

# Internet Initiative Japan Inc. Corporate Overview

## Mizuho Investment Conference Tokyo 2017

September 4, 2017  
TSE1:3774 NASDAQ:IJI

Ongoing Innovation

# Outline

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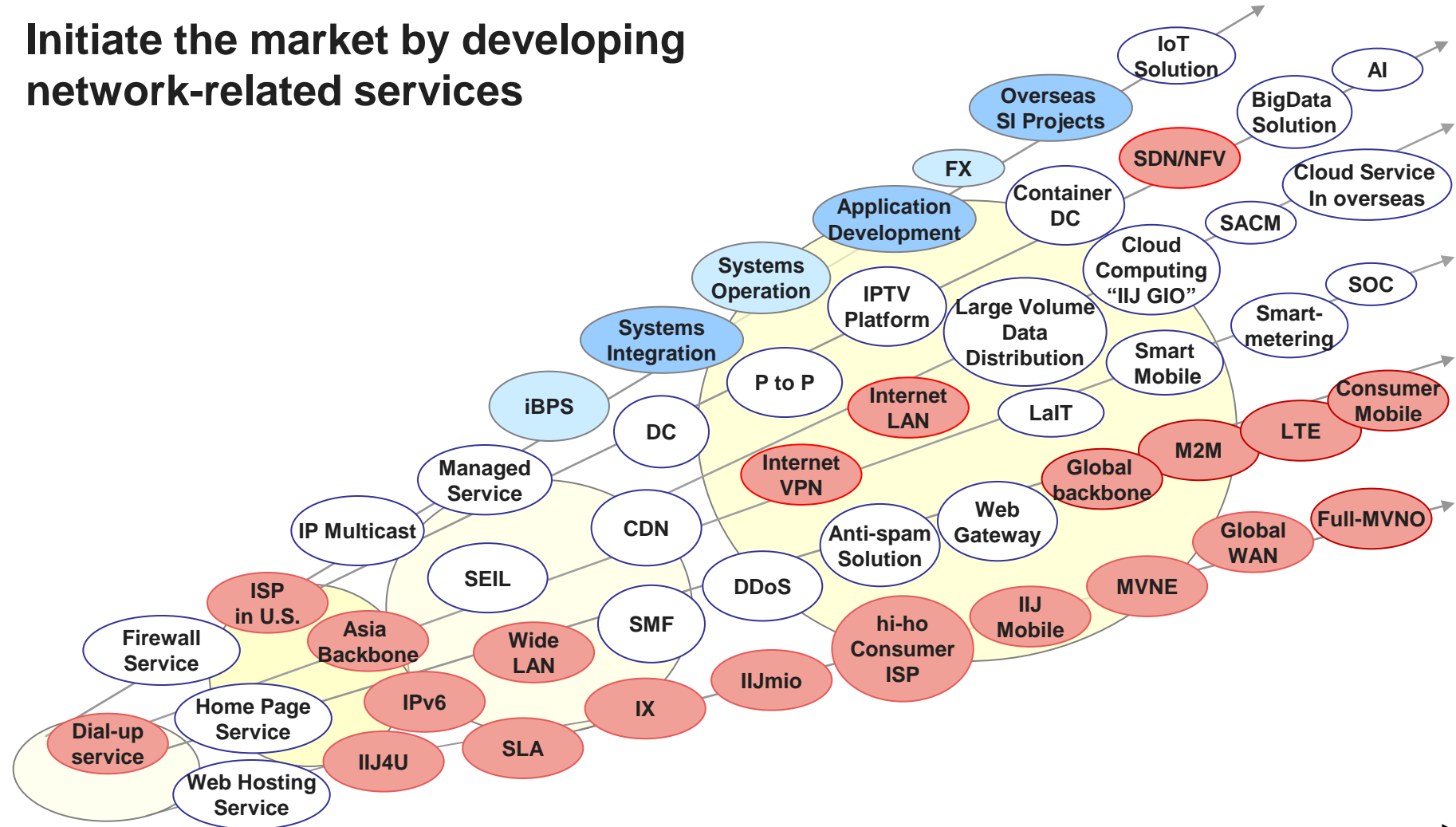
- ◆ **Strengths and competitive advantages**
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|                            |   |
|----------------------------|---|
| <b>Established</b>         | <b>December 1992</b>  |
| <b>Number of Employees</b> | <b>3,234</b> (approx. 70% engineers)<br><small>Consolidated<br/>as of June 30, 2017</small>   |
| <b>Listed Markets</b>      | <b>NASDAQ (IIJI), TSE1 (3774)</b>   |
| <b>Large Shareholders</b>  | <b>NTT group (26.0%), Dalton (6.3%), Koichi Suzuki (5.6%*)</b><br><small>*Jointly owned by Mr. Suzuki's wholly owned private company<br/>as of March 31, 2017</small> |

- ◆ **The first established full-scale ISP (Internet Service Provider) in Japan**
  - Introduced many prototype Internet-related network services
  - Highly skilled IP (Internet Protocol) engineers
  - Self-develop services and the related back office facilities
- ◆ **“IIJ” brand towards blue-chips**
  - Mainly large enterprises and governmental organizations
  - Differentiate by reliability and quality of network and systems operation
  - Long-term client relationship with no serious systems troubles
- ◆ **At the leading edge of IP R&D**
  - Differentiate by continuous service developments and business investments
  - Enhancing cloud, mobile, security, CDN (Contents Distribution Network) and solutions related to bigdata and IoT
  - Participate in world-wide research and organizations ...and many more

# Technology and Service Developments

Initiate the market by developing network-related services



Timeline of IIJ Group and its subsidiaries:

- 1992:** IIJ (Internet Initiative Japan)
- 1996:** IIJ America
- 1997:** internet msf
- 2006:** Net Chart Japan, i-revo
- 2007:** hi-ha, INNOVATION INSTITUTE, IIJ Global
- 2008:** Trust Networks
- 2010:** TRINITY (Loyalty Marketing Solutions)
- 2013:** IIJ Europe
- 2014:** 株式会社ネットワークアライアンス (NETWORK ALLIANCE)

IIJ Group

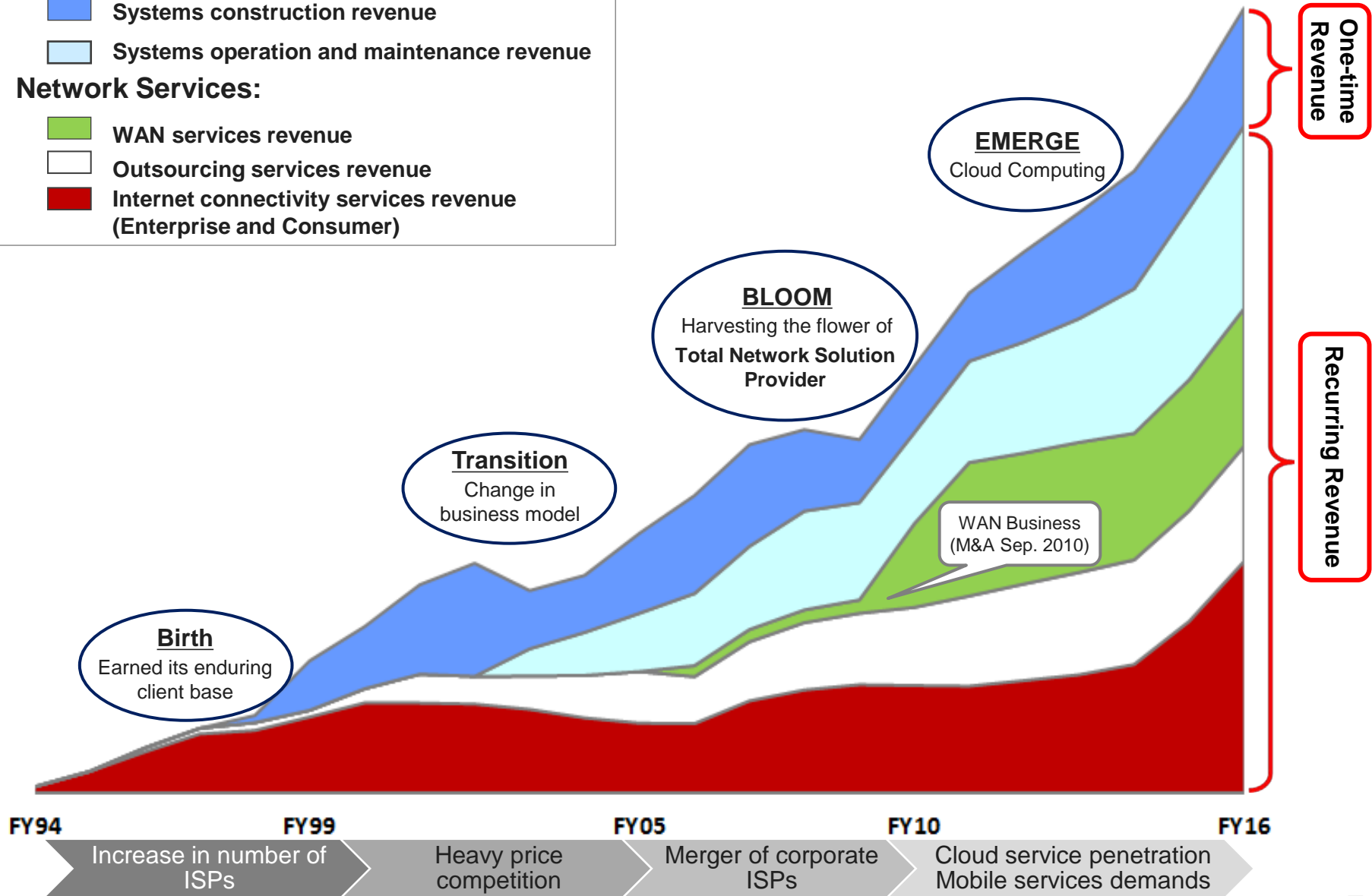
# ISP to Total Network Solution Provider

## Systems Integration:

- Systems construction revenue
- Systems operation and maintenance revenue

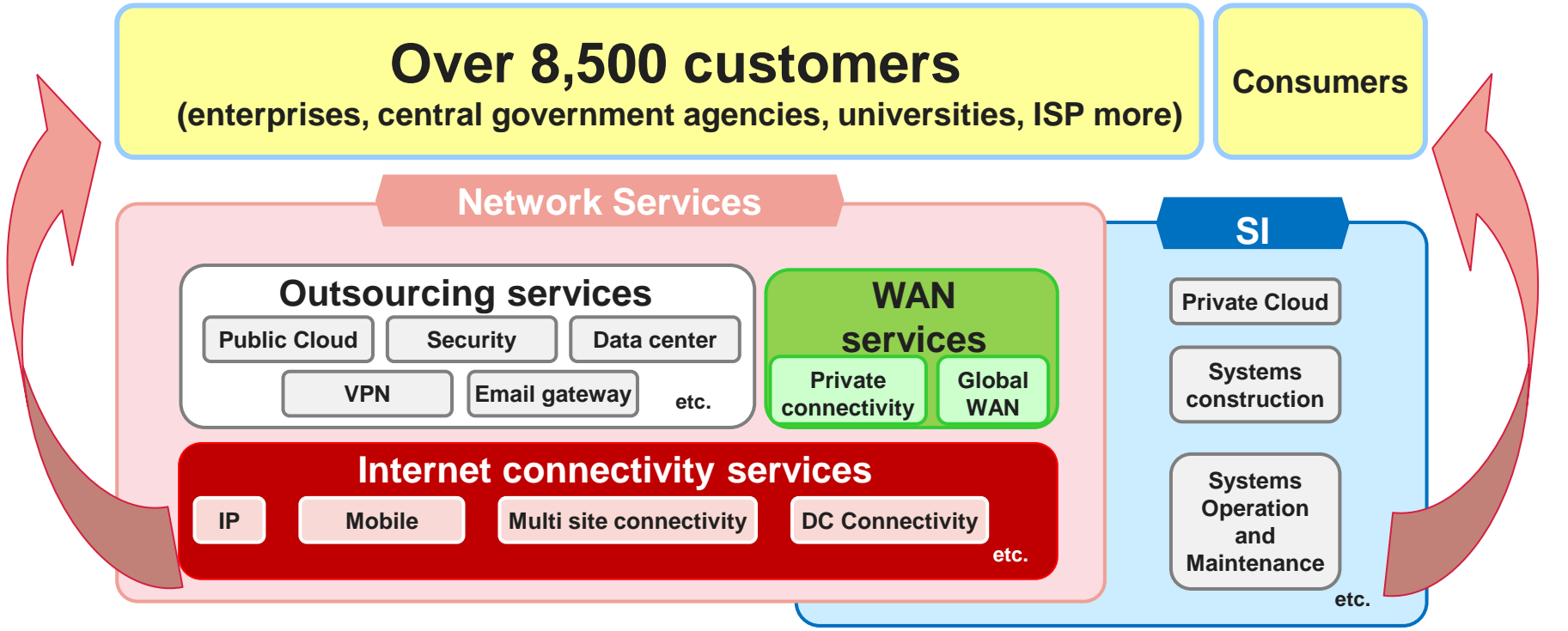
## Network Services:

- WAN services revenue
- Outsourcing services revenue
- Internet connectivity services revenue (Enterprise and Consumer)

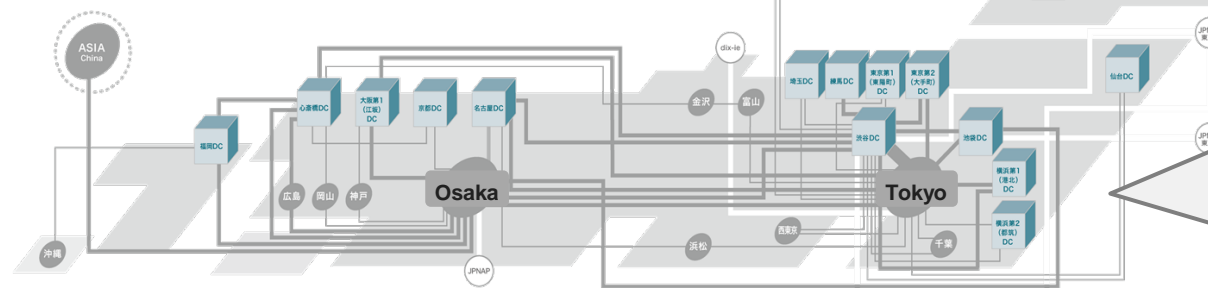


## Leveraging Internet-related technology

## Total network solution provider with services and SI



■ データセンター  
● NDC (ネットワークオペレーションセンター)



### Cost

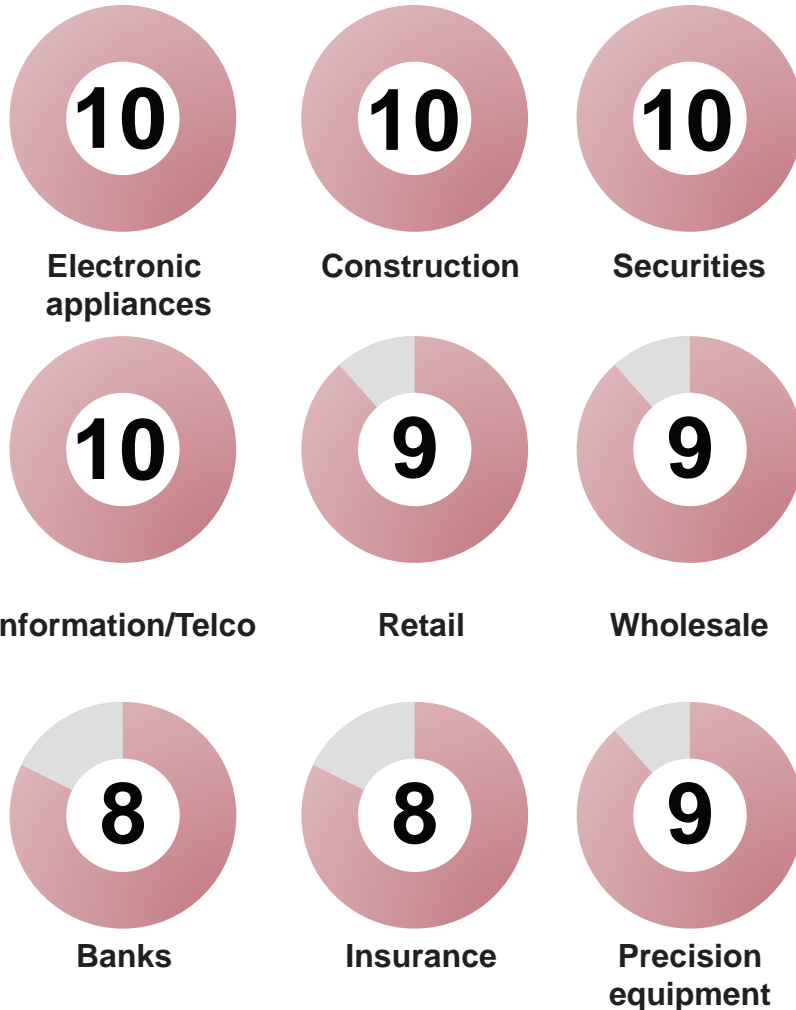
- Service development
- Network equipment depreciation
- Purchasing mobile bandwidth from MNOs
- Leasing data center space from data center owners (own 1 data center, container-type DC)
- Leasing fiber from carries etc.

# Excellent Customer Base with Many Blue-Chips

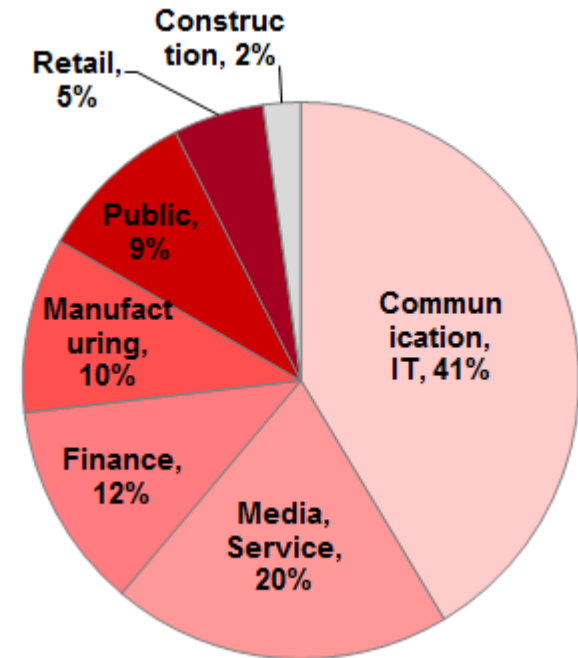
Competitive Advantages

## Cover Most of Top 10 Revenue Companies

The number of clients among the top 10 companies in each industry.



