

Asahi Net, Inc.

Financial Results Briefing Materials
for the First Half of the Fiscal Year Ending March 31, 2024
(From April 1, 2023 to September 30, 2023)



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I am Hijikata, the President of Asahi Net, Inc.
I would like to explain the financial results for the first half of the fiscal year ending March 31, 2024.



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<Cautionary Statement Concerning Forward-Looking Statements>

Statements made in this document with respect to the current plans, estimates, strategies, beliefs and other statements of Asahi Net, Inc. (the "Company") that are not historical facts are forward-looking statements about the future performance of the Company. These statements are based on the judgment of the management of the Company drawn from currently available information. Accordingly, we advise you not to place undue reliance on these forecast statements. Actual financial results may differ significantly from these forecasts and may be worse than the forecasts due to various key factors. The Company has taken the greatest care in the preparation of the information presented in this document but is not held liable for any errors in the information.

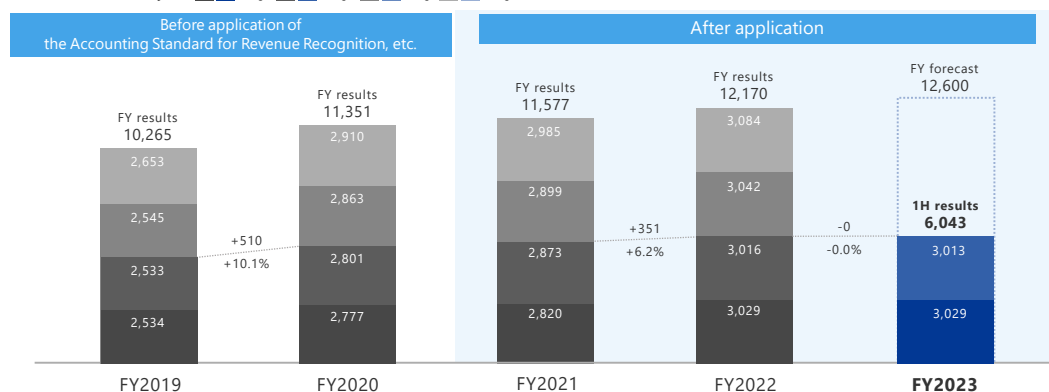
This is what I will talk about today.



Trends in Net Sales

**Net sales for the first half of FY2023 were 6,043 million yen,
with a rate of progress of 48%**

(Unit: millions of yen) ■ 1Q ■ 2Q ■ 3Q ■ 4Q



First, let's look at net sales.

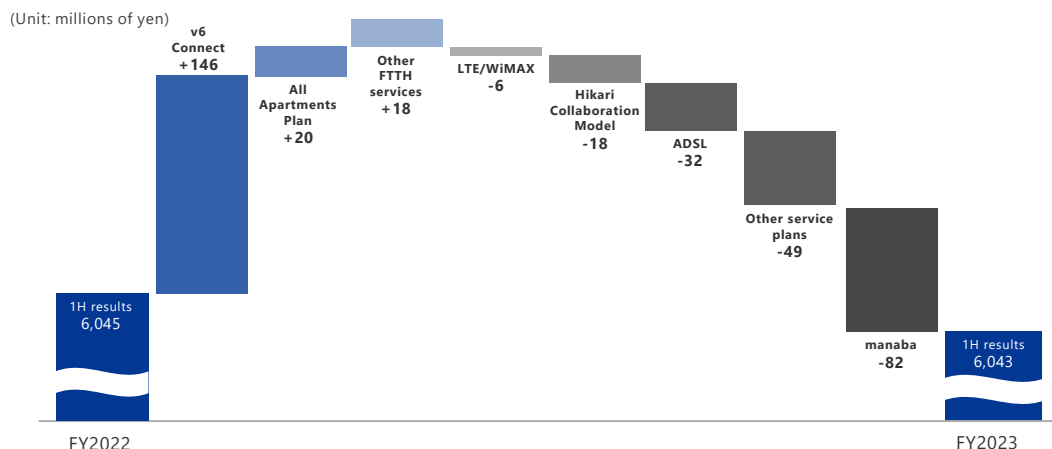
Net sales for the first half of FY2023 were 6,043 million yen.

The rate of progress toward the FY forecast of 12,600 million yen was 48.0%. It has been progressing as planned.



