Management's Discussion and Analysis

Operating Environment

The Japanese economy remained in a severe situation during the fiscal year ended March 31, 2021 due to the impact of COVID-19. Although signs of a pick-up continued, private consumption and other areas show some weakness.

As for the operating environment for the Group, whereas the Media Business has been encountering maturation of the existing pay TV broadcast market, competition against domestic and overseas operators has been consistently intense for both content and customer acquisition amid a situation where flat-rate or free video streaming services continue to grow. In the Space Business, intense price competition continued against overseas satellite operators in the global market, yet there has been growing demand with respect to mobile satellite communications for vessels and aircraft as well as backhaul links for mobile phone base stations. Moreover, the business environment has been undergoing substantial changes that include launches of numerous venture enterprises on a global scale along with new operators entering the space business where they are developing inexpensive and highperformance rockets backed by new technologies and promoting projects involving large low earth orbit satellite communications systems.

Performance Overview

Given these conditions, the consolidated financial results of the Group for the fiscal year ended March 31, 2021 were as follows.

Category	Previous fiscal year (millions of yen)	Fiscal year ended March 31, 2021 (millions of yen)	Change (millions of yen)	Change (%)
Revenues	139,542	139,572	31	0.0
Operating Profit	15,263	19,152	3,889	25.5
Ordinary profit	16,088	20,349	4,261	26.5
Profit before Income Taxes	15,492	19,888	4,396	28.4
Profit attributable to owners of the parent	12,027	13,345	1,318	11.0

Financial Position

Total assets stood at ¥385.6 billion as of March 31, 2021, up ¥7.2 billion over the previous consolidated fiscal year (hereafter, year on year).

Current assets experienced a decline of ¥5.9 billion in accounts receivable–trade due in part to debt collections associated with the X-Band business. However, the increase in cash and cash equivalents was ¥29.6 billion, up ¥23.6 billion year on year.

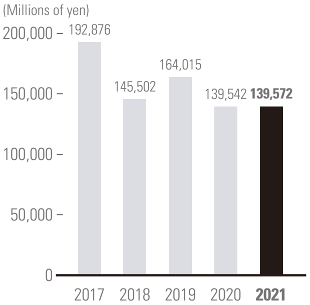
Even though the Company undertook capital expenditures worth ¥13.0 billion, property and equipment and software and goodwill decreased ¥11.2 billion year on year mainly owing to depreciation of ¥23.3 billion and amortization of goodwill of ¥0.9 billion.

Investments and other assets decreased by ¥7.8 billion year on year primarily because of ¥5.1 billion decrease in investment in and advances to affiliated companies.

Total liabilities amounted to ¥150.3 billion as of March 31, 2021, representing a year-on-year increase of ¥0.8 billion.

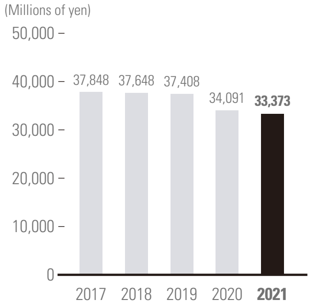
The main increases were ¥3.5 billion in income taxes payable and ¥5.2 billion in unearned revenues, while the main decrease was a reduction of ¥11.5 billion in interest-bearing debt following debt repayments associated with

Revenues

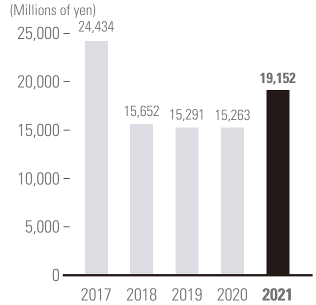


(Years ended March 31)

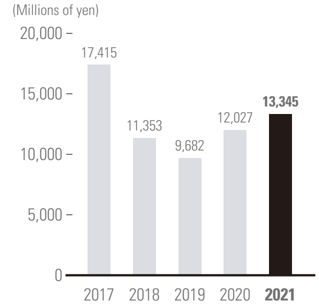
Selling, General, and Administrative Expenses



Operating Profit



Profit Attributable to Owners of the Parent



the X-Band Business.

