

Consolidated Financial Results for 1Q20

(April 1, 2020 to June 30, 2020)



Internet Initiative Japan Inc.
TSE1 (3774)
August 7, 2020

Outline

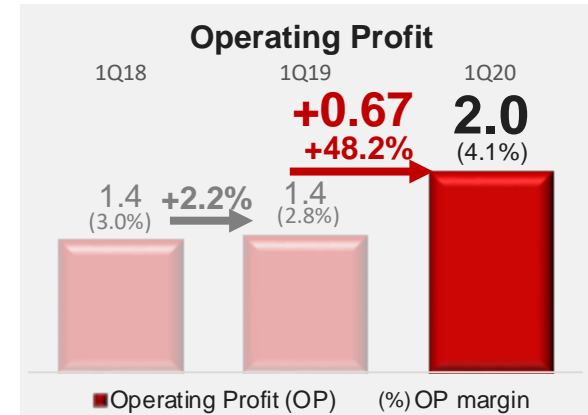
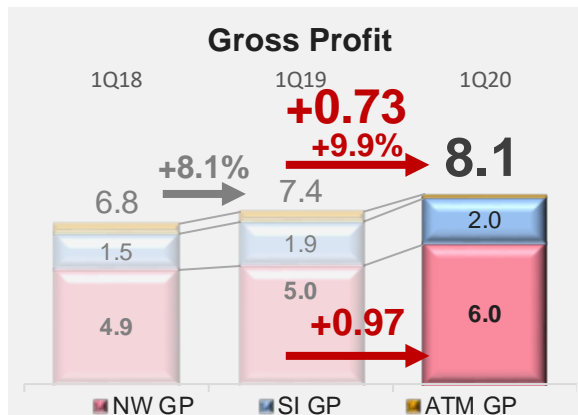
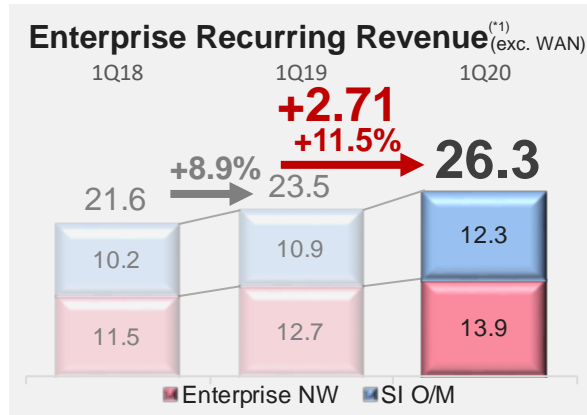
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I . Summary of 1Q20

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

Revenue JPY50.38 bn +1.1% OP JPY2.05 bn +48.2% Started with far stronger than expected profit growth

Japanese enterprises advanced their IT usages As a service provider, expect sustainable profit growth for the middle-to-long term Profit expansion led by enterprise NW services accumulation SI construction as planned, ATM smaller than expected negative impact



NW services

Promote IT adoption by developing & operating monthly recurring services that are becoming highly value added

- **IP services** (dedicated Internet connectivity for enterprises) **revenue +9.4%**
 - ✓ Contributed to profit growth: traffic increased by remote access & web meetings usages etc.
- **Enterprise mobile services** (exc. MVNE) **revenue +18.2%**
 - ✓ Adding to IoT transactions, demands for remote work, virtual desktop and others increased
- **Outsourcing** (various NW services developed in-house) **revenue +8.5%**
 - ✓ Of which, security-related services **+11.9%**
 - Mainly led by highly profitable gateway type mail services (SMX)
 - ✓ Flexible enterprise NW with IIJ Omnibus services (SD-WAN, cloud exchanges etc.)
- **Together with our employees, we contributed to society impacted by the COVID-19 by providing remote access services & mobile for free etc.**

SI

- Strong demands for NW integration (remote access etc.)
- Public sector demands: Remote access for central government agencies, telework for local governments, online classes etc. increasing
- 1H revenue is expected to be on plan, accumulating orders for 2H

New businesses

- **DeCurret**: next generation digital currency settlement business
 - ✓ Digital currency related PoCs with enterprise partners: issuing & processing payment with digital currency, electricity P2P transaction, smart contract etc.
 - ✓ Managing study group on digital currency settlement infrastructure with mega banks, MOF, BOJ and other participants
- **JOCND**: Enhanced CDN facility ahead of schedule due to traffic increase

(*1) Enterprise recurring revenue: Sum of Internet Connectivity Services (Enterprise) excluding MVNE, Outsourcing Services and Systems Operation and Maintenance. It does not include WAN Services which had specific factor.

(*2) Enterprise NW revenue: Sum of Internet Connectivity Services (Enterprise) excluding MVNE, and Outsourcing Services. It does not include WAN Services which had specific factor.

II - 1. Consolidated Financial Results for 1Q20

Unit: JPY billion
YoY = Year over year

	% of revenue 1Q20 results Apr. 2020 - June 2020	% of revenue 1Q19 results Apr. 2019 - June 2019	YoY	
Revenue	50.4	49.8	+1.1%	+0.5
Cost of Revenue	83.9% 42.3	85.2% 42.4	(0.4%)	(0.2)
Gross Profit	16.1% 8.1	14.8% 7.4	+9.9%	+0.7
SG&A etc. ^(*)	12.0% 6.1	12.0% 6.0	+1.1%	+0.1
Operating Profit	4.1% 2.0	2.8% 1.4	+48.2%	+0.7
Shares of profit (loss) of investments accounted for using equity method investees	(0.3)	0.1	-	-
Profit before tax	3.4% 1.7	2.7% 1.4	+23.8%	+0.3
Net Profit ^(*)	2.2% 1.1	1.6% 0.8	+43.8%	+0.3

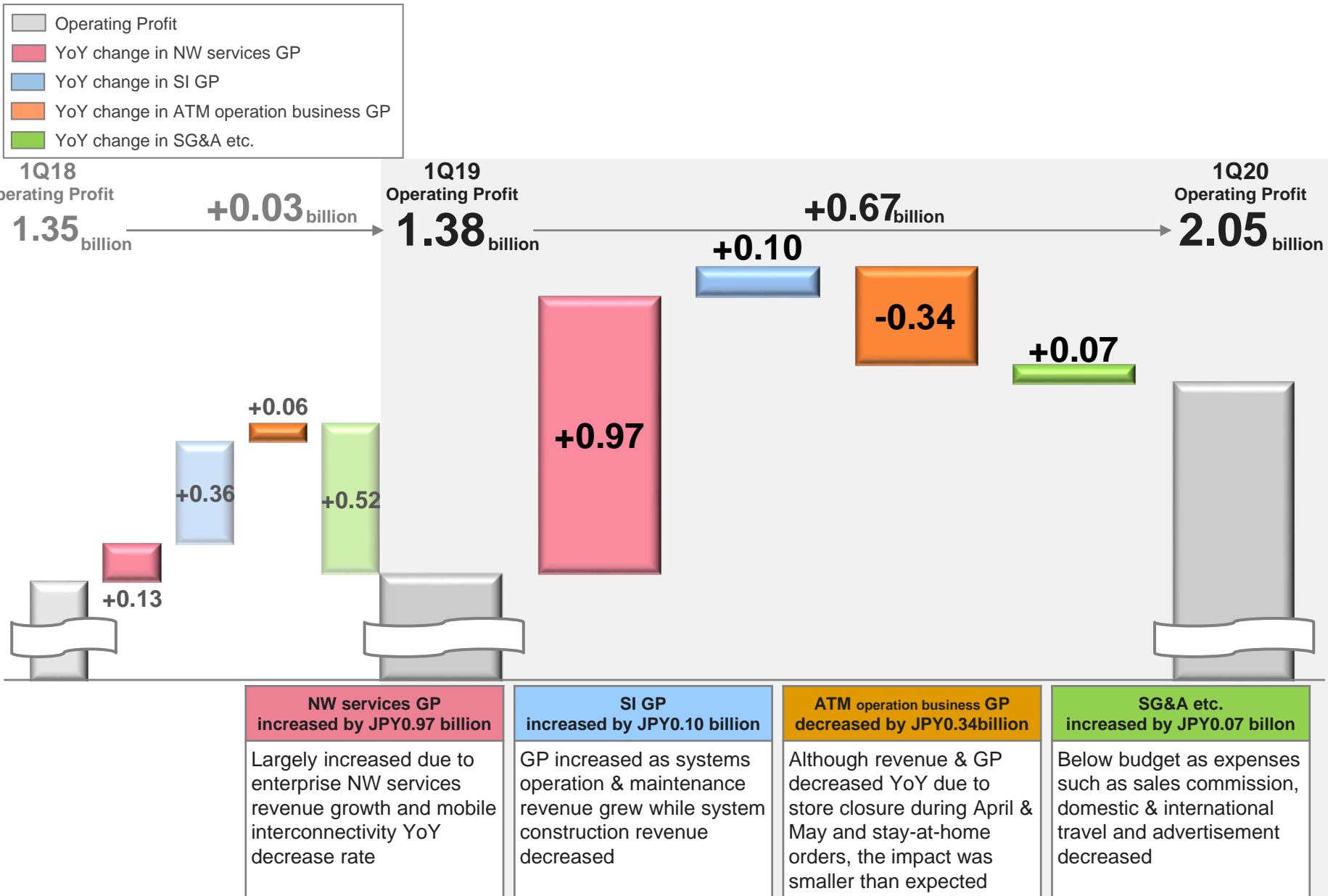
% of revenue FY20 Targets Apr. 2020 - Mar. 2021	YoY	
210.0	+2.7%	+5.5
83.9% 176.1	+2.5%	+4.2
16.1% 33.9	+4.0%	+1.3
12.0% 25.2	+3.4%	+0.8
4.1% 8.7	+5.8%	+0.5
(0.6)	-	-
3.8% 8.0	+11.7%	+0.8
2.4% 5.0	+24.8%	+1.0

