

8/27



03029612

82- SUBMISSIONS FACING SHEET

Follow-Up  
Materials

MICROFICHE CONTROL LABEL



REGISTRANT'S NAME

JSAT Corporation

\*CURRENT ADDRESS

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\*\*FORMER NAME

\_\_\_\_\_

\*\*NEW ADDRESS

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

PROCESSED  
SEP 04 2003  
THOMSON  
FINANCIAL

FILE NO. 82- 5111

FISCAL YEAR 3-31-03

o Complete for initial submissions only \*\* Please note name and address changes

INDICATE FORM TYPE TO BE USED FOR WORKLOAD ENTRY:

12G3-2B (INITIAL FILING)

AR/S (ANNUAL REPORT)

12G32BR (REINSTATEMENT)

SUPPL (OTHER)

DEF 14A (PROXY)

OICF/BY:

dlw

DATE:

8/28/03

JSAT Corporation

Annual Report 2003

Year Ended March 31, 2003

AR/S  
3-31-03 09:53:47 7:21

XPANDING HORIZONS

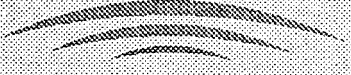


## Profile

JSAT Corporation is the Asia-Pacific region's largest satellite communications provider, currently operating a fleet of eight satellites positioned in seven geostationary orbits. Since its founding in 1985, JSAT has maintained steady growth by providing a range of services that exploit the unique strengths of satellites in both telecommunications and broadcasting. These include telecommunications business services, telecommunications carrier services and satellite broadcasting services, the latter of which includes Japan's first digital direct-to-home (DTH) service—on the SKY PerfectTV! platform—and new broadcasting services using JCSAT-110.

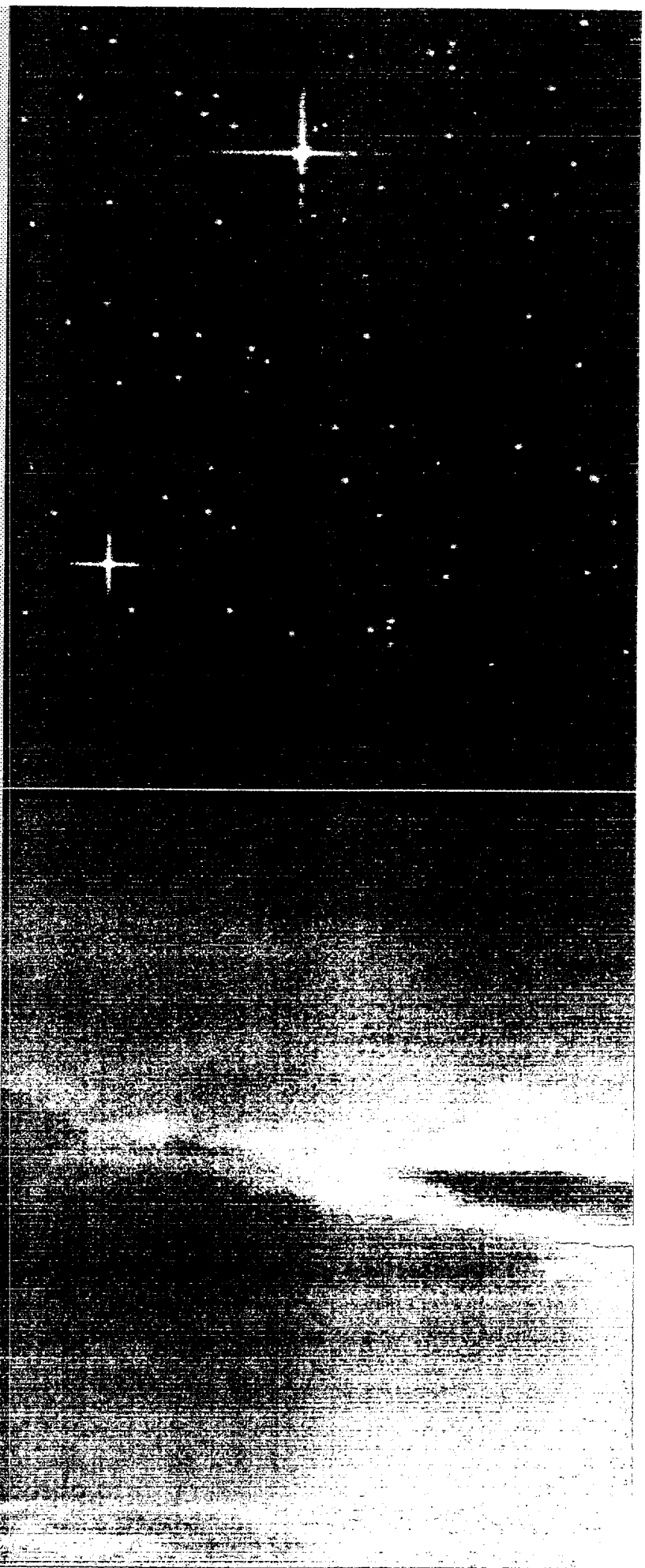
Under the corporate slogan, "JSAT, Expanding Horizons," and with a new management team at the helm, JSAT is entering the next stage of growth as both a global operator and application service provider, offering total satellite-based solutions to an ever broader range of customers in the global satellite market.

### **JSAT** **Expanding Horizons**



#### CONTENTS

|   |    |
|---|----|
| JSAT at a Glance                          | 2  |
| Consolidated Financial Highlights         | 3  |
| Letter from the Outgoing CEO              | 4  |
| Message from the Management               | 5  |
| Corporate Governance:                     |    |
| Fundamental Policy and Its Implementation | 8  |
| Management                                | 9  |
| Frequently Asked Questions                | 10 |
| Financial Section                         | 14 |
| Satellite Fleet                           | 53 |
| Corporate Data                            | 55 |
| Stock Information                         | 56 |



*Largest satellite operator in  
the Asia-Pacific region*

*Eight satellites positioned in  
seven geostationary orbits*

*Ninth satellite, which will cover  
North America, to be launched soon*

**Entering the next stage of growth under a new management team**

*10.6% growth in revenues compared  
with the previous period*

*20% growth in cash dividends compared  
with the previous period*

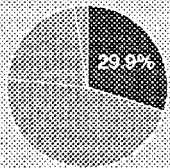


# JSAT at a Glance

## Telecommunications Business Services

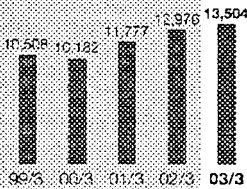
This service category includes the provision of full-time and occasional satellite transponder capacity to both domestic and overseas companies, government agencies, educational institutions and other customers, primarily for their internal telecommunications networks.

Sales in Japan, FY2002



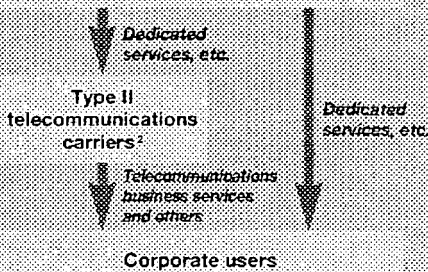
¥13,504 million

Change in Sales



Significant Events in Fiscal 2002

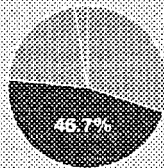
- Increase in revenue contribution made by Satellite Network, Inc. (SNET), reflecting its first full year of consolidation
- Higher demand for system-based applications, which more than compensated for bandwidth usage reductions by some customers
- Increase in transponder bandwidth usage by some customers, for example, for the transmission of video data
- Addition of new customers using transponders on JCSAT-2A and JCSAT-3 for international services



## Satellite Broadcasting Services

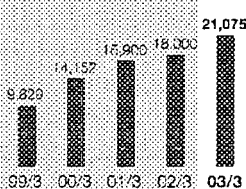
This service category mainly includes the provision of multichannel digital broadcasting services to broadcasters using the SKY PerfectV<sup>1</sup> and SKY PerfectV<sup>2</sup> platforms.

Sales in Japan, FY2002



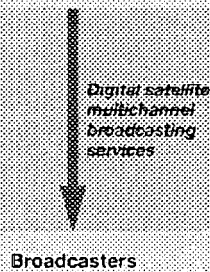
¥21,075 million

Change in Sales



Significant Events in Fiscal 2002

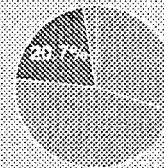
- Increase in revenues due to the commencement of DTH services using JCSAT-110
- Growth in revenues derived from broadcasters on the SKY PerfectV<sup>1</sup> platform, reflecting the final increase in the four-year step tariff for JCSAT-4A
- Addition of channels by some broadcasters



## Telecommunications Carrier Services

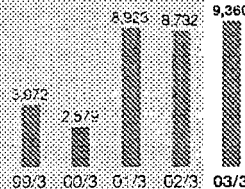
This service category includes the provision of transponder capacity to NTT Group companies as part of, or as alternative routing for, their telecommunications networks.

Sales in Japan, FY2002



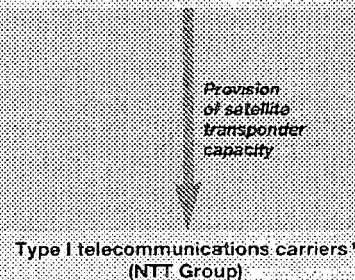
¥9,360 million

Change in Sales



Significant Events in Fiscal 2002

- Expansion of services provided to the NTT Group from the second quarter, following JSAT's acquisition of additional interests in the N-STARa and N-STARb satellites, further reinforcing the Company's steady revenue stream in this service area
- Growth in revenues of 7.2%



### Other:

Other revenues are mainly derived from the provision of satellite control services and the sale of equipment. In fiscal 2002, other revenues totaled ¥1,181 million, representing 2.7% of total revenues.

Notes: 1. Type I telecommunications carriers provide telecommunications services utilizing circuits and other infrastructure, including satellite and telephone systems, owned and operated by the company itself.  
 2. Type II telecommunications carriers resell and provide telecommunications services utilizing circuits and other infrastructure owned by Type I telecommunications carriers.



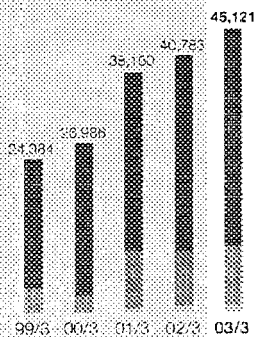
# Consolidated Financial Highlights

ISAT Corporation and Subsidiaries  
Years Ended March 31, 2001, 2002 and 2003

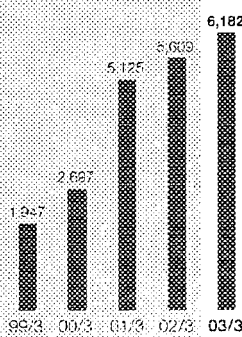
|   | Millions of Yen, Except Per Share Amounts |            |            | Percentage Change | Thousands of U.S. Dollars, Except Per Share Amounts |
|---|---|------------|------------|-------------------|---|
|   | 2001                                      | 2002       | 2003       | 2003/2002         | 2003  |
| <b>For the year</b>                               |   |            |            |                   |   |
| Revenues:   | ¥ 38,160                                  | ¥ 40,783   | ¥ 45,121   | +10.6%            | \$ 382,383  |
| Telecommunications business services              | 11,777                                    | 12,976     | 13,504     | +4.1              | 114,445   |
| Satellite broadcasting services                   | 16,900                                    | 18,000     | 21,075     | +17.1             | 178,600   |
| Telecommunications carrier services               | 8,923                                     | 8,732      | 9,360      | +7.2              | 79,326  |
| Other   | 560                                       | 1,074      | 1,181      | +10.0             | 10,012  |
| Operating income                                  | 11,171                                    | 11,325     | 11,779     | +4.0              | 99,819  |
| Income before income taxes and minority interests | 9,695                                     | 9,994      | 11,110     | +11.2             | 94,151  |
| Net income  | 5,125                                     | 5,609      | 6,182      | +10.2             | 52,393  |
| Net cash provided by operating activities         | 22,728                                    | 19,930     | 25,867     | +29.8             | 219,213   |
| Capital expenditures                              | 15,791                                    | 12,428     | 18,891     | +52.0             | 156,202   |
| EBITDA <sup>2</sup>                               | 27,024                                    | 27,963     | 28,692     | +2.6              | 243,152   |
| Depreciation and amortization                     | 15,420                                    | 16,476     | 16,698     | +1.3              | 141,506   |
| EBITDA margin <sup>3</sup> (%)                    | 70.8%                                     | 68.6%      | 63.6%      | -5.0 <sup>4</sup> |   |
| Return on equity (ROE) (%)                        | 6.8%                                      | 5.8%       | 6.5%       | +0.7 <sup>4</sup> |   |
| <b>Per share data:</b>                            |   |            |            |                   |   |
| Earnings per share—basic <sup>5</sup>             | ¥13,936.64                                | ¥14,638.58 | ¥16,248.95 | +11.0%            | \$ 137.70   |
| —diluted  | 13,935.31                                 | 14,638.58  | 15,175.46  | +3.7              | 128.61  |
| <b>At year-end</b>                                |   |            |            |                   |   |
| Total shareholders' equity                        | ¥ 95,884                                  | ¥ 96,907   | ¥ 93,207   | -3.8%             | \$ 789,887  |
| Total assets                                      | 169,640                                   | 163,432    | 169,230    | +3.5              | 1,434,149   |
| Number of employees <sup>6</sup>                  | 174                                       | 251        | 262        |                   |   |

- Notes: 1. U.S. dollar amounts have been translated from Japanese yen, for convenience only, at the rate of ¥116=U.S.\$1, the approximate rate of exchange on March 31, 2003.  
 2. EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) represents the total of net income, interest, tax, depreciation and amortization.  
 3. The EBITDA margin is the ratio of EBITDA to revenues.  
 4. These figures are percentage point changes.  
 5. Basic earnings per share (EPS) are calculated based on the weighted average number of shares outstanding during each year, which were 367,244, 383,154 and 380,476 shares for the years ended March 31, 2001, 2002 and 2003, respectively.  
 6. The number of employees includes staff seconded to other companies, but is exclusive of part-time staff. The number comprises 206 ISAT employees and 56 SNET employees as of March 31, 2003. For the year ended March 31, 2001, number of employees is given on a non-consolidated basis.

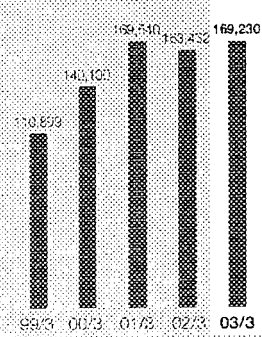
**Revenue Composition**  
(Millions of yen)



**Net Income**  
(Millions of yen)



**Total Assets**  
(Millions of yen)



■ Telecommunications carrier services  
 ■ Satellite broadcasting services  
 ■ Telecommunications business services  
 ■ Other

*To all JSAT's shareholders, customers, partners and employees*

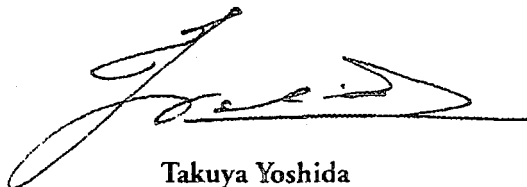
*First of all, I wish to express my sincere gratitude to all JSAT's shareholders and customers, as well as the many other people whom I have had the pleasure of meeting and working with over the last seven years. In June 2003, I stepped down as CEO of JSAT. The new President & CEO, Mr. Kiyoshi Isozaki, brings a wealth of experience in technical and sales areas—gained during his time with the NTT Group—and outstanding personal qualities to the position. He certainly meets the high expectations I held for my successor, allowing me to pass the baton with absolute confidence.*

*When I became President seven years ago, JSAT was still a relatively small regional satellite operator, having just placed an order to procure its third satellite. One of the Company's most significant early achievements was its success in securing an agreement with the former Japan Sky Broadcasting Co., Ltd. (JSkyB). That service later evolved into SKY PerfecTV!, which has acted as an important springboard for JSAT ever since. Three years later, I declared JSAT's intention to develop its relationship with the NTT Group—from being its biggest customer to being its best partner. Since that time, we have expanded our relationship to encompass NTT's major operating companies. The implementation of these and other strategies led to steady revenue growth and paved the way to JSAT's listing on the Tokyo Stock Exchange in August 2000. This marked a turning point in the Company's history, emphasizing the level of autonomy JSAT had achieved. As indicated by the corporate slogan, "JSAT, Expanding Horizons," JSAT is now aiming to become a global service provider, while raising its technical capabilities and developing new business fields.*

*JSAT has consistently achieved increases in both revenues and income. This is the proud result of the combined efforts of all the Company's management and staff.*


*The operating environment faced by JSAT, together with all participants in the global satellite industry, is uncertain. In my opinion, it will continue to be characterized by fierce competition and ongoing consolidations and realignments. However, in an era of digital telecommunications and broadcasting, the role played by satellites is becoming ever more vital. JSAT is well positioned to play a leading role. As the future envisaged during my tenure as CEO steadily begins to take shape, I believe JSAT will continue to grow and become an even bigger and better company. I hope you will all continue to support its efforts.*

July 2003



Takuya Yoshida

Senior Executive Advisor to President



In fiscal 2002, ended March 31, 2003, JSAT achieved remarkable operating results and made significant progress in a variety of strategic areas. This marked eight consecutive periods of revenue growth and six consecutive periods of growth in income. Although the macro environment introduced many uncertainties, these were balanced by several positive developments and important milestones for JSAT. These included the commencement of the new digital direct-to-home (DTH) services using JCSAT-110, the establishment of Japan CableCast Inc. and the launch of "SAO," which is the Company's new very small aperture terminal (VSAT) service. JSAT's management, too, underwent a "changing of the guard," part of which included my appointment to the role of President & CEO. My mission is to further enhance the measures implemented to this point under the corporate slogan, "JSAT, Expanding Horizons," and deliver substantial results. I wish to take this opportunity, on behalf of everyone at JSAT, to offer my sincerest gratitude to Mr. Takuya Yoshida, JSAT's former CEO, and the other retiring members of the Board of Directors for their hard work and dedication over many years in steering JSAT to the strong position in which it stands today.

#### Operating Results for Fiscal 2002

Consolidated revenues for fiscal 2002 rose 10.6% to ¥45,121 million. This mainly reflected the contribution of DTH services using JCSAT-110, higher revenues from the provision of additional transponder capacity to the NTT Group, and SNET's first full year of consolidation.

Operating income increased 4.0% to ¥14,779 million, and net income grew 10.2% to ¥6,182 million. The annual cash dividend applicable to the period, approved by the General Meeting of Shareholders held on June 26, 2003, was increased to ¥6,000 per share.



**Kiyoshi Isozaki**  
President & CEO



During the year, to facilitate the execution of a flexible equity strategy that responds to changing operating and market conditions we carried out a purchase of treasury stock in accordance with the stock repurchase plan approved by the General Meeting of Shareholders held on June 26, 2002. As of March 31, 2003, the Company had repurchased 4,749 JSAT shares at an approximate cost of ¥2,300 million. The General Meeting of Shareholders held on June 26, 2003, passed a resolution to expand the stock repurchase plan to an upper limit of 45,000 shares (equivalent to 11.74% of JSAT's outstanding shares) at a maximum cost of ¥22,500 million.

#### Realizing Our Medium-Term Vision for Further Development

Looking back on JSAT's history to this point, the period from the Company's establishment to its listing on the Tokyo Stock Exchange in 2000 could be called the first stage of development. The period from its listing to the fiscal year under review, which saw JSAT's largest ever increase in consolidated revenues and net income, could be called the Company's second stage of development. The fiscal year ending March 31, 2004, marks the start of the Company's third stage of development, during which we aim to achieve further significant advances. As competition with terrestrial telecommunications networks intensifies and industry consolidation gathers pace, we intend to further bolster our strong business performance and clearly articulate and implement a medium-term vision for JSAT's further development.

JSAT is transforming itself from being a conventional transponder supplier to being a "value-added application service provider," including the provision of integrated satellite-based solutions for digital content distribution. To reach this goal, we will implement the following strategies.

#### *Vertical expansion as a value-added solution provider*

1. Identify the needs of potential customers and provide total network solutions based around satellite technology, but also in combination with terrestrial networks. Specifically, we will work with the NCT Group and others to exploit terrestrial broadband and IP networks to provide services centered on JSAT's satellite network.
2. Strengthen and concentrate the capabilities of the JSAT Group for optimum efficiency, enhancing our ability to serve customers both domestically and overseas and provide value-added solutions. By properly understanding each customer's business, JSAT will be able to propose and provide the most suitable value-added system solutions based on satellite services.
3. To develop integrated solutions for digital content distribution, we will consider options that involve working with partners from other industries. To develop the ground facilities necessary for such operations, we will also expand the Yokohama Satellite Control Center (YSCC) to become a teleport and network operations center. This will include platform functions for the JC-HITS service, uplink functions and value-added functions to make the YSCC a hub for both international and domestic networks.

#### *Horizontal expansion as a global satellite operator*

1. Build the optimum satellite fleet focused on future needs. To achieve this goal, we will pursue strategic alliances with suitable domestic and overseas partners as well as mergers and acquisitions.
2. To enhance our position as the top regional satellite operator in Japan and the rest of Asia, we will pursue a global expansion strategy. Currently, we have an alliance with PanAmSat Corporation to provide satellite services for the North American market, as well as a joint sales agreement for the Asia-Pacific market. We also have a wide range of alliances with other

operators, including SES Group, for joint development of future new services. We will continue to select the best partners on a regional or service-focused basis to expand our service coverage area.

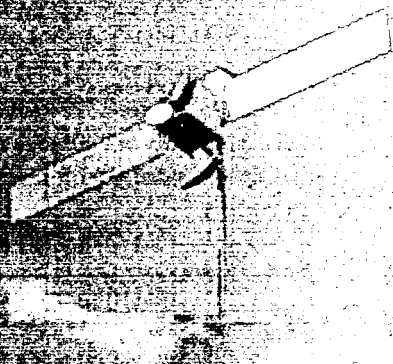
3. Develop businesses beyond conventional fixed position telecommunications by providing various services for ships, aircraft and land-based mobile objects.

In aiming to realize a vision of further medium-term development, we will pioneer new business spheres not limited to the conventional business model, with the whole company working together to create added value. In this way, we will be able to implement speedily and resolutely the key strategies mentioned previously. JSAT has gained both tangible and intangible assets cultivated through its growth up to now and a high level of trust earned through its business performance. We will utilize these to the fullest extent possible to create a business model for further medium-term development. Through our continuing efforts to realize these goals, JSAT will develop as a global solution provider, thereby further raising our corporate value for shareholders, customers and employees. On behalf of the Board of Directors and everyone at JSAT, I look forward to your ongoing support.

