Inmarsat Group Limited reports Third Quarter Results 2019

Financial Headlines:

$ in millions	Third Quarter				Nine months			
	2019	2018	Change	Change (%)	2019	2018	Change	Change (%)
Group revenue	**327.3**	**369.3**	**(42.0)**	**(11.4%)**	**1,060.6**	**1,086.5**	**(25.9)**	**(2.4%)**
Maritime	128.3	135.0	(6.7)	(5.0%)	383.5	417.1	(33.6)	(8.1%)
Government	104.5	95.2	9.3	9.8%	315.5	278.3	37.2	13.4%
Aviation	62.7	68.2	(5.5)	(8.1%)	216.8	183.7	33.1	18.0%
Enterprise	29.0	34.6	(5.6)	(16.2%)	84.4	98.6	(14.2)	(14.4%)
Ligado and other[1]	2.8	36.3	(33.5)	(92.3%)	60.4	108.8	(48.4)	(44.5%)
EBITDA[2]	**172.6**	**205.8**	**(33.2)**	**(16.1%)**	**557.7**	**578.7**	**(21.0)**	**(3.6%)**
Profit after tax	**26.6**	**52.2**	**25.6**	**(49.0%)**	**146.8**	**136.6**	**10.2**	**7.5%**

Q3 2019 Operational Highlights:

- **Group Revenue** decreased by $42.0m, 11.4%, to $327.3m. Group Revenue, excluding Ligado, decreased by $9.1m, 2.7%.
  - **Maritime:** continued revenue decline in the mid-market partly offset by on-going double-digit revenue growth in fast-growing VSAT segment. Revenues again stable sequentially.
  - **Government:** on-going strong performance across both businesses
  - **Aviation:** In-Flight Connectivity revenue down against challenging comparator (driven by equipment revenue). Continued strong growth from Core business
  - **Enterprise:** further decline of products in legacy markets
- **Group EBITDA**: reduced by $33.2m, 16.1%, to $172.6m. Group EBITDA, excluding Ligado and costs associated with recommended offer for the Group, up $0.3m to $173.9m reflecting lower revenues but improved revenue mix.

Recommended offer for the Group:

- The transaction was approved by Inmarsat's shareholders in Q1 2019 and all necessary regulatory clearances have now been received. The Court Hearing to sanction the Scheme of Arrangement is scheduled for 28 and 29 November 2019.

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 period ended 30 September 2019. This should be reviewed together with the whole of this document including the historical consolidated financial results and the notes. The consolidated financial results were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. From 1 January 2019, the Group 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.

1 Comprises revenue contribution from Central Services, Ligado Networks and income received in H1 2019 as a result of the final settlement of the RigNet arbitration case. Further details on each of these elements can be found in Central Services section of this report.

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.

Q3 2019 - Group Financial Highlights

	Third Quarter			Nine months		
($ in millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenue						
Satellite services	327.3	336.4	(2.7%)	1,009.6	988.8	2.1%
Other revenue[1]	-	32.9	(100.0%)	51.0	97.7	(47.8%)
Total revenue	**327.3**	**369.3**	**(11.4%)**	**1,060.6**	**1,086.5**	**(2.4%)**
Direct costs	(51.7)	(61.4)	15.8%	(166.9)	(179.6)	7.1%
Gross Margin	**275.6**	**307.9**	**(10.5%)**	**893.7**	**906.9**	**(1.5%)**
Indirect costs	(101.7)	(102.1)	0.4%	(313.8)	(328.2)	4.4%
Recommended offer costs	(1.3)	-	-	(22.2)	-	-
EBITDA	**172.6**	**205.8**	**(16.1%)**	**557.7**	**578.7**	**(3.6%)**
EBITDA margin %	52.7%	55.7%	-	52.6%	53.3%	-
Cash capex	**99.3**	**157.5**	**37.0%**	**267.7**	**415.3**	**35.5%**

Group revenue declined $42.0m to $327.3m in Q3, mainly due to lack of revenue contribution from Ligado. Excluding Ligado, Group revenue was down by $9.1m.

Direct costs improved by $9.7m to $51.7m in Q3, mainly due to changes in revenue mix. Indirect costs were little changed at $101.7m.

Q3 EBITDA, declined by $33.2m to $172.6m mainly reflecting lower revenues. EBITDA excluding Ligado and costs associated with the recommended offer for the Group, was slightly up to $173.9m reflecting lower revenues but improved revenue mix.

Cash capex in Q3 fell by $58.2m to $99.3m, mainly due to the slippage of contractual payments for major infrastructure projects into 2020 and lower success-based capex in Aviation and Maritime.

Maritime

	Third Quarter			Nine months		
($ in millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenue	128.3	135.0	(5.0%)	383.5	417.1	(8.1%)
Direct Costs	(15.8)	(17.8)	11.2%	(36.8)	(61.4)	40.1%
Gross Margin	112.5	117.2	(4.0%)	346.7	355.7	(2.5%)
Indirect costs	(8.9)	(8.5)	(4.7%)	(26.6)	(29.1)	8.6%
EBITDA	**103.6**	**108.7**	**(4.7%)**	**320.1**	**326.6**	**(2.0%)**
EBITDA margin %	*80.7%*	*80.5%*	-	*83.5%*	*78.3%*	-
Cash capex	(8.5)	(13.0)	34.6%	(30.5)	(37.0)	17.6%
Business Unit Operating Cash Flow	**95.1**	**95.7**	**-0.6%**	**289.6**	**289.6**	**0.0%**

Maritime revenue in Q3 declined by $6.7m, 5.0%, with further double-digit growth from Fleet Xpress and higher terminal sales more than offset by lower revenue from FleetBroadband, partly as a result of vessel migrations to FX, and on-going decline in revenues from legacy products.

