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Not even the beginning of the end

The LBO days may be nearing an end, but the related deal activity is not. With PanAmSat's IPO due as SatelliteFinance goes to press, other capital markets issuance will follow in the short term. Valuations are under pressure compared to the dreamy hopes of the start of the year, but satellite stock is still in demand. The next step after the public offerings will be towards merger, when operators will be able to use listed capital as a benchmark for valuation. Global operators, *pages 13-16*

More assets come into play

Sponsors' research is still being put to good use. Even with the FSS industry's low hanging fruit already picked, other assets are attracting the attention of buyers. Assets we have heard for sale this month include Iridium and ACeS, to add to Turksat, Satmex and other regional operators that are already in play. Meanwhile, MTN has ended up with Perseus Capital, which is funding the acquisition through a CSFB-led LBO financing. *Pages 4, 14 & 21*

Asia opening up

Deregulation in Asian satellite markets is having a number of effects on the investment landscape. While the increased proliferation of landing rights make regional operators less attractive to their global rivals, new opportunities are opening up for service providers. This month, Protostar has closed a first round of financing for its Asian DTH project and Weida Communications, a China-focused US VSAT operator, is already looking at acquisitions less than a year after launching service. *Pages 9 & 21*

European DARS Alert

We've been heralding a new beginning for European satellite radio for a few months now and our call has already been answered. Following failures by Global Radio and Worldspace, the new torchbearer, Ondas Spain, has mandated ING and Alegro Capital to help it raise US$1.6bn between now and launch in 2009. We ask if they pass the four 'L's test. *Page 17*

Start at the back!

Dean Olmstead tells Ross Bateson about his new venture, Satellite Development, while Rob Kisilywicz talks about Americom's growth plans in this month's special features. Sciemus' Neil Fleming and Pacome Revillon of Euroconsult also give their views in our special reports. *Pages 36-46*

SatelliteFinance bank & law firm of the Year 2004

SatelliteFinance has announced CSFB as the winner of its 2004 Satellite Bank of The Year award and Milbank Tweed as 2004 Satellite Law Firm of the Year. In a year that saw satellite financing transactions dominated by the leveraged buyouts of the global operators, CSFB came top of the league for bank debt, bond issues and M&A deals. Milbank Tweed's prominence as a satellite finance law firm outstripped its rivals in the variety and value of the transactions it advised on.

For companies index see page 47

What's Up?

Diary

Late March	Sea Launch to choose refi banks
Late March:	Land Launch to win first launch contract
March 18	Showtime (Gulf DTH) to have announced IPO banks
March 29	Kistler Aerospace Bankruptcy Court hearing
End-March	Weida Communications to choose adviser
Q2/Q3	Protostar to close next financing round
Summer	21Net to close second round

Deals in the pipeline

Company	Event	Financial adviser
Aramiska	US$35m refi	Babcock & Brown
Constellation Group	Satmex bid	Houlihan Lokey
Eurely	Galileo concession bid	Deutsche Bank
Eutelsat	E2.1bn recap	BNP Paribas, Bank of America, Deutsche Bank, RBS,
Eurazeo, Goldman Sachs		
DirecTV	general underwriters	Morgan Stanley, Goldman Sachs
Galileo JU	Legal, business & financial advice	Lovells, Booz Allen, PwC
HNS	US$375m debt	Bear Stearns, Morgan Stanley
Hispasat	Sale	PwC
iNavSat	Galileo concession bid	ING
iNavsat	debt backers	BarCap, HvB, WestLB, Caja Madrid, SG, RBS
Iridium	strategic advisory	Morgan Stanley
Lockheed Martin	Intelsat exit	Bank of America
MTN	LBO financing	CSFB
New Skies	IPO	Goldman Sachs, Lehman Brothers
NZL Sat	strategic partner search	ABN AMRO
Orbital Recovery	US$50m project finance	PwC
PanAmSat	IPO	Citigroup, Morgan Stanley, Merrill Lynch
Rascom	Project finance	BNP Paribas
Satmex	sale	UBS, Rothchild (govt.)
SES Global	Hispasat bid	Touchstone Securities
Shin Satellite	secondary offering	Kim Eng Securities, Bumiputra
Star One	C2 financing	BNP Paribas, SG
Thuraya	Asia partner search	Standard Chartered
Turk Telecom	sale of satellites	BNP Paribas
Zeus Holdings	acquisition of Intelsat	CSFB, Goldman Sachs, Lehman Brothers

Unmandated – deals to happen

@Contact	c.US$100m satellite financing
Asiasat	possible debt financing on Asiasat 5
Air TV	US$300m debt and equity financing
Eutelsat	Recap banks
Globalstar	Needs c. US$150m to launch satellites
Inmarsat	IPO banks – Morgan Stanley, Cazenove?
Intelsat	IPO banks
Hellas Sat	US$128.2m OTE loan refinancing
Kistler	US$50m post-Chapter 11 debt package
Mobile Satellite Ventures	Financial adviser for next generation satellites
Protostar	Asian DTH start up
Shin Satellite	debt financing
Showtime Networks	IPO banks
Spacecom	debt or equity financing
Weida Communications	M&A advice

AMERICOM HIRES LAWYER

After a several month long hiatus following the departure of Scott Tollefsen in October, **SES Americom** has hired a new general counsel. *Jack Friedman*, who also takes the position of senior vice president, has previously worked in legal consultancy positions for Sony and the Tennis Channel, as well as for e-Citi, Viacom and ABC. Tollefsen left the company in the aftermath of Dean Olmstead's departure as CEO in September. The company has still yet to appoint a new CEO: at the moment the post is being filled by SES Global CEO Romain Bausch, although an announcement is expected in the next month or so.

MSV BOOSTS FIREPOWER

Mobile Satellite Ventures has significantly boosted its managerial line up with the appointments of *Jennifer Manner* as its new vice president of regulatory affairs and *Lon Levin* as its new vice president, corporate and international planning. Levin, a lawyer by training, is a co founder of XM Radio and has served as VP and regulatory counsel at American Mobile Satellite Corporation (AMSC), which later became known as Motient, a key shareholder in MSV. Manner joins from the FCC, where she was senior counsel to Commissioner Kathleen Abernathy.

STERN LEAVES DIRECTV

DirecTV CEO *Mitchell Stern*, second in command at the DirecTV Group underneath Chase Carey, has left the company. The plan announced by News Corp in November 2003, was to install Stern as president and CEO of DirecTV, and have Chase Carey as president and CEO of Hughes. It was thought that Stern, whose background includes the role of CEO at Fox TV, would look after the day-to-day running of the platform while Carey would be responsible for the DirecTV Group as a whole. However, the increased concentration on DirecTV as the core component of the group, with the dilution in the stake of HNS and sale of PAS, meant that the two men became increasingly squashed into the one role. This event is expounded in the fact that DirecTV has announced that 'Mitch' Stern will not be replaced, with Carey taking over his role as well.
Also this month, *Steve Cox* is to depart DirecTV, where he has been EVP of sales, distribution and business development since 2001. The departure of Cox, who originally joined as the company's first general counsel in 1995, is part of a general changing of the guard at News Corp owned DirecTV. Another senior executive, *Stephanie Campbell*, executive vice president of programming, retired on March 1.

■ *Harry Stonecipher* has been forced to resign as CEO of **Boeing** after executives decided an affair he was conducting with a female member of staff was unethical. One of the tasks Stonecipher was brought in to the company to perform just over a year ago was to clean up its image. He is succeeded in an interim capacity by CFO *James Bell,* while the firm searches for a permanent replacement.

■ **RSCC** has appointed *Igor Zabolotny* as its new general director Deputy in charge of marketing. The role is semiautonomous as the commercial departments at RSCC are run as an independent service to the main organisation. Since 1997 he has worked in senior roles at Rostelecom, Svyazinvest and most recently Dalsvyaz, where he was general director.

SATELLITE SITUATIONS VACANT:

CEO	Arroyo Video Solutions
CEO	Boeing
CFO	Norsat
General counsel	SES Global
CEO	SES Americom
Chairman, CEO	TiVO

■ President Bush has nominated *Michael Griffin* to be **NASA**'s new administrator. Dr Griffin is currently Space Department heads at Johns Hopkins University. He has previously worked at In-Q-Tel, Orbital Sciences, where he held several positions and NASA, where he was Chief Engineer. He has also been Deputy for Technology at the Strategic Defense Initiative Organization.

■ **Sirius Radio** has hired two advertising executives as it seeks to diversify its revenue model away from subscriptions. *Sam Benrubi* joins as senior VP of advertising sales from Westwood One and Infinity Broadcasting, where he has led nationwide sales teams, along with *Stephen Smith* who comes as vice president of ad sales. The move came in the same week that Sirius poached the rights for the US NASCAR series off XM. NASCAR's 75 million fans are a coveted demographic to advertisers in the US.

■ *Roland Jaeger* has resigned as general counsel of **SES Global** in favour of joining law firm Arendt & Medernach. Jaeger joined the company in 1996 as secretary general of SES Astra, becoming general counsel of SES Global in 2001. A replacement will be named in due course, says the company.

■ **180 Connect**, a provider of technical support services to the DBS and cable companies that is based in Toronto, has appointed ex-DirecTV vice president of customer satisfaction *Peter Giacolone* its new president and CEO.

■ **Irdeto Access** has appointed *Parvaiz Ahsan* vice-president of sales to push the company's drive into the IPTV and mobile content security segments. Ahsan joins from BT, where he was head of transport sales.

■ **NSAB**, the Swedish satellite operator has filled its vacant CFO position by hiring *Jonas Mattsson*. The position became empty in January after Mikael Ray left to join Modern Times Group.

■ *Deborah Klein* has been named acting chief of the **FCC**'s Media Bureau, replacing bureau chief Kenneth Ferree, who left on March 4.

■ **Gilat** has named *Haim Benjamini* as its new external director.

■ **Hispasat** has a new director of corporate communications, *Marta Navarro*, who joined at the beginning of the year.

MTN buyer selected

MTN and adviser *CSFB* have selected Perseus Capital to buy the business following a sale process that saw industrials drop away from the bidding early, despite being heavily courted. The acquirer, a mid-sized private equity firm, is funding the acquisition via a US$77.5m LBO financing package arranged by *CSFB*.

Perseus LBO financing

- US$5m five year revolver priced at c. 350bp
- US$45m six year term loan B priced at c.350bp
- US$27.5m 6.5 year second-lien term loan priced at c. 700bp

The sponsor community's interest in the satellite sector – now that most global FSS operators have been bought – shows no signs of abating with several other assets – notably Iridium (see above) and ACeS - also rumoured to be in play this month. However, this said, all indications are that MTN struggled to get the valuation it was looking for - "There's been a fair bit of noise around this sale but I understand that they were asking for 10 x EBITDA but mostly ended up getting offers nearer 7 x," commented one banker.

FSS operators such as SES Global and Intelsat are believed to have refrained from making offers for the businesses fairly early on in proceedings, resisting the temptation this time around to enter into competition with potential customers.

Where is the growth?

Most of the growth at MTN comes from the joint venture it recently entered into with Cingular (then AT&T Wireless) to allow GSM and CDMA coverage on board cruise ships. Disadvantages of this arrangement are that MTN's terms are not as good as if the company were going it alone and that the system it uses is not protected by any patents or proprietary technology that would stop other entrants coming in. On the plus side, MTN enjoys good relations with Carnival and its other cruise line customers and enjoys a dominant position in the market despite healthy competition from rival Marlink, a Telenor Satellite Services subsidiary.

Skylogic turns a profit

Eutelsat internet access subsidiary **Skylogic** entered into EBITDA positive territory in the New Year, and hopes to double its terminal base in 2005.

The company, whose original raison d'etre was to put up an earth station for Eutelsat's video streaming clients, now serves 14 hubs worldwide and around 4000 terminals. The company has pitched its business at high ARPU bespoke solutions for corporate customers to the degree where today only 30% of its revenue comes from off the shelf internet access solutions and ARPU stands at around US$250-260 per terminal per month.

The company has also success fully diversified out of Europe, and now derives between 50% and 60% of its revenue from Africa and the Middle East, and between 10% and 20% from Latin and North America. A recent interoperability agreement signed with China Satcom, which should see Skylogic providing in-China communications to its non-Chinese customers from around the middle of the year, will reduce the company's reliance on the European market further.

Growth strategy

This year's major targets for Skylogic, besides China, will be a renewed push into Africa, Eastern Europe and Latin America, says CEO Robert Feierbach. "Africa is not a new market, but with W3A over there now we have great growth potential and there is a recognised need from corporations out there for higher quality service rather than off the shelf solutions currently available. In Eastern Europe, it remains a very price sensitive market but now that some of the countries have joined the EU, there should be some new funding available to invest in communications infrastructure," said Feierbach.

In Latin America, the company is working through its parent's local subsidiary. Hispasat, which operates the Amazonas satellite locally and which is partly owned by Eutelsat, currently offers its own services and solutions although Feierbach does not dismiss the possibility of working with them in the future. "We're very lucky we don't depend on European markets, says Feierbach. Europe is the most competitive market you can go into. It's very hard to sell solutions, even corporately."

Retail market will stay sidelined

One area Skylogic is not looking to move into for the time being is consumer and SOHO markets. Feierbach said: "Money will be made out of the

Skylogic facts:

Revenue:	undisclosed
ARPU:	E250-260 per terminal per month
Terminals:	4000 over 14 hubs
Strategy:	grow revenue/ARPU by high end tailored solutions to corporate clients
Growth regions:	China, Africa, Eastern Europe, Latin America
Investment potential:	None as yet, but may look for strategic partners long term
Average contract:	One year, but some customers in Europe have been incentivised into accepting two or three year packages

consumer market somewhere down the line but we really need to get terminal prices down. We're watching the market and working on DVB-RCS and DOCSIS but all eyes will be on Wildblue this year; I just put a cross against SMEs at the moment and concentrate on growing revenue ARPU and improving the quality of our service.

New shareholders?

While having come along way from its beginning as Skylogic Italia, Skylogic is still likely to remain a 100% subsidiary of Eutelsat in the short to medium term, says Feierbach. "It [bringing in new investors] has always been on peoples' minds, but we've always said that first we have to show value in terms of the longevity of contracts, our processes and our management. We have achieved this now but we're lucky that by having a 100% shareholder we are able to capitalise on quick decision making this allows us in order to get first mover advantage. We were able to move W6 over to cover the Tsunami-hit region in four days; it would have taken other operators months. Maybe in a year or two we may decide to open up to another strategic partner but it is not a priority at the moment."

GLOBECAST TO CONTINUE TRANSITION IN 2005

Globecast is to continue repositioning itself from being a satellite distribution company to a network agnostic content management business in 2005, as it seeks to capitalise on growth in 2004 and drive value added-sales, according to CEO Christian Pinon.

"Globecast has delivered. Our target for 2004 was to be free cash flow positive at the global level and EBITDA positive in the US and we have achieved this," said Pinon in a conversation with SF recently. We have seen significant growth in the US and steady growth in Asia over the past year and we have managed to increase our working capital by E10m so the situation is very satisfactory. France Telecom, which is basically our bank, vendor and shareholder, has nothing to complain about."

Globecast's growth strategy over the past year has been funded from internal resources and the company. Milestones include the opening of an office in Beijing, a new presence in Dubai and Kazakhstan and the addition of Tokyo to its global fibre network. Another planned fibre link, from Moscow to Western Europe, is slightly behind schedule but should be completed by the summer.

Fibre provider

Investing in fibre networks is enabling Globecast to manage its cost base more efficiently, according to Pinon, as contracts tend to be only for one or two years with exit clauses and a lot less expensive than satellite capacity. The only investment comes from the equipment it requires and as Pinon says, if a fibre route does not work out, this hardware can be used again elsewhere. Other big pipe projects include a Israel-London link up, which is near completion, and Singapore-Middle East which is less further advanced.

Geographical growth outlook for 2005:

Asia: 40%
US: 10%
Middle East and Eastern Europe: small growth
Western Europe: slight decrease
Overall: 'modest' increase

Globecast's deteriorating position in Western Europe is due to the maturity of the market, plus competitive and technological issues. To counter this, Globecast is seeking to lessen its exposure to content contribution – bringing content to the broadcaster – in favour of offering more value added services. "We prefer to grow the value of the company by offering more value added services rather than simple contribution and distribution. Our audience these days can be classic DTH, cable ISPs or mobile operators," says Pinon.

Currently, Globecast derives 80% of its revenue from distribution and 20% from contribution, although Pinon says the contribution figure is in decline. Recent innovative deals have included an agreement with US from Eagle Broadband and parent France Telecom to deliver IPTV content and a collaboration with sister company France Telecom Orange to aggregate mobile content. Globecast should start seeing IPTV revenue coming in the latter half of this year while mobile content aggregation is at an earlier stage.

2005 outlook

Pinon's ambition for 2005 is for the US business to become free cash flow positive and continue to ratchet down costs, for example by adopting pay-as-you-go models in its relations with satellite operators. A new satellite platform is also planned on Arabsat.

In terms of the competitive landscape, Pinon is less concerned about regional rivals such as Inmedia and Telespazio rather than infrastructure providers lower down the value chain. "My main concern is not with our current competitors but satellite vendors or telcos bypassing service providers like Globecast. Companies like us must differentiate ourselves will be by bringing value to the market."

CapRock crosses US$100m line

CapRock Communications will become a US$100m company in sales terms for the first time in 2005 as organic growth and new vertical markets drive organic growth at the business.

CapRock's growth came mainly from M&A last year, as the company acquired Telematika of Indonesia and Blue Sky Comunicacoes of Brazil. This year it is planning on generating revenue from a number of new vertical markets as part of a diversification strategy from its traditional base serving the oil and gas sector.

The new verticals are commercial shipping, disaster relief, large remote construction projects and mining. The company says it has been preparing these markets already and should see good growth from them this year. Homeland Security is another potential money maker but mainly at the State government and NGO level rather than on a federal basis which the company still describes as 'a bit amorphous'. Growth in the oil and gas sector is also expected this year however, as oil firms bring previously mothballed drilling assets back online to meet demand. Apparently there are 200 more oil rigs in operation globally than there were twelve months ago.

Despite serving some cruise ships already, CapRock has ruled itself out of the bidding for MTN, however, saying that it prefers to stay in the B2B world rather than learn a whole new skill set serving consumers with entertainment and other communications need, outside its core field of expertise.

Tenzing becomes OnAir.

In-air internet connection specialist **Tenzing**, which was acquired by Sita last year, has changed into a new entity, called OnAir.

The new name brings with it a new direction as Tenzing, which had previously been seeking to compete with Connexion by Boeing in the market for broadband internet, is now also targeting mobile phone users. Airbus, Tenzing's long term shareholder, retains an interest in the new company, which is essentially a joint venture between Sita and the aircraft maker.

OnAir is currently still in its development phase and hopes to roll out commercially in 2006. The market for inflight communications more than ever looks like a square fight between OnAir and Connexion by Boeing, which has partnered with Vodafone to work on GSM and other mobile solutions. With both aircraft makers having their own in-house champion, the market looks increasingly crowded for independent start ups in the airline communications space such as Altobridge, which has teamed with Arinc and Telenor.

Meanwhile, BT has announced plans for its own airborne internet service. Branded BT Infonet, the service will be the first in the space by a telecoms operator and will offer users managed broadband and intranet access in the sky.

The offering comes courtesy of BT's new mobile data services division which was formed after the company's recent acquisition of Infonet Services. The services relies on a roaming agreement with Connexion by Boeing meaning that Infonet customers will be able to roam on Connexion by Boeing hotspots on board its partner airlines, which so far are SAS, Lufthansa and Japan Airlines and ANA with Singapore Airlines and El Al in the pipeline. The difference between the BT deal and one struck between Connexion by Boeing and Japan's NTT DoCoMo last year is that the Japanese telco does not have an integrated fixed-mobile offering.

Pricing for the offering is $15 for a flight lasting less than three hours, US$25 for a three to six hour flight and US$30 for long haul.

EMEA Services

Showtime Arabia days away from announcing banks

Showtime Arabia, the Viacom/Kipco Middle Eastern DTH joint venture, is to appoint the banks for its long awaited IPO by March 18, CEO Peter Einstein has told SatelliteFinance.

