Management's Discussion and Analysis

Operating Environment

The Japanese economy remained in a severe situation during the fiscal year ended March 31, 2022, due to the impact of COVID-19, although signs of a pick-up continued.

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 through services based on 5G (fifth-generation mobile communications system). Moreover, with an increase in venture investments, 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 rockets 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, 2022, were as follows.

Category	Previous fiscal year (millions of yen)	Fiscal year ended March 31, 2022 (millions of yen)	Change (millions of yen)	Change (%)
Revenues	139,572	119,633	(19,939)	(14.3)
Operating Profit	19,152	18,863	(289)	(1.5)
Ordinary profit	20,350	20,308	(42)	(0.2)
Profit before Income Taxes	19,888	20,276	388	2.0
Profit attributable to owners of the parent	13,345	14,580	1,235	9.3

Due to the application of the "Accounting Standard for Revenue Recognition" (hereinafter "Revenue Recognition Standard"), etc., revenues and operating expenses decreased by ¥21.0 billion and ¥20.7 billion, respectively. For details, please refer to "Notes to the Consolidated Financial Statements 2. Notes to changes in accounting policies (2) Application of the Accounting Standard for Revenue Recognition, etc."

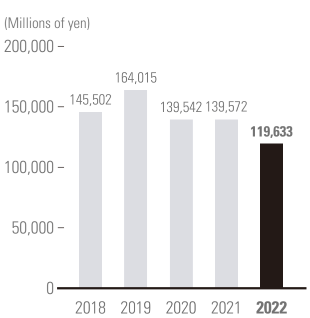
Financial Position

Total assets amounted to ¥378.2 billion, a decrease of ¥7.4 billion compared to the end of the previous consolidated fiscal year (hereafter, year on year).

With regard to current assets, despite a ¥4.2 billion decrease in accounts receivable–trade resulting from collection of receivables related to the X-Band business, current assets increased by ¥6.7 billion year on year, mainly due to a ¥12.7 billion increase in cash and cash equivalents.

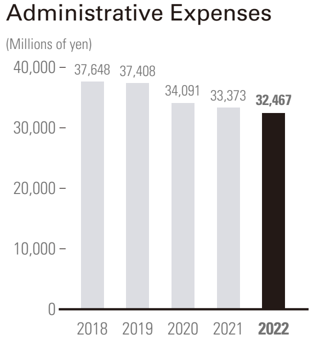
Property and equipment and software and goodwill decreased by ¥15.8 billion year on year, mainly because of depreciation and amortization equal to ¥22.2 billion and amortization of goodwill equal to ¥0.9 billion, despite the ¥7.5 billion increase due to capital expenditures.

Revenues

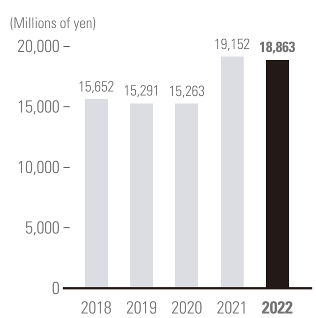


(Years ended March 31)

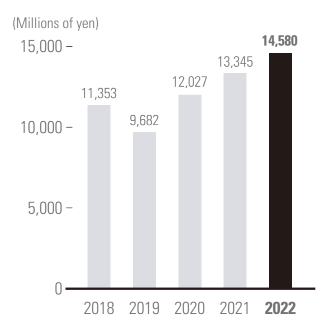
Selling, General, and Administrative Expenses



Operating Profit



Profit Attributable to Owners of the Parent



Investments and other assets increased ¥0.7 billion year on year, due to a ¥2.8 billion increase in investment securities and other factors.

Total liabilities came to ¥135.1 billion, down ¥15.2 billion year on year.

The main factors were a ¥5.6 billion decrease in interest-bearing debt due to repayment of loans related to the X-Band and Horizons 3e businesses, a ¥3.1 billion decrease in income taxes payable, and a ¥1.5 billion decrease in unearned revenues.

Total equity, including non-controlling interests, increased by ¥7.8 billion year on year to ¥243.1 billion.

This is mainly attributed to an increase in retained earnings of ¥9.2 billion due to the posting of profit attributable to owners of the parent, and the main decrease was due to a 3.0 billion yen repurchase of treasury shares. The equity ratio was 64.0%, up 3.2 percentage points year on year.

