

Note for readers of this English translation

This document has been translated from the Japanese original for reference purpose only. In the event of any discrepancy between this English translation and the Japanese original, the Japanese original shall prevail

Study session on business model of IIJ hosted by Okasan Securities

Internet Initiative Japan Inc. (IIJ)

The Prime Market of the Tokyo Stock Exchange (Ticker symbol: 3774)

January 20, 2023

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.

IIJ has been taking initiatives in Internet Infrastructure field in Japan

Established	December 1992
Number of Employees	4,355 (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%) <small>*Koichi Suzuki is Founder, Chairman and Co-CEO of IIJ</small>

◆ The first established full-scale ISP (Internet Service Provider) in Japan

- ✓ Operate one of the largest Internet backbone networks in Japan
- ✓ Introduce many in-house developed Internet-related network services
- ✓ Highly skilled IP (Internet Protocol) engineers from the inception
- ✓ Support blue-chip clients from the early 90s

◆ Well recognized “IIJ” brand among Japanese blue-chip companies’ IT division

- ✓ Differentiate by reliability and quality of network and systems operation, no critical network troubles ever since the inception
- ✓ Long-term (almost 30 years) client relationship

◆ At the leading edge of IP R&D

- ✓ Differentiate by continuous service developments and business investments
- ✓ Enhancing Cloud, mobile, security, solutions related to BigData, IoT and data governance
- ✓ Always ahead of telecom carriers and systems integrators (SIs) with regards to network services development and operation

...and many more

- Number of employees is consolidated basis and as of Sep 30, 2022.
- We voluntarily delisted from the U.S. NASDAQ Market in April 2019. Our ticker symbol at the OTC (Over The Counter) is IIJY.
- 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.

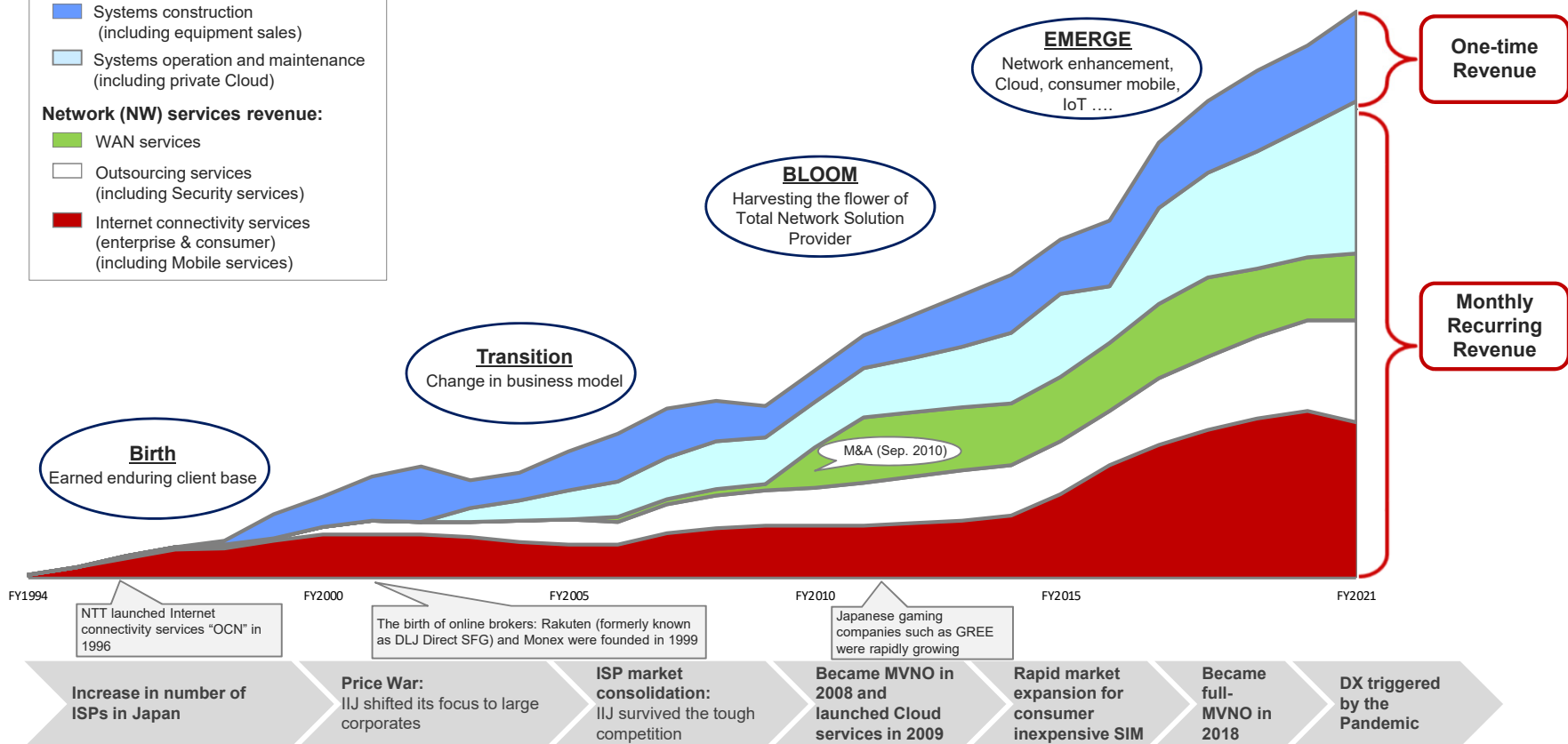
From ISP to Total Network Solution Provider

Systems Integration (SI) revenue:

- Systems construction (including equipment sales)
- Systems operation and maintenance (including private Cloud)

Network (NW) services revenue:

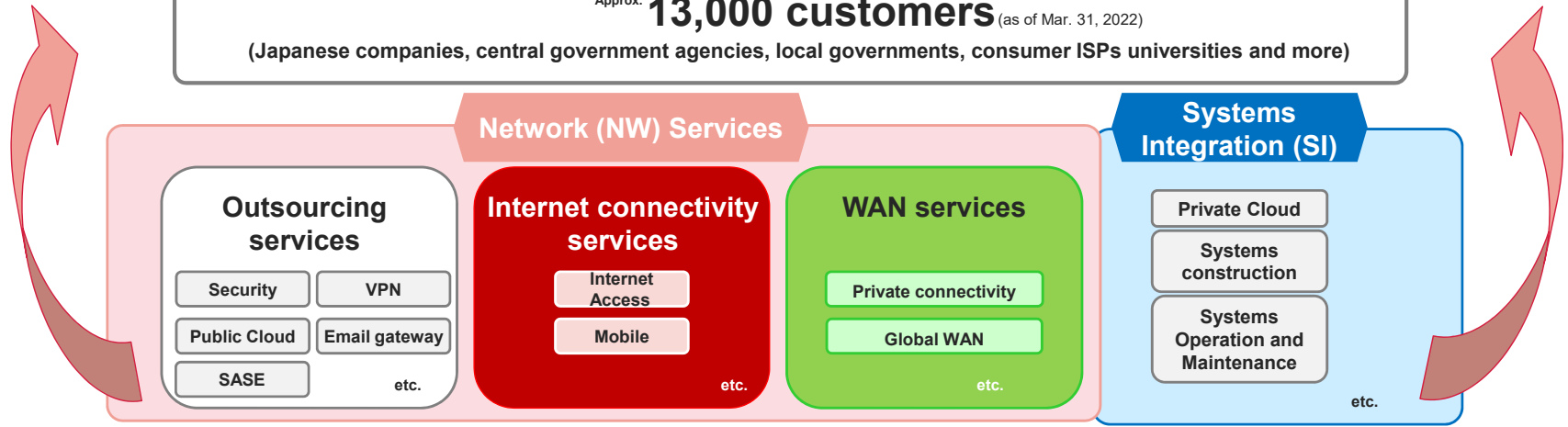
- WAN services
- Outsourcing services (including Security services)
- Internet connectivity services (enterprise & consumer) (including Mobile services)



IJ as a Total Network Solution Provider

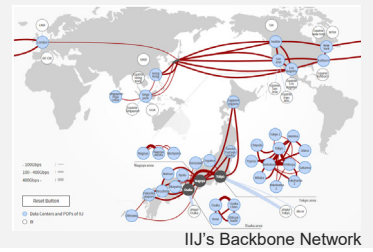
Offers various network services and systems integration together in many projects

Approx. **13,000 customers** (as of Mar. 31, 2022)
 (Japanese companies, central government agencies, local governments, consumer ISPs universities and more)



Major cost components of Network services (mostly non-revenue linked cost)

- Fiber leasing cost for Internet backbone and WAN access line
- Depreciation cost of network equipment, data center operation cost etc.
- Personnel cost for network service development and operation
- Mobile data interconnectivity and voice service purchasing cost for mobile services



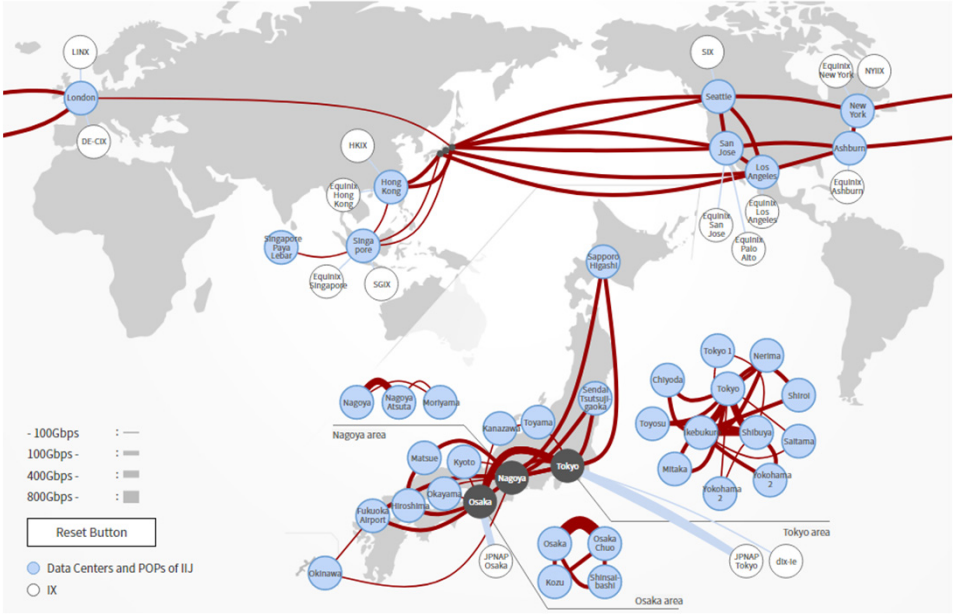
High technology by constructing & operating Internet backbone

Network

- ◆ **One of the largest Internet backbone networks in Japan**
 - Multi-carriers and mesh network
 - ✓ **Highly reliable and an economy of scale**
- ◆ **Operating Internet backbone globally**
 - Connected to the North America, Europe and Asia
 - ✓ **Global solution and global presence**
- ◆ **Outstanding network related technology**
 - Active in expanding network technology
 - Leading domestic and international organizations related to technology
 - ✓ **Virtuous cycle of engineering and technological superiority**

Reliable Operation

- ◆ **Construct and operate network that is thoroughly redundant configuration to ensure uninterrupted operation**
 - Uninterrupted service even experiencing large scale earthquake such as the Great Hanshin earthquake and the Great East Japan earthquake
- ◆ **Reliable operational performance suitable for business use**
 - No crucial trouble since the inception of the company almost 30 years ago



