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April 26, 2024

Summary of Financial Results for the Fiscal Year Ended March 31, 2024 (Consolidated)

Company name: SAKURA internet Inc.
 Listing: Tokyo Stock Exchange
 Securities code: 3778
 URL: https://www.sakura.ad.jp
 Representative: Kunihiro Tanaka, President and Chief Executive Officer
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 Scheduled date of annual general meeting of shareholders: June 25, 2024
 Scheduled date to commence dividend payment: June 26, 2024
 Scheduled date to file annual securities report: June 18, 2024
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (for institutional investors and securities analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the fiscal year ended March 31, 2024 (from April 1, 2023, to March 31, 2024)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|----------------------------------|-----------------|-----|------------------|--------|-----------------|--------|---|-------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Fiscal year ended March 31, 2024 | 21,826 | 5.8 | 884 | (19.1) | 764 | (20.9) | 651 | (2.2) |
| Fiscal year ended March 31, 2023 | 20,622 | 3.0 | 1,093 | 43.2 | 965 | 48.7 | 666 | 142.0 |

Note: Comprehensive income
 Fiscal year ended March 31, 2024 ¥769 million [13.4%]
 Fiscal year ended March 31, 2023 ¥678 million [123.5 %]

| | Net income per share | Diluted net income per share | Return on equity | Ratio of ordinary profit to total assets | Ratio of operating profit to net sales |
|----------------------------------|----------------------|------------------------------|------------------|--|--|
| | Yen | Yen | % | % | % |
| Fiscal year ended March 31, 2024 | 18.26 | - | 7.5 | 2.7 | 4.1 |
| Fiscal year ended March 31, 2023 | 18.29 | - | 8.0 | 3.5 | 5.3 |

Reference: Share of profit (loss) of investments accounted for using equity method
 Fiscal year ended March 31, 2024 ¥(3) million
 Fiscal year ended March 31, 2023 ¥(1) million

(2) Consolidated financial conditions

| | Total assets | Net assets | Equity-to-asset ratio | Net assets per share |
|----------------------------------|-----------------|-----------------|-----------------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| Fiscal year ended March 31, 2024 | 30,224 | 9,321 | 30.2 | 255.82 |
| Fiscal year ended March 31, 2023 | 26,256 | 8,486 | 31.8 | 234.10 |

Reference: Shareholders' equity
 Fiscal year ended March 31, 2024 ¥9,135 million
 Fiscal year ended March 31, 2023 ¥8,348 million

(3) Consolidated cash flows

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of period |
|----------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Fiscal year ended March 31, 2024 | 2,884 | (2,025) | (410) | 5,257 |
| Fiscal year ended March 31, 2023 | 3,963 | (606) | (3,999) | 4,810 |

2. Cash dividends

| | Annual dividends per share | | | | | Total cash dividends (Total) | Payout ratio (Consolidated) | Ratio of dividends to net assets (Consolidated) |
|--|----------------------------|-----------------|-----------------|-----------------|-------|------------------------------|-----------------------------|---|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Fiscal year-end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Millions of yen | % | % |
| Fiscal year ended March 31, 2023 | - | 0.00 | - | 3.50 | 3.50 | 125 | 19.1 | 1.5 |
| Fiscal year ended March 31, 2024 | - | 0.00 | - | 3.50 | 3.50 | 125 | 19.2 | 1.4 |
| Fiscal year ending March 31, 2025 (forecast) | - | 0.00 | - | 4.00 | 4.00 | | 11.4 | |

Note: Total cash dividends include the amount of dividends on J-ESOP shares on the Company's stock.

3. Consolidated forecast for the fiscal year ending March 31, 2025 (from April 1, 2024, to March 31, 2025)

(%: Changes from the corresponding period of the previous fiscal year)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Net income per share |
|--------------------------------------|-----------------|------|------------------|---------|-----------------|-------|---|-------|----------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Six months ending September 30, 2024 | 13,000 | 25.7 | 800 | (220.7) | 780 | 351.7 | 480 | 174.1 | 13.44 |
| Full year | 28,000 | 28.3 | 2,000 | 126.1 | 1,960 | 156.5 | 1,250 | 91.8 | 35.01 |

* Notes:

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in the scope of consolidation): None

Newly included: - company

Excluded: - company

(2) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(3) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

| | |
|----------------------------------|-------------------|
| Fiscal year ended March 31, 2024 | 37,620,700 shares |
| Fiscal year ended March 31, 2023 | 37,620,700 shares |

(ii) Number of treasury shares at the end of the period

| | |
|----------------------------------|------------------|
| Fiscal year ended March 31, 2024 | 1,911,842 shares |
| Fiscal year ended March 31, 2023 | 1,958,144 shares |

(iii) Average number of shares outstanding during the period

| | |
|----------------------------------|-------------------|
| Fiscal year ended March 31, 2024 | 35,696,618 shares |
| Fiscal year ended March 31, 2023 | 36,449,485 shares |

Note: The Company has introduced Stock Benefit Trust (J-ESOP). The shares of the Company's stock held by the Stock Benefit Trust are included in treasury shares which are deducted when calculating the number of treasury shares at year-end and the average number of shares during period.

