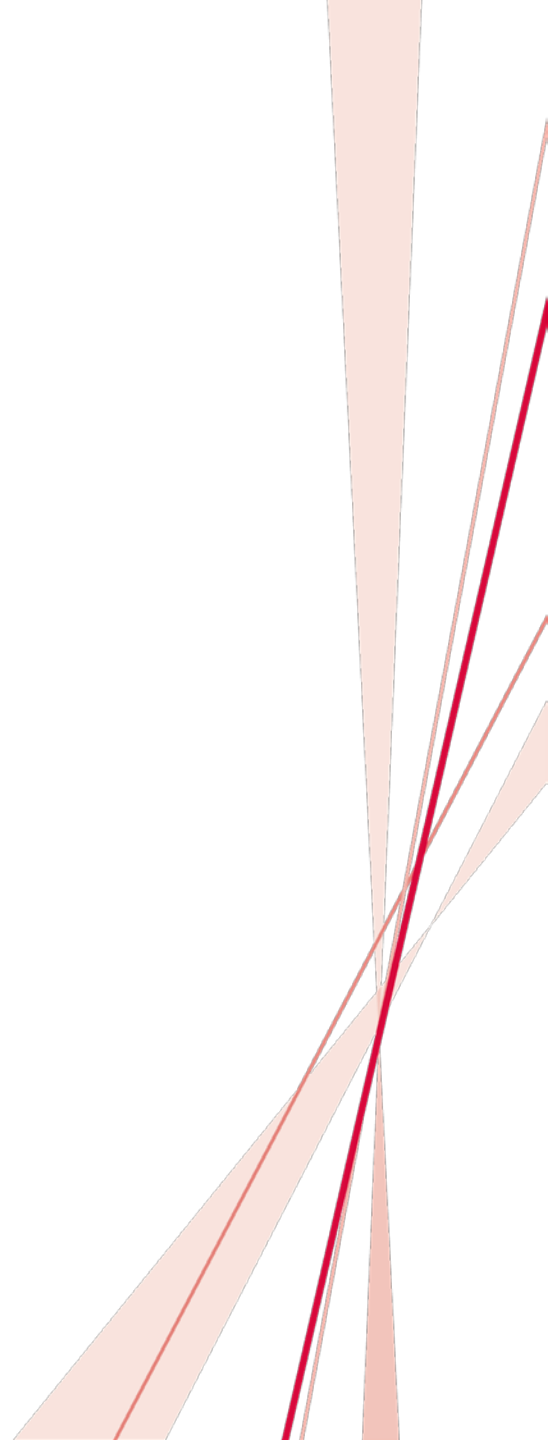


# Internet Initiative Japan Inc. Corporate Overview

November 2017  
TSE1:3774 NASDAQ:IJI

Ongoing Innovation



# Outline

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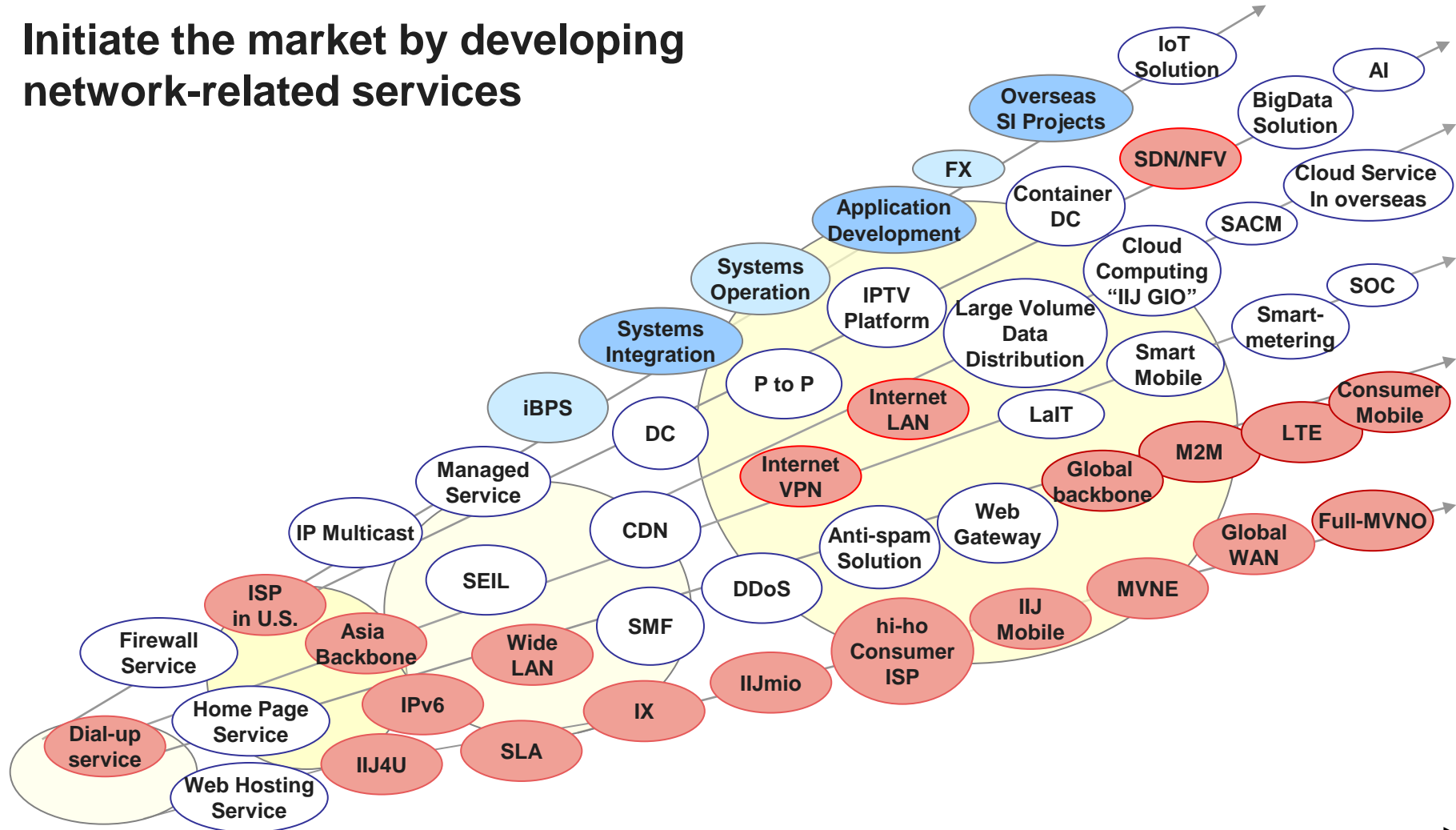
- ◆ **Strengths and competitive advantages**
  - Business accumulation P. 3 – 5
  - Business model P. 6
  - Blue-chip customer base P. 7 – 8
  - Comprehensive service line-up P. 9
  - Positioning P. 10
  - Leveraging Blue-chip Customer Base P. 11
  - Recent growth P. 12
  
- ◆ **Growth strategy**
  - Cloud P. 13 – 15
  - Mobile P. 16 – 18
  - Security P. 19
  - CDN P. 20
  - IoT P. 21
  - Middle term plan P. 22 – 23
  
- ◆ **Financials**
  - 1H17 results summary P. 24
  - FY17 plan summary P. 25
  - 1H17 results in details P. 31 – 49
  - Dividend P. 26
  
- ◆ **Appendix**
  - P. 27 – 29

|                            |   |
|----------------------------|---|
| <b>Established</b>         | <b>December 1992</b>  |
| <b>Number of Employees</b> | <b>3,239</b> (approx. 70% engineers)<br><small>Consolidated<br/>as of September 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 September 30, 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



1992 **IIJ** Internet Initiative Japan

1996 **IIJ** IIJ America

1997 **internet m/s**

1998 **IIJ** Engineering

2006 **Net Chart Japan i-revo**

2007 **hi-ho** INNOVATION INSTITUTE

2008 **IIJ** **IIJ Global**

2010 **Trust Networks** **TRINITY** Loyalty Marketing Solutions

2013 **IIJ** IIJ Europe

2014 **株式会社 電巧社 ネットウエア** ATKUSZU NETWORK

IIJ Group

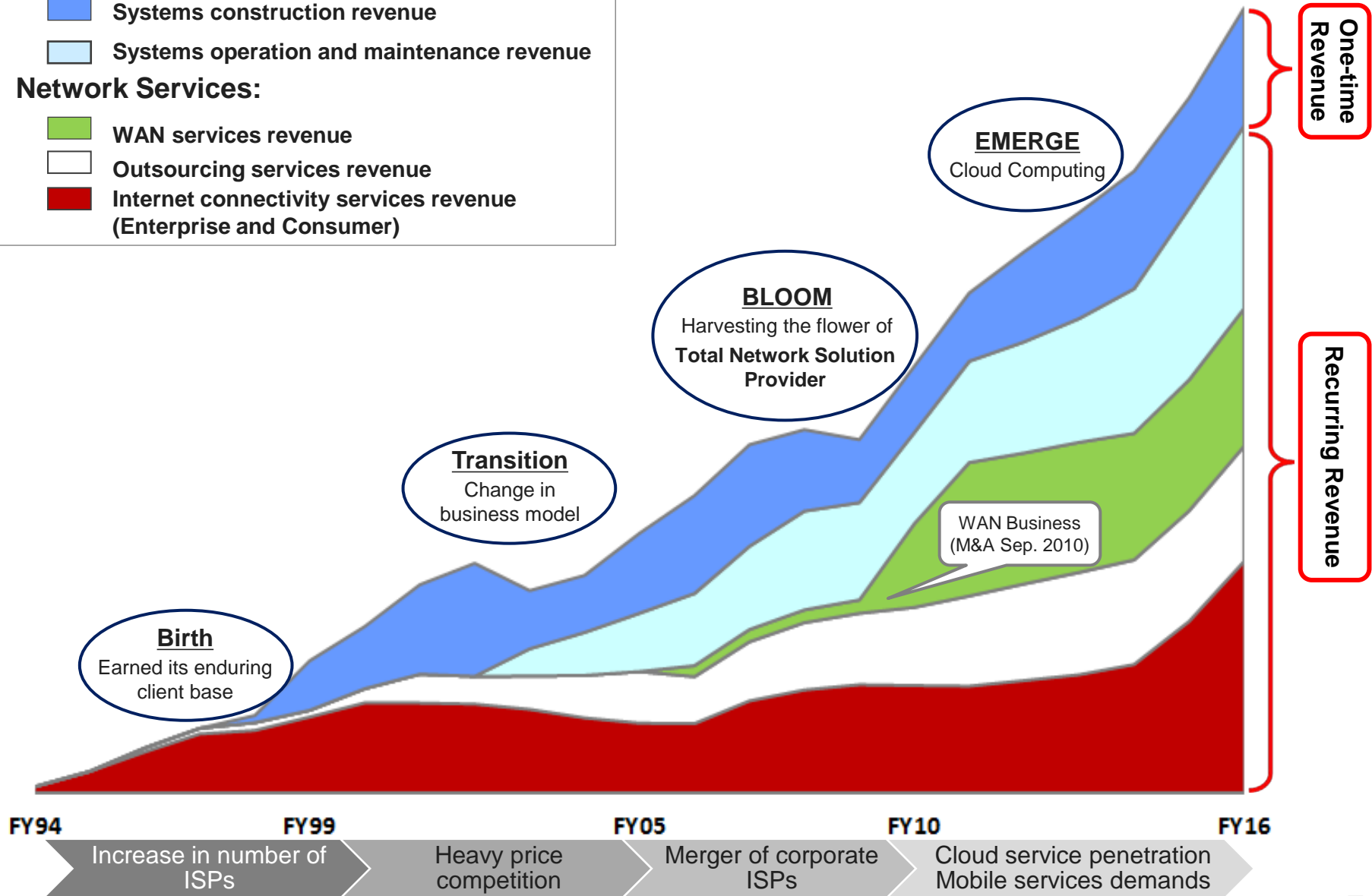
# ISP to Total Network Solution Provider

## Systems Integration:

- Systems construction revenue
- Systems operation and maintenance revenue

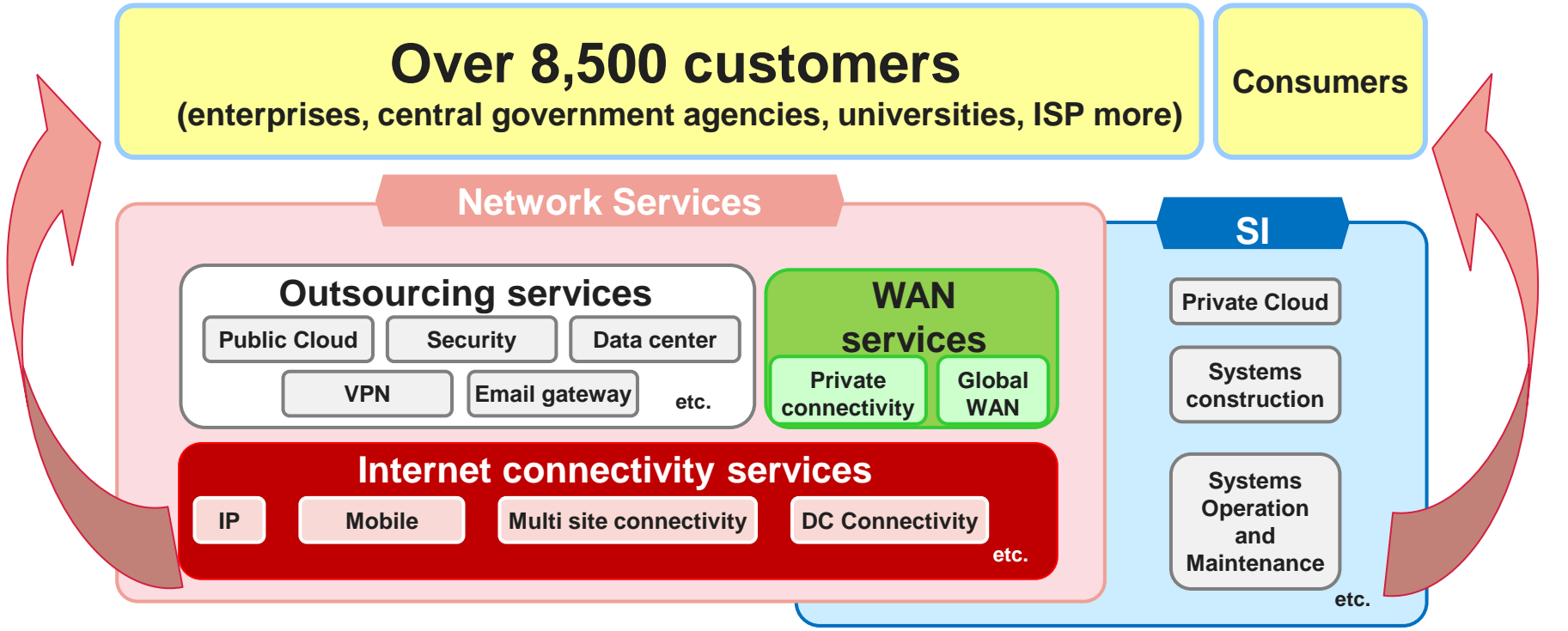
## Network Services:

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

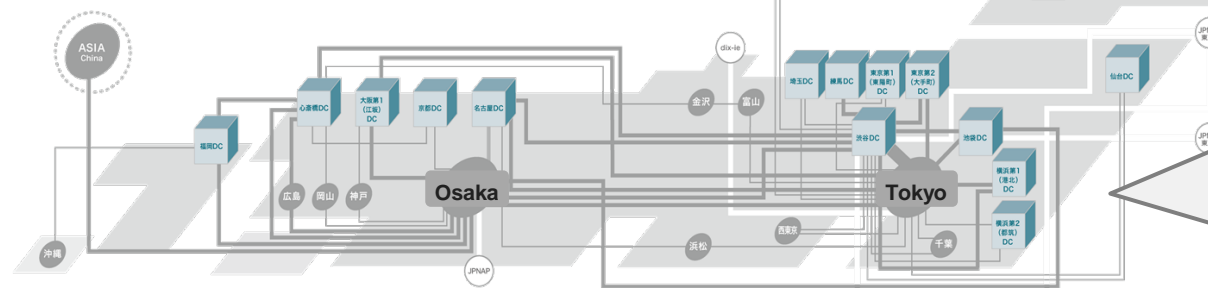


## Leveraging Internet-related technology

## 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 carriers etc.

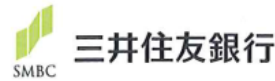
# Excellent Customer Base with Many Blue-Chips