July 2003



**Kiyoshi Isozaki**  
President & CEO





## Corporate Governance: Fundamental Policy and Its Implementation

**A**s an integral part of JSAT's drive to continually enhance its corporate value within a globally competitive environment, management has made the strengthening of corporate governance structures one of its highest priority tasks. In line with this objective, the Company is developing and implementing a range of policies on an ongoing basis.

During fiscal 2000, JSAT introduced an executive officer system and established a Compensation Committee. During fiscal 2002, the Company set up a Management Committee and established a Nominations Committee. These measures were part of a comprehensive overhaul of management systems at JSAT, designed with the twin aims of: clearly delineating the authority and responsibilities of executive management vis-à-vis the supervisory functions of the Board of Directors; and improving both the decision-making process and the operation of the business.

In addition to these measures, JSAT plans to continue with further enhancements to its system of corporate governance. Following recent revisions to the Commercial Code of Japan, one important change JSAT is currently considering is the adoption of a "committee system" to replace its current system of "corporate auditors."

**JSAT's corporate governance system, including management decision making, executive and supervisory functions and management organization**

During fiscal 2002, the period under review, the Board of Directors was convened on a monthly basis. It comprised nine members, including four outside directors. As well as fulfilling its legally required functions and making decisions regarding major management issues, the Board of Directors oversaw the activities of executive management.

The Management Committee met twice monthly. It comprised eight members with a position of senior executive officer or higher, including the five executive members of the Board of Directors. In addition to making preliminary deliberations on matters that require a decision by the Board of Directors, the Management Committee made decisions on important issues relating to operational matters, within the sphere of authority delegated to it by the Board of Directors.

A Compensation Committee and a Nominations Committee, which both comprised three members of the Board of Directors, including one outside director, as well as one outside corporate auditor, functioned as advisory bodies to the Board of Directors. The Compensation Committee considered matters relating to the compensation system for directors and executive officers, while the Nominations Committee considered potential candidates for director and executive officer positions.

The Board of Corporate Auditors met on a monthly basis. It comprised four members, including three outside corporate auditors. The Board of Corporate Auditors assessed—in accordance with the Audit Plan it formulated—the level of legal compliance maintained by the Company's directors in the execution of their duties.

JSAT also established an Internal Audit Department, which monitored not only legal compliance but also the adequacy of internal procedures and control functions.



## Management

(As of July 2003)

### Measures to enhance JSAT's system of corporate governance implemented during fiscal 2002

1. Establishment of the Management Committee in July 2002.
2. Increase in the number of corporate auditors from three to four by a resolution passed at JSAT's 18th Ordinary General Meeting of Shareholders held on June 26, 2002. Three of the four corporate auditors were outside corporate auditors.
3. Reduction of the standard term of appointment of directors from two years to one year by a resolution passed at JSAT's 18th Ordinary General Meeting of Shareholders held on June 26, 2002. Accompanying this, the standard term of appointment for executive officers became one year.
4. Establishment of the Nominations Committee in June 2002. In May 2003, this committee recommended to the Board of Directors candidates for the position of director.
5. Introduction of a business results-based compensation system, including the issuance of stock options. To further enhance corporate value by drawing together the interests of management and shareholders, after deliberation by the Compensation Committee, JSAT introduced a business results-based compensation system for directors and executive officers, beginning in fiscal 2002. The Board of Directors also decided to submit a draft resolution to the 19th Ordinary General Meeting of Shareholders, held in June 2003, regarding the introduction of a stock option system for directors, executive officers and certain other advisers and senior-level employees of the Company.

#### Board of Directors

**Masahito Tani**  
*Chairman, Director*

**Kiyoshi Isozaki**  
*President & CEO  
Representative Director*

**Yoshiro Aisaka**  
*Director*

**Masanori Akiyama**  
*Director*

**Yoichi Iizuka**  
*Director*

**Iwao Nakatani**  
*Director  
(President, Tama University,  
Director of Research,  
UFJ Institute Limited)*

**Mamoru Ishida**  
*Director  
(Senior Executive Vice President of  
NTT Communications Corporation)*

**Shingo Yoshii**  
*Director  
(Executive Officer, General Manager,  
Media Division, Sumitomo Corporation)*

**Kobei Manabe**  
*Director  
(Representative Director,  
Vice Chairman and  
Group Executive Officer,  
Nippon Television Network Corporation)*

**Bunji Shinoda**  
*Director  
(General Manager,  
Media Business Div.,  
Information Business Unit,  
Mitsui & Co., Ltd.)*

#### Executive Officers

**Kiyoshi Isozaki**  
*President & CEO*

**Yoshiro Aisaka**  
*Senior Executive Officer,  
Strategic Planning Group*

**Masanori Akiyama**  
*Senior Executive Officer,  
Market Development Group*

**Yoichi Iizuka**  
*Senior Executive Officer,  
Corporate Coordination Group*

**Yutaka Nagai**  
*Senior Executive Officer,  
Engineering & Planning Group*

**Masanao Tanase**  
*Senior Executive Officer,  
Corporate Planning &  
Communications Group*

**Yasuo Okuyama**  
*Executive Officer,  
Corporate Planning &  
Communications Group*

**Osamu Karo**  
*Executive Officer,  
Corporate Coordination Group*

**Yuichiro Nishio**  
*Executive Officer,  
Engineering & Planning Group*

**Hiroo Sumitomo**  
*Executive Officer,  
Market Development Group*

#### Corporate Auditors

**Kiyooki Fujimoto**  
*Corporate Auditor*

**Shoichi Kameyama**  
*Corporate Auditor*

**Tamotsu Iba**  
*Corporate Auditor  
(Corporate Advisor,  
Sony Corporation)*

**Nobuyuki Kaneko**  
*Corporate Auditor  
(Chief Operating Officer,  
Media Business Division,  
Aerospace, Electronics &  
Multimedia Company,  
ITOCHU Corporation)*

## frequently asked questions

### Q1: What are the main features and characteristics of JSAT's business structure?

As JSAT's services are, for the most part, based on long-term service agreements, the Company has a stable revenue base. On the expenses side, since fixed costs centering on depreciation and amortization of satellites account for over half of all operating expenses, there is little risk of fluctuation.

Operating revenues are mainly derived from three types of services: (1) basic telecommunications business services, which may be further divided into domestic and international telecommunications services; JSAT's fundamental service is based on contracts between itself and its customers for the provision of satellite transponder capacity; JSAT also focuses on offering solution-based packages of services that cater to individual customer needs, encompassing a variety of applications; JSAT's customer base for such services is very diverse and includes television stations, financial institutions, retail-

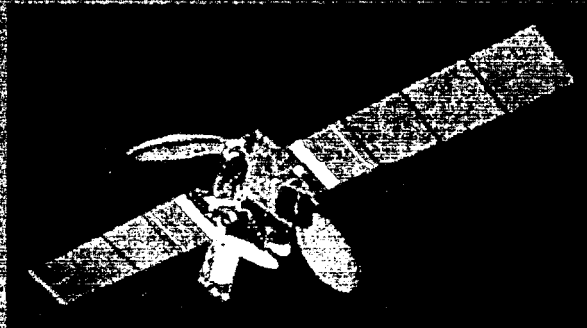
ers, educational institutions, governmental agencies and overseas Internet service providers (ISPs).

The second type is satellite broadcasting services, which mainly involves the distribution—via satellite—of program content on the SKY PerfecTV! and SKY PerfecTV! 2 digital direct-to-home (DTH) platforms, from broadcasters to subscribers. Most overseas satellite operators tend to specialize in either broadcasting or telecommunications services. An important characteristic of JSAT's business structure is that both types of service represent an important source of revenue.

The third type is telecommunications carrier services. These mainly utilize two satellites—N-STARa and N-STARb—to provide various services to the NTT Group, such as backbone capacity, telecommunications links to remote islands and alternative network routing during peak usage periods.



JSAT provides transmission carrier services and data link services through its subsidiary S-NET, which uses the latest satellite navigation satellites. Demand for such programming as TV news, live music and sporting events is well up for such applications as the transmission of high definition content (HDTV) of content that is expected to rise.



JSAT and NTT DoCoMo, Inc. have concluded an agreement whereby NTT DoCoMo will lease part of the transponder capacity on JCSAT-9 for its entire design life. JCSAT-9 is due to be launched in 2005 as the replacement satellite for N-STARa pictured above.

Note: From fiscal 2004, JSAT will change its service classifications. From that period, the Company will use the following three classifications: Network-Related Services, Broadcast and Video Distribution Services and Other Services. The main reasons for the change were the increasing convergence of broadcasting and telecommunications in Japan and the conspicuous divergence between the system of classifications used under Japan's Telecommunications Business Law and JSAT's actual business. The new classifications will divide expenses according to customer types, in the following way:

- Network-Related Services: network services for governmental agencies, Internet services for corporate users, services for special telecommunications services, international data transmission services, telecommunications carrier services for the NTT Group, VAO, etc.
- Broadcast and Video Distribution Services: DTH services via satellites in the 121.7°E/110 degree East orbital slot, video transmission services for broadcast stations and advanced stations, digital content delivery services for CMV operators, etc.
- Other Services: satellite control services, tests and experiments, etc.

## Q2

JSAT, the satellite operator, provides a range of services to broadcasters and SKY PerfectTV! subscribers. JSAT provides a range of services to broadcasters, including the provision of a satellite platform, the provision of a satellite service, and the provision of a satellite service. JSAT also provides a range of services to SKY PerfectTV! subscribers, including the provision of a satellite platform, the provision of a satellite service, and the provision of a satellite service.

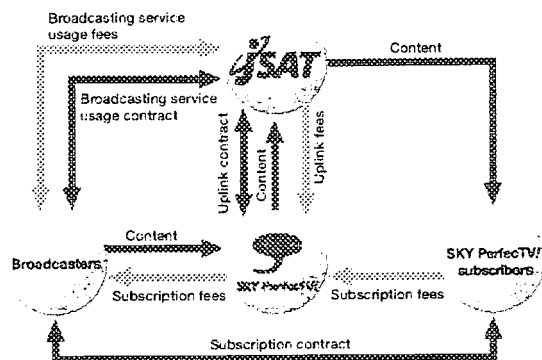
The original SKY PerfectTV! DTH service commenced in 1996 and currently broadcasts a huge range of video and audio programs comprising almost 300 channels. The number of subscribers exceeded 2.9 million as of June 2003 and continues to grow. This business brings together service parties fulfilling three distinct functions: broadcasters, the DTH platform operator, and the satellite operator.

The broadcasters produce the programming content to be broadcast then enter into contracts with the platform operator and satellite operator to provide their respective services.

SKY Perfect Communications, Inc., the SKY PerfectTV! platform operator, acts together with the broadcasters, carries out advertising and promotion, manages the subscriber base, and collects subscription fees. SKY PerfectTV! also operates channels for promotional purposes and to provide program information as a broadcaster in its own right.

JSAT, as the satellite operator, distributes the programming content produced by broadcasters to subscribers via satellite. In June 2003, there were over 100 broadcasters on the SKY PerfectTV! platform to whom JSAT provides services based on individual contracts with each broadcaster.

### Structure of the SKY PerfectTV! Business



- Broadcasting service usage fees include transponder usage fees and uplink fees.
- Broadcasters refers to both licensed broadcasters, as defined by the Telecommunications Business Law, and broadcasters, as defined by the Law Concerning Broadcast on Telecommunications Services.

Uplink services—transmitting programs from broadcasters to JSAT's satellites—are outsourced to SKY Perfect Communications.

JCSAT-110 commenced services during the first quarter of fiscal 2002, ended June 30, 2002, and the SKY PerfectTV! 2 DTH service, which uses JCSAT-110, was subsequently launched in July 2002. The most notable feature of this service is the fact that JCSAT-110 is positioned in the same 110 degree East orbital slot as an existing Japanese direct broadcast satellite (DBS), so viewers are able to receive broadcasts from both satellites via a single antenna and set top box (STB). As a result, JSAT expects the number of SKY PerfectTV! 2 subscribers to be bolstered by the increasing popularity of both CS-110 and DBS services in Japan. SKY PerfectTV! 2 programming content is focused more on mass appeal programming than the 124/128 degree-based SKY PerfectTV! platform.

**CS and DBS:** Communications satellites (CS), such as those owned by JSAT, and DBS (known commonly in Japan as BS and which utilize broadcasting frequencies over which Japan holds exclusive rights) are two broad categories of satellite. CS were originally used exclusively for telecommunications services, but as the shift began to digital broadcasting technologies, it has become possible to receive transmissions from CS—in the same way as DBS—using a small antenna. Such platforms as SKY PerfectTV! take advantage of this capability. Recent advances in digital technology, coupled with a rapid pace of convergence, are helping to drive convergence of telecommunications and broadcasting.

Set top box is the general term for an "intelligent" digital receiver terminal used in place of a CATV home terminal or satellite tuner. With the advances of digital broadcasting, a diverse range of interactive services (Video on Demand, games, TV shopping, data broadcasting) and communications services (Internet access) have become possible. These developments open up the possibility of the start making on the coloration of the screen.

Q: How does JSAT intend to exploit the unique strengths of satellite technology to compete in this market?

In satellite broadcasting services, in addition to the conventional fixed-fee formula, JSAT has introduced a variable fee plan. On the 174/128-degree-based SKY Perfect TV! platform, Pay-Per-View Japan, Inc. (PPVJ)—in which JSAT holds a 20% equity stake—has opted to use this revenue sharing method. Under this arrangement, in addition to a base fee—called the minimum guarantee—set according to transponder capacity requirements, broadcasters also pay JSAT an agreed percentage of their revenues derived from using JSAT's services. On the GS110-based SKY Perfect TV! 2 platform, JSAT offers both fixed-fee and variable-fee plans. The variable-fee option includes a portion linked to the total number of subscribers on the platform. For JSAT, this formula means that revenues rise as the subscriber base increases, while for the broadcasters, there is the advantage of lower cost structure during the start-up phase, a period when the number of subscribers is likely to be low.

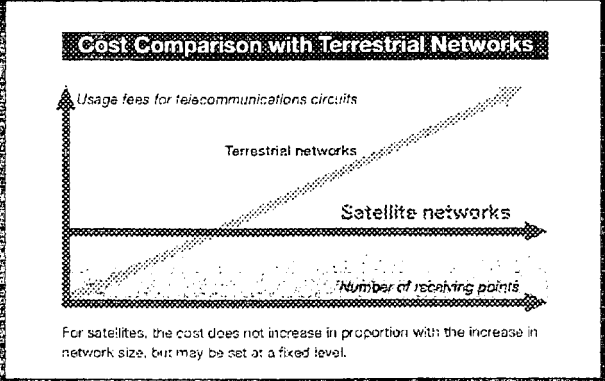
In telecommunications business services for its VSAT satellite-based emergency back-up communications service, JSAT has introduced a new fee structure that includes a fixed fee for each very small aperture terminal (VSAT). For IC-HITS, which is a digital content delivery service for CATV operators, that is currently in the preparation stage, JSAT is considering a variety of tariff schemes, including those linked to total subscriber numbers and pay-per-view audience numbers.



The terrestrial broadband market is rapidly expanding and price competition is becoming more intense. How does JSAT intend to exploit the unique strengths of satellite technology to compete in this market?

A: One of the biggest strengths of satellites is their ability to handle high-volume multicasting applications. In this area, satellites have significant advantages over terrestrial communications solutions.

In multicasting applications for content distribution networks, by using satellites, the cost of transmission can be fixed no matter how many end users there may be. A good example of such an advantage is in the area of broadcasting services. The SKY Perfect TV! DTH platform had over 3.4 million subscribers as of June 2003 spread throughout Japan who are able to simultaneously receive approximately 300 video and audio content channels. Similarly, in telecommunications business services, JSAT's competitive advantage is borne out by the widespread adoption of its services by such large-scale customers as national convenience store chains and restaurant chains.



Pay-Per-View Japan (PPVJ) is one of the largest broadcasters using JSAT's satellite, providing pay-per-view programming on 25 channels on the SKY Perfect TV! platform as of June 2003.

VSATs are compact two-way satellite terminals, which are extensively used by universities, local government agencies and companies. VSATs can also be utilized to help bridge the digital divide in remote island and mountainous regions. As VSATs continue to shrink in size, JSAT is striving to promote the widespread adoption of this technology, and is at present developing a 15cm diameter VSAT.

In the future, accompanying the shift toward broadband networks and HDTV technology, the volume of data transmitted over communications networks is expected to continue rising. Terrestrial networks alone are employed to distribute high volumes of data to large numbers of users; network load soon becomes extremely heavy, putting a significant strain on servers and other network equipment. Even if such problems were deemed theoretically surmountable, solutions would require massive investments in system infrastructure.

By building businesses that not only utilize conventional satellite telecommunications models but also ones that exploit satellites' advantages in multicasting and combine with terrestrial networks, JSAT intends to provide competitive services optimized for customer needs.

**Specialized Services: Hedging against risks associated with the satellite communications business, such as satellite launch and in-orbit insurance.**

JSAT hedges these risks by taking out launch and in-orbit insurance. Launch insurance covers satellite manufacture costs, launch costs, and the cost of the insurance itself. In-orbit insurance covers the book value of a satellite should it suffer operational failure.

Since the successful launch of JSAT's first satellite in March 1989, JCSAT-1, all of JSAT's launches—up to and including the launch of the JCSAT-2A satellite in March 2002—have been completed successfully. JSAT has also built up a high level of credibility through the stable operation



Gunma

Yokohama

*The YSCC carries out 24-hour monitoring of the satellite fleet. Should this center become nonoperational, control of the fleet automatically switches to the Gunma Satellite Control Station, JSAT's backup facility. To keep pace with the expansion of our satellite fleet and the diversification of our services, we have completed the first phase of construction of new facilities at the YSCC.*



of its fleet over many years. In particular, one of JSAT's strengths is its maintenance of one satellite in orbit exclusively for emergency backup use.

In the area of satellite control, JSAT maintains a robust backup structure. The Yokohama Satellite Control Center (YSCC) carries out 24-hour monitoring of the satellite fleet, including the position of each satellite and transponder status, as well as operating the satellites' attitude control systems. Should the YSCC, for some reason, become nonoperational, control of the fleet automatically switches to the Gunma Satellite Control Station, JSAT's backup facility, which operates in "hot standby" mode.

Due to the necessity of such stringent backup systems, the satellite business requires large capital investments. The cost of hedging special risks associated with the business is also significant. Most crucial, however, are the reliability of JSAT's service—corroborated by its performance record over a long period—and the specific know-how it has built up relating to the satellite business. These factors contribute to JSAT's business stability and high level of profitability.

**IC-HITS JCSAT-1S** is a satellite-based digital content distribution service for CATV operators. To commercialize this service in October 2002, JSAT established wholly owned subsidiary Japan CableCom Inc. By adopting the IC-HITS service, CATV operators can substantially reduce their capital expenditures when migrating to digital technology and also lower their operating costs. IC-HITS will also allow CATV operators to offer a variety of digital broadcasting services, such as PPV programming, which is expected to become an important source of revenue growth.

JCSAT-2A is the successor to JCSAT-2. In addition to the additional Ku-band transponders carried by this satellite, JCSAT-2A is also equipped with C-band transponders, which are used to provide international services covering a wide area, including Hawaii, Asia and Oceania. The satellite's Ku-band transponders mainly serve the communications networks of Japanese telecommunications carriers, corporations, and homes.



## Financial Section

### CONTENTS

|  |    |
|--|----|
| Management's Discussion and Analysis of Operations | 15 |
| Quarterly Data                                     | 23 |
| Consolidated Balance Sheets                        | 24 |
| Consolidated Statements of Income                  | 26 |
| Consolidated Statements of Comprehensive Income    | 27 |
| Consolidated Statements of Shareholders' Equity    | 28 |
| Consolidated Statements of Cash Flows              | 29 |
| Notes to Consolidated Financial Statements         | 30 |
| Independent Auditors' Report                       | 52 |

### Consolidated Five-Year Summary

JSAT Corporation and Subsidiaries  
Years Ended March 31, 1999, 2000, 2001, 2002 and 2003

|   | Millions of Yen |           |           |           |           |
|---|-----------------|-----------|-----------|-----------|-----------|
|   | 1999            | 2000      | 2001      | 2002      | 2003      |
| <b>Operating results</b>                            |                 |           |           |           |           |
| Revenues  | ¥ 24,384        | ¥ 26,986  | ¥ 38,160  | ¥ 40,783  | ¥ 45,121  |
| Operating expenses                                  | 17,858          | 19,296    | 26,990    | 29,458    | 33,343    |
| Operating income                                    | 6,526           | 7,691     | 11,171    | 11,325    | 11,779    |
| Net income  | 1,947           | 2,697     | 5,125     | 5,609     | 6,182     |
| <b>Financial position</b>                           |                 |           |           |           |           |
| Total assets  | ¥110,899        | ¥140,100  | ¥169,640  | ¥163,432  | ¥169,230  |
| Current assets                                      | 11,971          | 9,320     | 27,313    | 17,408    | 30,895    |
| Net property and equipment                          | 93,602          | 121,218   | 121,630   | 121,300   | 122,286   |
| Current liabilities                                 | 12,595          | 20,635    | 23,431    | 20,972    | 20,018    |
| Long-term liabilities                               | 79,052          | 64,454    | 50,325    | 44,979    | 55,406    |
| Total shareholders' equity                          | 19,252          | 55,012    | 95,884    | 96,907    | 93,207    |
| <b>Cash flows</b>                                   |                 |           |           |           |           |
| Net cash provided by operating activities           | ¥ 10,756        | ¥ 15,678  | ¥ 22,728  | ¥ 19,930  | ¥ 25,607  |
| Net cash used in investing activities               | (12,533)        | (39,080)  | (26,602)  | (16,140)  | (39,063)  |
| Net cash provided by (used in) financing activities | 3,657           | 20,333    | 9,579     | (9,590)   | 1,870     |
| <b>Other data</b>                                   |                 |           |           |           |           |
| EBITDA  | ¥ 16,693        | ¥ 17,977  | ¥ 27,024  | ¥ 27,963  | ¥ 28,622  |
| Shareholders' equity to total assets (%)            | 17.4%           | 39.3%     | 56.5%     | 59.3%     | 55.1%     |
| Number of shares outstanding                        | 550,509         | 338,154.5 | 383,154.5 | 383,154.5 | 383,154.5 |
| Number of satellites                                | 5               | 7         | 8         | 8         | 8         |

# Management's Discussion and Analysis of Operations

## Overview

In the first half of fiscal 2002, ended March 31, 2003, spurred by a weaker yen, the Japanese economy showed signs of a limited export-led recovery. However, the protracted problems of nonperforming loans and deflation, as well as anxiety about the strength of the U.S. economy and the impact of such geopolitical risk factors as the Iraq and North Korea crises led to further uncertainty in the second half of the fiscal year. Even at the end of the fiscal period, signs of a full-fledged recovery remained elusive.

