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JUN 30 1999
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

June 30, 1999

Ms. Magalie Roman Salas
Secretary, Federal Communications Commission
The Portals, 445 12th Street, S.W.
Washington D.C. 20554

Re: Ex Parte – *Direct Access to the INTELSAT System*
IB Docket No. 98-192, File No. 60-SAT-ISP-97

Dear Ms. Salas:

On June 29, 1999, Robert Koppel, Alfred Mamlet and Maury Shenk, for MCI WorldCom, Inc., met with Douglas Webbink, Sande Taxali, Cathy Hsu and Michael McCoin of the International Bureau to discuss the above-captioned matter. They discussed the attached presentation and related materials (the 1997 INTELSAT annual report and excerpts of previous submissions of COMSAT Corporation in this proceeding), two copies of which are being filed herewith.

Also on June 29, 1999, Messrs. Koppel, Mamlet and Shenk, for MCI WorldCom, Inc., met with Christopher Wright, Susan Steiman, Daniel Harrold and Marilyn Sonn of the Office of General Counsel to discuss the above-captioned matter. They discussed legal issues regarding the implementation of direct access to the INTELSAT system, including the statutory provisions in the attached document entitled "Communications Satellite Act of 1962," two copies of which are being filed herewith.

Sincerely,

Maury Shenk

Alfred M. Mamlet
Maury D. Shenk

Attachments

cc: Mr. Daniel Harrold
Ms. Cathy Hsu
Mr. Michael McCoin
Ms. Marilyn Sonn
Ms. Susan Steiman
Mr. Sande Taxali
Mr. Douglas Webbink
Mr. Christopher Wright

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INTELSAT Utilization Charges (IUCs)

FCC / MCI WorldCom

June 29, 1999

COMSAT's Arguments Focus on the Trees, Not the Forest

- COMSAT has voluntarily increased its investment in INTELSAT significantly -- COMSAT's President and CEO stated that increased investment (which earns returns only from IUC revenues) "makes good business sense, and [COMSAT] expects to see a strong return on this investment."
- MCI WorldCom is willing to buy its usage share of INTELSAT
- Lockheed Martin is paying a significant premium for COMSAT
- If there is a Signatory Surcharge, the difference between INTELSAT market value and book value should be distributed to U.S. users on privatization

Direct Access Would Not Allow U.S. Carriers to Set IUCs

- INTELSAT Board of Governors sets IUCs (INTELSAT Agmt., art. X(a)(xiii))
- IUCs must include compensation to Signatories for use of capital (INTELSAT Operating Agmt., art. 8(a)), at target rate of 17-21 percent per year
- COMSAT, not carriers, will still have a ~20% vote at INTELSAT

IUCs Are Market Prices

- IUCs are used for direct access in 94 countries
- Other countries have zero or nominal IUC surcharge -- e.g., Australia, Austria, Brazil, Chile, Colombia, Denmark, France, Germany, Sweden, UK
- INTELSAT uses IUCs to settle imbalances between usage and ownership
- COMSAT's "lack of vertical integration" argument fails
  - COMSAT sells to end users (including government)
  - IUCs fully compensate COMSAT (see next slide)

IUCs Fully Compensate COMSAT for Its Investment in INTELSAT

- INTELSAT 17-21% target rate of return on equity is 10.66-13.16% at COMSAT marginal tax rate of 37.31% and 12.59-15.55% at COMSAT 1998 effective tax rate of 25.95% -- this is fully consistent with COMSAT's authorized return of 12.48%
- INTELSAT has historically exceeded target rate of return and maintained excess return on balance sheet
- INTELSAT in 1997 used excess return to increase the equity on which its returns are paid by 16%, increasing COMSAT return by the same amount
- COMSAT return on invested capital in 1998 (when INTELSAT returns were below target) was 12.88% (15% (INTELSAT return) * .7405 (tax adjustment) * 1.16 (equity adjustment))

COMSAT Surcharge Calculation -- Summary

- COMSAT first calculates a surcharge of 18.22% (or higher) to raise INTELSAT's return
- COMSAT then adds an "Investing Signatory Surcharge" of 10.44%
- both components are substantially inflated
- higher surcharge based upon price-cap carriers' returns is unjustified in the absence of efficiency incentives for COMSAT

Surcharge Calculation -- 18.22% Surcharge to Raise INTELSAT Return Makes No Sense

