Inmarsat Group Limited reports First Quarter Results 2019

Summary and Financial Highlights

Inmarsat delivered further revenue growth in the period, building on the positive momentum achieved during 2018. This was driven by the success of our diversified growth portfolio in a focussed set of core end markets, where we lead with sustainable differentiation.

$ in millions	First Quarter			
	2019	2018	Change	Change (%)
Group revenue	**346.9**	**345.4**	**1.5**	**0.4%**
Maritime	128.5	142.0	(13.5)	(9.5%)
Government	100.7	78.3	22.4	28.6%
Aviation	85.9	56.0	29.9	53.4%
Enterprise	28.2	32.7	(4.5)	(13.8%)
Ligado and other[1]	3.6	36.4	(32.8)	(90.1%)
EBITDA[2]	**153.0**	**175.1**	**(22.1)**	**(12.6%)**
PAT	**17.8**	**34.3**	**(16.5)**	**(48.1%)**

Operational Highlights

- **Group revenue** increased by $1.5m, or 0.4% to $346.9m. Excluding Ligado, Group revenue increased by $33.4m, or 10.7% to $346.7m, mainly reflecting strong growth in Government and Aviation:
  - **Maritime:** continued double-digit revenue growth in the fast-growing VSAT segment. Challenges remain in the mid-market but actions taken now favourably impacting vessel losses
  - **Government:** further customer take-up of key products in both our US and Global Government businesses
  - **Aviation:** material increase in In-Flight Connectivity ("IFC") revenues, driven by substantial equipment sales and continued growth in GX airtime revenues. Continued revenue growth from Core business
  - **Enterprise:** continued decline of products in legacy markets
  - **GX-generated revenues:** increased by 71.4% to $85.7m (Q1 2018: $50.0m)
  - **Ligado:** revenues of $0.2m (Q1 2018: $32.1m), as expected
- **EBITDA** decreased by $22.1m, or 12.6%, to $153.0m. EBITDA (excluding Ligado and costs relating to recommended offer for the Group) increased by $26.6m, or 18.2%, to $170.0m, reflecting revenue growth
- **Profit After Tax** declined by $16.5m reflecting costs relating to recommended offer for the Inmarsat plc Group of $17.0m.
- **Free Cash Flow** of $96.2m (Q1 2018: $13.4m outflow) driven by improved working capital and reduced levels of capital expenditure

Recommended offer for the Inmarsat plc Group:

- Subject to shareholders' vote on 10 May 2019 and regulatory approvals. Transaction expected to be completed during Q4 2019

1 Comprises revenue contribution from Central Services and Ligado Networks.

2 In response to the Guidelines on Alternative Performance Measures ('APM's) issued by the European Securities and Markets Authority, we have provided additional information on the APMs used by the Group, including definitions and reconciliations to statutory measures, within Appendix 1 of this document.

OPERATING AND FINANCIAL REVIEW

The following is a discussion of the unaudited consolidated results of the operations and financial condition of Inmarsat Group Limited (the "Company" or, together with its subsidiaries, the "Group") for the three months ended 31 March 2019 compared to the same period in 2018. 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. From 1 January 2019, the Group has adopted IFRIC23 which has impacted the opening balances of tax liabilities relating to uncertain tax positions and retained earnings (see note 2 of this announcement).

We use a number of Alternative Performance Measures (APMs) 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.

More detail on the Group's accounting policies and APMs can be found in the Appendices of this report.

Group Financial Highlights

($ in millions)	**Q1 2019**	**Q1 2018**	**Change**
Revenue			
Satellite services	346.7	313.3	10.7%
Ligado revenue	0.2	32.1	(99.4%)
Total revenue	**346.9**	**345.4**	**0.4%**
Direct costs	(66.0)	(53.0)	(24.5%)
Gross Margin	**280.9**	**292.4**	**(3.9%)**
Indirect costs	(110.9)	(117.3)	5.5%
Exceptional item	(17.0)	–	–
EBITDA	**153.0**	**175.1**	**(12.6%)**
EBITDA margin %	44.1%	50.7%	
Cash capex	**81.8**	**141.3**	**42.1%**

Group revenues increased by $1.5m, driven by strong growth in Government and Aviation, offset by a significant decline in the contribution from Ligado. Excluding Ligado, Group revenues increased by $33.4m.

GX-generated airtime and related revenues were $85.7m for the quarter, up from $52.0m in Q1 2018.

Direct costs increased by $13.0m, reflecting a higher level of low margin equipment sales, particularly in Aviation, partly offset by a release of provisions against future bad debts, predominantly in Maritime.

Indirect costs fell by $6.4m, mainly as a result of favourable currency movements.

EBITDA, excluding Ligado and a $17.0m exceptional item relating to costs associated with the recommended offer for the Group, was $26.6m higher at $170.0.

EBITDA, including Ligado and the exceptional item, fell by $22.5m to $153.0m, with EBITDA margin declining to 44.1%, from 50.7% in Q1 2018.

Cash capex fell by $59.5m to $81.8m, mainly due to the timing of contractual payments for major infrastructure projects as well as a lower level of success-based capex in Aviation.

