

# Corporate Overview of Internet Initiative Japan (IIJ)

## Internet Initiative Japan Inc. (IIJ)

The Prime Market of the Tokyo Stock Exchange (Ticker symbol: 3774)

October 2024

### Disclaimer

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

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- FY24 (FY2024) stands for a fiscal year ended March 31, 2025. Others alike
- 1Q24 stands for the first three months results for the fiscal year ending March 31, 2025
- Abbreviation: NW stands for network, SI stands for systems integration, DC stands for data center, ¥ (JPY) bn stands for JPY billion

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

# Executive Summary

## ◆ Key updates

1

### Expanding Business Areas with Japanese Enterprises' Network Progress

- Finally, legacy Japanese enterprises' closed internal network move to combined NW & system incorporating Internet technology
- Seeing strong NW re-construction demands which occur along with life-cycle of each network (every 4-5 years)
- Our business areas expand into internal NW construction and maintenance from external gateway

2

### Capturing Large Scale Network Constructions by Service Integration Function

- Recent strong track record of large-scale NW constructions
- Replacing transactions from legacy carriers and systems integrators
- Combine NW construction in front and our monthly recurring NW Services offering thereafter

3

### Expect Large Business Expansion during the New Mid-Term Plan and Thereafter

- Continue to pursue and enhance current business strategy
- The New Mid-Term plan started from 1Q24 with high revenues CAGR
- The New Mid-Term FY26 target ¥380bn of revenues : 1.4 times from FY23 · 12% CAGR approx., ¥46bn of OP : 1.6times from FY23
- SI to become strong revenues driver, NW services to contribute as profit driver

4

### To Become Network & System Operation Full Outsourcer with Sticky and Large Clients Bases

- To cover IT demands expansion, population decline in Japan, cyber attacks preventions etc.
- Ability of stable/reliable NW and systems operations to become critical differentiation
- Required continuous human resources enhancement

\* Service Integration: Provide in-house developed NW services with SI

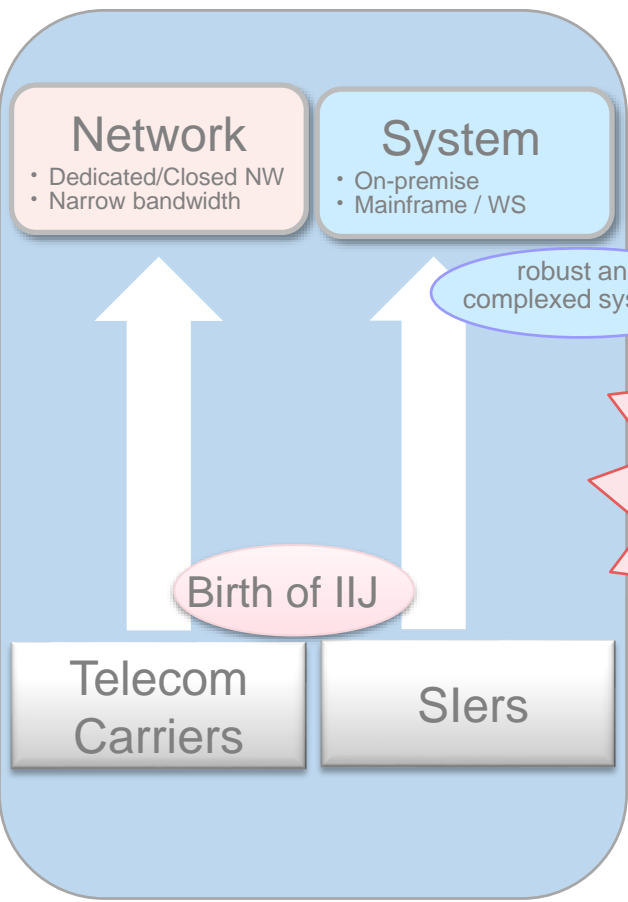
# 1 Enterprise internal NW & systems in Japan becoming to change

30 years ago

IJ covered external NW with Internet Carriers & Slers covered internal NW & systems  
Stick to legacy NW systems

Nowadays

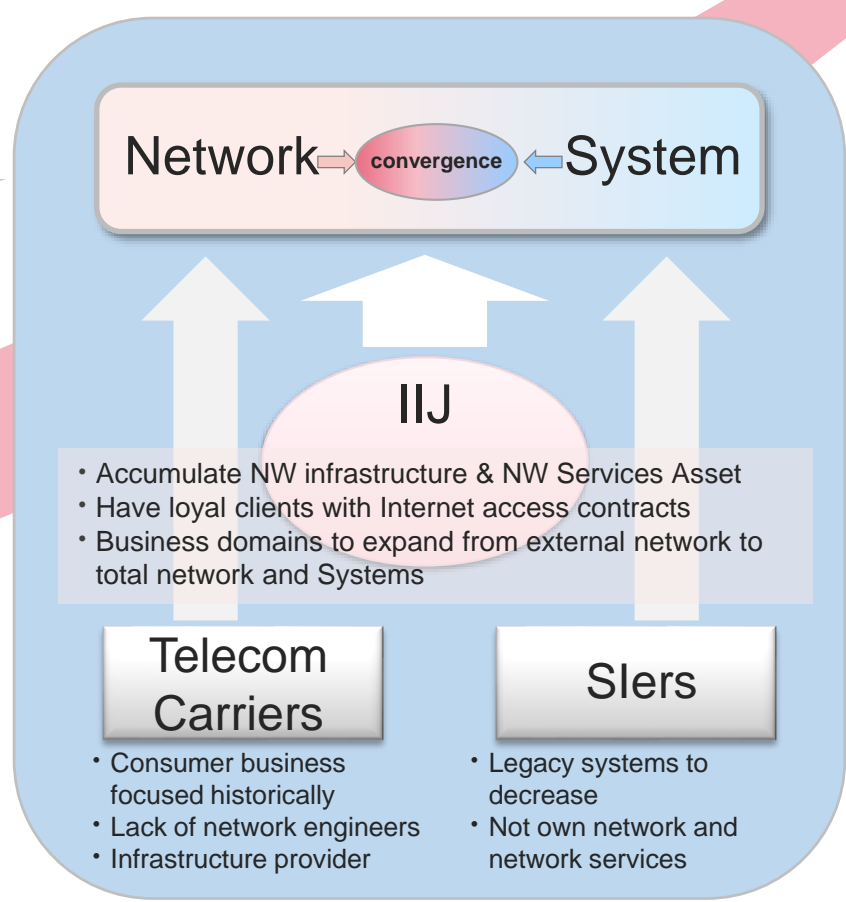
IJ's opportunities rise to cover entire NW & system utilizing various NW functions  
Finally systems & NW began to change in Japan after the COVID-19



**Emergence of Internet**

Struggling switch to open systems

- High Speed/Capacity Network
- CPU/Storage Performance Improve
- Internet Usages Progressed
- Security for various incidents
- Gradual Cloud Shift
- Data Analysis and AI
- Preliminary IoT usages
- IT adoption at last forced by Pandemic



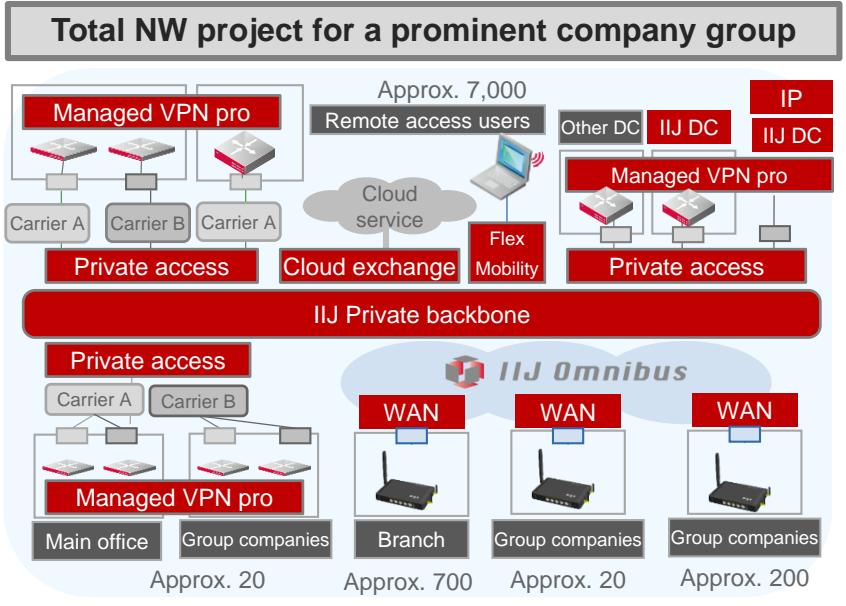
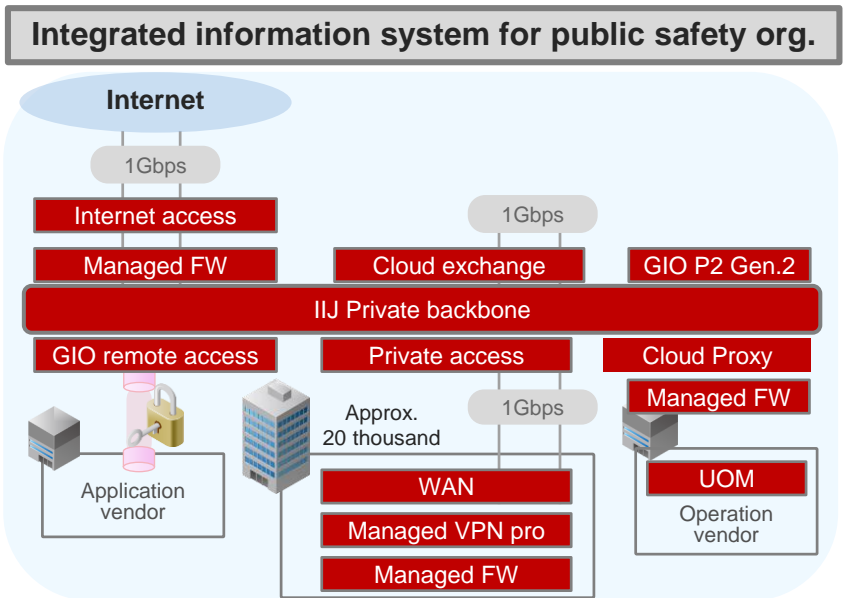
- Labor shortage requires more IT
- Every CEO says DX (Digital Transformation)
- Legacy NW and Systems to be reformed
- Internet traffic continues to increase
- Cyber security demands
- Cloud systems penetration
- 5G SA adoption and advanced IoT projects
- Importance of stable operation of large-scale NW remains unchanged

# 2 Recent track record of large-scale Service Integration projects

## ◆ Winning internal NW renewal projects from current vendors such as legacy Slers and Carriers

Project overview	Project size (approx.)
Foreign exchange trading platform for a prominent financial group (SI O/M)	¥3.0 bn, 5 years
Core information NW infrastructure for a broadcaster (NW, SI construction, SI O/M)	¥6.0 bn, from FY24
Overseas DC project (SI construction)	¥2.8 bn in 3Q23
Subsequent projects of the overseas DC project (SI construction)	¥1.2 bn in FY24 ¥2.0 bn in or after FY25
Next generation NW renewal for a major system integrator (NW)	¥1.0 bn, 5 years
Enhancement of security for a prominent carrier (SI construction, SI O/M)	¥1.5 bn, 5 years
Integrated operation system for a public sector organization (NW, SI construction, SI O/M)	¥3.0 bn, 5 years
Next generation research platform for a private university (SI construction, SI O/M)	¥1.0 bn, 5 years
Educational information network for Chiba City (NW, SI construction, SI O/M)	¥12.3 bn, 5 years (¥5.0 bn in SI construction, ¥2.0 bn in SI O/M, the rest in NW Services)
Construction & operation for service infrastructure for an enterprise (NW, SI construction, SI O/M)	¥4.0 bn, 5 years
Large-scale server construction for AI infrastructure (SI construction, SI O/M)	¥3.0 bn, 3 years
Large-scale NW renewal for a prominent financial institution (NW, SI construction, SI O/M)	¥4.0 bn, 8 years
Large-scale NW renewal for a prominent manufacturer (SI construction, recorded in multiple installments)	¥3.0 bn, 5 years
Large-scale IT infrastructure installment project (SI construction)	¥1.0 bn
Information infrastructure system for a public sector organization (NW, SI construction, SI O/M)	¥3.0 bn, 4 years
Office IT Installation for a public sector organization (NW)	¥1.0 bn, 3 years
Research platform renewal for a private educational institution (NW, SI construction, SI O/M)	¥2.0 bn, 4 years

- As of Aug. 7, 2024, project size and timing of revenue recognition are subject to change due to progress of projects and other factors.
- NW = NW service, SI O/M = systems operation and maintenance

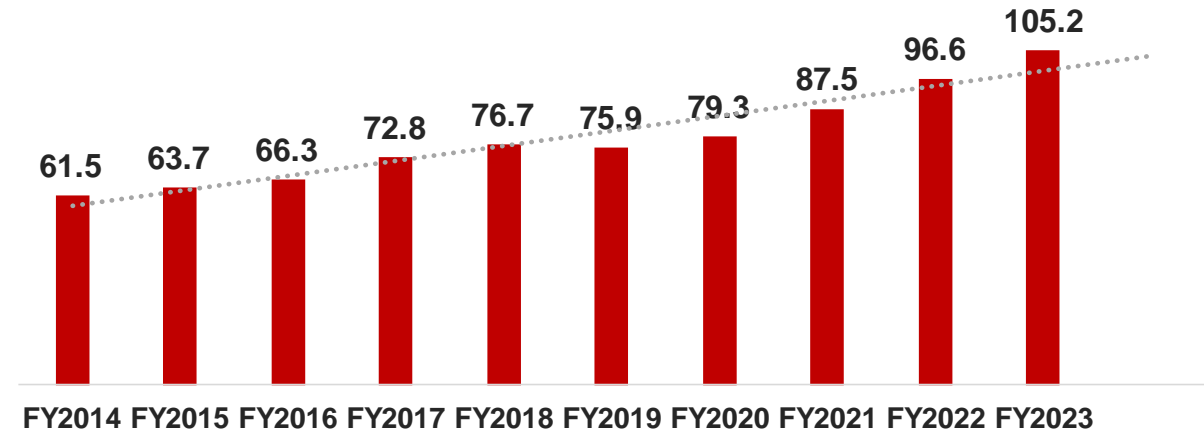
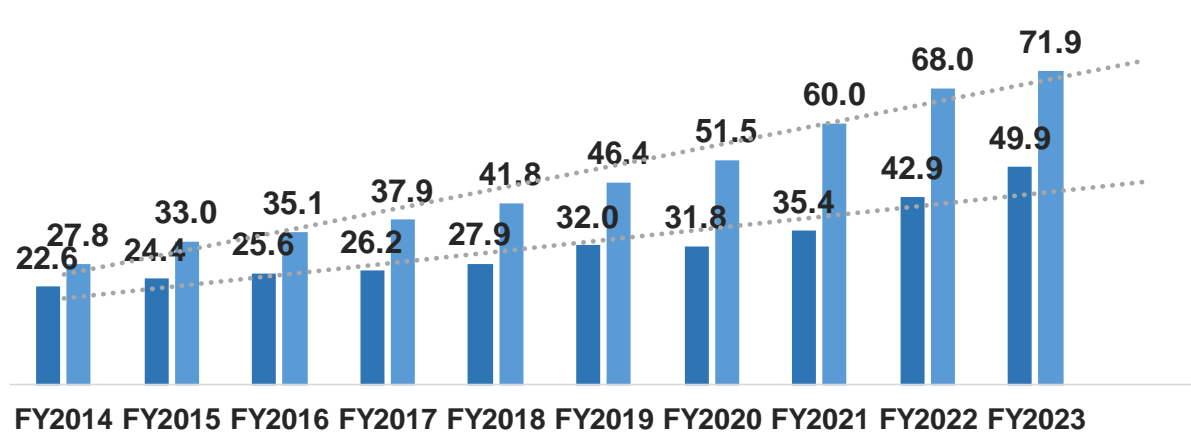


# 2 Expanding economies of scale by Service Integration

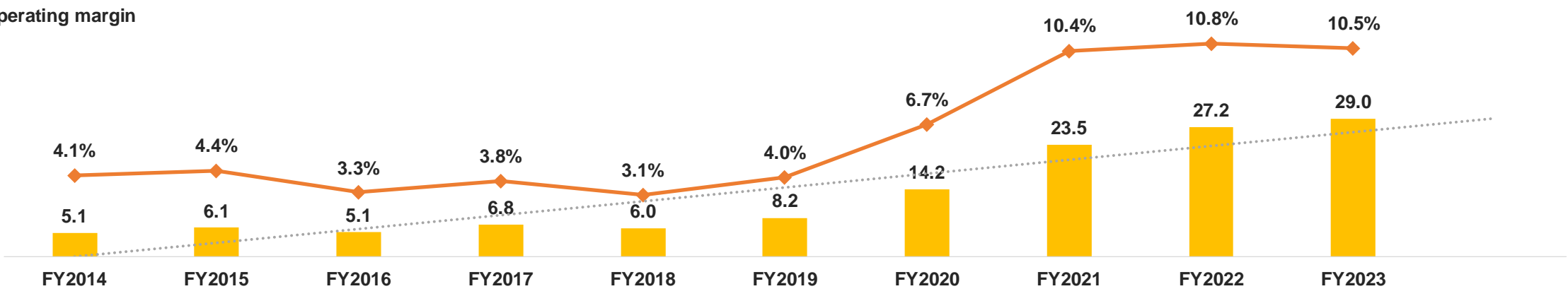
Unit: ¥ (JPY) billion  
 ..... approximate curve

■ Systems construction revenues (including equipment sales)  
 ■ Systems operation & maintenance revenues

■ NW service (excluding mobile) revenues



■ Operating profit  
 — Operating margin



Consistent investment & service development

The acceleration of Japanese enterprise DX triggered by the COVID-19

Expanding economies of scale by leveraging current business assets

## Started 1Q with strong revenue growth of both NW Services & SI

Business & market situation structurally changing. Continued to acquire large-scale projects

Strong demand for enterprises' NW renewal & Service Integration. Favorable mid-to-long term business trend

Updated FY24 targets from range - VMware related price pass-through & revisions progress without noticeable delays

**1Q24 Total Revenue: ¥72.02 bn, +17.3% YoY    Operating Profit: ¥4.48 bn, -10.4% YoY**

FY24 New Targets	1H24 Apr. 2024 - Sep. 2024		FY24 Apr. 2024 - Mar. 2025		Dividend per Share (¥)		
	Total Revenue	Operating Profit	Total Revenue	Operating Profit	FY22	FY23	FY24 (Forecast)
	¥147.0 bn	¥11.6 bn	¥312.0 bn	¥32.0 bn	29.255	34.36	35.00
	+14.7% YoY	-4.0% YoY	+13.0% YoY	+10.2% YoY	14.63	17.18	17.50
	¥7.3 bn	¥20.6 bn	¥20.6 bn	¥20.6 bn	14.625	17.18	17.50
	-12.9% YoY	+3.9% YoY	+3.9% YoY				

**NW Service (excl. Mobile)**

- ◆ 1Q24 total revenue: ¥27.05 bn, +6.4% YoY
  - Each service revenue continued to grow. IP: +6.7% YoY, Outsourcing: +11.5% YoY (of which, security: +19.4% YoY)

**Mobile IoT**

- ◆ 1Q24 total revenue: ¥12.01 bn, +9.7%, 1Q24-end total subscription: 5,025 thousand, +755 thousand YoY
  - Business growth led by enterprise IoT with large increases in revenue and subscription by +12.3% and 602 thousand YoY respectively
  - MVNE & consumers: Both revenues and subscriptions steadily grew

**SI**

- ◆ 1Q24 total revenue: Construction ¥12.61 bn, +74.1% YoY, Operation & maintenance ¥19.64 bn, +14.8% YoY, Strong increase in SI construction revenue from the beginning of 1Q24 due to 4Q23-end high order backlog
- ◆ 1Q24 order-received: Construction ¥15.14 bn, +7.4% YoY, Operation & maintenance ¥25.02 bn, +26.7% YoY
- ◆ 1Q24-end order backlog: Construction ¥26.29 bn, +27.3% YoY, Operation & maintenance ¥90.51 bn, +26.4% YoY

**Business Topics**

- ◆ Continued to acquire large-scale Service Integration projects such as an information infrastructure system project for a public sector organization (¥3.0 bn, 4 years) and a research platform renewal for a private educational institution (¥2.0 bn, 4 years), etc.
- ◆ Expansion of human resources to further enhance business growth, Number of new graduates: 307 personnel in April 2024 (246 personnel in April 2023), FY24 outlook: Number of employees to increase by over 400 personnel
- ◆ DeCurret DCP Inc. (affiliated company): Launched Japan's first digital currency platform service "DCJPY Network" in July 2024

(\*1) Service Integration: Provide in-house developed NW services with SI, Greater opportunities and proposal areas along with internal large-scale NW renewals, etc.

