

Consolidated Financial Results for FY2017



25th
Anniversary

Internet Initiative Japan Inc.
TSE1(3774), NASDAQ(IIJI)
May 15, 2018

Agenda

I . Summary of FY2017 Financial Results

II . FY2018 Business Plan

III . Consolidated Financial Results for FY2017

IV . Reference Materials

I . Summary of FY2017 Financial Results

bn = billion
 % = Year over year comparison
 *Income before income tax expense
 **Net income attributable to IIJ

Revenue	JPY176.1 bn	+11.6%	Adjusted EBITDA	JPY19.1bn	+18.7%
Gross margin	JPY28.2 bn	+11.8%	ROE	7.3%	
Operating income	JPY6.8 bn	+31.7%	Annual cash dividend per share	JPY27.00	
Pre-tax income*	JPY7.8 bn	+44.5%			
Net income**	JPY5.1 bn	+61.3%			

Strong position as a service provider with recurring revenue continuous growth, Further business developments like FinTech by leveraging business assets

◆ Enterprise NW service revenue largely grew

- | | |
|--------------------------|---------------|
| Recurring revenue | +14.0% |
|--------------------------|---------------|
- Enterprise connectivity revenue **+23.5%**
 - Security service revenue **+26.2%**
 - WAN revenue **+10.7%**
- **Leveraging various NW services toward enterprises**
- Omnibus, DDoS protection, SOC, and Virtual desktop services especially led the growth
 - Particularly large security cloud project for local government also contributed to recurring revenue growth

◆ Competitive advantage of SI with Multi/Private Cloud

- **Cloud revenue JPY17.9 bn (+14.4%)**
- Continuously acquiring large projects with private cloud service line-ups including VMware virtualization platform service, GIO P2, Unified Operation Management (UOM)
- **Systems operation and maintenance +7.9%**
- Comprehensive solution with Cloud + Security + NW + SI

◆ Overseas business: Revenue JPY6.1 bn, Turned positive as planned

- **Expanding business with global solution for domestic customer base, overseas JV, GDPR consultation etc.**

◆ Differentiate from others with IoT projects & MVNE

- | | |
|----------------------------------|--|
| Total mobile revenue | JPY35.3 bn (+32.3%) |
| Total mobile subscription | 2.3 million (+26.4%) |
| FY2017-end MVNE clients | 137 (+13 clients from FY2016-end) |
- **Over 320 IoT-related prospective projects as of Mar. 2018**
- Accumulating sales prospects & PoC from manufacturers and others: Connected homes & cars; remote monitoring for agriculture, fisheries, factory, facility; security cameras, embedding SIM for clients' products and more
- **Launched Full MVNO services (Mar. 2018)**
- Starting to offer IIJ-original functions such as SIM life cycle management, flexible collaboration with overseas companies, Chip SIM etc.

◆ Further Business Developments

- Established DeCurret Inc. (IIJ ownership 35%) to provide cryptocurrency exchange & settlement services; Shareholders include mega banks; Plan to launch services from 2H18
- Japanese commercial broadcasting companies invested in JOCDN Inc. in Apr. 2017 (IIJ ownership 20%); Providing CDN services to 15 clients including broadcasting companies & large contents holder
- Constructing of own data center near Tokyo; Expect better productivity with integrated service facility
- Providing home-based healthcare solution "IIJ electronic contact/communication Note service" to local governments such as Aichi, Ibaraki and Nagano as well as medical institutions

II . FY2018 Business Plan

Unit: JPY billion
YoY = Year over year comparison

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

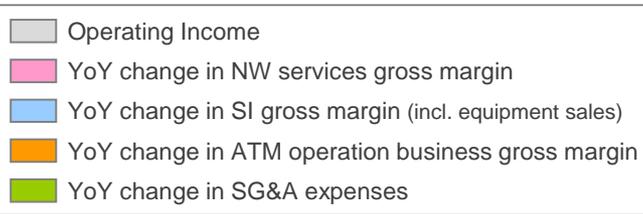
III - 1. Consolidated Financial Results for FY2017 (1) Unit: JPY billion

	<i>% of Revenues</i>	<i>% of Revenues</i>	Year over Year Change	
	FY17 Results <small>(Apr. 2017 - Mar. 2018)</small>	FY16 Results <small>(Apr. 2016 - Mar. 2017)</small>		
Total Revenues	176.1	157.8	+11.6%	+18.3
Total Cost of Revenues	<i>84.0%</i> 147.8	<i>84.0%</i> 132.5	+11.5%	+15.3
Gross Margin	<i>16.0%</i> 28.2	<i>16.0%</i> 25.2	+11.8%	+3.0
SG&A/R&D	<i>12.2%</i> 21.5	<i>12.7%</i> 20.1	+6.8%	+1.4
Adjusted EBITDA*1	<i>10.9%</i> 19.1	<i>10.2%</i> 16.1	+18.7%	+3.0
Operating Income	<i>3.8%</i> 6.8	<i>3.3%</i> 5.1	+31.7%	+1.6
Income before Income Tax Expense	<i>4.5%</i> 7.8	<i>3.4%</i> 5.4	+44.5%	+2.4
Net Income*2	<i>2.9%</i> 5.1	<i>2.0%</i> 3.2	+61.3%	+1.9

*1: Operating income before depreciation and amortization *2: Net income attributable to IJ

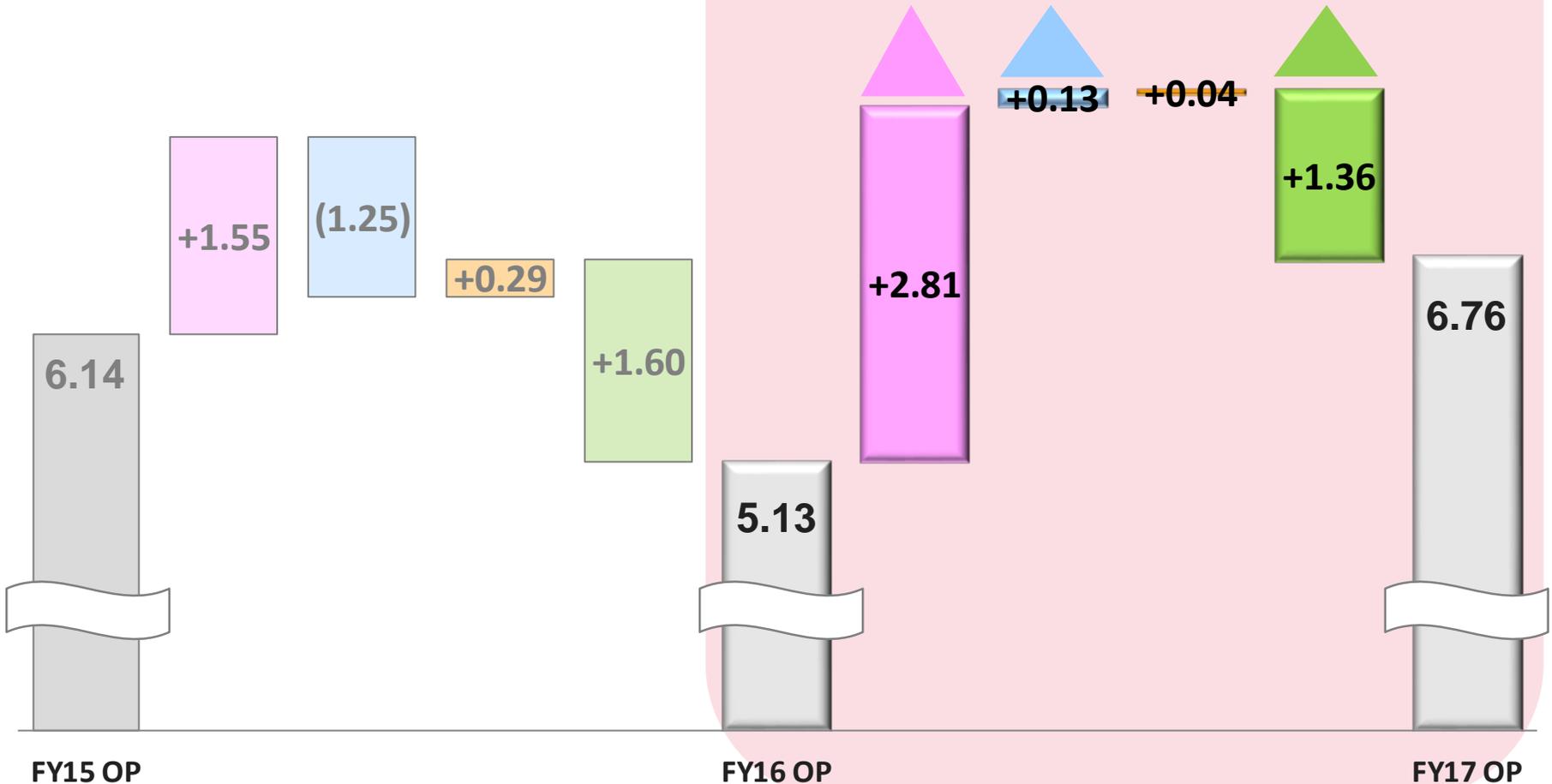
III - 1. Consolidated Financial Results for FY2017 (2)

Unit: JPY billion



YoY = Year over year comparison

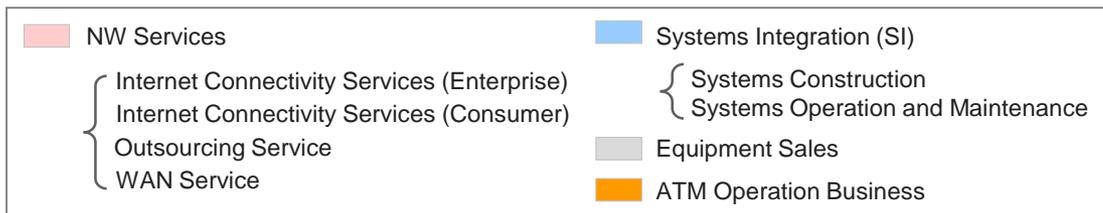
OP = Operating Income



NW gross margin	SI gross margin	SG&A expenses
Increased mainly due to recurring revenue accumulation & mobile' gross margin ratio improvement	Increased mainly due to cloud gross margin expansion	Personnel-related & office rent expenses continued to increase; Sales commission expenses didn't increase as much as FY16

