

# Internet Initiative Japan Inc. Corporate Overview

## Nomura Investment Conference Tokyo 2019

We changed our accounting principles from the Generally Accepted Accounting Principles in the U.S. (“U.S. GAAP”) to the International Financial Reporting Standards (IFRS) from the filing of FY2018 annual report “Yuka-shoken-houkokusho” which was filed on June 28, 2019.

Because reporting period of foreign consolidated subsidiaries under IFRS is different from that of under U.S. GAAP, some figures disclosed in the past are different.

**December 2019**

# Outline

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## ◆ Strengths and competitive advantages

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<b>Established</b>	<b>December 1992</b>
<b>Number of Employees</b>	<b>3,562</b> (approx. 70% engineers) Consolidated. As of Sep. 30 2019
<b>Listed Markets</b>	<b>Tokyo Stock Exchange 1<sup>st</sup> Section (code: 3774)</b> We voluntary delisted from the U.S. NASDAQ Market in Apr. 2019. Our ticker symbol at OTC is IIJIY
<b>Large Shareholders</b>	<b>NTT group (26.0%), Dalton (6.3%), Global Alpha (6.1%), CEO Suzuki (5.6%*)</b> <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**

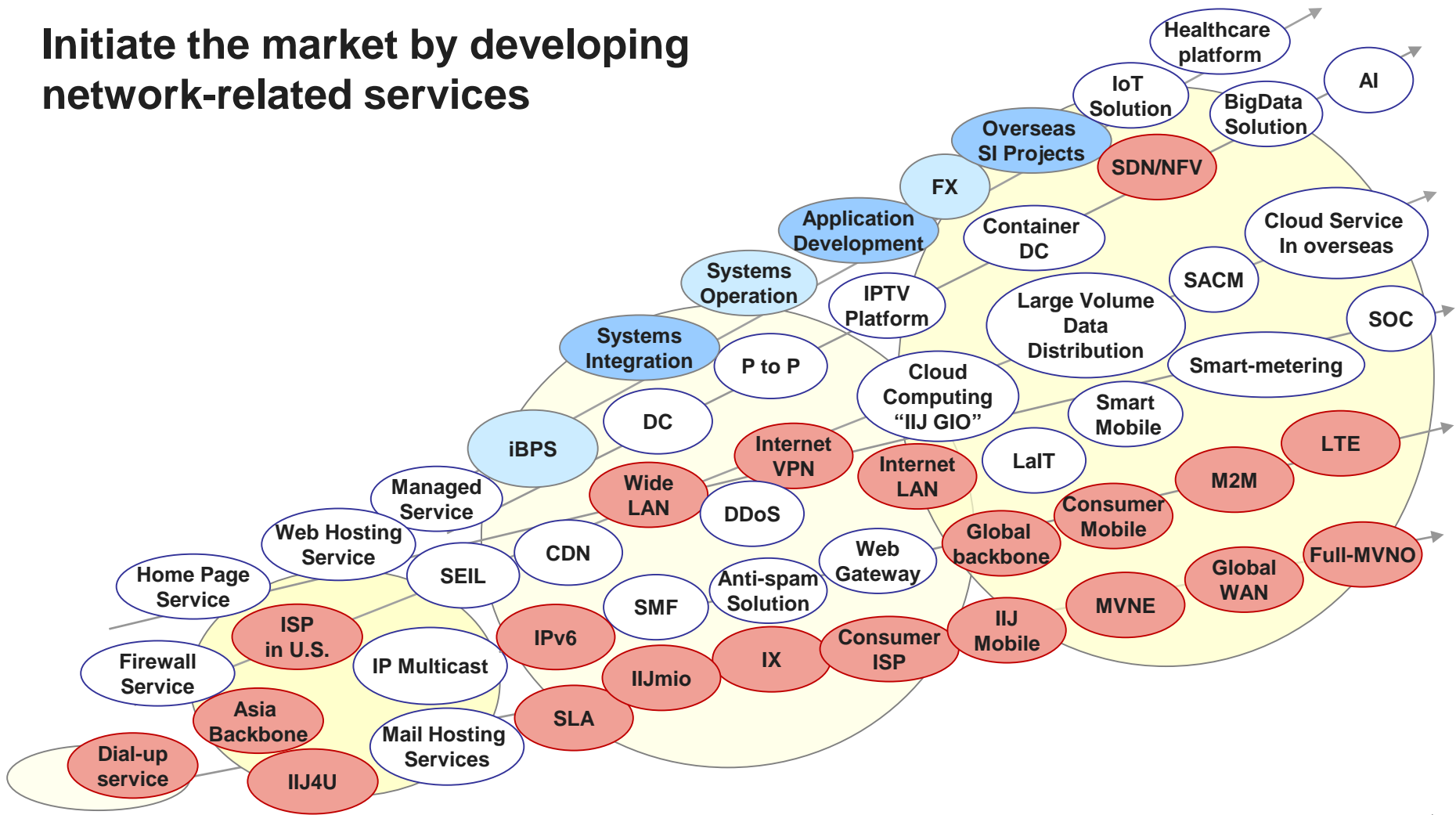
- Mainly among large enterprises and governmental organizations
- Differentiate by reliability and quality of network and systems operation
- Long-term client relationship with no serious systems troubles

## ◆ **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



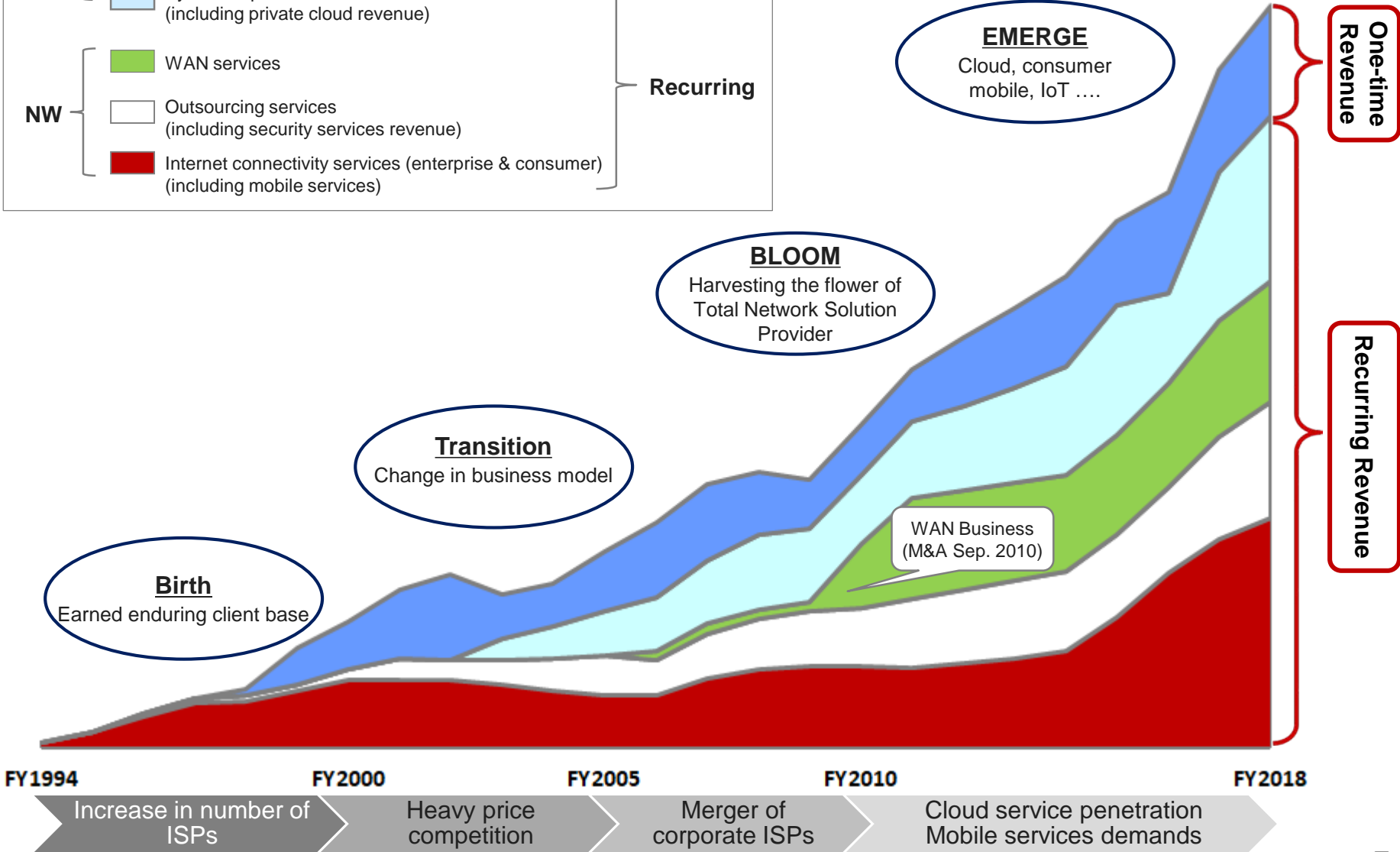
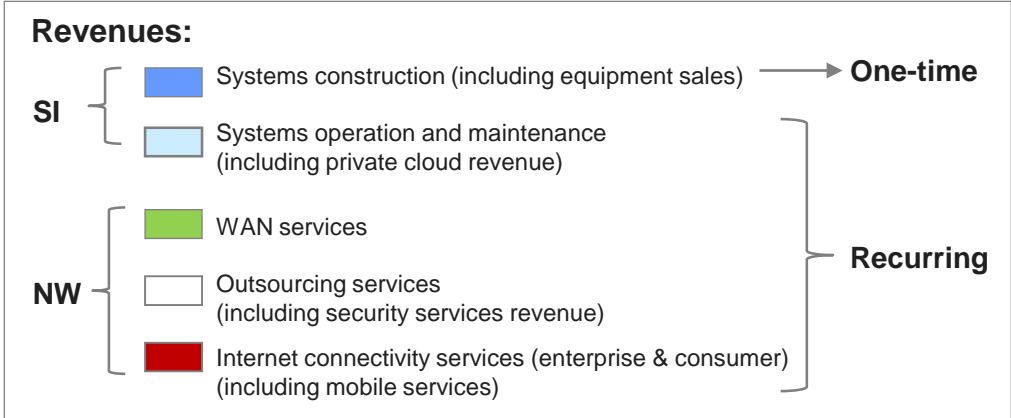
1992 IIJ Internet Initiative Japan  
1996 IIJ America  
1997 internet *my*  
1998 IIJ Engineering  
2006 Net Chart Japan  
2007 TRINITY Loyalty Marketing Solutions  
2008 IIJ INNOVATION INSTITUTE  
2010 IIJ Global  
2013 IIJ Europe  
2014 株式会社ネットウエブ KURENZA NETWORK  
2016 JOCODN  
2018 DeCurret

IIJ Group

i-revo

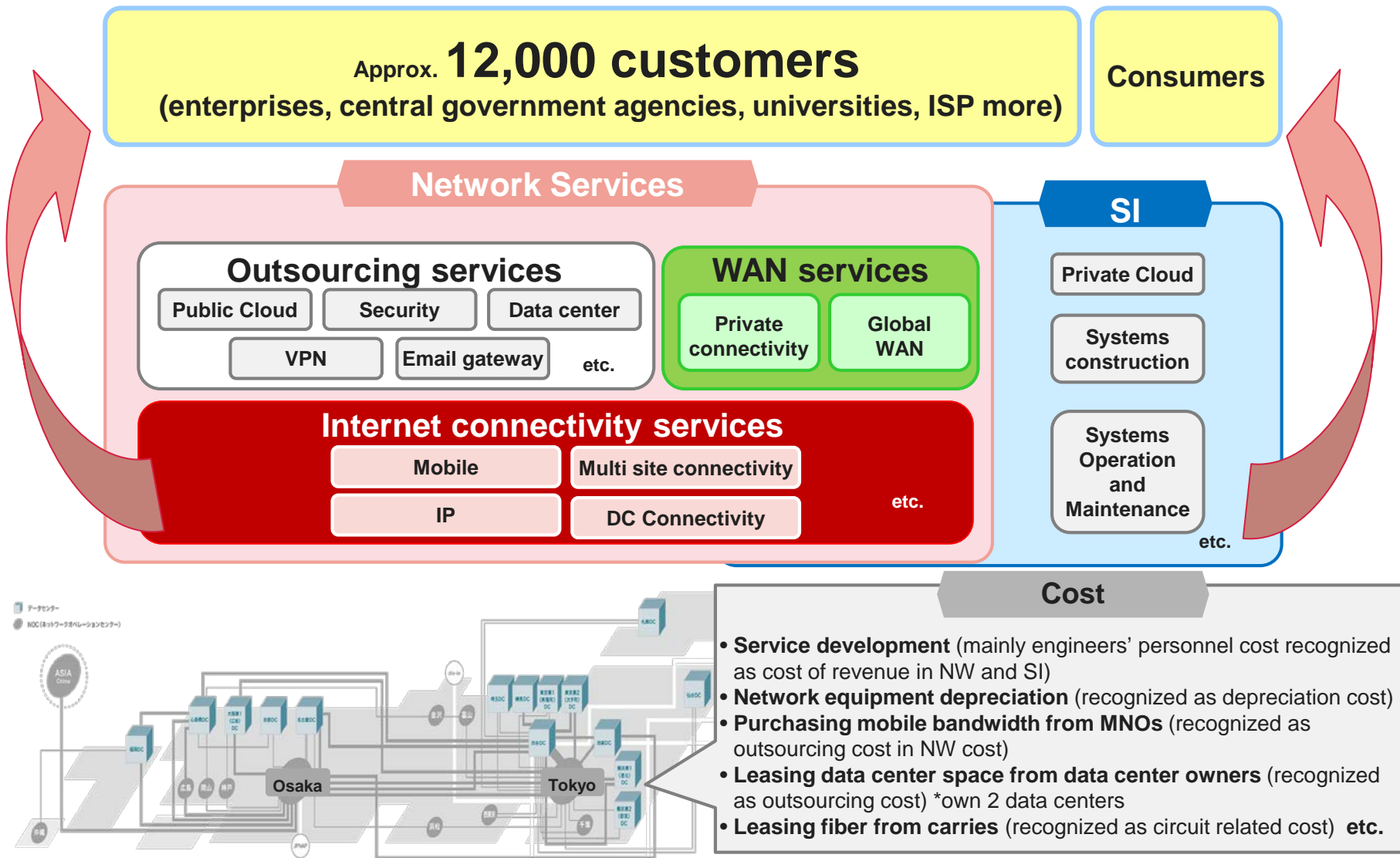
Trust Networks

# ISP to Total Network Solution Provider



## Leveraging Internet-related technology

## Total network solution provider with services and SI

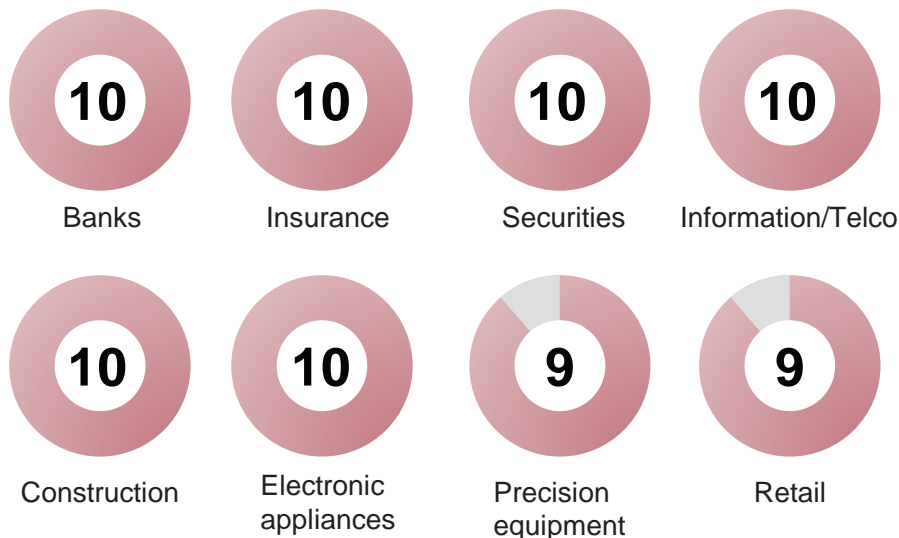


# Excellent Customer Base with Many Blue-Chips

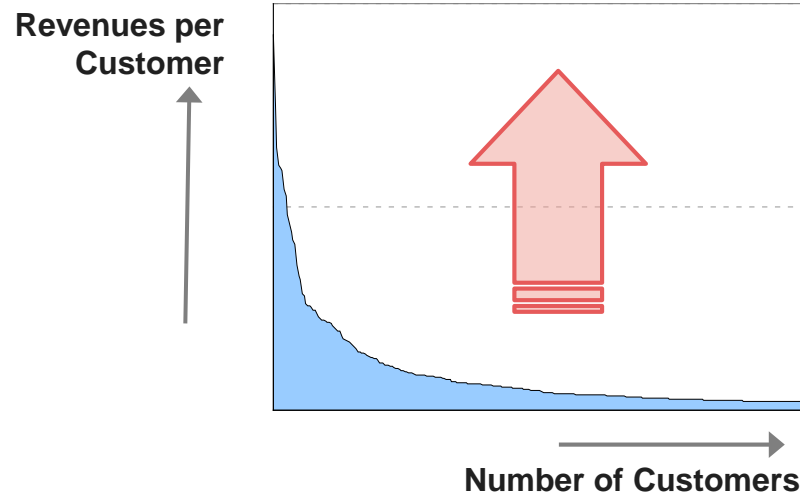
Competitive Advantages

## Cover Most of Top Revenue Companies

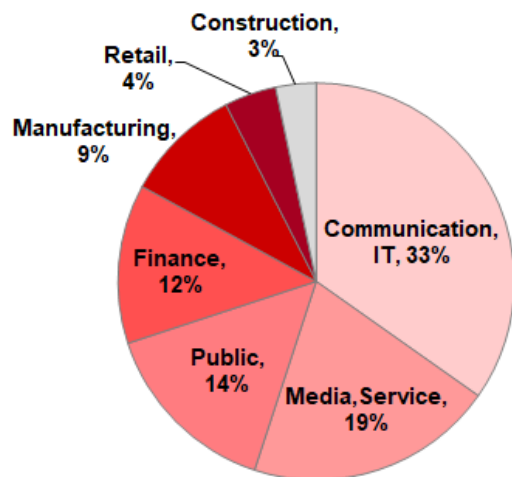
The number of clients among the top 10 companies in each industry.



