

# Internet Initiative Japan Inc.

## Corporate Overview

Internet Initiative Japan Inc.  
TSE1 (3774)  
February 2022

### **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: IIJ taking initiatives in Internet field

About IIJ

<b>Established</b>	December 1992
<b>Number of Employees</b>	4,095 (approx. 70% engineers, 20% sales, 10% back office)
<b>Listed Market</b>	Tokyo Stock Exchange (TSE) First Section “Prime Market” under new TSE market segments from Apr. 2022
<b>Large Shareholders</b>	NTT group (26.0%), Koichi Suzuki (5.6%), Global Alpha (5.0%) Koichi Suzuki is Founder, Chairman and Co-CEO of IIJ

- ◆ **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 “IIJ” 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 December 31, 2021.
- We voluntary delisted from the U.S. NASDAQ Market in April 2019. Our ticker symbol at the OTC (Over The Counter) is IIJIY.
- Large shareholders are as of September 30, 2021 except for Global Alpha whose information is based on their filing as of March 2021. CEO Suzuki’s ownership 5.6% includes his wholly owned private company portion.



## Competitive business strategy

- Maintaining long-term relationship with blue-chip client base which is mainly comprised of listed companies and central government agencies in Japan
- Operating one of the largest Internet backbone networks in Japan as an independent ISP and developing 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 in general
- 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 1Q-3Q21 financial result)

## IT systems requiring both network and integration

- Emerging newer usage such as IoT and Cloud which require both network and integration
- While system integrators (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

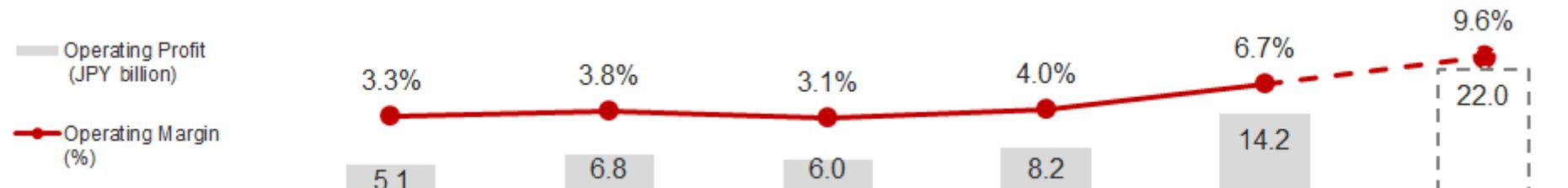
**Structural and strong profit expansion by constant accumulation of enterprise monthly recurring services. Expect this trend to continue by leveraging the business model which as economy of scale**

# Capex and Business Developments

Unit: JPY billion

Growth Strategy

	FY16	FY17	FY18	FY19	FY20	FY21 Target
Revenues	157.8	176.2	192.4	204.5	213.0	228,5

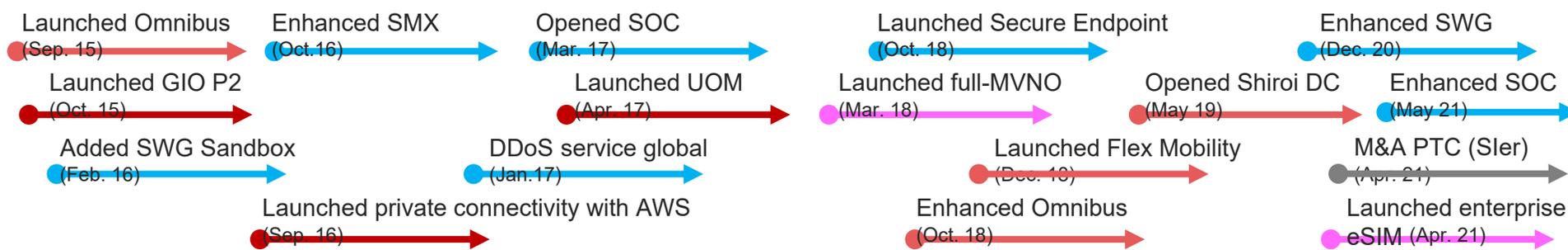


CAPEX (¥ bn)	FY16	FY17	FY18	FY19	FY20	FY21 Target
CAPEX	16.5	20.7	15.1	15.2	15.2	17.5
NW services	12.6	9.4	9.4	9.6	8.8	-
Cloud	3.6	7.9	1.9	2.6	2.8	-
Shiroi DC	-	1.2	2.1	2.0	1.5	-
SI, others	0.3	2.3	1.7	1.0	2.0	-
CAPEX-related depreciation and amortization (¥ bn)	10.9	12.1	13.9	14.4	14.5	-

**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	FY16	FY17	FY18	FY19	FY20	FY21 Target
Number of employees	3,104	3,203	3,353	3,583	3,805	-



- 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

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# Summary of 1Q-3Q21

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

Financials

## Revenue & Profit structurally growing with Enterprise Recurring Revenues Accumulation

Capturing growing demands for IT utilization by leveraging our network (NW) infrastructure and service assets, and development/operation capabilities accumulated over the mid- to long-term

Revenues		Operating Profit		Operating Margin		Net Profit	
¥165.6 bn	+6.1%	¥16.3 bn	+60.9%	9.8%	+3.3 Pt	¥11.5 bn	+96.1%

<b>Network Service</b> (excluding Mobile)	<ul style="list-style-type: none"> <li>➢ IP Services revenue                    ¥10.1 bn +12.0%    Continuously increased with growing enterprise Internet traffic</li> <li>➢ Outsourcing services revenue    ¥29.8 bn +13.5%    In addition to Security services, strong demands for VPN and NW management               <ul style="list-style-type: none"> <li>• Of which, Security services    ¥16.2 bn +18.7%    Led by conventional services (i.e. gateway security) &amp; newer services (i.e. C-SOC &amp; SASE)</li> </ul> </li> <li>➢ WAN services revenue                ¥19.4 bn +4.3%    Opportunities for providing WAN services increasing as a part of enterprises NW</li> </ul>
<b>Mobile</b> (Enterprise & Consumer)	<ul style="list-style-type: none"> <li>➢ Total mobile subscription (3Q-end) 3,375 thousand (+93 thousand QoQ)</li> <li>➢ Enterprise (excluding MVNE) revenue: ¥7.5 bn +36.3% Accumulating IoT related orders by our advantages of full-MVNO, blue chip customer base, and network related solutions</li> <li>➢ GigaPlans subscription (3Q-end) 607 thousand (of which 34% were new users,+51 thousand QoQ)               <ul style="list-style-type: none"> <li>• Top MVNO market share 18.2%, increasing the share with GigaPlans (MM Research Institute's survey, the end of Sep. 21)</li> </ul> </li> <li>➢ FY20 Docomo's mobile interconnectivity cost (unit charge) was fixed (Dec. 21) which decreased by 12.7% YoY, Onetime cost reimbursement in 3Q</li> </ul>
<b>Systems Integration</b> (SI)	<ul style="list-style-type: none"> <li>➢ SI Construction: Revenue ¥24.4 bn +12.6%    Order-received ¥26.5 bn +10.7%    Order backlog (3Q-end) ¥11.3 bn +15.3%               <ul style="list-style-type: none"> <li>• Continuous strong demands for network integration such as adopting Cloud services for Internet gateway, strengthening Internet security, and constructing DR environment</li> </ul> </li> <li>➢ Financial impacts from PTC consolidation (consolidated from Apr. 1, 2021)               <ul style="list-style-type: none"> <li>• Revenues ¥5.30 bn    Operating profit ¥0.26 bn    Slightly weaker than expected mainly due to behavior restrictions caused by the Pandemic</li> </ul> </li> </ul>
<b>Topics</b>	<ul style="list-style-type: none"> <li>◆ Construct 2<sup>nd</sup> site of Shiroi DC to absorb growing demands for racks through FY2027 by gradually operating from Apr. 23</li> <li>◆ Launched a new remote access service "IIJ Flex Mobility Service/ZTNA" enhancing Zero Trust concept (Jan. 22)</li> <li>◆ "IIJ GIO Infrastructure P2" was registered on ISMAP, Japanese government's Cloud service list (Dec. 21)</li> <li>◆ DeCurret HLD, an equity method investee, divested its crypto asset exchange business to focus on digital currency business. (Feb. 22)</li> </ul>

- Net Profit is "Profit for the period attributable to owners of the parent"
- Please refer to page 18 of this document for the details about our Security services such as C-SOC and SASE
- ISMAP (Information System Security Management and Assessment Program) is Japanese government's program for assessing the safety of Cloud services

# Financial Targets for FY21 (upward revision in Nov. 2021)

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

**Financials**

	% of Revenues		Progress
	FY21 Targets <small>(Revised in Nov. 2021)</small>	1Q-3Q21 Results <small>(Apr. 2021 - Dec. 2021)</small>	
Revenues	<b>228.5</b>	<b>165.6</b>	<b>72%</b>
Cost of Sales	78.2% <b>178.7</b>	77.8% <b>128.8</b>	<b>72%</b>
Gross Profit	21.8% <b>49.8</b>	22.2% <b>36.8</b>	<b>74%</b>
SG&A etc.	12.2% <b>27.8</b>	12.4% <b>20.5</b>	<b>74%</b>
Operating Profit	9.6% <b>22.0</b>	9.8% <b>16.3</b>	<b>74%</b>
Profit before tax	9.4% <b>21.5</b>	10.6% <b>17.6</b>	<b>82%</b>
Net Profit	6.0% <b>13.7</b>	7.0% <b>11.5</b>	<b>84%</b>

% of Revenues	YoY	
	FY20 Results <small>(Apr. 2020 - Mar. 2021)</small>	<small>(Comparison b/w FY21Targets &amp; FY20 Results)</small>
	<b>213.0</b>	<b>+7.3%</b> <b>+15.50</b>
	81.1% <b>172.7</b>	<b>+3.5%</b> <b>+5.98</b>
	18.9% <b>40.3</b>	<b>+23.6%</b> <b>+9.52</b>
	12.2% <b>26.0</b>	<b>+6.8%</b> <b>+1.77</b>
	6.7% <b>14.2</b>	<b>+54.4%</b> <b>+7.75</b>
	6.6% <b>14.0</b>	<b>+53.2%</b> <b>+7.47</b>
	4.6% <b>9.7</b>	<b>+41.1%</b> <b>+3.99</b>

## FY21 outlook as of 3Q21 earnings announcement day (Feb. 8, 2022)

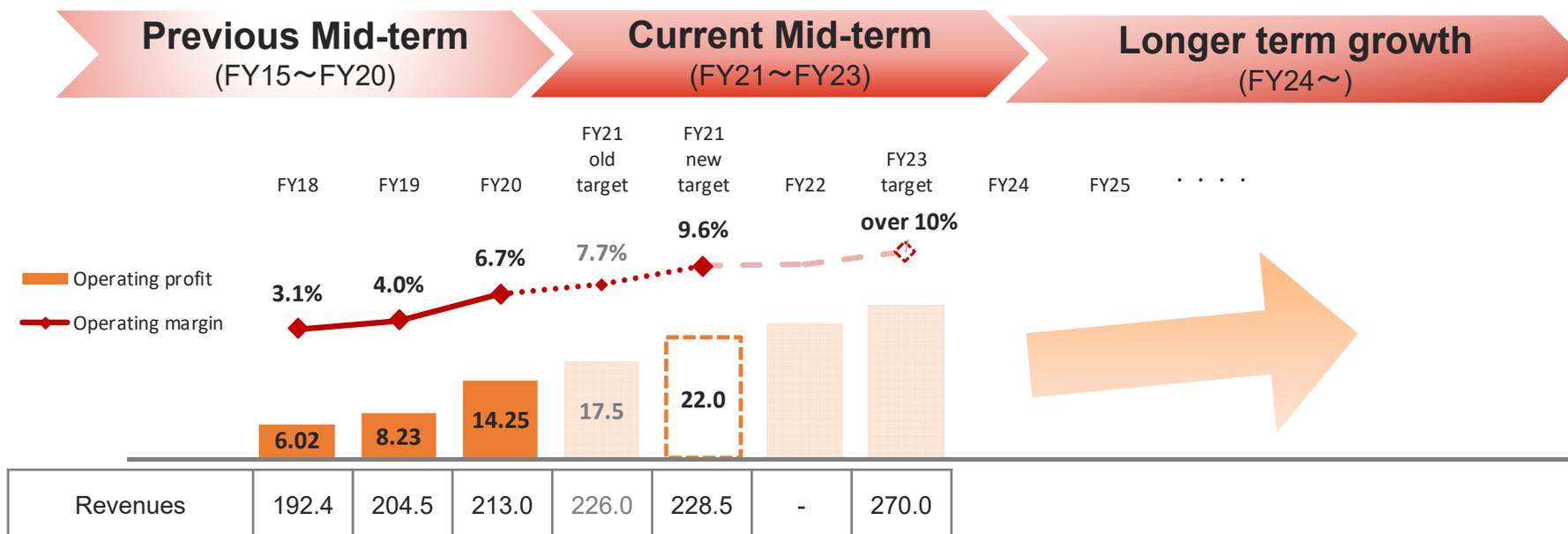
- ◆ Revenues are to be slightly weaker FY21 target mainly due to PTC revenues
- ◆ Operating Profit is to exceed FY21 target mainly due to accumulation of network services & cost reduction for Mobile services
- ◆ Profit before tax is to exceed FY21 target by absorbing the loss generated from the divestment of DeCurret's crypto asset business

- 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"

# Mid-term Plan (FY21-FY23)

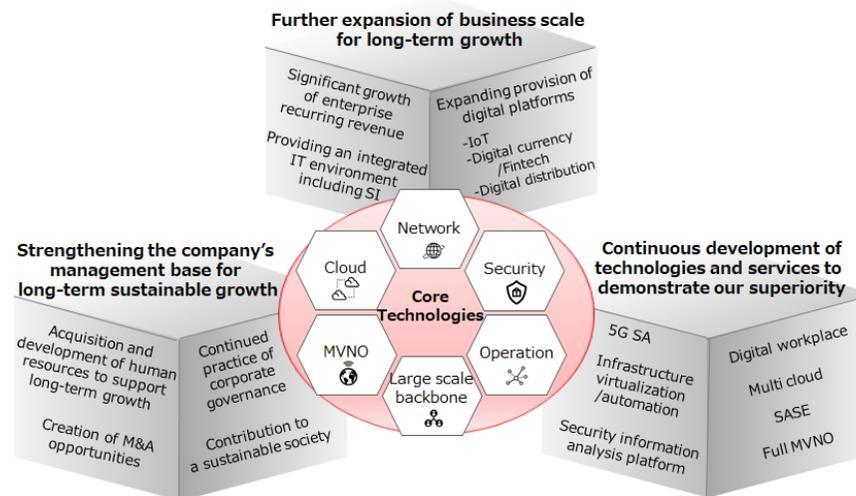
Unit: ¥ (JPY) billion (bn)  
 "times" are written in approx. terms

announced in May 2021, updated Operating Margin in Nov. 2021



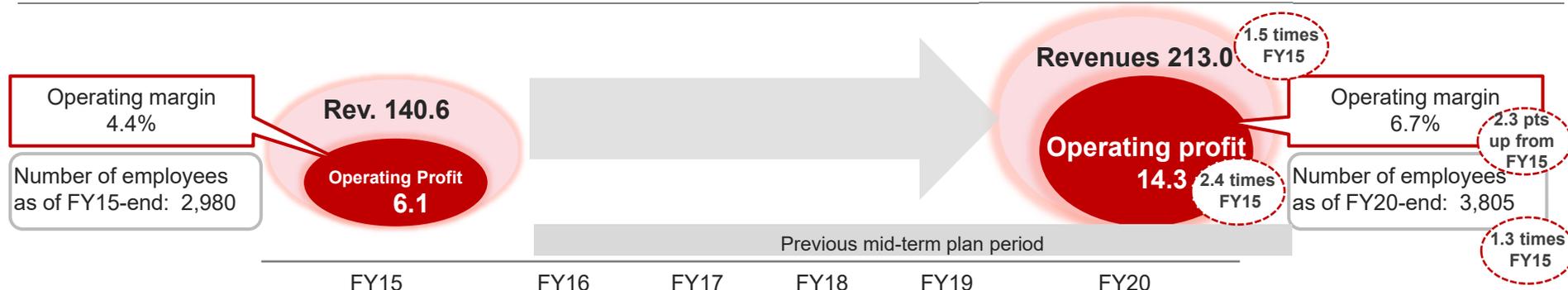
## Mid-term Plan (FY21-FY23)

- ◆ 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 (FY15-FY20) Results

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

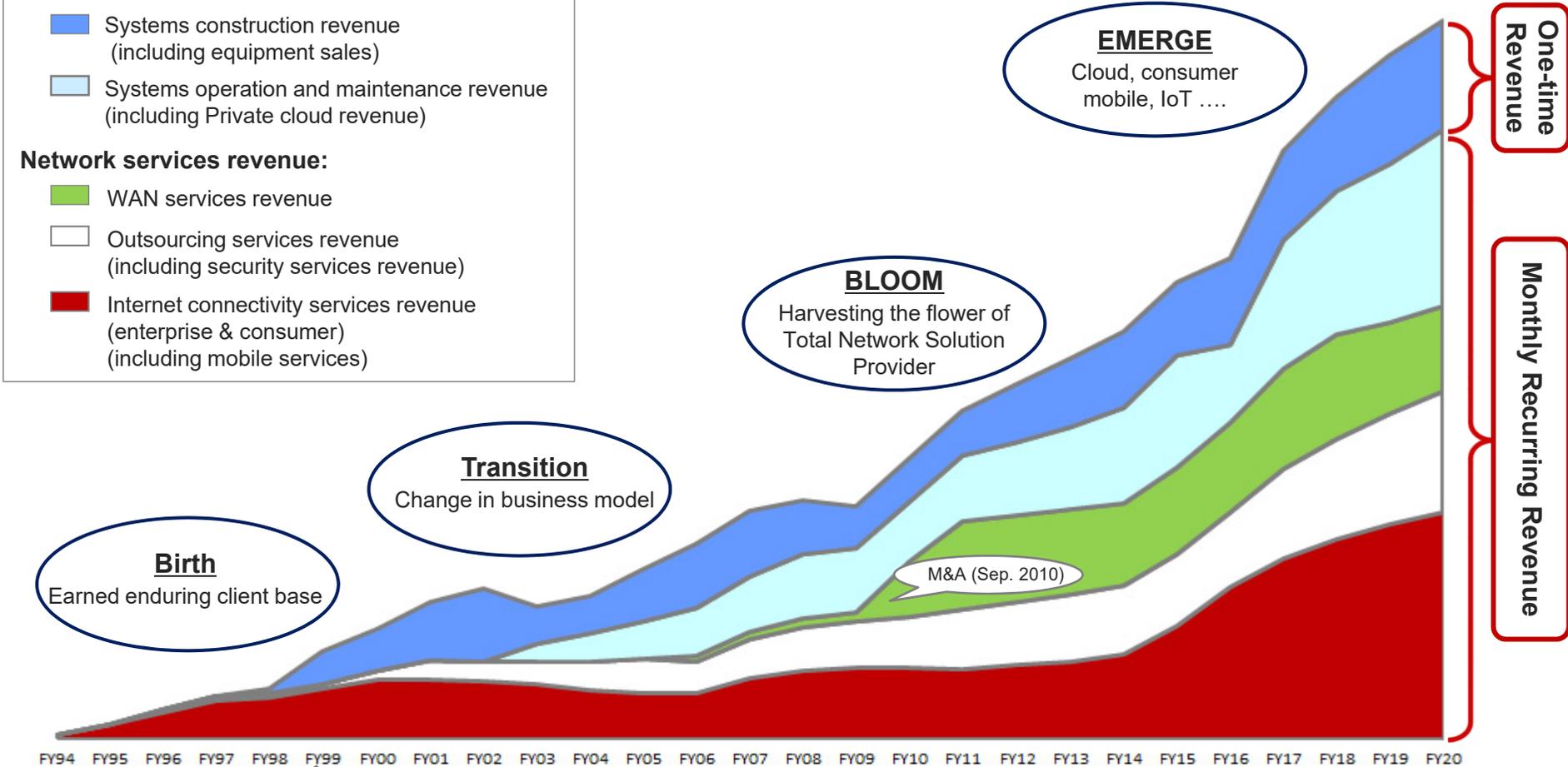


	FY15	FY16	FY17	FY18	FY19	FY20
<b>Enterprise NW services</b> <small>Exc. Mobile &amp; security</small>	<b>FY15: 50.8 → FY20: 58.2</b>					
<ul style="list-style-type: none"> <li>➢ Retained &amp; cross-sold to current clients, IP service revenue growth accelerated</li> <li>➢ Met diversifying and more complex 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>					



