

Airia Limited

Directors' Report and Financial Statements for the year ended 31 December, 2002

Company number 3990064



Airia Limited

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Directors' report to the members of Airia Limited

The directors have pleasure in submitting their report and financial statements for the year ended 31 December 2002.

Principal activities

The principal activity of Airia Limited is to provide content and advertising space for television services that will be provided by a related entity, Airia Services Limited. The Company will also provide management services to Airia Incorporated, a US related entity.

Review of Business and Future Developments

The results for the year are shown in the profit and loss account shown on page 6. Airia Limited continues to invest in its existing and proposed service through its research and development programmes.

On 26 November 2002, on behalf of the Company, the Chief Executive Officer of Airia Limited resolved to execute a contract with Square Peg Communications Inc. for the provision of the Field Trial Receiver, which will be utilized to demonstrate the Company's satellite broadband multimedia services.

As discussed in note 1 to the financial statements, it is probable that the Company will require additional funding from December 2004 onwards to support the Company's financial plan objectives.

Post balance sheet events

On 7 November 2003 APR Limited and Inmarsat Ventures plc (the Company's shareholders), the Company and its subsidiaries Airia Incorporated and Airia Services Limited entered into a Settlement Deed. Under the Settlement Deed APR Limited acquired the shares in the Company previously held by Inmarsat Ventures plc. Further, the Company and the shareholders agreed to full and final settlement of all and any claims and potential claims between them involving the Company and its subsidiaries. Details of the settlement agreement are given in note 17.

Results and Dividends

The loss for the year amounted to US\$7,316,000 (2001 loss : US\$11,388,000). There were no dividends and retained losses have been transferred to reserves.

Charitable and Political Donations

No donations were made in the period.

Directors and their interests

The Directors who held office during the period and up to the date of this report are given below:

David Berman	(resigned 14/2/03)
Paul Branch	(resigned 7/11/03)
Ramin Khadem	(resigned 7/11/03)
Wayne Pierzga	
Vardhan Rajkumar	
Robert Michael Stevens	
Richard Vos	(resigned 7/11/03)
Secretary:	
Alison Horrocks	(resigned 7/11/03)
Jordans Company Secretaries Ltd	(appointed 7/11/03)

Directors' report to the members of Airia Limited

No remuneration is paid to the Directors of the Company in their capacity as a Director. Mr. Stevens acted as a consultant to the Company through his capacity as an employee of Arva Limited. Arva Limited was compensated for work undertaken (by Mr Stevens and others) at a rate of US\$5,000 per month for the period. Whilst in service as a Director, Vardhan Rajkumar was also compensated at a rate of US\$13,333 per month as an Airia Limited employee in the capacity of Vice President, Marketing.

As at 31 December 2002, Vardhan Rajkumar held a stock appreciation right over 266,666 units under the Airia Limited Stock Appreciation Rights Plan.

As at 31 December 2002, David Berman held a stock appreciation right over 933,333 units and Wayne Pierzga held a stock appreciation right over 266,666 units under the Airia Inc. Stock Appreciation Rights Plan.

As at 31 December 2002, the other directors did not hold any shares or options over the shares in the Company. However, at 31 December 2002, the following directors held shares and options over ordinary shares of 10p each in Inmarsat Ventures plc, the majority shareholder, which appear in the register maintained by that Company pursuant to Section 325 of the Companies Act 1985 as follows:

Name	Ordinary shares held at 31 December 2002	Ordinary shares held at 31 December 2001
Paul Branch	1,141	-
Ramin Khadem	1,141	-
Richard Vos	1,141	-

Name	Ordinary share options at 01.01.02	Granted during the period	Exercised during the period	Lapsed during the period	Ordinary share options at 31.12.02	Exercise Price
Paul Branch	42,090	-	-	-	42,090	£7.865
Ramin Khadem	48,940	-	-	-	48,940	£7.865

The share options expire between October 2009 and May 2010 as relevant.

Employees

The Company has ensured that employees are fully informed and involved in the business.

The Company has a positive attitude towards the development of all its employees and does not discriminate between employees or potential employees on grounds of race, ethnic or national origin, sex, marital status or religious beliefs.

The Company gives full consideration to applications from disabled persons and to the continuing employment of staff that become disabled, including considering them for other positions.