Year-on-Year Difference in Net Sales

Steady growth for v6 Connect coupled with lower sales for manaba due to termination of subscriptions



Next, let me explain the main factors behind the decrease in net sales of 2 million yen from the first half of FY2022 to the first half of FY2023.

Firstly, let's look at v6 Connect. Net sales increased by 146 million yen. This was due to an increase in traffic handled with our partner companies. Despite a lower year-on-year net sales growth rate due to the impact of contract changes with some of our partner companies in the first quarter, growth was steady.

Next, I will explain the increase or decrease in net sales from each service of ISP Asahi Net. We recorded an increase of 20 million yen in net sales from the All Apartments Plan, which provides internet connection services to apartment owners and residents through a sales channel partnership with NTT East and NTT West. Net sales from other FTTH services increased by 18 million yen. In FY2023, we are seeking to strengthen member acquisition channels such as NTT channels and web channels.

Net sales from the Hikari Collaboration Model, including Asahi Net Hikari and Asahi Net docomo Hikari, which leverage the Hikari Collaboration Model between NTT East and NTT West, decreased by 18 million yen. A one-time decline in sales occurred in the first quarter due to a major corporate member canceling their membership after migrating from our FLET'S line to the line of another carrier.

Net sales from LTE and WiMAX mobile connection services decreased by 6 million yen. Among mobile connection services, net sales from LTE increased by 21 million yen. More and more corporate members are using SIM cards and fixed IPs to access remotely located equipment via the internet. Net sales from WiMAX decreased by 26 million yen. This decline was a result of sluggish growth in the number of subscriptions to the 5G service, which separates communications charges from device charges and offers unlimited use at a flat rate.

Net sales from ADSL services decreased by 32 million yen. This was attributable to the cancellation of memberships following the reduction of the service area of NTT East's and NTT West's FLET'S ADSL at the end of January 2023. Net sales from other service plans decreased by 49 million yen, which mainly include narrowband connection services such as dial-up connection services.

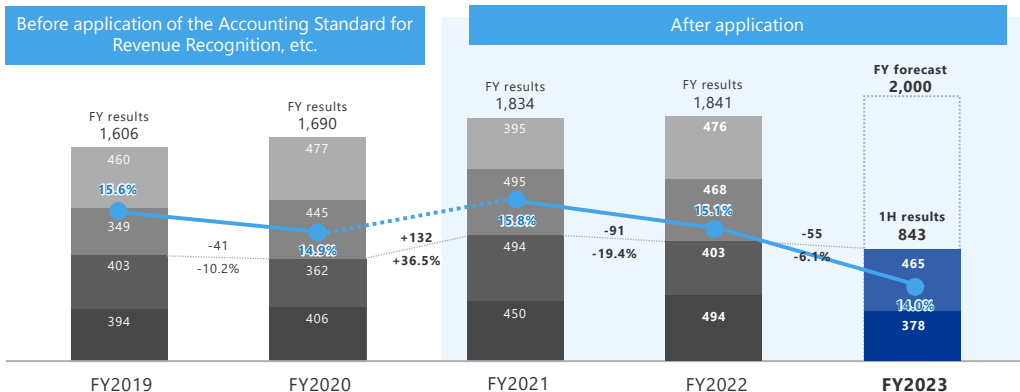
Net sales from the educational support service manaba decreased by 82 million yen. This was due to a decline in sales from the expiry of the respon distributor contract between the Company and respon, Inc., at the end of March 2023 and from the termination of subscriptions by seven universities from April 2023 onward. These universities terminated their subscriptions because they have replaced manaba with Google Workspace, Microsoft 365, and other services within the university to facilitate the exchange of digital data such as report assignments between faculty and students, and because of the impact of budget cuts within the universities.



