

Internet Initiative Japan Inc. Corporate Overview

IR Roadshow in London, Frankfurt, Paris, and Zurich

July 2019



Outline

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* Unless other than stated, financial results up-till FY18 are based on U.S GAAP.

Internet Technology Initiatives in Japan

About IIJ

Established	December 1992
Number of Employees	3,353 (approx. 70% engineers) Consolidated, As of Mar. 31 2019
Listed Markets	Tokyo Stock Exchange 1st Section (code: 3774) We voluntary delisted from the U.S. NASDAQ Market in Apr. 2019. Our ticker symbol at OTC is IIJIY
Large Shareholders	NTT group (26.0%), Dalton (6.3%), Global Alpha (6.1%), CEO Suzuki (5.6%*) <small>*Jointly owned by CEO. Suzuki's wholly owned private company</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
- In-house service development and 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

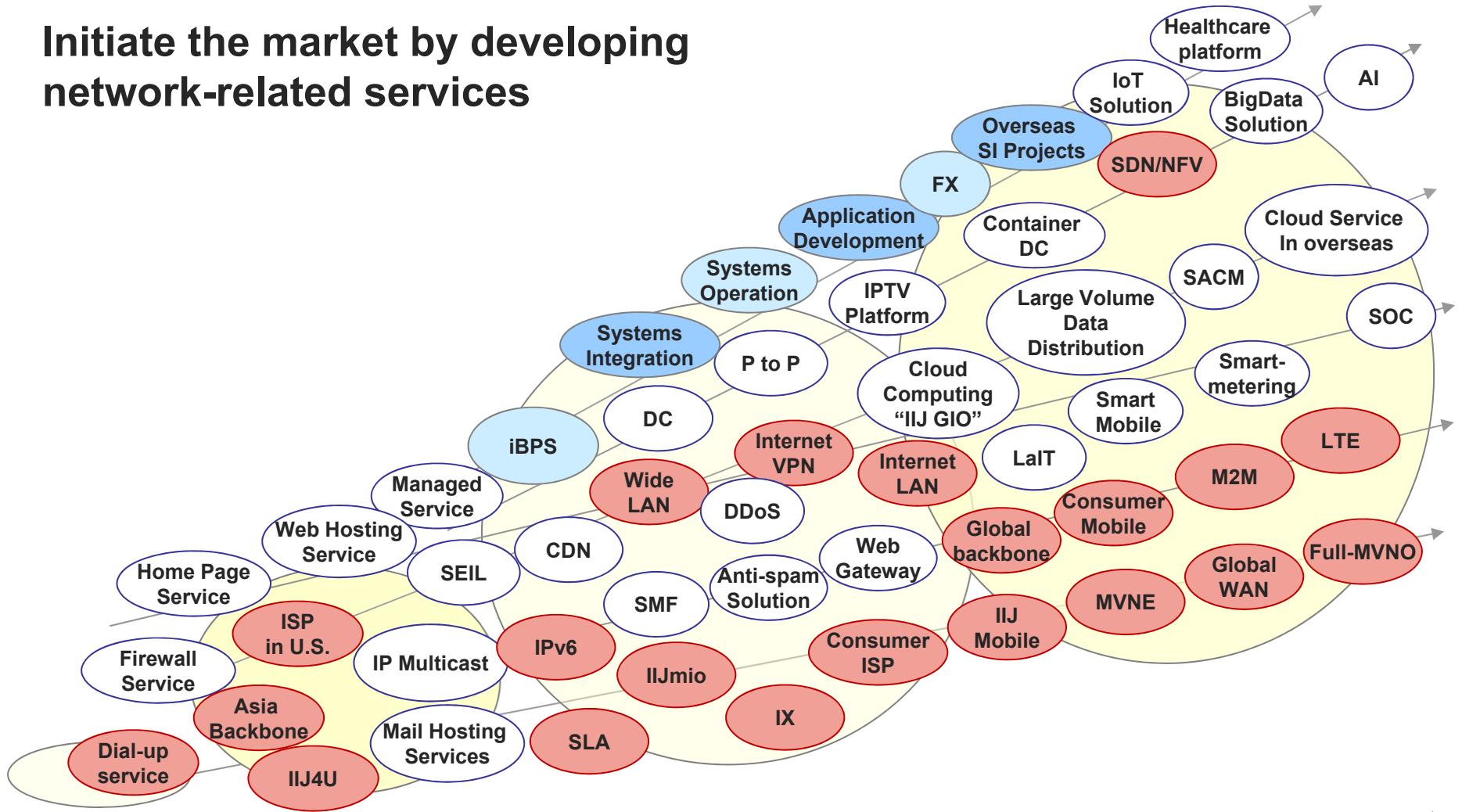
◆ **At the leading edge of IP R&D**

- 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

About IIJ

Initiate the market by developing network-related services



IIJ Group

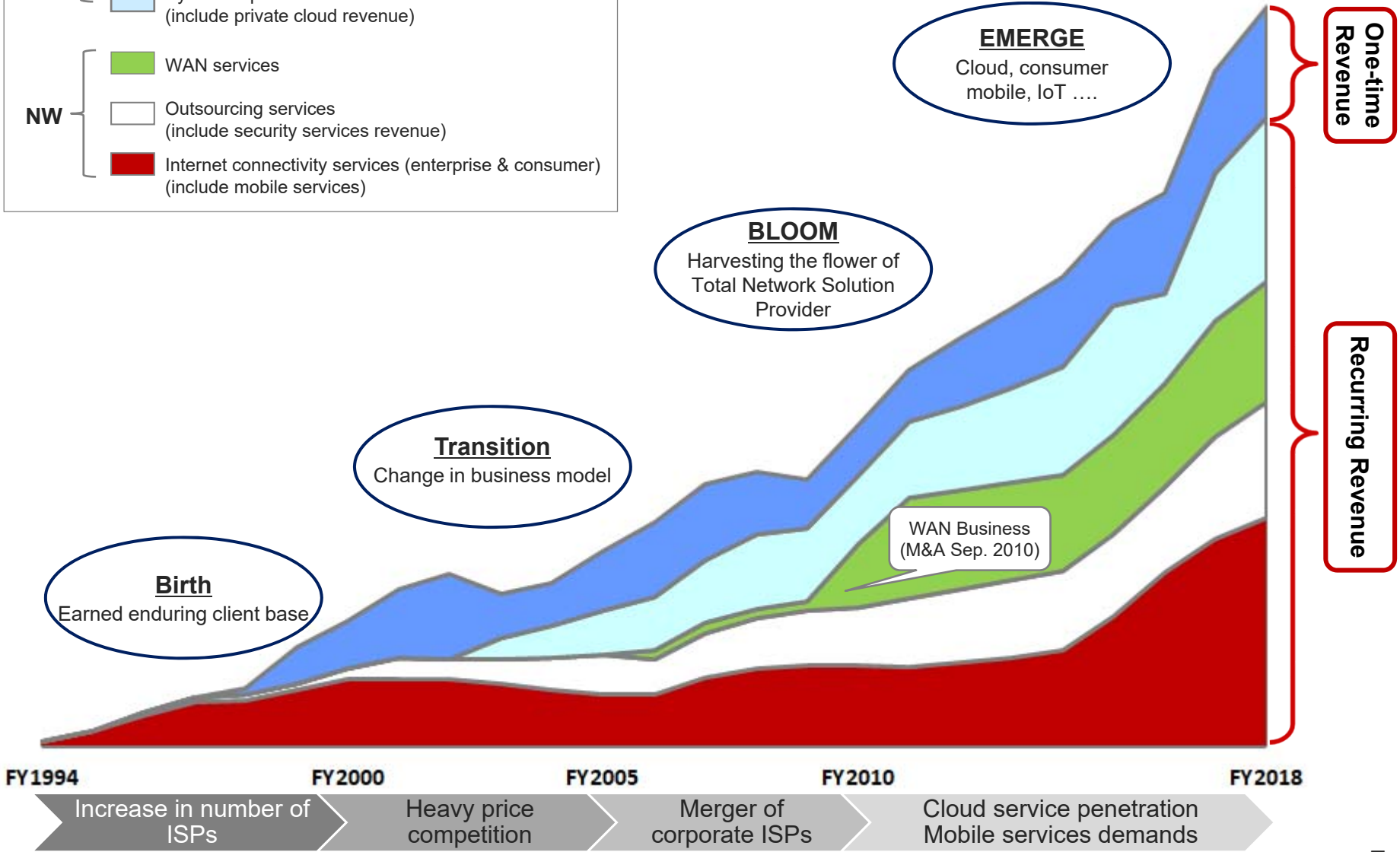
i-revo Trust Networks

Internet Initiative Japan Inc.

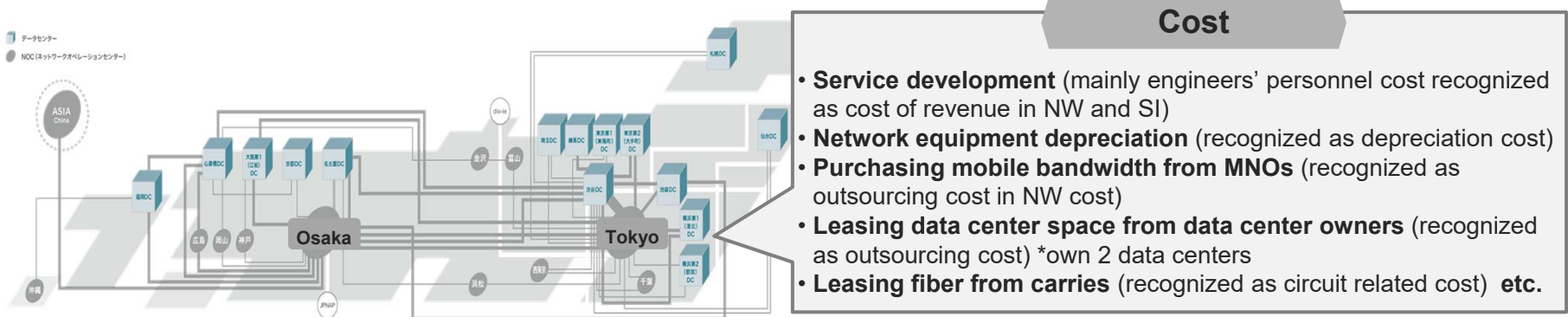
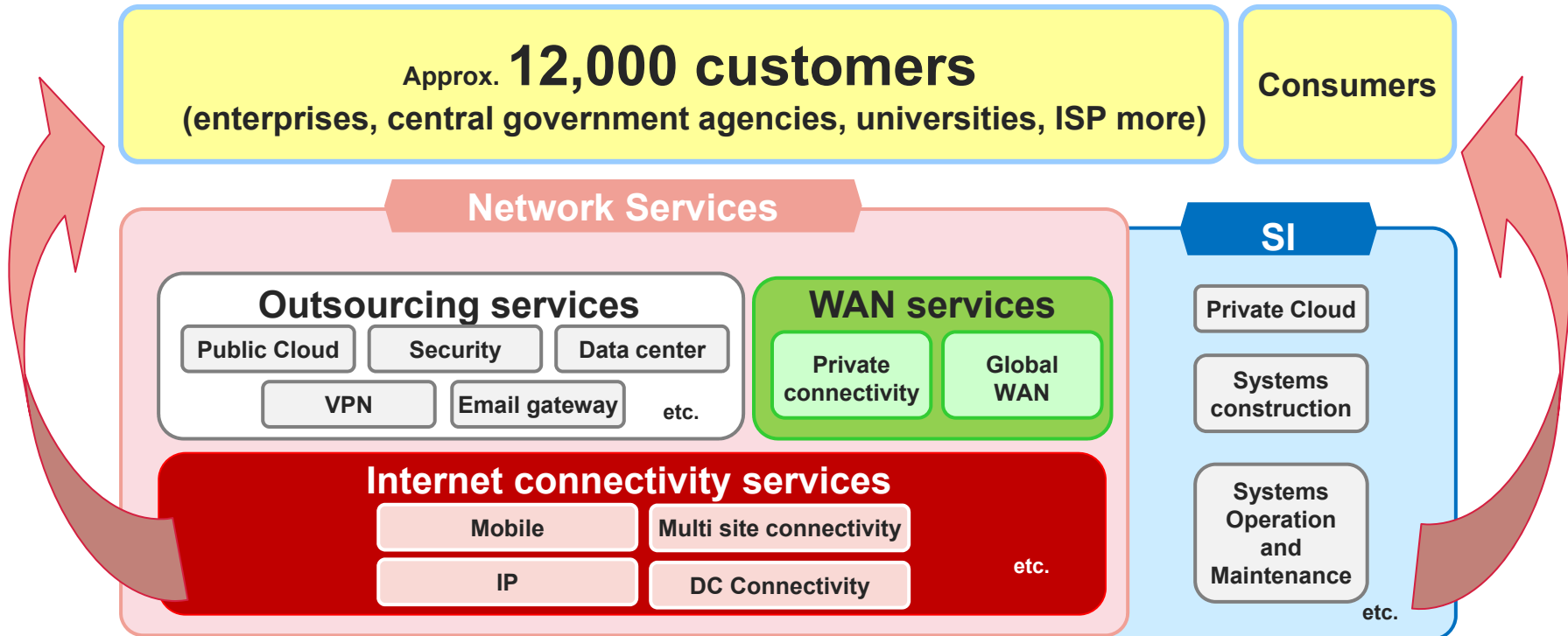
ISP to Total Network Solution Provider

Revenues:

- SI**
 - Systems construction (one-time)
 - Systems operation and maintenance (include private cloud revenue)
- NW**
 - WAN services
 - Outsourcing services (include security services revenue)
 - Internet connectivity services (enterprise & consumer) (include mobile services)



Leveraging Internet-related technology
 Total network solution provider with services and SI

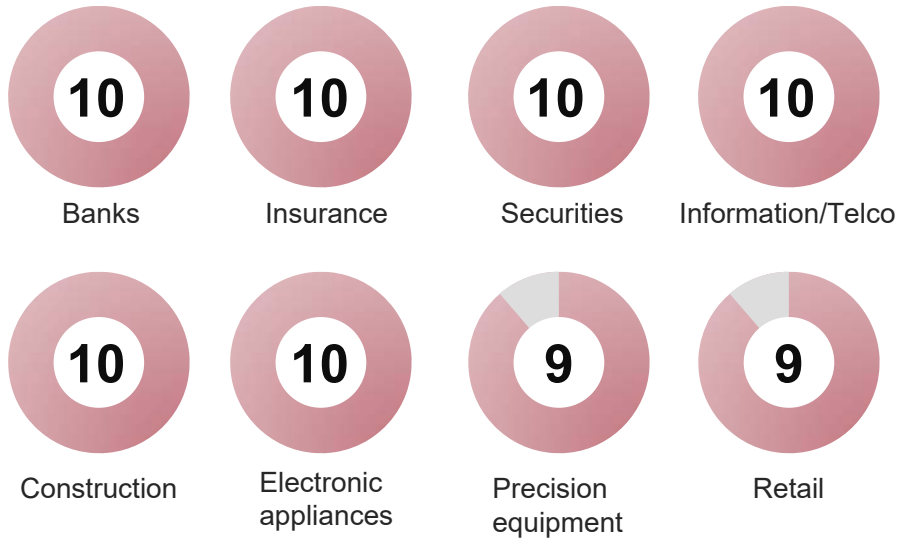


Excellent Customer Base with Many Blue-Chips

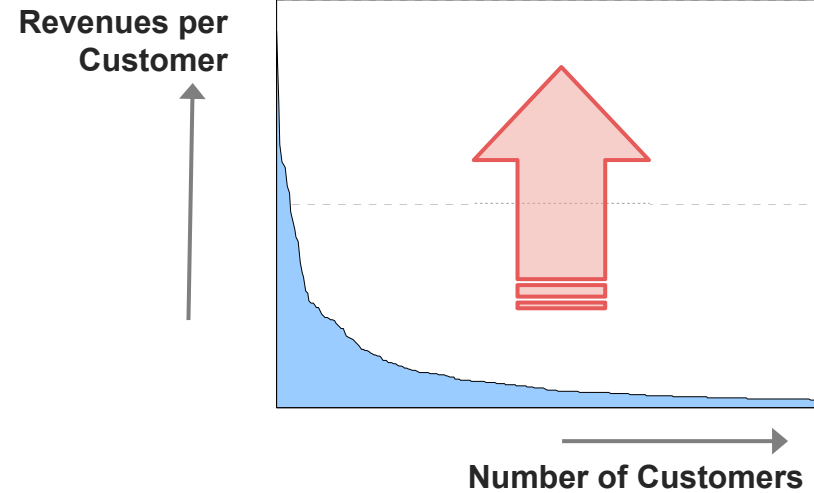
Competitive Advantages

Cover Most of Top Revenue Companies

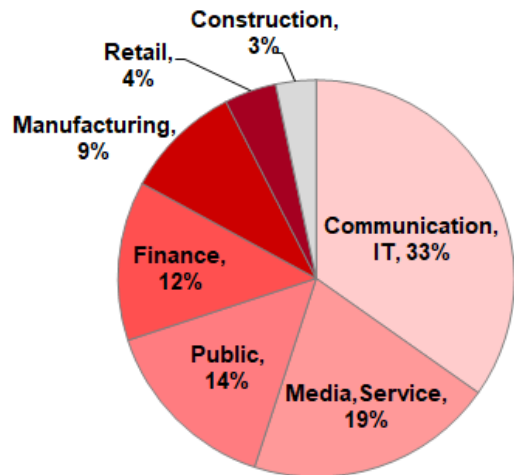
The number of clients among the top 10 companies in each industry.



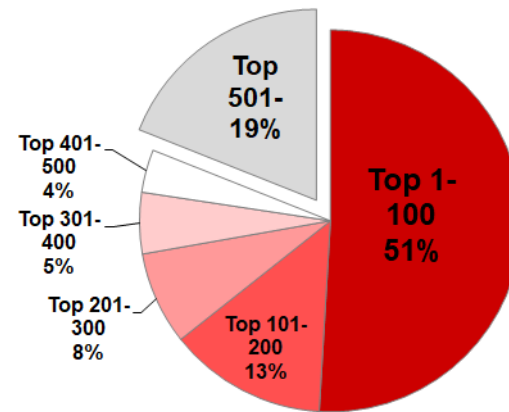
Increase Revenue per Customer



Revenue Distribution by Industry



Revenue Distribution by Clients



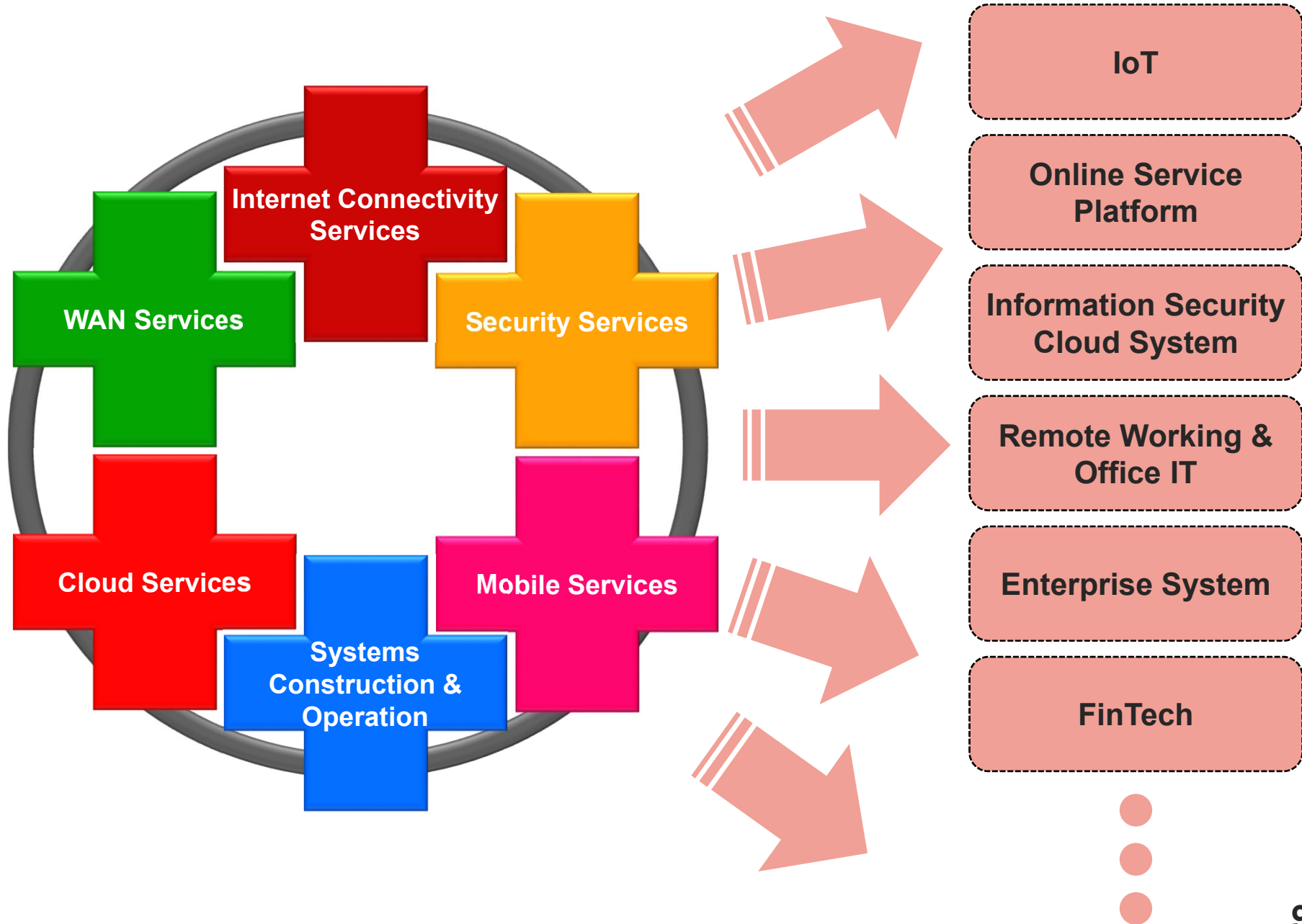
Comprehensive Line-ups of IT services

Competitive Advantages

Revenues		Services	Business status
NW Services	Internet Connectivity (Enterprise)	<ul style="list-style-type: none"> • Primary connectivity for head offices • High-performance dedicated connectivity • Redundant connectivity for multi-site 	<ul style="list-style-type: none"> • Dominate the matured market • Revenue gradually increase with greater contracted bandwidth/traffic • Anticipate to grow with CDN traffic & further cloud service penetration • Continuous network expansion
	Internet Connectivity (Consumer)	Mobile <ul style="list-style-type: none"> • Mobile solutions, M2M/IoT, MVNE for enterprises • Inexpensive SIM card services for consumers 	<ul style="list-style-type: none"> • Accumulate subscription with MVNE and IoT • Further capture IoT demand with full-MVNO supporting data services
	WAN	<ul style="list-style-type: none"> • Closed NW for multi-site connection 	<ul style="list-style-type: none"> • Legacy technology, shrinking market
	Outsourcing	<ul style="list-style-type: none"> • Security, data center, email outsource, NW/Server management service line-ups etc. • Many in-house developed services 	<ul style="list-style-type: none"> • Cross-sell and accumulate various outsourcing services • Growing demands for security • Continuous service development
SI	Operation & Maintenance	Cloud <ul style="list-style-type: none"> • Full service line-ups for IaaS • SaaS/PaaS with partners • Hybrid/Multi cloud solutions • BigData, IJ Raptor (FX application) etc. 	<ul style="list-style-type: none"> • Competitive advantage of SI with multi/private cloud • Continuous service enhancement including GIO P2
	Construction	<ul style="list-style-type: none"> • Internet-related SI, NW integration • Cloud-related, mobile-related SI • Operation & maintenance after construction 	<ul style="list-style-type: none"> • Value-added functions to promote cloud, mobile systems etc.
Equipment Sales			