1 Comprises revenue contribution from Central Services, Ligado Networks and income received in H1 2019 as a result of the final settlement of the RigNet arbitration case. Further details on each of these elements can be found in Central Services section of this report.

Direct costs reduced by $2.0m, reflecting revenue mix and leased capacity cost savings from the migration of XpressLink vessels to Fleet Xpress. Indirect costs increased slightly to $8.9m.

EBITDA declined by $5.1m, with EBITDA margin up slightly to 80.7%.

Maritime capex declined by $4.5m reflecting fewer XpressLink migrations, as the migration programme continues to wind down.

Product performance

	Revenue ($ in millions)		Number of vessels		Average Revenue per User ("ARPU")	
Q3	**2019**	**2018**[1]	**2019**	**2018**[1]	**2019**	**2018**[1]
FleetBroadband ("FB")	63.6	75.1	31,007	33,509	674	736
VSAT (XL and FX)	47.4	42.5	7,448	5,772	1,880	2,332
Fleet One	1.7	1.7	5,039	3,965	83	105
Legacy products	15.6	15.7	n/a	n/a	n/a	n/a

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

There was further double-digit revenue growth from our VSAT products, with revenues up 11.5% in the quarter. At the end of the period, there were 7,448 installed VSAT vessels (7,287 of which were FX vessels). The proportion of the total FX vessel base installed by our distribution partners in Q3 2019 was 37% of installed vessels, from 33% in Q3 2018. This mix change continued to drive vessel volumes, but has a dilutive impact on VSAT ARPU, as previously highlighted.

413 vessels were installed with FX in the third quarter, the majority of which were migrated from FB. The XL migration programme remains on track for completion by the end of 2019, with c. 100 vessels remaining at the end of the quarter.

FB revenues fell by 15.3% in Q3 2019, with a year-on-year net FB vessel decline of 2,502 vessels, of which c. 1,480 were customer migrations to FX and other VSAT products. FB ARPU declined by 8.3% to $674 per month, mainly reflecting the migration to VSAT being weighted towards higher usage customers as well as the transfer of low-ARPU FB vessels from Enterprise in Q1 2019.

Fleet One airtime and equipment revenue was flat at $1.7m, with over 5,000 vessels now installed. Legacy products continued to decline by $0.1 in the quarter.

Government

	Third Quarter			Nine months		
($ in millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenue	104.5	95.2	9.8%	315.5	278.3	13.4%
Direct costs	(18.7)	(14.9)	(25.5%)	(61.6)	(47.5)	(29.7%)
Gross Margin	**85.8**	**80.3**	**6.8%**	**253.9**	**230.8**	**10.0%**
Indirect costs	(10.8)	(10.4)	(3.8%)	(31.9)	(31.7)	(0.6%)
EBITDA	**75.0**	**69.9**	**7.3%**	**222.0**	**199.1**	**11.5%**
EBITDA margin %	*71.8%*	*73.4%*	-	*70.4%*	*71.5%*	-
Cash capex	(0.8)	(0.4)	(100.0%)	(2.9)	(2.1)	(38.1%)
Business Unit Operating Cash Flow	**74.2**	**69.5**	**6.8%**	**219.1**	**197.0**	**11.2%**

Government revenue increased by $9.3m, 9.8%, to $104.5m in Q3.

Revenues in our US Government business increased by 12.5% in Q3, driven by recent new business wins and expanded mandates achieved over recent quarters, increased government expenditure under long term customer contracts as well as higher revenues from GX and L-band services.

Outside the US, revenues were up 4.7% in Q3, driven by higher GX airtime and equipment revenues and higher customer spend on key services.

Direct costs increased by $3.8m due to revenue growth and mix, while indirect costs were flat at $10.8m. Mainly as a result of higher revenue, EBITDA increased by $5.1m in Q3, but EBITDA margin decreased to 71.8%, driven by revenue mix.

Aviation

	Third Quarter			Nine months		
($ in millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenue	62.7	68.2	(8.1%)	216.8	183.7	18.0%
Direct costs	(1.7)	(16.1)	89.4%	(36.5)	(37.9)	3.7%
Gross Margin	**61.0**	**52.1**	**17.1%**	**180.3**	**145.8**	**23.7%**
Indirect costs	(15.3)	(15.6)	1.9%	(46.9)	(49.4)	5.1%
EBITDA	**45.7**	**36.5**	**25.2%**	**133.4**	**96.4**	**38.4%**
EBITDA margin %	*72.9%*	*53.5%*	-	*61.5%*	*52.5%*	-
Cash capex	-	(10.7)	-	(8.2)	(39.6)	79.3%
Business Unit Operating Cash Flow	**45.7**	**25.8**	**77.1%**	**125.2**	**56.8**	**120.4%**

Aviation revenues declined by $5.5m, 8.1%, to $62.7m in Q3, mainly driven by significantly higher IFC equipment sales in the prior year, partly offset by continued stable growth from our Core business.

