# Consolidated Financial Results for the Fiscal Year ended March 31, 2019 (FY2018)

IIJ
Internet Initiative Japan

**Internet Initiative Japan Inc.**
**TSE1 (3774)**
**May 14, 2019**

# Agenda

# Ⅰ. Summary of FY18 Financial Results

(※) Adjusted incomes exclude effect of the revision of U.S GAAP related to gains/losses on equity securities & funds
Unit: JPY billion (bn), % ＝YoY comparison

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Revenue | JPY192.3 bn | +9.2% | Adjusted EBITDA *1 | JPY20.4 bn | +6.8% | Annual Dividend per Share | JPY27.00 |
| Gross Margin | JPY29.0 bn | +2.7% | Adjusted pre-tax income (※) *2 | JPY6.0 bn | (7.4%) | Adjusted payout ratio | 35.0% |
| Operating Income | JPY6.2 bn | (8.2%) | Adjusted net income (※) *3 | JPY3.5 bn | (17.1%) | | |

**Enhanced Business Foundation with Stronger than Expected Enterprise Recurring Revenue Accumulation**
**Upgraded Business Assets by Expanding Service Functions for Full-MVNO & NW Services Toward IoT Demands**

## Stronger than expected enterprise NW services accumulation
## Enhanced Functions & Accumulated Revenues

- **Enterprise recurring revenue +9.1%*4**
  - Security +16.9% Growth led by SOC and gateway services etc.
  - Cloud +12.2% Captured demands for multi/private Cloud
  - Omnibus +83.2% Promoted enterprise NW replacement demands

## SI profitability largely improved
## Business scale expanded by combining service offerings

- **SI gross margin ratio FY17 11.3% → FY18 14.3%**
- **Maintained high SE utilization rate with effective unit reorganization & stricter management. Avoided unprofitable projects**
  - Aim to improve gross margin ratio with continuing effect & deploying knowledge
- **Emphasize strong competitive advantage of having Cloud & NW services**

## Completed 1st phase of Shiroi DC
## Reserved room to expand & lower costs for the future

- **Can accommodate up to 6,000 racks. Becoming Cloud facility of eastern Japan**
- **Gradually integrate service facilities currently spread out, Expect economics of scale for future cost by owning and integrating**

## Advancement of full-MVNO through sales promotion & service development

- **Full-MVNO revenue JPY0.66 bn, exceeded plan**
  - Strong demands for NW cameras & prepaid SIM
- **Expanded offerings in FY18: Chip SIM, small data volume bundled service targeting IoT usage etc.**
- **300 prospective IoT projects such as traceability, transportation related data etc.**

## Overseas business: Asian subsidiaries as a whole turned positive

- **Revenue JPY7.6 bn, Operating Income JPY0.1 bn**
- **Added GDPR consultation solution to existing NW & SI**

## DeCurret started business as the first & new licensed provider after registration process was enacted

- **Registered with FSA (Mar. 2019), Launched spot trading services (Apr. 2019)**
- **Preparing to launch settlement services by collaborating with shareholders**

## JOCDN: contents distribution demands continuously increasing

- **Migrating large contents distributer's data sequentially**
- **WOWOW became shareholder (Apr. 2019)**

| Financials | Stronger than expected business developments with recurring revenue accumulation & SI profitability improvement<br>Revenue increased yet income decreased with small YoY decrease of NTT Docomo's mobile interconnectivity charge |
|---|---|

*1 Operating income before depreciation and amortization *2 Income before income tax expense *3 Net income attributable to IIJ *4 Calculated by subtracting the following revenues from recurring revenue: Internet connectivity services for consumer & MVNE(IIJ Mobile MVNO Platform Services)

# Ⅱ. FY19 Business Goals

YoY = Year over year comparison
JPY billion (bn)

**Revenue: JPY204 billion +6.1%YoY　Operating Income: JPY7 billion +12.8%YoY**

| | |
|---|---|
| **Enterprise NW Services** | **Continue executing FY18 strategy to make them stable revenue & income growth drivers**<br>➢ Offer "digital workplace*" with NW/Mobile/Virtual desktop/Cloud/Omnibus/Endpoint etc.<br>➢ Toward FY20, further cultivate security demands with highly reliable and various security services<br>• WAN revenue to decrease due to certain clients' change in NW |
| **IoT** | **Execute flagship projects. Accumulate and deploy projects knowledge for the mid-term**<br>➢ Established a division dedicated to IoT by gathering in-house sales and engineers resources<br>➢ Execute solutions for agriculture, factory, energy, transportation etc. |
| **Mobile** | **Improve profitability by focusing on full-MVNO & enterprise mobile strategies**<br>➢ Full-MVNO revenue target JPY1.7 billion. Mobile gross margin to improve by JPY0.5 billion<br>• Rebound effect in FY19 related to full-MVNO fixed cost as full-MVNO was launched in Mar. 2018<br>➢ In addition to FY18 projects, execute BtoBtoX transaction utilizing chip SIM & eSIM<br>➢ Aim to improve mobile infrastructure utilization by acquiring enterprise traffic |
| **Cloud** | **Continue executing strategy of offering highly value added & comprehensive solution for enterprises**<br>➢ Revenue target JPY22.5 billion. Continuously accumulate revenue through Multi cloud & UOM services etc.<br>➢ Prepare and implement to integrate service facilities to Shiroi DC |
| **SI** | **Further emphasize competitive advantage of having SI function for Cloud & IoT projects, Increase profit continuously**<br>➢ SI gross margin to increase by expanding SI business scale and having continuing effect from FY18 strategies<br>➢ Overseas business targets: revenue JPY8.7 bn, operating income JPY0.2 bn　Aim to achieve JPY10 bn revenue soon |
| **New** | ◆ **DeCurret　Upgrade exchange service and launch settlement service (1H19)**<br>◆ **JOCDN　Complete data migration of the large contents distributer**<br>**Acquire more contents distribution demands by strengthening partnerships** |

* Strategy to make good use of employees and business operation through work place that is fully utilizing digital technology

# Ⅲ - 1. Consolidated Financial Results for FY18

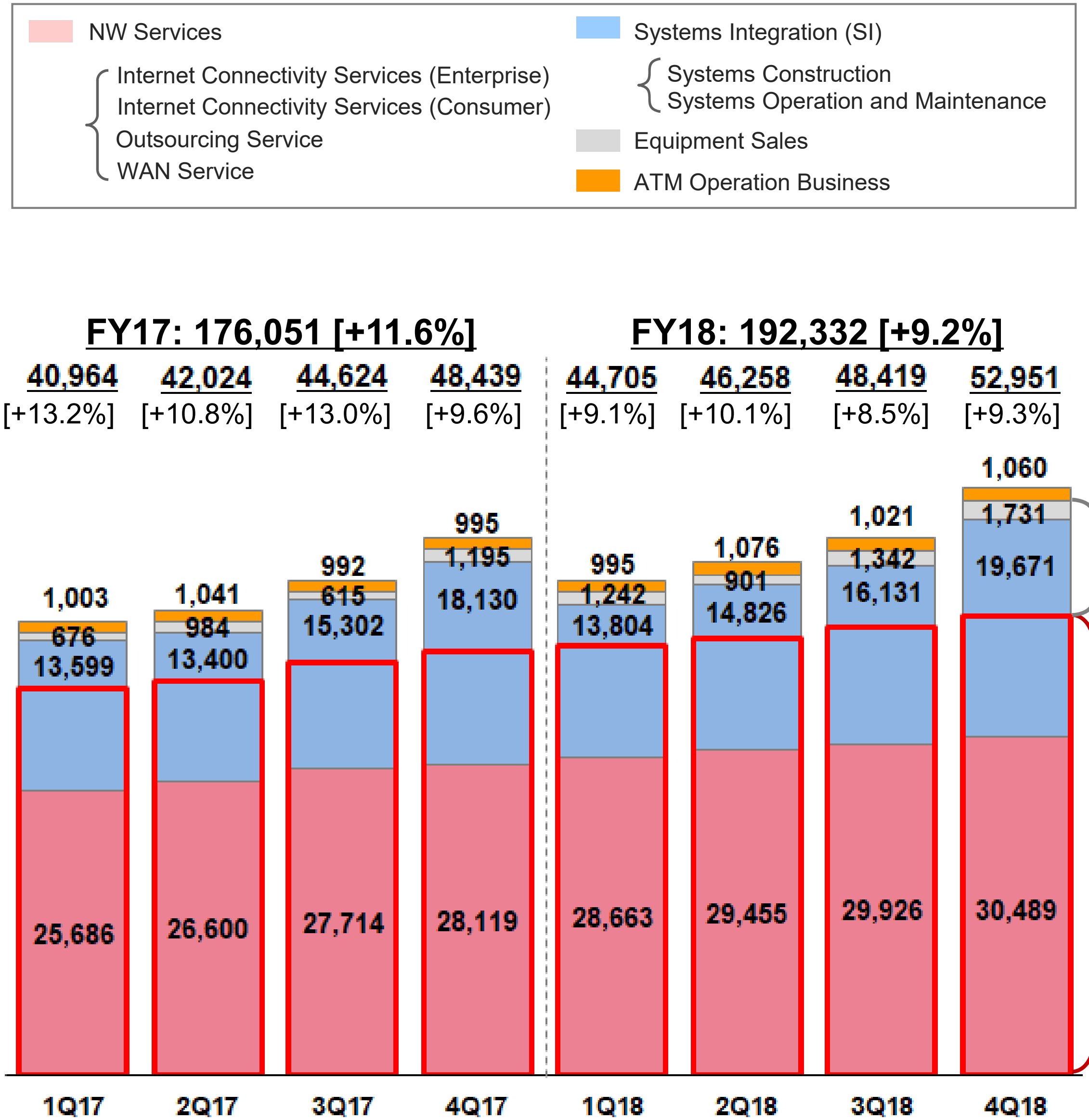
Unit: JPY billion

| | FY18 Results (Apr. 2018 - Mar. 2019) % of Revenues | | FY17 Results (Apr. 2017 - Mar. 2018) % of Revenues | | Year over Year Change | | FY18 Targets (Apr. 2018 - Mar. 2019) % of Revenues | |
|---|---|---|---|---|---|---|---|---|
| | % of Revenues | Amount | % of Revenues | Amount | % | Amount | % of Revenues | Amount |
| Total Revenues | | 192.3 | | 176.1 | +9.2% | +16.3 | | 190.0 |
| Total Cost of Revenues | *84.9%* | 163.3 | *84.0%* | 147.8 | +10.5% | +15.5 | *84.3%* | 160.2 |
| Gross Margin | *15.1%* | 29.0 | *16.0%* | 28.2 | +2.7% | +0.8 | *15.7%* | 29.8 |
| SG&A/R&D | *11.8%* | 22.8 | *12.2%* | 21.5 | +6.1% | +1.3 | *12.0%* | 22.8 |
| Adjusted EBITDA*1 | *10.6%* | 20.4 | *10.9%* | 19.1 | +6.8% | +1.3 | | - |
| Operating Income | *3.2%* | 6.2 | *3.8%* | 6.8 | (8.2%) | (0.6) | *3.7%* | 7.0 |
| Adjusted Pre-tax Income*2,*3 | *3.1%* | 6.0 | *3.7%* | 6.5 | (7.4%) | (0.5) | | - |
| Adjusted Net Income*2,*4 | *1.8%* | 3.5 | *2.4%* | 4.2 | (17.1%) | (0.7) | | - |