Trends in Operating Profit

Operating profit decreased by 6.1% year on year, as anticipated in the plan

(Unit: millions of yen) ■ 1Q ■ 2Q ■ 3Q ■ 4Q — Operating profit margin



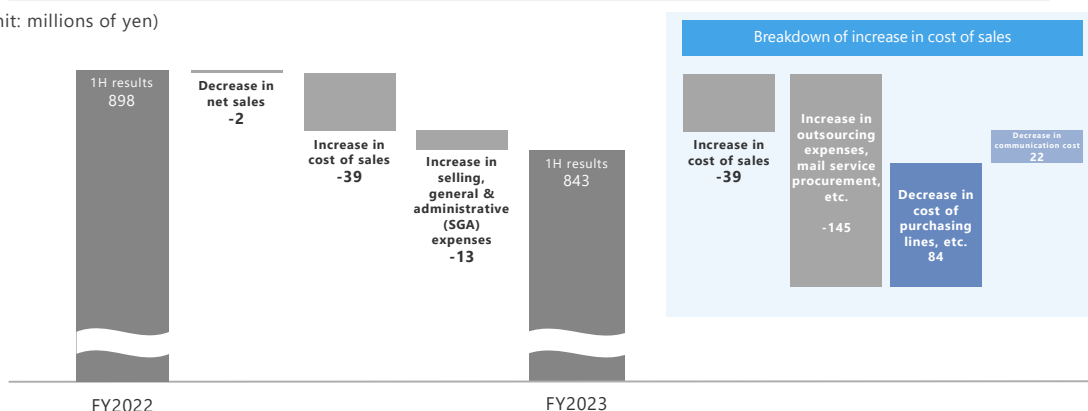
Operating profit was 843 million yen. The rate of progress toward the FY forecast of 2,000 million yen was 42.2%. Operating profit margin was 14.0%. It has been progressing as planned. Cost of sales is running ahead of projections from the second half of FY2022 to the first half of FY2023, and plans are underway to improve our operating profit from the third quarter onward.



Year-on-Year Difference in Operating Profit

Cost of purchasing lines, communication cost, and depreciation increased, while SGA expenses for membership acquisition decreased

(Unit: millions of yen)



I will explain the main factors for why operating profit decreased by 55 million yen from the first half of FY2022 to the first half of FY2023.

As explained in the previous slide, there was a decrease in net sales of 2 million yen. Cost of sales increased by 39 million yen. There are three factors responsible for this.

The first was the increase in cost of sales associated with outsourcing operations and mail services released in August 2022. Outsourcing operations encompass reviews of our network infrastructure and updates to our mission-critical systems.

The second was the decrease in the cost of purchasing lines, etc. The cost of purchasing lines decreased due to a decline in the number of subscribers to the Hikari Collaboration Model and WiMAX. We view the decrease in the number of Hikari Collaboration Model subscribers as temporary in nature due to a major corporate member canceling their membership, and we expect the cost of purchasing lines to increase going forward due to an increase in the number of Hikari Collaboration Model subscribers. For manaba, cost of sales decreased by 33 million yen due to the discontinuation of respon.

The third was the decrease in communication cost. An initiative has been underway since the second half of FY2022 to review part of our network infrastructure in order to efficiently handle traffic that will continue to increase in the future. This initiative will allow us to increase the amount of traffic handled with a smaller increase in costs than in the past. Communication cost decreased in the first half of FY2023 due to the cancellation of old communication lines we had previously used.

Selling, general and administrative expenses increased by 13 million yen. As explained in the plan presented at the beginning of the fiscal year, outsourcing and other expenses have increased in FY2023 mainly due to the strengthening of member acquisition channels in order to increase the

number of FTTH subscribers. The same trend is projected to continue into the second half of the fiscal year.



Trends in EBITDA

During FY2023, investments in capital are planned for future business expansions

(Unit: millions of yen)

	FY2019	FY2020	FY2021	FY2022	FY2023 1H	FY2023 (Forecast)
Operating profit	1,606	1,690	1,834	1,841	843	2,000
Depreciation	448	581	818	895	427	1,000
EBITDA(*)	2,054	2,272	2,653	2,737	1,271	3,000
EBITDA margin	20.0%	20.0%	22.9%	22.5%	22.0%	24.2%
Investments in capital	831	1,295	1,160	1,055	—	1,400

(*) EBITDA is calculated as the sum of operating profit and depreciation.

Next, I will explain the trends in EBITDA and EBITDA margin. In the first half of FY2023, EBITDA was 1,271 million yen and EBITDA margin was 22%. We have continued to make aggressive investments in capital in both FY2022 and the first half of FY2023. In addition to investing in our network infrastructure to cope with the increasing traffic in the future, we are also working on updating our mission-critical systems over multiple years through the end of March 2025.



Operating Results

(Unit: millions of yen)

	FY2022 1H	FY2023 1H	Change	Percentage change	Rate of progress toward earnings forecast
Net sales	6,045	6,043	-2	-0.0%	48.0%
Operating profit	898	843	-55	-6.1%	42.2%
Ordinary profit	902	853	-49	-5.4%	42.7%
Profit	667	555	-111	-16.8%	39.7%
Earnings per share	23.84 yen	19.97 yen	—	—	

Next, I will explain the operating results for the first half of FY2023. Net sales and operating profit were as explained earlier.

