

# Consolidated Financial Results for 1Q FY2018



*25<sup>th</sup>*  
*Anniversary*

**Internet Initiative Japan Inc.**  
**TSE1(3774), NASDAQ(IIJI)**  
**August 8, 2018**

# Agenda

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**I . Summary of 1Q18 Financial Results**

**II . Consolidated Financial Results for 1Q18**

**III . Reference Materials**

# I . Summary of 1Q18 Financial Results

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

## 1Q18 (3 months) Results

bn = billion

% =Year over year comparison

Revenue	JPY44.7 bn	+9.1%	Adjusted EBITDA <sup>(*1)</sup>	JPY4.5 bn	+9.1%
Gross margin	JPY6.8 bn	+3.9%	Adjusted pre-tax income <sup>(※)(*2)</sup>	JPY1.2 bn	+11.4%
Operating income	JPY1.2 bn	+4.9%	Adjusted net Income <sup>(※)(*3)</sup>	JPY0.8 bn	+14.2%

## Business Developments

### Good start for enterprise services from 1Q

- Strong demands for security; revenue increased by 16.0%
  - DDoS Protection, Virtual desktop, SOC (Security Operation Center), Email & Web security in particular led the growth
- Omnibus & WAN services revenue grew by accumulating demands to replace enterprise network
- Cloud revenue +13.1%, Unified Operation Management (UOM) and VMware virtualization platform services continued to grow

### Full-MVNO & IoT services continue expanding Total mobile revenue +20.5%, total mobile subscription +25.8%

- Providing “SIM Life Cycle Management,” IoT-targeted data communication package, pre-paid SIMs for inbound tourists, and international roaming services
- Accumulating IoT sales prospects and PoC (Proof of Concept) such as network camera connection, remote monitoring, traceability, detection of early symptoms, agriculture and fishery
- Providing IIJ IoT platform services and other IIJ services to JV with Chubu Electric Power; connected home services to be launched (fall)

### Favorable IT appetite & order situation continued from FY2017: order-received for systems construction +13.3%

- Received large scale SI orders such as network updates/replacements from central government agency, prominent manufacture, major broadcasting company etc.
- To improve system engineers productivity rate & SI profitability, implemented re-organization & even stricter control measures
  - Realignment of system engineers, integration of network services and SI

### DeCurret working as planned on system developments & preparation for registration to launch services in FY18

### JOCDN handles increasing traffic along with growing demand for distributing contents on Internet,

### Leveraging credibility of IIJ network

## Financial Results ~Resulted as planned~

- Continued to achieve strong year over year revenue growth; total revenue +9.1%, recurring revenue +11.4% (hi-ho unconsolidation negatively impacted the revenue growth rate by over 1 point)
- Operating income increased from 1Q as overall gross margin absorbed the increase in fixed cost related to full-MVNO of over JPY0.3 billion per quarter

(\*1) Operating income before depreciation and amortization , (\*2) Pre-tax income is an abbreviation for income before income tax expense (\*3) Net income is an abbreviation for net income attributable to IIJ

# II - 1. Consolidated Financial Results for 1Q FY2018 Unit: JPY billion

	% of Revenues	% of Revenues	Year over Year Change		% of Revenues	% of Revenues
	1Q18 Results <small>(Apr. 2018 - Jun. 2018)</small>	1Q17 Results <small>(Apr. 2017 - Jun. 2017)</small>			1H18 Targets <small>(Apr. 2018 - Sep. 2018)</small>	FY18 Targets <small>(Apr. 2018 - Mar. 2019)</small>
<b>Total Revenues</b>	<b>44.7</b>	<b>41.0</b>	<b>+9.1%</b>	<b>+3.7</b>	<b>90.0</b>	<b>190.0</b>
<b>Total Cost of Revenues</b>	<small>84.8%</small> <b>37.9</b>	<small>84.1%</small> <b>34.4</b>	<b>+10.1%</b>	<b>+3.5</b>	<small>84.8%</small> <b>76.3</b>	<small>84.3%</small> <b>160.2</b>
<b>Gross Margin</b>	<small>15.2%</small> <b>6.8</b>	<small>15.9%</small> <b>6.5</b>	<b>+3.9%</b>	<b>+0.3</b>	<small>15.2%</small> <b>13.7</b>	<small>15.7%</small> <b>29.8</b>
<b>SG&amp;A/R&amp;D</b>	<small>12.5%</small> <b>5.6</b>	<small>13.2%</small> <b>5.4</b>	<b>+3.6%</b>	<b>+0.2</b>	<small>12.4%</small> <b>11.2</b>	<small>12.0%</small> <b>22.8</b>
<b>Adjusted EBITDA<sup>*1</sup></b>	<small>10.0%</small> <b>4.5</b>	<small>10.0%</small> <b>4.1</b>	<b>+9.1%</b>	<b>+0.4</b>	-	-
<b>Operating Income</b>	<small>2.6%</small> <b>1.2</b>	<small>2.7%</small> <b>1.1</b>	<b>+4.9%</b>	<b>+0.1</b>	<small>2.8%</small> <b>2.5</b>	<small>3.7%</small> <b>7.0</b>
<b>Adjusted Pre-tax Income<sup>*2</sup></b>	<small>2.8%</small> <b>1.2</b>	<small>2.7%</small> <b>1.1</b>	<b>+11.4%</b>	<b>+0.1</b>	-	-
<b>Adjusted Net Income<sup>*2,*3</sup></b>	<small>1.7%</small> <b>0.8</b>	<small>1.6%</small> <b>0.7</b>	<b>+14.2%</b>	<b>+0.1</b>	-	-

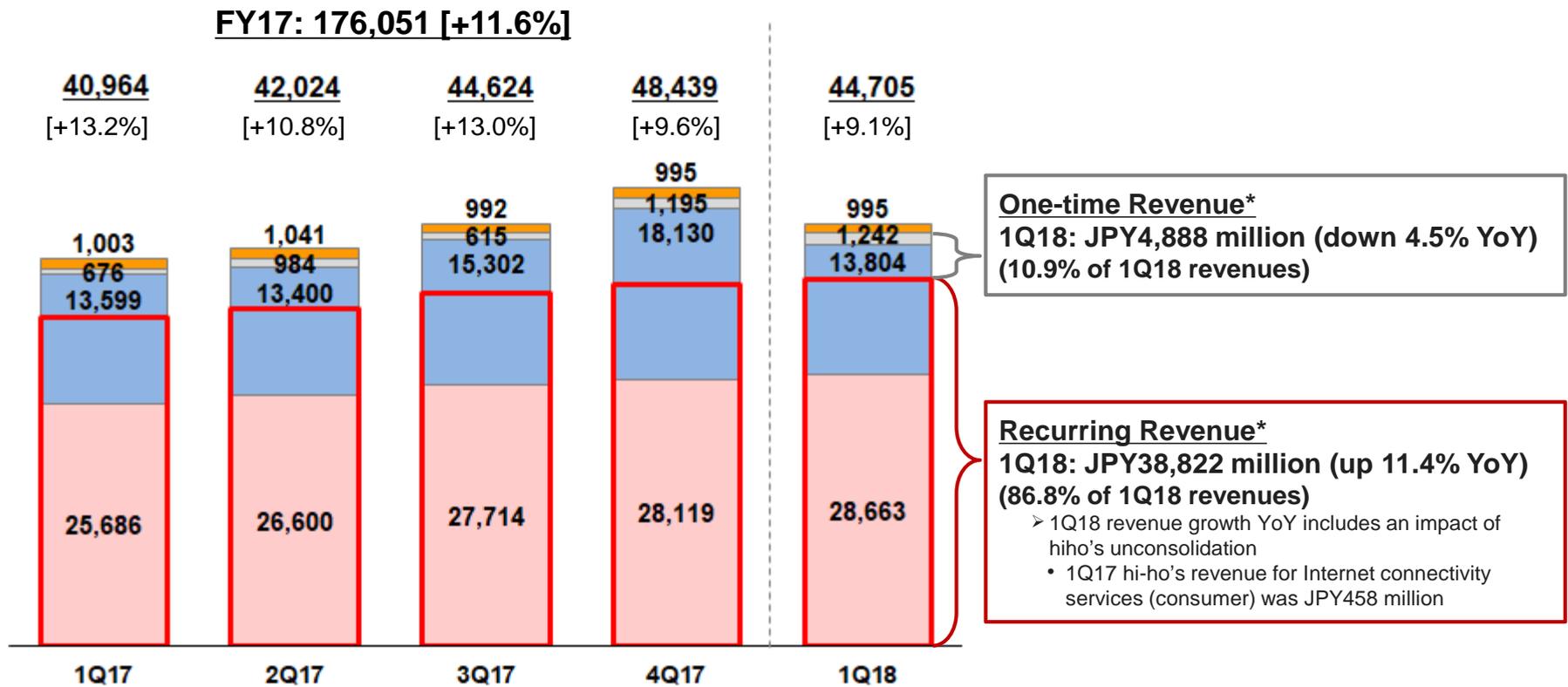
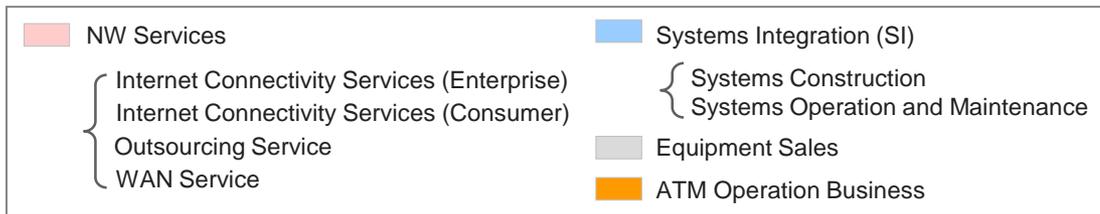
\*1: Operating income before depreciation and amortization