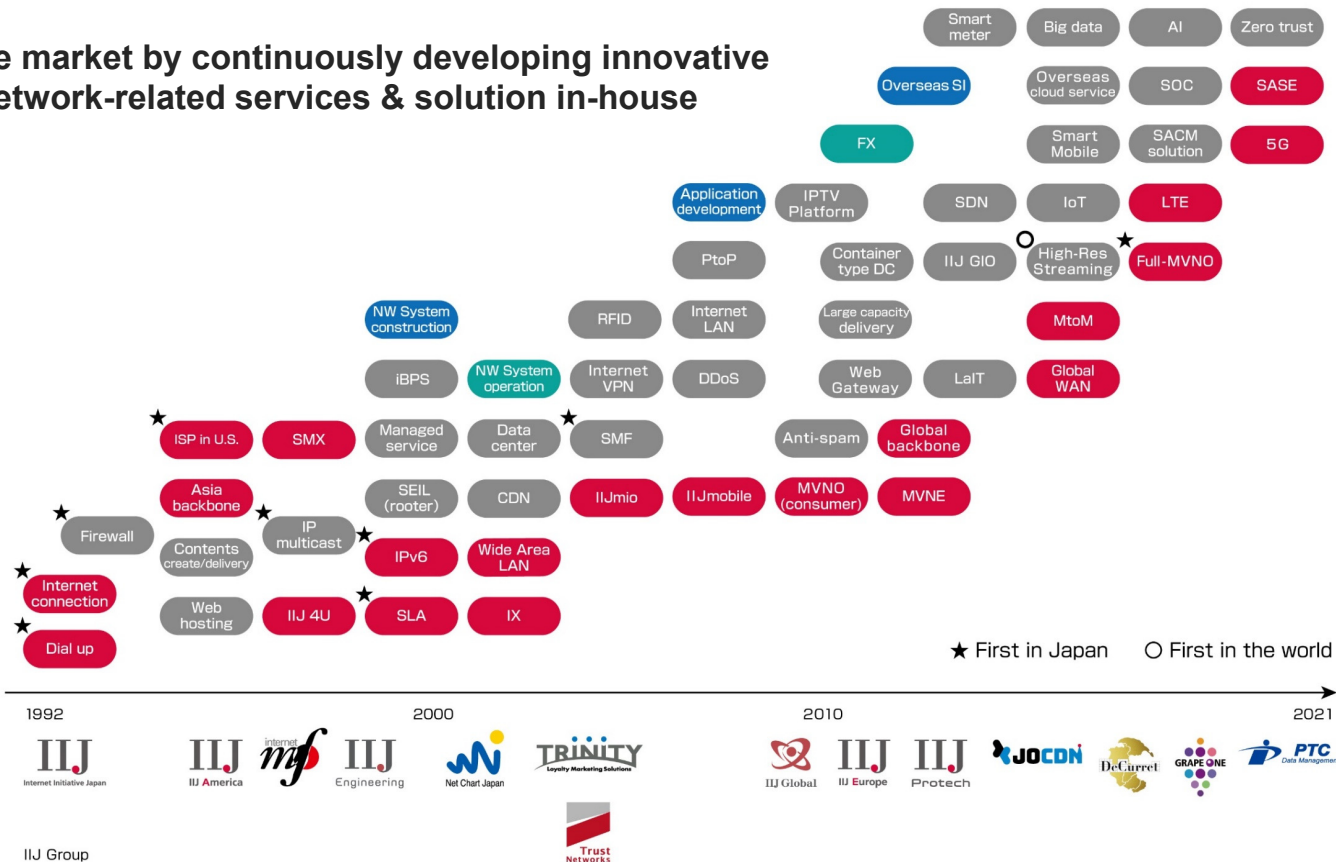
IJ Network availability

99.999%

Less than 30 seconds of downtime per year

Service & Solution Development Capability

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



Excellent Customer Base

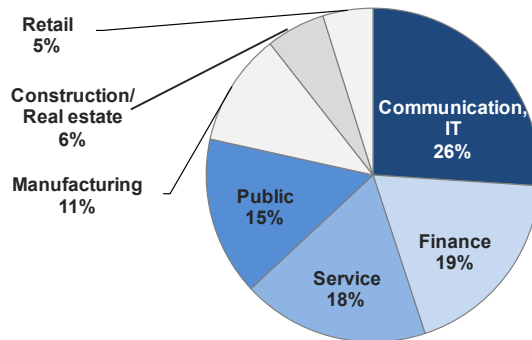
- ◆ Through reliable operation, continuous use of Internet connectivity services since the inception of IJ
- ◆ Our reliable infrastructure operation and cross-sell strategy have led to low churn rate

Cover Most of Top Revenue Companies



Revenue Distribution by Industry

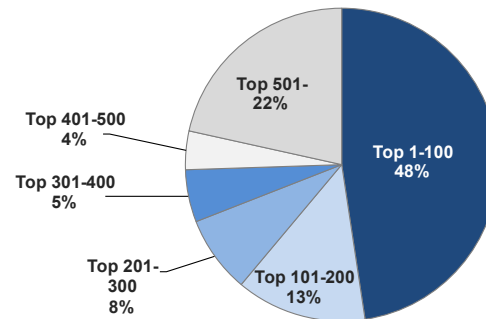
- IJ's client base is well diversified among industry sectors because what we offer, Internet connectivity and security for example, is needed by every industry



- Top ten firms in each industry taken from annual revenues are selected by IJ based on the Yahoo! Japan Finance website (finance/sales/whole market/daily).
- The service penetration and the revenue distributions are based on IJ's FY21

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%



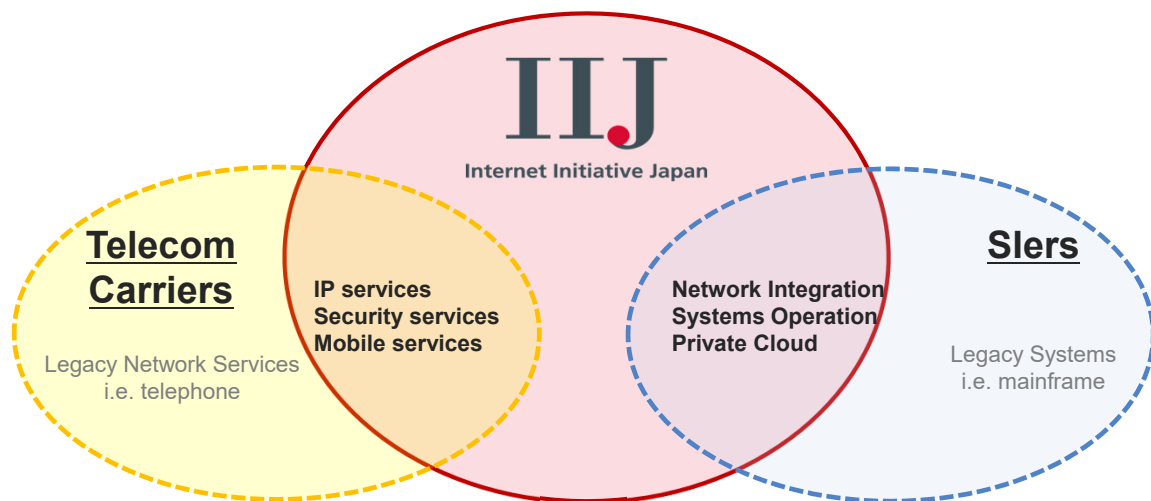
Competitive Advantages

Against telecom carriers, IIJ

- Has highly skilled IP (Internet Protocol) engineers
- Is faster to move than bureaucratic organizations
- Focuses on blue-chip companies' IT needs with SI

Against systems integrators (Slers), IIJ

- Operates one of the largest Internet backbone (Slers do not)
- Has network service assets & development capability (Slers do not)
- Focuses on Internet-related open type systems



**IIJ deals with newer systems and growing IT market
(Not involved in heavy and legacy systems)**

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 global network operation and is 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 (DX) in Japan

- ◆ Internet traffic increasing
- ◆ Security demands expanding
- ◆ Cloud shift
- ◆ Japan, slow IT adopter, including public sector is changing triggered by the pandemic

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

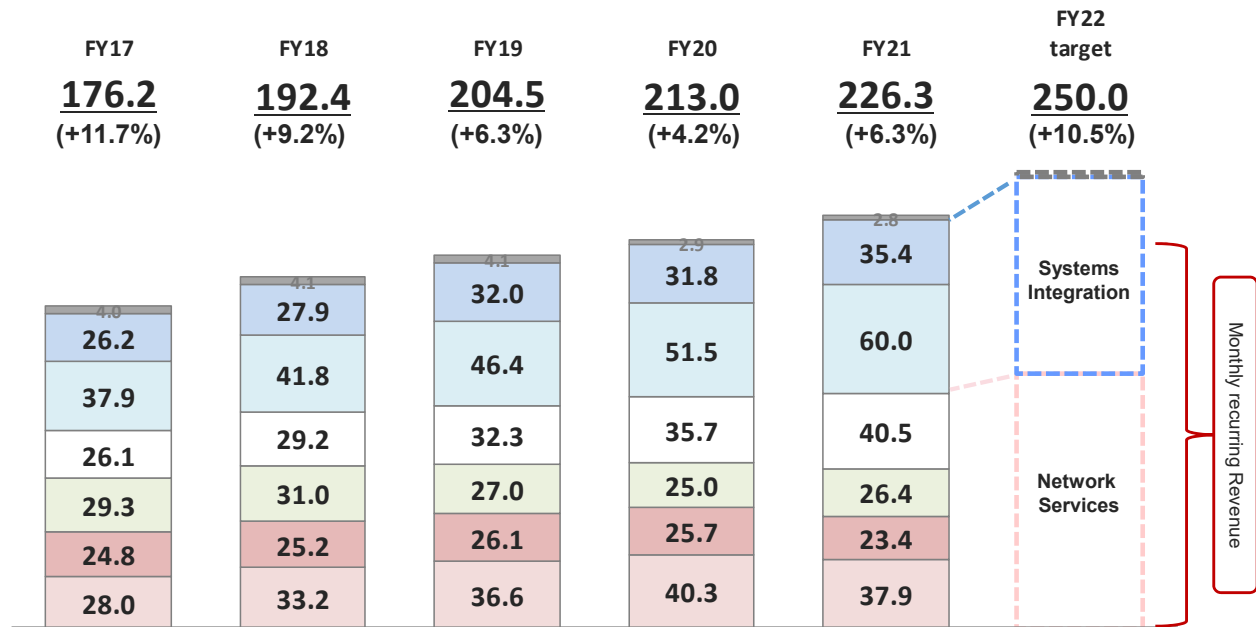
Monthly Recurring Revenue Accumulation

Unit: JPY billion
% = Year over year change

Revenues

- ATM Operation Business
- Systems construction (including equipment sales)
- Systems operation & maintenance (including Private Cloud services)
- Outsourcing services (include security-related services)
- WAN services
- Internet connectivity services for consumers (including consumer mobile)
- Internet connectivity services for enterprises (including MVNE and enterprise mobile services)

Monthly recurring revenues



Cloud service revenues	17.9	20.1	23.6	26.2	28.7
Security-related service revenues	12.1	14.1	16.4	18.4	22.2
Mobile service revenues	35.3	42.0	46.1	47.5	40.7

- 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 IJ'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

