft and provide a lower cost option for IP communications for aircraft operators. The SB200 service will be available in the footprint of all the Inmarsat-4 satellites and will provide standard IP data up to 200kbps, circuit-switched voice telephony and streaming IP data up to 16kbps. SB200 is expected to be commercially available at the end of 2010.

### ***Dividends***

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The Board intends to declare and pay an interim dividend for the 2010 financial year of US\$64.5m to Inmarsat Holdings Limited on 29 October 2010. This dividend has not been recognised as a liability as at 30 June 2010.

## Total Group Results

The results reported reflect the consolidated results of operations and financial condition of Inmarsat Group Limited for the three and six months ended 30 June 2010. Where we refer to Inmarsat Global we include Inmarsat Group Limited and all of its subsidiaries excluding Stratos and Segovia and all their associated subsidiaries. Where we refer to Stratos, we combine the results of Stratos and Segovia and all their associated subsidiaries.

The results for the three and six months ended 30 June 2009 have been restated to reflect the Group Reorganisation.

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

(US\$ in millions)	Three months ended 30 June		Increase/ (decrease) %	Six months ended 30 June		Increase/ (decrease) %
	2010	2009		2010	2009	
<b>Revenue</b>	<b>289.2</b>	<b>256.9</b>	<b>12.6%</b>	<b>570.7</b>	<b>508.7</b>	<b>12.2%</b>
Employee benefit costs	(44.9)	(48.8)	(8.0%)	(92.0)	(94.3)	(2.4%)
Network and satellite operations costs	(56.0)	(46.8)	19.7%	(109.4)	(96.4)	13.5%
Other operating costs	(23.7)	(19.0)	24.7%	(43.2)	(40.5)	6.7%
Work performed by the Group and capitalised	4.0	5.9	(32.2%)	8.2	11.1	(26.1%)
<b>Total net operating costs</b>	<b>120.6</b>	<b>108.7</b>	<b>10.9%</b>	<b>236.4</b>	<b>220.1</b>	<b>7.4%</b>
<b>EBITDA</b>	<b>168.6</b>	<b>148.2</b>	<b>13.8%</b>	<b>334.3</b>	<b>288.6</b>	<b>15.8%</b>
Depreciation and amortisation	(60.2)	(57.3)	(5.1%)	(114.9)	(116.5)	(1.4%)
Share of results of associates	0.3	0.2	50.0%	0.6	0.4	50.0%
Gain on disposal of assets	–	0.4	(100.0%)	–	1.5	(100.0%)
Goodwill adjustment	–	(10.1)	(100.0%)	–	(10.1)	(100.0%)
<b>Operating profit</b>	<b>108.7</b>	<b>81.4</b>	<b>33.5%</b>	<b>220.0</b>	<b>163.9</b>	<b>34.2%</b>
Interest receivable and similar income	1.4	0.6	133.3%	4.7	1.6	193.8%
Interest payable and similar charges	(39.2)	(36.3)	8.0%	(71.2)	(68.2)	4.4%
Net interest payable	(37.8)	(35.7)	5.9%	(66.5)	(66.6)	(0.2%)
<b>Profit before income tax</b>	<b>70.9</b>	<b>45.7</b>	<b>55.1%</b>	<b>153.5</b>	<b>97.3</b>	<b>57.8%</b>
Income tax expense	(21.9)	(9.0)	143.3%	(45.4)	(23.2)	95.7%
<b>Profit for the period</b>	<b>49.0</b>	<b>36.7</b>	<b>33.5%</b>	<b>108.1</b>	<b>74.1</b>	<b>45.9%</b>

### Revenues

Total Group revenues for the three months ended 30 June 2010 increased by 12.6%, compared with the three months ended 30 June 2009. The table below sets out the components, by segment, of the Group's total revenue for each of the periods indicated:

(US\$ in millions)	Three months ended 30 June		Increase %	Six months ended 30 June		Increase %
	2010	2009		2010	2009	
Inmarsat Global	184.2	173.2	6.4%	367.8	336.6	9.3%
Stratos	178.9	160.7	11.3%	355.8	317.2	12.2%
	363.1	333.9	8.7%	723.6	653.8	10.7%
Intercompany eliminations and adjustments	(73.9)	(77.0)		(152.9)	(145.1)	
<b>Total revenue</b>	<b>289.2</b>	<b>256.9</b>	<b>12.6%</b>	<b>570.7</b>	<b>508.7</b>	<b>12.2%</b>

### **Net operating costs**

Total Group net operating costs for the three months ended 30 June 2010 increased by 10.9%, compared with the three months ended 30 June 2009. The table below sets out the components, by segment, of the Group's net operating costs for each of the periods indicated:

(US\$ in millions)	Three months ended 30 June		Increase/ (decrease) %	Six months ended 30 June		Increase/ (decrease) %
	2010	2009		2010	2009	
Inmarsat Global	44.4	48.1	(7.7%)	89.9	94.2	(4.6%)
Stratos	151.0	135.3	11.6%	300.3	269.0	11.6%
	195.4	183.4	6.5%	390.2	363.2	7.4%
Intercompany eliminations and adjustments	(74.8)	(74.7)		(153.8)	(143.1)	
<b>Total net operating costs</b>	<b>120.6</b>	<b>108.7</b>	<b>10.9%</b>	<b>236.4</b>	<b>220.1</b>	<b>7.4%</b>

### **EBITDA**

Group EBITDA for the three months ended 30 June 2010 increased by 13.8%, compared with the three months ended 30 June 2009 primarily as a result of the inclusion of the results of Segovia from 12 January 2010 and increased revenues. EBITDA margin has increased to 58.3% for the three months ended 30 June 2010 compared with 57.7% for the three months ended 30 June 2009 as a result of increased underlying revenues and decreased underlying operating costs.

Set forth below is a reconciliation of profit for the period to EBITDA for each of the periods indicated:

(US\$ in millions)	Three months ended 30 June		Increase/ (decrease) %	Six months ended 30 June		Increase/ (decrease) %
	2010	2009		2010	2009	
<b>Profit for the period</b>	<b>49.0</b>	<b>36.7</b>	<b>33.5%</b>	<b>108.1</b>	<b>74.1</b>	<b>45.9%</b>
Add back:						
Income tax expense	21.9	9.0	143.3%	45.4	23.2	95.7%
Net interest payable	37.8	35.7	5.9%	66.5	66.6	(0.2%)
Depreciation and amortisation	60.2	57.3	5.1%	114.9	116.5	(1.4%)
Share of results of associates	(0.3)	(0.2)	50.0%	(0.6)	(0.4)	50.0%
Gain on disposal of fixed assets	–	(0.4)	(100.0%)	–	(1.5)	(100.0%)
Goodwill adjustment	–	10.1	(100.0%)	–	10.1	(100.0%)
<b>EBITDA</b>	<b>168.6</b>	<b>148.2</b>	<b>13.8%</b>	<b>334.3</b>	<b>288.6</b>	<b>15.8%</b>
<b>EBITDA margin %</b>	<b>58.3%</b>	<b>57.7%</b>		<b>58.6%</b>	<b>56.7%</b>	

### **Depreciation and amortisation**

The increase in depreciation and amortisation of US\$2.9m for the three months ended 30 June 2010 is predominantly due to the inclusion of the results of Segovia from 12 January 2010, partially offset by a reduction in depreciation due to one of the Inmarsat-3 satellites becoming fully depreciated.

### **Gain on disposal of assets**

No gain on disposal of assets was recognised during the three months ended 30 June 2010. The gain on disposal of assets recognised during the three months ended 30 June 2009 of US\$0.4m arose from the transfer of certain of Stratos' internally generated intangible assets to an associate, an insurance settlement in relation to Stratos' Broadband equipment which suffered hurricane damage in the Gulf of Mexico in 2008 and the sale of certain of Stratos' Broadband customer contracts and related assets in Hameln, Germany, in 2009.

### **Share of results of associates**

During the three months ended 30 June 2010, we recorded US\$0.3m share of results of associates, compared to US\$0.2m in the three months ended 30 June 2009. The share of results of associates arose from equity accounted investments held by Stratos.



**Goodwill adjustment**

No adjustment to goodwill was recorded during the three months ended 30 June 2010. During the three months ended 30 June 2009, we recorded a US\$10.1m adjustment to the carrying amount of goodwill following the recognition of a deferred tax asset relating to unutilised capital allowances arising in Stratos' UK entities. Although these unutilised capital allowances were acquired as part of the acquisition of Stratos, in line with IFRS 3, 'Business Combinations (2004)' (which was applicable to this transaction), they were not recognised as an identifiable asset in determining goodwill that resulted from that acquisition. We now believe that the Group will be able to utilise these capital allowances in offsetting future taxable profits of the Group's UK entities and have therefore accounted for the benefit as an adjustment to goodwill in line with IAS 12, 'Income Taxes'.

**Operating profit**

As a result of the factors discussed above, operating profit during the three months ended 30 June 2010 was US\$108.7m, an increase of US\$27.3m, or 34%, compared with the three months ended 30 June 2009.

