

# Internet Initiative Japan Inc. Corporate Overview



**Internet Initiative Japan Inc.**  
**TSE1 (3774)**  
**June 2021**

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

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

# Outline

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## ◆ Strengths and competitive advantages

Business accumulation	page	2 – 4
Business model	page	5
Blue-chip customer base	page	6 – 7
Comprehensive service line-up	page	8
Example of cross-selling	page	9
Competitive advantage by NW &SI	page	10
Positioning	page	10
Continuous revenue growth	page	11

## ◆ Growth strategy

Network services	page	12 – 13
Cloud	page	14 – 15
Security	page	16 – 17
Mobile	page	18 – 22
IoT	page	23 – 24
Business through affiliated companies	page	25 – 27
Mid-term plan	page	29 – 31

## ◆ Financials

FY20 results summary	page	28
FY21 financial targets	page	32 – 33
FY20 results in detail	page	36 – 54
Dividend	page	34

## ◆ Sustainability

page 35

## ◆ Appendix

page 55 - 61

# Internet Technology Initiatives in Japan

About IIJ

<b>Established</b>	December 1992
<b>Number of Employees</b>	3,805 (approx. 70% engineers, 20% sales, 10% back office)
<b>Listed Markets</b>	Tokyo Stock Exchange 1 <sup>st</sup> Section (code: 3774)
<b>Shareholder base</b>	NTT group (26.0%), CEO Suzuki (5.6%), Foreign investors (23.0%)

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

- ✓ Introduced many prototype Internet-related network services
- ✓ Highly skilled IP (Internet Protocol) engineers
- ✓ In-house developed services and related back office facilities

## ◆ **“IIJ” brand towards blue-chips**

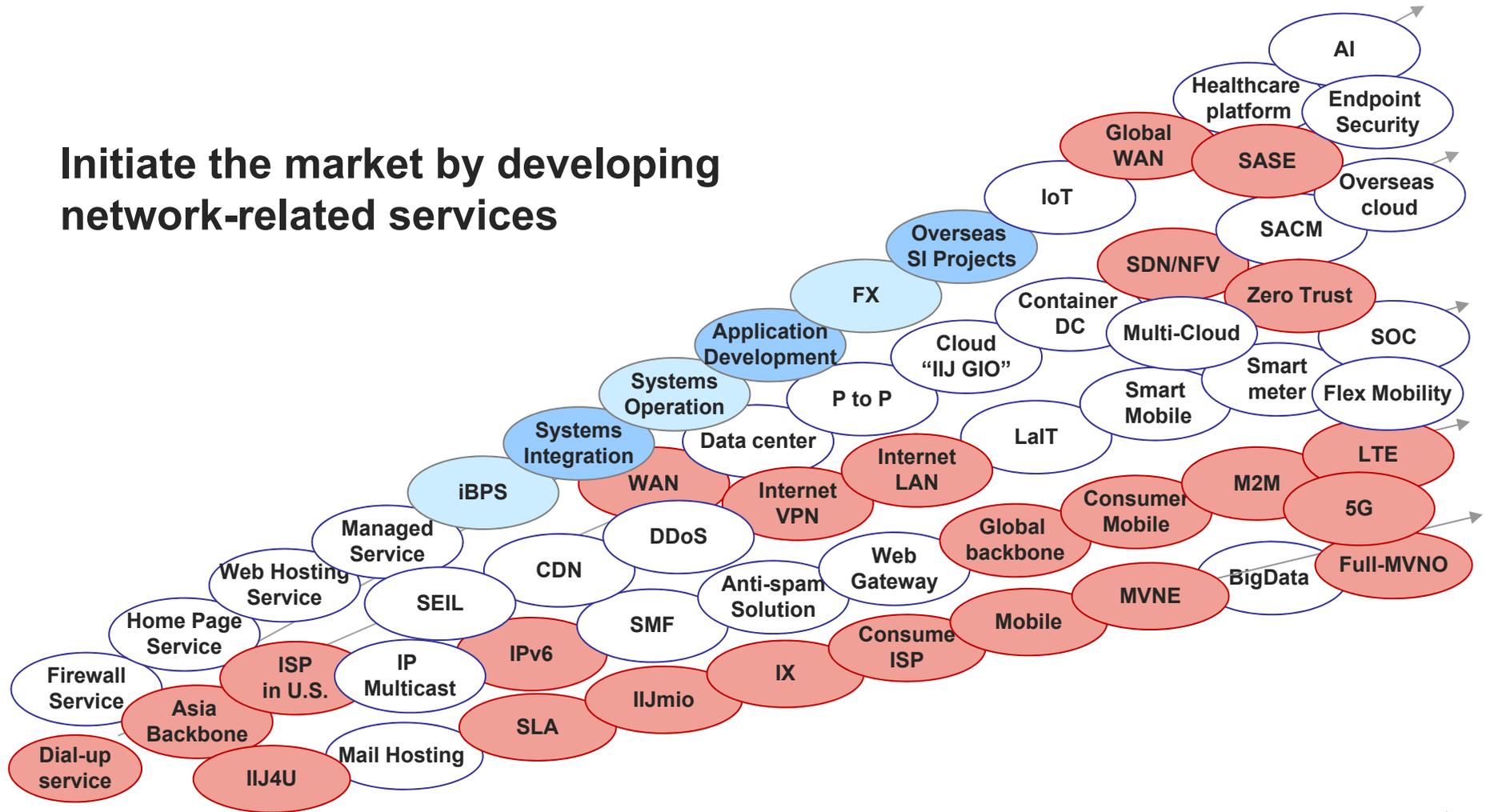
- ✓ Mainly among large enterprises and governmental organizations
- ✓ Differentiate by reliability and quality of network and systems operation
- ✓ Long-term client relationship with no serious systems troubles

## ◆ **At the leading edge of IP R&D**

- ✓ Differentiate by continuous service developments and business investments
- ✓ Enhancing cloud, mobile, security, CDN (Contents Distribution Network) and solutions related to bigdata and IoT
- ✓ Participate in world-wide research and organizations ...and many more

- Number of employees are consolidated base and as of March 31, 2021
- We voluntary delisted from the U.S. NASDAQ Market in Apr. 2019. Our ticker symbol at OTC is IIJIY
- CEO Suzuki's ownership 5.6% includes his wholly owned private company portion

Initiate the market by developing network-related services



1992 1996 1997 1998 2006 2007 2008 2010 2013 2014 2016 2018 2019 2021

# ISP to Total Network Solution Provider

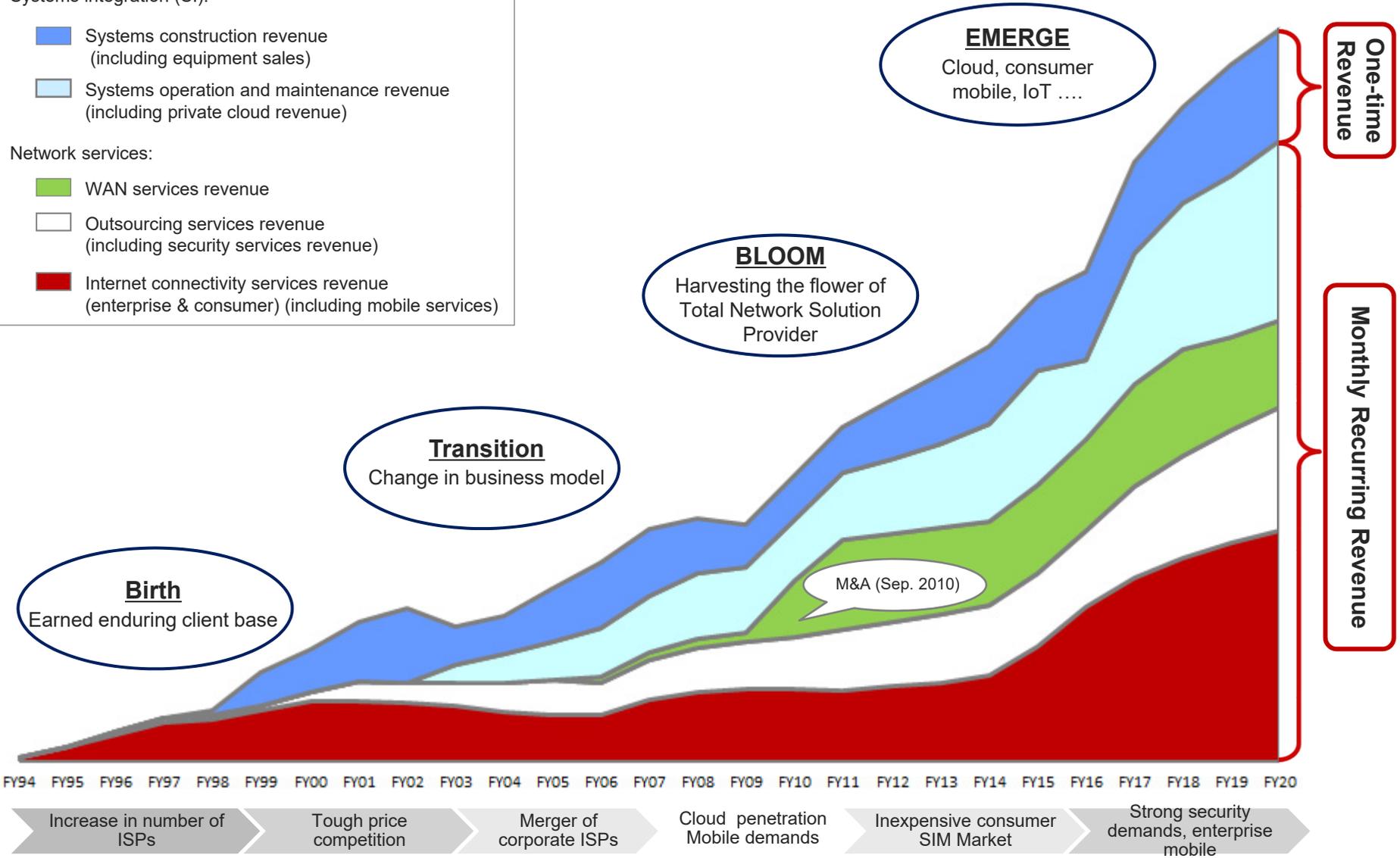
**Revenue breakdown:**

Systems integration (SI):

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

Network services:

- WAN services revenue
- Outsourcing services revenue (including security services revenue)
- Internet connectivity services revenue (enterprise & consumer) (including mobile services)

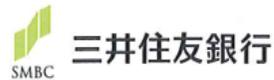




# Excellent Customer Base with Many Blue-Chips

Competitive Advantages

Cover Most of Blue-Chips Companies



Sompo Japan Insurance

NOMURA

DNP

TOTO



Panasonic



JR West



Mitsui Fudosan



Ministry of Internal Affairs and Communications



Saitama Prefecture



Kanagawa Prefecture



Shibuya Ward

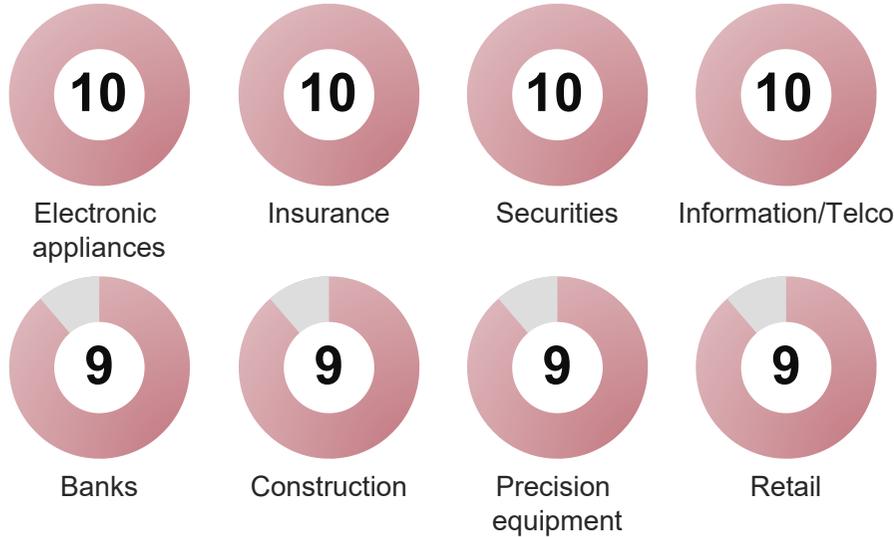
and many more...

# Excellent Customer Base with Many Blue-Chips

Competitive Advantages

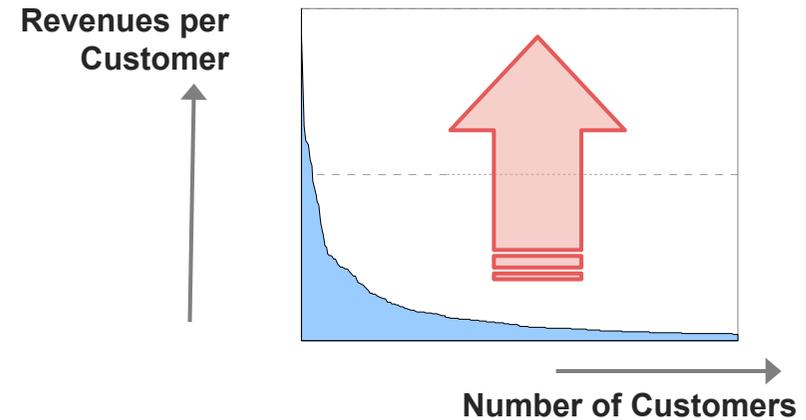
## Cover Most of Top Revenue Companies

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

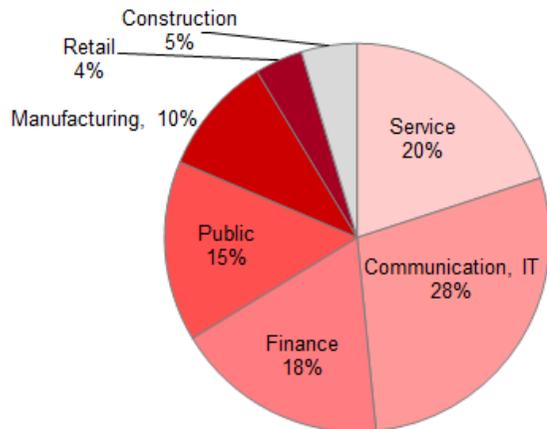


## Increase Revenue per Customer

We don't expect our number of clients to increase but revenue per customer should continue to increase by cross-selling strategy.

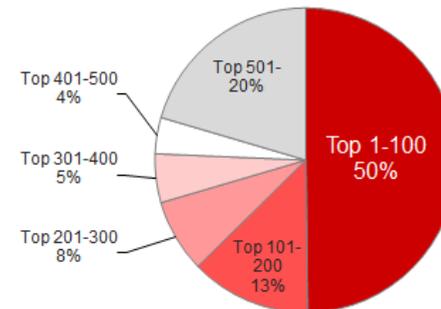


## Revenue Distribution by Industry



- Client base is well diversified among industry sectors
- Revenues are generated from various industries

## Revenue Distribution by Clients



- Approx. 80% of the revenue comes from top 500 clients
  - Much room to grow revenue per customer
  - Cross selling strategy is important
- Largest client revenue portion to the total is less than 3%

# Comprehensive Line-ups of IT services

Unit: JPY billion **Competitive Advantages**

Revenue category		FY20 revenue	About				Business Situation & Outlook
Network services	Internet connectivity services for enterprise	40.3	IP	12.2	Core service providing from the inception of the company, highly reliable dedicated connectivity services for enterprise (multi-carrier, redundancy etc. )		<ul style="list-style-type: none"> <li>➢ Matured market (new entry difficult)</li> <li>➢ Blue-chip client base</li> <li>➢ Expect the revenue to continuously increase along with traffic volume and contracted bandwidth increase                             <ul style="list-style-type: none"> <li>• Strong revenue growth in FY20</li> </ul> </li> </ul>
	Internet connectivity services for consumers	25.7	Mobile	24.5	IoT/M2M-related	7.8	<ul style="list-style-type: none"> <li>➢ Expect profitability and mobile infrastructure utilization to improve as we gather various traffic such as IoT, enterprise, consumers                             <ul style="list-style-type: none"> <li>• IoT/M2M: Expect the demand to expand in the middle to long term</li> <li>• MVNE/Consumer: Focus on expanding sales channel under severe competition</li> </ul> </li> </ul>
					MVNE	16.7	
	WAN	25.0	Closed network used to connect multiple sites				Stable market for long-term, Large clients migrated to mobile in FY19
Outsourcing	35.7	In-house developed Internet-related various service line-ups (Security, datacenter, remote access related etc.)				<ul style="list-style-type: none"> <li>➢ Acquire enterprise demand by cross-selling services. Continuous service development is important</li> <li>➢ Demands for security and remote access to increase continuously</li> </ul>	
SI	Operation and Maintenance	51.5	Promote cloud shift with our abundant, highly reliable, value-added private cloud related service line-ups				<ul style="list-style-type: none"> <li>➢ Expect great business opportunity in the middle-to-long term as internal IT systems migrating to cloud</li> <li>➢ Systems to be converted to cloud</li> </ul>
	Construction (including Equipment sales)	31.8	From construction	28.1	Private Cloud	23.5	<ul style="list-style-type: none"> <li>➢ Through providing SI, offer greater value as IoT and cloud usage penetrate</li> </ul>

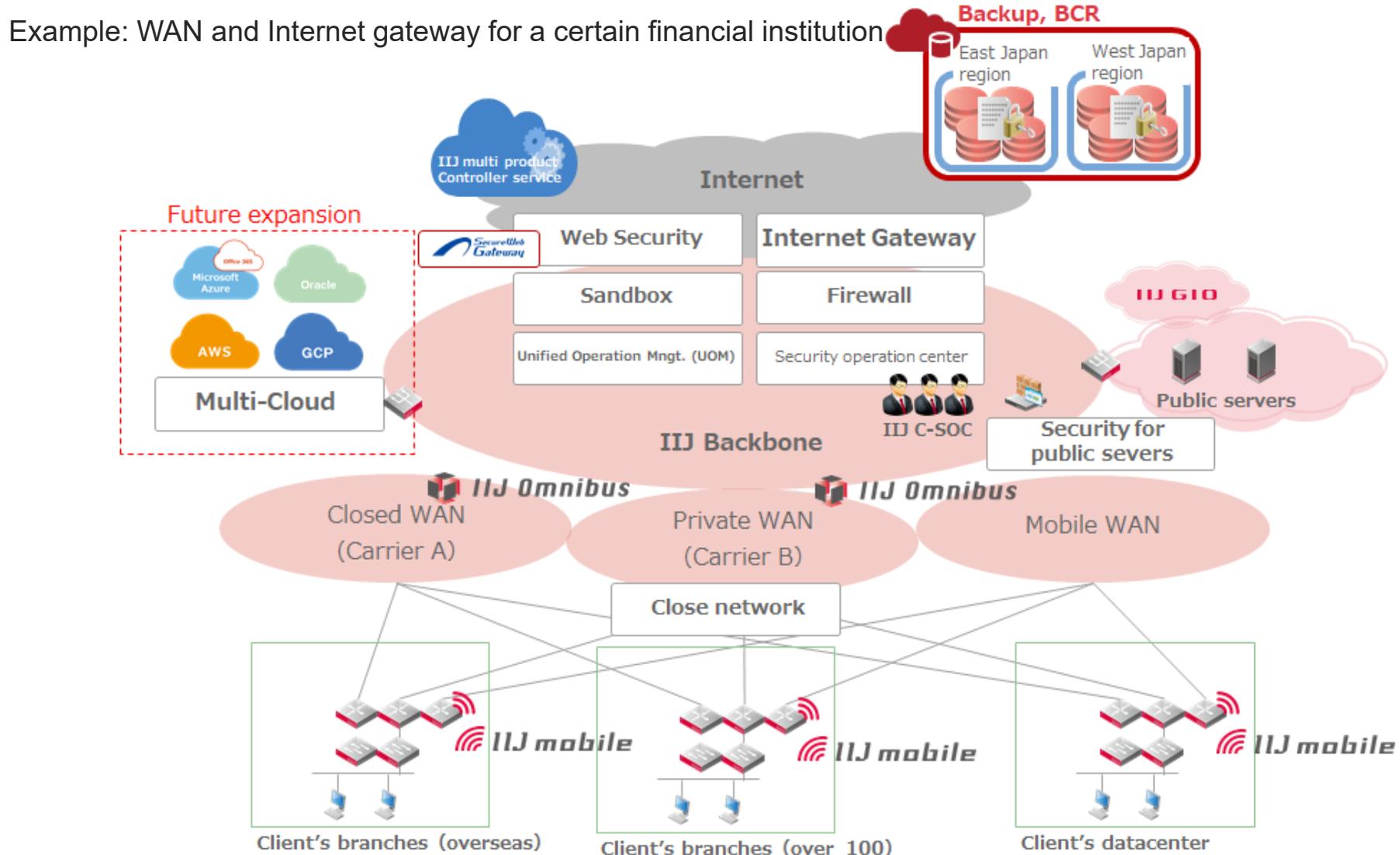
Monthly Recurring Revenue 84%

One time revenue

# Examples of Cross-selling/Total Solution

Competitive Advantages

Meeting enterprise NW systems that are becoming more complex and diversified with in-house developed NW services and SI

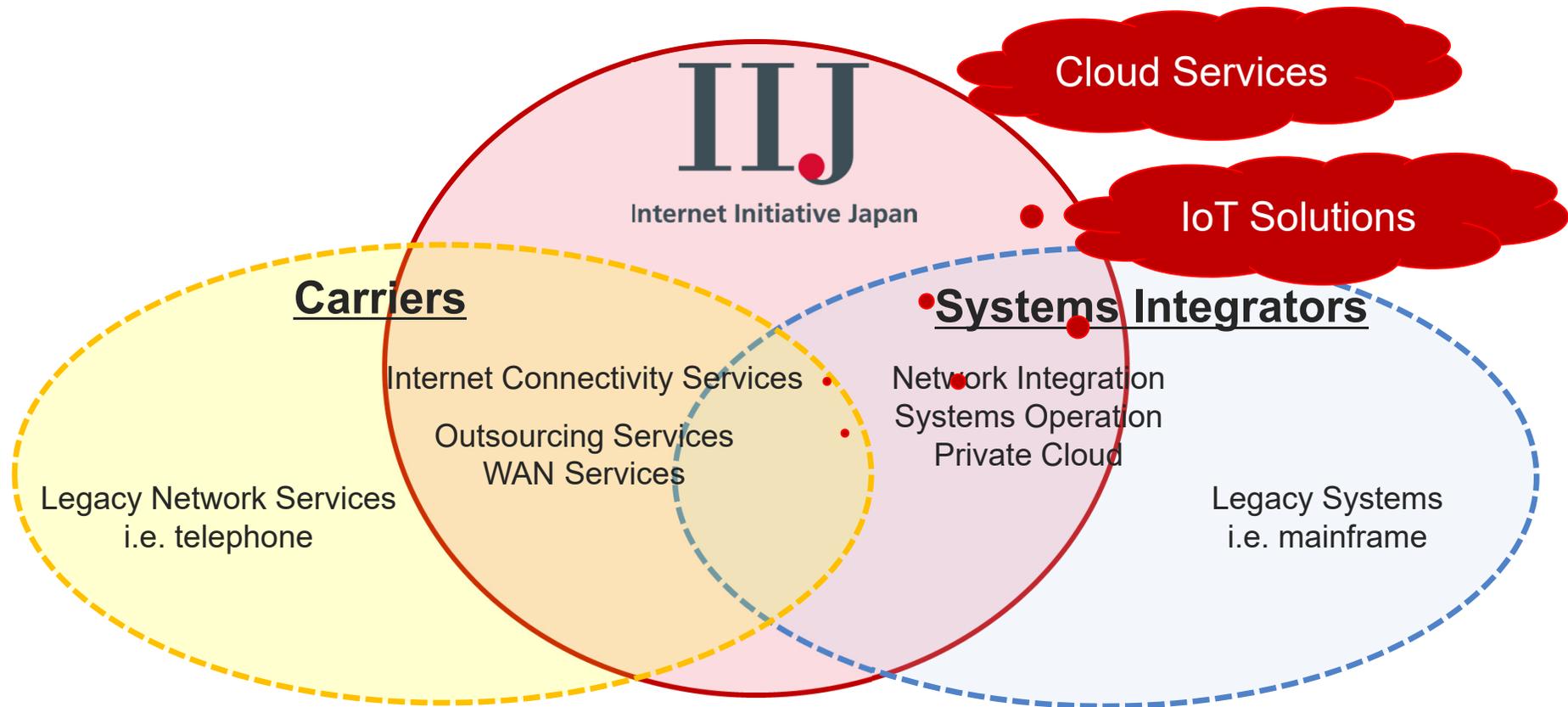


# Competitive Advantage by NW services & SI

Competitive Advantages

Target Blue-chip's IT Shift

Cover Corporates' New IT Services Demands with reliable operation



## IIJ's differentiation points against competitors

- Many highly skilled network engineers
- Corresponds to the Internet market rapidly
- Unbureaucratic organization structure