III - 2. Revenues

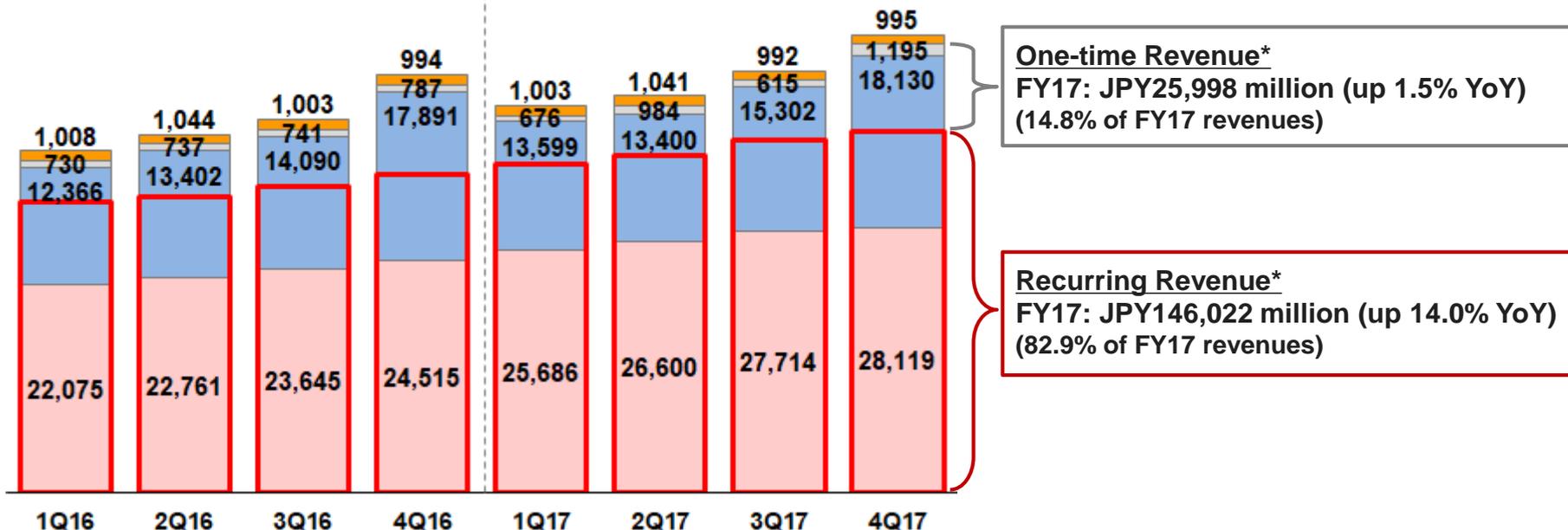
Unit: JPY million
[], YoY = Year over year comparison



FY16: 157,789 [+12.2%] **FY17: 176,051 [+11.6%]**

36,179 37,944 39,479 44,187 40,964 42,024 44,624 48,439

[+15.0%] [+12.0%] [+16.0%] [+7.1%] [+13.2%] [+10.8%] [+13.0%] [+9.6%]



* 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

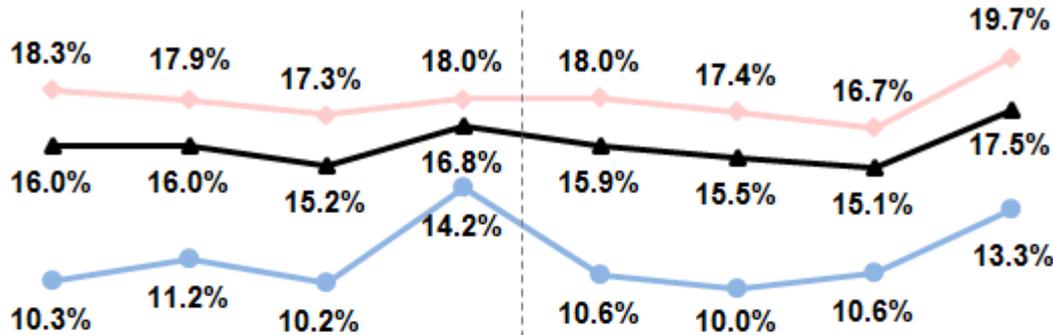
III - 3. Cost of Revenues & Gross Margin Ratio

Unit: JPY million

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

Gross margin ratio: ◆ NW Services ◆ SI ▲ Total

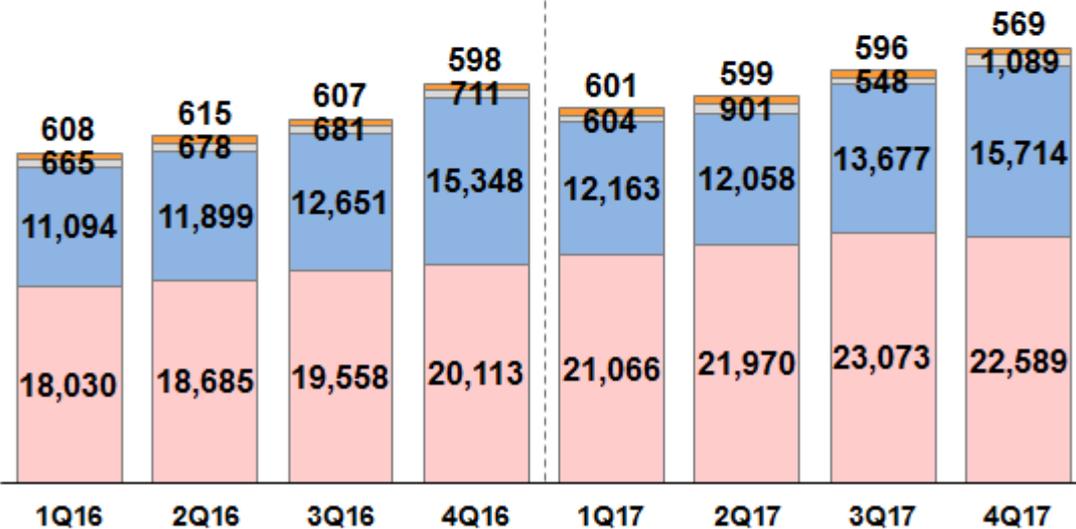
[], YoY = Year over year comparison



FY16: 132,542 [+14.3%]

FY17: 147,818 [+11.5%]

Quarter	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Revenue	30,397	31,878	33,497	36,770	34,434	35,529	37,894	39,961
YoY Change	[+17.8%]	[+14.6%]	[+19.8%]	[+6.9%]	[+13.3%]	[+11.5%]	[+13.1%]	[+8.7%]



Gross Margin

◆ Total

FY17: JPY28,233 million (up 11.8% YoY)

FY16: JPY25,247 million (up 2.4% YoY)

- FY17 gross margin ratio: 16.0%
- 4Q17 gross margin ratio exceeded 4Q16

◆ NW Services

FY17: JPY19,421 million (up 16.9% YoY)

FY16: JPY16,609 million (up 10.3% YoY)

- Along with an increase in MVNE transactions, mobile gross margin ratio was on a decreasing trend through 1Q-3Q FY2017
- Regarding our FY17 and FY16 NTT DOCOMO's ("DOCOMO") mobile interconnectivity telecommunications revision, its unit price was fixed in Mar. 2018 and its unit price decreased by 18.2% YoY
- 4Q17 NW services gross margin ratio increased from 3Q17 mainly due to a decrease in DOCOMO's mobile interconnectivity telecommunications charge along with the unit price revision

◆ SI

FY17: JPY6,819 million (up 0.9% YoY)

FY16: JPY6,756 million (down 15.2% YoY)

- FY17 gross margin ratio: 11.3% (down 0.4 points YoY)
- Outsourcing-related costs continued to increase along with SI revenue increase

◆ ATM

FY17: JPY1,665 million (up 2.7% YoY)

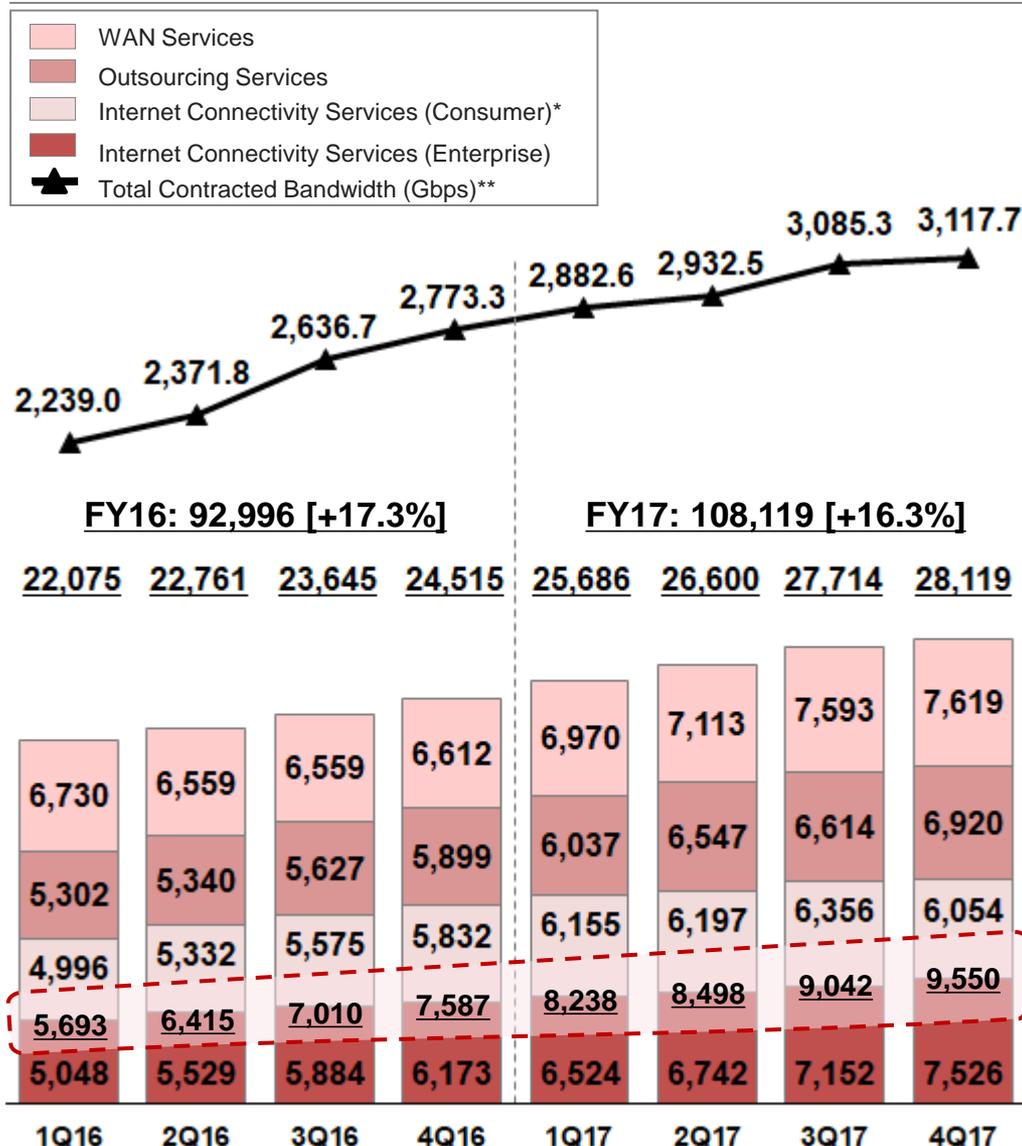
FY16: JPY1,622 million (up 22.0% YoY)

