

# Internet Initiative Japan Inc.

## Corporate Overview

Internet Initiative Japan Inc.  
TSE1 (3774)  
November 2021

### **Disclaimer**

Statements made in this presentation regarding IIJ's or managements' intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding revenues, operating and net profitability are subject to various risks, uncertainties and other factors that could cause IIJ's actual results to differ materially from those contained in any forward-looking statement.

# Outline

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We changed our accounting principles from the Generally Accepted Accounting Principles in the U.S. (“U.S. GAAP”) to the International Financial Reporting Standards (IFRS) from the filing of FY2018 annual report “Yuka-shoken-houkokusho” which was filed on June 28, 2019. Because reporting period of foreign consolidated subsidiaries under IFRS is different from that of under U.S. GAAP, some figures disclosed in the past are different.

# Key Investment Highlights

About IIJ

**1**

**High technological capabilities through development & operation of Internet infrastructure**

**2**

**Blue-chip customer base with low churn rate  
Very high market share among internet connectivity for large entities**

**3**

**Digitalization in Japan to advance: IoT, Cloud, Security, etc.**

**4**

**Strong track record of monthly recurring revenue accumulation**

**5**

**Profit expansion in connection with CAPEX level & cycle**

**6**

**Sustainable mid-to-long term growth through above mentioned 1 - 5**

# Company Profile: IJ taking initiatives in Internet field

About IJ

<b>Established</b>	December 1992
<b>Number of Employees</b>	4,079 (approx. 70% engineers, 20% sales, 10% back office)
<b>Listed Market</b>	Tokyo Stock Exchange 1 <sup>st</sup> Section (code: 3774)
<b>Large Shareholders</b>	NTT group (26.0%), CEO Suzuki (5.6%), Global Alpha (5.0%)

- ◆ **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
  - ◆ **Well recognized “IJ” brand among Japanese blue-chips’ IT division**
    - ✓ Mainly among large enterprises and governmental organizations
    - ✓ Differentiate by reliability and quality of network and systems operation
    - ✓ Long-term (almost 30 years) client relationship as there was 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 September 30, 2021
- We voluntarily delisted from the U.S. NASDAQ Market in Apr. 2019. Our ticker symbol at OTC is IJIY
- CEO Suzuki’s ownership 5.6% includes his wholly owned private company portion

# Recent Business Trend

## Competitive Business strategy

- Maintaining long-term relationship with blue-chip client base mainly comprised of listed companies and central government agencies in Japan
- Operating one of the largest Internet backbone networks in Japan and developing continuously Internet-related services in-house through which enjoying an economy of scale (monthly recurring revenues generated from common infrastructure of Internet backbone. Revenue and cost are not directly linked)

## Stable CAPEX from FY16

- CAPEX & its related depreciation cost are around the same volume
- Most of our CAPEX is for maintaining our Internet backbone (network equipment etc.)

## Mindset of Japanese companies changed about IT

- The pandemic forced Japan, both private and public sectors, to rely on IT. Generating stronger demands for Internet connectivity services (broader bandwidth etc.), sudden increase in Web meetings and other SaaS. Increase in Internet traffic
- Digitalization in Japan is not a one-time phenomenon but rather a wakeup call: sudden change with no-turning-back (Structural operating profit growth seen in FY20 and 1H21 result)

## IT systems requiring both network and integration

- Emerging usage of IoT and Cloud etc. need both network and integration
- While Slers shifting toward recurring revenue model and carriers partnering with Slers for IoT and other systems solutions, IIJ already has both network services and SI

# Capex and Business Developments

Unit: JPY billion

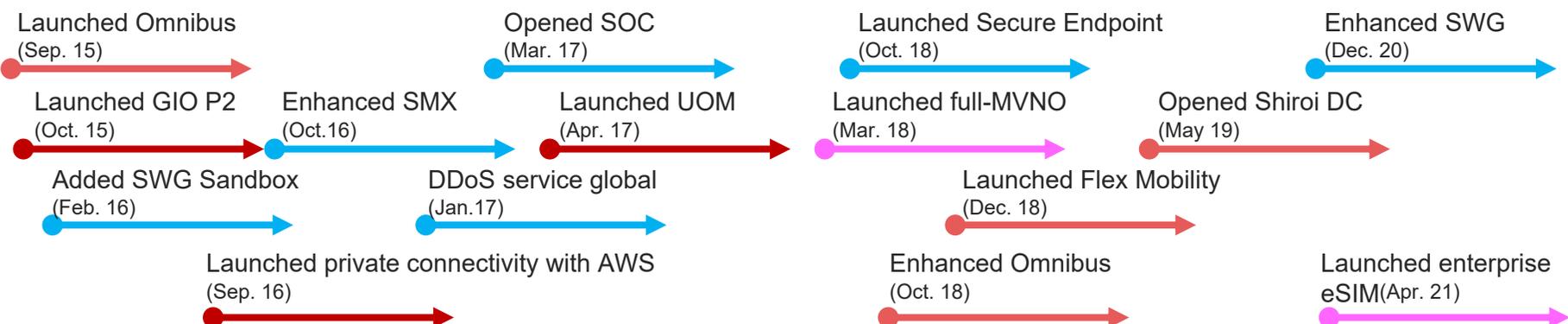
**Growth Strategy**

	FY16	FY17	FY18	FY19	FY20	FY21 outlook
Revenues (¥ bn)	157.8	176.2	192.4	204.5	213.0	228.5
Operating margin (%)	3.3	3.8	3.1	4.0	6.7	9.6
CAPEX (¥ bn)	16.5	20.7	15.1	15.2	15.2	17.5
<i>NW services</i>	12.6	9.4	9.4	9.6	8.8	N/A
<i>Cloud</i>	3.6	7.9	1.9	2.6	2.8	N/A
<i>Shiroi Data Center</i>	-	1.2	2.1	2.0	1.5	N/A
<i>SI, others</i>	0.3	2.3	1.7	1.0	2.0	N/A
CAPEX-related depreciation and amortization (¥ bn)	10.9	12.1	13.9	14.4	14.5	N/A

As we had expected strong market growth, we started to enhance business investment, focus more on developing new services and upgrading service functions. Along with that, cost increased.

As stable CAPEX level continues, cost also stabilizing

Number of employees at FY-end	3,104	3,203	3,353	3,583	3,805	N/A
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- FY16: US-GAAP, from FY17: IFRS
- CAPEX-related depreciation and amortization is calculated by excluding depreciation and amortization of assets that do not have the nature of capital investment, such as right-of-use assets related to operating leases, small-amount equipment and customer relationship.

# FY21 Financial Targets (revised on Nov. 5, 2021)

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

Financials

	% of Revenues			% of Revenues		
	FY21 New Targets (Announced in Nov. 2021)	year over year		FY21 Old Targets (Announced in May 2021)	year over year	
Revenues	<b>228.5</b>	+7.3%	+15.50	<b>226.0</b>	+6.1%	+13.00
Cost of Sales	78.2% <b>178.7</b>	+3.5%	+5.98	80.0% <b>180.7</b>	+4.6%	+7.98
Gross Profit	21.8% <b>49.8</b>	+23.6%	+9.52	20.0% <b>45.3</b>	+12.5%	+5.02
SG&A etc.	12.2% <b>27.8</b>	+6.8%	+1.77	12.3% <b>27.8</b>	+6.8%	+1.77
Operating Profit	9.6% <b>22.0</b>	+54.4%	+7.75	7.7% <b>17.5</b>	+22.8%	+3.25
Profit before tax	9.4% <b>21.5</b>	+53.2%	+7.47	7.7% <b>17.3</b>	+23.3%	+3.27
Net Profit	6.0% <b>13.7</b>	+41.1%	+3.99	5.2% <b>11.7</b>	+20.5%	+1.99

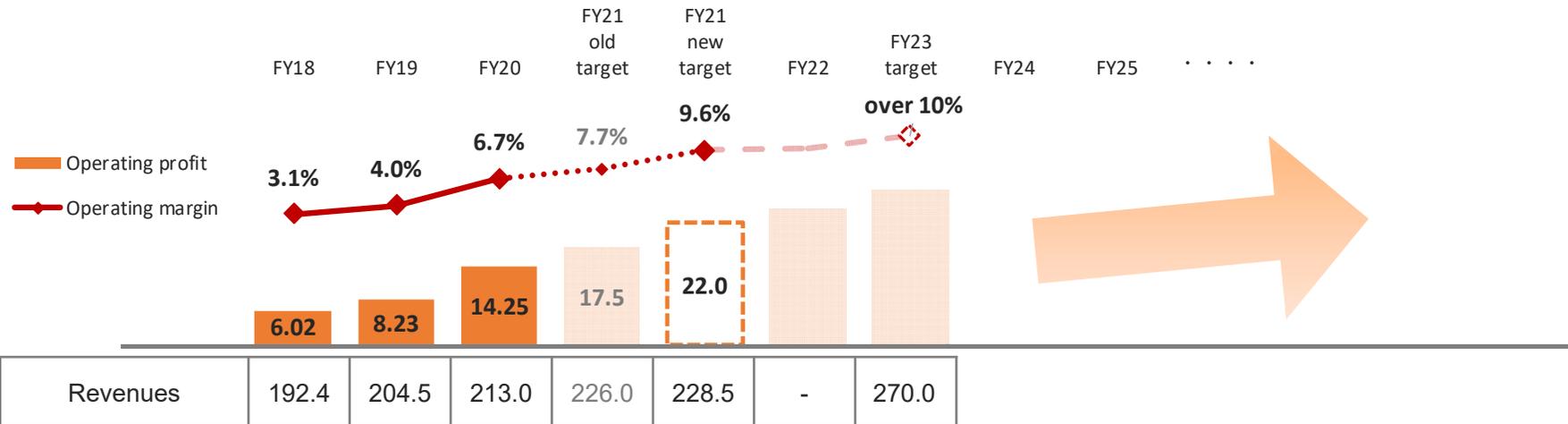
- SG&A etc. shows the sum of SG&A, which includes R&D expenses, and other income/expenses.
- Net profit is "Profit for the year attributable to owners of the parent."

Revenues	<ul style="list-style-type: none"> <li>• IP, Security and WAN services to exceed the initial outlook continuously in the second half</li> <li>• Decrease in mobile service revenue to be smaller than the initial outlook which was made conservatively. We now expect it to decrease by approximately ¥7.0 billion YoY</li> <li>• SI revenues outlook is almost in line with the initial outlook</li> </ul>
Operating Profit	<ul style="list-style-type: none"> <li>• Revision for FY21 target is led by NW service gross profit</li> <li>• SI gross profit outlook is almost in line with the initial outlook</li> <li>• SG&amp;A etc. is almost in line with the initial outlook</li> </ul>
Profit before tax	<ul style="list-style-type: none"> <li>• 1H21 increase was due to temporary gains related to valuation of funds</li> <li>• Expect ordinal volume of non-operating income/loss for full year</li> </ul>

# Mid-term Plan (FY21~FY23)

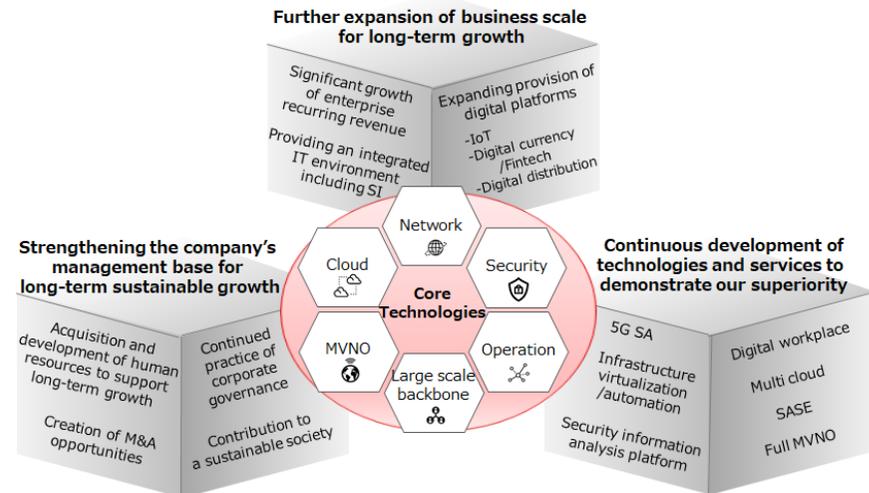
Unit: ¥ (JPY) billion (bn)  
 "times" are written in approx. terms

announced in May 2021, updated operating margin target in Nov. 2021



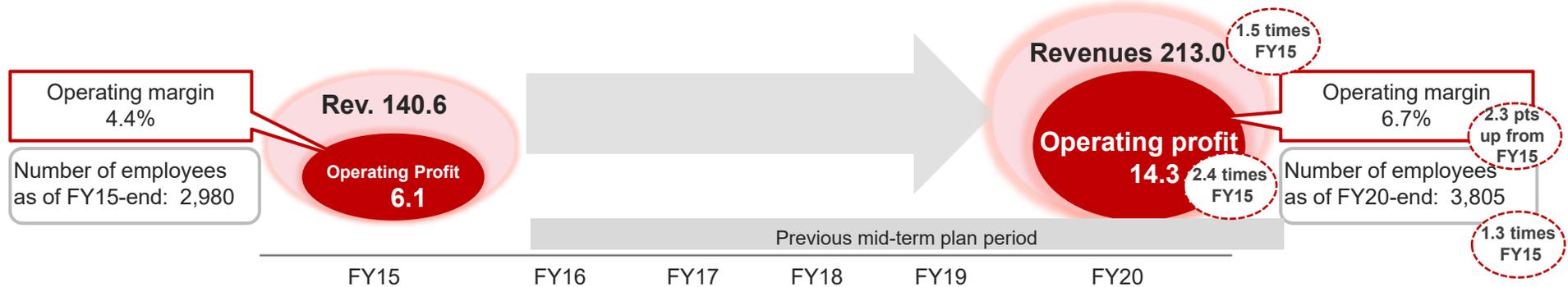
## Mid-term Plan (FY21-FY23)

- ◆ Develop services & solution continuously: enterprise cloud, business cloud, partner, industry specific cloud
- ◆ Execute & strengthen current strategy, target to achieve operating margin over 10%
  - Updated the operating margin target to "over 10%" from "over 9%" on Nov. 5, 2021
- ◆ Market capital 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



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

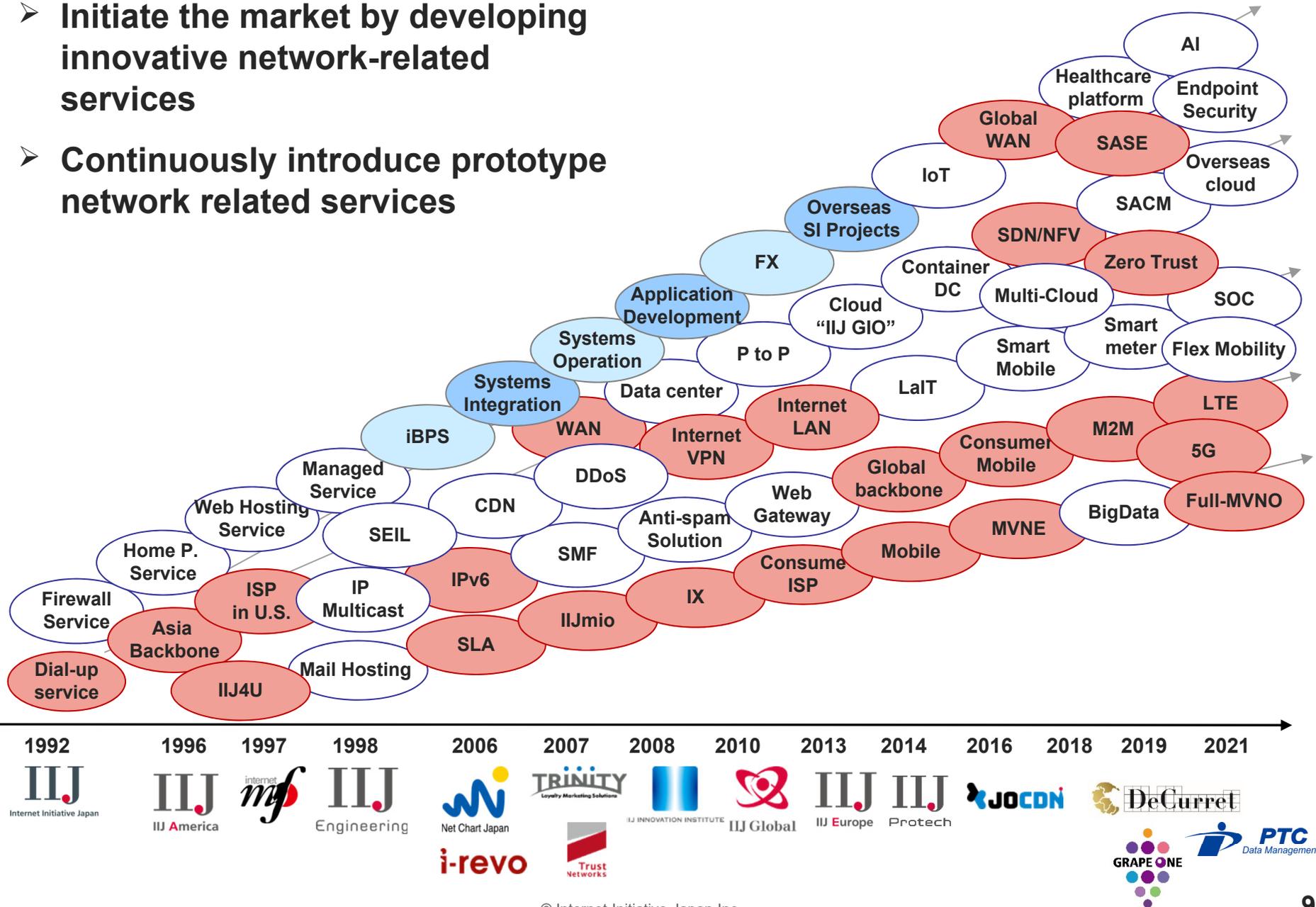
Unit: JPY ¥ billion (bn)  
 FY15 U.S. GAAP, FY20 IFRS  
 "times" are written in approx. terms



	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>					

# Technology and Service Developments

- Initiate the market by developing innovative network-related services
- Continuously introduce prototype network related services



# ISP to Total Network Solution Provider

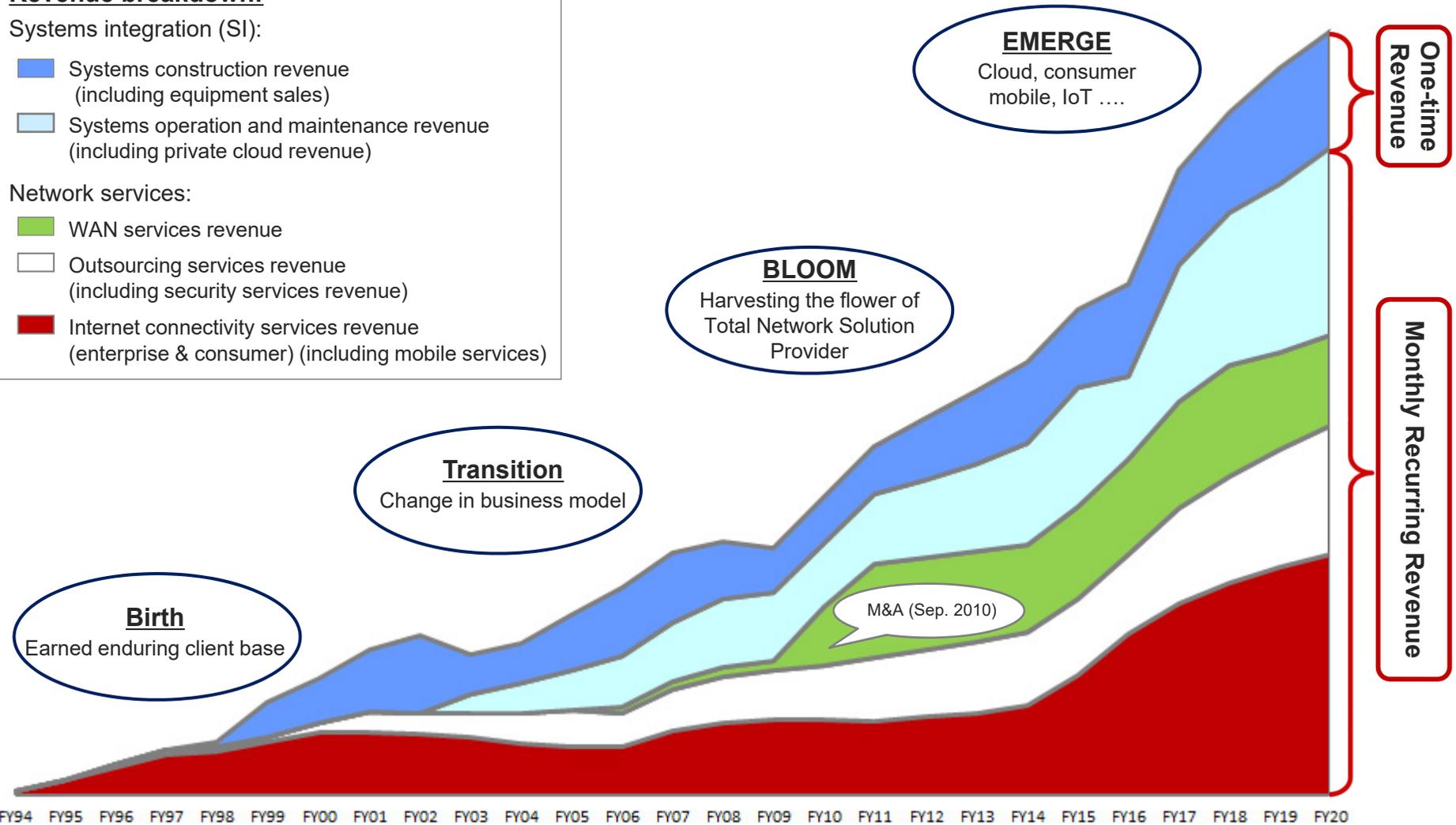
**Revenue breakdown:**

Systems integration (SI):

