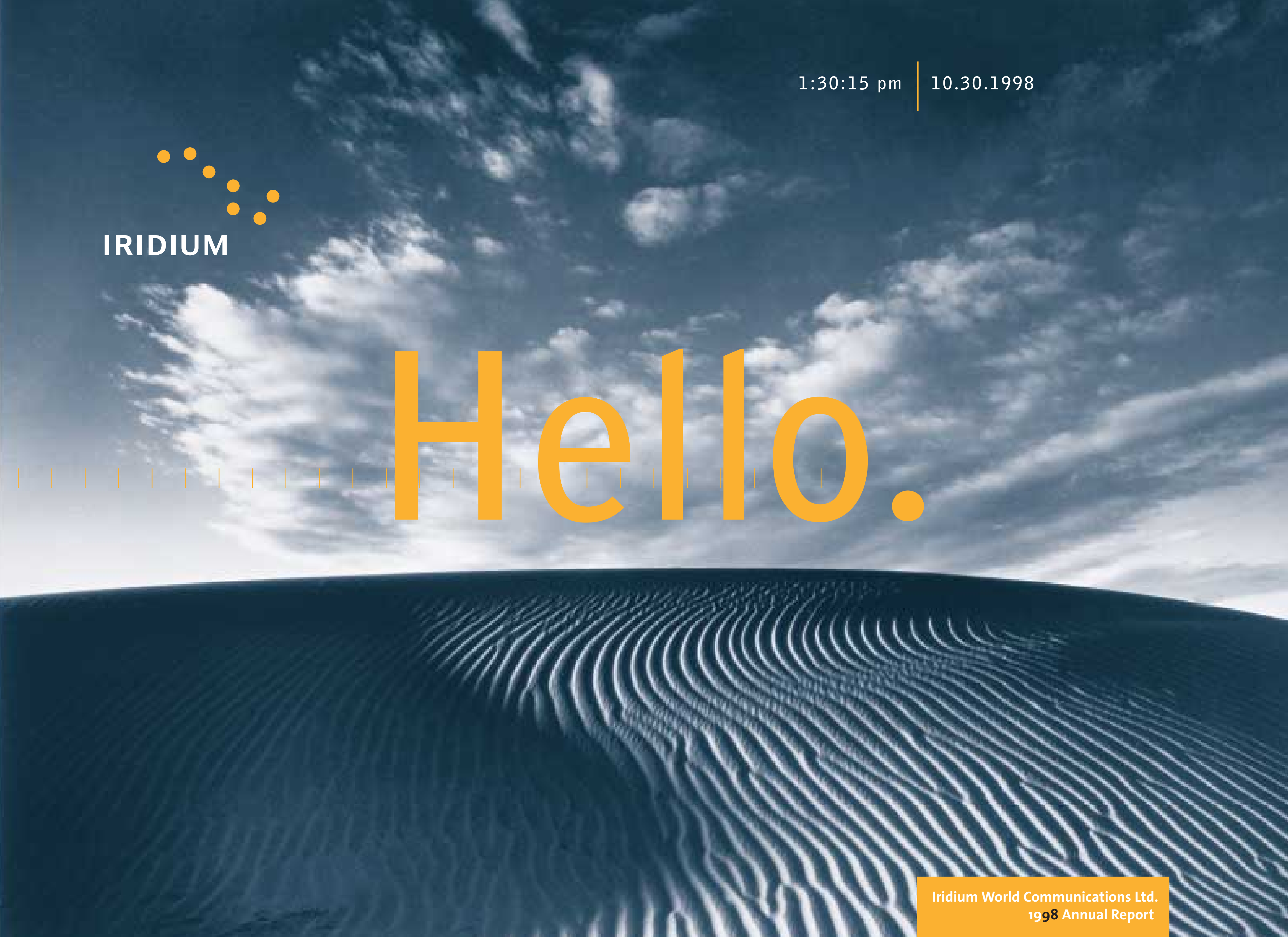

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IRIDIUM

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Iridium World Communications Ltd.
1998 Annual Report

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Selected Financial Data

Iridium World Communications Ltd. ("IWCL")

The following selected financial data as of December 31, 1997 and 1998 is derived from IWCL's financial statements which have been audited by KPMG LLP, independent certified public accountants. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements of IWCL and notes thereto included herein.

	1997	1998
	Year ended December 31,	
(In thousands except per share data)		
Statement Of Loss Data:		
Equity in loss of Iridium LLC	$18,834	$107,639
Net loss	18,834	107,639
Net loss per Class A Common Share — basic and diluted	$ 2.79	$ 8.91

	1997	1998
	December 31,	
(In thousands)		
Balance Sheet Data:		
Cash	$ —	$ —
Investment in Iridium LLC	223,922	119,702
Total assets	223,922	119,702
Stockholders' equity	$223,922	$119,702

Iridium LLC

The following selected financial data of Iridium LLC as of December 31, 1994, 1995, 1996, 1997 and 1998 for the years ended December 31, 1994, 1995, 1996, 1997 and 1998 have been derived from the consolidated financial statements of Iridium LLC, which have been audited by KPMG LLP, independent certified public accountants. The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements of Iridium LLC and notes thereto included herein.

	1994	1995	1996	1997	1998
	Year ended December 31,				
(In thousands except per Class 1 Interest data)					
Consolidated Statement Of Loss Data:					
Revenues[1]	$ —	$ —	$ —	$ —	$ 186
Operating expenses	17,561	27,187	71,404	296,598	987,773
Interest (income) expense, net	(4,252)	(5,226)	(2,395)	(3,045)	265,214
Provision for income taxes	1,525	1,684	4,589	—	—
Net loss	$14,834	$23,645	$73,598	$293,553	$1,252,801
Net loss per Class 1 Interest — basic and diluted	$.38	$.27	$.64	$2.25	$8.91

	1994	1995	1996	1997	1998
	December 31,				
(In thousands)					
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$202,391	$ 51,332	$ 1,889	$ 9,040	$ 24,756
Restricted cash	—	—	—	350,220[2]	—
System under construction	646,000	1,448,000	2,376,884	1,625,054	—
Property and equipment, net	1,522	1,264	2,065	1,526,326	3,584,209
Total assets	851,809	1,505,383	2,434,081	3,645,687	3,738,895
Long-term debt	—	—	735,904	1,537,590[3]	2,854,219
Total members' equity	$795,813	$1,404,610	$1,572,029	$1,634,637	$ 477,163

(1) Parent is transitioning from a development stage company to an operating company. This transition began in 1998 and accordingly Parent had no revenue until 1998.

(2) Restricted cash consisted of the first stage of borrowings under a credit facility. This credit facility has been replaced by Iridium's $800 million secured bank facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments" below.

(3) Does not include the $350 million of outstanding borrowings under "restricted cash." See note (2) above.

IWCL is a member of Iridium LLC ("Parent") and has no other business. IWCL has no operations other than those related to its interests in Parent. IWCL's sole assets are its membership interests in Parent and its warrants to acquire membership interests in Parent and, accordingly, IWCL's results of operations reflect its proportionate share of the results of operations of Parent on an equity accounting basis. The business of Iridium constitutes substantially all of the business of Parent. Accordingly, the management's discussion and analysis section of this report focuses on the financial condition and results of operations of Iridium.

BACKGROUND — TRANSITION FROM A DEVELOPMENT STAGE COMPANY TO AN OPERATING COMPANY

In the fourth quarter of 1998, Iridium began the transition from a development stage company into an operating company and, as a result, the character of its operations and the factors affecting management's assessment of its financial condition are changing. Iridium's operations are shifting from construction to operation and service provision, and the principal considerations of Iridium's management in evaluating Iridium's financial condition have shifted from whether Iridium would obtain financing on favorable terms for the construction of the Iridium System and the roll-out of commercial service to when or whether Iridium will generate revenues and obtain additional funding in amounts sufficient to satisfy its funding requirements.

Shift in Operations. Prior to the fourth quarter of 1998, Iridium devoted substantially all of its operations efforts to the design, construction and development of the Iridium System and to preparation for the commercial operation of the Iridium System. Iridium expects that its operations efforts for 1999 and the two to three years thereafter will focus on the operation of the Iridium System, the provision of global wireless telecommunications services and the attraction and retention of customers.

Shift in Factors Affecting Financial Condition. Prior to the year-end 1998, Iridium's funding requirements principally were driven by the cost of the construction and deployment of the Iridium System and interest expense (in 1997 and 1998). During this development stage period, Iridium had no meaningful revenue and, accordingly, relied on outside funding. Iridium expects that its operational funding requirements for 1999 and the two to three years thereafter principally will be driven by the costs of operating and maintaining the satellite constellation, the costs of providing Iridium services and interest expense. Currently, Iridium is not generating sufficient funds from operations to satisfy its operational cash needs and, accordingly, is continuing to rely on outside funding. Iridium expects that its funding requirements for 1999 will substantially exceed its revenues and that this deficiency will be reflected in an increase in indebtedness from year-end 1998.

Iridium's Expectations About Its Future Operations and Funding Requirements Are Forward-Looking. The statements in this report regarding Iridium's future funding requirements and funding sources for 1999 and thereafter are estimates and are forward-looking. Actual results are likely to differ, and may differ materially, from the information expressed or implied in such statements. These estimates are based on a number of assumptions, including Iridium's expectations about its ability to generate revenues from operations, and should be viewed in light of the following facts: (i) Iridium has no meaningful history of operations or revenues and there is no operational service that provides a direct comparison to Iridium's services; (ii) the availability of the additional sources of funding Iridium expects to be able to use is not completely within Iridium's control and is conditioned on Iridium satisfying certain conditions; and (iii) Iridium faces many challenges and risks. There are many factors that could cause these forward-looking statements to be inaccurate. For example, as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments — Waiver of Secured Bank Facility Covenants" below, subscriber levels and revenues for Iridium's initial commercial operations have been significantly below Iridium's prior estimates as a result of various factors, including lack of availability of phones and pagers and a shortage of fully-trained service providers, sales personnel and a lack of effective marketing coordination among Iridium, its gateways and its service providers.

RECENT DEVELOPMENTS

Claircom Acquisition. On December 22, 1998, Parent and Iridium Aero Acquisition Sub, Inc., or "Aero," a Delaware corporation and a wholly-owned subsidiary of Parent, entered into a stock purchase agreement pursuant to which Aero agreed to acquire all of the outstanding capital stock of Claircom Communications Group, Inc., a Delaware corporation and a provider of in-flight phone service for commercial and executive aircraft, from ATGI, Inc., a Delaware corporation and a wholly-owned subsidiary of AT&T Wireless Services, Inc., and Rogers Cantel Inc. Aero agreed to acquire the Claircom shares for an estimated aggregate price of approximately $65 million, consisting of approximately $25.6 million in cash to be paid at closing and approximately $39.4 million of notes of Claircom which will be guaranteed by Parent and issued to the sellers of the Claircom shares immediately prior to closing. The aggregate purchase price is subject to certain adjustments, including working capital adjustments and adjustments for capital expenditures made for the benefit of Claircom prior to the closing. The Claircom notes expected to be issued to the sellers will have a term of nine years and will pay interest at a rate of 8% per annum, but will not require any payments for the first two years following their issuance — interest accrued during the first two-year period will be added to the principal amount of the notes. These Claircom notes also will contain certain restrictive covenants, including restrictions on dividends, and will be secured by substantially all of the assets of Claircom and a pledge of the Claircom shares by Aero. The consummation of the acquisition of the Claircom shares is subject to certain significant conditions.

Secured Bank Facility and Guaranteed Bank Facilities. On December 23, 1998, Iridium closed on three new bank credit facilities providing for an aggregate amount of up to approximately $1.55 billion of borrowings — the $800 million secured bank facility due December 29, 2000 and the $750 million (collectively) Motorola guaranteed bank facilities (which includes a $475 million term credit facility due December 29, 2000 and a $275 million revolving credit facility due December 31, 2001). Iridium used (i) approximately $682 million of the funds available under these new bank facilities to repay its outstanding bank debt, of which $410 million was due to mature on December 31, 1998, and (ii) approximately $370 million of such funds to make payments under its various contracts with Motorola. The secured bank facility is secured by, among other things, substantially all of Iridium's assets. Borrowings under the Motorola guaranteed bank facilities are guaranteed by Motorola. Pursuant to the Motorola MOU and the Motorola ARG (described below), Iridium is required to compensate Motorola with equity and cash for, among other things, providing guarantees of Iridium's borrowings under the Motorola guaranteed bank facilities.

IWCL Offering. On January 27, 1999, IWCL consummated a public offering of 7,500,000 shares of its class A common stock and applied the net proceeds of approximately $242 million to purchase 7,500,000 class 1 interests of Parent. Parent contributed all of the proceeds from the sale of the class 1 interests to Iridium.

Waiver of Certain Secured Bank Facility Covenants. Iridium's secured bank facility contains various covenants, including covenants that require Iridium to satisfy certain minimum revenue and subscriber levels as of various dates. These minimum subscriber and revenue covenants include the condition that, at March 31, 1999, Iridium have cumulative cash revenues of at least $4 million, cumulative accrued revenues of at least $30 million, at least 27,000 Iridium World Satellite Service subscribers and at least 52,000 total subscribers. As a result of various factors, Iridium's subscriber levels and revenues for its initial commercial operations have been significantly below its prior estimates. Accordingly, Iridium has requested and received a waiver of compliance with the March 31, 1999 revenue and subscriber conditions from the lenders under the secured bank facility. This waiver is conditioned on Iridium's compliance with the March 31, 1999 minimum revenue and subscriber levels by May 31, 1999. The waiver does not affect or constitute a waiver of any other term of the secured bank facility, including the minimum revenue and subscriber conditions at June 30, 1999 and September 30, 1999. See "— Liquidity and Capital Resources — Sources of Funding" for a description of the secured bank facility.

Iridium believes that its slower than expected subscriber ramp-up and revenue generation have been primarily the result of problems with the initial distribution of subscriber equipment, a shortage of fully-trained service providers and sales personnel and a lack of effective marketing coordination among Iridium, its gateways and its service providers. During the initial roll-out of Iridium World Services, (i) Kyocera experienced significant difficulties in achieving Iridium's quality control standards and was unable to ship significant quantities of phones until early March of 1999, (ii) there were substantial difficulties in distributing phones and pagers to various markets around the world, (iii) although Motorola's satellite phones and pagers have been available since the commencement of commercial operations, the production of cellular cassettes for its dual mode satellite/cellular phones and some other accessories was delayed, and (iv) Iridium and its gateway operators had difficulty identifying and training service providers and their sales staffs. Iridium believes that Motorola and Kyocera have addressed most of these initial production and distribution problems. However, Iridium believes that it may take more time and effort to appropriately address the problems that have arisen in connection with the marketing and distribution of Iridium World Services.

Revision of Subscriber and Revenue Estimates — Request for Amendment of the Secured Bank Facility. The initiatives Iridium and its gateways have undertaken to address the current marketing and distribution difficulties may take time to implement. Accordingly, Iridium is in the process of revising its revenue and subscriber estimates in the light of its initial marketing and distribution difficulties. Iridium expects this revision will adversely affect its prior expectations regarding revenues from operations and accordingly, will adversely affect its prior expectation about (i) its ability to meet the minimum revenue and subscriber covenants and other terms of the secured bank facility and (ii) its future sources of funds from revenues from operations. Iridium intends to request an amendment of the secured bank facility to modify the minimum revenue and subscriber level covenants and other terms to reflect its revised subscriber and revenue estimates. There can be no assurance that the lenders under the secured bank facility will agree to such an amendment. Failure to obtain such an amendment would likely result in a default under the secured bank facility, which would have a material adverse effect on Iridium. In addition, in consideration for agreeing to such an amendment, the lenders under the secured bank facility may require Iridium to agree to additional covenants and provide additional compensation. Iridium also intends to revise its estimates of its funding requirements and its expectations about its available sources of funds. See "— Liquidity and Capital Resources."

LIQUIDITY AND CAPITAL RESOURCES

Funding Requirements

Funding Requirements — Through Year-End 1998. Through year-end 1998, Iridium's funding requirements aggregated approximately $4.8 billion from July 29, 1993, the inception date of Iridium's predecessor, with approximately $1.38 billion expended in 1998.

Estimated Funding Requirements for 1999. Iridium expects that its aggregate cash needs for 1999 will be approximately $1.65 billion (the Iridium Board has approved a cash budget of up to $1.76 billion). This estimate includes Iridium's estimate of its cash needs for (i) Iridium System construction and operation, (ii) the expected acquisition of Claircom and (iii) working capital, financing costs and software development. This estimate, and Iridium's approved cash budget, may be revised downward as a result of Iridium's revision of its revenue and subscriber estimates. As Iridium is striving to increase the ramp-up in the demand for its services, it is also striving to decrease costs. See "— Recent Developments — Waiver of Certain Secured Bank Facility Covenants" above for a discussion of the factors driving the reevaluation.

Estimated Funding Requirements After 1999. Iridium expects that its funding requirements for operation of the Iridium System for the two- to three-year period following 1999 will be driven by costs similar in type to those expected in 1999.

Iridium System Construction and Operation. With respect to the development and construction of the Iridium System, Iridium and Motorola are parties to (i) the Space System Contract for the design, development, production and delivery in orbit of the space segment, (ii) the Terrestrial Network Development Contract to design the gateway hardware and software, and (iii) the Operations and Maintenance, or "O&M," Contract to provide day-to-day management of the space segment after deployment and to monitor, upgrade and replace hardware and software of the space segment as necessary to maintain performance specifications. Substantially all of the initial capital raised by Iridium was used, and will continue to be used, to make payments to Motorola under the Space System Contract, the Terrestrial Network Development Contract and the O&M Contract. The Space System Contract provided for a fixed price (subject to certain adjustments), scheduled to be paid by Iridium to Motorola over approximately a five-year period for completion of milestones under the contract.