Maritime

Q1 2019 results

($ in millions)	Q1 2019	Q1 2018	Change
Revenue	**128.5**	**142.0**	**(9.5%)**
Direct Costs	(10.4)	(22.1)	52.9%
Gross Margin	**118.1**	**119.9**	**(1.5%)**
Indirect costs	(8.6)	(10.3)	16.5%
EBITDA	**109.5**	**109.6**	**(0.1%)**
EBITDA margin %	*85.2%*	*77.2%*	–
Cash capex	(11.5)	(11.4)	(0.9%)
Business Unit Operating Cash Flow	**98.0**	**98.2**	**(0.2%)**

Maritime revenue declined by $13.5m in 2019, with further strong growth from Fleet Xpress ("FX") offset by lower terminal sales, lower revenue from FleetBroadband ("FB"), partly as a result of vessel migrations to FX, and continued decline in revenues from legacy products.

Direct costs reduced by $11.7m, reflecting the release of some provisions against possible future bad debts, as well as leased capacity cost savings from the migration of XpressLink ("XL") vessels to FX. Indirect costs declined by $1.7m, mainly due to the absence of marketing spend relating to the Volvo Ocean Race, which finished in June 2018.

EBITDA was flat at $109.5m and EBITDA margin increased to 85.2%, from 77.2% in Q1 2018, due to the issues outlined above.

Maritime capex was flat at $11.5m, reflecting on-going FX customer installations and XL migrations.

Product performance

	Revenue inc. equipment revenue ($ in millions)		Number of vessels		Average Revenue per User ("ARPU") exc. equipment revenue	
First Quarter	**2019**	**2018[1]**	**2019**	**2018[1]**	**2019**	**2018[1]**
FleetBroadband ("FB")	68.0	83.7	32,466	35,343	695	778
VSAT (XL and FX)	45.4	36.7	6,727	4,726	2,162	2,549
Fleet One	1.5	2.2	4,433	3,259	83	160
Legacy products	13.6	19.4	n/a	n/a	n/a	n/a

There was another strong performance from our VSAT products, with revenues up 23.7% in the quarter. At the end of the period, there were 6,727 installed VSAT vessels (6,164 of which were FX vessels) with the retail installation backlog remaining at c. 640 vessels. The total FX vessel base installed by our distribution partners was 37% of installed vessels, from 27% in Q1 2018. This mix change helped to drive vessel volumes but continues to have a dilutive impact on VSAT ARPU, as previously highlighted.

Installations of FX and Crew Xpress, our new FX-based crew-focused product, were together well ahead of our expected installation run rate, with 789 vessels installed in the quarter, with the proportion of completely new customer FX installations also running ahead of the average for 2018 at c. 36% (285 vessels). The XL migration programme remains on track for completion by the end of 2019, with 164 vessels migrated in the quarter and c. 560 vessels remaining at the end of the quarter. 340 of the FX and Crew Xpress vessels installed during the period were migrated from FB.

FB revenues fell by 18.8%, with an annual net FB vessel decline of 2,877 vessels. From 1 January 2019, the operational management of c. 880 FB vessels was transferred to Maritime from Enterprise. Consequently, these FB vessels and their resultant contribution to FB revenue and impact on FB ARPU is included in Maritime results from Q1 2019. During the period, these vessels contributed revenues of c. $1m and were moderately dilutive to FB ARPU.

1. Equipment revenue, previously included in "Other" products (and reported separately in our FY18 results statement), is included within the relevant categories listed above in our 2019 results. Terminal sales are excluded from the calculation of ARPU in Maritime whereas terminals leased to the customer are included. A full quarterly reconciliation of these revenues can be found on our website: www.inmarsat.com

Excluding this internal transfer of vessels, the vast majority of the 3,758 FB vessel losses from the end of Q1 2018 to the end of Q1 2019, migrated to VSAT, with the majority of those vessels migrating to FX. In addition, we achieved initial traction from actions implemented to respond to on-going competitive pressure and to support market share in the mid-market, which drove a c. 38% reduction in the rate of vessel losses in the quarter, compared to the quarterly average for 2018.

FB ARPU declined by 10.5% to $695 per month, reflecting the migration to VSAT being weighted towards higher usage customers, a decline in customer usage of higher-ARPU services, an absence of revenue from the Volvo Ocean Race and the transfer of low-ARPU FB vessels from Enterprise.

Fleet One airtime and equipment revenue declined by $0.7m to $1.5m, due to a lower level of equipment sales, with vessel growth of c. 360 in the quarter. Legacy products continued to decline, by $5.8m, or 29.9%.

Government

Q1 2019 results

($ in millions)	**Q1 2019**	**Q1 2018**	**Change**
Revenue	**100.7**	**78.3**	**28.6%**
Direct costs	(23.5)	(14.2)	(65.5%)
Gross Margin	**77.2**	**64.1**	**20.4%**
Indirect costs	(10.9)	(10.8)	(0.9%)
EBITDA	**66.3**	**53.3**	**24.4%**
EBITDA margin %	*65.8%*	*68.1%*	–
Cash capex	(1.1)	(1.4)	21.4%
Business Unit Operating Cash Flow	**65.2**	**51.9**	**25.6%**

Government revenue increased by $22.4m, 28.6%, to $100.7m.

Revenues in our US Government business increased by 27.9%, supported by several new business wins and expanded mandates during 2018 and increased government expenditure under long term customer contracts. There was a continued increase in underlying revenues from the Boeing Take-or-Pay contract. Outside the US, revenues were up 30.0%, mainly driven by increased GX equipment revenue.

Direct costs increased by $9.3m, due to revenue growth and mix, while indirect costs were flat at $10.9m. Mainly as a result of higher revenue, EBITDA increased by $13.0m but EBITDA margin decreased to 65.8%, from 68.1% in Q1 2018, driven by revenue mix.