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

Network services:

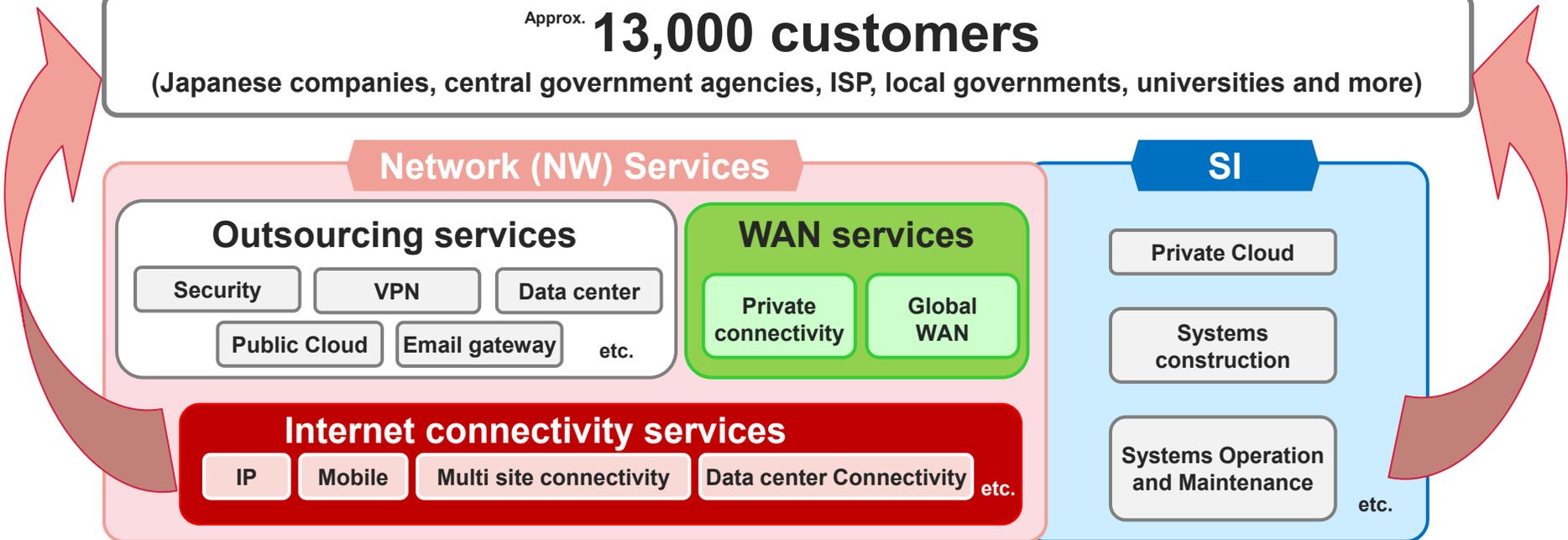
- WAN services revenue
- Outsourcing services revenue (including security services revenue)
- Internet connectivity services revenue (enterprise & consumer) (including mobile services)



# Business Model of having both NW services & SI

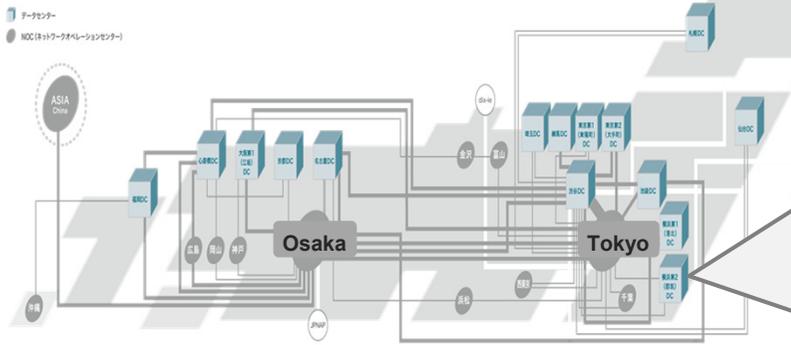
Meeting enterprises' IT needs by leveraging IIJ's business model of having both NW services and SI: IIJ as a comprehensive NW solution provider

Approx. **13,000 customers**  
 (Japanese companies, central government agencies, ISP, local governments, universities and more)



## Major components of Cost

- We don't own fiber itself, so we lease them carries which cost is recognized as circuit related cost in NW services
- We purchase routers and other network equipment which are needed to operate backbone, so we have depreciation cost which is recognized as depreciation cost in NW services
- Service development and R&D type cost are engineers' personnel cost which are recognized as personnel cost
- As a MVNO, we purchase mobile infrastructure and voice function from MNOs which are recognized as outsourcing related costs in NW services
- While we own 2 data centers, majority of data center are currently leased from data center owners which cost is recognized as network operation cost



• Our consumer business is mostly mobile services.

# Excellent Customer Base with Many Blue-Chip Companies

- The current blue-chips client base was mainly accomplished in the early 1990 as IIJ, the first full-scale ISP in Japan, had the pioneer advantage
  - As we never occurred critical network troubles and continuously introduce network related services like security and others, we have been able to maintain good and long lasting relationship with them.

## Cover Most of Japanese Blue-Chip Companies

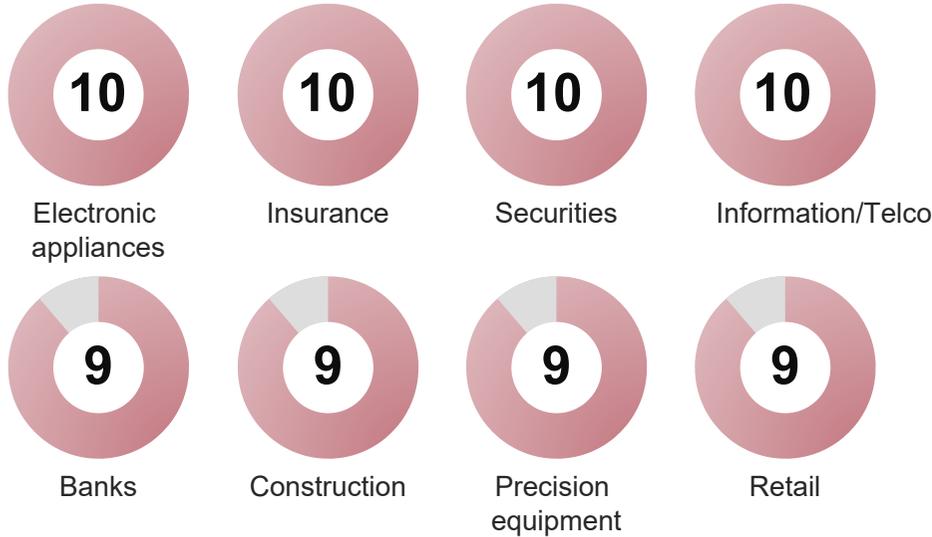


and many more...

# Excellent Customer Base with Many Blue-Chip Companies

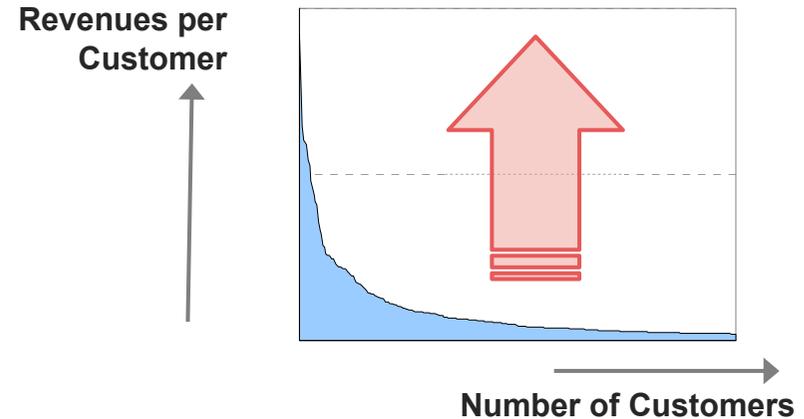
## Cover Most of Top Revenue Companies

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

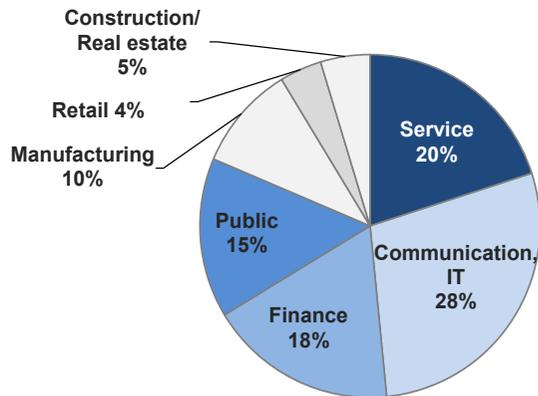


## Increase Revenue per Customer

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

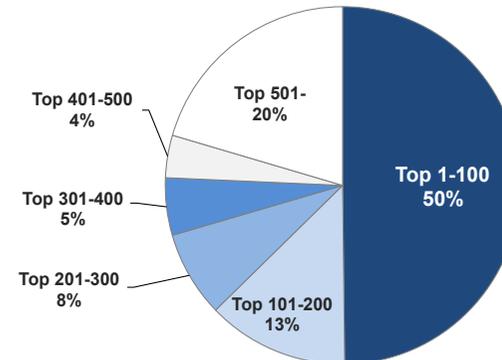


## Revenue Distribution by Industry



- Our client base is well diversified among industry sectors because what we offer, Internet connectivity and security for example, are needed by every industry
- 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		1H21 revenue	About				Business Situation & Outlook
Network services	Internet connectivity services for enterprise	18.81	IP	6.62	<ul style="list-style-type: none"> <li>Core service providing from the foundation</li> <li>Highly reliable dedicated connectivity services for enterprise (multi-carrier, redundancy etc.)</li> <li>Charge based on contracted bandwidth. Enterprises use the service for their main Internet line</li> </ul>		<ul style="list-style-type: none"> <li>Matured market (hard to entry)</li> <li>Blue-chip client base</li> <li>Expect the revenue to continuously increase along with traffic volume and contracted bandwidth increase</li> </ul>
	Internet connectivity services for consumers	12.20	Mobile	10.28	IoT/M2M-related	4.84	<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</li> <li>Enterprise: Expect the demand to increase in the mid-to-long term</li> <li>Consumer: Aim to achieve net increase (subscription) with new consumer plan in competitive market</li> </ul>
					MVNE (Providing services to other MVNOs)	5.45	
	WAN	12.88	Closed network used to connect multiple sites				Stable market for long-term
Outsourcing	19.55	In-house developed Internet-related various service line-ups (Security, datacenter and remote access etc.)				<ul style="list-style-type: none"> <li>Have been developing services based on Zero Trust concept</li> <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	28.74	On-premise Systems	16.48	Private Cloud	12.26	<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> <li>Revenue to increase continuously along with accumulation of construction projects</li> </ul>
	Construction (including Equipment sales)	15.47	System construction related to office IT, security, Cloud, IoT. Internet-related construction such as Online banking & brokerage, backbone network for university, and E-commerce site				<ul style="list-style-type: none"> <li>Through providing SI, offer greater value as IoT and cloud usage penetrate</li> </ul>

Monthly Recurring Revenue 84.5 %

One time revenue

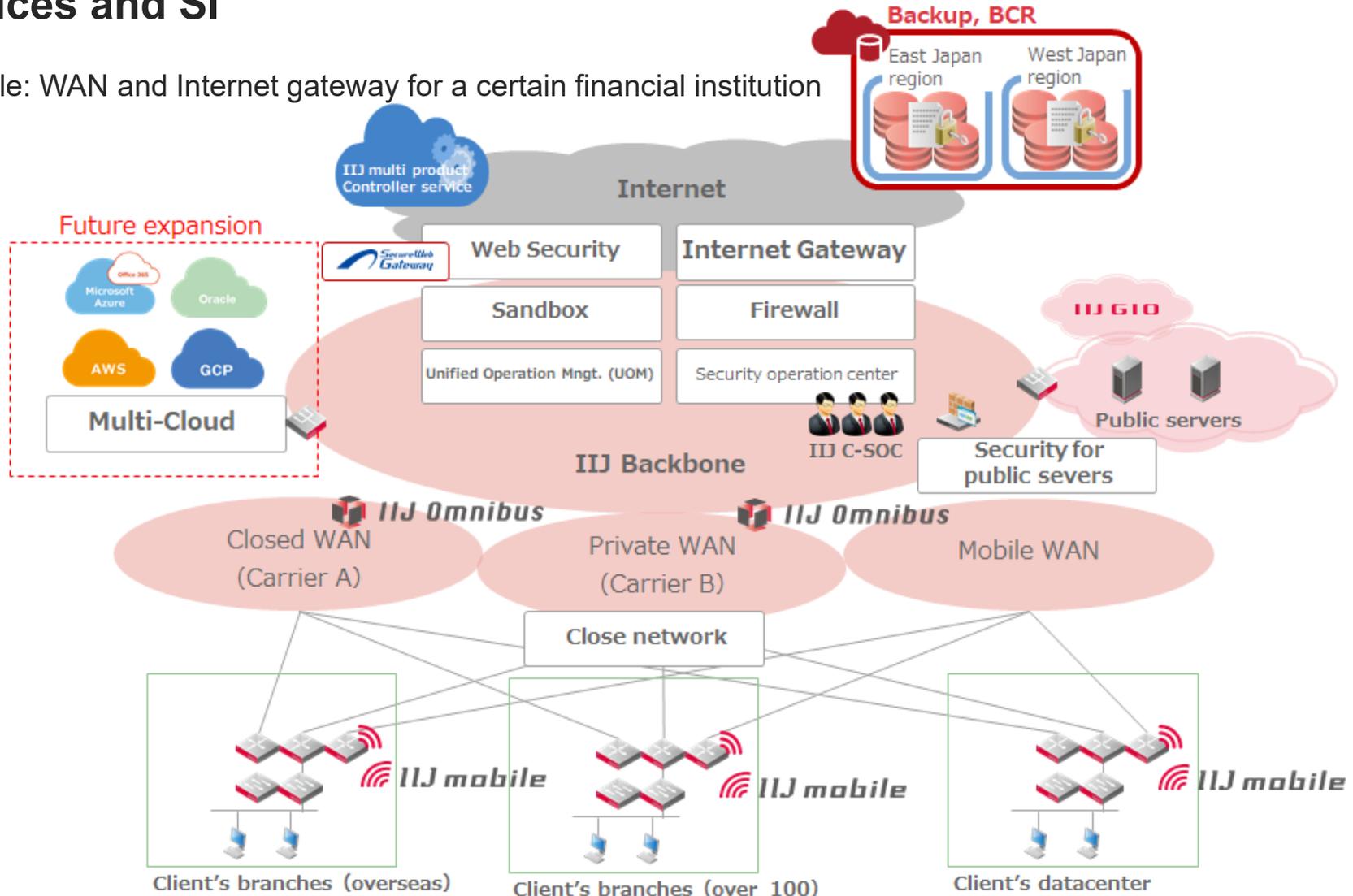
• IP is an abbreviation for Internet Protocol

• SI is an abbreviation for System Integration

# Examples of Cross-selling & Total Solution

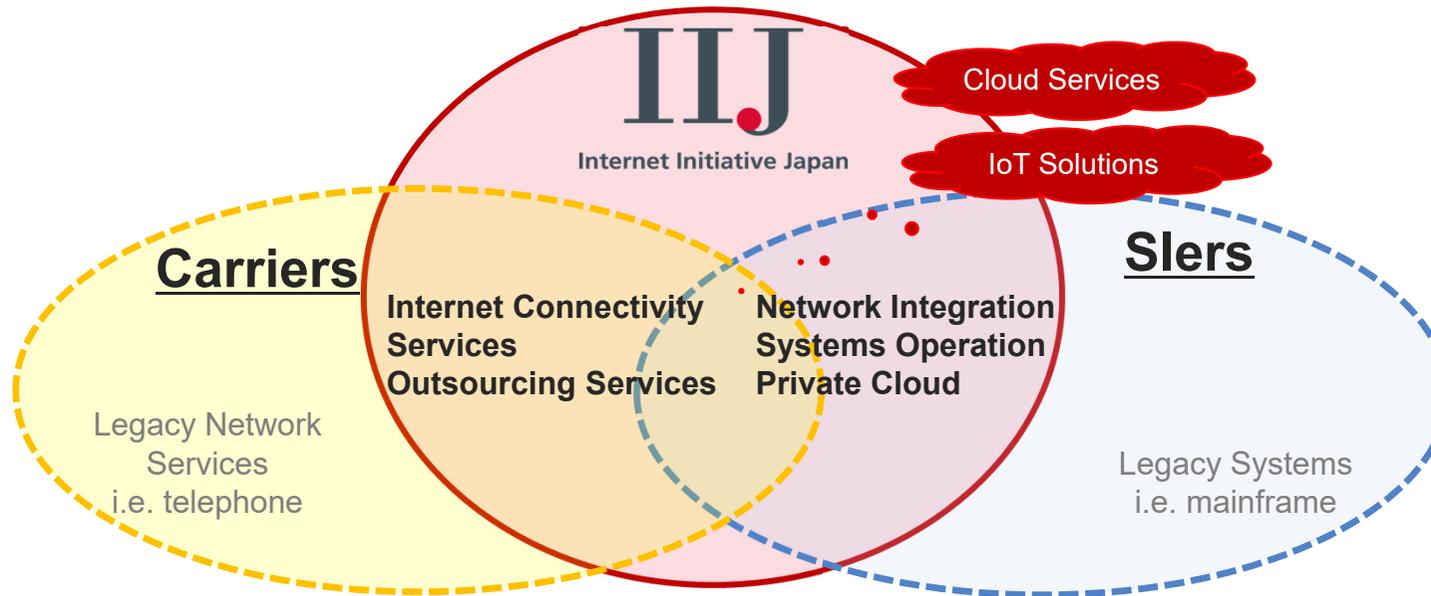
Meeting the demands of enterprise network systems that are becoming more complex and diversified with in-house developed network services and SI

Example: WAN and Internet gateway for a certain financial institution



# Competitive Advantage by having NW services & SI

Competitive Advantages



## IIJ's differentiation points against competitors

### Against Carriers:

- IIJ has many highly skilled network engineers who have been leading the Internet-related market by continuously developing and introducing innovative Internet-related services
- IIJ, much smaller in employees number, is fast to corresponds to the Internet market: unbureaucratic organization structure and corporate culture