Liquidity and Capital Resources

Cash Flows

Cash flows from operating activities for the current consolidated fiscal year were ¥36.5 billion (versus ¥57.9 billion in the previous fiscal year), mainly due to profit before income taxes, depreciation and amortization of goodwill totaling ¥43.3 billion, and while there was a decrease in accounts receivable-trade and affiliated companies of ¥4.4 billion, there was ¥8.4 billion in in paid income taxes.

Cash flows from investing activities totaled ¥7.7 billion (versus ¥11.4 billion in the previous fiscal year), mainly due to purchase of Property and equipment and software and goodwill worth ¥8.4 billion, purchase of investment securities worth ¥3.1 billion, collection of loans receivable related to the Horizons 3e business worth ¥2.2 billion, and proceeds from sales of shares of affiliated companies worth ¥1.2 billion.

Cash flows from financing activities totaled ¥16.4 billion (versus ¥16.9 billion in the previous fiscal year), mainly owing to repayment of long-term loans payable worth ¥7.8 billion, purchase of treasury shares worth ¥3.0 billion, and dividends paid worth ¥5.3 billion.

As a result of the above, cash and cash equivalents as March 31,2022 amounted to ¥85.9 billion, up ¥12.7 billion year on year.

Capital Expenditure

In the fiscal year ended March 31, 2022, the Group made capital expenditures totaling ¥7.5 billion. The spending was allocated mainly to upgrading broadcasting and distribution facilities in the Media Business, and procuring communications satellites, etc., in the Space Business.

Finance

There was no new financing during the fiscal year ended March 31, 2022.

Performance Forecasts

In the Media Business, we expect subscription fee-related revenue to decline as the number of subscribers decreases due to competition with subscription-based or free online video distribution services, as well as intensified competition for sports-focused content. Given the environment, we will continue to reform our business structure to maintain and improve income and expenditures for our existing businesses while aggressively developing our distribution and FTTH businesses with an eye toward future growth.

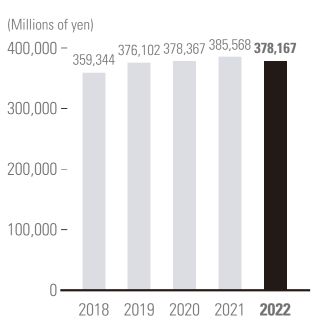
The total number of subscribers to the three SKY PerfecTV*!* services in fiscal 2022 is expected to be as shown in the table below.

(thousands)

	Net change		Total subscribers	
	IC card	Number of subscribers	IC card	Number of subscribers
FY2022 (target)*	(95)	(124)	2,913	2,271
FY2021	(94)	(118)	3,008	2,395

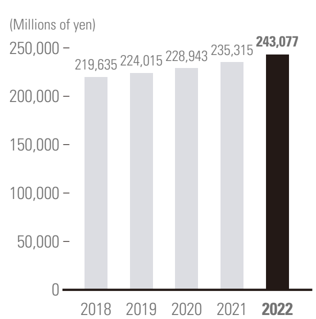
*As of March 2023

Total Assets

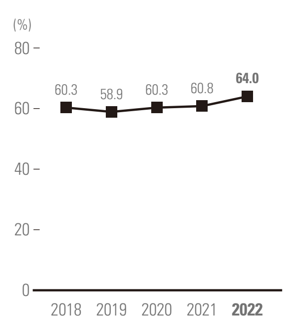


(Years ended March 31)

Total equity



Equity Ratio



The number of households receiving optical re-transmission service is expected to rise to 2,642 thousands (VS. 2,452 thousands in the previous fiscal year).

In the Space Business, as with the previous fiscal year, given that the spread of COVID-19 has not abated, the use of satellite connections for mobile communications is expected to be affected due to reduced flights and other factors. In this environment, we will continue to capture demand for satellite communications in the global market, particularly in growing markets with a focus on Asia. In addition, as part of our efforts in new domains, we have established a joint venture with Nippon Telegraph and Telephone Corporation that aims to commercialize a space integrated computing network. We are also working towards earnings growth in the business intelligence domain, which combines AI analysis with various geospatial information acquired from satellites.