Direct costs in Q3 declined by $14.4m to $1.7m, due to the change of revenue mix in IFC, as outlined above, while indirect costs were flat at $15.3m.

EBITDA increased by $9.2m, 25.2%, to $45.7m, driven by the improvement in direct costs, with EBITDA margin consequently increasing to 72.9%.

Cash capex decreased to zero in Q3, from $10.7m in the prior year, reflecting the timing of installation of GX equipment for certain customers.

Core / IFC – Q3	**Core**		**IFC**	
($ in millions)	**Q3 2019**	**Q3 2018**	**Q3 2019**	**Q3 2018**
Revenue	45.6	42.0	17.1	26.2
Direct costs	(0.3)	(0.3)	(1.4)	(15.8)
Gross Margin	**45.3**	**41.7**	**15.7**	**10.4**
Indirect costs[1]	(2.3)	(2.4)	(13.0)	(13.2)
EBITDA	**43.0**	**39.3**	**2.7**	**(2.8)**
EBITDA margin %	94.1%	93.6%	*16.4%*	n/a
Cash capex	–	–	–	(10.7)
Business Unit Operating Cash Flow	**43.0**	**39.3**	**2.7**	**(13.5)**

Core / IFC – Nine months	Core		IFC	
($ in millions)	**YTD 2019**	**YTD 2018**	**YTD 2019**	**YTD 2018**
Revenue	126.8	116.3	90.0	67.4
Direct costs	(0.9)	(1.0)	(35.6)	(36.9)
Gross Margin	**125.9**	**115.3**	**54.4**	**30.5**
Indirect costs	(7.0)	(7.4)	(39.9)	(42.0)
EBITDA	**118.9**	**107.9**	**14.5**	**(11.5)**
EBITDA margin %	93.7%	92.8%	16.2%	n/a
Cash capex	–	–	(8.2)	(39.6)
Business Unit Operating Cash Flow	118.9	107.9	6.3	(51.1)

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 $3.6m, 8.6%, to $45.6m in the quarter.

By the end of the period, 606 aircraft were installed with JetConneX, our GX-based product for BGA, up from 395 at the end of Q3 2018. JetConneX airtime revenue grew by $5.2m, 85.2%, to $11.3m in the quarter. SwiftBroadband revenues increased by $1.0m, 5.4%, to $19.5m.

In SOS, Classic Aero delivered revenue growth of $0.7m, or 5.8%, to $12.8m, driven by growth in the number of aircraft using the service.

Direct costs in our Core business remained immaterial at $0.3m, whilst indirect costs were flat at $2.3m in the quarter.

EBITDA and Business Unit Operating Cash Flow for the Core Aviation business both grew by $3.7m to $43.0m in the quarter.

IFC

IFC revenues, comprising our GX Aviation services for IFC and our L-band-based IFC services for commercial aviation, together declined by $9.1m to $17.1m in Q3 2019.

IFC installation revenues reduced by $11.5m to $0.7m, due to relatively high installation revenue in the prior year. GX airtime revenues increased by $4.0m to $6.5m in Q3, while airtime revenues from our L-band-based IFC business were down by $1.6m to $9.9m.

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

At the end of Q3 2019, there were 696 aircraft installed with Inmarsat GX and EAN equipment across a number of customers (from 666 at the end of Q2 2019), including c. 303 GX and EAN connected aircraft now in commercial service (from c. 235 at the end of Q2 2019).

IFC direct costs declined by $14.4m to $1.4m, reflecting the significant reduction in installation revenues, as outlined above. Indirect costs in IFC decreased by $0.2m to $13.0 in Q3.

IFC EBITDA improved by $5.5m to $2.7m in the quarter, with IFC Operating Cash Flow improving by $16.2m to $2.7m in Q3.

Enterprise

	Third Quarter			Nine months		
($ in millions)	2019	2018	Change	2019	2018	Change
Revenue	29.0	34.6	(16.2%)	84.4	98.6	(14.4%)
Direct costs	(4.4)	(7.3)	39.7%	(11.2)	(19.5)	42.6%
Gross Margin	**24.6**	**27.3**	**(9.9%)**	**73.2**	**79.1**	**(7.5%)**
Indirect costs	(4.9)	(5.4)	9.3%	(14.4)	(16.5)	12.7%
EBITDA	**19.7**	**21.9**	**(10.0%)**	**58.8**	**62.6**	**(6.1%)**
EBITDA margin %	*67.9%*	*63.3%*	-	*69.7%*	*63.5%*	-
Cash capex	-	-	-	(0.1)	-	-
Business Unit Operating Cash Flow	**19.7**	**21.9**	**(10.0%)**	**58.7**	**62.6**	**(6.2%)**

Enterprise revenues declined by $5.6m, 16.2%, in Q3, mainly as a result of on-going market pressure on some of our legacy products and lower terminal sales.

BGAN revenues were down by $2.0m, 27.0%, to $5.4m, while fixed-to-mobile declined by $0.2m, 8.0%, to $2.3m.

Satellite phone revenue declined by $1.3m, 12.5%, to $9.1m, with lower levels of handset sales more than offsetting higher airtime revenues.