\*2: Adjusted incomes exclude effect of the revision of U.S GAAP related to gains/losses on marketable equity securities and funds

\*3: Net income is an abbreviation for net income attributable to IIJ

# II - 2. Revenues

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



\* One-time revenues, which are systems construction and equipment sales, are recognized when systems or equipment are delivered and accepted by customers

\* Recurring revenues represent the following monthly recurring revenues: Internet Connectivity Services for Enterprise, Internet Connectivity Services for Consumer, Outsourcing Services, WAN Services, and Systems Operation and Maintenance

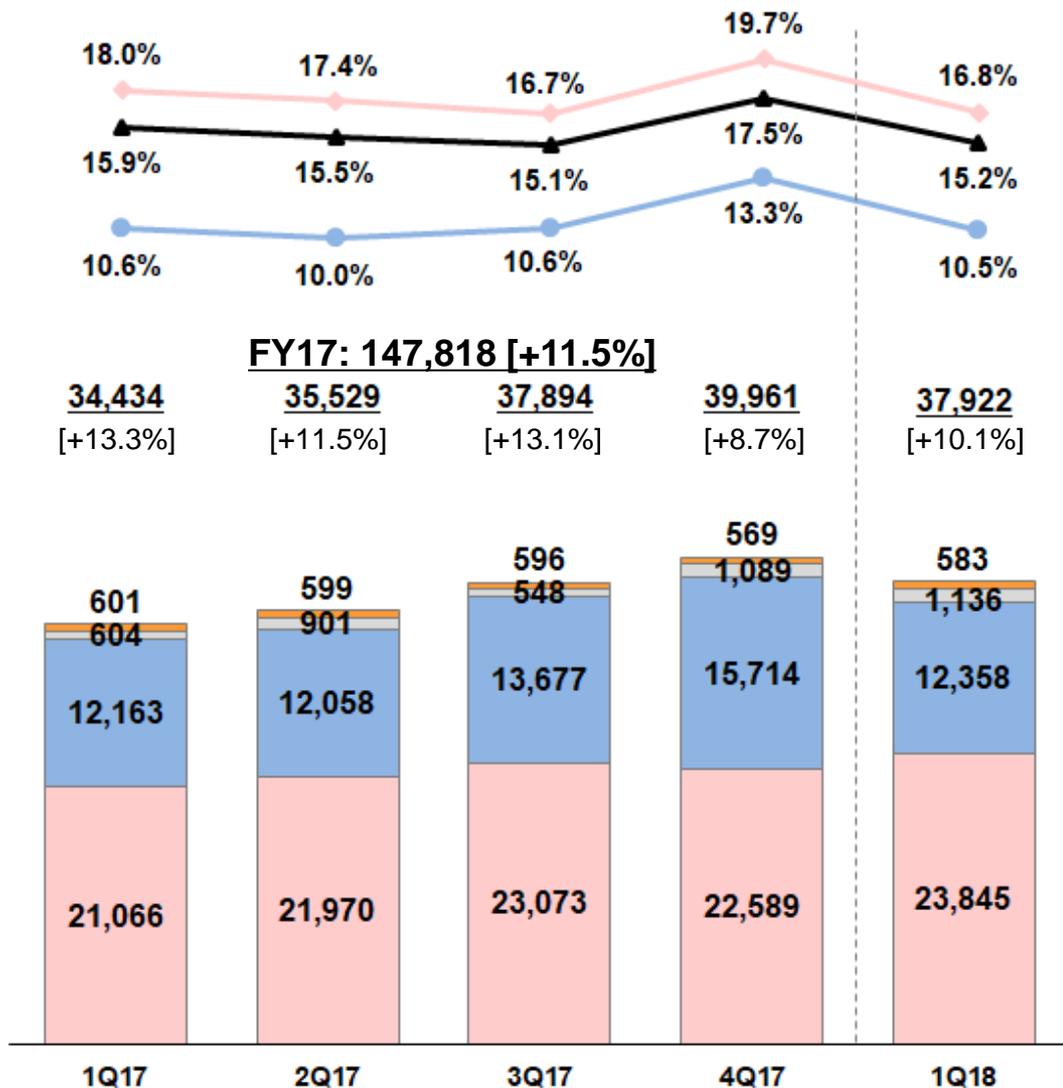
# II - 3. Cost of Revenues & Gross Margin Ratio

Unit: JPY million

Cost of revenues: ■ NW Services ■ SI ■ Equipment Sales ■ ATM Operation Business

Gross margin ratio: ◆ NW Services ◆ SI ▲ Total

[ ], YoY = Year over year comparison



## Gross Margin

### ◆ Total

- 1Q18: JPY6,783 million (up 3.9% YoY)
- Gross margin ratio: 15.2% (down 0.7 points YoY)

### ◆ NW Services

- 1Q18: JPY4,818 million (up 4.3% YoY)
- 1Q18: JPY4,619 million (up 14.2% YoY)
- The revised NTT DOCOMO's mobile interconnectivity telecommunications charge was fixed in Mar. 2018 and its unit price decreased by 18.2% YoY
- Gross margin results include full-MVNO related fixed-type cost which increased by over JPY0.3 billion per quarter (from Mar. 2018)

### ◆ SI

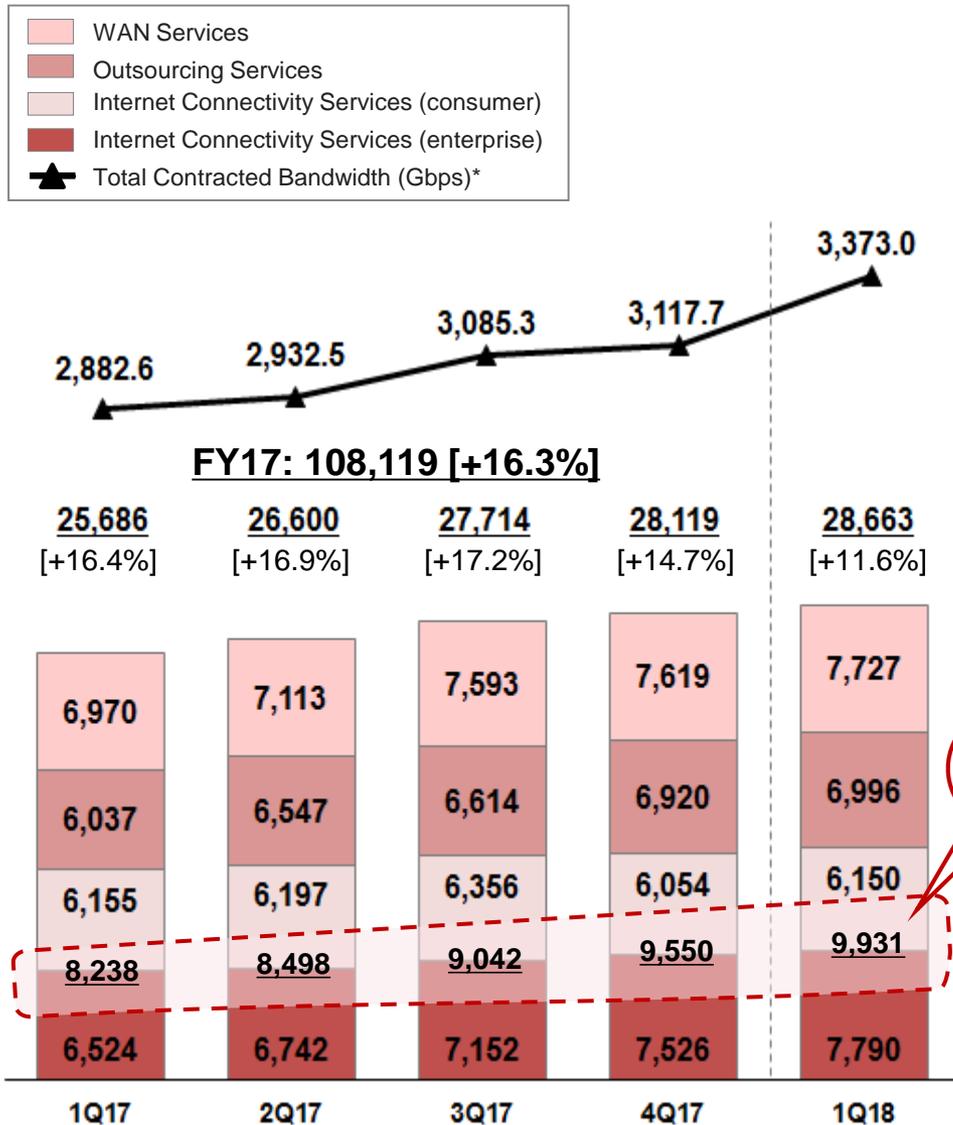
- 1Q18: JPY1,447 million (up 0.7% YoY)
- 1Q17: JPY1,436 million (up 12.9% YoY)

