

Giovanni Verlini, SEA
Editor reports.

Is there a more precise indicator of the current state of the world's satellite market than the companies' own financial reports? *Satellite Evolution Asia (SEA)* had a look at the First Quarter (Q1) reports issued by some of the major players in the satellite market and discovered that despite the fact that many companies still seem to be suffering from flat demand, the consensus seems to be that a turning point in the marketplace is extremely close. Our round-up of reports begins with global satellite operator Intelsat and ends with International Datacasting Corporation's (IDC) of Canada

Marketplace turning point extremely close

▶▶ **INTELSAT POSTS \$64.1 MILLION Q1 PROFITS**
Intelsat reports slow first quarter

First Quarter, but remains positive about the future. Global satellite communications company Intelsat reported its First Quarter (Q1) profit falling to US\$64.1 million as two main customers filed for bankruptcy and some lease contracts were not renewed because of weakening economy.

Intelsat said revenues dropped to \$238.9 million from \$258.5 million a year ago and net income decreased to \$64.1 million from \$84.8 million a year ago for the quarter ended 31 March 2003. The company also reported Earnings Before Interest, Taxes, other income and Depreciation and Amortisation (EBITDA), of \$177.2 million.

"First quarter revenue, while down as expected from the prior-year period, is flat with the fourth quarter of 2002, increasing our optimism that industry conditions are beginning to stabilise. As 2003 unfolds, we are confident that our organisation is focused on the service and customer segments that will produce the best results," Conny Kullman, Chief Executive Officer (CEO) of Intelsat said.

Operational review

Intelsat said its carrier business continued to focus on building relationships with key customers. It said MCI signed a new multi-year, multi-transponder agreement with Intelsat to provide capacity for voice and data applications. In addition, Intelsat signed new long-term,

multi-transponder contracts to provide capacity for traditional voice and data services to communications companies in Africa such as Ethiopia Telecom and SADC Telecoms.

Intelsat said Broadband Technology, Ltd. selected the company to provide 36MHz of capacity under a three-year contract for use in connecting cell stations within its Nigerian network. Intelsat also announced the establishment of a new business unit dedicated to government customers in North America and Europe. The business unit is focused on growing Intelsat's revenue from the government sector, which was approximately ten per cent of revenue in 2002.

The Intelsat government unit supports a range of applications, such as the US Navy's TV Direct to Sailors Programme, leveraging Intelsat's open-ocean global beam capacity. During the quarter, Intelsat signed four 72MHz lease renewals for capacity used by the US Armed Forces. In late February 2003, Intelsat made its initial cash contribution of \$22 million to Galaxy Satellite Broadcasting Limited (Galaxy), Intelsat's majority-owned Hong Kong pay-TV venture with Television Broadcasts Ltd. (TVB).

In April, Intelsat finalised and completed funding of its \$58 million investment in WildBlue Communications, Inc., representing approximately 30 per cent of WildBlue's shares. WildBlue plans to deliver two-way broadband services via satellite, direct to homes and small offices throughout the contiguous US, beginning in 2004. Two individuals designated by Intelsat have



joined the board of directors of WildBlue as a result of the investment.

The report in detail

Intelsat's telecommunications revenue for the three months decreased \$19.6 million, or eight per cent, to \$238.9 million from \$258.5 million for the three months ended 31 March 2002. Intelsat said the decline was primarily attributable to a decline in the level of services provided to two key customers that sought bankruptcy protection in 2002. Lease service revenue also decreased by \$9.8 million, which consisted of a \$14.1 million decrease in revenue from lease service agreements that ended during the past year and were not renewed, partially offset by an increase in revenue from GlobalConnex(SM) Solutions services of \$4.3 million. Also contributing to the overall decline was a decrease in revenue from channel and carrier services of \$9.5 million.

Total operating expenses increased \$3.7 million, or two per cent, to \$159.4 million for the three months ended 31 March 2003 from \$155.7 million for the three months ended 31 March 2002. The increase reflects an increase in depreciation and amortisation expense of \$10.4 million and an increase in direct costs of revenue of \$4.8 million, which were partially offset by a decrease in selling, general and administrative expenses of \$11.6 million.

The increase in depreciation and amortisation expense is due largely to depreciation associated with the Intelsat IX series satellites launched in 2002. The increase in direct costs of revenue reflects increases in staff costs, in-orbit insurance expense and office and operational costs, offset by a decrease in earth station operations costs.

