

Inmarsat Investments Limited

(Registered Number: 4886096)

Directors' Report and Financial Statements
For the year ended December 31, 2005



Inmarsat Investments Limited
Directors' Report
For the year ended December 31, 2005

The directors have pleasure in submitting their report and the audited consolidated financial statements for the year ended December 31, 2005.

Principal activities

The principal activity of the Company is a holding company.

Review of business

The results for the period are shown in the consolidated profit and loss account on page 4.

Results and dividends

The profit for the year after taxation amounted to US\$7.9 million (2004 (restated): profit US\$28.1 million). The Company paid an interim dividend during the year of US\$24.8 million and recommended a final dividend in respect of the year ended December 31, 2005 of US\$52.8 million (2004: Nil).

Charitable and political donations

During the year, the Group made donations totaling US\$200,000 (2004: US\$100,000) to the telecommunications relief aid organisation, Télécoms Sans Frontières (TSF) – US\$100,000 of the amount was made as an additional contribution to fund their activities working in the tsunami-affected region. The Group has pledged to pay the following amounts to TSF: US\$110,000 in 2006, US\$130,000 in 2007 and US\$150,000 in 2008.

The Group will also make a payment to the World Maritime University of US\$100,000 in 2006 as part of its support for the education of maritime specialists.

No political donations were made in the year.

Land and buildings

There is no material difference between market value and net book amount of land and buildings for the Company or its subsidiary undertakings.

Directors and their interests

The directors and secretary who held office during the period were as follows:

Directors

Andrew Sukawaty
Rick Medlock
Michael Butler

Secretary

Alison Horrocks

The directors do not hold any shares or options over the shares in the Company. All Directors are Directors of the ultimate parent company, Inmarsat plc (formerly Inmarsat Group Holdings Limited). The interest of the Directors in the share capital of the ultimate parent company during the year are shown in the annual report of Inmarsat plc.

Directors' and officers' liability insurance

The Group maintains insurance to cover directors' and officers' liability as referred to in Section 310(3)(a) of the Companies Act 1985.

Inmarsat Investments Limited
Directors' Report (Continued)
For the year ended December 31, 2005

Auditors

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to appoint auditors annually.

Directors' responsibilities

The following statement, which should be read in conjunction with the auditors' statement of responsibilities is made with a view to 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 period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



Alison Horrocks FCIS
COMPANY SECRETARY
July 7, 2006

99 City Road
London EC1Y 1AX

Independent Auditors' Report to the Members of Inmarsat Investments Limited

We have audited the financial statements of Inmarsat Investments Limited for the year ended December 31, 2005 which comprise the consolidated profit and loss account, the group balance sheet, the company balance sheet, the reconciliation of movements in group shareholders' funds, the statement of group total recognised gains and losses, the consolidated statement of cash flows and the related notes to the consolidated financial statements. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 into 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.

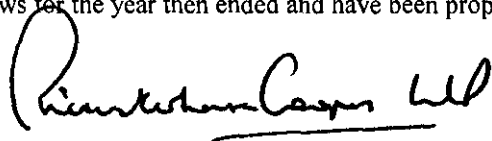
Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by 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 judgments 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.

Opinion

In our opinion the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the Group and Company's affairs at December 31, 2005 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
July 7, 2006

Inmarsat Investments Limited
Consolidated Profit and Loss Account
For the year ended December 31, 2005

(US\$000)	Note	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u> (as restated)
Revenues	2	491,148	480,723
Depreciation and amortisation	3	(126,697)	(144,454)
Other net operating costs	3	(170,992)	(178,096)
Total operating costs		(297,689)	(322,550)
Group operating profit		193,459	158,173
Gain on disposal of tangible fixed assets	4	—	42,598
Loss on termination of subsidiary undertakings	4	(1,052)	—
Interest receivable and similar income	5	9,663	4,092
Interest payable and similar charges	5	(166,986)	(167,932)
Other finance costs	24	(819)	(630)
Profit on ordinary activities before taxation	4	34,265	36,301
Taxation expense	8	(26,345)	(8,173)
Profit after taxation for the year		7,920	28,128
Dividend paid	9	(24,838)	—
(Loss)/profit for the year	22	(16,918)	28,128

All activities relate to continuing activities. There is no significant difference between the results as reported and the results on a historical cost basis.

The Company has taken advantage of the exemption available under Section 230 of the Companies Act 1985 and has not presented a profit and loss account. For the year ended December 31, 2005 the Company made a profit after taxation of US\$140.1 million (2004: loss US\$114.3 million).

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Group Total Recognised Gains and Losses
For the year ended December 31, 2005

(US\$000)	Note	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u> (as restated)
Profit after taxation for the year (as restated)		7,920	28,128
Exchange adjustments offset in reserves	22	(717)	738
Actuarial losses on pension liability	24	(8,374)	(4,585)
Movement on deferred tax relating to pension liability	8	2,512	1,376
Total recognised gains for the year		1,341	25,657
Prior period adjustment – FRS 17	1	(6,394)	—
Total recognised losses since last financial statements		(5,053)	—

The accompanying notes are an integral part of these financial statements.

Inmarsat Investments Limited

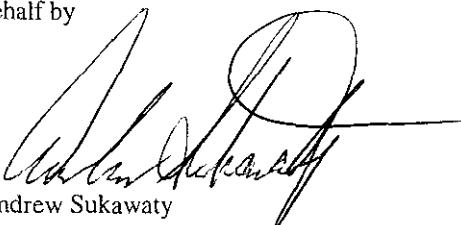
Balance Sheets


As at December 31, 2005

(US\$000)	Note	As at December 31, 2005 Group	As at December 31, 2005 Company	As at December 31, 2004 (as restated) Group	As at December 31, 2004 Company
Fixed assets					
Intangible assets.....	10	450,314	—	456,540	—
Tangible assets.....	11	1,356,405	—	1,179,136	—
Investments.....	12	10,286	1,552,998	—	1,542,712
Total fixed assets.....		1,817,005	1,552,998	1,635,676	1,542,712
Current assets					
Stocks.....	13	273	—	1,240	—
Debtors.....	14	209,208	66,716	160,145	51,307
Short-term deposits.....		33,724	—	207,601	—
Cash at bank and in hand (restricted cash).....	23	—	—	163,416	162,666
Cash at bank and in hand.....		1,437	6	7,455	5,924
Total current assets.....		244,642	66,722	539,857	219,897
Creditors—amounts falling due within one year					
Loans and other borrowings.....	17	(899)	—	(29,071)	(27,656)
Other creditors.....	15	(239,976)	(43,066)	(133,942)	(2,399)
Total creditors: amounts falling due within one year.....		(240,875)	(43,066)	(163,013)	(30,055)
Net current assets.....		3,767	23,656	376,844	189,842
Total assets less current liabilities.....		1,820,772	1,576,654	2,012,520	1,732,554
Creditors—amounts falling due after more than one year					
Loans and other borrowings.....	17	(1,208,931)	(1,208,931)	(1,746,467)	(1,746,467)
Other creditors.....	16	(97,350)	—	(78,961)	(70,390)
Total creditors: amounts falling due after more than one year.....		(1,306,281)	(1,208,931)	(1,825,428)	(1,816,857)
Provisions for liabilities and charges.....	18	(135,737)	—	(109,565)	—
Net assets excluding pension liability.....		378,754	367,723	77,527	(84,303)
Pension liability.....	24	(25,081)	—	(19,677)	—
Net assets including pension liability.....		353,673	367,723	57,850	(84,303)
Capital and reserves					
Called up share capital.....	20	330	330	330	330
Share premium account.....	22	34,199	34,199	34,199	34,199
Other reserve.....	22	319,399	311,936	79	—
(Accumulated losses)/retained earnings.....	22	(255)	21,258	23,242	(118,832)
Total equity shareholders' funds.....		353,673	367,723	57,850	(84,303)

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 4 to 37 were approved by the directors on July 7, 2006 and were signed on its behalf by


Andrew Sukawaty
Director


Rick Medlock
Director

Inmarsat Investments Limited
Reconciliation of Movements in Group Shareholders' Funds

For the year ended December 31, 2005

(US\$000)	Note	Called up share capital	Share premium account	Other reserve	Retained Earnings	Total
Balance at January 1, 2004 (as restated)		330	34,199	—	(2,415)	32,114
Profit for the financial year (as restated)		—	—	—	28,128	28,128
Issue of share options	21	—	—	79	—	79
Exchange adjustments offset in reserves	22	—	—	—	738	738
Actuarial losses on pension liability	24	—	—	—	(4,585)	(4,585)
Movement on deferred tax relating to pension liability	8	—	—	—	1,376	1,376
Balance at December 31, 2004 (as restated)		330	34,199	79	23,242	57,850
Loss for the financial year		—	—	—	(16,918)	(16,918)
Issue of share options	21	—	—	3,704	—	3,704
Exchange adjustments offset in reserves	22	—	—	—	(717)	(717)
Actuarial losses on pension liability	24	—	—	—	(8,374)	(8,374)
Movement on deferred tax relating to pension liability	8	—	—	—	2,512	2,512
Capital contribution	22	—	—	311,936	—	311,936
Revaluation of investment property	22	—	—	3,680	—	3,680
Balance at December 31, 2005		330	34,199	319,399	(255)	353,673

The accompanying notes are an integral part of these financial statements.

Inmarsat Investments Limited
Consolidated Statement of Cash Flows
For the year ended December 31, 2005

(US\$000)	Note	Year ended December 31, 2005	Year ended December 31, 2004
Net cash inflow from operating activities	23	267,728	276,259
Returns on investments and servicing of finance			
Interest received		10,311	2,428
Interest paid		(29,114)	(67,911)
Dividends paid		(24,838)	—
Redemption premium paid on repayment of Subordinated Senior Notes			
Proceeds Loan	5	(12,743)	—
Arrangement costs of banking and Senior Credit Facilities		(5,551)	(21,466)
Interest element of finance lease rental payments		(59)	(220)
Net cash (outflow) for returns on investments and servicing of finance		(61,994)	(87,169)
Taxation			
UK corporation tax (paid)/received		(812)	1,079
Net cash inflow from taxation		(812)	1,079
Capital expenditure and financial investments			
Purchase of tangible and intangible assets		(204,300)	(140,155)
Sale of tangible fixed assets		—	125,100
Investment in Senior Notes	12	(10,000)	—
Net cash (outflow) for capital expenditure and financial investment		(214,300)	(15,055)
Acquisitions and disposals			
Disposals of subsidiary undertakings and businesses		9,379	—
Transaction costs		—	(34,303)
Cash balances of subsidiaries sold		(9)	—
Net cash inflow/(outflow) for acquisitions and disposals		9,370	(34,303)
Net cash (outflow)/inflow before management of liquid resources and financing		(8)	140,811
Management of liquid resources			
Increase/(decrease) in short-term deposits		173,877	(188,412)
Net cash inflow/(outflow) after management of liquid resources		173,869	(47,601)
Financing			
Capital element of finance lease rental payments		(98)	(60)
Repayment of subordinated parent company loan		—	(100,000)
Capital contribution		311,936	—
Repayment of previous Senior Credit Facilities		(737,500)	(62,500)
Issue of new Senior Credit Facility		250,000	—
(Repayment)/issue of subordinated Senior Notes proceeds loan		(167,125)	480,062
Bridge facility repayment		—	(365,000)
Net cash outflow from financing		(342,787)	(47,498)
Decrease in cash in the year	23	(168,918)	(95,099)

The accompanying notes are an integral part of these financial statements.