Aviation

Q1 2019 results

($ in millions)	**Q1 2019**	**Q1 2018**	**Change**
Revenue	**85.9**	**56.0**	**53.4%**
Direct costs	(24.6)	(7.9)	(211.4%)
Gross Margin	**61.3**	**48.1**	**27.4%**
Indirect costs	(16.6)	(14.5)	(14.5%)
EBITDA	**44.7**	**33.6**	**33.0%**
EBITDA margin %	*52.0%*	*60.0%*	–
Cash capex	(8.2)	(19.8)	58.6%
Business Unit Operating Cash Flow	**36.5**	**13.8**	**164.5%**

Aviation delivered revenue growth of $29.9m, 53.4%, to $85.9m, mainly driven by significant equipment sales, relating to our customer on the European Aviation Network ("EAN"), as well as further growth in GX airtime revenue.

EBITDA increased by $11.1m or 33.0%, to $44.7m, with EBITDA margin declining to 52.0% for the quarter (Q1 2018: 60.0%), as a result of a higher proportion of lower margin equipment revenue. We remain confident that EBITDA margins in Aviation will gradually return to at least their 2016 margin levels of over 60% by the end of 2021.

Cash flow from Aviation improved materially with the impact of both higher revenues and lower capex driving an improvement of $22.7m in the quarter, with the IFC business moving close to Operating Cash Flow breakeven in the period.

Core / IFC – First Quarter	**Core**		**IFC**	
($ in millions)	**Q1 2019**	**Q1 2018**	**Q1 2019**	**Q1 2018**
Revenue	**38.9**	**36.7**	**47.0**	**19.3**
Direct costs	(0.3)	(0.4)	(24.3)	(7.5)
Gross Margin	**38.6**	**36.3**	**22.7**	**11.8**
Indirect costs	(1.6)	(2.2)	(15.0)	(12.3)
EBITDA	**37.0**	**34.1**	**7.7**	**(0.5)**
EBITDA margin %	95.1%	92.9%	*16.4%*	n/a
Cash capex	–	–	(8.2)	(19.8)
Business Unit Operating Cash Flow	**37.0**	**34.1**	**(0.5)**	**(20.3)**

Core Aviation business

Revenues in our Core Aviation business, comprising SwiftBroadband and JetConneX for BGA, Classic Aero and SwiftBroadband-Safety for SOS and legacy products, grew by $2.2m, or 6.0%, to $38.9m.

By the end of the quarter, c. 475 aircraft were installed with JetConneX, our GX-based product for BGA, from c. 220 at the end of Q1 2018. JetConneX grew airtime revenue to $7.5m in the quarter, from $3.7m in Q1 2018. SwiftBroadband revenues declined by $3.9m, or 19.1%, to $16.5m, mainly driven by customer migrations to JetConneX.

In SOS, Classic Aero delivered revenue growth of $2.7m, or 25.2%, to $13.4m, reflecting some growth in the number of aircraft using the service and delayed billing for certain customers.

Direct costs in our Core business remained fairly immaterial at $0.3m in 2019, whilst indirect costs decreased to $1.6m in the quarter.

EBITDA and Business Unit Operating Cash Flow for the Core Aviation business both grew by $2.9m to $37.0m in the quarter.

IFC

IFC revenues, comprising our GX Aviation services for IFC and our L-band-based IFC services for commercial aviation, together grew by $27.7m to $47.0m.

IFC installation revenues increased by $23.3m to $31.2m, due to a significant order for equipment sales for our customer on the EAN in the period, while GX airtime revenues were $4.0m in the quarter (from zero in Q1 2018). Airtime revenues from our L-band-based IFC business were flat at $11.7m.

We have c. 1,790 aircraft under signed contracts or through hardware commitments for our GX and EAN IFC services. In addition, there are c. 300 further aircraft for which existing customers have an option to install further aircraft. We continue to pursue our rolling new business pipeline of around 3,000 aircraft.

At the end of Q1 2019, there were 600 aircraft installed with Inmarsat GX and EAN equipment across a number of customers (up from 452 at the end of Q4 2018), including around 145 GX connected aircraft now in commercial service.

IFC direct costs increased to $24.3m (Q1 2018: $7.5m), driven by a significant sale of equipment in the period. Indirect costs in IFC increased to $15.0m (Q1 2018: $12.3m), mainly reflecting higher legal costs related to the EAN, ahead of its service roll-out in the coming months.

Cash capex in IFC decreased by $11.6m to $8.2m, reflecting lower investment in GX on-board equipment for certain customers, as their installation programmes move towards completion.

IFC EBITDA improved by $8.2m to $7.7m and IFC Operating Cash Flow improved by $19.8m to $(0.5)m.

Enterprise

Q1 2019 results

($ in millions)	Q1 2019	Q1 2018	Change
Revenue	**28.2**	**32.7**	**(13.8%)**
Direct costs	(3.4)	(6.0)	43.3%
Gross Margin	**24.8**	**26.7**	**(7.1%)**
Indirect costs	(4.7)	(5.1)	7.8%
EBITDA	**20.1**	**21.6**	**(6.9%)**
EBITDA margin %	*71.3%*	*66.1%*	–
Cash capex	(0.1)	–	–
Business Unit Operating Cash Flow	**20.0**	**21.6**	**(7.4%)**

Enterprise revenues declined by $4.5m or 13.8%, as a result of the on-going market pressure on our legacy product base, lower satellite phone handset sales and a transfer of FB revenue to Maritime.