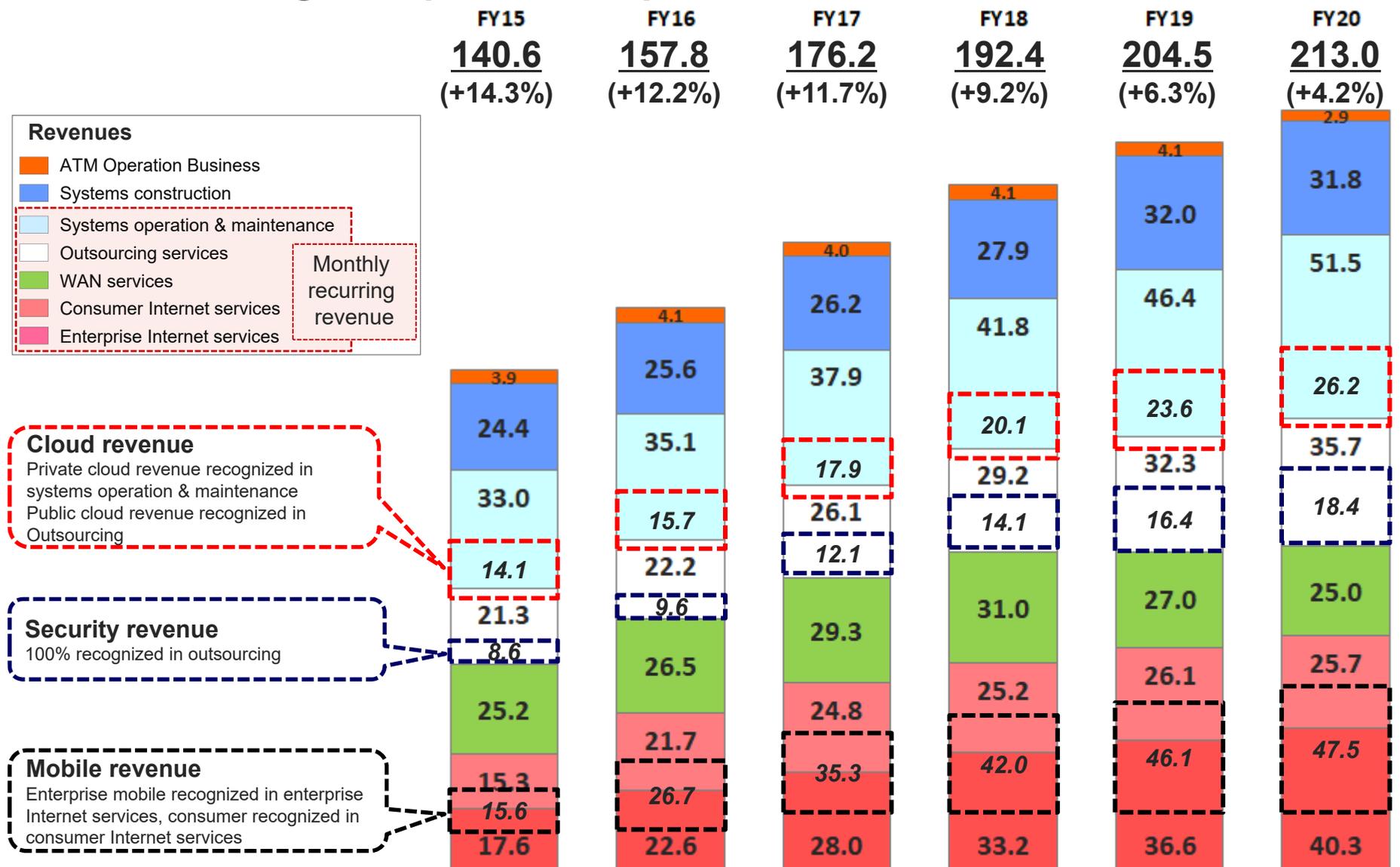
- Operates network facilities by ourselves
- Develops network services
- Moderate number of employees

# Continuous Revenue Accumulation

Unit: JPY billion  
% = year over year change

**Growth Strategy**

## Cross-selling multiple service products

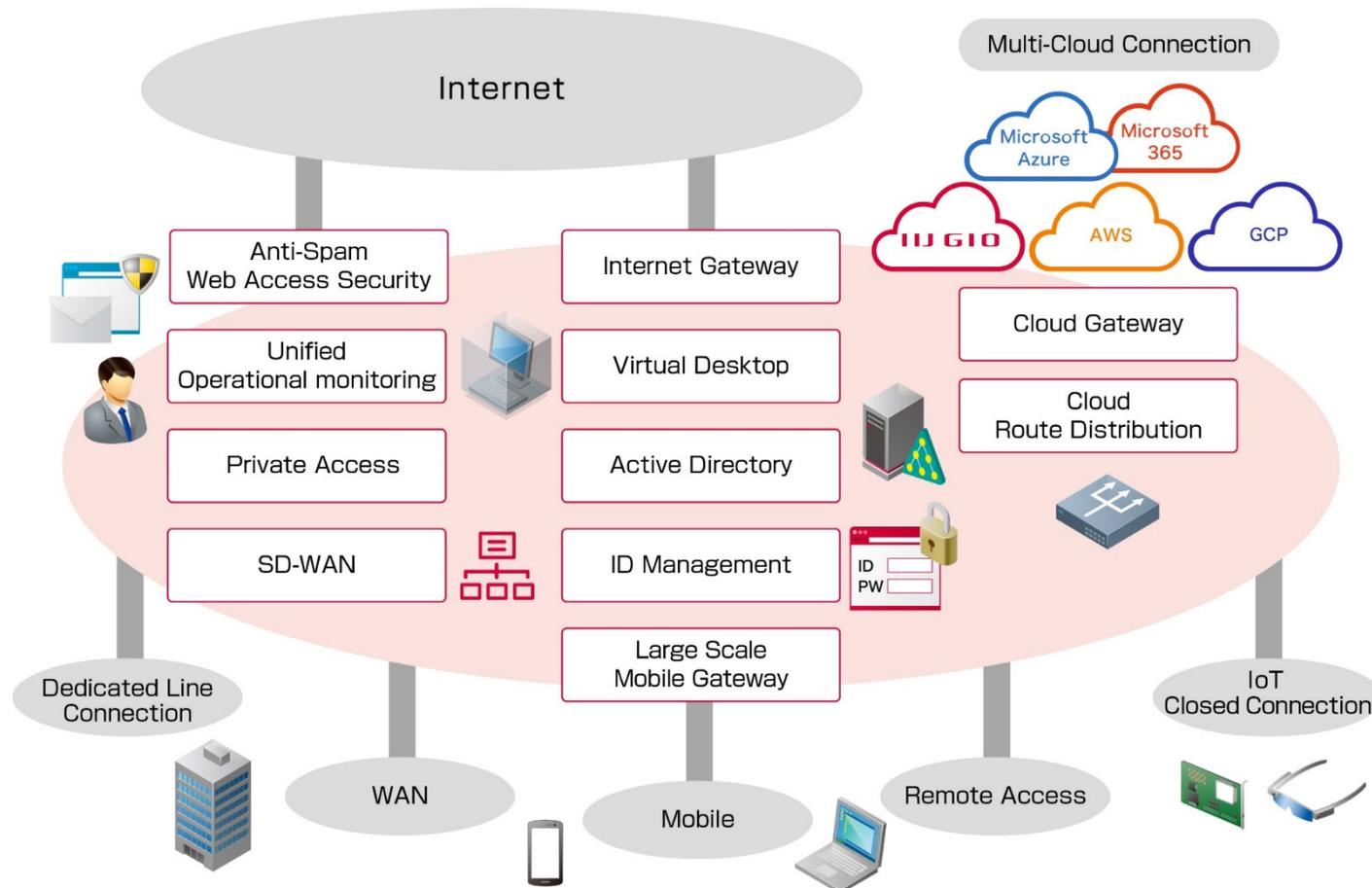


- System construction revenue includes equipment sales
- \*YoY growth rate written for FY17 revenue is comparing FY16 revenue which is prepared with U.S. GAAP and FY17 revenue which is prepared with IFRS

# Enterprise Network Services (1)

- Continuously developing and operating various network services to promote further IT utilization and advancement by Japanese enterprises
- Cross-selling these various highly reliable and value-added monthly recurring revenue services to fully meet Japanese enterprises' needs

## IIJ's network service offerings



# Enterprise Network Services (2)

Unit: JPY million

**Growth Strategy**

## IIJ's Network Services Business Model

**Cost doesn't have to increase at the same pace as the revenue – economy of scale business**

### ◆ Revenue

- Accumulation of monthly recurring service charge
  - IP services are contracted based on bandwidth base
- Very low churn rate. Minimum contract period is 1 year.
  - Contracts are renewed every year, generally speaking.
- Enterprise Internet connectivity market in Japan is already matured (everyone is already using Internet) and consolidated. Very high market share. Difficult to enter the market
  - IIJ enjoys stable and high market share among large enterprises
  - IIJ's internet connectivity services clients include general Japanese enterprise as well as network operators such as consumer ISPs, cable TV operators
- Revenue for IP services, our core services, increasing as Japanese enterprises use more Internet and more contents are exchanged over Internet.
- Continuously developing innovative services by ourselves to encourage Japanese enterprises to outsource their network and/or system operation
- Outsourcing services continuously and largely increasing mainly because demands for security services and remote access services are strong

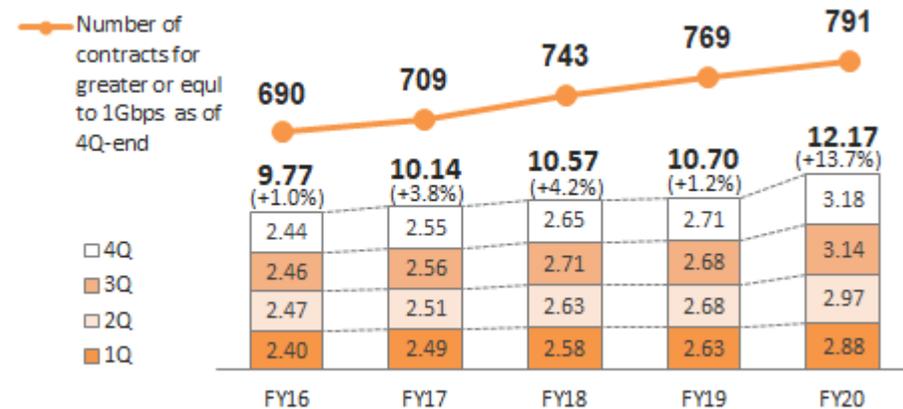
### ◆ Cost

- IIJ purchases physical fiber from carriers. IIJ owns network equipment
  - Circuit related costs, depreciation and amortization costs, data center leasing costs, personnel costs, outsourcing costs.
  - As one of the largest independent ISPs, IIJ has strong buyer power when purchasing fiber and/or equipment

### ◆ Profit

- Revenue continuously growing. Cost, mostly fixed type cost. IIJ can achieve enjoy economy of scale with strong revenue accumulation which leads to profit expansion

### IP service revenue growth rate accelerating



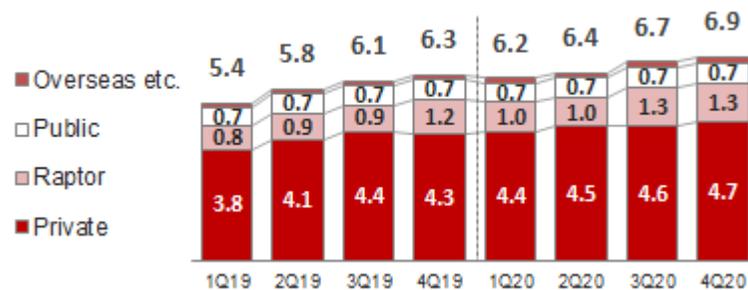
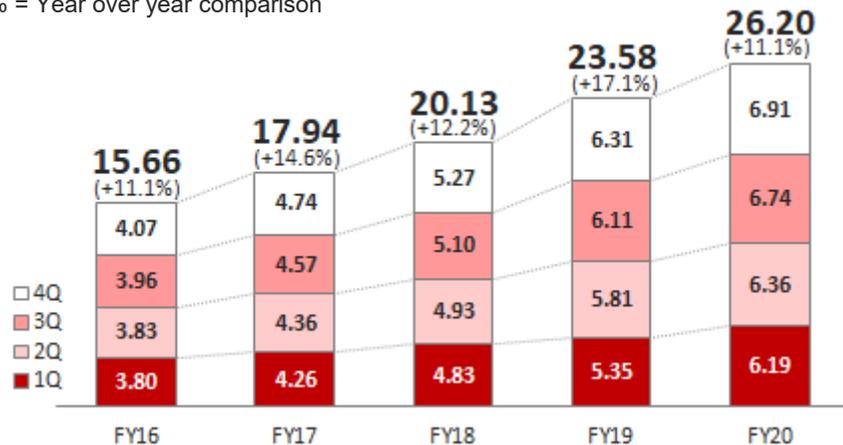
- IP service is bandwidth guaranteed dedicated Internet connectivity services for enterprises. Contracts are based on bandwidth and enterprises use the service for their core and main Internet connectivity
- IP service revenue is 100% recognized in Internet connectivity services (Enterprise)

# Cloud Business (1)

- Cloud shift of Japanese enterprises' large internal core systems just began
- Additional system area for IIJ: revenue growth opportunity

## IIJ's Cloud Revenue (recurring)

Unit: JPY billion  
% = Year over year comparison



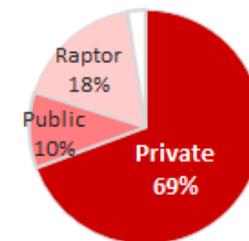
- 4Q20 Cloud revenue recognition: 89.6% in systems operation and maintenance, 10.4% in outsourcing services
  - ✓ Private Cloud services and other services that are similar to systems integration, meeting specific needs, are recognized in systems operation and maintenance
  - ✓ Public Cloud services which are similar to conventional web hosting services or simple network services in nature are recognized in outsourcing services

## Cloud Market in Japan

- Cloud penetration among Japanese enterprises
  - 64.7% as of 2019-end, 33.0% as of 2013-end (source: MIC)
  - Slowly but surely using more Cloud services, yet most of such usages are primitive ones such as using cloud services for web and/file servers etc.
- Cloud shift is gradually taking place as
  - Japanese blue-chips' internal systems are quite large and complicated - can't migrate all at once
  - Japanese enterprises consider whether to re-invest their on-premise systems or migrate to Cloud services when their existing systems approach to the end of life
- Seeing some advanced usages
  - Nippon Express (one of the largest logistics companies): replacing on-premise critical business operation system to IIJ Cloud (3,500 servers, 2PB storage) etc.

## IIJ's Cloud Service Offerings

- Mainly IaaS
- Raptor (ASP foreign exchange system developed by IIJ) is currently used by 22 FX service providers including Hirose Tusyō, LINE Securities, au Kabucom, Nomura Securities and Sony Bank
- SaaS business through partnership



• Based on IIJ's FY20 results

## ➤ Cross-selling Cloud services with various network services and SI function

### IIJ's Competitive Advantages

- ◆ **IIJ's competitive advantage**
  - Blue-chip client base: Hands-on/close relationship with clients (Cloud as a cross-selling element)
  - New business opportunity: Because blue-chips' internal systems have been covered by legacy system integrators, it is a new business opportunity for IIJ once such systems migrate toward Cloud. IIJ has not dealt with legacy internal enterprise systems
  - Various network service line-ups such as security and various ways to access cloud systems (mobile, WAN, etc.)
- ◆ **Competitors**
  - AWS (Amazon) & Azure (Microsoft): Strong scale merit. Focus on public cloud. Not so strong about meeting individual systems needs
    - Because start-ups and SMEs do not have to worry about so much about existing systems, they tend to use Cloud services much more and much faster compared to large blue-chips who have large and complex existing systems
  - Legacy system integrators who constructed and currently looking over blue chips' large internal systems

### Multi-Cloud Strategy

- ◆ **Japanese enterprises avoid relying on single cloud service vendor and demands for multi-cloud is increasing**
  - IIJ provides private connectivity with Microsoft Azure/365, AWS (Amazon Web Service), GCP (Google Cloud Platform)
  - IIJ provides operation and management services to effectively monitor an entire IT systems, covering IIJ's cloud services, other cloud vendors' cloud services and on-premise systems.

### IIJ's Cloud Business Model

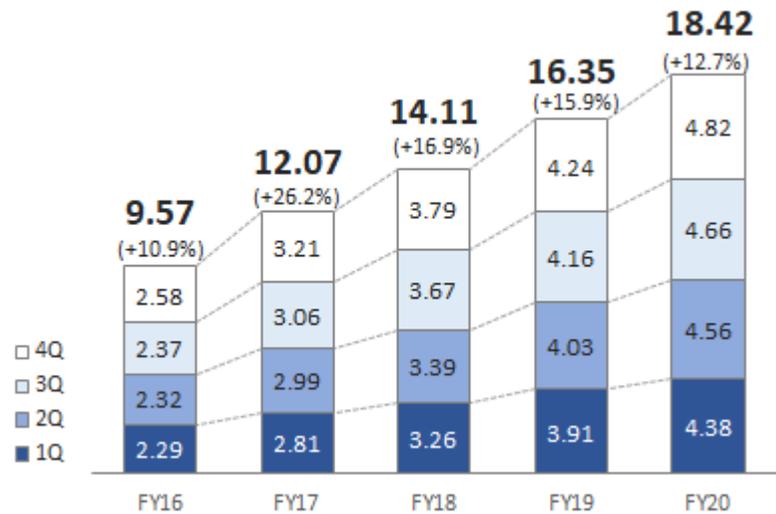
- ◆ **Revenue**
  - Revenue depends on system volume (i.e. number of cloud servers, volume of storage)
  - Total Cloud revenue is to expand along with an increase in customer numbers and each system volume
- ◆ **Cost**
  - Leasing fee for data center space, depreciation and amortization cost for servers and other network equipment, outsourcing cost and personnel costs for service developments
- ◆ **Profit**
  - Currently very low profitability, need more revenue to have economy of scale

# Security Business (1)

- Continuously developing new services and expanding service functions as new cyber/network threats are evolving
- Cross-selling to the current blue-chip client base gained as the first full-scale ISP in Japan

## IIJ's security service revenue (recurring)

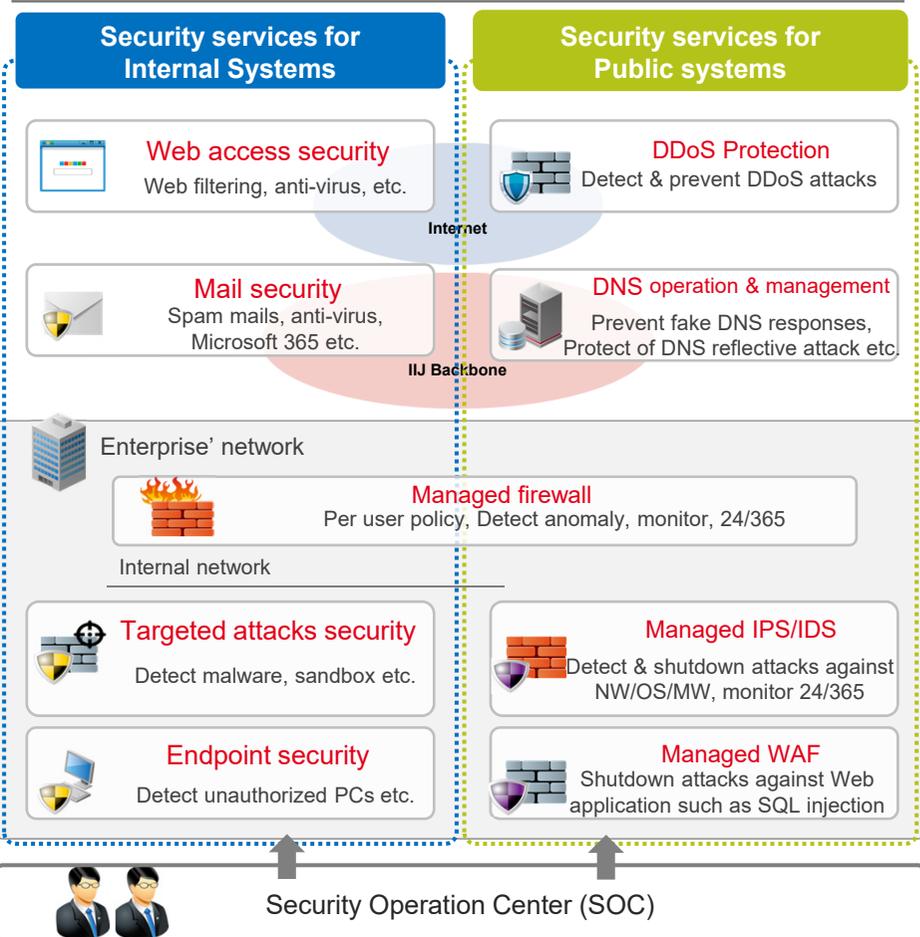
Unit: JPY billion  
% = Year over year comparison



Total scale of security revenue (NW services + SI)	FY16	FY17	FY18	FY19	FY20
	14.62	16.77	19.18	21.47	

- Strong growth in FY17 was mainly due to “Information Security Cloud” projects. As for FY20, demands to expand NW seemed more urgent than security implementation
- Security service revenue is 100% recognized in Outsourcing services

## IIJ's security service offerings

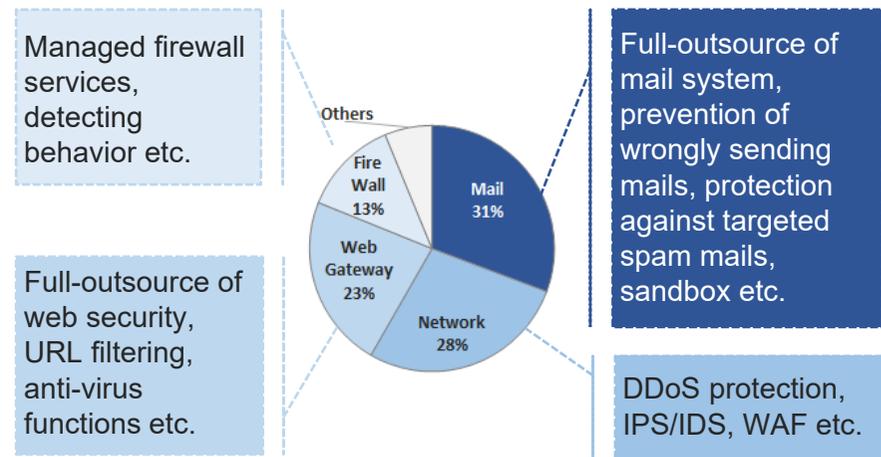


# Security Business (2)

## Strong & various demands continuing

- **DDoS protection services:** handle terabit cyber attacks. Widely used by central government agencies & major financial institutions. Moreover, prominent services doing business over Internet are also using our DDoS protection services.
- **Security Operation Center services (SOC):** with approximately 6 billion daily log records of network etc. (other vendors: approx. 0.8 billion a day). Detect Internet threats & execute counter measures promptly
  - **Leveraging security log obtained as an ISP** to protect against latest cyber threats
- **Gateway mail security services:** Have been providing for almost 20 years. Still very popular. Some Japanese enterprises fully outsource their email systems to us because email security is becoming critical and difficult to handle. Service providers who were offering similar services withdrawing from the market these days.
- **Advising regional police departments about cyber security** such as unauthorized access and Internet network

## Breakdown of IJJ's security service revenue



• Based on IJJ's FY20 results

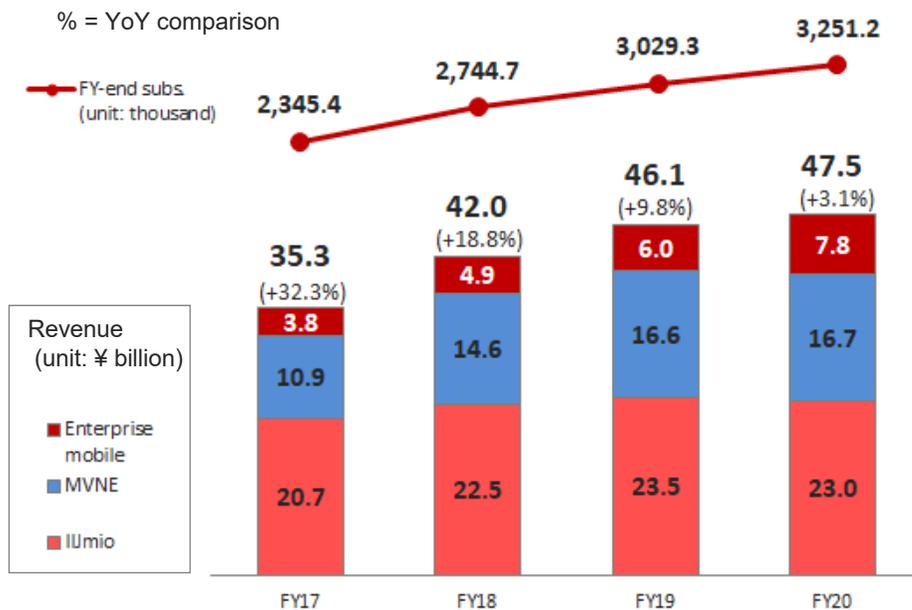
## IJJ's Competitive advantage of having them all