Extensive Service Lineup

Unit: ¥ (JPY) billion

Business Model
Strength Growth Strategy

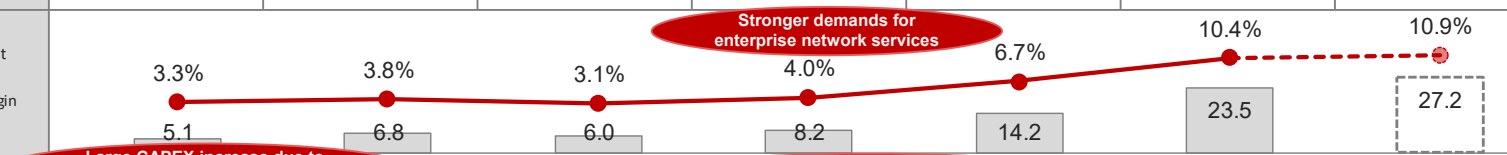
Revenue category		FY21 revenue	About		Business Situation & Outlook													
Network services	Internet connectivity services for enterprise	37.9	<table border="1"> <tr> <td>IP</td> <td>13.68</td> <td> <ul style="list-style-type: none"> Core service providing from the foundation Highly reliable dedicated connectivity services for enterprise (multi-carrier, redundancy etc.) Contracts are based on bandwidth Enterprises use the service for their main Internet line </td> </tr> <tr> <td>Mobile</td> <td>20.35</td> <td> <table border="1"> <tr> <td>Enterprise mobile (IoT usages etc.)</td> <td>10.26</td> </tr> <tr> <td>MVNE (Proving to other MVNOs)</td> <td>10.09</td> </tr> </table> </td> </tr> </table> <p>(Others) Broadband Internet services etc.</p>	IP	13.68	<ul style="list-style-type: none"> Core service providing from the foundation Highly reliable dedicated connectivity services for enterprise (multi-carrier, redundancy etc.) Contracts are based on bandwidth Enterprises use the service for their main Internet line 	Mobile	20.35	<table border="1"> <tr> <td>Enterprise mobile (IoT usages etc.)</td> <td>10.26</td> </tr> <tr> <td>MVNE (Proving to other MVNOs)</td> <td>10.09</td> </tr> </table>	Enterprise mobile (IoT usages etc.)	10.26	MVNE (Proving to other MVNOs)	10.09	<table border="1"> <tr> <td>IP</td> <td> <ul style="list-style-type: none"> Matured market (hard to entry) Blue-chip client base Major cost is fiber leasing, network equipment depreciation, and personnel cost Expect the revenue to continuously increase along with traffic volume and contracted bandwidth increase </td> </tr> <tr> <td>Mobile</td> <td> <ul style="list-style-type: none"> Expect infrastructure utilization & profitability to improve by gathering various traffic such as IoT/enterprise/consumers Enterprise: Expect the demand to increase mid-to-long term Consumer: maintain and increase market share (subscription) with new consumer plan in competitive market </td> </tr> </table>	IP	<ul style="list-style-type: none"> Matured market (hard to entry) Blue-chip client base Major cost is fiber leasing, network equipment depreciation, and personnel cost Expect the revenue to continuously increase along with traffic volume and contracted bandwidth increase 	Mobile	<ul style="list-style-type: none"> Expect infrastructure utilization & profitability to improve by gathering various traffic such as IoT/enterprise/consumers Enterprise: Expect the demand to increase mid-to-long term Consumer: maintain and increase market share (subscription) with new consumer plan in competitive market
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WAN (Wide Area Network)	26.4	Closed network used to connect multiple sites	Stable market for long-term															
Network services	Outsourcing	40.5	<p>In-house developed Internet-related various service line-ups</p> <table border="1"> <tr> <td>Security</td> <td>22.22</td> <td> <ul style="list-style-type: none"> Managed security services, Security Operation Center services and so many more </td> </tr> <tr> <td>Public Cloud</td> <td>2.87</td> <td> <ul style="list-style-type: none"> Offered as a part of Cloud service line-ups </td> </tr> </table>	Security	22.22	<ul style="list-style-type: none"> Managed security services, Security Operation Center services and so many more 	Public Cloud	2.87	<ul style="list-style-type: none"> Offered as a part of Cloud service line-ups 	<ul style="list-style-type: none"> 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 								
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SI	Construction (including Equipment sales)	35.4	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	<ul style="list-style-type: none"> Through providing SI, offer greater value as IoT and Cloud usage penetrate 														

Monthly Recurring Revenue 83%

One time revenue

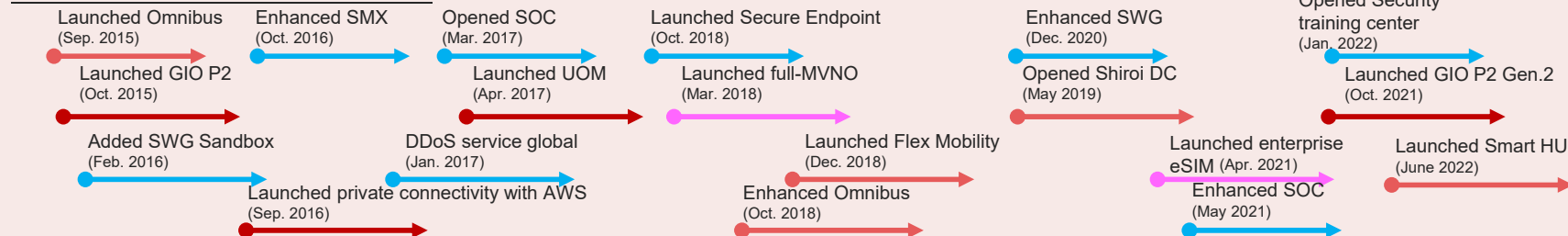
Capex and Business Developments

	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	-



Including 5.0 billion for Shiroi DC 2nd site

Various Network Services Asset



• 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

Network Service (excluding mobile)

Enterprise customers

Direct users such as general business enterprise and network operators such as consumer ISPs and Cable television operators

provide

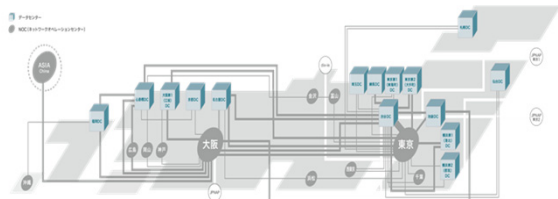
Image

WAN Service

Outsourcing Service

Internet Connectivity Service

Internet backbone



Revenue

- ◆ Monthly recurring revenue
- ◆ Very low churn rate (minimum contract period 1 year, generally automatic renewal)
- ◆ Enterprise ISP market has matured in Japan. New entry is difficult. IJ's market share is stable
- ◆ IP service revenue to grow along with an increase in contracted bandwidth triggered by increase in Internet usages by enterprises
- ◆ Outsourcing services continuously growing mainly by increasing demands for security
- ◆ Revenue per existing client to increase by **cross-selling strategy**

Cost (most items are non-revenue linked cost)

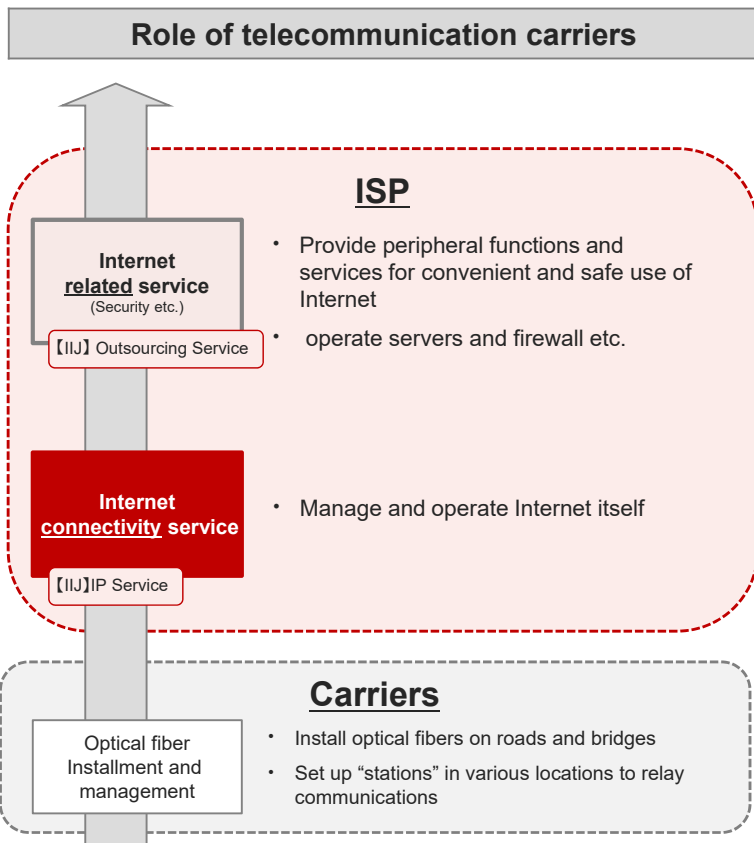
- ◆ Cost to continuously operate Internet backbone
- ◆ Fiber lines are leased from carriers (fiber leasing cost)
- ◆ Network equipment is owned by IJ (depreciation and amortization cost)
- ◆ Data center operation cost
- ◆ Engineers' personnel cost (Service development and operation)

Profit expansion along with revenue growth by leveraging **economies of scale**

IP Service

- **IP Service is bandwidth guaranteed and dedicated Internet connectivity service**
 - Charge based on contracted bandwidth
 - Enterprises use the service for their core and main Internet connectivity
 - Allocate IP addresses
- **Demands have been increasing along with the advancement of IT usages in Japan as seen in increases in virtual meetings, work from home, SaaS usages etc.**
 - New trend of hybrid work style, expansion of SaaS usages, full-scale adoption of Cloud services, increase in CDN traffic and more
- **IJJ's competitive advantages**
 - Japan's first full-scale ISP who has great relationship with Japanese blue-chips companies
 - ✓ Clients are mainly blue-chips companies including BtoBtoC companies, such as consumer ISPs, and central government agencies
 - ✓ New entry to the market is difficult as it has already been matured
 - Achieving economies of scale by operating one of the largest Internet backbone networks in Japan
 - ✓ Main costs are for those needed to operate and maintain the entire Internet backbone network such as Internet backbone circuit leasing cost, depreciation for network equipment, data center related and personnel costs. These cost are not directly linked to revenue
 - As an independent and large scale ISP, IJJ has a strong bargaining power regarding purchasing circuit lines
 - Network equipment performance continues to improve relative to its cost. CAPEX and its related depreciation are in relatively stable trend
 - ✓ Revenue (monthly recurring) is increasing along with an increase in contracted bandwidth of the current clients
 - Minimum contract period is 1 year. Low churn rate with automatically renewal
 - Network is fully redundant configuration: carriers' circuit lines, routes (main and backup) and network equipment (hot and stand by)

- IP(Internet Protocol). By combining protocols, defined process to execute communication, Internet is made available
- Optical fiber holders other than carriers are railways(subway), highways, and local governments (sewers and prefectural roads)



(reference) How IP Service is used (excerpt from a study session held on Dec. 1, 2021 [://www.ij.ad.jp/en/ir/library/session/pdf/20211201_IP_J](http://www.ij.ad.jp/en/ir/library/session/pdf/20211201_IP_J))

Users of IIJ's Internet Connectivity Service: Four types

1

Internet gateways for general enterprises

Point

Reflecting active use of cloud by companies, **demand for broader bandwidth and higher quality in particular has been growing recently**. IIJ's Internet access service may be provided together with other services such as firewall (security), remote access, anti-spam measures and WAN.

2

Internet gateway for government/public sector, financial organizations & EC websites

Point

Especially, for use of websites that require high-level availability and security. Sufficient bandwidth should be secured in advance partly because the amount of traffic may increase sharply during busy seasons or due to the holding of events. IIJ's internet access service may be provided together with other services such as firewalls and DDoS countermeasures.

3

Internet transit to ISPs & cable TV operators

Point

ISPs and cable TV operators use IIJ's Internet connectivity services through which they offer broadband services to their consumer clients. As Internet business operators themselves, ISPs and cable TV operators not only establish interconnectivity with multiple ISPs but they also procure Internet transit to secure reachability. Ultra-wide band-based transmission and superb reachability are required.

4

Internet transit to game operators, video content operators, CDN operators, etc

Point

Reachability matters because they conduct business as Internet business operators like ISPs and cable TV operators. Sufficient bandwidth should be secured in advance partly because ultra-wide band-based transmission is required and the amount of traffic may increase sharply during busy seasons or due to the holding of events. The service may be provided together with DDoS countermeasures.

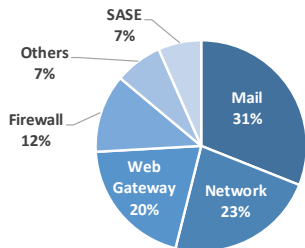
Outsourcing Service and WAN Service

Outsourcing Service

In-house developed various Internet-related service lineups

- Security-related services
 - Wide range of services including mail, Network(DDoS), web, firewall and others

FY21 Security Service Revenue Breakdown



Mail	Full outsource of mail system, countermeasures for spam mail, sandbox etc.
Network	DDoS protection, IPS/IDS, WAF etc.
Web Gateway	Full outsource of Web security, URL filtering etc.
Firewall	Outsource of firewall operation, detection system for anomaly etc.
Others	SOC etc.

- Network outsourcing related services
 - Operation and management of Internet VPN and routers etc.
- Server outsourcing-related services
 - Web hosting etc.
- Public Cloud services
- Data center-related services
 - Provide operation and maintenance for racks etc.