In this environment, consolidated revenues increased 10.6%, to ¥45,121 million, operating income climbed 4.0%, to ¥11,779 million, and net income grew 10.2%, to ¥6,182 million.

Earnings before interest, tax, depreciation and amortization (EBITDA) rose 2.6%, to ¥28,692 million, while the EBITDA margin fell 5.0 percentage points, to 63.6%. Return on equity (ROE) gained 0.7 percentage point, to 6.5%.

## Significant Events Affecting Operating Results and Financial Position

### • Commencement of Operations by JCSAT-2A

JCSAT-2A, which was launched in March 2002, successfully completed in-orbit testing and commenced operations in May 2002. JCSAT-2A is the successor to JCSAT-2, which also operated in the 154 degree East orbital slot. In addition to a payload of 16 high-powered Ku-band transponders, JCSAT-2A also

carries 16 C-band transponders that provide broad coverage of the Asia-Pacific region. This capability allows JSAT to expand sales in the area of international services.

### • Commencement of CS110 Broadcasting Services

In July 2002, SKY Perfect Communications Inc. began digital DTH broadcasts for its SKY PerfectTV! 2 service, which uses JSAT's JCSAT-110 communications satellite. Unlike the original SKY PerfectTV! platform, this new service may be viewed using the same parabolic antenna as existing Japanese digital direct broadcast satellite (DBS) services. This characteristic is expected to help expand the CS110 subscriber base. For further information, please refer to page 11 of this report.

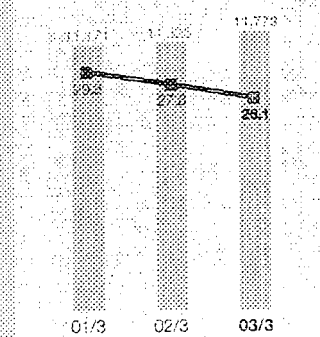
### • Transfer of Satellite Ownership Interests from NTT East and NTT West

In June 2002, NTT East Corporation and NTT West Corporation transferred their joint interest in N-STARa and N-STARb to JSAT. JSAT also reached an agreement with NTT East and NTT West to undertake certain intra-prefectural telecommunications carrier services on behalf of these two companies, using N-STARa and N-STARb. The total price of the assets transferred, which were equivalent to 10 C-band transponders, was approximately ¥3.6 billion.

### • Establishment of Japan CableCast Inc.

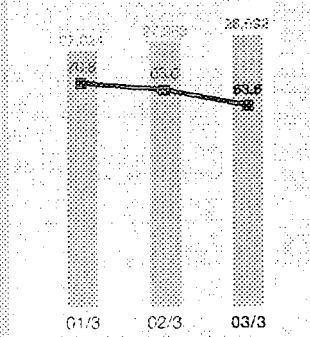
In October 2002, JSAT established 100%-owned subsidiary Japan CableCast to commercialize a satellite-based digital content distribution service for CATV operators. Japan CableCast

Operating Income and Operating Margin



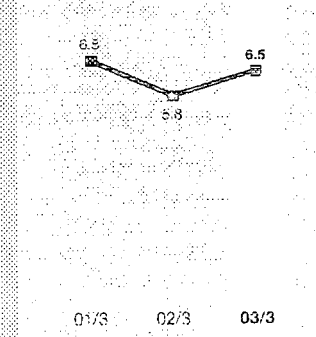
Operating income (Millions of yen)  
Operating margin (%)

EBITDA and EBITDA Margin



EBITDA (Millions of yen)  
EBITDA margin (%)

Return on Equity (ROE) (%)



aims to provide optimal digital solutions to CATV operators. This service, to be called "JC-HITS" is part of JSAT's strategy to expand its lineup of value added-services.

• *Conclusion of Sales Agreement with PanAmSat Corporation*  
In October 2002, JSAT and PanAmSat Corporation of the United States concluded a joint sales agreement covering the Asia-Pacific region. This agreement further advances the strategic alliance between JSAT and PanAmSat, which is based around the Horizons Satellite LLC joint venture. JSAT and PanAmSat are due to launch Horizons-1 in the second quarter of fiscal 2003, with the new satellite serving as a link between Japan and the United States and providing services that cover the whole of North America. This alliance forms part of JSAT's strategy of expanding its global reach.

## Results of Operations

### *Fiscal 2002 Compared with Fiscal 2001*

#### Revenues

JSAT presents its financial statements based on a single business segment, that is, the provision of satellite transponder capacity on satellites owned by the Company to various customers. However, to facilitate efficient and effective management, revenue information is broken down into three main services and analyzed according to customer and type of service provided.

In fiscal 2002, owing to solid growth in all service areas, JSAT recorded consolidated revenues of ¥45,121 million, up 10.6% compared with fiscal 2001, ended March 31, 2002.

#### • *Telecommunications Business Services*

Revenues in telecommunications business services are mainly derived from the provision of full-time and occasional satellite transponder capacity to companies, government agencies, educational institutions and other customers, primarily for their internal telecommunications networks.

Consolidated revenues rose 4.1%, to ¥13,504 million. Despite the continuing harsh operating environment, which saw some customers scale back transponder usage due to stagnant economic conditions, the Company achieved revenue growth mainly owing to increased demand for efficient and flexible system applications, as well as the first full period of consolidation of SNET.

International services, between Japan and other countries, are provided using JCSAT-3 and JCSAT-2A. In this category, the Company won new contracts in such areas as video

transmission services in the Asia-Pacific region and the provision of corporate data network services among countries in Southeast Asia. Owing to recent international events, demand increased for transmission of video material. Some existing customers also expanded their transponder usage.

#### • *Satellite Broadcasting Services*

Revenues in satellite broadcasting services are mainly derived from multichannel digital broadcasting services provided to broadcasters using the SKY PerfectTV<sup>1</sup> and SKY PerfectTV<sup>2</sup> platforms.

Consolidated revenues climbed 17.1%, to ¥21,075 million. Contributing significantly to this increase was the commencement of the new digital DTH service that uses JCSAT-110, and higher service fees earned from long-term step-up type tariffs for broadcasters using the SKY PerfectTV<sup>1</sup> digital DTH platform. Although the total number of licensed broadcasters on the SKY PerfectTV<sup>1</sup> platform declined slightly, owing to industry consolidation and the withdrawal of some operators, this did not have a major impact as some broadcasters increased the number of channels they offer.

#### • *Telecommunications Carrier Services*

Revenues in telecommunications carrier services are mainly derived from the provision of transponder capacity to the NTT Group as part of their telecommunications networks.

Consolidated revenues gained 7.2%, to ¥9,360 million. The most significant factor contributing to this increase was additional services provided to the NTT Group from the second quarter, reinforcing the Company's steady revenue stream in this service area.

#### • *Other*

Other revenues, on a consolidated basis, increased 10.0%, to ¥1,181 million. This was thanks to steady revenues from the provision of satellite control services to the NTT Group.

#### Operating Expenses

Total operating expenses increased 13.2%, to ¥35,343 million. As a proportion of revenues, total operating expenses rose 1.7 percentage points, to 73.9%.

Cost of services climbed 30.0%, to ¥10,206 million. Cost of services mainly consists of uplink costs for SKY PerfectTV<sup>1</sup> broadcasts, in-orbit insurance and satellite operation costs. Uplink costs rose 53.2%, to ¥4,673 million, mainly owing to the commencement of CS110 broadcasts. In-orbit insurance premiums increased 22.0%, to ¥2,313 million, largely owing to the launch of JCSAT-2A in March 2002. Cost of services

was also pushed up by the first full year of consolidation of SNET.

Sales and marketing expenses grew 17.2%, to ¥2,370 million, mainly as a result of higher personnel costs.

Depreciation and amortization expenses edged up 1.3%, to ¥16,698 million. The Company's largest operating expense is depreciation of its satellites, which is computed under the straight-line method and uses operational lifetimes ranging from 11 years to 17 years until the book value is reduced to zero.

General and administrative expenses increased 18.0%, to ¥3,418 million. As a result of the aforementioned factors, operating income rose 4.0%, to ¥11,779 million.

At the end of the period, the number of employees, on a consolidated basis, stood at 262, a 4.4% increase compared with the previous year-end.

#### Other Income (Expenses)

Interest expenses fell 33.5%, to ¥923 million, owing to scheduled repayments of long-term debt.

Equity in earnings of affiliated companies amounted to ¥77 million, compared with equity in losses of affiliated companies of ¥244 million in the previous period. This was largely owing to good results posted by Pay Per View Japan, Inc. (PPVJ), which is accounted for under the equity method.

Other—net fell 41.2%, to ¥177 million, mainly owing to loss on write-downs of investments.

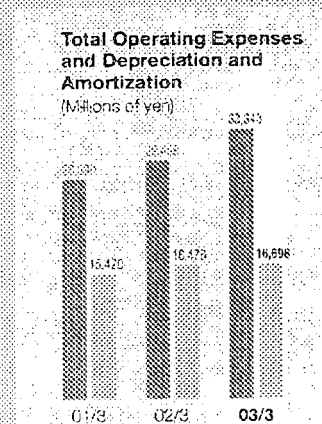
As a result of these factors, other expenses—net declined 49.7%, to ¥669 million.

#### Net Income and Comprehensive Income

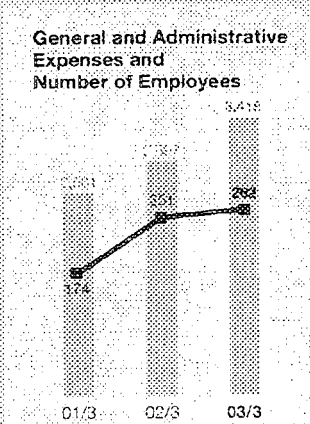
Income before income taxes and minority interests rose 11.2%, to ¥11,110 million. Income taxes amounted to ¥4,899 million, a 12.3% increase compared with the previous term. The effective tax rate edged up 0.5 percentage point, to 44.1%. Minority interests in income of subsidiaries grew 20.1%, to ¥28 million.

Net income increased 10.2%, to ¥6,182 million. The weighted-average number of shares outstanding fell from 383,154 shares in the previous period to 380,476 shares during the period under review. Basic net income per share of common stock dimmed 11.0%, to ¥16,249. Owing to the issuance of ¥20,000 million in zero-coupon euro-yen convertible bonds in April 2002, diluted net income per share of common stock amounted to ¥15,175. For further explanation of the method of calculation of net income per share of common stock, please refer to page 47 of this report.

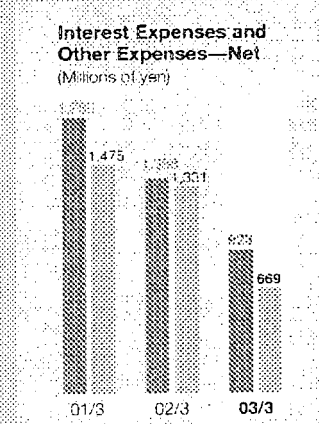
Unrealized holding losses arising during the period on securities held by JSAT at March 31, 2003, increased 259.4%, to ¥5,379 million, primarily reflecting a large drop in the market value of equity securities held by the Company in SKY Perfect Communications. Within other comprehensive income, foreign currency translation adjustments totaled negative ¥295 million in the period under review, compared with positive ¥184 million in the previous term. As a result of the above factors, comprehensive income for fiscal 2002 declined 88.3%, to ¥506 million.



▨ Total operating expenses  
 ■ Depreciation and amortization



▨ General and administrative expenses (Millions of yen)  
 — Number of employees (On a nonconsolidated basis for the year ended March 31, 2001)



▨ Interest expenses  
 ■ Other expenses—net

## Dividends

Providing an appropriate return to shareholders is seen as an important issue by JSAT's management. The Company paid an annual cash dividend of ¥6,000 per share applicable to fiscal 2002, which is ¥1,000 per share higher than the previous period. With the overall aim of maximizing shareholder value, JSAT will pursue a dividend policy with the aim of maintaining long-term stability in the level of future dividend payments, while also closely linking dividends to operating results.

## Financial Position and Key Management Indicators

At the end of the period under review, total assets amounted to ¥169,230 million, a 3.5% increase compared with the previous fiscal year-end. Net property and equipment was ¥122,286 million, of which telecommunications satellites, net of depreciation, accounted for ¥90,077 million. Total shareholders' equity declined 3.8%, to ¥93,207 million, primarily owing to the purchase of treasury stock and a large reduction in total accumulated other comprehensive income. As a result, the equity ratio slipped 4.2 percentage points, to 55.1%.

Return on equity (ROE) for the period was 6.5%, a 0.7 percentage point improvement compared with the previous period.

## Stock Liquidity and Purchase of Treasury Stock

Raising the trading liquidity of JSAT's stock and broadening the Company's shareholder base are important management objectives.

Furthermore, to execute a flexible equity strategy that responds to changing operating conditions, the Company is carrying out a purchase of treasury stock. A summary of this program is given in the table at the top of the page.

|   | Number of Shares   | Amount<br>(Millions of yen) |
|---|--|-----------------------------|
| Treasury stock purchase program approved at the General Meeting of Shareholders held on June 26, 2002 | 6,000<br>(maximum)   | ¥4,500<br>(maximum)         |
| Cumulative purchases carried out as of March 31, 2003   | 4,749  | ¥2,301                      |
| Treasury stock purchase program approved at the General Meeting of Shareholders held on June 26, 2003 | 45,000<br>(maximum—equivalent to 11.74% of total outstanding shares) | ¥22,500<br>(maximum)        |

On an ongoing basis, management will carefully consider—in conjunction with a variety of factors, including operating results and market conditions—the full range of options available to help the Company meet its equity strategy objectives.

## Fiscal 2001 Compared with Fiscal 2000

### Revenues

In fiscal 2001, ended March 31, 2002, owing to generally solid results in each category, JSAT posted consolidated revenues of ¥40,783 million, up 6.9% compared with fiscal 2000, ended March 31, 2001.

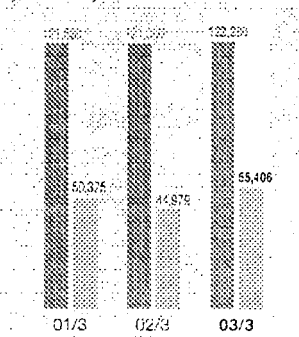
### • Telecommunications Business Services

Consolidated revenues increased 10.2%, to ¥12,976 million. Major factors contributing to the revenue increase were: (1) the purchase of a majority stake in SNET; and (2) growth in international services, including video transmission services and the provision of Internet backbone capacity in the Asian region. During fiscal 2001, some telecommunications business services were adversely affected by the prolonged economic slump, as well as by the downward pressure on prices in terrestrial networks. Certain major customers reduced usage volumes, leading to declines in revenues in some categories. However, several new applications were introduced, including content distribution to multimedia terminals installed at restaurant chains across Japan and other locations.

### • Satellite Broadcasting Services

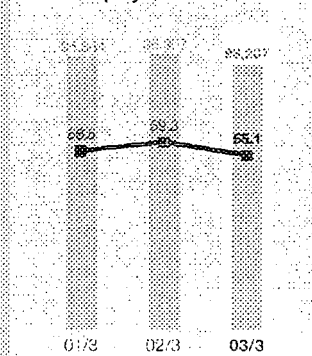
Consolidated revenues rose 6.5%, to ¥18,000 million. Contributing significantly to this increase was the growth in the four-annual-step tariff (rising

Net Property and Equipment and Total Long-Term Liabilities  
(Millions of yen)



■ Net property and equipment  
□ Total long-term liabilities

Total Shareholders' Equity and Equity Ratio



■ Total shareholders' equity (Millions of yen)  
— Equity ratio (%)

annually for the first four years before leveling off) paid by broadcasters under long-term contract. Another factor was the commencement of services by some of the 14 newly licensed broadcasters (12 companies providing 16 standard television channels and two companies providing three data channels) that were approved by the Ministry of Public Management, Home Affairs, Posts and Telecommunications in September 2001. However, the total number of licensed broadcasters using the SKY PerfectTV! platform declined slightly owing to industry consolidation and the withdrawal of some operators.

• *Telecommunications Carrier Services*

Consolidated revenues decreased 2.1%, to ¥8,732 million. Revenues based on long-term contracts with the NTT Group, which was reorganized in March 2000, were steady, but a decline was recorded this fiscal year owing to the termination of some contracts that were entered into prior to March 2000.

• *Other*

Other revenues, on a consolidated basis, increased 91.7%, to ¥1,074 million. In addition to ongoing revenues from satellite control services provided to the NTT Group, new revenue sources—including joint research projects relating to “bridging the digital divide”—also helped boost revenues in other services.

**Operating Expenses**

Operating expenses increased 9.1%, to ¥29,458 million. As a proportion of revenues, operating expenses rose 1.5 percentage points, to 72.2%.

Cost of services climbed 20.8%, to ¥7,850 million. Cost of services mainly consists of uplink costs for SKY PerfectTV! broadcasts and some telecommunications business services, in-orbit insurance and satellite operation costs. Uplink costs rose 9.7%, to ¥3,049 million, mainly due to the growth in satellite broadcasting services, while in-orbit insurance premiums increased 6.2%, to ¥1,896 million. Cost of services was also pushed up by the inclusion of newly consolidated subsidiary, SNET.

Sales and marketing expenses, which mainly represent advertising and promotional expenses, declined 5.9%, to ¥2,023 million.

Depreciation and amortization expenses grew 6.8%, to ¥16,476 million, mainly owing to the first full year of depreciation incurred on JCSAT-110, which was launched in October 2000, adjustments to the estimated useful life of certain other communications satellites, and the inclusion of SNET in consolidation.

General and administrative expenses rose 15.8%, to ¥2,897 million. This was mainly due to an increase in personnel expenses accompanying growth in the number of employees, as well as higher rent expenses following the relocation of our headquarters in December 2001.

As a result of the above-mentioned changes in revenues and operating expenses, operating income grew 1.4%, to ¥11,325 million.

**Other Income (Expenses)**

Interest expenses decreased 22.4%, to ¥1,388 million, owing to repayments of long-term debt on and ahead of schedule.

Equity in losses of affiliated companies declined 72.6%, to ¥244 million, mainly due to reduced losses at the Group's affiliate NTT Satellite Communications Inc. (NTTSC).

Other—net fell 75.0%, to ¥301 million, mainly owing to a ¥36 million loss on sale of investments—net, compared with an ¥842 million gain in the previous year, and other factors. Other factors included ¥233 million in office relocation cost and a ¥295 million loss on write-down of investments.

**Income Taxes**

The effective tax rate declined 3.5 percentage points, to 43.6%. This was mainly due to lower equity in losses of affiliated companies.

**Net Income and Comprehensive Income**

From fiscal 2001, JSAT's financial accounts include two consolidated subsidiaries. Minority interests in income of subsidiaries totaled ¥24 million.

Net income climbed 9.4%, to ¥5,609 million, and net income per share of common stock rose 5.0%, to ¥14,639. During the period under review, there was no dilution of net income per share. In fiscal 2000, basic net income per share of common stock was ¥13,937 and diluted net income per share of common stock was ¥13,935.

The market value of equity securities held by JSAT in SKY Perfect Communications, at March 31, 2002, was significantly lower than at March 31, 2001. This, and other factors, led to unrealized holding losses arising during the period of ¥1,497 million. Other comprehensive income, net of tax, included foreign currency translation adjustments of ¥184 million related to the newly established consolidated subsidiary, JSAT International Inc.

As a result of the above factors, comprehensive income for fiscal 2001 totaled ¥4,314 million, compared with ¥10,971 million for the previous period.

### Consolidated Subsidiaries and Affiliated Companies

| Name of company                   | Equity stake held by JSAT |
|-----------------------------------|---------------------------|
| Satellite Network, Inc.           | 67.00%                    |
| JSAT International Inc.           | 100.00%                   |
| Japan CableCast Inc.              | 100.00%                   |
| NTT Satellite Communications Inc. | 35.94%                    |
| Pay-Per-View Japan, Inc.          | 20.00%                    |

(As of July 2003)

### Liquidity and Capital Resources

#### Basic Policy

Currently, JSAT operates eight satellites, and most of the Company's revenues are derived from these satellites in the form of fees for the use of transponder capacity. To maintain and expand these revenues, it is necessary to replace satellites as they near the end of their operational lifetimes, which range from approximately 11 years to approximately 17 years. Depreciation of satellites, which are the Company's main type of fixed asset, is computed under the straight-line method, using periods that are determined by the expected lifetime of onboard fuel, until the book value is reduced to zero. Therefore, if the Company was able to spread out the investments in its satellite fleet according to the average operational lifetime of its satellites, the investment cycle would roughly correspond with the depreciation schedule. That is to say, it would be possible to meet property and equipment investment requirements relating to the satellite fleet by allocating an amount similar to the depreciation and amortization expense. However, in practice, the satellite investment cycle varies according to the different operational lifetime of each satellite, making it extremely difficult to maintain a balanced investment cycle. The ability to flexibly finance cash shortfalls is crucial for the operation of our business because in some fiscal years the amount of investment required may exceed depreciation and amortization expense or net cash provided by operating activities.

It is also the Company's policy to carry out investment over and above that which is necessary simply to maintain the existing fleet. For example, when existing satellites are replaced, additional functions or extra capacity may be added to the new satellites. In addition to augmenting effective free cash

flow, which excludes the cost of maintaining the existing satellite fleet, the Company is committed to making strategic investments that will increase its revenue base through flexible financing activities. At the same time, while uncertainty continues to hamper the domestic financial sector, it is JSAT's intention to maintain an enhanced level of liquidity.

#### Capital Expenditures

Based on the above policies, JSAT carried out several major property and equipment investments and acquisition of other assets, totaling approximately ¥18,891 million, during fiscal 2002. These included ¥10,920 million for the procurement of satellite launch vehicles, ¥3,570 million for the transfer of satellite ownership from NTT East and NTT West, ¥1,473 million as part of the procurement cost of Horizons-1, due to be launched during fiscal 2003, and ¥904 million on construction of a new facility at the Company's Yokohama Satellite Control Center.

#### Cash Flows

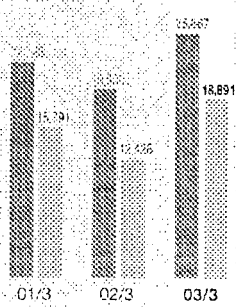
Cash flows during fiscal 2002 are summarized below.

Net cash provided by operating activities increased 29.8%, to ¥25,867 million. This increase, reflecting a steady expansion of operations, led to the Company's highest-ever operating cash flow. Notable items included net income of ¥6,182 million, up 10.2%, and depreciation and amortization totaling ¥16,698 million, which was 1.3% higher than the previous term.