(\*2) As for the background of the VMware-related impact, please refer to P.26 of "Presentation Material for Consolidated Financial Results for FY23 and New Mid-term Plan (FY24~FY26)" ([https://www.ij.ad.jp/en/ir/library/financial/pdf/1I1J4Q23E\\_presentation.pdf](https://www.ij.ad.jp/en/ir/library/financial/pdf/1I1J4Q23E_presentation.pdf))

# 3 FY24 Financial Targets (Updated in Aug. 2024)

Unit (excluding dividend per share): ¥ (JPY) billion (bn)  
YoY = Year over year comparison

	FY24 New targets Revised in August, 2024				FY24 Previous targets Announced in May, 2024			
	% of total revenue 1H24 Targets	YoY	% of total revenue FY24 Targets	YoY	% of total revenue 1H24 Targets		% of total revenue FY24 Targets	
Total Revenue	147.0	+14.7%	312.0	+13.0%	142.0 ~ 143.0		312.0 ~ 315.0	
Gross Profit	21.0% 30.8	+5.5%	22.6% 70.5	+10.4%	20.6% 29.2 ~ 30.2	21.1% 30.2	22.0% 68.5 ~ 71.5	22.7% 71.5
SG&A etc.	13.1% 19.2	+12.2%	12.3% 38.5	+10.5%	13.5% 19.2	13.4% 19.2	12.3% 38.5	12.2% 38.5
Operating Profit	7.9% 11.6	(4.0%)	10.3% 32.0	+10.2%	7.0% 10.0 ~ 11.0	7.7% 11.0	9.6% 30.0 ~ 33.0	10.5% 33.0
Shares of profit(loss) of investments accounted for using equity method investee	(0.4)	-	(0.7)	-	(0.3)	(0.3)	(0.7)	(0.7)
Profit before tax	7.5% 11.0	(12.4%)	9.8% 30.6	+5.8%	6.7% 9.5 ~ 10.5	7.4% 10.5	9.3% 29.0 ~ 32.0	10.2% 32.0
Net Profit (Profit for the period attributable to owners of the parent)	4.9% 7.3	(12.9%)	6.6% 20.6	+3.9%	4.4% 6.3 ~ 7.0	4.9% 7.0	6.4% 19.9 ~ 21.9	7.0% 21.9
Dividend per share	¥17.50	+¥0.32	Payout ratio 30.1% ¥35.00	+¥0.64	¥17.18 ~ ¥18.58		¥34.36 ~ ¥37.16	

Background of FY24 Financial Targets revision	
Previously (Announced in May 2024)	New (Revised in August 2024)
<ul style="list-style-type: none"> <li>Effective from Apr. 2024, a significant increase in license costs due to price structure changes in VMware licenses</li> <li>IJ has been taking actions including the revision of our service price; however, because the pricing and applicable conditions were shared in such a last minute, FY24 financial targets were disclosed as ranges of ¥3.0 bn</li> </ul>	<ul style="list-style-type: none"> <li>Price pass-through of Cloud (SI) from 1Q24 and price revision of certain NW services from the beginning of 3Q24, are making progress without noticeable delays</li> <li>Included a decrease in multi-cloud revenue due to the termination of transaction with a certain large gaming client at the end of 1Q24 (annual revenue impact: approx. -¥2.0 bn, profit impact: quite small)</li> </ul>

**Premise and assumption of FY24 Target**

Revenue: 1H24 (SI: approx. 66.0, NW service: approx. 79.5) vs FY24 (SI: approx. 142.0, NW service: approx. 167.0)

Gross Profit: 1H24 (SI: approx. 8.0, NW service: approx. 22.0) vs FY24 (SI: approx. 22.0, NW service: approx. 47.0)

Projected Gross Margin: around 15.5%

- NW Service:**
  - Revenue to grow by recurring revenue accumulation & Service Integration particularly in 2H24
  - Expect mobile services to achieve revenue & profit growth without the onetime cost reduction of data connectivity (FY23: approx. +¥0.1 bn)
  - VMware-related price revision to be added sequentially from the beginning of 3Q24
- SI:**
  - SI construction revenue to largely increase by realizing FY23-end order backlog (approx. +¥10.0 bn YoY), and growing demand. An increase in percentage-of-completion revenues in 1Q24
  - VMware-related price pass-through to be added sequentially from 1-2Q24
- VMware license related impact for profit: approx. -¥1.1 bn in FY24
- SG&A, etc.: Increase along with business expansion and an increase in number of employees
- Shares of profit (loss) of investments accounted for using equity method investees: Expect DeCurret's related loss to be around ¥0.8 bn
- No consideration on valuation gain (loss) on funds & foreign exchange gain (loss)
- Others: Number of employees to increase slightly over 400 personnel (of which, 307 are new graduates), CAPEX: ¥23.0 bn (of which, approx. ¥5.7 bn is for own DCs expansion)

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



# 3 IIJ Group Mid-term Plan (FY2024-FY2026)

Consolidated base  
 Net Profit is "Profit for the period attributable to owners of the parent"  
 "times" are calculated by comparing FY26/FY26-end to FY23/FY23-end  
 The figures below are all assumed targets

About IIJ	Business Model
Strength	Growth Strategy

## Accelerate business scale expansion toward the Mid-to-long Term Vision by advancing the business structure transformation in FY23 Revenue growth led by integration and profit growth through economies of scale as a NW service operator

Total Revenue	Operating Profit	Net Profit	ROE	Human Capital
FY23 ¥276.1 bn → <b>1.4 times</b> FY26 ¥380.0 bn	FY23 ¥29.0 bn → <b>1.6 times</b> FY26 ¥46.0 bn	FY23 ¥19.8 bn → <b>1.5 times</b> over FY26 ¥30.0 bn	FY23 16.3% → <b>+2.7 pt.</b> FY26 19%	FY23-end 4,803 → <b>1.3 times</b> FY26-end around 6,100

### Further enhancement of the existing core business area

<b>SI as Revenue driver</b> <ul style="list-style-type: none"> <li>Accelerate revenue growth by rolling out NW construction/renewal projects to various industry, enhancing account sales &amp; PM, expanding human resource</li> <li>Enhance SI project management</li> </ul>	<b>NW service as Profit driver</b> <ul style="list-style-type: none"> <li>Accelerate NW service accumulation through Service Integration</li> <li>Demonstrate the strength of stable NW operation in the DX era</li> </ul>
<b>Promotion of large transactions &amp; clients</b> <ul style="list-style-type: none"> <li>Comprehensive outsourcing of client's NW and open systems</li> <li>Add large volume revenue to the multi-industry recurring revenue base</li> <li>Stable additional profit source for the future</li> </ul>	<b>Further enhancement of service development &amp; operation</b> <ul style="list-style-type: none"> <li>Focus on strengthening cyber-security service development</li> <li>Respond to DX progress with DWP lineup</li> <li>Develop services that would be PF for AI, data lake, etc.</li> </ul>
<b>Enhancement of Service Control</b> <ul style="list-style-type: none"> <li>Higher efficiency for service development &amp; operation by new technology such as AI</li> <li>Implement appropriate pricing in response to inflation &amp; cost increase</li> </ul>	<b>Continuous expansion of NW infrastructure Pursuit of differentiation</b> <ul style="list-style-type: none"> <li>Construct the third site of Shiroi DC for long-term growth</li> <li>Deploy full-MVNO 5G SA</li> </ul>

### Creation of new growth area

**Initiatives for Data-driven society**

- Operate data utilization business, generate meaningful data, data distribution mechanisms & operations, etc.
  - Study & create business models in conjunction with the existing infrastructure & services

**Achieve the spread of Digital Currency in Japan**  
 (Equity method investee: DeCurret)

- First in Japan to issue commercial digital currency as a practical case (scheduled in Jul. 2024)
  - ✓ Digitalized token of environmental value transaction
- Within FY26, anticipate loss to shrink & become profitable on a monthly basis
- Executing STO(\*) of digital currency, invoice chain(\*), web3/NFT(\*) & other practical projects

(\*) STO (Security Token Offering): securities issued using electronic means such as blockchain, replacing traditional mechanism of stocks and bonds  
 (\*) Invoice chain: concept of industry standard systems for corporate intercompany reimbursement  
 (\*) NFT(Non-Fungible Token): Token issued on the blockchain that can prove uniqueness and cannot be replaced

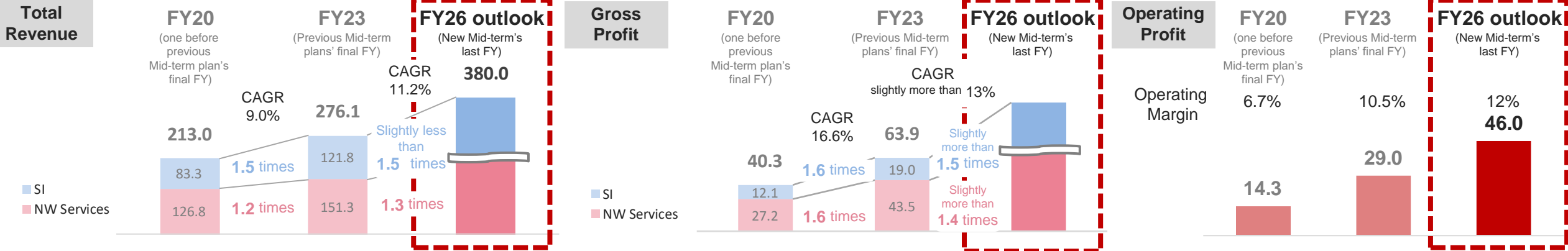
### Enhancement of business foundation

<b>Thorough expansion of Human Capital</b> <ul style="list-style-type: none"> <li>Continuous expansion of human resources</li> <li>Develop next-generation human resources for long term growth</li> <li>Maintain &amp; enhance top-tier engineering capabilities &amp; expand that to multiple layer</li> </ul>	<b>Enhancement of cash control</b> <ul style="list-style-type: none"> <li>Appropriate management of increasing SI-related working capital</li> <li>Investment allocation Shiroi DC &amp; growth areas</li> <li>Increase payout ratio when the Mid-to-long Term Vision is realized</li> </ul>
<b>Maintain &amp; improve Sustainability /Governance</b> <ul style="list-style-type: none"> <li>Strengthen governance in line with growth</li> <li>Contribute to the productivity of future society through continuous stable NW operation</li> <li>Introduce a new executive compensation scheme linked to the new Mid-term Plan</li> </ul>	<b>Complement growth through M&amp;As</b> <ul style="list-style-type: none"> <li>Pursuit M&amp;A opportunities as a supplemental means of expanding domestic resources &amp; technology</li> <li>Leverage residual borrowing capability (up to ¥70.0 bn is envisioned image)</li> </ul>

# 3 New Mid-term Plan's Financial Outlook

Unit: ¥ (JPY) billion

## Breakdown image of financial outlook



## Capital allocation (FY24-FY26, 3 years in total)

Cash in	Cash out	Overview
Cash generated from business approx. ¥134.0 bn(*)	<b>Investment: approx. ¥90.0 bn</b>	
	<b>Ordinal NW infrastructure, etc. approx. ¥51.0 bn</b> Stable with economies of scale	<b>Shiroy DC 3<sup>rd</sup> Site construction approx. ¥30.0 bn</b> Mainly for own services
	Strategic investment for new growth areas	
	<b>Shiroy DC 3<sup>rd</sup> site construction</b>	
	<ul style="list-style-type: none"> <li>Start the construction within the new Mid-term plan period, but the schedule is undetermined</li> <li>First site: CAPEX approx. ¥8.3 bn, No. of racks: approx. 700, started operating from May 2019</li> <li>Second site: CAPEX approx. ¥12.8 bn (plan), No. of racks: approx. 1,100, started operating from Jul. 2023</li> </ul>	
Debt Up to approx. ¥65.0 bn	<b>Along with an increase in large complex project Increase in working capital and lease obligation</b>	<b>Strategic Investment</b>
	<b>Dividend</b>	<b>Increase in working capital &amp; lease obligations</b>
	<b>Scheduled repayment of long term borrowing</b>	<b>M&amp;As</b>
	<b>M&amp;As</b>	

**Cash in:** Cash generated from business approx. ¥134.0 bn (\*). Debt Up to approx. ¥65.0 bn.

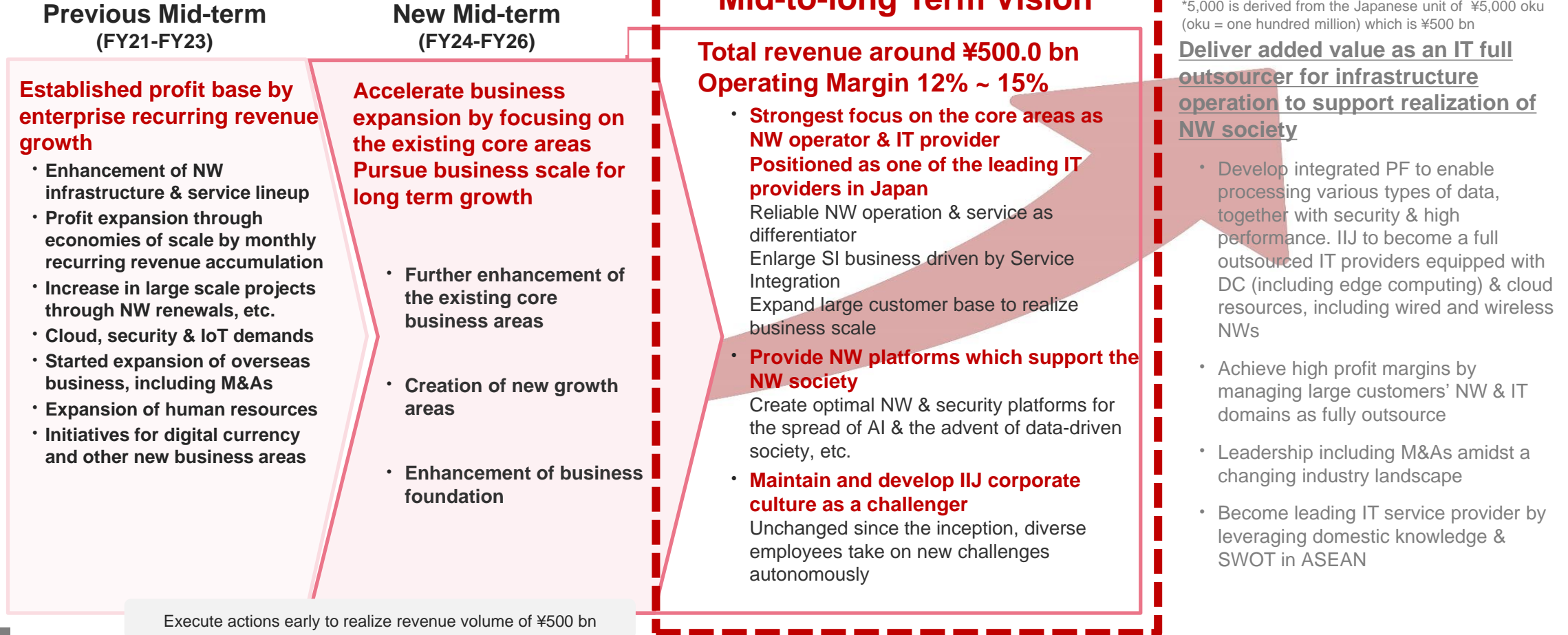
**Cash out:** Investment: approx. ¥90.0 bn. Strategic investment for new growth areas.

**Overview:**

- Start the construction within the new Mid-term plan period, but the schedule is undetermined
- First site: CAPEX approx. ¥8.3 bn, No. of racks: approx. 700, started operating from May 2019
- Second site: CAPEX approx. ¥12.8 bn (plan), No. of racks: approx. 1,100, started operating from Jul. 2023
- Specific investment details have not fixed and will be discussed going forward
- Increase in work in process, prepayments, etc. due to an increase in large scale multi-year SI projects
- The impact of increased working capital should gradually be reduced due to the constant revenue recognition of large scale projects
- M&As to be conducted in sequence with borrowing capacity
- Maintain debt/equity ratio & financial discipline, Up to ¥70.0 bn of additional debt could be implemented for M&As

# 4 Mid-to-long Term Vision

The figures mentioned below are all assumed status and image



Targets (consolidated)
Total Revenue
Operating Margin
Payout ratio

	FY23 result	FY26 target	
Total Revenue	¥276.1 bn	¥380.0 bn	¥500.0 bn
Operating Margin	10.5%	12%	12% ~ 15%
Payout ratio		30%	30% ~ 40%

Payout ratio to gradually increase along with an increase in business scale

# Executive Summary

## ◆Recent announcement

1

### **IBM Japan and IIJ Form a Strategic Partnership, Begin Provision of a “Distributed System Joint Platform” for Regional Financial Institutions**

- The "Distributed System Joint Platform" provides services with the flexibility and scalability for adapting to the individual needs of each financial institution, as well as being cost competitive while ensuring quality and mission-criticality required by financial institutions

2

### **Progress of DeCurret’s business**

- DeCurret DCP launched “DCJPY Network” as the first digital currency platform service in Japan (Please refer to P. 68)
- DeCurret Holdings raised capital of approx. JPY6.3 billion through a third-party allotment for further business expansion (Please refer to P. 69)

3

### **Initiatives for Sustainability**

- Introduction of a new performance-linked executive compensation scheme linked to the new mid-term plan, which also tied to sustainability performance (Please refer to P. 16)
- MSCI upgraded IIJ's ESG rating to “AA” from “A” (Please refer to P. 17)

<b>About IIJ</b> (From ISP to Total NW Solution Provider, etc.)	<b>P. 12 – 17</b>
<b>Business Model</b> (Monthly recurring revenue accumulation, etc.)	<b>P. 18 – 22</b>
<b>Strength</b> (Service development capabilities, customer base, etc.)	<b>P. 23 – 25</b>
<b>Growth Strategy</b>	<b>P. 26</b>

# Company Profile

## IIJ has been taking initiatives in Internet Infrastructure field in Japan

<b>Established</b>	December 1992 (The first established full-scale ISP in Japan)
<b>Number of Employees</b>	5,141 (approx. 70% engineers)
<b>Large Shareholders</b>	NTT Group, KDDI, ITOCHU Techno-Solutions (CTC), Koichi Suzuki, Global Alpha Capital Management

\*Foreign ownership is 24.9% as of Mar. 31, 2024

### ◆ The first established full-scale ISP (Internet Service Provider) in Japan

- ✓ Introduce many in-house developed Internet-related network services
- ✓ Highly skilled IP (Internet Protocol) engineers from the inception
- ✓ Operate one of the largest Internet backbone networks in Japan

### ◆ Well recognized “IIJ” brand among Japanese blue-chip companies’ IT division

- ✓ Differentiate by reliability and quality of network and systems operation
- ✓ Long-term (almost 30 years) client relationship since the establishment of IIJ

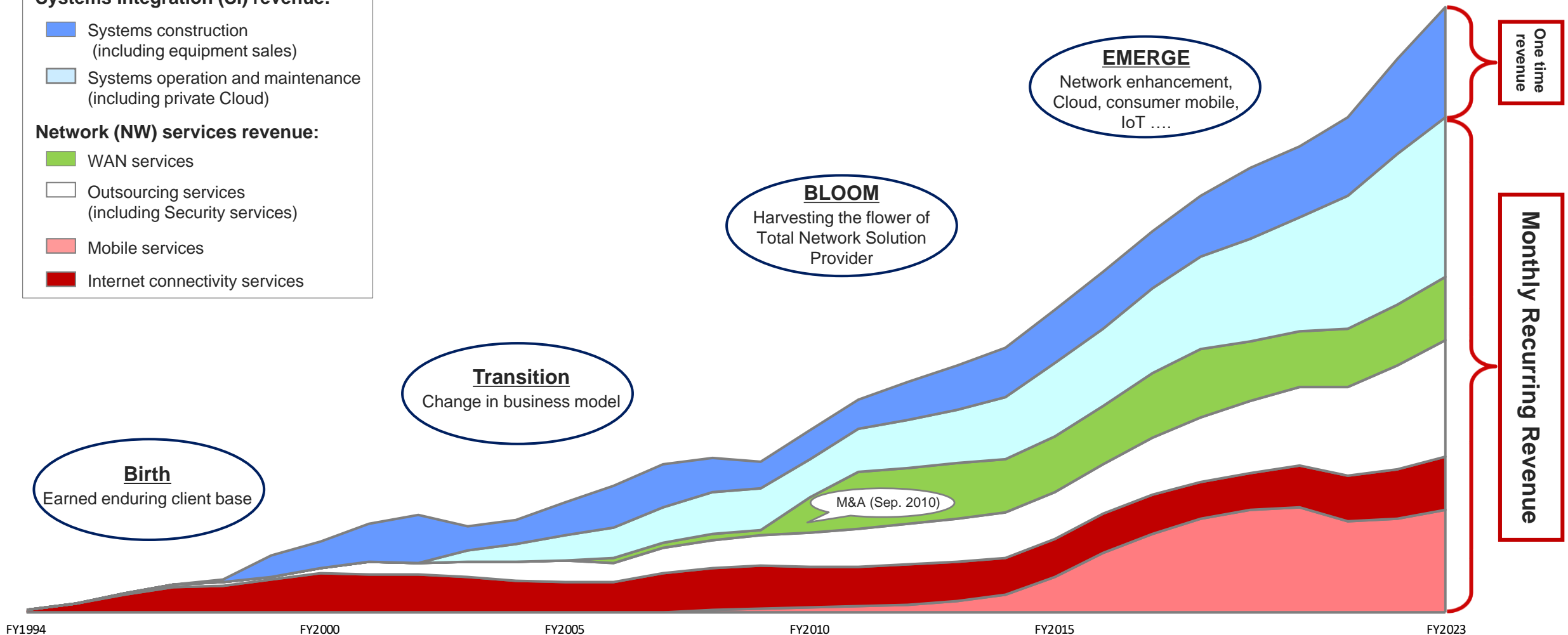
### ◆ Development of innovative Internet-related services

- ✓ Differentiate by continuous network service developments and business investments
- ✓ Focus on Cloud, mobile, security, solutions related to Big Data, IoT and data governance
- ✓ Always ahead of telecom carriers and systems integrators (Slers) with regards to services development and operation

• Number of employees is on the consolidated basis and as of Jun. 31, 2024  
 • Large shareholders are as of Mar. 31, 2024, except for Global Alpha whose holding is based on their Change of Major Shareholding Report filing as of Aug. 2024

# From ISP to Total Network Solution Provider

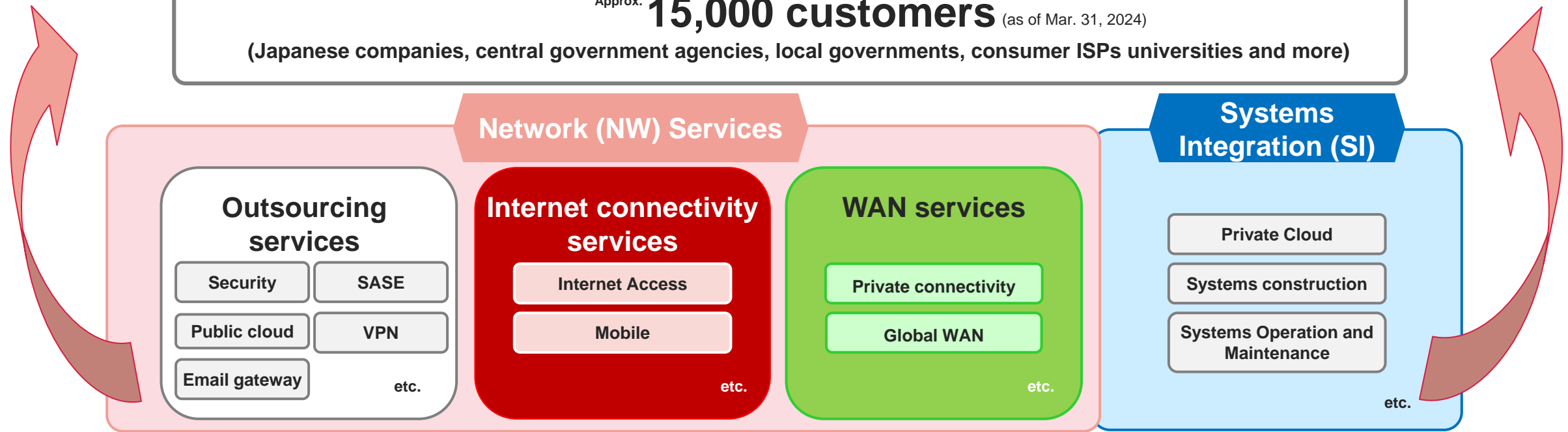
- Systems Integration (SI) revenue:**
- Systems construction (including equipment sales)
  - Systems operation and maintenance (including private Cloud)
- Network (NW) services revenue:**
- WAN services
  - Outsourcing services (including Security services)
  - Mobile services
  - Internet connectivity services



# IIJ as a Total Network Solution Provider

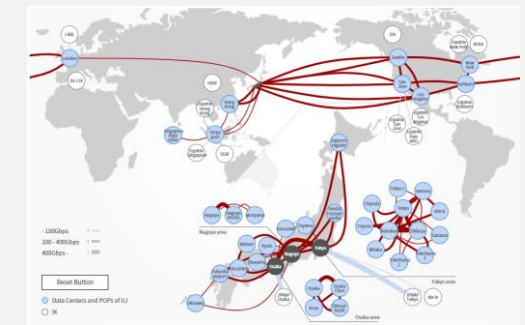
Offers various network services and systems integration together in many projects

Approx. **15,000 customers** (as of Mar. 31, 2024)  
 (Japanese companies, central government agencies, local governments, consumer ISPs universities and more)



## Major cost components of Network services (mostly non-revenue linked cost)

- Fiber leasing cost for Internet backbone and WAN access line
- Depreciation cost and maintenance cost of network equipment
- Personnel cost for network service development and operation and outsourcing cost
- Data center operation cost etc.
- Mobile data interconnectivity and voice service purchasing cost for mobile services



IIJ's Backbone Network



\*Holdings of IIJ shares are as of Mar. 31, 2024

# Management Structure (as of June 2024)

- ◆ **Outside independent directors: 5 directors, 42% of the total directors (12 directors)**
- ◆ **Female officers: 3 officers, 19% of the entire Board (12 directors, 4 Company Auditors)**

## Koichi Suzuki

- Founder of IIJ
- Chairman, Representative Director and co-CEO
- Holdings of IIJ share: 10,643,589 shares (6.0%)\*  
\*Suzuki's share includes his indirectly wholly owned private company portion
- Date of birth: September 1946

## Eijiro Katsu

- President, Representative Director and co-CEO & COO
- Career: Vice Minister of Finance
- Holdings of IIJ shares: 210,795 shares (0.1%)
- Date of birth: June 1950

## Satoshi Murabayashi

- Executive Vice President and Director (since June 2021)
- Career: CIO at MUFG Financial Group, Inc.
- President and Representative Director of DeCurret Holdings, IIJ's equity method investees (current position)
- Holdings of IIJ shares: 5,819 shares (0.0%)
- Date of birth: November 1958

## Yasuhiko Taniwaki

- Executive Vice President and Director (since June 2022)
- Career: Vice-Minister for Policy Coordination of Posts and Telecommunications at the Ministry of Internal Affairs and Communications (MIC)
- Holdings of IIJ shares: 2,617 shares (0.0%)
- Date of birth: September 1960

## Full-time Directors

- Senior Managing Directors
- K. Kitamura
  - A. Watai (CFO)
  - J. Shimagami (CTO)

## Outside Independent Directors

- T. Tsukamoto      Former Chairman of Mizuho Financial Group, Inc.  
Former President and CEO of Mizuho Bank, Ltd.