**Interest**

Net interest payable for the three months ended 30 June 2010 was US\$37.8m, an increase of US\$2.1m, or 5.9%, compared with the three months ended 30 June 2009.

Interest payable for the three months ended 30 June 2010 was US\$39.2m, an increase of US\$2.9m, or 8.0%, compared with the three months ended 30 June 2009. The increase occurred because of non-recurring items of US\$8.9m arising in connection with the Stratos Refinancing. These consist of the write-off of unamortised issue costs of US\$1.9m and US\$3.9m in relation to the repayment of the Stratos Senior Credit Facility and the redemption of the Stratos Senior Unsecured Notes, respectively, as well as the recognition of the net redemption premium of US\$3.1m in respect of the Stratos Senior Unsecured Notes. Adjusting for these non-recurring items, the underlying interest payable for the three months ended 30 June 2010 would have been US\$30.3m, a decrease of US\$6.0m, or 16.5%, compared to the three months ended 30 June 2009.

In addition to the non-recurring items described above, interest during the three months ended 30 June 2010, increased due to additional interest payable on interest rate swap contracts of US\$0.7m and increased amortisation of debt issue costs of US\$1.1m following the capitalisation of costs relating to refinancing activity in 2009.

Interest payable reflects a credit in relation to the capitalisation of borrowing costs attributable to the construction of assets which take a substantial period of time to get ready for intended use, of US\$1.6m in the three months ended 30 June 2010, compared to US\$0.9m in the three months ended 30 June 2009. Furthermore, in the three months ended 30 June 2009, we recognised an unrealised foreign exchange loss of US\$4.3m on pension and post-retirement scheme liabilities, compared to a gain, as discussed below, for the three months ended 30 June 2010.

Interest receivable for the three months ended 30 June 2010 was US\$1.4m, an increase of US\$0.8m, or 133%, compared with the three months ended 30 June 2009. The increase is primarily due to an unrealised foreign exchange gain on pension and post-retirement scheme liabilities of US\$0.8m, due to the movement of the US dollar exchange rate during the three months ended 30 June 2010.

**Profit before tax**

For the three months ended 30 June 2010, profit before tax was US\$70.9m, an increase of US\$25.2m, or 55% compared with the three months ended 30 June 2009. The increase is due primarily to increased underlying Group revenues and decreased underlying Group operating costs as well as to the inclusion of Segovia's results from 12 January 2010. However, the increase in profit before tax has been negatively impacted by the non-recurring items relating to the Stratos Refinancing. Excluding these non-recurring items, profit before tax for the three months ended 30 June 2010 would have increased by 75% compared to the same period in 2009.

### **Income tax expense**

The tax charge for the three months ended 30 June 2010 was US\$21.9m, an increase of US\$12.9m, or 143%, compared with the three months ended 30 June 2009. The increase in the tax charge is largely driven by the underlying increase in profits for the three months ended 30 June 2010 and the inclusion of the results of Segovia from 12 January 2010.

The effective tax rate increased from 19.7% for the three months ended 30 June 2009 to 30.9% for the three months ended 30 June 2010. The increase in the effective tax rate is primarily due to a one-off tax credit of US\$10.1m recognised during the three months ended 30 June 2009. This arose from the recognition of a deferred tax asset relating to unutilised capital allowances in Stratos' UK entities. After adjusting for this one-off tax credit, the effective tax rate for the three months ended 30 June 2009 would have been 34.2%.

### **Profit for the period**

As a result of the factors discussed above, profit for the three months ended 30 June 2010 was US\$49.0m, an increase of US\$12.3m, or 34%, compared with the three months ended 30 June 2009.

## **Inmarsat Global Results**

### **Revenues**

Revenues for the three months ended 30 June 2010 increased by 6.4%, compared with the three months ended 30 June 2009. Growth has been driven by services such as BGAN, Swift 64, Fleet and FleetBroadband, as well as from new leasing business. The table below sets out the components of Inmarsat Global's revenue for each of the periods indicated:

(US\$ in millions)	Three months ended 30 June		Increase/ (decrease) %	Six months ended 30 June		Increase/ (decrease) %
	2010	2009		2010	2009	
<b>Revenues</b>						
<b>Maritime sector:</b>						
Voice services	24.7	26.9	(8.2%)	48.9	53.1	(7.9%)
Data services	66.8	63.7	4.9%	128.8	123.6	4.2%
<b>Total maritime sector</b>	<b>91.5</b>	<b>90.6</b>	<b>1.0%</b>	<b>177.7</b>	<b>176.7</b>	<b>0.6%</b>
<b>Land mobile sector:</b>						
Voice services	1.8	2.3	(21.7%)	4.0	4.7	(14.9%)
Data services	32.8	33.2	(1.2%)	75.8	65.3	16.1%
<b>Total land mobile sector</b>	<b>34.6</b>	<b>35.5</b>	<b>(2.5%)</b>	<b>79.8</b>	<b>70.0</b>	<b>14.0%</b>
Aeronautical sector	26.8	18.7	43.3%	49.6	35.5	39.7%
Leasing	28.8	25.5	12.9%	55.8	49.4	13.0%
<b>Total MSS</b>	<b>181.7</b>	<b>170.3</b>	<b>6.7%</b>	<b>362.9</b>	<b>331.6</b>	<b>9.4%</b>
Other income	2.5	2.9	(13.8%)	4.9	5.0	(2.0%)
<b>Total revenue</b>	<b>184.2</b>	<b>173.2</b>	<b>6.4%</b>	<b>367.8</b>	<b>336.6</b>	<b>9.3%</b>

Total active terminal numbers as at 30 June 2010 increased by 6.1%, compared with 30 June 2009. The table below sets out the active terminals by sector:

(000's)	As at 30 June		Increase %
	2010	2009	
Active terminals <sup>(1)</sup>			
Maritime	176.7	166.7	6.0%
Land mobile	79.8	75.5	5.7%
Aeronautical	11.7	10.5	11.4%
<b>Total active terminals</b>	<b>268.2</b>	<b>252.7</b>	<b>6.1%</b>

(1) Active terminals are the number of subscribers or terminals that have been used to access commercial services (except certain SPS terminals) at any time during the preceding twelve-month period and registered at 30 June. Active terminals also include the average number of certain SPS terminals (which we have previously referred to as ACeS handheld terminals) active on a daily basis during the period. Active terminals exclude our terminals (Inmarsat D+ and IsatM2M) used to access our Satellite Low Data Rate ("SLDR") or telemetry services. At 30 June 2010, we had 209,000 SLDR terminals.

**Seasonality - Impact of volume discounts:** There is generally very little seasonality in the markets we serve, although data traffic tends to slow down at holiday periods, e.g. Christmas. However in previous years our Volume Discount Scheme ("VDS") led to significant seasonality in our revenues. The terms of the VDS changed following the signing of the new distribution agreements by Inmarsat Global's distribution partners, effective from 1 May 2009. This resulted in the removal of volume discounts on BGAN services and the implementation of a more even phasing of discounts during the year with respect to Existing and Evolved services (being all services other than our broadband services, SPS and our GSPS). Historically, volume discounts under the old VDS progressively increased over the course of the year, with lower discount levels in early quarters and higher discount levels in later quarters. Volume discounts for the period 1 January 2009 to 30 April 2009 were based on the old VDS, condensed from a twelve-month period into a four-month period. Volume discounts after 1 May 2009 are based on the new structure where discounts remain constant throughout the period.

During the three months ended 30 June 2010, volume discounts were US\$11.1m, a decrease of US\$4.2m, or 27%, compared with the three months ended 30 June 2009. The decrease reflects the changes to the VDS resulting from the revised terms of the new distribution agreements – namely the reduced number of services eligible for volume discounts. Although we removed our BGAN services from the VDS, we have implemented certain price reductions for BGAN services, resulting in a neutral position for wholesale BGAN prices.

**Maritime Sector:** During the three months ended 30 June 2010, revenues from the maritime sector were US\$91.5m, an increase of US\$0.9m, or 1.0%, compared with the three months ended 30 June 2009.

Revenues from data services in the maritime sector during the three months ended 30 June 2010 were US\$66.8m, an increase of US\$3.1m, or 4.9%, compared with the three months ended 30 June 2009. The increase in revenues from data services reflects greater demand, primarily as a result of the continued take-up and usage of our Fleet and FleetBroadband services, plus pricing changes. We believe the challenging economic environment for the shipping industry has constrained our maritime data revenue growth in the second quarter with lower levels of usage seen generally across a broad range of services. Revenue from our Inmarsat B service decreased due to the natural run-off of this mature service, which will be retired on 31 December 2014. Active Inmarsat B terminal numbers are reducing due to older ships being decommissioned or re-fitted with new equipment and new ships being fitted with Fleet and FleetBroadband terminals. In addition, there was a decrease in revenues from our Mini M service, where there is an expected long-term decline in demand for fax and low speed data.