Net cash used in investing activities grew 86.3%, to ¥30,065 million. Significant factors contributing to this rise were payments for property and equipment, which rose 49.0%, to ¥18,432 million, and payments for purchases of short-term investments and other investments of ¥34,953 million, compared with ¥23,620 million in the previous period. In the period under review, the Company carried out investments in companies with future growth potential in related business areas, including Link and Share K.K. Also included in payments for purchases of short-term investments and other investments was ¥11,020 million for short-term and long-term investment securities acquired for the purpose of fund management.

Net cash provided by financing activities amounted to ¥4,870 million, compared with net cash used in financing activities of ¥9,590 million in the previous period. Although a shift

Net Cash Provided by Operating Activities and Capital Expenditures (Millions of yen)



■ Net cash provided by operating activities  
□ Capital expenditures

to short-term borrowings has accompanied repayments of long-term borrowings, proceeds from issuance of convertible bonds (euro-yen maturing in 2007) amounted to ¥20,063 million. In addition to changing the ratio of long-term to short-term debt, since the convertible bonds are zero-coupon, the cost of fund procurement has been substantially reduced. Other payments included ¥2,307 million in payments to acquire treasury stock and payments for cash dividends amounting to ¥1,894 million.

As a result of the aforementioned changes, cash and cash equivalents at end of year increased 73.2%, to ¥1,500 million.

## Corporate Governance

In line with the management objective of maximizing corporate value and as a company continuously working to bear the scrutiny of all investors, JSAT aims to realize a system of corporate governance emphasizing a high degree of management transparency. For more details on JSAT's corporate governance systems, please refer to page 8 of this report.

## Research and Development

JSAT is involved in next-generation research to develop optimal satellite-based communications systems, with a special focus on the role of satellites in the convergence of broadcasting and telecommunications and the shift to broadband and mobile Internet.

### • Next-generation Satellite Systems

To raise the level of value added delivered by JSAT's satellite-based services, several core areas of next-generation satellite technology offer particularly promising focus for research.

These include applications for large antennae, multibeam systems and satellite on-board processors. The Company continues to evaluate the viability of services utilizing such new technologies, including mobile services.

### • Satellite Broadband (Internet Services)

In concert with the rapid penetration of broadband in Japan, JSAT evaluated—from a variety of perspectives—the elements necessary for the provision of broadband services that exploit the distinctive features of satellite technology. These included high-speed transmission

technologies, techniques to compensate for rain attenuation, technologies able to cope with a variety of service levels and technologies facilitating the delivery of high-quality services at low cost.

### • Small VSATs

As an evolutionary development from the small VSAT, the Company is pursuing basic research and development into systems that enhance operability and portability in mobile applications. JSAT also pushed ahead with development of technologies that can be used in conjunction with satellite broadband, including the assessment of video transmission technology that utilizes a compact, high-resolution video encoder.

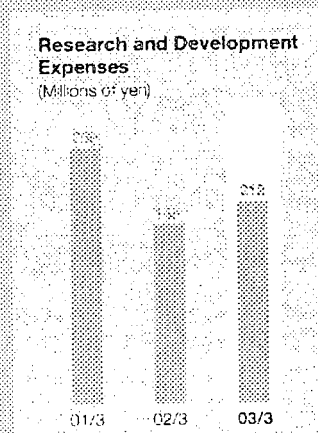
### • Other

Overseas, in recent years much attention has been focused on satellite usage for mobile applications. JSAT also aims to provide services in this area and is preparing to run demonstration tests.

In the area of lens antennae, the Company has developed a range of different-diameter antennae to enhance marketability. JSAT believes the availability of such antennae will promote the adoption of satellite communications among users that have very restricted space in which to install antennae, and among customers that wish to use multiple satellites simultaneously.

In addition, the Company is pursuing various other research topics, including techniques to compensate for rain attenuation, which is a crucial issue in Ku-band and Ka-band communications, and protection of satellite antennae from different kinds of microwave static and interference.

The Company's research and development expenses totaled ¥212 million in fiscal 2002.



## Outlook for Fiscal 2003

From fiscal 2003, JSAT will change its service classifications, to use the following three classifications: Network-Related Services; Broadcast and Video Distribution Services; and Other Services.

In the Company's outlook for fiscal 2003, building on its base of long-term service contracts with customers, which provide some degree of insulation from the negative effects of the economic cycle, JSAT anticipates revenue growth through its ongoing efforts to develop



new business opportunities. Owing to the expansion of telecommunications carrier services operated on behalf of the NTT Group and network-related services, including international services, the Company forecasts revenues totaling ¥45,400 million.

However, owing to an increase in cost of services and other factors, we forecast operating income of ¥11,300 million, net income of ¥6,000 million and basic net income per share of ¥15,856.02.

## Risk Factors

### • *Satellite Launch Risk and Operational Failure Risk*

As JSAT's business relies on the operation of a fleet of satellites, there is inherent risk involving possible launch failure and in-orbit operational failure (breakdown, excessive fuel consumption, collision with space debris, control problems). To be prepared for such eventualities, JSAT takes out launch and in-orbit insurance covering all of its satellites. Launch insurance covers satellite manufacture costs, relaunch costs and the cost of obtaining new insurance. However, not all costs that may result from satellite launch failure are covered by such insurance.

In-orbit insurance is based on the satellite's book value and does not cover replacement cost. The Company maintains one satellite in orbit exclusively for emergency backup use. However, the backup satellite may not be able to replace all of a failed satellite's capacity and cannot replace transponder capacity on certain JSAT satellites.

### • *Insurance Risk*

Following the September 11 terrorist attacks in the United States and the war in Iraq in March 2003, premiums in the aerospace insurance market have risen.

JSAT maintains in-orbit insurance cover on all its satellites, which generally must be renewed every one or two years. In fiscal 2002, JSAT renewed in-orbit insurance cover on all its satellites. By employing fleet insurance, the Company is making efforts to negotiate reductions in insurance premiums.

### • *Impact of Fiber-Optic and DSL-Based Communications Services*

In recent years, based on various technology advances, user costs in Japan for such communications services as optical fiber and digital subscriber lines (DSL) have fallen substantially. JSAT is exposed to the impact of such market changes. In addition, trends in broadcasting utilizing terrestrial

broadband networks may have an impact on JSAT's broadcasting-related businesses.

### • *Foreign Exchange Risk*

While the Company's revenues are denominated almost entirely in Japanese yen, two of its major expenses—the construction and the launch of new satellites—must be paid in U.S. dollars. JSAT has entered into foreign exchange forward contracts and foreign currency option contracts to manage its exposure to fluctuations in the yen-dollar exchange rate.

## Environmental Policy

To facilitate a rapid response to environmental issues, proactively reduce environmental risks and promote energy savings, in November 2002 the Company formulated the "JSAT Environmental Policy." The key points of the policy are: (1) the development of an information- and communications-based society premised on both environmental protection and convenience; (2) the operation of environment-friendly satellite control centers; (3) the operation of offices promoting awareness of environmental protection issues and the importance of everyday, individual actions; and (4) the use of measurable targets for activities and communication.

In December 2002, JSAT received ISO14001 certification for its environmental management activities.

## Forward-Looking Statements

This report contains forward-looking statements that are based on JSAT's own projections and estimates. The markets in which JSAT is active are extremely volatile, subject to rapid shifts in technology, customer demands, prices, changes in economic conditions, potential satellite failures and many other variables. Due to the risks and uncertainties involved, actual results may differ materially from the content of these forward-looking statements. Therefore, these forward-looking statements should not be interpreted as representations that such objectives will be fulfilled.

## Quarterly Data

ISAT Corporation and Subsidiaries  
Years Ended March 31.

Millions of Yen, Except Per Share Amounts

|   | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Full<br>Year |
|---|------------------|-------------------|------------------|-------------------|--------------|
| <b>2003</b>                                   |                  |                   |                  |                   |              |
| <b>Operating results</b>                      |                  |                   |                  |                   |              |
| Revenues                                      | ¥ 10,647         | ¥ 11,423          | ¥ 11,494         | ¥ 11,557          | ¥ 45,121     |
| Operating income                              | 2,458            | 3,203             | 3,558            | 2,581             | 11,799       |
| Net income                                    | 1,048            | 1,902             | 1,925            | 1,308             | 6,182        |
| <b>Financial position</b>                     |                  |                   |                  |                   |              |
| Total assets                                  | ¥178,778         | ¥174,593          | ¥171,214         | ¥169,230          | ¥ 169,230    |
| Total shareholders' equity                    | 96,130           | 94,856            | 93,932           | 93,207            | 93,207       |
| <b>Cash flows</b>                             |                  |                   |                  |                   |              |
| Net cash provided by operating activities     | ¥ 8,681          | ¥ 5,726           | ¥ 8,238          | ¥ 5,223           | ¥ 25,867     |
| <b>Other data</b>                             |                  |                   |                  |                   |              |
| EBITDA  | ¥ 6,563          | ¥ 7,624           | ¥ 7,693          | ¥ 6,813           | ¥ 28,692     |
| EBITDA margin (%)                             | 61.6%            | 66.7%             | 66.9%            | 59.0%             | 63.6%        |
| Earnings per share—basic (EPS)                | 2,734.90         | 4,982.18          | 5,083.86         | 3,448.60          | 16,248.95    |
| Weighted-average number of shares outstanding | 383,154          | 381,737           | 378,592          | 378,405           | 380,476      |

Millions of Yen, Except Per Share Amounts

|   | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Full<br>Year |
|---|------------------|-------------------|------------------|-------------------|--------------|
| <b>2002</b>                                   |                  |                   |                  |                   |              |
| <b>Operating results</b>                      |                  |                   |                  |                   |              |
| Revenues                                      | ¥ 9,758          | ¥ 9,652           | ¥ 10,618         | ¥ 10,755          | ¥ 40,783     |
| Operating income                              | 3,102            | 2,665             | 3,132            | 2,426             | 11,325       |
| Net income                                    | 1,527            | 1,251             | 1,668            | 1,163             | 5,609        |
| <b>Financial position</b>                     |                  |                   |                  |                   |              |
| Total assets                                  | ¥162,389         | ¥167,421          | ¥168,477         | ¥163,432          | ¥ 163,432    |
| Total shareholders' equity                    | 93,551           | 93,103            | 95,043           | 96,907            | 96,907       |
| <b>Cash flows</b>                             |                  |                   |                  |                   |              |
| Net cash provided by operating activities     | ¥ 4,130          | ¥ 5,841           | ¥ 4,794          | ¥ 5,165           | ¥ 19,930     |
| <b>Other data</b>                             |                  |                   |                  |                   |              |
| EBITDA  | ¥ 6,958          | ¥ 6,591           | ¥ 7,500          | ¥ 6,915           | ¥ 27,963     |
| EBITDA margin (%)                             | 71.3%            | 68.3%             | 70.6%            | 64.3%             | 68.6%        |
| Earnings per share—basic (EPS)                | 3,984.41         | 3,265.93          | 4,354.34         | 3,033.90          | 14,638.58    |
| Weighted-average number of shares outstanding | 383,154          | 383,154           | 383,154          | 383,154           | 383,154      |

## Consolidated Balance Sheets

JSAT Corporation and Subsidiaries  
March 31, 2002 and 2003

| ASSETS   | Thousands of Yen    |                     | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|---------------------|---------------------|--|
|  | 2002                | 2003                | 2003                                     |
| <b>Current assets:</b>                                 |                     |                     |  |
| Cash and cash equivalents                              | ¥ 865,863           | ¥ 1,499,717         | \$ 12,709                                |
| Time deposits  | 4,500               | 2,000,000           | 16,949                                   |
| Short-term investments (Note 2)                        | 9,414,782           | 14,138,585          | 119,819                                  |
| Accounts receivable (Note 3):                          |                     |                     |  |
| Trade  | 1,873,601           | 2,088,028           | 17,695                                   |
| Loans  | 1,100,000           | 7,300,000           | 61,864                                   |
| Other  | 1,287,831           | 260,259             | 2,206                                    |
| Inventories  | 89,828              | 91,699              | 777                                      |
| Prepaid expenses                                       | 2,283,357           | 2,811,899           | 23,830                                   |
| Deferred income taxes (Note 12)                        | 409,096             | 938,199             | 4,561                                    |
| Other current assets                                   | 79,141              | 76,114              | 644                                      |
| <b>Total current assets</b>                            | <b>17,407,999</b>   | <b>30,804,500</b>   | <b>261,054</b>                           |
| <b>Investments:</b>                                    |                     |                     |  |
| Investments in affiliated companies (Note 3)           | 454,929             | 499,007             | 4,229                                    |
| Other investments (Notes 2, 3 and 5)                   | 21,627,515          | 12,265,133          | 103,942                                  |
| <b>Total investments</b>                               | <b>22,082,444</b>   | <b>12,764,140</b>   | <b>108,171</b>                           |
| <b>Property and equipment (Notes 3; 4, 14 and 15):</b> |                     |                     |  |
| Land   | 2,415,491           | 2,607,571           | 22,607                                   |
| Telecommunications satellites                          | 164,301,077         | 146,916,260         | 1,245,053                                |
| Telecommunications equipment                           | 19,809,696          | 17,554,983          | 148,771                                  |
| Buildings and structures                               | 3,763,216           | 4,921,827           | 41,710                                   |
| Equipment and furniture                                | 742,920             | 838,320             | 7,104                                    |
| Construction in progress                               | 24,447,166          | 19,020,062          | 161,187                                  |
| <b>Total</b>   | <b>215,479,566</b>  | <b>191,919,023</b>  | <b>1,626,432</b>                         |
| Accumulated depreciation                               | (94,179,807)        | (69,633,008)        | (590,110)                                |
| <b>Net property and equipment</b>                      | <b>121,299,759</b>  | <b>122,286,015</b>  | <b>1,036,322</b>                         |
| <b>Deferred income taxes (Note 12)</b>                 | <b>143,749</b>      | <b>638,807</b>      | <b>5,414</b>                             |
| <b>Other assets</b>                                    | <b>2,498,114</b>    | <b>2,736,197</b>    | <b>23,188</b>                            |
| <b>Total</b>   | <b>¥163,432,065</b> | <b>¥169,229,619</b> | <b>\$1,434,149</b>                       |

See notes to consolidated financial statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY                                | Thousands of Yen    |                     | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|---------------------|---------------------|--|
|   | 2002                | 2003                | 2003                                     |
| <b>Current liabilities:</b>   |                     |                     |  |
| Short-term borrowings (Note 5)                                      | ¥ 3,350,000         | ¥ 2,800,000         | \$ 23,720                                |
| Current portion of long-term debt (Notes 3, 5 and 14)               | 12,287,196          | 8,198,732           | 69,481                                   |
| Trade accounts payable  | 730,868             | 812,357             | 6,884                                    |
| Accrued liabilities:  |                     |                     |  |
| Interest  | 456,579             | 66,025              | 560                                      |
| Taxes on income (Note 12)   | 1,776,340           | 2,953,007           | 25,025                                   |
| Other   | 993,454             | 921,020             | 7,805                                    |
| Advances from customers   | 759,723             | 2,374,908           | 20,126                                   |
| Other current liabilities   | 617,962             | 1,888,899           | 16,007                                   |
| <b>Total current liabilities</b>                                    | <b>20,972,122</b>   | <b>20,014,948</b>   | <b>169,617</b>                           |
| <b>Long-term liabilities:</b>                                       |                     |                     |  |
| Long-term debt (Notes 3, 5 and 14)                                  | 39,168,789          | 32,465,745          | 275,133                                  |
| Convertible bonds (Notes 5 and 14)                                  | —                   | 20,000,000          | 169,492                                  |
| Liability for severance payments (Note 6)                           | 772,639             | 1,054,407           | 8,936                                    |
| Deferred income taxes (Note 12)                                     | 3,064,770           | —                   | —  |
| Other liabilities (Note 3)  | 1,973,011           | 1,885,638           | 15,980                                   |
| <b>Total long-term liabilities</b>                                  | <b>44,979,209</b>   | <b>55,405,790</b>   | <b>469,541</b>                           |
| <b>Commitments and contingent liabilities (Note 15)</b>             |                     |                     |  |
| <b>Minority Interests</b>   | <b>574,003</b>      | <b>602,261</b>      | <b>5,104</b>                             |
| <b>Shareholders' equity (Note 7):</b>                               |                     |                     |  |
| Common stock:   | 53,769,570          | 53,769,570          | 455,674                                  |
| authorized, 450,000 shares  |                     |                     |  |
| issued, 2002 and 2003—383,154.5 shares                              |                     |                     |  |
| Additional paid-in capital  | 35,008,772          | 35,008,569          | 296,683                                  |
| Retained earnings:  |                     |                     |  |
| Appropriated for legal reserve                                      | 236,892             | —                   | —  |
| Unappropriated  | 1,646,932           | 6,161,179           | 52,214                                   |
| Accumulated other comprehensive income:                             |                     |                     |  |
| Unrealized gains and losses on securities (Note 2)                  | 6,061,544           | 723,693             | 6,132                                    |
| Foreign currency translation adjustments                            | 183,610             | (111,105)           | (942)                                    |
| Minimum pension liability adjustment                                | —                   | (43,843)            | (371)                                    |
| <b>Total accumulated other comprehensive income</b>                 | <b>6,245,154</b>    | <b>568,655</b>      | <b>4,819</b>                             |
|   | 96,907,320          | 95,507,973          | 809,390                                  |
| Less treasury stock, at cost (2002—0.5 shares, 2003—4,749.5 shares) | (589)               | (2,301,353)         | (19,503)                                 |
| <b>Total shareholders' equity</b>                                   | <b>96,906,731</b>   | <b>93,206,620</b>   | <b>789,887</b>                           |
| <b>Total</b>  | <b>¥163,432,065</b> | <b>¥169,229,619</b> | <b>\$1,434,149</b>                       |

## Consolidated Statements of Income

JSAT Corporation and Subsidiaries  
Years Ended March 31, 2001, 2002 and 2003

|  | Thousands of Yen |             |             | Thousands of<br>U.S. Dollars<br>(Note 1) |
|--|------------------|-------------|-------------|--|
|  | 2001             | 2002        | 2003        | 2003                                     |
| <b>Revenues</b> (Notes 3, 9 and 14)                          | ¥38,160,433      | ¥40,782,817 | ¥45,121,140 | \$382,383                                |
| <b>Operating expenses:</b>                                   |                  |             |             |  |
| Cost of services (Note 3)                                    | 6,500,438        | 7,849,701   | 10,206,361  | 86,494                                   |
| Sales and marketing (Note 10)                                | 2,150,195        | 2,022,850   | 2,370,217   | 20,087                                   |
| Depreciation and amortization (Note 4)                       | 15,420,094       | 16,475,662  | 16,697,698  | 141,506                                  |
| General and administrative expenses                          | 2,500,717        | 2,896,662   | 3,418,327   | 28,969                                   |
| Loss on property and equipment                               | 418,374          | 212,943     | 649,946     | 5,508                                    |
| Total operating expenses                                     | 26,989,818       | 29,457,818  | 33,342,549  | 282,564                                  |
| <b>Operating income</b>                                      | 11,170,615       | 11,324,999  | 11,778,591  | 99,819                                   |
| <b>Other income (expenses):</b>                              |                  |             |             |  |
| Interest expenses  | (1,787,512)      | (1,387,680) | (922,757)   | (7,820)                                  |
| Equity in earnings (losses) of affiliated companies (Note 3) | (889,071)        | (243,696)   | 77,318      | 655                                      |
| Other—net (Notes 2, 3 and 11)                                | 1,201,460        | 300,691     | 176,726     | 1,497                                    |
| Other expenses—net   | (1,475,123)      | (1,330,685) | (668,713)   | (5,668)                                  |
| <b>Income before income taxes and minority interests</b>     | 9,695,492        | 9,994,314   | 11,109,878  | 94,151                                   |
| <b>Income taxes</b> (Note 12):                               |                  |             |             |  |
| Current  | 4,638,857        | 4,263,015   | 4,692,983   | 39,771                                   |
| Deferred   | (68,474)         | 98,931      | 266,306     | 1,748                                    |
| Total  | 4,570,383        | 4,361,946   | 4,899,289   | 41,519                                   |
| <b>Income before minority interests</b>                      | 5,125,109        | 5,632,368   | 6,210,589   | 52,632                                   |
| Minority interests in income of subsidiaries                 | —                | (23,537)    | (28,257)    | (239)                                    |
| <b>Net income</b>  | ¥ 5,125,109      | ¥ 5,608,831 | ¥ 6,182,332 | \$ 52,393                                |

|  | Yen        |            |            | U.S. Dollars |
|--|------------|------------|------------|--------------|
|  | 2001       | 2002       | 2003       | 2003         |
| <b>Per share of common stock</b> (Notes 8 and 13): |            |            |            |              |
| Earnings per share—basic                           | ¥13,936.64 | ¥14,638.58 | ¥16,248.95 | \$137.70     |
| Earnings per share—diluted                         | 13,935.31  | 14,638.58  | 15,175.46  | 128.61       |

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

JSAT Corporation and Subsidiaries  
 Years Ended March 31, 2001, 2002 and 2003

|   | Thousands of Yen |             |             | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|------------------|-------------|-------------|--|
|   | 2001             | 2002        | 2003        | 2003                                     |
| <b>Net income</b>   | ¥ 5,125,109      | ¥5,608,831  | ¥6,102,332  | \$52,393                                 |
| Other comprehensive income (loss), net of tax (Note 7):                         |                  |             |             |  |
| Unrealized gains and losses on securities:                                      |                  |             |             |  |
| Unrealized holding gains and losses arising during the period                   | 6,334,756        | (1,496,510) | (5,379,031) | (45,585)                                 |
| Less reclassification adjustment for gains and losses<br>included in net income | (488,765)        | 18,442      | 41,090      | 348                                      |
| Net unrealized gains and losses on securities                                   | 5,845,991        | (1,478,068) | (5,337,941) | (45,237)                                 |
| Foreign currency translation adjustments  | -                | 183,610     | (294,715)   | (2,497)                                  |
| Minimum pension liability adjustment  | -                | -           | (43,843)    | (372)                                    |
| Total other comprehensive income (loss)   | 5,845,991        | (1,294,458) | (5,676,499) | (48,106)                                 |
| <b>Comprehensive income</b>   | ¥10,971,100      | ¥4,314,373  | ¥ 505,833   | \$ 4,287                                 |

