Interview with CEO (39)

Mr.Yutaka Nagai

President & CEO,
Space Communications Corporation

Biography

Jun. 1971 Graduated from Tokyo University, Department of Technology
Jul. 1971 Joined Nippon Telegraph Telephone Corporation
Oct. 1986 Joined Japan Communication Satellite Company Inc.
Aug. 1993 General Manager, Satellite Operations Division, Japan Satellite Systems Inc.
(Japan Communication Satellite Company Inc. and Satellite Japan Corporation were merged to form Japan Satellite Systems Inc.)
Nov. 1996 Deputy General Manager, Satellite Business Planning & Development Division, Japan Satellite Systems Inc.
Jun. 1997 Director, Japan Satellite Systems Inc.
Deputy General Manager, Engineering Division and Satellite Business Planning & Development Division, Japan Satellite Systems Inc.
Apr. 1998 Director, Japan Satellite Systems Inc.
Vice President, NTT Satellite Communications Inc.
Apr. 2000 Director, JSAT Corporation (The company name changed to JSAT Corporation.)
Jun. 2002 Senior Executive Officer, Satellite Control Group, JSAT Corporation
May 2005 Senior Executive Officer, Engineering Group & Operations Group, JSAT Corporation
Jun. 2006 Board Director, JSAT Corporation
Managing Executive Officer, Engineering Group & Operations Group, JSAT Corporation
Jun. 2007 Board Director, JSAT Corporation
Senior Managing Executive Officer, Engineering Group & Operations Group, JSAT Corporation
Mar. 2008 President & CEO, Space Communications Corporation (current)
Board Director, JSAT Corporation
Jun. 2008 Board Director, SKY Perfect JSAT Holdings Inc. (current)

Interviewer: Takao UEDA(AIAA-JFSC)

--- You should have a very busy schedule just before the corporate merger and launch of Superbird-7. Thank you so much for taking time for *Space Japan Review* interview today.
You've been involved in satellite communications system development for long time since the advent of communication satellites. Now, you have been given the important responsibility of concluding the company "SCC" aiming at the remarkable evolution of Japan's satellite communications business by this merger. I'd like to begin by asking about your ambitions for this responsibility.

Mr.Nagai: Prior to the liberalization of Japan's telecommunications industry in 1985, the country's telecommunications business was monopolized by Nippon Telegraph and Telephone Public Corporation (NTT) in the domestic telecom services field, and Kokusai Denshin Denwa Co., Ltd. (KDD) in the international telecommunications field.
Eight new companies entered the market after liberalization: three domestic carriers (Daini Denden Inc. (DDI), Japan Telecom Corporation, and Teleway Japan Corporation (TWJ)); two international telecom providers (International Digital Communications Inc. (IDC) and International Telecom Japan Inc. (ITJ)); and three satellite companies (Japan Communications Satellite Company, Space Communications Corporation, and Satellite Japan Co., Ltd.).

Japan's telecommunications industry changed considerably in the following two decades, however. The advent of wavelength division multiplexing (WDM) technology for fiber optic communications increased capacity and sharply

reduced unit transmission costs.
The number of subscribers in Japan for fiber-optic communications services has spread, along with the conversion of transmission routes to digital and IP formats, and VPN services using the Internet. The fixed-line telephone business has slumped with the proliferation of mobile phones, and data communications charges are increasingly based on flat-rate pricing systems.

After all, the result was fierce competition in the telecommunications industry centered on telecom infrastructure providers, with repeated mergers and acquisition carried out in an effort to survive.
Of the eight companies that entered the market in 1985, SCC was the only one not to have been involved in a merger, or to have changed its shareholder composition or company name. JSAT Corporation (JSAT) is the product of a merger between Japan Communications Satellite Company and Satellite Japan, with investment from the NTT Group.
PerfecTV, which originated at JSAT, merged with JSkyB to become SKY PerfecTV! (SKY Perfect Communications Inc.), which also absorbed customers of DirecTV when that company withdrew from the market.