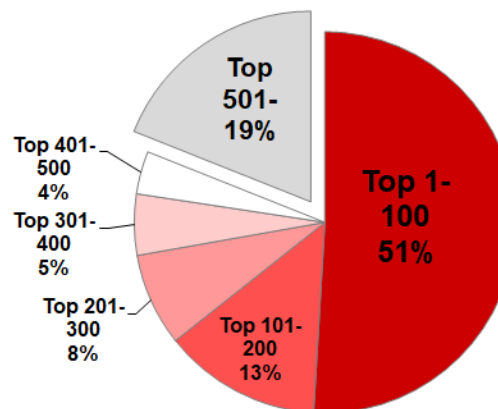
## Increase Revenue per Customer



## Revenue Distribution by Industry



## Revenue Distribution by Clients



- Approximately 80% of the revenue comes from 500 clients
  - Much room to grow revenue per customer/cross selling strategy
- A largest client revenue portion to the total is less than 3%

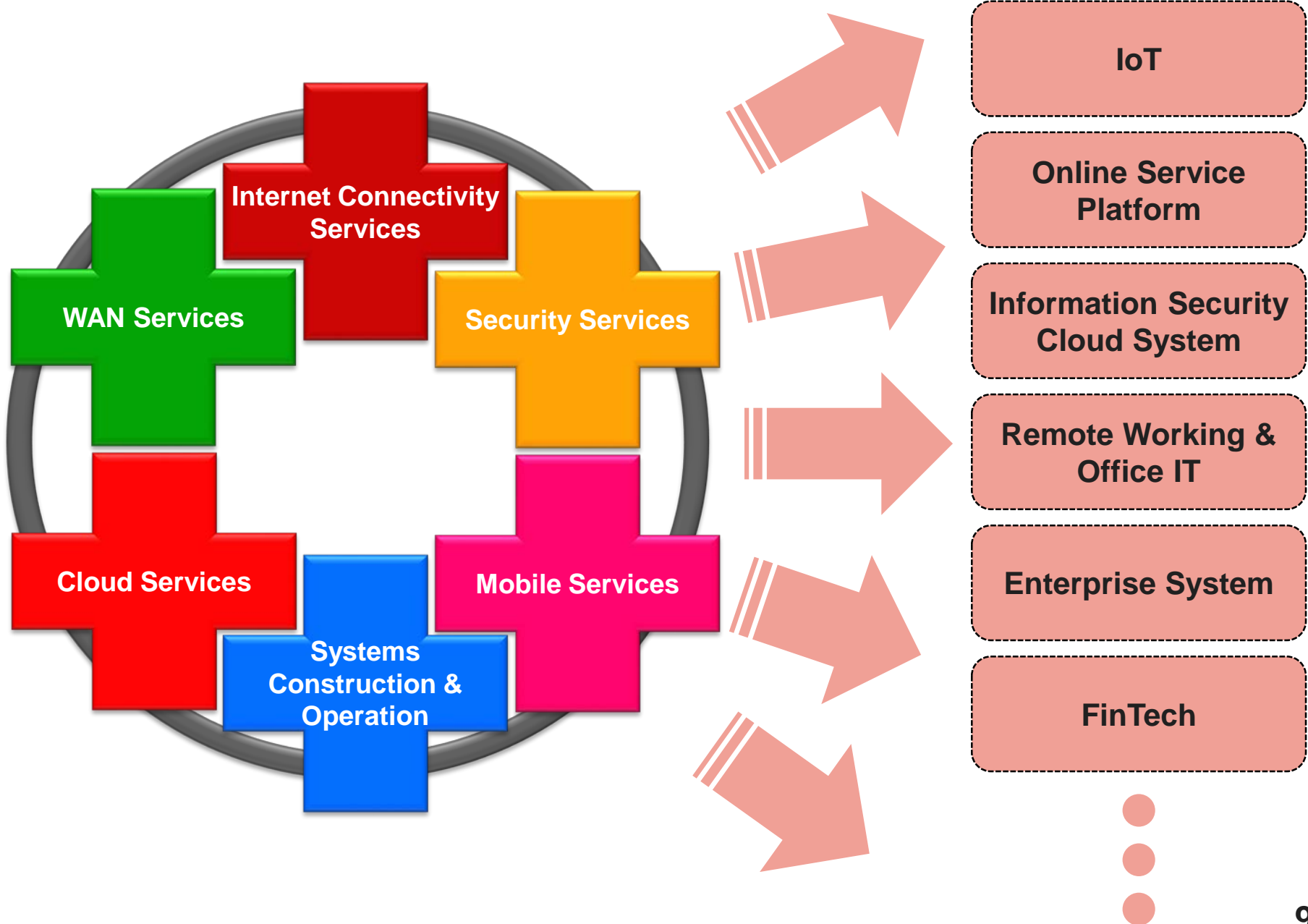
# Comprehensive Line-ups of IT services

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 CDN traffic &amp; further cloud service penetration</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>• Accumulate subscription with MVNE and IoT</li> <li>• Further capture IoT demand with full-MVNO supporting data services</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>• Legacy technology, shrinking market</li> </ul>
	Outsourcing	<b>Security</b> <ul style="list-style-type: none"> <li>• Security, data center, email outsource, NW/Server management service line-ups etc.</li> <li>• Many 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, IJ Raptor (FX application) etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Competitive advantage of SI with multi/private cloud</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>



# Example of Total Solution

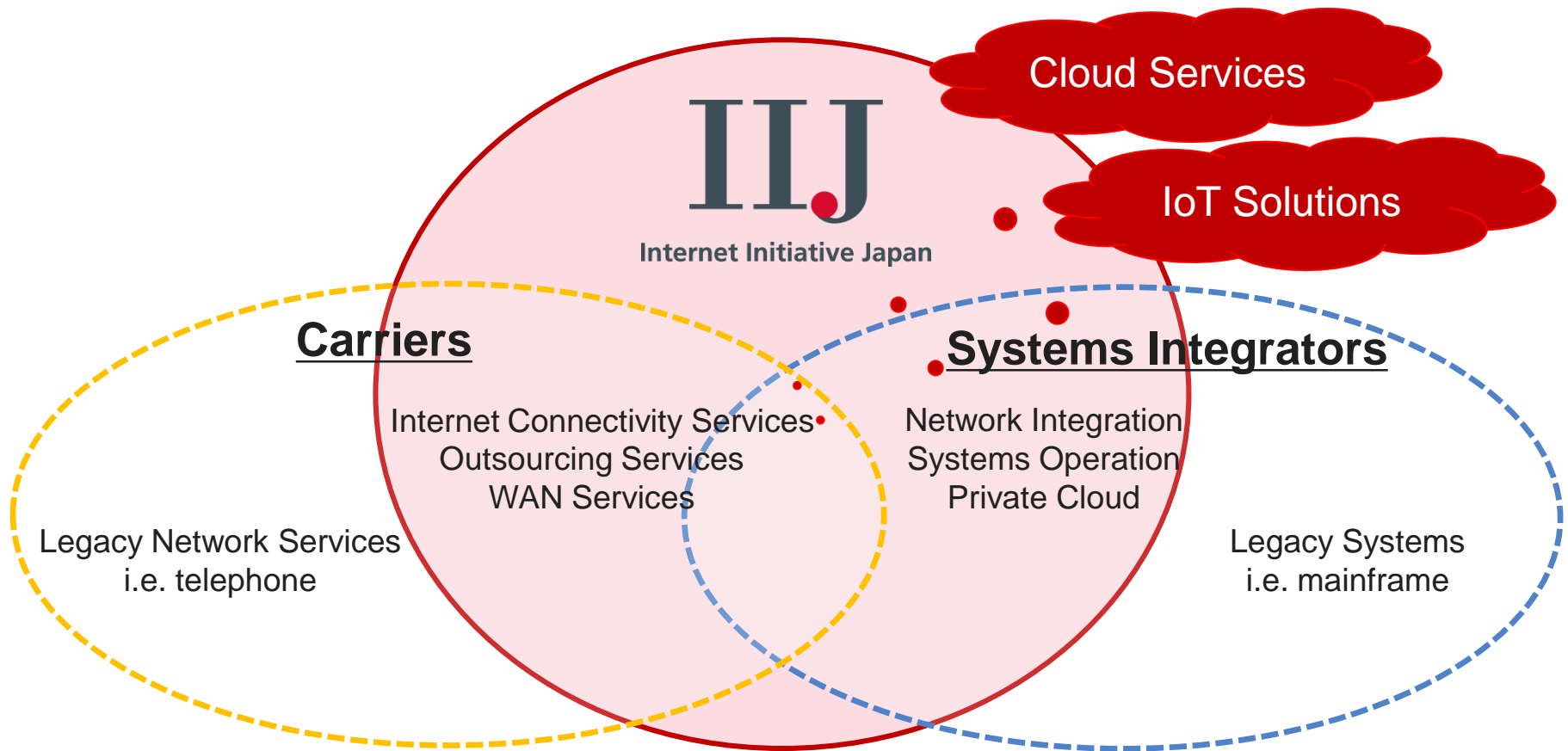
Competitive Advantages



# 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

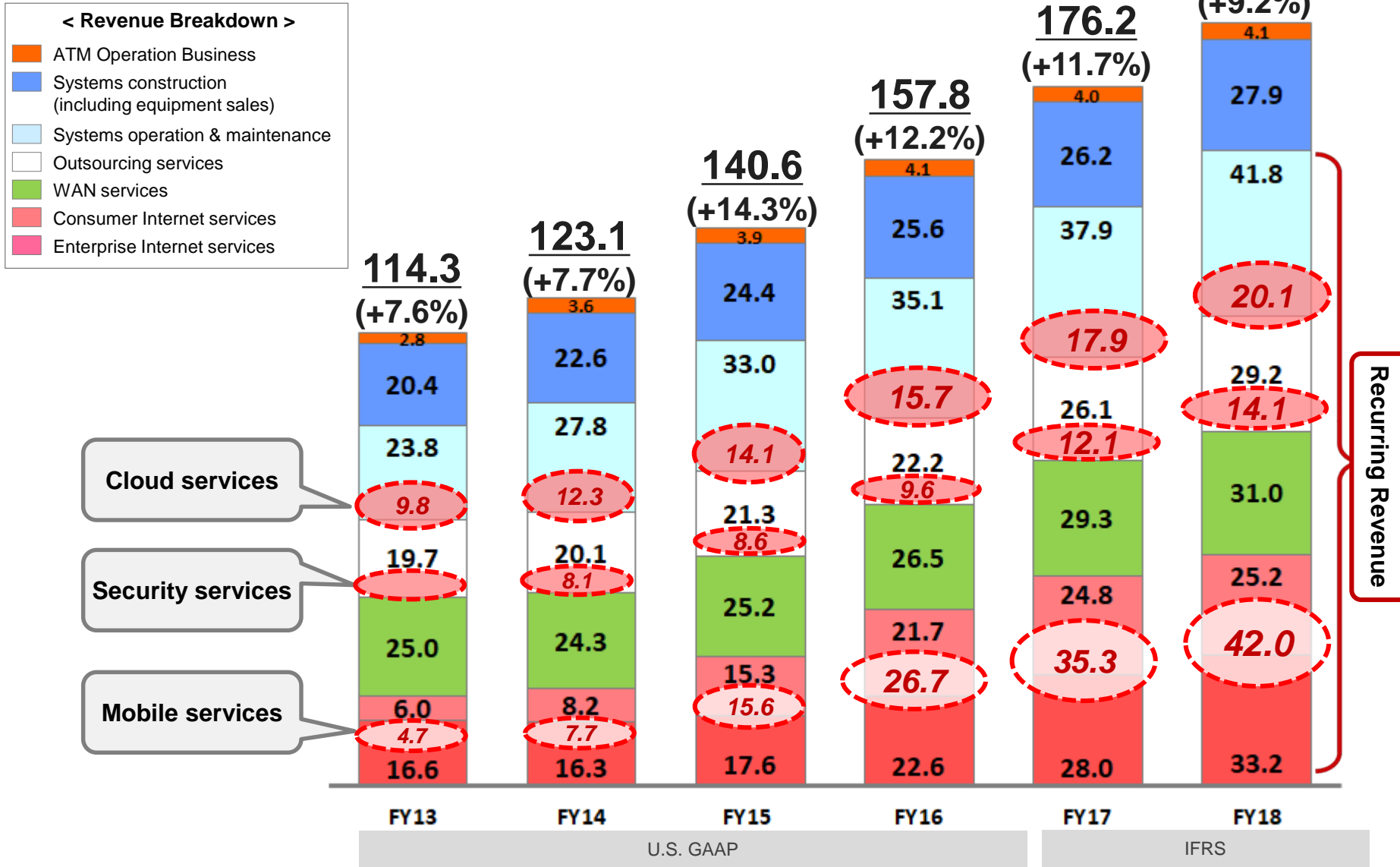
- Operates network facilities by ourselves
- Develops network services
- Moderate number of employees

# Leveraging Blue-chip Customer Base

Unit: JPY billion  
% = year over year change

**Growth Strategy**

## Cross-selling multiple service products



\*YoY growth rate written for FY17 revenue is comparing FY16 revenue which is prepared with U.S. GAAP and FY17 revenue which is prepared with IFRS

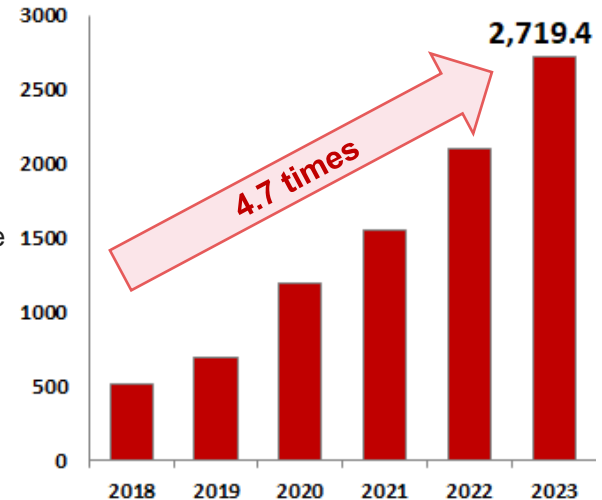
# Cloud Business (1)

Unit: JPY billion

**Growth Strategy**

## Cloud Market in Japan

- Cloud penetration among Japanese enterprises
  - 58.7% as of 2018-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 Oct. 2019 by IDC Japan "Domestic Private Cloud Market"

## IIJ's Competitive Advantages

### IIJ

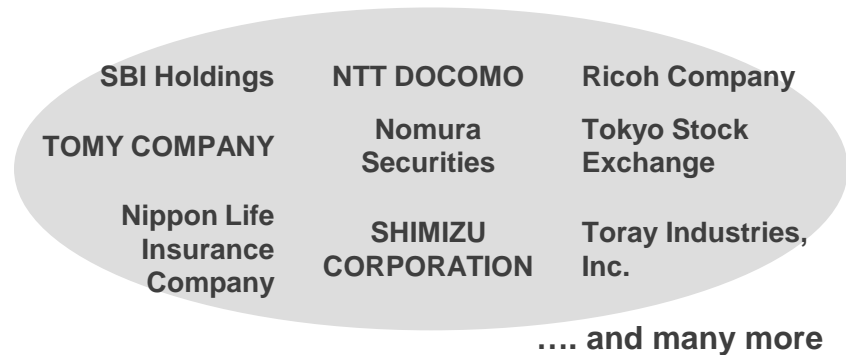
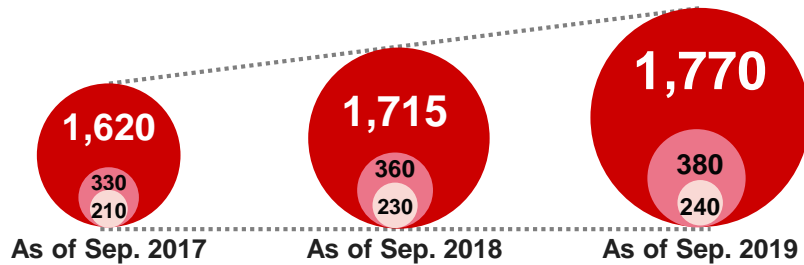
- ◆ **Target blue-chip's large internal IT systems** which are traditionally covered by Slers
- ◆ **Execute Multi-cloud strategy** by connecting MS, AWS, Google cloud platforms through private connectivity, UOM (Unified Operation Management) Service etc.
- ◆ **Integrate full-MVNO (data services), security, SI and other IIJ services**
- ◆ **First in Japan to join MS Azure Networking Managed Services Provider Program** (July 2019)
- ◆ **Experience, reputation, reliable operation**
  - One of the first cloud service providers in Japan (since FY2010)
- ◆ **Deep relationships with blue-chips**, Leverage NW service customer base
- ◆ **Various options for CPUs/OSs/storage/network usage etc.**

### Competitors

<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>• 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>

## IIJ's Cloud Customer Base

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



## Flagship IIJ GIO P2 Projects

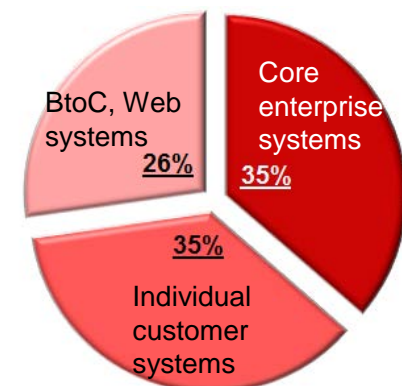
➤ One of the largest global logistics companies, chose IIJ's cloud service for its fully-outsourced internal systems (3,500 servers and 2PT storage) → MRC JPY9 million

➤ One of the largest prefectures, chose IIJ's cloud services for "Local Government Information Security Cloud" systems → MRC JPY60 million

➤ One of the largest online ticketing companies chose IIJ's cloud service for its main and prominent service platform → MRC JPY14 million

➤ One of the largest travel agencies chose IIJ's cloud services for its core business operation systems → MRC JPY12 million

## IIJ GIO P2 System Usage

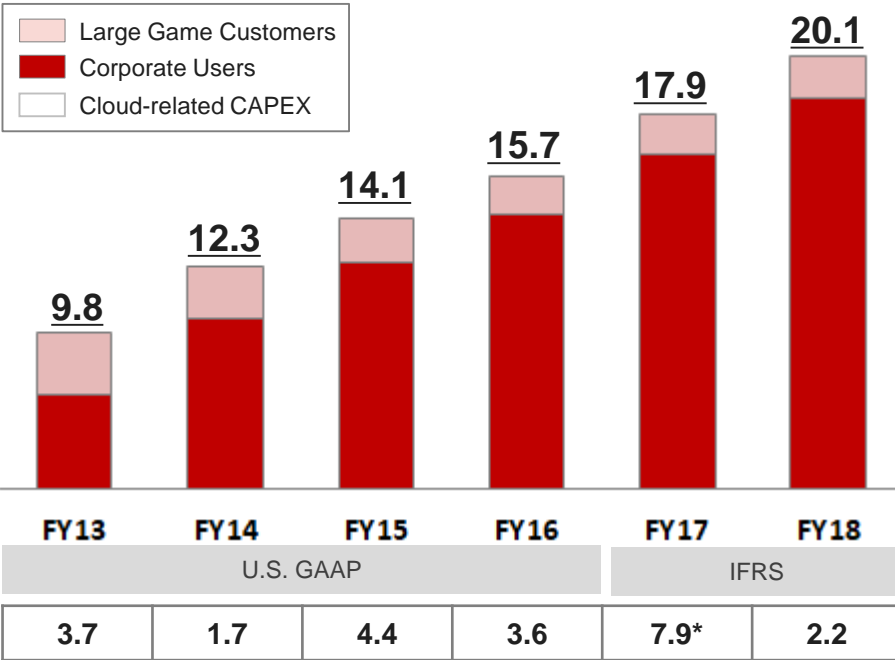


# Cloud Business (3)

Unit: JPY billion

**Growth Strategy**

## IIJ's Cloud Revenue Growth



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

## Business model

### ◆Revenue

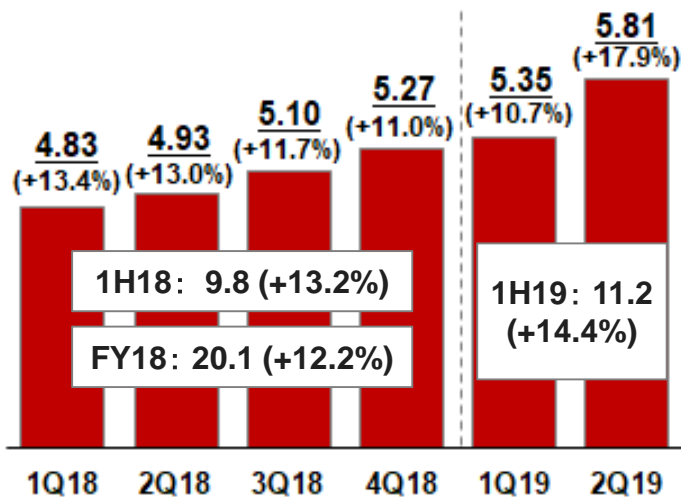
- Enterprise systems life cycle: 4 to 5 years on average
- Along with Japanese enterprises' internal IT systems migration to cloud, types of systems IIJ can deal should expand
- Revenue depends on system volume (i.e. number of cloud servers)
- Revenue to expand along with increase in customers and system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