Market pressures impacted revenues for BGAN, which fell by $0.7m, or 9.9%, to $6.4m and fixed-to-mobile, which declined by $0.8m, or 25.0%, to $2.4m. Satellite phone revenue declined by $1.5m, or 16.3%, to $7.7m, mainly due to lower levels of handset sales.

Machine to Machine (“M2M”) revenue declined by $0.2m, or 4.1%, to $4.7m, due to the end of a capacity lease in the previous period.

Direct costs declined by $2.6m to $3.4m, due to a lower level of satellite phone handset sales. Indirect costs were down by $0.4m to $4.7m. EBITDA was $1.5m lower, but EBITDA margin was up to 71.3%, from 66.1% in Q1 2018, due to revenue mix.

Central Services

Q1 2019 results

($ in millions)	Q1 2019	Q1 2018	Change
Revenue			
Ligado Networks	0.2	32.1	(99.4%)
Other	3.4	4.3	(20.9%)
Total Revenue	**3.6**	**36.4**	**(90.1%)**
Direct costs	(4.1)	(2.8)	(46.4%)
Gross Margin	**(0.5)**	**33.6**	**(101.5%)**
Indirect costs	(70.1)	(76.6)	8.5%
Exceptional item	(17.0)	–	–
EBITDA	**(87.6)**	**(43.0)**	**(103.7%)**
Cash capex	(60.9)	(108.7)	44.0%
Business Unit Operating Cash Flow	**(148.5)**	**(151.7)**	**2.1%**

Revenue from Ligado declined by $31.9m to $0.2m. Although the company continues to make available spectrum to Ligado in accordance with the co-operation agreement, the company has ceased to recognise revenue from Ligado following a reassessment of whether it is probable that the company will collect the consideration to which it is entitled.

In line with our co-operation agreement, payments from Ligado to Inmarsat have paused in 2019 (unless Ligado obtains its FCC license during 2019, in which event payments are contracted to resume immediately). Payments will then resume from the beginning of 2020 at c. $136m per annum, growing thereafter at 3% compound over the next 89 years. Any payments not made in 2019 (up to $132.3m in aggregate), together with prior payments deferred between 2016 and 2018 (approximately $35m in aggregate) are due for payment by Ligado with interest from their original date of payment no later than 30 June 2021.

Central Services direct costs increased by $1.3 mainly due to higher inventory provisions.

Indirect costs in Central Services reduced by $6.5m, mainly reflecting favourable currency movements.

Central Services capex declined by $47.8m to $60.9m, due to the timing of expenditure on major infrastructure programmes, including the 5th GX satellite and the I-6 satellite infrastructure.

Reconciliation of EBITDA to profit after tax

($ in millions)	2019	2018	Change
EBITDA	**153.0**	**175.1**	**(12.6%)**
Depreciation, amortisation and other costs[1]	(128.3)	(115.5)	(11.1%)
Operating profit	**24.7**	**59.6**	**(58.6%)**
Net financing costs	(6.4)	(21.4)	70.1%
Taxation charge	(0.5)	(3.9)	87.2%
Profit / (Loss) after tax	**17.8**	**34.3**	**(48.1%)**
Addback of exceptional item	17.0	–	–
Adjusted Profit after tax	**34.8**	**34.3**	**1.5%**

1 Other costs consist of fixed asset impairments, losses on disposal of assets and share of profits in associates.

EBITDA

EBITDA, excluding Ligado and a $17.0m exceptional item relating to costs associated with the recommended offer for the Group, was $26.6m higher at $170.0m. EBITDA, including Ligado and the exceptional item, fell by $22.1m to $153.0m.

Operating profit

Depreciation, amortisation and other costs increased by $12.8m, due to an increase in impairments. As a result of this factor and lower EBITDA, operating profit decreased by $34.9m.

Net Financing costs

Net financing costs decreased by $15.0m, driven by lower intercompany interest, as well as a $10.6m increase in capitalised interest due to the significant investment in the I-6 satellites in the prior year, which will now attract additional capitalised interest.

Taxation

The underlying effective tax rate has increased to 21.0% (Q1 2018: 18.5%) and is higher than the UK statutory rate of 19% (Q1 2018: 19%). Underlying profit before tax, which excludes non-deductible costs associated with the recommended offer for the Group, has decreased in the period as expected, however the underlying tax charge has remained relatively flat, driven by adjustments in respect of prior periods.

The reported tax charge for the quarter decreased by $1.9m to $0.5m reflecting the impact of lower taxable profits, the downward revaluation of Norwegian-related deferred tax assets and a number of other individually small issues.

From time to time, the Group may be involved in disputes in relation to on-going tax matters where a tax authority adopts a different interpretation to our own. The Group maintains tax provisions in respect of on-going enquiries with tax authorities. In the event that all such enquiries were settled entirely in favour of the authorities, the Group would incur a cash tax outflow of c. $115m, excluding interest, during 2019. The quantum and timing of this cost remains uncertain but it is substantially provided for and the enquiries remain ongoing at this time. The Group anticipates an initial conclusion in respect of the most significant enquiry in 2019.

Loss/Profit after tax ("PAT")

Adjusted PAT, excluding the exceptional item outlined above, decreased by $16.5m to a profit of $34.8m driven by lower operating profits. PAT, saw a decrease of $326.0m, mainly driven by changes in EBITDA, other operating costs, financing costs and taxation noted above.