M2M revenue declined by $0.9m, 16.4%, to $4.6m due to winding down of a capacity lease in Q3 2018.

Direct costs declined by $2.9m to $4.6m in Q3 due to a lower level of terminal sales. Indirect costs were down by $0.5m to $4.9m, driven by cost containment on the back of lower revenues.

EBITDA was $2.2m lower in Q3 reflecting the issues above, while EBITDA margin was up to 67.9% in Q3, due to revenue mix.

Central Services

	Third Quarter			Nine months		
($ in millions)	2019	2018	Change	2019	2018	Change
Revenue						
Ligado Networks	-	32.9	-	0.2	97.7	(99.8%)
Other	2.8	3.4	(17.6%)	9.4	11.1	(15.3%)
RigNet arbitration settlement	-	-	-	50.8	-	-
Total Revenue	**2.8**	**36.3**	**(92.3%)**	**60.4**	**108.8**	**(44.5%)**
Direct costs	(11.1)	(5.3)	(109.4%)	(20.8)	(13.3)	(56.4%)
Gross Margin	**(8.3)**	**31.0**	**(126.8%)**	**39.6**	**95.5**	**(58.5%)**
Indirect costs	(61.8)	(62.2)	0.6%	(194.0)	(201.5)	43.0%
Exceptional item	(1.3)	-	-	(22.2)	-	-
EBITDA	**(71.4)**	**(31.2)**	**(128.8%)**	**(176.6)**	**(106.0)**	**(66.6%)**
Cash capex	(90.0)	(133.4)	32.5%	(226.0)	(336.6)	32.9%
Business Unit Operating Cash Flow	**(161.4)**	**(164.6)**	**1.9%**	**(402.6)**	**(442.6)**	**9.0%**

In line with our co-operation agreement, payments from Ligado to Inmarsat have paused in 2019. Should Ligado obtain its FCC license modification during Q4 2019, payments are contracted to resume from such date (with the first quarterly payment date falling on 31 December 2019). Otherwise, payments are contracted to resume from the beginning of 2020 (with the first quarterly payment date falling on 31 March 2020), at c. $136m per annum, under the terms of the co-operation agreement, 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, under the terms of the co-operation agreement, for payment by Ligado with interest from their original date of payment no later than 30 June 2021.

Revenue from Ligado consequently fell to zero in Q3, from $32.9m in the prior year as expected. Although the company continues to make available spectrum to Ligado, in accordance with the co-operation agreement, the company has not recognised any material revenue from Ligado due in respect of 2019 given the level of uncertainty of collection of those monies.

Central Services direct costs increased by $5.8m to $11.1m, predominantly due to higher bad debt provisions, while indirect costs were flat at $61.8m.

Central Services capex declined by $43.4m to $90.0m, due to the timing of expenditure on major infrastructure programmes.

Reconciliation of EBITDA to profit after tax

	Third Quarter			**Nine months**		
($ in millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
EBITDA	**172.6**	**205.8**	**(16.1%)**	**557.7**	**578.7**	**(3.6%)**
Depreciation, amortisation and other costs[1]	(122.3)	(121.6)	(0.6%)	(367.9)	(353.9)	(4.0%)
Operating profit	**50.3**	**84.2**	**(40.3%)**	**189.8**	**224.8**	**(15.6%)**
Net financing costs	(6.2)	(19.0)	(67.4%)	(19.8)	(59.6)	(66.8%)
Taxation charge	(17.5)	(13.0)	(34.6%)	(23.2)	(28.6)	(18.9%)
Profit after tax	**26.6**	**52.2**	**(49.0%)**	**146.8**	**136.6**	**7.5%**
Addback of recommended offer costs	1.3	-	-	22.2	-	-
Adjusted Profit after tax	**27.9**	**52.2**	**(46.6%)**	**169.0**	**136.6**	**23.7%**

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

EBITDA and Operating profit

EBITDA, including Ligado and costs associated with the recommended offer for the Group, declined by $33.2m to $172.6m. EBITDA, excluding these items, was up by $0.3m to $173.9m. Depreciation, amortisation and other costs remained relatively flat at $122.3m. Operating Profit consequently declined by $33.9m.

Net Financing costs

Net financing costs have decreased by $12.8m to $6.2m in Q3, driven by a combination of lower intercompany interest and an 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 for this quarter was 39.4% (Q3 2018: 20.6%). This rate is lower than the UK statutory rate of 19%, due to a change in uncertain tax positions. The reported effective rate for Q3 2019 is 31.6% (Q3 2018: 19.9%).

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 are settled entirely in favour of the authorities, the Group would incur a cash tax outflow of c. $123.6m, excluding interest.

In August 2019 the First Tier Tribunal found in favour of HMRC in our long running tax case concerning tax deductions for historic launch costs. An application to appeal has been lodged with the Upper Tier Tribunal in respect of this matter.

Profit / Loss after tax ("PAT")

PAT, saw a reduction of $25.6m to a profit of $26.6m, mainly driven by a reduction in EBITDA.