Competitive Advantages

Cover Most of Blue-Chip Companies



**Panasonic**



**NOMURA**



THE DOCUMENT COMPANY  
**FUJI XEROX**



**Ministry of Finance**

**Ministry of Agriculture,  
Forestry, and Fisheries**

**Ministry of the  
Environment**

**Ministry of Justice**

**Imperial  
Household Agency**

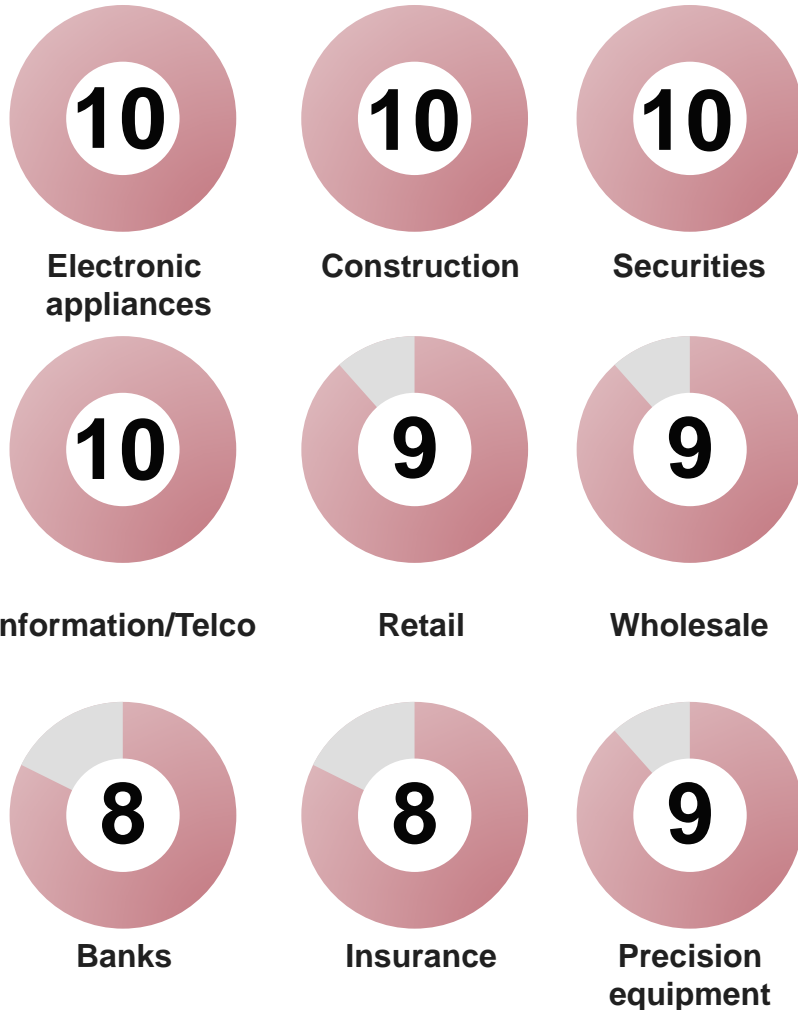
**National Police  
Agency**

**and many more...**

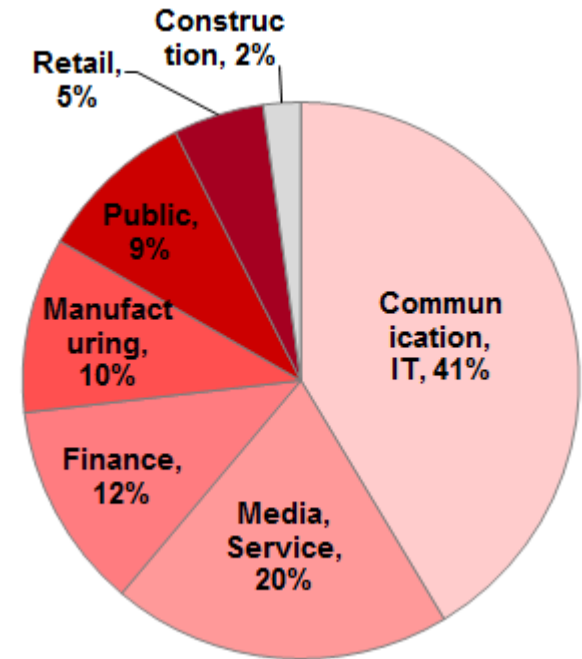
# Excellent Customer Base with Many Blue-Chips

## Cover Most of Top 10 Revenue Companies

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



## Revenue Distribution by Industry



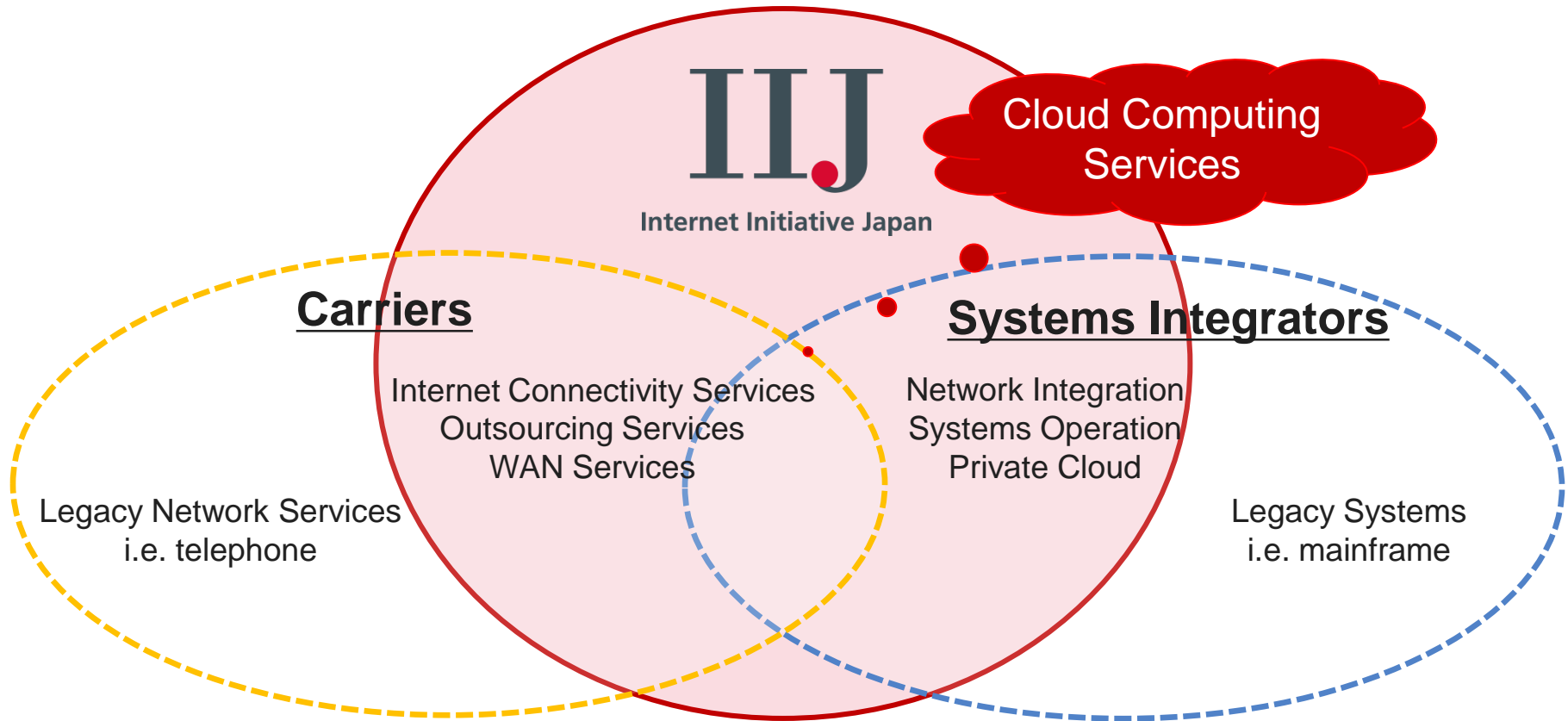
Source: IJ's FY2016 Financials



# 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 |                                    |  |  |

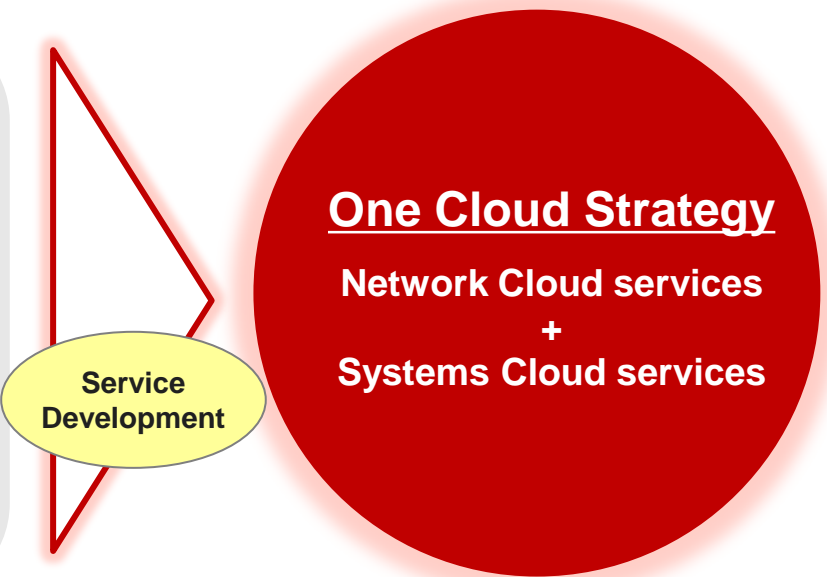
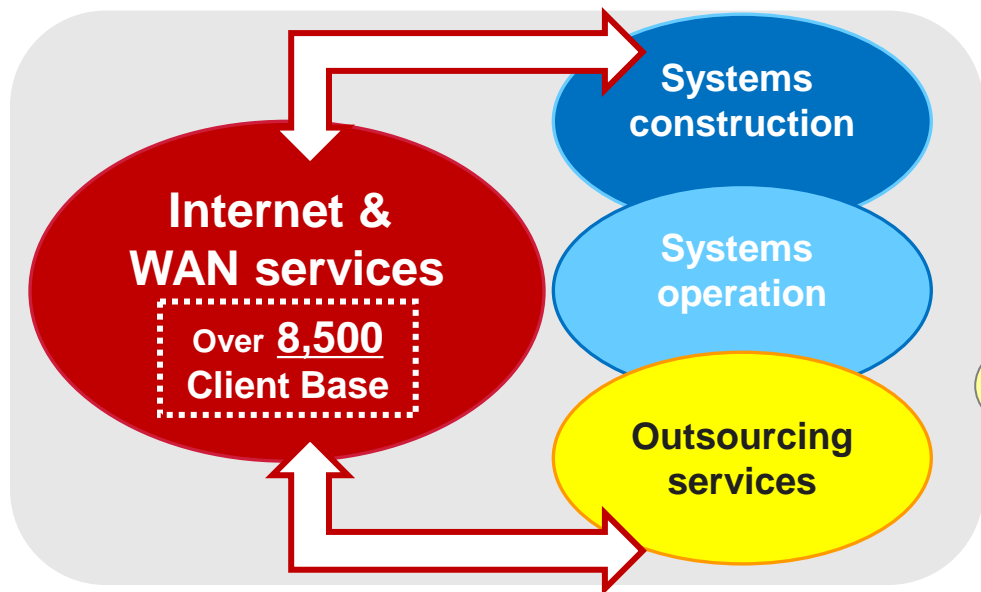
Cover Corporates' New IT Services Demands with reliable operation



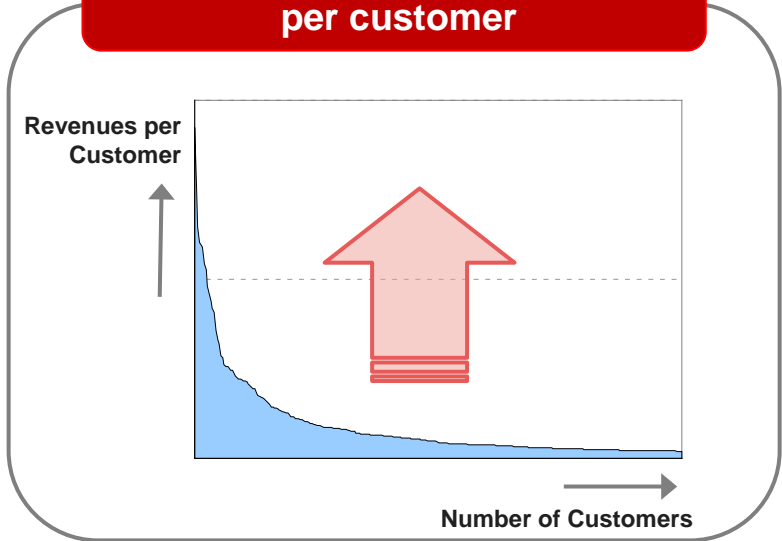
## IIJ's differentiation points towards competitors

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

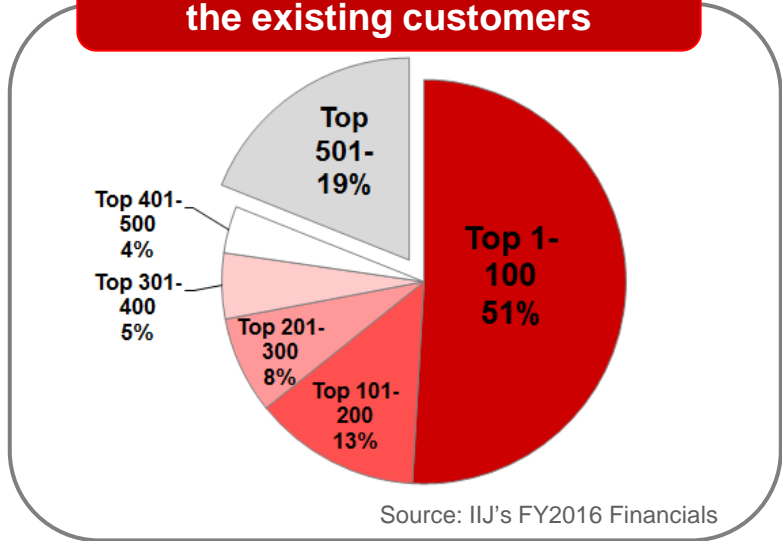
- Operates network facilities by ourselves
- Develops network services
- Moderate number of employees



**Increase revenues per customer**



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

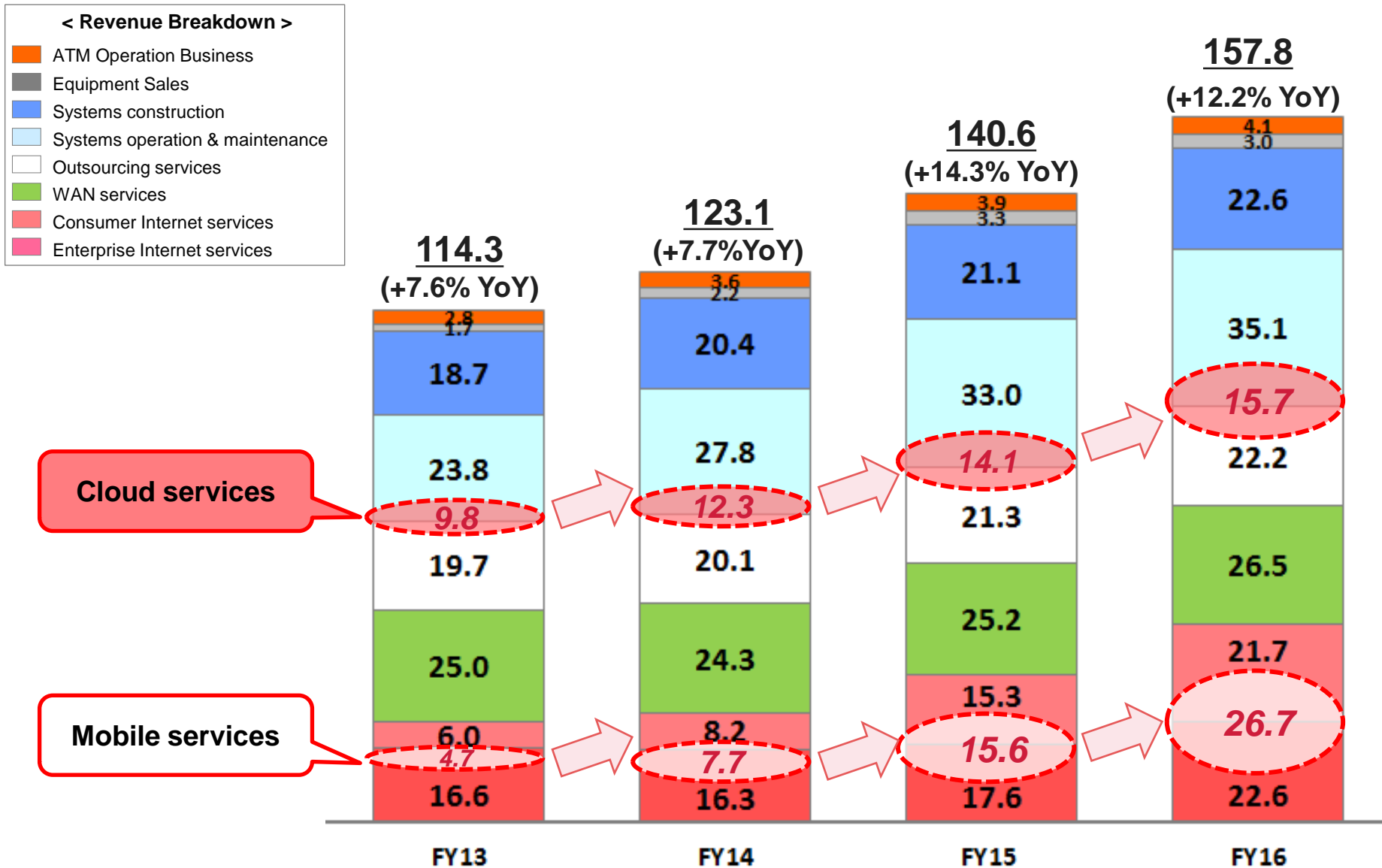


# Leveraging Blue-chip Customer Base

Growth Strategy

Unit: JPY billion

## Cross-selling multiple service products



## Cloud Market in Japan

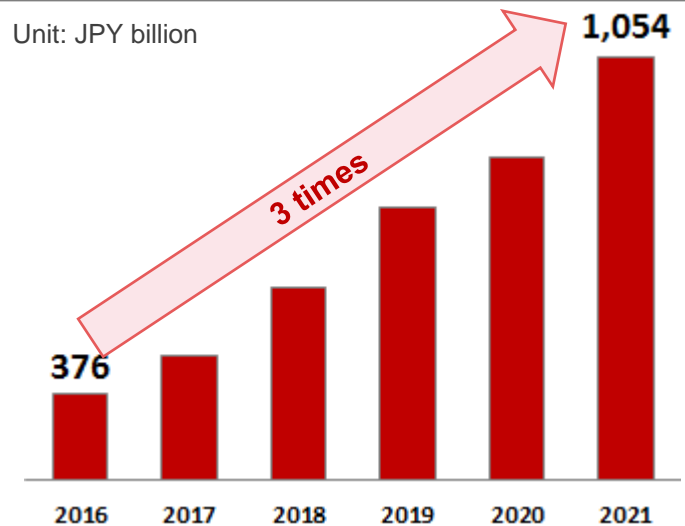
- Cloud penetration among Japanese enterprises\*: 46.9% as of 2016-end, 33.0% as of 2013-end  
\*Source: WHITE PAPER "Information and Communications in Japan published annually by the Ministry of Internal Affairs and Communications
- Some advanced and mission critical enterprises on cloud
- Average system 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



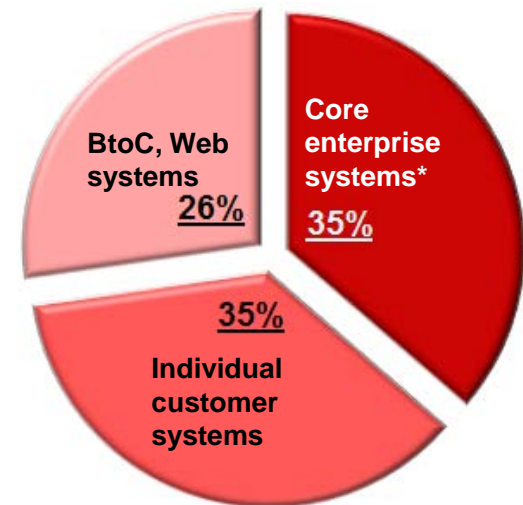
Published in Mar. 2017 by IDC Japan "Domestic Public Cloud Market Estimation revenue-base (2016-2021)"