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

# Mobile Business (1)

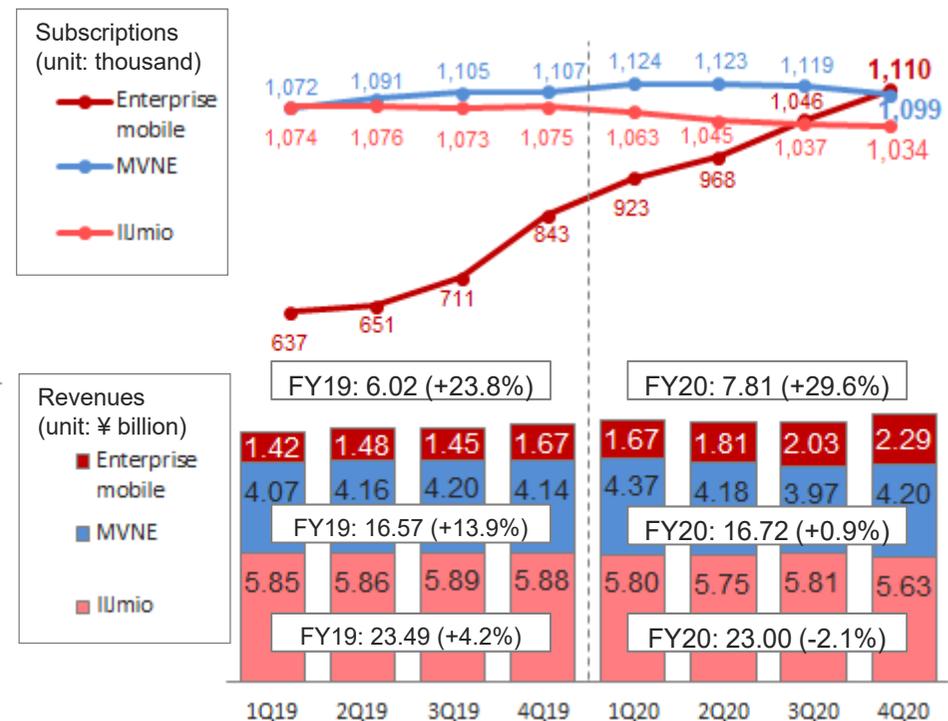
- Main strategy: accumulate enterprise mobile by leveraging blue-chip client base, various NW services & SI function – higher utilization of the mobile infrastructure
- Consumer subscription contributing to expand the infrastructure

## Total subscription & revenue



## Recent subscription & revenue

- Total mobile subs. on March 31,2021: 3,251 thousand (+7.3%)
- FY2020 total revenue: ¥47.52 billion (+3.1%)
  - of which full-MVNO revenue: ¥2.17 billion (+54.3%)

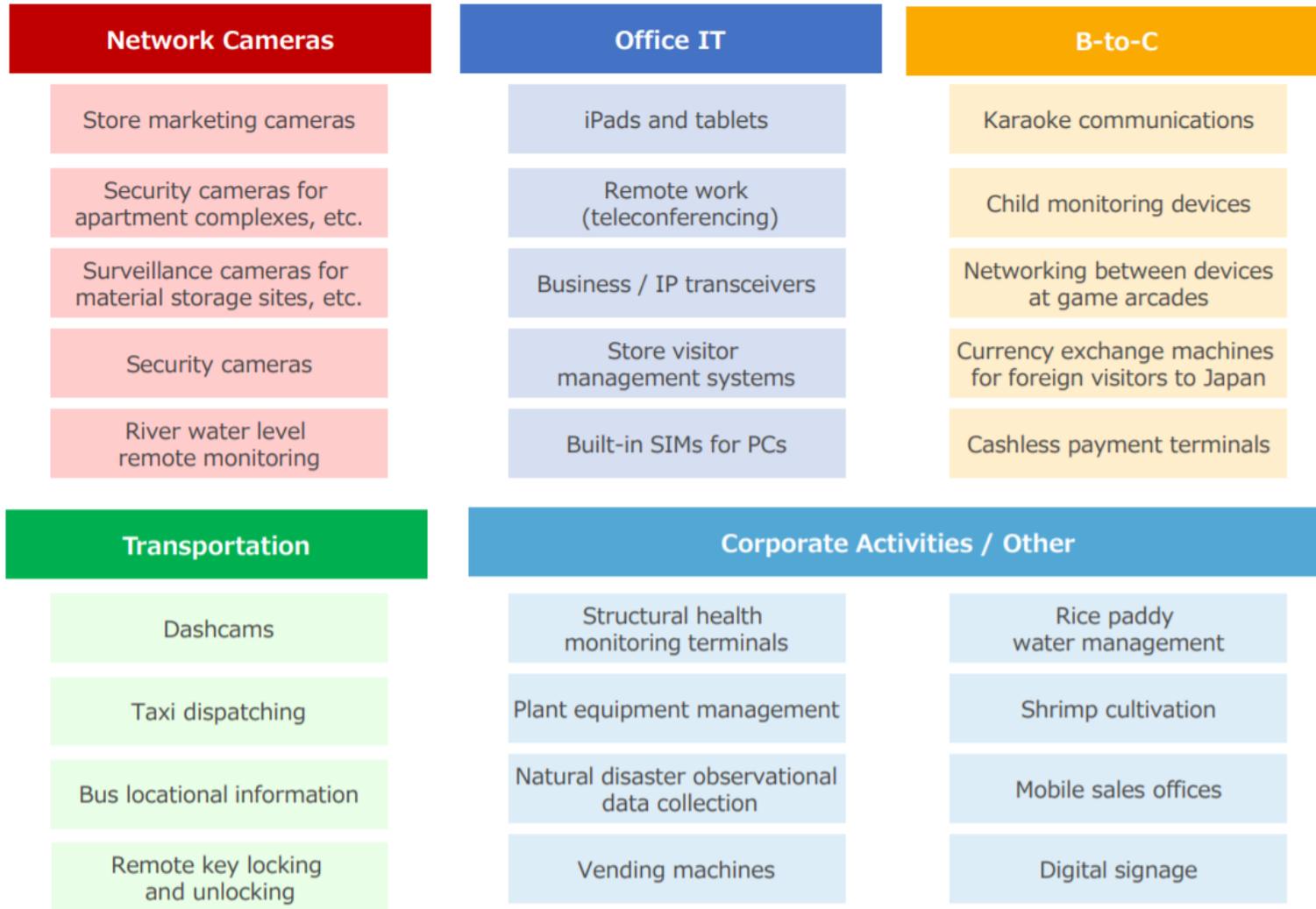


- **IJmio**: Brand name for IJ’s consumer mobile services. IJ provides the service through its website (direct sales) and sales partners
- **MVNE** (Mobile Virtual Network Enabler) aka “IJ Mobile Platform Services”: Revenue are generated by providing mobile services to other MVNOs who want to provide mobile services to their consumer customer base.
- **Enterprise mobile**: Calculated by deducting MVNE from IJ Mobile (enterprise)

# Mobile Business (2)

- Most of current enterprise mobile solution are simple usage such as connecting network cameras etc. Seeing some advanced usage such factory IoT

Accumulating various enterprise mobile solutions

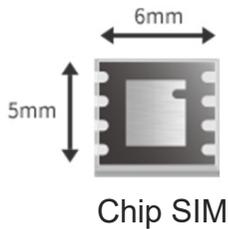


# Mobile Business (3)

- Became the first full-MVNO (data) in Japan in March 2018
- Mainly targeting enterprise IoT needs

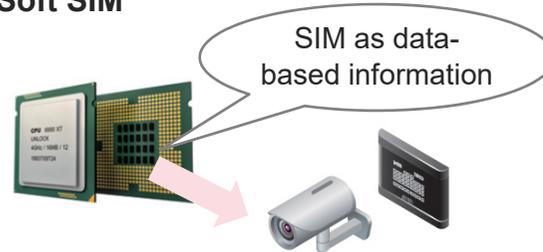
## New forms of SIMs

### ◆ Chip SIM



- Embedded Chip-type SIM (M2M UICC)
- Can handle a wide range of temperature environments and it is resistant to vibrations and corrosion.

### ◆ Soft SIM



- A communication module given SIM functions where the information required for mobile communications is logically written in internal memory

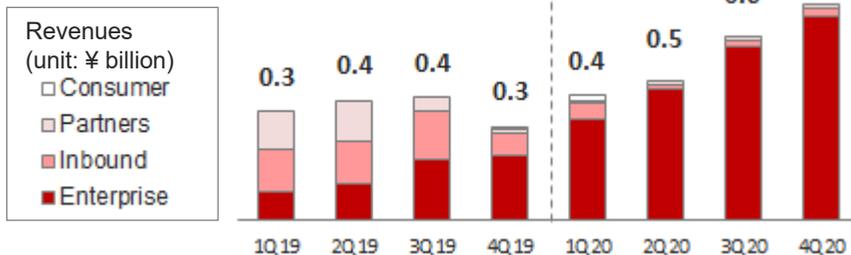
### ◆ eSIM (embedded SIM)



- Maintaining our own subscriber management features allows us to provide an eSIM service

## IJJ's Full-MVNO Revenue Growth

Internal revenue of consumer and enterprise mobile revenue



- FY20 Full-MVNO revenue breakdown: 96% IJJ Mobile, 4% IJJmio
- Consumer revenue: eSIM services
- Partner revenue: IMSI for overseas enterprises such as travel agency
- Inbound revenue: Pre-paid SIM for foreigners visiting Japan
- Enterprise revenue: IoT-type usages such as connecting cameras

## 5G Business Initiatives

- Developed Japan's first 5G SA-compatible eSIM (Nov. 2020)
  - 5G SA (standalone) is upcoming mainstream 5G mobile communications
- Launched 5G services (au) for enterprises (Oct. 2020)
- Local 5G business: established JV (Grape One) with SUMITOMO CORPORATION and some cable TV operators
  - Local 5G networks: dedicated 5G networks operated by local governments and companies in keeping with diverse needs of their respective communities and industries
  - Cable TV operators, serving as local media, can leverage their own large-capacity bidirectional infrastructure to play key role in local 5G-based community development

# Mobile Business (4)

## Launched new consumer mobile plan (Apr. 2021)

- As of May 6, approx. 350 thousand subs., of which 15% new users.
- For FY21, expect total mobile revenue (sum of enterprise & consumer) to decrease by JPY8.3 billion YoY
- Please refer to page 51 of this presentation for more detail on the mobile unit charge
- Please refer to page 54 of this presentation for a table comparing old and new consumer mobile plans

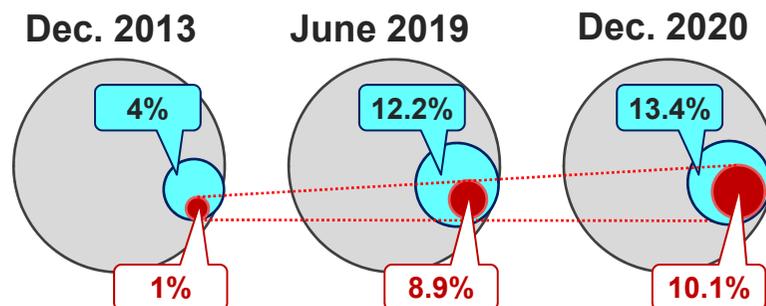
	2GB	4GB	8GB	15GB	20GB
Voice SIM (Data + voice calls)	JPY780	JPY980	JPY1,380	JPY1,680	JPY1,880
SIM with SMS (Data + SMS)	JPY750	JPY950	JPY1,350	JPY1,650	JPY1,850
Data-only SIM (Data only, Type D only)	JPY680	JPY880	JPY1,280	JPY1,580	JPY1,780
eSIM (Data only, NTT DoCoMo network only)	JPY400	JPY600	JPY1,000	JPY1,300	JPY1,500

## IJ's Sale Channel for Consumers

- 1. Direct sales** through IJ's website
  - Approximately 60% of 4Q19 IJmio's revenue was through direct sales
- 2. Sales partners** such as BicCamera who have physical stores
  - IJ pays sales commission expenses to sales partners
- 3. MVNE "IJ Mobile Platform Service"**
  - IJ provides mobile services to other MVNOs
  - As of December 31, 2020, IJ had 158 MVNE clients
    - ✓ Largest MVNE client is one of the largest Japanese retailers
    - ✓ Majority of MVNE clients are Japanese cable TV operators who already have direct relationship with consumers

## MVNO Penetration in Japan\*1

Total mobile subscription
  MVNO subscription
  SIM subscription



Source :

\*1 Ministry of Internal Affairs and Communications (the MIC)

\*2 Published by the MIC in Mar. 2021, share among "SIM subscription"

\*3 "MVNO Market Maintains Upward Trajectory" by Pete Bell in Apr. 2019

<https://blog.telegeography.com/mvno-market-maintains-upward-trajectory>

## ➢ Consumer MVNO share as of Dec. 2020 \*2

- IJ 14.4%
- Rakuten 13.7%
- NTT Communications (brand name: OCN mobile) 11.3%
- OPTAGE (brand name: mineo) 8.7%
- LINE Mobile 6.7%

### MVNO share in other countries \*3

Germany	47.5%	Spain	16.8%
Canada	28.8%	The US	13.8%
France	26.9%	Italy	12.1%
The UK	18.6%	South Korea	12.1%

# Mobile Business (5)

## Business model of IIJ's Mobile Business

### ◆ Revenue

- Consumer mobile revenue is generated by subscription growth multiplied by ARPU
- Enterprise mobile revenue to grow with IoT/M2M traffic. Charge IoT projects by how much data traffic is needed

### ◆ Cost

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

### ◆ Profit

- While many of consumer-oriented MVNOs are said to be in deficit, IIJ's mobile business is profitable
- Profitability to increase by improving infrastructure utilization through gathering various consumer & enterprise traffic
  - ✓ Traffic patterns of consumers and enterprises are different
    - Consumers' peak time is commuting hours and lunch break. Other than these hours, our consumers tend to access Internet through their home and/or office Wi-Fi. On the other hand, there is no clear peak time for enterprise. Traffic is generated through mobile dongle and/or IoT type usages which run 24/7
  - ✓ Currently, purchasing mobile capacity to meet the peak time of consumers (commuting hours and lunch break)
    - Mobile infrastructure utilization is still quite low except for those peak time of consumers

### ◆ Growth Strategy

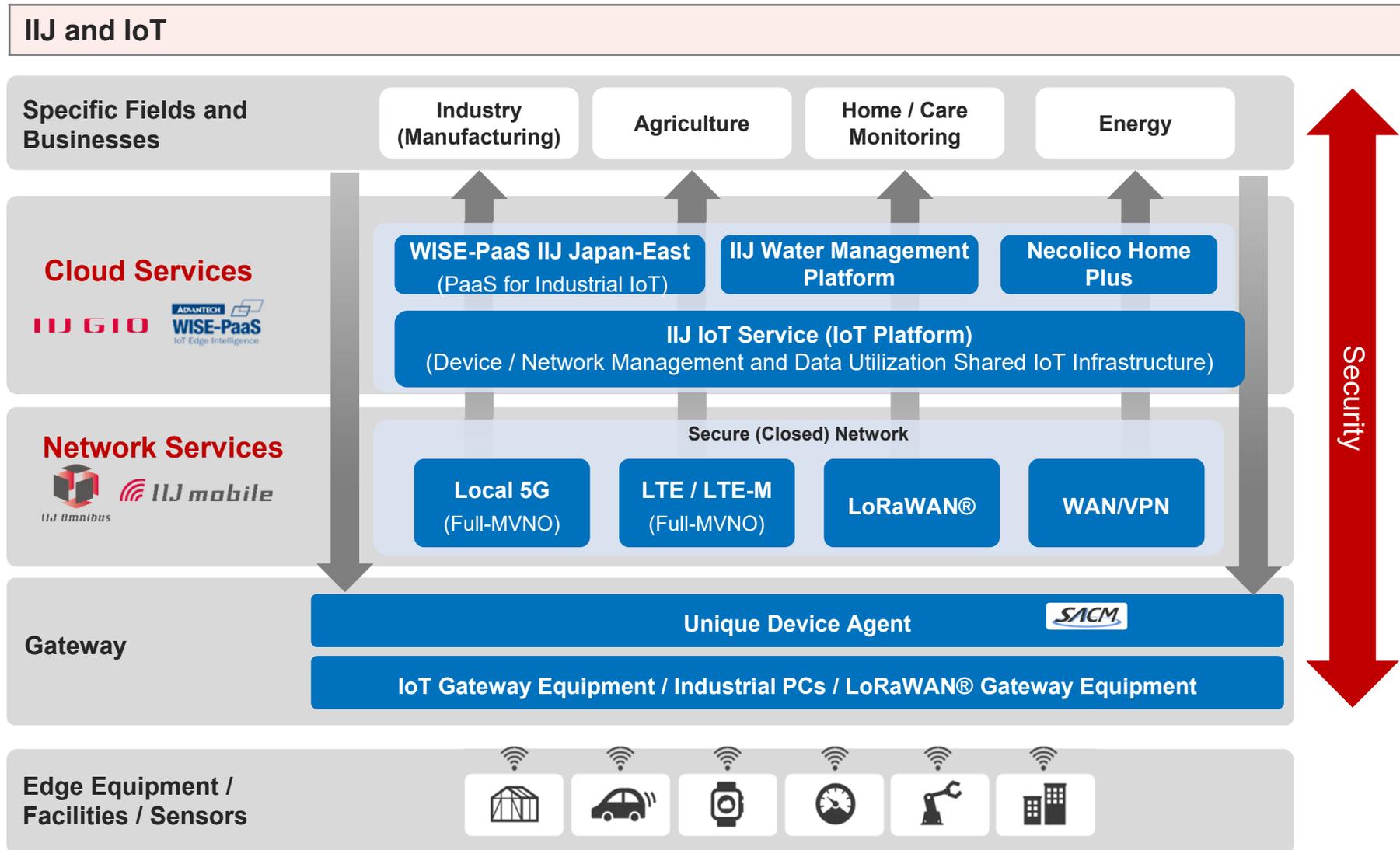
- Aim to improve mobile infrastructure utilization by gathering IoT/M2M & various consumer traffic

## IIJ's History on MVNO/Mobile Business

2008	Became the first MVNO in Japan to connect Docomo's mobile network. Provide mobile solution to enterprises
2012	Started providing consumer mobile services & MVNE business
2018	Became the first full-MVNO (data) in Japan
2019	Launched Japan's first eSIM services

# IoT Business (1)

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



# IoT Business (2)

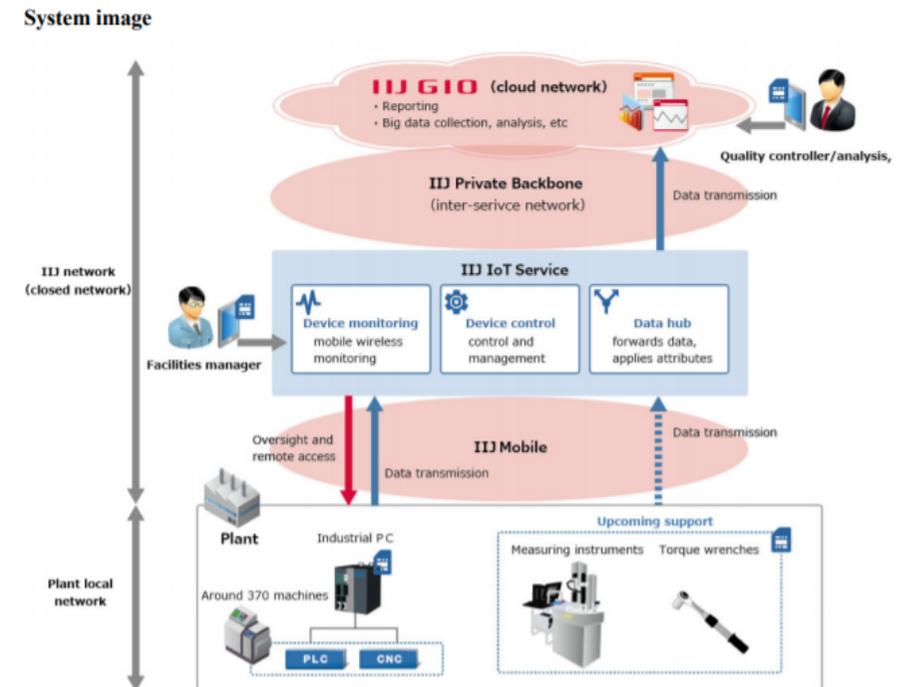
- **Change in Japanese enterprise attitude toward IoT**
  - Just executing PoCs to actually implementing IoT systems

## Some IoT projects

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

## Advanced Usage: Factory IoT

- ◆ **IJ provides IoT system for Toyota Motor Hokkaido**
  - Providing a one-stop solution by offering mobile and Cloud services from data collection via closed mobile network to creation of a cloud platform for visualizing and analyzing the collected data.



# Business through affiliated companies: FinTech Business (1)

Growth Strategy

Company Profile	
Name	DeCurret Inc.
Est.	January 2018
Capital	JPY8.6 billion (including capital reserve)
Directors	President: Kazuhiro Tokita (from IIJ) Part-time directors: IIJ CEO, IIJ COO, IIJ CFO

◆ **Equity in net loss related to DeCurret** (unit: JPY million)

4Q19	1Q20	2Q20	3Q20	4Q20
403	306	273	207	193

- ¥IIJ ownership: 4Q19 30.0%, from 1Q20 41.6%, from 1Q21 38.2% is planned to be used to recognize gain and loss
- Other than above, in 4Q20, gain on changes in equity of ¥349 million arisen from the issuance of common stock is recognized

## Crypto Asset Exchange Services (BtoC)

◆ **First & new licensed service provider after the FSA enacted registration process**

- Exchange various crypto assets (BTC, BCH, LTC, XRP, ETH)
  - ✓ Highly reliable system, low bid-ask spread, and meeting security requirement such as AML/KYC
    - Trading system leveraging the existing IIJ Raptor:
      - ✓ Top share ASP FX (Foreign Exchange) system in Japan, proving to 22 major Japanese financial institutions.
      - ✓ Core-engine, dealing system, connecting multiple FX exchanges, investor service platform, operator management function etc.
      - ✓ Approx. 70% of DeCurret service system is leveraged from the existing IIJ Raptor system
- ✓ Launched order book trading services from Apr. 2021

## Digital Currency Settlement Platform Business (mainly BtoB)

◆ **Executing many and various PoCs with business partners and shareholders**

KDDI	Automated digital currency settlement
Kansai Electric Power	Automated settlement of P2P electricity trading
DAIDO LIFE INSURANCE	Use digital currency for BtoB transaction
TOYOTA SYSTEMS	Automated settlement for employee benefit programs
Local governments	Digital coupon systems

And many more

◆ **Active discussion with core players on how to set up digital currency platform infrastructure in Japan**

- Digital Currency Study Group: From June to September 2020
  - Members: Mega banks, Seven Bank, JR East, KDDI, NTT Group, FSA, MIC, Bank of Japan, MOF, METI etc.
- The Study Group developed into Digital Currency Forum
  - Members: the Study Group members and leading companies from various industries
  - Main discussion topics: examination of practicality of digital currencies in each use case, requirement definition, design, and development of common and additional areas, identification of issues and solutions for the actual operation of digital currencies, and creation of standards

# Business through affiliated companies: FinTech Business (2)

Growth  
Strategy

## Shareholders of DeCurret (35 companies)

Source: DeCurret Webpage

Internet Initiative Japan Inc.

ITOCHU Corporation

QTnet, Inc.

OPTAGE Inc.

KDDI CORPORATION

KONAMI HOLDINGS CORPORATION

SUMITOMO LIFE INSURANCE COMPANY

Sompo Holdings, Inc.

The Dai-ichi Life Insurance Company, Limited

DAIDO LIFE INSURANCE COMPANY

Daiwa Securities Group Inc.

Tokio Marine & Nichido Fire Insurance Co., Ltd.

Nippon Life Insurance Company

Nomura Holdings, Inc.

NTT Corporation

East Japan Railway Company

SBI Holdings, Inc.,

SECOM CO., LTD.