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

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

II - 2. Operating Profit Comparison

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

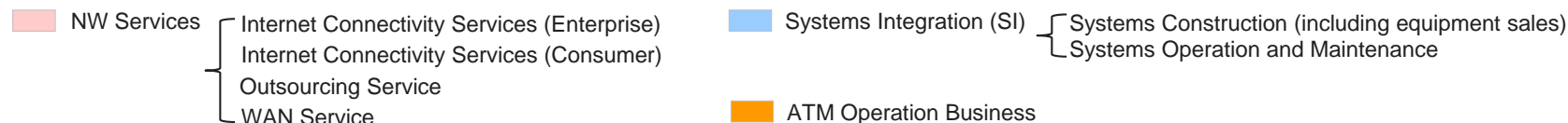


• SG&A etc. in this slide shows the sum of SG&A, which includes R&D expenses, and other income/expenses.

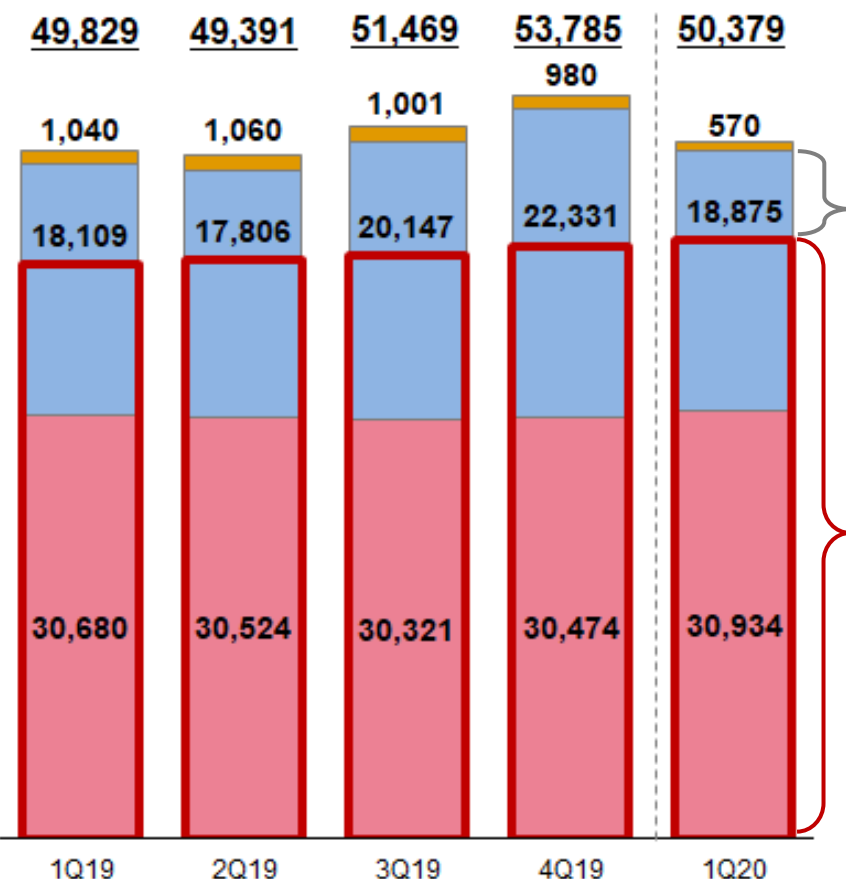
II - 3. Revenues

Unit: JPY million

[], YoY = Year over year comparison



FY19: 204,474 [+6.3%]



Total Revenue +1.1% YoY

Total revenue grew despite the following negative factors:

- WAN Service: -16.8%, -JPY1,249 million YoY due to YoY impact of the certain large clients' migration to mobile which ended 3Q19
- ATM Operation Business: -45.2%, -JPY470 million YoY mainly due to store closures and decrease in customers visiting stores

One-time Revenue^(*1)

1Q20: JPY6,550 million, -9.6% YoY
(13.0% of 1Q20 revenues)

Recurring Revenue^(*2)

1Q20: JPY43,259 million, +4.1% YoY
(85.9% of 1Q20 revenues)

- Recurring revenue excluding WAN: +8.7% YoY

Enterprise Recurring Revenue^(*3)

1Q20: JPY26,257 million, +11.5% YoY
(52.1% of 1Q20 revenues)

(*1) One-time revenue, systems construction revenues which includes equipment sales, is mainly recognized when systems or equipment are delivered and accepted by customers

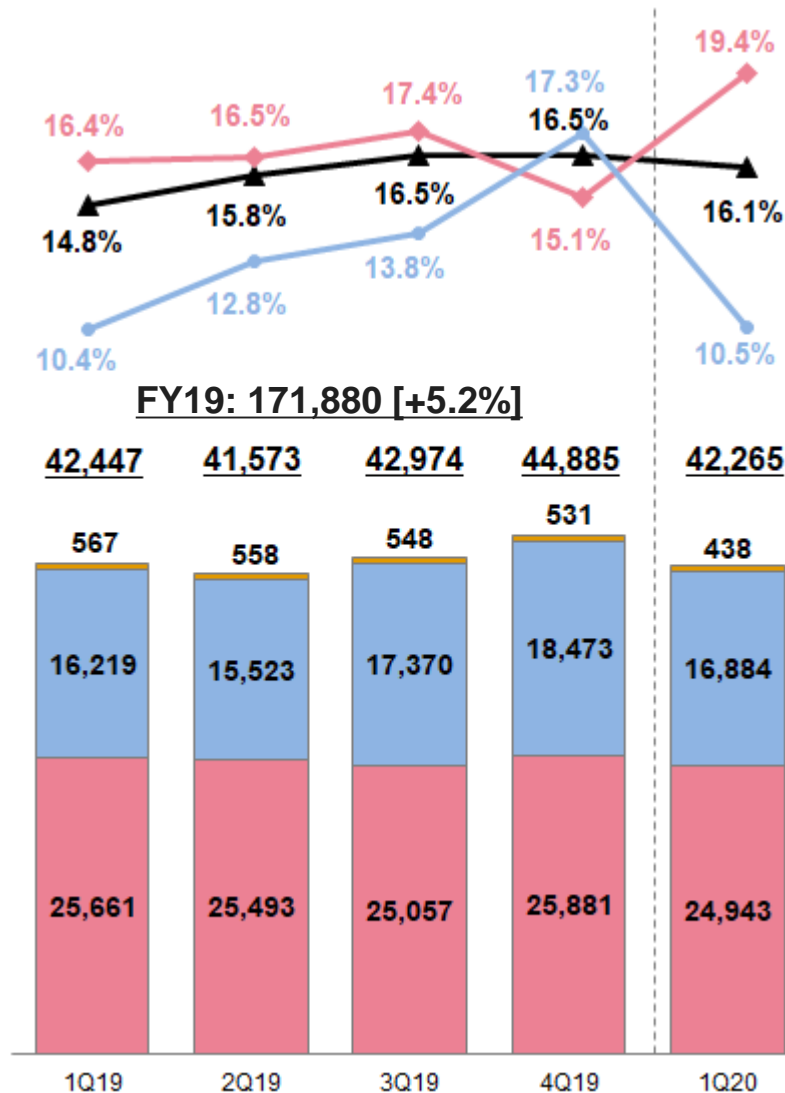
(*2) Recurring revenue represent the following monthly recurring revenues: Internet Connectivity Services for Enterprise, Internet Connectivity Services for Consumer, Outsourcing Services, WAN Services, and Systems Operation and Maintenance

(*3) Enterprise recurring revenue: Internet Connectivity Services (Enterprise) excluding MVNE, Outsourcing Service and Systems Operation and Maintenance, which excludes WAN Services due to the impact of specific factor.