Given the above, in terms of consolidated financial results for fiscal year 2022, we project revenues of ¥120 billion (up 0.3% year on year), operating profit of ¥21 billion (up 11.3% year on year), ordinary profit of ¥21.5 billion (up 5.9% year on year), and profit attributable to owners of the parent of ¥15 billion (up 2.9% year on year). For fiscal 2022, the annual dividend per share is projected to be ¥18.

(Note) The future performance and projections contained within the aforementioned future forecast are based on the Company management's determinations in light of the currently available information. Actual results may differ from the forecast figures due to a number of factors. If a change in circumstances necessitates revisions to the earnings forecast, we will promptly disclose these revisions.

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 15th term, in addition to the interim dividend of ¥9 per share issued with an effective date of December 3, 2021, the Board of Directors has resolved at a meeting on April 28, 2022, to pay a dividend of ¥9 per share as a year-end dividend. As a result, the annual dividend for the 15th 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 ongoing 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, vii) 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

The risks listed below are risk items that the Group has identified as significant risks for the fiscal year ended March 31, 2022, along with countermeasures to address them. The risks discussed here do not cover all of the risks faced by the Group. In addition, there may arise unknown risks that the Group is not aware of, or risks that may grow more significant in the future and have a serious impact on the Group's business, financial position, and operating results. Forward-looking statements in this document are based on the judgment of the Group as of the end of fiscal year.

[1] Risks Concerning Business Investments, etc.

To expand its business, the Group may consider mergers and acquisitions, investments in other companies, alliances with other companies, and the establishment of cooperative frameworks. If the Group determines that such actions will contribute to its future business strategies and operating results, it may execute said actions.

However, if we are unable to integrate the target businesses of an acquisition in line with the Group's management strategy, or if we are unable to achieve the synergy we expect, apply the Group's internal control system to the target businesses of an acquisition, or we discover significant problems after making the acquisition, including problems in technological fields in which the Group is not guaranteed to possess knowledge or expertise, the Group's financial situation and operating results may be adversely affected.

Moreover, acquisitions may result in large amounts of goodwill and intangible assets being recorded, which may be impaired if the profitability of the target businesses declines. Also, losses on the sale or liquidation of a business or other losses associated with business restructuring may adversely affect the Group's operating results and financial position.

To address these risks, the Company has established rules and regulations pertaining to investments, and it holds discussions and makes decisions on financing and investments after taking into consideration business plans, the internal rate of return, withdrawal criteria, and other risks. Furthermore, when it comes to major investment proposals, the Company has a system of multiple checks and careful examinations from multiple perspectives. This includes departmental meetings; discussions at meetings of the Management Committee, an advisory body to the Representative Director, President; and resolutions at meetings of the Board of Directors.

To establish and execute appropriate internal control, we also dispatch personnel to the companies in which we invest and require them to comply with the rules and regulations established by the Group for proper management. When making investment decisions, we establish milestones and conduct reviews when appropriate. In addition, after deciding to invest, we review the financial condition, policies, profitability, capital cost, ownership significance, investment appropriateness, and other factors for each investment target, and we report the results to the Board of Directors.

That being said, even if the currently envisioned measures are implemented, it is impossible to completely prevent losses in the businesses we acquire or impairment of investment securities or goodwill that result from changes in the market and competitive environment or inadequate business management after investments or acquisitions have been made. Thus, there is no guarantee that we can secure profits that are commensurate with our investments.

Also, the occurrence of compliance-related issues at the companies in which we have invested could damage the Group's social credibility.

[2] Risks Concerning Legal Business Regulations

In conducting its business activities, the Group is subject to legal regulations in Japan, including the Broadcasting Act, the Telecommunications Business Act, the Radio Act, the Antimonopoly Act, the Act on the Protection of Personal Information, environmental laws and regulations, and the Act for Normalization of Grants, etc. We are also subject to the legal regulations of each country where we operate. Violations of these laws and regulations, or behavior contrary to societal demands, may result in legal penalties, lawsuits, social sanctions, orders to suspend business, or loss of trust from customers and other stakeholders, which may adversely affect the Group's business and operating results.

Furthermore, if new laws or regulations are enacted that change the current system that applies to satellite broadcasting in Japan and to the launch, operation, and commercial use of communications satellites in Japan and overseas, or if revisions are made that are detrimental to the Group's business activities, our business operations may be restricted, which could adversely affect its business and operating results.

