

Inmarsat plc

**Special Purpose Restated Consolidated Financial Statements for the
year ended 31 December 2004**

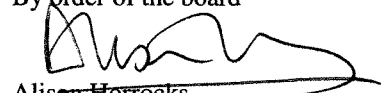
Inmarsat plc
Directors' Responsibilities

The Directors are responsible for preparing the Special Purpose Restated Consolidated Financial Statements for the year ended 31 December 2004, which comprise the consolidated income statement, the consolidated statement of recognised income and expenses, the consolidated balance sheet, the consolidated cash flow statement and accompanying notes. The Special Purpose Restated Consolidated Financial Statements have been prepared in anticipation of the Company's transition to International Financial Standards ("IFRS") and have been prepared to show a true and fair view on the basis described in Note 2. In preparing the consolidated income statement, the consolidated statement of recognised income and expenses, the consolidated balance sheet, the consolidated cash flow statement and accompanying notes, 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 Company balance sheets and accompanying notes 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. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



Alison Horrocks
Company Secretary

1 June 2005

INDEPENDENT AUDITORS' REPORT TO INMARSAT plc

We have audited the Special Purpose Restated Consolidated Financial Statements for the year ended 31 December 2004, which comprise the consolidated income statement, the consolidated statement of recognised income and expenses, the consolidated balance sheet, the consolidated cash flow statement and accompanying notes.

Respective responsibilities of directors and auditors

As described on page 1 the Company's directors are responsible for the preparation of the Special Purpose Restated Consolidated Financial Statements in accordance with applicable International Financial Reporting Standards (as set out in Note 2). Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance. This opinion has been prepared for and only for the company in anticipation of the Company's transition to International Financial Standards ("IFRS") and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Special Purpose Restated Consolidated Financial Statements give a true and fair view on the basis of preparation as set in Note 2. We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

Basis of preparation

The Special Purpose Restated Consolidated Financial Statements have been prepared on the basis described in Note 2 following the recommendations of the Committee of European Securities Regulators ("CESR") for companies preparing one year financial information for inclusion in a prospectus. As set out in Note 2, that basis may differ from the basis applicable if the Special Purpose Restated Consolidated Financial Statements comprised the first financial statements of the Company under IFRS and from the basis which will be adopted for the 2004 comparatives in the Company's 2005 Financial Statements which it anticipates will be prepared for the first time under IFRS.

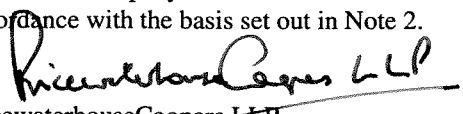
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures. It also includes an assessment of the significant estimates and judgements made by the directors, 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 balance sheets 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 Special Purpose Restated Consolidated Financial Statements.

Opinion

In our opinion the Special Purpose Restated Consolidated Financial Statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its profit and cash flows for the year then ended in accordance with the basis set out in Note 2.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
1 June 2005

INMARSAT PLC

CONSOLIDATED INCOME STATEMENT

	Note	2004 Financial Year (US\$ in millions)
Revenue		480.7
Employee benefits costs	7	(91.6)
Network and satellite operations costs	6	(51.6)
Other operating costs	8	(61.6)
Work performed by the Group and capitalised		25.8
EBITDA	2	301.7
Gain on disposal of property	6	42.6
Depreciation and amortisation	14,15	(124.1)
Operating profit		220.2
Interest receivable	10	4.0
Interest payable and similar charges	10	(199.3)
Net interest payable	10	(195.3)
Profit before income tax		24.9
Income tax expense	11	(1.6)
Profit for the year		<u>23.3</u>
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US\$ per share)		
— Basic	26	<u>0.08</u>
— Diluted	26	<u>0.08</u>

All of the above results relate to continuing operations.


CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	2004 Financial Year (US\$ in millions)
Profit for the year		23.3
Actuarial losses from pension and post retirement healthcare benefits	25	(5.7)
Income tax credit on actuarial losses	25	1.7
Movement in cumulative translation reserve	25	8.0
Total recognised income for the year		<u>27.3</u>

INMARSAT PLC
CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2004 (US\$ in millions)
ASSETS		
Non-current assets		
Property, plant and equipment	14	1,147.9
Intangible assets	15	508.1
		<u>1,656.0</u>
Current assets		
Cash and cash equivalents	16	233.0
Short-term deposits	2	151.7
Trade and other receivables	17	156.7
Inventories	18	1.2
		<u>542.6</u>
Total assets		<u><u>2,198.6</u></u>
LIABILITIES		
Current liabilities		
Trade and other payables	19	113.2
Borrowings	20	37.2
Provisions	21	1.1
Current income tax liabilities	22	16.0
		<u>167.5</u>
Non-current liabilities		
Other payables	19	35.2
Borrowings	20	1,824.5
Provisions	21	29.5
Deferred income tax liabilities	22	139.2
		<u>2,028.4</u>
Total liabilities		<u><u>2,195.9</u></u>
Net assets		<u><u>2.7</u></u>
SHAREHOLDERS' EQUITY		
Ordinary shares	24	0.3
Share premium	25	34.8
Other reserves	25	7.4
Accumulated losses	25	(39.8)
Total shareholders' equity		<u><u>2.7</u></u>

The balance sheet was approved by the board of directors and signed on its behalf by:


Alison Horrocks
Company Secretary

1 June 2005

INMARSAT PLC
CONSOLIDATED CASH FLOW STATEMENT

	Note	<u>2004 Financial Year</u> (US\$ in millions)
Cash flow from operating activities		
Cash generated from operations	23	275.9
Interest received		2.6
Income taxes received		<u>1.1</u>
Net cash inflow from operating activities		<u>279.6</u>
Cash flow from investing activities		
Origination of short-term deposits		(100.6)
Purchase of property, plant and equipment		(136.8)
Additions to capitalised development costs		(3.3)
Proceeds from sale of property	6	125.1
Transaction costs on acquisitions made in 2003		<u>(34.9)</u>
Net cash used in investing activities		<u>(150.5)</u>
Cash flow from financing activities		
Proceeds from issue of ordinary shares		0.9
Arrangement costs of Senior Notes and Senior Discount Notes		(30.2)
Repayments of Senior Credit Facilities		(427.5)
Proceeds from issuance of Senior Notes and Senior Discount Notes		781.1
Repayment of Subordinated Preference Certificates		(385.8)
Finance lease interest paid	10	(0.2)
Interest paid on Senior Notes and Facilities		(67.9)
Principal payments under finance lease		<u>(0.1)</u>
Net cash used in financing activities		<u>(129.7)</u>
Foreign exchange adjustment		<u>0.3</u>
Net decrease in cash and cash equivalents		<u>(0.3)</u>
Movement in cash and cash equivalents:		
At beginning of year		231.9
Net decrease in cash and cash equivalents		<u>(0.3)</u>
As reported on balance sheet (net of bank overdrafts)	16	<u>231.6</u>
At end of year, comprising:		
Bank and cash in hand	16	13.7
Short-term deposits with original maturity of less than 3 months	16	107.0
Restricted cash	16	112.3
Bank overdrafts	16	<u>(1.4)</u>
		<u>231.6</u>

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Inmarsat plc (the “Company”) was incorporated on 3 September 2003 as Duchessgrove Limited and changed its name to Inmarsat Group Holdings Limited on 10 February 2004. The Company was reregistered as a public limited company and changed its name to Inmarsat plc on 27 May 2005. The Company is incorporated and domiciled in England and Wales. The address of its registered office is 99 City Road, London, United Kingdom.

Inmarsat Holdings Limited (a 100% subsidiary of Inmarsat plc) issued share capital of an aggregate amount of US\$34.5 million to the Company. On 17 December 2003, Inmarsat Investments Limited (a 100% subsidiary) acquired the entire share capital of Inmarsat Ventures Limited. Prior to this acquisition, the Company did not trade.

2. Principal accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the special purpose restated consolidated financial information for the year ended 31 December 2004 (the “consolidated financial statements”) are set out below.

Following admission to the Official List, the Company will prepare statutory financial statements which comply with International Financial Reporting Standards (IFRS) in respect of its next financial year, commencing 1 January 2005, (the “2005 financial statements”) and subsequently. As a company seeking admission, the Company is required to present certain historical financial information in its prospectus on a basis consistent with the accounting policies to be adopted in the financial statements for its next financial year.

In addition to financial information under UK GAAP for the financial years ended 31 December 2002, 2003 and 2004, the Directors of Inmarsat plc (the “Directors”) have prepared financial information for the year ended 31 December 2004 (the “underlying financial statements”) on the basis expected to be applicable, insofar as this is currently known, to comparative information prepared for inclusion in the first financial statements of the Company prepared in accordance with IFRS.

When the 2005 financial statements are prepared, they will be the first financial statements prepared by Inmarsat plc in accordance with IFRS and as such will take account of the requirements and options in IFRS 1 (First-time Adoption of International Financial Reporting Standards) as they relate to the 2004 comparatives included therein.

Further text below describes how, in preparing the underlying financial statements, the Directors have applied IFRS under the first-time adoption provisions set out in IFRS 1 and the assumptions they have made about the standards and interpretations expected to be effective and the policies they expect to adopt in the 2005 financial statements.

However, certain of the requirements and options in IFRS 1 relating to comparative financial information presented on first time adoption may result in a different application of accounting policies in the 2004 restated financial information to that which would apply if the 2004 financial statements were the first financial statements of the Group prepared in accordance with IFRS and, if there are subsequent changes to the Standards or Interpretations applicable to the 2005 financial statements, the 2004 restated financial information may require adjustment before constituting the comparative financial information to be included in those 2005 financial statements. Furthermore, the directors of the Company may, in drawing up the 2005 financial statements, make different choices from those which they have assumed in preparing the underlying financial statements with respect to the options in IFRS 1.

Inmarsat plc is not required by the Prospectus Rules of the Financial Services Authority to prepare, for inclusion in its prospectus, IFRS financial information for any financial period commencing before 1 January 2004. Accordingly, the Directors have elected not to prepare comparative amounts to accompany the underlying financial statements from which the 2004 restated financial information has been compiled. As a result, the 2004 restated financial information does not include comparative financial information and is therefore not a complete set of financial statements in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except for revaluation of certain financial assets as described later in these accounting policies.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Principal accounting policies (Continued)

The underlying consolidated financial statements have been prepared in accordance with the recommendations of CESR for the consistent implementation of the European Commission's Regulation on Prospectuses 809/2004 as to the presentation of one-year information in prospectuses for entities transitioning to IFRS.