# ISP to Total Network Solution Provider

- Systems integration (SI) revenue:**
- Systems construction revenue (including equipment sales)
  - Systems operation and maintenance revenue (including Private cloud revenue)
- Network services revenue:**
- WAN services revenue
  - Outsourcing services revenue (including security services revenue)
  - Internet connectivity services revenue (enterprise & consumer) (including mobile services)



NTT launched Internet connectivity services "OCN" in 1996

The birth of online brokers: Rakuten (formerly known as DLJ Direct SFG) and Monex were founded in 1999

Japanese gaming companies such as GREE were rapidly growing

Y!mobile (Sub-brand of Softbank Mobile) was formed in 2014

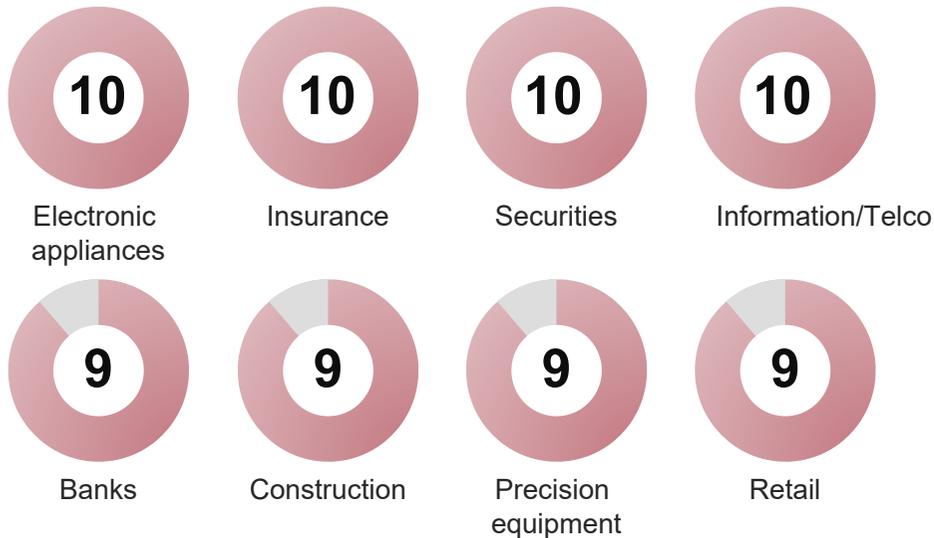


- **The current blue-chips client base was mainly accomplished in the early 1990 as IJ, the first full-scale ISP in Japan, had the pioneer advantage**
  - As IJ never occurred critical network troubles and has been continuously introducing network related services like security and others, IJ has been able to maintain good and long lasting relationship with them.
    - Very low churn rate. When we lose a client, it's mostly due to M&As.
  - IJ's blue-chips client base includes listed companies of all industries, central government agencies, local government etc.
  - IJ's sales staffs, about 20% of the total employees, mainly communicate with IT department who is in charge of IT and network of that entity.
  - IJ focuses its sales activity on large entities, rather than Small and Mid-size entities.

# Excellent Customer Base (2)

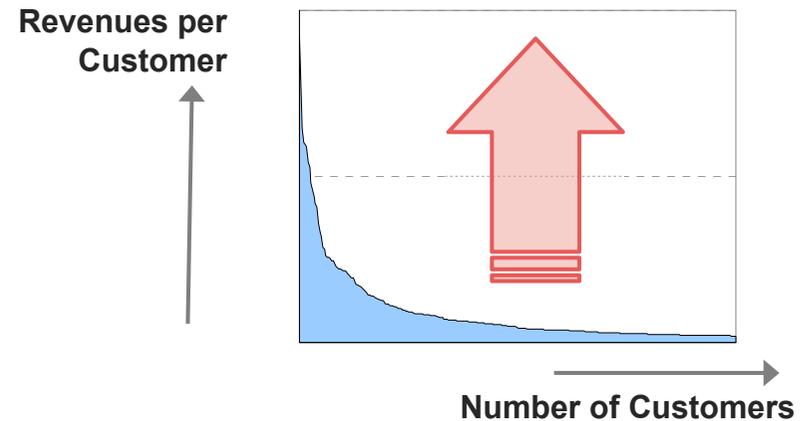
## Cover Most of Top Revenue Companies

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

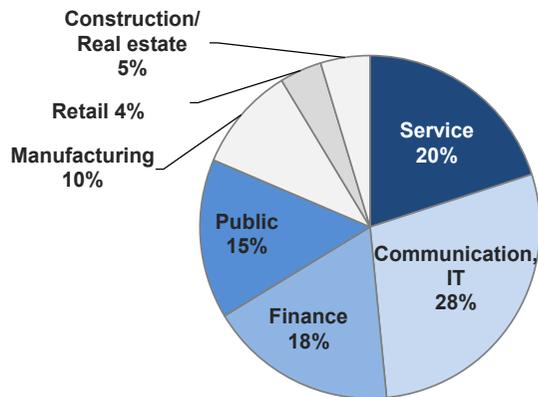


## Increase Revenue per Customer

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

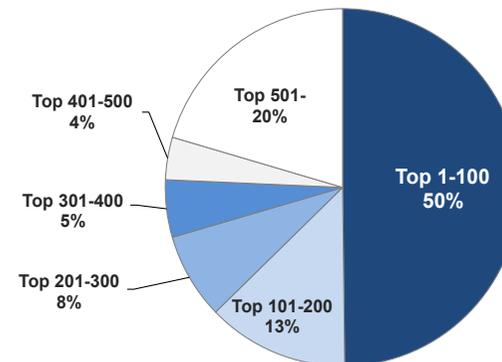


## Revenue Distribution by Industry



- IIJ's 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 Lineups of IT services

Unit: JPY billion **Competitive Advantages**

Revenue category		1Q-3Q21 revenue	About		Business Situation & Outlook								
Network services	Internet connectivity services for enterprise	28.08	<table border="1"> <tr> <td>IP</td> <td>10.07</td> <td> <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> </td> </tr> <tr> <td rowspan="2">Mobile</td> <td rowspan="2">15.13</td> <td>IoT/M2M-related</td> <td>7.52</td> </tr> <tr> <td>MVNE (Providing services to other MVNOs)</td> <td>7.62</td> </tr> </table>	IP	10.07	<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>	Mobile	15.13	IoT/M2M-related	7.52	MVNE (Providing services to other MVNOs)	7.62	<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>
	IP	10.07	<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>										
	Mobile	15.13	IoT/M2M-related	7.52									
			MVNE (Providing services to other MVNOs)	7.62									
Internet connectivity services for consumers	17.78	<table border="1"> <tr> <td>Mobile</td> <td>15.56</td> <td> <ul style="list-style-type: none"> <li>Inexpensive SIM services (mainly data),</li> <li>Direct sale (via IJ web), Indirect sale (via sales partners such as retailers)</li> </ul> </td> </tr> </table>	Mobile	15.56	<ul style="list-style-type: none"> <li>Inexpensive SIM services (mainly data),</li> <li>Direct sale (via IJ web), Indirect sale (via sales partners such as retailers)</li> </ul>	<ul style="list-style-type: none"> <li>Expect profitability and mobile infrastructure utilization to improve as we gather various traffic such as IoT, enterprise, consumers                             <ul style="list-style-type: none"> <li>Enterprise: Expect demand to increase in the mid-to-long term</li> <li>Consumer: Net increase (subscription) with new consumer plan in competitive market</li> </ul> </li> </ul>							
Mobile	15.56	<ul style="list-style-type: none"> <li>Inexpensive SIM services (mainly data),</li> <li>Direct sale (via IJ web), Indirect sale (via sales partners such as retailers)</li> </ul>											
WAN	19.40	Closed network used to connect multiple sites		Stable market for long-term									
SI	Outsourcing	29.83	In-house developed Internet-related various service line-ups (Security, datacenter and remote access etc.) <table border="1"> <tr> <td>Security</td> <td>16.15</td> <td>Public Cloud</td> <td>2.15</td> </tr> </table>		Security	16.15	Public Cloud	2.15	<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>				
	Security	16.15	Public Cloud	2.15									
Operation and Maintenance	44.00	<ul style="list-style-type: none"> <li>Operation and maintenance of constructed systems</li> <li>Promote cloud shift with our abundant, highly reliable, value-added private Cloud related service line-ups</li> </ul> <table border="1"> <tr> <td>On-premise Systems</td> <td>25.24</td> <td>Private Cloud etc.</td> <td>18.75</td> </tr> </table>		On-premise Systems	25.24	Private Cloud etc.	18.75	<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>Certain volume of systems to be converted to Cloud</li> <li>Revenue to increase continuously along with accumulation of construction projects</li> </ul>					
On-premise Systems	25.24	Private Cloud etc.	18.75										
	Construction (including Equipment sales)	24.41	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>								

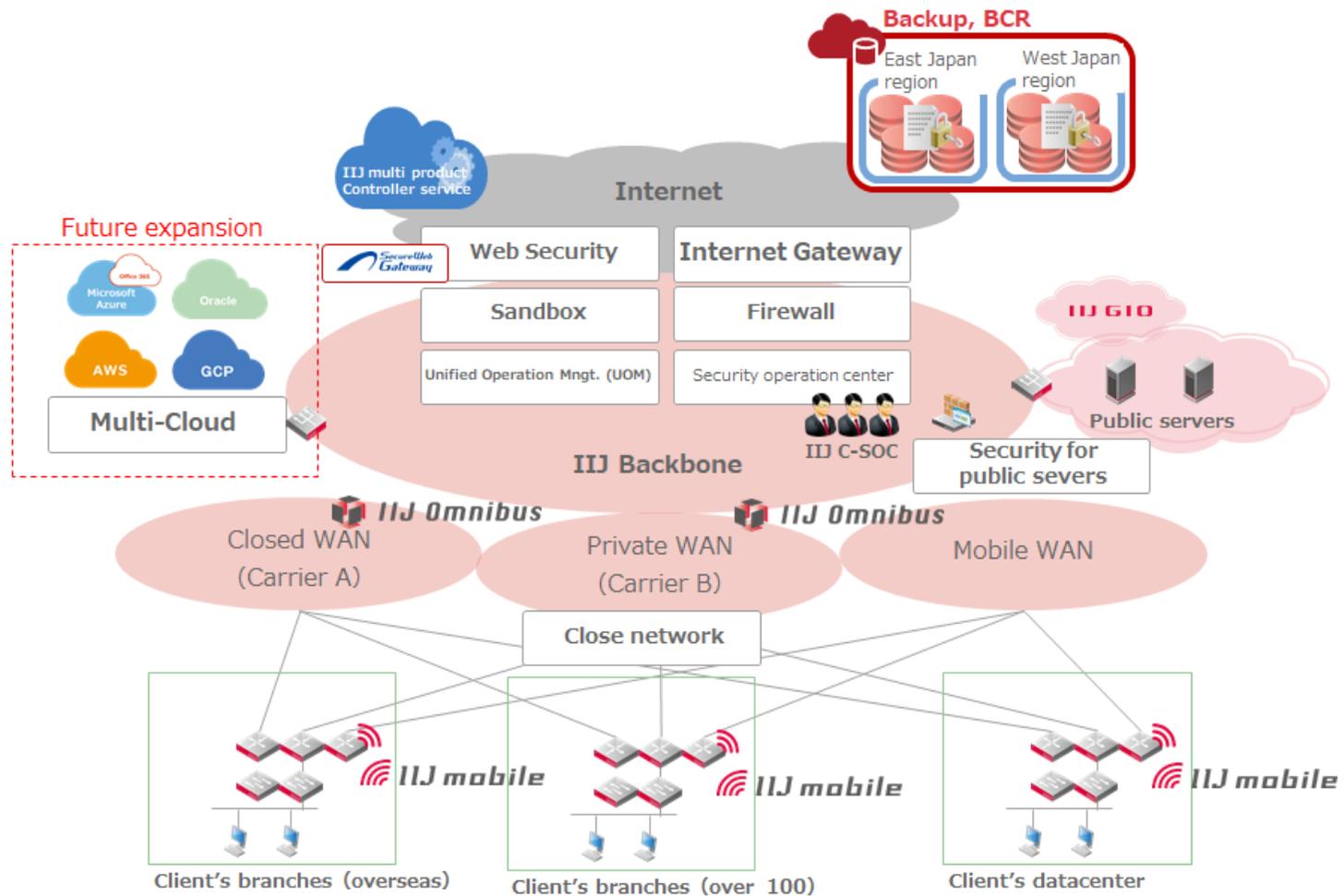
Monthly Recurring Revenue 84.0 %

One time revenue

# Example of Cross-selling & Total Solution

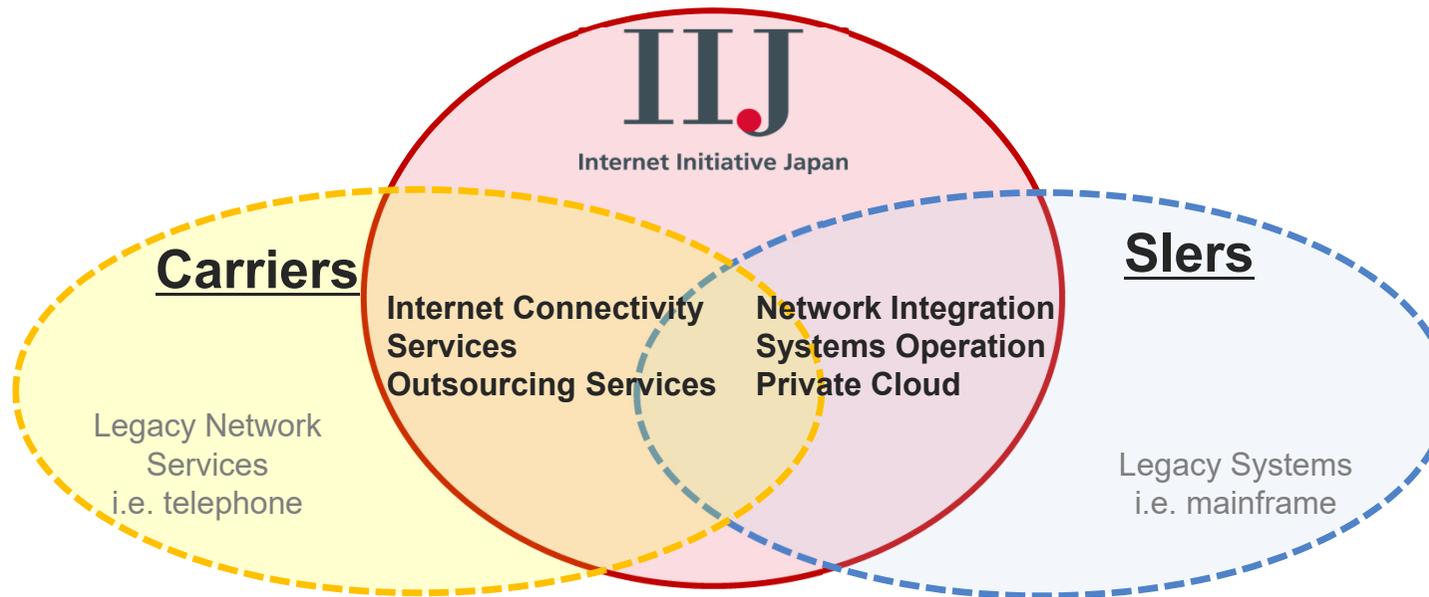
Meeting the demands of enterprise network systems that are becoming more complex and diversified with in-house developed network services and SI

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 correspond to the Internet market
  - IIJ is an unbureaucratic organization structure and corporate culture

### Against Systems Integrators (Slers):

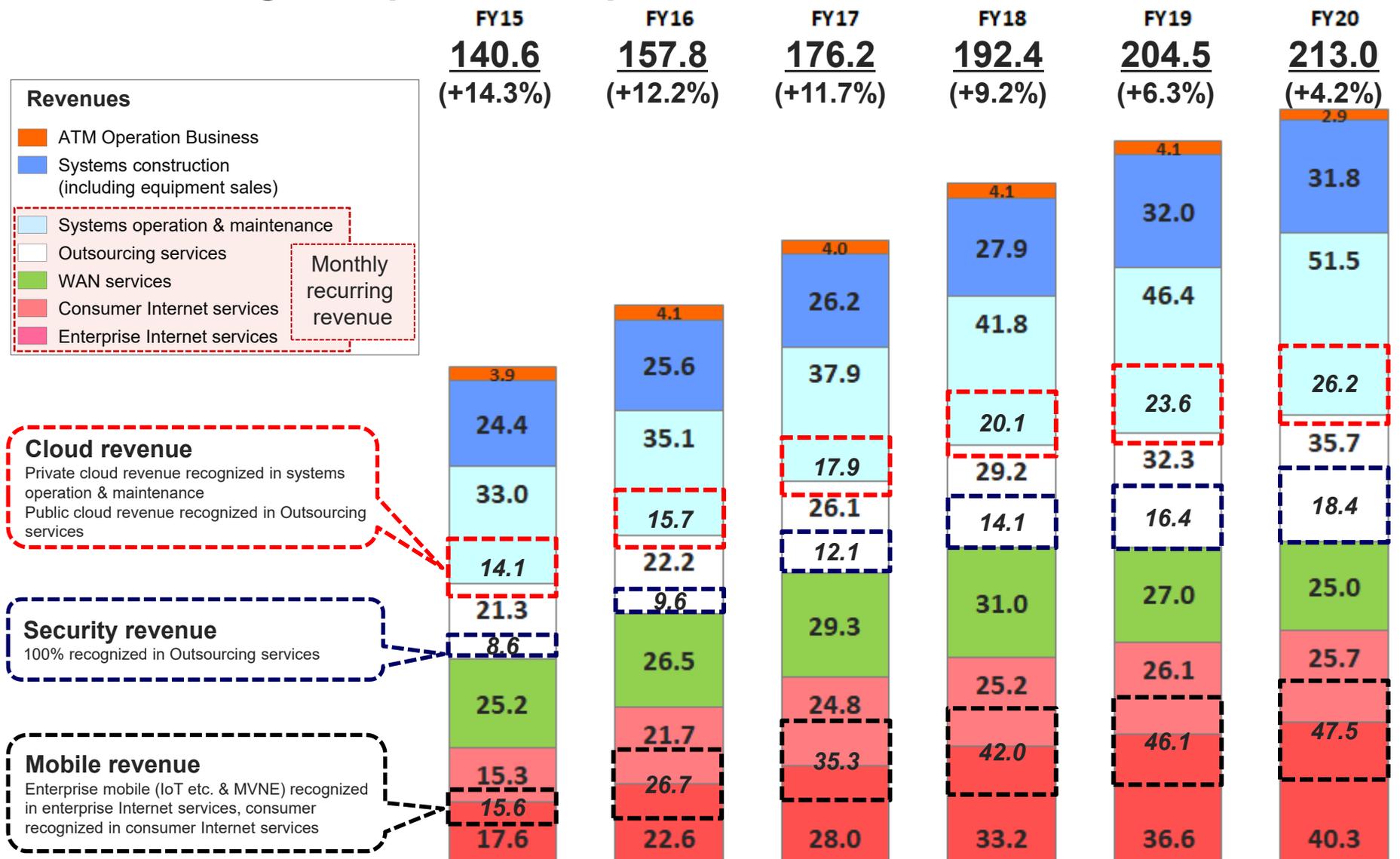
- Enterprise IT systems are shifting from on premise to more network-based systems such as Cloud which trend requires both network operation and integration expertise
  - IIJ operates Internet backbone and network facilities
  - IIJ develops network services in-house