III - 4. Network Services (1) Revenues

Unit: JPY million

[], YoY = Year over year comparison

QoQ = 4Q17 compared to 3Q17



NW Services Revenues

◆ Internet Connectivity (Enterprise)

- FY17: up 23.5% YoY
 - MVNE & enterprise mobile solution continued to increase
 - ✓ IJJ Mobile 4Q17-end subscription: 1,340 thousand (up 56.1% YoY)

◆ Internet Connectivity (Consumer)

- FY17: up 13.9% YoY
 - "IJJmio Mobile Services"
 - ✓ 4Q17-end subscription: 1,005 thousand (up 5.7% YoY)
- 4Q17 revenue decreased QoQ as hi-ho became unconsolidated
 - 3Q17 hi-ho's revenue for Internet connectivity services (Consumer) was JPY420 million

◆ Outsourcing Services

- FY17: up 17.8% YoY
 - Security-related revenue continued to grow
 - ✓ FY17 : up 26.2% YoY

◆ WAN Services

- FY17: up 10.7% YoY
 - Continued to grow along with order accumulation

◆ Mobile services: FY17 up 32.3% YoY

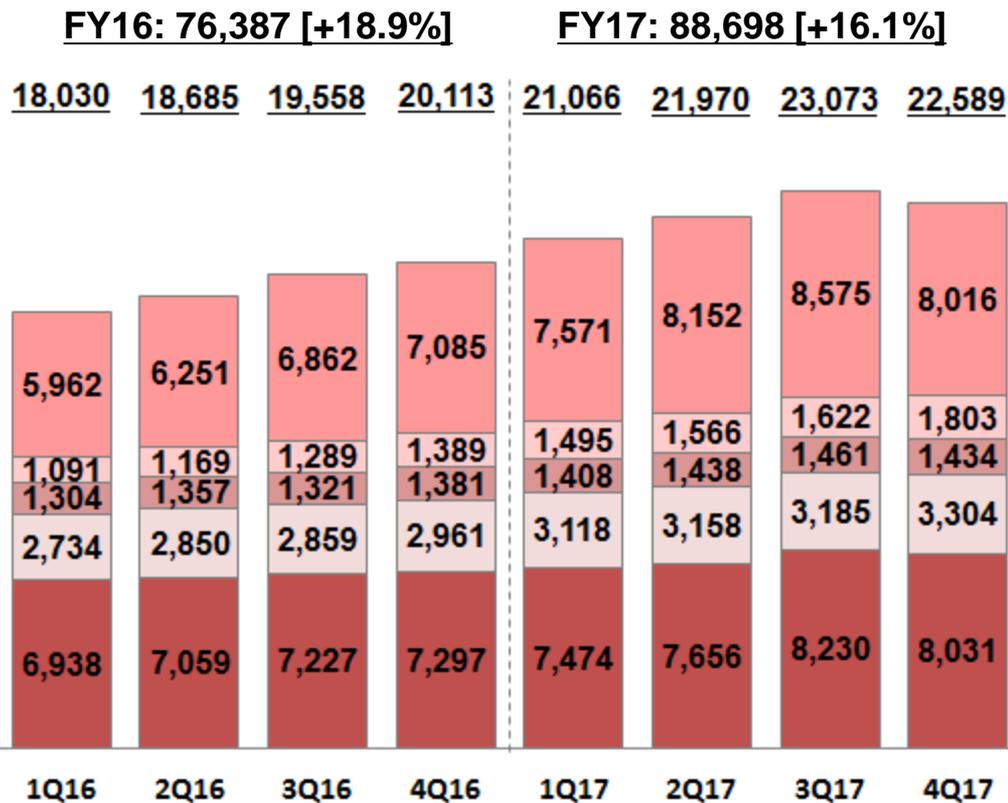
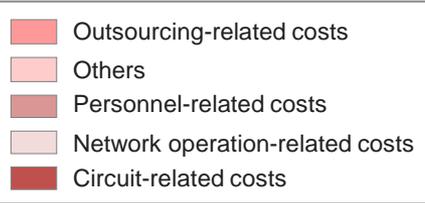
◆ Non-mobile services: FY17 up 9.8% YoY

* To focus our resources on mobile services, IJJ sold all the shares of common stock of hi-ho, Inc. which was IJJ's wholly owned subsidiary and mainly provides fixed Internet connectivity services for consumer, on Dec. 31, 2017

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

III - 4. Network Services (2) Cost of Revenues

Unit: JPY million
 [], YoY = Year over year comparison
 QoQ = 4Q17 compared to 3Q17



Cost of NW Services

- FY17: up 16.1% YoY
 - Along with an increase in mobile traffic, mobile-related costs (mainly in outsourcing-related costs) increased
 - Along with continuous network equipment installation and service developments, network operation-related costs increased
 - Along with increases in WAN revenues and continuous network expansion, circuit-related costs increased. 4Q17 circuited-related costs decreased QoQ mainly due to the decrease related to hi-ho which became unconsolidated
- 4Q17 outsourcing-related costs decreased QoQ as retroactively adjusted cost related to DOCOMO's mobile interconnectivity cost resulted in our cost decrease (estimate: 14% YoY decrease, actual: 18.2% YoY decrease)

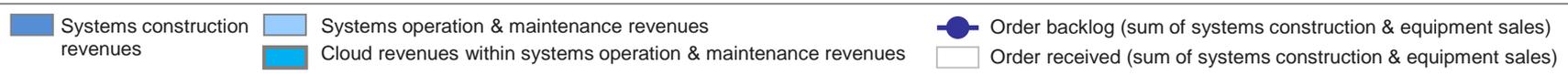
◆ Regarding NTT DOCOMO's ("DOCOMO") mobile interconnectivity cost recognition:

- 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.
- For FY18, we adopt certain assumption about DOCOMO's mobile interconnectivity charge in the same way as FY17

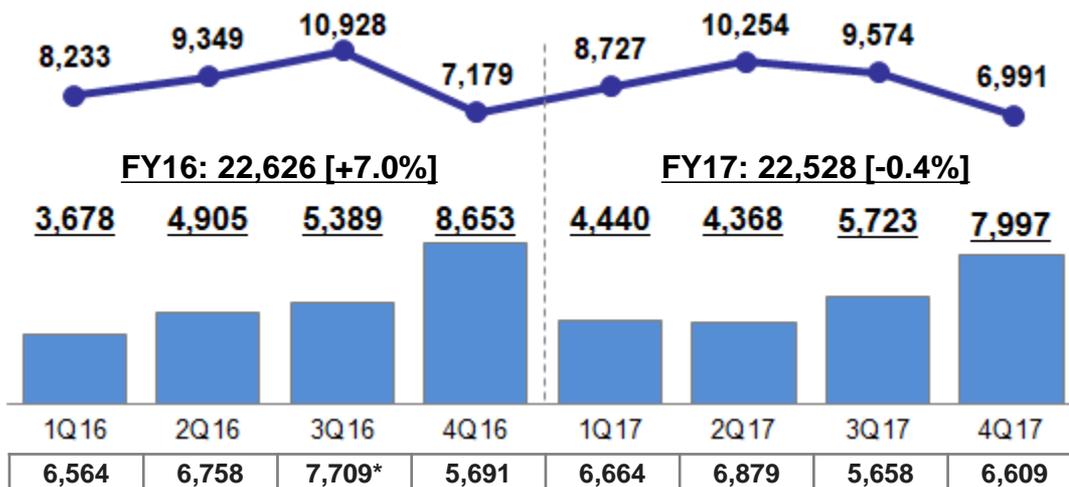
III - 5. Systems Integration (SI) (1) Revenues

Unit: JPY million

[], YoY = Year over year comparison

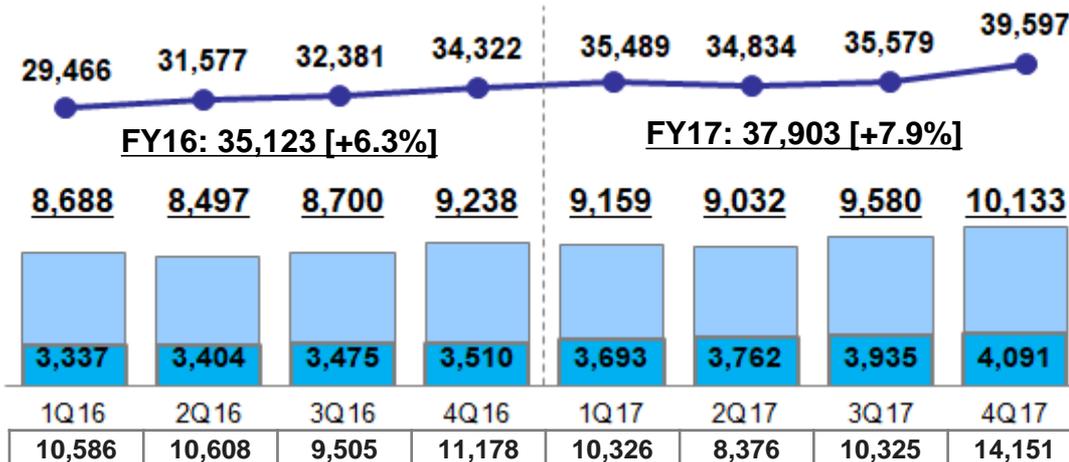


Systems Construction



*Including data center export project to Laos (approx. JPY1.5 billion)

Systems Operation & Maintenance

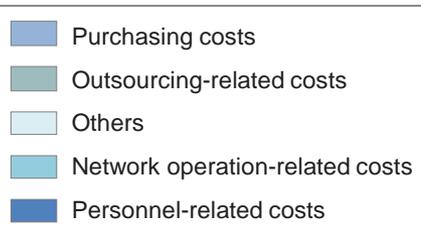


- FY17 revenue: down JPY98 million YoY
 - Revenue almost as the same level as FY16 due to
 - ✓ SE resources were concentrated on a large-scale services integrated project in 1H17
 - ✓ Equipment-purchase-type revenue is on a decreasing trend as cloud-related SI increases
 - ✓ Individual data center export project (approx. JPY1.2 billion) was included in FY16 revenue
- Large-scale construction orders received in 4Q17:
 - Renewing network system for a certain government agency
 - Next generation cloud service for a major financial institution
 - Renewing Internet network environment for a major financial institution
 - BtoC web site for a major land transportation company
 - Network for a major wholesale company
 - Core business infrastructure for a major recruiting services company etc.