Inmarsat Investments Limited
Notes to the Consolidated Financial Statements
For the year ended December 31, 2005

1. Background, basis of accounting and principal accounting policies

Background

Inmarsat Investments Limited (the "Company") was incorporated on September 3, 2003 as Grapeclose Limited and changed its name to Inmarsat Investments Limited on January 6, 2004.

The principal activity of the Company and its subsidiaries (the "Group") is the provision of global mobile satellite communication services

Basis of accounting

The consolidated financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards and Companies Act, 1985 other than the investment properties which are carried at valuation.

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses during the reported period. The more significant estimates include provisions, pension costs and asset lives. Actual results could differ from those estimates.

Changes in accounting policy and prior year adjustments

The Group has adopted the following new accounting standards that are effective for accounting periods beginning January 1, 2005: FRS 17: Accounting for retirement benefits, FRS 21: Events after the balance sheet date, and FRS 25: Financial instruments: Disclosure and presentation, in these financial statements. The adoption of these standards represents a change in accounting policy and the comparative figures have been restated accordingly.

The Group has adopted FRS 17 in 2005 and applied the new policy retrospectively through retained earnings, other finance costs and operating costs. The effect of the change in accounting policy is to increase profit for the year by US\$0.7 million (2004: decrease US\$1.1 million); and to decrease the total recognised gains and losses by US\$5.9 million (2004: US\$3.2 million). The impact on retained earnings brought forward at January 1, 2004 is a decrease of US\$2.0 million.

The Group adopted FRS 21 in 2005. The impact of the adoption of FRS 21 is that the final proposed dividend for the year ended December 31, 2005 of US\$52.8 million which was declared by the Board in March 2006 is not included in the 2005 financial statements as a liability given the dividend was not approved as at December 31, 2005. The liability will be recorded in 2006.

The change in accounting policy to adopt the presentation requirements of FRS 25 had no impact on the financial statements for the years ended December 31, 2004 and 2005.

Reclassification

Certain prior year amounts have been reclassified to be consistent with the current year presentation.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its domestic and overseas subsidiary undertakings. All inter-company transactions and balances with subsidiaries have been eliminated. The results of subsidiary undertakings established or acquired during the period are included in the consolidated profit and loss account from the date of establishment or acquisition. The results of subsidiary undertakings disposed of during the period are included until date of disposal.

Inmarsat Investments Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended December 31, 2005

Foreign currency translation

The functional and reporting currency of the Group is the US dollar as the majority of operational transactions are denominated in US dollars. Transactions not denominated in US dollars during the accounting period have been translated into US dollars at an average hedged rate of exchange. Fixed assets denominated in currencies other than the US dollar have been translated at the spot rates of exchange ruling at the dates of acquisition. Monetary assets and liabilities denominated in currencies other than the dollar for which the Group has purchased forward exchange contracts have been translated at the average hedged rates of exchange contained in those contracts. Differences on exchange are dealt with in the profit and loss account.

Shares issued by the Company and denominated in a currency other than US dollars are translated at the date of the issue.

The Group's interest in the underlying net assets of non US dollar subsidiary undertakings is translated into US dollars at year-end rates. The results of subsidiary undertakings are translated into US dollars at average rates of exchange. The adjustment to year-end rates is taken to reserves. Exchange differences that arise on the re-translation of subsidiary undertakings' balance sheets at the beginning of the year and equity additions and withdrawals during the financial year are dealt with as a movement in reserves.

Financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign currency and interest rate risk. To the extent that such instruments are matched against an underlying asset or liability they are accounted for using hedge accounting and, therefore, gains and losses are deferred and only recognised upon the maturity of the contract. Where instruments are not matched against an underlying asset or liability losses are accrued in the profit and loss account.

Revenue recognition

Mobile satellite communications services revenue results from utilization charges that are recognised as revenue over the period in which the services are provided. Deferred income attributable to mobile satellite communications services revenues represents the unearned balances remaining from amounts received from customers pursuant to prepaid lease contracts. These amounts are recorded as revenue on a straight-line basis over the respective lease terms, which are typically for periods of one month to twelve months.

The Group's revenues are stated net of volume discounts which increase over the course of the financial year as specific volume thresholds are met by distribution partners resulting in lower prices.

Revenues in respect of long-term service contracts of the Group's subsidiary Invsat Limited are calculated in a manner appropriate to the stage of completion of the contracts.

Revenue also includes income from services contracts, rental income, conference facilities and income from the sale of R-BGAN terminals. The costs of acquiring these terminals are included in 'other operating costs' when the sale is recognised.

Pensions and post-retirement benefits

The Group operates a hybrid pension scheme and a number of defined contribution pension schemes in its principal locations. The hybrid scheme provides benefits on both a defined benefit and defined contribution basis. The Group recognises liabilities relating to the defined benefit pension plans and post-retirement healthcare benefits in respect of employees in the UK and overseas.

The Group has adopted FRS 17 in the current year. For defined benefit schemes the amount charged to operating profit is the cost of accruing pension benefits promised to the employees over the year. Other finance costs/income in the profit and loss account includes a credit equivalent to the Group's expected return on the pension scheme's assets over the year, offset by a charge equal to the expected increase in the scheme's liabilities over the year. The difference between the market value of the scheme's assets and the present value of the scheme's liabilities is disclosed as an asset or liability on the balance sheet, net of deferred tax (to the extent that it is recoverable). Pension fund actuarial gains and losses, including investment returns varying from the assumed returns, are recorded in full in the statement of recognised gains and losses annually.

Inmarsat Investments Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

Pension costs for the defined contribution schemes are charged to the profit and loss account as incurred when the related employee service is rendered.

Stock compensation costs

The Company recognises charges relating to share options granted to employees. Share option costs represent the difference between the exercise price of these share options and the fair market value of the share options on the date of grant. The difference is amortised over the performance period or the vesting period where there is no performance criteria of the applicable options. See note 21.

The Group recognises a charge for National Insurance contributions on outstanding share options where the options are expected to be exercised. The liability is calculated on the difference between the market value of the underlying shares at the end of the financial year and the option exercise price as it was recognised over the period from the date of grant to the end of the performance period.

Deferred Taxation

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 Group's taxable profit and loss and the results as stated in the financial information. 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. See note 8.

Research and development

Research expenditure is expensed when incurred. Development expenditure is expensed when incurred unless it meets criteria for capitalisation. Development costs are only capitalised once a business case has been demonstrated as to the technical feasibility and commercial viability. Capitalised development costs are amortised on a straight-line basis over their expected useful economic life.

Software development costs

Software development costs directly relating to the development of new services are capitalised with the tangible fixed assets to which they relate. Costs are capitalised once a business case has been demonstrated as to technical feasibility and commercial viability. Such costs are depreciated over the estimated sales life of the services, which is generally three years.

Acquisitions and goodwill

On the acquisition of a company or business, fair values reflecting conditions at the date of acquisition are attributed to the identifiable separable assets and liabilities acquired.

Where the fair value of the consideration paid exceeds the fair value of the identifiable separable assets and liabilities acquired, the difference is treated as purchased goodwill. Goodwill is amortised using the straight-line method over its estimated useful life, not exceeding 20 years. This is the period over which the Directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets.

Fees and similar incremental costs incurred directly in making an acquisition are included in the cost of the acquisition and capitalised. Internal costs, and other expenses that cannot be directly attributed to the acquisition, are charged to the profit and loss account.

Space segment assets

Inmarsat Investments Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

Space segment assets comprise satellite construction, launch and other associated costs. Expenditure charged to space segment projects includes invoiced progress payments, amounts accrued appropriate to the stage of completion of contract milestone payments, external consultancy costs and direct internal costs. Internal costs, comprising primarily staff costs, are only capitalised when they are directly attributable to the construction of an asset. Progress payments are determined on milestones achieved to date together with agreed cost escalation indices. Deferred satellite payments represent the net present value of future payments dependent on the future performance of each satellite and are recognised in space segment assets when the satellite becomes operational. The associated liability is stated at its net present value and included within liabilities. These space segment assets are depreciated over the life of the satellites from the date they become operational and are placed into service.

Assets in course of construction

Assets in course of construction relate to the next generation Inmarsat-4 satellites and BGAN services. These assets will be transferred to space segment assets and depreciated over the life of the satellites once they become operational and placed into service. No depreciation has been charged on these assets to date.

Other fixed assets

Other fixed assets are stated at historical cost less accumulated depreciation other than investment properties which are carried at valuation.

Other intangible assets

Other intangible assets comprise of patents, trademarks and terminal development costs, which are amortised on a straight line basis over their estimated useful lives. The carrying value of other intangible assets is reviewed for impairment each financial year if events or changes in circumstances indicate the carrying value may not be recoverable. See note 10.

Gains and losses on disposal of tangible and intangible fixed assets

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss account.

Gains and losses on termination of subsidiary undertakings

Gains and losses on termination of subsidiary undertakings are determined by comparing net proceeds with the carrying amount. These are included in the Income Statement.