*1: Operating income before depreciation and amortization, *2: Adjusted incomes exclude effect of the revision of U.S GAAP related to gains/losses on equity securities and funds
*3: Pre-tax income is used as income before income tax expense, *4 Net income is an abbreviation for net income attributable to IIJ

# Ⅲ - 2. Revenues

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




**One-time Revenue***
**FY18: JPY27,975 million, +7.6% YoY**
**(14.5% of FY18 revenues)**

**Recurring Revenue***
**FY18: JPY160,206 million, +9.7% YoY**
**(83.3% of FY18 revenues)**

- FY18 YoY revenue growth includes an impact of hi-ho's unconsolidation
  - 1Q-3Q17 hi-ho's revenue for Internet connectivity services (consumer) was JPY1,313 million (hi-ho became unconsolidated by us selling all shares of hi-ho as of Dec. 2017)

**Enterprise recurring revenue* +9.1% YoY**

* Calculated by subtracting the following revenues from recurring revenue: Internet connectivity services for consumer & MVNE

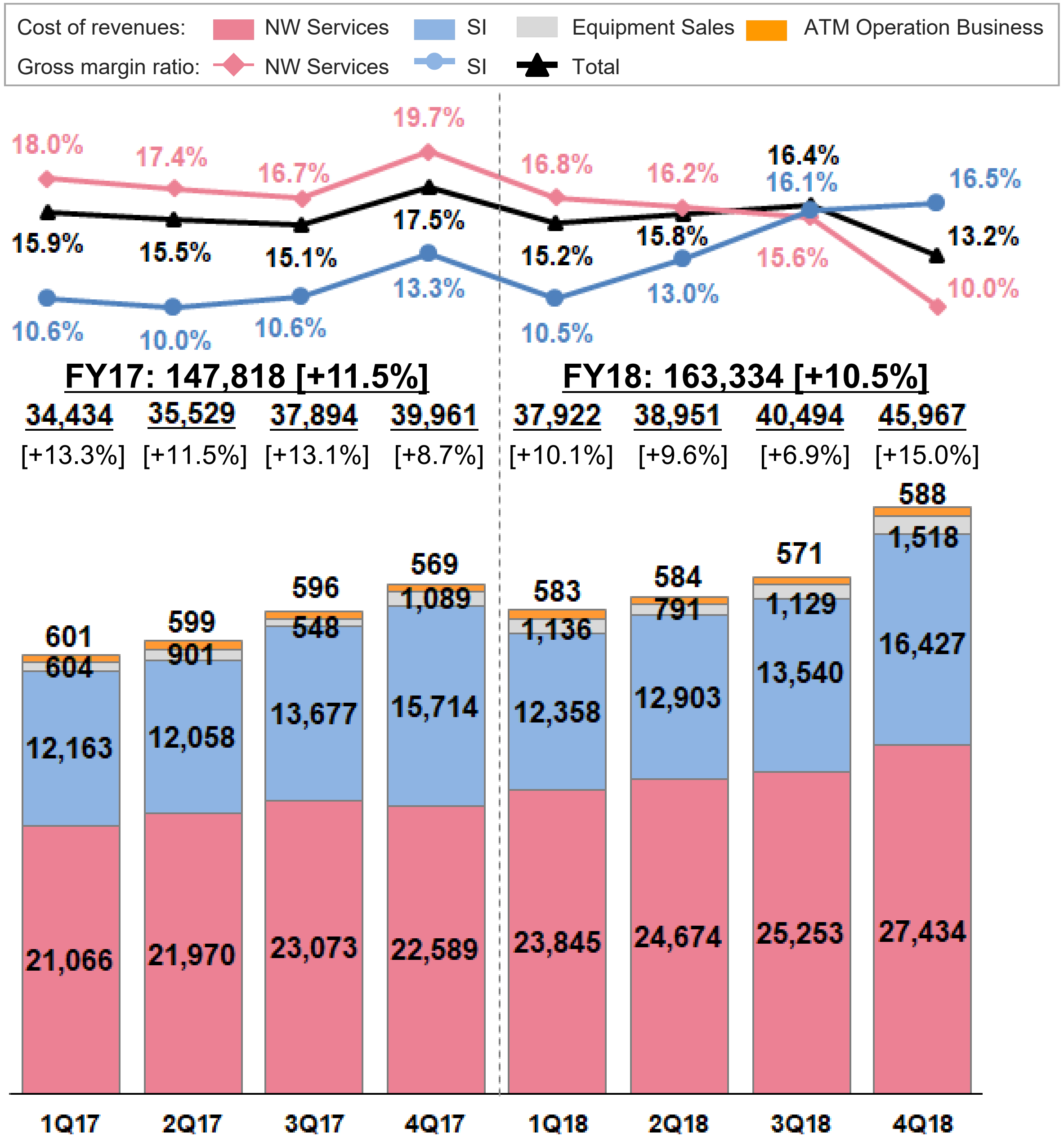
* One-time revenues, which are systems construction and equipment sales, are recognized when systems or equipment are delivered and accepted by customers

* 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

# Ⅲ - 3. Cost of Revenues & Gross Margin Ratio

Unit: JPY million

[ ] , YoY = Year over year comparison




## Gross Margin

◆ **Total**

- FY18: JPY28,988 million, +2.7% YoY
- FY17: JPY28,233 million, +11.8% YoY
  - FY18 Gross margin ratio: 15.1%

◆ **NW Services**

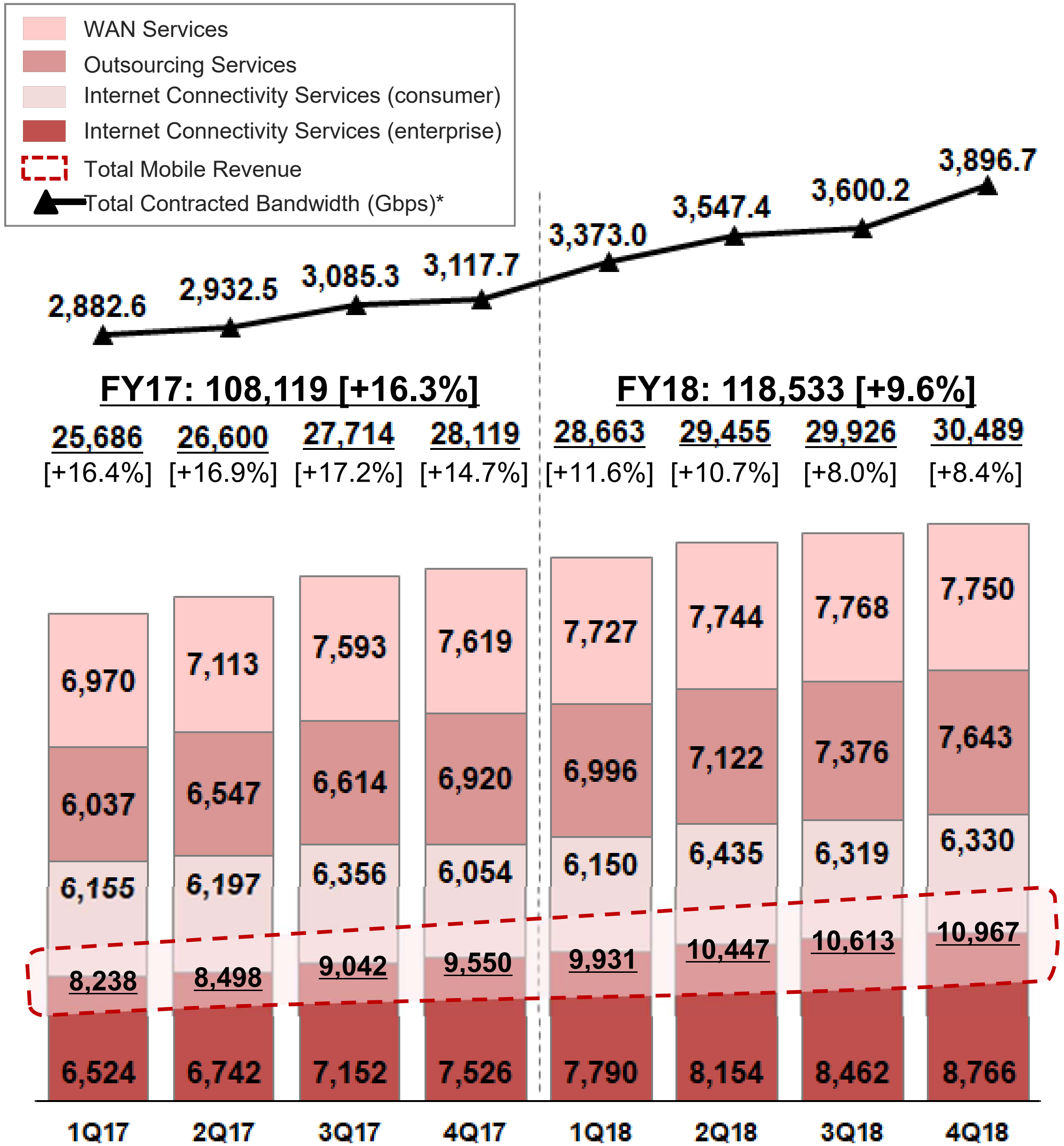
- FY18: JPY17,327 million, -10.8% YoY
- FY17: JPY19,421 million, +16.9% YoY
  - Unit price for Docomo's mobile interconnectivity charge was revised in Mar. 2019 and it decreased by 5% YoY. The rate of decrease was smaller than expected and 4Q18 cost includes such negative cost increase impact of JPY2.05 billion
  - Full-MVNO related fixed cost increased by over JPY0.3 billion per quarter (from Mar. 2018)

◆ **SI**

- FY18: JPY9,205 million, +35.0% YoY
- FY17: JPY6,819 million, +0.9% YoY
  - FY18 Gross margin ratio: 14.3% (+3.0 points YoY)
  - Gross margin on improving trend with effective reorganization of systems engineers unit and stricter management, prevention of unprofitable project through quality control