Showtime will use at least two banks for the listing and possibly more, although no final decision has yet been made according to Einstein. While reluctant to divulge any other information regarding the forthcoming offering, Einstein also said he hoped that the company would be able to list in the current calendar year. "I'd like to do [the IPO] this year. We've turned the corner, breaking even in 2004 and now enjoying our first year of profitability. One of the reasons we have received so much interest from the investment banking community is because we are a success story, we're in an interesting part of the world and we are a growth story too."

No exit strategy

Einstein also remarked that the primary use of IPO proceeds would be to fuel growth at the business and that he was unaware of an exit strategy at either Kipco, which owns 80% or Viacom (20%). He also mentioned that he saw growth opportunities both within and outside the Middle Eastern region, although not necessarily using the Showtime brand.

Growth at the Showtime Arabia/Gulf DTH platform would come from growing the company's business in the 22 core territories it is already licensed to operate in as well as gaining a presence in new territories. Einstein also said there were plenty of high income, high ARPU households yet to have been won over by Showtime that would remain the priority rather than targeting lower income demographics.

Einstein did not rule out a Showtime foray into radio or other media, as has been suggested by for some time. "So many areas of media are in their infancy in this region and equally each country has its own dynamic, rules and regulations and media profile so we will develop our approach in a country by country manner."

In other developments, Showtime is about to deepen its relationship with rival Middle Eastern broadcaster ART in the fields of marketing, programming and packaging. The two platforms, both on Nilesat, entered into a strategic alliance last June to open up each others' network to subscribers. ART's strong sporting line up was seen at the time to be a good fit for Showtime, whose Best of the West strap line was more focused on US imported drama and movies.

Showtime will also close the doors on its London HQ for the last time at the end of the month, as the company moves all management to Dubai Media City.

The company began uplinking part of its content from there last year but will be wholly based there from next month.

Showtime numbers

Days before he picks banks for a prospective IPO, Einstein is understandably reluctant to give away much data on Showtime Arabia's subscriber growth. The company has around 300,000 subscribers at the moment, a similar figure to two years ago, suggesting that churn is still an issue for the business. Without the ability to gain revenue from interactive applications such as gambling in its heavily regulated markets, Showtime has been working hard to maintain its world class APRU figures, which stood at around US$55 per month last year, mainly through cutting down on churn and lowering SAC.

Showtime Arabia

Positives: profitable and well placed within the region to benefit from industry consolidation. First local platform to market in IPO terms. Synergies developed through cooperation with ART.

Negatives: growth kept in check by high churn. Ability to appeal to lower income demographics frustrated by proliferation of free to air local language content.

21NET LEAVES THE STATION

UK-based broadband-to-train provider **21Net** is targeting a second equity round this summer and is planning an initial public offering for the first half of next year as it prepares for the commercial launch of its service.

The company first trialed its service last June in Spain onboard a national high speed train operated by national railway firm Renfe and will this month launch commercial trials of the service on board certain train lines operated by Thalys, the Franco-Belgian train operator. 21Net says it is able to achieve bandwidth speeds of over 300 Kbps on these services.

21Net's business model revolves around its ownership and installation of hardware on a fleet of trains and then agreeing a revenue share model with the train operator. Customers will be charged either on a pay as you go basis, or as standard included in the price of the ticket, or indeed a combination of these two structures depending on the class of the ticket, with first class passengers having usage wrapped into the price of the fare.

According to Henry Hyde-Thompson, founder and chairman, 21Net should have its first fleet kitted out and bringing in revenues by the end of this year, with at least another fleet online in 2006. The company should become profitable shortly after commercial launch, Hyde-Thompson also said.

Financing

To date, 21Net has been able to finance itself through the development stage by a mix of private equity investment, public funding and asset backed debt. The trial in Spain was backed by E1.3m of ESA funding, while private investors have so far ploughed in £2m. An asset finance facility is also available to provide 'several millions' to the company should it need it.

21Net's plan from here is to raise another £3m in VC funding in the summer, ahead of an expected IPO some time next year when the company is in its revenue stage. Owing to the structure of 21Net's business plan, the company should attain profitability shortly after commercial launch.

The market

At the moment, Hyde-Thompson says the company is talking to a number of train operators with a view to launching services. The chief market is high speed trains in mainland Europe. High speed trains because these carry the most business users and mainland Europe because, despite the fact that 21 Net is domiciled in the UK, train networks there aren't suited to the service mainly because bridges in the UK tend to be too low for the service's large antennae.

21Net investment positives

- proprietary technology and high level of customisation offer a considerable barrier to entry for other firms.
- in the age of the budget airline, trains have to sharpen up their act to offer value added services.

Negatives

- long sales cycle
- unproven market - building a revenue model that satisfies the fleet owner, customer and service provider will be a challenge.

Xantic sells VSAT business to Satlynx

Xantic has sold a significant volume of its VSAT business to Satlynx for an undisclosed seven-figure sum and could be planning similar incremental acquisitions.

The move is a definite step by Xantic to focus on its core business of marine communications and other mobile satellite services and move away from fixed services. The business sold to Satlynx represents the majority of its VSAT business although some sensitive military and governmental business has been retained. To a large extent the contracts are for SCPC point to point communications.

As well as contracts, Xantic is also transferring risk to its Satlynx in the form of satellite transponder commitments although a Satlynx source said the company saw upside potential in this capacity. Satlynx is currently evaluating all of its capacity requirements.

Staying Europe focused

While Satlynx's SCPC business is global and covers 77 countries, the majority of its wholesale and TDMA business is done in Europe. Here it currently offers two TDMA platforms, one based on Gilat technology the other based on EMS. The EMS platform was expanded last year using Hellas Sat capacity so that it extends into Eastern Europe and the Balkans and now the company is using the same bandwidth to extend the Gilat platform too.

Satlynx is targeting profitability for the end of this year or early 2006. Year end 2004 closure enabled the company to write off certain losses that have hitherto hindered the company's progress in this direction. The company restructured in 2004 and is now increasingly focused on government and enterprise markets and no longer the retail or Soho space.

SES to increase stake

Meanwhile, despite writing off certain losses relating to one and two way broadband services in its 2004 financial report, SES Global sources say the company is planning to increase its stake in Satlynx during the course of this year and could make an announcement in the coming weeks. SES' other shareholders in the venture are Gilat and Alcatel. Alcatel Space has currently signalled its intention to move away from offering satellite services in favour of concentrating on manufacturing and has recently finalised an agreement with Finmeccanica to this effect.

GMPCS makes global step

GMPCS Personal Communications, the wholly owned subsidiary of Telenor Satellite Services, is to open a London office to service the demands of clients using London as a base for EMEA operations. The new office will be the first outside the United States. The new office will support GAN, BGAN, Thuraya, Iridium and Globalstar services. GMPCS Personal Communications made revenue of US$24m in 2004, an increase of 60% over the past two years.

IN BRIEF:

- **Satellite Media Services** (SMS), the UK teleport currently being sold by liquidators Kroll, is chaired by Walt Anderson, the US telecoms entrepreneur facing trial on tax evasion charges. At least one party is looking at the assets.

Asia services

PROTOSTAR CLOSES FUNDING ROUND

Protostar, a new company aiming to offer direct to home video services to markets in Asia, has closed an initial round of financing from VC funds New Enterprise Associates (NEA) and Spacevest.

The company which is based in Bermuda but has operational headquarters in California aims to beam DTH services to Asian markets. The company is thought to have reached agreements to use orbital slots belonging to the Laotian government and is seeking to raise funding for what will ultimately be a three satellite constellation.

It is not known how much NEA and Spacevest have invested in the round, which sees Peter Barris, managing general partner at NEA take a place on Protostar's board and John Higginbotham of Spacevest become its chairman.

The company is already working on its second round of finance and is believed to have secured an agreement with a satellite manufacturer to acquire a ready built satellite. Sources have suggested that this satellite could be Chinasat 8, over which Loral and Chinasat came to an agreement this month that would enable Chinasat to sell the asset to a third party.

It is not yet known which markets Protostar aims to serve but the footprint of its satellites will cover a total of 3 billion people in China, India, Indonesia, the Philippines, Indo-China and elsewhere.

It was not clear whether Protostar is working with an adviser at the moment. Stay tuned to our weekly updates at www.satellitefinance.com for more on this story as it develops.

www.protostarsat.com

WEIDA COMMUNICATIONS TALKING TO BANKS

Weida Communications, a privately owned US-based VSAT operator, is in talks to acquire a number of competitors in its key Chinese market less than year after having launched commercial service.

The company, which trades in China under the name Guangzhou Weida Communications Technology, is currently the only privately held VSAT operator in China and has already claimed some notable scalps in the vertical markets it serves including one to provide communications to China Telecom. In the nine or so months it has been active, it has notched up over 150 customers and deployed 290 terminals.

According to Weida CEO Mitch Sepaniak, the company's success has been helped by the fact that it is the only operator in the market without some element of public ownership, despite the fact that distance learning player ChinaCast is largely privately owned. "Being the only wholly privately owned operator in China is rally benefiting us on two counts: Firstly, businesses in China are trying to wean themselves off government owned suppliers and secondly because we are able to offer the newest most advanced technology to our clients." said Sepaniak.

Accrording to Sepaniak, of the 34 or so VSAT licensees in China, only eight are active and of these, only two or three are serious competitors. The rest are up for sale and the company is currently evaluating whether they are worth acquiring or whether it will be more cost effective winning their customers competitively. To this end, the company is currently talking to three investment banks with a view to appointing an M&A adviser.

Weida's four major verticals are oil & gas, emergency services, power and banking and finance. The company is concentrating on the Chinese market for now, where it hopes to become profitable by the second quarter of calendar year 2006, but has plans ultimately to export its business model to other Southeast Asian markets. This June the company will register revenue in the low millions of dollars but this is expected to climb steeply thereafter for the next forty eight months. Independent research commissioned by the company suggests the Chinese B2B VSAT market is currently worth around US$290m per year and the company is ultimately aiming to capture 15% of this. While the possibility of new competitors entering the market is credible, says Sepaniak, current investment is centred on the cellular market and the B2C space, and there are no indications of new entrants coming into the market in the short term, he said.

Weida Communications is family owned with no substantial VC funding as yet. The company is traded on the OTB bulletin board. For suppliers, the company buys its space segment from Asaisat and its terminals and ground hardware from Viasat. Much of the software is done in house as the company has to work with legacy Chinese systems.

TU Media readies for battle

The South Korean wing of Japan's Mobile Broadcasting Corporation (MBCo), **TU Media**, is getting ready for competition from terrestrial broadcasters in the mobile television market. Applications for land-based mobile TV licences were submitted to the regulator, the Korean Broadcasting Commission (KBC), over the course of the last month, and TU Media is making various moves to keep its first-mover advantage.

Despite South Korea being a country of early adopters of technology, TU has had a tricky first few months of business. Much of this has been at the hands of the KBC, which decided last October that the company should not be permitted to retransmit the content of the four terrestrial broadcasters in the country. That decision may yet be reversed, but only after terrestrial broadcasters enter the mobile TV market later this year.

The company recently announced plans to double its investment in terrestrial repeaters, a key component of the system's urban service as MBSat's S-band signals struggle to reach the gaps between tall buildings. TU spent W120bn last year on installing 4800 'gap fillers' in 26 cities last year, and plans to repeat this investment in the second quarter 2005, to make its service accessible in 58 cities by the end of the year.

Current subscriber levels at the company are said to total around 4500, a figure it will need to improve upon if it is to compete with the terrestrial networks. While South Korean regulations forbid mobile telcos to subsidise handsets, TU Media has been given license to do so. However, the handsets remain prohibitively high at around the US$850.

The service remains officially in its 'trial' phase, however. Although TU is expected to increase its levels of subsidy on handsets, the company is not thought keen to cripple itself financially by doing this. As its market grows, prices should fall naturally.

Terrestrial competition coming

The Korean Broadcasting Commission is shortly expected to award six licences for terrestrially provided mobile television. Currently there are various consortia vying for the licences, including cable companies, radio broadcasters and the four TV broadcasters (KBS, MBC, SBS and EBS). The various infrastructure and content strands are currently weaving themselves together, with an announcement pegged for later this month.

Three of the licences have been set aside for the TV broadcasters, but in return for this privileged bidding position they will have to open their networks to the other three licence winners. While the largest two broadcasters, SKBS and MBC are hot favourites to get the first two licences, the third slots will go to either SBS or EBS, the smaller networks. EBS has teamed up with NHN Corp and Cowon Systems, among others, while SBS has brought in cellular telephony provider LG Telecom, as well as various radio broadcasters. The other three licences have been set aside for all non-TV applicants to fight over.

ChinaCast growing

Chinese distance learning-via-VSAT provider **ChinaCast** has posted good growth in the last year, the middle of which marked its debut on the Singapore stock exchange.

Revenues for 2004 were up 14.1% to Yn141m from Yn123.2m in 2003 and the company increased its net profit from Yn31.5m to Yn41m, a 30.1% hike. A reduction in R&D exposure was the main driver for the improved financials.

For 2005 the company will focus on its corporate sales. It kicked this segment off last year when it signed deals with an insurance firm and a branch of the Chinese post office. However, the company expects the main driver for continued growth to be its traditional distance learning business, as many more universities and schools start using the network.

Indian open access may come soon

After only two years of operations, open access may finally be coming to the Indian DTH sector, with news that Star and Sony may soon have to make their content available to Agrani's Dish TV DTH project.

The plan was for this openness to be a feature of the market from the word go, but thus far the two companies, would-be rivals with the Dish TV project, have shunned any approach from Agrani.

However, the Television and Radio Authority of India has recently put its foot down regarding the open offering of content, and is beginning to assert itself. This should entail Agrani begrudgingly given the right to broadcast Star and SET content.

Americas Services

Gilat buys up Starband

While the Israeli press remains full of news of Gilat's future shareholders, **Starband Communications**, Gilat's US consumer-focused broadband via satellite subsidiary, has been consolidated into the company's Spacenet business.

The move creates a new solutions and services business able to serve both corporate and residential customers.

The new business will remain tiny compared to heavyweights such as HNS, but will still give some rationale to Gilat's US broadband business. Starband has failed to prosper even without having WildBlue as a competitor as it deals with its own launch problems.

Spacenet's CEO Bill Gerety told press that the advantage which Spacenet takes from the deal comes from the fact that it can utilise Starband's efficiency at dealing with smaller products and its close relationships with ISPs to create new products for its corporate and business customers.

Gilat became the majority shareholder in Starband after the residential / SOHO broadband player emerged from Chapter 11 protection.

Echostar dealt double blow

Echostar had a bad day March 9, when it was announced that the company could face an SEC probe into accounting practices at the firm and it lost a federal court motion seeking to dismiss a patent infringement claim by TiVO. Both sets of news helped the stock drop 6% on the day's trading.

According to a Bloomberg story, Echostar's auditor *KPMG* has launched an internal investigation after it became concerned with firstly the way certain supplier transactions were accounted for and secondly payments made to a consultant, said to be a friend of Ergen's. Separately, London's Financial Times reported that the SEC is investigating allegations of insider trading in the company.

Echostar's failure to dismiss TiVo's case that its 'Timewarp' patent was being violated by the DTH player and subsidiaries means that the case will now move forward in the Texas court.

It should have been a good month for Echostar, whose prolific legal department won a court case relating to an outstanding insurance claim on Echostar 4. It has also recently bought the chief asset of its upstart competitor, Voom, for a song and presided over better than expected subscriber adds while its chief rival DirecTV saw number two Mitch Stern resign following worse than expected fourth quarter growth. Instead it is now fighting a bunch of class action lawsuits on behalf of shareholders alleging securities fraud.

Echostar adds new telco

Echostar has added Alltel, the US' sixth largest telco, to its portfolio of telcos now offering the Dish service through their own sales channels.

Alltel,which offers fixed line services in 15 states, had been expected to side with either DirecTV or Echostar for some time as it was up until now the largest US telco not to have entered into a distribution agreement with a DTH platform. Of the top twelve US telcos in terms of fixed lines served, only two – seventh placed Citizens Communications and tenth placed Telephone and Data Systems – have yet to make up their minds. Of the eight that have already partnered up, DirecTV has signed with four – number one telco Verizon, third and fourth placed BellSouth and Qwest, and number nine Cincinatti Bell – accessing approximately 95 million homes. Echostar has signed more partnerships – with SBC (#2), Sprint

Satellite Radio: blots on the landscape

Satellite Radio's ascendance among US consumers has been terrific. Enthusiastic early adopters are now being segued into the mainstream as car makers increasingly offer either XM or Sirius as standard. But could a backlash be on the cards?

Terrestrial fight back: recent write downs of terrestrial radio assets at Viacom and Clear Channel appear to have galvanised the US's terrestrial radio broadcasters which are now drawing up plans for digital transmissions to counter the years of neglect and under investment by their current owners. After years of under investment and chronic service levels, new content and new channels could rejuvenate the sector if it ends up in the right hands.

The broadcast lobby: Another tactic in terrestrial broadcasters' counterattack is aggressive lobbying. The current incarnation of this is a move by two influential Republican politicians to force satellite and cable platforms to adopt the same indecency standards that currently afflict their terrestrial competitors. Any move to repeal the 2000 Supreme Court decision to limit indecency standards to terrestrial broadcasters will be contested fiercely on First Amendment grounds, but should they prevail, shock jock Howard Stern's US$500m move to Sirius will begin to look very expensive .

Increased prices: Having spent upwards of a US$1bn on content in the past few months, Sirius is already considering raising prices in reaction to XM's move to lift its monthly subscription price from US$9.99 to Sirius' US$12.95 and has hired extra sales execs to boost advertising, which is unpopular with listeners.

The state of Kentucky is about to approve a 3% tax on satellite TV services. Currently, cable TV services are already taxed at the 3% rate. The move to extend this to satellite TV has already been approved by the Kentucky General Assembly and needs only to get past the governor, an known advocate of the tax.

(#5), Alltel (#6), Centurytel (#8), Commonwealth Telephone (#11) and Alaska Communications System (#12) - but has access to around 27.5 million homes less than its rival. All the other smaller telcos outside the top twelve are undecided, but considering none of them serve more than 250,000 voice access lines, they represent meagre pickings for the two platforms, which are more focused these days on getting the best out of the relationships they have already formed.

Goldman Sachs, Morgan Stanley for DirecTV

News Corp-owned **DirecTV** has hired *Goldman Sachs* and *Morgan Stanley* as underwriters for future transactions including those involving the likely future share disposals of the GM pension fund.

The two have already underwritten the first of the GM Pension Fund's disposals in January, which saw the company sell 55 million of its total 272.9 millions in February. *Citigroup*, *CSFB* and *JP Morgan* were co-managers on the transaction. The company had planned to sell 110 million plus a possible 6.5 million greenshoe in early January when the disposal was first announced but decided to halve the offering in light of DirecTV's perceived low share price at the time. Nevertheless, a 5.5 million share greenshoe was been offered to the underwriters, half of which was taken up by the underwriters on 7 March.

The lock up period governing GM Pension Fund's near 19% stake in DirecTV ended in December and the resulting overhang has been putting pressure on DirecTV's share price, as have lower than consensus fourth quarter subscriber additions.

Voom cut off delayed - update

Cablevision has delayed the switch off of its struggling DBS service Voom to give Voom HD, the company launched by founder and now chairman Charles Dolan, to come up with a solution to buy the business according to a SEC filing.

Voom was scheduled to be switched off in early March but relented after Dolan added new directors to the board to tip the balance in his favour. Following a board presentation on March7, Dolan was given until March 31 to come up with a permanent solution to the problem of how to keep Voom running.

Step by step guide to Chuck Dolan's interim plan:

- Chuck and son Thomas to fund all costs of the service above the shutdown budget out of their own cash and stock until March 31.

- Cash and class A and class B shares to the value of US$10m will be deposited with Cablevision.

- Withdrawals will first be made from cash, then Class A and finally Class B shares.

- On the termination of the agreement, all cash and stock deposited but not used will be returned.

- Assets not sold to Echostar include a number of transponders on AMC-16 that were leased at the end of last year, c.40,000 subscribers and Ka-band licences. Any new company will also be liable for five Ka-band satellites ordered from Lockheed Martin at the end of last year.