Revenues from voice services in the maritime sector during the three months ended 30 June 2010 were US\$24.7m, a decrease of US\$2.2m, or 8.2% compared with the three months ended 30 June 2009. Growth in demand for voice services among users of our Fleet and FleetBroadband services was more than offset by the ongoing decline in our mature Inmarsat B and Mini M services. The decline in revenues from voice services in the maritime sector can be attributed to a combination of factors, including the current economic environment for the shipping industry, some increased competition and the cannibalisation of voice usage to email and other data applications. Revenues are also negatively impacted by product mix changes as users transition from our older services to our newer broadband services where the price of voice services is lower.

**Land Mobile Sector:** During the three months ended 30 June 2010, revenues from the land mobile sector were US\$34.6m, a decrease of US\$0.9m, or 2.5%, compared with the three months ended 30 June 2009.

Revenues from data services in the land mobile sector during the three months ended 30 June 2010 were US\$32.8m, a decrease of US\$0.4m, or 1.2%, compared with the three months ended 30 June 2009. Continued growth in BGAN revenue and a pricing impact following the change to the new distribution agreements on 1 May 2009 was more than offset by the decline in GAN high-speed data traffic following reduced traffic levels in the Middle East as a result of troop withdrawals from Iraq. In addition, during the second quarter, we experienced a

slowdown in BGAN traffic in connection with lower usage levels in Afghanistan. Usage of our BGAN service in Iraq and Afghanistan has historically been volatile and has affected our results from time to time.

Revenues from BGAN services for the three months ended 30 June 2010 were US\$26.0m, an increase of US\$3.3m, or 14.5%, compared with the three months ended 30 June 2009. These figures include voice, data and subscription revenues. As at 30 June 2010, active BGAN subscribers were 43,697 compared with 31,896 as at 30 June 2009, an increase of 11,801 or 37% period on period. BGAN subscribers include 5,800 low usage subscribers activated at the end of March 2010 for the May 2010 election in the Philippines.

Revenues from voice services in the land mobile sector during the three months ended 30 June 2010 were US\$1.8m, a decrease of US\$0.5m, or 22%, compared with the three months ended 30 June 2009. We continue to experience declining traffic volumes resulting from competition, principally for our Mini M and large antenna Mini M services, from other MSS operators, although we are seeing growth in our BGAN voice service which now accounts for over 50% of voice revenues.

**Aeronautical Sector:** During the three months ended 30 June 2010, revenues from the aeronautical sector were US\$26.8m, an increase of US\$8.1m, or 43%, compared with the three months ended 30 June 2009. The increase is a result of continued demand for our Swift 64 high-speed data service which experienced a 9.7% increase in active terminals compared with 30 June 2009. Our Swift 64 service targets the government aircraft and business jet markets as well as being used by commercial airlines. In addition, revenues for low-speed data services benefited from increased industry demand.

**Leasing:** During the three months ended 30 June 2010, revenues from leasing were US\$28.8m, an increase of US\$3.3m, or 12.9%, compared with the three months ended 30 June 2009. The increase is a result of additional government contracts for land-based services, the expansion of Swift 64 leases for certain aeronautical customers and growth in a voice lease contract in China.

**Other income:** Other income for the three months ended 30 June 2010 was US\$2.5m, a decrease of \$0.4m, or 13.8%, compared with the three months ended 30 June 2009.

#### **Net operating costs**

Net operating costs during the three months ended 30 June 2010 decreased by US\$3.7m, compared with the three months ended 30 June 2009. The table below sets out the components of Inmarsat Global's net operating costs for each of the periods indicated:

(US\$ in millions)	Three months ended 30 June		Increase/ (decrease) %	Six months ended 30 June		Increase/ (decrease) %
	2010	2009		2010	2009	
Employee benefit costs	22.0	27.3	(19.4%)	45.9	52.7	(12.9%)
Network and satellite operations costs	10.6	9.8	8.2%	21.1	19.6	7.7%
Other operating costs	15.1	15.6	(3.2%)	29.7	31.7	(6.3%)
Work performed by the Group and capitalised	(3.3)	(4.6)	(28.3%)	(6.8)	(9.8)	(30.6%)
<b>Net operating costs</b>	<b>44.4</b>	<b>48.1</b>	<b>(7.7%)</b>	<b>89.9</b>	<b>94.2</b>	<b>(4.6%)</b>

**Impact of hedged foreign exchange rate.** The functional currency of the Group's principal subsidiaries is US dollars. Approximately 60% of Inmarsat Global's costs are denominated in Pounds Sterling. Net operating costs in 2010 have been affected by a favourable movement in Inmarsat Global's hedged rate of exchange from US\$1.92/£1.00 in 2009 to US\$1.49/£1.00 in 2010. The movement in the hedged rate of exchange in the three months ended 30 June 2010 has resulted in a decrease in comparative costs of approximately US\$6.4m. We have completed hedging arrangements for our anticipated sterling costs in both 2011 and 2012. As a result, we now expect our hedged rate of exchange for 2011 to be US\$1.52/£1.00 and for 2012 to be US\$1.48/£1.00.

**Employee benefit costs.** The US\$5.3m decrease in employee benefit costs for the three months ended 30 June 2010 compared to the same period in 2009, is primarily attributed to the favourable movement in Inmarsat Global's hedged rate of exchange. Partially offsetting this decrease were additional staff costs due to an increase in total full-time equivalent headcount (499 at 30 June 2010 compared to 482 at 30 June 2009), mid-year salary cost increases in 2009 and higher stock compensation costs due to new share awards.

**Network and satellite operations costs.** The increase in network and satellite operations costs for the three months ended 30 June 2010 of US\$0.8m, compared to the three months ended 30 June 2009, is predominantly due to in-orbit insurance relating to our third Inmarsat-4 satellite which was insured under the launch contract until August 2009.

**Other operating costs.** The decrease in other operating costs for the three months ended 30 June 2010 of US\$0.5m, compared to the three months ended 30 June 2009, relates predominantly to the movement in the Group's hedged rate of exchange.

**Work performed by the Group and capitalised.** The decrease in own work capitalised for the three months ended 30 June 2010 of US\$1.3m, compared to the three months ended 30 June 2009, is a result of the movement in the Group's hedged rate of exchange and the fact that the three months ended 30 June 2009 included the capitalisation of costs relating to the in-orbit testing of the third Inmarsat-4 satellite. Own work capitalised is primarily related to the development of the GPS network and terminals and the Alphasat satellite project.

### **Operating profit**

(US\$ in millions)	Three months ended 30 June		Increase/ (decrease) %	Six months ended 30 June		Increase/ (decrease) %
	2010	2009		2010	2009	
Total revenue	184.2	173.2	6.4%	367.8	336.6	9.3%
Net operating costs	(44.4)	(48.1)	(7.7%)	(89.9)	(94.2)	(4.6%)
<b>EBITDA</b>	<b>139.8</b>	<b>125.1</b>	<b>11.8%</b>	<b>277.9</b>	<b>242.4</b>	<b>14.6%</b>
<i>EBITDA margin %</i>	<i>75.9%</i>	<i>72.2%</i>		<i>75.6%</i>	<i>72.0%</i>	
Depreciation and amortisation	(41.9)	(44.5)	(5.8%)	(83.1)	(91.0)	(8.7%)
<b>Operating profit</b>	<b>97.9</b>	<b>80.6</b>	<b>21.5%</b>	<b>194.8</b>	<b>151.4</b>	<b>28.7%</b>

The increase in operating profit for the three months ended 30 June 2010 of US\$17.3m, compared to the three months ended 30 June 2009, is a result of higher revenues, lower net operating costs and lower depreciation and amortisation.

## Stratos Results

On 12 January 2010, we acquired the business assets of Segovia. As a result of the Group Reorganisation and the acquisition of Segovia, we now include the Stratos and Segovia businesses in a single operating segment.

### Revenues

Revenues for the three months ended 30 June 2010 increased by US\$18.2m, compared to the three months ended 30 June 2009, primarily as a result of the inclusion of the revenues of Segovia in the Stratos operating segment. The table below sets out the components of Stratos' revenues for each of the periods indicated:

(US\$ in millions)	Three months ended		Increase/ (decrease) %	Six months ended		Increase %
	30 June 2010	2009		30 June 2010	2009	
<b>MSS revenues</b>						
Inmarsat MSS	106.3	106.7	(0.4%)	215.1	208.0	3.4%
Other MSS	31.8	31.2	1.9%	64.0	62.3	2.7%
<b>Total MSS revenue</b>	<b>138.1</b>	<b>137.9</b>	<b>0.1%</b>	<b>279.1</b>	<b>270.3</b>	<b>3.3%</b>
Broadband <sup>(1)</sup>	40.8	22.8	78.9%	76.7	46.9	63.5%
<b>Total revenue</b>	<b>178.9</b>	<b>160.7</b>	<b>11.3%</b>	<b>355.8</b>	<b>317.2</b>	<b>12.2%</b>

(1) Includes Segovia from 12 January 2010.