Cash Flow[1]

($ in millions)	Q1 2019	Q1 2018
EBITDA	**153.0**	**175.1**
Non-cash items	4.2	2.5
Change in working capital	28.7	(35.2)
Cash generated from operations	**185.9**	**142.4**
Cash Capital expenditure	(81.8)	(141.3)
Net interest paid	(6.3)	(16.1)
Tax (paid)/received	(1.0)	1.6
Free cash flow	**96.8**	**(13.4)**
Dividends paid to shareholders	–	–
Other movements	(3.1)	(3.5)
Net cash flow	**93.7**	**(16.9)**
Increase in short-term cash deposits	75.5	143.7
Net repayment of borrowings	(61.1)	(61.6)
Net increase in cash and cash equivalents	**108.1**	**65.2**

1 Cash flow outlined in this table is non-statutory.

Net cash flow and free cash flow improved by $75.9m and $109.6m, respectively. This is mainly due to lower cash capital expenditure and an improvement in working capital which more than offset lower EBITDA. The working capital improvement was primarily driven by decreased receivables of $25.9m, due to improved customer collections, decreased inventories of $12.1m, following sales of terminal equipment which had been built up at year end, and an increase in accrued costs of $9.2m, mainly due to costs relating to the recommended offer for the Group.

Capital expenditure

($ in millions)	Q1 2019	Q1 2018
Major infrastructure projects[1]	17.6	110.8
Success-based capex[2]	11.3	55.7
Other capex[3]	30.7	26.9
Cash flow timing [4]	22.2	(52.1)
Total cash capital expenditure	**81.8**	**141.3**

1 "Major infrastructure projects" capex consists of satellite design, build and launch costs and ground network infrastructure costs.

2 "Success-based capex" consists of capital equipment installed on ships, aircraft and other customer platforms.

3 "Other capex" investment primarily includes infrastructure maintenance, IT and capitalised product and service development costs.

4 "Cash flow timing" represents the difference between fixed asset additions as reported in the balance sheet and the underlying cash disbursements.

Capital expenditure fell by $59.5m, mainly driven by the timing of contractual payments on major infrastructure investments, particularly the GX5 and I-6 satellites. This dynamic also impacted the movement in cash flow timing. Success-based capex was $44.4m lower, reflecting lower levels of GX installations in Aviation. Other capex increased by $3.8m, due to moderately higher investment in internal IT systems and infrastructure.

Liquidity and net borrowings

($ in millions)	**Q1 2019**	**Q1 2018**
Cash and cash equivalents		
At beginning of the period	138.3	142.9
Net increase in cash and cash equivalents	108.1	65.2
Foreign exchange adjustment	(0.2)	1.2
Sub-total (net of bank overdrafts)	**246.2**	**209.3**
Short term deposits		
At beginning of the period	145.7	342.0
Net decrease in short term deposits	(75.5)	(143.7)
Sub-total	**70.2**	**198.3**
Total cash, cash equivalents and short term deposits	**316.4**	**407.6**
Opening net borrowings[1]	**1,612.1**	**1,963.3**
Net cash flow	(93.7)	16.9
Other movements[2]	(0.5)	(1.7)
Closing net borrowings[1]	**1,517.9**	**1,978.5**

1 Net borrowings includes total borrowings less cash and cash equivalents and short-term investments. Borrowings exclude accrued interest and any derivative liabilities.

2 Other movements relate primarily to the amortisation of deferred financing costs

At 31 March 2019, the Group had over $1 billion in available liquidity, including cash and cash equivalents of $250.7m, short term deposits of $70.2m and available but undrawn committed borrowing facilities of $750m under a Senior Revolving Credit Facility.

Related Party Transactions & Principal Risks and Uncertainties

There have been no material changes in the related party transactions nor principal risks and uncertainties described in the 2018 Inmarsat Group Limited Annual Report and Accounts.

Inmarsat Group Limited
99 City Road
London EC1Y 1AX

By order of the Board,

Rupert Pearce
Chief Executive Officer
1 May 2019

Tony Bates
Chief Financial Officer
1 May 2019

INMARSAT GROUP LIMITED

CONDENSED CONSOLIDATED INCOME STATEMENT

For the quarter ended 31 March 2019 (unaudited)

($ in millions)	**2019**	**2018**
Revenues	**346.9**	**345.4**
Employee benefit costs	(75.3)	(74.8)
Network and satellite operations costs	(42.8)	(47.5)
Impairment of financial assets	5.0	(3.6)
Other operating costs	(91.2)	(54.4)
Own work capitalised	10.4	10.0
Total net operating costs	(193.9)	(170.3)
EBITDA	**153.0**	**175.1**
Depreciation and amortisation	(116.5)	(116.0)
Impairment loss	(12.4)	–
Gain/(Loss) on disposals of assets	(0.3)	(0.4)
Share of profit of associates	0.9	0.9
Operating profit	**24.7**	**59.6**
Financing income	2.5	2.0
Financing costs	(8.9)	(23.4)
Net financing costs	(6.4)	(21.4)
Profit before tax	**18.3**	**38.2**
Taxation charge	(0.5)	(3.9)
Profit for the period	**17.8**	**34.3**
Attributable to:		
Equity holders	**17.6**	**34.2**
Non-controlling interest[1]	**0.2**	**0.1**

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

INMARSAT GROUP LIMITED

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the quarter ended 31 March 2019 (unaudited)