II - 4. Cost of Sales & Gross Profit Ratio

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

Cost of Sales: NW Services SI ATM Operation Business
Gross profit ratio: NW Services SI Total



Gross Profit

◆ Total

- 1Q20: JPY8,113 million (+9.9%, +JPY731 million YoY)

◆ NW Services

- 1Q20: JPY5,991 million (+19.4%, +JPY972 million YoY)
 - Largely expanded along with enterprise NW services revenue growth and mobile interconnectivity YoY decrease rate
 - ✓ Regarding our FY20 mobile infrastructure usage charge, from 1Q20 we use 16.0% decrease rate, which was presented by NTT Docomo based on the future cost method, to recognize our quarterly costs

◆ SI

- 1Q20: JPY1,991 million (+5.4%, +JPY101 million YoY)
 - Gross profit ratio same level as 1Q19, As 1Q revenue is small due to seasonal factors, gross profit ratio tends to be smaller than 4Q which revenue volume is large

◆ ATM Operation Business

- 1Q20: JPY131 million (-72.2%, -JPY342 million YoY)
 - 1Q20 gross profit decreased along with 1Q20 revenue decrease which decreased by JPY470 million YoY. YoY profit decrease was vivid during April and May, yet we saw some signs of recovering in June

4Q19 NW services gross profit ratio temporarily decreased because the actual decrease rate, 6.0%, of Docomo's mobile interconnectivity telecommunications charge (fixed in Mar. 2020) was smaller than our estimate 8%, we had to recognized JPY0.35 billion(*) of additional cost in 4Q19.

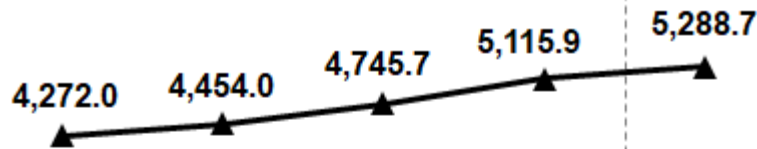
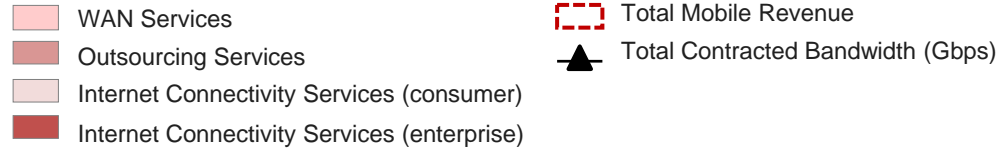
(*) Difference between our estimate and actual mobile interconnectivity and other charge of Docomo and KDDI

II - 5. Network Services (1) Revenues

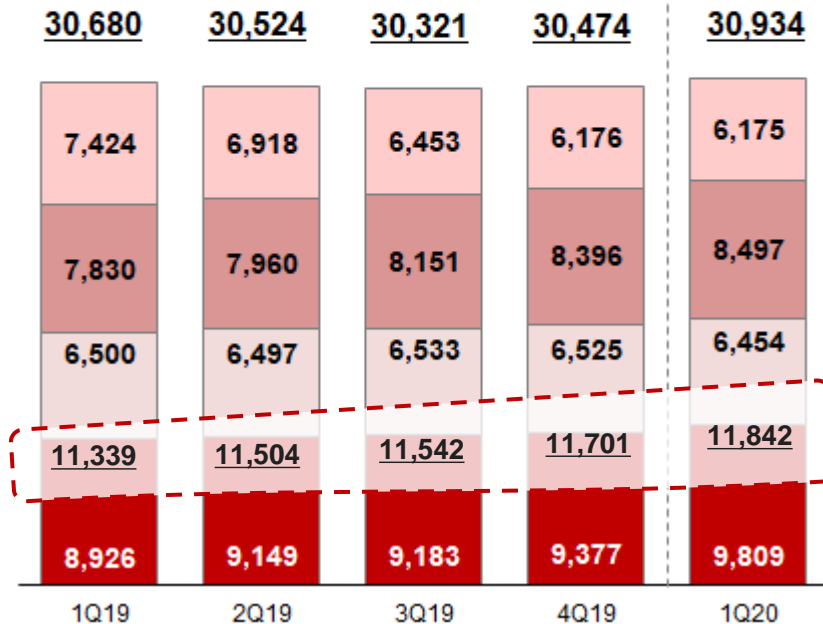
Unit: JPY million

[], YoY = Year over year comparison

QoQ = 1Q20 compared to 4Q19



FY19: 121,999 [+2.8%]



Promoting Japanese enterprises to enjoy reliable and flexible enterprise network and to advance their ICT adoption by cross-selling various highly value added monthly recurring revenue services that are developed in-house.

- Closed network: Private Backbone Services
- Multi-cloud: Cloud Exchange Services
- Private Access Services
- SD-WAN
- IoT Private Connectivity
- Flex Mobility Services
- GIO Remote Access Services
- etc.

◆ Internet Connectivity (Enterprise)

- 1Q20: +9.9% YoY Strongly increased from 1Q20 by absorbing annual pricing pressure from clients
 - IP (Dedicated connectivity services for enterprise): +9.4% YoY, good start
 - IIJ mobile for enterprise: +10.2% YoY
 - ✓ Of which, IoT-related (non-MVNE) revenue: +18.2% YoY
 - ✓ Of which, MVNE revenue: +7.5% YoY
- 1Q20-end MVNE clients: 156 (+4 clients YoY)

◆ Internet Connectivity (Consumer)

- 1Q20: -0.7% YoY

◆ Outsourcing Services

- 1Q20: +8.5% YoY, led by security & remote access revenue
 - Security services: +11.9% YoY, high growth continued

◆ WAN Services

- 1Q20: -16.8% YoY, -0.0% QoQ
 - Revenue decreased by the impact of the certain large clients' migration to mobile which ended 3Q19. Stop decreasing QoQ

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

II - 5. Network Services (2) Cost of Sales

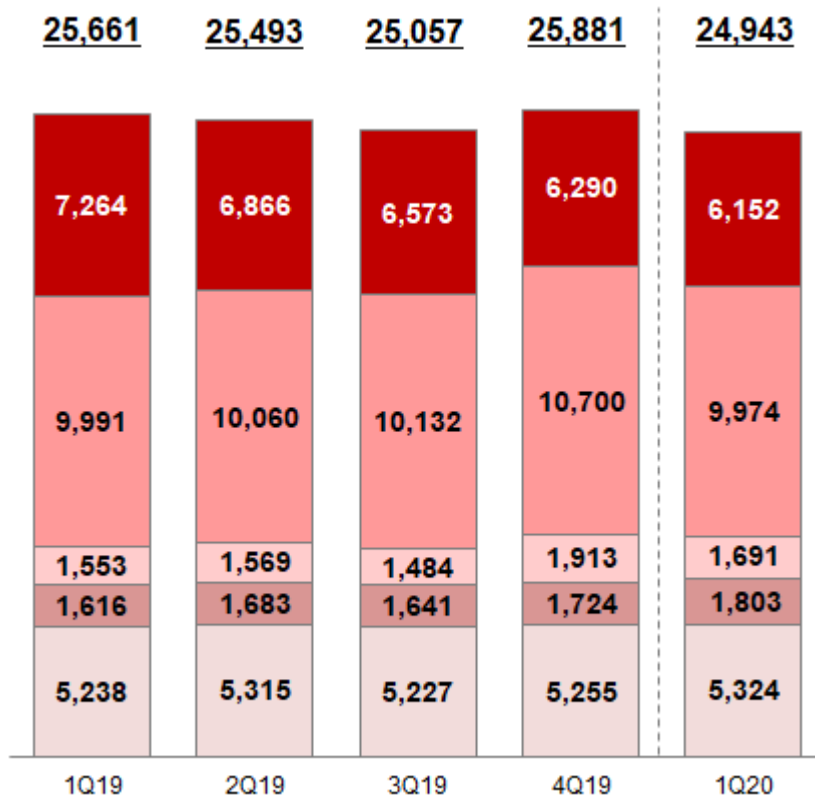
Unit: JPY million

[], YoY = Year over year comparison

QoQ = 1Q20 compared to 4Q19

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

FY19: 102,092 [+0.8%]



➤ 1Q20: -2.8% YoY

- “Circuit-related” costs decreased along with WAN revenue decrease
✓ -15.3% YoY, -2.2% QoQ
- “Outsourcing-related” costs decreased along with mobile interconnectivity YoY decrease rate
- “Others” costs quarterly fluctuates along with the scale of supplies expenses
- “Personnel-related” costs increased along with annual newly graduates and employees’ join and salary increase

◆ Regarding Docomo mobile interconnectivity cost recognition:

- Future cost method adopted from FY20(*). In this method, mobile interconnectivity telecommunications charge is calculated by MNOs’ prediction for their future costs and etc.
(*) The difference between prediction and result is adjusted to the next fiscal year
- Regarding our FY20 usage charge, we use 16.0% decrease, which has been publically disclosed by Docomo, to recognize our costs from 1Q20
- Regarding our FY19 & FY18 usage charge, Docomo’s mobile interconnectivity telecommunications charge was fixed in Mar. 2020 and it decreased by 6.0% YoY
As for FY19, we recorded JPY0.35 billion(*) of additional cost in 4Q19 as a difference between our estimate (8% decrease) and actual (6.0% decrease)
(*) Includes difference between our estimate and actual mobile interconnectivity and other charge of Docomo and KDDI