See notes to consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

JSAT Corporation and Subsidiaries  
Years Ended March 31, 2001, 2002 and 2003

|   | Thousands of Yen |             |             | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|------------------|-------------|-------------|--|
|   | 2001             | 2002        | 2003        | 2003                                     |
| <b>Common stock (Note 7):</b>                                       |                  |             |             |  |
| Balance, beginning of year  | ¥43,250,820      | ¥53,769,570 | ¥53,769,570 | \$455,674                                |
| Issuance of common stock  | 10,518,750       | -           | -           | -  |
| Balance, end of year  | ¥53,769,570      | ¥53,769,570 | ¥53,769,570 | \$455,674                                |
| <b>Additional paid-in capital (Note 7):</b>                         |                  |             |             |  |
| Balance, beginning of year  | ¥15,660,708      | ¥35,044,079 | ¥35,008,772 | \$296,685                                |
| Issuance of common stock  | 19,345,431       | -           | -           | -  |
| Warrants issued related to stock options (Notes 5 and 8)            | 37,940           | (35,307)    | (203)       | (2)                                      |
| Balance, end of year  | ¥35,044,079      | ¥35,008,772 | ¥35,008,569 | \$296,683                                |
| <b>Retained earnings (Note 7):</b>                                  |                  |             |             |  |
| <b>Appropriated for legal reserve</b>                               |                  |             |             |  |
| Balance, beginning of year  | -                | -           | ¥ 236,892   | \$ 2,067                                 |
| Transfer from (to) unappropriated retained earnings                 | -                | ¥ 236,892   | (236,892)   | (2,067)                                  |
| Balance, end of year  | -                | ¥ 236,892   | ¥ -         | \$ -                                     |
| <b>Unappropriated</b>   |                  |             |             |  |
| Balance, beginning of year  | ¥(5,593,306)     | ¥ (468,197) | ¥ 1,646,932 | \$ 13,957                                |
| Net income  | 5,125,109        | 5,608,831   | 6,182,332   | 52,393                                   |
| Cash dividends paid (2002—¥8,500 per share, 2003—¥6,000)            | -                | (3,256,810) | (1,904,977) | (16,143)                                 |
| Transfer from (to) retained earnings appropriated for legal reserve | -                | (236,892)   | 236,892     | 2,067                                    |
| Balance, end of year  | ¥ (468,197)      | ¥ 1,646,932 | ¥ 6,161,179 | \$ 52,214                                |
| <b>Accumulated other comprehensive income (Note 7):</b>             |                  |             |             |  |
| Balance, beginning of year  | ¥ 1,693,621      | ¥ 7,539,612 | ¥ 6,245,154 | \$ 52,925                                |
| Other comprehensive income (loss) for the year, net of tax          | 5,845,991        | (1,294,458) | (5,676,499) | (48,106)                                 |
| Balance, end of year  | ¥ 7,539,612      | ¥ 6,245,154 | ¥ 568,655   | \$ 4,819                                 |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

JSAT Corporation and Subsidiaries  
Years Ended March 31, 2001, 2002 and 2003

|   | Thousands of Yen |              |              | Thousands of<br>U.S. Dollars<br>(Note 1) |
|---|------------------|--------------|--------------|--|
|   | 2001             | 2002         | 2003         | 2003                                     |
| <b>Operating activities:</b>  |                  |              |              |  |
| Net income  | ¥ 5,125,109      | ¥ 5,608,831  | ¥ 6,182,332  | \$ 52,393                                |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |              |              |  |
| Depreciation and amortization   | 15,420,094       | 16,475,662   | 16,697,698   | 141,506                                  |
| Provision for doubtful receivables  | 57,173           | 338,601      | 187,699      | 1,586                                    |
| Accrual for severance payments, less payments                                     | 116,267          | 179,337      | 207,524      | 1,759                                    |
| Foreign currency transaction (gain) loss  | (133,684)        | (352,680)    | 64,236       | 544                                      |
| Equity in (earnings) losses of affiliated companies                               | 889,071          | 243,696      | (77,318)     | (655)                                    |
| Loss on property and equipment  | 418,374          | 212,943      | 649,946      | 5,508                                    |
| (Gain) loss on sales or write-downs of other investments and other assets—net     | (841,218)        | 330,114      | 307,786      | 2,608                                    |
| Deferred income taxes   | (68,474)         | 98,931       | 206,306      | 1,748                                    |
| Changes in assets and liabilities:  |                  |              |              |  |
| Increase in trade accounts receivable   | (496,800)        | (153,020)    | (299,710)    | (2,540)                                  |
| Increase in prepaid expenses  | (204,500)        | (372,854)    | (528,691)    | (4,489)                                  |
| Increase (decrease) in trade accounts payable                                     | (928,925)        | (151,313)    | 81,489       | 691                                      |
| Increase (decrease) in accrued liabilities—interest and other                     | 590,486          | (105,539)    | (460,648)    | (3,904)                                  |
| Increase (decrease) in accrued liabilities—taxes on income                        | 2,177,480        | (2,049,239)  | 1,176,667    | 9,972                                    |
| Increase (decrease) in advances from customers                                    | (69,949)         | (55,331)     | 1,615,185    | 13,688                                   |
| Other—net   | 677,938          | (317,863)    | (142,781)    | (1,211)                                  |
| Net cash provided by operating activities   | 22,728,442       | 19,930,276   | 25,867,120   | 219,213                                  |
| <b>Investing activities:</b>  |                  |              |              |  |
| Acquisition of time deposits  | (799,400)        | (9,000)      | (3,319,650)  | (28,133)                                 |
| Collection of time deposits   | 294,900          | 640,950      | 1,235,000    | 10,466                                   |
| Payments for property and equipment   | (15,621,690)     | (12,369,092) | (18,431,835) | (156,292)                                |
| Proceeds from sales of property and equipment                                     | —                | 16,380       | 759          | 6  |
| Payments for investments in affiliated companies                                  | (1,329,000)      | (1,738)      | —            | —  |
| Proceeds from liquidation of affiliated companies                                 | —                | —            | 5,140        | 44                                       |
| Payments for purchases of short-term investments and other investments            | (46,381,084)     | (23,620,075) | (34,953,398) | (296,215)                                |
| Proceeds from sales of short-term investments and other investments               | 42,403,939       | 16,062,671   | 32,502,424   | 273,749                                  |
| Acquisition of other assets   | (169,458)        | (58,896)     | (458,816)    | (3,888)                                  |
| Proceeds from sales of other assets   | —                | 2,488        | —            | —  |
| (Increase) decrease in short-term loans receivable—net                            | (5,000,000)      | 3,900,000    | (6,200,000)  | (52,542)                                 |
| Acquisition of long-term loans receivable   | —                | —            | (244,350)    | (2,071)                                  |
| Payments for business acquisitions, net of cash acquired                          | —                | (703,974)    | —            | —  |
| Net cash used in investing activities   | (26,601,793)     | (16,140,286) | (30,061,716) | (254,786)                                |
| <b>Financing activities:</b>  |                  |              |              |  |
| Proceeds from short-term borrowings   | 2,000,000        | 10,000,000   | 3,625,000    | 30,720                                   |
| Repayments of short-term borrowings   | (2,000,000)      | (8,600,000)  | (4,175,000)  | (35,381)                                 |
| Proceeds from long-term borrowings  | —                | 13,500,000   | 1,500,000    | 12,712                                   |
| Repayments of long-term borrowings  | (20,168,340)     | (20,950,822) | (11,413,904) | (96,728)                                 |
| Proceeds from issuance of convertible bonds                                       | —                | —            | 20,062,958   | 176,025                                  |
| Proceeds from issuance of bonds with detachable warrants                          | 169,576          | —            | —            | —  |
| Repayments of redemption and buyback of bonds                                     | (171,000)        | —            | (4,500)      | (38)                                     |
| Proceeds from issuance of common stock  | 29,820,140       | —            | —            | —  |
| Proceeds from issuance of commercial paper  | —                | 10,000,000   | —            | —  |
| Repayments of commercial paper  | —                | (10,000,000) | —            | —  |
| Payments to acquire treasury stock  | —                | —            | (2,306,586)  | (19,547)                                 |
| Payments for cash dividends   | —                | (3,238,098)  | (1,893,772)  | (16,049)                                 |
| Other   | (71,255)         | (301,562)    | (524,667)    | (4,447)                                  |
| Net cash provided by (used in) financing activities                               | 9,579,121        | (9,590,482)  | 4,869,519    | 41,267                                   |
| Effect of exchange rate changes on cash and cash equivalents                      | 12,690           | 208,736      | (38,079)     | (323)                                    |
| Net increase (decrease) in cash and cash equivalents                              | 5,718,460        | (5,591,756)  | 633,854      | 5,371                                    |
| Cash and cash equivalents at beginning of year                                    | 739,159          | 6,457,619    | 865,863      | 7,338                                    |
| Cash and cash equivalents at end of year  | ¥ 6,457,619      | ¥ 865,863    | ¥ 1,499,717  | \$ 12,709                                |
| <b>Supplemental information:</b>  |                  |              |              |  |
| Cash paid during the year for:  |                  |              |              |  |
| Interest, net of amounts capitalized  | ¥ 1,370,364      | ¥ 1,627,257  | ¥ 1,316,087  | \$ 11,153                                |
| Income taxes  | 2,381,301        | 6,292,552    | 3,518,117    | 29,815                                   |

See notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

JSAT Corporation and Subsidiaries

## 1. BASIS OF CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### I. NATURE OF OPERATIONS

JSAT Corporation (the "Company") and its subsidiaries (together, the "Companies") are primarily engaged in the satellite telecommunications and broadcasting business through 8 satellites providing state-of-the-art satellite-based services mainly in Japan.

The Companies' principal lines of business are telecommunications business services, satellite broadcasting services and telecommunications carrier services.

Telecommunications business services include the provision of domestic and international full-time and occasional satellite transponder capacity to various customers, primarily corporations, for their internal telecommunications networks.

Satellite broadcasting services consist of multi-channel digital broadcasting services through SKY Perfect Communications Inc. ("SKY Perfect"). These services also include the provision of operational support services to SKY Perfect.

Telecommunications carrier services include the provision of transponder capacity to NTT and related entities as part of, or as alternative routing for, their telecommunications networks.

The Companies, in providing their various services, are subject to the Telecommunications Business Law, the Radio Law, the Broadcast Law and other related laws and regulations of Japan.

Telecommunications satellites are subject to significant risks, including launch failure, destruction and damage which may result in total or partial loss, or prevent commercial operation, of a satellite. The Companies have insurance coverage that generally reimburses the Companies for all or a substantial portion of the carrying value of the net assets that may be affected by such events. Additionally, the Companies operate one satellite for back-up purposes, so that the Companies can supply the services continuously in the case of launch and in-orbit failure.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### II. BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into United States dollar amounts with respect to the year ended March 31, 2003 is included solely for the convenience of readers outside Japan and has been made at the rate of ¥118=U.S.\$1, the approximate exchange rate on March 31, 2003. Such translation should not be construed as a representation that the Japanese yen amounts could be converted into United States dollars at the above or any other rate.

The Companies and their affiliated companies maintain their records and prepare their statutory financial statements principally in accordance with the Commercial Code of Japan (the "Code") by applying accounting principles generally accepted in Japan ("Japanese GAAP"). The Company, as a regulated entity, also follows the Telecommunications Business Law and other related accounting regulations for preparing such financial statements.

The accompanying consolidated financial statements incorporate certain adjustments, which have not been entered in the Companies' general books of account and additional disclosures, to conform with U.S. GAAP. Major adjustments and disclosures include those relating to (1) accounting for leases, (2) capitalization of interest costs, (3) accounting for compensated absences, (4) employees' benefit plans, (5) impairment of long-lived assets, (6) common stock issue costs, (7) derivative financial instruments and (8) stock-based compensation.

### III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying consolidated financial statements are summarized below.

#### (1) Consolidation and investments in affiliated companies

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Significant inter-company transactions and balances have been eliminated in consolidation. Investments in affiliated companies (companies owned 20% to 50% and corporate joint ventures) are accounted for under the equity method, after appropriate adjustments for inter-company profits and dividends. The excess cost of investments in subsidiaries and affiliated companies over

the equity in the net assets at the date of acquisition was principally being amortized over periods of 5 years. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," goodwill acquired after June 30, 2001 is not amortized.

### (2) Revenue recognition

The Companies enter into transponder utilization contracts with customers to provide satellite transponder capacity and consignment contracts to transmit customers' broadcasting programs.

Full-time dedicated telecommunications business services and telecommunications carrier services are accounted for as operating leases. Operating lease revenues are recognized on a straight-line basis over the lease term.

Revenues from satellite broadcasting services are recognized based on the contract terms on a monthly billing cycle basis.

Occasional dedicated telecommunications business and other services revenues are recorded when the services are rendered to customers.

### (3) Foreign currency translation

All asset and liability accounts of a foreign subsidiary are translated into Japanese yen at appropriate year-end exchange rates and all income and expense accounts are translated at rates that approximate those rates prevailing at the time of the transactions. The resulting translation adjustments are accumulated and reported as a component of accumulated other comprehensive income.

Foreign currency receivables and payables are translated into Japanese yen at year-end exchange rates and resulting exchange gains or losses are recognized currently in income.

### (4) Cash and cash equivalents

For purposes of the consolidated statements of cash flows, cash equivalents are defined as highly liquid investments which include short-term time deposits, generally with original maturities of three months or less, that are readily convertible into cash and have no significant risk of change in value.

### (5) Inventories

Inventories, which mainly consist of preparatory parts of telecommunications equipment, are stated at the lower of cost, on the specific identification basis, or market.

### (6) Short-term investments and other investments

In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," unrealized gains and losses on marketable equity securities and debt securities

designated as available-for-sale, whose fair values are readily determinable, are included as a component of accumulated other comprehensive income in a separate component of shareholders' equity, net of applicable taxes and debt securities designated as held-to-maturity are stated at amortized cost.

Short-term investments other than marketable equity securities and debt securities are stated at cost plus credited earnings which approximates fair value.

Other investments other than marketable equity securities and debt securities are investments in non-traded and unaffiliated companies, investments in partnerships and non-current time deposits. Investments in non-traded and unaffiliated companies are stated at cost. If an other-than-temporary impairment of these investments is considered to have occurred, the cost basis of the individual security is written down to equity in net assets of the investee.

Investments in partnerships are stated at cost plus a share of profit and loss which approximates fair value. Non-current time deposits are stated at cost which approximates fair value.

The cost of securities sold is determined based on the moving average-cost method.

### (7) Allowance for doubtful receivables

An allowance for doubtful receivables is established in amounts considered to be appropriate based on the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding. In addition, an impairment loss is recognized if the present value of expected future cash flows discounted at the loan's effective interest rate is less than the recorded investment.

### (8) Property and equipment and depreciation

Property and equipment are stated at cost. The capitalized cost of telecommunications satellites includes all construction costs, launch costs, launch insurance, direct development costs and capitalized interest. Expenditures for maintenance, repairs and renewals of relatively minor items are expensed as incurred. Depreciation of property and equipment is provided by the straight-line method over the estimated useful lives of the related assets. Estimated useful lives for property and equipment are as principally follows:

|                               |                |
|-------------------------------|----------------|
| Telecommunications satellites | 11 to 17 years |
| Telecommunications equipment  | 2 to 12 years  |
| Buildings and structures      | 3 to 47 years  |
| Equipment and furniture       | 3 to 12 years  |

As the telecommunications industry is subject to rapid technological changes, the Company may be required to revise

the estimated useful lives of their telecommunications satellites. Accordingly, the estimated useful lives are periodically reviewed using current telemetry, tracking and control data including remaining propellant. If a significant change in the estimated useful lives is identified, the Companies account for such changes on a prospective basis.

The cost and accumulated depreciation for property and equipment sold, retired, or otherwise disposed of are relieved from the accounts, and any resulting gains or losses are reflected in income.

#### **(9) Long-lived assets**

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," long-lived assets to be held and used are reviewed, by using future cash flow which is not discounted, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The measurement of an impairment loss for long-lived assets and certain identifiable intangibles to be disposed of is based on the fair value less cost to sell.

#### **(10) Employees' benefit plans and directors' severance indemnities**

The Companies have unfunded severance indemnity plans covering substantially all of their employees other than directors and executive officers. The costs of the unfunded plans are accrued based on amounts determined using actuarial methods in accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions."

The Companies also participate in a contributory multi-employer pension plan covering all of their employees. The costs of the multi-employer plan are accrued based on the contribution amounts.

The costs of the severance indemnity plans for directors and executive officers are accrued based on the vested benefit obligation, which is the amount required to be paid if all directors and executive officers terminated their appointments at each balance sheet date.

#### **(11) Income taxes**

Income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." Under this statement, the tax effect of temporary differences between the financial statements and income tax basis of assets and liabilities is recognized as deferred income taxes, using enacted tax rates applicable to the periods in which the differences are expected to affect taxable income. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the

period that includes the enactment date. A valuation allowance is provided for any portion of the deferred tax assets where it is considered more likely than not that they will not be realized.

#### **(12) Derivative financial instruments**

On April 1, 2001, the Companies adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133," which establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133, as amended, requires that derivatives be reported as assets or liabilities at fair value and that changes in the fair value be accounted for depending on the intended use of the derivative and the resulting designation.

#### **(13) Net income per share**

Basic earnings per share ("EPS") is computed by dividing net income by the weighted-average number of common stock outstanding for the period and diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock resulted in the issuance of common stock.

#### **(14) Stock-based compensation**

The Companies measure compensation costs for stock-based compensation plans using the intrinsic value method of accounting as prescribed in Accounting Principles Board Option ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Companies have adopted those provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," which require disclosures of the pro forma effects on net income and EPS as if compensation cost had been recognized based upon the estimated fair value at the date of grant for options award.

### **IV. RECLASSIFICATION**

Certain reclassifications have been made to the 2001 and 2002 financial statements to conform to the classifications used in 2003.

### **V. NEW ACCOUNTING STANDARD**

*Business combinations and goodwill and other intangible assets*  
In June 2001, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of

accounting. It also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. SFAS No. 142 requires that goodwill and certain other intangibles no longer be amortized, but instead be tested for impairment at least annually. The Companies adopted SFAS No. 141 and SFAS No. 142 on April 1, 2002. The adoption of these statements did not have a material effect on the Companies' consolidated financial position and results of operations.

#### *Asset retirement obligations*

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and requires that the amount recorded as a liability be capitalized by increasing the carrying amount of the related long-lived asset. Subsequent to initial measurement, the liability is accreted to the ultimate amount anticipated to be paid, and is also adjusted for revisions to the timing or amount of estimated cash flows. The capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss on settlement. The Companies adopted SFAS No. 143 on April 1, 2002. The adoption of this statement did not have a material effect on the Companies' consolidated financial position and results of operations.

#### *Impairment or disposal of long-lived assets*

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." SFAS No. 144 supersedes SFAS No. 121. SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for (1) recognition and measurement of the impairment of long-lived assets to be held and used; and (2) measurement of the impairment of long-lived assets to be disposed of by sale. The Companies adopted SFAS No. 144 on April 1, 2002. The adoption of SFAS No. 144 did not have a material effect on the Companies' consolidated financial position and results of operations.

#### *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 amended SFAS No. 13, "Accounting for leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to

sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under change conditions. The adoption of SFAS No. 145 did not have a material effect on the Companies' consolidated financial position and results of operations.

#### *Costs associated with exit or disposal activities*

In June 2002, the FASB issued SFAS No. 146, "Accounting for Cost Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material effect on the Companies' consolidated financial position and results of operations.

#### *Acquisitions of certain financial institutions*

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions." SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," and FASB Interpretation ("FIN") No. 9, "Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method," provided interpretive guidance on the application of the purchase method to acquisitions of financial institutions. Except for transactions between two or more mutual enterprises, SFAS No. 147 removes acquisitions of financial institutions from the scope of both SFAS No. 72 and FIN No. 9 and requires that those transactions be accounted for in accordance with SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." The adoption of SFAS No. 147 did not have a material effect on the Companies' consolidated financial position and results of operations.

#### *Stock-based compensation*

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." This statement provides additional alternative transition approaches under SFAS No. 123. SFAS No. 148 is effective for fiscal years ending after December 15, 2002. The adoption of SFAS No. 148 did not have a material effect on the Companies' consolidated financial position and results of operations.

**Guarantor's accounting and disclosure requirements for guarantees**

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others." The initial recognition and measurement under provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, and require that the Companies record a liability, if any, for the fair value of such guarantees in the balance sheet. The adoption of FIN No. 45 did not have a material effect on the Companies' consolidated financial position and results of operations.

**Consolidation of variable interest entities**

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 addresses consolidation by business enterprises of variable interest entities ("VIE") when certain characteristics are present. FIN No. 46 applies immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. FIN No. 46 is required to be adopted for fiscal years beginning after June 15, 2003. Management has not yet determined the impact, if any, the adoption of FIN No. 46 will have on the Companies' consolidated financial position and results of operations.

**2. SHORT-TERM INVESTMENTS AND OTHER INVESTMENTS**

In accordance with SFAS No. 115, the Companies' marketable equity securities were classified as available-for-sale securities

and the Companies' debt securities were classified as available-for-sale securities or held-to-maturity securities.