In spring 2007, JSAT and SKY PerfecTV! integrated their businesses, establishing SKY Perfect JSAT Corporation. The acquisition of SCC by SKY Perfect JSAT on March 31, 2008, brought us under the SKY Perfect JSAT Group. We plan to integrate the three operating companies (JSAT, SCC and SKYPerfecTV!) under the new holding company into a single enterprise this fall. Work to finalize this integration is currently proceeding at a fevered pitch.

The satellite communications industry is currently growing at a rate of around 8% to 10% worldwide, but in Japan, competition from terrestrial services is extremely fierce, and it has become difficult even to maintain our current market share.
Under these conditions, rather than fighting one another over a small market, we must utilize our resources to the full, while raising business efficiency, securing current business fields, and expanding in areas where satellite services offer an advantage. It is this general trend that led inevitably to the merger with SCC.

My biggest responsibility is thus to welcome SCC into the SKY Perfect JSAT Group, and ensure the smooth integration of the three business companies.
This does merely entail bringing the three companies together. Rather, we must put in place a structure that allows the new enterprise to function as an integrated operating company and compete by making the most of its resources.

In this sense, we must clarify how we will allocate and utilize personnel, how we will maintain incentives, and how we will capture synergies with SKYPerfecTV!. Clarifying the direction of the new company is also important.

--- What has been the most difficult aspect from a technical standpoint in merging the JSAT and SCC systems in the process of leading concrete preparations tasks for the integration? Conversely, what aspects of the integration do you feel are proceeding unexpectedly smoothly?

Mr. Nagai: JSAT and SCC have up to now operated their satellite networks independently, providing customers with services from separate service facilities developed on their own. Accordingly, JSAT's main control station and teleport facility is in Yokohama, with a backup control station in Gunma, whereas SCC's main control station and teleport facility is in Ibaraki, with a backup control station in Yamaguchi.

To realize merger benefits, we must therefore integrate facilities spread out at these four different locations, and raise operating efficiency.
Utilizing one main control station and one backup station from each company is technically feasible, but integrating these facilities and services while continuing to manage different types of satellites and provide ongoing customer service in an economically reasonable manner is a fairly difficult proposition.
Therefore, we plan to start the integration process where we can begin immediately, and phase in integration at the next stages as preparations are completed.

Both SCC and JSAT are in the same business, so this will be a horizontal integration. Just as "yesterday's enemy is today's friend," we share the same knowledge and understanding regarding the market and the technology, and can readily reach a consensus on many matters, so in that sense I think we can expect to achieve strong ties fairly quickly.
On the other hand, the vertical integration of SKYPerfecTV!, which is in a different industry altogether, will likely be more difficult.

--- The merger of satellite operators naturally offers substantial business advantages in terms of scale and efficiency. On the other hand, what do you see as the biggest benefit to users?

Mr.Nagai: Naturally, there is a concern among users that with only one private-sector satellite company in Japan, there may be a lack of competition, resulting in disadvantages for users in terms of service quality and pricing. However, considering the background that led up to this merger and business integration, satellite communications services today clearly faces competition from terrestrial services in both the communications and broadcasting fields. Therefore, users will cease to use satellite communications services unless we provide an attractive value proposition in terms of service quality and price.

In this sense, I don't think users will see any deterioration in pricing or service quality. Rather, I think integration will reinforce our business resources; or in other words, it will give us a better and more flexible satellite fleet, as well as a broader base of personnel, financial and other resources, allowing us to provide more stable and reliable services to customers than before.

--- The Superbird-7, planned for launch in August, will be the first commercial communications satellite manufactured in Japan. What expectations do you hold for Japan's first domestically built satellite?