Total equity including non-controlling interests increased ¥6.4 billion year on year to ¥235.3 billion as of March 31, 2021.

The largest increase in equity was an additional ¥8.0 billion in retained earnings associated with the recording of profit attributable to owners of the parent. In addition, the equity ratio increased 0.5 percentage points year on year to 60.8%.

Liquidity and Capital Resources

Cash Flows

For the fiscal year under review, cash flows from operating activities totaled ¥57.9 billion (versus ¥28.9 billion in the previous fiscal year), reflecting a total of ¥44.1 billion for profit before income taxes, depreciation and amortization, and amortization of goodwill; a ¥6.1 billion decrease in receivables-trade and affiliated companies; and a ¥5.2 billion increase in deferred revenues.

Cash flows from investing activities amounted to ¥11.4 billion (versus ¥20.8 billion in the previous fiscal year) due to expenditures of ¥12.2 billion for purchases of property and equipment and intangible assets.

Cash flows from financing activities amounted to ¥16.9 billion (versus ¥12.5 billion in the previous fiscal year) due to expenditures of ¥6.4 billion for repayments of long-term loans payable, ¥5.0 billion for redemption of bonds, and ¥5.3 billion for dividends paid.

As a result of the above, cash and cash equivalents as of March 31, 2021, increased by ¥29.6 billion year on year to ¥73.2 billion.

Capital Expenditure

In the fiscal year ended March 31, 2021, the Group made capital expenditures totaling ¥13.0 billion. The spending was allocated mainly to upgrading broadcasting facilities at the SKY PerfecTV! Tokyo Media Center in the Media Business, and procuring communications satellites in the Space Business.

Finance

There was no new financing during the fiscal year ended March 31, 2021.

Performance Forecasts

In the Media Business, we expect subscription fee-related revenue to decline as a result of a decline in the number of subscriptions due to intensifying competition with flat-rate or free Internet video distribution services, with whom we compete to acquire both customers and content, particularly sports. In this environment, we will continue to implement business structure reforms to maintain and improve our existing business revenue and expenditures, and at the same time, we will aggressively develop our distribution and FTTH (fiber to the home) businesses for future growth.

The expected total number of subscriptions to the three SKY PerfecTV! services in FY2021 is shown in the table below.

(thousands)

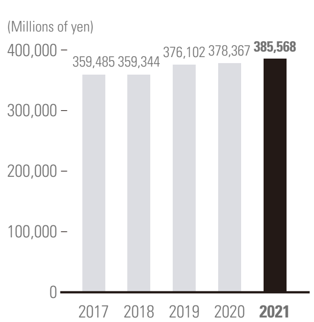
	Net change		Churn rate		Total number of subscribers	
	IC card	Number of subscribers	IC card	Number of subscribers	IC card	Number of subscribers
FY2021 (target)*	(87)	(130)	21.3%	21.8%	3,015	2,383
FY2020	(68)	(114)	23.5%	22.7%	3,102	2,513

*As of March 2022

In addition, the number of households served by fiber-optic retransmission is expected to reach 2,555 thousands (vs. 2,458 thousands in the previous fiscal year).

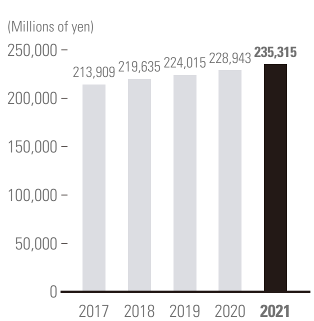
In the Space Business, as in the previous fiscal year, the use of satellite connections for mobile communications is expected to be impacted by the reduction in air travel due to the COVID-19 pandemic. In this environment, we will continue our efforts to capture satellite communications demand in the global market, especially in growth markets, particularly in Asia. In addition, we will grow revenues in the business intelligence field by combining the various geospatial information available from satellites with AI analysis, and expand into new domains through partnerships.