- focuses on the return to INTELSAT, not to COMSAT
  - proper focus is on COMSAT equity investment in INTELSAT
  - COMSAT response that INTELSAT is a cost-sharing cooperative and that COMSAT carries INTELSAT debt on its books is inadequate -- INTELSAT revenues, not COMSAT, service INTELSAT debt
- assumes INTELSAT is taxed at COMSAT's rate -- without taxation, INTELSAT already earns a return over 12.48%
- assumes IUC surcharge would be paid to INTELSAT, not COMSAT, for the benefit of all INTELSAT Signatories

Surcharge Calculation -- COMSAT Data Does Not Support "Investing Signatory Surcharge"

- most amounts claimed by COMSAT are not recoverable
- primary component of surcharge is capitalized "top-off" insurance, for which COMSAT claims a return, taxes and depreciation
  - INTELSAT now buys such insurance itself
  - INTELSAT has historically self-insured by compensating Signatories for losses out of excess profits
  - COMSAT data show that largest component is premiums paid by INTELSAT, not COMSAT
- most of COMSAT's "Estimated Signatory Function Expenses" are to protect COMSAT investment
- in any event, total "Estimated Signatory Function Expenses" for 1998 of $3,004,603 equal only 1.94 percent of COMSAT's "Estimated 1998 IUC Payments to Intelsat" of $154,770,000

INTELSAT [BRIDGING the WORLD] 1997 ANNUAL REPORT

back next

Financial Statements
31 December 1997, 1996 and 1995

[REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS]

TO THE BOARD OF GOVERNORS
INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION:

We have audited the accompanying balance sheets of International Telecommunications Satellite Organization (INTELSAT) as of December 31, 1997 and 1996, and the related statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of INTELSAT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of INTELSAT as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with the accounting policies adopted by INTELSAT as described in Note 2.

Arthur Andersen LLP
Washington, D.C. - February 6, 1998

Balance Sheets</ B>

ASSETS *(U.S. $ in thousands)*	*As of 31 December* **1997**	**1996**
Current assets:		
Cash and cash equivalents	$ 21,937	$ 84,661
Receivables (note 3)	256,655	251,962
Total current assets	278,592	336,623
Communications plant and other property, net (note 4)	3,276,045	3,114,794
Other assets	35,319	17,750
	$3,589,956	$3,469,167

LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Due to shareholders (note 5):		
Compensation for use of capital	$ 82,009	$ 91,186
Repayments of capital	105,189	93,235
Other	141,498	127,490
Accounts payable and accrued liabilities	156,269	91,369
Deferred revenues	11,118	11,551
Total current liabilities	496,083	414,831
Bonds payable (note 6)	950,000	950,000
Deferred revenues	43,954	52,703
Accrued retirement benefits (note 7)	62,588	58,340
Total liabilities	1,552,625	1,475,874
Accumulated repayments of capital - excess compensation (note 8)	-	274,178
Shareholders' equity (note 8)	2,037,331	1,719,115
Commitments and contingencies (notes 9 and 10)	$3,589,956	$3,469,167

Statements of Operations

(U.S. $ in thousands)	*For the years ended 31 December* **1997**	**1996**	**1995**
Telecommunications revenue	$961,619	$911,361	$805,432
Operating expenses (note 7):			
Operations and development	131,989	121,283	109,930
General and administrative	26,658	25,075	25,928
Depreciation	373,316	331,013	302,259
Total operating expenses	531,963	477,371	438,117
Operating income	429,656	433,990	367,315
Interest expense	(76,448)	(76,808)	(74,693)
Other income, net	13,897	9,807	5,993
Revenues over expenses before loss on launch failure	367,105	366,989	298,615
Loss on launch failure (note 4)	-	(25,588)	-
Revenues over expenses	$367,105	$341,401	$298,615

Statements of Changes in Shareholders' Equity

(U.S. $ in thousands)	For the years ended 31 December 1997	1996	1995
Balance as of 1 January	$1,719,115	$1,805,461	$1,627,599
Compensation for use of capital:			
Revenues over expenses	367,105	341,401	298,615
Repayments of capital - excess compensation (note 8)	-	21,301	46,755
Capital contributions from shareholders	421,000	547,000	537,000
Transfer of accumulated repayments of capital - excess compensation balance (note 8)	274,178	-	-
Distributions to shareholders:			
Compensation for use of capital	(367,105)	(362,702)	(345,370)
Repayments of capital	(376,962)	(633,346)	(359,138)
Balance as of 31 December	$2,037,331	$1,719,115	$1,805,461