Cash Flow[1]

	Third Quarter		**Nine months**	
($ in millions)	**2019**	**2018**	**2019**	**2018**
EBITDA	**172.6**	**205.8**	**557.7**	**578.7**
Non-cash items	1.6	3.9	8.1	1.9
Change in working capital	34.1	(0.6)	24.6	(53.6)
Cash generated from operations	**208.3**	**209.1**	**590.4**	**527.0**
Cash capital expenditure	(99.3)	(157.5)	(267.7)	(415.3)
Net interest paid	(17.7)	(5.4)	(59.4)	(59.5)
Tax (paid) / received	(3.1)	2.5	(3.3)	3.9
Free cash flow	**88.2**	**48.7**	**260.0**	**56.1**
Dividends paid to shareholders	(10.0)	(45.9)	(66.2)	(97.3)
Other movements	(3.5)	(2.6)	(9.7)	(10.4)
Net cash flow	**74.7**	**0.2**	**184.1**	**(51.6)**
Increase/(decrease) due to short-term cash deposits	-	120.6	145.7	291.1
Net repayment of borrowings	(61.1)	(65.0)	(122.2)	(126.6)
Net increase / (decrease) in cash and cash equivalents	**13.6**	**55.8**	**207.6**	**112.9**

1 Cash flow outlined in this table is non-statutory

Net cash flow improved by $74.5m in Q3, and free cash flow improved by $39.5m. This is mainly due lower cash capital expenditure and an improvement in working capital in Q3.

The movement in Working Capital was mainly driven by (a) a reduction of $34.2m in receivables reflecting the lower revenue in the quarter (b) an increase in inventories of $9.6m as stock on hand rose compared to the prior quarter (c) an increase in payables of $10.2m due to the timing of supplier payments at the end of Q3.

Capital expenditure

($ in millions)	Third Quarter 2019	Third Quarter 2018	Nine months 2019	Nine months 2018
Major infrastructure projects[1]	56.7	88.1	147.6	225.8
Success-based capex[2]	9.4	16.2	32.8	61.3
Other capex[3]	25.1	20.8	78.9	68.3
Cash flow timing[4]	8.1	32.4	8.4	59.9
Total cash capital expenditure	**99.3**	**157.5**	**267.7**	**415.3**

Capital expenditure fell by $58.2m during Q3, driven mainly by (a) the slippage of contractual payments on major infrastructure investments, particularly the I-6 satellites and (b) a reduction in success-based capex, reflecting lower levels of GX installations in Aviation and Maritime. Other capex increased by $4.3m due to higher investment in internal IT systems and infrastructure.

Liquidity and net borrowings

($ in millions)	Third Quarter 2019	Third Quarter 2018	Nine months 2019	Nine months 2018
Cash and cash equivalents				
At beginning of the period	332.5	202.4	138.3	142.9
Net increase/(decrease) in cash and cash equivalents	13.6	55.8	207.6	112.9
Foreign exchange adjustment	0.9	(0.1)	1.1	2.3
Sub-total (net of bank overdrafts)	**347.0**	**258.1**	**347.0**	**258.1**
Short term deposits				
At beginning of the period	-	171.5	145.7	342.0
Net decrease in short term deposits	-	(120.6)	(145.7)	(291.1)
Sub-total	**-**	**50.9**	**-**	**50.9**
Total cash, cash equivalents and short term deposits	**347.0**	**309.0**	**347.0**	**309.0**
Opening net borrowings[5]	**1,503.3**	**2,010.8**	**1,612.1**	**1,963.3**
Net cash flow	(74.7)	(0.2)	(184.1)	51.6
Other movements[6]	(3.8)	(425.6)	(3.2)	(429.9)
Closing net borrowings[5]	**1,424.8**	**1,585.0**	**1,424.8**	**1,585.0**

At 30 September 2019, the Group had over $1 billion in available liquidity, including available but undrawn committed borrowing facilities of $750.2m under a Senior Revolving Credit Facility.

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.
5 Total borrowings less cash and cash equivalents and short-term investments. Borrowings exclude accrued interest and any derivative liabilities.
6 Other movements relate primarily to the amortisation of deferred financing costs.

Related Party Transactions & Principal Risks and Uncertainties

There have been no material changes in the related party transactions nor in the 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
20 November 2019

Tony Bates
Chief Financial Officer
20 November 2019

INMARSAT GROUP LIMITED

CONDENSED CONSOLIDATED INCOME STATEMENT

For the quarter ended 30 September 2019 (unaudited)

	Third Quarter		Nine months	
($ in millions)	**2019**	**2018**	**2019**	**2018**
Revenues	**327.3**	**369.3**	**1,060.6**	**1,086.5**
Employee benefit costs	(70.9)	(71.6)	(216.2)	(218.9)
Network and satellite operations costs	(43.9)	(45.3)	(128.8)	(140.1)
Impairment of financial assets	(9.1)	4.4	(2.7)	-
Other operating costs	(42.5)	(60.0)	(186.7)	(177.7)
Own work capitalised	11.7	9.0	31.5	28.9
Total net operating costs	(154.7)	(163.5)	(502.9)	(507.8)
EBITDA	**172.6**	**205.8**	**557.7**	**578.7**
Depreciation and amortisation	(122.7)	(115.0)	(356.9)	(347.5)
Impairment loss	(0.5)	(7.0)	(12.9)	(7.0)
Loss on disposals of assets	(0.1)	(0.6)	(1.1)	(2.2)
Share of profit of associates	1.0	1.0	3.0	2.8
Operating profit	**50.3**	**84.2**	**189.8**	**224.8**
Financing income	2.7	2.2	7.3	6.6
Financing costs	(8.9)	(21.2)	(27.1)	(66.2)
Net financing costs	(6.2)	(19.0)	(19.8)	(59.6)
Profit before tax	**44.1**	**65.2**	**170.0**	**165.2**
Taxation charge	(17.5)	(13.0)	(23.2)	(28.6)
Profit for the period	**26.6**	**52.2**	**146.8**	**136.6**
Attributable to:				
Equity holders	**26.5**	**52.0**	**146.2**	**136.1**
Non-controlling interest[1]	**0.1**	**0.2**	**0.6**	**0.5**