### Against Systems Integrators (Slers):

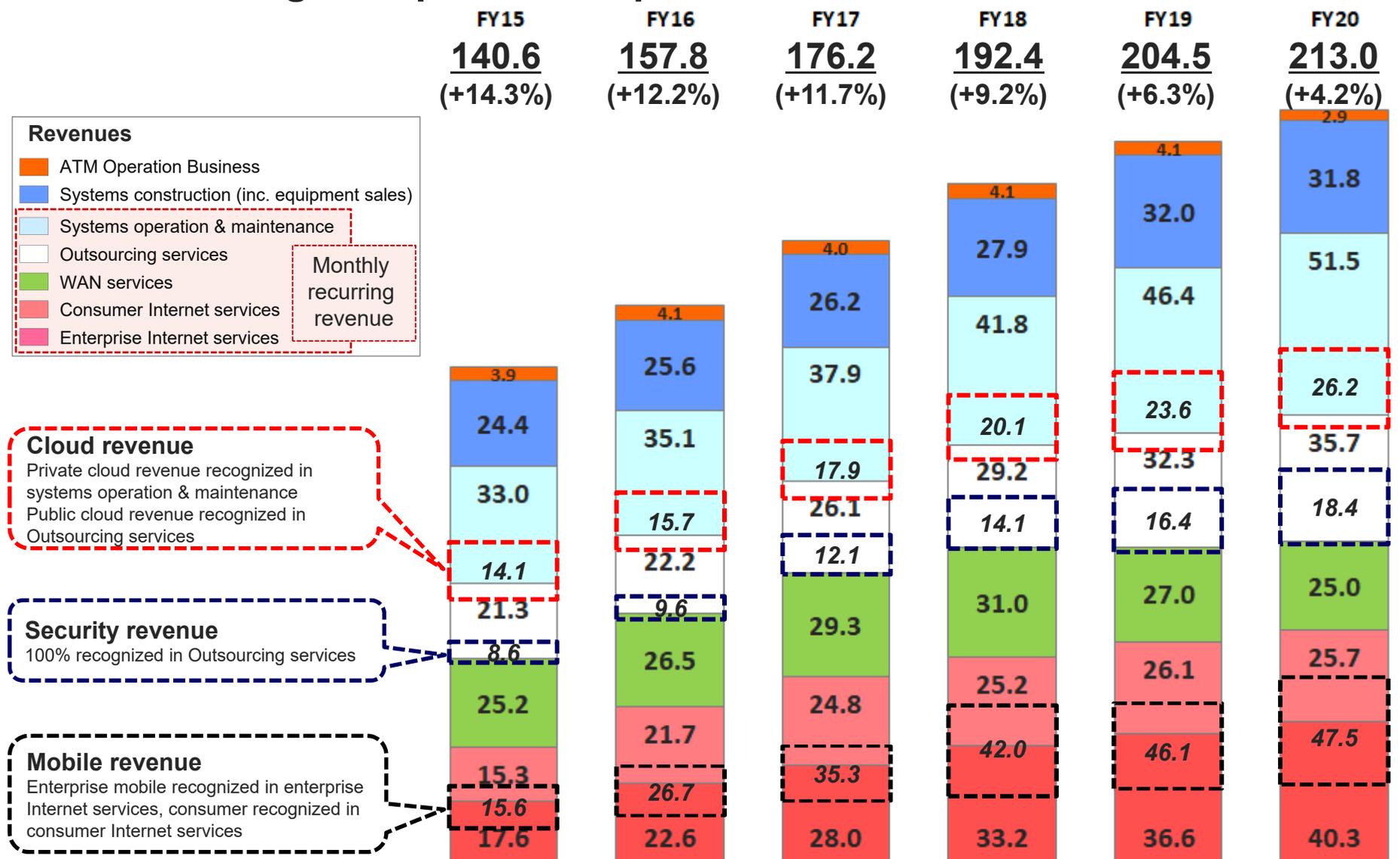
- Enterprise IT systems are shifting from on premise to more network-based systems which trend requires both network operation and integration expertise
  - IIJ operates Internet backbone and network facilities
  - IIJ develops network services

# Continuous Revenue Accumulation

Unit: JPY billion  
% = year over year change

**Growth Strategy**

## Cross-selling multiple service products



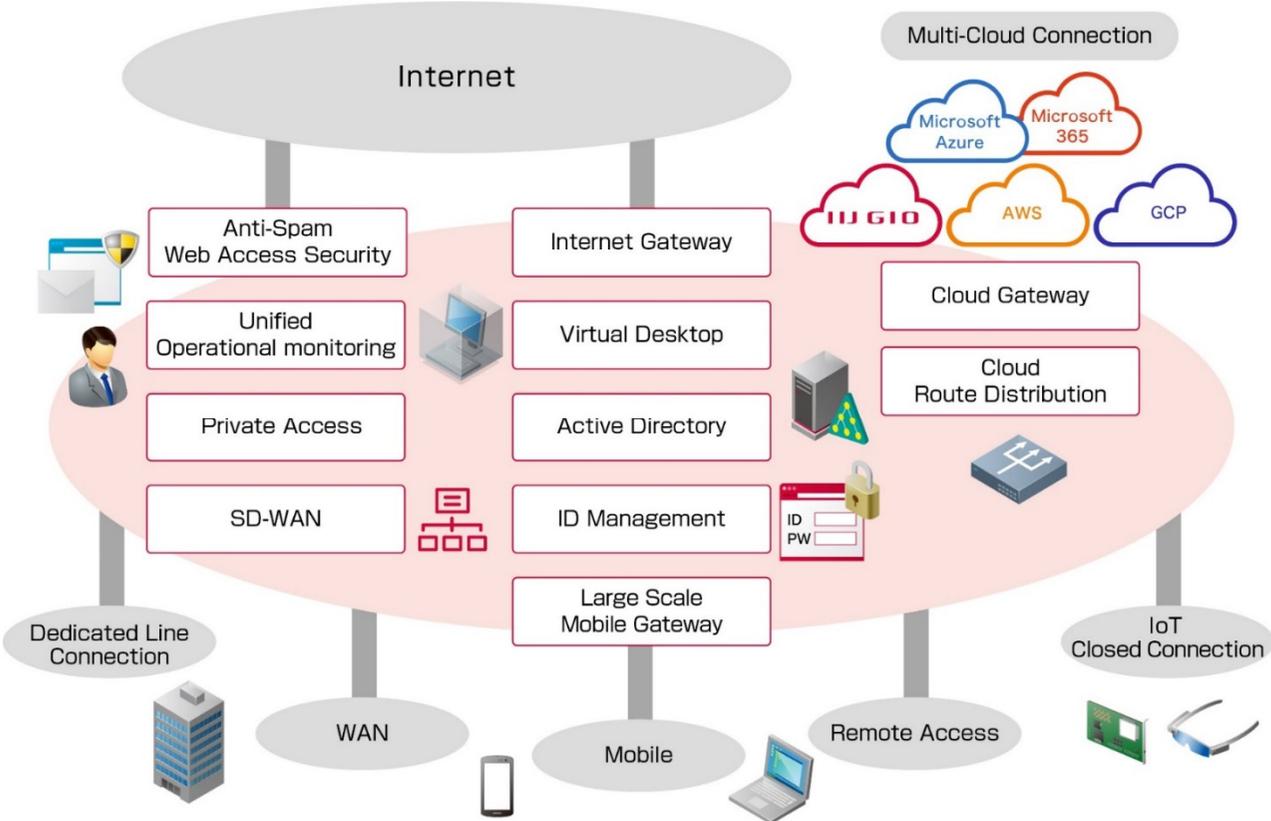
- During FY20, ATM operation business was impacted by the COVID-19 pandemic due for example to the store closure and smaller number of users coming to stores
- WAN revenue decreased year over year in FY19 and FY20 is mainly due to certain large customers' migration to our mobile services (cheaper than WAN to connect multiple sites)
- YoY growth rate written for FY17 revenue is calculated by comparing FY16 revenue which is prepared with U.S. GAAP and FY17 revenue which is prepared with IFRS

# 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

**IJJ's enterprise network services**

Enterprise network services revenues are recognized in Internet connectivity services for enterprises, Outsourcing and WAN services



# Enterprise Network Services (2)

Unit: JPY million

Growth  
Strategy

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

## ◆ Revenue

- Accumulation of monthly recurring revenues
  - IP services are contracted based on bandwidth base
    - ✓ IP service is bandwidth guaranteed dedicated Internet connectivity services for enterprises. Contracts are based on bandwidth and enterprises use the service for their core and main Internet connectivity
    - ✓ IP service revenue is 100% recognized in Internet connectivity services (Enterprise)
  - Security services are charged per an account in addition to monthly basic charge, generally speaking
- Very low churn rate. Minimum contract period is 1 year.
  - Contracts are renewed every year, generally speaking
  - When we lose a client, it's generally when 2 clients are merged into 1 due, for example, to M&As.
- IIJ has very high and stable market share among Japanese blue-chip (IIJ survived the tough price competition)
  - Enterprise Internet connectivity market in Japan is already matured (every company is already using Internet).
    - ✓ Difficult to enter the market because one will need:  
1) customer base and 2) know-hows to generate revenue
  - IIJ's internet connectivity services clients include general Japanese enterprise as well as network operators such as consumer ISPs, cable TV operators
- 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
  - As one of the largest independent ISPs, IIJ has strong buyer power when purchasing fiber. IIJ can pick the best deal when expanding Internet backbone.
  - IIJ expands its Internet backbone continuously; expanding capacity on a monthly basis.
  - Fiber purchasing cost is recognized as circuit-related costs
- IIJ owns network equipment that are needed for Internet backbone and network service facility
  - Network operation cost which is many depreciation amortization costs for network equipment is stable due to the technological innovation of servers and other network equipment
    - In other words, ¥1 million server today is more high spec compared to the ¥1 million server a year ago.

## ◆ Profit

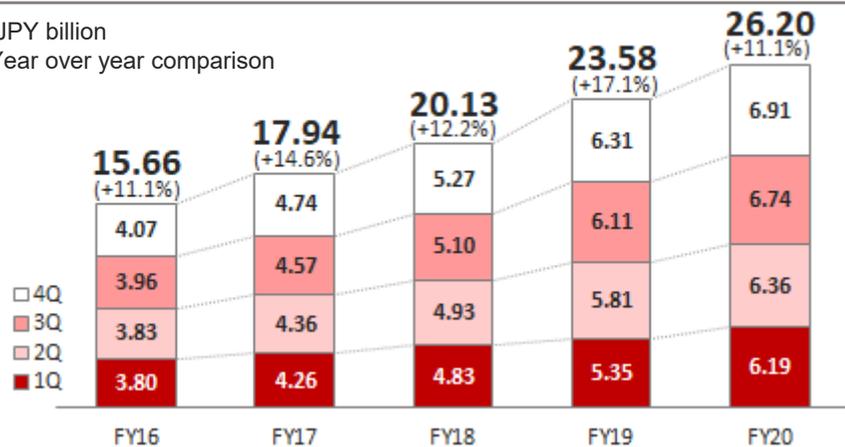
- Enterprise network service revenues especially IP services and Outsourcing services continue to increase while their costs remain relatively stable.
- By that, IIJ can enjoy economy of scale with strong revenue accumulation which leads to profit expansion.
- In other words, the costs for enterprise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

# Cloud Business (1)

- Cloud shift of Japanese enterprises' large internal core systems just began
- With Cloud services, IIJ can approach IT system areas that are traditionally covered by legacy Slers such as enterprises' internal IT systems

## IIJ's Cloud Revenue (recurring)

Unit: JPY billion  
% = Year over year comparison



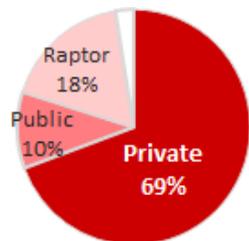
Cloud-related CAPEX	FY16	FY17	FY18	FY19	FY20
	3.6	7.9	2.2	2.6	2.8

- FY17 Cloud-related CAPEX includes 3.0 billion of Cloud-related CAPEX that was originally planned for in FY18
- Recent quarterly revenue can be found in page 53 of this presentation

## Cloud Market in Japan

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

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



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

• Based on FY20 IIJ's results

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

## IIJ's Competitive Advantages

- ◆ **Blue-chip client base: Hands-on/close relationship with clients (Cloud as a cross-selling element)**
- ◆ **New business opportunity: Because blue-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: increasing demands for multi-cloud**
  - IIJ provides private connectivity with Microsoft Azure/365, AWS (Amazon Web Service), GCP (Google Cloud Platform)
  - IIJ provides operation and management services to effectively monitor an entire IT systems(IIJ UOM Service), covering IIJ's cloud services, other cloud vendors' cloud services and on-premise systems.

## IIJ's Cloud Business Model

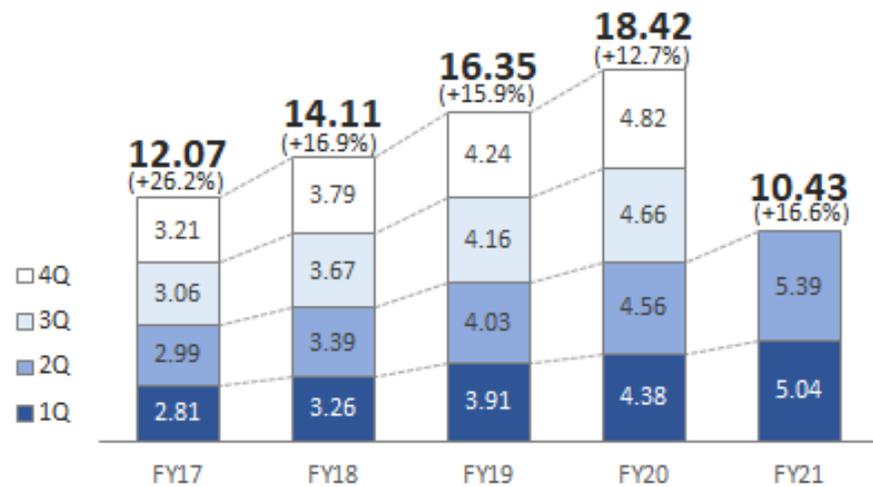
- ◆ **Revenue**
  - Revenue is to increase along with an increase in Cloud clients and each system volume
    - System volume depends on a number of cloud servers, volume of storage etc.
- ◆ **Cost**
  - Depreciation and amortization cost for servers and other network equipment, outsourcing cost and personnel costs for service developments
- ◆ **Profit**
  - Currently very low profitability, need more revenue to have economy of scale

# Security Business (1)

- Continuously developing new services and expanding service functions as new cyber/network threats are evolving
- Japanese enterprises used to see security measures as cost, but now they understand them as great necessity.

## IJJ's security service revenue (recurring)

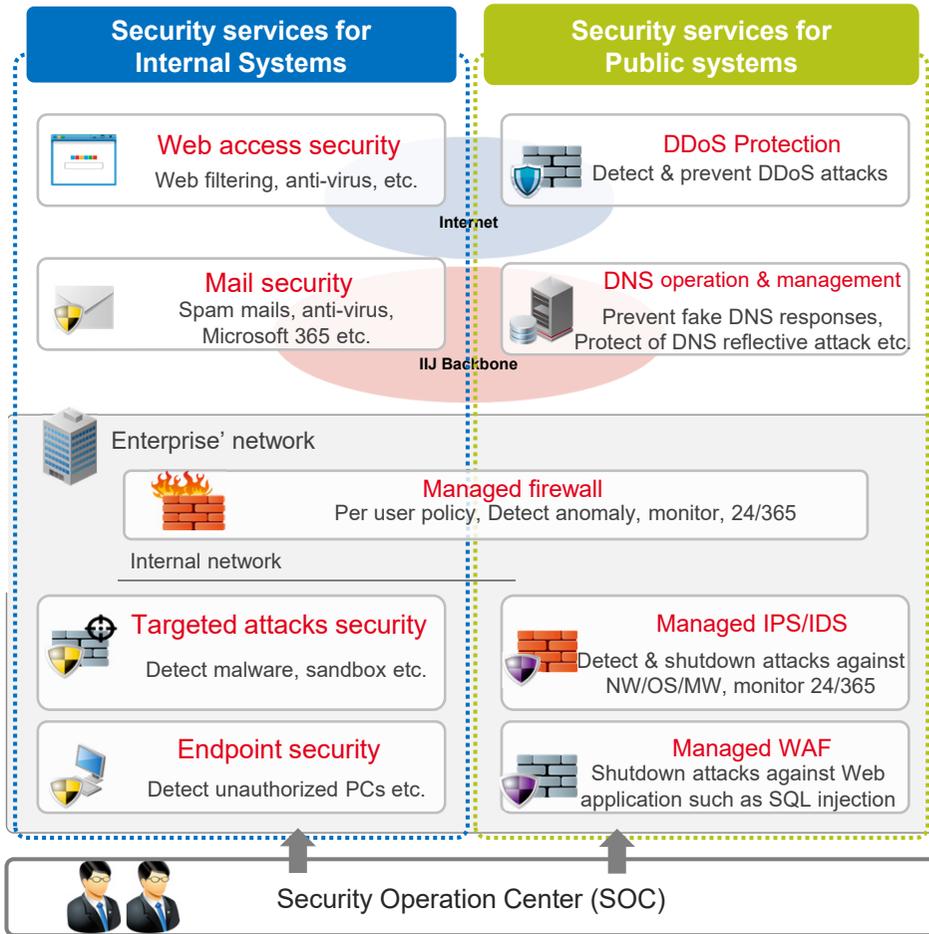
Unit: JPY billion  
% = Year over year comparison



Total security revenue (services + SI)	FY17	FY18	FY19	FY20	1H21
	14.62	16.77	19.18	21.47	11.91

- 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

## IJJ's security service offerings

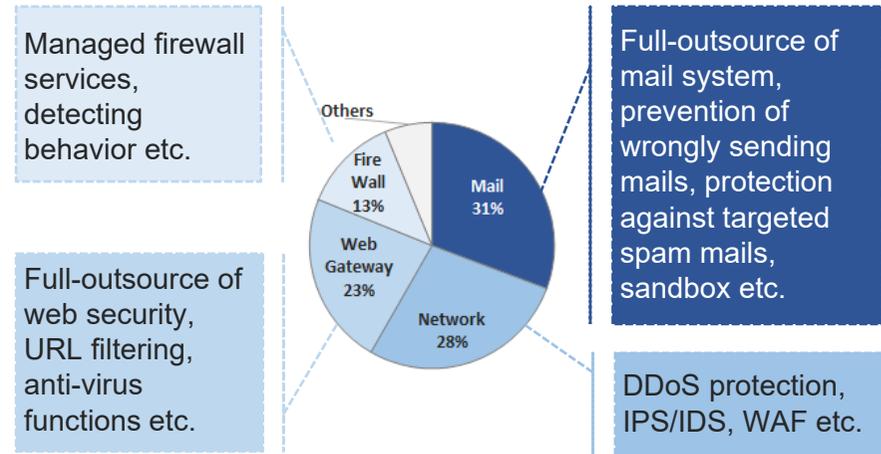


# Security Business (2)

## 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 30 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 IIJ's security service revenue



• Based on IIJ's FY20 results

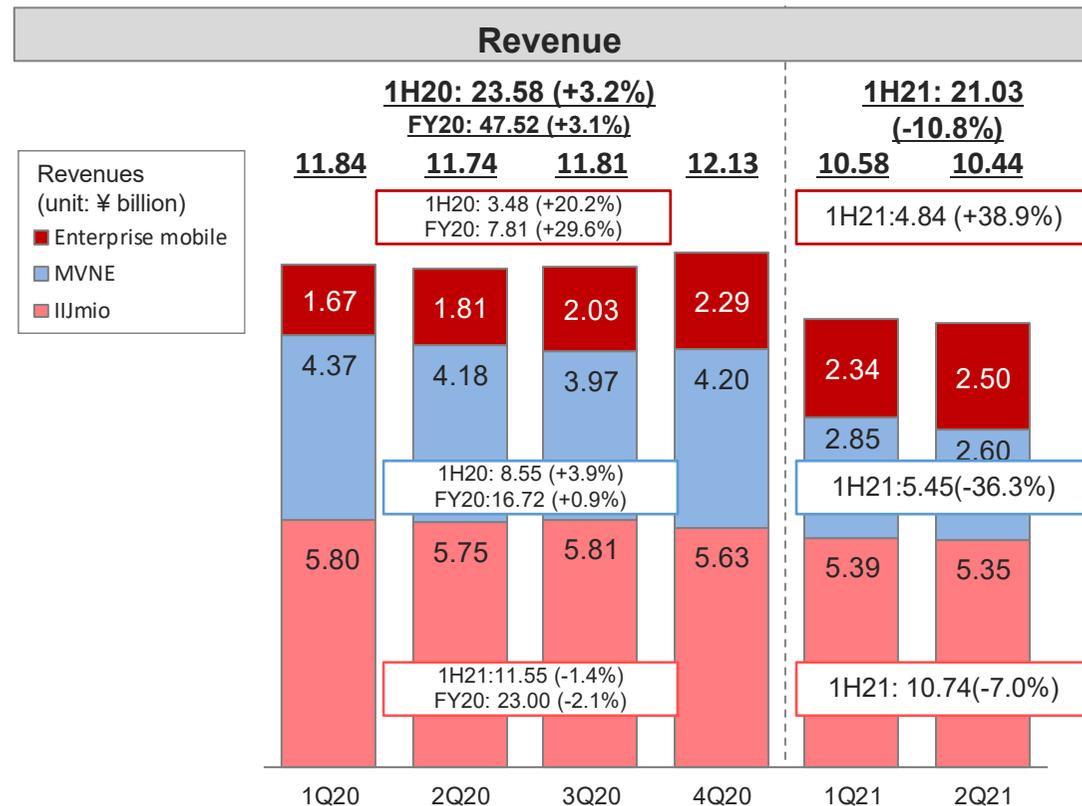
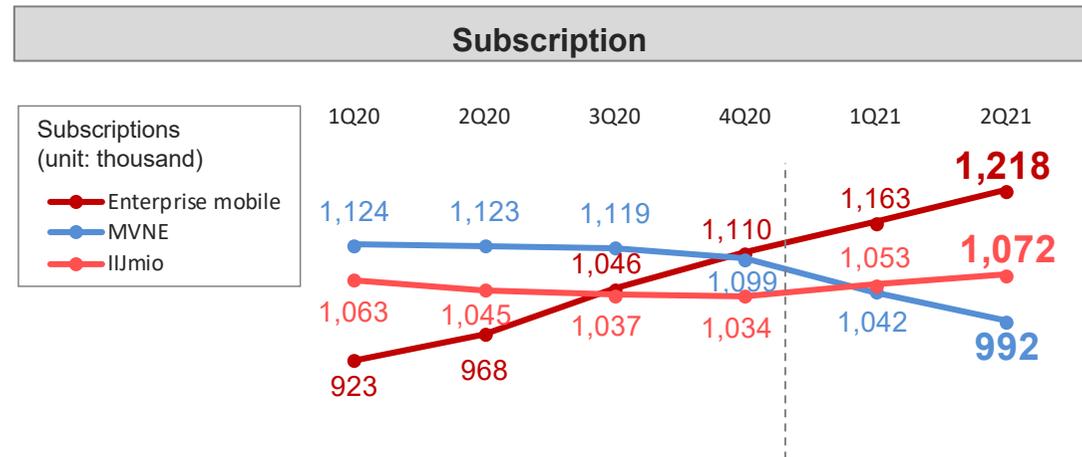
## IIJ's Competitive advantage of having them all