# Ⅲ - 4. Network Services (1) Revenues

Unit: JPY million
[ ], YoY =Year over year comparison
QoQ = 4Q18 compared to 3Q18




## NW Services Revenues

◆**Internet Connectivity (Enterprise)**
- FY18: +18.7% YoY
- 4Q18: +16.5% YoY, +3.6% QoQ
  - IP revenue continued to increase: +4.5% YoY
  - FY18-end MVNE clients: 149 (+12 clients YoY)

◆**Internet Connectivity (Consumer)**
- FY18: +1.9% YoY
- 4Q18: +4.6% YoY, +0.2% QoQ
  - Revenue growth includes a negative impact of hi-ho's unconsolidation (Dec. 2017)
    - ✓ 1Q-3Q17 hi-ho revenue for Internet connectivity services (consumer): JPY1,313 million

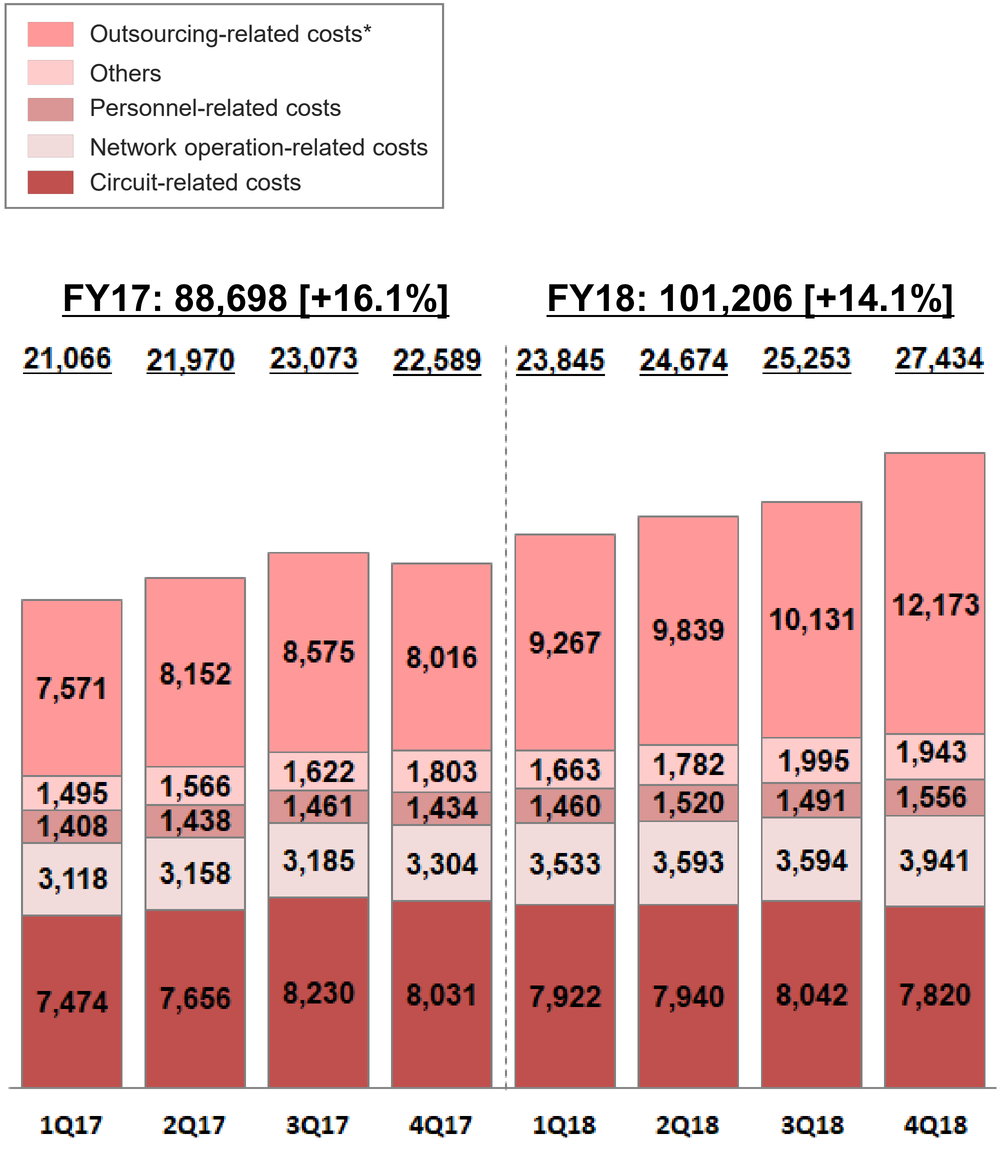
◆**Outsourcing Services**
- FY18: +11.6% YoY
- 4Q18: +10.4% YoY, +3.6% QoQ
  - Strong demands for Security and Omnibus
    - ✓ FY18 Security revenue: +16.9% YoY
    - ✓ FY18 Omnibus revenue: +83.2% YoY

◆**WAN Services**
- FY18: +5.8% YoY
- 4Q18: +1.7% YoY, -0.2% QoQ
  - FY18 revenue continued to increase with accumulation of projects and postponement of a large WAN project migrating to mobile. FY19 revenue is expected to decrease due to large WAN projects migration

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

# Ⅲ - 4. Network Services (2) Cost of Revenues

Unit: JPY million
[ ] , YoY =Year over year comparison
QoQ = 4Q18 compared to 3Q18




* Outsourcing-related costs include interconnectivity charge for mobile infrastructure, datacenter leasing costs and customer support center operation costs etc.

## Cost of NW Services

- FY18: +14.1% YoY
- 4Q18: +21.5% YoY, +8.6% QoQ
  - Due to Docomo's revised mobile unit charge, 4Q18 outsourcing-related costs includes JPY2.05 billion of cost which is the difference between our estimate 14% decrease and actual 5% decrease
  - Along with continuous service developments and enhance functions for Omnibus, security, etc., outsourcing-related, personnel-related and network operation-related costs increased

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

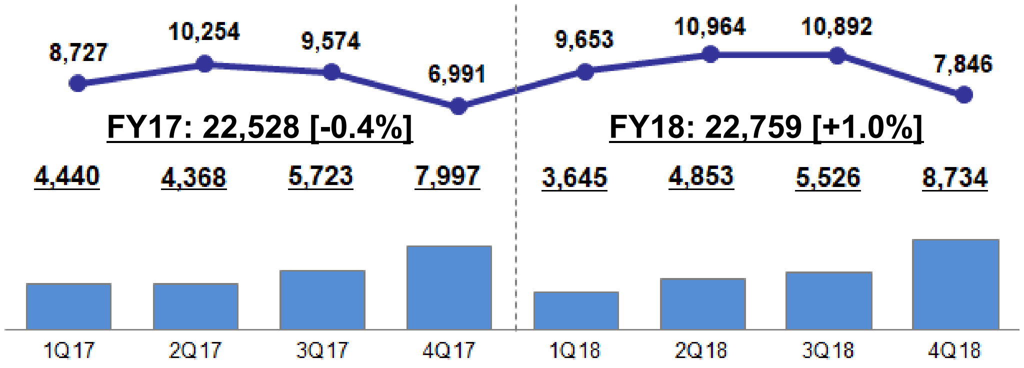
- Regarding our FY18 & FY17 usage charge, Docomo's mobile interconnectivity telecommunications charge was fixed in Mar. 2019 and it decreased by 5% YoY
- In FY18, we estimated the unit charge to decrease by 14% considering past results and Docomo's payment arrangement, and applied to our quarter earnings (same procedure as in the past).
  - ✓Past results: FY18 18% decrease, FY17 14% decrease
  - ✓Payment arrangement: Invoice from Docomo was temporarily 15% off from Apr. 2018 which is the same level as FY17.
- In 4Q18, the difference between estimate 14% decrease and actual 5% decrease was the negative impact of cost increase of JPY2.05 billion. (In 4Q17, the difference between estimate 14% decrease and actual 18% decrease was the positive impact of cost reduction of JPY0.89 billion)
- Regarding our FY19 & FY18 usage charge, Docomo's unit charge is expected to be revised in Mar. 2020. Docomo's payment arrangement is 5% off temporarily from Apr. 2019 (In FY19, we estimate a certain decrease for the unit charge by considering decrease rate fixed in Mar 2019 and Docomo's payment arrangement level in FY19)

# Ⅲ - 5. Systems Integration (SI) (1) Revenues

Unit: JPY million
[ ], YoY = Year over year comparison
QoQ = 4Q18 compared to 3Q18

Systems construction revenues | Systems operation & maintenance revenues | Cloud revenues within systems operation & maintenance revenues | Order backlog (sum of systems construction & equipment sales) | Order received (sum of systems construction & equipment sales)

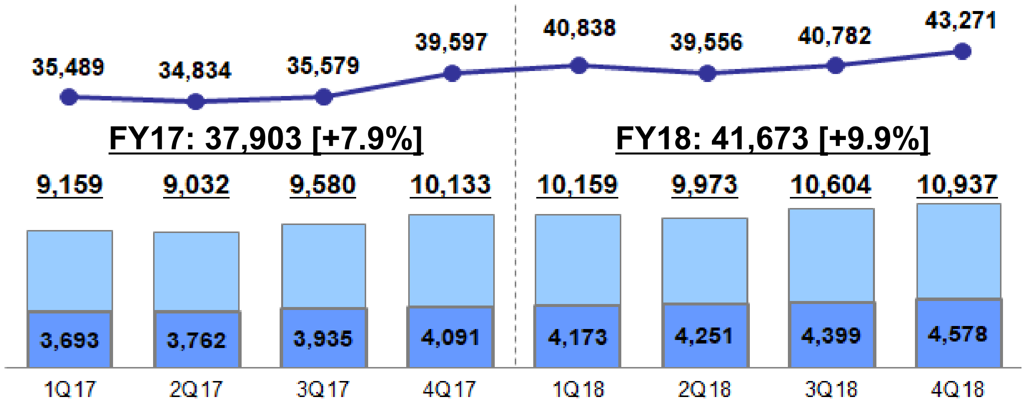
## Systems Construction (one-time revenue)




| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 6,664 | 6,879 | 5,658 | 6,609 | 7,550 | 7,066 | 6,923 | 7,419 |
| FY17: 25,810, -3.4% YoY | | | | FY18: 28,957, +12.2%YoY | | | |

