

	Sakura internet Inc. (3778)
	

President Kunihiro Tanaka

Company Information

Market	TSE Prime Section
Industry	Information, Telecommunication
President	Kunihiro Tanaka
HQ Address	GRAND GREEN OSAKA North, JAM BASE, 3F 6-38 Ofukacho, Kita-ku, Osaka-shi, Osaka
Year-end	March
Website	https://www.sakura.ad.jp/corporate/en/

Stock Information

Share Price	Number of shares issued (excluding treasury shares)	Total market cap	ROE Act.	Trading Unit	
¥5,450	39,999,742 shares	¥217,998 million	7.5%	100 shares	
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥4.00	0.1%	¥39.71	137.2x	¥255.82	21.3 x

*The share price is the closing price on November 11. The number of shares issued is obtained by subtracting the number of treasury shares and shares held by the Stock Compensation Trust (J-ESOP) from the number of shares issued as of the end of the latest quarter.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net profit attributed to parent company shareholders	EPS	DPS
March 2021 Act.	22,168	1,372	1,099	758	20.79	3.00
March 2022 Act.	20,019	763	649	275	7.55	3.00
March 2023 Act.	20,622	1,093	965	666	18.29	3.50
March 2024 Act.	21,826	884	764	651	18.26	3.50
March 2025 Est.	29,000	2,600	2,450	1,550	39.71	4.00

*Estimates are provided by the company. Units: million yen, yen.

This Bridge Report presents Sakura internet's earning results for the 1st Half of the Fiscal Year ending March 2025, along with estimates for the Fiscal Year ending March 2025.

Table of Contents

[Key Points](#)

[1. Company Overview](#)

[2. First Half of the Fiscal Year ending March 2025 Earnings Results](#)

[3. Fiscal Year ending March 2025 Earnings Forecasts](#)

[4. Conclusions](#)

[<Reference: Regarding Corporate Governance>](#)

Key Points

- **In the first half of the fiscal year ending March 2025, sales and operating income grew 28.3% and 419.4%, respectively, year on year. Sales increased significantly, due to the release of a GPU cloud services for generative AI and the growth of cloud services. They actively invested in human resources for implementing growth strategies and GPU cloud services. Operating income margin rose thanks to the sales growth, although costs augmented as they actively invested in recruitment of personnel and enhancement of marketing for further accelerating the development of functions for cloud services and promoting sales.**
- **In the fiscal year ending March 2025, it is expected that sales and operating income will rise 32.9% and 193.9%, respectively, year on year. The initial forecast was revised upwardly in September. The sales of group companies have been healthy, because the revision of plans and sales strategies turned out to be effective and cloud services performed better than expected thanks to the steady expansion of cloud infrastructure. Profit is expected to rise, because sales are projected to exceed the forecast and the augmentation of electricity charges due to GPU cloud services is forecast to fall below the forecast. The effects of additional investments, etc. are being estimated. There is no revision to the dividend amount, and they plan to pay a year-end dividend of 4.00 yen/share, up 0.50 yen/share from the previous fiscal year.**
- **As the provision of GPU cloud services began on a full-scale basis, the sales and profit in the first half of the fiscal year grew considerably, exceeding the company's initial forecasts significantly. The provision of the GPU cloud services for generative AI has just begun, and its sales have been posted since in the second quarter of the current fiscal year. In the first half of the fiscal year, operating income rose 1,046 million yen year on year, while sales grew 2,928 million yen year on year. GPU cloud services are expected to be profitable and contribute to the improvement in profit margin. In addition, they are to be approved as the first government cloud among Japanese enterprises. In the first half of the fiscal year, the company concluded a service contract with the Acquisition, Technology and Logistics Agency, so it seems that their activities for the official approval are progressing steadily. Considering the growth potential of the market of cloud GPUs, there is significant room for revenue expansion.**

1. Company Overview

Sakura internet operates data centers located in Tokyo (Nishi Shinjuku, Higashi Shinjuku and Daikanyama, using rented floor space), Osaka (Dojima, using rented floor space) and Hokkaido (Ishikari, owned land, and buildings) to provide cloud/internet infrastructure services. It began offering GPU cloud services in January 2024. It is also the only government cloud-certified company in Japan, although there are some conditions. By owing its own infrastructure, Sakura internet pursues higher profitability and increases utilization rates and reduce fixed cost risk.