# II - 4. Network Services (1) Revenues

Unit: JPY million

[ ], YoY = Year over year comparison

QoQ = 1Q18 compared to 4Q17



## NW Services Revenues

### ◆ Internet Connectivity (Enterprise)

- 1Q18: up 19.4% YoY, up 3.5% QoQ
  - Mobile services revenue continued to increase
    - ✓ IIJ Mobile 1Q18-end subscription: 1,408 thousand (up 477 thousand YoY)
    - ✓ IP services and others started favorably because pricing pressure from clients was not large

### ◆ Internet Connectivity (Consumer)

- 1Q18: down 0.1% YoY, up 1.6% QoQ
  - “IIJmio Mobile Services”
    - ✓ 1Q18-end subscription: 1,036 thousand (up 70 thousand YoY)
  - Revenue decreased YoY as hi-ho became unconsolidated by us selling all shares of hi-ho
    - 1Q17 hi-ho’s revenue for Internet connectivity services (consumer) was JPY458 million

### ◆ Outsourcing Services

- 1Q18: up 15.9% YoY, up 1.1% QoQ
  - Security-related revenue: up 16.0% YoY
    - ✓ DDoS protection services and SOC in particular growing

### ◆ WAN Services

- 1Q18: up 10.9% YoY, up 1.4% QoQ
  - Starting favorably; pricing pressure from clients was not large

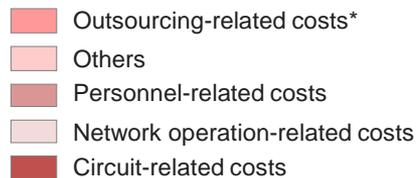
◆ Mobile services: 1Q18 up 20.5% YoY

◆ Non-mobile services: 1Q18 up 7.4% YoY

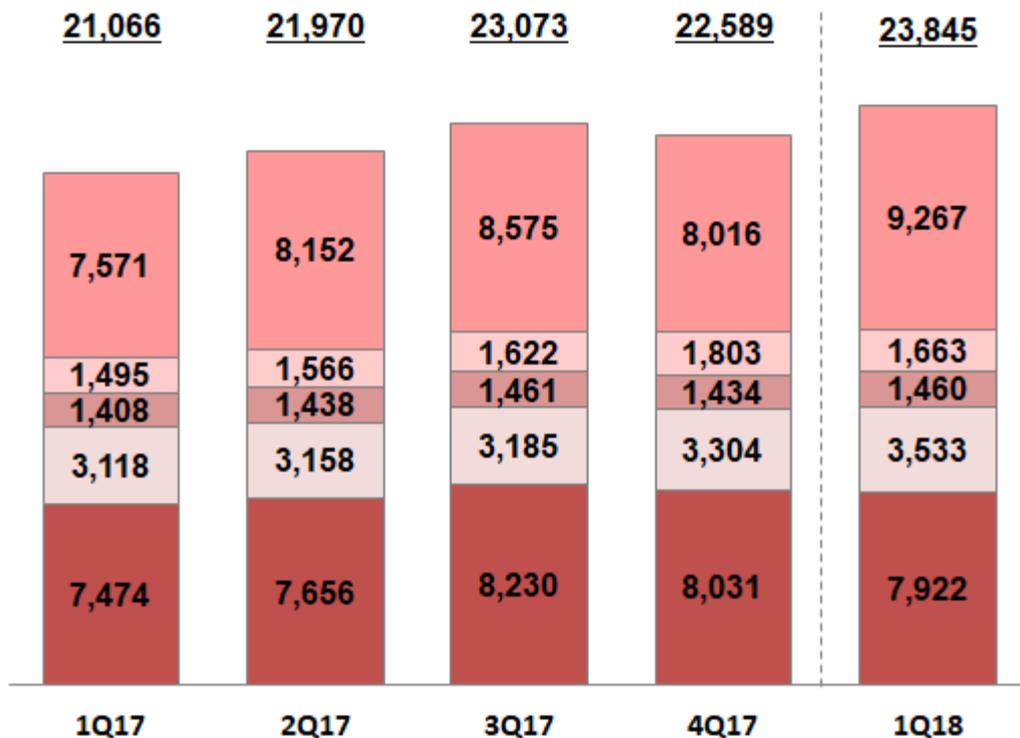
\* Total contracted bandwidth is calculated by multiplying number of contracts by contracted bandwidths respectively for IP service (including data center connectivity service) and IIJ FiberAccess/F and IIJ DSL/F of Internet connectivity services (Enterprise).

# II - 4. Network Services (2) Cost of Revenues

Unit: JPY million  
 [ ], YoY = Year over year comparison  
 QoQ = 1Q18 compared to 4Q17



**FY17: 88,698 [+16.1%]**



## Cost of NW Services

- 1Q18: up 13.2% YoY, up 5.6% QoQ
  - Along with an increase in mobile subscriptions, mobile-related costs (mainly in outsourcing-related costs) increased
    - ✓ Additional expansion of mobile interconnectivity bandwidth to improve connectivity (Jul.)
  - Along with continuous service developments and enhance functions for Omnibus, security, etc., outsourcing-related costs, personnel-related costs and operation-related costs increased
    - ✓ Omnibus (meeting demands for large-scale WAN) to be provided from Aug.
    - ✓ “IJ xSP Platform Service/Mail” (email outsourcing services for large-scale service providers) to be provided from Dec. and more
  - Circuit-related costs slightly decreased QoQ as pricing pressure was small, despite continuous expansion of network and WAN revenue increase

### ◆ Regarding NTT DOCOMO’s (“DOCOMO”) mobile interconnectivity cost recognition:

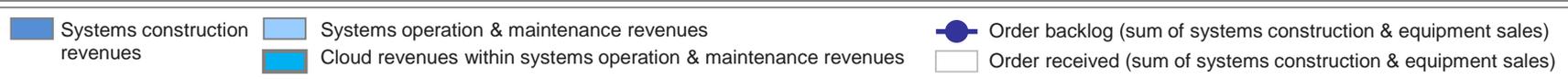
- Regarding our FY17 & FY16 usage charge, DOCOMO’s mobile interconnectivity telecommunications charge was fixed in Mar. 2018 and its unit price decreased by 18.2% YoY.
- Regarding our FY18 & FY17 usage charge, DOCOMO’s mobile interconnectivity telecommunications charge, which is calculated based on DOCOMO’s FY17 mobile-related cost, is expected to be fixed in Mar. 2019. DOCOMO’s payment arrangement is 15% off temporarily from Apr. 2018 which is the same as FY17.