**Total MSS revenue.** Revenues from MSS for the three months ended 30 June 2010 increased by US\$0.2m compared with the three months ended 30 June 2009. Growth has been driven primarily by increased leasing revenue, sales of equipment and increased revenues from broadband services, partially offset by decreases in revenues from older services and LES services provided to certain distributors.

**Inmarsat MSS.** Revenues derived from Inmarsat MSS for the three months ended 30 June 2010 decreased by US\$0.4m compared with the three months ended 30 June 2009. The decrease is primarily due to decreases in the maritime and land mobile sectors, partially offset by increases in leasing and the aeronautical sector. Generally, since the second quarter of 2009, revenues from Inmarsat broadband services have been negatively impacted by competitive pricing as a result of the market entry of new Inmarsat distributors.

For the three months ended 30 June 2010, Stratos' share of Inmarsat Global's MSS revenues was 38.6%, compared to 41.7% for the same period in 2009.

**Other MSS.** Other MSS primarily consists of sales of equipment, mobile telecommunications services sourced on a wholesale basis from other MSS providers, LES services provided to certain distributors and other ancillary services. Other MSS services, in general, have lower gross margins than Inmarsat services.

Revenues from Other MSS during the three months ended 30 June 2010 increased by US\$0.6m, compared with the three months ended 30 June 2009. The increase is primarily due to increased sales of equipment and LES services provided to other Inmarsat distributors.

**Broadband.** During the three months ended 30 June 2010, revenues from Broadband services were US\$40.8m, an increase of US\$18.0m, or 79%, compared with the three months ended 30 June 2009. The increase is primarily due to the inclusion of Segovia revenues from 12 January 2010 and by increased revenues from microwave bandwidth and services and engineering projects. Partially offsetting the increase was a decrease in VSAT revenue as a result of the expiry of certain contracts, the sale of certain customer contracts in Germany and decreased revenue from equipment sales.

### **Net operating costs**

Net operating costs in the three months ended 30 June 2010 were US\$151.0m, an increase of US\$15.7m or 11.6%, compared with the three months ended 30 June 2009. The table below sets out the components of Stratos' net operating costs and shows the allocation of costs to the Group's cost categories for each of the periods indicated:

(US\$ in millions)	Three months ended 30 June		Increase/ (decrease) %	Six months ended 30 June		Increase %
	2010	2009		2010	2009	
Cost of goods and services	129.9	119.2	9.0%	260.5	234.6	11.0%
Operating costs	21.1	16.1	31.1%	39.8	34.4	15.7%
<b>Total operating costs</b>	<b>151.0</b>	<b>135.3</b>	<b>11.6%</b>	<b>300.3</b>	<b>269.0</b>	<b>11.6%</b>
Allocated as follows:						
Employee benefit costs	22.9	21.5	6.5%	46.1	41.6	10.8%
Network and satellite operations costs <sup>(1)</sup>	120.0	111.3	7.8%	241.3	219.3	10.0%
Other operating costs	8.7	3.8	128.9%	14.3	9.4	52.1%
Work performed by the Group and capitalised	(0.6)	(1.3)	(53.8%)	(1.4)	(1.3)	7.7%
<b>Net operating costs</b>	<b>151.0</b>	<b>135.3</b>	<b>11.6%</b>	<b>300.3</b>	<b>269.0</b>	<b>11.6%</b>

(1) Includes cost of airtime from satellite operators, including Inmarsat.

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

Cost of goods and services during the three months ended 30 June 2010 increased by US\$10.7m, compared with the three months ended 30 June 2009. The increase is predominantly due to the addition of Segovia as well as increased cost of airtime upon the implementation of the new distribution agreements with Inmarsat which were effective from 1 May 2009 and higher network infrastructure operating costs resulting primarily from exchange rates. Partially offsetting the increase in cost of goods and services was a decrease in costs relating to the Broadband business, predominantly due to the reduction of costs as a result of lower revenue and other cost saving initiatives.

**Operating costs.** Operating costs during the three months ended 30 June 2010 increased by US\$5.0m, compared with the three months ended 30 June 2009. The increase is primarily due to the addition of Segovia partially offset by a decrease in the operating expenses for the remaining Stratos business, mainly as a result of a decrease in salaries and benefits cost.

## Operating profit

(US\$ in millions)	Three months ended 30 June		Increase/ (decrease) %	Six months ended 30 June		Increase/ (decrease) %
	2010	2009		2010	2009	
Total revenue	178.9	160.7	11.3%	355.8	317.2	12.2%
Cost of goods and services	(129.9)	(119.2)	9.0%	(260.5)	(234.6)	11.0%
<b>Gross margin</b>	<b>49.0</b>	<b>41.5</b>	<b>18.1%</b>	<b>95.3</b>	<b>82.6</b>	<b>15.4%</b>
<i>Gross margin %</i>	27.4%	25.8%		26.8%	26.0%	
Operating costs	(19.8)	(15.9)	24.5%	(38.3)	(33.7)	13.6%
Other costs	(1.3)	(0.2)	550.0%	(1.5)	(0.7)	114.3%
<b>EBITDA</b>	<b>27.9</b>	<b>25.4</b>	<b>9.8%</b>	<b>55.5</b>	<b>48.2</b>	<b>15.1%</b>
<i>EBITDA margin %</i>	15.6%	15.8%		15.6%	15.2%	
Depreciation and amortisation	(18.3)	(12.8)	43.0%	(31.8)	(25.5)	24.7%
Gain on disposal of assets	–	0.4	(100.0%)	–	1.5	(100.0%)
Share of results of associate	0.3	0.2	50.0%	0.6	0.4	50.0%
Goodwill adjustment	–	(10.1)	(100.0%)	–	(10.1)	(100.0%)
<b>Operating profit</b>	<b>9.9</b>	<b>3.1</b>	<b>219.4%</b>	<b>24.3</b>	<b>14.5</b>	<b>67.6%</b>

Stratos' operating profit for the three months ended 30 June 2010 increased by US\$6.8m, compared with the three months ended 30 June 2009. The increase is primarily a result of the addition of Segovia.

Gross margin consists of revenues less cost of goods and services. Gross margin and gross margin percentage for the three months ended 30 June 2010 increased as a result of the addition of Segovia, partially offset by an increase in the cost of airtime upon the implementation of the new distribution agreements with Inmarsat effective from 1 May 2009, which generally has not been passed onto end-users and changes in product mix. Changes in product mix include the increased sales of equipment, which have a lower gross margin, and a migration by customers to lower margin services such as BGAN. In addition, margins have been negatively impacted by competitive pricing as discussed earlier.

## Group liquidity and capital resources

At 30 June 2010, the Group had cash and cash equivalents of US\$118.6m and available but undrawn borrowing facilities of US\$160.0m under our Senior Credit Facility. In addition we may borrow a further €92.1m under our EIB Facility. We are operating well within the financial covenant limitations of our Senior Credit Facility and EIB Facility. As a result, we believe our liquidity position is more than sufficient to meet the Group's needs for the next twelve months.

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

On 19 April 2010, Inmarsat plc announced the signing of an 8-year facility agreement from the European Investment Bank ("EIB") to fund the build and launch of the Alphasat satellite. Under the agreement, we may borrow up to €225m at any time before 23 December 2010. The facility is available in Euros and US dollars. An initial drawdown of US\$180.0m was made on 30 April 2010. This facility matures on 30 April 2018 and is repayable in equal annual instalments beginning 30 April 2012. Interest is equal to 3-month USD LIBOR plus a margin and is payable in January, April, July and October each year. The borrower is Inmarsat Investments Limited, a subsidiary of Inmarsat plc and the facility ranks as a senior secured creditor pari passu with our Senior Credit Facility and ahead of our 7.375% Senior Notes due 2017.

In May 2010 and June 2010 we used available liquidity within the Group to pre-pay and cancel the Stratos Senior Credit Facility and redeem the Stratos Senior Unsecured Notes. On the pre-payment date of the Stratos Senior Credit Facility, the amount outstanding under the facility was US\$207.0m. We redeemed the entire principal amount of US\$150.0m



outstanding under the Stratos Senior Unsecured Notes (US\$62.4m, net of US\$87.6m Stratos Senior Unsecured Notes held by the Group at the date of redemption) and paid the associated note redemption premium of US\$3.1m (US\$7.4m less US\$4.3m received by virtue of the Groups investment in the Stratos Senior Unsecured Notes). In addition, as a result of the pre-payment and redemption, we wrote-off US\$1.9m and US\$3.9m in respect of unamortised debt issue costs in relation to the Stratos Senior Credit Facility and the Stratos Senior Unsecured Notes, respectively.