Basis of accounting

The principal accounting policies adopted by the Group in the preparation of these consolidated financial statements are set out below.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses during the reported period.

Although these estimates are based on management's best knowledge of the amount, event or actions, these results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Accounting policies adopted in preparing these financial statements have been selected in accordance with the transition provisions of IFRS. The wording of Standards and Interpretations issued by the International Accounting Standards Board by 31 March 2005 adopted by the Group has been retrospectively applied in these financial statements.

IFRS 1, "First-time adoption of International Financial Reporting Standards" sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish accounting policies in line with the version of IFRS valid as at 31 December 2005 and in general, apply these policies retrospectively to prepare the IFRS opening balance sheet assuming a transition date of 1 January 2004.

In the first year of adoption under IFRS there are a number of exemptions from the retrospective application. The exemptions adopted by the Group include:

a. *Business combinations that occurred before the opening IFRS balance sheet date (IFRS 3 "Business Combinations")*

The Group has not applied IFRS 3 retrospectively to business combinations that took place before the date of transition. As a result, in the opening balance sheet, goodwill arising from past business combinations of US\$403.4 million is consistent with that stated under UK GAAP.

b. *Employee Benefits—actuarial gains and losses (IAS 19, "Employee benefits")*

All cumulative actuarial gains and losses in relation to employee benefit schemes have been recognised by the Group at the date of transition. Actuarial gains and losses are recognised in the statement of recognised income and expense in accordance with the amendment to IAS 19 issued on 16 December 2004.

c. *Cumulative translation differences*

The Group has applied the exemption which allows the cumulative translation difference to be set to zero at the date of transition for all foreign subsidiary undertakings.

d. *Share-based Payments (IFRS 2, "Share-based payment")*

IFRS 2 has been applied to all share based payment transactions. All outstanding share options were granted during the year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Principal accounting policies (Continued)

As at 31 December 2004, the Group has not adopted the following standards or interpretations which are only effective for financial years commencing on or after 1 January 2005. The Group will adopt these standards as at 1 January 2005.

- a. *Financial Instruments (IAS 39, "Financial Instruments: Recognition and measurement" and IAS 32, "Financial Instruments: Disclosure and Presentation")*

The impact on the Group of IAS 39 and IAS 32 is currently being assessed. A significant impact is expected from bringing the Group's interest rate swap and forward exchange contracts onto the balance sheet at fair value. The Group expects to qualify for hedge effectiveness on the interest rate swap and the majority of forward exchange contracts as of 1 January 2004 and 1 October 2004 respectively.

- b. *Non-current assets held for sale (IFRS 5, "Non-current assets held for sale and discontinued operations")*

Under IFRS 5 the Group would have to reclassify the Group's headquarters from land and buildings to non-current assets held for sale effective July 2004 (date company committed to sell the building) and cease depreciation to effective date of the sale in November 2004. This would have resulted in a US\$1.2 million decrease to depreciation and an equivalent decrease to the gain on disposal of property included in the consolidated income statement for the year ended 31 December 2004.

- c. *International Financial Reporting Interpretations Committee Standards (IFRICs 2-5)*

The Group has considered the potential impact of IFRIC's 2-5, and have not early adopted.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its domestic and overseas subsidiary undertakings. All intercompany transactions and balances with subsidiary undertakings have been eliminated on consolidation.

Subsidiary undertakings include all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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 of control. The results of subsidiary undertakings disposed of during the period are included until the date of disposal when control is lost.

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

Where the fair value of the consideration paid exceeds the fair value of the identifiable separable assets, liabilities and contingent liabilities acquired, the difference is treated as purchased goodwill.

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.

Foreign currency translation

- a) *Functional and presentation currency*

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

The functional and presentation currency of Inmarsat Leasing Limited and Inmarsat Leasing (Two) Limited changed as of 1 October 2004 from Sterling to US dollars following an agreement between Inmarsat Limited, Inmarsat Ventures, Inmarsat Leasing Limited and Inmarsat Leasing (Two) Limited

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Principal accounting policies (Continued)

to re-denominate a leasing contract from Sterling to US dollars. As a result, all of Inmarsat Leasing Limited's, and Inmarsat Leasing (Two) Limited's, operational transactions are now denominated in US dollars. The change in functional currency was effected prospectively to all transactions from 1 October 2004. The balance sheet at 1 October 2004 was translated to US dollars at the spot rate on that date (US\$1.8096: £1).

b) Transactions and balances

Transactions not denominated in the functional currency of the respective subsidiary undertakings of the Group during the year have been translated using the spot rates of exchange ruling at the dates of the transactions. Differences on exchange arising on both settlement of the transactions and from the translation of monetary assets and liabilities denominated in currencies other than the respective functional currency at year end rates are recognised in the income statement.

c) Group companies

The Group's interests in the underlying net assets of non US dollar subsidiary undertakings are translated into US dollars as follows:

- i) Assets and liabilities are translated at the year-end rate;
- ii) Transactions in the income statement are translated at average exchange rates; and
- iii) All resulting differences on exchange are recognised in shareholders' equity.

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 on the balance sheet and only recognised in the profit and loss account upon the maturity of the contract. Where instruments are not matched against an underlying asset or liability, gains and losses are accrued in the profit and loss account.

Revenue recognition

Mobile satellite communications services revenue results from utilisation charges that are recognised as revenue over the period the services are provided. Deferred income attributable to other mobile satellite communications services revenues represents the unearned balances remaining from amounts received from customers pursuant to lease prepayment options. These amounts are recorded as revenue on a straight-line basis over the respective lease terms, which are typically for periods from 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 Company'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 Regional BGAN terminals. The costs of acquiring these terminals are included in network and satellite operations costs when the sale is recognised.

Employee benefits

Wages, salaries, social security contributions, accumulating annual leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are performed by the employees of the Group.

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it has demonstrably committed to either terminate the employment of current employees or to provide termination benefits, as a result of an offer made to encourage voluntary redundancy.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Principal accounting policies (Continued)

The Group recognises liabilities relating to defined benefit pension plans and post-retirement healthcare benefits in respect of employees in the UK and overseas.

The Group's net obligation in respect of defined benefit pension plans and post-retirement healthcare benefits are calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses as at 1 January 2004, the expected date of transition to IFRS, were recognised in the opening IFRS balance sheet. All actuarial gains and losses that arise subsequent to 1 January 2004 in calculating the present value of the defined benefit obligation and the fair value of plan assets are immediately recognised in the statement of recognised income and expense.

The Group operates a number of defined contribution pension schemes in its principal locations.

Pension costs for the defined contribution schemes are charged to the income statement as incurred when the related employee service is rendered.

Deferred income tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary deductible differences or tax loss carry forwards can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

Property, plant and equipment

Space segment assets

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 of 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Principal accounting policies (Continued)

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.

Depreciation

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	5-14 years
Fixtures and fittings, and other building-related equipment	10 years
Buildings	50 years
Other fixed assets	3-5 years

As a result of management's regular reassessment of useful economic lives, the useful lives of the Group's satellites and space segment assets were prospectively changed from 1 October 2004. The changes were made to better reflect the economic life of Inmarsat-3 satellites resulting from improvements in satellite technology as supported by engineering analysis. As a result depreciation periods were extended for the Inmarsat-3 satellites. The Group's satellite and space segment assets depreciable lives primarily range from 10 to 14 years, with the exception of the Group's Regional BGAN assets, for which they are 5 years. The Inmarsat-4 satellites have not been placed into service and are currently not being depreciated. However the above depreciable lives will apply when service commences.

The financial impact of the change in the useful economic lives of the above satellites will be a decrease in depreciation expense in 2004, 2005 and 2006 of approximately US\$11.1 million, US\$44.5 million and US\$33.3 million respectively. The carrying amounts of assets in the Balance Sheet will be proportionately higher as a result of these revised estimates. Post 2006 there will be an increase to depreciation expense in 2007, 2008, 2009, 2010 and 2011 of approximately US\$7.5 million, US\$34.4 million, US\$31.7 million, US\$13.2 million and US\$2.1 million respectively. The carrying values of these assets will be written down proportionately in the Balance Sheet as a result.

Gains and losses on disposals of tangible and intangible assets

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Intangible assets

Intangible assets comprise goodwill, patents, trademarks and development costs. The amortisation period and the amortisation method for intangible assets with a finite useful life are reviewed each financial year.

(a) Goodwill.

Goodwill represents the excess of consideration paid on the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Principal accounting policies (Continued)

(b) *Trademarks and patents*

Trademarks and patents are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method over their estimated useful lives which are seven and twenty years respectively.

(c) *Software development costs*

Development costs directly relating to the development of new services are capitalised as intangible assets. Costs are capitalised once a business case has been demonstrated as to a technical feasibility and commercial viability. Such costs are amortised over the estimated sales life of the services, which is generally three years.

(d) *Terminal development costs*

The Company capitalises development costs associated with the development of user terminals. For BGAN services terminal development costs are amortised using straight line method over their estimated useful lives which is between 5 and 10 years.

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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 fair value less costs to sell and value in use. Fair value less costs to sell is calculated by reference to the amount at 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.

An impairment loss is recognised in the Income Statement whenever the carrying amount of an asset exceeds its recoverable amount.

The carrying amount will only be increased where an impairment loss recognised in a previous period for an asset other than goodwill either no longer exists or has decreased, up to the amount that it would have been had the original impairment not occurred. Any impairment to goodwill recognised in a previous period will not be reversed.

For the purpose of conducting impairment reviews, cash generating units are identified as groups of assets, liabilities and associated goodwill that generate cashflows that are largely independent of other cashflow 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 space segment assets are treated as one cash generating unit.

Goodwill was tested for impairment at 1 January 2004 and 31 December 2004, no evidence of impairment was found.

Leases

Leases in which not substantially all the risks and rewards of ownership are transferred to the lessee are classified as operating leases by the lessee. Rentals payable under operating leases are charged to the income statement in equal amounts over the term of the lease.

Interest and finance costs

Interest is recognised in the income statement 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 borrowing and amortised over the life of the debt. Facility fees are expensed as incurred.