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- K. Tsukuda        Former Chairman and Representative Director of Mitsubishi Heavy Industries, Ltd.

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- Y. Iwama            Former President and Representative Director of Tokio Marine Asset Management Co., Ltd.  
Former Chairman of Japan Securities Investment Advisers Association  
Outside Director and Chairman of the Board of Nikko Asset Management Co., Ltd. (current position)

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- A. Okamoto        Former President and CEO of Iwanami Shoten, Publishers (one of the best publishing houses in Japan)

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- K. Tonosu (Ms.)    Former Board member of Deloitte Touche Tohmatsu LLC

## Company Auditors


- (of which, 2 outside, 2 female)
- M. Tobita
  - M. Tanaka (Ms.)
  - T. Michishita (Outside, attorney)
  - K. Aso (Ms.) (Outside, CPA)

## ◆ **IIJ's remuneration system for full-time directors**

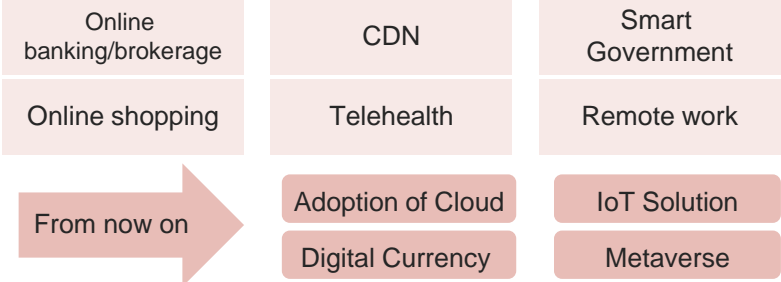
- In June 2024, the previous director remuneration system was renewed to establish a new director remuneration system consisting of the following three restricted stock remunerations
  1. Remuneration that is conditional on tenure is a system: It is not linked to performance and alternative to retirement allowance for directors.
  2. Performance-linked remuneration for a single fiscal year: It is a performance-based restricted stock remuneration system after the end of a certain period of time (in principle, one (1) fiscal year) in accordance with the degree of achievement of performance targets and improvement in performance over such period.
  3. Performance-linked remuneration for the medium- to long-term: It is a performance-based restricted stock remuneration system in accordance with the degree of achievement of performance targets and improvement in performance in each fiscal year during the relevant period, the length of such period being the same as that of the Mid-term Plan. Including acquisition for nil consideration (clawback) and additional grants based on status of achievement of targets.

# Initiatives for Sustainability

## IIJ's Material Issues


 Lead NW infrastructure advancement with technological innovations and contribute to solving various social issues

◆ Bringing innovation with IP

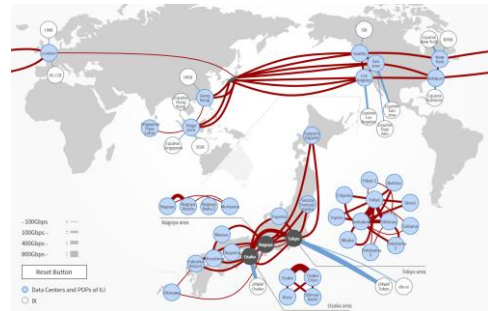


◆ Information disclosures based on the TCFD Recommendations


Measures	Targets	FY23 results
Usage of renewable energy	To increase the renewable energy usage rate of data centers (Scope 1 and 2) to 85% in FY2030	50%
Improvement of energy conservation	To keep the PUE of the data center at or below the industry's highest level (1.4) until FY2030 through continuous technological innovation	Matsue: 1.33 Shiroi: 1.36

 Provide safe and robust Internet services that support social infrastructure

◆ Provide stable and safe Internet connectivity services, construct and operate Internet backbone that cover the world



◆ Support privacy protection regulations. Had acquired EU BCR and APEC CBPR

 Provide an arena for people with diverse talents & values, where they can exercise their skills & actively and boldly take on challenges

◆ Corporate culture of taking initiatives and challenging new things since the inception  
 ◆ Human resources culture of sincerely striving to meet the demands of clients

◆ Lower than the industry average turnover

FY20	FY21	FY22	FY23
3.6%	4.2%	3.8%	4.6%

◆ Target for diversity: the ratio of female managers

Apr. 2023	Apr. 2024	FY24 target	FY26 target
6.3%	7.5%	6% or more	8% or more

(Achieved in Apr. 2023)

## IIJ's ESG rating by MSCI has been updated to "AA" in Sep. 2024

More information on IIJ's corporate governance: <https://www.ijj.ad.jp/en/ir/integrated-report/governance/>

Overview of corporate governance	Operation of the Board of Directors	Design of Remuneration for Directors
Operation of the Nomination and Remuneration Committee	Business Operation	Operation of the Board of Company Auditors
Operation of Internal Audit	Initiatives for Information Security	Related Party Transactions

- PUE(Power Usage Effectiveness) is a metric that shows how efficiently electricity is used at a data center. The closer to 1.0 is considered to be good
- TCFD: Task Force on Climate-related Financial Disclosures
- Scope 1 and 2 (Greenhouse gas emissions by a company): Direct emissions from the use of fuels and industrial processes at the company and indirect emissions from the use of electricity and heat purchased by the company (as defined by the GHG Protocol)
- The turnover rate of IIJ (non-consolidated basis) is calculated by dividing leavers for the fiscal year by the number of full-time employees at the beginning of that fiscal year. The industry average turnover rate of approx. 10% is announced by the Ministry of Health, Labor, and Welfare

# Extensive Service Lineup

About IIJ

Business Model

Strength

Growth Strategy

Unit: ¥ (JPY) billion (bn)

Revenue category		FY23 revenue	YoY growth	Cost Structure	About	Business situation, growth drivers and outlook																
Network services	Internet connectivity services for enterprise	44.73	+11.1%	Mostly shared cost	<table border="1"> <tr> <td>IP (Internet Protocol)</td> <td>16.0</td> <td>+7.8%</td> <td> <ul style="list-style-type: none"> <li>IIJ's core service since the establishment</li> <li>Highly reliable dedicated connectivity services (multi-carrier, redundancy, etc.)</li> <li>Contracts are based on data bandwidth (Revenue to increase as volume per client increases)</li> </ul> </td> </tr> <tr> <td rowspan="2">Mobile</td> <td rowspan="2">24.2</td> <td>Enterprise mobile</td> <td>13.6</td> <td>+21.9%</td> <td>Provide data connectivity for mainly IoT usages</td> </tr> <tr> <td>MVNE</td> <td>10.5</td> <td>+4.7%</td> <td>Provide mobile services for other MVNOs</td> </tr> </table> <p>(Others) Broadband Internet services, etc.</p>	IP (Internet Protocol)	16.0	+7.8%	<ul style="list-style-type: none"> <li>IIJ's core service since the establishment</li> <li>Highly reliable dedicated connectivity services (multi-carrier, redundancy, etc.)</li> <li>Contracts are based on data bandwidth (Revenue to increase as volume per client increases)</li> </ul>	Mobile	24.2	Enterprise mobile	13.6	+21.9%	Provide data connectivity for mainly IoT usages	MVNE	10.5	+4.7%	Provide mobile services for other MVNOs	<table border="1"> <tr> <td>IP</td> <td> <ul style="list-style-type: none"> <li>Matured market (hard to entry)</li> <li>Very low churn rate, loyal clients for 30 years</li> <li>Expect Internet traffic volume to continuously increase along with cloud penetration, SaaS, DX, etc.</li> </ul> </td> </tr> </table>	IP	<ul style="list-style-type: none"> <li>Matured market (hard to entry)</li> <li>Very low churn rate, loyal clients for 30 years</li> <li>Expect Internet traffic volume to continuously increase along with cloud penetration, SaaS, DX, etc.</li> </ul>
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Internet connectivity services for consumers	25.29	+4.3%	<table border="1"> <tr> <td>Mobile</td> <td>22.0</td> <td>+4.5%</td> <td> <ul style="list-style-type: none"> <li>Provide SIM with monthly data limits (voice as option)</li> </ul> </td> </tr> </table> <p>(Others) Broadband Internet services and email services for households, etc.</p>	Mobile	22.0	+4.5%	<ul style="list-style-type: none"> <li>Provide SIM with monthly data limits (voice as option)</li> </ul>	<table border="1"> <tr> <td>Mobile</td> <td> <ul style="list-style-type: none"> <li>Provide enterprise mobile, MVNE and consumer mobile from the same infrastructure. Expect such infrastructure utilization to improve by gathering various traffic such as IoT/enterprise/ consumers</li> <li>Currently procuring mobile infrastructure to meet the peak traffic of consumer whose traffic is concentrated at commuting and lunch time</li> <li>Largest market share in consumer MVNO market</li> <li>Expect advanced IoT usages to emerge</li> </ul> </td> </tr> </table>	Mobile	<ul style="list-style-type: none"> <li>Provide enterprise mobile, MVNE and consumer mobile from the same infrastructure. Expect such infrastructure utilization to improve by gathering various traffic such as IoT/enterprise/ consumers</li> <li>Currently procuring mobile infrastructure to meet the peak traffic of consumer whose traffic is concentrated at commuting and lunch time</li> <li>Largest market share in consumer MVNO market</li> <li>Expect advanced IoT usages to emerge</li> </ul>												
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WAN (Wide Area Network)	28.37	+2.7%	<ul style="list-style-type: none"> <li>Legacy way of connecting multiple sites, intranet, closed NW</li> <li>Directly purchasing WAN line (direct cost)</li> </ul>	<ul style="list-style-type: none"> <li>Stable market</li> <li>Cross-selling element to make up comprehensive lineup</li> </ul>																		
Outsourcing	52.97	+13.2%	<p>Various in-house developed Internet-related service line-ups</p> <table border="1"> <tr> <td>Security</td> <td>30.9</td> <td>+15.7%</td> <td> <ul style="list-style-type: none"> <li>Managed security services, Security Operation Center services and so many more</li> </ul> </td> </tr> </table> <p>(Others) NW monitoring, VPN services, public cloud services, and many more</p>	Security	30.9	+15.7%	<ul style="list-style-type: none"> <li>Managed security services, Security Operation Center services and so many more</li> </ul>	<ul style="list-style-type: none"> <li>Have been developing services based on Zero Trust concept</li> <li>Acquire enterprise demand by cross-selling services</li> <li>Continuous service development is important</li> <li>Expect security demand to be strong continuously</li> </ul>														
Security	30.9	+15.7%	<ul style="list-style-type: none"> <li>Managed security services, Security Operation Center services and so many more</li> </ul>																			
SI	Operation and Maintenance	71.92	+5.8%	Cost plus	<table border="1"> <tr> <td>On-premise Systems</td> <td>41.3</td> <td>+7.6%</td> <td> <ul style="list-style-type: none"> <li>Operation and maintenance of constructed systems</li> </ul> </td> </tr> <tr> <td>Private Cloud, etc.</td> <td>30.6</td> <td>+3.4%</td> <td> <ul style="list-style-type: none"> <li>Promote cloud shift with abundant, highly reliable, value-added functions</li> </ul> </td> </tr> </table>	On-premise Systems	41.3	+7.6%	<ul style="list-style-type: none"> <li>Operation and maintenance of constructed systems</li> </ul>	Private Cloud, etc.	30.6	+3.4%	<ul style="list-style-type: none"> <li>Promote cloud shift with abundant, highly reliable, value-added functions</li> </ul>	<ul style="list-style-type: none"> <li>Expect great business opportunity in the mid-to-long term as internal IT systems migrate to cloud</li> <li>Expect revenue to increase continuously along with accumulation of construction projects</li> </ul>								
	On-premise Systems	41.3	+7.6%		<ul style="list-style-type: none"> <li>Operation and maintenance of constructed systems</li> </ul>																	
Private Cloud, etc.	30.6	+3.4%	<ul style="list-style-type: none"> <li>Promote cloud shift with abundant, highly reliable, value-added functions</li> </ul>																			
Construction (including equipment sales)	49.90	+16.2%	<ul style="list-style-type: none"> <li>Design of an entire NW (location of NW equipment, needed bandwidth, etc.)</li> <li>Mainly NW integration projects such as server construction</li> </ul>	<ul style="list-style-type: none"> <li>Acquiring large-scale projects as Japanese enterprises' private NW/systems are becoming more NW-based and requiring various NW function (service integration model)</li> </ul>																		

Monthly recurring revenue 81%

One time revenue

# Monthly Recurring Revenue Accumulation

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

	FY19	FY20	FY21	FY22	FY23
Monthly Recurring Revenue:	<b>168.4</b> <b>(+5.0%)</b>	<b>178.3</b> <b>(+5.9%)</b>	<b>188.2</b> <b>(+5.5%)</b>	<b>206.9</b> <b>(+10.0%)</b>	<b>223.3</b> <b>(+7.9%)</b>
% to the total revenue:	82.4%	83.7%	83.1%	81.9%	80.9%

## Revenues

- ATM operation business
- Systems construction
- Systems operation and maintenance (excluding cloud)
- Cloud services
- Outsourcing services (excluding security and cloud)
- Security services
- WAN services
- Internet connectivity services for enterprises (excluding mobile)
- Mobile
- Internet connectivity services for consumers (excluding mobile)

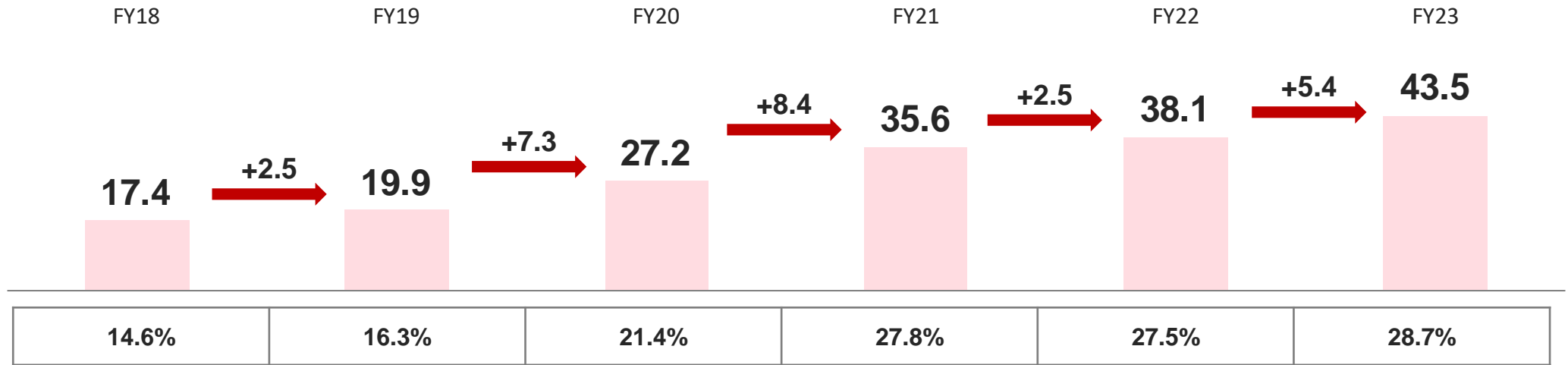
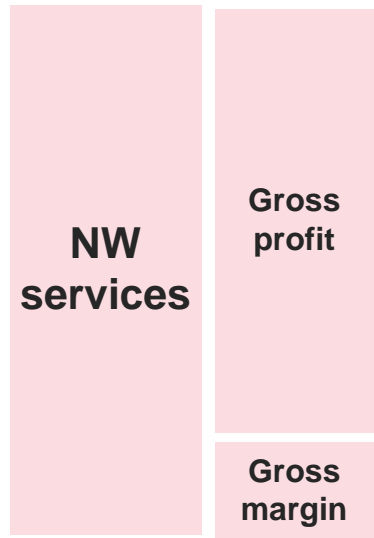
Monthly Recurring Revenue



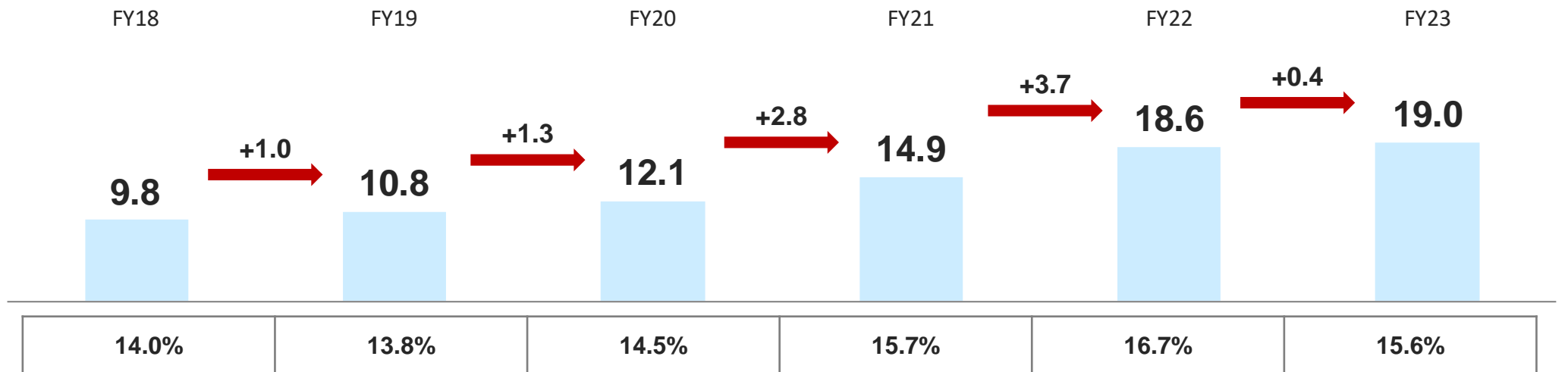
- Mobile revenue decreased year over year in FY21 due to ARPU decrease for consumers and change in unit charge for MVNE clients
- Systems construction and systems operation & maintenance revenue increase for FY21 includes PTC revenue which became IIJ's consolidated subsidiary from Apr. 2021
- During FY20, ATM operation business was impacted by the COVID-19 pandemic due for example to the store closure and smaller number of users coming to stores
- WAN revenue decreased year over year in FY19 and FY20 mainly due to certain large customers' migration to our mobile services (cheaper than WAN to connect multiple sites)

# Gross Profit and Margin Growth

Unit: ¥ (JPY) billion (bn)



- NW services include Internet connectivity services for enterprises, Internet connectivity for consumers, Outsourcing, and WAN services. These are all monthly recurring revenue
- FY22 NW service gross margin slightly decreased due to the decrease in mobile business margin, which is part of NW services, mainly because of an increase in marketing cost such as low price hand-set offering



- SI includes systems construction which is one-time revenue and systems construction and maintenance which is monthly recurring revenue
- FY21 SI includes PTC revenue which became IIJ's consolidated subsidiary from Apr. 2021
- FY23 gross margin was weak mainly due to the small construction revenue, an allocation of resources such as engineers to prospective orders of large-scale projects, and a low systems operation and maintenance revenue growth (a scheduled termination of a particular project)

# NW Services (monthly recurring revenue) as Profit Growth Driver - Economies of Scale -

## Profit Model of NW Services

Revenue

### Connectivity services

IP (Internet Protocol) service Details in P.30

- Contracted based on bandwidth
- Contract period: 1 year, generally auto-renew
- Low churn rate, loyal clients for 30 years

WAN (Wide Area NW) service

Mobile service Details in P.35 - 38

### Security services

DDoS protection, Firewall, SOC, etc.

- Contracted based on number of accounts
- Contract period: 1 year, generally auto-renew
- Cross-selling to IP service clients

Details in P.31 - 34

### Various in-house developed services

Remote access, DNS, monitoring, etc.

- Contracted based on number of accounts
- Contract period: 1 year, generally auto-renew
- Cross-selling to IP clients

Details in P.28 - 29

Cost

Mainly common and shared cost to operate NW

**Leasing cost**  
for Internet backbone, WAN lines and leased DCs, etc.

**Depreciation & Amortization**  
cost for NW equipment, etc.

**Personnel cost**  
for engineers  
(service development & operation, etc.)

**Outsourcing cost**  
(mobile-related, outsourcing personnel, maintenance, etc.)

Historical track record of NW services gross margin					
FY18	FY19	FY20	FY21	FY22	FY23
<b>14.6%</b>	<b>16.3%</b>	<b>21.4%</b>	<b>27.8%</b>	<b>27.5% *</b>	<b>28.7%</b>

Intend to enhance NW services revenue accumulation by Service Integration strategy

• FY22 gross margin slightly decreased due to the decrease in mobile business margin, which is part of NW services, mainly because of an increase in marketing cost such as low price hand-set offering

• Among NW service revenues, WAN, mobile and part of security services have variable cost which fluctuates depending on revenue

# Capex and Business Developments

Unit: ¥ (JPY) billion (bn)

About IIJ	<b>Business Model</b>
Strength	Growth Strategy

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Revenues	157.8	176.2	192.4	204.5	213.0	226.3	252.7	276.1
NW service gross profit	17.9%	18.1%	14.6%	16.3%	21.4%	27.8%	27.5%	28.7%
	3.3%	3.8%	3.1%	4.0%	6.7%	10.4%	10.8%	10.5%
Operating profit	16.6	19.5	17.4	19.9	27.2	35.6	38.1	43.5
NW service gross margin	5.1	6.8	6.0	8.2	14.2	23.5	27.2	29.0
Operating margin								
CAPEX	16.5	20.7	15.1	15.2	15.2	16.1	20.8	22.5
NW services, etc.	12.6	9.4	9.4	9.6	8.8	9.1	10.0	13.2
Cloud	3.6	7.9	1.9	2.6	2.8	2.3	2.0	1.5
Shiroi DC	-	1.2	2.1	2.0	1.5	1.5	5.4	5.5
SI, others	0.3	2.3	1.7	1.0	2.0	3.2	3.4	2.3
CAPEX-related depreciation and amortization	10.9	12.1	13.9	14.4	14.5	15.1	15.3	15.6
Number of employees	3,104	3,203	3,353	3,583	3,805	4,147	4,451	4,803

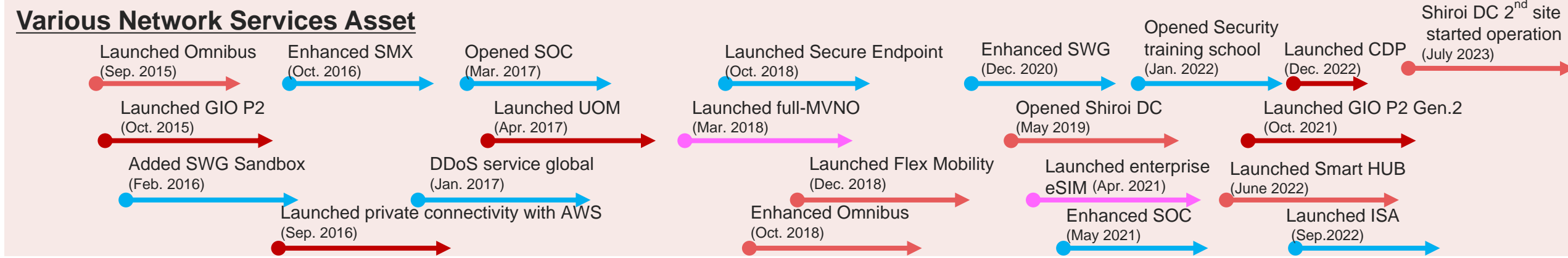
Stronger demands for enterprise network services