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 30 September 2019 (unaudited)

	Third Quarter		Nine months	
($ in millions)	**2019**	**2018**	**2019**	**2018**
Profit for the period	**26.6**	**52.2**	**146.8**	**136.6**
Other comprehensive income				
Items that may be reclassified subsequently to the Income Statement:				
Foreign exchange translation differences	0.1	(0.1)	(0.3)	(0.1)
Gains/(losses) on cash flow hedges	(0.8)	(0.4)	(0.6)	(3.1)
Items that will not be reclassified subsequently to the Income Statement:				
Re-measurement of the defined benefit asset	0.1	-	0.9	16.0
Tax credited directly to equity	-	-	-	(3.6)
Other comprehensive income for the period, net of tax	**(0.6)**	**(0.5)**	**-**	**9.2**
Total comprehensive income for the period, net of tax	**26.0**	**51.7**	**146.8**	**145.8**
Attributable to:				
Equity holders	**25.9**	**51.5**	**146.2**	**145.3**
Non-controlling interest	**0.1**	**0.2**	**0.6**	**0.5**

INMARSAT GROUP LIMITED

CONDENSED CONSOLIDATED BALANCE SHEET

For the quarter ended 30 September 2019 (unaudited)

($ in millions)	As at 30 September 2019 (unaudited)	As at 31 December 2018	As at 30 September 2018 (restated)
Assets			
Non-current assets			
Property, plant and equipment	3,284.9	3,356.1	3,311.0
Intangible assets	810.9	800.4	789.0
Investments	20.6	18.8	17.9
Right of Use Assets	54.3	62.4	64.9
Other receivables	33.7	35.2	16.9
Deferred tax asset	42.6	52.5	27.3
	4,247.0	**4,325.4**	**4,227.0**
Current assets			
Cash and cash equivalents	347.0	138.3	258.8
Short-term deposits	-	145.7	50.9
Trade and other receivables	396.3	400.9	359.4
Inventories	42.9	50.7	50.5
Current tax assets	3.9	4.6	8.4
Derivative financial instruments	0.2	0.3	0.3
Restricted cash	2.6	2.4	2.4
	792.9	**742.9**	**730.7**
Total assets	**5,039.9**	**5,068.3**	**4,957.7**
Liabilities			
Current liabilities			
Borrowings	122.2	123.2	124.6
Trade and other payables	719.5	777.1	749.1
Provisions	21.6	14.3	6.2
Current tax liabilities	188.7	189.0	155.1
Derivative financial instruments	2.1	2.4	3.8
Lease obligations	10.2	10.4	12.5
	1,064.3	**1,116.4**	**1,051.3**
Non-current liabilities			
Borrowings	1,649.6	1,772.9	1,770.1
Other payables	10.7	13.9	18.4
Provisions	7.1	11.1	9.1
Deferred tax liabilities	267.8	250.3	244.0
Derivative financial instruments	0.4	1.6	1.4
Lease obligations	50.6	59.6	61.2
	1,986.2	**2,109.4**	**2,104.2**
Total liabilities	**3,050.5**	**3,225.8**	**3,155.5**
Net assets	**1,989.4**	**1,842.5**	**1,802.2**
Shareholders' equity			
Ordinary shares	0.4	0.4	0.4
Share premium	1,118.5	1,118.5	1,118.4
Other reserves	445.1	435.5	433.6
Retained earnings	424.0	287.3	249.3
Equity attributable to shareholders	**1,988.0**	**1,841.7**	**1,801.7**
Non-controlling interest	**1.4**	**0.8**	**0.5**
Total equity	**1,989.4**	**1,842.5**	**1,802.2**

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

INMARSAT GROUP LTD

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the quarter ended 30 September 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**	**411.9**	**0.6**	**1,514.1**
Share-based payments[3]	-	-	7.0	-	-	0.9	-	7.9
Transfer equity reserve to retained earnings	-	-	-	-	-	-	-	-
Dividend declared	-	-	-	-	-	(312.0)	(0.6)	(312.6)
Issued share capital	-	441.0	-	-	-	-	-	441.0
Losses on cash flow hedges capitalised to tangible assets	-	-	-	6.0	-	-	-	6.0
Comprehensive Income:								
Profit for the period	-	-	-	-	-	136.1	0.5	136.6
OCI – before tax	-	-	-	(3.1)	(0.1)	16.0	-	12.8
OCI – tax	-	-	-	-	-	(3.6)	-	(3.6)
Balance at 30 September 2018	**0.4**	**1,118.4**	**111.0**	**(4.8)**	**327.4**	**249.3**	**0.5**	**1,802.2**
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]	-	-	8.8	-	-	3.4	-	12.2
IFRIC 23 Adjustment[4]	-	-	-	-	-	(13.7)	-	(13.7)
Loss on cash flow hedges capitalised to tangible assets	-	-	-	1.6	-	-	-	1.6
Comprehensive Income:								
Profit for the year	-	-	-	-	-	146.2	0.6	146.8
OCI – before tax	-	-	-	(0.6)	(0.3)	0.9	-	-
OCI – tax	-	-	-	-	-	-	-	-
Balance at 30 September 2019	**0.4**	**1,118.5**	**121.0**	**(3.0)**	**327.0**	**424.1**	**1.4**	**1,989.4**

