Corporate Overview of Internet Initiative Japan (IIJ)

Internet Initiative Japan Inc. (IIJ)
The Prime Market of the Tokyo Stock Exchange (Ticker symbol: 3774)
September 2022

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.

Outline

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.

Key Investment Highlights

1	High technological capabilities through development & operation of Internet infrastructure
2	Blue-chip customer base with low churn rate Very high market share among Internet connectivity for large entities
3	Digitalization in Japan to advance: IoT, Cloud, Security, etc.
4	Strong track record of monthly recurring revenue accumulation
5	Profit expansion in connection with CAPEX level & cycle
6	Sustainable mid-to-long term growth through above mentioned 1 - 5

Company Profile

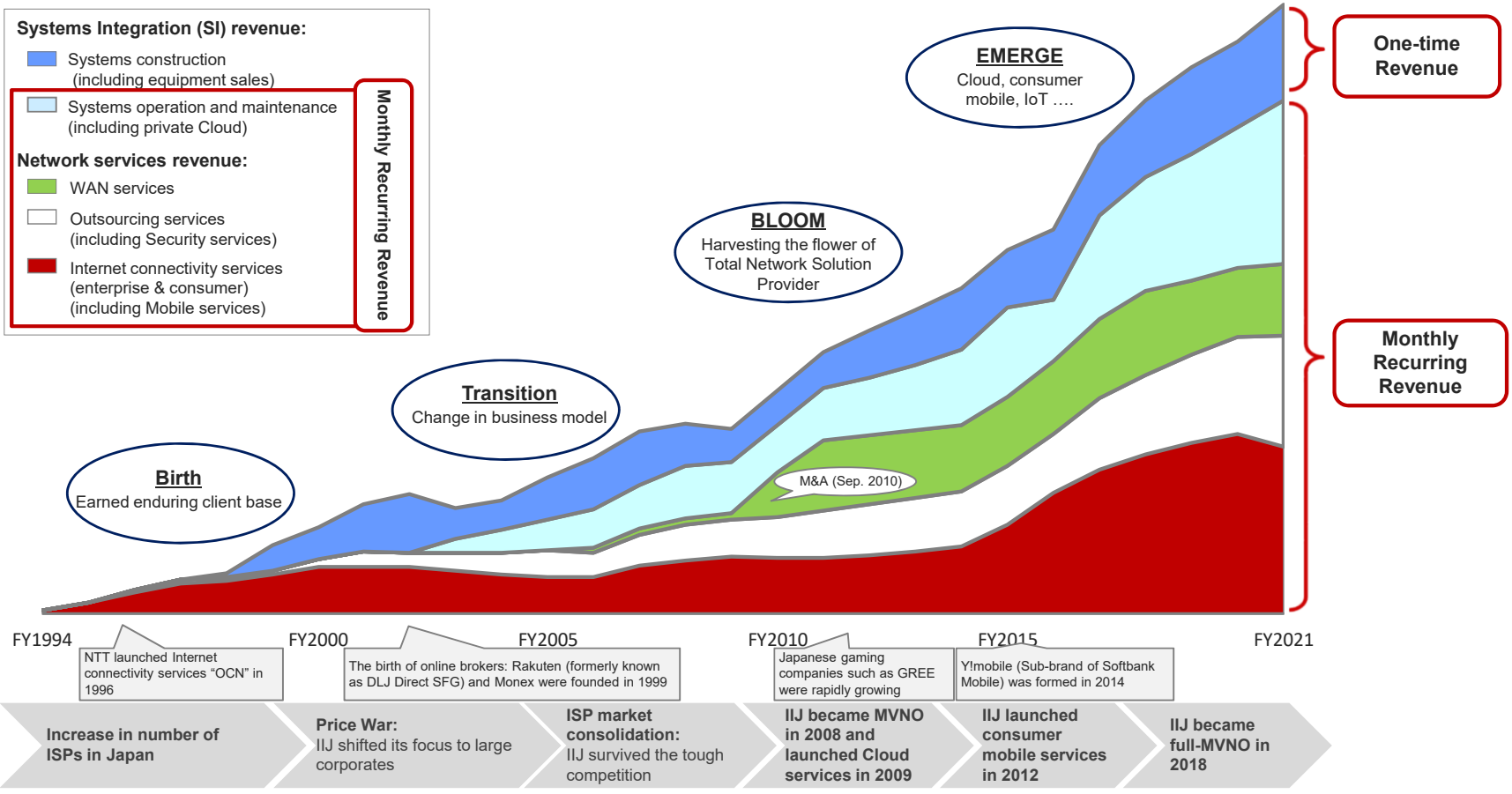
IIJ has been taking initiatives in Internet field

Established	December 1992
Number of Employees	4,331 (approx. 70% engineers, 20% sales, 10% back office)
Listed Market	The Prime Market of the Tokyo Stock Exchange (Ticker symbol: 3774)
Large Shareholders	NTT group (26.9%), Koichi Suzuki (5.9%), Global Alpha (5.0%) Koichi Suzuki is Founder, Chairman and Co-CEO of IIJ

- **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 developed services and related back office facilities
- **Well recognized "IIJ" brand among Japanese blue-chip companies' IT division**
  - ✓ Differentiate by reliability and quality of network and systems operation
  - ✓ Long-term (almost 30 years) client relationship as there have been no critical systems troubles
- **At the leading edge of IP R&D**
  - ✓ Differentiate by continuous service developments and business investments
  - ✓ Enhancing Cloud, mobile, security and solutions related to bigdata and IoT
  - ✓ Participate in world-wide research and organizations …and many more

- Number of employees are consolidated base and as of June 30, 2022.
- We voluntary delisted from the U.S. NASDAQ Market in April 2019. Our ticker symbol at the OTC (Over The Counter) is IIJIY.
- Large shareholders are as of March 31, 2022 and their shareholding ratios (%) are calculated by deducting number of treasury stock from the total number of shares issued except for Global Alpha whose information is based on their filing as of March 2021. Suzuki's ownership includes his wholly owned private company portion.

From ISP to Total Network Solution Provider



IIJ as a Total Network Solution Provider

Approx. **13,000 customers** As of Mar. 31, 2022

(Japanese companies, central government agencies, local governments, consumer ISPs universities and more)

Network (NW) Services

Outsourcing services

Security | VPN | Data center | Public Cloud | Email gateway | etc.

WAN services

Private connectivity | Global WAN | etc.

Internet connectivity services

IP | Mobile | Multi site connectivity | Data center connectivity | etc.

Systems Integration (SI)

Private Cloud

Systems construction

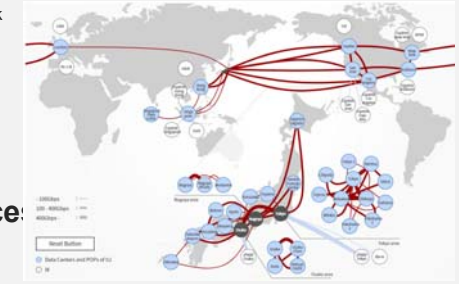
Systems Operation and Maintenance

etc.

Major components of Cost

- Fiber leasing cost for Internet backbone
- Depreciation cost of network equipment
- Personnel cost for network service development and operation
- Mobile data interconnectivity and voice service purchasing cost for Mobile services

IIJ's Backbone Network



Initiatives for Sustainability

https://www.iij.ad.jp/en/ir/integrated-report/
https://www.iij.ad.jp/en//ir/esg/
https://www.iij.ad.jp/en/sustainability/

IIJ's Material Issues

Lead network infrastructure advancement with technological innovations and contribute to solving various social issues

Provide safe and robust Internet services that support social infrastructure

Provide an arena for people with diverse talents & values, where they can exercise their skills & actively and boldly take on challenges

◆ Bringing innovation with IP

Online banking/brokerage	CDN	Smart Government
Online shopping	Telehealth	Remote work

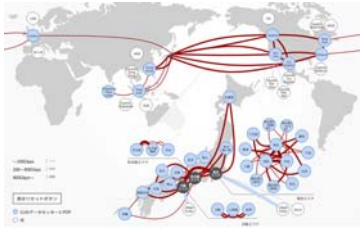
From now on: Adoption of Cloud, IoT Solution, Digital Currency, Metaverse

◆ Initiatives at our owned data centers

Matsue Data Center Park
- First in Japan to use outside air-cooled container data center (Opened in 2011 in Shimane)
- Auto-select and save energy based on temperature and humidity situation by incorporating container-based IT modules
- PUE:1.2 range
- Adoption of renewable energy

Shiroi Data Center Campus
- System module-based construction method to realize flexible expansion (Opened in 2019 in Chiba)
- Cuts and shifts peak of energy demand by using Powerpack battery

◆ Provide stable and safe Internet connectivity services, construct and operate Internet backbone that cover the world



◆ Support privacy protection regulations including GDPR

◆ Corporate culture of taking initiatives and challenging new things since the inception

- "Select Job," open call concurrent job system that supports self-motivated career development
- In addition to official training programs, systems to help realize new technology and services through "Tech Challenge"

◆ IIJ's turnover rate is lower than the industry average turnover rate

FY19	FY20	FY21
4.6%	3.6%	4.2%

Initiatives for Corporate Governance

- BOD as of July 2022: 14 directors (of which 1 female, of which 5 independent outside directors)
- Operation of the Nomination and Remuneration Committee (2 representative directors, 5 independent outside directors)

- PUE(Power Usage Effectiveness) is a metric that shows how efficiently electricity is used at a data center. The closer to 1.0 is considered to be good.
- IIJ's turnover rate is calculated by dividing leavers for the fiscal year by the number of full-time employees at the beginning of that fiscal year. The industry average turnover rate is announced by the Ministry of Health, Labor, and Welfare

Management structure

https://www.iij.ad.jp/en/ir/integrated-report/directors/

Koichi Suzuki

- Founder of IIJ
- Chairman, Representative Director and co-CEO
- Date of birth: September 3, 1946

Eijiro Katsu

- President, Representative Director and co-CEO & COO
- Prior to joining IIJ in 2012, he was a Vice Minister of Finance
- Date of birth: June 19, 1950

Satoshi Murabayashi

- Executive Vice President and Director
- Prior to joining IIJ in 2021, he was a Group CIO at MUFG
- He is also a President and Representative Director of DeCurret Holdings
- Date of birth: November 8, 1958

Yasuhiko Taniwaki

- Executive Vice President and Director
- Prior to joining IIJ in 2022, he was at the MIC engaging in Global ICT Strategy, Information Security, policy coordination of posts and telecommunications etc.
- Date of birth: September 11, 1960

Senior Managing Directors

- K. Kitamura
- A. Watai (CFO)

Managing Directors

- T. Kawashima
- J. Shimagami (CTO)
- N. Yoneyama (CIO)

Outside Independent Directors (of which, 1 female)

T. Tsukamoto	Honorary Advisor of Mizuho Financial Group
K. Tsukuda	Honorary Advisor of Mitsubishi Heavy Industries
Y. Iwama	Chairman of Japan Investment Advisers Association Outside Director and Chairman of the Board of Nikko Asset Management
A. Okamoto	President and CEO of Iwanami Shoten, one of the most foremost academic publishing houses in Japan
K. Tonosu (Ms.)	Board member of Deloitte Touche Tohmatsu LLC

Company Auditors (of which, 3 outside, 1 female)

Outside

- K.Ohira
- T. Michishita
- K. Uchiyama

Inside

- M. Tanaka (Ms.)

SWOT of IIJ

Strength

High technological capabilities

- First full-scale ISP in Japan
- Highly skilled Internet-related engineers
- NW service development & operation capabilities
- Reliable Internet backbone operation
- Excellent customer base
- Corporate culture of pioneering spirit

Weakness

- Business domain mostly in Japan
  - IIJ's overseas business is mainly to increase Japanese clients' loyalty
- Smaller in size compared to competitors
  - IIJ continuously develops innovative network services and solutions to be ahead of the market needs

Opportunity

Digitalization in Japan

- Internet traffic increasing
- Security demands expanding
- Cloud shift
- Emerging new IT usages such as IoT
- Growing IT demands from public sector

Threat

- Slow IT adoption in Japan
  - IIJ focuses on promoting digitalization of large Japanese companies with various network services and systems integration to fully meet their needs

Comprehensive Lineups of IT services

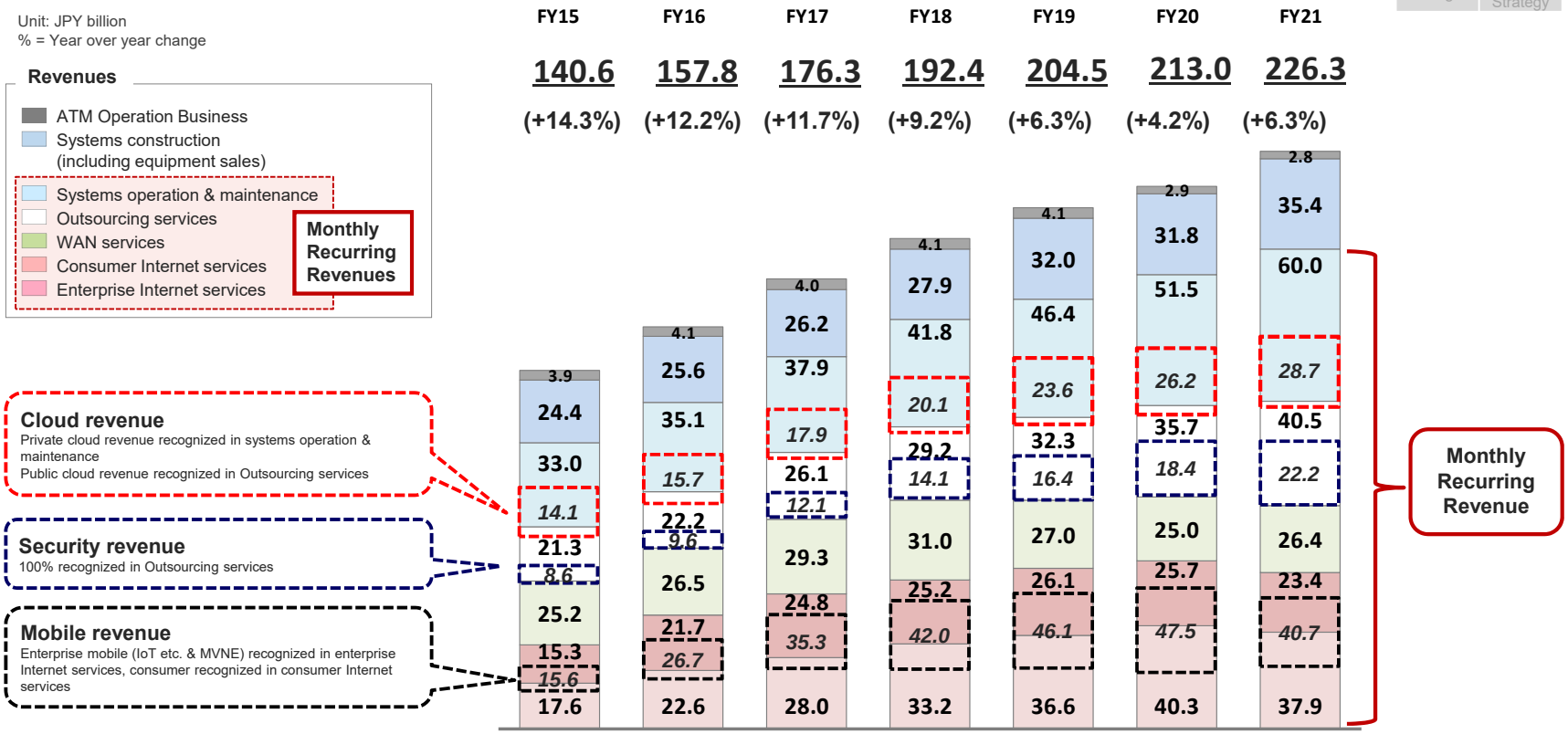
	Revenue category	1Q22 revenue	About	Business Situation & Outlook
Network services	Internet connectivity services for enterprise	9.52	IP 3.45: ➢ Core service providing from the foundation ➢ Highly reliable dedicated connectivity services for enterprise (multi-carrier, redundancy etc.) ➢ Charge based on contracted bandwidth. Enterprises use the service for their main Internet line Mobile 5.06: Enterprise mobile (IoT usages etc.) 2.63; MVNE (Proving to other MVNOs) 2.43	IP: ➢ Matured market (hard to entry) ➢ Blue-chip client base ➢ Expect the revenue to continuously increase along with traffic volume and contracted bandwidth increase from CDN Mobile: ➢ Expect profitability and mobile infrastructure utilization to improve as we gather various traffic such as IoT, enterprise, consumers ・ Enterprise: Expect demand to increase in the mid-to-long term ・ Consumer: Net increase (subscription) with new consumer plan in competitive market
	Internet connectivity services for consumers	6.10	Mobile 5.31: ➢ Inexpensive SIM services (mainly data), ➢ Direct sale (via IIJ web), Indirect sale (via sales partners such as retailers)	
	WAN	6.68	Closed network used to connect multiple sites	Stable market for long-term
	Outsourcing	10.94	In-house developed Internet-related various service line-ups (Security, datacenter and remote access etc.) Security 6.15; Public Cloud 0.71	➢ Have been developing services based on Zero Trust concept ➢ Acquire enterprise demand by cross-selling services. ➢ Continuous service development is important ➢ Demands for security and remote access to increase continuously
SI	Operation and Maintenance	16.64	On-premise Systems 9.06: ➢ Operation and maintenance of constructed systems Private Cloud etc. 7.58: ➢ Promote Cloud shift with abundant, highly reliable, value-added private Cloud related service line-ups	➢ Expect great business opportunity in the middle-to-long term as internal IT systems migrating to cloud ➢ Certain volume of systems to be converted to Cloud ➢ Revenue to increase continuously along with accumulation of construction projects
	Construction (including Equipment sales)	76.3	System construction related to office IT, security, Cloud, IoT. Internet-related construction such as Online banking & brokerage, backbone network for university, and E-commerce site	➢ Through providing SI, offer greater value as IoT and cloud usage penetrate

Monthly Recurring Revenue 85.7%

One time revenue

Monthly Recurring Revenue Accumulation

Unit: JPY billion
% = Year over year change



- Mobile revenue decreased year over year in FY21 due to ARPU decrease for consumers and change in unit charge for MVNE clients
- Systems construction and systems operation & maintenance revenue increase for FY21 includes PTC revenue which became IIJ's consolidated subsidiary from Apr. 2021
- During FY20, ATM operation business was impacted by the COVID-19 pandemic due for example to the store closure and smaller number of users coming to stores
- WAN revenue decreased year over year in FY19 and FY20 mainly due to certain large customers' migration to our mobile services (cheaper than WAN to connect multiple sites)
- Year over year growth rate written for FY17 revenue is calculated by comparing FY16 revenue which is prepared with U.S. GAAP and FY17 revenue which is prepared with IFRS

Capex and Business Developments

	FY16	FY17	FY18	FY19	FY20	FY21	FY22 targets
Revenues (¥ bn)	157.8	176.2	192.4	204.5	213.0	226.3	250.0
Operating Profit (JPY billion)	5.1	6.8	6.0	8.2	14.2	23.5	27.2
Operating Margin (%)	3.3%	3.8%	3.1%	4.0%	6.7%	10.4%	10.9%
CAPEX (¥ bn)	16.5	20.7	15.1	**15.2**	**15.2**	**16.1**	**21.5**
NW services	*12.6*	*9.4*	*9.4*	*9.6*	*8.8*	*9.7*	-
Cloud	*3.6*	*7.9*	*1.9*	*2.6*	*2.8*	*2.3*	-
Shiroi DC	-	*1.2*	*2.1*	*2.0*	*1.5*	*1.5*	-
SI, others	*0.3*	*2.3*	*1.7*	*1.0*	*2.0*	*2.6*	-
CAPEX-related depreciation and amortization (¥ bn)	10.9	12.1	13.9	**14.4**	**14.5**	**15.1**	-
Number of employees	3,104	3,203	3,353	3,583	3,805	4,147	-