Ordinary profit decreased by 5.4% year on year to 853 million yen. Profit decreased by 16.8% year on year to 555 million yen.

For the first half of FY2023, a loss on retirement of communication equipment of 10 million yen to be paid to NTT East and NTT West and impairment losses of 41 million yen were posted as extraordinary losses. Regarding impairment losses, the Company found it necessary to reformulate some of its plans to update its mission-critical systems at the end of the second quarter of the current fiscal year, as was the case at the end of FY2022. Following a review of the future recoverability of some of the assets already recorded, the Company decided to post impairment losses of 41 million yen in accordance with the "Accounting Standard for Impairment of Fixed Assets."



Financial Position

(Unit: millions of yen)

	As of March 31, 2023	As of September 30, 2023	Change
Total assets	13,660	13,919	258
Total liabilities	1,699	1,913	214
Net assets	11,961	12,005	43
Equity ratio	87.6%	86.2%	—

Now, let's look at the financial position for the first half of FY2023. Total assets increased 258 million yen from the end of the previous fiscal year to 13,919 million yen, total liabilities increased 214 million yen from the end of the previous fiscal year to 1,913 million yen, and net assets increased 43 million yen from the end of the previous fiscal year to 12,005 million yen. Equity ratio was 86.2%.



Shareholder Return

An interim dividend of 11.50 yen and a planned annual dividend of 23 yen for FY2023

(Unit: millions of yen)

	FY2019	FY2020	FY2021	FY2022	FY2023 (Planned)
Profit	1,150	1,301	1,255	1,285	1,400
Dividends	18.50 yen	19.50 yen	21.00 yen	22.50 yen	23.00 yen
Dividend payout ratio	45.2%	41.8%	46.7%	49.0%	46.0%
Acquisition of own shares	1,085	—	—	—	195
Total payout ratio	139.5%	—	—	—	59.5%

Note: A notification regarding own share repurchase through the Off-Auction Own Share Repurchase Transaction (ToSTNeT-3) was issued on May 11, 2023.

Next, I will explain the cash dividends for FY2023. The interim dividend is 11.50 yen, as planned. The annual dividend for FY2023 is expected to be 23 yen per share, consisting of an interim dividend of 11.50 yen and a year-end dividend of 11.50 yen. As a result, the dividend payout ratio is expected to be 46%.

The Company acquired its own shares on May 11, 2023. The total number of shares acquired was 330,000 shares, for a total acquisition cost of 195.03 million yen. As a result, the total payout ratio for FY2023 is expected to be 59.5%.



Service Lineup of Asahi Net

Internet Connection Services

ISP

FTTH Connection Services

Mobile Connection Services

Other Connection Services

VNE

Internet-Related Services

**Educational
Support
Service****Other**

Mail Services

Security Services

Other Related Services

Next, let's look at each service in detail.

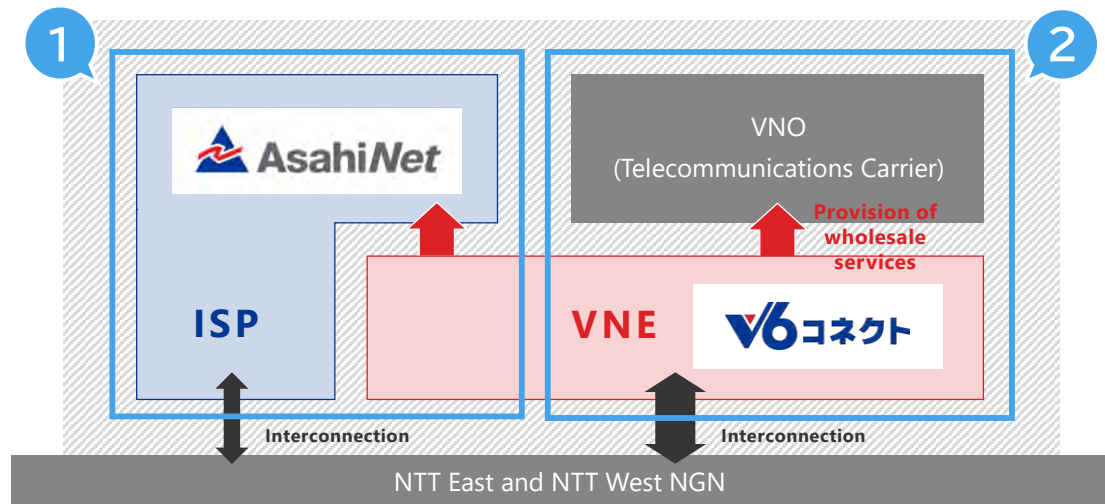
Net sales from ISP Asahi Net and VNE v6 Connect services are disclosed as net sales for internet connection services.