Statements of Cash Flow

(U.S. $ in thousands)	For the years ended 31 December 1997	1996	1995
Cash flows from operating activities:			
Revenues over expenses	$367,105	$341,401	$298,615
Adjustments for non-cash items:			
Depreciation	373,316	331,013	302,259
Amortization of deferred revenues	(13,298)	(14,182)	(15,511)
Loss on launch failure	-	25,588	-
Changes in operating assets and liabilities:			
Receivables	(4,693)	(17,807)	(33,984)
Other assets	(17,569)	196	(7,889)
Due to shareholders - other	14,008	36,024	(5,131)
Accounts payable and accrued liabilities	64,900	(2,398)	(1,562)
Accrued retirement benefits	4,248	3,864	1,770
Deferred revenues	4,116	4,962	6,535
Net cash provided by operating activities	792,133	708,661	545,102
Cash flows from investing activities:			
Payments for communications plant and other property	(534,567)	(491,926)	(534,544)
Insurance proceeds for INTELSAT 708 (note 4)	-	204,700	-
Refund from launch contract termination (note 4)	-	49,296	-
Net cash used by investing activities	(534,567)	(237,930)	(534,544)
Cash flows from financing activities:			
Capital contributions from shareholders	421,000	547,000	537,000
Distributions to shareholders	(741,290)	(972,953)	(685,879)
Proceeds from issuance of bonds	-	-	200,000
Net repayments of short-term borrowings	-	-	(23,992)
Net cash (used in) provided by financing activities	(320,290)	(425,953)	27,129
Net (decrease) increase in cash and cash equivalents	(62,724)	44,778	37,687
Cash and cash equivalents, beginning of year	84,661	39,883	2,196

Cash and cash equivalents, end of year	$ 21,937	$ 84,661	$ 39,883
Supplemental cash flow information:			
Cash paid during the year for interest	$ 75,765	$ 75,725	$ 60,030

back contents next

INTELSAT [BRIDGING the WORLD] 1997 ANNUAL REPORT

back next

Notes to Financial Statements
31 December 1997, 1996 and 1995

1
GENERAL

All amounts included in the financial statements and notes to the financial statements are stated in US dollars.

The International Telecommunications Satellite Organization (INTELSAT or the Organization) was established on 12 February 1973 in accordance with the provisions of an Intergovernmental Agreement and an Operating Agreement. Through its global system of 27 geostationary satellites and related ground segment facilities (together, the space segment), INTELSAT provides, on a non-discriminatory basis, the capacity required for public telecommunications services to various entities in approximately 200 countries throughout the world.

The parties to the INTELSAT Agreement are INTELSAT's 142 member countries. The Signatories to the Operating Agreement (Signatories) are either the member countries or their designated telecommunications entities, public or private. Signatories may authorize other entities within their country to access the INTELSAT space segment and to invest in INTELSAT. Signatories and non-Signatory investors are referred to collectively as INTELSAT's shareholders. As of 31 December 1997, approximately seven percent of INTELSAT's investment shares were held by non-Signatory investors.

INTELSAT's Signatories are its principal customers and accounted for over 80 percent of total telecommunications revenue in 1997. The United States Signatory accounted for approximately 15 percent of total 1997 telecommunications revenue. In 1997, 1996 and 1995, INTELSAT's ten largest member-countries accounted for approximately 50 percent of total telecommunications revenue.

2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on an accrual basis of accounting and are consistent with the principles contained in the INTELSAT Operating Agreement.

A] REVENUE RECOGNITION Telecommunications revenues result from utilization charges which are generally recognized as revenue over the period during which the satellite services are provided. INTELSAT's principal services are the provision of space segment capacity for voice/data and video broadcasting, for both international and domestic use.

B] SHAREHOLDERS' EQUITY INTELSAT operates on a commercial basis as a cost-sharing cooperative with the long-term objective of providing services at prices which meet its revenue requirements. Each shareholder contributes to INTELSAT and receives capital repayments and compensation for the use of capital in proportion to its investment share.

Capital repayments are calculated so as to return all surplus cash to shareholders. Generally, the amount is equivalent to depreciation and other similar types of non-cash expense. In 1996, additional repayments of capital were also made following the receipt of the insurance proceeds from the failed INTELSAT 708 and the refund from a launch contract termination (see note 4). Compensation for the use of capital is calculated based on a target rate, or range, of return which is established by the INTELSAT Board of Governors and periodically reviewed.