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

# Mobile Business (1)

Growth Strategy

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



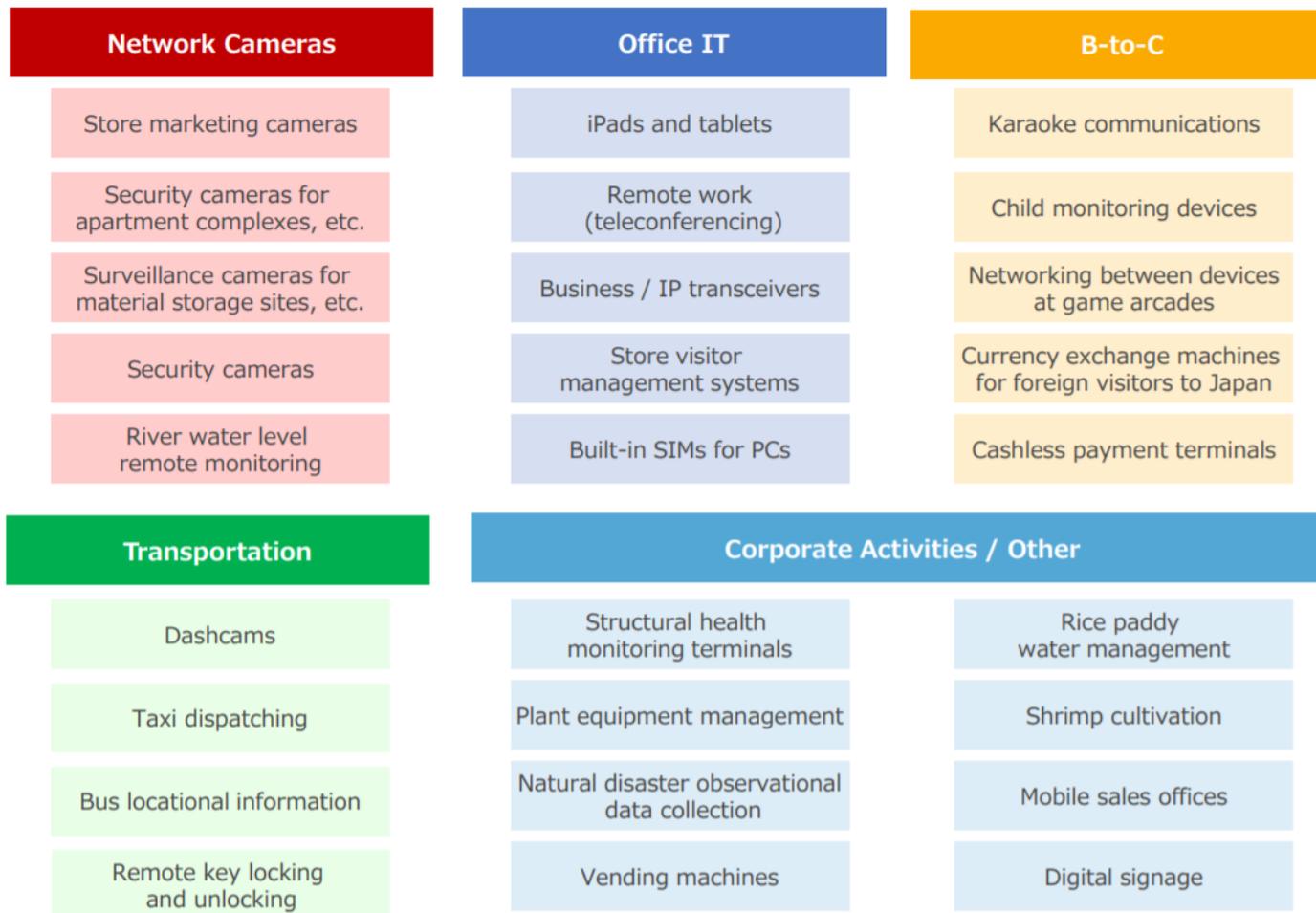
- **Enterprise mobile:** Calculated by deducting MVNE from IJ Mobile (enterprise)
- **MVNE** (Mobile Virtual Network Enabler) aka “IJ Mobile Platform Services”: Revenue are generated by providing mobile services to other MVNOs who want to provide mobile services to their consumer customer base.
- **IJmio:**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

# Mobile Business (2)

➤ Most of current enterprise mobile solution are simple usage such as connecting network and surveillance cameras etc.

- Seeing some advanced usage such as Factory IoT for Toyota Motor Hokkaido  
 Details of the case can be found here: <https://www.ijj.ad.jp/en/news/pressrelease/2020/0803.html>

## Accumulating various enterprise mobile solutions

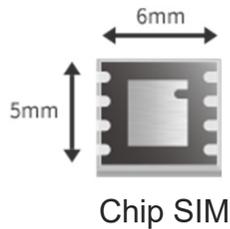


# Mobile Business (3)

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

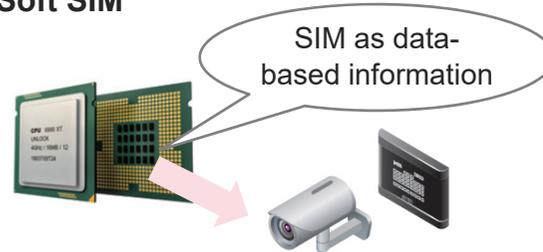
## New forms of SIMs

### ◆ 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

## Recent enterprise mobile case studies

- Strong demands for remote monitoring using network cameras. Also seeing demands for remote management demand to realize automation and man power reduction

**Various network camera connection projects**

- Retail marketing
- Facility remote maintenance
- Motion detector
- Reception system
- River monitoring
- Trains & high ways monitoring
- Dashboard recorder
- etc.

## 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)

- New consumer mobile plan “GigaPlans” subscription (Old plan’s users migration started from May 1)

	1Q21-end	2Q21-end
GigaPlan’s subscription (approx., unit; thousand)	462	566
Of which new users (approx.)	17%	30%

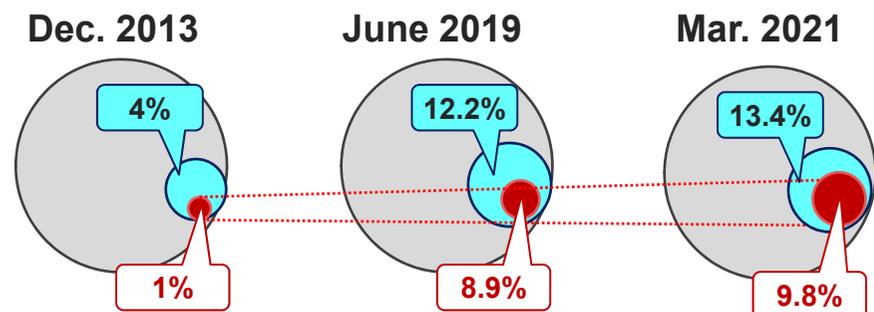
- Please refer to P. 59 of this presentation for more detail on the mobile unit charge
- Please refer to P. 60 of this presentation for a table comparing old and new consumer mobile plans

## 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 September 30, 2021, IJ had 162 MVNE clients
    - ✓ Largest MVNE client is one of the largest Japanese retailers
    - ✓ 88 out of 159 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 June 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 Mar. 2021** \*2
  - IJ 15.2%
  - NTT Communications (brand name: OCN mobile) 11.5%
  - Rakuten Mobile 11.4%
  - OPTAGE (brand name: mineo) 8.9%
  - 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 IJ's Mobile Business

### ◆ Revenue

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

### ◆ Cost

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

### ◆ Profit

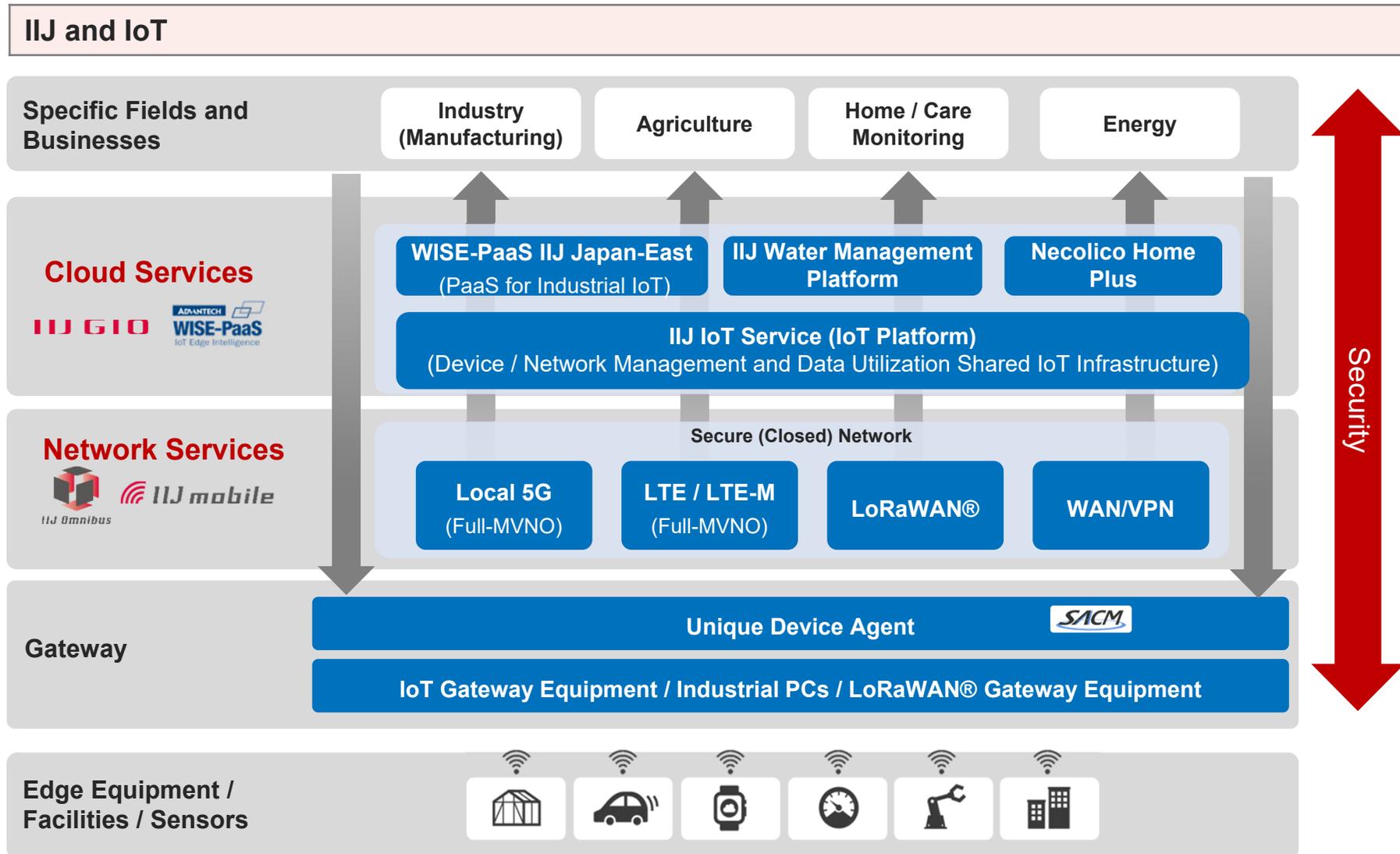
- Profitability to increase by improving infrastructure utilization through gathering various consumer & enterprise traffic
  - Traffic patterns of consumers and enterprises are different
    - ✓ Consumers' peak time is commuting hours and lunch break. Other than these hours, our consumers tend to access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

# IoT Business (1)

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



# IoT Business (2)

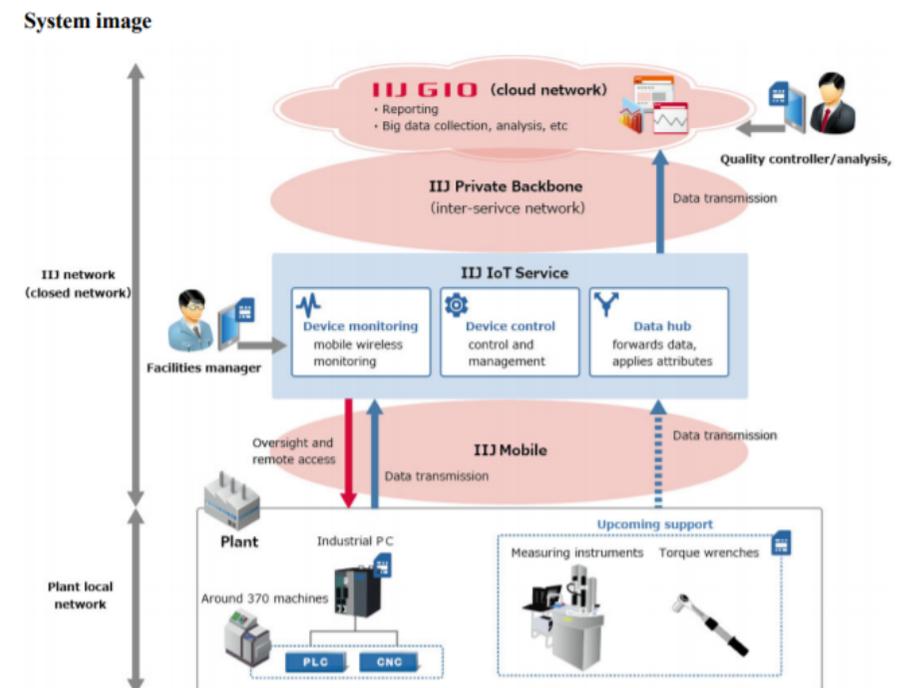
- Change in Japanese enterprise attitude toward IoT
  - Just executing PoCs to actually implementing IoT systems

## 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 (Equity net loss of DeCurret is disclosed in P.49 of this presentation)

Name	DeCurret Inc.
Est.	January 2018
Capital	JPY9.9 billion (including capital reserve)
Directors	<ul style="list-style-type: none"> <li>Chairman: Satoshi Murabayashi (IIJ VP since 2021, former CIO for Mitsubishi UFJ Financial Group)</li> <li>President: Kazuhiro Tokita (from IIJ)</li> <li>Part-time directors: IIJ President, IIJ CFO</li> <li>Special advisor: Toshihide Endo (former head of Japan's Financial Services Agency, financial regulator)</li> </ul>
Business	<ul style="list-style-type: none"> <li>Crypto Asset Exchange Services</li> <li>Digital Currency Settlement Platform Business</li> </ul>

## Crypto Asset Exchange Services (BtoC)

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

- Line-ups: BTC, ETH, XRP, BCH, LTC, ONT, QTUM
- Highly reliable system, low bid-ask spread, and meeting security requirement such as AML/KYC. Approx. 70% of DeCurret service system is leveraged from the existing IIJ Raptor system
  - IIJ Raptor: top share SaaS type FX trading platform in Japan. Have been used by Hirose Tusyo, LINE Securities, au Kabucom Securities, Nomura Securities, Sony Bank, SMBC Nikko Securities, Matsui Securities and other major Japanese financial institutions
  - Core-engine, dealing system, connecting multiple FX exchanges, investor service platform, operator management function etc.
- 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

Partners	PoCs
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
Several local governments	Digital coupon systems

### ◆ 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)

Internet Initiative Japan Inc. (Ownership 38.2% as of Sep. 30, 2021)

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.,

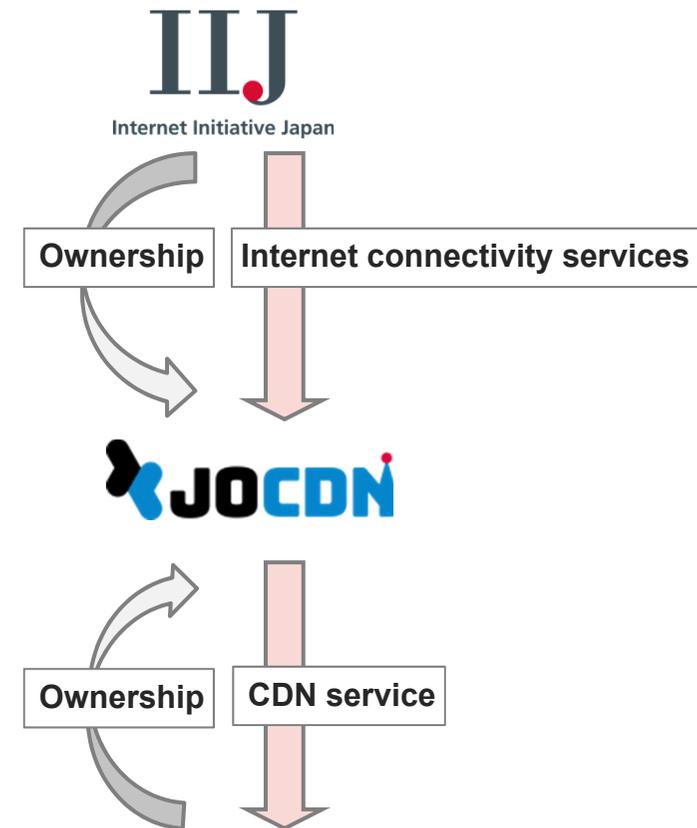
Toppan Printing Co., Ltd.

# Business through affiliated companies: CDN Business

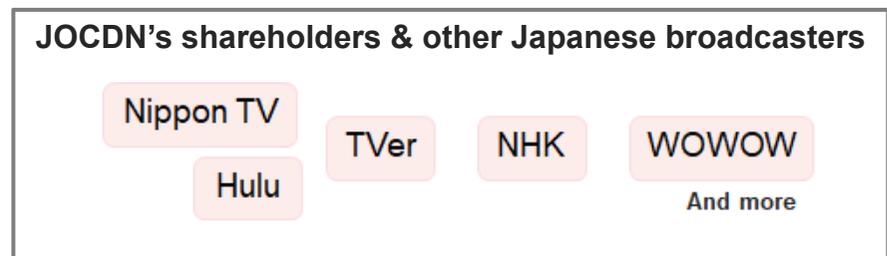
Growth Strategy

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 (Prominent satellite broadcaster in Japan), NHK (Japan's only public broadcaster) and non-Tokyo local broadcasters
Directors	Chairman: Koichi Suzuki (IIJ CEO) President: Shunichi Shinozaki (Nippon TV)

## Business Model



- ◆ **Conditions led to create All Japan CDN (Contents Distribution Network) company JOCDN**
  - Akamai Technologies (global leader in CDN services, US company) has had quite dominant position in CDN market in Japan.
  - Growing needs to distribute contents over Internet
  - 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**



# Upward Revision of Dividend Forecast (Announced on November 5, 2021)

◆ **Basic dividend policy:**

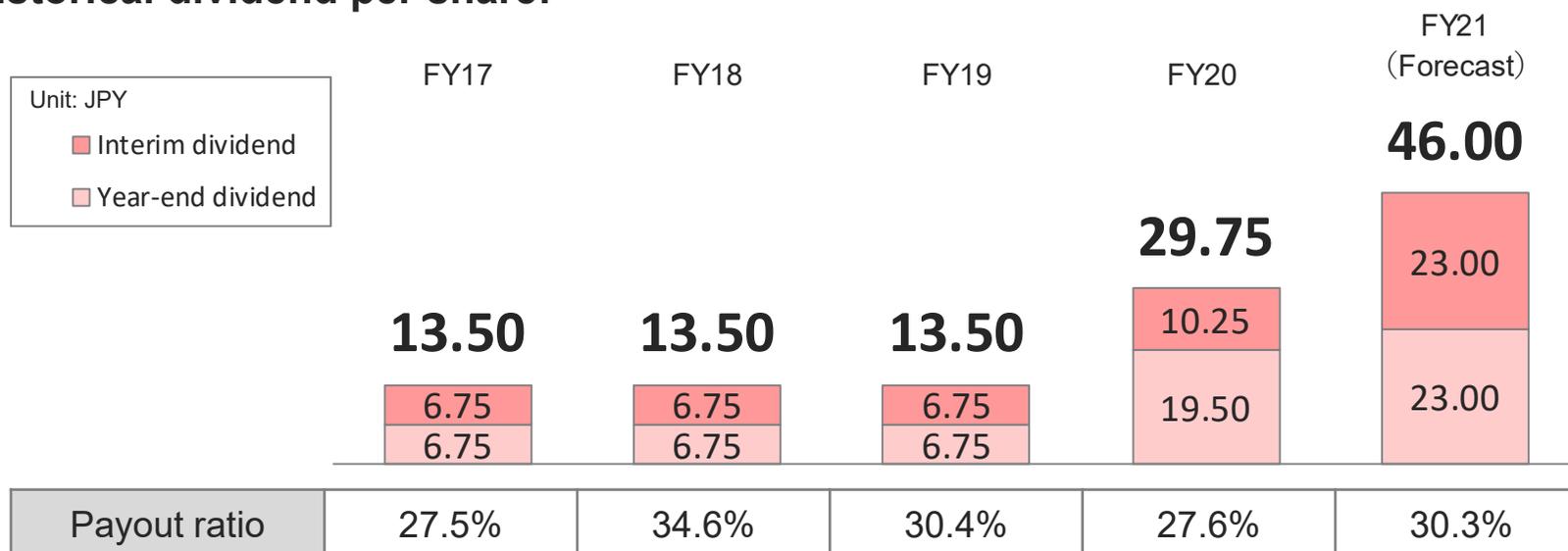
Basic dividend policy of IIJ is that IIJ pays dividends to its shareholders continuously and stably while considering the need to have retained earnings for the enhancement of financial position, med-to-long term business expansion and future business investment etc.

