Internet Initiative Japan

Consolidated Financial Results for 1H21

(April 1, 2021 to September 30, 2021)

Internet Initiative Japan Inc.
TSE1 (3774)
November 5, 2021

Outline

- FY21(FY2021) means a fiscal year ending March 31, 2022. Others alike

Ⅰ. 1H21 Summary

Unit: ¥ (JPY) billion (bn)
%, YoY = Year over year comparison
QoQ = Quarter over quarter comparison

Upward revision of FY21 Financial Targets & Dividend Forecast
Updated FY23 Operating Margin Target to "Over 10%"

Structural Profit Improvement by Enterprise Recurring Revenue Expansion. First Half Profit Largely Exceeded its target

	1H21 Results		Targets	New FY21 Targets		Old Targets
Revenues	¥109.1bn	+7.3%	¥108.0 bn	¥228.5bn	+7.3%	¥226.0bn
Operating Profit	¥9.3bn	+77.6%	¥6.5bn	¥22.0bn	+54.4%	¥17.5bn
Operating Margin	8.5%	+3.3pt.	6.0%	9.6%	+2.9pt.	7.7%
Net Profit	¥6.9bn	+148.8%	¥4.2bn	¥13.7bn	+41.1%	¥11.7bn

Dividend Upward Revision

	FY20 Results	FY21 Initial Forecast	FY21 New Forecast
Total	¥29.75	¥39.00	¥46.00
Interim	10.25	19.50	23.00
Year-end	19.50	19.50	23.00

Network Service (excluding Mobile)

◆ **Enterprise recurring revenue continued to increase along with IT advancement by enterprises**

- IP 1H21 revenue ¥6.6bn +13.2% (1Q +13.7%, 2Q +12.8%) Demands for broader bandwidth continued as enterprises use more IT
- Security 1H21 revenue ¥10.4bn +16.6% (1Q +15.0%, 2Q +18.2%) Revenues largely increased due to various demands for security
- WAN 1H21 revenue ¥12.9bn +4.4% (1Q +4.4%, 2Q +4.4%) Projects related to NW replacements, such as SD-WAN, increased

Mobile

◆ **Continuing to expand infrastructure & Pursuing higher utilization by offering to both enterprise & consumer**

- Enterprise (excluding MVNE): High revenue growth rate continued by accumulating IoT-related projects
  1H21 revenues ¥4.8bn +38.9%(1Q +40.1%, 2Q +37.8%) MVNE progressing in line with initial outlook
- Consumer: Subscription net increase by "GigaPlans" (launched in Apr. 2021)
  2Q21-end consumer subs.: 1,072 thousand, of which GigaPlans 556 thousand (of which about 30% was new users, +94 thousand QoQ)
  - IIJmio as No.1 customer satisfaction (J.D.Power Japan "Survey on customer satisfaction for mobile services 2021, MVNO category)

SI

◆ **Network integration demands from all industries**

- Meeting demands for enterprise network systems that are becoming more complexed and diversified with services & SI
  1H21 construction revenue ¥15.5 bn +18.8% construction order-received ¥18.9 bn +24.4%
- Launched "IIJ GIO Infrastructure P2 Gen.2" in Oct. 2021 to promote full-scale cloud migration of Japanese enterprise systems
- From a new consolidated subsidiary though M&A (Singaporean SIer: PTC, Apr. 2021) 1H21 revenues: ¥3.6 bn OP ¥0.1bn

Topics

- "Prime Market" under new TSE market segments from next Apr.
- BCR approved for EU personal data protection policies (Aug. 2021)
- Selected for TOPIX500 (Mid400) in Oct. 2021
- Running tests on edge computing by using micro data centers etc.

- Original target for FY23 operating margin target was over 9% (disclosed in May 2021)
- Net Profit is "Profit for the period attributable to owners of the parent."
- FY20 results for dividends are written on post-stock-split basis
- SD-WAN is a network defined by software.
- "BCR approved" means our comprehensive rules regarding how to handle personal data meet the rigorous EU's standard and have been approved by EU's Data Protection Authority

Ⅱ- 1. Consolidated Financial Results

Unit: ¥ (JPY) billion
YoY = Year over year comparison

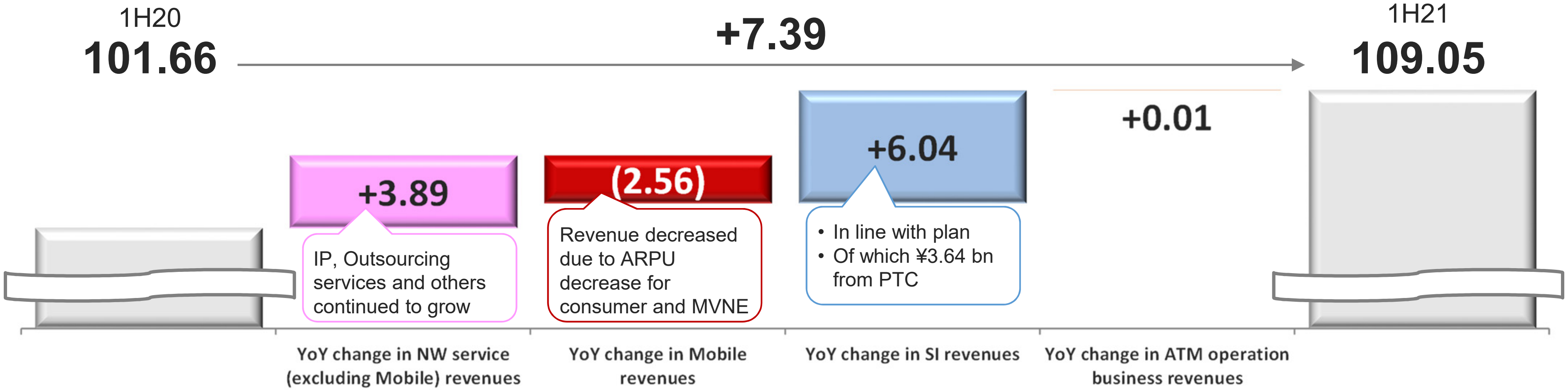
	% of revenue 1H21 Results Apr. 2021 - Sep. 2021	% of revenue 1H20 Results Apr. 2020 - Sep. 2020	YoY		% of revenue 1H21 Targets (Announced in May 2021) Apr. 2021 - Sep. 2021	% of revenue FY21 New Targets (Announced in Nov. 2021) Apr. 2021 - Mar. 2022	YoY		% of revenue FY21 Old Targets (Announced in May 2021) Apr. 2021 - Mar. 2022
Revenues	109.05	101.66	+7.3%	+7.39	108.0	228.5	+7.3%	+15.50	226.0
Cost of Revenues	78.8% 85.97	82.8% 84.21	+2.1%	+1.76	80.9% 87.4	78.2% 178.7	+3.5%	+5.98	80.0% 180.7
Gross Profit	21.2% 23.09	17.2% 17.45	+32.3%	+5.63	19.1% 20.6	21.8% 49.8	+23.6%	+9.52	20.0% 45.3
SG&A etc.	12.6% 13.78	12.0% 12.22	+12.8%	+1.57	13.1% 14.1	12.2% 27.8	+6.8%	+1.77	12.3% 27.8
Operating Profit	8.5% 9.30	5.2% 5.24	+77.6%	+4.07	6.0% 6.5	9.6% 22.0	+54.4%	+7.75	7.7% 17.5
Profit before tax	9.6% 10.43	4.4% 4.47	+133.6%	+5.97	5.8% 6.3	9.4% 21.5	+53.2%	+7.47	7.7% 17.3
Net Profit	6.3% 6.89	2.7% 2.77	+148.8%	+4.12	3.9% 4.2	6.0% 13.7	+41.1%	+3.99	5.2% 11.7

- SG&A etc. represents the sum of SG&A, which includes R&D expenses, and other income/expenses.
- Net profit is “Profit for the period/year attributable to owners of the parent.”

Ⅱ - 2. Year over Year Analysis for the First Half

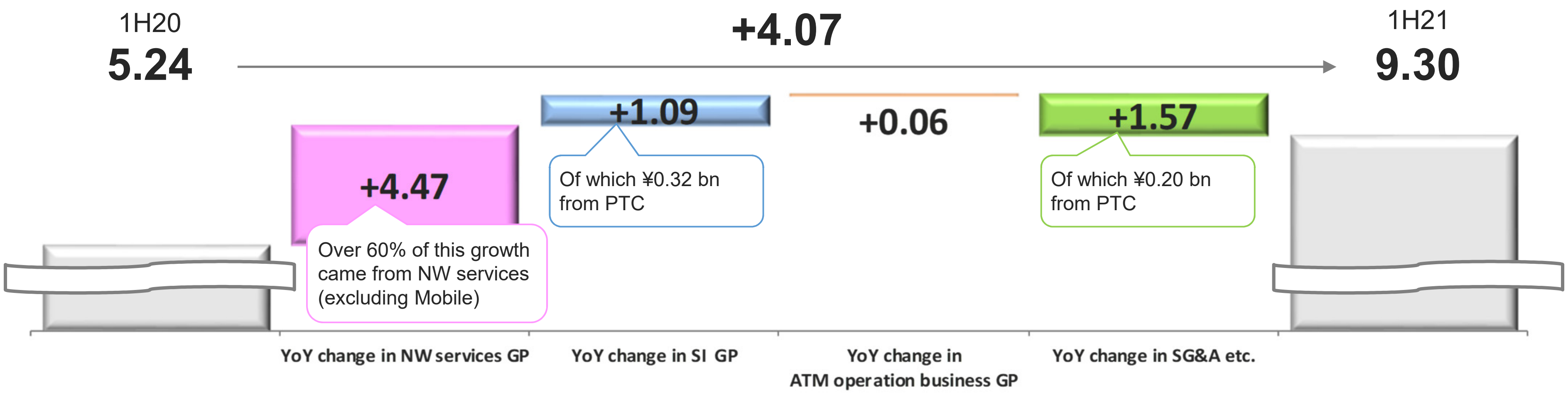
Unit: ¥ (JPY) billion (bn)
GP = Gross Profit
YoY = Year over year comparison

Revenues



- NW services (excluding Mobile) revenues is calculated by deducting the below mentioned Mobile services revenues from total NW services revenues. It includes non-mobile consumer revenue which is a small amount
- Mobile services include IIJ Mobile Services (including MVNE) and IIJmio (consumer mobile)
- ARPU is an abbreviation for Average Revenue Per User

Operating Profit



- SG&A etc. in this slide represents the sum of SG&A, which includes R&D expenses, and other income/expenses