Total Assets

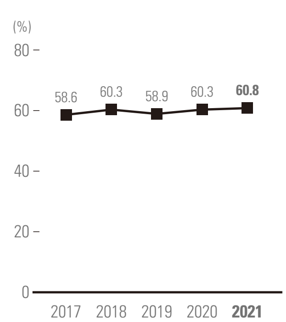


(Years ended March 31)

Net Assets



Equity Ratio



Management's Discussion and Analysis

As a result of the above, consolidated financial results for fiscal year 2021 are expected to be as follows: revenues of ¥122 billion (down 12.6% year on year) (Note 1), operating profit of ¥18 billion (down 6.0% year on year), ordinary profit of ¥18.8 billion (down 7.6% year on year), and profit attributable to owners of the parent of ¥13 billion (down 2.6% year on year). For fiscal 2021, the Company expects to pay an annual dividend of ¥18 per share.

(Note 1) Due to the "Accounting Standard for Revenue Recognition" effective from fiscal year 2021, the presentation of revenues decreased by ¥22 billion. The main reasons for this are as follows:
- In the Media Business, revenues decreased by ¥20 billion due to the recognition of "subscription fees" less "programming fees" as revenue.
- In the Space Business, revenues decreased by ¥2 billion due to the recognition of a portion of third-party line sales as revenue after deducting related expenses.

(Note 2) The future results and forecasts presented in the foregoing Performance Forecasts are based on the judgment of the Company's management, which is based on currently available information. Actual results may differ from these forecasts due to a variety of factors. If it becomes necessary to revise the earnings forecast due to future changes in circumstances, we will promptly disclose such information.

Dividend Policy and Return to Shareholders

Our Articles of Incorporation include the provision that the Board of Directors can resolve to pay dividends from surpluses, etc., as provided in Article 459, Paragraph 1 of the Companies Act. Our policy regarding the exercise of these rights is as follows.

The Group maintains a long-term and comprehensive approach to shareholder return as an important management priority. Our aim is to pay stable dividends while retaining sufficient internal reserves to fund our aggressive business development plans. Our policy is to determine cash dividend amounts for the interim dividend and the year-end dividend twice a year following extensive consideration of our financial position, level of earnings, and payout ratio and so forth.

For the year-end dividend for the 14th term, in addition to the interim dividend of ¥9 per share issued with an effective date of December 2, 2020, the Board of Directors has resolved at a meeting on April 28, 2021 to pay a dividend of ¥9 per share as a year-end dividend. As a result, the annual dividend for the 14th term will be ¥18 per share.

Financial Risks

Accounts receivable - trade and lease receivables are exposed to customer credit risk. The Group manages its credit risk from receivables in accordance with internal credit control rules, which include monitoring payment due dates and balances of customers, and periodic assessment of the credit standing of major customers.

Held-to-maturity securities are mainly bonds, which are exposed to credit risk of issuers, held for the purpose of investing temporary cash surpluses. To mitigate the risk, the Group invests in only highly rated bonds.

Available-for-sale securities are listed stocks, and are exposed to market risk. To mitigate the risk, the Group assesses fair values and financial conditions of the investments periodically and reviews the status of ownership on an on-going basis.

Payment terms of the majority of accounts payable - trade and accounts payable - other are due in less than one year. These trade payables are exposed to liquidity risk related to funding. The Group manages such risk by preparing and executing financing plans that maintain a certain amount of liquidity in hand and concluding lines of credit agreements with respective financial institutions.

Bank loans and bonds are used to fund the PFI business, business investments and capital expenditures. Of these financial instruments, floating interest rate loans are exposed to interest rate risk. Some of such loans are hedged using interest rate swaps to fix interest on loans.

Derivatives include forward exchange contracts used to hedge against the market risk resulting from fluctuations in foreign currency exchange rates related to financing the purchase of broadcasting rights and capital expenditures of telecommunications satellites, and interest rate swaps used to hedge against changes in interest rates on bank loans. Please see "(5) Matters concerning accounting policies, vi) Method of significant hedge accounting" of "1. Notes regarding significant matters for the preparation of consolidated financial statements." for further details about hedging instruments and hedged items, hedging policy, and the method of assessing hedge effectiveness in relation to hedge accounting.