The accretion of the discount on the principal on the subordinated preference certificates is accounted for as an interest expense.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Principal accounting policies (Continued)

Inventories

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

Cash and cash equivalents

Cash and cash equivalents, measured at fair value, includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings as current liabilities on the balance sheet.

Short-term deposits

Includes deposits held at call with banks, and other short-term highly liquid investments with original maturity between three and 12 months, with highly rated counter parties.

Restricted cash

Restricted cash is primarily held in a charged account for capital expenditure in association with the I4 programme.

Provisions

Provisions, other than in respect of pension and post-retirement healthcare benefits, are recognised when the Group has a legal or constructive obligation to transfer economic benefits arising from past events and the amount of the obligation can be estimated reliably. Provisions are not recognised unless the transfer of the outflow of economic benefits to settle the obligation is more likely than not to occur.

Trade and other payables

Trade and other payables are recorded at the present value of the expected outflow, discounted, where applicable, at market rates that prevailed when the liability was incurred.

Borrowings

Borrowings are initially recognised at 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.

Earnings before interest, tax, depreciation and amortisation ("EBITDA")

EBITDA means profit before income tax, plus net interest payable, depreciation, amortisation, impairments of assets and (when applicable) gains/(losses) from disposal of fixed assets and discontinued operations.

3. Financial risk management

Financial risk factors

The Group's operations and significant debt financing expose it to a variety of financial risks that include the effects of changes in debt market prices and foreign currency exchange rates, credit risks, liquidity risks and interest rates. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by using an interest rate swap and forward exchange contracts to limit exposure to foreign currency risk and interest rate risks.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Financial risk management (Continued)

The Board of Directors have delegated to a sub-committee, the Treasury Review Committee, the responsibility for setting the risk management policies applied by the Group. The policies are implemented by the central treasury department that receives regular reports from all the operating companies to enable prompt identification of financial risks so that appropriate actions may be taken. The treasury department has a policy and procedures manual that sets out specific guidelines for managing foreign exchange risk, interest rate risk and credit risk by using financial instruments.

(a) *Market risk*

(i) *Foreign exchange risk*

The functional currency of Inmarsat plc is US dollars. The Group generates most of its revenue in US dollars. The vast majority of capital expenditure is denominated in US dollars. However, the Group's operating costs are mostly Sterling based. This exposure therefore needs to be carefully managed to avoid variability in future cash flows and earnings caused by volatile foreign exchange rates. As a guide the Group's Sterling operating cost base, excluding rental payments, has been relatively constant at approximately £5 million per month.

The foreign currency hedging policy of the Group is to economically hedge a minimum of 50% of anticipated Sterling denominated operating expenses for the next 12 months (but 100% at the end of the financial year for the next financial year) and up to a maximum of 100% for the next 3 years on a rolling basis.

(ii) *Price risk*

The Group is not exposed to significant equity securities price risk or commodity price risk.

(b) *Interest rate risk*

The Group has both interest bearing assets and interest bearing liabilities. The policy of the Group because of the high level of debt is to ensure certainty of the interest charge by fixing interest rates on a high proportion of debt. Both the Senior Notes and the Senior Discount Notes are at fixed rates.

The risk management objective is to eliminate the variability in the interest payments for US\$536 million of the outstanding borrowings under the Senior Credit Facility, the sole source of which is due to changes in the three-month US dollar LIBOR rate. Changes in the cash flows of the interest rate swap are expected to exactly offset the changes in the cash flows of the borrowings. As a result 89% of total debt is fixed. The amount of debt that is floating is largely offset by surplus cash.

(c) *Credit risk*

Financial instruments that potentially subject the Group to a concentration of credit risk consist of cash and cash equivalents, short-term deposits and trade receivables. All cash and cash equivalents and short-term deposits are with high credit quality financial institutions.

The Directors consider credit risk is small on trade receivables as these balances are primarily with blue chip telecoms companies who are also our distribution partners. For 2004, four distribution partners comprised approximately 81% of Group revenues. These same four customers comprised approximately 75% of the trade debtor balance as at 31 December 2004.

(d) *Liquidity risk*

The Group maintains long-term committed facilities of US\$175 million that are designed to ensure the Group has sufficient available funds for operations.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Critical accounting estimates and judgements in applying accounting policies

The preparation of the consolidated financial information 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. Actual results could differ from those estimates. The more significant estimates are discussed below:

(a) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2. The carrying amounts of goodwill and intangible assets are given in note 15.

For the purpose of testing for impairment, goodwill is specifically allocated to cash-generating units ("CGUs") and tested by comparing the carrying amount of the CGU with its recoverable amount. The recoverable amounts of CGUs have been determined based on fair value less costs to sell.

Two cash generating units have been identified—these are "Mobile Satellite Services" and "Other". It has been determined that goodwill that arose on the acquisition of Inmarsat Ventures, represented goodwill of the mobile satellite service CGU only. Therefore, goodwill has been tested for impairment at the mobile satellite services CGU only. In December 2004, the Company issued stock options to employees, and as part of the accounting for that transaction, established a fair value for the ordinary "A" shares of the company. In light of the significance of the mobile satellites services CGU to the group as a whole, the directors considered that this valuation provided an appropriate estimate of the fair value of the mobile satellite CGU and used this in the goodwill impairment test.

The fair value of each individual A share was estimated at US\$12.50 with assistance of independent advisers, who calculated a range of potential values using analysis of comparable quoted shares, discounted cash flows and comparable transactions.

The key assumptions underlying this estimated fair value were as follows:

- From consideration of comparable traded companies a valuation basis of between 5.7 and 6.9 times EBITDA was determined.
- From consideration of discounted cash flows, a valuation range of between 5.4 and 6.6 times current year EBITDA was determined.
- From consideration of comparable transactions, a valuation basis of between 6.6 and 7.6 times current year EBITDA was determined.
- A judgemental discount of 30% was then applied to the resulting valuations to reflect the lack of liquidity of the individual A shares.

The fair value within this range was then selected by the directors using, in their view, the analysis of comparable quoted shares and comparable transactions most appropriate to the circumstances of the Company. The excess of fair value less cost to sell over the carrying amount based on the above analysis was approximately \$300 million. Costs to sell were estimated based on the actual costs incurred on the acquisition of Inmarsat Ventures in December 2003.

In the opinion of management, there are no reasonably possible changes to the key assumptions described above that would cause the carrying value of Goodwill to exceed its recoverable amount.

(b) *Pension assumptions*

The Group has decided on a rate of return on assets of 7.47% p.a. rate because this is the average return achieved over the last three years.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Segmental information

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

Other mainly comprises the results of subsidiaries, Invsat and Rydex.

Primary reporting format—Business segments

		2004 Financial Year				
	Note	Mobile satellite communications services	Other	Unallocated	Elimination	Total
(US\$ in millions)						
Revenue		461.0	19.7	—	—	480.7
Segment result (operating profit)		219.3	0.9	—	—	220.2
Net interest charged to the income statement ..	10	—	—	(195.3)	—	(195.3)
Profit before income tax						24.9
Income tax expense	11					(1.6)
Profit for the year						23.3
Segment assets		2,120.0	17.4	69.7	(8.5)	2,198.6
Segment liabilities		238.5	8.4	1,949.5	(0.5)	2,195.9
Capital expenditure		139.6	0.7	—	—	140.3
Depreciation		(114.1)	(1.0)	—	—	(115.1)
Amortisation of intangible assets		(9.0)	—	—	—	(9.0)

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Segmental information (Continued)

Secondary reporting format—geographical segments

The Group primarily operates out of its headquarters in London, United Kingdom.

	2004 Financial Year		
	Revenue	Segment assets	Capital expenditure
	(US\$ in millions)		
Europe	233.7	1,937.4	140.3
North America	151.0	—	—
Asia and Pacific	76.3	—	—
Rest of the world	19.7	—	—
Unallocated ^(a)	—	261.2	—
	<u>480.7</u>	<u>2,198.6</u>	<u>140.3</u>

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

Revenues are allocated to countries based on the location of the billable distribution partner.

Assets and Capital expenditure are allocated based on the physical location of the assets. When the fourth generation satellites are in orbit, they will be recategorised as unallocated.

6. Profit before income tax

Costs are presented by the nature of the expense to the Group. Network and satellite operations costs comprise costs to third parties for network service contracts, operating lease rentals and service lines. A further breakdown of employee benefits costs and other operating costs is given in notes 7 and 8 respectively below.

Profit before tax is stated after charging the following items:

	Note	2004 Financial Year (US\$ in millions)
Depreciation of property, plant and equipment:		
— Owned assets	14	115.1
Amortisation of intangible assets	15	9.0
Operating lease rentals		
— Land and buildings		3.1
— Services equipment, fixtures and fittings		1.9
— Space segment		40.4
Auditors' remuneration and expenses—audit services ^(a)		0.6
Auditors' remuneration and expenses—non-audit services		0.1

(a) In addition to the audit fees disclosed above, the Group's Pension Plan incurred audit fees from the Group's auditors of US\$18,230 for the 2004 Financial Year.

On November 30, 2004 the Company entered into a sale and 25-year leaseback contract for the headquarters 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\$9.7 million (£5.5 million). In the 2004 Financial Year rental costs were US\$0.8 million.

7. Employee benefits costs

	Note	2004 Financial Year (US\$ in millions)
Wages and salaries, including termination benefits of US\$9.3 million		78.0
Social security costs		7.2
Share options granted to employees		0.1
Defined benefit pension plan costs	27	4.5
Post-retirement healthcare plan costs	27	1.8
		<u>91.6</u>

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Employee benefits costs (Continued)

Employee Numbers

The average monthly number of people (including the Executive Directors) employed during the year by category of employment:

	2004 Financial year (number of employees)
Network and satellite operations	138
Marketing and business development	114
Product development and engineering	117
Business infrastructure, administration, finance and legal	145
	<u>514</u>

8. Other operating costs

	Note	2004 Financial Year (US\$ in millions)
Travel costs		5.7
Advertising costs		9.6
Professional fees		15.1
Occupancy costs		5.9
Systems integration costs		11.3
Research and development costs		0.3
Other expenses		13.7
		<u>61.6</u>

9. Directors' remuneration

Key Management

The executive directors of the company are the key management of the business.