1-1 Content Business

Sakura internet's business is divided into cloud services (cloud infrastructure and cloud application), physical base services, domain and SSL acquisition (Certification for unique domain acquisition outsourcing), and others including subsidiary business. The composition ratio of sales of fiscal year ended March 2024 is cloud services are 58.5% (of which cloud infrastructure and cloud application for 40.4%, and 18.1% respectively), physical base services are 16.4%, and other services are 25.0%. In addition, GPU cloud services will be added in the fiscal year ending March 2025.

2. First Half of the Fiscal Year ending March 2025 Earnings Results

2-1 Consolidated Results

	1H of FY 3/24	Ratio to sales	1H of FY 3/25	Ratio to sales	YoY	Company's forecast	Difference from the forecast
Sales	10,343	100.0%	13,271	100.0%	+28.3%	13,200	+0.5%
Gross Profit	2,639	25.5%	4,349	32.8%	+64.8%	-	-
SG&A	2,389	23.1%	3,053	23.0%	+27.8%	-	-
Operating Income	249	2.4%	1,295	9.8%	+419.4%	1,100	+17.8%
Ordinary Income	172	1.7%	1,102	8.3%	+538.2%	950	+16.0%
Net Profit attributed to Parent Company Shareholders	175	1.7%	710	5.4%	+305.4%	600	+18.3%

*Unit: million yen. The company's forecast as of September.

Sales and operating income grew 28.3% and 419.4%, respectively, exceeding the company's forecasts considerably, as GPU cloud services were added.

Sales rose considerably by 28.3% year on year to 13.27 billion yen, thanks to the release of a GPU cloud services for generative AI and the growth of cloud services.

Operating income increased 419.4% year on year to 1.29 billion yen. They actively invested in human resources for implementing growth strategies and GPU cloud services. Operating income margin rose significantly year on year from 2.4% to 9.8% thanks to the sales growth, although costs augmented as they actively invested in recruitment of personnel and enhancement of marketing for further accelerating the development of functions for cloud services and promoting sales. The forecasts of sales and all kinds of profits were revised upwardly in September, but the results exceeded them.

Summary of Status of Initiatives for Priority Measures

Priority measures	Actions and Results
Practice of growth strategy Expanding GPU cloud services for a wide range of targets Expanded sales channel of cloud services, with a higher level of awareness	<ul style="list-style-type: none"> Added NVIDIA H100 to the lineup of Koukaryoku DOK, the second round of GPU cloud services for generative AI (August) Concluded a service contract with the Acquisition, Technology and Logistics Agency for about 750 million yen (July), and actively provided a follow-through service for government offices in preparation for providing government cloud. This led to increased awareness and inquiries from private companies The number of registered sales partners for "SAKURA's Cloud" has reached 50, exceeding expectations. (End of September) Held SAKURA Cloud Certification, a cloud service certification system, as an effort to accelerate the development of an ecosystem
Strengthen infrastructure that underpins growth strategy Accelerated organizational enhancement due to steady recruitment activities Focused on	<ul style="list-style-type: none"> A progression rate of 61.0% on a non-consolidated basis (including 122 prospective personnel by the current fiscal year end), aiming to hire about 200 or more personnel within the current fiscal year. Focused on hiring excellent talented people, and hired high-skilled professionals from major foreign IT companies, etc. Formed another culture and value, and accelerated changes and growth Decided to make additional investment of 15.49 billion yen in total in the procurement of GPU infrastructure (in September and October) to meet strong demand for infrastructure for generative AI, and will complete the construction of the first phase of the container-type data centers within the current fiscal year for a timely launch of services Established a strategic partnership with Equinix Japan. Aim to launch GPU infrastructure in a timely way and to expand the cloud business in Asian countries in the future

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strengthening digital infrastructure to meet healthy AI demand

Sales by Service

	1H of FY 3/24	Composition ratio	1H of FY 3/25	Composition ratio	YoY	
Cloud services	6,248	60.4%	6,813	51.3%	+9.0%	
Breakdown	Cloud infrastructure	4,303	41.6%	4,716	35.5%	+9.6%
	Cloud application	1,945	18.8%	2,096	15.8%	+7.8%
Physical base services	1,787	17.3%	1,867	14.1%	+4.5%	
GPU cloud services	-	-	2,018	15.2%	-	
Other services	2,306	22.3%	2,572	19.4%	+11.5%	
Total	10,343	100.0%	13,271	100.0%	+28.3%	