Stronger demands for enterprise network services

Large CAPEX increase due to aggressive business investment

CAPEX & its depreciation almost same volume

Including 5.0 billion for Shiroi DC 2nd site

Cost stabilizing

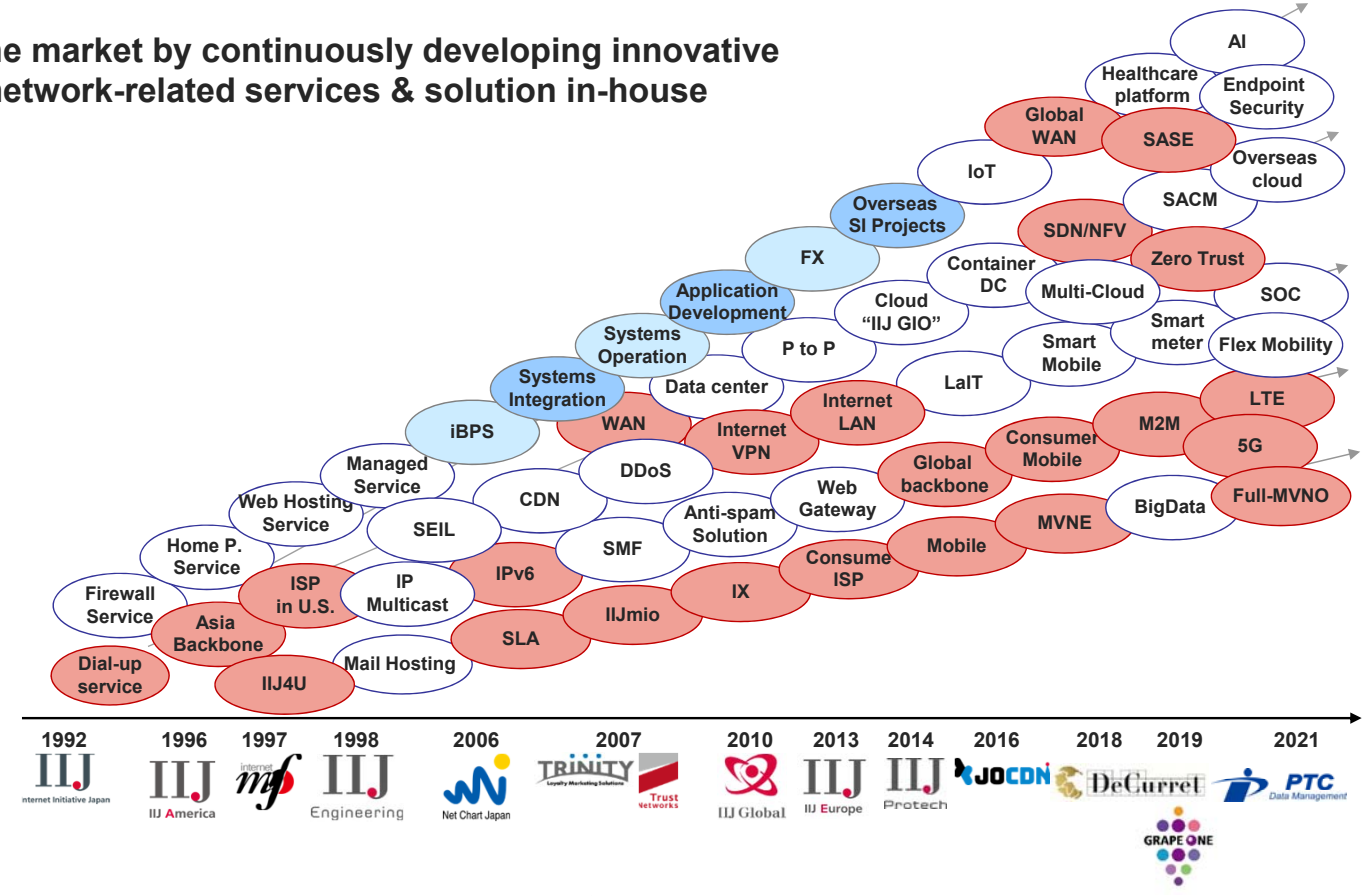
Various Network Services Asset

- Launched Omnibus (Sep. 2015)
- Enhanced SMX (Oct. 2016)
- Opened SOC (Mar. 2017)
- Launched Secure Endpoint (Oct. 2018)
- Enhanced SWG (Dec. 2020)
- Opened Security training center (Jan. 2022)
- Launched GIO P2 (Oct. 2015)
- Launched UOM (Apr. 2017)
- Launched full-MVNO (Mar. 2018)
- Opened Shiroi DC (May 2019)
- Launched GIO P2 Gen.2 (Oct. 2021)
- Added SWG Sandbox (Feb. 2016)
- DDoS service global (Jan. 2017)
- Launched Flex Mobility (Dec. 2018)
- Launched enterprise eSIM (Apr. 2021)
- Launched Smart HUB (June 2022)
- Launched private connectivity with AWS (Sep. 2016)
- Enhanced Omnibus (Oct. 2018)
- Enhanced SOC (May 2021)

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

Service & Solution Development Capability

Initiate the market by continuously developing innovative various network-related services & solution in-house



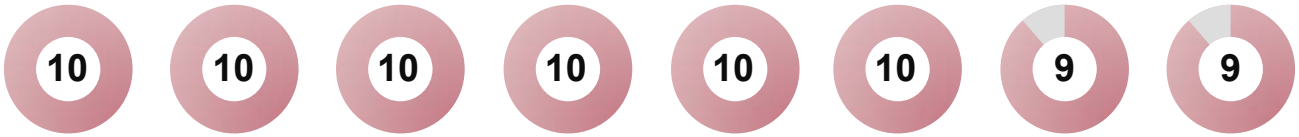
Excellent Customer Base

(approx. 13,000 clients as of March 31, 2022)

- With the pioneer advantage, IIJ's current blue-chip clients base was mainly accomplished in the early 1990
- Long term relationship with low churn rate is mainly due to reliable operation and cross-selling strategy

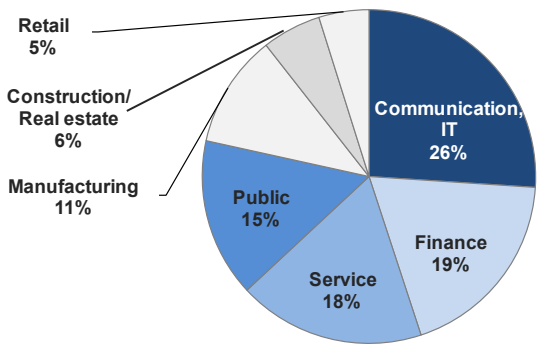
Cover Most of Top Revenue Companies

The number of IIJ clients among the top 10 companies in each industry (based on IIJ's FY21 results)



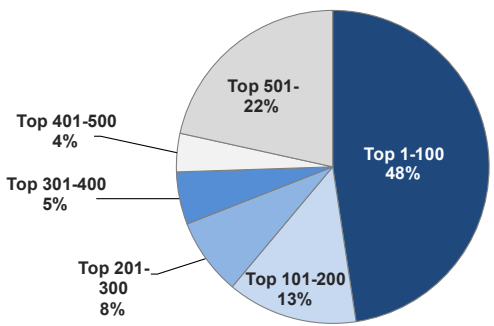
Revenue Distribution by Industry

- IIJ's client base is well diversified among industry sectors because what we offer, Internet connectivity and security for example, are needed by every industry



Revenue Distribution by Clients

- About 80% of the total revenue were generated from top 500 clients
  - Much room to grow revenue per customer from the current client base
  - Cross selling strategy is important
- Largest client revenue portion to the total revenue was less than 3%



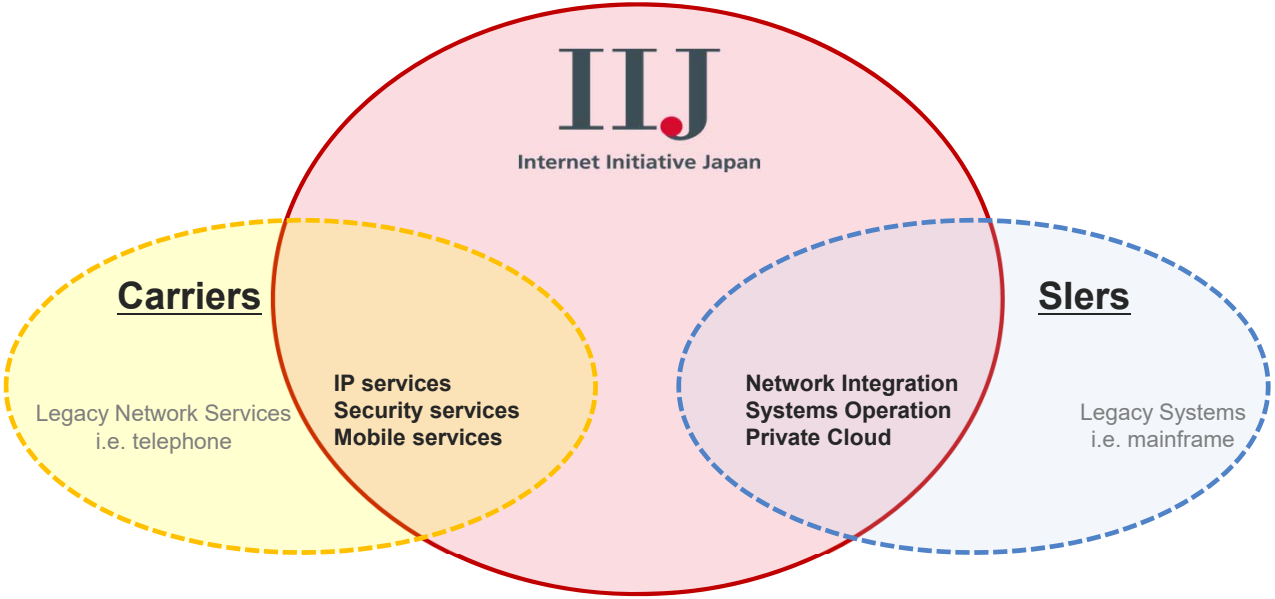
Competitive Advantages

Against Carriers:

- Highly skilled IP (Internet Protocol) engineers
- Faster to move than bureaucratic organizations
- Focuses on blue-chip companies' IT needs with SI

Against Systems Integrators (SIers):

- Operates one of the largest Internet backbone
- Network service development capability
- Focuses on Internet-related open type systems

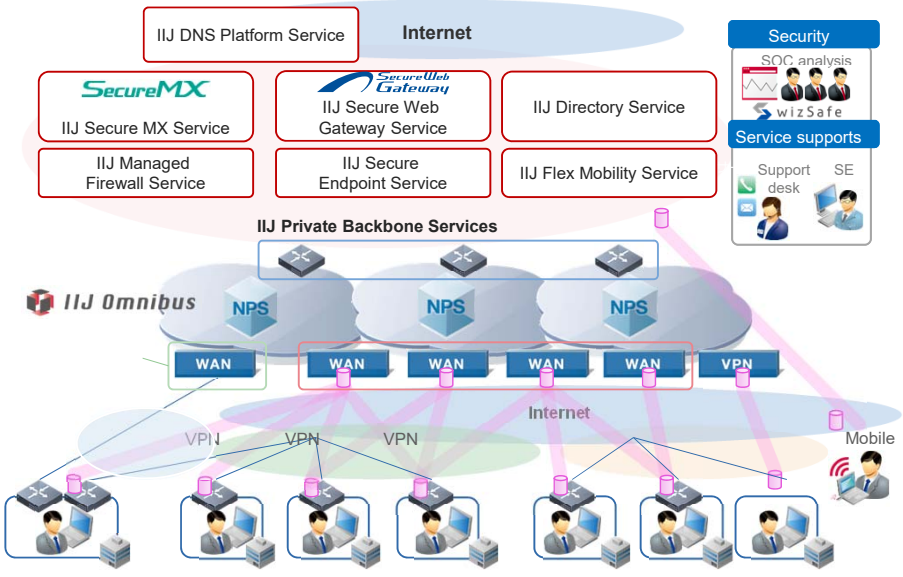


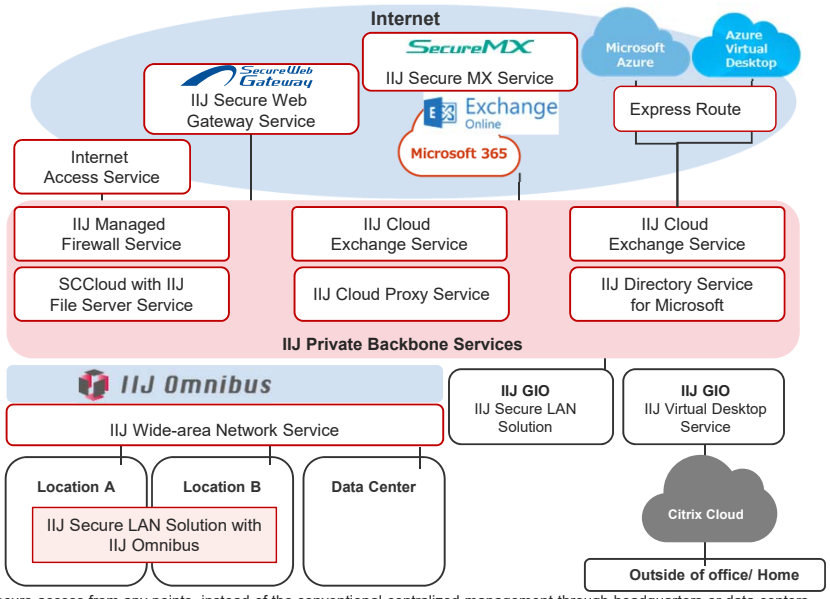
Combining in-house developed NW services and SI

Multi-year-confirmed contracts related to network replacement etc.

- Orders received around 4Q21 (excerpt from 4Q21 earnings' presentation material)
  - Total contracted revenue: over ¥10 billion, 5 projects whose revenue volume ranging from a little less than ¥1 billion to over ¥5 billion (These projects' revenues would be largely recognized as network services)
  - Contract period: 3 to 4 years
  - Construction & operation of NW replacement and/or shared platform infrastructure such as Internet connection environment for all Tokyo metropolitan high schools and WAN to connect all Tax Offices in Japan
- Orders received around 1Q22
  - Total contracted revenue: approximately ¥3.5 billion, 9 projects whose revenue volumes ranging from over ¥0.2 billion to ¥0.8 billion (These projects' revenues would be largely recognized as network services)
  - Contract period: 3 to 5 years
  - Several large-scale SASE projects for private sector clients, construction of network infrastructure for a major financial institution, construction of administrative information infrastructure systems for a certain central government agency, etc.

Images of the multi-year-fixed contracts related to network replacement etc.

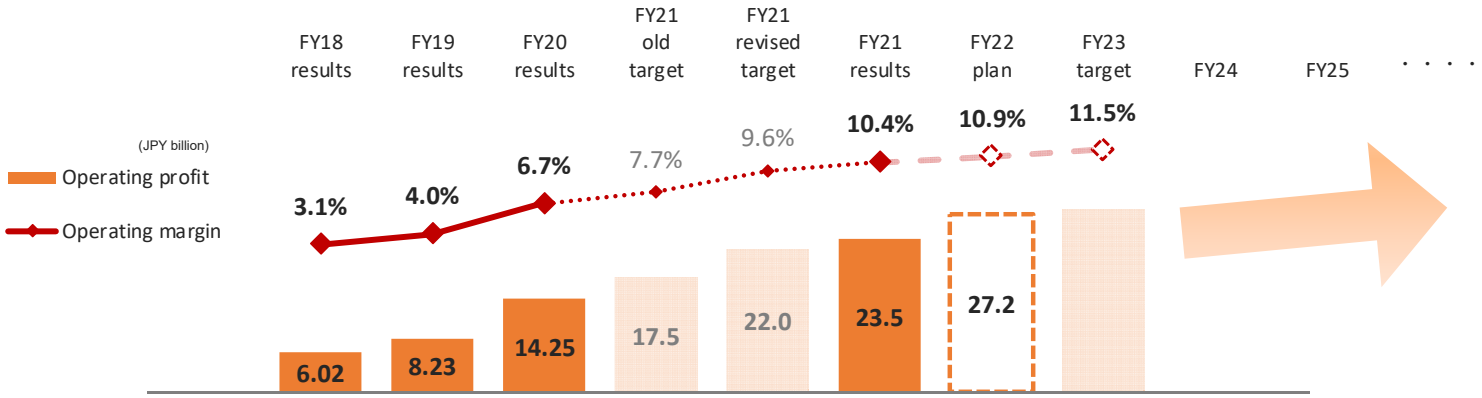




- SASE (Secure Access Service Edge) is a concept to shift controls of network and security on the route to Cloud services to enable secure access from any points, instead of the conventional centralized management through headquarters or data centers

Mid-term Plan (FY21-FY23)

Previous Mid-term (FY15～FY20) → **Current Mid-term** (FY21～FY23) → **Longer term growth** (FY24～)



Revenues (JPY billion)	192.4	204.5	213.0	226.0	228.5	226.3	250.0	270.0

Key Points of the Mid-term Plan

- Develop services & solution continuously: enterprise Cloud, business Cloud, partner, industry specific Cloud
- **Execute & strengthen the current strategy, target to improve operating margin**
- Market capital to largely increase: further business expansion for long-term including M&A opportunities
- Contribute to sustainable Network society from technology innovation and NW operation perspective

FY23 Operating Margin Target

Over 9%	Over 10%	11.5%
Initial target (announced in May 2021)	Previous target (announced in Nov. 2021)	Current target (announced in May 2022)

Growth Strategy Going Forward

Growth Drivers: Various IT usages in Japan to increase

Office IT usage
Hybrid workstyle, Web meetings, SaaS etc.

Security
As Internet becomes a critical infrastructure

Management of IT system
As enterprise systems become more complicated

Business IT usage
Integrating Internet to BtoC/BtoB businesses etc.

Cloud shift & SI
As enterprise systems become more network-based

Advanced IoT
Growing interests in automation & higher productivity etc.