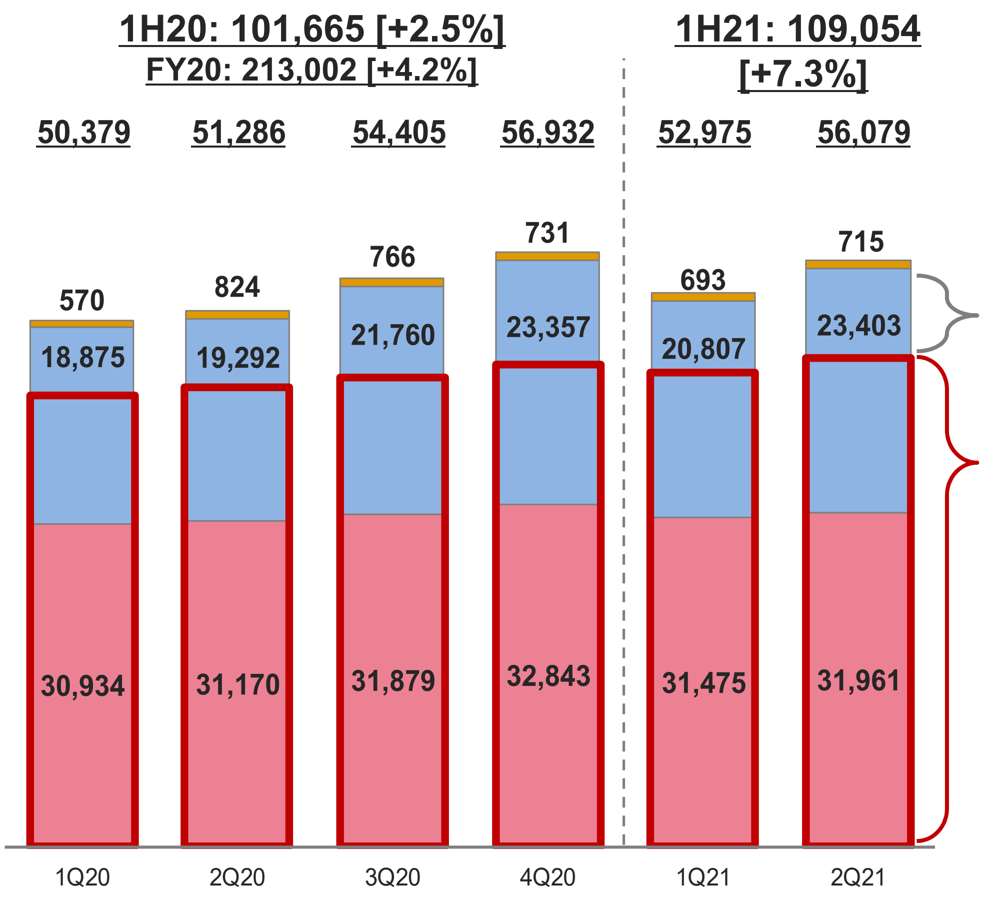
Ⅱ- 3. Revenues

Unit: ¥ (JPY) million
[ ] , YoY = Year over year comparison

NW Services
- Internet Connectivity Services (Enterprise)
- Internet Connectivity Services (Consumer)
- Outsourcing Service
- WAN Service

Systems Integration (SI)
- Systems Construction (including equipment sales)
- Systems Operation and Maintenance

ATM Operation Business



One-time revenue
1H21: ¥15,472 million･+18.8%YoY,
of which ¥2,586 million from PTC
(14.2% of 1H21 total revenues)

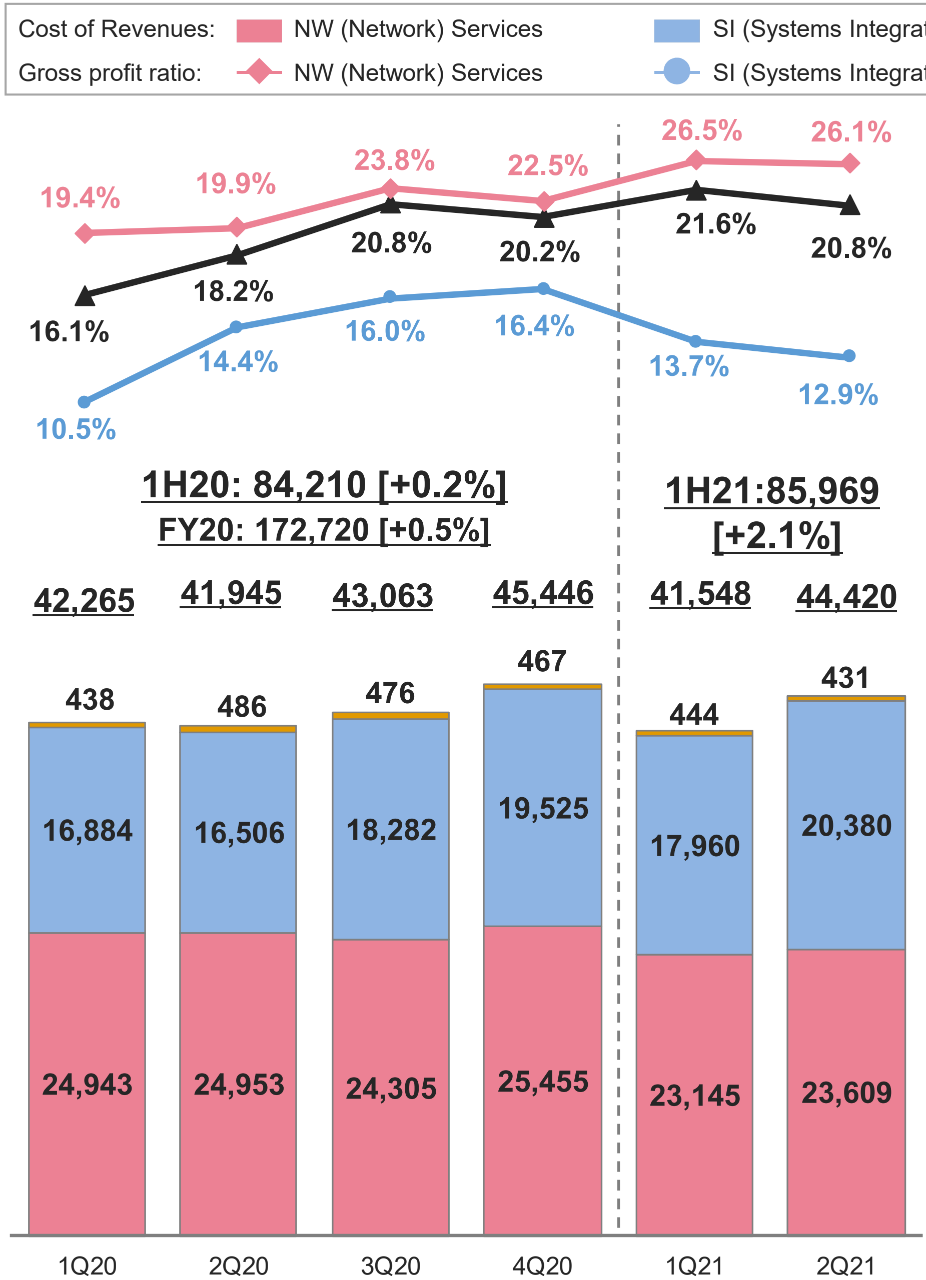
Recurring revenue
1H21: ¥92,174 million･+5.6%YoY
(84.5% of 1H21 total revenues)

NW Services revenue (excluding Mobile Services)
1H21: ¥42,411 million (+10.1%YoY･+¥3,891 million)
(38.9% of 1H21 total revenues)

Mobile Services revenue
1H21: ¥21,025 million (-10.8%YoY･-¥2,559 million)
(19.3% of 1H21 total revenues)

- One-time revenue, systems construction revenues which include equipment sales, is mainly recognized when systems or equipment are delivered and accepted by customers.
- Recurring revenue represents the following monthly recurring revenues: Internet Connectivity Services (Enterprise), Internet Connectivity Services (Consumer), Outsourcing Services, WAN Services, and Systems Operation and Maintenance.
- Mobile services revenue represents the total of enterprise and consumer mobile revenue.
- ARPU is an abbreviation for Average Revenue Per User

Ⅱ - 4. Cost of Revenues & Gross Profit Ratio



◆ Total gross profit

- 1H21: ¥23,085 million (+32.3%, +¥5,631 million YoY)
- 1H21 gross profit ratio: 21.2% (1H20: 17.2%)

◆ Gross profit for NW services

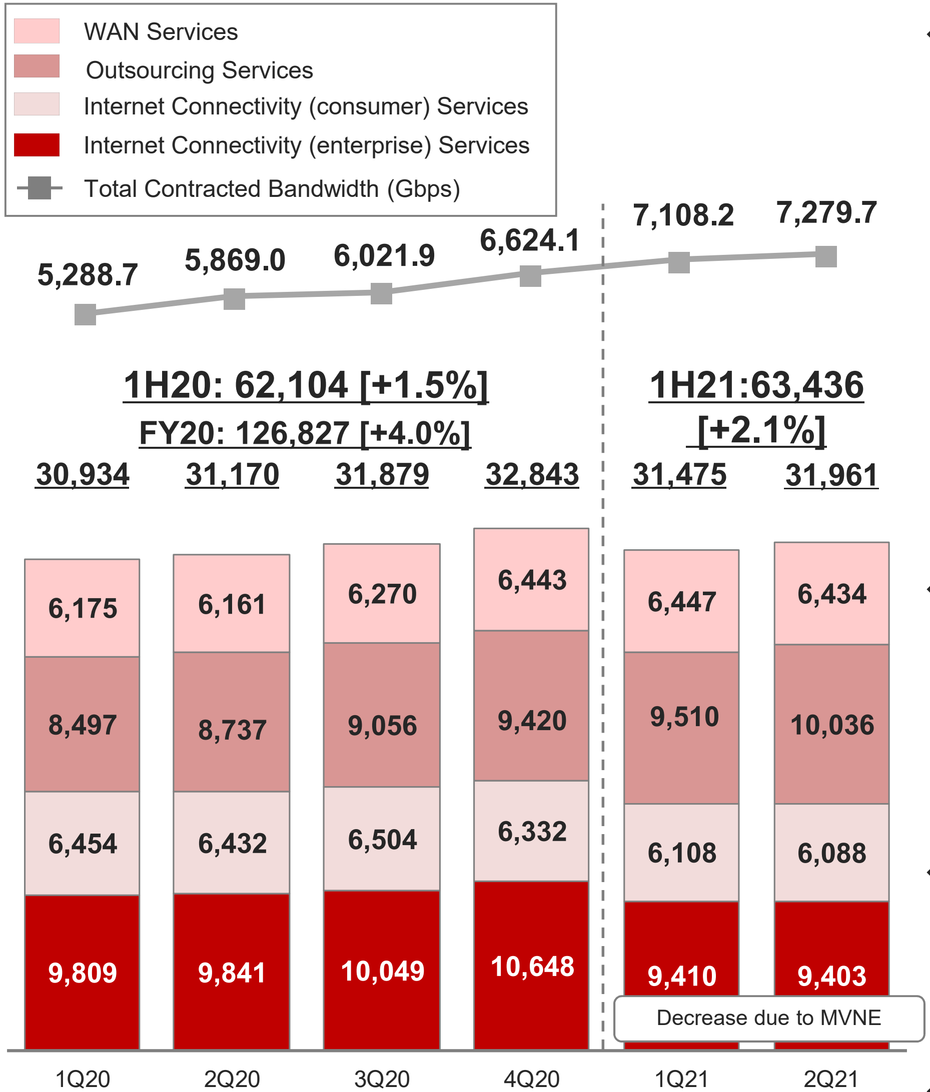
- 1H21: ¥16,682 million (+36.7%, +¥4,475 million YoY)
- 1H21 NW services gross profit ratio: 26.3% (1H20: 19.7%)
  - Gross profit increased by the increase in enterprise network services revenues, such as IP and Security, and by the decrease in purchasing costs, such as voice call for mobile services
  - 2Q21 gross profit ratio slightly decreased QoQ as the gradual decrease in mobile ARPU due to the migration to new consumer mobile plan “GigaPlans”

◆ Gross profit for SI

- 1H21: ¥5,869 million (+22.9%, +¥1,093 million YoY)
- 1H21 SI services gross profit ratio: 13.3% (1H20: 12.5%)
  - 2Q21 gross profit ratio decreased due to an increase in purchasing ratio

Ⅱ- 5. Network Services (1) Revenues

Unit: ¥ (JPY) million
[ ] , YoY = Year over year comparison
QoQ = Quarter over quarter comparison



- Total contracted bandwidth is calculated by multiplying number of contracts by contracted bandwidths respectively for IP service and broadband services which are both under Internet connectivity services for enterprise
- IP (Internet Protocol) Service is bandwidth guaranteed dedicated Internet connectivity services for enterprises. Contracts are based on bandwidth and enterprises use the service for their core and main Internet connectivity
- ARPU is an abbreviation for Average Revenue Per User

◆ **Internet Connectivity (Enterprise) Services**

➢ 1H21: ¥18,813 million, -4.3% YoY
- Of which, IP services: ¥6,622 million

<Revenue growth>

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
YoY	+9.4%	+10.8%	+17.2%	+17.5%	+13.7%	+12.8%
QoQ	+6.4%	+3.0%	+5.7%	+1.4%	+2.9%	+2.2%

- Of which, IIJ Mobile (enterprise): ¥10,284 million, -14.5% YoY
  - ✓ Of which, IoT-related enterprise mobile revenue ¥4,839 million