At March 31, 2002 and 2003, the aggregate cost, fair value and gross unrealized holding gains and losses on available-for-sale securities and held-to-maturity securities are as follows:

|                             | Thousands of Yen |                  |                   |             |
|-----------------------------|------------------|------------------|-------------------|-------------|
|                             | 2002             |                  |                   |             |
|                             | Cost             | Unrealized gains | Unrealized losses | Fair value  |
| Securities classified as:   |                  |                  |                   |             |
| Available-for-sale:         |                  |                  |                   |             |
| Equity securities           | ¥10,656,072      | ¥10,563,226      | ¥(100,572)        | ¥21,118,726 |
| Debt securities             | 5,991,953        | 2,926            | (11,191)          | 5,983,688   |
| Held-to-maturity securities | 92,577           | -                | (1,074)           | 91,503      |

|                           | Thousands of Yen |                  |                   |             |
|---------------------------|------------------|------------------|-------------------|-------------|
|                           | 2003             |                  |                   |             |
|                           | Cost             | Unrealized gains | Unrealized losses | Fair value  |
| Securities classified as: |                  |                  |                   |             |
| Available-for-sale:       |                  |                  |                   |             |
| Equity securities         | ¥10,395,536      | ¥ 1,218,971      | ¥ (76,970)        | ¥11,537,537 |
| Debt securities           | 13,183,210       | 118,716          | (9,676)           | 13,292,250  |

|                           | Thousands of U.S. Dollars |                  |                   |            |
|---------------------------|---------------------------|------------------|-------------------|------------|
|                           | 2003                      |                  |                   |            |
|                           | Cost                      | Unrealized gains | Unrealized losses | Fair value |
| Securities classified as: |                           |                  |                   |            |
| Available-for-sale:       |                           |                  |                   |            |
| Equity securities         | \$ 88,098                 | \$ 10,330        | \$ (652)          | \$ 97,776  |
| Debt securities           | 111,722                   | 1,066            | (82)              | 112,646    |

The proceeds from sales of available-for-sale securities and gross realized gains and losses on these sales for the years ended March 31, 2001, 2002 and 2003 are as follows:

|                             | Thousands of Yen |           |            | Thousands of U.S. Dollars |
|-----------------------------|------------------|-----------|------------|---------------------------|
|                             | 2001             | 2002      | 2003       | 2003                      |
| Proceeds from sales         | ¥847,698         | ¥186,539  | ¥5,405,328 | \$45,808                  |
| Gross realized gains        | ¥842,698         | ¥ 9,540   | ¥ 38,274   | \$ 324                    |
| Gross realized losses       | -                | (41,337)  | (109,119)  | (924)                     |
| Net realized gains (losses) | ¥842,698         | ¥(31,797) | ¥ (70,845) | \$ (600)                  |

Debt securities classified as available-for-sale at March 31, 2003 mature as follows:

|                                | Thousands of Yen |             |
|--------------------------------|------------------|-------------|
|                                | Cost             | Fair value  |
| Contractual maturities:        |                  |             |
| Within 1 year                  | ¥ 1,550,678      | ¥ 1,552,327 |
| After 1 year through 5 years   | 10,171,051       | 10,281,156  |
| After 5 years through 10 years | 201,060          | 201,480     |
| After 10 years                 | 101,441          | 102,580     |
| Total                          | ¥12,024,230      | ¥12,137,543 |

|                                | Thousands of U.S. Dollars |            |
|--------------------------------|---------------------------|------------|
|                                | Cost                      | Fair value |
| Contractual maturities:        |                           |            |
| Within 1 year                  | \$ 13,141                 | \$ 13,155  |
| After 1 year through 5 years   | 86,195                    | 87,128     |
| After 5 years through 10 years | 1,704                     | 1,707      |
| After 10 years                 | 860                       | 871        |
| Total                          | \$101,900                 | \$102,861  |

Investments other than marketable equity securities and debt securities include (1) short-term investments in money management funds and trust of note receivable, etc., of ¥2,504,147 thousand and ¥232,403 thousand (\$1,970 thousand) at March 31, 2002 and 2003, respectively, which

approximate fair value and (2) other cost basis investments, non-traded equity securities, investments in partnerships and non-current time deposits of ¥1,343,159 thousand and ¥1,341,528 thousand (\$11,369 thousand) at March 31, 2002 and 2003, respectively.

### 3. INVESTMENTS IN AFFILIATED COMPANIES AND RELATED PARTY TRANSACTIONS

#### NTTSC

The Company has a 35.94% ownership interest in NTT Satellite Communications Inc. ("NTTSC") which was established on April 1, 1998 and is engaged in the provision of internet access services and intranet services in Japan. The Company made an additional equity investment in NTTSC of ¥804,000 thousand on September 29, 2000. Losses of the Company's equity investment by proportional share of NTTSC's net losses were ¥804,000 thousand for the year ended March 31, 2001. Additionally, based on agreements between shareholders of NTTSC, the Company has recorded losses of ¥75,580 thousand and ¥181,378 thousand in excess of its equity investment at March 31, 2001 and 2002, respectively, which have been included in other liabilities. On March 31, 2003, the Company has recorded earnings of ¥33,240 thousand (\$282 thousand) under these agreements.

NTTSC uses the Company's satellites for internet access services and intranet services via satellite. Revenues for these services for the years ended March 31, 2001, 2002 and 2003

were ¥1,400,443 thousand, ¥1,434,843 thousand and ¥1,295,009 thousand (\$10,975 thousand), respectively.

Additionally, the Company has an agency service agreement for the uplink operation with NTTSC. Cost of services under the agreement for the years ended March 31, 2001, 2002 and 2003 were ¥215,869 thousand, ¥525,756 thousand and ¥481,613 thousand (\$4,081 thousand), respectively.

#### PPVJ

The Company purchased 20% ownership of Pay Per View Japan, Inc. ("PPVJ") from certain shareholders on September 29, 2000. PPVJ is a provider of pay-per-view programming and a licensed broadcaster over SKY PerfecTV! using the Companies' satellites. Revenues for satellite broadcasting services for the six-month period ended March 31, 2002 and the year ended March 31, 2003 were ¥790,571 thousand and ¥934,012 thousand (\$7,915 thousand), respectively.

Summarized combined financial information for primarily NTTSC and PPVJ as of March 31, 2002 and 2003 and for the years ended March 31, 2001, 2002 and 2003 is presented below:

|  | Thousands of Yen |            | Thousands of U.S. Dollars |
|--|------------------|------------|---------------------------|
|  | 2002             | 2003       | 2003                      |
| Current assets   | ¥2,014,382       | ¥1,535,543 | \$12,928                  |
| Property and equipment—net of accumulated depreciation | 889,735          | 991,419    | 8,402                     |
| Other assets   | 694,870          | 675,375    | 5,724                     |
| Total assets   | ¥3,598,987       | ¥3,192,337 | \$27,054                  |
| Current liabilities                                    | ¥4,376,644       | ¥2,991,519 | \$25,352                  |
| Non-current liabilities                                | 150,715          | 852,187    | 7,222                     |
| Shareholders' equity                                   | (928,372)        | (651,369)  | (5,520)                   |
| Total liabilities and shareholders' equity             | ¥3,598,987       | ¥3,192,337 | \$27,054                  |

|                   | Thousands of Yen |             |             | Thousands of U.S. Dollars |
|-------------------|------------------|-------------|-------------|---------------------------|
|                   | 2001             | 2002        | 2003        | 2003                      |
| Revenues          | ¥10,054,251      | ¥13,870,815 | ¥17,118,307 | \$145,070                 |
| Net income (loss) | (1,523,972)      | (101,487)   | 311,282     | 2,638                     |

The carrying amount of investments in affiliated companies at March 31, 2003 includes ¥387,248 thousand (\$3,282 thousand), representing the unamortized balance of the excess cost of investments over the affiliated companies' equity in the net assets, at the date of acquisition. No dividends from affiliated companies were received for the years ended March 31, 2001, 2002 and 2003.

**SKY Perfect**

The Company has a 7.01% equity investment in SKY Perfect, which are available-for-sale equity securities, at March 31, 2003. The Company purchased additional shares of SKY Perfect for ¥5,748,045 thousand from a certain shareholder of the Company on June 29, 2001. The carrying amount of this investment, which has been included in other investments, was ¥19,754,280 thousand and ¥10,739,430 thousand (\$91,012 thousand) at March 31, 2002 and 2003, respectively. This investment was pledged as collateral for certain long-term debt of the Company at March 31, 2002 and 2003 (See Note 5).

The Company provides SKY Perfect with satellite broadcasting services. Revenues from these services were ¥3,134,851 thousand, ¥3,985,678 thousand and ¥4,481,992 thousand (\$37,983 thousand) for the years ended March 31, 2001, 2002 and 2003, respectively.

Additionally, the Company has entered into agreements for agency services with SKY Perfect related to uplink operations. Cost of services under these agreements was ¥2,073,951 thousand, ¥2,161,905 thousand and ¥3,017,262 thousand (\$25,570 thousand) for the years ended March 31, 2001, 2002 and 2003, respectively.

**NTT and related entities**

On March 31, 2000, NTT Communications Corporation ("NTTC") became an 18.60% shareholder (currently 16.64% as of March 31, 2003) as a result of the Company's issuance of 62,900 shares of common stock. In connection with the equity transaction, the Company purchased their ownership interest (60.33%) in two satellites, the related telecommunications equipment and the related equipment and furniture for ¥32,648,400 thousand. On July 1, 2002, the Company made an additional ownership interest (19.34%) in these two satellites for ¥3,570,000 thousand (\$30,254 thousand).

The Company provides telecommunications business services and telecommunications carrier services to NTT and related entities. Revenues from these services were ¥9,085,777 thousand, ¥9,454,343 thousand and ¥10,300,073 thousand (\$87,289 thousand) for the years ended March 31, 2001, 2002 and 2003, respectively.

The Company sold, based on market price, available-for-sale investment securities for ¥1,267,320 thousand and ¥845,496 thousand to NTTC on March 31, 2000 and on April 28, 2000, respectively. Realized securities gains on these sales were ¥1,264,320 thousand and ¥842,496 thousand, respectively.

**Other shareholders**

The Company had short-term loans receivable from subsidiaries of certain shareholders totaling ¥1,100,000 thousand as of March 31, 2002.

---

**4. PROPERTY AND EQUIPMENT**

Depreciation expense of property and equipment, including assets recorded under capital leases which are described in Note 14, for the years ended March 31, 2001, 2002 and 2003 was ¥15,103,776 thousand, ¥16,193,974 thousand and ¥16,387,903 thousand (\$138,881 thousand), respectively.

Capitalized interest in connection with construction of major facilities, mainly telecommunications satellites, for the years ended March 31, 2001 and 2002 was ¥129,974 thousand and ¥85,706 thousand.



## 5. SHORT-TERM BORROWINGS, LONG-TERM DEBT AND CONVERTIBLE BONDS

Short-term borrowings at March 31, 2002 and 2003 consist of the following:

|                 | Thousands of Yen |            | Thousands of U.S. Dollars |                |
|-----------------|------------------|------------|---------------------------|----------------|
|                 | 2002             | 2003       | 2002                      | 2003           |
|                 |                  |            | Interest rate*            | Interest rate* |
| Bank borrowings | ¥3,350,000       | ¥2,800,000 | 0.401%                    | 0.204%         |

\*The interest rates represent weighted-average rates of outstanding balances at March 31, 2002 and 2003. All short-term borrowings at March 31, 2002 and 2003 are denominated in Yen.

Long-term debt at March 31, 2002 and 2003 consists of the following:

|   | Thousands of Yen |             | Thousands of U.S. Dollars |
|---|------------------|-------------|---------------------------|
|   | 2002             | 2003        | 2003                      |
| Long-term debt with collateral:   |                  |             |                           |
| Government-owned bank, maturing serially through 2008—<br>annual interest rates of 2.10%–3.18%  | ¥16,984,360      | ¥12,750,580 | \$108,056                 |
| Long-term debt without collateral:  |                  |             |                           |
| Banks and insurance companies, maturing serially through 2008—<br>annual interest rates of 0.292%–5.20% (2002) and 0.27%–5.20% (2003) | 29,442,394       | 23,993,070  | 203,331                   |
| Government-owned bank, maturing serially through 2008—<br>annual interest rate of 1.30%   | 2,093,200        | 1,862,400   | 15,783                    |
| Non-trade accounts payable due through 2006—non-interest bearing  | 1,340,800        | 1,005,600   | 8,522                     |
| Unsecured bonds with detachable warrants, due 2006<br>redeemable before due date—annual interest rate of 1.90077% (2002)              | 4,500            | —           | —                         |
| Capital lease obligations (See Note 14)   | 1,590,731        | 1,052,827   | 8,922                     |
| Total   | 51,455,985       | 40,664,477  | 344,614                   |
| Less current maturities   | 12,287,196       | 8,198,732   | 69,481                    |
| Long-term debt, less current maturities   | ¥39,168,789      | ¥32,465,745 | \$275,133                 |

On April 3, 2002, the Company issued ¥20,000,000 thousand (\$169,492 thousand) principal amount of zero coupon convertible bonds due 2007. The bonds are convertible into shares of common stock until March 16, 2007 with a conversion price of ¥739,000 (\$6,263), subject to adjustment in certain events. The Company may redeem all the bonds at their principal amount before due date in certain limited circumstances (See Note 13).

Other investments, which were available-for-sale equity securities, with a carrying value of ¥10,739,430 thousand (\$91,012 thousand) were pledged as collateral for certain long-term debt of the Company at March 31, 2003 (See Note 3).

On June 14, 2000, the Company issued floating interest rate bonds with 39 detachable warrants related to stock options. Until March 31, 2003, all bonds had been redeemed (See Notes 8 and 13).

The Company entered into interest rate swap agreements to manage interest rate exposures related to certain debt agreements. The floating interest rates for interest rate swap agreements are generally based on the six-month LIBOR (London Interbank Offered Rate) (See Note 16).

At March 31, 2003, the Companies had unused lines of credit that totaled ¥6,789,000 thousand (\$57,534 thousand). Under these programs, the Companies are authorized to obtain short-term financing at prevailing interest rates.

Certain short-term and long-term bank borrowings are made under agreements which, as is customary in Japan, provide that the bank may, under certain conditions, require the borrower to provide collateral or guarantors with respect to the borrowings, and that the bank may treat any collateral, whether furnished as security for short-term or long-term

borrowings or otherwise, as collateral for all indebtedness to such banks.

Certain agreements require the borrower, upon the request of the lender, to reduce outstanding loans before scheduled maturity dates when the lender concludes that the borrower is able to reduce such loans through increased earnings or

through the proceeds from the sale of common stock or bonds and notes. During the years ended March 31, 2002 and 2003, the Companies did not receive any requests of the kind described above, and there is no expectation that any such requests will be made.

Maturities of long-term debt subsequent to March 31, 2003 are as follows:

| Year ending March 31:                  | Thousands of Yen | Thousands of U.S. Dollars |
|--|------------------|---------------------------|
| 2004 (included in current liabilities) | ¥ 8,198,732      | \$ 69,481                 |
| 2005                                   | 12,041,964       | 102,051                   |
| 2006                                   | 8,401,429        | 71,199                    |
| 2007                                   | 9,091,291        | 77,045                    |
| 2008                                   | 2,529,506        | 21,436                    |
| 2009 and thereafter                    | 401,555          | 3,402                     |
| Total                                  | ¥40,664,477      | \$344,614                 |

#### 6. EMPLOYEES' BENEFIT PLANS AND DIRECTORS' SEVERANCE INDEMNITIES

The Companies have unfunded defined benefit severance indemnity plans under which all of their employees, other than directors and executive officers, are entitled, under most circumstances, upon mandatory retirement at normal retirement age or earlier termination of employment, to lump-sum severance payment based on the level of compensation at retirement or earlier termination of employment, length of service and other factors.

The Company also participates in a contributory multi-employer pension plan covering all of their employees. The

benefits for the multi-employer pension plan are based on a standard remuneration schedule under the Welfare Pension Insurance Law, the length of participation and other factors. However, assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer, including the Company. Contributions to the multi-employer plan, which are recognized as paid, were ¥33,228 thousand, ¥39,095 thousand and ¥64,313 thousand (\$545 thousand) for the years ended March 31, 2001, 2002 and 2003, respectively.

Net periodic pension cost of the unfunded plans for the years ended March 31, 2001, 2002 and 2003 consisted of the following components:

|   | Thousands of Yen |          |          | Thousands of U.S. Dollars |
|---|------------------|----------|----------|---------------------------|
|   | 2001             | 2002     | 2003     | 2003                      |
| Service cost—benefits earned during the period        | ¥57,978          | ¥ 76,033 | ¥ 99,308 | \$ 842                    |
| Interest cost on projected benefit obligation         | 12,438           | 13,968   | 15,587   | 132                       |
| Amortization of unrecognized obligation at transition | 6,533            | 6,533    | 6,533    | 55                        |
| Amortization of unrecognized prior service cost       | —                | —        | (3,591)  | (30)                      |
| Amortization of unrecognized net actuarial loss       | 2,071            | 4,431    | 5,563    | 47                        |
| Net periodic pension cost                             | ¥79,020          | ¥100,965 | ¥123,400 | \$1,046                   |

The changes in benefit obligation and composition of amounts recognized in the consolidated balance sheets are as follows:

|  | Thousands of Yen |                 | Thousands of<br>U.S. Dollars |
|--|------------------|-----------------|------------------------------|
|  | 2002             | 2003            | 2003                         |
| <b>Changes in benefit obligation:</b>                                    |                  |                 |                              |
| Benefit obligation at December 31, 2000 and 2001                         | ¥524,911         | ¥784,708        | \$6,650                      |
| Service cost   | 76,033           | 99,308          | 842                          |
| Interest cost  | 13,968           | 15,587          | 132                          |
| Plan amendment   | -                | (81,406)        | (690)                        |
| Actuarial loss   | 34,576           | 36,499          | 309                          |
| Acquisition  | 135,220          | -               | -                            |
| Settlement   | -                | (17,212)        | (146)                        |
| <b>Benefit obligation at December 31, 2001 and 2002</b>                  | <b>784,708</b>   | <b>837,484</b>  | <b>7,097</b>                 |
| <b>Direct benefit payments during the three-month periods ended</b>      |                  |                 |                              |
| March 31, 2002 and 2003  | (196)            | (96)            | (1)                          |
| Unrecognized net obligation at transition being recognized over 18 years | (84,918)         | (78,385)        | (664)                        |
| Unrecognized prior service cost  | -                | 77,815          | 659                          |
| Unrecognized actuarial loss  | (162,398)        | (193,334)       | (1,638)                      |
| <b>Net amount recognized</b>   | <b>¥537,196</b>  | <b>¥643,484</b> | <b>\$5,453</b>               |
| <b>Amounts recognized in the consolidated balance sheets consist of:</b> |                  |                 |                              |
| Liability for severance payments   | ¥537,196         | ¥717,727        | \$6,082                      |
| Other assets   | -                | (570)           | (5)                          |
| Accumulated other comprehensive loss (before income tax effect)          | -                | (73,673)        | (624)                        |
| <b>Net amount recognized</b>   | <b>¥537,196</b>  | <b>¥643,484</b> | <b>\$5,453</b>               |

Assumptions used for 2001, 2002 and 2003 in determining costs for the plans shown above are as follows:

|  | 2001  | 2002        | 2003        |
|--|-------|-------------|-------------|
| Weighted-average discount rate                         | 2.50% | 2.10%       | 1.70%-2.00% |
| Average rate of increase in future compensation levels | 4.32% | 2.81%-4.32% | 2.81%-3.75% |

The Companies also have directors' unfunded severance indemnity plans. Benefits under the directors' plans are based on the level of compensation at retirement, length of service and other factors. Liabilities for severance payments under the directors' plans at March 31, 2002 and 2003, amounting to ¥235,443 thousand and ¥336,680 thousand (\$2,853 thousand), respectively, were stated on the vested benefit obligation basis,

which was required to be paid if all directors and executive officers terminated their appointments as of the balance sheet date.

Charges to operations for the years ended March 31, 2001, 2002 and 2003 with respect to the directors' plans were ¥93,590 thousand, ¥78,567 thousand and ¥129,738 thousand (\$1,099 thousand), respectively.

---

## 7. SHAREHOLDERS' EQUITY

The changes in the number of shares of common stock issued during the years ended March 31, 2001, 2002 and 2003 are as follows:

|                            | Number of shares |           |           |
|----------------------------|------------------|-----------|-----------|
|                            | 2001             | 2002      | 2003      |
| Balance, beginning of year | 338,154.5        | 383,154.5 | 383,154.5 |
| Issuance of common stock   | 45,000.0         | -         | -         |
| Balance, end of year       | 383,154.5        | 383,154.5 | 383,154.5 |

The Company and its domestic subsidiaries are subject to the Code to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be determined based on total additional paid-in capital and legal reserve. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50,000. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by resolution of the shareholders at the general shareholders' meeting and

dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code. The amount of retained earnings available for dividends under the Code is based on the amount recorded in the Company's general books of account maintained in accordance with accounting principles generally accepted in Japan. The adjustments included in the accompanying financial statements but not recorded in the books have no effect on the determination of retained earnings available for dividends under the Code. Retained earnings available for dividends of the Company at March 31, 2002 and 2003 were ¥6,897,538 thousand and ¥27,256,412 thousand (\$230,987 thousand), respectively.

On March 31, 2000, the Company issued 62,900 shares of common stock at the issue price of ¥500,000 per share to NTTC (See Note 3).

On August 4, 2000, the Company's initial public offering resulted in the sale of 45,000 newly issued shares of common stock. Net proceeds of the common stock issued was ¥29,820,140 thousand.

Accumulated other comprehensive income represents cumulative gains or losses on items that are not reflected in net income. Other comprehensive income (loss) for the years ended March 31, 2001, 2002 and 2003, is as follows:

|  | Thousands of Yen |                          |                   |
|--|------------------|--------------------------|-------------------|
|  | Pre-tax amount   | Tax (expense) or benefit | Net-of-tax amount |
| For the year ended March 31, 2001  |                  |                          |                   |
| Unrealized gains and losses on securities:                                   |                  |                          |                   |
| Unrealized holding gains and losses arising during the period                | ¥10,921,992      | ¥ (4,587,236)            | ¥ 6,334,756       |
| Less reclassification adjustment for gains and losses included in net income | (842,698)        | 353,933                  | (488,765)         |
| Net unrealized gains and losses on securities                                | 10,079,294       | (4,233,303)              | 5,845,991         |
| Other comprehensive income   | ¥10,079,294      | ¥ (4,233,303)            | ¥ 5,845,991       |

|  | Thousands of Yen |                          |                   |
|--|------------------|--------------------------|-------------------|
|  | Pre-tax amount   | Tax (expense) or benefit | Net-of-tax amount |
| For the year ended March 31, 2002  |                  |                          |                   |
| Unrealized gains and losses on securities:                                   |                  |                          |                   |
| Unrealized holding gains and losses arising during the period                | ¥(2,580,190)     | ¥ 1,083,680              | ¥(1,496,510)      |
| Less reclassification adjustment for gains and losses included in net income | 31,797           | (13,355)                 | 18,442            |
| Net unrealized gains and losses on securities                                | (2,548,393)      | 1,070,325                | (1,478,068)       |
| Foreign currency translation adjustments                                     | 183,610          | -                        | 183,610           |
| Other comprehensive loss   | ¥(2,364,783)     | ¥ 1,070,325              | ¥(1,294,458)      |

|  | Thousands of Yen |                          |                   |
|--|------------------|--------------------------|-------------------|
|  | Pre-tax amount   | Tax (expense) or benefit | Net-of-tax amount |
| For the year ended March 31, 2003  |                  |                          |                   |
| Unrealized gains and losses on securities:                                   |                  |                          |                   |
| Unrealized holding gains and losses arising during the period                | ¥(9,274,192)     | ¥3,895,161               | ¥(5,379,031)      |
| Less reclassification adjustment for gains and losses included in net income | 78,845           | (29,755)                 | 49,090            |
| Net unrealized gains and losses on securities                                | (9,195,347)      | 3,865,406                | (5,329,941)       |
| Foreign currency translation adjustments                                     | (294,715)        | -                        | (294,715)         |
| Minimum pension liability adjustment   | (73,673)         | 29,830                   | (43,843)          |
| Other comprehensive loss   | ¥(9,571,735)     | ¥3,895,236               | ¥(5,676,499)      |

|  | Thousands of U.S. Dollars |                          |                   |
|--|---------------------------|--------------------------|-------------------|
|  | Pre-tax amount            | Tax (expense) or benefit | Net-of-tax amount |
| For the year ended March 31, 2003  |                           |                          |                   |
| Unrealized gains and losses on securities:                                   |                           |                          |                   |
| Unrealized holding gains and losses arising during the period                | \$ (78,595)               | \$ 33,010                | \$ (45,585)       |
| Less reclassification adjustment for gains and losses included in net income | 600                       | (252)                    | 348               |
| Net unrealized gains and losses on securities                                | (77,995)                  | 32,758                   | (45,237)          |
| Foreign currency translation adjustments                                     | (2,497)                   | -                        | (2,497)           |
| Minimum pension liability adjustment   | (624)                     | 252                      | (372)             |
| Other comprehensive loss   | \$ (81,116)               | \$ 33,010                | \$ (48,106)       |

## 8. STOCK-BASED COMPENSATION PLAN

The Company has a stock-based compensation plan as an incentive plan for directors and selected employees. The plan uses unsecured bonds with detachable warrants which are described in Note 5.