Battle of the Islands: Isle of Man Bermuda dispute slot

The Isle of Man and Bermuda are squaring up to each other in a dispute over a North American satellite slot.

The dispute centres on one of three orbital slots granted to the Isle of Man in 1983 that Mansat filed to commercialise two years ago, filings the Manx government now claims Bermuda is seeking to undermine through requested modifications.

It is unclear whether the dispute will go to the courts at this stage.

Bermuda's defence is that it is seeking to develop its own orbital slots and the Manx slot overlaps with one of its own, hence it has asked for the Manx slot to be modified.

UK regulator Ofcom is mediating in the dispute. North the Manx slot and the Bermudan one cover the lucrative North American market.

Both Bermuda and the Isle of Man have strong claims for space industry recognition. Mansat has worked hard and lobbied hard over the course of the past few years to introduce the island to the space industry with some success while of course Bermuda is the domicile of Intelsat.

Operators to make financial sense in 2005

by Ross Bateson & Oliver Cann

The change seen in the satellite industry over the last 18 months is just the first step in a move towards greater rationalisation, and greater financial responsibility in the industry, sources have told SatelliteFinance recently.

"The cost of capital for this industry before all the leverage was put on it recently was around 10%. If you look at the return on the invested capital for the industry it was 5%. There has been a misallocation of capital historically, and this means that going forward, capital will be very stringently rationed," said one source. The obvious way to ration these capital costs is to reduce them through scale, and while the FCC may get in the way of much bulking up, the logical next step for the industry is, according to some, M&A. "Mergers have got to be on the cards for people," said one source.

Consolidation in the industry, which has been talked of for years, will come in many forms. The loosest of these would be some form of condominium agreement with regional operators getting together to gain mass, otherwise, if the regulators allow, full scale corporate mergers. "The private equity investors in each of these cases have made an investment on the basis of there not being future merger activity, but greed is good, and it's positive to achieve more than your targets," said a source.

Listing first, M&A second

The M&A activity could be driven by the current flurry of listing activity. While the IPO drive has more frequently been put down to a desire from private equity shareholders to suck more money out of their business, there is another reason, according to one source. "The IPO story is driven by two factors, firstly as a way for the VC owners to get some of their money back, but that's not the primary reason. This is to dovetail with M&A. Publicly traded shares have got more flexibility and firepower in an M&A environment," he said. "Point number one is that a publicly traded company can use its shares as acquisition currency, point two is that, even if it doesn't do that, it can point to a public reference for its share price, and historically, private companies have tended to trade at a discount to public companies." Thus a listed PAS will have both greater currency, and a strong bargaining tool in the publicly agreed value of the company.

The desire of the private equity owners not to dilute their ownership has been shown in the PanAmSat listing. Maximum dilution levels under the filed terms of its IPO will see KKR's stake diluted from 44% to around 25% while Carlyle and Providence's 27% stakes will be reduced to around 15%. However, despite only partial dilution, the IPO will mean that the three VCs will have completely drawn out the funds they put into the company last year. "There's nothing like owning a satellite company for free," said one person.

"The ideal situation for private equity ownership is to have a quote out there which is sufficiently liquid for there not to be a discount to any assumed valuation. At the same time, you want to do that with the smallest possible level of dilution and PanAmSat's is about 40%. Perhaps that will be the benchmark," said a source.

Hunger for yield

"There is a great hunger for yield out there in the market, from junk bond investors, equity investors or whatever. These companies are such cash machines, and that's exactly what they want," said a source. However, others tempered the current lust for yield with the fact that there are few other reasons to buy stock in satellite companies. "These are such low growth businesses," he said.

One banker told SatelliteFinance that he thought recent price expectations will be the subject of a correction. "Generally all of the operators considering going public have taken a step back from their original valuation expectations," said the banker. "This is a result of changing market outlook, satellite developments such as the recent Intelsat failures and investor feedback."

The one exception to a lot of what is going on in the industry is the SES Global family. Rather than looking at hiring financial experts to hone the business financially, SES has looked to creative new ways to grow its business. Other satellite operators have stated the need to lower capex and not fully replace capacity, but SES is proud of the number of satellites it has on order.

"Each potential merger has its own unique set of issues, from an operational, financial and legal perspective. You couldn't marry some cultures, and SES will look increasingly different to some of the other operators as time goes by," said a source in the US.

As the VC revolution continues to turn the industry around, we are likely to see a lot of the operators becoming a lot leaner, but according to one source this is no bad thing. "It's a very flabby industry. You need to take off the flab," he said.

Iridium in play

Private equity sponsors could be close to acquiring upwardly mobile MSS provider **Iridium**, bankers say.
Iridium recently took on *Morgan Stanley* to advise it on strategic options going forward and while it is understood that the company has been looking at the possibility of a public equity or debt offering, it is now thought that an outright sale might be considered by the shareholders.
Along with private equity, another possible buyer that has been suggested by the banking community is Thuraya, which could use the network to expand its mobile telephony offering onto a global scale. The fact that Iridium's service is based on a low earth orbiting platform whilst Thuraya's is on a geostationary platform could be awkward however.
Iridium has been notching up impressive 20%-plus quarterly growth for several quarters now and CEO Carmen Lloyd thinks this rate is sustainable in the medium term. The company has little debt and due to power conservation measures employed by the company, the Iridium fleet should be able to function in some form or another until the middle of the next decade. See the January edition of SatelliteFinance in our archives at www.satellitefinance.com for a detailed look at Iridium's current business.

Eutelsat launches recap

As predicted by SatelliteFinance some weeks ago, **Eutelsat** launched its planned E2.3bn recapitalisation in the second week of March. *BNP Paribas*' services were again called for as global coordinator, while the MLA line up is altered from the E1.2bn loan that closed in January to accommodate *Bank of America*, *Deutsche Bank*, *Goldman Sachs*, *RBS* and *Eurazeo*. Goldman and Eurazeo are shareholders in Eutelsat.
The new debt will comprise both a loan and high yield bond offering and will ramp Eutelsat's debt from its current 2.1x EBITDA to 6x EBITDA. As also mentioned previously in Satellite Finance, the new debt will involve the company restructuring and the new debt will be held at a new holding company level. The E1.2bn loan that closed in January - via BNP Paribas, Calyon, IXIS and RBS – will remain in place at the operating company level.
Banker talk is that the new arrangement will involve E1.625bn senior debt and around E500m of mezzanine financing. Pricing was due to be finalised Monday 14 March but is now expected later that week or even the following week. "The deal will be long dated non amortising debt – the usual levels for leveraged finance - but nothing has been decided for sure yet," commented one banker involved in the deal.
One banker involved in the deal proudly told SatelliteFinance that: "This facility will change the way people look at structuring satellite financing."
S&P responded to the news by placing Eutelsat's BBB+ long term corporate credit and senior unsecured bank loan ratings on credit watch with negative implications.

PAS pricing up for March issue

Morgan Stanley, *Citigroup* and *Merrill Lynch* will be selling **PAS** shares at US$19-21, with the listing possible as soon as this month, according to filings made by the company. The total underwriting group now consists of ten banks, with the co-bookrunners being joined by *Bear Stearns*, *BoA*, *CSFB*, *Deutsche Bank*, *RBC*, *UBS* and *Wachovia*. *Simpson Thacher & Bartlett* is advising PanAmSat, while *Cravath Swaine & Moore* is the underwriters' legal adviser.
The deal could thus net up to US$1.17bn, as 50 million shares are being sold with a greenshoe option of a further 6 million. The three VC owners, KKR, Carlyle Group and Providence Equity Partners will receive a US$200m special dividend from the proceeds of the deal, despite the fact that they are not selling any of their stock: all shares are new. The rest of the money will go towards paying down debt and for general corporate purposes.
KKR's stake will be diluted from around 44% to around 25% if the greenshoe is taken up, while Carlyle and Providence's roughly 27% stakes will be reduced to around 15%.

Mixed response from market

The pricing of the deal, and various other announcements made with it, drew a mixed response from the market. Bond investors were said to be concerned about the high levels of dividends that would be drawn out of the company as a result of the deal, and this despite the fact that bond investors would normally respond positively to news of an equity issue.
On top of this, SatelliteFinance heard rumours that the company was considering cutting its price range to increase the resulting yield in the deal, after some investors had put pressure on the deal.

Bausch doubts wisdom of sat IPOs

Romain Bausch, CEO of SES Global, the world's most profitable satellite operator, questioned the wisdom last month of those of his rivals rushing to complete initial public offerings within the current

Intelsat's brave new world

A new board feels like a new world at **Intelsat**, according to one source at the company. The final resolution of the future standing of the company's shareholder base came at the end of January, and the seismic shift in the support of its new owners, the Zeus consortium, has brought relief to some corners of the company.

"It's like night and day. The company was unique in that it previously had a group of shareholders whose stake in the company was essentially inherited bits of bric-a-brac," said one source. Rather, the situation where Intelsat found itself owned by large numbers of companies with minority stakes made it very difficult to get anything done. "They were not particularly long term," the source continued. "So counter their reputation, the private equity guys have a much longer term interest than our old owners. There is nothing more short-termist than a corporate owner of a minority stake that has nothing to do with their business."

The new shareholder structure allows the company to start bedding down its business, and the current state of flux in the industry makes now a good time to start it working in a more rigorous way.

IPO on horizon

While preparations are already well advanced on an Intelsat IPO from last year's filing, the company has not yet been drawn on whether or not it is going to the markets in the near term. While PAS' listing will happen in weeks, New Skies has mandated banks and Inmarsat is currently in negotiations, Intelsat is generally expected to take a breather before finalising its own stock market plans.

It is also thought likely to hire an underwriting group that draws heavily from the preparations done last year. "It's not definite that those of us without a relationship won't get in there, but we're not holding our breath," said one banker. New banks, after all, would have a lot of catching up to do.

Along with the markets, Intelsat is also better prepared for a deal now than it was a year ago, according to sources, and the coming of new CEO Dave McGlade at the end of March will enhance its position. "It's about making rational financial decisions," said one source, pointing out that the company needed more rigour and toughness in the way it went about negotiations, something which many believe it has with its new board and some refreshment of the management. Equally, sources have stated that the company has got a lot tougher in terms of procurement.

The change in board will also help the management team execute. Management remains similar in flavour despite the recent appointment of Phil Spector as general counsel, McGlade as CEO and the appointment of William Atkins, an ex-banker, as CFO last year. Conny Kullman remains as president, with old Intelsat hand Ramu Potarazu heading up sales.

While the new faces have freshened up the team, it is the change in shareholders that will really allow them to move. Inter-board rivalry is said to have left management confused in the past, and the new owners have completely changed this approach. "The management team had no other choice than to be continuously reactive, and this left them on the back foot," said one source.

Looking at video, away from Galaxy

One of the interesting moves from Intelsat last year was its rapid exit from its Hong Kong DTH subsidiary Galaxy. It bought into Galaxy in March 2003, having brokered a deal involving in-kind payment and support to the nascent DTH platform but by May 2004 rumours had already started appearing that, keen to clean up its balance sheet, it was looking to get rid of it. By the Autumn, Galaxy had been cast out like the Gadarene swine and in the six months since then, Television Broadcasting, the terrestrial broadcaster which now holds all of Galaxy, has not been able to find another partner for the asset.

"It's not the company's core competence," said one source. "You can see why it was done: DTH neighbourhoods are great business but the skills weren't there." Sources have pointed out that three key areas of running a DTH business, that of possessing retailer skills and distribution networks, that of possessing abilities in content provision and thirdly of having local planning issue skills were all lacking from Intelsat. While TVB was providing high quality content, the other two were missing from the partnerhsip as a whole. "It was just using up cash," said a source.

The company remains keen to get a better hold on video business, its traditional bête noir. "Again, you've got to look at the old board: a bunch of telcos not wanting to do video," said one source. The company is said to remain keen in getting involved in DTH neighbourhoods, but on a non-investment basis and is mulling projects from Scandinavia to Kazakhstan. The cable and broadcasting arcs in the US are also a key string in the company's bow, and the company's fleet barring one is entirely digital, making for a simple migration to HD. The purchase of Loral's North American fleet has been a success, according to one source. "That was a sweet deal. It's the most important thing Intelsat has done and they got it right," he said.

SES Global

2004 sales:	E1.147bn (down 5%)*
December 31 backlog:	E6.2bn (down 3%)*
New contracts 2004:	E1.2bn
EBITDA margin:	c.73%
Annual dividend yield 2005:	3%

* Weakness in the dollar was blamed largely for declines in revenue and backlog

window.

Speaking at his company's 2004 results conference call on February 21, Bausch questioned the sustainability of private equity-owned operators such as PanAmSat and New Skies, which have filed for IPOs in recent weeks, as well as Inmarsat and Intelsat which could very well file this year. "They are selling the IPOs on the promise of high dividend yields and deleveraging the companies… it could be demanding and we wonder how they will grow their business."

What to do with the cash?

SES reported a rise in operating profits despite a slight drop in revenue and EBITDA is faced with an altogether different problem to that of its rivals. Currently its gearing is around 2x net Debt:EBITDA and it must find new ways to invest up to its stated target of 3x or else return cash to investors.

While a share buy back is on the cards and expected at some point this year, the company is also seeking new satellite investments. So far, it has avoided making a bid for companies such as MTN which could involve it going into competition with its own customers and is focusing on satellite operators, as well as incremental acquisitions in its downstream AGS and Satlynx satellite solutions businesses. Projects SES is currently involved in are Cielsat, the newly-licenced Canadian FSS operator and new Mexican entrant Quetzsat. Projects it has been linked to include the formative Protostar Asian DTH business which we write about in the Asia operators section of this journal. However, the company is cautious about investments: the value of its recently acquired stake in Orbcomm was written down in this year's numbers.

Cinven buys Eutelsat equity from Goldman Sachs

For the record Cinven, in addition to having acquired an 11% stake in Eutelsat from De Agostini's Deasat investment vehicle in December, acquired shortly after that transaction a 5.64% stake in the operator from GSPC2000 Eurovision Holding, a unit of Goldman Sachs.

The acquisition brings Cinven's total holding in Eutelsat to 16.64%. Whether it means that the 15.8% of Eutelsat acquired by Goldman Sachs Private Equity Europe from BT also in December has been decreased to 10.14% following the sale or whether the seller has been able to acquire additional shares in the business from third parties is not clear.

It is also not clear how much Cinven paid GSPC2000 for the extra stake. When it acquired the De Agostini stake in December it did so at a lower valuation (E3.1bn) than what Goldman paid BT (E3.3bn) a few days later.

Inmarsat launch brings IPO a step closer

The successful launch of **Inmarsat**'s first I-4 series satellite, Inmarsat 4, on March 11 is expected to be followed fairly swiftly by a filing to list on the London Stock Exchange, with *Morgan Stanley* and *Cazenove* the likely leads in any offering.

Inmarsat's eventual launch was delayed by 24 hours from its planned March 10 lift off – a routine occurrence in the satellite world – but rather than waiting for the second launch later this year, the company is thought to be bullish on its prospects of listing now.

The choice of the London Stock Exchange will deprive Paris Euronext of further developing its satellite operator community begun by SES Global last year, though it is unsurprising given that Inmarsat is based in London and had planned to list on the LSE in previous attempts to go public.

Morgan Stanley was previously adviser on Inmarsat's last attempt at an IPO. Morgan Stanley and Cazenove – which has a good IPO pedigree on its home turf - are likely to be accompanied by CSFB in managing the offering as CSFB has been the lead bank in all of Inmarsat's recent debt offerings.

Should Inmarsat take the IPO route it has been suggested that it may have to refinance some of its debt owing to covenants attached to the debt stating that proceeds of any equity offering must be used to pay down debt. This is unlikely to be fit in entirely with the plans of Apax and Permira which will want to take some form of dividend from the transaction.

Sources say that Inmarsat's fellow ex-IGO Intelsat is likely to wait to see how Inmarsat and PanAmSat fare in their public offerings before pulling the trigger themselves. No banks have yet been appointed at the Washington firm. Bankers had suggested that PanAmSat had cut its pricing to increase the yield on 14 March but this could not be confirmed at the time of going to press.

EBITDA margins 2004

Operator	Revenue	EBITDA	EBITDA margin
Inmarsat	US$473.8m	US$303.8m	64%
Intelsat	US$1.04bn	US$621.9m	61.9%
SES Global*	E1.147bn	E842m	73.4%
SES ASTRA	E691m	E576m	83.4%
SES Americom	E272m	E206m	81.3%

PanAmSat and New Skies have not reported Q4 2004 yet. Eutelsat publishes its 2004/2005 annual report in the third quarter.

* SES services business operates at EBITDA margin of sub-10%. Operating business across the group is c.81%.

Inmarsat 4 update

At the time of going to press, Inmarsat had deployed two of its solar arrays and was said by the company to be doing perfectly. It is expected to enter service within 50-70-days at which point it will immediately replace Thuraya as the provider of capacity coverage for RBGAN. RBGAN will become BGAN upon the launch of Inmarsat's other satellite later this year when the company will be able to offer services over a wider coverage. The benefits BGAN will bring to the company are as yet hard to quantify as RBGAN under performed in 2004 according to the company's own expectations. A straw poll among educated sources suggests an expectation that the company will be able to grow revenue by about 10% with the new service in its portfolio.

■ Inmarsat has announced its intention to apply for authorisation to operate ancillary terrestrial component facilities in the USA following the FCC's announcement on February 10 to allow mobile satellite services providers to offer terrestrially based services as complementary to those of its satellite fleet.

New Skies seeking to refinance

New Skies is attempting to renegotiate the US$535m bank debt package it put together via Deutsche Bank at the end of last year.
The facility consists of a US$75m and US$460m term loan both priced at 275bp. Among the amendments the company is seeking is an increase to the revolving element of the loan, new financial covenants and a reduction in pricing.
The exercise can be viewed as an attempt by New Skies to take advantage of the market before it changes for the worst in much the same way as PanAmSat tried twice to reprice its recent bank debt transaction. "In today's market people are trying to get away with as much as they can as long as they can. The markets won't be like this for ever," said one banker.
The new covenants probably signify an attempt by the company to amend the terms of its debt to enable it to pay a higher dividend to parent Blackstone in its forthcoming IPO than otherwise would be allowed under the current lenders' terms. Such a refinancing will be required by Inmarsat should it decide to pursue an IPO too, say bankers.

EMEA operators

Ondas prepares E1.6bn financing project

While talk of European satellite radio has centred on current operators XM and Sirius coming across the Atlantic, SatelliteFinance has got wind of an indigenous venture being set up in Spain.
The new project goes by the name of Ondas Spain, and the company has mandated *Alegro Capital* and *ING* to arrange financing for the approximately E1.6bn capital requirement it will need to raise between now and the projected commercial launch in 2009.
To get the ball rolling, advisers are preparing to seek E15m of first round financing for Ondas next month. The next round, scheduled from October this year, will target E200m. Debt funding will also be launched this October as well as leasing structures. Strategic investors are understood to have expressed an interest in investing in the project already, and among the list of usual suspects, topped as ever by SES, comes Abertis, the local infrastructure group that has been circling Hispasat in recent months.
Some technology partners are believed to be in place but they are not being disclosed at this stage. ING will help Ondas establish local partners in Spain to ensure regulatory approval for the project.

Alegro, which is based in London, is expected to tap its links with private equity firms such as Apax and Permira for the fundraising. Alegro worked with the two firms on their acquisition of Inmarsat.

The management of Ondas are buying into the seed funding round. They include Celso Azevedo as CEO.

While the emergence of an indigenous satellite radio torch bearer is being widely greeted in Europe, one banker urged caution: "Satellite radio in Europe is going to have difficulties given what I'm gonna call the 4 'L's: latitude, languages, licenses and line-of-sight. Latitude because most plans are looking at existing geostationary capacity in L or other bands and geo is pretty low on the horizon in Europe. Languages is all about market size. There are a lot of languages and it will be difficult to offer an attractive bouquet for more than one tongue. Licensing difficulties entail compliance with both national and EU regulations, and even states in some countries such as Germany. Finally, line of sight is an issue as Europe is much more urban than the US where DARS has worked so successfully," he said.

It is not yet clear whether Ondas is merely planning an Iberia-only service or whether it has continental ambitions. Considering XM and Sirius took around a decade to get their projects off the ground, though, nobody is underestimating the challenges it is facing.