### ◆Cost

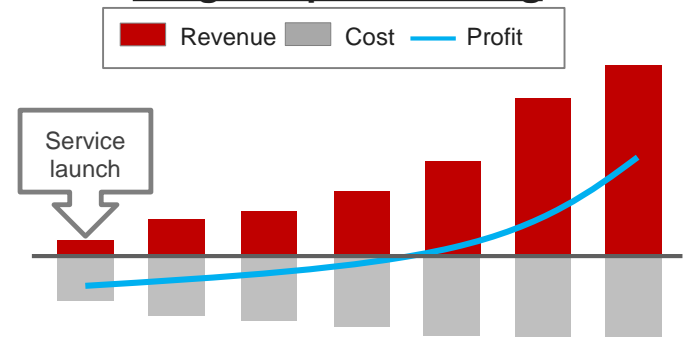
- Leasing fee for data center space, depreciation and amortization cost for services and other network equipment, outsourcing cost and personnel costs

### ◆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

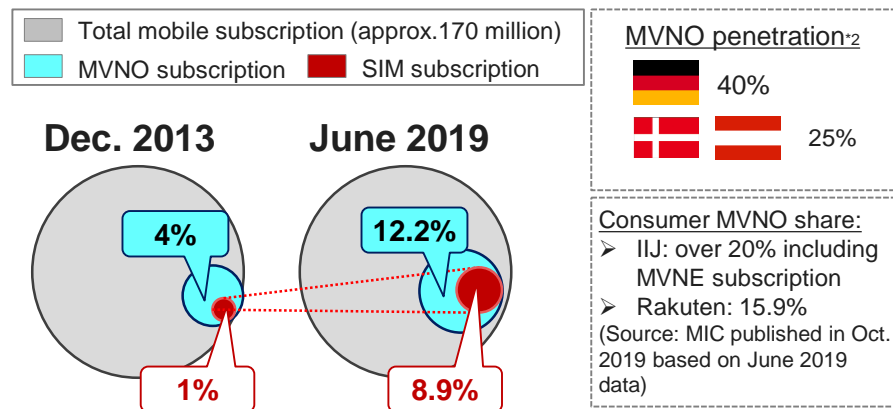


# Mobile Business (1)

Unit for revenue: JPY billion  
Unit for subscription: thousand IFRS

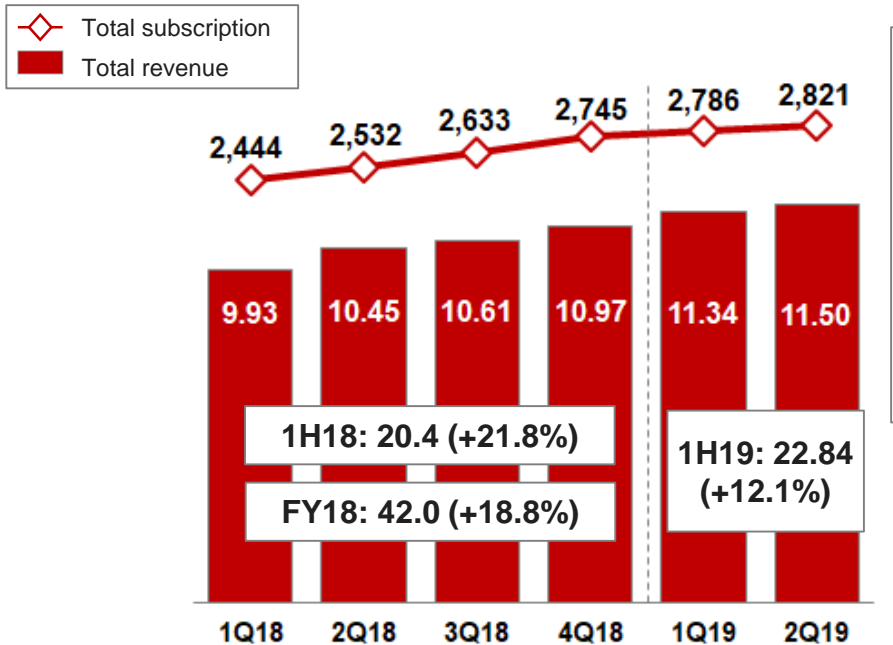
**Growth Strategy**

## MVNO Penetration in Japan\*1

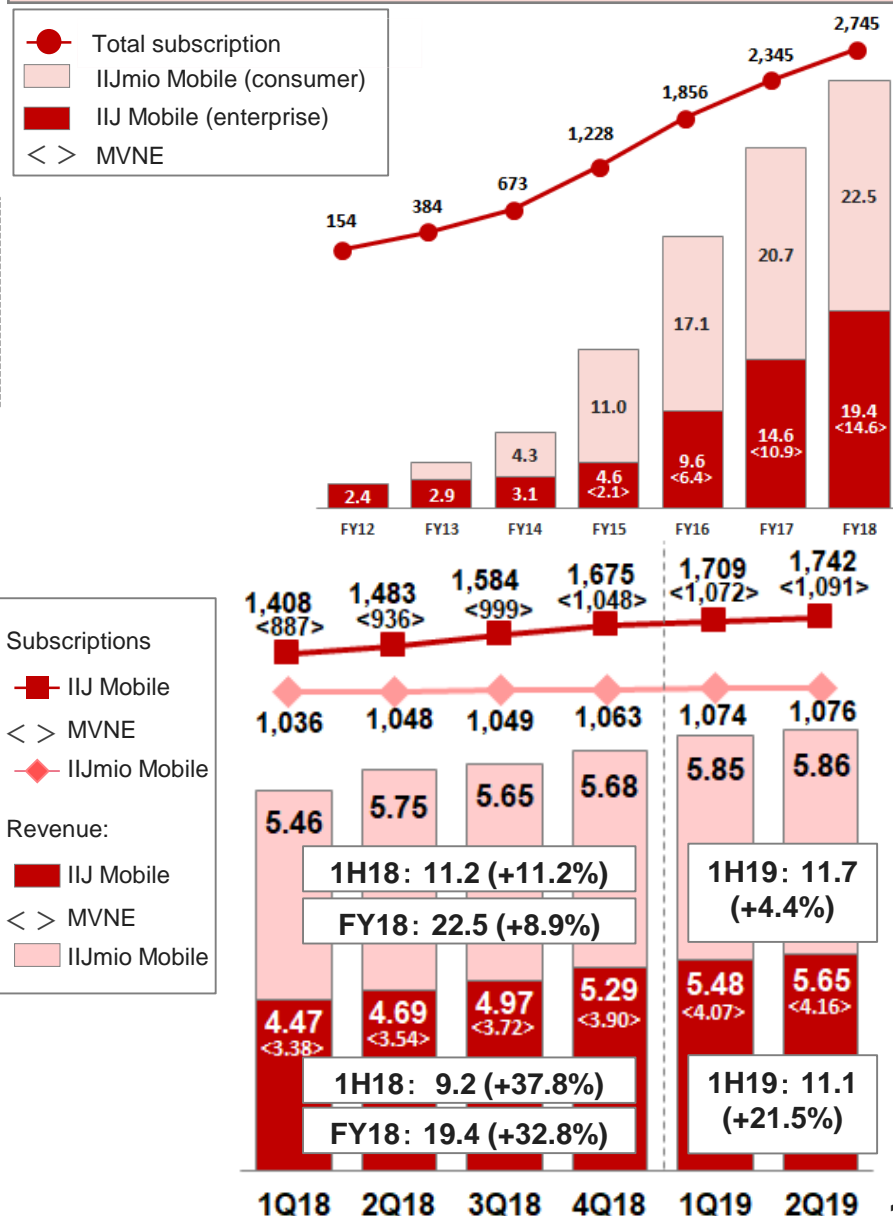


Source :  
\*1 Ministry of Internal Affairs and Communications  
\*2 "Promoting a vibrant mobile market in New Zealand" by Trustpower Limited in Nov, 2015

## IIJ's Subscription & Revenue Quarterly Growth



## IIJ's Subscription & Revenue Growth



## 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

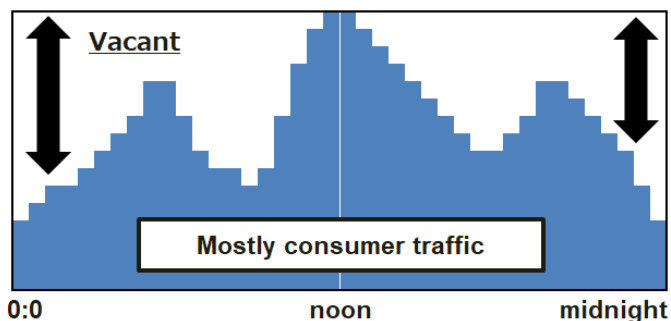
- Consumer & enterprise mobile services are provided from the same mobile infrastructure
- Mainly buying mobile capacity on bandwidth-base from Docomo (some from KDDI)
- In order to provide voice services, we purchase per usage base (no economy of scale merit for voice services)
- Sales commission to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

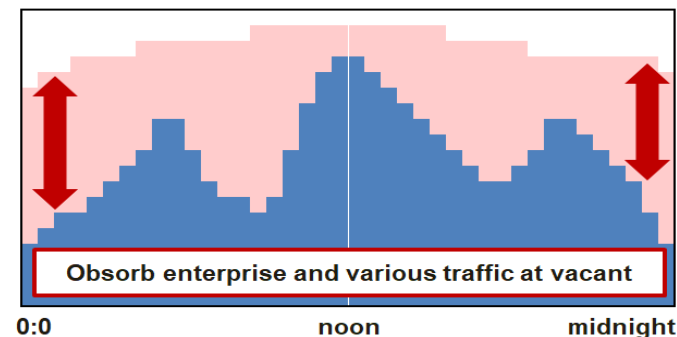
## Image of IIJ's Mobile Infrastructure Utilization

### Current



With more IoT and enterprise traffic....

### Middle to Long term



### ➢ 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.)
- 2Q19-end MVNE clients: 153 (retailers, CATV, EC vendors, Slers, manufacturers etc.)

\*young, old, student, households, business persons etc.



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

### ➤ Full-MVNO service offerings

- **“eSIM” services** for consumers (from July 2019), preparing to launch eSIM services to enterprises
- **“SoftSIM”** (from May 2019), entirely software-based communication module, accumulating case studies
- **“SIM Life Cycle Management”** (from Mar. 2018); able to remotely check and change status of SIMs, suited for IoT usages
- 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

### ➤ Full-MVNO revenue: 1H19 JPY0.73 billion (FY19 target JPY1.7 billion)

### ➤ Fixed cost: approx. JPY0.1 billion per month (from Mar. 2018)

### ➤ Expected total investment: approx. JPY4.5 billion (HSS/HLR systems depreciation & Docomo’s NW remodeling fee)

## Accumulating Enterprise Mobile Solutions

### ➤ 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

- Surveillance & dashboard cameras, digital signage, sensors, ticket vending machine etc.
- 1H19 enterprise IoT/M2M revenues (IIJ Mobile -MVNE):JPY2.9 billion (+29.7% from 1H18)

# Security Business

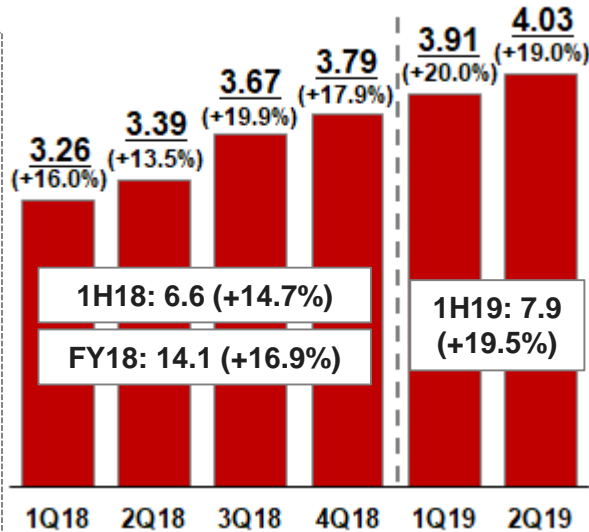
Growth Strategy

## IIJ's Security Services Revenue Growth

Unit: JPY billion  
IFRS

### <About security service revenue>

- Recognized in Outsourcing Services
- Total security revenue (sum of security services & security-related SI) FY17 JPY14.62 billion, FY18 JPY16.77 billion

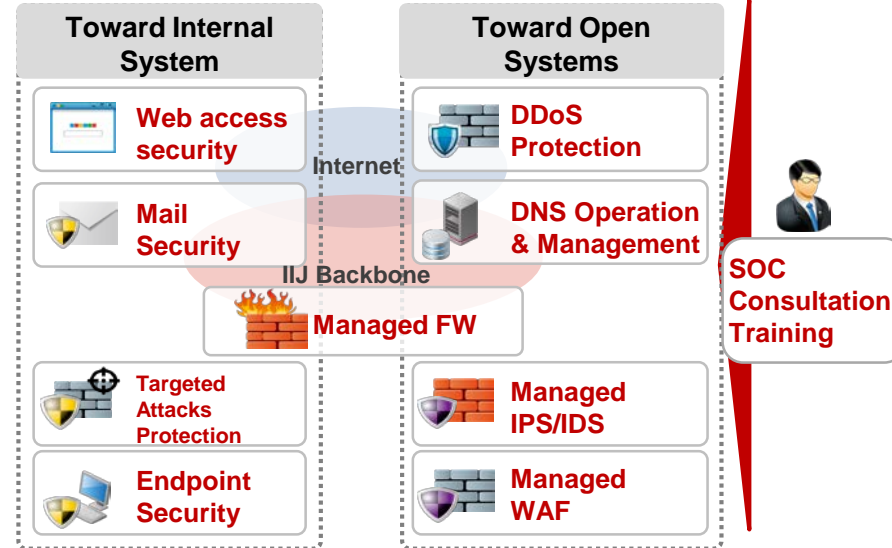


## IIJ's Competitive Advantages

- ◆ **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**

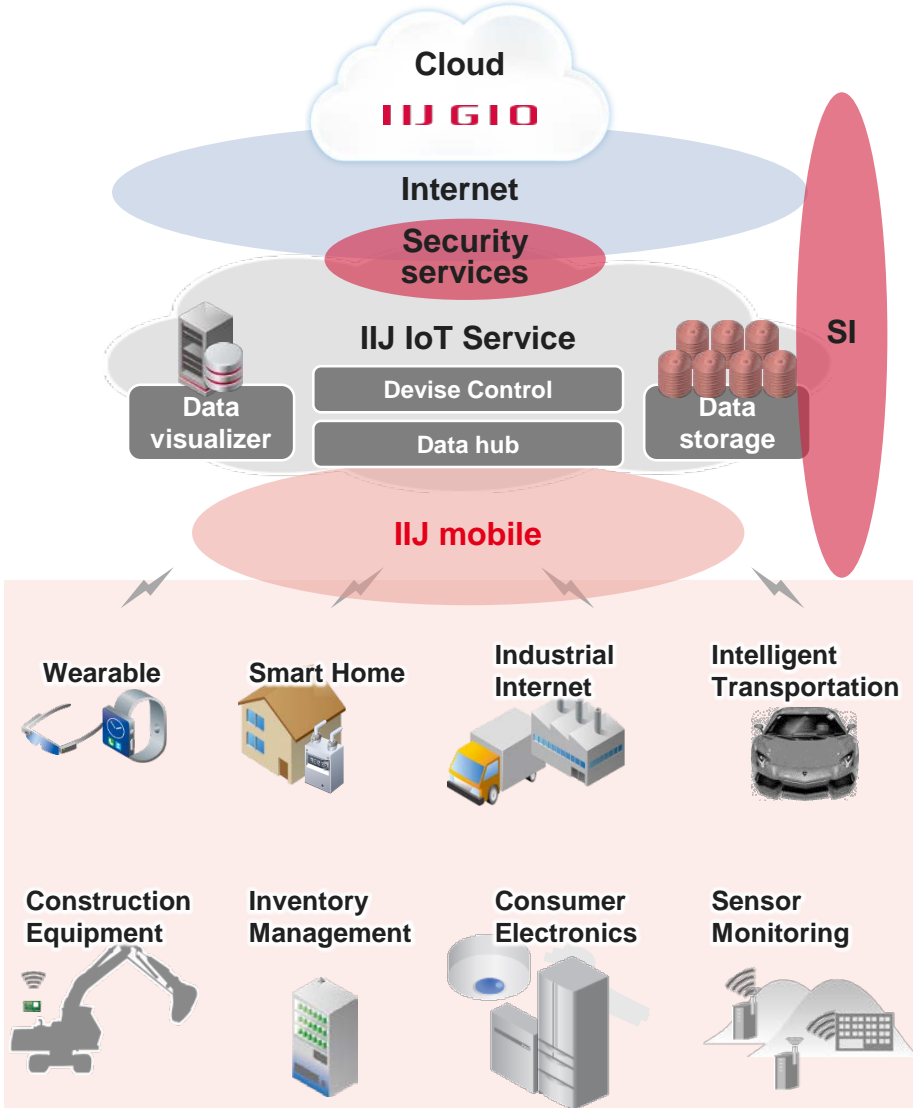
**Mail service: approx. 2.1 million accounts**

**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

## IJJ as IoT platform

IJJ 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"> <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

## Company Profile

Name	DeCurret Inc. (IIJ ownership 30%)
Est.	January 2018
Capital	JPY8.6 billion
Directors	President: Kazuhiro Tokita (from IIJ) Part-time directors: IIJ CEO, IIJ COO, IIJ CFO

- 1<sup>st</sup> & new licensed service provider after the FSA enacted registration process
- Started providing spot trading (Apr.) and leverage trading (Aug.)
- Raised capital (July 2019): enterprise shareholders increased to 30 (including IIJ)

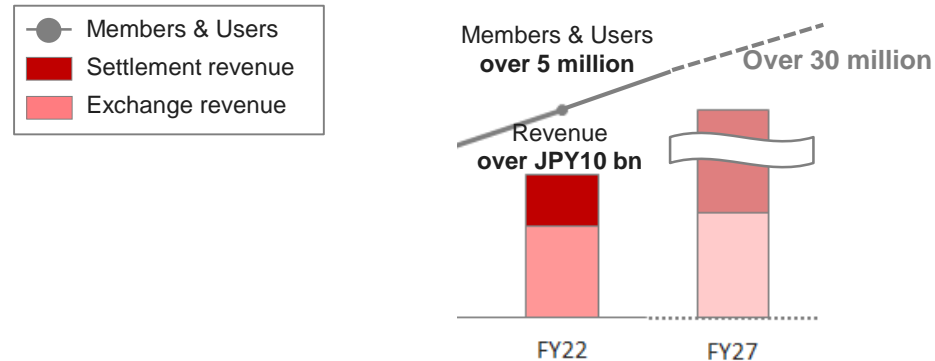
## Business

- **Exchange service (Apr. 2019)**
  - 24 hours 365 days exchange platform to exchange various cryptocurrencies, mainly for consumers
    - ✓ BTC, BCH, LTC, XRP, ETH
    - ✓ 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. (1<sup>st</sup> phase, from 1H19)
  - Plan to handle stablecoins such as MUFG coin
  - Plan to tie-up with JR Suica to adopt electronic money
  - 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

## 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. Equity in net loss of DeCurret: FY18 result: JPY502 million, FY19 plan: JPY0.8 billion  
 <Business> Raptor & cloud to grow, IIJ owns 30% of DeCurret's value

## Shareholders of DeCurret

Internet Initiative Japan Inc.