For the three months ended 31 March 2003, net income decreased by \$20.7 million, or 24 per cent, to \$64.1 million from \$84.8 million for the three months ended 31 March 2002. The decrease during the period was due principally to lower revenue, as discussed above, and higher interest expense of \$15.9 million, which were partially offset by an increase in other income of \$12.4 million. The increase in interest expense of \$15.9 million was attributable to a decrease in interest capitalised during the Q1 of 2003 due to lower construction in progress balances in 2003 and an increase in gross interest. The increase in other income during the period was due principally to other income of \$14.0 million recorded in connection with a decline



"As 2003 unfolds, we are confident that our organisation is focused on the service and customer segments that will produce the best results," Conny Kullman, Chief Executive Officer (CEO) of Intelsat.



New Skies CEO Dan Goldberg said: "New Skies has delivered yet another solid quarter in terms of revenue, EBITDA and net income results. Revenues and EBITDA are up slightly relative to the same period last year and are up, respectively, 2.3 per cent and 4.1 per cent over the last quarter."

AsiaSat achieves solid results

At the AGM, shareholders of AsiaSat approved the proposed final dividend of 19 HK cents per share and payment of a special dividend of 25 HK cents per share.

Despite a difficult operating environment during 2002, AsiaSat achieved solid results. Turnover for the year ended 31st December, 2002 was HK\$951 million and profit attributable to shareholders was HK\$555 million. Both recorded only a marginal decline from the previous year.

Reporting to shareholders during the AGM on the status of the Company's new pan-Asian satellite, AsiaSat 4, Peter Jackson, Chief Executive Officer of AsiaSat, said, "AsiaSat 4 is now positioned at its final orbital location of 122 degrees East following a successful launch from Cape Canaveral, Florida, US, on 11th April. In-orbit test data indicates that the performance of the satellite fully meets our design specifications. It is now ready for service."

in an obligation payable by Intelsat under a share purchase agreement with Teleglobe Inc.

NEW SKIES REPORTS FIRST QUARTER 2003 EARNINGS

New Skies reports a positive Q1

New Skies Satellites N.V., the global satellite communications company, has reported revenues of US\$52 million, Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) of \$29.0 million, and net income of \$3.6 million for the three month period ended 31 March 2003. Commenting on the quarter, New Skies CEO Dan Goldberg said: "New Skies has delivered yet another solid quarter in terms of revenue, EBITDA and net income results. Revenues and EBITDA are up slightly relative to the same period last year and are up, respectively, 2.3 per cent and 4.1 per cent over the last quarter. As a result, we have been able to grow our EBITDA margins over the period.

"The NSS-7 and NSS-6 satellites launched last year allowed us to augment our fleet with new and desirable capacity, and have attracted a number of key customers. Although we expect this capacity to drive our growth and profitability going forward, the addition of these satellites entails higher depreciation costs in comparison to prior periods. We also successfully executed on our share buy back program, acquiring approximately 12 million shares, or 92 per cent of the total authorised buyback programme. I am very pleased with the progress we have made to date under the share repurchase programme, an initiative that underscores our confidence in the strength of our business, our optimism regarding our prospects going forward, and our unwavering commitment to promote shareholder value."

The results in detail

For the three-month period ended 31 March 2003, New Skies achieved the following financial results:

- > Revenues were \$52.0 million, representing an increase of \$0.2 million as compared to \$51.8 million for the same period in 2002;
- > Operating expenses, excluding depreciation, decreased by \$0.2 million from \$23.2 million to \$23.0 million for the three-month period ended 31 March 2003. This decrease reflects its success in managing its costs in response to the difficult business climate;
- > As a result of the launch of the NSS-7 satellite in April 2002 and NSS-6 satellite in December 2002, New Skies incurred a higher level of depreciation costs in the first quarter 2003;
- > Net income for the three-month period ended 31 March 2003 was \$3.6 million compared to a net loss of \$17.0 million in the same period in the prior year. Net income for the three-month period ended March 31, 2002 included the non-cash impact of the cumulative effect of change in accounting principle of \$23.4 million relating to goodwill. Excluding this goodwill charge, net income for the first quarter last year was \$6.4 million;
- > In the Q1 2003, EBITDA increased by \$0.4 million, or two per cent, to \$29.0 million from \$28.6 million achieved for the same period in the prior year; and

- > Backlog at the end of the Q1 2003 was \$696 million, an increase of \$93 million, or 15 per cent from \$603 million at the end of the Q1 2002. However, backlog decreased \$10 million or one per cent compared to the end of the previous quarter.