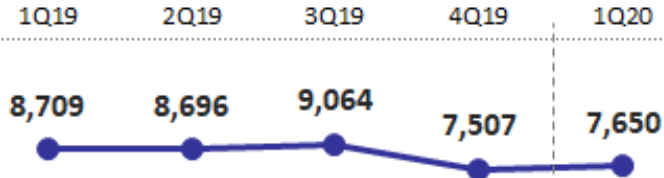
II - 6. Systems Integration (SI) (1) Revenues

Unit: JPY million

[], YoY = Year over year comparison

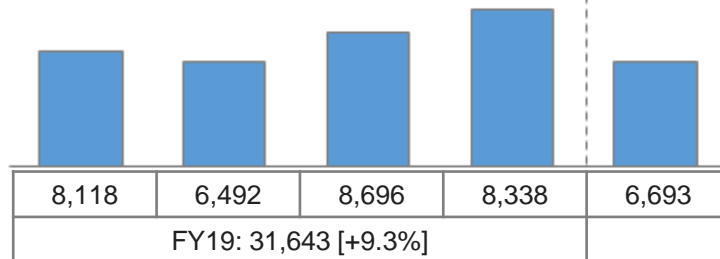
QoQ = 1Q20 compared to 4Q19

Systems Construction (one-time)



FY19: 31,976 [+14.7%]

7,249 6,504 8,328 9,895 6,550



FY19: 31,643 [+9.3%]

- Systems construction's order backlog, revenue and order received include that of equipment sales.

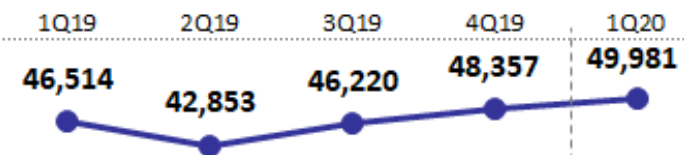
- 1Q20 order received (-17.6% YoY) decreased YoY mainly because of the slowdown in business activity, such as visiting clients during April & May, Focusing to accumulate orders for the latter half of FY20
 - 1Q19 order received included a certain large scale project amounted to JPY2 billion
- Strong demand for network integration
 - Virtual desktop/remote access system, SD-WAN/Zero Trust environment and etc.
- Projects for public sector increasing
 - Enforcement of remote access environment for central government agencies, introduction of teleworking environment for local governments, online schooling-related projects and etc.

Overseas Business

(FY2020 Target Revenue JPY10 billion, Operating Profit approx. JPY0.3 billion)

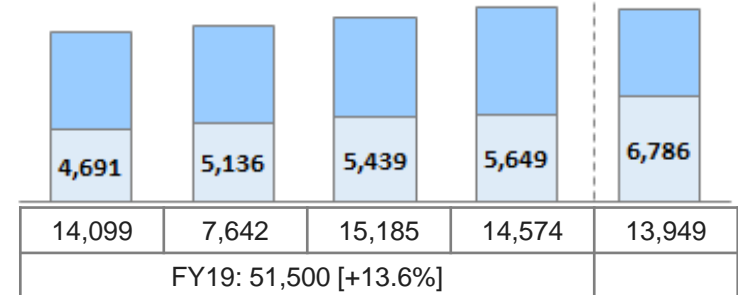
- 1Q20 revenue: JPY1.89 billion, operating profit: JPY0.04 billion
- ✓ 1Q20 results almost as expected, Going to focus on order accumulation

Systems Operation & Maintenance (recurring)



FY19: 46,418 [+11.1%]

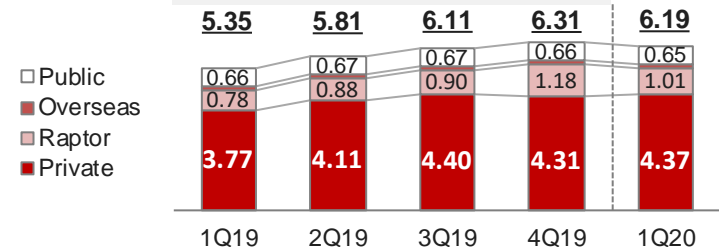
10,860 11,302 11,819 12,436 12,325



FY19: 51,500 [+13.6%]

- Revenue written within systems operation and maintenance revenue is cloud revenue that is recognized in systems operation and maintenance revenue.
- 1Q20 revenue: +13.5% YoY, continued to increase
- Cloud revenue

FY19: JPY23.58 billion (+17.1%YoY)



- Cloud revenue continued to grow: 1Q20 +15.6% YoY
- Cloud revenue breakdown: 89.5% in systems operation & maintenance, 10.5% in outsourcing
- Raptor (foreign currency exchange ASP system) revenue decreased QoQ as it was impacted by FX trading volume volatility

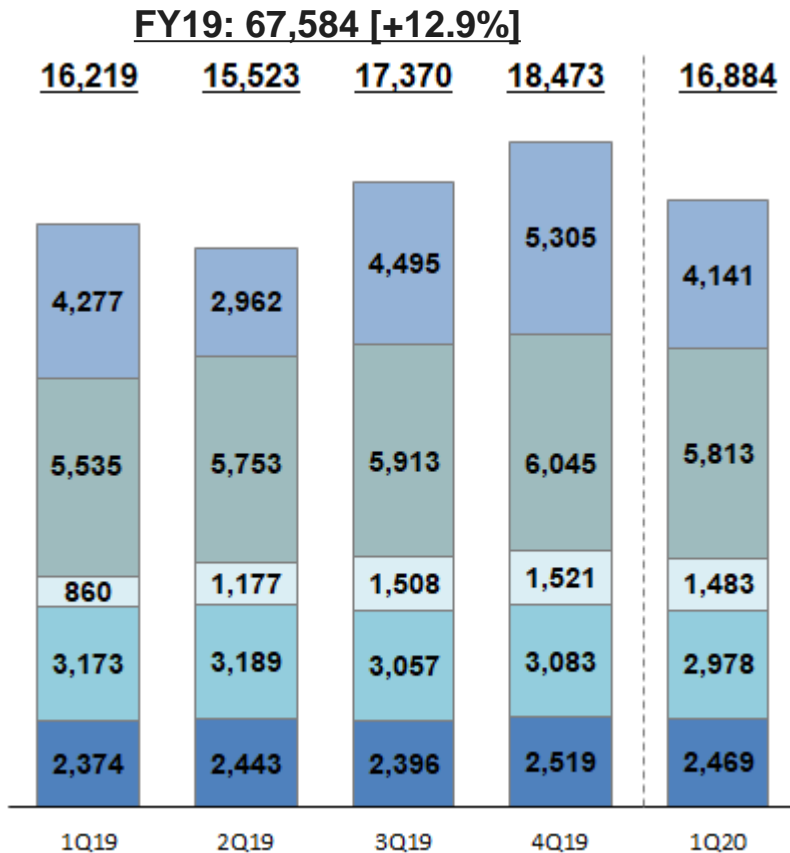
II - 6. Systems Integration (SI) (2) Cost of Sales

Unit: JPY million

[], YoY = Year over year comparison

QoQ = 1Q20 compared to 4Q19

- Purchasing costs (Equipment and licenses etc.)
- Outsourcing-related costs (SI-related outsourcing personnel costs etc.)
- Others
- Network operation-related costs (Depreciation cost such as for cloud facility, data center leasing cost etc.)
- Personnel-related costs (SI-related engineers' personnel cost)