<Revenue growth>

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
YoY	+18.2%	+22.0%	+39.9%	+37.0%	+40.1%	+37.8%
QoQ	(0.1%)	+8.2%	+12.1%	+13.0%	+2.2%	+6.5%

  - ✓ Of which, MVNE revenue: ¥5,445 million, -36.3% YoY
    - Impacted by 1) the year-beginning decrease of purchasing unit charge and 2) a large MVNE client switching to another operator due to M&A

◆ **Internet Connectivity (Consumer) Services**

➢ 1H21: ¥12,196 million, -5.4% YoY
- Subscription growth is back to net increase due to well-reviewed GigaPlans
  - ✓ 2Q21-end consumer mobile subscriptions: 1,072 thousand (+19 thousand QoQ) . Of which, GigaPlans: 556 thousand (+94 thousand QoQ)
- Impacted by ARPU decrease along with the launch of GigaPlans

◆ **Outsourcing Services**

➢ 1H21: ¥19,546 million, +13.4% YoY
- Of which, security services: ¥10,429 million

<Revenue growth>

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
YoY	+11.9%	+13.1%	+12.0%	+13.5%	+15.0%	+18.2%
QoQ	+3.2%	+4.2%	+2.3%	+3.3%	+4.5%	+7.0%

◆ **WAN Services**

➢ 1H21: ¥12,881 million, +4.4% YoY

<Revenue growth>

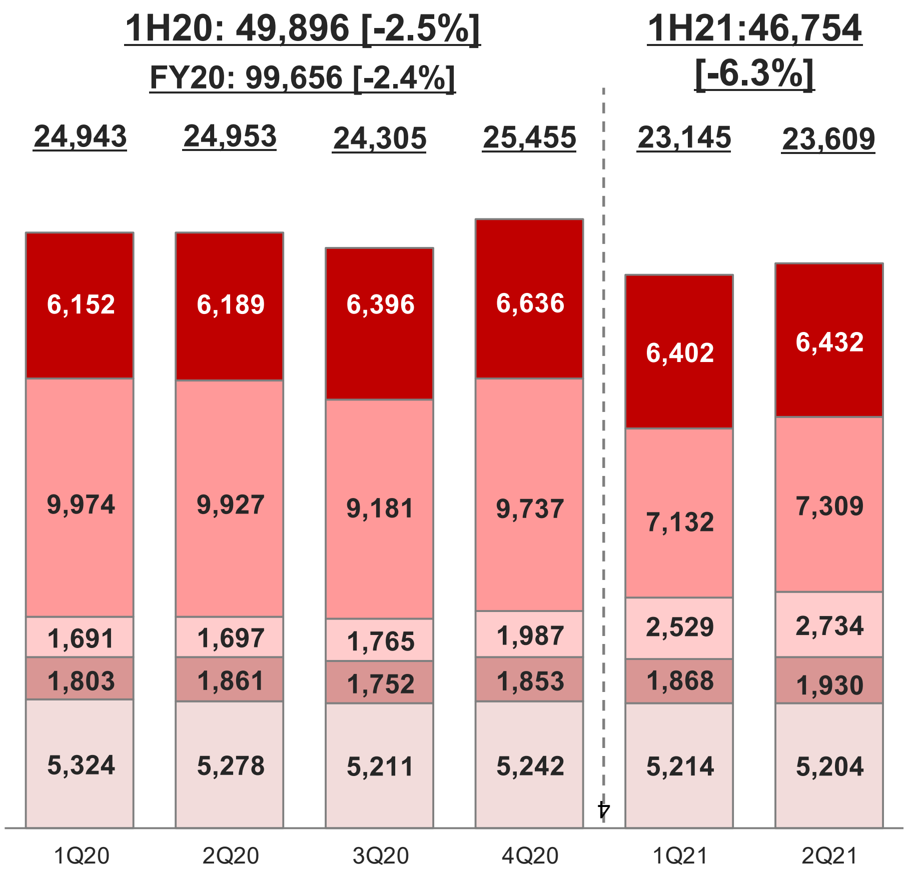
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
YoY	(16.8%)	(11.0%)	(2.8%)	+4.3%	+4.4%	+4.4%
QoQ	(0.0%)	(0.2%)	+1.8%	+2.8%	+0.1%	(0.2%)

- FY20 revenue decreased due to certain large clients migration to mobile

II - 5. Network Services (2) Cost of Revenues

Unit: ¥ (JPY) million
[ ] , YoY = Year over year comparison

- Circuit-related costs (Internet backbone, WAN lines etc.)
- Outsourcing-related costs (mobile infrastructure related costs such as interconnectivity charge and voice communication services, outsourcing personnel costs etc.)
- Others
- Personnel-related costs (NW services related engineers' personnel cost)
- Network operation-related costs (depreciation cost for network equipment, data center leasing costs etc.)



- 1H21 Circuit-related costs increased by 4.0%, +¥0.49 billion YoY, along with WAN revenue increase
  - Internet backbone circuit cost remains stable as we can leverage scale merit by having one of the largest Internet backbone networks
- 1H21 Outsourcing-related costs decreased by 27.4%, -¥5.46 billion YoY mainly due to cost decreasing factors of mobile data interconnectivity and voice purchasing
- 1H21 Others increased by +55.3%,+¥1.87 billion YoY as it included an increase in mobile device purchase
  - 1H21purchasing of mobile device: up ¥1.24 billion YoY
    1Q: up ¥0.52 billion YoY, 2Q: up ¥0.72 billion YoY

Regarding mobile data interconnectivity cost recognition:

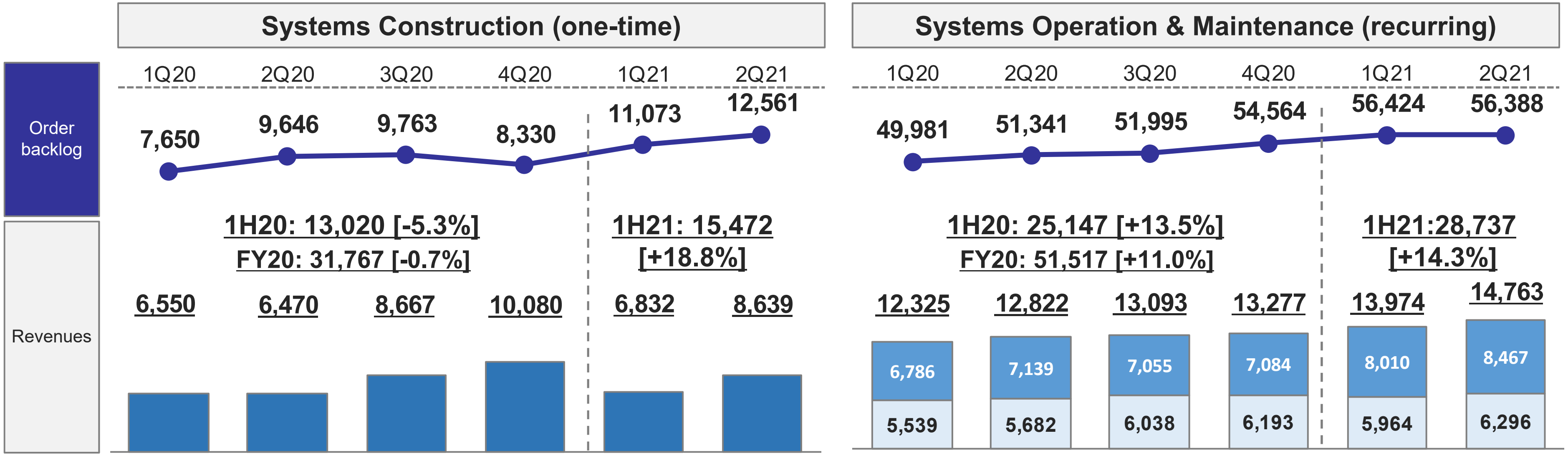
(Mobile Network Operator's mobile infrastructure cost)

- As for our FY21 usage charge, from 1Q21, we are applying ¥28,385 per Mbps as a unit charge which was disclosed by Docomo based on the future cost method.
- As for our FY19 Docomo's usage charge, we used ¥42,702 per Mbps (decrease by 13.4% YoY) as a unit charge, which was fixed in Jan. 2021. Onetime cost reduction recorded due to the difference between the fixed unit charge and our estimate unit charge were as follows: 3Q20: ¥0.70 billion, 4Q20: ¥0.39 billion.
- As for our FY20 Docomo's usage charge, we used ¥41,436 per Mbps (decrease by 3.0% YoY) as a unit charge to recognize FY20 cost based on Docomo's future cost method. This unit charge will be fixed around Dec.21 and Jan. 22.
- Expected cost reduction, when FY20 unit charge is fixed, is taken into our FY21 financial target conservatively. Such potential cost reduction was not accounted for in our 1H21 financial results.

Unit: ¥ (JPY) million

Ⅱ- 6. Systems Integration (SI) (1) Revenues

Systems Construction revenues (including equipment sales)
Systems operation & maintenance revenues for on-premise system revenues
Cloud revenues such as private cloud which is recognized as systems operation & maintenance revenues



Order received	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Systems Construction	6,693	8,466	8,784	8,647	8,737	10,128
	1H20: 15,159 [+3.8%] FY20: 32,590 [+3.0%]				1H21: 18,865 [+24.4%]	
Systems Operation & Maintenance	13,949	14,182	13,747	15,846	12,911	14,727
	1H20: 28,131 [+29.4%] FY20: 57,724 [+12.1%]				1H21: 27,638 [-1.8%]	

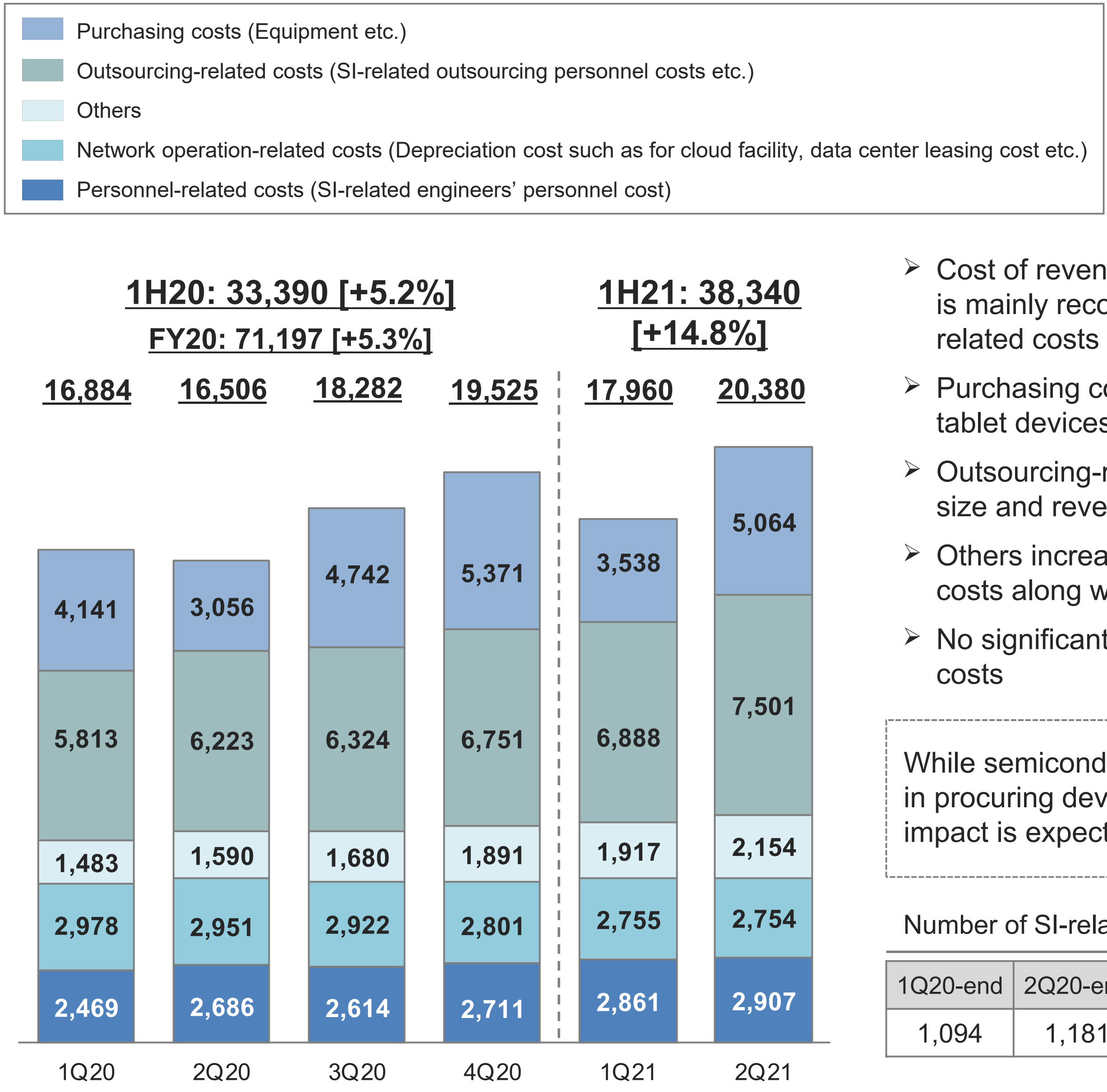
- Large-scale construction orders received in 2Q21
  - Accumulating order received across all industries: Implementation of SaaS such as Microsoft 365, Enhancement of internet gateway, Replacement of campus network for universities etc.
- Systems operation & maintenance revenues continued to grow mainly because we continued to accumulate system construction projects etc.