Example of Total Solution

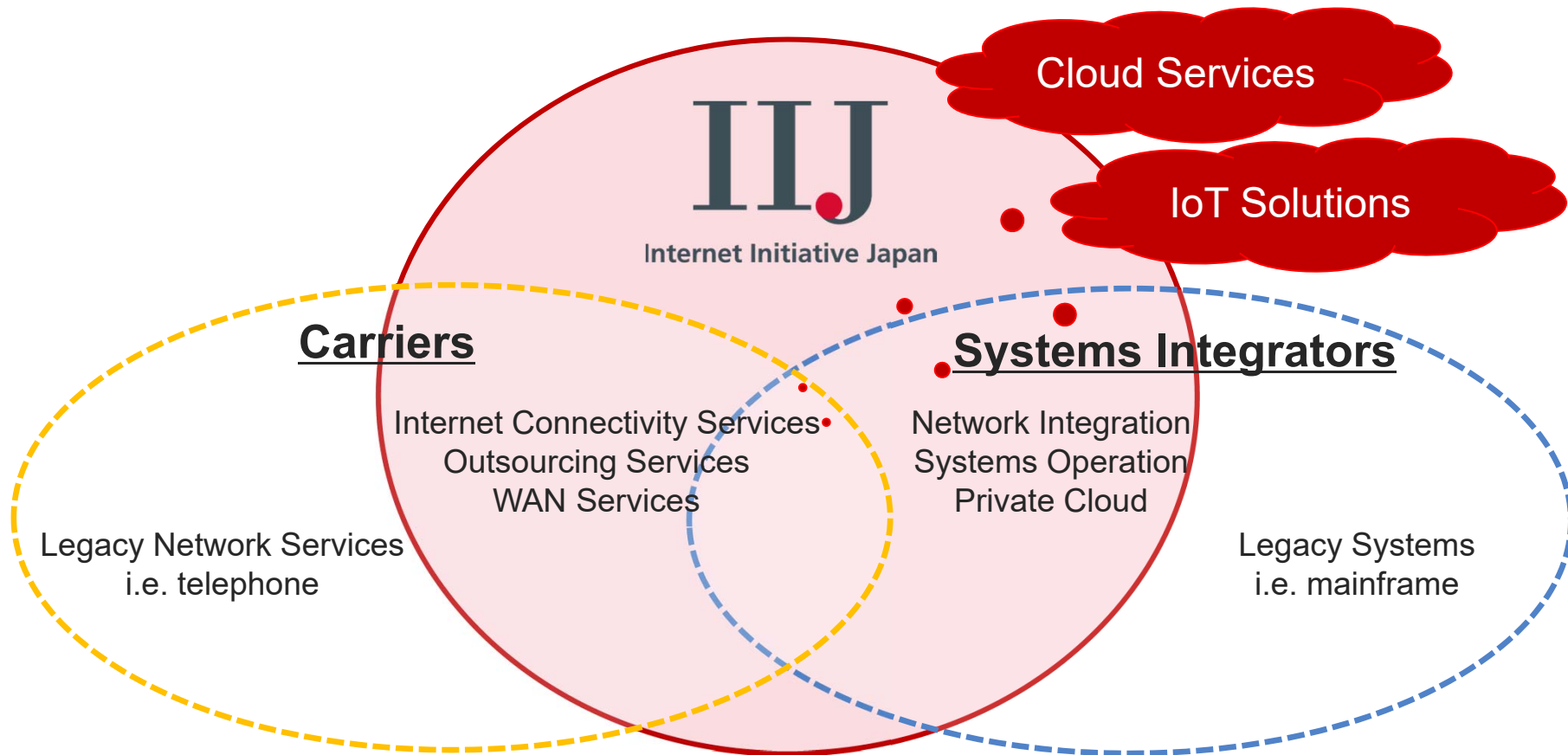
Competitive Advantages



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

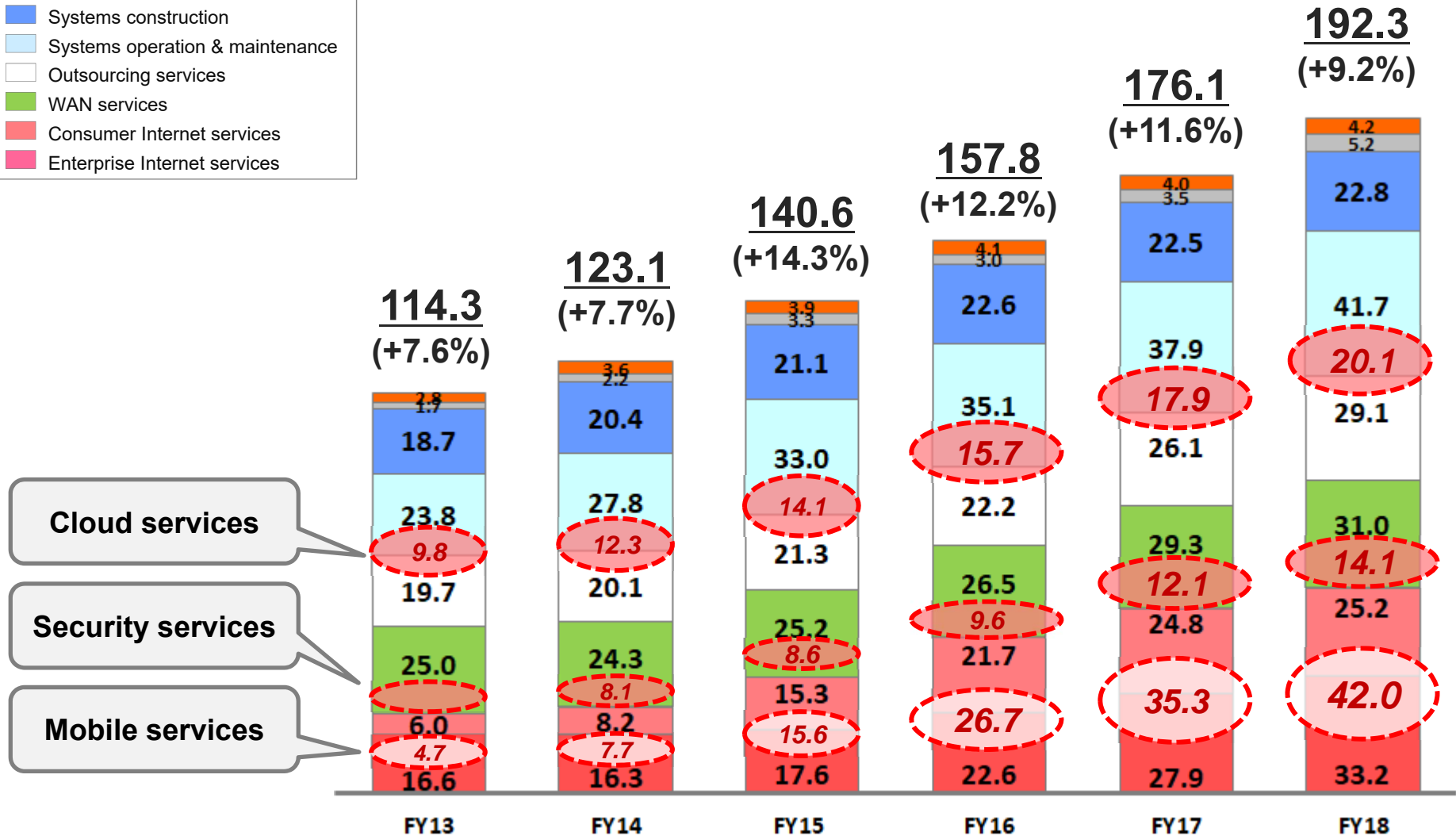
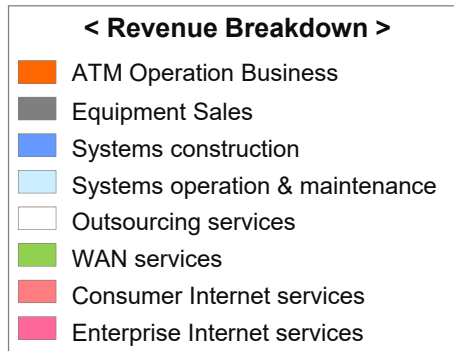
- Operates network facilities by ourselves
- Develops network services
- Moderate number of employees

Leveraging Blue-chip Customer Base

Growth Strategy

Cross-selling multiple service products

Unit: JPY billion
% = year over year change
U.S. GAAP base



Cloud services

Security services

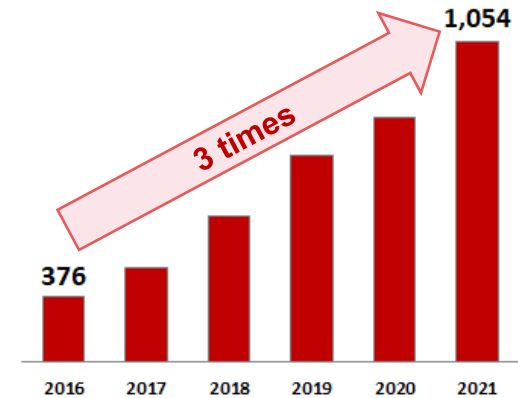
Mobile services

Cloud Business (1)

Growth Strategy

Cloud Market in Japan

- Cloud penetration among Japanese enterprises
 - 56.9% as of 2017-end, 33.0% as of 2013-end (MIC)
- Some advanced and mission critical enterprise systems on cloud services, but mostly web server and such light usage
- Average system life cycle: 5 years
 - Enterprises consider re-investing in their on premise systems or migrate to cloud service when their existing systems approach to the end of life
- Systems don't migrate at once, especially large internal systems
 - Customization (SI) is required when migrating to cloud
- Japanese companies require needs specific functions, IIJ continuously upgrade, enhance and expand service line-ups
- Great business opportunity with IoT and BigData



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

IIJ's Competitive Advantages

IIJ
<ul style="list-style-type: none"> ◆ Target blue-chip's large internal IT systems which are traditionally covered by Slers ◆ Integrate full-MVNO (data services), security, SI and other IIJ services ◆ Operate and manage not only IIJ's cloud services but also other vendors' cloud services and on premise systems seamlessly through UOM (Unified Operation Management) Service ◆ Experience, reputation, reliable operation <ul style="list-style-type: none"> ➤ One of the first cloud service providers in Japan (since FY2010) ◆ Deep relationships with blue-chip customers <ul style="list-style-type: none"> ➤ Leverage network service clients customer base ◆ Various options for CPUs/OSs/storage/network usage etc.

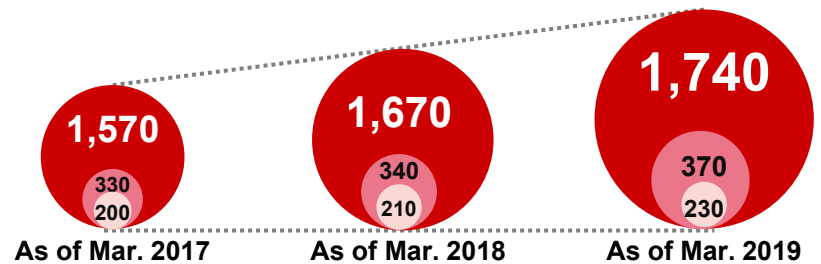
Competitors	
AWS/Azure	<ul style="list-style-type: none"> ◆ Strong scale merit ◆ Not so strong about meeting individual system needs <ul style="list-style-type: none"> • Service specs • SI expertise • Customer support
Slers	<ul style="list-style-type: none"> ◆ Tailored toward individual private cloud, in principal ◆ Target current clients, in principal

Cloud Business (2)

Growth Strategy

IJ's Cloud Customer Base

■ Total number of customer ■ MRR over JPY1.0 million
■ MRR over JPY0.5 million MRR=Monthly Recurring Revenue

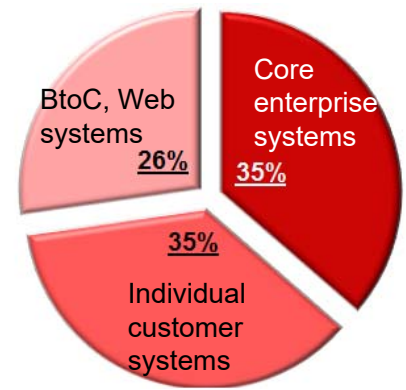


- ... and many more
- SBI Holdings
 - NTT DOCOMO
 - Ricoh Company
 - TOMY COMPANY
 - Nomura Securities
 - Tokyo Stock Exchange
 - Nippon Life Insurance Company
 - SHIMIZU CORPORATION
 - Toray Industries, Inc.

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

IJ GIO P2 System Usage

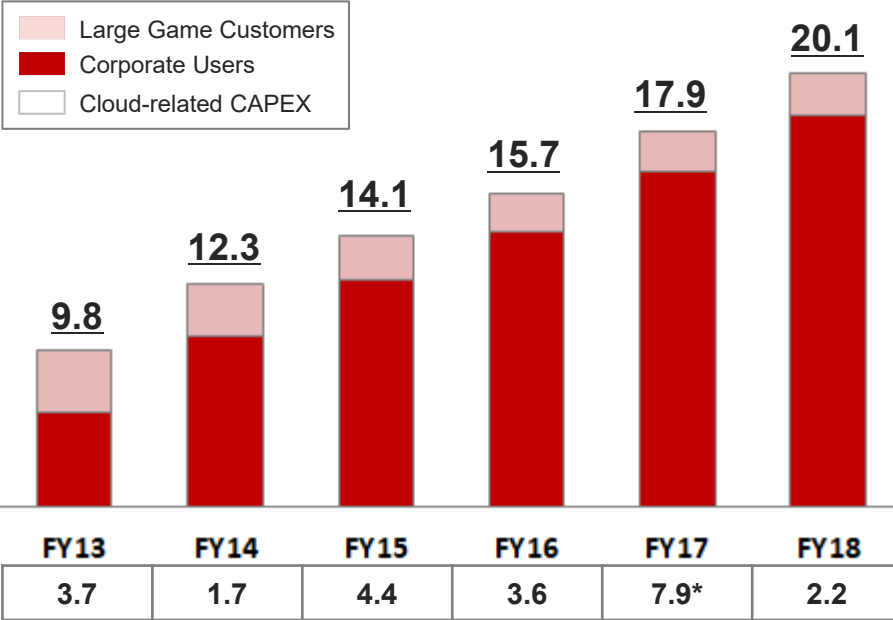


Cloud Business (3)

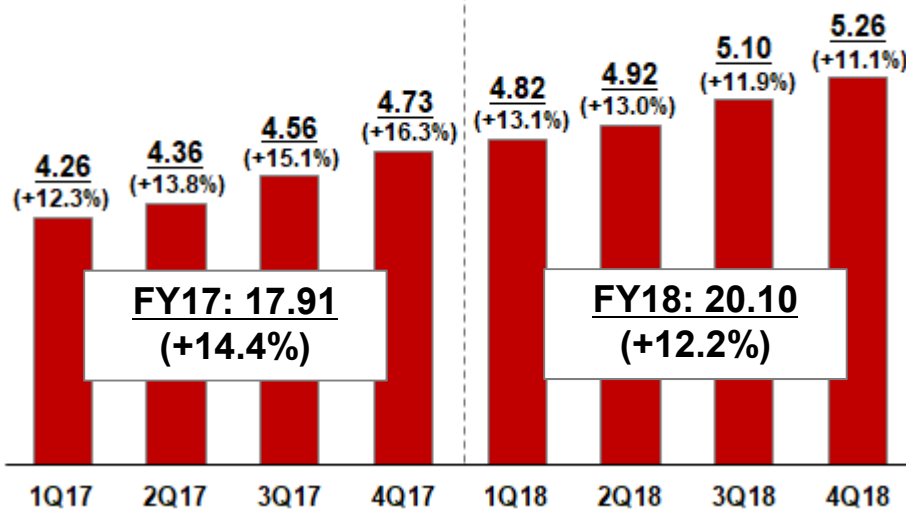
Unit: JPY billion

Growth Strategy

IIJ's Cloud Revenue Growth U.S. GAAP base



*Included GIO P2 facility in Western Japan of JPY3 billion which is for FY18 usage



Business model

◆ Revenue

- Enterprise systems life cycle: 4 to 5 years on average
- Along with Japanese enterprises' internal IT systems migration to cloud, types of systems IIJ can deal should expand
- Revenue depends on system volume (i.e. number of cloud servers)
- Revenue to expand along with increase in customers and system volume

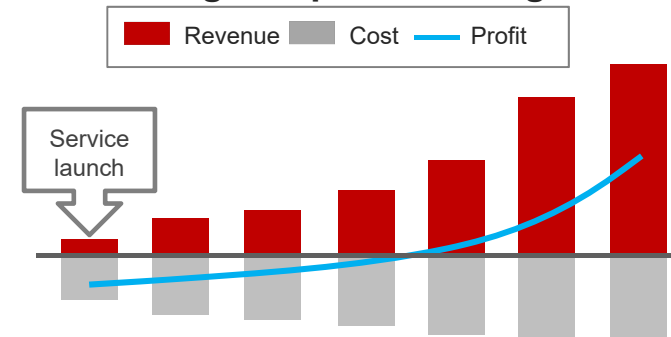
◆ Cost

- Leasing fee for data center space, depreciation and amortization cost for services and other network equipment, outsourcing cost and personnel costs

◆ Profit

- Currently very low profitability as still in investment phase (need to expand service facility and develop services)
- Should be able to enjoy economy of scale once large volume of cloud services are used by customers

Image on profit making



Mobile Business (1)

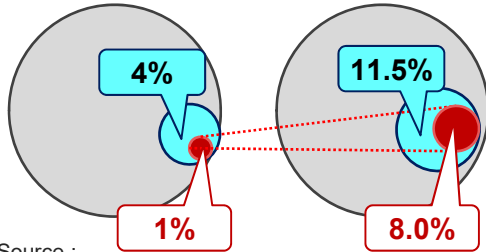
Unit for revenue: JPY billion
 Unit for subscription: thousand
 U.S. GAAP base

Growth Strategy

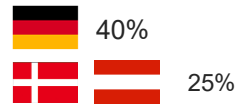
MVNO Penetration in Japan*1

■ Total mobile subscription (approx.170 million)
 ■ MVNO subscription ■ SIM subscription

Dec. 2013 Dec. 2018



MVNO penetration*2



Consumer MVNO share:

- IIJ: over 20% including MVNE subscription
 - Rakuten: 16.1%
- (Source: MIC published in Dec. 2018 based on Sep. 2018 data)

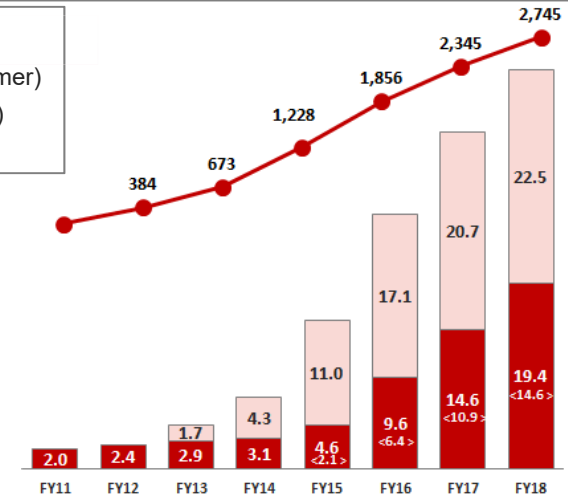
Source :