◆ **Along with profit growth, dividend increased, exceeding its initial forecast**

(both interim and year-end forecast)

Unit: JPY	FY20 results	FY21 initial forecast	FY21 current forecast	Year over year
Interim dividend	10.25	19.50	23.00	+12.75
Year-end dividend	19.50	19.50	23.00	+3.50
Annual dividend	29.75	39.00	46.00	+16.25

◆ **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.

# Sustainability & ESG page

<https://www.ij.ad.jp/en/sustainability/>

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 & develop a corporate culture that fully respects & 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.



**Launched ESG information page for shareholders and investors  
Communicating with ESG rating agencies**

<https://www.ij.ad.jp/en/ir/esg/index.html>

# **Consolidated Financial Results for 1H21**

**(April 1, 2021 to September 30, 2021)**

**Announced on November 5, 2021**

# 1H21 Summary

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

Financials

## Upward revision of FY21 Financial Targets & Dividend Forecast Updated FY23 Operating Margin Target to “Over 10%”

Structural Profit Improvement by Enterprise Recurring Revenue Expansion. First Half Profit Largely Exceeded its target

	1H21 Results		Targets	New FY21 Targets		Old Targets	Dividend Upward Revision		
Revenues	¥109.1bn	+7.3%	¥108.0 bn	¥228.5bn	+7.3%	¥226.0bn			
Operating Profit	¥9.3bn	+77.6%	¥6.5bn	¥22.0bn	+54.4%	¥17.5bn	FY20 Results	FY21 Initial Forecast	FY21 New Forecast
Operating Margin	8.5%	+3.3pt.	6.0%	9.6%	+2.9pt.	7.7%	¥29.75	¥39.00	¥46.00
Net Profit	¥6.9bn	+148.8%	¥4.2bn	¥13.7bn	+41.1%	¥11.7bn	Interim 10.25	19.50	23.00
							Year-end 19.50	19.50	23.00

<b>Network Service</b> (excluding Mobile)	<p>◆ <b>Enterprise recurring revenue continued to increase along with IT advancement by enterprises</b></p> <ul style="list-style-type: none"> <li>➢ IP 1H21 revenue ¥6.6bn +13.2% (1Q +13.7%, 2Q +12.8%) Demands for broader bandwidth continued as enterprises use more IT</li> <li>➢ Security 1H21 revenue ¥10.4bn +16.6% (1Q +15.0%, 2Q +18.2%) Revenues largely increased due to various demands for security</li> <li>➢ WAN 1H21 revenue ¥12.9bn +4.4% (1Q +4.4%, 2Q +4.4%) Projects related to NW replacements, such as SD-WAN, increased</li> </ul>
<b>Mobile</b>	<p>◆ <b>Continuing to expand infrastructure &amp; Pursuing higher utilization by offering to both enterprise &amp; consumer</b></p> <ul style="list-style-type: none"> <li>➢ Enterprise (excluding MVNE): High revenue growth rate continued by accumulating IoT-related projects 1H21 revenues ¥4.8bn +38.9%(1Q +40.1%, 2Q +37.8%) MVNE progressing in line with initial outlook</li> <li>➢ Consumer: Subscription net increase by “GigaPlans” (launched in Apr. 2021) 2Q21-end consumer subs.: 1,072 thousand, of which GigaPlans 556 thousand (of which about 30% was new users, +94 thousand QoQ) <ul style="list-style-type: none"> <li>• IIJmio as No.1 customer satisfaction (J.D.Power Japan “Survey on customer satisfaction for mobile services 2021, MVNO category)</li> </ul> </li> </ul>
<b>SI</b>	<p>◆ <b>Network integration demands from all industries</b></p> <ul style="list-style-type: none"> <li>➢ Meeting demands for enterprise network systems that are becoming more complexed and diversified with services &amp; SI 1H21 construction revenue ¥15.5 bn +18.8% construction order-received ¥18.9 bn +24.4%</li> <li>➢ Launched “IIJ GIO Infrastructure P2 Gen.2” in Oct. 2021 to promote full-scale cloud migration of Japanese enterprise systems</li> <li>➢ From a new consolidated subsidiary through M&amp;A (Singaporean Sler: PTC, Apr. 2021) 1H21 revenues: ¥3.6 bn OP ¥0.1bn</li> </ul>
<b>Topics</b>	<ul style="list-style-type: none"> <li>• “Prime Market” under new TSE market segments from next Apr.</li> <li>• BCR approved for EU personal data protection policies (Aug. 2021)</li> <li>• Selected for TOPIX500 (Mid400) in Oct. 2021</li> <li>• Running tests on edge computing by using micro data centers etc.</li> </ul>

• Original target for FY23 operating margin target was over 9% (disclosed in May 2021) • SD-WAN is a network defined by software.  
• Net Profit is “Profit for the period attributable to owners of the parent.” • “BCR approved” means our comprehensive rules regarding how to handle personal data meet the rigorous EU’s standard and have been approved by EU’s Data Protection Authority  
• FY20 results for dividends are written on post-stock-split basis

# Consolidated Financial Results

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

Financials

	% of revenue		YoY		% of revenue		YoY		% of revenue	
	1H21 Results Apr. 2021 - Sep. 2021	1H20 Results Apr. 2020 - Sep. 2020			1H21 Targets (Announced in May 2021) Apr. 2021 - Sep. 2021	FY21 New Targets (Announced in Nov. 2021) Apr. 2021 - Mar. 2022			FY21 Old Targets (Announced in May 2021) Apr. 2021 - Mar. 2022	
Revenues	<b>109.05</b>	<b>101.66</b>	+7.3%	+7.39	<b>108.0</b>	<b>228.5</b>	+7.3%	+15.50	<b>226.0</b>	
	78.8%	82.8%			80.9%	78.2%			80.0%	
Cost of Revenues	<b>85.97</b>	<b>84.21</b>	+2.1%	+1.76	<b>87.4</b>	<b>178.7</b>	+3.5%	+5.98	<b>180.7</b>	
	21.2%	17.2%			19.1%	21.8%			20.0%	
Gross Profit	<b>23.09</b>	<b>17.45</b>	+32.3%	+5.63	<b>20.6</b>	<b>49.8</b>	+23.6%	+9.52	<b>45.3</b>	
	12.6%	12.0%			13.1%	12.2%			12.3%	
SG&A etc.	<b>13.78</b>	<b>12.22</b>	+12.8%	+1.57	<b>14.1</b>	<b>27.8</b>	+6.8%	+1.77	<b>27.8</b>	
	8.5%	5.2%			6.0%	9.6%			7.7%	
Operating Profit	<b>9.30</b>	<b>5.24</b>	+77.6%	+4.07	<b>6.5</b>	<b>22.0</b>	+54.4%	+7.75	<b>17.5</b>	
	9.6%	4.4%			5.8%	9.4%			7.7%	
Profit before tax	<b>10.43</b>	<b>4.47</b>	+133.6%	+5.97	<b>6.3</b>	<b>21.5</b>	+53.2%	+7.47	<b>17.3</b>	
	6.3%	2.7%			3.9%	6.0%			5.2%	
Net Profit	<b>6.89</b>	<b>2.77</b>	+148.8%	+4.12	<b>4.2</b>	<b>13.7</b>	+41.1%	+3.99	<b>11.7</b>	

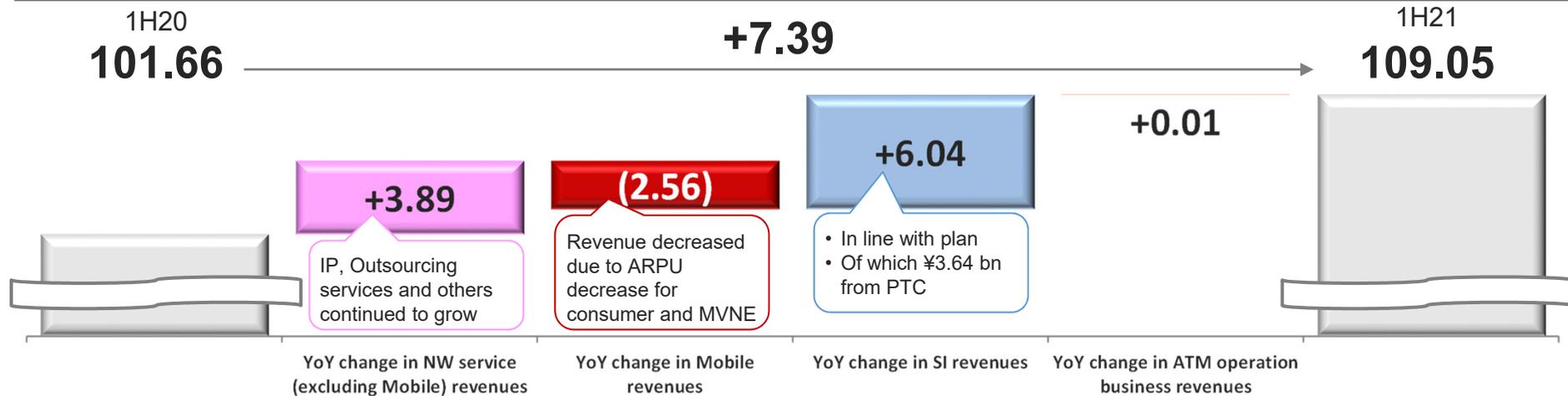
- SG&A etc. represents the sum of SG&A, which includes R&D expenses, and other income/expenses.
- Net profit is "Profit for the period/year attributable to owners of the parent."

# Year over Year Analysis for the First Half

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

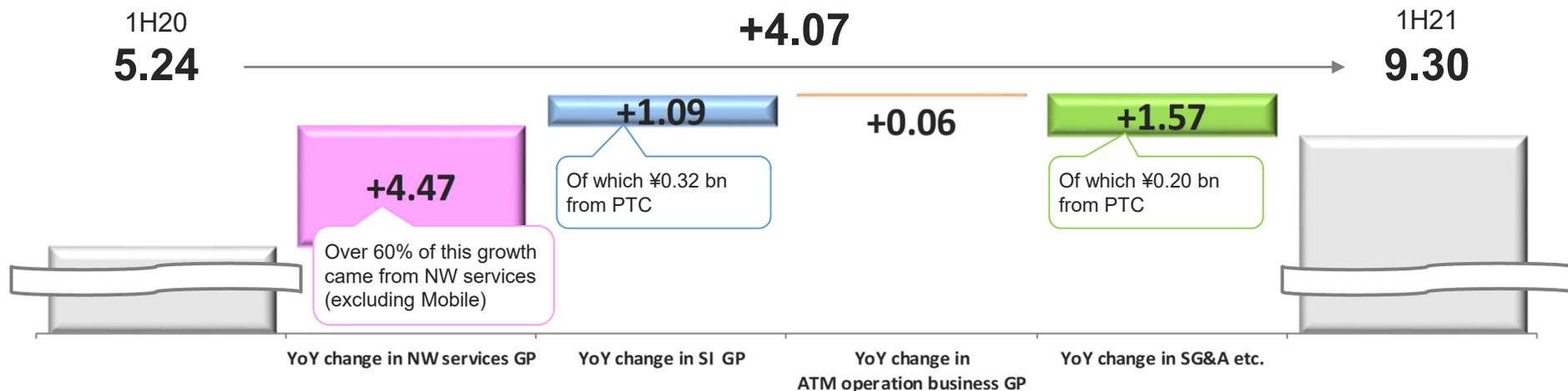
Financials

## Revenues



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

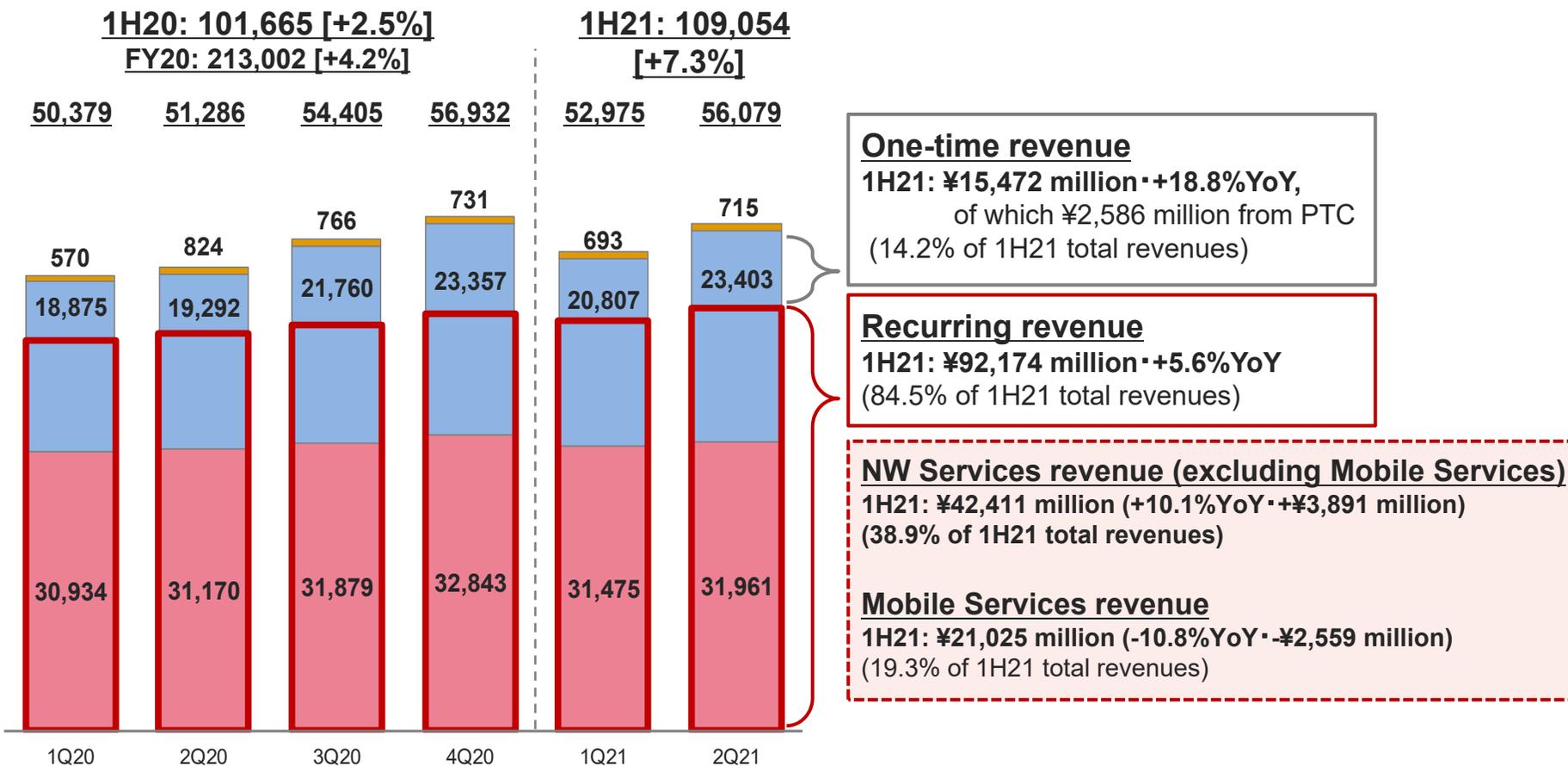
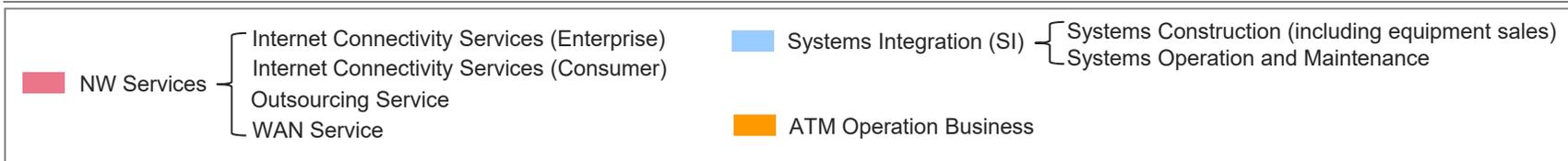
## Operating Profit



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

# Revenues

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

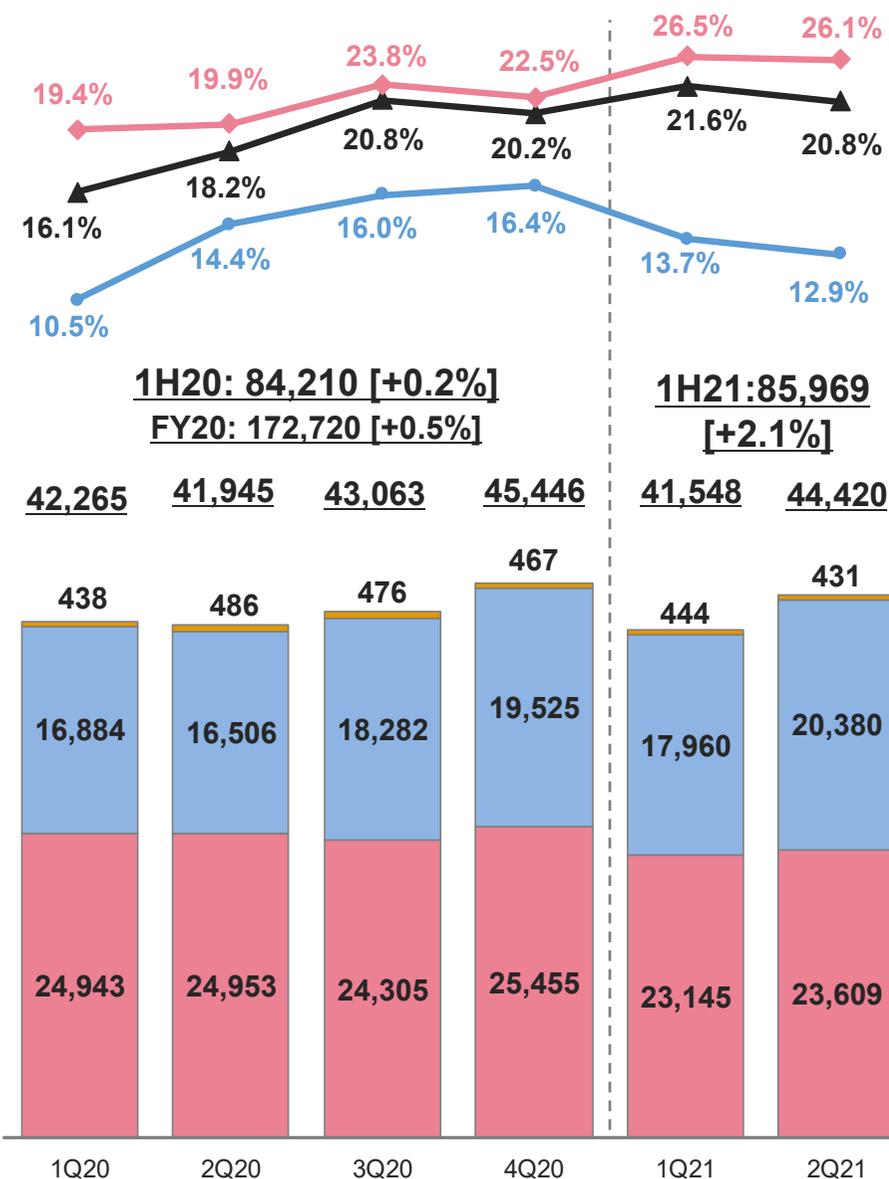


- One-time revenue, systems construction revenues which include equipment sales, is mainly recognized when systems or equipment are delivered and accepted by customers.
- Recurring revenue represents the following monthly recurring revenues: Internet Connectivity Services (Enterprise), Internet Connectivity Services (Consumer), Outsourcing Services, WAN Services, and Systems Operation and Maintenance.
- Mobile services revenue represents the total of enterprise and consumer mobile revenue.
- ARPU is an abbreviation for Average Revenue Per User