- 4Q18 revenue: +9.2% YoY, +58.0% QoQ
- 4Q18 order received: +12.3% YoY
  4Q18-end order backlog: +12.2% YoY
  - Favorable systems construction order environment continued
- Large-scale construction orders received in 4Q18:
  - Virtual desktop for a major service business operator
  - Business NW system for a major financial institution
  - Renewal of Internet environment for a major financial institution
  - Migration to the cloud for a major cram school etc.
- Seeking to differentiate SI from competitors with collaboration with network and Cloud services

## Systems Operation & Maintenance (recurring revenue)



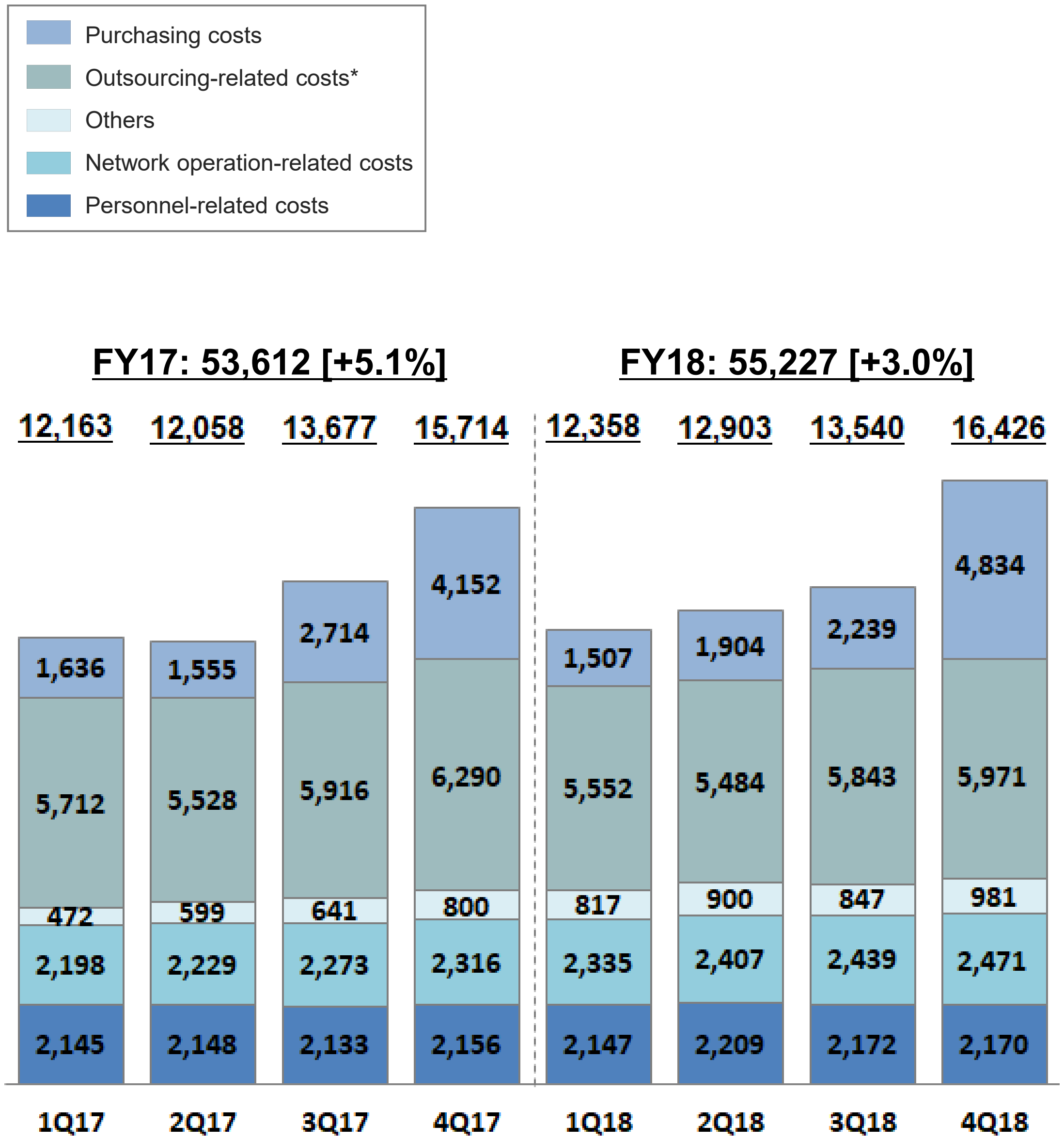

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 10,326 | 8,376 | 10,325 | 14,151 | 11,399 | 8,691 | 11,831 | 13,426 |
| FY17: 43,178, +3.1%YoY | | | | FY18: 45,347, +5.0%YoY | | | |

- 4Q18 revenue: +7.9% YoY, +3.1% QoQ
- Continuous revenue growth mainly due to the accumulation of systems construction which are migrated to systems operation & maintenance phase as well as continuous increase in private cloud revenue
  - FY18 revenue from private cloud: +12.4% YoY
  - FY18 revenue from SI construction: +8.3% YoY
- FY18 IIJ Raptor revenue: JPY 2.5 billion, +26.5% YoY
  - ASP high-speed foreign exchange trading system (2010~) Providing to DeCurret, Nomura Securities, Sony Bank, etc.

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

Unit: JPY million

[ ] , YoY = Year over year comparison
QoQ = 4Q18 compared to 3Q18



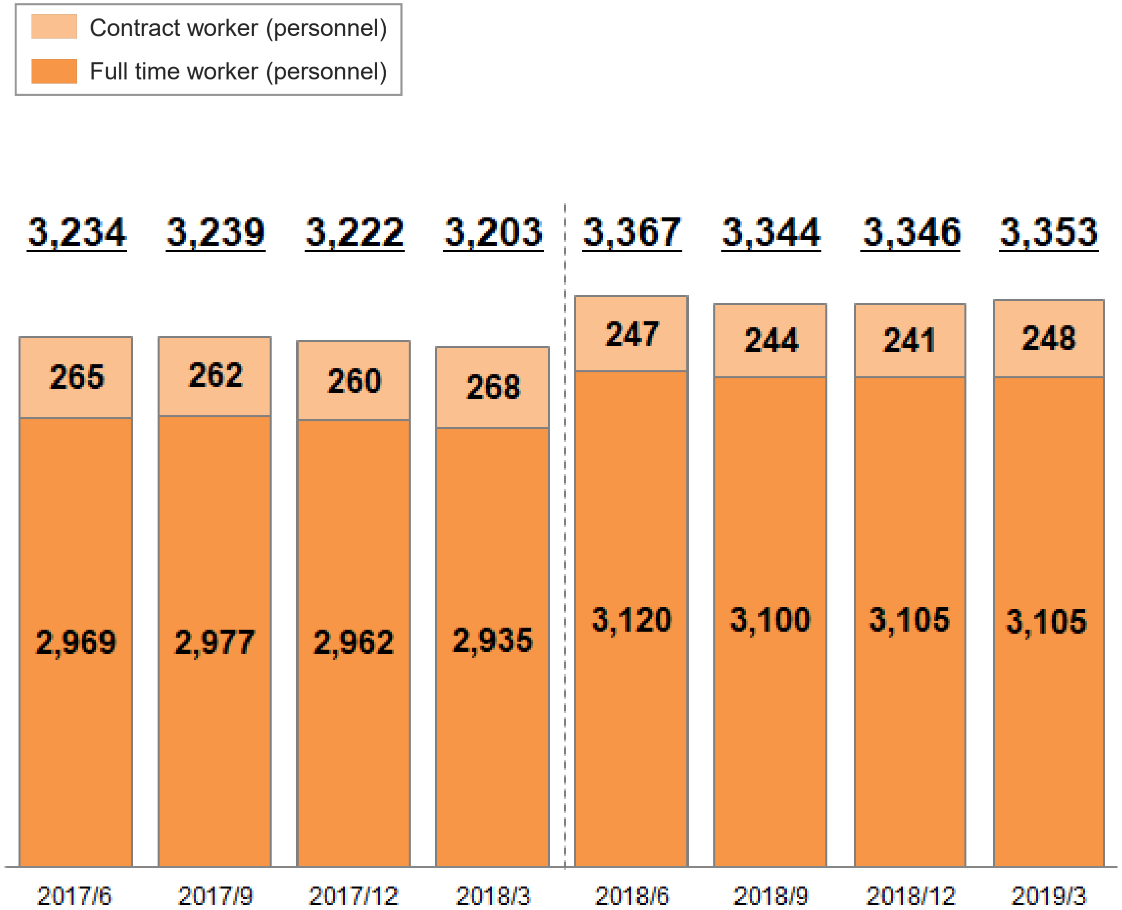

*Outsourcing-related costs include

## Cost of SI

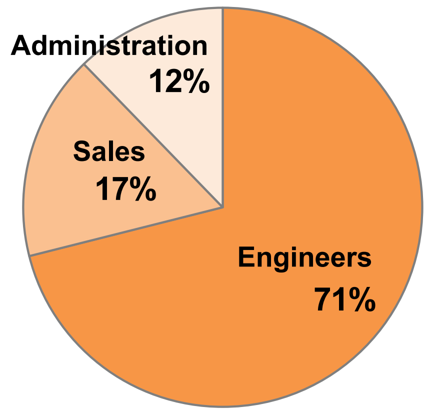
- FY18: +JPY1,615 million YoY
- Outsourcing-related costs decreased YoY due to effective reorganization of systems engineers unit and management improvement from the beginning of the year
  - 4Q18-end number of SI-related outsourcing personnel: 1,102 personnel (increased by 48 personnel YoY, decreased by 6 personnel QoQ)
- Network operation-related costs slightly increased QoQ
  - IIJ GIO P2 facility in western Japan (Matsue data center) started to provide services from June 2018. Depreciation and equipment maintenance costs to gradually increase
- Gross margin ratio improved due to an absence of unprofitable projects which is through improved quality control