*1 Ministry of Internal Affairs and Communications

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

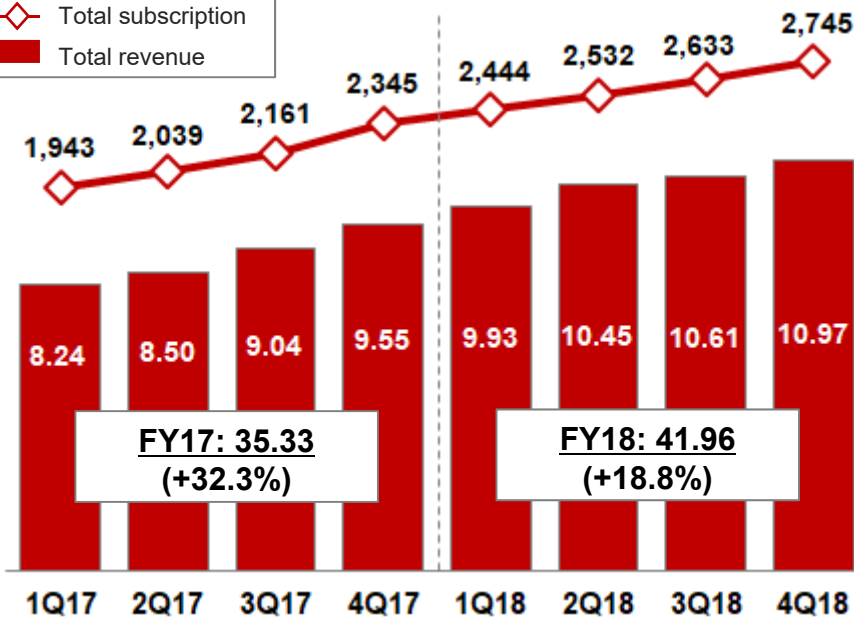
IIJ's Subscription & Revenue Growth

● Total subscription
 ■ IIJmio Mobile (consumer)
 ■ IIJ Mobile (enterprise)
 < > MVNE

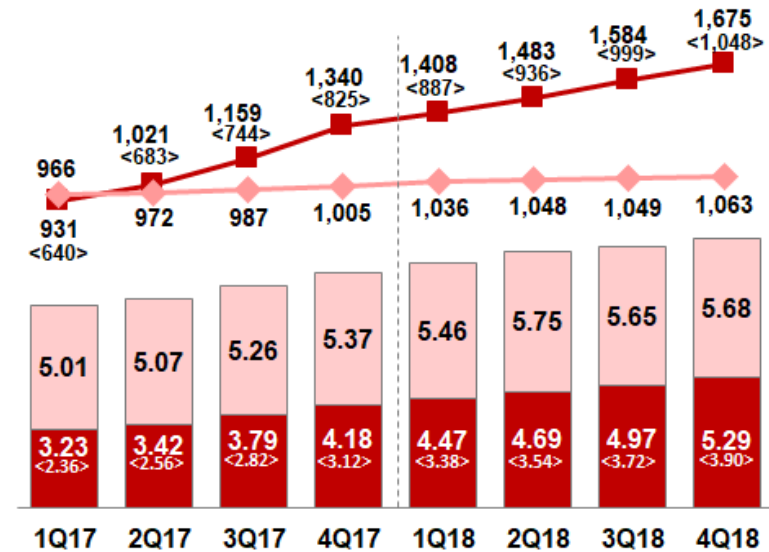


IIJ's Subscription & Revenue Quarterly Growth

◇ Total subscription
 ■ Total revenue



Subs: ■ IIJ Mobile < > MVNE ◇ IIJmio Mobile
 Revenue: ■ IIJ Mobile < > MVNE ■ IIJmio Mobile



Mobile Business (2)

Business model & Growth Strategy

◆ Revenue

- Consumer mobile revenue = Subscription multiplied by ARPU
- Enterprise mobile revenue to grow with IoT/M2M traffic
 - Charge IoT projects by how much data traffic is needed

◆ Cost

- Consumer & enterprise mobile services are provided from the same mobile infrastructure
- Mainly buying mobile capacity on bandwidth-base from Docomo (some from KDDI)
- In order to provide voice services, we purchase per usage base (no economy of scale merit for voice services)
- Sales commission to sales partners such as Bic Camera

◆ Profit

- Profitability to increase by improving infrastructure utilization through gathering various consumer (young, old, student, households, office works) & enterprise traffic (IoT)

Image of IJ's Mobile Infrastructure Utilization



➢ Improve mobile infrastructure utilization by gathering IoT/M2M & various consumer traffic*

- Launched full-MVNO services (supporting data services) targeting further IoT traffic (private global network, inventory control with flexible billing management for IoT usage, direct overseas roaming, chip SIM etc.)
- FY18-end MVNE clients: 149 (retailers, CATV, EC vendors, Slers, manufacturers etc.)

First in Japan to launch full-MVNO services supporting data services

➤ Full-MVNO service offerings

- **“SIM Life Cycle Management”** (from Mar. 2018); able to remotely check and change status of SIMs, suited for IoT usages such as inventory management
 - ✓ Already been used for Panasonic “Let’s Note,” Mitsui Bussan Electronics “FORKERS” etc.
- Small data volume-bundle services targeting IoT usages (from Aug. 2018) attracting orders
- Started trial of **eSIM platform** on Microsoft Surface and others, official service to be launched in FY19
- **“Japan Travel SIM”** (from Apr.); prepaid SIMs for foreigners visiting Japan, partnering with local partners in overseas to provide SIMs before tourists leave their home countries
- International roaming services for enterprise customers (from Jul.)

➤ Full-MVNO revenue:

- FY18: JPY0.66 billion (initial target JPY0.5 billion), FY19 target: JPY1.7 billion

➤ Fixed-type cost increased by approx. JPY0.1 billion per month

➤ Expected total investment: approx. JPY4.5 billion

- HSS/HLR systems depreciation and NTT DOCOMO’s network remodeling fee

Accumulating Enterprise Mobile Solutions

➤ Started providing enterprise mobile solutions from 2008 by becoming the 1st 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

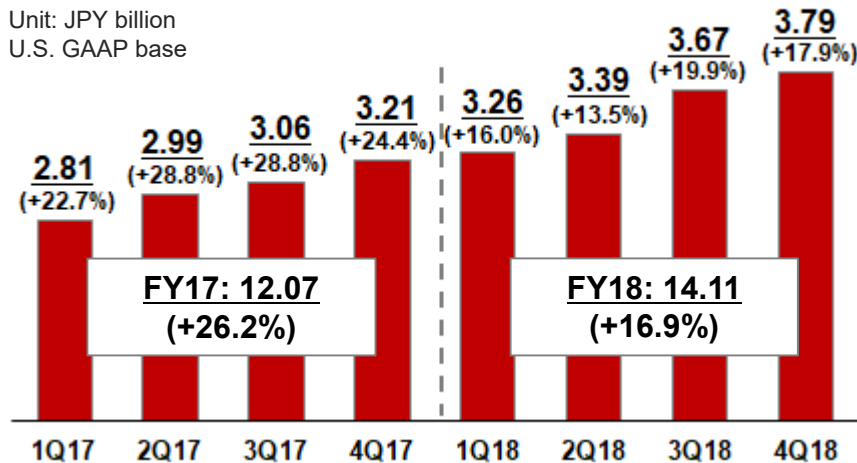
- Surveillance & dashboard cameras, digital signage, sensors, ticket vending machine etc.
- FY18-end non-MVNE mobile subscription:
 - ✓ 627 thousand (+21.8% from FY17-end)

Security Business

Growth Strategy

IIJ's Security Services Revenue Growth

Unit: JPY billion
U.S. GAAP base



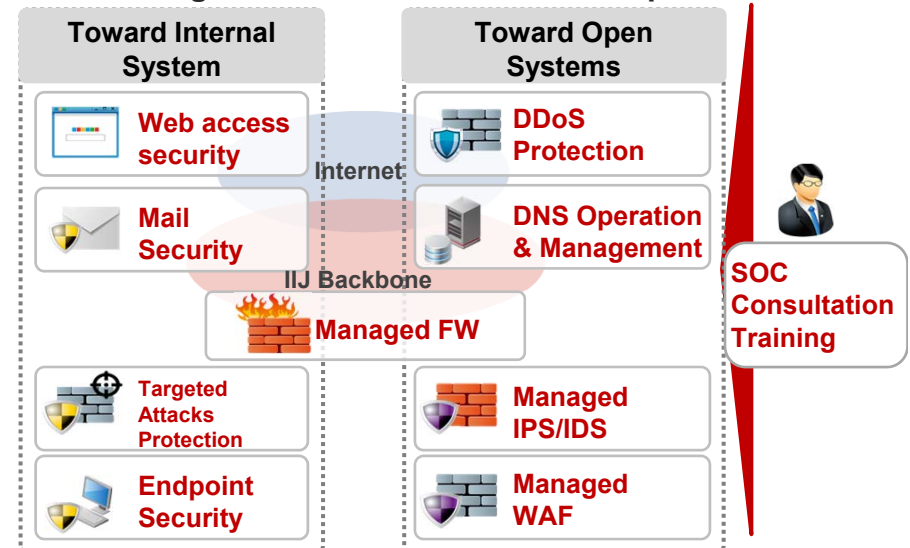
<About security service revenue> Recognized in Outsourcing Services. In FY17, large security Cloud project for local government. In addition to services, providing SI for security needs

IIJ's Competitive Advantages

- ◆ **DDoS protection services** which are able to handle terabit cyber attacks, widely used among central government agencies and major financial institutions
- ◆ **Security Operation Center 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
 - 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
- ◆ **Advising regional police departments about cyber security** such as unauthorized access and Internet network

IIJ's Security Service line-ups

- ◆ Provide together with NW and SI as comprehensive



Business Developments

- ◆ **DDoS protection service strongly growing**
 - Growing penetration toward BtoC service providers
 - Expanded facility globally, able to protect from over terabit scale attacks
- ◆ **Email & Web gateway service continuously expanding**

Mail service: approx. 2.1 million accounts
Web gateway service: approx. 1.2 million accounts

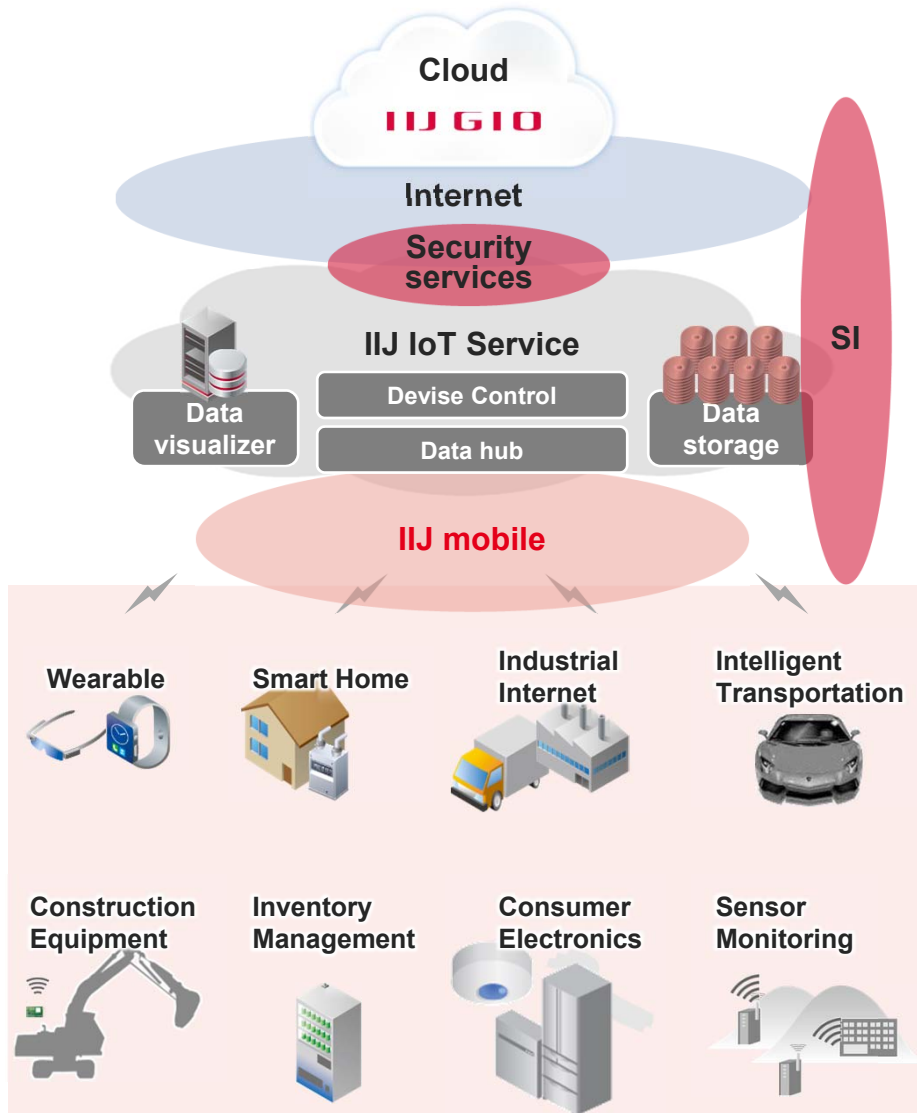
- Protecting **several hundreds of thousands email accounts** with our services for such as global manufacturing companies, local governments and more from external threats and information leaks
- Fully-manage over several hundred thousand a/c for global manufacturing company's mail gateway and more
- 10yrs+ of service operation, filter logics in-house developed

IoT Business

Growth Strategy

IIJ as IoT platform

IIJ provides necessary elements for IoT comprehensively



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 supporting data services

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

< Glossary >

PoC Proof of Concept
 Prj. Projects
 Mgmt. Management
 Temp. Temperature

Agri. Agriculture
 Log. Logistics
 Inst. Institution
 Govt. Government
 a/c account

FinTech Business

Growth Strategy

Company Profile

Name	DeCurret Inc. (IIJ ownership 35%)
Est.	January 2018
Capital	JPY5.23 billion
Directors	President: Kazuhiro Tokita (from IIJ) Part-time directors: IIJ CEO, IIJ COO, IIJ CFO

- 1st & new licensed service provider after the FSA enacted registration process
- Launched exchange services in Apr. 2019. Plan to upgrade the services and add settlement platform services

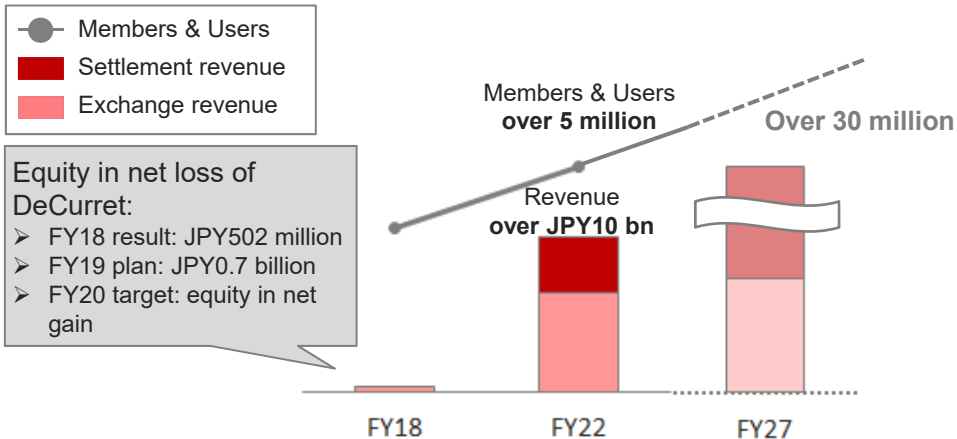
Business

- **Exchange service (Apr. 2019)**
 - 24 hours 365 days exchange platform to exchange various cryptocurrencies, mainly for consumers
 - ✓ BTC, BCH, LTC, XRP, (ETH to be added from 1H19)
 - ✓ Highly reliable system, low bid-ask spread, and meeting security requirement such as AML/KYC
- **Settlement platform services**
 - Exchange cryptocurrency to electronic money, points etc. (1st phase, from 1H19)
 - Plan to handle multi-currency settlement platform such as stablecoins, electronic money, cryptocurrency and others by utilizing exchange platform etc.
 - Plan to widen usage for intergroup settlement etc.

Competitive Advantages

- **Trading system leveraging the existing IIJ Raptor**
 - Top share ASP FX (Foreign Exchange) system in Japan, proving to more than 10 major Japanese financial institutions
 - ✓ Core-engine, dealing system, connecting multiple FX exchanges, investor service platform, operator management function etc.
 - ✓ Approx. 70% of DeCurret service system is leveraged from the existing IIJ Raptor system
- **Executing business with prominent capital partners**
 - Expect to include electronic money, bank coins and more
 - ✓ Aim to be a common platform for partners' cryptocurrency distribution
 - Future potential: connecting payment data and accounting, smart contract, BtoB settlement and more by leveraging blockchain technology

Business Target



Impact on IIJ's consolidated financial results etc.

<PL>

- Impacted by equity in net income/loss of equity method investees

<Business>

- Raptor & cloud to grow, IIJ owns 35% of DeCurret's value

FinTech Business

Growth Strategy

Shareholders of DeCurret



By your side, for life



Dai-ichi Life Group



* Changed its name to Optage Inc.in Apr. 2019

CDN (Contents Distribution Network) Business

Growth Strategy

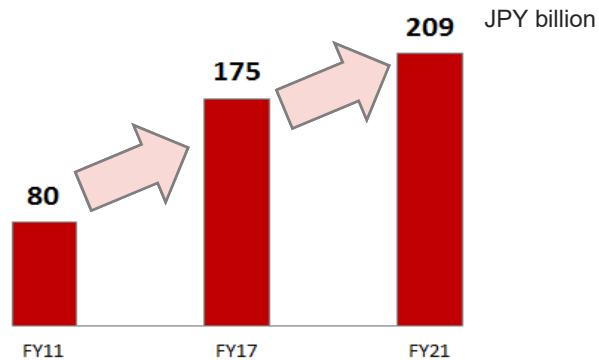
CDN Market in Japan

- **Growing needs to distribute contents over Internet**
 - 4K/8K and high-definition contents to increase towards the Tokyo Olympics
- **Broadcasting companies distributing contents via Internet**
 - Nippon TV owns Hulu Japan,
 - Broadcasting companies operate “TVer”
- **Akamai is 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

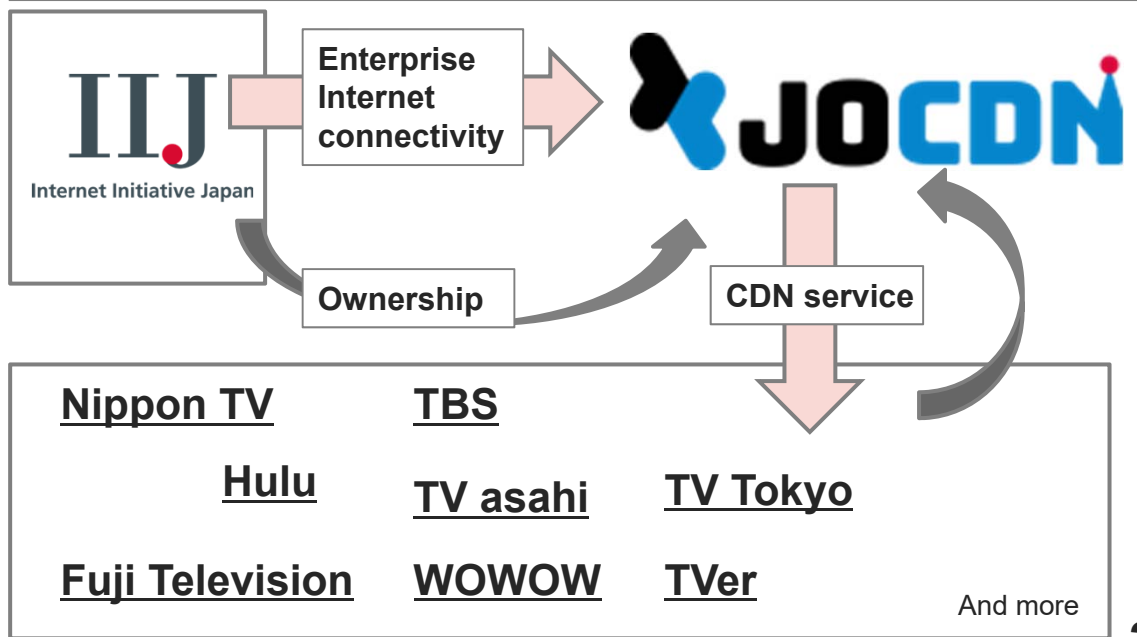
JV with Japanese Major Broadcasting Companies

Company name	JOCDN Inc. (IIJ Ownership 19%)
Capital	JPY710 million
Establishment	December 1, 2016
Shareholders	IIJ, Nippon TV, TV asahi, TBS, TV Tokyo, Fuji TV, WOWOW (prominent satellite broadcaster) and 10 more
Management	Chairman: Koichi Suzuki (IIJ) President: Shunichi Shinozaki (Nippon TV)
Business	<ul style="list-style-type: none"> ➤ Provide a video content distribution platform service for use within Japan ➤ Construct and operate broadcasting systems

CDN Market Growth in Japan



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



Internet Initiative Japan Inc.