Depreciation of fixed assets

Depreciation is calculated to write off the historical cost less residual values, if any, of fixed assets, except land, on a straight-line basis over the expected useful lives of the assets concerned. The Group selects its depreciation rates carefully and reviews them annually to take account of any changes in circumstances. When setting useful economic lives, the principal factors the Group takes into account are the expected rate of technological developments, expected market requirements for the equipment and the intensity at which the assets are expected to be used. The lives assigned to significant tangible fixed assets are:

Space segment	5–15 years
Fixtures and fittings, and other building-related equipment	10 years
Buildings	50 years
Other fixed assets	3–5 years

Effective October 1, 2005, the Group prospectively changed the useful economic lives of the Inmarsat-4 satellites from 13 years to 15 years to better reflect the design life of the spacecraft, the better-than-expected performance of the launch vehicles and the adoption of an optimal mission strategy which are expected to extend the orbital lives of these satellites. The satellite and space segment assets depreciable lives primarily range from 10 to 15 years, with the exception of

Inmarsat Investments Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

R-BGAN assets for which they are 5 years. The first of the Inmarsat-4 satellites has now been placed into service and the Group is currently depreciating this asset over 15 years.

The financial impact of the change in the useful economic lives of the Inmarsat-4 satellite currently being depreciated is a decrease in depreciation expense in 2005 of approximately US\$0.8 million.

Asset impairment

Tangible fixed assets, intangible fixed assets and goodwill are subject to impairment review in accordance with FRS 11: *Impairment of Fixed Assets and Goodwill*, if there are events or changes in circumstances that indicate that the carrying amount of the fixed asset or goodwill may not be fully recoverable. The impairment review comprises a comparison of the carrying amount of the fixed asset or goodwill with its recoverable amount, which is the higher of net realizable value and value in use. Net realizable value is calculated by reference to the amount for which the asset could be disposed of. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis. The carrying values of fixed assets and goodwill are written down by the amount of any impairment and this loss is recognised in the profit and loss account in the period in which it occurs. If an external event gives rise to a reversal of an impairment loss, the reversal is recognised in the profit and loss account and by increasing the carrying amount of the fixed asset or goodwill in the period in which it occurs. The carrying amount of the fixed asset or goodwill will only be increased up to the amount that it would have been had the original impairment not occurred. For the purpose of conducting impairment reviews, income generating units are identified as groups of assets, liabilities and associated goodwill that generate income that is largely independent of other cash flow streams.

The assets and liabilities include those directly involved in generating the cashflows and an appropriate proportion of corporate assets. For the purposes of impairment review, all space segment assets are treated as one income generating unit.

Goodwill was tested for impairment on December 31, 2005, no evidence of impairment was found.

Leasing commitments

Assets acquired under finance leases, which transfer substantially all the rights and obligations of ownership, have been recorded in the balance sheet as fixed assets at their equivalent capital value and are depreciated over the useful life of the asset. The corresponding liability is analyzed between its short-term and long-term components. The interest element of the finance lease is charged to the profit and loss account over the lease period at a constant rate. Rentals payable under operating leases are typically charged in the profit and loss account in equal annual amounts over the term of the lease.

Interest and finance costs

Interest is recognised in the Profit and Loss Account using the effective yield method on a time proportion basis.

Transaction and arrangement costs of borrowings are capitalised as part of the carrying amount of the borrowings and amortised over the life of the debt in accordance with FRS4: *Capital Instruments*. Facility fees are expensed as incurred.

Stocks

Stocks are stated at the lower of cost and net realizable value. Cost is determined by the average cost method.

Liquid resources

The Group defines liquid resources as short-term deposits and current asset investments capable of being converted into cash without curtailing or disrupting the business.

Restricted cash

Restricted cash included in cash at bank and in hand is primarily held in a charged account for capital expenditure.

Inmarsat Investments Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

Provisions

Provisions, other than in respect of pension and post-retirement healthcare benefits and stock compensation for which accounting policies are described above, are recognised when the Group has a legal or constructive obligation to transfer economic benefits arising from past events and the amount of that obligation can be estimated reliably. Provisions are not recognised unless the transfer of economic benefits is probable.

Borrowings

Borrowings are initially recognised as proceeds received, net of transaction and arrangement costs incurred. Transaction and arrangement costs of borrowings and the difference between the proceeds and the redemption value are recognised in the Income Statement over the life of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the Balance Sheet date.

Borrowing costs for the construction of assets are not capitalised.

Investment in subsidiaries

Investments in subsidiaries are held initially at cost, and are subject to impairment review in accordance with FRS11 "Impairment of fixed assets and goodwill."

2. Segmental information

The Group operates in one business segment being the supply of mobile satellite communications services.

'Other' primarily comprises the results of our subsidiaries, Invsat Limited and Rydex Corporate Limited, which have now been disposed of.

Within the mobile satellite communications services segment, the Group conducts its activities primarily in four business sectors, being maritime, land, leasing and aeronautical.

An analysis of revenues is set out below, including revenues by business sector.

	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u>
(US\$000)		
Maritime	267,143	251,388
Land	121,845	133,736
Leasing (including Navigation)	60,875	56,868
Aeronautical	22,658	16,922
Total mobile satellite communication services	472,521	458,914
Other subsidiary revenue	11,923	14,934
Other income	6,704	6,875
Total revenues	491,148	480,723

Inmarsat Investments Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

Other subsidiary revenues include:

	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u>
(US\$000)		
Invsat Limited.....	10,467	13,227
Rydex Corporation Limited	1,456	1,707
Total other subsidiary revenues	11,923	14,934

For the periods presented below, the following customers (distribution partners), contributed more than 10% of consolidated revenues.

	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u>
(US\$000)		
Customer A.....	120,221	120,095
Customer B.....	111,399	111,528
Customer C.....	98,452	89,015
Customer D.....	68,474	65,721

Revenues are allocated to countries based on the location of the distribution partner who receives the invoice for the traffic. These customers sell services to end users who may be located elsewhere. There is no difference on this basis between the origin and destination of revenue.

	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u>
(US\$000)		
Europe	237,894	233,688
North America.....	154,148	150,952
Asia and Pacific.....	85,591	76,341
Rest of the world	13,515	19,742
	491,148	480,723

The comparative period amounts have been restated following the consolidation of several telecommunication companies during the periods.

The Group mainly operates in the geographic areas as included in the table below. The home country of the Group is the United Kingdom with its head office and central operations located in London.

Assets and capital expenditure are allocated based on the physical location of the assets. As the Inmarsat-4 satellites are launched into to orbit they will be recategorised as unallocated.

	Year ended December 31, 2005		Year ended December 31, 2004	
(US\$000)	Segment <u>assets</u>	Capital <u>expenditure</u>	Segment <u>assets</u>	Capital <u>expenditure</u>
Europe	1,228,847	305,048	1,914,333	140,327
North America.....	—	—	—	—
Asia and Pacific.....	—	—	—	—
Rest of the world	—	—	—	—
Unallocated ^(a)	832,800	—	261,200	—
	2,061,647	305,048	2,175,533	140,327

(a) Unallocated items relate to satellites, which are in orbit.

Because of the integrated nature of the satellite infrastructure, it is not feasible to show profit for the years by geographic location.

Inmarsat Investments Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended December 31, 2005

3. Net operating costs

(US\$000)	Year ended December 31, 2005	Year ended December 31, 2004 (as restated)
Own work capitalised	25,202	25,858
Network and satellite operations	(38,778)	(50,004)
Other external charges	(61,741)	(67,358)
Total external charges	(100,519)	(117,362)
Staff costs (see below)	(95,675)	(86,592)
Total other net operating costs	(170,992)	(178,096)
Depreciation and amortisation	(126,697)	(144,454)
Total operating costs	(297,689)	(322,550)
Wages and salaries	(71,159)	(73,835)
Social security costs	(7,622)	(6,661)
Pension costs	(6,399)	(6,017)
Share options granted to executive Directors and employees (note 21)	(6,495)	(79)
Equity-settled share-based payments – Share incentive plan	(4,000)	—
Total staff costs	(95,675)	(86,592)

Own work capitalised comprises primarily staff costs, which are only capitalised when they are directly attributable to the construction of an asset.

Wages and salaries for the years ended December 31, 2005 and 2004 include post-retirement healthcare costs of US\$0.5 million and US\$0.5 million respectively. See note 24.

Staff costs for the years ended December 31, 2005 and 2004 include redundancy costs of US\$nil and US\$9.3 million respectively. See note 18.

Inmarsat Investments Limited
Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

4. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

(US\$000)	Note	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u> (as restated)
Depreciation of tangible assets:			
— Leased.....		—	67
— Owned		101,989	119,910
Amortisation of intangible assets		4,537	4,084
Amortisation of goodwill on subsidiaries and acquisitions		20,171	20,393
Operating lease rentals			
—Land and buildings.....		8,639	3,112
—Services equipment, fixtures and fittings		1,626	1,941
—Space segment.....		23,980	40,398
Auditors' remuneration and expenses—audit services		667	581
Auditors' remuneration and expenses—non-audit services		3	178
Staff costs	3	95,675	86,592
Advertising costs		10,630	9,293
Research and development costs.....		221	541
Non-operating gain on disposal of tangible fixed assets		—	(42,598)

The Group incurred fees of US\$1.3 million in 2004 in connection with the notes offering with the auditors. These costs have been included in the transaction costs. Included in the Group audit fees and expenses paid to the Group's auditor US\$nil (2004: US\$nil) was paid in respect of the Company.

In addition to the audit fees disclosed above, the Group's Pension Plan incurred audit fees from the Group's auditors of US\$14,656 and US\$18,230 for the years ended December 31, 2005 and 2004 respectively.

On November 30, 2004, the Group entered into a sale and 25-year leaseback contract for the head office building at 99 City Road, London. The gross proceeds from the sale of the building were US\$125.1 million, which resulted in a gain on disposal of this asset of US\$42.6 million in the 2004 financial year. The annual rental of the building in future periods will be approximately US\$8.0 million (£4.5 million). In the 2005 and 2004 financial years, rental costs were US\$8.0 million and US\$0.8 million, respectively.

On September 2, 2005, the Group sold Invsat Limited, a 100% owned subsidiary, to Nessco Limited. Invsat Limited provided integrated communications networks and systems using VSATs (transportable terminals that access broadband services provided over satellite systems operating in the C-band and Ku-band radio frequencies), principally to end-users in the oil and gas sector. The Group received US\$7.8 million in gross cash proceeds and reported a loss on disposal of US\$3.0 million.

On October 17, 2005, the Group disposed of the assets and business of Rydex Corporation Limited, a 100% owned subsidiary, to Seawave LLC. Rydex Corporation Limited developed email and data communications software tailored for use in the maritime sector. The Group received US\$2.6 million in gross cash proceeds and reported a gain on disposal of tangible assets of US\$1.9 million.