Large CAPEX increase due to aggressive business investment

CAPEX & its depreciation almost same volume

Cost stabilizing

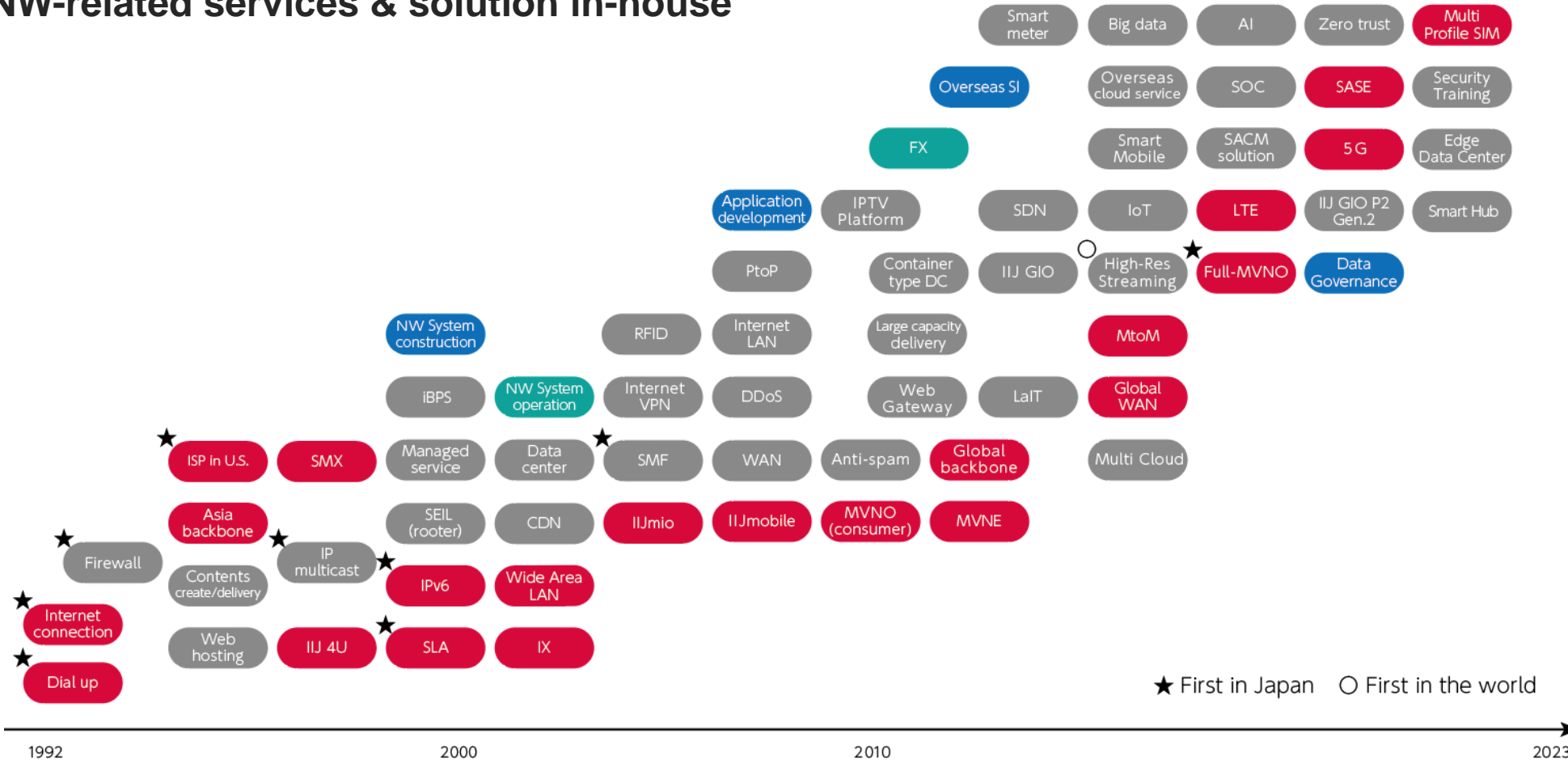
## Various Network Services Asset



• FY16: US-GAAP, from FY17: IFRS  
 • CAPEX-related depreciation and amortization is calculated by excluding depreciation and amortization of assets that do not have the nature of capital investment, such as right-of-use assets related to operating leases, small-amount equipment and customer relationship  
 © Internet Initiative Japan Inc.

# Service & Solution Development Capability

Initiate the market by continuously developing innovative various NW-related services & solution in-house

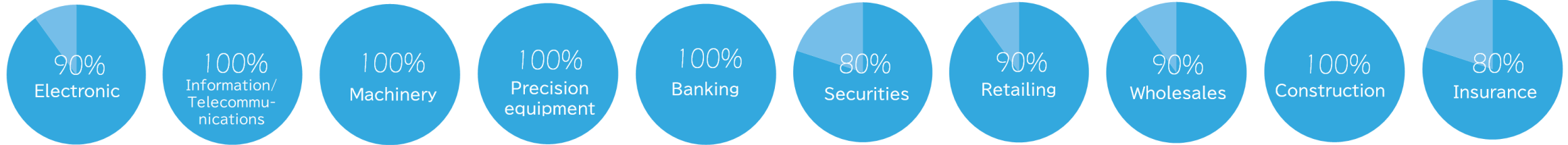




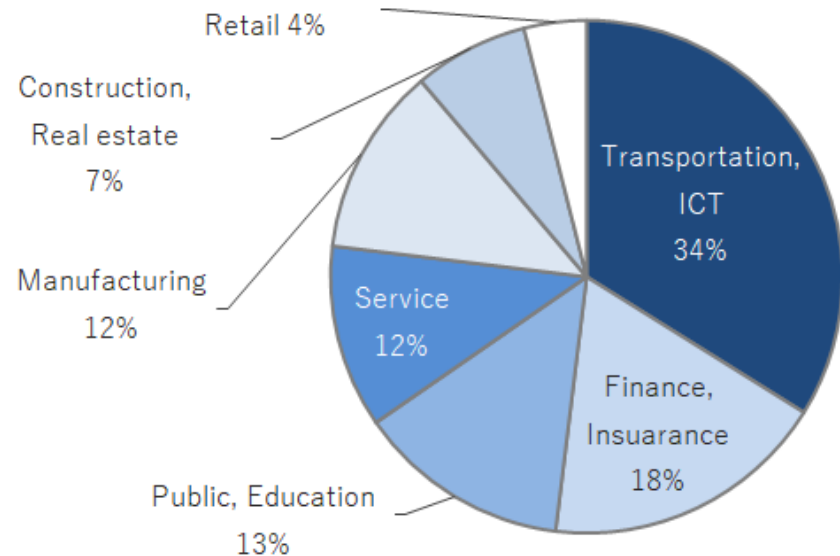
# Excellent Customer Base (Number of IIJ Group's clients: approx. 15,000 as of March 31, 2024)

- ◆ Through reliable operation, continuous use of Internet connectivity services since the inception of IIJ
- ◆ Our reliable infrastructure operation and cross-sell strategy have led to low churn rate

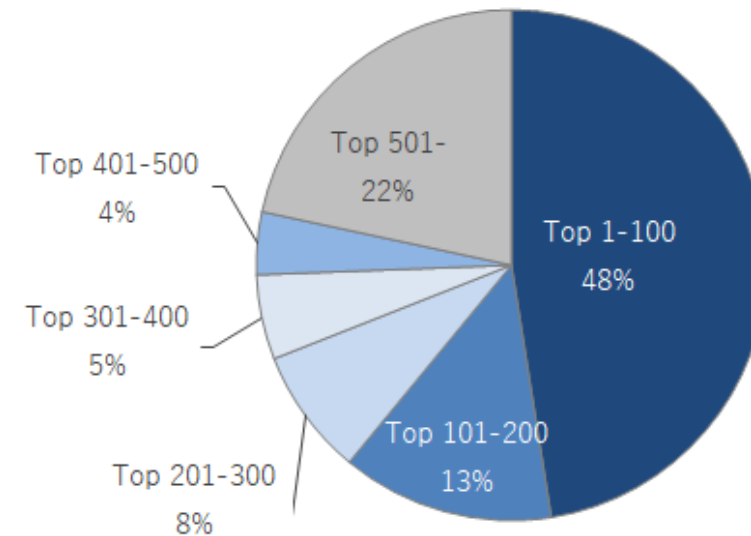
## Cover Most of Top Revenue Companies



## Client Distribution by Industry



## Client Distribution by Revenue Volume



- Top ten firms in each industry taken from annual revenues are selected by IIJ based on the Yahoo! Japan Finance website (finance/sales/whole market/daily)
- The service penetration and the revenue distributions are based on IIJ's FY23

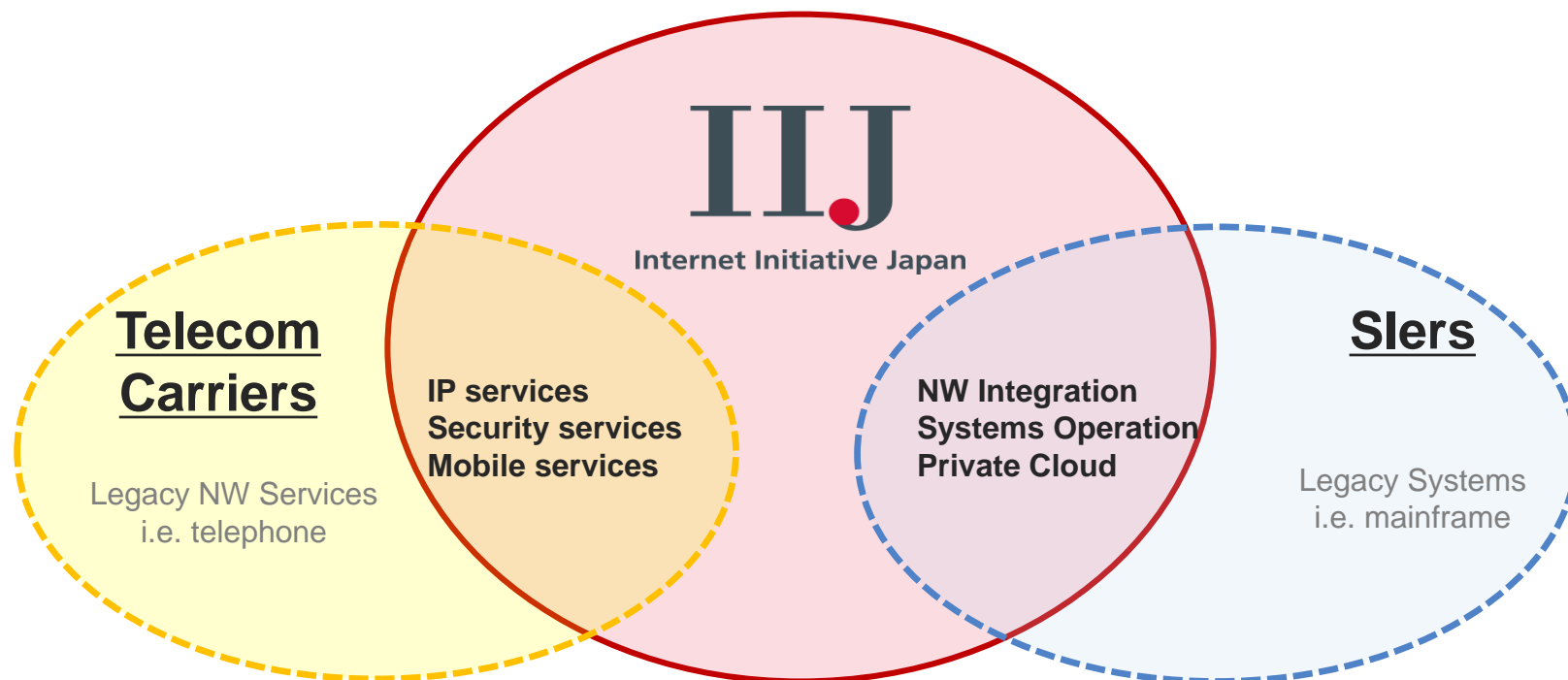
# Competitive Advantages

## Against telecom carriers, IIJ

- Has highly skilled IP (Internet Protocol) engineers
- Is faster to move than bureaucratic organizations
- Focuses on blue-chip companies' IT needs with SI

## Against systems integrators (Slers), IIJ

- Operates one of the largest Internet backbone (Slers do not)
- Has NW services asset and development capability (Slers do not)
- Focuses on Internet-related open type systems



**IIJ deals with newer systems and growing IT market  
(Not involved in heavy and legacy systems)**

# Enhancement of Human Capital

## ◆ Basic policy: continuously hire and train new graduates

- New graduates who studied NW are attracted to IIJ who is the first full-scale ISP in Japan

## ◆ Increasing the size and improving the quality of recruitment and human capital development

- Programs to promote autonomous career development by having working experiences at other departments and/or working at overseas subsidiaries
- IIJ provides a wide range of experience which leads to high employee satisfaction. Corporate culture of adopting new technology, aggressively engaging in new service development, etc.

## ◆ Expect further business expansion by seeking M&A opportunities

### Revenue Growth and Human Capital Enhancement

	FY19	FY20	FY21	FY22	FY23
<b>Total revenue</b>	<b>¥204.5 bn</b>	<b>¥213.0 bn</b>	<b>¥226.3 bn</b>	<b>¥252.7 bn</b>	<b>¥276.1 bn</b>
<i>Year over year</i>	+6.3%	+4.2%	+6.3%	+11.7%	+9.2%
	FY19-end	FY20-end	FY21-end	FY22-end	FY23-end
<b>Total number of employees</b>	<b>3,583</b>	<b>3,805</b>	<b>4,147</b>	<b>4,451</b>	<b>4,803</b>
<i>Year over year</i>	+6.9%	+6.2%	+9.0% *	+7.3%	+7.9%
Number of outsourcing personnel	1,123	1,270	1,319	1,385	1,521
	Apr. 2020	Apr. 2021	Apr. 2022	Apr. 2023	Apr. 2024
<b>Number of new graduates</b>	210	190	178	246	307

- Number of outsourcing personnel is for SI
- We added 62 personnel through PTC consolidation (Apr. 2021)

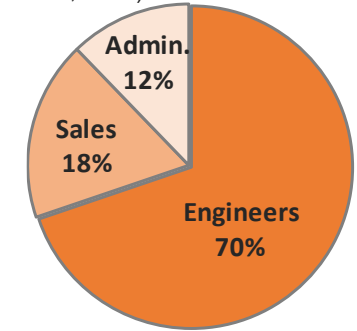
### Turnover rate

FY19	FY20	FY21	FY22	FY23
4.6%	3.6%	4.2%	3.8%	4.6%

- The turnover rate of IIJ (non-consolidated basis) is calculated by dividing leavers for the fiscal year by the number of full-time employees at the beginning of that fiscal year.
- The industry average turnover rate of approx. 10% is announced by the Ministry of Health, Labor, and Welfare

### Breakdown of Employees

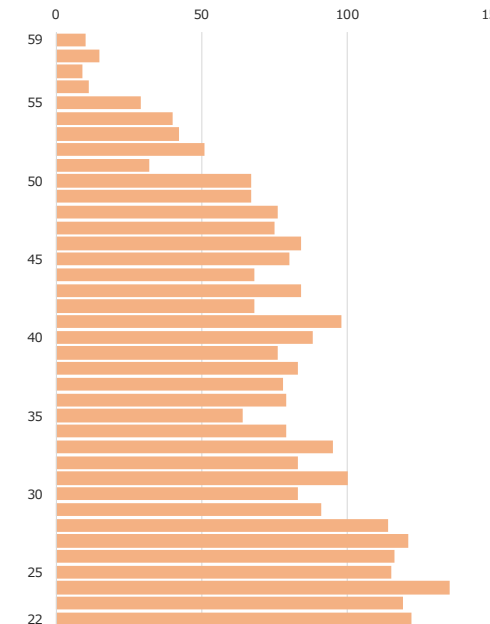
(As of Mar. 31, 2024)



- Breakdown of new graduates is almost identical

### Employee Age Composition

(As of Apr. 1, 2024, IIJ)



### Female Manager Ratio

FY20	FY21	FY22	FY23	FY24
4.6%	5.5%	5.7%	6.3%	7.5%

- The female manager ratio is IIJ (non-consolidated basis)
- Brought FY27 target forward by 1 year as IIJ achieved target of over 6% a year earlier
- IIJ targets over 8% or more in FY26

For more information on human capital, please visit [https://www.iij.ad.jp/en/ir/integrated-report/human\\_capital/](https://www.iij.ad.jp/en/ir/integrated-report/human_capital/)

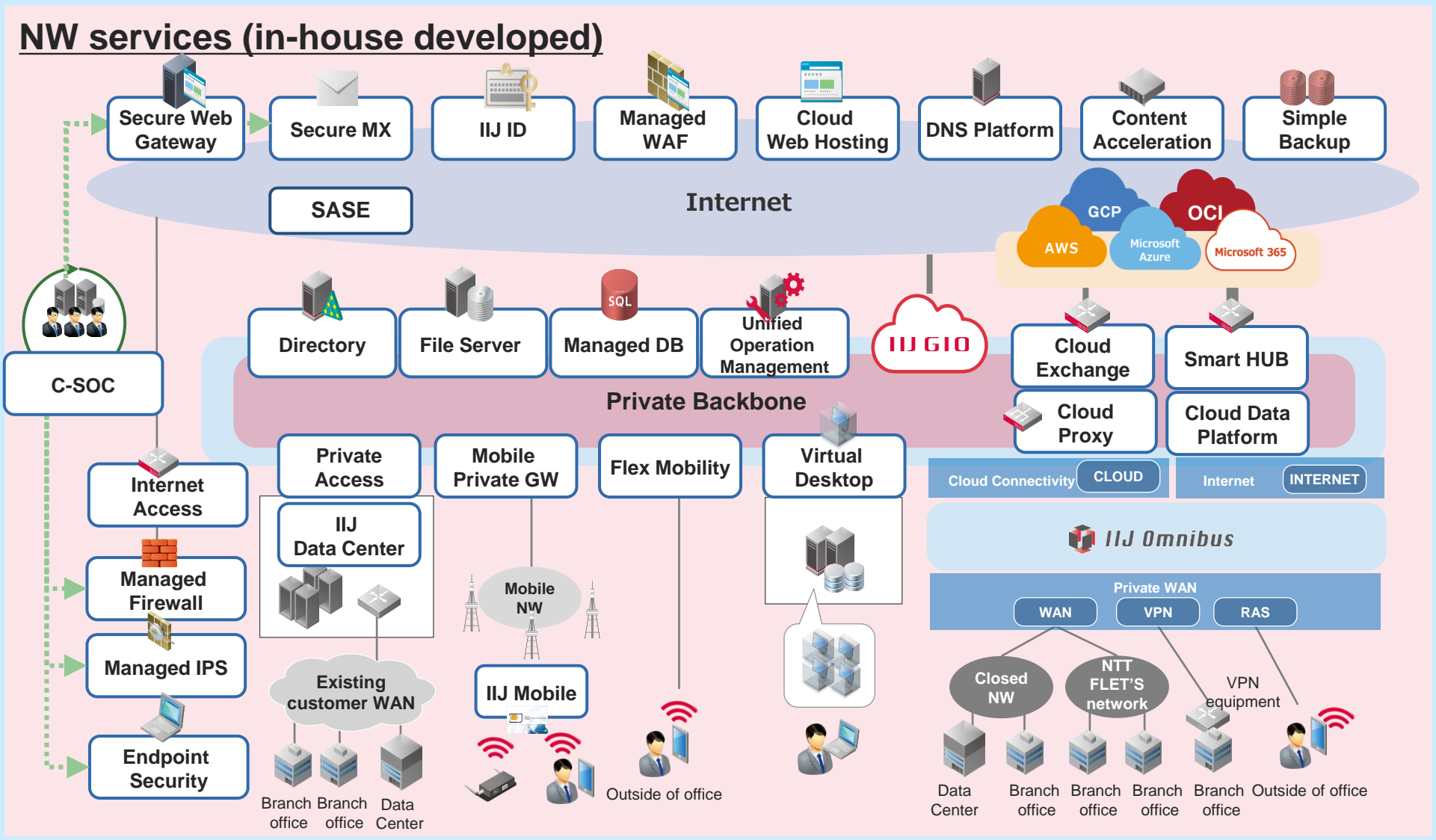
# Service/Business Function

Comprehensive NW system solution with NW services and SI	P. 28 – 29
Enterprise NW Services	P. 30
Security Services	P. 31 – 34
Mobile Services	P. 35 – 38
IoT Services	P. 39 – 40
Systems Integration (SI)	P. 41
Cloud Services	P. 42 – 43
Data Centers (DC)	P. 44

# Comprehensive NW system solution with NW services & SI

➤ By combining various in-house developed NW services with SI to provide comprehensive NW system solution

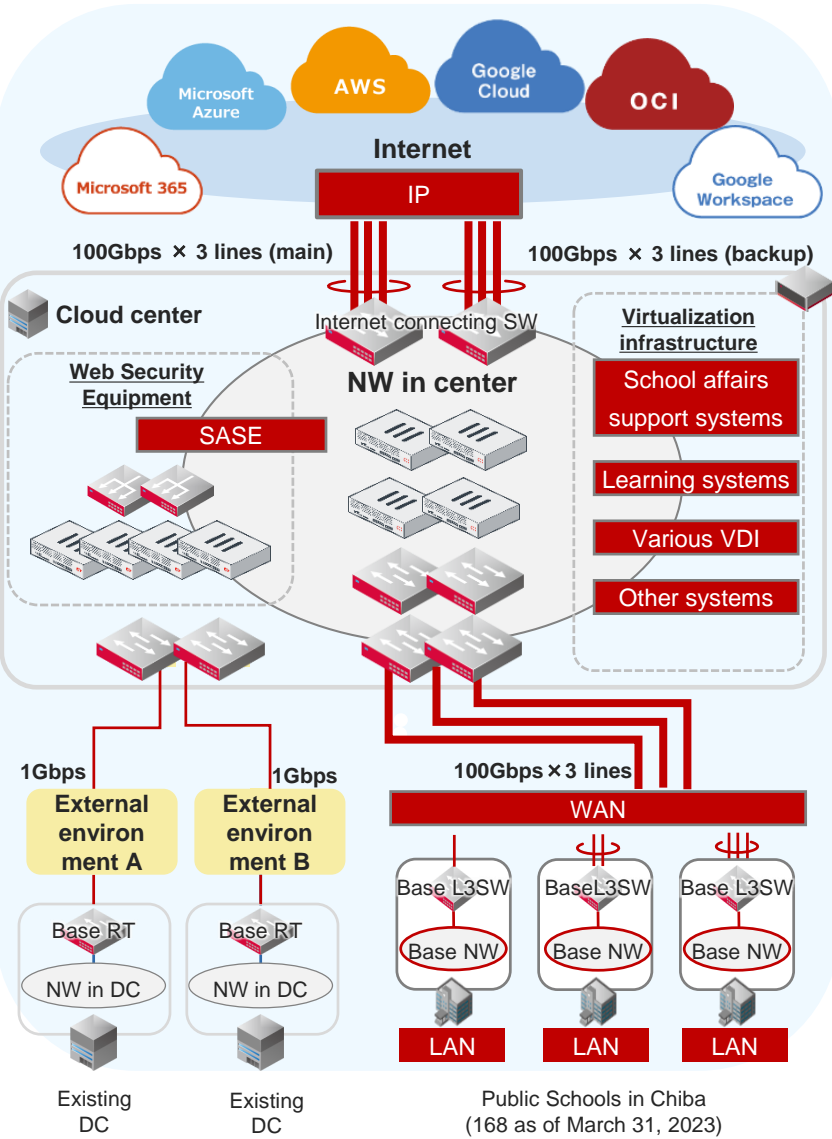
## SI to meet specific requirements cannot be covered by NW services