## Revenue Distribution by Industry



Source: IJ's FY2016 Financials

# Comprehensive Line-ups of IT services

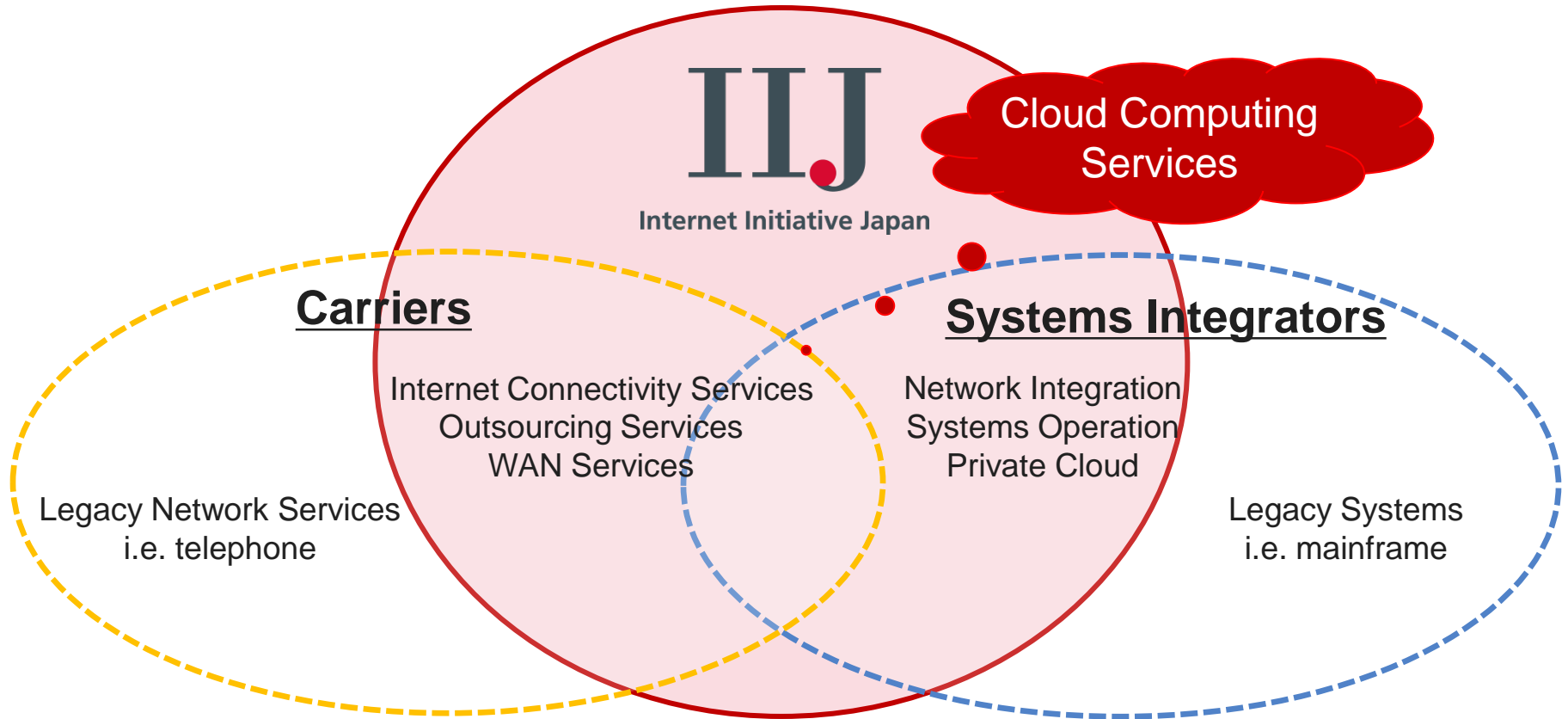
| Revenues        |                                    | Services   | Business status  |
|-----------------|------------------------------------|--|--|
| NW Services     | Internet Connectivity (Enterprise) | <ul style="list-style-type: none"> <li>• Primary connectivity for head offices</li> <li>• High-performance dedicated connectivity</li> <li>• Redundant connectivity for multi-site</li> </ul>                      | <ul style="list-style-type: none"> <li>• Dominate the matured market</li> <li>• Revenue gradually increase with greater contracted bandwidth/traffic</li> <li>• Anticipate to grow with further cloud service penetration and CDN</li> <li>• Continuous network expansion</li> </ul> |
|                 | Internet Connectivity (Consumer)   | <b>Mobile</b> <ul style="list-style-type: none"> <li>• Mobile solutions, M2M/IoT, MVNE for enterprises</li> <li>• Inexpensive SIM card services for consumers</li> </ul>   | <ul style="list-style-type: none"> <li>• Emerging market, consumer rapidly expanding</li> <li>• M2M/IoT for enterprises grow for mid-term</li> <li>• Business investment for full-MVNO</li> </ul>  |
|                 | WAN                                | <ul style="list-style-type: none"> <li>• Closed NW for multi-site connection</li> </ul>  | <ul style="list-style-type: none"> <li>• Stable market for long term</li> </ul>  |
|                 | Outsourcing                        | <ul style="list-style-type: none"> <li>• Security, data center, email outsource, NW/Server management service line-ups etc.</li> <li>• Over 60 in-house developed services</li> </ul>                              | <ul style="list-style-type: none"> <li>• Cross-sell and accumulate various outsourcing services</li> <li>• Growing demands for security</li> <li>• Continuous service development</li> </ul>   |
| SI              | Operation & Maintenance            | <b>Cloud</b> <ul style="list-style-type: none"> <li>• Full service line-ups for IaaS</li> <li>• SaaS/PaaS with partners</li> <li>• Hybrid/Multi cloud solutions</li> <li>• BigData, FX application etc.</li> </ul> | <ul style="list-style-type: none"> <li>• Enormous opportunities with cloud shift of large enterprises' systems</li> <li>• Core area of the mid-long term growth</li> <li>• Continuous service enhancement including GIO P2</li> </ul>  |
|                 | Construction                       | <ul style="list-style-type: none"> <li>• Internet-related SI, NW integration</li> <li>• Cloud-related, mobile-related SI</li> <li>• Operation &amp; maintenance after construction</li> </ul>                      | <ul style="list-style-type: none"> <li>• Value-added functions to promote cloud, mobile systems etc.</li> </ul>  |
| Equipment Sales |                                    |  |  |



# Target Blue-chip's IT Shift

Competitive  
Advantages

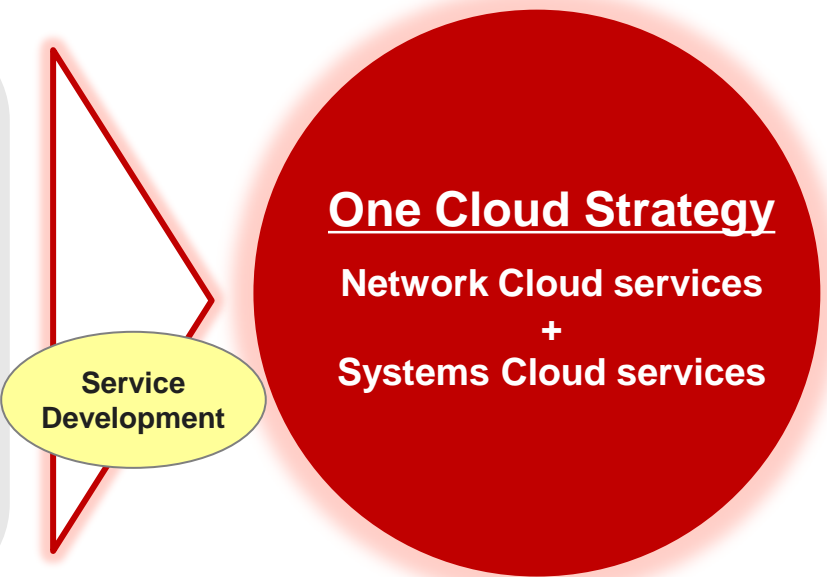
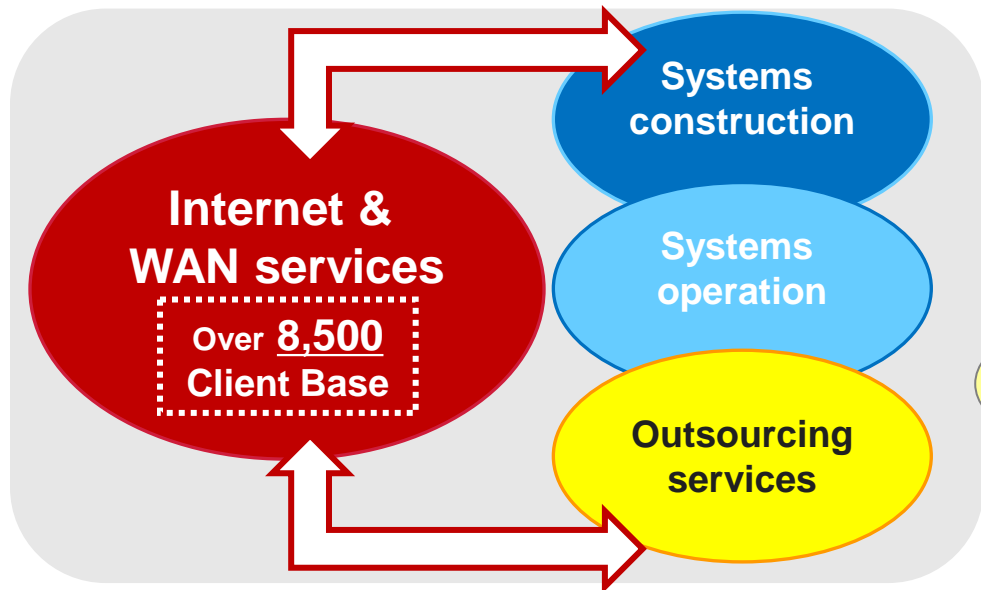
Cover Corporates' New IT Services Demands with reliable operation



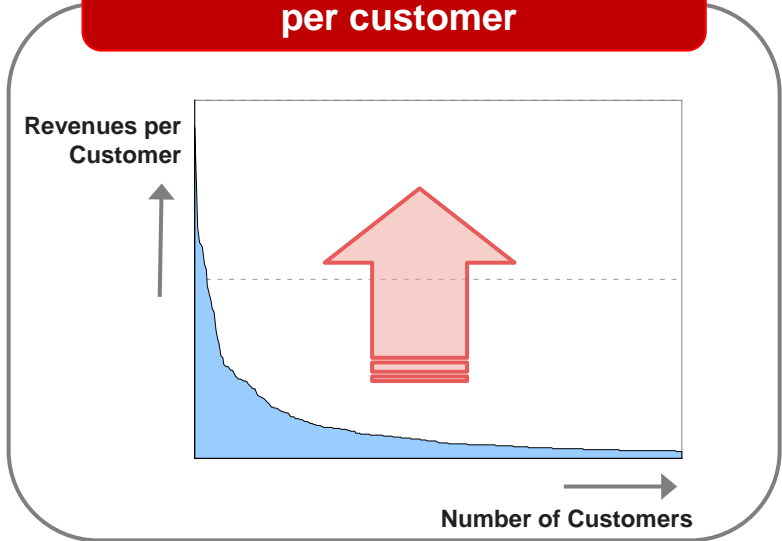
## IIJ's differentiation points towards competitors

- Many highly skilled network engineers
- Corresponds to the Internet market rapidly
- Unbureaucratic organization structure

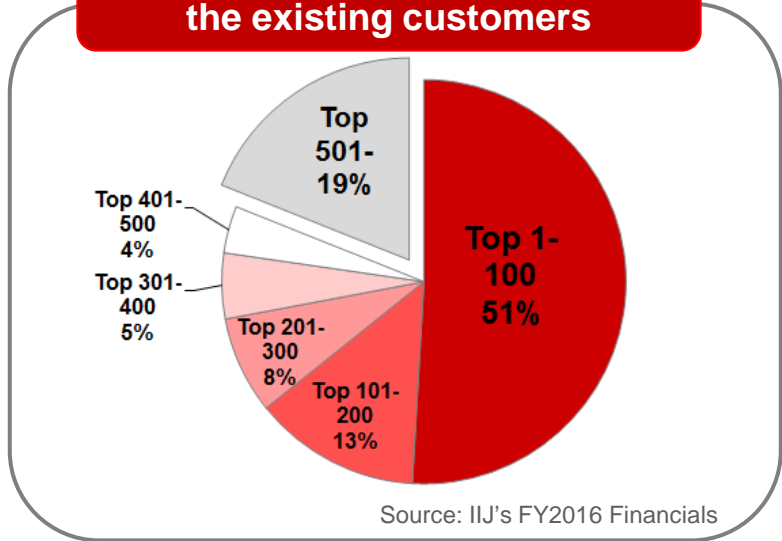
- Operates network facilities by ourselves
- Develops network services
- Moderate number of employees



**Increase revenues per customer**



**Room to increase revenue from the existing customers**



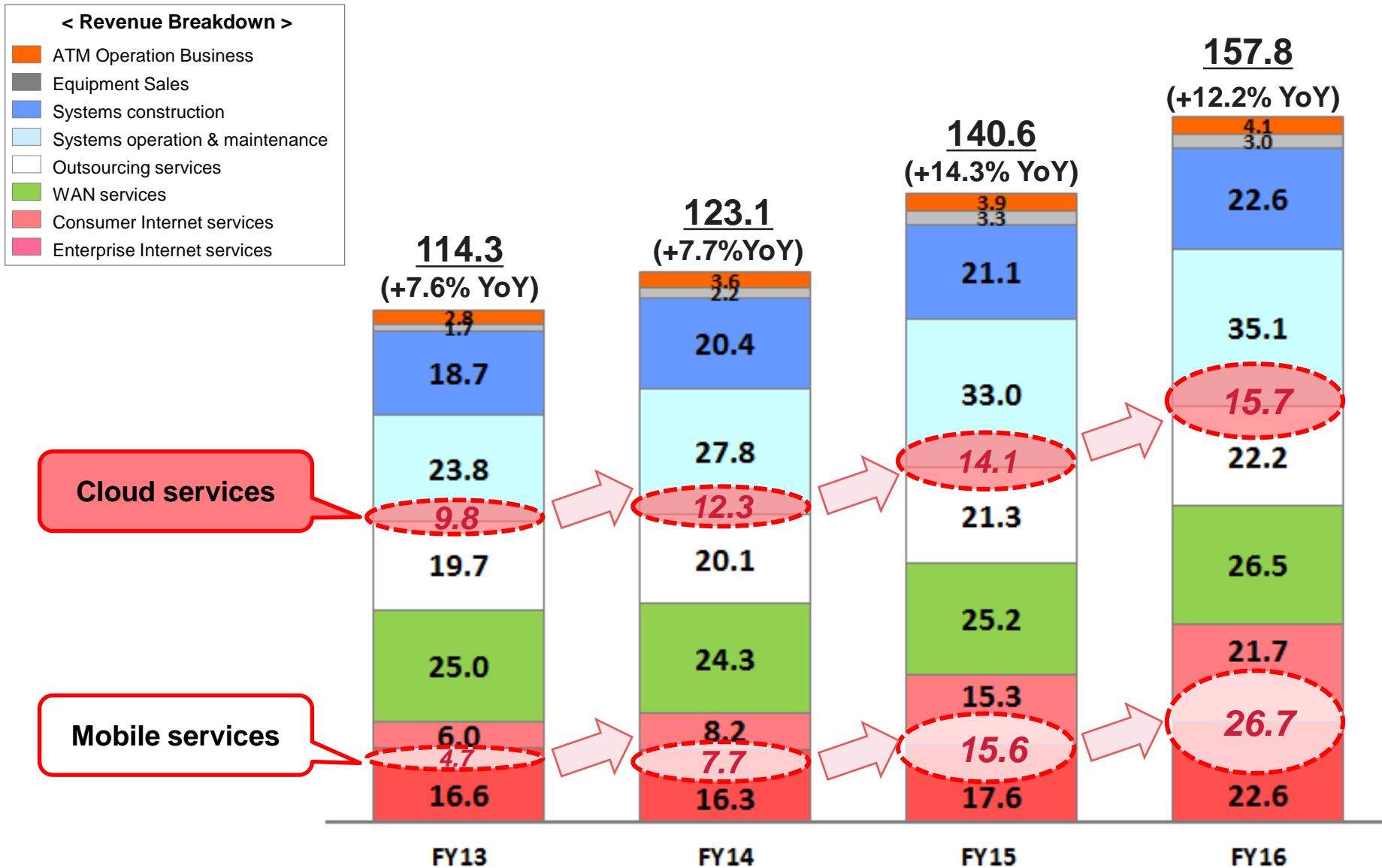
Source: IJ's FY2016 Financials

# Leveraging Blue-chip Customer Base

Growth Strategy

Unit: JPY billion

## Cross-selling multiple service products



## Cloud Market in Japan

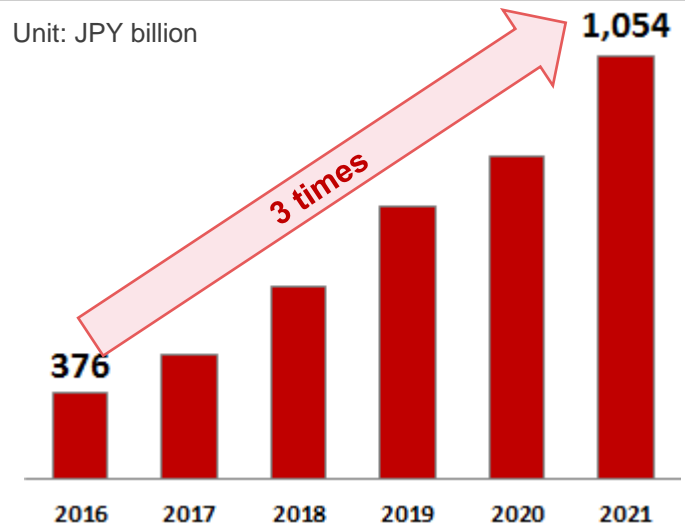
- Cloud penetration among Japanese enterprises\*: 46.9% as of 2016-end, 33.0% as of 2013-end  
\*Source: WHITE PAPER "Information and Communications in Japan published annually by the Ministry of Internal Affairs and Communications
- Some advanced and mission critical enterprises on cloud
- Average system life cycle: 5 years
  - Cloud services as an option for system replacement
- Cloud migration expected to further penetrate
- Systems don't migrate at once, especially large internal systems
  - Customization (SI) is required when migrating to cloud
- Great business opportunity with IoT and BigData

## IIJ's Competitive Advantages

- **One of the first cloud service providers in Japan**
  - Launched services in FY10
- **Offer private and public cloud infrastructure**
  - Hybrid cloud, multi cloud etc.
  - Virtual servers, storage, etc.
- **Target large business enterprises' internal IT systems, traditionally covered by SIs**
  - Current IIJ's SI is mostly Internet-related systems
- Approx. 600 partners (Microsoft, VMware, SAP etc.)
- **Promote cloud shift** of blue-chips by continuously enhancing service line-ups including GIO P2
- Engage in solution development (IoT, BigData, M2M, etc.)
- Combination with network, security services and SI
- Reliability and value-added service features for Japanese systems
- Differentiate by face-to-face consultation, service line-ups, and operation-customer support
- Monitors IIJ GIO, other vendors' cloud service and on-premise systems
- Leverage network service clients to cover large enterprises' internal systems' cloud shift
- Integrate Full-MVNO, security, SI into IoT/Big Data transactions

## Cloud Market Growth in Japan

Unit: JPY billion



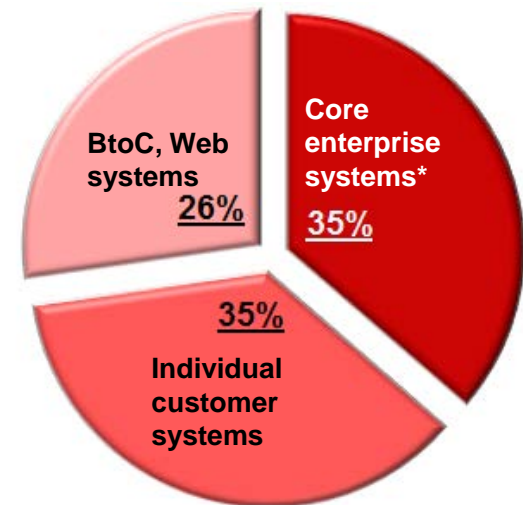
Published in Mar. 2017 by IDC Japan "Domestic Public Cloud Market Estimation revenue-base (2016-2021)"

## Flagship IJ GIO P2 Projects

- One of the largest global logistics companies chose IJ's cloud service for its fully-outsourced internal systems (3,500 servers and 2PT storage)  
➔ MRC JPY9 million
- One of the largest prefectures chose IJ's cloud services for "Local Government Information Security Cloud" systems  
➔ MRC JPY60 million
- One of the largest online ticketing companies chose IJ's cloud service for its main and prominent service platform  
➔ MRC JPY14 million
- One of the largest travel agencies chose IJ's cloud services for its core business operation systems  
➔ MRC JPY12 million
- A central government agency chose IJ's cloud service for a system managing sales point  
➔ MRC JPY8 million