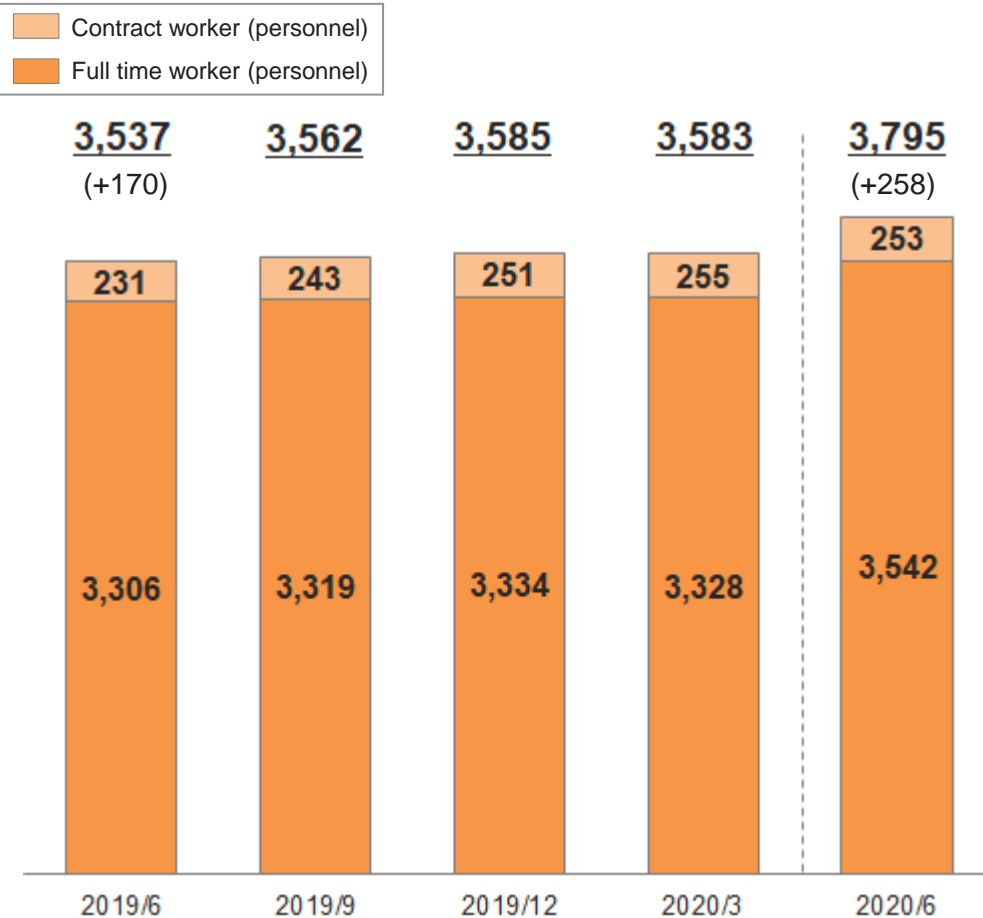
➤ 1Q20: +4.1% YoY

- “Others” increased mainly due to an increase in license expenses along with expansion of multi-cloud demands

➤ 1Q20-end number of SI-related outsourcing personnel:
1,094 personnel (+19 personnel YoY, -29 personnel QoQ)

II - 7. Number of Employees

YoY = Year over year comparison

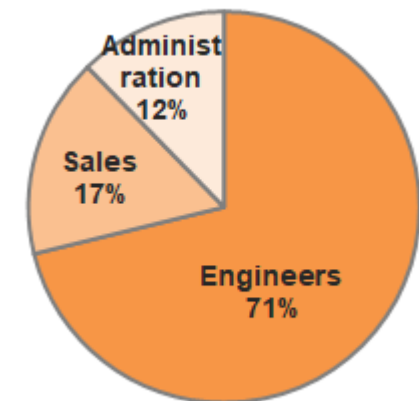


Personnel-related costs & expenses

Unit: JPY million
() = % of revenue

1Q19	2Q19	3Q19	4Q19	1Q20
6,402 (12.8%)	6,573 (13.3%)	6,443 (12.5%)	6,911 (12.8%)	6,835 (13.6%)
FY19: 26,329 (12.9%) +10.0%YoY				

Employee Distribution



- Hired 210 new graduates in Apr. 2020 (171 in Apr. 2019, 175 in Apr. 2018)
- FY20 net addition of employees is planned to be approx. 290 (FY19 result: 230)
- 1Q20 personnel-related costs and expenses: +6.8% YoY

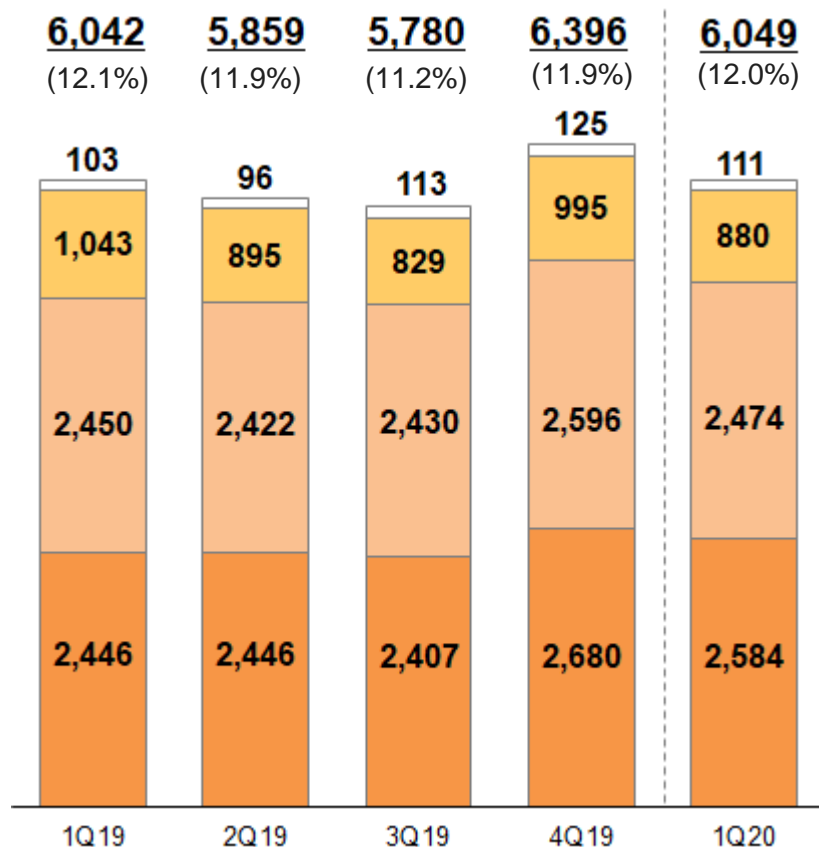
• FY19 personnel-related costs and expenses increased temporarily due to revision of personnel remuneration structure

II - 8. SG&A etc.

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



FY19: 24,076 [+6.3%]



➤ 1Q20: +0.1% YoY

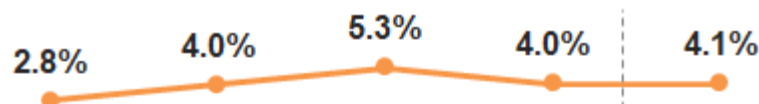
- Overall below our budget plan
 - ✓ “Personnel expenses” increased mainly due to the following annual increase: newly graduates joined in April and annual salary raise for the current employees
 - ✓ “Commission expenses” decreased mainly due to the decrease in sales commission expenses related to mobile offerings
 - ✓ “Others” decreased as traveling expenses (domestic and abroad), advertising expenses and others were small due to decreased business activity and cost control

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

II - 9. Profit

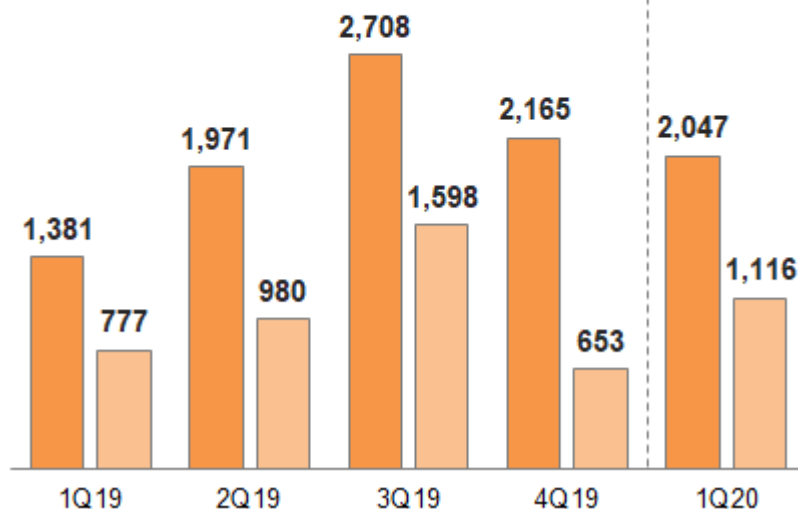
Unit: JPY million
[], YoY =Year over year comparison

Operating profit Net Profit (Profit for the period attributable to owners of the parent) Operating profit ratio



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

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



4Q19 operating profit includes one-time factors such as JPY0.35 bn of additional cost regarding mobile interconnectivity, JPY0.36 bn of disposal loss, and JPY0.25 bn of additional allocation of bonus

◆ Profit before tax

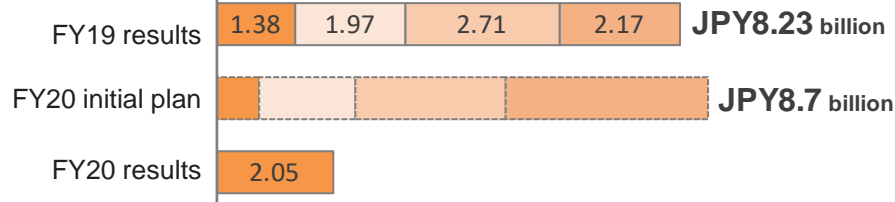
- 1Q20: JPY1,694 million (+23.8% YoY)
 - Interest expense: JPY151 million
 - Dividend income: JPY56 million
 - Interest income: JPY11 million
 - Gain on foreign currency exchange: JPY11 million
 - Shares of loss of investments on DeCurret accounted for using equity method: JPY306 million (IIJ ownership: 41.6%)