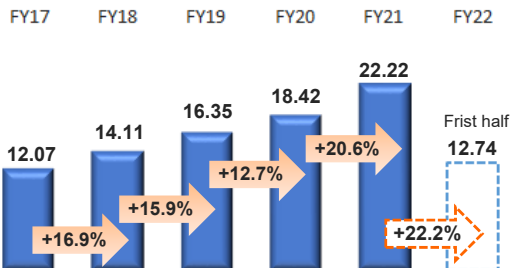
Data Center Locations

domestic locations

*Matsue & Shiroy are owned by IJ



Security-related Service Revenue (unit: JPY billion)



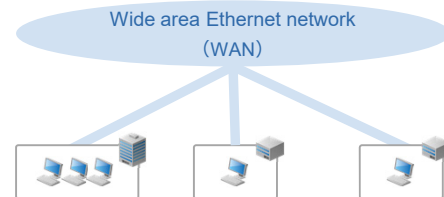
WAN Service

WAN: Wide Area Network

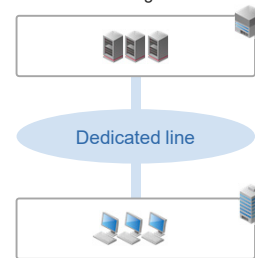
- WAN provides a network that connects computers at geographically distant locations, such as between headquarters and branch offices, and exchanges data over a closed network using Ethernet technology, leased lines, or other network connectivity
- Competitor is telecom carriers. IJ's competitive advantage is added value of multi-carrier configuration and operation, One of cross-selling products

Images of WAN service provision

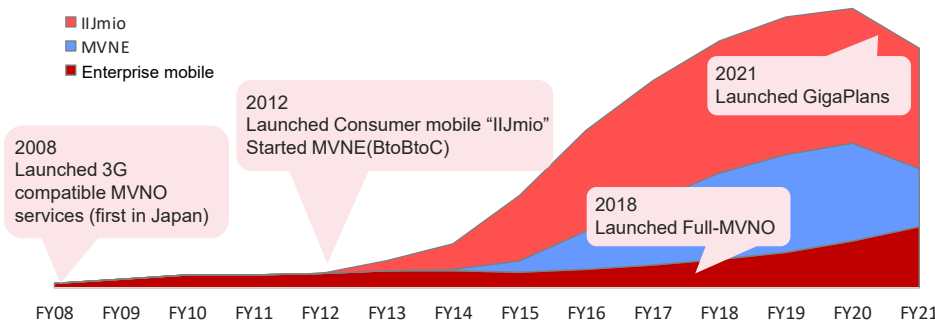
WAN network



Dedicated WAN network connecting 2 locations



Mobile Service Revenue



Business Model of Mobile Service

Revenue

- ◆ Consumer: number of subscription times ARPU (Average Revenue Per User)
- ◆ Enterprise: mainly depends on how much data traffic is used in a month

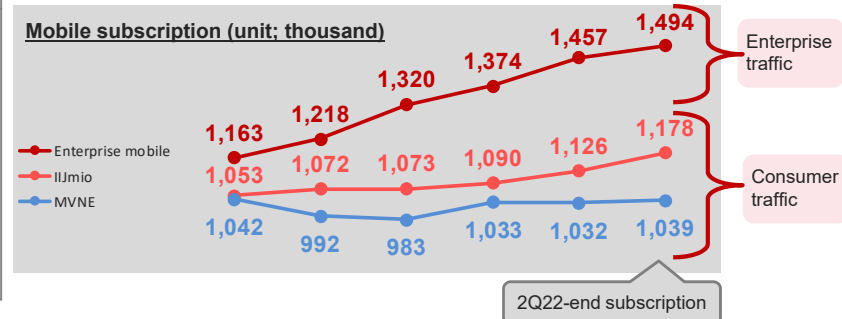
Cost

- ◆ **Utilize same mobile infrastructure to offer services to consumers and enterprises**
- ◆ MVNO scheme: lease MNOs' mobile infrastructure
 - Leased bandwidth times per unit charge = data connectivity charge
 - Buying voice communication services
- ◆ Sales commission fees for sales partners, advisement fees, personnel costs etc.

Profit model

- ◆ Profitability to improve through economies of scale and higher infrastructure utilization rates by accommodating diverse traffic from Enterprise, IoT, Consumer, etc. on a common mobile infrastructure.

Name	Details	Revenue
IJmio	<ul style="list-style-type: none"> • Direct sales to consumers • Sales channel: Web and sales partners (BicCamera etc.) • Started offering GigaPlans from Apr. 2021 • Including prepaid SIM offerings for tourists visiting Japan "Japan Travel SIM" 	Internet connectivity for consumers
MVNE	<ul style="list-style-type: none"> • BtoBtoC (Providing services to other MVNOs) • 2Q22-end MVNE clients: 177 clients (including 99 cable television operators and a prominent retailer) 	
enterprise Mobile	<ul style="list-style-type: none"> • Direct sales to enterprises (mainly for data communication such as for IoT usages) • Changes in demand: <ul style="list-style-type: none"> • before: UBS dongle, M2M (digital signage, data communication for equipment located in amusement parks, vending machines connectivity etc.) • current: Network camera connectivity (for preventing crimes, marketing and others), dashboard cameras, GPS trackers etc. 	Internet connectivity for enterprises



- MVNE (Mobile Virtual Network Enabler) is referred to as "IJ Mobile MVNO Platform Service" in earning releases
- Enterprise Mobile is referred to as "Enterprise mobile service (IoT usages etc.)" in earning releases

IoT·Enterprise Mobile

- ◆ IJ on its own is able to offer Cloud, connectivity, gateway devices, security and others needed for IoT by combining the existing services
- ◆ Since 2008, IJ has been supporting various M2M (machine to machine) transactions which could be said as a pre-IoT usage

Track record of providing various enterprise mobile solutions

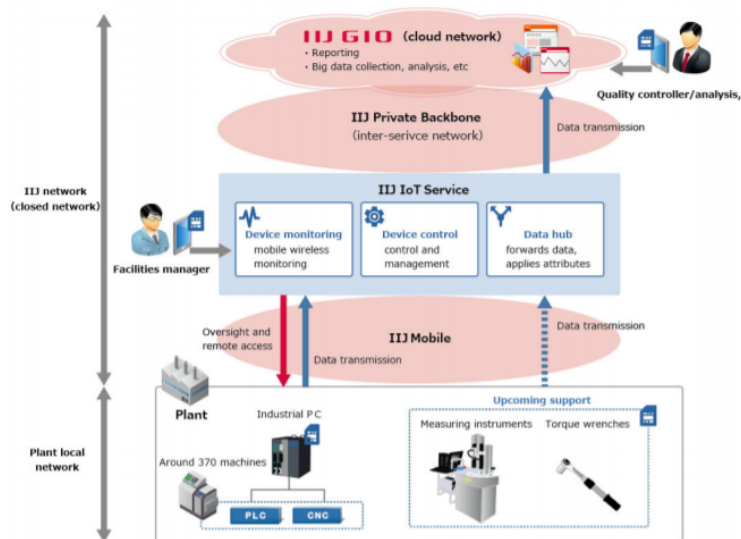
Network Cameras	Office IT	B-to-C
Store marketing cameras	iPads and tablets	Karaoke communications
Security cameras for apartment complexes, etc.	Remote work (teleconferencing)	Child monitoring devices
Surveillance cameras for material storage sites, etc.	Business / IP transceivers	Networking between 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

And many more

Flagship IoT project: Factory IoT for Toyota Hokkaido

- IoT project for a factory's manufacturing line as a one-stop solution
- Gather facility utilization information through mobile and accumulate and analyze onto cloud

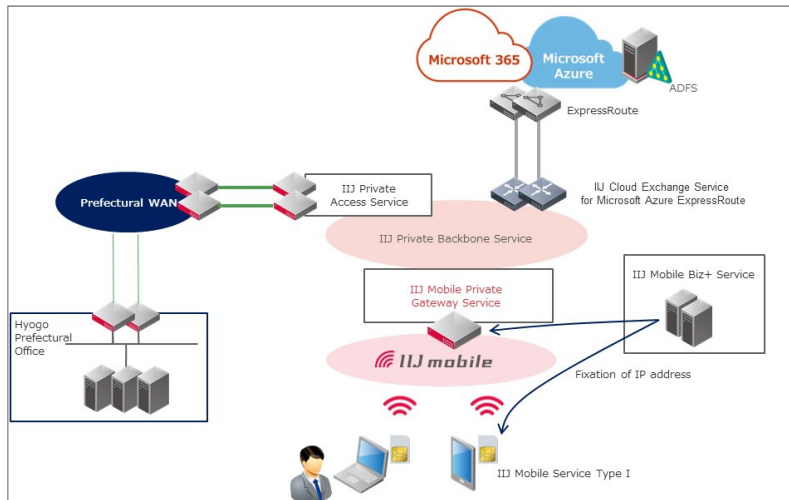
System image



Case studies of combining multiple NW services (1)

Hyogo prefecture (Jan. 2022)

Work from home infrastructure capable of connecting up to 90 thousand people simultaneously

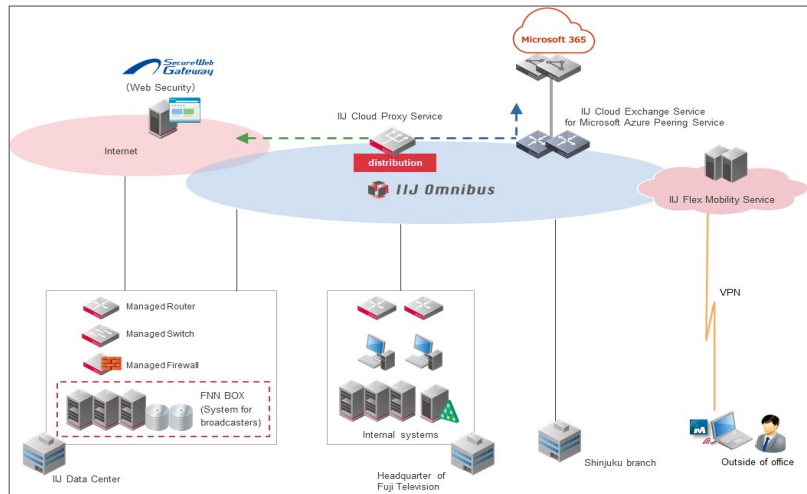


Services provided

- IIJ Mobile Private Gateway Service
- IIJ Mobile Biz+ Service
- IIJ Mobile Access Service Type I
- IIJ Cloud Exchange Service for Microsoft Azure ExpressRoute
- IIJ Private Access Service

Fuji Television Network, Inc. (Apr. 2021)

Stable connectivity and reduction of operation load with cloud-based Internet gateway



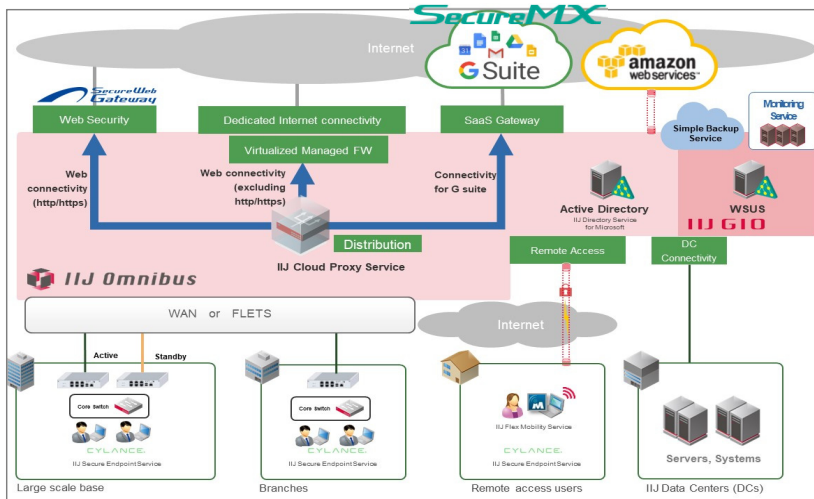
Services provided

- IIJ Omnibus Service
- IIJ Cloud Exchange Service for Microsoft Azure Peering Service
- IIJ Cloud Proxy Service
- Internet Connectivity Service
- IIJ Managed Firewall Service
- IIJ Private Access Service
- IIJ Secure Web Gateway Service
- IIJ Flex Mobility Service
- Managed Router Service

Case studies of combining multiple NW services (2)

Kokusai Kogyo (May 2022)

Update NW of 50 branches nationwide with IJ Services
Stabilization of connectivity and improvement of reliability