ITOCHU Corporation

QTnet, Inc.

OPTAGE Inc.

KDDI CORPORATION

KONAMI HOLDINGS CORPORAION

SUMITOMO LIFE INSURANCE COMPANY

Sompo Holdings, Inc.

The Dai-ichi Life Insurance Company, Limited

DAIDO LIFE INSURANCE COMPANY

Daiwa Securities Group Inc.

Tokio Marine & Nichido Fire Insurance Co., Ltd.

Nippon Life Insurance Company

Nomura Holdings, Inc.

East Japan Railway Company

BIC CAMERA INC.

Mitsui Sumitomo Insurance Company, Limited

Sumitomo Mitsui Banking Corporation

Mitsui Fudosan Co., Ltd.

The MUFG Bank

Meiji Yasuda Insurance Company

YAMATO HOLDINGS CO., LTD.

ITOCHU Techno-Solutions Corporation

CHUBU Electric Power Co., LTD.

DENTSU INC.

Hankyu Hanshin Holdings, Inc.

MATSUI SECURITIES CO.,LTD.

Energia Communications, Inc.

SOHGO SECURITY SERVICES CO.,LTD. (ALSOK)

Toppan Printing Co., Ltd.

# CDN (Contents Distribution Network) Business

Growth Strategy

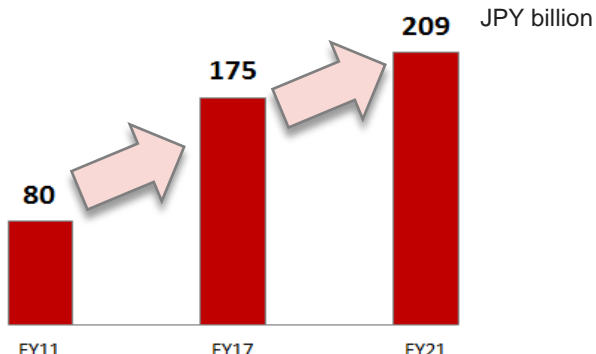
## CDN Market in Japan

- **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**
- **IJ has rich and long experience in CDN business**
  - ✓ Olympics games, high school base ball games, and many more

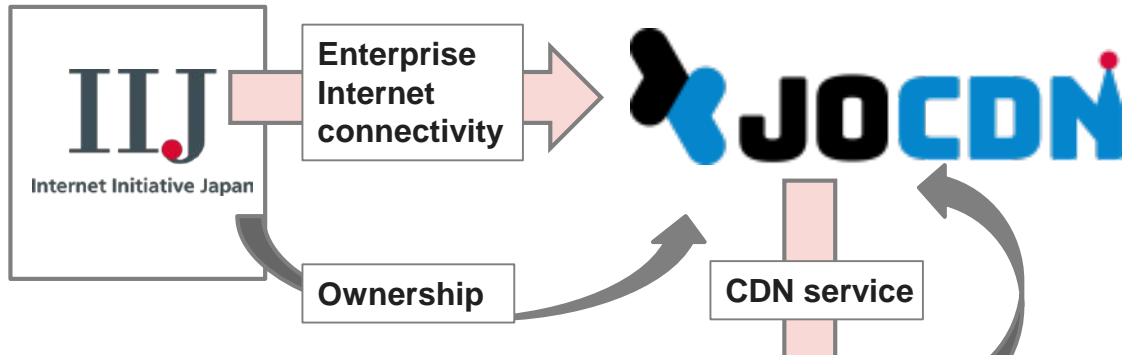
## JV with Japanese Major Broadcasting Companies

<b>Company name</b>	JOCDN Inc. (IJ Ownership 19%)
<b>Capital</b>	JPY710 million
<b>Establishment</b>	December 1, 2016
<b>Shareholders</b>	IJ, Nippon TV, TV asahi, TBS, TV Tokyo, Fuji TV, WOWOW (prominent satellite broadcaster) and 10 more
<b>Management</b>	Chairman: Koichi Suzuki (IJ) 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



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

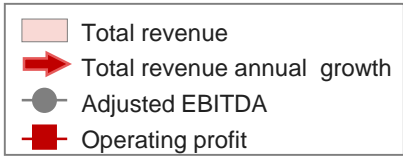


<u>Nippon TV</u>	<u>TBS</u>	
<u>Hulu</u>	<u>TV asahi</u>	<u>TV Tokyo</u>
<u>Fuji Television</u>	<u>WOWOW</u>	<u>TVer</u>
And more		

# Mid-to-Long term Business Growth

Unit: JPY billion

**Growth Strategy**



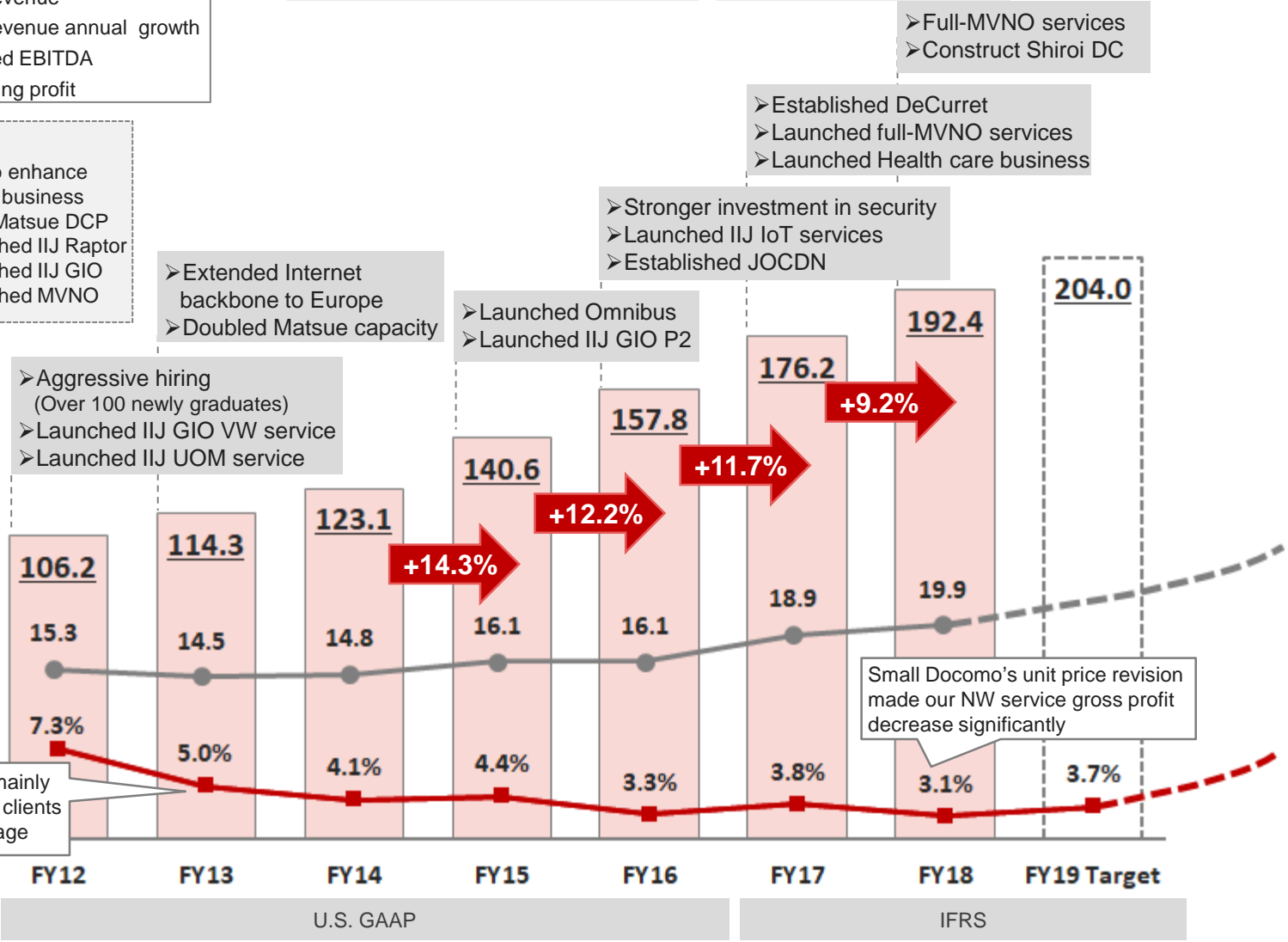
**FY11:**

- Started to enhance overseas business
- Opened Matsue DCP

**FY10:** Launched IIJ Raptor

**FY09:** Launched IIJ GIO

**FY08:** Launched MVNO

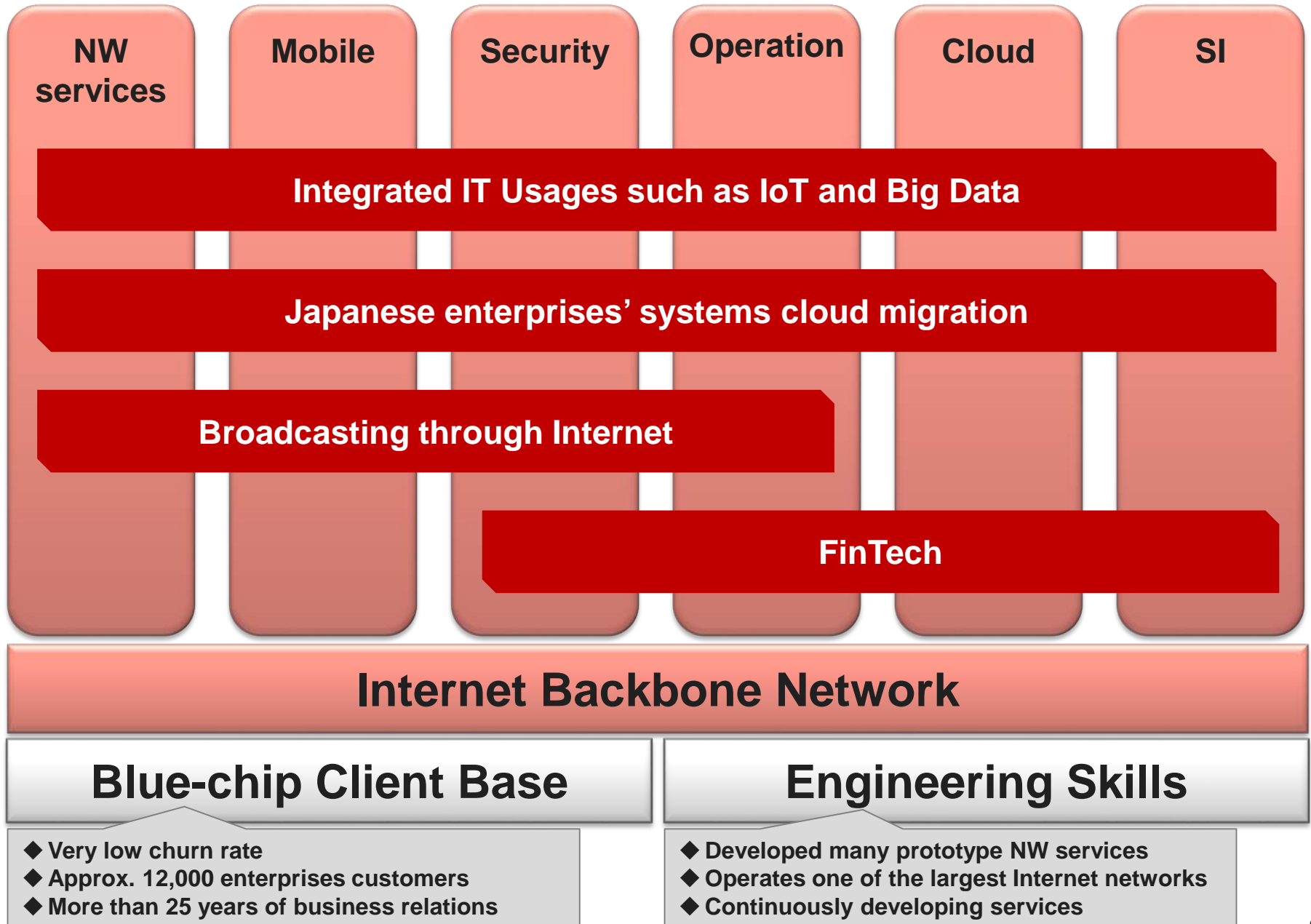


Income decreased mainly due to large gaming clients decreased cloud usage

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

\* Adjusted EBTIDA for FY17 and FY18 are calculated by adding operating profit and CAPEX-related depreciation and amortization, which is calculated by excluding depreciation and amortization of assets that do not have the nature of capital investment. YoY growth rate for FY17 revenue (IFRS) is calculated with FY16 revenue (US GAAP)

# Established Business Elements Ready for Coming IT Future





# Summary of 1H19 Financial Results

IFRS  
% = YoY comparison

Financials

**Steady Strategy Execution of Providing Highly Reliable NW/SI-Cloud Services led to Revenue & Profit increase Exceeded 1H19 Targets, Revised FY19 Targets Upward<sup>(\*)</sup>**

	1H19 Results		1H19 Targets	2Q19 Results		New FY19 Targets		Original FY19 Targets	
Revenues	99.2	+8.8%	97.7	49.4	+6.5%	204.0	+6.0%	204.0	+6.0%
Gross Profit	15.2	+14.6%	14.2	7.8	+13.1%	32.0	+10.4%	31.4	+8.4%
Operating Profit	3.4	+45.7% <sup>(*)2</sup>	2.2	2.0	+37.8% <sup>(*)2</sup>	7.6	+26.2%	7.0	+16.2%
Net Profit <sup>(*)3</sup>	1.8	+23.6% <sup>(*)2</sup>	0.6	1.0	+11.7% <sup>(*)2</sup>	3.8	+7.9%	3.5	-0.6%

## ◆ Enterprise Recurring Revenue<sup>(\*)4</sup> +10.2% Strong Revenue growth continued

- **Security** +19.5% Strong demand: SOC, DDoS Protection, Mail/Web Gateway & Virtual Desktop led the growth
- **Enterprise Mobile<sup>(\*)5</sup>** +29.7% Needs for camera connections such as surveillance continued, Leveraging with SIM life-cycle management function, Accumulating SoftSIM projects, Business alliance with Advantech, a prominent industrial devices manufacture
- **Cloud** +14.4% Continuously focusing on Multi-cloud strategy: Enhancing functions for Unified Operation Management (UOM) services, Increasing connection points via closed connectivity

## ◆ SI Favorable demands continued: Revenue +15.9%, Order Received +4.1%

## ◆ JOCDN Data transferring volume increasing as handing contents increase Started to provide CDN services to NHK

## ◆ DeCurret Transaction volume expanding: Spot trading started from April, Leverage trading and addition of Ethereum from August

(\*)1 Dividend targets remain unchanged (\*)2 The growth rate shows the year over year comparison for the normalized FY2018 operating profit which is calculated by allocating JPY2.05 billion of additional NW service cost recorded in 4Q18 as a result of NTT Docomo's mobile interconnectivity unit charge revision to attributable each quarter of FY2018 (\*)3 Net profit is "Profit for the period/year attributable to owners of the parent" (\*)4 This enterprise recurring revenue shows the sum of Internet connectivity services for enterprises (excluding MVNE), Outsourcing, and Systems operation and maintenance revenues. It does not include WAN revenue (\*)5 Enterprise mobile revenue is calculated by deducting MVNE revenue from IJ Mobile revenue

**Revenue: JPY204 billion +6.0%YoY    Operating Income: JPY7.6 billion +26.2%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 profit 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 profit 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**

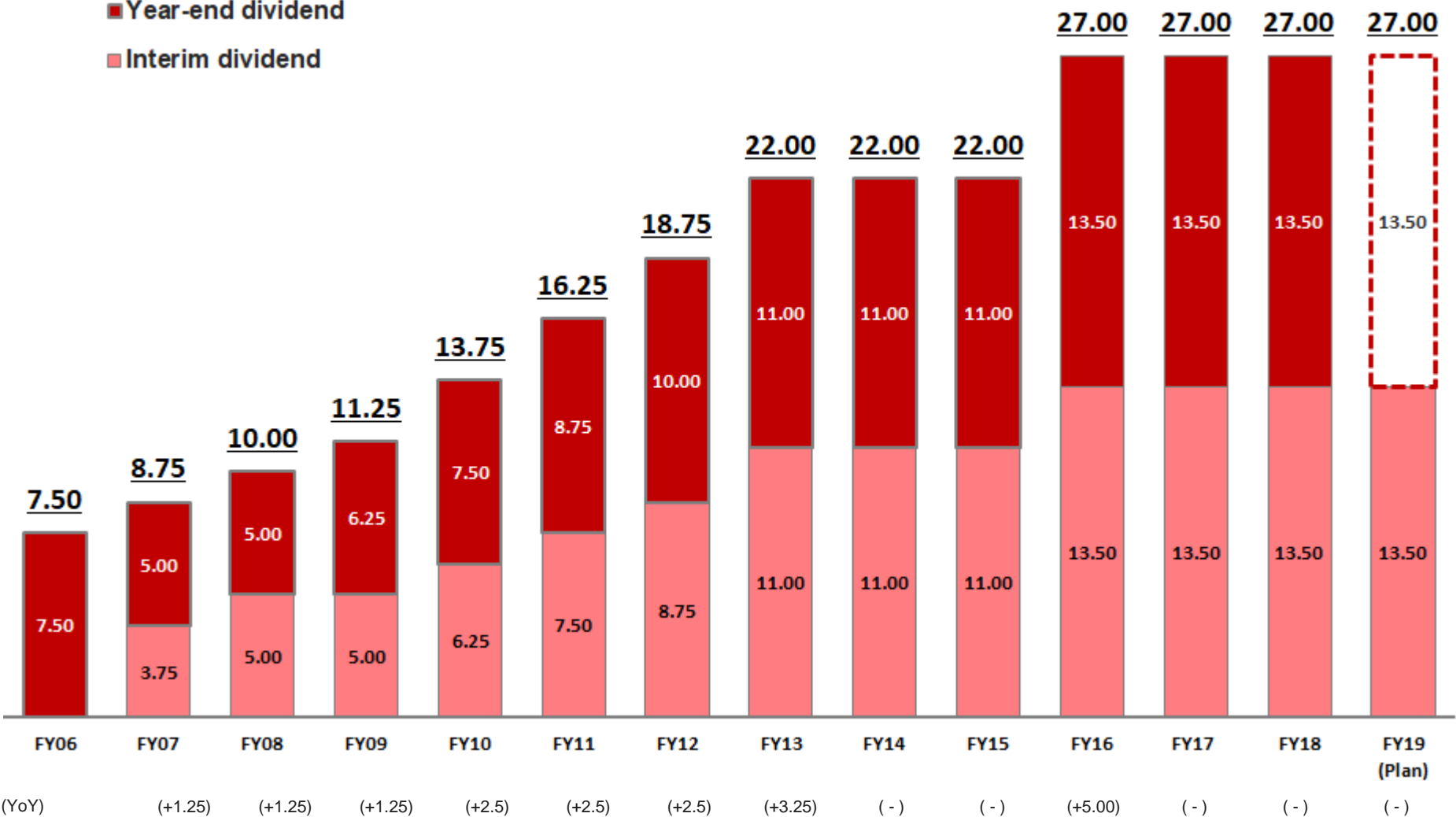
- ◆ **DeCurret** Upgrade exchange service and launch settlement service (1H19)
- ◆ **JOCDN** Complete data migration of the large contents distributor  
Acquire more contents distribution demands by strengthening partnerships