## 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

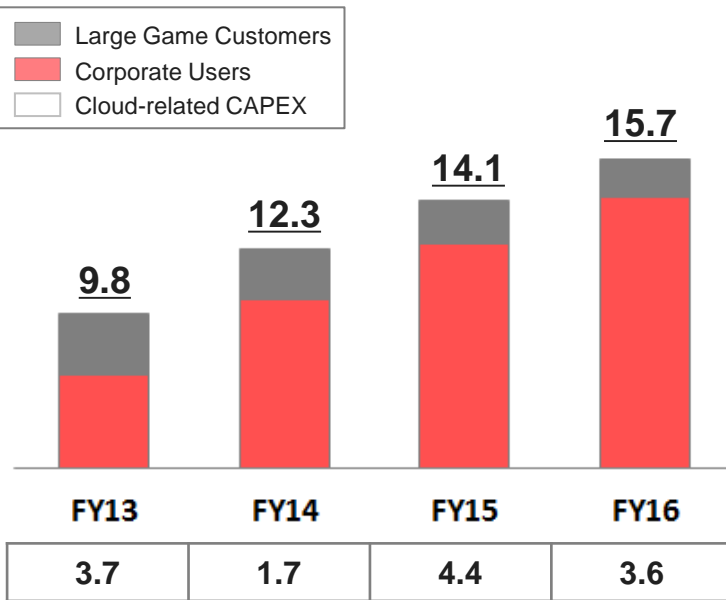
Among IJ GIO P2 prospective projects with monthly revenue charge over JPY1 million,, 35% are core enterprise systems-related



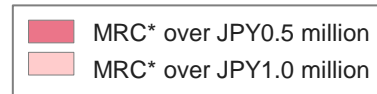
- Launched IJ GIO P2 in fall 2015, profit burden currently
  - FY16 revenue up JPY0.65 billion YoY
  - FY16 cost up JPY1.19 billion YoY

## Revenue Growth

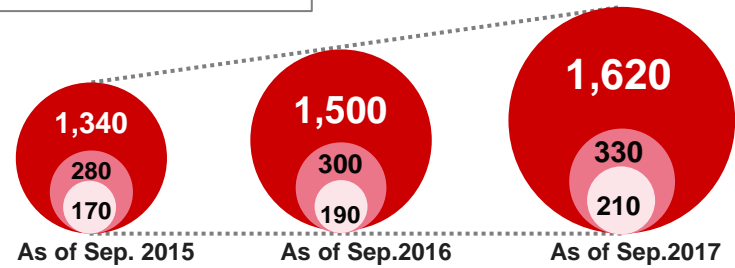
Unit: JPY billion



## 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

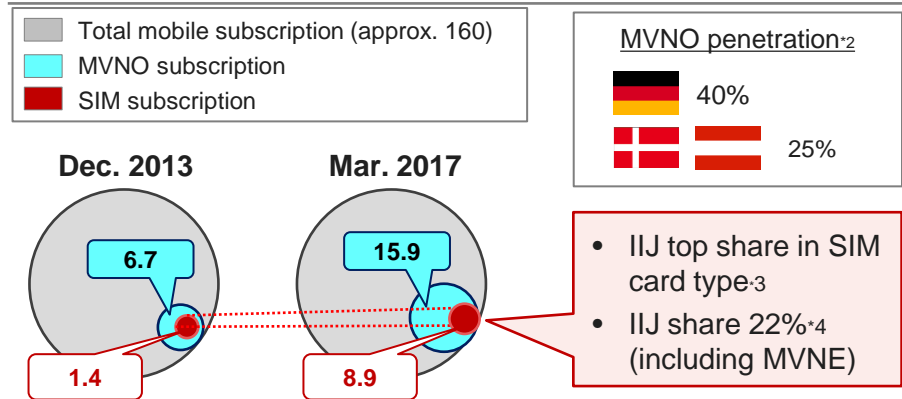


## IJ's Competitive Advantages

| IJ's Cloud |   | Competitors      |  |
|------------|---|------------------|--|
|            | <ul style="list-style-type: none"> <li>◆ Experience, reputation</li> <li>◆ Reliable operation</li> <li>◆ Deep relationships with blue-chip customers</li> <li>◆ In-house service developments</li> <li>◆ Various options for CPUs/OSs/storage/network usage etc.</li> </ul> | <b>AWS/Azure</b> | <ul style="list-style-type: none"> <li>◆ Strong scale merit</li> <li>◆ Not so strong about meeting individual system needs                             <ul style="list-style-type: none"> <li>• Service specs</li> <li>• SI expertise</li> <li>• Customer support</li> </ul> </li> </ul> |
|            |   | <b>Slers</b>     | <ul style="list-style-type: none"> <li>◆ Tailored toward individual private cloud, in principal</li> <li>◆ Target current clients, in principal</li> </ul>   |

## 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

\*4 MM Research Institute as of March 2017, published in June 2017

## IJ's Growth Strategy

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

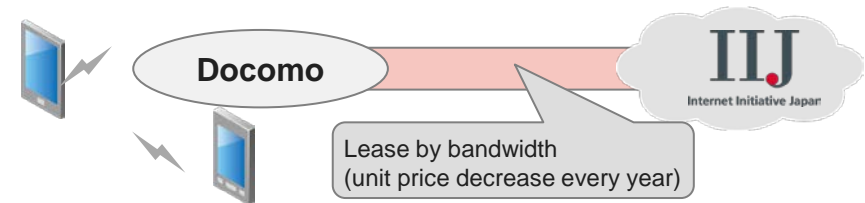
- ✓ Expect better network utilization than the MVNOs just receiving revenues from consumers
- ✓ Expect full-MVNO functions to accelerate enterprises' demand for IoT
- ✓ Room to absorb corporate traffic; margin to improve

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

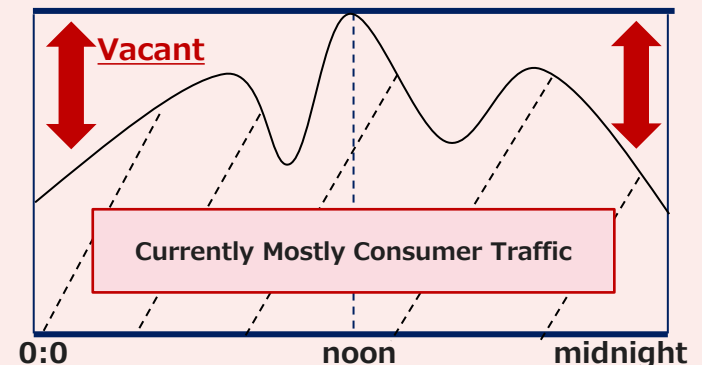
- ✓ Approx. 130 MVNE clients (retailers, CATV, EC vendors, Slers, manufacturers etc.)

### ◆ 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

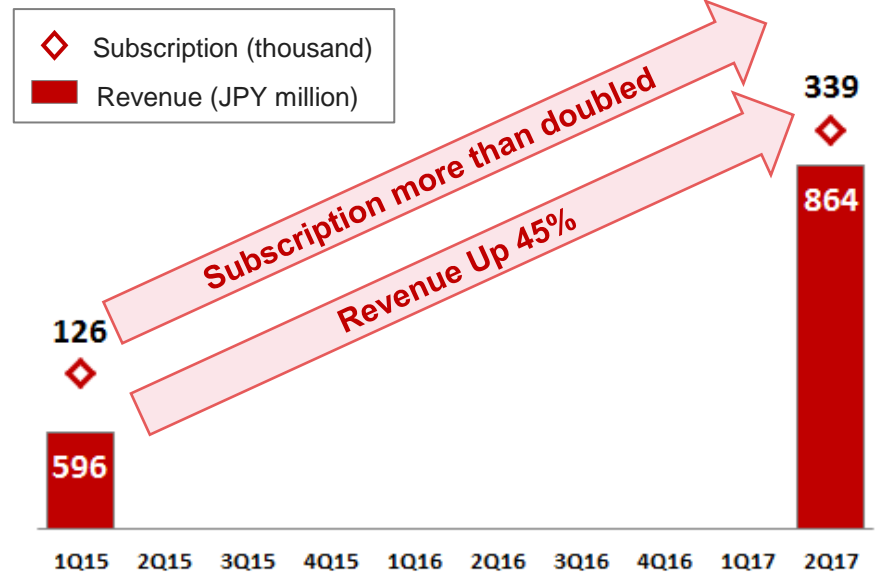
- Currently leasing bandwidth to meet the traffic peak of consumers
- By absorbing enterprise traffic (M2M/IoT), total network utilization should improve
- Continued to be profitable. 1H17 mobile gross margin amount continued to increase YoY. Mobile gross margin ratio as the same level as year before



## 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)

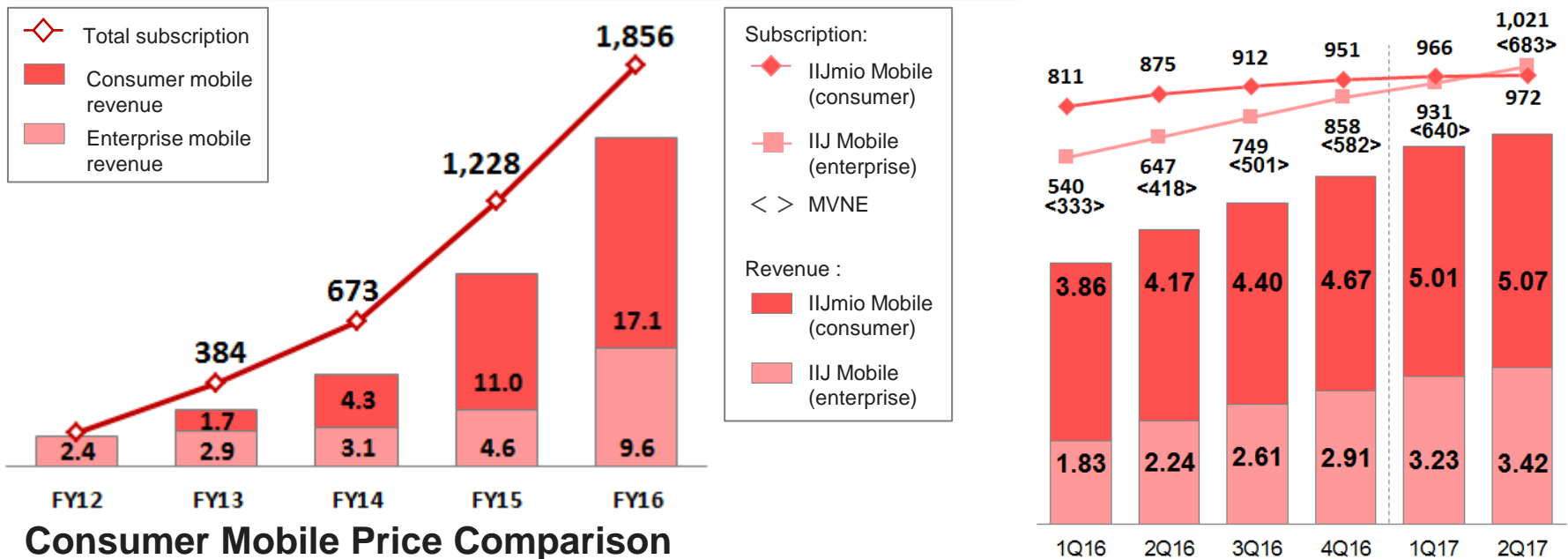


## Becoming the first Full-MVNO in Japan ~Aim to generate IoT demands ~

- **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 March 2018**
  - 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)



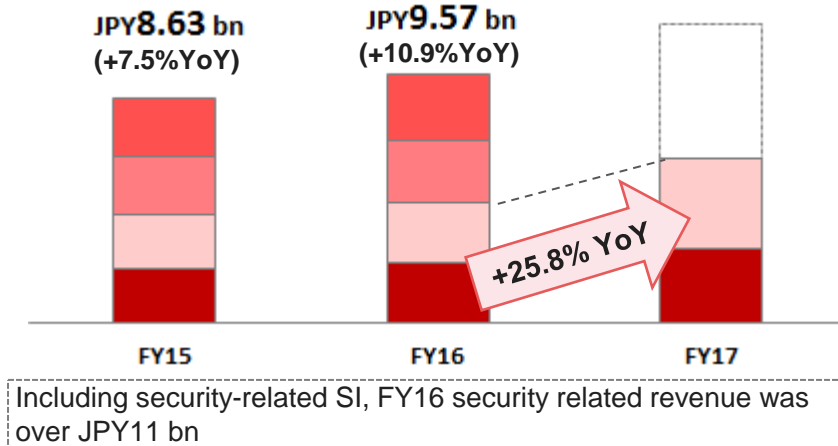
## Consumer Mobile Price Comparison

➤ 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



## Business Developments

### ◆ IJ DDoS Protection Service growing strongly

**2Q17 revenue: doubled YoY**

- High penetration towards large financial inst. & central govt. agencies, Further demands coming from service sector
- Able to protect from over terabit scale attacks

### ◆ Email & Web gateway service continuously expanding

**Mail service: approx. 1.8 million a/c**  
**Web gateway service: approx. 1.2 million a/c**

- Fully-manage over several hundred thousand a/c for global manufacturing company's mail gateway and more
- 10yrs+ of service operation, filter logics in-house developed
- ◆ Enhance competitiveness with SOC service (Mar. '17 ~)
  - Providing to local government. Leveraging security log obtained as an ISP to protect against latest cyber threats
  - Assist enterprise security systems with establishment of CERT, SOC service & wide-range of security services

## Security service line-ups

### ◆ Provide together with NW and SI as comprehensive

#### Various security service line-ups

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

NW

SI



Enterprise customers

### ◆ 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

# CDN (Contents Distribution Network) Business

## CDN Market in Japan

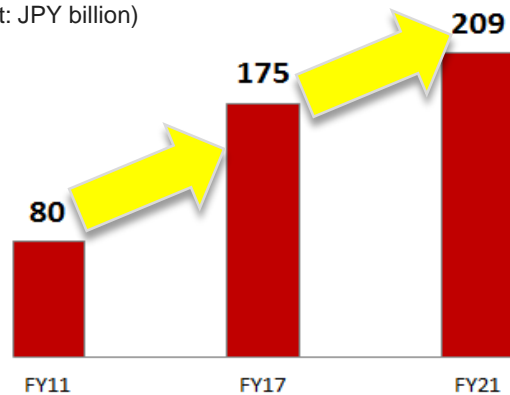
- Greater needs to distribute contents over Internet
- 4K/8K and high-definition contents to increase towards the Tokyo Olympics
- Nippon TV owns Hulu Japan, broadcasting companies operate “TVer”
- Akamai strong in Japan CDN market, no prominent Japanese provider currently
- IIJ has rich and long experience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

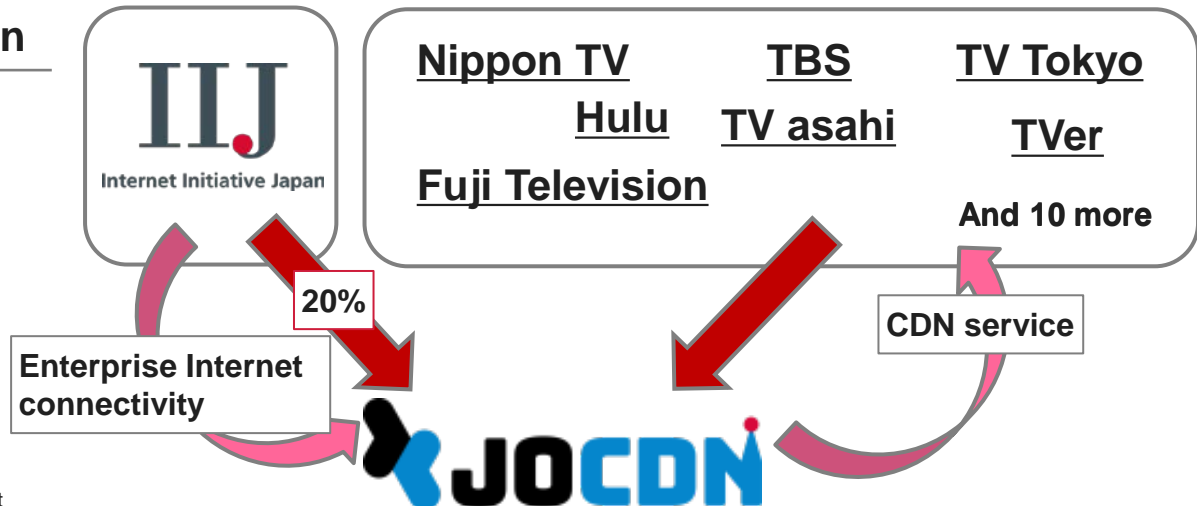
|                      |  |
|----------------------|--|
| <b>Company name</b>  | JOCDN Inc.   |
| <b>Capital</b>       | JPY710 million   |
| <b>Establishment</b> | December 1, 2016   |
| <b>Shareholders</b>  | IIJ (20%), Nippon TV (14%), TV asahi (14%), TBS (14%), TV Tokyo (14%), Fuji TV (14%) and 10 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



## Further Accumulation of IoT Projects

- ◆ IoT-related discussion & PoC prj. with our blue-chip customers as they seek business opportunities with IoT
- ◆ Prospective orders increasing after the announcement of to engage in full-MVNO