The Group executes and manages derivative transactions in accordance with the internal policies that define transaction authority. The Group enters into derivative transactions only with financial institutions with a high credit rating to minimize credit risk exposure.

Business Risks

Each of the major risk items recognized by the Group for the fiscal year ended March 31, 2021, are described below together with their countermeasures. The risks covered here do not necessarily include every risk faced by the Group.

Moreover, the potential remains for unknown risks that have not been recognized by the Group, or risks that increase in importance over time to have a major impact on the Group's businesses, financial position, and operating results. Forwardlooking statements contained in the following are based on the Group's judgement at the end of the fiscal year under review.

[1] Risks Concerning Business Investments, etc.

The Company investigates M&As with and funding of other companies, as well as building alliances and partnerships with other companies. The Company executes such if it determines that the move will contribute to the Group's business strategy and operating results in the future.

However, the Group's financial position and operating results may be negatively affected in several cases, including: the inability to integrate the purchased/acquired business in line with the Group's management strategy, the inability to achieve the synergy anticipated by the Group, the inability to apply the Group's internal control system to the purchased/ acquired business, and the discovery of major problems after purchase/acquisition that had not been envisioned, including problems in technological fields with which the Group does not necessarily have expertise or knowledge.

Moreover, such purchases/acquisitions may result in recording a higher amount of good will and intangible assets, and may negatively affect the Group's operating results and financial position due to the occurrence of losses. Examples of such losses include the loss of goodwill and intangible assets if the profitability of the purchased/ acquired business falls, loss on the sale of businesses coinciding with business reorganization, and loss associated with liquidation of businesses.

As a countermeasure for the risks described above, the Company establishes investment rules, and deliberates and makes judgments at the time of funding and investment upon studying the business plan, internal rate of return, withdrawal criteria, and other risks. In addition, the Company implements multiple check systems and makes a careful, multifaceted study for large-scale funding projects. This process includes holding discussions at the Management Committee, which serves as an advisory body to the Representative Director, President, and making a resolution at the Board of Directors following discussions in each department.

Moreover, the Company dispatches employees to the funding recipient, requests that the recipient comply with the regulations stipulated by the Company, and engages in appropriate management, for the purpose of establishing and operating a proper internal control system. When making investment decisions, the Company sets down milestones, which it reviews at the appropriate timing. The Company also reviews the financial position, initiative policies, profitability, capital costs, significance of possession, and adequacy of funding at the funding recipient even after funding is provided. The results of these reviews are reported to the Board of Directors.

Even if the currently envisioned measures are taken, however, it is impossible to fully prevent loss in the purchased/acquired business and impairment of investment securities and goodwill due to changes in the market and competitive environment and due to inconsistent business management after funding and purchase. Therefore, there is no guarantee that profits will match the investment.

Moreover, the Group may suffer loss of social credibility in the event that a compliance-related issue occurs at the funding recipient.

[2] Risks Concerning Legal Business Regulations

Upon engaging in business, the Group is subject to domestic legal regulations, including the Broadcast Law, the Telecommunications Business Law, the Anti-Monopoly Act, the Personal Information Protection Act, environmental laws and regulations, and the Act on Regulation of Execution of Budget Pertaining to Subsidies, etc.

Moreover, the Company is subject to the legal regulations of each country in which it operates. The Company may suffer legal consequences, litigation, social sanctions, and business cessation orders, as well as loss of trust among customers and other related parties, due to violations to these laws and regulations, and due to acts that go against social demands. As a result, such actions may adversely affect the Group's business and operating results. Moreover, the Company may also face business operation restraints if new laws and regulations are established that change the existing systems applied to domestic satellite broadcasting, launch of communication satellites in Japan and overseas, and service and commercial use of satellites, or if revisions are made to such that are disadvantageous to the Group's business. As a result, such events may adversely affect the Group's business and operating results.

As a countermeasure for the risks described above, the Group established the SKY Perfect JSAT Group Compliance Basic Regulations and the Group Officer and Employee Code of Conduct, which are based on the SKY Perfect JSAT Group Mission and SKY Perfect JSAT Group Action Guidelines, and requires that the Board of Directors and employees adhere to laws and regulations.