## IJ GIO P2 System Usage

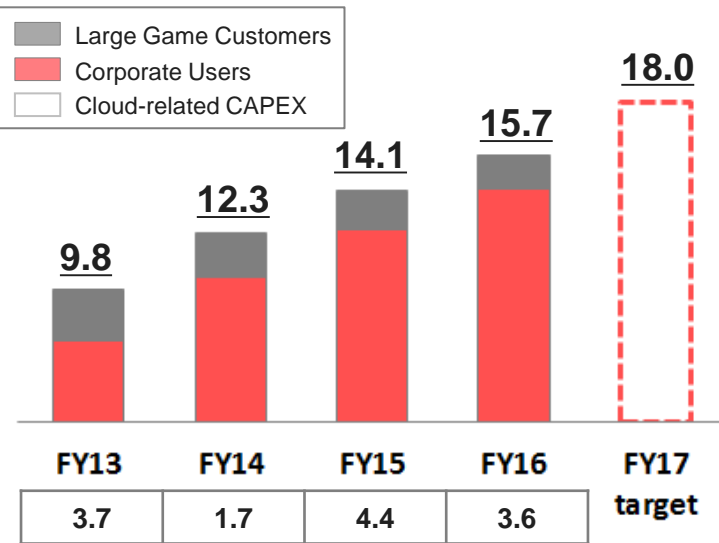
Among IJ GIO P2 prospective projects with monthly revenue charge over JPY1 million,, 35% are core enterprise systems-related



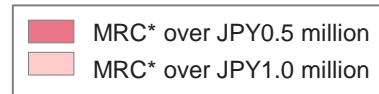
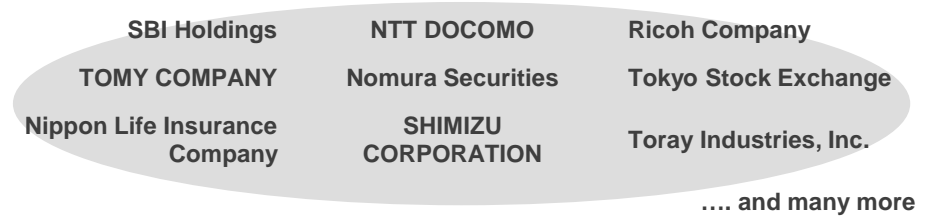
- Launched IJ GIO P2 in fall 2015, profit burden currently
  - FY16 revenue up JPY0.65 billion YoY
  - FY16 cost up JPY1.19 billion YoY

## Revenue Growth

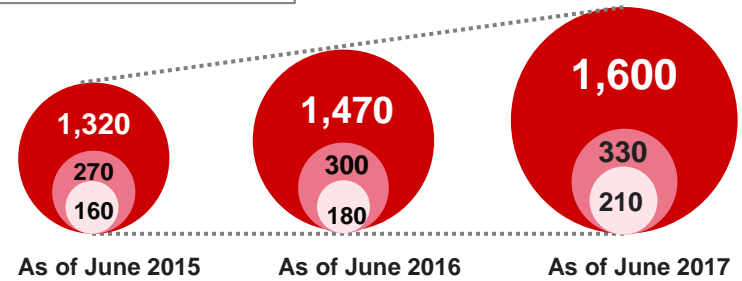
Unit: JPY billion



## Customer Base



\*Monthly Recurring Charge



## Business Model

- Continuously invest in service facility and developments (servers, storage and datacenter)
- Benefit from large-scale service facility by improving utilization
- Energy-efficient container-type datacenter in country side

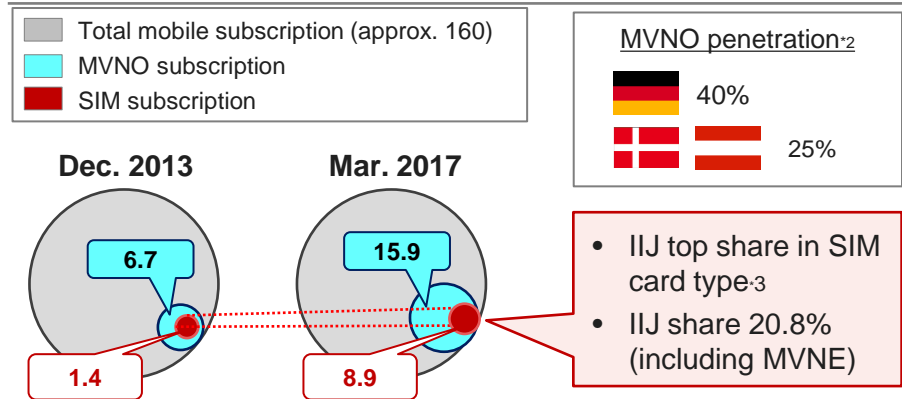


## IJ's Competitive Advantages

| IJ's Cloud |   | Competitors  |   |
|------------|---|--|---|
| AWS/Azure  | ◆ Experience, reputation                                  | ◆ Strong scale merit                                     | ◆ Not so strong about meeting individual system needs |
|            | ◆ Reliable operation                                      |  |   |
| Slers      | ◆ Deep relationships with blue-chip customers             | • SI expertise   | • Customer support                                    |
|            | ◆ In-house service developments                           | ◆ Tailored toward individual private cloud, in principal | ◆ Target current clients, in principal                |
|            | ◆ Various options for CPUs/OSs/storage/network usage etc. |  |   |

## MVNO Penetration in Japan\*1

(unit: million)



\*1 Ministry of Internal Affairs and Communications ("MIC")

\*2 "Promoting a vibrant mobile market in New Zealand" by Trustpower Limited in Nov, 2015

\*3. MIC, excluding MVNE subscription

## IJ's Growth Strategy

### ◆ Maintain reliable connectivity and profitability with consumer and corporate revenues

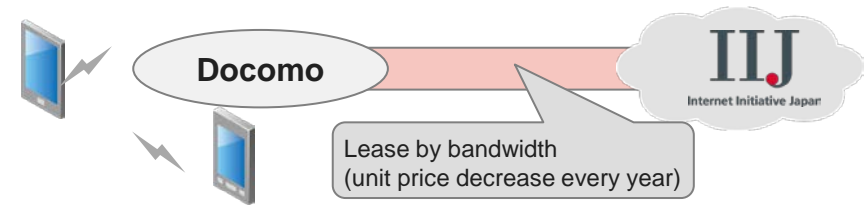
- ✓ Expect better network utilization than the MVNOs just receiving revenues from consumers
- ✓ Expect full-MVNO functions to accelerate enterprises' demand for IoT
- ✓ Room to absorb corporate traffic; margin to improve

### ◆ Gather various consumer traffic (young, old, student, households, business persons etc.) with MVNE strategy

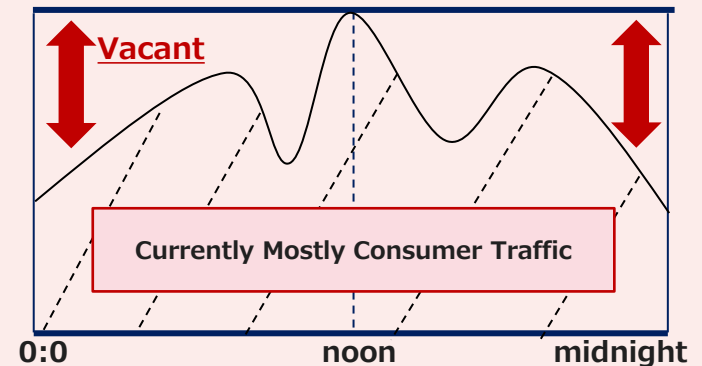
- ✓ Approx. 130 MVNE clients (retailers, CATV, EC vendors, Slers, manufacturers etc.)

### ◆ Leverage cloud, security, SI elements for enterprise usage (ie. IoT transaction)

## IJ's Profit Model



## Current IJ's mobile infrastructure utilization image



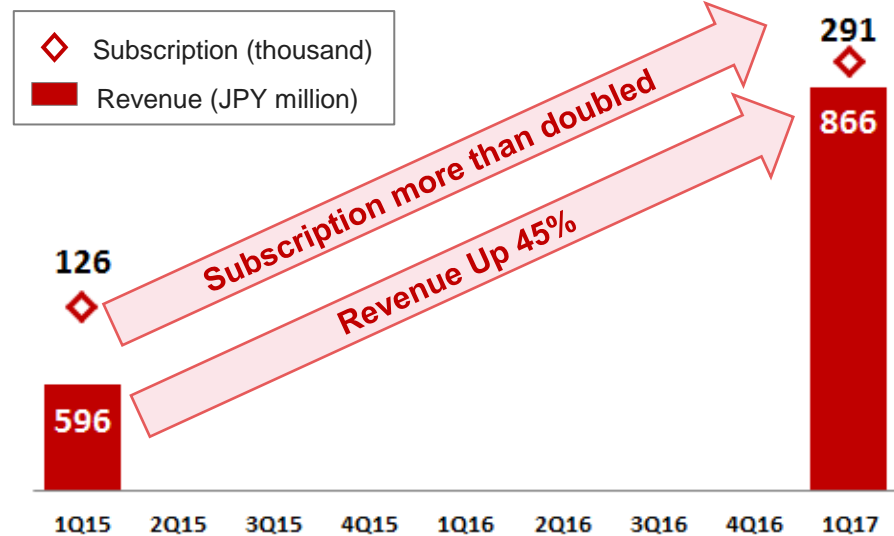
## Mobile Business Profitability

- Currently leasing bandwidth to meet the traffic peak of consumers
- By absorbing enterprise traffic (M2M/IoT), total network utilization should improve
- 1Q17 mobile services' gross margin and operating income amount continued to increase YoY and QoQ

## Accumulating Enterprise Mobile Solutions

- **IIJ started providing enterprise mobile solutions from 2008** by becoming the 1<sup>st</sup> MVNO in Japan to connect Docomo's mobile network
  - Wireless solution to enterprise customers
  - Leveraging blue-chip customer base
  - Provide with SI, if necessary
- **Accumulating IoT-type M2M projects continuously**
  - Security cameras, digital signage, BtoC service handy devices, large-scale solar panel monitoring, ticket vending machine etc.

## Enterprise Mobile Revenue (excluding MVNE)



## Becoming the first Full-MVNO in Japan ~Aim to generate IoT demands ~

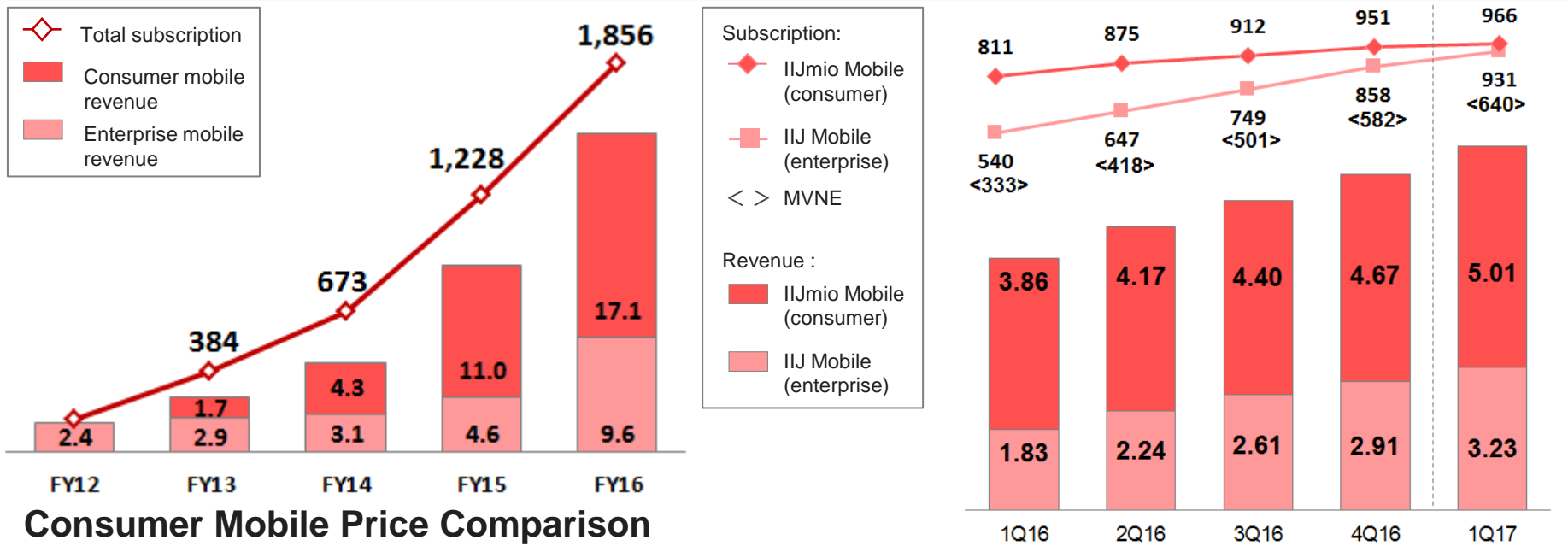
- **Full-MVNO enables to issue own SIM card:**
  - Develop various type of mobile solutions for IoT (BtoBtoX etc.)
  - Expect to offer closed network, private roaming, business solution with inventory optimization, cost compression of SIM by issuing own original SIM
  - Embedded SIM (“eSIM”), Re-Programmable SIM, Multi-Profile SIM etc.
  - SIM card adjustable to any type of SIM (multi-form function)

- **Plan to launch services in 4Q17**
  - Preparation proceeding as planned: constructing HLR/HSS systems and verifying communication confirmation with Docomo etc.
- **Expected total investment: approx. JPY4.5 billion**
  - Construction of HLR/HSS systems
  - Accumulation of monthly payment to NTT Docomo for their network remodeling fee (not IIJ CAPEX)
  - Expect cost of approx. JPY0.4 billion in FY17 (from Dec. 2017)
  - Expect related CAPEX up JPY0.8 billion YoY in FY17



# Mobile Business Developments

## Subscription (unit: thousand) and Revenue (unit: JPY billion)



## Consumer Mobile Price Comparison

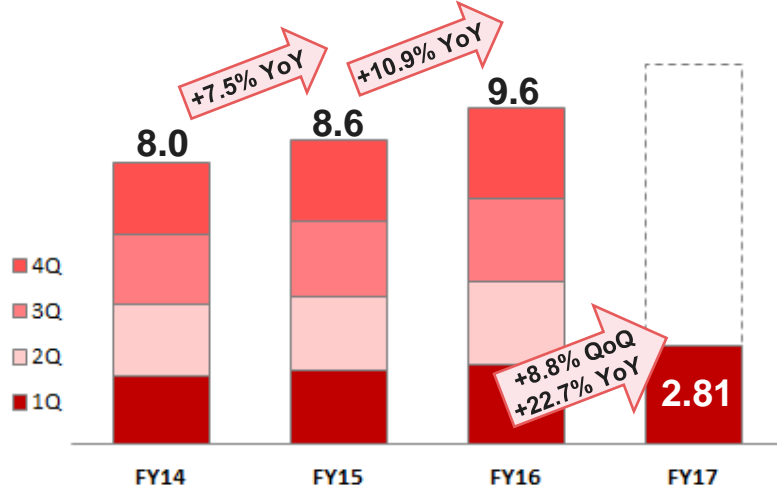
➤ MNOs's affiliated companies and MNOs themselves started to lower their services, yet IJ (genuine MVNO) is very cheap. Below information is as of August 2017

|                    | IJ                | Y!mobile                                    | UQ mobile | Docomo*                        | au*   |
|--------------------|-------------------|---|-----------|--------------------------------|---|
| Monthly fee (JPY)  | 1,600             | 1,980                                       | 1,680     | 1,780                          | 1,980                                       |
| Data volume        | 3GB               | 2GB   | 3GB       | 2.5GB*                         | 1GB   |
| Contract period    | 1month            | 2yrs  | 1yr       | 2yrs                           | 2yrs  |
| iPhone             | Any SIM lock-free | iPhone SE only                              | Yes       | No                             | No  |
| Other restrictions | N/A               | 2,980 with 1GB from 26 <sup>th</sup> months | N/A       | Must purchase data 6,500 (5GB) | Usually 3,480<br>1,980 offered limited time |

Docomo: "Simple Plan" with Family Share pack (minimum of 5GB for 6,500 MRC), au: "pitatto plan"

## Security-related Services Revenue JPY billion

YoY = compared to the same period in a previous year, QoQ = 1Q17 compared to 4Q16



Including security-related SI, FY16 security related revenue was over JPY11 billion

## Security service line-ups

◆ Provide together with NW and SI as comprehensive

**Various security service line-ups**

- Firewall
- Targeted attacks protection
- Unified security solution/SOC
- Web access security
- Smart devices security
- WAF
- IPS/IDS
- DDoS protection
- Mail security
- Security hole testing

etc.