◆ Net profit

- 1Q20: JPY1,116 million (+43.8% YoY)
 - Profit for the period attributable to non-controlling interests: JPY6 million

Operating Profit

1Q 2Q 3Q 4Q



Although we assumed 1H20 operating profit to decrease YoY when we disclosed in May 2020 due to the COVID-19 pandemic, considering 1Q20 results and situation, the YoY increase should be a reasonable expectation

(124)	(51)	92	(177)	(74)	Finance income (expense), net
112	(245)	(234)	(439)	(279)	Share of profit (loss) of investments accounted for using equity method
(543)	(642)	(922)	(858)	(572)	Income tax expense
(49)	(53)	(46)	(39)	(6)	Less: Profit for the period attributable to non-controlling interests

II - 10. Consolidated Statements of Financial Position (Summary)

Unit: JPY million

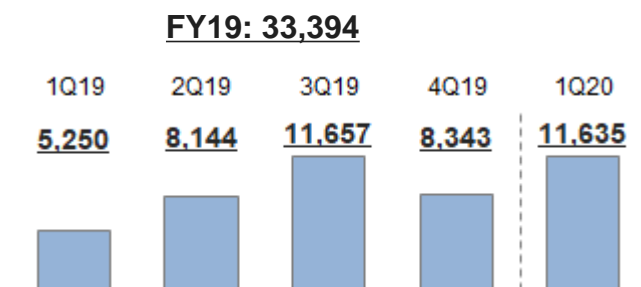
	Mar. 31, 2020	June 30, 2020	Changes
Cash and cash equivalents	38,672	38,893	+221
Trade receivables	32,585	28,499	(4,086)
Inventories	2,476	2,132	(345)
Prepaid expenses (current and non-current)	17,475	20,601	+3,126
Tangible assets	17,400	16,639	(761)
Right-of-use assets	50,560	48,607	(1,954)
Goodwill and intangible assets	24,363	24,129	(233)
Investments accounted for using the equity method	4,827	7,179	+2,352
Other investments	9,187	10,611	+1,424
Others	8,979	8,059	(920)
Total assets:	<u>206,524</u>	<u>205,349</u>	<u>(1,175)</u>
Trade and other payables	18,288	16,061	(2,226)
Borrowings (current and non-current)	27,750	26,835	(915)
Contract liabilities and Deferred income (current and non-current)	12,457	16,069	+3,612
Income taxes payable	2,284	801	(1,482)
Retirement benefit liabilities	3,985	4,059	+74
Other financial liabilities (current and non-current)	54,151	52,744	(1,407)
Others	7,553	7,111	(441)
Total liabilities:	<u>126,467</u>	<u>123,681</u>	<u>(2,787)</u>
Share capital	25,531	25,531	-
Share premium	36,271	36,286	+14
Retained earnings	16,501	17,261	+760
Other components of equity	2,670	3,557	+887
Treasury shares	(1,897)	(1,897)	-
Total equity attributable to owners of the parent:	<u>79,076</u>	<u>80,737</u>	<u>+1,661</u>

- Ratio of total equity attributable to owners of the parent: 38.3% as of March 31, 2020, 39.3% as of June 30, 2020

II - 11. Consolidated Cash Flows

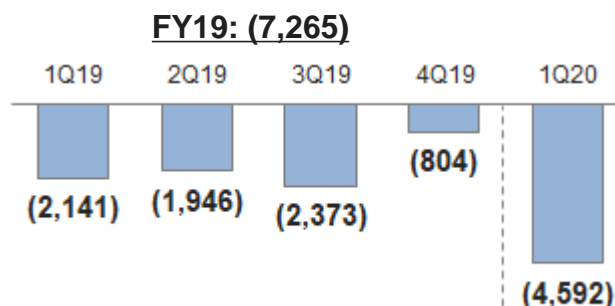
Unit: JPY million
YoY = Year over year comparison

Operating Activities



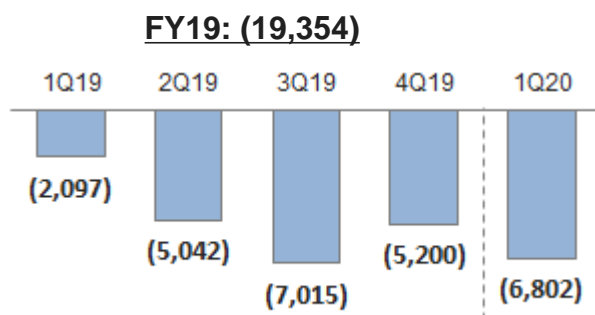
	Major Breakdown	YoY Change
Profit before tax	1,694	+326
Depreciation and amortization	7,095	-69
Changes in operating assets and liabilities	4,576	+6,633
Income taxes paid	(2,177)	+874

Investing Activities



	Major Breakdown	YoY Change
Purchase of tangible assets	(1,407)	+1,540
Proceeds from sales of tangible assets	1,017	+669
Purchase of intangible assets such as software	(1,805)	-155
Purchase of investments accounted for using equity method	(2,754)	-2,294

Financing Activities

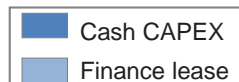


	Major Breakdown	YoY Change
Repayment of long-term borrowings	(915)	-165
Payments of other financial liabilities	(5,223)	-65
Dividends paid	(609)	-0

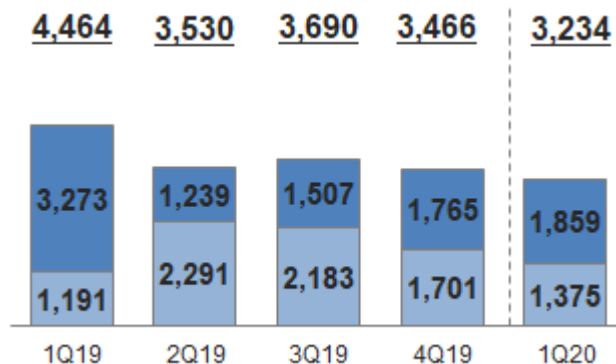
II - 12. Other Financial Data

Unit: JPY millions

CAPEX



FY19: 15,150

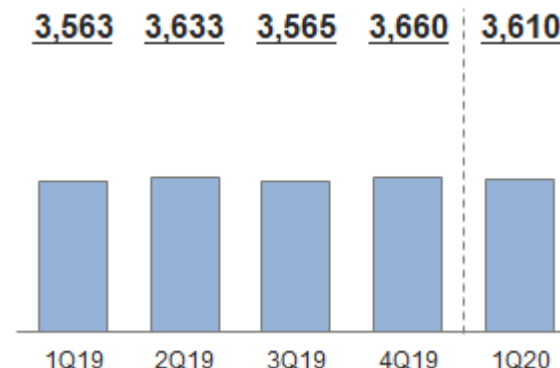


- FY20 CAPEX is planned to be around JPY16 billion including JPY3 billion of additional placement of modules for Shiroy data center

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

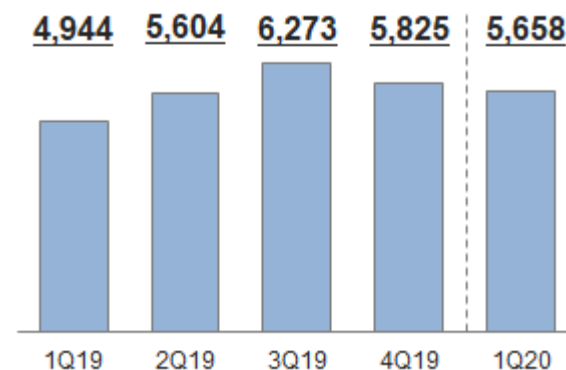
CAPEX-related depreciation and amortization