# Cost of Revenues & Gross Profit Ratio

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

Cost of Revenues: ■ NW (Network) Services ■ SI (Systems Integration) ■ ATM Operation Business  
 Gross profit ratio: ◆ NW (Network) Services ● SI (Systems Integration) ▲ Total



## ◆ Total gross profit

- 1H21: ¥23,085 million (+32.3%, +¥5,631 million YoY)
- 1H21 gross profit ratio: 21.2% (1H20: 17.2%)

## ◆ Gross profit for NW services

- 1H21: ¥16,682 million (+36.7%, +¥4,475 million YoY)
- 1H21 NW services gross profit ratio: 26.3% (1H20: 19.7%)
  - Gross profit increased by the increase in enterprise network services revenues, such as IP and Security, and by the decrease in purchasing costs, such as voice call for mobile services
  - 2Q21 gross profit ratio slightly decreased QoQ as the gradual decrease in mobile ARPU due to the migration to new consumer mobile plan “GigaPlans”

## ◆ Gross profit for SI

- 1H21: ¥5,869 million (+22.9%, +¥1,093 million YoY)
- 1H21 SI services gross profit ratio: 13.3% (1H20: 12.5%)
  - 2Q21 gross profit ratio decreased due to an increase in purchasing ratio

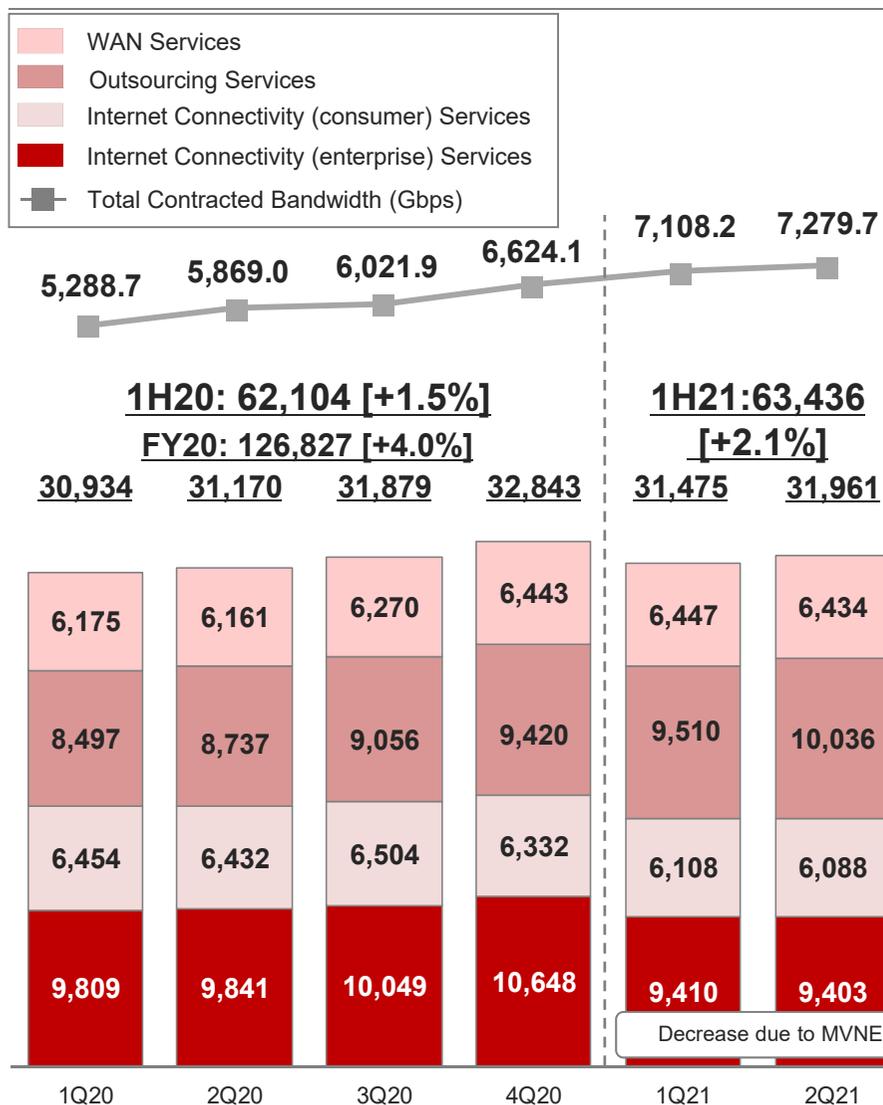
# Network Services (1) Revenues

Unit: ¥ (JPY) million

[ ], YoY = Year over year comparison

QoQ = Quarter over quarter comparison

Financials



- 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
- IP (Internet Protocol) Service is bandwidth guaranteed dedicated Internet connectivity services for enterprises. Contracts are based on bandwidth and enterprises use the service for their core and main Internet connectivity
- ARPU is an abbreviation for Average Revenue Per User

## ◆ Internet Connectivity (Enterprise) Services

➢ 1H21: ¥18,813 million, -4.3% YoY

- Of which, IP services: ¥6,622 million

<Revenue growth>

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
YoY	+9.4%	+10.8%	+17.2%	+17.5%	+13.7%	+12.8%
QoQ	+6.4%	+3.0%	+5.7%	+1.4%	+2.9%	+2.2%

- Of which, IJ Mobile (enterprise): ¥10,284 million, -14.5% YoY

✓ Of which, IoT-related enterprise mobile revenue ¥4,839 million

<Revenue growth>

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
YoY	+18.2%	+22.0%	+39.9%	+37.0%	+40.1%	+37.8%
QoQ	(0.1%)	+8.2%	+12.1%	+13.0%	+2.2%	+6.5%

- Of which, MVNE revenue: ¥5,445 million, -36.3% YoY

- Impacted by 1) the year-beginning decrease of purchasing unit charge and 2) a large MVNE client switching to another operator due to M&A

## ◆ Internet Connectivity (Consumer) Services

➢ 1H21: ¥12,196 million, -5.4% YoY

- Subscription growth is back to net increase due to well-reviewed GigaPlans

✓ 2Q21-end consumer mobile subscriptions: 1,072 thousand (+19 thousand QoQ). Of which, GigaPlans: 556 thousand (+94 thousand QoQ)

- Impacted by ARPU decrease along with the launch of GigaPlans

## ◆ Outsourcing Services

➢ 1H21: ¥19,546 million, +13.4% YoY

- Of which, security services: ¥10,429 million

<Revenue growth>

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
YoY	+11.9%	+13.1%	+12.0%	+13.5%	+15.0%	+18.2%
QoQ	+3.2%	+4.2%	+2.3%	+3.3%	+4.5%	+7.0%

## ◆ WAN Services

➢ 1H21: ¥12,881 million, +4.4% YoY

<Revenue growth>

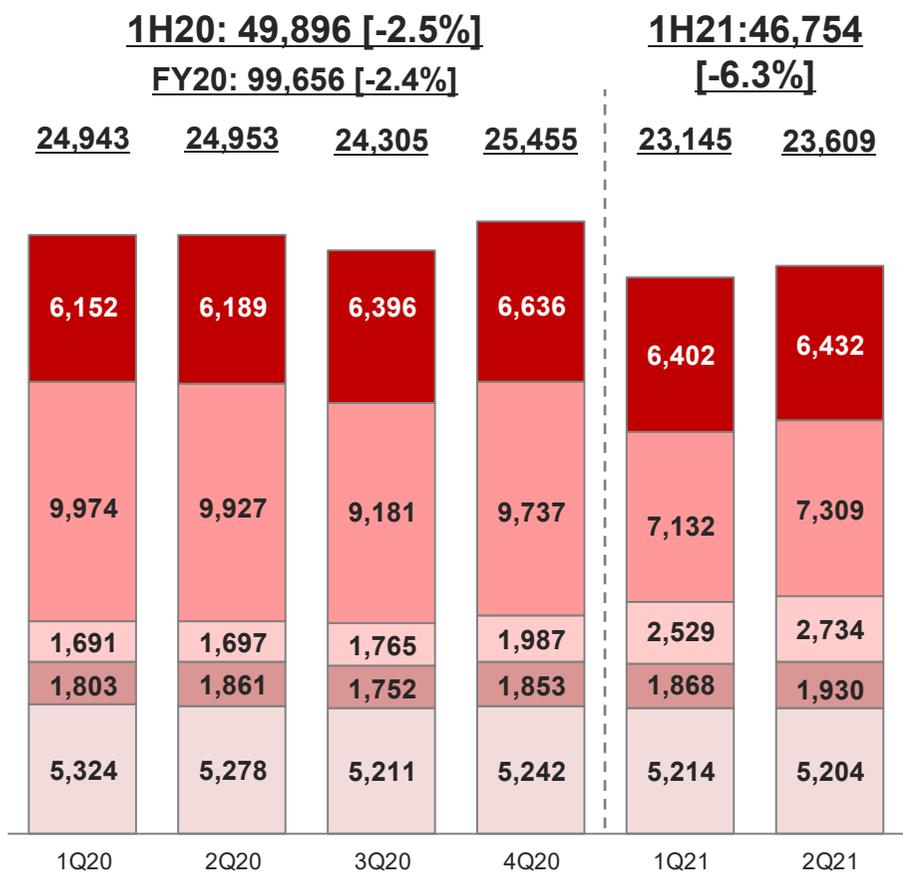
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
YoY	(16.8%)	(11.0%)	(2.8%)	+4.3%	+4.4%	+4.4%
QoQ	(0.0%)	(0.2%)	+1.8%	+2.8%	+0.1%	(0.2%)

- FY20 revenue decreased due to certain large clients migration to mobile

# Network Services (2) Cost of Revenues

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

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



- 1H21 Circuit-related costs increased by 4.0%, +¥0.49 billion YoY, along with WAN revenue increase
  - Internet backbone circuit cost remains stable as we can leverage scale merit by having one of the largest Internet backbone networks
- 1H21 Outsourcing-related costs decreased by 27.4%, -¥5.46 billion YoY mainly due to cost decreasing factors of mobile data interconnectivity and voice purchasing
- 1H21 Others increased by +55.3%, +¥1.87 billion YoY as it included an increase in mobile device purchase
  - 1H21 purchasing of mobile device: up ¥1.24 billion YoY, 1Q: up ¥0.52 billion YoY, 2Q: up ¥0.72 billion YoY

### Regarding mobile data interconnectivity cost recognition:

(Mobile Network Operator's mobile infrastructure cost)

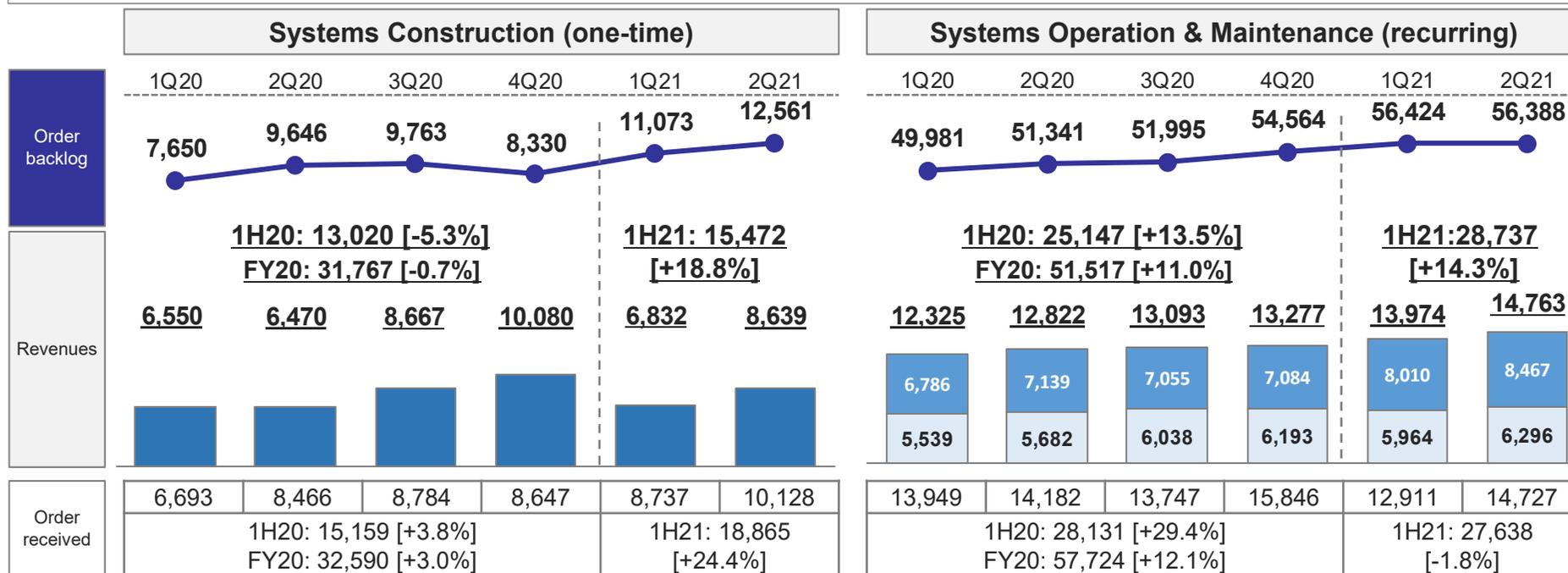
- As for our FY21 usage charge, from 1Q21, we are applying ¥28,385 per Mbps as a unit charge which was disclosed by Docomo based on the future cost method.
- As for our FY19 Docomo's usage charge, we used ¥42,702 per Mbps (decrease by 13.4% YoY) as a unit charge, which was fixed in Jan. 2021. Onetime cost reduction recorded due to the difference between the fixed unit charge and our estimate unit charge were as follows: 3Q20: ¥0.70 billion, 4Q20: ¥0.39 billion.
- As for our FY20 Docomo's usage charge, we used ¥41,436 per Mbps (decrease by 3.0% YoY) as a unit charge to recognize FY20 cost based on Docomo's future cost method. This unit charge will be fixed around Dec.21 and Jan. 22.
- Expected cost reduction, when FY20 unit charge is fixed, is taken into our FY21 financial target conservatively. Such potential cost reduction was not accounted for in our 1H21 financial results.

# Systems Integration (SI) (1) Revenues

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

Financials

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



- Large-scale construction orders received in 2Q21
  - Accumulating order received across all industries: Implementation of SaaS such as Microsoft 365, Enhancement of internet gateway, Replacement of campus network for universities etc.

- Systems operation & maintenance revenues continued to grow mainly because we continued to accumulate system construction projects etc.

## Overseas Business

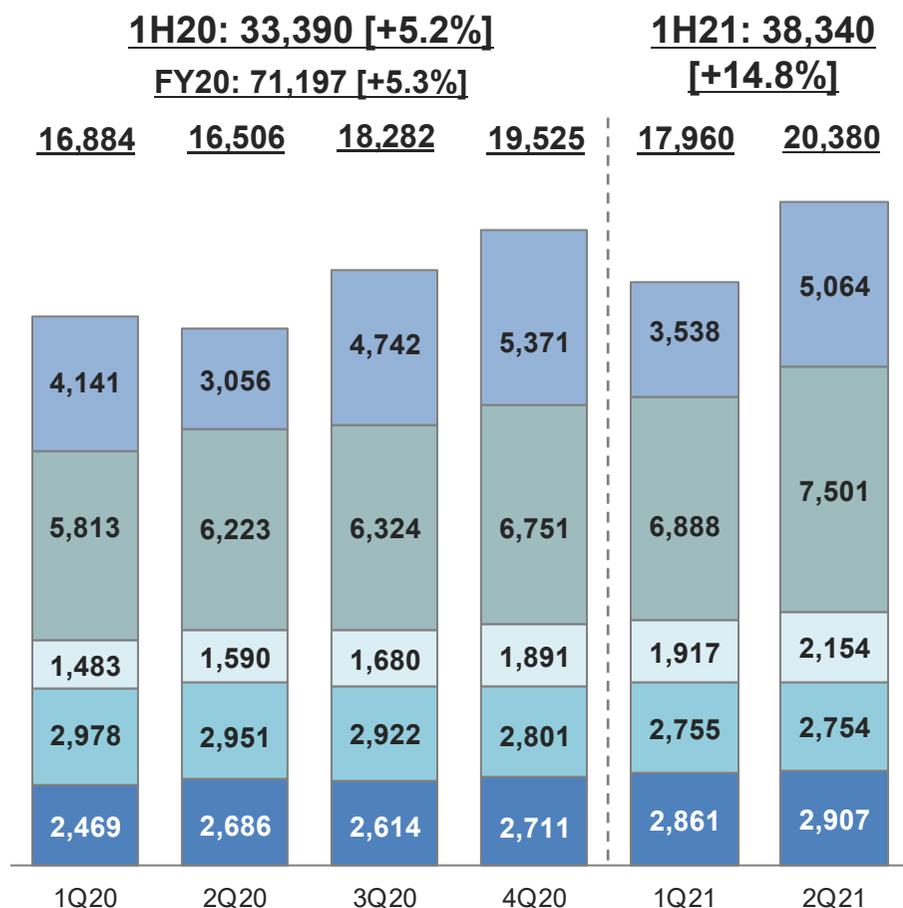
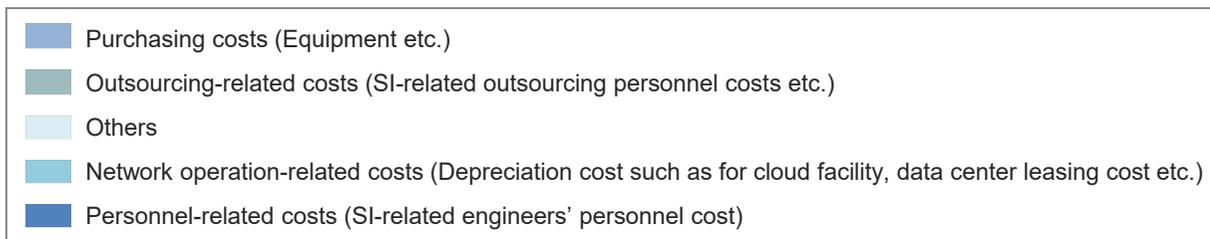
- ◆ 1H21 results: Revenues: ¥8.33 bn, Operating profit: ¥0.43 bn  
FY21 target: Revenues approx. ¥18 bn, Operating Profit approx. ¥0.9 bn (No change from initial forecast)
- ◆ Financial impact from PTC consolidation
  - FY21 outlook: Revenues approx. ¥8.5 bn, Gross profit approx. ¥0.8 bn, Operating profit approx. ¥0.4 bn (No change from initial forecast)
  - 1H21 results: Revenues ¥3.64 bn (breakdown: construction ¥2.59 bn, systems operation & maintenance ¥1.05 bn), Gross profit ¥0.32 bn (Gross profit ratio: 8.8%), Operating Profit ¥0.12 bn

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

Unit: ¥ (JPY) million

**Financials**

[ ], YoY = Year over year comparison



- Cost of revenues related to PTC (1H21: JPY3.32 billion) is mainly recognized in purchasing costs, outsourcing-related costs and personnel related costs
- Purchasing costs increased mainly due to procurement of tablet devices for IoT projects
- Outsourcing-related costs are connected with projects size and revenue volume to some extent
- Others increased mainly due to an increase in license costs along with expansion of multi-cloud demands
- No significant increase for network operation-related costs

While semiconductor shortage imposes some difficulties in procuring devices and others, as of now, no significant impact is expected for FY21 financial outlook

Number of SI-related outsourcing personnel (unit: personnel)

1Q20-end	2Q20-end	3Q20-end	4Q20-end	1Q21-end	2Q21-end
1,094	1,181	1,236	1,270	1,244	1,300

# Number of Employees

YoY = Year over year comparison



- June-end 2021 employees increased by 274 YoY mainly due to the followings: +190 of new graduates in Apr. 2021, +62 through PTC consolidation

## Personnel-related costs & expenses

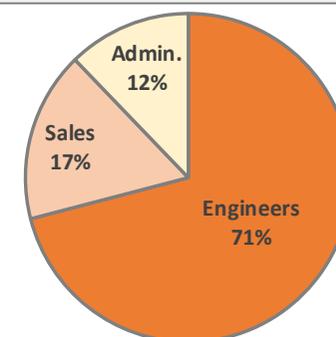
Unit: ¥ (JPY) million  
( ) = % of revenue

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
6,835 (13.6%)	7,281 (14.2%)	7,032 (12.9%)	7,405 (13.0%)	7,756 (14.6%)	7,892 (14.1%)
1H20: 14,115 (13.9%) +8.8%YoY				1H21: 15,648 (14.3%)	
FY20: 28,553 (13.4%) +8.4%YoY				+10.9%YoY	

- 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.