And more

Growth Strategies: Enhancement of the current growth strategies

Network	◆ Continuously enhance enterprise NW service offerings by developing new services & functions ◆ Continuously execute cross-selling strategy to increase blue-chip clients' loyalty and maintain low churn rate ◆ Capture growing needs to outsource enterprise IT department function with the comprehensive service lineups
Systems	◆ Greater opportunity to leverage the business model of having Network & SI with Cloud shift, advanced IoT etc. ◆ Target Cloud migration of large enterprise internal systems, currently on-premise and managed by legacy SIers ◆ Seek M&A opportunities to secure resources including engineers
Profitability Improvement	◆ Enterprise NW: accumulate enterprise NW services revenues which have an economy of scale ◆ Mobile: achieve higher mobile infrastructure utilization by mainly gathering more enterprise IoT traffic ◆ SI: accumulate more operation and maintenance revenue which is higher margin than construction
New Businesses	◆ Leveraging accumulated assets including close client relationship to engage in FinTech (DeCurret), Contents Delivery Network (JOCDN) and other markets that are expected to expand

Service Function

Comprehensive NW system solution with NW services & SI

Service Function

➢ By combining various in-house developed NW services with SI to provide comprehensive NW system solution

Systems Integration (SI)

Network (NW) services

Secure Web Gateway
Secure MX
IIJ ID
Managed WAF
Cloud Web Hosting
DNS Platform
Content Acceleration
Simple Backup

Internet

GCP
OCI
AWS
Microsoft Azure
Microsoft 365

Directory
File Server
Managed DB
Unified Operation Management
IIJ GIO
Cloud Exchange
Smart HUB
Cloud Proxy

C-SOC

Private Backbone

Private Access
Mobile Private GW
Flex Mobility
Virtual Desktop

Cloud Connectivity CLOUD
Internet INTERNET

IIJ Omnibus

Private WAN
WAN
VPN
RAS

Internet Access
Managed Firewall
Managed IPS
Endpoint Security

IIJ Data Center
Mobile Network
IIJ Mobile
Existing customer WAN

Closed network
NTT FLET'S network
VPN equipment

Branch office
Branch office
Data Center
Outside of office
Data Center
Branch office
Branch office
Branch office
Branch office
Outside of office

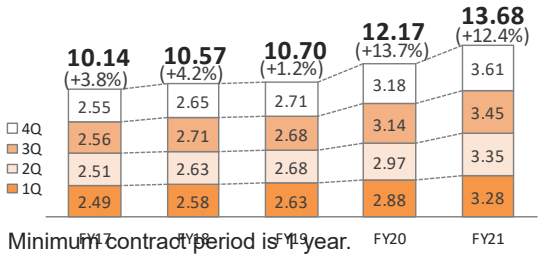
Enterprise Network Services

Service Function

IIJ's enterprise network services' business model:
Cost doesn't have to increase at the same pace as the revenue – economy of scale business

◆Revenue

- IP services are contracted based on bandwidth base
  - IP service is bandwidth guaranteed dedicated Internet connectivity services for enterprises. Contracts are based on bandwidth and enterprises use the service for their core and main Internet connectivity
  - IP service revenue (below bar chart, unit: JPY billion) is 100% recognized in Internet connectivity services (Enterprise)
  - IP Services revenue growth: (Unit: JPY billion)



- Very low churn rate. Minimum contract period is 1 year.
  - Contracts are renewed every year, generally speaking
- IIJ has very high and stable market share among Japanese blue-chip (IIJ survived the tough price competition)
  - Enterprise Internet connectivity market in Japan is already matured (every company is already using Internet).
    - ✓ Difficult to enter the market because one will need: 1) customer base and 2) know-hows to generate revenue
  - IIJ's internet connectivity services clients include general Japanese enterprise as well as network operators such as consumer ISPs, cable TV operators

◆Cost

- IIJ purchases physical fiber from carriers
  - As one of the largest independent ISPs, IIJ has strong buyer power when purchasing fiber. IIJ can pick the best deal when expanding Internet backbone.
  - IIJ expands its Internet backbone continuously; expanding capacity on a monthly basis.
  - Fiber purchasing cost is recognized as circuit-related cots
- IIJ owns network equipment that are needed for Internet backbone and network service facility
  - Network operation cost which is many depreciation amortization costs for network equipment is stable due to the technological innovation of servers and other network equipment
    - In other words, ¥1 million server today is more high spec compared to the ¥1 million server a year ago.

◆Profit

- Enterprise network service revenues especially IP services and Outsourcing services continue to increase while their costs remain relatively stable.
- By that, IIJ can enjoy economy of scale with strong revenue accumulation which leads to profit expansion.
- In other words, the costs for enterprise network services do not have to increase at the same pace the revenue growth.

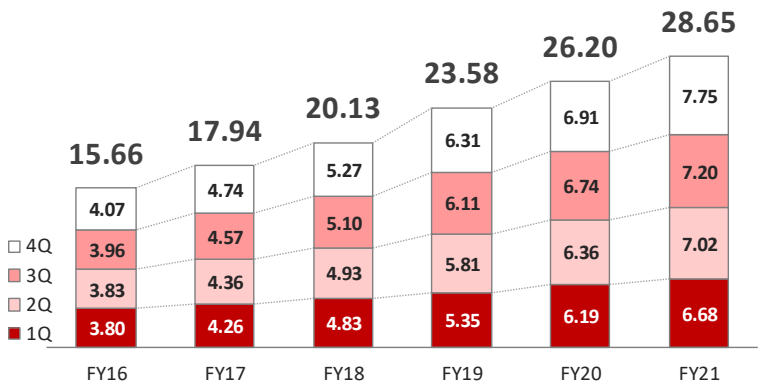
Cloud Business (1)

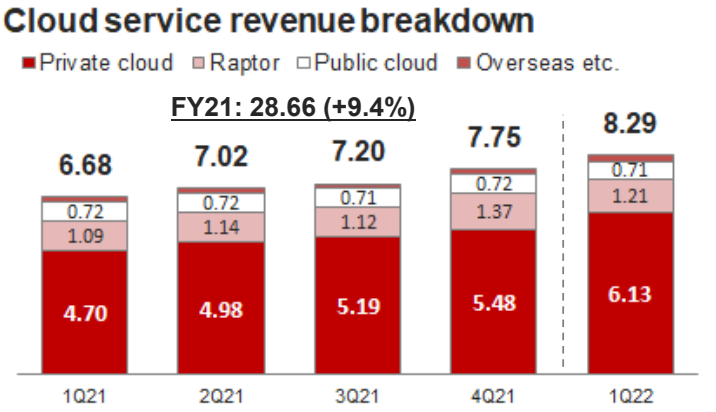
Service Function

- Cloud shift of Japanese enterprises' large internal core systems just began
- With Cloud services, IIJ can approach IT system areas that have traditionally been covered by legacy SIers

IIJ's Cloud Revenue (recurring)

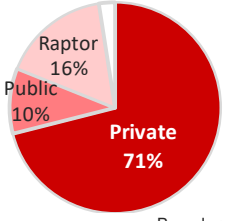
Unit: JPY billion
% = Year over year comparison





- 1Q22 revenue recognition: 91.4% in Systems operation & maintenance, 8.6% in Outsourcing services

IIJ's Cloud Service Offerings: Mainly IaaS (Infrastructure as a Service)



Based on FY21 IIJ's results

- Private Cloud services and other services that are similar to systems integration, meeting specific needs, are recognized in systems operation and maintenance
- Public Cloud services which are similar to conventional web hosting services or simple network services in nature are recognized in Outsourcing services
- Raptor (ASP foreign exchange system developed by IIJ) is currently used by 22 FX service providers including Hirose Tusyo, LINE Securities, au Kabucom, Nomura Securities and Sony Bank
- Others include overseas Cloud services

Cloud Business (2)

- **Cloud services as one of the cross-selling element**
- **Promoting Cloud Shift of the current blue-chip Japanese enterprises**

IIJ's Competitive Advantages

◆ **Blue-chip client base**: Hands-on/close relationship with clients (Cloud as a cross-selling element)

◆ **New business opportunity: Because blue-chip companies' internal systems have been covered by legacy system integrators, it is a new business opportunity for IIJ once such systems migrate toward Cloud. IIJ has not dealt with legacy internal enterprise systems**

◆ **Various network service line-ups such as security and various ways to access cloud systems (mobile, WAN, etc.)**

◆ **Competitors**

- AWS (Amazon) & Azure (Microsoft): Strong scale merit. Focus on public cloud. Not so strong about meeting individual systems needs
  - Because start-ups and SMEs do not have to worry about so much about existing systems, they tend to use Cloud services much more and much faster compared to large blue-chip companies who have large and complex existing systems
- Legacy system integrators who constructed and currently looking over blue chips' large internal systems

Multi-Cloud Strategy

◆ **Japanese enterprises avoid relying on single cloud service vendor: increasing demands for multi-cloud**

- IIJ provides private connectivity with Microsoft Azure/365, AWS (Amazon Web Service), GCP (Google Cloud Platform)
- IIJ provides operation and management services to effectively monitor an entire IT systems (IIJ UOM Service), covering IIJ's cloud services, other cloud vendors' cloud services and on-premise systems.

IIJ's Cloud Business Model

◆ **Revenue**

- Revenue is to increase along with an increase in Cloud clients and each system volume
  - System volume depends on a number of cloud servers, volume of storage etc.

◆ **Cost**

- Depreciation and amortization cost for servers and other network equipment, outsourcing cost and personnel costs for service developments

◆ **Profit**

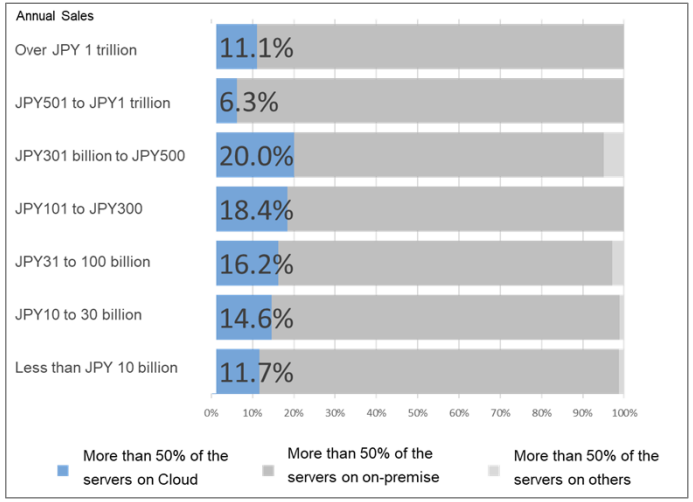
- Currently very low profitability, need more revenue to have economy of scale

Cloud Business (3)

Cloud Market in Japan

- **Cloud penetration among Japanese enterprises**
  - 64.7% as of 2019-end, 33.0% as of 2013-end (source: MIC)
  - Japanese enterprises are slowly but surely using more Cloud services, yet most of such usages are primitive ones such as using cloud services for web and/file servers etc.
- **Cloud shift in Japan tends to take place one by one as:**
  - Japanese blue-chip' internal systems are quite large and complicated - can't migrate all at once
  - Position of CIO is not high or respected as much as other C class executives
  - Japanese enterprises consider whether to re-invest their on-premise systems or migrate to Cloud services when their existing systems approach to the end of life
    - ✓ Average cycle of IT system: 4-5 years
- **Seeing some advanced usages**
  - Nippon Express (one of the largest logistics companies): replaced on-premise critical business operation system to IIJ Cloud (3,500 servers, 2PB storage) etc.

Still so many assets on on-premise:
Only 20% of the surveyed clients had shifted more than 50% of the servers to Cloud



Source: "Nationwide report on IT department 2021" published by IIJ in July 2021 (n=737)

Recent Cloud Business Trend

- **IIJ's private cloud revenue grew as demands for multi-cloud continued**
  - Multi-cloud demands are generating demands for "IIJ Cloud Exchange Services" (revenue recognized in Network Services) which provide private connectivity to third vendor Cloud services such as AWS (Amazon), Microsoft, and Google
  - "IIJ GIO Infrastructure P2 Gen.2," which was launched in Oct. 2021 to promote full-scale cloud shift of enterprise systems, is accumulating orders
- **Raptor, SaaS type Foreign Exchange (FX) trading platform launched in Oct. 2008, revenue fluctuates depending on trading volume of FX**
  - Added CFD (Contract for Difference) to its service line-up from Jan. 2022

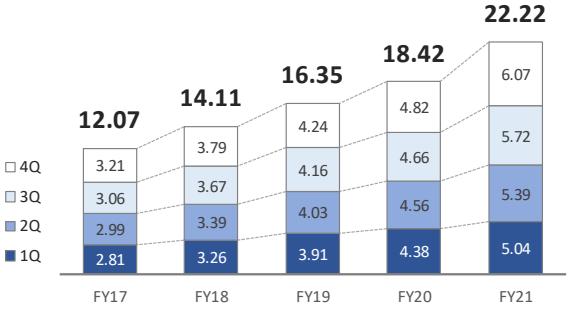
Security Business (1)

Service Function

- **Continuously developing new services and expanding service functions**
- **Japanese enterprises used to see security measures as cost, but now they understand them as great necessity**

IIJ's security service revenue (recurring)

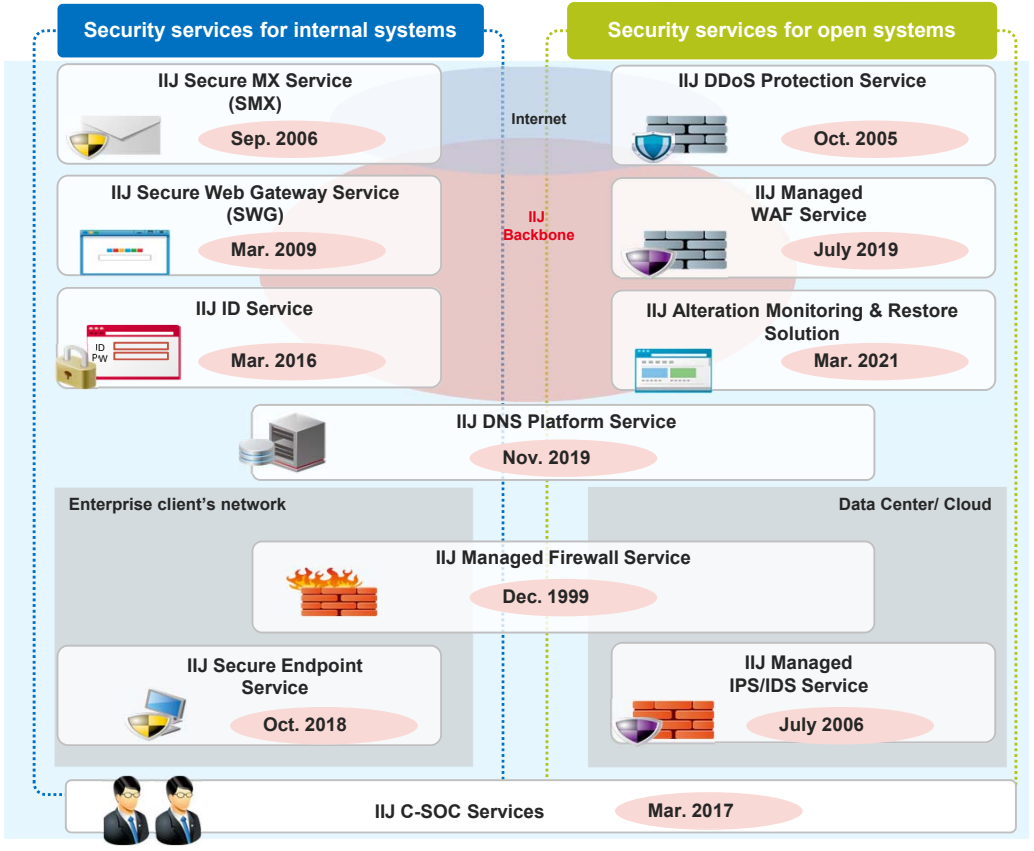
Unit: JPY billion
% = Year over year comparison



Total security revenue (services + SI)	FY17	FY18	FY19	FY20	FY21
	14.62	16.77	19.18	21.47	25.44

- Security service revenue (recurring) is 100% recognized in Outsourcing services
- Security services is a general term for individual security service such as mail security, firewall, Web filtering, DDoS protection, SOC service, Endpoint (EDR) and SASE
- SASE (Secure Access Service Edge) is a concept to shift controls of network and security on the route to Cloud services to enable secure access from any points, instead of the conventional centralized management through headquarters or data centers

Various & Multi-layer service lineups developed in house



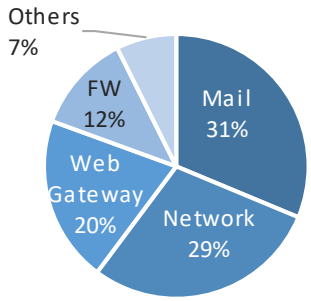
Security Business (2)

Strong & various demands continuing

- Conventional Security services such as SMX and SWG continued to accumulate orders
- IIJ C-SOC Service is accumulating orders since its service launch and growing its revenue
  - Differentiating by leveraging comprehensiveness as ISP and intelligence unique to IIJ etc.
- SASE revenue growing by accumulating network projects with “Global SASE with IIJ Omnibus Prisma,” launched in Dec. 2020 & “Global Web Security Zscaler ZIA,” launched in Mar. 2019
- Opened “IIJ Security Training School” in Jan. 2022 as a new area of Security business
- Total security business volume (Service + SI)
  - FY21: ¥25.44 billion (+18.5%)
  - Meet security needs that are not offered by our services through SI

- SASE (Secure Access Service Edge) is a concept to shift controls of network and security on the route to Cloud services to enable secure access from any points, instead of the conventional centralized management through headquarters or data centers.

Breakdown of IIJ’s security service revenue



- Based on IIJ’s FY21 results

Mail	Full-outsourcing of mail systems, protected delivery/anti-threat email, sandboxing, etc.
Network	DDoS protection, IPS/IDS, WAF etc.
Web GW	Full-outsource of web security, URL filtering etc
FW	Managed firewall services, Anomaly detection etc
Others	SOC etc.

IIJ’s Competitive advantage of having them all

	IIJ	Security vendors	System integrators
Network	✓	none	none
Analysis platform	✓	somewhat	somewhat
Operation and monitoring facility	✓	✓	✓
System integration	✓	none	✓

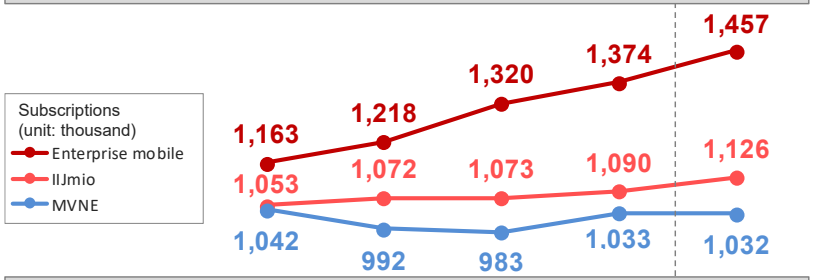
Mobile Business (1)

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

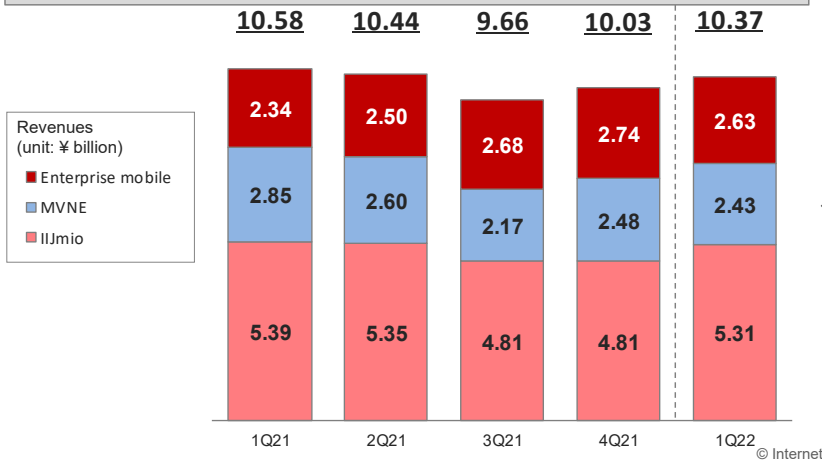
Service Function

- **Accumulate enterprise IoT traffic by leveraging blue-chip client base, various network services & SI function – higher utilization of the mobile infrastructure**
- **Consumer subscription contributing to expand the infrastructure**

Mobile Subscription (Subs.)