Moreover, the Group appointed a Chief Compliance Officer and established the Compliance Committee, which is chaired by the Chief Compliance Officer and meets every quarter. Furthermore, in order to ingrain compliance more deeply within the Company, the Group provides education and training to the Board of Directors and employees, uses a service by which information regarding the establishment of new laws and regulations, or their revision, are distributed at all times, and responds to such laws and regulations.

Moreover, the Company has established and appropriately operates the "Compliance Help Line." This system enables those who have discovered actions as part of the Group's business activities, or by the Board of Directors and employees, that are suspect of having violated laws and regulations, to immediately report and discuss such at contact points set up both within and outside the Company. Including the status of addressing situations described above, the Company's Internal Audit Division regularly audits compliance practices within the Group.

Even if these kinds of compliance systems and monitoring are enhanced, however, there is still a risk that the Group will be unable to fully eliminate the potential for legal violations. Moreover, the Company works to reduce risk by constantly monitoring the movements of relevant government authorities in regard to the establishment and revision of laws and regulations that change the existing systems in Japan and overseas, and by making advanced preparations for the required position statements and system changes. Even if such measures are taken, however, business operations may be adversely affected due to the inability to make a rapid response because of delays in acquiring information pertaining to the establishment of new laws and regulations, or revisions to such, overseas.

[3] Risks Concerning Leaks and the Handling of Personal Information and Important Information, and Cyber Security

The Company possesses customer information, including that for subscribers to services provided by the Group, in the Media Business, and possesses important information, including technological information, in the Space Business. The Group's business and operating results may be adversely affected due to cost burdens associated with responding to the loss of social credibility and compensation for damages in certain events. Such events include leaks of such information resulting from system errors caused by hardware malfunctions, software malfunctions, or human error; leaks resulting from unauthorized access by third parties; and mishandling of personal information. Moreover, large-scale cyber attacks can lead to both leaks of such information as well as obstruction to broadcast services and satellite communications services. As a countermeasure for the risks described above, the Company has acquired Information Security Management System (ISMS) certification and the Privacy Mark, has built an information security and personal information protection management system, and engages in strict information management. As part of these activities, the Company established the Personal Information Management Committee and Information Security Management Committee, which monitor the status of information security management within the Group. Moreover, the Company established the Computer Security Response Team (CSIRT) as an organization to address the occurrence of security incidents and to conduct training exercises. Meanwhile, system countermeasures include using encrypted servers for storing personal information and important business information, unauthorized access prevention systems and anti-virus software-based virus prevention, log acquisition for each system, and vulnerability discovery based on security diagnosis. Furthermore, in response to the diversification of cyber attacks and the increase in cyber security risks associated with factors such as the spread of digital transformation efforts, the Group has established a new Cybersecurity Division in SKY Perfect JSAT Corporation, its core company, and has put in place systems to implement and strengthen its cyber security measures. In addition, as part of our anti-COVID-19 measures, we have established a telework work system and are conducting security assessments of remote access systems and tools. Even if the currently envisioned measures are taken, however, information leaks and damage to services may occur due to events that exceed the currently envisioned countermeasures, including sophisticated cyber attacks using new technologies.

[4] Risks Concerning Business Continuity Due to Large-Scale Disasters, etc.