FY19: 14,422



Adjusted EBITDA

FY19: 22,647

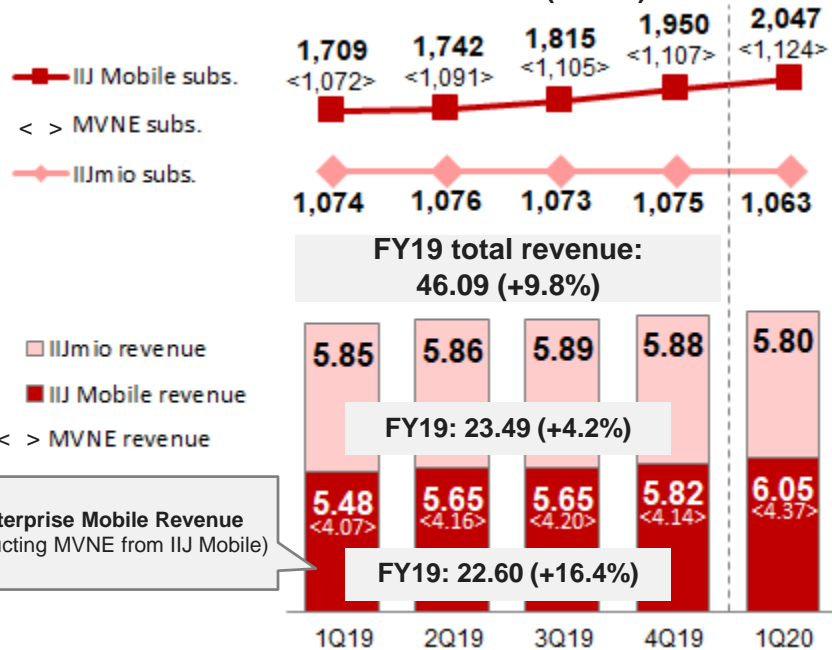


III - 1. Mobile & IoT Business Developments

% = Year over year comparison
revenue unit: JPY billion
subs. = subscriptions

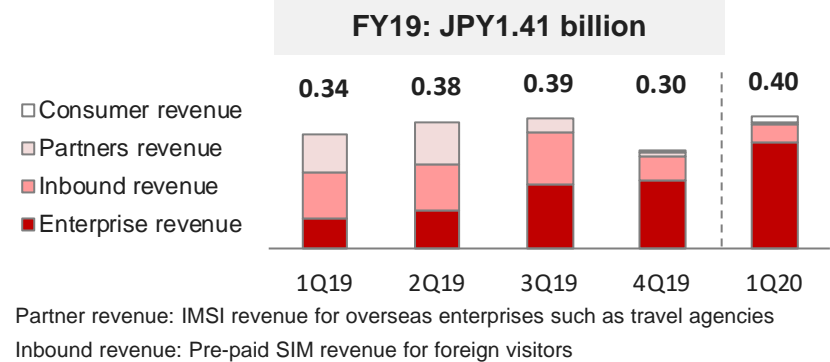
Total Mobile Subs. & Revenue

- ◆ 1Q20-end total subs.: 3,114 thousand (+11.8%)
- ◆ 1Q20 total revenue: JPY11.84 billion (+4.4%)



Full-MVNO Revenue

- ◆ Strong revenue growth of enterprise covered the weak inbound, foreigners visiting Japan, demands
 - FY20 full-MVNO revenue target: JPY2.3 billion

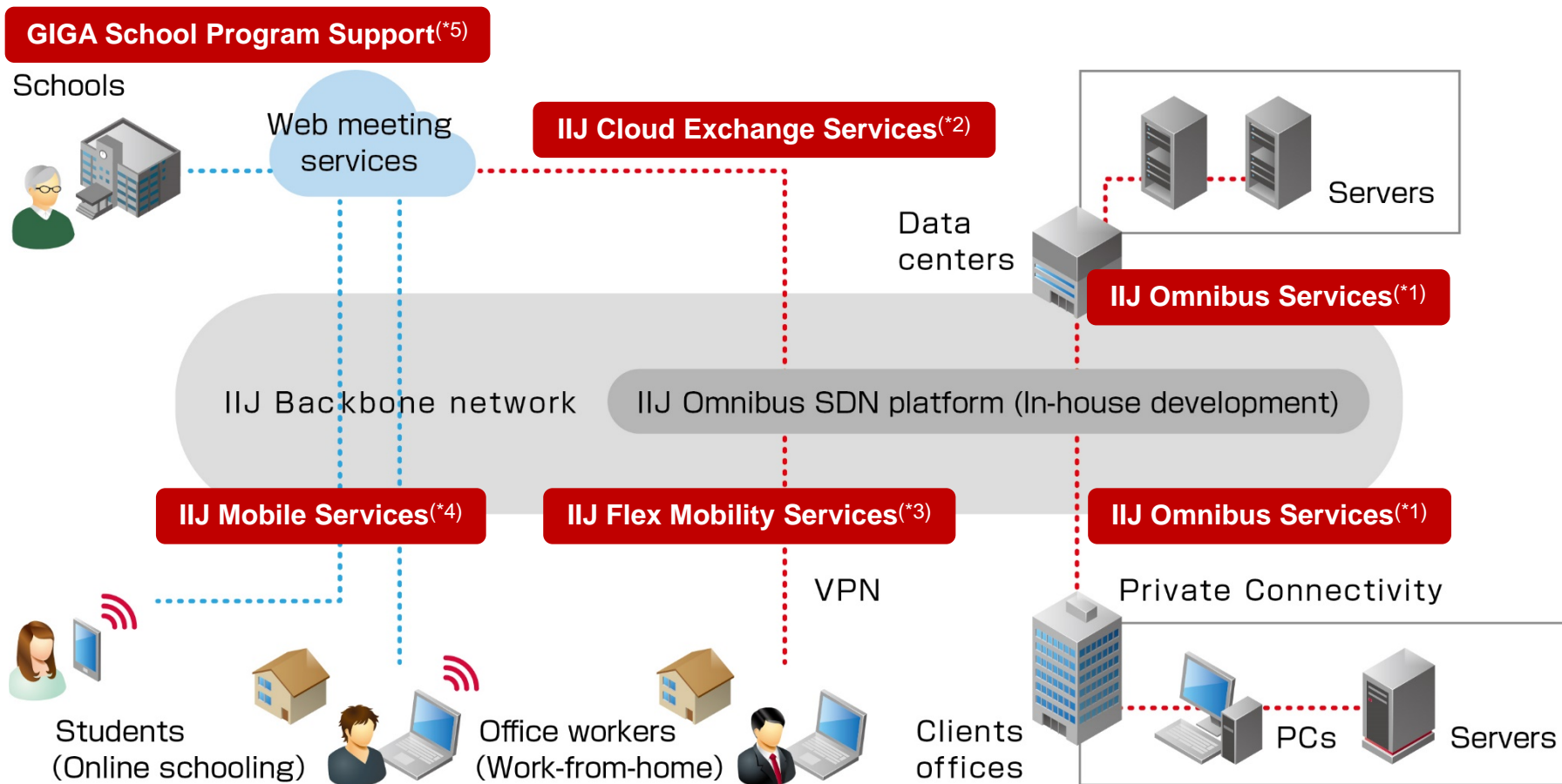


IoT Business

- ◆ Constructed IoT system for Toyota Motor Hokkaido's new production line
 - Providing closed mobile connectivity and cloud services for virtualize and analyze facility utilization information
 - Manage, analyze, and utilize data to realize quality control, predictive management, automation and save energy
- ◆ Continuously accumulating Factory IoT projects from manufactures
 - Monitoring of facility utilization and/or remote management of work area etc.
- ◆ Accumulating LoRaWAN® related solutions and case studies
 - HACCP temperature management for food industry (from July 2020)
 - Remote monitoring system of paddy (water level, temperature)
- LoRa: One of LPWA (Low Power, Wide Area), wireless communication technology, that is well suited for IoT/M2M with low electricity consumption and long distance communication

more

IV- 1. Opportunity with Remote Access



(*1) Services to provide secured connection between office and/or data centers through dedicated connectivity and/or VPN

(*2) Services to provide connectivity independent from Internet to use cloud based web meeting services etc.

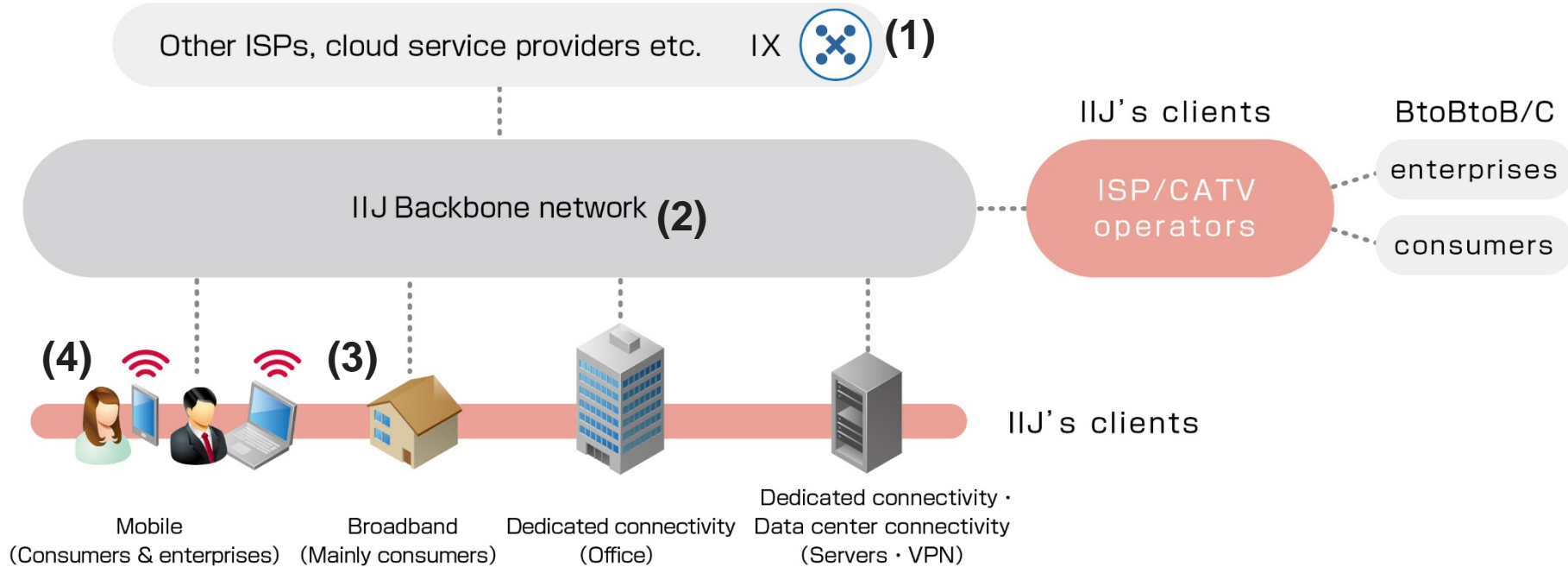
(*3) Services to provide secured and reliable connectivity through encrypted remote access