Mobile Revenue



◆ Enterprise mobile (deducting MVNE from IIJ Mobile)

- 1Q22 revenue: ¥2.63 bn (+¥0.29 bn YoY)
  - 1Q22 revenue reflects QoQ reactionary decrease due to a certain large mobile project's per phase revenue recognition
- 1Q22-end subs.: 1,457 thousand (+83 thousand QoQ)
  - Revenue and subscriptions grew by continuously accumulating IoT projects
  - By leveraging IIJ's unique offerings such as mobile carrier redundancy and private connectivity, we acquired Digital Agency's project for their agriculture and fishers government solution service

◆ MVNE (providing mobile services to other MVNOs)

- 1Q22 revenue: ¥2.43 bn (-¥0.42 bn YoY)
  - Reflection of the annual revision of mobile interconnectivity charge onto MVNE clients was almost as planned
- 1Q22-end subs.: 1,032 thousand (-1 thousand QoQ)
  - Enterprises' subscriptions are increasing
- 1Q22-end MVNE clients: 171 clients (+12 clients YoY)
  - Cable TV operators (91 operators) , prominent retailer etc.

◆ IIJmio (consumer)

- 1Q22 revenue: ¥5.31 bn (-¥0.08 bn YoY)
- 1Q22-end subs.: 1,126 thousand (+36 thousand QoQ),
  - Triggered by back-up line needs, eSIM subs steadily increasing
  - 1Q22 net addition more than doubled compared to 4Q21

GigaPlans	1Q21-end	2Q21-end	3Q21-end	4Q21-end	1Q22-end
Subs. (unit: thousand)	462	556	607	667	757
Of which, new users	17%	30%	34%	38%	43%

Mobile Business (2)

Service Function

Revenues (unit: ¥ billion)
- IIJmio (consumer mobile)
- MVNE (providing mobile services to other MVNOs)
- Enterprise mobile (direct sales)

IIJ started providing 3G mobile services by becoming MVNO in Jan. 2008

IIJ started providing LTE services to both enterprises and consumers from Feb. 2012

IIJ became MVNE by providing its mobile services to other MVNOs

IIJ started offering voice call services as an option menu to consumers from Mar. 2014

IIJ became au's MVNO and started providing consumer services from Oct. 2016

FY21 revenue ¥20.37 billion
(decreased YoY due ARPU decrease along with the migration to new cheaper plan "GigaPlans")

¥10.09 billion
(Decreased YoY due to the decrease in purchasing unit charge)

¥10.26 billion

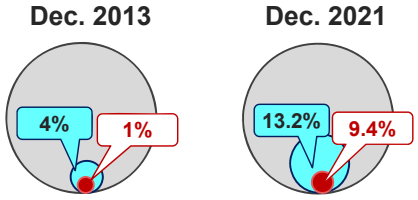
FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20 FY21

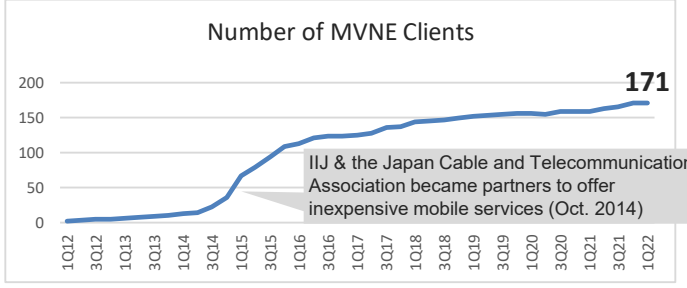
Providing mobile services to enterprises for their laptops' data communication and Machine to Machine (M2M) usages → Opened mobile infrastructure to consumers → Rapid expansion of consumer inexpensive SIM market → IIJ became full-MVNO in 2018

Consumer inexpensive SIM market

- Total mobile subscription in Japan (around 100 million)
- MVNO subscription
- SIM subscription

Data is based on the reports by the Ministry of Internal Affairs and Communications who publishes mobile subscription quarterly





Mobile Business (3)

- **Most of current enterprise mobile solution are simple usage such as connecting network and surveillance cameras etc.**
  - Seeing some advanced usage such as Factory IoT for Toyota Motor Hokkaido https://www.iij.ad.jp/en/news/pressrelease/2020/0803.html

Accumulating various enterprise mobile solutions

Network Cameras	Office IT	B-to-C
Store marketing cameras	iPads and tablets	Karaoke communications
Security cameras for apartment complexes, etc.	Remote work (teleconferencing)	Child monitoring devices
Surveillance cameras for material storage sites, etc.	Business / IP transceivers	Networking between devices at game arcades
Security cameras	Store visitor management systems	Currency exchange machines for foreign visitors to Japan
River water level remote monitoring	Built-in SIMs for PCs	Cashless payment terminals

Transportation	Corporate Activities / Other	
Dashcams	Structural health monitoring terminals	Rice paddy water management
Taxi dispatching	Plant equipment management	Shrimp cultivation
Bus locational information	Natural disaster observational data collection	Mobile sales offices
Remote key locking and unlocking	Vending machines	Digital signage

Mobile Business (4)

Business model of IIJ's Mobile Business

◆ Revenue

- Consumer mobile revenue is calculated by multiplying subscription by ARPU
  - Headsets sales are also recognized as consumer revenue. IIJ is recognized as MVNO with good lineups of smartphone.
- Enterprise mobile revenue is to grow with IoT/M2M traffic. Because we charge by how much data is needed and an IoT device does not require much data, generally speaking, per device revenue tends to be quite small.

◆ Cost

- All of IIJ's mobile services are provided from the same mobile infrastructure
- Purchasing mobile capacity on bandwidth-base from mobile carriers (mainly from Docomo, some from KDDI).Such purchasing cost is recorded as "outsourcing" in network services' costs
- In order to provide voice services, we purchase per usage base (no economy of scale merit for voice services)
- Sales commission expenses (SG&As) to sales partners such as BicCamera

◆ Profit

- Profitability to increase by improving infrastructure utilization through gathering various consumer & enterprise traffic
  - Traffic patterns of consumers and enterprises are different
    - ✓ Consumers' peak time is commuting hours and lunch break. Other than these hours, our consumers tend to access Internet through their home and/or office Wi-Fi. On the other hand, there is no clear peak time for enterprise. Traffic is generated through mobile dongle and/or IoT type usages which run 24/7

◆ Growth Strategy

- Aim to improve mobile infrastructure utilization by gathering IoT/M2M & various consumer traffic
  - Currently buying mobile capacity to meet the peak hours which are concentrated on commuting hours and lunch time

Mobile infrastructure utilization

- Currently, IIJ is increasing mobile infrastructure to meet the peak of consumer traffic which is concentrated around commuting hours and lunch time. Mobile infrastructure utilization of other hours is low.
- By gathering various type of mobile traffics such as enterprise IoT traffic which is not concentrated at certain hours, we could aim for higher mobile infrastructure utilization

IIJ's Sale Channel for Consumers

1. **Direct sales** through IIJ's website
2. **Sales partners** such as BicCamera
   - IIJ pays sales commission expenses to sales partners
3. **MVNE** "IIJ Mobile Platform Service"
   - IIJ provides mobile services to other MVNOs
   - As of June 30, 2021, IIJ had 171 MVNE clients
     - ✓ Largest MVNE client is one of the largest Japanese retailers
     - ✓ 91 out of 171MVNE clients are Japanese cable TV operators who already have direct relationship with consumers

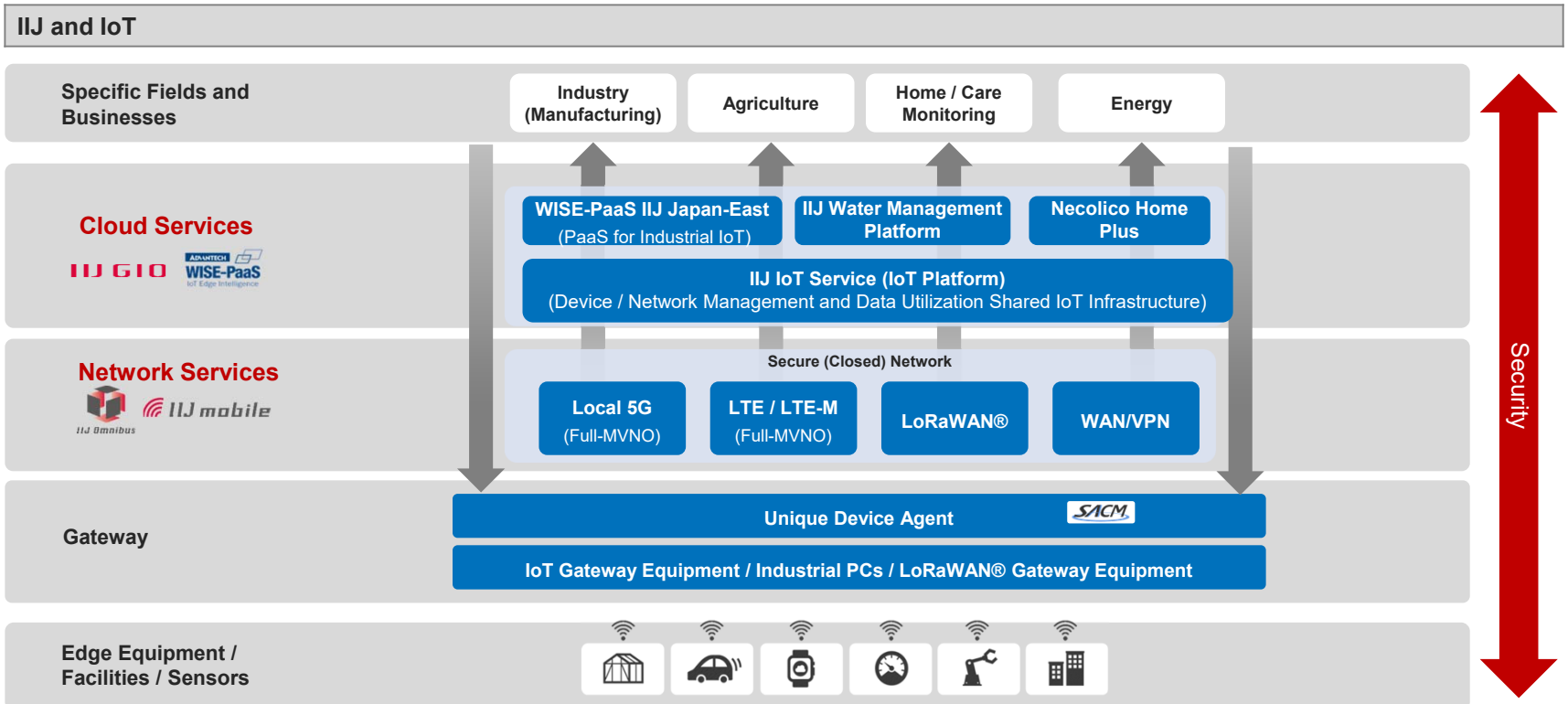
MVNO Penetration in Japan

- Consumer MVNO share as of March 31, 2022 (Source: MM Research)
  - IIJ 18.8%
  - NTT Communications (brand name: OCN mobile) 14.1%
  - OPTAGE (brand name: mineo) 9.5%
  - Biglobe 6.8%

IoT Business (1)

Service Function

Combining IIJ's existing service lineups and SI to build IoT systems



IoT Business (2)

Service Function

IoT projects

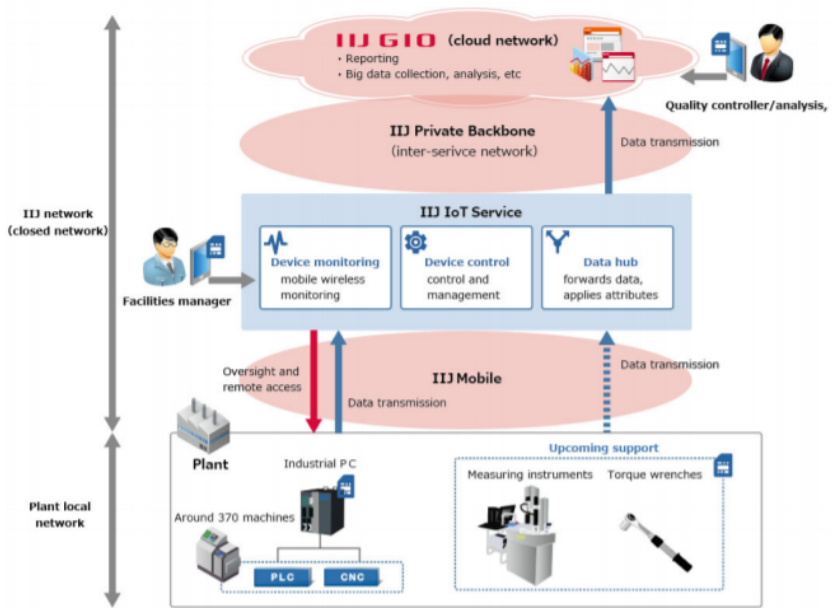
Industrial machinery manufacturers	Shift from reactive post-sales maintenance model to proactive field services (making predictions based on data)
Car accessory manufacturers	Expansion of service businesses by acquiring data through the networking of products and establishing software technology development organizations to develop services that use that data
Measuring instrument manufacturers	Expansion of services to streamline & improve the accuracy of recording tasks by going beyond just "measuring" things & providing linking data customers measure with their business systems
Automotive manufacturers	Improved efficiency of equipment management to cover personnel shortages, analyzing the expertise of skilled workers in maintaining operating capacity and implementing traceability to ensure quality
Trading companies (agriculture)	Shift from the sales of pesticides & chemical fertilizers to the provision of pesticide spraying technologies that reduce the amount used, & the development of cutting-edge agricultural technologies

Advanced Usage: Factory IoT

◆ **IIJ provides IoT system for Toyota Motor Hokkaido**

- Providing a one-stop solution by offering mobile and Cloud services from data collection via closed mobile network to creation of a cloud platform for visualizing and analyzing the collected data.

System image



Consolidated Financial Results for 1Q FY22

(April 1, 2022 to June 30, 2022)

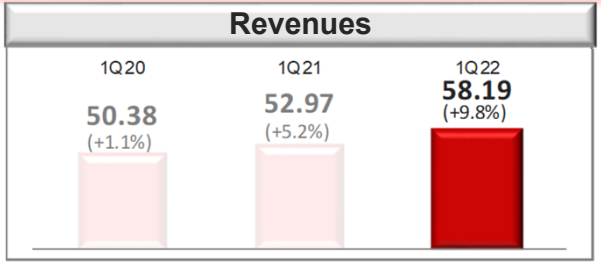
Announced on August 5, 2022

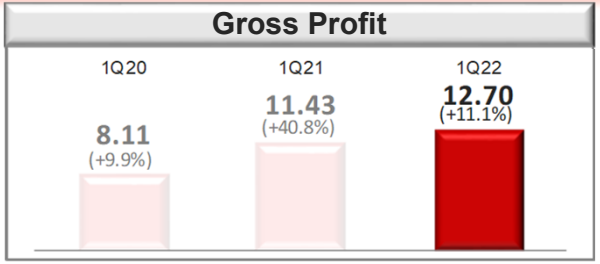
Summary of 1Q22

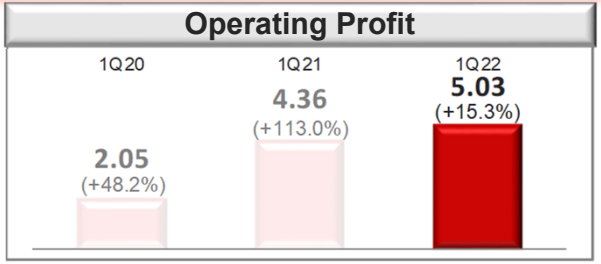
Unit: ¥ (JPY) billion (bn)
+/-. %, YoY = Year over year comparison
Net Profit is “Profit for the period attributable to owners of the parent”

FY22 started as planed from 1Q Strong demands for NW Services continued
Revenues ¥58.19 bn +9.8% Operating Profit ¥5.03 bn +15.3%

Acquired and accumulated multi-year-fixed contracts NW replacement and other projects that are to make revenue contribution from 2Q. Stronger than expected SI construction order-received
As enterprise network becoming advanced and complex, opportunities to propose and acquire such projects that require NW services & SI visibly increasing in the recent years







Network Service	**Following 4Q21 momentum, acquired multi-year-fixed contracts such as NW replacement Total contracted revenue: ¥3.5 bn (9 projects, 3-5 years)** • Acquired projects such as security-related projects for enterprises, construction of governmental information platform system, enhancement of Internet gateway for large financial institution and others • Cloud connectivity service “IIJ Private Backbone Service/Smart HUB” launched in June 2022 to further enhance overall network service lineups • 1Q22 IP and WAN service revenues slightly decreased QoQ as expected mainly because a certain large project’s initial revenue concentrated in 4Q21
Mobile	**Consumer: Customer acquisition pace improved under changing competitive landscape. Stronger than expected start** **Enterprise: Revenue and subscription to grow by continuously accumulating IoT usages such as for network cameras** • 1Q22-end total mobile subs: 3,616 thousand (+118 thousand QoQ) of which, consumers +36 thousand QoQ (4Q21-end +17 thousand QoQ), of which enterprise mobile (excl. MVNE) +83 thousand QoQ • Strategy to offer value-added solutions such as multi-carrier (mobile carriers redundancy) and eSIM for back-up has been successful and attracting users
SI	**Started with strong demand Construction: Order-received +23.1%, Order backlog +40.7%**
Equity method investee **DeCurret**	**Preparation for the service launch: Granted a patent for “Two-tiered Digital Currency Platform” and executing various PoCs**
Stock Split	**Scheduled to conduct a stock split at a ratio of two-for-one with an effective date of October 1, 2022**

Consolidated Financial Results

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

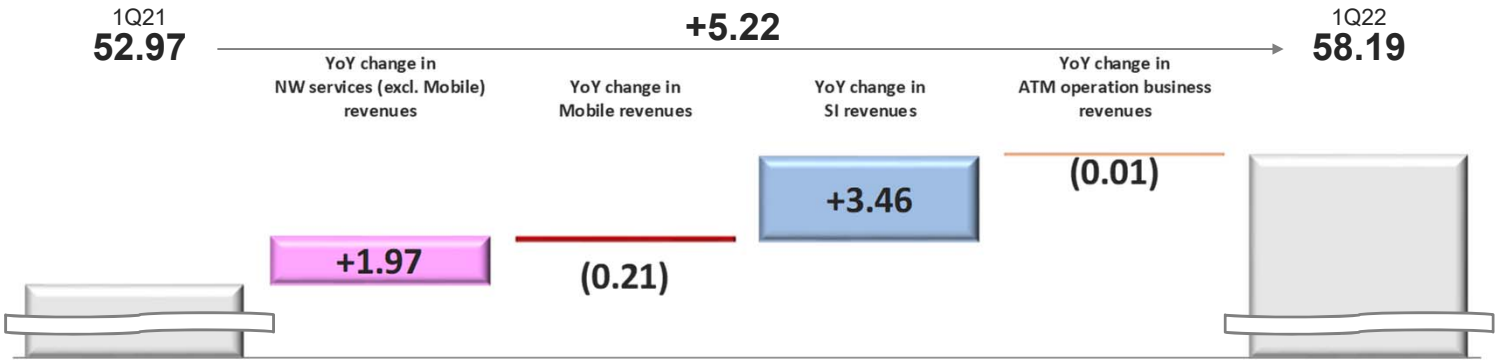
	% of revenue 1Q22 Results Apr. 2022 - June 2022	% of revenue 1Q21 Results Apr. 2021 - June 2021	YoY		% of revenue FY2022 1H Targets (Announced in May 2022) Apr. 2022 - Sep. 2022	YoY		% of revenue FY2022 Targets (Announced in May 2022) Apr. 2022 - Mar. 2023	YoY	
Revenues	58.19	52.97	+9.8%	+5.22	117.0	+7.3%	+7.95	250.0	+10.5%	+23.66
Cost of Revenues	78.2% 45.49	78.4% 41.55	+9.5%	+3.94	77.7% 90.9	+5.7%	+4.93	76.9% 192.2	+10.0%	+17.49
Gross Profit	21.8% 12.70	21.6% 11.43	+11.1%	+1.27	22.3% 26.1	+13.1%	+3.01	23.1% 57.8	+12.0%	+6.17
SG&A etc.	13.2% 7.67	13.3% 7.07	+8.6%	+0.61	13.2% 15.4	+11.7%	+1.62	12.2% 30.6	+9.0%	+2.52
Operating Profit	8.6% 5.03	8.2% 4.36	+15.3%	+0.67	9.1% 10.7	+15.0%	+1.40	10.9% 27.2	+15.5%	+3.65
Profit before tax	11.4% 6.62	10.1% 5.35	+23.8%	+1.27	8.8% 10.3	(1.3%)	(0.13)	10.5% 26.3	+8.8%	+2.14
Net Profit	7.5% 4.39	6.6% 3.51	+25.2%	+0.88	5.8% 6.8	(1.3%)	(0.09)	7.0% 17.5	+11.7%	+1.83