# Ⅲ - 6. Number of Employees

YoY = Year over year comparison




## Employee Distribution




## Personnel-related costs & expenses

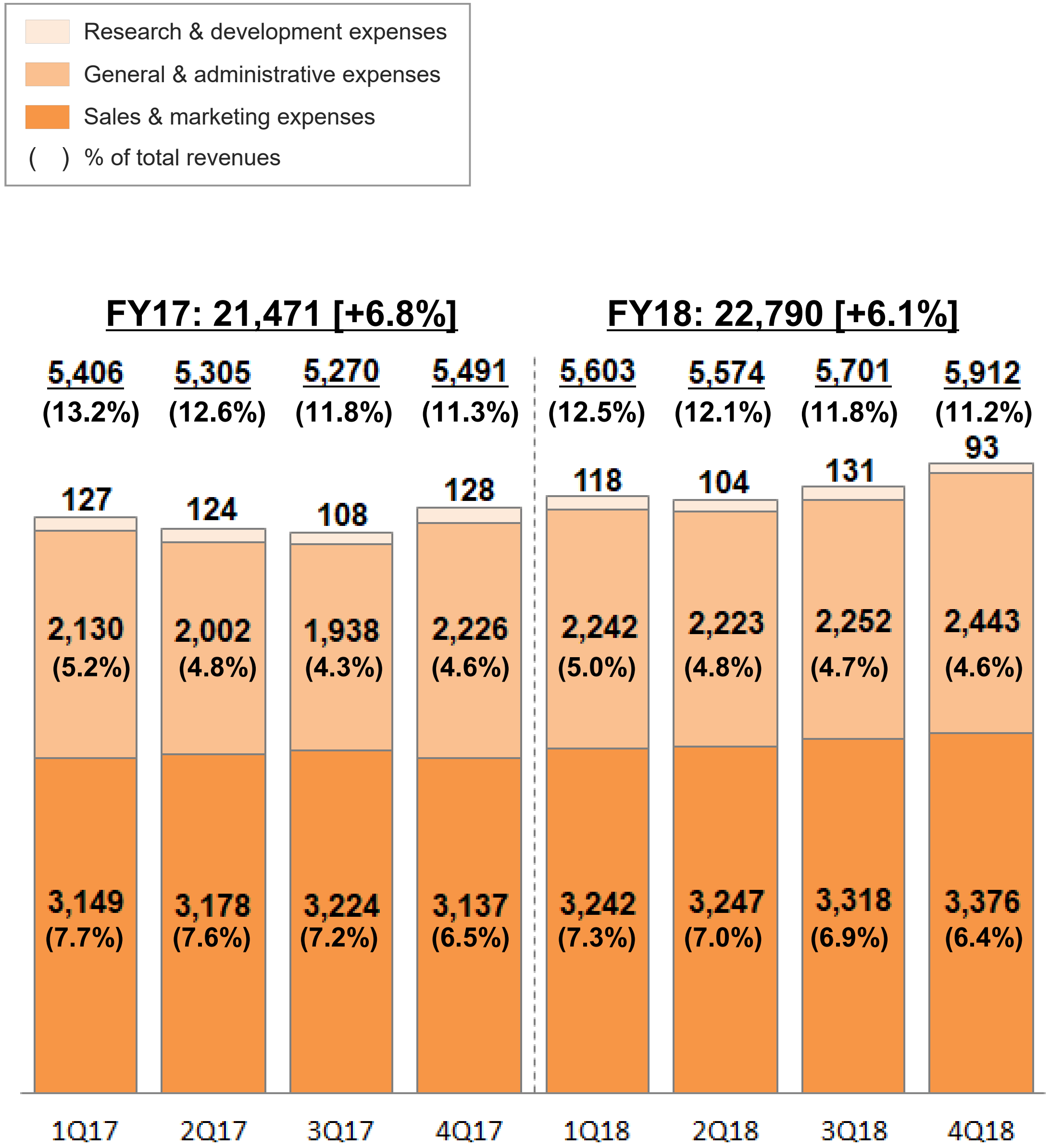
Unit: JPY million
( ) = % of total revenue

| 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 | 4Q18 |
|---|---|---|---|---|---|---|---|
| **5,797 (14.2%)** | **5,784 (13.8%)** | **5,775 (12.9%)** | **5,843 (12.1%)** | **5,909 (13.2%)** | **6,053 (13.1%)** | **5,875 (12.1%)** | **6,016 (11.4%)** |
| **FY17: 23,199 (13.2%) +5.6%YoY** | | | | **FY18: 23,853 (12.4%) +2.8%YoY** | | | |

- Hired 171 new graduates in Apr. 2019 (175 in Apr. 2018, 148 in Apr. 2017)
- FY19 net addition of employees including mid-career recruitment is planned to be larger than that of FY18
- Incremental volume of FY19 annual personnel-related costs and expenses is expected to be larger than usual level due to revision of personnel remuneration structure, etc.

# Ⅲ - 7. SG&A Expenses/R&D

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

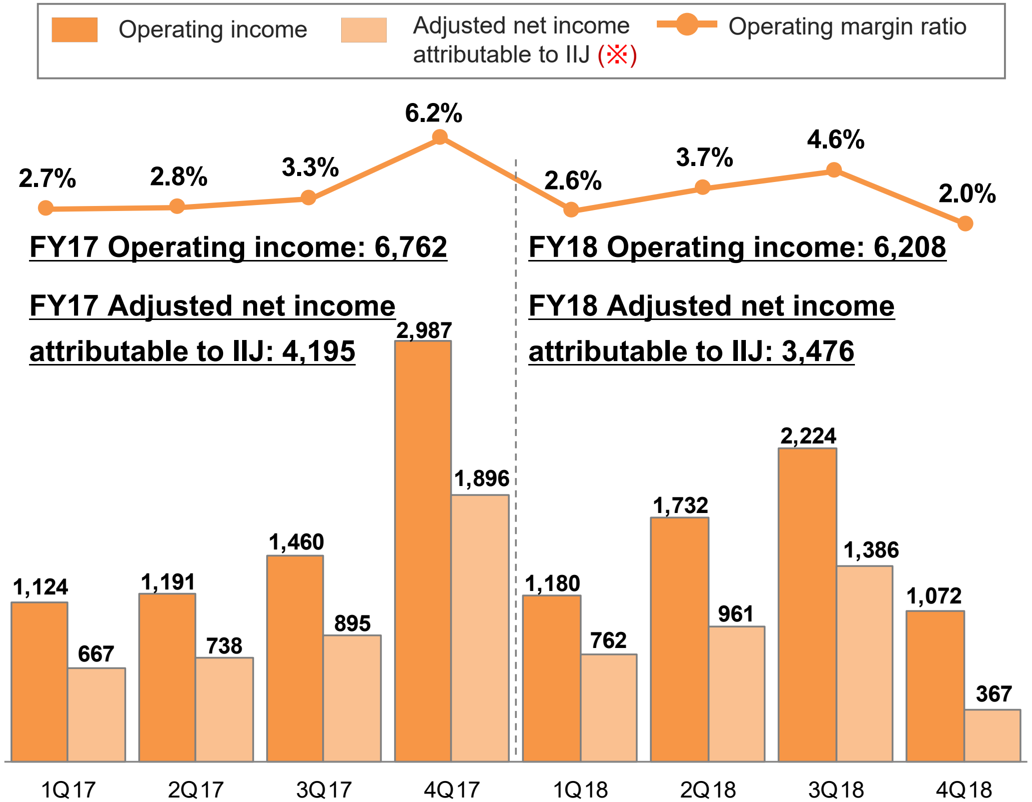



## SG&A

- Sales & marketing expenses
  - FY18: +3.9% YoY
    - Personnel-related expenses and outsourcing expenses increased
- General & administrative expenses
  - FY18: +10.4% YoY
    - Personnel-related expenses increased
  - 4Q18
    - Increased from 3Q18 mainly due to disposal (JPY179 million)
- SG&A within the plan
  - FY18 SG&A plan: JPY22.8 billion

# Ⅲ - 8. Income

Unit: JPY million
YoY = Year over year comparison
(※) Adjusted means excluding effect of the revision of U.S GAAP related to gains/losses on equity securities & funds




| 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 | 4Q18 | |
|---|---|---|---|---|---|---|---|---|
| 324 | 743 | 390 | 1,128 | 424 | 932 | 743 | 714 | Current income tax expense (※) |
| 109 | (245) | 113 | (290) | (26) | (223) | (57) | (456) | Deferred tax expense (benefit) (※) |
| 36 | 41 | 24 | 33 | (31) | 7 | (46) | (249) | Equity in net income (loss) of equity method investees |
| (42) | (47) | (39) | (42) | (41) | (45) | (45) | (47) | Less: Net income attributable to noncontrolling interests |

## Income

◆ **Adjusted income before income tax expense(※)**
- FY18: JPY6,023 million, -7.4% YoY
  - Miscellaneous income: JPY96 million
  - Dividend income: JPY87 million
  - Interest expense: JPY402 million

◆ **Adjusted net income attributable to IIJ(※)**
- FY18: -17.1% YoY
  - Equity in net loss of DeCurret (IIJ ownership 35%) was JPY503 million (1Q JPY62 million, 2Q JPY86 million, 3Q JPY124 million, 4Q JPY231 million)
    - ✓ FY18 equity in net loss of DeCurret was planned to be JPY0.6 billion (Plan: FY19: loss of JPY0.7 billion, FY20: equity in net gain will be expected)
  - Net income attributable to noncontrolling interests: JPY178 million

◆ **Dividend plan:**
- Did not take unrealized loss, which has no effect on cash flows, into consideration for dividend level
- Adjusted payout ratio: 35.0% (※)

**Expected P/L impact along with IFRS adoption**
- Adopt IFRS from the filing of FY18 Annual Report “Yuka-shoken-houkokusho”
  - Because of different accounting principles, P/L impact due to gains/losses on marketable equity securities are not recognized under IFRS (recognized in accumulated other comprehensive income (loss) on B/S)
- FY18 earnings press releases and documents for ordinary general meeting of shareholders will be prepared under U.S. GAAP; P/L will be impacted by stock price fluctuation, FY18 Annual Report “Yuka-shoken-houkokusho” will be prepared under IFRS as above; P/L will not be impacted by stock price fluctuation; Retained earnings & Accumulated Other Comprehensive Income will be different from the U.S. GAAP etc.