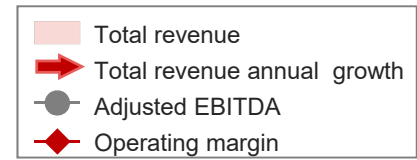
Mid-to-Long term Business Growth

Unit: JPY billion
U.S. GAAP

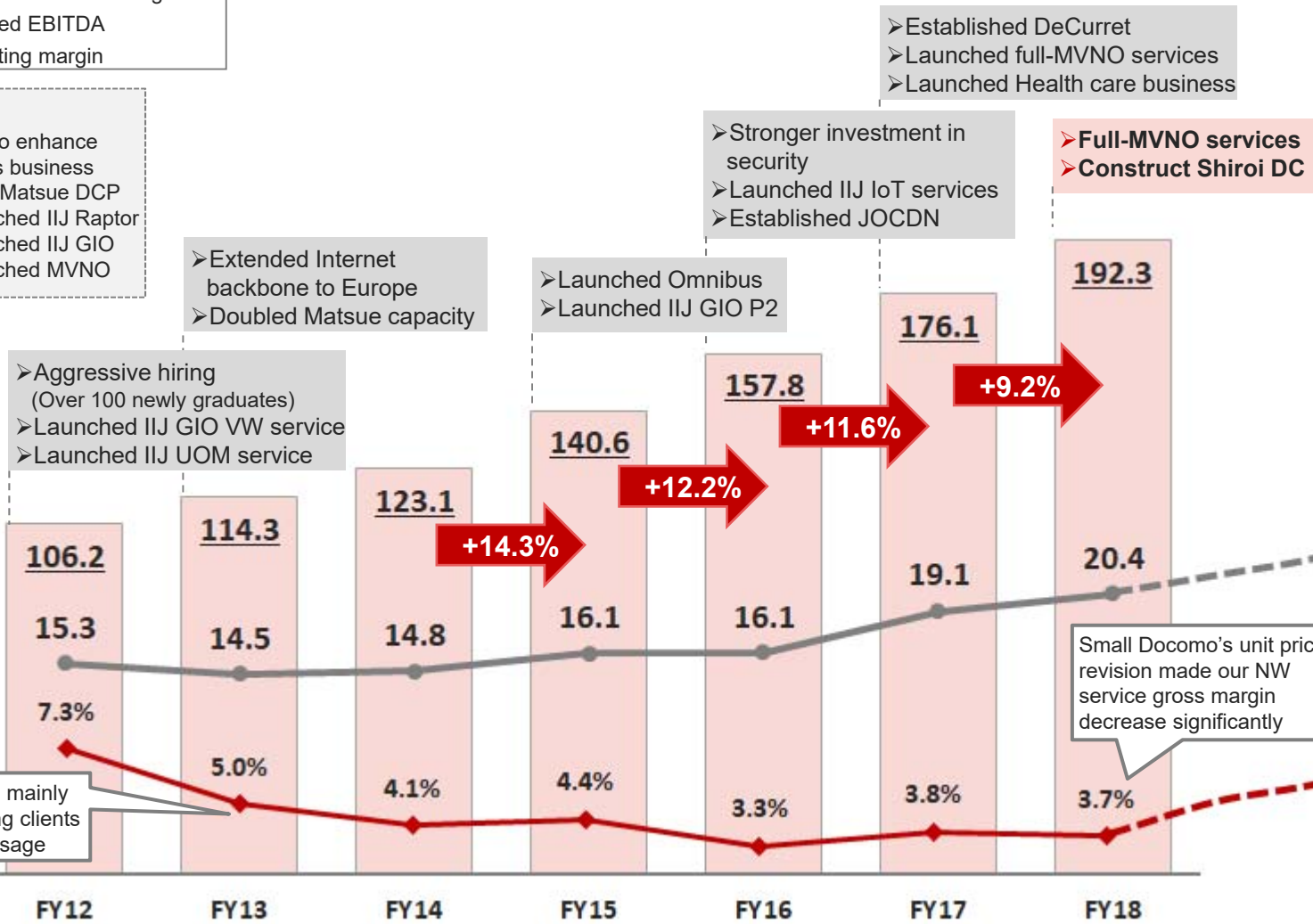
Growth Strategy

Business foundation enhancement with aggressive investment → **Further business developments**

Revenue growth accelerating → **Scale-merit** → **Income improvement**



FY11:
 > Started to enhance overseas business
 > Opened Matsue DCP
 FY10: Launched IIJ Raptor
 FY09: Launched IIJ GIO
 FY08: Launched MVNO

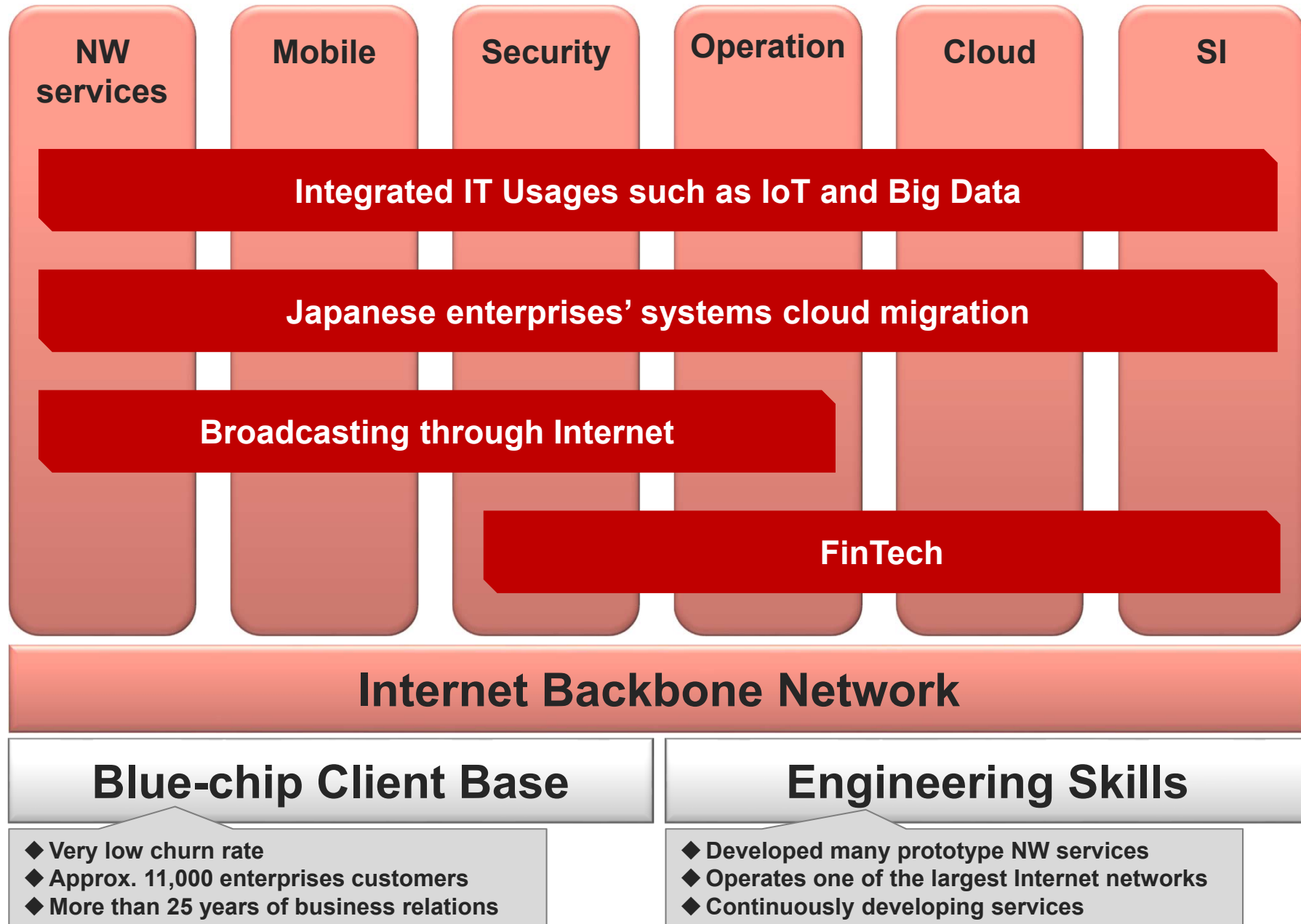


Income decreased mainly due to large gaming clients decreased cloud usage

Small Docomo's unit price revision made our NW service gross margin decrease significantly

Outsourcing trend → **Inexpensive SIM card boom** → **Advanced IT usage by enterprises**

Established Business Elements Ready for Coming IT Future



Summary of FY18 Financial Results

Unit: JPY billion (bn)
% = YoY comparison
U.S. GAAP base

Financials

Revenue	JPY192.3 bn	+9.2%	Adjusted EBITDA *1	JPY20.4 bn	+6.8%	Annual Dividend per Share	JPY27.00
Gross Margin	JPY29.0 bn	+2.7%	Adjusted pre-tax income (※) *2	JPY6.0 bn	(7.4%)	Adjusted payout ratio	35.0%
Operating Income	JPY6.2 bn	(8.2%)	Adjusted net income (※) *3	JPY3.5 bn	(17.1%)	(※) Adjusted incomes exclude effect of the revision of U.S. GAAP related to gains/losses on equity securities & funds	

Enhanced Business Foundation with Stronger than Expected Enterprise Recurring Revenue Accumulation Upgraded Business Assets by Expanding Service Functions for Full-MVNO & NW Services Toward IoT Demands

Stronger than expected enterprise NW services accumulation Enhanced Functions & Accumulated Revenues

- Enterprise recurring revenue +9.1%*4
 - Security +16.9% Growth led by SOC and gateway services etc.
 - Cloud +12.2% Captured demands for multi/private Cloud
 - Omnibus +83.2% Promoted enterprise NW replacement demands

SI profitability largely improved

Business scale expanded by combining service offerings

- SI gross margin ratio FY17 11.3% → FY18 14.3%
- Maintained high SE utilization rate with effective unit reorganization & stricter management. Avoided unprofitable projects
 - Aim to improve gross margin ratio with continuing effect & deploying knowledge
- Emphasize strong competitive advantage of having Cloud & NW services

Completed 1st phase of Shiroy DC

Reserved room to expand & lower costs for the future

- Can accommodate up to 6,000 racks. Becoming Cloud facility of eastern Japan
- Gradually integrate service facilities currently spread out, Expect economics of scale for future cost by owning and integrating

Advancement of full-MVNO through sales promotion & service development

- Full-MVNO revenue JPY0.66 bn, exceeded plan
 - Strong demands for NW cameras & prepaid SIM
- Expanded offerings in FY18: Chip SIM, small data volume bundled service targeting IoT usage etc.
- 300 prospective IoT projects such as traceability, transportation related data etc.

Overseas business: Asian subsidiaries as a whole turned positive

- Revenue JPY7.6 bn, Operating Income JPY0.1 bn
- Added GDPR consultation solution to existing NW & SI

DeCurret started business as the first & new licensed provider after registration process was enacted

- Registered with FSA (Mar. 2019), Launched spot trading services (Apr. 2019)
- Preparing to launch settlement services by collaborating with shareholders

JOCND: contents distribution demands continuously increasing

- Migrating large contents distributor's data sequentially
- WOWOW became shareholder (Apr. 2019)

Financials

Stronger than expected business developments with recurring revenue accumulation & SI profitability improvement
Revenue increased yet income decreased with small YoY decrease of NTT Docomo's mobile interconnectivity charge

*1 Operating income before depreciation and amortization *2 Income before income tax expense *3 Net income attributable to IJ *4 Calculated by subtracting the following revenues from recurring revenue: Internet connectivity services for consumer & MVNE(IJ Mobile MVNO Platform Services)

Comparison between U.S. GAAP and IFRS figures

Financials

Unit: JPY billion

	U.S. GAAP		IFRS	
	FY17	FY18	FY17	FY18
Total revenue	176.1	192.3	176.2	192.4
Operating income	6.8	6.2	6.8	6.0
Pre-tax income	7.8	4.9	6.9	5.8
Net income	5.1	2.7	4.4	3.5
	2018/3/31	2019/3/31	2018/3/31	2019/3/31
Total assets	153.4	166.9	155.2	167.3
Total liabilities	79.5	90.6	79.9	90.2
Total equity	74.0	76.3	75.2	77.1

- Pre-tax income is an abbreviation for income before income tax expense for U.S. GAAP and profit before tax for IFRS
- Net income is an abbreviation for net income attributable to IJ for U.S. GAAP and profit attributable to owners of parent for IFRS

FY19 Business Goals

Unit: JPY billion
IFRS base

Financials

Revenue: JPY204 billion +6.1%YoY Operating Income: JPY7 billion +12.8%YoY

Enterprise NW Services

Continue executing FY18 strategy to make them stable revenue & income growth drivers

- Offer “digital workplace” with NW/Mobile/Virtual desktop/Cloud/Omnibus/Endpoint etc.
- Toward FY20, further cultivate security demands with highly reliable and various security services
 - WAN revenue to decrease due to certain clients' change in NW

IoT

Execute flagship projects. Accumulate and deploy projects knowledge for the mid-term

- Established a division dedicated to IoT by gathering in-house sales and engineers resources
- Execute solutions for agriculture, factory, energy, transportation etc.

Mobile

Improve profitability by focusing on full-MVNO & enterprise mobile strategies

- Full-MVNO revenue target JPY1.7 billion. Mobile gross margin to improve by JPY0.5 billion
 - Rebound effect in FY19 related to full-MVNO fixed cost as full-MVNO was launched in Mar. 2018
- In addition to FY18 projects, execute BtoBtoX transaction utilizing chip SIM & eSIM
- Aim to improve mobile infrastructure utilization by acquiring enterprise traffic

Cloud

Continue executing strategy of offering highly value added & comprehensive solution for enterprises

- Revenue target JPY22.5 billion. Continuously accumulate revenue through Multi cloud & UOM services etc.
- Prepare and implement to integrate service facilities to Shiroy DC

SI

Further emphasize competitive advantage of having SI function for Cloud & IoT projects, Increase profit continuously

- SI gross margin to increase by expanding SI business scale and having continuing effect from FY18 strategies
- Overseas business targets: revenue JPY8.7 bn, operating income JPY0.2 bn Aim to achieve JPY10 bn revenue soon

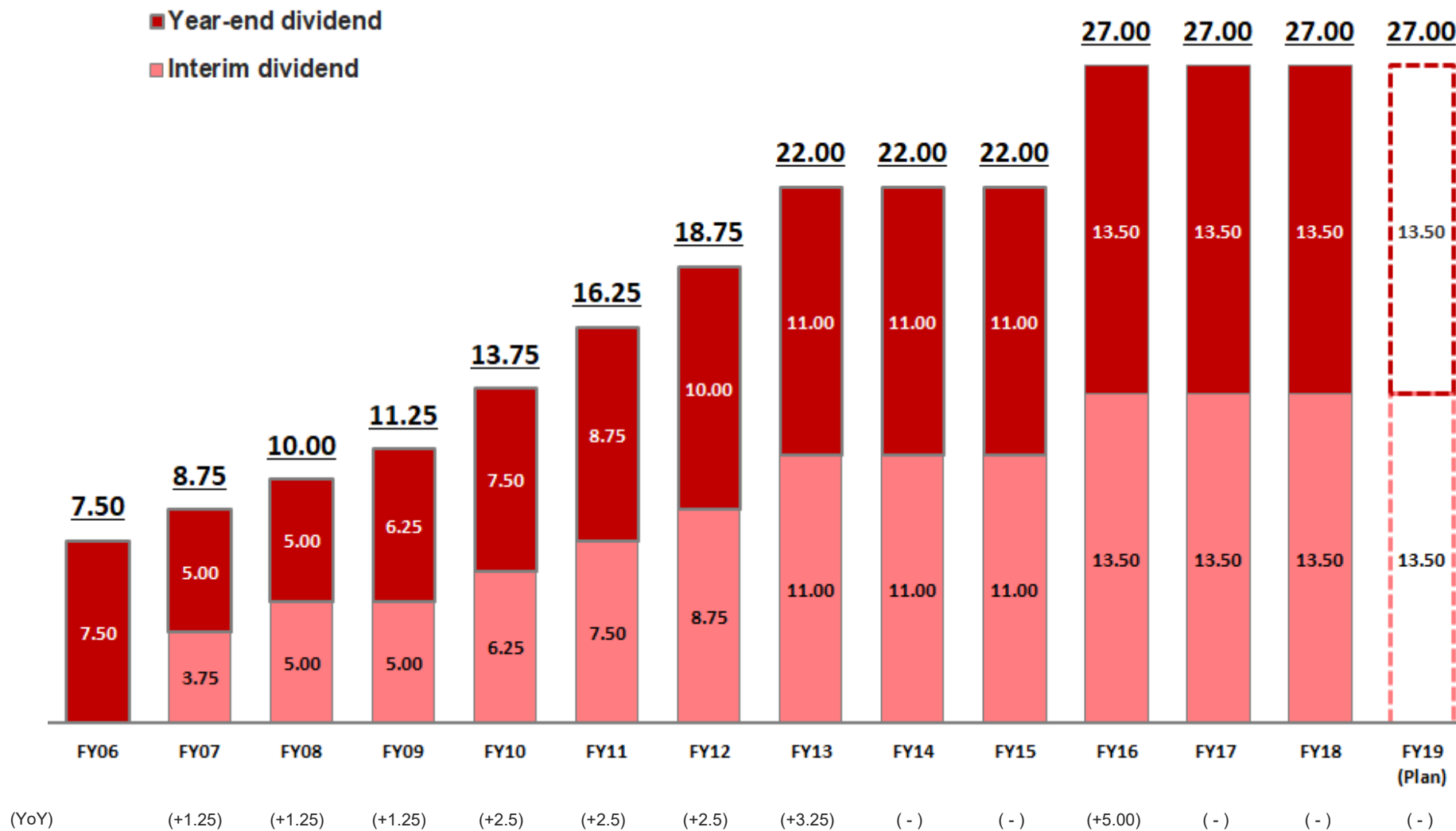
New

- ◆ DeCurret Upgrade exchange service and launch settlement service (1H19)
- ◆ JOCDN Complete data migration of the large contents distributor
Acquire more contents distribution demands by strengthening partnerships

* Strategy to make good use of employees and business operation through work place that is fully utilizing digital technology

Dividend Forecast

Unit: JPY

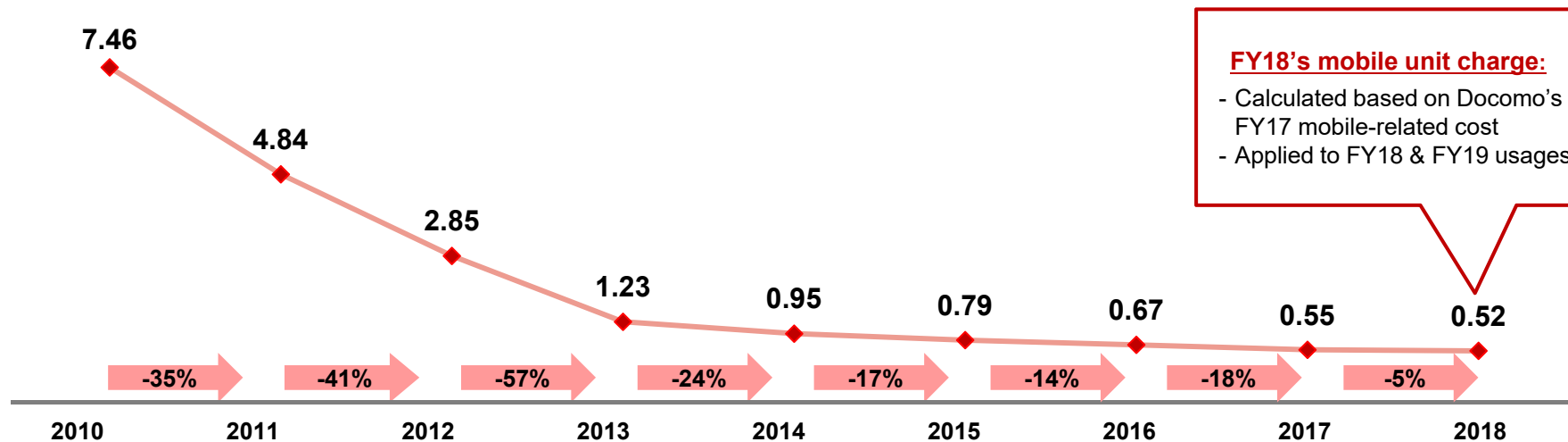


*IIJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. Dividend figures shown below are retroactively adjusted to reflect the stock split.

Mobile Unit Charge for MVNO (NTT Docomo)

NTT Docomo's monthly DCC per 10Mbps

Unit: JPY million



IJJ's estimate vs. actual decrease rate

	(1) Docomo's payment arrangement	(2) IJJ's estimate	(3) Actual results
FY14	40%	40%	24%
FY15	25%	15%	17%
FY16	15%	12%	14%
FY17	15%	14%	18.2%
FY18**	15%	14%	5%*

(1) Fixed in April, (2) Based on comprehensive consideration including (1), (2) and others, (3) Fixed next March

(*) Fixed in March 2019, (**) IJJ's fiscal year ended March 31, 2019

MVNO infrastructure cost for Docomo

- Mobile unit charge is a unit charge used when MVNOs such as IJJ purchase mobile infrastructure from MNOs such as NTT Docomo.
- The charge is
 - calculated and revised every year by MNOs accordingly with the rules of the Ministry of Internal Affairs and Communications.
 - same flat-rate for all MVNOs leasing from the same MNO
 - is fixed 1 year after and applied to current and a previous year

$$\text{Mobile Unit Charge (Mbps)} = \frac{\text{Data Communication Cost} + \text{Profit}}{\text{Demand for Mobile Traffic}^{*1}}$$

- Adoption of "future cost method" has been discussed

Further Business Developments (New DC Construction)

IIJ Data Centers

- **Operating 21 data centers in Japan** (as of Dec. 2017)
 - 20 data centers are leased from data center owners per space
 - ✓ Continuously expanding the facility to meet demands
 - Own 1 data center: Matsue Data Center Park (Shimane prefecture)
 - ✓ Japan's first container-type data center using outside-air cooling system
 - ✓ Opened in Apr. 2011, accommodate approx. 500 racks

Purposes

- **Integrate racks, currently spread out in the eastern Japan area's data centers**
 - Future cost should be approx. 20% lower than continuously expanding leasing space and with improved operation productivity
- **Absorb increasing rack demand along with further penetration of cloud & IoT**
- **Competitive advantages with latest technologies**
 - Improved facility with outside-air cooling technology & AI for cooling & energy control, and automated operations with robotics technology etc.