- FY17 revenue: up JPY2,780 million 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
 - 4Q17 revenue from private cloud: up 16.5% YoY
 - 4Q17 revenue from SI construction: up 5.5% YoY
- 86.4% of 4Q17 cloud-related revenue is recognized in systems operation and maintenance revenues (13.6% in outsourcing)

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

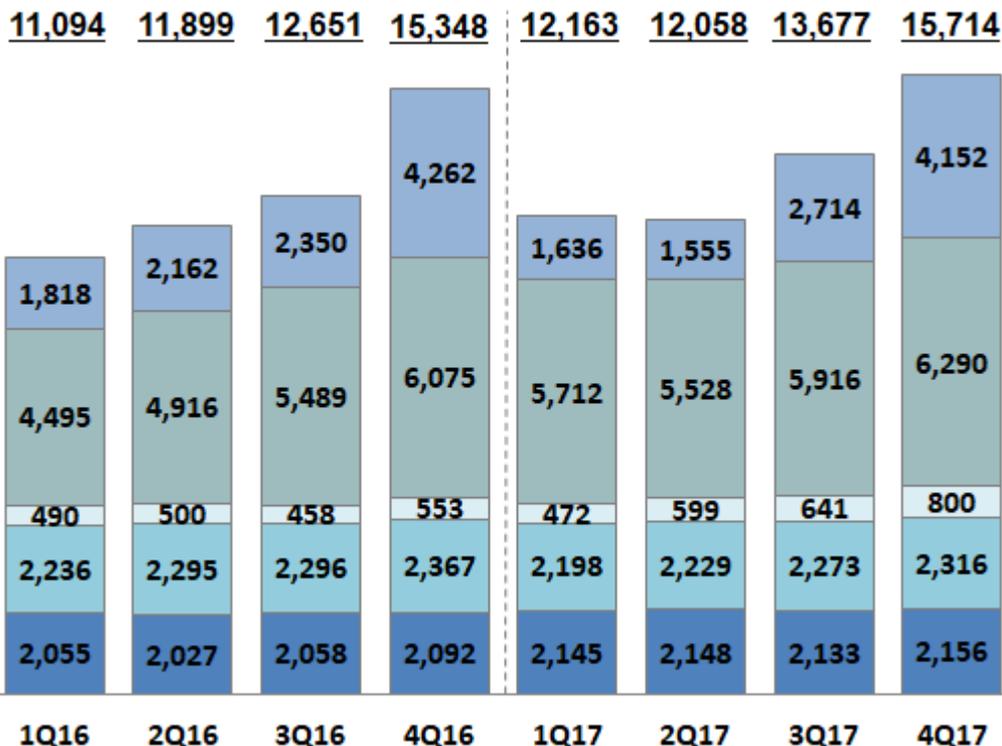
Unit: JPY million



[], YoY = Year over year comparison
QoQ = 4Q17 compared to 3Q17

FY16: 50,992 [+10.3%]

FY17: 53,612 [+5.1%]



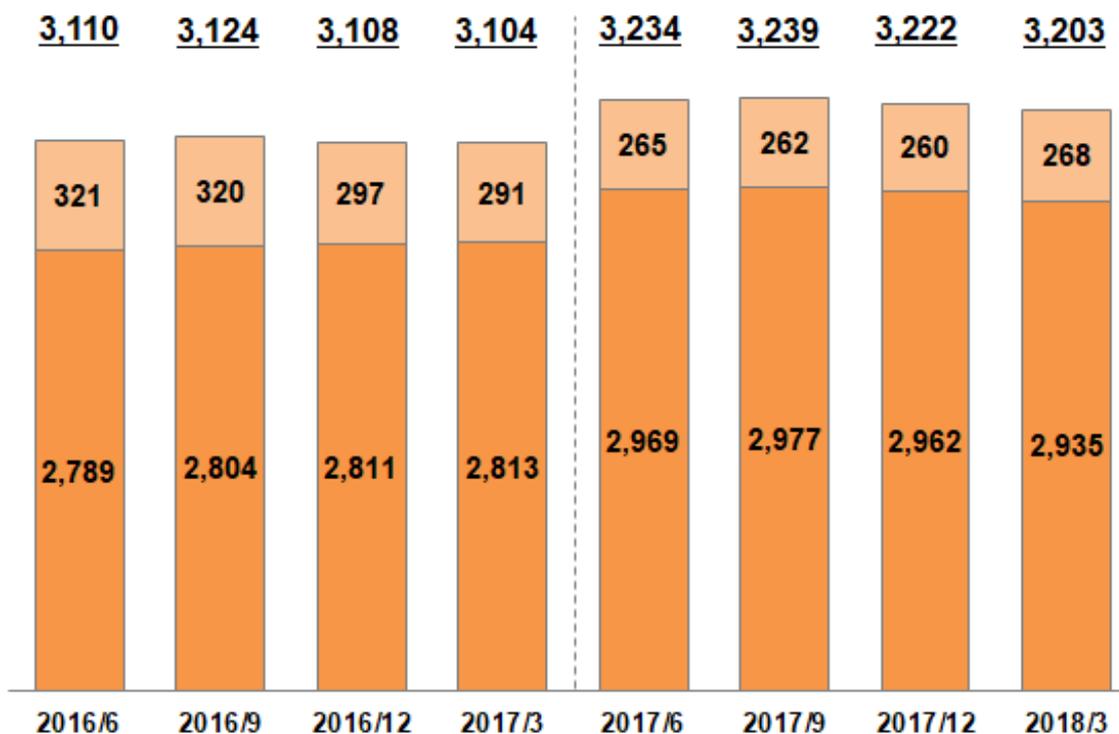
Cost of SI

- FY17: up JPY2,620 million YoY
 - 4Q17-end number of SI-related outsourcing personnel: 1,054 personnel
 - ✓ 4Q17-end number of SI-related outsourcing personnel decreased QoQ mainly because a large-scale cloud/SI project for a major BtoC company was completed

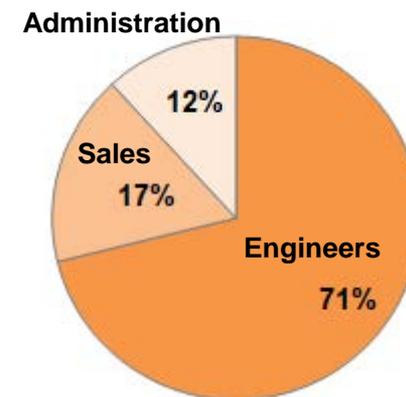
III - 6. Number of Employees

Unit: JPY million
YoY = Year over year comparison

Contract worker
Full time worker



Employee Distribution



- ◆ 4Q17: up JPY208 million, up 3.7% YoY
- ◆ Hired 175 new graduates in Apr. 2018 (148 in Apr. 2017, 137 in Apr. 2016)

Personnel related costs & expenses (% of revenue)

1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
5,464 (15.1%)	5,446 (14.4%)	5,432 (13.8%)	5,635 (12.8%)	5,797 (14.2%)	5,784 (13.8%)	5,775 (12.9%)	5,843 (12.1%)
FY16: 21,977 (13.9%) +3.9%YoY				FY17: 23,199 (13.2%) +5.6%YoY			

III - 7. SG&A Expenses/R&D

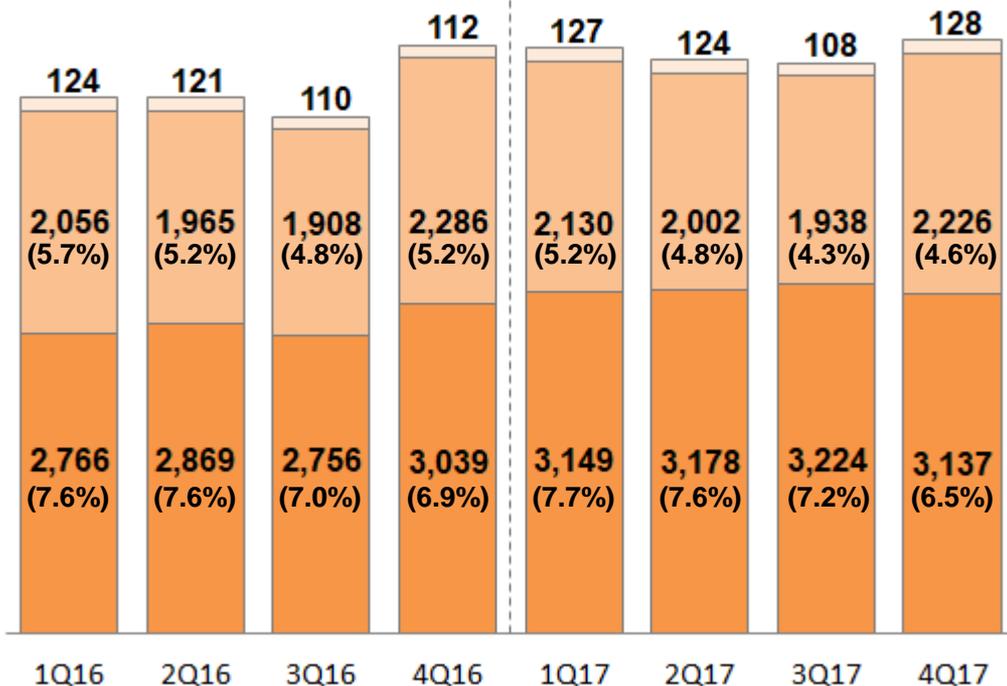
Unit: JPY million
 [] , YoY =Year over year comparison
 QoQ = 4Q17 compared to 3Q17