($ in millions)	**2019**	**2018**
Profit for the period	**17.8**	**34.3**
Other comprehensive income		
Items that may be reclassified subsequently to the Income Statement:		
Foreign exchange translation differences	(0.1)	0.3
Gains/(losses) on cash flow hedges	1.1	2.7
Items that will not be reclassified subsequently to the Income Statement:		
Re-measurement of the defined benefit asset	–	–
Tax credited directly to equity	–	–
Other comprehensive income for the period, net of tax	**1.0**	**3.0**
Total comprehensive income/(loss) for the period, net of tax	**18.8**	**37.3**
Attributable to:		
Equity holders	**18.6**	**37.2**
Non-controlling interest	**0.2**	**0.1**

INMARSAT GROUP LIMITED
CONDENSED CONSOLIDATED BALANCE SHEET
For the quarter ended 31 March 2019 (unaudited)

($ in millions)	As at 31 March 2019 (unaudited)	As at 31 December 2018	As at 31 March 2018 (restated)[1]
Assets			
Non-current assets			
Property, plant and equipment	3,307.5	3,356.1	3,318.8
Intangible assets	796.8	800.4	797.2
Investments	19.8	18.8	16.7
Right of Use Assets	59.1	62.4	72.9
Other receivables	35.0	35.2	17.1
Deferred tax asset	52.5	52.5	26.9
Derivative financial instruments	–	–	0.1
	4,270.7	**4,325.4**	**4,249.7**
Current assets			
Cash and cash equivalents	246.4	138.3	209.7
Short-term deposits	70.2	145.7	198.3
Trade and other receivables	373.6	400.9	385.7
Inventories	38.6	50.7	40.4
Current tax assets	3.0	4.6	9.7
Derivative financial instruments	0.3	0.3	0.3
Restricted cash	2.5	2.4	2.3
	734.6	**742.9**	**846.4**
Total assets	**5,005.3**	**5,068.3**	**5,096.1**
Liabilities			
Current liabilities			
Borrowings	123.4	123.2	499.1
Trade and other payables	749.7	777.1	952.3
Provisions	28.4	14.3	10.3
Current tax liabilities	193.6	189.0	145.3
Derivative financial instruments	1.1	2.4	1.9
Lease obligations	11.0	10.4	13.0
	1,107.2	**1,116.4**	**1,621.9**
Non-current liabilities			
Borrowings	1,711.1	1,772.9	1,887.5
Other payables	12.9	13.9	24.2
Provisions	9.9	11.1	9.8
Deferred tax liabilities	254.4	250.3	230.4
Derivative financial instruments	0.4	1.6	1.1
Lease obligations	57.0	59.6	75.2
	2,045.7	**2,109.4**	**2,228.2**
Total liabilities	**3,152.9**	**3,225.8**	**3,850.1**
Net assets	**1,852.4**	**1,842.5**	**1,246.0**
Shareholders' equity			
Ordinary shares	0.4	0.4	0.4
Share premium	1,118.5	1,118.5	677.4
Other reserves	439.8	435.5	432.1
Retained earnings	292.7	287.3	135.5
Equity attributable to shareholders	**1,851.4**	**1,841.7**	**1,245.4**
Non-controlling interest	**1.0**	**0.8**	**0.6**
Total equity	**1,852.4**	**1,842.5**	**1,246.0**

1 In Q4 2018, the Group has changed the accounting policy relating to unallocated launch slots. Refer to Note 2 for further details

INMARSAT GROUP LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the quarter ended 31 March 2019 (unaudited)

($ in millions)	Share capital	Share premium	Share option reserve	Cash flow hedge reserve	Other[1]	Retained earnings	NCI[2]	Total
Balance at 1 January 2018	**0.4**	**677.4**	**104.0**	**(7.7)**	**327.5**	**413.6**	**0.6**	**1,515.8**
Share-based payments[3]	–	–	2.8	–	–	(0.4)	–	2.4
Loss on cash flow hedges capitalised to tangible assets	–	–	–	2.5	–	–	–	2.5
Dividends declared	–	–	–	–	–	(312.0)	–	(312.0)
Comprehensive Income:								
Profit for the period	–	–	–	–	–	34.3	–	34.3
OCI[4] – before tax	–	–	–	2.7	0.3	–	–	3.0
Balance at 31 March 2018	**0.4**	**677.4**	**106.8**	**(2.5)**	**327.8**	**135.5**	**0.6**	**1,246.0**
Balance at 1 January 2019	**0.4**	**1,118.5**	**112.2**	**(4.0)**	**327.3**	**287.3**	**0.8**	**1,842.5**
Share-based payments[3]	–	–	2.9	–	–	1.5	–	4.4
IFRIC 23 Adjustment[5]	–	–	–	–	–	(13.7)	–	(13.7)
Loss on cash flow hedges capitalised to tangible assets	–	–	–	0.4	–	–	–	0.4
Comprehensive Income:								
Profit for the period	–	–	–	–	–	17.6	0.2	17.8
OCI[4] – before tax	–	–	–	1.1	(0.1)	–	–	1.0
Balance at 31 March 2019	**0.4**	**1,118.5**	**115.1**	**(2.5)**	**327.2**	**292.7**	**1.0**	**1,852.4**

1 The 'other' reserve relates to the capital contribution reserve of $327.8m (2018: $327.8m), the currency reserve debit of $1.3m (2018: $0.7m) and the revaluation reserve of $0.7m (2018: $0.7m).

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 OCI refers to Other Comprehensive Income.