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

# Dividend Forecast

Unit: JPY

■ Year-end dividend  
 ■ Interim dividend

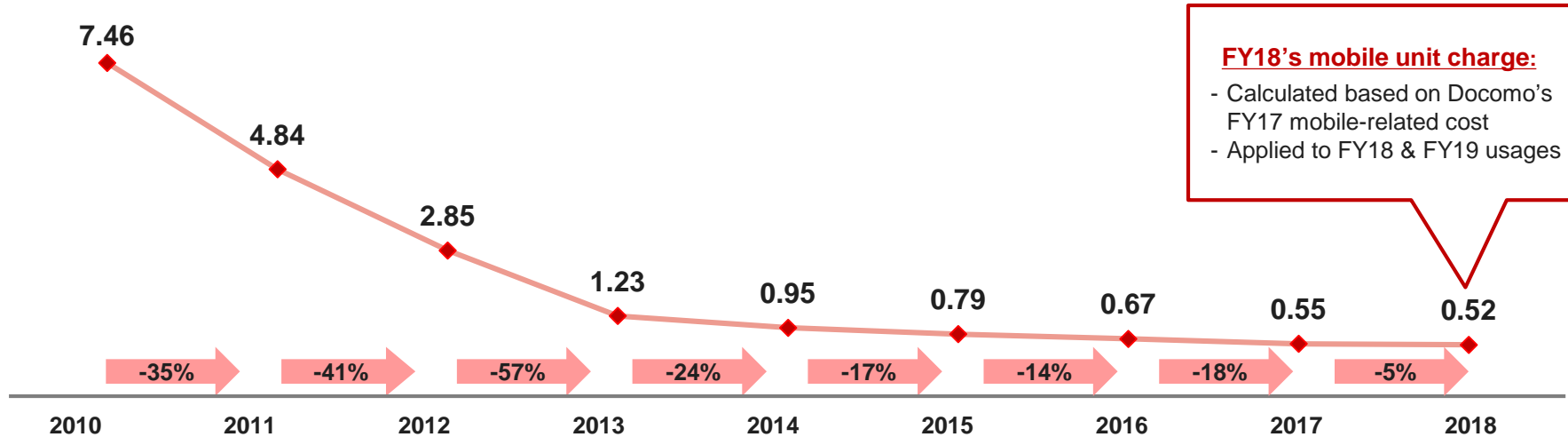


\*IIJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. Dividend figures shown below are retroactively adjusted to reflect the stock split.

# Mobile Unit Charge for MVNO (NTT Docomo)

## NTT Docomo's monthly DCC per 10Mbps

Unit: JPY million



**FY18's mobile unit charge:**  
 - Calculated based on Docomo's FY17 mobile-related cost  
 - Applied to FY18 & FY19 usages

## 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

## IIJ Data Centers

- **Operating 21 data centers in Japan** (as of Mar. 2019)
  - 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

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

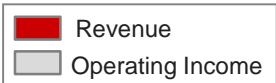
## New Data Center Image



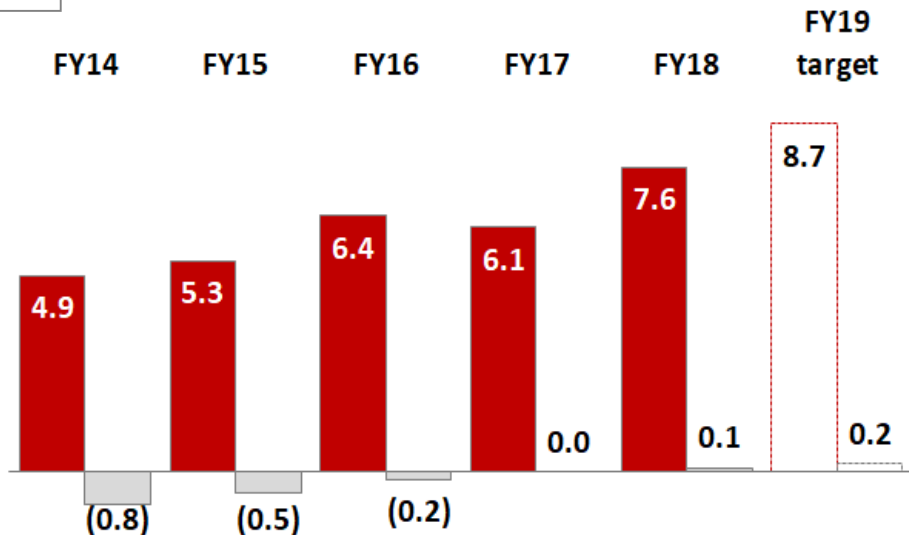
### Impact on IIJ's consolidated financial results

- 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



Unit: JPY billion  
U.S. GAAP base



## Overseas offices



## 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
- **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)

# ATM Operation Business

## Business Model

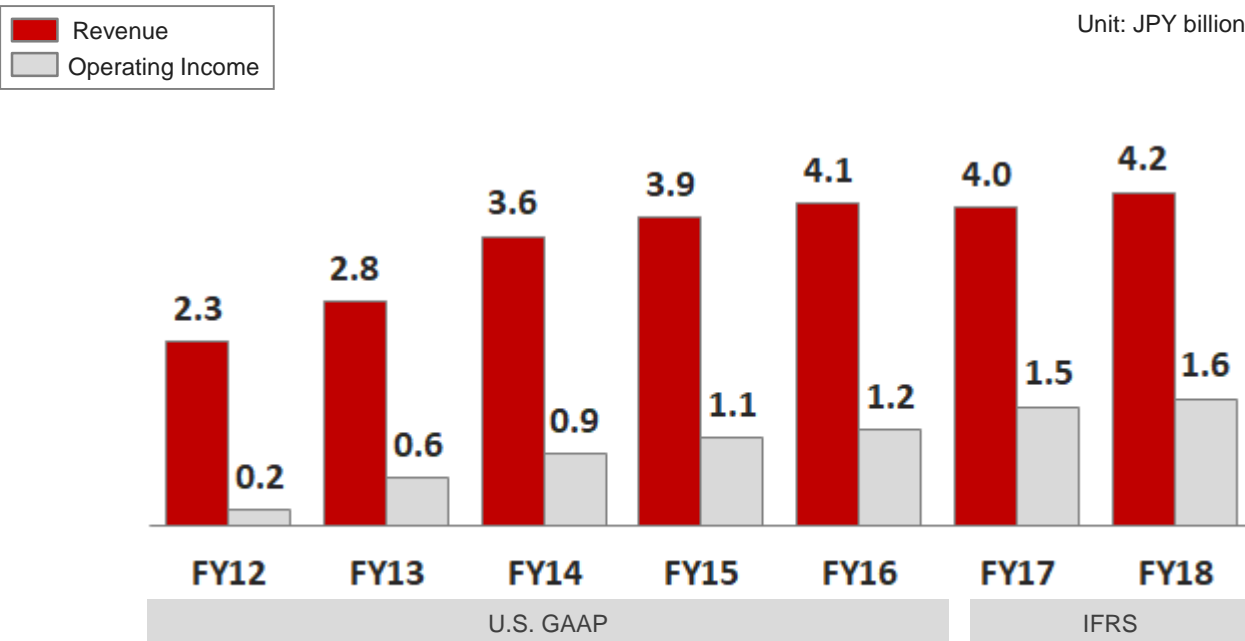
- Similar to “Seven Bank” model
  - Seven Bank: 25,083 ATMs (February-end, 2019)
- Placing ATMs in Pachinko parlors in Japan
  - After long discussion, started to place in Kanto, Kansai, Kyushu and Tokai areas
  - 10,596 Pachinko parlors in Japan as of December 31, 2017 (source: National Police Agency)
- Receive commission for each withdrawal transaction

## Trust Networks Inc.

- In charge of ATM operation business
- IJ's ownership: 80.6%
- Established in 2007



## Revenue and Operating Income



## 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 IIJ directors as group companies outside directors
- Consolidated-based internal audit

## ESG in the nature of IIJ 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



**First 6 months for FY2019  
Consolidated Financials Results  
(IFRS)**

**Announced on November 8, 2019**

# Consolidated Financial Results

Financials

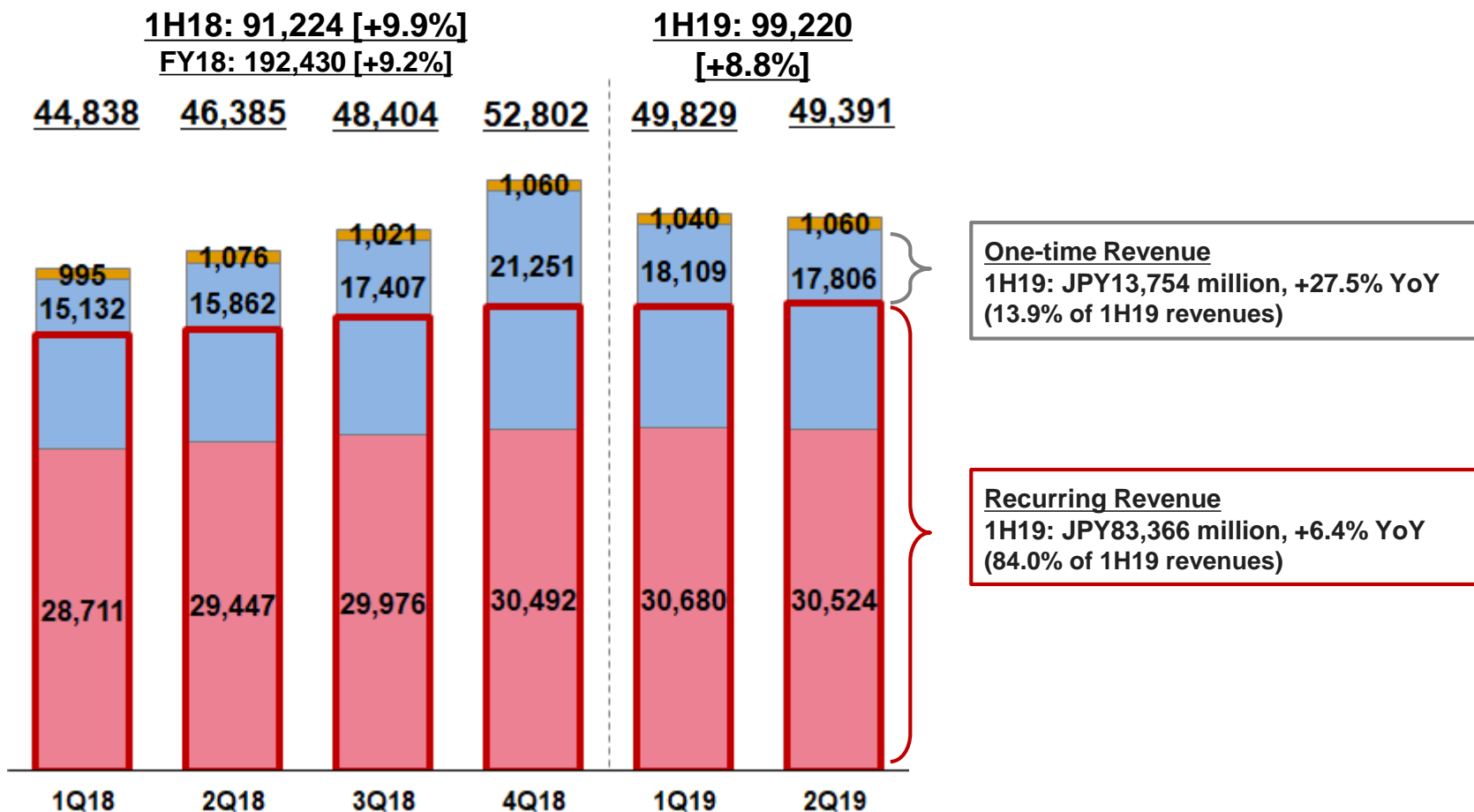
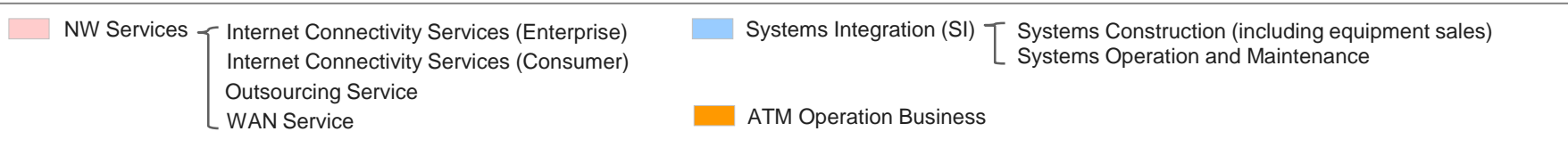
Unit: JPY billion

	% of Revenues		% of Adjusted Revenues [% of Revenues]		Compared to 1H18 Adjusted Results [Compared to 1H18 Results]	% of Revenues	
	1H19 Results Apr. 2019 - Sep. 2019	1H18 Adjusted Results <sup>(*)</sup> [1H18 Results] Apr. 2018 - Sep. 2018				1H19 Targets Apr. 2019 - Sep. 2019	FY19 Targets [New] Apr. 2019 - Mar. 2020
Revenues	99.2	91.2			+8.8%	97.7	204.0
Cost of Sales	84.7% 84.0	85.5% [84.4%] 78.0			+7.8% [+9.1%]	85.5% 83.5	84.3% 172.0
Gross Profit	15.3% 15.2	14.5% [15.6%] 13.3			+14.6% [+6.7%]	14.5% 14.2	15.7% 32.0
SG&A etc. <sup>(*)2)</sup>	11.9% 11.8	12.0% 11.0			+8.1%	12.3% 12.0	12.0% 24.4
Operating Profit	3.4% 3.4	2.5% [3.6%] 2.3			+45.7% [+2.0%]	2.3% 2.2	3.7% 7.6
Profit before tax	3.1% 3.0	2.7% [3.8%] 2.4			+24.5% [-11.3%]	1.5% 1.5	3.3% 6.8
Net Profit <sup>(*)3)</sup>	1.8% 1.8	1.6% [2.3%] 1.4			+23.6% [-16.2%]	0.6% 0.6	1.9% 3.8

(\*1) Adjusted results is calculated by allocating JPY2.05 billion of additional NW service cost recorded in 4Q18 as a result of NTT Docomo's mobile interconnectivity unit charge revision (March 2019) to attributable each quarter of FY2018. For details, please refer to page 5 of this presentation material.

(\*2) SG&A etc. shows the sum of SG&A, which includes R&D expenses, and other income/expenses.

(\*3) Net profit is "Profit for the period/year attributable to owners of the parent."



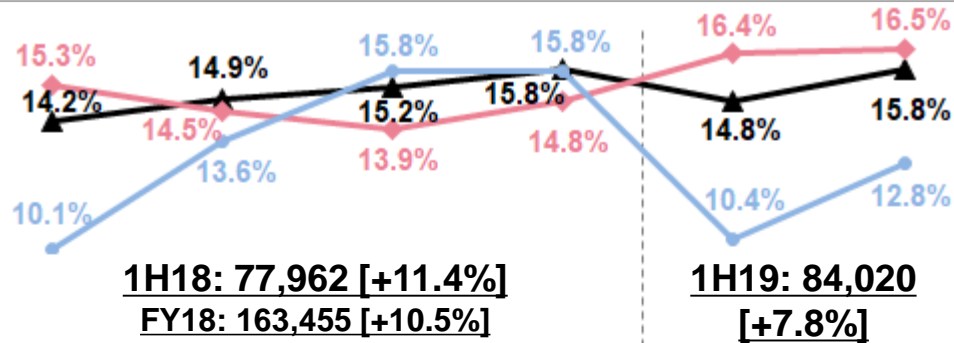
- 1H18 (IFRS) year over year comparison % is calculated by comparing with 1H17 (U.S. GAAP)
- One-time revenue, systems construction revenues which includes equipment sales, is mainly recognized when systems or equipment are delivered and accepted by customers
- Recurring revenue represent the following monthly recurring revenues: Internet Connectivity Services for Enterprise, Internet Connectivity Services for Consumer, Outsourcing Services, WAN Services, and Systems Operation and Maintenance