Reference: Overview of non-consolidated financial results

Non-consolidated financial results for the fiscal year ended March 31, 2024 (from April 1, 2023, to March 31, 2024)

(1) Non-consolidated operating results (Percentages indicate year-on-year changes.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit | |
|----------------------------------|-----------------|-----|------------------|-------|-----------------|--------|-----------------|---------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Fiscal year ended March 31, 2024 | 18,953 | 8.3 | 795 | (8.2) | 682 | (11.3) | 553 | 2.7 |
| Fiscal year ended March 31, 2023 | 17,504 | 3.0 | 866 | 92.6 | 769 | 130.7 | 539 | 1,792.3 |

| | Net income per share | Diluted net income per share |
|----------------------------------|----------------------|------------------------------|
| | Yen | Yen |
| Fiscal year ended March 31, 2024 | 15.51 | - |
| Fiscal year ended March 31, 2023 | 14.79 | - |

(2) Non-consolidated financial condition

| | Total assets | Net assets | Equity-to-asset ratio | Net assets per share |
|----------------------------------|-----------------|-----------------|-----------------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| Fiscal year ended March 31, 2024 | 27,332 | 8,379 | 30.7 | 234.66 |
| Fiscal year ended March 31, 2023 | 23,194 | 7,767 | 33.5 | 217.79 |

Reference: Shareholders' equity Fiscal year ended March 31, 2024 ¥8,379 million
Fiscal year ended March 31, 2023 ¥7,767 million

* Financial results reports are exempt from audits conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

- These forward-looking statements, including forecasts, in this material are based on data currently available to management and certain assumptions that management believes are reasonable, and are not intended as a guarantee that the Company will achieve these targets. The actual results may differ materially from those projected herein depending on various factors. For the conditions underlying earnings forecasts and notes on using earnings forecasts, please refer to "(4) Outlook for the future" in "1. Overview of operating results for the fiscal year ended March 31, 2024" on page 4 of the attached document.
- The Company plans to hold a financial results briefing for institutional investors and securities analysts on Friday, April 26, 2024. The details and audio recording, accompanying the financial results materials used at the meeting, will be posted on the Company's website immediately after the event.

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1. Overview of operating results

(1) Overview of operating results for the fiscal year ended March 31, 2024

During the fiscal year ended March 31, 2024, slowdowns in overseas economies due to the effect of global monetary tightening and concern over the outlook for China's economy have been a risk that may weigh down Japan's economy, while there has been an expectation for a moderate economic recovery to continue partly due to the effects of various policies, as the employment and wage environment improves. In addition, careful attention must be paid to the impact of price hikes, the situation concerning the Middle East, and financial and capital market fluctuations, etc.

As digital transformation (DX) progresses, companies are mitigating their IT infrastructure to a cloud-based one. We anticipate that the market will continue to expand as expectations for a domestic public cloud are growing.

In these circumstances, the Group aims to support the realization of what customers "want to do" by providing the Group's one-stop services from system integration and development, and provision, maintenance, operation and customer support, etc. of cloud internet infrastructure services. With the main goal of realizing the success of more than 480,000 existing customers and potential customers, the Company focuses on expanding cloud services that have high growth potential in the future.

Net sales were 21,826,794 thousand yen (up 5.8% year on year) mainly due to the steady growth of cloud service sales.

Operating profit fell to 884,507 thousand yen (down 19.1% year on year) mainly due to aggressive investments for further enhancement of functional development of cloud services and recruiting and marketing, etc. to promote sales, despite the increase in net sales.

Ordinary profit was 764,080 thousand yen (down 20.9% year on year) mainly due to decreased operating profit.

Profit attributable to owners of parent was 651,716 thousand yen (down 2.2% year on year) mainly due to decreased ordinary profit.

Net sales by service category are as follows:

(i) Cloud services

Net sales of cloud services were 12,773,779 thousand yen (up 7.9% year on year) mainly because SAKURA's cloud and VPS continued to perform favorably.

(ii) Physical base services

Net sales of physical base services were 3,589,785 thousand yen (down 1.3% year on year), mainly due to the shift to other services and cancelations.