Revenues over expenses earned in excess of the target rate or range is established as a balance sheet credit in the accumulated repayments of capital - excess compensation (RCEC) account. In periods where the excess of revenues over expenses is less than the target return, this balance sheet account is reduced and compensation for the use of capital is increased to equal the target rate of return (see note 8).

Each shareholder's investment share is calculated annually based on its percentage of use of the space segment. However, in general, shareholders may elect to change their investment share, as calculated by their percentage of use, subject to certain limitations and the availability of other shareholders willing to increase or decrease their shares. Adjustments to investment shares are also made at the time of a Signatory's entry or withdrawal.

C] COMMUNICATIONS PLANT AND OTHER PROPERTY Communications plant and other property are stated at cost and consist primarily of the costs of spacecraft construction and launch, including insurance premiums, if any, and INTELSAT management expenses directly associated with monitoring and support of spacecraft construction. INTELSAT does not capitalize interest during the construction of spacecraft.

Spacecraft and launch services are generally procured under long- term, multi-satellite contracts which provide for payments by INTELSAT over the contract periods. Spacecraft and launch services costs are capitalized to reflect progress toward completion, which typically coincides with contract milestone payment schedules. The costs of spacecraft and launch services are transferred from construction in progress and depreciated after the satellites are launched and placed in service.

Communications plant and other property are depreciated on a straight-line basis over the following estimated useful lives:

	Years
Individual satellites	7-11
Satellite series program costs	10-13
Ground segment equipment and software	10
INTELSAT headquarters building	40
Furniture, equipment, computer hardware and software	4-12

Insurance premiums related to satellite launches and subsequent in-orbit testing are capitalized and depreciated over the lives of the related satellites.

The cost of retired satellites, related assets and the related accumulated depreciation are carried in the property accounts until the last satellite within the same series is retired.

Satellite performance incentives payable upon the initial successful operation of the satellites are capitalized and depreciated over the estimated useful lives of the respective satellites. Lump-sum performance incentives payable in advance with respect to several years of successful satellite operation are capitalized and depreciated over the periods to which they relate. Performance incentives payable subsequent to a period of successful satellite operation and those payable monthly, contingent upon the successful operation of the satellite during each month, are expensed as incurred.

D] CASH AND CASH EQUIVALENTS Investments included in cash and cash equivalents consist of Eurodollar time deposits which have original terms to maturity of 90 days or less. Carrying amounts approximate market value.

E] RESEARCH AND DEVELOPMENT Research and development costs of $2,688,000, $2,536,000, and $2,438,000 in 1997, 1996 and 1995, respectively, have been expensed as incurred.

F] TAX STATUS Under the terms of the Headquarters Agreement, dated 24 November 1976, between the Government of the United States and INTELSAT, INTELSAT is exempt from United States and District of Columbia taxes.

G] DEFERRED REVENUES Deferred revenues represent the unearned balances remaining from amounts received from customers pursuant to transponder lease prepayment options. These amounts are recorded as revenues on a straight-line basis over the respective lease terms.

H] INTEREST COST Interest cost is charged to expense as incurred. Deferred financing fees are amortized to interest expense over the lives of the associated borrowings.

I] ESTIMATES AND ASSUMPTIONS The preparation of financial statements requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (2) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3
RECEIVABLES

Receivables as of 31 December comprised:

In Thousands	1997	1996
Satellite utilization charges:		
Unbilled	$238,497	$231,060
Billed	14,696	17,912
Other	3,462	2,990
Total	$256,655	$251,962

The unbilled satellite utilization charges as of each year-end represent the amounts earned and accrued as receivable from customers for their usage of the INTELSAT space segment in the fourth quarter of the year and are billed in January of the next year.

4
COMMUNICATIONS PLANT AND OTHER PROPERTY

Communications plant and other property as of 31 December comprised:

In Thousands	1997	1996
Satellites, launch vehicles and services	$5,608,206	$5,105,310
Information systems and ground segment	308,819	284,207
INTELSAT headquarters and other	183,406	177,586
	6,100,431	5,567,103
Less accumulated depreciation	2,824,386	2,452,309
Total	$3,276,045	$3,114,794

Communications plant and other property as of 31 December 1997 and 1996 included construction-in-progress of $410,013,000 and $628,787,000, respectively. These amounts relate primarily to spacecraft under construction and related launch services.