# Cost of Sales & Gross Profit Ratio

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

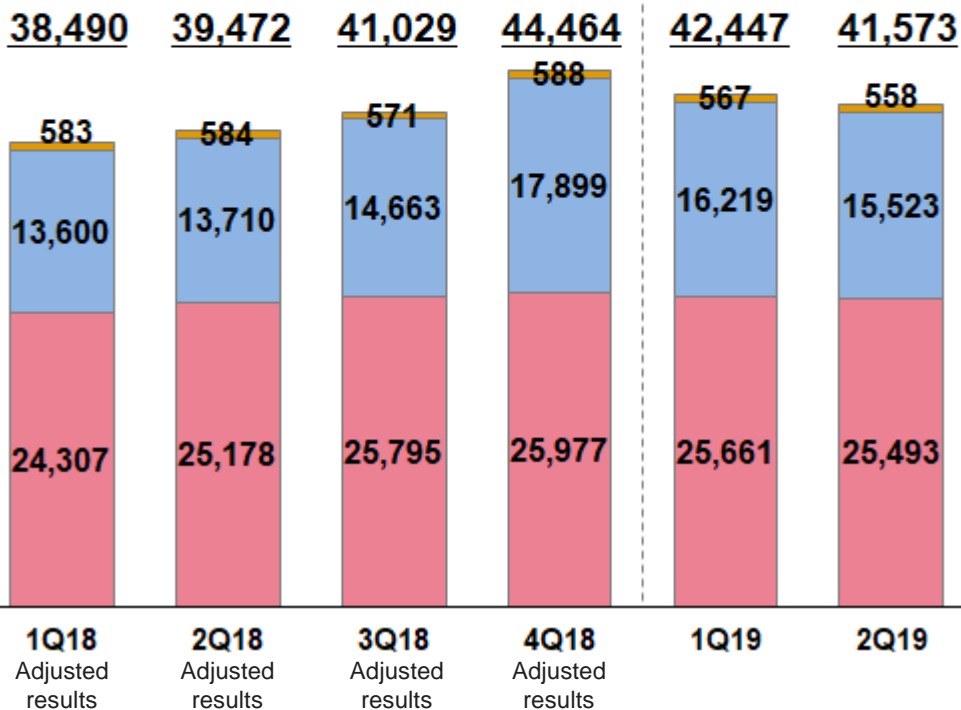
Unit: JPY million

[ ], YoY = Year over year comparison



**1H18: 77,962 [+11.4%]**  
**FY18: 163,455 [+10.5%]**

**1H19: 84,020**  
**[+7.8%]**



## Gross Profit

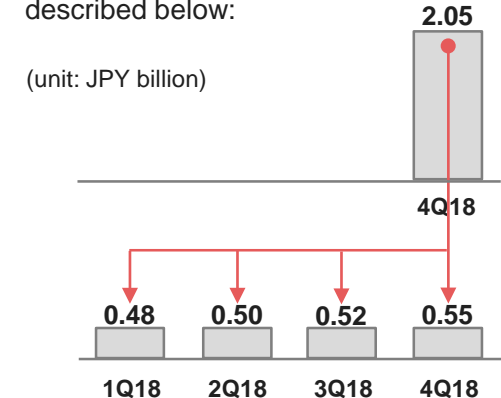
### ◆ Total

- 1H19: JPY15,200 million (+14.6% YoY from 1H18 adjusted results)

### ◆ NW Services

- 1H19: JPY10,051 million (+15.9% YoY from 1H18 adjusted results)

- Allocation of JPY2.05 billion, additional NW service cost recorded in 4Q18 as a result of NTT Docomo's mobile interconnectivity unit charge revision, to attributable each quarter of FY2018 is described below:



- Full-MVNO related fixed cost increased by over JPY0.3 billion per quarter (from Mar. 2018)

### ◆ SI

- 1H19: JPY4,174 million (+13.3% YoY)

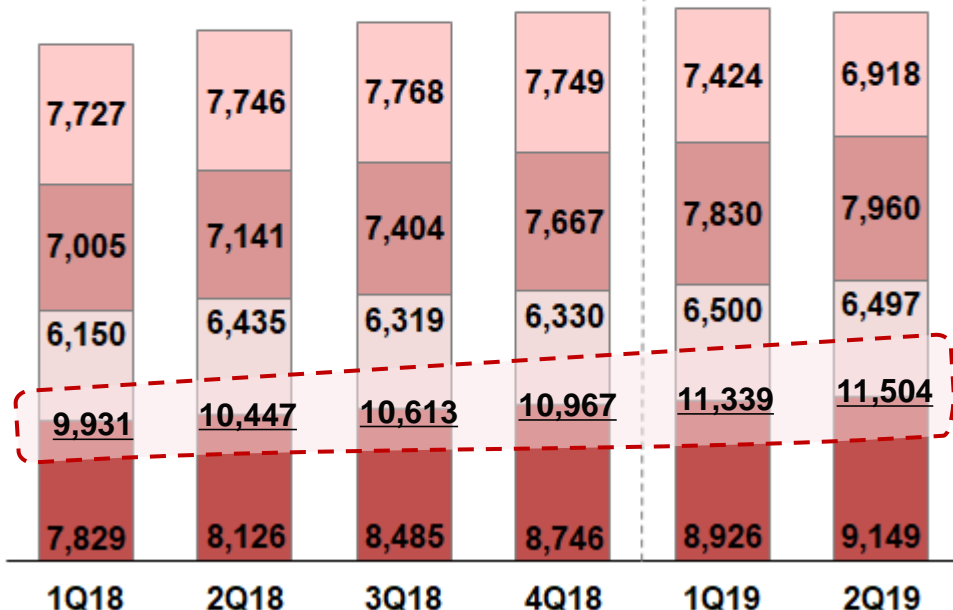
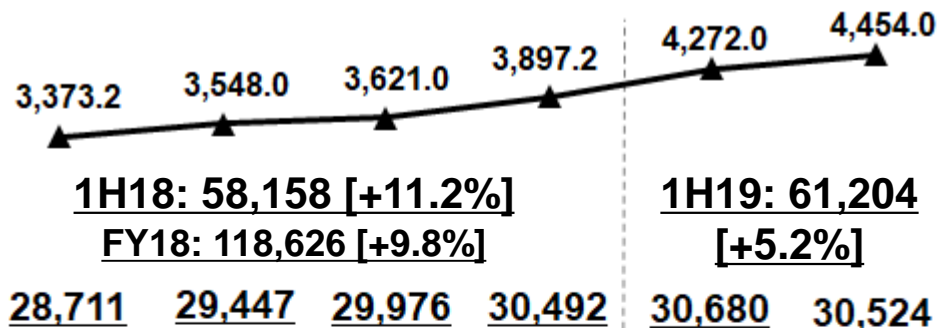
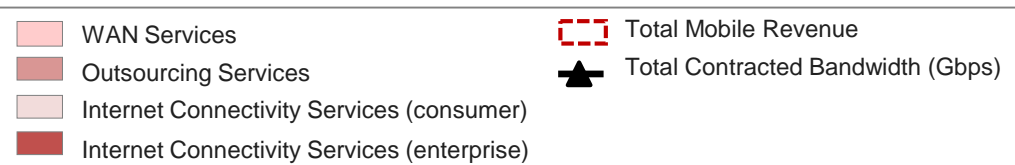
- 1H18 (IFRS) year over year comparison % is calculated by comparing with 1H17 (U.S. GAAP)
- Adjusted results are calculated by allocating JPY2.05 billion of additional NW service cost recorded in 4Q18 as a result of NTT Docomo's mobile interconnectivity unit charge revision to attributable each quarter of FY2018. FY2018 figures disclosed in this presentation material from this page reflect such adjustment
- SI includes equipment sales

# Network Services (1)Revenues

Unit: JPY million

Financials

[ ], YoY = Year over year comparison  
QoQ = 2Q19 compared to 1Q19



## ◆ Internet Connectivity (Enterprise)

- 1H19: +13.3% YoY
- 2Q19: +12.6% YoY, +2.5% QoQ
- Enterprise mobile revenue continued to increase
  - 1H19 IIJ Mobile revenue; +21.5% YoY
    - ✓ Of which, IoT-related (non-MVNE) revenue : +29.7% YoY
    - ✓ Of which, MVNE revenue: +18.9% YoY
    - ✓ 1H19-end MVNE clients: 153 (+8 clients YoY)
- IP services revenue continued to increase
  - 1H19: +1.9% YoY
  - 2Q19: +1.7% YoY, +1.7% QoQ

## ◆ Internet Connectivity (Consumer)

- 1H19: +3.3% YoY,
- 2Q19: +1.0% YoY, -0.0% QoQ

## ◆ Outsourcing Services

- 1H19: +11.6% YoY
- 2Q19: +11.5% YoY, +1.7% QoQ
- Strong demands for Security and Omnibus
  - 1H19 Security revenue: +19.5% YoY
  - 1H19 Omnibus revenue: +50.9% YoY

## ◆ WAN Services

- 1H19: -7.3% YoY
- 2Q19: -10.7% YoY, -6.8% QoQ
- FY19 revenue is expected to decrease by approx. JPY4.0 billion YoY, due to existing large clients' multiple location WAN migrating to mobile. Migration process is slightly behind the schedule. Migration is expected to complete in 3Q.

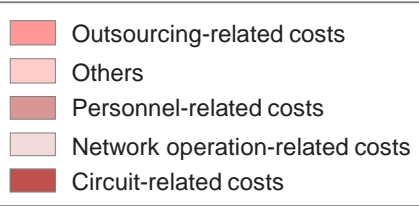
- 1H18 (IFRS) year over year comparison % is calculated by comparing with 1H17 (U.S. GAAP)
- Total contracted bandwidth is calculated by multiplying number of contracts by contracted bandwidths respectively for IP service (including data center connectivity service) and IIJ FiberAccess/F and IIJ DSL/F of Internet connectivity services (Enterprise).

# Network Services (2) Cost of Sales

Unit: JPY million

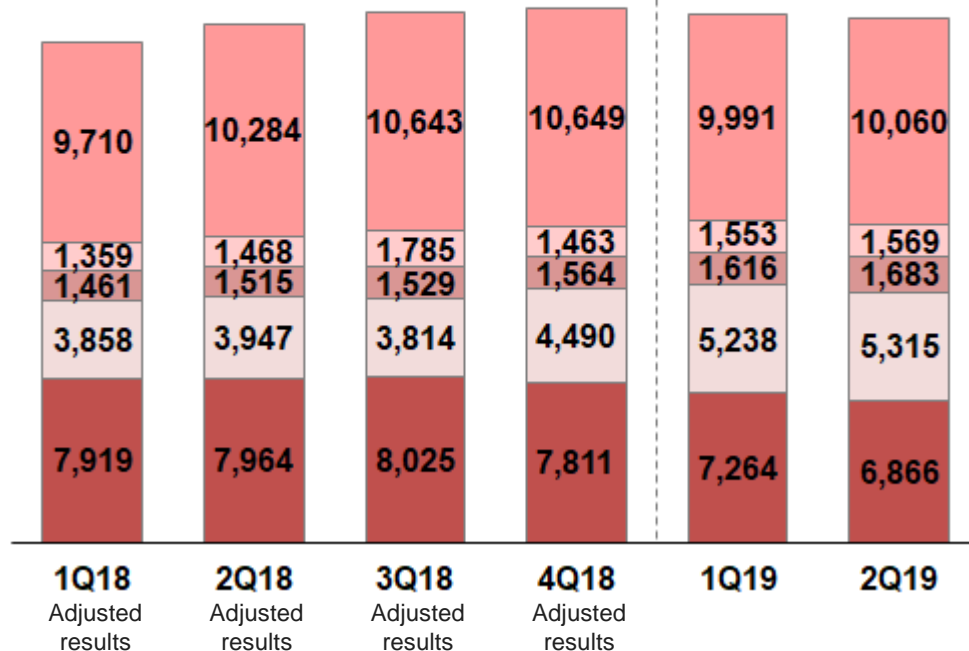
[ ], YoY = Year over year comparison  
QoQ = 2Q19 compared to 1Q19

Financials



**1H18: 49,485 [+15.0%]**  
**FY18: 101,257 [+14.3%]**  
**1H19: 51,153**  
**[+3.4%]**

24,307   25,178   25,795   25,977   25,661   25,493



- Circuit-related costs decreased QoQ along with WAN revenue QoQ decrease
- Along with changes in accounting for operating lease from 1Q19, data center rent costs were reclassified from outsourcing-related costs to network operation-related costs (depreciation of assets)

◆ 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 5.0% YoY. As for FY18, we recorded JPY2.05 billion of additional network services cost as a difference between our estimate (14% decrease) and actual (5.0% decrease)
- Regarding our FY17 & FY16 usage charge, Docomo's mobile interconnectivity telecommunications charge was fixed in Mar. 2018 and it decreased by 18.2% YoY. As for FY17, we recorded JPY0.89 billion of positive cost reduction impact as a difference between our estimate (14% decrease) and actual (18.2% decrease)
- 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 FY18 Docomo cost trends, and apply our own decrease rate to recognize costs quarterly

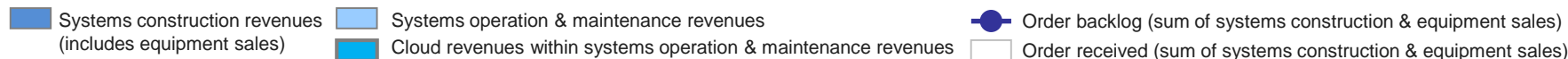
- 1H18 (IFRS) year over year comparison % is calculated by comparing with 1H17 (U.S. GAAP)
- Outsourcing-related costs include interconnectivity charge for mobile infrastructure and customer support center operation costs etc.

# Systems Integration (SI) (1) Revenues

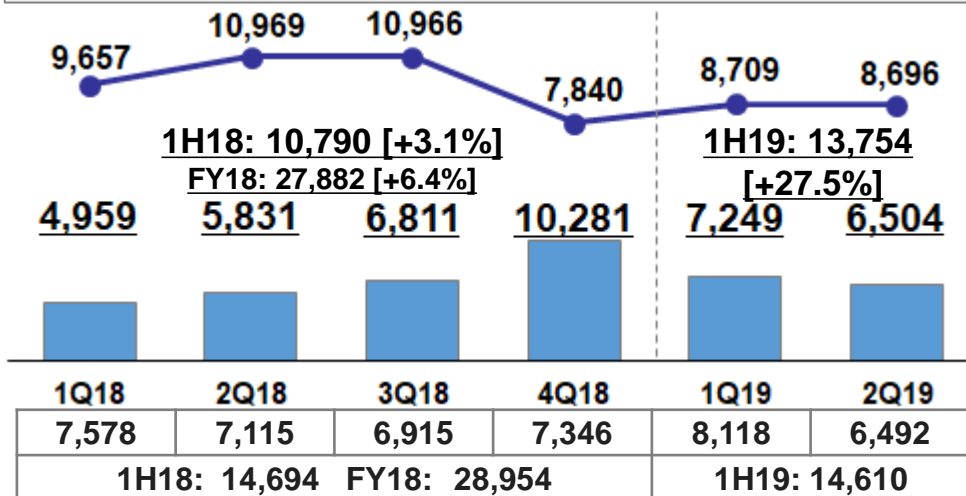
Unit: JPY million

[ ], YoY = Year over year comparison  
QoQ = 2Q19 compared to 1Q19

Financials

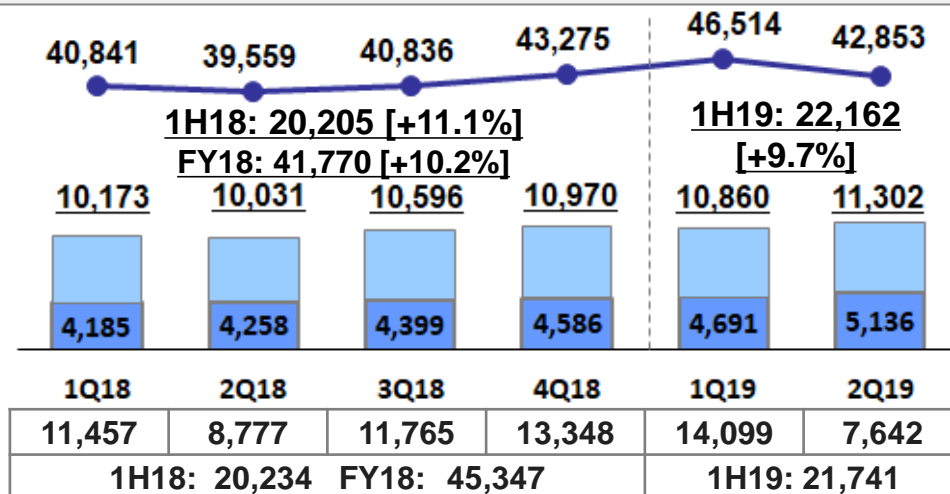


## Systems Construction (one-time revenue)



- 1H19 revenue: +27.5% YoY
  - Revenue growth includes revenue recognition of JPY1.3 billion (mostly recognized in 1Q) based on percentage of completion
- Order-backlog reflects 1H19 revenue recognition based on percentage of completion
  - FY18 had no revenue based on percentage of completion
- Large-scale construction orders received in 2Q19:
  - E-mail system for a major broadcasting company
  - Thin client installment for a major insurance company
  - Office 365 installment for a prominent Sler
  - University's campus network
  - Primary service site for a major online broker etc.

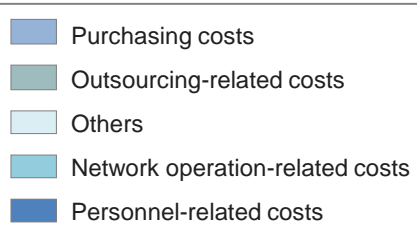
## Systems Operation & Maintenance (recurring revenue)



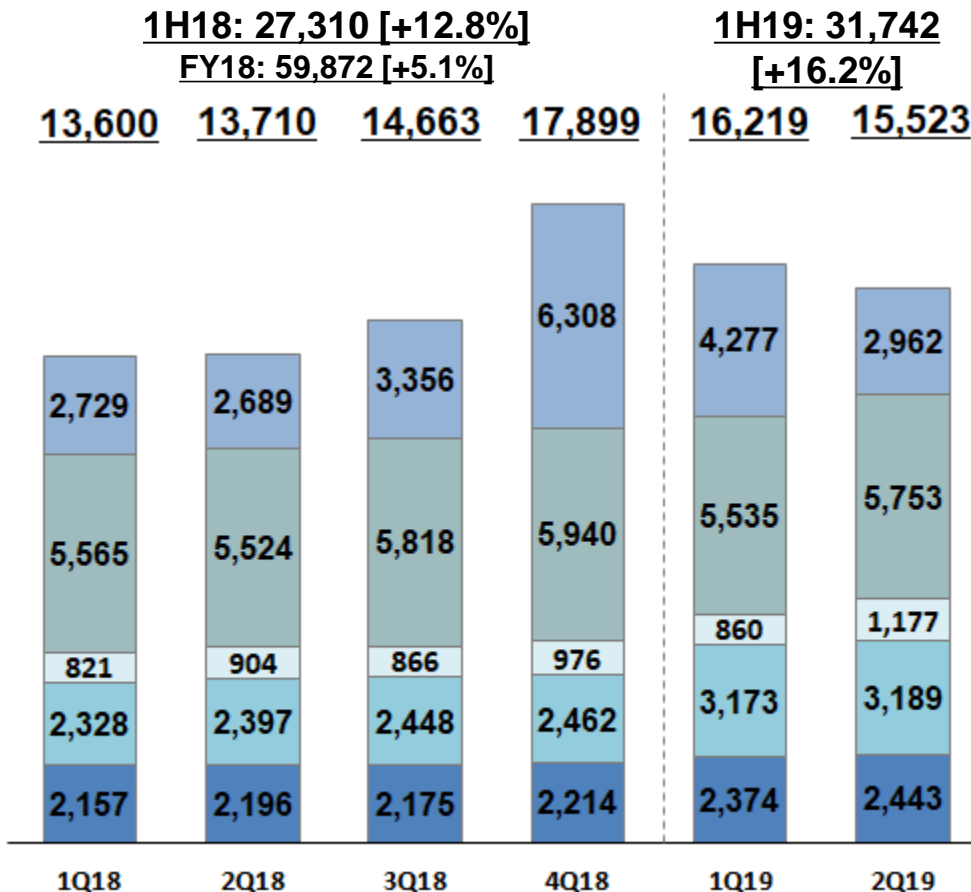
- 1H19 revenue: +9.7% YoY
- Continuous revenue growth mainly due to the accumulation of systems construction which are migrated to systems operation & maintenance phase as well as continuous increase in private cloud revenue
  - 1H19 revenue from private cloud: +16.4% YoY
  - 1H19 revenue from SI construction: +4.9% YoY