SUPERBIRD-7

Mr. Nagai: The Superbird-7 is in many ways an epoch-making spacecraft.
It's the last satellite for SCC, but the first post-merger satellite for the SKY Perfect JSAT Group. As a symbol of the merger, its success will be crucial to smoothly integrating the three companies.

The Superbird-7 is also the first commercial communications satellite produced in Japan, making it the first real test for the manufacturer Mitsubishi Electric Corporation, as it enters the global commercial communications satellite business.

The entry of a Japanese satellite manufacturer into the international satellite market is also a welcome development for Japanese satellite operators.
We currently depend on U.S. and European satellite manufacturers for procuring spacecraft. However, European satellites have become extremely expensive with the euro's appreciation, while in the U.S. the number of manufacturers that can provide satellites that meet our specifications is shrinking, as companies shift to the more highly profitable business of government and military satellites.
The choice of manufacturers has narrowed for satellite procurement recently, which has been one of the concerns facing our industry.

The entry into the international market, therefore, of a domestic manufacturer with proven technology and a strong track record is an extremely important development in terms of ensuring a sustainable business into the future.

--- What will be the impact of JSAT/ SCC merger on the global business strategies of SKYPerfecTV! ? Please tell us as much as you can.

Mr.Nagai: The SKY Perfect JSAT Group will have 12 spacecraft in orbit following the merger with SCC. This will be the fifth biggest fleet globally, after Intelsat, SES Global, Eutelsat, and Telesat Canada.

Having a large number of satellites gives us greater bargaining power in negotiations on the procurement of satellites and rockets with satellite manufacturers and launch service providers.
Greater economies of scale also allow us to raise operating efficiency, making it easier for us to form ties with smaller satellite operators. It also allows us to capture synergies by realigning and absorbing small and mid-sized operators with the SKY Perfect JSAT Group at the core.
It's not exactly the law of universal gravitation, but compared to small-scale operators, those that exceed a certain scale can more easily absorb other satellite operators.

--- The satellite communications business in Japan hasn't quite expanded at rates expected in the past, and there have been some setbacks. However, the outlook is for new growth in public-sector demand following the recently enacted Basic Space Law of Japan. How do you view the potential for future business development?

Mr.Nagai: Seeing the liberalization of Japan's telecommunications industry as an opportunity, we have been developing a satellite telecommunications business from a purely commercial standpoint.

However, Japan's space policy up to now has focused on technological development and space science research, and has lacked any real aspect of promoting the use of space-related technology or nurturing private industry.
This was in part unavoidable mainly because contracts for government-related operational satellites must be opened for international tender due to the "Super 301" clause of the 1988 Trade Act.

The Basic Space Law of Japan has now been passed, and incorporates promotion of the use of space technology and the development of the space industry as part of the purpose of the legislation.
We in the satellite communications business feel that this has opened up new possibilities.

Competition between satellite and terrestrial communications services is fierce, but a close examination of optimal fields for satellite communication reveals many areas that would otherwise be impossible without satellites, such as establishing safe and secure infrastructure, bridging the digital divide, and providing mobile services. I expect the public sector to be the main user in such fields.

We are not limiting ourselves to the communications field. We plan to actively pursue all satellite-related businesses, including consulting on satellite procurement or operations. We also anticipate demand in these areas as well.

--- Finally, I'm sure you're extremely busy everyday, but how do you spend your holidays away from work ?

Mr.Nagai: I've always enjoyed playing golf on my days off as a way of getting some exercise. Lately, for the first time since I've had my club membership, I've gotten hooked on tournament golf, and have become devoted to the sport.
My skill hasn't improved all that much, however, and my handicap has not gone down. Golf is truly difficult.

Other than golf, I enjoy photography. I take photos with my digital single-lens reflex camera on holidays or at nearby parks.

--- Thank you for taking time from your busy schedule to talk with us today. Thank you also for your contribution as the vice chairman during the upcoming activities of AIAA Japan Forum on Satellite Communications.

Mr. Nagai and Mr. Ueda after interview