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Frequently Asked Questions and Answers (Q1 Financial Results for the fiscal year ending April 30, 2025)

Listed below are frequently asked questions and answers during investor communication since our first quarter earnings announcement for the fiscal year ending April 30, 2025 (FY2025). We are planning to provide this information periodically for the purpose of enhanced investor communication and fair disclosure. While there may be slight discrepancies due to timing differences, these responses are based on our current policies as of October 31, 2024.

Business Environment

Q: How are regulations progressing?

A: Since August 2024, there has been two key developments related to international regulations:

1. At the United Nations Future Summit held in September 2024, the action goal 56 of the "Pact for the Future" was adopted, which aims to strengthen international cooperation for the exploration and use of outer space. Ensuring the safe and sustainable use of space is emphasized as crucial for achieving the SDGs 2030 Agenda. It is decided that the establishment of a new framework for space debris and other related issues should be discussed at the United Nations Conference on the Peaceful Exploration of Outer Space (UNCOPUOS). In addition, stakeholders, including the relevant private sectors, are urged to engage in government processes to enhance the safety and sustainability of space. This development is expected to increase global interest in space debris, potentially driving demand for on-orbit servicing, which our company is working to address.
2. The FCC's 5-year rule: After a two-year grace period, the Federal Communications Commission (FCC) 5-year rule is now applicable to satellites launched after September 30, 2024.

Q: Would growth of the EOL (End-of-Life Service) market be impacted if customer satellite failure rates are lower than expected?

A: While the growth of the EOL market will depend partly on the failure rates of customer satellites, we believe in the viability and growth potential of the market in light of planned launch and generation updates of constellation operators.
Satellite operators design their satellites considering all operations up to and including deorbit. However, there is a trade-off between enhancing system redundancy to improve quality and reducing overall costs including operational costs. While we cannot fully understand those priorities for satellite constellation operators, satellite failures will occur statistically with a certain probability. In compliance with the FCC's 5-year rule and aiming to optimize total costs, we

anticipate satellite operators will equip their satellites with docking plates that can be captured by our servicer satellites, preparing them to eventually receive EOL services.

Q: Does the recent political situation, such as the U.S. presidential election or Japan's House of Representatives election, have any impact on the Company's business?

A: While national budget approval processes for projects could be delayed by an order of few months, we anticipate no significant impact from recent political changes.
In the U.S. market, the current administration has shown a proactive stance toward space-related budgeting, partly due to its focus on geopolitical risks. The previous administration was also supportive of space-related budgets. Therefore, we do not expect any significant impact on space-related budgets following the presidential election, and we believe that the strategy of utilizing on-orbit servicing, including in the defense sector, will remain unchanged.
As for Japan, we believe that space policy, including the defense sector, will continue to accelerate the use of on-orbit servicing.
In general, changes in government could lead to delays in the order of few months in the national budget approval process for new projects. However, we do not believe that any projects will be completely canceled.

Q: Is demand for defense-related projects increasing?

A: There is a growing movement within defense agencies across various countries to utilize on-orbit servicing. We expect that RPO (rendezvous and proximity operations) technology, including observation and refueling services, will increasingly be incorporated into defense strategies. Given that defense agencies value proven technologies, we believe this trend is a favorable development for the Company, as we have successfully demonstrated RPO technology on orbit. In fact, we secured a refueling contract from the U.S. Space Force in September 2023. Furthermore, with local offices in five countries, we remain optimistic about accessing defense budgets from government agencies in these regions.

<u>Astroscale's Business</u>

Q: What business growth areas are you expecting in the future?

A: Currently, government demand is our business driver as shown in the pipeline table. We expect defense projects to materialize with private sector demand anticipated to ramp up thereafter. Since the start of FY2025, demand for defense projects has become more apparent, and discussions on multiple projects have begun at our key locations. We also expect the scale of these projects may range from several billion yen to even tens of billions of yen per project. Defense projects are primarily focused on ISSA (In-situ Space Situational Awareness) and LEX (Refueling) services.
As for commercial demand, we are expecting demand for EOL and LEX services. EOL services will be demonstrated on orbit through ELSA-M Phase 4. We expect commercial services to begin with specific customers after the demonstration. We have already signed contracts with several customers for the installation of docking plates required for EOL services, and we are actively working to expand our customer base in response to strengthened regulations. Regarding LEX services, if the contract for LEXI-P is successfully concluded, we expect further progress in negotiations with multiple potential commercial customers with whom we have already signed MOUs.