- Research & development expenses
- General & administrative expenses
- Sales & marketing expenses
- () % of total revenues

FY16: 20,113 [+12.7%]

FY17: 21,471 [+6.8%]

<u>4,946</u>	<u>4,955</u>	<u>4,774</u>	<u>5,438</u>	<u>5,406</u>	<u>5,305</u>	<u>5,270</u>	<u>5,491</u>
(13.7%)	(13.1%)	(12.1%)	(12.3%)	(13.2%)	(12.6%)	(11.8%)	(11.3%)



Sales & marketing expenses

- FY17: up 11.0% YoY
 - Advertising expenses, sales commission expenses, and personnel-related expenses increased
 - Sales commission expenses: up approx. JPY0.3 billion YoY

General & administrative expenses

- FY17: up 1.0% YoY
 - Personnel-related expenses increased
- 4Q17
 - Increased QoQ mainly due to disposal (JPY50 million)

◆SG&A related to ATM operation business

1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
43.5	51.1	42.9	47.0	35.5	44.8	36.4	38.4

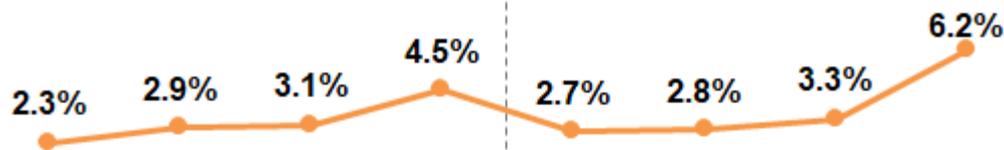
- Placed 1,096 ATMs as of March 31, 2018

III - 8. Operating Income & Net Income

Unit: JPY million

[], YoY = Year over year comparison

Operating Income Net Income Attributable to IIJ Operating Margin Ratio

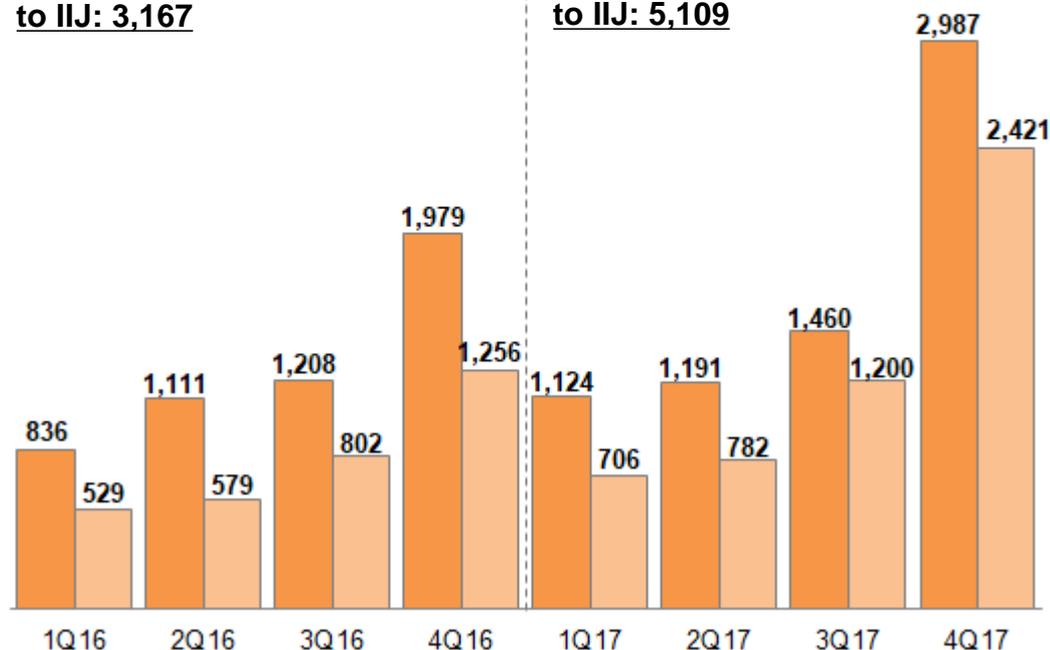


FY16 Operating income: 5,134

FY16 Net income attributable to IIJ: 3,167

FY17 Operating income: 6,762

FY17 Net income attributable to IIJ: 5,109



Income

◆ Income before income tax expense:

- FY17: JPY7,840 million (up JPY2,413 million, up 44.5% YoY)
 - Net gain on sales of available-for-sale securities: JPY1,068 million
 - Distribution from fund investments: JPY270 million
 - Dividend income: JPY243 million
 - Interest expense: JPY375 million
 - Foreign exchange loss: JPY16 million
- Net gain on sales of other investments: 3Q17 JPY373 million, 4Q17 JPY695 million

◆ Net income attributable to IIJ:

- FY17: JPY5,109 million (up JPY1,942 million, up 61.3% YoY)
 - Equity in net income of equity method investees including INTERNET MULTIFEED Co.: JPY135 million
 - Net income attributable to noncontrolling interests including Trust Networks Inc.: JPY170 million

139	531	446	1,203	342	764	531	1,372	Current income tax expense
301	(18)	67	(444)	109	(245)	113	(290)	Deferred tax expense (benefit)
17	25	28	61	36	41	24	33	Equity in net income of equity method investees
(42)	(43)	(41)	(39)	(42)	(47)	(39)	(42)	Less: Net income attributable to noncontrolling interests

III - 9. Consolidated Balance Sheets (Summary)

Unit: JPY million

	Mar. 31, 2017	Mar. 31, 2018	Changes
Cash and Cash Equivalents	21,959	21,403	(556)
Accounts Receivable	27,384	31,831	+4,447
Inventories	2,798	1,715	(1,084)
Prepaid Expenses (Current and Noncurrent)	14,218	16,409	+2,191
Investments in Equity Method Investees	3,150	5,246	+2,096
Other Investments	7,925	11,374	+3,450
Property and Equipment	39,775	46,414	+6,639
Goodwill and Other Intangible Assets	9,257	8,787	(469)
Guarantee Deposits	3,060	3,422	+362
Total Assets:	<u>137,395</u>	<u>153,449</u>	<u>+16,054</u>
Accounts Payable	16,962	16,399	(563)
Income Taxes Payable	1,076	1,928	+852
Borrowings (Short-term and Long-term)	17,750	24,750	+7,000
Capital Lease Obligations (Current and Noncurrent)	15,203	16,577	+1,373
Total Liabilities:	<u>70,015</u>	<u>79,460</u>	<u>+9,445</u>
Common Stock	25,509	25,512	+2
Additional Paid-in Capital	36,118	36,176	+58
Retained earnings	4,512	8,404	+3,892
Accumulated Other Comprehensive Income	2,500	5,075	+2,575
Treasury stock	(1,897)	(1,897)	-
Total IJ Shareholders' Equity:	<u>66,742</u>	<u>73,270</u>	<u>+6,528</u>

Increased mainly due to DeCurret Inc.

Increased mainly due to an increase in the fair value of equity securities including strategic shareholdings such as Recruit Holdings Co., Ltd. & SIGMAXYZ Inc.

Increased due to capital expenditure

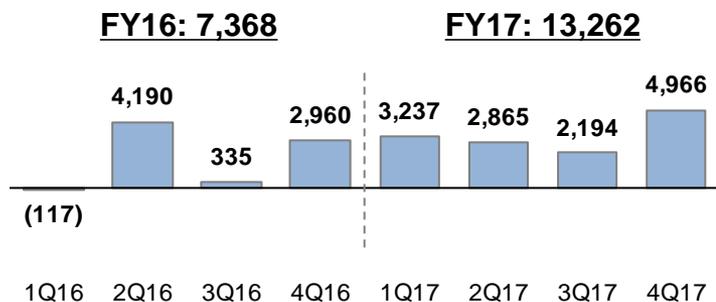
Increased mainly due to an increase in the fair value of investment securities

➤ Total IJ Shareholders' Equity to Total Assets: 48.6% as of Mar. 31, 2017; 47.7% as of Mar. 31, 2018

III - 10. Consolidated Cash Flows

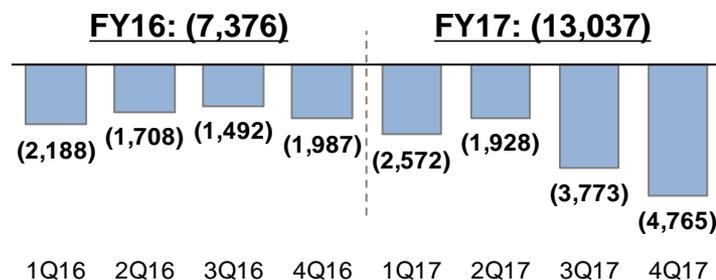
Unit: JPY million
YoY = Year over year comparison

Operating Activities



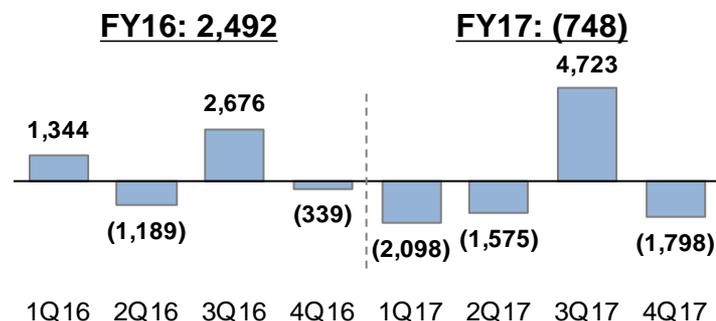
	Major Breakdown	YoY Change
Net income	5,279	+1,947
Depreciation and amortization	12,365	+1,471
Net gain on sales of other investments	(1,068)	(852)
Fluctuations of operating assets and liabilities	(3,526)	+3,500

Investing Activities



	Major Breakdown	YoY Change
Purchase of property and equipment	(15,771)	(5,147)
Proceeds from sales of property & equipment (mainly lease-back transaction)	3,306	+260
Investment in an equity method investee	(2,005)	(1,906)
Proceeds from sale of stock of a subsidiary (net of cash divested)	726	+726
Proceeds from sales of available-for sale securities	1,207	+1,202