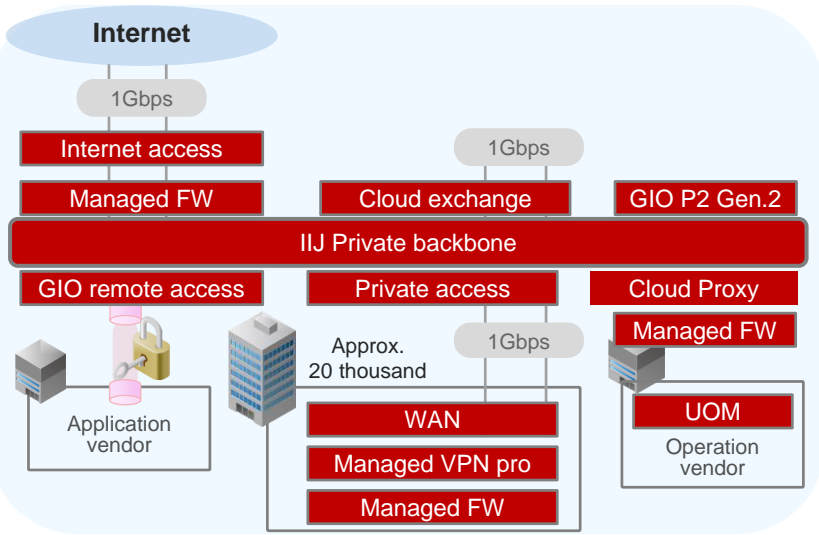
# Large-scale Service Integration Transactions

■ Services provided by IJ  
■ SI provided by IJ

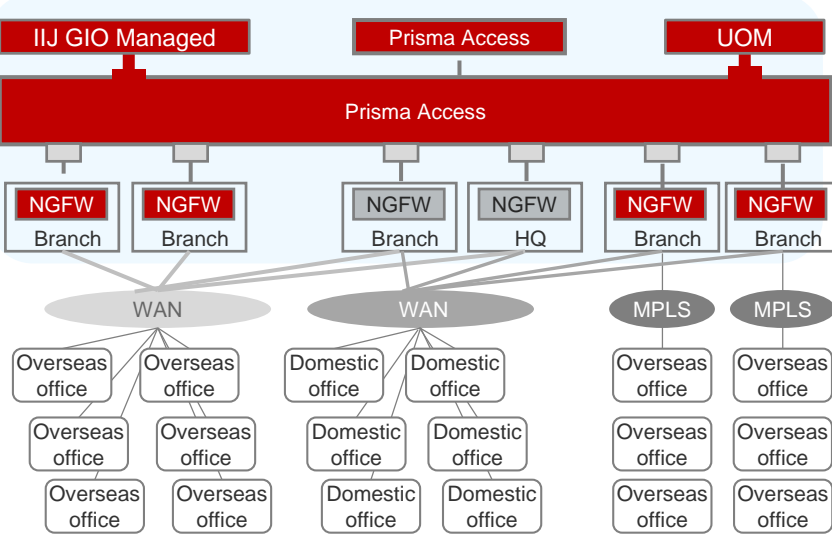
## Educational Information NW for Chiba city



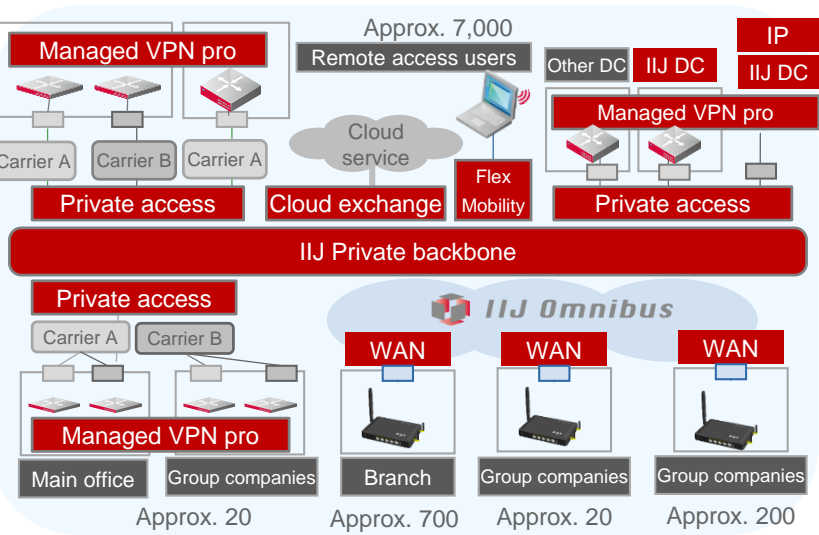
## Integrated information system for public safety org.



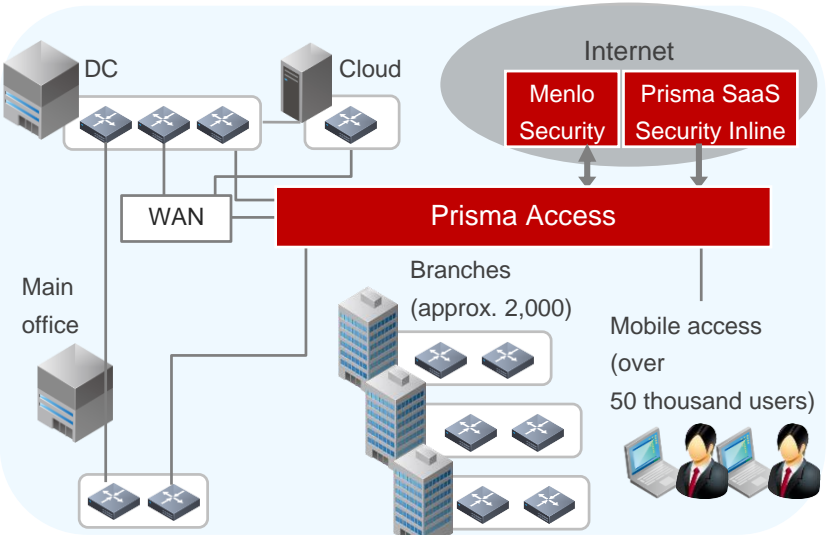
## Large-scale SASE project for a global company



## Total NW project for a prominent company group



## Large-scale NW renewal for a financial institution



UOM: Unified Operation Management, NGFW: Next Generation FireWall, MPLS: MultiProtocol Label Switching

# Enterprise NW Services

**IJ's enterprise NW services' business model:  
Cost doesn't have to increase at the same pace as the revenue: economies of scale**

## IP service (Internet Protocol)

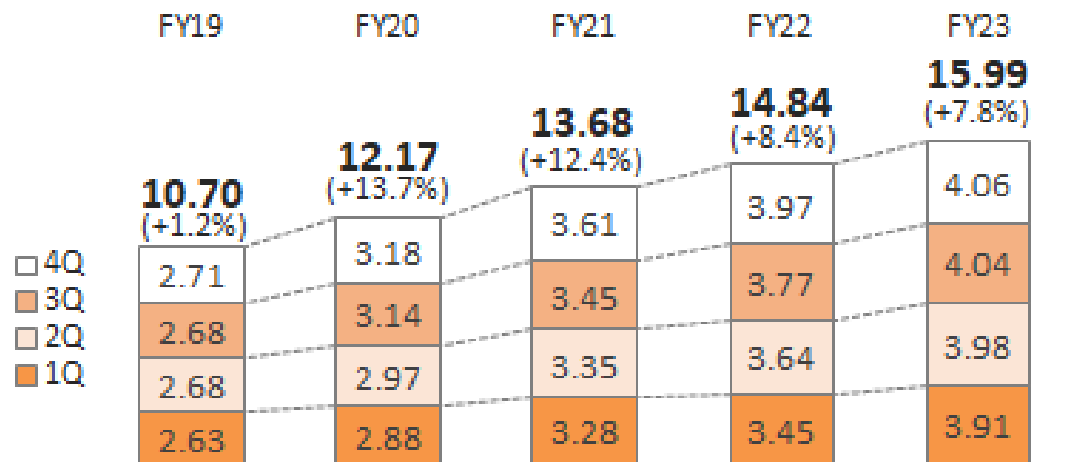
- ◆ IP Service is a bandwidth guaranteed dedicated Internet connectivity service for enterprises
- ◆ Service contracts are based on bandwidth. Minimum contract period is 1 year
- ◆ The revenue is 100% recognized in Internet connectivity services (Enterprise)
- ◆ Very low churn rate. Contracts are renewed every year, generally speaking
- ◆ IJ has very high and stable market share among Japanese blue-chip
  - Difficult to newly enter the market because one will need customer base and engineers to operate Internet
    - IJ's IP services clients include general Japanese enterprise as well as NW operators such as consumer ISPs and cable TV operators

## Business model

### Cost

- ◆ IJ purchases fiber from carriers
  - As one of the largest independent ISPs, IJ has strong bargaining power
  - IJ expands its Internet backbone continuously
- ◆ IJ owns NW equipment that are needed for Internet backbone and NW service facility
  - NW operation cost which is many depreciation amortization costs for NW equipment is stable due to the technological innovation of servers and other NW equipment
    - In other words, ¥1 million server today is higher spec compared to the ¥1 million server a year ago

IP Service Revenue (unit: ¥ billion)

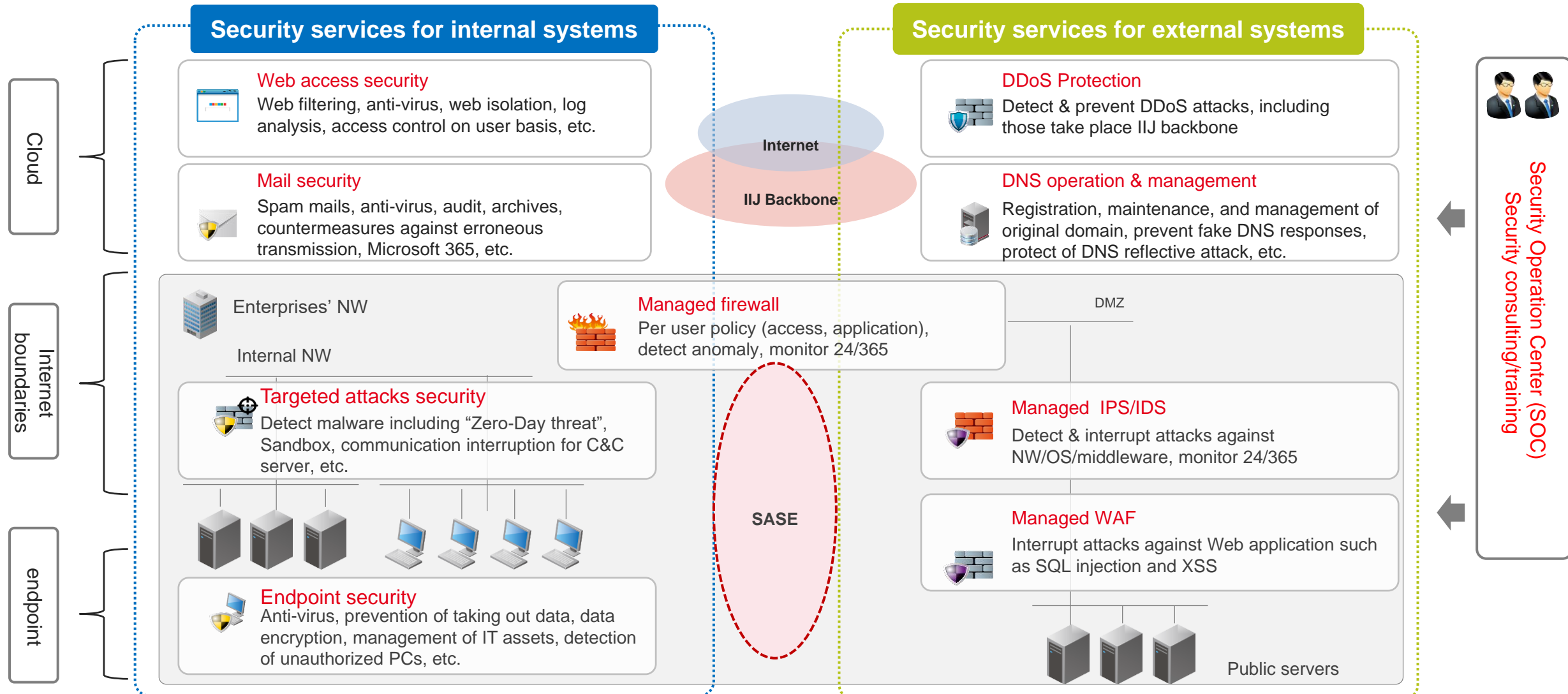


### Revenue

- ◆ Enterprise NW service revenues such as IP services and Outsourcing services are to continuously increase while their costs remain relatively stable
- ◆ By that, IJ can enjoy an economy of scale with strong revenue accumulation which leads to gross profit expansion
- ◆ In other words, the costs for enterprise NW services do not have to increase at the same pace the revenue growth

# Security Business (1)

- Provide a wide range of security services over network
- Information analysis platform utilizing information and expertise only available to ISPs



• SASE (Secure Access Service Edge) is a concept to shift controls of NW and security on the route to Cloud services to enable secure access from any points, instead of the conventional centralized management through headquarters or data centers.



# Security Business (2)

➤ Many initiatives taken by IIJ for security

- 1994 Started providing firewall services (first in Japan)
- 1999 Started providing fully-managed firewall services (first in Japan)
- 2004 Started providing spam mail filtering (first in Japan)
- 2005 Added sender domain authorization technology/spam mail protection (first in Japan), Started providing IIJ DDoS Protection Services
- 2006 Started providing IIJ Managed IPS Service and **IIJ Secure MX Service (SMX)**
- 2009 **Started providing IIJ Secure Web Gateway Service (SWG)**
- 2015 Added sandbox option (function to detect behaviors as a countermeasure against targeted attacks)
- 2016 Constructed information analysis platform (constructed platform to analyze log data within our backbone to realize early detection and countermeasures against increasingly sophisticated threats)
- 2017 Started providing DDoS Protection Service (terabit-compatible), Opened new Security Operation Center (SOC) and started providing C-SOC Service**
- 2018 IIJ Security engineers provided trainings at an international security conference “Black Hat USA 2018” (first as Japanese)**
- 2018 Started providing IIJ Secure Endpoint Security Service
- 2019 Started providing IIJ Managed WAF Security Service (public web system vulnerability countermeasures)
- 2021 Started providing IIJ CSPM Solution (Cloud Security Posture Management which means cloud security management)
- 2021 Opened IIJ Security Training School (launched business for IT division personnel assigned for security to become specialists)**
- 2022 Started providing IIJ Secure Access Service (in-house developed SASE service)**
- 2023 IIJ Security Business division director was appointed as Kanto Regional Police Bureau’s cyber security advisor

**Certification of multiple international standards**  
 Feb.2020 Mail, Web Security Services  
 Apr. 2020 IIJ Managed IPS/IDS Services  
 Mar. 2021 DDoS Protection Service, IIJ Managed WAF

Continued afterwards

# Security Business (3)

## IIJ Secure MX Service (SMX)

- ◆ Cloud-based integrated mail security service (launched in Sep. 2006)
- ◆ Differentiating by in-house developed filtering, providing support in Japanese, update, etc.
  - Minimize mail threats with multi filtering, able to store unlimited mail data in DCs located in Japan, prevent accidental transmission/information leak with the system
- ◆ Competitors withdrawing from the market



Cloud based mail security market  
Share No.1  
<Source> ITR "ITR Market View: Cyber Security counter market 2023"

SMX contracted accounts (Mar. 2024)
2.9 million
<b>E-mail services' accounts including OEM for enterprise exceeded 10 million in Jul. 2024</b>

## IIJ Secure Web Gateway Service (SWG)

- ◆ Cloud-based integrated web security service (launched in Mar. 2009)
- ◆ Differentiating by in-housed developed engines, etc. to block and isolate web functions, etc.
- ◆ SWG clients include Sumitomo Life Insurance, Fuji TV, Mitsubishi Chemical, Meiji Gakuin University, and Morinaga



<Source> ITR "ITR Market View: Cyber Security counter market 2023"

SWG contracted accounts (Mar. 2024)
1.2 million

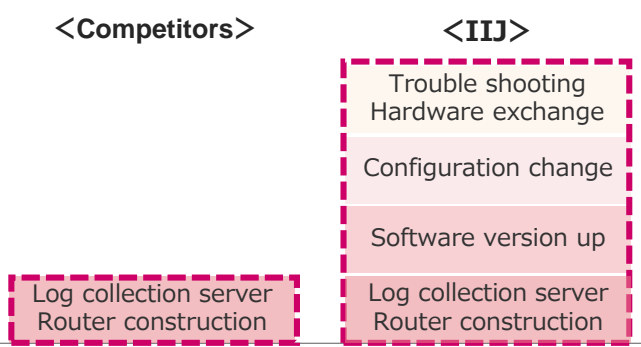
## IIJ DDoS (Distributed Denial of Service) Protection Service

- ◆ Comprehensive service to protect enterprise NW system from DDoS attacks (launched in Oct. 2005)
- ◆ Service model requires NW backbone to offer
  - Realize reliable web services by avoiding overloaded NW and server triggered by huge traffic
  - 24/365 operation by security engineers who have expertise obtained through ISP business
  - Automatically detect and prevent DDoS attacks
  - Internet access line are also within service coverage
  - Global coverage to prevent terabit level large-scale attack (Jan. 2017)
- ◆ High penetration rate toward large financial institutions

## IIJ C-SOC (Security Operation Center) Service

- ◆ Comprehensive security incident response service provided by IIJ security engineers
- ◆ Operational SOC service unique to ISPs: visualize invisible threats by applying IIJ's unique intelligence, execute initial response, etc.
- ◆ Individual service operation and monitoring including other managed services
- ◆ Relatively expensive service

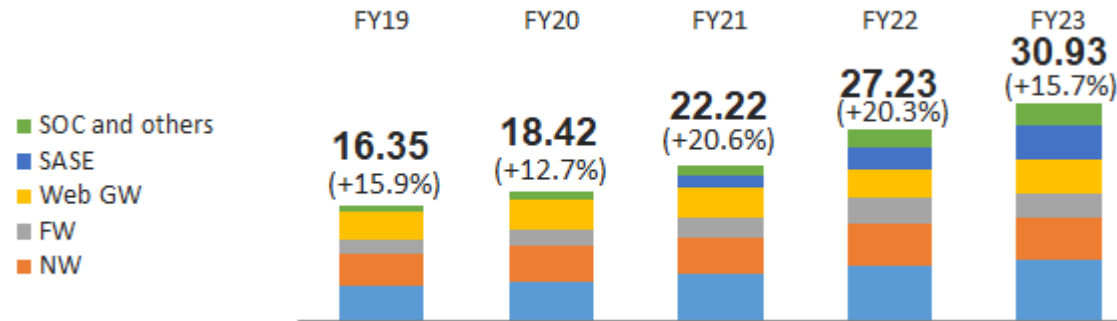
### Coverage comparison



# Security Business (4)

## Security Service (monthly recurring revenue)

### ◆ Revenue strongly increasing along with continuous strong demands



### ◆ Total security business volume also growing

➢ Security projects outside the scope of IJ security services are handled through SI

Total security business volume (Service+SI)	FY19	FY20	FY21	FY22	FY23
	19.18	21.47	25.44	31.25	34.81

### ◆ Strong demand for “IJ C-SOC Service”

**Greater opportunity to integrate it as part of large NW renewal project**

- IJ’s competitive advantages:
  - Collaborate with various in-house devolved managed type gateway security services
  - Wide monitoring scope including EDR & SASE
  - Apply abundant traffic log data to develop IJ’s unique intelligence as well as detect threat

### ◆ Continued to enhance service line-ups and functions

- “IJ Safous Service” was awarded “Global InfoSec Awards” and “Cybersecurity Excellence Awards” at RSA Conference 2024 in May 2024 (7 awards in total)
- First in the Asia-Pacific to be certified as Palo Alto Networks Partner for SP Interconnect, providing Internet connection between Prisma Access and IJ Backbone (Apr. 2024)
- Expanded functions of “IJ Managed WAF Service” by adding DDoS protection function in Oct. 2023
- Launched “IJ leaked account detection solution” in Nov. 2023
- Launched “IJ Attack Surface Assessment Solution” in Nov. 2023

- Security Service Revenue (recurring) is 100% recognized in Outsourcing
- SASE (Secure Access Service Edge) is a concept to shift controls of NW and security on the route to Cloud services to enable secure access from any points, instead of the conventional centralized management through headquarters or data centers. This concept is gaining popularity along with Cloud migration of enterprise operation systems, prevalence of flexible workstyle including teleworking.
- SOC (Security Operation Center): organization providing advices and actions regarding cyber attacks by constantly monitoring log data such as NW and device to detect and analyze cyber attacks

## Mail Security

- Full outsource of mail system, countermeasures for spam mail, etc.
  - Number of e-mail services’ accounts for enterprise exceeded 10 million in Jul. 2024
- IJ Secure MX Service (SMX)
  - Cloud-based integrated mail security service (launched in Sep. 2006)
  - Differentiating by in-house developed multi-filtering, providing support in Japanese and upgrades
  - Minimize mail threats with multi-filtering, able to store unlimited mail date in DCs located in Japan, prevent accidental transmission/information leak with the system

## NW Security

- IJ DDoS Protection Service
  - Comprehensive service to protect enterprise network system from DDoS attacks (launched in Oct. 2005)
  - Service model unique to NW operators
  - Realize reliable web services by avoiding overloaded network and server triggered by huge traffic, global coverage to prevent terabit level large-scale attack (launched in Jan. 2017)
- IPS/IDS, WAF, etc.

## FW (Firewall)

- Outsource of firewall operation, detection system for anomaly, etc. (launched in Oct. 2006)

## Web GW

- Full outsource of web security, URL filtering,
- IJ Secure Web GW Service (SWG)
  - Cloud-based integrated web security service (launched in Mar. 2009)
  - Differentiating by in-housed developed engines etc. to block and isolate web functions, etc.

## SASE

- Operation of Prisma Access, Zscaler etc.
  - Highly regarded as a top-class SASE implementation & operation vendor
  - From a vendor neutral position, provide all-in-one support ranging from solution selection, design, construction, implementation to operation
- IJ Secure Access Service “ISA”
  - In-house developed SASE service (launched in Sep. 2022)
  - Differentiating by high compatibility with other IJ security services, small start & low-price range
  - Continue to enhance the service, in the middle of setting up

## SOC and others

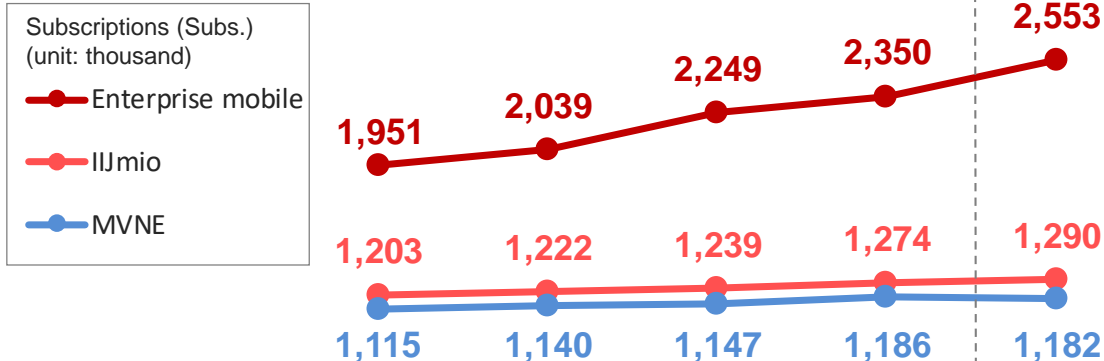
- IJ C-SOC Service
  - Launched in Oct. 2018
  - Operational SOC service unique to ISPs: visualize invisible threats by applying IJ’s unique intelligence, execute initial response as well as notification etc.
  - Continuously expanding functions including recently launched “Premium” in May 2021 which offers primary responses against attacks
- Endpoint Security, etc.