**1H17-end: approx. 230 projects (doubled YoY)**

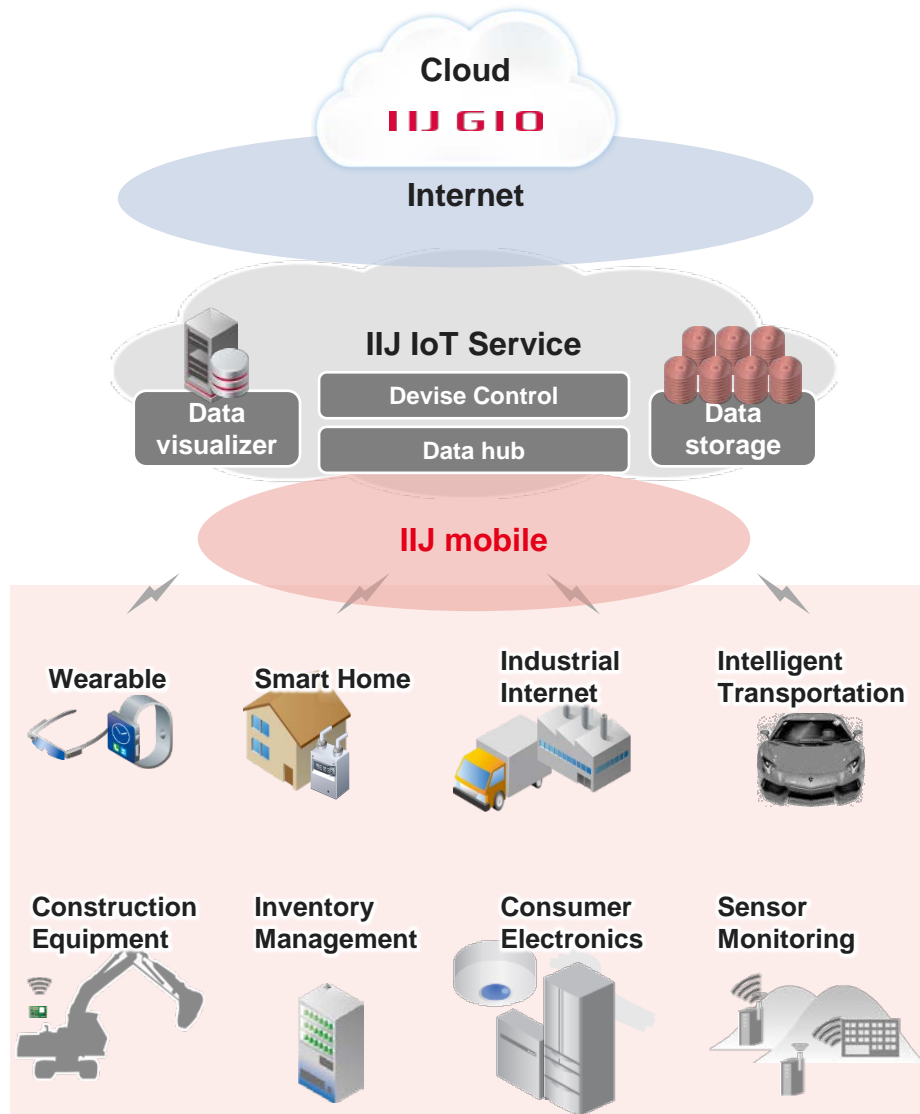
| Sector  | Examples of usage  |
|---------|--|
| Factory | <ul style="list-style-type: none"> <li>• Remote mgmt. and control of factory facility</li> <li>• Predict machine failures, reduction in maintenance cost</li> </ul>        |
| Agri.   | <ul style="list-style-type: none"> <li>• Paddy mgmt. (control of water level &amp; temp.)</li> </ul>   |
| Log.    | <ul style="list-style-type: none"> <li>• Mgmt. of vehicle location &amp; delivery status</li> <li>• Connected Cars, data monitoring of racing cars</li> </ul>              |
| Retail  | <ul style="list-style-type: none"> <li>• Analysis on consumers' movement from in-store cameras to create marketing data</li> <li>• Monitoring waiting customers</li> </ul> |
| Housing | <ul style="list-style-type: none"> <li>• Mgmt. of electricity with info from smart-meter</li> <li>• IoT to consumer electronics and nursing care</li> </ul>                |
| Others  | <ul style="list-style-type: none"> <li>• Mgmt. for solar panels &amp; windmills</li> <li>• Tracing products</li> </ul>   |

### < Glossary >

|       |                  |       |             |
|-------|------------------|-------|-------------|
| PoC   | Proof of Concept | Agri. | Agriculture |
| Prj.  | Projects         | Log.  | Logistics   |
| Mgmt. | Management       | Inst. | Institution |
| Temp. | Temperature      | Govt. | Government  |
|       |                  | a/c   | account     |

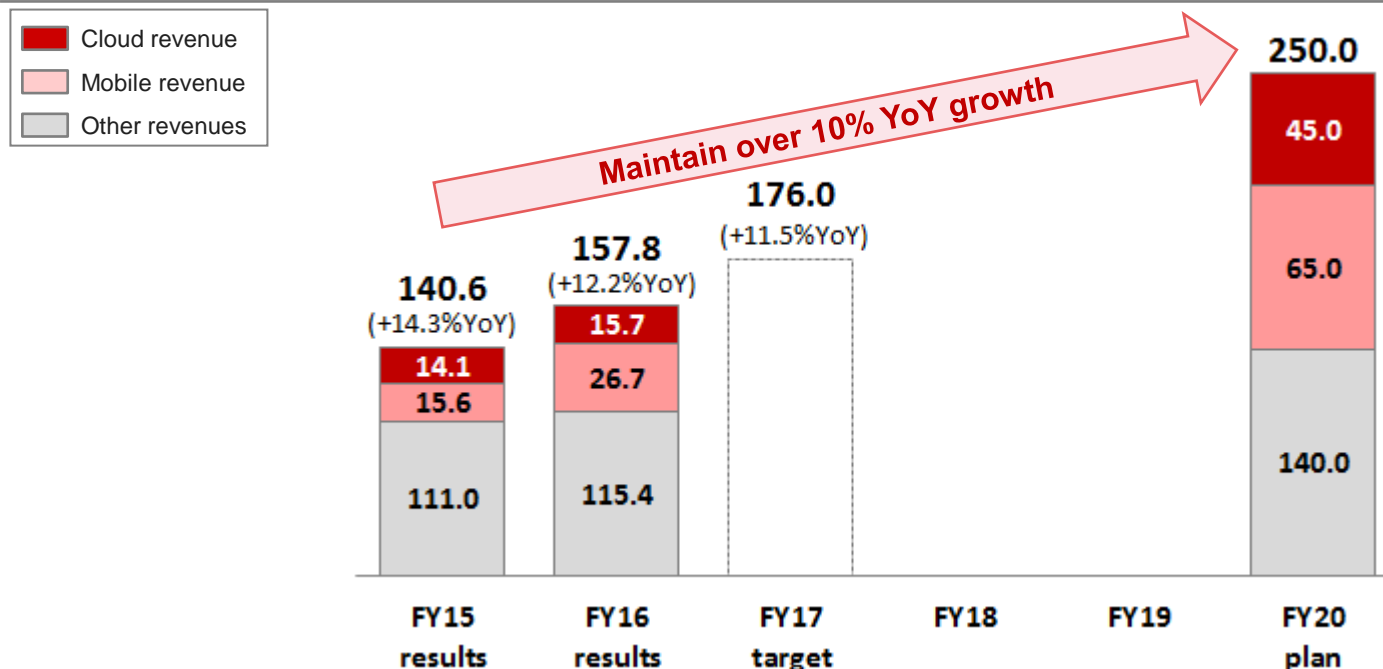
## IIJ as IoT platform

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)

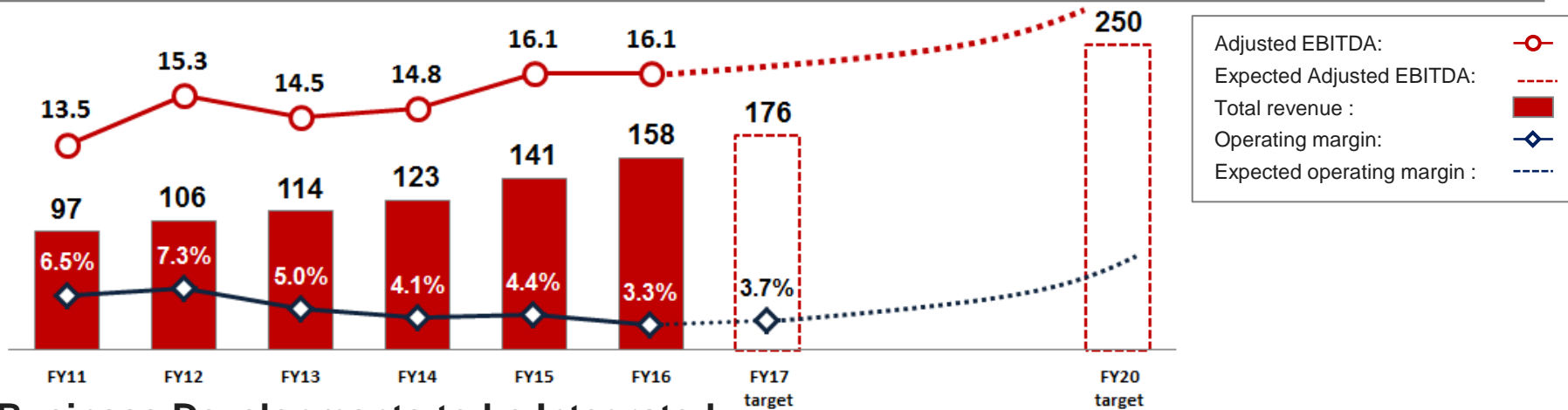
### Scale Merit

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

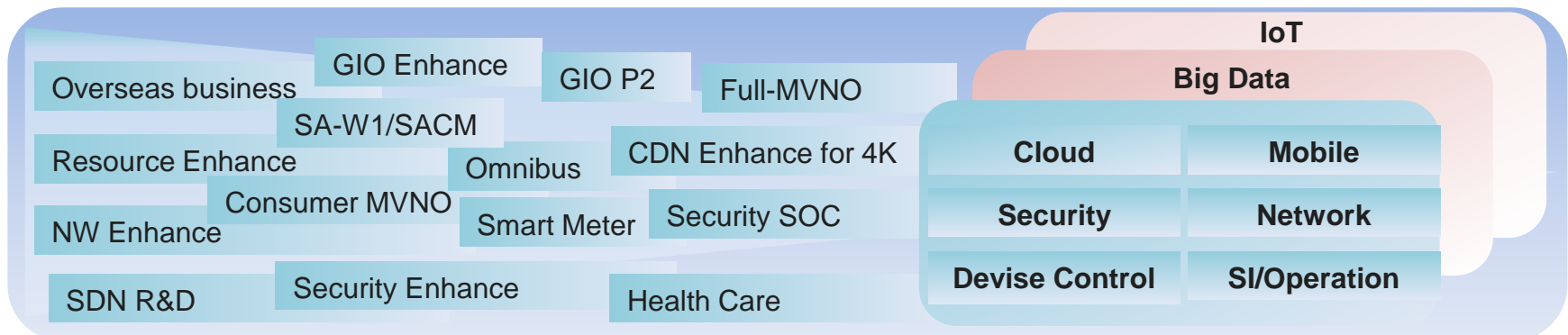
### Next Stage

- 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 1H FY2017 Financials

Financials

|                  | 1H17 Results |        | 1H17 Targets |        | FY17 Targets |        |
|------------------|--------------|--------|--------------|--------|--------------|--------|
| Revenue          | JPY83.0 bn   | +12.0% | JPY82.4 bn   | +11.2% | JPY176.0 bn  | +11.5% |
| Gross Margin     | JPY13.0 bn   | +9.9%  | JPY12.6 bn   | +6.3%  | JPY28.2 bn   | +11.7% |
| Operating Income | JPY2.3 bn    | +18.9% | JPY2.0 bn    | +2.7%  | JPY6.5 bn    | +26.6% |
| Net Income*      | JPY1.5 bn    | +34.3% | JPY1.1 bn    | (0.7%) | JPY4.0 bn    | +26.3% |

## Revenue & Income Grew as 1H17 Targets, Executing Business Strategies toward IoT Society

### Enterprise Network Services

|   |           |
|---|-----------|
| 1H17 enterprise Internet revenue (including mobile) | +25.4%YoY |
| 1H17 outsourcing revenue                            | +18.3%YoY |
| 1H17 WAN revenue                                    | +6.0%YoY  |

- ◆ **Security Services largely grew 1H17 revenue +25.8%YoY**
  - IIJ DDoS Protection Services widely been adopted by large financial institutions, expand to other sectors such as service providers
  - Leverage Security Operation Center, provide services & SI together
- ◆ **IIJ Omnibus Service Order accumulation pace accelerating**
  - Demands for WAN replacement & closed network for multi-Cloud systems continue to increase

### Cloud & SI

- ◆ **Continue to focus on Private Cloud market with GIO P2**
  - Enhance competitive advantages with Cloud + Security + SI in the middle-to-long term growing market
  - Flattish 2Q QoQ revenue growth due to the timing of orders and decrease of revenue in a certain large gaming customer
- ◆ **Accumulate multi-Cloud demands with Unified Operation Maintenance (UOM) Service**
  - 2Q-end UOM clients: approx. 340 (up approx. 60 clients YoY)
  - Comprehensive support with MS Azure & AWS connectivity, meeting enterprises' needs for multi-Cloud
- ◆ **SI revenue: flattish YoY growth for 1H17 as revenue is expected to recognize in 2H17**
  - Operation heavily concentrated on a large-scale services integrated project
  - SI gross margin decreased QoQ due to initial installation work related to a large scale services integrated project

### Mobile & IoT

- ◆ **Total mobile subscription exceeded 2 million +29.9%YoY**
    - Top-class MVNO market share with 22%\* (including MVNE)
  - ◆ **Enterprise mobile 1H17 revenue +63.3%YoY**
    - Different business & profit model from consumer-oriented MVNOs with MVNE and IoT/M2M transactions
  - ◆ **IoT prospective orders 2Q-end: approx. 230, doubled YoY**
    - Smart factory with Hirata Corp, connected homes, paddy control, security cameras, connected cars etc.
  - ◆ **Preparation for Full-MVNO services on track**
    - Plan to start providing from March 2018
- \*as of March-end 2017 SIM card subscription, MM Research Institute June 2017

### Others

- ◆ **Overseas business developments almost as planned**
  - Revenue: JPY2.7 bn, operating deficit: JPY0.06 bn
  - Western subsidiaries: continue profitable, Asian subsidiaries: deficit continuously shrinking as business starts to set up
  - Accumulating orders for GDPR solution continuously
- ◆ **JV with 15 Japanese major broadcasting companies "JOCDN" for CDN Business**
  - Providing CDN services to TVer and 2 other Japanese broadcasting companies, preparing to provide to a prominent contents holder, earlier than planned expansion of CDN facility with increase in traffic
- ◆ **Healthcare: Developed cloud-based collaboration platform "IIJ electronic contact/communication service" allowing various professionals involved in home-based cares to share healthcare information with Nagoya University for community-based integrated care**
  - Approx. 100 prospects, Providing to local governments such as Aichi, Ibaraki & Fukuoka



**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**

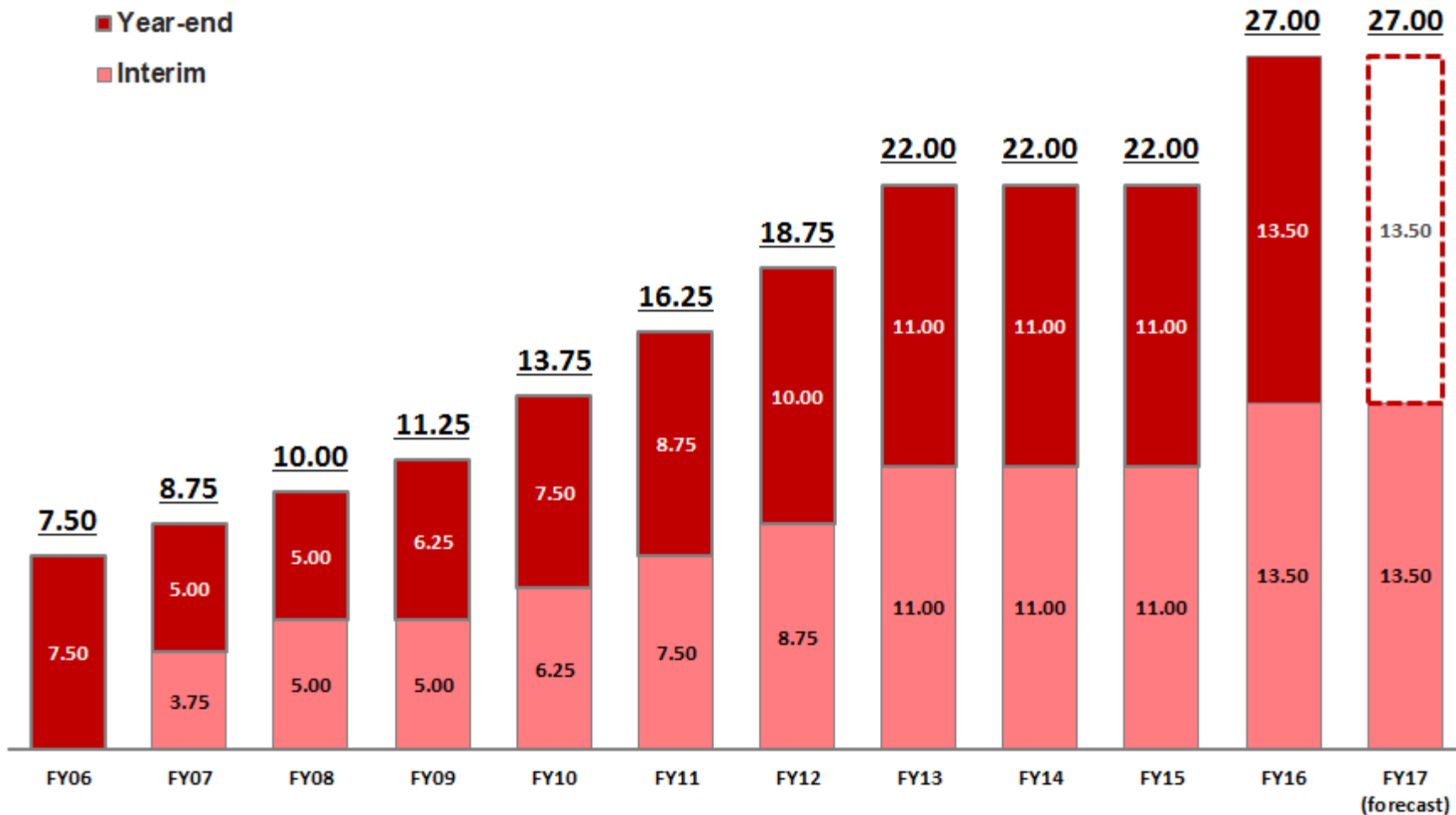
## SI

- 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

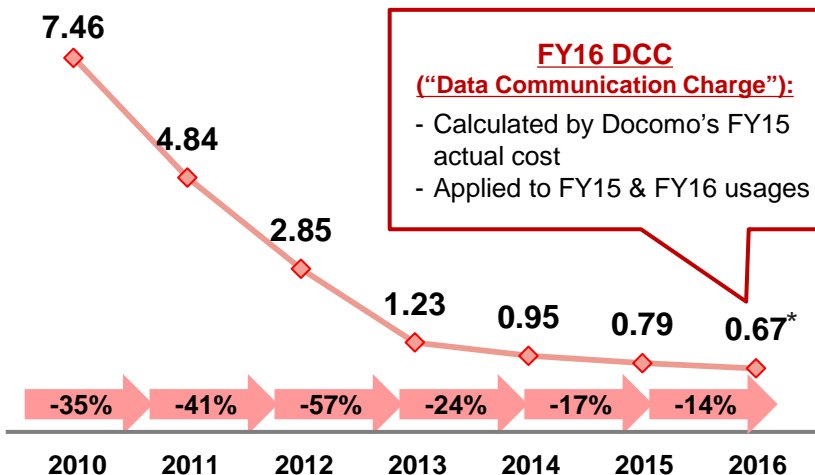
# Dividend Forecast



(YoY) (+JPY1.25) (+JPY1.25) (+JPY1.25) (+JPY2.5) (+JPY2.5) (+JPY2.5) (+JPY3.25) (-) (-) (+JPY5.00) (-)