BIC CAMERA INC.

Mitsui Sumitomo Insurance Company, Limited

Sumitomo Mitsui Banking Corporation

Mitsui Fudosan Co., Ltd.

Mitsubishi Corporation

The MUFG Bank

Meiji Yasuda Insurance Company

YAMATO HOLDINGS CO., LTD.

ITOCHU Techno-Solutions Corporation

CHUBU Electric Power Co., LTD.

DENTSU INC.

Hankyu Hanshin Holdings, Inc.

MATSUI SECURITIES CO.,LTD.

Energia Communications, Inc.

SOHGO SECURITY SERVICES CO.,LTD. (ALSOK)

JAPAN POST BANK Co., Ltd.,

Toppan Printing Co., Ltd.

# Business through affiliated companies: CDN Business

Growth Strategy

Company Profile	
Name	JOCDN Inc.
IIJ Ownership	16.8%
Capital	JPY845 million (including capital reserve)
Establishment	December 1, 2016
Shareholders	IIJ, Nippon TV, TV Asahi, TBS, TV Tokyo, Fuji TV, WOWOW, NHK and non-Tokyo local broadcasters
Directors	Chairman: Koichi Suzuki (IIJ CEO) President: Shunichi Shinozaki (Nippon TV)

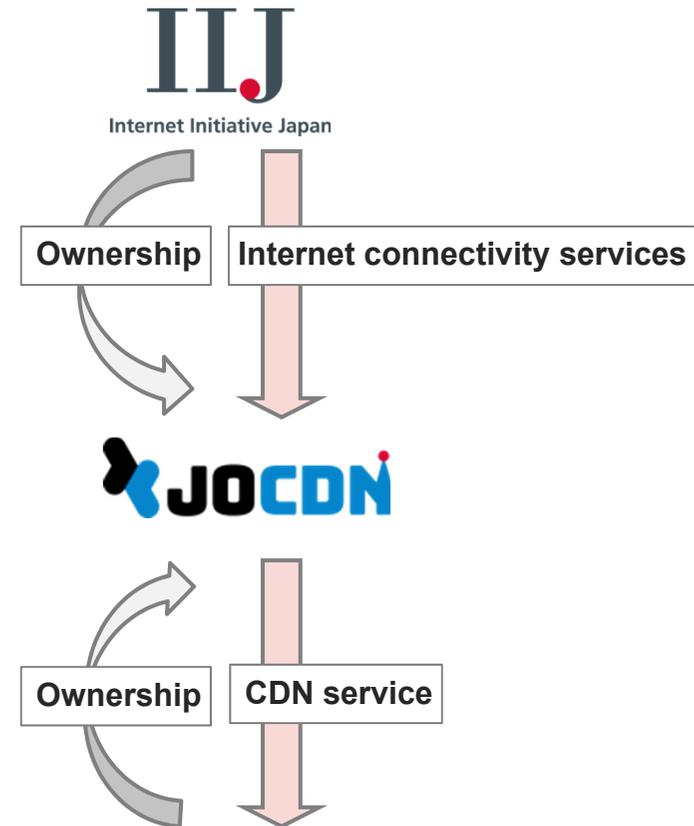
## ◆ Conditions led to create All Japan CDN company

- Akamai Technologies (global leader in CDN services, US company) has had quite dominant position in CDN market
- Growing needs to distribute contents over Internet (4K/8K contents to increase towards the Tokyo Olympics etc.)
- Broadcasting companies distributing contents via Internet
  - Nippon TV owns Hulu Japan
  - Broadcasting companies operate “TVer” (web platform operated by Japanese broadcasters where users can watch some TV programs for free)
- IIJ has rich and well-renowned expertise in CDN business
  - Olympics games, high school base ball games, university sport and many other popular sports events

## ◆ Equity method gain related to JOCDN: Turned to positive in 2Q20, FY20 ¥28 million

- CDN: Contents Distribution Network
- WOWOW: Prominent satellite broadcaster in Japan
- NHK: Japan’s only public broadcaster

## Business Model



# Summary of FY2020

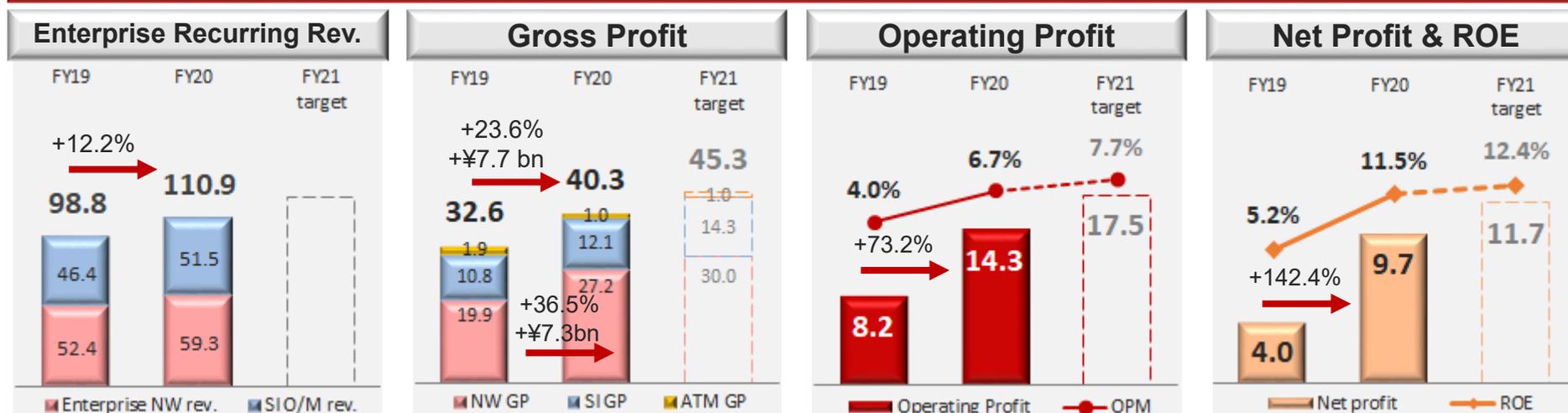
Unit: ¥ (JPY) billion (bn)  
%= Year over year

Financials

## Phase of structural profit expansion with enterprise recurring revenue growth

Accumulated asset of blue-chip customer base & NW service business  
strongly demonstrated competitive advantage under the digital transformation expansion

Revenues ¥213.00 bn +4.2% Operating Profit ¥14.25 bn +73.2%



### ◆Enterprise recurring revenue

Stronger than expected expansion of ICT usage, Growth rate accelerated FY20 + 12.2%, FY19 +10.3%

- Satisfying enterprise NW demands that are becoming more diversified and complexed by continuously expanding and improving in-house developed services
  - IP services ¥12.17 bn +13.7% +¥1.5 bn, Outsourcing services ¥35.71 bn +10.4% +¥3.4 bn, Cloud services ¥26.20 bn +11.1% +¥2.6 bn

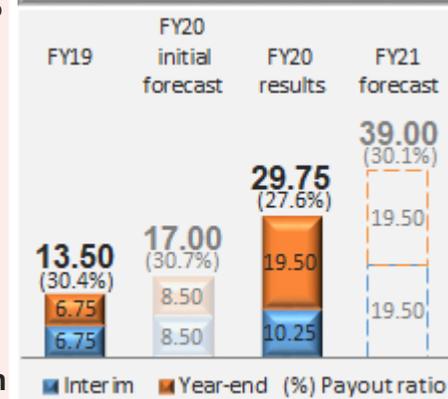
### ◆Mobile/IoT

Enterprise: leading IoT penetration with full-MVNO, Consumer: enhance our presence with new plan

- Total mobile revenue ¥47.52 bn +3.1% , of which enterprise ¥7.81 bn +29.6%
- Total mobile subscription 3.251 mil +7.3% , of which enterprise 1.110 mil +31.8%

### ◆Amid the COVID pandemic, leveraged comprehensiveness with enterprise NW services & integration

### Dividend per share



(Notes) Enterprise NW revenues: sum of Internet Connectivity Services (Enterprise) excluding MVNE and Outsourcing. It does not include WAN Services which had specific factor.  
Net profit is "Profit for the period/year attributable to owners of the parent"

# Previous Mid-term Plan (FY16~FY20) Results

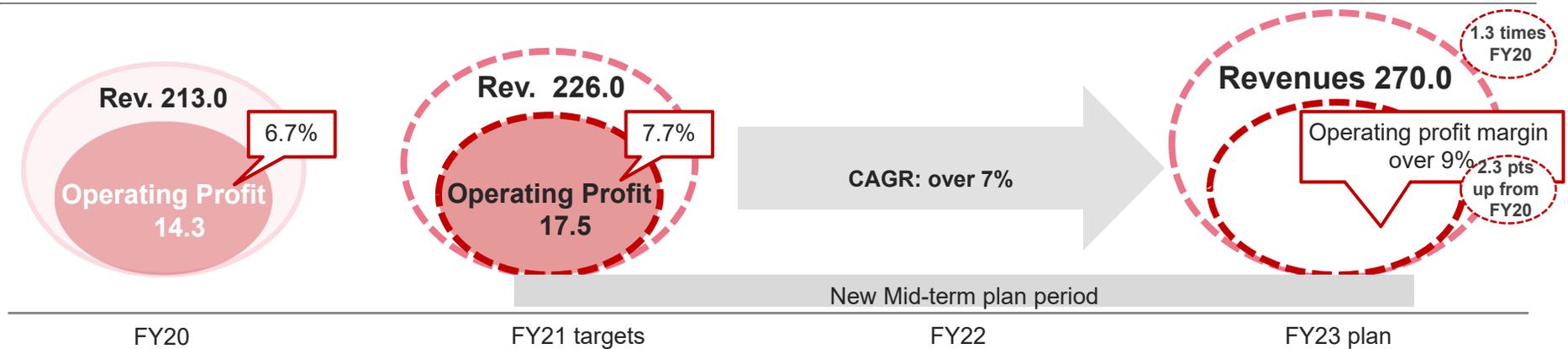
Unit: JPY ¥ billion (bn)  
 FY15 U.S. GAAP, FY20 IFRS  
 "times" are written in approx. terms



	FY15	FY16	FY17	FY18	FY19	FY20
<b>Enterprise NW services</b> <small>Exc. Mobile &amp; security</small>	<b>FY15: 50.8 → FY20: 58.2</b>					
<ul style="list-style-type: none"> <li>➢ Retained &amp; cross-sold to current clients, IP service revenue growth accelerated</li> <li>➢ Met diversifying and more complex enterprise NW by developing IJ Omnibus services, service line-up largely expanded</li> <li>➢ Continuously expanded NW, stable CAPEX</li> </ul>						
<b>Mobile·IoT services</b>	<b>FY15: 15.6 → FY20: 47.5</b>					
<ul style="list-style-type: none"> <li>➢ Full-MVNO as competitive advantage for IoT etc.                             <ul style="list-style-type: none"> <li>• Accumulate various NW camera &amp; factory IoT</li> </ul> </li> <li>➢ Established strong market position as one of largest MVNOs in Japan                             <ul style="list-style-type: none"> <li>• Pioneer in consumer MVNO, top market share with IJmio and MVNE</li> </ul> </li> </ul>						
<b>Security services</b> <small>Exc. Security related SI</small>	<b>FY15: 8.6 → FY20: 18.4</b>					
<ul style="list-style-type: none"> <li>➢ Became one of the largest corporate security service providers (monthly recurring revenue)                             <ul style="list-style-type: none"> <li>• Very high market penetration for Mail &amp; Web gateway securities</li> </ul> </li> <li>➢ Expanded service offerings: DDoS, SOC·EDR etc.</li> </ul>						
<b>Cloud services</b> <small>Exc. Cloud-related SI</small>	<b>FY15: 14.1 → FY20: 26.2</b>					
<ul style="list-style-type: none"> <li>➢ Competitive advantages in Private Cloud services, Multi-Cloud solution, Revenue continued to increase</li> <li>➢ Opened Shiroy DC, gradually expanding, better visibility about future server racks space</li> <li>➢ Developed highly migratable and accommodative new cloud facility</li> </ul>						
<b>SI</b> <small>Exc. Cloud services, Inc. equipment sales</small>	<b>FY15: 45.4 → FY20: 59.8</b>					
<ul style="list-style-type: none"> <li>➢ Differentiated by having NW services and SI expertise</li> <li>➢ Profitability continued to increase with stricter management of system engineers</li> </ul>						
<b>Overseas</b> <small>Inc. some from Enterprise NW services, Cloud, and SI</small>	<b>FY15: 5.3 → FY20: 8.3</b>					
<ul style="list-style-type: none"> <li>➢ Asian region started up, expanded global solution for Japanese clients, turned positive &amp; managing profit, JVs with local prominent companies</li> <li>➢ Bought a Singaporean Sler – expect to strengthen ASEAN business</li> </ul>						
<b>New business</b>	<ul style="list-style-type: none"> <li>➢ Expanded business domain by leveraging accumulated assets such as technology, system infrastructure, client relationship                             <ul style="list-style-type: none"> <li>• DeCurret: Fintech JV with major banks etc., working to realize digital currency exchange platform which is envisioned in the future</li> <li>• JOCDN: CDN JV with broadcasting companies, consortium by envisioning the future of Internet broadcast &amp; convergence of communications and broadcasting</li> </ul> </li> </ul>					
<b>HR</b>	<ul style="list-style-type: none"> <li>➢ Continuous hiring and training of newly graduates as a core policy, enhanced human capital to support mid-to-long term business growth</li> </ul>					

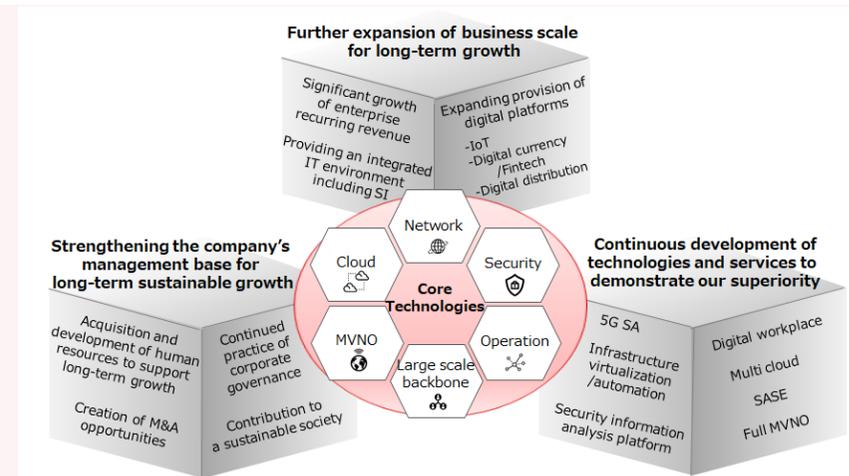
# FY21 Plan & New Mid-term Plan (FY21~FY23)

Unit: ¥ (JPY) billion (bn) except for Dividend per share (¥) "times" are written in approx. terms



FY21 Plan (financial targets)					
¥ bn (%YoY)	Revenues	Operating Profit	Profit before tax	Net Profit	Dividend per share
FY21	226.0 (+6.1)	17.5 (+22.8)	17.3 (+23.3)	11.7 (+20.5)	¥37.00 (+¥9.25)
FY20	213.0 (+4.2)	14.3 (+73.2)	14.0 (+96.0)	9.7 (+142.4)	¥29.75 (+¥16.25)

## New Mid-term Plan

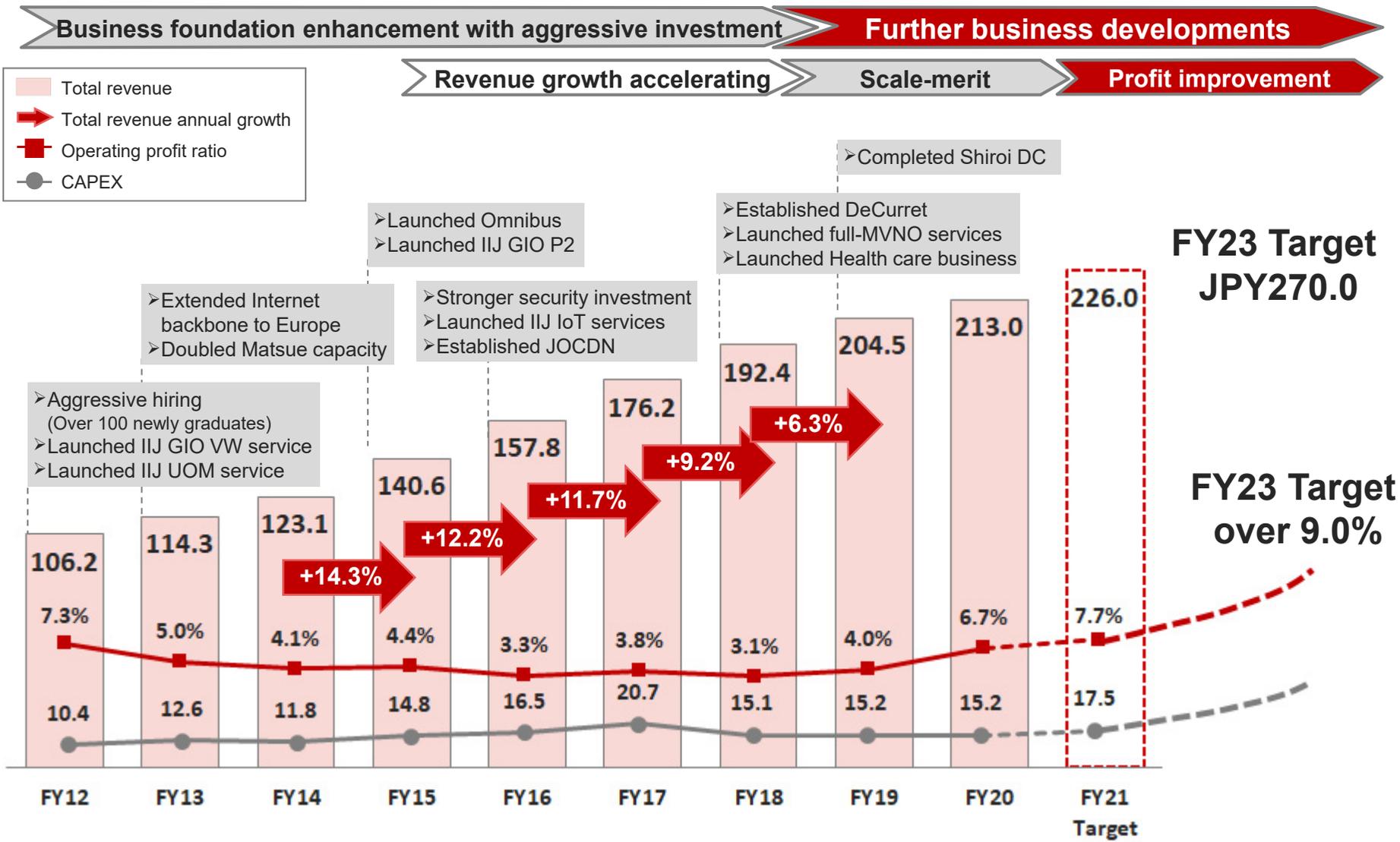


- ◆ Under structural profit growth phase, achieve economy of scale and lead profit expansion with enterprise recurring revenue accumulation
  - Strengthening total solution: NFV/SD-WAN service enhancement, SASE·SOC (security),DWP/virtual desktop/secure browsing, launching of new cloud facility (Shiroi) etc.
- ◆ Enterprise mobile to expand with various IoT projects, Consumer: Return to subs. net addition with new plan
  - NW utilization to improve by combining both enterprise & consumer, Mobile profitability to remain steady as purchasing cost (unit charge) to decrease (revenue decrease factor)
- ◆ SI; revenue & profit to increase by cross-selling NW construction & services, M&A (SNG/Sler) to be added
- ◆ Profit before tax to improve along with new business starting up

- ◆ Develop services & solution continuously: Enterprise cloud, business cloud, partner, industry specific Cloud
- ◆ Execute & strengthen current strategy, target to achieve operating margin over 9%
- ◆ Market cap. to largely increase: further business expansion for long-term including M&A opportunities
- ◆ Contribute to sustainable NW society from technology innovation and NW operation perspective

# Mid-to-Long term Business Growth

Unit: JPY billion **Growth Strategy**



- FY13 operating profit decrease was mainly due to large gaming clients decreased cloud usage.
- FY18 operating profit decrease was because small Docomo's unit price revision made our network service gross profit decrease significantly
- FY16 and before: US-GAAP, FY17 and after: IFRS
- Total revenue annual growth rate for FY17 revenue (IFRS) is calculated with FY16 revenue (US GAAP)

# FY2021 Financial Targets

Unit: ¥ (JPY) billion (bn) except for Dividend per share (¥)  
YoY = Year over year

Financials

	<small>% of Revenues</small>	<small>% of Revenues</small>	YoY		<small>% of Revenues</small>	YoY
	<b>FY21 Targets</b> <small>Apr. 2021 - Mar. 2022</small>	<b>FY20 Results</b> <small>Apr. 2020 - Mar. 2021</small>			<b>1H21 Targets</b> <small>Apr. 2021 - Sep. 2021</small>	
Revenues	<b>226.0</b>	<b>213.00</b>	+6.1%	+13.00	<b>108.0</b>	+6.34
Cost of Sales	<small>80.0%</small> <b>180.7</b>	<small>81.1%</small> <b>172.72</b>	+4.6%	+7.98	<small>80.9%</small> <b>87.4</b>	+3.19
Gross Profit	<small>20.0%</small> <b>45.3</b>	<small>18.9%</small> <b>40.28</b>	+12.5%	+5.02	<small>19.1%</small> <b>20.6</b>	+3.15
SG&A etc. <sup>(*)</sup>	<small>12.3%</small> <b>27.8</b>	<small>12.2%</small> <b>26.03</b>	+6.8%	+1.77	<small>13.1%</small> <b>14.1</b>	+1.88
Operating Profit	<small>7.7%</small> <b>17.5</b>	<small>6.7%</small> <b>14.25</b>	+22.8%	+3.25	<small>6.0%</small> <b>6.5</b>	+1.26
<i>Shares of profit (loss) of investments accounted for using equity method investees</i>	<b>(0.4)</b>	<b>(0.41)</b>	-	+0.01	<b>(0.3)</b>	+0.08
Profit before tax	<small>7.7%</small> <b>17.3</b>	<small>6.6%</small> <b>14.03</b>	+23.3%	+3.27	<small>5.8%</small> <b>6.3</b>	+1.83
Net Profit <sup>(*)</sup>	<small>5.2%</small> <b>11.7</b>	<small>4.6%</small> <b>9.71</b>	+20.5%	+1.99	<small>3.9%</small> <b>4.2</b>	+1.43
Annual Cash Dividend per Share	<b>¥39.00</b>	<b>¥29.75</b>	+31.1%	+¥9.25	<b>¥19.50</b>	+¥9.25

## ◆ Assumptions for Revenue

- Enterprise NW services: Expect revenue to grow continuously, As WAN decrease factor is solved in FY20, expect to see WAN revenue return to growth
- Mobile: Expect revenue to decrease by ¥8.3 bn as ARPU, especially voice, to decrease due to new consumer plan
- SI: Additional ¥8.5 bn from M&A (PTC) in addition to continuous growth
- ATM: Same level as FY20

## ◆ Assumption for Gross Profit

- Enterprise NW services: Expect profit to expand along with revenue growth
- Mobile: Expect same level of profit as FY20 with decrease in purchasing cost and ARPU (Onetime cost decrease upon FY20 mobile interconnectivity charge confirmation is taken into consideration)
- SI: Additional ¥0.8 bn from M&A (PTC) in addition to continuous growth
- ATM: Same level as FY20

## ◆ Assumption for SG&As

- Same incremental pace from the past, smaller disposal than FY20 (¥0.64 bn)
- Additional ¥0.4 bn from M&A (PTC)

## ◆ Other assumptions

- Equity in net loss of affiliates: approx. ¥0.4 bn, Expect equity in net loss of DeCurret to turn positive in 4Q
- Net addition of employees: approx. 290 (of which, newly graduates 190)
- CAPEX: approx. ¥17.5 bn, Expect to increase YoY as some FY20 investments such as ¥1.2 bn of Shiroi DC and NW are slided over

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

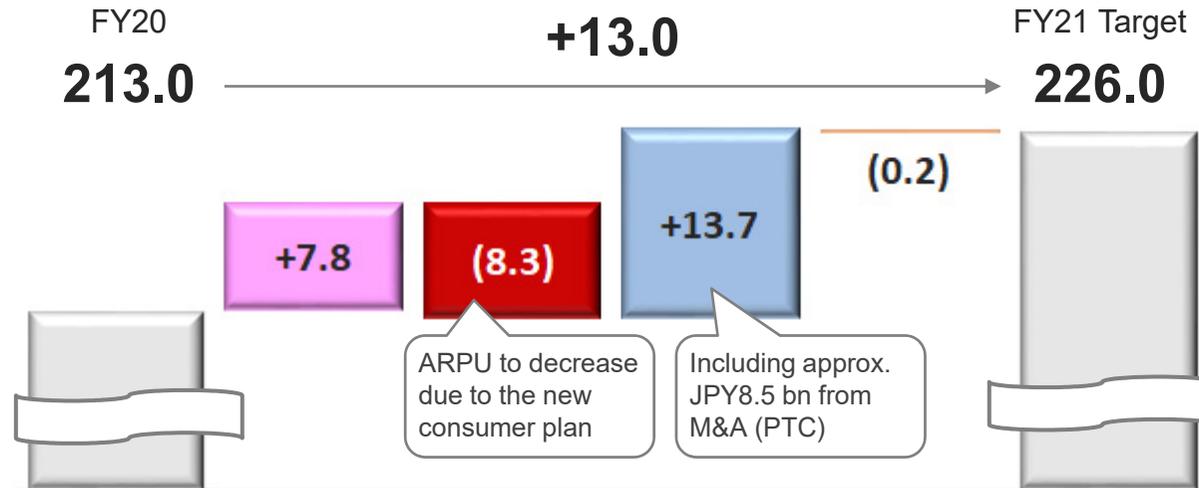
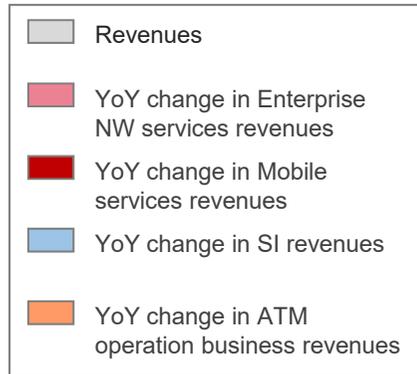
(\*2) Net Profit is "Profit for the year (period) attributable to owners of the parent."