• 1H18 (IFRS) year over year comparison % is calculated by comparing with 1H17 (U.S. GAAP)

# Systems Integration (SI) (2) Cost of Sales



Unit: JPY million  
 [ ], YoY = Year over year comparison  
 QoQ = 2Q19 compared to 1Q19

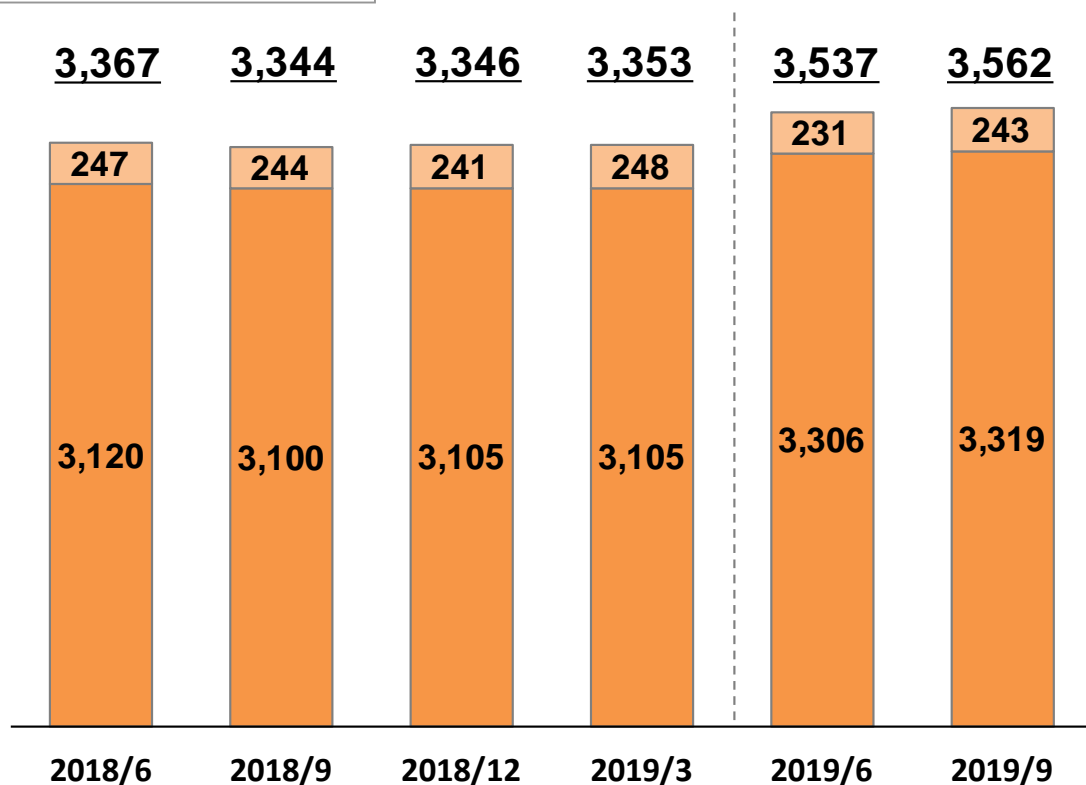
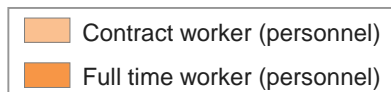


- 1H19-end number of SI-related outsourcing personnel: 1,104 personnel (+11 personnel YoY, +29 personnel QoQ)
- Along with changes in accounting for operating lease from 1Q19, a portion of systems operation and maintenance costs such as outsourcing were reclassified from outsourcing-related costs to network operation-related costs (depreciation of assets)

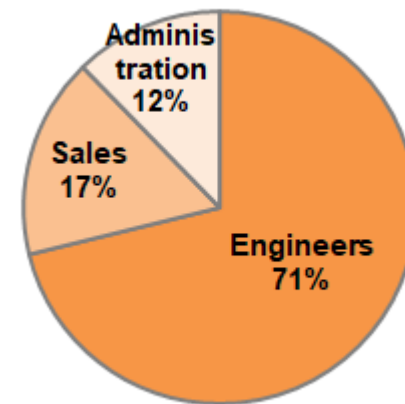
- 1H18 (IFRS) year over year comparison % is calculated by comparing with 1H17 (U.S. GAAP)
- Outsourcing-related costs include SI project-related outsourcing personnel costs



# Number of Employees



## Employee Distribution



- Hired 171 new graduates in Apr. 2019 (175 in Apr. 2018, 148 in Apr. 2017)
- 207 new graduates are planned to join in Apr. 2020
- FY19 net addition of employees is planned to be approx. 230.
- 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

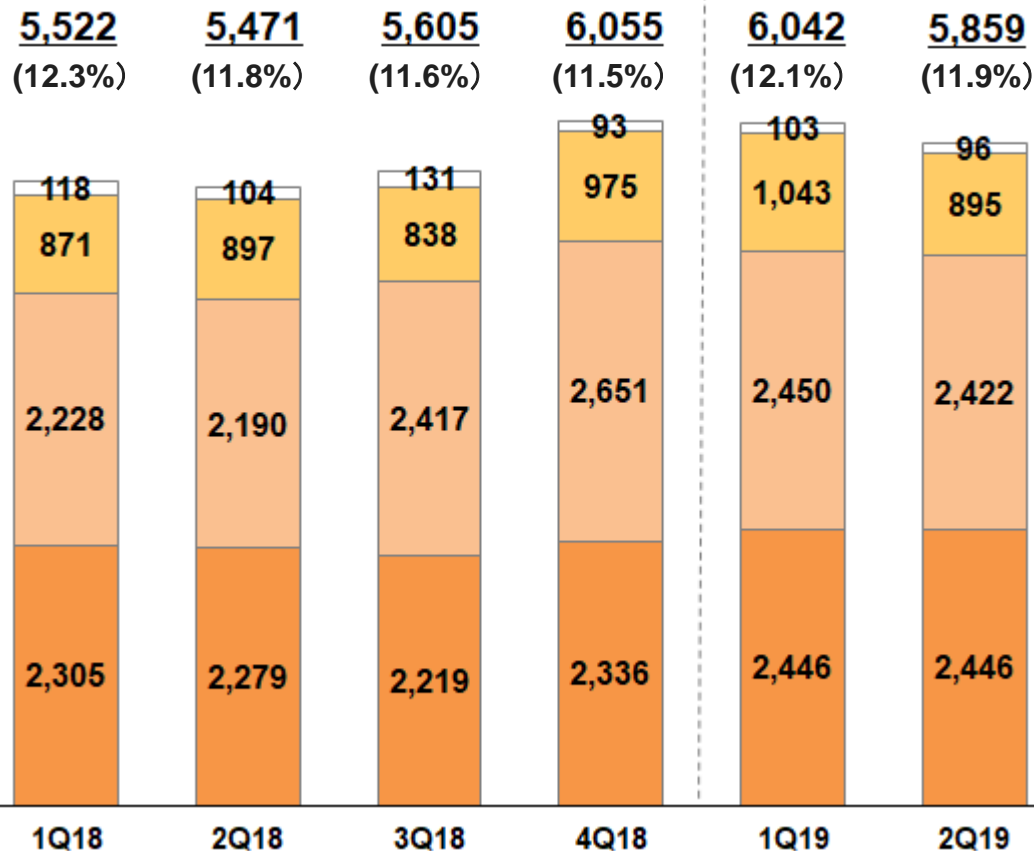
Unit: JPY million  
( ) = % of revenue

1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
5,920 (13.2%)	6,003 (12.9%)	5,920 (12.2%)	6,100 (11.6%)	6,402 (12.8%)	6,573 (13.3%)
1H18: 11,923 (13.1%)				FY18: 23,942 (12.4%)	
1H19: 12,975 (13.1%)					



**1H18: 10,992 [+2.6%]**  
**FY18: 22,652 [+5.5%]**

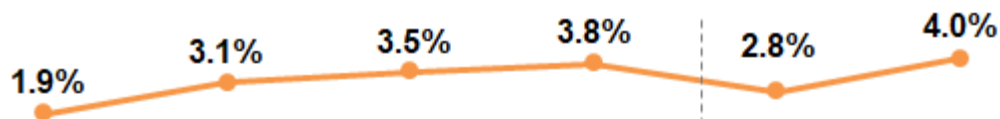
**1H19: 11,901**  
**[+8.3%]**



- 1H19 personnel expenses +JPY309 million YoY
- 1H19 Others +JPY454 million YoY
  - Advertisement expenses etc.

- SG&As etc. in this slide shows the sum of SG&A which includes R&D expenses (not including other income/expenses)
- 1H18 (IFRS) year over year comparison % is calculated by comparing with 1H17 (U.S. GAAP)

■ Operating profit   
 ■ Net Profit (Profit for the period attributable to owners of the parent)   
 —●— Operating profit ratio

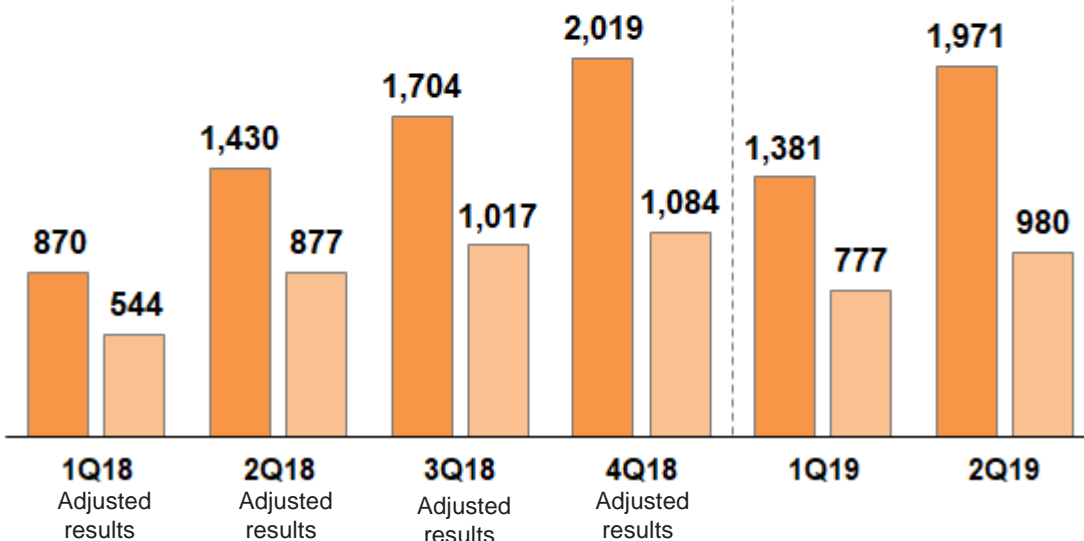


**1H18: Operating profit: 2,300 [-0.7%]**

**1H18: Net profit: 1,420 [-4.5%]**

**1H19: Operating profit: 3,352 [+45.7%]**

**FY18 Net profit: 1,756 [+23.6%]**



### ◆ Profit before tax

- 1H19: JPY3,043 million (+24.5% from 1H18 adjusted results)
  - Dividend income: JPY61 million
  - Interest expense: JPY279 million
  - Share of loss of investments on DeCurret accounted for using equity method: JPY310 million
    - ✓ Gains on changes in equity of JPY376 million arisen from the issuance of common stock of DeCurret

### ◆ Net profit

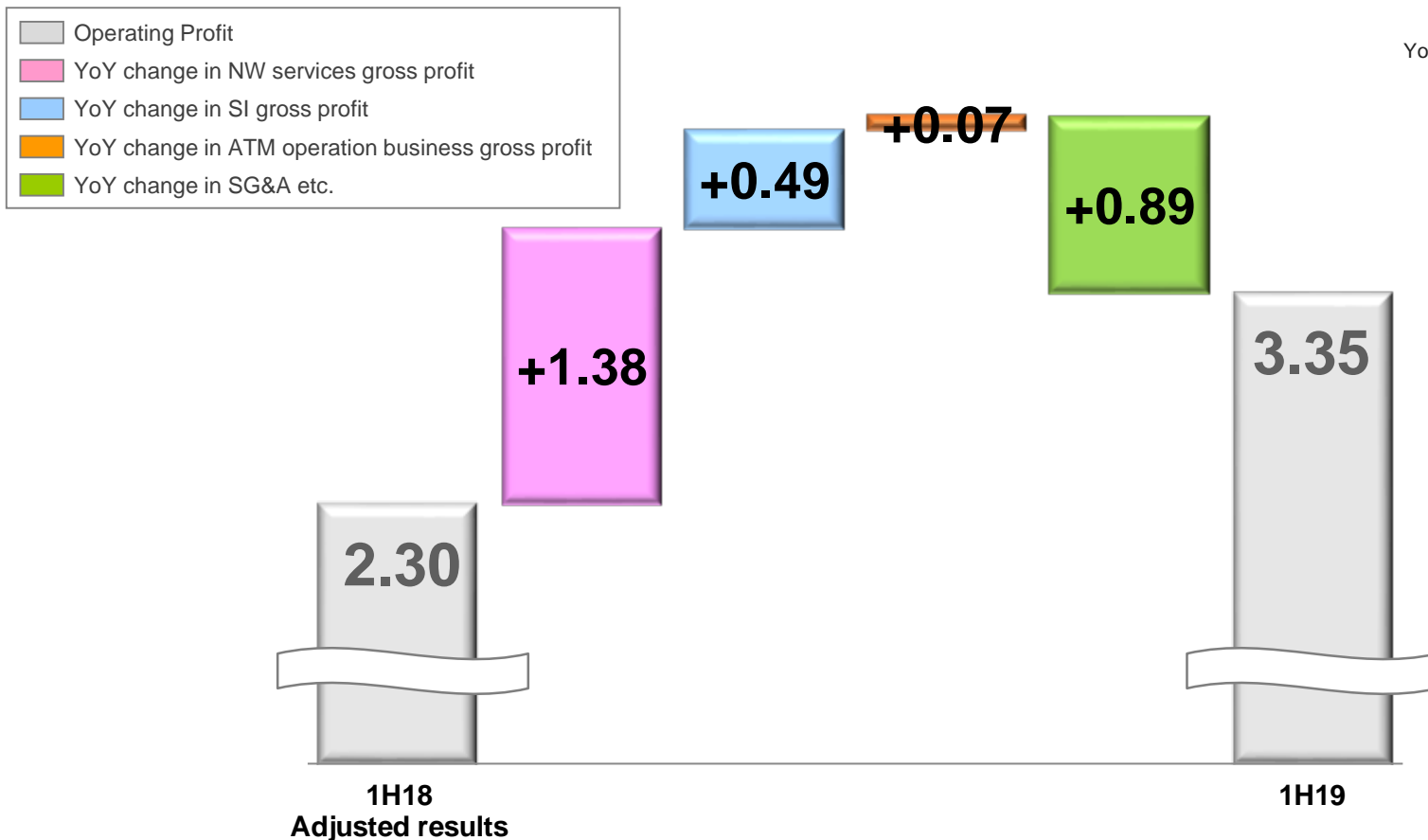
- 1H19: +23.6% from 1H18 adjusted results
  - Profit for the period attributable to non-controlling interests: JPY102 million

103	65	(46)	16	(124)	(51)	Finance income (expense), net
(30)	6	(43)	(252)	112	(245)	Share of profit (loss) of investments accounted for using equity method
(359)	(580)	(553)	(653)	(543)	(642)	Income tax expense (Adjusted results)
(40)	(45)	(45)	(47)	(49)	(53)	Less: Profit for the period attributable to non-controlling interests

• 1H18 (IFRS) year over year comparison % is calculated by comparing with 1H17 (U.S. GAAP)

# Operating Profit Comparison: 1H18 vs. 1H19

Unit: JPY billion  
YoY = Year over year comparison



<b>NW</b>	<ul style="list-style-type: none"> <li>➢ Stronger than expected gross profit growth along with strong revenue growth</li> <li>➢ Full-MVNO revenue accumulation (1H19: JPY0.73 billion) absorbed the added fixed cost (JPY0.3 billion/Q)</li> </ul>	<b>SI</b>	<ul style="list-style-type: none"> <li>➢ Gross profit increased almost as expected with continuing effect from profitability improvement measures started from 1Q18</li> <li>➢ Recognized gross profit of approx. JPY0.1 billion from revenue recognition based on percentage of completion</li> </ul>	<b>SG &amp; A</b>	<ul style="list-style-type: none"> <li>➢ Expenses, including personnel, increased as expected</li> <li>➢ Sales commission expenses increase was insignificant as consumer mobile revenue growth was limited</li> </ul>
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- SG&A etc. shows the sum of SG&A, which includes R&D expenses, and other income/expenses.

# Consolidated Statements of Financial Position (Summary)

Financials

Unit: JPY million

	Mar. 31, 2019	Sep. 30, 2019	Changes	
Cash and cash equivalents	31,958	34,036	+2,079	
Trade receivables	33,376	30,212	-3,164	
Inventories	3,403	2,044	-1,360	
Prepaid expenses (current and non-current)	16,560	18,530	+1,970	
Tangible assets	33,136	19,190	-13,946	Note 1
Right-of-use assets	-	49,769	+49,769	Note 1
Goodwill and intangible assets	24,901	24,416	-485	
Investments accounted for using the equity method	4,838	5,122	+284	
Other investments	11,402	10,019	-1,384	
Others	7,715	8,635	+920	
<b>Total assets:</b>	<b><u>167,289</u></b>	<b><u>201,972</u></b>	<b><u>+34,683</u></b>	
Trade and other payables	21,962	17,046	-4,916	
Borrowings (current and non-current)	26,750	29,030	+2,280	
Deferred income (current and non-current)	10,980	11,414	+434	
Income taxes payable	1,139	1,747	+608	
Retirement benefit liabilities	3,489	3,613	+124	
Other financial liabilities (current and non-current)	19,183	53,956	+34,773	Note 2
Others	6,666	6,152	-514	
<b>Total liabilities:</b>	<b><u>90,170</u></b>	<b><u>122,958</u></b>	<b><u>+32,788</u></b>	
Share capital	25,519	25,531	+12	
Share premium	36,226	36,242	+17	
Retained earnings	12,335	14,993	+2,658	
Other components of equity	4,089	3,248	-840	
Treasury shares	(1,897)	(1,897)	-	Note 3
<b>Total equity attributable to owners of the parent:</b>	<b><u>76,271</u></b>	<b><u>78,117</u></b>	<b><u>+1,846</u></b>	

Note 1: Of which, JPY33,942 million for operating leases (office rent contracts etc.), JPY15,827 million for finance lease (most of which were transferred from tangible and intangible assets)

Note 2: Details of other financial liabilities as of September 30, 2019: JPY34,003 million for operating lease (office rent contracts etc.)