Net sales from the educational support service manaba and other services are disclosed as net sales for internet-related services.

I will explain based on these points.



Structure of Internet Connection Services



First, I will explain the status of internet connection services.

Internet connection services consist of two categories. In the first category, as indicated on the upper left of the slide, the Company provides its own service Asahi Net as an ISP; and in the second category, as indicated on the upper right of the slide, the Company provides v6 Connect, an IPv6 connection service, to telecommunications carriers as a VNE.



Net Sales from Internet Connection Services

(Unit: millions of yen)

	FY2022 1H	FY2023 1H	Change	Percentage change
ISP Asahi Net	4,428	4,379	-48	-1.1%
VNE v6 Connect	815	961	146	18.0%
Total	5,243	5,341	97	1.9%

This shows the net sales from internet connection services for the first half of FY2023.
Net sales from ISP Asahi Net decreased by 48 million yen or 1.1% year on year to 4,379 million yen.
Net sales from VNE v6 Connect increased by 146 million yen or 18% year on year to 961 million yen.

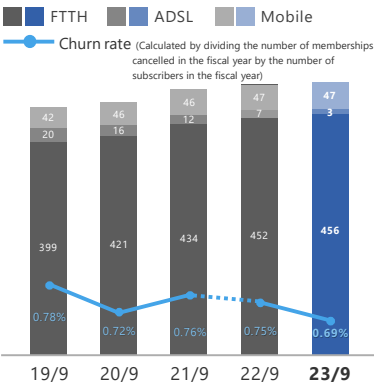


Trends in the Number of Subscribers to ISP Asahi Net's Internet Connection Services

Recorded a steady increase in the number of orders received from corporate customers and an increase in the number of FTTH connection services subscribers

(Unit: thousands of IDs)

	Sep. 30, 2022	Sep. 30, 2023	Change
FTTH (fiber-optic connection)	452	456	+4
ADSL	7	3	-4
Mobile connection	47	47	+0



Now, let me touch on the status of the ISP Asahi Net business. The number of subscriber IDs for FTTH connection services, including Asahi Net Hikari, increased by 4,000 year on year to 456,000. The number of subscriber IDs for ADSL connection services decreased by 4,000 to 3,000. The number of subscriber IDs for mobile connection services was 47,000. The churn rate for subscribers of internet connection services was 0.69%. The churn rate remained low.



Initiatives for ISP Asahi Net

Promote the strengthening of member acquisition channels to increase the number of subscribers

All Apartments Plan Collaboration with NTT East and NTT West



- Acquisition of 10Gbps Hikari access service
- Development of markets with potential of growing the number of subscribers

This service combines "FLET'S" provided by NTT East and NTT West and ISP Asahi Net. We are engaged in proposal activities in collaboration with NTT East and NTT West targeted at for-sale condominiums and rental apartments.

Fixed IP Address Relaunch of Service

- Launch of IPoE fixed IP address optional service using the IPv4 over IPv6 connection method
- Allowing the selection of internet connection method when using fixed IP addresses

Following the relaunch of this service in February 2024, it will be possible to select IPv4 fixed IP addresses using the IPoE connection method in addition to fixed IP addresses using the existing PPPoE connection method.

*Please refer to our v6 Connect website for the service configuration of the IPv4 over IPv6 connection method. <https://v6connect.net/#service> (in Japanese)

I will explain our initiatives in the first half of FY2023.

Net sales from Asahi Net increase in proportion to the number of subscribers to FTTH connection services and mobile connection services. As explained in the trends in the number of subscribers as of March 31, 2023, and September 30, 2023, we consider the slowdown in the growth of subscribers to FTTH connection services to be an issue at present, and we are currently engaged in efforts to strengthen sales activities focused on NTT channels, web channels, and major corporate customers in order to increase the number of subscribers in FY2023.