# FY21 Revenue and Operating Profit

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

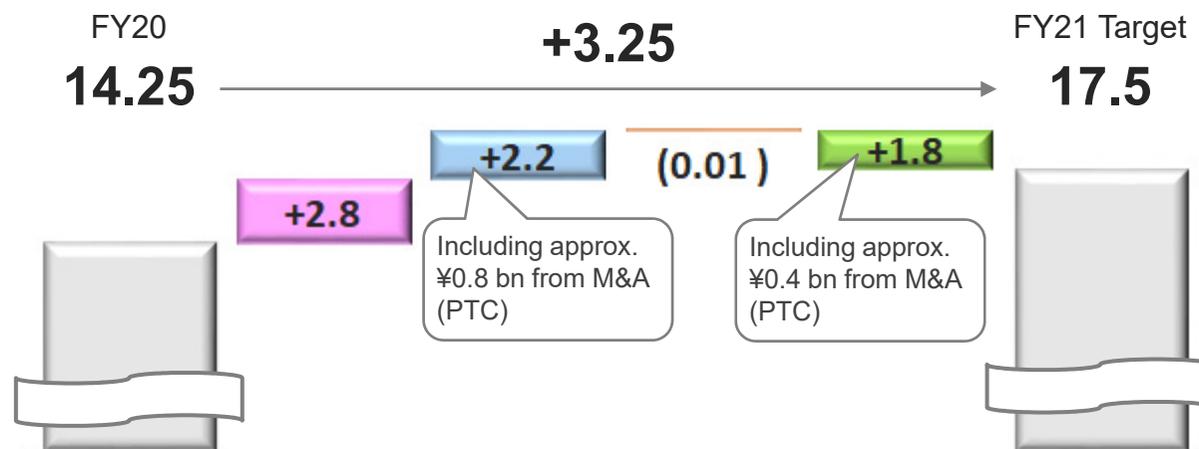
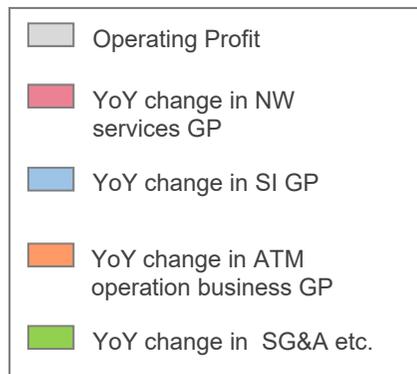
Financials

## Revenues



- Enterprise NW services revenues is calculated by deducting the below mentioned Mobile services revenues from total NW services revenues. It includes non-mobile consumer revenue which is small amount
- Mobile services include IJ Mobile Services (including MVNE) and IJmio (consumer mobile)

## Operating Profit



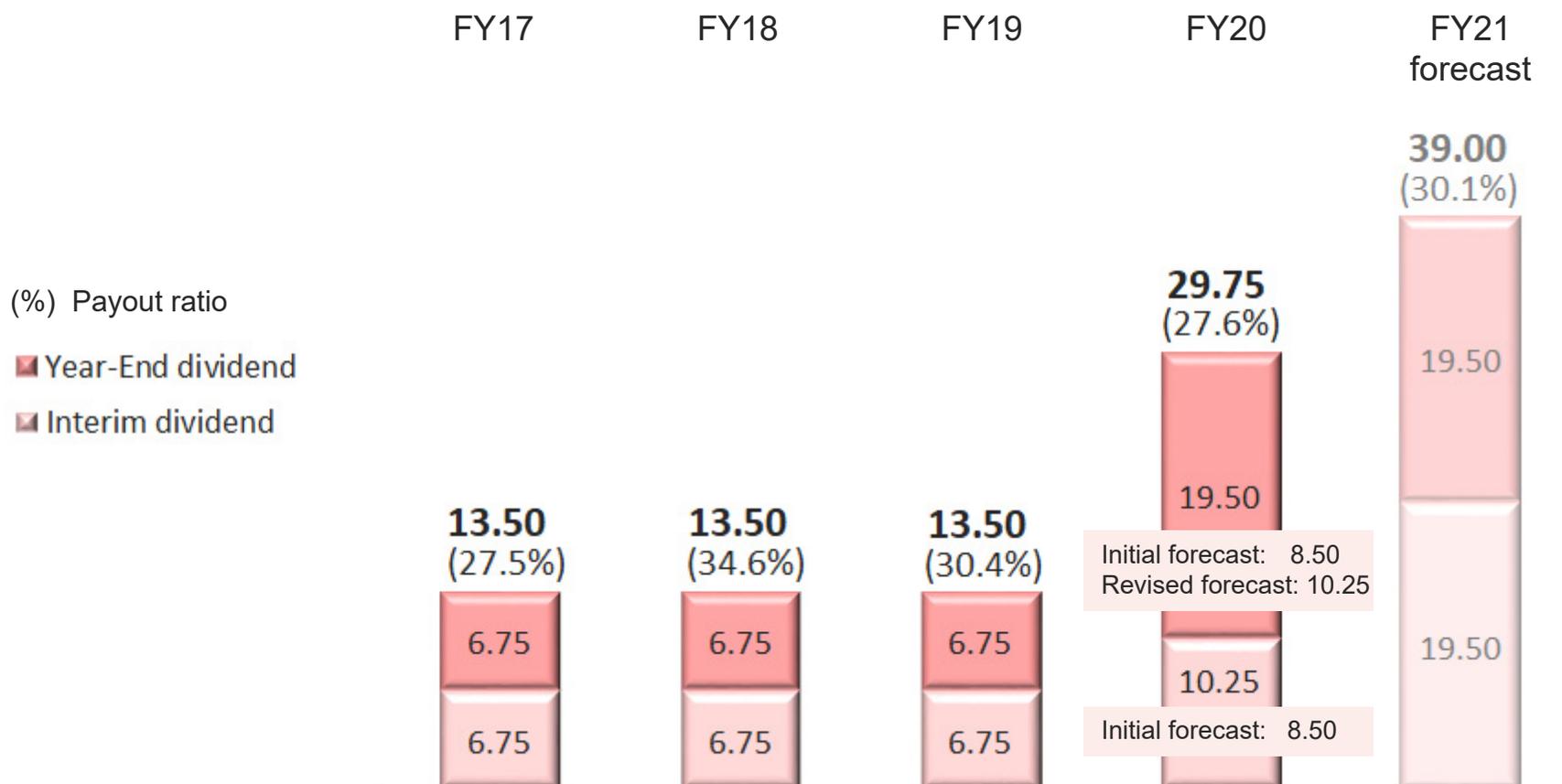
- SG&A etc. in this slide shows the sum of SG&A, which includes R&D expenses, and other income/expenses

# FY21 Dividend Forecast

## ◆ Our basic dividend policy:

Basic dividend policy of IJ is that IJ pays dividends to its shareholders continuously and in a stable manner while considering the need to have retained earnings for the enhancement of financial position, medium-to long-term business expansion, future business investment and other goals.

## ◆ Historical Dividend per Share:



\*We conducted 1:2 stock split on January 1, 2021. Dividends paid before the split are retroactively adjusted to reflect the split.

As the first full-scale ISP in Japan, we have consistently been the leader of Japan’s Internet development. With our management philosophy of developing and supporting Japan’s Internet infrastructure at our core, we recognize our responsibility as a provider of social infrastructure and continue supporting social and corporate system platforms, providing stable network services.

## IJJ’s material issues:

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

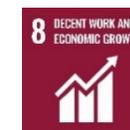
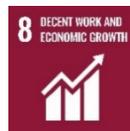
- Bringing innovation: We shall continue to bring technological innovations to realize an even better network society and propose new values and usages.
- Solving social issues through our business: We shall provide Internet services that will help solve social issues
- Our response to climate change: We shall use our Internet services to drive our environmental contributions

**Provide safe and robust Internet services that support social infrastructure**

- Maintaining security and privacy: We aim for a world where privacy and security are protected for all users as the norm.
- Enhancing network resilience: As a platform for industries, education, and day-to-day living, we develop and operate robust backbone networks that will withstand natural disasters, accidents, and cyber-attacks.

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

- Promoting diversity and work-life balance: a workplace where all employees’ values are respected and they can exercise their skills, regardless of gender, nationality, or disability.
- Developing human resources: maintain and develop a corporate culture that fully respects and supports employees’ self-actualization and motivation to learn and contribute to society.
- Promoting occupational safety and health and respect for human rights: a workplace that protects employees’ physical and mental health and enables them to work safely.



# **Consolidated Financial Results for FY2020**

**Announced on May 12, 2021**

# Consolidated Financial Results

Unit: ¥ (JPY) billion, except for cash dividend (¥)  
YoY = Year over year

Financials

	% of revenue		YoY		% of revenue		YoY	
	FY20 Apr. 2020 - Mar. 2021	FY19 Apr. 2019 - Mar. 2020			FY20 Targets (Revised on Feb. 8, 2021)(*3) Apr. 2020 - Mar. 2021			
Revenues	213.00	204.47	+4.2%	+8.53	213.0	+4.2%	+8.53	
Cost of Revenues	81.1% 172.72	84.1% 171.88	+0.5%	+0.84	81.6% 173.9	+1.2%	+2.02	
Gross Profit	18.9% 40.28	15.9% 32.59	+23.6%	+7.69	18.4% 39.1	+20.0%	+6.51	
SG&A etc. (*1)	12.2% 26.03	11.9% 24.37	+6.8%	+1.67	12.0% 25.6	+5.1%	+1.23	
Operating Profit	6.7% 14.25	4.0% 8.23	+73.2%	+6.02	6.3% 13.5	+64.1%	+5.27	
Profit before tax	6.6% 14.03	3.5% 7.16	+96.0%	+6.88	5.8% 12.3	+71.8%	+5.14	
Net Profit (*2)	4.6% 9.71	2.0% 4.01	+142.4%	+5.70	3.6% 7.6	+89.7%	+3.59	
Annual Cash Dividend Per Share	¥29.75	¥13.50	+120.4%	+¥16.25	¥20.50	+51.9%	+¥7.00	

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

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

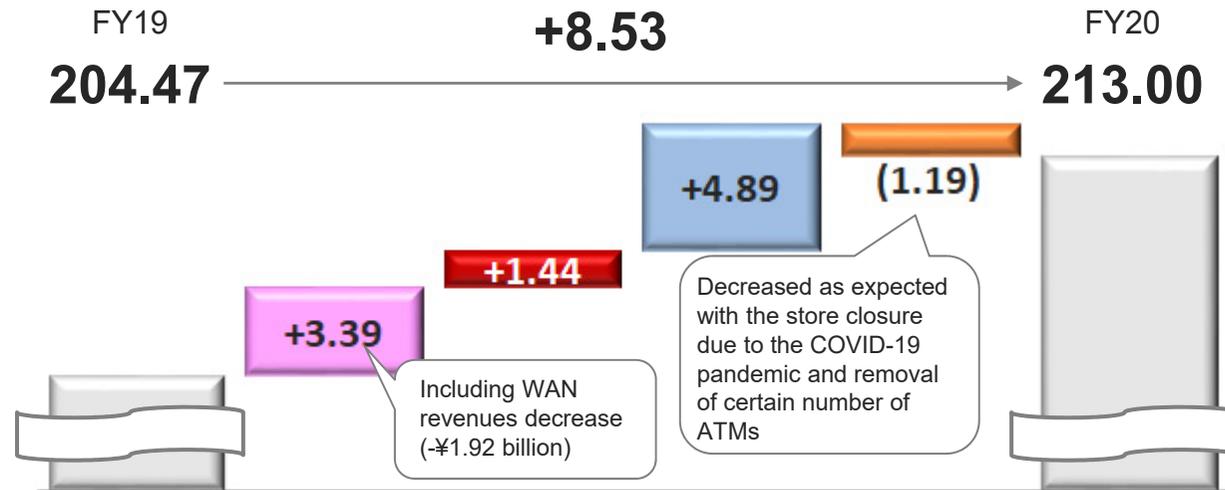
(\*3) FY20 Targets were revised upward from the original targets on Nov. 9, 2020 and Feb. 8, 2021.

# FY2020 Revenue & Operating Profit YoY

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

## Revenues

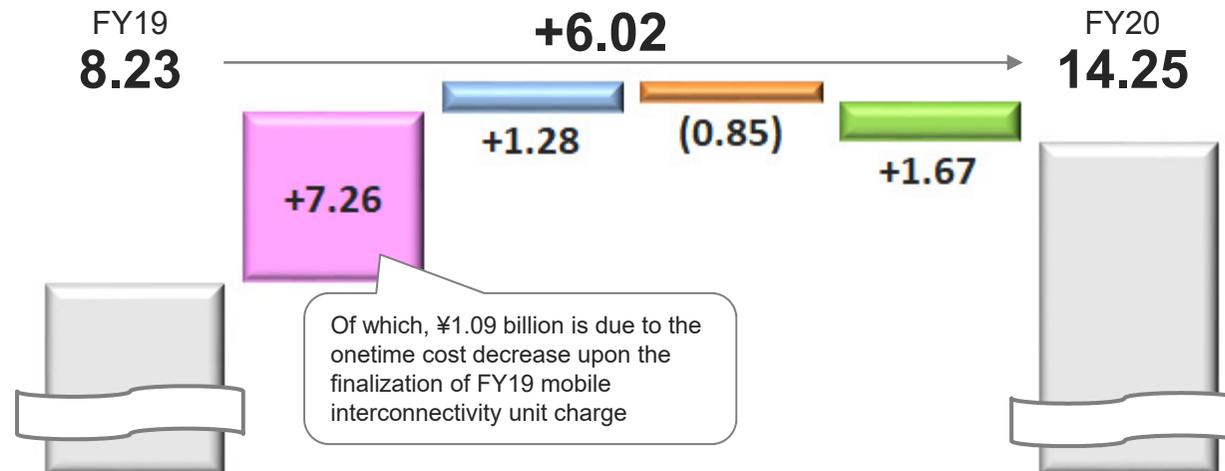
- Revenues
- YoY change in Enterprise NW services revenues
- YoY change in Mobile services revenues
- YoY change in SI revenues
- YoY change in ATM operation business revenues



- Enterprise NW services revenues is calculated by deducting the below mentioned Mobile services revenues from total NW services revenues. It includes non-mobile consumer revenue which is small amount
- Mobile services include IJ Mobile Services (including MVNE) and IJmio (consumer mobile)

## Operating Profit

- Operating Profit
- YoY change in NW services GP
- YoY change in SI GP
- YoY change in ATM operation business GP
- YoY change in SG&A etc.

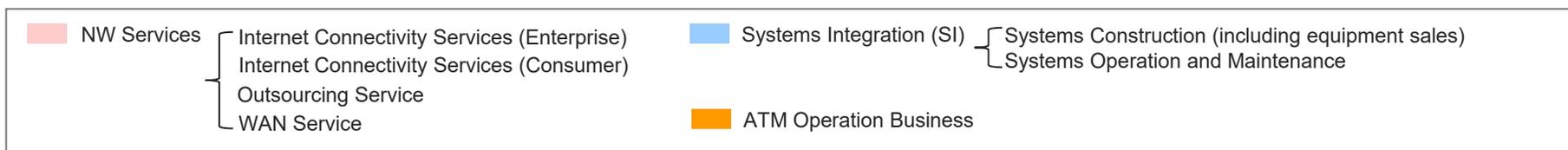


- SG&A etc. in this slide shows the sum of SG&A, which includes R&D expenses, and other income/expenses

# Revenues

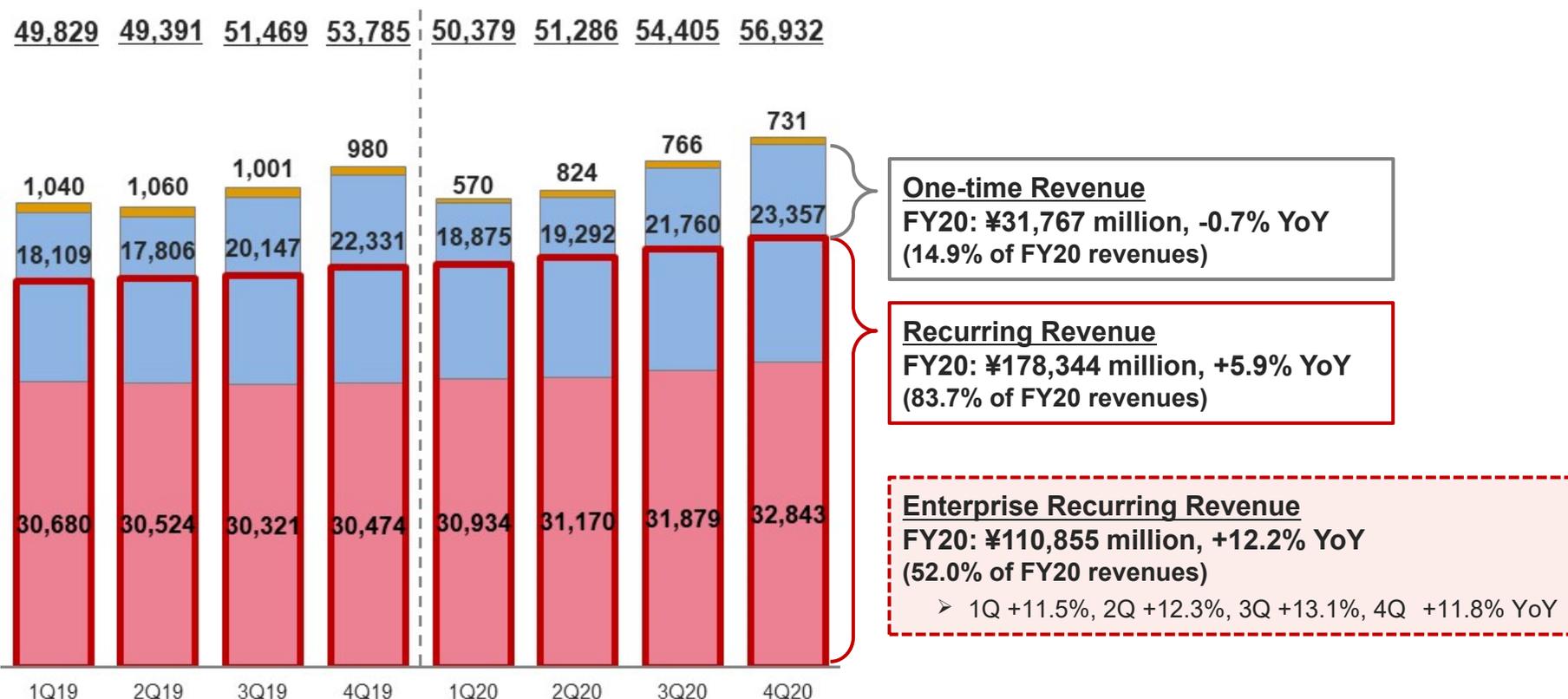
Unit: ¥ (JPY) million  
[ ], YoY = Year over year comparison

## Financials



**FY19: 204,474 [+6.3%]**

**FY20: 213,002 [+4.2%]**



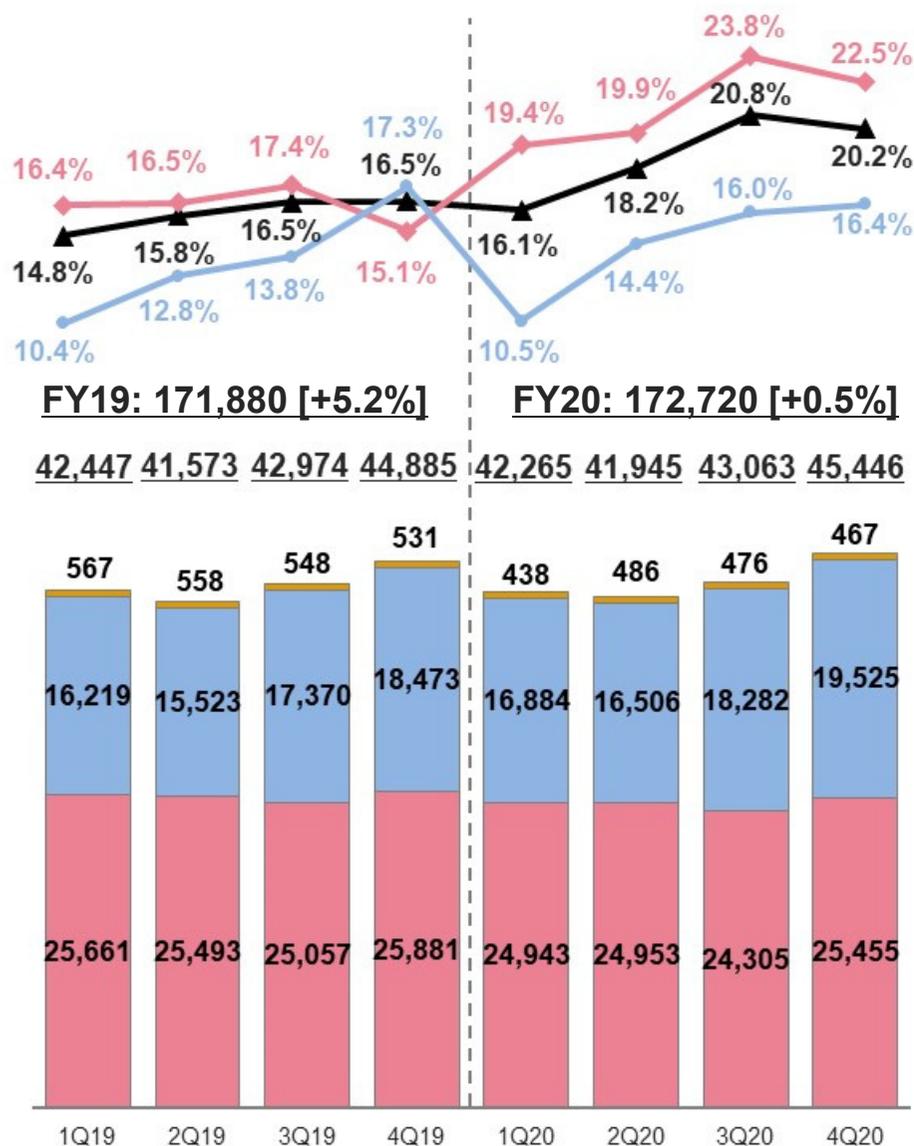
- One-time revenue, systems construction revenues which includes equipment sales, is mainly recognized when systems or equipment are delivered and accepted by customers
- Recurring revenue represent the following monthly recurring revenues: Internet Connectivity Services (Enterprise), Internet Connectivity Services (Consumer), Outsourcing Services, WAN Services, and Systems Operation and Maintenance
- Enterprise recurring revenue: Internet Connectivity Services (Enterprise) excluding MVNE, Outsourcing Service and Systems Operation and Maintenance, which excludes WAN Services due to the impact of specific factor.