Financing Activities

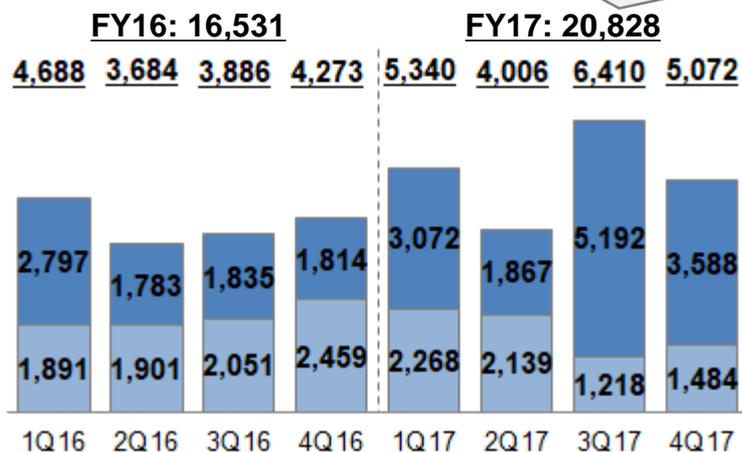
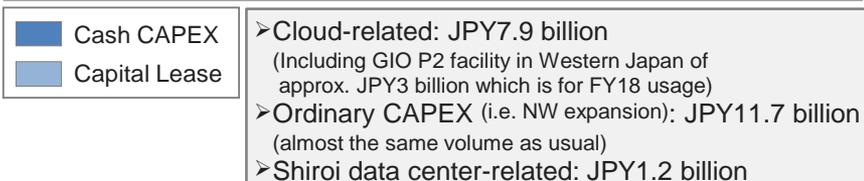


	Major Breakdown	YoY Change
Principal payments under capital leases	(5,724)	(904)
Dividends paid	(1,217)	(91)
Long-term bank borrowings	7,000	(1,500)
Payment of long-term accounts payable	(571)	(541)

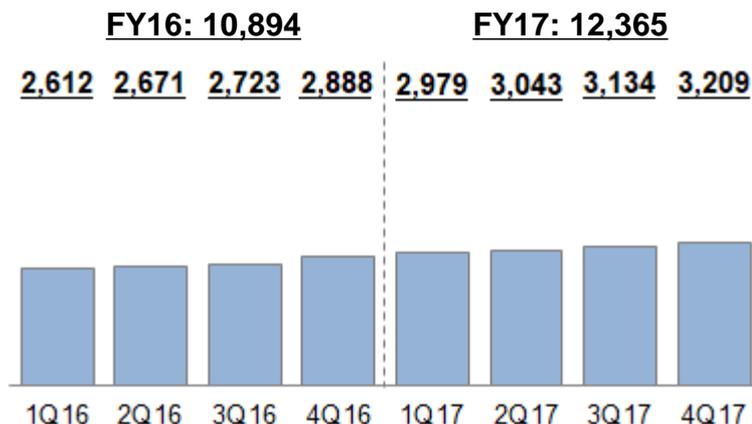
III - 11. Other Financial Data (CAPEX etc.)

Unit: JPY million
[] = Year over year comparison

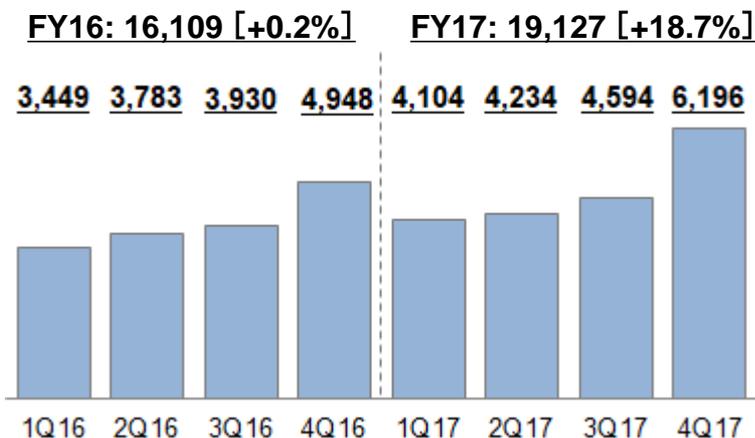
CAPEX



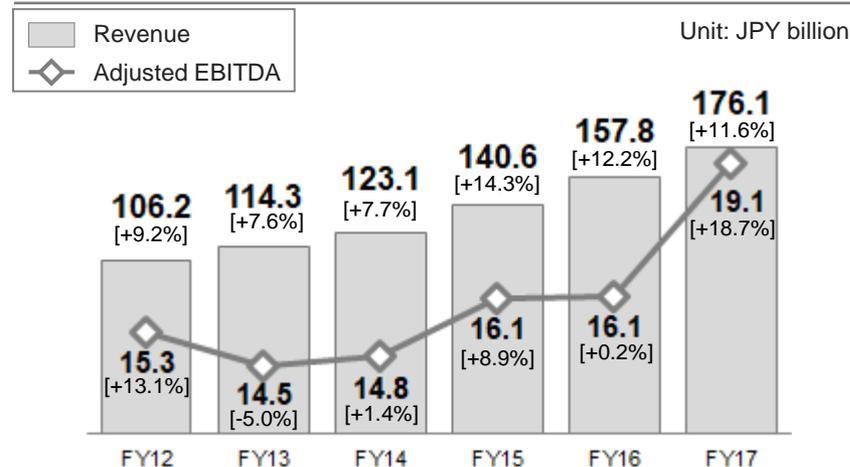
Depreciation and Amortization



Adjusted EBITDA



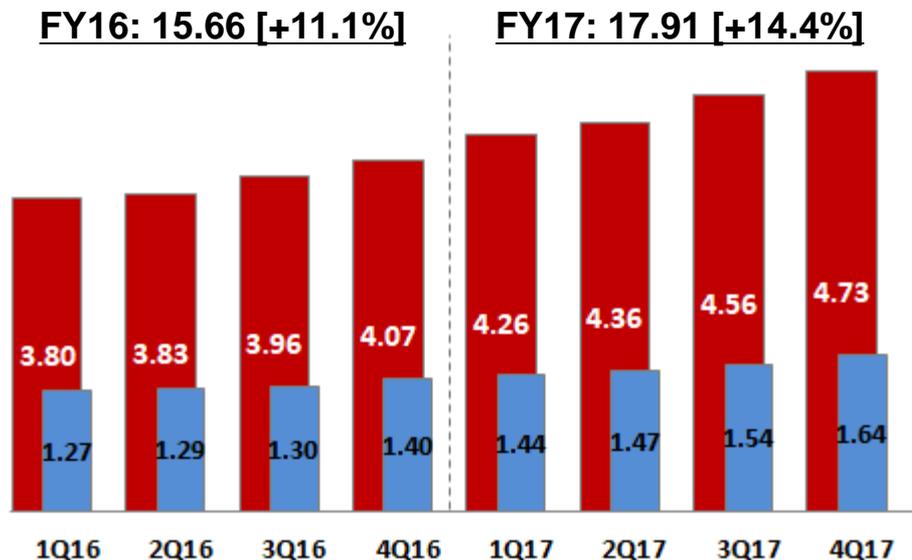
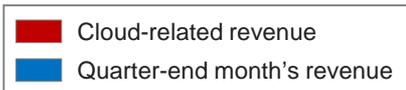
Revenue & Adjusted EBITDA Annual Growth



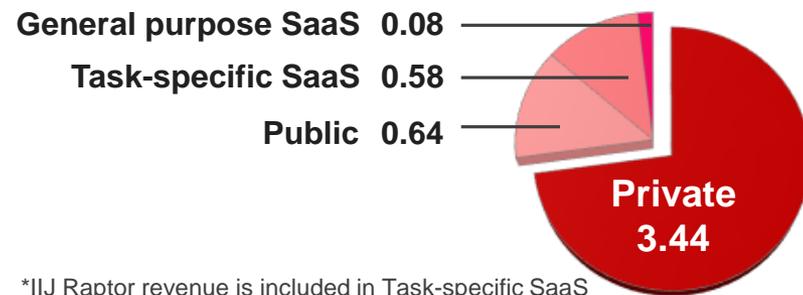
IV - 1. Cloud Business

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

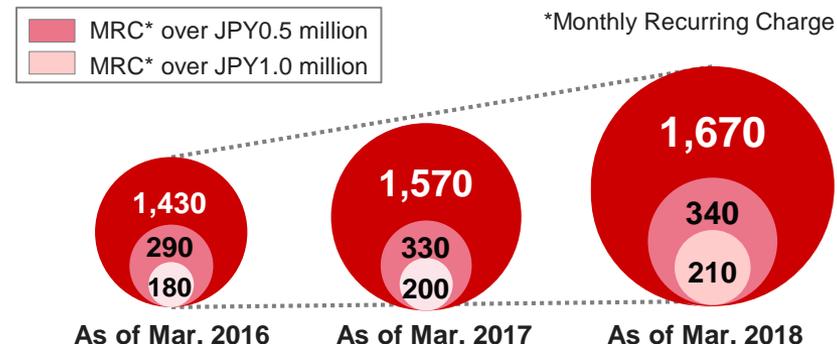
Cloud-related revenue



4Q17 revenue



Cloud Customer Base



◆ FY17 Results

- **Resulted almost as planned with continuous revenue accumulation including large projects**
 - Core business operation system for a prominent travel agency's service platform, multi-cloud system for a prominent logistics company, service platform for a large online business company etc.
 - Cloud gross margin increased by approx. JPY0.4 billion from FY16, almost as planned
 - Large gaming clients' revenue at approx. 8% towards the total cloud revenue

◆ 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.