Pensions

The executive directors are the only directors accruing benefits in the Group's defined contribution pension plans. Pensionable salary is limited to basic salary, excluding all bonuses and other benefits, up to the UK earnings cap (2004: £102,000). Mr Butler (COO) and Mr Medlock (CFO) are members of the pension plan for employees who will draw a UK pension. Mr Sukawaty (Chairman/ CEO) is a member of the 401K plan for US employees.

	2004 Financial Year				
	Salaries	Annual Bonus	Benefits	Compensation for loss of office	Pension
	(US\$000)				
Executive directors					
Andrew Sukawaty (appointed 7 January 2004)	356	387	21	—	33
Rick Medlock (appointed 27 September 2004)	91	213	7	—	4
Michael Butler (appointed 17 December 2003)	380	298	9	—	15
Michael Storey (resigned 5 March 2004)	89	—	9	1,371	12
Ramin Khadem (resigned 30 July 2004)	247	—	30	1,344	61
	<u>1,163</u>	<u>898</u>	<u>76</u>	<u>2,715</u>	<u>125</u>
					<u>4,977</u>

As part of the acquisition of Inmarsat Ventures Limited by Inmarsat Investments Limited (formerly Grapeclose Limited), all the directors who held shares in the Company were able to sell their shares or, if applicable, elect to become a shareholder in Inmarsat Group Holdings Limited.

(1) Non-executive directors of Inmarsat Group Holdings Limited being Richard Wilson, Graham Wrigley, David Preiss and Bjarne Aamodt who were appointed in December 2003 and January 2004 were not paid any directors fees the year ended 31 December 2004.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Directors' remuneration (Continued)

Directors' Interests

The directors of the Company in office at 31 December 2004 had the following interests, all of which are beneficial to the directors and their immediate families, in the ordinary shares of the Company:

<u>Interest in A ordinary shares</u>	<u>Year ended December 31, 2004</u>
	(number)
Executive directors:	
Andrew Sukawaty	270,000
Rick Medlock	121,500
Michael Butler	121,500

The directors and executive directors held no options over the shares of the Company during the year ended 31 December 2004.

10. Net Interest payable

	<u>2004 Financial Year</u> (US\$ in millions)
Interest and facility fees payable on bank loans and overdrafts	(0.2)
Interest on senior notes and facilities	(80.0)
Accretion of discount on the principal of the subordinated preference certificates	(77.8)
Accretion of discount on the senior discount notes	(3.2)
Amortisation of debt issue costs	(7.3)
Unrealised currency revaluation loss on Subordinated Preference Certificates (net of \$15.3 million realised gain on redemption)	(28.0)
Interest payable under finance lease contracts	(0.2)
Unwinding of discount on deferred satellite liabilities	(2.6)
Total interest payable and similar charges	(199.3)
Bank interest receivable and other interest	3.9
Late payment interest and Inland Revenue interest	0.1
Total interest receivable and similar income	4.0
Net interest payable	(195.3)

11. Income Tax

Income tax expense recognised in the income statement:

	<u>2004 Financial Year</u> (US\$ in millions)
Current tax expense	
Current year	2.3
Deferred tax expense	
Origination and reversal of temporary differences	3.8
Reassessment of likelihood of recovery of deferred tax assets	(4.5)
	(0.7)
Total income tax expense	1.6

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Income Tax (Continued)

Reconciliation of effective tax rate:

	2004 Financial Year (US\$ in millions)
Profit before tax	24.9
Income tax at 30%	7.5
Tax loss on sale of shares	(4.7)
Non-taxable accounting gain on sale of building	(8.1)
Reassessment of likelihood of recovery of deferred tax assets	(4.5)
Other temporary differences and non-deductible expenses	4.2
Foreign exchange differences	7.2
Income tax expense	1.6

Foreign exchange differences arise on sterling denominated deferred tax liabilities of subsidiaries.

12. Net foreign exchange losses/(gains)

	2004 Financial Year (US\$ in millions)
Unrealised exchange losses on Subordinated Preference Certificates	43.3
Realised gain on Subordinated Preference Certificates	(15.3)
Other operating costs	2.1
	30.1

13. Dividends

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

14. Property, plant and equipment

	Freehold land and buildings	Services equipment, fixtures and fittings	Space Segment	Construction in progress	Total
	(US\$ in millions)				
Cost at 1 January 2004	89.5	72.1	337.0	724.2	1,222.8
Exchange differences	0.4	0.4	—	—	0.8
Additions	—	4.0	16.9	106.8	127.7
Disposals	(81.9)	—	—	—	(81.9)
Cost at 31 December 2004	8.0	76.5	353.9	831.0	1,269.4
Accumulated depreciation at 1 January 2004	(0.1)	(1.3)	(4.6)	—	(6.0)
Exchange differences	—	(0.4)	—	—	(0.4)
Charge for the year	(2.9)	(21.0)	(91.2)	—	(115.1)
Accumulated depreciation at 31 December 2004	(3.0)	(22.7)	95.8	—	(121.5)
Net book amount at 31 December 2004	5.0	53.8	258.1	831.0	1,147.9

Included within the net book amount of services equipment, fixtures and fittings at 31 December 2004 are rental assets of US\$2.2 million and assets acquired under finance leases of US\$0.1 million.

As a result of management's regular re-assessment of useful economic lives, the useful lives of the Group's satellites and space segment assets were prospectively changed from 1 October 2004. The changes were made to better reflect the Inmarsat-3 satellites' economic life resulting from the improvements in satellite technology. The Groups' satellite and space segment assets lives now range from 10 to 14 years with the exception of Regional BGAN assets which are five years. The Inmarsat-4 satellites having not been placed in service are currently not being depreciated. However the revised depreciable lives will apply when service commences.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Intangible assets

	Goodwill	Trademarks	Software	Patents	Terminal development costs	Total
	(US\$ in millions)					
Cost at 1 January 2004	402.9	19.0	18.4	14.0	33.0	487.3
Additions	—	—	17.8	—	12.5	30.3
Cost at 31 December 2004	402.9	19.0	36.2	14.0	45.5	517.6
Accumulated amortisation at 1 January 2004	—	—	(0.1)	(0.1)	(0.3)	(0.5)
Charge for the year	—	(1.0)	(4.9)	(2.0)	(1.1)	(9.0)
Accumulated amortisation at 31 December 2004	—	(1.0)	(5.0)	(2.1)	(1.4)	(9.5)
Net book amount at 31 December 2004	402.9	18.0	31.2	11.9	44.1	508.1

Patents and trademarks are being amortised on a straight-line basis over their estimated useful lives which are seven and twenty years respectively.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

The software capitalised mainly relates to the Group's recently developed BGAN billing system and will be amortised on a straight line basis once the software is in operation with an expected useful life of five to seven years. All other software is amortised on a straight line basis, over three years.

User terminal development costs directly relating to the development of user terminals for the BGAN services are capitalised as intangible fixed assets. BGAN costs will be amortised once the BGAN service is launched in 2005 and will be amortised over the estimated sales life of the services, which is expected to be five to ten years.

16. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and for the purposes of the cash flow statement also bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

	As at 31 December 2004 (US\$ in millions)
Cash at bank and in hand	13.7
Short-term bank deposits maturing within three months or less	107.0
Restricted cash	112.3
	<u>233.0</u>

The effective interest rate on short-term bank deposits was 2.19% per annum; these deposits have maturities of less than 3 months. Cash and cash equivalents include the following for the purposes of the cash flow statement:

	As at 31 December 2004 (US\$ in millions)
Cash and cash equivalents	233.0
Bank overdrafts (Note 20)	(1.4)
	<u>231.6</u>

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Cash and cash equivalents (Continued)

Restricted cash includes:

	As at 31 December 2004 (US\$ in millions)
Amounts included within cash and cash equivalents	112.3
Amounts included within short-term deposits with a maturity greater than three months	51.1
	<u>163.4</u>

Under the terms of the Group's Senior Credit Agreement, at the time of the acquisition certain funds were only available to the Group to be used in connection with capital expenditures under the I4 programme ("restricted cash"). Restricted cash has been included with cash and cash equivalents (where it is held on maturity of less than three months) as it is available to the Group to enable it to meet its obligations under the I4 programme. In light of the fact that the I4 programme is currently on going, the Directors feel it is appropriate to include these amounts in cash and cash equivalents, and they will be used for the purpose of meeting short-term cash commitments.

The Group has the following undrawn loan facilities with maturity greater than three months:

- A US\$75 million working capital facility that has no restrictions.
- A US\$100 million capital expenditure facility that cannot be used until the restricted cash has been utilised and there is no continuing default from breach of any financial covenants, and the covenants would not be breached after drawing the funds.

17. Trade and other receivables

	As at 31 December 2004 (US\$ in millions)
Trade receivables	135.3
Other receivables	10.1
Other prepayments and accrued income	11.3
	<u>156.7</u>

18. Inventories

	As at 31 December 2004 (US\$ in millions)
Finished goods	0.6
Raw materials and consumables	0.6
	<u>1.2</u>

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

INMARSAT PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Trade and other payables

Current:

	As at 31 December 2004 (US\$ in millions)
Trade payables	42.3
Other taxation and social security payables	1.6
Other creditors	0.9
Accruals and deferred income	68.4
	<u>113.2</u>

Non-Current:

	As at 31 December 2004 (US\$ in millions)
Deferred trade payables	35.2
	<u>35.2</u>

All of the above other payables are due by 31 December 2006.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Borrowings

	Nominal Interest rate	As at 31 December 2004
	%	(US\$ in millions)
Current:		
Bank overdrafts		1.4
Obligations under finance leases		0.1
Deferred satellite payments		8.0
Current portion of long-term borrowings		
—Senior Credit Facilities	5.50 ⁽ⁱ⁾	27.7
Total current borrowings		37.2
Non-Current:		
Deferred satellite payments		32.3
Senior Credit Facilities ^{(a)(b)(c)(d)(e)(f)}	5.50 ⁽ⁱ⁾	688.2
Senior Notes ^(g)	7.625	458.6
Premium on Senior Notes ^(g)		2.4
Senior Discount Notes ⁽ⁱ⁾	10.375	291.3
—Accretion of discount on the principal		3.2
Subordinated Preference Certificates ^(h)	13.5	348.5
Total non-current borrowings		1,824.5
Total borrowings		1,861.7