Upon issuance of the bonds with detachable warrants, the Company has purchased all of the detachable warrants and distributed them to the directors and the selected employees of the Company.

By exercising a warrant, the directors and the selected employees can purchase the common stock of the Company, the number of shares of which is calculated as ¥4,500 thousand (\$38 thousand) divided by the exercise price. The warrants become exercisable 2 years after the date of grant for the directors and the selected employees based on agreements with the Company regardless of the exercisable term of the underlying warrants and expire 5 years from the date of grant.

A summary of the plan activity for the years ended March 31, 2002 and 2003 is as follows:

|                                | 2002             |  | 2003             |  |              |
|--------------------------------|------------------|--|------------------|--|--------------|
|                                | Number of Shares | Weighted-average exercise price<br>Yen | Number of Shares | Weighted-average exercise price<br>Yen | U.S. Dollars |
| Outstanding, beginning of year | 237              | ¥740,017                               | 237              | ¥740,017                               | \$6,271      |
| Granted                        | -                | -                                      | -                | -                                      | -            |
| Exercised                      | -                | -                                      | -                | -                                      | -            |
| Forfeited                      | -                | -                                      | 18               | 739,950                                | 6,271        |
| Outstanding, end of year       | 237              | 740,017                                | 219              | 739,950                                | 6,271        |
| Exercisable, end of year       | -                | ¥ -                                    | 219              | ¥739,950                               | \$6,271      |

A summary of warrants outstanding and exercisable at March 31, 2003 is as follows:

|   |     |          |
|---|-----|----------|
| Exercise price range                    | Yen | ¥739,950 |
| Outstanding:                            |     |          |
| Number of shares                        |     | 219      |
| Weighted-average remaining life (years) |     | 2.21     |
| Weighted-average exercise price:        |     |          |
| Yen                                     |     | ¥739,950 |
| U.S. Dollars                            |     | \$ 6,271 |
| Exercisable:                            |     |          |
| Number of shares                        |     | 219      |
| Weighted-average exercise price:        |     |          |
| Yen                                     |     | ¥739,950 |
| U.S. Dollars                            |     | \$ 6,271 |

As the exercise price was determined based on the fair value per share of the Company near the date of grant, compensation

expense for the plan was not material for the years ended March 31, 2002 and 2003.

In accordance with SFAS No. 123, the Companies have elected to account for stock-based compensation under the provisions of APB No. 25. Had compensation for the Companies' plan been recognized based on the fair value at

the grant date under the methodology prescribed by SFAS No. 123, the Companies' pro forma net income and EPS for the years ended March 31, 2002 and 2003 would have been impacted as follows:

|   | Thousands of Yen |            | Thousands of<br>U.S. Dollars |
|---|------------------|------------|------------------------------|
|   | 2002             | 2003       | 2003                         |
| Net income:   |                  |            |                              |
| As reported   | ¥5,608,831       | ¥6,182,332 | \$52,393                     |
| Deduct:   |                  |            |                              |
| Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (35,307)         | -          | -                            |
| Pro forma   | 5,573,524        | 6,182,332  | 52,393                       |
|   |                  | Yen        | U.S. Dollars                 |
|   | 2002             | 2003       | 2003                         |
| Basic EPS:  |                  |            |                              |
| As reported   | ¥14,638.58       | ¥16,248.95 | \$137.70                     |
| Pro forma   | 14,546.43        | 16,248.95  | 137.70                       |
| Diluted EPS:  |                  |            |                              |
| As reported   | 14,638.58        | 15,175.46  | 128.61                       |
| Pro forma   | 14,546.43        | 15,175.46  | 128.61                       |

## 9. SEGMENT INFORMATION

As indicated in Note 1, the Companies operate in a single operating segment which is to provide satellite telecommunications and broadcasting services to customers.

Revenues from external customers for each service for the years ended March 31, 2001, 2002 and 2003 are as follows:

|  | Thousands of Yen |             |             | Thousands of<br>U.S. Dollars |
|--|------------------|-------------|-------------|------------------------------|
|  | 2001             | 2002        | 2003        | 2003                         |
| Revenues from:   |                  |             |             |                              |
| Telecommunications business services                                     | ¥11,777,489      | ¥12,976,426 | ¥13,504,479 | \$114,445                    |
| Satellite broadcasting services<br>(primarily related to SKY PerfectTV!) | 16,899,757       | 17,999,918  | 21,074,851  | 178,600                      |
| Telecommunications carrier services (NTT and related entities)           | 8,922,714        | 8,732,277   | 9,360,432   | 79,326                       |
| Other  | 560,473          | 1,074,196   | 1,181,378   | 10,012                       |
| Total revenues   | ¥38,160,433      | ¥40,782,817 | ¥45,121,140 | \$382,383                    |

The Companies' revenues from external customers are mainly derived from customers in Japan and their long-lived assets are located mainly in Japan.

Revenues from NTT and related entities, which accounted for 10% or more of the Companies' revenues for the years

ended March 31, 2001, 2002 and 2003, were ¥9,085,777 thousand, ¥9,454,343 thousand and ¥10,300,073 thousand (\$87,289 thousand), respectively. Revenues from such customers are included in Telecommunications business services and Telecommunications carrier services.

## 10. RESEARCH AND DEVELOPMENT EXPENSES AND ADVERTISING COSTS

### Research and development expenses:

Research and development expenses, which are charged to income as incurred, were ¥269,336 thousand, ¥188,409 thousand and ¥211,641 thousand (\$1,794 thousand) for the years ended March 31, 2001, 2002 and 2003, respectively.

### Advertising costs:

Advertising costs are expensed as incurred. Advertising costs included in sales and marketing were ¥233,486 thousand, ¥181,226 thousand and ¥318,291 thousand (\$2,697 thousand) for the years ended March 31, 2001, 2002 and 2003, respectively.

## 11. OTHER INCOME (EXPENSES)

Other—net as shown in other income (expenses) for the years ended March 31, 2001, 2002 and 2003 consists of the following:

|  | Thousands of Yen |           |           | Thousands of<br>U.S. Dollars |
|--|------------------|-----------|-----------|------------------------------|
|  | 2001             | 2002      | 2003      | 2003                         |
| Cancellation fee income related to business service agreements | ¥ 20,741         | ¥157,012  | ¥ 48,799  | \$ 346                       |
| Office relocation cost   | —                | (232,906) | —         | —                            |
| Interest and dividend income                                   | 120,495          | 98,861    | 225,088   | 1,907                        |
| Gain (loss) on sales of investments—net                        | 842,496          | (35,549)  | (67,885)  | (575)                        |
| Loss on write-downs of investments                             | (1,278)          | (294,565) | (193,800) | (1,642)                      |
| Foreign currency transaction gain                              | 253,700          | 557,768   | 93,921    | 796                          |
| Other—net  | (34,694)         | 50,070    | 78,612    | 665                          |
|  | ¥1,201,460       | ¥300,691  | ¥176,726  | \$1,497                      |

## 12. INCOME TAXES

Income taxes in Japan applicable to the Company and its domestic subsidiaries, imposed by the national, prefecture and municipal governments, in the aggregate resulted in a normal effective statutory tax rate of approximately 42%. A foreign subsidiary is subject to income taxes of the country in which it operates. Due to the changes in Japanese income tax regulations,

the statutory rate was reduced from 42% to 40% effective April 1, 2004. The respective newly enacted rates were used in calculating the future expected tax effect of temporary differences as of March 31, 2003. The effect of the change in tax rate increased income tax expenses for the year ended March 31, 2003.

A reconciliation between taxes calculated at the normal statutory rate in Japan and the Companies' provision for income taxes in the accompanying consolidated statements of income for the years ended March 31, 2001, 2002 and 2003 is as follows:

|   | Thousands of Yen |            |            | Thousands of<br>U.S. Dollars |
|---|------------------|------------|------------|------------------------------|
|   | 2001             | 2002       | 2003       | 2003                         |
| Taxes calculated at the normal rate in Japan applied to pretax income | ¥4,072,107       | ¥4,197,612 | ¥4,666,149 | \$39,544                     |
| Increases (decreases) in taxes resulting from:                        |                  |            |            |                              |
| Expenses not deductible for tax purposes and income not taxable—net   | 94,569           | 78,561     | 93,079     | 789                          |
| Effect of enacted changes in tax laws and rates                       | —                | —          | 35,919     | 304                          |
| Tax effects on equity in losses (earnings) of affiliated companies    | 373,410          | 91,122     | (32,473)   | (275)                        |
| Increase in valuation allowance                                       | —                | 2,452      | 72,424     | 614                          |
| Other—net   | 30,297           | (7,801)    | 64,191     | 543                          |
| Total provision for income taxes                                      | ¥4,570,383       | ¥4,361,946 | ¥4,899,289 | \$41,519                     |



Total income taxes recognized for the years ended March 31, 2001, 2002 and 2003 are allocated as follows:

|   | Thousands of Yen |             |             | Thousands of<br>U.S. Dollars |
|---|------------------|-------------|-------------|------------------------------|
|   | 2001             | 2002        | 2003        | 2003                         |
| Provision for income taxes  | ¥4,570,383       | ¥4,361,946  | ¥4,899,289  | \$41,519                     |
| Shareholders' equity—accumulated other<br>comprehensive income (See Note 7) | 4,233,303        | (1,070,325) | (3,895,236) | (33,010)                     |
| Total income taxes  | ¥8,803,686       | ¥3,291,621  | ¥1,004,053  | \$ 8,509                     |

The tax effects of significant temporary differences which result in deferred tax assets and liabilities at March 31, 2002 and 2003 are as follows:

|  | Thousands of Yen |            | Thousands of<br>U.S. Dollars |
|--|------------------|------------|------------------------------|
|  | 2002             | 2003       | 2003                         |
| <b>Deferred tax assets:</b>                      |                  |            |                              |
| Other investments                                | ¥ 84,987         | ¥ 133,073  | \$ 1,128                     |
| Investments in affiliated companies              | 830,130          | 680,285    | 6,782                        |
| Long-lived assets                                | 1,000,716        | 712,186    | 6,835                        |
| Doubtful receivables                             | 310,679          | 156,772    | 1,329                        |
| Liability for severance payments                 | 282,895          | 398,632    | 3,378                        |
| Accrued enterprise tax                           | 161,889          | 274,276    | 2,324                        |
| Accrued bonus                                    | 100,674          | 103,831    | 880                          |
| Other  | 272,689          | 298,986    | 2,534                        |
| Total deferred tax assets                        | 3,044,659        | 2,877,961  | 24,390                       |
| <b>Deferred tax liabilities:</b>                 |                  |            |                              |
| Property—interest capitalization                 | 285,544          | 253,376    | 2,147                        |
| Marketable equity securities and debt securities | 4,390,610        | 525,438    | 4,453                        |
| Other  | 26,047           | 26,046     | 221                          |
| Total deferred tax liabilities                   | 4,702,201        | 804,860    | 6,821                        |
| Valuation allowance                              | 854,383          | 896,095    | 7,594                        |
| Net deferred tax assets (liabilities)            | ¥(2,511,925)     | ¥1,177,006 | \$ 9,975                     |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax

liabilities, projected future taxable income and tax planning strategies in making this assessment.

Although realization is not assured, based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance will be realized.

### 13. RECONCILIATION OF THE DIFFERENCES BETWEEN BASIC AND DILUTED NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2001, 2002 and 2003 is as follows:

|   | Thousands of Yen | Number of Shares            | Yen        |              |
|---|------------------|-----------------------------|------------|--------------|
|   | Net income       | Weighted-<br>average shares | EPS        |              |
| For the year ended March 31, 2001:          |                  |                             |            |              |
| Basic EPS:                                  |                  |                             |            |              |
| Net income available to common shareholders | ¥5,125,109       | 367,744                     | ¥13,936.64 |              |
| Effect of dilutive securities:              |                  |                             |            |              |
| Warrants                                    | -                | 35                          | -          |              |
| Diluted EPS:                                |                  |                             |            |              |
| Net income for computation                  | ¥5,125,109       | 367,779                     | ¥13,935.31 |              |
| For the year ended March 31, 2002:          |                  |                             |            |              |
| Basic EPS:                                  |                  |                             |            |              |
| Net income available to common shareholders | ¥5,608,831       | 383,154                     | ¥14,638.58 |              |
| Effect of dilutive securities:              |                  |                             |            |              |
| Warrants                                    | -                | -                           | -          |              |
| Diluted EPS:                                |                  |                             |            |              |
| Net income for computation                  | ¥5,608,831       | 383,154                     | ¥14,638.58 |              |
|   | Thousands of Yen | Number of Shares            | Yen        | U.S. Dollars |
|   | Net income       | Weighted-<br>average shares | EPS        | EPS          |
| For the year ended March 31, 2003:          |                  |                             |            |              |
| Basic EPS:                                  |                  |                             |            |              |
| Net income available to common shareholders | ¥6,182,332       | 388,476                     | ¥16,248.95 | \$137.79     |
| Effect of dilutive securities:              |                  |                             |            |              |
| Convertible bonds                           | -                | 26,915                      | -          | -            |
| Diluted EPS:                                |                  |                             |            |              |
| Net income for computation                  | ¥6,182,332       | 407,391                     | ¥15,175.66 | \$128.61     |

### 14. LEASES

#### Lessee

The Companies have capital lease obligations principally for telecommunications equipment.

An analysis of the leased assets under capital leases as of March 31, 2002 and 2003 is as follows:

|                               | Thousands of Yen |             | Thousands of<br>U.S. Dollars |
|-------------------------------|------------------|-------------|------------------------------|
|                               | 2002             | 2003        | 2003                         |
| Telecommunications equipment  | ¥2,995,962       | ¥2,666,300  | \$22,596                     |
| Other                         | 168,741          | 255,566     | 2,165                        |
| Less accumulated depreciation | (1,667,138)      | (1,930,765) | (16,362)                     |
| Net book value                | ¥1,497,565       | ¥ 991,101   | \$ 8,399                     |

Future minimum lease payments at March 31, 2003 and thereafter are as follows:

| Year ending March 31:                                    | Thousands of Yen | Thousands of<br>U.S. Dollars |
|--|------------------|------------------------------|
| 2004   | ¥ 497,906        | \$ 4,220                     |
| 2005   | 327,753          | 2,778                        |
| 2006   | 178,422          | 1,512                        |
| 2007   | 64,482           | 546                          |
| 2008   | 47,560           | 403                          |
| 2009 and thereafter                                      | 3,750            | 31                           |
| Total  | 1,119,873        | 9,490                        |
| Less amount representing interest                        | 67,046           | 568                          |
| Present value of net minimum lease payments (See Note 5) | 1,052,827        | 8,922                        |
| Less current maturities                                  | 465,710          | 3,946                        |
| Long-term capital lease obligations                      | ¥ 587,117        | \$ 4,976                     |

Rental expenses under operating leases for the years ended March 31, 2001, 2002 and 2003 were ¥364,235 thousand, ¥384,897 thousand and ¥528,647 thousand (\$4,480 thousand), respectively.

The minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2003 are as follows:

| Year ending March 31: | Thousands of Yen | Thousands of<br>U.S. Dollars |
|-----------------------|------------------|------------------------------|
| 2004                  | ¥ 489,501        | \$ 4,148                     |
| 2005                  | 472,426          | 4,004                        |
| 2006                  | 464,743          | 3,939                        |
| 2007                  | 348,557          | 2,954                        |
| 2008                  | --               | --                           |
| 2009 and thereafter   | --               | --                           |
| Total                 | ¥1,775,227       | \$15,045                     |

**Lessor**

The Companies lease satellite transponders under full-time dedicated telecommunications business services and telecommunications carrier services and these leases are classified as cancelable operating leases under SFAS No. 13, "Accounting for Leases."

Revenues from operating leases included in revenues were ¥16,833,035 thousand, ¥15,235,382 thousand, and ¥15,223,527 thousand (\$129,013 thousand) for the years ended March 31, 2001, 2002 and 2003, respectively.

The following schedule provides an analysis of the Companies' investments in property on operating leases as of March 31, 2002 and 2003:

|   | Thousands of Yen |              | Thousands of<br>U.S. Dollars |
|---|------------------|--------------|------------------------------|
|   | 2002             | 2003         | 2003                         |
| Telecommunications satellites on operating leases | ¥62,828,162      | ¥56,975,715  | \$431,998                    |
| Less accumulated depreciation                     | (33,625,142)     | (21,329,968) | (180,763)                    |
| Net book value                                    | ¥29,203,020      | ¥29,645,747  | \$251,235                    |

---

## 15. COMMITMENTS AND CONTINGENT LIABILITIES

### *Commitments:*

The commitments outstanding by the Companies at March 31, 2003 are for a launch contract for future replacement satellites, a joint procurement of a satellite for Horizons Satellite LLC and a

procurement of uplink systems for JC-HITS services of ¥901,500 thousand (\$7,640 thousand), ¥1,942,378 thousand (\$16,461 thousand) and ¥4,665,500 thousand (\$39,538 thousand), respectively.

---

## 16. FINANCIAL INSTRUMENTS

### 1. DERIVATIVE FINANCIAL INSTRUMENTS

The Companies are exposed to a variety of market risks including the effects of changes in foreign exchange rates and interest rates. These exposures are managed, in part, with the use of derivative instruments.

#### *Fair value hedges*

For derivative instruments designated as hedges of the exposure to changes in the fair value of a recognized asset or liability or a firm commitment, the gain or loss is recognized in income in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged.

The Companies' purchases of telecommunications satellites from overseas companies generate foreign currency exposures related to buying in currencies other than the functional currency. The Companies have entered into foreign exchange forward contracts and currency swap agreements to hedge market risks from the changes in foreign exchange rates associated with firm commitments for a launch contract of telecommunications satellites denominated in foreign currencies.

The Companies enter into these transactions in accordance with internal policies which regulate the authorization and assess foreign exchange rate risk by continually monitoring changes in its exposures.

#### *Undesignated derivative instruments*

For derivative instruments not designated as hedging instruments under SFAS No. 133, the gain and loss is recognized currently in income.

These derivative instruments include foreign exchange forward contracts, foreign currency option contracts, interest rate swap agreements and interest rate cap agreements. The intent of these derivative instruments is to economically hedge foreign currency exposures, created by commitments for a launch contract of telecommunications satellites and investments in securities denominated in foreign currencies, and interest rate exposures associated with long-term debt.

### 2. CONCENTRATION OF CREDIT RISK

A certain concentration of the Companies' business services is found in multi-channel digital broadcasting services through

SKY Perfect. However, due to the large number and diversity of the Companies' customer base, concentration of credit risk with respect to trade accounts receivable is limited. The Companies perform ongoing credit evaluation of their customers' financial condition.

All of the Companies' telecommunications carrier services are provided to NTT and related entities and to this extent there is a concentration of credit risk with respect to trade accounts receivable in this area. The Companies believe, however, that they are not exposed to significant credit risk in this business in light of the high credit ratings of NTT and related entities.

The Companies are also exposed to the risk of credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. The Companies transact with selected international financial institutions to minimize the credit risk exposures. Credit risk is managed through the credit line that is approved by management.

### 3. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each category of financial instruments for which it is practicable to estimate that value. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The effect of using different market assumptions and/or estimation methodologies may be material to the estimated fair value amounts.

#### *Cash and cash equivalents, time deposits, accounts receivable, trade accounts payable and short-term borrowings*

The carrying amounts approximate fair values because of the short maturity of these instruments.

#### *Short-term investments and other investments*

The fair values of marketable securities included in short-term investments and other investments are based on quoted market prices. The fair value information for each category of securities is set forth in Note 2. It is not practicable to estimate fair values of the investments in non-traded and unaffiliated companies.

**Non-current accounts receivable (included in other assets)**  
The fair values were estimated by discounted future cash flows using currently available market rates.

**Long-term debt**  
The fair values were estimated by discounted future cash flows using currently available market rates.

**Convertible bonds**  
The fair values were estimated based on quoted market prices.

**Foreign exchange forward contracts, foreign currency option contracts and currency swap agreements**

The fair values of these instruments were estimated based on values quoted by brokers.