5 Refer to note 2 for further details

INMARSAT GROUP LIMITED

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the quarter ended 31 March 2019 (unaudited)

($ in millions)	2019	2018
Cash flow from operating activities		
Cash generated from operations	186.1	142.4
Interest received	1.7	0.6
Tax (paid)/received	(1.0)	1.6
Net cash inflow from operating activities	**186.8**	**144.6**
Cash flow from investing activities		
Purchase of property, plant and equipment	(54.6)	(105.2)
Additions to intangible assets	(16.8)	(25.2)
Own work capitalised	(10.4)	(10.9)
Proceeds from short-term deposits[1]	75.5	167.4
Payments to short-term deposits[1]	–	(23.7)
Net cash used in investing activities	**(6.3)**	**2.4**
Cash flow from financing activities		
Repayment of borrowings	(61.1)	(61.1)
Interest paid	(8.0)	(16.7)
Arrangement costs of financing	–	(0.5)
Cash payments for the principal portion of the lease obligations	(2.5)	(3.0)
Other financing activities	(0.6)	(0.5)
Net cash used in financing activities	**(72.2)**	**(81.8)**
Net increase in cash and cash equivalents	**108.1**	**65.2**
Cash and cash equivalents		
At beginning of the period	138.3	142.9
Net increase in cash and cash equivalents	108.1	65.2
Exchange gains on cash and cash equivalents	(0.2)	1.2
At end of the period (net of bank overdrafts)	**246.2**	**209.3**
Comprising:		
Cash at bank and in hand	191.2	125.2
Short-term deposits with original maturity of <3months	55.2	84.5
Cash and cash equivalents	**246.4**	**209.7**
Bank overdrafts	(0.2)	(0.4)
Net cash and cash equivalents at end of period	**246.2**	**209.3**

1 Proceeds and payments relating to short term cash deposits are net of interest with original maturity of more than 3 months

1. General information

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

2. Principal accounting policies

Basis of preparation

The condensed consolidated interim financial statements for the three months ended 31 March 2019 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. They were approved by the Board of Directors on 1 May 2019.

The financial information presented in this release does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2018 were approved by the Board of Directors on 18 March 2019. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

Going Concern

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

Basis of accounting

The functional and reporting currency of the Company and most of the Group's subsidiaries 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.

In 2018, the Group changed the accounting policy relating to unallocated launch slots. For further details please refer to note 2 of the 2018 Annual Report. As a result, the comparative financial numbers as at 31 March 2018 have been restated and intangible assets have increased by $19.2m to $797.2m and total trade and other receivables have decreased by $19.2m to $402.8m. There has been no impact to total assets.

From 1 January 2019, the Group has applied IFRIC23 which clarifies the valuation of uncertain tax positions. This has been adopted prospectively. The adjustment as at 1 January 2019 in the Group's Balance Sheet is an increase of $7.8m to the current tax creditor and an increase of $5.9m to the deferred tax creditor, while opening 2019 retained earnings are decreased by $13.7m.

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;
- Global Government, focusing on worldwide civil and military government services;

- Aviation, focusing on commercial IFC, business and general aviation services; and
- 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 IFRS8. 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.

($ in millions)	**2019**	**2018**
Revenues		
Maritime	128.5	142.0
Government	100.7	78.3
Aviation	85.9	56.0
Enterprise	28.2	32.7
Central Services[1]	3.6	36.4
Total revenues	**346.9**	**345.4**
EBITDA		
Maritime	109.5	109.6
Government	66.3	53.3
Aviation	44.7	33.6
Enterprise	20.1	21.6
Central Services[1]	(87.6)	(43.0)
EBITDA	**153.0**	**175.1**
Depreciation and amortisation	(116.5)	(116.0)
Other	(11.8)	0.5
Operating profit	**24.7**	**59.6**
Net financing costs	(6.4)	(21.4)
Profit before tax	**18.3**	**38.2**
Taxation charge	(0.5)	(3.9)
Profit for the period	**17.8**	**34.3**

Cash capital expenditure		
Maritime	11.5	11.4
Government	1.1	1.4
Aviation	8.2	19.8
Enterprise	0.1	–
Central Services	60.9	108.7
Total cash capital expenditure	**81.8**	**141.3**
Financing costs capitalised in the cost of qualifying assets	14.7	7.1
Cash flow timing	(22.2)	52.1
Total capital expenditure	**74.3**	**200.5**

1 Central Services includes revenue and EBITDA from Ligado.

4. Net financing costs

($ in millions)	Q1 2019	Q1 2018
Bank interest receivable and other interest	(2.2)	(2.0)
Pension and post-retirement liability finance income	(0.6)	–
Related party income	(0.3)	–
Total financing income	**(3.1)**	**(2.0)**
Interest on Senior Notes and credit facilities	22.8	23.4
Amortisation of debt issue costs	(0.2)	2.7
Amortisation of discount on Senior Notes due 2022	0.3	0.3
Amortisation of discount on deferred satellite liabilities	–	0.1
Interest on lease obligations	0.7	0.7
Other interest	0.6	(1.4)
Intercompany interest payable	–	4.7
	24.2	**30.5**
Less: Amounts capitalised in the cost of qualifying assets	(14.7)	(7.1)
Financing costs excluding derivative adjustments	**9.5**	**23.4**
Net financing costs	**6.4**	**21.4**

5. Net Borrowings

These balances are shown net of unamortised deferred finance costs as follows:

	At 31 March 2019			**At 31 December 2018**		
($ in millions)	**Amount**	**Deferred finance costs**	**Net balance**	**Amount**	**Deferred finance costs**	**Net balance**
Current:						
Bank overdrafts	0.2	–	0.2	–	–	–
Deferred satellite payments	1.0	–	1.0	1.0	–	1.0
Ex-Im Bank Facilities	122.2	–	122.2	122.2	–	122.2
Total current borrowings	**123.4**	**–**	**123.4**	**123.2**	**–**	**123.2**
Non-current:						
Deferred satellite payments	3.9	–	3.9	4.4	–	4.4
Senior Notes due 2022	1,000.0	(3.6)	996.4	1,000.0	(3.9)	996.1
– Net issuance discount	(3.2)	–	(3.2)	(3.4)	–	(3.4)
Senior Notes due 2024	400.0	(4.0)	396.0	400.0	(4.2)	395.8
Ex-Im Bank Facilities	325.4	(7.4)	318.0	386.5	(6.5)	380.0
Total non-current borrowings	**1,726.1**	**(15.0)**	**1,711.1**	**1,787.5**	**(14.6)**	**1,772.9**
Total borrowings	**1,849.5**	**(15.0)**	**1,834.5**	**1,910.7**	**(14.6)**	**1,896.1**
Cash and cash equivalents	(246.4)	–	(246.4)	(138.3)	–	(138.3)
Short-term deposits	(70.2)	–	(70.2)	(145.7)	–	(145.7)
Net borrowings	**1,532.9**	**(15.0)**	**1,517.9**	**1,626.7**	**(14.6)**	**1,612.1**

In the event of a change of control all existing borrowings would become repayable in accordance with change of control clauses within the existing agreements. The existing borrowings continue to be classified as non-current given the current status of the offer discussed on page 1. For further details of the Group's debt structure please refer to note 20 of the 2018 Annual Report.

6. Fair value of financial instruments

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

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

The fair values at the Balance Sheet date were:

($ in millions)	At 31 March 2019	At 31 December 2018
Financial assets:		
Forward foreign currency contracts – designated cash flow hedges	0.3	0.3
Forward foreign currency contracts – undesignated cash flow hedges	–	–
Total derivative financial assets	**0.3**	**0.3**
Financial liabilities:		
Forward foreign currency contracts– designated cash flow hedges	(1.5)	(3.4)
Forward foreign currency contracts – undesignated cash flow hedges	–	(0.6)
Total derivative financial liabilities	**(1.5)**	**(4.0)**
Net derivative financial liability	**(1.2)**	**(3.7)**

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

The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs 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 March 2019		At 31 December 2018	
($ in millions)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial liabilities:				
Senior Notes due 2022	1,000.0	1,014.0	1,000.0	945.6
Senior Notes due 2024	400.0	419.9	400.0	382.1
Ex-Im Bank Facilities	447.6	447.8	508.7	508.9

7. Contingent assets and liabilities

In December 2018, the International Centre for Dispute Resolution's arbitration tribunal issued a ruling in favour of Inmarsat to conclude Phase 1 of the arbitration for Inmarsat's GX Take-or-Pay contract with RigNet. The tribunal's ruling found that a Take-or-Pay obligation under the original 2014 contract had commenced and consequently RigNet owed Inmarsat $50.8 million plus interest, subject to any offset from RigNet's counterclaims in Phase 2, which is expected to be concluded during the second half of 2019. This asset has not been recognised during the financial year as its receipt is not virtually certain and the amount is dependent on the outcome of the Phase II ruling.

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

8. Events after the balance sheet date

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

APPENDIX 1: ALTERNATIVE PERFORMANCE MEASURES ("APMs")

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

APM	Description and Reconciliation
1. EBITDA	EBITDA is defined as profit for the year before net financing costs, taxation, depreciation and amortisation, gains/losses on disposal of assets, impairment losses and share of profit of associates. EBITDA is a commonly used industry measure which helps investors to understand the contribution made by each of our business units. It reflects how the effect of growing revenues and cost management deliver value for our shareholders. This measure has been reconciled to both operating profit and profit after tax on page 8.
2. Adjusted PAT	Adjusted PAT is defined as Profit after Tax excluding the exceptional item relating to costs associated with the recommended offer for the Group. This measure allows investors to evaluate PAT after stripping out material non-operational items. A reconciliation to Profit after tax can be found on page 8.
3. Direct and indirect costs	Direct costs are defined as expenses that can be traced directly to the sale of a product or service. Indirect costs are those costs which are not directly attributable to a sale. This measure is useful to investors because it allows them to understand the potential development of our cost profile in the future. The sum of direct and indirect costs incurred in 2019 were $176.9m which equals total net operating costs of $193.9 in the Income Statement less the $17.0m exceptional item.
4. Cash Capex	Cash capital expenditure is the cash flow relating to tangible and intangible asset additions, it includes capitalised labour costs and excludes capitalised interest. 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. This has been reconciled to total capital expenditure within Note 3.
5. Free Cash Flow	Free Cash Flow represents how much cash is available to pay back borrowings, distribute to investors or invest in the business in future periods. This has been reconciled to the net increase or decrease in cash and cash equivalents on page 9.
6. Underlying effective tax rate	The underlying effective tax rate is used to analyse differences from the statutory corporate tax rate which are implicit to business operations, rather than driven by accounting adjustments. For the quarter, this has been calculated by taking the tax charge ($0.5m), add negative prior year adjustments ($9.1m), less the exceptional item relating to costs associated with the recommended offer for the Group ($3.2m) and less revaluation of deferred tax balances ($2.2m), all divided by PBT ($18.3m).
7. Business Unit Operating Cash Flow	This is indicative of the cash generated by the relevant business unit for the period in review. It is calculated by taking EBITDA less cash capex. Both EBITDA and Cash Capex have been defined above and reconciled.