- (a) Inmarsat Investments Limited entered into a credit agreement, dated 10 October 2003. The senior credit agreement provides for senior term loans in a maximum aggregate principal amount of US\$975 million. Facilities comprise 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 remain undrawn at present. 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 currently drawn are as follows; US\$368.7 million Term Loan A and US\$184.4 million under both Term Loan B and C.
- (b) Term Loan A matures on 17 December 2009, which is the sixth anniversary of the date of the closing of the acquisition of Inmarsat Ventures Limited, being 17 December 2003 and is 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 bears interest at LIBOR plus 2.5%, which is payable semi-annually. The margin on Term Loan A is 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.
- (c) Term Loan B must 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 17 December 2003. Term Loan B bears interest at LIBOR plus 3% and is payable semi-annually.
- (d) Term Loan C must 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 17 December 2003. Term Loan C bears interest at LIBOR plus 3.5%, which is payable semi-annually.
- (e) The Capital Expenditure Facility, which remains undrawn, matures on the sixth anniversary of the date of the closing of the acquisition, being 17 December 2003 and is repayable in incremental instalments from 16% payable three and a half years after the date of the closing of the acquisition, to 17% of the facility payable on the sixth anniversary after the closing of the acquisition. The Capital Expenditure Facility bears interest at LIBOR plus 2.5%, which is payable semi-annually. The margin on Capital Expenditure Facility is 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. In addition, the Group is required to pay to the lenders a commitment fee in respect of the unused commitments at a rate of 0.7%.
- (f) The Working Capital Facility, which remains undrawn, is available until the earliest of the date on which Facility A is repaid in full or cancelled and the sixth anniversary of the closing of the acquisition. Each advance under the working capital facility must be repaid on the last day of each interest period with respect to the advance and amounts repaid may be withdrawn. The Working Capital Facility bears interest at LIBOR plus 2.5% and is payable semi-annually. The margin on the Working Capital Facility is 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. In addition, the Group is required to pay to the lenders a commitment fee in respect of the unused commitments at a rate of 1%.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Borrowings (Continued)

- (g) The Bridge Loan facility was entered into to cover excess funding requirements between the date of the acquisition and the issue of the senior notes was being finalised. The Bridge Loan facility bore interest at 9.16% payable monthly.

In February 2004 proceeds of the US\$375 million 7.625% Senior Notes were used to redeem the Bridge Loan facility. The Senior Notes were issued by Inmarsat Finance plc, a 100% subsidiary of Inmarsat Group Limited. The Senior Notes mature on 30 June 2012. Interest is payable semi-annually in February and August.

In May 2004 a further issue of Senior Notes for US\$102.5 million was completed bringing the total amount to US\$477.5 million. The proceeds of US\$100 million were used to redeem Subordinated Preference Certificates.

- (h) Inmarsat Holdings Limited has 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) in December 2003. The principal accretes at a rate which equates to 13.5% and compounds annually on the anniversary of the issue. In May 2004 a repayment of US\$100 million was made from the net proceeds of the tack-on issued described in note (g) above. In December 2004 a further repayment of US\$291 million was made from the net proceeds of the Senior Discount Notes issued described in note (j) below. The principal amount is US\$273.6 million at 31 December 2004.

The Subordinated Preference Certificates were revalued at 31 December 2004 to US\$348.5 million creating a non-cash exchange loss of US\$43.3 million. In addition, a foreign exchange gain of US\$15.3 million was recognised in 2004 from partial redemption of the Subordinated Preference Certificates. Both the interest and the exchange loss (in total US\$105.8 million) were expensed through interest payable and similar charges.

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 intercompany funding loan (2004: US\$273.6 million). The loans have no fixed maturity and may be repaid at any time at each borrower's option. Interest on the subordinated inter-company shareholder-funding loan accrues at a rate of 13.5% per annum.

The Subordinated Preference Certificates are repayable in 2027.

- (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 31 December 2004 are 5.13%, 5.63% and 6.13% respectively.
- (j) In November 2004 Inmarsat Finance II plc, a 100% subsidiary of Inmarsat Holdings Limited, issued a US\$450 million face value 10.375% Senior Discount Note at a price of 66.894% and thus proceeds of US\$301.0 million. The Notes accrete semi-annually in May and November until November 2008 when interest is cash paid. The Notes Mature on 15 November 2012. The net proceeds of US\$291 million were used to redeem Subordinated Preference Certificates discussed in (h) above.

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

	As at 31 December 2004		
	Amount	Deferred finance cost	Net balance
	(US\$ in millions)		
Senior credit facilities ^{(a)(b)}	737.6	(21.7)	715.9
Senior Discount Notes, 10.375%	301.0	(9.7)	291.3
—Accretion of discount on the principal	3.2	—	3.2
Senior Notes	477.5	(18.9)	458.6
Premium on Senior Notes	2.4	—	2.4
Subordinated Preference Certificates ^(h)	348.5	—	348.5
Deferred satellite payments	40.3	—	40.3
Obligations under finance leases	0.1	—	0.1
Bank overdrafts	1.4	—	1.4
Total Borrowings	1,912.0	(50.3)	1,861.7

The maturity of non-current borrowings is as follows:

	2004 Financial Year
	(US\$ in millions)
Between one and two years	54.6
Between two and five years	288.0
After five years	1,481.9
	<u>1,824.5</u>

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Provisions

Current:

	Restructuring provision (US\$ in millions)
As at 1 January 2004	—
Charged in respect of current year	9.3
Utilised in current year	(8.2)
As at 31 December 2004	<u>1.1</u>

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

Non-Current:

	Post retirement healthcare benefits	Pension	Other	Total
	(US\$ in millions)			
As at 1 January 2004	10.1	9.7	0.8	20.6
Charged to income statement in respect of current year	1.8	4.5	—	6.3
Charged directly to statement of recognised income and expense in respect of current year	1.6	4.1	—	5.7
Utilised in current year	(0.2)	(2.5)	(0.4)	(3.1)
As at 31 December 2004	<u>13.3</u>	<u>15.8</u>	<u>0.4</u>	<u>29.5</u>

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

22. Current and deferred income tax assets and liabilities

The current income tax liability of US\$16.0 million represents the income tax payable in respect of current and prior periods that exceed amounts paid.

Recognised deferred income tax assets and liabilities

The movements in deferred income tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	As at 31 December 2004		
	Assets	Liabilities	Net
	(US\$ in millions)		
Tangible fixed assets	(87.0)	239.1	152.1
Other	(2.6)	0.1	(2.5)
Operating loss and credit carry forwards	(10.4)	—	(10.4)
Net deferred income tax (assets) / liabilities	<u>(100.0)</u>	<u>239.2</u>	<u>139.2</u>

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Current and deferred income tax assets and liabilities (Continued)

Movement in temporary differences during the year:

	As at 1 January 2004	Recognised in income	Recognised in equity	As at 31 December 2004
	(US\$ in millions)			
Tangible fixed assets	141.8	10.3	—	152.1
Other	(0.2)	(0.6)	(1.7)	(2.5)
Operating loss and credit carry forwards	—	(10.4)	—	(10.4)
Total	<u>141.6</u>	<u>(0.7)</u>	<u>(1.7)</u>	<u>139.2</u>

23. Cash generated from operations

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

	2004 Financial Year (US\$ in millions)
Profit for the year	23.3
Adjustments for:	
Depreciation and amortisation	124.1
Income taxes	1.6
Interest payable	166.3
Interest receivable	(4.0)
Gain on disposal of property	(42.6)
Exchange losses on Subordinated Preference Certificates	33.2
Non-cash employee benefit charges	1.9
Changes in net working capital:	
(Increase) in trade and other receivables	(20.9)
(Increase) in inventories	(0.6)
(Decrease) in trade and other payables	(9.3)
Increase in retirement benefit obligation	2.9
Cash generated from operations	<u><u>275.9</u></u>

24. Share Capital

	As at 31 December 2004 (US\$ in millions)
Authorised:	
1,539,000 A ordinary shares of €0.01 each	—
30,000,000 B ordinary shares of €0.01 each	0.4
	<u>0.4</u>
Allotted, issued and fully paid	
1,539,000 A ordinary shares of €0.01 each	—
25,461,000 B ordinary shares of €0.01 each	0.3
	<u>0.3</u>

On 13 May 2004, the Company issued 270,000 A ordinary shares of €0.01, for cash consideration of US\$0.6 million. No other share transactions took place in the year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Share Capital (Continued)

Employee Share Options

In November 2004, the Company adopted the 2004 Plan. 280,800 A ordinary shares are available to be granted under the 2004 Plan to any executive director or employee of the Company. Options under the 2004 Plan vest at the rate of 25% per year on each of the first four anniversaries of the date of grant and vested options can be exercised upon a sale of the Company or IPO. There were no other share transactions in 2004. Whenever options are exercised under the 2004 Plan, the holder must pay a *de minimis* charge of €1. The options expire ten years from the date of grant. As at 31 December 2004, there were 218,720 options outstanding. No stock options have been granted to directors or senior management as at 31 December 2004. There were no outstanding options at 31 December 2003 as all options existing at that time were cancelled under the terms of the acquisition.

A summary of option activity for the 2004 Financial Year is as follows:

	Options outstanding		Weighted-Average Exercise Price per Option (€)
	Options Available for Grant	Number Outstanding	
	Number of options		
Balance at 1 January 2004	—	—	—
Shares reserved	280,800	—	—
Granted	(219,020)	219,020	0.00
Lapsed	300	(300)	—
Balance at 31 December 2004	<u>62,080</u>	<u>218,720</u>	<u>0.00</u>

The following table summarises the outstanding and exercisable options as at 31 December 2004:

	Options outstanding			Options exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price per Option	Number Exercisable	Weighted-Average Exercise Price per Option
Range of exercise prices					
€0.00	218,720	9.83	€0.00	—	€0.00

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.

In line with IFRS 2, Share-Based Payment, the Company recognised US\$0.1 million in stock compensation costs for the year ended 31 December 2004. Total share-based compensation costs will be recognised over the vesting period of the options ranging from one to four years.