*Unit: million yen

Balance Sheet Summary

	End of March 2024	End of September 2024		End of March 2024	End of September 2024
Current Assets	10,574	38,515	Current Liabilities	10,598	20,925
Tangible Assets	16,656	20,403	Noncurrent Liabilities	10,304	13,370
Intangible Assets	505	688	Shareholder Equity	8,989	27,702
Investments and Other Assets	2,488	2,649	Net Assets	9,321	27,961
Noncurrent Assets	19,650	23,741	Total Liabilities and Net Assets	30,224	62,257

*Unit: million yen



*This figure is created by Investment Bridge Co., Ltd. based on disclosed materials.

The total assets as of the end of the first half of the fiscal year stood at 62.25 billion yen, up 32.03 billion yen from the end of the previous fiscal year, mainly due to the increase in cash and deposits caused by the issuance of new shares through a public offering and the increase of tangible fixed assets through the procurement of equipment for GPU cloud services. Liabilities augmented 13.39 billion yen from the end of the previous fiscal year to 34.29 billion yen, due to growth in lease obligations related to equipment for services. Net assets stood at 27.96 billion yen, up 18.64 billion yen from the end of the previous fiscal year. This is mainly because of the increases in capital and capital surplus caused by the issuance of new shares for a public offering. Capital-to-asset stood at 44.6% (30.2% as of the end of the previous fiscal year).

The cash and cash equivalents as of the end of the first half of the fiscal year ending March 2025 stood at 29.64 billion yen, up 25.16 billion yen from the end of the same period of the previous year.

The cash inflow from operating activities decreased, due to the increase of inventory assets for large-scale transactions of group companies.

The cash outflow from investing activities turned positive, thanks to the revenue from subsidies for equipment for GPU cloud services, etc.

From financial activities, they posted a significant cash inflow due to the revenue from issuance of shares and the borrowing for large-scale transactions of group companies.

3. Fiscal Year ending March 2025 Earnings Forecasts

3-1 Consolidated Earnings Forecasts

	FY 3/24 Act.	Ratio to sales	FY 3/25 Est.	Ratio to sales	YoY	Initial Forecast
Sales	21,826	100.0%	29,000	100.0%	+32.9%	28,000
Operating Income	884	4.1%	2,600	9.0%	+193.9%	2,000
Ordinary Income	764	3.5%	2,450	8.4%	+220.6%	1,960
Net profit attributed to parent company shareholders	651	3.0%	1,550	5.3%	+137.8%	1,250

*Unit: million yen

For the fiscal year ending March 2025, the company forecasts a 32.9% increase in sales and a 193.9% increase in operating income from the previous fiscal year.

In the fiscal year ending March 2025, it is expected that sales will rise 32.9% year on year to 29 billion yen and operating income will grow 193.9% year on year to 2.6 billion yen. The initial forecasts (sales of 28 billion yen and an operating income of 2 billion yen) were revised upwardly in September. The sales of group companies have been healthy, because the revision of plans and sales strategies, including the price revision for the “SAKURA Web Hosting” service in the cloud application turned out to be effective and cloud services performed better than expected thanks to the steady expansion of cloud infrastructure. Profit is expected to rise, because sales are projected to exceed the forecast and the augmentation of electricity charges due to GPU cloud services is forecast to fall below the forecast.

In response to the strong demand for development of AI, they are conducting additional investment for developing the GPU infrastructure for GPU cloud services as soon as possible. In parallel, they are enhancing the recruitment of personnel and sales/marketing for achieving significant growth. Their effects, etc. are being estimated.

There is no revision to the dividend, the company plans a year-end dividend of 4.00 yen per share, up 0.50 yen per share from the previous fiscal year.