Inmarsat Investments Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended December 31, 2005

5. Interest

(US\$000)	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u> (as restated)
Interest and facility fees payable on bank loans, overdrafts and other	(602)	(9,507)
Interest on subordinated parent company loan and subordinated Senior Notes proceeds loan.....	(87,817)	(108,550)
Interest on Senior Credit Facilities.....	(28,138)	(39,679)
Interest payable under finance lease contracts	(249)	(220)
Interest rate swap.....	(1,074)	—
Amortisation of debt issue costs.....	(7,214)	(7,347)
Accretion of discount on deferred satellite liabilities	(3,118)	(2,629)
Previous Senior Credit Facility deferred debt issue costs written off.....	(19,900)	—
Redemption premium paid on repayment of subordinated Senior Notes proceeds loan	(12,743)	—
Deferred debt issue costs written off on repayment of 35% Senior Notes due 2012.....	(6,131)	—
Total interest payable and similar charges	(166,986)	(167,932)
Bank interest receivable and other interest	6,243	4,092
Realised gain on amendment of interest rate swap	3,420	—
Total interest receivable and similar income	9,663	4,092
Net interest payable	(157,323)	(163,840)

6. Employee numbers

The average monthly number of people (including the executive Directors) employed by the Group during the period by category of employment:

	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u>
Network and satellite operations.....	125	138
Marketing and business development	112	114
Product development and engineering.....	103	117
Business infrastructure, administration, finance and legal.....	139	145
	<u>479</u>	<u>514</u>

7. Directors' remuneration

The directors do not receive any remuneration from the Company. All directors of the Company are also the directors of the ultimate company Inmarsat plc.

The remuneration package offered to the directors by Inmarsat plc is shown in the 2005 annual report of Inmarsat plc.

Inmarsat Investments Limited

Notes to the Consolidated Financial Statements (continued)

For the year ended December 31, 2005

8. Taxation

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

	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u> (as restated)
(US\$000)		
Corporation tax at 30%—current year	(643)	6,551
Deferred tax—current year	<u>26,936</u>	<u>2,044</u>
	<u>26,293</u>	<u>8,595</u>
Adjustments in respect of previous periods		
Current Corporation tax	(44)	198
Deferred tax	<u>96</u>	<u>(620)</u>
	<u>26,345</u>	<u>8,173</u>

The Group has yet to agree the open market value of certain other assets on the transition of Inmarsat Ventures Limited from an intergovernmental organisation to a limited liability company in 1999 and discussions are ongoing with the UK Inland Revenue. Agreement may result in tax credits in future years.

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

	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u> (as restated)
(US\$000)		
UK statutory tax rate	30%	30%
Profit on ordinary activities before taxation (as restated)	<u>34,265</u>	<u>36,301</u>
Corporation tax charge at UK statutory rate	<u>10,280</u>	<u>10,890</u>
(Capital allowances in excess of depreciation)/ depreciation in excess of capital allowances (as restated)	(21,581)	5,182
Tax loss on sale of shares	—	(4,178)
Non-taxable accounting gain on sale of building	—	(8,064)
Effect of overseas tax rates	34	—
Gain on sale of assets	(240)	—
Other timing differences	7,861	—
Other non-deductible expenses (as restated)	<u>3,200</u>	<u>1,618</u>
(Pension contribution relief in excess of pension cost charge)/pension cost charge in excess of pension contribution relief	(197)	1,103
Current tax (credit)/charge for the year	<u>(643)</u>	<u>6,551</u>

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Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

Deferred taxation

The provision for deferred tax comprises of:

(US\$000)	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u> (as restated)
Accelerated capital allowances	133,155	108,135
Deferred tax on share options	1,839	24
Other short-term timing differences	—	—
Liability recognised excluding that relating to pension liability (note 18)	<u>134,994</u>	<u>108,159</u>
Pension liability (note 24)	<u>(10,748)</u>	<u>(8,434)</u>
Total provision for deferred tax	<u>124,246</u>	<u>99,725</u>
As at January 1, 2005 as previously reported	105,250	
Prior year adjustment	(5,525)	
As at January 1, 2005 as restated	<u>99,725</u>	
Deferred tax charged in the profit and loss account	27,033	
Deferred tax credited to the statement of total recognised gains and losses	<u>(2,512)</u>	
As at December 31, 2005	<u>124,246</u>	

9. Dividends

On September 29, 2005 the Board declared and paid an interim dividend of US\$24.8 million to Inmarsat Group Limited (parent company).

In accordance with FRS 21, a final proposed dividend in respect of the year ended December 31, 2005 of US\$52.8 million, payable to Inmarsat Group Limited, has not been reflected in the 2005 Financial Year as it was not approved before December 31, 2005.

No dividend was declared for the year ended December 31, 2004.

10. Intangible fixed assets

(US\$000)	Trademarks	Patents	Goodwill	Terminal development	Total
Cost at January 1, 2004 (as restated)	19,000	14,000	308,322	62,646	403,968
Additions	—	—	95,105	(9,358)	85,747
Cost at December 31, 2004	19,000	14,000	403,427	53,288	489,715
Additions	—	—	—	18,482	18,482
Cost at December 31, 2005	<u>19,000</u>	<u>14,000</u>	<u>403,427</u>	<u>71,770</u>	<u>508,197</u>
Accumulated depreciation at January 1, 2004	(38)	(81)	(604)	(7,975)	(8,698)
Charge for the period	(950)	(2,000)	(20,393)	(1,134)	(24,477)
Accumulated amortisation at December 31, 2004	(988)	(2,081)	(20,997)	(9,109)	(33,175)
Charge for the period	(950)	(2,000)	(20,171)	(1,587)	(24,708)
Accumulated amortisation at December 31, 2005	<u>(1,938)</u>	<u>(4,081)</u>	<u>(41,168)</u>	<u>(10,696)</u>	<u>(57,883)</u>
Net book amount at December 31, 2004	18,012	11,919	382,430	44,179	456,540
Net book amount at December 31, 2005	<u>17,062</u>	<u>9,919</u>	<u>362,259</u>	<u>61,074</u>	<u>450,314</u>

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The goodwill arising on the acquisition of Inmarsat Ventures Limited on December 17, 2003, is being amortised on a straight-line basis over 20 years, being the period over which the Directors estimate that the value of the underlying business acquired is expected to exceed the book value of the assets.

Upon the acquisition of Inmarsat Ventures Limited by Inmarsat Investments Limited on December 17, 2003, the identifiable net assets acquired included patents of US\$14.0 million and trademarks of US\$19.0 million, which are being amortised on a straight-line basis over their estimated useful lives which are seven and twenty years respectively.

User terminal development costs directly relating to the development of the user terminals for the R-BGAN and BGAN services are capitalised as intangible fixed assets. R-BGAN costs are being amortised over the estimated sales life of the services which is five years. BGAN costs have started to be amortised in 2005 and will be amortised over the estimated sales life of the services, which is 10 years.

The Company has no intangible fixed assets (2004: Nil).

11. Tangible fixed assets

(US\$000)	Freehold and long leasehold land and buildings	Services equipment, fixtures and fittings	Space segment	Assets in course of construction	Total
Cost at January 1, 2004	103,113	457,571	2,021,654	724,183	3,306,521
Exchange revaluation.....	350	455	—	—	805
Additions.....	21	4,029	16,882	106,827	127,759
Fair value adjustment.....	10,000	(11,511)	(116,735)	—	(118,246)
Disposals.....	(108,201)	(93)	—	—	(108,294)
Cost at December 31, 2004	5,283	450,451	1,921,801	831,010	3,208,545
Additions/revaluation.....	3,680	11,218	—	271,895	286,793
Transfers.....	—	—	562,989	(562,989)	—
Disposals.....	(5,283)	(10,515)	—	—	(15,798)
Cost at December 31, 2005	3,680	451,154	2,484,790	539,916	3,479,540
Accumulated depreciation at January 1, 2004	(23,715)	(339,156)	(1,572,476)	—	(1,935,347)
Exchange revaluation.....	(44)	(380)	—	—	(424)
Charge for the period.....	(2,842)	(25,911)	(91,224)	—	(119,977)
Disposals.....	26,286	53	—	—	26,339
Accumulated depreciation at December 31, 2004	(315)	(365,394)	(1,663,700)	—	(2,029,409)
Charge for the period.....	(47)	(28,537)	(73,405)	—	(101,989)
Disposals.....	362	7,901	—	—	8,263
Accumulated depreciation at December 31, 2005	—	(386,030)	(1,737,105)	—	(2,123,135)
Net book amount at December 31, 2004	4,968	85,057	258,101	831,010	1,179,136
Net book amount at December 31, 2005	3,680	65,124	747,685	539,916	1,356,405

Assets acquired under finance leases are included at the net book amount of US\$nil and US\$0.2 million at December 31, 2005 and 2004.

Included within the net book amount of services equipment, fixtures and fittings at December 31, 2005 and 2004 are rental assets of US\$nil and US\$2.2 million.

The net book amount of freehold land and buildings is US\$3.7 million and US\$5.0 million as at December 31, 2005 and 2004 respectively.

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Revaluations relate to investment properties – see further details in note 22.

The net book amount of long leasehold land and buildings is US\$nil and US\$nil as at December 31, 2005 and 2004 respectively. Long leases are defined as leases with over 50 years remaining.

At December 31, 2005 and 2004 the net book amount of software development costs included within services equipment, fixtures and fittings was US\$9.1 million and US\$6.0 million net of accumulated depreciation of US\$18.2 million and US\$16.3 million. Depreciation charges in each of the years ended December 31, 2005 and 2004 were US\$1.9million and US\$2.5 million.

There were no asset retirement obligations for the years ended December 31, 2005 and 2004.

The Company has no tangible fixed assets (2004: Nil).

12. Investments

In December 2005 the Company purchased US\$10.0 million of the Senior Notes due 2012 issued by Inmarsat Finance plc for US\$10.5 million. The Company paid a premium of US\$0.3 million and prepaid interest of US\$0.2 million which will later be received back. Taking into account the Group's short term cash surplus, the total payment of US\$10.5 million results in an overall economic benefit to the Group when the premium paid is compared to future net interest charges discounted back to today's values

The Company also has an investment of US\$1,542.7 million in Inmarsat Ventures Limited.

Details of principal subsidiaries are set out in note 29 to the financial statements.