**Interest rate swap agreements and interest rate cap agreements**

The fair values of these instruments were estimated based on values quoted by brokers.

|                                    | Thousands of Yen |                 |                      |
|------------------------------------|------------------|-----------------|----------------------|
|                                    | 2002             |                 |                      |
|                                    | Notional amount  | Carrying amount | Estimated fair value |
| <b>Financial assets:</b>           |                  |                 |                      |
| Cash and cash equivalents          |                  | ¥ 865,863       | ¥ 865,863            |
| Time deposits                      |                  | 4,500           | 4,500                |
| Accounts receivable                |                  | 4,261,432       | 4,261,432            |
| Non-current accounts receivable    |                  | 404,085         | 379,271              |
| <b>Financial liabilities:</b>      |                  |                 |                      |
| Short-term borrowings              |                  | ¥ (3,350,000)   | ¥ (3,350,000)        |
| Trade accounts payable             |                  | (730,868)       | (730,868)            |
| Long-term debt                     |                  | (49,865,254)    | (50,908,043)         |
| <b>Derivatives:</b>                |                  |                 |                      |
| Foreign exchange forward contracts | ¥ 824,100        | ¥ 98,585        | ¥ 98,585             |
| Foreign currency option contracts  | 5,502,938        | 189,699         | 189,699              |
| Currency swap agreements           | 3,683,813        | 318,550         | 318,550              |
| Interest rate swaps                | 7,500,000        | 12,799          | 12,799               |
| Interest rate caps                 | 1,100,000        | 0               | 0                    |

|                                    | Thousands of Yen |                 |                      |
|------------------------------------|------------------|-----------------|----------------------|
|                                    | 2003             |                 |                      |
|                                    | Notional amount  | Carrying amount | Estimated fair value |
| <b>Financial assets:</b>           |                  |                 |                      |
| Cash and cash equivalents          |                  | ¥ 1,499,717     | ¥ 1,499,717          |
| Time deposits                      |                  | 2,000,000       | 2,000,000            |
| Accounts receivable                |                  | 9,648,287       | 9,648,287            |
| Non-current accounts receivable    |                  | 269,390         | 259,763              |
| <b>Financial liabilities:</b>      |                  |                 |                      |
| Short-term borrowings              |                  | ¥ (2,800,000)   | ¥ (2,800,000)        |
| Trade accounts payable             |                  | (812,357)       | (812,357)            |
| Long-term debt                     |                  | (39,611,650)    | (40,301,792)         |
| Convertible bonds                  |                  | (20,000,000)    | (19,776,000)         |
| <b>Derivatives:</b>                |                  |                 |                      |
| Foreign exchange forward contracts | ¥ 2,633,938      | ¥ 8,260         | ¥ 8,260              |
| Interest rate swaps                | 1,000,000        | (7,356)         | (7,356)              |

Thousands of U.S. Dollars

|                                    | 2003            |                 |                      |
|------------------------------------|-----------------|-----------------|----------------------|
|                                    | Notional amount | Carrying amount | Estimated fair value |
| <b>Financial assets:</b>           |                 |                 |                      |
| Cash and cash equivalents          |                 | \$ 12,709       | \$ 12,709            |
| Time deposits                      |                 | 16,949          | 16,949               |
| Accounts receivable                |                 | 81,765          | 81,765               |
| Non-current accounts receivable    |                 | 2,283           | 2,281                |
| <b>Financial liabilities:</b>      |                 |                 |                      |
| Short-term borrowings              |                 | \$ (23,729)     | \$ (23,729)          |
| Trade accounts payable             |                 | (6,884)         | (6,884)              |
| Long-term debt                     |                 | (335,692)       | (341,541)            |
| Convertible bonds                  |                 | (169,492)       | (167,593)            |
| <b>Derivatives:</b>                |                 |                 |                      |
| Foreign exchange forward contracts | \$ 22,322       | \$ 70           | \$ 70                |
| Interest rate swaps                | 8,475           | (62)            | (62)                 |

## 17. SUBSEQUENT EVENTS

On April 22, 2003, a stock-based compensation plan was approved by the Company's Board of Directors, which provides option to purchase up to 1,000 shares of the Company's common stock by directors and selected employees of the Company. The exercise price is equal to the higher of either 1.05 times the average closing market price of the Company's common stock traded on the Tokyo Stock Exchange of the month preceding the date of grant, or the closing market price of that on the date of grant. The exercise period of this stock-based compensation plan is from July 1, 2005 to June 30, 2008.

On April 30, 2003, the Company entered into a Procurement Agreement for JCSAT-9 satellite. In connection with the agreement, commitments for future payments amounted to ¥15,421,660 thousand (\$130,692 thousand).

On May 15, 2003, a resolution was made by the Company's Board of Directors for the payment of a cash dividend to shareholders of record on March 31, 2003 of ¥3,500 (\$30) per share or a total of ¥1,324,418 thousand (\$11,224 thousand), subject to shareholders' approval at the general shareholders' meeting to be held on June 26, 2003 (See Note 7).



## Independent Auditors' Report

---

Tohmatsu & Co.  
MS Shibaura Building,  
13-23, Shibaura 4-chome,  
Minato-ku, Tokyo 108-8530, Japan

Tel: +81-3-3457-7321  
Fax: +81-3-3457-1694  
www.tohmatsu.co.jp

**Deloitte  
Touche  
Tohmatsu**

To the Board of Directors and Shareholders of  
JSAT Corporation:

We have audited the accompanying consolidated balance sheets of JSAT Corporation and subsidiaries as of March 31, 2002 and 2003, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2003 (all expressed in Japanese yen). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

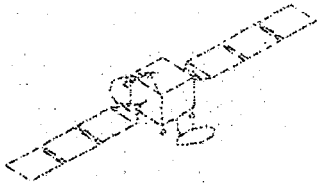
In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of JSAT Corporation and subsidiaries as of March 31, 2002 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

May 30, 2003

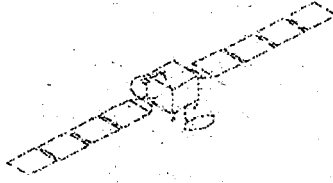
*Deloitte Touche Tohmatsu*

# Satellite Fleet



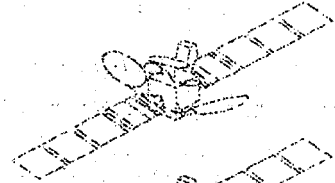
**JCSAT-2A (164°E)**

This satellite is the successor to JCSAT-2 and was launched in March 2002. It has additional C-band transponders which provide a broad network for global customers, covering Hawaii, Asia and Oceania. Its Ku-band transponders are employed mainly for communications carriers, corporate and public-sector networks and pulse-code modulation (PCM) audio broadcasts.



**JCSAT-1B (150°E)**

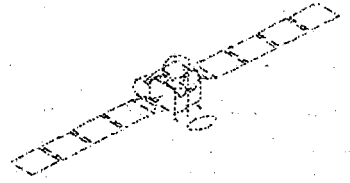
Broad Ku-band coverage makes this satellite suitable for domestic as well as international telecommunications services.



**N-STARa (132°E)**

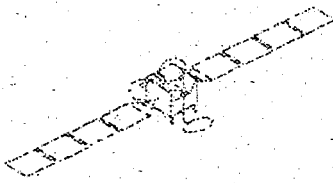
**N-STARb (130°E)**

These satellites are used for telecommunications carrier services offered by the NTT Group and for corporate intranets.



**JCSAT-3 (128°E)**

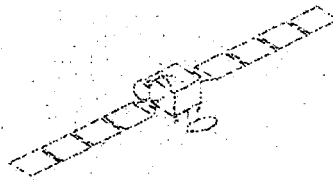
This satellite's Ku-band transponders are used along with those of JCSAT-4A primarily for the digital multichannel satellite broadcasts of SKY PerfectV! and corporate internal networks. Its C-band transponders, covering the area from Pakistan to Hawaii, are mainly used for international telecommunications within the Asia-Pacific region.



**JCSAT-R**

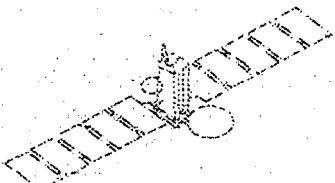
This satellite is reserved entirely as a backup unit for other JCSAT satellites.

© JCSAT-R may not be able to replace all of a failed satellite's capacity and cannot replace transponder capacity on certain satellites in the JSAT fleet.



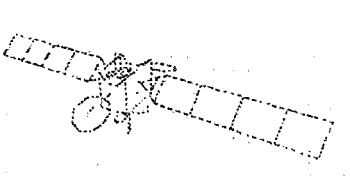
**JCSAT-4A (124°E)**

Together with JCSAT-3, this satellite handles SKY PerfectV! broadcasts as well as corporate internal networks and satellite intranet services.



**JCSAT-110 (110°E)**

This satellite is located in the same orbital slot as Japanese BS satellites and used for the new DTH service of SKY PerfectV! 2.



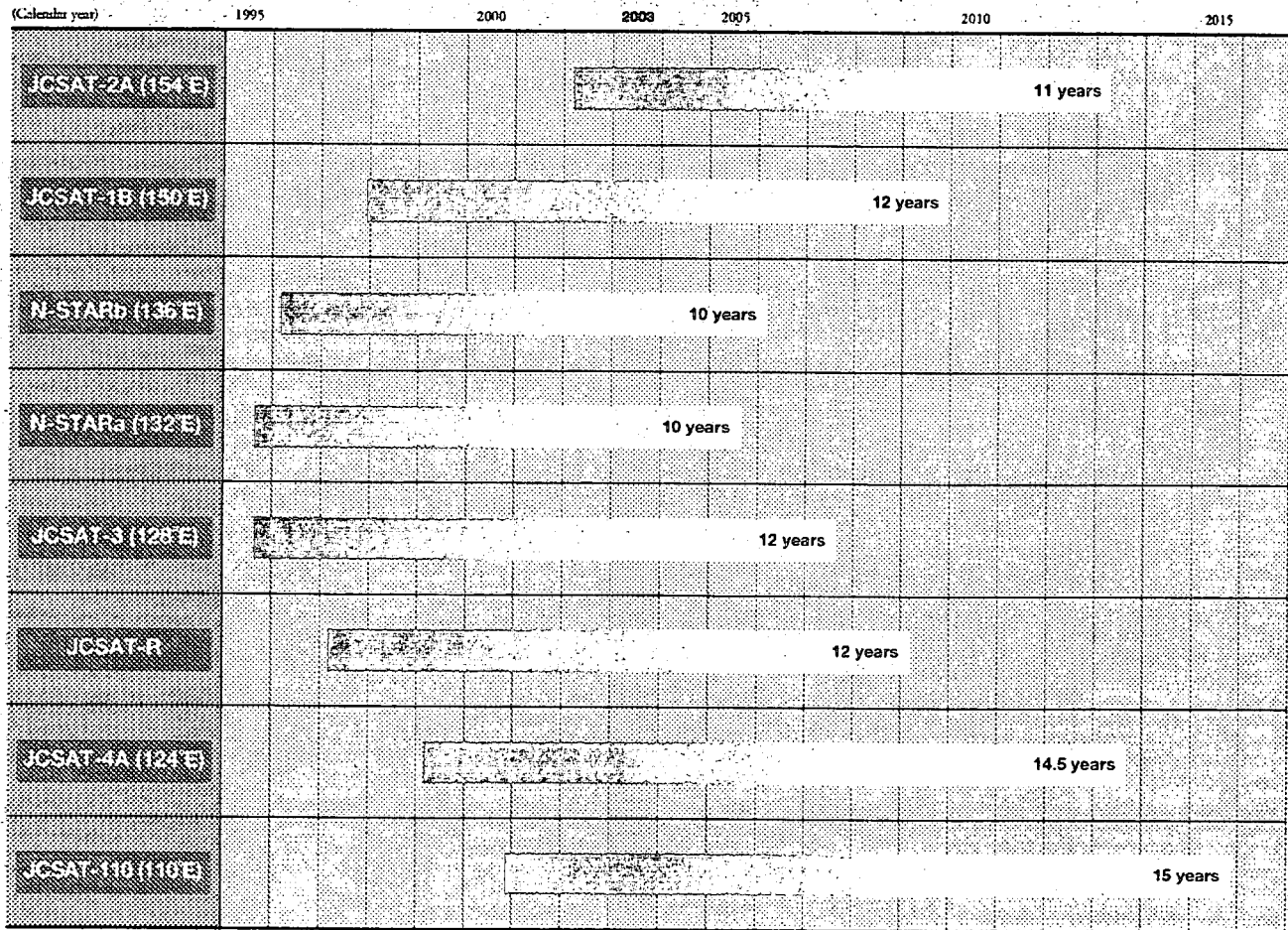
**Horizons-1 (127°W)**

This satellite will be launched in the second quarter of fiscal 2003 and its Ku-band transponders will cover North America and Hawaii. Together with the C-band transponders of JCSAT-2A, it will create a seamless network from the U.S. East Coast to Asia and Oceania and will be used for content distribution networks.

|   | JCSAT-2A  | JCSAT-1B                   | N-STARa   | N-STARb   | JCSAT-3  | JCSAT-R  | JCSAT-4A      | JCSAT-110    | Horizons-1                    |
|---|---|----------------------------|---|---|--|--|---------------|--------------|-------------------------------|
| <b>Orbital position</b>                             | Long. 154° E                                    | Long. 150° E               | Long. 136° E  | Long. 132° E  | Long. 128° E                                     | —  | Long. 124° E  | Long. 110° E | Long. 127° W (planned)        |
| <b>Launch date</b><br><small>(approx. date)</small> | Mar. 29, 2002                                   | Dec. 3, 1997               | Feb. 5, 1996  | Aug. 29, 1995   | Aug. 29, 1995                                    | Feb. 17, 1997                                    | Feb. 16, 1999 | Oct. 7, 2000 | Second quarter of fiscal 2003 |
| <b>Satellite bus</b>                                | Boeing 601                                      | Boeing 601                 | FS1300  | FS1300  | Boeing 601                                       | Boeing 601                                       | Boeing 601    | A2100AX      | Boeing 601HP                  |
| <b>Design life</b>                                  | 11 years  | 12 years                   | 10 years  | 10 years  | 12 years   | 12 years   | 14.5 years    | 15 years     | 15 years                      |
| <b>Communications system frequency band</b>         | Ku-band/<br>C-band                              | Ku-band                    | Ka-band/<br>Ku-band/<br>C-band                                    | Ka-band/<br>Ku-band/<br>C-band                                    | Ku-band/<br>C-band                               | Ku-band/<br>C-band                               | Ku-band       | Ku-band      | Ku-band                       |
| <b>Bandwidth and number of transponders</b>         | Ku: 57 MHz x 16<br>C: 36 MHz x 11<br>54 MHz x 5 | 27 MHz x 16<br>36 MHz x 16 | Ka: 100 MHz x 5<br>200 MHz x 6<br>Ku: 54 MHz x 8<br>C: 72 MHz x 5 | Ka: 100 MHz x 5<br>200 MHz x 6<br>Ku: 54 MHz x 8<br>C: 72 MHz x 5 | Ku: 27 MHz x 16<br>36 MHz x 12<br>C: 36 MHz x 12 | Ku: 27 MHz x 16<br>36 MHz x 12<br>C: 36 MHz x 12 | 27 MHz x 32   | 36 MHz x 12  | 36 MHz x 24                   |



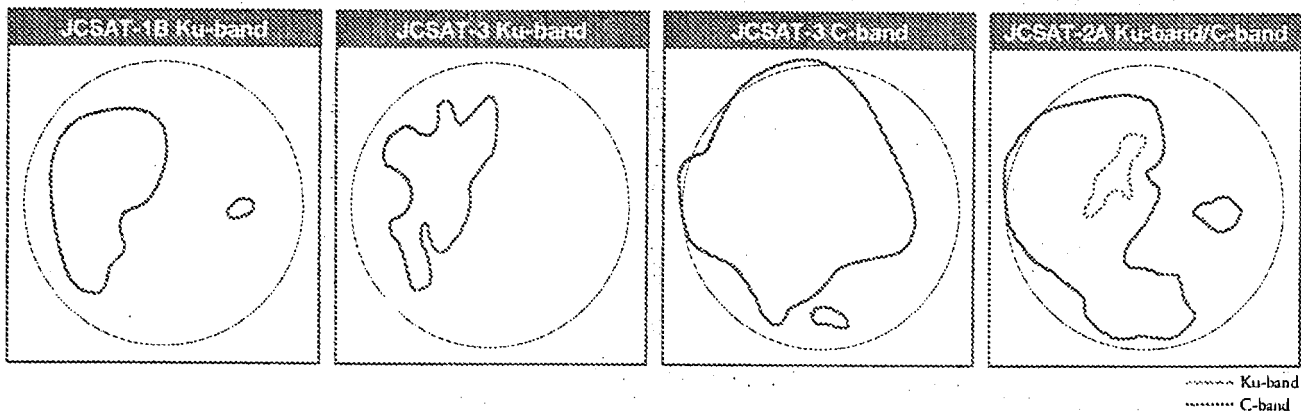
# Design Life of Satellites



### "Design Life" and "Operational Life" of Satellites

The above table indicates the design life of each satellite operated by JSAT, as of the time of production of this annual report. The design life of a satellite is not the same as the operational life and does not indicate the launch time of replacement satellites or the timing of investment in replacement satellites. In addition, the operational life of a satellite may be shorter than the design life, due to such factors as excessive consumption of propulsion fuel or in-orbit failure.

## Coverage Areas



## Corporate Data

(As of March 31, 2003)

**Company name:**  
JSAT Corporation

**Established:**  
February 1985

**Capital:**  
¥53,769,570,000

**Number of employees:**  
206 (262 on a consolidated basis)

### JSAT Corporation:

#### Headquarters:

Pacific Century Place Marunouchi 18F  
1-11-1 Marunouchi, Chiyoda-ku, Tokyo 100-6218, Japan  
Tel: +81-3-5219-7778  
Fax: +81-3-5219-7878

#### Yokohama Satellite Control Center (main control center):

229-1, Miho-cho, Midori-ku, Yokohama, Kanagawa  
226-0015, Japan  
Tel: +81-45-922-7111  
Fax: +81-45-922-7005

#### Gunma Satellite Control Station (backup control station):

3590-1, Aza-Momoizumi, Oaza-Arai, Shinto-mura,  
Kita-Gunma-gun, Gunma 370-3503, Japan

#### Osaka Branch Office:

Sumitomo Bldg. No. 2 6F  
4-7-28, Kitahama, Chuo-ku, Osaka 541-0041, Japan  
Tel: +81-6-6223-0513  
Fax: +81-6-6221-4558

#### Hong Kong Representative Office:

c/o NTT Com Asia Limited, 15F, Tower 2, Ever Gain Plaza,  
88 Container Port Road, Kwai Chung, New Territories, Hong Kong  
Tel: +852-2110-3812  
Fax: +852-2110-0440

#### JSAT International Inc.:

5230 Pacific Concourse Drive 2F, Los Angeles, CA 90045, U.S.A.  
Tel: +1-310-643-4484  
Fax: +1-310-643-4485

#### Japan CableCast Inc.:

Yaesu Mitsui Bldg. 9F,  
2-7-2 Yaesu, Chuo-ku, Tokyo 104-0028, Japan  
Tel: +81-3-5299-2500  
Fax: +81-3-5299-2510

#### Satellite Network, Inc.:

6F, Toranomon Daiichi Bldg.,  
2-3, Toranomon 1-chome, Minato-ku, Tokyo 105-0001, Japan  
Tel: +81-3-3597-6031  
Fax: +81-3-3597-6030

### Information

*If you have any questions, please contact:*

JSAT Corporation  
Corporate Communications & Investor Relations Division  
Pacific Century Place Marunouchi 18F,  
1-11-1 Marunouchi, Chiyoda-ku, Tokyo 100-6218, Japan  
Tel: +81-3-5219-7778  
Fax: +81-3-5219-7878  
URL: <http://www.jsat.net/>  
E-mail: [investors@jsat.net](mailto:investors@jsat.net)

### Corporate History

|           |   |
|-----------|---|
| Feb. 1985 | ☞ Japan Communications Satellite, Inc. (JCSAT), established                                 |
| Apr. 1985 | ☞ Satellite Japan Corporation (SAJAC) established   |
| Mar. 1989 | ☞ JCSAT-1 satellite launched  |
| Jan. 1990 | ☞ JCSAT-2 satellite launched  |
| Aug. 1993 | ☞ Name changed to Japan Satellite Systems Inc. (JSAT) upon the merger of JCSAT and SAJAC    |
| Aug. 1995 | ☞ JCSAT-3 satellite launched  |
| Feb. 1997 | ☞ JCSAT-R satellite launched  |
| Dec. 1997 | ☞ JCSAT-1B satellite launched   |
| Feb. 1999 | ☞ JCSAT-4A satellite launched   |
| Mar. 2000 | ☞ Majority interest in N-STARa and N-STARb satellites acquired from NTT Communications      |
| Apr. 2000 | ☞ Name changed to JSAT Corporation  |
| Aug. 2000 | ☞ Shares listed on the First Section of the Tokyo Stock Exchange                            |
| Oct. 2000 | ☞ JCSAT-110 satellite launched  |
| Jul. 2001 | ☞ Satellite Network, Inc. (SNET), became a subsidiary                                       |
| Jul. 2001 | ☞ JSAT International Inc. (JII) established   |
| Mar. 2002 | ☞ JCSAT-2A satellite launched   |
| Jul. 2002 | ☞ Additional interest in N-STARa and N-STARb satellites acquired from NTT East and NTT West |
| Oct. 2002 | ☞ Japan CableCast Inc. established  |

## Stock Information

(As of March 31, 2003)

### Shares

|                              |           |
|------------------------------|-----------|
| Authorized number of shares  | 450,000   |
| Number of shares issued      | 383,154.5 |
| Total number of shareholders | 23,700    |

### Ten Major Shareholders

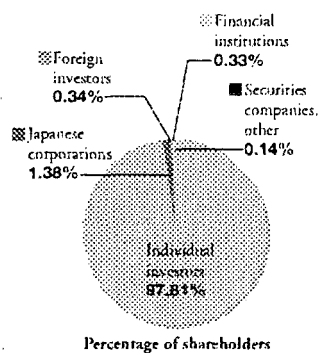
|  | Number of shares | Percentage of voting rights |
|--|------------------|-----------------------------|
| Mizuho Trust & Banking Co., Ltd.<br>(Pension trust account for ITOCHU Corporation)     | 65,593           | 17.35%                      |
| NTT Communications Corporation   | 62,900           | 16.64%                      |
| Mitsui Asser Trust and Banking Company, Ltd.<br>(Trust account for Mitsui & Co., Ltd.) | 41,113           | 10.87%                      |
| Japan Trustee Services Bank, Ltd.<br>(Pension trust account for Sumitomo Corporation)  | 33,696           | 8.91%                       |
| UFJ Trust Bank Ltd. (Trust account A)  | 27,291           | 7.22%                       |
| Nippon Television Network Corporation  | 22,501           | 5.95%                       |
| Sumitomo Corporation   | 18,111           | 4.79%                       |
| The Master Trust Bank of Japan, Ltd. (Trust account)                                   | 7,057            | 1.86%                       |
| Japan Trustee Services Bank, Ltd. (Trust account)                                      | 4,512            | 1.19%                       |
| Nippon Telegraph and Telephone West Corporation  | 3,912            | 1.03%                       |

Notes: (1) JSAT does not hold shares in any of the above companies.

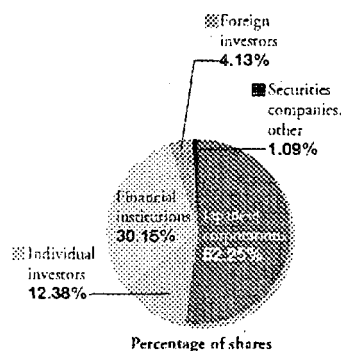
(2) The above excludes 4,749.5 treasury shares held by JSAT.

(3) The percentage of voting shares held represents percentage figures relative to the total number of voting shares of 377,980 shares. This figure is determined by subtracting 4,749.5 JSAT-held treasury shares, 3 odd-lot shares and 422 shares registered under the Japan Securities Depository Center, Inc. (JASDEC), from the total number of shares issued of 383,154.5 shares.

Breakdown of Shareholders by Type



Breakdown of Shares Held by Shareholder Type



### Shareholder Information

|  |  |
|--|--|
| Fiscal year-end:                             | March 31   |
| Annual general meeting of shareholders:      | June   |
| Payment of dividends (dividend record date): | March 31 (September 30 when interim dividends are paid)                        |
| Publication for official announcements:      | <i>Nihon Keizai Shimbun</i>  |
| Transfer agent and handling office:          | Chuo Mitsui Trust & Banking Co., Ltd.<br>33-1, Shiba 3-chome, Minato-ku, Tokyo |