(iii) Other services

Net sales of other services were 5,463,229 thousand yen (up 6.2% year on year), mainly due to the start of GPU cloud service in January 2024 (net sales of 201,107 thousand yen for the fiscal year ended March 31, 2024) and an increase in domain sales.

(2) Overview of financial condition for the fiscal year ended March 31, 2024

Assets, liabilities and net assets at the end of the fiscal year ended March 31, 2024, and the factors affecting them are as follows:

(i) Assets

Total assets at the end of the fiscal year ended March 31, 2024, increased 3,968,337 thousand yen (up 15.1% year on year) to 30,224,447 thousand yen. This was mainly due to an increase in property, plant and equipment as a result of procuring service equipment for GPU cloud services, etc., and an increase in accounts receivable–trade related to governmental projects.

(ii) Liabilities

The balance of total liabilities at the end of the fiscal year ended March 31, 2024, grew 3,133,267 thousand yen (up 17.6% year on year) to 20,903,238 thousand yen. This was mainly due to an increase in lease liabilities and borrowings relating to the procurement of service equipment.

(iii) Net assets

The balance of net assets at the end of the fiscal year ended March 31, 2024, grew 835,070 thousand yen (up 9.8% year on year) to 9,321,209 thousand yen. This was mainly due to an increase in retained earnings due to the recording of profit attributable to owners of parent.

(3) Overview of cash flows for the fiscal year ended March 31, 2024

Cash and cash equivalents at the end of the fiscal year ended March 31, 2024, grew 447,177 thousand yen (up 9.3% year on year) to 5,257,805 thousand yen.

Consolidated cash flows by activities and factors affecting cash flows are as follows:

(i) Cash flows from operating activities

Net cash provided by operating activities in the fiscal year ended March 31, 2024, was down 1,079,287 thousand yen (down 27.2% year on year) to 2,884,133 thousand yen. This was mainly due to an increase in accounts receivables–trade.

(ii) Cash flows from investing activities

Net cash used in investing activities in the fiscal year ended March 31, 2024, increased 1,419,509 thousand yen (up 234.2% year on year) to -2,025,638 thousand yen. This was mainly due to an increase in purchases of property, plant and equipment including service equipment for GPU cloud services, etc.

(iii) Cash flows from financing activities

Net cash used in financing activities in the fiscal year ended March 31, 2024, was down 3,588,783 thousand yen (down 89.7% year on year) to -410,590 thousand yen. This was mainly due to proceeds from borrowings for GPU cloud services.

(4) Outlook for the future

As the total data volume and internet traffic increase due to further acceleration of social digitalization, there is a rapidly growing need for digital infrastructure such as data centers and networks. Expectations for a national public cloud are growing from the viewpoint of economic security as more general companies, not dot-com companies, are making a profit on a digital world, and demand for GPU and other sophisticated computing resources is increasing due to the development of AI and large-scale language models.

In these circumstances, at the Group we will be more dedicated to our core business by allocating the management resources to strengthen and grow our cloud business, while encouraging strategic recruitment, with an aim to become a leading digital infrastructure company in Japan. Specifically, we will use subsidies to make large-scale investments to expand GPU cloud services for generative AI, accelerate the development of cloud service functions to meet functional requirements for government cloud certification, develop a cloud service qualification system and partner system to expand sales, recruit about 200 people and strengthen the management system, etc. to strengthen the common infrastructure that supports our focused business and services thereof, and enhance the organizational structure.

In the fiscal year ending March 31, 2025, despite these active investments in view of medium- to long-term growth, we expect an increase in both revenues and profits owing to the full-scale release of the GPU cloud services, with net sales of 28,000,000 thousand yen, operating profit of 2,000,000 thousand yen, ordinary profit of 1,960,000 thousand yen, and profit attributable to owners of parent of 1,250,000 thousand yen.

2. Basic view on the selection of appropriate accounting standard

The Group plans to adopt J-GAAP for the time being in light of its business operations in Japan and the trend of adoption of IFRS among peer companies.

The Group will consider adopting IFRS appropriately, taking into account various situations in and outside Japan.