The Group's net borrowings (gross of deferred finance costs) are presented in the table below:

(US\$ in millions)	As at 30 June 2010	As at 31 December 2009
Senior Credit Facility	340.0	290.0
EIB Facility	180.0	–
Senior Notes due 2017	650.0	650.0
– issuance discount	(4.5)	(4.8)
Subordinated Parent Company Loan	325.8	301.3
Intercompany loan <sup>(1)</sup>	5.6	388.8
Deferred satellite payments	43.9	47.4
Bank overdrafts	1.4	0.9
Stratos Senior Credit Facility	–	209.2
Stratos Senior Unsecured Notes <sup>(2)</sup>	–	86.8
<b>Total borrowings</b>	<b>1,542.2</b>	<b>1,969.6</b>
Cash and cash equivalents	(118.6)	(226.7)
<b>Net Borrowings</b>	<b>1,423.6</b>	<b>1,742.9</b>

- (1) Prior to the Group Reorganisation, Finance III had intercompany loans outstanding with Inmarsat plc and Inmarsat Holdings Limited, both of which are outside the Group. As a result of the Group Reorganisation, although Finance III became an indirect wholly-owned subsidiary of the Group, the previously outstanding intercompany loans at 31 December 2009 were substantially repaid or otherwise eliminated prior to Finance III becoming a subsidiary of the Group. See note 3 to the condensed consolidated financial statements.
- (2) In 2009, net of US\$63.2m Senior Unsecured Notes held by the Group, being 42.1% of the aggregate principal amount outstanding.

The table below shows the condensed consolidated cash flow for the Group for the periods indicated:

(US\$ in millions)	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
Net cash from operating activities	152.9	152.6	309.9	287.8
Net cash used in investing activities				
excluding capital expenditure	–	(12.7)	(113.6)	(14.1)
Capital expenditure, including own work capitalised	(35.9)	(32.7)	(67.6)	(84.2)
Dividends paid	–	(86.5)	(100.7)	(86.5)
Net cash used in financing activities				
excluding dividends paid	(293.9)	(54.5)	(137.1)	(81.5)
Foreign exchange adjustment	1.7	–	0.5	0.4
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(175.2)</b>	<b>(33.8)</b>	<b>(108.6)</b>	<b>21.9</b>

The increase in net cash generated from operating activities in the three months ended 30 June 2010, compared to the same period in 2009, of US\$0.3m primarily relates to higher EBITDA in the three months ended 30 June 2010 offset by movements in working capital.

The decrease in net cash used in investing activities, excluding capital expenditure, during the three months ended 30 June 2010, compared to the same period in 2009, was US\$12.7m. The decrease predominantly reflects the payment in relation to our investment in SkyWave Mobile Communications (“SkyWave”) of US\$11.4m in the half year ended 30 June 2009.

Capital expenditure, including own work capitalised, increased by US\$3.2m in the three months ended 30 June 2010, compared to the same period in 2009. Capital expenditure may fluctuate with the timing of milestone payments on current projects.

Net cash used in financing activities, excluding the payment of dividends, increased by US\$239.4m during the three months ended 30 June 2010, compared to the same period in 2009. During the three months ended 30 June 2010, the Group repaid the outstanding balance of the Stratos Senior Credit Facility of US\$206.9m and redeemed the entire principal amount of the Stratos Senior Unsecured Notes of US\$150.0m, plus the redemption premium of US\$7.4m. During the three months ended 30 June 2010, we repaid intercompany loans with companies outside the reporting Group of US\$114.6, including an amount of US\$86.5m which had been passed to the Group by a fellow company in March 2010 (to be placed on deposit) and which was subsequently paid back out of the Group during the quarter. In addition, during the three months ended 30 June 2010, the Group drew down US\$50.0m of our revolving credit facility and paid US\$34.3m of cash interest and US\$2.6m relating to arrangement costs of new borrowing facilities. In the three months ended 30 June 2010, we received US\$180.0m from the drawdown of the EIB Facility and upon redemption of the Stratos Senior Unsecured Notes, the Group received US\$91.9m (US\$87.6m principal amount plus US\$4.3m redemption premium). During the three months ended 30 June 2009, we paid cash interest on borrowing of US\$29.8m and repaid US\$25.0m of our revolving credit facility.

### **Group free cash flow**

(US\$ in millions)	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
Cash generated from operations	156.9	155.2	321.2	294.1
Capital expenditure	(32.7)	(29.3)	(59.4)	(73.9)
Capitalised operating costs	(3.2)	(3.4)	(8.2)	(10.3)
Net cash interest paid	(34.3)	(29.6)	(50.3)	(51.5)
Cash tax paid	(4.0)	(2.8)	(11.5)	(6.7)
<b>Free cash flow</b>	<b>82.7</b>	<b>90.1</b>	<b>191.8</b>	<b>151.7</b>

Free cash flow decreased by US\$7.4m, or 8.2%, during the three months ended 30 June 2010, compared to the same period in 2009. The decrease is due to the increase in capital expenditure, cash interest paid, cash tax paid and working capital movements.

### **Recent Events**

Inmarsat plc (the Groups ultimate parent company) separately announced today a major new investment project called Inmarsat-5. Inmarsat-5 will comprise a global network of Ka-band satellites, primarily focused on providing super high bandwidth services to the wider MSS markets in maritime, energy and government, which represent incremental long term growth opportunities. The total expected cost of the Inmarsat-5 programme will be US\$1.2bn and we expect to bring the network into commercial service in 2014. For more information see Inmarsat plc's separate press release dated 6 August 2010.

On 27 July 2010 the Finance Bill issued on 1 July 2010 was substantively enacted, reducing corporate tax rates from 28% to 27% with effect from 1 April 2011. We have considered the impact of this corporation tax rate reduction on our deferred tax balances and do not believe the impact to be material for the three and six months ended 30 June 2010. Furthermore, the Emergency Budget 2010 introduced further annual corporation tax rate reductions of 1% reaching 24% on 1 April 2012.

Subsequent to 30 June 2010, other than the events discussed above, there have been no other material events which would affect the information reflected in the condensed consolidated financial results of the Group.

**INMARSAT GROUP LIMITED**  
**CONDENSED CONSOLIDATED INCOME STATEMENT**  
(unaudited)

(US\$ in millions)	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
<b>Revenues</b>	<b>289.2</b>	<b>256.9</b>	<b>570.7</b>	<b>508.7</b>
Employee benefit costs	(44.9)	(48.8)	(92.0)	(94.3)
Network and satellite operations costs	(56.0)	(46.8)	(109.4)	(96.4)
Other operating costs	(23.7)	(19.0)	(43.2)	(40.5)
Work performed by the Group and capitalised	4.0	5.9	8.2	11.1
<b>Total net operating costs</b>	<b>(120.6)</b>	<b>(108.7)</b>	<b>(236.4)</b>	<b>(220.1)</b>
<b>EBITDA</b>	<b>168.6</b>	<b>148.2</b>	<b>334.3</b>	<b>288.6</b>
Depreciation and amortisation	(60.2)	(57.3)	(114.9)	(116.5)
Share of results of associates	0.3	0.2	0.6	0.4
Gain on disposal of fixed assets	–	0.4	–	1.5
Goodwill adjustment	–	(10.1)	–	(10.1)
<b>Operating profit</b>	<b>108.7</b>	<b>81.4</b>	<b>220.0</b>	<b>163.9</b>
Interest receivable and similar income	1.4	0.6	4.7	1.6
Interest payable and similar charges	(39.2)	(36.3)	(71.2)	(68.2)
Net interest payable	(37.8)	(35.7)	(66.5)	(66.6)
<b>Profit before income tax</b>	<b>70.9</b>	<b>45.7</b>	<b>153.5</b>	<b>97.3</b>
Income tax expense	(21.9)	(9.0)	(45.4)	(23.2)
<b>Profit for the period</b>	<b>49.0</b>	<b>36.7</b>	<b>108.1</b>	<b>74.1</b>
<b>Attributable to:</b>				
<b>Equity holders</b>	<b>49.0</b>	<b>36.7</b>	<b>108.0</b>	<b>74.1</b>
<b>Non-controlling interest</b>	<b>–</b>	<b>–</b>	<b>0.1</b>	<b>–</b>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
(unaudited)

(US\$ in millions)	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
<b>Profit for the period</b>	<b>49.0</b>	<b>36.7</b>	<b>108.1</b>	<b>74.1</b>
<b>Other comprehensive (loss)/income:</b>				
(Losses)/gains on cash flow hedges	(18.2)	31.7	(31.8)	39.9
Actuarial losses from pension and post-retirement healthcare benefits	–	(15.1)	–	(15.1)
Tax credited/(charged) directly to equity	5.0	(4.2)	9.4	(6.1)
<b>Other comprehensive (loss)/income for the period, net of tax</b>	<b>(13.2)</b>	<b>12.4</b>	<b>(22.4)</b>	<b>18.7</b>
<b>Total comprehensive income for the period, net of tax</b>	<b>35.8</b>	<b>49.1</b>	<b>85.7</b>	<b>92.8</b>
<b>Attributable to:</b>				
<b>Equity holders</b>	<b>35.8</b>	<b>49.1</b>	<b>85.6</b>	<b>92.8</b>
<b>Non-controlling interest</b>	<b>–</b>	<b>–</b>	<b>0.1</b>	<b>–</b>