As of March 1, 1999, Iridium had incurred all of the approximately $3.435 billion aggregate estimated cost of the Space System Contract. Iridium paid $519 million of this estimated amount in 1998. On March 8, 1999, Iridium paid $50 million of this estimated amount and the remaining $5 million is expected to be paid in 1999. As of March 1, 1999, Iridium had incurred approximately $302 million of the $356 million aggregate estimated cost of the Terrestrial Network Development Contract. Iridium paid $97 million under the Terrestrial Network Development Contract in 1998. Iridium expects to make $120 million of payments under the Terrestrial Network Development Contract in 1999 and the remaining $10 million in 2000.

Iridium expects the O&M Contract to be the source of Iridium's single most significant funding requirements during commercial operation of the Iridium System. The O&M Contract has a five-year term (ending in November 2003) and is extendable, at Iridium's option, for an additional two years. Payments under the O&M Contract are currently payable monthly and are expected to aggregate approximately $2.89 billion over the initial five-year term of the contract. If Iridium exercises its option to extend the O&M Contract for an additional two years, the payments due for that two-year extension are expected to aggregate approximately $1.34 billion. In addition, Iridium is obligated to pay for certain spare satellites, if any, upon the completion of the contract. The monthly payments under the O&M Contract increase each year, ranging from payments of $43.1 million in 1998 to $52.6 million in 2003 and $57.3 million in 2005 (if extended).

Iridium's historical and expected future cash requirements by year under its principal contracts through December 31, 2000 are approximately as follows (in millions):

	1998	1999	2000
	Through year ended December 31,		
	(actual)	(estimated)	
Space System Contract	$3,380	$ 55	$ —
Terrestrial Network Development Contract	226	120	10
O&M Contract[1]	86	537	557

(1) Does not reflect deferrals of payments due under the O&M Contract. Under the Motorola MOU, Motorola has agreed to permit Iridium to defer its obligations to pay up to an aggregate of $400 million of payments due to Motorola under the O&M Contract until December 29, 2000. As of March 1, 1999, Iridium had deferred payment of approximately $220 million of its obligations under the O&M Contract and expects to defer an aggregate of $400 million of such obligations prior to September 1, 1999.

As a result of technological developments, changes in Iridium's product mix, and scheduling adjustments, including the implementation of Iridium World Roaming Services into Iridium's service offerings, there have been, and Iridium anticipates there may be, amendments and interpretations of the Terrestrial Network Development Contract and the O&M Contract and other agreements and letters with Motorola which may increase the total costs of these contracts. While Iridium's estimate of the cost of anticipated amendments and interpretations is reflected in Iridium's estimates of its funding requirements, there can be no assurance that future amendments or interpretations will not affect the price and terms of those agreements in a manner that is not reflected in Iridium's funding estimates.

Claircom Acquisition. The expected acquisition of Claircom has an estimated aggregate purchase price of approximately $65 million, consisting of approximately $25.6 million in cash to be paid at closing and approximately $39.4 million of notes of Claircom which will be guaranteed by Parent and issued to the sellers of the Claircom shares immediately prior to closing.

Working Capital, Financing Costs and Software Development. Iridium has required, and will continue to require, funds for working capital, business software development, interest on borrowings, financing costs and operating expenses. Iridium estimates that through December 31, 1998 these costs aggregated approximately $1.09 billion from July 29, 1993, the inception date of Iridium's predecessor, with approximately $674 million incurred in 1998. Iridium estimates that its costs in calendar year 1999 for these items will aggregate approximately $915 million.

Sources of Funding

Sources of Funds — Through Year-End 1998. Through December 31, 1998, Iridium expended approximately $4.8 billion from July 29, 1993, the inception date of Iridium's predecessor. At December 31, 1998, Iridium had funded this aggregate expenditure with (i) approximately $500 million in secured bank debt, (ii) approximately $625 million in bank debt guaranteed by Motorola, (iii) approximately $1.38 billion in proceeds from the issuance of senior notes due 2005, (iv) approximately $239 million in proceeds from the issuance of senior subordinated notes due 2006, (v) approximately $1.95 billion from the issuance of class 1 interests, (vi) approximately $31 million from the issuance of series A class 2 interests and (vii) approximately $86 million of vendor financing.

Estimated Sources of Funds for 1999. Iridium estimates that it will have available for 1999 aggregate sources of external funding of approximately $1.34 billion from the secured bank facility, the guaranteed bank facilities, vendor financing, proceeds from equity offering and additional Motorola guaranteed borrowings. Iridium expects that its cash needs for 1999 will be approximately $1.65 billion (the Iridium Board has approved a budget of up to $1.76 billion). To the extent that Iridium's revenues do not exceed the actual difference between its 1999 cash needs and 1999 available sources (an estimated difference of approximately $310 million), Iridium will need to seek additional financing. Iridium is in the process of revising its revenue and subscriber estimates in light of its initial marketing and distribution difficulties and intends to seek an amendment to the secured bank facility. These actions are likely to adversely affect Iridium's estimate of its future sources of funds, and Iridium expects that it may need additional financing.

Estimated Sources of Funds After 1999. For the two to three years following 1999, Iridium generally expects to fund the costs of operating and maintaining the Iridium System (including the O&M Contract), providing Iridium's services, working capital, interest expense and financing costs through revenues from operations and, if required, additional financing.

Equity Investments and Debt Securities. As of March 1, 1999, Iridium had received approximately $2.19 billion from the issuance of class 1 interests and approximately $31 million for the issuance of series A class 2 interests. As of March 1, 1999, Iridium had received approximately $1.62 billion from the issuance of debt securities, including approximately $1.38 billion from the issuance of senior notes due 2005 and approximately $239 million from the issuance of senior subordinated notes due 2006.

Secured Bank Facility. As of March 1, 1999, Iridium had drawn the entire amount available under the $800 million secured bank facility. Borrowings under the secured bank facility mature on December 29, 2000. The parties to the secured bank facility are Iridium, Chase Securities Inc. and Barclays Bank PLC, as Global Arrangers, The Chase Manhattan Bank, as Administrative Agent, Barclays Bank PLC, as Documentation Agent, Merrill Lynch, Pierce, Fenner & Smith, Inc., as Syndication Agent, and a syndicate of lenders. Iridium's obligations under the secured bank facility are secured by pledges of, and security interests in, substantially all of Iridium's assets, Parent's equity interest in Iridium and the reserve capital call (the commitment of 17 of Parent's strategic investors to purchase up to 18,206,550 class 1 interests at a price of $13.33 per class 1 interest, representing an aggregate purchase price of up to approximately $243 million).

The secured bank facility contains various covenants. One group of covenants requires Iridium to satisfy certain minimum revenue and subscriber levels, including the conditions that (i) at

March 31, 1999, it have cumulative cash revenues of at least $4 million, cumulative accrued revenues of at least $30 million, at least 27,000 Iridium World Satellite Service subscribers and at least 52,000 total subscribers, (ii) at June 30, 1999, it have cumulative cash revenues of at least $50 million, cumulative accrued revenues of at least $150 million, at least 88,000 Iridium World Satellite Service subscribers and at least 213,000 total subscribers and (iii) at September 30, 1999, it have cumulative cash revenues of at least $220 million, cumulative accrued revenues of at least $470 million, at least 173,000 Iridium World Satellite Service subscribers and at least 454,000 total subscribers. As a result of various factors, Iridium's subscriber levels and revenues for its initial commercial operations have been significantly below its prior estimates. Accordingly, Iridium has requested and received a waiver of compliance with the March 31, 1999 revenue and subscriber conditions from the lenders under the secured bank facility. This waiver is conditioned on Iridium's compliance with the March 31, 1999 minimum revenue and subscriber levels by May 31, 1999. The waiver does not affect or constitute a waiver of any other term of the secured bank facility, and Iridium intends to seek an amendment to the secured bank facility to modify the minimum revenue and subscriber conditions and other terms to reflect its revision of its revenue and subscriber estimates. See "— Recent Developments — Waiver of Certain Secured Bank Facility Covenants" and "— Revision of Subscriber and Revenue Estimates — Request for Amendment of the Secured Bank Facility" above. Other covenants in the secured bank facility require Iridium to comply with certain financial ratios as of various dates, including maximum debt to total invested capital, maximum secured debt to earnings, maximum debt to earnings and minimum interest expense to earnings. The secured bank facility also contains covenants related to, among other things, the maintenance of insurance, the maintenance of regulatory authority to offer Iridium World Satellite Service in a minimum number of countries and the permitted uses of revenues from operations, borrowed funds and proceeds from the issuance of securities. The secured bank facility also restricts Iridium's ability to incur additional indebtedness, make dividend and other payments and merge, consolidate or sell certain of its assets. In addition, the secured bank facility requires mandatory prepayments in the event that debt and equity issuances or cash flows exceed specified thresholds.

Guaranteed Bank Facilities. The guaranteed bank facilities consist of a $475 million term credit facility that matures on December 29, 2000 and a $275 million revolving credit facility that matures on December 31, 2001, each with a different, but partially overlapping, syndicate of lenders. As of March 1, 1999, Iridium had drawn an aggregate of approximately $480 million under these facilities (approximately $470 million under the term facility and approximately $10 million under the revolving facility). Pursuant to the terms of the guaranteed bank facilities, Iridium cannot have access to more than an aggregate of approximately $745 million of borrowings in order to ensure that the Motorola $750 million guarantee covers additional obligations of Iridium to the lenders under these facilities. The guaranteed bank facilities do not have covenants that directly address minimum revenues or subscriber levels. Borrowings under the guaranteed bank facilities are guaranteed by Motorola. Pursuant to the Motorola MOU and the Motorola ARG (each described below), Parent and Iridium are required to compensate Motorola with equity and cash interest for, among other things, guaranteeing borrowings under the guaranteed bank facilities.

Motorola Vendor Financing and O&M Bank Facility Guarantee. Under the Motorola MOU described below, Motorola has agreed to permit Iridium to defer its obligations to pay up to an aggregate of $400 million of payments due to Motorola under the O&M Contract until December 29, 2000. As of March 1, 1999, Iridium had deferred approximately $220 million of its obligations under the O&M Contract and expects to defer an aggregate of $400 million of such obligations prior to September 1, 1999.

Iridium has agreed under a memorandum of understanding with Motorola and Parent, or "MOU," that it will use its best efforts to obtain the Motorola guaranteed O&M bank facility to finance the payment of all such deferrals prior to October 1, 1999. Motorola has conditionally committed under the Motorola MOU to guarantee up to $400 million of borrowings under such Motorola guaranteed O&M bank facility. Iridium intends to finance the payment of $400 million of deferred amounts with the Motorola guaranteed O&M bank facility prior to October 1, 1999. However, many factors, including changes in the bank lending market and Iridium's ability to generate revenues from commercial operations, could adversely affect Iridium's ability to obtain the Motorola guaranteed O&M bank facility. In addition, Motorola's commitment to guarantee the Motorola guaranteed O&M bank facility is subject to certain conditions. Accordingly, there can be no assurance that Iridium will be able to obtain the Motorola guaranteed O&M bank facility or otherwise refinance its deferred obligations to Motorola under the O&M Contract. Iridium is required to compensate Motorola pursuant to the Motorola ARG for Iridium's deferral of payments under the O&M Contract and for Motorola's guarantee of the Motorola guaranteed O&M bank facility with cash and equity compensation, including warrants to purchase class 1 interests and warrants to purchase class A common stock.

Motorola MOU; Conditional Commitment of Motorola to Guarantee Additional Borrowings. In connection with the establishment of the secured bank facility and the guaranteed bank facilities, Motorola, Parent and Iridium entered into the Motorola MOU, which amended and restated a previous memorandum of understanding. Under the Motorola MOU, Motorola has agreed to, among other things, (i) guarantee up to $750 million of obligations under the guaranteed bank facilities, (ii) consent to and agree to an amendment to the guaranteed bank facilities and the related guarantee agreement (or to enter into a new bank credit facility and guarantee agreement on the same terms (other than pricing)) that together provide for a $350 million increase in the Motorola guaranteed borrowings available thereunder, (iii) permit Iridium to defer its obligations to pay up to an aggregate of $400 million of payments under the O&M Contract until December 29, 2000, (iv) guarantee up to $400 million of additional borrowings under a bank credit facility with terms (other than pricing) identical in all material respects to the guaranteed credit facilities on the condition that such additional guaranteed borrowings be used exclusively to make payments to Motorola for deferred obligations under the O&M Contract (as described in (iii) above), (v) subordinate certain of its claims vis-à-vis Iridium to the lenders under the secured bank facility and (vi) consent to an amendment to the $275 million revolving credit facility component of the guaranteed bank facilities that would extend the maturity of such facility to beyond the maturity of the senior notes (which are due July 15, 2005). Iridium has agreed under the Motorola MOU that it will compensate Motorola for providing guarantees, deferral rights and other credit support (collectively, the "Motorola exposure," which generally includes the aggregate amount guaranteed, or permitted to be deferred, by Motorola) pursuant to the Motorola ARG, described below.

Parent and Iridium also have agreed under the Motorola MOU that they (i) will use their best efforts to reduce the Motorola exposure to no more than $275 million by the earliest possible date, including obtaining bank credit agreements not guaranteed by Motorola, issuing debt and equity securities (under certain conditions) and using revenues from operations, if available, to reduce the available borrowings under credit facilities guaranteed by Motorola and to pay amounts deferred under contracts with Motorola, (ii) will use their best efforts to obtain, on or before October 1, 1999, the Motorola guaranteed O&M bank facility to finance the payment of all deferred amounts under the O&M Contract, (iii) will not have outstanding in excess of (a) $1.7 billion of indebtedness for borrowed money that is secured by the assets of

Iridium or (b) $1.62 billion in aggregate principal amount of senior notes, (iv) will not make certain acquisitions without Motorola's consent and (v) will provide Motorola with the right (in addition to Motorola's rights to representation based on its holdings of class 1 interests) to appoint one additional director to the Boards of Directors of Parent and Iridium any time the Motorola exposure exceeds $275 million, and the right to appoint a second additional director to the Boards of Directors of Parent and Iridium any time the Motorola exposure exceeds $750 million (Motorola has exercised this right and six of Iridium's and Parent's directors are appointees of Motorola). In addition, while Motorola has agreed to consent to (i) a $350 million increase in the amount of guaranteed borrowings available under the guaranteed bank facilities (or a new credit facility with terms (other than pricing) identical in all material respects) and (ii) an extension of the maturity of the $275 million revolving credit facility component of the guaranteed bank facilities, there can be no assurance that the lenders under the guaranteed credit facilities would agree to such amendments or that such a new credit facility would be available.

Motorola's obligation to defer receipt of up to $400 million in payment under the O&M Contract is unconditional. All of Motorola's other obligations under the Motorola MOU, including, without limitation, its obligation to consent to and agree to an amendment to the guaranteed bank facilities and the related guarantee agreement (or to enter into a new bank credit facility and guarantee agreement on the same material terms (other than principal)) that together provide for a $350 million increase in the Motorola guaranteed borrowings available thereunder, are conditioned on Iridium complying with the terms of the Motorola MOU, Motorola ARG, the O&M Contract and other agreements with Motorola, including Iridium's payment obligations under each such agreement.

Motorola ARG. In connection with the establishment of the secured bank facility and the guaranteed bank facilities, Motorola, Parent and Iridium also entered into the Motorola agreement regarding guarantee, or "ARG," which amended and restated a previous agreement. Payments under the Motorola ARG are based on the amount and duration of Motorola exposure and are due and payable quarterly. Prior to October 1, 1999, Iridium is required to pay Motorola cash interest on the amount deferred at an annual interest rate of 12% for Motorola exposure relating to the deferred amounts under the O&M Contract. For Motorola exposure relating to guarantees of borrowings under bank credit facilities that exists prior to October 1, 1999, Iridium and Parent are required to compensate Motorola with cash interest and equity (including warrants to purchase either class 1 interests or, under certain conditions, class A common stock). Prior to October 1, 1999, Motorola's compensation for Motorola exposure relating to the guaranteed bank facilities and the Motorola guaranteed O&M bank facility (if available) is based on the terms of the series A and series B senior notes. This "high yield based compensation" equals (i) interest on the Motorola exposure at an annual interest rate equal to the amount, if any, by which the interest rate on the relevant bank facility is less than 13.625% (the weighted average interest rate on the series A and series B senior notes) plus (ii) the payment of warrants to purchase approximately 66.758 class 1 interests (or shares of class A common stock) per day per each $100 million of Motorola exposure at a purchase price of $20.90 per interest (or share) (the average daily warrant compensation payable to holders of senior notes).

After October 1, 1999, Iridium and Parent are required to pay Motorola equity compensation (in the form of warrants to purchase class 1 interests at a purchase price of $0.00013 per interest) for all Motorola exposure unless the aggregate Motorola exposure is less than or equal to $275 million, in which case Iridium may pay Motorola high yield based compensation. During this period, unless the Motorola exposure is less than $275 million, the amount of warrant compensation payable per dollar of Motorola exposure increases substantially as the Motorola exposure increases. In addition, Iridium is required to compensate Motorola with warrants to purchase class 1 interests at a price of $0.00013 per interest for any Motorola exposure resulting from Motorola making available any part of the additional $350 million in guaranteed borrowings discussed above regardless of when such Motorola exposure is incurred.