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

Year over Year Analysis

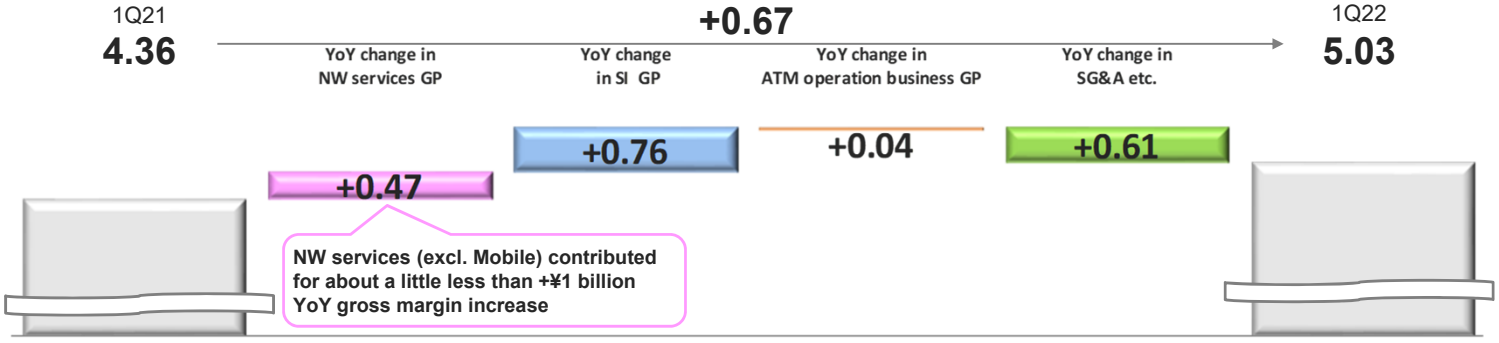
Unit: ¥ (JPY) billion (bn)
GP = Gross Profit
YoY = Year over year comparison

Revenues



- NW services (excl. Mobile) revenues are calculated by deducting the below mentioned Mobile services revenues from total NW services revenues. The revenues include non-mobile consumer revenue which is a small amount
- Mobile services revenues include IIJ Mobile Services (including MVNE) and IIJmio (consumer mobile)

Operating Profit

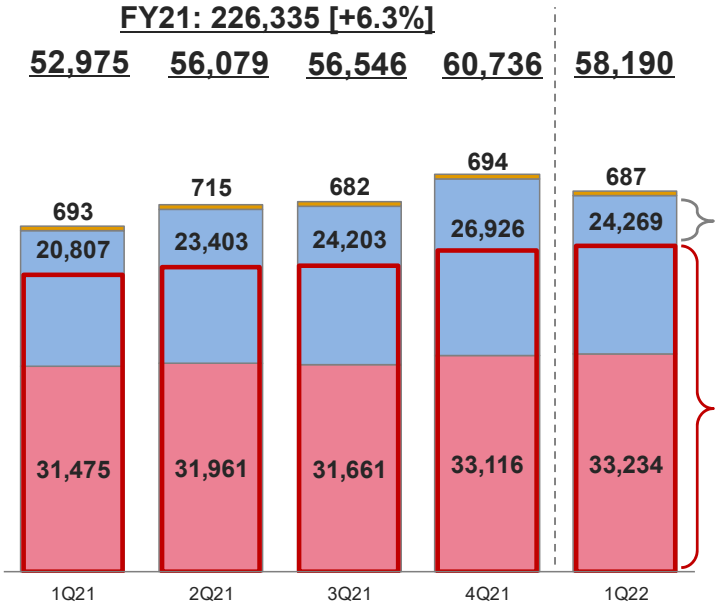


- SG&A etc. in this slide represents the sum of SG&A, which includes R&D expenses, and other income/expenses

Revenues

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

- Network (NW) Services
  - Internet Connectivity Services (Enterprise)
  - Internet Connectivity Services (Consumer)
  - Outsourcing Service
  - WAN Service
- Systems Integration (SI)
  - Systems Construction (including equipment sales)
  - Systems Operation and Maintenance
- ATM Operation Business



One-time revenue
1Q22: ¥7.63 billion, +11.7%YoY
(13.1% of 1Q22 total revenues)

Recurring revenue
1Q22: ¥49.87 billion, +9.7%YoY
(85.7% of 1Q22 total revenues)

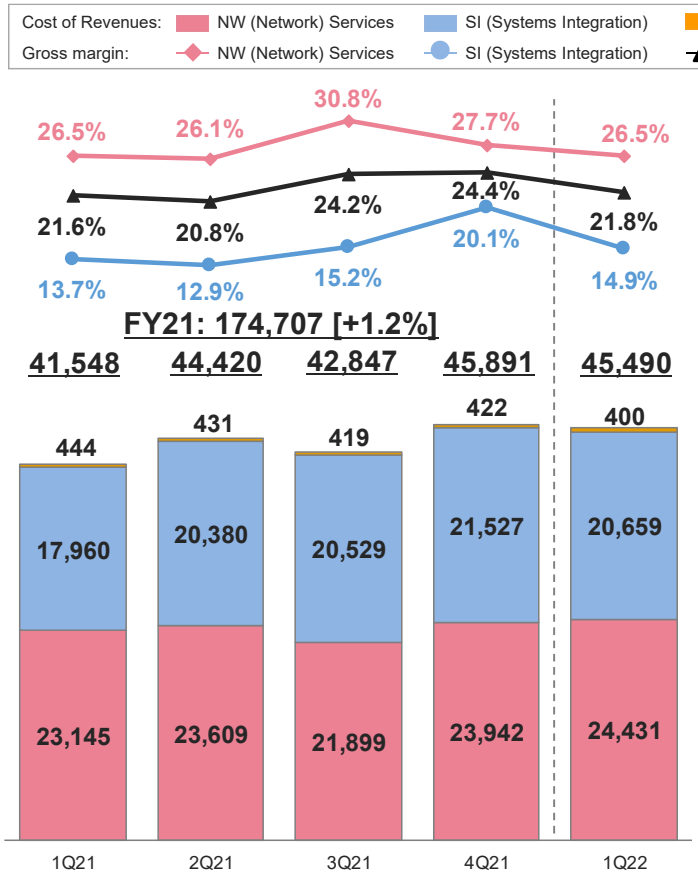
NW Services revenue (excluding Mobile Services)
1Q22: ¥22.86 billion (+9.4%YoY, +¥1.97 billion)
(39.3% of 1Q22 total revenues)

Mobile Services revenue
1Q22: ¥10.37 billion (-2.0%YoY, -¥0.21 billion)
(17.8% of 1Q22 total revenues)

- One-time revenue, systems construction revenues which include equipment sales, is mainly recognized when systems and/or equipment are delivered and accepted by customers
- Recurring revenue represents the following monthly recurring revenues: Internet Connectivity Services (Enterprise), Internet Connectivity Services (Consumer), Outsourcing Services, WAN Services, and Systems Operation and Maintenance
- Mobile services revenues include IIJ Mobile Services (including MVNE) and IIJmio (consumer mobile)

Cost of Revenues & Gross Profit Ratio

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



◆Total gross profit

- 1Q22: ¥12.70 billion (+11.1%, +¥1.27 billion YoY)

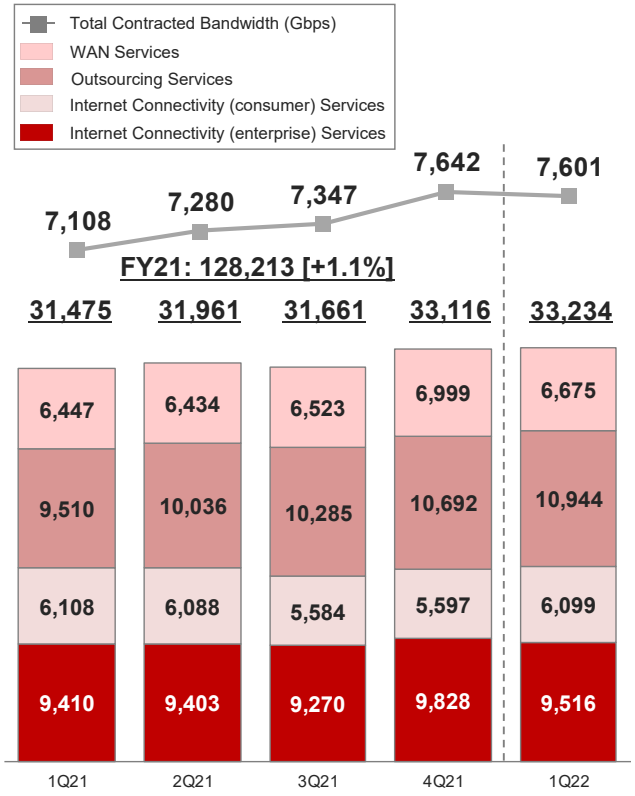
◆Gross profit for NW services

- 1Q22: ¥8.80 billion (+5.7%, +¥0.47 billion YoY)
  - 1Q22 gross margin slightly decreased from 4Q21 mainly due to increased cost at the beginning of a new fiscal year
  - 1Q22 gross margin reflects YoY decrease in the margin of mobile services. The margin of mobile services is to gradually decrease as the users of the old plan, which voice plan's margin is higher, are migrating to the new plan continuously
  - 3Q21 gross margin includes a onetime profit contribution of approximately ¥1.08 billion which was a result of FY20 Docomo's mobile interconnectivity (unit charge) revision

◆Gross profit for SI

- 1Q22: ¥3.61 billion (+26.8%, +¥0.76 billion YoY)
  - Due to seasonality, 1Q22 gross margin is lower than 4Q21 due to the seasonality of lower quarter revenue
  - 4Q21 gross margin increased mainly due to a large systems construction revenue, which is a seasonal factor, and a small purchasing cost portion

Network Services (1) Revenues



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

◆ **Internet Connectivity (enterprise) Services**
- 1Q22: ¥9.52 billion, +1.1% YoY
  - Of which, IP (dedicated Internet access service for enterprises): ¥3.45 billion, +5.2% YoY
  - Of which, Enterprise mobile (IoT usages etc.): ¥2.63 billion, +12.4% YoY
  - Of which, MVNE (IIJ Mobile MVNO Platform Service, service offer to other MVNOs): ¥2.43 billion, -14.7% YoY
    - ✓ Revenue decreased as we reflected the annual revision of mobile data interconnectivity charge in our selling price to MVNE clients. The magnitude of revenue decrease was as expected.

◆ **Internet Connectivity (consumer) Services** (Mainly consumer mobile)
- 1Q22: ¥6.10 billion, -0.1% YoY, of which consumer mobile (IIJmio): ¥5.31 billion, -1.5% YoY
  - Revenue decreased along with ARPU decrease which is a result of the user migration from the old plan which is higher ARPU to the new plan "GigaPlans" which has been taking place since 1Q21. Expect such migration impact to take place throughout FY22
  - 1Q22-end IIJmio subscription: 1,126 thousand (+36 thousand QoQ, 4Q21-end +17 thousand QoQ)
    of which GigaPlans: 757 thousand (+90 thousand QoQ)
    - ✓ 1Q22 net addition more than doubled from 4Q21 under changing competitive landscape

◆ **Outsourcing Services** (Various in-house developed network services
- 1Q22: ¥10.94 billion, +15.1% YoY, of which Security: ¥6.15 billion, +22.2% YoY

◆ **WAN Services**
- 1Q22: ¥6.68 billion, +3.5% YoY

◆ **Demands for network services continued to be strong**
- Following 4Q21, continued to accumulate multi-year-fixed middle scale projects related to network replacement etc. which are to be recognized as revenues gradually from 2Q22
  - As for 4Q21, total contracted revenue: ¥10 billion or slightly more, 5 projects,
    as for 1Q22, total contracted revenue: about ¥3.5 billion, 9 projects

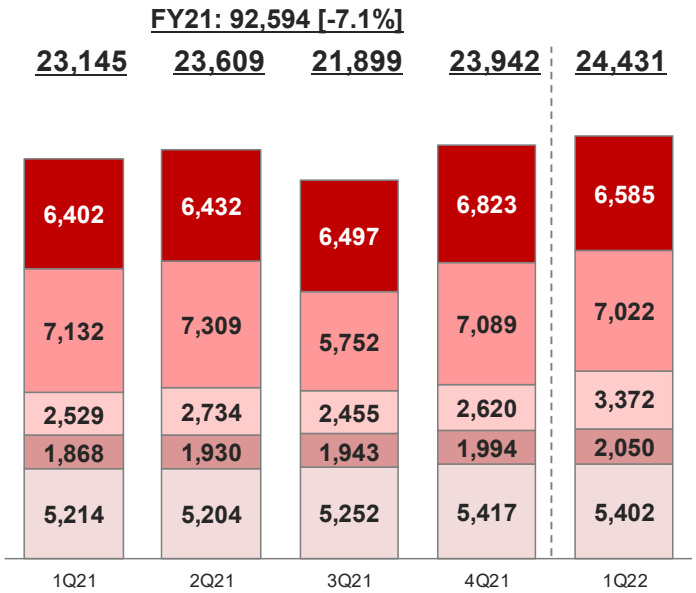
◆ **Internet traffic continue to grow along with the advancement of IT usages**
- Traffic volume comparison between June 2021 and June 2022:
  IIJ backbone 1.4 times (at peak) , Major domestic IX: 1.3 times (total traffic)

◆ **1Q22 IP, enterprise mobile and WAN revenues decreased QoQ as planned mainly due to the following factors**
- Due to a certain large scale network replacement project which initial revenue concentrated in 4Q21, revenue decreased by ¥0.29 billion from 4Q21 to 1Q22,
  due to a large mobile project which revenue recognized per phase, revenue decreased by ¥0.21 billion from 4Q21 to 1Q22

Network Services (2) Cost of Revenues

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

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



- Regarding Outsourcing-related costs:
  - ✓ Voice purchasing cost (unit charge) was revised lower at the beginning of FY21 and Sep. 2021 (switched to auto-prefix appending in Sep.)
  - ✓ 3Q21 Outsourcing-related costs reflect onetime cost reduction impact of Docomo's FY20 mobile interconnectivity cost (unit charge) revision

- 1Q22 Circuit-related costs increased by 2.9%, +¥0.18 billion YoY, along with WAN revenue increase
  - Internet backbone circuit cost remains stable as we can leverage scale merit by having one of the largest Internet backbone networks
- 1Q22 Outsourcing-related costs decreased by 1.5%, -¥0.11 billion YoY mainly because costs related to mobile data interconnectivity decreased
- 1Q22 Others increased by 33.3%,+¥0.84 billion YoY as the purchasing for mobile devices and licenses for SASE and others increased
  - YoY increase for purchasing cost of mobile device: 1Q21: up ¥0.52 billion, 2Q21: up ¥0.72 billion, 3Q21: up ¥0.48 billion, 4Q21: up ¥0.19 billion, 1Q22: up ¥0.44 billion
- Personnel-related costs increased at a constant level from year to year
- No significant increase in network operation-related costs on a quarterly basis

Regarding mobile data interconnectivity cost recognition:

(Mobile Network Operator's mobile infrastructure cost)

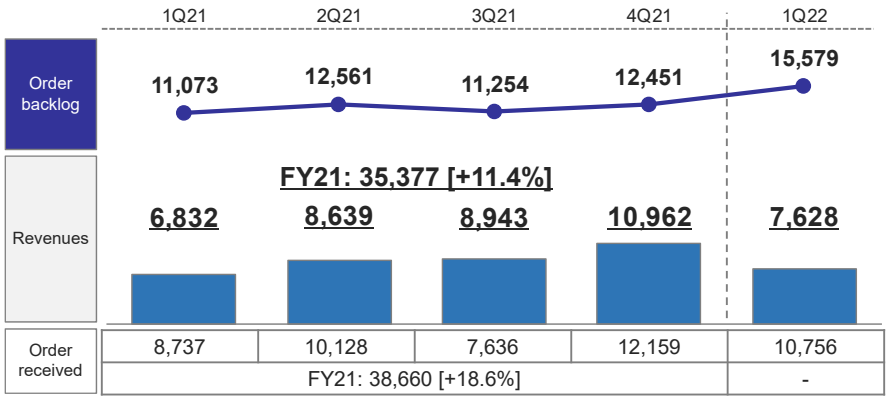
- As for our FY22 usage charge, from 1Q22, we are applying ¥20,327 per Mbps as a unit charge which is a decrease of 28.4% from the previous year's unit charge and was disclosed by Docomo in Mar. 2022. The charge is lower than ¥22,190 which was disclosed by Docomo in Apr. 2021. Both charges were based on Docomo's future cost method.
- As for our FY21 usage charge, from 1Q21, we applied ¥28,385 per Mbps as a unit charge, decrease of 23.9% from the previous year's charge, which was disclosed by Docomo based on the future cost method in Apr. 2021. The charge is to be fixed in late Dec. 2022. No onetime cost reduction upon the charge finalization is taken into consideration for FY22 financial targets.
- As for our FY20 usage charge, from 1Q20, we applied ¥41,436 per Mbps as a unit charge which was disclosed by Docomo based on the future cost method. This unit charge was fixed in late Dec. 2021 to ¥37,280 which is a decrease of 12.7% from the previous year's charge. Onetime cost reduction of slightly more than ¥1.0 billion was recorded in 3Q21.