To address the above risks, we have established the SKY Perfect JSAT Group Compliance Basic Regulations and the Group Officer and Employee Code of Conduct, based on the "SKY Perfect JSAT Group Mission" and the "SKY Perfect JSAT Principles," and we require Board Directors and employees to comply with all laws and regulations.

The Group has also appointed a Chief Compliance Officer and established a Compliance Committee chaired by the Chief Compliance Officer that meets on a regular basis.

In addition, to ensure that compliance is firmly established throughout the Company, the Company provides education and training to Board Directors and employees and utilizes a service that disseminates information about the enactment and revision of new laws and regulations as required to ensure compliance with said laws and regulations.

To provide a system that allows for prompt reports and consultations with internal and external points of contact in the event that any suspected violation of laws or regulations is discovered in the Group's business activities or in the conduct of Board Directors or employees, a "Compliance Helpline" has been established and is operated in an appropriate manner. Our Internal Audit Division regularly audits

Management's Discussion and Analysis

the status of compliance of the Group, including the status of the aforementioned countermeasures.

Moreover, with regard to the enactment or revision of laws and regulations that alter existing systems in Japan and overseas, we constantly monitor the inclinations of relevant authorities and take measures to mitigate risks by expressing our views as required and making advance preparations for systemic changes.

However, despite strengthening our legal compliance system and monitoring, there is a chance that we may not be able to completely eliminate the possibility of legal violations, or that we may not be able to take appropriate action due to delays in obtaining information on the enactment or revision of new laws and regulations in Japan or overseas, which could adversely affect our business operations.

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

The Group retains customer information, including subscriber information for the services it provides, in its Media Business, and important information, including technical information, in its Space Business. If this information is leaked due to a system failure resulting from a hardware/software malfunction, human error, or unauthorized access by a third party, or if personal information is improperly handled, the Group's business and operating results may be adversely affected due to loss of public trust, compensation for damages, or other costs incurred while handling the situation.

In the event of a large-scale cyberattack, not only could this information be leaked, but the operation of broadcasting/distribution services as well as satellite communications services could also be disrupted.

To address the above risks, the Group has obtained ISMS (Information Security Management System) certification and the Privacy Mark, and has established an information security and personal information protection management system to carry out strict information management. As part of these activities, the Personal Information Management Committee and Information Security Management Committee have been established to monitor the status of information security management within the Group.

Further, the Computer Security Incident Response Team (CSIRT) has been established as an organization responsible for responding to security incidents, and training has been conducted as well. In terms of system measures, we utilize encrypted servers when storing personal information and important business information; intrusion prevention systems and anti-virus software to prevent infections; system logging; and the detection of vulnerabilities through security diagnostics, among other measures.

Additionally, in response to the diversification of cyberattack methods and the increase in cybersecurity risks due to the promotion of DX (Digital Transformation) and other factors, we have appointed a Chief Information Security Officer (CISO) and are working on the implementation and enhancement of cybersecurity measures.

We have also established a remote work system to help prevent the spread of COVID-19, and we are conducting security assessments of remote access systems and tools.

However, even if all of these measures are implemented, information leaks or service disruptions could occur due to unforeseen situations that overwhelm these measures, such as advanced cyberattacks utilizing new technologies.

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

As a corporate group that provides highly public services in broadcasting and telecommunications, the Group owns broadcasting facilities and satellite control and communication facilities in Japan. In the event of a large-scale disaster, accident, or pandemic such as COVID-19, there is a chance that it may be difficult to continue business operations due to damage sustained by facilities and equipment, facility closures, or voluntary suspension of activities.

There is also the risk that it may be impossible to secure the employees required to continue operations due to employees being affected by the disaster, public transportation being suspended, and so on.

To address these risks, we have established and are operating a business continuity plan that lays out how each of our businesses will continue its operations and includes a personnel plan and other emergency systems. In addition, we have also taken the initiative to establish a business continuity system as a way to continue business operations in the event of the spread of infectious diseases such as COVID-19.

With regard to the business continuity system to address the spread of infectious diseases such as COVID-19, along with the establishment of remote work, we have created a system for enabling operations to be carried out while ensuring the safety of employees by setting up a work schedule in accordance with how infections are spreading, based on requests from the national government and Tokyo.