13. Stock

(US\$000)	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u>
Finished goods.....	273	629
Raw materials and consumables	—	611
	<u>273</u>	<u>1,240</u>

The carrying value of stock is not materially different from replacement cost.

The Company has no stock (2004: Nil).

14. Debtors—amounts falling due within one year

(US\$000)	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u> (as restated)	Year ended December 31, <u>2004</u>
	Group	Company	Group	Company
Trade debtors.....	134,640	—	139,096	—
Other debtors	10,664	57	10,100	—
Corporation tax	—	49,400	—	49,997
Amounts owed by Group undertakings	54,263	17,026	—	507
Other prepayments and accrued income	9,641	233	10,949	803
	<u>209,208</u>	<u>66,716</u>	<u>160,145</u>	<u>51,307</u>

Included in other Group prepayments and accrued income are amounts recoverable on contracts of US\$nil and US\$3.4

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million as at December 31, 2005 and 2004 respectively.

15. Other Creditors—amounts falling due within one year

	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u> (as restated)	Year ended December 31, <u>2004</u>
(US\$000)	Group	Company	Group	Company
Trade creditors	101,309	220	41,725	223
Amounts due to former shareholders	—	—	1,732	—
Amounts due to Group undertakings	56,165	42,201	700	—
Corporation tax	—	—	24,142	—
Other taxation and social security	1,683	—	1,480	—
Other creditors	12,045	—	758	—
Obligations under finance leases (note 19)	—	—	54	—
Deferred satellite payments	10,409	—	7,759	—
Accruals and deferred income	58,365	645	52,592	2,176
	<u>239,976</u>	<u>43,066</u>	<u>133,942</u>	<u>2,399</u>

Amounts due to Group undertakings are unsecured, interest free and repayable on demand.

16. Other Creditors—amounts falling due after more than one year

	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u> (as restated)	Year ended December 31, <u>2004</u>
(US\$000)	Group	Company	Group	Company
Trade creditors	33,950	—	35,251	—
Obligations under finance leases	—	—	44	—
Deferred satellite payments	42,159	—	32,325	—
Amounts due to parent undertaking	—	—	11,328	31,806
Amounts due to subsidiary undertaking	—	—	—	38,584
Accruals and deferred income	—	—	13	—
Corporation tax liability	21,241	—	—	—
	<u>97,350</u>	<u>—</u>	<u>78,961</u>	<u>70,390</u>

The Company does not have any other creditors falling due after one year.

The following is a summary of deferred satellite payments and trade creditors due after more than one year as at December 31, 2005.

	<u>As at December 31, 2005</u>	
(US\$000)	Deferred satellite payments	Trade creditors
December 31, 2007	9,520	33,950
December 31, 2008	8,921	—
December 31, 2009	7,724	—
December 31, 2010	5,319	—
Due after five years	10,675	—
Total	<u>42,159</u>	<u>33,950</u>

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17. Loans and other borrowings

(US\$000)	Interest rate %	Year ended December 31, 2005 Group	Year ended December 31, 2005 Company	Year ended December 31, 2004 Group	Year ended December 31, 2004 Company
Amounts falling due within one year:					
Bank overdrafts.....	5.0	899	—	1,415	—
Previous Senior Credit Facilities	5.5 ⁽ⁱ⁾	—	—	27,656	27,656
Total amounts falling due within one year		899	—	29,071	27,656
Amounts falling due after one year:					
Previous Senior Credit Facilities ^{(a)(b)(c)(d)(e)(f)}	5.5 ⁽ⁱ⁾	—	—	688,102	688,102
New Senior Credit Facility ⁽ⁱ⁾	4.62 ⁽ⁱ⁾	247,671	247,671	—	—
Subordinated parent company loan ^(h) :					
—principal	5.35 ^(h)	649,126	649,126	570,651	570,651
—interest		4,475	4,475	26,071	26,071
Subordinated Senior Note proceeds loan ^(g) :					
—principal (net of deferred finance costs)	7.625 ^(g)	299,799	299,799	459,080	459,080
—interest		7,860	7,860	2,563	2,563
Total amounts falling due after more than one year		1,208,931	1,208,931	1,746,467	1,746,467
Total loans and other borrowings		1,209,830	1,208,931	1,775,538	1,774,123

- (a) Inmarsat Investments Limited previously entered into a credit agreement, dated October 10, 2003. The Senior Credit Agreement provided for senior term loans in a maximum aggregate principal amount of US\$975 million. Facilities comprised one US\$400 million facility ("Term Loan A"), two separate US\$200 million facilities ("Term Loan B" and "Term Loan C"), respectively, one US\$100 million Senior Capital Expenditure Facility and a multi-currency Working Capital Facility of US\$75 million. The Capital Expenditure and multi-currency Working Capital Facility were undrawn at December 31, 2004. The Senior Facility required a mandatory-repayment of 50% of the net proceeds of the sale and leaseback of 99 City Road. Accordingly, US\$62.5 million was repaid in November 2004. The amounts drawn at December 31, 2004 were as follows: US\$368.7 million Term Loan A and US\$184.4 million under both Term Loan B and C. On May 24, 2005 Inmarsat Investments Limited signed a new US\$550 million credit agreement. The new Senior Credit Facility on combination with Initial Public Offering ('IPO') proceeds was used to repay the previous Senior Credit Facilities. See (j) below.
- (b) Prior to the cancellation of the previous Senior Credit Facilities, Term Loan A was to mature on December 17, 2009, the sixth anniversary of the date of the closing of the acquisition of Inmarsat Ventures Limited, being December 17, 2003, and was repayable in incremental instalments from 2.5% payable 18 months after the date of the closing of the acquisition to 17.5% on the sixth anniversary after the closing of the acquisition. Term Loan A bore interest at LIBOR plus 2.5%, payable semi-annually. The margin on Term Loan A was subject to a margin ratchet depending on the Group achieving certain ratios of total borrowings to EBITDA, to a minimum margin of 2.125% per annum. See (a) above.
- (c) Prior to the cancellation of the previous Senior Credit Facilities, Term Loan B was to be repaid in two equal instalments. The first instalment on a date 180 days prior to the second instalment and the second instalment on the seventh anniversary of the date of the closing of the acquisition, being December 17, 2003. Term Loan B bore interest at LIBOR plus 3% and was payable semi-annually. See (a) above.
- (d) Prior to the cancellation of the previous Senior Credit Facilities, Term Loan C was to be repaid in two equal instalments. The first instalment on a date 180 days prior to the second instalment and the second instalment on the eighth anniversary of the date of the closing of the acquisition, being December 17, 2003. Term Loan C bore interest at LIBOR plus 3.5%, which was payable semi-annually. See (a) above.
- (e) The Capital Expenditure Facility was undrawn at December 31, 2004 and was cancelled on May 24, 2005.
- (f) The Working Capital Facility was undrawn at December 31, 2004 and was cancelled on June 22, 2005 when Facilities A, B and C were repaid in full with proceeds from the new facility and IPO proceeds. See (j) below.
- (g) In February 2004 US\$375 million 7.625% Senior Notes were issued by Inmarsat Finance plc, a 100% subsidiary of Inmarsat Group Limited (Inmarsat Investment Limited's parent company) to redeem the bridge facility. The Senior Notes mature on June, 30 2012. Interest is payable semi-annually in February and August. The proceeds of the Senior Notes were loaned to Inmarsat Investments Limited via a subordinated Senior Notes proceeds loan (the terms of which replicate those of the Senior Notes) and used to redeem the Bridge Loan facility.

In May 2004 the proceeds of a further issue of Senior Notes for US\$102.5 million were loaned to Inmarsat Investments Ltd bringing the total amount of the subordinated Senior Notes proceeds loan to US\$477.5 million. The proceeds of US\$100 million were used to redeem the subordinated parent company loan.

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In July 2005 Inmarsat Investments Limited repaid 35% of the subordinated Senior Notes proceeds loan and Inmarsat Finance plc redeemed 35% of its Senior Notes, reducing the loan and Notes outstanding from US\$477.5 million to US\$310.4 million.

In December 2005 Inmarsat Investments Limited bought US\$10 million of the Senior Notes for US\$10.5 million. Inmarsat Investments Limited paid a premium of US\$0.3 million and prepaid interest of US\$0.2 million which will later be received back. Taking into account the Group's short-term cash surplus, the total payment of US\$10.5 million results in an overall economic benefit to the Group when the premium paid is compared to future net interest charges discounted back to today's values.

- (b) Loans represent funding advanced by the parent company in the form of a subordinated parent company loan. Inmarsat Holdings Limited issued Euro denominated Subordinated Preference Certificates with an aggregate nominal amount at the date of issue of US\$27,632 million (at a price of US\$618.8 million euro equivalent). Inmarsat Holdings Limited loaned to Inmarsat Group Limited which in turn loaned to Inmarsat Investments Limited the aggregate proceeds of the Subordinated Preference Certificates via a subordinated parent company loan (2005: US\$649.1 million, 2004: US\$570.7 million). The loans have no fixed maturity and may be repaid at any time at each borrower's option. A repayment of US\$100 million was made in May 2004 from the net proceeds of the tack-on issue described in note (g) above. Interest on the subordinated parent company loan accrues at a rate of 5.35% per annum in 2005 and 13.5% per annum in 2004.
- (i) Represents an average rate for the Term Loans A, B and C. Giving effect to existing hedging arrangements required under the Senior Credit Agreement, the average interest rates applicable to Term Loans A, B and C at December 31, 2004 are 5.13%, 5.63% and 6.13% respectively.
- (j) On May 24, 2005, Inmarsat Investments Limited signed a new US\$550 million Senior Credit Facility led by Barclays Capital, ING Bank N.V. and the Royal Bank of Scotland plc. The facility is for general corporate purposes including the repayment of the previous Senior Credit Facility in note (a) above and was arranged in connection with the IPO in June 2005. The US\$550 million five-year Senior Credit Facility consists of a US\$250 million amortising term loan and a US\$300 million revolving credit facility. The term loan and drawings under the revolving credit facility were initially priced at 120bp above LIBOR and thereafter tied to a leverage grid. The US\$300 million revolving credit facility is undrawn at December 31, 2005. The new Senior Credit Facility, in combination with existing surplus cash and the proceeds of the IPO, was used to repay the previous Senior Credit Facility of US\$728.0 million, the outstanding balance of the euro-denominated Subordinated Preference Certificates (€272.7 million) and 35% repayment of the Senior Notes in note (g).