Overseas Business

- 1H21 results: Revenues: ¥8.33 bn, Operating profit: ¥0.43 bn
  FY21 target: Revenues approx. ¥18 bn, Operating Profit approx. ¥0.9 bn (No change from initial forecast)
- Financial impact from PTC consolidation
  - FY21 outlook: Revenues approx. ¥8.5 bn, Gross profit approx. ¥0.8 bn, Operating profit approx. ¥0.4 bn (No change from initial forecast)
  - 1H21 results: Revenues ¥3.64 bn (breakdown: construction ¥2.59 bn, systems operation & maintenance ¥1.05 bn), Gross profit ¥0.32 bn (Gross profit ratio: 8.8%), Operating Profit ¥0.12 bn

Ⅱ- 6. Systems Integration (SI) (2) Cost of Revenues

Unit: ¥ (JPY) million
[ ] , YoY = Year over year comparison



- Cost of revenues related to PTC (1H21: JPY3.32 billion) is mainly recognized in purchasing costs, outsourcing-related costs and personnel related costs
- Purchasing costs increased mainly due to procurement of tablet devices for IoT projects
- Outsourcing-related costs are connected with projects size and revenue volume to some extent
- Others increased mainly due to an increase in license costs along with expansion of multi-cloud demands
- No significant increase for network operation-related costs

While semiconductor shortage imposes some difficulties in procuring devices and others, as of now, no significant impact is expected for FY21 financial outlook

Number of SI-related outsourcing personnel (unit: personnel)

1Q20-end	2Q20-end	3Q20-end	4Q20-end	1Q21-end	2Q21-end
1,094	1,181	1,236	1,270	1,244	1,300

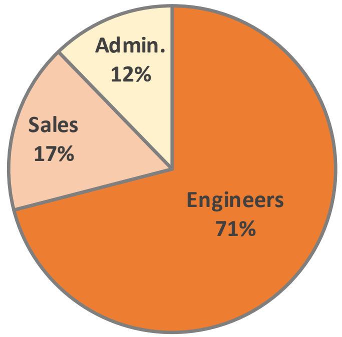
Ⅱ- 7. Number of Employees

YoY = Year over year comparison

- June-end 2021 employees increased by 274 YoY mainly due to the followings: +190 of new graduates in Apr. 2021, +62 through PTC consolidation

- 180 new graduates are planned to join in Apr. 2022
- FY21 net increase of employees is planned to be approximately 290 (No change from initial forecast)

Employee Distribution



IIJ's Turnover Rate (Full-time employee)

FY18	FY19	FY20
7.2%	4.6%	3.6%

- Turnover rate is calculated by dividing leavers for that fiscal year by the number of full-time employees at the beginning of that fiscal year
- IIJ's turnover rate is lower than its Industry average turnover rate for telecommunication which is about 10%. The industry average turnover rate is announced by the Ministry of Health, Labor and Welfare every year

Personnel-related costs & expenses

Unit: ¥ (JPY) million
( ) = % of revenue

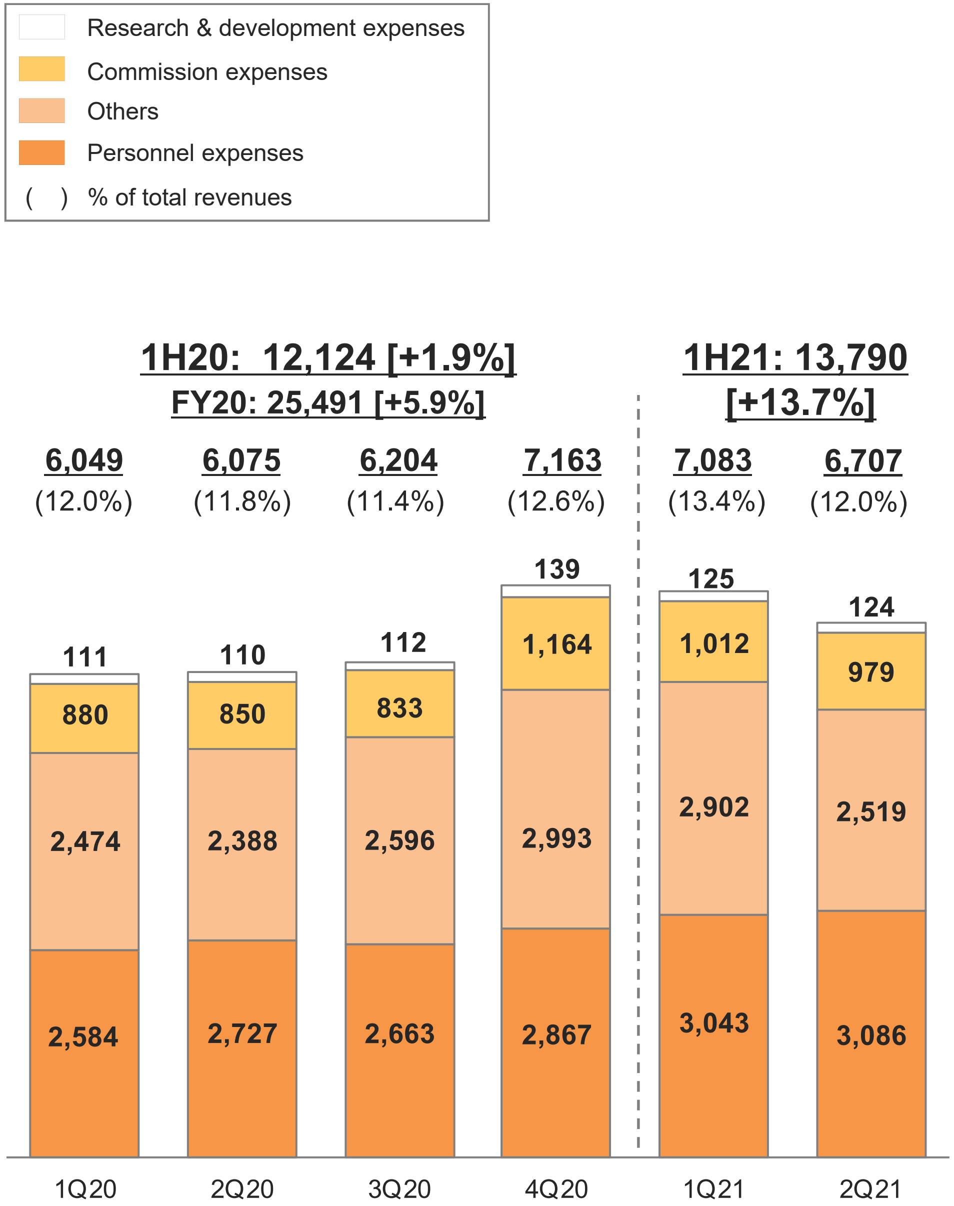
1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
6,835 (13.6%)	7,281 (14.2%)	7,032 (12.9%)	7,405 (13.0%)	7,756 (14.6%)	7,892 (14.1%)
1H20: 14,115 (13.9%) +8.8%YoY FY20: 28,553 (13.4%) +8.4%YoY				1H21:15,648 (14.3%) +10.9%YoY	

- FY20 personnel-related costs and expenses increased slightly stronger compared with the ordinary YoY increase rate due to the additional bonus along with profit results etc.

- 1H21 personnel-related costs and expenses
  - Through PTC consolidation, ¥0.26 billion is added (1Q: ¥0.13 billion, 2Q: ¥0.14 billion)

Ⅱ - 8. SG&A etc.

Unit: ¥ (JPY) million
[ ] , YoY =Year over year comparison

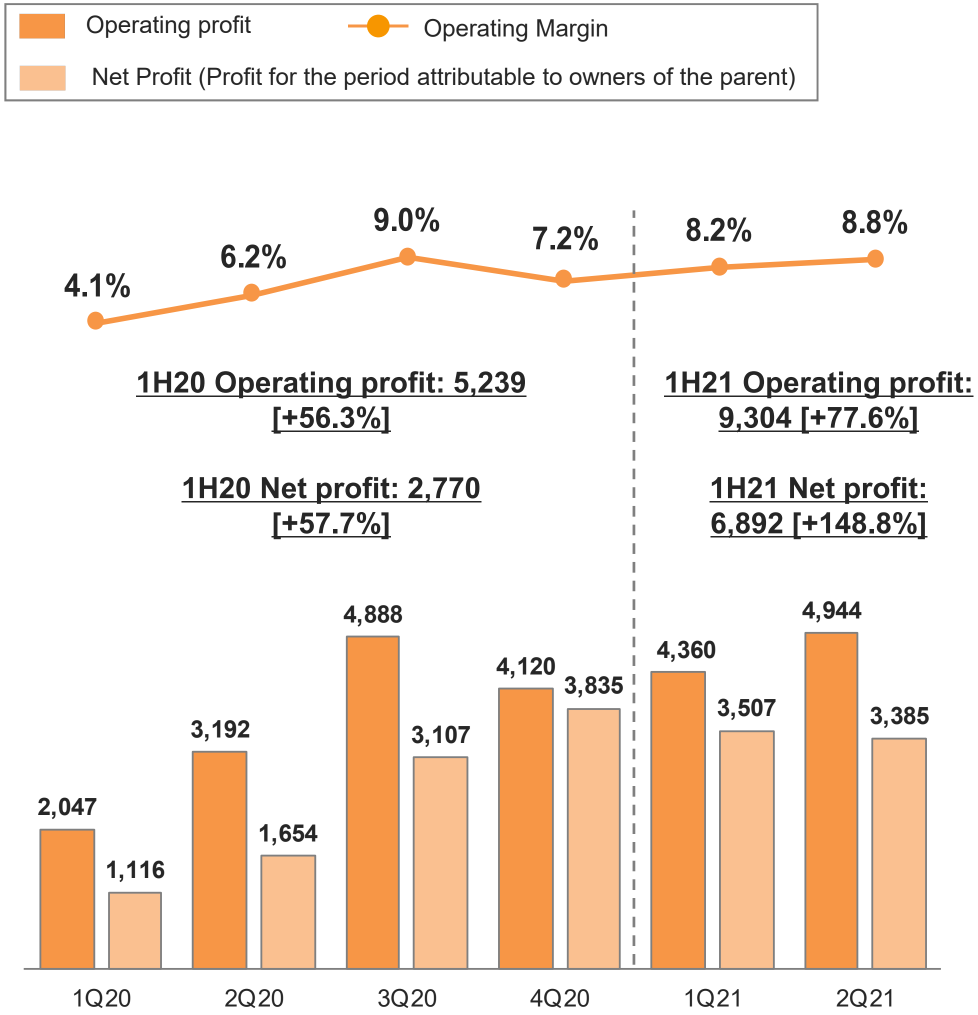


- Research & development expenses mainly consist of personnel expenses of IIJ Innovation Institute Inc., consolidated subsidiary
- Commission expenses are mainly consumer sales commissions and recruitment expenses
- 1H21 Others slightly increased mainly due to advertisements for consumer business

• SG&A etc. in this slide shows the sum of SG&A which includes R&D expenses (not including other income/expenses)

Ⅱ - 9. Profit

Unit: ¥ (JPY) million
[ ] , YoY =Year over year comparison



1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	
(74)	(286)	186	368	1,208	292	Finance income (expense), net
(279)	(135)	(313)	319	(217)	(155)	Share of profit (loss) of investments accounted for using equity method
(572)	(1,084)	(1,625)	(952)	(1,807)	(1,667)	Income tax expense
(6)	(34)	(29)	(21)	(36)	(30)	Less: Profit for the period attributable to non-controlling interests

◆ **Operating profit**

- 1H21: ¥9,304 million, +77.6% YoY

◆ **Profit before tax**

- 1H21: ¥10,432 million, +133.6% YoY
  - Interest expense: -¥272 million
  - Foreign exchange gain : +¥3 million
  - Valuation gain on funds*: +¥1,692 million (1Q +¥1,296 million, 2Q +¥396 million)
  - Dividend income: +¥54 million
  - Interest income: +¥23 million
  - Shares of loss of investments accounted for using equity method: -¥373 million
    - ✓ Equity in net loss of DeCurret:

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
306	273	207	193	296	256

- IIJ ownership: 4Q19 30.0%, from 1Q20 41.6%, from 1Q21 38.2% is used to recognize gain and loss
- Other than above, in 4Q20, gain on changes in equity of ¥349 million arisen from the issuance of common stock is recognized

*Under IFRS, equity securities are measured at fair value through OCI (Other Comprehensive Income) while funds are measured through profit or loss.