NW

SI



Enterprise customers

## Business Developments

- ◆ First in Japan to provide **firewall services** (since 1994)
- ◆ Protecting **several hundreds of thousands email accounts** with our services for such as global manufacturing companies, local governments and more from external threats and information leaks
- ◆ Providing **DDoS protection services** which are able to handle terabit cyber attacks to many of central government agencies and prominent financial institutions
- ◆ Providing **SOC services** with approx. 6 billion daily log records of network etc. (others: approx. 0.8 billion records a day), able to detect Internet threats and execute countermeasures in early stage
- ◆ **Advising regional police departments about cyber security** such as unauthorized access and Internet network

## Competitive Advantage of IIJ

|                 | NW | Analysis | Monitoring | SI |
|-----------------|----|----------|------------|----|
| IIJ             | ○  | ○        | ○          | ○  |
| Security vendor | ×  | △        | ○          | ×  |
| Sler            | ×  | △        | ○          | ○  |

## CDN Market in Japan

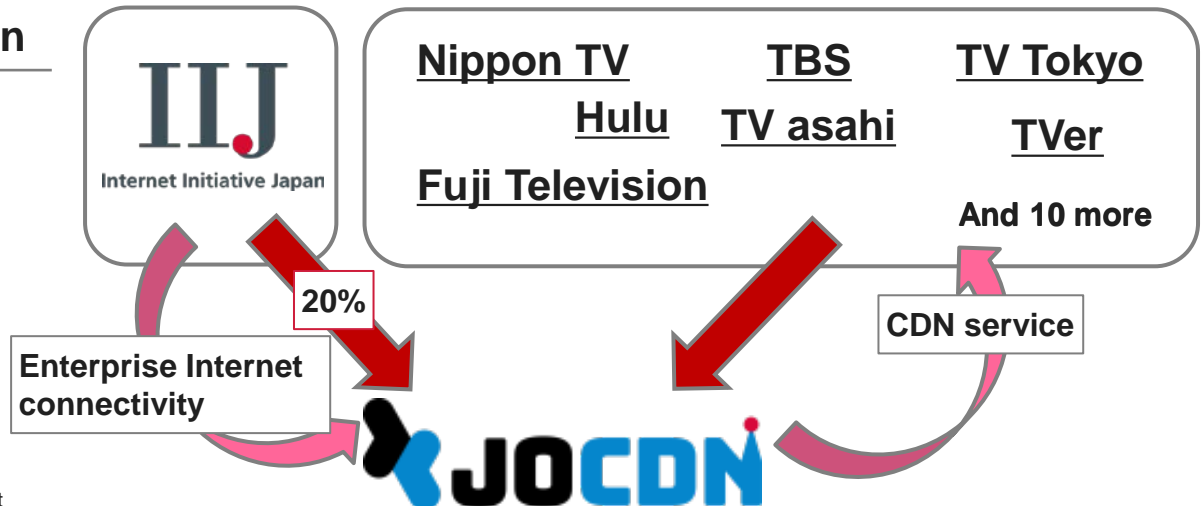
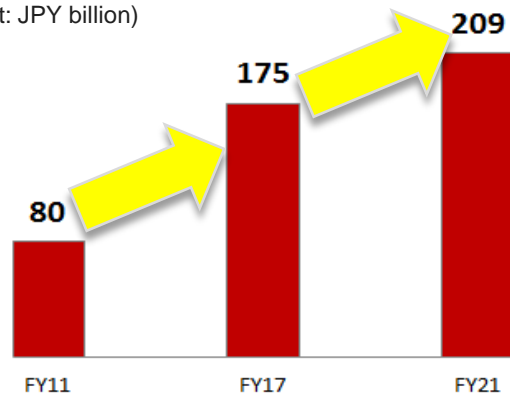
- Greater needs to distribute contents over Internet
- 4K/8K and high-definition contents to increase towards the Tokyo Olympics
- Nippon TV owns Hulu Japan, broadcasting companies operate “TVer”
- Akamai strong in Japan CDN market, no prominent Japanese provider currently
- IIJ has rich and long experience in CDN business
  - ✓ Olympics games, high school base ball games, and many more

- Established JV as All Japan TVs’ CDN platform provider
- IIJ will provide Internet transit to the JV
- Currently providing CDN services for TVer and Nippon TV

|                      |  |
|----------------------|--|
| <b>Company name</b>  | JOCDN Inc.   |
| <b>Capital</b>       | JPY710 million   |
| <b>Establishment</b> | December 1, 2016   |
| <b>Shareholders</b>  | IIJ (20%), Nippon TV (14%), TV asahi (14%), TBS (14%), TV Tokyo (14%), Fuji TV (14%) and 10 commercial broadcasting companies  |
| <b>Management</b>    | Chairman: Koichi Suzuki (IIJ)<br>President: Shunichi Shinozaki (Nippon TV)   |
| <b>Business</b>      | <ul style="list-style-type: none"> <li>➤ Provide a video content distribution platform service for use within Japan</li> <li>➤ Construct and operate broadcasting systems</li> </ul> |

## CDN Market Growth in Japan

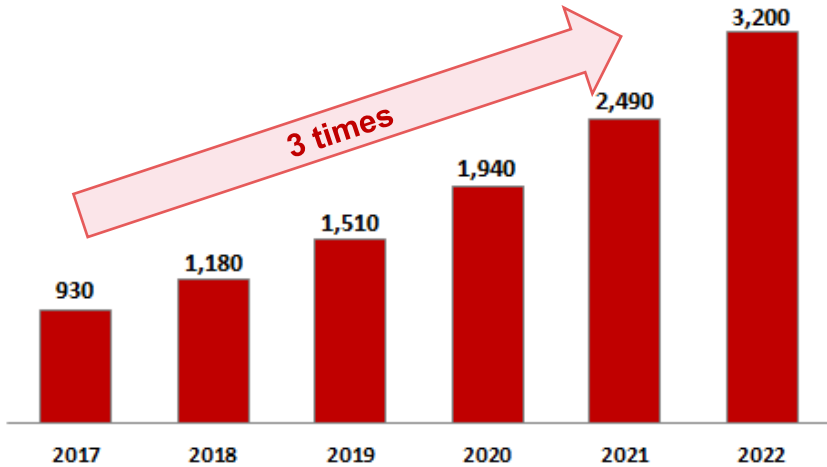
(unit: JPY billion)



Source: Nomura Research Institute “ICT and Media Market Growth Outlook and Trend through FY2021”, published in Nov. 2015

## IoT Market Growth in Japan

Unit: JPY billion



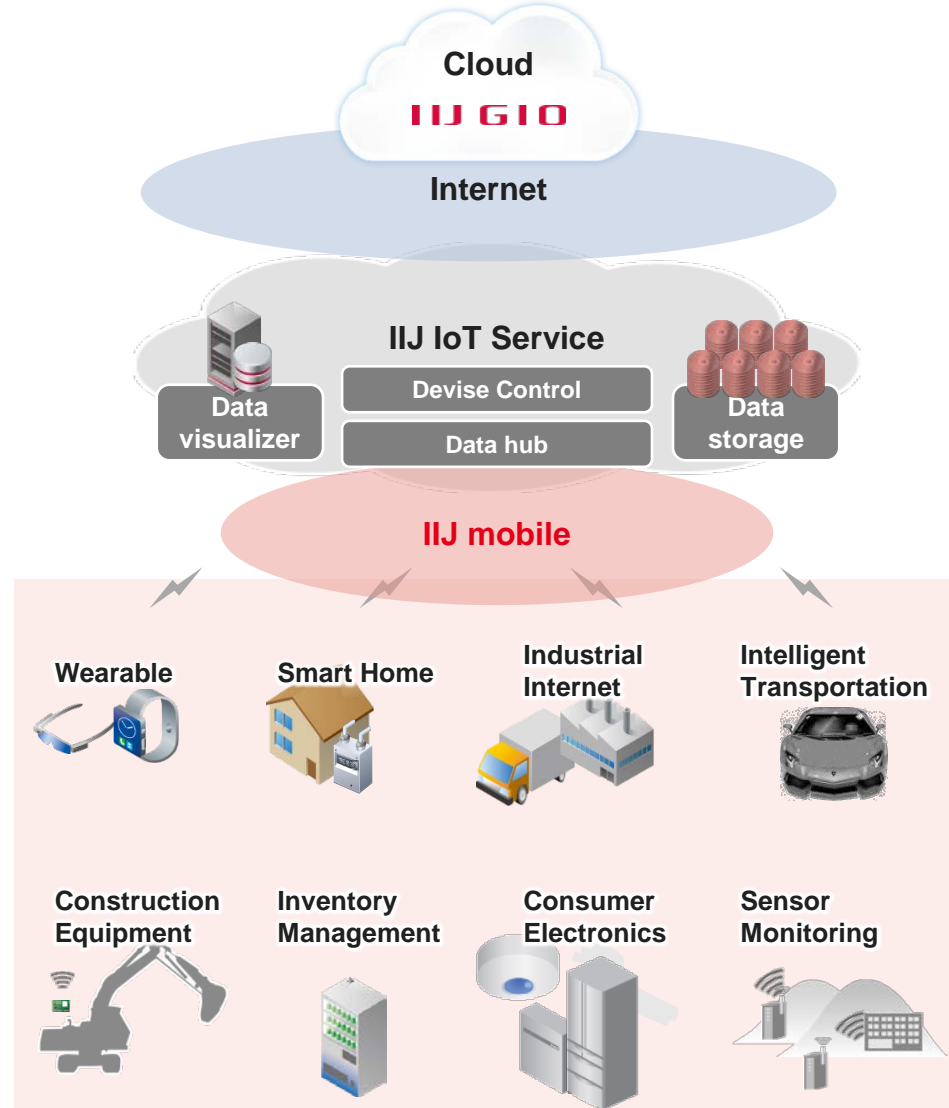
Source: Nomura Research Institute "ICT and Media Market Growth Outlook and Trend through FY2022", published in Nov. 2016

## IoT Projects

- ◆ Ministry of Agriculture, Forestry, and Fisheries chose IIJ for a feasible study on paddy water control management system such as gathering information on water level and water temperature through sensors. Aim to reduce the cost of paddy control by half with IoT, LPWA, and other ICT elements
- ◆ Co-working with a prominent housing corporation and an electronic company on low-carbon hydration project for smart housing by IoT-based air-conditioning systems combined with weather forecast data

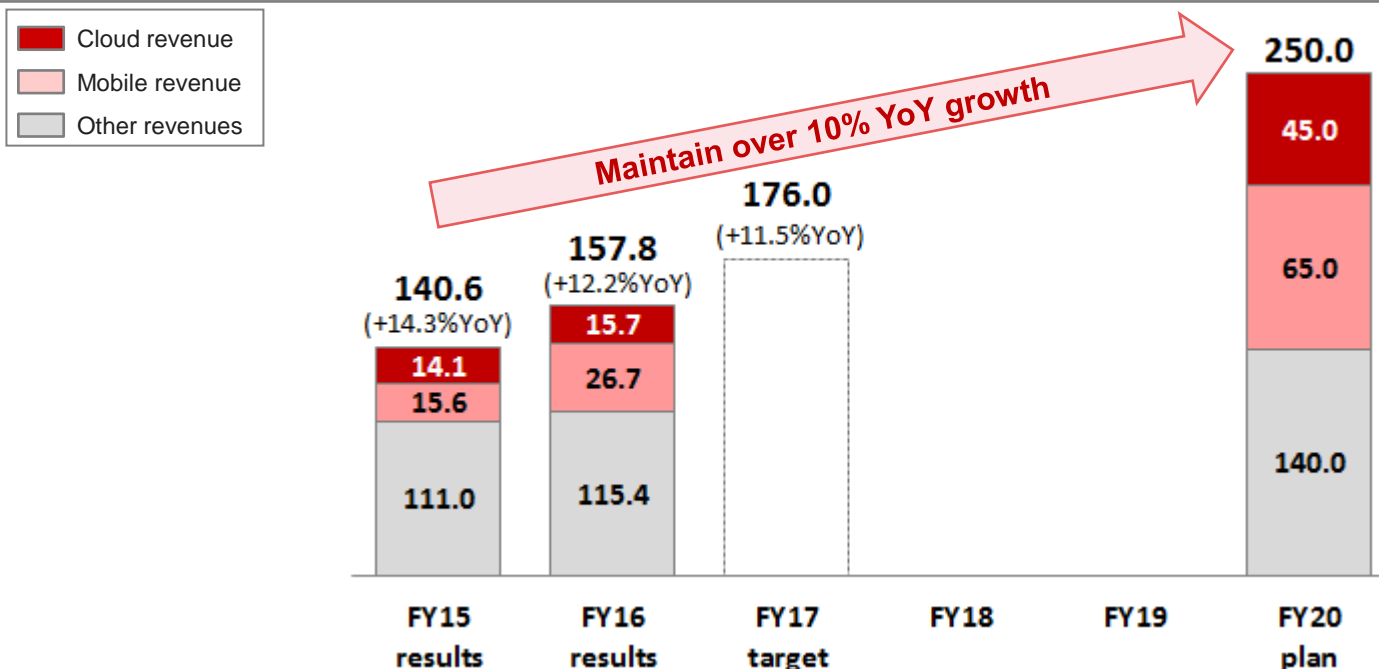
## IIJ as IoT platform

IIJ provides necessary elements for IoT comprehensively



## Target Revenue

Unit: JPY billion



|                                   |  |
|-----------------------------------|--|
| <p><b>Business Scale</b></p>      | <ul style="list-style-type: none"> <li>◆ Aim to be top market share player in the following markets in Japan                             <ul style="list-style-type: none"> <li>➢ Enterprise Cloud (IaaS domain)</li> <li>➢ MVNO (Target 7 million subscriptions by the end of FY20)</li> <li>➢ Enterprise Internet-related security</li> </ul> </li> </ul>  |
| <p><b>Business Strategies</b></p> | <ul style="list-style-type: none"> <li>◆ Provide comprehensive solutions meeting enterprise systems demand with “Network cloud services” and “System cloud services” with SI functions</li> <li>◆ Enhance advantageous businesses such as MVNO and security</li> <li>◆ Pursue new business opportunities related to contents distribution, M2M/IoT, health care, further developments in overseas, etc.</li> </ul> |

# Revenue & Operating Margin Growth

Growth Strategy

## Business Status

### Investment

- Cost increase / Large AC Revenue down (Game etc.)
- Accumulate Business Assets

### Revenue Growth

- MVNO to explode
- Cloud accumulation
- GP increase lead OP increase
- Continuous business investment (P2, Omnibus, Full-MVNO, CDN, AI etc)

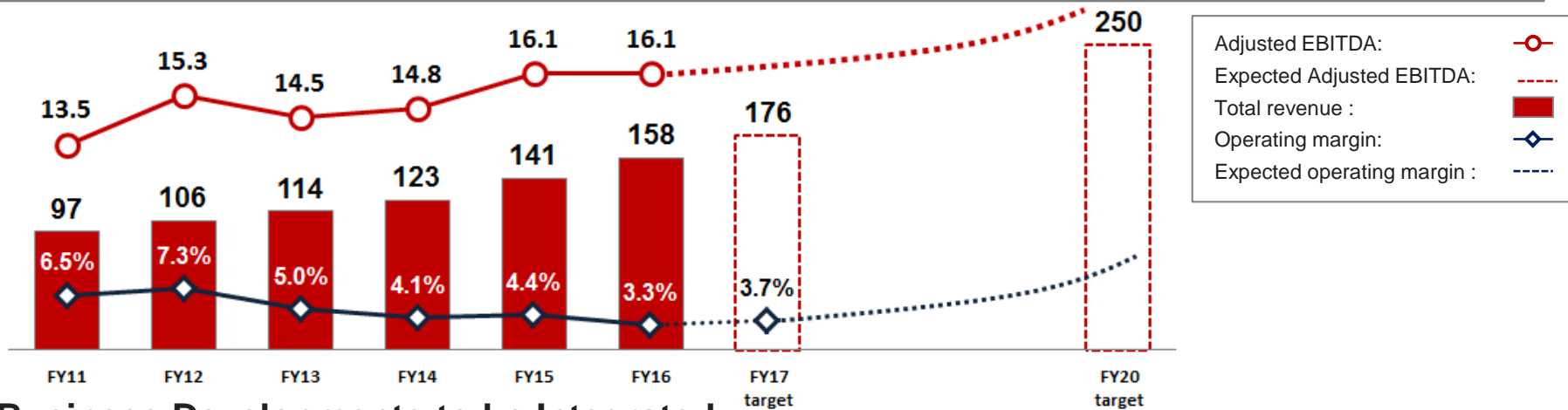
### Scale Merit

- Cloud GPM up by scale
- MVNO GPM up by NW utilization
- Integrated Transactions

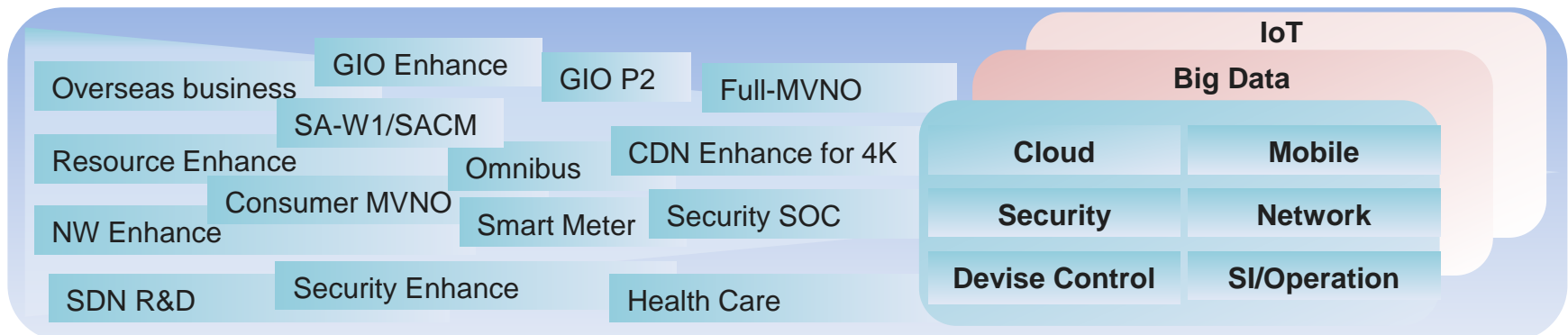
### Next Stage

- Main platform provider for enterprises' next usage of IT (ie. Big Data/IoT)
- Operating margin growth as a service provider

## Revenue, Operating Margin, and Adjusted EBITDA (unit: JPY billion)



## Business Developments to be Integrated



# Summary of 1Q FY2017 Financials

Financials

|                  | 1Q17 Results |        | FY17 Targets |        | 1H17 Targets |        |
|------------------|--------------|--------|--------------|--------|--------------|--------|
| Revenues         | JPY41.0 bn   | +13.2% | JPY176.0 bn  | +11.5% | JPY82.4 bn   | +11.2% |
| Gross margin     | JPY6.5 bn    | +12.9% | JPY28.2 bn   | +11.7% | JPY12.6 bn   | +6.3%  |
| Operating income | JPY1.1 bn    | +34.4% | JPY6.5 bn    | +26.6% | JPY2.0 bn    | +2.7%  |
| Net income*      | JPY0.7 bn    | +33.4% | JPY4.0 bn    | +26.3% | JPY1.1 bn    | (0.7%) |

## 1Q17 Financial Results

- ◆ Total revenue increased 13.2% YoY with good start of recurring revenue accumulation
- ◆ Operating income increased 34.4% YoY with margin expansion of both NW services and SI

## 1Q17 Business Developments

- ◆ **QoQ cloud revenue growth accelerated (JPY+0.19 bn),** Cloud migration of blue-chips' core business systems continued
- ◆ **Strong security service revenue accumulation from 1Q** +22.7%YoY, +8.8%QoQ
  - Services such as secure browsing, mail gateway, Web access, DDoS protection each grew
- ◆ **Local governments' "Information Security Cloud"** projects contributed to QoQ recurring revenue growth, providing virtual desktop, security, Internet connectivity, cloud and other services
- ◆ **Total mobile subs.: 1,943 thousand (+543 thousand YoY)**  
**Total mobile revenues: JPY8.24 billion (+44.7% YoY)**
  - Various enterprise M2M/IoT projects: security cameras, digital signage, BtoC service handy devices, large-scale solar panel monitoring, ticket vending machine etc.
- ◆ **Accumulating IoT-related prospective orders and discussions on feasibility and PoC**
  - Paddy water control, "Connected Homes," energy management, accidents prevention with "Smart Factory," remote control of facility etc.
- ◆ **Overseas business developments as planned**  
**Revenue JPY1.3 bn, Operating loss JPY0.05 bn**
  - FY17 target: revenue of JPY7 bn and turn positive
- ◆ **JOCDN to start providing CDN services**
  - Providing CDN services to Nippon TV and TVer (free online TV contents distribution platform by 5 Japanese major broadcasting companies) etc.

bn = billion, %, YoY=Year over year change, QoQ = Quarter over quarter change,  
\*Net income attributable to IJJ

**Continuous strong revenue growth just as the middle term plan's second year  
Operating income to largely improve with strong revenue absorbing cost increase**

|                                  | % of Revenues  |   | YoY Change |        |
|----------------------------------|--|---|------------|--------|
|                                  | FY16 Results<br><small>(Apr. 2016 - Mar. 2017)</small> | FY17 Target<br><small>(Apr. 2017 - Mar. 2018)</small> |            |        |
| Total Revenues                   | 157.8  | 176.0   | +18.2      | +11.5% |
| Total Cost of Revenues           | 84.0%<br>132.5   | 84.0%<br>147.8  | +15.3      | +11.5% |
| Gross Margin                     | 16.0%<br>25.2  | 16.0%<br>28.2   | +3.0       | +11.7% |
| SG&A/R&D                         | 12.7%<br>20.1  | 12.3%<br>21.7   | +1.6       | +7.9%  |
| Operating Income                 | 3.3%<br>5.1  | 3.7%<br>6.5   | +1.4       | +26.6% |
| Income before Income Tax Expense | 3.4%<br>5.4  | 3.7%<br>6.5   | +1.1       | +19.8% |
| Net Income*                      | 2.0%<br>3.2  | 2.3%<br>4.0   | +0.8       | +26.3% |
| Cash Dividend per common share   | JPY27.00   | JPY27.00  | -          | -      |

Unit: JPY billion, YoY=FY target compared with FY16 results, \*Net income attributable to IJJ

## Cloud

- GIO P2 flagship projects to be recognized as revenue
  - Unified business operation platform for a global manufacturing company's group, virtual desktop services etc.
- Continuously developing services and service facility investment
  - ➔ **FY17 target revenue: JPY18 billion (up 15% YoY)**