- 180 new graduates are planned to join in Apr. 2022
- FY21 net increase of employees is planned to be approximately 290 (No change from initial forecast)

## Employee Distribution

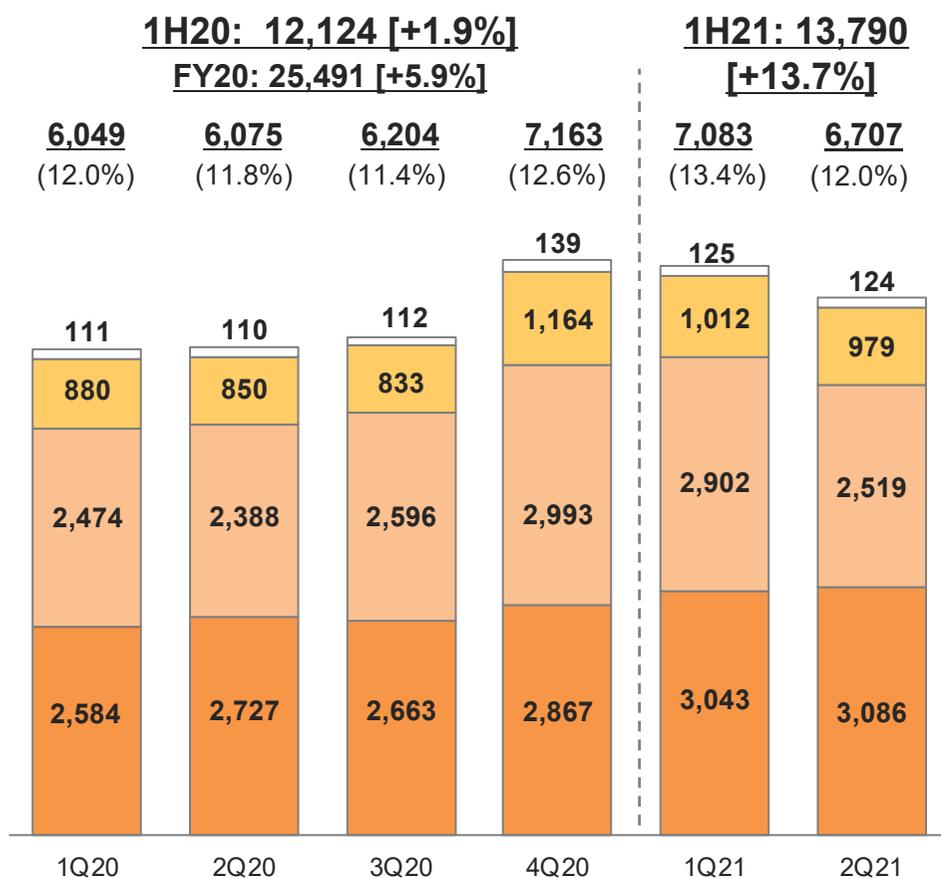


## IJJ's Turnover Rate (Full-time employee)

FY18	FY19	FY20
7.2%	4.6%	3.6%

- Turnover rate is calculated by dividing leavers for that fiscal year by the number of full-time employees at the beginning of that fiscal year
- IJJ's turnover rate is lower than its Industry average turnover rate for telecommunication which is about 10%. The industry average turnover rate is announced by the Ministry of Health, Labor and Welfare every year

- 1H21 personnel-related costs and expenses
  - Through PTC consolidation, ¥0.26 billion is added (1Q: ¥0.13 billion, 2Q: ¥0.14 billion)



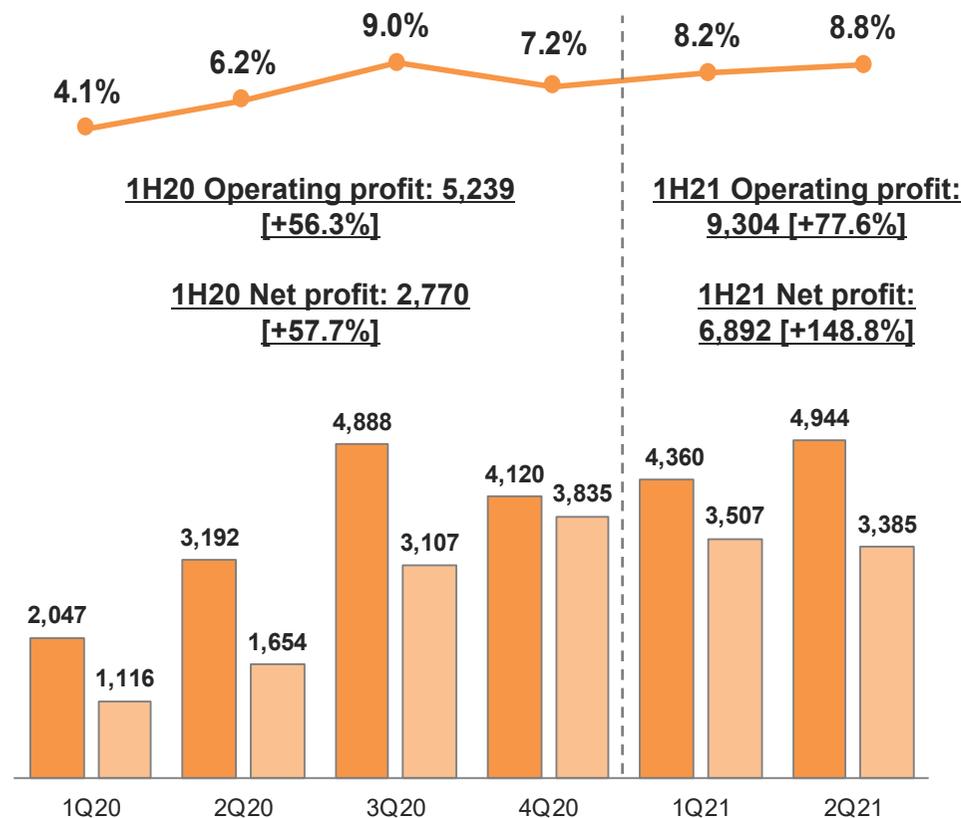
- Research & development expenses mainly consist of personnel expenses of IIJ Innovation Institute Inc., consolidated subsidiary
- Commission expenses are mainly consumer sales commissions and recruitment expenses
- 1H21 Others slightly increased mainly due to advertisements for consumer business

• 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  
[ ], YoY =Year over year comparison

## Financials



1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	
(74)	(286)	186	368	1,208	292	Finance income (expense), net
(279)	(135)	(313)	319	(217)	(155)	Share of profit (loss) of investments accounted for using equity method
(572)	(1,084)	(1,625)	(952)	(1,807)	(1,667)	Income tax expense
(6)	(34)	(29)	(21)	(36)	(30)	Less: Profit for the period attributable to non-controlling interests

### ◆ Operating profit

➤ 1H21: ¥9,304 million, +77.6% YoY

### ◆ Profit before tax

➤ 1H21: ¥10,432 million, +133.6% YoY

- Interest expense: -¥272 million
- Foreign exchange gain : +¥3 million
- Valuation gain on funds\*: +¥1,692 million (1Q +¥1,296 million, 2Q +¥396 million)
- Dividend income: +¥54 million
- Interest income: +¥23 million
- Shares of loss of investments accounted for using equity method: -¥373 million
- ✓ Equity in net loss of DeCurret:

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
306	273	207	193	296	256

- IJJ ownership: 4Q19 30.0%, from 1Q20 41.6%, from 1Q21 38.2% is 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

\*Under IFRS, equity securities are measured at fair value through OCI (Other Comprehensive Income) while funds are measured through profit or loss.

### ◆ Net profit

➤ 1H21: ¥6,892 million, +148.8% YoY

- Income tax expense: -¥3,474 million (1H20: -¥1,656 million)

# Consolidated Statements of Financial Position (Summary)

Financials

- Ratio of total equity attributable to owners of the parent: 40.7% as of March 31, 2021, 43.6% as of September 30, 2021

Unit: ¥ (JPY) million

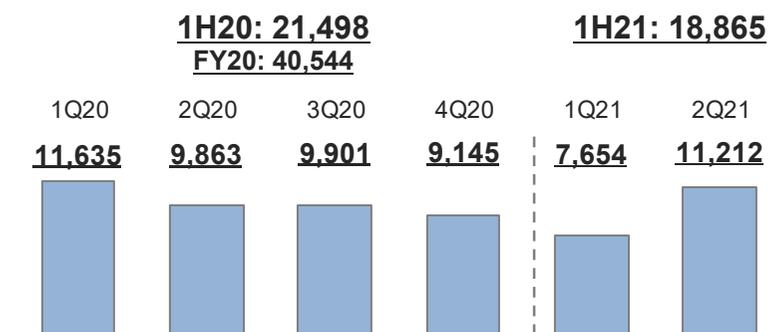
	Mar. 31, 2021	Sep. 30, 2021	Changes
Cash and cash equivalents	42,467	39,795	(2,672)
Trade receivables	34,799	30,821	(3,978)
Inventories	2,171	2,091	(80)
Prepaid expenses (current and non-current)	20,136	23,847	+3,712
Tangible assets	17,084	17,829	+745
Right-of-use assets	50,708	47,734	(2,974)
Goodwill and intangible assets	23,037	25,971	+2,934
Investments accounted for using the equity method	9,027	8,578	(449)
Other investments	12,912	17,731	+4,819
Others	8,436	8,332	(104)
<b>Total assets:</b>	<b><u>220,777</u></b>	<b><u>222,729</u></b>	<b><u>+1,952</u></b>
Trade and other payables	19,244	16,742	(2,502)
Borrowings (current and non-current)	25,560	22,955	(2,605)
Contract liabilities and Deferred income (current and non-current)	14,832	17,134	+2,302
Income taxes payable	3,012	3,149	+137
Retirement benefit liabilities	4,169	4,386	+217
Other financial liabilities (current and non-current)	53,527	50,176	(3,352)
Others	9,462	9,941	+479
<b>Total liabilities:</b>	<b><u>129,806</u></b>	<b><u>124,482</u></b>	<b><u>(5,324)</u></b>
Share capital	25,531	25,562	+31
Share premium	36,389	36,420	+31
Retained earnings	25,047	30,180	+5,133
Other components of equity	4,865	6,904	+2,039
Treasury shares	(1,875)	(1,851)	+24
<b>Total equity attributable to owners of the parent:</b>	<b><u>89,956</u></b>	<b><u>97,215</u></b>	<b><u>+7,258</u></b>

# Consolidated Cash Flows

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

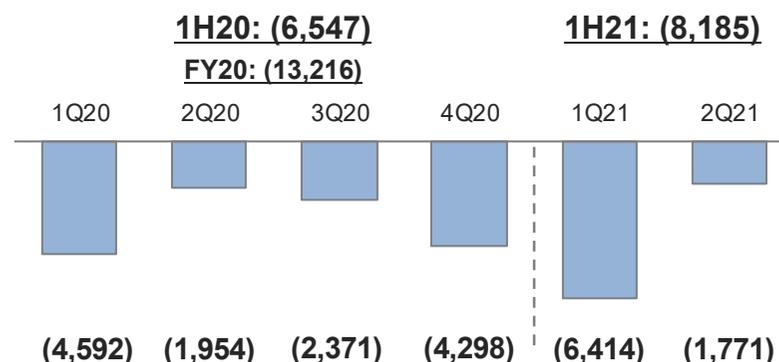
Financials

## Operating Activities



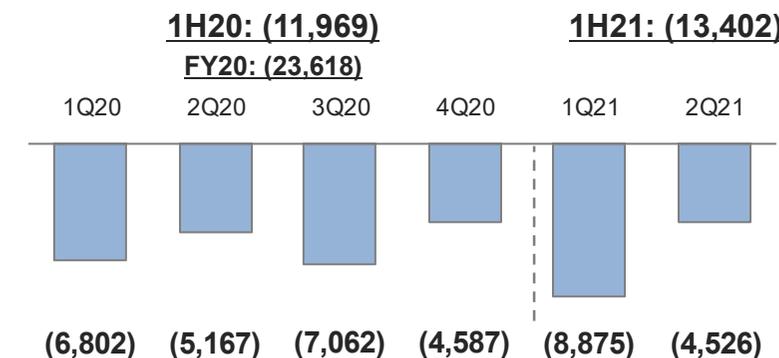
	Major Breakdown	YoY Change
Profit before tax	10,432	+5,966
Depreciation and amortization	13,266	(889)
Finance income	(1,742)	(1,635)
Changes in operating assets and liabilities	(399)	(4,420)
Income taxes paid	(3,352)	(1,307)

## Investing Activities



	Major Breakdown	YoY Change
Purchase of tangible assets	(4,164)	(1,411)
Purchase of investments accounted for using equity method	-	+2,754
Purchases of a subsidiary	(2,612)	(2,612)
Purchase of intangible assets such as software	(2,167)	+605
Proceeds from sales of tangible assets	1,011	(437)

## Financing Activities

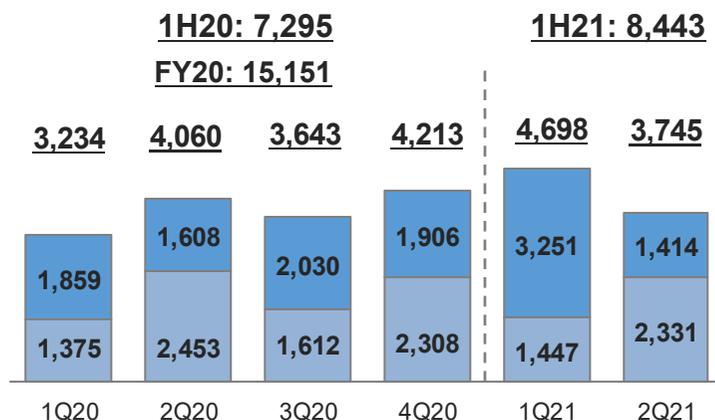


	Major Breakdown	YoY Change
Payment of operating/finance leases and other financial liabilities	(8,989)	+1,401
Repayment of long-term borrowings	(4,085)	(3,170)
Net increase in short-term borrowings	1,480	+1,480
Dividends paid	(1,759)	(1,150)

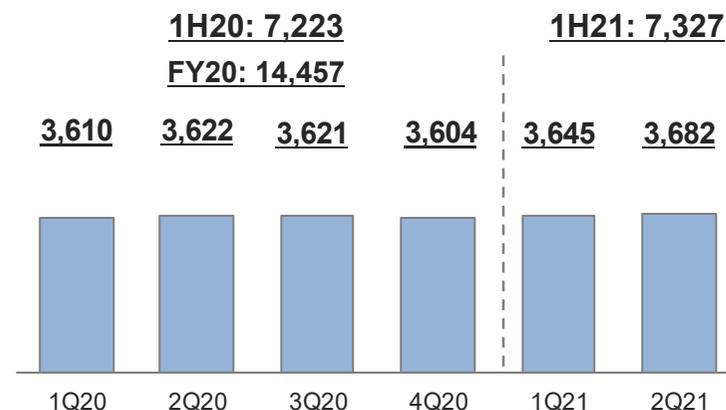
# Other Financial Data

Unit: ¥ (JPY) million

## CAPEX



## CAPEX-related depreciation and amortization

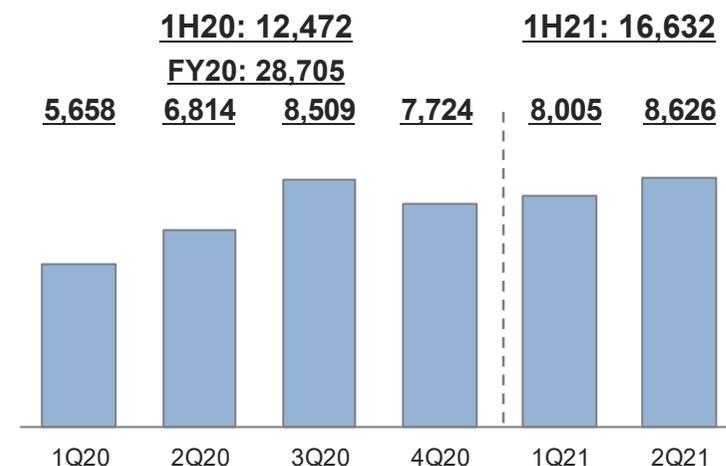


### Breakdown (Unit: JPY billion)

	1H20	1H21
NW Usual Capex	5.0	4.4
Cloud-related	1.2	1.5
Shiroi DC-related	0.8	0.6
Customer-related	0.2	1.8
ATM-related	0.1	0.0

### FY21 outlook: approx. ¥17.5 billion

## Adjusted EBITDA

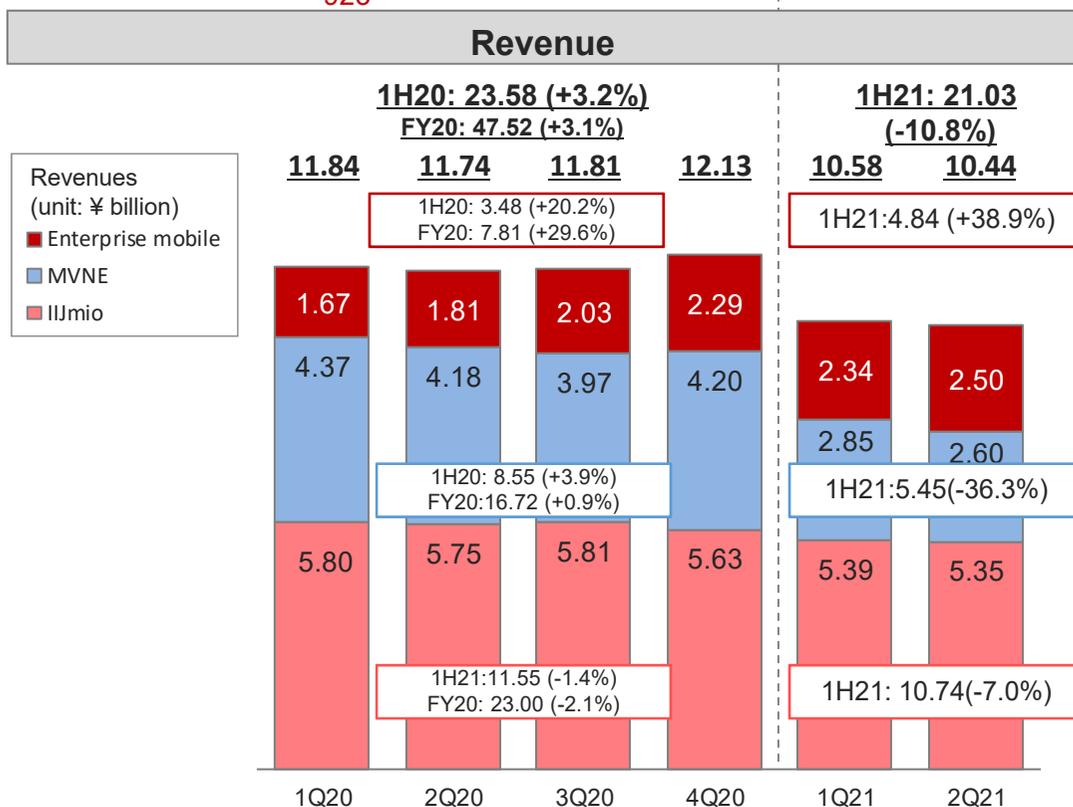


- Total amount of capital expenditure is the amounts of acquisition of tangible and intangible assets by cash and entering into finance leases for the fiscal year, excluding duplication due to sale and leaseback transactions and acquisition of assets that do not have the nature of investment, such as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

# Service & Business Developments: Mobile & IoT

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

Financials



- MVNE: IJ Mobile MVNO Platform Services (providing mobile services to other MVNOs)
- Enterprise mobile: Deducting MVNE from IJ Mobile
- 2Q21 full-MVNO revenue: ¥0.89 bn (91.3% Enterprise mobile, 8.7% IJmio)
- ARPU is an abbreviation for Average Revenue Per User

## Enterprise mobile

- 1H21 revenue: ¥4.84 bn (+¥1.36 bn YoY)
- 2Q21-end subs: 1,218 thousand (+55 thousand QoQ)
  - ✓ In addition to various network camera connection projects, we are seeing diversification of IoT usages such as settlement, vehicle-related, GPS tracker, digital signage

## MVNE

- 1H21 revenue: ¥ 5.45 bn (-¥3.11 bn YoY)
  - ✓ Impacted by the decrease in purchasing unit charge and a large MVNE client switching to another operator due to M&A
- 2Q21-end subs: 992 thousand (-51 thousand QoQ)
  - ✓ QoQ decrease is mainly due to a large MVNE client switching to another operator due to M&A (Expect the migration to almost complete at 4Q21-end)
- 2Q21-end MVNE clients: 162 (+7 clients YoY)
  - ✓ Cable TV operators (88 operators), prominent retailer etc.