Sites that handle continuous operations are equipped with seismic control or isolation structures and have emergency power generation capabilities and emergency food stockpiles. In particular, satellite communications control facilities, which are expected to be used more than usual in the event of a disaster, are equipped with uninterruptible power supplies and designed such that even if one facility is shut down, services can be provided by other facilities to avoid serious disruptions to operations. We are also continuing to study and devise and formulate countermeasures to deal with threats such as hurricanes and strong winds and torrential rains that have been occurring frequently in recent years due to climate change and other factors.

Still, because not all of our services have full backup facilities, in the event of a large-scale disaster that cannot be fully handled via the countermeasures currently envisioned, there is the risk of long-term suspension of broadcasting, distribution, and communication services, as well as a risk of being unable to secure fuel and personnel at bases due to prolonged disruptions in transportation and other services. Such a situation could have a negative impact on the Group's business and operating results.

Risks Related to Satellite Infrastructure

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

The recent development and low cost of terrestrial channels and new communication networks in the 5th Generation Mobile Communication System (5G) era mean that communications satellites do not enjoy the same advantage as before. At the same time, the global supply of transponders has been increasing year by year. Moreover, other satellite operators are pushing ahead with plans to launch multiple HTS, so the challenge becomes figuring out how to maintain profitability if unit bandwidth and unit service prices continue their downward trend.

In addition, with the development of next-generation satellite communications using microsatellites and low earth orbit satellites, there is a growing risk that the Group's revenues in the Space Business will decline if it continues to operate based on the conventional business model.

To address the above risks, we are focusing on seizing demand in an increasingly competitive market by continuing to procure and launch satellites that incorporate advanced technologies, such as HTS and fully digital satellites. In particular, in recent years, the Company has responded to the growing demand for mobile satellite communications for aircraft and ships in the Asia-Pacific region by providing services via two HTS: Horizons 3e, a satellite jointly owned with Intelsat, and JCSAT-1, Japan's first private-sector communications satellite that is partially owned along with Kacific. The Company has been steadily increasing its revenues. For these jointly and partially owned satellites, we also share some costs with our partners to achieve procurement and operation in an efficient manner.

In March 2021, we signed a contract for the procurement of a new satellite, Superbird-9, which will be outfitted with fully digitized communications equipment as the successor to Superbird-C2. We plan to launch high-capacity, highly flexible communications services in Japan and other East Asian countries in fiscal 2025.

While the demand for mobile communications, including broadband for aircraft and so on, has been on a sharp decline due to the impact of the COVID-19 pandemic, we are taking measures to address this, such as by conducting sales activities based on an analysis of market trends.

Besides our conventional business model, with regard to new communication networks in the 5G era, we are continuing to consider developing businesses other than our geostationary orbiting satellite business, such as the introduction of high-altitude platform stations (HAPS) and low earth orbit satellites.

Yet even if the currently envisioned measures are implemented, demand may decline due to rapid changes in the market environment caused by the emergence of new satellite operators offering next-generation satellite communications services that utilize low earth orbit satellites or other solutions, or due to the prolonged spread of infectious diseases.

[6] Risks Concerning Communications Satellite Procurement

When procuring communications satellites, there is a risk of manufacturing delays and launch delays, failures, and so on. If the scheduled start of operations for a communications satellite is delayed for any of these reasons, which results in continuous services unable to be provided for a certain period, there is a chance that earnings may decline and users may leave during that period.

Further, we may incur unplanned expenditures due to the design or other factors during the communications satellite manufacturing period.

To mitigate the aforementioned risks, when creating procurement schedules, we take measures to prepare for potential launch failures, including fleet backup measures using backup satellites and existing satellites, as well as placing advance orders for long lead items for replacement satellites, to ensure the early delivery of replacement satellites.

Regarding payments, we are striving to reduce risk by making milestone payments based on progress made and securing the right to claim a certain amount of compensation in the event of delivery delays. With regard to insurance policies, we have insurance policies in place for both launch and in-orbit operations.

The launch risk insurance covers the cost of re-procurement and repair of communications satellites in the event of complete or partial damage during the initial phase of operations, and it is generally valid for one year from the time of launch.