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

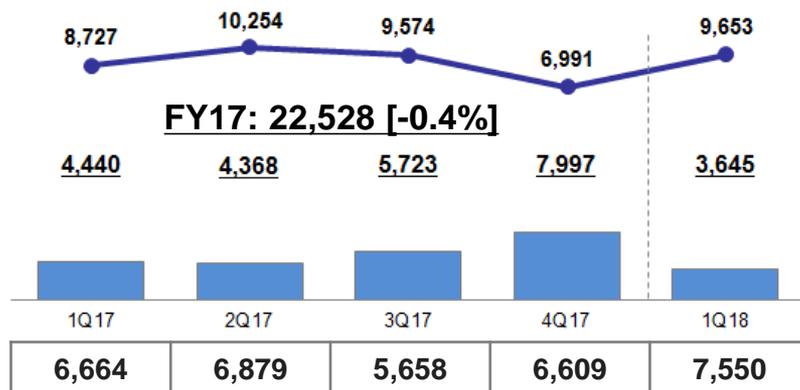
# II - 5. Systems Integration (SI) (1) Revenues

Unit: JPY million

[ ], YoY = Year over year comparison

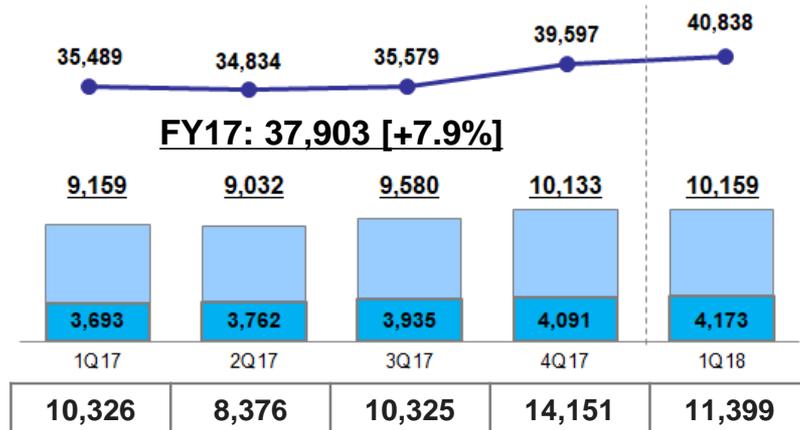


## Systems Construction



- 1Q18 revenue: down JPY795 million, down 17.9% YoY
  - 1Q18 revenue decreased YoY as 4Q17-end order backlog decreased YoY
- Favorable systems construction order environment continued;
  - 1Q18 order received: up 13.3% YoY
  - 1Q18 order-end backlog: up 10.6% YoY
- Large-scale construction orders received in 1Q18:
  - Replacing LAN environment for a central govt. agency
  - Web site for a major broadcast station
  - Thin client terminal for a major financial institution
  - Internet GW for a major food company
  - Private cloud for a major land transportation company etc.

## Systems Operation & Maintenance



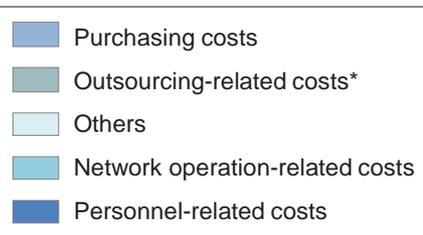
- 1Q18 revenue: up JPY1,000 million, up 10.9% YoY
- Continuous revenue growth mainly due to the accumulation of systems construction which are migrated to systems operation & maintenance phase as well as continuous increase in private cloud revenue
  - Revenue from private cloud: up 13.0% YoY
  - Revenue from SI construction: up 9.5% YoY
- 86.5% of 1Q18 cloud-related revenue is recognized in systems operation and maintenance revenues (13.5% in outsourcing)

### Overseas business

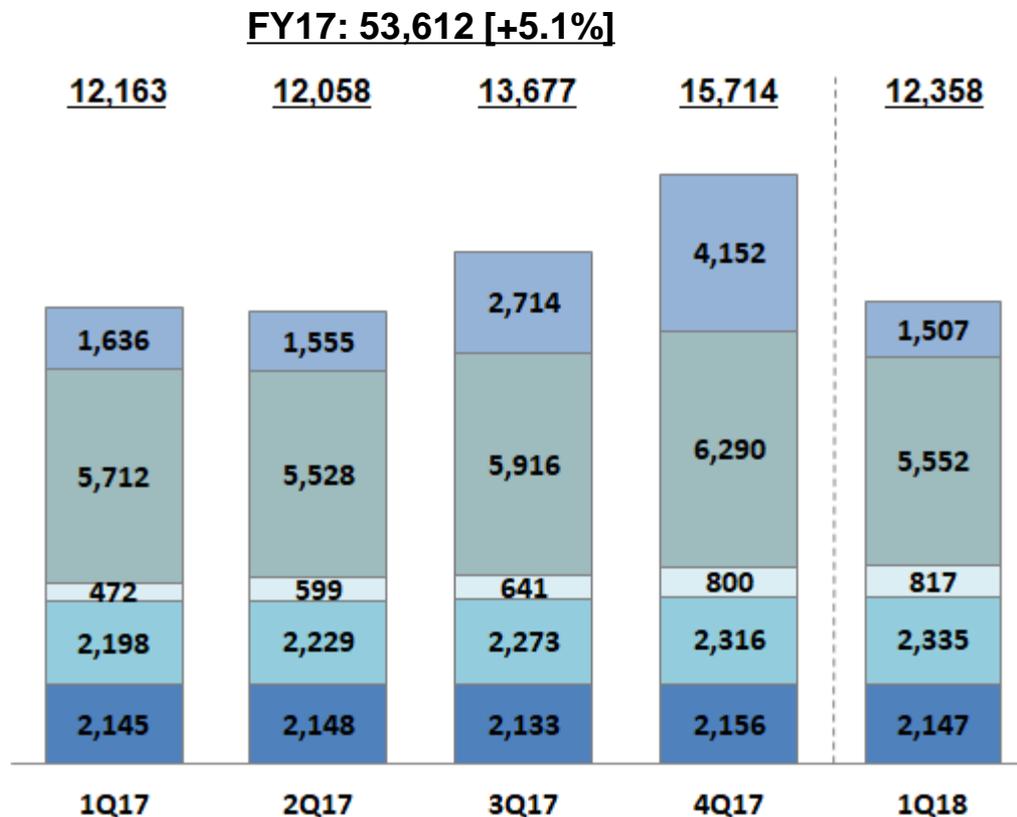
- Progressing as planned: 1Q18 revenue JPY1.81 billion, almost break even. FY18 target: revenue: approx. JPY 7.0 billion, operating income: approx. JPY 0.1 billion
- GDPR-related business expanding. 1Q18 revenue volume approx. JPY0.1 billion. Generating cloud and network related orders from consultation

# II - 5. Systems Integration (SI) (2) Cost of Revenues

Unit: JPY million



[ ], YoY = Year over year comparison  
QoQ = 1Q18 compared to 4Q17



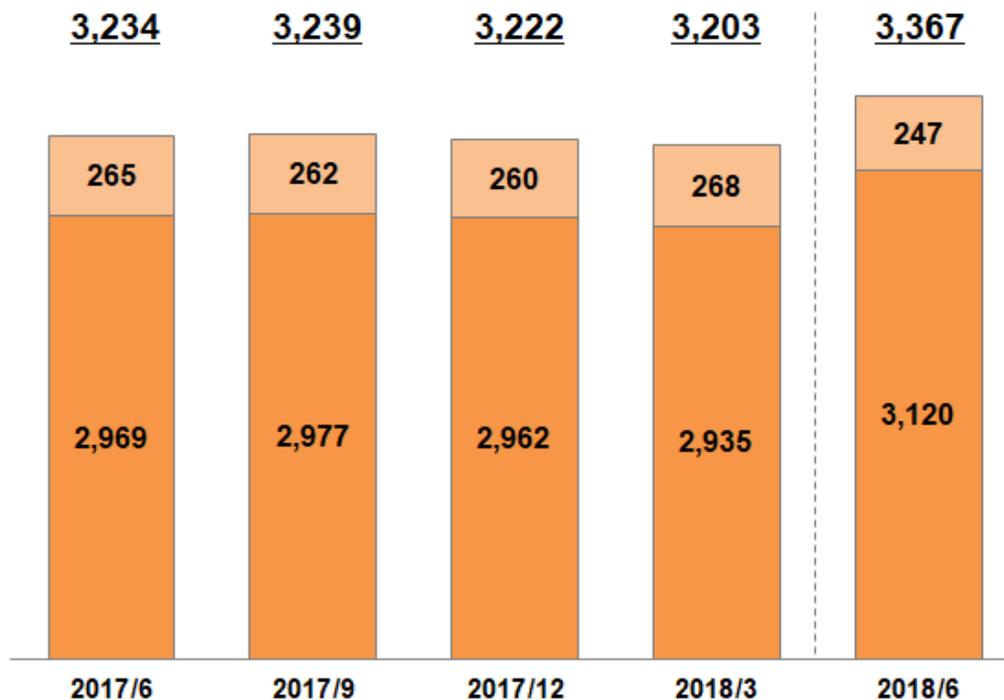
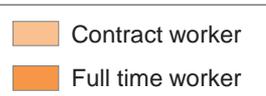
## Cost of SI

- 1Q18: up JPY195 million, up 1.6% YoY
- 1Q18 outsourcing-related costs decreased YoY as 1Q18 systems construction revenues decreased YoY
  - 1Q18-end number of SI-related outsourcing personnel: 1,039 personnel (decreased by 54 personnel YoY, decreased by 15 personnel QoQ)
- Network operation-related costs slightly increased QoQ
  - IIJ GIO P2 facility in western Japan (Matsue data center) started to provide services from June as planned. Depreciation and equipment maintenance costs to gradually increase
- Although number of engineers increased, personnel-related costs decreased QoQ as work-in-process increased