From the date of the original Motorola ARG through March 1, 1999, for providing guarantees of Iridium's bank credit facilities and other credit support, Motorola had earned warrants to purchase an aggregate of (i) 7,741,346 class 1 interests at a price of $0.00013 per interest and an aggregate of (ii) 75,692 class 1 interests at a price of $20.90 per interest. The amount of equity compensation Motorola will earn in the future, under the Motorola ARG, depends upon the amount of future Motorola exposure, is expected to be substantial and could increase significantly for a variety of reasons, including if Iridium is unable to reduce the Motorola exposure to $275 million or less prior to October 1, 1999. While Iridium has agreed with Motorola that it will use its best efforts to reduce the Motorola exposure to $275 million or less as soon as possible, Iridium's ability to repay or replace borrowings guaranteed by Motorola or pay or finance (without a Motorola guarantee) deferrals of amounts due to Motorola depends on a variety of factors, including Iridium's ability to generate revenues and factors beyond Iridium's control such as the condition of the bank lending and securities markets. For example, if Iridium reduces the Motorola exposure to $275 million for the period from October 1, 1999 through December 31, 2000 ($275 million of Motorola exposure for approximately 15 months), Motorola would earn warrants to purchase approximately 84,000 class 1 interests (or shares of class A common stock) at a purchase price of $20.90 per interest (or share) plus cash interest. However, if Iridium draws all amounts available under the $750 million guaranteed credit facilities and defers the payment of an aggregate of $400 million under the O&M Contract and this Motorola exposure remains in place in full from October 1, 1999 through December 31, 2000 ($1.15 billion of Motorola exposure for 15 months), Motorola would earn warrants to purchase approximately 12.9 million class 1 interests at a purchase price of $0.00013 per interest pursuant to the Motorola ARG.

OPERATIONS

Iridium commenced commercial satellite phone service on November 1, 1998 and commercial satellite paging service on November 15, 1998. Prior to November 1, 1998, Iridium's only source of income was interest income on the cash and investment balances from the proceeds of equity and debt commitments in Iridium, which interest income amounted to approximately $23.3 million from July 29, 1993, the inception date of Iridium's predecessor, to December 31, 1998. During the same period, Iridium recorded a net loss of approximately $1.66 billion.

From December 31, 1997 to December 31, 1998, Iridium's aggregate net loss increased substantially from $294 million to $1.25 billion for the year ended December 31, 1997 and 1998, respectively. This was primarily the result of the following increases for the year ended December 31, 1998, as compared to the corresponding period in 1997: $258 million for sales, general and administrative expenses due to increased activities associated with commercial activation, $433 million for amortization and depreciation expense due to the depreciation of a greater number of satellites and $273 million for increased interest expense. See "Capitalization of Costs," "Operating Expenses" and "Interest Expense" below.

CAPITALIZATION OF COSTS

All payments by Iridium under the Space System Contract have been capitalized. The satellite components of the Space System Contract are being depreciated over the five-year estimated life of the satellites. Depreciation expense is realized on a satellite-by-satellite basis, commencing with the delivery of each satellite to its mission orbit. Depreciation related to the ground control stations commences with the placement in service of each such station over a seven-year estimated life. Losses from satellite failures for which Iridium has financial responsibility under its contractual arrangements with Motorola are recognized currently. Motorola bears the risk of loss for launch failures and satellite failures before a satellite is placed into service. Iridium has obtained a satellite insurance policy to cover certain costs associated with the loss of a satellite. Capitalized amounts under the Space System Contract and the Terrestrial Network Development Contract aggregated approximately $3.74 billion through December 31, 1998. In addition, costs incurred in connection with the issuance by Iridium of class 1 interests are reflected as a reduction of Iridium's additional paid-in capital and Iridium's debt issuance costs are deferred and amortized over the term of the related indebtedness. Payment of these costs and charges has resulted in significant negative operating cash flow. Certain interest costs also have been capitalized through the date of commencement of commercial operations.

A portion of the payments made under the O&M Contract will be capitalized and depreciated. The amount so capitalized will be determined depending upon the number of replacement satellites put into service. Any costs under the O&M Contract not capitalized will be expensed as incurred.

OPERATING EXPENSES

For the period from July 29, 1993, the inception date of Iridium's predecessor, through December 31, 1998, total operating expenses were approximately $1.40 billion, with $988 million of that amount incurred in 1998. Iridium expects a substantial increase in future operating expenses relating to sales, marketing, depreciation and other costs associated with commercialization.

INTEREST EXPENSE

Iridium has financed, and expects to continue to finance, a significant portion of its capital requirements through borrowings. As a result of these borrowings, Iridium has had, and expects it will have, significant interest costs. Interest costs were capitalized while the Iridium System was under construction and are now being depreciated. This resulted in all interest costs being capitalized during 1995, 1996 and 1997. For the year ended December 31, 1998, approximately $443 million of interest cost was incurred. Interest expensed for the year ended December 31, 1998 was approximately $273 million with the remaining approximately $170 million of interest capitalized to the system under construction. Iridium anticipates that all interest cost incurred in 1999 will be expensed. Some portion of interest expense will not be paid in cash, including the interest expense related to Iridium's 14 1/2% senior subordinated notes through March 1, 2001. Such non-cash interest will be accrued and such accrual will increase outstanding indebtedness on Iridium's consolidated balance sheets.

INCOME TAXES

Iridium reports its income as a partnership for United States Federal income tax purposes and accordingly, is not expected to be directly subject to U.S. Federal income tax. Iridium may, however, be subject to tax in some state, local or foreign jurisdictions on portions of its income. IWCL is directly subject to U.S. Federal income tax on the portion of its income which is effectively connected with the U.S. business of Iridium. IWCL pays no income tax under Bermuda law.

YEAR 2000 READINESS DISCLOSURE

General

Iridium's Year 2000 Program, or "Y2K Program," addresses information-technology, or "IT," and non-IT problems that may exist within the Iridium System, including Iridium's suppliers, roaming partners, service providers and other material distributors.

Until recently, only two digits were used to represent the year in dates recorded in computer systems. This practice did not anticipate the problem generated by the turn of the century, after which dates entered as "00" could be understood by computers to mean 1900 instead of 2000. This and other date handling processes could result in the incorrect performance of computer calculations and functionality involving dates.

Y2K Program

The Y2K Program encompasses the Iridium space and ground facilities, as well as the relevant operations of Iridium's material suppliers and distributors, and addresses both IT and non-IT systems.

The Y2K Program is divided into five major phases — Awareness, Inventory and Risk Assessment, Repair and Renovation, Verification and Validation, and Implementation and Monitoring. The Awareness Phase is intended to ensure the establishment of the Y2K Program and the awareness of potential risks and Year 2000 issues. This phase, which involves communicating the status and progress of the Y2K Program within Iridium and to third parties, is an ongoing activity and will continue as Iridium proceeds through the other phases. Iridium has substantially completed all critical tasks in this phase. The process of communication, however, is ongoing and will continue through first quarter 2000.

The Inventory and Risk Assessment Phase involves the performance of an initial inventory of all Iridium hardware, software and infrastructure, as well as material vendors, to identify potential Year 2000 issues and to determine the action required, if any, to mitigate the risk to Iridium. Through its gateways, Iridium is contacting its third party roaming partners and service providers to determine the Year 2000 status of their systems, as well as their plans to bring them into compliance. Material items are those believed by Iridium to have a significant impact on the business from a customer service, financial or legal perspective. This phase is being performed by Iridium's internal Y2K team.

The assessment of Iridium developed systems and those of Iridium's key suppliers has been completed. The results have indicated that fewer upgrades than initially planned are needed. This has allowed Iridium to accelerate the Y2K Program, now targeted for completion on July 1, 1999. The gateways are still completing their evaluation of their internally developed systems and the status of this analysis is not finalized. However, Iridium has every indication that the systems critical to the completion of an Iridium call from one Iridium handset to another Iridium handset is expected to be Y2K ready by July 1, 1999. Iridium also has determined that the systems critical to billing and settlements are expected to be Y2K ready by July 1, 1999.

The Repair and Renovation Phase is intended to ensure that the appropriate items as identified in the final inventory and risk assessment are upgraded to meet Year 2000 compliance criteria. This may include software upgrades, hardware upgrades, development of new processes, new business practices, etc. While completion of the various elements of this phase is tied to corresponding elements within the assessment phase, Iridium anticipates that material repairs, replacements and renovations will be substantially complete by mid-1999 for systems under the direct control of Iridium. The supplier of the Iridium satellite and ground systems, Motorola, has indicated that the products it provides to Iridium will be Y2K ready by July 1, 1999. The remaining suppliers of critical hardware and software have provided upgrades and these will be installed in the first and second quarters of 1999.

The Verification and Validation Phase ensures that critical business processes, systems and infrastructure are verified and tested to ensure Year 2000 issues will not cause major disruption in the ongoing operation of the Iridium business. Verification and testing of those systems under Iridium's direct control will be performed by Iridium's internal Y2K team with the support of its technicians and certain of the principle suppliers of those systems. The upgrades that are installed into the Iridium environments will be verified and tested in the first and second quarters of 1999.

Finally, during the Implementation and Monitoring Phase, the Year 2000 upgrades will be installed into Iridium's operations systems, as necessary. Iridium LLC plans to have all the critical systems installed and operational by July 1, 1999.

A monitoring activity will be employed in an effort to ensure that unforeseen Year 2000 critical items are appropriately prioritized for correction.

In addition, the Y2K Program plan addresses the implementation of future upgrades for new products and services to ensure that no new Y2K problem is introduced into Y2K ready systems.

State of Readiness

With the completion of the Inventory and Risk Assessment Phase, Iridium has determined that the company is well positioned to be ready for the year 2000. The Iridium Business Support Systems were developed to be Y2K ready and the planned upgrades are minimal to the application software. Typical upgrades include server software and operating systems.

The supplier of the Iridium satellite and ground systems, Motorola, has completed its assessment and is well into its Y2K program upgrades and testing phases. It has provided a completion date of July 1, 1999.

Costs

The total cost associated with required modifications to become Year 2000 compliant is not expected to be material to Iridium's financial position or results of operations. The current estimated total cost to Iridium of the Y2K Program is $2 million. Iridium estimates that the amount expended on the Y2K Program during calendar year 1998 was approximately $180,000, all of which was expensed by Iridium. The gateway costs are not expected to be material as the majority of the systems are provided to the gateways under maintenance contracts.

The current $2 million cost to Iridium includes the costs of existing maintenance contracts, internal labor and a small consulting budget for miscellaneous tasks. Because Iridium does not require a large remediation effort, the Y2K activities are substantially absorbed within the existing departmental cost structure. This estimate does not reflect all Y2K costs because, for example, the Iridium Business Support Systems were developed from the outset to handle Year 2000 issues, and the cost of this capability was not separately identified by the supplier.

Other significant or critical non-Year 2000 information technology projects under Iridium's direct control have not been materially delayed or impacted by Year 2000 initiatives.

Risks

Potential risks to Iridium have been differentiated between risks related to Iridium handset to Iridium handset services versus risks related to Iridium services dependent upon the existing world telecom structure.

Based on the results of the assessment of the Iridium Systems and the Motorola provided space and ground systems, the reasonably likely worst case scenario that would impact Iridium handset to Iridium handset service would be a power failure at a ground station location. To mitigate this, Iridium gateways have backup generators at all critical ground station locations. Additional contingency planning will be conducted to evaluate and implement rerouting procedures where this risk is determined to be significant.

The reasonably likely worst case scenario for services that depend upon the transmission of calls over an existing wireless or landline network is the failure of a call to be completed due to a failure in the existing telecom network. The backup use of an Iridium handset to Iridium handset call would mitigate this risk. In addition, the gateway business owners are working with the local network providers to identify critical areas of risk. If it is determined that a critical issue exists in an interconnection arrangement, the gateway will determine if rerouting is appropriate.

The Y2K Program is expected to significantly reduce Iridium's level of uncertainty about the Year 2000 problem and, in particular, about the Year 2000 compliance and readiness of Iridium's material partners. Iridium believes that, with the completion of the Y2K Program as scheduled, the potential of significant interruptions of normal operations should be reduced.

Contingency Plans

Based on the information developed in the Inventory and Risk Assessment Phase, Iridium has begun to develop contingency plans for critical systems and processes. These plans will include an analysis of the requirement to reroute calls due to interruption in power at certain gateway ground stations, backup and restore processes to secure critical data, staffing to monitor critical processes throughout the transition and manual processes for critical operations where appropriate.

After reviewing information gathered in the Inventory and Risk Assessment Phase, and to prepare for the possibility that certain information systems or third party partners and vendors will not be Year 2000 compliant, Iridium intends to develop additional contingency plans, as appropriate.

These plans may include the establishment of teams to monitor and correct disruptions, utilization of backup processes including data backup and storage, and the development of manual "work-around" solutions.

Readers are cautioned that the discussion of Iridium's efforts and expectations related to Year 2000 are forward-looking statements. See "— Iridium's Expectations About Its Future Operations and Funding Requirements Are Forward-Looking."

Independent Auditors' Report

THE BOARD OF DIRECTORS AND STOCKHOLDERS
IRIDIUM WORLD COMMUNICATIONS LTD.:

We have audited the accompanying balance sheets of Iridium World Communications Ltd. as of December 31, 1997 and 1998, and the related statements of loss, stockholders' equity, and cash flows for the period December 12, 1996 (inception) through December 31, 1996, and for the years ended December 31, 1997 and 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Iridium World Communications Ltd. as of December 31, 1997 and 1998, and the results of its operations and its cash flows for the period December 12, 1996 (inception) through December 31, 1996, and for the years ended December 31, 1997 and 1998, in conformity with generally accepted accounting principles.

KPMG LLP

KPMG LLP

McLean, Virginia
January 14, 1999, except as to note 6
which is as of January 21, 1999

Balance Sheets

(In thousands except share data)

	1997	1998
	December 31	
Assets		
Cash	$ —	$ —
Investment in Iridium LLC	223,922	119,702
Total assets	$223,922	$119,702
Liabilities and Stockholders' Equity		
Liabilities	$ —	$ —
Stockholders' equity:		
Class A Common stock, voting, par value $0.01; 50,000,000 shares authorized; 12,003,262 and 12,180,648 issued and outstanding	120	122
Class B Common stock, non-voting, par value $0.01; 2,500,000 shares authorized; none and 20,625 issued and outstanding	—	—
Additional paid-in capital	242,636	246,053
Accumulated deficit	(18,834)	(126,473)
Total stockholders' equity	223,922	119,702
Total liabilities and stockholders' equity	$223,922	$119,702

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

Statements of Loss

(In thousands except share data)

	Period from December 12, 1996 (inception) to December 31, 1996	Year ended December 31, 1997	Year ended December 31, 1998
Equity in loss of Iridium LLC	$ —	$18,834	$107,639
Loss before income taxes	—	18,834	107,639
Income taxes	—	—	—
Net loss	$ —	$18,834	$107,639
Net loss per Class A Common share — basic and diluted	$ —	$ 2.79	$ 8.91
Weighted average shares used in computing net loss per Class A Common share — basic and diluted	—	6,739,726	12,083,261

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

Statements of Stockholders' Equity

(In thousands except share data)

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Subscription Receivable	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Inception, December 12, 1996	—	$ —	—	$ —	$ —	$ —	$ —	$ —
Class A Common Stock subscribed	1,200,000	12	—	—	—	(12)	—	—
BALANCE, December 31, 1996	1,200,000	12	—	—	—	(12)	—	—
Retire subscribed Class A Common Stock	(1,200,000)	(12)	—	—	—	12	—	—
Equity offering	12,000,000	120	—	—	225,480	—	—	225,600
Warrants issued in conjunction with Iridium LLC Series A Senior Notes	—	—	—	—	17,113	—	—	17,113
Exercise of stock options	3,262	—	—	—	43	—	—	43
Net loss	—	—	—	—	—	—	(18,834)	(18,834)
BALANCE, December 31, 1997	12,003,262	120	—	—	242,636	—	(18,834)	223,922
Class B Common Stock issued	—	—	20,625	—	275	—	—	275
Warrants exercised in conjunction with Iridium LLC Series A Senior Notes	98,800	1	—	—	2,064	—	—	2,065
Exercise of stock options	78,586	1	—	—	1,078	—	—	1,079
Net loss	—	—	—	—	—	—	(107,639)	(107,639)
BALANCE, December 31, 1998	12,180,648	$122	20,625	$ —	$246,053	$ —	$(126,473)	$119,702

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

Statements of Cash Flows

(In thousands)

	Period from December 12, 1996 (inception) to December 31, 1996	Year ended December 31, 1997	Year ended December 31, 1998
Cash flows from operating activities:			
Net loss	$ —	$(18,834)	$(107,639)
Adjustments to reconcile net loss to net cash used in operating activities — Equity in loss of Iridium LLC	—	18,834	107,639
Net cash used in operating activities	—	—	—
Cash flows from investing activities:			
Investments in Iridium LLC	—	(242,756)	(3,419)
Net cash used in investing activities	—	(242,756)	(3,419)
Cash flows from financing activities:			
Net proceeds from equity offering	—	225,600	—
Proceeds from issuance of Class B Common Stock	—	—	275
Proceeds from warrants issued in conjunction with Iridium LLC Series A Senior Notes	—	17,113	—
Proceeds from warrants exercised in conjunction with Iridium LLC Series A Senior Notes	—	—	2,065
Proceeds from Class A Common Stock subscribed	—	12	—
Retirement and cancellation of Class A Common Stock	—	(12)	—
Proceeds from exercise of stock options	—	43	1,079
Net cash provided by financing activities	—	242,756	3,419
Increase in cash	—	—	—
CASH, beginning of period	—	—	—
CASH, end of period	$ —	$ —	$ —

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

Notes to Financial Statements

1. Organization and Business

Iridium World Communications Ltd. ("IWCL") was incorporated under the laws of Bermuda on December 12, 1996. At inception, IWCL was wholly owned by Iridium LLC, a limited liability company. In June 1997, IWCL registered with the Securities and Exchange Commission a total of 13,800,000 shares of its Class A Common Stock ("Class A Common Stock") for sale in an initial public offering (the "Offering"), and on June 13, 1997, IWCL consummated the Offering and issued 12,000,000 shares of Class A Common Stock. Pursuant to the 1997 Subscription Agreement between IWCL and Iridium LLC, approximately $225 million in net proceeds from the Offering were invested in Class 1 Membership Interests of Iridium LLC ("Class 1 Interests"), at which time the outstanding shares of Class A Common Stock held by Iridium LLC were retired, and IWCL became a member of Iridium LLC.