New Data Center Profile

Name	Shiroi Data Center Campus
Address	Shiroi city, Chiba prefecture
Land	Approx. 40,000m ² (already acquired)
Racks	Can accommodate up to 6,000 racks <ul style="list-style-type: none"> • Phase 1: approx. 1,000 racks with approx. JPY8.0 bn CAPEX
Accommodation	Service facility, data center housing services etc. <ul style="list-style-type: none"> • Mainly to meet the middle-to-long term eastern Japan data center demand
Investment	FY18 approx. JPY3.0 bn (power receiving facility, common facility racks etc.)
Plan	Gradually place system module-based* ₁ facility accordingly with demand
Schedule	Completed in April 2019, open in May 2019
Estimated PUE*₂	Less than Matsue DCP's 1.2

*1 Construction method systematizing the overall building production by standardizing the components used in the buildings' construction. This allows shorter construction times, cost saving, and flexible scalability while maintaining quality

*2 Power Usage Effectiveness is a metric, calculated by dividing overall data center power consumption by IT equipment power consumption, indicates the efficiency of power use at data centers. The smaller the figure, the lower the percentage of power consumed by equipment other than IT devices.

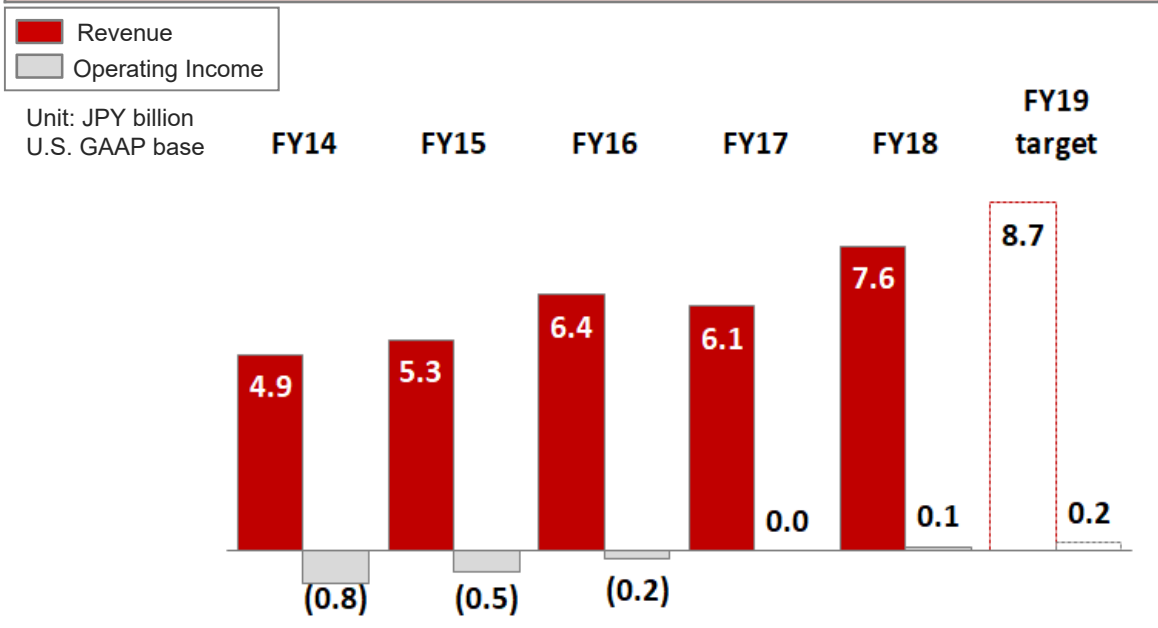
New Data Center Image



Impact on IIJ's consolidated financial results

- While CAPEX and cash flow will be impacted, this is without new investment return risk because it's an integration of our current service facilities
- Suppress incremental cost and ensure business expansion scalability for the future

Revenue and operating income growth



Business Developments

- **Started focusing on overseas business around FY2011** when Japanese companies who were started expand their business overseas and requested us to provide the same service quality we offer in Japan
- **GDPR-related business expanding.**
- **Business in Asia: gradually growing**
 - Increasing demand for NW, SI and etc. in China and Thailand, related to Japanese customers
 - Indonesia: Large public infrastructure SI project, cloud business gradually growing
 - Vietnam: Cybersecurity Law (Jan. '19), Opened another facility in Hanoi in addition to existing Ho Chi Min
- **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)

Overseas offices



ATM Operation Business

Business Model

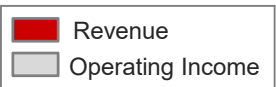
- Similar to “Seven Bank” model
 - Seven Bank: 24,392 ATMs, revenue JPY127.7 billion, profit ratio 30.0% (as of March 31, 2018)
- Placing ATMs in Pachinko parlors in Japan
 - After long discussion, started to place in Kanto, Kansai, Kyushu and Tokai areas
 - 10,596 Pachinko parlors in Japan as of December 31, 2017 (source: National Police Agency)
- Receive commission for each withdrawal transaction

Trust Networks Inc.

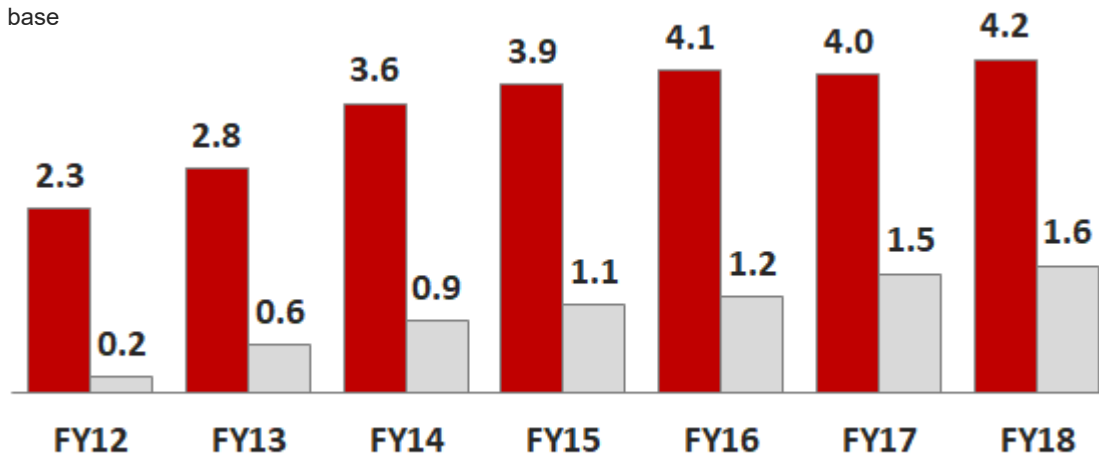
- In charge of ATM operation business
- IIJ’s ownership: 80.6%
- Established in 2007



Revenue and Operating Income



Unit: JPY billion
U.S. GAAP base



Fully Comply with the J-SOX

- Implemented outside directors since 2004
- Operate based on J-SOX (Japan's Financial Instruments and Exchange Law), Japanese version of Sarbanes-Oxley
- Evaluate the effectiveness of internal control over financial reporting based on Japanese standard overseen by the Financial Service Agency (FSA) of Japan

Directors with Abundant Experience

5 outside directors among 13 BOD members, 7 independent directors among 17 directors & auditors

➤ Outside directors

T. Tsukamoto	Former Chairman of Mizuho Bank
Y. Tanahashi	Former Chairman of NSSOL
S. Oda	Former President of HP Japan
T. Okamura	Former Chairman of Toshiba
S. Umino	Former President of NTT Comware

➤ Board of Auditors

- Consisted of CPA, Attorney, female auditors

➤ Director compensation

- Based mainly on base salary, stock option: 8-14%
- Annual compensation within JPY100 million range

Business Operation Covering the entire Group

- 16 subsidiaries, 8 equity method investees
- Implement group-wide Code of Ethics
- Pursue comprehensive business operation by assigning IJ directors as group companies outside directors
- Consolidated-based internal audit

ESG in the nature of IJ business

Have been contributing greatly to establish and expand Internet in Japan as the first comprehensive commercial ISP in Japan

➤ Environment

- Contribute significantly by operating stable and reliable Internet
- Have developed container-based data center which emits much lesser Carbon dioxide compared to traditional building type datacenters.

➤ Social

- Focus on providing a working environment that lets employees to pursue their interested subjects related to network in addition to protecting human rights, health and safety, work-life balance, anti-discrimination.
- First in Japan to introduce Service Level Agreement on categories of availability, latency, packet loss, and outage notification

➤ Governance

- Board of Auditors is liaison of Whistle-blower system
- Established code of ethics, regulations to prevent insider-trading, protection of personal information

FY2018
Consolidated Financials Results
(based on U.S. GAAP)

Announced on May 14, 2019

Consolidated Financials for FY18

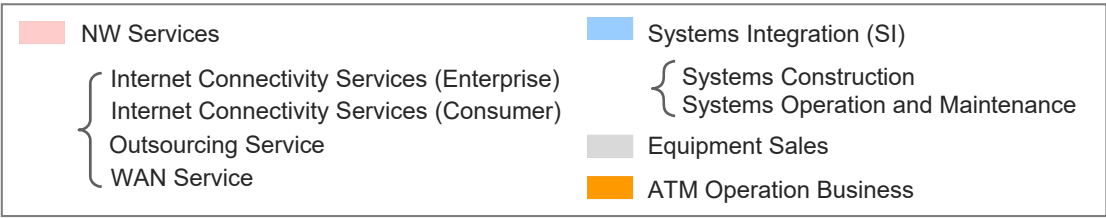
Unit: JPY billion

Financials

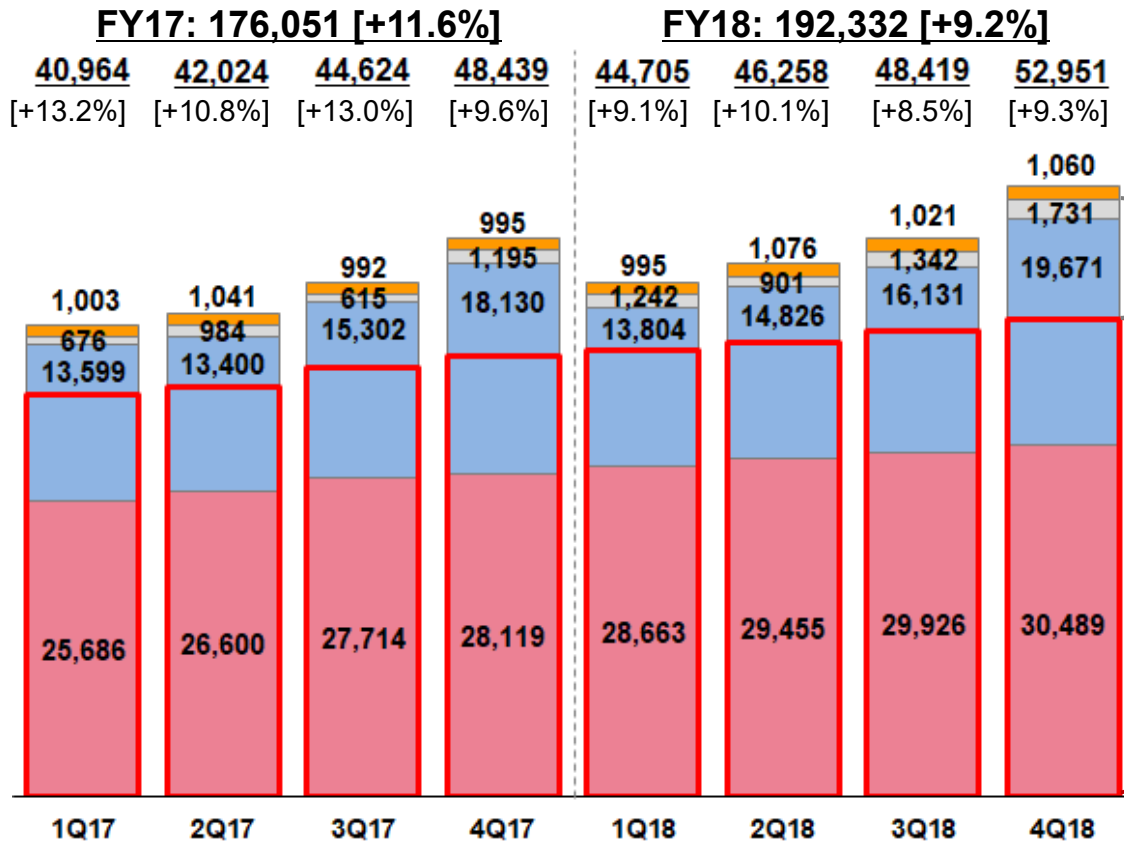
	<i>% of Revenues</i>	<i>% of Revenues</i>	Year over Year Change		<i>% of Revenues</i>
	FY18 Results <small>(Apr. 2018 - Mar. 2019)</small>	FY17 Results <small>(Apr. 2017 - Mar. 2018)</small>			FY18 Targets <small>(Apr. 2018 - Mar. 2019)</small>
Total Revenues	192.3	176.1	+9.2%	+16.3	190.0
Total Cost of Revenues	84.9% 163.3	84.0% 147.8	+10.5%	+15.5	84.3% 160.2
Gross Margin	15.1% 29.0	16.0% 28.2	+2.7%	+0.8	15.7% 29.8
SG&A/R&D	11.8% 22.8	12.2% 21.5	+6.1%	+1.3	12.0% 22.8
Adjusted EBITDA*1	10.6% 20.4	10.9% 19.1	+6.8%	+1.3	-
Operating Income	3.2% 6.2	3.8% 6.8	(8.2%)	(0.6)	3.7% 7.0
Adjusted Pre-tax Income*2,*3	3.1% 6.0	3.7% 6.5	(7.4%)	(0.5)	-
Adjusted Net Income*2,*4	1.8% 3.5	2.4% 4.2	(17.1%)	(0.7)	-

*1: Operating income before depreciation and amortization, *2: Adjusted incomes exclude effect of the revision of U.S GAAP related to gains/losses on equity securities and funds
*3: Pre-tax income is used as income before income tax expense, *4 Net income is an abbreviation for net income attributable to IIJ

Revenues



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



One-time Revenue*
 FY18: JPY27,975 million, +7.6% YoY
 (14.5% of FY18 revenues)

Recurring Revenue*
 FY18: JPY160,206 million, +9.7% YoY
 (83.3% of FY18 revenues)

- FY18 YoY revenue growth includes an impact of hi-ho's unconsolidation
 - 1Q-3Q17 hi-ho's revenue for Internet connectivity services (consumer) was JPY1,313 million (hi-ho became unconsolidated by us selling all shares of hi-ho as of Dec. 2017)

Enterprise recurring revenue* +9.1% YoY
 * Calculated by subtracting the following revenues from recurring revenue: Internet connectivity services for consumer & MVNE

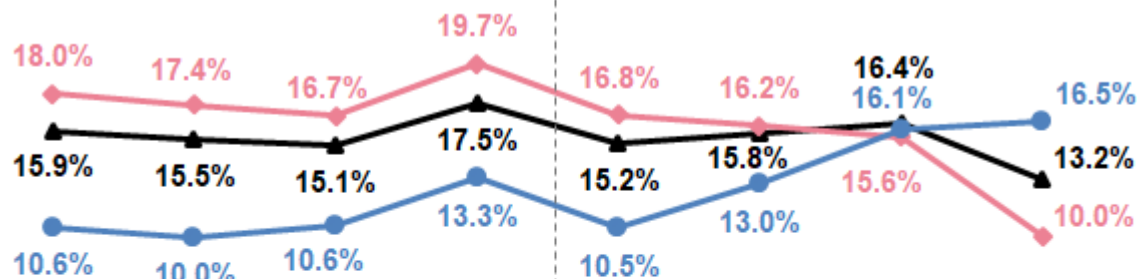
* One-time revenues, which are systems construction and equipment sales, are recognized when systems or equipment are delivered and accepted by customers
 * Recurring revenues represent the following monthly recurring revenues: Internet Connectivity Services for Enterprise, Internet Connectivity Services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

Cost of Revenues & Gross Margin Ratio

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

Unit: JPY million

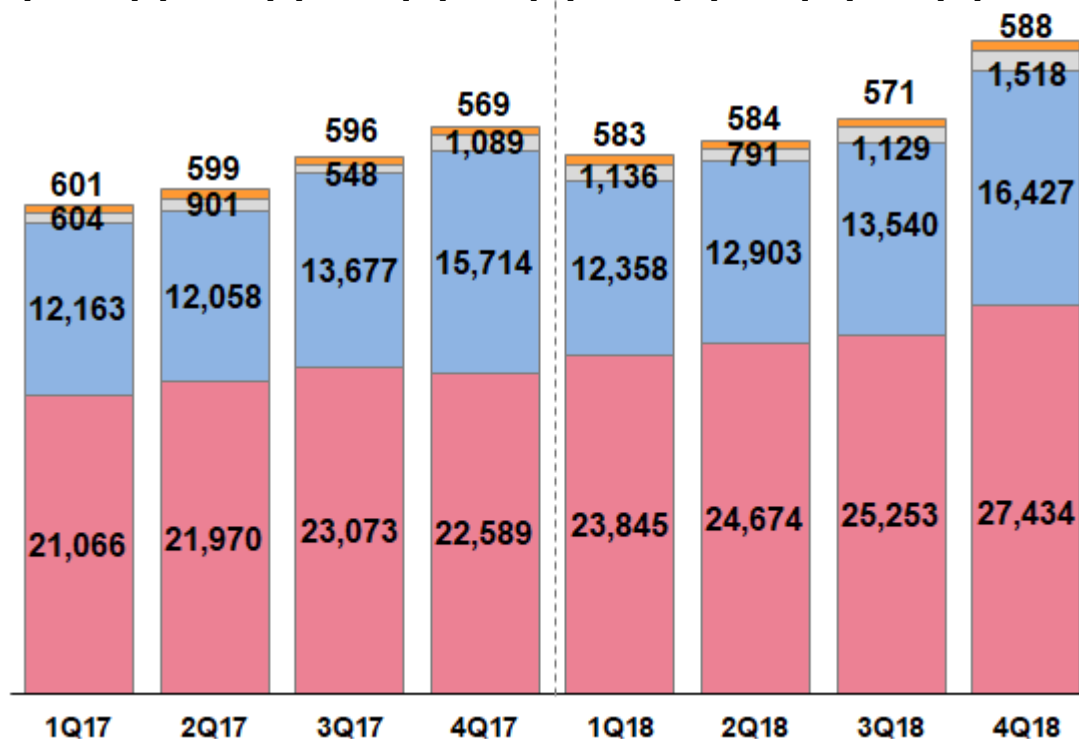
[], YoY = Year over year comparison



FY17: 147,818 [+11.5%]

FY18: 163,334 [+10.5%]

Quarter	FY17	FY18	YoY Change
1Q	34,434	37,922	[+10.1%]
2Q	35,529	38,951	[+9.6%]
3Q	37,894	40,494	[+6.9%]
4Q	39,961	45,967	[+15.0%]



Gross Margin

◆ Total

- FY18: JPY28,988 million, +2.7% YoY
- FY17: JPY28,233 million, +11.8% YoY
 - FY18 Gross margin ratio: 15.1%

◆ NW Services

- FY18: JPY17,327 million, -10.8% YoY
- FY17: JPY19,421 million, +16.9% YoY
 - Unit price for Docomo's mobile interconnectivity charge was revised in Mar. 2019 and it decreased by 5% YoY. The rate of decrease was smaller than expected and 4Q18 cost includes such negative cost increase impact of JPY2.05 billion
 - Full-MVNO related fixed cost increased by over JPY0.3 billion per quarter (from Mar. 2018)