Q: Is there any potential to collaborate with Airbus Defence and Space (Airbus) in OOS based on the MOU announced in August?

A: Depending on the services required by clients, there may be systems that cannot be handled by our company alone. In such cases, collaborating with Airbus may enable the development of the necessary systems, with our company focusing on aspects related to RPO technology. Therefore, we expect continued business opportunities through our collaboration with Airbus.

Q: As a Japanese institution, why has the Company been able to win contracts with overseas governments and space agencies, where local companies typically have an advantage?

A: The Company has local subsidiaries in five regions globally, each with departments related to technology, regulations, and business. These subsidiaries handle local manufacturing to provide a seamless and integrated operation. As a result, we have established a strong presence as a local company rooted in each region. We believe this is the key reason why we have been able to accumulate a track record in government projects at each of our locations.

Q: As mission orders and launch plans increase, is there a risk that launch providers could become a bottleneck?

A: We do not anticipate any bottlenecks. We maintain frequent communication with launch providers and share information regarding future plans. We have no concerns about costs considering the rise of emerging launch providers.

Q: According to the pipeline table, with the expected orders for LEXI-P and Project A in FY2025, will this be the peak order booking in the near term?

A: The pipeline slide includes projects expected to be awarded with high confidence, while unawarded projects are listed conservatively. We anticipate continued growth of bookings beyond FY2026 based on our robust potential pipeline. We will disclose potential projects anticipated to be awarded after FY2026 at the appropriate time. Currently, there are over 100 potential projects of various sizes and probabilities on our potential project list.

Q: Regarding production capacity to meet the growing demand, are there plans for large-scale capital investments in the future?

A: Capital investments have been made at our facilities over the past 1–2 years, and we believe the company currently has manufacturing capacity to meet demand for the next 2–3 years. Therefore, there are no plans for large-scale capital investments in the near term. However, if commercial demand increases in the future, outsourcing to external manufacturing capabilities will be considered as part of the manufacturing strategy, with the goal of establishing a flexible production system.

Q: What is the overview of COSMIC Phase 2?

A: A formal contract was signed with the UK Space Agency in September 2024 for £1.95 million. This phase will focus on the maturation of key technologies and risk reduction. The Company understands that two companies, including ourselves, are currently involved in the COSMIC project. Following this phase, it is expected that the project will transition to Phase C/D/E, which will involve the removal of two UK satellites. We anticipate a bid process to downselect a company to work on the following phase will take place in the future.

Q: What is the cash flow structure for businesses expected to grow in the future?

A: The three pillars for future growth are expected to be defense, LEX services, and EOL services. For defense projects, payments will be structured as milestone payments, given that they involve government agencies. The payment structure for EOL/LEX services differs from government projects; however, payment schemes are being designed with cash flow considerations, and negotiations are ongoing with potential customers.

Q: What is the status of efforts towards commercial EOL/LEX services?

A: The Company is currently in the process of negotiating contracts for commercial services. However, since the ELSA-M Phase 4 process is ongoing, there is no clear timeline for when the contract will be finalized. On the other hand, contracts for the installation of docking plates with satellite constellation operators have already been signed with multiple companies, and negotiations are ongoing with new potential customers, driven by tightening regulations. As a result, sales of docking plates, which could lead to future EOL services, are steadily progressing.

Regarding LEX services, MOUs have already been signed with several commercial companies. However, actual contract negotiations are expected to proceed after observing the LEXI-P mission. We are anticipating that the LEXI-P contract will be finalized this fiscal year, and once the mission develops as planned, further progress in the commercial sector can be expected the following year.

Astroscale's Technology and Competitive Environment

Q: What are the unique strengths compared to competitors?

A: In terms of technology, the greatest advantage lies in having successfully demonstrated RPO technology on orbitthrough the ELSA-d and ADRAS-J missions. The ability to achieve these technical demonstrations can be attributed to strong leadership and the company's rapid and flexible design and development capabilities enabling effective system, orbit and operation design.

From a business perspective, the ability to operate in multiple countries is a key strength because the space debris issue requires a global solution. Additionally, the simultaneous deployment of four services and the ability to manage multiple missions concurrently contribute to both the quality and quantity of technology advancement.

In terms of policy, having local subsidiaries that can directly engage with government agencies and space organizations, as well as the influence gained from successful demonstrations, provide a distinct advantage.

Q: Apart from the proven RPO technology through ELSA-d and ADRAS-J, are there any strategies to further enhance the competitive advantage?