As a corporate entity that provides the highly public services of broadcasting and communications, the Group owns satellite control and communications facilities, as well as broadcasting facilities, in Japan. In the event of a large-scale disaster or accident, or infectious disease pandemic, such as COVID-19, there is a risk business continuity will become difficult to achieve due to facility equipment damage, facility closures, or self-imposed controls on activities. There is also a risk that the Company will not be able to secure personnel involved in continuing operations due to the damage situation faced by employees and to public transportation service suspensions. As a countermeasure for the risks described above, the Company has established and operates an emergency system for which the continuation of operations is defined for each business, including personnel scheduling, as a business continuity plan. Moreover, the Company has also established in advance a business continuity structure to handle the spread of infectious diseases, such as COVID-19, as another business continuity plan. With respect to the COVID-19 business continuity structure, in addition to putting in place telework, at the request of the Japanese national government and the Tokyo Metropolitan Government, the Company has established a working system that is responsive to the state of the spread of the virus and has put in place systems that enable employees to carry out their duties with their safety ensured. Locations that support the continuation of operations utilize seismic control and seismic isolation structures, and are equipped with emergency power generation capabilities and food stores. The Company has constructed facilities that aim for uninterrupted service, particularly for satellite communications control facilities, which are expected to see greater than normal use in the event of disasters. Specifically, these facilities are equipped with uninterruptible power supply equipment and are designed to prevent major impairments to operations by enabling other locations to provide service if one location ceases operations. Moreover, the Company perceives the strong wind and heavy rain damage from hurricanes, and such, as new threats that will potentially occur with greater frequency due to climate change. In the event of large-scale disasters that cannot be fully addressed using the currently envisioned countermeasures, however, the Group's business and operating results may be adversely affected because the Company does not maintain full backup facilities for broadcasting facilities. Specifically, adverse effects may be due to the potential risk of long-term outages of broadcasting and communications services, as well as to the potential risks related to securing fuel and personnel for locations as a result of extended public transportation service suspensions.

Risks Related to Satellite Infrastructure

[5] Risks Concerning Lower Competitiveness in the Satellite Communications Market

In contrast to the declining advantages of communications satellites due to the recent development and dropping costs of terrestrial wires and new communications networks for the era of 5G, transponder supply volumes have been growing steadily each year throughout the world. Moreover, given ongoing planning for the introduction of multiple HTS satellites by other satellite operators, issues of how to maintain revenues will emerge if bandwidth and service unit costs continue their current downward trends.

Going forward, there is a potential for rapid development of next-generation satellite communications that utilize microsatellites and low earth orbit satellites, which presents a risk of lower revenues for the Group's Space Business if existing business models are used as is.

As a countermeasure for the risks described above, the Company will also focus on capturing demand in increasingly competitive markets by continuing to procure and launch satellites that incorporate HTS satellite and other advanced technologies. In particular, the Company began services using Horizons 3e, a jointly owned satellite with Intelsat, in January 2020 and services using two JCSAT-18 HTS satellites, unit ownership satellites with Kacific, in fiscal 2021. This move was made to address the expanding demand for satellite communications serving mobility, such as aircraft and shipping vessels, in the Asia-Pacific region. The Company is also working to enable procurement and operations that prioritize cost efficiency by forming alliances with other satellite operators and through joint satellite procurement, as with the HTS satellites mentioned above.

In addition to conventional business models, the Company continues to study business deployment beyond geostationary orbiting satellites, including the introduction of low earth orbit satellites, for new communications networks in the era of 5G.

Even if the currently envisioned measures are taken, however, demand may drop due to dramatic changes in the market environment following the emergence of new satellite operators that provide next-generation satellite communications services using low earth orbit satellites.

Moreover, there is a risk that satellite communications demand will fall dramatically due to the global spread of infectious diseases, such as COVID-19. One such example is decreased demand for broadband communications for aircraft.

[6] Risks Concerning Communications Satellite Procurement

The procurement stage for communications satellites involves risks of production delays, as well as risks of launch delays or failure. However, delays in the start of scheduled communications satellite operations due to such will result in a period during which continued service provision is not possible. During such periods, revenues may fall and users may leave.

Moreover, in some cases unexpected expenses may be incurred due to the design or some other reason during the production stage of communications satellites.

As a countermeasure for the risks described above, when setting the procurement schedule, the Company implements fleet backup measures based on backup satellites and existing satellites assuming the case of launch failure. The Company also implements measures based on advanced orders for substitute satellites with long delivery lead times to better ensure early delivery of substitute satellites.

In terms of payments, the Company works to reduce risk by adopting milestone payment schemes using milestones that correspond to the degree of progress and by securing the right to claim a certain degree of compensation in the event of a delivery delay. In terms of insurance, the Company purchases separate insurance agreements for launch and for in-orbit service.

Launch insurance covers the cost of replacing communication satellites and the required cost of repairs when all or part of a communications satellite is damaged during the initial orbital phase. In general, this type of insurance is valid for one year from the time of launch.