3-2 Implementation of Growth Strategy

GPU Cloud Services for Generative AI

To attract a wide range of targets, **enhanced** small-scale use cases and **service lineup** for customers with limited budget

Koukaryoku series, a GPU cloud service for generative AI

Launch date	Name of service	Features	Target
January 2024	Koukaryoku PHY (Bare Metal)	<ul style="list-style-type: none"> A service to provide a physical server with NVIDIA H100 A high-performing GPU for the analysis of complex data sets and training of large models 	Large companies (such as manufacturers), mega AI-related ventures, and research institutions
June 2024	Koukaryoku DOK (Container)	<ul style="list-style-type: none"> Container task execution service that enables execution of Docker images using the NVIDIA H100 GPUs ideal for generative AI and machine learning provided at per-second pricing and no upfront cost 	Users who want to utilize NVIDIA GPU at an affordable price on a spot basis
Within FY 2025 (Plan)	Koukaryoku VM version	<ul style="list-style-type: none"> Customers can use each of the multiple virtual servers built on physical servers with NVIDIA GPUs Customers can use high-performing GPUs ideal for generative AI and machine learning at per-hour pricing 	Machine learning users on a spot basis, AI application developers

(Taken from the company’s explanatory material)

Details of Initiatives

- "Koukaryoku series," a cloud service for generative AI that can use high-performance GPUs, is provided at Ishikari Data Center that is powered by 100% renewable energy and achieves zero CO2 emissions
- Provide computational resources with enhanced lineup to meet the diverse needs of not only large companies, mega AI-related ventures, and research institutes, but also AI application developers, and machine learning users on a spot basis

Efforts to be Certified as a Government Cloud Provider

Making good progress toward an officially certified government cloud provider, and **received new orders of central government projects**, etc. as a national cloud service provider

Progressing steadily toward official accreditation by the end of fiscal year ending March 2026

- Strengthened sales force with personnel joining from central government offices and municipalities
 - To cope with limited IT resources and municipality officers because many public offices will conduct system migration during the same period, we actively hold study sessions and events, and establish an environment that enables a proposal based on policies of the nation and Digital Agency, and relevant guidelines
- Improved the technical levels of SAKURA’s Cloud and secured highly skilled personnel who can transform existing businesses and operational processes
 - Several well-experienced engineers joined from major foreign IT companies. We are developing SAKURA’s cloud to meet the technical requirements as a certified government cloud service provider by the end of fiscal year ending March 2026

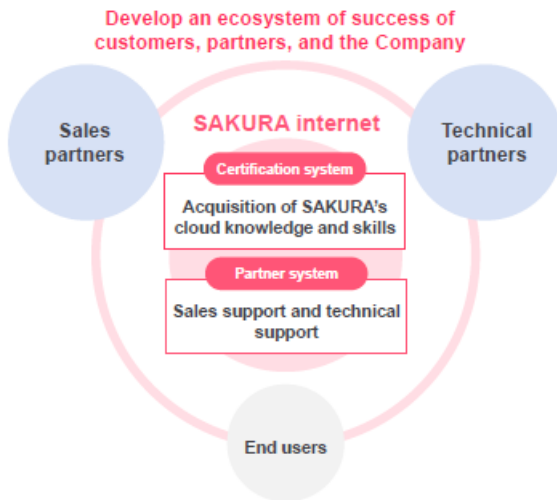
Concluded a service contract with the Acquisition, Technology and Logistics Agency for about 750 million yen

Concluded a service contract with the Acquisition, Technology and Logistics Agency regarding the “provision of services necessary for supply chain research, etc.” (July)

- The purpose is to identify the risks in the defense industry’s supply chain that hamper stable production, etc. and take necessary actions, to ensure the stable production of equipment, etc. by the defense industry
- IaaS public cloud “SAKURA’s Cloud” was adopted as the cloud infrastructure used for supply chain surveys conducted by the Ministry of Defense

Measures of a Certification System and a Partner Program

Promote customers’ DX through **educational campaign and support**, and started **a partner program and a certification system** as an effort to accelerate the development of an ecosystem



(Taken from the company's explanatory material)

Details of Initiatives

- Started SAKURA Cloud Certification

Started SAKURA Cloud Certification to assess the digital skills and knowledge of cloud services of the Company. Increase partners and cloud engineers with knowledge and skills of our cloud services through the qualification program, for future development of new customers
- Acquired many sales partners

Acquired more than 50 sales partners, for which we offer educational support for onboarding and technical and sales side of SAKURA's cloud for not only the sales expansion but also partners' success. As for SAKURA Web Hosting, of which the number of uses surpassed 560,000 and a good lineup of services is available for corporate customers, we strive to expand and strengthen sales of existing services by enhancing optional services and adopting an agency system.
- Aiming to increase awareness and enter an evoked set