A: Until a technology is proven, it is typical for R&D costs to be borne by the company or partially contributed by the customer. The Company has already demonstrated its core RPO technology and believes that, by leading the way in cost reduction and achieving economies of scale, it will be able to gain a competitive edge not only in technology but also in price competitiveness.

Q: While successful demonstrations of simulated debris capture and debris observation have been carried out with ELSA-d and ADRAS-J, how significant is the technical leap required to remove real debris?

A: The most technically challenging aspect is not the capture technology, but the ability to approach the debris safely. We believe our technology has progressed significantly since the critical approach technology has been proven through these missions. Additionally, our other key technologies are also steadily being developed, such as the capture mechanism undergoing ground testing.

Financial outlook and financial information

Q: What is the pace of decrease in cash and deposits each month?

A: Free cash flow (FCF) for FY2024, was a negative ¥14 billion, and is expected to worsen further in FY2025 but not reach negative ¥20 billion. However, the cash balance at the end of Q1 stands at ¥27.3 billion, and it is expected to remain at a sufficiently comfortable level through the end of April 2025. While FCF is expected to remain negative in FY2026, a significant improvement is anticipated compared to the previous year. The target is to break even in FCF by FY2027, with the cash balance being maintained at around ¥15 billion or higher up to that point.

Q: The immediate business milestone seems to be turning a profit. What is the long-term goal?

A: The goal is to make on-orbit servicing routine by 2030. As for long-term profitability targets, the aim is to achieve a gross profit margin in the mid-30% range and an operating profit margin in the mid-20% range.

Q: What are the growth drivers for the next 5 to 10 years?

A: The key growth drivers are expected to be commercial EOL services, LEX services, and defense-related demand. In the next few years, growth is expected to be primarily driven by government projects, which are the current main missions, and defense-related demand. In addition, once LEXI-P is successful, we expect increased demand for life extension services using our LEXI servicer. In the long term, with the addition of demand for commercial EOL services, we expect that EOL and LEX services will account for about two-thirds of total revenue.

Financial Results for Q1 of FY2025

Q: The provision for loss on order received for ELSA-M Phase 4 was previously ¥3.5 billion but is now ¥3.204 billion. Does this mean an additional ¥300 million will be added?

A: The initial ¥3.5bn guidance for loss provision was based on conservative estimates given the uncertainties then. Through detailed discussions with our auditors, the provision for loss on order received was recorded at ¥3.2 billion for Q1. If ELSA-M Phase 4 proceeds according to plan, no additional provisions are expected.

Q: Why is the growth in revenue low?

A: Revenue for Q1 of FY2025 is lower compared to the preceding quarter due to lower activity on projects nearing the end such as ADRAS-J, ELSA-M Phase 3, and COSMIC Phase B. On the other hand, projects recognized as other income under government grant income such as APS-R/ISSA-J1 (formerly SBIR) are progressing smoothly. Revenue from unawarded projects (LEXI-P/Project A) is expected to contribute to the projected project income of ¥18 billion for FY2025.

Q: Regarding government grant income (recognized as other income), what is the outlook for the future compared to ¥927 million in Q1?

A: The projects contributing to this income are the large-scale technology demonstration project ISSA-J1 (formerly SBIR) awarded by the Ministry of Education, Culture, Sports, Science and Technology, and the refueling program APS-R awarded by the U.S. Space Force, both of which were awarded in FY2024. These two projects are expected to continue contributing to government grant income in Q2 and beyond, with a similar scale to that seen in Q4 of FY2024 and Q1 of FY2025. For any new contracts in the future, the recognition of revenue, either as sales revenue or government grant income, will be decided after discussions with the auditing firm.

Q: Looking at the future pipeline and order prospects, there are no projects requiring partial funding, and it is expected that fully-funded projects will increase. However, is there a possibility that partially-funded projects may appear again in the future?

A: At present, since we are demonstrating RPO technology, projects with a strong R&D focus have decreased, and the number of fully-funded projects, where the full cost can be recovered, is increasing. We expect that almost all future projects will be fully-funded. However, if inquiries for projects with a strong R&D component arise in various countries, there is a possibility that partially-funded projects may emerge. Therefore, if a project contributes to the development of technologies we should possess, we will aim to secure such projects. However, we do not intend to take on typical projects with the expectation of incurring losses. We will continue to focus on maintaining a profitability-oriented approach to contracts.