Even if the currently envisioned measures are taken, however, potential risks include delays in production and launch of successor satellites due to unexpected accidents, inability to receive compensation for the full amount of costs required for launch under launch insurance due to the degree of satellite damage or some other factor, rising insurance fees due to fluctuation in the space insurance market environment, and any risk that is not subject to non-life insurance in the case such falls under absolute exemptions, such as war risks.

[7] Risks Concerning Communications Satellite Operations

The Group's communications satellites are used for a comparatively long period of between 15 and 20 years. During the operational period, however, a manufacturing defect, defective part, magnetic storm caused by solar activity, a collision with debris or a meteorite, excessive fuel consumption, control or operational problems, or some other reason might stop a satellite from functioning or impede its performance. In the event of such, the Group may experience a decline in earnings or be adversely affected in some other way due to lower revenues resulting from the inability to provide services, loss of customers, or costs involved in transferring customers to other satellites owned by the Company.

As a countermeasure for the risks described above, the Company purchases in-orbit insurance, which takes effect upon the expiry of launch insurance, for each of the communications satellites the Group has launched. However, this insurance does not cover the Group's third-party liability or damage to business, including profit loss, caused by the total technical failure of a communications satellite.

The Group currently has two backup communications satellites in orbit as part of a system that enables the Company to provide short-term coverage, whenever possible, in the event of a malfunction in an operational satellite.

Even if the currently envisioned measures are implemented, however, there are several potential risks, including: risk of lower revenues due to unforeseeable circumstances or the inability to provide alternative capabilities using backup satellites, risks that are not compensated by in-orbit insurance when exemption clauses apply due to the malfunction of a communications satellite, risks of higher insurance fees due to fluctuations in the space insurance market environment, and risks that are not covered by non-life insurance when such fall under absolute exemptions, such as war risks.

Risks Related to Multichannel Pay TV Broadcasting Platform Servicies

[8] Risks Concerning the Lower Feasibility of the Multichannel Pay TV Business

The acquisition and retention of subscribers is key to the Group's earnings growth. The number of subscriptions in total stood at 3,102 thousands as of March 31, 2021. However, there is no guarantee that the number of subscriptions will increase in line with the Group's projections for the future. Moreover, despite the implementation of contents differentiation, promotion enhancement, campaigns, and other marketing measures, the Group's business and operating results may be adversely affected if the number of subscribers continues to or dramatically declines. Factors in such a potential decline include intensifying competition from competing services, such as the spread of online video distribution services that offer similar contents, and changes in the viewing habits of users. Moreover, the Group's business and operating results may be adversely affected if the attractiveness of the Group's services declines and more existing subscribers cancel contracts than is expected due to the inability to acquire leading contents as a result of intensifying competition. Specifically, the Group may experience a decline in cumulative subscribers and may see the Multichannel Pay TV Business experience lower profitability as a result of higher broadcasting rights fees in this case. As a countermeasure for the risks described above, the Company has formulated and executed a medium-term business structure reform plan based on the business bottom line in order to ensure that the Media Business maintains a certain level of profit, even in the face of declining subscriber numbers in the Multichannel Pay TV Business, and premium services in particular. Moreover, in response to rising broadcasting rights fees, the Company has established a contents acquisition policy that clearly defines the priority of contents that contributes to acquiring and retaining subscribers, and is conducting a post-implementation review of the cost effectiveness of this policy. In addition, the Company will continue to enhance marketing and pursue greater efficiency of the overall business through appropriate collaborations and alliances with competitors that provide pay contents. Meanwhile, in addition to expanding the service area, enhancing services, and strengthening the marketing framework for the purpose of earnings growth in the FTTH Business, the Company is also making effective use of the Tokyo Media Center facilities and implementing measures for earnings growth in sectors beyond the Multichannel Pay TV Business. However, given the further rise of online video distribution services, the Company recognizes that the level of risk is now higher than in the past. Even if the currently envisioned measures are implemented, there is still a risk of further earnings deterioration if the number of subscribers declines and broadcasting rights fees increase more than expected due to intensifying competition. Furthermore, due to the COVID-19 pandemic, many sporting events and concerts, including baseball and soccer games, were postponed or canceled during the fiscal year under review. There is a risk that a prolongation of the pandemic will further compromise profitability, including by reducing the number of subscribers in and subscription fee revenues from channels offering these contents.