## IJmio (consumer mobile)

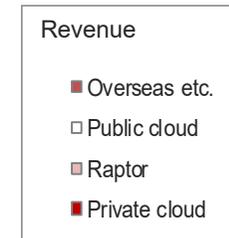
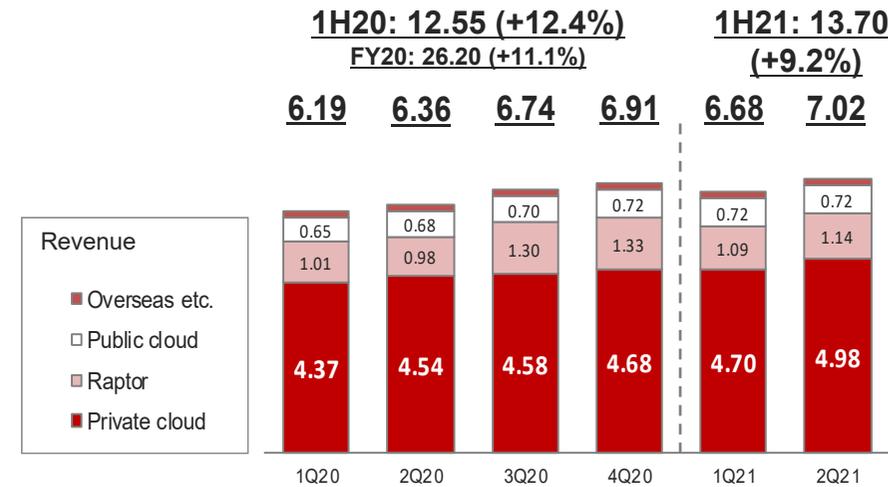
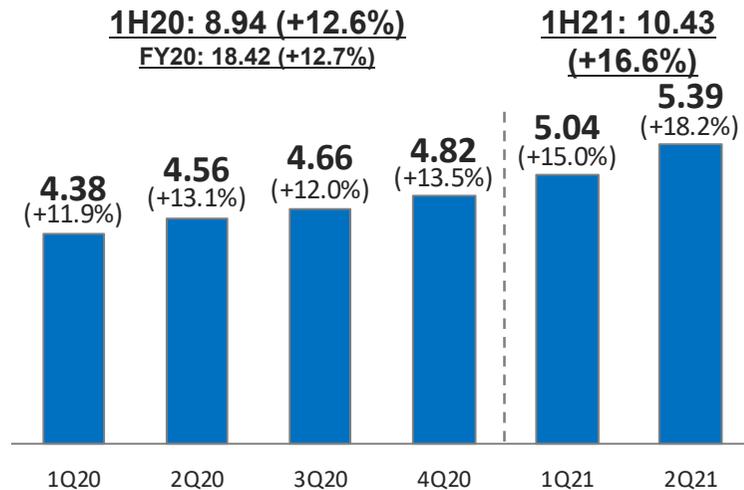
- 1H21 revenue: ¥10.74 bn (-¥0.81 bn YoY)
- 2Q21-end subs: 1,072 thousand (+19 thousand QoQ)
  - ✓ New plan "GigaPlan" launched on Apr. 1, 2021 (Old plan's users migration from May 1, 2021)
    - 2Q21-end subs: 556 thousand (of which approx. 30% are new users)
    - 1Q21-end subs: 462 thousand (of which approx. 17% are new users)
  - ✓ IJmio as No.1 customer satisfaction (J.D.Power Japan "Survey on customer satisfaction for mobile services 2021, MVNO category)
  - ✓ Charge for voice call, pay as you go basis, was revised in Sep. 2021, Half of the previous charge

# Service & Business Developments: Security & Cloud

% = Year over year comparison

Financials

<b>Security Services (recurring) revenue</b>	Unit: ¥ (JPY) billion	<b>Cloud Services (recurring) revenue</b>	Unit: ¥ (JPY) billion
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- Security service revenue (recurring) is 100% recognized in Outsourcing services
- “Security services” is a general term for individual security service such as mail security, firewall, Web filtering, DDoS protection, SOC service, and Endpoint (EDR)
- Demands to enhance network seemed more urgent than security enhancement during FY20
- Cloud based comprehensive mail security services “IIJ Secure MX” which was launched in Sep.2006 continued to grow. Have been used by more than 1,400 enterprises
- Network security revenue which includes DDoS protection services continued to grow
- Enhancement of service functionality
  - Expanded Web filtering functionality for Cloud based Web access security service “IIJ Secure Web Gateway” in Oct. 2021
- Total security business volume (Service + SI)
  - 1H21: ¥11.91 bn (+15.5%)

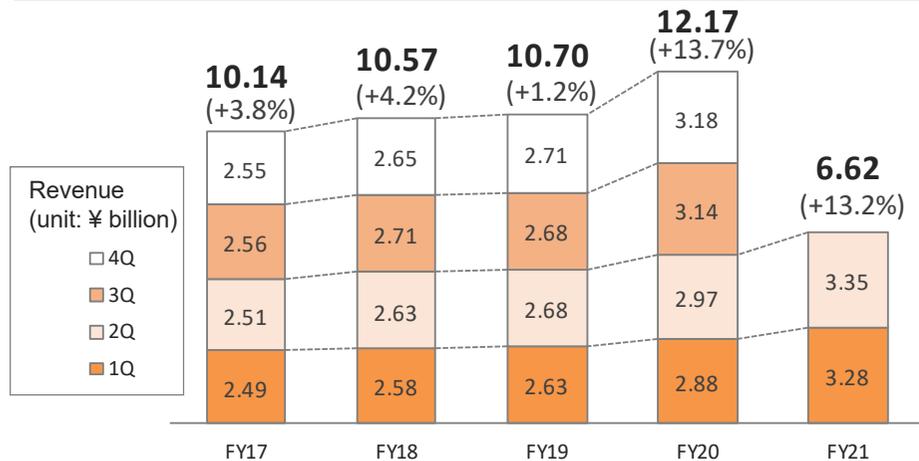
- 2Q21 revenue recognition
  - 89.7% Systems operation and maintenance (mainly private cloud which includes multi-cloud)
  - 10.3% Outsourcing service (mainly public cloud)
- Private cloud grew as demands for multi-cloud continued
- Raptor revenue fluctuates depending on trading volume of FX
- “IIJ GIO Infrastructure P2 Gen.2” was launched in Oct. 2021 to promote full-scale cloud shift of enterprise systems
  - Full-scale cloud adoption by Japanese blue-chip enterprises is taking time:
    - ✓ Only 20% of the surveyed clients had shifted more than 50% of their servers (“Nationwide report on IT department 2021”)
- BCR approved for EU’s personal data protection policies known as GDPR in Aug. 2021
  - BCR (Binding Corporate Rules) which is rules defined by EU’s GDPR (General Data Protection Rules) prepared by IIJ Group was approved by EU’s Data Protection Authority
- Raptor: SaaS type FX (Foreign Exchange) trading platform for online brokers
- “Nationwide report on IT department 2021” published by IIJ in July 2021 (n=737)
  - <https://www.iij.ad.jp/svcsol/survey/all-it/2021/> Available only in Japanese

# Service & Business Developments: IP Service

% = Year over year comparison

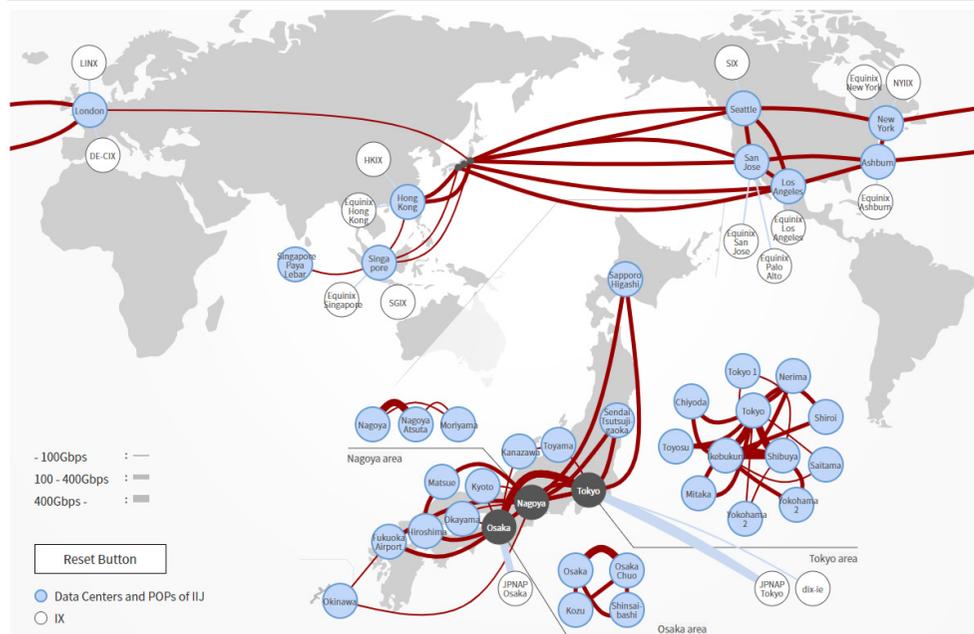
Financials

## IP Service (recurring) revenue



- IP (Internet Protocol) service is 100% recognized in Internet connectivity services for enterprise
- ISP is an abbreviation for Internet Service Provider

## IJ's Internet backbone ~ global coverage ~



© Internet Initiative Japan Inc.

### ➤ IP Service is bandwidth guaranteed and dedicated Internet connectivity service

- Charge based on contracted bandwidth
- Enterprises use the service for their core and main Internet connectivity

### ➤ Demands have been increasing along with the advancement of IT usages in Japan as seen in increases in virtual meetings, work from home, SaaS usages etc.

- New trend of hybrid work style, expansion of SaaS usages, full-scale adoption of Cloud services, increase in CDN traffic and more

### ➤ IIJ's competitive advantages

- Japan's first full-scale ISP who has great relationship with Japanese blue-chips companies
  - ✓ Clients are mainly blue-chips companies including BtoBtoC companies, such as consumer ISP, and central government agencies
  - ✓ New entry to the market is difficult as it has already been matured
- Enjoying economy of scale by operating one of the largest Internet backbone networks in Japan
  - ✓ Main costs are for those needed to operate and maintain the entire Internet backbone network such as Internet backbone circuit leasing cost, depreciation for network equipment, data center related and personnel costs. These cost are not directly linked to revenue
    - As an independent and large scale ISP, IIJ has a strong bargaining power when purchasing circuit lines
    - Network equipment performance continues to improve relative to its cost. CAPEX and its related depreciation are in relatively stable trend
  - ✓ Revenue (monthly recurring) is increasing along increase in contracted bandwidth of the current clients
    - Minimum contract period is 1 year. Low churn rate with automatically renewal
- Network is fully redundant configuration: carriers' circuit lines, routes (main and backup) and network equipment (hot and stand by)

# 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**

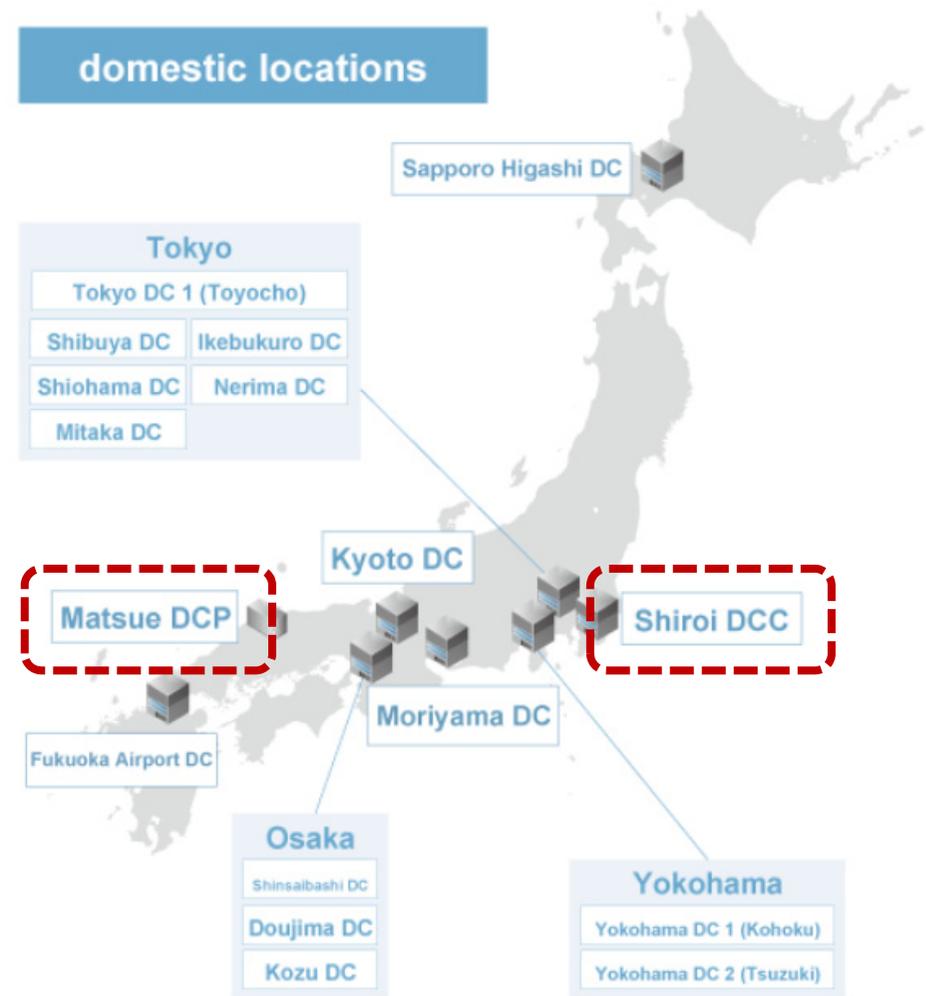


overseas locations



## Data Center Locations

### domestic locations



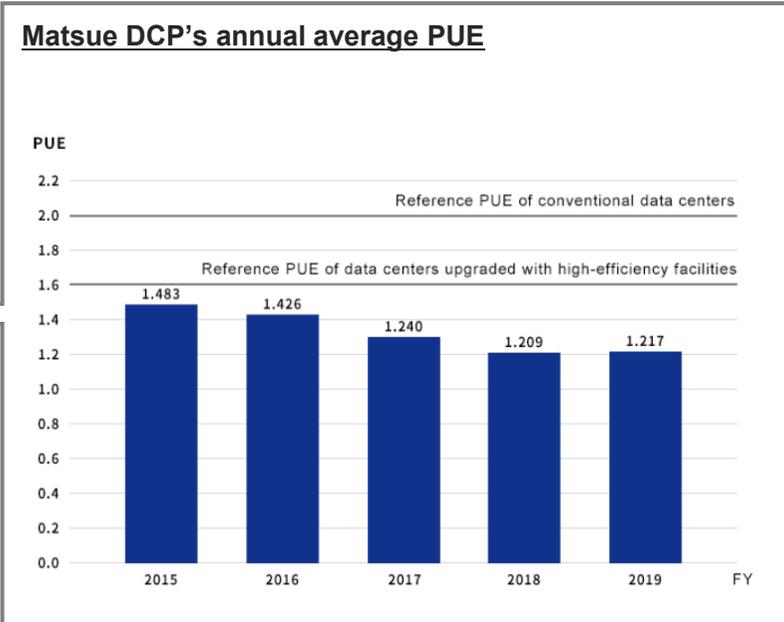
# Data Centers (2)

## 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*1 facility accordingly with demand
<b>Schedule</b>	Completed in April 2019, opened in May 2019
<b>Estimated PUE*2</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



\*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 P. for Shibuya City
  - Reliable Internet connectivity environment for Ota city
  - Campus network for universities/colleges

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

Appendix

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 ▲ -14.5%	▲ -20.5%	
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%			▲ -3.5%	▲ -13.4%	

- 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 sometime between December 2021 and January 2022 and recognized in our FY21 financial results (either in 3Q21 or 4Q21).
- 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

# Comparison between the old and new plans of consumer mobile

	Old		New				
Basic Monthly Charge	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 Share Plan (12GB)	with Voice	¥3,260	8 GigaPlan	with Voice	¥1,380	
		Data-only	¥2,560		Data-only	¥1,280	
				15 GigaPlan	with Voice	¥1,680	
					Data-only	¥1,580	
				20 GigaPlan	with Voice	¥1,880	
					Data-only	¥1,780	
	Pay as you go	Voice call charge as you go		¥22 per 30 seconds		Voice call charge as you go	
						¥11 per 30 seconds	

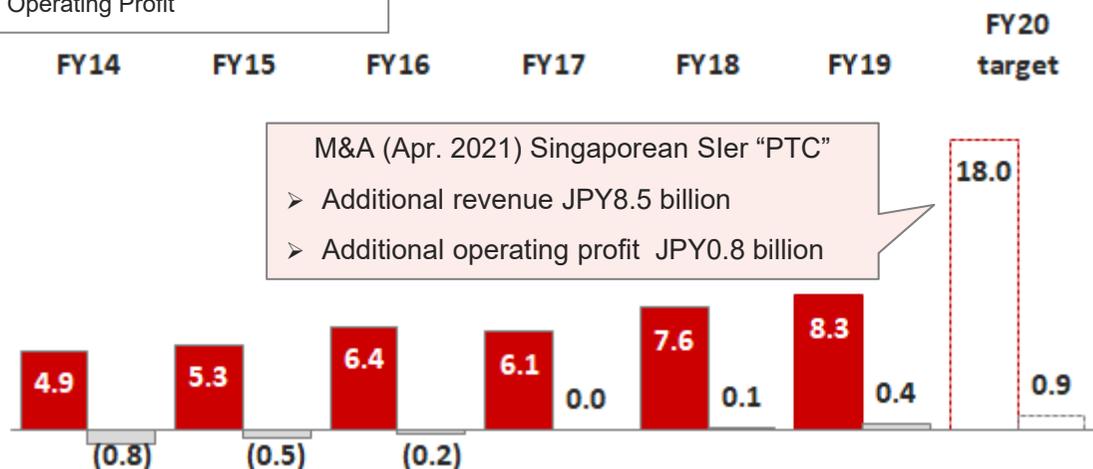
- The above table briefly indicates service prices for major functions to show the differences between the old and new plans.
- Basic monthly charge excludes taxes while pay as you go includes taxes.
- Voice call charge is only for domestic calls. New voice call charge as you go was revised on September 11, 2021

# Overseas Business

## Revenue and Operating Profit

Unit: JPY billion

■ Revenue (Mostly recognized in SI)  
 ■ Operating Profit



• FY16 and before: US-GAAP, FY17 and after: IFRS

## Overseas Offices



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## Business Developments

- **Started focusing on overseas business around FY11.** It was when Japanese companies started to expand their business overseas and requested us to provide the same service quality we offer in Japan
- **Business in Asia: gradually growing**
  - Increasing demand for network services, SI and etc. in China and Thailand,
  - Indonesia: Large public infrastructure SI project, cloud business gradually growing
  - Vietnam: Cybersecurity Law (Jan. 2019), 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
- **Providing cloud services in Indonesia, Thailand and Vietnam. Working with local prominent IT companies**
  - With Biznet Networks in Indonesia (from Mar. 2015)
  - With T.C.C. Technology Co., Ltd, in Thailand (Feb. 2016)
  - With FTP Telecom Partner in Vietnam (Nov. 2016)

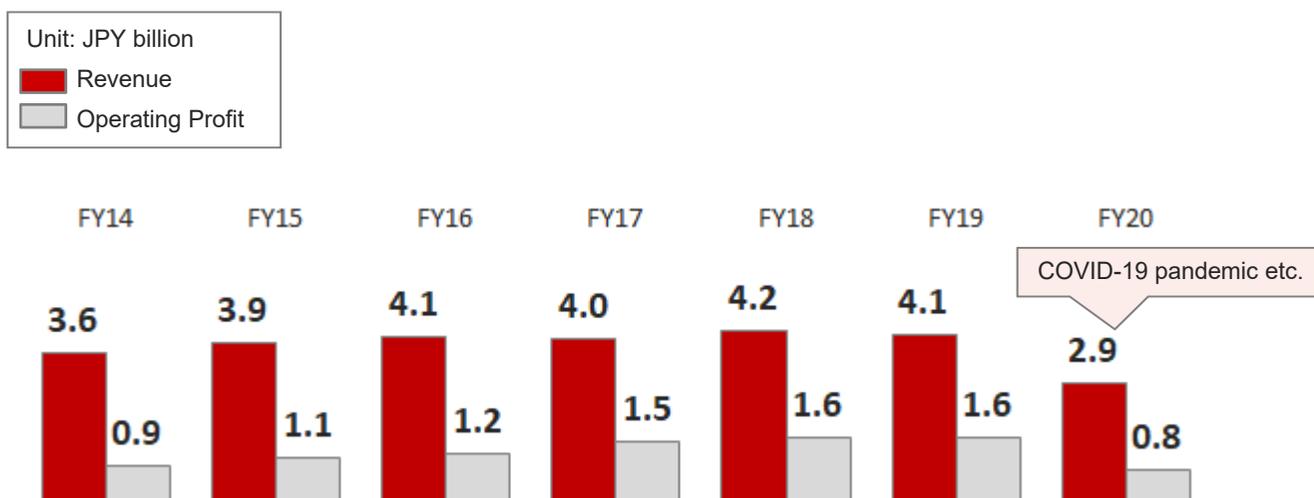
# ATM Operation Business

## Business Model

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

## Revenue and Operating Profit

- 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



• FY16 and before: US-GAAP, FY17 and after: IFRS

## Trust Networks Inc.

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





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.