Standard Chartered mandated for Thuraya deal

Standard Chartered has been selected by **Thuraya** to advise it on strategic options for its planned new Asia Pacific satellite whilst at the same time, some interesting new M&A opportunities for the operator have become apparent.

The appointment was made at the end of February and Stanchart has already begun to start the work on the deal. Consultancy firms pitching for market study work were interviewed in the first two weeks of March and a winner will be appointed soon.

See February's edition of SF in our archives, www.satellitefinance.com, for more details on Thuraya's plan to augment its existing service over the Asia Pacific region. Currently the company is thought to be serving part of the region with its first, damaged, satellite Thuraya 1. This satellite will be replaced by Thuraya 3, for which a launch partner is being sought.

While funding a satellite of its own right is a possibility – Thuraya's main shareholder is cash rich UAE telco Etisalat – it is thought the company would prefer to share the risk with a partner.

Biggest three country markets for Thuraya

1	Iraq
2	Afghanistan
3	Sudan

SatelliteFinance understands that there has been a significant amount of interest in Thuraya's Indonesian based rival, ACeS (Asian Cellular Satellite) and could itself be keen to buy the asset. Private equity firms are also said to be looking at the asset.

LEO possibility raises its head as M&A rumours surface

Another M&A opportunity Thuraya is being linked to by bankers is Iridium. SatelliteFinance broke the story in January that Iridium had hired Morgan Stanley to advise it on a possible float or public debt issuance later on in the year but it now appears that the mandate covers general strategic advisory work as well. "Iridium is in play and the price expectation is quite high," said one banker in the past week.

As mentioned in January's edition of SatelliteFinance, Iridium is currently achieving 20%+ quarterly growth, a rate CEO Carmen Lloyd views as sustainable in the short to medium term. Given that the company has been cash flow positive for eighteen months and does not need to begin replacing satellites for a few years yet, selling the business as a growth story may not be so difficult.

Besides Thuraya, other prospective buyers for Iridium come mainly from the private equity community.

Hispasat dynamic shifts away from Abertis

While no end to the saga that is the sale of **Hispasat** appears to be in sight, the list of companies will not end up buying the asset is becoming clearer.

While by no means out of the race, news has been filtering out of Madrid that Abertis, the Catalonia-based infrastructure group that has been stalking the business for the better part of the past year, is not favoured by Hispasat's new president Petra Mateos.

Apparently the reason for Mateos' froideur is because Abertis would want to play an active role in the management of the company if it is successful in running the company.

Instead, Mateos, who is herself new to the company, favours the stake being bought by another financial investor, La Caixa, as this would have less of an impact on the management structure of the company.

More chaos

The sale process has been further thrown into chaos by the fact that Telefonica, one of three shareholders that were seeking to sell their stakes, has now stated it intends to hang on to its holding. Telefonica owns 13.23% of Hispasat and is the second largest of the three shareholders that had put their stake up for acquisition behind Auna, which owns 17.64%. BBVA, the other selling shareholder, owns 10.75%.

Telefonica's withdrawal now means that rather than 42% of Hispasat being up for sale, there is now only 28% available. This would still be enough for Eutelsat to grab a controlling share of the business, were it able to bypass the politically appointed Ms Mateos' ill disposition towards Hispasat becoming a subsidiary of a foreign business. It was her intervention - it is thought - that persuaded Telefonica to take its stake off the market.

PwC is responsible for drawing up an IM although it is not clear whether it is running any auction as yet. Bankers say that as yet no formal sale process has begun. The other interested bidder for the business is SES Astra, which competes against Hispasat as a vendor to the country's unified DTH platform, Digital Plus. Whether it is interested in acquiring 28% of the business, which would put it on roughly equal terms as 27% shareholder Eutelsat rather than the envisaged 42%, is unclear however.

SES Astra is advised by *Touchstone Securities*.

HISPASAT

Valuation: c. E500m
Satellites:
Hispasat 1C (launched 2000), Hispasat 1D (launched 2002), Amazonas (launched 2004)
Other assets: 43% owner of Hisdesat, which owns 44% of new X band commercial satellite venture, XTAR-EUR and will own 100% of another X-band satellite, Spainsat, currently under construction at SS/Loral and due for launch in 2006.

Positives:

- well placed in the Latin American market (c.10% market share).
- strong home market position

Negatives:

- must raise money to pay for an X-band satellite, Spainsat, it is committed to buying from SS/Loral.
- share overhang
- fraught relationship to date with Eutelsat has failed to bring many synergies or economies of scale.
- nebulous demand for XTAR, Spainsat

TELENOR FLIP FLOPS ON FSS BUSINESS

As predicted by SatelliteFinance last year, **Telenor** has issued a request for proposals for a new satellite to replace its Thor 2 satellite, two years after having tried to offload its satellite business.

Telenor is aiming for the new satellite to enter service before 2008, when Thor 2 is scheduled to expire. The company says it has decided to order a new satellite to honour long term contracts and after having received requests from customers for more capacity. RfPs are out for both medium and large capacity satellites the company says.

Prior to this proposed procurement, Telenor's strategy had seemed to be to exit the capex-demanding satellite ownership business in favour of leasing capacity on other people's birds, as exemplified by its decision to buy a spot beam on Intelsat's recently launched 1002 craft. The improvement in the business climate, plus perceived lower factory prices of satellites, seem to have turned its hand however.

Telenor's association with satellites is stronger than most of the other national incumbents that have been busy selling off their ex-IGO assets in recent years. It still owns 14.5% of Inmarsat and its LESO business, Telenor Satellite Services, is seen as a future consolidator of the market. In the FSS world, along with operating Thors 2 and 3 (end of life due 2010) and the post beam on Intelsat 1002, it also markets Paksat in Europe and the Middle East for Pakistan's Suparco.

The world's global operators will be confounded by Telenor's move to order new space capacity, seeing, as they do, the elimination of space capacity from the market by the world's regional operators as the best way to stabilise transponder pricing.

ANALYSYS WINS RASCOM MANDATE

As predicted in last month's SatelliteFinance, Analysys has emerged as the winner of the mandate to draw up a market study for **Rascom** ahead of the company's proposed US$180m second round of finance.

The other bidder on the shortlist is thought to have been Pyramid Research. Analysys was

selected by the four multilaterals currently evaluating whether to back the project: Proparco, European Investment Bank, Africa Development Bank and Islamic Investment Bank. Rascom, which drew up the shortlist, will end up picking up the tab.
Analysys' selection, along with Pyramid's presence on the shortlist, is interesting as it shows more mainstream telecoms consultancies are again looking at the satellite sector. However satellite pureplays will draw comfort from the fact that Analysys does not appear to have been invited to tender for the upcoming Thuraya Asia Pacific market study mandate.
BNP Paribas is advising Rascom on the second round of financing. It is worth noting that Babcock & Brown, which advised Rascom on the arduous process of raising the first US$180m, has retrenched and is no longer seeking business in the satellite area, preferring instead to concentrate on investing in transport, energy and commercial property businesses. "The satellite business is not core for us any longer and it takes too long to get paid," commented a member of the team.

■ Nigcomsat is already on its second law firm, sources say. The identity of the new operator's legal advisor is not known, though it is said to be an American firm.

Americas operators

Star One signs same team

Star One has signed up *BNP Paribas* and *SG* again to provide the financing for its recently ordered Star One C2 bird, pending approval by new owner Telmex. The team put together for the C2 financing thus precisely mirrors that of its predecessor Star One C1. Alcatel and Ariane will again be looking after the build and launch for the project.
While the same companies have been brought into the deal, Star One itself is thought to be pushing for a rather different financing package. Coface is again likely to provide ECA backing to the deal, but Star One believes that its increased maturity as a business, and the prospect of greatly enhanced cashflows from the C1 satellite should allow it softer terms. Some sources have stated, however, that the delayed launch of the C1 bird, originally slated for late 2004, is problematic in coming to terms on the financing. While a successful launch of C1 would greatly enhance the prospects of the future business, the current status, with the satellite still on the ground, is that it is a drain on cash and other resources, while not contributing revenue.
Exactly how the roles will be split up between the two banks remains to be seen, although last time around BNP Paribas took the senior role of the two. The debt is unlikely to be recourse to 80% shareholder Telmex, but might provide the mandated banks with a lead into a relationship with the Mexican telco. The attraction of this relationship may be a good bargaining tool for Star One when the talk turns to pricing, but sources have stated that negotiating terms on the deal may prove interesting.

QuetzSat, Ciel to get satellites in 2005

The two new North American operators being set up by SES Global and family will get satellites this year, according to SES Americom CFO Rob Kisilywicz. The orbital slots held by **QuetzSat** and **Ciel Satellite** need to be filled in 2005, and SES is currently working on ways of doing this. The company is not yet clear whether they will be filled by existing SES assets, or whether in-orbit satellites will have to be procured elsewhere. For more news on this, and other hopes of SES Americom in 2005, see the full Rob Kisilywicz interview in the Special Features section.

Gonzalez resigns from Satmex

The troubles of **Satmex** have taken their toll on the top executives at the company, with CEO Lauro Gonzalez resigning in mid-February. The resignation came after a board meeting on Tuesday February 15 2005. The resignation has been termed as 'mutual' by the company. Chairman Sergio Autrey will take over the CEO position temporarily.
The continued stalemate in renegotiations eventually put Gonzalez's position under threat, and the opportunity now arises to get a restructuring expert into the role.

Venezuela to launch satellite?

News has reached the SatelliteFinance office that the Andean countries hitherto trying to launch a satellite into a slot at 67 degrees West have had their filing cancelled in favour of awarding the slot to the Venezuelan government. If true, the news will prove a significant boost for Venezuela, which has seen previous attempts to launch a national satellite come to naught. It is believed to have lost an earlier slot, at 81 degrees West.

If the slot does turn out to have been awarded to Venezuela, most commentators agree the resulting satellite, if it gets built at all, is likely to be built by China or India. Venezuela signed 17 bilateral agreements with China in January aimed at cooperation on natural resource and technological partnerships, while it signed a MoU with India on space cooperation on March 7.

Any award would also signal an increased nationalisation of the satellite business in Latin America, following recent developments in Argentina where the local operator Nahuelsat, which is partially owned by SES and EADS, is under threat from a new partly government-owned project, AR-Sat.

Telemar to shrink Hispamar shareholding

Brazilian fixed line telephone business Telemar is to reduce its stake in **Hispamar**, its joint venture with Hispasat, over the next few years.

Telemar's stake will fall from around 20% today to nearer 7% as Hispasat absorbs insurance and other costs related to Hispamar's Amazonas satellite. Amazonas is currently 30% full after only six months in the market. The largest customer is Telemar which has switched its satellite business from Star One which is owned by its local rival Embratel. Its target was 25%.

Amazonas' lifespan is now only ten years following the development of a leak in one of its fuel tanks shortly after launch. Telemar has said it will invest no further money in Hispamar, despite the fact that the company says it is already considering launching a second satellite. Some financing for a second satellite will come from the proceeds of the insurance claim relating to Amazonas. The satellite's fault will register as a partial loss and once a claim is made the company can expect a fair amount of horse trading with its insurers over how damaged the satellite actually is.

Telemar and Hispasat are the only two shareholders in Hispamar. When the subsidiary was originally set up, Hispasat was looking for partners to buy up to 49% in the business. One planned shareholder was Eutelsat, which took a stake in Hispasat in 2001, but Eutelsat never invested in the business. These days, Eutelsat is actually a competitor of Hispasat and Hispamar in the region, selling corporate internet solutions through its Skylogic subsidiary.

Hispamar's ability to launch a second satellite will ultimately depend on how the Latin American absorbs the new capacity going up over the region. Intelsat, Star One and SES Americom are all planing on launching new capacity over the region.

■ The Argentine government has claimed that it will invest as much as US$226m in the Empresa Argentina de Soluciones Satelitales, the unit to be known as **AR-SAT**. SatelliteFinance has not heard of any developments with the unit beyond this announcement.

Asia operators

Need for sense in 2005

The gaggle of regional operators in Asia has long been collectively looked upon as a likely target for rationalisation or consolidation. The need to 'think global, act local' has led a lot of observers to believe that a lot of the assets would eventually end up in the hands of the global players but this is not necessarily so, according to one source.

"There has always been talk of the assets getting hoovered up, but there is no need for it a lot of the time," he said. "With increased liberalisation, landing rights in Asia are getting easier to come by, and that is really all that is on offer from the regional players." Others pointed to the coming need to get into fleet replacement activity as a likely turning point for the region. The feeling is that there may be some sorting of wheat from chaff.

Others were less cynical about the need for a regional approach. "The issue with Asia is that it's hard to get in-region penetration: it's very hard to operate domestically in these countries," said another source. Thus while the space assets of the weaker regional operators might not have great value, their business development, sales and marketing departments might prove very useful.

The enigma of over capacity in Asia continues, but this will be a benchmark year in the region that will see it get more attention than ever. Some rationalisation is inevitable. *By Ross Bateson*

ACeS in play?

Few would have expected that the next entity for the VC fraternity to turn to would be Asian Cellular Satellite Systems (**ACeS**) but sources have told SatelliteFinance that the asset is in play.

ACeS runs a mobile and fixed-mobile telephony

The month in numbers

Growth in satellite pay-TV subscriptions in 2004: 14% (Euroconsult)
% of North American satellite TV channels broadcast in HD:2.5% (Euroconsult)
Government satcoms market in 2003: US$580.2m (Northern Sky Research)
Government satcoms market in 2010: US$1.4bn (Northern Sky Research)
Year in which Pentagon bandwidths demands will be satisfied internally: 2020 (Northern Sky Research)
Russia's share of the 2004 satellite launch market: 42.6% (RIA Novosti)
Number of subscribers held by Koreanmobile TV player TU Media 4500
Number of subscribers projected by TU Media for year end 2005 1.5 million

network, principally in its native Indonesia. The company is currently operated by Pasifik Satelit Nusantara, which is partly owned by PT Telkom and partly by founder and CEO Adi Adiwoso. Despite having struggled commercially since its launch, ACeS has recently been making strides in penetrating the Chinese market using its kiosks for delivering rural telephony through a deal it has struck with China SatCom. These hard won relationships could prove useful to Thuraya.

VCs are said to be interested in giving a rocket boost to the company's growth, as well as various industry players. "I wouldn't rule out Thuraya," stated one source.

CHINASAT AND LORAL MAKE THEIR PEACE

Loral Space & Communications has reached a settlement with **China Satcom** over the long delayed delivery of Chinasat 8.

Under the terms of the agreement, the two have agreed that Loral will continue to seek export approval for the satellite and assume an amended contract with China Satcom for its delivery. No mention is given of the terms of the amended contract. In return, Chinasat has agreed to drop all claims filed related to the satellite and release Loral from any future liabilities.

The most interesting aspect of the agreement is a clause that assigns ChinaSat the right sell the satellite contract to a third party under certain circumstances. With at least one entity based in the US currently seeking to procure a ready built satellite to launch DTH over Asia, the development seems timely indeed.

INDOSAT MANDATES FOR BOND

Indonesian Satellite Corp (**Indosat**) has mandated *JP Morgan* and *Goldman Sachs* for a bond offering likely to be made up in local currency as well as dollars. The dollar portion of the deal is set for around US$200m, while there will also be a local portion which may be as much as Rp1 trillion. The bonds are likely to mature over five years. Indosat operates the Palapa C2 satellite, and provides various satellite-related services in its telecoms portfolio including PalapaNet i-Link, a satellite-based broadband service.

Tracking & Navigation

GALILEO JU PLAYS FOR TIME

Despite news reports to the contrary this week, the European Commission and ESA Joint Undertaking, responsible for awarding the concession contract to operate Europe's planned navigation satellite consortium Galileo, decided yesterday to talk to both bidders for three months rather than appoint a single preferred bidder as had been expected. Press reports earlier in the day had suggested that the iNavSat consortium, led by EADS, Inmarsat and Thales had got the nod over rival Eurely, headed by Alcatel, Finmeccanica, Hispasat and Aena.

Many sources familiar with the Galileo saga have

HOW GALILEO BIDDERS SHAPE UP POLITICALLY:

Bidder	lead partners
iNavSat	Inmarsat (UK), EADS (France/Germany), Thales (France)
Eurely	Alcatel (France), Finmeccanica (Italy), Hispasat (Spain), Aena (Spain)

Largest donor countries to Galileo:

France, Germany, Italy, UK	17.5%
Spain	10.14%
Belgium	4.75%

suspected for some time that the eventual concessionaire would involve elements of both bids. Given the political considerations involved in the decision making process, such an eventuality now looks inevitable.

OTHER GALILEO NEWS:

■ A Chinese state company, China Galileo Industries, has signed a contract to develop technoogy for the project.The company is owned by China Aerospace Science and Technology Corporation, China Electronics Technology Group Corporation, China Satcom and CAST. It is authorised by China's National Remote Sensing Center (NRSCC), the EU's designated Chinese partner .

■ Israel proposed the participation of four Israel companies in the Galileo project at a recent meeting between European and Israeli officials. The three companies are Rafael Armamne t Development Authority, which is owned by the country's defence ministry, IAI, another state owned entity, Orbit and Rokar International. Israel has offered to invest US$20m over five years if the four companies' participation is accepted.

Military operators

XTAR NEARLY IN BUSINESS

XTAR, the Loral – Hisdesat joint venture, should be ready for its first customers by the end of the month, if in-orbit tests go well.

Currently the only customer lined up is the Spanish Ministry of Defence, which is taking one third of the 12-transponder satellite's right hand side. The right hand side is the only side as yet for which terminals are available although the company hopes to be selling capacity on the left hand side by the end of the year. The plan now is for XTAR to sell the rest of the right hand side and CEO Denis Curtin told SatelliteFinance recently he was optimistic he would register his first sales in the second quarter. "We are in deep discussions with a number of customers. They want to see how it works but I wouldn't be surprised if we have converted our first sales fairly soon."

The capacity currently being used by the Spanish will be transferred to Spainsat, XTAR's sister operator, when it is launched at the end of this year or early next year, although it will continue to have rights over some of this capacity going forward.

The company's aim is to become profitable on an operational level next year. Plans are already under way for XTAR2, although no cutting of metal is likely until the first satellite has been validated. "We represent something unique and it will be interesting to see how we will be viewed once we are in orbit. At the moment, 80% of the requirement of the US government and its allies is being met by commercial satellite operators and this trend is growing. Even with wide band gapfiller there is a wide gap between what the military can provide and what it needs," said Curtin.

EADS, EUTELSAT WINS ASTEL-S BUSINESS

EADS Space Services has won five of the six lots that collectively make up the French Navy's Astel-S military communications contracts, with Eutelsat claiming the other.

The Astel-S contracts are worth between E2m and E8m per year for a lifetime of three years in total but have been split into six geographical and bandwidth divisions. EADS Space Services, which is trying to carve itself a niche as Europe's leading government services provider, won the contract to provide services in all parts of the globe for C-bandand all areas apart from Europe in Ku-band. The European Ku-band lot, which may well be the largest in terms of revenue, was won by Eutelsat.

France Telecom, which also bid for the business, won nothing. A separate seventh lot concerns the leasing of hardware and was won by Thales. EADS Space Services is working with London Satellite Exchange to procure bandwidth.

IN BRIEF:

■ Canada has pulled out of the US-led Missile Defense system in a move that threatens relationships between the two countries. Instead, Canada will concentrate on unilateral coastal surveillance, intelligence gathering and also its participation in the US-Canadian North American Aerospace Defense Command.

Remote sensing

SPACE IMAGING OFFLOADS UNIT

Space Imaging, the remote sensing operator currently being offered for sale by parents Lockheed Martin and Raytheon, has sold its Federal Civil and Commercial Solutions unit to geographic information systems provider Sanborn for an undisclosed fee. The sale means 45 Space Imaging staff will now transfer to Sanborn. Space Imaging, which is being sold by *Bank of America*, will now focus on its defence and intelligence lines of business.