3. Consolidated Financial Statements and Major Notes

(1) Consolidated balance sheets

| | (Thousands of yen) | |
|--|---|---|
| | Fiscal year ended March 31, 2023 (as of March 31, 2023) | Fiscal year ended March 31, 2024 (as of March 31, 2024) |
| Assets | | |
| Current assets | | |
| Cash and deposits | 4,810,628 | 5,257,805 |
| Notes and accounts receivable–trade, and contract assets | 2,392,419 | 3,241,165 |
| Merchandise and finished goods | 13,384 | 16,747 |
| Supplies | 526,641 | 508,314 |
| Other | 1,201,459 | 1,564,390 |
| Allowance for doubtful accounts | (13,545) | (14,223) |
| Total current assets | 8,930,987 | 10,574,200 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 6,899,139 | 6,369,459 |
| Tools, furniture and fixtures, net | 1,981,395 | 2,764,895 |
| Land | 640,139 | 644,731 |
| Leased assets, net | 5,176,950 | 6,841,909 |
| Other, net | 18,477 | 35,698 |
| Total property, plant and equipment | 14,716,102 | 16,656,693 |
| Intangible assets | | |
| Other | 508,025 | 505,262 |
| Total intangible assets | 508,025 | 505,262 |
| Investments and other assets | | |
| Investment securities | 517,935 | 705,099 |
| Deferred tax assets | 364,355 | 389,653 |
| Other | 1,224,427 | 1,399,022 |
| Allowance for doubtful accounts | (5,724) | (5,484) |
| Total investments and other assets | 2,100,994 | 2,488,291 |
| Total non-current assets | 17,325,122 | 19,650,247 |
| Total assets | 26,256,109 | 30,224,447 |

SAKURA internet Inc. (3778) Financial Results for Fiscal Year Ended March 31, 2024

(Thousands of yen)

| | Fiscal year ended March 31, 2023 (as of March 31, 2023) | Fiscal year ended March 31, 2024 (as of March 31, 2024) |
|--|---|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable–trade | 917,034 | 628,323 |
| Short-term borrowings | 320,000 | 417,668 |
| Current portion of long-term borrowings | 813,183 | 740,210 |
| Lease liabilities | 1,225,371 | 1,686,876 |
| Income taxes payable | 230,986 | 204,779 |
| Advances received | 4,864,278 | 4,984,218 |
| Provision for bonuses | 390,795 | 451,171 |
| Provision for bonuses for directors (and other officers) | 6,750 | 4,500 |
| Other | 1,072,113 | 1,480,618 |
| Total current liabilities | 9,840,514 | 10,598,366 |
| Non-current liabilities | | |
| Long-term borrowings | 2,662,253 | 3,617,408 |
| Lease liabilities | 4,537,003 | 5,935,858 |
| Asset retirement obligations | 680,274 | 683,136 |
| Provision for share awards | 28,666 | 59,329 |
| Other | 21,258 | 9,139 |
| Total non-current liabilities | 7,929,456 | 10,304,872 |
| Total liabilities | 17,769,970 | 20,903,238 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 2,256,921 | 2,256,921 |
| Capital surplus | 1,378,747 | 1,478,896 |
| Retained earnings | 5,847,035 | 6,372,974 |
| Treasury shares | (1,145,475) | (1,119,643) |
| Total shareholders' equity | 8,337,228 | 8,989,147 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 4,632 | 133,781 |
| Foreign currency translation adjustment | 7,024 | 11,890 |
| Deferred gains or losses on hedges | (175) | 183 |
| Total accumulated other comprehensive income | 11,482 | 145,855 |
| Non-controlling interests | 137,428 | 186,206 |
| Total net assets | 8,486,139 | 9,321,209 |
| Total liabilities and net assets | 26,256,109 | 30,224,447 |

(2) Consolidated statement of income and consolidated statement of comprehensive income
 Consolidated statement of income