On 14 February 1996, the launch of the INTELSAT 708 satellite failed. Satellite construction, launch vehicle and program costs of approximately $204,700,000 were insured. The amount of the launch insurance ($25,588,000) was uninsured and was charged to expense in 1996. Subsequent to the launch failure, INTELSAT terminated the contract with the launch vehicle provider for two additional launches and received a full refund in 1996, totaling $49,296,000, for all amounts previously paid for the canceled launches.

5
DUE TO SHAREHOLDERS

Balances due to shareholders include accrued fourth quarter undistributed compensation for, and repayments of, capital. Other amounts due include funds being held by INTELSAT for certain shareholders at their request.

6
BONDS PAYABLE AND OTHER BORROWING ARRANGEMENTS

As of 31 December, the carrying amounts and the estimated fair market values of INTELSAT's long-term debt were as follows:

In Thousands	1997		1996	
	Face Amount	Fair Value	Face Amount	Fair Value
Eurobond 6.75% notes due 19 January 2000	$150,000	$152,205	$150,000	$152,201
Eurobond 7.375% notes due 6 August 2004	200,000	209,400	200,000	208,810
Dragon bond 6.625% notes due 22 March 2004	200,000	204,200	200,000	200,008
Eurobond 8.375% notes due 14 October 2004	200,000	222,680	200,000	220,508
Eurobond 8.125% notes due 28 February 2005	200,000	220,120	200,000	218,020
	$950,000	$1,008,605	$950,000	$999,547

INTELSAT maintains a commercial paper program. During 1997, the average daily balance of commercial paper outstanding was approximately $4,900,000 at an average effective borrowing rate of 5.74 percent per annum. During 1996, the average daily balance of commercial paper outstanding was approximately $19,700,000 at an average effective borrowing rate of 5.44 percent per annum.

As of 31 December 1997, INTELSAT had a $180,000,000 revolving credit facility with six banks to support the commercial paper program. As of 31 December 1997 and 1996, there were no borrowings outstanding under INTELSAT's revolving credit facility.

7
RETIREMENT PLANS AND OTHER RETIREE BENEFITS

A] STAFF RETIREMENT PLAN INTELSAT maintains a non-contributory defined benefit retirement plan covering substantially all employees. The cost under this plan is calculated by an actuary using a formula based upon the employees' remuneration, dates of hire and years of eligible service. INTELSAT funds the plan based on actuarial advice using the projected unit credit cost method. Net pension expense for 1997, 1996 and 1995 comprised:

In Thousands	1997	1996	1995
Service cost for benefits earned during the period	$6,056	$5,946	$6,107
Interest cost on projected benefit obligation	13,070	11,940	12,172
Actual return on pension plan assets	(35,178)	(24,164)	(31,308)
Net amortization and deferral	19,281	10,278	17,736
	$3,229	$4,000	$4,707

The following table shows the pension plan's obligation recognized in the balance sheets as of 31 December 1997 and 1996 based on valuation dates of 30 September 1997 and 1996:

In Thousands	1997	1996
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $166,418 in 1997 and $145,108 in 1996	$179,065	$154,976
Projected benefit obligation for service rendered to date	208,535	172,626
Pension plan assets at fair value	(220,729)	(181,513)
Pension plan assets in excess of projected benefit obligation	(12,194)	(8,887)
Unrecognized net gain	16,423	10,731
Unrecognized prior service cost	2,361	2,579
Unrecognized transition asset as of 1 January 1987 being amortized over 12 years	1,033	3,047
Fourth-quarter contributions to the plan	(818)	(952)
Net pension liability	$6,805	$6,518
Assumed discount rate	7.00%	7.75%
Expected rate of return on pension plan assets	9.00%	9.00%

The annual rate of compensation increase is assumed to be approximately five percent. Plan assets include investments in equity and bond funds, common stocks, US Government Securities and liquid reserve funds.

B] SUPPLEMENTAL RETIREMENT PLAN INTELSAT also maintains a supplemental contributory defined contribution retirement plan which is available to substantially all employees. The expense for this plan was $1,167,000, $1,174,000, and $1,168,000 in 1997, 1996 and 1995, respectively.

C] SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN The Organization has an unfunded supplemental pension plan for executives. The expense for this plan was $315,000, $311,000, and $290,000 for 1997, 1996 and 1995, respectively. The Organization's accrued liability for this plan was $1,342,000 and $1,027,000 as of 31 December 1997 and 1996, respectively.

D] POST-RETIREMENT BENEFITS OTHER THAN PENSIONS In addition, INTELSAT provides health benefits for retirees. All employees who retire at or after age 60 with five years of service or before age 60 with 10 years of service, are eligible for these benefits. The cost under this unfunded plan is calculated by an actuary based on the level of benefits provided, years of service and certain other factors. During 1997, 1996 and 1995, the following estimated costs of post-retirement benefits other than pensions were recognized as expense:

In Thousands	1997	1996	1995
Net periodic post-retirement beneft cost:			
Service cost for benefits earned	$1,773	$1,956	$1,607
Interest cost on accumulated post-retirement benefit obligation	3,317	2,986	3,450
Net amortization and deferral	(249)	(268)	-
	$4,841	$4,674	$5,057

The following table shows the plan's obligations, as well as the liability recognized in the balance sheets as of 31 December 1997 and 1996 based on valuation dates of 30 September 1997 and 1996:

In Thousands	1997	1996
Accumulated post-retirement benefit obligation:		
Retirees	$27,518	$29,163
Fully eligible active participants	1,350	1,214
Other active participants	15,376	13,318
	44,244	43,695
Unrecognized net gain	10,406	7,428
Fourth-quarter net premium payments	(209)	(328)
Net post-retirement benefit liability	$54,441	$50,795
Assumed discount rate	7.00%	7.75%

Depending upon actual future health care claims experience, INTELSAT's actual costs may vary significantly from those projected above. For measurement purposes, as of 30 September 1997, the annual rates of increase in the per capita cost of covered health care benefits were assumed at 7.0 percent for participants and retirees under age 65 and 5.5 percent for those aged 65 and older. These rates were assumed to decrease gradually to 5.0 percent by the year 2001 and to remain at that level of annual increase thereafter. Increasing these assumed health care cost trend rates by one percent each year would increase the accumulated post-retirement benefit obligation as of 30 September 1997 by $7,343,000 and the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for the year 1997 by $988,000.

8
ACCUMULATED REPAYMENTS OF CAPITAL - EXCESS COMPENSATION

In accordance with the Operating Agreement, the INTELSAT Board of Governors establishes a target rate of compensation (return) on shareholders' invested capital. All shareholders are entitled to the target rate of return. Through 1996, the return in excess of the target was accumulated in the balance sheet account, accumulated repayments of capital-excess compensation (RCEC). In 1996 and 1995, $21,301,000 and $46,755,000, respectively, was transferred from the RCEC account to achieve the target rate of 20 percent. The 1996 transfer included $25,588,000 to offset the reduction in the return due to the loss incurred on the INTELSAT 708 launch failure.

In December 1996, the INTELSAT Board of Governors decided to transfer the remaining RCEC balance into shareholders' equity during 1997. This was accomplished through a 31 March 1997 transfer of $133,000,000 and a 30 June 1997 transfer of the remaining balance of $141,178,000.

In 1997, the INTELSAT Board of Governors decided to establish a range of 17-21 percent for the target rate of return and to review the range annually. During 1997, the actual return on shareholders' invested capital was approximately 18 percent, which was within the target range. Thus, no amounts were transferred to or from the balance sheet account, accumulated repayments of capital-excess compensation (RCEC).

9

CONTRACTUAL COMMITMENTS

In the further development and operation of the global commercial communications satellite system, significant additional expenditures are anticipated. The portion of these additional expenditures represented by contractual commitments as of 31 December 1997 and the expected year of payment are as follows:

In Thousands	Capital	Expense	Total
1998	$394,940	$63,875	$458,815
1999	222,602	60,948	283,550
1999	188,340	55,546	243,886
2000	97,874	38,069	135,943
2001	9,000	28,606	37,606
2002	49,500	127,353	176,853
Thereafter	962,256	374,397	1,336,653
Less amount representing interest on capital lease	(30,344)	-	(30,344)
Total net commitments	$931,912	$374,397	$1,306,309

Due to the nature of its business, INTELSAT has large contracts for satellite construction and launch services. The organization pays significant amounts to a limited number of suppliers for assets and services scheduled for future delivery.