Health and safety

The Company is committed to maintaining high standards of health and safety for its employees, customers, visitors, contractors and anyone affected by its business activities.

European Monetary Union

The Company has reviewed the implications of the European Monetary Union and the issues arising from the potential introduction of the Euro into the United Kingdom are being addressed.

Directors' report to the members of Airia Limited

Policy and practice on payment of creditors

The Company's policy and practice on payment of creditors is:

- To pay all suppliers within the time limit agreed with each at the start of business with that supplier;
- To ensure that suppliers are aware of the terms of payment; and
- To pay in accordance with the contractual and other legal obligations whenever it is satisfied that the supplier has provided goods and services in accordance with the agreed terms and conditions.

At 31 December 2002, the Company's trade creditors represented 0 days equivalent of aggregate amounts invoiced by suppliers during the period.

Directors' and Officers' liability insurance

The Company is covered under a Directors' and Officers' liability insurance policy which is arranged through its "A" shareholder, as referred to in Section 310(3)(a) of the Companies Act 1985.

Auditors

Following the conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 26 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the annual general meeting.

Directors' Responsibilities

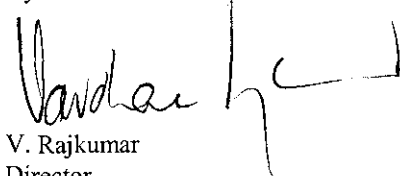
The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out on page 5, is made with a view of distinguishing the respective responsibilities of the directors and the auditors in relation to the financial statements.

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently in the year as explained under Note 1 'Accounting policies'. They also confirm that reasonable and prudent judgments and estimates have been made in preparing the financial statements for the period ended 31 December 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



V. Rajkumar
Director

26 January 2004

Independent auditors' report to the members of Airia Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' funds, the statement of cash flows and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Fundamental uncertainty – going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the company's forecast requirement for additional funding during 2004. The financial statements have been prepared on a going concern basis, the validity of which depends upon such funding being available. The financial statements do not include any adjustments that would result from a failure to obtain funding. Details of the circumstances relating to this fundamental uncertainty are described in note 1. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 January 2004

Airia Limited

PROFIT AND LOSS ACCOUNT

<i>(US\$000)</i>	Note	Year ended 31 December 2002	Year ended 31 December 2001
Revenue.....	2	-	-
Administrative expenses.....			
Depreciation and amortisation.....	3	(3,551)	(3,705)
Other administration costs.....	3	(3,871)	(6,820)
Total administrative expenses		(7,422)	(10,525)
Total operating loss	4	(7,422)	(10,525)
Interest receivable and similar income	5	106	239
Loss on ordinary activities before taxation		(7,316)	(10,286)
Taxation.....	7	-	(1,102)
Retained loss for the year	15	(7,316)	(11,388)

All activities are continuing. The Company had no recognised gains and losses during the year ended 31 December 2002 other than those reflected above.

The accompanying notes are an integral part of the financial statements

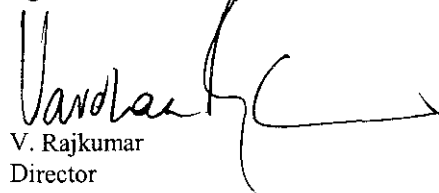
Airia Limited

BALANCE SHEET

(US\$000)

	Note	As at 31 December 2002	As at 31 December 2001
Fixed assets			
Intangible fixed assets	9(a)	1,167	4,667
Tangible fixed assets	9(b)	1,547	629
Investments	10	2,777	2,125
Total fixed assets		5,491	7,421
Current assets			
Debtors			
- Amounts falling due within one year	11(a)	0	1,017
- Amounts falling due after one year	11(b)	6,501	6,501
Cash at bank and in hand		4,627	5,841
Total current assets		11,128	13,359
Creditors - amounts falling due within one year	12(a)	(1,302)	(1,147)
Net current assets		9,826	12,212
Total assets less current liabilities		15,317	19,633
Creditors - amounts falling due after one year	12(b)	(6,501)	(6,501)
Net assets		8,816	13,132
Capital and reserves			
Called up share capital	14	10,002	7,002
Share premium account	15	13,998	12,998
Shares to be issued	15	6,501	7,501
Profit and loss account	15	(21,685)	(14,369)
Total shareholders' funds		8,816	13,132
Analysis of shareholders' funds			
Equity	14	(1,184)	6,132
Non-equity	14	10,000	7,000
		8,816	13,132