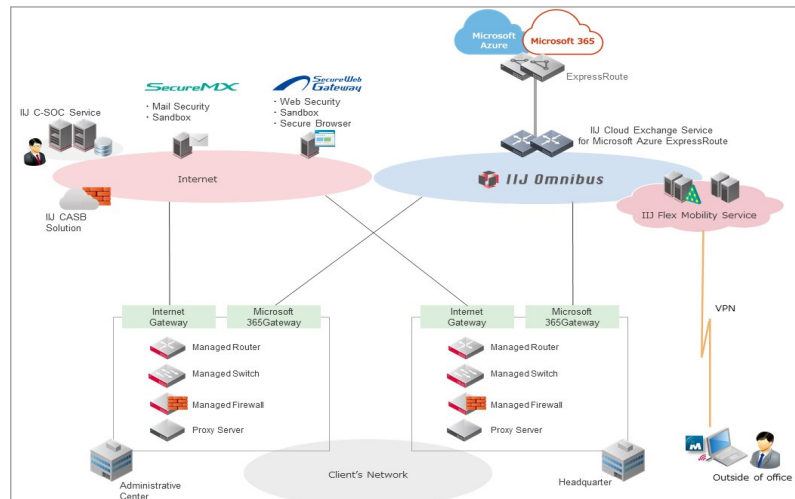


Services provided

- IJ Omnibus Service
- IJ Cloud Proxy Service
- IJ Private Backbone Service
- IJ Secure Web Gateway Service
- IJ Managed Firewall Service
- IJ Secure Endpoint Service
- IJ Flex Mobility Service
- IJ Directory Service for Microsoft

Bank of Yokohama, Ltd. (Jan. 2021)

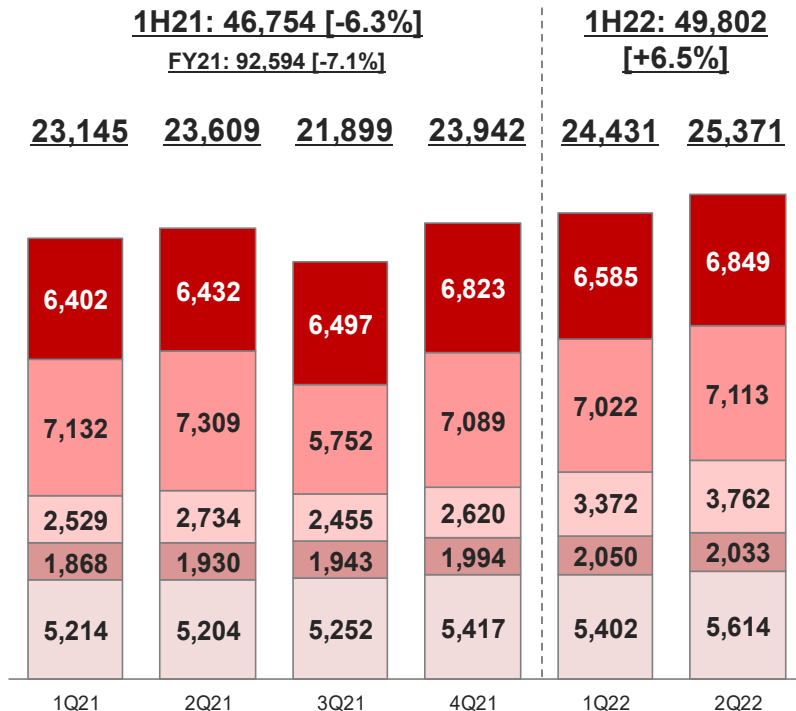
Stable connectivity and reduction of operation load with cloud-based Internet gateway



Services provided

- IJ Cloud Exchange Service for Microsoft Azure ExpressRoute
- IJ Secure Web Gateway Service
- IJ CASB Solution
- IJ Flex Mobility Service
- IJ GIO Infrastructure P2
- IJ Secure MX Service
- IJ C-SOC Service
- IJ Managed Firewall Service
- IJ Omnibus Service
- IJ Unified Operation Management Service (UOM)

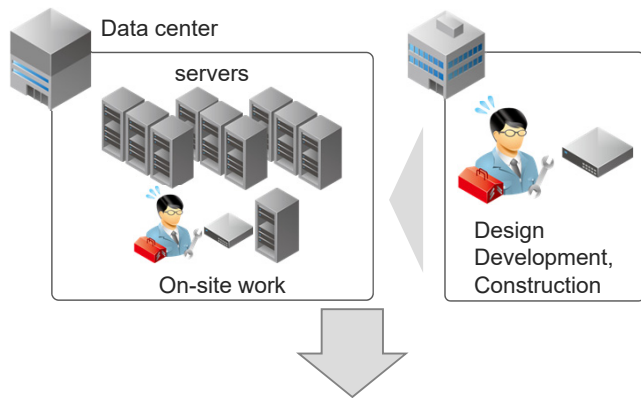
Cost of Network Service



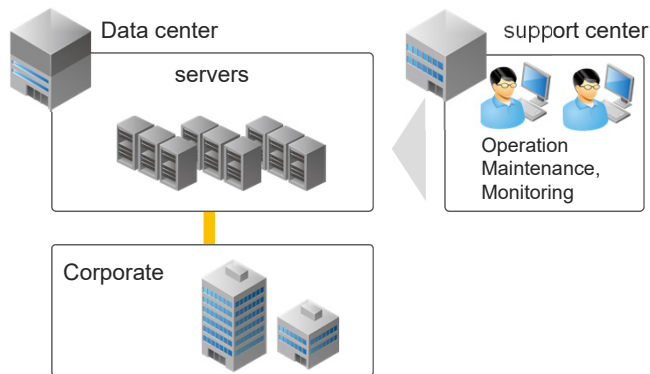
- ISP (Internet Service Provider), MNO (Mobile Network Operator)
- Regarding Outsourcing-related costs:
 - ✓ Voice purchasing cost (unit charge) was revised lower at the beginning of FY21 and Sep. 2021 (switched to auto-prefix appending)
 - ✓ 3Q21 Outsourcing-related costs reflect onetime cost reduction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

category	Details
Circuit related	Internet backbone and WAN line cost etc. <ul style="list-style-type: none"> • Internet backbone circuit cost remains stable ✓ As an independent prominent ISP, IJ has a strong burgeoning power regarding purchasing Internet lines from multiple carriers • WAN line costs is directly related to its revenue
Outsourcing related	Mobile infrastructure related costs such as data connectivity charge and voice communication services, outsourcing personnel costs etc. <ul style="list-style-type: none"> • Mobile data connectivity charge (unit charge) is operated under the future cost method since FY20 which requires MNOs to announce the next 3 years' unit charges based on their future cost etc. • No fixed scheme for voice communication services
Others	Supplies expenses and equipment cost such as memory etc. <ul style="list-style-type: none"> • Purchasing of mobile devices and licenses such as for SASE is increasing
Personnel-related	Network service related engineers' personnel cost <ul style="list-style-type: none"> • Network Service development and operation cost
Network operation-related	Depreciation cost for network equipment, data center leasing costs etc. <ul style="list-style-type: none"> • Not largely increasing - stable as network equipment's CPU is improving due to technological innovation

System Construction



System Operation and Maintenance



Revenue

- ◆ Mostly network and Internet related system construction projects
 - Programming for mainframe is out of range
- ◆ Demands to continuously grow along with an increase in Internet usages by enterprises. Demands linked to economic trends, corporate IT spending etc.
- ◆ **Meet Japanese enterprises' individual needs by combining services and SI**
- ◆ System construction revenue (one time revenue)
 - Revenue mainly recognized in the early stages of the project, individual quotations based on cost
 - Network system design, consultation, development, construction, related equipment procurement, etc.
- ◆ System operation revenue (recurring revenue)
 - Provide operation and maintenance for constructed systems, individual quotations based on cost

Cost

- ◆ Individual cost per project for both construction and operation and maintenance
 - Purchasing, outsourcing, personnel, network operation costs etc.

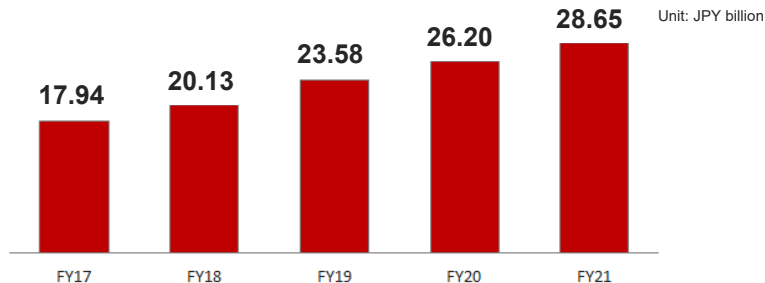
Profit model

- ◆ Profit to increase due to the transition to the highly profitable system operation phase after system construction

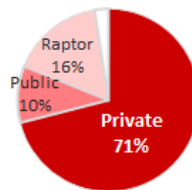
Cloud Service

- ◆ Since 2009, IIJ has been providing its own Cloud service “IJJ GIO,” invested and developed by IJJ
- ◆ Targeting Cloud migration of large Japanese companies’ internal systems which are gradually taking place
- ◆ Reliable operation through high operation technology for network and systems

Cloud Service Revenue (Recurring)



Breakdown of FY21Cloud Service Revenue

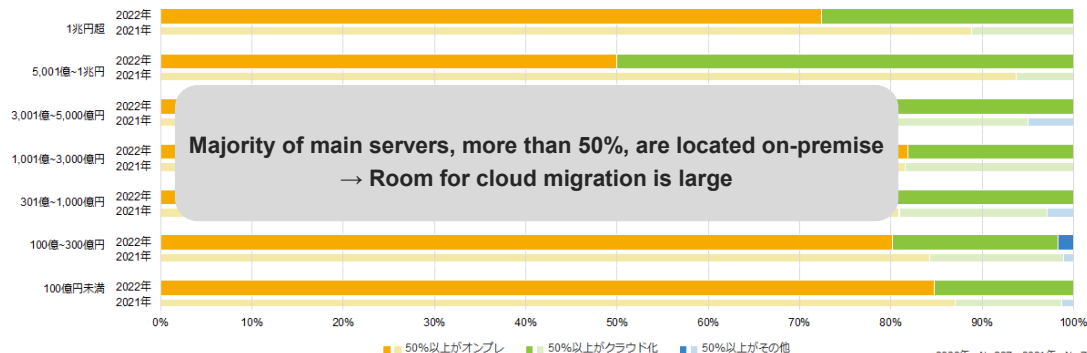


Private	Value added Cloud services such as Multi Cloud, GIO P2, VMware virtualization platform and Unified Operation Management
Public	Low cost servers etc.
Raptor	SaaS type forex trading platform services for online brokers
others	Overseas Cloud etc.

