

Consolidated Financial Results for 3Q FY2017 (9 months ended December 31, 2017)



25th
Anniversary

Internet Initiative Japan Inc.
TSE1(3774), NASDAQ(IIJI)
February 8, 2018

Agenda

I . Summary of 3Q FY2017 Financial Results

II . Consolidated Financial Results for 3Q FY2017

III. Reference Materials

I . Summary of 3Q FY2017 Financial Results

bn = billion
%, YoY=1Q-3Q17 compared to 1Q-3Q16

*Income before income tax expense

**Net income attributable to IIJ

	3Q17(3 months)	YoY	1Q-3Q17 Results	YoY	FY17 Targets	YoY
Revenue	JPY44.6 bn	+13.0%	JPY127.6 bn	+12.3%	JPY176.0 bn	+11.5%
Gross Margin	JPY6.7 bn	+12.5%	JPY19.8 bn	+10.8%	JPY28.2 bn	+11.7%
Operating Income	JPY1.5 bn	+20.9%	JPY3.8 bn	+19.7%	JPY6.5 bn	+26.6%
Pre-tax income*	JPY1.9 bn	+40.1%	JPY4.3 bn	+26.1%	JPY6.5 bn	+19.8%
Net income**	JPY1.2 bn	+49.6%	JPY2.7 bn	+40.7%	JPY4.0 bn	+26.3%

Enterprise Network Services

- ◆ **Internet connectivity revenue grew largely +24.0%YoY with MVNE etc.**
 - IP revenue also stably increasing, expect stronger growth with CDN etc.
- ◆ **Security-related revenue grew largely +26.8%YoY**
 - Strong demands for DDoS protection, secure Web & Mail services
- ◆ **With Omnibus, acquiring demands for WAN and NW replacement**
 - WAN revenue +9.2%YoY, Omnibus revenue more than quadrupled YoY
Omnibus expanding its service functions (WAN enhancement from 1Q18)
- ◆ **Construction of our own data center in Chiba prefecture**
 - Expect future operation cost to be approx. 20% lower with better operation productivity by integrated service facility, outside air cooling & AI control

Mobile & IoT

- ◆ **Differentiate from others with enterprise solution & MVNE**
 - Total mobile revenue: +34.8%YoY, MVNE revenue: +77.7%YoY
 - MVNE clients as of 3Q17-end: 135 (+7 from 2Q17-end)
- ◆ **Launching Full MVNO services from Mar. 2018 gradually**
 - Private global network, flexible billing control for IoT usage, original overseas roaming, chip SIM etc.
- ◆ **3Q17-end IoT prospective orders approx. 280: such as NW cameras, factory IoT**
 - JV with Chubu Electric Power for connected home IoT business
 - Strong interest to be our partners along with Full MVNO launch

Cloud & SI

- ◆ **Differentiating with Private cloud strategy: Revenue +13.7%YoY**
 - VMware virtualization PF, Multi-cloud, Unified Operation Management etc.
- ◆ **Realizing competitive advantages towards complex projects with Cloud, Security, Network +SI**
 - SI construction +4.0%YoY, SI operation & maintenance +7.3%YoY
- ◆ **Overseas business developing almost as planned**
Asian subsidiaries continuously expanding business
 - 1Q-3Q17 revenue JPY4.25 bn, operating deficit JPY0.08 bn
Expect FY17 to turn positive
 - Strong interests for GDPR solution, accumulating orders

Further Business Developments

- ◆ **Cryptocurrency exchange and settlement business with prominent Japanese companies**
 - DeCurret Inc. IIJ's equity method investee with 35% ownership
 - Launching services from 2H18
- ◆ **CDN JV with Japanese major broadcasting companies "JOCDN" developing business and accumulating orders**
 - To provide CDN service to major contents holder from 1Q18
- ◆ **Over 100 prospects "IIJ electronic contact/communication Note service"** cloud-based collaboration platform allowing various professional involved in home-based cares to share healthcare information, Enhancing partnership with university professors for new ideas for healthcare

Expanding existing business steadily: recurring revenue grew 14.2%YoY
Grasping business opportunity like FinTech with accumulated business assets of technology, system infrastructure, customer base and more

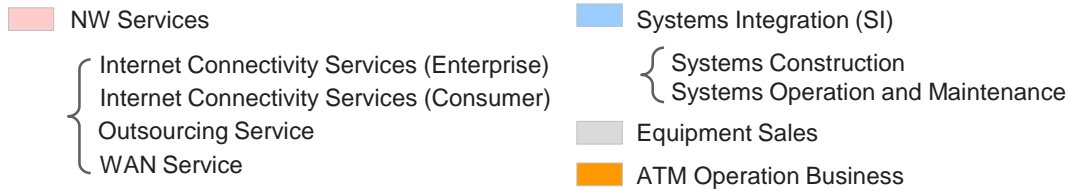
II - 1. Consolidated Financial Results for 3Q FY2017

Unit: JPY billion

	% of Revenues 1Q-3Q17 Results <small>(Apr. 2017 - Dec. 2017)</small>	% of Revenues 1Q-3Q16 Results <small>(Apr. 2016 - Dec. 2016)</small>	YoY Change	% of Revenues FY17 Targets <small>(Apr. 2017 - Mar. 2018)</small>	YoY Change
Total Revenues	127.6	113.6	+12.3%	176.0	+11.5%
Total Cost of Revenues	<small>84.5%</small> 107.9	<small>84.3%</small> 95.8	+12.6%	<small>84.0%</small> 147.8	+11.5%
Gross Margin	<small>15.5%</small> 19.8	<small>15.7%</small> 17.8	+10.8%	<small>16.0%</small> 28.2	+11.7%
SG&A/R&D	<small>12.5%</small> 16.0	<small>12.9%</small> 14.7	+8.9%	<small>12.3%</small> 21.7	+7.9%
Operating Income	<small>3.0%</small> 3.8	<small>2.8%</small> 3.2	+19.7%	<small>3.7%</small> 6.5	+26.6%
Income before Income Tax Expense	<small>3.4%</small> 4.3	<small>3.0%</small> 3.4	+26.1%	<small>3.7%</small> 6.5	+19.8%
Net Income*	<small>2.1%</small> 2.7	<small>1.7%</small> 1.9	+40.7%	<small>2.3%</small> 4.0	+26.3%

*Net income attributable to IIJ

II - 2. Revenues



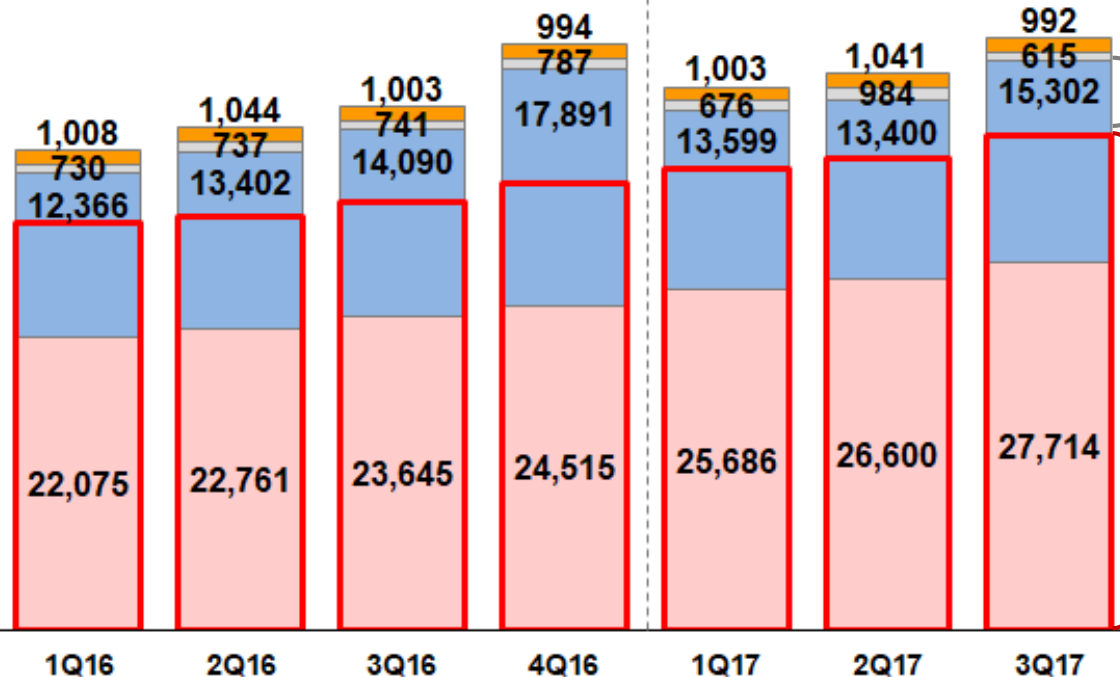
1Q-3Q16: 113,602 [+14.3%]

FY16: 157,789 [+12.2%]

1Q-3Q17: 127,612 [+12.3%]

36,179 [+15.0%]
37,944 [+12.0%]
39,479 [+16.0%]
44,187 [+7.1%]

40,964 [+13.2%]
42,024 [+10.8%]
44,624 [+13.0%]