# Continuous Revenue Accumulation

Unit: JPY billion  
% = year over year change

**Growth Strategy**

## Cross-selling multiple service products



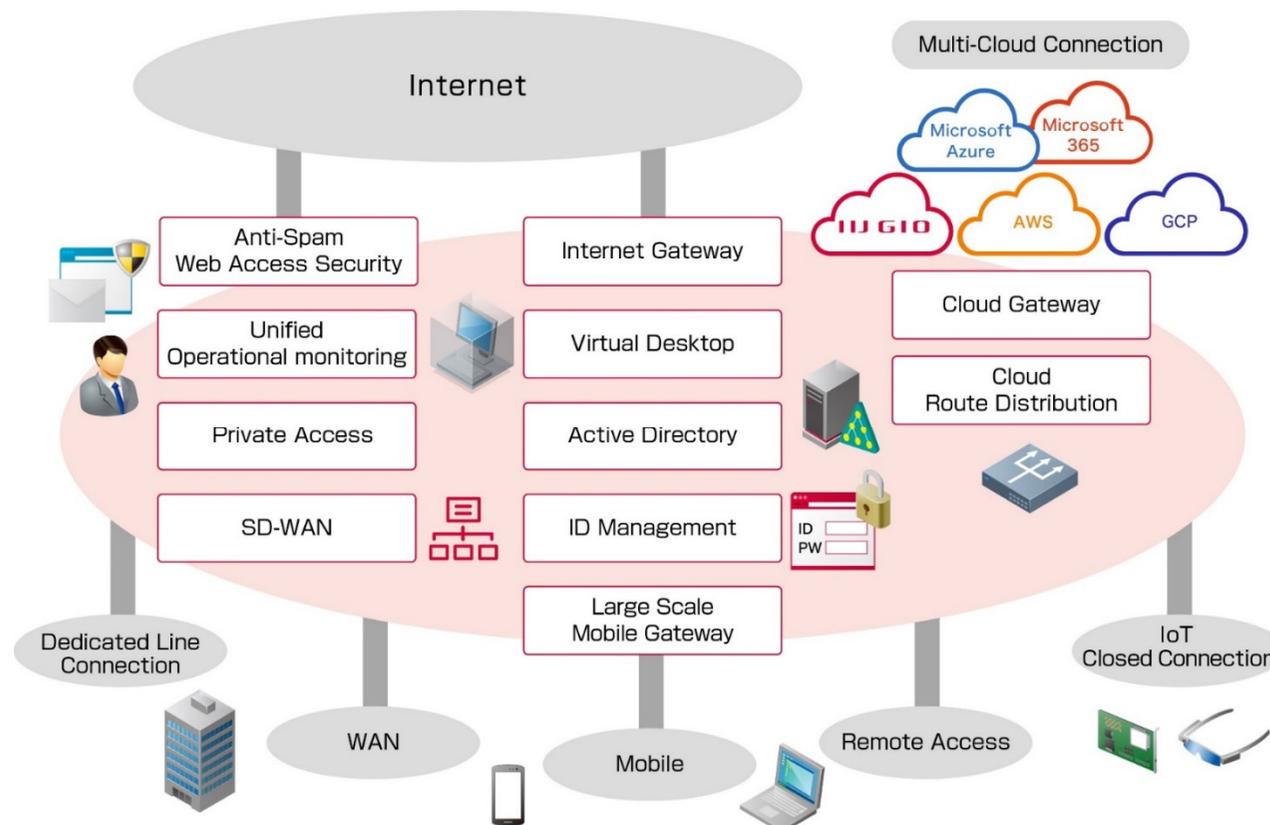
- During FY20, ATM operation business was impacted by the COVID-19 pandemic due for example to the store closure and smaller number of users coming to stores
- WAN revenue decreased year over year in FY19 and FY20 is mainly due to certain large customers' migration to our mobile services (cheaper than 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

## IIJ'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.

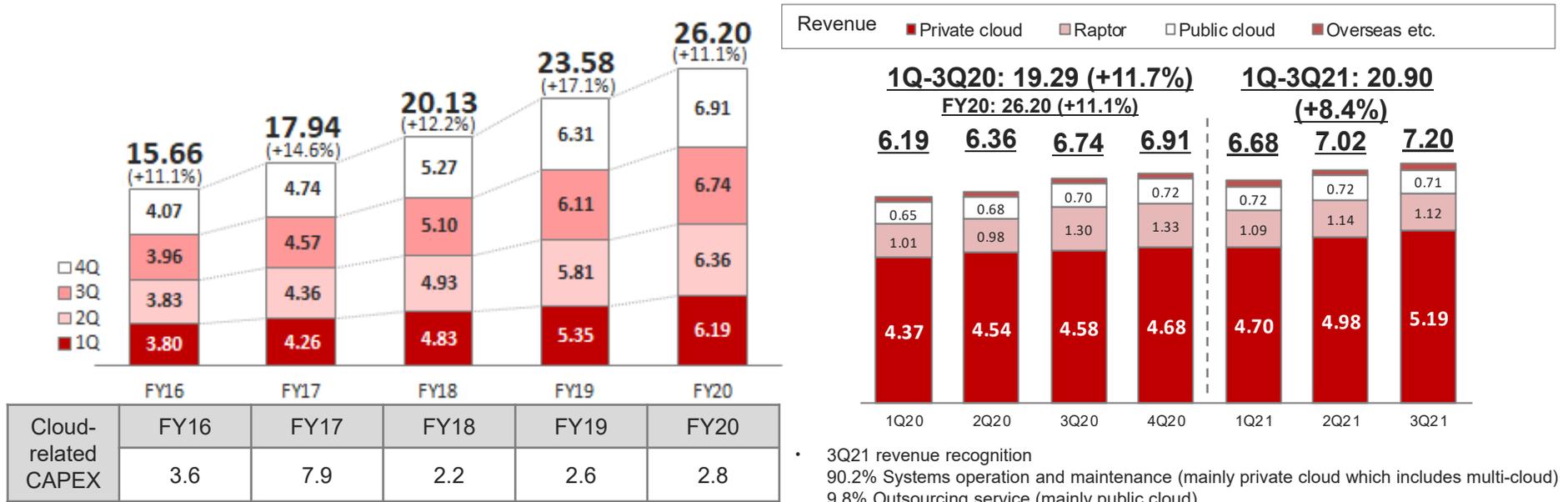
## ◆ Profit

- 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)

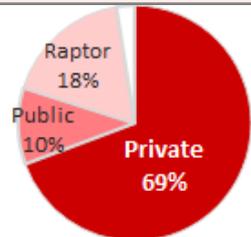
- Cloud shift of Japanese enterprises' large internal core systems just began
- With Cloud services, IIJ can approach IT system areas that are traditionally covered by legacy Slers such as enterprises' internal IT systems

IIJ's Cloud Revenue (recurring) Unit: JPY billion  
% = Year over year comparison



• FY17 Cloud-related CAPEX includes 3.0 billion of Cloud-related CAPEX that was originally planned for in FY18

## 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 Business (2)

- **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

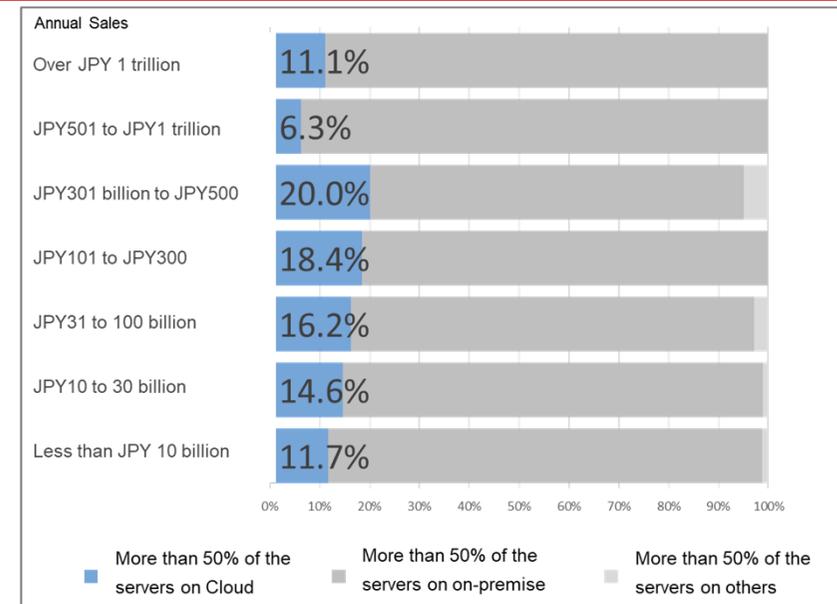
- ◆ **Revenue**
  - Revenue is to increase along with an increase in Cloud clients and each system volume
    - System volume depends on a number of cloud servers, volume of storage etc.
- ◆ **Cost**
  - Depreciation and amortization cost for servers and other network equipment, outsourcing cost and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

# Cloud Business (3)

## 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
  - Position of CIO is not high or respected as much as other C class executives
  - 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 IJ Cloud (3,500 servers, 2PB storage) etc.

**Still so many assets on Cloud:  
Only 20% of the surveyed clients had shifted more than 50% of the servers to Cloud**



Source: "Nationwide report on IT department 2021" published by IJ in July 2021 (n=737)

## Recent Cloud Business Situation

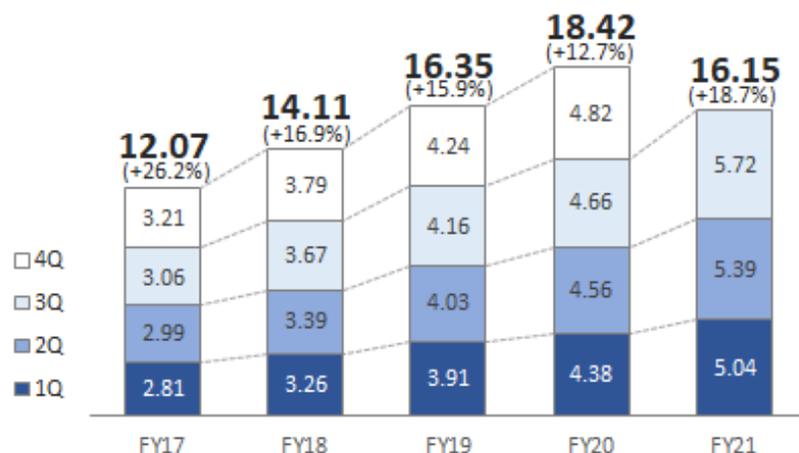
- IJ's private cloud revenue grew as demands for multi-cloud continued
  - Multi-cloud demands are generating demands for "IJ Cloud Exchange Services" (revenue recognized in Network Services) which provide private connectivity to third vendor Cloud services such as AWS (Amazon), Microsoft, and Google
  - "IJ GIO Infrastructure P2 Gen.2," which was launched in Oct. 2021 to promote full-scale cloud shift of enterprise systems, is accumulating orders
- Raptor, SaaS type Foreign Exchange (FX) trading platform launched in Oct. 2008, revenue fluctuates depending on trading volume of FX
  - Added CFD (Contract for Difference) to its service line-up from Jan. 2022

# 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.

## IIJ's security service revenue (recurring)

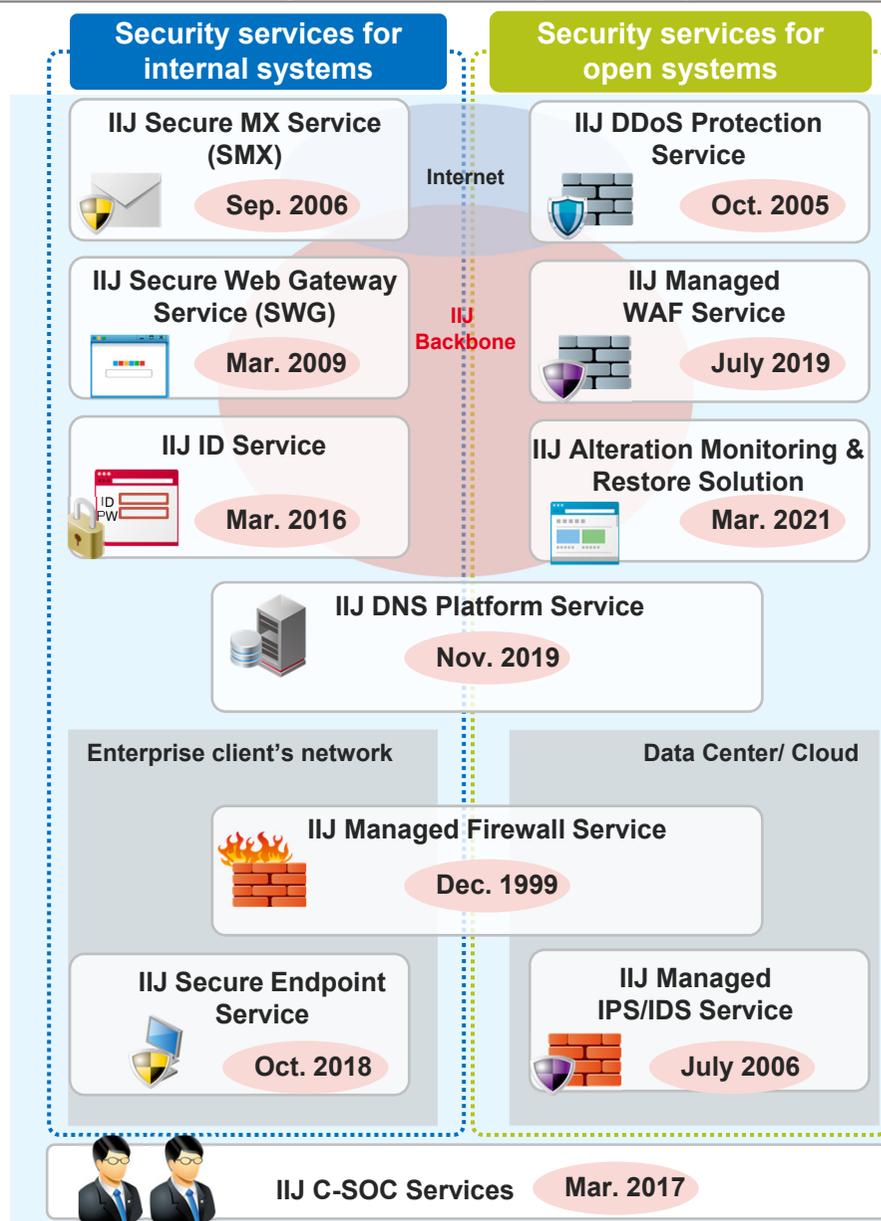
Unit: JPY billion  
% = Year over year comparison



Total security revenue (services + SI)	FY17	FY18	FY19	FY20	1Q-3Q21
	14.62	16.77	19.18	21.47	11.91

- 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)

## Various & Multi-layer service lineups developed in house

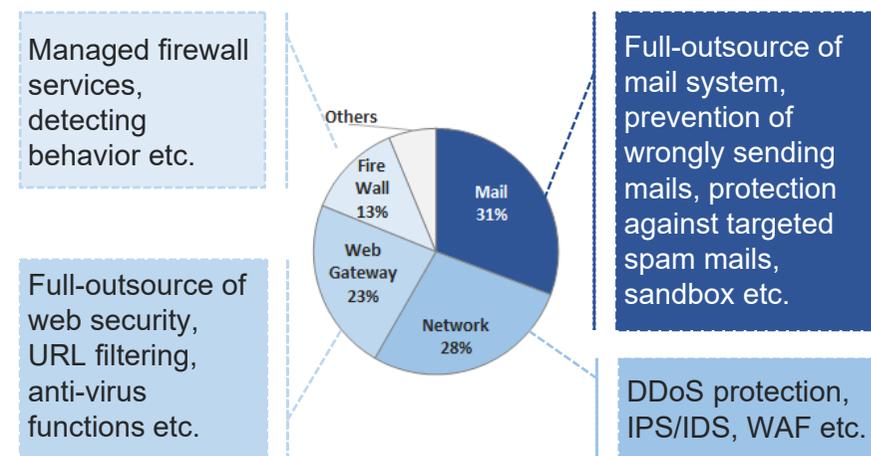


# Security Business (2)

## Strong & various demands continuing

- Conventional Security services such as SMX and SWG continued to accumulate orders
- IIJ C-SOC Service is accumulating orders since the service launch and growing its revenue
  - Differentiating by leveraging comprehensiveness as ISP and intelligence unique to IIJ etc.
- SASE revenue growing by accumulating network projects with “Global SASE with IIJ Omnibus Prisma,” launched in Dec. 2020 & “Global Web Security Zscaler ZIA,” launched in Mar. 2019
- Opened “IIJ Security Training School” in Jan. 2022 as a new area of Security business
- Total security business volume (Service + SI)
  - 1Q-3Q21: ¥18.39 bn (+16.7%)
  - Meet security needs that are not offered by our services through SI
- SASE (Secure Access Service Edge) is a concept to shift controls of network and security on the route to Cloud services to enable secure access from any points, instead of the conventional centralized management through headquarters or data centers.