Q1 operating highlights

The Maritime Telecommunications Network (MTN), a leader in ship-to-shore communications, signed for capacity on the NSS-5 Pacific Ocean region satellite to allow MTN to link dozens of cruise liners and offshore energy vessels located virtually anywhere throughout the Pacific Ocean with terrestrial communications networks in the US. Brazil's Adventist Television Network joined the NSS-806 video neighbourhood in support of their growing global distribution requirements. BT Broadcast Services doubled their capacity on the NSS-7 satellite to support the expanding Media Overseas Direct-To-Home (DTH) television platform servicing West Africa. Additionally, New Skies and Intelsat Global Sales & Marketing, Ltd signed an agreement during the quarter to use their existing orbital and satellite resources at a single orbital location to expand their respective commercial service offerings to the Americas, Europe, Africa and the Middle East.

LORAL POSTS \$52 MILLION Q1 LOSS

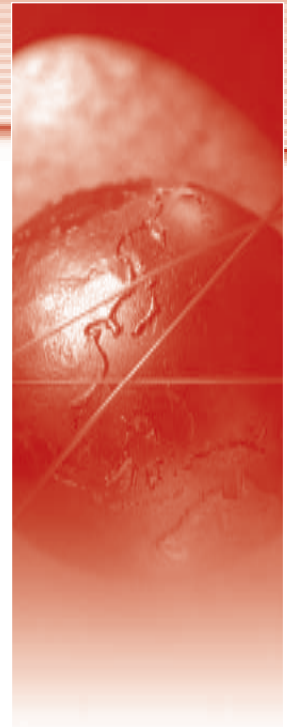
Loral sees the market next to a turning point as year-on-year losses decrease drastically.

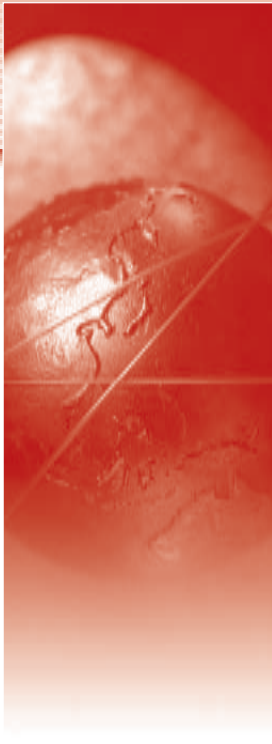
Loral Space & Communications Ltd. has reported a First Quarter (Q1) operating loss of \$52 million amid industry overcapacity and delay of customers' programmes and expansions. Loral's net loss applicable to common shareholders was US\$0.12 a share, versus a loss of \$908.3 million or \$2.69 per share in the same quarter last year. The year-earlier period included a charge of \$876.5 million related to an accounting change. Excluding the charge, it posted a loss of \$31.8 million or \$0.9 per share.

Despite the loss, Loral said the Q1 indicate some stabilising of the business environment as evidenced by the comparisons outlined below. In the Q1, revenues and EBITDA for the Fixed Satellite Services (FSS) segment were \$85 million and \$43 million, respectively. Revenues for the quarter were down slightly on a sequential basis as expected. FSS EBITDA, compared to the prior quarter, remained steady. The FSS contract renewal rate remained constant with the prior period. FSS gross bookings for the quarter totalled \$298 million versus \$106 million in the Fourth Quarter (Q4) of 2002. Net bookings were \$252 million in the quarter versus \$32 million in the Q4 of 2002. Ironically, Space Systems/Loral (SS/L) booked no new orders in the first quarter, but said it has outstanding bids on several new satellite opportunities and still expects awards for up to five satellites in 2003.

SS/L's first quarter EBITDA loss of \$13 million includes a \$10 million non-cash charge resulting from the company 'marking to market' the value of stock it received from Sirius Satellite Radio in exchange for a vendor financing receivable. At the end of the Q1, Loral's combined backlog was \$1.9 billion, up from \$1.8 billion at year-end 2002. For the Q1 of 2003, Loral's reported revenues were \$198 million versus \$308 million in the Q1 of 2002.