One-time Revenue *
 1Q-3Q17: JPY16,806 million (up 3.9% YoY)
 (13.2% of 1Q-3Q17 revenues)

Recurring Revenue*
 1Q-3Q17: JPY107,770 million (up 14.2% YoY)
 (84.5% of 1Q-3Q17 revenues)

- * One-time revenues, which are systems construction and equipment sales, are recognized when systems or equipment are delivered and accepted by customers
- * Recurring revenues represent the following monthly recurring revenues: Internet Connectivity Services for Enterprise, Internet Connectivity Services for Consumer, Outsourcing Services, WAN Services, and Systems Operation and Maintenance

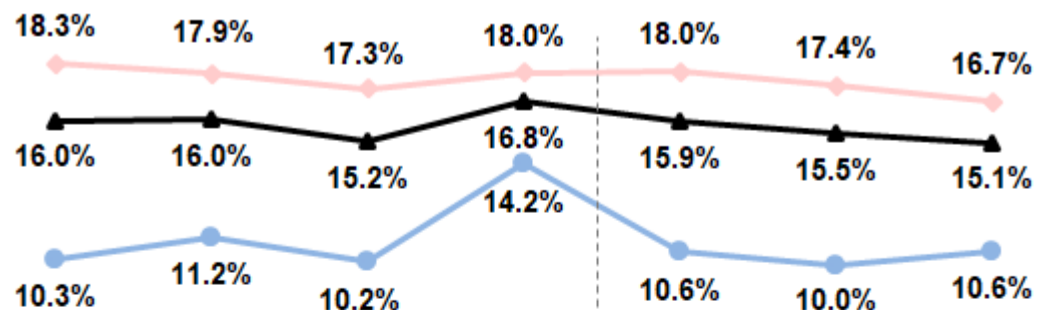
II - 3. Cost of Revenues and Gross Margin Ratio

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

Gross margin ratio: ◆ NW Services ◆ SI ▲ Overall

Unit: JPY million

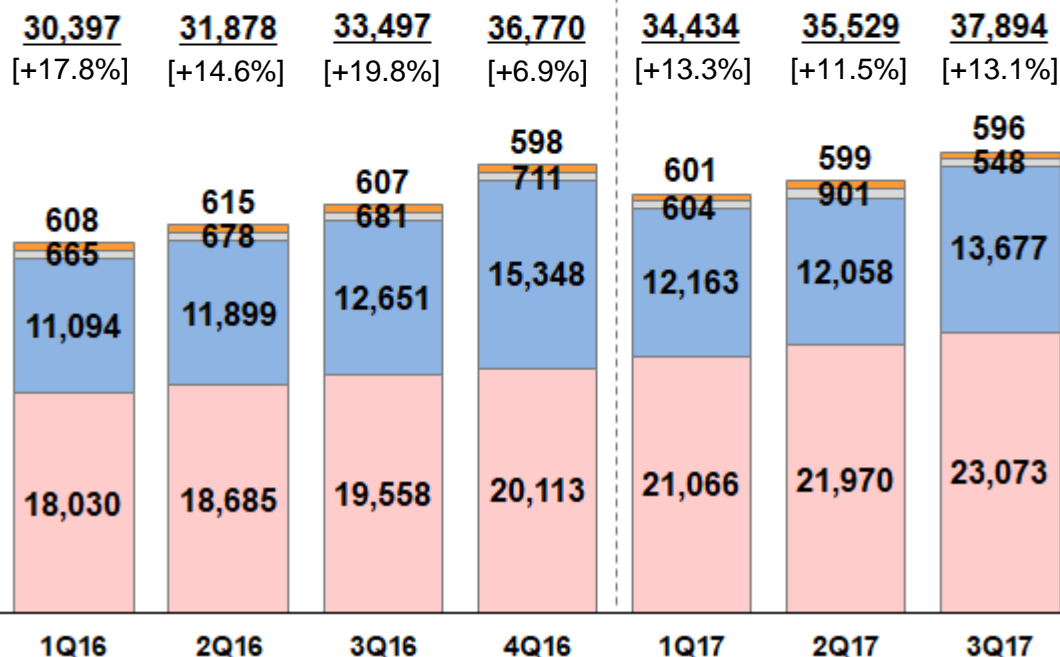
[], YoY = compared to the same period in a previous year
QoQ = 3Q17 compared to 2Q17



1Q-3Q16: 95,722 [+17.4%]

FY16: 132,542 [+14.3%]

1Q-3Q17: 107,856 [+12.6%]



Gross Margin

◆ Total

1Q-3Q17: JPY19,756 million (up 10.8% YoY)

1Q-3Q16: JPY17,830 million (up 0.2% YoY)

◆ NW Services

1Q-3Q17: JPY13,890 million (up 13.8% YoY)

1Q-3Q16: JPY12,207 million (up 9.6% YoY)

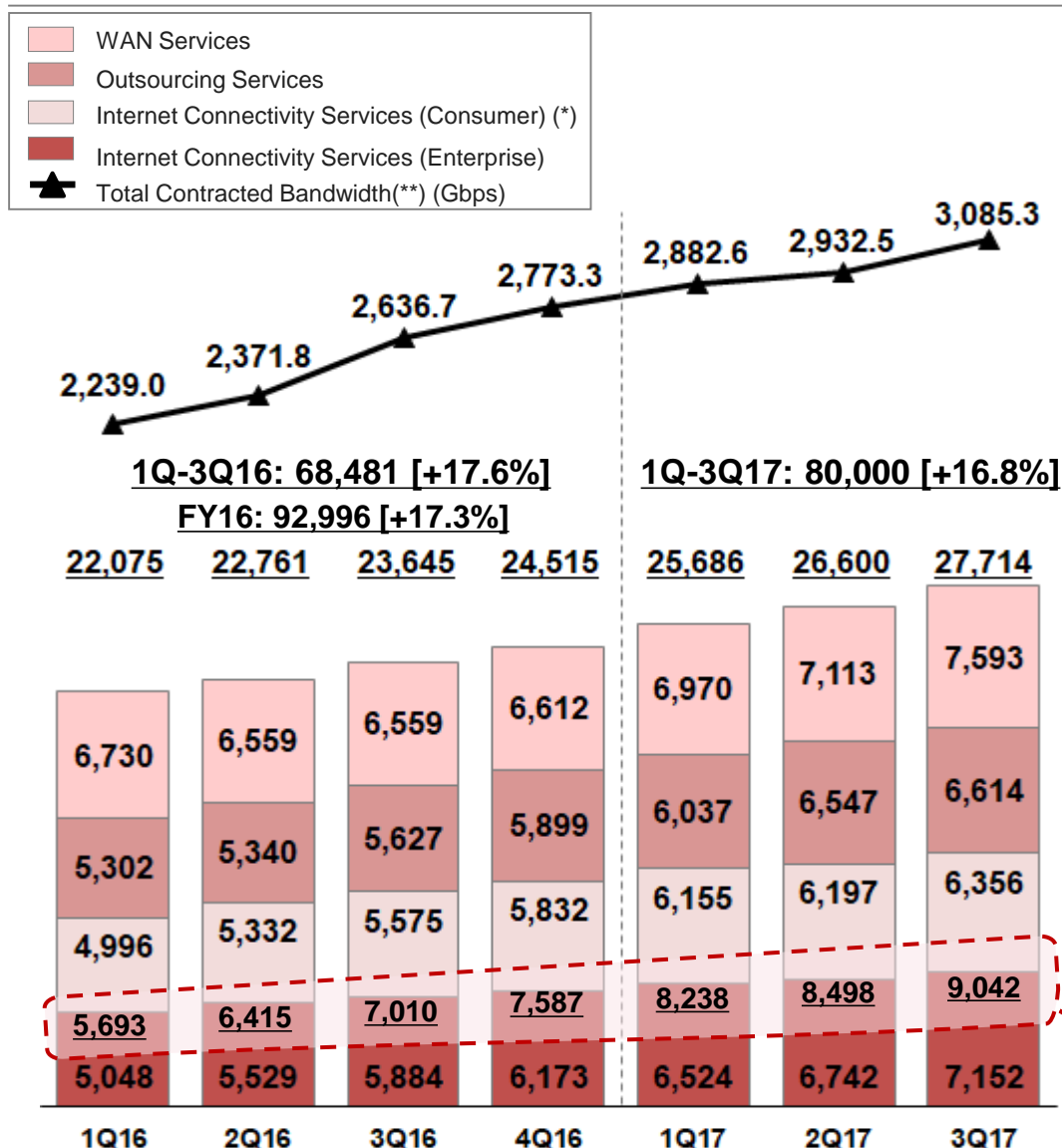
- Mobile gross margin amount continued to increase YoY. Mobile gross margin ratio on a slightly decreasing trend QoQ along with an increase in MVNE transactions
- The revised NTT DOCOMO's interconnectivity charge, fixed in Mar. 2017, decreased by 14% YoY (unlike the previous revisions, the calculation excluded the cost for lending SIM). Charge is expected to be revised in Mar. 2018.