Since the A ordinary shares of the Company are not publicly quoted, and the exercise price of the options 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 and accordingly no option pricing models have been applied. This fair value of US\$12.50 per share was estimated with the assistance of independent advisers, who calculated 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, in their view, the analysis of comparable quoted shares and comparable transactions most appropriate to the circumstances of the Company.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Reserves

Reconciliation of Movements in Shareholders' Equity

	Ordinary share capital	Share premium account	Other reserves	Retained earnings	Total
	(US\$ in millions)				
Balance at 1 January 2004	<u>0.3</u>	<u>34.2</u>	<u>—</u>	<u>(59.1)</u>	<u>(24.6)</u>
Issue of share capital	—	0.6	—	—	0.6
Profit for the year	—	—	—	23.3	23.3
Shares issued to the employee benefit trust	—	—	(0.7)	—	(0.7)
Issue of stock options	—	—	0.1	—	0.1
Movement in cumulative translation reserve	—	—	8.0	—	8.0
Actuarial losses from pension and post-retirement healthcare benefit (net of tax)	—	—	—	(4.0)	(4.0)
Balance at 31 December 2004	<u>0.3</u>	<u>34.8</u>	<u>7.4</u>	<u>(39.8)</u>	<u>2.7</u>

Other reserves are made up of:

	Cumulative translation reserve	Stock option reserve	Employee benefit trust reserve	Total other reserves
	(US\$ in millions)			
Balance at 1 January 2004	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Shares issued to the employee benefit trust	—	—	(0.7)	(0.7)
Issue of stock option	—	0.1	—	0.1
Movement in cumulative translation reserve	8.0	—	—	8.0
Balance at 31 December 2004	<u>8.0</u>	<u>0.1</u>	<u>(0.7)</u>	<u>7.4</u>

26. Earnings per share

Consolidated income statement

Earnings per share for profit attributable to the equity holders of the parent company during the year (expressed in US\$ per share).

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of ordinary shares in issue during the year, excluding those held in the employee share trust, which are treated as cancelled, and after taking account of the restructuring of the existing share capital conditional on Admission.

	2004 Financial Year
Profit attributable to equity holders of the Company (US\$ in millions)	23.3
Weighted average number of ordinary shares in issue (number)	305,257,997
Basic earnings per share (US\$ per share)	0.08

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Earnings per share (Continued)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, namely share options. For share options a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and value of related future employee services. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options

	2004 Financial Year
Profit attributable to equity holders of the Company (US\$ in millions)	23.3
Dilution effects:	
Profit used to determine diluted earnings per share (US\$ in millions)	23.3
Weighted average number of ordinary shares in issue (number)	305,257,997
Adjustments for:	
— Share options (number)	21,002
Weighted average number of ordinary shares for diluted earnings per share (number)	305,278,999
Diluted earnings per share (US\$ per share)	0.08

27. Pension arrangements and post-retirement healthcare benefits

The Group provides both pension fund arrangements and post-retirement medical benefits for its employees.

The Group's pension plans, including defined benefit and defined contribution elements, commenced on 15 April 1999.

The Group operates pension schemes in each of its principal locations. The UK scheme has two plans: a defined benefit scheme, which is closed to new employees, and a defined contribution plan. The defined benefit scheme is funded and its assets are held in a separate fund administered by a corporate trustee. US\$4.5 million was charged in the year ended 31 December 2004 in respect of the defined benefit scheme.

The defined benefit section of the scheme is valued using the projected unit credit method with the formal valuation undertaken by professionally qualified and independent actuaries as at 31 December 2002. The actuarial valuation of the assets of the scheme at that date, net of liabilities, was US\$9.3 million. The results of the formal valuation have been updated for any material transactions and material changes in circumstances (including changes in market prices and interest rates) up to 31 December 2004. The results of this updated valuation as at 31 December 2004, for the purposes of the additional disclosures required by IAS 19, are set out below.

The post-retirement healthcare benefits are healthcare to retired employees and their dependants that were employed with the Group before 1 January 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 healthcare 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 United Kingdom.

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 2.75% per annum in excess of the rate of general price inflation of 2.75%. For purposes of the calculation at 31 December 2004, a 2.75% per annum price inflation assumption was used. The discount rate used in determining the accumulated post-retirement benefit obligation was 5.3% at 31 December 2004.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Pension arrangements and post-retirement healthcare benefits (Continued)

The principal actuarial assumptions used to calculate the plan liabilities under IAS 19 are:

	<u>2004</u>
Discount rate	5.30%
Expected return on plan assets	7.47%
Future salary increases	4.75%
Medical cost trend rate	5.75%
Future pension increases	2.75%

The assets held in respect of the defined benefit scheme and the expected rates of return were:

	<u>Long-term rate of return expected at 31 December 2004</u>	<u>Value at 31 December 2004</u>	<u>Percentage of the fair value of total plan assets</u>
		(US\$ in millions)	
Equities	7.75%	19.7	90.34%
Gilts	4.60%	0.9	4.07%
Bonds	5.30%	1.1	4.95%
Cash	3.75%	0.1	0.64%
Fair value of scheme assets		<u>21.8</u>	

Amounts recognised in the balance sheet are:

	<u>As at 31 December 2004</u>
	US\$ m
Present value of funded defined benefit obligations (pension)	(37.6)
Present value of unfunded defined benefit obligations (post-retirement)	(13.3)
Fair value of plan assets	<u>21.8</u>
Net defined benefit liability recognised in balance sheet	<u>(29.1)</u>

Analysis of the movement in the present value of the defined benefit obligation is as follows:

	<u>Defined benefit pension plan 2004</u>	<u>Post-retirement medical benefits 2004</u>
	(US\$ in millions)	
At 1 January 2004	25.4	10.1
Movement in year:		
Current service cost	3.4	0.5
Interest cost	1.4	0.6
Actuarial loss	4.1	1.6
Foreign exchange loss	2.3	0.6
Benefits paid	(0.1)	(0.1)
Contributions by plan participants (expensed as salaries)	<u>1.1</u>	<u>—</u>
At 31 December 2004	<u>37.6</u>	<u>13.3</u>

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Pension arrangements and post-retirement healthcare benefits (Continued)

Analysis of the movement in the fair value of the assets of the defined benefit section of the UK Scheme is as follows:

	2004 Financial Year (US\$ in millions)
At 1 January 2004	15.7
Movement in year:	
Expected return on plan assets	1.3
Actuarial gain	0.2
Contributions by employer	2.3
Contributions by plan participants (expensed as salaries)	1.1
Benefits paid	(0.1)
Foreign exchange gain	<u>1.3</u>
At 31 December 2004	<u><u>21.8</u></u>

Amounts recognised in the income statement in respect of the plans are as follows:

	Defined benefit pension plan 2004 (US\$ in millions)	Post-retirement healthcare benefits 2004 (US\$ in millions)
Current service cost	3.4	0.5
Interest cost	1.4	0.6
Expected return on plan assets	(1.3)	—
Foreign exchange loss	<u>1.0</u>	<u>0.7</u>
	<u><u>4.5</u></u>	<u><u>1.8</u></u>
Actual return on plan assets	1.5	—

The charge for the year has been included in employee benefit costs.

Amounts recognised in the statement of recognised income and expense in respect of the plans are as follows:

	Defined benefit pension plan 2004 (US\$ in millions)	Post-retirement medical benefits 2004 (US\$ in millions)
Net actuarial losses	<u>4.1</u>	<u>1.6</u>

History of experience gains and losses:

	Defined benefit pension plan 2004	Post-retirement medical benefits 2004
Present value of defined benefit obligations	(37.6)	(13.3)
Fair value of plan assets	<u>21.8</u>	<u>—</u>
Deficit in plans	<u><u>(15.8)</u></u>	<u><u>(13.3)</u></u>
Experience gains and (losses) on plan liabilities		
Amount (US\$ in millions)	(0.8)	(0.1)
Percentage of plan liabilities	(2.1)%	(1.0)%
Experience gains and (losses) on plan assets		
Amount (US\$ in millions)	0.2	—
Percentage of plan assets	0.9%	—

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Pension arrangements and post-retirement healthcare benefits (Continued)

The estimated contributions expected to be paid to the defined benefit pension plan during the year ended 31 December 2005 is \$2.5m.

The healthcare cost trend rate assumption has a significant effect on the amounts recognised in profit or loss in respect of the post-retirement medical benefits. Increasing the assumed healthcare cost trend rate by one percentage point would have increased the post-retirement medical benefit obligation as of 31 December 2004 by US\$2.8m and the aggregate of the service cost and interest cost by US\$0.3m. Decreasing the assumed healthcare cost trend rate by one percentage point would have reduced the post-retirement medical benefit obligation as of 31 December 2004 US\$2.2m, and the aggregate of the service cost and interest cost by US\$0.2m.

28. Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December 2004 (US\$ in millions)
Within one year	58.6
Within two to five years	74.5
After five years	161.4
	<u>294.5</u>

The Group has various non-cancellable satellite and network leases including the leasing of channels on a satellite, which have varying terms.

The Group also leases office space, various equipment and land and buildings including the Group's headquarters located at 99 City Road.

The total of future sublease payments expected to be received under non-cancellable sub leases at 31 December 2004 relating to the above leases is US\$2.2 million over 4 years.

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

The future aggregate minimum lease payments under non-cancellable operating leases expected to be received are as follows:

	As at 31 December 2004 (US\$ in millions)
Within one year	24.5
Within two to five years	22.7
After five years	7.6
	<u>54.8</u>

The Group has various agreements deriving revenue from designated leased capacity charges. These amounts are recorded as revenue on a straight-line basis over the respective lease terms.

29. Financial instruments

Treasury management and strategy

The Group's treasury activities are managed by its corporate finance department under the direction of a Treasury Review Committee whose chairman is the Chief Financial Officer, and are consistent with board-approved treasury policies and guidelines. The overriding objective of treasury activities is to manage financial risk.

Key features of treasury management include:

- ensuring that the Group is in a position to fund its obligations in appropriate currencies as they fall due;

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Financial instruments (Continued)

- maintaining adequate undrawn borrowing facilities;
- economically hedging both contracted and anticipated foreign currency cash flows on a minimum twelve-month rolling basis with the option of covering exposures up to a maximum of three years forward; and
- maximising return on short-term investments.

Treasury activities are only transacted with counter parties who are approved relationship banks.

Treasury policy is implemented primarily through the use of forward purchases of foreign currencies. The treasury department is, however, authorised to use purchased options, futures and other derivative instruments, but only to the extent that such instruments form part of the hedging policy so as to establish a known rate of exchange.