(*4) Provide mobile data services for students whose universes classes are offered through online

(*5) To support GIGA School Program by the Ministry of Education, Culture, Sports, Science, and Technology, we offer IT related environment needed for schools

IV- 2. Internet Traffic

Internet traffic rapidly increased along with the stay-at-home orders and the declaration of state of emergency. While the traffic has calmed down after the lifting of the state of emergency, it continues to be relatively large volume compared to February



(1) IX traffic

Even after the lifting of the state of emergency, weekday traffic is 1.1 times that of February. Change in demand for Internet is certain.
(*) Same as overall Internet traffic trend

(2) IJ Backbone network

No signs of tightness amid strong demands by IJ clients

(3) Broadband (FLET'S services)

From March to May-end, the total communication volume significantly increased. While we saw some decrease after the lifting of state of emergency, the overall volume continued to be at large volume (June volume is 12% more than that of Feb.)

(4) Mobile traffic (MVNO)

Due to stay-at-home orders and the decrease in foreigners visiting Japan, mobile traffic decreased. Demands for remote work increased

IV- 3. FY20 Financial Targets

Unchanged from May 14, 2020

Appendix

Unit: JPY billion
YoY = Year over year comparison

	<small>% of Revenues</small> FY20 Target <small>Apr. 2020 - Mar. 2021</small>	<small>% of Revenues</small> FY19 Results <small>Apr. 2019 - Mar. 2020</small>	YoY	
Revenues	210.0	204.5	+2.7%	+5.5
Cost of Sales	<small>83.9%</small> 176.1	<small>84.1%</small> 171.9	+2.5%	+4.2
Gross Profit	<small>16.1%</small> 33.9	<small>15.9%</small> 32.6	+4.0%	+1.3
SG&A etc.^(*)	<small>12.0%</small> 25.2	<small>11.9%</small> 24.4	+3.4%	+0.8
Operating Profit	<small>4.1%</small> 8.7	<small>4.0%</small> 8.2	+5.8%	+0.5
<i>Shares of profit (loss) of investments accounted for using equity method investees</i>	(0.6)	(0.8)	-	-
Profit before tax	<small>3.8%</small> 8.0	<small>3.5%</small> 7.2	+11.7%	+0.8
Net Profit ^(*)	<small>2.4%</small> 5.0	<small>2.0%</small> 4.0	+24.8%	+1.0

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

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

Assumption for Revenue outlook

- ◆ **NW services (recurring): increase by approx. JPY3.0 billion YoY**
 - Enterprise NW services:
 - Enterprise Internet, Outsourcing such as security to continuously increase along with remote access demands
 - Enterprise mobile: expect IoT transaction to further increase yet a large MVNE client cancellation impact (transaction impact: decrease approx. JPY1.4 billion YoY)
 - WAN to decrease by approx. JPY1.7 billion YoY due to the certain large clients' migration to mobile which ended 3Q19
 - Consumer to slightly increase YoY following 2H19 pace
- ◆ **SI: increase by approx. JPY4.0 billion YoY**
 - Construction (one time) is expected very slightly increase due to enterprises investment appetite decrease
 - Operation and maintenance (recurring) is expected to continuously increase
 - Cloud (recurring): Target revenue JPY24.5 billion includes the impact of service facility migration from old to new
- ◆ **ATM: decrease by approx. JPY1.3 billion YoY**
 - Mainly due to store closure due to COVID-19 and planned action of certain parlors removing placed ATMs

Assumption for equity method

- ◆ DeCurret-related loss to be round JPY0.8 billion
- ◆ JOCDN-related profit/loss to turn positive
- ◆ Others: same level as FY19

Dividend

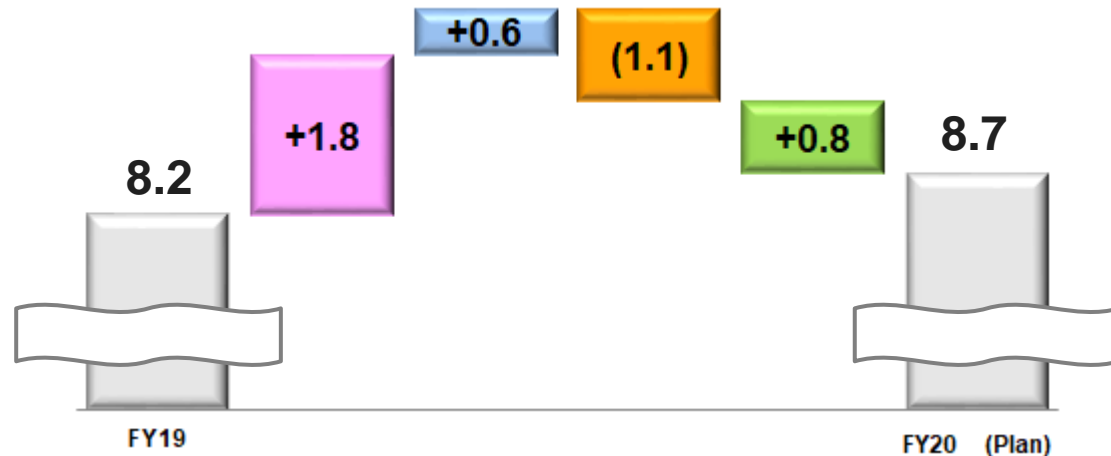
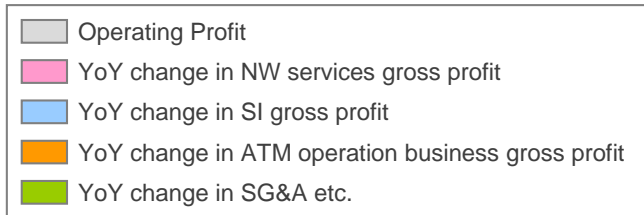
- ◆ **JPY34.00 per share of common stock (up JPY7.00)**
 - Interim: JPY17.00, a year-end: JPY17.00
 - Payout ratio: 30.7%

IV- 4. Operating Profit Outlook

Unchanged from May 14, 2020

Appendix

Unit: JPY billion
YoY = Year over Year



- ◆ **NW service gross profit** to increase by approx. JPY1.8 billion YoY mainly due to Network services revenue growth and mobile interconnectivity YoY decrease rate
- ◆ **SI gross profit** to increase by approx. JPY0.6 billion YoY by having revenue growth with the same level of gross profit ratio as FY19
- ◆ **ATM operation business gross profit** to decrease by approx. JPY1.1 billion as revenue decrease shall almost directly impact the profit
- ◆ **SG&As etc.** to increase by normal volume by approx. JPY0.8 billion YoY (FY19 SG&As increase included temporary large increase of personnel-related expenses)

• SG&A etc. shows the sum of SG&A, which includes R&D expenses, and other income/expenses.

◆ Mobile unit charge YoY change

Applied Fiscal Year	FY17	FY18	FY19	FY20	FY21	FY22
Method	Actual Cost Method			Future Cost method		
Docomo	-18.2%	-5.0%	-6.0%	-16.0% ^(*)	-19.8%	-15.9%
KDDI	-10.8%	-20.2%	-13.3%	-38.0% ^(*)	-15.4%	-8.6%

(*) FY20 decrease rate: FY20 unit charge (based on FY20 actual cost) divided by FY19 unit charge (based on FY2018 actual cost)

◆ About future cost method (applied from FY20):

- Revised from the previous method, calculate unit charge by using cost results, to method using predicted figures such as future cost

◆ Reduce uncertainty about financial outlook

- Recognize cost based on unit charge presented and calculated by MNOs prediction from 1Q. If actual differs from predicted, such difference will be recognized in a following fiscal year

◆ Calculation method and factors remain unchanged

- (Data communication cost + profit) divided by demand



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.

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