◆ SI

1Q-3Q17: JPY4,403 million (up 4.5% YoY)

1Q-3Q16: JPY4,214 million (down 22.9% YoY)

II - 4. Network Services (1)Revenues



NW Services Revenues

◆Internet Connectivity (Enterprise)

- 1Q-3Q17: up 24.0% YoY
 - MVNE & enterprise mobile solution continued to increase
 - ✓ 3Q17-end subs.: 744 thousand (up 48.5% YoY)

◆Internet Connectivity (Consumer)

- 1Q-3Q17: up 17.6% YoY
 - “IIJmio Mobile Services”
 - ✓ 3Q17-end subs.: 987 thousand (up 8.2%YoY)

◆Outsourcing Services

- 1Q-3Q17: up 18.0% YoY,
 - Security-related revenue continued to grow
 - ✓ 1Q-3Q17 : up 26.8% YoY

◆WAN Services

- 1Q-3Q17: up 9.2% YoY

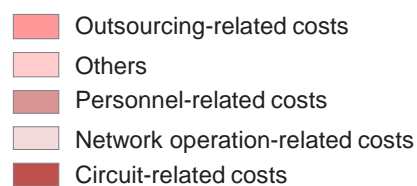
◆Mobile services: 1Q-3Q17: up 34.8% YoY

◆Non-mobile services: 1Q-3Q17: up 9.8% YoY

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

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

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



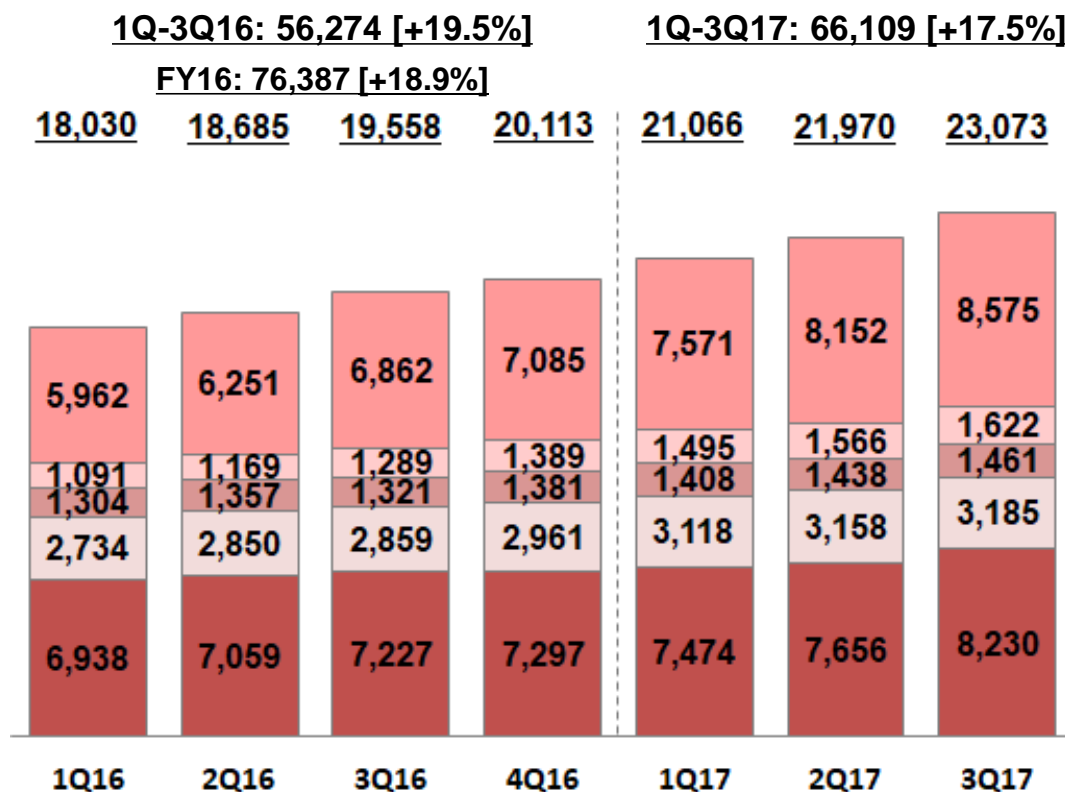
Unit: JPY million

[], YoY = compared to the same period in a previous year

Cost of NW Services

➤ 1Q-3Q17: up 17.5% YoY

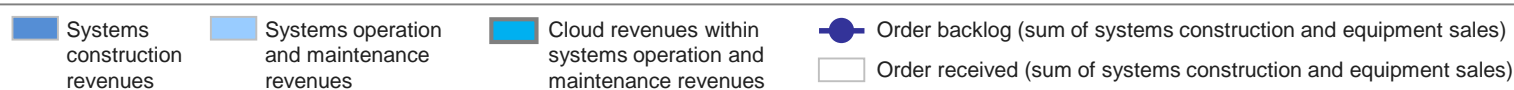
- Along with increases in WAN revenues and continuous network expansion, circuit-related costs increased
- Along with continuous network equipment installation and service developments, network operation-related costs increased
- Along with increases in mobile traffic, mobile-related costs (mainly in outsourcing-related costs) increased



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

- Regarding our FY16 and FY15 usage charge, DOCOMO's interconnectivity telecommunications service charge was fixed in Mar. 2017 and it decreased by 14% (excluding the cost for lending SIM) YoY.
- Regarding our FY17 and FY16 usage charge, DOCOMO's interconnectivity telecommunications service charge, which is calculated by DOCOMO's FY16 mobile-related cost, is expected to be fixed in Mar. 2018. DOCOMO's payment arrangement is 15% off temporarily from Apr. 2017 which is same as FY16.

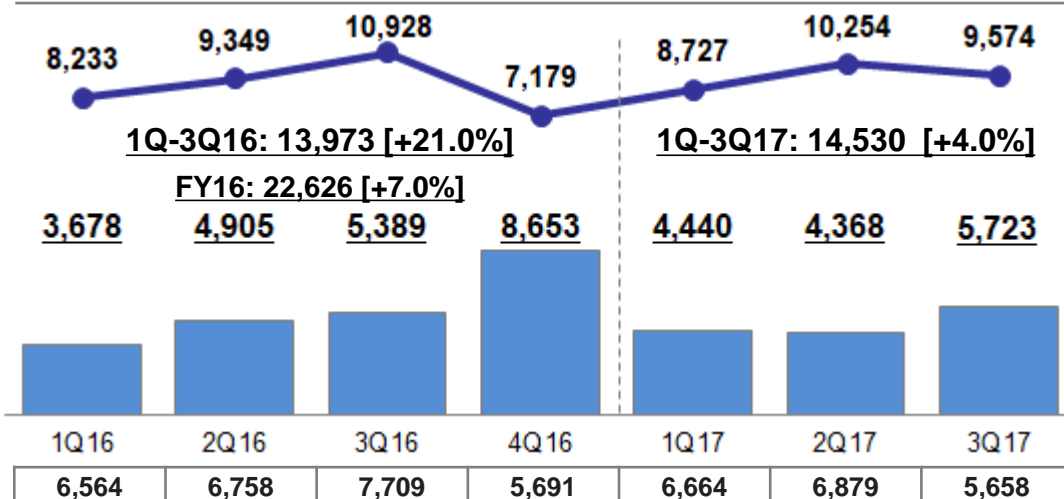
II - 5. Systems Integration (SI) (1)Revenues



Unit: JPY million

Systems Construction

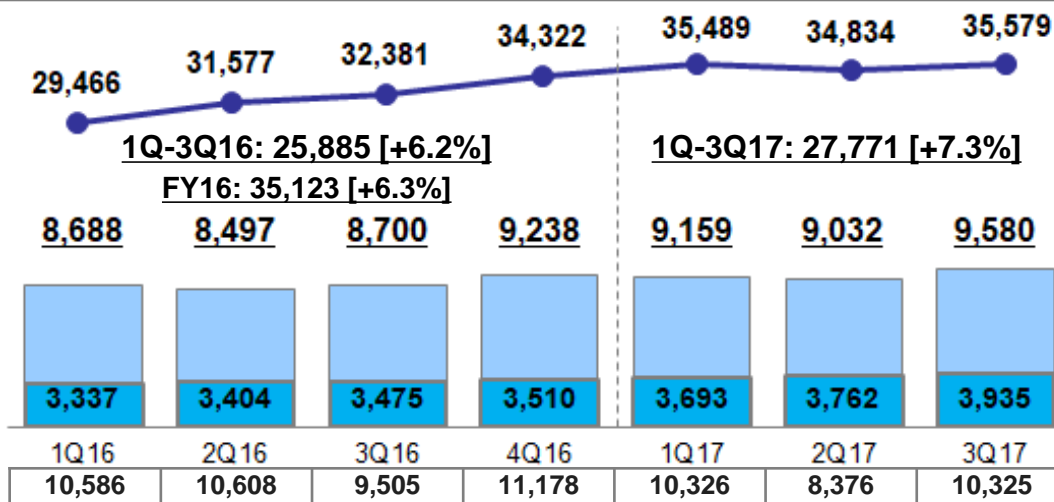
[], YoY = compared to the same period in a previous year



- 1Q-3Q17 revenue: up JPY558 million YoY
- Large-scale construction projects orders received in 3Q17:
 - Virtual desktop infrastructure for a prominent service business operator
 - External web server for a major broadcast station
 - NW construction for a major automotive manufacturer
 - Back office system for a major travel agency
 - Cloud migration of large BtoC site

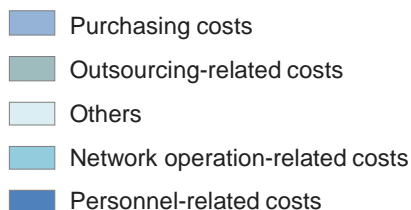
etc.