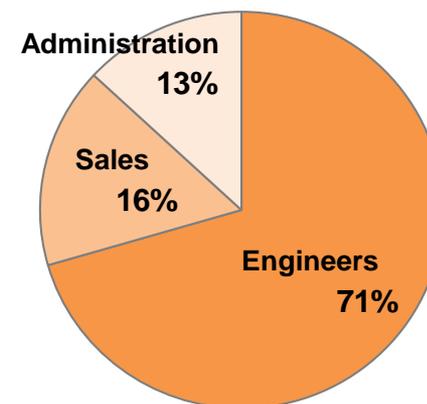
\*Outsourcing-related costs include

## II - 6. Number of Employees

Unit: JPY million  
YoY = Year over year comparison



### Employee Distribution



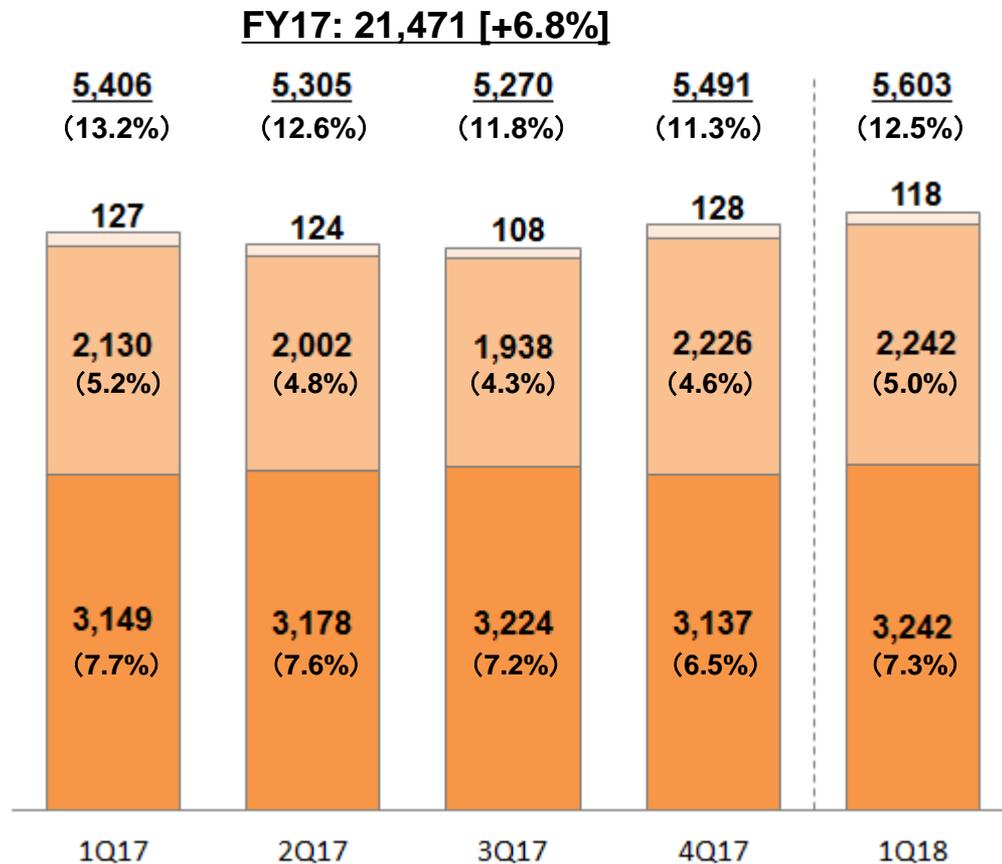
- ◆ 1Q18: up JPY112 million, up 1.9% YoY
- ◆ Hired 175 new graduates in Apr. 2018 (148 in Apr. 2017, 137 in Apr. 2016)
- ◆ FY18 plan: net addition of 200 consolidated personnel

### Personnel related costs & expenses (% of revenue)

1Q17	2Q17	3Q17	4Q17	1Q18
<b>5,797</b> (14.2%)	<b>5,784</b> (13.8%)	<b>5,775</b> (12.9%)	<b>5,843</b> (12.1%)	<b>5,909</b> (13.2%)
<b>FY17: 23,199 (13.2%) +5.6%YoY</b>				

# II - 7. SG&A Expenses/R&D

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



## SG&A

- ◆ Sales & marketing expenses
  - 1Q18: up 3.0% YoY
    - Personnel-related expenses and outsourcing expenses increased
- ◆ General & administrative expenses
  - 1Q18: up 5.3% YoY
    - Personnel-related expenses increased
- ◆ Progressing accordingly within the plan
  - FY18 SG&A plan: JPY22.8 billion

### ◆ SG&A related to ATM operation business

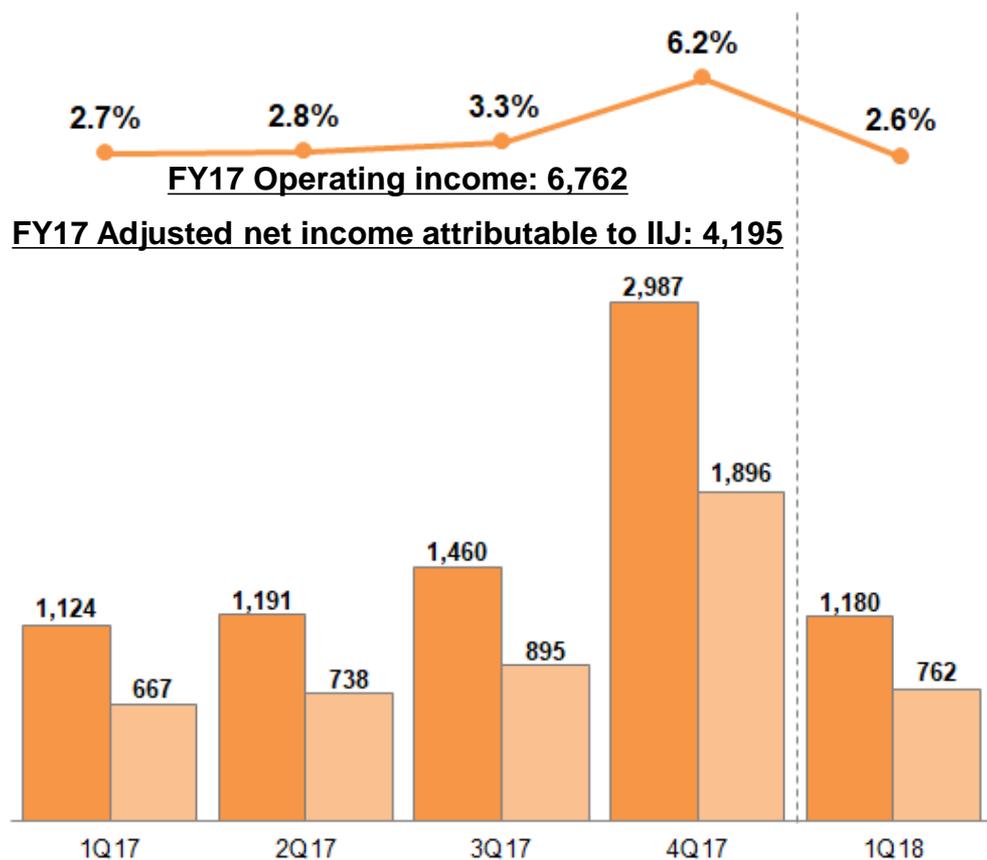
1Q17	2Q17	3Q17	4Q17	1Q18
35.5	44.8	36.4	38.4	47.0

- Placed 1,107 ATMs as of June 30, 2018

# II - 8. Operating Income & Net Income

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

Operating income    Adjusted net income attributable to IIJ (\*)    Operating margin ratio



## Income

### ◆ Adjusted income before income tax expense: (\*)

- 1Q18: JPY1,231 million (up 11.4% YoY)
  - Dividend income: JPY52 million
  - Foreign exchange gain, net: JPY9 million
  - Miscellaneous income: JPY81 million
  - Interest expense: JPY97 million