Law firm league tables 2005

Table of Legal Advisers for all deals between 01 January 2004 and 31 December 2004

Law firm	No. of Deals	Total US$ (m)
Milbank Tweed	9	5407
Weil, Gotschal & Manges	2	5061
Simpson Thacher & Bartlett	2	5056
Gibson Dunn & Crutcher	1	4100
Debevoise & Plimpton	1	1708
Sullivan & Cromwell	1	961
Cleary Gottlieb Steen & Hamilton	1	956
White & Case	3	927
Clifford Chance	2	927
Freshfields Bruckhaus Deringer	3	674
Akin Gump Strauss Hauer & Field	1	443
Linklaters	1	107
Kelley Drye & Warren	1	24
Wilkie Farr & Gallagher	1	24
Total	14	18060

Source: Thompson Stanley Publishers Ltd

Table of Legal Advisers for bond and loan deals 01 January 2004 and 31 December 2004.

Law firm	No. of Deals	Total US$ (m)
Milbank Tweed	8	4726
Debevoise & Plimpton	1	1708
White & Case	3	927
Clifford Chance	2	927
Linklaters	1	107
Total	9	5959

Source: Thompson Stanley Publishers Ltd

Table of Legal Advisers for M&A deals between 01 January 2004 and 31 December 2004.

Law firm	No. of Deals	Total US$ (m)
Weil, Gotschal & Manges	2	5061
Simpson Thacher & Bartlett	2	5056
Gibson Dunn & Crutcher	1	4100
Sullivan & Cromwell	1	961
Cleary Gottlieb Steen & Hamilton	1	956
Freshfields Bruckhaus Deringer	3	752
Milbank Tweed	1	681
Akin Gump Strauss Hauer & Field	1	443
Kelley Drye & Warren	1	24
Wilkie Farr & Gallagher	1	24
Total	14	18060

Source: Thompson Stanley Publishers Ltd

Loral moves forward

Loral continues to make progress towards its Chapter 11 exit, although not at the pace some would like.

Currently the company's advisers are trying to bring together both the creditors' committee of Loral and the SS/L creditors to ensure that all parties are committed to the deal. "Things are going well in terms of resolving contingencies," said one source close to the deal. Loral's court-given exclusive rights to file its reorganisation plan were due to expire at the end of March, but the company has filed to have this extended until the end of May.

While sources would not speculate on how much more time the company will have to spend under Chapter 11 bankruptcy protection, the final agreement should happen in the coming weeks rather than months.

The deal currently on the table will not leave any recovery for equity holders. "Everyone is working very hard to get all of Loral, and particularly SS/L back on track. All the balance sheet restructuring is done. We're getting there," said a source.

Towards the end of February, Loral signed a new manufacturing deal with PanAmSat for the build of Galaxy 18. This satellite, which will serve the North American market, will be based on Loral's 1300 platform and will have 24 Ku-band and 24 C-band transponders. The bankruptcy court in New York also recently cleared Echostar's purchase of a new Loral satellite.

Goldin report possibly problematic

Harrison Goldin, of Goldin Assoicates, has claimed that the valuation of Loral given under the company's plan of reorganisation is too low. Goldin was chosen by a group of Loral shareholders which was given permission by the New York bankruptcy court to appoint an examiner to the reorganisation process. A Loral source stated at the time that Goldin's mandate was not to look into the whole reorganisation plan, but to look into the methods used to value the company.

While the company value stated by the company's creditors was set between US$650m and US$800m, Goldin believes that the company is actually worth over US$1.26bn. He is especially upset about the valuation given by creditors of the Space Systems manufacturing business, which was put down as having a negative impact on company profit. SS/L has won two contracts since the reorganisation plan was put together.

It is not clear what impact, if any, Goldin's report will have on Loral's emergence from bankruptcy. The group of shareholders, despite being extremely vocal throughout the reorganisation process, does not have official status in the form of a shareholders' committee. Goldin is their appointed examiner, and could thus be expected to find in their favour. Judge Robert Drain, presiding over the bankruptcy court, is expected to make a decision on the matter in the near future.

Also causing some confusion in the Goldin report is his statement that Loral's orbital slots are worth more than the US$19m creditors value them at. The most recently auctioned orbital slot with North American access was the Mexican controlled 77 West which was recently taken up by SES Americom's QuetzSat unit. Americom, being the only bidder, bought this slot for the minimum auction price of US$13.5m. This slot will be used in Mexico by Americom, but has decent CONUS coverage. Thus Goldin's supposition that the Loral slots are worth so much more when Americom was the sole bidder at US$13.5m seems credible.

Qinetiq IPO talk resurfaces

The prospects of defence and space research firm **Qinetiq** seeking a stock market listing have again been raised in the UK press, despite most people familiar with the company feeling the company is at best a year away from its stock market debut.

Qinetiq, known as Britain's Defence Establishment Research Authority in a previous life, is majority-owned by the UK MoD although Carlyle owns a majority of the voting shares following its acquisition of a 33.6% economic interest in the business in December 2002.

The IPO rumour mill probably began turning as Carlyle's usual modus operandi is to exit an investment within three years, which means around now. However, although *Morgan Stanley* has been mandated for around nine months now to manage an offering, the consensus view is that the company still has some degree of housekeeping to do before it is ready to hit the public markets.

One of the issues still being discussed at the firm is strategic direction. While Carlyle seems intent on positioning the business as a defence firm, Qinetiq is also pushing hard in other areas, such as IT security and risk management. The company will have to decide whether to streamline operations in order to make it an easier sell to investors, or keep its diversified business lines as an insur-

No decision has yet been made on a merger between European space and defence groups EADS and Thales, according to EADS co-CEO Philippe Camus.
Camus made the comments in the aftermath of recent posturing by EADS' two dominant shareholders, Daimler Chrysler and Lagardere. Daimler Chrysler opposes a merger while Lagardere would view such a move in a more positive light.

ESA looking for partners for ISS commercial exploitation

ESA is in the process of signing up partners with which it wishes to promote the commercial utilisation of its assets aboard the International Space Station.

The move is part of ESA's long term goal to open up the ISS so that one third of the research is done by private sector organisations. Vertical markets currently being targeted are the health, biotech and food industries and ESA is willing to consider any research provided it meets technical, ethical and commercial criteria. The commercial criteria have been put onto ESA's checklist as it is keen to share in any upside the extra-terrestrial research may offer.

ESA already draws some revenue from the private sector as it has sold marginal research capacity to, among others, a food company and also a medical equipment developer.

ESA has entrusted recently a network of companies, headed by ISS Lab Rhur, to act as commercial agent in those markets. ESA is also using the cooperation with private space sector partners to help exploit its ISS assets by providing end-to-end services. Such cooperation is extended also to non-space services: ESA for instance, has already signed up law firm Bird & Bird, which is bringing IPR expertise to the table and is discussing a similar agreement with insurance companies. Now, with discussions well under way with possible insurance partners, it is looking for a financial partner willing to fund research and projects that can be performed at a competitive advantage in space.

ance against a contraction of the defence market.

Carlyle's role is also open to interpretation. Considering it bought the asset at an enterprise value of £500m, today's rough valuation of £1bn means it would make a handsome profit from any divestment. However, the company is thought to view Qinetiq as a marquee investment that it is keen to hold on to and use as a vehicle for further acquisitions. People familiar with the company believe it may already have recovered most of its investment through dividends and so is free to add more value for its equity upside.

An IPO would give the government the chance to sell down its stake, however, although it is not known whether the government prefers a trade sale over a public offering.

Among Qinetiq's satellite-related interests are its soon to market Topsat entry level remote sensing satellite system, an expert witness business that it claims has established itself as the world market leader, and Sciemus, a minority held subsidiary that is currently seeking to commercialise its in orbit risk assessment expertise.

New Europe ISS company formed

The quasi-feudal landscape of European space business ownership got more complicated this month when EADS Space Services and Alenia Spazio formed a joint venture to oversee European ISS operations.

The new company will be called **Euriss** and will be based in Amsterdam. Its mission will be to continue efforts to industrialise and utilise the International Space Station by mediating between ESA and companies involving in utilising the ISS. The 'exploitation contract' between Euriss and ESA will extend to E2.6bn between now and 2013.

It will be 75% owned by EADS Space Services and 25% by Alenia. Alenia is due to be passed over to Alcatel Space's ownership following the recent agreement signed between Finmeccanica and Alcatel to transfer all of Finmeccanica's manufacturing operations to Alcatel in return for Alcatel's space services businesses.

Boeing restructures satellite unit, again

Boeing is wrapping its satellite manufacturing operation Boeing Satellite Systems into a new business unit, Boeing Satellite Development Center in a bid to separate its loss making commercial operations from its faster growing government manufacturing business. BSS, which was last restructured three years ago, will now be phased out as a brand in itself. Dave Ryan, president of BSS, will be director of the Satellite Development Center's commercial and civilian government business. Mike Giannelli, vice president of for US Defense Department Programs at BSS, will head up the Satellite Development Center's National Security Communications Programs division.

Boeing is targeting break even for its satellite division in 2005.

BSS commercial orders in 2004: 3 (DirecTV)
Strategy: concentrate on core strengths, agree outsourcing relationships for non core components (Alcatel Space, IBM).

Boeing concludes Rocketdyne sale

In a dual spin-off of assets, Boeing has finally completed the sale of Rocketdyne Propulsion and Power, the unit which makes the engines for the Delta 2 and Delta 4 rockets, to United Technologies for US$700m in cash. CSFB

Bear Stearns analyst Matthew Karnes has initiated coverage of Viasat. He can be contacted at mkarnes@bear.com

THE RFPS ARE OUT THERE

Solid possibility: Eutelsat, SES Astra, PanAmSat (2 sats), JSAT, SCC, SES Americom (2 sats), Asiasat Telenor
More speculative: Shin Satellite, Telesat, Yahsat, Spacecom (Amos 3), Nilesat, AsiaSat
Long shots: AirTV, Vinasat, Paksat, NZL Sat, AR-Sat

advised Boeing on the deal. At the same time, Boeing also completed the sale of various aircraft plants to Onex for US$1.2bn in cash plus debt assumption, this time advised by Goldman Sachs.
Boeing purchased the Rocketdyne unit in 1996 as part of its US$3.2bn purchase of Rockwell Automation. On top of the Delta engines, Rocketdyne has also previously made engines for the space shuttle.

■ The **Canadian Space Agency** has announced plans to spend C$650m developing and launching a constellation of three radar satellites by 2013. The satellites will follow on from Radarsat 1 and the planned radarsat-2 spacecraft.

Ground segment

SWE-DISH'S GOVERNMENT HOPES

European mobile satcom solution provider **Swe-Dish Satellite Systems** is looking at a two tier strategy for growth in 2005. "We serve two customer groups, in government and broadcasting, and we have strengthened our defence side significantly," said Hampus Delin, the company's marketing director.
A recent frame agreement with the US Department of Defence was a vote of confidence in the company's government business prospects, according to Delin. This was one important step in what the company hopes will be a lucrative market, and Swe-Dish has also done a significant suitcase deal with another country involved in the Iraq peacekeeping process, as well as a deal in Asia.
On the broadcasting side, there are various core markets for the company. "Broadcasters in Japan and Korea are very early adopters of technology, and we have seen a lot of demand from there," Delin said. EMEA and North America are also good sales spots. "We're very much driven by how the broadcast industry is faring, and we see increased demand from that sector," said Delin.
For 2005, the company hopes that a lot of the hard work put into trying to garner more government contracts will come to fruition. Part of the growth in this area will come from going outside straight defence departments and into other related agencies – Delin states that the company has done deals with various security agencies in the US. The improving fortunes of the broadcasting industry will also provide a boost
While the company does not wish to speculate on the possibility of future financing following its undisclosed round last year, Delin stated that it remains on a sound financial footing.

NORSAT TURNS TIDE

Norsat, the microwave products and flyaway satellite terminals developer, saw a return to profit in its microwave products business and enjoyed a 35% rise in revenue across the group in 2004.
The company, which competes with Swe-Dish in the flyaway terminals space, recorded revenue of C$17.5m and net income of C$1.2m last year. Gross margins were 45%. Half of the company's business is now accounted for by the Flyaway business, although the company has no plans to sell the microwave division now that it has returned to profit after several years in the wilderness. Growth in the Flyaway business has been helped along by the steady cash flow afforded by microwave product sales. Norsat is hoping to launch new products this year to maintain momentum in its flyaway division. 50 terminals have so far been deployed. The US military is the biggest customer. The company sees smaller footprint, lower power devices as a logical next step as it seeks to commercialise the space.

GPS

RAYMARINE REFINANCES

Raymarine ended up paying £8m in fees relating to its IPO on the London Stock Exchange in December, and also the credit facility it put in place around the same time. The company, which was spun off from Raytheon in 2001, registered a £440,000 pre tax profit in 2004 compared to £990,000 the year before. Operating profit before exceptionals and goodwill came to a more encouraging £14.1m, up from £9.3m in 2003.
The company plans to pay its maiden dividend in September. It is currently targeting boat builders with its new generation marine navigation systems although the after market is the most profitable area of business. Growth has come from both the after market and the factory fit side of the business however as well as new business areas such as ship-

board TV systems as the company executes on its strategy to become a premium marine electronics brand.
Collins Stewart was broker on Raymarine's IPO. The US$135m credit facility arranged in December was lead managed by Lloyds TSB and was put in place to take out the original buyout financing arranged in 2001. The senior secured facility has a five year tenor and is undrawn to the tune of US$26m. This cash will be used to fund organic growth, pay for possible small acquisitions and pay the September dividend.

Broadband Technology

VStar Raises $15 Million

On-demand mobile TV developer **VStar** has raised US$15m in a recent round of venture capital financing, co-led by Bessemer Venture Partners and Charles River Ventures and hired a new CEO.
The new CEO is David Bluhm, a co-founder of mobile entertainment publisher Mforma and former CEO of recent Yahoo acquisition WUF Networks.
VStar's 1KTV service delivers news, real-time sports scores, music and other media content to handsets. Content providers include ABC, Fox Sports, Variety and the Weather Channel. Distribution partners include Sprint PCS, Cingular and Nextel.
www.iktv.com

Who will buy Tivo?

Having switched its business model away from growth to cash conservation and still without a new partner to replace DirecTV, despite discussions with Comcas, Tivo still remains a likely acquisition target: but who will buy it?

Potential acquirers

Apple
Sony
Time Warner
Comcast
Liberty

Estimated enterprise valuation:US$300m

Onstream Media Raises debt

Onstream Media, a provider of video and rich media content to enterprises has raised US$2m in a convertible debt offering.
The new funds come after a group of previous investors in the business exercised an option to invest more in the business.The company provides media encoding, editing, indexing and querying services.

Arroyo raqises US$12m

Arroyo Video Solutions, a provider of video-on-demand delivery technology, has raised US$12m in its second round of venture capital financing and changed its top management. The round was led by Matrix Partners with previous investors Doll Capital Management, Foundation Capital, Time Warner Investments and Comcast Interactive Capital also participating.
On the management side, CEO Kim Kelly has stepped down and been replaced, on an interim basis, by co-founder and chief technology officer Paul Sherer.
The company has now raised US$25m and has deployed its technology with three 'top' North American operators. The new money will be used to address new strategic opportunities and markets, the company says.
www.arroyo.tv

Brightcove Raises $5.5m

Online TV and video distribution developer Brightcove raised $5.5m in first round VC funding this month. The round was led by General Catalyst Partners and Accel Partners.
Brightcove will provide an online service that offers video publishers such as video on demand providers, broadcasters and bloggers an internet distribution channel for their products.

■ Harmonic has acquired UK video service provider **Broadcast Technology Limited** for £4m in cash and shares.

Interactive TV

Tivo in talks with Comcast

DVR manufacturer **Tivo** is said to be in advanced talks with US cable concern Comcast regarding developing a version of the Tivo DVR that would fit into Comcast STBs.
The move would drastically reduce Tivo's customer acquisition rates, which are extremely high at present, and should dramatically increase the number of subscribers using its technology, currently around three million.
Comcast currently reaches over 20 million cable households, and even if only a small proportion of these were to take up the use of a premium Tivo box, it would bode well for the company.

ChoiceStream Raises US$7m

ChoiceStream, a developer of software for online consumer services, has raised US$7m in its first round of venture capital. General Catalyst Partners led the round.
ChoiceStream provides personalisation technology to enable consumers to navigate internet and iTV-based applications.

■ **Pannal**, a shell company, is listing its shares on London's Aim market to raise money to invest in the technology arena.

Deals in the market

Vendor deals announced since December 8. Please email the editor at oliver.cann@satellitefinance.com if you want to see your company's deals added to this data.

SUPPLIER	CUSTOMER	DESCRIPTION	VALUE
Satellite hardware			
SS/Loral	PanAmSat	Galaxy 18	undisclosed
China Great Wall	Nigeria	Nigcomsat-1	US$300m (DIO)
RT Logic	Raytheon	NPOESS C (3)segment	undisclosed
Satellite capacity			
Eutelsat	DNMG	extension of pay TV contract	undisclosed
Eutelsat	IABG	Mid-East broadband	undisclosed
New Skies	Impsat	NSS-7 Broadband Argentina	undisclosed
Satellite services			
AGS (SES)	Lockheed Martin	10-year FAA nav. Services	undisclosed
Gilat (Connexstar)	Wendy's	1223-restaurant network	undisclosed
MSS			
SkyTrac Systems	Med-Trans Corporation	Iridium phones in helicopters	undisclosed
Blue Skynetworks	Cougar Helicopters	Iridium phones in helicopters	undisclosed
Ground Systems			
Viasat	SES Americom	Surfbeam units	undisclosed
Viasat	Pegaso Banda Ancha	Surfbeam units	US$4.9m
Globecomm tract	Egyptian air traffic control US$8.1m		infrastructure con-
Set top boxes			
Humax	DirecTV	Entry level-DVR	undisclosed
Thomson	BSkyB	HDTV boxes	undisclosed
Motorola	Comcast	multi-year renewal	US$1bn+
Launch services			
Arianespace	Star One	Launch of Star One C2	undisclosed

EMEA Media

Sun shines on IPOs

The **Premiere** IPO exceeded expectations, pricing at the top of the E24-28 range, and trading over E30 on the first day. The offering was 12 times oversubscribed. The company raised E308m net of costs, which will be used to repay debt and invest in the business, with the balance going to selling shareholders. Lead managers were *CSFB, Morgan Stanley* and *HVB*.

This has sparked speculation on follow-on IPOs across industrial sectors in Germany. In the media sector, there are some really big IPOs that could materialise over the next 12 months. **Bertelsmann** faces a potential decision by 25.1% shareholder GBL to exercise its option to sell the stake on the public markets in 2006. Local press quoted sources at the controlling Mohn family saying they would not buy the shares themselves, and would be supportive of a sale by GBL. Bertelsmann's largest division is RTL.

Another candidate could be **Axel Springer**, which has only a small free float of around 10%. The company's largest shareholder is Hellman & Friedman, which along with Haim Saban owns 88% of ProSiebenSat.1. A popular theory is that Springer will buy the broadcaster, a deal in which it is thought to be advised by *Deutsche Bank*. The resulting business would have a degree of diversification that would be attractive to investors, and a public share offering would present its private equity investor with an exit. See below for the surprising number of business initiatives being undertaken by Springer.

RAI privatisation

Head of RAI Flavio Cattaneo said in an interview that the flotation of **RAI** was postponed to October from the initial target of March. In preparation, the company has drawn up a cost cutting programme that envisages savings of E400m over the next three years. Costs have been cut by E250m over the last two years already. Areas targeted are real estate, programming costs, and management overheads.

Interestingly Catteneo seemed to hold out hope that privatisation would bring a degree of independence for management, and allow more scope for acquisitions and partnerships. RAI's revenues are derived 50% from licence fees, with the bulk of the rest from advertising. Revenues in 2003 were E2.8bn on which it made a E82m profit. RAI operates three national TV channels (RAI Uno, Due and Tre).

Rothschild and *UBM* have advised the government.

Vocento to sell Net Tv

Spanish Media group **Vocento** is said to have appointed *ABN AMRO* to sell its TV station **Net Tv**, as it tries to meet regulatory restrictions on ownership of more than one national TV station. Vocento has a 13% stake in Telecinco as well. Vocento is reported to have proposed the sale of its 75% stake in Net Tv to the Ministry of Industry, which will decide on the matter. Apparently there was a February 1 deadline for meeting this legal requirement.

Net Tv began broadcasting in June 2002. It has a digital TV licence in cooperation with Veo TV. It is requesting permission from the authorities to begin broadcasting in analogue format.