## Mobile, IoT

- Continuously enhance service quality, strengthen sales promotion with sales partners for consumer
- Further acquire enterprise IoT/M2M solution orders
- Full-MVNO services from 4Q17, cost to be recorded from Dec. 2017 (included in the budget)
  - ➔ **FY17 target subs. net addition: stronger than FY16**

## Security

- Stronger revenue accumulation with services developed in FY16
- Information Security Cloud project's revenue to increase
- Continuously developing services and enhancing differentiation
  - ➔ **Security services revenue accumulation to accelerate**

## SI

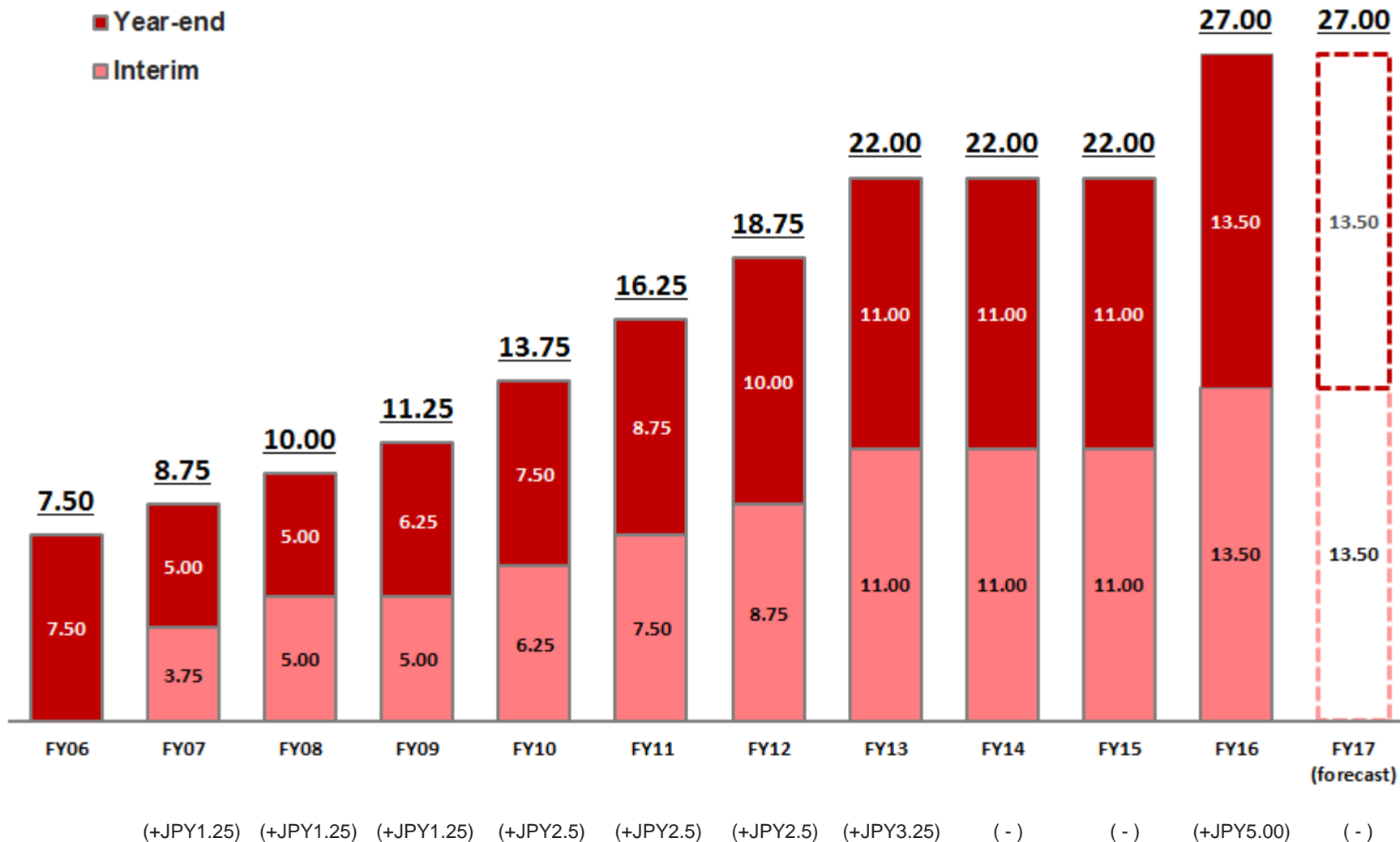
- Expect no significant YoY increase for SI construction revenue due to cloud trend
- Expect SI gross margin ratio to improve by 1 point YoY with SE productivity improvement and cloud revenue accumulation

## Overseas

- Target revenue of JPY7.0 billion and plan to turn positive with each overseas subsidiaries making more contribution
- JOCDN Inc. to launch services
  - Provide CDN services for Japanese broadcasting companies' contents

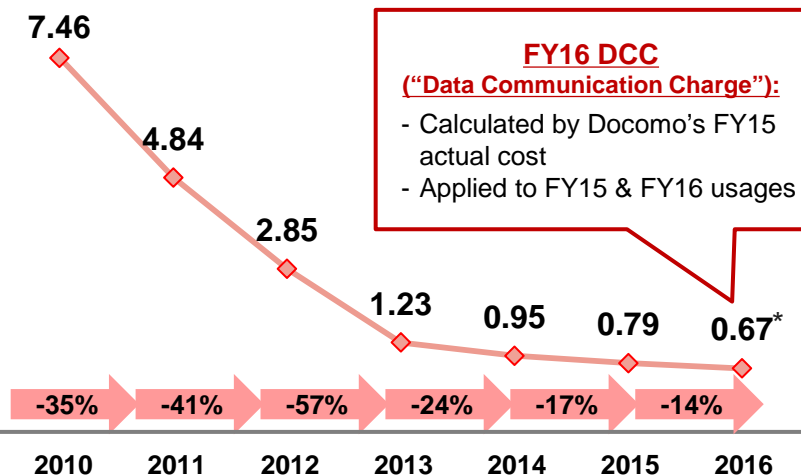


# Dividend Forecast



\*IIJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. Dividend figures shown below are retroactively adjusted to reflect the stock split.

## Docomo's Monthly DCC per 10Mbps



\*From FY16, SIM issue fee has been excluded from the DCC calculation (MVNOs need to pay the fee separately to Docomo)

**FY16 DCC**  
 ("Data Communication Charge"):  
 - Calculated by Docomo's FY15 actual cost  
 - Applied to FY15 & FY16 usages

## IJ's Estimate vs. Actual Decrease Rate

|        | (1) Docomo's payment arrangement | (2) IJ's estimation | (3) Actual results |
|--------|----------------------------------|---------------------|--------------------|
| FY14   | 40%                              | 40%                 | 24%                |
| FY15   | 25%                              | 15%                 | 17%                |
| FY16** | 15%                              | 12%                 | 14%*               |

(1) Fixed in April  
 (2) Fixed based on (1)  
 (3) Fixed next March

(\*) Fixed in March 2017  
 (\*\*) IJ's fiscal year ended March 31, 2017

## MVNO Infrastructure Cost for Docomo

- Mobile infrastructure leasing fee from Docomo
- A Fixed charge by bandwidth
- Regulated price by government (MIC & guideline)
- Same flat-rate for all MVNOs
- Renews every year based on Docomo's actual cost etc.
- Continuously decreasing
- Fixed 1 year after, applied to current and a previous year
- FY16 DCC payment has been deducted 15% from 1Q16 by Docomo's arrangement
- FY15 DCC was fixed in March 2017 and its decrease rate shall be applied to FY16 DCC

## Docomo Changed Depreciation Method

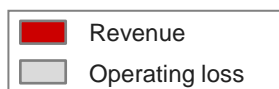
- Docomo historically used **declining-balance method** for calculating the depreciation of property, plant and equipment
  - From fiscal year ended March 31, 2017 Docomo uses **straight-line method**



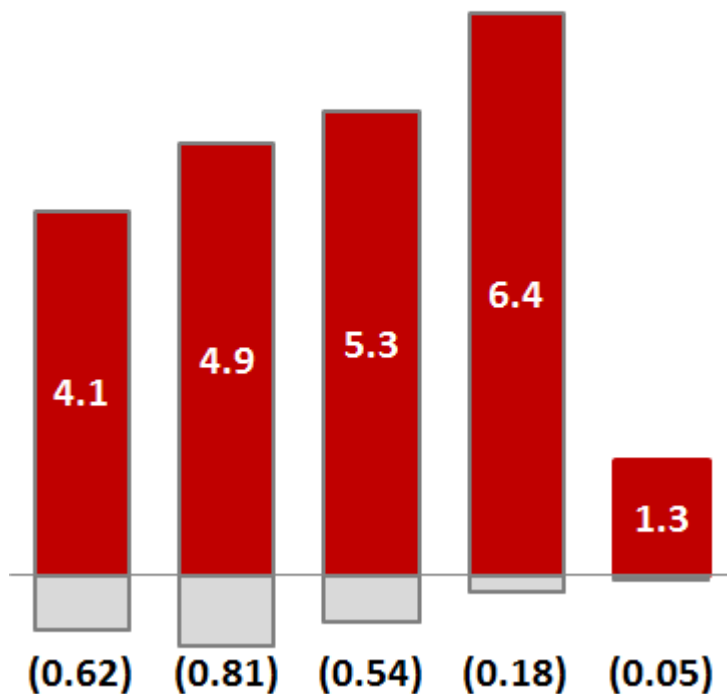
**Docomo's DCC based on their March 31, 2017 actual costs are to be noticed to their MVNOs around March 2018**

## Financials

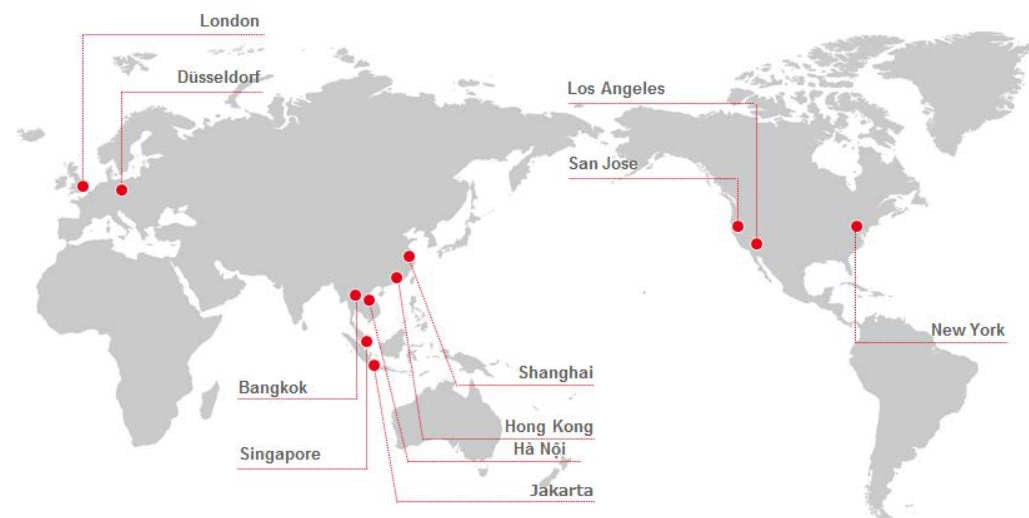
Unit: JPY billion



FY13    FY14    FY15    FY16    1Q17



## Overseas offices



## Business Developments

- **Provide cloud services in Indonesia, Thailand and Vietnam together with local prominent IT companies**
  - With Biznet Networks in Indonesia (from March 2015)
  - With T.C.C. Technology Co., Ltd, in Thailand (February 2016)
  - With FTP Telecom Partner in Vietnam (November 2016)
- **Export container datacenters, Expect transactions to expand in the middle-to-long term**
  - Exported to Russia (FY15)
  - Exported to Laos (3Q16) revenue of JPY1.2 billion
  - Accumulating similar prospective orders from other emerging countries

## Business Model

- Similar to “Seven Bank” model, high profitability
  - Seven Bank: 23,368 ATMs, revenue JPY121.6 billion, profit ratio 30.2% (as of March 31, 2017)
- Placing ATMs in Pachinko parlors in Japan with dominant position
  - After long discussion, started to place in Kanto, Kansai, Kyushu and Tokai areas
  - 10,986 Pachinko parlors in Japan as of December 31, 2016 (source: Zennichi Yuren)
- Receive commission for each withdrawal transaction

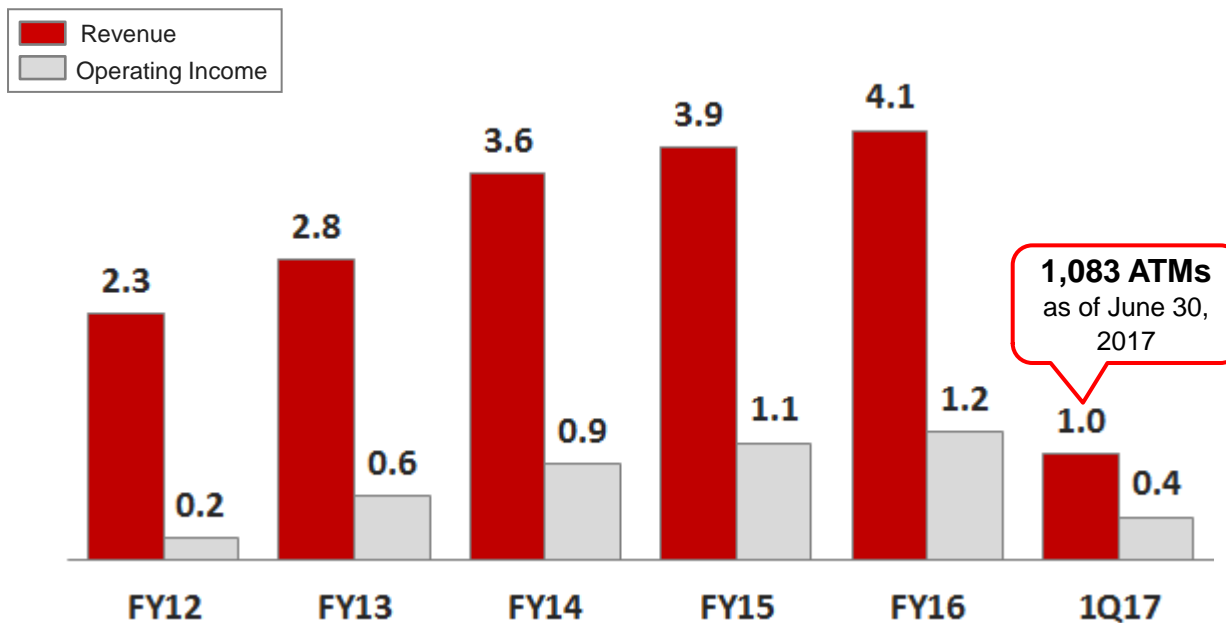
## Trust Networks Inc.

- In charge of ATM operation business
- IIJ’s ownership:79.5%
- Established in 2007



## Revenue and Operating Income

Unit: JPY billion



**1Q FY2017**  
**Consolidated Financials Results**

**Announced on August 8, 2017**

# Consolidated Financials for 1Q17

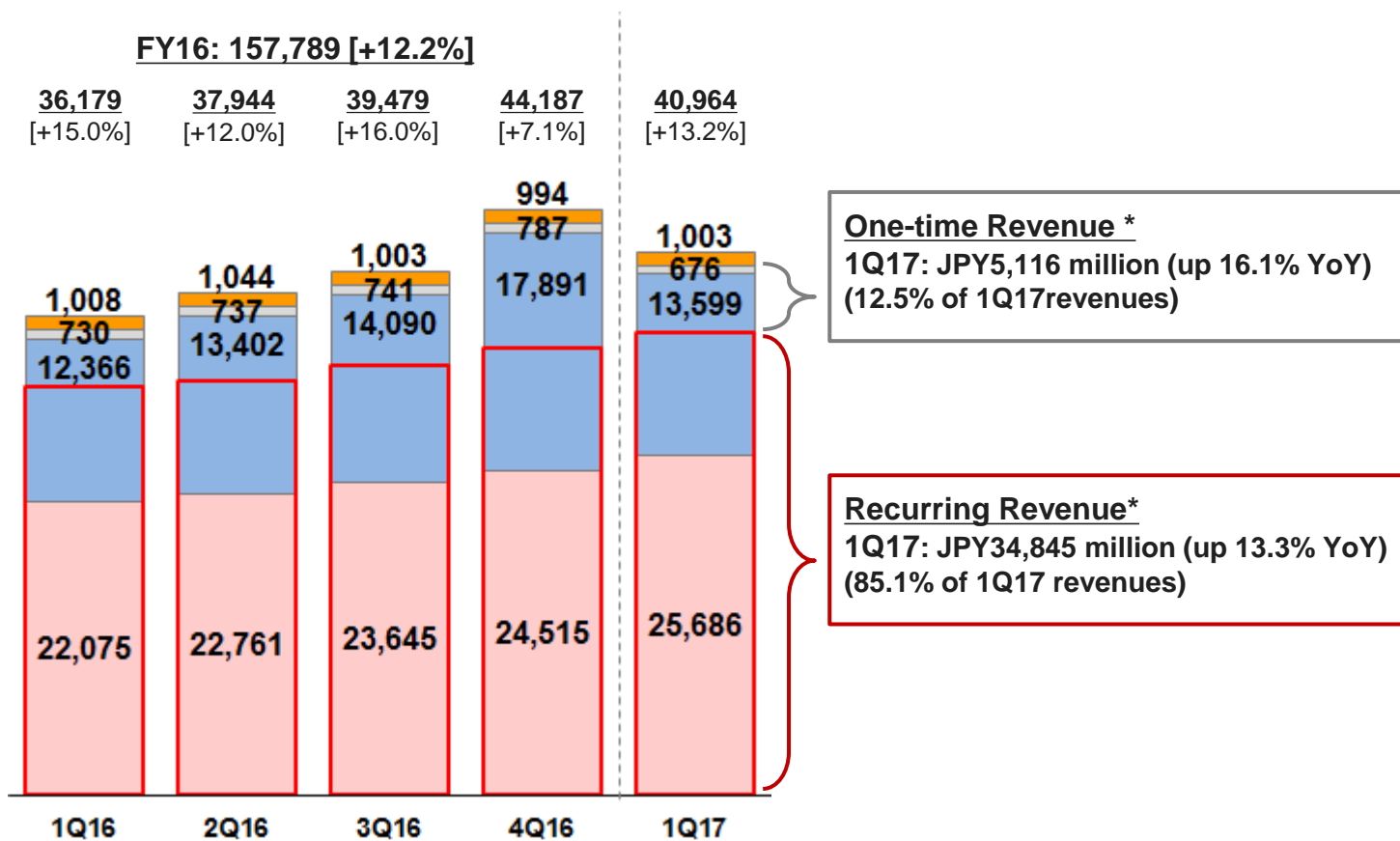
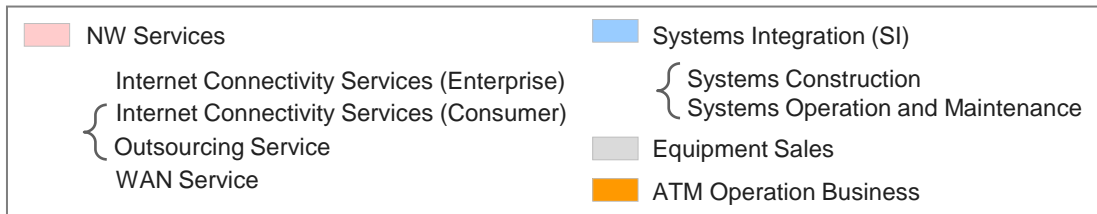
Unit: JPY billion

|   | <i>% of Revenues</i>    | <i>% of Revenues</i>    | YoY Change    | <i>% of Revenues</i>    | <i>% of Revenues</i>    |
|---|-------------------------|-------------------------|---------------|-------------------------|-------------------------|
|   | <b>1Q17</b>             | <b>1Q16</b>             |               | <b>1H17 Target</b>      | <b>FY17 Target</b>      |
|   | (Apr. 2017 - Jun. 2017) | (Apr. 2016 - Jun. 2016) |               | (Apr. 2017 - Sep. 2017) | (Apr. 2017 - Mar. 2018) |
| <b>Total Revenues</b>                   | <b>41.0</b>             | <b>36.2</b>             | <b>+13.2%</b> | <b>82.4</b>             | <b>176.0</b>            |
| <b>Total Cost of Revenues</b>           | <b>34.4</b>             | <b>30.4</b>             | <b>+13.3%</b> | <b>69.8</b>             | <b>147.8</b>            |
| <b>Gross Margin</b>                     | <b>6.5</b>              | <b>5.8</b>              | <b>+12.9%</b> | <b>12.6</b>             | <b>28.2</b>             |
| <b>SG&amp;A/R&amp;D</b>                 | <b>5.4</b>              | <b>4.9</b>              | <b>+9.3%</b>  | <b>10.6</b>             | <b>21.7</b>             |
| <b>Operating Income</b>                 | <b>1.1</b>              | <b>0.8</b>              | <b>+34.4%</b> | <b>2.0</b>              | <b>6.5</b>              |
| <b>Income before Income Tax Expense</b> | <b>1.2</b>              | <b>1.0</b>              | <b>+17.0%</b> | <b>2.0</b>              | <b>6.5</b>              |
| <b>Net Income*</b>                      | <b>0.7</b>              | <b>0.5</b>              | <b>+33.4%</b> | <b>1.1</b>              | <b>4.0</b>              |