## Breakdown of IIJ's security service revenue



• Based on IIJ's FY20 results

## IIJ's Competitive advantage of having them all

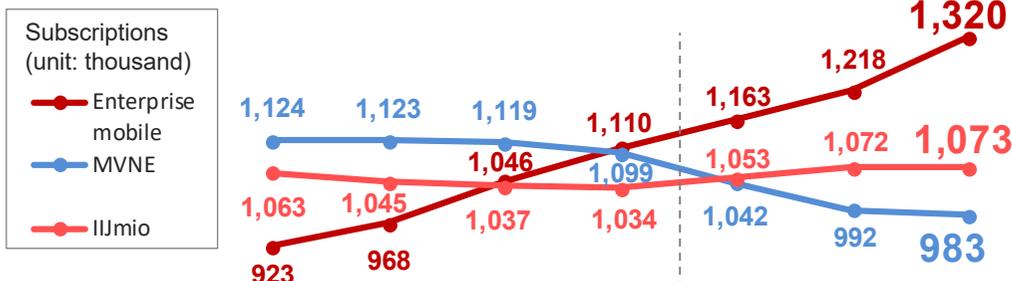
	IIJ	Security vendors	System integrators
Network	✓	none	none
Analysis platform	✓	somewhat	somewhat
Operation and monitoring facility	✓	✓	✓
System integration	✓	none	✓

# Mobile Business (1)

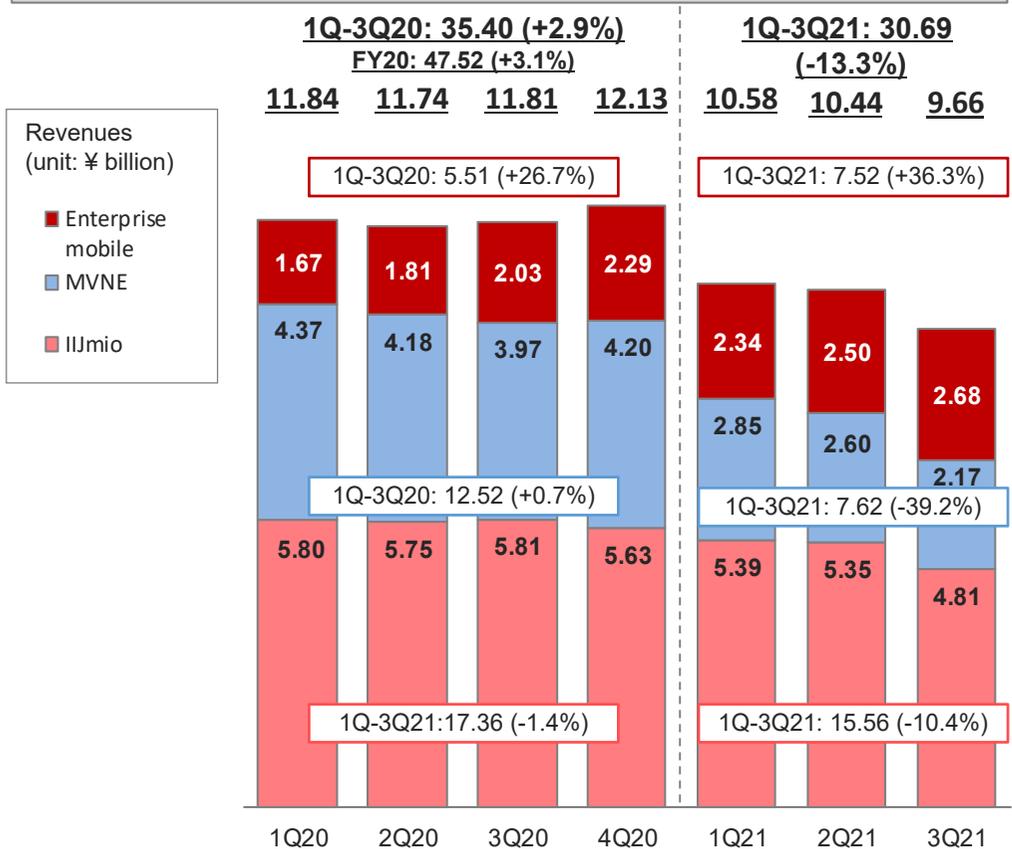
Unit: ¥ (JPY) billion (bn)  
%, YoY = Year over year comparison  
QoQ = Quarter over quarter comparison

**Growth Strategy**

## Subscription (Subs.)



## Revenue



### ◆ Enterprise mobile

- 1Q-3Q21 revenue: ¥7.52 bn (+¥2.00 bn YoY)
- 3Q21-end subs: 1,320 thousand (+102 thousand QoQ)
  - ✓ Our enterprise IoT business continues to expand with strong demands for surveillance camera, GPS tracker, dashboard camera connections as well as additional line orders from the existing projects.

### ◆ MVNE

- 1Q-3Q21 revenue: ¥7.62 bn (-¥4.91 bn YoY)
  - ✓ Impacted by the decrease in purchasing unit charge and a large MVNE client switching to another operator due to M&A
- 3Q21-end subs: 983 thousand (-9 thousand QoQ)
  - ✓ QoQ decrease is mainly due to a large MVNE client switching to another operator due to M&A
- 3Q21-end MVNE clients: 165 (+7 clients YoY)
  - ✓ Cable TV operators (88 operators), prominent retailer etc.

### ◆ IJmio (consumer mobile)

- 1Q-3Q21 revenue: ¥15.56bn (-¥1.81 bn YoY)
- 3Q21-end subs: 1,073 thousand (1 thousand QoQ)
  - ✓ New plan "GigaPlans" launched on Apr. 1, 2021

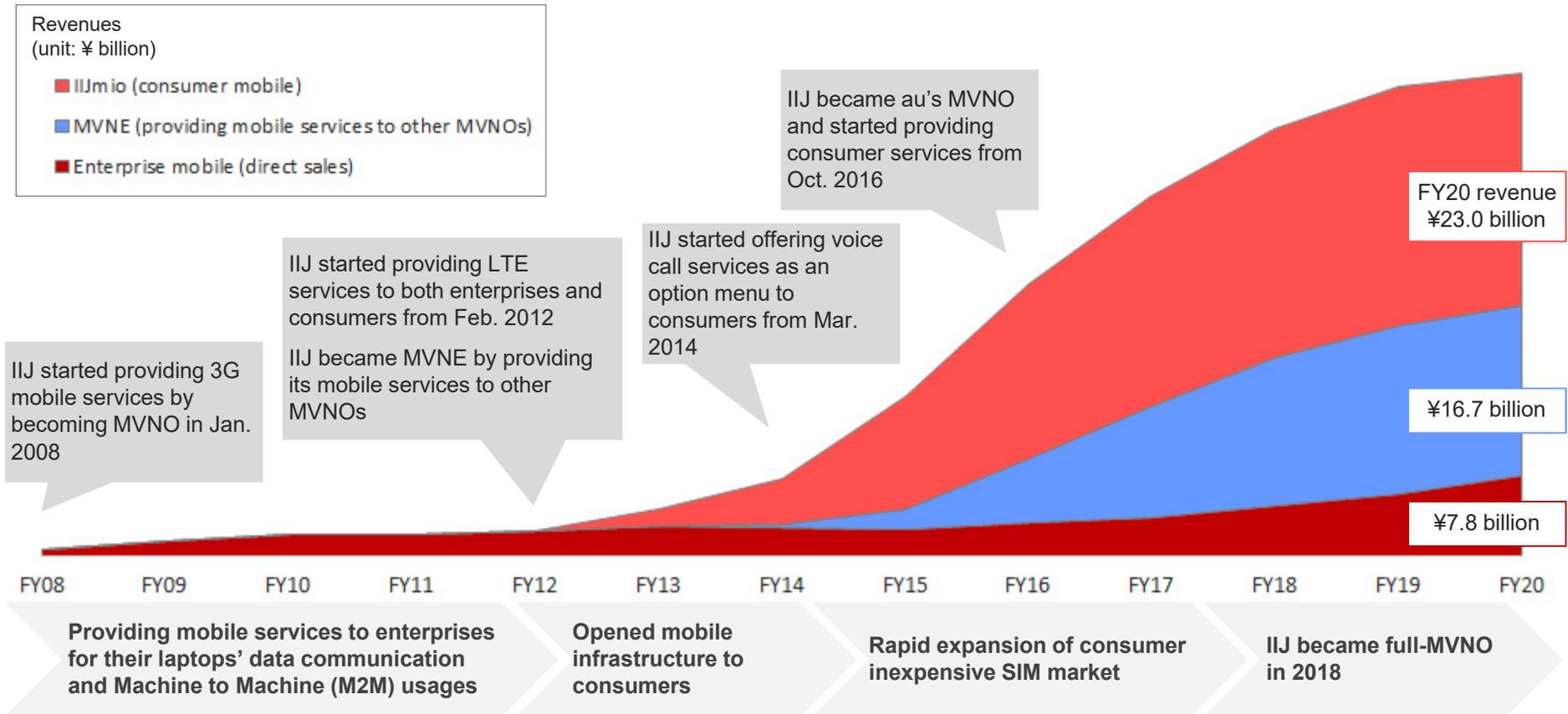
	1Q21-end	2Q21-end	3Q21-end
Subs. (unit: thousand)	462	556	607
Of which, new users	17%	30%	34%

- ✓ Top MVNO market share 18.2% (MM Research Institute's survey as of the end of Sep. 2021). The share increased by GigaPlans

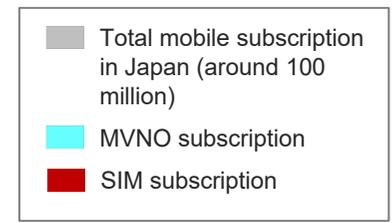
- MVNE (Mobile Virtual Network Enabler) aka "IIJ Mobile Platform Services": Revenue are generated by providing mobile services to other MVNOs who want to provide mobile services to their consumer customer base.
- Enterprise mobile: Deducting MVNE from IIJ Mobile
- IJmio: Brand name for IIJ's consumer mobile services. IIJ provides the service through its website (direct sales) and sales partners
- 3Q21 full-MVNO revenue: ¥1.02 bn (89.1% Enterprise mobile, 10.9% IJmio)
- ARPU is an abbreviation for Average Revenue Per User

# Mobile Business (2)

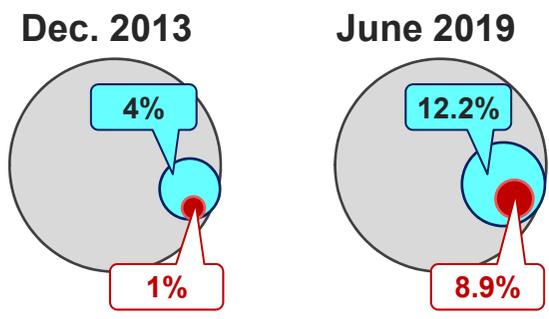
Growth Strategy



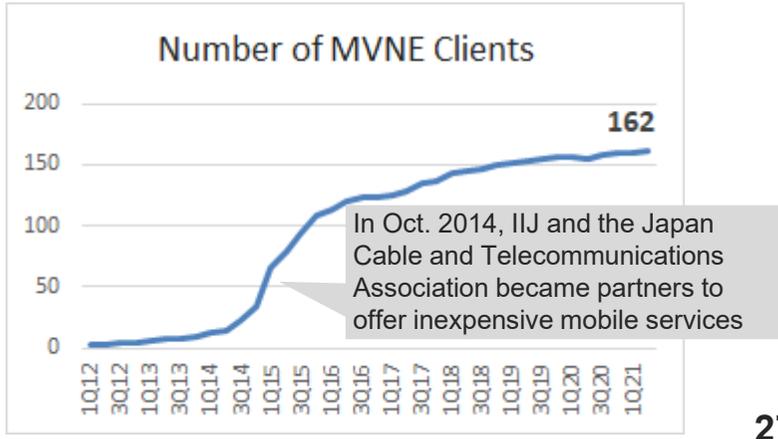
## Rapid expansion of consumer inexpensive SIM market



Data is based on the reports by the Ministry of Internal Affairs and Communications who publishes mobile subscription quarterly



© Internet Initiative Japan Inc.

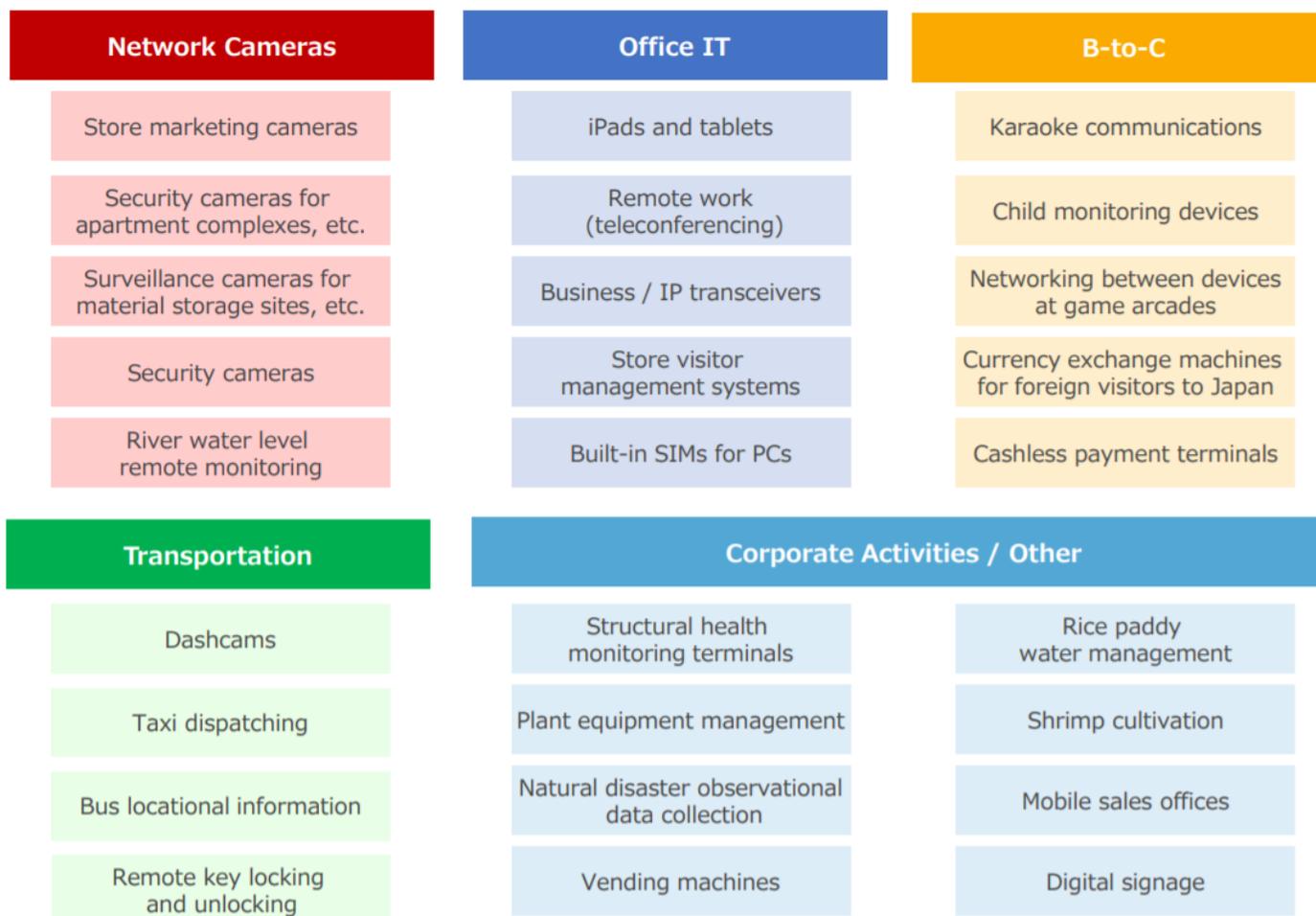


# Mobile Business (3)

➤ 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.ij.ad.jp/en/news/pressrelease/2020/0803.html>

## Accumulating various enterprise mobile solutions

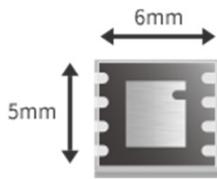


# Mobile Business (4)

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

## New forms of SIMs

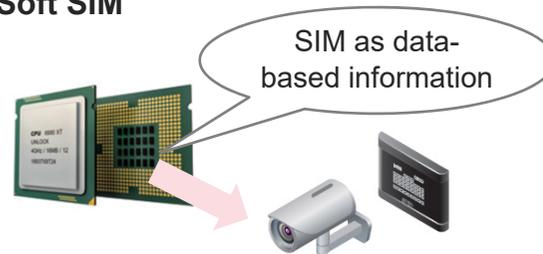
### ◆ Chip SIM



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 (5)

## 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	3Q21-end
GigaPlan’s subscription (approx., unit; thousand)	462	566	607
Of which new users (approx.)	17%	30%	34%

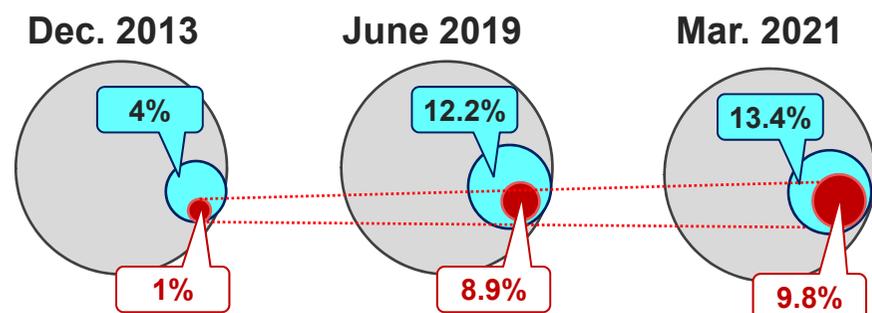
- Please refer to P. 58 of this presentation for more detail on the mobile unit charge
- Please refer to P. 59 of this presentation for a table comparing old and new consumer mobile plans

## 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 December 31, 2021, IJ had 165 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 MM Research

\*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 Sep. 2021 \*2

- IJ 18.2%
- NTT Communications (brand name: OCN mobile) 13.5%
- OPTAGE (brand name: mineo) 9.6%
- Biglobe 6.6%
- Rakuten Mobile 6.4%