Note 3: Ratio of total equity attributable to owners of the parent: 45.6% as of March 31, 2019 38.7% as of September 30, 2019

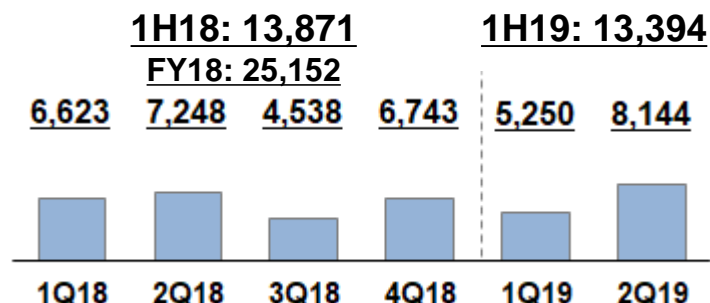
- Along with the adoption of IFRS 16, certain operating lease related assets and liabilities are recognized on Statements of Financial Position

# Consolidated Cash Flows

Unit: JPY million  
YoY = Year over year comparison

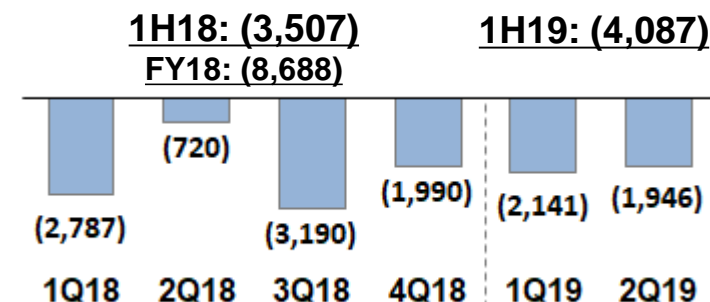
Financials

## Operating Activities



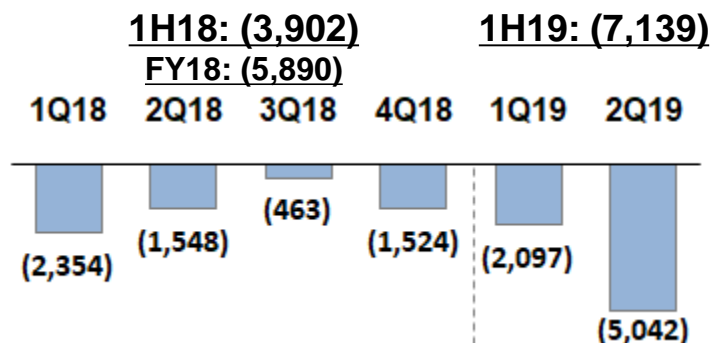
	Major Breakdown	YoY Change
Profit before tax	3,043	-387
Depreciation and amortization	14,300	+6,887
<i>(related to right-of use assets under operating lease contracts)</i>	6,160	+6,160
Changes in operating assets and liabilities	(2,947)	-8,119

## Investing Activities



	Major Breakdown	YoY Change
Purchase of tangible assets	(4,788)	-1,677
Purchase of intangible assets such as software	(2,422)	+88
Proceeds from sales of equity securities	2,673	+2,315

## Financing Activities



	Major Breakdown	YoY Change
Payments of other financial liabilities	(10,230)	-6,728
<i>(related to operating lease)</i>	(6,149)	-6,149
<i>(related to finance lease)</i>	(3,576)	-440
Proceeds from short-term borrowings	3,030	+3,030

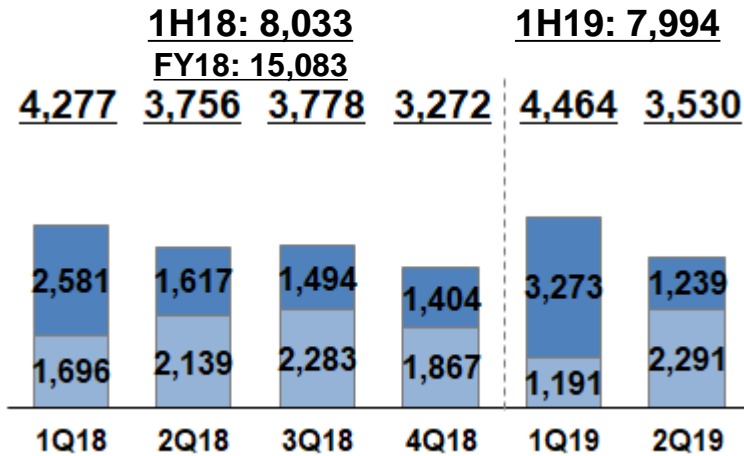
# Other Financial Data

Unit: JPY million  
[ ] = Year over year comparison

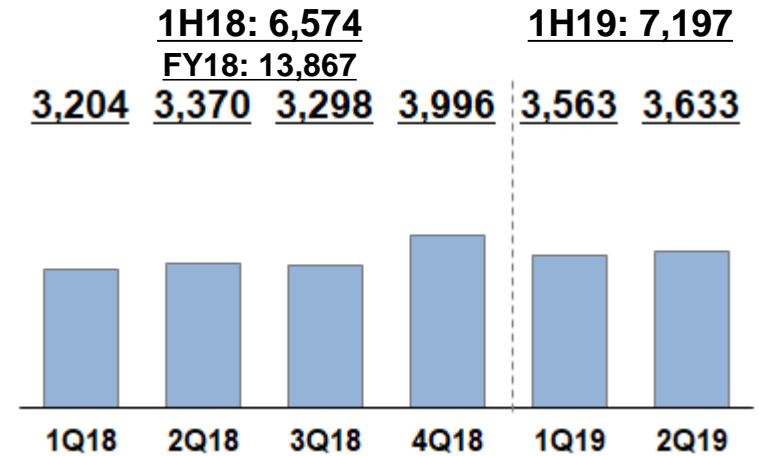
Financials

## CAPEX

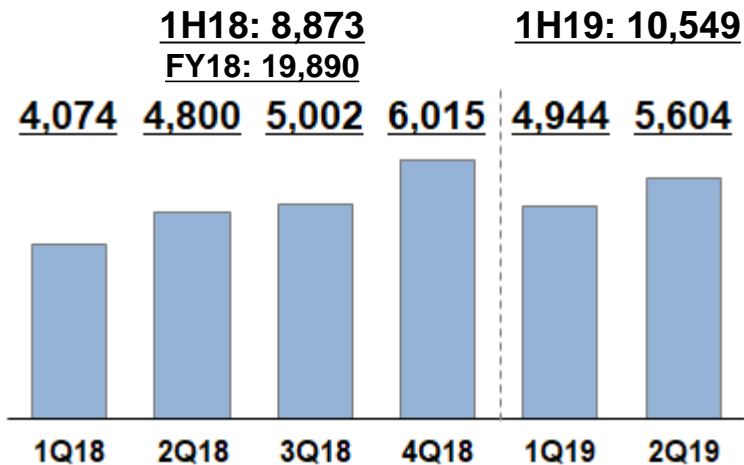
■ Cash CAPEX    ➤ FY19 total CAPEX plan: JPY18 billion  
■ Finance lease



## CAPEX-related depreciation and amortization



## Adjusted EBITDA



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

# KPIs of Services

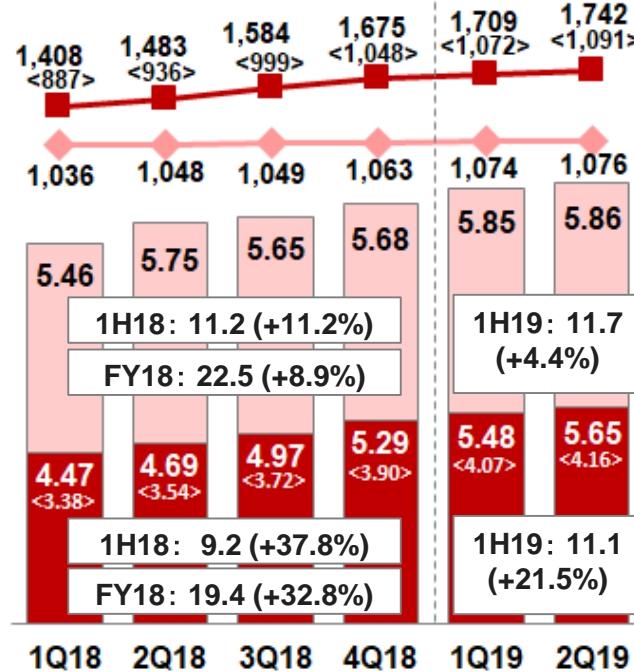
Unit: JPY billion

% = Year over year comparison

Financials

## Mobile revenue & subscription

- 1H19-end total subscriptions: 2,821 thousand (+11.4%)
- 1H19 total revenue: JPY22.84 billion (+12.1%)
  - Of which, full-MVNO: JPY0.73 billion (FY19 target: JPY1.7 billion)
  - Of which, enterprise such as IoT/M2M (IIJ Mobile – MVNE): JPY2.9 billion (+29.7%)



Subscriptions (unit: thousand):

- IIJ Mobile
- < > MVNE
- ◆ IIJmio Mobile

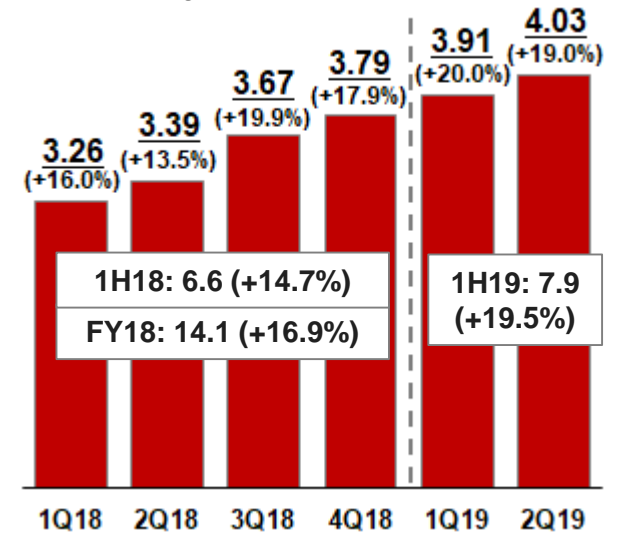
Revenue:

- IIJ Mobile
- < > MVNE
- IIJmio Mobile

IIJ Mobile: enterprise  
IIJmio Mobile: consumer

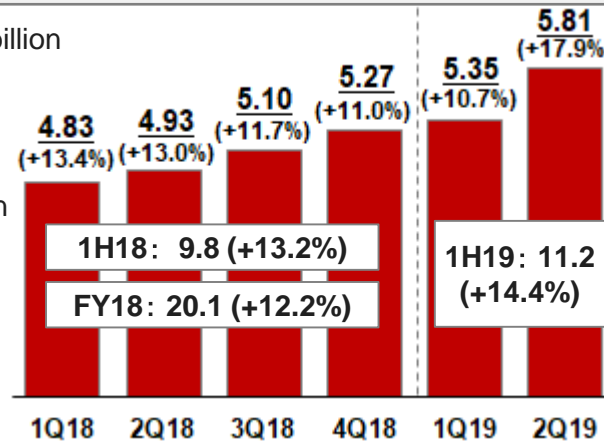
## Security-related revenue

- ◆ SOC, DDoS Protection, Email/Web gateway, virtual desktop services and others grew
- ◆ Security services revenues are recognized in outsourcing services revenue

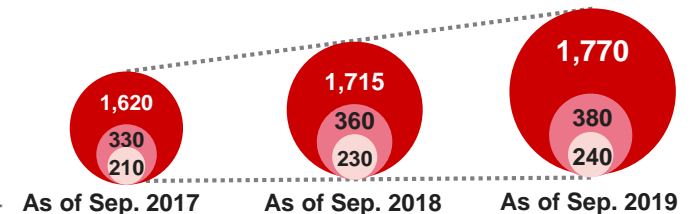


## Cloud-related revenue & Customer Base

- 2Q19 IIJ Raptor revenue: JPY0.88 billion (+JPY0.1 billion from 1Q19)
- 2Q19 revenue recognition:
  - 88.4% SI operation & maintenance,
  - 11.6% outsourcing
- FY19 revenue target: JPY22.5 billion



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





# Financial Targets (revised on November 8)

	<small>% of Revenues</small>	<small>% of Revenues</small>	YoY	<small>% of Revenues</small>	<small>% of Revenues</small>
	<b>New FY19 Target</b> <small>Apr. 2019 - Mar. 2020</small>	<b>FY18 Results</b> <small>Apr. 2018 - Mar. 2019</small>		<b>Old FY19 Targets</b> <small>Apr. 2019 - Mar. 2020</small>	<b>1H19 Results</b> <small>Apr. 2018 - Sep. 2019</small>
<b>Revenues</b>	<b>204.0</b>	<b>192.4</b>	<b>+6.0%</b>	<b>204.0</b>	<b>99.2</b>
<b>Cost of Sales</b>	<small>84.3%</small> <b>172.0</b>	<small>84.9%</small> <b>163.5</b>	<b>+5.2%</b>	<small>84.6%</small> <b>172.6</b>	<small>84.7%</small> <b>84.0</b>
<b>Gross Profit</b>	<small>15.7%</small> <b>32.0</b>	<small>15.1%</small> <b>29.0</b>	<b>+10.4%</b>	<small>15.4%</small> <b>31.4</b>	<small>15.3%</small> <b>15.2</b>
<b>SG&amp;A etc. <sup>(*)</sup></b>	<small>12.0%</small> <b>24.4</b>	<small>11.9%</small> <b>23.0</b>	<b>+6.3%</b>	<small>12.0%</small> <b>24.4</b>	<small>11.9%</small> <b>11.8</b>
<b>Operating Profit</b>	<small>3.7%</small> <b>7.6</b>	<small>3.1%</small> <b>6.0</b>	<b>+26.2%</b>	<small>3.4%</small> <b>7.0</b>	<small>3.4%</small> <b>3.4</b>
Shares of profit (loss) of investments accounted for using equity method investees	<b>(0.5)</b>	<b>(0.3)</b>	-	<b>(0.6)</b>	<b>(0.1)</b>
<b>Profit before tax</b>	<small>3.3%</small> <b>6.8</b>	<small>3.0%</small> <b>5.8</b>	<b>+16.4%</b>	<small>3.1%</small> <b>6.3</b>	<small>3.1%</small> <b>3.0</b>
<b>Net Profit <sup>(*)</sup></b>	<small>1.9%</small> <b>3.8</b>	<small>1.8%</small> <b>3.5</b>	<b>+7.9%</b>	<small>1.7%</small> <b>3.5</b>	<small>1.8%</small> <b>1.8</b>

**Revenues:** Revenue targets remain unchanged as stronger than planned 1H19 revenue includes SI revenue recognition based on percentage of completion

**Operating Profit:** Expect the profit to grow following 1H19 trends, yet consider uncertainty about how much Docomo's interconnectivity charge, flat-rate per Mbps and expected to fixed at the end of 4Q, for our MVNO network to decrease from the last year

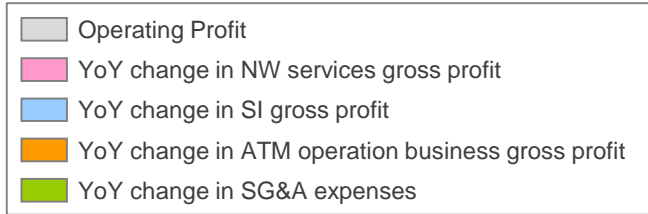
**Equity method:** Expect DeCurret-related loss to be around JPY0.8 billion, Others: same as FY18

**Dividend per share:** Remain unchanged Interim: JPY13.50, Annual: JPY27.00

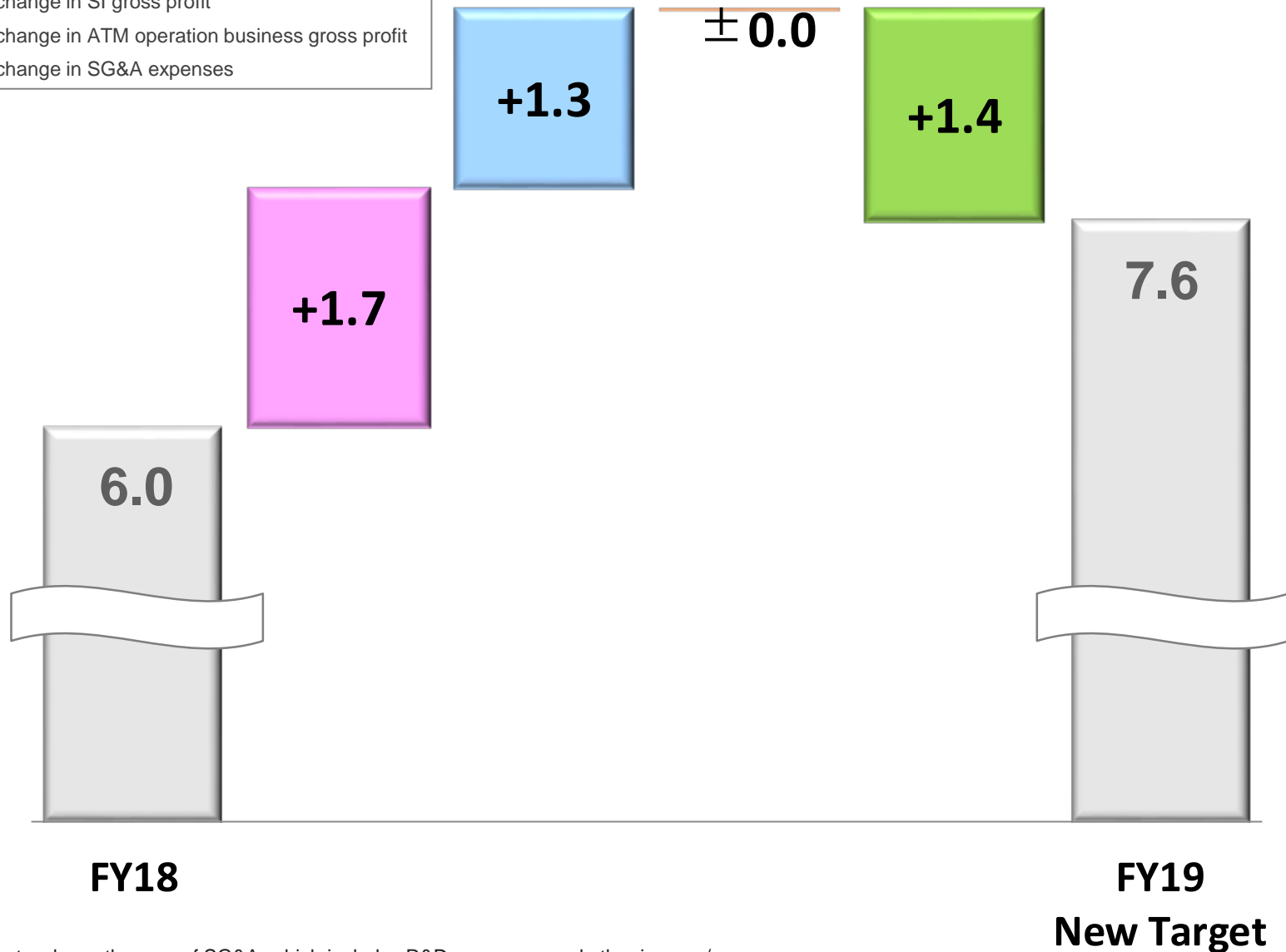
(\*1) SG&A etc. shows the sum of SG&A, which includes R&D expenses, and other income/expenses.

(\*2) Net Profit is "Profit for the year (period) attributable to owners of the parent."

# Operating Profit Comparison: FY18 vs. FY19 New Target



Unit: JPY billion  
YoY = Year over year comparison



• SG&A etc. shows the sum of SG&A, which includes R&D expenses, and other income/expenses.



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.

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