◆ **Net profit**

- 1H21: ¥6,892 million, +148.8% YoY
  - Income tax expense: -¥3,474 million (1H20: -¥1,656 million)

Ⅱ- 10. Consolidated Statements of Financial Position (Summary)

- Ratio of total equity attributable to owners of the parent: 40.7% as of March 31, 2021, 43.6% as of September 30, 2021

Unit: ¥ (JPY) million

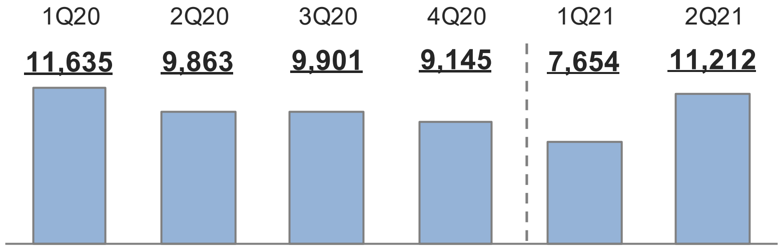
	Mar. 31, 2021	Sep. 30, 2021	Changes
Cash and cash equivalents	42,467	39,795	(2,672)
Trade receivables	34,799	30,821	(3,978)
Inventories	2,171	2,091	(80)
Prepaid expenses (current and non-current)	20,136	23,847	+3,712
Tangible assets	17,084	17,829	+745
Right-of-use assets	50,708	47,734	(2,974)
Goodwill and intangible assets	23,037	25,971	+2,934
Investments accounted for using the equity method	9,027	8,578	(449)
Other investments	12,912	17,731	+4,819
Others	8,436	8,332	(104)
Total assets:	**220,777**	**222,729**	**+1,952**
Trade and other payables	19,244	16,742	(2,502)
Borrowings (current and non-current)	25,560	22,955	(2,605)
Contract liabilities and Deferred income (current and non-current)	14,832	17,134	+2,302
Income taxes payable	3,012	3,149	+137
Retirement benefit liabilities	4,169	4,386	+217
Other financial liabilities (current and non-current)	53,527	50,176	(3,352)
Others	9,462	9,941	+479
Total liabilities:	**129,806**	**124,482**	**(5,324)**
Share capital	25,531	25,562	+31
Share premium	36,389	36,420	+31
Retained earnings	25,047	30,180	+5,133
Other components of equity	4,865	6,904	+2,039
Treasury shares	(1,875)	(1,851)	+24
Total equity attributable to owners of the parent:	**89,956**	**97,215**	**+7,258**

Ⅱ- 11. Consolidated Cash Flows

Unit: ¥ (JPY) million
YoY = Year over year comparison

Operating Activities

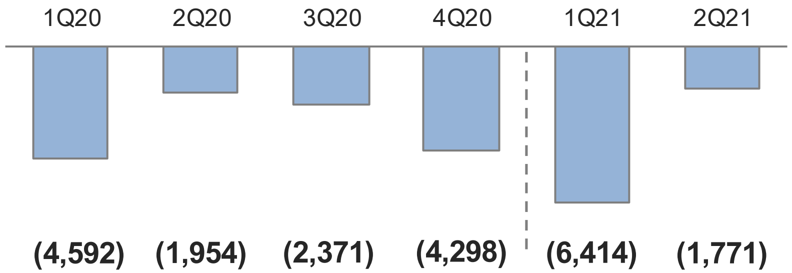
1H20: 21,498
FY20: 40,544
1H21: 18,865



	Major Breakdown	YoY Change
Profit before tax	10,432	+5,966
Depreciation and amortization	13,266	(889)
Finance income	(1,742)	(1,635)
Changes in operating assets and liabilities	(399)	(4,420)
Income taxes paid	(3,352)	(1,307)

Investing Activities

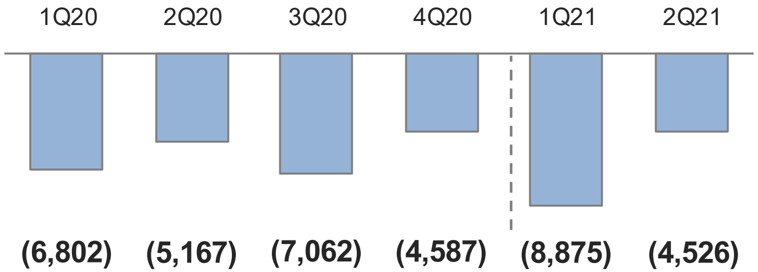
1H20: (6,547)
FY20: (13,216)
1H21: (8,185)



	Major Breakdown	YoY Change
Purchase of tangible assets	(4,164)	(1,411)
Purchase of investments accounted for using equity method	-	+2,754
Purchases of a subsidiary	(2,612)	(2,612)
Purchase of intangible assets such as software	(2,167)	+605
Proceeds from sales of tangible assets	1,011	(437)

Financing Activities

1H20: (11,969)
FY20: (23,618)
1H21: (13,402)

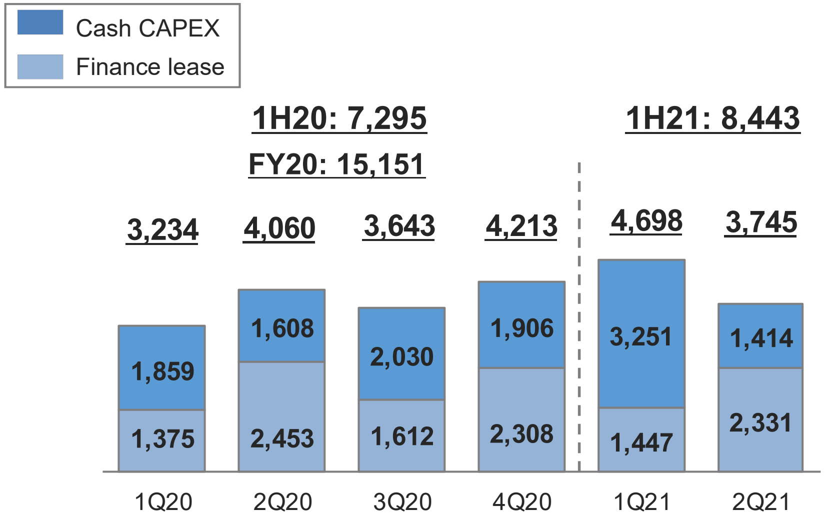


	Major Breakdown	YoY Change
Payment of operating/finance leases and other financial liabilities	(8,989)	+1,401
Repayment of long-term borrowings	(4,085)	(3,170)
Net increase in short-term borrowings	1,480	+1,480
Dividends paid	(1,759)	(1,150)

Ⅱ- 12. Other Financial Data

Unit: ¥ (JPY) million

CAPEX

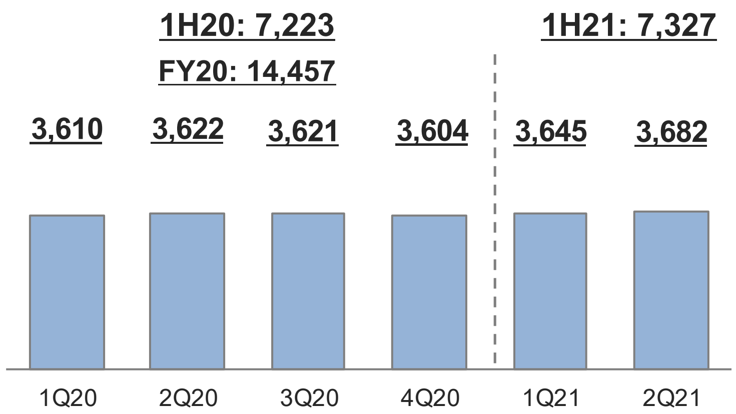


➢ Breakdown (Unit: JPY billion)

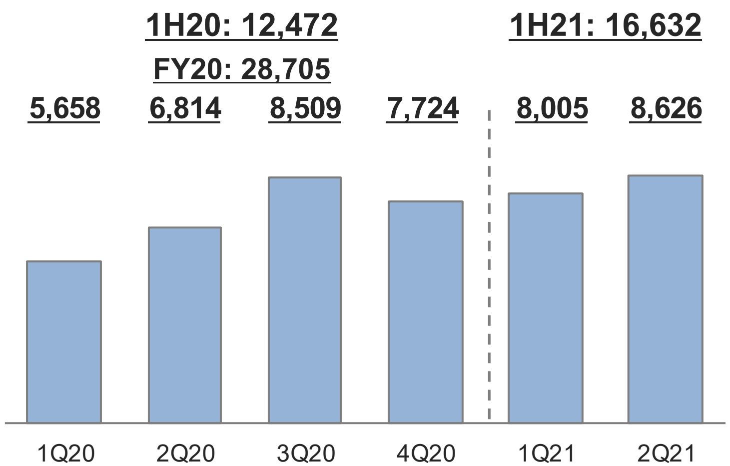
	1H20	1H21
NW Usual Capex	5.0	4.4
Cloud-related	1.2	1.5
Shiroi DC-related	0.8	0.6
Customer-related	0.2	1.8
ATM-related	0.1	0.0