### 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 (6)

- **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**

## 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

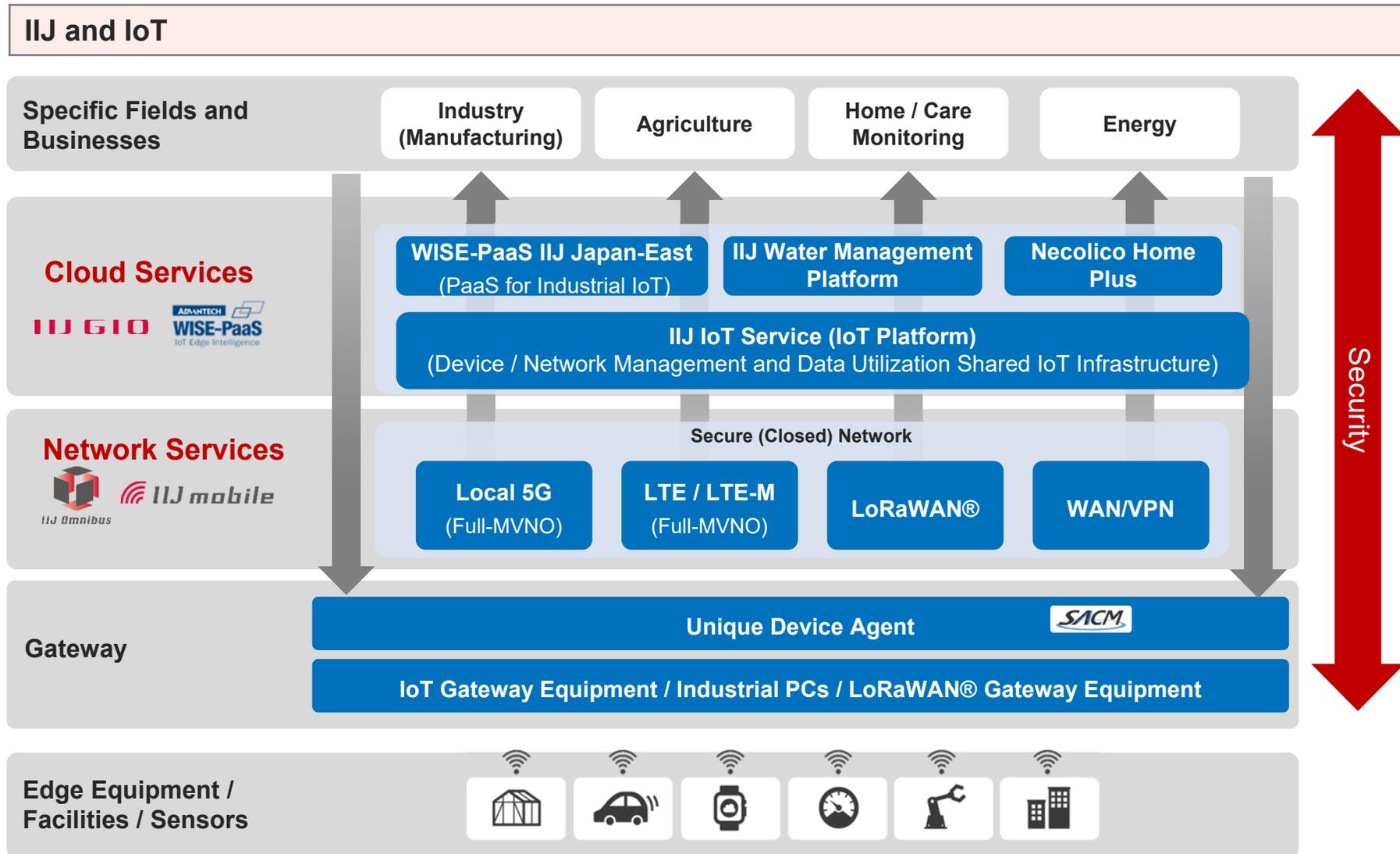
### ◆ Profit

- 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

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



# IoT Business (2)

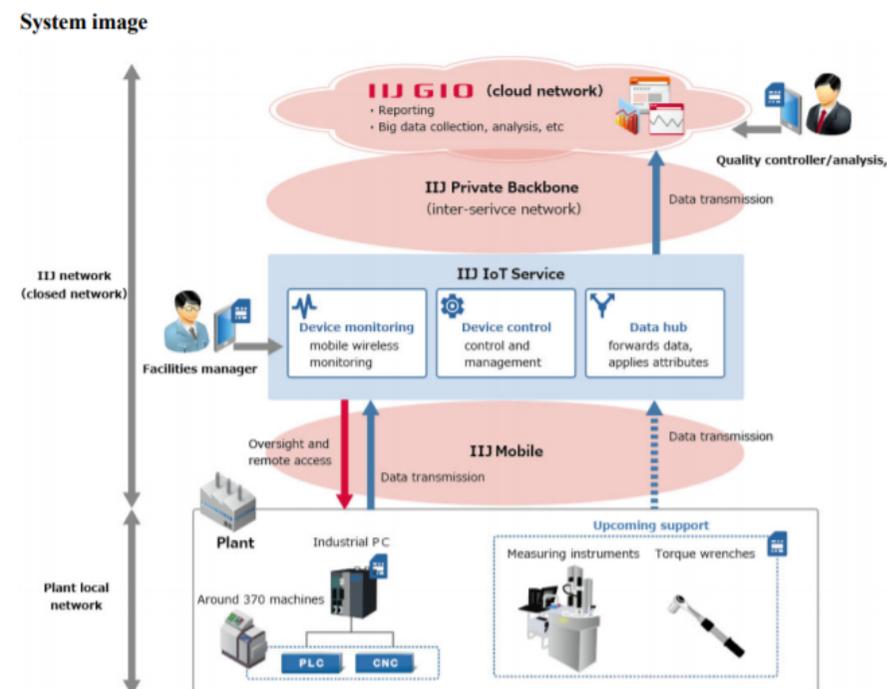
- **Change in Japanese enterprise attitude toward IoT**
  - Just executing PoCs to actually implementing IoT systems

## 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 (1)

Growth Strategy

## Company Profile

- ◆ **Name: DeCurret Holdings, Inc.**
- ◆ **Directors**
  - Chairman: Satoshi Murabayashi (IIJ VP since 2021, former CIO for Mitsubishi UFJ Financial Group)
  - President: Kazuhiro Tokita (from IIJ)
  - Part-time directors: IIJ President, IIJ CFO
  - Special advisor: Toshihide Endo (former head of Japan's Financial Services Agency, financial regulator)
- ◆ **Background:**
  - IIJ established DeCurret Inc. in Jan. 2018 as an equity method investee engaging in crypto asset business and digital currency business with prominent Japanese companies
    - IIJ provides systems to DeCurret such as altered IIJ Raptor which is a ASP based FX systems which have been used by prominent Japanese security companies

## Equity in net loss of DeCurret

Unit: JPY million

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
306	273	207	193	296	256	780

- IIJ ownership: 4Q19 30.0%, from 1Q20 41.6%, from 1Q21 38.2% is used to recognize gain and loss
- DeCurret divested its crypto asset business on Feb. 1, 2022 to dedicate its business resources to digital currency business
- 3Q21 loss increased as it includes temporary loss of ¥484 million due to the above mentioned transaction in addition to ordinal loss. As for 4Q21, we expect to record about ¥1.2 billion loss as impairment on corresponding, amount of goodwill (No more loss related to the transaction)

## Digital Currency Settlement Platform Business (mainly BtoB)

- ◆ **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: more than 70 Japanese companies
    - 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

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

# 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.,

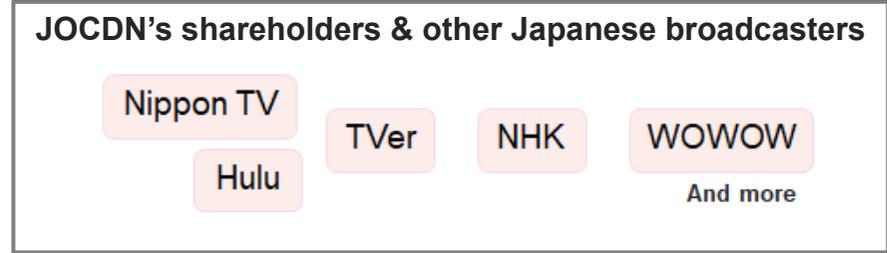
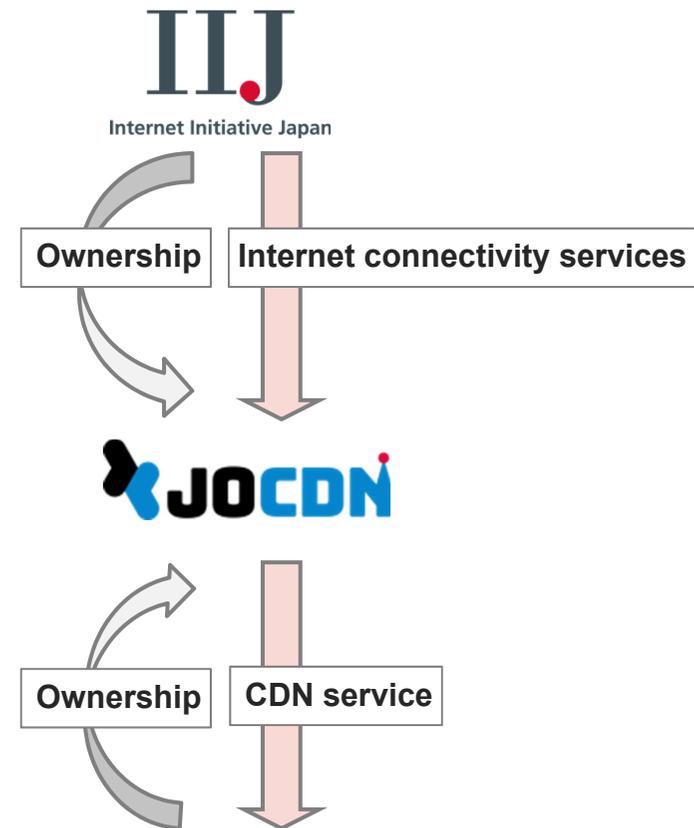
Toppan Printing Co., Ltd.

# 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**

# Dividend Forecast

## ◆ Basic dividend policy:

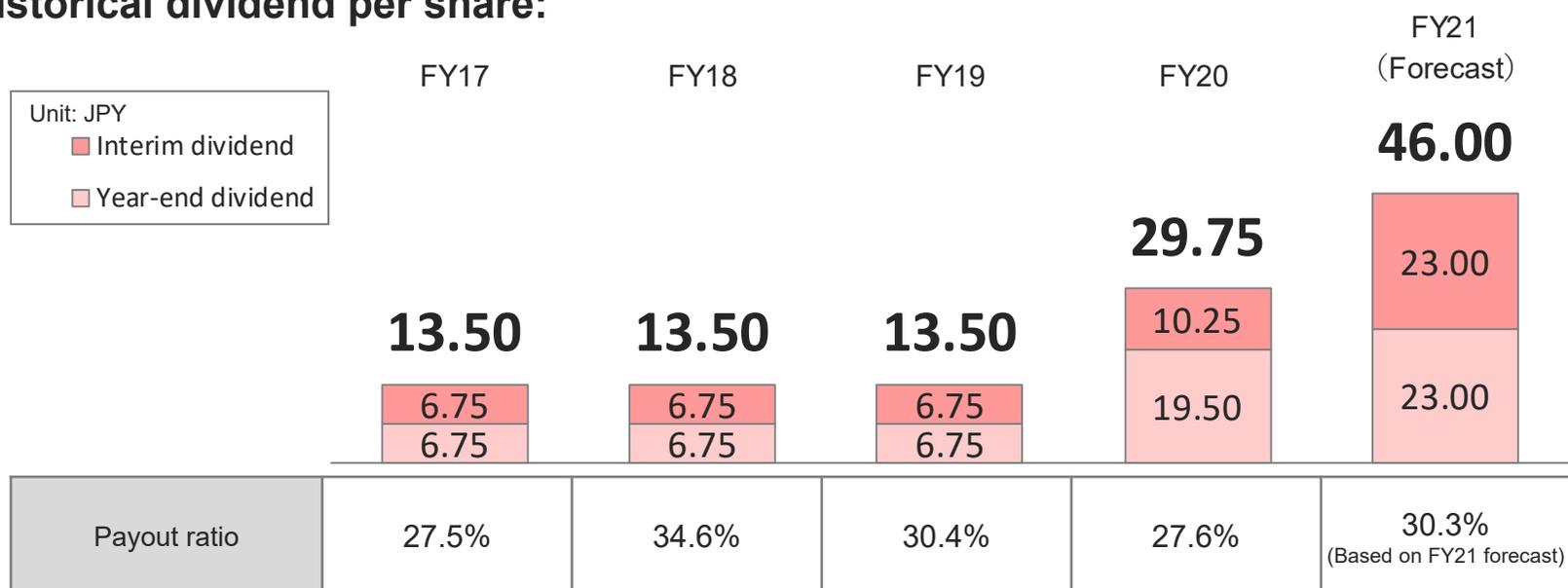
Basic dividend policy of IIJ is that IIJ pays dividends to its shareholders continuously and stably while considering the need to have retained earnings for the enhancement of financial position, med-to-long term business expansion and future business investment etc.

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

(both interim and year-end forecast)

Unit: JPY	FY20 results	FY21 initial forecast (announced in May 2021)	FY21 current forecast (Revised in Nov. 2021)	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

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.

## IIJ’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.



# **Consolidated Financial Results for 1Q-3Q21**

**(April 1, 2021 to December 31, 2021)**

**Announced on February 8, 2022**

# Consolidated Financial Results

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

Financials

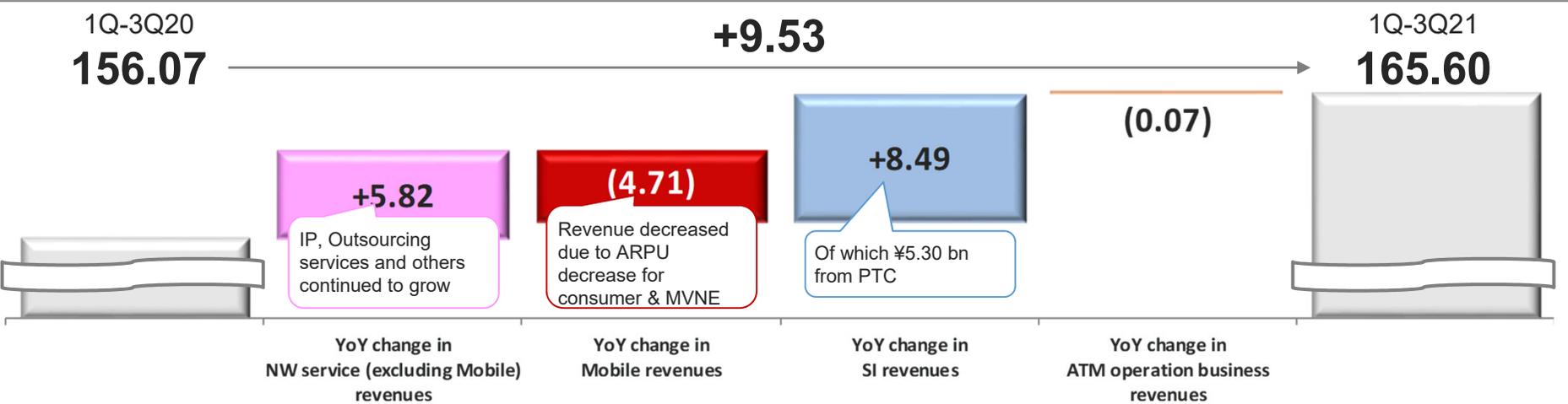
	% of revenue		YoY		% of revenue		YoY	
	1Q-3Q21 Results <small>Apr. 2021 - Dec. 2021</small>	1Q-3Q20 Results <small>Apr. 2020 - Dec. 2020</small>			FY21 Targets <small>(Revised in Nov. 2021)</small> <small>Apr. 2021 - Mar. 2022</small>			
Revenues	<b>165.60</b>	<b>156.07</b>	+6.1%	+9.53	<b>228.5</b>	+7.3%	+15.50	
Cost of Revenues	<small>77.8%</small> <b>128.82</b>	<small>81.5%</small> <b>127.27</b>	+1.2%	+1.54	<small>78.2%</small> <b>178.7</b>	+3.5%	+5.98	
Gross Profit	<small>22.2%</small> <b>36.78</b>	<small>18.5%</small> <b>28.80</b>	+27.7%	+7.99	<small>21.8%</small> <b>49.8</b>	+23.6%	+9.52	
SG&A etc.	<small>12.4%</small> <b>20.49</b>	<small>12.0%</small> <b>18.67</b>	+9.7%	+1.82	<small>12.2%</small> <b>27.8</b>	+6.8%	+1.77	
Operating Profit	<small>9.8%</small> <b>16.30</b>	<small>6.5%</small> <b>10.13</b>	+60.9%	+6.17	<small>9.6%</small> <b>22.0</b>	+54.4%	+7.75	
Profit before tax	<small>10.6%</small> <b>17.60</b>	<small>5.9%</small> <b>9.23</b>	+90.7%	+8.37	<small>9.4%</small> <b>21.5</b>	+53.2%	+7.47	
Net Profit	<small>7.0%</small> <b>11.52</b>	<small>3.8%</small> <b>5.88</b>	+96.1%	+5.64	<small>6.0%</small> <b>13.7</b>	+41.1%	+3.99	

- 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

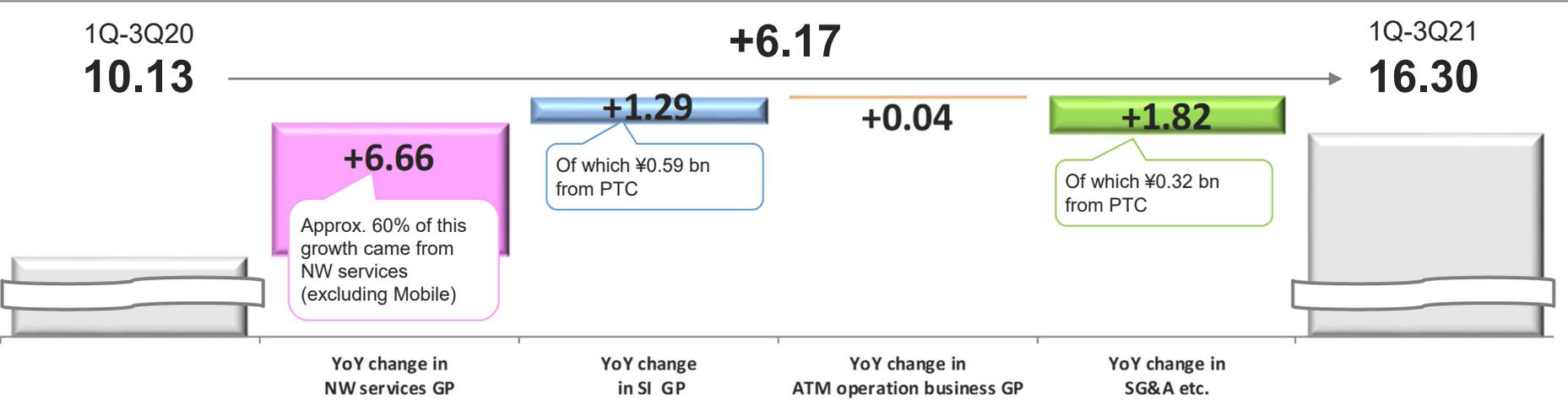
Unit: ¥ (JPY) billion (bn)  
 GP = Gross Profit  
 YoY = Year over year comparison

## 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 IJ Mobile Services (including MVNE) and IJmio (consumer mobile)
- ARPU is an abbreviation for Average Revenue Per User