Iridium LLC, through its wholly-owned subsidiary Iridium Operating LLC ("Iridium"), a Delaware limited liability company, is currently transitioning from a development stage limited liability company to an operating limited liability company.

IWCL's sole asset is its investment in Iridium LLC. At December 31, 1997 and 1998, IWCL's investment was approximately 8.5% and 8.6%, respectively, of the total outstanding Class I Membership Interests in Iridium LLC.

2. Significant Accounting Policies

INVESTMENT IN IRIDIUM LLC

The investment in Iridium LLC is accounted for using the equity method. In accordance with the equity method of accounting, IWCL's carrying amount of the investment in an affiliate is initially recorded at cost and is increased to reflect its share of the affiliate's income and is reduced to reflect its share of the affiliate's losses each period since the initial investment.

IWCL has no activities other than its investment in, and participation in the management of, Iridium LLC. Accordingly, IWCL is also subject to the risks and uncertainties that Iridium LLC faces, which include, but are not limited to those discussed below: Iridium LLC has a highly leveraged capital structure and, as a result, will be required to satisfy substantial periodic cash debt service obligations in the future and may be constrained by the covenants in its bank facilities and debt securities. Iridium LLC, currently transitioning from a development stage limited liability company to an operating limited liability company, has not generated substantial revenues or positive cash flows from operations, and accordingly, there can be no assurance that Iridium LLC will be able to generate sufficient cash flow or otherwise obtain funds to cover principal and interest payments associated with currently outstanding and future debt and other obligations.

Iridium LLC's continuing operations are expected to require substantial capital expenditures, and its ability to fund these expenditures will be dependent upon its ability to generate substantial revenues and raise additional financing. Iridium LLC's existing credit agreements and debt securities constrain its ability to raise additional financing. Failure to generate revenues or otherwise raise sufficient capital could have a material adverse effect on Iridium LLC's business, results of operations, and financial condition, and the recoverability of IWCL's investment in Iridium LLC.

At December 31, 1997, Iridium LLC had total assets, total liabilities and total members' equity of $3,646,000,000, $2,011,000,000 and $1,635,000,000, respectively. At December 31, 1998, Iridium LLC had total assets, total liabilities and total members' equity of approximately $3,739,000,000, $3,262,000,000 and $477,000,000, respectively. Iridium LLC reported a net loss of $73,598,000, $293,553,000, and $1,252,801,000, for the years ended December 31, 1996, 1997 and 1998, respectively.

MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

INCOME TAXES

IWCL recognizes income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

3. Stockholders' Equity

On July 16,1997, Iridium LLC and Iridium Capital Corporation, a wholly-owned subsidiary of Iridium, completed an offering (the "High Yield Offering") of (i) 300,000 units, each consisting of $1,000 principal amount of Iridium LLC 13% Senior Notes due 2005, Series A ("Series A Notes"), and one IWCL Warrant, representing the right to purchase 5.2 shares of Class A Common Stock of IWCL and (ii) $500 million aggregate principal amount of Iridium LLC 14% Senior Notes due 2005, Series B ("Series B Notes"). Iridium was subsequently substituted for Iridium LLC as obligor under the Series A Notes and the Series B Notes. The Series A Notes and Series B Notes are guaranteed by Iridium Roaming LLC, Iridium IP LLC and Iridium Facilities Corporation, also wholly-owned subsidiaries of Iridium. IWCL is not an obligor or guarantor of the Series A Notes or Series B Notes. The IWCL Warrants represent, in aggregate, the right to purchase 1,560,000 shares of Class A Common Stock of IWCL. Approximately $17,113,000 of the proceeds of the High Yield Offering were allocated to the fair value of the purchase price of the IWCL Warrants. The exercise price of each IWCL Warrant is $20.90 per share. The IWCL Warrants are exercisable at any time on or after one year from the date of original issuance and expire on July 15, 2005. Concurrent with the issuance of the IWCL Warrants in the High Yield Offering, Iridium LLC issued to IWCL 1,560,000 LLC Interest Warrants, each exercisable for one Iridium LLC Class 1 Interest at an exercise price of $20.90 per LLC Interest Warrant. IWCL and Iridium LLC have agreed that IWCL will exercise one LLC Interest Warrant upon the exercise of each IWCL Warrant. During 1998, 98,800 warrants were exercised.

EXCHANGE RIGHTS OF IRIDIUM LLC MEMBERS

Concurrent with the Offering, IWCL and Iridium LLC executed an Interest Exchange Agreement that conditionally permits holders of Class 1 Interests in Iridium LLC to exchange those interests, subject to the restrictions on transfer in the Iridium LLC Limited Liability Agreement, for shares of Class A Common Stock in IWCL at a ratio of one share of Class A Common Stock for each Iridium LLC Class 1 Interest, subject to anti-dilution adjustments. Under the Interest Exchange Agreement, no exchanges of Iridium LLC Class 1 Interests are permitted until 90 days after Iridium LLC has achieved one full quarter of positive earnings before interest, taxes, depreciation and amortization. In addition, no exchange shall take place unless approved pursuant to authorization of Directors representing at least 66 2/3% of the Iridium LLC Board of Directors.

GLOBAL OWNERSHIP PROGRAM

IWCL and Iridium LLC have commenced a Global Ownership Program which is designed to offer up to an aggregate of 2,500,000 shares of IWCL's Class B Common Stock at a purchase price of $13.33 per share to certain governmental telecommunication administrations and related entities as part of a comprehensive program to enhance market access, improve the competitive standing of the Iridium System and achieve appropriate regulatory approvals. At the time of issuance, purchasers of Class B Common Stock will be required to pay only an amount equal to the per share par value of the Class B Common Stock; $.01 per share. The balance of the purchase price will be payable through the withholding of dividends, if any, which would otherwise be payable on the shares of Class B Common Stock. A holder of Class B Common Stock may elect to pay the purchase price in cash at any time. Class B Common Stock is convertible to Class A Common Stock on a one-for-one basis, subject to anti-dilution adjustments, once certain conditions are met, including full payment for the shares and expiration of a minimum holding period. The proceeds generated from each sale of Class B Common Stock will be used to purchase Class 1 Interests in Iridium LLC. The payment terms with respect to such Iridium LLC Class 1 Interests will mirror the payment terms on the Class B Common Stock. During 1998, 20,625 shares of Class B Common Stock were issued under this program. These shares had a fair market value of $692,000 at the date of issuance.

SHARE ISSUANCE AGREEMENT

IWCL and Iridium LLC have also executed a Share Issuance Agreement which provides that all net proceeds from primary offerings of securities by IWCL will be invested in Class 1 Interests of Iridium LLC.

VOTING RIGHTS

The holders of Class A Common Stock are entitled to one vote per share. The holders of Class B Common Stock have no voting rights, except as required by Bermuda law in connection with matters involving a variation in terms of the Class B Common Stock.

PARTICIPATION IN THE GOVERNANCE OF IRIDIUM LLC

Providing that IWCL's Interest in Iridium LLC represents five percent or more of the total outstanding Class 1 Interests of Iridium LLC (which occurred upon the consummation of the IWCL Offering), IWCL shall be entitled to designate two Independent Company Directors as Directors of Iridium LLC.

STOCK OPTION PLAN OF IRIDIUM LLC

Iridium LLC has established a plan under which executive officers, managers and independent directors of Iridium LLC are awarded options to purchase Class A Common Stock of IWCL (the "Option Plan"). In 1998 the Option Plan was amended to include 5,625,000 shares of Class A Common Stock. The Option Plan also permits the award of stock appreciation rights in connection with any grant of options.

As of December 31, 1997 and 1998, options covering 2,004,556 and 2,469,810 shares of Class A Common Stock were outstanding with exercise prices ranging from $13.33 to $52.50 in 1997 and from $13.33 to $57.13 in 1998. As of December 31, 1997 and 1998, there were 397,145 and 827,777 options, respectively, exercisable at weighted average exercise prices of $13.33 and $16.20, respectively. As of December 31, 1998, no stock appreciation rights had been granted. The right to exercise the options vests, pro rata, over a period of five years. Pursuant to the Share Issuance Agreement, IWCL has agreed that upon the exercise of any options, it will issue to Iridium LLC, for delivery to an exercising option holder, the number of shares of Class A Common Stock covered by the exercised options and Iridium LLC has agreed to simultaneously deliver to IWCL a like number of Iridium LLC Class 1 Interests, subject to anti-dilution adjustments. The exercise price of the option is paid to Iridium LLC and represents payment for the Class A Common Stock by the exercising option holder and for the Iridium LLC Class 1 Interests by IWCL. During the years ended December 31, 1997 and 1998, options to acquire 3,262 and 78,586 shares of Class A Common Stock were exercised. IWCL issued such shares in the names of the optionees and Iridium LLC issued 3,262 and 78,586 Class 1 Interests to IWCL.

MANAGEMENT SERVICES AGREEMENT

In connection with the IWCL Offering, Iridium LLC and IWCL entered into a Management Services Agreement. Pursuant to the Management Services Agreement, Iridium LLC has agreed to supervise and manage the day-to-day operations of IWCL. Among other things, Iridium LLC is responsible for administering the following functions of IWCL: treasury, accounting, legal, tax, insurance, licenses and permits and securities law compliance. Iridium LLC receives no fees or reimbursement from IWCL for its services to IWCL under the Management Services Agreement. Operating costs incurred by IWCL during the period since inception and paid for by Iridium LLC have not been significant.

4. Earnings Per Share

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share ("Statement 128"). Statement 128 supersedes Accounting Principles Board Opinion No. 15, Earnings per Share ("APB 15") and its related interpretations, and promulgates new accounting standards for the computation and manner of presentation of earnings (loss) per share data. Statement 128 requires the presentation of basic and diluted earnings (loss) per share data. Basic earnings (loss) per Class A Common Share is calculated by dividing net income (loss) by the weighted average number of Class A Common Shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of Class A Common Shares and, to the extent dilutive, other potentially dilutive securities outstanding during the period. Potentially dilutive securities are comprised of warrants to purchase Class A Common Stock issued in conjunction with the Series A Notes, stock options, and shares of Class B Common Stock. Due to losses incurred during the years ended December 31, 1997 and 1998, the impact of the warrants, options, and shares is anti-dilutive and is not included in the diluted earnings (loss) per share calculation. The adoption of Statement 128 had no effect on earnings (loss) per share as previously presented.

5. Income Taxes

IWCL is subject to income taxation based on its ratable portion of Iridium LLC's income or loss that is effectively connected to its U.S. business. During the years ended December 31, 1997 and 1998, IWCL recognized no current or deferred income tax expense or benefit. As of December 31, 1997 and 1998, IWCL's deferred tax assets relate entirely to its investment in Iridium LLC and amounted to approximately $7,446,000 and $16,433,000, respectively, for which a full valuation allowance has been established. As of December 31, 1998, IWCL had net operating loss carryforwards effectively connected to its U.S. business which amounted to $12,804,000 and are scheduled to expire in 2018.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies that can be implemented in making this assessment.

6. Subsequent Event

On January 21, 1999, IWCL issued 7,500,000 shares of Class A Common Stock resulting in net proceeds of $242,400,000. Pursuant to the 1997 Subscription Agreement between IWCL and Iridium LLC, such proceeds were used to purchase 7,500,000 Class 1 Interests in Iridium LLC, increasing IWCL's interest in Class 1 Membership Interests in Iridium LLC to approximately 13.23%.

Independent Auditors' Report

THE BOARD OF DIRECTORS AND MEMBERS
IRIDIUM LLC AND SUBSIDIARIES:

We have audited the accompanying consolidated balance sheets of Iridium LLC and subsidiaries (a development stage limited liability company) as of December 31, 1997 and 1998, and the related consolidated statements of loss, members' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 1998, and for the period June 14, 1991 (inception) through December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Iridium LLC and subsidiaries (a development stage limited liability company) as of December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, and for the period June 14, 1991 (inception) through December 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

KPMG LLP

McLean, Virginia
January 14, 1999, except as to note 12
which is as of January 21, 1999

Consolidated Balance Sheets

(In thousands except member interest data)

	1997	1998
	December 31	
Assets		
Current assets:		
Cash and cash equivalents	$ 9,040	$ 24,756
Restricted cash	350,220	—
Accounts receivable, net of allowance of $93 in 1998	—	93
Due from affiliates	13,604	17,031
Prepaid expenses and other current assets	6,612	15,021
Total current assets	379,476	56,901
Property and equipment, net	1,526,326	3,584,209
System under construction	1,625,054	—
Other assets	114,831	97,785
Total assets	$3,645,687	$3,738,895
Liabilities and Members' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 106,794	$ 165,539
Due to Member, current portion	10,601	131,532
Bank facilities, current portion	350,000	—
Total current liabilities	467,395	297,071
Bank facilities, net of current portion	210,000	1,125,000
Long-term debt due to Members	273,302	323,484
Notes payable, principal amounts of $1,100,000 and $1,450,000	1,054,288	1,405,735
Due to Member, net of current portion	—	86,240
Other liabilities	6,065	24,202
Total liabilities	2,011,050	3,261,732

(Continued next page)

Consolidated Balance Sheets (Continued)

	1997	1998
	December 31	
Commitments and Contingencies		
Members' equity:		
Class 2 Interests, authorized 50,000 interests for Series M; authorized an aggregate of 300,000 interests for Series A, Series B and Series C:		
Series M, convertible, no interests issued and outstanding	—	—
Series A, redeemable, convertible, 39,907 and 46,016 interests issued and outstanding; liquidation value of $39,907 and $46,016	39,907	46,016
Series B, redeemable, 1 interest issued and outstanding	—	—
Series C, redeemable, 75 interests issued and outstanding	—	—
Class 1 Interests, authorized 225,000,000 interests, 141,222,442 and 141,420,453 interests issued and outstanding	2,024,220	2,114,316
Deferred Class 1 Interest compensation	(1,454)	(1,162)
Other comprehensive income — adjustment for minimum pension liability	(643)	(1,813)
Deficit accumulated during the development stage	(427,393)	(1,680,194)
Total members' equity	1,634,637	477,163
Total liabilities and members' equity	$3,645,687	$3,738,895

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

Consolidated Statements of Loss

(In thousands except member interest data)

	Year ended December 31,			Period from June 14, 1991 (inception) through December 31, 1998
	1996	1997	1998	
Revenues	$ —	$ —	$ 186	$ 186
Operating expenses:				
Sales, general and administrative	70,730	177,474	435,861	749,162
Depreciation and amortization	674	119,124	551,912	673,341
Total operating expenses	71,404	296,598	987,773	1,422,503
Operating loss	71,404	296,598	987,587	1,422,317
Other income and expenses:				
Interest (income) expense, net	(2,395)	(3,045)	265,214	249,906
Loss before provision for income taxes	69,009	293,553	1,252,801	1,672,223
Provision for income taxes	4,589	—	—	7,971
Net loss	$73,598	$293,553	$1,252,801	$1,680,194
Preferred dividend requirement	3,652	5,703	6,109	
Net loss applicable to Class 1 Interests	$77,250	$299,256	$1,258,910	
Net loss per Class 1 Interest — basic and diluted	$ 0.64	$ 2.25	$ 8.91	
Weighted average interests used in computing net loss per Class 1 Interest — basic and diluted	120,115,575	132,879,976	141,322,445	

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

Consolidated Statements of Members' Equity (Deficit)

(In thousands except interest data)