Systems Integration (SI) (1) Revenues

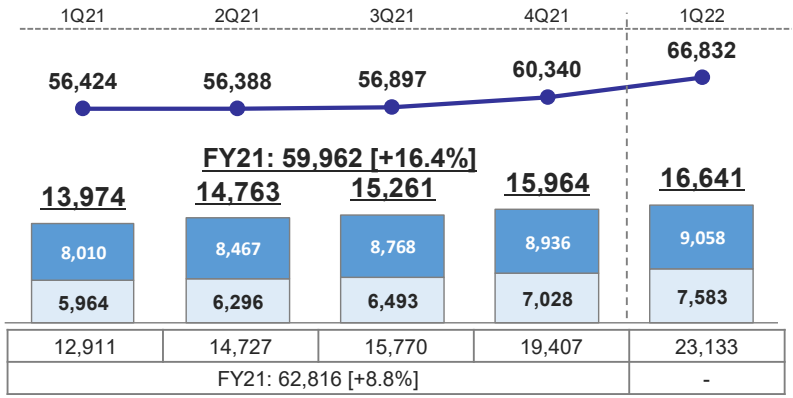
Unit: ¥ (JPY) million
[ ], YoY = Year over year comparison

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

Systems Construction (one-time)



Systems Operation & Maintenance (recurring)

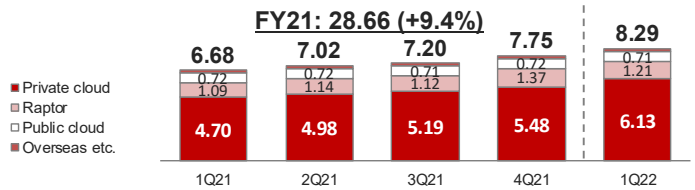


- 1Q22 order-received includes multi-year-fixed large-scale projects

- Favorable order situation
  - Systems construction: 1Q22 order-received +23.1%, 1Q22-end order backlog +40.7%
  - PTC (Singaporean SIer, consolidated from 1Q21) started stronger than expected 1Q22 revenue ¥2.23 billion, operating profit ¥0.1 billion
- Accumulating orders from all industries (large-scale projects acquired in 1Q22)
  - Several campus network replacement projects
  - Several Internet gateway enhancement projects
  - Several Office IT projects such as introduction of Microsoft365
  - Full-outsource of entire IT department operation in a major manufacturing company
  - Replacement of enterprises core system for major construction company
  - Replacement of network infrastructure for a major financial institution etc.

Cloud service revenue

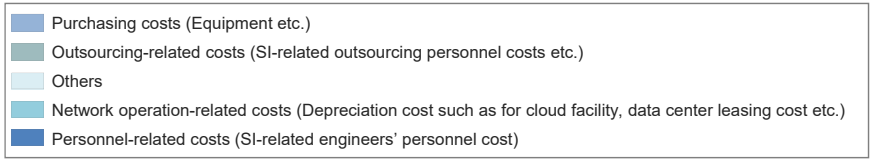
- Private cloud revenue continue to increase mainly by continuously accumulating multi-Cloud projects

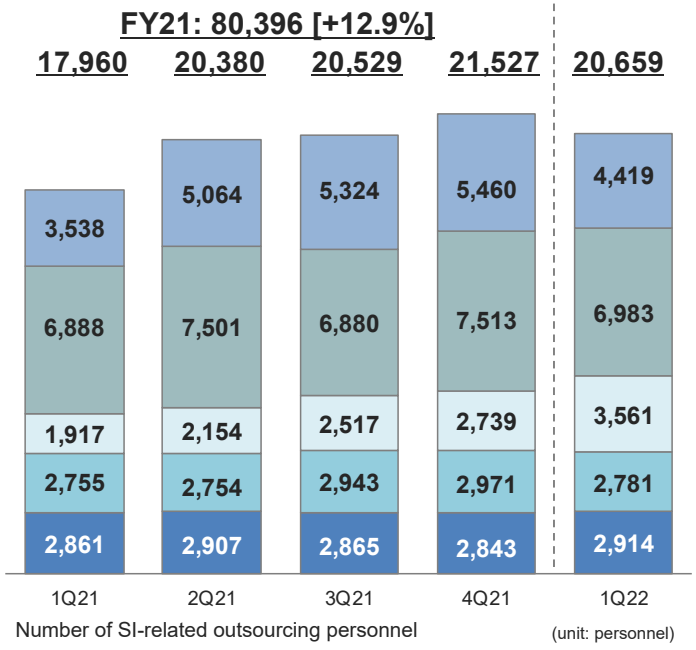


- 1Q22 revenue recognition: 91.4% in Systems operation & maintenance, 8.6% in Outsourcing services

Systems Integration (SI) (2) Cost of Revenues

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





Number of SI-related outsourcing personnel

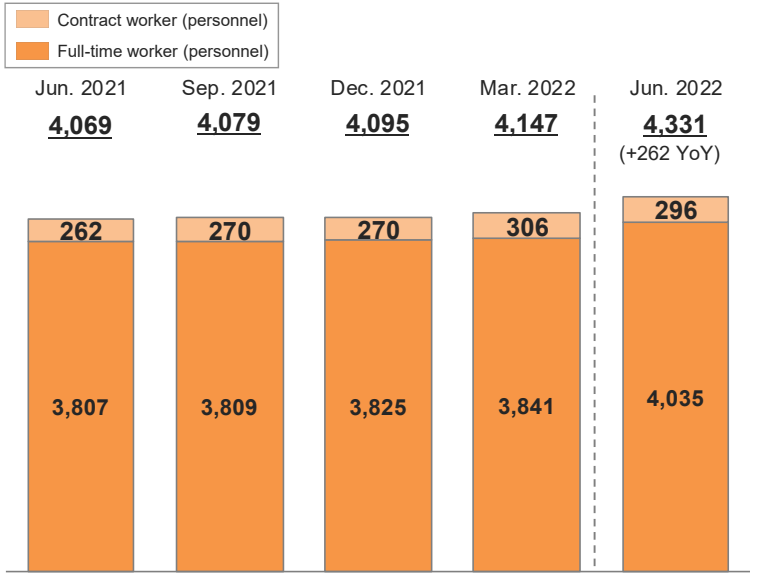
(unit: personnel)

1Q21-end	2Q21-end	3Q21-end	4Q21-end	1Q22-end
1,244	1,300	1,302	1,319	1,327

- Purchasing and outsourcing-related costs are linked to the size of project and revenue
- Others increased mainly due to an increase in license costs along with expansion of multi-Cloud demands
- No significant increase in network operation-related costs
- Personnel-related costs increased at a constant level from year to year

Human Capital Disclosure

Number of Employees



Personnel-related costs & expenses

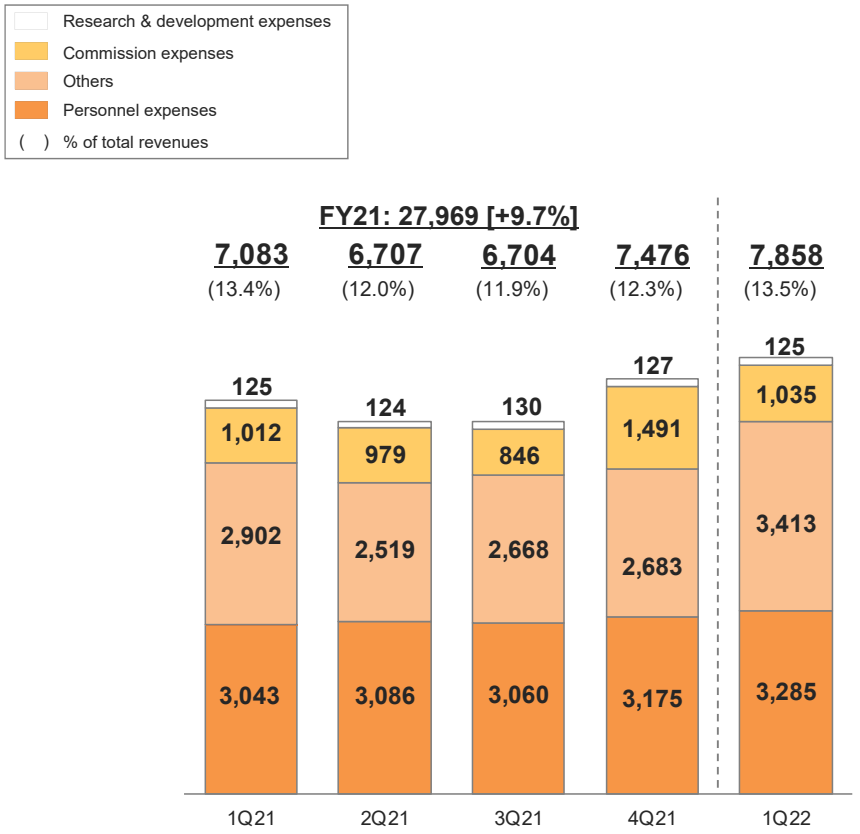
Unit: ¥ (JPY) million, ( ) = % of revenue

1Q21	2Q21	3Q21	4Q21	1Q22
7,756 (14.6%)	7,892 (14.1%)	7,859 (13.9%)	7,985 (13.1%)	8,177 (14.1%)
FY21: 31,491 (13.9%) +10.3%YoY				-

- FY22 plan for net addition of employees (consolidated-base):
  - Approximately 290 personnel (including 178 of newly graduates joined in Apr. 2022)
    - ✓ IIJ (non-consolidated base) has set 50% higher recruitment targets for both newly graduates for Apr. 2023 and mid-hire careers for FY22 than usual years

SG&A

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

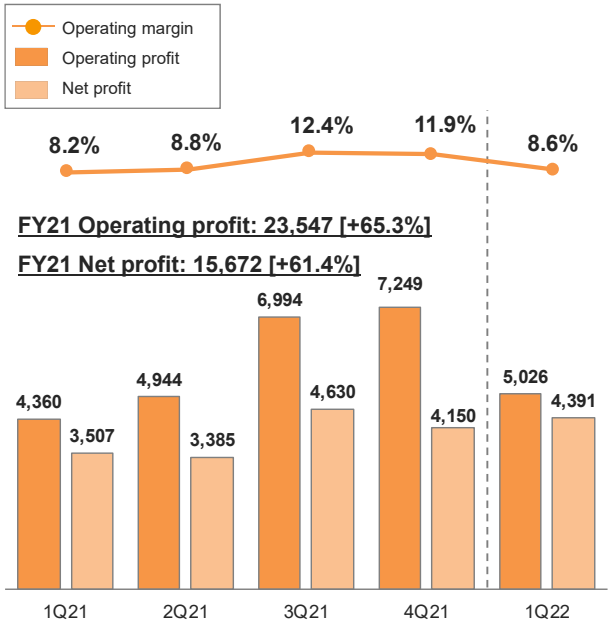


- Progressed as expected
- Others increased mainly due to advertisements for consumer business
- Personnel expenses increased at a constant level from year to year

- SG&A etc. in this slide shows the sum of SG&A which includes R&D expenses (not including other income/expenses)
- In 4Q21, mobile marketing expenses increased due to a seasonal factor

Profit

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



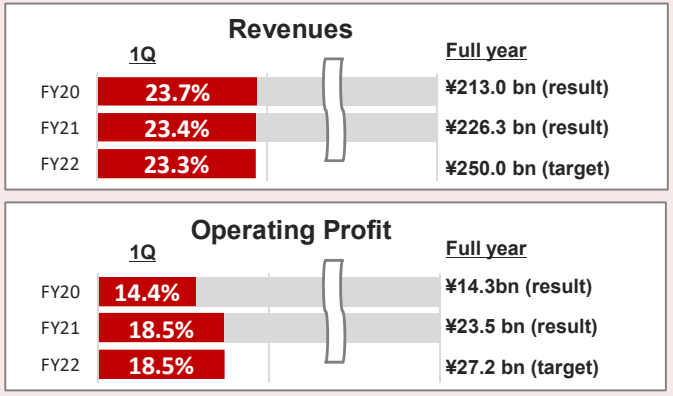
1Q21	2Q21	3Q21	4Q21	1Q22	
1,208	292	855	595	1,611	Finance income (expense), net
(217)	(155)	(684)	(1,278)	(14)	Share of profit (loss) of investments accounted for using equity method
(1,807)	(1,667)	(2,500)	(2,388)	(2,136)	Income tax expense
(36)	(30)	(35)	(27)	(96)	Less: Profit for the period attributable to non-controlling interests

- ◆ 1Q22 Operating profit: ¥5.03 billion, +15.3% YoY
- ◆ 1Q22 Profit before tax: ¥6.62 billion, +23.8% YoY
  - Interest expense: ¥133 million
  - Foreign exchange gain : ¥474 million
  - Valuation gain on funds* etc. : ¥1,200 million (1Q21: ¥1,296 million)
  - Dividend income: ¥63 million
  - Share of loss of investments accounted for using equity method: ¥14 million
    DeCurret-related loss (IIJ ownership:38.2%):

1Q21	2Q21	3Q21	4Q21	1Q22
296	256	780	1,456	78

  - ✓ DeCurret divested its crypto asset business on Feb. 1, 2022 to dedicate its business resources to digital currency business. 3Q21 loss increased as it included temporary loss of ¥484 million due to the divestiture in addition to ordinal loss. 4Q21 loss includes ¥1.18 billion of loss as impairment on corresponding amount of goodwill (No more loss related to the divestiture)
- ◆ 1Q22 Net profit: ¥4.39 billion, +25.2% YoY

1Q progress against full year target



- Net profit shows “Profit for the period attributable to owners of the parent”
- Under IFRS, equity securities are measured at fair value through OCI (Other Comprehensive Income) while funds are measured through profit or loss.

Consolidated Statements of Financial Position (Summary)

Unit: ¥ (JPY) million

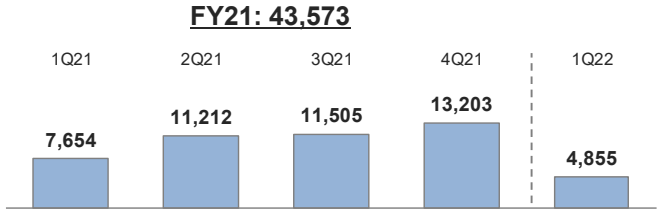
	Mar. 31, 2022	June 30, 2022	Changes
Cash & cash equivalents	**47,391**	**42,557**	**(4,834)**
Trade receivables	**37,649**	**34,435**	**(3,214)**
Inventories	**2,608**	**3,304**	**+696**
Prepaid expenses (current & non-current)	**24,006**	**27,468**	**+3,462**
Tangible assets	**17,846**	**17,621**	**(225)**
Right-of-use assets	**44,874**	**42,425**	**(2,449)**
Of which, operating leases (rent of office, data center etc.)	27,859	26,436	(1,423)
Of which, finance leases (network equipment etc.)	17,015	15,989	(1,026)
Goodwill & intangible assets	**25,903**	**25,890**	**(13)**
Investments accounted for using the equity method	**5,830**	**5,717**	**(113)**
Other investments	**17,410**	**17,354**	**(56)**
Others	**8,289**	**8,959**	**+670**
Total assets:	**231,805**	**225,730**	**(6,075)**
Trade & other payables	**20,742**	**19,393**	**(1,349)**
Borrowings (current & non-current)	**21,870**	**21,120**	**(750)**
Contract liabilities & Deferred income (current & non-current)	**17,405**	**18,111**	**+706**
Income taxes payable	**5,795**	**1,853**	**(3,942)**
Retirement benefit liabilities	**4,395**	**4,371**	**(24)**
Other financial liabilities (current & non-current)	**47,181**	**45,846**	**(1,335)**
Of which, operating leases (rent of office, data center etc.)	28,157	26,742	(1,415)
Of which, finance leases (network equipment etc.)	18,069	16,932	(1,137)
Others	**9,796**	**8,416**	**(1,380)**
Total liabilities:	**127,184**	**119,110**	**(8,074)**
Share capital	**25,562**	**25,562**	**-**
Share premium	**36,518**	**36,552**	**+34**
Retained earnings	**37,024**	**39,157**	**+2,133**
Other components of equity	**6,275**	**6,040**	**(235)**
Treasury shares	**(1,851)**	**(1,831)**	**+20**
Total equity attributable to owners of the parent:	**103,528**	**105,480**	**+1,952**

Ratio of total equity attributable to owners of the parent:
- 44.7% as of Mar. 31, 2022
- 46.7% as of June 30, 2022

Consolidated Cash Flows

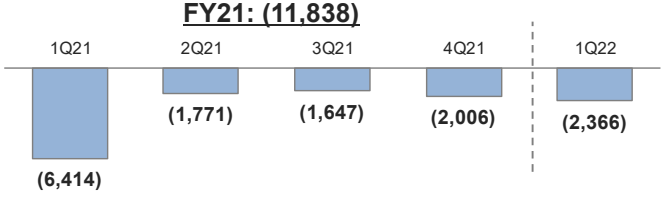
Unit: ¥ (JPY) million
[ ], YoY = Year over year comparison

Operating Activities



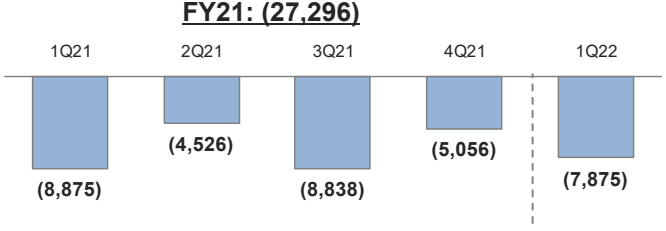
	1Q22 Major Breakdown	YoY Change
Profit before tax	6,623	+1,273
Depreciation and amortization	7,055	+449
Changes in operating assets & liabilities	(1,063)	(992)
Income taxes paid	(6,091)	(2,757)

Investing Activities



	1Q22 Major Breakdown	YoY Change
Purchase of tangible assets	(1,839)	+1,000
Purchase of intangible assets such as software	(1,149)	+176
Proceeds from sales of tangible assets (leaseback)	791	+207

Financing Activities

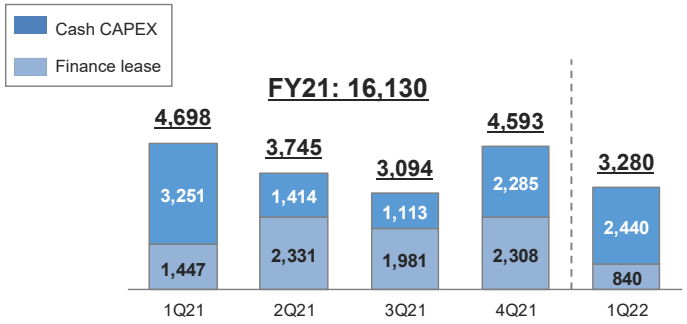


	1Q22 Major Breakdown	YoY Change
Payment of operating/finance leases and other financial liabilities	(4,819)	(356)
Dividends paid	(2,258)	(499)
Repayment of borrowings	(750)	+3,335

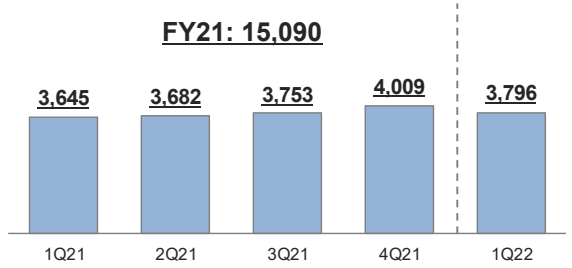
Other Financial Data

Unit: ¥ (JPY) million

CAPEX



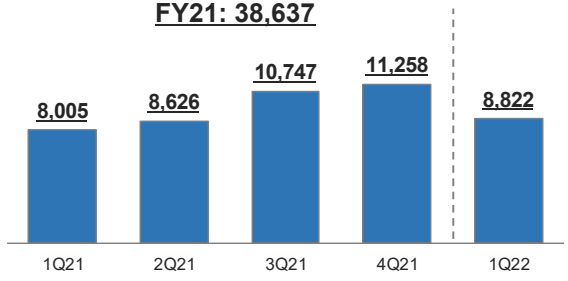
CAPEX-related depreciation and amortization



➢ Breakdown (Unit: JPY billion)

	1Q21	1Q22
NW Usual Capex	2.6	2.0
Cloud-related	1.1	0.3
Shiroi DC-related	0.6	0.7
Customer-related	0.3	0.3
ATM-related	0.0	0.0

Adjusted EBITDA



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

Financial Targets for FY22 (Unchanged from May 2022)