| | (Thousands of yen) | |
|---|---|---|
| | Fiscal year ended March 31, 2023 (From April 1, 2022, to March 31, 2023) | Fiscal year ended March 31, 2024 (From April 1, 2023, to March 31, 2024) |
| Net sales | 20,622,900 | 21,826,794 |
| Cost of sales | 15,255,276 | 16,091,000 |
| Gross profit | 5,367,624 | 5,735,793 |
| Selling, general and administrative expenses | | |
| Provision of allowance for doubtful accounts | 587 | 1,084 |
| Salaries and allowances | 1,372,555 | 1,555,223 |
| Provision for bonuses | 157,977 | 163,745 |
| Provision for bonuses for directors (and other officers) | 6,750 | 4,500 |
| Commission expenses | 935,541 | 1,051,952 |
| Rent expenses on land and buildings | 192,618 | 212,579 |
| Other | 1,608,541 | 1,862,199 |
| Total selling, general and administrative expenses | 4,274,570 | 4,851,285 |
| Operating profit | 1,093,053 | 884,507 |
| Non-operating income | | |
| Interest income | 39 | 133 |
| Dividend income | 3,600 | 5,040 |
| Reversal of allowance for doubtful accounts | 724 | 262 |
| Gain on sale of crypto assets | 8,759 | - |
| Outsourcing service income | 14,660 | 13,348 |
| Secondment income | 20,573 | 15,400 |
| Subsidy income | 2,613 | 16,438 |
| Compensation income | - | 62,216 |
| Other | 17,838 | 25,861 |
| Total non-operating income | 68,810 | 138,701 |
| Non-operating expenses | | |
| Interest expenses | 154,641 | 173,679 |
| Share of loss of entities accounted for using equity method | 1,688 | 3,247 |
| Foreign exchange losses | 19,692 | - |
| Commission expenses | 8,599 | 43,295 |
| Other | 11,410 | 38,906 |
| Total non-operating expenses | 196,032 | 259,129 |
| Ordinary profit | 965,830 | 764,080 |
| Extraordinary income | | |
| Gain on sale of non-current assets | 8,574 | 5,868 |
| Gain on sale of investment securities | - | 61,318 |
| A state government subsidy income | - | 1,624,819 |
| Total extraordinary income | 8,574 | 1,692,005 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 13,291 | 1,483 |
| Loss on tax-purpose reduction entry of non-current assets | - | 1,624,819 |
| Other | 1,314 | 114 |
| Total extraordinary losses | 14,605 | 1,626,416 |
| Profit before income taxes | 959,799 | 829,668 |
| Income taxes—current | 229,108 | 271,588 |
| Income tax—deferred | 58,937 | (77,152) |
| Total income taxes | 288,045 | 194,436 |
| Profit | 671,754 | 635,232 |
| Profit (loss) attributable to non-controlling interests | 5,202 | (16,484) |
| Profit attributable to owners of parent | 666,551 | 651,716 |

Consolidated statement of comprehensive income

| | (Thousands of yen) | |
|--|---|---|
| | Fiscal year ended March 31, 2023 (From April 1, 2022, to March 31, 2023) | Fiscal year ended March 31, 2024 (From April 1, 2023, to March 31, 2024) |
| Profit | 671,754 | 635,232 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 26 | 122,186 |
| Foreign currency translation adjustment | 2,555 | 4,865 |
| Deferred gains or losses on hedges | (175) | 358 |
| Share of other comprehensive income of entities accounted for using equity method | 4,575 | 6,961 |
| Total other comprehensive income | 6,982 | 134,373 |
| Comprehensive income | 678,736 | 769,605 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 673,534 | 786,089 |
| Comprehensive income attributable to non-controlling interests | 5,202 | (16,484) |

(3) Consolidated statement of changes in equity

Fiscal year ended March 31, 2023 (from April 1, 2022, to March 31, 2023)

(Thousands of yen)

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 2,256,921 | 1,366,388 | 5,289,923 | (600,029) | 8,313,203 |
| Changes during period | | | | | |
| Dividends of surplus | | | (109,440) | | (109,440) |
| Profit attributable to owners of parent | | | 666,551 | | 666,551 |
| Purchase of treasury shares | | | | (599,961) | (599,961) |
| Disposal of treasury shares | | 12,359 | | 54,516 | 66,875 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | - | 12,359 | 557,111 | (545,445) | 24,025 |
| Balance at end of period | 2,256,921 | 1,378,747 | 5,847,035 | (1,145,475) | 8,337,228 |

| | Accumulated other comprehensive income | | | | Non-controlling interests | Total net assets |
|---|---|---|------------------------------------|--|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Deferred gains or losses on hedges | Total accumulated other comprehensive income | | |
| Balance at beginning of period | 30 | 4,468 | - | 4,499 | 132,225 | 8,449,929 |
| Changes during period | | | | | | |
| Dividends of surplus | | | | | | (109,440) |
| Profit attributable to owners of parent | | | | | | 666,551 |
| Purchase of treasury shares | | | | | | (599,961) |
| Disposal of treasury shares | | | | | | 66,875 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | - |
| Net changes in items other than shareholders' equity | 4,601 | 2,555 | (175) | 6,982 | 5,202 | 12,184 |
| Total changes during period | 4,601 | 2,555 | (175) | 6,982 | 5,202 | 36,210 |
| Balance at end of period | 4,632 | 7,024 | (175) | 11,482 | 137,428 | 8,486,139 |

SAKURA internet Inc. (3778) Financial Results for Fiscal Year Ended March 31, 2024

Fiscal year ended March 31, 2024 (from April 1, 2023, to March 31, 2024)

(Thousands of yen)