\*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)

## 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

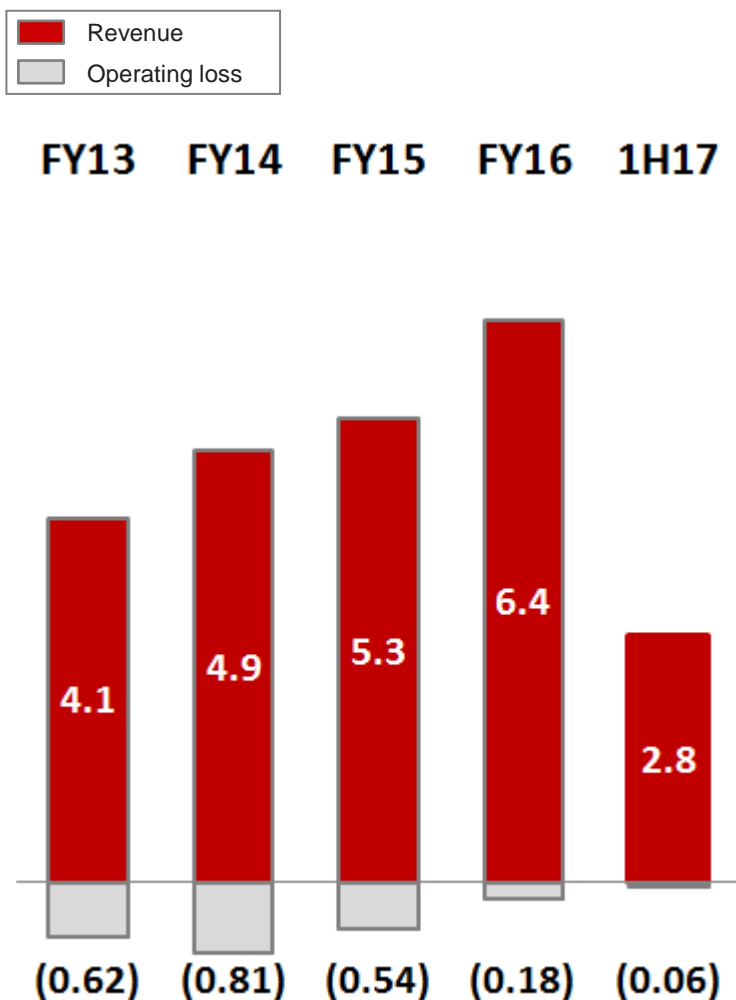
- Docomo historically used **declining-balance method** for calculating the depreciation of property, plant and equipment
  - From fiscal year ended March 31, 2017 Docomo uses **straight-line method**



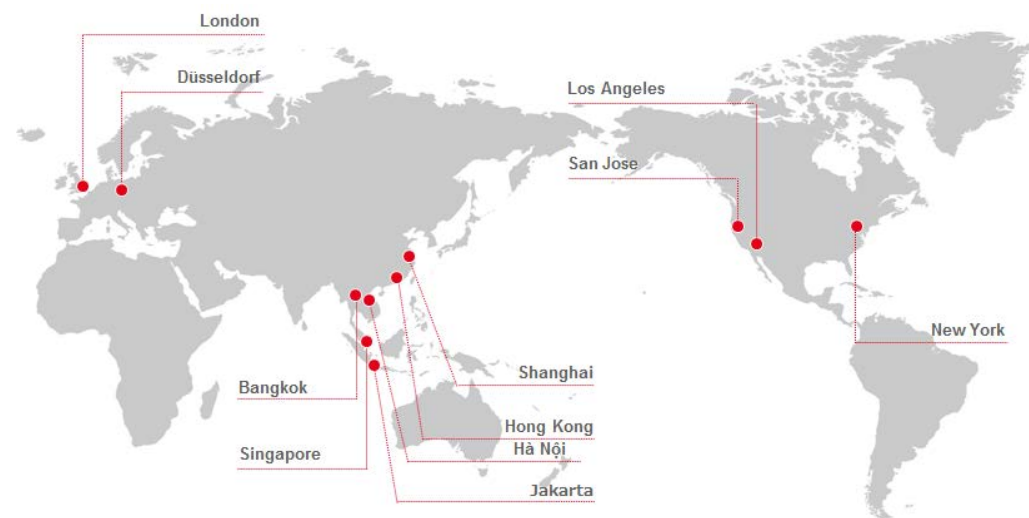
**Docomo's DCC based on their March 31, 2017 actual costs are to be noticed to their MVNOs around March 2018**

## Financials

Unit: JPY billion



## Overseas offices



## Business Developments

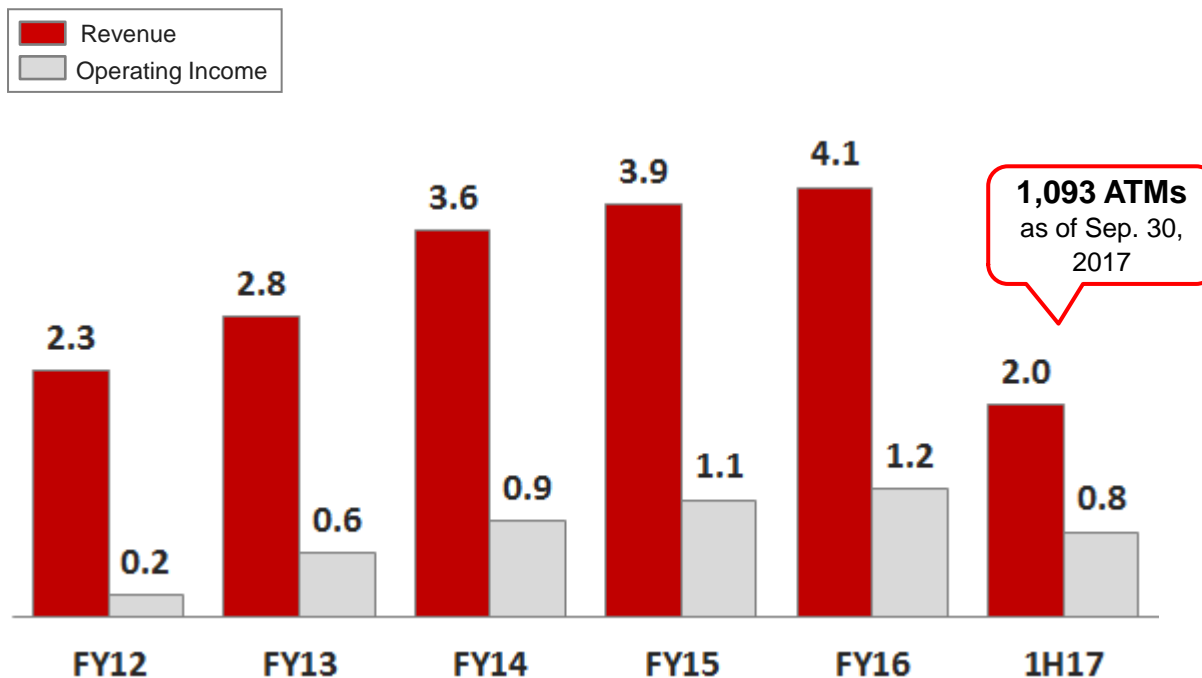
- **Provide cloud services in Indonesia, Thailand and Vietnam together with local prominent IT companies**
  - With Biznet Networks in Indonesia (from March 2015)
  - With T.C.C. Technology Co., Ltd, in Thailand (February 2016)
  - With FTP Telecom Partner in Vietnam (November 2016)
- **Export container 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

## Revenue and Operating Income

Unit: JPY billion



## Trust Networks Inc.

- In charge of ATM operation business
- IJ's ownership: 79.5%
- Established in 2007



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**1H FY2017**  
**Consolidated Financials Results**

**Announced on November 7, 2017**

# Consolidated Financials for 1H17

Financials

Unit: JPY billion

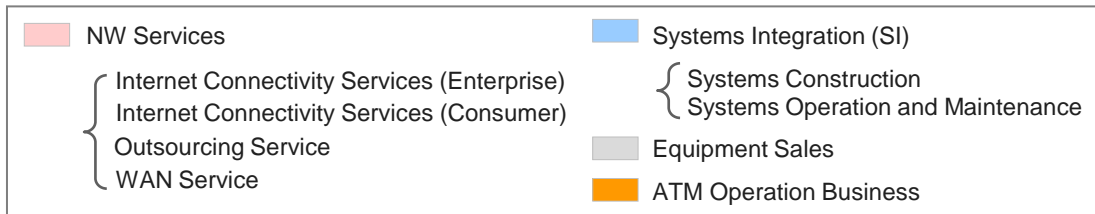
|   | <i>% of Revenues</i>    | <i>% of Revenues</i>    | YoY Change    | <i>% of Revenues</i>    | <i>% of Revenues</i>    |
|---|-------------------------|-------------------------|---------------|-------------------------|-------------------------|
|   | <b>1H17 Results</b>     | <b>1H16 Results</b>     |               | <b>1H17 Targets</b>     | <b>FY17 Targets</b>     |
|   | (Apr. 2017 - Sep. 2017) | (Apr. 2016 - Sep. 2016) |               | (Apr. 2017 - Sep. 2017) | (Apr. 2017 - Mar. 2018) |
| <b>Total Revenues</b>                   | <b>83.0</b>             | <b>74.1</b>             | <b>+12.0%</b> | <b>82.4</b>             | <b>176.0</b>            |
|   | 84.3%                   | 84.0%                   |               | 84.7%                   | 84.0%                   |
| <b>Total Cost of Revenues</b>           | <b>70.0</b>             | <b>62.3</b>             | <b>+12.3%</b> | <b>69.8</b>             | <b>147.8</b>            |
|   | 15.7%                   | 16.0%                   |               | 15.3%                   | 16.0%                   |
| <b>Gross Margin</b>                     | <b>13.0</b>             | <b>11.8</b>             | <b>+9.9%</b>  | <b>12.6</b>             | <b>28.2</b>             |
|   | 12.9%                   | 13.4%                   |               | 12.9%                   | 12.3%                   |
| <b>SG&amp;A/R&amp;D</b>                 | <b>10.7</b>             | <b>9.9</b>              | <b>+8.2%</b>  | <b>10.6</b>             | <b>21.7</b>             |
|   | 2.8%                    | 2.6%                    |               | 2.4%                    | 3.7%                    |
| <b>Operating Income</b>                 | <b>2.3</b>              | <b>1.9</b>              | <b>+18.9%</b> | <b>2.0</b>              | <b>6.5</b>              |
|   | 3.0%                    | 2.8%                    |               | 2.4%                    | 3.7%                    |
| <b>Income before Income Tax Expense</b> | <b>2.5</b>              | <b>2.1</b>              | <b>+17.3%</b> | <b>2.0</b>              | <b>6.5</b>              |
|   | 1.8%                    | 1.5%                    |               | 1.3%                    | 2.3%                    |
| <b>Net Income*</b>                      | <b>1.5</b>              | <b>1.1</b>              | <b>+34.3%</b> | <b>1.1</b>              | <b>4.0</b>              |

\*Net income attributable to IIJ



Unit: JPY million

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

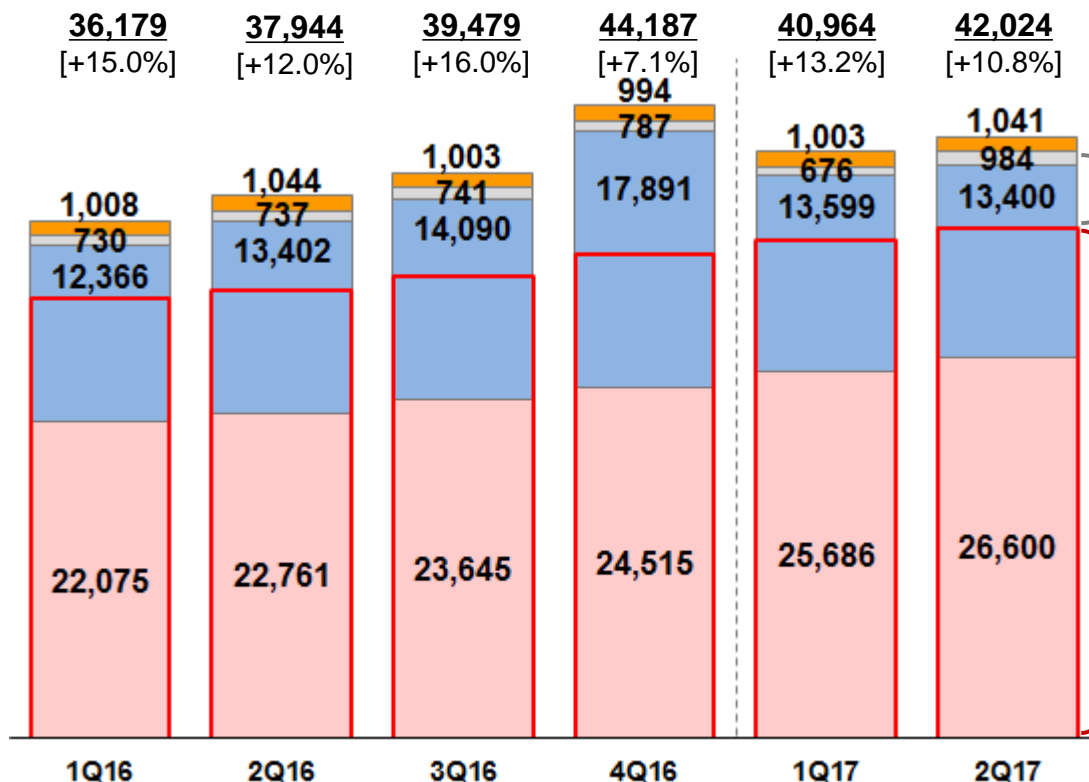


**1H16: 74,123 [+13.5%]**

**FY16: 157,789 [+12.2%]**

**1H17: 82,988**

**[+12.0%]**



**One-time Revenue \***  
 1H17: JPY10,468 million (up 4.2% YoY)  
 (12.6% of 1H17 revenues)

**Recurring Revenue\***  
 1H17: JPY70,477 million (up 13.6% YoY)  
 (84.9% of 1H17 revenues)

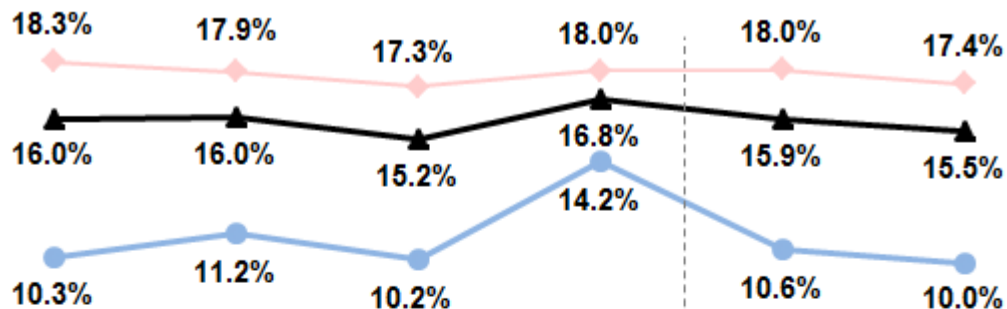
\* One-time revenues, which are systems construction and equipment sales, are recognized when systems or equipment are delivered and accepted by customers  
 \* Recurring revenues represent the following monthly recurring revenues: Internet Connectivity Services for Enterprise, Internet Connectivity 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  
 QoQ = 2Q17 compared to 1Q17



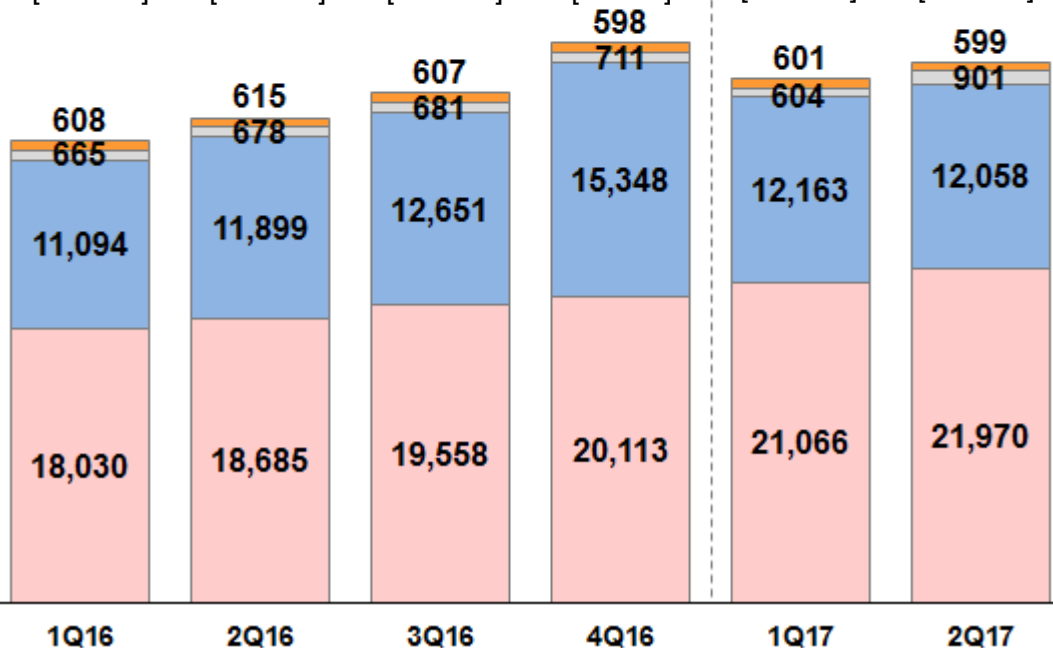
**1H16: 62,275 [+16.1%]**

**FY16: 132,542 [+14.3%]**

**1H17: 69,962**

**[+12.3%]**

|                           |                           |                           |                          |                           |                           |
|---------------------------|---------------------------|---------------------------|--------------------------|---------------------------|---------------------------|
| <b>30,397</b><br>[+17.8%] | <b>31,878</b><br>[+14.6%] | <b>33,497</b><br>[+19.8%] | <b>36,770</b><br>[+6.9%] | <b>34,434</b><br>[+13.3%] | <b>35,529</b><br>[+11.5%] |
|---------------------------|---------------------------|---------------------------|--------------------------|---------------------------|---------------------------|