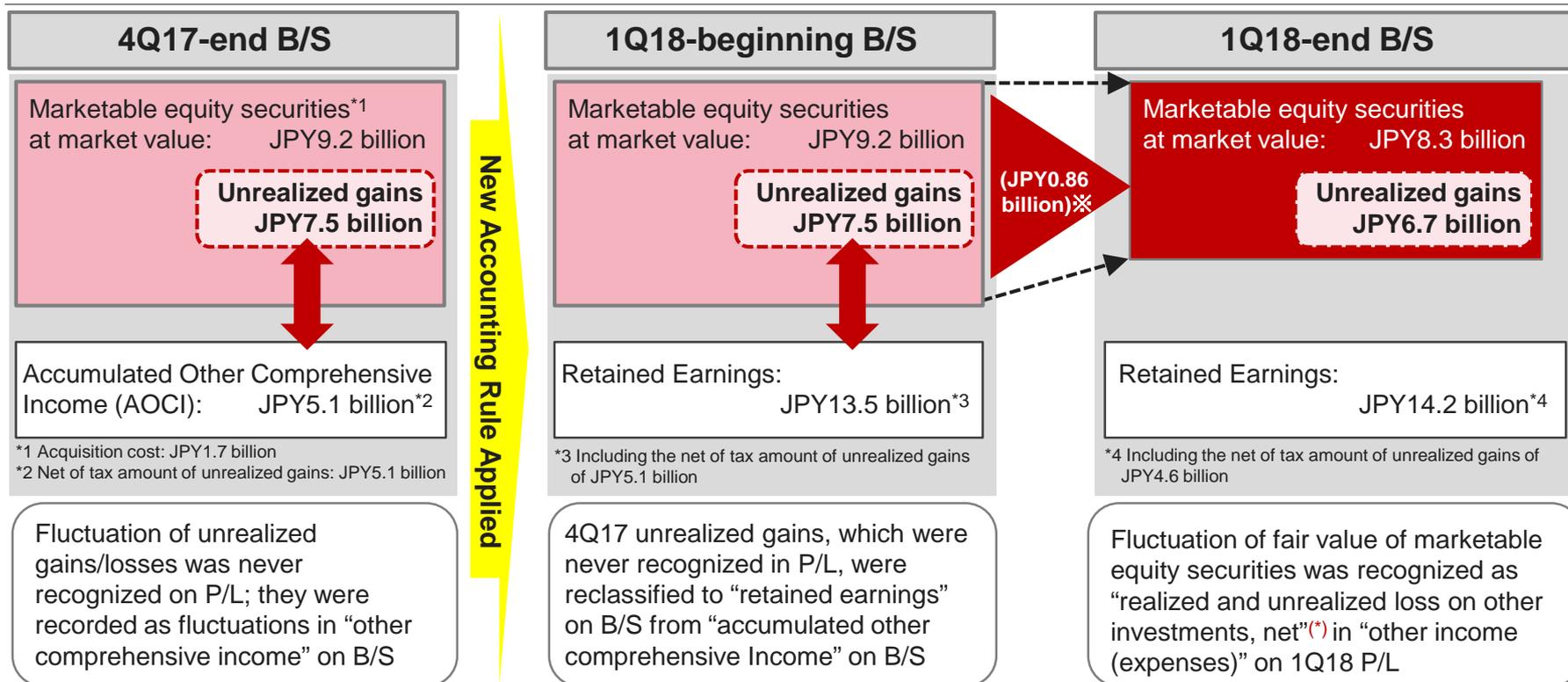
### ◆ Adjusted net income attributable to IIJ: (\*)

- 1Q18: JPY762 million (up 14.2% YoY)
  - Equity in net loss of equity method investees due to DeCurret: JPY62 million
    - ✓ FY18 equity in net loss of DeCurret is expected to be approx. JPY0.6 billion
  - Net income attributable to noncontrolling interests including Trust Networks: JPY41 million

(\*) These amount exclude effect of the revision of U.S GAAP related to gains/losses on marketable equity securities and funds.

324	743	390	1,128	424	Current income tax expense (*)
109	(245)	113	(290)	(26)	Deferred tax expense (benefit) (*)
36	41	24	33	(31)	Equity in net income (loss) of equity method investees
(42)	(47)	(39)	(42)	(41)	Less: Net income attributable to noncontrolling interests

# II - 9. Gains/Losses on Marketable Equity Securities



※ Major breakdown of 1Q18 loss on marketable equity securities of JPY0.86 billion

Stock	Stock Price (JPY)		IJ holdings (shares)	Gains/losses for 1Q18 P/L
	4Q17-end	1Q18-end		
<b>SIGMAXYZ Inc.</b>	2,137	1,331	1.98 million	<b>(JPY1.6 billion)</b>
<b>Recruit HLDG</b>	2,645	3,066	1.5 million	<b>+JPY0.6 billion</b>
<b>PIA Corp.</b>	5,450	6,230	0.15 million	<b>+JPY0.1 billion</b>

(\*) “Realized and unrealized loss on other investments, net” for 1Q18 was JPY0.75 billion. The breakdown of which were losses of JPY0.86 billion on marketable equity securities and gains of JPY0.12 billion on funds that were available to be measured at fair value. For details, please refer to page 6 our press release titled “IJ Announces First Three Months Financial Results for the Fiscal Year Ending March 31, 2019” published on August 8, 2018.

## Consideration of IFRS Adoption

- Plan to adopt IFRS from the filing of FY18 Annual Report “Yuka-shoken Houkokusho”
    - Because of different accounting principles, P/L impact due to gains/losses on marketable equity securities are not expected under IFRS
  - FY18 earnings press release & documents for ordinary general meeting of shareholders will be prepared under U.S. GAAP; P/L will be impacted by stock price fluctuation
- FY18 Annual Report “Yuka-shoken Houkokusho” will be prepared under IFRS; P/L will not be impacted by stock price fluctuation; Retained earnings & AOCI will be different from the U.S. GAAP etc.

## II - 10. Consolidated Balance Sheets (Summary)

Unit: JPY million

	Mar. 31, 2018	Jun. 30, 2018	Changes
Cash and Cash Equivalents	21,403	23,126	+1,723
Accounts Receivable	31,831	28,142	(3,689)
Inventories	1,715	2,512	+798
Prepaid Expenses (Current and Noncurrent)	16,409	19,939	+3,530
Investments in Equity Method Investees	5,246	5,129	(117)
Other Investments	11,374	11,691	+317
Property and Equipment	46,414	45,693	(721)
Goodwill and Other Intangible Assets	8,787	8,698	(89)
Guarantee Deposits	3,422	3,384	(38)
<b>Total Assets:</b>	<b><u>153,449</u></b>	<b><u>154,169</u></b>	<b><u>+720</u></b>
Accounts Payable	16,399	15,478	(921)
Income Taxes Payable	1,928	393	(1,535)
Borrowings (Short-term and Long-term)	24,750	24,750	-
Capital Lease Obligations (Current and Noncurrent)	16,577	16,743	+167
<b>Total Liabilities:</b>	<b><u>79,460</u></b>	<b><u>79,628</u></b>	<b><u>+168</u></b>
Common Stock	25,512	25,519	+7
Additional Paid-in Capital	36,176	36,183	+7
Retained earnings	8,404	14,167	+5,763
Accumulated Other Comprehensive Income (Loss)	5,075	△142	(5,217)
Treasury stock	(1,897)	(1,897)	-
<b>Total IIJ Shareholders' Equity:</b>	<b><u>73,270</u></b>	<b><u>73,830</u></b>	<b><u>+560</u></b>

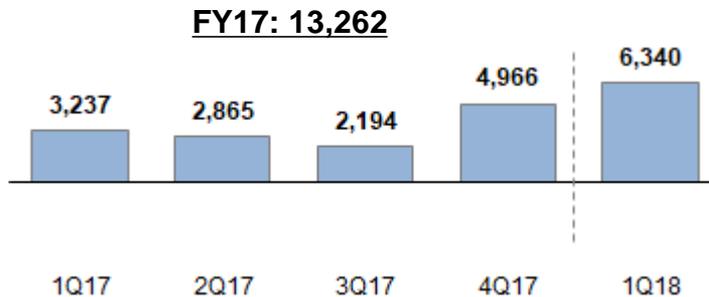
Due to the revision of U.S. GAAP on other investments. Please refer to page 13 of this document for details

➤ Total IIJ Shareholders' Equity to Total Assets: 47.9% as of Jun. 30, 2018; 47.7% as of Mar. 31, 2018

# II - 11. Consolidated Cash Flows

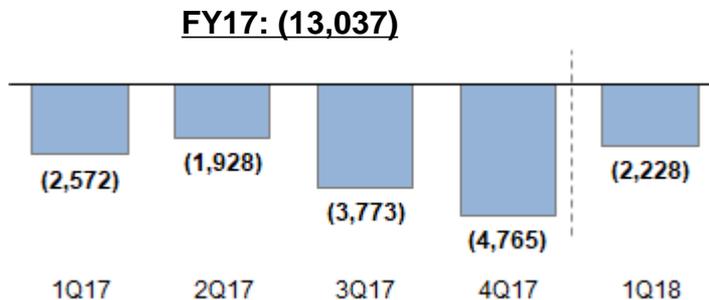
Unit: JPY million  
YoY = Year over year comparison