Systems Operation and Maintenance



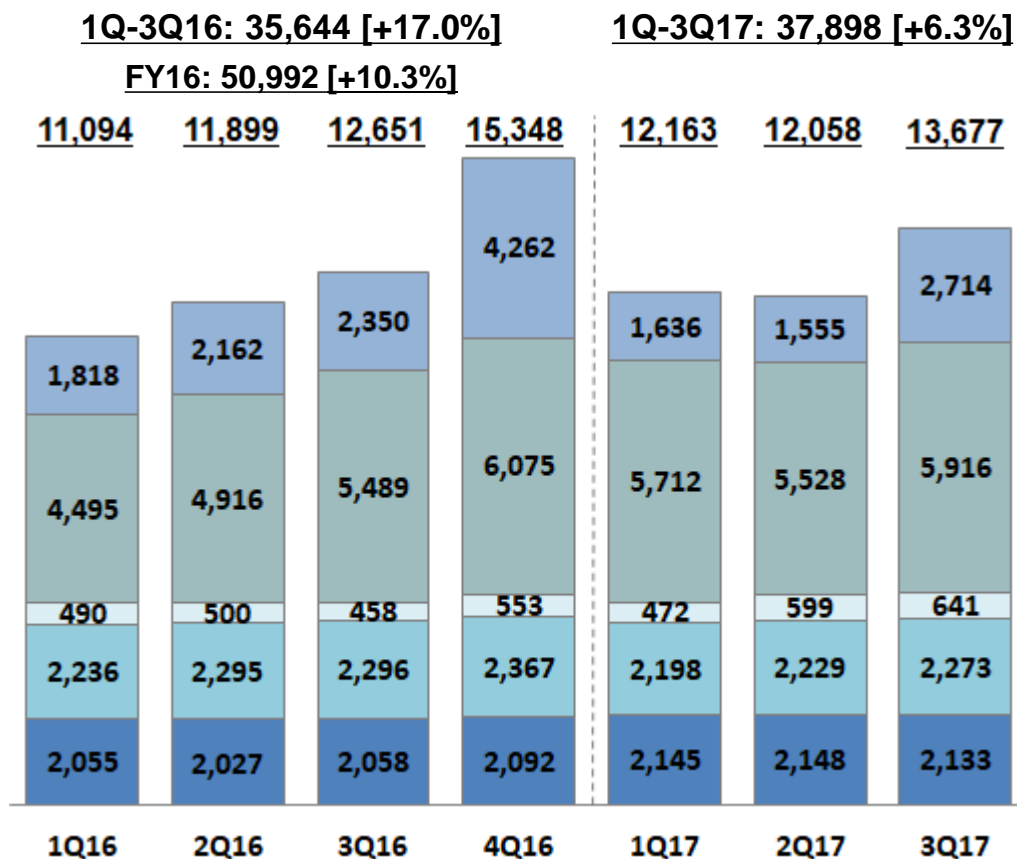
- 1Q-3Q17 revenue: up JPY1,885 million YoY
- Continuous revenue growth mainly due to the accumulation of systems construction which migrated to systems operation and maintenance phase as well as continuous increase in private Cloud revenue
 - 1Q-3Q17 revenue from private Cloud: up 11.5% YoY
 - 1Q-3Q17 revenue from SI construction: up 4.5% YoY
- 86.4% of 3Q17 Cloud-related revenue is recognized in systems operation and maintenance revenues (13.6% in outsourcing)

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



Unit: JPY million

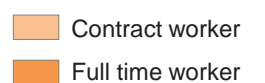
[], YoY = compared to the same period in a previous year
QoQ = 3Q17 compared to 2Q17



Cost of SI

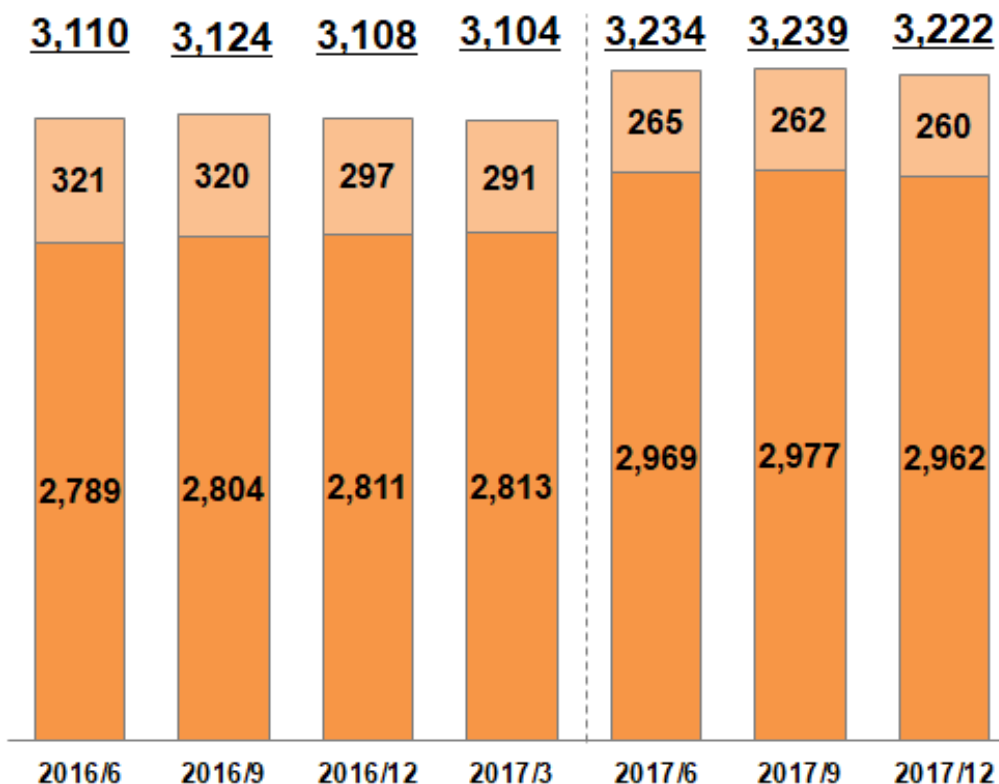
- 1Q-3Q17: up JPY2,254 million YoY
 - 3Q17-end number of outsourcing personnel: 1,655 personnel (up 329 YoY, up 29 QoQ)
 - ✓ Within the above 1,655 personnel, 1,122 personnel were for SI related (up 36 YoY, up 43 QoQ)

II - 6. Number of Employees

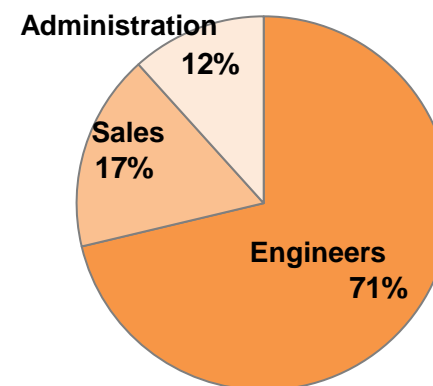


Unit: JPY million

[], YoY = compared to the same period in a previous year



Employee Distribution



Personnel related costs & expenses (% of revenue)

1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
5,464 (15.1%)	5,446 (14.4%)	5,432 (13.8%)	5,635 (12.8%)	5,797 (14.2%)	5,784 (13.8%)	5,775 (12.9%)
1Q-3Q16: 16,341 (14.4%) up 3.2% YoY FY16: 21,977 (13.9%), up 3.9% YoY				1Q-3Q17: 17,356 (13.6%) up 6.2% YoY		

- ◆ 3Q17: up JPY343 million, up 6.3% YoY
- ◆ Hired 148 new graduates in Apr. 2017 (137 in Apr. 2016, 155 in Apr. 2015)
- ◆ 178 new graduates are planned to join in Apr. 2018

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

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

Unit: JPY million

[], YoY = compared to the same period in a previous year

1Q-3Q16: 14,675 [+7.0%]

FY16: 20,113 (12.7%)

4,946
 (13.7%)

4,955
 (13.1%)

4,774
 (12.1%)