1 The ‘other’ reserve relates to ordinary shares held by the Employee Share Trust debit of $327.7m (2018: $327.8m), the currency reserve debit of $1.2m (2018: $1.1m) and the revaluation reserve of $0.5m (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 Refer to note 2 for further details

INMARSAT GROUP LTD

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the quarter ended 30 September 2019 (unaudited)

	Third Quarter		Nine months	
($ in millions)	**2019**	**2018**	**2019**	**2018**
Cash flow from operating activities				
Cash generated from operations	208.3	209.1	590.4	527.0
Interest received	2.2	1.8	6.5	4.5
Tax (paid) / received	(3.1)	2.5	(3.3)	3.9
Net cash inflow from operating activities	**207.4**	**213.4**	**593.6**	**535.4**
Cash flow from investing activities				
Purchase of property, plant and equipment	(68.7)	(136.0)	(181.1)	(323.8)
Additions to intangible assets	(18.7)	(12.7)	(55.0)	(62.7)
Own work capitalised	(11.9)	(8.8)	(31.6)	(28.8)
Proceeds from short-term deposits[1]	-	120.6	145.7	396.3
Payments to short-term deposits[1]	-	-	-	(105.2)
Net cash used in investing activities	**(99.3)**	**(36.9)**	**(122.0)**	**(124.2)**
Cash flow from financing activities				
Dividends paid to shareholders	(10.0)	(45.9)	(66.2)	(97.3)
Repayment of borrowings	(61.1)	(502.2)	(122.2)	(563.3)
Interest paid	(19.9)	(7.2)	(65.9)	(64.0)
Arrangement costs of financing	-	(3.8)	-	(4.4)
Cash payments for the principal portion of the lease obligations	(2.3)	(2.6)	(7.2)	(9.5)
Net proceeds from the issue of ordinary shares	-	441.1	-	441.1
Other financing activities	(1.2)	(0.1)	(2.5)	(0.9)
Net cash used in financing activities	**(94.5)**	**(120.7)**	**(264.0)**	**(298.3)**
Net increase in cash and cash equivalents	**13.6**	**55.8**	**207.6**	**112.9**
Cash and cash equivalents				
At beginning of the period	332.5	202.4	138.3	142.9
Net increase in cash and cash equivalents	13.6	55.8	207.6	112.9
Exchange gains on cash and cash equivalents	0.9	(0.1)	1.1	2.3
At end of the period (net of bank overdrafts)	**347.0**	**258.1**	**347.0**	**258.1**
Comprising:				
Cash at bank and in hand	247.0	130.7	247.0	130.7
Short-term deposits with original maturity of <3months	100.0	128.1	100.0	128.1
Cash and cash equivalents	**347.0**	**258.8**	**347.0**	**258.8**
Bank overdrafts	-	(0.7)	-	(0.7)
Net cash and cash equivalents at end of period	**347.0**	**258.1**	**347.0**	**258.1**

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 quarter and nine months ended 30 September 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 20 November 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 30 September 2018 have been restated and intangible assets have increased by $12.2m to $789.0m and total trade and other receivables have decreased by $5.8m to $334.7m. 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.

	Third Quarter		**Nine months**	
($ in millions)	**2019**	**2018**	**2019**	**2018**
Revenues				
Maritime	128.3	135.0	383.5	417.1
Government	104.5	95.2	315.5	278.3
Aviation	62.7	68.2	216.8	183.7
Enterprise	29.0	34.6	84.4	98.6
Central Services[1]	2.8	36.3	60.4	108.8
Total revenues	**327.3**	**369.3**	**1,060.6**	**1,086.5**
EBITDA				
Maritime	103.6	108.7	320.1	326.6
Government	75.0	69.9	222.0	199.1
Aviation	45.7	36.5	133.4	96.4
Enterprise	19.7	21.9	58.8	62.6
Central Services[1]	(71.4)	(31.2)	(176.6)	(106.0)
Total EBITDA	**172.6**	**205.8**	**557.7**	**578.7**
Depreciation and amortisation	(122.7)	(115.0)	(356.9)	(347.5)
Other	0.4	(6.6)	(11.0)	(6.4)
Operating profit	**50.3**	**84.2**	**189.8**	**224.8**
Net financing costs	(6.2)	(19.0)	(19.8)	(59.6)
Profit before tax	**44.1**	**65.2**	**170.0**	**165.2**
Taxation charge	(17.5)	(13.0)	(23.2)	(28.6)
Profit for the period	**26.6**	**52.2**	**146.8**	**136.6**
Cash capital expenditure				
Maritime	8.5	13.0	30.5	37.0
Government	0.8	0.4	2.9	2.1
Aviation	-	10.7	8.2	39.6
Enterprise	-	-	0.1	-
Central Services	90.0	133.4	226.0	336.6
Total cash capital expenditure	**99.3**	**157.5**	**267.7**	**415.3**
Financing costs capitalised in the cost of qualifying assets	16.8	10.1	46.0	27.7
Cash flow timing	(8.1)	(32.4)	(8.4)	(59.9)
Total capital expenditure	**108.0**	**135.2**	**305.3**	**383.1**