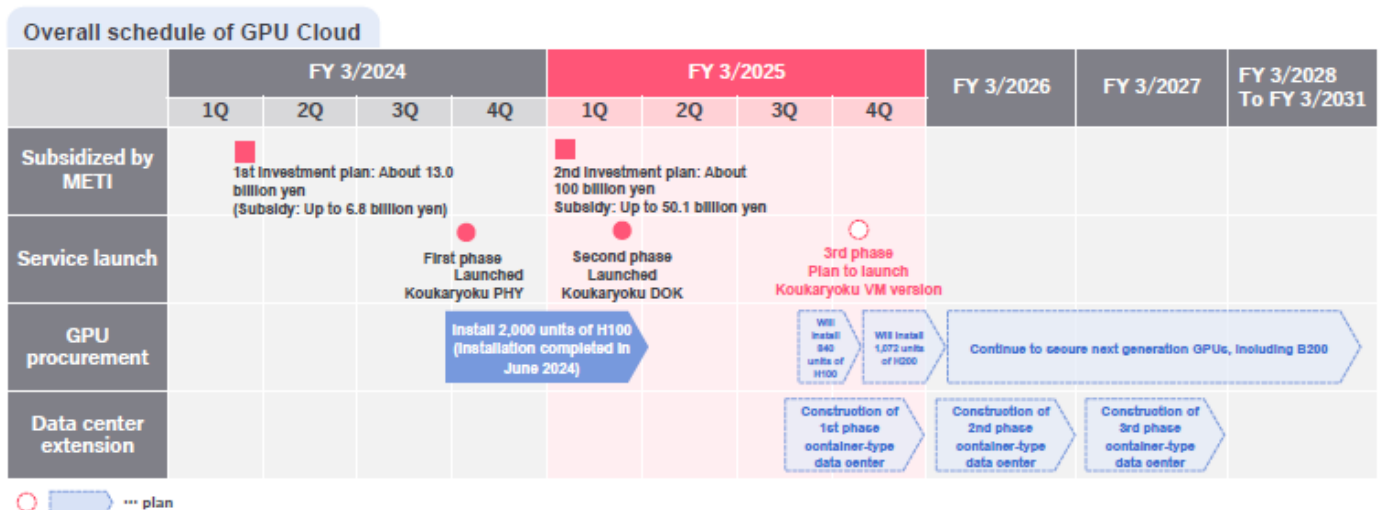
Actively hold webinars and user meetings lectured by an employee of the Company, and even participate to trade shows, working to ascertain the needs and demands of the market and customers

3-3 Strengthening Infrastructure that Underpins Growth Strategy

Enhancement of GPU Infrastructure for Generative AI

About 2,000 units were capitalized in August. Decided to make an additional investment again in response to increased demand **Decided to make additional investment of 15.49 billion yen in total ahead of schedule in response to demand for computational resources that far exceeded the initial plan**

Passed a resolution for an additional investment in 800 units of NVIDIA H100 Tensor Core GPU in September 2024, 1,072 units of NVIDIA H200 Tensor core GPU and 40 units of NVIDIA H100 Tensor Core GPU in October 2024, to meet strong demand for generative AI development



(Taken from the company's explanatory material)

Accelerate Investment in Data Centers

Construction of a containerized data center with **short delivery times, high capacity, and high power density to be completed by the end of this fiscal year**

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Container-type data centers under construction on the site of Ishikari Data Center

Under construction on the planned site for the 4th building



(Taken from the company's explanatory material)

Details of Initiatives

Container-type data centers are under construction for timely launch of GPU cloud services

- Points that enabled a decision and groundbreaking in a short time
 - Securing land for expansion at Ishikari Data Center along with extra capacity of transformation facilities for receiving electricity
 - Years of experience and know-how in building and operating in-house data centers
 - Our latest technology insights through the data center advisory service
- Adopted cooling systems
 - Adopted a cold plate water cooling (DLC)*1 system
 - Also adopted InRow air conditioning*2 for areas not covered by cold plate water cooling
- Will continue to build new container-type data centers on the site of Ishikari Data Center (the second phase in 2025, the third phase in 2026)

*1 GPUs are cooled by contact with cooling liquid supplied from outside the server into cold plates (Direct Liquid Cooling)