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 2,256,921 | 1,378,747 | 5,847,035 | (1,145,475) | 8,337,228 |
| Changes during period | | | | | |
| Dividends of surplus | | | (125,777) | | (125,777) |
| Profit attributable to owners of parent | | | 651,716 | | 651,716 |
| Purchase of treasury shares | | | | (1,383) | (1,383) |
| Disposal of treasury shares | | 36,369 | | 27,214 | 63,584 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | 63,779 | | | 63,779 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | - | 100,148 | 525,938 | 25,831 | 651,918 |
| Balance at end of period | 2,256,921 | 1,478,896 | 6,372,974 | (1,119,643) | 8,989,147 |

| | Accumulated other comprehensive income | | | | Non-controlling interests | Total net assets |
|---|---|---|------------------------------------|--|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Deferred gains or losses on hedges | Total accumulated other comprehensive income | | |
| Balance at beginning of period | 4,632 | 7,024 | (175) | 11,482 | 137,428 | 8,486,139 |
| Changes during period | | | | | | |
| Dividends of surplus | | | | | | (125,777) |
| Profit attributable to owners of parent | | | | | | 651,716 |
| Purchase of treasury shares | | | | | | (1,383) |
| Disposal of treasury shares | | | | | | 63,584 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | 63,779 |
| Net changes in items other than shareholders' equity | 129,148 | 4,865 | 358 | 134,373 | 48,778 | 183,151 |
| Total changes during period | 129,148 | 4,865 | 358 | 134,373 | 48,778 | 835,070 |
| Balance at end of period | 133,781 | 11,890 | 183 | 145,855 | 186,206 | 9,321,209 |

(4) Consolidated statement of cash flows

| | (Thousands of yen) | |
|---|---|---|
| | Fiscal year ended March 31, 2023 (From April 1, 2022, to March 31, 2023) | Fiscal year ended March 31, 2024 (From April 1, 2023, to March 31, 2024) |
| Cash flows from operating activities | | |
| Profit before income taxes | 959,799 | 829,668 |
| Depreciation | 2,774,760 | 3,135,503 |
| Amortization of goodwill | 14,658 | 2,919 |
| Increase (decrease) in allowance for doubtful accounts | (154) | 437 |
| Increase (decrease) in provision for bonuses | 37,614 | 60,376 |
| Increase (decrease) in provision for bonuses for directors (and other officers) | 5,400 | (2,250) |
| Increase (decrease) in provision for share awards | 28,666 | 30,662 |
| Interest and dividend income | (3,639) | (5,173) |
| Interest expenses | 154,641 | 173,679 |
| Loss (gain) on investments in investment partnerships | 7,830 | 4,287 |
| Loss on retirement of non-current assets | 13,291 | 1,483 |
| Income by government subsidies | - | (1,624,819) |
| Loss on tax-purpose reduction entry of non-current assets | - | 1,624,819 |
| Loss (gain) on sale of non-current assets | (8,574) | (5,868) |
| Loss (gain) on sale of investment securities | - | (61,318) |
| Decrease (increase) in consumption taxes refund receivable | - | (356,745) |
| Increase (decrease) in accrued consumption taxes | 37,460 | (131,375) |
| Decrease (increase) in trade receivables | 307,770 | (848,745) |
| Increase (decrease) in advances received | 439,754 | 114,746 |
| Decrease (increase) in inventories | 162,001 | 8,167 |
| Increase (decrease) in trade payables | (696,370) | (288,711) |
| Other | (62,786) | 696,155 |
| Subtotal | 4,172,125 | 3,357,899 |
| Interest and dividends received | 3,639 | 5,084 |
| Interest paid | (154,745) | (173,507) |
| Income taxes refund (paid) | (57,599) | (305,342) |
| Cash flows from operating activities | 3,963,420 | 2,884,133 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (498,240) | (3,481,799) |
| Purchase of intangible assets | (272,099) | (136,977) |
| Income from national subsidies, etc. | - | 1,634,371 |
| Purchase of investment securities | (20,000) | (21,000) |
| Payments of leasehold and guarantee deposits | (20,555) | (94,597) |
| Proceeds from refund of leasehold and guarantee deposits | 356,746 | - |
| Other | (151,979) | 74,364 |
| Cash flows from investing activities | (606,129) | (2,025,638) |