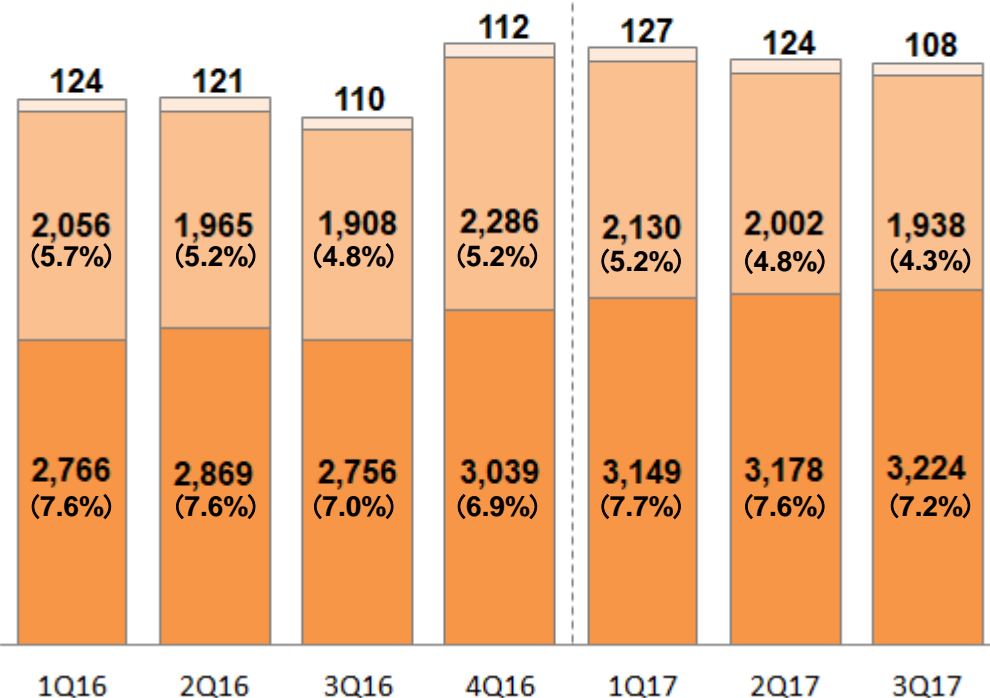
5,438
 (12.3%)

1Q-3Q17: 15,980 [+8.9%]

5,406
 (13.2%)

5,305
 (12.6%)

5,270
 (11.8%)



Sales & marketing expenses

- 1Q-3Q17: up 13.8% YoY
 - Advertising expenses, sales commission expenses, and personnel-related expenses increased

General & administrative expenses

- 1Q-3Q17: up 2.4% YoY
 - Personnel-related expenses increased

◆SG&A related to ATM operation business

Unit: JPY million

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

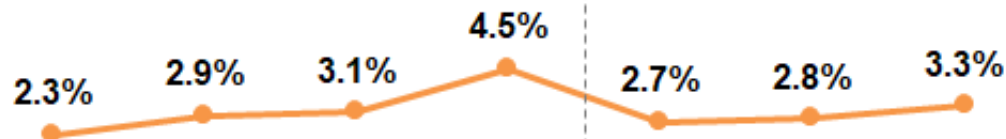
- Placed 1,101 ATMs as of December 31, 2017

II - 8. Operating Income and Net Income

Operating Income Net Income Attributable to IIJ Operating Margin Ratio

Unit: JPY million

[], YoY = compared to the same period in a previous year

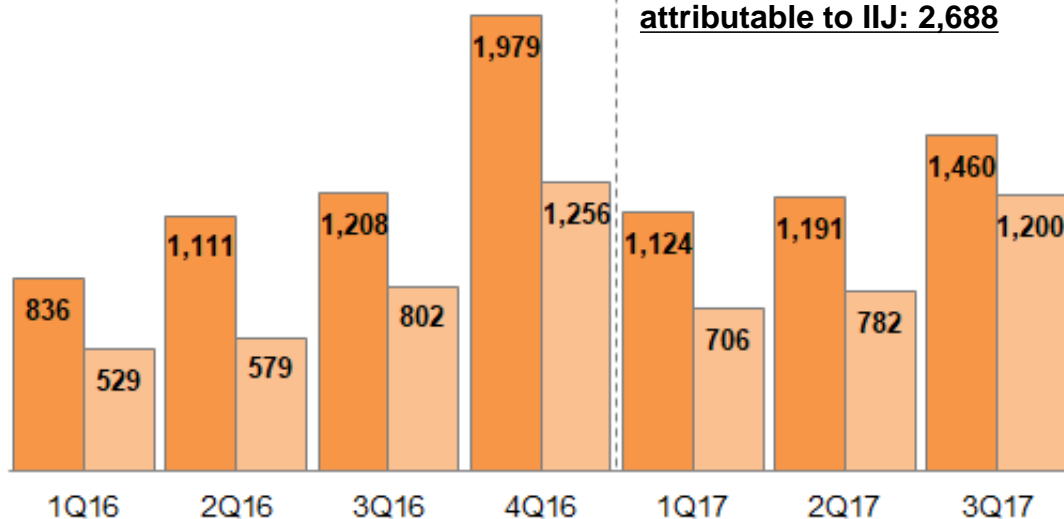


1Q-3Q16 Operating income: 3,155

1Q-3Q16 Net income attributable to IIJ: 1,910

1Q-3Q17 Operating income: 3,776

1Q-3Q17 Net income attributable to IIJ: 2,688



Income

◆ Income before income tax expense:

- 1Q-3Q17: JPY4,329 million
(up JPY896 million, up 26.1% YoY)
- Net gain on sales of available-for-sale securities: JPY373 million
- Dividend income: JPY231 million
- Distribution from fund investments: JPY196 million
- Foreign exchange gain: JPY29 million
- Interest expense: JPY276 million

◆ Net income attributable to IIJ:

- 1Q-3Q17: JPY2,688 million
(up JPY778 million, up 40.7% YoY)
- Equity in net income of equity method investees including Internet Multifeed: JPY101 million
- Net income attributable to noncontrolling interests including Trust Networks: JPY128 million

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

II - 9. Consolidated Balance Sheets (Summary)

Unit: JPY million

	Mar. 31, 2017	Dec. 31, 2017	Changes
Cash and Cash Equivalents	21,959	23,044	+1,086
Accounts Receivable	27,384	27,615	+231
Inventories	2,798	4,329	+1,531
Prepaid Expenses (Current and Noncurrent)	14,218	16,296	+2,078
Investments in Equity Method Investees	3,150	3,383	+233
Other Investments	7,925	10,933	+3,008
Property and Equipment	39,775	45,125	+5,349
Goodwill and Other Intangible Assets	9,257	8,880	(376)
Guarantee Deposits	3,060	3,346	+286
Total Assets:	<u>137,395</u>	<u>150,273</u>	<u>+12,877</u>
Accounts Payable	16,962	17,424	+462
Income Taxes Payable	1,076	531	(545)
Borrowings (Short-term and Long-term)	17,750	24,900	+7,150
Capital Lease Obligations (Current and Noncurrent)	15,203	16,586	+1,382
Total Liabilities:	<u>70,015</u>	<u>79,227</u>	<u>+9,212</u>
Common Stock	25,509	25,512	+2
Additional Paid-in Capital	36,118	36,161	+44
Retained earnings	4,512	5,983	+1,471
Accumulated Other Comprehensive Income	2,500	4,621	+2,121
Treasury stock	(1,897)	(1,897)	-
Total IJ Shareholders' Equity:	<u>66,742</u>	<u>70,381</u>	<u>+3,639</u>

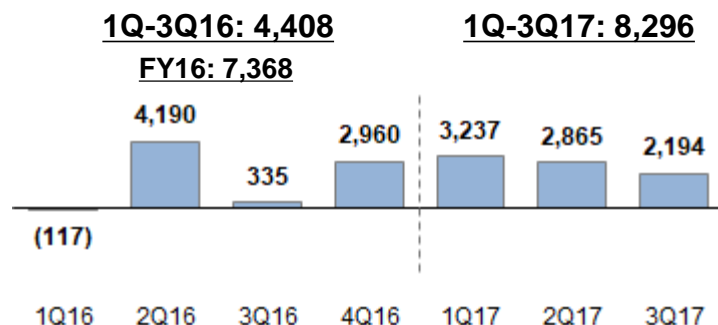
➤ Total IJ Shareholders' Equity to Total Assets: 48.6% as of Mar. 31, 2017, 46.8% as of Dec. 31, 2017

II - 10. Consolidated Cash Flows

Unit: JPY million

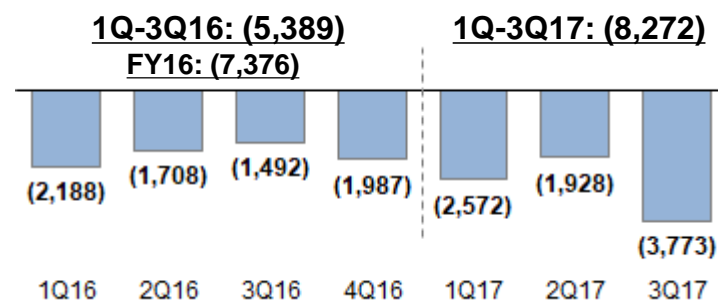
Operating Activities

[], YoY = compared to the same period in a previous year



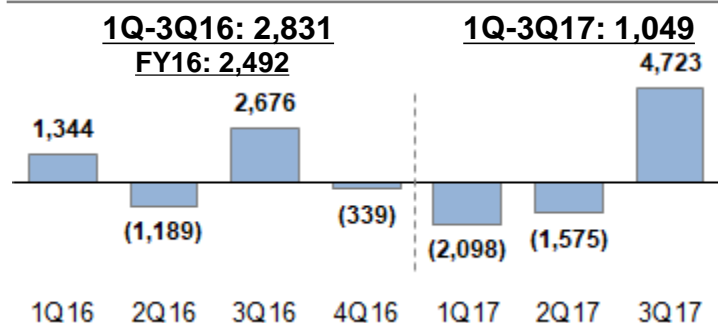
	Major Breakdown	YoY Change
Net income	2,816	+779
Depreciation and amortization	9,156	+1,150
Fluctuations of operating assets and liabilities	(3,486)	+2,493