*2 An air conditioning system that uses air conditioners

Acquisition of Personnel Who Support Business Transformation

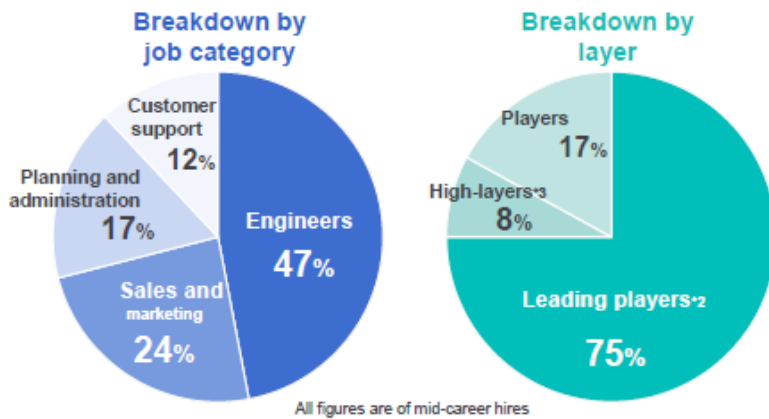
Versus the planned number of 200 for the current fiscal year, hired 122 personnel (including those scheduled to join the company within the fiscal year) in 1H (progression rate of 61.0%)

To accelerate the growth strategy, 80% of mid-career hires are leading players or higher levels

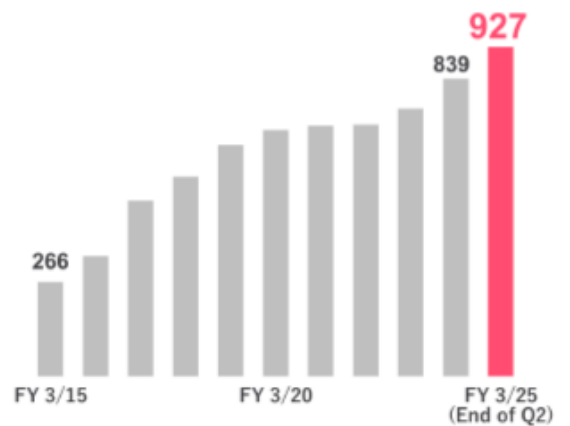
Leading players: Individuals with a high degree of expertise and capacity for action, who drive the company-wide growth and transformation

High-layers: Individuals with expertise and capacity for action, who take leadership in the area they are in charge of

Breakdown of new hires in Q2



Number of personnel (Consolidated)



(Taken from the company's explanatory material)

4. Conclusions

As the provision of GPU cloud services began on a full-scale basis, the sales and profit in the first half of the fiscal year grew considerably, exceeding the company's initial forecasts significantly. The provision of the GPU cloud services for generative AI has just begun, and its sales have been posted since in the second quarter of the current fiscal year. In the first half of the fiscal year, operating income rose 1,046 million yen year on year, while sales grew 2,928 million yen year on year. The gross profit margin in the second quarter stood at 36.1%, showing a significant improvement from 28.6% in the first quarter. GPU cloud services are expected to be profitable and contribute to the improvement in profit margin. In addition, they are to be approved as the first government cloud among Japanese enterprises. In the first half of the fiscal year, the company concluded a service contract with the Acquisition, Technology and Logistics Agency, so it seems that their activities for the official approval are progressing steadily. Considering the growth potential of the market of cloud GPUs, there is significant room for revenue expansion.

In the stock market, the shares of SAKURA internet are so popular that their trading volume is large, unlike one year ago. Their share price has been fluctuating according to events and trends, but after seeing the favorable performance in the first half of the fiscal year, investors are expected to invest in the company based on their track record. It is now likely that a high valuation will be backed by their track record.

The company continues to pay attention to its ESG management initiatives. Ishikari Data Center holds 100% renewable energy, and the practice of human capital management is expected to facilitate smoother acquisition of increasingly scarce talent. These initiatives reflect the company's substantial potential for growth.

<Reference: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with an audit and supervisory
Directors	9 directors, including 5 outside ones (including 3 independent executives)
Auditors	4 directors, including 4 outside ones (including 2 independent executives)

◎Corporate Governance Report (Updated on July 3, 2024)

Basic Policy

Our company has strived with the basic policy about corporate governance: promote the maintenance of business management organizations and enhance efficient and systematic management and internal controls of each department while expanding the company size.

