

November 13, 2020

SKY Perfect JSAT Holdings Inc.

**Notice Pertaining to Inappropriate Receipt of Public Funds by Our Consolidated
Subsidiary**

SKY Perfect JSAT Holdings Inc. (Head Office: Minato-ku, Tokyo; Representative Director, President: Eiichi Yonekura; hereinafter “SKY Perfect JSAT”) has found that the company had improperly received consignment fees at its consolidated subsidiary Enroute Co., Ltd. (Head Office: Asaka City, Saitama Prefecture; Representative Director and President: Kakuro Eguchi; hereinafter “Enroute”) for some of the consignment fees of consignment projects from a consortium in which Enroute participated along with Japan’s Ministry of Agriculture, Forestry and Fisheries (“MAFF”) and the National Agriculture and Food Research Organization (“NARO”), and was subject to measures and actions by both MAFF and NARO. Details of the notice by Enroute on this matter are attached.

We sincerely regret and deeply apologize for the great inconvenience caused to all parties concerned by this incident. The SKY Perfect JSAT Group will continue making concerted efforts as a Group to prevent recurrence by conducting training on Proper Management of Public Fund Receipts, etc. for all officers and employees in Japan, and by revising the relevant rules at every company in the group. The officers and employees involved in this incident were also subject to proper procedures and strict disciplinary action.

The impact of this incident on the consolidated financial performance of SKY Perfect JSAT for the current fiscal year is negligible.

November 13, 2020

Enroute Co., Ltd.

Notice Pertaining to Inappropriate Receipt of Public Funds

Enroute Co., Ltd.. (Head Office: Asaka City, Saitama Prefecture; Representative Director and President: Kakuro Eguchi; hereinafter “Our Company”) has found that the company had improperly received consignment fees for some of the consignment projects from a consortium in which Our Company participated along with Japan’s Ministry of Agriculture, Forestry and Fisheries (“MAFF”) and the National Agriculture and Food Research Organization (“NARO”), and was subject to measures and actions by both MAFF and NARO with regards to this incident (the “Incident”).

We sincerely regret and deeply apologize for the great inconvenience caused to all parties concerned by the Incident. We will continue making concerted efforts to prevent recurrence.

1. Background

In response to doubts about the appropriateness of Our Company receiving subsidies and consignment fees for projects funded by the New Energy and Industrial Technology Development Organization (NEDO)*¹, Our Company’s parent company SKY Perfect JSAT Holdings Inc. conducted the necessary investigations. The scope of the investigations also included other previous projects in which Our Company had received public funds from public institutions.

In this investigation, doubts had arisen about the appropriateness of receiving consignment fees related to three projects. One was the Project to Develop Technology for Efficient Cultivation Management and Stable Production Using Sensing Technology Including Drones and Field Installation Type Climate Data Sensors (Drones and sensing technologies to develop technology that improves the management efficiency of disease and pest control in orchards) (referred to as the “Sloping Land Case”) consigned from MAFF in which NARO was the executor of the partnership and Our Company participated as a consortium partner. Also subject to investigation was testing and research done for the Leadership Project and AI Future Agriculture Creation Project which both were part of the Revolutionary Technology Development & Emergency Deployment Project (both of these projects will be collectively referred to as the “Open-field AI Case”) conducted by the NARO Bio-oriented Technology Research Advancement Institution (BRAIN) in which Our Company participated as a consortium member. Our Company established an external investigative committee which thoroughly investigated the circumstances surrounding

these projects. The results of the investigation found that Our Company had improperly received some of the consignment fees for the Sloping Land Case in FY2018 and FY2019, and for the Open-field AI Case from FY2016 through FY2019.

¹Our Company was found to have been improperly receiving a portion of the subsidy and consignment fees for a part of the subsidy and consignment projects from NEDO and was subject to measures and actions by NEDO, as announced in the news release “Notice of inappropriate receipt of public funds by our consolidated subsidiary” on March 19, 2020.

2. Facts found

(1) The Sloping Land Case

1) Regarding the receipt of labor costs

- Some of the contents in the journal were different from the actual working conditions of the employees, and it was discovered that expenses that should not have been recorded as labor costs in relation to the Sloping Land Case were recorded.
- Violations of procedures to be followed when receiving payment for labor costs were also discovered.

2) Regarding the receipt of other costs, etc.