# Ⅲ - 9. Consolidated Balance Sheets (Summary)

Unit: JPY million

| | Mar. 31, 2018 | Mar. 31, 2019 | Changes |
|---|---|---|---|
| Cash and Cash Equivalents | 21,403 | 32,076 | +10,673 |
| Accounts Receivable | 31,831 | 33,582 | +1,751 |
| Inventories | 1,715 | 3,807 | +2,092 |
| Prepaid Expenses (Current and Noncurrent) | 16,409 | 18,035 | +1,626 |
| Investments in Equity Method Investees | 5,246 | 4,838 | (408) |
| Other Investments | 11,374 | 10,808 | (567) |
| Property and Equipment | 46,414 | 46,933 | +519 |
| Goodwill and Other Intangible Assets | 8,787 | 8,423 | (364) |
| Guarantee Deposits | 3,422 | 3,381 | (42) |
| Total Assets: | 153,449 | 166,852 | +13,403 |
| Accounts Payable | 16,399 | 21,927 | +5,528 |
| Income Taxes Payable | 1,928 | 1,290 | (638) |
| Borrowings (Short-term and Long-term) | 24,750 | 26,750 | +2,000 |
| Capital Lease Obligations (Current and Noncurrent) | 16,577 | 18,035 | +1,458 |
| Total Liabilities: | 79,460 | 90,599 | +11,139 |
| Common Stock | 25,512 | 25,519 | +7 |
| Additional Paid-in Capital | 36,176 | 36,226 | +50 |
| Retained earnings | 8,404 | 16,023 | +7,619 |
| Accumulated Other Comprehensive Income (Loss) | 5,075 | (467) | (5,542) |
| Treasury stock | (1,897) | (1,897) | (0) |
| Total IIJ Shareholders' Equity: | 73,270 | 75,404 | +2,134 |

Due to the revision of U.S. GAAP on other investments. Please refer to page 22 of this document for details

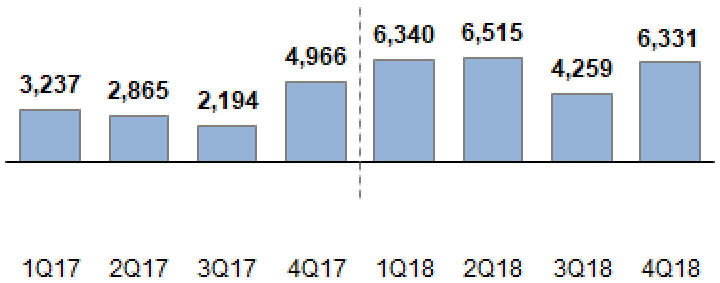
➢ Total IIJ Shareholders’ Equity to Total Assets: 47.7% as of Mar. 31, 2018; 45.2% as of Mar. 31, 2019

# Ⅲ - 10. Consolidated Cash Flows

Unit: JPY million
YoY = Year over year comparison

## Operating Activities

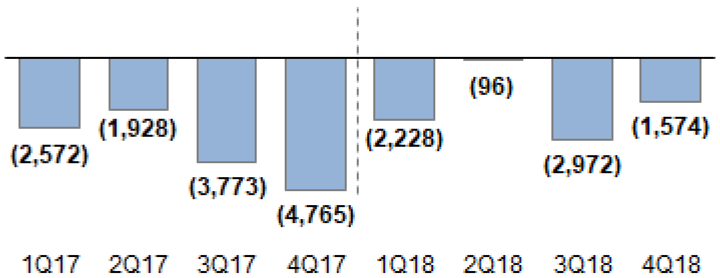
**FY17: 13,262** **FY18: 23,445**




| | Major Breakdown | YoY Change |
|---|---|---|
| Net income | 2,893 | (2,386) |
| Depreciation and amortization | 14,211 | +1,846 |
| Fluctuations of operating assets and liabilities | 5,404 | +8,929 |
| Realized and unrealized loss on other investments | 1,110 | +2,178 |

## Investing Activities

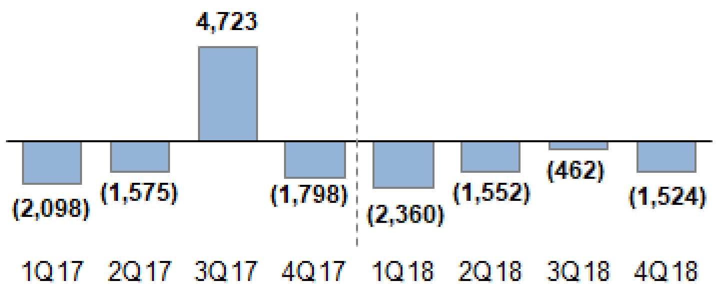
**FY17: (13,037)** **FY18: (6,869)**




| | Major Breakdown | YoY Change |
|---|---|---|
| Purchase of property and equipment | (10,670) | +5,101 |
| Proceeds from sales of property & equipment (mainly lease-back transaction) | 3,079 | (227) |
| Proceeds from sales of funds and equity securities | 565 | (798) |

## Financing Activities

**FY17: (748)** **FY18: (5,899)**

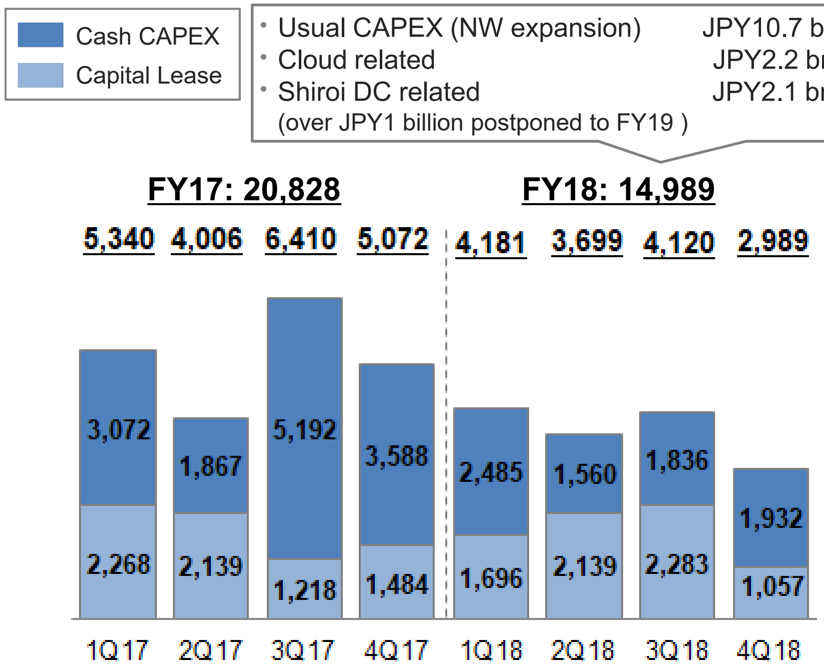



| | Major Breakdown | YoY Change |
|---|---|---|
| Principal payments under capital leases | (6,524) | (800) |
| Dividends paid | (1,217) | (0) |
| Bank borrowings | 2,000 | (5,000) |

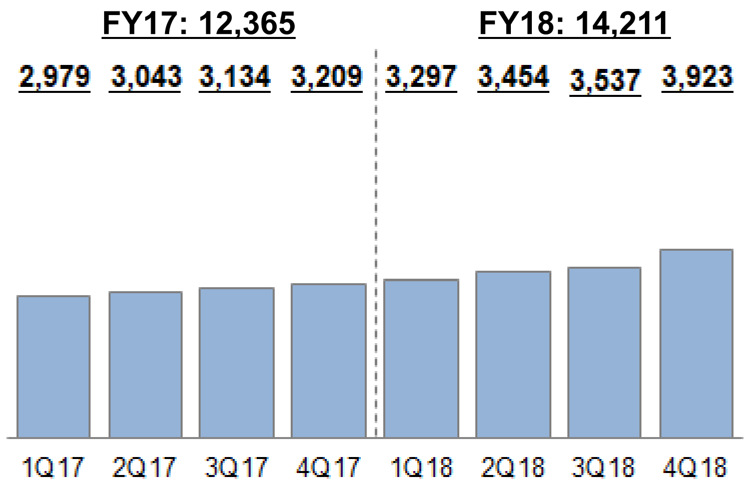
# Ⅲ - 11. Other Financial Data

Unit: JPY million

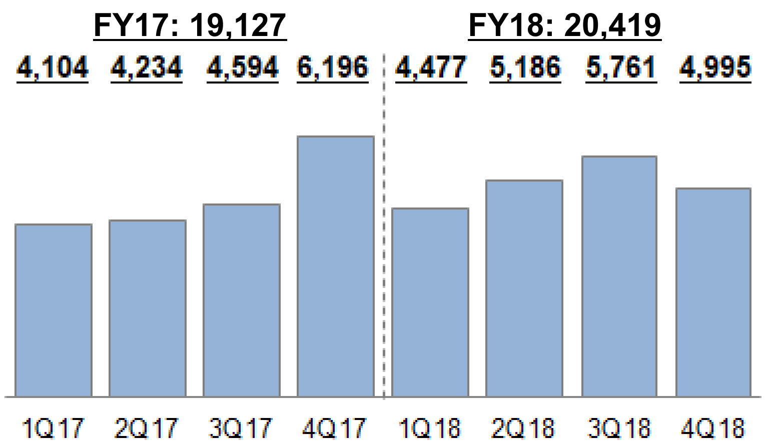
## CAPEX



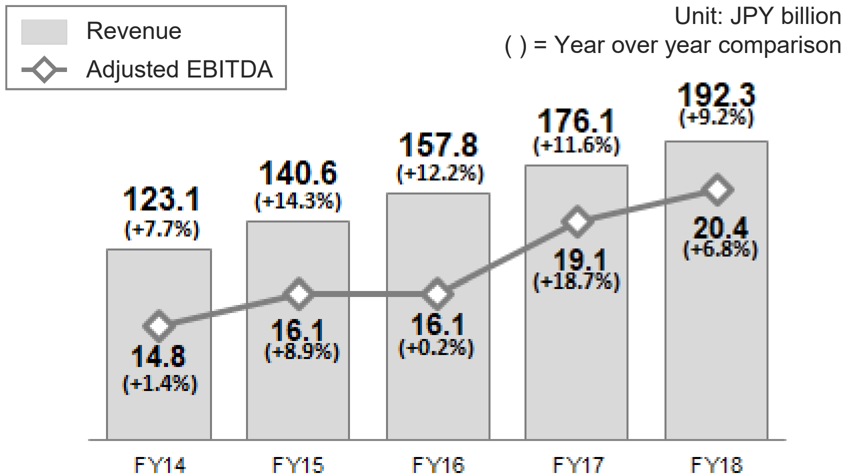

## Depreciation and Amortization




## Adjusted EBITDA




## Revenue & Adjusted EBITDA Annual Growth



# Ⅳ - 1. FY18 Major Accomplishments

YoY = Year over year comparison
JPY billion (bn)