1 Central Services includes revenue and EBITDA from Ligado and Litigation income from RigNet.

4. Net financing costs

($ in millions)	Third Quarter 2019	Third Quarter 2018	Nine months 2019	Nine months 2018
Bank interest receivable and other interest	(2.4)	(2.2)	(6.3)	(6.6)
Related party income	(0.3)	-	(1.0)	-
Total financing income	**(2.7)**	**(2.2)**	**(7.3)**	**(6.6)**
Interest on Senior Notes and credit facilities	22.5	23.3	67.7	69.7
Amortisation of debt issue costs	1.7	3.9	3.1	9.4
Amortisation of discount on Senior Notes due 2022	0.3	0.3	0.8	0.8
Amortisation of discount on deferred satellite liabilities	(0.4)	-	(0.4)	0.1
Net interest on the net pension asset and post-employment liability	0.5	0.2	0.3	0.2
Interest on lease obligations	0.6	0.8	1.9	2.2
Related party interest payable	-	2.3	-	11.3
Other interest	0.5	0.5	(0.3)	0.2
	25.7	**31.3**	**73.1**	**93.9**
Less: Amounts capitalised in the cost of qualifying assets	(16.8)	(10.1)	(46.0)	(27.7)
Financing costs excluding derivative adjustments	**8.9**	**21.2**	**27.1**	**66.2**
Net financing costs	**6.2**	**19.0**	**19.8**	**59.6**

5. Net Borrowings

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

	At 30 September 2019			At 31 December 2018		
($ in millions)	Amount	Deferred finance costs	Net balance	Amount	Deferred finance costs	Net balance
Current:						
Deferred satellite payments	-	-	-	1.0	-	1.0
Ex-Im Bank Facilities	122.2	-	122.2	122.2	-	122.2
Total current borrowings	**122.2**	**-**	**122.2**	**123.2**	**-**	**123.2**
Non-current:						
Deferred satellite payments	-	-	-	4.4	-	4.4
Senior Notes due 2022	1,000.0	(3.0)	997.0	1,000.0	(3.9)	996.1
– Net issuance discount	(2.7)	-	(2.7)	(3.4)	-	(3.4)
Senior Notes due 2024	400.0	(3.6)	396.4	400.0	(4.2)	395.8
Ex-Im Bank Facilities	264.3	(5.4)	258.9	386.5	(6.5)	380.0
Total non-current borrowings	**1,661.6**	**(12.0)**	**1,649.6**	**1,787.5**	**(14.6)**	**1,772.9**
Total borrowings	**1,783.8**	**(12.0)**	**1,771.8**	**1,910.7**	**(14.6)**	**1,896.1**
Cash and cash equivalents	(347.0)	-	(347.0)	(138.3)	-	(138.3)
Short-term deposits	-	-	-	(145.7)	-	(145.7)
Net borrowings	**1,436.8**	**(12.0)**	**1,424.8**	**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 and re-financed by the proposed acquirer of the Group. The existing borrowings continue to be classified as non-current given the current status of the offer as at 30 September 2019. 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 30 September 2019	At 31 December 2018
Financial assets:		
Forward foreign currency contracts – designated cash flow hedges	0.2	0.3
Total derivative financial assets	**0.2**	**0.3**
Financial liabilities:		
Forward foreign currency contracts– designated cash flow hedges	(2.4)	(3.4)
Forward foreign currency contracts – undesignated cash flow hedges	(0.1)	(0.6)
Total derivative financial liabilities	**(2.5)**	**(4.0)**
Net derivative financial liability	**(2.3)**	**(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 30 September 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	420.4	400.0	382.1
Ex-Im Bank Facilities	386.5	386.7	508.7	508.9

7. Contingent assets and liabilities

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

8. Events after the balance sheet date

On 25 March 2019, a consortium of private equity investors announced their intention to make an all-cash offer to acquire Inmarsat for $7.21 per share. This offer has been unanimously recommended by Inmarsat's Board of Directors, and has been approved by shareholders and all necessary regulators. The Court Hearing to sanction the Scheme of Arrangement is scheduled for 28 and 29 November 2019.

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 7.
2. 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 \$480.7m which equals total net operating costs of \$502.9m in the Income Statement less the \$22.2m recommended offer costs.
3. 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.
4. 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 8.
5. Underlying effective tax rate	The underlying effective tax rate is used to analyse differences from the statutory corporate rate which are implicit to business operations, rather than driven by accounting adjustments. For the quarter end, this has been calculated by taking the tax charge (\$23.3m), adding the prior year adjustments (\$8.8m) less current year losses not recognised (\$2.3m) less change in tax rates (\$1.9m), all divided by the underlying PBT (\$191.6m) which is PBT adjusted for the impact of the costs associated with the recommended offer for the Group (\$21.6m).
6. 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 in the various Business Unit reviews in this report.