	Class 2 Interests All Series: Number of Interests	Class 2 Interests All Series: Amount	Class 1 Interests: Number of Interests	Class 1 Interests: Amount	Deferred Class 1 Interest Compensation	Adjustment for Minimum Pension Liability	Deficit Accumulated During the Development Stage	Total
Inception June 14, 1991	—	$ —	—	$ —	$ —	$ —	$ —	$ —
Net loss	—	—	—	—	—	—	(757)	(757)
BALANCE, December 31, 1991	—	—	—	—	—	—	(757)	(757)
Net loss	—	—	—	—	—	—	(8,773)	(8,773)
BALANCE, December 31, 1992	—	—	—	—	—	—	(9,530)	(9,530)
Net loss	—	—	—	—	—	—	(5,309)	(5,309)
BALANCE, July 29, 1993	—	—	—	—	—	—	(14,839)	(14,839)
Class 1 Interests subscribed, July 29, 1993	—	—	60,000,000	—	—	—	—	—
Subscribed Class 1 Interests issued for cash at $13.33 per interest	—	—	—	324,167	—	—	—	324,167
Costs of raising equity	—	—	—	(8,096)	—	—	—	(8,096)
Net loss	—	—	—	—	—	—	(6,924)	(6,924)
BALANCE, December 31, 1993	—	—	60,000,000	316,071	—	—	(21,763)	294,308
Class 1 Interests subscribed	—	—	59,458,350	—	—	—	—	—
Subscribed Class 1 Interests issued for cash at $13.33 per interest	—	—	—	518,202	—	—	—	518,202
Costs of raising equity	—	—	—	(1,863)	—	—	—	(1,863)
Net loss	—	—	—	—	—	—	(14,834)	(14,834)
BALANCE, December 31, 1994	—	—	119,458,350	832,410	—	—	(36,597)	795,813
Subscribed Class 1 Interests issued for cash at $13.33 per interest	—	—	—	633,514	—	—	—	633,514
Costs of raising equity	—	—	—	(7)	—	—	—	(7)
Net loss	—	—	—	—	—	—	(23,645)	(23,645)
Adjustment for minimum pension liability	—	—	—	—	—	(1,065)	—	(1,065)
BALANCE, December 31, 1995	—	—	119,458,350	1,465,917	—	(1,065)	(60,242)	1,404,610
Subscribed Class 1 Interests issued for cash at $13.33 per interest	—	—	1,377,675	140,131	—	—	—	140,131
Class 2 Interests issued for cash at $13.33 per Interest	43,401	43,325	—	—	—	—	—	43,325
Series A, Class 2 Interests issued in dividends	3,652	3,632	—	(3,652)	—	—	—	—
Costs of raising equity	—	—	—	(251)	—	—	—	(251)
Warrants to purchase Class 1 Interests issued in connection with 14.5% Senior subordinated notes	—	—	—	31,761	—	—	—	31,761
Warrants to purchase Class 1 Interests issued in connection with debt guarantee	—	—	—	25,719	—	—	—	25,719
Net loss	—	—	—	—	—	—	(73,598)	(73,598)
Adjustment for minimum pension liability	—	—	—	—	—	332	—	332
BALANCE, December 31, 1996	47,053	46,977	120,836,025	1,659,625	—	(733)	(133,840)	1,572,029

(Continued next page)

Consolidated Statements of Members' Equity (Continued)

	Class 2 Interests All Series		Class 1 Interests		Deferred Class 1 Interest Compensation	Adjustment for Minimum Pension Liability	Deficit Accumulated During the Development Stage	Total
	Number of Interests	Amount	Number of Interests	Amount				
Subscribed Class 1 Interests issued for cash at $13.33 per interest	—	—	7,500,000	59,248	—	—	—	59,248
Exercise of employee stock options	—	—	3,262	43	—	—	—	43
Initial public offering	—	—	12,000,000	240,000	—	—	—	240,000
Class 2 Interests converted to Class 1 Interests	(12,773)	(12,773)	883,155	12,773	—	—	—	—
Series A, Class 2 Interests issued in dividends	5,703	5,703	—	(5,703)	—	—	—	—
Costs of raising equity	—	—	—	(16,100)	—	—	—	(16,100)
Warrants to purchase Class 1 Interests issued in connection with 13% Senior notes, Series A	—	—	—	17,113	—	—	—	17,113
Warrants to purchase Class 1 Interests issued in connection with debt guarantee	—	—	—	55,615	—	—	—	55,615
Deferred Class 1 Interests compensation	—	—	—	1,606	(1,454)	—	—	152
Net loss	—	—	—	—	—	—	(293,553)	(293,553)
Adjustment for minimum pension liability	—	—	—	—	—	90	—	90
BALANCE, December 31, 1997	39,983	39,907	141,222,442	2,024,220	(1,454)	(643)	(427,393)	1,634,637
Proceeds from subscribed Class 1 Interests at $13.33 per interest	—	—	20,625	46,354	—	—	—	46,354
Exercise of employee stock options	—	—	78,586	1,079	—	—	—	1,079
Series A, Class 2 Interests issued in dividends	6,109	6,109	—	(6,109)	—	—	—	—
Warrants to purchase Class 1 Interests issued in connection with 13% Senior notes, Series A	—	—	98,800	2,065	—	—	—	2,065
Warrants to purchase Class 1 Interests issued in connection with debt guarantee	—	—	—	46,707	—	—	—	46,707
Deferred Class 1 Interests compensation	—	—	—	—	292	—	—	292
Net loss	—	—	—	—	—	—	(1,252,801)	(1,252,801)
Adjustment for minimum pension liability	—	—	—	—	—	(1,170)	—	(1,170)
BALANCE, December 31, 1998	46,092	$46,016	141,420,453	$2,114,316	$(1,162)	$(1,813)	$(1,680,194)	$477,163

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

Consolidated Statements of Cash Flows

(In thousands)

	Year ended December 31, 1996	1997	1998	Period from June 14, 1991 (inception) through December 31, 1998
Cash flows from operating activities:				
Net loss	$(73,598)	$(293,553)	$(1,252,801)	$(1,680,194)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	674	119,124	551,912	673,341
Interest converted to debt	—	—	143,966	143,966
Expense recognized for warrants issued in connection with debt guarantee	25,719	55,615	46,707	128,041
Employee Class 1 Interests compensation	—	152	292	444
Loss on disposal of assets	—	87	—	87
Changes in assets and liabilities:				
Increase in accounts receivable	—	—	(93)	(93)
Decrease (Increase) in prepaid expenses and other current assets	(6,281)	542	(8,409)	(15,021)
Increase in due from affiliates	(3,476)	(10,128)	(3,427)	(17,031)
Increase in other assets	(4,079)	(2,286)	(431)	(19,090)
Increase in accounts payable and accrued expenses	12,968	30,857	23,976	72,770
(Decrease) Increase in other liabilities	2,739	(1,493)	7,959	13,944
Net cash used in operating activities	(45,334)	(101,083)	(490,349)	(698,836)
Cash flows from investing activities:				
Purchases of property and equipment	(902,232)	(861,563)	(751,790)	(3,866,480)
Net cash used in investing activities	(902,232)	(861,563)	(751,790)	(3,866,480)

(Continued)

	Year ended December 31, 1996	1997	1998	Period from June 14, 1991 (inception) through December 31, 1998
Cash flows from financing activities:				
Net proceeds from issuance of Class 1 and Class 2 Interests	183,205	283,191	49,081	1,981,392
Net proceeds from issuance of senior notes and warrants	238,453	1,039,189	341,317	1,618,959
Borrowings under guaranteed bank line of credit	505,000	655,000	971,500	2,131,500
Payments under guaranteed bank line of credit	—	(950,000)	(556,500)	(1,506,500)
Borrowings under senior secured line of credit	—	350,000	560,000	910,000
Payments under senior secured line of credit	—	—	(410,000)	(410,000)
(Increase) Decrease in restricted cash	—	(350,220)	350,220	—
Deferred financing costs	(28,535)	(57,363)	(47,763)	(135,279)
Net cash provided by financing activities	898,123	969,797	1,257,855	4,590,072
Increase (Decrease) in cash and cash equivalents	(49,443)	7,151	15,716	24,756
Cash and cash equivalents, beginning of period	51,332	1,889	9,040	—
Cash and cash equivalents, end of period	$ 1,889	$ 9,040	$ 24,756	$ 24,756

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

Notes to Consolidated Financial Statements

1. Organization and Business

Iridium LLC (the "Parent") and its subsidiaries have completed their effort to develop and commercialize a global wireless system — the Iridium® Communications System (the "Iridium System") — that enables subscribers to send and receive telephone calls virtually anywhere in the world — all with one phone, one phone number and one customer bill. Iridium commenced commercial satellite phone service on November 1, 1998 and commercial satellite paging service on November 15, 1998. The Parent and its subsidiaries are currently transitioning from a development stage limited liability company to an operating limited liability company.

Iridium, Inc. was incorporated on June 14, 1991. Iridium, Inc. operated as a wholly-owned subsidiary of Motorola, Inc. ("Motorola") until July 29, 1993. On July 29, 1993, Iridium, Inc. closed on, and had its first capital draw under, a private placement of shares of Common Stock, subscribed to by U.S. and foreign investors. As a result of three private placements of equity, five supplemental private placements with certain additional equity investors and proceeds received from the initial public offering of common stock of Iridium World Communications Ltd. ("IWCL") (see Note 3), Motorola's direct and indirect Class 1 Membership Interest ("Class 1 Interest") in the Parent has been reduced to approximately 19% as of December 31, 1998, before considering unexercised warrants held by Motorola.

The Iridium System is subject to regulation by the Federal Communications Commission ("FCC"), and by foreign administrations and regulatory bodies. On January 31, 1995, Motorola obtained a license from the FCC to construct, launch and operate the Iridium System, subject to certain conditions.

On July 29, 1996, the Parent was formed as a limited liability company, under the terms and conditions of the limited liability agreement ("LLC Agreement"), pursuant to the provisions of the Delaware limited liability company act. Also on July 29, 1996, Iridium, Inc. was merged with and into the Parent, with the Parent as the surviving entity. Concurrent with the merger, all shares of Common Stock of Iridium, Inc. were exchanged for Class 1 Interests in the Parent.

On December 18, 1997, the Parent entered into an asset drop-down transaction (the "Asset Drop-Down Transaction") with Iridium Operating LLC ("Iridium"), a wholly-owned subsidiary of the Parent. Pursuant to the Asset Drop-Down Transaction, substantially all of the assets and liabilities of the Parent were transferred to Iridium, including, without limitation, all liabilities with respect to the outstanding 13% Senior Notes due 2005 Series A and 14% Senior Notes due 2005 Series B and the 11 1/4% Senior Notes due 2005 Series C (collectively, the "Senior Notes"). Pursuant to the indentures relating to the Senior Notes, Iridium has been substituted for the Parent, and the Parent has been released from all obligations under the indentures relating to the Senior Notes. All assets and liabilities were transferred to Iridium at the Parent's carrying value. Accordingly, unless otherwise specified, references within these notes to Iridium that relate to any action prior to the date of the Asset Drop-Down Transaction should be construed as references to the Parent, as predecessor of Iridium. As a result of the Asset Drop-Down Transaction, the Parent's only significant asset is its investment in Iridium.

On December 22, 1998, the Parent entered into a stock purchase agreement with AT&T Wireless Services, Inc., ATGI, Inc. and Rogers Cantel Inc., pursuant to which the Parent agreed to purchase all of the outstanding capital stock of Claircom Communications Group, Inc., a provider of in-flight phone service for commercial and private aircraft. The estimated aggregate purchase price is approximately $65 million. The closing of this purchase is expected to occur in the latter half of 1999 and is subject to regulatory approval and certain other conditions.

2. Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Parent and its wholly-owned subsidiaries, Iridium, Iridium GeoLink LLC, Iridium Promotions Inc. and Iridium Aero Acquisition Sub, Inc. and Iridium's wholly-owned subsidiaries, Iridium Capital Corporation, Iridium Roaming LLC, Iridium IP LLC, Iridium Facilities Corporation and Iridium Canada Facilities Inc. All significant intercompany transactions have been eliminated. Operations in 1998 of Iridium GeoLink LLC, Iridium Promotions Inc. and Iridium Canada Facilities Inc. were inconsequential to the business of Iridium.

DEVELOPMENT STAGE ENTERPRISE

Through the end of 1998, the Parent, through Iridium, devoted its entire efforts to establishing and commercializing the Iridium System. On December 18, 1997, the Parent and Iridium entered into an Asset Drop-Down Transaction whereby substantially all of the assets and liabilities of the Parent were transferred to Iridium. The purpose of the Asset Drop-Down Transaction was to facilitate the pledge of substantially all of the assets of the Parent in connection with the establishment of secured bank financing for the development and construction of the Iridium System. At December 31, 1998, the Parent's ownership interest in Iridium constituted substantially all of the Parent's assets. Accordingly, Iridium's principal activities related to managing the design, construction and development of the system and preparing for its day-to-day operations. Iridium commenced commercial activation on November 1, 1998 and began the transition from a development stage enterprise to an operating company.

MANAGEMENT ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Parent considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

RESTRICTED CASH

In 1997, restricted cash consisted of the first stage of borrowing under the $1 billion secured credit facility with a syndicate of lenders, led by Chase Securities, Inc., and Barclays Capital, a division of Barclays Bank PLC. The funds were restricted subject to Iridium meeting specified milestones. The milestones were met in January 1998 and the restriction was lifted.

PROPERTY AND EQUIPMENT

Property and equipment is carried at historical cost less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives:

Satellites in service	5 years
Ground segment in service	7 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	Shorter of 5 years or remaining lease term

The costs of constructing and placing satellites into service are capitalized. Losses from satellite failures for which Iridium has financial responsibility under its contractual arrangements with Motorola are recognized currently. Motorola bears the risk of loss for launch failures and satellite failures before a satellite is placed into service.

SYSTEM UNDER CONSTRUCTION

System under construction includes all costs incurred related to the construction of the space and ground components of the Iridium System. Depreciation expense is recognized on a satellite-by-satellite basis as the satellites are placed into service following delivery of each satellite to its mission orbit. Depreciation related to the ground control stations commenced with the placement in service of each station.

A portion of interest costs incurred during the construction of the Iridium System were capitalized. Total interest costs in 1998 amounted to approximately $443,308,000. Interest cost capitalized for the years ended December 31, 1997 and 1998 was approximately $163,747,000 and $170,089,000, respectively. Interest costs amounting to $273,219,000 have been expensed as incurred in 1998. Interest paid for the years ended December 31, 1997 and 1998 was approximately $30,191,000 and $186,897,000, respectively.

The costs capitalized in system under construction are transferred to property and equipment as the underlying assets are placed into service. As of December 31, 1998, all costs associated with the system have been placed into service.

The Parent has adopted Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of ("Statement 121"). Statement 121 requires that long-lived assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the undiscounted net cash flows associated with the asset are less than the asset's carrying amount. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair market value. The adoption of Statement 121 did not have a material impact on the Parent's results of operations for the years ended December 31, 1997 and 1998.

MEMBER INTEREST-BASED COMPENSATION

During 1996, the Parent adopted Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("Statement 123"), which encourages, but does not require, the recognition of member interest-based employee compensation at fair value. The Parent has elected to continue to account for member interest-based employee compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for options to purchase Class A Common Stock of IWCL granted to employees is measured as the excess, if any, of the fair value of Class A Common Stock at the date of the grant over the exercise price an employee must pay to acquire the interest. Compensation expense, if any, is recognized over the period earned by the employee and was $152,000 and $292,000, respectively, for the years ended December 31, 1997 and 1998. No compensation expense was recognized for the year ended December 31, 1996 as all options to acquire Class 1 Interests were granted at an exercise price equal to the fair market value as of the date of grant.

Warrants or options to purchase member interests granted to other than employees as consideration for goods or services rendered are measured at fair market value and are recognized as the goods or services are provided.

EQUITY ISSUANCE COSTS

The Parent classifies all costs incurred in connection with the issuance of equity as a reduction of members' equity. These costs include fees paid to investment bankers, attorneys and others in connection with the issuance of equity.

DEFERRED FINANCING COSTS

All costs incurred in connection with securing debt financing have been deferred and are amortized over the terms of the related debt in a manner that approximates the effective yield method. Such costs are included in other non-current assets in the accompanying consolidated balance sheets. Total deferred financing costs, net of accumulated amortization, are approximately $113,394,000 and $96,136,000 at December 31, 1997 and 1998, respectively.

INCOME TAXES

Iridium, Inc. was subject to Federal, state and local income taxes directly. As a result of the merger of Iridium, Inc. with and into the Parent, the Parent became a limited liability company. As a limited liability company, the Parent is no longer subject to U.S. Federal income tax directly. Rather, each Class 1 member is subject to U.S. Federal income taxation based on its ratable portion of the Parent's income or loss. However, the Parent's primary operations are in the District of Columbia which does not recognize the limited liability status for tax purposes. Accordingly, the Parent is subject to District of Columbia franchise taxes directly. The Parent recognizes its provision for income taxes under the asset and liability method. Under the asset and liability method, deferred tax assets and deferred tax liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

REVENUES

The Parent recognizes revenue as phone and paging services are provided. Revenue in 1998 relates solely to satellite phone usage. Revenue is earned through gateway owners whose subscribers utilize the phone and paging services. Gateway owners are also members of the Parent. The Parent has executed a 60-day settlement agreement with each of these gateway owners for purposes of collecting earned revenues.

OPERATIONS AND MAINTENANCE CONTRACT

The Parent recognizes its obligations under the Operations and Maintenance Contract (Note 7) on a straight-line basis over the term of the contract. Costs incurred under the contract that extend the useful life of the space system are capitalized and all other costs are expensed.

NET INCOME (LOSS) PER CLASS 1 INTEREST

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share ("Statement 128"). Statement 128 supersedes Accounting Principles Board Opinion No. 15, Earnings per Share ("APB 15") and its related interpretations, and promulgates new accounting standards for the computation and manner of presentation of the Parent's loss per Class 1 Interest data. Statement 128 requires the presentation of basic and diluted earnings (loss) per interest data. Basic earnings (loss) per Class 1 Interest is calculated by dividing net income (loss), after considering required dividends on Class 2 Interests, by the weighted average number of Class 1 Interests outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net income (loss), after considering required dividends on Class 2 Interests, by the weighted average number of Class 1 Interests and, to the extent dilutive, other potentially dilutive securities outstanding during the period. Potentially dilutive securities are comprised of options, warrants, and convertible Class 2 Interests. Due to the losses incurred during the years ended December 31, 1996, 1997, and 1998, the impact of other potentially dilutive securities is anti-dilutive and is not included in the diluted earnings (loss) per Class 1 Interest calculation. The adoption of Statement 128 had no effect on earnings (loss) per Class 1 Interest as previously presented.