Revenue recognition of FY21CloudService Revenue;
90% in SI Operation and Maintenance, 10% in outsourcing Service

Utility and location of main servers by volume of sales

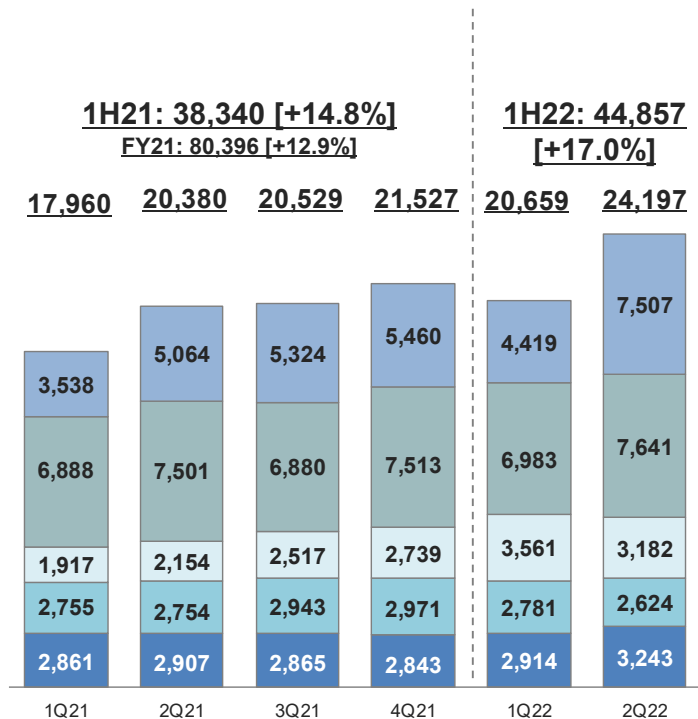
Source: Internet Initiative Japan Inc. “nationwide it department survey 2022” published in Nov. 2022



Expanding service lineups to promote Cloud migration

- Launched “IJJ Cloud Data Platform Service” which enables easy data linkage between on-premise and multi Cloud (Dec. 2022)
- “IJJ GIO Infrastructure P2” is registered with ISMAP (Information System Security Management and Assessment Program) for government information systems (Dec. 2021)
- Launched “IJJ GIO Infrastructure P2 Gen. 2” to promote full scale cloud migration of enterprises systems (Oct. 2021)

Cost of Systems Integration

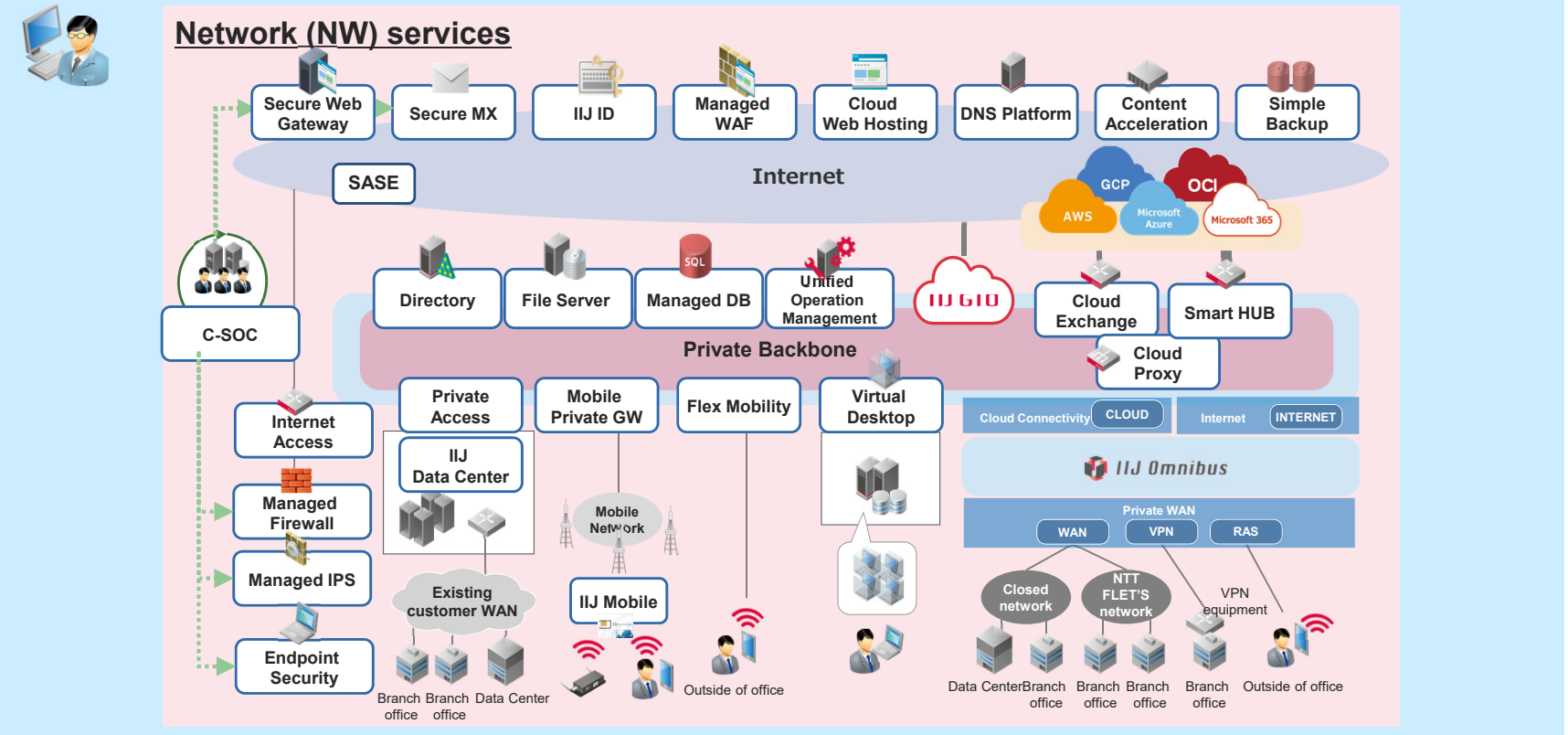


Cost item	details
Purchasing	Purchasing of equipment <ul style="list-style-type: none"> linked to the size of project and revenue to certain degree
Outsourcing related	SI-related outsourcing personnel costs etc. <ul style="list-style-type: none"> linked to the size of project and revenue to certain degree
Others	Supplies expenses etc. <ul style="list-style-type: none"> include license purchasing for multi-cloud, fluctuate along with multi-cloud demand
Network operation related	Depreciation cost such as for Cloud facility, data center leasing cost etc.
Personnel-related	SI-related engineers' personnel cost

Comprehensive NW system solution with NW services & SI

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

Systems Integration (SI)



Appendix

Management Structure



Koichi Suzuki

- Founder of IJJ
- Chairman, Representative Director and co-CEO
- Holdings of IJJ share: 5,316,361 shares (5.9%)
- Date of birth: September 1946



Satoshi Murabayashi

- Executive Vice President and Director
- Prior to joining IJJ in 2021, CIO at MUFG Financial Group, Inc.
- President and Representative Director of DeCurret Holdings, IJJ's affiliated company, as a concurrent position
- Holdings of IJJ shares: 1,901 shares (0.0%)
- Date of birth: November 1958



Eiji Katsu

- President, Representative Director and co-CEO & COO
- Prior to joining IJJ in 2012, Vice Minister of Finance
- Holdings of IJJ shares: 99,350 shares (0.1%)
- Date of birth: June 1950



Yasuhiko Taniwaki

- Executive Vice President and Director
- Prior to joining IJJ in 2022, Vice-Minister for Policy Coordination of Posts and Telecommunications at the Ministry of Internal Affairs and Communications (MIC)
- Holdings of IJJ shares: none
- Date of birth: September 1960

Full-time Directors

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, 35.7% to the total directors)

- T. Tsukamoto Honorary Advisor of Mizuho Financial Group
- K. Tsukuda Honorary Advisor of Mitsubishi Heavy Industries, Ltd.
- Y. Iwama Outside Director and Chairman of the Board of Nikko Asset Management Co., Ltd.
Former Chairman of Japan Securities Investment Advisers Association
- A. Okamoto Former President and CEO of Iwanami Shoten, Publishers (one of the best publishing houses in Japan)
- K. Tonosu (Ms.) Outside Director of JAPAN POST INSURANCE Co., Ltd.
Former Board member of Deloitte Touche Tohmatsu LLC

Company Auditors

(of which, 3 outside, 1 female)

- K. Ohira
- M. Tanaka (Ms.)
- T. Michishita
- K. Uchiyama

Reward for full-time directors

Annual salary	Fixed monthly remuneration	Cash	67%~71%
Substitution for retirement allowance	Fixed amount	Stock-option	6%~11%
Performance-linked remuneration	Variable amount	Restricted stock	22%~24%

Interview with outside director, Mr. Tsukamoto, can be found here

- https://www.ijj.ad.jp/en/ir/integrated-report/outside_director/

(Note) Above percentages are in the case of full paid performance-linked remuneration. Performance-linked remuneration varies (0~4 months in general) along with financial performance

IJ's Material Issues



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

◆ 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

◆ Own highly energy effective data centers

- Industry top level PUE (FY21): Matsue 1.22, Shiroi 1.42

◆ Information disclosures based on the TCFD Recommendations

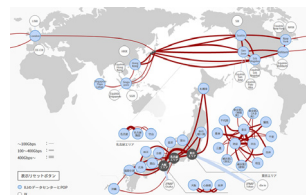
- Reduce greenhouse gas emissions at its own data centers which account for more than 70% of greenhouse gas emissions (Scope 1 and 2) through "usage of renewable energy" and "improvement of energy conservation"

Measures	Targets
Usage of renewable energy	To increase the renewable energy usage rate of data centers to 85% in FY2030.
Improvement of energy conservation	To keep the PUE of the data center at or below the industry's highest level until FY2030 through continuous technological innovation.



Provide safe and robust Internet services that support social infrastructure

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



◆ Support privacy protection regulations. Had acquired EU BCR and APEC CBPR



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

- ◆ Corporate culture of taking initiatives and challenging new things since the inception
- ◆ Human resources culture of sincerely striving to meet the demands of clients
- ◆ Lower than the industry average turnover rate

FY19	FY20	FY21
4.6%	3.6%	4.2%

◆ Target for diversity: the ratio of female managers

Apr. 2022	FY24 target	FY27 target
5.7%	6%~	8%~

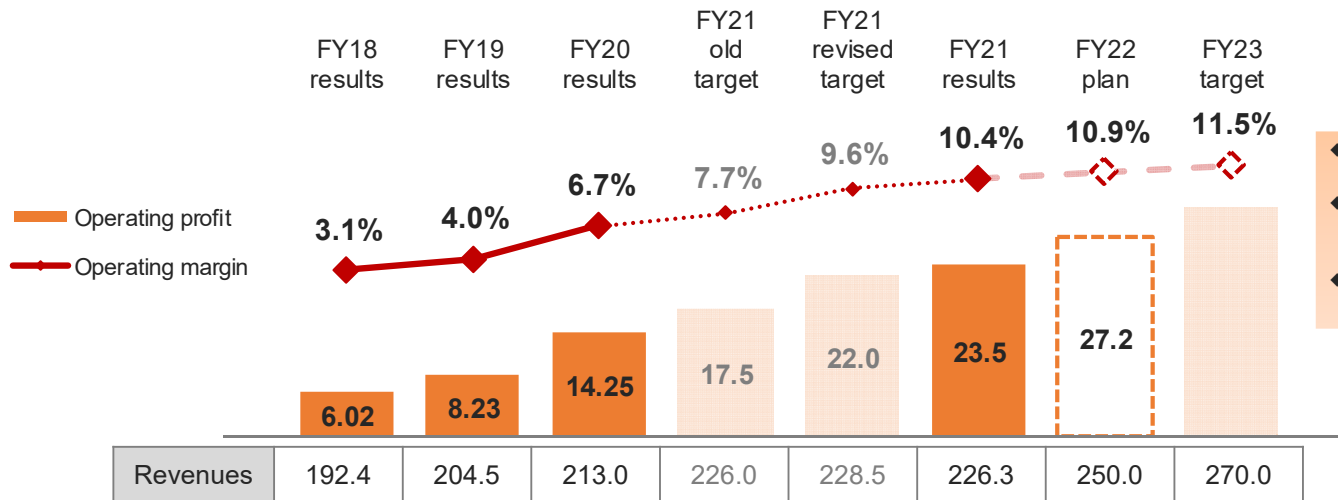
For more information about IJ's corporate governance, please visit

➤ <https://www.ij.ad.jp/en/ir/integrated-report/governance/>

Overview of corporate governance	Operation of the Board of Directors	Operation of the Board of Company Auditors
Operation of the Nomination and Remuneration Committee	Design of Remuneration for Directors	Business Operation
Operation of Internal Audit	Initiatives for Information Security	Related Party Transactions

- 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.
- TCFD: Task Force on Climate-related Financial Disclosures
- 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)
- The turnover rate of IJ's and 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

Mid-term Plan (FY21-FY23)



- ◆ Plan to largely expand business in the long term
- ◆ Continuously seek business investment & M&A opportunities
- ◆ Expect market capitalization to further increase