◆ SI

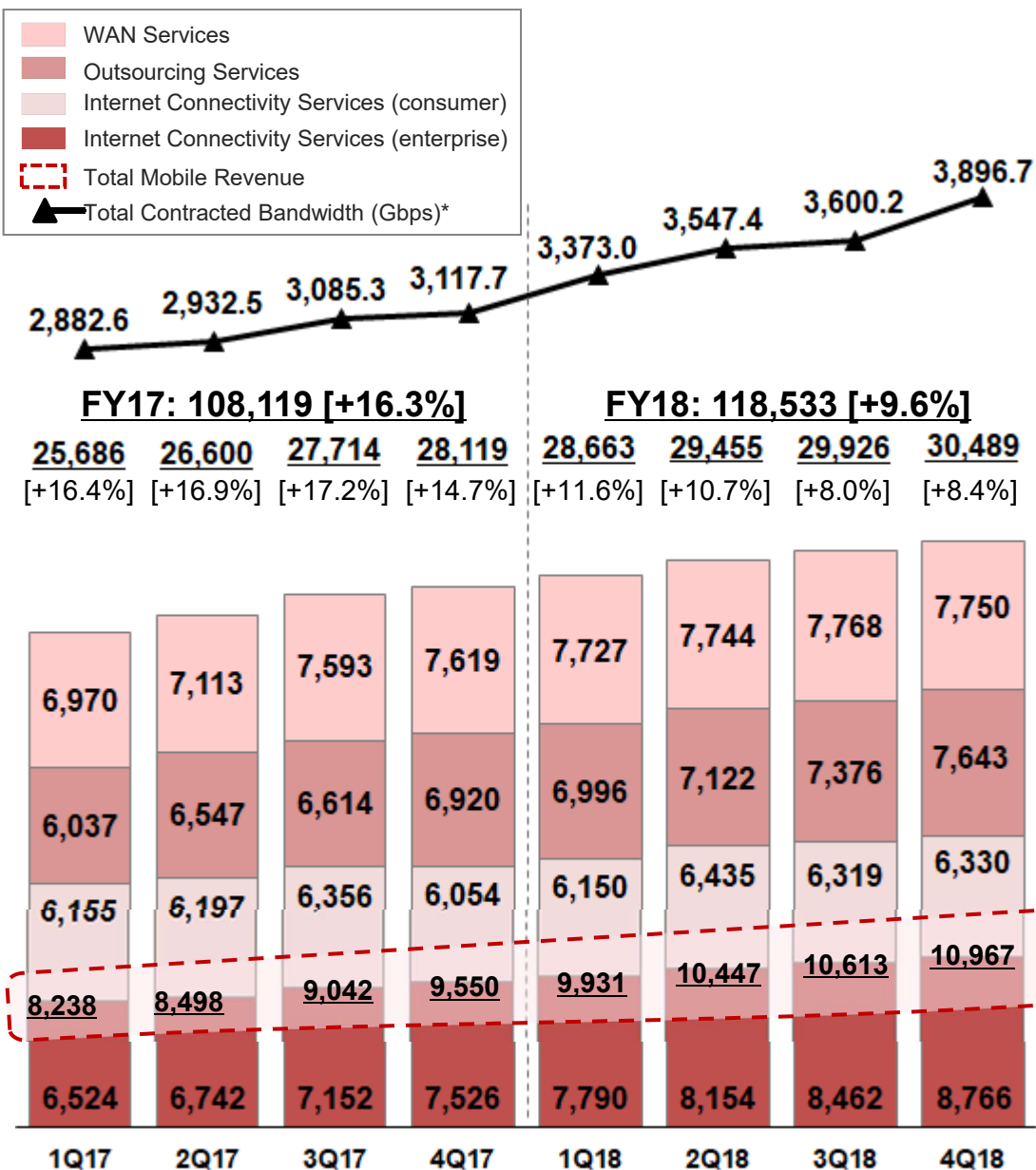
- FY18: JPY9,205 million, +35.0% YoY
- FY17: JPY6,819 million, +0.9% YoY
 - FY18 Gross margin ratio: 14.3% (+3.0 points YoY)
 - Gross margin on improving trend with effective reorganization of systems engineers unit and stricter management, prevention of unprofitable project through quality control

Network Services (1) Revenues

Unit: JPY million

[], YoY = Year over year comparison

QoQ = 4Q18 compared to 3Q18



FY17: 108,119 [+16.3%]

25,686 26,600 27,714 28,119
 [+16.4%] [+16.9%] [+17.2%] [+14.7%]

FY18: 118,533 [+9.6%]

28,663 29,455 29,926 30,489
 [+11.6%] [+10.7%] [+8.0%] [+8.4%]

NW Services Revenues

◆ Internet Connectivity (Enterprise)

- FY18: +18.7% YoY
- 4Q18: +16.5% YoY, +3.6% QoQ
 - IP revenue continued to increase: +4.5% YoY
 - FY18-end MVNE clients: 149 (+12 clients YoY)

◆ Internet Connectivity (Consumer)

- FY18: +1.9% YoY
- 4Q18: +4.6% YoY, +0.2% QoQ
 - Revenue growth includes a negative impact of hi-ho's unconsolidation (Dec. 2017)
 - ✓ 1Q-3Q17 hi-ho revenue for Internet connectivity services (consumer): JPY1,313 million

◆ Outsourcing Services

- FY18: +11.6% YoY
- 4Q18: +10.4% YoY, +3.6% QoQ
 - Strong demands for Security and Omnibus
 - ✓ FY18 Security revenue: +16.9% YoY
 - ✓ FY18 Omnibus revenue: +83.2% YoY

◆ WAN Services

- FY18: +5.8% YoY
- 4Q18: +1.7% YoY, -0.2% QoQ
 - FY18 revenue continued to increase with accumulation of projects and postponement of a large WAN project migrating to mobile. FY19 revenue is expected to decrease due to large WAN projects migration

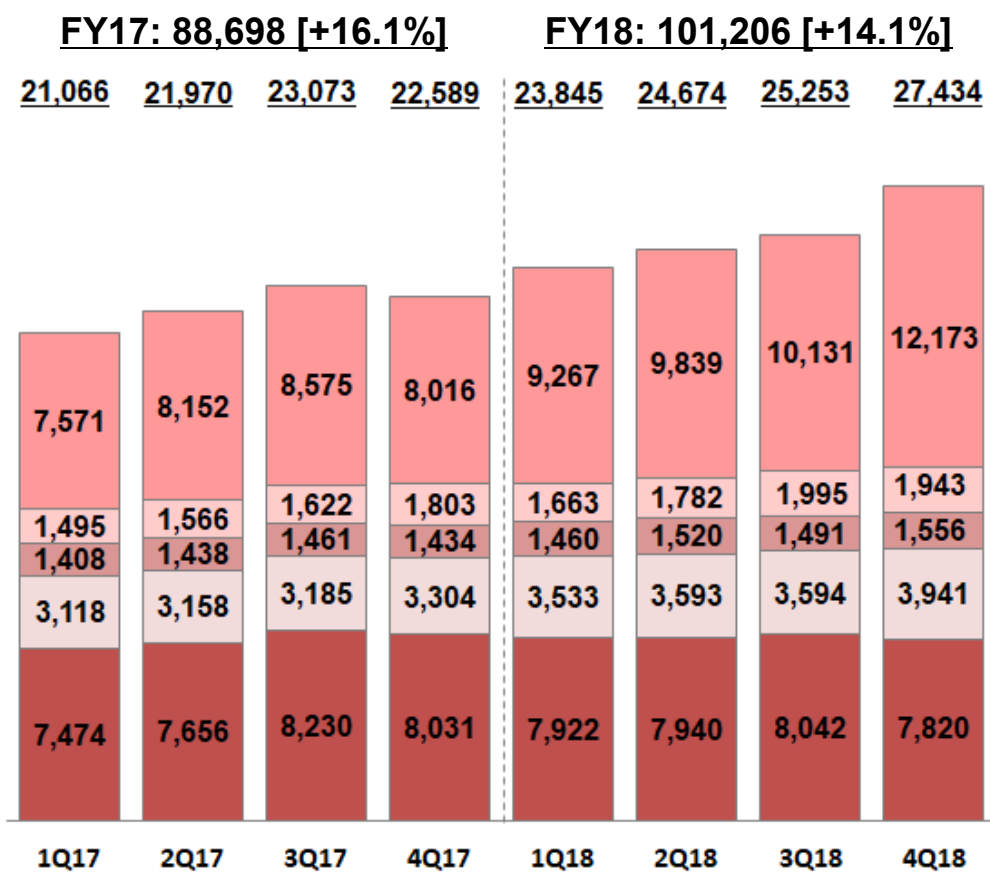
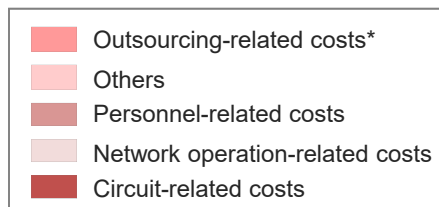
* Total contracted bandwidth is calculated by multiplying number of contracts by contracted bandwidths respectively for IP service (including data center connectivity service) and IJ FiberAccess/F and IJ DSL/F of Internet connectivity services (Enterprise).

Network Services (1) Cost of Revenues

Unit: JPY million

[], YoY = Year over year comparison
QoQ = 4Q18 compared to 3Q18

Financials



* Outsourcing-related costs include interconnectivity charge for mobile infrastructure, datacenter leasing costs and customer support center operation costs etc.

Cost of NW Services

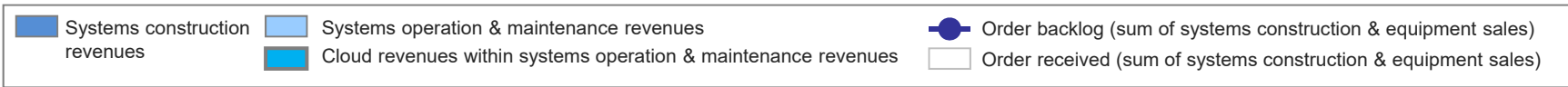
- FY18: +14.1% YoY
- 4Q18: +21.5% YoY, +8.6% QoQ
 - Due to Docomo's revised mobile unit charge, 4Q18 outsourcing-related costs includes JPY2.05 billion of cost which is the difference between our estimate 14% decrease and actual 5% decrease
 - Along with continuous service developments and enhance functions for Omnibus, security, etc., outsourcing-related, personnel-related and network operation-related costs increased

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

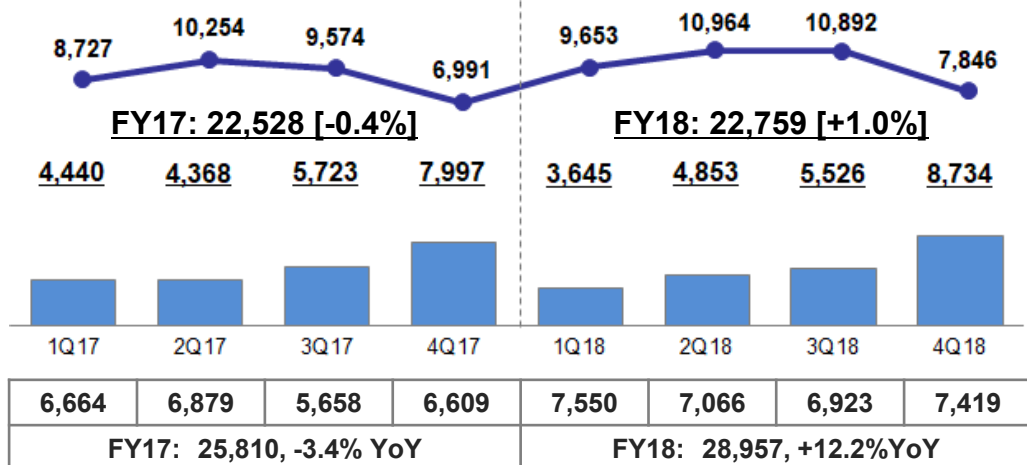
- Regarding our FY18 & FY17 usage charge, Docomo's mobile interconnectivity telecommunications charge was fixed in Mar. 2019 and it decreased by 5% YoY
- In FY18, we estimated the unit charge to decrease by 14% considering past results and Docomo's payment arrangement, and applied to our quarter earnings (same procedure as in the past).
 - ✓ Past results: FY18 18% decrease, FY17 14% decrease
 - ✓ Payment arrangement: Invoice from Docomo was temporarily 15% off from Apr. 2018 which is the same level as FY17.
- In 4Q18, the difference between estimate 14% decrease and actual 5% decrease was the negative impact of cost increase of JPY2.05 billion. (In 4Q17, the difference between estimate 14% decrease and actual 18% decrease was the positive impact of cost reduction of JPY0.89 billion)
- Regarding our FY19 & FY18 usage charge, Docomo's unit charge is expected to be revised in Mar. 2020. Docomo's payment arrangement is 5% off temporarily from Apr. 2019 (In FY19, we estimate a certain decrease for the unit charge by considering decrease rate fixed in Mar 2019 and Docomo's payment arrangement level in FY19)

Systems Integration (SI) (1) Revenues

Unit: JPY million
 [], YoY = Year over year comparison
 QoQ = 4Q18 compared to 3Q18

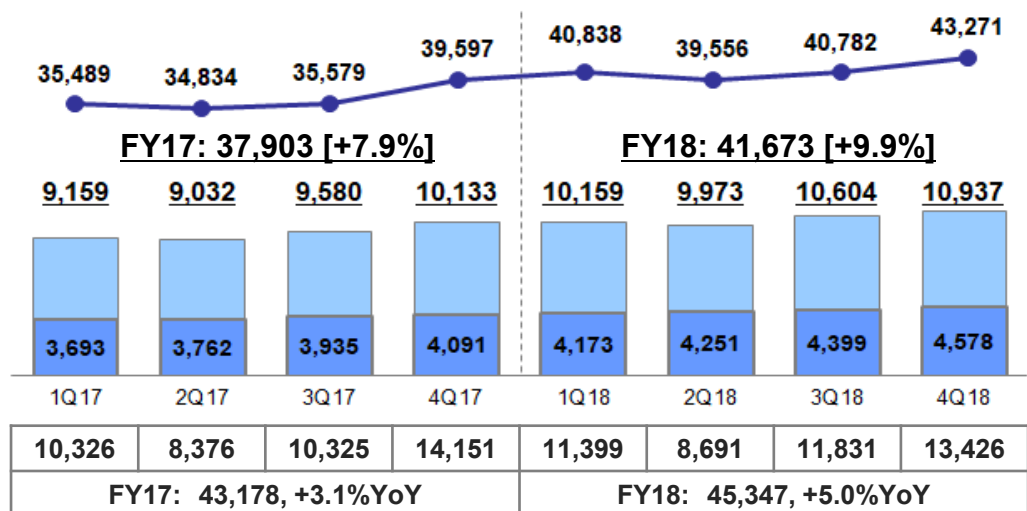


Systems Construction (one-time revenue)



- 4Q18 revenue: +9.2% YoY, +58.0% QoQ
- 4Q18 order received: +12.3% YoY
- 4Q18-end order backlog: +12.2% YoY
 - Favorable systems construction order environment continued
- Large-scale construction orders received in 4Q18:
 - Virtual desktop for a major service business operator
 - Business NW system for a major financial institution
 - Renewal of Internet environment for a major financial institution
 - Migration to the cloud for a major cram school etc.
- Seeking to differentiate SI from competitors with collaboration with network and Cloud services

Systems Operation & Maintenance (recurring revenue)

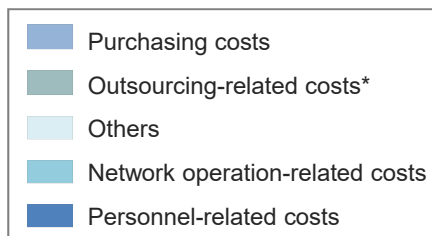


- 4Q18 revenue: +7.9% YoY, +3.1% QoQ
- Continuous revenue growth mainly due to the accumulation of systems construction which are migrated to systems operation & maintenance phase as well as continuous increase in private cloud revenue
 - FY18 revenue from private cloud: +12.4% YoY
 - FY18 revenue from SI construction: +8.3% YoY
- FY18 IIJ Raptor revenue: JPY 2.5 billion, +26.5% YoY
 - ASP high-speed foreign exchange trading system (2010~) Providing to DeCurret, Nomura Securities, Sony Bank, etc.

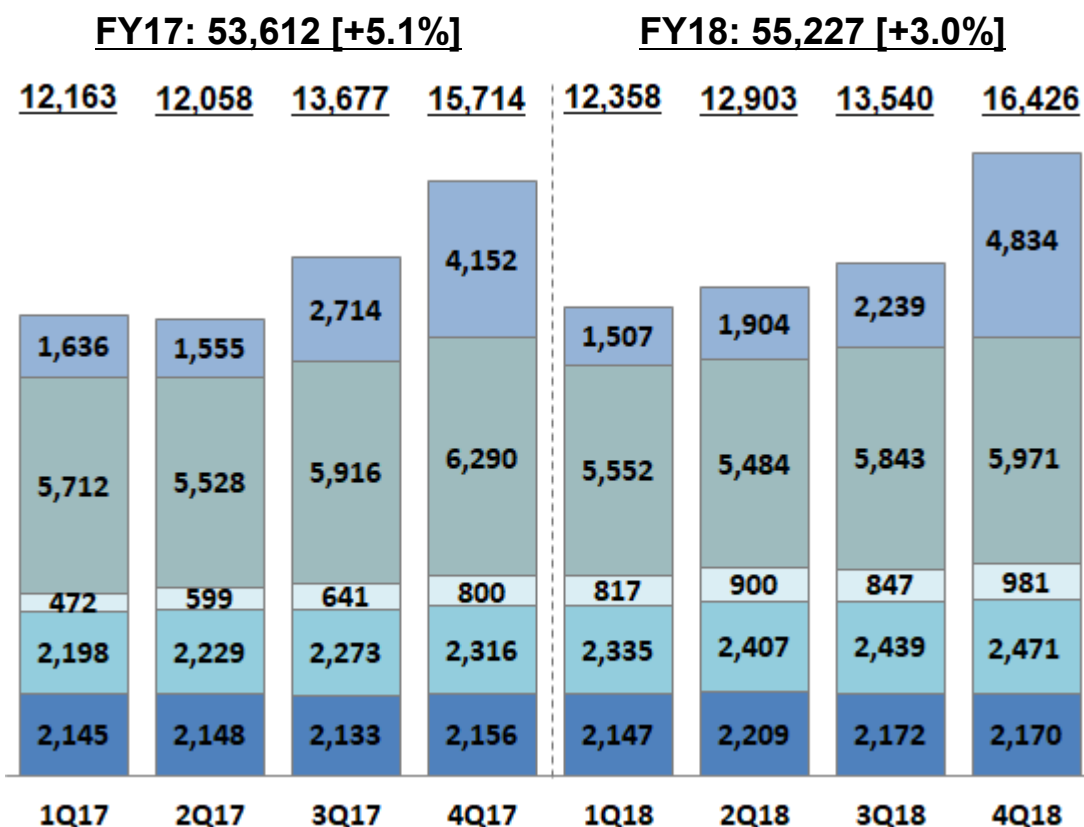
Systems Integration (SI) (2) Cost of Revenues

Unit: JPY million

Financials



[], YoY = Year over year comparison
QoQ = 4Q18 compared to 3Q18



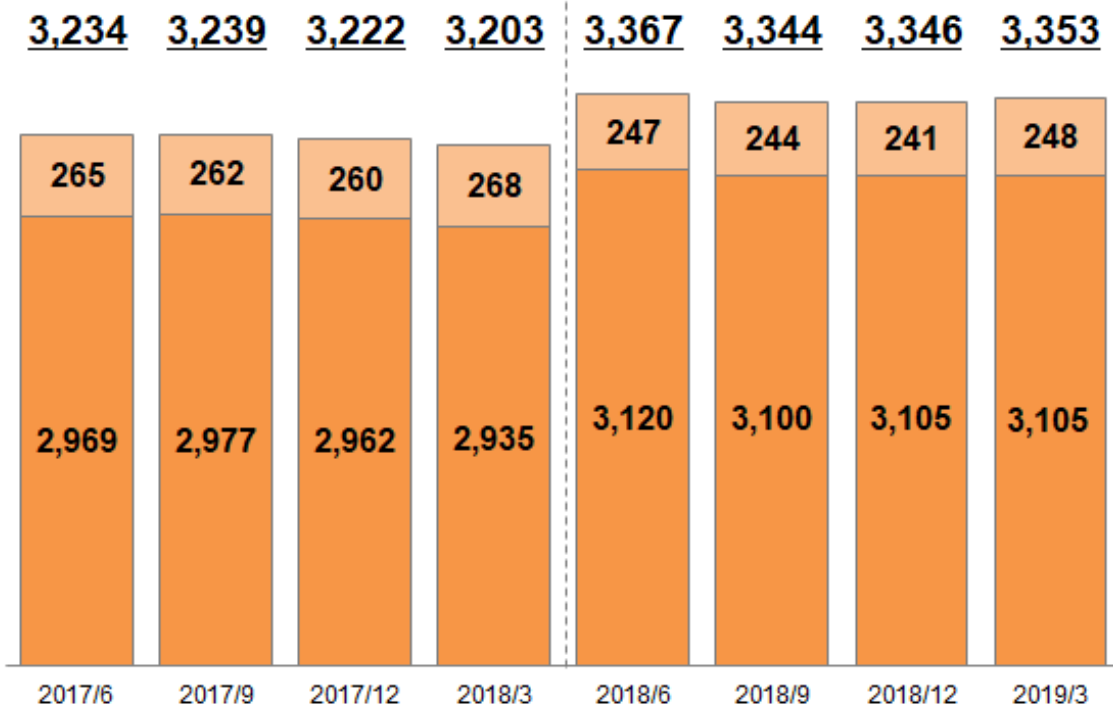
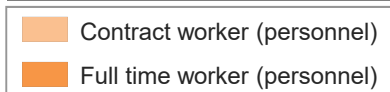
Cost of SI

- FY18: +JPY1,615 million YoY
- Outsourcing-related costs decreased YoY due to effective reorganization of systems engineers unit and management improvement from the beginning of the year
 - 4Q18-end number of SI-related outsourcing personnel: 1,102 personnel (increased by 48 personnel YoY, decreased by 6 personnel QoQ)
- Network operation-related costs slightly increased QoQ
 - IJ GIO P2 facility in western Japan (Matsue data center) started to provide services from June 2018. Depreciation and equipment maintenance costs to gradually increase
- Gross margin ratio improved due to an absence of unprofitable projects which is through improved quality control

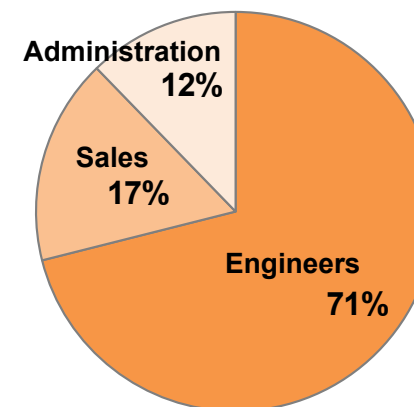
*Outsourcing-related costs include

Number of Employees

YoY = Year over year comparison



Employee Distribution



- ◆ Hired 171 new graduates in Apr. 2019 (175 in Apr. 2018, 148 in Apr. 2017)
- ◆ FY19 net addition of employees including mid-career recruitment is planned to be larger than that of FY18
- ◆ Incremental volume of FY19 annual personnel-related costs and expenses is expected to be larger than usual level due to revision of personnel remuneration structure, etc.