**INMARSAT GROUP LIMITED**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
(unaudited)

(US\$ in millions)	As at 30 June 2010	As at 31 December 2009
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,331.0	1,365.2
Intangible assets	1,146.7	1,020.0
Investments	31.0	31.0
Other receivables	3.8	26.5
Derivative financial instruments	1.5	12.0
	<b>2,514.0</b>	<b>2,454.7</b>
<b>Current assets</b>		
Cash and cash equivalents	118.6	226.7
Restricted cash <sup>(1)</sup>	8.2	–
Trade and other receivables	271.7	237.6
Inventories	12.5	9.5
Derivative financial instruments	1.3	12.1
	<b>412.3</b>	<b>485.9</b>
<b>Total assets</b>	<b>2,926.3</b>	<b>2,940.6</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Borrowings	175.2	109.8
Trade and other payables	230.6	205.2
Provisions	0.5	0.9
Current income tax liabilities	64.4	40.4
Derivative financial instruments	19.0	14.1
	<b>489.7</b>	<b>370.4</b>
<b>Non-current liabilities</b>		
Borrowing	1,344.2	1,830.0
Other payables	54.9	27.6
Provisions	52.2	55.8
Deferred income tax liabilities	73.0	72.4
Derivative financial instruments	20.2	12.9
	<b>1,544.5</b>	<b>1,998.7</b>
<b>Total liabilities</b>	<b>2,034.2</b>	<b>2,369.1</b>
<b>Net assets</b>	<b>892.1</b>	<b>571.5</b>
<b>Shareholders' equity</b>		
Ordinary shares	0.4	0.4
Share premium	677.4	346.3
Other reserves	7.8	26.4
Retained earnings	205.9	197.9
<b>Equity attributable to shareholders of the parent</b>	<b>891.5</b>	<b>571.0</b>
Non-controlling interest	<b>0.6</b>	<b>0.5</b>
<b>Total equity</b>	<b>892.1</b>	<b>571.5</b>

(1) Restricted cash relates to our Segovia business and represents cash received from customers for the advanced payment of services.

**INMARSAT GROUP LIMITED**  
**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
(unaudited)

(US\$ in millions)	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
<b>Cash flow from operating activities</b>				
Cash generated from operations	156.9	155.2	321.2	294.1
Interest received	–	0.2	0.2	0.4
Income taxes paid	(4.0)	(2.8)	(11.5)	(6.7)
<b>Net cash flow from operating activities</b>	<b>152.9</b>	<b>152.6</b>	<b>309.9</b>	<b>287.8</b>
<b>Cash flow from investing activities</b>				
Purchase of property, plant and equipment	(27.1)	(22.8)	(46.3)	(50.8)
Additions to capitalised development costs, including software	(5.6)	(6.5)	(13.1)	(23.1)
Work performed by the Group and capitalised	(3.2)	(3.4)	(8.2)	(10.3)
Purchase of Segovia	–	–	(110.0)	–
Other investments, including acquisition of subsidiaries	–	(12.7)	(3.6)	(14.1)
<b>Net cash used in investing activities</b>	<b>(35.9)</b>	<b>(45.4)</b>	<b>(181.2)</b>	<b>(98.3)</b>
<b>Cash flow from financing activities</b>				
Dividends paid	–	(86.5)	(100.7)	(86.5)
Net (repayment)/drawdown of Senior Credit Facility	(50.0)	(25.0)	50.0	(25.0)
Drawdown of EIB Facility	180.0	–	180.0	–
Repayment of the Stratos Senior Credit Facility	(206.9)	(0.3)	(209.2)	(2.5)
Redemption of Stratos Senior Unsecured Notes	(65.5)	–	(65.5)	–
Purchase of own debt securities, including discount	–	–	(24.4)	(2.8)
Interest paid on borrowings	(34.3)	(29.8)	(50.5)	(51.9)
Arrangement costs of new borrowing facilities	(2.6)	–	(2.6)	–
Intercompany funding	(114.6)	0.6	(14.9)	0.7
<b>Net cash used in financing activities</b>	<b>(293.9)</b>	<b>(141.0)</b>	<b>(237.8)</b>	<b>(168.0)</b>
Foreign exchange adjustment	1.7	–	0.5	0.4
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(175.2)</b>	<b>(33.8)</b>	<b>(108.6)</b>	<b>21.9</b>
<b>Movement in cash and cash equivalents</b>				
At beginning of period	292.4	206.4	225.8	150.7
Net (decrease)/increase in cash and cash equivalents	(175.2)	(33.8)	(108.6)	21.9
<b>As reported on balance sheet (net of bank overdrafts)</b>	<b>117.2</b>	<b>172.6</b>	<b>117.2</b>	<b>172.6</b>
<b>At end of period, comprising</b>				
Cash at bank and in hand	57.6	118.8	57.6	118.8
Short-term deposits with original maturity of less than 3 months	61.0	54.2	61.0	54.2
Bank overdrafts	(1.4)	(0.4)	(1.4)	(0.4)
	<b>117.2</b>	<b>172.6</b>	<b>117.2</b>	<b>172.6</b>

**INMARSAT GROUP LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**(unaudited)**

(US\$ in millions)	Ordinary share capital	Share premium account	Other reserves	Retained earnings	Non- controlling interest	Total
<b>Balance at 1 January 2009</b>	<b>0.4</b>	<b>346.1</b>	<b>(13.3)</b>	<b>188.9</b>	<b>1.5</b>	<b>523.6</b>
Profit for the year	–	–	–	168.6	0.1	168.7
Dividend paid	–	–	–	(144.9)	–	(144.9)
Actuarial losses from pension and post-retirement benefits	–	–	–	(21.4)	–	(21.4)
Issue of share capital	–	0.2	–	–	–	0.2
Share option charge	–	–	8.2	–	–	8.2
Net fair value gains – cash flow hedges	–	–	44.0	–	–	44.0
Tax (charged)/credited directly to equity	–	–	(12.5)	6.7	–	(5.8)
Additional investment in associates	–	–	–	–	(0.1)	(0.1)
Purchase of non-controlling interest	–	–	–	–	(1.0)	(1.0)
<b>Balance at 31 December 2009</b>	<b>0.4</b>	<b>346.3</b>	<b>26.4</b>	<b>197.9</b>	<b>0.5</b>	<b>571.5</b>
Profit for the period	–	–	–	108.0	0.1	108.1
Dividend paid	–	–	–	(100.7)	–	(100.7)
Issue of share capital	–	331.1	–	–	–	331.1
Share option charge	–	–	4.5	–	–	4.5
Net fair value losses – cash flow hedges	–	–	(31.8)	–	–	(31.8)
Tax credited directly to equity	–	–	8.7	0.7	–	9.4
<b>Balance at 30 June 2010</b>	<b>0.4</b>	<b>677.4</b>	<b>7.8</b>	<b>205.9</b>	<b>0.6</b>	<b>892.1</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. General information

The principal activity of Inmarsat Group Limited and its subsidiaries (together "the Group") is the provision of mobile satellite communications services ("MSS").

These unaudited condensed consolidated financial results were approved for issue by the Board of Directors on 6 August 2010.

The financial information for the year ended 31 December 2009 does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. A copy of the statutory accounts for the year has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report, and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

### 2. Principal accounting policies

#### *Basis of preparation*

The unaudited Group results for the three and six months ended 30 June 2010 have been prepared using International Financial Reporting Standards ("IFRS") as adopted by the European Union and in accordance with International Accounting Standards ("IAS") 34, 'Interim Financial Reporting'. This announcement does not contain sufficient information to comply with all of the disclosure requirements of IFRS.

These unaudited condensed consolidated financial statements should be read in conjunction with the Group's most recent annual consolidated financial statements, which are for the year ended 31 December 2009, and which are available on our website at [www.inmarsat.com](http://www.inmarsat.com). Except as described below, the unaudited condensed consolidated financial statements are based upon accounting policies and methods consistent with those used and described in the Group's annual consolidated financial statements prepared under IFRS, set out on pages 7 to 48. Operating results for the periods ended 30 June 2010 are not necessarily indicative of the results that may be expected for the year ending 31 December 2010. The consolidated balance sheet as at 31 December 2009 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by IFRS for complete financial statements.

- Taxes are accrued based on management's estimated annual effective income tax rate applied to the Group's interim pre-tax income.
- The Group adopted IFRS 3 (as revised) – Business Combinations (effective for financial years beginning on or after 1 July 2009) for the first time in the current financial year, specifically in relation to the acquisition of Segovia, Inc. ("Segovia") (see note 7).
- In addition, the following standards and interpretations, issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC"), are effective for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position:
  - IFRS 2 (as amended) – Share-based Payment – Amendments relating to group cash-settled share-based payments transactions (effective for financial years beginning on or after 1 January 2010);
  - IAS 27 (as amended) – Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009);
  - IAS 39 (as amended) – Financial Instruments: Recognition and Measurement (effective for financial years beginning on or after 1 July 2009);
  - IFRIC 17 – Distribution of Non-cash Assets to Owners (effective for financial years beginning on or after 1 July 2009);
  - Amendments resulting from the April 2009 Annual Improvements to IFRSs (effective for financial years beginning on or after 1 January 2010).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group has a robust and resilient business model, strong free cash flow generation and is compliant with all covenants. As a consequence and despite the continuing uncertain economic climate, the Directors believe that the Group is well placed to manage its business risks successfully. After considering current financial projections and facilities available and after making enquiries, the Directors have a reasonable expectation that the Group has 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.