Current receivables and payables

The Group has not applied IAS 32 and 39 and makes the following disclosures under FRS 13.

As permitted by FRS 13 "Financial Instruments", current receivables and current trade payables have been excluded from the following disclosures, other than the currency risk disclosures.

Maturity analysis of financial liabilities

The maturity analysis of the Group's financial liabilities is as follows:

	As at 31 December 2004
	(US\$ in millions)
Within one year or on demand	(29.4)
Between one and two years	(46.7)
Between two and five years	(295.9)
Over five years	(1,489.7)
	<u>(1,861.7)</u>

For this purpose, financial liabilities comprise:

	As at 31 December 2004
	(US\$ in millions)
Bank Overdrafts	(1.4)
Deferred satellite payments	(40.3)
Finance lease obligations	(0.1)
Senior credit facilities	(715.9)
Senior Notes, 7.625%	(458.6)
Premium on Senior Notes	(2.4)
Senior Discount Notes, 10.375%	(294.5)
Subordinated Preference Certificates	(348.5)
	<u>(1,861.7)</u>

Currency risk

In accordance with the Group's treasury policy to hedge forecast currency exposures on a rolling minimum twelve-month basis, all anticipated US dollar/Sterling exposures for 2005 have already been hedged at an average rate of US\$1.77. The Group has not hedged US dollar/euro exposures for 2005. Other than the Subordinated Preference Certificates, the Group has no other significant US dollar/euro exposures.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Financial instruments (Continued)

Interest rate risk profile of financial assets of the Group:

	As at 31 December 2004
	(US\$ in millions)
Floating rate financial assets	120.7
Fixed rate financial assets	100.6
	<u>221.3</u>

Financial assets consist of cash at bank and short and long-term investments. The fixed rate short-term deposits in US dollars were placed with banks for periods not exceeding three months and earned interest 2.19% per annum in 2004. There were no fixed rate short-term deposits in Sterling as at 31 December 2004. The Euro deposits held at 31 December 2004, earned interest at a fixed rate of 2.08%. The floating rate cash earns interest based on relevant national LIBID equivalents. The restricted cash is held in US dollars.

Interest rate risk profile of financial liabilities of the Group:

	As at 31 December 2004
	(US\$ in millions)
Floating rate financial liabilities	(717.2)
Fixed rate financial liabilities	(1,101.7)
Financial liabilities on which no interest is paid	(42.8)
	<u>(1,861.7)</u>

The effect of the Group's interest rate swap is to classify US\$536.0 million of dollar borrowings in the above table as fixed rate.

The fixed rate financial liabilities comprise the subordinated preference certificates, senior notes, senior discount notes and finance lease obligations, details of which are given in Note 20. The weighted average interest rate in respect of these liabilities is 10.2% for the year ended 31 December 2004. The weighted average years to maturity of fixed rate financial liabilities at 31 December 2004 is 14.4 years.

The weighted average year to maturity of floating rate financial liabilities as at 31 December 2004 is 4.8 years. Interest on floating rate financial liabilities is based on the relevant national LIBOR equivalents plus the margin under the respective facilities.

The weighted average years to maturity on the financial liabilities on which no interest is paid as at 31 December 2004 is 5.2 years respectively.

Market risk

At 31 December 2004 on the basis of past net cash balances, it is estimated that a 1% movement in interest rates would have impacted 2004 profit before tax by approximately US\$0.1 million. It is estimated that a general movement of the US dollar/Sterling exchange rate of 1% would have impacted the 2004 profit before tax by approximately US\$0.9 million. It is estimated that a general movement of the US dollar/Euro exchange rate of 1% would have impacted the 2004 profit before tax by approximately US\$3.5 million.

Credit risk

Financial instruments that potentially subject the Group to a concentration of credit risk consist of cash at bank, short-term investments and trade receivables. All cash and short-term investments are with high credit quality financial institutions. The Directors consider credit risk is small on trade receivables as these balances are primarily with blue chip telecom companies. At 31 December 2004, four distribution partners comprised approximately 81% of Group revenues. These same four customers comprised approximately 75% of the trade debtor balance as at 31 December 2004.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Financial instruments (Continued)

Fair value of financial assets and financial liabilities

	As at 31 December 2004	
	Carrying amount	Fair value
	(US\$ in millions)	
Cash and cash equivalents	233.0	233.0
Short-term deposits	151.7	151.7
Bank Overdrafts	(1.4)	(1.4)
Finance leases	(0.1)	(0.1)
Deferred satellite payments	(40.3)	(40.3)
Senior credit facilities	(737.5)	(737.5)
Senior Notes	(477.5)	(489.4)
Senior Discount Notes	(301.0)	(312.1)
Subordinated Preference Certificates	(348.5)	(348.5)
Interest rate swap	—	1.6
Forward exchange contracts	1.6	12.4

The following methods and assumptions were used to determine the above fair values:

- The fair value of investments is based on quoted market prices where available and other estimates.
- The fair values of cash at bank, overdrafts and short-term deposits approximate their carrying values because of the short maturity of these instruments.
- The carrying amount of deferred satellite payments represents the present value of future payments discounted at a variable risk free rate at the period end. This carrying amount approximately equals fair value.
- The fair value of interest rate swap is based upon valuations provided by the counter-party.
- The fair value of foreign exchange contracts is based upon the difference between the contract amount at the current forward rate at each period end, and the contract amount at the contract rate.
- Senior credit facilities, Senior Notes and Senior Discount Notes are reflected in the balance sheet as at 31 December 2004 net of unamortised arrangement costs of US\$21.7 million, US\$18.9 million and US\$9.7 million respectively.
- The fair value of the subordinated preference certificates is based on the accreted principal, and currency revaluation of the book value of the certificates at the year end, as this is the best approximation of fair value given that these certificates are not traded.
- The fair value of the Senior Notes and the Senior Discount Notes is based on the market price of the bonds as at 31 December 2004.

The table below presents the value of the Group's outstanding foreign exchange contracts at the contract exchange rate and at the forward rate at the period end, as well as the fair value of the contracts.

	As at 31 December 2004		
	Contract value	Market value	Fair value
	(US\$ in millions)		
Sell USD currency			
Forward contracts			
USD (Sterling)	152.8	165.2	12.4

Gains and losses on hedge instruments are deferred and only recognised in the income statement upon maturity of the contract. The book value of these instruments is US\$1.6 million as of 31 December 2004.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Financial instruments (Continued)

Market value is calculated by taking the forward rate, as at 31 December 2004, for the maturity date of each outstanding foreign exchange transaction.

The weighted average exchange rate for the Sterling forward contracts was 1.74.

There were no currency options outstanding at 31 December 2004.

The average maturity date for forward contracts outstanding at 31 December 2004 is between one and two years.

In connection with the acquisition of Inmarsat Ventures Limited, the Group entered into a new interest rate swap in December 2003. The fair value of this swap instrument as at 31 December 2004 was US\$1.6 million.

Hedges

The Group uses derivative financial instruments to hedge its exposure to foreign currency risk. Unrecognised gains on hedge instruments, and the movements therein, are as follows:

	<u>Unrecognised</u> <u>Gains</u> (US\$ in millions)
Gains on hedges at 1 January 2004	16.0
Gains arising in previous years that were included in 2004 income	(16.0)
Gains arising before 1 January 2004 that were not included in 2004 income	—
Gains arising in 2004	10.8
Unrecognised Gains on hedges at 31 December 2004	<u>10.8</u>

The unrecognised amounts are expected to be recognised on transition to IAS 39, on 1 January 2005.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions.

30. Capital commitments

The Group had authorised and contracted but not provided for capital commitments of US\$246.6 million as at 31 December 2004. This amount primarily represents commitments in respect of the construction of the Inmarsat-4 satellites.

31. Contingencies

The Group has the following contingent asset:

A contingent Italian VAT refund asset relating to capital expenditure incurred at its site at Fucino. A VAT return has been filed with the Italian Revenue Authority claiming the VAT refund. The Group has not reflected the VAT refund in its financial statements due to uncertainties surrounding the extent to which the revenue authority will allow the claim. The amount of the VAT refund claimed is US\$4.1 million.

32. Related party transactions

Funds advised by Apax Partners and the Permira Funds who are investors in the Company each own 25.9% of the Company's shares. The remaining 48.2% of the shares are widely held.

Monitoring fees paid to Apax Europe V G.P. Co. Ltd. and Permira during the year ended 31 December 2004 were US\$0.25 million each.

Compensation paid to key management personnel, being the Directors of the Company during the year is disclosed in Note 9. The amount owing to the Directors as at 31 December 2004 was US\$1.0 million.

All related party transactions were made on an arm's length basis.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Principal subsidiary undertakings

The following subsidiaries are included in the consolidated financial information:

	Principal activity	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 December 2004
Inmarsat Finance II plc	Finance company	England and Wales	100%
Inmarsat Holdings Limited	Holding company	England and Wales	100%
Inmarsat Group Limited	Holding company	England and Wales	100%
Inmarsat Finance plc	Finance company	England and Wales	100%
Inmarsat Investments Limited	Holding company	England and Wales	100%
Inmarsat Ventures Limited	Holding company	England and Wales	100%
Inmarsat 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%
Invsat Limited	VSAT telecommunications	England and Wales	100%
Rydex Corporation Limited	Maritime communications software	England and Wales	100%
Rydex Communications Limited	Maritime communications software	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%
Inmarsat Employees' Share Ownership Plan Trust	Employee share holding	England and Wales	100%
Galileo Venture Limited	Dormant	England and Wales	100%
iNavSat Limited	Dormant	England and Wales	100%

Invsat provides integrated telecommunications network systems including very small aperture terminals, or VSAT's and satellite solutions, to the oil and gas, maritime, government and emergency services markets.

The Rydex business with offices in Vancouver, Canada and Liverpool in the UK is a business that has developed software compatible with the terminals which use the Rydex solutions. This software enables ships to send and receive e-mail and access the Internet.

Inmarsat Launch Company Limited was formed on 4 December 2003. Inmarsat Launch Company Limited will be assigned contracts related to the launch of Inmarsat-4 satellites and will be the beneficiary of Inmarsat-4 launch insurance (when obtained).