Primacom launches Easy.TV

German cable company **Primacom** – 27% owned by Liberty Media and in the midst of restructuring its debt – is expanding into Austria. It plans to launch a pay TV offering brandedas **Easy.TV**. Its Decimus subsidiary signed a long term technical agreement with ORS (Oesterreichischer Rundfunksender), a unit of the public broadcaste ORFr, to support the service. Primacom will use ORS' Astra satellite capacity, and CAS technology from Cryptoworks. If the service is a success in Austria, it could be offered in Germany in due course.

Walloon cable venture to start

There is strong political backing in the French speaking part of Belgium (Wallonia) for a home grown cable company to match the successs of Telenet in Flanders. Hence it is no surprise to read in De Tijd that 12 Walloon cable operators are working to set up later this year a new jointly owned company to serve the region with triple play services. Their networks today offer only cable TV, and will require significant investment to provide broadband internet and telephony services - -something Telenet already does. Belgacom's roll-out of ADSL has also sparked this response. Walloon cable companies set up the Application Cable Multimedia SA (ACM) in 1997, which is the platform for this new project.

RTL keen on Five

Broadcaster **RTL**'s CEO Gerhard Zeiler has reason to feel expansive, having just reported record profits: these rose from E14m in 2003 to E367m in 2004, with revenues up 9.6% to E4.9bn. Zeiler said is not a seller of its 65% stake in TV channnel Five, and following cancellation of merger talks with Channel 4, there are few obvious options apart from buying

UBM's 35% holding. The latter announced it would like to exit.

JP Morgan is adviser to RTL, while *Dresdner Kleinwort Wasserstein* is thought to be working with UBM on its Five strategy.

Apart from sorting out shareholdings in Five, RTL also favours investing in more channels and content, in preparation for the digital multi-channel future.

Asia Media

ATV IPO

Hong Kong's free-to-air broadcaster **Asia Television** (ATV) is expected to have its IPO in the fourth quarter, after earlier delays. It plans to sell at least 25% of its capital, and raise HK$1.2bn in a mix of old and new shares. Primary capital will be used to expand in mainland China.

ATV's shareholders include CEO Chan Wing-kee, Phoenix TV chairman Liu Changle, Wong Po-yan and Guangdong government-backed Southern Broadcasting Media Group.

ATV collects advertising revenue in China through Yaguang Media, a joint venture between ATV and Southern Television Guangdong.

Star and Tata to get space off ground

Space TV, a 80/20 joint venture between Tata Sons and News Corp's Star group, is expected to get government clearance for operating a direct-to-home (DTH) broadcasting platform in the near future. The Rs16bn project had to satisfy the government on foreign ownership issues.

Prime does loan deal

Australia's **Prime Television** is putting together a A$200m refinancing deal through ANZ, which will take out a A$160m deal put together in 2003. That deal matured over three years, while the new one will have two tranches: a one year revolver and a five year term loan.

Eastern receiving commitments

Eastern Broadcasting Co of Taiwan has received a number of commitments for a NT$4bn five year debt facility being placed by First Commercial Bank and Taiwan Cooperative Bank. The deal has been scaled down from NT$4.2bn. Bowa Commercial Bank, China United Investment & Trust, Hua Nan Commercial Bank, Kao Shin Commercial Bank, Macoto Bank and Taiwan Business Bank are all reported to have joined the deal.

News in TV JV

News Corp is to launch a joint venture with public broadcaster China Central Television (**CCTV**), believed to be the latter's first JV with a foreign media company. News Corp subsidiary Fox owns a 50% stake in National Geographic Channel, which already provides CCTV with material. The new JV plans to produce content.

Americas Media

Cox Communications to divest

Cox Communications has indicated it may sell four cable systems to reduce debt after spending US$8.5bn to take the company private. The cable systems in question are in North Carolina, west Texas, Humboldt County, Calif. and a fourth system, which serves Texas, Louisiana, Arkansas, Oklahoma, Mississippi and Missouri. The four systems have 900,000 subscribers and are worth US$1.8-2.7bn. The likely buyers are private equity firms. Cox is advised by *Citigroup, Lehman Brothers* and *JP Morgan*.

Insight Communications to go private

Following in the path of Cox (see above), co-founders Sidney Knafel and Michael Willner and Carlyle propose to acquire the outstanding publicly held shares of Insight forUS$10.70 per share in cash.

The acquiring entity, which will be called New Insight LLC, is offering a price representing an 11% premium over the closing price of Insight's stock on March 4, valuing Insight at US$650m and an enterprise value of US$2.1bn. *Morgan Stanley* and *Stephens* are serving as New Insight's financial advisers and *Dow Lohnes & Albertson PLLC* and *Debevoise & Plimpton LLP* are providing legal counsel.

Cablevision, News split assets

In a move seen as preparing operator **Cablevision** for sale, it agreed with **News Corp** to end a sports joint venture and split the US$3bn assets in a tax free exchange. Decision-making was helped by an impending put option allowing News to sell its share to Cablevision for cash. Cablevision keeps Madison Square Gardens, sports teams New York Knicks and Rangers and Radio City Music Hall. News Corp gets most of Fox Sports Net (Cablevision keeps New York, and they will co-own San Francisco) and National Advertising Partners.

Sciemus risk index month four

WELCOME TO MONTH FOUR OF THE RISK INDEX

Welcome to month four of the Sciemus Satellite Risk Index calculated using the Sciemus Satellite Risk Assessment Tool. One of the most frequently asked questions is how the index is calculated. Full details can be found on our website www.sciemus.com.

■ The evaluation is carried out using out Space RAT (Risk Analysis Tool) which has been developed over the past year in partnership with QinetiQ

■ The risk index is based upon an evaluation of the likely loss of communications capability for each and every satellite in orbit over the next 12 months

■ Unlike insurance policies we do not factor in known problems nor do we include any "exclusions" for known problems. The only items which we do exclude are those satellites which have made claims for total failure but which are still currently operational e.g. XM-Roll.

■ These risk assessments are then weighted by the value of the satellite to create an expected financial loss for each satellite.

■ This allows us to balance high risk but low value satellites against their high value low risk cousins. Once this is done we then sum all these expected losses and compare the result with the benchmark set in November.

Elsewhere in this edition you will find an examination using the SpaceRAT of the current Space Insurance market, its performance and the current rating structures. I am sure that you will find this informative.

THIS MONTH THE RISK INDEX HAS DECREASED FROM 108.0 TO 107.3

NOTABLE EVENTS:

We are glad to report that the past month in-orbit has been very quiet. This has caused the index to fall on a like-for-like basis to 106.2.

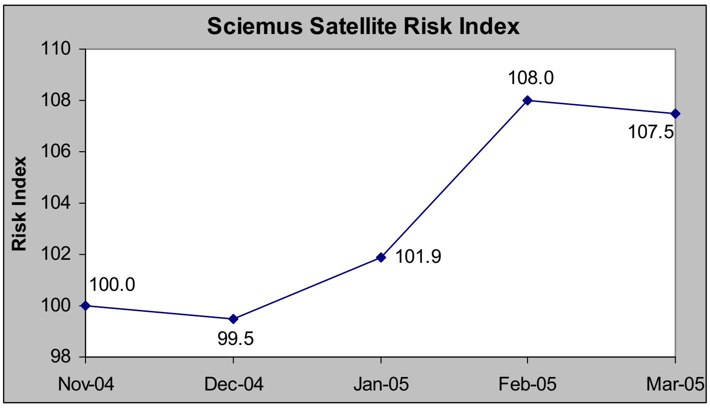
Two new satellites have been added to the Risk Index this month: XTAR_EUR and Worldsat-2. While these satellites are still undergoing their acceptance trials, thus far without any reported problems, they have been added to the index. The addition of these satellites has pushed the Index from the like-for-like 106.2 to 107.3.

FUTURE EVENTS THAT MAY IMPACT SATELLITE RELIABILITY AND THE RISK INDEX NEXT MONTH ARE:

Following a quiet month we expect another one. While there is a meteor shower, the Beta Leonids which peak on the 20th, the stream density is very low and hence the risk is negligible. Likewise, while the past week has seen slightly heightened solar activity, this is still low in absolute terms. So there are no problems foreseen on the space radiation front.

Stop Press

Inmarsat 4F1 was successfully launched on 11 March. This satellite will be factored into the Index from next month.



Eutelsat puts tender on hold

Eutelsat has put the tender for its satellite underwriting business on hold for an indefinite period and has extended the policies for all ongoing in-orbit insurance.

The company, which has a habit of using Aon and Marsh for consecutive launches, had put its entire in orbit and launch broking business up for tender a month ago and has offered no reason to brokers why it has put it has reversed this process. It is thought the contract was being competed for three ways by Aon, Marsh and Willis. "They [Eutelsat] have decided to extend their current programmes, which will give them an opportunity to define their decision making process," commented one broker.

Echostar wins court battle

Echostar has agreed to settle the five and a half year old insurance claim relating to its Echostar 4 satellite in a move that will see the operator receiving up to US$240m from underwriters.

The company announced on March 9 that it had reached a settlement with underwriters representing 83% of the US$219.3m claim filed by Echostar back in 1998. The claim related to a mislaunch of the satellite that saw it fired into the wrong orbit. Since then insurers have argued that the satellite was not a total loss and have claimed that Echostar failed to comply with the terms of its insurance policy. Underwriters initially offered US$88m to settle the case.

Underwriters that have agreed to Echostar's terms – the US$240m upper limit takes into account interest - have until April to pay up. Echostar will continue to arbitrate with the rest.

Echostar has already recorded a US$106m loss on the satellite which is still in operation and on which Echostar still expects to hold the title after the claim is settled.

Intelsat's self insurance explained

"It's been a month, and there's been no satellite failure, and it feels kinda odd," said an Intelsat source recently.

The company's decision to self-insure after two satellite failures surprised some in the market, but the fact is that current levels of over-capacity at the company led its new owners to believe that it had enough insurance in place through its in-orbit fleet. "After two satellite losses, we're only 62% utilised, and this is despite rationalisation of assets," said the source. "From a cashflow or EBITDA perspective, it just doesn't make sense for us to have insurance. We've got all the insurance we need up in space"

The source went on to point out that it would be difficult for Intelsat to obtain insurance on the rest of its fleet covering the anomalies that occurred on the IS 804 and IA 7 satellites anyway.

"[Intelsat's move to self insurance] was inevitable. Their pricing was high but they bought it in a format that didn't work well in that they had two losses and no coverage. It is a function of the way in which they bought their cover that their policy wasn't robust and it polarised the outcomes," said a broker.

■ Hiscox, the UK insurer, is to open an office in the US. The company reported net earned premiums in 2004 of £642.4m against claims incurred net of reinsurance of £355.6m.

■ Thuraya's insurers are thought to be examining the possibility of subrogating against Thuraya 1 manufacturer Boeing, SatelliteFinance has heard. There is no precedent for successful subrogations in the history of space insurance it is thought, although one previous attempt is believed to have been settled out of court.

■ Technical presentations on the upcoming launch of Arabsats 4A and 4B are scheduled for mid-April in London. Broker *Aon* will seek to place insurance on both launches concurrently. Arabsat 4A is scheduled for launch aboard an Ariane 5 late this year, with 4B expected to go up early next year.

Launch schedule

Sea Launch in refi talks

Launch services provider **Sea Launch** is talking to banks with a view to appointing lead arrangers before the end of the month for its upcoming US$200m debt refinancing.

The transaction will be Sea Launch's third piece of refinancing as the company executes on its strategy of replacing its original project financing with more straight forward commercial lending arrangements. The US$200m loan for which refinancing is currently being sought has to be either refinanced or repaid in two bullet repayments, one in October this year and the other twelve months later. The facility is backed by the World Bank.

Space Race! The world's lunar ambitions revealed

Japan Following the successful launch of the H2A, Japan newly emboldened JAXA is busy preparing for lunar exploration. Headline dates to look out for are the country's first lunar robot in 2010 and a permanent base and reusable launch vehicle by 2025.

China Japan's North Asian rival is no slouch when it comes to the space race either. The nation is currently training astronauts for its second manned space flight, Shenzhou 6,later this year and is aiming for a first unmanned moon landing in 2007.

India Meanwhile, south of the Himalayas, the World's other astronautical arrivistes, India is also putting finishing touches to its own lunar landing plans. Its first mission, Chandrayaan 1, is planned for end 2007 or early 2008.

Europe Unlike the US, Europe is promoting international cooperation as the best way forward to realise its space expeditionary goals. One plan being mooted is a plan to set up a robotic village on the moon by 2014 which will develop into a permanent base from which to exploit resources and launch later missions to the moon.

USA The only country to have put a man on the moon back in 1972, the US is again looking seriously the Earth's only satellite. Current plans being drawn up by NASA are for a lunar orbiter by 2008, to be followed in 2009 a landing mission. The next man on the moon is scheduled for 2015.

Russia Along with the US the only country not to have ratified the 1979 Moon Treaty, Russia has not launched a planetary mission since 1996 following the economic collapse of the Soviet Union. Bullish again however, Leonid Gorshkov, a designer at Energia said last year that the first manned flight to Mars could take place as early as 2014. Bring it on.

According to sources at the firm, response from banks has been strong and could result in some interesting appointments. "We're seeing a lot of aggressive offers on the table. Eutelsat's recent loan in Europe [which priced at 30bp] really raised eyebrows in the US and especially at Boeing Treasury as there definitely seems to be a difference in pricing between the US and Europe.

Another option Sea Launch is exploring is to pursue a private placement in the US, where demand from investors is said to be healthy. The company intends to have made its decision and appointed its arrangers by the end of this month.

Following the successful launch of XM-3 on March 1, Sea Launch is hoping for five launches this year. The next satellite to be launched is Spaceway 1, followed by Intelsat Americas 8.

Inmarsat launch gives ILS prospect of repeat business

Having succesfully launched the first of Inmarsat's three I-4 satellites in March, **ILS** will be hoping the success will help their customer in its decision making when it comes to awarding the third launch contract of the new fleet.

Inmarsat's I-4 business plan allows for two of the three satellites to be launched into orbit but sources say it is a fairly open secret the company plans to launch all three. This is to give it in-orbit redundancy in case anything goes wrong and also to enable it to offer a truly global footprint for its BGAN service.

While the second contract has already been awarded, to Sea Launch, the third has yet to be determined. "The decision making on the third launch is not yet finalised," said one source.

The second Inmarsat I-4 launch is expected later this year.

Boeing ban lifted

Boeing has had its ban on competing for US Air Force satellite launch contracts lifted as part of an interim agreement between the manufacturer and the USAF.

Boeing was slapped with the ban in July 2003 following charges that it had illegally obtained price sensitive information from its competitor Lockheed Martin. The lifting of the ban now – which is contingent upon Boeing appointing an external ethics monitor – means it can begin competing with its rival for the 18-24 EELV launch contracts expected to be awarded early next year. The lifting of the ban also qualifies Boeing for between US$135-US$140m in launch infrastructure sustainment funding, as allocated by Congress in 2004 and 2005.

Walt Anderson behind bars

Well known space entrepreneur Walt Anderson, whose investment projects in the past have included Orbital Recovery Corporation, Rotary Rocket and MirCorp, has been indicted and arrested on tax evasion and related charges in the US.

The charges, among the largest ever, refer to failure to pay US$200m in taxes owed to the federal and District of Columbia governments and leaves Anderson, an outspoken proponent of private access to space, facing up to 80 years in jail.

Launch schedule

Where available, the sum insured for each satellite has been included in the fifth column

Date	Vehicle	Satellite	Type	Insured?
Launched since February 16				
26 Feb 05	H2A*	MT-Sat	LS 1300	
1 Mar 05	Zenit 3SL	XM-3	Boeing 702	ISB
11 Mar 05	Atlas 5	Inmarsat 4F1	Eurostar 3000	AON
To be launched from March 16				
25 Mar 05	Soyuz	Galaxy 14	Star 2	Marsh
31 Mar 05	Proton K/DM	Express AM-2	Express AM	-
14 Apr 05	Ariane 5G	Syracuse	Spacebus 4000	-
14 Apr 05	Ariane 5G	Telkom 2	Star 2	Marsh
?? Apr 05	Long March	Apstar 6	Spacebus 4000	Marsh US$190m
??Apr 05	Sea Launch	Spaceway 1	Boeing 702	Marsh
21 May 05	Proton M	DirecTV 8	LS 1300	Willis
?? May 05	Ariane 5	IPSTAR	LS 1300	Marsh US$300m
?? May 05	Falcon**	Tacsat-1	-	-
?? Jun 05	Ariane 5 ECA	Insat 4A	Insat 4	Marsh
?? Jun 05	CZ-3B	Sinosat 2	DFH-4	Marsh
?? Jun 05	Proton K	Ekspress AM-3	Ekspress AM	-
?? Jun 05	Zenit 3SL	Telstar 8/IA 8	LS 1300	Willis US$250m
Other 2005 launches				
Q4 2005	Ariane 5	Arabsat 4A	Eurostar 3000	Aon
2005	Ariane 5	Galaxy 12	STAR-2	Marsh
2005	Ariane 5	Satmex 6	FS1300	Willlis US$250m
2005	Ariane 5	AMC-13	Spacebus 4000	Marsh
2005	Ariane 5	WildBlue 1	Loral	Marsh
2005	Ariane 5	Thuraya 3	Boeing 702	unmandated
2005	Zenit 3SL	Spaceway-1	Boeing 702	Marsh
2005	Zenit 3SL	Inmarsat F2	Eurostar	Aon
Other launches				
Q1 2006	Zenit 3SL	NSS 8	BSS 702	ISB
Q1 2006	Proton/ M	Hotbird 8	Eurostar 3000	
Q1 2006	Ariane 5	Arabsat 4B	Eurostar 3000	Aon

* Return to flight

Anderson was refused bail on his bond hearing on March 3 and will remain in jail until his next status hearing, which at the time of going to press was scheduled for March 17 or 18.

GOOD MONTH FOR LAUNCHERS

A lot of eyes were on the launch services industry at the end of February, as two return to flight launches offered further evidence of a return to normality for the industry.

The first test of nerves came Saturday 26 February, when Japan's H2A made its first flight since November 2003. Its failure then precipitated a significant redesign not only of the vehicle but also Japan's space institutions. The rocket successfully launched a multi-function weather monitoring and navigation satellite into space revitalising the country's space ambitions and negating its need to buy weather data from the US any longer.

The second launch was Sea Launch's return to flight following a nine month lay up brought on by its launching of Telstar 18 short of its intended target apogee last June. The launch was again successful, and Sea Launch is now targeting a further four launches this year.

Olmstead back in business

Dean Olmstead has resurfaced, after leaving SES Americom last year, and has put his own company together. SatelliteFinance's Ross Bateson found all about the Satellite Development project.

RB:
Tell me about the genesis of the Satellite Development project.

DO:
I started working on it immediately after leaving Americom. I think there's a lot of growth left in the satellite business and I needed a platform to develop the opportunities. I wanted a platform with both global reach and substantive depth, with blue-chip people who know how to create as well as find, and then exploit highly accretive opportunities. It's a question of identifying creative new ways to execute. I think I was able to do that over the years. I led the acquisitions that transformed SES into a global leader, and then put Americom on a growth path that's now almost 20% a year. I see many other opportunities for growth - both transactional and organic - and I want to get in front of them.

RB:
How far have you got so far?

DO:
We have a half dozen executives engaged now, and are talking to others. We're doing a soft launch at Satellite 2005, where I will be speaking and introducing a number of our executives. Essentially, Satellite Development is a new vehicle for enabling various development projects in the satellite, media, and telecommunications space. We create growth for companies in which satellites are a meaningful component of the value chain.
We've separated the transactional/ investment/ operations side from the advisory function. A lot of investment banks do this, and while we're not an investment bank, we think that's a good idea.
In one strand, Satellite Development Partners finds, facilitates or incubates growth through new starts, acquisitions, mergers, joint ventures, and investments - this is largely self-initiated work. In the other part, Satellite Development Advisors, we work with clients to help them achieve their objectives - this may be done through serving on their boards, assisting the CEO with transactions, or creating new ventures sponsored by the client.

RB:
So would you call yourselves an incubator?