The financial statements on pages 6 to 18 were approved by the Board of directors on 26 January 2004 and were signed on its behalf by


V. Rajkumar
Director

The accompanying notes are an integral part of the financial statements

Airia Limited

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Note	Ordinary share capital	Share Premium	Profit and loss account	Shares to be issued	Total
<i>(US\$000)</i>						
Balance at 1 January 2002		7,002	12,998	(14,369)	7,501	13,132
Share capital issued during the year	14	3,000				3,000
Premium on shares issued during the year	15		1,000		(1,000)	-
Loss for the financial year	15			(7,316)		(7,316)
Balance at 31 December 2002		10,002	13,998	(21,685)	6,501	8,816

The accompanying notes are an integral part of the financial statements

Airia Limited

STATEMENT OF CASH FLOWS

(US\$000)

	Note	Year ended 31 December 2002	Year ended 31 December 2001
Net cash outflow from operating activities	16	(2,699)	(6,815)
Returns on investments and servicing of			
Finance			
Interest received		106	239
Net cash inflow for returns on investments and servicing of finance		106	239
Taxation		-	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(969)	(629)
Purchase of intangible fixed assets		(1,000)	(1,000)
Net cash outflow for capital expenditure and financial investment		(1,969)	(1,629)
Acquisitions			
Further investment in subsidiary undertaking		(652)	(2,125)
Net cash outflow for acquisitions		(652)	(2,125)
Net cash outflow before financing		(5,214)	(10,330)
Financing			
Issue of ordinary share capital	14,15	4,000	11,001
Net cash inflow from financing activities		4,000	11,001
(Decrease)/increase in net cash for the period		(1,214)	671
Reconciliation to net cash			
Net cash at 1 January		5,841	5,170
(Decrease)/increase in net cash		(1,214)	671
Net cash at 31 December		4,627	5,841

The accompanying notes are an integral part of the financial statements

Airia Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Background and basis of preparation

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently except where stated otherwise, are described in note 2 below.

On 7 November 2003 APR Limited and Inmarsat Ventures plc (the Company's shareholders), the Company and its subsidiaries Airia Incorporated and Airia Services Limited entered into a Settlement Deed. Under the Settlement Deed APR Limited acquired the shares in the Company previously held by Inmarsat Ventures plc. Further, the Company and the shareholders agreed to full and final settlement of all and any claims and potential claims between them involving the Company and its subsidiaries. Details of the settlement agreement are given in note 17.

During the financial year ended 31 December 2002, the Company has continued to invest in its proposed service through its research and development programmes. The Directors have approved a financial plan for the Company which will enable it to complete the development phase and move into commercial operations. However, the plan requires additional funds from December 2004 onwards to support the financial plan's objectives.

This additional funding is likely to come from one or a number of sources, including further funding from the Company's remaining shareholder, introduction of another joint venture partner or from a third party lender. Preliminary discussions are taking place on the additional finance that may be provided and long term financing of the Company.

The financial statements have been prepared on the going concern basis. This assumes that the Company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the successful outcome of negotiations with alternative providers of funding.

If the Company or its subsidiaries were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise, and to reclassify fixed assets and long-term liabilities as current assets and liabilities.

Whilst the Directors are presently uncertain as to the outcome of the matters mentioned above, they believe that it is appropriate for the financial statements to be prepared on the going concern basis.

The financial statements contain information about Airia Limited as an individual Company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 248 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as the group it heads qualifies as a medium sized group.

Airia Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Summary of significant accounting policies

The Company has reviewed its accounting policies in line with FRS 18 'Accounting Policies' and adopted accounting policies most appropriate to its business so as to give a true and fair view as well as disclose sufficient information to enable users to understand the policies adopted and how they have been applied in the financial statements.

FRS 19 'Deferred tax' has been adopted in the year further details of which are given below.

Revenue

The Company did not record any revenues for the period.

Pensions

The Company did not offer a pension or defined benefit plan in 2002.

Advertising costs

Advertising costs are expensed as incurred.