Investing Activities



	Major Breakdown	YoY Change
Purchase of property and equipment	(11,785)	(3,845)
of purchase of land	(1,205)	(1,205)
Proceeds from sales of property & equipment (mainly lease-back transaction)	2,757	+538
Proceeds from sale of stock of a subsidiary (net of cash divested)	726	+726

Financing Activities

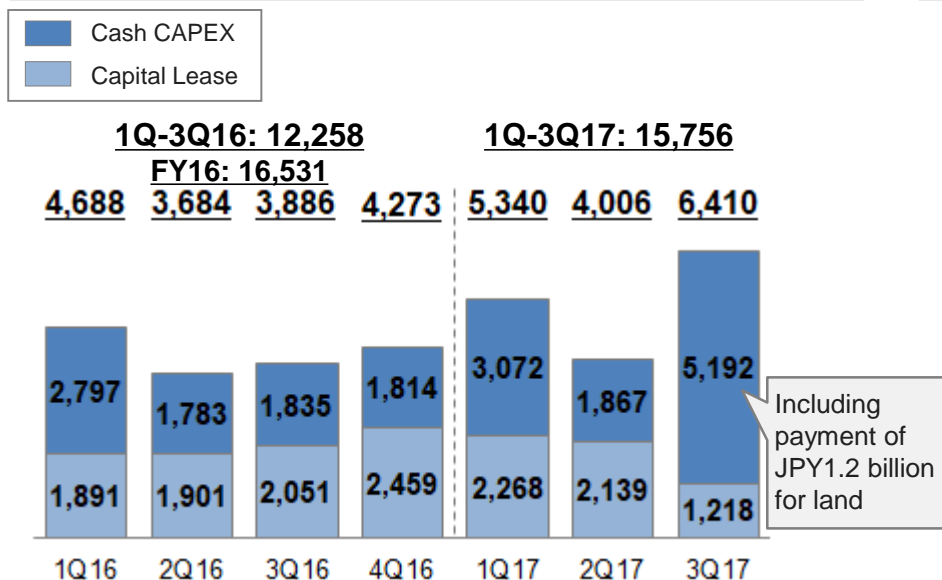


	Major Breakdown	YoY Change
Principal payments under capital leases	(4,230)	(695)
Dividends paid	(1,217)	(91)
Long-term bank borrowings	7,000	(1,500)

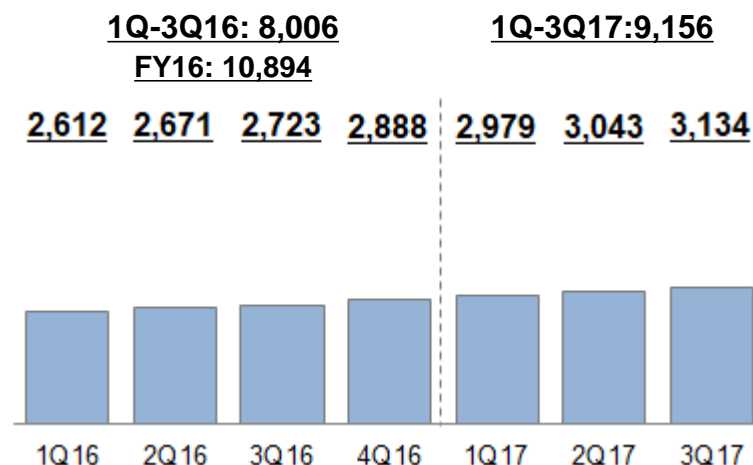
II - 11. Other Financial Data (CAPEX etc.)