The first initiative is activities focused on NTT channels. We have acquired FLET'S Hikari Cross, a Hikari access service provided by NTT East and NTT West with a maximum communication speed of approximately 10 Gbps. With the expansion of the service area of FLET'S Hikari Cross, we have seen more users who require high-capacity data communications signing up. In addition to online gaming and web conferencing, there is a growing demand for watching sports, concerts, and live performances at home in 4K and other high-quality video formats.

The number of subscribers to the All Apartments Plan sold in collaboration with NTT East and NTT West has remained steady. This initiative provides FLET'S Hikari and ISP Asahi Net to condominium owners, management companies, and construction companies. We believe this is a market where the number of subscribers is expected to grow going forward due to an increase in the new style of subscriptions where the internet is provided at the point of moving in, as opposed to the existing style of subscriptions where residents sign up for the internet on their own.

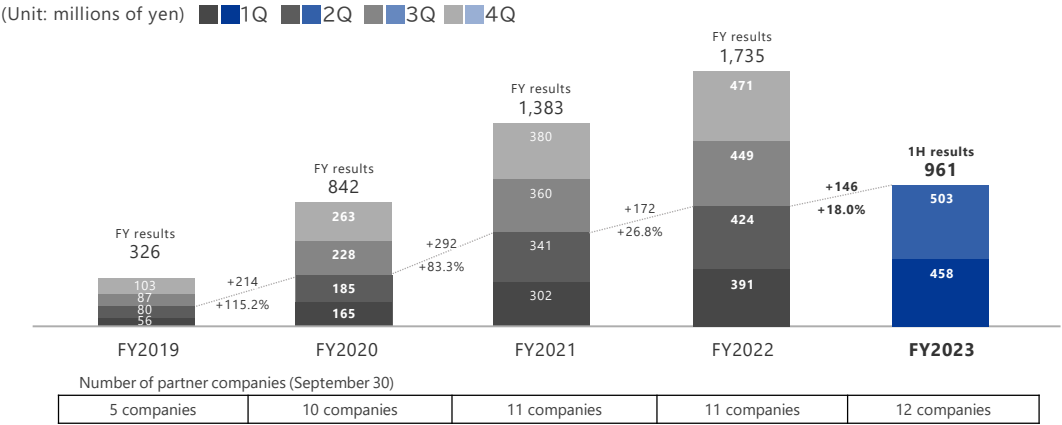
The second initiative is relaunching our fixed IP address service. Our Fixed IP Address optional service is scheduled to be relaunched in February 2024. Following the relaunch of this service, it will be possible to utilize IPv4 fixed IP addresses using the IPoE connection method in addition to fixed IP addresses using the PPPoE connection method we currently provide. Customers can specify either the PPPoE or

the IPoE connection method. In addition, the fee for the Fixed IP Address optional service will be revised in conjunction with its relaunch. We will continue to improve the quality of our services to satisfy as many customers as possible.



Trends in Net Sales from VNE v6 Connect and the Number of Partner Companies

Net sales from v6 Connect increased 18% year on year



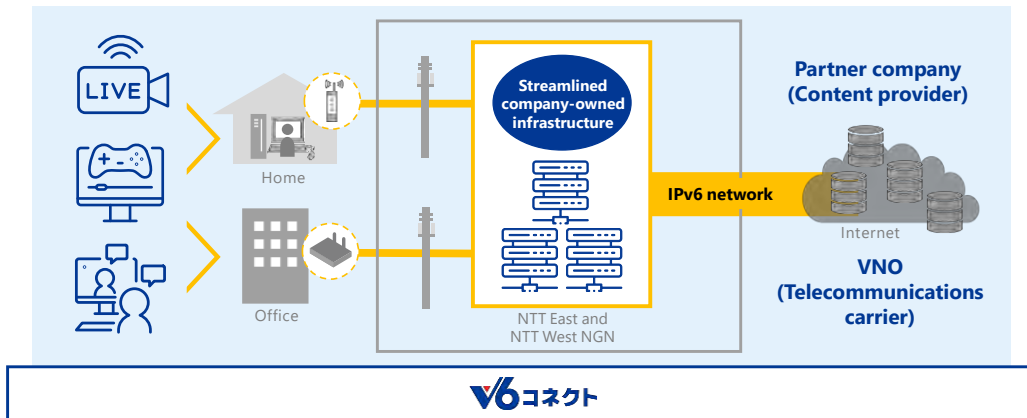
Now, let's look at VNE v6 Connect. Net sales from v6 Connect for the first half of FY2023 increased by 18% year on year to 961 million yen. The number of our partner companies increased by one to a total of 12 companies.