However, even if the currently envisioned measures are implemented, there are potential risks, including the risk that the manufacture and launch of successor satellites may be delayed due to supply chain issues or unforeseen accidents; the risk that the degree and cause of damage to a satellite or other factors may prevent the launch risk insurance from covering the full cost of the launch; the risk of increased premiums due to fluctuations in the space insurance market environment; and the risk of not being covered by property insurance in the event of war or other absolute exemptions from coverage obligations.

[7] Risks Concerning Communications Satellite Operations

Communication satellites owned by the Group are used for a relatively long time period of 15 to 20 years. During this operational period, there is the possibility that the satellite may malfunction or that its operational capabilities may be degraded due to manufacturing defects, defective parts, magnetic storms caused by solar activity, collisions with debris or meteorites, excessive fuel consumption, satellite control-related or operation-related failures, or other factors. If such events were to occur, we might experience a decline in revenue due to the inability to provide services, an outflow of customers, or costs associated with shifting customers to another satellite owned by the Group, any of which could have a negative impact on our earnings.

To address the above risks, we have an in-orbit insurance policy in place for each launched communications satellite that takes effect after the launch insurance period has elapsed. However, this insurance does not cover third-party liability, loss of revenue, or other business damages that the Group may incur due to technical malfunctions of the communications satellite.

The Group currently has a spare communications satellite in orbit and is prepared to provide backup as quickly as possible in the event that a satellite in operation malfunctions.

However, even if the currently envisioned measures are implemented, there is still the risk of earnings decreasing due to the inability to provide replacement functions via a backup satellite owing to unforeseen circumstances; the risk of not being covered by in-orbit insurance due to the application of an exemption clause depending on the factors causing the communications satellite to malfunction; the risk of premiums rising due to changes in the space insurance market environment; and the risk of warfare.

Risks Related to Multichannel Pay TV Broadcasting Platform Services

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

The acquisition and retention of subscribers is an important factor in the Group's earnings growth. As of March 31, 2022, we had 3,008,000 subscribers, but there is no guarantee that the number of subscribers will grow according to the Group's plans going forward. In addition, despite our efforts to differentiate our content, enhance promotions, and implement various marketing measures such as campaigns, if the number of subscriptions continues to decline or sharply decreases in the future due to intensified competition with competing services or changes in user viewing habits due to developments such as the penetration of video distribution services offering similar content online, there is no guarantee that the number of subscribers will grow as planned in the future, and the Group's business and operating results will be adversely affected.

Moreover, if the appeal of the Group's services declines due to the Group's inability to acquire leading content as a result of intensified competition or other factors, thus resulting in a greater than expected number of cancellations by existing subscribers, the cumulative number of subscribers will decrease, and the profitability of the multichannel pay TV business will decline due to soaring broadcasting rights fees. This could have a negative impact on the Group's business and operating results.

To address the above risks, we have prepared and are implementing a mid-term business structure reform policy based on business income and expenditures so that we can secure a certain level of profit even in situations where the number of subscribers in our multichannel pay TV business, especially our premium services, declines. In response to soaring broadcasting rights fees, the Company has established a content acquisition policy that clearly prioritizes content that contributes to subscriber acquisition and retention, and it conducts after-the-fact reviews of the cost-effectiveness of this content. Furthermore, through appropriate collaborations and alliances with other companies in the industry that provide paid content, the Company will strengthen its marketing capabilities and increase the efficiency of its overall business. At the same time, to increase earnings in the FTTH business, the Company is implementing measures to increase earnings outside its multichannel pay TV business by expanding its coverage area, enhancing its services and sales structure, and making effective use of Tokyo Media Center facilities, among other things.

However, we recognize that there is more risk than before due to the accelerated rise of online video distribution services, so we have decided to launch "SKY PerfecTV*!* BANGUMI HAISHIN (a free distribution service)" for our multichannel pay TV business subscribers along with our new original video distribution service, "SPOOX." Still, we still expect to risk further decreases in profitability if the number of subscribers declines due to increasingly fierce competition or if broadcasting rights fees and distribution rights fees rise more than expected.

In addition, with the outlook for the end of COVID-19 uncertain, the fiscal year has been affected by the cancellation, postponement, or reduction of sports events, concerts, and other events. Should the spread of infectious diseases be prolonged in the future, this could further reduce profitability, such as by decreasing the number of subscribers and subscription revenue from channels that carry such programs.