Personnel-related costs & expenses

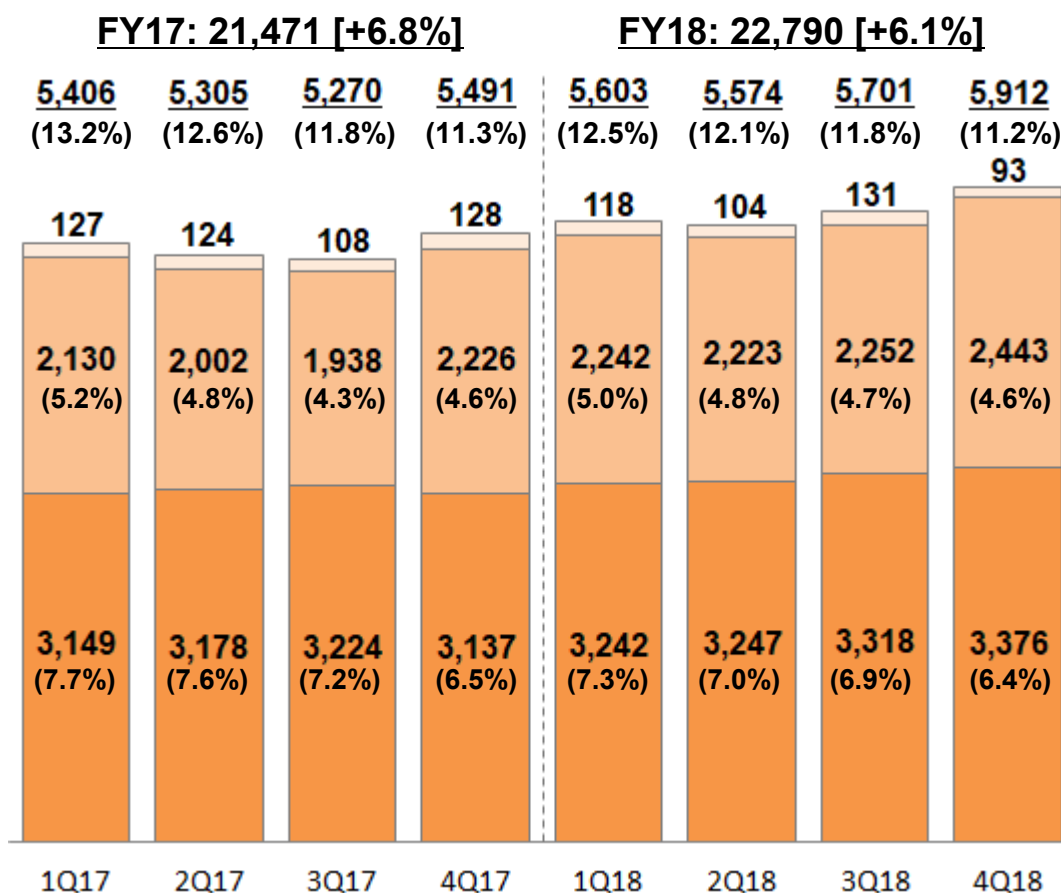
Unit: JPY million
() = % of total revenue

1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
5,797 (14.2%)	5,784 (13.8%)	5,775 (12.9%)	5,843 (12.1%)	5,909 (13.2%)	6,053 (13.1%)	5,875 (12.1%)	6,016 (11.4%)
FY17: 23,199 (13.2%) +5.6%YoY				FY18: 23,853 (12.4%) +2.8%YoY			

SG&A Expenses/R&D

Unit: JPY million

[], YoY = Year over year comparison



SG&A

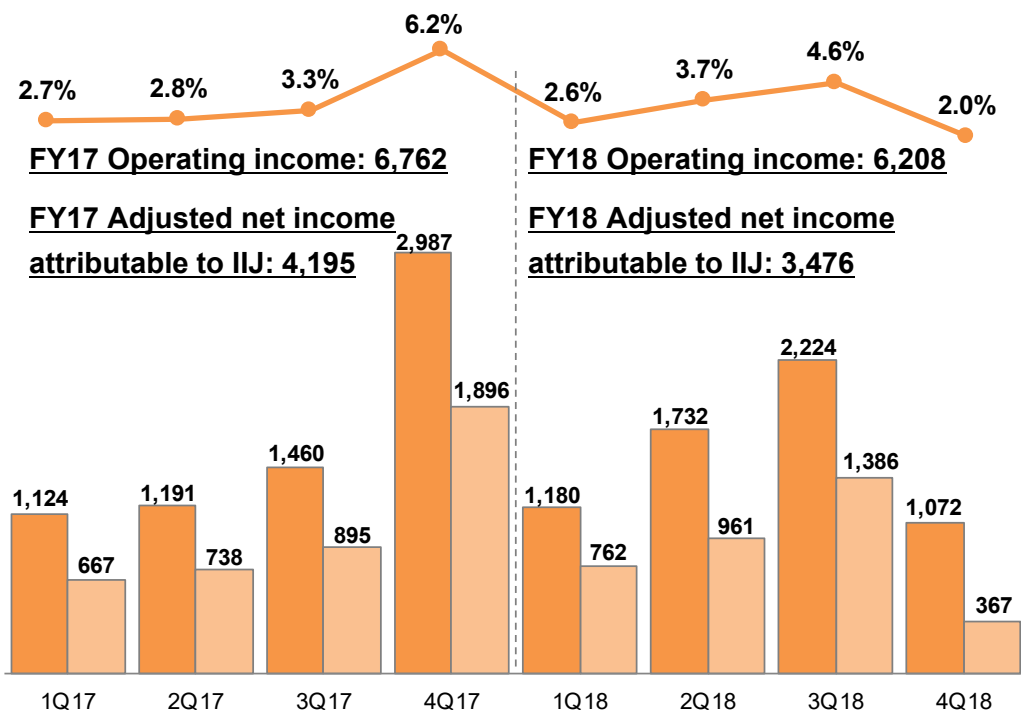
- ◆ Sales & marketing expenses
 - FY18: +3.9% YoY
 - Personnel-related expenses and outsourcing expenses increased
- ◆ General & administrative expenses
 - FY18: +10.4% YoY
 - Personnel-related expenses increased
 - 4Q18
 - Increased from 3Q18 mainly due to disposal (JPY179 million)
- ◆ SG&A within the plan
 - FY18 SG&A plan: JPY22.8 billion

Operating Income & Net Income

Unit: JPY million
YoY = Year over year comparison

Financials

Operating income Adjusted net income attributable to IJ (※) Operating margin ratio



FY17 Operating income: 6,762

FY17 Adjusted net income attributable to IJ: 4,195

FY18 Operating income: 6,208

FY18 Adjusted net income attributable to IJ: 3,476

Income

◆ Adjusted income before income tax expense (※)

- FY18: JPY6,023 million, -7.4% YoY
 - Miscellaneous income: JPY96 million
 - Dividend income: JPY87 million
 - Interest expense: JPY402 million

◆ Adjusted net income attributable to IJ (※)

- FY18: -17.1% YoY
 - Equity in net loss of DeCurret (IJJ ownership 35%) was JPY503 million (1Q JPY62 million, 2Q JPY86 million, 3Q JPY124 million, 4Q JPY231 million)
 - ✓ FY18 equity in net loss of DeCurret was planned to be JPY0.6 billion (Plan: FY19: loss of JPY0.7 billion, FY20: equity in net gain will be expected)
 - Net income attributable to noncontrolling interests: JPY178 million

◆ Dividend plan:

- Did not take unrealized loss, which has no effect on cash flows, into consideration for dividend level
- Adjusted payout ratio: 35.0% (※)

(※) Adjusted means excluding effect of the revision of U.S. GAAP related to gains/losses on equity securities & funds

1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	
324	743	390	1,128	424	932	743	714	Current income tax expense (※)
109	(245)	113	(290)	(26)	(223)	(57)	(456)	Deferred tax expense (benefit) (※)
36	41	24	33	(31)	7	(46)	(249)	Equity in net income (loss) of equity method investees
(42)	(47)	(39)	(42)	(41)	(45)	(45)	(47)	Less: Net income attributable to noncontrolling interests

Expected P/L impact along with IFRS adoption

- Adopt IFRS from the filing of FY18 Annual Report “Yuka-shoken-houkokusho”
 - Because of different accounting principles, P/L impact due to gains/losses on marketable equity securities are not recognized under IFRS (recognized in accumulated other comprehensive income (loss) on B/S)
- FY18 earnings press releases and documents for ordinary general meeting of shareholders will be prepared under U.S. GAAP; P/L will be impacted by stock price fluctuation, FY18 Annual Report “Yuka-shoken-houkokusho” will be prepared under IFRS as above; P/L will not be impacted by stock price fluctuation; Retained earnings & Accumulated Other Comprehensive Income will be different from the U.S. GAAP etc.

Consolidated Balance Sheets (Summary)

Financials

Unit: JPY million

	Mar. 31, 2018	Mar. 31, 2019	Changes
Cash and Cash Equivalents	21,403	32,076	+10,673
Accounts Receivable	31,831	33,582	+1,751
Inventories	1,715	3,807	+2,092
Prepaid Expenses (Current and Noncurrent)	16,409	18,035	+1,626
Investments in Equity Method Investees	5,246	4,838	(408)
Other Investments	11,374	10,808	(567)
Property and Equipment	46,414	46,933	+519
Goodwill and Other Intangible Assets	8,787	8,423	(364)
Guarantee Deposits	3,422	3,381	(42)
Total Assets:	<u>153,449</u>	<u>166,852</u>	<u>+13,403</u>
Accounts Payable	16,399	21,927	+5,528
Income Taxes Payable	1,928	1,290	(638)
Borrowings (Short-term and Long-term)	24,750	26,750	+2,000
Capital Lease Obligations (Current and Noncurrent)	16,577	18,035	+1,458
Total Liabilities:	<u>79,460</u>	<u>90,599</u>	<u>+11,139</u>
Common Stock	25,512	25,519	+7
Additional Paid-in Capital	36,176	36,226	+50
Retained earnings	8,404	16,023	+7,619
Accumulated Other Comprehensive Income (Loss)	5,075	(467)	(5,542)
Treasury stock	(1,897)	(1,897)	(0)
Total IJ Shareholders' Equity:	<u>73,270</u>	<u>75,404</u>	<u>+2,134</u>

Due to the revision of U.S. GAAP on other investments. Please refer to page 22 of this document for details

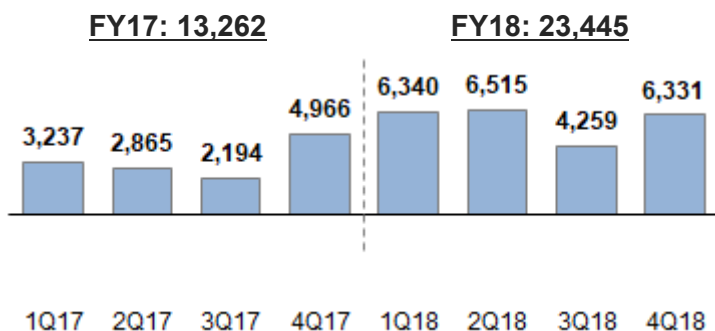
➤ Total IJ Shareholders' Equity to Total Assets: 47.7% as of Mar. 31, 2018; 45.2% as of Mar. 31, 2019

Consolidated Cash Flows

Unit: JPY million
YoY = Year over year comparison

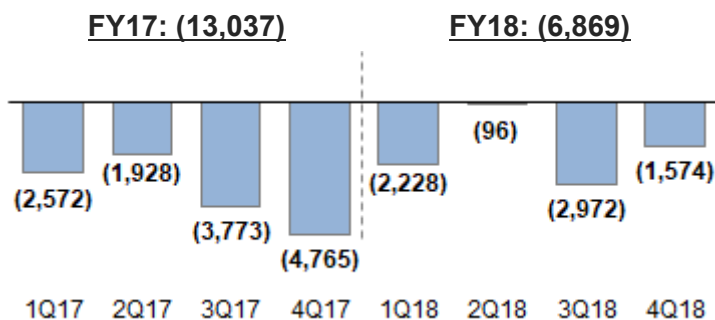
Financials

Operating Activities



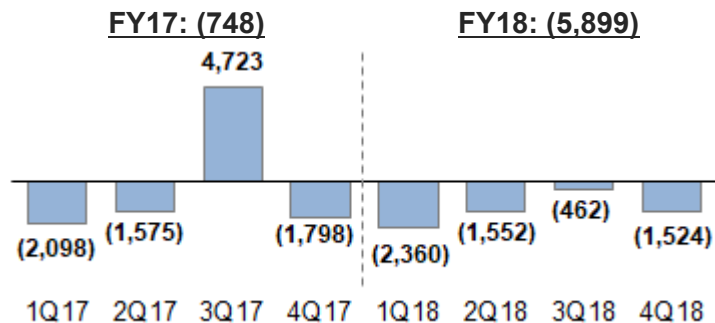
	Major Breakdown	YoY Change
Net income	2,893	(2,386)
Depreciation and amortization	14,211	+1,846
Fluctuations of operating assets and liabilities	5,404	+8,929
Realized and unrealized loss on other investments	1,110	+2,178

Investing Activities



	Major Breakdown	YoY Change
Purchase of property and equipment	(10,670)	+5,101
Proceeds from sales of property & equipment (mainly lease-back transaction)	3,079	(227)
Proceeds from sales of funds and equity securities	565	(798)

Financing Activities

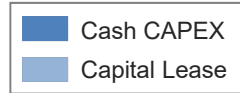


	Major Breakdown	YoY Change
Principal payments under capital leases	(6,524)	(800)
Dividends paid	(1,217)	(0)
Bank borrowings	2,000	(5,000)

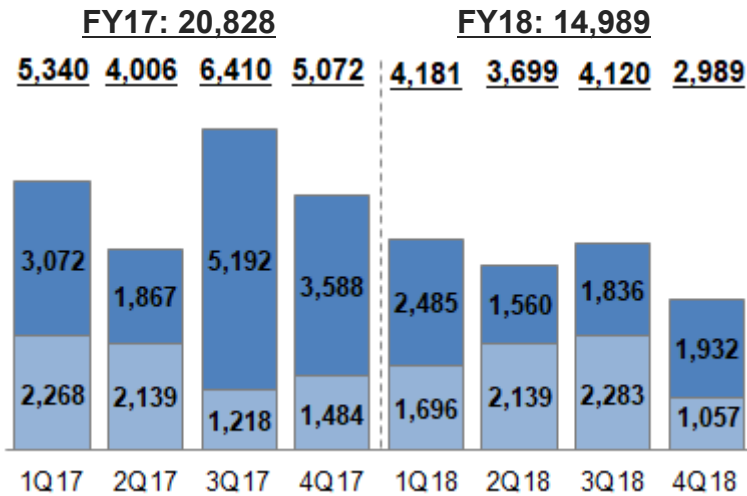
Other Financial Data

Unit: JPY million
[] = Year over year comparison

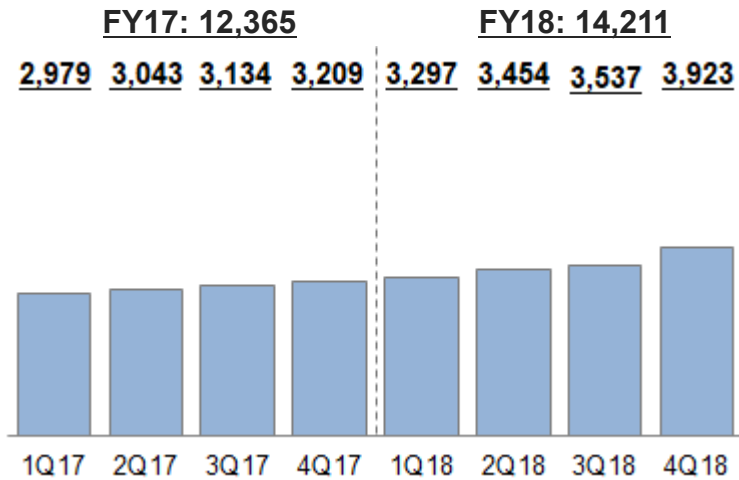
CAPEX



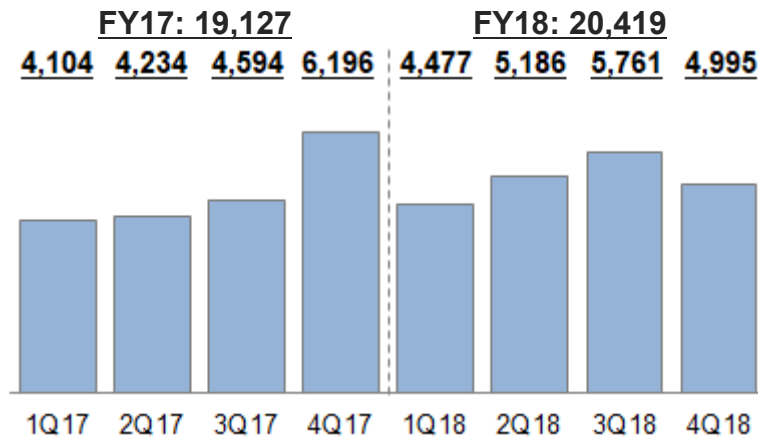
- Usual CAPEX (NW expansion) JPY10.7 bn
- Cloud related JPY2.2 bn
- Shiroy DC related JPY2.1 bn
(over JPY1 billion postponed to FY19)



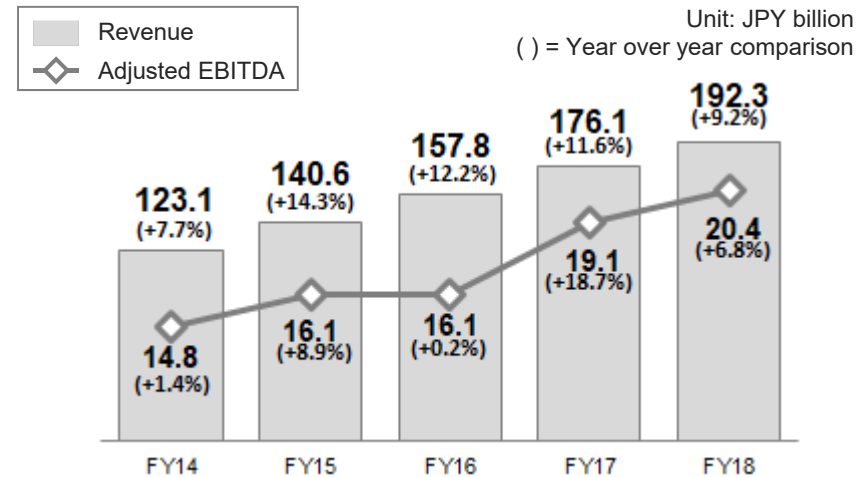
Depreciation and Amortization



Adjusted EBITDA



Revenue & Adjusted EBITDA Annual Growth



FY18 Major Accomplishments

YoY = Year over year comparison
JPY billion (bn)

Financials

Initial Targets	Accomplishments
Achieve income growth by recurring revenue accumulation	<p>Recurring revenue +9.7%YoY Stronger than expected NW services revenue* +11.0%YoY Mobile +18.8%YoY IP +4.5%YoY <small>*Excluding hi-ho's unconsolidation</small></p>
Enhancement of security services such as SOC	<p>Security services revenue +16.9%YoY Aim even stronger revenue growth in FY19, expanded services line-ups: virtual desktop, SOC, Endpoint</p>
Gather enterprise traffic through IoT/M2M	<p>Expanded full-MVNO service line-ups toward IoT Demands NW cameras, dashboard recorder, smart home/factory, incident detection, water paddy sensor</p>
<p>Full-MVNO revenue JPY0.5 bn Expand NW services gross margin by absorbing full-MVNO related forefront cost</p>	<p>Full-MVNO revenue JPY0.66 bn Growth led by prepaid SIM & SIM life cycle management, Accumulating to absorb the fixed cost of FY19 Small Docomo's mobile unit charge YoY decrease led to NW services gross margin decrease</p>
<p>Cloud revenue JPY20 bn Further focus on Multi/Private Cloud, Profitability to improve continuously</p>	<p>Cloud Revenue JPY20.1 bn Enhanced seamless/real time Cloud migration solution and Unified Operation Management Service</p>
Improve SI profitability by high SE utilization rate	<p>SI gross margin ratio improved by 3 points YoY Stroger improvement than planned with effective unit reorganization & stricter management Aim to improve FY19 gross margin ratio with continuing effect of FY18 strategies & deploying knowledge</p>
<p>Overseas business Revenue JPY7 bn, Income JPY0.1 bn Subsidiaries in Asia as a whole to turn positive</p>	<p>Revenue JPY7.57 bn Operating income JPY0.13 bn Asian subsidiaries turned positive as planned with SI & Cloud orders, GDPR solution as a tailwind</p>
<p>DeCurret Launch exchange services</p>	<p>First & new licensed service provider after FSA enacted registration process Launched exchange services (Apr. 19), Preparing for settlement services and upgrade of exchange services</p>
<p>JOCDN Further penetration of CDN Services</p>	<p>Migrated a large contents distributor's contents sequentially New business partners such as WOWOW Inc.</p>