The functional currency of the Company and all of the Group's subsidiaries and the presentation currency is the US dollar, as the majority of operational transactions and borrowings are denominated in US dollars.

### *Basis of accounting*

The preparation of the condensed consolidated financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the Balance Sheet dates and the reported amounts of revenue and expenses during the reported period. Although these estimates are based on management's best estimate of the amount, event or actions, these results ultimately may differ from those estimates. Accounting policies adopted in preparing these condensed consolidated financial statements have been selected in accordance with IFRS.

### **3. Group reorganisation**

On 30 June 2010 we completed a reorganisation plan under which the ownership of Inmarsat Finance III Limited ("Finance III") and all its subsidiaries (including Stratos and its subsidiaries), was transferred within the Inmarsat group (the "Group Reorganisation"). The ownership in Finance III was passed down the Inmarsat chain of companies to Inmarsat Ventures Limited by way of a series of share-for-share transactions. As a result of the Group Reorganisation, Stratos became an indirect wholly-owned subsidiary of Inmarsat Group Limited.

Accounting for internal reorganisations is outside the scope of IFRS 3, 'Business Combinations' and IFRS does not contain additional guidance. Therefore, in accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', the Group is entitled to consider the pronouncements of other standard setting bodies, such as UK GAAP. Therefore, we have accounted for the Group Reorganisation using merger accounting principles. The key features of this accounting are:

- the carrying value of the assets and liabilities "acquired" by the Group are not adjusted to fair values on consolidation;
- any difference between the value of consideration provided and net assets acquired is not recognised as goodwill, but is adjusted against reserves;
- the premium above nominal value for any shares issued is recognised as a group reconstruction reserve rather than as share premium;
- the results and cash flows of all the combining entities are recognised in the consolidated financial statements from the beginning of the financial period in which the combination occurred; and
- the corresponding prior year figures are restated as if Inmarsat Group Limited had always been the parent undertaking of the new group of companies.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. Segmental information

IFRS 8, 'Operating Segments' requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM") to allocate resources and assess performance. The CODM of Inmarsat plc is the Chief Executive Officer who is responsible for assessing the performance of the individual segments. Information reported to the CODM for the purposes of resource allocation and assessment of segment performance is focused on the individual performance of each of the divisions within the Group, namely Inmarsat Global and Stratos. The Group's reportable segments are therefore as follows:

- Inmarsat Global – principally the supply of internally generated airtime, equipment and services to distribution partners and end-users of mobile satellite communications by the Inmarsat business. The segment also includes income from technical support to other operators, the provision of conference facilities and leasing surplus office space to external organisations, all of which are not material on a standalone basis and in aggregate;
- Stratos – the supply of advanced mobile and fixed-site remote telecommunications services, the provision of customised turnkey remote telecommunications solutions, value-added services, equipment and engineering services to end-users; and
- 'Unallocated' – includes Group borrowings and the related interest expense, cash and cash equivalents and current and deferred tax balances, which are not allocated to each segment.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profit represents the profit earned by each segment without allocation of investment revenue, finance costs and income tax expense.

#### Segment information:

(US\$ in millions)	Three months ended 30 June 2010					Six months ended 30 June 2010				
	Inmarsat Global	Stratos	Unallocated	Eliminations	Total	Inmarsat Global	Stratos	Unallocated	Eliminations	Total
Revenue <sup>(a)</sup>										
External sales	112.2	177.0	–	–	289.2	217.9	352.8	–	–	570.7
Inter-segment	72.0	1.9	–	(73.9)	–	149.9	3.0	–	(152.9)	–
<b>Total revenue</b>	<b>184.2</b>	<b>178.9</b>	<b>–</b>	<b>(73.9)</b>	<b>289.2</b>	<b>367.8</b>	<b>355.8</b>	<b>–</b>	<b>(152.9)</b>	<b>570.7</b>
Segment result (operating profit)	97.9	9.9	–	0.9	108.7	194.8	24.3	–	0.9	220.0
Net interest charged to the Income Statement	–	–	(37.8)	–	(37.8)	–	–	(66.5)	–	(66.5)
Profit before income tax					70.9					153.5
Income tax expense					(21.9)					(45.4)
Profit for the year					49.0					108.1
Segment assets	2,069.0	929.2	118.6	(190.5)	2,926.3	2,069.0	929.2	118.6	(190.5)	2,926.3
Segment liabilities	(269.1)	(190.5)	(1,656.8)	82.2	(2,034.2)	(269.1)	(190.5)	(1,656.8)	82.2	(2,034.2)
Capital expenditure <sup>(b)</sup>	(24.7)	(11.8)	–	–	(36.5)	(51.7)	(16.2)	–	–	(67.9)
Depreciation	(36.4)	(8.7)	–	–	(45.1)	(72.3)	(14.4)	–	–	(86.7)
Amortisation of intangible assets	(5.4)	(9.7)	–	–	(15.1)	(10.8)	(17.4)	–	–	(28.2)

(a) Revenue from the sale of user terminals is classified as either Inmarsat MSS or Stratos revenue for the purpose of segment reporting, depending on the nature of the terminal. In addition, revenue includes income from technical support to other operators, the provision of conference facilities and leasing surplus office space to external organisations, which are classified as 'other income' in the revenue analysis table on page 6.

(b) Capital expenditure stated using accruals basis.

(c) The Stratos segment includes Segovia from 12 January 2010.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. Segmental information (continued)

(US\$ in millions)	Three months ended 30 June 2009					Six months ended 30 June 2009				
	Inmarsat Global	Stratos	Unallocated	Eliminations	Total	Inmarsat Global	Stratos	Unallocated	Eliminations	Total
Revenue <sup>(a)</sup>										
External sales	97.2	159.7	–	–	256.9	193.7	315.0	–	–	508.7
Inter-segment	76.0	1.0	–	(77.0)	–	142.9	2.2	–	(145.1)	–
<b>Total revenue</b>	<b>173.2</b>	<b>160.7</b>	<b>–</b>	<b>(77.0)</b>	<b>256.9</b>	<b>336.6</b>	<b>317.2</b>	<b>–</b>	<b>(145.1)</b>	<b>508.7</b>
Segment result (operating profit)	80.6	3.1	–	(2.3)	81.4	151.4	14.5	–	(2.0)	163.9
Net interest charged to the Income Statement	–	–	(35.7)	–	(35.7)	–	–	(66.6)	–	(66.6)
Profit before income tax					45.7					97.3
Income tax expense					(9.0)					(23.2)
Profit for the year					36.7					74.1
Segment assets	2,055.5	785.8	173.0	(88.6)	2,925.7	2,055.5	785.8	173.0	(88.6)	2,925.7
Segment liabilities	(212.2)	(165.5)	(2,118.7)	103.6	(2,392.8)	(212.2)	(165.5)	(2,118.7)	103.6	(2,392.8)
Capital expenditure <sup>(b)</sup>	(28.1)	(4.3)	–	–	(32.4)	(74.8)	(9.2)	–	0.3	(83.7)
Investment <sup>(c)</sup>	23.5	–	–	–	23.5	23.5	–	–	–	23.5
Depreciation	(39.9)	(5.5)	–	–	(45.4)	(80.8)	(12.9)	–	–	(93.7)
Amortisation of intangible assets	(4.6)	(7.3)	–	–	(11.9)	(10.2)	(12.6)	–	–	(22.8)

(a) Revenue from the sale of user terminals is classified as either Inmarsat MSS or Stratos revenue for the purpose of segment reporting, depending on the nature of the terminal. In addition, revenue includes income from technical support to other operators, the provision of conference facilities and leasing surplus office space to external organisations, which are classified as 'other income' in the revenue analysis table on page 6.

(b) Capital expenditure stated using accruals basis.

(c) Relates to 19% stake in SkyWave Mobile Communications acquired in 2009.