## Operating Activities



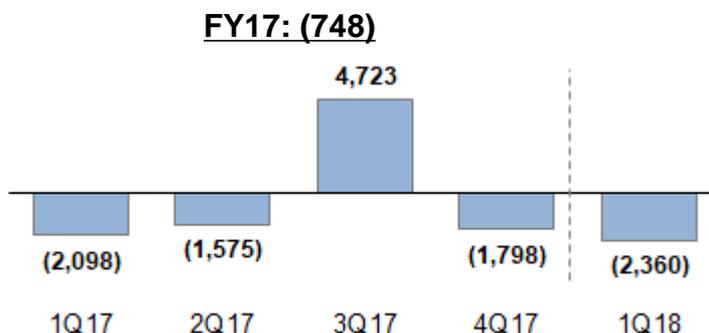
	Major Breakdown	YoY Change
Net income	291	(457)
Depreciation and amortization	3,297	+317
Fluctuations of operating assets and liabilities	2,094	+2,784
Realized and unrealized loss on other investments	747	+747

## Investing Activities



	Major Breakdown	YoY Change
Purchase of property and equipment	(2,558)	+1,251
Proceeds from sales of property & equipment (mainly lease-back transaction)	349	(927)

## Financing Activities

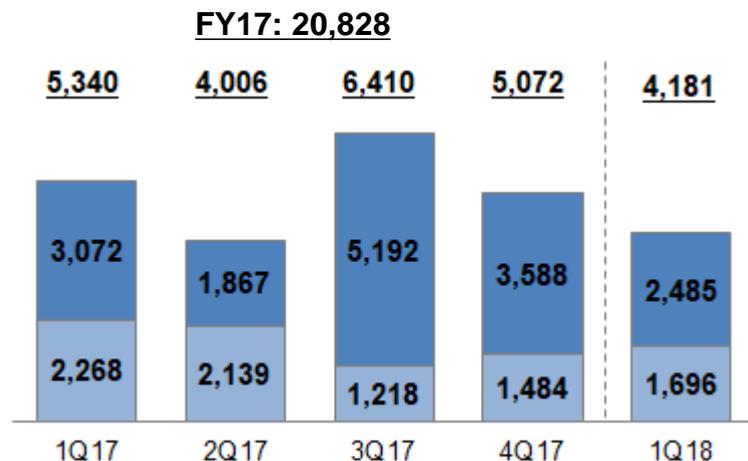


	Major Breakdown	YoY Change
Principal payments under capital leases	(1,527)	(192)
Dividends paid	(608)	(0)

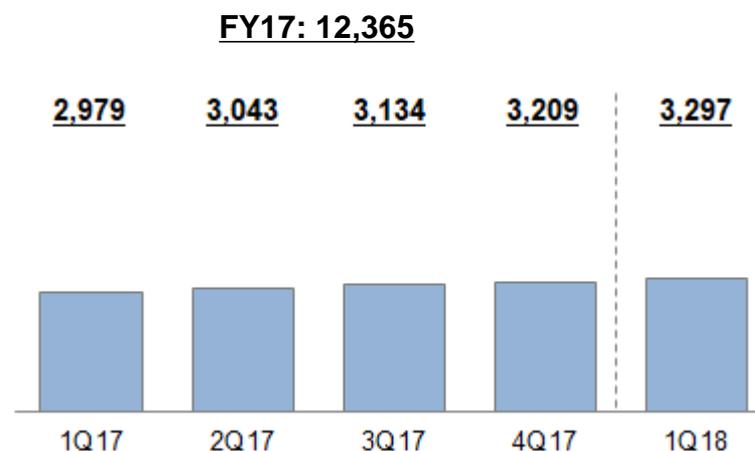
# II - 12. Other Financial Data

Unit: JPY million  
[ ] = Year over year comparison

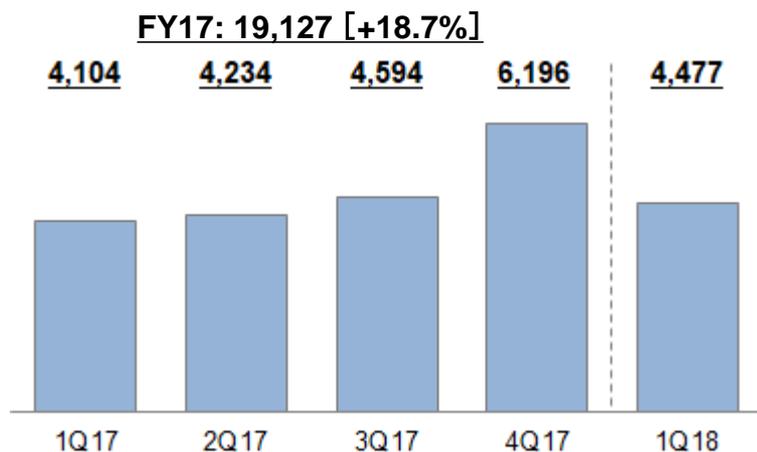
## CAPEX



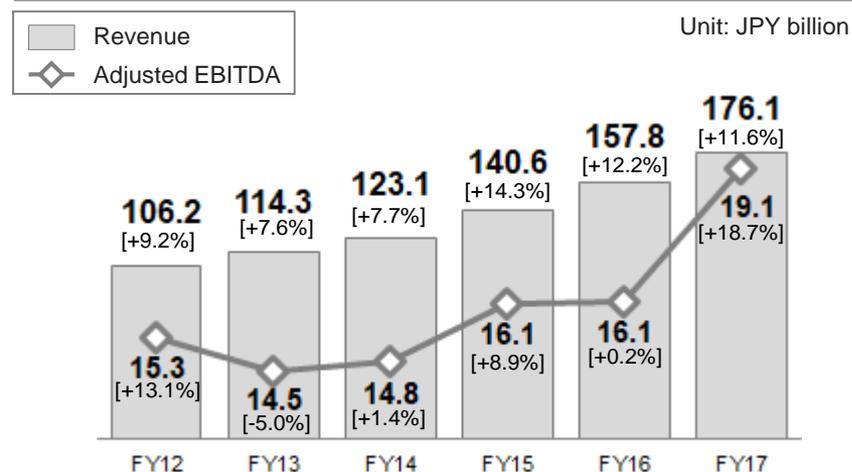
## Depreciation and Amortization



## Adjusted EBITDA



## Revenue & Adjusted EBITDA Annual Growth

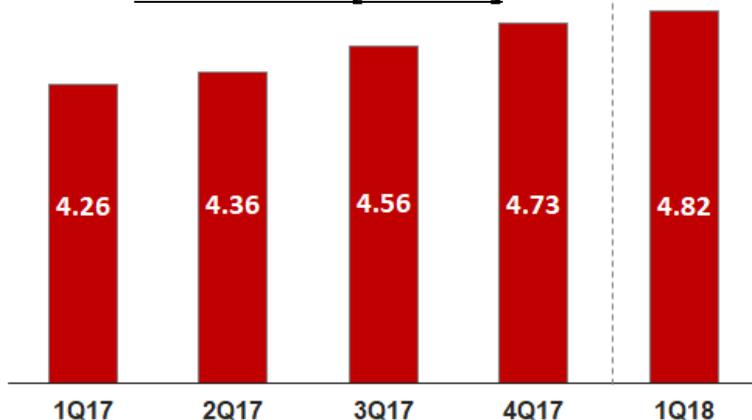


# IV - 1. Cloud Business

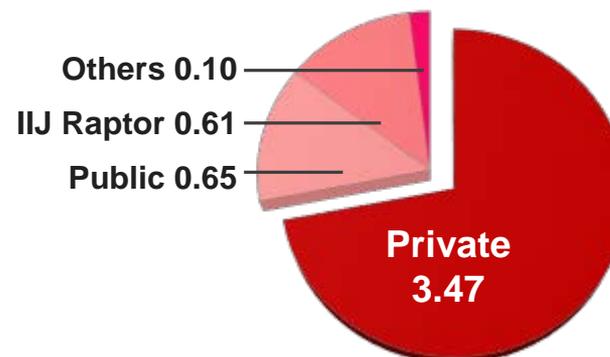
Unit: JPY billion  
% = Year over year comparison