\*Net income attributable to IJ

Unit: JPY million

[ ], YoY = compared to the same period in a previous year



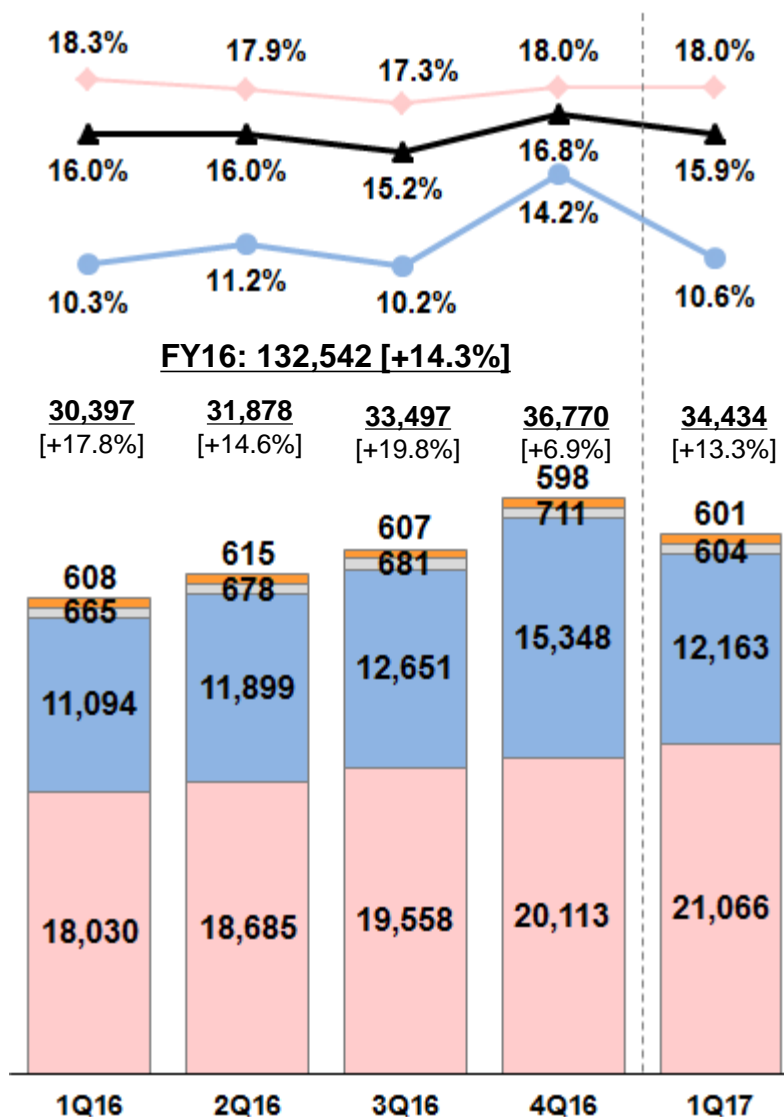
- One-time revenues, which are systems construction and equipment sales, are recognized when systems or equipment are delivered and accepted by customers
- Recurring revenues represent the following monthly recurring revenues: Internet Connectivity Services for Enterprise, Internet Connectivity Services for Consumer, Outsourcing Services, WAN Services, and Systems Operation and Maintenance

# Cost of Revenues and Gross Margin Ratio

Cost of revenues: ■ NW Services ■ SI ■ Equipment Sales ■ ATM Operation Business  
 Gross margin ratio: ◆ NW Services ● SI ▲ Overall

Unit: JPY million

[ ], YoY = compared to the same period in a previous year



## Gross Margin

### ◆ Total

- 1Q17: JPY6,530 million (up 12.9% YoY)
  - Gross margin ratio: 15.9% (down 0.1points YoY)

### ◆ NW Services

- 1Q17: JPY4,619 million (up 14.2% YoY)
- 1Q16: JPY4,045 million (up 7.0% YoY)
  - The revised NTT DOCOMO's interconnectivity charge, fixed in Mar. 2017, decreased by 14% YoY (unlike last revised charge, the calculation excluded the cost for lending SIM).

### ◆ SI

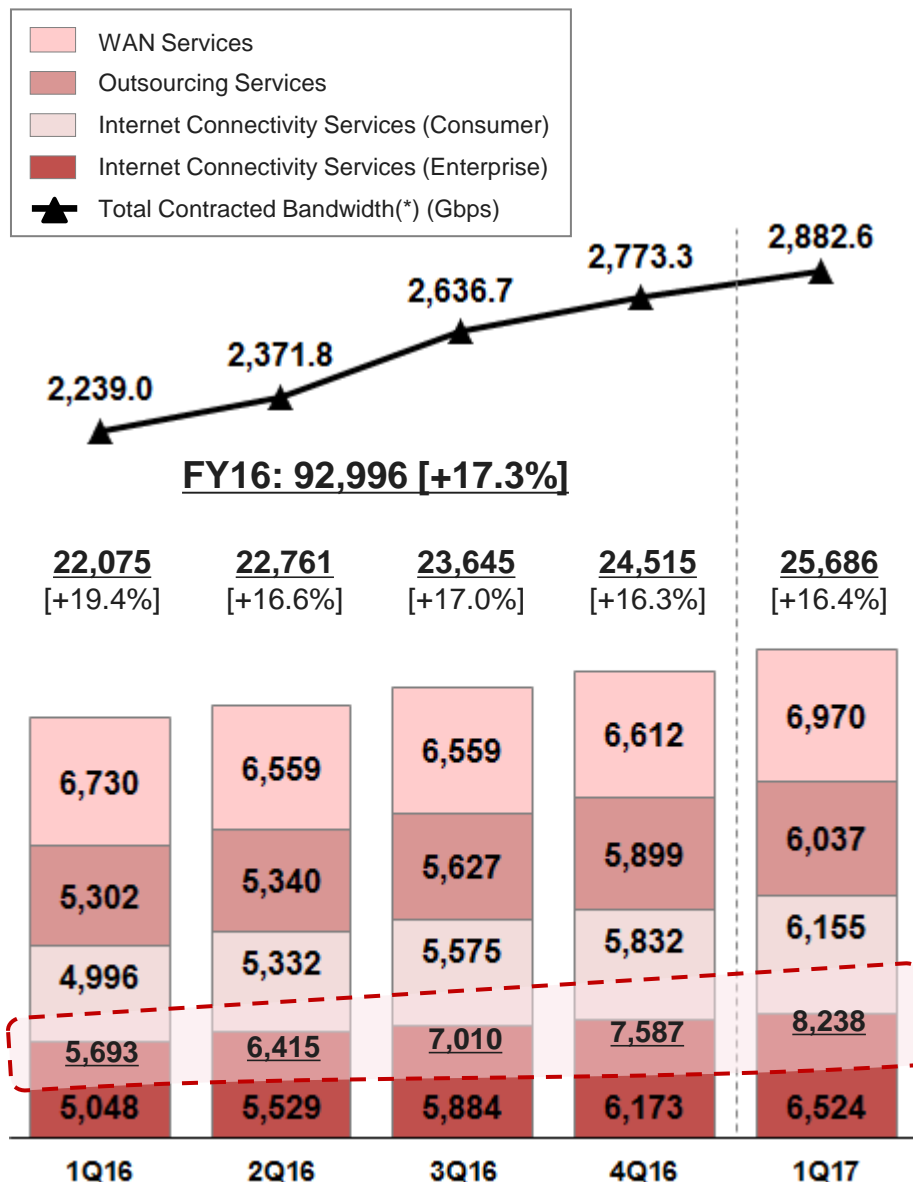
- 1Q17: JPY1,436 million (up 12.9% YoY)
- 1Q16: JPY1,273 million (down 14.2% YoY)
  - While 1Q16 SE productivity was low, 1Q17 SE productivity had a good start
  - Although the profitability of IIJ GIO P2 improved (1Q17 revenue up JPY0.4 billion YoY, 1Q17 cost up JPY0.33 billion YoY), it made SI gross margin ratio low



# Network Services (1)Revenues

Unit: JPY million

[ ], YoY = compared to the same period in a previous year  
QoQ = 1Q17 compared to 4Q16



## NW Services Revenues

### ◆ Internet Connectivity (Enterprise)

- 1Q17: up 29.2% YoY, up 5.7% QoQ
  - Mobile services revenue continued to increase
    - ✓ 1Q17-end subs. (unit: thousand): 931 (up 391 YoY)
    - ✓ Accumulating IoT-related prospective orders and PoC such as projects to remotely control facility
  - IP services revenues also increased QoQ as seasonal factor of pricing pressure impact was small

### ◆ Internet Connectivity (Consumer)

- 1Q17: up 23.2% YoY, up 5.5% QoQ
  - “IIJmio Mobile Services”
    - ✓ 1Q17-end subs. (unit: thousand): 966 (up 155 YoY)

### ◆ Outsourcing Services

- 1Q17: up 13.9% YoY, up 2.3% QoQ
  - Security-related revenue: up 22.7% YoY, up 8.8% QoQ
    - ✓ Services such as secure browsing, secure mail, DDoS protection, sandbox, SOC grew
  - Local governments’ “Information Security Cloud” projects also contributed to QoQ revenue growth

### ◆ WAN Services

- 1Q17: up 3.6% YoY, up 5.4% QoQ
- Revenues increased QoQ as seasonal factor of pricing pressure impact was small

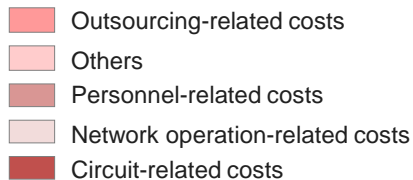
### ◆ Mobile services

- 1Q17: up 45.0% YoY

### ◆ Non-mobile services

- 1Q17: up 6.5% YoY

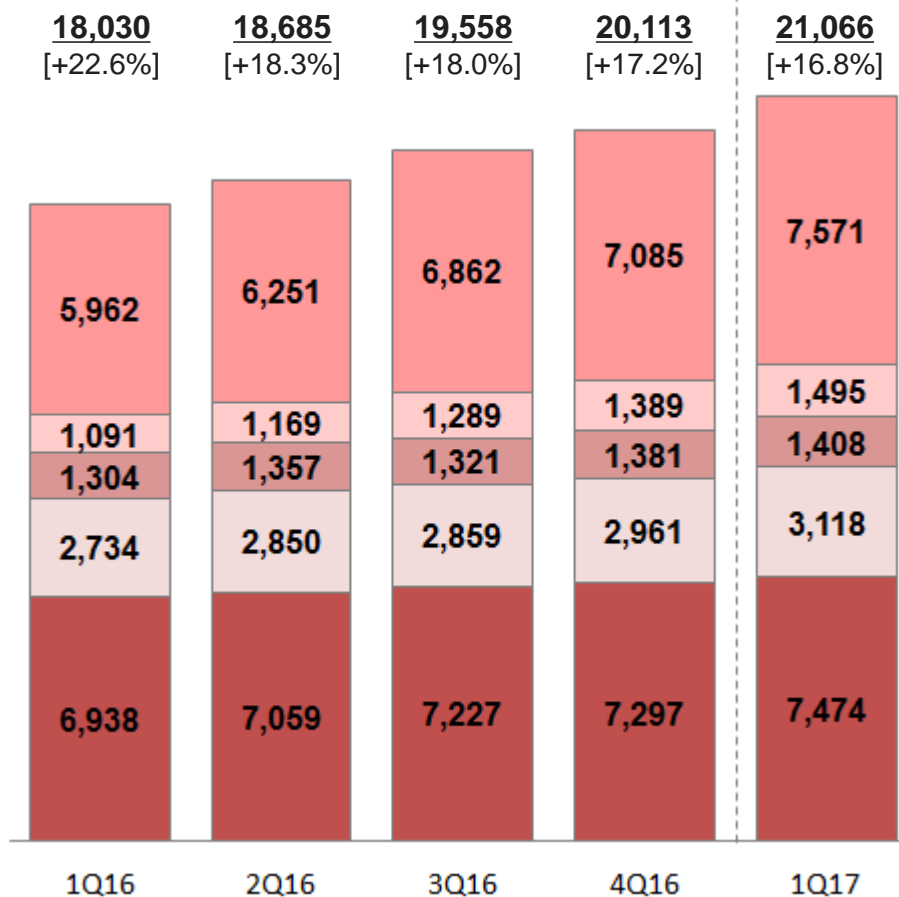
(\*) Total contracted bandwidth is calculated by multiplying number of contracts by contracted bandwidths respectively for IP service, data center connectivity service and IIJ FiberAccess/F and IIJ DSL/F of Internet connectivity services (Enterprise).



Unit: JPY million

[ ], YoY = compared to the same period in a previous year  
QoQ = 1Q17 compared to 4Q16

**FY16: 76,387 [+18.9%]**



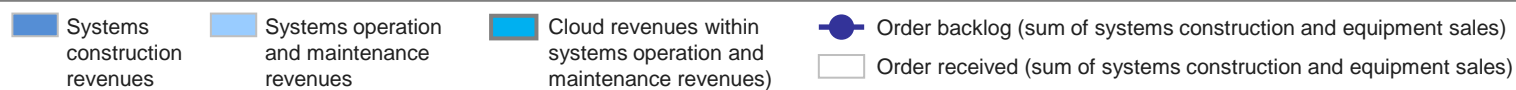
## Cost of NW Services

- 1Q17: up 16.8% YoY, up 4.7% QoQ
- Along with the increase in mobile subscription and traffic, mobile-related costs (mainly in outsourcing-related costs) increased
- Outsourcing-related, personnel-related and network operation-related costs increased along with the enhancement of our network and continuous service functions enhancement such as IJ Omnibus and security services

### ◆ Regarding NTT DOCOMO's ("DOCOMO") mobile interconnectivity cost recognition:

- Regarding our FY16 and FY15 usage charge, DOCOMO's interconnectivity telecommunications service charge was fixed in Mar. 2017 and it decreased by 14% (excluding the cost for lending SIM) YoY
- Regarding our FY17 and FY16 usage charge, DOCOMO's interconnectivity telecommunications service charge, which is calculated by DOCOMO's FY16 mobile-related cost, is expected to be fixed in Mar. 2018. DOCOMO's payment arrangement is 15% off temporarily from Apr. 2017 which is same as FY16

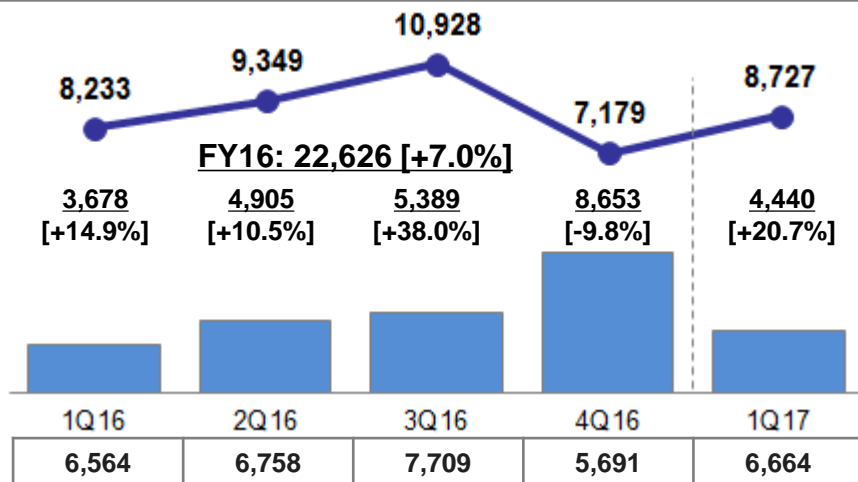
# Systems Integration (SI) (1)Revenues



Unit: JPY million

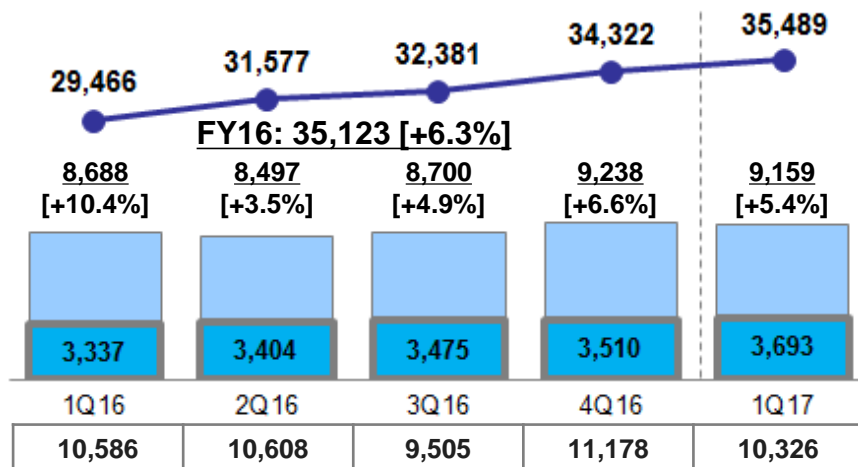
[ ], YoY = compared to the same period in a previous year  
QoQ = 1Q17 compared to 4Q16

## Systems Construction



- 1Q17 revenue: up JPY762 million, up 20.7% YoY
- Good start with 1Q17 order received up 1.5% YoY and 1Q17 order backlog up 6.0% YoY
- Large-scale construction projects orders received in 1Q17:
  - Core information platform for university campus
  - Official website for central government agencies
  - Research system for one of the largest libraries
  - Wi-Fi network for university campus
  - Mail and web systems for Sler etc.