SAKURA internet Inc. (3778) Financial Results for Fiscal Year Ended March 31, 2024

| | (Thousands of yen) | |
|--|---|---|
| | Fiscal year ended March 31, 2023 (From April 1, 2022, to March 31, 2023) | Fiscal year ended March 31, 2024 (From April 1, 2023, to March 31, 2024) |
| Cash flows from financing activities | | |
| Proceeds from short-term borrowings | 1,396,000 | 1,053,000 |
| Repayments of short-term borrowings | (2,527,000) | (955,332) |
| Proceeds from long-term borrowings | - | 1,664,000 |
| Repayments of long-term borrowings | (918,082) | (817,818) |
| Proceeds from share issuance to non-controlling shareholders | - | 129,041 |
| Repayments of lease liabilities | (1,302,251) | (1,566,762) |
| Proceeds from sale and leaseback transactions | 80,358 | 217,272 |
| Repayments of installment payables | (17,605) | (7,750) |
| Purchase of treasury shares | (601,282) | (1,383) |
| Dividends paid | (109,509) | (125,621) |
| Other | - | 763 |
| Cash flows from financing activities | (3,999,374) | (410,590) |
| Effect of exchange rate change on cash and cash equivalents | 117 | (726) |
| Net increase (decrease) in cash and cash equivalents | (641,964) | 447,177 |
| Cash and cash equivalents at beginning of period | 5,452,592 | 4,810,628 |
| Cash and cash equivalents at end of period | 4,810,628 | 5,257,805 |

(5) Notes to Consolidated Financial Statements

(Notes on the assumption of going concern)

There are no applicable matters to be reported.

(Material particulars that serve as the basis for preparation of consolidated financial statements)

1. Particulars concerning the scope of consolidation

- (1) Number of consolidated subsidiaries 6

Name of consolidated subsidiaries

Gehirn Inc.

SAKURA Mobile Limited

ITM Inc.

BitStar Inc.

Prunus-Solutions Inc.

IzumoBASE, INC.

- (2) Name of non-consolidated subsidiary: Tellus Inc.

Reason why the non-consolidated subsidiary company was excluded from the scope of consolidation

The non-consolidated subsidiary Tellus Inc. is small in size and its total assets, net sales, net income (the amounts corresponding to the Company's equity interest) and retained earnings (the amounts corresponding to the Company's equity interest) have no material impact on the consolidated financial statements.

2. Particulars concerning the application of the equity method

- (1) Number of affiliates accounted for using equity method 1

Name of companies

BBSakura Networks, Inc.

S2i inc., formerly an equity-method affiliate, was excluded from the scope of application of the equity method due to the completion of settlement.

- (2) Name of major companies, etc. which are excluded from application of the equity method

Limited Liability Partnership Fukuoka City Start-up Support Facility Management Committee

Reason for the exclusion from application of the equity method

The affiliates, etc. that are excluded from the application of the equity method have no material impact on the consolidated financial statements in terms of net profit (loss) and retained earnings (the amounts corresponding to the Company's equity interest, respectively) even if they are excluded from the application of the equity method, and lack overall materiality.

3. Particulars concerning the business year, etc. of consolidated subsidiaries

The closing date of SAKURA Mobile Limited's accounts is December 31.

The financial statements based on the provisional settlement of accounts, carried out on the consolidated closing date, are used.

The closing dates of other consolidated subsidiaries are the same as the consolidated closing date.

SAKURA internet Inc. (3778) Financial Results for Fiscal Year Ended March 31, 2024

(Segment information)

Information on the Group's business segments has been omitted because the Group is comprised of a single reportable segment engaged in the internet infrastructure business.

(Per share information)

| | Fiscal year ended March 31, 2023 (From April 1, 2022, to March 31, 2023) | Fiscal year ended March 31, 2024 (From April 1, 2023, to March 31, 2024) |
|----------------------|---|---|
| Net assets per share | 234.10 yen | 255.82 yen |
| Net income per share | 18.29 yen | 18.26 yen |

Note: 1. Diluted net income per share has been omitted because there are no diluted shares.

2. The basis for calculating net income per share is as follows:

3. In the number of treasury shares that are deducted when calculating the number of treasury shares at year end and the average number of shares during the period which constitute the basis for calculating net assets per share and profit per share for the fiscal year ended March 31, 2024, the shares of the Company's stock held by the Trust (273,800 shares as of the end of the fiscal year ended March 31, 2024, and the average number of shares during the same period of 273,972 shares) are included.

| | Fiscal year ended March 31, 2023 (From April 1, 2022, to March 31, 2023) | Fiscal year ended 2 March 31, 2024 (From April 1, 2023, to March 31, 2024) |
|---|---|---|
| Profit attributable to owners of parent (thousand yen) | 666,551 | 651,716 |
| Amount not attributable to common shareholders (thousand yen) | - | - |
| Profit attributable to owners of parent of common stock (thousand yen) | 666,551 | 651,716 |
| Average number of shares of common stock during the period (shares) | 36,449,485 | 35,696,618 |

(Significant subsequent events)

(Capital increase of a subsidiary)

The Company completed the payment for the shares offered of 600,000 thousand yen to Tellus Inc., a non-consolidated subsidiary of the Company, as of April 1, 2024, pursuant to a resolution of a meeting of the Board of Directors held on January 31, 2024.