# Mobile Business (1)

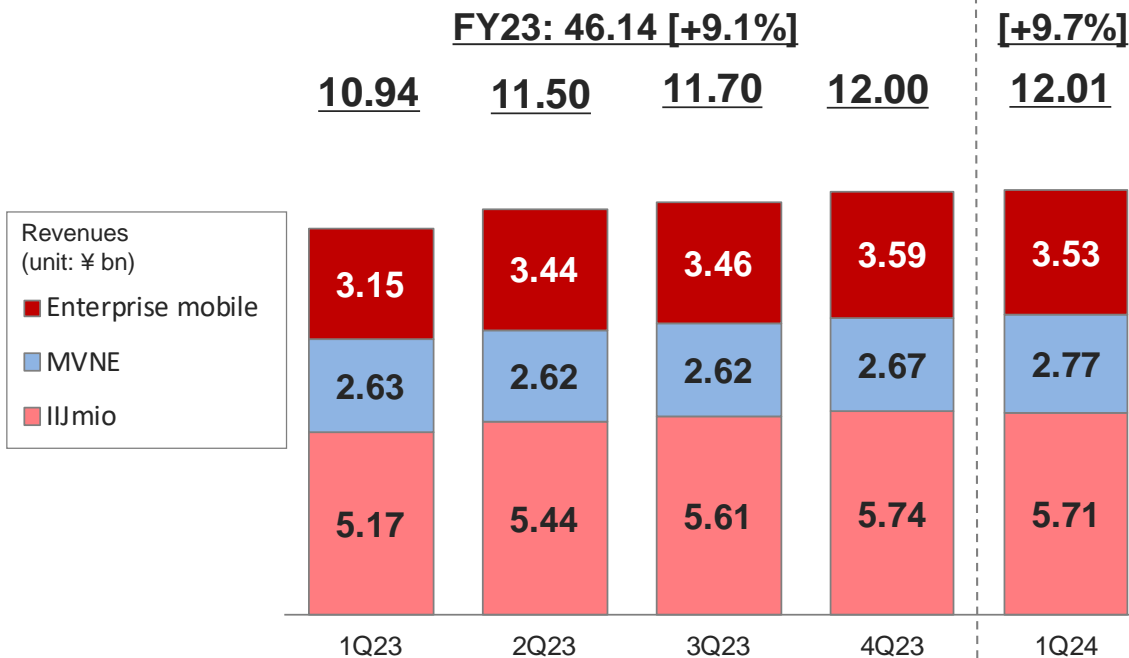
Unit: ¥ (JPY) billion (bn)  
 %, YoY = Year over year comparison  
 QoQ = Quarter over quarter comparison

Service/Business  
Function

## Mobile Subscription (Subs.)



## Mobile Revenue



- Accumulate enterprise IoT traffic by leveraging the blue-chip client base, various NW services & SI function – higher utilization of the mobile infrastructure
- Consumer subscription contributing to expand the infrastructure

### ◆ Enterprise mobile

- 1Q24 revenue: ¥3.53 bn, (+¥0.39 bn YoY)
- 1Q24-end subs.: 2,553 thousand (+203 thousand QoQ)
  - Existing transaction such as connecting NW cameras, GPS devices, and on-board unit-related devices are becoming larger and continuously acquiring new orders

### ◆ MVNE

- 1Q24 revenue: ¥2.77 bn (+¥0.14 bn YoY)
- 1Q24-end subs.: 1,182 thousand (-4 thousand QoQ)
- 1Q24-end MVNE clients: 195 clients (+11 clients YoY), Of which, cable TV operators (95 operators), prominent retailer, etc.

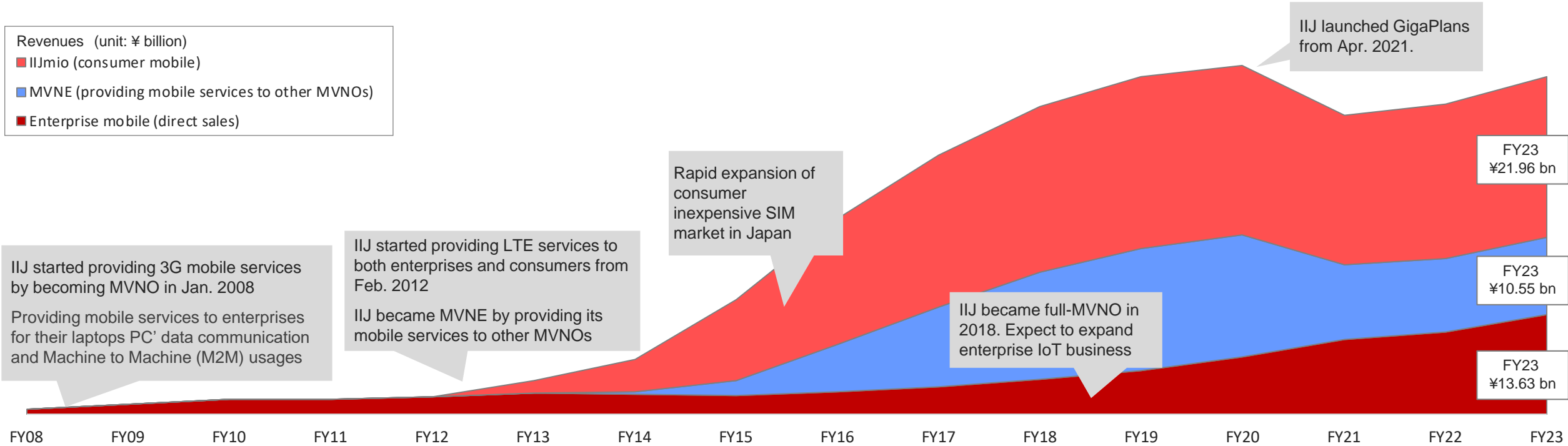
### ◆ IJmio

- 1Q24 revenue: ¥5.71 bn (+¥0.54 bn YoY)
- 1Q24-end subs.: 1,290 thousand (+16 thousand QoQ)
  - Of which, the old plan's subs. were 205 thousand

GigaPlans (unit: thousand)	1Q23-end	2Q23-end	3Q23-end	4Q23-end	1Q24-end
Subs.	928	963	995	1,041	1,069

# Mobile Business (2)

Revenues (unit: ¥ billion)  
 ■ IJmio (consumer mobile)  
 ■ MVNE (providing mobile services to other MVNOs)  
 ■ Enterprise mobile (direct sales)



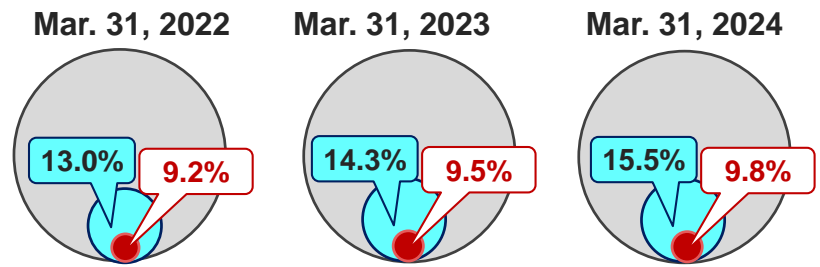
FY23  
¥21.96 bn

FY23  
¥10.55 bn

FY23  
¥13.63 bn

## Consumer inexpensive SIM market in Japan

■ Total mobile subscription  
 ■ MVNO subscription  
 ■ SIM subscription



Source: the Ministry of Internal Affairs and Communications (MIC)

## SIM type MVNO market share in Japan

	Mar. 31, 2022	Mar. 31, 2023	Mar. 31, 2024		
1 <sup>st</sup> IJ	18.1%	19.8%	21.6%		
2 <sup>nd</sup> NTT Communications	14.0%	NTT Resonant	11.9%		
			NTT Docomo(*)	9.7%	
3 <sup>rd</sup> Optage	9.2%	Optage	9.0%	Optage	8.7%
4 <sup>th</sup> Rakuten mobile	6.2%	Fujitsu	5.6%	Fujitsu	5.6%
5 <sup>th</sup> BIGLOBE	5.8%	Aeon Retail	4.8%	Aeon Retail	4.7%

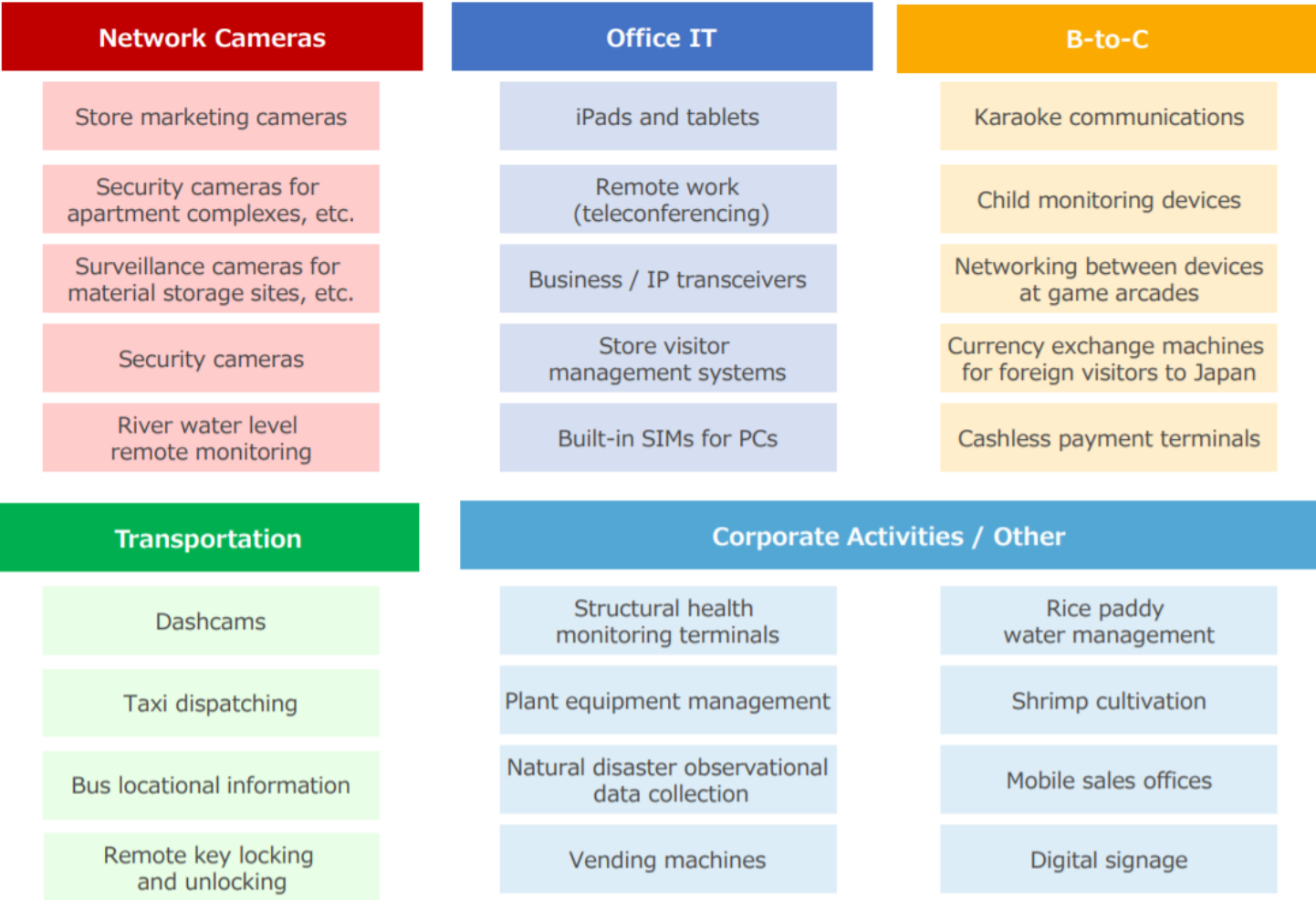
Source: the Ministry of Internal Affairs and Communications

(\*) NTT Docomo's figures as of Dec. 31, 2023 was formerly NTT Resonant's and NTT Communications' ones

# Mobile Business (3)

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

## Accumulating various enterprise mobile solutions



# Mobile Business (4)

## IJJ's mobile business model

### ◆ Revenue

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

### ◆ Cost

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

### ◆ Profit

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

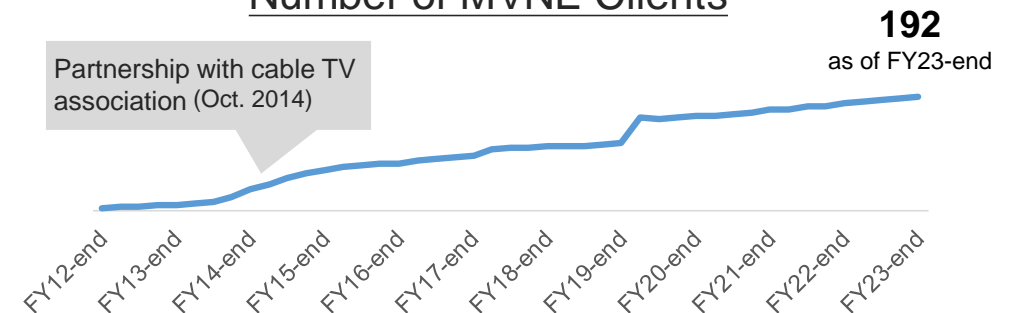
## Growth Strategy

- ◆ **Aim to improve mobile infrastructure utilization by gathering IoT/M2M & various consumer traffic**
  - Currently buying mobile capacity to meet the peak hours which are concentrated on commuting hours and lunch time
- ◆ **Currently, IJJ is increasing mobile infrastructure to meet the peak of consumer traffic which is concentrated around commuting hours and lunch time. The overall mobile infrastructure utilization of other hours is relatively low**
- ◆ **By gathering various type of mobile traffics such as enterprise IoT traffic which is not concentrated at certain hours, we could aim for higher mobile infrastructure utilization**

## IJJ's sales channel for consumers

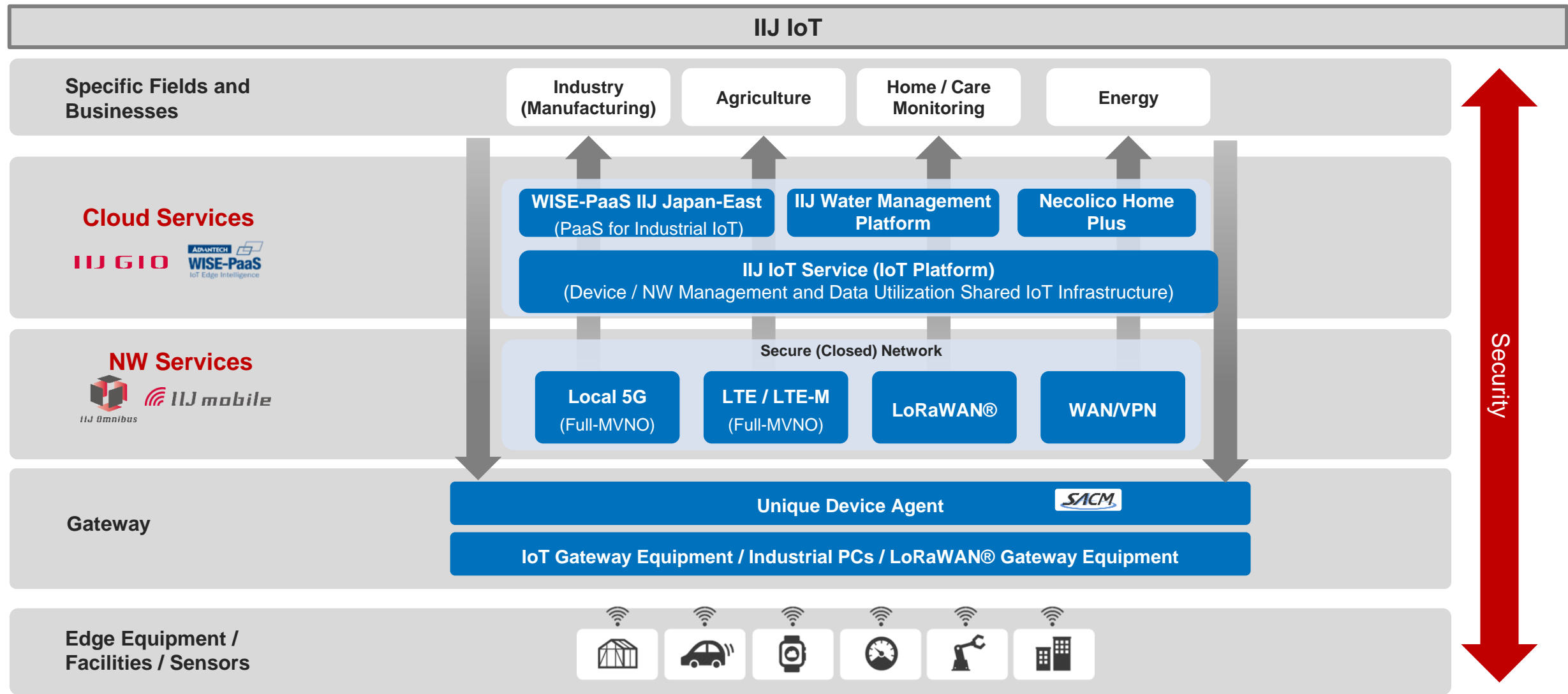
1. **Direct sales** through IJJ's website
2. **Sales partners** such as BICCAMERA INC. one of the largest retailers in Japan
  - IJJ pays sales commission expenses to sales partners
3. **MVNE "IJJ Mobile Platform Service"**
  - IJJ provides mobile services to other MVNOs
  - As of Mar. 31, 2024, IJJ had 192 MVNE clients
    - Among them, 94 MVNE clients are Japanese cable TV operators who already have direct relationship with consumers
    - Largest MVNE client is one of the largest Japanese retailers

### Number of MVNE Clients



# IoT Business (1)

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





# IoT Business (2)

## IIJ's IoT projects

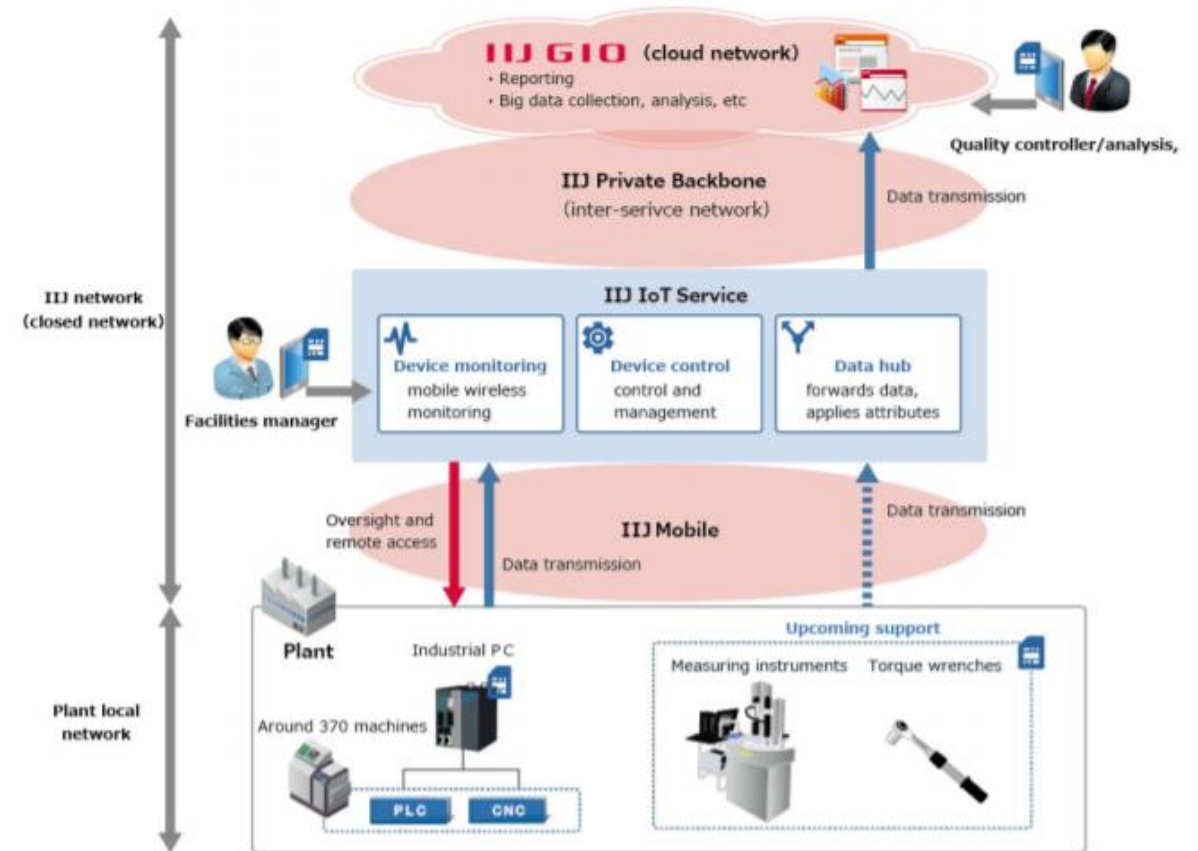
<b>Industrial machinery manufacturers</b>	Shift from reactive post-sales maintenance model to proactive field services (making predictions based on data)
<b>Car accessory manufacturers</b>	Expansion of service businesses by acquiring data through the networking of products and establishing software technology development organizations to develop services that use that data
<b>Measuring instrument manufacturers</b>	Expansion of services to streamline & improve the accuracy of recording tasks by going beyond just "measuring" things & providing linking data customers measure with their business systems
<b>Automotive manufacturers</b>	Improved efficiency of equipment management to cover personnel shortages, analyzing the expertise of skilled workers in maintaining operating capacity and implementing traceability to ensure quality
<b>Trading companies (agriculture)</b>	Shift from the sales of pesticides & chemical fertilizers to the provision of pesticide spraying technologies that reduce the amount used, & the development of cutting-edge agricultural technologies

## Advanced IoT usage: factory IoT

### ◆ IIJ provides IoT system for Toyota Motor Hokkaido

- Providing a one-stop solution by offering mobile and Cloud services from data collection via closed mobile network to creation of a cloud platform for visualizing and analyzing the collected data.