OTHER COMPREHENSIVE INCOME

In June 1997, the Financial Accounting Standards Board issued Statement No. 130, Reporting Comprehensive Income ("Statement 130"). Statement 130 establishes standards for the reporting and display of comprehensive income and its components in the consolidated financial statements. The amounts associated with the components of other comprehensive income relate to the Parent's adjustment for minimum pension liability and are not material.

RECLASSIFICATIONS

Certain 1996 and 1997 amounts have been reclassified to conform to the 1998 presentation.

3. Members' Equity

CLASSES OF MEMBERSHIP INTERESTS

The members' interests in the Parent are divided into two classes: Class 1 Interests which represent the common equity and Class 2 Interests which represent the preferred equity. The LLC Agreement authorizes the Parent to issue 225,000,000 Class 1 Interests, 50,000 Series M Class 2 Interests, and 300,000 additional Class 2 Interests. A description of each of the classes of membership interests follows:

Class 1 Interests. Subject to the rights of holders of any series of Class 2 Interests, all voting rights of the members are vested in the Class 1 Interests. Each member is entitled to appoint one Director for each 5,250,000 Class 1 Interests owned. Class 1 members may aggregate any or all of their Class 1 Interests with other Class 1 members and appoint one Director for each 5,250,000 Class 1 Interests owned in the aggregate. The members may manage the Parent only through their designated Directors and have no authority, in their capacity as members, to act on behalf of or bind the Parent.

The LLC Agreement contains a reserve capital call provision under which certain members have agreed to purchase additional Class 1 Interests (the "Reserve Capital Call"). If the Board elects to exercise this option, the Parent could raise up to an additional $243 million for 18,206,550 Class 1 Interests. However, the Reserve Capital Call is pledged to secure the Secured Bank Facility (see Note 5).

Series M Class 2 Interests. Motorola owns a warrant to purchase Series M Class 2 Interests in an amount that is convertible into 2.5% of the outstanding Class 1 Interests at the time of exercise of the warrant (calculated on a fully diluted basis) at a price of $1,000 per Series M Class 2 Interest. Each Series M Class 2 Interest is non-voting and currently convertible into 75 Class 1 Interests. The initial Series M Conversion Price is $13.33, but is subject to anti-dilution adjustments from time to time. Dividends on Series M Class 2 Interests are cumulative and accrue at the rate of 8% per annum. No Series M Class 2 Interests are outstanding.

Series A Class 2 Interests. The Series A Class 2 Interests are convertible preferred interests that pay dividends at a rate of 14 1/2% per annum. Dividends on the Series A Class 2 Interests are payable, either in-kind or in cash, at the option of the Parent, through February 28, 2001. Commencing March 1, 2001, dividends on the Series A Class 2 Interests are payable only in cash. Dividends on the Series A Class 2 Interests accrue whether or not they have been declared and whether or not there are profits or other funds of the Parent legally available for the payment of such dividends. No dividend may be declared and paid on the Class 1 Interests unless all accrued dividends on the Series A Class 2 Interests have been paid in full. The Series A Class 2 Interests are non-voting and convertible to Class 1 Interests at any time at the option of the holder, at the conversion price then in effect, initially $54.03. The conversion price is adjusted from time to time to reflect, among other things, distributions or reclassifications of the Class 1 Interests. Currently each Series A Class 2 Interest may be converted into 18.51 Class 1 Interests. The Series A Class 2 Interests are redeemable, at the option of the Parent, at any time after March 1, 2001, subject to a premium if redeemed prior to March 1, 2005.

Series B and Series C Class 2 Interests. In connection with Motorola's guarantee of the $450 million credit facility (the "Guarantee Agreement") (see Note 5), the Parent issued to Motorola one Series B Class 2 Interest and 75 Series C Class 2 Interests. The Series B Class 2 Interest and Series C Class 2 Interests do not pay any dividends. The Series B Class 2 Interest entitles Motorola to one seat on the Board of Directors in addition to Directors it may appoint as the owner of Class 1 Interests and Series M Class 2 Interests. The Series C Class 2 Interests entitle Motorola to appoint a majority of the Board of Directors in the event of certain events of default. The Series B and Series C Class 2 Interests are redeemable at the option of the Parent at $.01 per interest upon the later of (i) the termination or expiration of the Guarantee Agreement and (ii) the reimbursement of any payments made by Motorola pursuant to the Guarantee Agreement (see Note 5).

The LLC Agreement provides that the Parent may merge or consolidate with one or more limited liability companies, corporations, or similar entities provided that the transaction is approved by the Board of Directors and Class 1 members holding not less than 66 2/3% of the outstanding Class 1 Interests. In the event of a merger, members who hold interests and do not vote in favor of, or consent in writing to, the merger are entitled to appraisal and repurchase rights of their interests as specified in the LLC Agreement.

DIVIDEND AND LIQUIDATION RIGHTS

Class 1 members are entitled to receive dividends, as and when declared by the Board of Directors, in its discretion. Class 2 members are entitled to receive dividends, if any, in accordance with the terms of the relevant series of Class 2 Interests, as and when declared by the Board of Directors. The Class 2 Interests rank senior to the Class 1 Interests as to dividends and distributions upon the liquidation, dissolution and winding-up of the Parent.

The LLC Agreement requires the Board of Directors, to the extent of legally available funds, to declare and pay a dividend sufficient to assure that each non-U.S. Class 1 Member receives an amount at least equal to the amount of such member's U.S. Federal, state and local income tax liability resulting from allocations of the Parent's taxable income to such member. The Parent's only current source of funds is from dividend distributions from Iridium, and Iridium is required to declare and pay a dividend to the Parent in the same amount as required by the LLC Agreement. However, Iridium is restricted by the terms of certain of its debt obligations from declaring and paying dividends in excess of those required to be made to the Parent.

The LLC Agreement contains significant restrictions on the ability of a member to transfer any interests in the Parent, including but not limited to the conditions that: (i) a majority of the Directors approve the transfer, and (ii) the transfer not result in any member beneficially owning, or having the right to beneficially own, more than 45% of the outstanding Class 1 Interests.

EXCHANGE RIGHTS OF IRIDIUM LLC MEMBERS

Concurrent with the initial public offering, IWCL and Iridium LLC executed an Interest Exchange Agreement that conditionally permits holders of Class 1 Interests in Iridium LLC to exchange those interests, subject to the restrictions on transfer in the Iridium LLC Limited Liability Agreement, for shares of Class A Common Stock in IWCL at a ratio of one share of Class A Common Stock for each Iridium LLC Class 1 Interest, subject to anti-dilution adjustments. Under the Interest Exchange Agreement, no exchanges of Iridium LLC Class 1 Interests are permitted until 90 days after Iridium has achieved one full quarter of positive earnings before interest, taxes, depreciation and amortization. In addition, no exchange shall take place unless approved pursuant to authorization of Directors representing at least 66 2/3% of the Iridium LLC Board of Directors.

GLOBAL OWNERSHIP PROGRAM

The Parent, in conjunction with IWCL, has commenced a Global Ownership Program which is designed to offer up to an aggregate of 2,500,000 shares of IWCL's Class B Common Stock at a purchase price of $13.33 per share to certain governmental telecommunication administrations and related entities as part of a comprehensive program to enhance market access, improve the competitive standing of the Iridium System and achieve appropriate regulatory approvals. As of December 31, 1997 and 1998, 0 and 20,625 shares, respectively, of Class B Common Stock had been issued under this program. These shares had a fair market value of $692,000 at the date of issuance.

LIMITATIONS ON LIABILITY

Members are generally not liable for the debts, obligations or liabilities of the Parent.

EQUITY TRANSACTIONS

On April 16, 1997, the LLC Agreement was amended to increase the authorized number of Class 1 Interests from 3,000,000 to 225,000,000. On May 9, 1997, the Parent effected a 75 for 1 subdivision of its Class 1 Membership Interests whereby each existing Class 1 Interest was subdivided into 75 Class 1 Interests. All interest and per interest data appearing in the consolidated financial statements and notes thereto have been retroactively adjusted for the subdivision.

On May 9, 1997, the Parent entered into a definitive agreement with South Pacific Iridium Holdings Limited ("SPI"), an affiliate of P. T. Bakrie Communications Corporation, pursuant to which SPI acquired from Parent 7,500,000 Class 1 Interests at $13.33 per interest. The transaction closed on May 30, 1997 with 40% of the total purchase price paid on that date and the remainder due on or before May 1998 which was extended in 1998 through 1999 and includes interest at 18%. Through December 31, 1997 and 1998, the Parent has received an aggregate of $59.2 million and $104.9 million, respectively, from SPI in satisfaction of the commitment which includes interest of $11.5 million.

On June 13, 1997, IWCL, a wholly-owned subsidiary of the Parent as of that date, consummated an initial public offering (the "Offering") of 12,000,000 shares of its Class A Common Stock which resulted in proceeds of approximately $225 million to IWCL (expenses of the offering were paid by the Parent). Pursuant to the 1997 Subscription Agreement between the Parent and IWCL, such proceeds were used to purchase 12,000,000 Class 1 Interests in the Parent. Upon consummation of the Offering, all of the outstanding shares of IWCL held by the Parent were retired and cancelled, and IWCL became a member of the Parent.

On January 21, 1999, IWCL commenced a secondary offering of 7,500,000 shares of Class A Common Stock (see Note 12).

4. Property and Equipment

Property and equipment at December 31, 1997 and 1998, consists of the following (in thousands):

	1997	1998
Space system in service	$1,624,120	$3,481,482
Terrestrial system asset	—	550,716
Business support systems	—	176,624
Office equipment and furniture	13,920	37,450
Leasehold improvements	8,424	9,852
	1,646,464	4,256,124
Less-accumulated depreciation and amortization	(120,138)	(671,915)
Property and equipment, net	$1,526,326	$3,584,209

5. Debt

OLD GUARANTEED BANK FACILITY

On August 21, 1996, the Parent entered into a $750 million credit agreement (the "Old Guaranteed Bank Facility") with a group of banks led by The Chase Manhattan Bank, NA and Barclays Bank, PLC. On the same date, the Parent entered into the Guarantee Agreement whereby Motorola agreed to guarantee the entire $750 million commitment amount (the "Old Motorola Guarantee"). In connection with the Asset Drop-Down Transaction, the Parent's obligations under the Old Guaranteed Bank Facility were assigned to Iridium. The Old Guaranteed Bank Facility provided that Iridium could elect to borrow amounts at the then current short-term Eurodollar rate plus 1/4% or at the then current Base Rate (generally, the higher of the Federal Funds Rate as established by the Federal Reserve Bank of New York plus 0.50% or The Chase Manhattan Bank's prime commercial lending rate). Iridium also paid a commitment fee of 1/10 of 1% on any unused portion of the $750 million credit facility. Interest rates on the Old Guaranteed Bank Facility ranged from 5.63% to 8.50% during 1997 and from 5.75% to 5.94% during 1996. On July 21, 1997, the commitment of the bank lenders under the Old Guaranteed Bank Facility was permanently reduced from $750 million to $655 million. On October 22, 1997, the commitment of the bank lenders under the Old Guaranteed Bank Facility was further permanently reduced to $450 million. At December 31, 1997, $210,000,000 was outstanding under the Old Guaranteed Bank Facility. Borrowings under the Old Guaranteed Bank Facility were to mature on June 30, 1999.

On May 11, 1998, the Parent entered into a Memorandum of Understanding with Motorola (the "Old Motorola MOU") whereby Motorola conditionally agreed that it would (i) guarantee up to $350 million of additional indebtedness (including principal and interest) under the Old Guaranteed Bank Facility or another credit facility on identical terms, provided that borrowings under such additional indebtedness were made on or prior to February 28, 1999 and (ii) guarantee up to approximately $175 million of additional indebtedness (including principal and interest) under the Old Guaranteed Bank Facility or a credit agreement having identical terms as the Old Guaranteed Bank Facility (other than maturity). As discussed below, the Old Motorola MOU has been replaced with a new agreement.

Under the Old Motorola Guarantee, the Parent was required to issue warrants to Motorola to purchase up to 11,250,000 Class 1 Interests and as consideration for its guarantee, Motorola earned 82,500 warrants for each year (or portion thereof) the $750 million guarantee was outstanding. Warrants earned were issued to Motorola on a quarterly basis. Each warrant entitled Motorola to purchase 75 Class 1 Interests at an exercise price of $0.00013 per interest, subject to anti-dilution adjustments. The warrants can be exercised after five years from date of issuance and expired ten years from date of issuance. Motorola earned 29,836, 64,518 and 9,472 warrants to purchase Class 1 Interests in accordance with the Old Motorola Guarantee Agreement during the years ended December 31, 1996, 1997 and 1998, respectively. Iridium recognized $25,719,000, $55,615,000 and $8,790,000 as an expense in the accompanying consolidated statements of operations to reflect the fair market value of the warrants earned by Motorola for the years ended December 31, 1996, 1997 and 1998, respectively. As discussed below, the Old Motorola Guarantee has been replaced with a new agreement.

NEW GUARANTEED BANK FACILITY

On December 23, 1998, Iridium replaced the Old Guaranteed Bank Facility with two new bank facilities that consist of a $475 million term credit facility that matures on December 29, 2000 and a $275 million revolving credit facility that matures on December 31, 2001, each with a different, but partially overlapping, syndicate of lenders. These facilities are guaranteed by Motorola and provide that Iridium may elect to borrow amounts at the then current Eurodollar rate plus 0.75% or at the then current Base Rate (generally, the higher of the Federal funds rate as established by the Federal Reserve Bank of New York plus 0.50% or The Chase Manhattan Bank's prime commercial lending rate). In 1998 interest rates on the Guaranteed Bank Facility ranged from 5.313% to 8.00%. As of December 31, 1998, Iridium had drawn an aggregate of approximately $625 million under these facilities (approximately $470 million under the term facility and approximately $155 million under the revolving facility).

OLD SENIOR SECURED BANK LINE OF CREDIT

In 1997, Iridium entered into a Credit Agreement with Chase Securities Inc., The Chase Manhattan Bank, Barclays Bank PLC and Barclays Capital, the investment banking division of Barclays Bank PLC, and a syndicate of lenders (the "Old Secured Lenders") for a senior bank facility in a principal amount of $1 billion (the "Old Secured Bank Facility"), of which $250 million was not available for borrowings prior to the commercial activation date. The Old Secured Bank Facility was secured by substantially all of Iridium's assets. The Old Secured Bank Facility was further secured by the $243 million Reserve Capital Call of the members of Parent and all of the Parent's membership interests in Iridium. Borrowings under the Old Secured Bank Facility were to mature on September 30, 1998, subject to Iridium's right to extend such maturity until up to June 30, 1999 if it could demonstrate by July 1, 1998 that it had sufficient available or committed financing for its budgeted project costs through such extended maturity. At December 31, 1997, $350,000,000 was outstanding under the Old Secured Bank Facility. In 1998, the maturity of the borrowings under the Old Secured Bank Facility was extended to December 31, 1998.

NEW SENIOR SECURED BANK LINE OF CREDIT

On December 23, 1998 Iridium entered into a new secured facility with a new syndicate of lenders for $800 million. This facility provides that Iridium may elect to borrow amounts at the then current short-term Eurodollar rate plus 4% or at the then current Base Rate (generally, the higher of the Federal Funds Rate as established by the Federal Reserve Bank of New York plus 0.50% or The Chase Manhattan Bank's prime commercial lending rate plus 2.75%). The facility is secured by the same assets as the Old Secured Bank Facility and as of December 31, 1998 Iridium had drawn $500 million. The principal matures on December 29, 2000. Various additional covenants were added to the agreement, which include meeting certain revenue and subscriber levels. Additionally, in January 1999 Iridium drew down another $300 million in connection with this facility.

MOTOROLA MOU AND MOTOROLA ARG; CONDITIONAL COMMITMENT OF MOTOROLA TO GUARANTEE ADDITIONAL BORROWINGS

In connection with the establishment of the secured bank facility and the guaranteed bank facilities, Motorola, Parent and Iridium entered into the Motorola memorandum of understanding, or "MOU," which amended and restated the Old Motorola MOU. Under the Motorola MOU, Motorola has agreed to, among other things, (i) guarantee up to $750 million of obligations under the guaranteed bank facilities, (ii) consent to and agree to an amendment to the guaranteed bank facilities and the related guarantee agreement (or to enter into a new bank credit facility and guarantee agreement on the same terms (other than pricing)) that together provide for a $350 million increase in the Motorola guaranteed borrowings available thereunder, (iii) permit Iridium to defer its obligations to pay up to an aggregate of $400 million of payments under the O&M Contract until December 29, 2000, (iv) guarantee up to $400 million of additional borrowings under a bank credit facility with terms (other than pricing) identical in all material respects to the guaranteed credit facilities on the condition that such additional guaranteed borrowings be used exclusively to make payments to Motorola for deferred obligations under the O&M Contract (as described in (iii) above), (v) subordinate certain of its claims vis-à-vis Iridium to the lenders under the secured bank facility and (vi) consent to an amendment to the $275 million revolving credit facility component of the guaranteed bank facilities that would extend the maturity of such facility to beyond the maturity of the senior notes (which are due July 15, 2005). Iridium has agreed under the Motorola MOU that it will compensate Motorola for providing guarantees, deferral rights and other credit support (collectively, the "Motorola exposure," which generally includes the aggregate amount guaranteed, or permitted to be deferred, by Motorola) pursuant to the Motorola agreement regarding guarantee, or "ARG."