As at the year end US\$250 million was drawn down at 3 month USD LIBOR plus a margin of 0.9%. However, this is offset via the interest rate swap of US\$150m principal where 3 month USD LIBOR is received but a fixed rate of 3.21% is paid. The year end borrowing rate of 4.62% represents a blended rate from the floating draw down rate and the related interest rate swap.

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

Group (US\$000)	At December 31, 2005			At December 31, 2004		
	Principal amount	Deferred finance cost	Net balance	Principal amount	Deferred finance cost	Net balance
Previous Senior Credit Facilities ^{(a)(b)}	—	—	—	737,500	(21,742)	715,758
New Senior Credit Facility ⁽ⁱ⁾	250,000	(2,329)	247,671	—	—	—
Subordinated parent company loan ^(b) :	649,126	—	649,126	—	—	—
—principal	4,475	—	4,475	570,651	—	570,651
—interest	—	—	—	26,071	—	26,071
Subordinated Senior Note proceeds loan ^(g)	—	—	—	—	—	—
—principal	310,375	(10,576)	299,799	477,500	(18,420)	459,080
—interest	7,860	—	7,860	2,563	—	2,563
Bank overdrafts	899	—	899	1,415	—	1,415
Total loans and borrowings	1,222,735	(12,905)	1,209,830	1,815,700	(40,162)	1,775,538

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Repayments fall due as follows:

Group (US\$000)	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u>
Within one year, or on demand.....	<u>8,759</u>	<u>29,071</u>
Between one and two years.....	<u>47,661</u>	<u>39,702</u>
Between two and three years.....	<u>47,799</u>	<u>67,696</u>
Between three and four years.....	<u>47,940</u>	<u>86,614</u>
Between four and five years.....	<u>97,525</u>	<u>124,077</u>
After five years.....	<u>960,146</u>	<u>1,428,378</u>
Total due for repayment after more than one year.....	<u>1,201,071</u>	<u>1,746,467</u>
Total loans and other borrowings.....	<u>1,209,830</u>	<u>1,775,538</u>

The amounts arising in the Company exclude short term bank overdrafts.

18. Provisions for liabilities and charges

(US\$000)	Restructuring provision	Deferred tax excluding deferred tax on pension deficit and post retirement	Other	Total
As at January 1, 2004 (as restated).....	<u>—</u>	<u>151,030</u>	<u>750</u>	<u>151,780</u>
Charged in respect of current year.....	9,282	3,147	—	12,429
Charged in respect of prior year.....	—	(620)	—	(620)
Utilised in current year.....	(8,226)	—	(400)	(8,626)
Fair value asset arising from finalisation of fair values.....	—	(46,206)	—	(46,206)
Transfer from current tax.....	—	808	—	808
As at December 31, 2004 (as restated).....	<u>1,056</u>	<u>108,159</u>	<u>350</u>	<u>109,565</u>
Charged in respect of current year.....	—	26,739	—	26,739
Charged in respect of prior year.....	—	96	—	96
Utilised in current year.....	(663)	—	—	(663)
As at December 31, 2005.....	<u>393</u>	<u>134,994</u>	<u>350</u>	<u>135,737</u>

The fair value pension liability, associated deferred tax asset and post-retirement healthcare provision previously disclosed within provisions for liability and charges are disclosed within the net pension deficit and post retirement on restatement for FRS 17. See note 24.

Of the total deferred tax provision in note 8 of US\$124.2 million (2004: US\$99.7 million), a deferred tax asset of US\$10.7 million (2004: US\$8.4 million) has been deducted in arriving at the net pension deficit and post retirement on the balance sheet.

Other provisions in 2005 and 2004 relate to an onerous lease provision on premises located in Washington occupied by Airia which will unwind by 2008.

In April 2004, management conducted a review of business operations which led to a reduction in headcount of 64 across several of the Group's business activities. The amount charged for the years ended December 31, 2005 and 2004 was US\$nil and US\$9.3 million respectively. The amount of the redundancy benefits paid and charged against the liability at December 31, 2005 and 2004 was US\$0.7 million and US\$8.2 million respectively. The redundancy provision that remains unpaid in respect of this restructuring at December 31, 2005 and 2004 is US\$0.4 million and US\$1.1 million respectively.

The Company does not have any provisions (2004: Nil).

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19. Obligations under finance leases

(US\$000)	Year ended December 31, 2005	Year ended December 31, 2004
Due within one year	—	54
Due in two to five years	—	44
	<u>—</u>	<u>98</u>

The Company does not have any obligations under any finance leases (2004: Nil).

20. Called up share capital

(US\$000)	Year ended December 31, 2005	Year ended December 31, 2004
Authorised:		
1,539,000 A ordinary shares of €0.01 each	—	19
30,000,000 B ordinary shares of €0.01 each	—	370
630,780,000 ordinary shares of €0.0005 each	389	—
	<u>389</u>	<u>389</u>
Allotted, issued and fully paid		
1,269,000 A ordinary shares of €0.01 each	—	16
25,461,000 B ordinary shares of €0.01 each	—	314
534,600,000 ordinary shares of €0.0005 each	330	—
	<u>330</u>	<u>330</u>

On December 16, 2003, the Company increased its authorized share capital to 1,539,000 A ordinary shares of €0.01 each, and 30,000,000 B ordinary shares of €0.01 each.

On December 16, 2003, the Company issued 1,269,000 A ordinary shares of €0.01 each and 25,461,000 B ordinary shares of €0.01 each, for cash consideration of US\$34.5 million.

The issued A and B ordinary shares of €0.01 and each authorised but unissued A and B ordinary share of €0.01 were sub-divided into 20 ordinary shares of €0.0005 each with effect from June 22, 2005.

21. Employee share options

In November 2004, Inmarsat plc (the ultimate parent company) adopted the Staff Value Participation Plan (2004 Plan). 219,020 A ordinary shares were granted under the 2004 Plan to any Director or employee of the Group. Options under the 2004 Plan vest as follows: (i) 25% granted and held by optionholders have vested and became exercisable in July 2005; (ii) 37.5% of the options granted under the 2004 Plan and held by optionholders have vested and became exercisable in March 2006; and (iii) all remaining options granted under the 2004 Plan and held by optionholders will vest and become exercisable on December 1, 2006. Whenever options are exercised under the 2004 Plan the holder must pay a charge of €1 for each tranche of options exercised. The options expire 10 years from the date of grant.

A second grant of options over 7,140 A ordinary shares was made under the 2004 Plan to employees in January 2005. This was made on equivalent terms to the initial grant in November 2004.

A third grant of options over 1,175,240 ordinary shares of €0.005 each was approved in May 2005 under the 2004 Plan and granted to employees in June 2005. This was made on equivalent terms to the initial grant in November 2004.

A summary of share option activity for the 2004 plan as at December 31, 2005 is as follows:

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	Shares available for <u>grant</u>	Options <u>outstanding</u>	Weighted average exercise price per <u>option</u>
Balance at January 1, 2004	—	—	—
Shares reserved	280,800	—	—
Granted	(219,020)	219,020	—
Forfeited	300	(300)	—
Balance at December 31, 2004	62,080	218,720	—
Granted (January 2005)	(7,140)	7,140	—
Forfeited	2,300	(2,300)	—
Balance pre share split	57,240	223,560	—
Share split (20:1) June 22, 2005	1,144,800	4,471,200	—
Shares issued on IPO	51	—	—
Granted	(1,175,240)	1,175,240	—
Forfeited	72,275	(72,275)	—
Exercised	—	(1,233,270)	£3.28
Balance at December 31, 2005	41,886	4,340,895	£3.28
Exercise price per tranche	—	€1.00	—

The weighted average of the remaining contractual life for the 2004 plan is 9.0 years.

In line with FRS 20, Share-Based Payment, the Group recognised US\$6.5 million in share compensation costs for the year ended December 31, 2005 (2004: US\$0.1 million). Total share-based compensation costs will be recognised over the vesting period of the options ranging from one to four years.

Prior to Inmarsat plc (the ultimate parent company) being publicly quoted, the exercise price of the options under the A ordinary shares issued in the 2004 Plan of Inmarsat plc is de minimis in nature, the fair value of each option is equivalent to the fair value of the underlying share at the date of the grant. This fair value of US\$12.50 per share (before any adjustment for the share split in June 2005) was calculated using a range of potential values using analysis of comparable quoted shares, discounted cash flows and comparable transactions. The fair value within this range was then selected by the Directors using the independent analysis which had been prepared.

For the options granted under the 2004 Plan in June 2005 (before share split), the fair value was estimated by the Directors to be US\$30.00 per share. The US\$30.00 was calculated using a similar methodology as the Directors of Inmarsat plc continued to believe that the 'discounted trading multiple' approach was the most appropriate.

Inmarsat plc also operates a Bonus Share Plan (BSP) and awards were granted on May 31, 2005 but were only awarded after the announcement of the results for the year ended December 31, 2005 in March 2006. There was an additional grant under this scheme in September 2005 with the same conditions as the original grant. These awards were made in the form of a conditional allocation of shares. The performance conditions attached to the annual bonus plan are non-market based performance conditions.

The awards will vest in three equal tranches following the announcement of the final results for each of the years ended December 31, 2006, 2007 and 2008, subject to continued employment. The rules of the BSP provide that the Remuneration Committee has the discretion to satisfy the awards using cash instead of shares. It is the intention, however, of Inmarsat plc to satisfy the awards using shares only.

As the BSP provides free share awards with no market based performance condition attached, and which carry an entitlement to dividends paid in cash or shares during the vesting period, the fair value of the awards is the value of the grant. This is due to the fact that regardless of the market price at the time the award or shares is made, the total value of

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shares to be awarded will not change. A total number of 215,542 shares have been awarded at a share price of £3.83 in respect of the two grants made under the BSP.

In addition to the BSP Inmarsat plc also operates a Performance Share Plan (PSP) where awards were granted on May 31, 2005 in the form of a conditional allocation of shares. The number of shares subject to the award was determined by reference to the price at which the shares were offered for sale on Admission of £2.45 per share. Participants are entitled to receive the value of any dividends that are paid during the vesting period in the form of cash or additional shares. There was an additional grant in September 2005 with the same requirements except the reference price in determining the number of shares was £3.24 (market value of shares on the date of grant).