➢ FY21 outlook: approx. ¥17.5 billion

CAPEX-related depreciation and amortization



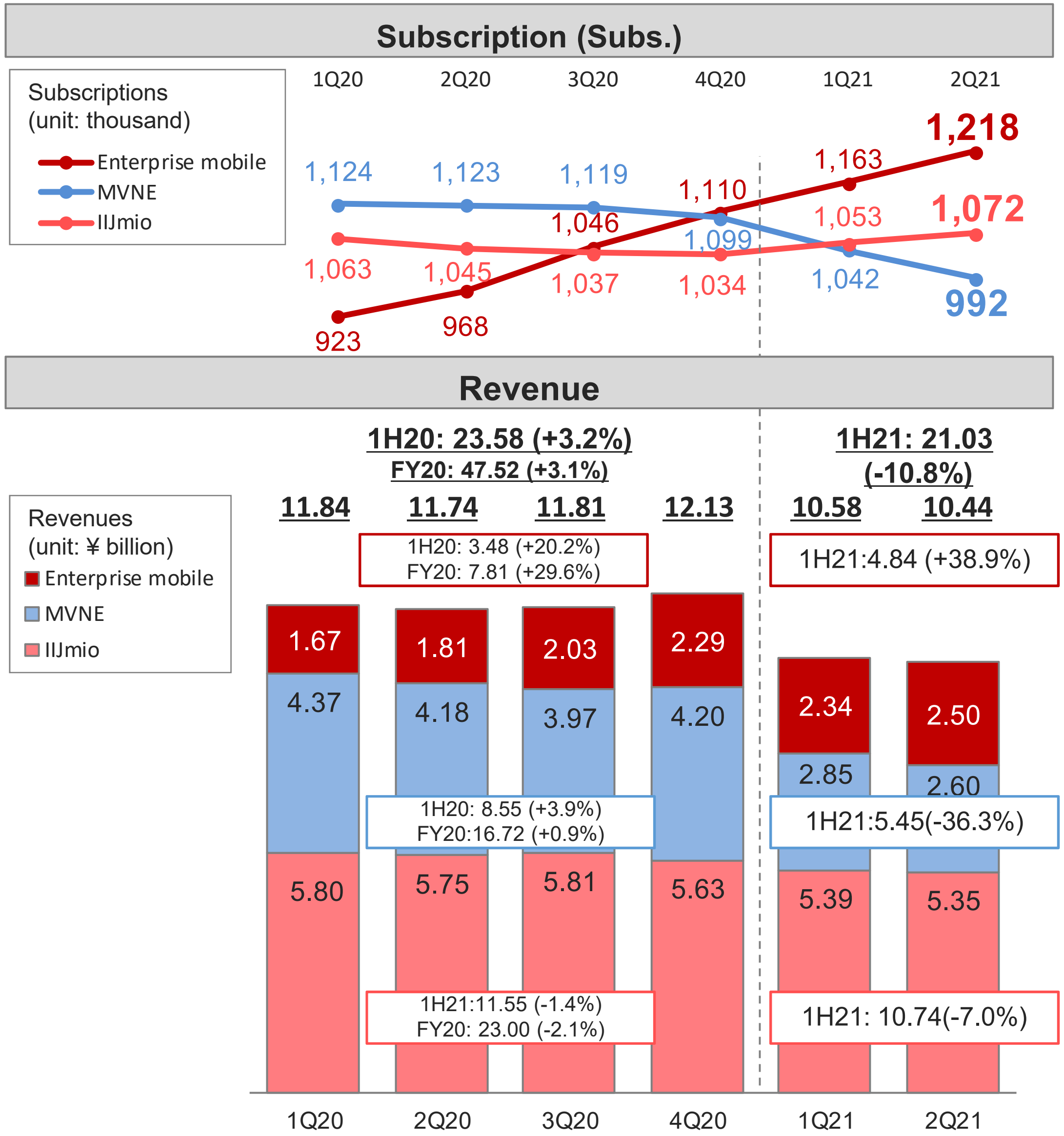
Adjusted EBITDA



- Total amount of capital expenditure is the amounts of acquisition of tangible and intangible assets by cash and entering into finance leases for the fiscal year, excluding duplication due to sale and leaseback transactions and acquisition of assets that do not have the nature of investment, such as purchase of small-amount equipment.
- CAPEX-related depreciation and amortization is calculated by excluding depreciation and amortization of assets that do not have the nature of capital investment, such as right-of-use assets related to operating leases, small-amount equipment and customer relationship.
- Adjusted EBITDA is calculated by adding operating profit and CAPEX-related depreciation and amortization.

Ⅲ- 1. Service & Business Developments: Mobile & IoT

Unit: ¥ (JPY) billion (bn)
%, YoY = Year over year comparison
QoQ = Quarter over quarter comparison



- MVNE: IIJ Mobile MVNO Platform Services (providing mobile services to other MVNOs)
- Enterprise mobile: Deducting MVNE from IIJ Mobile
- 2Q21 full-MVNO revenue: ¥0.89 bn (91.3% Enterprise mobile, 8.7% IIJmio)
- ARPU is an abbreviation for Average Revenue Per User

◆ **Enterprise mobile**

- 1H21 revenue: ¥4.84 bn (+¥1.36 bn YoY)
- 2Q21-end subs:1,218 thousand (+55 thousand QoQ)
  - ✓ In addition to various network camera connection projects, we are seeing diversification of IoT usages such as settlement, vehicle-related, GPS tracker, digital signage

◆ **MVNE**

- 1H21 revenue: ¥ 5.45 bn (-¥3.11 bn YoY)
  - ✓ Impacted by the decrease in purchasing unit charge and a large MVNE client switching to another operator due to M&A
- 2Q21-end subs: 992 thousand (-51 thousand QoQ)
  - ✓ QoQ decrease is mainly due to a large MVNE client switching to another operator due to M&A (Expect the migration to almost complete at 4Q21-end)
- 2Q21-end MVNE clients: 162 (+7 clients YoY)
  - ✓ Cable TV operators (88 operators), prominent retailer etc.

◆ **IIJmio (consumer mobile)**

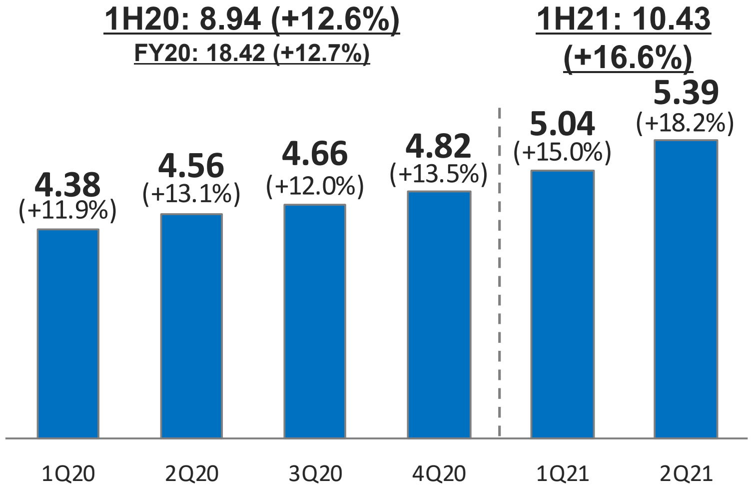
- 1H21 revenue: ¥10.74 bn (-¥0.81 bn YoY)
- 2Q21-end subs:1,072 thousand (+19 thousand QoQ)
  - ✓ New plan "GigaPlan" launched on Apr. 1, 2021 (Old plan's users migration from May 1, 2021)
    - 2Q21-end subs: 556 thousand (of which approx. 30% are new users)
    - 1Q21-end subs: 462 thousand (of which approx. 17% are new users)
  - ✓ IIJmio as No.1 customer satisfaction (J.D.Power Japan "Survey on customer satisfaction for mobile services 2021, MVNO category
  - ✓ Charge for voice call, pay as you go basis, was revised in Sep. 2021, Half of the previous charge

Ⅲ- 2. Service & Business Developments: Security & Cloud

% = Year over year comparison

Security Services (recurring) revenue

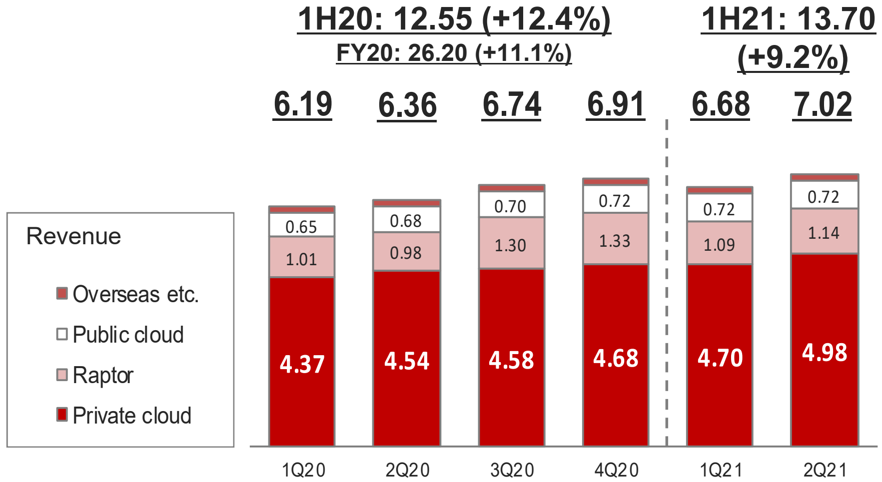
Unit: ¥ (JPY) billion



- Security service revenue (recurring) is 100% recognized in Outsourcing services
- “Security services” is a general term for individual security service such as mail security, firewall, Web filtering, DDoS protection, SOC service, and Endpoint (EDR)

Cloud Services (recurring) revenue

Unit: ¥ (JPY) billion



- 2Q21 revenue recognition
  89.7% Systems operation and maintenance (mainly private cloud which includes multi-cloud)
  10.3% Outsourcing service (mainly public cloud)

- ➢ Demands to enhance network seemed more urgent than security enhancement during FY20
- ➢ Cloud based comprehensive mail security services “IIJ Secure MX” which was launched in Sep.2006 continued to grow. Have been used by more than 1,400 enterprises
- ➢ Network security revenue which includes DDoS protection services continued go grow
- ➢ Enhancement of service functionality
  - Expanded Web filtering functionality for Cloud based Web access security service “IIJ Secure Web Gateway” in Oct. 2021
- ➢ Total security business volume (Service + SI)
  - 1H21: ¥11.91 bn (+15.5%)

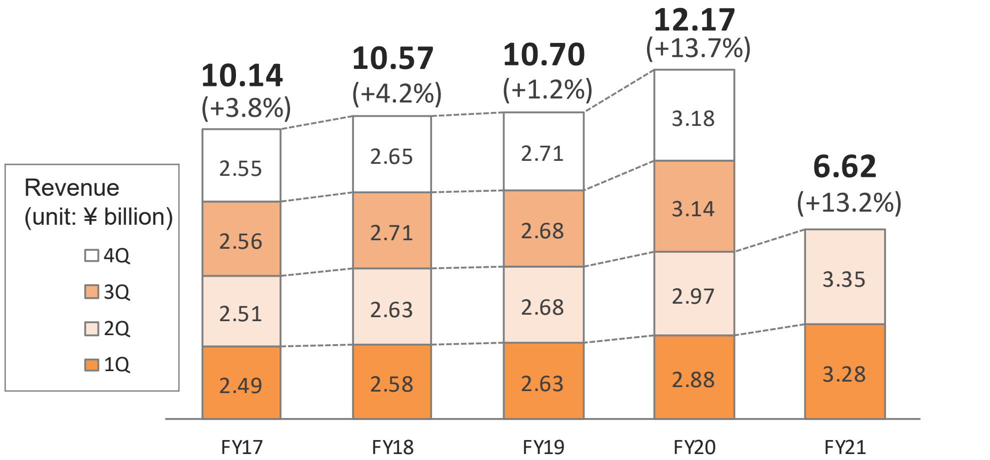
- ➢ Private cloud grew as demands for multi-cloud continued
- ➢ Raptor revenue fluctuates depending on trading volume of FX
- ➢ “IIJ GIO Infrastructure P2 Gen.2” was launched in Oct. 2021 to promote full-scale cloud shift of enterprise systems
  - Full-scale cloud adoption by Japanese blue-chip enterprises is taking time:
    - ✓ Only 20% of the surveyed clients had shifted more than 50% of their servers (”Nationwide report on IT department 2021”)
- BCR approved for EU’s personal data protection policies known as GDPR in Aug. 2021
  - BCR (Binding Corporate Rules) which is rules defined by EU’s GDPR (General Data Protection Rules) prepared by IIJ Group was approved by EU’s Data Protection Authority

- Raptor: SaaS type FX (Foreign Exchange) trading platform for online brokers
- “Nationwide report on IT department 2021” published by IIJ in July 2021 (n=737) https://www.iij.ad.jp/svcsol/survey/all-it/2021/ Available only in Japanese