There is a greater social responsibility in internet industry than in other industries as communication facilities are released to a large number of invisible customers and its market is the internet users around the world. We consider that the establishment of corporate governance at our company means the management base which enables to fulfill such social responsibilities.

<Reason for Non-Compliance with the Principles of the Corporate Governance Code (Excerpts)>

Supplementary Principle 2-4-1 [Ensuring diversity in the appointment of core personnel, etc.]

<View on ensuring diversity, voluntary and measurable goals and their status>

We believe that all employees generate diversity with diverse values, and we aim to provide value to our customers and contribute to the growth of our group as a whole by taking advantage of the diversity in attributes, careers and skills. Therefore, in the recruitment and appointment of core personnel, we are committed to promoting recruitment and appointment with respect for diversity, regardless of age, gender, nationality, or other attributes.

We also believe that innovation comes from employees with diverse attributes having diverse values and co-creating with each other based on mutual recognition of each other's values. Therefore, our goal is to have the percentage of women in all management positions be equal to the percentage of women among all employees by March 2026. To achieve this goal, we will identify the causes of the low ratio of female employees in managerial positions after conducting a career awareness survey of female employees, take steps to eliminate the causes, and continue our efforts to encourage female employees to aim for managerial positions in a more positive manner, including the formulation of role models.

As most of them are mid-career hires in our company, we do not set a target for promotion of mid-career employees. For employment and promotion of foreign employees, we do not have a set target by attributes at this point, however, we will consider setting such goals when we determine it necessary in the future.

<Human resources development policy for ensuring diversity, in-house environmental improvement policy, and their status>

In our group, we have adopted "ES (Employee Success)" as our policy for talent development and creating an inclusive internal environment that fosters diversity. This approach aims to elevate the value of our human resources, who are the cornerstone of delivering value to society and our customers. We focus on realizing each employee's growth and success (ES) by fostering a cycle of learning and hands-on practice that bolsters their abilities, providing opportunities for diverse talents to gather and embark on challenges, and building a long-term, secure foundation for their continued engagement and development.

We are making various efforts to respect diversity in the way we work, based on the ideal that the company provides a "comfortable" work environment and that individual employees can pursue "job satisfaction" within that environment. In terms of the internal environment, we are working to create a corporate culture that maximizes the individuality and willingness to grow of each and every employee, and that allows them to maximize their abilities, by creating opportunities that lead to an understanding of diversity, equity and inclusion, an environment that allows diverse employees to play an active role, and a career and learning structure that allows them to feel a sense of growth.

Supplementary Principles 3-1-3 and 4-2-2 [Sustainability initiatives, formation of the basic policy for such initiatives, etc.]
<Sustainability initiatives>

In our group, we provide cloud and Internet infrastructure services utilizing our domestic data centers, recognizing the essential role of both the Internet and data centers. Given that data center operations consume a significant amount of electricity, our company is advancing efforts to address climate change and decarbonization, which are closely related to energy issues. Recognizing that the effective use of the Internet is crucial for maintaining social infrastructure and securing essential services, we place a special emphasis on our cybersecurity efforts.

(1) Initiatives for Climate Change and Decarbonization

As the digitalization of our society and industries has progressed, data-based businesses and solutions to social issues are expected in all kinds of fields, so the importance of data centers, which are components of digital infrastructure, is increasing year by year. Furthermore, with the rapid development of generative AI utilization and the commercialization of VR technology in recent years, the power consumption of high-performance servers in operation has also increased. From the perspective of global environmental conservation such as preventing global warming and SDGs, we fully recognize the need to manage and reduce energy consumption and strive to contribute to a sustainable society through initiatives to achieve decarbonization.

In November 2011, we opened and have been operating an environmentally friendly suburban large-scale data center (Ishikari Data Center) in Ishikari City, Hokkaido.

Besides operating data centers utilizing the cool outside air at the location, we established the Ishikari Solar Power Plant for the purpose of harnessing renewable energy in house in 2015, achieved virtually zero CO2 emissions through the use of non-fossil certificates in 2022, and replaced all power sources with those derived from renewable energy in 2023. Like this, we actively implement the initiatives for conserving the global environment in the operation of data centers.

In 2021, we endorsed the “Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)” and joined the TCFD Consortium of companies and organizations that endorse these recommendations. Although our current information organization is not primarily focused on climate change, we continue to prepare for appropriate disclosure regarding the impact of climate change-related risks and revenue opportunities on our business activities and earnings. Our corporate governance and risk control are disclosed in our securities report.