The full-year forecast for FY2025

Q: When will the disclosure including profit items be made?

A: At present, we plan to disclose the performance forecast, including profit items, along with the Q2 financial results for FY2025.

Q: What is the outlook for new orders in the future?

A: We have successfully secured several anticipated projects, including ELSA-M Phase 4, ADRAS-J2, and COSMIC Phase 2. Looking ahead to the second half of 2024, contract negotiations for LEXI-P are nearing completion, and we aim to finalize the contract by the end of the year. We expect Project A to be approved in the coming months. In addition to the specific projects mentioned in the business update and financial results presentations, there are numerous smaller projects in the pipeline. We will continue to disclose new orders in accordance with the timely disclosure rules of the Tokyo Stock Exchange.

Q: The projected project income for FY2025 seems a bit optimistic. When adding up the projects disclosed in the slides, it appears to fall slightly short. What assumptions are included in this forecast?

A: For projects that have already been secured, revenue or government grant income will be recognized as planned. However, the timing of contracts for large projects expected to be awarded, such as LEXI-P and Project A, remains a potential risk. For LEXI-P, we have already accounted costs as R&D, and we plan to recognize corresponding revenue once the formal contract is signed. This makes LEXI-P the largest swing factor in our forecast for FY2025.

Q: Is there a possibility that project income could exceed the planned figures?

A: There is a possibility of an upside if negotiations for specific projects, such as defense projects that have not been disclosed in the slides, progress more than expected. Government projects are difficult to predict timing, so we believe there could be some fluctuations, both up and down, depending on the contract timing for large projects and defense contracts.

Q: What is the outlook for R&D expenses going forward?

A: R&D expenses include pure R&D costs, pre-contract development costs for unawarded projects, and development costs for government grant projects. Pure R&D costs are relatively small, with the remaining two elements being of similar amounts. A large portion of the pre-contract development costs for unawarded projects relates to the LEXI-P project, which is expected to be awarded in FY2025. Once the contract is secured, these costs will be shifted to COGS, so we do not anticipate such expenses after FY2026. As for development costs for government grant projects, such as ISSA-J1 (formerly SBIR) and APS-R, they are expected to continue over the next few years, based on the projected accounting periods. However, corresponding revenue will be recognized as government grant income (other income), so the impact on operating profit will be limited.

Others

Q: What are the potential risks and corresponding mitigation measures?

A: Risks such as loss of projects, delays in project contracting, and development delays are possible. Key strategic projects aiming award in FY2025 include LEXI-P and Project A. In terms of loss of projects, particularly for LEXI-P, this would have a significant impact on the revenue projections for FY2025 and FY2026. However, no major concerns have been identified in the contract negotiations.

As for delays in receiving projects contracts, there may be cases where contract finalization takes longer than expected. While the total project amount would remain unchanged, project income could fall short of the performance forecast if project contracting is delayed by a month or spill over into the next fiscal period.

Regarding development delays, some delays may occur due to factors beyond our control, such as shifts in launch schedules. As such, while we anticipate increased costs due to delays, we have built in a buffer in the budget to mitigate these risks.

Q: What is the current perspective on M&A when considering future fundraising possibilities?

A: As a past example of M&A, in June 2020, our Israeli subsidiary, Astroscale Israel Ltd., acquired the intellectual property of Effective Space Solutions R&D Ltd. (Israel) and assumed the employees of their R&D facility. If there are attractive investment opportunities related to our core technologies that exceed our expectations, we may consider acquisitions. However, no specific decisions have been made.

Q: Is a dual listing on both the Japanese and U.S. securities markets being considered, especially given the large space-related budget in the U.S.?

A: Regarding operations in the U.S. space market, our U.S. subsidiary, Astroscale U.S. Inc., obtained a Facility Clearance in July 2023, enabling participation in classified U.S. government projects. We have already secured orders from the U.S. Space Force, so we do not foresee any obstacles to expand our business in the U.S. space market currently. However, we recognize the significance of increasing our presence in the U.S., which accounts for roughly half of global space-related spending and expanding our reach to U.S. institutional investors. Therefore, while we have not made any decisions, we do not rule out the possibility of a dual listing on the U.S. securities market in the future.

Q: The lock-up will expire on December 2, 2024, allowing existing shareholders including major venture capital investors to sell their shares. What kind of discussions have you had with them?

A: We are closely monitoring the potential impact of stock sales by existing shareholders on the share price and are continuing to have careful discussions with our major shareholders. No decisions have been made at this time.

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