Motorola, Parent and Iridium also entered into the Motorola ARG, which amended and restated the Old Motorola ARG. Payments under the Motorola ARG are based on the amount and duration of Motorola exposure and are due and payable quarterly. Prior to October 1, 1999, Iridium is required to pay Motorola cash interest on the amount deferred at an annual interest rate of 12% for Motorola exposure relating to the deferred amounts under the O&M Contract. For Motorola exposure relating to guarantees of borrowings under bank credit facilities that exists prior to October 1, 1999, Iridium and Parent are required to compensate Motorola with cash interest and equity (including warrants to purchase either Class 1 Interests or, under certain conditions, Class A Common Stock). Prior to October 1, 1999, Motorola's compensation for Motorola exposure relating to the guaranteed bank facilities and the Motorola guaranteed O&M bank facility (if available) is based on the terms of the Series A and Series B Senior Notes. This "high yield based compensation" equals (i) interest on the Motorola exposure at an annual interest rate equal to the amount, if any, by which the interest rate on the relevant bank facility is less than 13.625% (the weighted average interest rate on the Series A and Series B Senior Notes) plus (ii) the payment of warrants to purchase approximately 66.758 Class 1 Interests (or shares of Class A Common Stock) per day per each $100 million of Motorola exposure at a purchase price of $20.90 per interest (or share) (the average daily warrant compensation payable to holders of senior notes).

After October 1, 1999, Iridium and Parent are required to pay Motorola equity compensation (in the form of warrants to purchase Class 1 Interests at a purchase price of $0.00013 per interest) for all Motorola exposure unless the aggregate Motorola exposure is less than or equal to $275 million, in which case Iridium may pay Motorola high yield based compensation. During this period, unless the Motorola exposure is less than $275 million, the amount of warrant compensation payable per dollar of Motorola exposure increases substantially as the Motorola exposure increases. In addition, Iridium is required to compensate Motorola with warrants to purchase Class 1 Interests at a price of $0.00013 per interest for any Motorola exposure resulting from Motorola making available any part of the additional $350 million in guaranteed borrowings discussed above regardless of when such Motorola exposure is incurred.

Parent and Iridium also have agreed under the Motorola MOU that they (i) will use their best efforts to reduce the Motorola exposure to no more than $275 million by the earliest possible date, including obtaining bank credit agreements not guaranteed by Motorola, issuing debt and equity securities (under certain conditions) and using revenues from operations, if available, to reduce the available borrowings under credit facilities guaranteed by Motorola and to pay amounts deferred under contracts with Motorola, (ii) will use their best efforts to obtain, on or before October 1, 1999, the Motorola guaranteed O&M bank facility to finance the payment of all deferred amounts under the O&M Contract, (iii) will not have outstanding in excess of (a) $1.7 billion of indebtedness for borrowed money that is secured by the assets of Iridium or (b) $1.62 billion in aggregate principal amount of senior notes, (iv) will not make certain acquisitions without Motorola's consent and (v) will provide Motorola with the right (in addition to Motorola's rights to representation based on its holdings of Class 1 Interests) to appoint one additional director to the Boards of Directors of Parent and Iridium any time the Motorola exposure exceeds $275 million, and the right to appoint a second additional director to the Boards of Directors of Parent and Iridium anytime the Motorola exposure exceeds $750 million. In addition, while Motorola has agreed to consent to (i) a $350 million increase in the amount of guaranteed borrowings available under the guaranteed bank facilities (or a new credit facility with terms (other than pricing) identical in all material respects) and (ii) an extension of the maturity of the $275 million revolving credit facility component of the guaranteed bank facilities, there can be no assurance that the lenders under the guaranteed credit facilities would agree to such amendments or that such a new credit facility would be available.

Motorola's obligation to defer receipt of up to $400 million in payment under the O&M Contract is unconditional. All of Motorola's other obligations under the Motorola MOU, including, without limitation, its obligation to consent to and agree to an amendment to the guaranteed bank facilities and the related guarantee agreement (or to enter into a new bank credit facility and guarantee agreement on the same material terms (other than principal)) that together provide for a $350 million increase in the Motorola guaranteed borrowings available thereunder, are conditioned on Iridium complying with the terms of the Motorola MOU, Motorola ARG, the O&M Contract and other agreements with Motorola, including Iridium's payment obligations under each such agreement.

NOTES PAYABLE

On July 16, 1997, the Parent, IWCL and Iridium Capital Corporation completed an offering (the "High Yield Offering") of (i) 300,000 units, each consisting of $1,000 principal amount of 13% Senior Notes due 2005, Series A ("Series A Notes"), and one IWCL Warrant representing the right to purchase 5.2 shares of Class A Common Stock of IWCL, and (ii) $500 million aggregate principal amount of 14% Senior Notes due 2005, Series B ("Series B Notes"). Concurrent with the Asset Drop-Down Transaction, the Parent's obligations under the Series A Notes and Series B Notes were assigned to Iridium. The Series A Notes and Series B Notes are guaranteed by Iridium Roaming LLC, Iridium IP LLC and Iridium Facilities Corporation. The aggregate net proceeds received were approximately $746 million. Interest on the Series A Notes and Series B Notes is payable in cash semi-annually on January 15 and July 15 of each year, commencing on January 15, 1998. The notes are redeemable at the option of Iridium, in whole or in part, at any time on or after July 15, 2002. The Series A Notes and Series B Notes mature on July 15, 2005.

On October 17, 1997, the Parent and Iridium Capital Corporation completed an offering of $300 million principal amount of 11 1/4% Senior Notes due 2005, Series C ("Series C Notes"). Concurrent with the Asset Drop-Down Transaction, the Parent's obligations under the Series C Notes were assigned to Iridium. The Series C Notes are guaranteed by Iridium Roaming LLC, Iridium IP LLC and Iridium Facilities Corporation. The net proceeds received were approximately $293 million. Interest on the Series C Notes is payable in cash semi-annually on January 15 and July 15 of each year, commencing on January 15, 1998. The Series C Notes are redeemable at the option of Iridium, in whole or in part, at any time on or after July 15, 2002. The Series C Notes mature on July 15, 2005.

On May 13, 1998, Iridium and Iridium Capital Corporation completed an offering of $350 million principal amount of 10 7/8% Senior Notes due 2005, Series D ("Series D Notes"). The Series D Notes are guaranteed by Iridium Roaming LLC, Iridium IP LLC and Iridium Facilities Corporation. The Series D Notes have substantially the same terms as the Senior Notes other than interest rate and issue date. The net proceeds received were approximately $342 million. Interest on the Series D Notes is payable in cash semi-annually on January 15 and July 15 of each year, commencing on July 15, 1998. The Series D Notes are redeemable at the option of Iridium, in whole or in part, at any time on or after July 15, 2002. The Series D Notes mature on July 15, 2005.

Notes payable, net of discounts, as of December 31, 1997 and 1998 consist of the following (in thousands):

	1997	1998
13% Senior Notes due 2005, Series A	$276,439	$278,282
14% Senior Notes due 2005, Series B	477,849	479,565
11 1/4% Senior Notes due 2005, Series C	300,000	300,000
10 7/8% Senior Notes due 2005, Series D	—	347,888
	$1,054,288	$1,405,735

LONG-TERM DEBT DUE TO MEMBERS OF THE PARENT

During 1996, the Parent sold units to certain of its members and their affiliates; each unit consisting of $1,000 principal amount at maturity of 14 1/2% Senior Subordinated Discount Notes due 2006 (the "Notes") and one warrant to purchase 10.40775 Class 1 Interests of the Parent, for aggregate proceeds of approximately $238,453,000. Concurrent with the Asset Drop-Down Transaction, the Parent's obligations under the Notes were assigned to Iridium. The Notes are unsecured and are subordinate to all senior debt of Iridium. The Notes fully accrete to an aggregate face value of $480,150,000 on March 1, 2001 and mature on March 1, 2006. Each Note accrues cash interest at a rate of 14 1/2% per annum, payable semi-annually commencing on September 1, 2001. The Notes will be subject to redemption, at the option of Iridium, at any time on or after March 1, 2001. The warrants, which entitle the holder to purchase Class I Interests at an exercise price of $.01 per interest, are exercisable on March 1, 2001 and expire on March 1, 2006. The Parent recognized the estimated fair market value of these warrants of $31,761,000 as an addition to members' equity.

FUTURE PRINCIPAL PAYMENTS

Future scheduled principal payments of long-term debt are as follows (in thousands):

Year ending December 31,	Amount
1999	$ —
2000	1,056,000
2001	155,000
2002	—
2003	—
2004 and beyond	1,930,000
	$3,141,000

6. Income Taxes

From inception through July 29, 1996, Iridium, Inc. was subject to U.S. Federal and state and local income taxes directly, and accordingly, recognized provisions for income taxes for U.S. Federal and for all state and local jurisdictions. Subsequent to the merger of Iridium, Inc. into a limited liability company, the Parent is no longer subject to U.S. Federal income tax directly; however, the Parent is subject to District of Columbia franchise taxes.

The Parent's provision for income taxes for the years ended December 31, 1996, 1997, and 1998 consists of the following (in thousands):

	1996	1997	1998
Current			
— Federal	$3,435	$ —	$ —
— State and Local	1,154	—	—
Deferred			
— Federal	—	—	—
— State and Local	—	—	—
	$4,589	$ —	$ —

The primary reconciling differences between income tax expense and the amount of tax benefit that would be expected to result by applying the Federal statutory rate of 35% to the loss before income taxes for the period from January 1, 1996 to July 29, 1996 (the date of the merger of Iridium, Inc. into Iridium) relate to the capitalization for tax purposes of certain start-up expenditures, and state and local taxes. Subsequent to the date of the merger of Iridium, Inc. into the Parent, the Parent recognizes deferred taxes for those jurisdictions for which the Parent is taxed directly, resulting in a deferred tax asset for capitalized start-up expenditures and depreciation of $34,599,000 and $59,660,000 at December 31, 1997 and 1998, respectively, for which a 100% valuation allowance has been established.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies that can be implemented in making this assessment.

7. Transactions With Members

MANAGEMENT SERVICES AGREEMENT

In connection with the IWCL IPO, the Parent and IWCL entered into a Management Services Agreement. The Management Services Agreement was amended and restated in connection with the Asset Drop-Down Transaction to add Iridium as a party.

Pursuant to the Management Services Agreement, the Parent has agreed to supervise and manage the day-to-day activities of Iridium. Among other things, the Parent is responsible for administering the following functions of Iridium: contract administration (including the Space System Contract, the TNDC and the O&M Contract), treasury, accounting, legal, tax, insurance, licenses and permits and securities law compliance. The Parent similarly has agreed to supervise and manage the day-to-day operations of IWCL. Among other things, the Parent is responsible for administering the following functions of IWCL: treasury, accounting, legal, tax, insurance, licenses and permits and securities law compliance. In addition, Parent has agreed to advance funds to IWCL in the event that IWCL does not have sufficient funds to pay income or similar taxes. The Parent does not receive fees or reimbursement from IWCL for its services to IWCL under the Management Services Agreement; however, the cost of such services provided to IWCL to date is not significant.

In return for such services, Iridium has agreed to provide sufficient funds, on a cost reimbursable basis, to the Parent to enable the Parent to manage the business and operations of each of Iridium and IWCL, including payments of Parent's obligations to its employees, consultants and directors, and payments for Parent's office space and equipment, sales, general operating and administrative expenses, insurance and its obligations under certain contracts.

SUPPORT AGREEMENT

Under a Support Agreement, Motorola provides certain general and administrative support to the Parent and its subsidiaries. On a cost reimbursable basis, Motorola has provided payroll processing and related benefits to the Parent employees, processed payments to certain contractors providing support to the Parent, and provided other administrative support. In connection with the Asset Drop-Down Transaction, the Parent assigned the Support Agreement to Iridium. The amounts and nature of such costs for the years ended December 31, 1996, 1997 and 1998 consist of the following (in thousands):

	1996	1997	1998
Consulting	$826	$643	$244
Other	26	5	—
	$852	$648	$244

As of December 31, 1997, and 1998, the balance payable to Motorola under the Support Agreement was $0 and $244,000, respectively.

SPACE SYSTEM CONTRACT

The Parent entered into the Space System Contract with Motorola to design, develop, produce and deliver the Space Segment component of the Iridium System. In connection with the Asset Drop-Down Transaction, the Parent assigned the Space System Contract to Iridium. Under this fixed priced contract, Motorola constructed the space vehicles, placed them into low-earth orbits and constructed the related ground segments for a contract price of $3.45 billion (subject to certain adjustments). For the years ended December 31, 1996, 1997, and 1998, $836 million, $577 million, and $574 million, respectively, was incurred under the Space System Contract. Such costs are capitalized as system under construction in the accompanying consolidated balance sheets and are transferred to property and equipment as the underlying assets are placed into service. As of December 31, 1997 and 1998, the balance payable to Motorola under the Space System Contract was $0 and $55 million, respectively. The remaining $55 million obligation, under the Space System Contract, is expected to be paid in 1999.

TERRESTRIAL NETWORK DEVELOPMENT CONTRACT

The Parent entered into the Terrestrial Network Development Contract ("TNDC") with Motorola for an original amount of $160 million. In connection with the Asset Drop-Down Transaction, the Parent assigned the TNDC to Iridium. Under the TNDC, Motorola is designing and developing the terrestrial gateway hardware and software. The payments under the original contract are tied to the completion of milestones specified in the contract. During 1996, the TNDC was amended to obligate Motorola to provide additional services and support under the TNDC in exchange for an additional $18.9 million. During 1997 and 1998, the TNDC was further amended to obligate Motorola to provide additional services and support bringing the total contract price of the TNDC to $356 million. Certain of the Parent's members will own the individual gateways and will have no obligation to Iridium or the Parent for any of the amounts due to Motorola under the TNDC. For the years ended December 31, 1997 and 1998, Iridium incurred $74 million and $174 million, respectively, under the TNDC. Such costs are capitalized as system under construction in the accompanying consolidated balance sheets and are transferred to property and equipment as the underlying assets are placed into service. As of December 31, 1997 and 1998, the balance payable to Motorola under the TNDC was $11 million and $76 million, respectively. The aggregate fixed and determinable portion of all remaining obligations under the TNDC, assuming that all obligations are settled in cash, is $130 million, of which $120 million is expected to be paid in 1999 and the remaining $10 million in 2000.

OPERATIONS AND MAINTENANCE CONTRACT

To provide for the operations and maintenance of the space segment upon completion of the Space System Contract, the Parent entered into the Operations and Maintenance Contract ("O&M") with Motorola. In connection with the Asset Drop-Down Transaction, the Parent assigned the O&M Contract to Iridium. This contract obligates Motorola for a period of five years after completion of the final milestone under the Space System Contract to operate the Space System, and to exert its best efforts to monitor, upgrade and replace hardware and software of the space segment (including the individual space vehicles) at specified levels, in exchange for specified monthly payments. Such payments are expected to aggregate approximately $2.89 billion. During 1996, a two-year option agreement was entered into for the extension of the O&M Contract with Motorola after the completion of the initial five-year term. If such option is exercised, Iridium will be obligated to make monthly payments expected to aggregate an additional $1.34 billion. The contract commenced in November 1998. Iridium capitalized $46 million of costs in 1998 that pertain to hardware and software components of the space segment that extend its useful life. The portion of the costs of the O&M associated with day-to-day operations in 1998 was $50.4 million and was expensed as incurred. Under the Motorola MOU, Motorola has agreed to permit Iridium to defer its obligations to up to an aggregate of $400 million of payments due to Motorola under the O&M Contract until December 29, 2000. As of December 31, 1998, Iridium has deferred payment of $86 million of its obligations under the O&M Contract and expects to defer an aggregate of $400 million of such obligations prior to September 1, 1999. Under the O&M, the Parent is required to compensate Motorola with cash and equity compensation. The remaining aggregate fixed and determinable portion of all obligations under the O&M, excluding vendor financing and the optional two-year extension, is expected to be as follows (in thousands):

Year ending December 31,	Amount
1999	$ 537,000
2000	557,000
2001	581,000
2002	605,000
2003 (10 months only)	525,000
	$2,805,000

GATEWAY OWNERS INCENTIVES

The Parent agreed to issue warrants to purchase 300,000 Class 1 Interests to each gateway owner whose specified gateway activities were completed on schedule, and warrants to purchase 7,500 Class 1 Interests for each $1 million of cumulative Iridium System service revenue generated within 15 months of commercial activation, but in no event will warrants to purchase more than an aggregate of 9,165,000 Class 1 Interests be issued to all gateway owners. In 1998, the Parent authorized the issuance of 3.3 million warrants for those gateways in compliance with the schedule at an exercise price of $.00013 per interest; no warrants have been issued related to service revenues through December 31, 1998. The warrants have terms identical to those issued to Motorola under the Guarantee Agreement (see Note 5). In 1998, the Parent expensed $37,917,000 in connection with these warrants.

8. Employee Benefits

The Parent has adopted a comprehensive performance incentive and retirement benefit package. The performance incentive program became effective in 1993, while the various retirement plans became effective on February 1, 1994.

INCENTIVE PROGRAMS

The Parent has established short- and long-term incentive plans primarily based on employee performance. Effective December 31, 1995, the Parent terminated the long-term incentive plan. The remaining liability of the long-term incentive plan is approximately $1,738,000 and $1,745,000 as of December 31, 1997 and 1998, respectively, and was paid in January of 1999. Under these plans, the Parent incurred expenses of approximately $1,252,000, $3,412,000, and $5,800,000 for the years ended December 31, 1996, 1997, and 1998, respectively.