V6 Connect is an IPv6 internet connection service for VNOs (telecommunications carriers), which is offered by using the IPoE connection method of FLET'S Hikari provided by NTT East and NTT West. The Company records as sales the amount of fees charged on a pay-as-you-go basis based on the traffic used by VNOs. In the business development of VNOs, the use of v6 Connect for maintaining communication quality and cost control in the business structure is of great significance. The Company strives to maintain medium-term relationships between the Company and partner companies as partners by adjusting prices and streamlining network maintenance costs in order for our partner VNOs to expand and maintain their businesses.



Plan for VNE v6 Connect

Maintain cooperative relationships with partner companies and streamline our network infrastructure



Now, let me move on to explain our initiatives in the first half of the current fiscal year for VNE v6 Connect.

As for VNE v6 Connect, we will continue to focus on maintaining cooperative relationships with our partner companies and expanding alliances with new VNOs (telecommunications carriers).

Along with the growing number of users of Hikari access services that support 10 Gbps over the existing 1 Gbps due to the expansion of the service area of FLET'S Hikari Cross, the use of downloaded content from watching live sporting events broadcasted over the internet, online game updates, etc., is expected to increase going forward and will continue to grow in the future. In FY2023, we have been reviewing part of the configuration of our IPv6 network, which is interconnected to NTT East and NTT West's NGN, as part of our efforts to increase the volume of traffic that can be handled while controlling cost increases more effectively than in the past based on our plan.



Net Sales from Internet-Related Services

(Unit: millions of yen)

	FY2022 1H	FY2023 1H	Change	Percentage change
manaba	395	312	-82	-20.8%
Other	406	388	-17	-4.4%
Total	801	701	-100	-12.5%

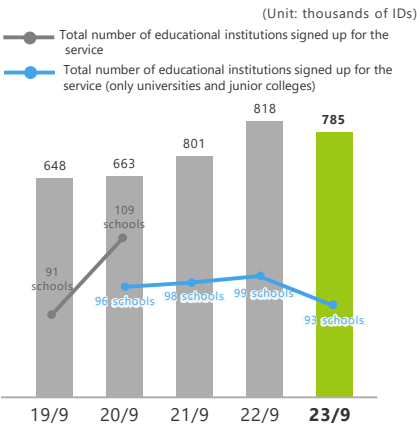
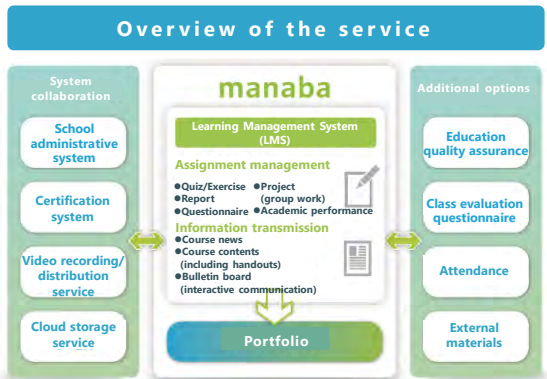
Now, let's move on to look at the status of internet-related services. Internet-related services include the educational support service manaba and related services such as mail and security services.

This shows the net sales from internet-related services for the first half of FY2023. Net sales from the educational support service manaba decreased by 20.8% year on year to 312 million yen. Net sales from other services decreased by 4.4% to 388 million yen.



Number of Subscriber IDs for manaba

The number of subscriber IDs decreased by 33,000 year on year, with a total of 93 educational institutions signed up for the service



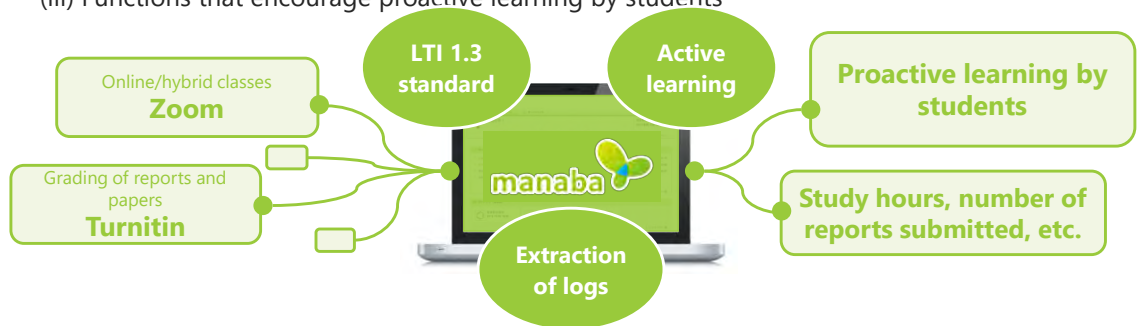
Next, let me talk about the educational support service manaba. manaba is a cloud-based application service developed, sold and supported by the Company for educational institutions, mainly universities. The service consists of a learning management system (manaba application), system collaboration services, and additional optional services.