## Gross Margin

### ◆ Total

1H17: JPY13,026 million (up 9.9% YoY)

1H16: JPY11,848 million (up 1.2% YoY)

➢ Gross margin ratio: 15.7% (down 0.3 points YoY)

### ◆ NW Services

1H17: JPY9,249 million (up 13.9% YoY)

1H16: JPY8,120 million (up 8.3% YoY)

➢ Mobile gross margin amount continued to increase YoY in 1H17. Mobile gross margin ratio on a QoQ decreasing trend along with an increase in MVNE transactions in 2Q17

➢ 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

1H17: JPY2,778 million (up 0.1% YoY)

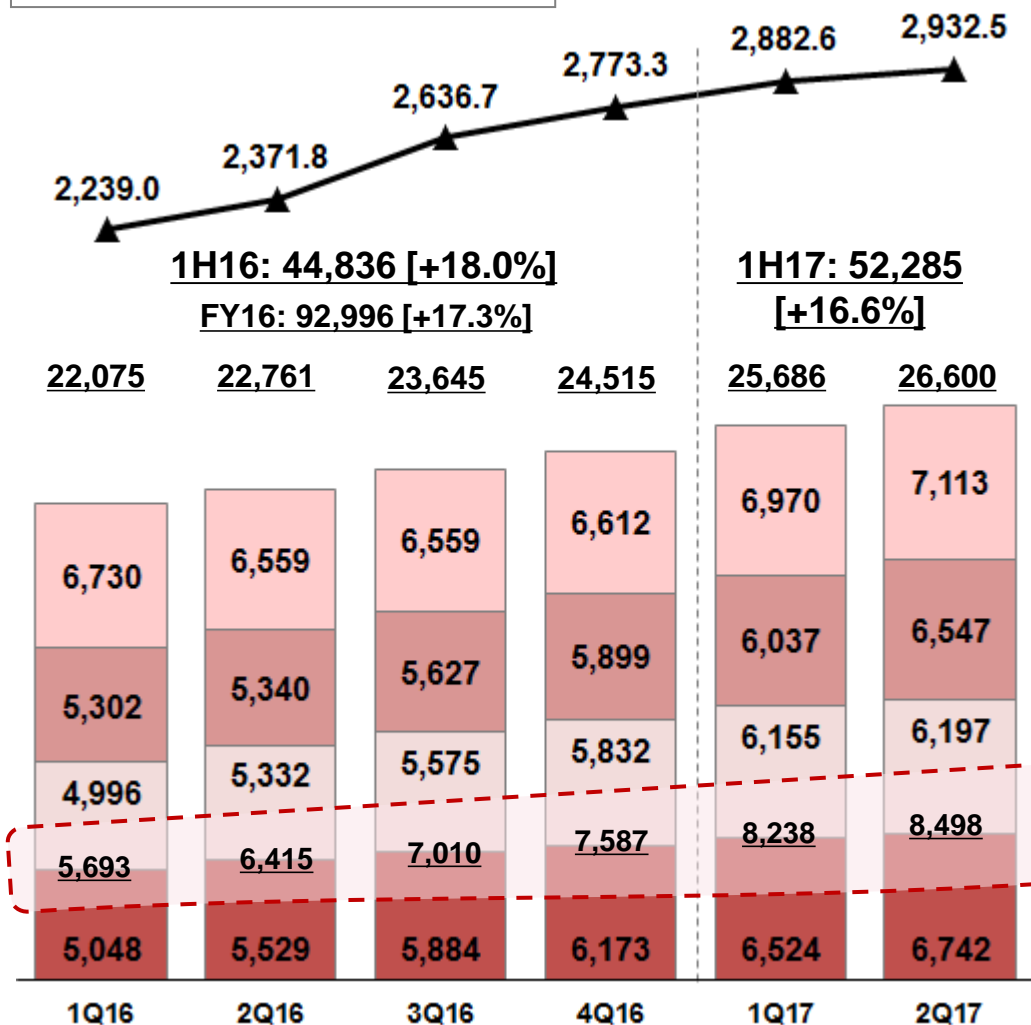
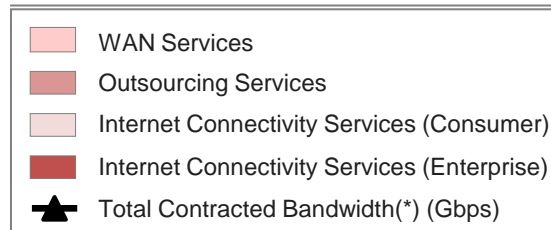
1H16: JPY2,775 million (down 18.0% YoY)

➢ 1H17 SI revenue slightly increased YoY as SE resources concentrated on a large-scale services integrated project. SI gross margin ratio decreased with small SI revenue volume and initial installation cost related to the large-scale services integrated project

# Network Services (1)Revenues

Unit: JPY million

[ ], YoY = compared to the same period in a previous year  
QoQ = 2Q17 compared to 1Q17



## NW Services Revenues

### ◆ Internet Connectivity (Enterprise)

- 1H17: up 25.4% YoY
  - MVNE & enterprise mobile solution continued to increase
  - ✓ 1H17-end subs. : 1,021 thousand (up 57.9% YoY)

### ◆ Internet Connectivity (Consumer)

- 1H17: up 19.6% YoY
  - “IIJmio Mobile Services”
  - ✓ 1H17-end subs. : 972 thousand (up 11.1% YoY)

### ◆ Outsourcing Services

- 1H17: up 18.3% YoY,
  - Security-related revenue continued to grow
  - ✓ 1H17 revenue: up 25.8% YoY
  - ✓ 2Q17 revenue: up 6.2% QoQ

### ◆ WAN Services

- 1H17: up 6.0% YoY

### ◆ Mobile services

- 1H17: up 38.2% YoY

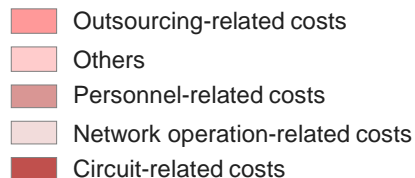
### ◆ Non-mobile services

- 1H17: up 8.6% 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/ and IIJ DSL/F of Internet connectivity services (Enterprise).

Unit: JPY million

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



**1H16: 36,715 [+20.4%]**

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

**1H17: 43,036**

**[+17.2%]**

18,030

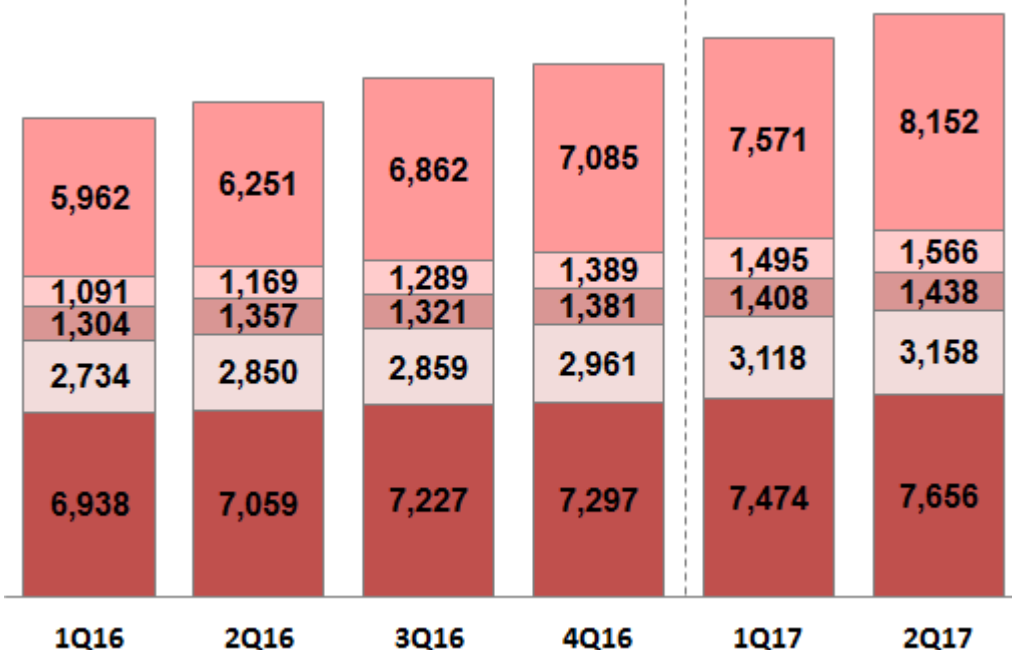
18,685

19,558

20,113

21,066

21,970



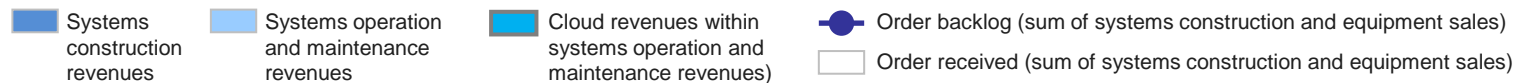
## Cost of NW Services

- 1H17: up 17.2% YoY
- Along with increases in WAN revenues and continuous network expansion, circuit-related costs increased
- Along with continuous network equipment installation and service developments, network operation-related costs increased
- One time expansion of mobile infrastructure in 2Q in order to provide reliable connectivity. Mobile-related costs (mainly in outsourcing-related costs) increased

### ◆ 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.

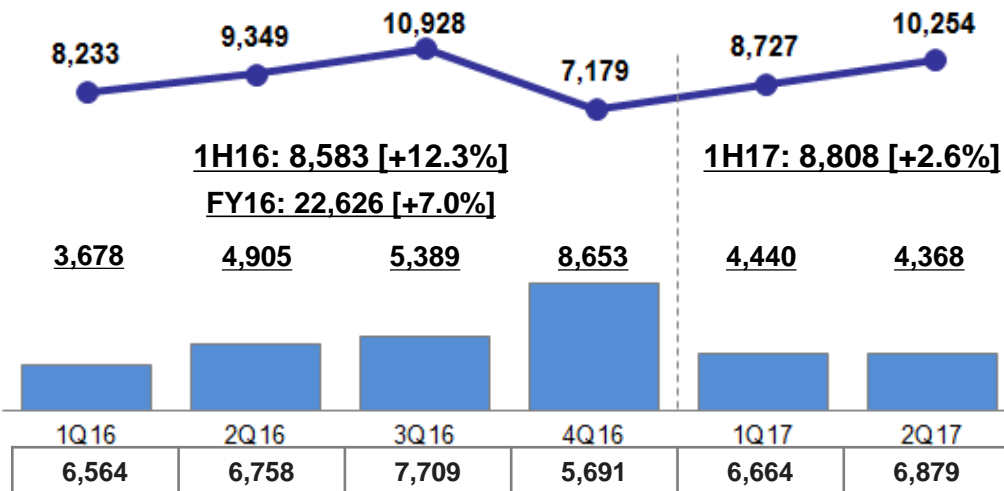
# Systems Integration (SI) (1)Revenues



Unit: JPY million

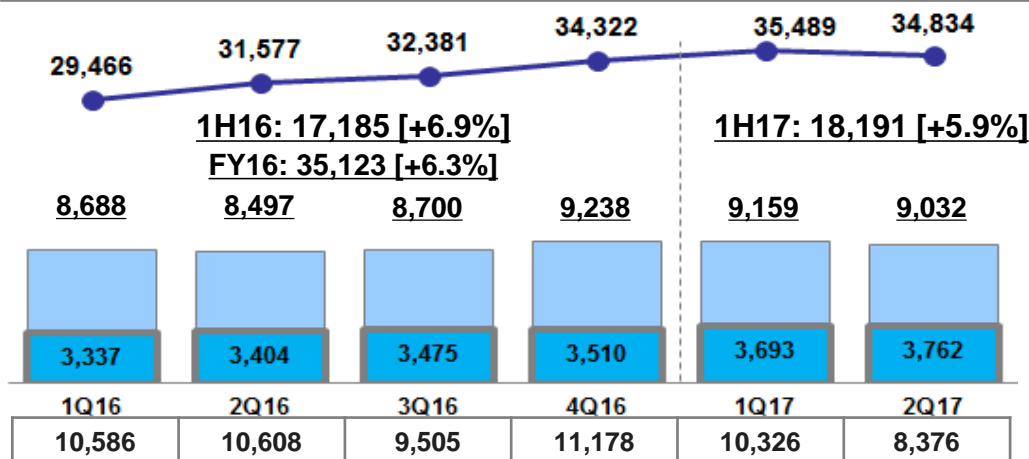
[ ], YoY = compared to the same period in a previous year

## Systems Construction



- 1H17 revenue: up JPY225 million YoY
- Large-scale construction projects orders received in 2Q17:
  - University campus network
  - Mail and security services for a consumer ISP
  - GDPR assessment for a prominent retailer
  - System replacement for a prominent online bank
  - Office 365 system for a famous toy company etc.
- As resources concentrated on a large-scale services integrated project, 1H17 revenue and order received slightly increased YoY, Expect the situation to improve in 2H17

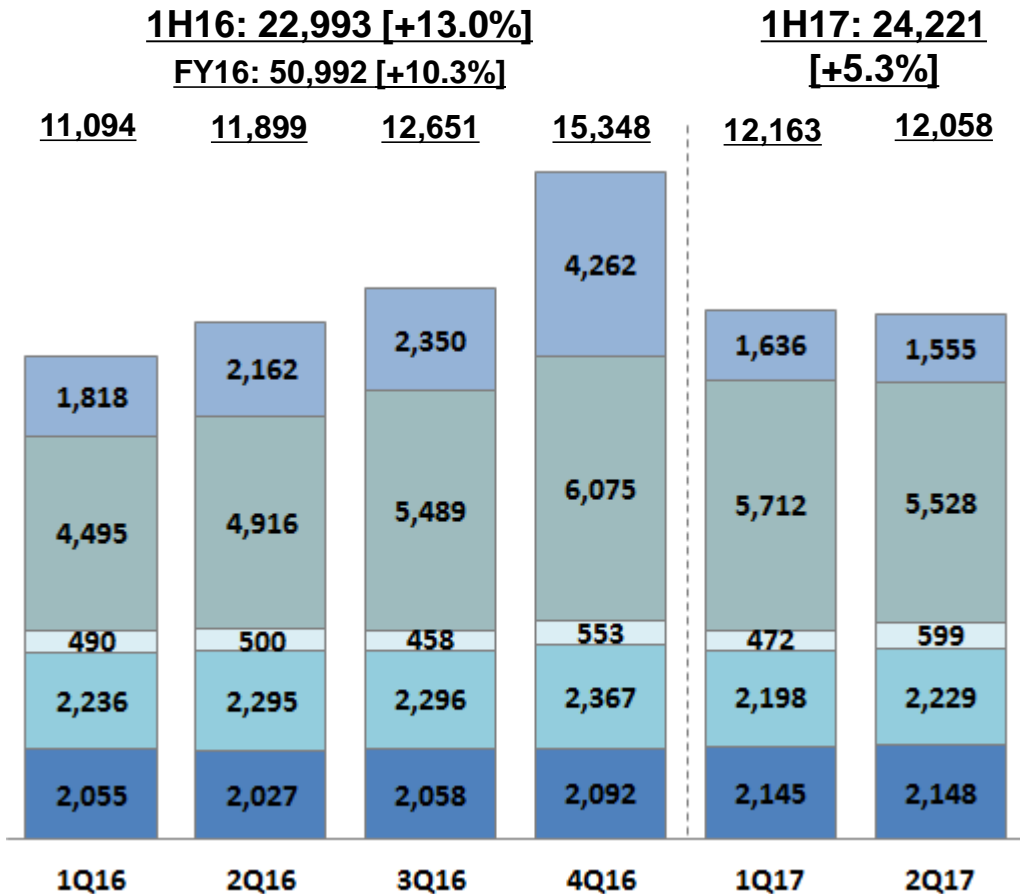
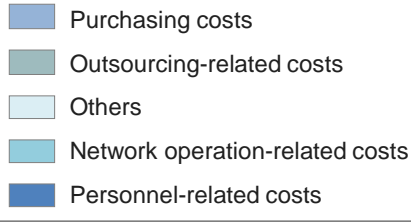
## Systems Operation and Maintenance



- 1H17 revenue: up JPY1,006 million YoY
- Continuous revenue growth mainly due to the accumulation of systems construction which migrated to systems operation and maintenance phase as well as continuous increase in private Cloud revenue
  - 1H17 revenue from private Cloud: up 10.6 YoY
  - 1H17 revenue from SI construction: up 2.8% YoY
    - ✓ Sluggish growth due to expected termination of DC contract with a large game customer in 1Q17
- 86.3% of 2Q17 Cloud-related revenue is recognized in systems operation and maintenance revenues (13.7% in outsourcing)

Unit: JPY million

[ ], YoY = compared to the same period in a previous year  
QoQ = 2Q17 compared to 1Q17