1. Purpose of the capital increase

Under the corporate philosophy of turn “what you want to do” into “what you can do,” the Company develops and operates Tellus, Japan’s original satellite data platform, for the purpose of creating a market of new businesses using satellite data.

In making a full-scale start to the implementation of governmental satellite-related projects and initiatives based on the “Stardust Program” (Strategic Program for Accelerating Research, Development and Utilization of Space Technology) from April 2024, the Company intends to conduct an absorption-type company split of Tellus Inc. and subscribe to the shares offered, allowing Tellus Inc. to implement these initiatives.

2. Profile of the subsidiary (before capital increase)

- (i) Company name: Tellus Inc.
- (ii) Address: 20-1, Nishi-Shinjuku 7-chome, Shinjuku-ku, Tokyo
- (iii) Representative: Hideto Yamazaki, President and CEO
- (iv) Business Profile: Satellite data platform business
- (v) Share capital: 10,000 thousand yen
- (vi) Date of establishment: December 1, 2021
- (vii) Account closing date: March 31
- (viii) Major shareholder and ownership: SAKURA internet Inc. (100%)

3. Purpose of the capital increase

- (i) Number of shares offered: 60,000 shares of common stock
- (ii) Amount paid for shares offered: 10,000 yen per share
- (iii) Payment date: April 1, 2024
- (iv) Share subscriber: SAKURA internet Inc. (60,000 shares)
- (v) Ownership after offering: 100%

(Significant change in the scope of consolidation)

As is described in “(Capital increase of a subsidiary)” under “(Significant subsequent events)” of “(5) Notes to Consolidated Financial Statements,” the Company completed payment for the shares offered of 600,000 thousand yen as of April 1, 2024, pursuant to a resolution of a meeting of the Board of Directors held on January 31, 2024. Since this is expected to increase the importance of Tellus Inc., the company will be included in the scope of consolidation from the first quarter of the fiscal year ending March 31, 2025.

(Significant capital investment)

The Company’s second investment plan for GPU Cloud Services was certified for supply assurance by Japan’s Ministry of Economy, Trade and Industry (METI) as a “Cloud Program.” Based on this, the Company resolved at a meeting of the Board of Directors held on April 19, 2024, to implement capital investment related to the Plan.

1. Purpose of capital investment

The Company has implemented its investment plan for GPU Cloud Services with about 13,000,000 thousand yen which was certified for supply assurance by Japan’s Ministry of

Economy, Trade and Industry (METI) as the “establishment of production infrastructure necessary for the development of next-generation infrastructure cloud programs” on June 16, 2023.

More recently, its second investment plan for GPU Cloud Services of about 100 billion yen (the “Second Plan”) was certified for supply assurance by METI as a “Cloud Program.”

The Second Plan allows for the procurement of about 8,000 GPUs including NVIDIA B200 Tensor Core GPUs, by the end of fiscal 2027, to expand the cloud services for generative AI. In setting the Second Plan, the Company believes that it is critical to ensure a stable supply of AI-related computing resources in order to accelerate Japan’s digitalization.

Of the 100 billion yen of the Second Plan, the Company resolved at a meeting of the Board of Directors held on April 19, 2024 to invest about 21.4 billion yen in equipment.

2. Certified second investment plan for GPU Cloud Services

- (i) Planned investment amount: About 100 billion yen (plan)
- (ii) Investment period: From the fiscal year of 2024 to 2030
- (iii) To be invested in: GPU servers, network equipment, and data center equipment, etc.

While we are scheduled to receive government subsidies covering 1/2 of the investment amount, we are considering several ways of fundraising, including self-financing, borrowing from financial institutions, and financing through the stock markets.

3. Details of capital investment

Following the certification of the second investment plan for GPU Cloud Service, the Company resolved at a meeting of the Board of Directors held on April 19, 2024, to make a capital investment as follows:

- (i) Location: Ishikari Data Center (Ishikari-shi, Hokkaido)
- (ii) To be invested in: GPU servers with dedicated liquid (water) cooling racks, and network equipment, etc.
- (iii) Planned investment amount: About 21.4 billion yen
The Company is scheduled to receive government subsidies covering 1/2 of the investment amount.

4. Timing of delivery of equipment:

From the fiscal year of 2024 to 2030

5. Significant impact of this equipment on operating and production activities, etc.

An impact on consolidated financial results for the fiscal year ending March 31, 2025, is under examination, but the Company believes that the equipment will contribute to improving the business performance from a medium- to long-term perspective.