The number of subscriber IDs as of September 30, 2023, was 785,000, a year-on-year decrease of 33,000. The total number of educational institutions signed up for the service decreased by six year on year to 93 universities, due to the expiry of contracts with some universities. Our contracts with these universities expired because they have replaced manaba with Google Workspace, Microsoft 365, and other services within the university to facilitate the exchange of digital data such as report assignments between faculty and students, and because of the impact of budget cuts within the universities.

Initiatives for manaba

Key initiatives aimed at achieving the education quality assurance that is expected by the Ministry of Education, Culture, Sports, Science and Technology

- (i) Strengthen integration with various systems in order to adapt to the changing academic environment
- (ii) Extract logs to analyze learning behavior
- (iii) Functions that encourage proactive learning by students



The environment surrounding universities has been shaped by the digital transformation of education promoted by the Ministry of Education, Culture, Sports, Science and Technology, with new value now required of any LMS and portfolio. We believe it is necessary for the educational support service manaba to provide services that are essential for achieving education quality assurance and university institutional research (IR), and we have been working on the following three key initiatives for FY2023.

The first is to strengthen integration with various systems in order to adapt to the changing academic environment. In order to adapt to the digital transformation promoted by universities, including the conduct of classes that combine face-to-face and online methods as well as the use of generative AI in academic activities, we are developing services that support Learning Tools Interoperability (LTI), a standard adopted in the education industry, between manaba and various systems. We are also working on integration with Turnitin, a tool that performs similarity checks involving generative AI; Zoom, a web conferencing tool, etc.

The second is to extract logs to analyze learning behavior. Besides reports created by students, manaba also preserves various kinds of learning behavior log data, such as the number of times students have repeated a test, viewed supplementary learning materials for a class, etc. We are laying the groundwork that will allow data logs to be extracted for use in university IR, which contain not only self-assessment data at universities but also academic performance information such as GPA and student satisfaction information from class evaluation questionnaires retained by universities.

The third is to provide functions that encourage proactive learning by students. We will promote the development of functions that encourage proactive efforts by students to engage in active learning.



Summary of Financial Results for the First Half of FY2023

1 Financial Results for the First Half of FY2023

- Recorded net sales of 6,043 million yen, with a rate of progress of 48.0% toward the earnings forecast of 12,600 million yen
- Recorded an operating profit of 843 million yen, with a rate of progress of 42.2% and the improvement of cost of sales proceeding as planned

2 Status of Our Business

◆ ISP Asahi Net

The number of subscriber IDs for FTTH connection services increased by 4,000 year on year. Efforts are underway to strengthen member acquisition channels.

◆ VNE v6 Connect

Net sales increased by 18.0% year on year. Sales increased due to increased traffic per line used by partner companies.

◆ manaba

The number of subscriber IDs decreased by 33,000 year on year to 785,000. Service development is underway with a focus on key initiatives.

Next is the summary of financial results for the first half of FY2023.

Firstly, let's look at the financial results. Net sales for the first half of FY2023 were 6,043 million yen. The rate of progress toward the earnings forecast of 12,600 million yen was 48%. Operating profit was 843 million yen, and the rate of progress toward the earnings forecast was 42.2%.

Secondly, let's look at the status of our business.

The number of subscriber IDs for the FTTH connection services of ISP Asahi Net increased by 4,000 year on year to 456,000. We are currently engaged in efforts to strengthen member acquisition channels.

Net sales from VNE v6 Connect increased by 18% year on year to 961 million yen. This was mainly due to the expansion of business at our partner companies as well as the increase in traffic per line.

The number of subscriber IDs for the educational support service manaba decreased by 33,000 year on year to 785,000. We are currently engaged in service development with a focus on our key initiatives.



This is the end of my presentation on the financial results for the first half of the fiscal year ending March 31, 2024.
Thank you for listening.