Taxation

The Company has adopted FRS 19 'Deferred Tax' from 1 January 2002 and this is reflected in these financial statements. The adoption of FRS 19 has not resulted in a change to the retained loss or net assets in either 2002 or 2001.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profit and loss and its results as stated in the financial statements. No deferred tax is recognised on permanent differences.

Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on tax rates and law that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Intangible fixed assets

Intangible fixed assets comprise intellectual property and goodwill, which reflects the excess of the consideration paid over the fair value of the assets acquired. Intangibles are amortised using the straight-line method over their estimated useful life.

Airia Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

Depreciation of fixed assets

Depreciation is calculated to write off the historical cost of fixed assets, except land, on a straight-line basis over the expected useful lives of the assets concerned. Depreciation commences once the assets enter into service. The principal annual rates used for this purpose are:

Fixtures and fittings, and other building-related equipment	10.0%
Buildings	4.0%
Other fixed assets and Network Infrastructure.....	20.0-33.3%

Asset impairment

The Company evaluates potential impairment loss related to long-lived assets, including intangible assets, when a change in circumstances occurs, by assessing whether the carrying amount can be recovered over the remaining life. Impairment is recognised if the recoverable amount (the higher of net realisable value and value in use) falls below its carrying value.

Functional currency

The Company's principal cash flows are primarily denominated in US dollars so the Company has adopted the US dollar as its reporting currency. The £ sterling / US dollar exchange rate at 31 December 2002 was £1/\$1.59 (2001 - £1/\$1.45). The average £sterling/US dollar exchange rate during 2002 was 1.423 (2001: 1.467).

3. Administrative expenses

(US\$000)

	Year ended 31 December 2002	Year ended 31 December 2001
Depreciation and amortisation	(3,551)	(3,705)
External charges	(3,636)	(6,516)
Staff costs (see below).....	(235)	(304)
Total other administrative expenses	(3,871)	(6,820)
Wages and salaries	(216)	(277)
Social security costs	(19)	(27)
Pension costs	-	-
Total staff costs	(235)	(304)

Airia Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Total operating loss

Operating loss is stated after charging:

<i>(US\$000)</i>	Year ended 31 December 2002	Year ended 31 December 2001
Amortisation of intellectual property.....	3,000	3,171
Amortisation of goodwill.....	500	534
Depreciation.....	51	-
Auditors' remuneration and expenses:		
Audit	15	15
Non audit	0	12
Advertising costs	48	231
Research and development costs	3,488	5,721

5. Interest receivable and similar income

<i>(US\$000)</i>	Year ended 31 December 2002	Year ended 31 December 2001
Bank interest receivable	106	239

6. Directors' remuneration and employee numbers

There was one person employed during the period in sales and marketing. (2001 : two).

No remuneration is made to the Directors of the Company in their capacity as a Director. Mr. Stevens acted as a consultant to the Company through his capacity as an employee of Arva Limited. Arva Limited was compensated for work undertaken (by Mr Stevens and others) at a rate of US\$5,000 per month for the period. In total, Arva Limited was paid \$60,504 in 2002.

Whilst in service as a Director, Vardhan Rajkumar was also compensated at a rate of US\$13,333 per month as an Airia Limited employee in the capacity of Vice President, Marketing.

As at 31 December 2002, Vardhan Rajkumar held a stock appreciation right over 266,666 units under the Airia Limited Stock Appreciation Rights Plan. Under the terms of this plan, participants may be able to exercise stock appreciation rights (which would be paid in the form of cash or such other assets of like value) principally on a change in control of the Company. There are no other participants of the Airia Limited plan.

Airia Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Taxation

The tax charge is based on the taxable profits for the period and comprises:

<i>(US\$000)</i>	Year ended 31 December 2002	Year ended 31 December 2001
Corporation tax at 30%—current year....	-	-
Deferred tax—current year	-	(1,102)
	-	(1,102)

Deferred Taxation

The tax effect of timing differences is:

<i>(US\$000)</i>	As at 31 December 2002	As at 31 December 2001
Asset recognised	-	-
Potential asset not recognised	1,103	4,060

The Company's effective tax rate reconciliation is as follows:

<i>(US\$000)</i>	Year ended 31 December 2002	Year ended 31 December 2001
UK statutory tax rate	30%	30%
Loss on ordinary activities	(7,316)	(10,286)
Corporation tax refund at UK statutory rate	(2,195)	(3,085)
Depreciation in excess of capital allowances	1,065	-
Deferred tax asset on losses not recognised	1,103	2,925
Non-deductible expenses	58	160
Group Relief for which no payment made	(31)	-
Current tax charge / (credit)	-	-

8. Dividends

There were no dividends declared for the period ended 31 December 2002 (2001 : \$Nil).