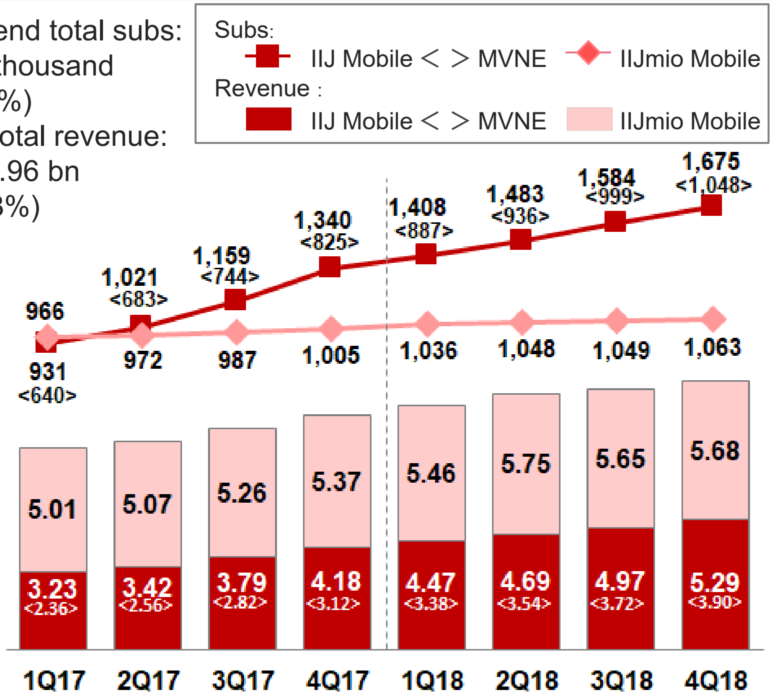
| Initial Targets | Accomplishments |
|---|---|
| Achieve income growth by recurring revenue accumulation | Recurring revenue +9.7%YoY Stronger than expected<br>NW services revenue* +11.0%YoY Mobile +18.8%YoY IP +4.5%YoY<br>*Excluding hi-ho's unconsolidation |
| Enhancement of security services such as SOC | Security services revenue +16.9%YoY<br>Aim even stronger revenue growth in FY19, expanded services line-ups: virtual desktop, SOC, Endpoint |
| Gather enterprise traffic through IoT/M2M | Expanded full-MVNO service line-ups toward IoT Demands<br>NW cameras, dashboard recorder, smart home/factory, incident detection, water paddy sensor |
| Full-MVNO revenue JPY0.5 bn<br>Expand NW services gross margin by absorbing full-MVNO related forefront cost | Full-MVNO revenue JPY0.66 bn<br>Growth led by prepaid SIM & SIM life cycle management, Accumulating to absorb the fixed cost of FY19<br>Small Docomo's mobile unit charge YoY decrease led to NW services gross margin decrease |
| Cloud revenue JPY20 bn<br>Further focus on Multi/Private Cloud, Profitability to improve continuously | Cloud Revenue JPY20.1 bn<br>Enhanced seamless/real time Cloud migration solution and Unified Operation Management Service |
| Improve SI profitability by high SE utilization rate | SI gross margin ratio improved by 3 points YoY<br>Stroger improvement than planned with effective unit reorganization & stricter management<br>Aim to improve FY19 gross margin ratio with continuing effect of FY18 strategies & deploying knowledge |
| Overseas business<br>Revenue JPY7 bn, Income JPY0.1 bn<br>Subsidiaries in Asia as a whole to turn positive | Revenue JPY7.57 bn Operating income JPY0.13 bn<br>Asian subsidiaries turned positive as planned with SI & Cloud orders, GDPR solution as a tailwind |
| DeCurret<br>Launch exchange services | First & new licensed service provider after FSA enacted registration process<br>Launched exchange services (Apr. 19), Preparing for settlement services and upgrade of exchange services |
| JOCDN<br>Further penetration of CDN Services | Migrated a large contents distributer's contents sequentially<br>New business partners such as WOWOW Inc. |

# Ⅳ - 2. Major KPIs

Revenue unit: JPY billion (bn), % = Year over year comparison
Subs. = subscriptions (thousand), IIJ Mobile =enterprise, IIJmio Mobile =Consumer

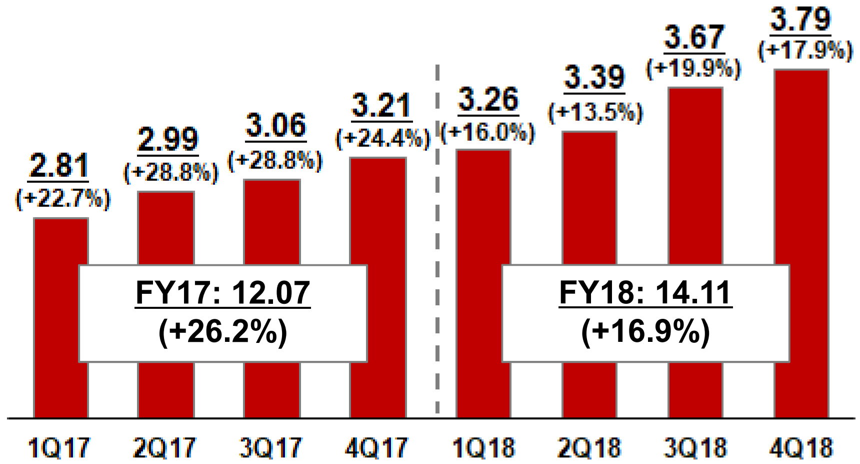
## Mobile revenue & subscription

- FY18-end total subs: 2,745 thousand (+17.0%)
- FY18 total revenue: JPY41.96 bn (+18.8%)



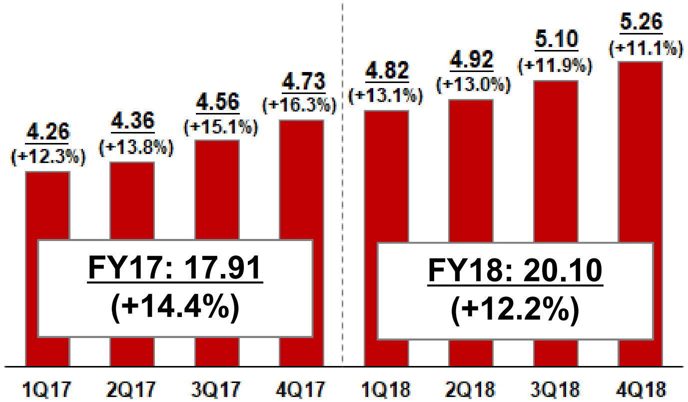

## Security

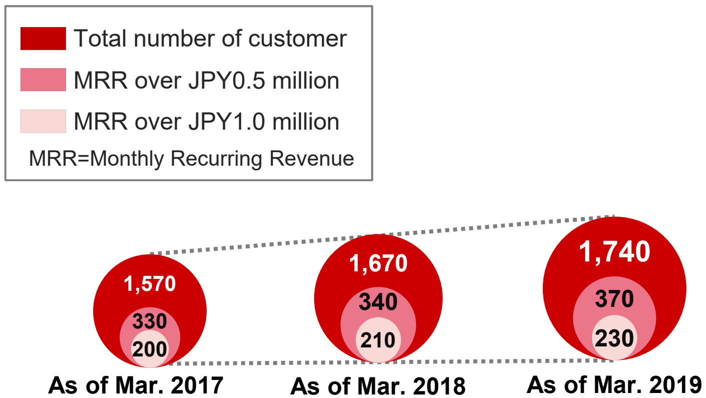
- Total security revenue (Sum of security services and security-related SI)
  - ➢ FY17: JPY14.62 bn, FY18 JPY16.77 bn
- Security services revenues are recognized in outsourcing services revenue
- In FY17, large security Cloud project for local government




## Cloud-related revenue & Customer Base

- 4Q18 revenue major breakdown:
  - ➢ Private JPY3.81 bn
  - ➢ Public JPY0.68 bn
  - ➢ IIJ Raptor JPY0.66 bn
- 4Q18 revenue recognition:
  - ➢ 87% SI operation & maintenance,
  - ➢ 13% outsourcing



# Ⅴ - 1. FY19 Consolidated Financial Targets

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

## FY18 Results (US GAAP)

| | 1H18 (Apr.2018 - Sep. 2018) | % of Revenues | FY18 (Apr.2018 - Mar. 2019) | % of Revenues | YoY |
|---|---|---|---|---|---|
| **Revenues** | 91.0 | | 192.3 | | +9.2% |
| Cost of Revenues | 76.9 | 84.5% | 163.3 | 84.9% | +10.5% |
| Gross Margin | 14.1 | 15.5% | 29.0 | 15.1% | +2.7% |
| SG&A/R&D | 11.2 | 12.3% | 22.8 | 11.8% | +6.1% |
| **Operating Income** | 2.9 | 3.2% | 6.2 | 3.2% | (8.2%) |
| **Adjusted Income before income tax expense** (※) | 2.9 | 3.2% | 6.0 | 3.1% | (7.4%) |
| EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES | (0.0) | | (0.3) | | - |
| **Adjusted Net Income attributable to IIJ** (※) | 1.7 | 1.9% | 3.5 | 1.8% | (17.1%) |

## FY19 Outlook (IFRS)

| | 1H19 (Apr. 2019 - Sep. 2019) | % of Revenues | FY19 (Apr. 2019 - Mar. 2020) | % of Revenues | YoY |
|---|---|---|---|---|---|
| **Revenues** | 97.7 | | 204.0 | | +6.1% |
| Cost of Revenues | 83.5 | 85.5% | 172.6 | 84.6% | +5.7% |
| Gross Margin | 14.2 | 14.5% | 31.4 | 15.4% | +8.3% |
| SG&A/R&D | 12.0 | 12.3% | 24.4 | 12.0% | +6.8% |
| **Operating Income** | 2.2 | 2.3% | 7.0 | 3.4% | +12.8% |
| EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES | (0.7) | | (0.6) | | - |
| **Income before income tax expense** | 1.5 | 1.5% | 6.3 | 3.1% | +4.6% |
| **Net Income attributable to IIJ** | 0.6 | 0.6% | 3.5 | 1.7% | +0.7% |

### Revenue Assumption

- ◆ **NW services +JPY5.3 bn YoY**
  - ➢ Enterprise NW services to grow continuously
  - ➢ WAN revenue to decrease by approx. JPY4 bn due to existing large clients' migration to mobile etc.
- ◆ **SI +JPY6.4 bn YoY**
  - ➢ Total Cloud revenue JPY22.5 bn
  - ➢ SI construction & maintenance to grow continuously

### Income Assumption

- ◆ **Gross margin of NW services and SI to each expand**
- ◆ **Personnel-related expenses to increase stronger than usual**
- ◆ **With the start of Shiroi DC operation, fixed type cost of JPY0.5 bn (annual) will be added**

### CAPEX

- ◆ **Total: JPY18 bn**
  - ➢ Shiroi DC-related: JPY2 bn (Including CAPEX postponed from FY18)
  - ➢ CAPEX mainly concentrated on NW expansion, Cloud, Service developments

### Human Resources

- ◆ **Net addition of 230 personnel**
  - ➢ 171 newly graduates joined in Apr. 2019