[9] Risks Concerning Illegal Viewing

The Group's multichannel pay TV service, SKY PerfecTV!, uses an IC card/chip referred to as B-CAS card/ACAS chip. Distributors that have altered B-CAS cards to enable illegal viewing of pay TV programs have been arrested. Moreover, cases have also occurred where sales of illegal online distribution tuners on major e-commerce sites have been suspended because such acts were deemed to assist in violating public transmission rights and rights to make transmittable. Illegal viewing using these kinds of altered B-CAS cards and illegal online distribution tuners have a significantly negative impact on the sound development of multichannel pay TV broadcasting in general, and may also adversely affect the Group's business and operating results. The Group's multichannel pay TV services, SKY PerfecTV! Premium Service and SKY PerfecTV! Premium Service HIKARI, use an IC card different from the B-CAS card. However, similar cases of illegal viewing may adversely affect the Group's business and operating results. As a countermeasure for the risks described above, the Group has actively participated in the development of the ACAS chip that accompanied the launch of 4K and 8K broadcasts. In addition to enhanced security functions, the ACAS chip is also compatible with 2K broadcasting, making it possible to view the SKY PerfecTV! service on 4K televisions equipped with ACAS chips as before. Therefore, the Company foresees a certain degree of risk mitigation resulting from the replacement of B-CAS cards with ACAS chips following the wide-spread use of 4K television in the future. Moreover, the Group maintains a policy of strictly dealing with cases of illegal viewing using B-CAS cards by employing all available means, including legal action, such as making claims for damages, through an alliance with other pay TV operators and BS Conditional Access Systems Co., Ltd., the B-CAS card rights owner. Along with considering ways of more efficiently and effectively implementing existing initiatives, such as both criminal and civil litigation and communicating illegality through public relations activities, the Company is strengthening ties with the relevant government authorities in order to enable legal action against illegal viewers who use illegal viewing devices. The Company is also cooperating with the Japan Satellite Broadcasting Association, which has had success in filing sales injunctions against major e-commerce sites in regard to the sale of illegal online distribution tuners as an act that assists in violating public transmission rights and rights to make transmittable. The Company also actively participates in the activities of the Council for Combating Illegal Streaming Devices, which was established with the participation of broadcasters and related organizations. However, illegal viewing using altered B-CAS cards may continue to present an ongoing risk over the long-term if ACAS chips do not achieve wide-spread use as expected.

[10] Risks Concerning the Customer Management System

The Company possesses customer information, including that for subscribers to services provided by the Group, in the Media Business, and possesses important information, including technological information, in the Space Business. The Group's business and operating results may be adversely affected due to cost burdens associated with responding to the loss of social credibility and compensation for damages in certain events. Such events include leaks of such information resulting from system errors caused by hardware malfunctions, software malfunctions, or human error; leaks resulting from unauthorized access by third parties; and mishandling of personal information.

Moreover, large-scale cyber attacks can lead to both leaks of such information as well as obstruction to broadcast services and satellite communications services.

As a countermeasure for the risks described above, the Company has acquired Information Security Management System (ISMS) certification and the Privacy Mark, has built an information security and personal information protection management system, and engages in strict information management.

As part of these activities, the Company established the Personal Information Management Committee and Information Security Management Committee, which monitor the status of information security management within the Group.

Moreover, the Company established the Computer Security Response Team (CSIRT) as an organization to address the occurrence of security incidents and to conduct training exercises. Meanwhile, system countermeasures include using encrypted servers for storing personal information and important business information, unauthorized access prevention systems and anti-virus software-based virus prevention, log acquisition for each system, and vulnerability discovery based on security diagnosis.

Even if the currently envisioned measures are taken, however, information leaks and damage to services may occur due to events that exceed the currently envisioned countermeasures, including sophisticated cyber attacks using new technologies.