Unit: JPY million

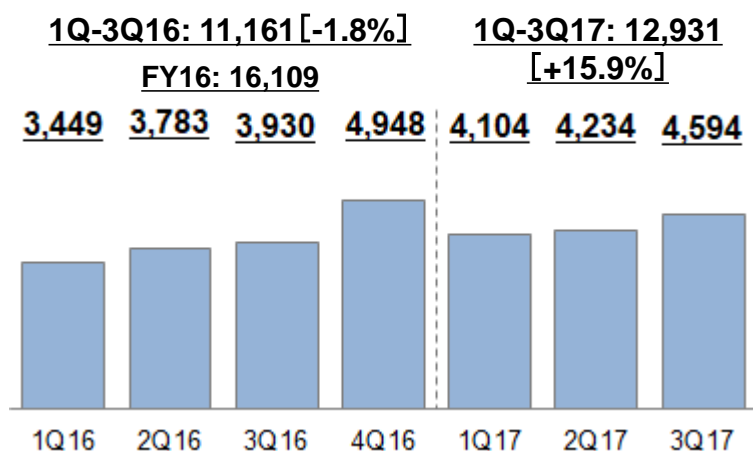
CAPEX



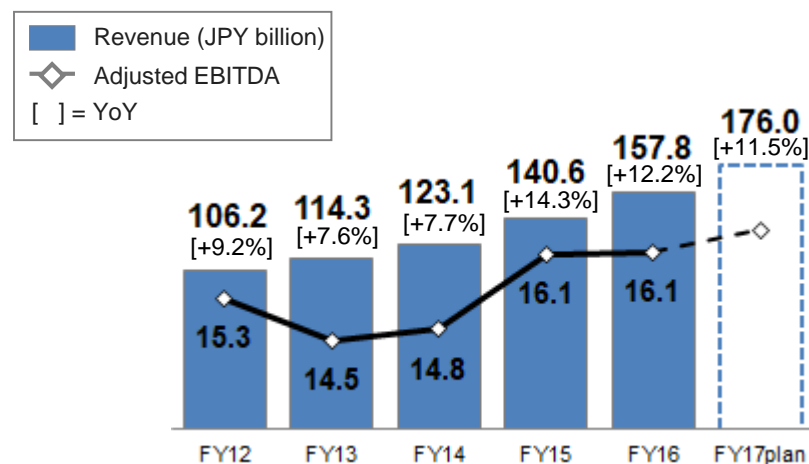
Depreciation and Amortization



Adjusted EBITDA



Revenue and Adjusted EBITDA Annual Growth

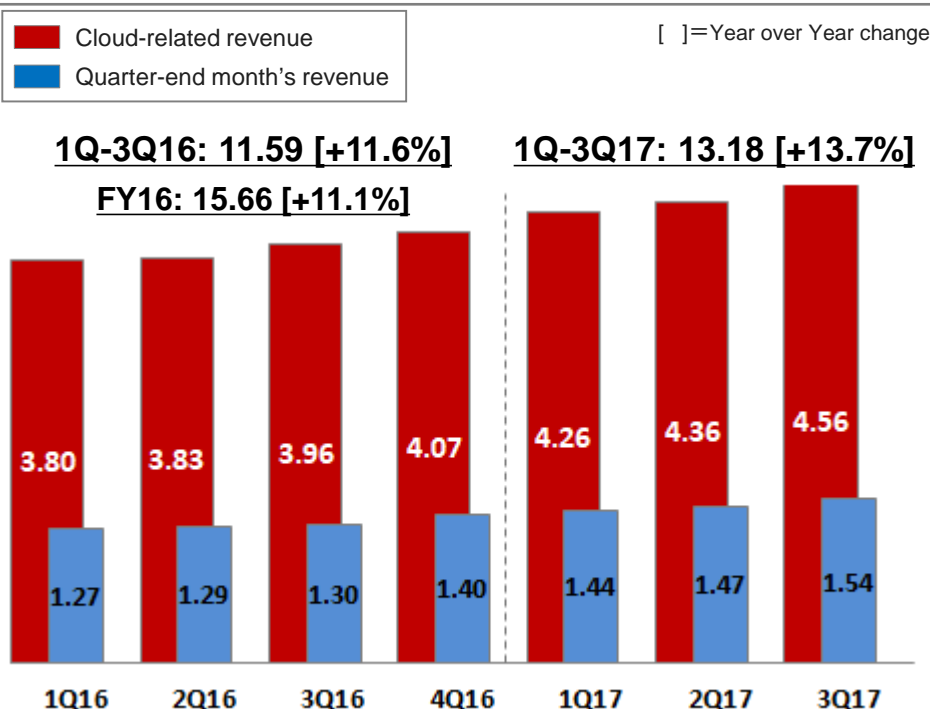


III - 1. Cloud Business Developments

IIJ GIO

Cloud-related revenue

Unit: JPY billion



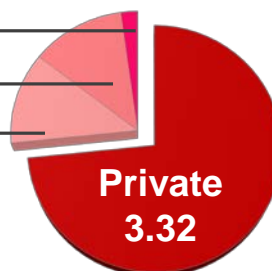
3Q17 revenue

Unit: JPY billion

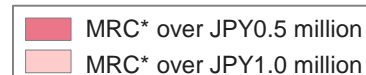
General purpose SaaS 0.08

Task-specific SaaS 0.53

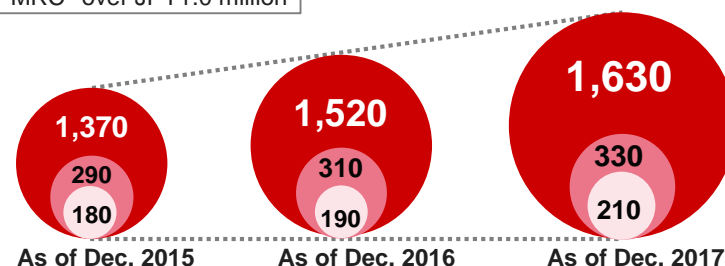
Public 0.62



Cloud Customer Base



*Monthly Recurring Charge



◆ Differentiating with Private Cloud Strategy

- VMware Virtualization Platform continued to grow
 - Migration from on premise system to cloud are increasing: a prominent travel agency's service platform, group common communication platform etc.
- Connecting with other systems via multi-cloud
 - Local government's internal business system etc.
- Comprehensively monitoring and operating total systems with "Unified Operation Management Service (UOM)"
 - Providing the service to a major logistics company etc.
- Increasing demands for virtual desktop services along with growing security concerns, several ten thousand accounts for a major financial institution

◆ Competitive advantage of IIJ Raptor

- ASP type high speed foreign exchange system launched in Nov. 2010
- Top share in the Japanese market for ASP FX system, 13 clients include Nomura securities, Sony Bank, Kabu.com and Hirose Tsusyo
- Revenue recognized in Task-specific SaaS
- Raptor will be provided to DeCurret as its system platform

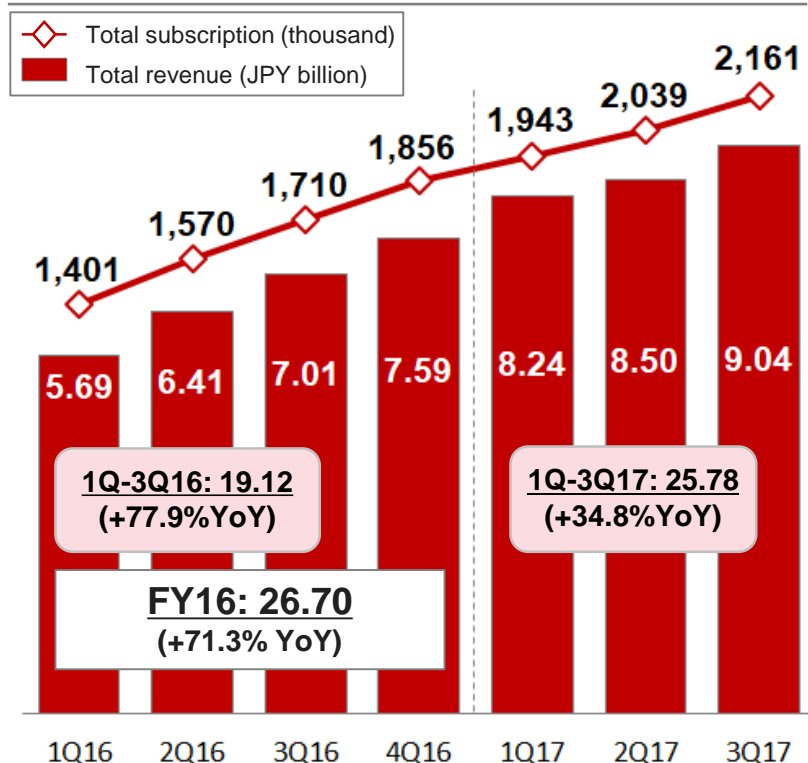
◆ 3Q17 Cloud revenue recognition

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

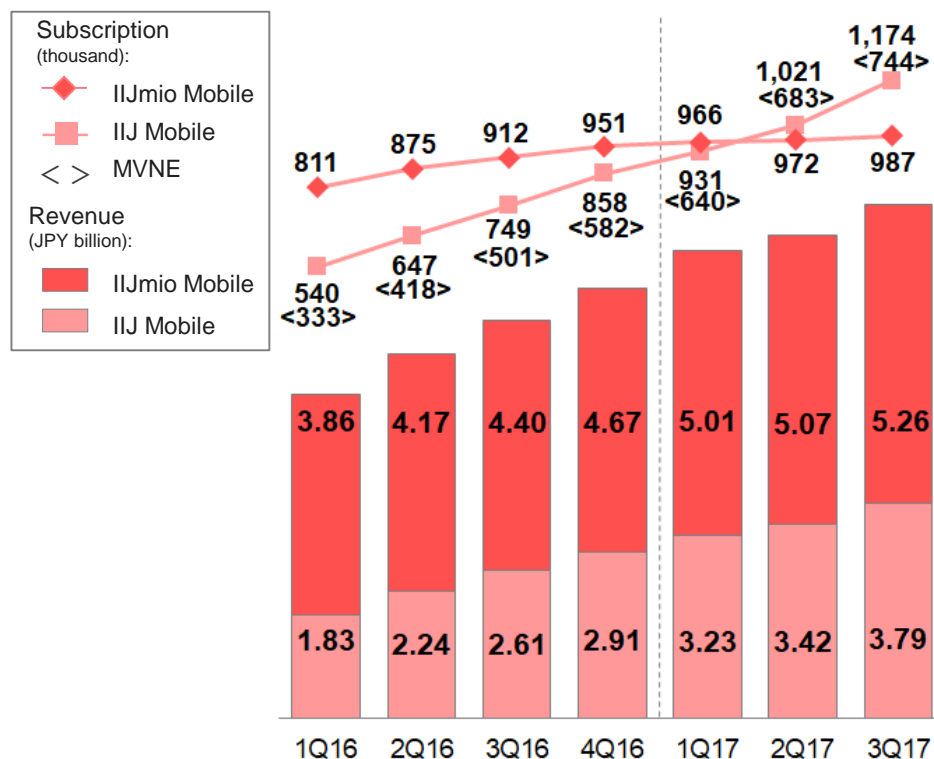
III - 2. Mobile and IoT Business Developments

YoY=Year over Year change
QoQ = 3Q17 compared to 2Q17

Total subscription & revenue



IIJmio Mobile (consumer) & IIJ Mobile (enterprise)



◆ Advancing as a total MVNO towards both consumer and enterprise

- 3Q17-end MVNE clients: 135 (+7 QoQ)
- Continued to be profitable by gathering enterprise and consumer traffic

◆ Enterprise mobile (excluding MVNE) strongly growing

- 3Q17 revenue JPY0.96 billion (+17.2%YoY, +11.7%QoQ)
 - Accumulating solutions such as security cameras, IP transceiver, taxi dispatch system, TV conference system in response to work style reform

◆ Full-MVNO

- Preparation on track for service launch in Mar. 2018
 - Private global network, inventory control with flexible billing management for IoT usage, direct overseas roaming, chip SIM etc.

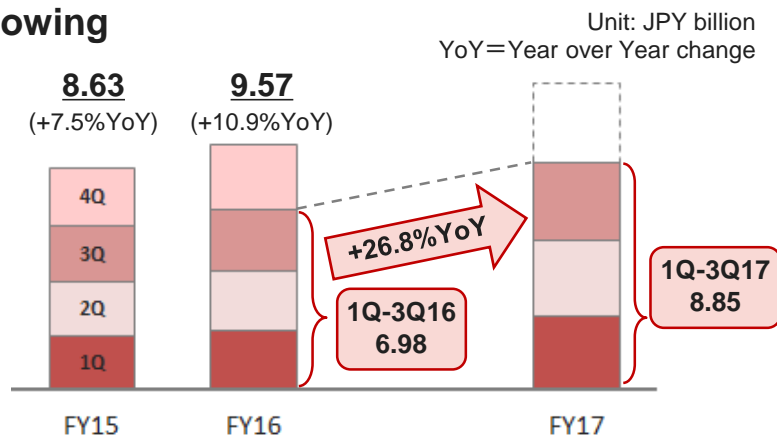
◆ Originating IoT-related business

- Establish JV with Chubu Electric Power for Connected Homes IoT business (Apr. 2018)
- IoT-related prospective orders & PoC continued increasing
 - SIM card for automobile, security cameras etc.
 - 3Q17-end prospective orders: approx. 280

III - 3. Further Expansion of Existing Services

Security-related service strongly growing

◆ Security-related services revenue strongly growing



◆ DDoS protection service strongly growing

- Widely used among central government agencies, major financial institutions, Growing penetration toward BtoC service providers