9(a). Intangible fixed assets

<i>(US\$000)</i>	Intellectual Property	Goodwill	Total
Cost at 1 January 2002 and 31 December 2002	9,001	1,500	10,501
Accumulated amortisation at 1 January 2002	5,001	833	5,834
Charge for the year	3,000	500	3,500
Accumulated amortisation at 31 December 2002	8,001	1,333	9,334
Net book amount at 31 December 2002	1,000	167	1,167
Net book amount at 31 December 2001	4,000	667	4,667

Airia Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

During the period ended 31 December 2000 the Company acquired intellectual property and goodwill from APR Limited, one of its shareholders, for total consideration of \$10,501,000. Of this amount, \$2,000,000 was paid during 2000 with the remaining \$8,501,000 being payable on the completion of certain milestones by the Company. The Company has provided for these amounts as deferred consideration. During 2002, one of the milestones was met, and under the terms of the shareholder agreement, shares to the value of \$4,000,000 were issued to Inmarsat Ventures plc. Of this amount, \$3,000,000 was retained for use in the business, and \$1,000,000 was remitted to APR Limited as further part payment of the deferred consideration. As explained in note 17, after the end of the year, the Company and its shareholders entered into an agreement whereby the requirement to pay the remainder of the deferred consideration was removed.

The intellectual property and goodwill are being amortised over 3 years, which is the directors' estimate of their useful life to the business.

9(b). Tangible fixed assets

(US\$000)	Network infrastructure
Cost	
at 1 January 2002.....	680
Additions in the year.....	918
Cost at 31 December 2002.....	1,598
Accumulated depreciation	
at 1 January 2002.....	-
Charged for the year	51
Accumulated depreciation at 31 December 2002	51
Net book amount at 31 December 2002	1,547
Net book amount at 31 December 2001	680

10. Investments

	Principal Activity	Cost US\$000	Trading	Country of Incorporation and operation	Effective interest in issued share capital at December 31, 2002
Airia Inc.	Telecommunications	2,777	Trading	USA	100%
Airia Services Limited	Telecommunications	0	Dormant	England and Wales	100%

During 2001, the Company acquired additional shares in Airia Inc for consideration of \$1,350,000 and advanced a long term loan of \$775,000 to the Company.

During 2002, the Company advanced further long term loan of \$652,000.

Airia Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 (a). Debtors – amounts falling due within one year

<i>(US\$000)</i>	As at 31 December 2002	As at 31 December 2001
Amounts receivable from Inmarsat Ventures plc (note 9(a))	0	1,000
Other debtors	0	17
	0	1,017

11 (b). Debtors—amounts falling due after more than one year

<i>(US\$000)</i>	As at 31 December 2002	As at 31 December 2001
Amounts receivable from Inmarsat Ventures plc (note 9(a))	6,501	6,501

12(a). Creditors—amounts falling due within one year

<i>(US\$000)</i>	As at 31 December 2002	As at 31 December 2001
Trade creditors.....	0	37
Amounts due to APR Limited (note 9(a))	0	1,000
Amounts due to a subsidiary undertaking	1,052	0
Accruals and deferred income	250	110
	1,302	1,147

12(b). Creditors—amounts falling due after more than one year

<i>(US\$000)</i>	As at 31 December 2002	As at 31 December, 2001
Amounts due to APR Limited (note 9(a))	6,501	6,501

13. Commitments

The Company did not have any annual commitments under non-cancellable operating leases.

At 31 December 2002 the Company had capital commitments of \$166,600 (2001 ; \$660,000).