Ⅲ- 3. Service & Business Developments: IP Service

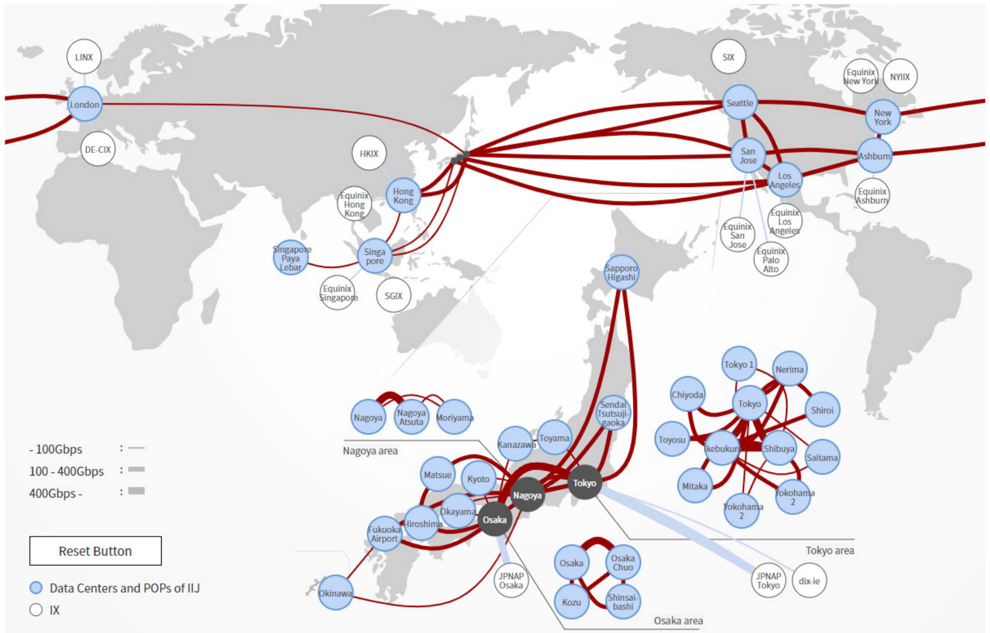
% = Year over year comparison

IP Service (recurring) revenue



- IP (Internet Protocol) service is 100% recognized in Internet connectivity services for enterprise
- ISP is an abbreviation for Internet Service Provider

IIJ's Internet backbone ~ global coverage ~



- **IP Service is bandwidth guaranteed and dedicated Internet connectivity service**
  - Charge based on contracted bandwidth
  - Enterprises use the service for their core and main Internet connectivity
- **Demands have been increasing along with the advancement of IT usages in Japan as seen in increases in virtual meetings, work from home, SaaS usages etc.**
  - New trend of hybrid work style, expansion of SaaS usages, full-scale adoption of Cloud services, increase in CDN traffic and more
- **IIJ's competitive advantages**
  - Japan's first full-scale ISP who has great relationship with Japanese blue-chips companies
    - ✓ Clients are mainly blue-chips companies including BtoBtoC companies, such as consumer ISP, and central government agencies
    - ✓ New entry to the market is difficult as it has already been matured
  - Enjoying economy of scale by operating one of the largest Internet backbone networks in Japan
    - ✓ Main costs are for those needed to operate and maintain the entire Internet backbone network such as Internet backbone circuit leasing cost, deprecation for network equipment, data center related and personnel costs. These cost are not directly linked to revenue
      - As an independent and large scale ISP, IIJ has a strong bargaining power when purchasing circuit lines
      - Network equipment performance continues to improve relative to its cost. CAPEX and its related depreciation are in relatively stable trend
    - ✓ Revenue (monthly recurring) is increasing along increase in contracted bandwidth of the current clients
      - Minimum contract period is 1 year. Low churn rate with automatically renewal
  - Network is fully redundant configuration: carriers' circuit lines, routes (main and backup) and network equipment (hot and stand by)

Ⅳ. Upward Revision of Financial Targets (Announced on Nov. 5, 2021)

Unit: ¥ (JPY) billion (bn)
YoY = Year over year comparison

1. Upward revision of FY21 financial targets

	FY21 New Targets (Announced in Nov. 2021) *% of Revenues*	YoY		FY21 Old Targets (Announced in May 2021) *% of Revenues*	YoY	
Revenues	**228.5**	**+7.3%**	**+15.50**	**226.0**	**+6.1%**	**+13.00**
Cost of Sales	*78.2%* **178.7**	**+3.5%**	**+5.98**	*80.0%* **180.7**	**+4.6%**	**+7.98**
Gross Profit	*21.8%* **49.8**	**+23.6%**	**+9.52**	*20.0%* **45.3**	**+12.5%**	**+5.02**
SG&A etc.	*12.2%* **27.8**	**+6.8%**	**+1.77**	*12.3%* **27.8**	**+6.8%**	**+1.77**
Operating Profit	*9.6%* **22.0**	**+54.4%**	**+7.75**	*7.7%* **17.5**	**+22.8%**	**+3.25**
Profit before tax	*9.4%* **21.5**	**+53.2%**	**+7.47**	*7.7%* **17.3**	**+23.3%**	**+3.27**
Net Profit	*6.0%* **13.7**	**+41.1%**	**+3.99**	*5.2%* **11.7**	**+20.5%**	**+1.99**

- SG&A etc. shows the sum of SG&A, which includes R&D expenses, and other income/expenses.
- Net profit is “Profit for the year attributable to owners of the parent.”

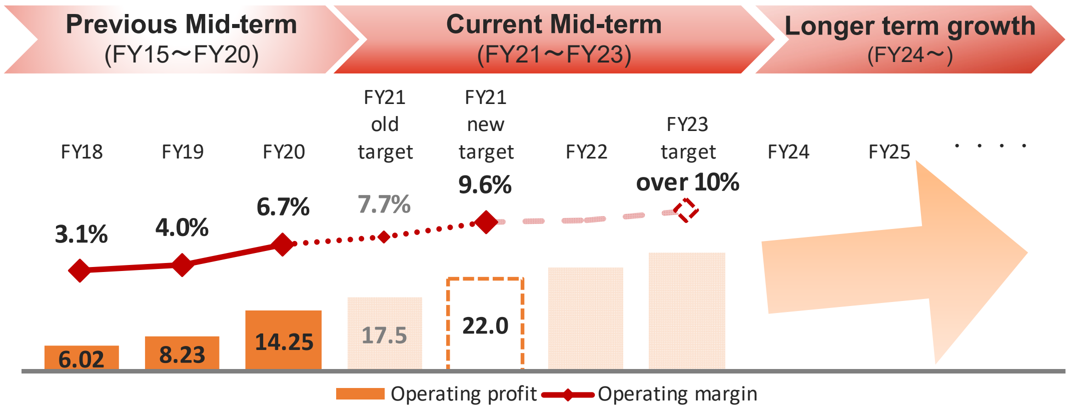
Revenues	• IP, Security and WAN services to exceed the initial outlook continuously in the second half • Decrease in mobile service revenue to be smaller than the initial outlook which was made conservatively. We now expect it to decrease by approximately ¥7.0 billion YoY • SI revenues outlook is almost in line with the initial outlook
Operating Profit	• Revision for FY21 target is led by NW service gross profit • SI gross profit outlook is almost in line with the initial outlook • SG&A etc. is almost in line with the initial outlook
Profit before tax	• 1H21 increase was due to temporary gains related to valuation of funds • Expect ordinal volume of non-operating income/loss for full year

2. Update on FY23 operating margin target in our Mid-term plan

FY23 Operating Margin Target

Over 9% → **Over 10%**

Initial expectation (Announced in May 2021) → Current expectation (Announced this time)



Ⅴ. Upward Revision of Dividend Forecast (Announced on November 5, 2021)

◆ **Basic dividend policy:**

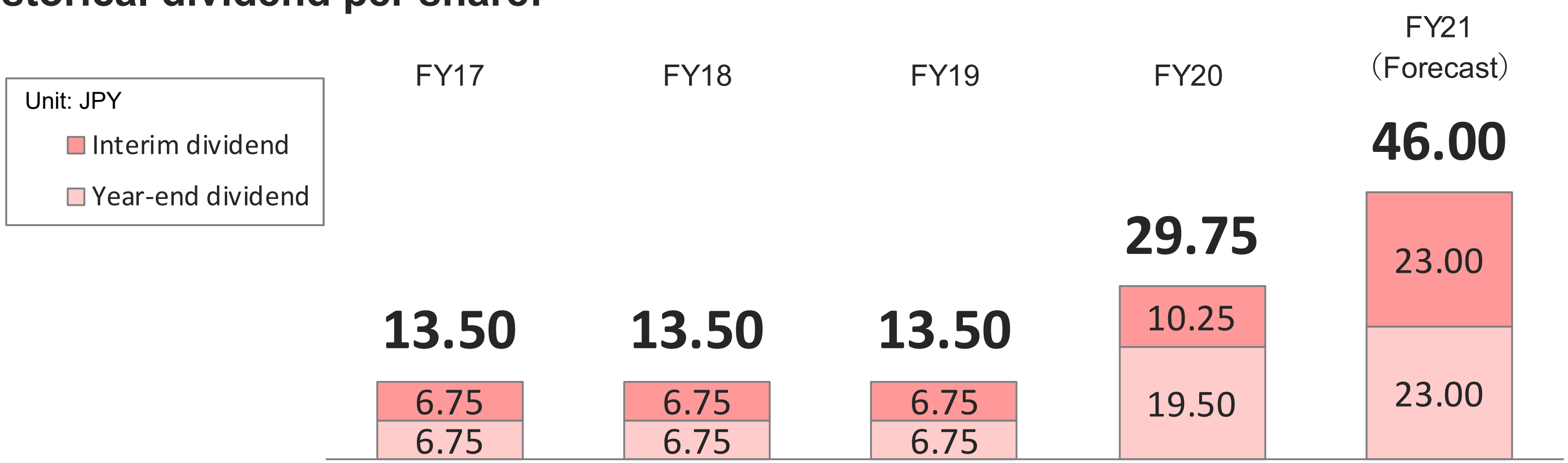
Basic dividend policy of IIJ is that IIJ pays dividends to its shareholders continuously and stably while considering the need to have retained earnings for the enhancement of financial position, med-to-long term business expansion and future business investment etc.

◆ **Along with profit growth, dividend increased, exceeding its initial forecast**

(both interim and year-end forecast)

Unit: JPY	FY20 results	FY21 initial forecast	FY21 current forecast	Year over year
Interim dividend	10.25	19.50	23.00	+12.75
Year-end dividend	19.50	19.50	23.00	+3.50
Annual dividend	29.75	39.00	46.00	+16.25

◆ **Historical dividend per share:**



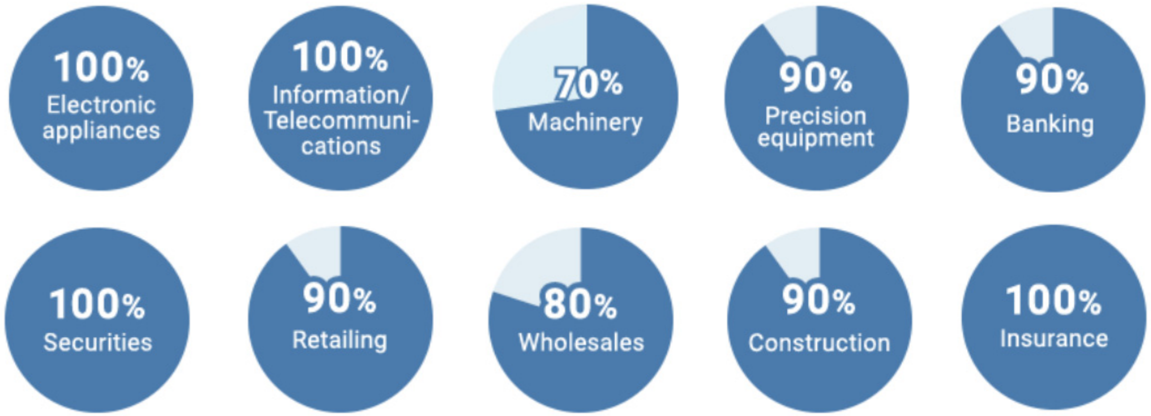
Payout ratio	27.5%	34.6%	30.4%	27.6%	30.3%

- We conducted 1:2 stock split on January 1, 2021. Dividends payed before the split are retroactively adjusted to reflect the spit.