DO:
To a degree. We intend to find and exploit opportunities that others may not recognize. If a company or project we're interested in needs capital to develop an opportunity that meets our profile, we'll provide it or help raise it. If a project needs a partner, we'll find it. If it needs management, we'll manage it or find the right management. The professionals serving in the satellite industry banks and consulting firms - have defined roles. They bring a lot of talent, a lot of data, and access to capital, but they tend to stay between the lines, and most of the opportunities that interest us involve redefining the lines.

RB:
So Satellite Development would serve as both consultant and banker?

DO:
In most cases we won't replace either. Our focus is not to do studies: we don't want to collect data, and we're not equipped to, for example, manage a bond offering internally. Our focus is on identification of opportunities and execution . If I had to go for a single term I'd call it "augmentation management". If the question is, "Should I grow," then a client ought to go and get a consulting study done, if the question is, "What are the steps that I can take and who is going to take them for me", then come talk to us and we'll get it done.

RB:
So you are looking to bring together a team of people with top level management experience, rather than a banker, a lawyer an accountant etc?

DO:
Three of us have chief executive and chief operating officer backgrounds, but we also have experienced business development people with diverse backgrounds in finance and law. The focus, though, is on execution and putting our

shoulder in to help get the job done.

RB:
What is your position going to be, as Dean Olmstead? Are you planning to head up both strands of the company?

DO:
I can add value in both strands for now. I'm on a couple of boards which I find rewarding but at the end of the day, I'm an execution guy. I like running projects, so I suspect that over time if the right activities emerge, I'll be spending more time driving actual projects. I have teams on the ground now developing opportunities and as those gain traction, they'll demand more time and attention.

RB:
So with legal and financial experts on the team, how are you going to make a distinction between what you do, and the traditional bank or law firm advisers, in particular the boutique banks concentrating on the satellite industry such as Near Earth?

DO:
Hoyt [Davidson] and Armand [Musey, of Near Earth], for example, are terrific and a net add for the industry, but it's a different game from ours. They do a little of what we do, but neither of them has been a satellite operations executive, which is really the difference. To use a real estate analogy, they're the creative broker who will help you find and buy a two bedroom apartment, what we do is look at that apartment and execute on a creative plan to redevelop it into five bedrooms. They're much more transaction oriented, in my opinion, and I expect that we'll maintain a productive working relationship with them and other bank and legal advisors, where we each focus on our strengths.

RB:
How many deals are you working now?

DO:
We have about a dozen active "baskets" of development which have passed our screens. We have two levels of down-select. First, we have to evaluate whether a possible opportunity meets our profile. If it does, we undertake a more thorough analysis to decide if we can bring meaningful value in a timeframe that makes sense for Satellite Development Partners. If an opportunity isn't right for us, we may offer to assist the board or management in executing the deal externally. Realising the amount of due diligence required, and our focus on successful investments, I anticipate we'll complete at least one major deal and a couple of small transactions in the next year, we will invest in 2 or 3 promising businesses, and we will provide advice to a few key clients. For example, I'm enjoying serving on the Arrowhead board and working with Mary Ann Elliott as she positions for the future the high-growth government services company she created. As another example, we have an interdisciplinary team incubating businesses in countries which don't yet have Viasat's powerful Surfbeam platform for residential broadband services.

RB:
What are your sources of capital going to be?

DO:
Initially we'll work with a few funds that are receptive in this area. There's a fair amount of money in the mid-market for LBOs, restructurings and refinancing, but not enough money for new ventures. One of the things we hope to do is reduce risk and uncertainties and work with funds that have an interest in the sector to help them get more comfortable with venture funding. The model is not my own, I looked at what Andy Afrik did over at Apollo. He created a brain trust and a "keiretsu": he made an investment in the industry and it helped him get smart. As a consequence of this, he's been able to do a number of very interesting things, including the recent merger of Sky Terra with HNS. Now he's got an even bigger braintrust available to him to help identify opportunities for the fund. That's the conceptual model we're using, providing sectoral expertise to funds so that they can make investments they wouldn't otherwise have been comfortable making. We're also working to build up our own capital base.

RB:

Which opportunities do you see for unlocking potential?

DO:
I'm a big believer in economies of scale, some of which have clear financial meaning. Capex rationalisation is the very obvious one. If you buy one satellite instead of two the savings are huge. There are a lot of other very meaningful benefits to size, including experienced management and established processes. In my view it's not an accident that when you look across history, you find that smaller satellite entities have had more satellite trouble. It's because they

don't have established processes and enough leverage to drive certain behaviour by their vendors. On the other side of the equation there are real benefits to being local, being present in the market and intensively understanding it. Regional players have intensity of presence but they don't have scale.
The question, which I tried to address with the regional "opco" model at SES, is how do you get the benefits of both? We're looking at several places, but I would say Asia-at-large is ripe for realization of these untapped benefits.

RB:
Do you hope to bring the regional operators together?

DO:
There are a lot of people rubbing sticks together and kicking the tyres. SES is always present, and while the other players are a little more distracted right now, everyone is in the marketplace. Once an entity knows that they want to transact, they can always go to one of the investment banks and conduct that transaction. We have developed other structural models to create different opportunities for the regional operators. While I can't be specific, we're exploring ways to optimise the value of the regional presence of these assets without simply selling them. We are pursuing that model in three countries at present.

RB:
What other opportunities are there?

DO:
Traditionally, capital has come from commercial banks (directly or through large-cap vendors), governments, retained earnings, and insurance. We've seen the profound effects of a shift in those capital sources in the past year the balance sheets of the largest FSS operators look very different today. Less talked about is the relative shift in revenue with the growth of new satellite services. In the past the revenue to satellite operators and other service providers (and ultimately to manufacturers) has come primarily from telcos and television programmers. But all of that is changing.
For example, most of us would consider Echostar to be a satellite company and CNN to be a satellite customer. Yet DIRECTV and DISH together serve more than 20 million households and they pay CNN every month for each of those subscribers. Viewed that way, the satellite industry is quickly becoming a net customer of the television industry. This is an enormous shift in money flow that causes us to look beyond the confines of what has been traditionally considered to be the satellite industry. We also think the growth of broadband (cable, DSL, fiber, and satellite) and the emergence of new channels of video delivery, particularly mobile/portable video consumption, will further impact the balance of power between the content providers and the transport providers. These structural changes will inevitably create new opportunities.
We are also keen on creative spectrum mining and have some of the best in the business on our team. When looking at opportunities, I like to focus on the critical means of production, admitedly a Marxist concept, and in our business the most fundamental inputs are spectrum and the "labor" to define creative uses. If you just look at spectrum that appears to be available, there will be limited opportunities. Or, you can go outside the lines and redefine the problem. "Tweeners" fit into this category: can we move to 4.5 degree spacing for DTH over N. America? The answer from a technical perspective is: absolutely.
We need to think about what's available in new ways to create opportunities for satellites. MSV is a brilliant example of going outside the lines. The whole ATC (ancilliary terrestrial component) concept is doing that: all of a sudden the tail (the terrestrial reuse) becomes the dog and drives the value. It is this sort of thing where we will add some additional value as contrasted with a financial adviser.
John Hane, who will head up our Washington office, is phenomenal at finding the arcane combination of technology and regulatory change needed to unlock the spectrum opportunities like Tweeners and ATC.

RB:
Where will your offices be?

DO:
The main office for Satellite Development is in the New York area, and SatDev Advisors is based in Washington DC which will allow us to be close to the political issues facing the sector. We also have partners in Los Angeles and London.

Satellite Development will be present at Satellite 2005 in Washington. Watch this space for further news of the project

www.satdev.com

Driving the growth engine

Interview with Rob Kisilywicz, CFO, SES Americom *by Ross Bateson*

RB: How are you enjoying business at the moment?

RK: AMERICOM is really the growth engine for SES GLOBAL as a whole. We've committed to double digit growth both in 2005 and 2006 and a lot of that increase is based on SES Americom's business plan, so the whole team at Americom is busy executing.

RB: What are the drivers behind that growth going to be for this year?

RK: For 2005, it's really the AMERICOM2Home® platform that has done quite nicely for us. AMC 15 and 16 are now in service, and these are both fully contracted out to Echostar. That really is the main catalyst behind our growth, and having those satellites fully contracted out gives us very high visibility into those underlying revenues. Looking into 2006, we have those two contracts plus AMC 14, which launches in early 2006 and is also contracted to Echostar. AMC 23, which goes up in the Pacific Ocean region, is expected to launch in the fourth quarter of this year and will provide a Ku-band payload to Connexion by Boeing. They've taken most of the Ku-band capacity, but we also have C-band capacity on AMC 23 that we expect to sell to the government, enterprise and video markets. In addition AMC 12 is expected to come into commercial service in the second quarter, so we will see some revenue through our agreements with Astra and Star One.

RB: It's a real turn around to see one of the US DTH players start to take out so much capacity on one of the other operators. What are the reasons behind that?

RK: When we merged with SES ASTRA to form Global back in 2001, we achieved a lot of initial synergies in areas like capital expenditure, but we looked at ways to transplant some of the great aspects of each company's business model to the other. The SES Astra model of having a firmly cemented place in European DTH was not something that existed in the US. Let me remind you of some of the circumstances and timing of the development of A2H – we brought this concept forward at the time that the two major players attempted to merge in order to rationalise capacity and compete with cable. After the merger of Dish and Direct TV was denied, both players realised the need to expand their bandwidth beyond their core assets. The key to inserting ourselves in the US DTH value chain was in bringing in additional spectrum and additional satellite capacity for their increased demand for local-into-locals and high definition content. The core assets that the two major players had at the three primary DTH slots were simply not going to be enough capacity with the advent of high definition, and both companies have looked at ways to add more. Echostar worked with us to achieve this, and obviously DirecTV is will be using the Spaceway assets.

RB: When is the profit going to be returned into this investment in HDTV?

RK: AMERICOM is benefiting from the increased demand by both cable and DTH for capacity to distribute HDTV. We're wholesaler to the pay-TV operators, we're not directly tied to subscriber demand level. Our business model is driven by the growth in channels, and our relationship with Echostar means that they're renting out the satellite's full capacity as they grow their local to local and HD business. In 2005 we will see the utilisation of AMC-10 and AMC-11, our HD-PRIME neighbourhood, grow to over 80% with the addition of new customers and new channels.
We see the HD market growing at a good clip, but in terms of how we see it contributing to the SES Americom business plan, the answer is that it's already contributing profitably.

RB: Is it important to Americom and SES at large that HD does take off, and on a global basis?

RK: Absolutely, and I think we're in the best position. While there is over-capacity in the marketplace, not all satellite capacity is created equal. With SES having the preponderance of its business in the video markets, our utilisation rates are consistently higher than the other operators who are less exposed to the video markets. Trunking and like applications drive lower utilisation rates. SES Americom ended 2004 at 76% utilisation, while I believe Astra was 83%. We're running at a decent clip, but we have additional capacity today to serve the growing demand for HD , and at the same time we're looking at additional capacity to continue growth into 2007 and beyond.

RB: The traditional US DTH model with Echostar and DirecTV has seen the satellite operator in this instance also become the retailer, facing the customer, and paying the broadcaster for content. Do you see Echostar's move to using your satellites as reversing this?

RK: The relationship that we've had with Echostar on the basis of the Americom2home platform is on the basis of wholesale operator. We don't see Echostar and DirecTV relinquishing this in favour of a more European style model. Echostar obvious believes that our capacity is integral to their long term plans, or they wouldn't have entered into these long-term contracts with us on three satellites. We don't see this as temporary, nevertheless we don't see our wholesale platform services as a game changer to the fundamental US DTH business model. When we started constructing AMC 15, we certainly saw this increased need for spectrum in the market and Americom has done well generally in terms of talking to people and perceiving demand. Bringing that spectrum to bear in the early part of the decade is really the same thing we're doing now with projects like QuetzSat in Mexico and Ciel Satellite in Canada.

RB: Is the hope with QuetzSat and Ciel to continue with the SES model of getting a really strong local presence in these two markets?

RK: I'd say we're very excited about the opportunities that these two new relationships provide. With Ciel we're aligned with a new operator that provides the Canadian market with its first true alternative to the Telesat monopoly. Ciel was awarded the 129 degrees West BSS orbital slot late last year, and we're working to commence commercial service in that slot by the end of the year with an interim satellite while the build of a new satellite gets underway. Ciel is working on procuring an existing in-orbit asset at the moment … whether that is in the SES fleet or otherwise, will be announced shortly.
QuetzSat is the name for the newest satellite operator in Mexico and is affiliated with AMERICOM. QuetzSat holds the 77 degrees West orbital slot that we won at auction last year. Like Ciel, this provides us with the opportunity not just in the US, but in the local market to partner with DTH platform operators as the supplier of choice for satellite capacity. The fact that this capacity also covers the US offers a lot of flexibility and attractiveness to the DTH platform operators.

RB: Is QuetzSat to remain a regulatory entity for the time being, or will you be bulking that up in the short term?

RK: Very similarly to Ciel, QuetzSat plans to obtain an interim spacecraft to initiate commercial services later this year. AMERICOM's role in both cases is to bring our operational expertise and relationships to each partnership.

RB: Was the QuetzSat project necessary to enhance your Latin American DTH prospects, and how will it fit in with your other projects in the region?

RK: The spectrum at 77 West is Northern hemisphere capacity, and while having full Mexican coverage it also bridges into Latin America; however, QuetzSat certainly will not encroach on Star One's core business in South America or Brazil.

RB: Will the two new entities emerge as separate regional operators with their own fleets to compete with the incumbents?

RK: Both Ciel and QuetzSat filed for the first available spectrum in their markets. To the extent that additional spectrum opportunities emerge in either market, the platforms are well positioned for expansion. Obviously as telecommunications assets in Mexico and Canada, there are foreign ownership restrictions so we've developed affiliate relationships.

RB: Why not just buy Satmex?

RK: Anyone could have competed in the auction for 77 West, although we did have to work a bit harder on a structure which satisfied the regulators. While Satmex is structured as a Mexican operator today, they're obviously going through their own restructuring right now, and going through two things at once may have been a little bit too complicated. I should point out that we're already an operator in Mexico and have been for a number of years now. Several of our satellites are licensed in Mexico, so we know the regulators and the markets.

RB: Moving on, is broadband an important strand to your hopes for 2005?

RK: Echostar has announced that they intend to launch residential broadband using the Ka capacity on AMC 15 and 16 and we're working closely with our customer on that. We remain consistent with our strategy of providing wholesale satellite infrastructure, and don't expect to be participating at the retail level of a satellite broadband service. On the other hand, it is likely that through our cooperative development agreement with EchoStar that we hope to bring a highly competitive broadband solution to the enterprise market. We have launched the capacity into the marketplace, and expect to see Echostar commercialising that capacity over time.

RB: So you're not going to get closely involved like Astra with Satlynx?

RK: SES is restructuring that initiative, which was put together to stimulate demand further down the value chain. Obviously having an outstanding partner like Echostar has been great for us in the US.

RB: What other areas will drive demand over the next 24 months, and what hurdles are coming up for Americom in the near future?

RK: I mentioned before that Americom is being looked to as the spark plug for the growth engine at SES in 2005 and 2006. In order for the SES group to grow as a whole in the double digits, Americom as 40% of that company needs to grow in the mid-20% range during the next two years. We've taken on a big commitment, and with AMC 15 and 16 we've come a long way. The AMC 12 launch recently was the fifth satellite that we launched in the last 12 months.

There is some North American capacity on AMC 12 for us for transoceanic services, which may be a good way into another part of our plans for 2005, which is delivering on the promise of the Verestar acquisition. First and foremost, Verestar strengthens and nearly doubles the size of our government services business. They have very important relationships with the US Navy and other government agencies. The Switzerland teleport is a very important gateway for both the US and other European government services as well. We're expecting the US government's usage of commercial satellite resources to continue to ramp up. We've been very bullish on that market segment for several years and remain so as we look at the latter part of the decade.

We also now have substantially more capability in our corporate enterprise and solutions services.

Due to the Verestar acquisition, our head count has increased by approximately 160 people. We are gaining valuable insights from these newly integrated SES personnel into managed solution provisioning. We plan to enhance our managed solution product offerings and, in turn, provide our customers with a broader portfolio of services that they can deliver to their end customers.

The idea for buying a services business like Verestar, which is true for the SES family as a whole, is about driving demand for our core satellite infrastructure business.

RB: New satellite procurement is expected from Americom and SES as a whole. At what stage are your plans?

RK: We expect to announce two new procurement programmes in the coming weeks and months. These will focus on our core video markets in North America, focusing on high definition channel growth. One will be another Americom2home satellite, the other will enable the expansion of our cable neighbourhoods. Video has been the core business heritage of SES Americom over the last 30 years, but what we've always done is to add additional payloads onto video satellites to serve the corporate enterprise and government markets. I should mention AMC 9 here, which we've recently decided to move to the 83 degrees West, the slot was awarded to us in 2004. We see the Ku capacity on AMC-9 serving as an enterprise and government broadband neighbourhood in that slot.

RB: Is there going to be any inorganic growth this year for the SES family?

RK: There's nothing on the forefront of our radar screen right now, and nor do we see anything either in the medium or long term that would be transformational. Looking at Star One and AsiaSat, it might be possible to take increasing stakes in those positions working with our existing partners. Also there are one and two satellite operators in Asia, and as those programmes enter their replacement cycles we see opportunities there. Mainly, though, we're excited about the prospects of organic growth, and that's where we have most of our energy focused. Financially, though, SES Global is well positioned to look at opportunities, as our competitors have cleary committed their future cashflows to returning cash to shareholders and to paying down the enormous debt loads they now carry. They're also pointing to quite high dividends in their IPOs which, I think, says they don't have great ambitions for continued organic growth.

RB: How is the search for a new CEO going?

RK: We will have a new CEO announced within the next month or two. Our board and nominating committee are working hard on that right now. We'll be happy to allow Romain to cut down on his travel schedule.

Space insurance – a market review

by Neil Fleming, Sciemus

The aim of this article is to examine the Space Insurance market and how it impacts on the satellite operators and their financiers.

We conclude that while the insurance market believes it is efficient, there is a disconnect between the industry's perception of risk, reflected in pricing and the technical rate based on reliability. While aggregate premiums for launch and in orbit charged cover claims paid, the abnormally high risk loadings for launch and the absence of meaningful coverage for in orbit indicates that the balance between the risks is incorrect. This is pushing the more sophisticated operators towards examining alternatives to the conventional insurance market.

To provide a quantitative view of the space insurance market we have used the Sciemus satellite risk assessment tool (SpaceRAT), which can facilitate accurate satellite risk pricing and is used to create the Risk Index on page xx. This is a system that utilises an engineering model and the expertise of a team of 250 technicians and engineers to predict the future reliability/risk to satellites. While the system is forward looking we have examined how the SpaceRAT would have performed in the recent past.

Figure 1

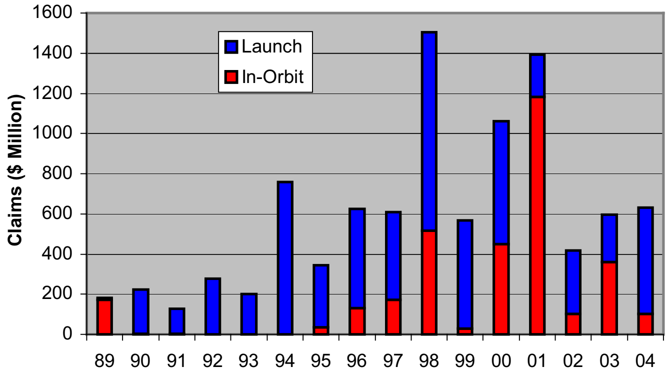
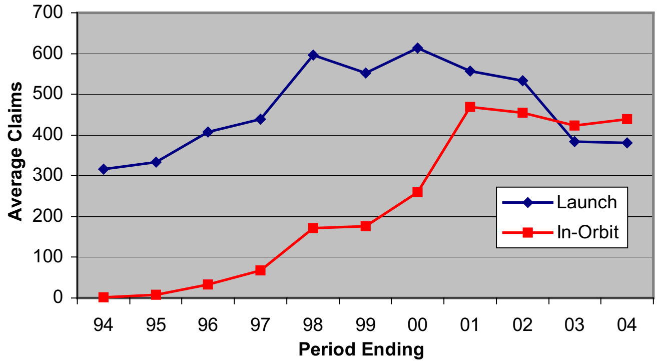


Figure 2



History

Space insurance is a relatively new discipline. It started in 1965 with the insurance of satellites during the launch phase, when there was a high risk of the rocket blowing up on the launch pad or very shortly thereafter. The market matured and in the mid-1970s full launch policies became available. In the mid 1980s, after a period of falling premium rates, the market was hit by several large losses, causing it to contract and rates to increase. In the mid-late '90s the market size greatly increased with premium volumes increasing from $400 million to over $1 billion per annum. In line with this increase large profits were available in the period 95-97, leading to an influx of new capital which depressed rates. This was then followed by a number of in-orbit failures and very large losses at the end of the decade. Since then the market capacity has decreased massively and insurers, afraid of being hit with large losses again, have incorporated exclusions into the policies for any items that they deem to be "high risk". This is still the situation.