(2) Initiatives for Cybersecurity

In recent years, as corporate activities have become increasingly digitalized, the exchange of personal and confidential corporate information over the Internet has become commonplace. At the same time, as in the real world, a variety of problems have arisen, including nuisance activities, various rights violations, and the distribution of illegal and harmful content. Therefore, ensuring and improving the safety and quality of the Internet is increasingly important. As a cloud service provider, we review our services daily and implement multifaceted measures to ensure and enhance safety and quality.

On the other hand, we recognize the importance of “personal information,” “freedom of expression,” and “privacy of communications,” so when responding to requests from investigative organizations or the like, we make efforts to protect them by following related laws and guidelines, including the Act on the Protection of Personal Information, the Telecommunications Business Act, and the Provider Liability Limitation Act. As part of efforts to improve the safety and quality of the Internet, we started disclosing the number of requests and the overview of our response as a “Transparency Report” in August 2023, to secure the transparency of information handling.

We also recognize it as our duty as a cloud and Internet infrastructure service provider to establish systems that enable us to collect a wide range of information through affiliated and sponsoring organizations about legal and administrative issues related to advancements in Internet technologies such as generative AI and cybersecurity, respond accurately, and express our opinions as needed. As a specific example, personnel in charge of specialized teams for responding to and taking countermeasures against nuisance activities, etc. and legal affairs staff participate in the Administrative Law Subcommittee, a subcommittee of the Japan Internet Providers Association (JAIPA), to exchange opinions with relevant ministries and agencies on the sound use of the Internet.

<Investment in Human Capital, Intellectual Properties, etc.>

Our company regards investment in intellectual properties is crucial for our business development, and actively supports creative activities within the company. As for investment in human capital, our company has been working to establish an environment that enhances and maximizes the capabilities of our employees, therefore, securing and developing human resources is one of our strengths, and is in line with our key theme of Achieving Customer Success (CS) and Employee Success (ES), which is to build a relationship of mutual growth by supporting our customers as well as our employees to succeed. At our company, we believe that each employee represents our capital and their growth and success are essential in providing value to our business and customers. In order to transform "what you want to do" into "what you can do." and realize sustainable corporate management and Employee Success (ES), our efforts in this direction include a variety of initiatives as described below, the details of which are disclosed in our securities report.

- Cultivating a culture of talent development and collaborative learning
- Fostering mental and physical health
- Promoting the success of a diverse workforce
- Creating a culture where diverse talents and skills converge, fostering new values through leadership
- Promoting flexible work arrangements

Moreover, we consider investing in intellectual property as essential for our business growth. We actively support in-house creative activities and are committed to appropriately protecting, managing, and utilizing our intellectual property. By communicating within the company, the importance of respecting third-party intellectual property rights, we diligently work to prevent any infringements. Although we are not a content creation and provision company, we are a member of the Association of Copyright for Computer Software (ACCS). We participate in various study groups organized by the ACCS to enhance our knowledge, facilitate information exchange, and engage in activities to protect copyright rights.

We continue to oversee these initiatives, which contribute to our company's sustainable growth, and are committed to proactive information disclosure.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principle 1-4 [Strategically held shares]

(1) Philosophy regarding strategic shareholding

Our company generally does not hold listed shares as strategically-held shares unless their significance and rationality are recognized. We annually assess the significance and rationality for holding each stock, considering potential corporate collaboration or business synergy with the issuing company and whether the benefits and risks associated with holding these shares justify the capital cost. Shares deemed to lack sufficient significance and rationality are sold, taking into account stock prices, market trends, and other relevant factors.

(2) Regarding the exercise of voting rights

While considering the purpose of holding listed shares, we exercise voting rights based on whether it aligns with the sustainable growth and medium to long-term enhancement of corporate value for both our company and the invested entities.

Principle 5-1 [Policy regarding constructive dialogue with shareholders]

The Company has established a department for managing IR, and holds financial results briefings for shareholders and investors at least twice a year. We also create opportunities for dialogue by obliging individual interviews with persons such as the Director and Chief Financial Officer upon request. We have also created a system for sharing the opinions received during these interviews with management on an as-needed basis.

As discussions unfold, we consider the topic of the discussion and strictly control insider information.

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