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

	% of Revenues FY22 Targets (Apr. 2022 - Mar. 2023)	% of Revenues FY21 Results (Apr. 2021 - Mar. 2022)	YoY	
Revenues	250.0	226.3	+10.5%	+23.66
Cost of Sales	76.9% 192.2	77.2% 174.7	+10.0%	+17.49
Gross Profit	23.1% 57.8	22.8% 51.6	+12.0%	+6.17
SG&A etc.	12.2% 30.6	12.4% 28.1	+9.0%	+2.52
Operating Profit	10.9% 27.2	10.4% 23.5	+15.5%	+3.65
Shares of profit (loss) of investments accounted for using equity method investees	*(0.4)*	*(2.3)*	-	+1.93
Profit before tax	10.5% 26.3	10.7% 24.2	+8.8%	+2.14
Net Profit	7.0% 17.5	6.9% 15.7	+11.7%	+1.83

	% of Revenues FY22 1H Target (Apr. 2022 - Sep. 2022)	YoY	
Revenues	117.0	+7.3%	+7.95
Cost of Sales	77.7% 90.9	+5.7%	+4.93
Gross Profit	22.3% 26.1	+13.1%	+3.01
SG&A etc.	13.2% 15.4	+11.7%	+1.62
Operating Profit	9.1% 10.7	+15.0%	+1.40
Shares of profit (loss) of investments accounted for using equity method investees	*(0.2)*	-	+0.20
Profit before tax	8.8% 10.3	(1.3%)	(0.13)
Net Profit	5.8% 6.8	(1.3%)	(0.09)

	Assumption for Revenue	Assumption for Gross Profit
NW services (excluding mobile)	Accelerate with large-scale NW replacement projects in addition to strong revenue accumulation trend following FY21	Structurally and continuously expand with revenue growth
Mobile	While enterprise mobile to largely grow, total mobile revenue to decrease by ¥0.5 bn or slightly more as migration to cheaper new plan (GigaPlans) continues etc.	Smaller than FY21 profit as no onetime impact upon the unit charge finalization is taken into consideration (in FY21, we had approx. ¥1.08 bn of profit contribution) & onetime profit related to voice-purchasing cost down impact would be smaller in FY22
SI	Increase with demands for NW integration & large-scale NW replacement projects requiring both NW services and SI etc.	Increase as SI revenue volume to expand and gross margin to slightly improve
ATM	Same level as FY21	Same level as FY21

Other assumptions

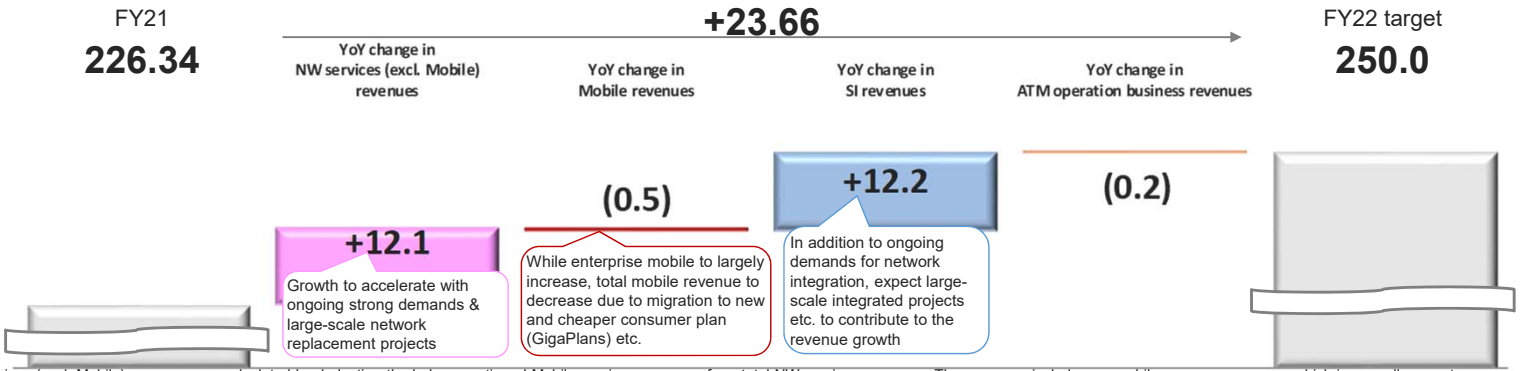
- SG&As: increase due to enhanced recruitment & promotion
- Share of loss of investments accounted for using equity method investees to be smaller as DeCurret related loss would be smaller (Plan: DeCurret's loss to be around ¥0.7 bn)
- Net addition of employees: approx. 290 including 178 newly graduates
- CAPEX: approx. ¥21.5 bn including approx. ¥5.0 bn for Shiroi DC 2nd site

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

Financial Targets for FY22 (Unchanged from May 2022)

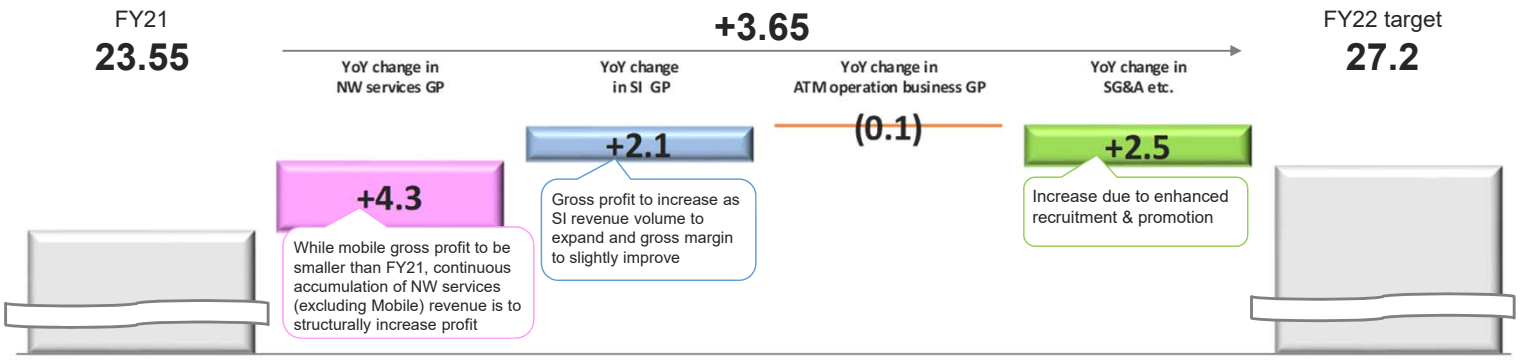
Unit: ¥ (JPY) billion (bn)
YoY = Year over year comp

Revenues



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

Operating Profit



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

Appendix

Dividend Forecast and Stock Split

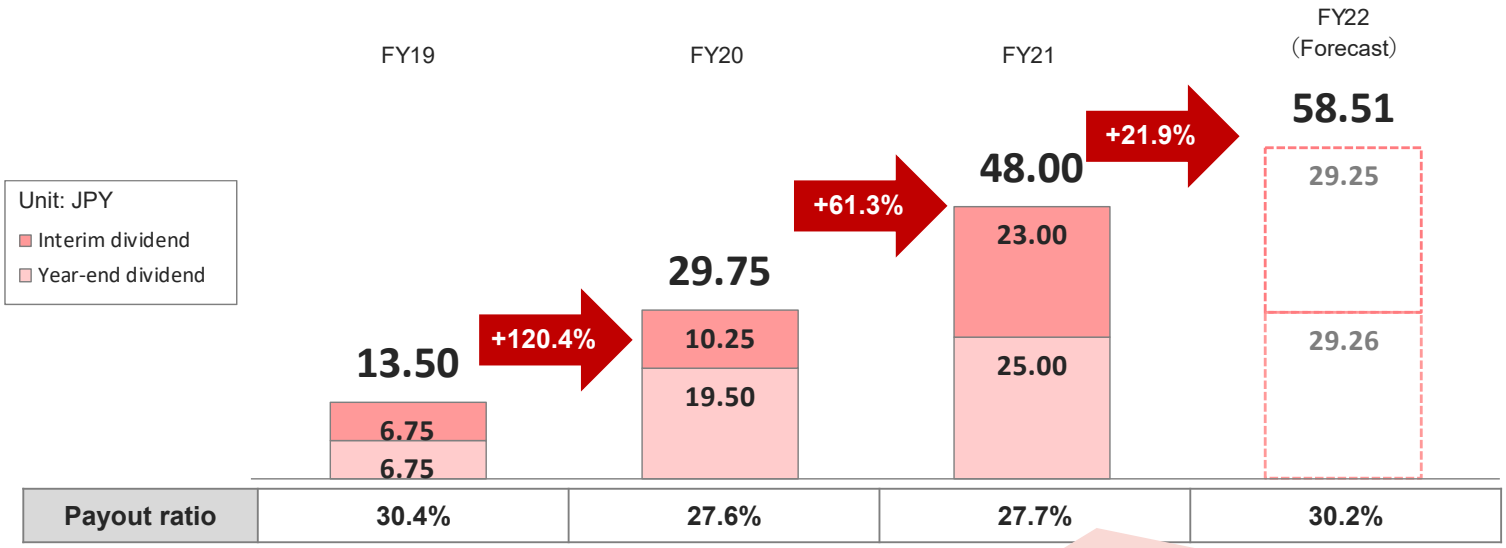
◆ Stock Split (Announced on August 5, 2022)

- Stock split: 2-for-1
- Effective date: October 1, 2022 (record date: September 30, 2022)

◆ Historical dividend per share:

Basic Dividend Policy

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



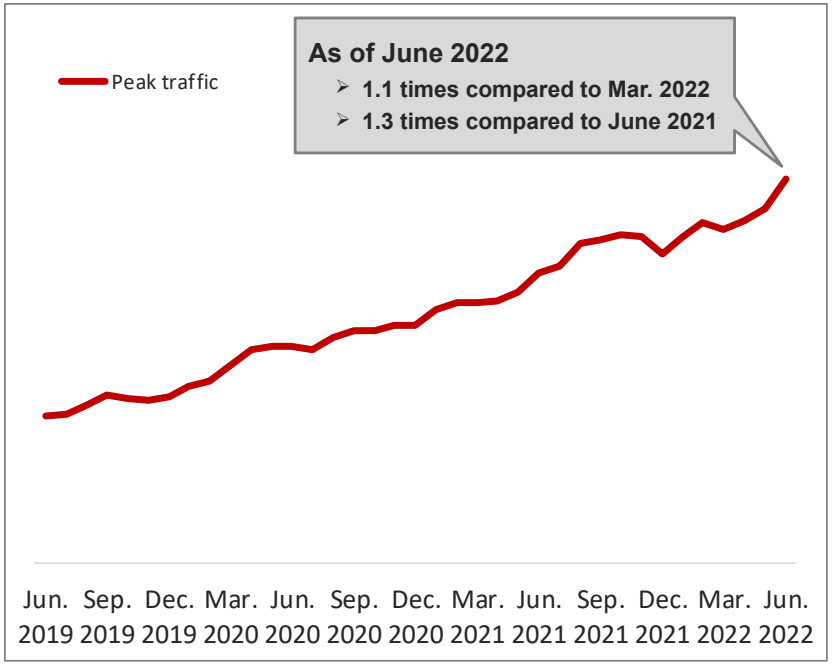
Adjusted payout ratio is around 30%, which is calculated by deducting temporary and non-cash transaction such as valuation gain on funds & impairment losses

- Along with the stock split, ADR ratio will be 2 common stocks = 1ADR
- As for year-end dividend for FY22, it is written on the pre-split basis. Its post-split basis is ¥14.63 per share

Internet traffic trend

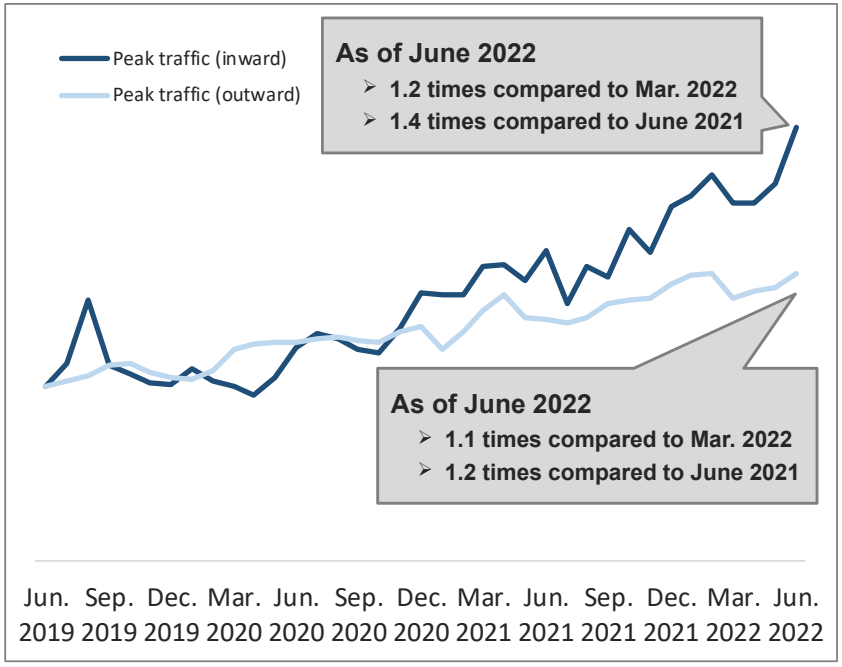
➢ Internet traffic continues to grow along with the advancement of IT usages

Historical traffic data of Major domestic IX



・ Source: INTERNET MULTIFEED CO.

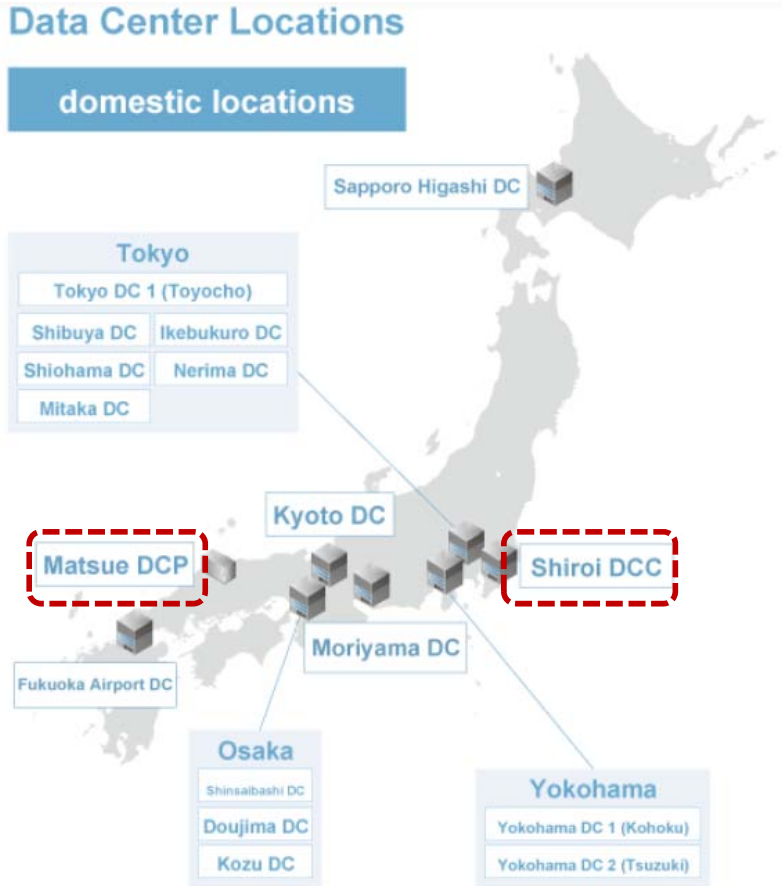
Historical traffic data of IIJ Backbone



・ Source: Internet Initiative Japan Inc.

Data Centers (1)

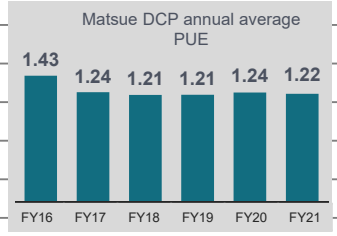
- **Operating 16 data centers in Japan** (as of Dec. 2021)
  - Of which, 14 data centers are leased from data center owners per space
  - Of which Shiroi & Matsue are owned by IIJ and used for own service facility such as for network & Cloud as well as colocation services to store clients' IT assets.
    - ✓ Integrate racks currently spread out throughout Japan to improve operation productivity
- **In 2011, IIJ built Japan's first container-based modular data center using an outside air-cooling system, eco-friendly data center**
  - Modular approach allows flexible expansion and short-term construction with low cost
- **IIJ has exported container modular data center to overseas including the People's Republic of Laos in 2016 to help them set up IT infrastructure**



Data Centers (2)

About IIJ's own data centers and their initiatives to realize carbon neutral data centers

	Matsue Data Center Park (Matsue DCP)	Shiroi Data Center Campus (Shiroi DCC)
Key highlights	Commercial container module type data center that was first in Japan to use outside air-cooling system	System module type data center based on the cultivated know-hows based on Matsue DCP
Location	Matsue city, Shimane prefecture	Shiroi city, Chiba prefecture
Site area	Approx. 16,000 square meter	Approx. 40,000 square meter
Server capacity	Approx. 500 racks	Approx. 6,000 (plan, 4 sites in total) 1st site: approx. 700, 2nd site: approx. 1,100 (plan)
Year in operation	1st site: Apr. 2011, 2nd site: Nov. 2013	1st site: May 2019, 2nd site: July 2023 (plan)
PUE	FY21 results: 1.22, FY22 outlook: maintain 1.2s	FY21 result: 1.42, FY22 outlook: 1.3s
Initiatives for carbon off-sets	• Reducing energy consumption by using outside-air cooling • Achieved renewable energy usage rate of 100% by using substantial renewable energy (Feb. 2022~) • Plan to install solar panel facilities	• Reducing of energy consumption by using outside-air cooling • Plan to use substantial renewable energy from FY23 • Leveling energy demand through peak-cut by utilizing lithium-ion batteries power pack • Plan to install solar panel facilities

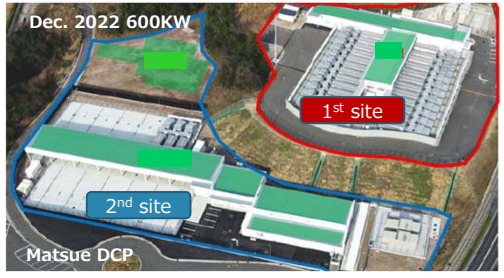


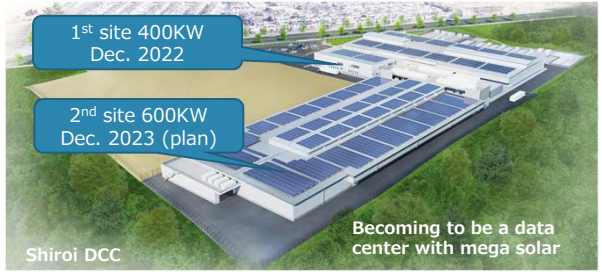
Information disclosure based on the TCFD Recommendations

- IIJ aims to reduce greenhouse gas emissions at its own data centers which account for more than 70% of greenhouse gas emissions (Scope 1 and 2) through "usage of renewable energy" and "improvement of energy conservation"

Measures	Targets
Usage of renewable energy	The target is to increase the renewable energy usage rate of data centers (Scope 1 and 2) to 85% in FY2030.
Improvement of energy conservation	The target is to keep the PUE of the data center at or below the industry's highest level until FY2030 through continuous technological innovation.