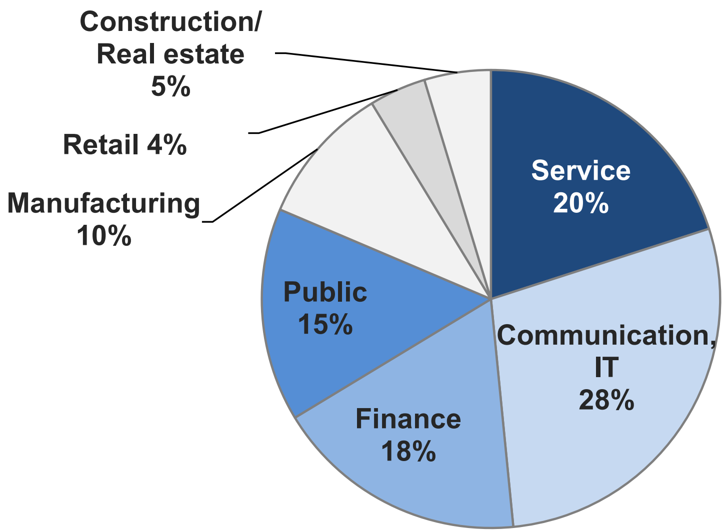
Appendix

Blue-chip client base of approx. 13,000 enterprises

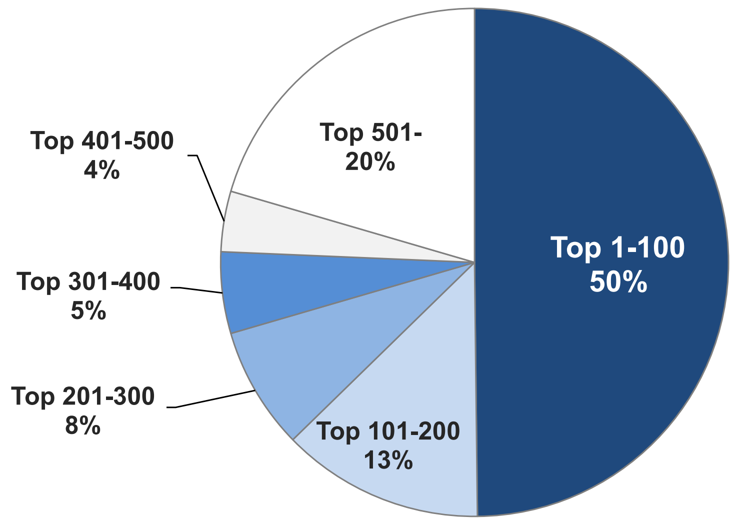
High penetration toward top 10 companies of each industry



Client distribution per industry



Client distribution per revenue volume



- Number of IIJ group's clients is as of March 31, 2021
- Top ten firms in each industry taken from annual revenues are selected by IIJ based on the Yahoo! Japan Finance website (finance/sales/whole market/daily)
- Client distribution is based on IIJ's FY2020 results and prepared by IIJ

Appendix Revenue Recognition Category

Unit: ¥ (JPY) billion

	Revenue category	1H21 revenue	About	Business Situation & Outlook	
Network services	Internet connectivity services for enterprise	18.81	IP 6.62 ➢ Core service providing from the foundation ➢ Highly reliable dedicated connectivity services for enterprise (multi-carrier, redundancy etc.) ➢ Charge based on contracted bandwidth. Enterprises use the service for their main Internet line	➢ Matured market (hard to entry) ➢ Blue-chip client base ➢ Expect the revenue to continuously increase along with traffic volume and contracted bandwidth increase	Monthly Recurring Revenue 84.5 %
			Mobile 10.28 IoT/M2M-related 4.84 MVNE (Providing services to other MVNOs) 5.45	➢ Expect profitability and mobile infrastructure utilization to improve as we gather various traffic such as IoT, enterprise, consumers ・Enterprise: Expect the demand to increase in the mid-to-long term ・Consumer: Aim to achieve net increase (subscription) with new consumer plan in competitive market	
	Internet connectivity services for consumers	12.20	Mobile 10.74 ➢ Inexpensive SIM services (mainly data), ➢ Direct sale (via IIJ web), Indirect sale (via sales partners such as retailers)		
	WAN	12.88	Closed network used to connect multiple sites	Stable market for long-term	
	Outsourcing	19.55	In-house developed Internet-related various service line-ups (Security, datacenter and remote access etc.) Security 10.43 Public Cloud 1.44	➢ Have been developing services based on Zero Trust concept ➢ Acquire enterprise demand by cross-selling services. Continuous service development is important ➢ Demands for security and remote access to increase continuously	
SI	Operation and Maintenance	28.74	➢ Operation and maintenance of constructed systems ➢ Promote cloud shift with our abundant, highly reliable, value-added private Cloud related service line-ups On-premise Systems 16.48 Private Cloud 12.26	➢ Expect great business opportunity in the middle-to-long term as internal IT systems migrating to cloud ➢ Systems to be converted to Cloud ➢ Revenue to increase continuously along with accumulation of construction projects	
	Construction (including Equipment sales)	15.47	System construction related to office IT, security, Cloud, IoT. Internet-related construction such as Online banking & brokerage, backbone network for university, and E-commerce site	➢ Through providing SI, offer greater value as IoT and cloud usage penetrate	One time revenue

・ IP is an abbreviation for Internet Protocol

・ SI is an abbreviation for System Integration

Appendix

In-house developed various security services

Security services for Internal Systems

Web access security
Web filtering, anti-virus, web isolation, log analysis access control on user basis etc.

Mail security
Spam mails, anti-virus, audit, archives, countermeasures against erroneous transmission, Microsoft 365 etc.

Internet

IIJ Backbone

Security services for open systems

DDoS Protection
Detect & prevent DDoS attacks, including those take place IIJ backbone

DNS operation & management
Registration, maintenance, and management of original domain, Prevent fake DNS responses, Protect of DNS reflective attack etc.

Security Operation Center (SOC)
Security consulting

Enterprise' network

Managed firewall
Per user policy (access, application), detect anomaly, monitor 24/365

DMZ

Internal network

Targeted attacks security
Detect malware including "Zero-Day threat", Sandbox, communication interruption for C&C server etc.

Managed IPS/IDS
Detect & interrupt attacks against network/OS/middleware, monitor 24/365

Managed WAF
Interrupt attacks against Web application such as SQL injection and XSS

Endpoint security
Anti-virus, prevention of taking out data, data encryption, management of IT assets, detect unauthorized PCs etc.

Public servers

Capex and Business Developments

	FY16	FY17	FY18	FY19	FY20
Revenues (¥ bn)	157.8	176.2	192.4	204.5	213.0
Operating margin (%)	3.3	3.8	3.1	4.0	6.7
CAPEX (¥ bn)	16.5	20.7	15.1	15.2	15.2
NW services	*12.6*	*9.4*	*9.4*	*9.6*	*8.8*
Cloud	*3.6*	*7.9*	*1.9*	*2.6*	*2.8*
Shiroi DC	*-*	*1.2*	*2.1*	*2.0*	*1.5*
SI, others	*0.3*	*2.3*	*1.7*	*1.0*	*2.0*
CAPEX-related depreciation and amortization (¥ bn)	10.9	12.1	13.9	14.4	14.5
Number of employees at FY-end	3,104	3,203	3,353	3,583	3,805

- Launched Omnibus (Sep. 15)
- Launched GIO P2 (Oct. 15)
- Added SWG Sandbox (Feb. 16)
- Enhanced SMX (Oct.16)
- Launched private connectivity with AWS (Sep. 16)
- DDoS service global (Jan.17)
- Opened SOC (Mar. 17)
- Launched UOM (Apr. 17)
- Launched full-MVNO (Mar. 18)
- Launched Secure Endpoint (Oct. 18)
- Enhanced Omnibus (Oct. 18)
- Launched Flex Mobility (Dec. 18)
- Opened Shiroi DC (May 19)
- Enhanced SWG (Dec. 20)
- Launched enterprise eSIM (Apr. 21)

- FY16: US-GAAP, from FY17: IFRS
- CAPEX-related depreciation and amortization is calculated by excluding depreciation and amortization of assets that do not have the nature of capital investment, such as right-of-use assets related to operating leases, small-amount equipment and customer relationship.

Appendix Mobile data interconnectivity cost (Mbps unit charge･monthly) YoY change

Fiscal Year		FY18	FY19	FY20	FY21	FY22	FY23
Method		Actual cost method		Future cost method			
Docomo	New	¥49,311 - 6.0%	¥42,702 (*1) - 13.4%	¥41,436 (*2) - 3.0%	¥28,385 - 31.5%	¥22,190 - 21.8%	¥18,014 - 18.8%
				Expected to be fixed in Jan. 2022	-14.5%	-20.5%	
	Old	¥49,311 - 6.0%	¥42,702 (*1) - 13.4%	¥41,436 (*2) - 3.0%	¥33,211 - 19.8%	¥27,924 - 15.9%	
			Decrease by 16.0%				
KDDI	New	¥52,949 - 13.3%	¥42,154 (*1) - 20.4%	¥32,842 (*2) - 22.1%	¥26,827 - 18.3%	¥21,983 - 18.1%	¥18,419 - 16.2%
					-3.5%	-13.4%	
	Old	¥52,949 - 13.3%	¥42,154 (*1) - 20.4%	¥32,842 (*2) - 22.1%	¥27,790 - 15.4%	¥25,394 - 8.6%	
			Decrease by 38.0%				

- The same calculation method is applied to actual cost method & future cost method: (Data communication cost + profit) /demand
- About actual cost method: Calculated based on MNOs' actual cost etc. and applied retrospectively. FY19 usage charge (*1), which is based on MNOs' FY19 results, was fixed in January 2021 and recognized in our FY20 financial results (Recognized as a difference between our estimate and result).
- About future cost method: Calculated based on MNOs' mobile unit charge prediction for next three years, which is based on MNO's future cost etc. It is applied from FY20. Mobile unit charge is fixed based on MNO's actual cost etc. and the difference between prediction and result is revised. For FY20, FY21, and FY22, mobile unit charge prospects by future cost method (described as "Old" above) were announced March 2020. For FY21, FY22, and FY23, mobile unit charge prospects by future cost method (described as "New" above) were announced April 2021.
- FY20 usage charge (*2), which is based on MNO's FY20 results, will be fixed sometime between December 2021 and January 2022 and recognized in our FY21 financial results (either in 3Q21 or 4Q21).
- Mobile interconnectivity charge, which is underlined above, is fixed based on the result
- The decrease percentage in mobile interconnectivity charge described above is compared with the previous year

Appendix

Comparison between the old and new plans of consumer mobile

	Old			New		
Basic Monthly Charge	Minimum Start Plan (3GB)	with Voice	¥1,600	2 GigaPlan	with Voice	¥780
		Data-only	¥900		Data-only	¥680
	Light Start Plan (6GB)	with Voice	¥2,220	4 GigaPlan	with Voice	¥980
		Data-only	¥1,520		Data-only	¥880
	Family Share Plan (12GB)	with Voice	¥3,260	8 GigaPlan	with Voice	¥1,380
		Data-only	¥2,560		Data-only	¥1,280
				15 GigaPlan	with Voice	¥1,680
					Data-only	¥1,580
				20 GigaPlan	with Voice	¥1,880
					Data-only	¥1,780
Pay as you go	Voice call charge as you go	¥22 per 30 seconds		Voice call charge as you go	¥11 per 30 seconds	

- The above table briefly indicates service prices for major functions to show the differences between the old and new plans.
- Basic monthly charge excludes taxes while pay as you go includes taxes.
- Voice call charge is only for domestic calls. New voice call charge as you go was revised on September 11, 2021

Internet Initiative Japan

The internet started in Japan in 1992, along with IIJ. Since that time, the IIJ Group has been building the infrastructure for a networked society, and with our technical expertise, we have continued to support its development. We have also continued to evolve our vision for the future and innovate to make it a reality. As an internet pioneer, IIJ has blazed the trail so that others could realize the full potential of a networked society, and that will never change. The middle "I" in "IIJ" stands for "initiative," and IIJ alway starts with the future.