## Cloud-related revenue

**FY17: 17.91 [+14.4%]**



## 1Q18 revenue\*

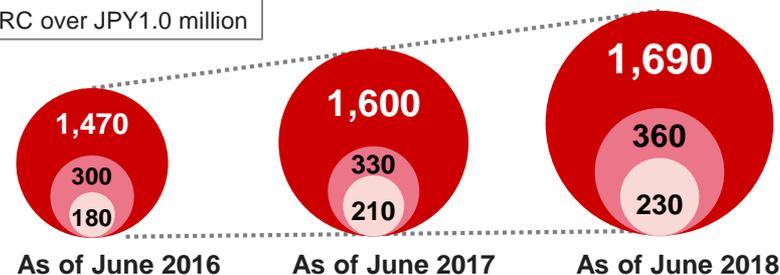
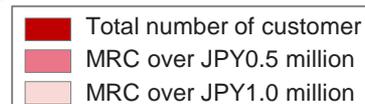


\*From 1Q18, IJ Raptor revenue (ASP-type FX services) which was formerly included "Task-specific SaaS" is disclose as its own. Newly established category "others" includes what was formerly recognized as "General Purpose SaaS" and the rest of "Task-specific SaaS" except for IJ Raptor revenue

## Business developments

- ◆ **Continuously accumulating revenue: 1Q18 +13.1%**
  - Unified Operation Management (UOM) Services offer comprehensive management for not only GIO services but also third party cloud services and on-premise, Meeting multi cloud demands
  - IJ GIO P2 facility in western Japan (Matsue) started to provide services as planned (public cloud from Jun., private cloud and storage from Oct.), Depreciation and equipment maintenance cost are expected to increase

## Cloud customer base



## 1Q18 cloud revenue recognition

- ◆ **86.5% in systems operation and maintenance**
- ◆ **13.5% in outsourcing services**

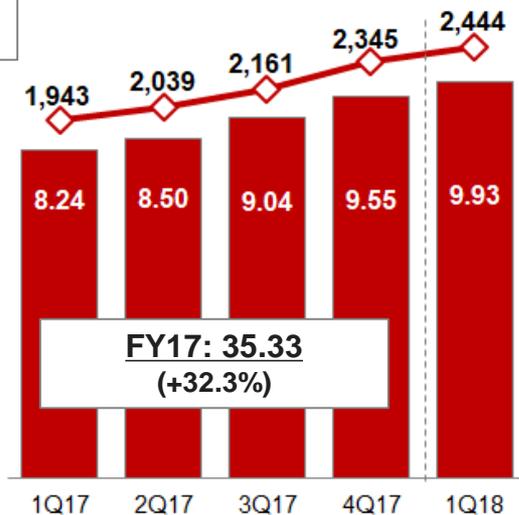
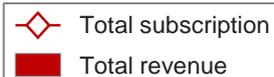
## FY18 plan

- ◆ **FY18 revenue target: approx. JPY20.0 billion (up 11.7%YoY)**
  - Continuously accumulating revenue by executing enterprise demands-suited multi/private cloud strategy with GIO P2, VMware virtualization platform service, UOM etc.

# IV - 2. Mobile & IoT Business

% = Year over year comparison

## Subscription (thousand) & revenue (JPY billion)



## Business developments

### ◆ Overall developments

- 1Q18 subscription acquisition pace almost in line with our plan (following the pace of latter half of FY2017)
- Strong demands for headsets-bundle services
- Additional expansion of mobile interconnectivity bandwidth to improve connectivity (Jul.)

### ◆ Updates on full-MVNO service

- “SIM Life Cycle Management” (from Mar.); able to remotely check and change status of SIMs, suited for IoT usages such as inventory management
- Small data volume-bundle services targeting IoT usages (from Aug.)
- Started trial of eSIM platform on Microsoft Surface, official service to be launched in spring 2019
- “Japan Travel SIM” (from Apr.); prepaid SIMs for foreigners visiting Japan, partnering with local partners in Asian countries to provide SIMs before tourists leave their home counties
- International roaming services for enterprise customers (from Jul.)
- Fixed-type cost increased by over JPY0.3 billion in 1Q as planned
- 1Q revenue JPY0.09 billion, FY18 revenue target of approx. JPY0.5 billion

### ◆ Updates on enterprise mobile (except for MVNE)

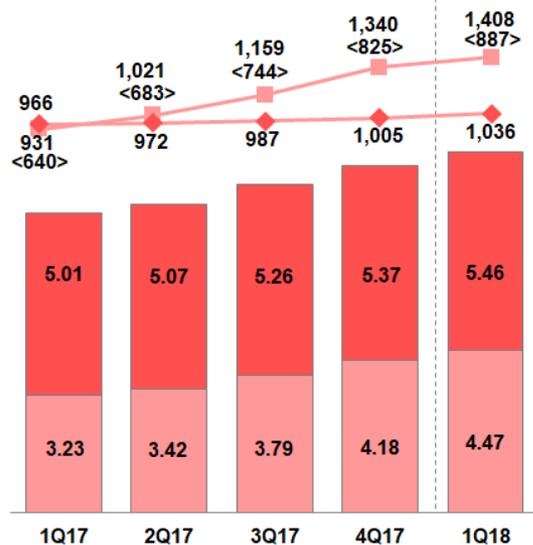
- 1Q18 revenue: JPY1.09 billion (+25.3%)
- 1Q18-end subscription: 521 thousand (+78.7%)
  - Strong demands for network & dashboard cameras connection continued
    - ✓ Offer comprehensive solution including cloud services, leveraging competitive advantage as a total solution provider
    - ✓ Aim to improve mobile network utilization by absorbing upload traffic in the middle-to-long term

### Subscription:



< > MVNE

### Revenue:



# IV - 3. FY2018 Business Plan (announced in May 2018)

Unit: JPY billion

**Aim to increase income with continuous recurring revenue growth while full-MVNO-related costs increase, Seek significant income growth in FY19 by strengthening revenue accumulation**

	% of Revenues		YoY Change	
	FY17 Results <small>(Apr. 2017 - Mar. 2018)</small>	FY18 Target <small>(Apr. 2018 - Mar. 2019)</small>		
Total Revenues	176.1	190.0	+13.9	+7.9%
Total Cost of Revenues	147.8	160.2	+12.4	+8.4%
Gross Margin	28.2	29.8	+1.6	+5.6%
SG&A/R&D	21.5	22.8	+1.3	+6.3%
Operating Income	6.8	7.0	+0.2	+3.5%
Cash Dividend per common share	JPY27.00	JPY27.00	-	-

- Others**
- Overseas: Revenue JPY7.0 billion, OP JPY0.1 billion
    - In addition to NW services and SI, GDPR consultation and others to expand global solution offerings
    - Consolidated subsidiaries in Asia as a whole turn positive
  - JOCDN to provide full-scale CDN service
  - DeCurret plans to launch cryptocurrency exchange service

## Target & Assumption

### Enterprise NW

- Strengthen income level with continuous revenue accumulation of already invested service line-ups
- Enhance xSP-targeted sales structure
- Security services to further increase with DDoS protection and SOC
  - Leveraging security log and cyber threats information obtained as an ISP to apply to our services
- IP service to expand with CDN traffic through JOCDN

### Mobile & IoT

- Focus on acquiring and gathering enterprise traffic through IoT/M2M
  - Expect mobile profitability to improve in the mid-term
  - Security, Cloud, SI revenues to increase with IoT projects
  - MVNE business to grow continuously along with increase in clients and subscription
- Collaborate IJ IoT Services & full-MVNO functions to establish B2B2X scheme; Leverage case studies to accelerate the penetration

### Cloud/SI

- SI profitability to improve with an increase in SE utilization rate etc.
- Further enhance to acquire Multi/Private cloud demands
  - Collaboration with NW services such as security
  - Focus on Unified Operation Management (UOM) services
- Cloud revenue JPY20 billion (+11.7% YoY)
  - Cloud gross margin to improve with revenue growth

### Dividends

- Accordingly with our basic policy of continuous and stable dividend policy, JPY27.00 per common share

## ※ Forward-looking statements

Statements made in this presentation regarding IIJ's or managements' intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding revenues, operating and net profitability are subject to various risks, uncertainties and other factors that could cause IIJ's actual results to differ materially from those contained in any forward-looking statement. These risks, uncertainties and other factors include but not limited to:

- a decrease of corporate spending or capital expenditure due to depression in the Japanese economy and/or corporate earnings decreased,
- an inability to achieve anticipated results and cause negative impact on profitability,
- a possibility that less of reliability for our services and loss of business chances due to interruption or suspension of our services,
- an excess increase and fluctuation in network-related cost, mobile-related cost, outsourcing cost, personnel cost etc,
- a possibility to lose business opportunity due to our inadequate resources in personnel and others,
- an increase in competition and strong pricing pressure,
- the recording of an impairment loss as a result of an impairment test on the non-amortized intangible assets such as goodwill,
- a decline in value and trading value of our holding securities,
- fluctuations of equity in net income (loss) of equity method investees

Please refer to IIJ's filings on Form 20-F of its annual report and other filings with the United States Securities and Exchange Commission ("SEC") for other risks.

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