Loral's reported EBITDA for the Q1 was \$16 million, which includes the aforementioned \$10 million





After a series of structural tests, spacecraft technicians inspect the 15-foot high panels of the iPSTAR-1 satellite. When completed, the satellite's 40-foot long solar arrays will be anchored to each of the satellite's two communication panels. Built by Space Systems/Loral of Palo Alto, Calif., the massive iPSTAR-1 satellite will be the largest commercial communications satellite ever built when it enters service in 2004.

non-cash charge related to Sirius. This compares with EBITDA of \$62 million in the Q1 of 2002. The company's operating loss for the quarter was \$29 million versus income of \$15 million in the same quarter last year. Net interest expense in the quarter was \$10 million, compared to \$13 million in the Q1 of 2002. Dividends on Loral's two series of preferred stock were suspended in August 2002 but continue to accrue.

In the Q1 of 2003, Loral accrued \$3 million in dividend payments, a decline from \$12 million paid in the year-ago quarter, a result of the 2002 conversions of preferred stock into common stock. Accruals on both series of preferred stock now total \$9 million. Loral's net loss applicable to common shareholders was \$52 million or \$0.12 per share versus a net loss in the year-ago quarter of \$32 million or \$0.09 per share (before the goodwill charge). Per share calculations for the current period are based on 432 million weighted average shares of common stock outstanding versus 337 million for the Q1 of 2002. Loral's cash at 31 March 2003 was \$102 million, after capital spending primarily for the continued construction of satellites for Loral Skynet, scheduled loan payments of \$16 million, and net cash interest of \$64 million. Net cash provided by operating activities in the first quarter was \$32 million.

Loral's net bookings of \$253 million in the Q1 included a substantial booking for in-flight Internet services. This compares with bookings of \$31 million in the same period last year. In the Q1, Loral Skynet's revenue was \$85 million versus \$89 million in the Q4 of 2002. Compared to the Q1 of 2002, revenue declined from \$111 million. EBITDA in the first quarter was \$43 million, equal to \$43 million in the Q4 of 2002 and down from \$66 million in the Q1 of 2002.

INTERNATIONAL DATACASTING

Bookings up, earnings flat

International Datacasting Corporation's (IDC) revenues in the First Quarter (Q1) of fiscal 2003/2004 were US\$2,865,116, a decline of 37 per cent from the \$4,594,611 reported for the same period last year. Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) for the quarter was a loss of \$303,859 resulting in a net loss after depreciation, amortisation and other expenses of \$639,742 or \$0.02 per common share. Bookings for the quarter were \$4.6 million and IDC was able to finish the quarter with \$0.8 million in cash and working capital of more than \$3.0 million. IDC President and CEO Ron Clifton commented: "While any loss is disappointing, the results are in line with our expectations. We are still caught up in a flat economy, especially in the US, and the sales cycle is consistent with the pattern in our industry over the last few years where we usually see a slow start to the year, picking up in the Third and Fourth Quarters (Q3, Q4). The fact that our EBITDA and net income results were slightly better than last year on a much lower revenue base demonstrates that we have been able to execute our restructuring plan to maintain margins and significantly reduce our operating expenses. "At the same time, I'm pleased that during this quarter we booked some extremely important orders, launched several new products and our new order backlog is up sharply."

Highlights of the quarter included

The award of a multimillion-dollar contract with the Canadian Government to provide multimedia datacasting services for Canadian Forces deployed internationally. IDC broadcasts news, entertainment and sports to military personnel in the field from its teleport in Canada. The contract, along with its opportunities for future expansion, provides an important service and makes an important ongoing contribution to IDC's revenue base. An order for Datacast XD Content Distribution software from the Public Broadcasting Service (PBS) in the US. PBS has selected Datacast XD for the prototype phase of its Next Generation Interconnection System (NGIS), pioneering the transition from real-time digital television broadcasting to a fully digital content distribution network.

Datacast XD will enable PBS to distribute programming as files to any receive site in the network to be stored digitally. A new SuperFlex OnRamp system for M-Web South Africa (a Multichoice company), for the first phase of a new Internet service in Nigeria. The system utilises M-Web's European Internet connection in Guadalajara, Spain to provide Internet connectivity into Nigeria via satellite. Other follow-on orders from current customers include: Reuters in Europe, DSN Inc. in Korea, AT Communications in Japan, Datacom in China and Boeing in the US. Ron Clifton concluded: "During the Q1 of the year we also continued the extremely successful rollout of our next-generation products-we showcased them at a series of international trade shows and the response has been excellent. We now have major customer demonstrations and evaluations taking place in every major region of the world. Once again, IDC has proven that in terms of technology, we are way ahead of the curve. We are optimistic that this will position us well to rebound quickly as the economy recovers and long-postponed capital equipment expenditures take off." ■