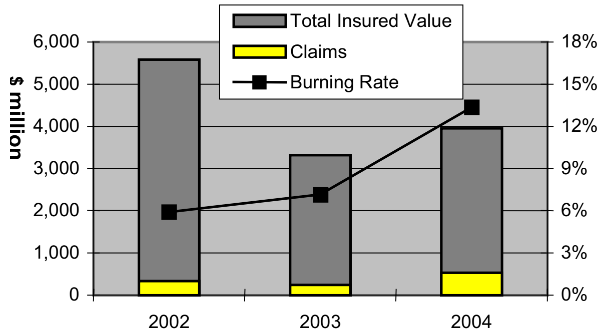
Claims History

As you can see from Fig 1 the magnitude and mix of claims has changed greatly from year to year. Over the past 10 years claims have varied between $1.5 billion and £350 million[1]. Of particular note is that the proportion of in-orbit claims has increased markedly over the period. This is particularly clear when we examine the 5 year moving average, Fig 2.

Launch Risks

From Fig 1 it is clear that in the late 90s there was a bulge in the claims rate for launch policies. This was due to a number of launch failures associated with the development of new launch vehicles and enhanced versions of older ones.

Figure 3



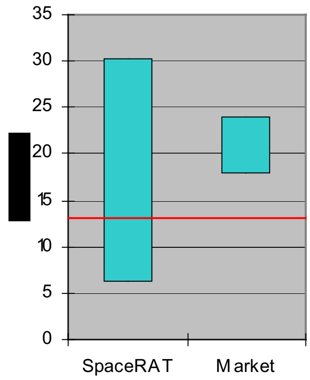
Looking at information from the last 3 years (Fig 3) we can see that there is a large variation in the Total Insured Value. This is not a surprising result as the numbers and mix of satellites insured changes drastically between any two time periods examined. Less obviously the mix of launch vehicles also varies between time periods and hence, as the risk of launch vehicles themselves varies greatly, the expected claims changes on a year by year basis. So the direct consideration of expected claims through looking at averages over long time scales can be problematic.

With all this said, how did the SpaceRAT's predictions tally with what actually happened and how did it compare with the rates the insurance market were charging?

Fig 4 shows the claims distribution that the SpaceRAT calculated for the actual insured launch and post separation claims during 2004. The mean claim we expected to be $521 million, the actual claims were $529 million[2].
OK, so our model can reflect the recent past, but how does it compare to the insurance market rates?

The maximum and minimum rates calculated by the SpaceRAT for Launch & Post Separation in 2004 were 6.4% and 30.3% respectively. Market rates ranged between 18% and 24%[3]. However the actual claims turned out to be 13.4%, well below the rates that the market were charging, Fig 5. Hence, assuming average rates were about 20%, the market made almost a 50% margin on Launch & Post Separation insurance in 2004.

Figure 5



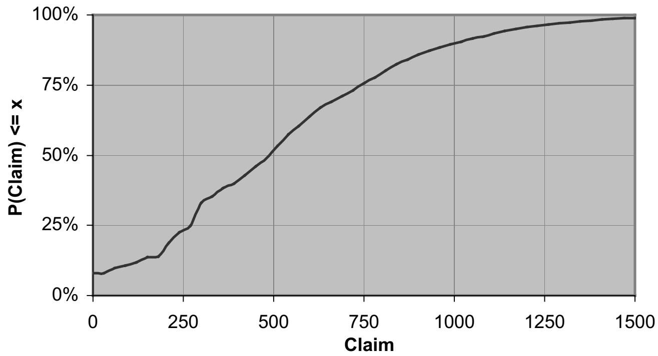
In-Orbit Risks

Fig 2 shows that the average in-orbit claims paid increased markedly between 1998 and 2001 but has remained fairly stable over the past few years. Additionally, the population of active satellites over the past few years has been relatively stable with the launch rate almost balanced with the retirement rate. While we can use the past 5 years' information as a benchmark, statistical analysis on such a small data set is problematic and it is for this very reason that engineering experience is essential in the creation of a system to evaluate risk in a changing environment.

How did the SpaceRAT's predictions tally with what actually happened and how did it compare with rates the insurance market was charging?

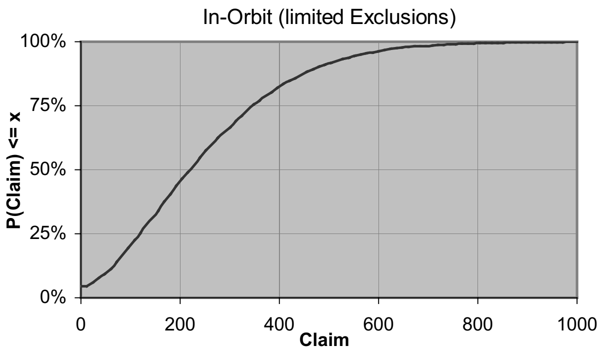
In evaluating the expected claims for in-orbit risks in 2004 we incorporated obvious exclusions to reflect the current market where any risk that the underwriter considers "significant" is excluded. Fig 6 shows our claims/probability curve for in-orbit claims in 2004. Our mean claim was $247 million, actual claims were $103 million, a result which we would expect 23% of the time (e.g. we would expect claims of less than $103 million about once every 4-5 years). How does this compare to our benchmark period?

Figure 4



As the total number and average age of the active satellites has remained about constant over the past few years we can assume that the total insured asset value for in-orbit satellites has remained about constant at $11 billion[4]. As asset values are constant we can look over the 5 year period. So examining the 4 years prior to 2004, there was 1 year when the in-orbit claims were $100 million, hence our 1 in 4 year estimate would appear to be fully justified. From this asset value we can

Figure 6



determine that the burning rate for in-orbit insurance for the past 5 years has been 4.0%. Well, how do our expected claims rates compare to the market?

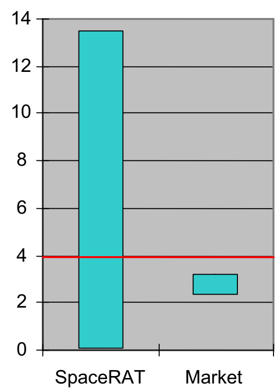
The SpaceRAT maximum and minimum rates for In-Orbit risks in 2004 were <0.1% and 13.5% respectively. Market rates ranged between 2.4% and 3.2%[5]. However, the actual burning rate over the past 5 years was 4.0%, well above the rates that the market were charging, Fig 7. Hence, assuming average rates were about 2.8%, the market was pricing to make a loss of 43% in 2004.

Cross Subsidies

While the total market premiums are currently about right, the balance is wrong. The margins from the Launch & Post Separation cover balance the expected losses from in-orbit cover. Comparing the range of actual risks and the range of insured rates for in-orbit cover shows a gross mismatch in rates. These 2 observations reveal the cross subsidies inherent in the space insurance market as it is currently structured:

Launch insurance subsidises in-orbit
Low risk in-orbit subsidises high risk in-orbit

Figure 7



Exclusions

As alluded to earlier, the numbers of exclusions on policies has increased dramatically over the past few years. Any item that any of the underwriters insuring the satellite consider to be problematic will normally be excluded. These exclusions reduce the risk that the underwriter holds and hence the degree of risk transfer is reduced. On top of this is a perceived desire by insurers to argue claims when they arise (Echostar 4, XM-Rock/Roll, etc.). These both undermine the argument for insurance. Why should I carry insurance if little risk is transferred and if I have a claim I have to go to court and don't get paid what I thought I would get?

Operators may not have any choice as they are bound by debt and bond covenants. However, is this just a comfort blanket for the debt holders? Does the insurance operators carry actually protect them? If not it may not be the operator's fault: appropriate insurance may simply be unobtainable.

The Future

The insurance industry must become more attuned to the needs of both the operators and their financiers.
Rates must reflect the risks of the individual operators.

If this does not happen then hedge funds and others will quickly enter and erode the surpluses generated in the risky but highly profitable Launch business. For the in-orbit business intelligent operators with good satellites will find ways, in cooperation with their debt holders, to manage their risks outside the current insurance industry. This could take many forms, from holding capital on the balance sheet (Echostar) to creating captives to simply operating at risk (older Intelsats).

Footnotes

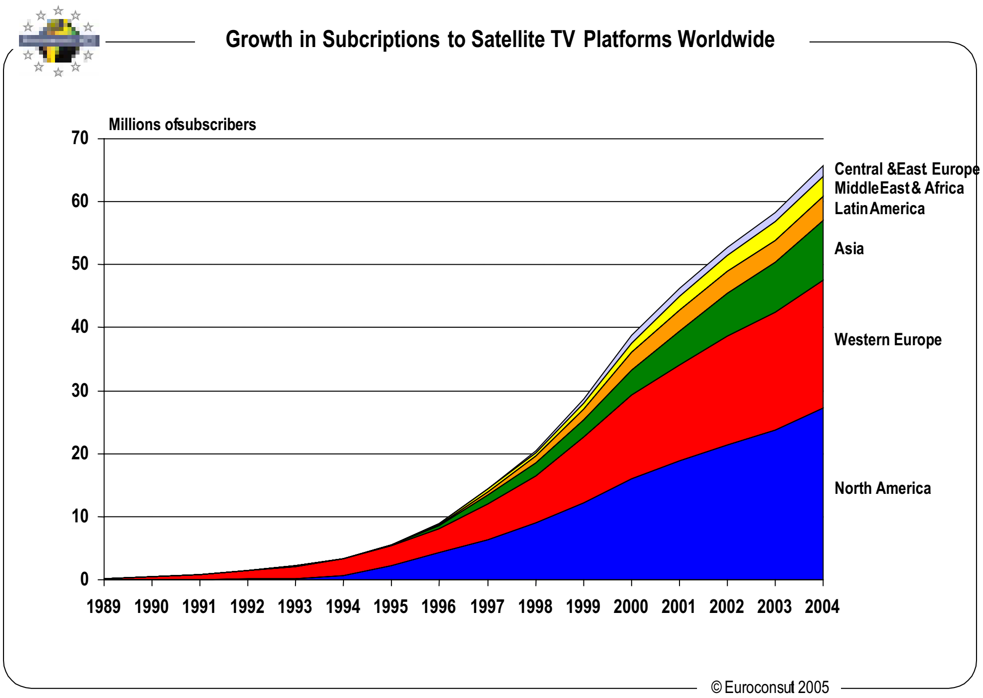
1 Source: ISB, Airclaims and Operators' financial statements
2 Source: Airclaims.
3 Interviews with market participants.
4 Source: Sciemus research and interviews with market participants.
5 Interviews with market participants.

Satellite TV platforms poised for continuous growth in 2005

*by Pacome Revillon, Euroconsult **

Growth in the subscriber base to satellite pay-TV remained strong in 2004…

With a growth of about 14% in 2004, subscriptions to satellite pay-TV platforms continue to increase at a rapid pace. The subscriber base to DTH platforms worldwide is estimated to have grown from 58.5 million in 2003 to 66.5 million in 2004.
Growth even accelerated in 2004 with a net addition of 7 million subscribers that year compared to 5.6 million in 2003.
North America remains the most dynamic market for satellite pay-TV and continues to outperform analysts' expectations with an addition of 3.3 million subscribers, boosted by the dynamism of Echostar and DirecTV in the United States.
Outside North America, growth in subscriber additions accelerated in almost all regions of the world after three years of restructuring and consolidation. In Western Europe, Sky Italia generated most of the increase of 1.7 million in the subscriber base. Under the control of News Corporation, the Italian satellite TV platform has posted an impressive growth following the merger and restructuring process. The company signed 700,000 net new subscribers to achieve a total of 3.1 million at year-end 2004, making it the second largest platform in Europe behind BSkyB.
Middle East & Africa is the region with the lowest growth, as the success of free-to-air satellite television broadcasting in the Middle East and North Africa and the limited growth of the Multichoice pay-TV platform in sub-Saharan Africa have caused market stagnation.

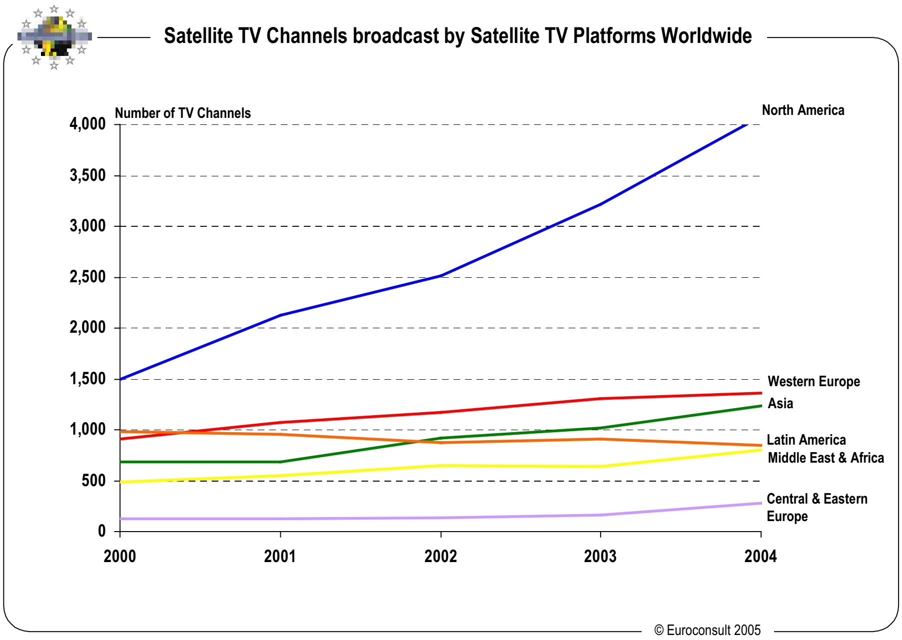


…boosted by the continuous increase in content and services offered…

The number of TV channels broadcast by all satellite TV platforms around the world continues to increase rapidly with over 8,600 TV channels at year-end 2004 (+18.6%).
As for subscriptions, growth was observed in all regions, even if North America concentrated most of the growth (64%) in number of satellite TV channels.
Though channel growth continues to be dominated by the launch of standard-definition channels of all types (thematic, ethnic and local interest), the increase in the number of HDTV channels offered by satellite TV platforms was real in 2004. Although still a niche market with no more than 2.5% of the 4,077 channels on satellite TV platforms in North America being broadcast in high definition, HDTV is poised for growth due to the growing interest of TV platforms.
In addition to the quality and quantity of core programming, innovative approaches in the marketing of satellite pay-TV services also have contributed to subscription growth. The penetration of personal video recorders (PVRs) continues to grow and BSkyB in UK has now 642,00 Sky+ subscribers, generating more TV viewers and less churn.

2005 will continue to see transactions and new platforms

Several important transactions will occur in 2005. First event, the IPO of Premiere in Germany, one of the largest IPOs in the country, took place on March 10, and seems to be a success. Six times oversubscribed, the IPO will bring between 1 billion and 2 billion to Premiere, depending on a "greenshoe" option. Following the impressive restructuring of the company, the IPO brings it the large funding that is needed to develop the business.
In Turkey, the Digiturk DTH platform (868,000 subscribers at year-end 2004) is available for sale, and media groups are currently reviewing the company. The French TF1, associated to the Turkish media group Dogan Yayin Holdings, has been reported as looking at the opportunity.
In Latin America, the restructuring of the DTH platforms now controlled by News Corporation is likely to be completed during the year. Though the operational merger between Sky Latin America and



DirecTV Latin America will take some time, it is likely to generate subscription growth and financial improvement and to benefit from the market recovery perceptible in 2004. Combined, the former Sky Mexico and Sky Brazil added more than 200,000 subscribers in 2004 and are now operating at breakeven.
2005 will also possibly see the launch of new DTH services. A renewed interest for DTH platforms can be observed in Central and Eastern Europe. Following the launch of a DTH service by ITV Partner in Bulgaria in 2004, Romanian Cable Systems has just begun a DTH service in Romania, Digi TV. In Africa, two platforms are now competing in Nigeria: Frontage Satellite Television (FSTV) and Trend TV.
In Asia, two countries may concentrate most of the interest this year. In India, the public broadcaster Doordarshan is due to at last launch a satellite TV service, DD Direct, that will remain free to air initially. Pre-orders of around 200,000 set-top-boxes have been reported at year-end 2004. Dish TV, the only satellite pay-TV platform in service in India, was estimated to have around 170,000 subscribers at year-end. Indonesia, where the Indovision satellite TV platform has struggled to reach a critical size, remains under the scrutiny of several companies.

Three strategic issues for 2005 in advanced satellite TV markets

As a result of strong management and marketing efforts, more and more DTH platforms have now reached operating breakeven or are close to doing so. After ten years of history and with operational results still to be consolidated, satellite pay-TV platforms have new investment opportunities, pushed by technological breakthroughs.
In addition to current business issues such as digital content and customer management, the industry will have three subjects of importance on its agenda for 2005.
The successful introduction of **high definition television** will be a priority management issue. Following the US where HD is a reality for satellite TV broadcasters, Europe will see strong initiatives in 2005 with HD introduction on the Premiere platform in Germany and on TPS and potentially CanalSatellite in France. BSkyB is likely to follow soon with plans for 2006 at the latest. In Asia, Skylife in Korea has already introduced HD broadcasting and will reinforce its offering while Japan and Australia are likely to be the two other leading markets in the region.
Though satellite TV seems well placed to drive HD introduction, initial investments will not be recouped in the short term and will follow the take up profile of HD equipments. However, in the long run, the availability of HD content on pay-TV platforms will be another competitive advantage vs. terrestrial free to air TV where digitisation, where engaged, does not usually integrate HD as a priority.
Another opportunity, still more difficult to deal with, is **mobility**. The rollout of 3G networks and the development of standards such as DVB-H open opportunities to deliver new types of offers to subscribers. Satellite TV platforms, as content packagers, certainly have to consider such opportunities to address mobile users including mobile phones as well as cars. Best delivery solutions, from terrestrial networks to satellite broadcasting such as the MBSat service in Japan and Korea, will be determined by local market conditions. Whether digital TV broadcasting to mobile units will be addressed by existing satellite TV platforms or by newcomers as has occurred for digital radio in the US remains an open question.
The main threat, if any, to the dynamism of the satellite pay-TV market is **TV over DSL**. While cable TV remains dedicated to dense urban areas, TV over DSL is likely to spread into rural areas previously captive markets of satellite TV platforms. Depending on the satellite broadcaster's point of view, TV over DSL may be an opportunity or a threat. As an opportunity, it may increase the penetration of the satellite TV platforms. However, telecom operators are likely to require significant carriage fees, and the contacts between the subscribers and the TV platforms risk becoming diluted. As a threat, telecom operators may decide to rollout proprietary offers, open platforms or pay-per-channel services, as is the case in Hong Kong with Broadband Now.
Those issues, however, are not expected to hamper significantly the growth of the DTH industry in the short to medium term as it has strong fundamentals. In most markets, satellite TV platforms have now become the leading digital pay-TV providers and they continue to work on improving their competitiveness relative to other broadcasting solutions. Though satellite broadcasting may in the long run become part of the portfolio of delivery networks managed by broadcasters along with DSL and potentially other wireless solutions, it will remain the core business for most of them.

** Early results from Euroconsult's 2005 Edition of the market research on World Satellite TV Platforms. Pacome Revillon is Euroconsult's Managing Director. He can be reached at revillon@euroconsult-ec.com.*

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