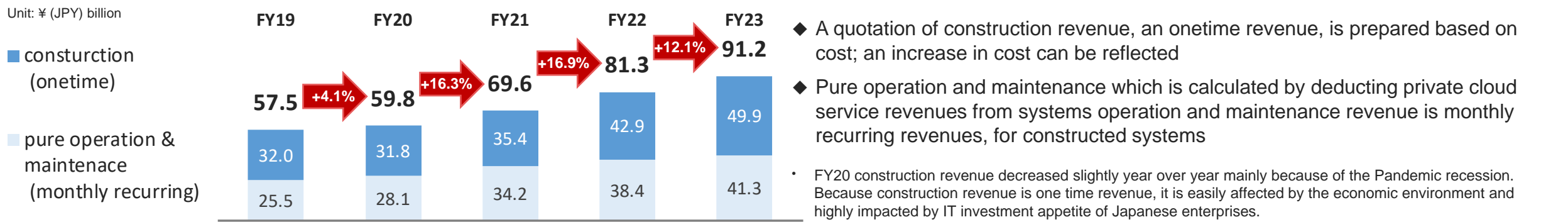
### System image



# Systems Integration (SI)

- ◆ Started offering SI to fully meet Japanese enterprises' IT demands which are quite specific & difficult to meet solely by NW services
- ◆ Seeing greater proposal opportunities to replace legacy private NW and systems which often require customization and Service Integration

## SI revenue growth



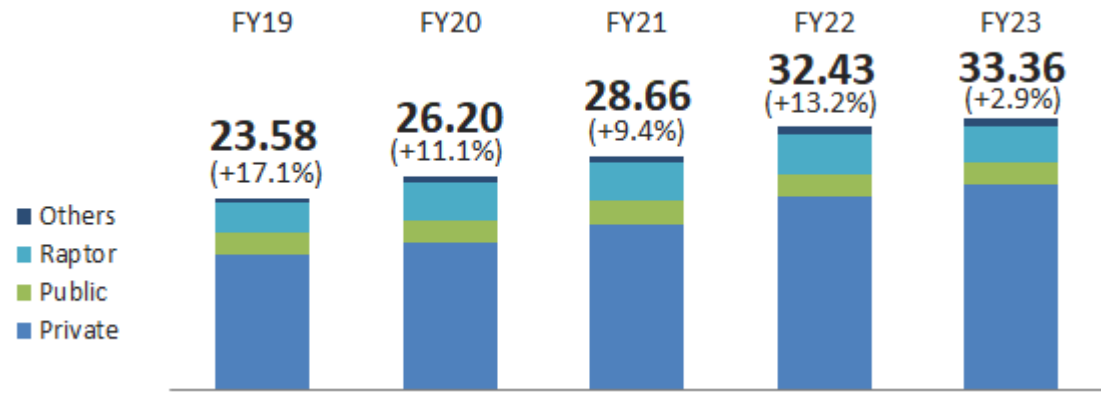
## IJJ's SI projects are becoming larger and more complex

	Conventional contracts	Current trend
<b>Revenue Size</b>	Few million to tens of millions (JPY)	Few hundreds of millions (JPY)
<b>Type</b>	NW integration, server enhancement and other Internet related systems construction projects	Complete replacement of current enterprise NW/system
<b>Term</b>	Construction revenue is usually booked after 3 to 6 months from order received	<ul style="list-style-type: none"> <li>• Construction revenue is sometimes booked a year later from order received</li> <li>• Greater time to book order received as projects becoming more complex and larger</li> </ul>
<b>Cost structure</b>	Mainly hardware	Larger number of system engineers and outsourcing personnel are needed

# Cloud Business (1)

## Cloud service revenue (monthly recurring)

◆ Revenue continued to accumulate along with the constant cloud shift

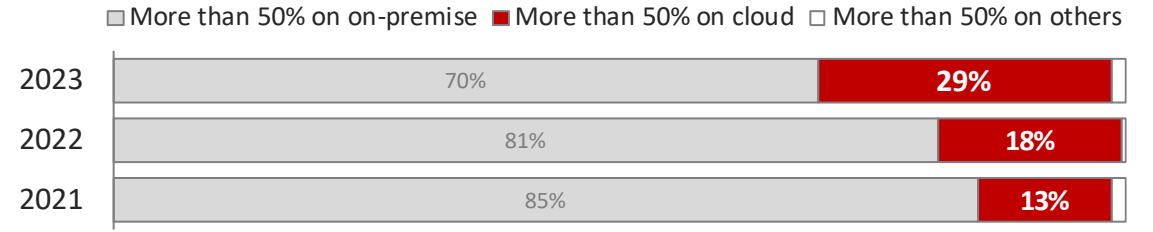


• FY23 Cloud Service revenue recognition: 91.7% in systems operation, 8.3% in Outsourcing

Private cloud	Public cloud
<ul style="list-style-type: none"> <li>➢ IIJ GIO Infrastructure P2 Gen.2                             <ul style="list-style-type: none"> <li>• Next generation IaaS enabling easy Cloud migration from on-premise (launched in Oct. 2021)</li> <li>• Highly transitional VMware base hosted private Cloud</li> </ul> </li> <li>➢ IIJ Unified Operation Management Service (UOM)                             <ul style="list-style-type: none"> <li>• SaaS to improve efficiency of multi-cloud system operation work (launched in Apr. 2017)</li> <li>• Management and operation cover wide range from cloud to on-premise, Improve efficiency with automated incident management etc.</li> </ul> </li> <li>➢ Multi-cloud, etc.</li> </ul>	<ul style="list-style-type: none"> <li>➢ Low-cost servers with pay-as-you-go pricing, etc.</li> </ul>
	Raptor
	<ul style="list-style-type: none"> <li>➢ In-house developed SaaS base FX (Foreign Exchange) platform services for online brokers, launched in Nov. 2011</li> <li>➢ Providing services to Hirose Tsusho, Line Securities, au Kabucom Securities, Nomura Securities, Sony Bank, SMBC Nikko Securities, Matsui Securities etc.</li> <li>➢ New service platform (from Sep. 2023)                             <ul style="list-style-type: none"> <li>• With cloud-native design, greater scalability, performance, and security features than the previous platform</li> </ul> </li> </ul>
	Others
	<ul style="list-style-type: none"> <li>➢ Cloud services provided through overseas subsidiaries, etc.</li> </ul>

## Majority of enterprise systems are still operating on-premise

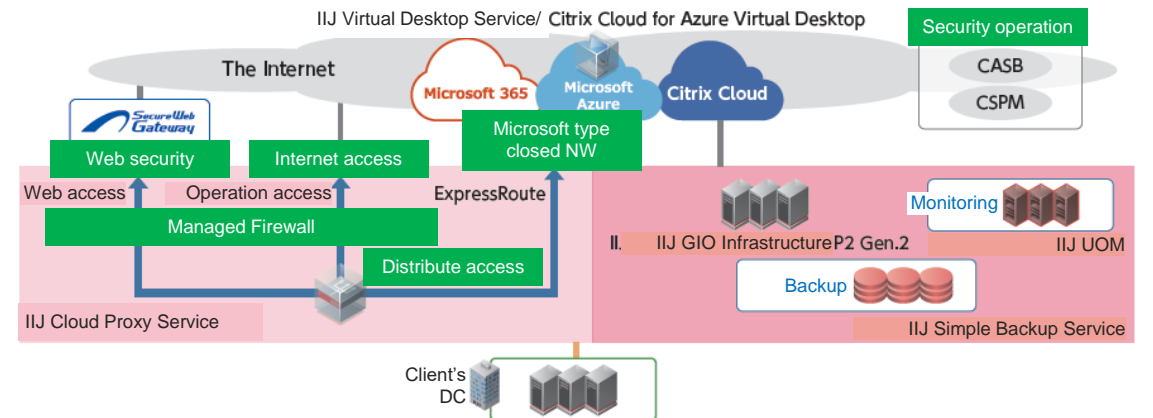
### Location of servers working and/or deployed



Source: Internet Initiative Japan "Nationwide survey on IT department" 2021 N=737, 2022 N=598, 2023 N=214

### ◆ Continued to accumulate cloud migration projects

- Case 1: Upon DC contract renewal, a client started considering cloud migration of the current systems
  - ✓ IIJ GIO Infrastructure P2.Gen2, Migration Solution, and UOM combined to achieve easy migration to cloud with almost no changes to the current configuration. IIJ was in charge of test and production migration work, continued use of existing IP addresses, integrated cloud and NW maintenance, etc.
- Case 2: Upon the end of service of virtual desktop systems, a client started considering cloud migration
  - ✓ On-premise environment often causes long waits for login and other usability problems, but IIJ provides multiple IIJ services including IP and security to create



# Cloud Business (2)

- Cloud services as one of the cross-selling elements
- Promoting cloud shift of the current blue-chip Japanese enterprises

## IIJ's competitive advantages

- ◆ Blue-chip client base
- ◆ Cloud as new business opportunity
  - Because blue-chip companies' internal systems have been covered by legacy system integrators (SIs), it is a new business opportunity for IIJ once such systems migrate toward Cloud. IIJ has not dealt with legacy internal enterprise systems
- ◆ Various NW service line-ups, various ways to access cloud systems
- ◆ Competitors
  - AWS (Amazon) & Azure (Microsoft): Strong scale merit. Focus on public cloud. Not so strong about meeting individual systems needs
    - Because start-ups and SMEs do not have to worry about existing systems, they tend to use cloud services much more and much faster compared to large blue-chip companies who have large and complex existing systems
  - Legacy SIs

## IIJ's cloud business model

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

## Cloud market in Japan

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

## Multi-cloud strategy

- ◆ Japanese enterprises avoid relying on single cloud service vendor and prefer multi-cloud systems
  - Multi-cloud demands are generating demands for "IIJ Cloud Exchange Services" (revenue recognized in NW Services) which provide private connectivity to third vendor Cloud services such as AWS (Amazon), Microsoft, and Google
  - IIJ provides operation and management services to effectively monitor an entire IT systems through IIJ UOM Service which covers IIJ's cloud services, other cloud vendors' cloud services and on-premise systems
  - "IIJ GIO Infrastructure P2 Gen.2," which was launched in Oct. 2021 to promote full-scale cloud shift of enterprise systems, is accumulating orders

# Data center (DC)

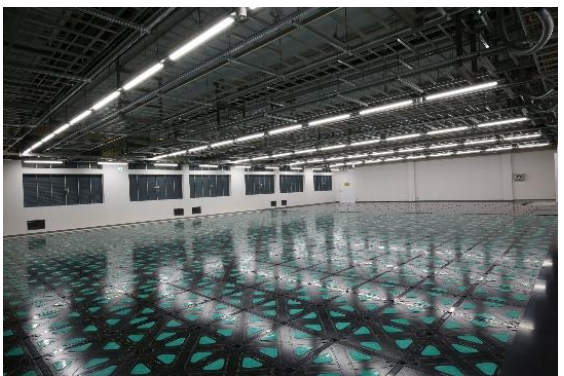
- ◆ Operate 16 DCs in Japan, 2 of which are owned by IIJ (as of Jun. 2024)
- ◆ DCs are mainly for IIJ's own service facility (IP, security, cloud, etc.)
  - Expanding own DC capacity along with growing demands for IIJ services
  - Expect higher efficiency by gradually migrating leased DC spaces to own DCs



Container DC at Matsue DCP



Server room at Shiroi DCC



	Matsue DCP (opened in Apr. 2011)	Shiroi DCC (opened in May 2019)
Objective	Own service facility	
Features	<ul style="list-style-type: none"> <li>• First in Japan to use outside-air cooling container units</li> <li>• Able to increase capacity responding to demand per container</li> <li>• Utilize on-site solar power panels</li> </ul>	<ul style="list-style-type: none"> <li>• Adopt latest energy-saving method including outside-air cooling method</li> <li>• More flexible and cheaper capacity expansion through system module method</li> <li>• Shifting peak of air conditioning power by utilizing lithium-ion storage batteries</li> <li>• Utilize on-site solar power panels</li> <li>• Direct procurement of non-fossil fuel certificates toward the supply of electricity with environmental values</li> </ul>
Land	Approx. 16 thousand square meters	Approx. 40 thousand square meters
Number of in placed racks	Approx. 500 racks	Approx. 1,800 racks
Plan	<ul style="list-style-type: none"> <li>• Construction of new system module                             <ul style="list-style-type: none"> <li>✓ Construction from Jun. 2024, Scheduled operation from May 2025</li> <li>✓ Approx. 2 thousand square meters</li> <li>✓ Approx. 300 racks</li> <li>✓ Capex (plan): over ¥5.0 bn (to be partially covered with subsidy)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 2<sup>nd</sup> site is to be fully occupied around FY26 by own service facility and collocation</li> <li>• 3<sup>rd</sup> site construction is under discussion (From FY25)</li> </ul>

- PUE(Power Usage Effectiveness) is a metric that shows how efficiently electricity is used at a data center. The closer to 1.0 is considered to be good. Industry max at 1.4 or lower.

# Financials

Financial Performance (FY19 ~ FY23 results)

P. 46

1Q24 Financial Results

P. 47 – 60

# Financial Performance (FY19 ~ FY23 results)

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

Financials

Download link for Data book can be here: <https://www.ijj.ad.jp/en/ir/library/financial/>

		FY19	FY20	FY21	FY22	FY23
<b>Total Revenue</b>		<b>204.5</b>	<b>213.0</b>	<b>226.3</b>	<b>252.7</b>	<b>276.1</b>
	YoY	+6.3%	+4.2%	+6.3%	+11.7%	+9.2%
NW services		122.0	126.8	128.2	138.9	151.3
	YoY	+2.8%	+4.0%	+1.1%	+8.4%	+8.9%
Enterprise NW		75.9	79.3	87.5	96.6	105.2
	YoY	(-0.1%)	+4.5%	+10.3%	+10.5%	+8.9%
Mobile services		46.1	47.5	40.7	42.3	46.1
	YoY	+9.8%	+3.1%	(14.3%)	+3.8%	+9.1%
SI		78.4	83.3	95.3	110.9	121.8
	YoY	+12.5%	+6.2%	+14.5%	+16.4%	+9.8%
<b>Operating Profit</b>		<b>8.2</b>	<b>14.2</b>	<b>23.5</b>	<b>27.2</b>	<b>29.0</b>
	YoY	+36.6%	+73.2%	+65.3%	+15.6%	+6.6%
<b>Operating Margin</b>		<b>4.0%</b>	<b>6.7%</b>	<b>10.4%</b>	<b>10.8%</b>	<b>10.5%</b>
<b>Net Profit</b>		<b>4.0</b>	<b>9.7</b>	<b>15.7</b>	<b>18.8</b>	<b>19.8</b>
	YoY	+13.8%	+142.4%	+61.4%	+20.2%	+5.2%
<b>ROE</b>		<b>5.2%</b>	<b>11.5%</b>	<b>16.2%</b>	<b>17.0%</b>	<b>16.3%</b>
<b>NW service gross margin</b>		<b>16.3%</b>	<b>21.4%</b>	<b>27.8%</b>	<b>27.5%</b>	<b>28.7%</b>
<b>SI gross margin</b>		<b>13.8%</b>	<b>14.5%</b>	<b>15.7%</b>	<b>16.7%</b>	<b>15.6%</b>

- NW services (excluding Mobile service) revenue decreased YoY in FY19 mainly due to WAN services' certain large customers' migration to our mobile services
- Mobile service revenue decreased YoY in FY21 and expect to decrease in FY22 mainly due to subscriber migration to new cheaper plan
- Net profit is "Profit for the period/year attributable to owners of the parent"

# Consolidated Financial Results

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

Financials

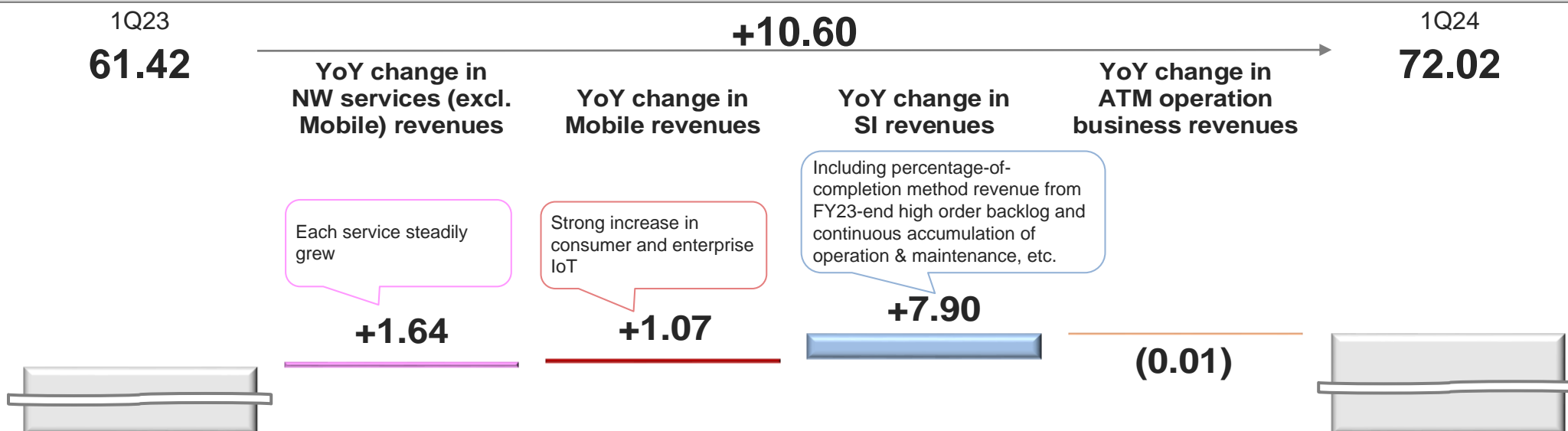
	% of revenue		YoY		(Previous target)	% of revenue	YoY	(Previous target)	% of revenue	YoY
	1Q24 Results Apr. 2024 - Jun. 2024	1Q23 Results Apr. 2023 - Jun. 2023			1H24 New targets Apr. 2024 - Sep. 2024			FY24 New targets Apr. 2024 - Mar. 2025		
Revenues	<b>72.02</b>	<b>61.42</b>	+17.3%	+10.60	(142.0 ~ 143.0)		+14.7%	(312.0 ~ 315.0)		+13.0%
Cost of Revenues	80.4% <b>57.88</b>	77.5% <b>47.62</b>	+21.6%	+10.26	(112.8)	79.0%	+17.4%	(243.5)	77.4%	+13.8%
Gross Profit	19.6% <b>14.13</b>	22.5% <b>13.80</b>	+2.4%	+0.33	(29.2 ~ 30.2)	21.0%	+5.5%	(68.5 ~ 71.5)	22.6%	+10.4%
SG&A etc.	13.4% <b>9.65</b>	14.3% <b>8.80</b>	+9.7%	+0.85	(19.2)	13.1%	+12.2%	(38.5)	12.3%	+10.5%
Operating Profit	6.2% <b>4.48</b>	8.1% <b>5.00</b>	(10.4%)	(0.52)	(10.0 ~ 11.0)	7.9%	(4.0%)	(30.0 ~ 33.0)	10.3%	+10.2%
Profit before tax	7.0% <b>5.04</b>	8.9% <b>5.48</b>	(8.1%)	(0.44)	(9.5 ~ 10.5)	7.5%	(12.4%)	(29.0 ~ 32.0)	9.8%	+5.8%
Net Profit (Profit for the period attributable to owners of the parent)	4.6% <b>3.32</b>	5.8% <b>3.58</b>	(7.3%)	(0.26)	(6.3 ~ 7.0)	4.9%	(12.9%)	(19.9 ~ 21.9)	6.6%	+3.9%

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



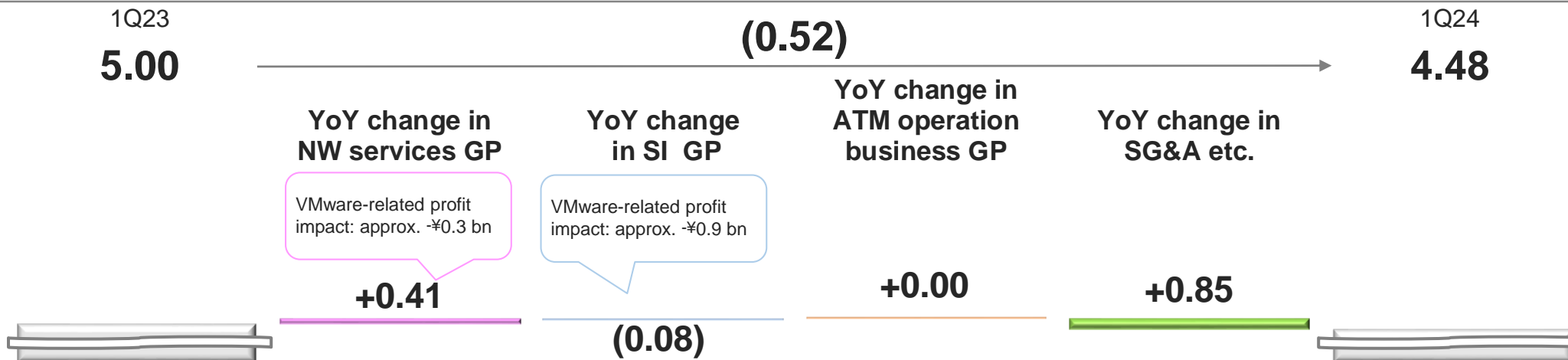
# Year over Year Analysis

## Revenues



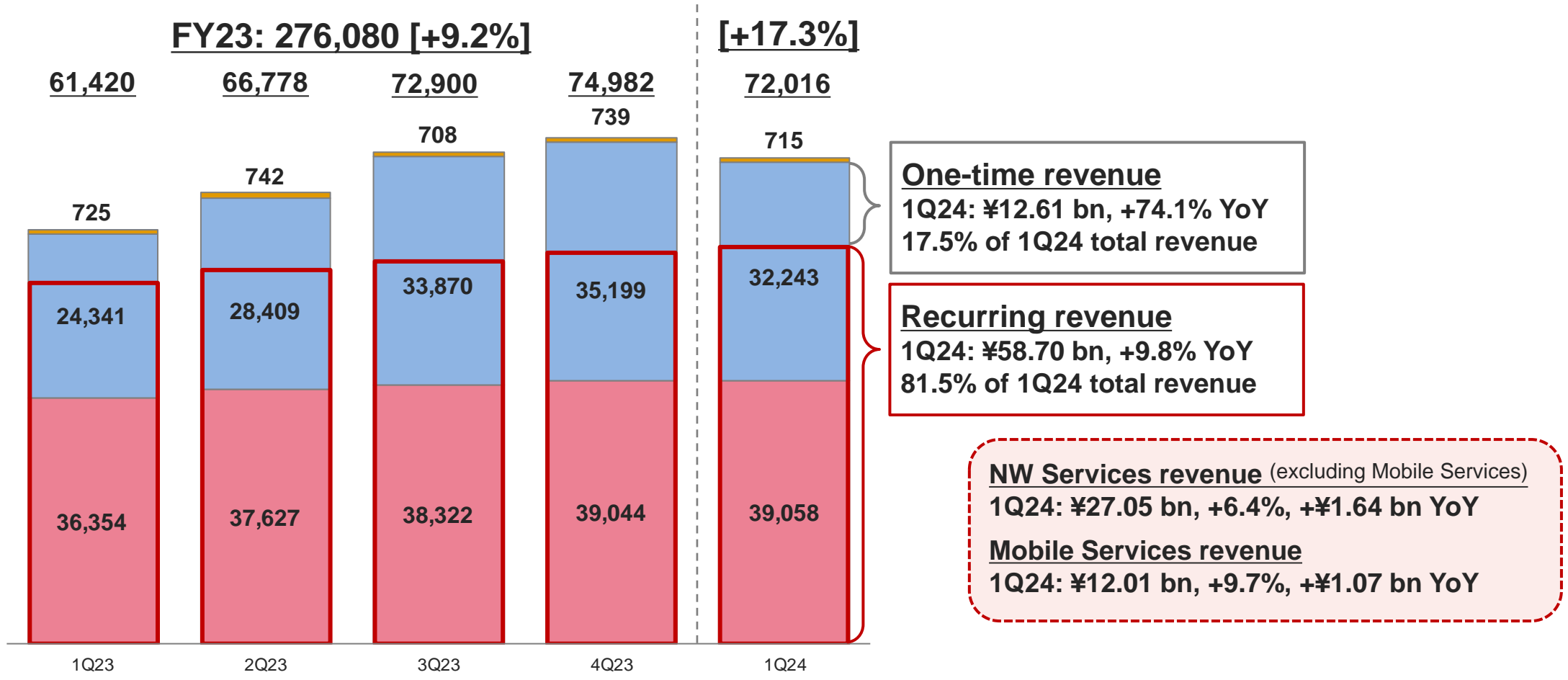
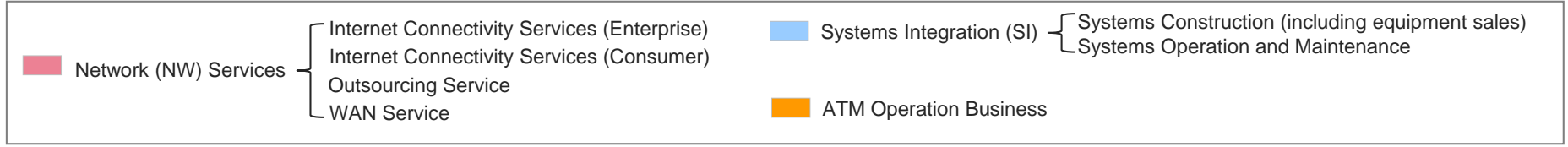
- NW services (excl. Mobile) revenues are calculated by deducting the below mentioned Mobile services revenues from total NW services revenues. The revenues include non-mobile consumer revenue which is a small amount
- Mobile services revenues include IJ Mobile Services (including MVNE) and IJmio (consumer mobile)