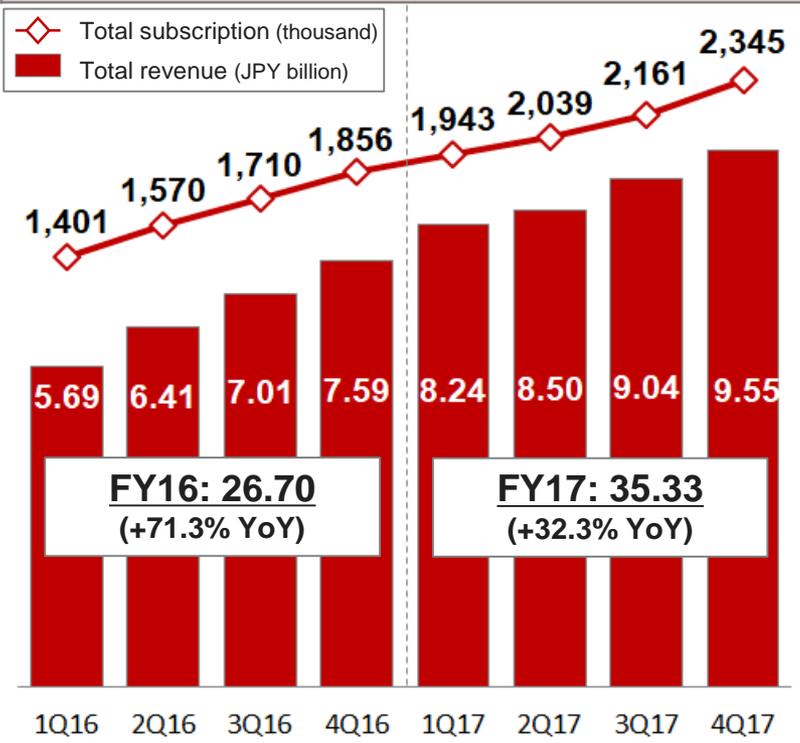
◆ 4Q17 Cloud revenue recognition

- 86.4 in systems operation and maintenance,
- 13.6% in outsourcing services

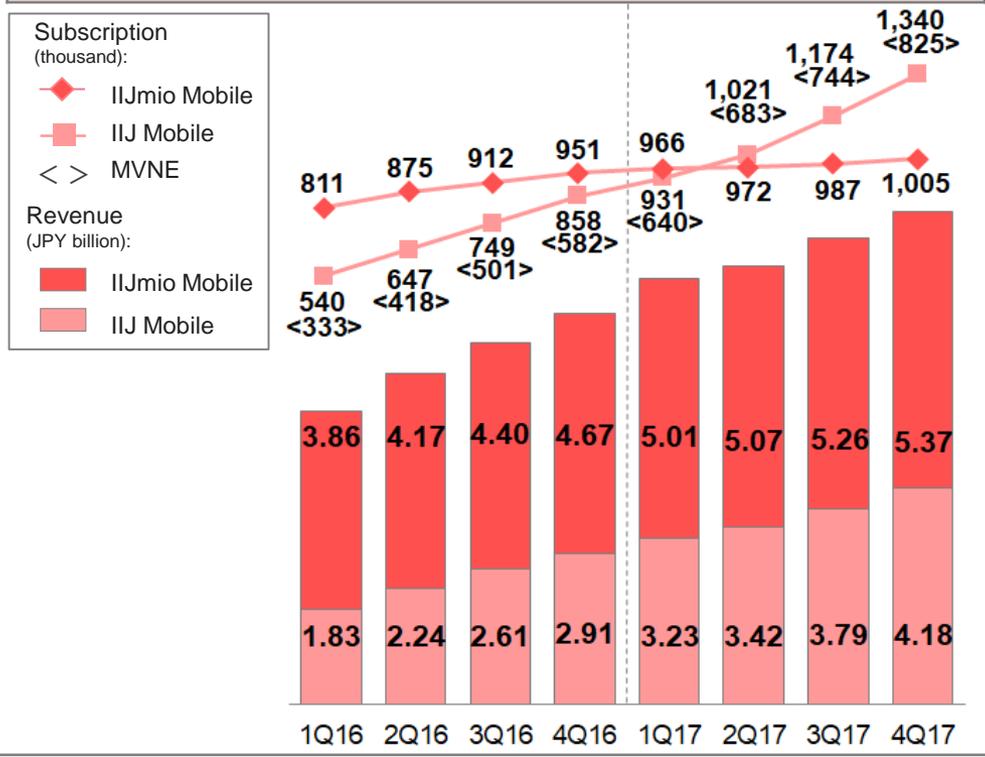
IV - 2. Mobile & IoT Business

YoY=Year over year comparison

Total subscription & revenue



IIJmio Mobile (consumer) & IIJ Mobile (enterprise)



◆ Enterprise mobile (excluding MVNE) strongly growing

- FY17 revenue JPY3.75 billion
- FY17-end subscription up 86.8% YoY
 - Accumulating solutions such as BtoC handy devices, security cameras connection, dashboard cameras, taxi dispatch system etc.

◆ Continuously accumulating consumer traffic with MVNE strategy

- FY17-end MVNE subscription: up 41.6% YoY
- FY17-end MVNE clients: 137 (up 13 clients YoY)
 - MVNE growth mainly led by a prominent retailer, prominent contents distribution holder, CATV operators etc.

◆ FY18 Plan

- Plan to further accumulate enterprise IoT demands with full-MVNO
 - Continuously expand functions such as SIM life cycle management, global connection, eSIM/chip SIM etc.
 - Increase in fixed cost by approx. JPY0.1 billion per month due to full-MVNO
 - ✓ HSS/HLR systems depreciation
 - ✓ Monthly payment for NTT DOCOMO's network remodeling fee
- Continuously accumulate subscription of both consumer & enterprise with MVNE and IoT
 - While cost increases due to full-MVNO in FY18, expect profitability to improve in the mid-term with accumulation of enterprise traffic which is to absorb the fixed cost increase

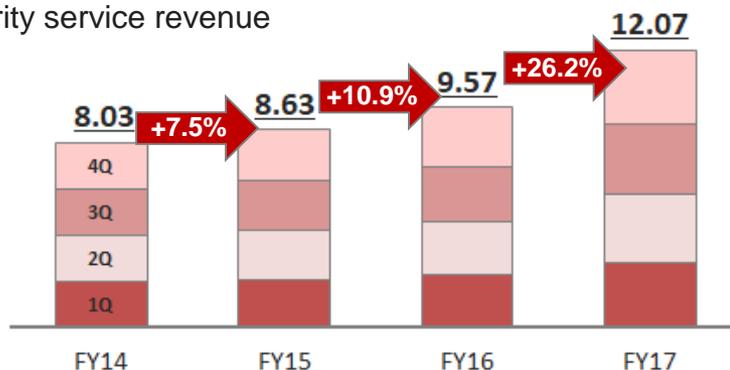
IV - 3. Further Expansion of Existing Services

Unit: JPY billion

Security

% = Year over year revenue growth

◆ Security service revenue



*Security service revenue is recognized in outsourcing service

- ◆ FY17 security service largely grew due to a large security cloud project for local government & overall strong demand
 - SOC, DDoS protection & Virtual desktop services led the growth
- ◆ Continuously accumulating security-related SI projects in addition to security service revenue
 - FY17 total security-related revenue approx. JPY13.5 billion

IoT

- ◆ Continuously accumulating IoT related prospective project: over 320 as of FY17-end

Security camera	In-store camera for marketing	Metric camera
Remote monitoring	Office IT	Connected car
In-vehicle system	Wearable sensors	Smart factory
Vehicle management	Traceability	etc.

- ◆ Chubu Electric Power Co. to start connected home business with “necolico LLC,” IJ co-working as JV
 - Plan to provide IoT service platform to energy service providers & CATV from Sep. 2018, necolico is not IJ’s equity method investee

JOCDN Inc. ~ CDN business ~

- ◆ Established in Dec. 2016; Major Japanese commercial broadcasting companies invested in Apr. 2017, IJJ ownership 20%
- ◆ Providing highly reliable & performance CDN services to 15 clients including TVer as of Mar. 2018
 - Greater than initially expected traffic demand in FY17
- ◆ Plan to provide CDN services to a prominent contents distribution service provider from 1Q18



DeCurret Inc. ~ FinTech ~

- ◆ Established in Jan. 2018; 18 companies including mega banks as shareholders, Capital JPY5.23 billion, IJJ ownership 35%
- ◆ Working rigorously on developing systems & operation process; preparing to be registered by the FSA
 - Plan to launch cryptocurrency exchange service (from 2H18), cryptocurrency settlement service (from FY19)
 - Co-working with employees from shareholders’ companies on service development; Over 20 employees as of FY17-end
 - Former CIO of MUFG Bank, Mr. Murabayashi, as advisor



IV - 4. FY2018 Financial Target (1)

Unit: JPY billion

YoY = Year over year comparison

Subs. = subscription

	% of Revenues		% of Revenues		YoY Change	
	FY17 Results (Apr. 2017 - Mar. 2018)	1H18 Target (Apr. 2018 - Sep. 2018)	FY18 Target (Apr. 2018 - Mar. 2019)			
Total Revenues	176.1	90.0	190.0	+7.9%	+13.9	
Total Cost of Revenues	84.0% 147.8	84.8% 76.3	84.3% 160.2	+8.4%	+12.4	
Gross Margin	16.0% 28.2	15.2% 13.7	15.7% 29.8	+5.6%	+1.6	
SG&A/R&D	12.2% 21.5	12.4% 11.2	12.0% 22.8	+6.3%	+1.3	
Operating Income	3.8% 6.8	2.8% 2.5	3.7% 7.0	+3.5%	+0.2	
Cash Dividends per common share	JPY27.00	JPY13.50	JPY27.00	-	-	