Airia Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Called up share capital

(US\$000)	As at 31 December 2002	As at 31 December 2001
Authorised:		
800 ordinary "A" shares of US\$1.00 each.....	1	1
200 ordinary "B" shares of US\$1.00 each.....	-	-
10,000,000 ordinary "C" shares of US\$0.01 each	100	100
100,004 ordinary "D" shares of US\$100 each.....	10,000	10,000
	<u>10,101</u>	<u>10,101</u>
Allotted, issued and fully paid:		
84 "A" shares of US\$1.00 each.....	-	-
21 "B" shares of US\$1.00 each.....	-	-
210,000 "C" shares of US\$0.01 each.....	2	2
100,000 "D" shares of US\$100 each.....	10,000	7,000
	<u>10,002</u>	<u>7,002</u>

During 2002, the Company issued 12,000 "C" shares of US\$0.01 each at a price of US\$83.34 each and 30,000 "D" shares of US\$100 at par to Inmarsat Ventures plc and 3,000 "C" shares of US\$0.01 each at par to APR Limited.

"A" and "B" shares carry voting rights, but no rights to income or capital distributions, and accordingly are classified as non-equity shares. "C" shares have no voting rights, but carry unlimited rights to income and capital distributions, and accordingly are classified as equity shares. "D" shares carry no voting rights, have no rights to income distributions but have a preference over all other shares on capital distributions, and accordingly are also classified as non-equity shares.

15. Reserves

(US\$000)	Share Premium Account	Shares to be issued	Profit and Loss Account
At 1 January 2002	12,998	7,501	(14,369)
Premium on shares issued during the year.....	1,000	(1,000)	-
Retained Loss for the year	-	-	(7,316)
At 1 December 2002	<u>13,998</u>	<u>6,501</u>	<u>(21,685)</u>

Shares to be issued related to the amounts which were to be received from Inmarsat Ventures plc and used to fund the deferred consideration payments due to APR Limited. As explained in note 17, after the end of the year, the Company and its shareholders entered into an agreement whereby the requirement of Inmarsat to settle the outstanding debt and, consequently of the Company to issue the shares disclosed above was removed.

Airia Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Notes to cash flow statement

Reconciliation of operating profit to net cash outflow from operating activities:

<i>(US\$000)</i>	Year ended 31 December 2002	Period ended 31 December 2001
Operating loss	(7,422)	(10,525)
Amortisation and Depreciation.....	3,551	3,705
Decrease in debtors	1,017	1,038
Increase/(decrease) in creditors	155	(1,033)
	<u>(2,699)</u>	<u>(6,815)</u>

17. Post balance sheet events

On 7 November 2003 APR Limited and Inmarsat Ventures plc (the Company's shareholders), the Company and its subsidiaries Airia Incorporated and Airia Services Limited entered into a Settlement Deed. Under the Settlement Deed APR Limited acquired the shares in the Company previously held by Inmarsat Ventures plc. Further, the Company and the shareholders agreed to full and final settlement of all and any claims and potential claims between them involving the Company and its subsidiaries.

As a result of the settlement, Inmarsat Ventures plc is no longer obliged to contribute capital to the Company in future as it meets development milestones. The amount shown due from Inmarsat Ventures plc at 31 December 2002 of \$6.5 million (see note 11(b)) is no longer receivable and the Company will not issue capital in the same amount (see note 15). In addition, the amount shown due to APR Limited at 31 December 2002 of \$6.5 million (see note 12(b)) is no longer payable by the Company. The aggregate impact of the settlement is expected to result in a credit to the result before tax in 2003 of \$6.5 million. The events described above are 'non-adjusting' events as defined by SSAP 17 and will be reflected in the 2003 financial statements.

18. Related Parties and ultimate controlling party

Airia Limited funds the research and development activities of its wholly owned subsidiary, Airia Inc. (US). The Company is charged a cost + 9% arm's length markup for the services provided by Airia Inc. The amount (2002 : \$3,488,000; 2001 : \$5,721,000) is recorded as revenue on the books of Airia Inc. and expensed on the books of Airia Limited.

At the balance sheet date Airia Limited was owned by Inmarsat Ventures plc and APR Limited. The shareholder agreement relating to their investment in Airia Limited provided for joint control. Accordingly, there was no ultimate controlling party at the year end. Transactions with the two shareholders relate to the payments for intellectual property and goodwill (note 9(a)) and share issues (note 14). As noted above in note 17, on 7 November 2003 APR Limited acquired the remaining 80% shareholding in Airia Limited, previously owned by Inmarsat Ventures plc. As a result of this, APR Limited became the ultimate controlling party from 7 November 2003.