### Cost of SI

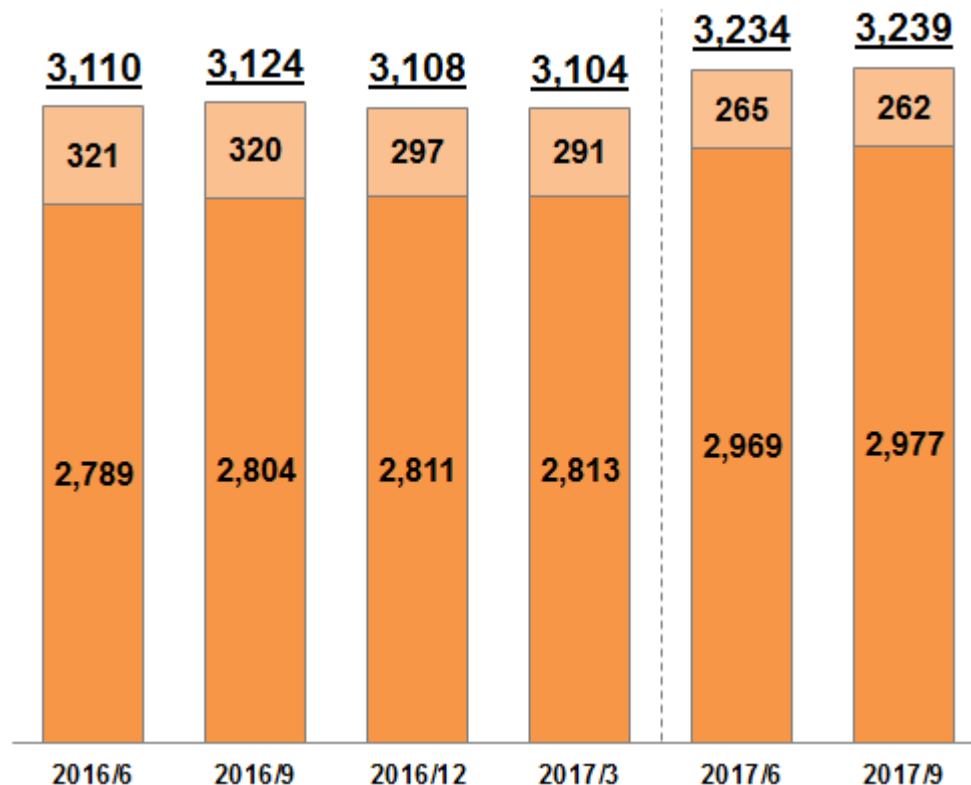
- 1H17: up JPY1,228million YoY
  - 2Q17-end number of outsourcing personnel: 1,626 personnel (up 401 YoY, up 59 QoQ)
    - ✓ Within the above 1,626 personnel, 1,079 personnel were for SI related (up 135 YoY, down 14 QoQ)
  - GIO P2: 1H17 revenue up JPY0.84 billion YoY, 1H17 cost up JPY0.47 billion YoY

# Number of Employees

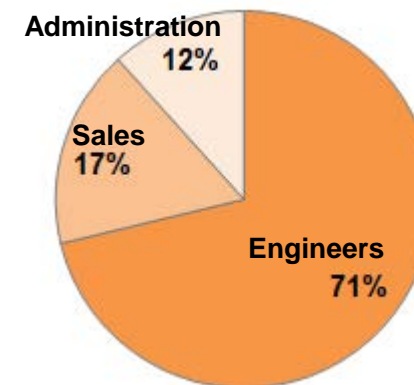
Contract worker  
Full time worker

Unit: JPY million

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



## Employee Distribution



- ◆ 2Q17: up JPY338 million, up 6.2% YoY
- ◆ Hired 148 new graduates in Apr. 2017 (137 in Apr. 2016, 155 in Apr. 2015)
- ◆ 178 new graduates are planned to join in Apr. 2018
- ◆ Net addition of employees for FY17 is approx. 190 (included in the budget)

## Personnel related costs & expenses

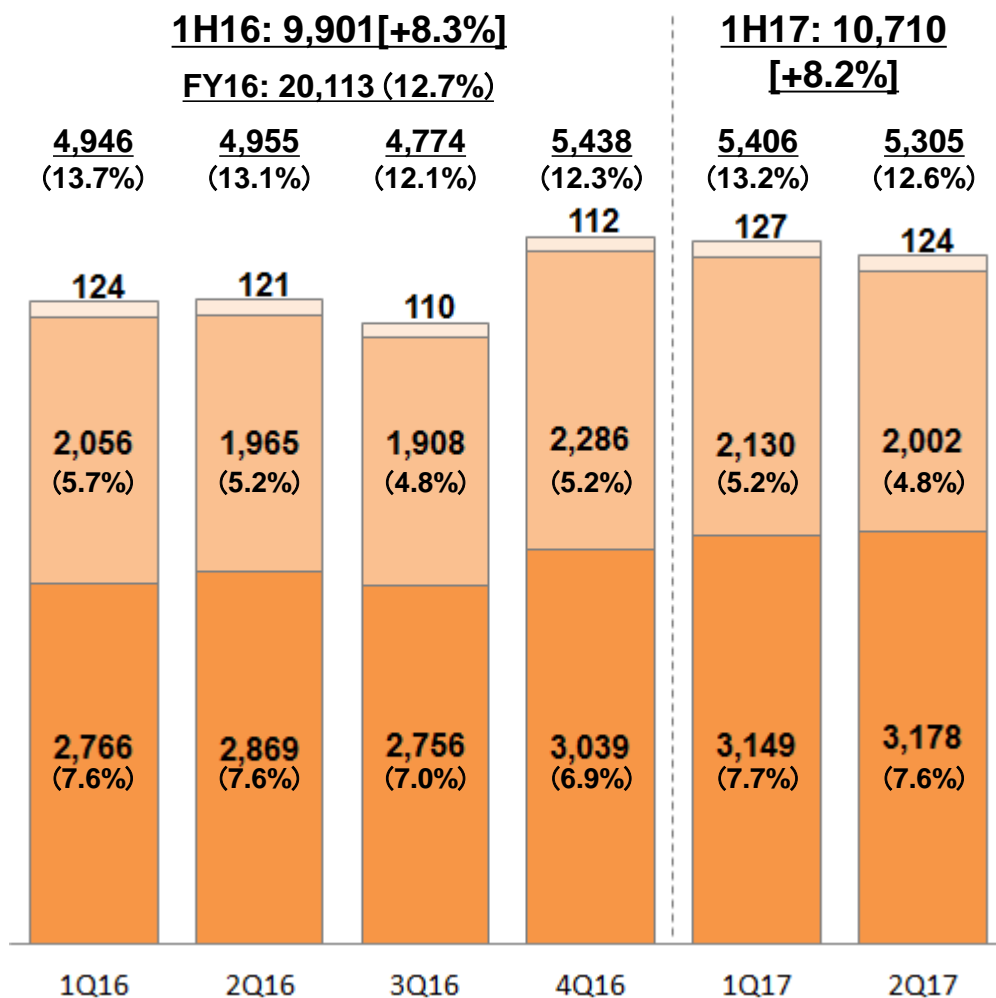
(% of revenue)

| 1Q16                                     | 2Q16             | 3Q16             | 4Q16             | 1Q17                 | 2Q17             |
|--|------------------|------------------|------------------|----------------------|------------------|
| 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%)     | 5,784<br>(13.8%) |
| 1H16: 10,909 (14.7%) +3.3% YoY           |                  |                  |                  | 1H17: 11,581 (14.0%) |                  |
| FY16: 21,977 (13.9%) up 822, up 3.9% YoY |                  |                  |                  | +6.2% 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

- 1H17: up 12.3% YoY
  - Sales commission expenses, advertising expenses, and personnel-related expenses increased

## General & administrative expenses

- 1H17: up 2.8% YoY
  - Personnel-related expenses increased
- 2Q17: Compared to 1Q17, training expenses and others decreased

## ◆SG&A related to ATM operation business

Unit: JPY million

| 1Q16 | 2Q16 | 3Q16 | 4Q16 | 1Q17 | 2Q17 |
|------|------|------|------|------|------|
| 43.5 | 51.1 | 42.9 | 47.0 | 35.5 | 44.8 |

- Placed 1,093 ATMs as of September 30, 2017

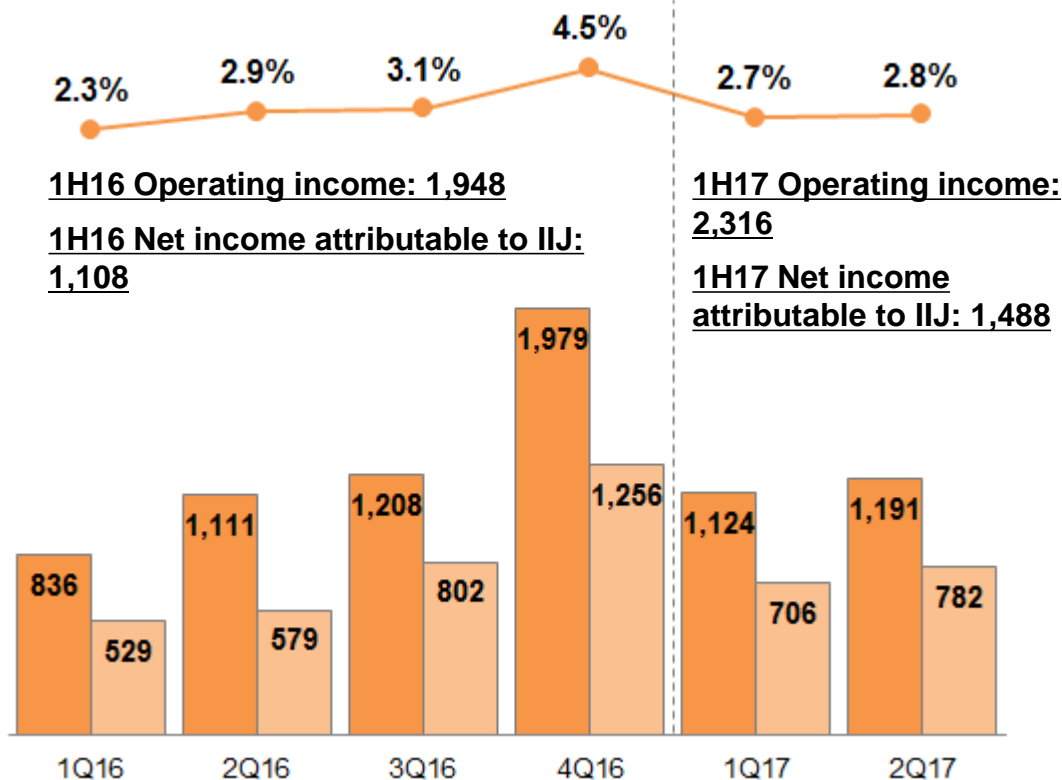


# Operating Income and Net Income

Unit: JPY million

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

Operating Income   Net Income Attributable to IIJ   Operating Margin Ratio



## Income

### ◆ Income before income tax expense:

- 1H17: JPY2,469 million (up JPY363 million, up 17.3% YoY)
  - Dividend income: JPY197 million
  - Distribution from fund investments: JPY122 million
  - Foreign exchange gain: JPY19 million
  - Interest expense: JPY184 million

### ◆ Net income attributable to IIJ:

- 1H17: JPY1,488 million (up JPY380 million, up 34.3% YoY)
  - Equity in net income of equity method investees including Internet Multifeed: JPY77 million
  - Net income attributable to noncontrolling interests including Trust Networks: JPY89 million

|      |      |      |       |      |       |   |
|------|------|------|-------|------|-------|---|
| 139  | 531  | 446  | 1,203 | 342  | 764   | Current income tax expense                                |
| 301  | (18) | 67   | (444) | 109  | (245) | Deferred tax expense (benefit)                            |
| 17   | 25   | 28   | 61    | 36   | 41    | Equity in net income of equity method investees           |
| (42) | (43) | (41) | (39)  | (42) | (47)  | Less: Net income attributable to noncontrolling interests |

# Consolidated Balance Sheets (Summary)

Unit: JPY million

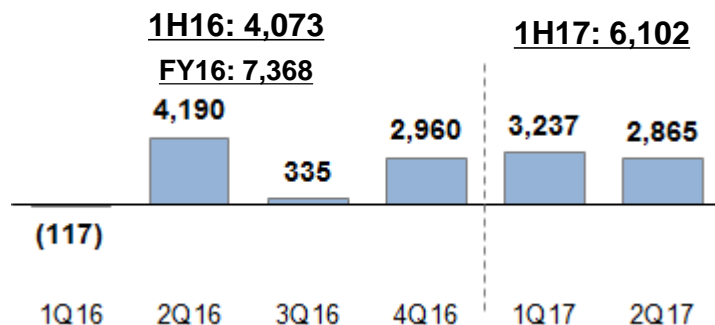
|  | Mar. 31, 2017         | Sep. 30, 2017         | Changes              |
|--|-----------------------|-----------------------|----------------------|
| Cash and Cash Equivalents                          | 21,959                | 19,871                | (2,088)              |
| Accounts Receivable                                | 27,384                | 26,233                | (1,151)              |
| Inventories  | 2,798                 | 4,162                 | +1,364               |
| Prepaid Expenses (Current and Noncurrent)          | 14,218                | 15,920                | +1,702               |
| Investments in Equity Method Investees             | 3,150                 | 3,348                 | +198                 |
| Other Investments                                  | 7,925                 | 9,689                 | +1,764               |
| Property and Equipment                             | 39,775                | 42,193                | +2,418               |
| Goodwill and Other Intangible Assets               | 9,257                 | 9,073                 | (183)                |
| Guarantee Deposits                                 | 3,060                 | 3,344                 | +284                 |
| <b>Total Assets:</b>                               | <b><u>137,395</u></b> | <b><u>140,488</u></b> | <b><u>+3,093</u></b> |
| Accounts Payable                                   | 16,962                | 16,792                | (170)                |
| Income Taxes Payable                               | 1,076                 | 1,014                 | (62)                 |
| Borrowings (Short-term and Long-term)              | 17,750                | 17,750                | -                    |
| Capital Lease Obligations (Current and Noncurrent) | 15,203                | 16,830                | +1,627               |
| <b>Total Liabilities:</b>                          | <b><u>70,015</u></b>  | <b><u>71,085</u></b>  | <b><u>+1,070</u></b> |
| Common Stock                                       | 25,509                | 25,512                | +2                   |
| Additional Paid-in Capital                         | 36,118                | 36,147                | +30                  |
| Retained earnings                                  | 4,512                 | 5,392                 | +880                 |
| Accumulated Other Comprehensive Income             | 2,500                 | 3,623                 | +1,123               |
| Treasury stock                                     | (1,897)               | (1,897)               | -                    |
| <b>Total IJ Shareholders' Equity:</b>              | <b><u>66,742</u></b>  | <b><u>68,777</u></b>  | <b><u>+2,035</u></b> |

➤ Total IJ Shareholders' Equity to Total Assets: 48.6% as of Mar. 31, 2017, 49.0% as of Sep. 30, 2017

Unit: JPY million

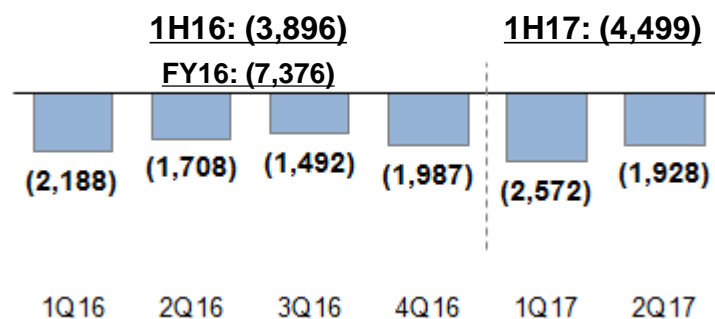
[ ], YoY = compared to the same period in a previous year

## Operating Activities



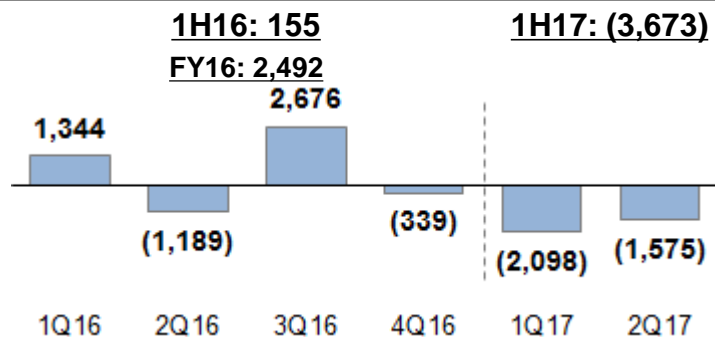
|  | Major Breakdown | YoY Change |
|--|-----------------|------------|
| Net income                                       | 1,577           | +383       |
| Depreciation and amortization                    | 6,022           | +738       |
| Fluctuations of operating assets and liabilities | (1,512)         | +1,234     |

## Investing Activities



|  | Major Breakdown | YoY Change |
|--|-----------------|------------|
| Purchase of property and equipment                                   | (6,423)         | (1,065)    |
| Proceeds from sales of property & equipment (lease-back transaction) | 2,384           | +1,174     |

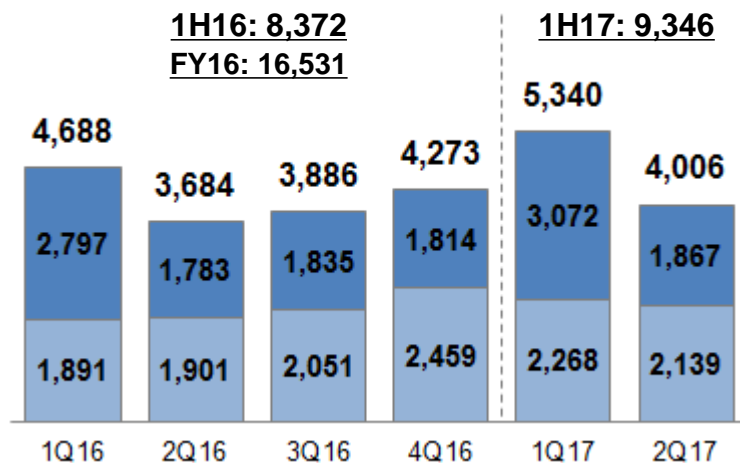
## Financing Activities



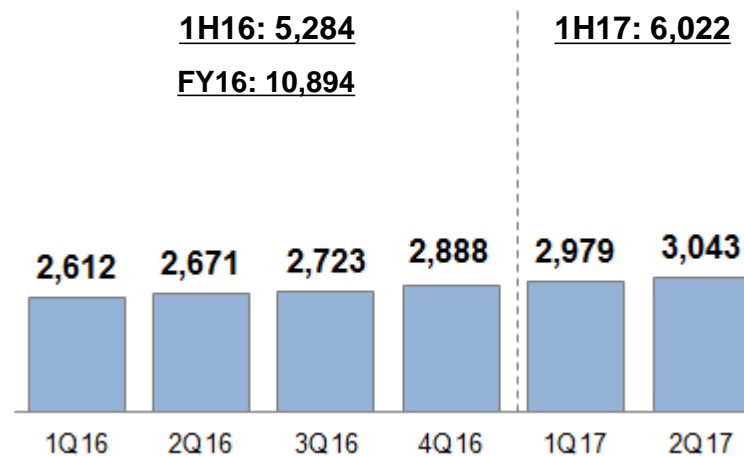
|   | Major Breakdown | YoY Change |
|---|-----------------|------------|
| Principal payments under capital leases | (2,764)         | (450)      |
| Dividends paid                          | (608)           | (103)      |