# Cost of Sales & Gross Profit Ratio

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

Financials

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



## Gross Profit

### ◆ Total

- FY20: ¥40,282 million (+23.6%, +¥7,689 million YoY)
  - 1Q: ¥8,113 million (+9.9%, +¥731 million YoY)
  - 2Q: ¥9,342 million (+19.5%, +¥1,524 million YoY)
  - 3Q: ¥11,342 million (+33.5%, +¥2,848 million YoY)
  - 4Q: ¥11,485 million (+29.1%, +¥2,585 million YoY)

### ◆ NW Services

- FY20: ¥27,171 million (+36.5%, +¥7,264 million YoY)
  - 1Q: ¥5,991 million (+19.4%, +¥972 million YoY)
  - 2Q: ¥6,217 million (+23.6%, +¥1,186 million YoY)
  - 3Q: ¥7,574 million (+43.9%, +¥2,311 million YoY)
  - 4Q: ¥7,388 million (+60.9%, +¥2,796 million YoY)
  - ✓ Onetime cost decrease impact was recorded in 3Q20 (¥0.70 billion) & 4Q20 (¥0.39 billion) as the mobile interconnectivity (unit charge) based on FY19 was fixed
  - ✓ Onetime cost increase impact was recorded in 4Q19 (¥0.35 billion) as the mobile interconnectivity (unit charge) based on FY18 was fixed

### ◆ SI

- FY20: ¥12,087 million (+11.8%, +¥1,278 million YoY)
  - 1Q: ¥1,991 million (+5.4%, +¥101 million YoY)
  - 2Q: ¥2,786 million (+22.0%, +¥502 million YoY)
  - 3Q: ¥3,478 million (+25.2%, +¥701 million YoY)
  - 4Q: ¥3,832 million (-0.7%, -¥27 million YoY)
  - ✓ In 4Q, recognized allowance for prospected personnel-related costs of ¥0.31 billion

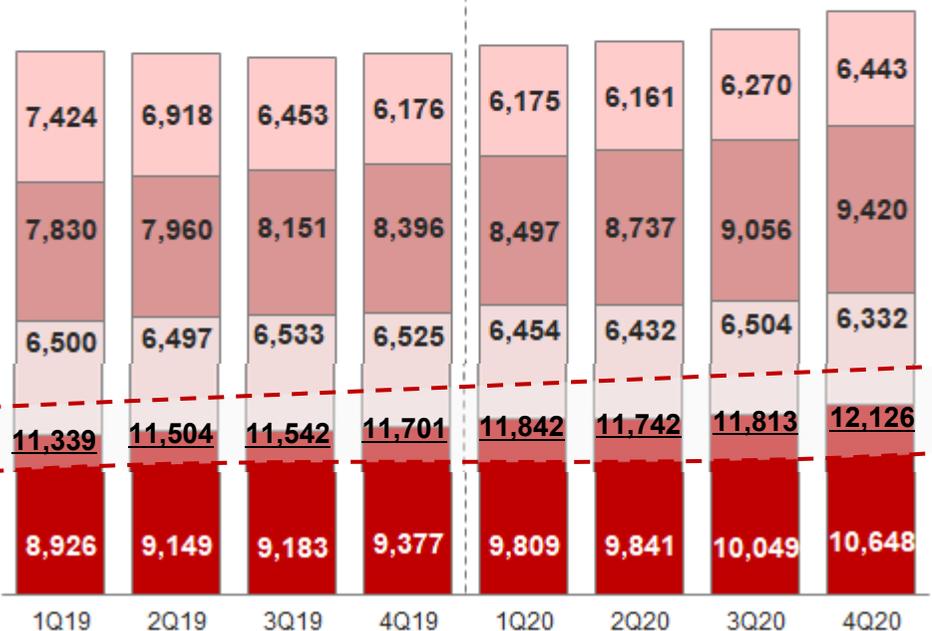
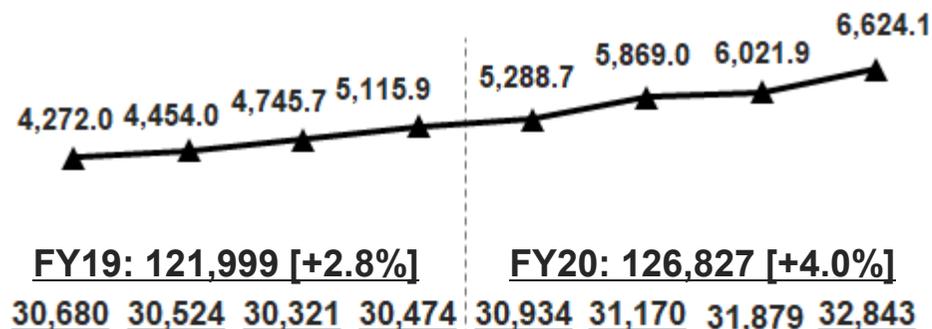
### ◆ ATM Operation Business

- FY20: ¥1,024 million (-45.4%, -¥853 million YoY)
  - ✓ The COVID-19 pandemic impact was largest in 1Q with store closure and stay-at-home orders. For the remaining quarters were impacted by the scheduled removal of certain number of our ATMs and the government's request to refrain from going out

# Network Services (1) Revenues

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

Financials



## ◆ Internet Connectivity (Enterprise)

- FY20: ¥40,347 million, +10.1% YoY
  - IP (Dedicated connectivity services for enterprise):
    - ✓ FY20: ¥12,171 million, +13.7% YoY +¥1.5 bn YoY
    - 1Q +9.4%, 2Q +10.8%, 3Q +17.2%, 4Q +17.5% YoY
  - IJ Mobile (enterprise): ¥24,525 million, +8.5% YoY
    - ✓ 1Q +10.2%, 2Q +6.0%, 3Q +6.2%, 4Q +11.6% YoY
    - Of which, IoT-related revenue: ¥7,807 million, +29.6% YoY
    - Of which, MVNE revenue: ¥16,718 million, +0.9% YoY

## ◆ Internet Connectivity (Consumer) (mostly consumer mobile)

- FY20: ¥25,722 million, -1.3% YoY
- Severe competition continued. Launched new consumer plans called "Giga Plans" (from Apr.1, 2021) targeting MVNO customers' demand

## ◆ Outsourcing Services (in-house developed various NW services)

- FY20: ¥35,710 million, +10.4% YoY
- 1Q +8.5%, 2Q +9.8%, 3Q +11.1%, 4Q +12.2% YoY
- Of which, security services: ¥18.42 billion, +12.7% YoY

## ◆ WAN Services

- FY20: ¥25,048 million, -7.1% YoY (-¥1,923 million YoY)
- 1Q -16.8%, 2Q -11.0%, 3Q -2.8%, 4Q +4.3% YoY
- Revenue decreased by the impact of the certain large clients' migration to mobile which ended in 3Q19. After overcoming the annual impact, 4Q20 revenue increased YoY
- Revenue gradually increased QoQ due to the demands to include WAN to enterprise NW
- 3Q +¥0.11 billion +1.8% QoQ, 4Q +¥0.17 billion +2.8% QoQ

\* Total contracted bandwidth is calculated by multiplying number of contracts by contracted bandwidths respectively for IP service and broadband services which are both under Internet connectivity services for enterprise

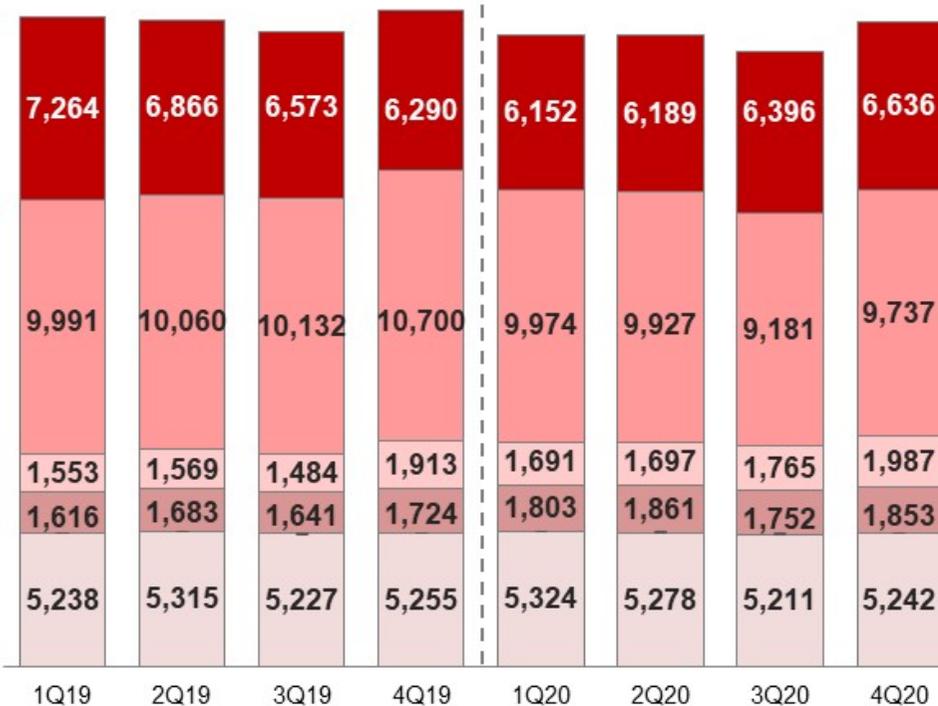
# Network Services (2) Cost of Sales

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

Financials

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

**FY19: 102,092 [+0.8%]**      **FY20: 99,656 [-2.4%]**  
 25,661 25,493 25,057 25,881 24,943 24,953 24,305 25,455



- FY20 circuit-related costs decreased by 6.0% YoY, along with WAN revenue decrease
  - Internet backbone purchasing cost remains stable as we can leverage scale merit by having one of the largest Internet backbone networks
- FY20 outsourcing-related costs decreased by 5.0%, ¥2.06 billion YoY along with mobile data interconnectivity YoY decrease (for details, please refer below)
- Others: Quarterly fluctuate along with the scale of supplies costs

### Regarding mobile data interconnectivity cost recognition:

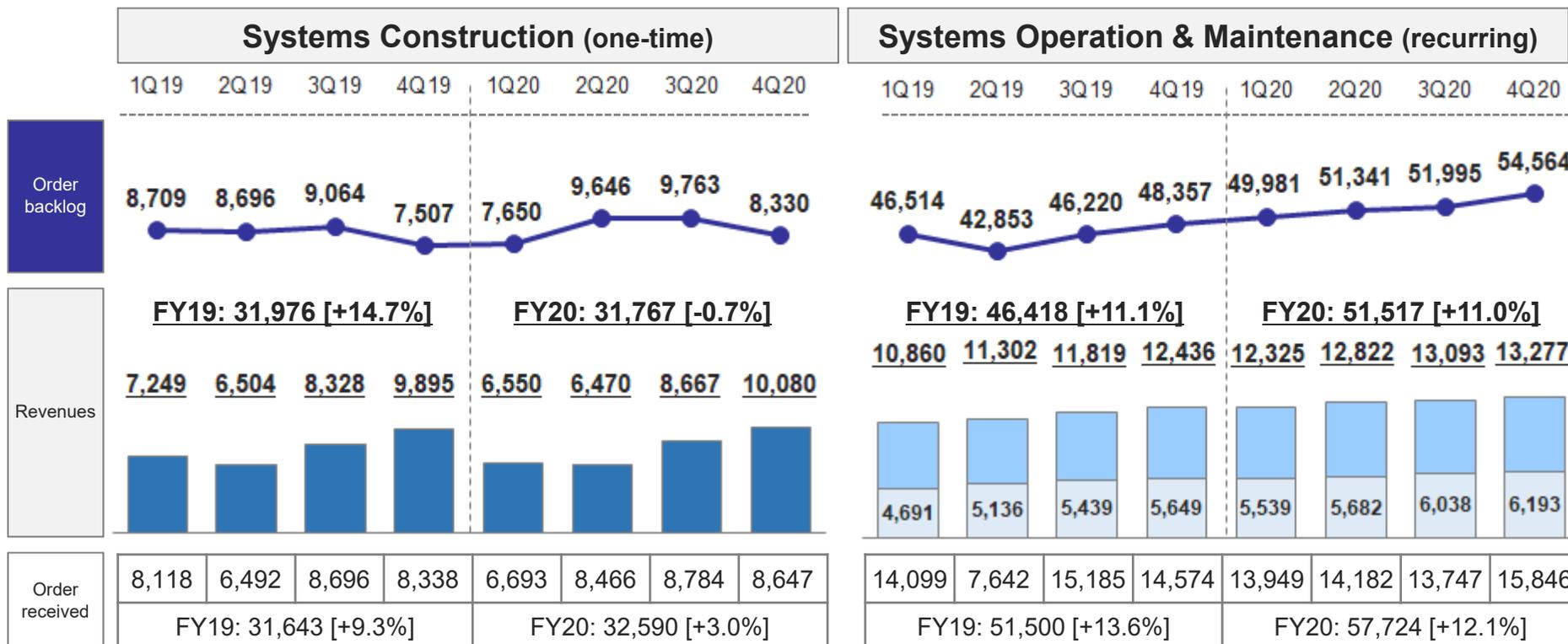
(MNO's mobile infrastructure cost. Please refer P.18 of this presentation material)

- Future cost method adopted from FY20(\*). In this method, mobile interconnectivity telecommunications charge is calculated by MNOs' prediction for their future costs and etc.(\*). The difference between prediction and result is adjusted to the next fiscal year (FY20 usage charge is expected to be fixed around Jan. 2022)
- Regarding our FY20 usage charge, from 1Q20, we use the unit charge disclosed by Docomo based on the future cost method, which was a decrease of 16.0% from their FY18 unit charge
- FY19 usage charge, an internal number of FY20 usage charge described above, which is based on Docomo's FY19 results, decreased by 13.4% YoY (fixed in Jan. 2021). The difference between the result and our estimate were recorded as onetime cost reduction: 3Q20 (¥0.70 bn) & 4Q20 (¥0.39 bn). Remainingly, FY20 mobile data interconnectivity cost YoY decrease rate is 3.0% YoY based on future cost method. we expect to have cost reduction impact when FY20 usage charge is fixed (around Jan. 2022)
- Regarding our FY19 & FY18 usage charge, Docomo's mobile interconnectivity charge based on FY18 results was fixed in Mar. 2020 and it decreased by 6.0% YoY. We recorded ¥0.35 bn (\*) of additional cost in 4Q19 as a difference between our estimate (8% decrease) and actual (6.0% decrease) (\*) Includes difference between our estimate and actual mobile interconnectivity and other charge of Docomo and KDDI

# Systems Integration (SI) (1) Revenues

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

Financials



- Systems construction's order backlog, revenue and order received include that of equipment sales.
- Systems construction's order received: Weak 1Q20 order received due to slowdown in business activity made 2Q20 order received stronger  
1Q19 order received: A certain large scale project amounted to ¥2 billion

- Revenue written within systems operation and maintenance revenue is cloud revenue that is recognized in systems operation and maintenance revenue.

➤ Accumulating SI order received from all around industries, under the COVID-19 pandemic.

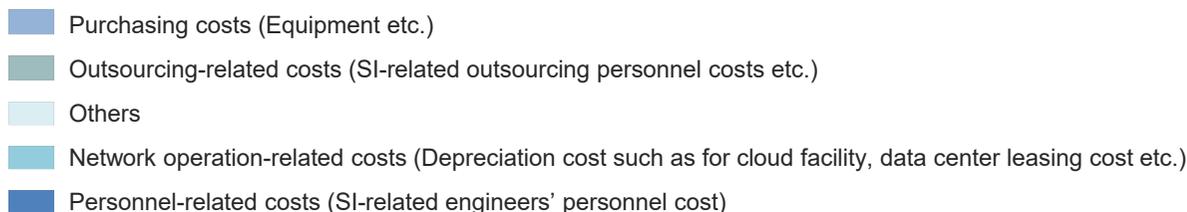
Large-scale construction orders received in 4Q20 are as follows.

- Branch offices' WAN & Internet gateway for a certain financial institution
- Security enforcement of Internet gateway for a financial institution
- 5G infrastructure for Japanese Cable TV service providers
- LAN (Local Area Network) for a central ministry
- EC site migration to Cloud
- Many campus network for universities
- Many Office IT projects such as installment of Microsoft 365 etc.

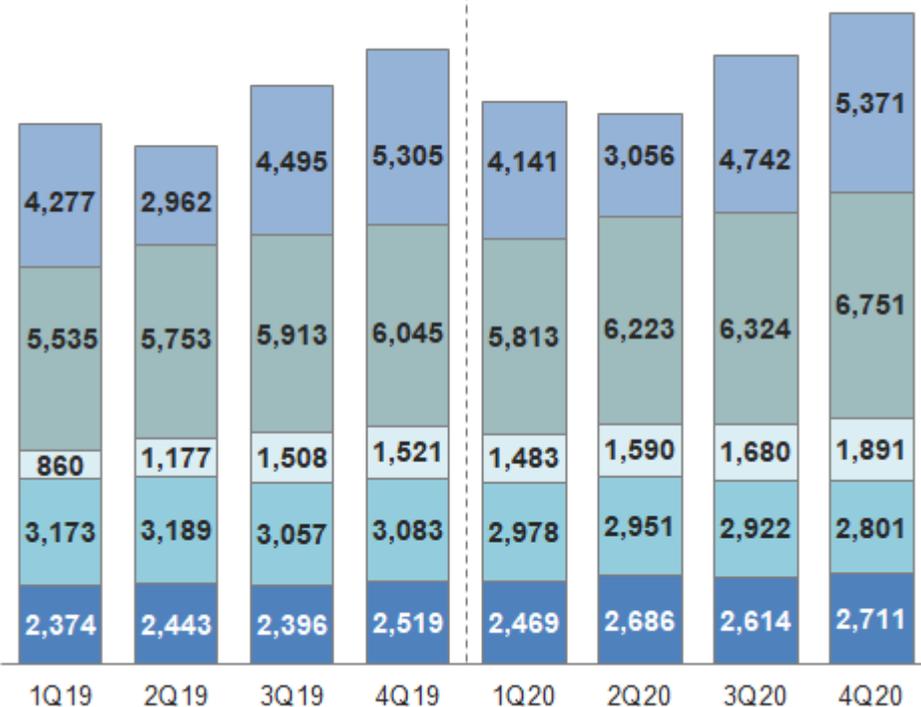
# Systems Integration (SI) (2) Cost of Sales

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

Financials



**FY19: 67,584 [+12.9%]**      **FY20: 71,197 [+5.3%]**  
16,219 15,523 17,370 18,473    16,884 16,506 18,282 19,525



Number of SI-related outsourcing personnel at the end of each quarter

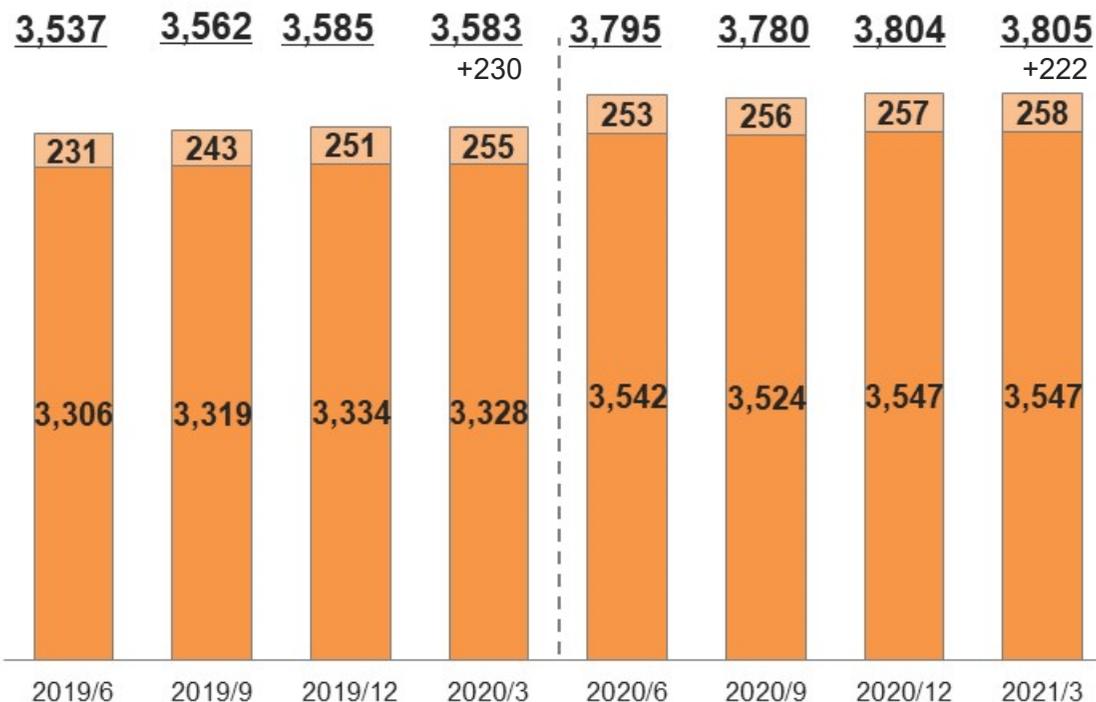
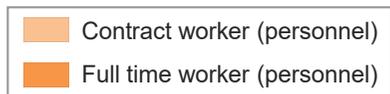
1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
1,075	1,104	1,065	1,123	1,094	1,181	1,236	1,270

(Unit: personnel)

- By keeping high SE utilization rate, gross profit ratio has been improving quarter by quarter
  - In 4Q20, recognized allowance for prospected personnel-related costs of ¥0.31 billion
- Others increased mainly due to an increase in license costs along with expansion of multi-cloud demands

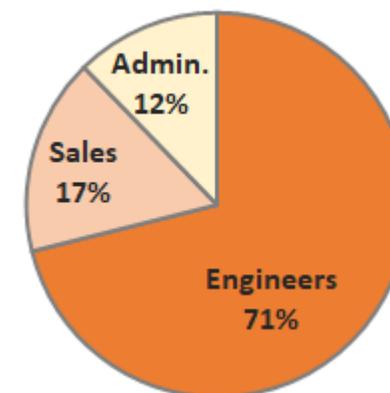
# Number of Employees

YoY = Year over year comparison



- Hired 190 new graduates in Apr. 2021
  - 210 in Apr. 2020, 171 in Apr. 2019
- FY21 net addition of employees is planned to be approx. 290

## Employee Distribution



- 4Q20 & 2Q20 personnel-related costs and expenses increased from previous quarter, respectively, mainly due to additional provision for employee bonus (based on financial results)

## Personnel-related costs & expenses

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

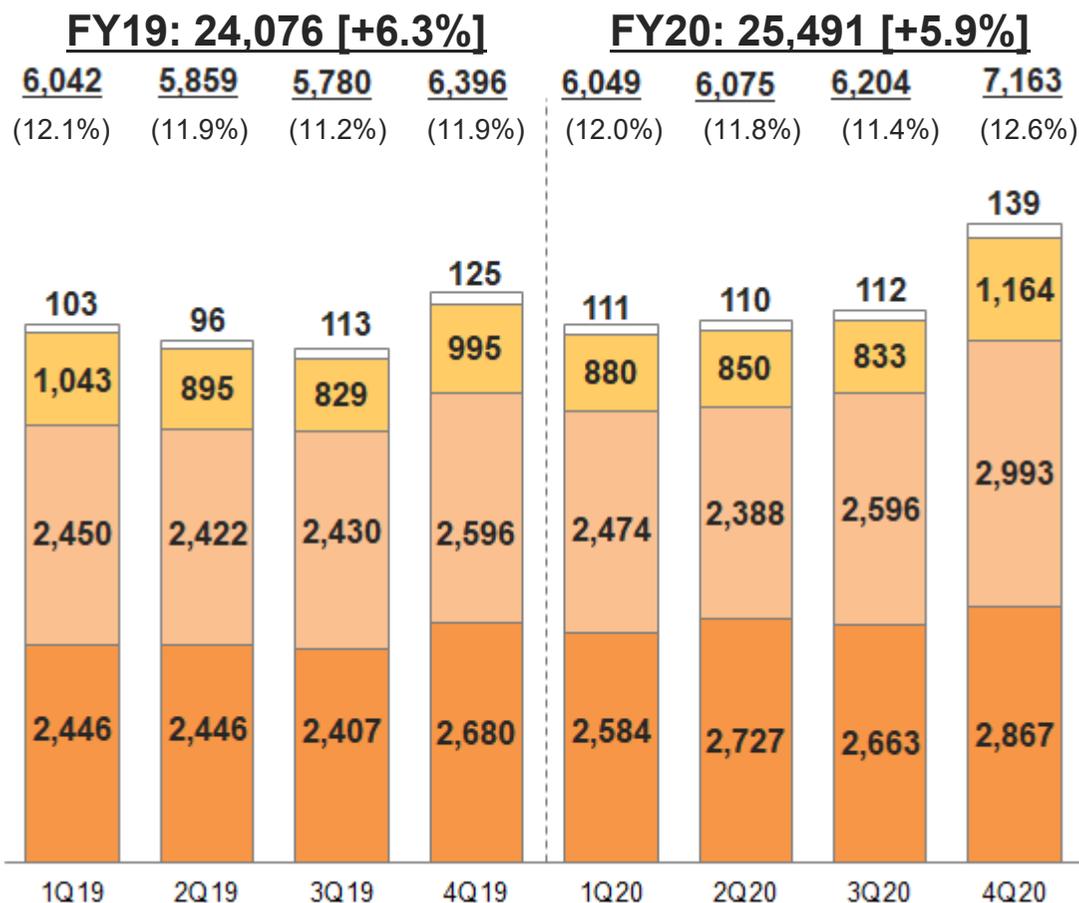
1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
6,402 (12.8%)	6,573 (13.3%)	6,443 (12.5%)	6,911 (12.8%)	6,835 (13.6%)	7,281 (14.2%)	7,032 (12.9%)	7,405 (13.0%)
FY19: 26,329 (12.9%) +10.0%YoY				FY20: 28,553 (13.4%) +8.4%YoY			

- FY19 personnel-related costs and expenses increased relatively strong due to the revision of personnel remuneration structure
- FY20 personnel-related costs and expenses increased slightly stronger compared with the ordinary YoY increase rate due to the additional bonus along with profit results etc.