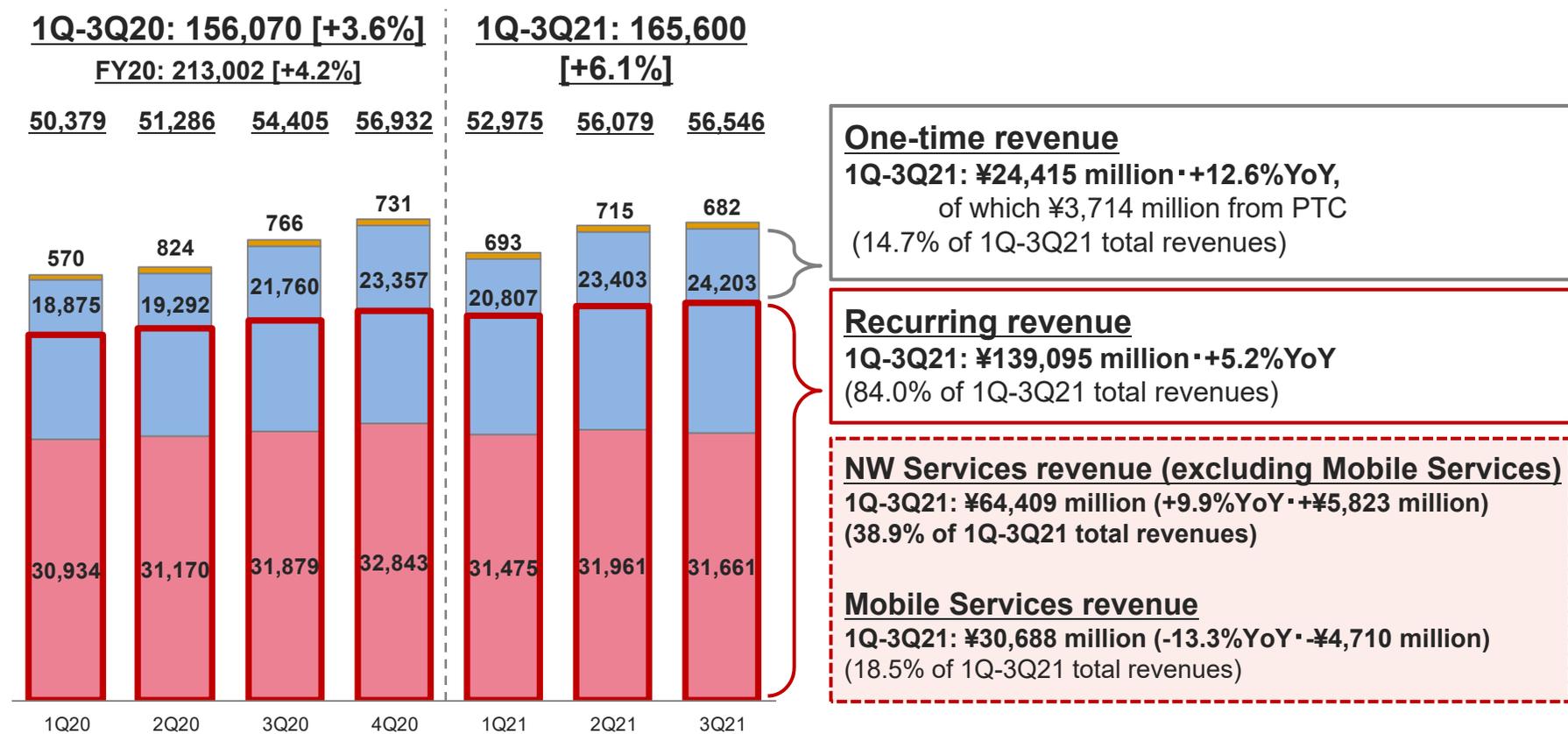
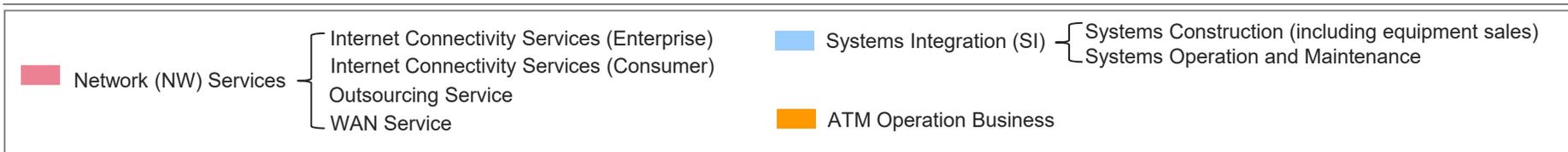
## Operating Profit



- 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

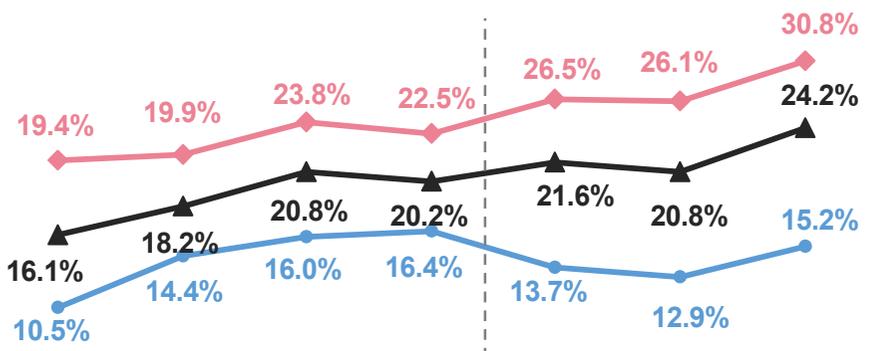


- One-time revenue, systems construction revenues which include equipment sales, is mainly recognized when systems or equipment are delivered and accepted by customers
- Recurring revenue represents the following monthly recurring revenues: Internet Connectivity Services (Enterprise), Internet Connectivity 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

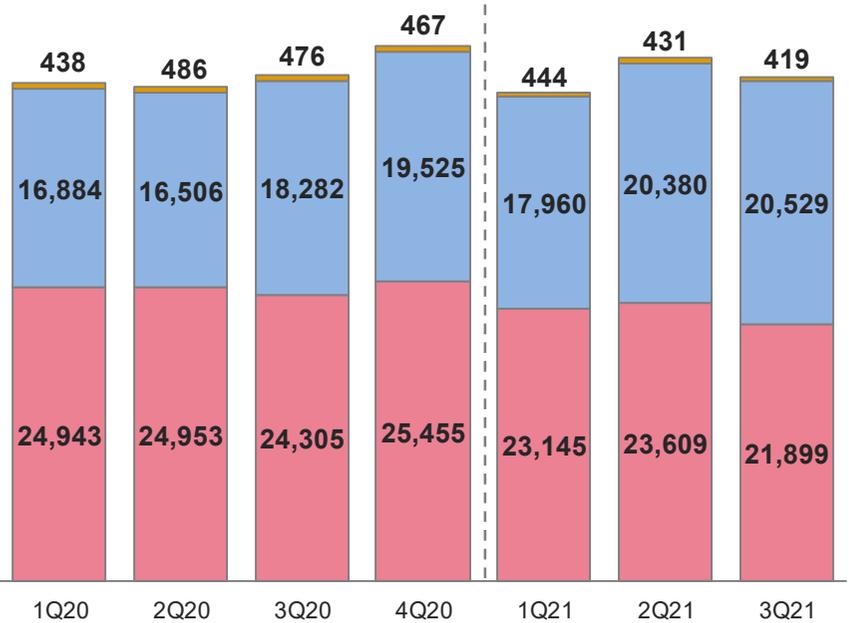
Unit: ¥ (JPY) million  
 [ ], YoY = Year over year comparison  
 QoQ = Quarter over quarter comparison

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



1Q-3Q20: 127,273 [+0.2%]  
 FY20: 172,720 [+0.5%]  
 1Q-3Q21: 128,816 [+1.2%]

42,265 41,945 43,063 45,446 41,548 44,420 42,847



## ◆ Total gross profit

- 1Q-3Q21: ¥36,784 million (+27.7%, +¥7,987 million YoY)
- 1Q-3Q21 gross profit ratio: 22.2% (1Q-3Q20: 18.5%)

## ◆ Gross profit for NW services

- 1Q-3Q21: ¥26,444 million (+33.7%, +¥6,662 million YoY)
- 1Q-3Q21 NW services gross profit ratio: 27.8% (1Q-3Q20: 21.0%)
  - Gross profit increased by the increase in enterprise network services revenues, such as IP and Security
  - As for mobile services, in 3Q21, we had onetime profit contribution of ¥1.0 billion or a little bit more as FY20 Docomo's mobile interconnectivity (unit charge) was fixed. (Substantial part of such impact was already considered in our FY21 targets)
    - ✓ For FY20, we recorded the following temporary cost reimbursement: 3Q ¥0.70 billion, 4Q: ¥0.39 billion

## ◆ Gross profit for SI

- 1Q-3Q21: ¥9,544 million (+15.6%, +¥1,289 million YoY)
- 1Q-3Q21 SI services gross profit ratio: 13.9% (1Q-3Q20: 13.8%)

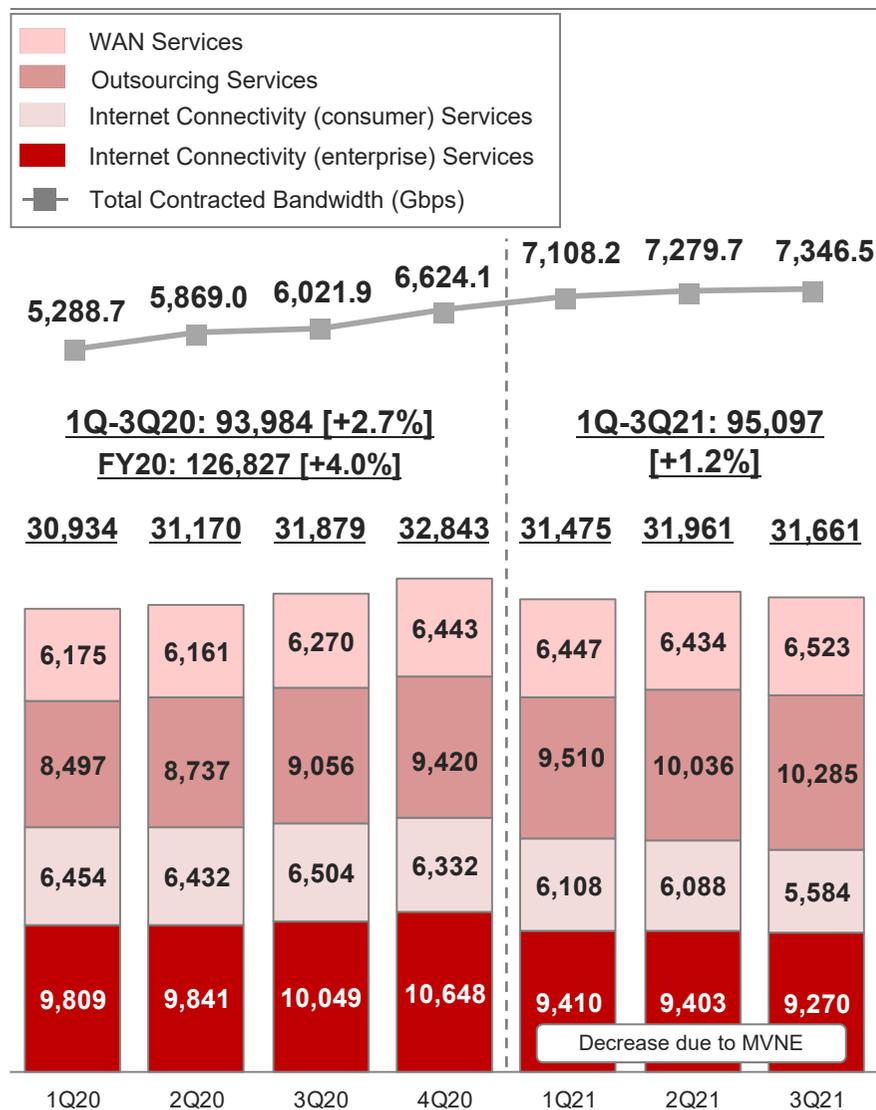
# Network Services (1) Revenues

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

➤ 1Q-3Q21: ¥28,082 million, -5.4% YoY

• Of which, IP services: ¥10,069 million

<Revenue growth>

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
YoY	+9.4%	+10.8%	+17.2%	+17.5%	+13.7%	+12.8%	+9.8%
QoQ	+6.4%	+3.0%	+5.7%	+1.4%	+2.9%	+2.2%	+3.0%

• Of which, IJ Mobile (enterprise): ¥15,132 million, -16.1% YoY

✓ Of which, IoT-related enterprise mobile revenue ¥7,516 million

<Revenue growth>

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
YoY	+18.2%	+22.0%	+39.9%	+37.0%	+40.1%	+37.8%	+31.9%
QoQ	(0.1%)	+8.2%	+12.1%	+13.0%	+2.2%	+6.5%	+7.3%

✓ Of which, MVNE revenue: ¥7,616 million, -39.2% YoY

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

## ◆ Internet Connectivity (consumer) Services

➤ 1Q-3Q21: ¥17,780 million, -8.3% YoY

• 3Q21-end consumer mobile subs.: 1,073 thousand (+1 thousand QoQ). Of which, GigaPlans: 607 thousand (+51 thousand QoQ)

• Impacted by ARPU decrease along with the launch of GigaPlans

## ◆ Outsourcing Services

➤ 1Q-3Q21: ¥29,831 million, +13.5% YoY

• Of which, security services: ¥16,153 million

<Revenue growth>

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
YoY	+11.9%	+13.1%	+12.0%	+13.5%	+15.0%	+18.2%	+22.7%
QoQ	+3.2%	+4.2%	+2.3%	+3.3%	+4.5%	+7.0%	+6.2%

## ◆ WAN Services

➤ 1Q-3Q21: ¥19,404 million, +4.3% YoY

<Revenue growth>

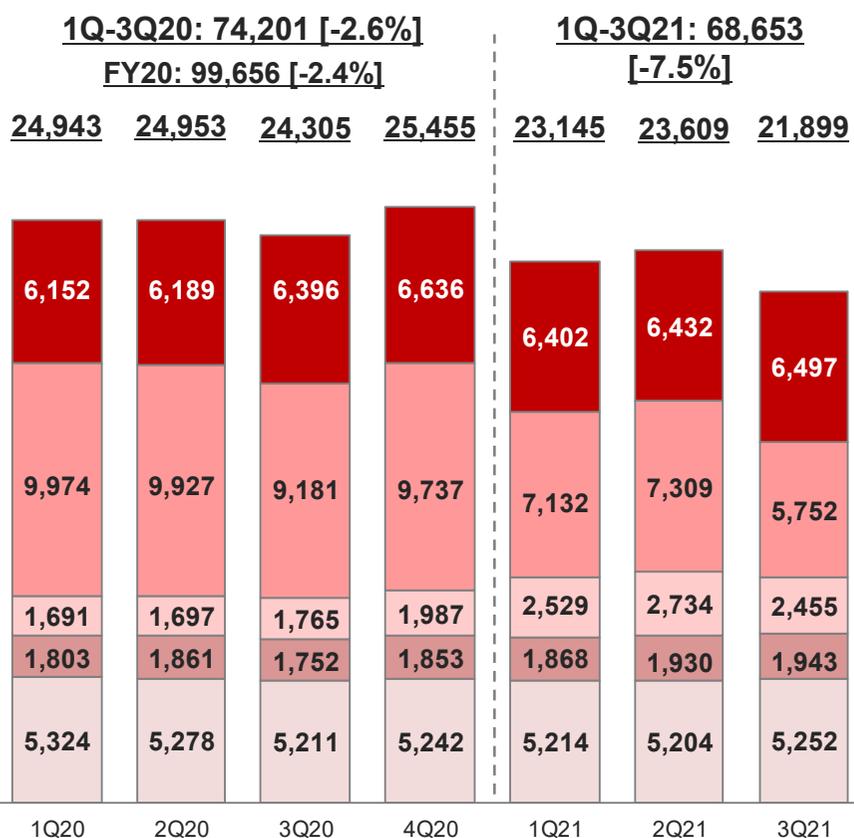
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
YoY	(16.8%)	(11.0%)	(2.8%)	+4.3%	+4.4%	+4.4%	+4.0%
QoQ	(0.0%)	(0.2%)	+1.8%	+2.8%	+0.1%	(0.2%)	+1.4%

- 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.)



- 1Q-3Q21 Circuit-related costs increased by 3.2%, +¥0.59 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
- 1Q-3Q21 Outsourcing-related costs decreased by 30.6%, -¥8.89 billion YoY mainly due to cost decreasing factors of voice purchasing and mobile data interconnectivity cost
  - Voice purchasing cost (unit charge) was revised lower at the beginning of FY21 and Sep. 2021 (switched to auto-prefix appending in Sep.)
  - 3Q21 Outsourcing-related costs includes onetime cost reduction impact of Docomo's FY20 mobile interconnectivity cost (unit charge) revision
- 1Q-3Q21 Others increased by +49.8%, +¥2.56 billion YoY as it included an increase in mobile device purchase
  - 1Q-3Q21 purchasing of mobile device: up ¥1.72 billion YoY  
1Q: up ¥0.52 billion YoY, 2Q: up ¥0.72 billion YoY, 3Q: up ¥0.48 billion

### Regarding mobile data interconnectivity cost recognition:

(Mobile Network Operator's mobile infrastructure cost)

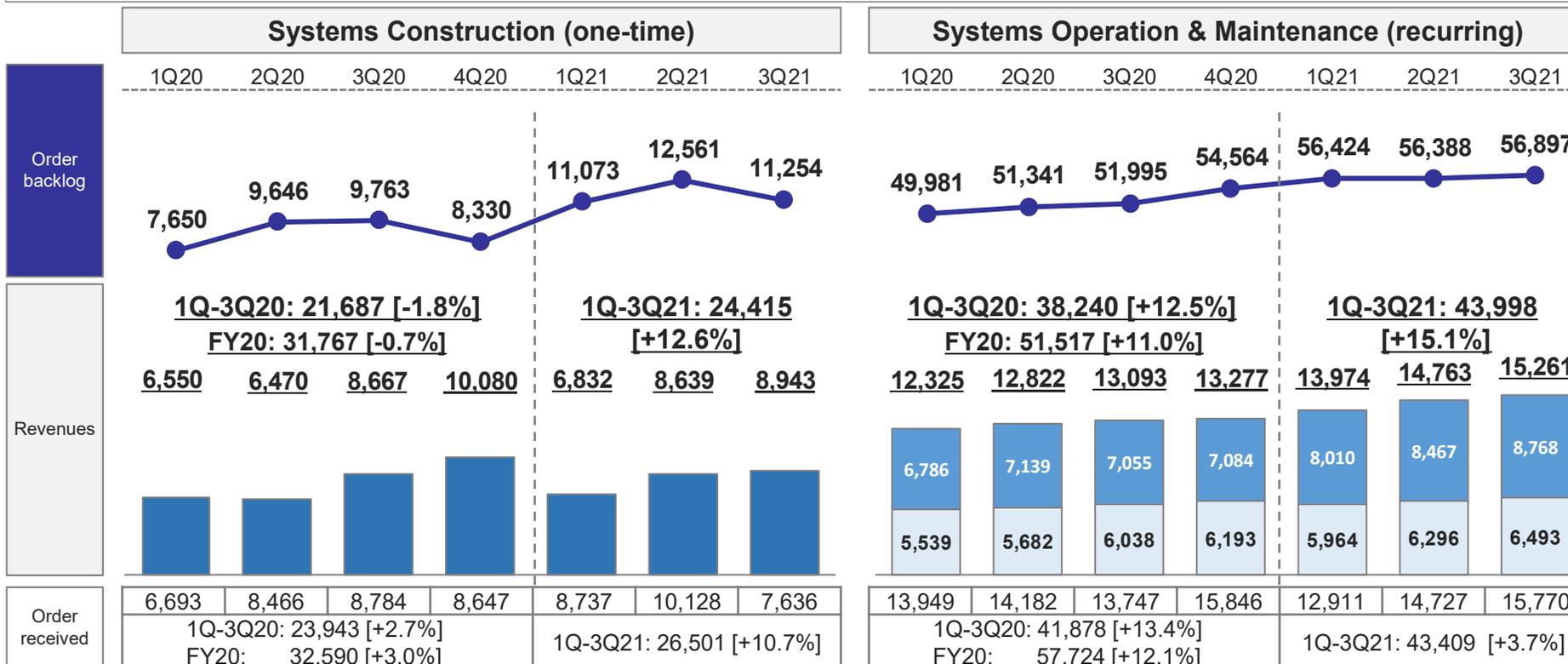
- As for our FY21 usage charge, from 1Q21, we are applying ¥28,385 per Mbps as a unit charge which was disclosed by Docomo based on the future cost method.
- As for our FY20 usage charge, from 1Q20, we applied ¥41,436 per Mbps as a unit charge which was disclosed by Docomo based on the future cost method. This unit charge was revised and fixed as ¥37,280 which is a decrease of 12.7% YoY in late Dec. 2021.
- 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.