### 5. Net interest payable

(US\$ in millions)	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
Interest on Senior Notes and credit facilities	(15.8)	(5.6)	(30.5)	(11.5)
Interest rate swaps	(3.4)	(2.7)	(6.8)	(5.1)
Pension and post-retirement liability finance costs	–	(4.3)	–	(4.5)
Unwinding of discount on deferred satellite liabilities	(0.7)	(0.8)	(1.4)	(1.5)
Amortisation of debt issue costs	(1.8)	(0.7)	(3.4)	(1.4)
Amortisation of discount on Senior Notes due 2017	(0.1)	–	(0.3)	–
Interest on Stratos borrowings	(12.4)	(4.8)	(17.1)	(9.8)
Premium on purchase of Stratos Senior Unsecured Notes	–	–	(1.4)	–
Intercompany interest	(6.1)	(18.0)	(12.4)	(35.5)
Other interest	(0.5)	(0.3)	(0.9)	(0.5)
<b>Interest payable and similar charges</b>	<b>(40.8)</b>	<b>(37.2)</b>	<b>(74.2)</b>	<b>(69.8)</b>
Less: Amounts included in the cost of qualifying assets	1.6	0.9	3.0	1.6
<b>Total interest payable and similar charges</b>	<b>(39.2)</b>	<b>(36.3)</b>	<b>(71.2)</b>	<b>(68.2)</b>
Bank interest receivable and other interest	0.6	0.6	1.3	1.6
Pension and post-retirement liability finance costs	0.8	–	3.4	–
<b>Total interest receivable and similar income</b>	<b>1.4</b>	<b>0.6</b>	<b>4.7</b>	<b>1.6</b>
<b>Net interest payable</b>	<b>(37.8)</b>	<b>(35.7)</b>	<b>(66.5)</b>	<b>(66.6)</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. Borrowings

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

(US\$ in millions)	As a 30 June 2010			As at 31 December 2009		
	Amount	Deferred finance costs	Net balance	Amount	Deferred finance costs	Net balance
<b>Current:</b>						
Bank overdrafts	1.4	–	1.4	0.9	–	0.9
Deferred satellite payments	8.8	–	8.8	9.3	–	9.3
Senior Credit Facility	165.0	–	165.0	90.0	–	90.0
Stratos Senior Credit Facility <sup>(a)</sup>	–	–	–	9.6	–	9.6
<b>Total current borrowings</b>	<b>175.2</b>	<b>–</b>	<b>175.2</b>	<b>109.8</b>	<b>–</b>	<b>109.8</b>
<b>Non-current:</b>						
Senior Credit Facility	175.0	(8.6)	166.4	200.0	(10.6)	189.4
EIB Facility <sup>(b)</sup>	180.0	(2.6)	177.4	–	–	–
Senior Notes due 2017	650.0	(11.6)	638.4	650.0	(12.5)	637.5
—Issuance discount	(4.5)	–	(4.5)	(4.8)	–	(4.8)
Stratos Senior Credit Facility <sup>(a)</sup>	–	–	–	199.6	(2.3)	197.3
Stratos Senior Unsecured Notes <sup>(c)</sup>	–	–	–	86.8	(4.4)	82.4
Deferred satellite payments	35.1	–	35.1	38.1	–	38.1
Subordinated Parent Company Loan	325.8	–	325.8	301.3	–	301.3
Intercompany loan <sup>(d)</sup>	5.6	–	5.6	388.8	–	388.8
<b>Total non-current borrowings</b>	<b>1,367.0</b>	<b>(22.8)</b>	<b>1,344.2</b>	<b>1,859.8</b>	<b>(29.8)</b>	<b>1,830.0</b>
<b>Total Borrowings</b>	<b>1,542.2</b>	<b>(22.8)</b>	<b>1,519.4</b>	<b>1,969.6</b>	<b>(29.8)</b>	<b>1,939.8</b>
Cash and cash equivalents	(118.6)	–	(118.6)	(226.7)	–	(226.7)
<b>Net Borrowings</b>	<b>1,423.6</b>	<b>(22.8)</b>	<b>1,400.8</b>	<b>1,742.9</b>	<b>(29.8)</b>	<b>1,713.1</b>

- (a) On 10 May 2010 we pre-paid and cancelled the outstanding amount under the Stratos Senior Credit Facility of US\$207.0m and wrote-off unamortised costs in relation to the facility of US\$1.9m.
- (b) On 19 April 2010, Inmarsat plc announced the signing of an 8-year facility agreement from the European Investment Bank ("EIB"). Under the agreement, we may borrow up to €225m at any time before 23 December 2010. The facility is available in Euros and US dollars. An initial draw down of US\$180.0m was made on 30 April 2010. This facility matures on 30 April 2018 and is repayable in equal annual instalments beginning 30 April 2012. Interest is equal to 3-month USD LIBOR plus a margin payable in April, July, October and January each year.
- (c) On 2 June 2010 we redeemed the entire principal amount of US\$150.0m outstanding under the Stratos Senior Unsecured Notes (US\$62.4m, net of US\$87.6m Senior Unsecured Notes held by the Group at the date of redemption) and paid the associated note redemption premium of US\$7.4m. In addition, we wrote-off US\$3.9m in respect of unamortised debt issue costs in relation to the Stratos Senior Unsecured Notes.
- (d) Prior to the Group Reorganisation, Finance III had intercompany loans outstanding with Inmarsat plc and Inmarsat Holdings Limited, both of which are outside the Group. As a result of the Group Reorganisation, although Finance III became an indirect wholly-owned subsidiary of the Group, the previously outstanding intercompany loans at 31 December 2009 were substantially repaid or otherwise eliminated prior to Finance III becoming a subsidiary of the Group. See note 3 to the condensed consolidated financial statements.

### 7. Acquisition of Segovia

On 12 January 2010, we completed the acquisition of the business and assets of Segovia for an initial consideration of US\$110.0m, and may pay additional amounts depending on the performance of the acquired business over the next three years. Segovia is a leading provider of secure Internet Protocol managed solutions and services to United States government agencies. We have acquired Segovia in order to strengthen our relationships with key government customers across land, maritime and aeronautical environments as well as to bring enhanced services to the government sector generally. The management team that was in place before the acquisition continues to operate Segovia as a separate business.

We have accounted for the acquisition of Segovia, using the purchase method of accounting in accordance with IFRS 3 (as revised), 'Business Combinations'. The consolidated results of the Group for the three and six months ended 30 June 2010 include the financial results of Segovia from 12 January 2010. Where necessary, adjustments are made to the financial

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

During the period ended 30 June 2010, the allocation of the purchase consideration was finalised. As a result of this review, we recognised identifiable intangible assets of US\$113.7m (refer to table below) and goodwill of US\$27.2m. Goodwill represents the excess of the purchase consideration over the fair value of the assets and liabilities acquired. Qualitatively, goodwill represents among other factors, the assembled workforce, which is not separately identified as part of the purchase price allocation. In addition, we believe that Segovia's expertise in designing, deploying and operating mixed satellite and terrestrial networks, particularly in the government and military environment, will generate value for the Group through future customer relationships.

During the year ended 31 December 2009, we recognised US\$3.9m of transaction costs directly associated with the acquisition of Segovia as an expense in the Income Statement.

The allocation of the purchase consideration to the net assets and liabilities of Segovia, based on information up to 30 June 2010, is as follows:

(US\$ in millions)	Book value	Fair value adjustments	Fair value at 30 June 2010
<b>Net assets acquired:</b>			
Intangible assets <sup>(a)</sup>	–	113.7	113.7
Property, plant and equipment	3.3	–	3.3
<b>Total Non-current assets</b>	<b>3.3</b>	<b>113.7</b>	<b>117.0</b>
Restricted cash <sup>(b)</sup>	6.0	–	6.0
Trade and other receivables <sup>(c)</sup>	12.9	–	12.9
Inventories	1.5	–	1.5
<b>Total Current assets</b>	<b>20.4</b>	<b>–</b>	<b>20.4</b>
Trade and other payables	(2.8)	–	(2.8)
Deferred revenue	(14.9)	–	(14.9)
<b>Total liabilities</b>	<b>(17.7)</b>	<b>–</b>	<b>(17.7)</b>
<b>Identifiable net assets</b>	<b>6.0</b>	<b>113.7</b>	<b>119.7</b>
Allocated purchase consideration:			
Cash consideration			110.0
Contingent consideration <sup>(d)</sup>			36.9
<b>Total allocated purchase consideration</b>			<b>146.9</b>
<b>Goodwill recognised</b>			<b>27.2</b>

(a) The increase in intangible assets consists of US\$108.9m of customer relationships and US\$4.8m in relation to the Segovia trade name, which are to be amortised over their useful lives of fourteen and ten years respectively.

(b) Restricted cash relates to cash received from customers for the advance payment of services.

(c) The book value of trade receivables of US\$11.1m, included within trade and other receivables, approximates to their fair value and the entire balance is deemed collectable.

(d) The contingent consideration arrangement requires Inmarsat to pay the former owners of Segovia an amount in respect of each of the calendar years ending 31 December 2010, 2011 and 2012 (the "Earn-Out Payments"), subject to Segovia achieving certain specified EBITDA and Capital Expenditure targets. The potential undiscounted amount of all future Earn-Out Payments that Inmarsat could be required to make under the contingent consideration arrangement is between US\$nil and US\$139.0m. The fair value of the contingent consideration arrangement of US\$36.9m is based on the probability-adjusted Earn-Out Payments and the application of an assumed discount rate of 14.0%.

The revenue included in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2010 contributed by Segovia since the acquisition date was US\$37.8m. Segovia also contributed a profit after tax of US\$3.1m over the same period. Given the close proximity of the acquisition date to the beginning of the year, Segovia's contribution to the condensed consolidated statement of comprehensive income, assuming the transaction had occurred on 1 January 2010, would not be materially different from their actual contribution from the date of acquisition.