Unit: JPY million

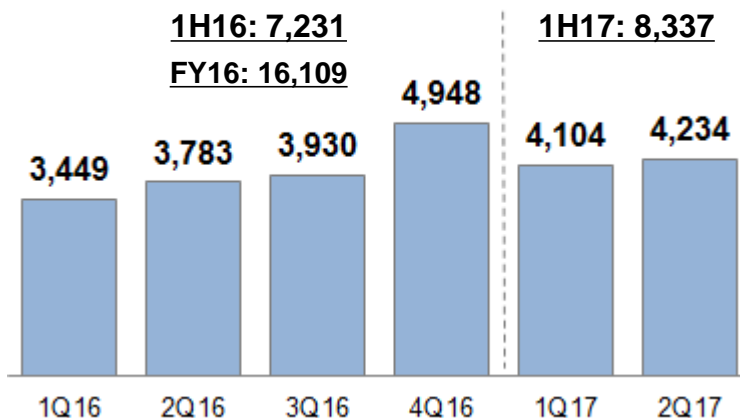
## CAPEX



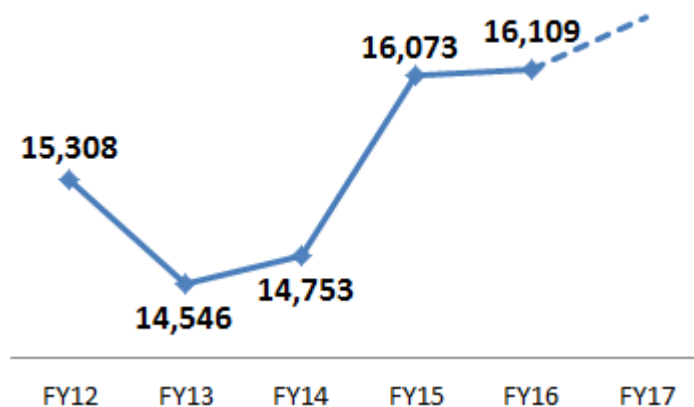
## Depreciation and Amortization



## Adjusted EBITDA

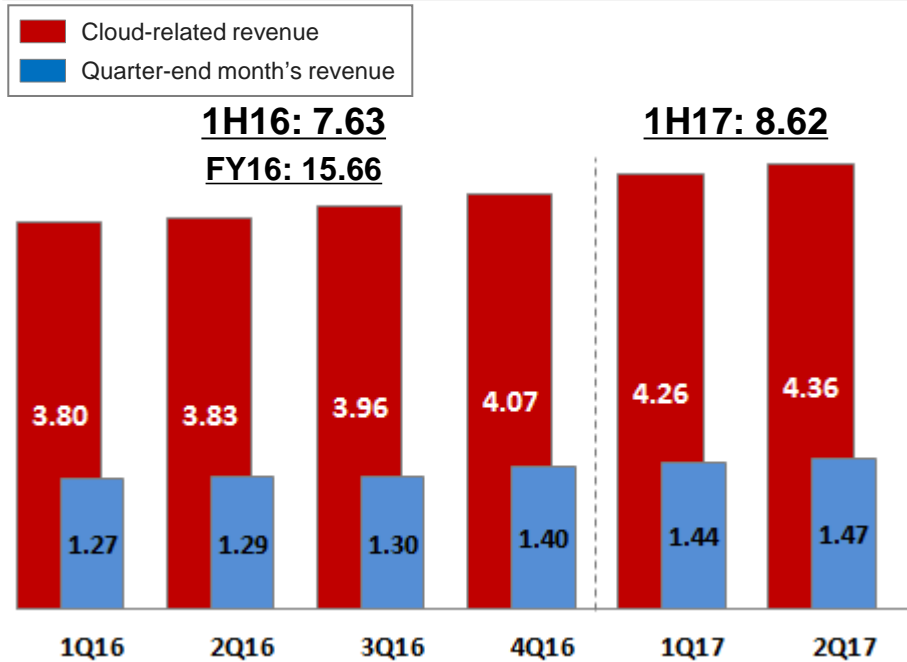


## Adjusted EBITDA Annual Growth



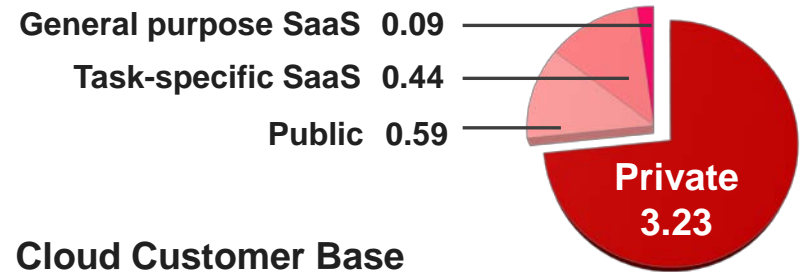
## Cloud-related revenue

Unit: JPY billion

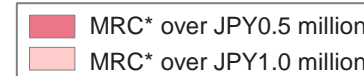


## 2Q17 revenue

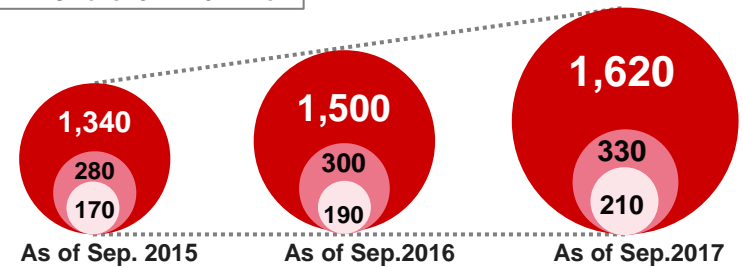
Unit: JPY billion



## Cloud Customer Base



\*Monthly Recurring Charge



### ◆ 1H17 revenue up 13.0% YoY

YoY=Year over Year change

- Accumulation of large-scale projects from 1Q. Flattish 2Q growth mainly due to the timing of orders and decrease of revenue in a certain gaming customer

### ◆ Enhance functions for Private Cloud

- Unified Operation Maintenance service continued to grow
  - Offers comprehensive centralized management for on-premise, multi-Cloud, and hybrid-Cloud systems
  - Significantly reduce operation workload by predicting system failures with in-house developed automated filtering etc.
- Continuously strengthening partnership with Microsoft
  - Accumulate demands to connect with Azure through closed network with Office 365

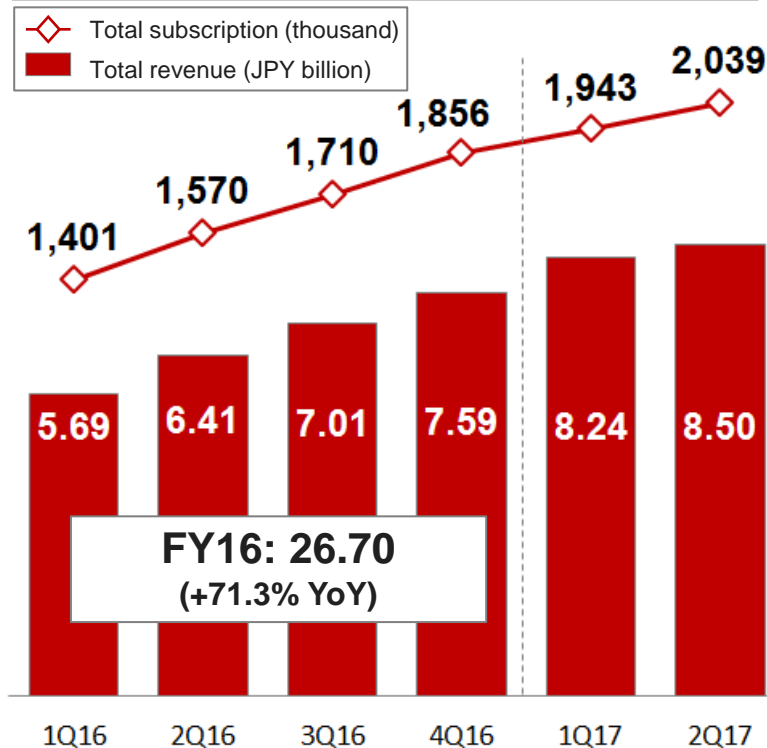
### ◆ Large-scale projects

- Mission critical system for Saitama prefecture
- Multi-Cloud systems for Nippon Express
- Office 365 private connectivity system for Aioi Nissay Dowa Insurance
- PoS systems for Conexio's retail stores
- Cloud-based remote management system for Nippon Seiki
- Enterprise system for At Home Co. etc

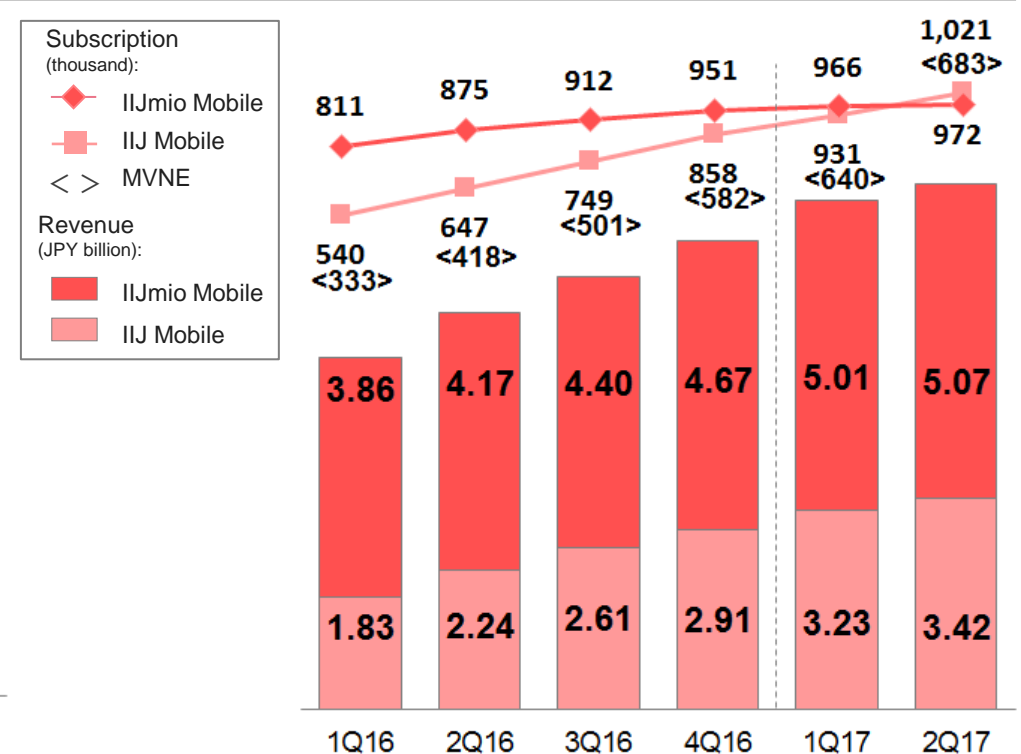
### ◆ 2Q17 cloud-related revenue recognition:

- 86.3% in systems operation and maintenance
- 13.7% in outsourcing

## Total subscription & revenue



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



### ◆ 1H17 enterprise mobile revenue (excluding MVNE): JPY1.73 billion (+15.4% YoY) YoY=Year over Year change

- Accumulating enterprise mobile solutions
  - Security camera, teleconference system, digital signage, taxi dispatch system, BtoC service handy devices, and many more
  - To further capture IoT-related projects, started providing 10GB or more data volume and service menu specialized in upload traffic
  - Systems construction and service developments for full-MVNO on track

### ◆ Continued to be profitable. 1H17 mobile gross margin amount continued to increase YoY. Mobile gross margin ratio as the same level as year before

### ◆ Top-class MVNO market share with 22% (including MVNE)

\*as of March-end 2017 SIM card subscription, MM Research Institute June 2017

- Opened sales-counter at another prominent retailer (Yodobashi) from Sep. 2017, expanding handsets-included plans, executing many promotions

### ◆ 1H17-end MVNE clients: 128 (up 8 clients YoY)

## Further Accumulation of IoT Projects

- ◆ IoT-related discussion & PoC prj. with our blue-chip customers as they seek business opportunities with IoT
- ◆ Prospective orders increasing after the announcement of to engage in full-MVNO

**1H17-end: approx. 230 projects (doubled YoY)**

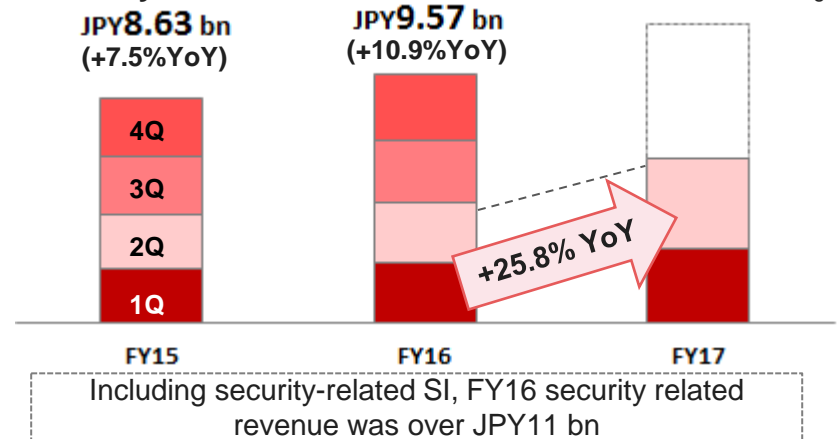
| Sector  | Examples of usage  |
|---------|--|
| Factory | <ul style="list-style-type: none"> <li>• Remote mgmt. and control of factory facility</li> <li>• Predict machine failures, reduction in maintenance cost</li> </ul>        |
| Agri.   | <ul style="list-style-type: none"> <li>• Paddy mgmt. (control of water level &amp; temp.)</li> </ul>   |
| Log.    | <ul style="list-style-type: none"> <li>• Mgmt. of vehicle location &amp; delivery status</li> <li>• Connected Cars, data monitoring of racing cars</li> </ul>              |
| Retail  | <ul style="list-style-type: none"> <li>• Analysis on consumers' movement from in-store cameras to create marketing data</li> <li>• Monitoring waiting customers</li> </ul> |
| Housing | <ul style="list-style-type: none"> <li>• Mgmt. of electricity with info from smart-meter</li> <li>• IoT to consumer electronics and nursing care</li> </ul>                |
| Others  | <ul style="list-style-type: none"> <li>• Mgmt. for solar panels &amp; windmills</li> <li>• Tracing products</li> </ul>   |

**< Glossary >**

|       |                  |       |             |
|-------|------------------|-------|-------------|
| PoC   | Proof of Concept | Agri. | Agriculture |
| Prj.  | Projects         | Log.  | Logistics   |
| Mgmt. | Management       | Inst. | Institution |
| Temp. | Temperature      | Govt. | Government  |
|       |                  | a/c   | account     |

## Security Revenue Increasing Largely

- ◆ **Security-related services revenue** YoY=Year over Year change



- ◆ IIJ DDoS Protection Service growing strongly

**2Q17 revenue: doubled YoY**

- High penetration towards large financial inst. & central govt. agencies, Further demands coming from service sector
- Able to protect from over terabit scale attacks

- ◆ Email & Web gateway service continuously expanding

**Mail service: approx. 1.8 million a/c**

**Web gateway service: approx. 1.2 million a/c**

- Fully-manage over several hundred thousand a/c for global manufacturing company's mail gateway and more
- 10yrs+ of service operation, filter logics in-house developed
- ◆ Enhance competitiveness with SOC service (Mar. '17 ~)
- Providing to local govts. Leveraging security log obtained as an ISP to protect against latest cyber threats
- Assist enterprise security systems with establishment of CERT, SOC service & wide-range of security services

## IJJ Omnibus Services Status

- ◆ Cloud-type NW service offering necessary functions for enterprise NW such as Internet connectivity, security & WAN by incorporating SDN/NFV technologies

### Various function modules

- Internet connectivity
- Firewall
- Mail security
- Web security
- Cloud connectivity
- Data center connectivity
- WAN
- Internet VPN
- Remote access

etc.

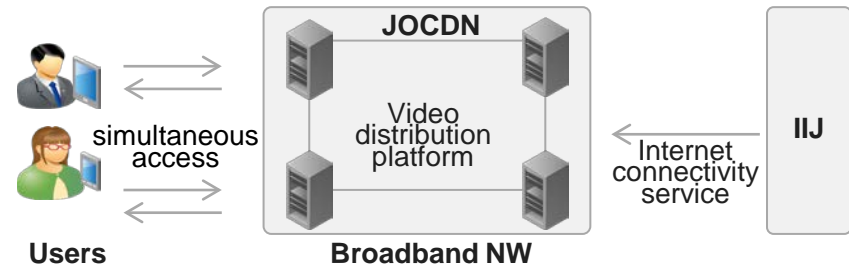
System cloud

Enterprise customers



- ◆ **Continuously acquiring orders from FY16, Order accumulation pace accelerating**
  - Demands to replace enterprise NW and to connect multiple cloud service with closed network increasing
- ◆ **Customers don't need their own NW equipment**
  - Together with system cloud, able to fully outsource enterprise network system
- ◆ **Flexible service design via systems developed by IJJ**
  - Expand functions and service line-ups accordingly with demands
  - Strong competitive advantage as NW service provider

## Outlook for CDN Business



### CDN

- ◆ **“JOCDN”\* starting up business**
  - JV with 15 Japanese broadcasting companies
  - Providing services to TVer & 2 large broadcasting companies, Preparing to provide services to a prominent contents holder, Expanding service facility with greater than expected traffic
- ◆ **Capable of distributing terabit volume video contents**
  - Strategically important project co-working with broadcasting companies towards 4K video distribution

\*Equity method investee with 20% IJJ ownership

### Streaming services etc.

- ◆ **Supported online population census for the govt.**
  - 19 million users access simultaneously
- ◆ **Continuously chosen to online stream annually held national high-school baseball matches**
- ◆ **First in the world: live streaming of high-res. sound**
  - Berlin Philharmonic Performances, NHK Symphony Orchestra, Tokyo University of the Arts etc.
- ◆ **Experimenting uncompressed 4K video streaming using Internet backbone network**



## ※ 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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