# SG&A etc.

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

## Financials



Other than the left, we had ¥0.54 billion of expenses, as other income/expenses (net) in FY20

- FY20 other expenses include ¥0.64 billion due to disposal (FY19: ¥0.47 billion)

- Research & development expenses only include the operational personnel cost of IJ Innovation Institute Inc., consolidated subsidiary
- Commission expenses are mainly consumer sales commissions and recruitment expenses. No significant YoY increase under the consumer mobile situation
- Others decreased as traveling expenses (domestic and abroad), advertising expenses and others were small due to work style reform and expense control. As for 4Q20, advertising expenses for consumers increased
- 4Q20 SG&A etc. increased from 3Q20 as we had additional provision for bonus, sales promotion fees, M&A advisory fees, advertisement expenses and taxes and dues

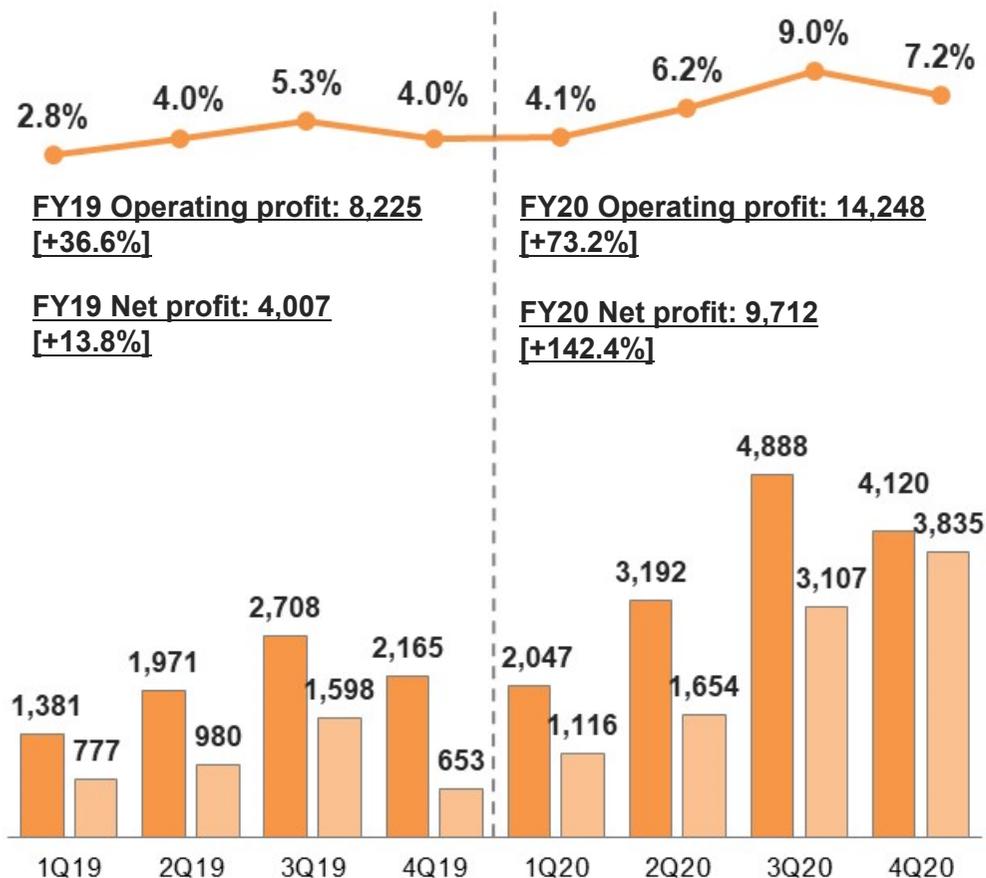
• SG&A etc. in this slide shows the sum of SG&A which includes R&D expenses (not including other income/expenses)

# Profit

Unit: ¥ (JPY) million  
bn = billion

## Financials

[ ], YoY =Year over year comparison



**FY19 Operating profit: 8,225**  
[+36.6%]

**FY19 Net profit: 4,007**  
[+13.8%]

**FY20 Operating profit: 14,248**  
[+73.2%]

**FY20 Net profit: 9,712**  
[+142.4%]

1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	
(124)	(51)	92	(177)	(74)	(286)	186	368	Finance income (expense), net
112	(245)	(234)	(439)	(279)	(135)	(313)	319	Share of profit (loss) of investments accounted for using equity method
(543)	(642)	(922)	(858)	(572)	(1,084)	(1,625)	(952)	Income tax expense
(49)	(53)	(46)	(39)	(6)	(34)	(29)	(21)	Less: Profit for the period attributable to non-controlling interests

### ◆ Operating profit

- FY20: ¥14,248 million, +73.2% YoY
  - 4Q20 operating profit includes onetime factors such as ¥0.39 bn of decreased cost in mobile interconnectivity (3Q20: ¥0.70 bn), ¥0.20 bn of disposal loss (3Q20: ¥0.29 bn), ¥0.31 bn of additional provision for bonus, and approx. ¥0.1 bn of M&A advisory fees
- FY20: ¥14,035 million, +96.0% YoY
  - Interest expense: -¥580 million
  - Gain on funds: +¥479 million
  - Foreign exchange gain: +¥138 million
  - Dividend income: +¥98 million
  - Interest income: +¥45 million
  - Equity method investment loss of DeCurret: ¥629 million
  - ✓ Equity in net loss of DeCurret (Unit: ¥ (JPY) million):
 

4Q19	1Q20	2Q20	3Q20	4Q20
403	306	273	207	193

    - IJJ ownership: 4Q19 30.0%, from 1Q20 41.6%, from 1Q21 38.2% is planned to be used to recognize gain and loss
    - Other than above, in 4Q20, gain on changes in equity of ¥349 million arisen from the issuance of common stock is recognized
  - Equity in net profit of JOCDN: Turned to positive in 2Q20, ¥28 million in FY20 (IJJ ownership: 16.8%)

### ◆ Net profit

- FY20: ¥9,712 million, +142.4%YoY
  - Income tax expense: -¥4,234 million (FY19: -¥2,965 million)
    - ✓ Of which, tax reduction due to employment promotion taxation: +¥306 million (FY19: +¥237 million)
    - ✓ Of which, deferred tax benefit : +¥384 million (FY19: + ¥70 million)

# Consolidated Statements of Financial Position (Summary)

Financials

Unit: ¥ (JPY) million

	Mar. 31, 2020	Mar. 31, 2021	Changes
Cash and cash equivalents	38,672	42,467	+3,795
Trade receivables	32,585	34,799	+2,214
Inventories	2,476	2,171	(305)
Prepaid expenses (current and non-current)	17,475	20,136	+2,661
Tangible assets	17,400	17,084	(315)
Right-of-use assets	50,560	50,708	+147
Goodwill and intangible assets	24,363	23,037	(1,326)
Investments accounted for using the equity method	4,827	9,027	+4,200
Other investments	9,187	12,912	+3,726
Others	8,979	8,436	(543)
<b>Total assets:</b>	<b><u>206,524</u></b>	<b><u>220,777</u></b>	<b><u>+14,253</u></b>
Trade and other payables	18,288	19,244	+956
Borrowings (current and non-current)	27,750	25,560	(2,190)
Contract liabilities and Deferred income (current and non-current)	12,457	14,832	+2,374
Income taxes payable	2,284	3,012	+729
Retirement benefit liabilities	3,985	4,169	+184
Other financial liabilities (current and non-current)	54,151	53,527	(624)
Others	7,553	9,462	+1,909
<b>Total liabilities:</b>	<b><u>126,467</u></b>	<b><u>129,806</u></b>	<b><u>+3,338</u></b>
Share capital	25,531	25,531	-
Share premium	36,271	36,389	+117
Retained earnings	16,501	25,047	+8,546
Other components of equity	2,670	4,865	+2,196
Treasury shares	(1,897)	(1,875)	+22
<b>Total equity attributable to owners of the parent:</b>	<b><u>79,076</u></b>	<b><u>89,956</u></b>	<b><u>+10,881</u></b>

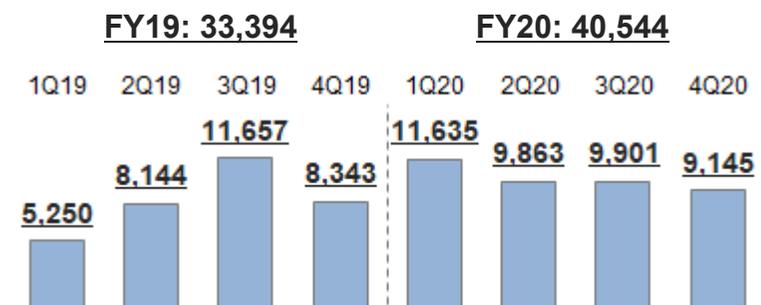
- Ratio of total equity attributable to owners of the parent: 38.3% as of March 31, 2020, 40.7% as of March 31, 2021

# Consolidated Cash Flows

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

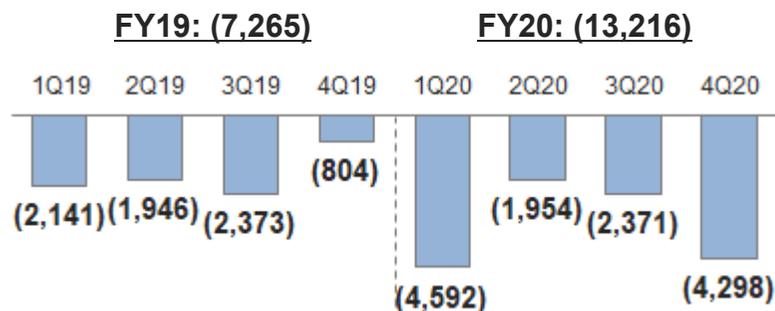
Financials

## Operating Activities



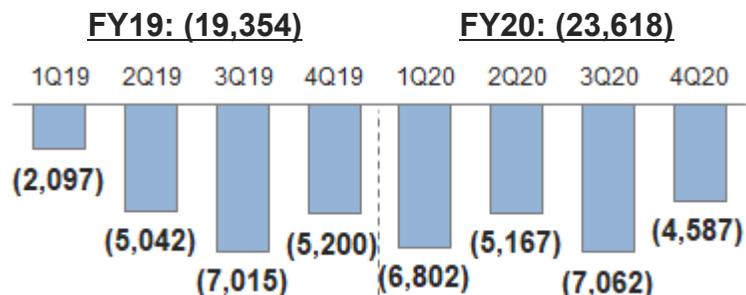
	Major Breakdown	YoY Change
Profit before tax	14,035	+6,876
Depreciation and amortization	27,974	-546
Equity method loss (gain)	408	-398
Changes in operating assets and liabilities	1,513	+2,422
Income taxes paid	(3,912)	-1,301

## Investing Activities



	Major Breakdown	YoY Change
Purchase of tangible assets	(6,391)	+806
Purchase of investments accounted for using equity method	(4,754)	-3,886
Purchase of intangible assets such as software	(4,617)	+25
Proceeds from sales of tangible assets	2,499	-272

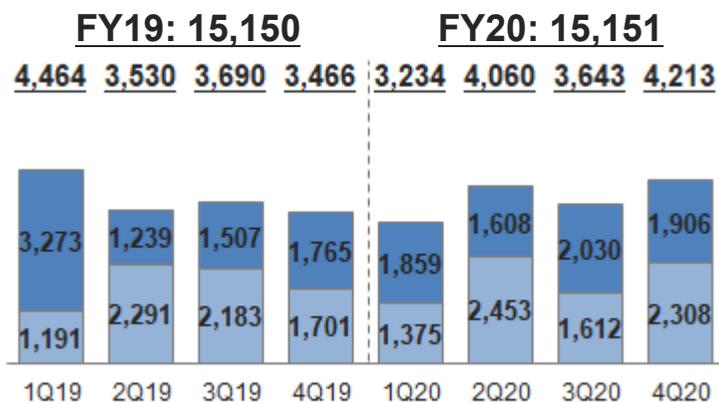
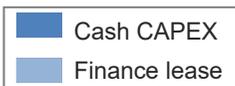
## Financing Activities



	Major Breakdown	YoY Change
Payment of operating/finance leases and other financial liabilities	(20,168)	+388
Repayment of borrowings	(2,190)	-3,190
Dividends paid	(1,533)	-316

# Other Financial Data

## CAPEX

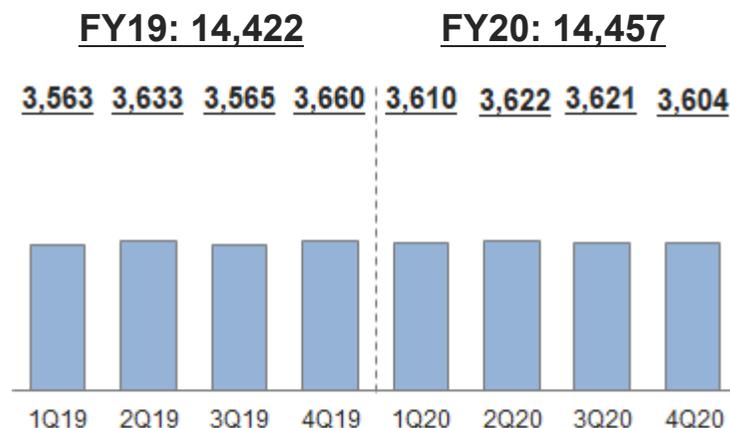


- While FY20 CAPEX was initially planned to be around ¥16 billion including ¥3 billion of additional placement of modules for Shiroi data center, it landed in ¥15.2 billion
- FY21 CAPEX plan: approx. ¥17.5 bn, Expect to increase YoY as some FY20 investments such as ¥1.2 bn of Shiroi DC and NW are slid over

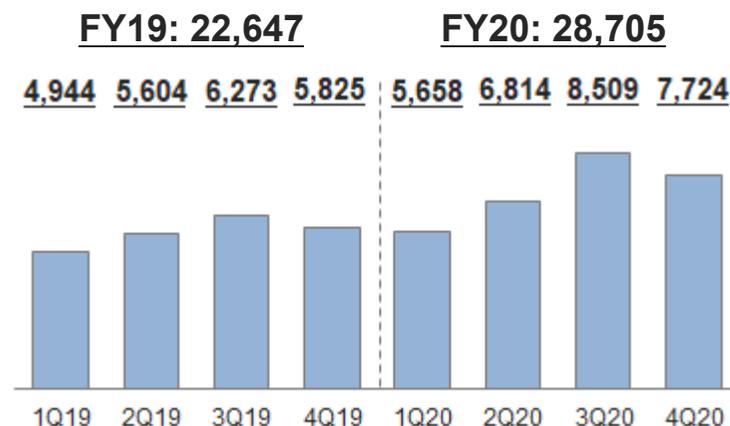
(Unit: JPY billion)	FY19	FY20
NW Usual Capex	9.6	8.8
Cloud-related	2.6	2.8
Shiroi DC-related	2.0	1.5
SI customer-related	0.7	1.7
ATM-related	0.3	0.3

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

## CAPEX-related depreciation and amortization



## Adjusted EBITDA



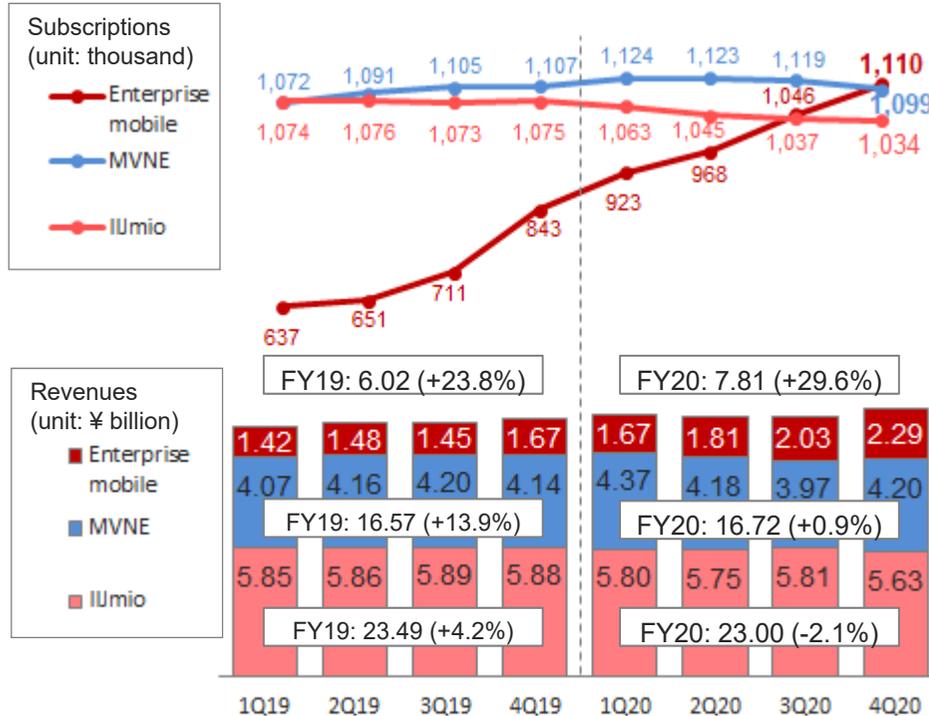
# Service & Business Developments: Mobile & Security

% = Year over year comparison  
bn = billion

Financials

## Taking advantage of full-MVNO, enterprise mobile revenues continued to increase Strengthening customer appeal with new consumer mobile plans

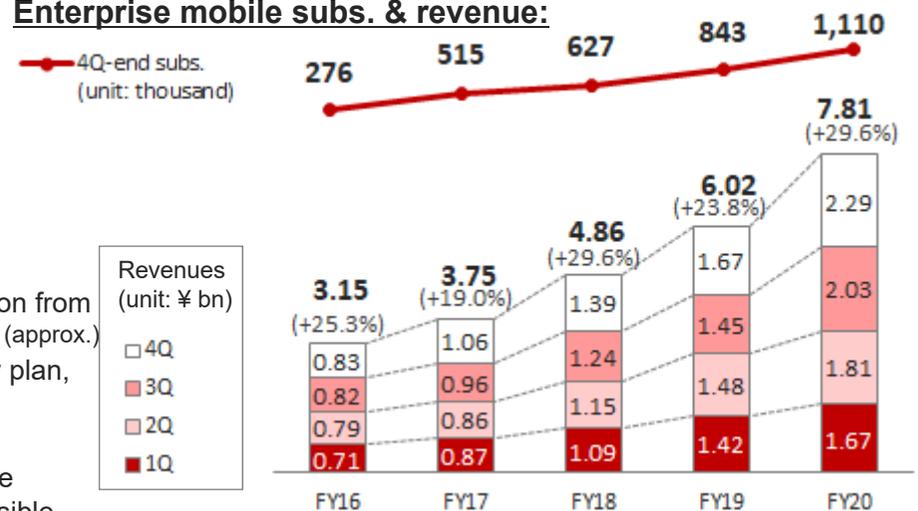
- Total mobile subs. on March 31, 2021: 3,251 thousand (+7.3%)
- FY2020 total revenue: ¥47.52 billion (+3.1%), of which full-MVNO revenue: ¥2.17 billion (+54.3%)



### ◆ Enterprise mobile (included in the left graph)

- High revenue growth rate continued by leveraging full-MVNO functions
  - Continuously accumulating Soft/Chip SIM projects
  - Strong demands for remote monitoring using NW camera continuing, Also seeing demands for remote management demand to realize automation and man power reduction
  - Expanding IoT service solution
    - ✓ HACCP solution, automatically collecting temperature data, detect and report abnormal situation, for food industry (Jul. 2020)
    - ✓ Solution to reduce factory facility maintenance cost and improve productivity “IIJ Industrial IoT Secure Remote Management” (Aug. 2020)
  - Demands to fully implement remote-work continuing
- Launched enterprise eSIM services (Apr. 2021)

### Enterprise mobile subs. & revenue:



- MVNE: IIJ Mobile MVNO Platform Services (providing mobile services to other MVNOs)
- Enterprise mobile: Deducting MVNE from IIJ Mobile
- FY2020 Full-MVNO revenue recognition: 96% enterprise mobile, 4% IJmio

### ◆ Consumer mobile plans (IJmio)

- New mobile plans “GigaPlans” from Apr. 1, 2021 (Old plan’s user migration from May 1), As of May 6: 350 thousand subs., of which. 15% are new users (approx.)
- FY21 expectation: more than half of old plan users to migrate to the new plan, IJmio monthly net addition to be a few ten thousands

### ◆ MVNE

- Smaller than initially expected negative impact (-¥1.4 billion YoY) of large MVNE client switching to another operator due to M&A, Expect to see visible impact in FY21

# Service & Business Developments: Mobile data interconnectivity charge

## ◆ Mobile data interconnectivity cost (Mbps unit charge・monthly) YoY change

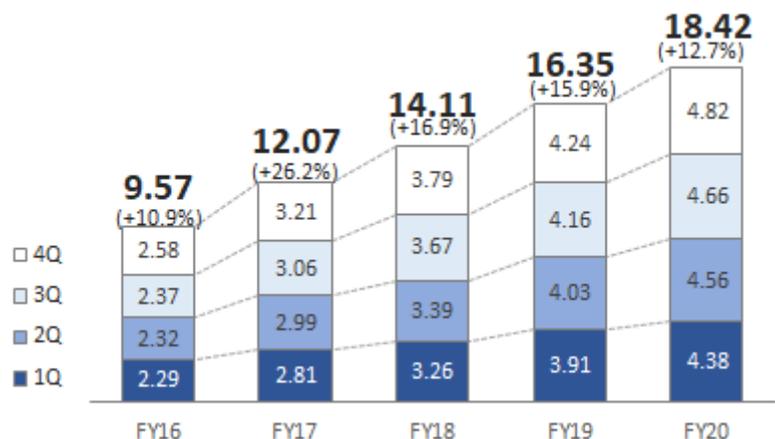
Fiscal Year		FY18	FY19	FY20	FY21	FY22	FY23
Method		Actual cost method			Future cost method		
Docomo	New	<u>¥49,311</u> - 6.0%	<u>¥42,702</u> <sup>(*1)</sup> - 13.4%	<u>¥41,436</u> <sup>(*2)</sup> - 3.0%	<u>¥28,385</u> - 31.5%	<u>¥22,190</u> - 21.8%	<u>¥18,014</u> - 18.8%
	Old	<u>¥49,311</u> - 6.0%	<u>¥42,702</u> <sup>(*1)</sup> - 13.4%	<u>¥41,436</u> <sup>(*2)</sup> - 3.0%	<u>¥33,211</u> - 19.8%	<u>¥27,924</u> - 15.9%	
		Decrease by 16.0%			Expected to be fixed in Jan. 2022		
KDDI	New	<u>¥52,949</u> - 13.3%	<u>¥42,154</u> <sup>(*1)</sup> - 20.4%	<u>¥32,842</u> <sup>(*2)</sup> - 22.1%	<u>¥26,827</u> - 18.3%	<u>¥21,983</u> - 18.1%	<u>¥18,419</u> - 16.2%
	Old	<u>¥52,949</u> - 13.3%	<u>¥42,154</u> <sup>(*1)</sup> - 20.4%	<u>¥32,842</u> <sup>(*2)</sup> - 22.1%	<u>¥27,790</u> - 15.4%	<u>¥25,394</u> - 8.6%	
		Decrease by 38.0%					