INTELSAT offers its customers long-term commitments of one, five, ten or fifteen years for a range of services at reduced monthly tariff rates which are progressively lower for the longer commitment periods. As of 31 December 1997, certain customers had long-term commitments in effect, representing approximately 70 percent and 74 percent of the total analog and digital services traffic, respectively. Over 75 percent of the commitments are for a fifteen year term.

INTELSAT also leases transponder capacity to customers for periods of up to fifteen years to meet their domestic and international requirements. INTELSAT expects revenues totaling approximately $1.9 billion over the remainder of the contract periods with respect to such non-preemptible leases.

INTELSAT leases space in its headquarters building to various tenants. The minimum rental income anticipated with respect to these leases is approximately $19 million, of which approximately $16 million is expected to be received during the next five years.

10
CONTINGENCIES

A] INSURANCE INTELSAT has insurance coverage for possible losses that may occur during the launch and subsequent in-orbit test periods for satellites launched in 1997 and those scheduled for launch in 1998.

B] ARTICLE 18 Pursuant to Article 18 of the INTELSAT Operating Agreement, if INTELSAT or any Signatory, in its capacity as such, is required, by a court or as a result of a settlement agreed to by the Board of Governors, to pay any claim which arises out of any activity conducted or authorized by INTELSAT pursuant to the INTELSAT Agreement or the Operating Agreement, to the extent that the claim is not satisfied through indemnification, insurance or other financial arrangements, the Signatories shall pay to INTELSAT the amount unsatisfied on such claim in proportion to their respective investment shares as of the date INTELSAT is required to pay such claim.

11
DISCUSSIONS REGARDING CREATION OF AN AFFILIATE

INTELSAT's Parties, Signatories, Board of Governors, and Management are engaged in discussions regarding the creation of a commercial affiliate. Depending on the outcome of those discussions, decisions expected to be made in the first quarter of 1998 could result in a transfer of certain assets and liabilities from INTELSAT to the affiliate.

back contents next

Estimated Total Surcharge

($000)

1997 INTELSAT Rate of Return - as calculated from Annual Report	9.14%
COMSAT Allowed Rate of Return before Non-Dominance	12.48%
Increase Required for INTELSAT to Match Avg. Price Capped	3.34%
INTELSAT Avg Comm Plant and Equipment (1997)	3,195,420
Increase in Rate of Return Required	3.34%
Increase in Operating Revenue Required to Obtain Avg. Return	106,883
Increase in Revenue Required to Obtain Avg. Return	106,883
Current COMSAT Tax Rate	39.00%
Required Pre Tax Increase in Revenue to Obtain Avg. After Tax Return	175,219
1997 INTELSAT Telecommunication Revenue	961,619
Increase in Operating Revenue Required to Obtain Avg. Return	175,219
Total Revenue Required	1,136,838
Surcharge Required for Additional Revenue	18.22%
Surcharge for Signatory Functions	10.44%
Total Surcharge	28.67%

Rate of Return Calculation for INTELSAT

($000)

		1997 *	Revenue Increase	1997 after Adj.
Telecommunications Revenue		$ 961,619	$ 175,219	$ 1,136.838
Operating Expenses				
Operations and Development		131,989		131.989
General and Administrative		26,658		26.658
Depreciation		373,316		373.316
Total Operating Expense		$ 531,963		$ 531.963
Operating Income		429,656	175,219	604,875
Tax Expense (see Tax Calculation below)		137,751		206.086
Operating Income After Tax		$ 291,905		$ 398,788
Comm. Plant and Other Property	1997	$ 3,276,045		
	1996	$ 3,114,794		
Avg. Comm. Plant and Other Property		$ 3,195,420		$ 3,195,420
After Tax Rate of Return on Communications Plant and Other Property		9.14%		12.48%

Tax Calculation

	1997 *	Adj.	Adj. 1997
Telecommunications Revenue	$ 961,619	$ 175,219	$ 1,136,838
Total Operating Expense	531,963		531.963
Operating Income	429,656		604,875
Interest Expense	(76,448)		(76,448)
Pre-Tax Income	353,208		528,427
Tax Rate	39%	39%	39%
Tax Expense (Pre-Tax Income times Tax Rate)	$ 137,751	$ 68,335	$ 206,086