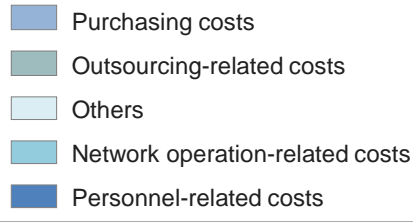
## Systems Operation and Maintenance



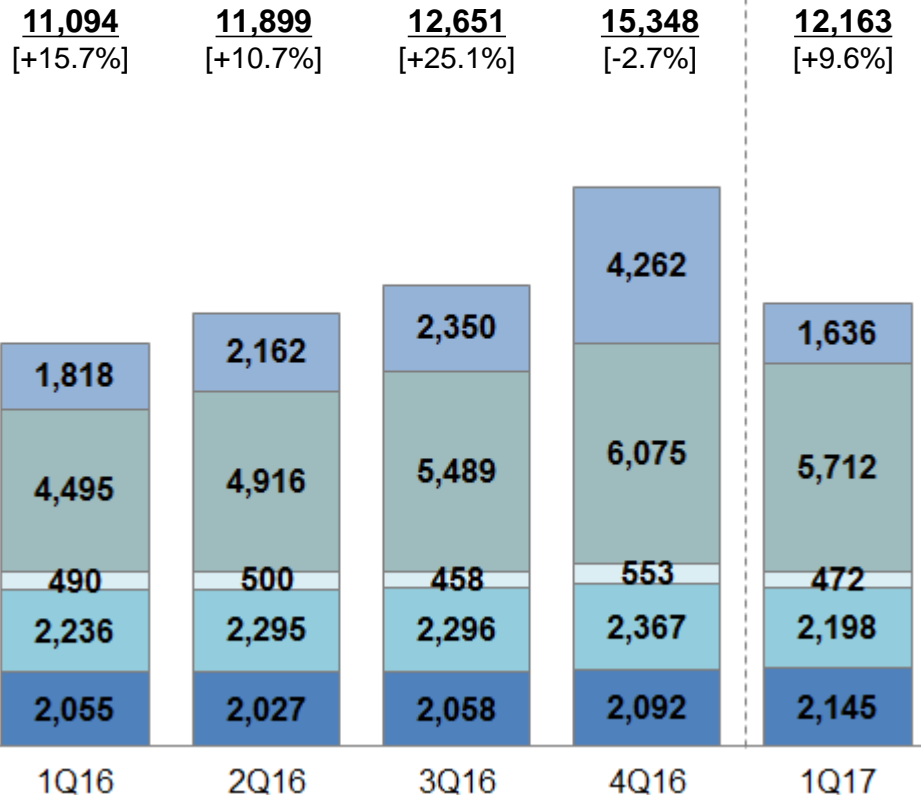
- 1Q17 revenue: up JPY471 million, up 5.4% YoY
- Continuous revenue growth mainly due to the accumulation of systems construction projects which migrated to systems operation and maintenance phase as well as continuous increase in private cloud revenue
  - From private cloud: up JPY356 million, up 10.7% YoY
  - From SI construction: up JPY116 million, up 2.2% YoY
 Sluggish growth due to expected termination of datacenter contract with a large game customer
- 86.6% of 1Q17 cloud-related revenue is recognized in systems operation and maintenance revenues (13.4% in outsourcing)

Unit: JPY million

[ ], YoY = compared to the same period in a previous year  
QoQ = 1Q17 compared to 4Q16



**FY16: 50,992 [+10.3%]**



### Cost of SI

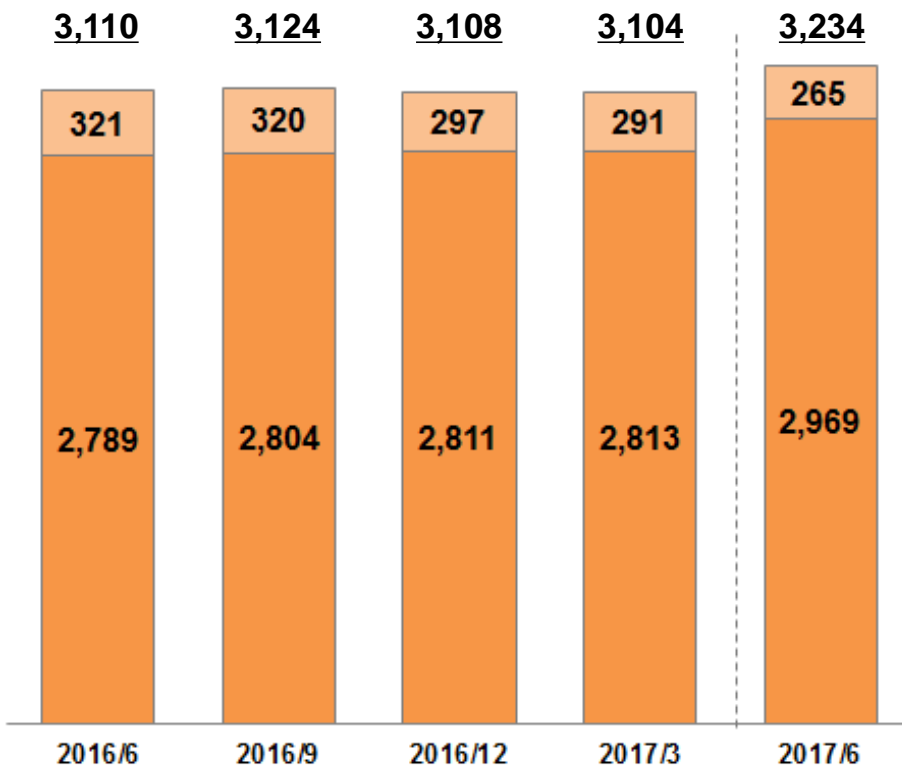
- 1Q17: up JPY1,069 million, up 9.6% YoY
  - 1Q17-end number of outsourcing personnel: 1,567 personnel (up 415 YoY, up 144 QoQ)
  - Although the number of SI-related outsourcing personnel and outsourcing-related costs decreased from 4Q16, they are to increase during FY17 along with an increase in SI projects
  - While 1Q16 SE productivity was low, 1Q17 SE productivity had a good start
  - Although the profitability of IIJ GIO P2 improved (1Q17 revenue up JPY0.4 billion YoY, 1Q17 cost up JPY0.33 billion YoY), it made SI gross margin ratio low

# Number of Employee

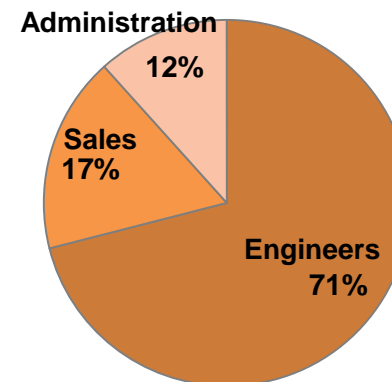
Contract worker  
 Full time worker

Unit: JPY million

[ ], YoY = compared to the same period in a previous year



## Employee Distribution



- ◆ 1Q17: up JPY333 million, up 6.1% YoY
- ◆ Hired 148 new graduates in Apr. 2017 (137 in Apr. 2016, 155 in Apr. 2015)
- ◆ Estimate number of employees to increase by approx. 190 during FY17

### Personnel related costs & expenses

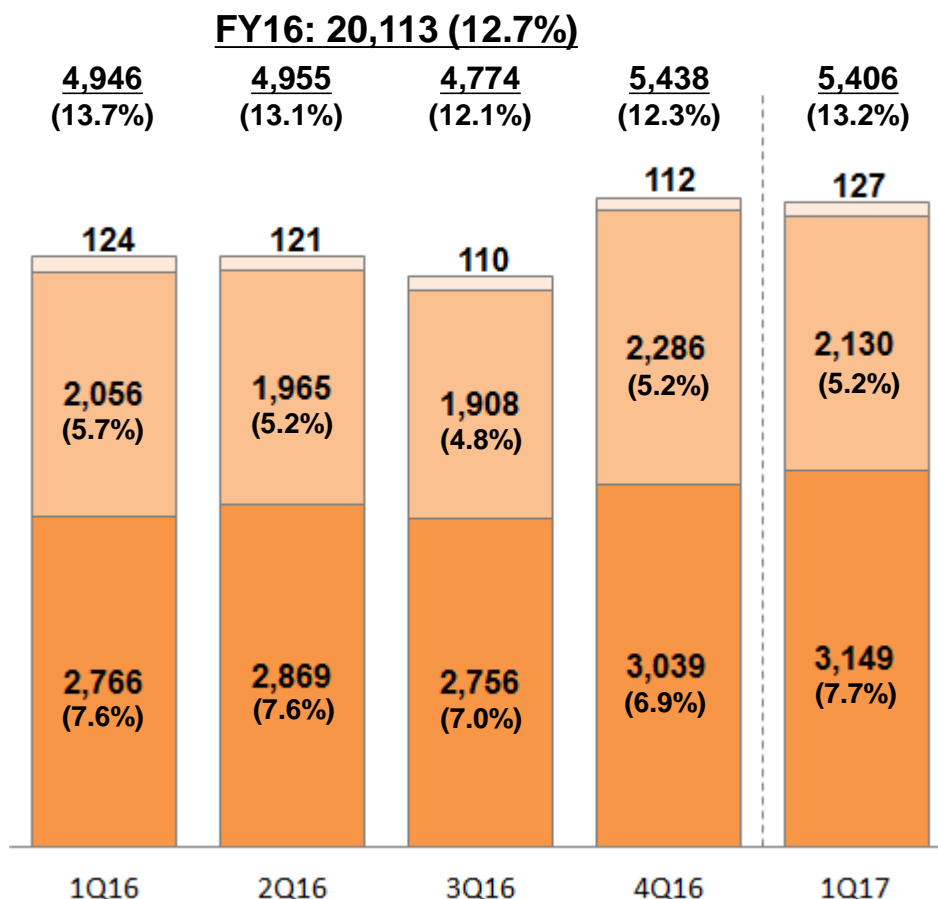
(% of revenue)

| 1Q16                        | 2Q16             | 3Q16             | 4Q16             | 1Q17             |
|-----------------------------|------------------|------------------|------------------|------------------|
| 5,464<br>(15.1%)            | 5,446<br>(14.4%) | 5,432<br>(13.8%) | 5,635<br>(12.8%) | 5,797<br>(14.2%) |
| <b>FY16: 21,977 (13.9%)</b> |                  |                  |                  |                  |
| up 822, up 3.9% YoY         |                  |                  |                  |                  |

- Research & development expenses
- General & administrative expenses
- Sales & marketing expenses
- ( ) % of total revenues

Unit: JPY million

[ ], YoY = compared to the same period in a previous year



## Sales & marketing expenses

- 1Q17: up 13.8% YoY
  - Sales commission expenses, advertising expenses, and personnel-related expenses increased

## General & administrative expenses

- 1Q17: up 3.6% YoY
  - Office rent expenses, commission expenses, and taxes and public dues increased

## ◆ SG&A related to ATM operation business

Unit: JPY million

| 1Q16 | 2Q16 | 3Q16 | 4Q16 | 1Q17 |
|------|------|------|------|------|
| 43.5 | 51.1 | 42.9 | 47.0 | 35.5 |

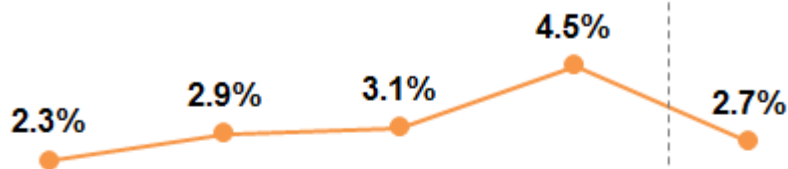
- Placed 1,083 ATMs as of June 30, 2017

# Operating Income and Net Income

Operating Income   Net Income Attributable to IIJ   Operating Margin Ratio

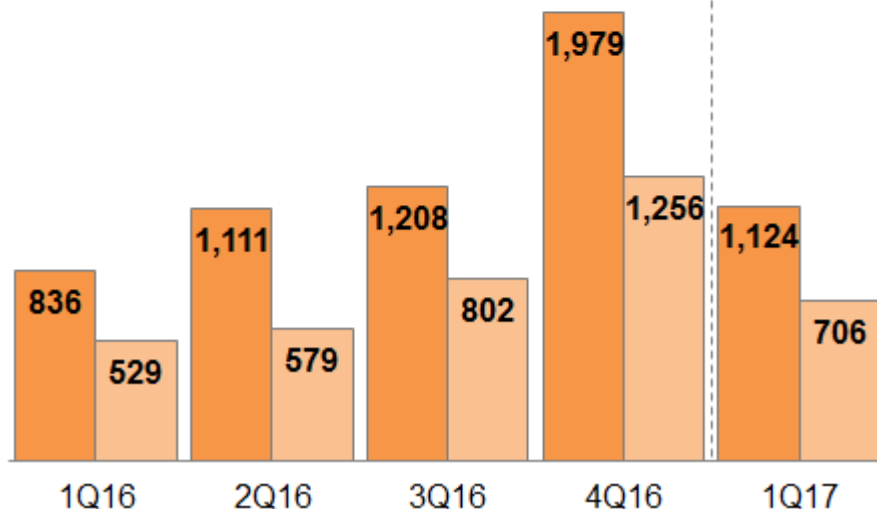
Unit: JPY million

[ ], YoY = compared to the same period in a previous year



**FY16 Operating income: 5,134**

**FY16 Net income attributable to IIJ: 3,167**



|      |      |      |       |      |   |
|------|------|------|-------|------|---|
| 139  | 531  | 446  | 1,203 | 342  | Current income tax expense                                |
| 301  | (18) | 67   | (444) | 109  | Deferred tax expense (benefit)                            |
| 17   | 25   | 28   | 61    | 36   | Equity in net income of equity method investees           |
| (42) | (43) | (41) | (39)  | (42) | Less: Net income attributable to noncontrolling interests |

## Income

### ◆ Income before income tax expense:

- 1Q17: JPY1,163 million  
(up JPY169 million, up 17.0% YoY)
  - Distribution from fund investments: JPY57 million
  - Dividend income: JPY72 million
  - Interest expense: JPY89 million
  - Foreign exchange gain: JPY5 million

### ◆ Net income attributable to IIJ:

- 1Q17: JPY706 million  
(up JPY177 million, up 33.4% YoY)
  - Equity in net income of equity method investees including Internet Multifeed: JPY36 million
  - Net income attributable to noncontrolling interests including Trust Networks: JPY42 million

# Consolidated Balance Sheets (Summary)

Unit: JPY million

|  | Mar. 31, 2017  | Jun. 30, 2017  | Changes        |
|--|----------------|----------------|----------------|
| Cash and Cash Equivalents                          | 21,959         | 20,508         | (1,451)        |
| Accounts Receivable                                | 27,384         | 24,059         | (3,325)        |
| Inventories  | 2,798          | 3,116          | +318           |
| Prepaid Expenses (Current and Noncurrent)          | 14,218         | 16,687         | +2,469         |
| Investments in Equity Method Investees             | 3,150          | 3,173          | +23            |
| Other Investments                                  | 7,925          | 8,831          | +906           |
| Property and Equipment                             | 39,775         | 40,415         | +640           |
| Goodwill and Other Intangible Assets               | 9,257          | 9,165          | (92)           |
| Guarantee Deposits                                 | 3,060          | 3,066          | +6             |
| <b>Total Assets:</b>                               | <b>137,395</b> | <b>136,500</b> | <b>(895)</b>   |
| Accounts Payable                                   | 16,962         | 13,981         | (2,981)        |
| Income Taxes Payable                               | 1,076          | 318            | (758)          |
| Borrowings (Short-term and Long-term)              | 17,750         | 17,750         | -              |
| Capital Lease Obligations (Current and Noncurrent) | 15,203         | 16,133         | +930           |
| <b>Total Liabilities:</b>                          | <b>70,015</b>  | <b>68,478</b>  | <b>(1,537)</b> |
| Common Stock                                       | 25,509         | 25,512         | +3             |
| Additional Paid-in Capital                         | 36,118         | 36,130         | +12            |
| Retained earnings                                  | 4,512          | 4,610          | +98            |
| Accumulated Other Comprehensive Income             | 2,500          | 3,034          | +534           |
| Treasury stock                                     | (1,897)        | (1,897)        | -              |
| <b>Total IJ Shareholders' Equity:</b>              | <b>66,742</b>  | <b>67,389</b>  | <b>+647</b>    |

➤ Total IJ Shareholders' Equity to Total Assets: 48.6% as of Mar. 31, 2017, 49.4% as of Jun. 30, 2017



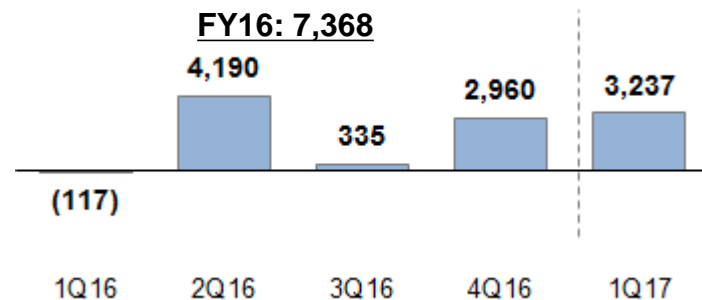
# Consolidated Cash Flows

Financials

Unit: JPY million

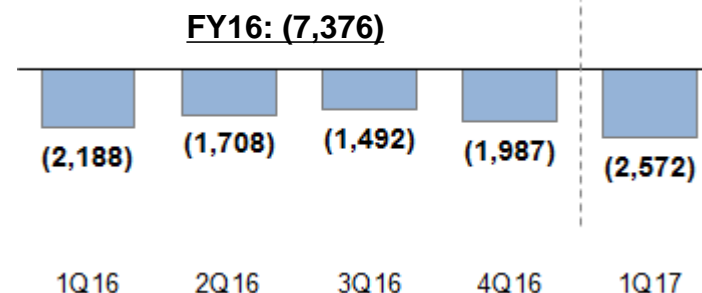
[ ], YoY = compared to the same period in a previous year

## Operating Activities



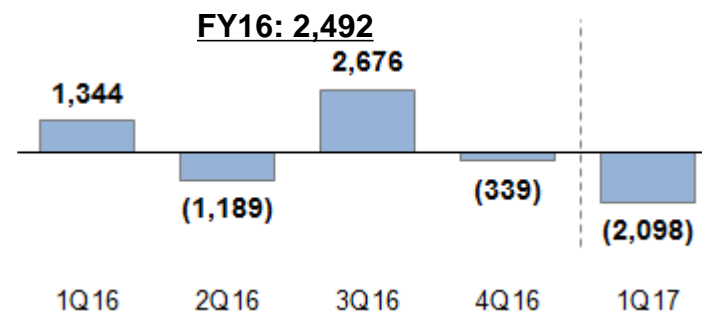
|  | <u>Major Breakdown</u> | <u>YoY Change</u> |
|--|------------------------|-------------------|
| Net income                                       | 748                    | +177              |
| Depreciation and amortization                    | 2,979                  | +367              |
| Fluctuations of operating assets and liabilities | (690)                  | +2,881            |

## Investing Activities



|  | <u>Major Breakdown</u> | <u>YoY Change</u> |
|--|------------------------|-------------------|
| Purchase of property and equipment                                   | (3,839)                | (755)             |
| Proceeds from sales of property & equipment (lease-back transaction) | 1,276                  | +871              |

## Financing Activities

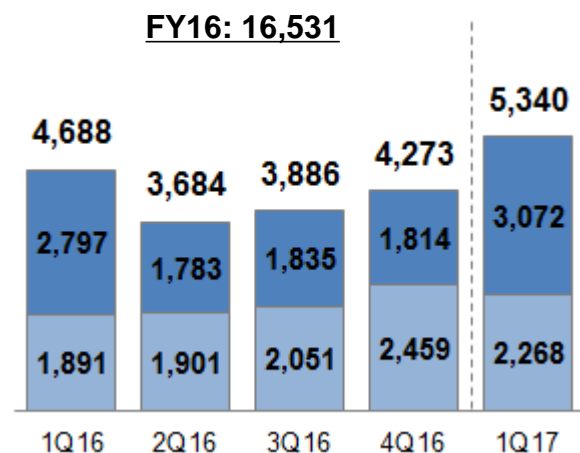
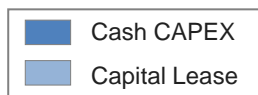


|   | <u>Major Breakdown</u> | <u>YoY Change</u> |
|---|------------------------|-------------------|
| Principal payments under capital leases | (1,335)                | (210)             |
| Dividends paid                          | (608)                  | (103)             |