- The same calculation method is applied to actual cost method & future cost method: (Data communication cost + profit) /demand
- About actual cost method: Calculated based on MNOs' actual cost etc. and applied retrospectively. FY19 usage charge (\*1), which is based on MNOs' FY19 results, was fixed in January 2021 and recognized in our FY20 financial results (Recognized as a difference between our estimate and result).
- About future cost method: Calculated based on MNOs' mobile unit charge prediction for next three years, which is based on MNO's future cost etc. It is applied from FY20. Mobile unit charge is fixed based on MNO's actual cost etc. and the difference between prediction and result is revised. For FY20, FY21, and FY22, mobile unit charge prospects by future cost method (described as "Old" above) were announced March 2020. For FY21, FY22, and FY23, mobile unit charge prospects by future cost method (described as "New" above) were announced April 2021.
- FY20 usage charge (\*2), which is based on MNO's FY20 results, will be fixed in around January 2022 and recognized in our FY21 financial results (correctly recorded as a difference between our estimate and result).
- Mobile interconnectivity charge, which is underlined above, is fixed based on the result
- The decrease percentage in mobile interconnectivity charge described above is compared with the previous year

# Service & Business Developments: Security & Cloud

## Security service (recurring) revenue continued to increase

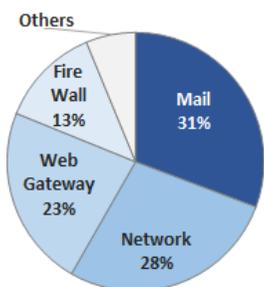
- ◆ Triggered by expansion of IT usages, demand for security services increasing



Total scale of security revenue (NW services + SI)	FY16	FY17	FY18	FY19	FY20
	14.62	16.77	19.18	21.47	

- Strong growth in FY17 was mainly due to “Information Security Cloud” projects. As for FY20, demands to expand NW seemed more urgent than security implementation
- Security service revenue is 100% recognized in Outsourcing services

## ◆ Breakdown of FY20 Security service revenues

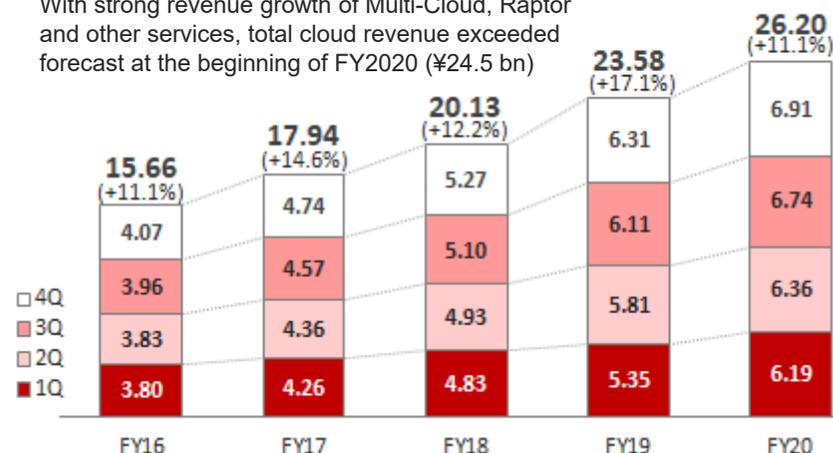


Mail	Full-outsourcing of mail systems, protected delivery/anti-threat email, sandboxing, etc.
Network	DDoS protection, IPS/IDS, WAF etc.
Web GW	Full-outsourcing of web security, URL filtering, anti-virus protection etc
FW	Managed firewall services, Anomaly detection etc

## Cloud service (recurring) revenue steadily increased

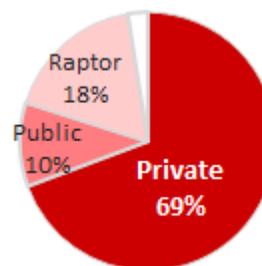
- ◆ Continued revenue growth as enterprises migrate to and adopt cloud services

With strong revenue growth of Multi-Cloud, Raptor and other services, total cloud revenue exceeded forecast at the beginning of FY20 (¥24.5 bn)



- FY20 & FY21 Cloud revenue include slight revenue decrease factor in relation to Cloud service facility migration from old to new
- 4Q20 Cloud revenue recognition: 89.6% SI systems operation & maintenance, 10.4% Outsourcing services

## ◆ Breakdown of FY20 Cloud service revenues



Private	Multi-cloud, GIO P2, VMware virtualization platform, high value-added services such as integrated operation and monitoring, etc.
Public	Low cost, volume billing server, etc.
Raptor	SaaS type FX trading platform. Providing to 22 online brokers such as Hirose Tusyo, LINE Securities, au Kabucom Securities, Nomura Securities, Sony Bank, SMBC Nikko Securities, Matsui Securities

# Services and Business Developments

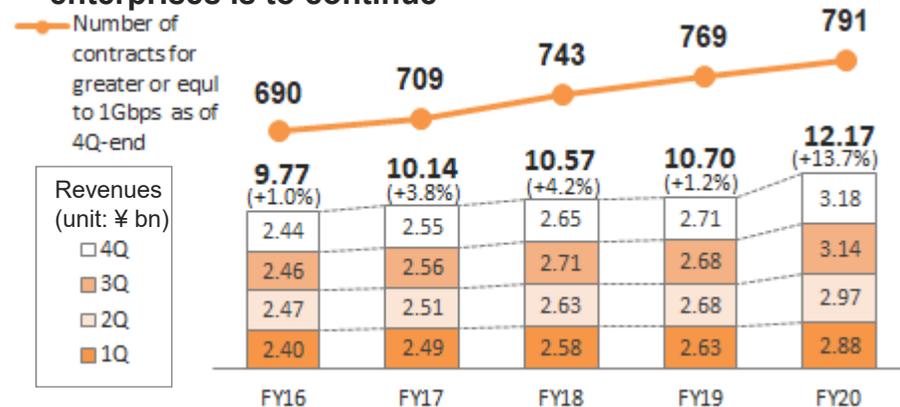
bn = billion

Financials

(\*) Based on IFRS except for FY16 (U.S.GAAP)

## IP service revenue growth rate accelerating

- ◆ Triggered by expansion of IT usages, in/out enterprises' Internet traffic is increasing. Higher bandwidth by enterprises is to continue



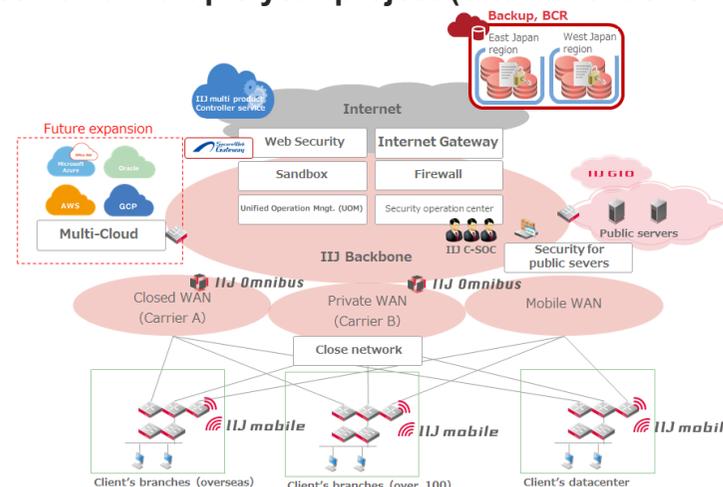
- IP service is bandwidth guaranteed dedicated Internet connectivity services for enterprises. Contracts are based on bandwidth and enterprises use the service for their core and main Internet connectivity
- IP service revenue is 100% recognized in Internet connectivity services (Enterprise)

## Overseas business

- ◆ **FY20: Revenue ¥8.32 bn, Operating Profit ¥0.38 bn**
  - Due to the COVID-19 pandemic, weak SI revenue, accumulate recurring revenues such as NW services
  - Along with service accumulation and cost control, profit grew
- ◆ **Plan to enhance ASEAN business with M&A of prominent Singaporean Sler**
  - PTC SYSTEM (S) a new consolidated subsidiary (Apr. 2021)
  - Acquisition price: SGD44 million
  - Most recent earnings (preliminary) Revenues: SGD100.4 million, Profit before tax: SGD5.1 million
- ◆ **FY21 Target: Revenue ¥18 bn, Operating Profit ¥0.9 bn (approx.)**
  - Amid the ongoing uncertainty under the COVID-19 pandemic, expect to have group synergy with PTC and accumulation of recurring revenue such as global SASE services

## Accumulating large scale projects by cross-selling NW&SI

- ◆ Meeting enterprise NW systems that are becoming more complex and diversified with in-house developed NW services and SI
- ◆ Received a multiple year project (total revenue ¥5.4 bn)



## DeCurret

- ◆ **Raised funds (Mar. 2021) by ¥6.7 bn to set up digital currency business and enhance partnership (IIJ invested ¥2 bn)**
  - New shareholders: NTT, SBI HD, Japan Post Bank, Mitsubishi Corp. SECOM
  - Former head of FSA, Mr. Endo, became DeCurret's special advisor
- ◆ **Equity in net loss of DeCurret (unit: ¥ million)**

4Q19	1Q20	2Q20	3Q20	4Q20
403	306	273	207	193

- Along with transaction increase, loss is gradually diminishing, Started offering order book trading services which show competitive pricing – expect to start up cryptocurrency trading business
- ◆ **FY21 Target: turned positive in 4Q**
  - Will use 38.2% to calculate equity in net profit (loss) of DeCurret

• Other than left, in 4Q20, gain on changes in equity of ¥349 million arisen from the issuance of common stock is recognized

# The old and new plans for consumer mobile

Comparison table of basic monthly fees of consumer mobile service <small>*Excluding consumption tax</small>					
Old Plans			New Plans		
Minimum Start Plan (3GB)	with Voice	¥1,600	2 GigaPlan	with Voice	¥780
	Data-only	¥900		Data-only	¥680
Light Start Plan (6GB)	with Voice	¥2,220	4 GigaPlan	with Voice	¥980
	Data-only	¥1,520		Data-only	¥880
Family Shere Plan (12GB)	with Voice	¥3,260	8 GigaPlan	with Voice	¥1,380
	Data-only	¥2,560		Data-only	¥1,280
	with Voice		15 GigaPlan	with Voice	¥1,680
	Data-only			Data-only	¥1,580
	with Voice		20 GigaPlan	with Voice	¥1,880
	Data-only			Data-only	¥1,780

(Note) The above table briefly indicates service prices for major functions to show the differences between the old and new plans.

# Data Centers (1)

- **IJJ operates data centers in Japan and overseas**
  - Except for Matsue DCP and Shiroy DCC, IJJ lease data center space from data center owners, mainly on floor basis
- **In 2011, IJJ built Japan's first container-based modular data center using an outside air-cooling system, eco-friendly DC**
  - Modular approach allows flexible expansion and short-term construction with low cost
- **IJJ has exported container modular center to overseas including the People's Republic of Laos (2016) to help them set up IT infrastructure**

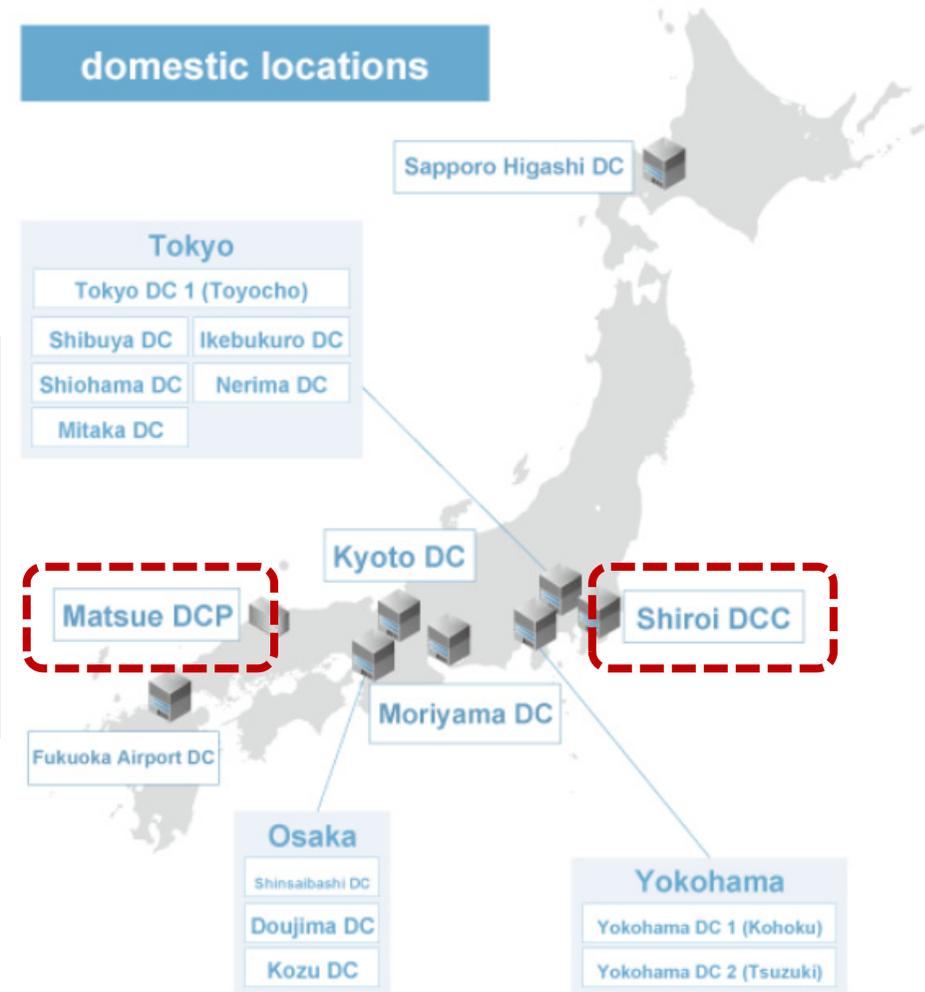


overseas locations



## Data Center Locations

### domestic locations



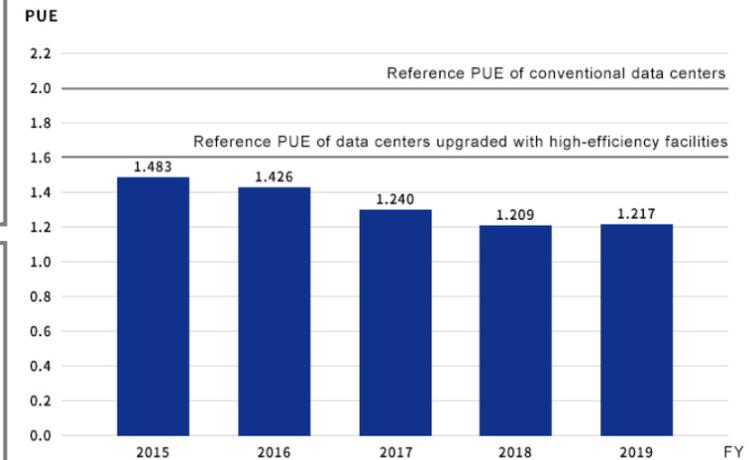
## IIJ's second modular container data center

<b>Name</b>	Shiroi Data Center Campus (In operation since May 2019 ~)
<b>Address</b>	Shiroi city, Chiba prefecture
<b>Land</b>	Approx. 40,000m <sup>2</sup>
<b>Racks</b>	Can accommodate up to 6,000 racks • Phase 1: approx. 1,000 racks with approx. JPY8.0 bn CAPEX
<b>Accommodation</b>	Service facility, data center housing services etc. • Mainly to meet the middle-to-long term eastern Japan data center demand
<b>Investment</b>	FY18 approx. JPY3.0 bn (power receiving facility, common facility racks etc.)
<b>Plan</b>	Gradually place system module-based* <sub>1</sub> facility accordingly with demand
<b>Schedule</b>	Completed in April 2019, opened in May 2019
<b>Estimated PUE*<sub>2</sub></b>	Less than Matsue DCP's 1.2
<b>Purposes</b>	<p><b>Integrate racks, currently spread out in the eastern Japan area's data centers</b></p> <ul style="list-style-type: none"> <li>• Future cost should be approx. 20% lower than continuously expanding leasing space and with improved operation productivity</li> </ul> <p><b>Absorb increasing rack demand along with further penetration of cloud &amp; IoT</b></p> <p><b>Competitive advantages with latest technologies</b></p> <ul style="list-style-type: none"> <li>• Improved facility with outside-air cooling technology &amp; AI for cooling &amp; energy control, and automated operations with robotics technology etc.</li> </ul>

### Impact on IIJ's consolidated financial results

- While CAPEX and cash flow will be impacted, this is without new investment return risk because it's an integration of our current service facilities
- Suppress incremental cost and ensure business expansion scalability for the future

### Matsue DCP's annual average PUE



\*1 Construction method systematizing the overall building production by standardizing the components used in the buildings' construction. This allows shorter construction times, cost saving, and flexible scalability while maintaining quality

\*2 PUE (Power Usage Effectiveness) is a metric, calculated by dividing overall data center power consumption by IT equipment power consumption, indicates the efficiency of power use at data centers. The smaller the figure, the lower the percentage of power consumed by equipment other than IT devices.

# Systems Integration (SI)

- **Offer SI as a cross selling element to fully meet Japanese enterprise' IT needs**
- **SI clients are companies already using our network services**
  - Do not depend on particular industry to generate revenue, just like the overall customer portfolio, because IIJ offers systems needed by any industry like Office IT.
- **Most of SI projects are Internet related such as Office IT, online service platforms, large-scale website, etc.**
  - Internal system and/or large-scale application development, main frame related projects are covered by legacy system integrators
  - Sometimes co-work with legacy Sler on large-scale projects in which they cover application development part and IIJ covers Internet related system construction

## Business Model

### ◆ Revenue

- Construction (one-time): recorded upon constructed system is received by a client.
- Operation and Maintenance (recurring): systems constructed by IIJ will be operated and maintained by IIJ as well

### ◆ Cost

- Each SI project's cost differ. Make estimate for each project
  - ✓ Costs are consisted of purchasing, outsourcing personnel, personnel, and depreciation and amortization

### ◆ Profit

- SI profitability to improve as we accumulate the revenue of operation and maintenance, which profitability is higher than construction profitability
- Construction profitability is lower because of bidding process etc.

# Sales Activity for Public Sector

## ◆ Long and enduring relationship

- We have been providing reliable Internet connectivity services to central government agencies and local governments from the early 1990s
- They are also using our security services such as firewall services and DDoS Protection services and other network services such as WAN. We also receive network related integration projects from them as well.

## ◆ Not only private sector, but also public sector is changing their attitude toward IT and network.

## ◆ Growing demands for network related projects

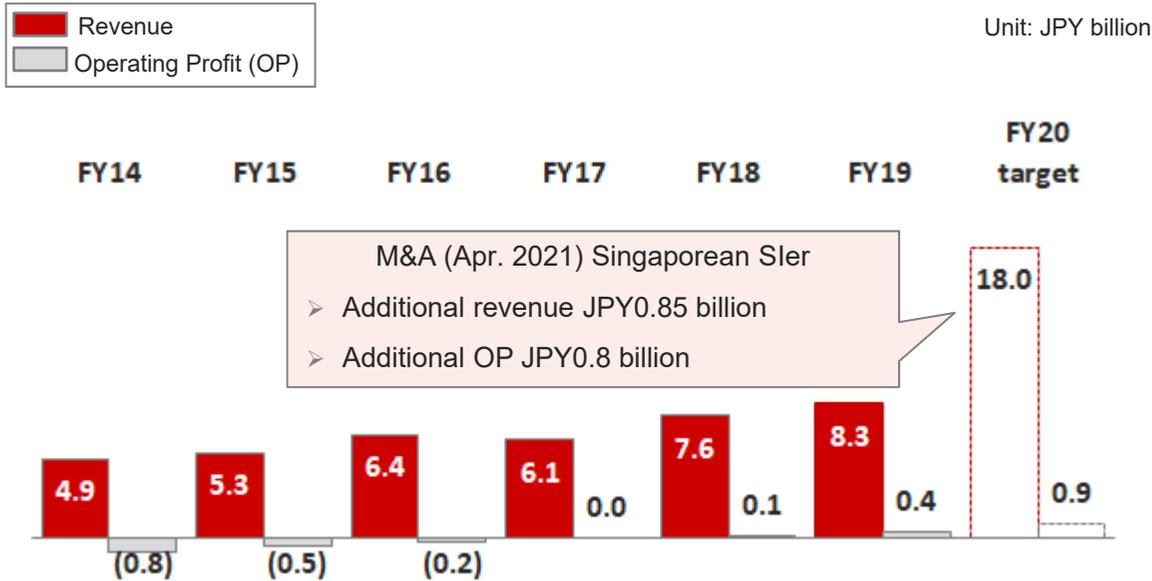
- Enhance remote access for central government agencies
- Promote telework environment for local governments
  - Hyogo Prefecture
  - Kumamoto City and others
- Support educational institution to become online-capable
  - Hybrid of face-to-face & online classes, remote access environment for faculty and staff etc.
- Projects to replace “Security Cloud” for local governments
  - Kanagawa prefecture in the Tokyo Metropolitan area
- Many other various projects
  - Official web page for Shibuya City
  - Reliable Internet connectivity environment for Ota city
  - Campus network for universities/colleges

# Overseas Business

- FY16 and before: US-GAAP, FY17 and after: IFRS
- Revenue mostly recognized in SI

Appendix

## Revenue and operating profit



## Overseas offices



## Business Developments

- **Started focusing on overseas business around FY2011** when Japanese companies who started to expand their business overseas and requested us to provide the same service quality we offer in Japan
- **Business in Asia: gradually growing**
  - Increasing demand for NW, SI and etc. in China and Thailand, related to Japanese customers
  - Indonesia: Large public infrastructure SI project, cloud business gradually growing
  - Vietnam: Cybersecurity Law (Jan. '19), Opened another facility in Hanoi in addition to existing Ho Chi Min
  - In Apr. 2021, bought a Singaporean system integrator, PTC – expect to strengthen ASEAN business
- **Provide cloud services in Indonesia, Thailand and Vietnam. Working with local prominent IT companies**
  - With Biznet Networks in Indonesia (from March 2015)
  - With T.C.C. Technology Co., Ltd, in Thailand (February 2016)
  - With FTP Telecom Partner in Vietnam (November 2016)

# ATM Operation Business

## Business Model

- Similar to “Seven Bank” model
- Placing ATMs in Pachinko parlors in Japan
  - After long discussion, started to place in Kanto, Kansai, Kyushu and Tokai areas
  - 9,630 Pachinko parlors in Japan as of December 31, 2019 (source: National Police Agency)
- Receive commission for each withdrawal transaction

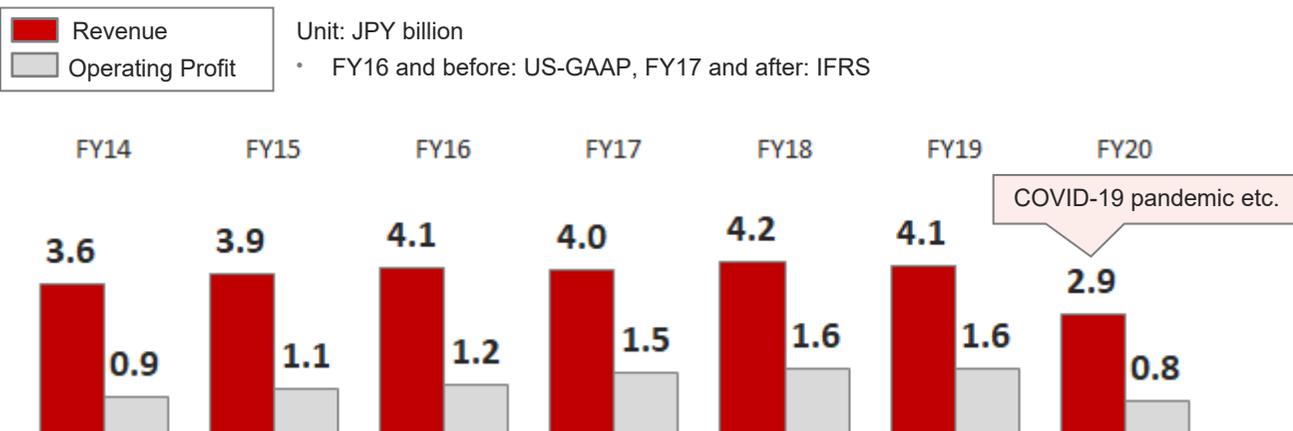
## Trust Networks Inc.

- In charge of ATM operation business
- IIJ’s ownership: 80.6%
- Established in 2007



## Revenue and Operating Income

- FY20: Revenue significantly decreased from FY19 as the stores we had placed ATMs were closed temporarily and fewer customers visited the stores due to the COVID-19 pandemic and stay-at-home-order/request. We also had expected impact from removal of certain number of ATMs which was not triggered by the pandemic. The profit decrease during April and May were severe, as expected. The stores started reopening from June.
- For FY21, we expect same level of revenue and operating profit as FY20





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.

### **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.