### Annual Dividends

**JPY27.00 per share based on our basic policy of continuous and stable dividends**

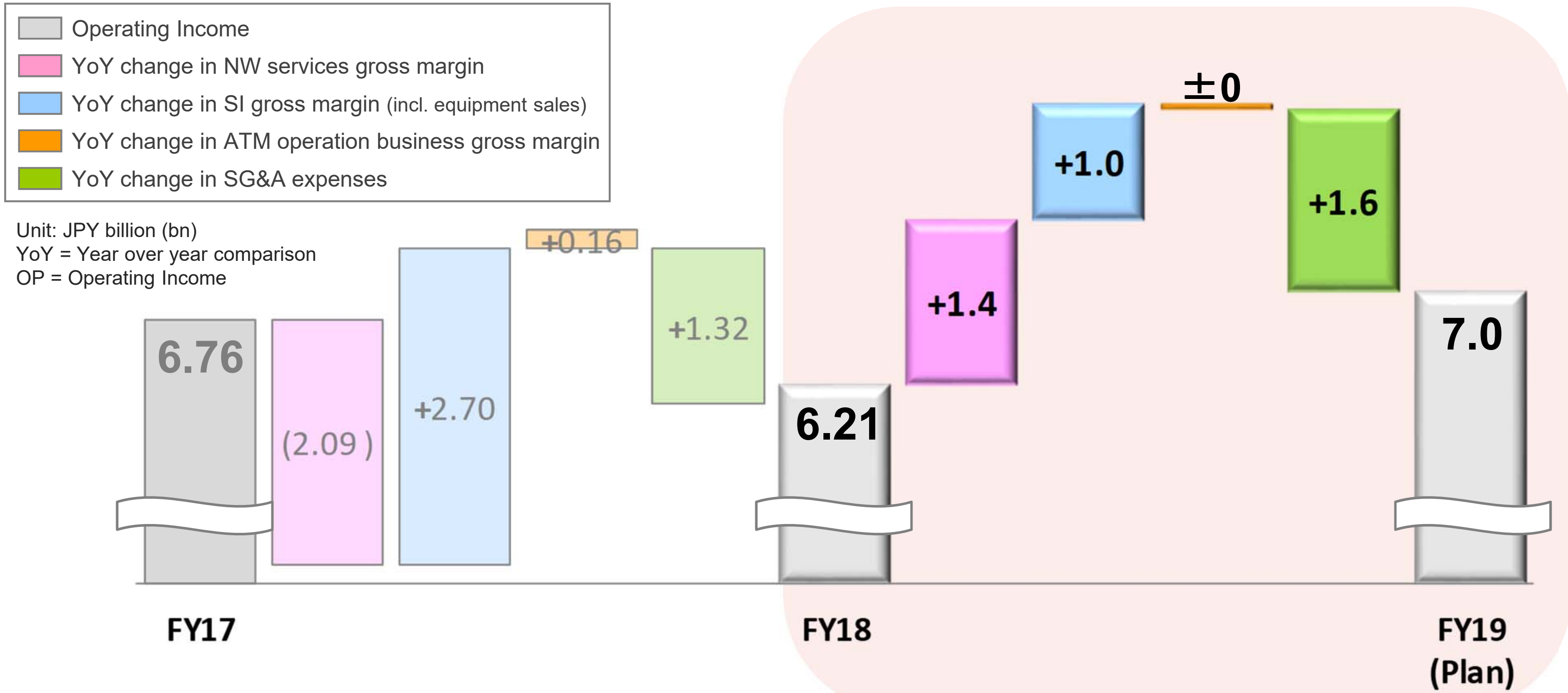
### Equity Method

- ◆ **DeCurret equity loss JPY0.7 bn**
- ◆ **Others: same as FY18**

- ➢ Adopt IFRS from the filing of FY18 annual report "Yuka-Shoken-Houkokusho"
- ➢ No significant difference between US GAAP and IFRS on revenue and operating income
  - ・ Under IFRS, gains/losses on marketable equity securities will be recognized as fluctuation of AOCI on B/S; no impact on P/L
  - ・ Under IFRS, equity in net income (loss) of equity method investees are presented between operating income and income before income tax expense

(※) Adjusted incomes exclude effect of the revision of U.S GAAP related to gains/losses on equity securities & funds

# Ⅴ - 2. Factors Contributing to FY19 Operating Income Target Outlook




| | FY17 → FY18 YoY Results | FY18 → FY19 YoY Outlook |
|---|---|---|
| NW | ◆ Mobile gross margin decreased. We had JPY2.05 bn of negative gap due to smaller than expected mobile unit charge decrease and JPY1.3 bn of fixed cost increase along with the launch of full-MVNO<br>◆ Gross margin of non-mobile NW services increased | ◆ Mobile gross margin to improve by approx. JPY0.5 bn as full-MVNO revenue growth to absorb fixed cost<br>◆ IIJ estimate certain mobile unit charge decrease based on Mar. 2019 revised results and Docomo's temporary payment arrangement for FY19<br>◆ Revenue & gross margin of non-mobile NW services to continue growing |
| SI | ◆ SI & equipment sales gross margin largely increased due to the revenue growth and gross margin ratio improvement<br>◆ Cloud net increase of profit was almost flat due to western Japan service facility was added | ◆ SI gross margin to continue growing with revenue growth and gross margin ratio improvement<br>◆ Gross margin to improve with Cloud revenue accumulation |
| SG &A | ◆ Usual operational expenses such as personnel and sales commission increased along with business expansion | ◆ YoY increase amount to be larger than that of FY2018 as personnel expenses to increase |

# Ⅵ - 1. Mobile Unit Charge (cost)

## Calculation Method of Mobile Unit Charge

$$\text{Mobile Unit Charge}_{\text{(Mbps)}} = \frac{\text{Data Communication Cost + Profit}}{\text{Demand for Mobile Traffic}^{*1}}$$

◆ Mobile unit charge is a unit charge used when Mobile Virtual Network Operators (MVNOs) such as IIJ purchase mobile infrastructure from Mobile Network Operators (MNOs) such as NTT Docomo. The charge is calculated and revised every year by MNOs accordingly with the rules*2 of the Ministry of Internal Affairs and Communications.

## Timing of Revision and Application of Docomo's Mobile Unit Charge

| Docomo | FY ended Mar. 18 | FY ended Mar. 19 | FY ended Mar. 20 | FY ended Mar. 21 |
|---|---|---|---|---|

Large decrease: Docomo changed depreciation method from declining-balance to straight-line

**Calculated based on FY17/3 actual cost (last time)**
**18.2% decrease**

**Calculated based on FY18/3 actual cost (this time)**
**5.0% decrease**

**"Future cost method" adoption has been discussed**

| IIJ | FY ended Mar. 18 | FY ended Mar. 19 | FY ended Mar. 20 | FY ended Mar. 21 |
|---|---|---|---|---|

## Past Results of Docomo's Mobile Unit Charge

| | FY ended Mar. 15 | FY ended Mar. 16 | FY ended Mar. 17 | FY ended Mar. 18 | FY ended Mar. 18 (this time) |
|---|---|---|---|---|---|
| Unit Charge per Mbps (JPY) | 94,505 | 78,488 | 67,481 | 55,207 | 52,449 |
| YoY reduction | 23.5% | 16.9% | 14.1% | 18.2% | 5.0% |

*1 Total data communication prepared by MNO *2 "Telecommunications Business Law" and the "Interconnection Charge Rules for Category Ⅲ Designated Telecommunications Facilities

# Ⅵ - 2. Gains/Losses on Marketable Equity Securities

## U.S. GAAP ~ FY2018

**4Q17-end B/S**

Marketable equity securities*1 at market value: JPY9.2 billion

**Unrealized gains JPY7.5 billion**

AOCI*2: JPY5.1 billion*3

Fluctuation of unrealized gains/losses was never recognized on P/L; they were recorded as fluctuations in "other comprehensive income" on B/S

**New Accounting Rule Applied**

**1Q18-beginning B/S**

Marketable equity securities*1 at market value: JPY9.2 billion

**Unrealized gains JPY7.5 billion**

Retained Earnings: JPY13.5 billion*4

4Q17-end **unrealized gains, which were never recognized in P/L**, were reclassified to "retained earnings" on B/S from AOCI on B/S

**(JPY1.5 billion)***

**4Q18-end B/S**

Marketable equity securities at market value: JPY7.6 billion

**Unrealized gains JPY6.0 billion**

Retained Earnings: JPY16.0 billion*5

Fluctuation of fair value of marketable equity securities is recognized as "realized and unrealized gains/losses on other investments,*6 net" in **"other income (expenses)" in P/L**

*** Major breakdown of gains/losses on marketable equity securities**

| Stock | IIJ holdings (shares) | Stock Price 4Q17-end | Gains/losses (P/L) for 1Q18 (JPY0.86 bn) | Gains/losses (P/L) for 2Q18 +JPY1.0 bn | Gains/losses (P/L) for 3Q18 (JPY3.1 bn) | Stock Price 4Q18-end | Gains/losses for 4Q18 P/L (JPY1.4 bn) | Gains/Losses for FY18 P/L (JPY1.5 bn) |
|---|---|---|---|---|---|---|---|---|
| **SIGMAXYZ Inc.** | 1.98 million | JPY2,137 | (JPY1.6 bn) | (JPY0.1 bn) | (JPY1.1 bn) | JPY1,039 | +JPY0.5 bn | **(JPY2.2 bn)** |
| **Recruit HLDG** | 1.5 million | JPY2,645 | +JPY0.6 bn | +JPY1.1 bn | (JPY1.7 bn) | JPY3,161 | +JPY0.7 bn | **+JPY0.8 bn** |
| **PIA Corp.** | 0.15 million | JPY5,450 | +JPY0.1 bn | (JPY0.1 bn) | (JPY0.3 bn) | JPY4,590 | +JPY0.1 bn | **(JPY0.1 bn)** |

## IFRS FY2019~

*Will adopt IFRS from the filing of FY2018 Yuka-shoken-houkokusho

- Gains/losses on marketable equity securities will be recognized as fluctuation of AOCI in B/S
- From FY2019, P/L will not be impacted by gains/loses on marketable equity securities

*1 Acquisition cost: JPY1.7 billion, *2 Accumulated Other Comprehensive Income, *3 Net of tax amount of unrealized gains: JPY5.1 billion, *4 Including the net of tax amount of unrealized gains of JPY5.1 billion, *5 Compared to 1Q18-beginning BS, decreased by JPY1.1 billion (net of tax amount) due to decrease in stock price, and increased by JPY3.6 billion due to real income from operation, etc. *6 4Q18 realized and unrealized gain/loss on other investments, net": JPY1.53 billion of gain (of which gains of JPY1.41 billion on marketable equity securities, others gains of JPY0.12 billion)

Internet Initiative Japan

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 alway starts with the future.