# Other Financial Data (CAPEX etc.)

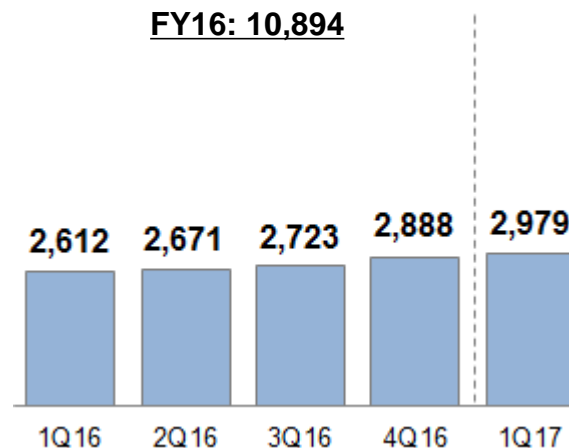
Unit: JPY million

## CAPEX

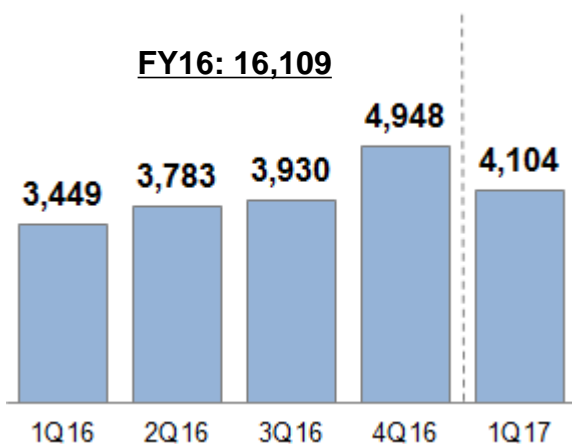


## Depreciation and Amortization

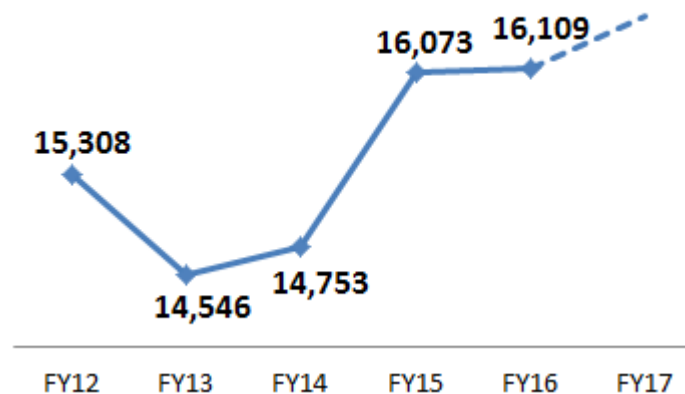
**FY16: 10,894**



## Adjusted EBITDA

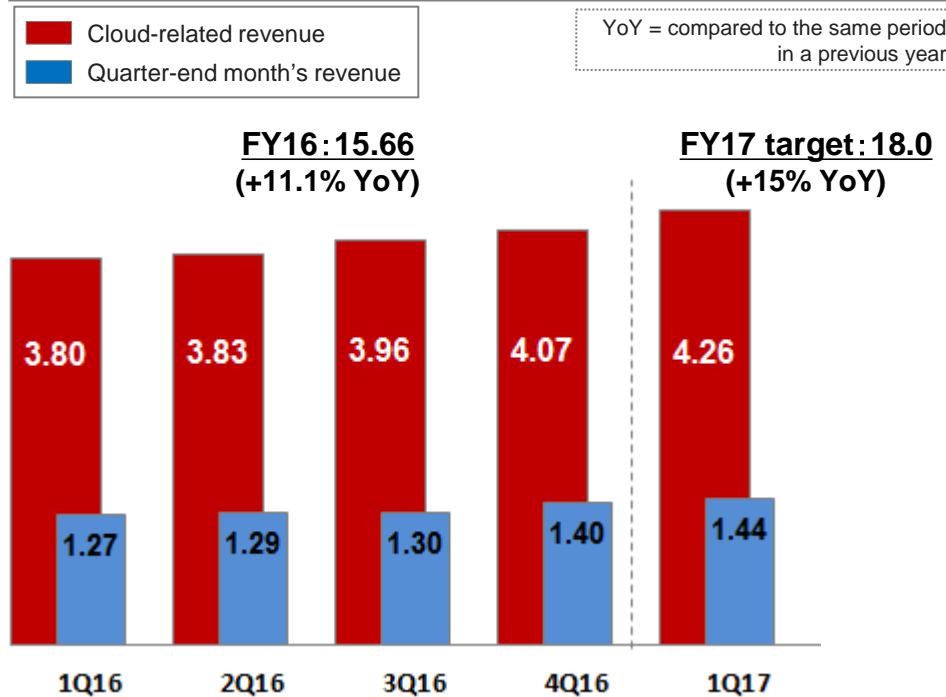


## Adjusted EBITDA Annual Growth



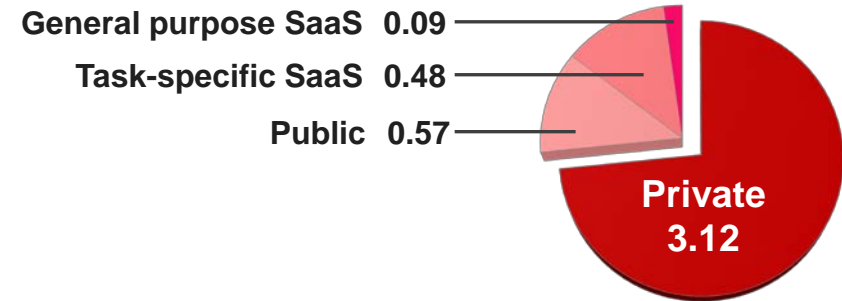
## Cloud-related revenue

Unit: JPY billion

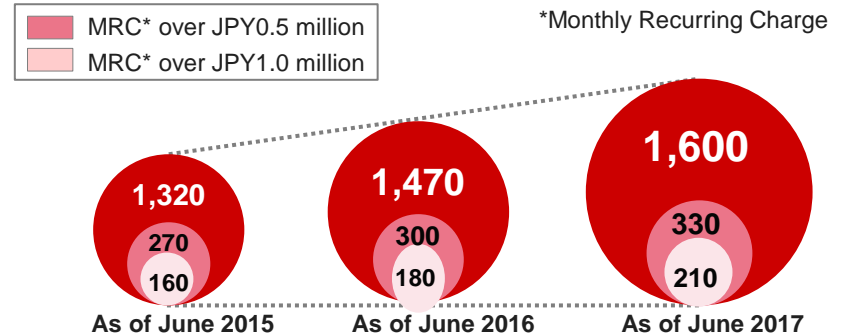


## 1Q17 revenue

Unit: JPY billion



## Cloud Customer Base



### ◆ 1Q17 Quarter over quarter revenue growth accelerated (+JPY0.19 billion)

- Demands for virtual desktop services, VMware virtualization platform services, IIJ GIO Infrastructure P2
- Large-scale projects such as virtual desktop for a prominent insurance company, core business platform for a major travel agency, and Information Security Cloud for local governments contributed to the growth
- No large change in large game customers revenue from 4Q16

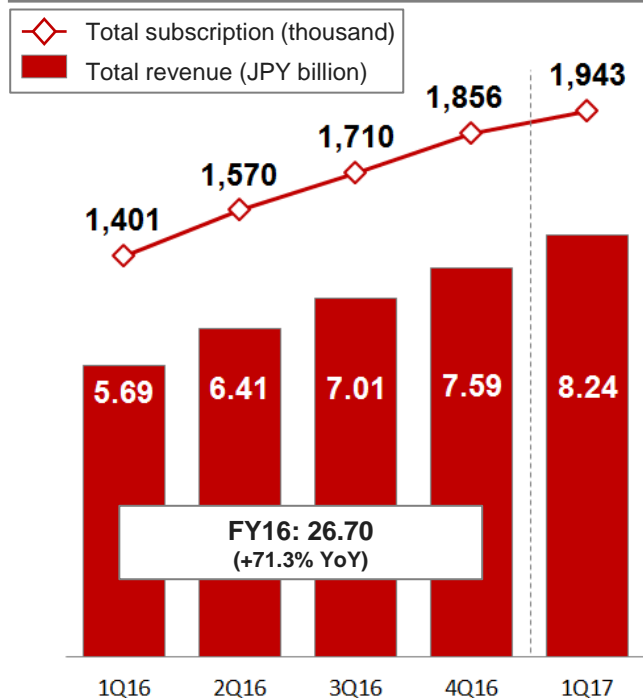
### ◆ IIJ GIO Infrastructure P2:

- 1Q17 revenue up JPY0.4 billion YoY
- 1Q17 cost up JPY0.33 billion YoY
- Continuously accumulating large-scale projects such as internal core business platform systems for a global manufacture and residents information systems for local governments

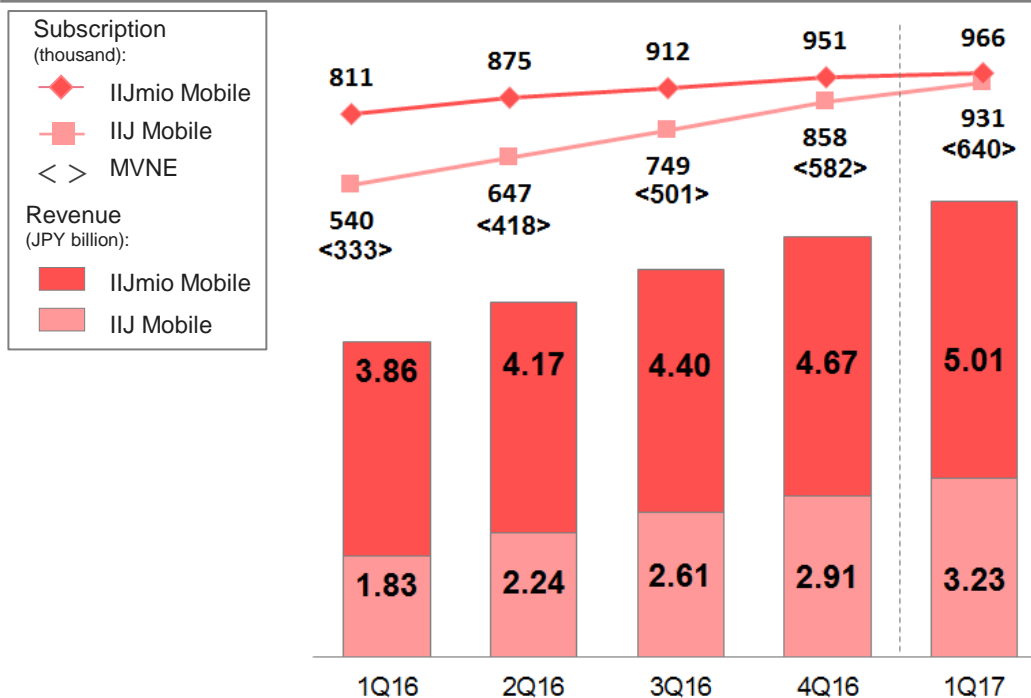
### ◆ 1Q17 cloud-related revenue recognition:

- 86.6% in systems operation and maintenance
- 13.4% in outsourcing

## Total subscription & revenue



## IIJmio Mobile (consumer) & IIJ Mobile (enterprise)



◆ **1Q17 enterprise mobile revenue (excluding MVNE): JPY0.87 billion (+22.7% from 1Q16, +4.1% from 4Q16)**

- Continuously accumulating enterprise mobile solutions
  - Security camera, digital signage, BtoC service handy devises, large-scale solar panel monitoring, ticket vending machine etc.

◆ **Accumulating IoT-related prospective orders and discussions on feasibility study and PoC**

- Paddy water control, Connected Homes, energy management, accidents prevention with Smart Factory, remote control of facility etc.

- ◆ Toward consumers, expect to expand MVNE business clients' transactions, differentiate with reliable connectivity, introduce various handsets and optional add-on features, execute campaigns etc.

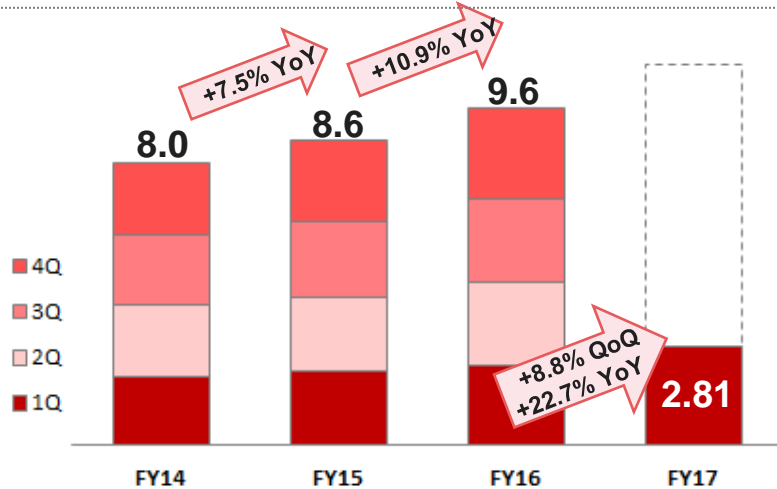
◆ **Full-MVNO services to be launched in 4Q17, generate IoT demands**

- Preparation proceeding as planned: constructing systems and verifying communication confirmation etc.
- Expect to offer closed network, eSIM, private roaming, business solution with inventory optimization, cost compression of SIM by issuing own original SIM

◆ **Mobile services' gross margin and operating income amount continued to increase year over year and quarter over quarter**

## Security-related Services Revenue JPY billion

YoY = compared to the same period in a previous year, QoQ = 1Q17 compared to 4Q16



Including security-related SI, FY16 security related revenue was over JPY11 billion

## Security service line-ups

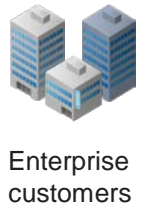
◆ Provide together with NW and SI as comprehensive

**Various security service line-ups**

- Firewall
- Targeted attacks protection
- Unified security solution/SOC
- Web access security
- Smart devices security
- WAF
- IPS/IDS
- DDoS protection
- Mail security
- Security hole testing
- etc.

NW

SI



## Business Developments

- ◆ First in Japan to provide **firewall services** (since 1994)
- ◆ Protecting **several hundreds of thousands email accounts** with our services for such as global manufacturing companies, local governments and more from external threats and information leaks
- ◆ Providing **DDoS protection services** which are able to handle terabit cyber attacks to many of central government agencies and prominent financial institutions
- ◆ Providing **SOC services** with approx. 6 billion daily log records of network etc. (others: approx. 0.8 billion records a day), able to detect Internet threats and execute countermeasures in early stage
- ◆ **Advising regional police departments about cyber security** such as unauthorized access and Internet network

## Competitive Advantage of IIJ

|                 | NW | Analysis | Monitoring | SI |
|-----------------|----|----------|------------|----|
| IIJ             | ○  | ○        | ○          | ○  |
| Security vendor | ×  | △        | ○          | ×  |
| Sler            | ×  | △        | ○          | ○  |

# FY2017 Financial Target

Unit: JPY billion

|                                  | % of Revenues                           | % of Revenues                          | % of Revenues                          | FY17 Target against FY16 Results |               |
|----------------------------------|---|--|--|----------------------------------|---------------|
|                                  | FY16 Results<br>(Apr. 2016 - Mar. 2017) | 1H17 Target<br>(Apr. 2017 - Sep. 2017) | FY17 Target<br>(Apr. 2017 - Mar. 2018) |                                  |               |
| Total Revenues                   | <b>157.8</b>                            | <b>82.4</b>                            | <b>176.0</b>                           | <b>+18.2</b>                     | <b>+11.5%</b> |
|                                  | 84.0%                                   | 84.7%                                  | 84.0%                                  |                                  |               |
| Total Cost of Revenues           | <b>132.5</b>                            | <b>69.8</b>                            | <b>147.8</b>                           | <b>+15.3</b>                     | <b>+11.5%</b> |
|                                  | 16.0%                                   | 15.3%                                  | 16.0%                                  |                                  |               |
| Gross Margin                     | <b>25.2</b>                             | <b>12.6</b>                            | <b>28.2</b>                            | <b>+3.0</b>                      | <b>+11.7%</b> |
|                                  | 12.7%                                   | 12.9%                                  | 12.3%                                  |                                  |               |
| SG&A/R&D                         | <b>20.1</b>                             | <b>10.6</b>                            | <b>21.7</b>                            | <b>+1.6</b>                      | <b>+7.9%</b>  |
|                                  | 3.3%                                    | 2.4%                                   | 3.7%                                   |                                  |               |
| Operating Income                 | <b>5.1</b>                              | <b>2.0</b>                             | <b>6.5</b>                             | <b>+1.4</b>                      | <b>+26.6%</b> |
|                                  | 3.4%                                    | 2.4%                                   | 3.7%                                   |                                  |               |
| Income before Income Tax Expense | <b>5.4</b>                              | <b>2.0</b>                             | <b>6.5</b>                             | <b>+1.1</b>                      | <b>+19.8%</b> |
|                                  | 2.0%                                    | 1.3%                                   | 2.3%                                   |                                  |               |
| Net Income*                      | <b>3.2</b>                              | <b>1.1</b>                             | <b>4.0</b>                             | <b>+0.8</b>                      | <b>+26.3%</b> |
| Cash Dividend per common share   | <b>JPY27.00</b>                         | <b>JPY13.50</b>                        | <b>JPY27.00</b>                        | -                                | -             |

\*Net income attributable to IIJ

## NW services

- Revenue growth to accelerate with large-scale Information Security Cloud project (MRC over JPY100 million), outsourcing and Internet connectivity services
- FY17 mobile net addition target to be greater than FY16 along with market expansion, enhancement of sales promotion for sales partners, and M2M/IoT subs.
- Full-MVNO related cost approx. JPY0.4 billion (to be recorded from Dec. 2017)
- Keep NW services gross margin ratio to be on 17% with service revenue accumulation and expansion of gross margin with outsourcing, Internet connectivity, while mobile service gross margin slightly decrease

## SI

- Systems construction revenue with same level as FY16 affected by further cloud service penetration
- Systems operation and maintenance revenue to continuously increase, target JPY18.0 billion for cloud revenue
- SI gross margin ratio to improve approx. 1 point from FY16, Cloud margin to improve by JPY0.4 billion to JPY0.6 billion

## ATM

- Expect no significantly large number of additional ATM placement

|                   |   |
|-------------------|---|
| <b>SG &amp; A</b> | ◆ Sales commission fee, sales promotion, personnel-related, rent to increase continuously |
| <b>HR</b>         | ◆ Net addition of approx. 190 personnel   |
| <b>CAPEX</b>      | ◆ Recent years' CAPEX volume + full-MVNO related investment (up JPY0.8 billion YoY)       |

## ※ Forward-looking Statements

Statements made in this presentation regarding IIJ's or managements' intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding revenues, operating and net profitability are subject to various risks, uncertainties and other factors that could cause IIJ's actual results to differ materially from those contained in any forward-looking statement. These risks, uncertainties and other factors include but not limited to:

- a decrease of corporate spending or capital expenditure due to depression in the Japanese economy and/or corporate earnings decreased,
- an inability to achieve anticipated results and cause negative impact on profitability,
- a possibility that less of reliability for our services and loss of business chances due to interruption or suspension of our services,
- an excess increase and fluctuation in network related cost, mobile-related cost, outsourcing cost, personnel cost etc,
- a possibility to lose business opportunity due to our inadequate resources in personnel and others,
- an increase in competition and strong pricing pressure,
- the recording of an impairment loss as a result of an impairment test on the non-amortized intangible assets such as goodwill,
- a decline in value and trading value of our holding securities.

Please refer to IIJ's filings on Form 20-F of its annual report and other filings with the United States Securities and Exchange Commission ("SEC") for other risks.

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