# 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



➤ We continued to accumulate orders related to implementation of SaaS such as Microsoft 365 and enhancement of Internet gateway across all industries in 3Q21

- 1Q21 order received decrease because contracts for renewals were concentrated in 4Q20
- Systems operation & maintenance revenues continued to grow mainly because we continued to accumulate system construction project orders

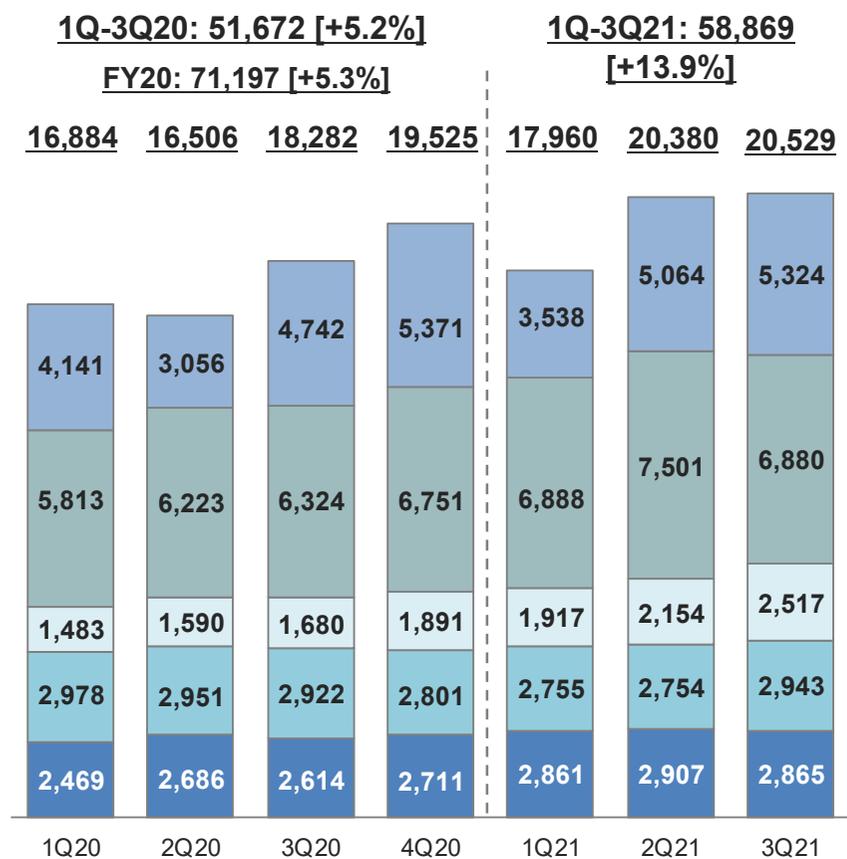
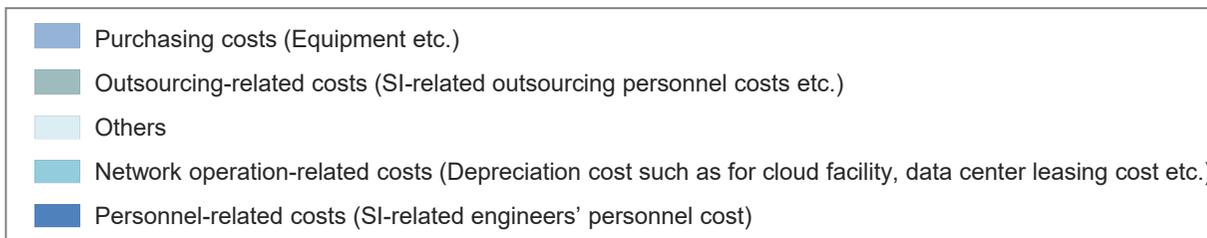
## Overseas Business

- ◆ 1Q-3Q21 results: Revenues: ¥12.72 bn (mainly recognized as SI revenues), Operating profit: ¥0.88 bn
- ◆ Financial impact from PTC consolidation (consolidated from Apr. 1, 2021, all of PTC's revenue is recognized in SI)
  - FY21 outlook: Revenues approx. ¥8.5 bn, Gross profit approx. ¥0.8 bn, Operating profit approx. ¥0.4 bn
  - 1Q-3Q21 results: Revenues ¥5.30 bn (construction ¥3.71 bn, systems operation & maintenance ¥1.59 bn), Gross profit ¥0.59 bn (Gross profit ratio: 11.1%), Operating Profit ¥0.26 bn. Slightly weaker than expected mainly due to behavior restrictions caused by the Pandemic
  - Quarterly revenues: 1Q ¥1.31 bn, 2Q ¥2.33 bn, 3Q ¥1.66 bn

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

Unit: ¥ (JPY) million

[ ], YoY = Year over year comparison



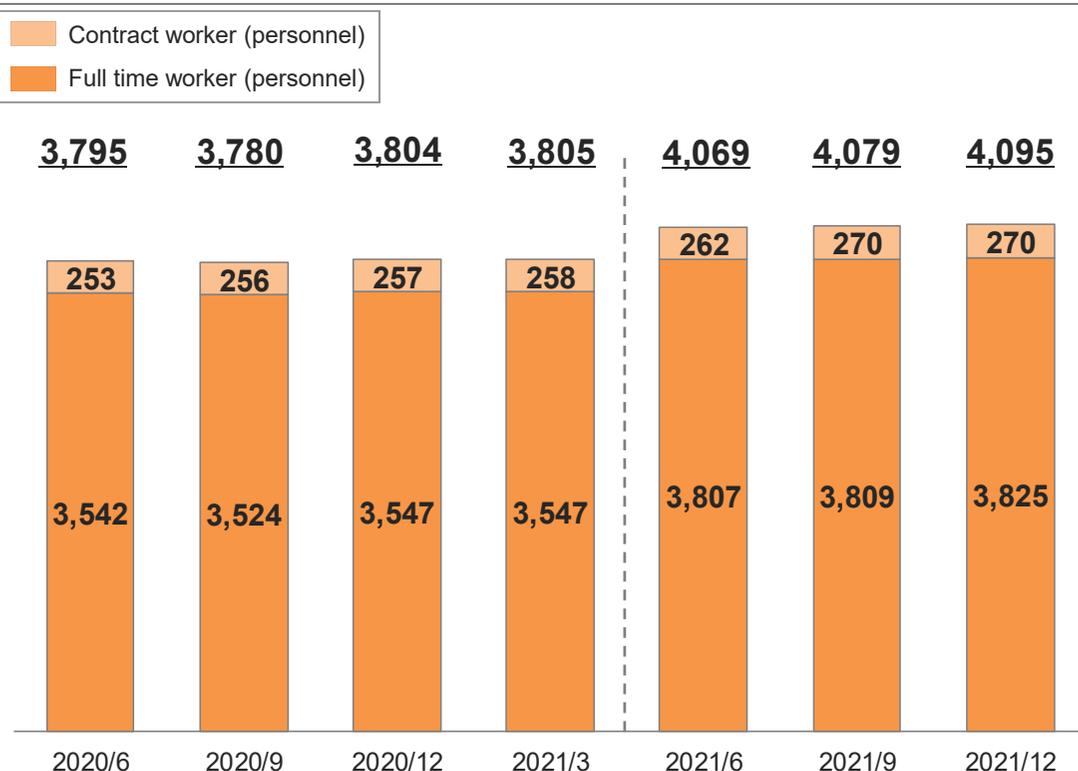
- Cost of revenues related to PTC (1Q: ¥1.16 billion, 2Q ¥2.16 billion, 3Q ¥1.39 billion) is mainly recognized in purchasing costs, outsourcing-related costs and personnel related costs
- Outsourcing-related costs are connected with projects size and revenue volume to some extent
- Others increased mainly due to an increase in license costs along with expansion of multi-cloud demands
- No significant increase for network operation-related costs

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

1Q20-end	2Q20-end	3Q20-end	4Q20-end	1Q21-end	2Q21-end	3Q21-end
1,094	1,181	1,236	1,270	1,244	1,300	1,302

# Number of Employees

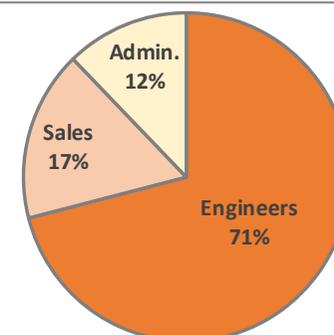
YoY = Year over year comparison



➤ 179 new graduates are planned to join in Apr. 2022

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

## Employee Distribution



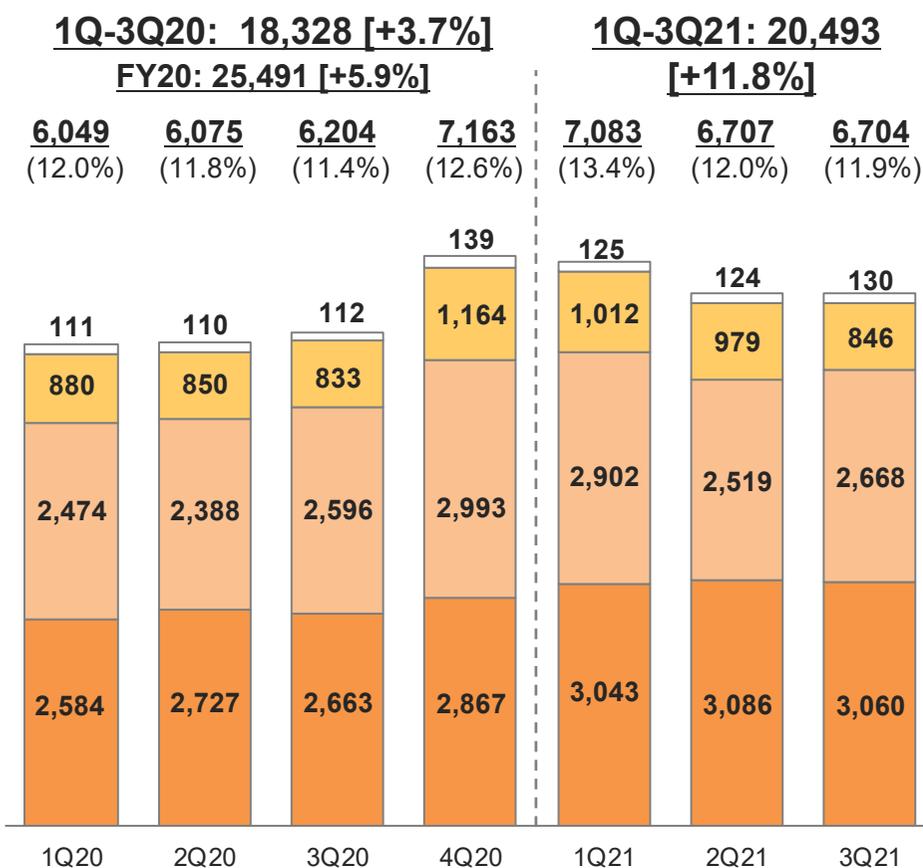
## Personnel-related costs & expenses

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

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
6,835 (13.6%)	7,281 (14.2%)	7,032 (12.9%)	7,405 (13.0%)	7,756 (14.6%)	7,892 (14.1%)	7,859 (13.9%)
1Q-3Q20: 21,148 (13.6%) +8.9%YoY				1Q-3Q21: 23,506 (14.2%)		
FY20: 28,553 (13.4%) +8.4%YoY				+11.2%YoY		

➤ 1Q-3Q21 personnel-related costs and expenses

- Through PTC consolidation, ¥0.4 billion was added (1Q: ¥0.13 billion, 2Q: ¥0.14 billion, 3Q ¥0.13 billion)



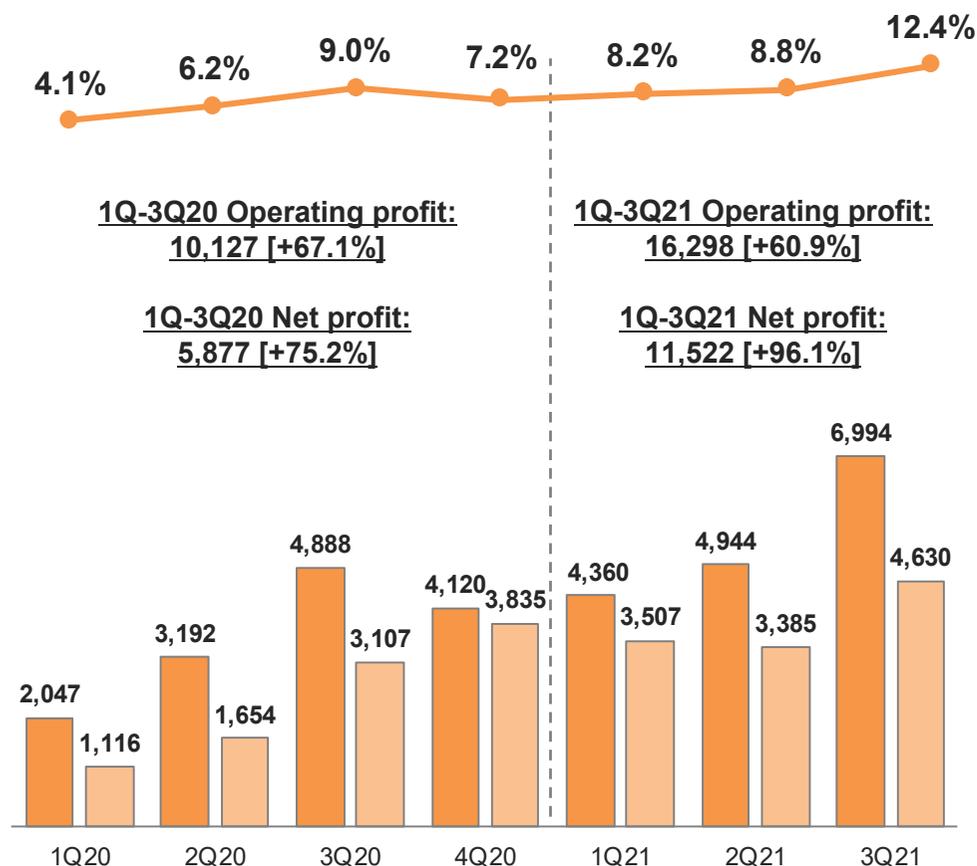
- SG&A is within our budget (1Q: slight increase mainly due to human resource training, 2Q & 3Q: ordinal course)
- Research & development expenses mainly consist of personnel expenses of IIJ Innovation Institute, a wholly owned subsidiary
  - IIJ is to absorb IIJ Innovation Institute on Apr. 1, 2022
- Commission expenses are mainly consumer sales commissions and recruitment expenses
- 1Q-3Q21 Others slightly increased mainly due to advertisements for consumer business
- PTC SG&A has been added from 1Q21  
1Q ¥0.09 billion, 2Q 0.11 billion, 3Q 0.12 billion

• 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



◆ **Operating profit**

➢ 1Q-3Q21: ¥16,298 million, +60.9% YoY

◆ **Profit before tax**

➢ 1Q-3Q21: ¥17,597 million, +90.7% YoY

- Interest expense: -¥401 million
- Foreign exchange gain : +¥98 million
- Valuation gain on funds\* etc.: +¥2,560 million (1Q +¥1,296 million, 2Q +¥396 million, 3Q +¥867 million)
- Dividend income: +¥65 million
- Interest income: +¥32 million
- Share of loss of investments accounted for using equity method: -¥1,056 million

Equity in net loss of DeCurret:

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
306	273	207	193	296	256	780

- ✓ IJ ownership: 4Q19 30.0%, from 1Q20 41.6%, from 1Q21 38.2% is used to recognize gain and loss
- ✓ DeCurret divested its crypto asset business on Feb. 1, 2022 to dedicate its business resources to digital currency business
- ✓ 3Q21 loss increased as it includes temporary loss of ¥484 million due to the above mentioned transaction in addition to ordinal loss. As for 4Q21, we expect to record about ¥1.2 billion loss as impairment on corresponding, amount of goodwill (No more loss related to the transaction)

◆ **Net profit**

➢ 1Q-3Q21: ¥11,522 million, +96.1% YoY

- Income tax expense: -¥5,974 million

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

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	
(74)	(286)	186	368	1,208	292	855	Finance income (expense), net
(279)	(135)	(313)	319	(217)	(155)	(684)	Share of profit (loss) of investments accounted for using equity method
(572)	(1,084)	(1,625)	(952)	(1,807)	(1,667)	(2,500)	Income tax expense
(6)	(34)	(29)	(21)	(36)	(30)	(35)	Less: Profit for the period attributable to non-controlling interests

# Consolidated Statements of Financial Position (Summary)

Financials

- Ratio of total equity attributable to owners of the parent: 40.7% as of March 31, 2021, 44.5% as of December 31, 2021 Unit: ¥ (JPY) million