◆ Mail & Web security services expanding

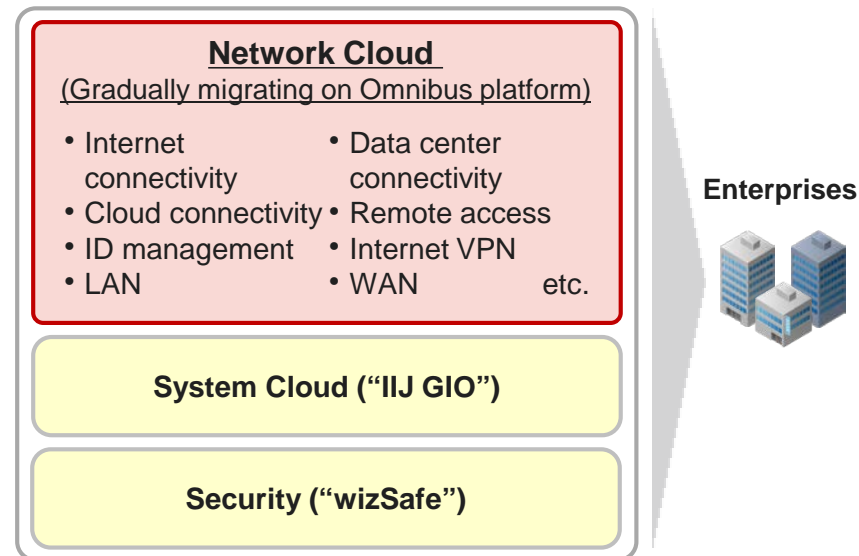
- Providing more than 10 years, Demand continue to increase to prevent information leaks etc. Clients in various industries: managing a corporate group with several hundreds of thousands accounts
- Maintaining competitive advantages by continuously enhancing service lineups
 - Sandbox, in-house developed filter logics etc.

◆ Strengthen total security package with Security Operation Center services

- Accumulating large-scale security operation projects including blue-chips and local governments
- Enhanced SOC facility (2H16), hiring security experts continuously etc.

Promoting NW services totality with Omnibus

◆ “One Cloud” Strategy



◆ With Omnibus, strengthening competitive advantage toward enterprise NW solution

- Closed connectivity among cloud systems, multiple location WAN, replacing existing WAN etc.
 - NW integration for a major private study lesson school
 - Several hundred location WAN for a major retailer
- With network cloud service line-ups, creating synergy between cloud and security

◆ Continuously service developments and enhancement

- “Omnibus 2.0” WAN connection function to be enhanced from 1Q18
- IoT services , closed connectivity with mobile etc.

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III - 4. Further Business Developments (FinTech)

Company Profile

Name	DeCurret Inc. (IIJ's equity method investee)
Est.	January 2018
Capital	JPY5.23 billion (as of mid-Feb.)
Shareholder	IIJ (ownership 35%), 18 other companies
Directors	President: Kazuhiro Tokita (IIJ senior managing executive officer) Part-time directors: IIJ CEO, IIJ COO, IIJ CFO

Business

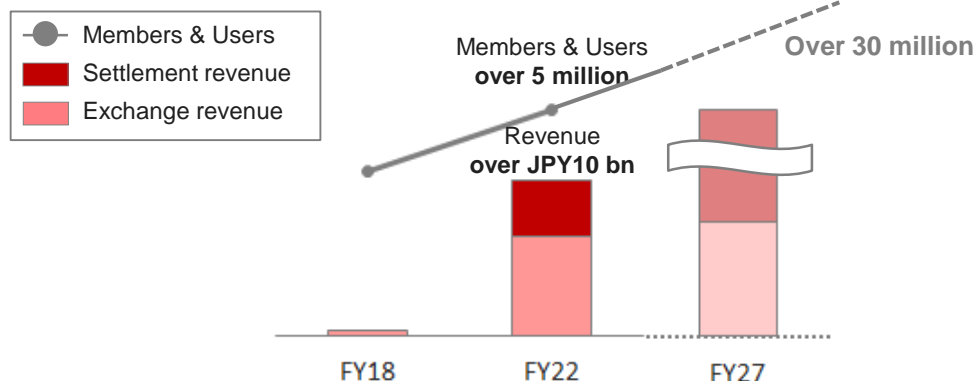
- **Providing cryptocurrency exchange and settlement services altogether**
- **Exchange service** (from 2H18)
 - Providing users to exchange various cryptocurrency real time 24 hours 365 days, mainly for consumers
 - ✓ Basic function of Wallet will be launched
 - ✓ Differentiate with highly reliable system, low bid-ask spread, and security requirement such as AML/KYC*
 - ✓ Bid-ask spread as revenue
- **Settlement service** (from FY19)
 - Cryptocurrency settlement at location such as E-commerce, retail shops, BtoBtoC and BtoC business model
 - ✓ Co-working with capital partners
 - ✓ Bid-ask spread and system usage as revenue

* AML(Anti-Money Laundering). KYC(Know Your Customer) refers to a procedures to verify customer, which is required when opening accounts. In cryptocurrency transaction, KYC is performed through blockchain which reduces the hassle and cost for identity verification.

Competitive Advantages

- **Trading system leveraging the existing IIJ Raptor system**
 - Top share ASP FX system in Japan, proving to 13 major Japanese financial institutions
 - ✓ Core-engine, dealing system, connecting multiple fx exchanges, investor service platform, operator management function etc.
 - Able to launch services by expanding IIJ Raptor function
 - ✓ Approx. 70% of DeCurret service system is leveraged from the existing IIJ Raptor system
- **Executing business with prominent capital partners**
 - Expect to include electronic money, bank coins and more
 - ✓ Aim to be a common platform for partners' cryptocurrency distribution
 - Future potential: connecting payment data and accounting, smart contract, BtoB settlement and more by leveraging blockchain technology

Business Target



Impact on IIJ's consolidated financial results etc.

<PL> Impacted by equity in net income/loss of equity method investees

FY18: Assume approx. JPY0.6 bn equity in net loss

FY19: Equity in net loss to become smaller

FY20: Turn positive, equity in net income to expand thereafter

<Business>

- Raptor & cloud to grow
- IIJ owns 35% of DeCurret's value

Ⅲ - 4. Further Business Developments (FinTech)

Shareholders of DeCurret



By your side, for life

DAI-ICHI LIFE

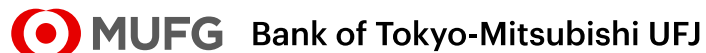


大和証券グループ本社

Daiwa Securities Group Inc.



NOMURA



dentsu

III - 4. Further Business Developments (New Data Center Construction)

IIJ Data Centers

- **Operating 21 data centers in Japan** (as of Dec. 2017)
 - 20 data centers are leased from data center owners per space
 - ✓ Continuously expanding the facility to meet demands
 - Own 1 data center: Matsue Data Center Park (Shimane prefecture)
 - ✓ Japan's first container-type data center using outside-air cooling system
 - ✓ Opened in Apr. 2011, accommodate approx. 500 racks

New Data Center Profile

Name	Shiroi Data Center Campus
Address	Shiroi city, Chiba prefecture
Land	Approx. 40,000m ² (already acquired)
Racks	Can accommodate up to 6,000 racks <ul style="list-style-type: none"> • Phase 1: approx. 1,000 racks with approx. JPY8.0 bn CAPEX
Accommodation	Service facility, data center housing services etc. <ul style="list-style-type: none"> • Mainly to meet the middle-to-long term eastern Japan data center demand
Investment	FY18 approx. JPY3.0 bn (power receiving facility, common facility racks etc.)
Plan	Gradually place system module-based*1 facility accordingly with demand
Schedule	Begin operations in Spring 2019
Estimated PUE*2	Less than Matsue DCP's 1.2

*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 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.

Purposes

- **Integrate racks, currently spread out in the eastern Japan area's data centers**
 - Future cost should be approx. 20% lower than continuously expanding leasing space and with improved operation productivity
- **Absorb increasing rack demand along with further penetration of cloud & IoT**
- **Competitive advantages with latest technologies**
 - Improved facility with outside-air cooling technology & AI for cooling & energy control, and automated operations with robotics technology etc.

New Data Center Image



Impact on IIJ's consolidated financial results

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

※ Forward-looking statements

Statements made in this presentation regarding IIJ's or managements' intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding revenues, operating and net profitability are subject to various risks, uncertainties and other factors that could cause IIJ's actual results to differ materially from those contained in any forward-looking statement. These risks, uncertainties and other factors include but not limited to:

- a decrease of corporate spending or capital expenditure due to depression in the Japanese economy and/or corporate earnings decreased,
- an inability to achieve anticipated results and cause negative impact on profitability,
- a possibility that less of reliability for our services and loss of business chances due to interruption or suspension of our services,
- an excess increase and fluctuation in network-related cost, mobile-related cost, outsourcing cost, personnel cost etc,
- a possibility to lose business opportunity due to our inadequate resources in personnel and others,
- an increase in competition and strong pricing pressure,
- the recording of an impairment loss as a result of an impairment test on the non-amortized intangible assets such as goodwill,
- a decline in value and trading value of our holding securities.

Please refer to IIJ's filings on Form 20-F of its annual report and other filings with the United States Securities and Exchange Commission ("SEC") for other risks.

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