Inmarsat Finance plc is a public limited company incorporated on 13 October 2003 as Duchessbrook Plc. Inmarsat Finance plc is a newly-formed finance subsidiary whose only asset is the subordinated inter-company note proceeds loan.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Principal subsidiary undertakings (Continued)

Inmarsat Finance II plc is a public limited company incorporated on 8 November 2004 in England and Wales. Inmarsat Finance II plc is a newly-formed finance subsidiary whose only asset is the subordinated intercompany note proceeds loan. Inmarsat Employees' Share Ownership Plan Trust was setup in 2004 to hold in trust, share options issued to Inmarsat employees for the Inmarsat staff value participation plan.

34. Events after the balance sheet date.

Subsequent to 31 December 2004 there have been no material events, which would affect the information reflected in the consolidated financial statements of the Group.

The consolidated financial statements of the Group have been approved for issue by the Board of Directors on 3 May 2005.

There was no change in any directors' interests between 31 December 2004 and 30 April 2005.

The following entities held a major interest (i.e. an interest of greater than 3%) in the share capital of the Company as at 30 April 2005.

	Percentage of Shareholding
Permira Funds	25.9%
Funds advised by Apax Partners	25.9%
Telenor Satellite Services	14.9%
Cosat Investments Inc	14.0%
KDDI Corporation	7.5%

On 27 May 2005, the Company was reregistered to a plc, and changed its name to Inmarsat plc.

35. Reconciliation of shareholders' equity and profit under UK GAAP to IFRS

There have been a number of reclassifications to the UK profit and loss statement and balance sheet to conform to IFRS presentation and format.

Reconciliation of profit under UK GAAP to IFRS for the year ended 31 December 2004

	UK GAAP	Effect of transition to IFRS	IFRS
	(US\$ in millions)		
Revenue	480.7	—	480.7
Employee benefits costs	(85.6)	(6.0) ^{(1),(2)}	(91.6)
Network and satellite operations costs	(50.0)	(1.6) ⁽²⁾	(51.6)
Other operating costs	(67.3)	5.7 ⁽²⁾	(61.6)
Work performed by the Group and capitalised	25.8	—	25.8
EBITDA	303.6	(1.9)	301.7
Gain on disposal of property, plant and equipment	42.6	—	42.6
Depreciation and amortisation	(144.5)	20.4 ⁽³⁾	(124.1)
Operating profit	201.7	18.5	220.2
Interest receivable	4.0	—	4.0
Interest payable and similar charges	(199.3)	—	(199.3)
Net interest payable	(195.3)	—	(195.3)
Profit before income tax	6.4	18.5	24.9
Income tax credit/(expense)	5.0	(6.6) ^{(1),(3)}	(1.6)
Profit for the year	11.4	11.9	23.3

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. Reconciliation of shareholders' equity and profit under UK GAAP to IFRS (Continued)

Reconciliation of net assets and shareholders equity under UK GAAP to IFRS as at 31 December 2004

	UK ⁽⁶⁾ GAAP	Effect of transition to IFRS	IFRS
	(US\$ in millions)		
ASSETS			
Non-current assets			
Property, plant and equipment	1,179.1	(31.2) ⁽⁴⁾	1,147.9
Intangible assets	456.5	51.6 ^{(3),(4)}	508.1
	<u>1,635.6</u>	<u>20.4</u>	<u>1,656.0</u>
Current assets			
Cash and cash equivalents	233.0	—	233.0
Short term deposits	151.7	—	151.7
Trade and other receivables	154.1	2.6 ⁽²⁾	156.7
Inventories	1.2	—	1.2
	<u>540.0</u>	<u>2.6</u>	<u>542.6</u>
Total assets	<u>2,175.6</u>	<u>23.0</u>	<u>2,198.6</u>
LIABILITIES			
Current liabilities			
Trade and other payables	110.9	2.3 ⁽²⁾	113.2
Borrowings	37.0	0.2 ⁽²⁾	37.2
Provisions	1.1	—	1.1
Current income tax liabilities	16.6	(0.6) ⁽¹⁾	16.0
	<u>165.6</u>	<u>1.9</u>	<u>167.5</u>
Non-current liabilities			
Other payables	35.2	—	35.2
Borrowings	1,824.5	—	1,824.5
Provisions	19.0	10.5 ⁽¹⁾	29.5
Deferred income tax liabilities	94.8	44.4 ⁽⁵⁾	139.2
	<u>1,973.5</u>	<u>54.9</u>	<u>2,028.4</u>
Total liabilities	<u>2,139.1</u>	<u>56.8</u>	<u>2,195.9</u>
Net assets	<u>36.5</u>	<u>(33.8)</u>	<u>2.7</u>
SHAREHOLDERS' EQUITY			
Ordinary shares	0.3	—	0.3
Share premium	34.8	—	34.8
Other reserves	1.7	5.7	7.4
Accumulated losses	(0.3)	(39.5)	(39.8)
Total shareholders' equity	<u>36.5</u>	<u>(33.8)</u>	<u>2.7</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. Reconciliation of shareholders' equity and profit under UK GAAP to IFRS (Continued)

Reconciliation of shareholders' equity under UK GAAP to IFRS on transition at 1 January 2004

	UK GAAP	Effect of transition to IFRS (US\$ in millions)	IFRS
SHAREHOLDERS' EQUITY			
Ordinary shares	0.3	—	0.3
Share premium	34.2	—	34.2
Other reserves	1.4	(1.4) ⁽⁷⁾	—
Accumulated losses	(11.6)	(47.5) ^{(1),(4),(5),(7)}	(59.1)
Total shareholders' equity	<u>24.3</u>	<u>(48.9)</u>	<u>(24.6)</u>

(1) *Post employment benefits*

The Group has elected to adopt the amendment to IAS 19, "Employee benefits" issued by the IASB on 16 December 2004, which allows all actuarial gains and losses in relation to the Group's pension scheme and post-retirement medical plan to be charged or credited directly to equity. The cumulative actuarial loss of US\$5.7 million for the year ended 31 December 2004 in relation to the above pension scheme and post-retirement medical plan was charged to the Group's equity in line with the amendment to IAS 19.

The Group's IFRS balance sheet reflects the liabilities of the Group's defined benefit pension scheme and post-retirement medical plan totalling US\$15.8 million and US\$13.3 million respectively. The Group recognised a transitional adjustment from UK GAAP to IFRS of US\$2.0 million to opening reserves at 1 January 2004 of the net liabilities of the Group's post-retirement medical plan.

The Group also recognised a charge to the income statement of US\$1.9 million and a corresponding \$0.6 million tax credit for the year ended 31 December 2004 from the adoption of IAS 19.

The Group's pension and post-retirement medical plan liabilities are recognised gross of tax on the balance sheet.

(2) *Foreign currency translation*

In applying IAS 21, "The effects of changes in foreign exchange rates" the Group is required to translate all outstanding foreign denominated monetary assets and liabilities on the balance sheet at the closing rate. Under UK GAAP, all hedged assets and liabilities were recorded at the 2005 hedged rate as at 31 December 2004.

Accordingly, the Group grossed up all hedged foreign currency denominated monetary assets and liabilities outstanding as at 31 December 2004 from their 2005 hedged rate to the closing year end exchange rate. The corresponding hedge asset or liability has been recognised on the balance sheet as at 31 December 2004, resulting in no impact on the income statement.

Under UK GAAP the total foreign exchange differences charged to the profit and loss for the year have been classified and allocated to "Other operating costs". Under IFRS the foreign exchange differences charged to the profit and loss are included in the line items according to the classification of the underlying transactions to which the foreign exchange difference relates.

(3) *Intangible assets*

In adopting IAS 38, "Intangible assets" the Group is not required to amortise goodwill, instead it is subject to an annual impairment review. As the Group has elected not to apply IFRS 3 retrospectively to business combinations prior to transition date under IFRS, the UK GAAP goodwill balance at 31 December 2003 has been included in the opening IFRS consolidated balance sheet and is no longer amortised.

The credit arising from the adoption of IAS 38 on the Group's consolidated income statement in respect of goodwill amortisation is US\$20.4 million.

(4) *Computer software*

Under UK GAAP, all capitalised computer software is included within tangible fixed assets on the balance sheet. Under IFRS, only computer software that is integral to a related item of hardware should be included as property, plant and equipment. All other computer software should be recorded as an intangible asset.

INMARSAT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. Reconciliation of shareholders' equity and profit under UK GAAP to IFRS (Continued)

Accordingly, an adjustment has been made in the balance sheet as at the date of transition and as at 31 December 2004 of US\$18.3 million and US\$31.2 million respectively between property, plant and equipment and intangible assets.

(5) *Deferred income tax*

The scope of IAS 12, "Income taxes" is wider than the corresponding UK GAAP standards, and requires deferred tax to be provided on all temporary differences rather than just timing differences under UK GAAP.

As a result, the Group's IFRS opening balance sheet at 1 January 2004 includes additional deferred tax liabilities of US\$46.9 million in respect of differences between the carrying value and tax written down value of the Group's assets. In addition a GAAP difference arises on the calculation of deferred tax on foreign subsidiaries, resulting in a US\$7.2 million income tax expense for the year 2004.

(6) *Fair value adjustment on acquisition of subsidiary*

Adjustments to provisional fair values in 2004 have been adjusted in the UK GAAP balance sheet as at 1 January 2004.

(7) *Cumulative translation reserve*

The group has applied the exemption, which allows the cumulative translation difference to be set to zero at the date of transition, for all foreign subsidiary undertakings.

(8) *Explanation of material adjustments to the cash flow statement for 2004*

Income taxes of US\$1.1 million received during the year are classified as a part of operating cash flows under IFRS, but were included in a separate category of tax cash flows under UK GAAP.

Deposits maturing after more than three months of US\$100.6 million have been included in investing activities under IFRS opposed to being included in a separate line for "management of liquid resources" under UK GAAP.

Arrangement costs of US\$30.2 million together with the bridge rebate of US\$5.5 million have been classified as financing activities under IFRS. Under UK GAAP these items are included separately under "returns on investments and servicing of finance."

Interest paid of \$64.8 million together with the bridge interest paid of US\$3.1 million have been classified as financing activities under IFRS. Under UK GAAP these items are included separately under "returns on investments and servicing of finance."

Cash and cash equivalents includes short term deposits maturing within 3 months of US\$107.0 million under IFRS, under UK GAAP the same has been included in the management of liquid resources category.

There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.