401(K) EMPLOYEE RETIREMENT SAVINGS PLAN

The Parent adopted a 401(k) employee retirement savings plan in 1994 covering all employees. Through 1997, the Parent made matching contributions to this qualified plan on behalf of participating employees up to 3% of employees' compensation. During 1998, in accordance with plan amendments, the Parent made matching payments equal to 50% of employee contributions up to certain limits. Employee contributions to the plan vest immediately. The Parent's contributions vest ratably over a seven-year period, including service credit for any prior employment with Motorola. Under this plan, the Parent has incurred expenses of approximately $288,000, $558,000, and $1,539,000 during the years ended December 31, 1996, 1997 and 1998, respectively.

RETIREMENT PLANS

All employees of the Parent are covered by a non-contributory defined benefit retirement plan. Vesting in plan benefits generally occurs after five years. Benefits under the plan are based on years of credited service (including any prior employment with Motorola), age at retirement and the average earnings over the last four years. The plan is funded annually in accordance with the Employee Retirement Income Security Act of 1974.

The Parent adopted non-qualified defined benefit plans covering employees' earnings in excess of the maximum amounts which may be considered under the qualified plan.

The net periodic pension cost recognized under the plans was approximately $1,925,000, $2,420,000, and $6,847,000 for the years ended December 31, 1996, 1997, and 1998, respectively. For the years ended December 31, 1997 and 1998, the amounts provided to cover taxes associated with the plan benefits were $693,000, and $1,411,000, respectively. In addition, the Parent recorded an additional minimum pension liability adjustment of $90,000 and a reduction adjustment of $1,170,000 for the years ended December 31, 1997 and 1998, respectively, for its non-qualified plans. The additional minimum pension liability is included as an increase (decrease) to members' equity.

SUMMARY OF DEFINED BENEFIT PLANS

Benefit obligations for the qualified and non-qualified defined benefit plans in total for the years ended December 31, 1996, 1997, and 1998, are as follows (in thousands):

	1996		1997		1998	
	Qualified	Non-Qualified	Qualified	Non-Qualified	Qualified	Non-Qualified
Benefit obligation at end of prior year	$1,602	$4,404	$2,554	$5,179	$ 4,722	$ 5,039
Service cost	789	438	1,291	513	3,162	2,453
Interest cost	133	339	206	285	381	600
Plan amendments	—	—	—	—	—	1,149
Net actuarial (gain)/loss	30	(2)	671	595	1,876	3,624
Benefits paid	—	—	—	—	(20)	(1)
Curtailments and/or settlements	—	—	—	(1,533)	—	—
Benefit obligation at end of year	$2,554	$5,179	$4,722	$5,039	$10,121	$12,864

Plan assets for the qualified and non-qualified defined benefit plans in total for the years ended December 31, 1996, 1997 and 1998, are as follows (in thousands):

	1996		1997		1998	
	Qualified	Non-Qualified	Qualified	Non-Qualified	Qualified	Non-Qualified
Fair value of assets at end of prior year	$1,186	$ —	$1,931	$ —	$3,757	$ —
Actual return on plan assets	217	—	477	—	713	—
Employer contribution	528	—	1,363	1,418	240	1
Benefits paid	—	—	(14)	(1,418)	(20)	(1)
Fair value of assets at end of year	$1,931	$ —	$3,757	$ —	$4,690	$ —

Pension cost for the qualified and non-qualified defined benefit plans in total for the years ended December 31, 1996, 1997 and 1998, are as follows (in thousands):

	1996		1997		1998	
	Qualified	Non-Qualified	Qualified	Non-Qualified	Qualified	Non-Qualified
Service cost	$789	$ 438	$1,292	$ 512	$3,162	$2,453
Interest cost on projected benefit obligation	133	339	206	285	381	599
Actual return on assets	(82)	—	(138)	—	(261)	—
Amortization of actuarial loss	—	51	—	6	33	133
Amortization of unrecognized prior service costs	—	—	—	—	—	99
Amortization of transition obligation	19	238	19	238	19	229
Net periodic cost	$859	$1,066	$1,379	$1,041	$3,334	$3,513

The following table describes the funded status of the plans at December 31, 1997 and 1998 (in thousands). The actuarial calculations were determined by consulting actuaries:

	1997		1998	
	Qualified	Non-Qualified	Qualified	Non-Qualified
Accumulated present value of obligations:				
Accumulated benefit obligation, including vested benefits	$(3,334)	$(2,269)	$ (6,933)	$ (6,822)
Projected benefit obligation for service rendered to date	$(4,722)	$(5,039)	$(10,121)	$(12,864)
Plan assets at fair value	3,757	—	4,690	—
Projected benefit obligation in excess of plan assets	(965)	(5,039)	(5,431)	(12,864)
Unrecognized prior service costs	—	—	—	1,050
Unrecognized transition obligation	302	2,123	283	1,894
Unrecognized net (gain) loss	118	870	1,508	4,361
Accrued pension cost	(545)	(2,046)	(3,640)	(5,559)
Adjustment required to recognize minimum liability	—	(643)	—	(1,813)
Pension liability	$ (545)	$(2,689)	$ (3,640)	$ (7,372)
Actuarial assumptions:				
Discount rate	7%	7%	6.5%	6.5%
Long-term rate of return	8%	8%	8%	8%
Salary increases	5%	7.5%	5%	7.5%

OPTION PLAN OF IRIDIUM LLC

The Parent has established a plan under which executive officers and managers of the Parent are awarded options to purchase Class A Common Stock (the "Option Plan") of IWCL. The Option Plan covers 5,625,000 shares of Class A Common Stock of IWCL. The Option Plan also permits the award of stock appreciation rights in connection with any grant of options. As of December 31, 1997 and 1998, options covering 2,004,556 and 2,673,648 shares, respectively, of Class A Common Stock of IWCL had been granted. As of that date, no stock appreciation awards had been granted. The right to exercise the options vests, pro rata, over a period of five years. Pursuant to the Share Issuance Agreement, IWCL has agreed that upon the exercise of any options, it will issue to the Parent, for delivery to an exercising option holder, the number of shares of Class A Common Stock of IWCL covered by the exercised options and the Parent has agreed to simultaneously deliver to IWCL a like number of Class 1 Interests, subject to anti-dilution adjustments. The exercise price of the option will be paid to the Parent and will represent payment for the Class A Common Stock by the exercising option holder and for the Class 1 Interests by IWCL.

As of December 31, 1997 and 1998, 2,625,000 and 5,625,000 Class 1 Interests, respectively, have been reserved for issuance to IWCL in connection with the Option Plan. As permitted by Statement 123, the Parent applies the intrinsic value method in accounting for compensation cost under this plan. Accordingly, no compensation expense is recognized for options to acquire Class A Common Stock of IWCL granted at an exercise price equal to or exceeding the fair market value as of the date of grant. For the years ended December 31, 1997 and 1998, the Parent recognized $152,000 and $292,000, respectively, in compensation expense for options to acquire Class A Common Stock of IWCL granted at an exercise price that was below fair market value at the date of grant. Had compensation cost been determined in accordance with the fair value method of Statement 123, the Parent's net loss and net loss per Class 1 Interest would have been increased to the pro forma amounts indicated below (in thousands except per interest data) for the years ended December 31, 1997 and 1998:

	1997	1998
Net loss		
As reported	$(293,553)	$(1,252,801)
Pro forma	(296,132)	(1,258,190)
Net loss per Class 1 Interest		
As reported	$ 2.25	$ 8.91
Pro forma	2.27	8.95

During 1997 and 1998, the fair value of options granted are estimated on the dates of the grants using the Black-Scholes Option Pricing Model with the following weighted-average assumptions: dividend yield of 0.0%, expected volatility of 45% in 1997 and 63% in 1998, risk-free interest rates from 5.97% to 6.76% in 1997 and 4.14% to 5.46% in 1998, and expected life of five years. The effects on compensation cost as determined under Statement 123 on net loss in 1997 and 1998 may not be representative of the effects on pro forma net income (loss) for future periods. The weighted-average contractual life for options outstanding at December 31, 1997 and 1998 was 8.92 and 8.23 years, respectively.

A summary of the Parent's stock option activity, and related information for the years ended December 31, 1997 and 1998, follows:

	1997		1998	
	Interests Under Option	Weighted Average Exercise Price	Interests Under Option	Weighted Average Exercise Price
Outstanding — beginning of year	729,750	$13.33	2,004,556	$13.92
Granted	1,309,775	14.24	626,998	33.17
Exercised	(3,262)	13.33	(78,586)	13.73
Forfeited	(31,707)	13.33	(83,158)	21.15
Outstanding — end of year	2,004,556	$13.92	2,469,810	$18.58
Options exercisable at end of year	397,145	$13.33	827,777	$16.20
Weighted-average fair value of options granted during the year		$ 8.35		$19.39

The range of exercise prices of options outstanding at December 31, 1997 and 1998 are as follows:

1997		1998	
Options	Exercise Prices	Options	Range of Exercise Prices
1,972,556	$13.33	1,844,384	$13.33
2,000	20.00	571,926	20.00–32.75
30,000	52.50	53,500	37.88–57.13
2,004,556		2,469,810	

9. Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of financial instruments as of December 31, 1997 and 1998 (in thousands):

	1997		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Bank facilities	$560,000	$560,000	$1,125,000	$1,125,000
Long-term debt due to Members	273,302	273,302	323,484	323,484
Senior Notes, Series A, B, C and D	1,054,288	1,156,000	1,405,735	1,034,754

The fair value of long-term debt is estimated based on the quoted market prices or on current rates offered for similar debt. The carrying amounts of due from affiliates and accounts payable and accrued expenses approximate their fair market value as of December 31, 1997 and 1998 because of the relatively short duration of these financial instruments.

10. Commitments

OPERATING LEASES

The Parent leases office space and equipment under non-cancelable operating lease agreements. Future minimum payments under all operating lease arrangements are as follows (in thousands):

Year ending December 31,	Amount
1999	$10,697,000
2000	10,437,000
2001	7,475,000
2002	5,980,000
2003	6,026,000
2004 and beyond	2,696,000
	$43,311,000

Rental expense under operating leases for the years ended December 31, 1996, 1997, and 1998 was approximately $1,194,000, $7,821,000 and $10,149,000, respectively.

11. Quarterly Financial Information (Unaudited)

In thousands, except member interest data:

The following is a summary of results of operations for each of the quarters during 1996:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Operating expenses	$8,410	$10,321	$19,621	$33,052	$71,404
Net loss	7,663	9,840	24,232	31,863	73,598
Net loss applicable to Class 1 Interests	7,663	10,679	25,812	33,096	77,250
Net loss per Class 1 Interest	0.07	0.09	0.21	0.28	0.64

The following is a summary of results of operations for each of the quarters during 1997:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Operating expenses	$36,054	$48,414	$84,997	$127,133	$296,598
Net loss	35,928	47,926	84,095	125,604	293,553
Net loss applicable to Class 1 Interests	37,602	49,242	85,412	127,000	299,256
Net loss per Class 1 Interest	0.31	0.40	0.60	0.90	2.25

The following is a summary of results of operations for each of the quarters during 1998:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	$ —	$ —	$ —	$ 186	$ 186
Operating expenses	168,302	189,509	281,726	348,236	987,773
Net loss	203,566	244,775	364,381	440,079	1,252,801
Net loss applicable to Class 1 Interests	205,013	246,274	365,934	441,689	1,258,910
Net loss per Class 1 Interest	1.45	1.74	2.59	3.12	8.91

12. Subsequent Event

On January 21, 1999, IWCL issued 7,500,000 shares of Class A Common Stock resulting in net proceeds of $242,400,000. Pursuant to the 1997 Subscription Agreement between IWCL and Iridium LLC, such proceeds were used to purchase 7,500,000 Class I Interests in the Parent. The proceeds from this secondary offering will be used to partially fund operations in 1999.

Corporate Information

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(telecommunications)

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Iridium LLC
(telecommunications)

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Retired President
Chamber of Commerce
of the United States
(business association)

William A. Schreyer
Chairman Emeritus
Merrill Lynch & Co.
(investment services)

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Chief Executive Officer
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Vice Chairman and
Chief Executive Officer
Iridium LLC
(telecommunications)

Yoshiharu Yasuda
President
Nippon Iridium Corporation
(telecommunications)

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Chairman and Chief Executive Officer

Alberto Finol
Deputy Chairman

F. Thomas Tuttle
Vice President, General Counsel
and Assistant Secretary

Wayne Morgan
Secretary

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General Manager
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(electronics manufacturer)

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(telecommunications)

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General Manager
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(electronics manufacturer)

Yusai Okuyama
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DDI Corporation
Director
Nippon Iridium Corporation
(telecommunications)

Moon Soo Pyo
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SK Telecom Co., Ltd.
(telecommunications)

John A. Richardson
CEO
Iridium Africa Corporation
(telecommunications)

Theodore H. Schell
Senior Vice President
Strategic Planning and
Corporate Development
Sprint Corporation
(telecommunications)

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Chairman Emeritus
Merrill Lynch & Co.
(investment services)

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Vice Chairman and
Chief Executive Officer
Iridium LLC
(telecommunications)

Sribhumi Sukhanetr
Chairman
Thai Satellite
Telecommunications Co., Ltd.
(telecommunications)

Tao-Tsun Sun
Executive Director and President
Pacific Electric Wire & Cable Co., Ltd.
(telecommunications)

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President
Nippon Iridium Corporation
(telecommunications)

Wang Mei Yue
Chairman and President
Iridium China (Hong Kong) Limited
(telecommunications)

Iridium LLC Company Officers

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Chairman

Edward F. Staiano
Vice Chairman and
Chief Executive Officer

Mauro Sentinelli
Executive Vice President
Marketing and Distribution

O. Bruce Dale
Senior Vice President
Network Operations

Mark Gercenstein
Senior Vice President
Business Operations

Leo Mondale
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Strategic Planning and
Business Development

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Market Development

Randall W. Brouckman
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Software Systems
and Operations

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Daniel Hernandez
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Americas and Europe

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Neal F. Meehan
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Aeronautical Services

F. Thomas Tuttle
Vice President,
General Counsel and Secretary

Lars Ernst
Treasurer

Robert N. Beury, Jr.
Assistant Secretary

Kevin J. Lavin
Assistant Secretary

Stock Listing

The Class A Common Stock of Iridium World Communications Ltd. is traded on the NASDAQ National Market ("NASDAQ") under the symbol "IRID." On March 15, 1999, there were 19,727,430 shares of Iridium World Communications Ltd. Class A Common Stock outstanding. The following tables set forth the high and low sales prices and the end of period sales prices per share of Class A Common Stock as reported on the NASDAQ for the quarters indicated.

	Market Price	
Quarter ended:	**High**	**Low**
June 30, 1998	72.188	49.000
September 30, 1998	61.625	31.000
December 31, 1998	49.875	26.750
March 15, 1999	44.500	18.688

Annual Meeting

The Annual Meeting of shareholders will be held at 9 a.m. on May 18, 1999 at the Westin Fairfax Hotel, 2100 Massachusetts Avenue NW, Washington, DC 20008 (telephone: 1.202.293.2100). Detailed information about the meeting is contained in the Notice of Annual Meeting and Proxy Statement sent with a copy of the Annual Report to each shareholder.

Transfer Agent

Shareholder questions can be answered by contacting Iridium World Communications Ltd.'s transfer agent:

The Bank of New York
Shareholder Relations Department – 11E
P.O. Box 11258
Church Street Station
New York, NY 10286

Tel: 1.800.524.4458
E-mail: Shareowner-svcs@bankofny.com
Web: http://stock.bankofny.com

For information about transfer requirements, lost certificates, and change of address, please write:

The Bank of New York
Receive and Deliver Department – 11W
P.O. Box 11002
Church Street Station
New York, NY 10286

Investor Relations

If you need further information, or would like to receive a copy of Iridium World Communications Ltd.'s Form 10-K filed with the Securities and Exchange Commission, it is filed with EDGAR and is available on the Internet (www.sec.gov), or you can contact:

Investor Relations
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1575 Eye Street NW
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Tel: 1.888.594.5656 or
1.202.408.3800
Fax: 1.202.408.3801

Independent Auditors

KPMG LLP

How to Reach Us

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Photography: Antony Nagelmann, Panoramic Images

Name Mr. / Mrs. / Ms. ______________________________
(circle one) First Last

Company Name ______________________________

Address Business/Home ______________________________
(circle one)

____

Town/City ______________ State/Province ______________

Postal/Zip Code ______________ Country ______________

Telephone ______________ Fax ______________

E-mail Address ______________________________

Are you a cellular or satellite phone user? (check all that apply)

☐ Cellular ☐ Satellite ☐ Both ☐ Neither

Who is your:

cellular service provider? ______________

satellite service provider? ______________

Do you subscribe to a paging service? ☐ Yes ☐ No

In the past year, how many times did you travel:

internationally? ______________

domestically? ______________

In what type of business or industry are you employed? (check one)

☐ Heavy Industry ☐ Military
☐ Remote Response/Government
☐ Maritime ☐ Other

How would you acquire Iridium service?

☐ Purchase it and not be reimbursed.
☐ Purchase it and be reimbursed.
☐ My employer would purchase and provide me with the service.
☐ Not sure.

JFK/NYC/852812/721

IRIDIUM

...Visit our Web site

www.iridium.com (use pass code 721)

...Call

Europe, the MIddle East, and Africa:
+31 79 347 1854 ext. 7219 (collect)

Asia Pacific:
+61 2 9215 1817 ext. 7219 (collect)

South America and Canada:
+407 659 1889 ext. 7219 (collect)

USA:
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...Or return this form by mail or fax

Fax: +1 516 942 1795

Place
Postage
Here

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