[9] Risks Concerning Illegal Viewing

The Group's multichannel pay TV broadcasting service, SKY PerfecTV*!*, uses IC cards/chips referred to as B-CAS cards/ACAS chips. With regard to B-CAS cards, a vendor of modified B-CAS cards that allow users to illegally view pay TV broadcasts has been arrested. In addition, there have been cases of injunctions to prevent the sale of illegal devices exclusively for online distribution on major e-commerce sites, on the grounds that such sales constitute an act of aiding and abetting infringement of public transmission rights and the right to make transmittable. Illegal viewing using modified B-CAS cards and illegal devices exclusively for online distribution may have a significant negative impact on the healthy dissemination and expansion of multi-channel pay TV broadcasting as a whole, as well as the Group's business and operating results.

Also, while the Group's multichannel pay TV broadcasting services, which include SKY PerfecTV! Premium and SKY PerfecTV! Premium Hikari, use IC cards that differ from B-CAS cards, similar unauthorized viewing could have a negative impact on the Group's business and operating results.

To mitigate the above risks, we have been actively involved in the development of ACAS chips for the launch of 4K/8K broadcasts. ACAS chips have enhanced security functions and are also compatible with 2K broadcasts, allowing SKY PerfecTV! Service to be viewed on 4K TVs equipped with the ACAS chip just like before. As 4K TVs gain more widespread adoption in the future, B-CAS cards will be replaced by ACAS chips, and this is expected to reduce risk to a certain extent. In the event that unauthorized viewing via B-CAS cards is discovered, the Group's policy is to take all possible measures to deal with the situation in a serious manner, including claims for damages and other legal action, in cooperation with other pay TV operators and BS Conditional Access Systems, Co., Ltd. which owns the B-CAS cards. We will continue to file both criminal and civil lawsuits and publicize the illegality in our public relations going forward. In addition to continued efforts to look into more effective technical measures, we will enhance our cooperation with relevant ministries and agencies so that legal action can be taken against unauthorized viewers who use unauthorized viewing devices.

But if ACAS chips are not adopted as widely as expected, or if the above measures are not an effective deterrent, there is a chance that unauthorized viewing using modified B-CAS cards will continue to occur over a lengthy period of time. In addition, there has recently been an influx of illegal devices from overseas dedicated to online distribution that enable unauthorized viewing via the internet, and it is possible that unauthorized viewing will increase due to these devices. The Japan Satellite Broadcasting Association (JSBA), which has successfully obtained injunctions against the sale of illegal viewing devices to major e-commerce sites, has taken the lead in establishing the Council Against Illegal Streaming Devices, with the participation of broadcasters and related organizations. The Group is actively involved with the activities of this council and working to prevent the distribution of illegal dedicated online streaming devices. In the event that new technologies or devices that enable dedicated online streaming devices or unauthorized viewing emerge, and the Group is unable to implement effective countermeasures against them or is forced to spend a large amount of money to implement such countermeasures, the Group's business and operating results may be adversely affected.

[10] Risks Concerning the Customer Management System

The Group uses a large-scale client management system to manage various types of customer and contract information related to its multichannel paid services, including new subscriptions, channel changes, cancellation processing, billing, and invoicing. This system plays a key role in Media Business operations and revenue management.

In the event that this system experiences a major system failure, or if errors occur in program modifications and so on due to system configuration or specification changes, services such as subscription registration may be suspended, business operations could be hindered due to issues with various transactions and procedures with broadcasters, our social reputation could be damaged, and unforeseen costs required to resolve problems and respond to customers could be incurred. The Group's business and operating results may be adversely affected as well.

In addition, improper data entry or falsification of records could undermine the reliability of revenues, which form the basis of business performance, and adversely affect business operations and operating results.

To address the aforementioned risks, the client management system is installed in a seismically isolated facility to prevent serious system failures, and each piece of equipment and device has redundancies built in. Further, applications, data, and other information are regularly backed up to servers in remote locations. The Group has also taken measures to prevent system configuration flaws, including meticulous operational management through the preparation of configuration manuals and so on, internal procedures for program modifications, and periodic inventory checks of system access privileges.

That being said, even if the aforementioned measures are implemented, there is still the risk of human error and unexpected failures due to inadequacies in the requirement definitions and such during system maintenance.