The PSP shares will not normally be transferred to participants until the third anniversary of the award date. The transfer of shares is dependent upon the performance condition being satisfied over the three consecutive years starting in the year the award date falls which is the year ended December 31, 2005. The rules of the PSP provide that the Remuneration Committee has the discretion to satisfy the awards using cash instead of shares. It is the intention, however, of Inmarsat plc to satisfy the awards using shares only.

Options under the PSP were valued using the Deloitte Option Pricing Tool. The performance condition is based on the Group's Total Shareholder Return (TSR) relative to constituents of the FTSE 350 index (excluding investment trusts) and a non-market based condition, based on EBITDA measured over a three-year period. The vesting schedule for PSP awards is determined by both TSR and EBITDA performance. The market based performance condition has been incorporated into the valuation. The fair value of the allocation and the assumptions used in the calculation are as follows:

	<u>Performance Share Plan</u>	
	May 31, 2005	September 29, 2005
Grant date	May 31, 2005	September 29, 2005
Grant price	£1.96	£3.24
Exercise price	Nil	Nil
Bad leaver rate	0%	0%
Vesting period	3 years	3 years
Expected correlation between any pair of shares in PSP comparator group	12%	10%
Volatility	36%	34%
Fair value per share	£1.34	£2.20

Both the BSP and PSP share awards expire 10 years after date of grant. The weighted average of the remaining contractual life for BSP and PSP share awards is 9.7 years and 9.4 years, respectively.

Inmarsat plc also operates a UK Sharesave Scheme for which the first invitation was made in June 2005. The Sharesave Scheme is an Inland Revenue approved scheme open to all UK PAYE-paying permanent employees. The maximum that can be saved each month by an employee is £250. Savings over the period plus interest may be used to acquire shares at the end of the savings contract. The options have been granted at a 20% discount to market value of the shares on the invitation date (June 23, 2005). The Scheme operates with a three year savings contract. Options are exercisable for a period of up to six months following the end of the three year savings contract. No dividends are accumulated on options during the vesting period.

Inmarsat plc also operates an International Sharesave Scheme which mirrors the operation of the UK Sharesave Scheme as closely as possible. However, instead of receiving a share option, participants receive the spread between the share price at the end of the vesting period and the exercise price, delivered (at the Company's discretion) in cash or shares. It is Inmarsat plc's intention to satisfy the awards using shares only.

Options under the UK and International Sharesave Schemes expire after a maximum of 3.5 years following the initial savings payment having been made. The weighted average of the remaining contractual life for both the UK and International Sharesave Schemes is 3.1 years.

Options under both the UK and International Sharesave Schemes have been valued using the Black Scholes model with the following assumptions:

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	Sharesave Scheme (UK)	Sharesave Scheme (Int)
Grant date	July 21, 2005	October 19, 2005
Market price date of Grant	£3.14	£2.80
Exercise price	£2.24	£2.24
Bad leaver rate	5% pa	5% pa
Vesting period	3 years	3 years
Volatility	35%	34%
Dividend yield assumption	3.6%	2.8%
Risk free interest rate	4.25%	4.25%
Fair value per option	£1.10	£0.90

The historic volatility is based on the constituents of the FTSE 350 Telecoms Service Index, which was measured over three years to each of the grant dates. The volatility assumption used for each of the awards is based on median volatility for the constituents of the sector.

A summary of share awards and option activity as at December 31, 2005 is as follows:

Share Awards and Options outstanding	Performance Share Plan	Sharesave Scheme (UK)	Sharesave Scheme (Int)
Balance at December 31, 2004	—	—	—
Granted	807,869	844,468	111,798
Balance at December 31, 2005	807,869	844,468	111,798
Exercise Price per share	—	£2.24	£2.24

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22. Reserves

	<u>Retained Earnings</u>	<u>Retained earnings</u>	<u>Share premium account</u> Group and Company	<u>Other reserves</u>	<u>Other reserves</u>
(US\$000)	Group	Company	Company	Group	Company
At January 1, 2004 (as restated)	(2,415)	(3,786)	34,199	—	—
Profit for the financial year (as reported)	29,270	(115,046)	—	—	—
Prior year adjustment – FRS 17	(1,142)	—	—	—	—
Profit for the financial year (as restated)	28,128	—	—	—	—
Issue of share options	—	—	—	79	—
Exchange adjustments offset in reserves	738	—	—	—	—
Actuarial losses on pension liability	(4,585)	—	—	—	—
Movement on deferred tax relating to pension liability	1,376	—	—	—	—
At December 31, 2004 (as restated)	23,242	(118,832)	34,199	79	—
Profit for the financial year	(16,918)	140,090	—	—	—
Issue of share options	—	—	—	3,704	—
Exchange adjustments offset in reserves	(717)	—	—	—	—
Revaluation of investment property	—	—	—	3,680	—
Capital contribution	—	—	—	311,936	311,936
Actuarial losses on pension liability	(8,374)	—	—	—	—
Movement on deferred tax relating to pension liability	2,512	—	—	—	—
At December 31, 2005	(255)	21,258	34,199	319,399	311,936

At December 31, 2005 and 2004, other reserves includes US\$3.8 million and US\$0.1 million, respectively, recognised in line with FRS 20 “Share-based Payment” for the Group’s share option plans. The Group recognises charges relating to share options granted over the vesting period of 4 years. See note 21.

The effect of the change in accounting policy for the adoption of FRS 17 to is to increase profit for the year by US\$0.7 million (2004: decrease US\$1.1 million); and to decrease the total recognised gains and losses by US\$5.9 million (2004: US\$3.2 million). The impact on closing retained earnings at December 31, 2004 is a decrease of US\$1.3 million.

The Group classifies its property at 250 Old Street as an investment property in 2005. Investment property comprises freehold office buildings, held for long-term rental yields and is not occupied by the Group. Investment property is carried at open-market value determined by external valuers. Prior to January 1, 2005 the property was not classified as an investment property as its primary purpose was for administrative storage purposes. In 2005 management agreed to lease the property and as such the definition of property changed to an “investment property”. The impact on the Group’s balance sheet as at December 31, 2005 is an increase to fixed assets of US\$3.7 million.

The Company received a loan from Inmarsat Group Limited (the parent company) of US\$311.9 million on June 22, 2005 following Inmarsat plc’s (ultimate parent company) listing on the London Stock Exchange. Repayment of the loan was waived by Inmarsat Group Limited on June 22, 2005 and therefore increased the Company’s profit and loss reserves in the form of a capital contribution.

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Notes to the Consolidated Financial Statements (continued)

For the year ended December 31, 2005

23. Notes to cash flow statement

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

	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u> (as restated)
(US\$000)		
Operating profit (as restated)	193,459	158,173
Depreciation (as restated)	101,989	119,977
Amortisation	24,708	24,477
Non-cash effect of issue of share capital to employees	6,495	—
Decrease/(increase) in stocks	386	(629)
(Increase)/decrease in debtors	(55,727)	(41,072)
Increase/(decrease) in creditors	1,352	11,130
(Decrease)/increase in provisions	(4,934)	4,203
Net cash inflow from continuing operating activities	<u>267,728</u>	<u>276,259</u>

Reconciliation of net cash flow to movement in net debt:

	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u>
(US\$000)		
Net debt at beginning of period	1,434,763	1,500,870
Decrease in cash in the period	168,918	95,099
Movements in liquid resources	173,877	(188,412)
Investment in Senior Notes	(10,000)	—
Capital element of finance lease rental payments	(98)	(60)
New bank borrowings	—	—
Non-cash adjustment	56,879	77,266
Bridge facility	—	(365,000)
Previous Senior Credit Facility	(737,500)	(62,500)
New Senior Credit Facility	250,000	—
Subordinated Senior Notes proceeds loan	(167,125)	477,500
Subordinated parent company loan	—	(100,000)
Net debt	<u>1,169,714</u>	<u>1,434,763</u>

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Analysis of net debt:

(US\$000)	Cash at bank and in hand	Overdraft	Cash at bank less overdrafts	Short-term investments	Investment in Senior Notes	Finance lease obligations	Subordinated Senior Notes Proceeds loan	Previous		New Senior Credit Facilities	Subordinated parent company loan	Bridge facility	Total
								Senior Credit Facility	Facility				
At December 31, 2003	(265,179)	624	(264,555)	(19,189)	—	158	—	800,000	—	—	619,456	365,000	1,500,870
Net cash flow	94,308	791	95,099	(188,412)	—	(60)	477,500	(62,500)	—	—	(100,000)	(365,000)	(143,373)
Non-cash adjustment	—	—	—	—	—	—	—	—	—	—	77,266	—	77,266
At December 31, 2004	(170,871)	1,415	(169,456)	(207,601)	—	98	477,500	737,500	—	—	596,722	—	1,434,763
Net cash flow	169,434	(516)	168,918	173,877	(10,000)	(98)	(167,125)	(737,500)	250,000	—	—	—	(321,928)
Non-cash adjustment	—	—	—	—	—	—	—	—	—	—	56,879	—	56,879
At December 31, 2005	(1,437)	899	(538)	(33,724)	(10,000)	—	310,375	—	250,000	—	653,601	—	1,169,714

(1) Includes restricted cash of US\$nil million and US\$163.4 million as at December 31, 2005 and 2004 respectively, which is primarily held in a charged account for capital expenditure.

Non-cash adjustments in comprise currency revaluation of subordinated parent company loan, which is denominated in Euros.

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24. Pension arrangements and post-retirement benefits

FRS 17, "Accounting for retirement benefits", has been adopted in full with effect from January 1, 2005 and all comparatives have been restated.

The Group's hybrid pension plan, including defined benefit and defined contribution elements, commenced on April 15, 1999. Initial funding requirements were based on actuarial assumptions.

The Group operates pension schemes in each of its principal locations. The Group operates two schemes in the UK. The defined benefit section of the hybrid scheme is funded and its assets are held in a separate fund administered by a corporate trustee. US\$2.0 million was charged in the profit and loss account in the year ended December 31, 2005 in respect of the defined benefit section of the scheme, net of a foreign exchange gain of US\$1.6 million (2004 (restated): US\$3.8 million, net of foreign exchange loss of US\$0.3 million).

The defined benefit section of the hybrid scheme was valued using the projected unit method with the valuation carried out by professionally qualified and independent actuaries carried out as at December 31, 2002. The actuarial valuation of the assets of the scheme at that date, allowing for expected future increases in earnings, was US\$9.3 million which was sufficient to cover 83% (previous valuation at 120%) of benefits that had accrued to members.