- It was discovered that some machinery and equipment expenses, miscellaneous services expenses and general administration expenses such as expenses related to repairing the automatic takeoff/landing function since it was developed by Our Company, which should not have been recorded in relation to the Sloping Land Case were recorded.
- It was discovered that some supplies expenses and miscellaneous services expenses were recorded in fiscal years during which software and other items not used during those fiscal years were purchased, and during which the applicable testing, research and development for those expenses did not take place.
- Violations of procedures to be followed when receiving payment for general administration expenses were also discovered.
- It was discovered that some transactions with other consortium partners for package purchases of full drone units were billed at too high of an amount, in violation of the profit exclusion rule.

(2) The Open-field AI Case

1) Regarding the receipt of labor costs

- Some of the contents in the journal were different from the actual working conditions of the employees, and it was discovered that expenses that should not have been recorded as labor costs in relation to the Open-field AI Case were recorded.
- Violations of procedures to be followed when receiving payment for labor costs were also discovered.

2) Regarding the receipt of other costs, etc.

- It was discovered that some supplies, travel, and outsourcing expenses that should not have been recorded in relation to the Open-field AI Case were recorded.
- It was discovered that some machinery and equipment expenses were recorded in fiscal years during which the applicable machinery and equipment were not delivered.
- It was discovered that some transactions with other consortium members for package purchases of full drone units were billed at too high of an amount, in violation of the profit exclusion rule.

It should be noted that no inappropriate use of expenses by officers and employees for private purposes was discovered.

3. Causes of inappropriate receipts

Our Company had in place a system that included the introduction of process control tables and product purchasing control rules as internal procedures. However, the management system was weak, the awareness of the appropriateness of subsidies and consignment fees among Our Company executives and employees was poor, and the checking function by managers was not effective. As a result, these control systems were not operating effectively.

4. Measures and Actions by MAFF and NARO

The outline of the measures by MAFF and NARO is as announced today by MAFF and NARO respectively. In addition to refunding approximately 7 million yen to MAFF and 24 million yen to NARO, Our Company will also pay additional charges on top of these. Our Company was also subject to a suspension of nominations for services and other contracts by both MAFF and NARO for a period of nine months starting today. Our Company and SKY Perfect JSAT Holdings Inc. (“SKY Perfect JSAT”) take these measures and actions very seriously and will take appropriate measures.

5. Recurrence prevention measures

Based on the aforementioned causes and other factors, Our Company and SKY Perfect JSAT recognize the need for reforms, such as regarding the creation of regulations and the establishment

of an operating system to ensure appropriate responses to public fund receipts. Based on this recognition, we will promptly and steadily implement the following measures to prevent recurrence in order to strengthen governance and foster and instill compliance awareness.

(1) Strengthening governance and control procedures

In order to strengthen the management structure of Our Company, on February 5, 2020, our president and CEO was replaced. Furthermore, in light of the cause of the Incident, other executive personnel changes were made on April 1, and we overhauled the management structure of Our Company.

In addition, SKY Perfect JSAT has made it mandatory for its consolidated subsidiaries to deliberate on public fund receipts at the Management Committee of SKY Perfect JSAT Corporation. Our Company has strengthened controls, such as establishing internal rules and approval rules for public fund receipts, as well as labor cost management methods. Related workshops were held for all of Our Company's officers and employees until October 15, 2020, and we will continue to thoroughly implement these rules and methods.

(2) Strengthening compliance

Training regarding appropriate management of public fund receipts, etc., was conducted for all of Our Company's officers and employees in May and October 2020 under the instruction of SKY Perfect JSAT. Going forward, we will conduct programs such as compliance training, including on matters such as subsidies and other public funds and work-related laws and regulations. We will foster better understanding of the importance of compliance and thoroughly spread awareness of the importance of internal and general-public procedures that must be followed.

(3) Internal group audits

For the audits of Group companies conducted by the Internal Audit Department at SKY Perfect JSAT, we identify subsidies and other public funds as priority items for auditing. We will conduct thorough audits, including the actual status of transactions, and will strengthen the auditing function to ensure the appropriateness and legality of transactions. Our Company will undergo an audit in December 2020 on the status of compliance with the measures (regulations, rules, etc.) to prevent recurrence of the Incident, including on the operational side.

(4) Actions taken toward officers and employees

The officers and employees involved in the Incident were subject to proper procedures and strict disciplinary action.