* Data are from the 1997 INTELSAT Annual Report

Investing Signatory Surcharge
Estimate for COMSAT

Average 'Capital Employed (outside of Intelsat)	$	31,033,160
After Tax Rate of Return		12.48%
Total Return	$	3,872,938
Depreciation on COMSAT Assets (Annualized)		7,776,636
Taxes on Return		1,510,446
Estimated Signatory Function Expenses		3,004,603
Total of COMSAT Costs	$	16,164,624
Estimated 1998 IUC Payments to Intelsat	$	154,770,000
Percentage of IUC Payments		10.44%

COMSAT World Systems' Satellite Insurance

Satellite	Launch Date	CWS Insurance Premiums ($M)				Estimated Cost of Insuring the Premiums (Incl. in Total)
		Share of INTELSAT	Launch	Post-Sep.	Total	
601	Oct-91	$ -	Accurate data by satellite not available.			
602	Oct-89	$ -				
603	Mar-90	$ -				
603 Reboost	May-92	$ -				
604	Jun-90	$ -				
605	Aug-91	$ -				
6 series total		$ -			$ 54.800	$ 7.976
ISK	Jun-92	$ -	$ 7.525	$ 1.475	$ 9.000	$ 1.299
701	Oct-93	$ 4.191	$ 0.712	$ 0.422	$ 5.325	$ 0.468
702	Jun-94	$ 4.218	$ 0.712	$ 0.422	$ 5.352	$ 0.471
703	Oct-94	$ 4.605	$ 0.888	$ 0.422	$ 5.915	$ 0.622
704	Jan-95	$ 4.621	$ 0.888	$ 0.422	$ 5.931	$ 0.624
705	Mar-95	$ 4.406	$ 0.888	$ 0.422	$ 5.716	$ 0.601
706	May-95	$ 4.910	$ 1.041	$ 0.645	$ 6.596	$ 0.548
707	Mar-96	$ 5.010	$ 1.173	$ 0.645	$ 6.828	$ 0.638
709	Jun-96	$ 2.894	$ 0.611	$ 0.645	$ 4.150	$ 0.369
801	Mar-97	$ 4.831	$ 0.514	$ 0.809	$ 6.154	$ 0.811
802	Jun-97	$ 5.029	$ 0.526	$ 0.471	$ 6.026	$ 0.794
803	Sep-97	$ 2.495	$ -	$ -	$ 2.495	$ 0.318
804	Dec-97	$ 2.549	$ -	$ -	$ 2.549	$ 0.325
805	Jun-98	$ 6.103	$ -	$ -	$ 6.103	$ 0.778
806	Feb-98	$ 3.087	$ 0.309	(Combined)	$ 3.396	$ 0.269

COMSAT's accounting system does not track launch and spacecraft insurance premiums according to the categories requested.
Data on the share of INTELSAT's insurance premiums is based on INTELSAT documents and communications with INTELSAT.
COMSAT's ownership share applied to INTELSAT's total premiums is as of March 1 of each year.
The other data shown is based on various sources, including records of wire transfers, company correspondence, and estimates.

Exhibit C

Depreciation Schedule For Insurance

Spacecraft	Depreciable Life
VI Series	10 Years
VII Series	11 Years
VIIA Series	11 Years
VIII Series	11 Years
IS-K	10 Years

Note:
VI Series and VIII Series insurance both have multiple accounts with some subaccounts having different lives. The term shown above is the blended average rate for the series.

COMMUNICATIONS SATELLITE ACT OF 1962

Sec. 102 [47 U.S.C. § 701] DECLARATION OF POLICY AND PURPOSE

(c) ...United States participation in the global system shall be in the form of a private corporation, subject to appropriate governmental regulation.

Sec. 201 [47 U.S.C. § 721] IMPLEMENTATION OF POLICY

(c) the Federal Communications Commission, in its administration of the provisions of the Communications Act of 1934, as amended, and as supplemented by this Act, shall --

(2) insure that all present and future authorized carriers shall have nondiscriminatory use of, and equitable access to, the communications satellite system...

Sec. 305 [47 U.S.C. § 735] PURPOSES AND POWERS OF THE CORPORATION

(a) In order to achieve the objectives and to carry out the purposes of this Act, the corporation is authorized to—

(1) plan, initiate, construct, own, manage, and operate itself or in conjunction with foreign governments or business entities a commercial communications satellite system;

(2) furnish, for hire, channels of communication to United States communications common carriers and to other authorized entities, foreign and domestic; and

(3) own and operate satellite terminal stations when licensed by the Commission under section 201(c)(7).