The results of the actuarial funding valuation as at December 31, 2002 have been updated to December 31, 2004 and 2005 by an independent qualified actuary for the purpose of the additional disclosure required by FRS17.

The assets held in respect of the defined benefit section of the UK Scheme and the expected rates of return were:

	Year ended December 31, 2005		Year ended December 31, 2004	
	Value US\$000	Long-term rate of return expected	Value US\$000	Long-term rate of return expected
Equities.....	25,359	7.60%	19,710	7.75%
Bonds.....	2,472	4.45%	1,079	5.30%
Gilts	—	—	889	4.60%
Cash	82	3.85%	140	3.75%
Total market value of assets	<u>27,913</u>		<u>21,818</u>	

The assumptions which have the most significant effect on the results of the actuarial valuations are those relating to the rate of return on investments, the rates of increases in salaries and the rate of pension increases. For the calculation of the initial funding rates, the actuaries assumed that the rate of investment return for valuing accrued benefits would, on average, exceed pay and pension increases by 2.7% and 4.7% per annum respectively and the rate of investment return for valuing future service benefits would, on average, exceed pay and pension increases by 2.0% and 4.0% per annum respectively.

The Group provides post-retirement medical benefits including healthcare to retired employees and their dependants that were employed with the Group before January 1, 1998. Employees who have 10 years of service at the age of 58 and retire from the Group are eligible to participate in the post-retirement benefit plans. The plan is self-funded and there are no plan assets from which the costs are paid. The cost of providing retiree healthcare is actuarially determined and accrued over the service period of the active employee group. Membership to this plan is multi-national, although most staff are currently employed in the UK.

The obligation under these plans was determined by the application of the terms of medical plans, together with relevant actuarial assumptions and healthcare cost trend rates. The long-term rate of medical expense inflation used in the actuarial calculations is 4.0% per annum in excess of the rate of price inflation 2.85% at December 31, 2005 (2004: 3.0%). For purposes of the calculation at December 31, 2005, a 2.85% per annum price inflation assumption was used (2004:

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2.75%). The discount rate used in determining the accumulated post-retirement benefit obligation was 4.75% at December 31, 2005 (2004: 5.3%).

The major actuarial assumptions used to calculate the scheme liabilities under FRS 17 as at December 31, 2004 and 2005 were:

	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u>
Rate of increase in salaries.....	4.85 %	4.75%
Rate of increase in pensions in payment.....	2.85 %	2.75%
Discount rate	4.75 %	5.30%
Inflation assumption.....	2.85 %	2.75%
Medical expense inflation assumption.....	6.85 %	5.75%

The following amounts in respect of all post-retirement benefits, as at December 31, 2005 and 2004, were measured in accordance with the requirements of FRS 17.

	<u>As at December 31, 2005</u>			<u>As at December 31, 2004</u>		
(US\$000)	Post- retirement <u>healthcare</u>	Pension <u>benefits</u>	<u>Total</u>	Post- retirement <u>healthcare</u>	Pension <u>benefits</u>	<u>Total</u>
Total market value of assets.....	—	27,913	27,913	—	21,818	21,818
Present value of plan liabilities.....	(18,485)	(45,257)	(63,742)	(13,405)	(36,524)	(49,929)
Deficit in the plan.....	(18,485)	(17,344)	(35,829)	(13,405)	(14,706)	(28,111)
Related deferred tax asset	5,545	5,203	10,748	4,022	4,412	8,434
Net liability	(12,940)	(12,141)	(25,081)	(9,383)	(10,294)	(19,677)

The amounts recognised in the performance statements in the years ended December 31, 2005 and 2004 in respect of all post-retirement benefits are set out below. Post-retirement healthcare service costs are included within wages and salaries; defined benefit service costs are included within pension costs; and foreign exchange gains and losses are included within other external charges (see note 3). The total pension cost for the year ended December 31, 2005 of US\$6.4 million (2004: US\$6.0 million) disclosed in note 3 includes US\$3.0 million in respect of defined contribution pension costs (2004: US\$2.6 million).

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(US\$000)	Year ended December 31, 2005			Year ended December 31, 2004 (as restated)		
	Post- retirement healthcare	Pension benefits	Total	Post- retirement healthcare	Pension benefits	Total
Operating profit						
Current service cost	467	3,444	3,911	459	3,427	3,886
Foreign exchange (gains) and losses	(1,444)	(1,602)	(3,046)	780	346	1,126
Total operating charge	(977)	1,842	865	1,239	3,773	5,012
Other finance costs						
Expected return on pension scheme assets	—	(1,615)	(1,615)	—	(1,337)	(1,337)
Interest on pension scheme liabilities	651	1,783	2,434	567	1,400	1,967
Net return	651	168	819	567	63	630
Statement of total recognised gains and losses						
Actual return less expected return on pension scheme assets	—	(3,912)	(3,912)	—	(141)	(141)
Experience (gains) and losses arising on the scheme liabilities	721	(170)	551	(106)	(74)	(180)
Changes in assumptions underlying the present value of scheme liabilities	4,951	6,784	11,735	1,690	3,216	4,906
Actuarial gain recognised in statement of total recognised gains and losses	5,672	2,702	8,374	1,584	3,001	4,585
Movements in deficit during the year						
Deficit in scheme at beginning of the year	(13,405)	(14,706)	(28,111)	(10,152)	(9,699)	(19,851)
Movement in year:						
Current service cost	(467)	(3,444)	(3,911)	(459)	(3,427)	(3,886)
Contributions	—	2,074	2,074	—	1,830	1,830
Benefits paid	266	—	266	137	—	137
Other finance costs	(651)	(168)	(819)	(567)	(63)	(630)
Foreign exchange gains and (losses)	1,444	1,602	3,046	(780)	(346)	(1,126)
Actuarial loss	(5,672)	(2,702)	(8,374)	(1,584)	(3,001)	(4,585)
Deficit in scheme at end of year	(18,485)	(17,344)	(35,829)	(13,405)	(14,706)	(28,111)
Details of experience gains and losses for the year						
Difference between the expected and actual return on scheme assets:						
Amount	—	(3,912)		—	(141)	
Percentage of scheme assets	—	(14.01 %)			(0.65 %)	
Experience (gains) and losses on scheme liabilities:						
Amount	721	(170)		(106)	(74)	
Percentage of present value of the scheme liabilities	3.90 %	(0.37 %)		(1.0 %)	(0.20 %)	
Total amount recognised in statement of total recognised gains and losses:						
Amount	5,672	2,702		1,584	3,001	
Percentage of present value of the scheme liabilities	30.70 %	5.97 %		12.0 %	8.22 %	

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For the year ended December 31, 2005

25. Capital commitments

The Group had authorised and contracted but not provided for capital commitments of US\$119.2 million and US\$246.6 million as at December 31, 2005 and 2004 respectively. The amounts in all years primarily represent commitments in respect of the construction of the Inmarsat-4 satellites. The Group contracted to pay US\$nil and US\$nil at December 31, 2005 and 2004 respectively under various non-cancellable agreements.

26. Contingencies

Claims have arisen in the ordinary course of business but the Directors do not consider that these will result in a material loss to the Group.

27. Operating lease commitments

The Group had the following annual commitments under non-cancellable operating leases which expire:

(US\$000)	Year ended December 31, <u>2005</u>	Year ended December 31, <u>2004</u>
Land and buildings		
Within two to five years	828	863
After five years	7,965	7,965
Other		
Within one year	1,906	39,250
Within two to five years	9,873	7,661
After five years	30	940
	<u>20,602</u>	<u>56,679</u>

Land and buildings relates primarily to the 25-year leaseback of head office building at 99 City Road, London.

Other operating lease commitments in 2004 included the leasing of channels on the Thuraya D1 satellite (contract cancelled effective July 2005).

At December 31, 2005 and 2004 the Group, in addition to the above operating lease commitments, is contracted to pay warranty costs relating to the BGAN programme of US\$6.6 million and US\$13.6 million over the next four years.

28. Related party transactions

The Company, being a 100% owned subsidiary of Inmarsat Group Limited, is exempt under paragraph 17 of FRS 8 Related Party Transactions, from the requirements to disclose transactions with entities that are part of the Group.

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29. Principal subsidiary undertakings

The following subsidiaries are included in the consolidated financial information:

	<u>Principal activity</u>	<u>Country of incorporation and operation</u>	<u>Effective interest in issued ordinary share capital at December 31, 2005</u>
Inmarsat Ventures Limited	Holding company	England and Wales	100%
Inmarsat Global Limited	Satellite telecommunications	England and Wales	100%
Inmarsat Employment Company Limited	Employment company	Jersey	100%
Inmarsat Inc	Service provider	USA	100%
Inmarsat Employee Share Plan Trustees Limited	Corporate trustee	England and Wales	100%
Inmarsat Trustee Company Limited...	Corporate trustee	England and Wales	100%
Inmarsat Brasil Limitada	Legal representative of Inmarsat	Brazil	99.9%
Rydex Corporation Limited	Dormant	England and Wales	100%
Rydex Communications Limited	Dormant	Canada	100%
Inmarsat Leasing Limited	Satellite leasing	England and Wales	100%
Inmarsat (IP) Company Limited	Intellectual property holding company	England and Wales	100%
Inmarsat Leasing (Two) Limited	Satellite leasing	England and Wales	100%
Inmarsat Services Limited	Employment company	England and Wales	100%
Inmarsat Launch Company Limited...	Satellite launch company	Isle of Man	100%
Galileo Ventures Limited	Dormant	England and Wales	100%
iNavSat Limited	Dormant	England and Wales	100%

On September 5, 2005 the Group sold Invsat Limited, a 100% subsidiary, to Nessco Limited, a communications services supplier for the oil and gas industry based in Aberdeen.

On October 17, 2005 the Group disposed of the assets and business of Rydex Corporation Limited to Seawave LLC. Rydex Corporation Limited and Rydex Communications Limited have changed their names to 3946306 Limited and 596199 B.C. Limited respectively.

Inmarsat Limited changed its name to Inmarsat Global Limited on May 27, 2005.

30. Parent Undertaking and Ultimate Controlling Party

The Company's parent undertaking and ultimate controlling party is Inmarsat plc (formerly Inmarsat Group Holdings Limited), incorporated and registered in England and Wales. The largest and smallest Groups into which the results of the Company are consolidated are headed by Inmarsat plc and the Company respectively. Copies of the Inmarsat plc consolidated financial statements can be obtained from the Company Secretary at 99 City Road, London EC1Y 1AX.