Key Points of the Mid-term Plan

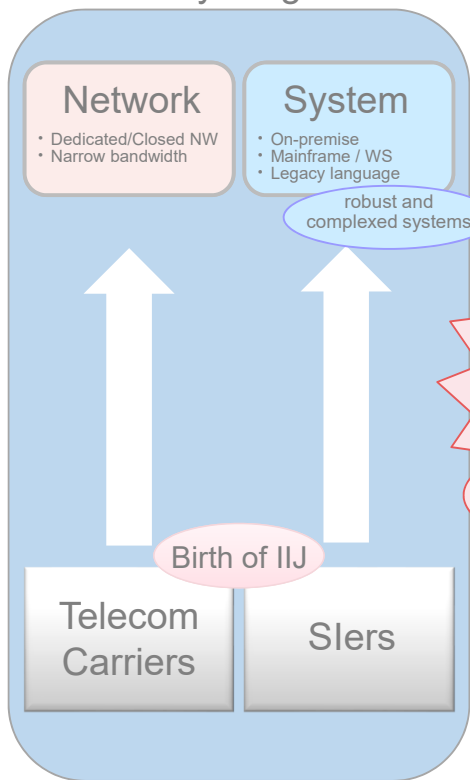
- ◆ Continuously develop services & solutions
- ◆ **Execute & strengthen the current strategy, target to improve operating margin**
- ◆ Market capitalization to largely increase including M&A opportunities etc.
- ◆ Contribute to sustainable networked society through technology innovation and network operation

FY23 Operating Margin Target



Drastically Changing Enterprises Circumstance

30yrs Ago



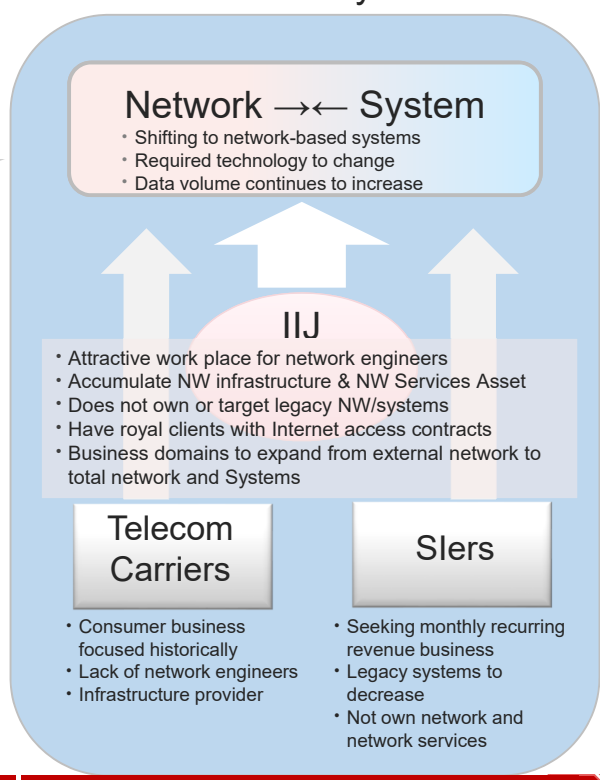
Emergence of Internet

Based on software technology

Struggling switch to open systems

- High Speed/Capacity Network
- CPU/Storage Performance Improve
- Internet Usages Progressed
- Security for various incidents
- Zero Trust Concept
- Gradual Cloud Shift
- Data Analysis and AI
- Preliminary IoT usages
- Still slow move in conservative Japan
- IT adoption at last forced by Pandemic

Nowadays



- Labor shortage require more IT
- Japan needs more competitiveness by IT
- Every CEO says DX (Digital Transformation)
- Legacy NW and Systems to be reformed
- Internet Traffic Continue to Increase
- Cyber Security Demands
- Importance for Data governance
- Cloud Systems Penetration
- 5G SA adoption and advanced IoT projects

Structural Changes

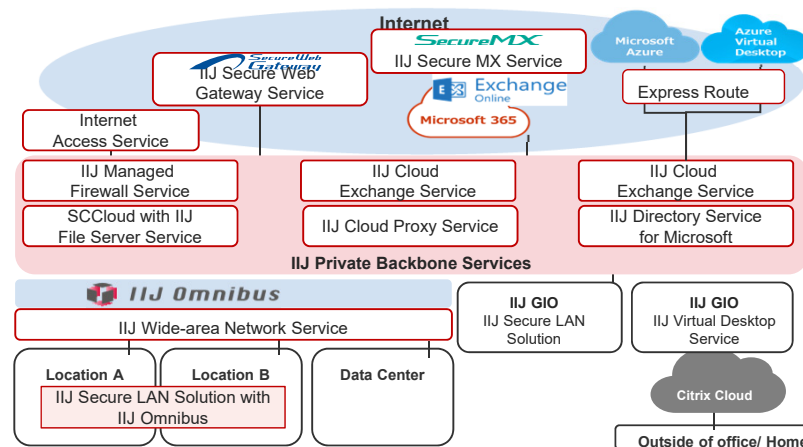
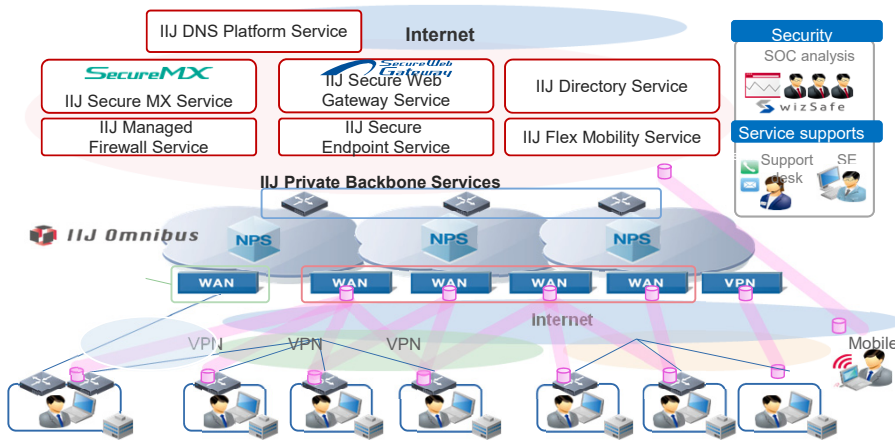
Combining in-house developed NW services and SI

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.

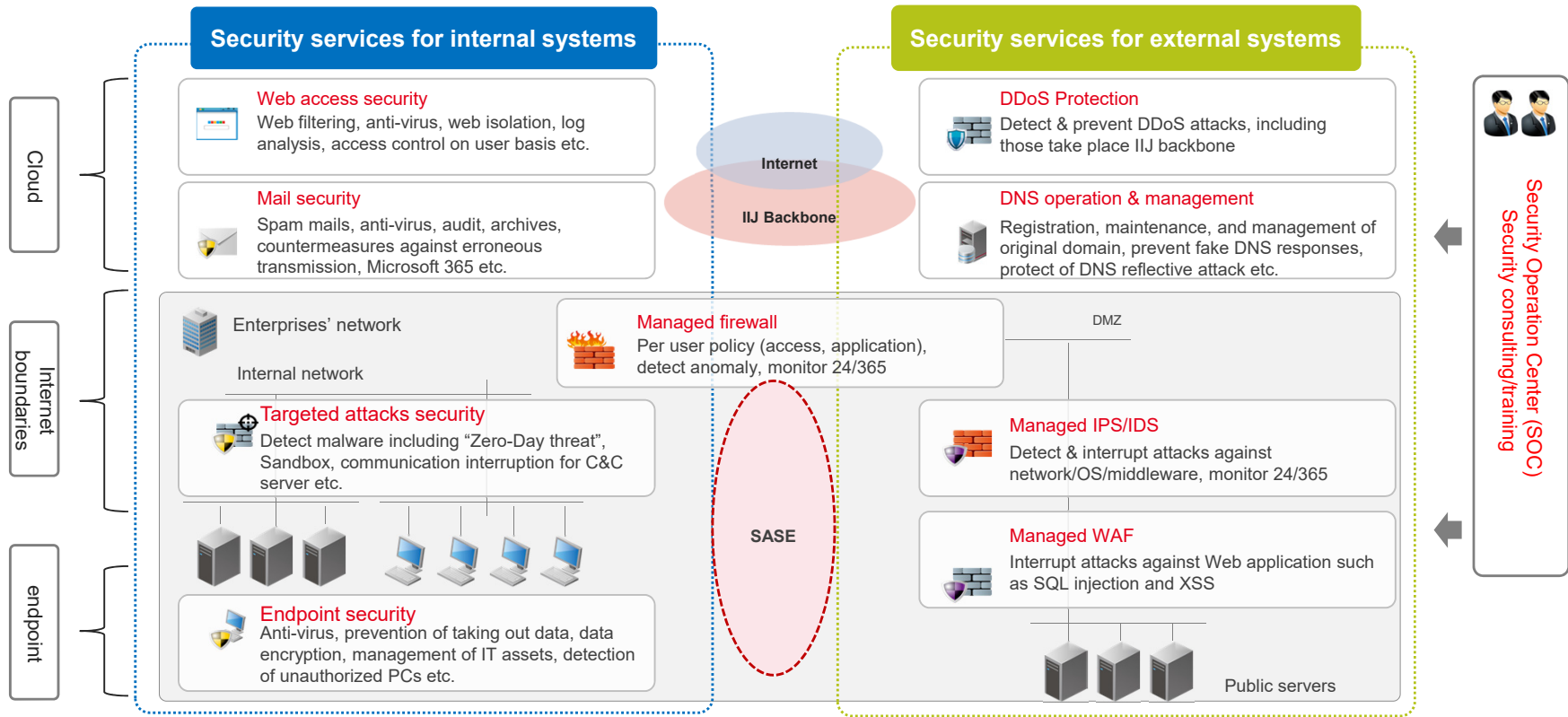


Network systems in IJ Japan are gradually changing along with the penetration of Cloud, DX, Zero Trust, IoT, Digital Work Place etc.

Favorable business environment as IJ now has greater opportunity to propose various NW-based service solutions

Provide Security Services over Network

Information Analysis Platform utilizing information and expertise only available to ISPs



• 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.

Initiatives taken by IIJ for Security

Security Services

- 1994 Started providing firewall services (first in Japan)
- 1999 Started providing fully-managed firewall services (first in Japan)
- 2004 Started providing spam mail filtering (first in Japan)
- 2005 Added sender domain authorization technology/spam mail protection (first in Japan), Started providing IIJ DDoS Protection Services
- 2006 Started providing IIJ Managed IPS Service and **IIJ Secure MX Service (SMX)**
- 2009 **Started providing IIJ Secure Web Gateway Service (SWG)**
- 2015 Added sandbox option (function to detect behaviors as a countermeasure against targeted attacks)
- 2016 Constructed information analysis platform (constructed platform to analyze log data within our backbone to realize early detection and countermeasures against increasingly sophisticated threats)
- 2017 Started providing DDoS Protection Service (terabit-compatible), Opened new Security Operation Center (SOC) and started providing C-SOC Service**
- 2018 IIJ Security engineers provided trainings at an international security conference “Black Hat USA 2018” (first as Japanese)**
- 2018 Started providing IIJ Secure Endpoint Security Service
- 2019 Started providing IIJ Managed WAF Security Service (public web system vulnerability countermeasures)
- 2021 Started providing IIJ CSPM Solution (Cloud Security Posture Management which means cloud security management)
- 2021 Opened IIJ Security Training School (launched business for IT division personnel assigned for security to become specialists)**
- 2022 Started providing IIJ Secure Access Service (in-house developed SASE service)**

Invited and trained police officers to our SOC

Apr. 2017 Hyogo prefecture (1 year)

Oct. 2018 Shimane prefecture (3 months)

July 2019 Hokkaido prefecture (3 months)

Certification of multiple international standards

Feb.2020 Mail, Web Security Services

Apr. 2020 IIJ Managed IPS/IDS Services

Mar. 2021 DDoS Protection Service, IIJ Managed WAF

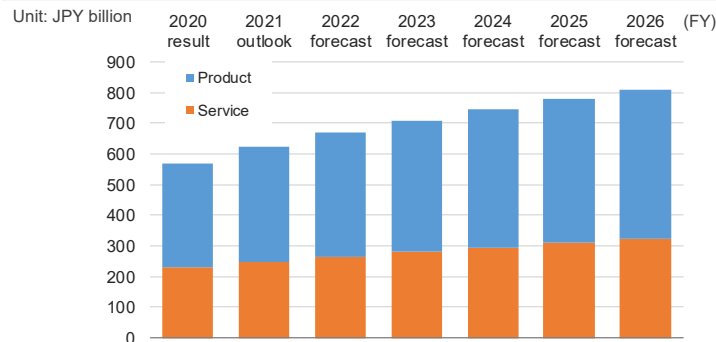
Continued afterwards

Training programs by experienced lecturers and active SOC analysts

Security market and competitors

- ◆ **Movement to review security** after telework expansion
- ◆ With the changes in the way we work, there is a shift toward **zero trust model** whose premises is “all traffic is untrusted”
- ◆ Along with cloud migration, mechanisms to ensure **safety relating to cloud** are attracting attention
- ◆ Opportunities to propose SMX together with Microsoft365 are increasing as the SaaS adoption gains momentum