Major KPIs

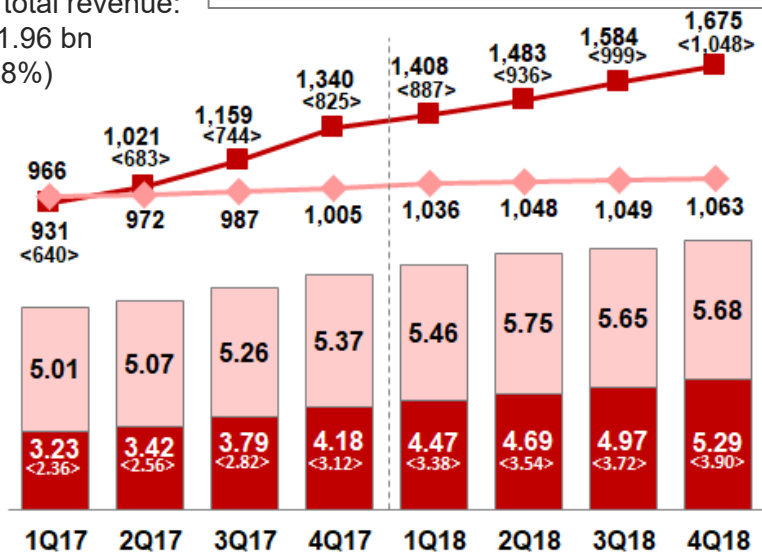
Unit: JPY billion (bn)
 % = Year over year comparison
 apx = approximately

Financials

Mobile revenue & subscription

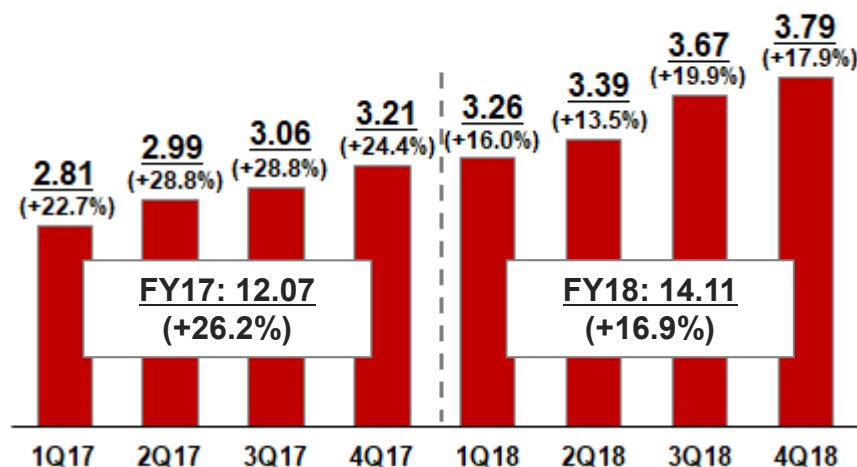
- ◆ FY18-end total subs: 2,745 thousand (+17.0%)
- ◆ FY18 total revenue: JPY41.96 bn (+18.8%)

Subs:
 ■ IIJ Mobile < > MVNE ◆ IJmio Mobile
 Revenue:
 ■ IIJ Mobile < > MVNE ■ IJmio Mobile



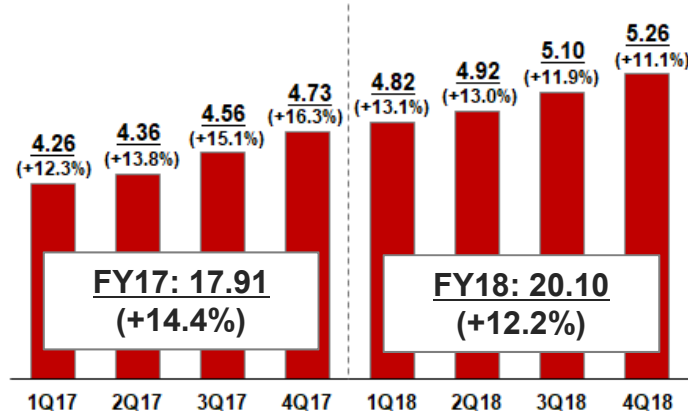
Security

- ◆ Total security revenue (Sum of security services and security-related SI)
 - FY17: JPY14.62 bn, FY18 JPY16.77 bn
- ◆ Security services revenues are recognized in outsourcing services revenue
- ◆ In FY17, large security Cloud project for local government

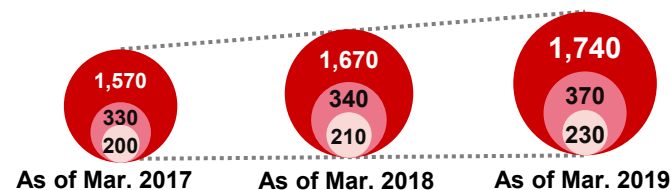


Cloud-related revenue & Customer Base

- ◆ 4Q18 revenue major breakdown:
 - Private JPY3.81 bn
 - Public JPY0.68 bn
 - IIJ Raptor JPY0.66 bn
- ◆ 4Q18 revenue recognition:
 - 87% SI operation & maintenance,
 - 13% outsourcing



■ Total number of customer
 ■ MRR over JPY0.5 million
 ■ MRR over JPY1.0 million
 MRR=Monthly Recurring Revenue



FY19 Consolidated Financial Targets

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

Financials

FY18 Results (US GAAP)

	% of Revenues 1H18 (Apr.2018 - Sep. 2018)	% of Revenues FY18 (Apr.2018 - Mar. 2019)	YoY
Revenues	91.0	192.3	+9.2%
Cost of Revenues	84.5% 76.9	84.9% 163.3	+10.5%
Gross Margin	15.5% 14.1	15.1% 29.0	+2.7%
SG&A/R&D	12.3% 11.2	11.8% 22.8	+6.1%
Operating Income	3.2% 2.9	3.2% 6.2	(8.2%)
Adjusted Income before income tax expense (※)	3.2% 2.9	3.1% 6.0	(7.4%)
EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEEES	(0.0)	(0.3)	-
Adjusted Net Income attributable to IJ (※)	1.9% 1.7	1.8% 3.5	(17.1%)

FY19 Outlook (IFRS)

	% of Revenues 1H19 (Apr. 2019 - Sep. 2019)	% of Revenues FY19 (Apr. 2019 - Mar. 2020)	YoY
Revenues	97.7	204.0	+6.1%
Cost of Revenues	85.5% 83.5	84.6% 172.6	+5.7%
Gross Margin	14.5% 14.2	15.4% 31.4	+8.3%
SG&A/R&D	12.3% 12.0	12.0% 24.4	+6.8%
Operating Income	2.3% 2.2	3.4% 7.0	+12.8%
EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEEES	(0.7)	(0.6)	-
Income before income tax expense	1.5% 1.5	3.1% 6.3	+4.6%
Net Income attributable to IJ	0.6% 0.6	1.7% 3.5	+0.7%

Revenue Assumption	Income Assumption	CAPEX
<ul style="list-style-type: none"> ◆ NW services +JPY5.3 bn YoY <ul style="list-style-type: none"> ➢ Enterprise NW services to grow continuously ➢ WAN revenue to decrease by approx. JPY4 bn due to existing large clients' migration to mobile etc. ◆ SI +JPY6.4 bn YoY <ul style="list-style-type: none"> ➢ Total Cloud revenue JPY22.5 bn ➢ SI construction & maintenance to grow continuously 	<ul style="list-style-type: none"> ◆ Gross margin of NW services and SI to each expand ◆ Personnel-related expenses to increase stronger than usual ◆ With the start of Shiroi DC operation, fixed type cost of JPY0.5 bn (annual) will be added 	<ul style="list-style-type: none"> ◆ Total: JPY18 bn <ul style="list-style-type: none"> ➢ Shiroi DC-related: JPY2 bn (Including CAPEX postponed from FY18) ➢ CAPEX mainly concentrated on NW expansion, Cloud, Service developments
Human Resources	Annual Dividends	Equity Method
<ul style="list-style-type: none"> ◆ Net addition of 230 personnel <ul style="list-style-type: none"> ➢ 171 newly graduates joined in Apr. 2019 	<ul style="list-style-type: none"> ◆ JPY27.00 per share based on our basic policy of continuous and stable dividends 	<ul style="list-style-type: none"> ◆ DeCurret equity loss JPY0.7 bn ◆ Others: same as FY18

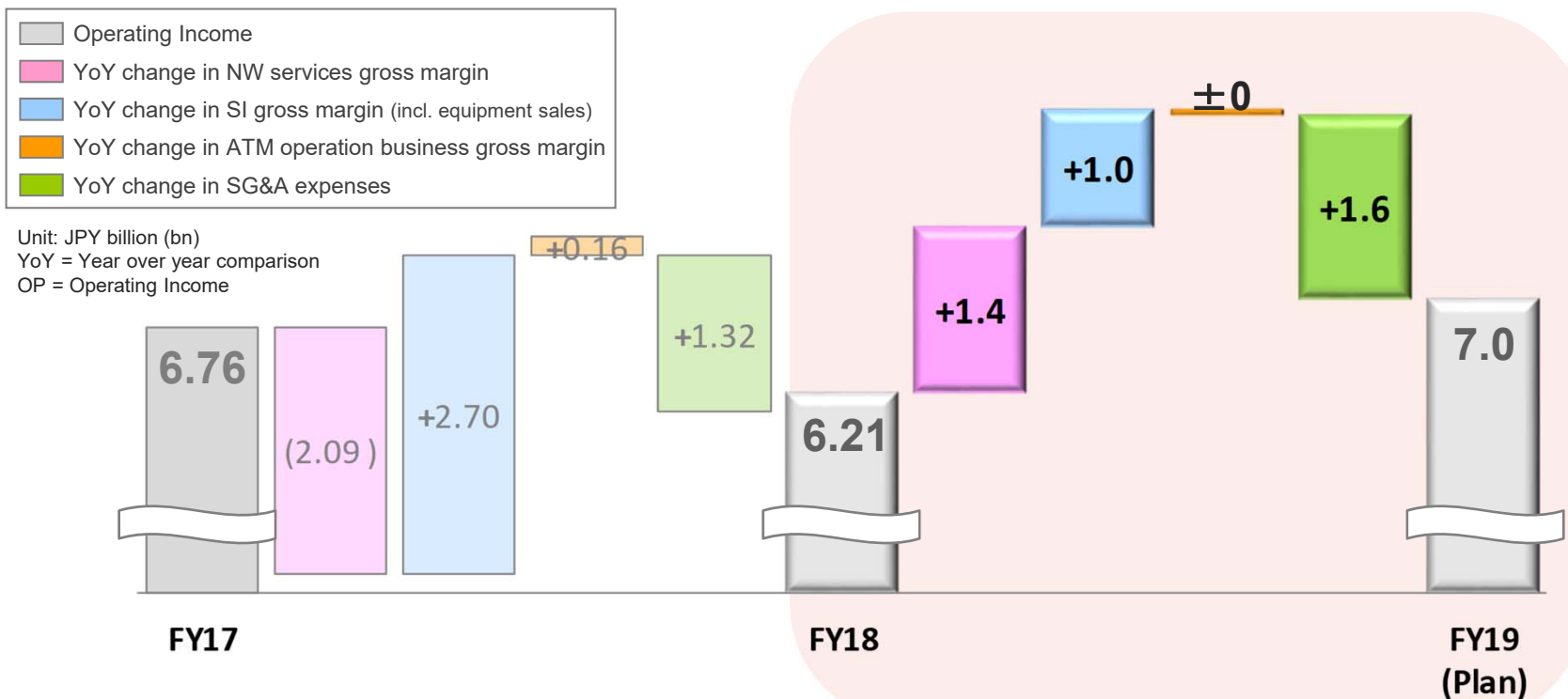
➢ Adopt IFRS from the filing of FY18 annual report "Yuka-Shoken-Houkokusho"

➢ No significant difference between US GAAP and IFRS on revenue and operating income

- Under IFRS, gains/losses on marketable equity securities will be recognized as fluctuation of AOCI on B/S; no impact on P/L
- Under IFRS, equity in net income (loss) of equity method investees are presented between operating income and income before income tax expense

(※) Adjusted incomes exclude effect of the revision of U.S GAAP related to gains/losses on equity securities & funds

Factors Contributing to FY19 Operating Income Target Outlook



	FY17 → FY18 YoY Results	FY18 → FY19 YoY Outlook
NW	<ul style="list-style-type: none"> ◆ Mobile gross margin decreased. We had JPY2.05 bn of negative gap due to smaller than expected mobile unit charge decrease and JPY1.3 bn of fixed cost increase along with the launch of full-MVNO ◆ Gross margin of non-mobile NW services increased 	<ul style="list-style-type: none"> ◆ Mobile gross margin to improve by approx. JPY0.5 bn as full-MVNO revenue growth to absorb fixed cost ◆ IJ estimate certain mobile unit charge decrease based on Mar. 2019 revised results and Docomo's temporary payment arrangement for FY19 ◆ Revenue & gross margin of non-mobile NW services to continue growing
SI	<ul style="list-style-type: none"> ◆ SI & equipment sales gross margin largely increased due to the revenue growth and gross margin ratio improvement ◆ Cloud net increase of profit was almost flat due to western Japan service facility was added 	<ul style="list-style-type: none"> ◆ SI gross margin to continue growing with revenue growth and gross margin ratio improvement ◆ Gross margin to improve with Cloud revenue accumulation
SG & A	<ul style="list-style-type: none"> ◆ Usual operational expenses such as personnel and sales commission increased along with business expansion 	<ul style="list-style-type: none"> ◆ YoY increase amount to be larger than that of FY2018 as personnel expenses to increase

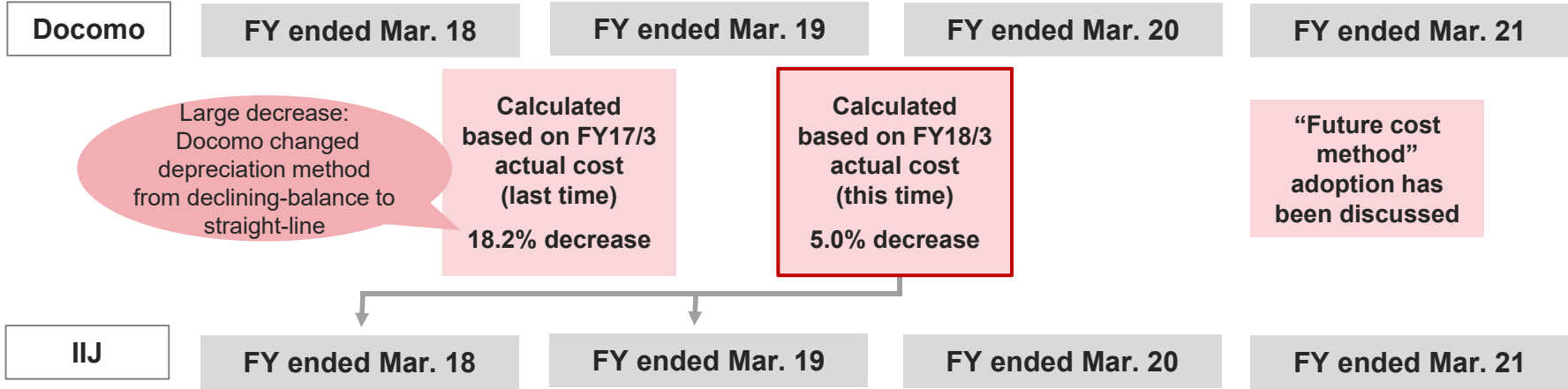
Mobile Unit Charge (cost)

Calculation Method of Mobile Unit Charge

$$\text{Mobile Unit Charge (Mbps)} = \frac{\text{Data Communication Cost + Profit}}{\text{Demand for Mobile Traffic}^{*1}}$$

◆ Mobile unit charge is a unit charge used when Mobile Virtual Network Operators (MVNOs) such as IIJ purchase mobile infrastructure from Mobile Network Operators (MNOs) such as NTT Docomo. The charge is calculated and revised every year by MNOs accordingly with the rules*2 of the Ministry of Internal Affairs and Communications.

Timing of Revision and Application of Docomo’s Mobile Unit Charge



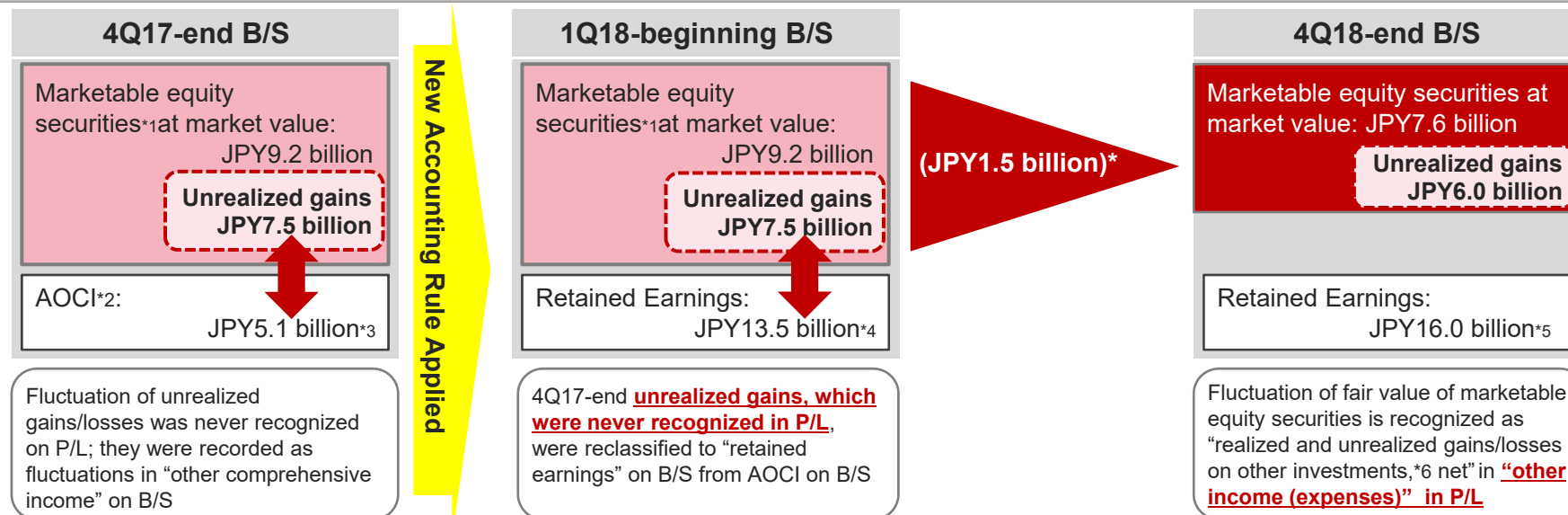
Past Results of Docomo’s Mobile Unit Charge

	FY ended Mar. 15	FY ended Mar. 16	FY ended Mar. 17	FY ended Mar. 18	FY ended Mar. 18 (this time)
Unit Charge per Mbps (JPY)	94,505	78,488	67,481	55,207	52,449
YoY reduction	23.5%	16.9%	14.1%	18.2%	5.0%

*1 Total data communication prepared by MNO *2 “Telecommunications Business Law” and the “Interconnection Charge Rules for Category III Designated Telecommunications Facilities

Gains/Losses on Marketable Equity Securities

U.S. GAAP ~ FY2018



* Major breakdown of gains/losses on marketable equity securities

Stock	IIJ holdings (shares)	Stock Price	Gains/losses (P/L) for			Stock Price	Gains/losses for 4Q18 P/L (JPY1.4 bn)	Gains/Losses for FY18 P/L (JPY1.5 bn)
		4Q17-end	1Q18 (JPY0.86 bn)	2Q18 +JPY1.0 bn	3Q18 (JPY3.1 bn)	4Q18-end		
SIGMAXYZ Inc.	1.98 million	JPY2,137	(JPY1.6 bn)	(JPY0.1 bn)	(JPY1.1 bn)	JPY1,039	+JPY0.5 bn	(JPY2.2 bn)
Recruit HLDG	1.5 million	JPY2,645	+JPY0.6 bn	+JPY1.1 bn	(JPY1.7 bn)	JPY3,161	+JPY0.7 bn	+JPY0.8 bn
PIA Corp.	0.15 million	JPY5,450	+JPY0.1 bn	(JPY0.1 bn)	(JPY0.3 bn)	JPY4,590	+JPY0.1 bn	(JPY0.1 bn)

IFRS FY2019~

*Will adopt IFRS from the filing of FY2018 Yuka-shoken-houkokusho

- Gains/losses on marketable equity securities will be recognized as fluctuation of AOCI in B/S
- From FY2019, P/L will not be impacted by gains/losses on marketable equity securities

*1 Acquisition cost: JPY1.7 billion, *2 Accumulated Other Comprehensive Income, *3 Net of tax amount of unrealized gains: JPY5.1 billion, *4 Including the net of tax amount of unrealized gains of JPY5.1 billion, *5 Compared to 1Q18-beginning BS, decreased by JPY1.1 billion (net of tax amount) due to decrease in stock price, and increased by JPY3.6 billion due to real income from operation, etc. *6 4Q18 realized and unrealized gain/loss on other investments, net: JPY1.53 billion of gain (of which gains of JPY1.41 billion on marketable equity securities, others gains of JPY0.12 billion)



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

Disclaimer

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.