Target & Assumption

Network Services	<ul style="list-style-type: none"> NW services revenue to further grow <ul style="list-style-type: none"> Connectivity, Security and others to continue growing like FY17 but without the contribution of the large local govt proj IP service revenue to expand with CDN demand hi-ho's unconsolidation is a negative for consumer revenue WAN services won't grow as a large-scale project connecting multiple locations migrating to mobile Continue to acquire mobile subs. with MVNE & IoT <ul style="list-style-type: none"> MVNE clients & subs. to increase continuously Consumer subs. acquisition pace following 2H17 Increase in fixed cost by approx. JPY0.1 billion per month due to full-MVNO <ul style="list-style-type: none"> HSS/HLR systems depreciation NTT DOCOMO's network remodeling fee Full-MVNO annual revenue approx. JPY0.5 billion Gross margin to increase by absorbing forefront cost increase related to full-MVNO through enhanced sales activity for already invested service
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SI	<ul style="list-style-type: none"> Construction revenue growth not so large as cloud penetration to expand Cloud revenue approx. JPY20.0 billion (up 11.7%) Overseas: revenue approx. JPY7.0 billion, OP approx. JPY0.1 billion <ul style="list-style-type: none"> Consolidated subsidiaries in Asia as a whole turn positive Gross margin ratio to increase due to cloud revenue accumulation & SI project profitability improvement
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IoT	<ul style="list-style-type: none"> Expand IoT service function by enhancing collaboration between full-MVNO, cloud, security, Accumulate orders with B2B2X business model
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SG&A	<ul style="list-style-type: none"> Personnel-related cost continued to increase Sales commission expense not to increase as much as FY17
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HR	<ul style="list-style-type: none"> Net addition of 200 personnel 175 newly graduates joined in Apr. 2018
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CAPEX	<ul style="list-style-type: none"> Ordinary capex for network expansion to be almost same level as usual Cloud-related capex to be approx. JPY3 billion less than FY17 Approx. JPY3 billion due to Shiroi DC construction (without new investment return risk as the new DC is for integrating service facility)
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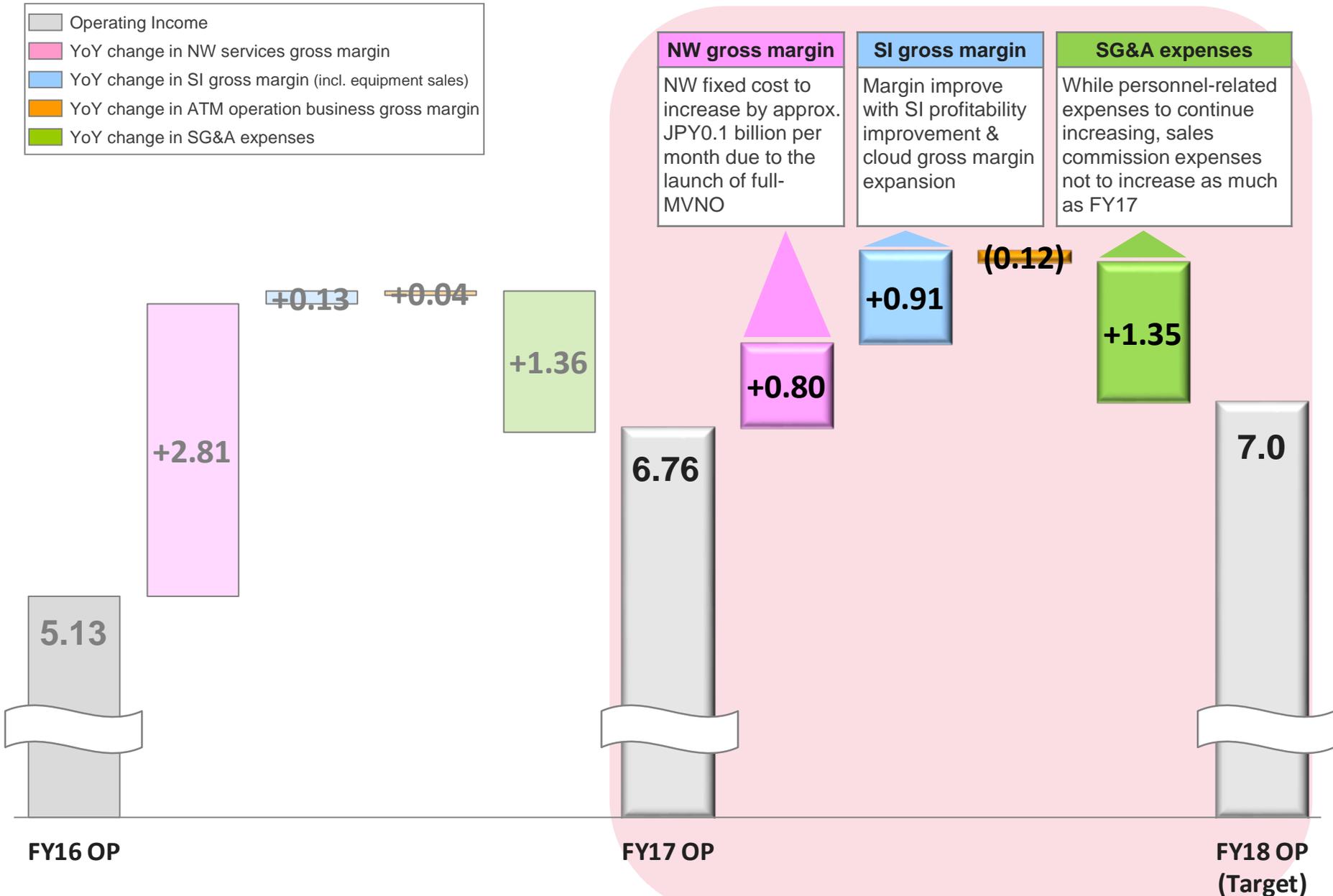
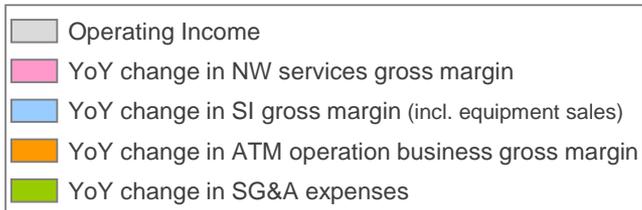
Equity Method	<ul style="list-style-type: none"> Approx. JPY0.6 billion of equity in net loss due to DeCurret For other equity method investees, assume same level as FY17
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ATM	<ul style="list-style-type: none"> Almost same as FY17, ATM slightly increase
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<ul style="list-style-type: none"> Due to the revision of U.S.GAAP, fluctuation of unrealized gains (losses) on holding equity securities will be recognized in other income (expenses) from 1Q18. Due to difficulties of forecasting such fluctuation, we don't disclose our FY18 targets for income before income tax expense and below Plan to voluntary adopt IFRS from FY18 annual report Please refer to page 8 of our earnings release dated May 15, 2018

IV - 4. FY2018 Financial Target (2)

Unit: JPY billion
 YoY = Year over year comparison
 OP = operating income

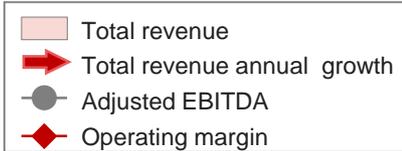


IV - 5. Mid-to-Long term Business Growth

Unit: JPY billion

Business foundation enhancement with aggressive investment

Further business developments



Revenue growth accelerating

Scale-merit

Income improvement

- Established DeCurret
- Launched full-MVNO services
- Launched Health care business

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

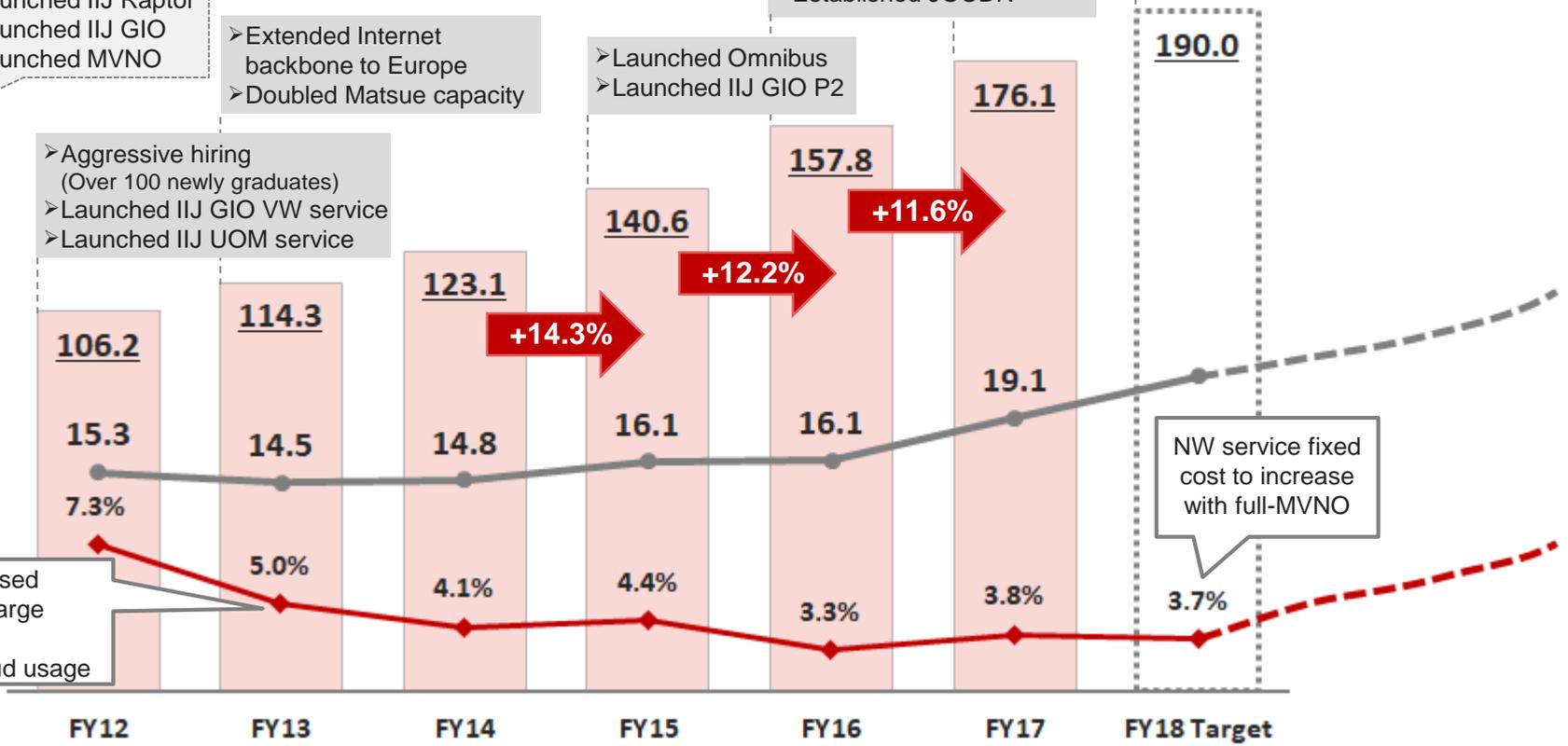
- Extended Internet backbone to Europe
- Doubled Matsue capacity

- Stronger investment in security
- Launched IJ IoT services
- Established JOCDN

- Full-MVNO services
- Construct Shiroy DC

- Aggressive hiring (Over 100 newly graduates)
- Launched IJ GIO VW service
- Launched IJ UOM service

Income decreased mainly due to large gaming clients decreased cloud usage



NW service fixed cost to increase with full-MVNO

Outsourcing trend

Inexpensive SIM card boom

Advanced IT usage by enterprises

※ 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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Internet Initiative Japan