Network security business market forecast



Source: Fuji Chimera Research Institute "2021 Network Security Business Survey"
<https://www.fcr.co.jp/pr/21117.htm>

	IJJ	LAC	NTT Security	NRI Secure Technologies
Category	Total network service solution provider	Vendors specialized in security		
Feature	<ul style="list-style-type: none"> • Provide a number of first in Japan full managed security services over network • Security services utilizing information and expertise unique to Internet Service Provider 	<ul style="list-style-type: none"> • Many emergency response record • KDDI capital participation in Dec. 2013 • SOC as a core operation 	<ul style="list-style-type: none"> • Founded in Aug. 2016 by integrating NTT Communications (“Ncom”), Ncom Security and overseas subsidiaries’ security businesses 	<ul style="list-style-type: none"> • Founded in 2000 as a Nomura Research Institute’s group company • High penetration toward large enterprises (especially finance) • Cover upper layer consultation to managed type services
FY21 revenue	¥25.4 billion (of monthly services: ¥22.2 billion)	¥42.7 billion (of services, ¥19.4 billion)	N/A	N/A
Number of employees dedicated to security	IJJ(non-consolidated) 346 As of Sep. 30, 2022	consolidated 2,172 As of Apr. 1, 2022	N/A	525 non-consolidated, as of Oct. 1, 2022

Focused Security Services

IIJ Secure MX Service (SMX)

- ◆ Cloud-based integrated mail security service (16 yrs in operation)
- ◆ Differentiating by in-house developed filtering, providing support in Japanese, update etc.
 - Minimize mail threats with multi filtering, able to store unlimited mail data in DCs located in Japan, prevent accidental transmission/information leak with the system
- ◆ Competitors withdrawing from the market



Cloud based mail security market
Share No.1

(Resource: Fuji Chimera Research Institute) monthly BT Sep. 2019 "Cloud based mail security service market survey" based on FY18 figure base

SMX contracted accounts

Sep. 2022	2.83 million
Sep. 2021	2.65 million
Sep. 2020	2.41 million

IIJ DDoS Protection Service

- ◆ Comprehensive service to protect enterprise network system from DDoS attacks (17 yrs in operation)
- ◆ Service model unable for Slers & vendors who do not have NW backbone to offer
 - Realize reliable web services by avoiding overloaded network and server triggered by huge traffic
 - 24/365 operation by security engineers who have expertise obtained through ISP business
 - Automatically detect and prevent DDoS attacks
 - Internet access line are also within service coverage
 - Global coverage and capability of preventing terabit level large-scale attack (Jan. 2017)
- ◆ High penetration rate toward large financial institutions

IIJ Secure Web Gateway Service (SWG)

- ◆ Cloud-based integrated web security service (13 yrs in operation)
- ◆ Differentiating by in-housed developed engines etc. to block and isolate web functions etc.



<Resource> ITR "ITR Market View: Cyber Security counter market 2021"

SWG contracted accounts

Sep. 2022	1.23 million
Sep. 2021	1.19 million
Sep. 2020	1.12 million

IIJ C-SOC Service

- ◆ Comprehensive security incident response service provided by IIJ security engineers
- ◆ Operational SOC service unique to ISPs: visualize invisible threats by applying IIJ's unique intelligence, execute initial response as well as notification etc.
- ◆ Service policy: individual operation and monitoring including other managed services
- ◆ Relatively expensive monthly transaction

Coverage comparison

<Competitors>

<IIJ>

Log collection server
Router construction

Trouble shooting
Hardware exchange
Configuration change
Software version up
Log collection server
Router construction

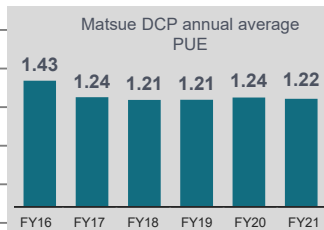
Information resource of IIJ

Security equipment log	170 billion lines per month
Mail access log	3.8 billion lines per month
Web access log	90 billion lines per month
Monitoring node	48 thousand
Number research sites by web crawler	Over 400 thousand per day

Initiatives to realize carbon neutral DCs

About IJJ'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) 1 st site: approx. 700, 2 nd site: approx. 1,100 (plan)
Year in operation	1 st site: Apr. 2011, 2 nd site: Nov. 2013	1 st site: May 2019, 2 nd 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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

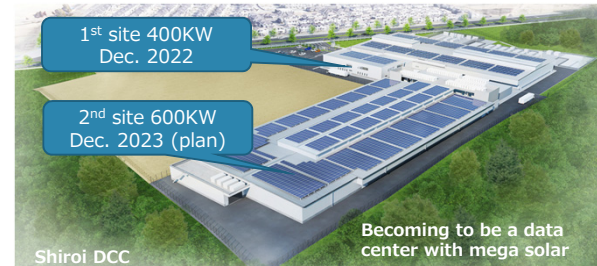


Information disclosure based on the TCFD Recommendations

- IJJ 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.

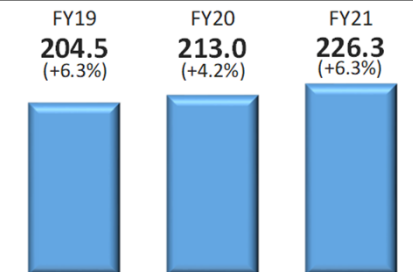
Status of onsite solar panel facilities installment



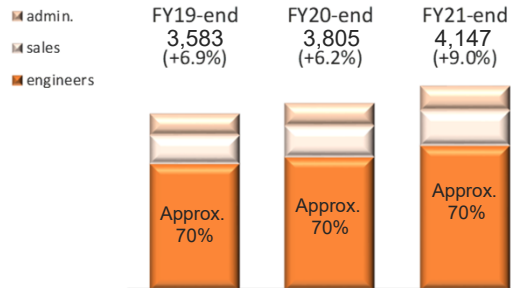
- TCFD: Task Force on Climate-related Financial Disclosures
- PUE (Power Usage Effectiveness) : Total data center facility energy usage divided by IT equipment energy usage
- Scope 1 and 2 (Greenhouse gas emissions by a company): Direct emissions from the use of fuels and industrial processes at the 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

Enhancement of Human Capital

Total revenue (consolidated base, unit: ¥ billion)



Total number of employees (consolidated base)



• Added 62 personnel through PTC consolidation (Apr. 2021)

Number of outsourcing personnel (SI-related)

Fiscal Year	Number of Personnel
FY19-end	1,123
FY20-end	1,270
FY21-end	1,319

◆ Lower than the industry average turnover rate

- IIJ (non-consolidated base): FY19 4.6%, FY20 3.6%
- IIJ can provide a wide range of experience which leads to high employee satisfaction
 - ✓ IIJ provides a wide range of products: NW, Cloud, Mobile, IoT, SI etc.
 - ✓ Corporate culture of adopting new technology, aggressively engaging in new service development etc.

◆ Basic policy of human resources is to continuously fire and train new graduates

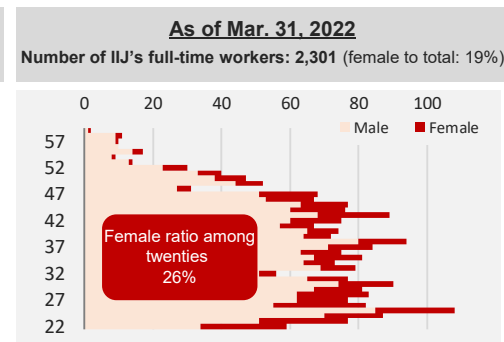
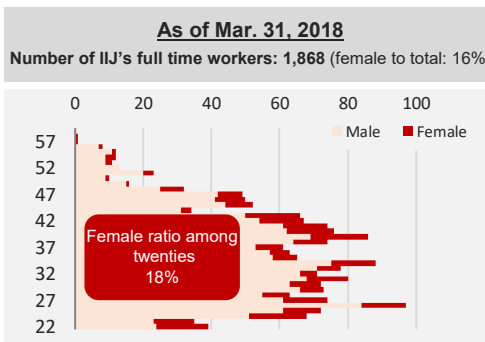
- Number of new graduates: Apr. 2020: 210 personnel, Apr. 2021: 190 personnel, Apr. 2022: 178 personnel
- New graduates who studied network are attracted to IIJ who is the first full-scale ISP in Japan

◆ Level-up of size and quality of recruitment and human capital development

- 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
- Programs to promote autonomous career development by having working experiences at other departments and/or working at overseas subsidiaries.

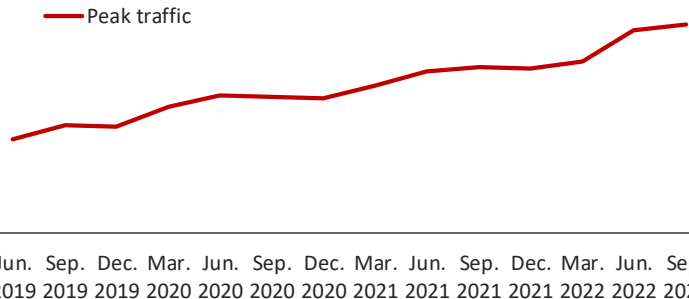
◆ Expect further business expansion by seeking M&A opportunities, accelerate growth by acquiring human resources

Age composition of IIJ's full-time workers



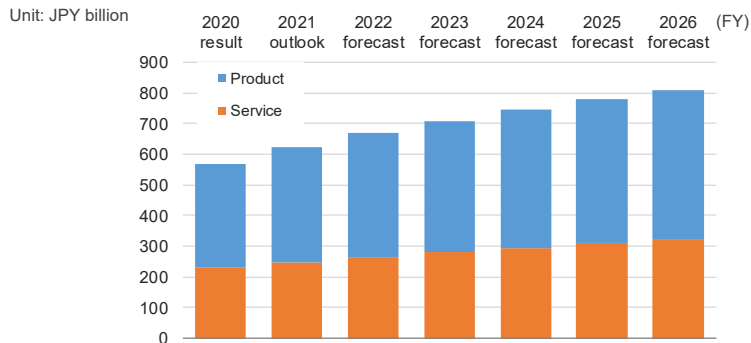
Market Growth Forecast etc.

Historical traffic data of major domestic IX



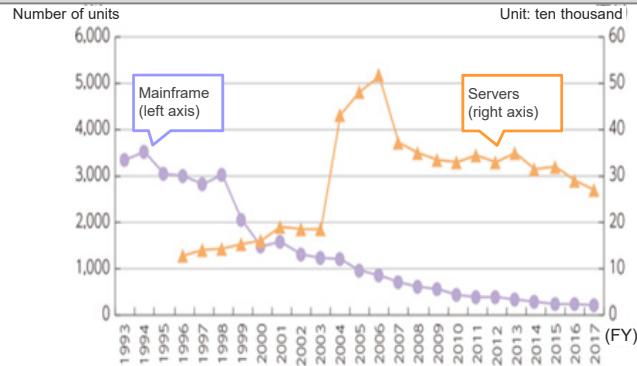
Source: INTERNET MULTIFEED CO.

Network security business market forecast



Source: Fuji Chimera Research Institute "2021 Network Security Business Survey" <https://www.fcr.co.jp/pr/21117.htm>

Domestic shipments of mainframe and servers



Source: JEITA (Japan Electronics and Information Technology Association)
<https://www.soumu.go.jp/johotsusintokei/whitepaper/ja/r01/html/nd111140.html>

Digital competitiveness ranking (2022)

1	Denmark
2	U.S.A.
3	Sweden
4	Singapore
5	Switzerland
(omission)	
28	Spain
29	Japan

Source: IMD WORLD DIGITAL COMPETITIVENESS RANKING 2022
<https://www.imd.org/centers/world-competitiveness-center/rankings/world-digital-competitiveness/>



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