Status of onsite solar panel facilities installment





- TCFD: Task Force on Climate-related Financial Disclosures
- PUE (Power Usage Effectiveness) : Total data center facility energy usage divided by IT equipment energy usage
- Scope 1 and 2 (Greenhouse gas emissions by a company): Direct emissions from the use of fuels and industrial processes at the company and indirect emissions from the use of electricity and heat purchased by the company (as defined by the GHG Protocol)
- Renewable energy: Including substantial renewable energy through the use of non-fossil fuel certificates

Sales Activity for Public Sector

- **Long and enduring relationship**
  - We have been providing reliable Internet connectivity services to central government agencies and local governments from the early 1990s
  - They are also using our security services such as firewall services and DDoS Protection services and other network services such as WAN. We also receive network related integration projects from them as well.
- **Not only private sector, but also public sector is changing their attitude toward IT and network.**
- **Growing demands for network related projects**
  - Enhance remote access for central government agencies
  - Promote telework environment for local governments
  - Support educational institution to become online-capable
    - Hybrid of face-to-face & online classes, remote access, environment for faculty and staff etc.
  - Projects to replace “Security Cloud” for local governments
- **Social Security and Tax Number System which is often called “my number” was first introduced in October 2015. As of January 1, 2022, 41% to the total Japanese population has received their ID according to the MIC.**
  https://www.soumu.go.jp/kojinbango_card/

Docomo's Mobile data interconnectivity charge (Mbps unit charge・monthly)

Fiscal Year	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Method	Actual cost method		Future cost method MNOs are to disclose the charges for next three years based on their prediction about cost etc.				
New					Announced in Mar. 2022 ¥20,327 -28.4% YoY	¥15,697 -22.8% YoY	¥13,207 -15.9% YoY
					-8.4% compared to the previously announced charge	-12.9% compared to the previously announced charge	
Current	¥49,311 -6.0% YoY	¥42,702 -13.4% YoY	¥37,280 -12.7% YoY	Announced in Apr. 2021 To be fixed around late Dec. 2022 (scheduled) ¥28,385 -23.9% YoY	¥22,190 -21.8% YoY	¥18,014 -18.8% YoY	
				-14.5% compared to the previously announced charge	-20.5% compared to the previously announced charge		
Old	¥49,311 -6.0% YoY	¥42,702 -13.4% YoY	Announced in Mar. 2020 ¥41,436 -3.0% YoY	¥33,211 -19.8% YoY	¥27,924 -15.9% YoY		

- The same calculation method is applied to both the actual cost method and the future cost method: (Data communication cost + profit) /demand
- As for our FY20 usage charge, from 1Q20, we applied ¥41,436 per Mbps as a unit charge which was disclosed by Docomo based on the future cost method. This unit charge was revised and fixed at the end of Dec. 2021 as ¥37,280 which is a decrease of 12.7% from the previous year's charge. We recorded all impact generated from this revision in our 3Q21 financial results.
- The charge disclosed based on the future cost method is to be finalized based on MNOs actual cost results etc. FY21 charge of ¥28,385 is to be fixed at around the end of Dec. 2022. MNO is an abbreviation for Mobile Network Operator such as NTT Docomo.
- Mobile interconnectivity charges, which are underlined above, had been fixed based on the results
- The YoY (Year over Year) decrease percentage written under each charge is compared with the previous year charge
- The charge is public information disclosed in NTT Docomo's service terms and conditions document uploaded on NTT Docomo's website (only available in Japanese)
  https://www.docomo.ne.jp/binary/pdf/corporate/disclosure/mvno/business/oroshi.pdf

Comparison between the old & new plans of consumer mobile

Including tax

Old

Basic Monthly Charge	Minimum Start Plan (3GB)	With voice	¥1,760
		Data-only	¥990
	Light Start Plan (6GB)	With voice	¥2,442
		Data-only	¥1,672
	Family Share Plan (12GB)	With voice	¥3,586
		Data-only	¥2,816
Pay as you go	Voice call charge as you go	¥22 per 30 seconds	

New: GigaPlans (Apr. 2021~)

			New Price from April 1, 2022
2Giga Plan (2GB)	With voice	~~¥858~~	¥850
	Data-only	~~¥748~~	¥740
4Giga Plan (4GB)	With voice	~~¥1,078~~	¥990
	Data-only	~~¥968~~	¥900
8Giga Plan (8GB)	With voice	~~¥1,518~~	¥1,500
	Data-only	~~¥1,408~~	¥1,400
15Giga Plan (15 B)	With voice	~~¥1,848~~	¥1,800
	Data-only	~~¥1,738~~	¥1,730
20Giga Plan (20GB)	With voice	~~¥2,068~~	¥2,000
	Data-only	~~¥1,958~~	¥1,950
Voice call charge as you go	¥11 per 30 second (from Sep. 2021)		

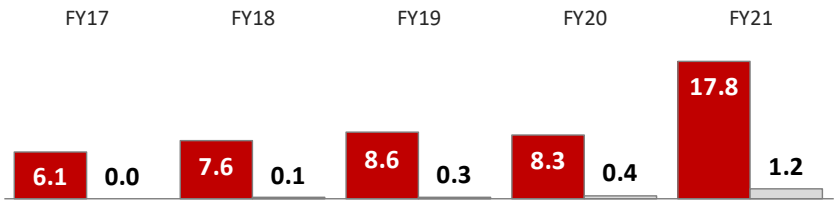
- The above table briefly indicates service prices for major functions to show the differences between the old and new plans
- Voice call charge is only for domestic calls. New voice call charge as you go was revised on September 11, 2021 and is applied to old plan's users
- eSIM service for consumers: "IIJmio eSIM Service Data Plan Zero" launched in Mar. 2020, Data communication service using NTT Docomo's LTE and 3G network
  Pricing: monthly charge (bundled data volume ; 0 GB), ¥165 per month. Additional data volume; First 1GB ¥330 per GB, 2GB to 10GB: ¥495 per GB

Overseas Business

Revenue and Operating Profit

Unit: JPY billion
Revenue (Mostly recognized in SI)
Operating Profit

◆ While FY21 revenue was weaker than expected mainly due to PTC, newly consolidated Singaporean SIer, for FY22 we aim for revenue and operating profit increase with each country's advancement, PTC recovery, certain projects, change in foreign exchanges etc.



- FY20 results were impacted by the COVID-19 pandemic etc.
- FY21 results include a new consolidated subsidiary PTC which we acquired in Apr. 2021.

Overseas offices

Business Developments

➢ **Started focusing on overseas business around FY11.** It was when Japanese companies started to expand their business overseas and requested us to provide the same service quality we offer in Japan

➢ **While IT markets in the U.S. and Europe are relatively matured, the markets in Asia are just beginning to build up**

- Increasing demand for network services, SI and etc. in China and Thailand,
- Vietnam: Cybersecurity Law (Jan. 2019), Opened another facility in Hanoi in addition to Ho Chi Min
- In Apr. 2021, we bought a Singaporean system integrator, PTC – expect to strengthen ASEAN business

➢ **Providing Cloud services in Indonesia, Thailand and Vietnam. Working with local prominent IT companies**

- With Biznet Networks in Indonesia (from Mar. 2015)
- With T.C.C. Technology Co., Ltd, in Thailand (Feb. 2016)
- With FTP Telecom Partner in Vietnam (Nov. 2016)

ATM Operation Business

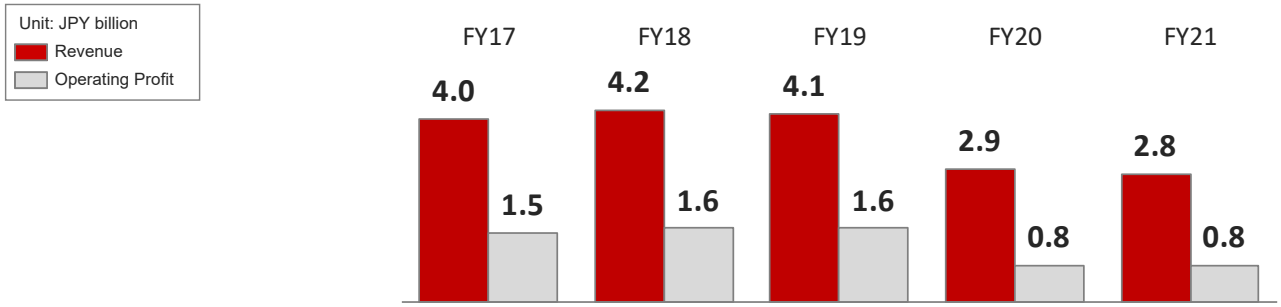
Business Model

- Similar to “Seven Bank” model
- Placing ATMs in Pachinko parlors in Japan
  - After long discussion, started to place in Kanto, Kansai, Kyushu and Tokai areas
  - 9,035 Pachinko parlors in Japan as of December 31, 2020 (Source: Zennichiyuren)
- Receive commission for each withdrawal transaction

Trust Networks Inc.

- In charge of ATM operation business
- IIJ’s ownership: 80.6%
- Established in 2007
- Number of employees: about 10 personnel

Revenue and Operating Profit



- FY20 Revenue significantly decreased from FY19 as the stores we had placed ATMs were closed temporally and fewer customers visited due to the COVID-19 pandemic and stay-at-home-order/request.

- ATM (Automated Teller Machine)

FinTech Business through DeCurret (1)

About DeCurret Holdings (IIJ's equity method investee)

◆ Management (from Apr. 2022)

- DeCurret Holdings (Shareholders: 35 companies including IIJ)
  - Representative Director and President: Murabayashi (Mr.)
    (IIJ Vice President, former CIO for Mitsubishi Tokyo UFJ Bank)
  - Part-time directors: IIJ, MUFG bank, KDDI, NTT, JAPAN POST bank

◆ Background:

- In Jan. 2018, IIJ established DeCurret Inc. as an equity method investee engaging in crypto asset business and digital currency business with prominent Japanese companies
  - IIJ has been providing Raptor which is a ASP based FX systems which have been used by prominent Japanese security companies
- In Dec. 2021, DeCurret Inc. established DeCurret Holdings through a share transfer
- In Feb. 2022, DeCurret Holdings divested its crypto asset business to dedicate its business resources to digital currency business

◆ DeCurret-related income (loss)

unit: JPY million

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
(306)	(273)	(207)	156	(296)	(256)	(780)	(1,456)	(78)

- IIJ ownership: 4Q19 30.0%, from 1Q20 41.6%, from 1Q21 38.2% is used to recognize gain and loss
- 3Q21 loss increased as it included temporary loss of ¥484 million due to the divestiture in addition to ordinal loss. 4Q21 loss includes ¥1.18 billion of loss as impairment on corresponding amount of goodwill (No more loss related to the divestiture)
- 4Q20 income includes a gain on changes in equity of ¥349 million arisen from the issuance of common stock
- FY22 DeCurret's loss is to be around ¥0.7 billion

Digital Currency Settlement Platform Business (mainly BtoB)

◆ Plan to launch digital currency platform services in 4Q23

◆ Executing PoCs with various companies

- Apply Smart Contract to calculate fees & execute payment for trade transaction (Mitsubishi Corporation, NTT),
- Test electricity trading through virtualized data (ENERES)
- Execute store settlement at LAWSON, convenience store chain (Kansai Electric Power)
- Issue digital coupon in anticipation of temporary special benefit for child-rearing households (Kesennuma & Aizuwakamatsu cities) etc.

◆ About Digital Currency Forum (DeCurret as a facilitator)

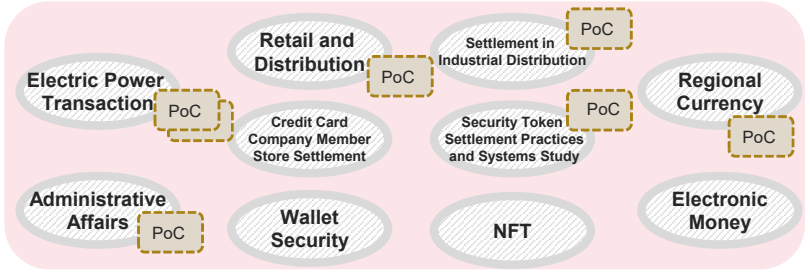
- Number of members: 83 as of Apr. 2022
  - Not only companies but also local government such as Tokyo is a member
- Observers: FSA, METI, BOJ and other regulators
- Several working groups:
  - Electricity trading
  - Digital coupons and others for local government services
  - Logistics

FinTech Business through DeCurret (2)

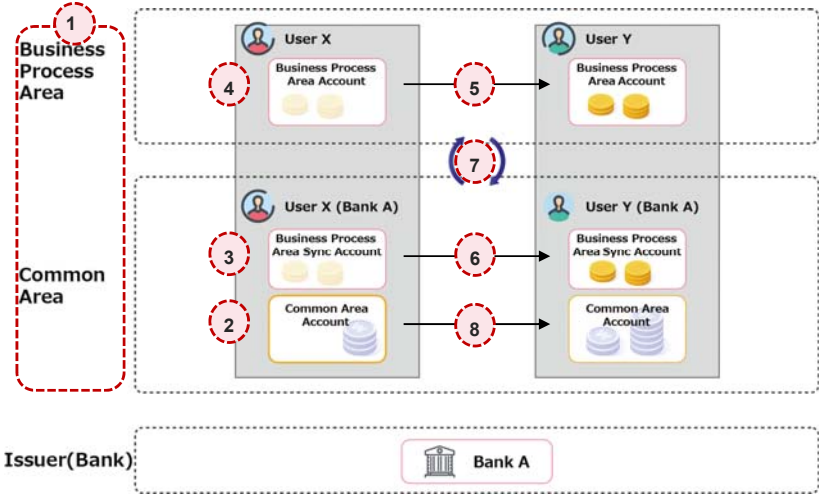
For more details
https://www.decurret-dcp.com/en/news.html

Appendix

Digital Currency Forum Subcommittees (83 participants: companies, local governments, etc.)



Two-tiered Digital Currency Platform



Promoting Proof of Concept (PoC) for DCJPY * (approx. 40 companies participating)

*DCJPY: tentative name of digital currency issued by banks that is able to be issued, transfer, and repay through the Two-tiered Digital Currency Platform

Subcommittees	Participators	Outline
Industrial distribution	Mitsubishi Corporation, NTT etc.	Feasibility studies to use DCJPY for Mitsubishi's trading transaction settlement with smart contracts
Electricity power transaction A	Kansai Electric Power Company etc.	Purchase of goods at convenience stores by using DCJPY which is obtained through electricity Peer to Peer (P2P) transactions
	ENERES etc.	Feasibility studies to launch new services by utilizing DCJPY and electric power transaction data
Regional currency	Mitsubishi UFJ Research & Consulting, TIS etc. .	Digitalization of local governments' benefits for selective usages through DCJPY so that local governments' administrative process such as printing, mailing and others are improved
Administrative process		
Retail and Distribution	Seven Bank etc.	Feasibility studies to apply DCJPY transaction among retail, wholesale and banking through EDI (Electronic Data Interchange)
Security token	Nomura HD, Future Architect etc.	Feasibility studies to use security token and DCJPY for DVP (Delivery Versus Payment) settlement to learn about potential issues etc.

Patented "Two-tiered Digital Currency Platform"

	Outline of the patent（Electronic Currency Management System）
①	Two-tired system consisting of Common Area and Business Process Area
②	Issuance of digital currency within Common Area
③④	Issuance of Business Process Area's token tied to Common Area's digital currency
⑤⑥	Transfer of token within Business Process Area, and transfer of digital currency, being tied to those transfer of token, within Common Area
⑦	Synchronous processing of Common Area and Business Process Area
⑧	Transfer of digital currency, not being tied to Business Process Area, within Common Area

FinTech Business through DeCurret (3)

Shareholders of DeCurret (35 companies)

Source: DeCurret Web Page

- Internet Initiative Japan Inc. (Ownership: 38.2% as of Mar. 31, 2022)
- KDDI CORPORATION
- NTT Corporation
- Sumitomo Mitsui Banking Corporation
- MUFG Bank, Ltd.
- JAPAN POST BANK Co., Ltd.
- ITOCHU Corporation
- OPTAGE Inc.
- QTnet, Inc.
- KONAMI HOLDINGS CORPORATION
- Sumitomo Life Insurance Company
- SOHGO SECURITY SERVICES CO., LTD.
- SOMPO Light Vortex Inc.
- The Dai-ichi Life Insurance Co., 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
- BicCamera Inc.
- Mitsui Sumitomo Insurance Company, Limited
- Mitsui Fudosan Co., Ltd.
- Mitsubishi Corporation
- Meiji Yasuda Life Insurance Company
- Yamato Holdings Co., Ltd.
- ITOCHU Techno-Solutions Corporation
- Chubu Electric Power Co., Inc.
- Dentsu Group Inc.
- Hankyu Hanshin Holdings Inc.
- Matsui Securities Co., Ltd.
- Energia Communications, Inc.
- Toppan Printing Co., Ltd.
- SBI Holdings, Inc.
- SECOM CO., LTD.

CDN Business through JOCDN

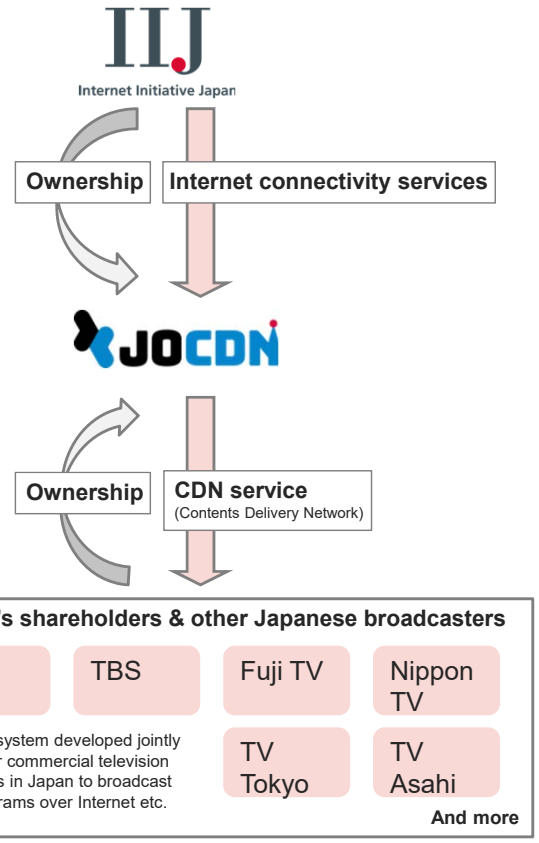
Company Profile

Name	JOCDN Inc. (IIJ's equity method investee)
IIJ Ownership	16.8%
Capital	JPY845 million (including capital reserve)
Established	December 1, 2016
Shareholders	IIJ, Nippon TV, TV Asahi, TBS, TV Tokyo, Fuji TV, WOWOW (Prominent satellite broadcaster in Japan), NHK (Japan's only public broadcaster) and non-Tokyo local broadcasters
Directors	Chairman: Koichi Suzuki (IIJ CEO) President: Shunichi Shinozaki (Nippon TV)

◆Conditions led to create all Japan CDN company JOCDN

- Akamai Technologies (global leader in CDN services, US company) has been dominating CDN market in Japan.
- Growing needs to distribute contents over Internet
- Broadcasting companies distributing contents via Internet
  - Nippon TV bought Hulu Japan in 2014
  - Japanese broadcasting companies operate "TVer" (web platform where viewers can watch certain TV programs for free)
- IIJ has rich and well-renowned expertise in CDN business
  - Olympics games, high school base ball games, university sport and many other popular sports events

Business Model



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