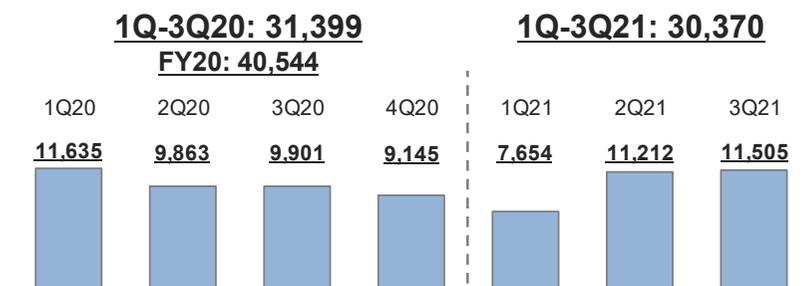
	Mar. 31, 2021	Dec. 31, 2021	Changes
Cash and cash equivalents	42,467	40,960	(1,507)
Trade receivables	34,799	31,750	(3,049)
Inventories	2,171	2,381	+210
Prepaid expenses (current and non-current)	20,136	24,562	+4,426
Tangible assets	17,084	17,609	+525
Right-of-use assets	50,708	44,410	(6,298)
Goodwill and intangible assets	23,037	25,759	+2,722
Investments accounted for using the equity method	9,027	7,900	(1,127)
Other investments	12,912	18,608	+5,695
Others	8,436	10,659	+2,223
<b>Total assets:</b>	<b><u>220,777</u></b>	<b><u>224,599</u></b>	<b><u>+3,821</u></b>
Trade and other payables	19,244	19,467	+223
Borrowings (current and non-current)	25,560	21,870	(3,690)
Contract liabilities and Deferred income (current and non-current)	14,832	16,882	+2,050
Income taxes payable	3,012	3,474	+461
Retirement benefit liabilities	4,169	4,500	+332
Other financial liabilities (current and non-current)	53,527	47,536	(5,991)
Others	9,462	9,878	+416
<b>Total liabilities:</b>	<b><u>129,806</u></b>	<b><u>123,607</u></b>	<b><u>(6,199)</u></b>
Share capital	25,531	25,562	+31
Share premium	36,389	36,467	+78
Retained earnings	25,047	32,732	+7,685
Other components of equity	4,865	7,016	+2,151
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>99,926</u></b>	<b><u>+9,970</u></b>

# Consolidated Cash Flows

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

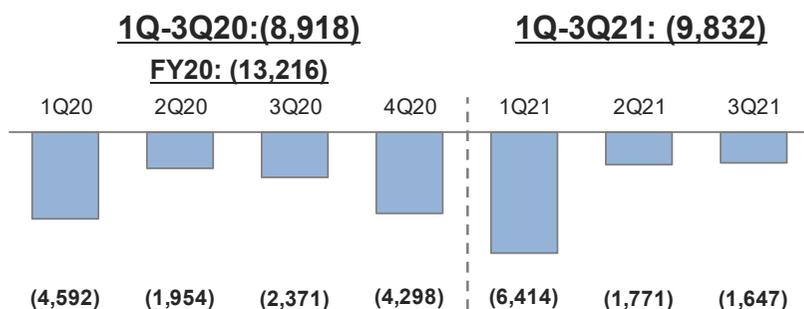
Financials

## Operating Activities



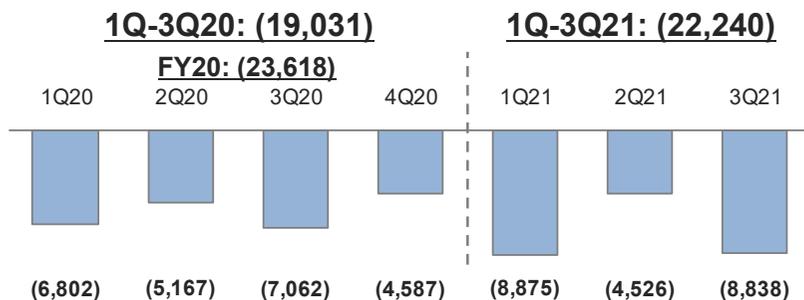
	Major Breakdown	YoY Change
Profit before tax	17,597	+8,370
Depreciation and amortization	21,088	(6)
Finance income	(2,776)	(2,493)
Changes in operating assets and liabilities	(1,298)	(4,824)
Income taxes paid	(5,680)	(1,752)

## Investing Activities



	Major Breakdown	YoY Change
Purchase of tangible assets	(4,893)	(338)
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	(3,627)	+95
Proceeds from sales of tangible assets	1,776	(83)

## Financing Activities



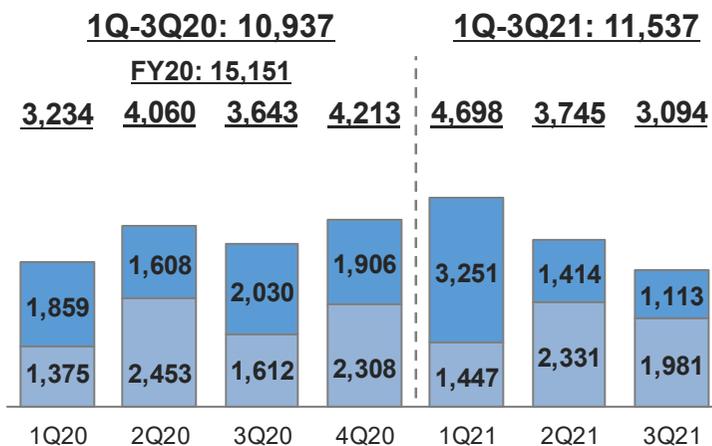
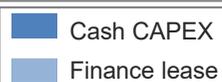
	Major Breakdown	YoY Change
Payment of operating/finance leases and other financial liabilities	(14,665)	+587
Repayment of long-term borrowings	(5,170)	(3,340)
Net increase in short-term borrowings	1,480	+1,840
Dividends paid	(3,836)	(2,303)

# Other Financial Data

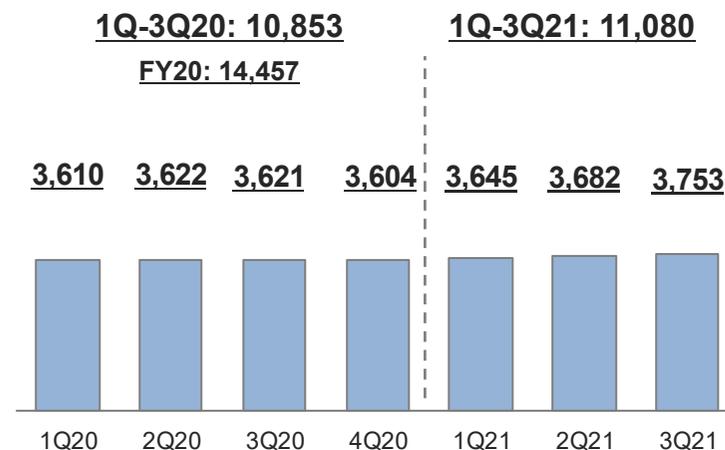
Unit: ¥ (JPY) million

Financials

## CAPEX



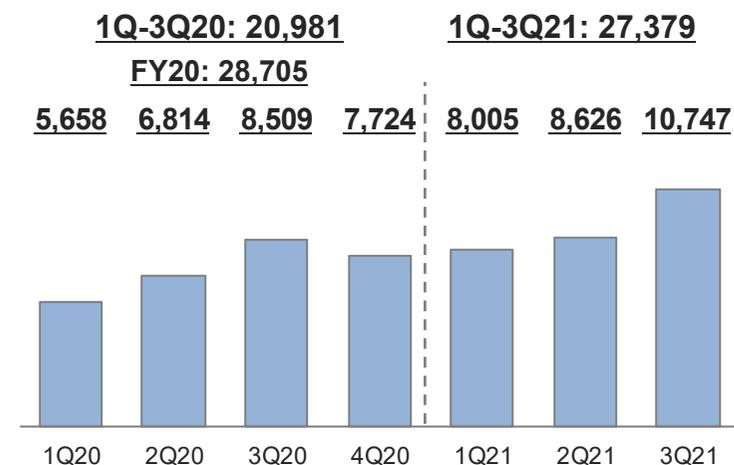
## CAPEX-related depreciation and amortization



### Breakdown (Unit: JPY billion)

	1Q-3Q20	1Q-3Q21
NW Usual Capex	6.9	6.7
Cloud-related	1.6	1.9
Shiroi DC-related	1.5	0.6
Customer-related	0.8	2.3
ATM-related	0.2	0.0

## Adjusted EBITDA



### FY21 outlook: approx. ¥17.5 billion (mostly in line with plan)

- 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.

# Data Centers (1)

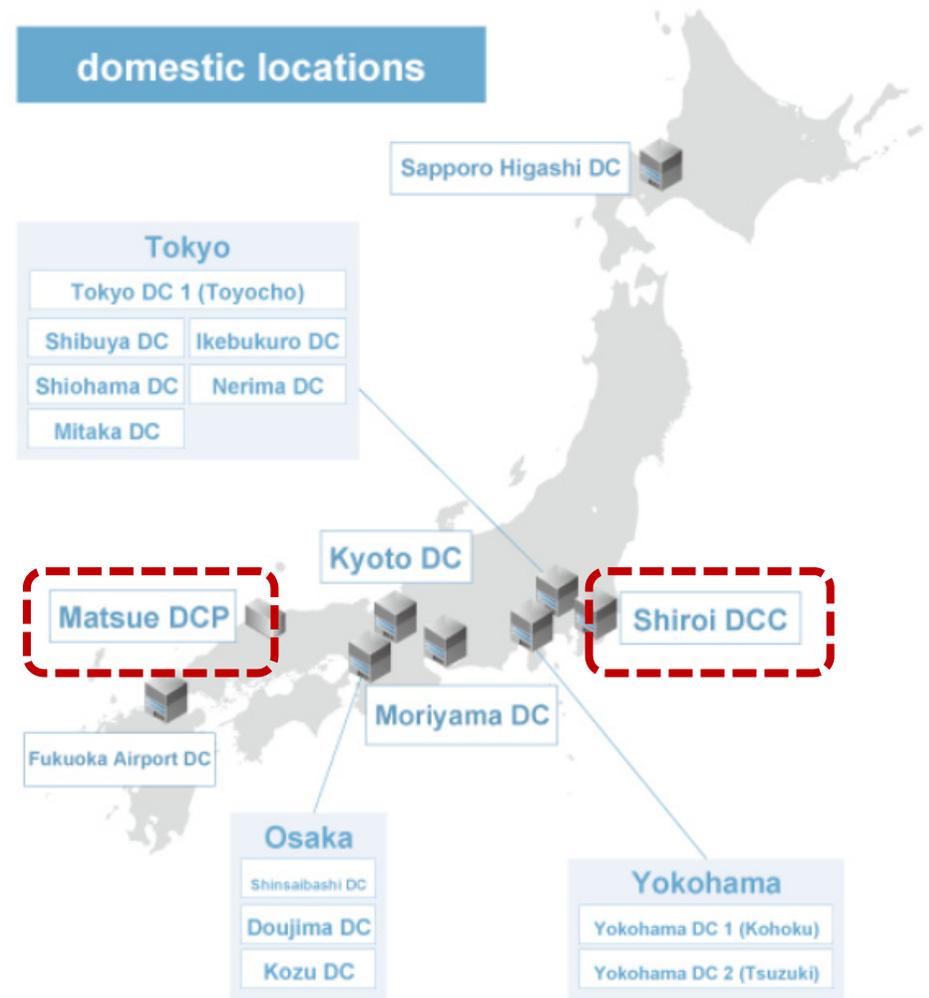
- **Operating 16 data centers in Japan (as of Dec. 2021)**
  - Of which, 14 data centers are leased from data center owners per space
  - Of which Shiroy & Matsue are owned by IIJ and used for own service facility such as for network & Cloud as well as colocation services to store clients' IT assets.
    - ✓ Integrate racks currently spread out throughout Japan to improve operation productivity
- **In 2011, IIJ built Japan's first container-based modular data center using an outside air-cooling system, eco-friendly data center**
  - Modular approach allows flexible expansion and short-term construction with low cost
- **IIJ has exported container modular data center to overseas including the People's Republic of Laos in 2016 to help them set up IT infrastructure**

overseas locations



## Data Center Locations

domestic locations



## Profiles of data centers owned by IIJ

	Matsue Data Center Park	Shiroi Data Center Campus
<b>Location</b>	Matsue city, Shimane prefecture	Shiroi city, Chiba prefecture
<b>Land</b>	Approx. 16,000m <sup>2</sup>	Approx. 40,000m <sup>2</sup>
<b>Server capacity</b>	Approx. 500	Can accommodate up to 6,000  1 <sup>st</sup> facility: approx. 700 2 <sup>nd</sup> facility: approx. 1,100 (plan)
<b>Operation</b>	Apr. 2011 2 <sup>nd</sup> facility: Nov. 2013	May 2019 2 <sup>nd</sup> facility: Gradually operate from Apr. 2023
<b>Highlights of the facility</b>	<ul style="list-style-type: none"> <li>• First commercial modular DC in Japan to use outside-air cooling system (FY20 average PUE: approx. 1.2)</li> <li>• Have received Environment Management System etc.</li> <li>• Implementing carbon neutral initiatives by using substantial renewable energy from Feb. 2022</li> </ul>	<ul style="list-style-type: none"> <li>• System module</li> <li>• Applying AI to control overall facility and IT</li> <li>• Using robots to realize automated operation, fewer or non human operation</li> <li>• Deploying Tesla Powerpack</li> </ul>

\*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
- 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

## ◆ Social Security and Tax Number System which is often called “my number” was first introduced in October 2015. As of January 1, 2022, 41% to the total Japanese population has received their ID according to the MIC.

[https://www.soumu.go.jp/kojinbango\\_card/](https://www.soumu.go.jp/kojinbango_card/)

# Docomo's Mobile data interconnectivity charge (Mbps unit charge・monthly)

Fiscal Year		FY18	FY19	FY20	FY21	FY22	FY23	FY24
Method		Actual cost method			Future cost method			
Unit Charge	New							
	Current	<u>¥49,311</u> -6.0%	<u>¥42,702</u> -13.4%	<u>¥37,280</u> -12.7%	<u>¥28,385</u> -23.9%	<u>¥22,190</u> -21.8%	<u>¥18,014</u> -18.8%	
	Old	<u>¥49,311</u> -6.0%	<u>¥42,702</u> -13.4%	<u>¥41,436</u> -3.0%	<u>¥33,211</u> -19.8%	<u>¥27,924</u> -15.9%		

Fixed at the end of Dec. 2021 (\*)

To be fixed around at the end of Dec. 2022

New unit charge are to be disclosed around Mar. and Apr. 2022 by Docomo

- The same calculation method is applied to actual cost method & future cost method: (Data communication cost + profit) /demand
- About future cost method: calculate MNOs' mobile unit charge prediction for next three years, which is based on MNO's future cost etc. It has been applied from FY20. Mobile unit charge is fixed based on MNO's actual cost etc. and the difference between prediction and result is adjusted. 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 "Current" above) were announced April 2021.
- As for our FY20 usage charge(\*), from 1Q20, we applied ¥41,436 per Mbps as a unit charge which was disclosed by Docomo based on the future cost method. This unit charge was revised and fixed at the end of Dec. 2021 as ¥37,280 which is a decrease of 12.7% from the previous year's charge. We recorded all impact generated from this revision in our 3Q21 financial results.
- Mobile interconnectivity charge, which is underlined above, is fixed based on the results
- The decrease percentage in mobile interconnectivity charge described above is compared with the previous year

# IIJ's consumer mobile pricing: Old vs New (GigaPlans)

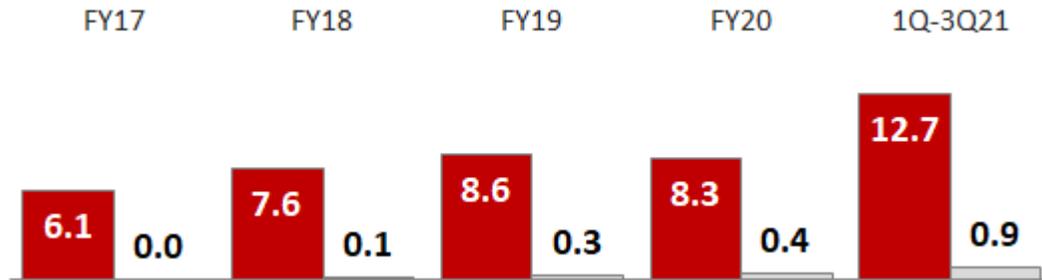
	Old		New "GigaPlans" from Apr. 2021						
Basic Monthly Charge	Minimum Start Plan (3GB)	with Voice	¥1,600	2 GigaPlan	with Voice	¥780			
		Data-only	¥900		Data-only	¥680			
	Light Start Plan (6GB)	with Voice	¥2,220	4 GigaPlan	with Voice	¥980			
		Data-only	¥1,520		Data-only	¥880			
	Family Share Plan (12GB)	with Voice	¥3,260	8 GigaPlan	with Voice	¥1,380			
		Data-only	¥2,560		Data-only	¥1,280			
	Pay as you go	Voice call charge as you go	¥22 per 30 seconds		Voice call charge as you go	¥11 per 30 seconds			
			15 GigaPlan	with Voice		¥1,680	20 GigaPlan	with Voice	¥1,880
				Data-only		¥1,580		Data-only	¥1,780

- 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



- FY20 results were impacted by COVID-19 pandemic etc.
- FY21 results include a new consolidated subsidiary called PTC which we acquired in Apr. 2021.

## Overseas offices



## 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
- **While IT markets in the U.S. and Europe are relatively mature, the markets in Asia are just beginning to build up**
  - Increasing demand for network services, SI and etc. in China and Thailand,
  - 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

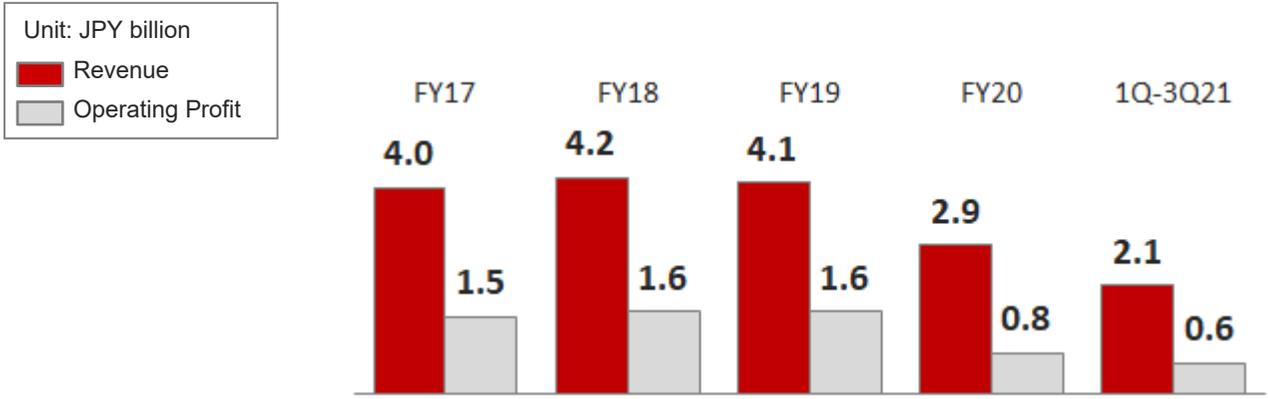
- Similar to “Seven Bank” model
- Placing ATMs in Pachinko parlors in Japan
  - After long discussion, started to place in Kanto, Kansai, Kyushu and Tokai areas
  - 9,035 Pachinko parlors in Japan as of December 31, 2020 (Source: Zennichiyuren)
- Receive commission for each withdrawal transaction

## Trust Networks Inc.

- In charge of ATM operation business
- IIJ’s ownership: 80.6%
- Established in 2007
- Number of employees: about 10 personnel



## 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.



• ATM (Automated Teller Machine)



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.