## Operating Profit



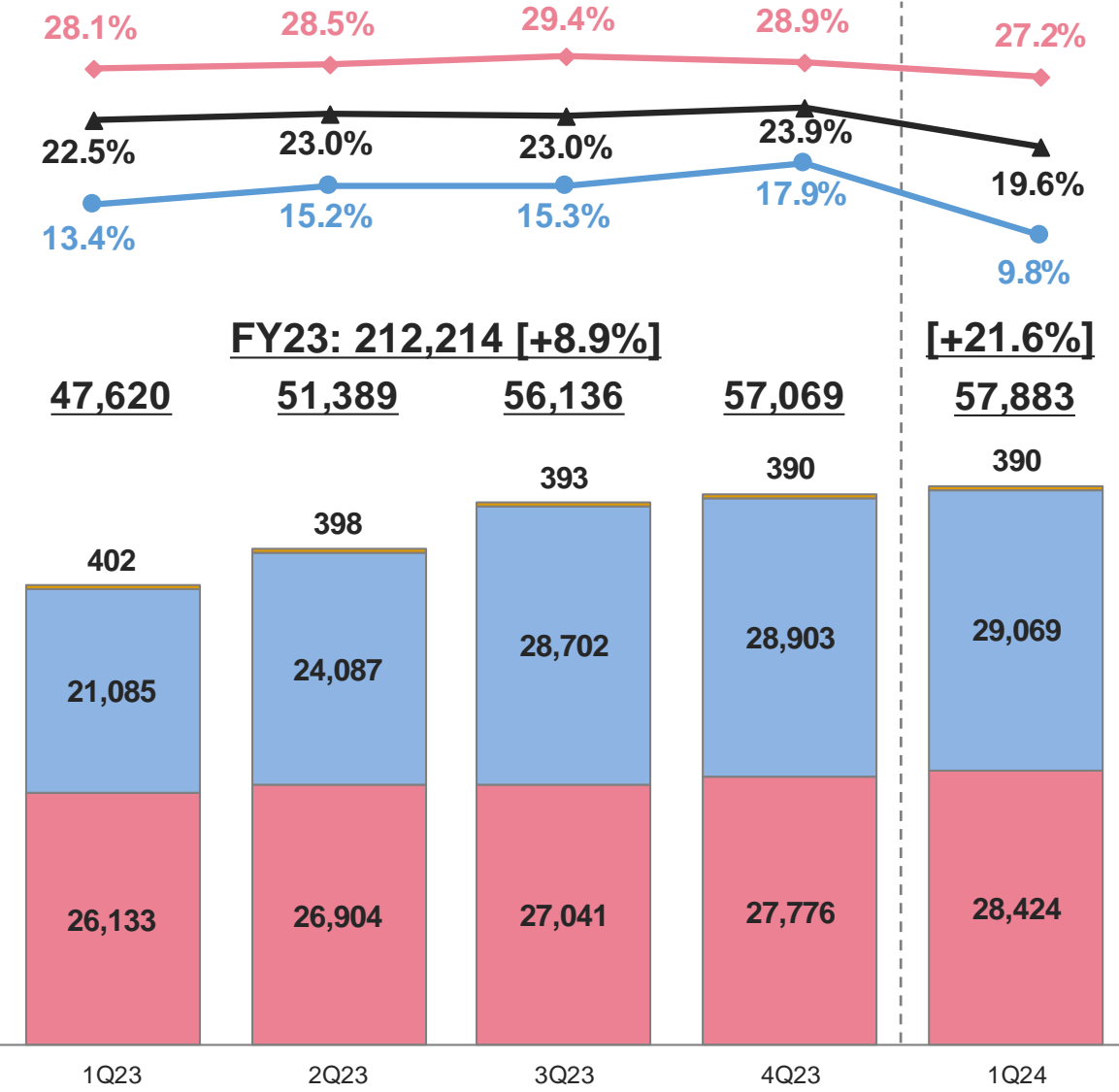
- NW services gross profit consists of gross profit related to NW revenues (excl. Mobile) and Mobile revenues (The two services have costs in common and cannot be broken down in accounting terms)
- SG&A etc. in this slide represents the sum of SG&A, which includes R&D expenses, and other income/expenses
- As for the background of FY24 target revision, please refer to P.26 of "Presentation Material for Consolidated Financial Results for FY23 and New Mid-term Plan (FY24~FY26)" ([https://www.ij.ad.jp/en/ir/library/financial/pdf/IJ4Q23E\\_presentation.pdf](https://www.ij.ad.jp/en/ir/library/financial/pdf/IJ4Q23E_presentation.pdf))

# Revenues



- One-time revenue, systems construction revenues which include equipment sales, is mainly recognized when systems and/or equipment are delivered and accepted by customers (Some revenues on a percentage-of-progress basis based on cost progression)
- Recurring revenue represents the following monthly recurring revenues: Internet Connectivity Services (Enterprise), Internet Connectivity Services (Consumer), Outsourcing Services, WAN Services, and Systems Operation and Maintenance
- Mobile services revenues include IJ Mobile Services (including MVNE) and IJmio (consumer mobile)

# Cost of Revenues & Gross Profit Ratio



## ◆ Total gross profit

- 1Q24: ¥14.13 bn, +2.4% YoY
- VMware license-related profit impact : approx. -¥1.2 bn, the negative impact on profit was significant in 1Q, would diminish quarter by quarter
- From the beginning of Apr. 2024, VMware license's unit price increased. Our price pass-through and revisions have been making progress without noticeable delays

## ◆ Gross profit for NW services

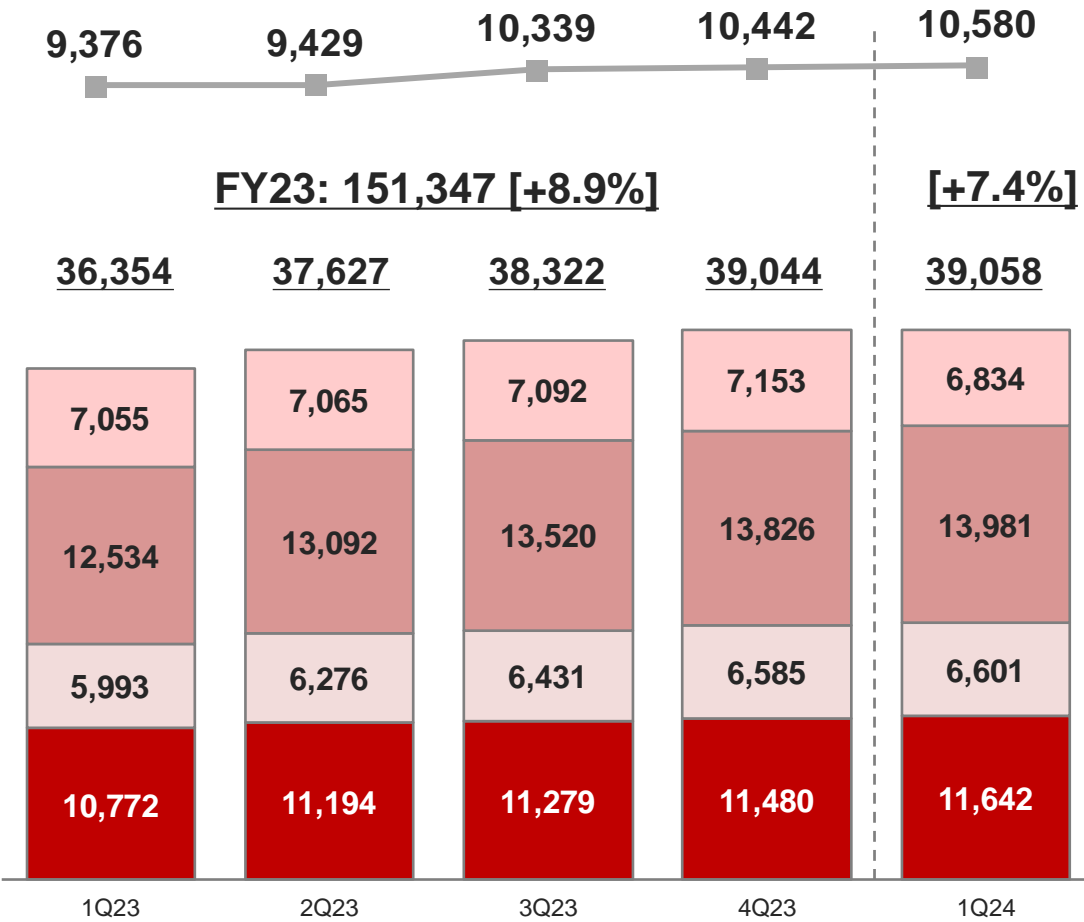
- 1Q24: ¥10.63 bn, +4.0%, +¥0.41 bn YoY
- VMware license-related profit impact : approx. -¥0.3 bn. If we exclude this impact, gross margin would have been at the same level as 1Q23
- Plan to revise some NW services' prices from the beginning of 3Q24

## ◆ Gross profit for SI

- 1Q24: ¥3.17 bn, -2.5%, -¥0.08 bn YoY
- VMware license-related impact : approx. -¥0.9 bn. If we exclude this impact, gross margin would have been slightly less than 13%
- Our price pass-through was sequentially progressing
- SI construction revenues under the percentage-of-completion method were relatively large in 1Q24, approx. ¥1.8 bn (1Q23: almost none)

• NW service gross margin: 3Q23 gross margin included a onetime profit contribution of over ¥0.1 bn which was the result of FY22 Docomo's mobile data interconnectivity (unit charge) revision

# Network (NW) Services (1) Revenues



## ◆ Internet Connectivity (enterprise) Services

- 1Q24: ¥11.64 bn, +8.1% YoY
  - Internet traffic (please refer to P.44) and contracted bandwidth continued to expand
  - Of which, IP: ¥4.17 bn, +6.7% YoY
    - ✓ Stable growth and steady demand for bandwidth enhancement
  - Of which, Enterprise mobile (IoT usages, etc.): ¥3.53 bn, +12.3% YoY
    - ✓ Enhanced solutions through dual-carrier and eSIM, etc.
  - Of which, MVNE (service offer to other MVNOs): ¥2.77 bn, +5.5% YoY

## ◆ Internet Connectivity (consumer) Services (Mainly consumer mobile “IIJmio”)

- 1Q24: ¥6.60 bn, +10.1% YoY
  - Of which, consumer mobile (IIJmio): ¥5.71 bn, +10.3% YoY
    - ✓ Stable market environment. Active marketing with mobile device plan and eSIM, etc.

## ◆ Outsourcing Services (Various in-house developed network services)

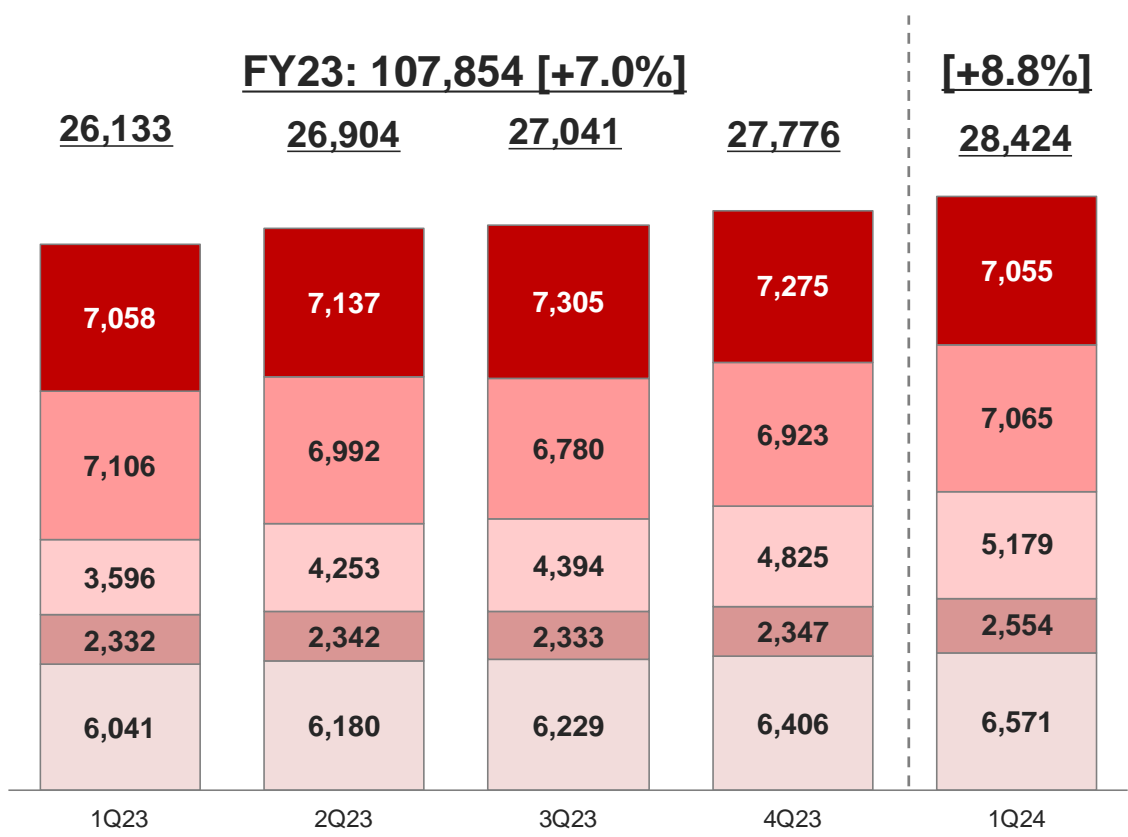
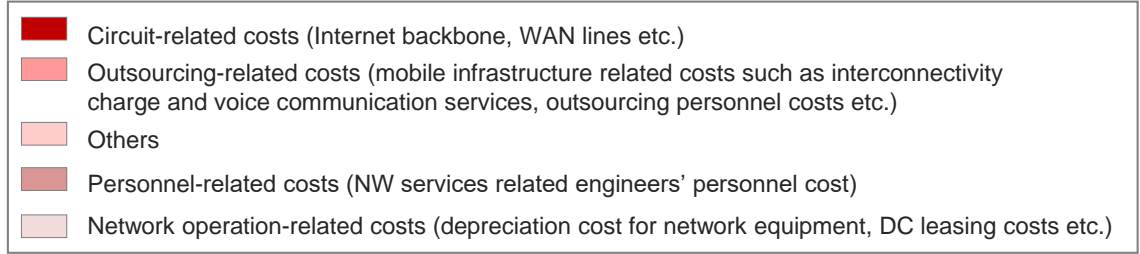
- 1Q24: ¥13.98 bn, +11.5% YoY
  - Of which, security: ¥8.60 bn, +19.4% YoY
    - ✓ Strong demand for SASE and SOC (Security Operation Center) due to NW renewal projects, etc.

## ◆ WAN Services (Closed network services)

- 1Q24: ¥6.83 bn, -3.1% YoY
  - Expect to increase due to NW renewal projects, etc.

- Total contracted bandwidth is calculated by multiplying number of contracts by contracted bandwidths for IP service and broadband services respectively which are both under Internet connectivity services for enterprise
- IP (Internet Protocol) Service is bandwidth guaranteed dedicated Internet connectivity services for enterprises. Contracts are based on bandwidth and enterprises use the service for their core and main Internet connectivity
- MVNE is IIJ Mobile MVNO Platform Service

# Network (NW) Services (2) Cost of Revenues



• 3Q23 outsourcing-related costs included a onetime profit contribution of over ¥0.1 bn which was the result of FY22 Docomo's mobile data interconnectivity (unit charge) revision

- 1Q24 Circuit-related costs increased stably
  - Internet backbone circuit cost remains stable as we can leverage scale merit by having one of the largest Internet backbone networks
  - Slightly decreased QoQ along with a decrease in WAN service revenue
- 1Q24 Outsourcing-related costs increased stably
  - Mobile data interconnectivity charge is on a continuous decreasing trend (please refer to P.24)
  - Outsourcing personnel cost is on a continuous increasing trend
- 1Q24 Others were on a continuous increasing trend
  - License fees such as SASE increased along with its increased revenue (in security)
  - The cost impact related to VMware was approx. +¥0.3 bn both YoY and QoQ
  - 1Q24 purchasing mobile devices increased by approx. ¥0.3 bn YoY
- 1Q24 Personnel-related costs increased due to regular salary increase, etc. at the beginning of fiscal year
- Network operation-related costs continued to increase along with facility expansions

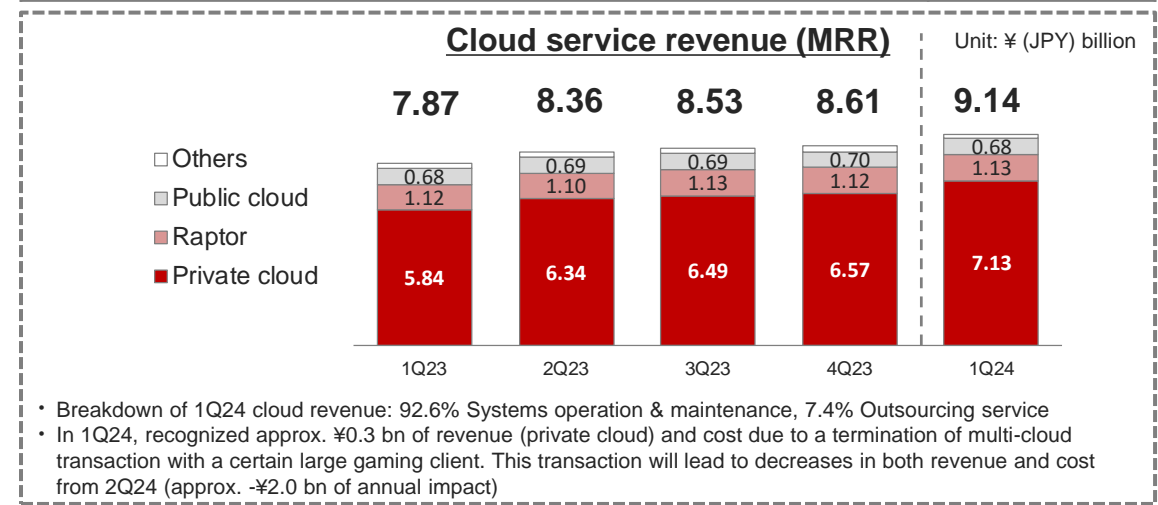
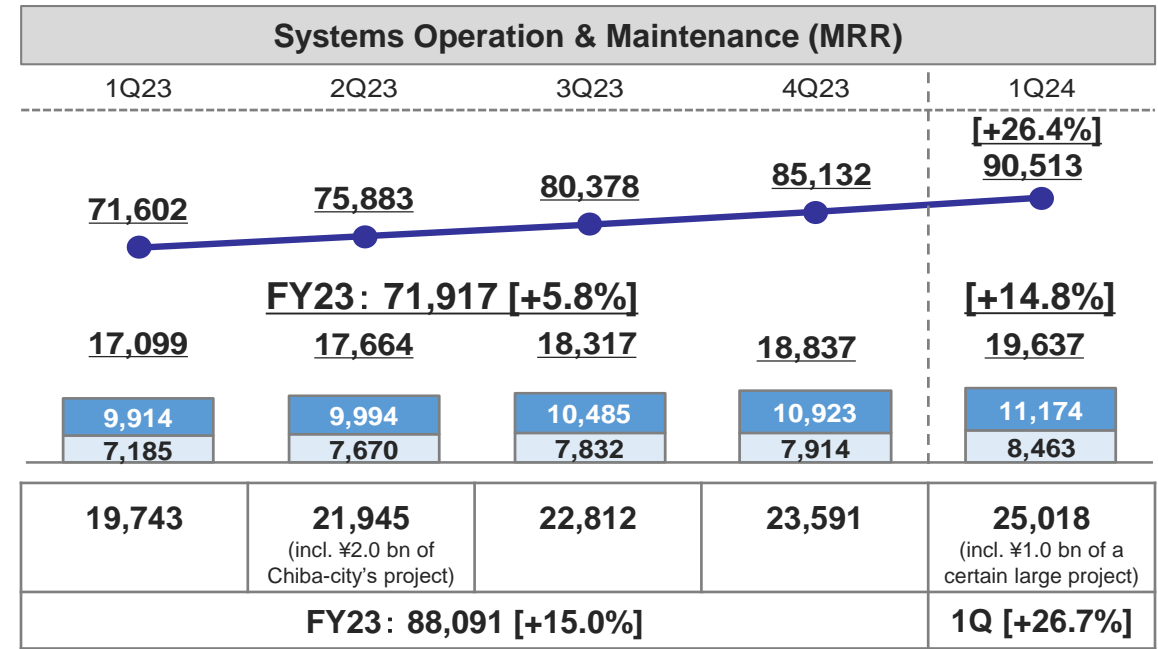
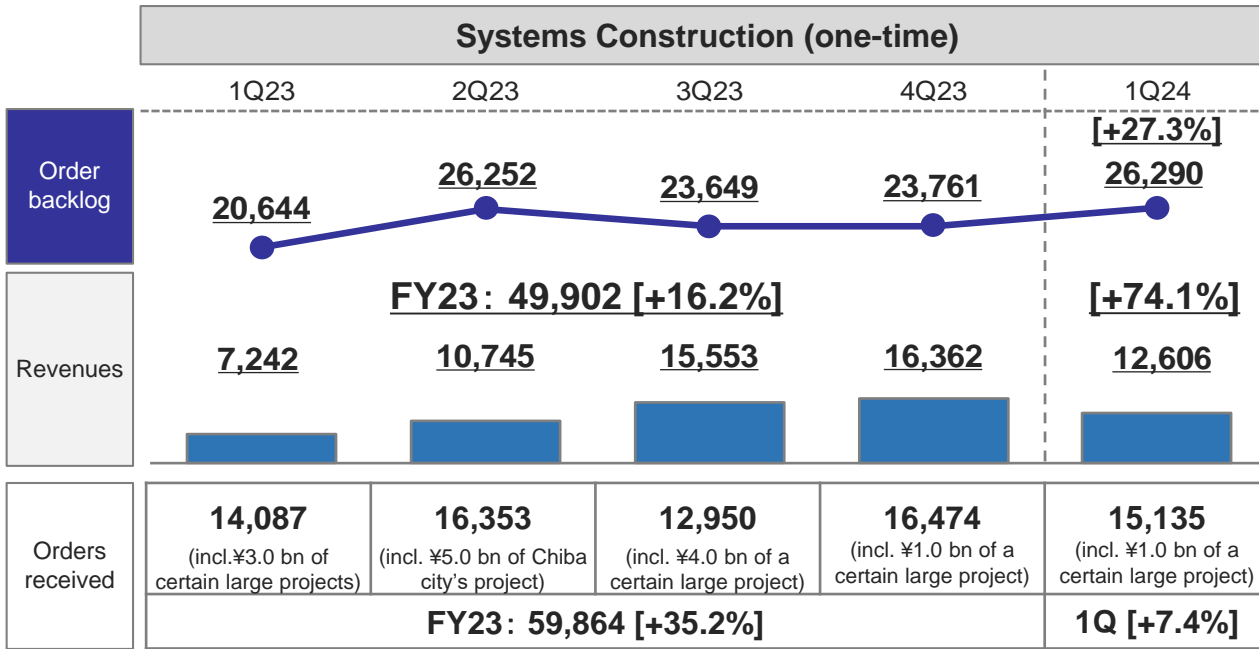
NTT Docomo's mobile data interconnectivity charge (unit charge)		
	Unit charge based on future cost method	Fixed unit charge
FY24	¥12,862, -17.8% YoY • Announced in Mar. 2024 • Have been using this unit charge from 1Q24 • Slightly lower than the previously announced unit charge in Mar. 2023 which was ¥13,084	• To be fixed around at the end of Dec. 2025
FY23	¥15,644, -21.7% YoY • Announced in Mar. 2023 • Used this unit charge in FY23	• To be fixed around at the end of Dec. 2024
FY22	¥20,327, -24.8% YoY • Announced in Mar. 2022 • Used this unit charge in FY22	¥19,979, -26.1% YoY • Fixed at the end of Dec. 2023 • Onetime profit contribution of over ¥0.1 bn in 3Q23

# Systems Integration (SI) (1) Revenues

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

Financials

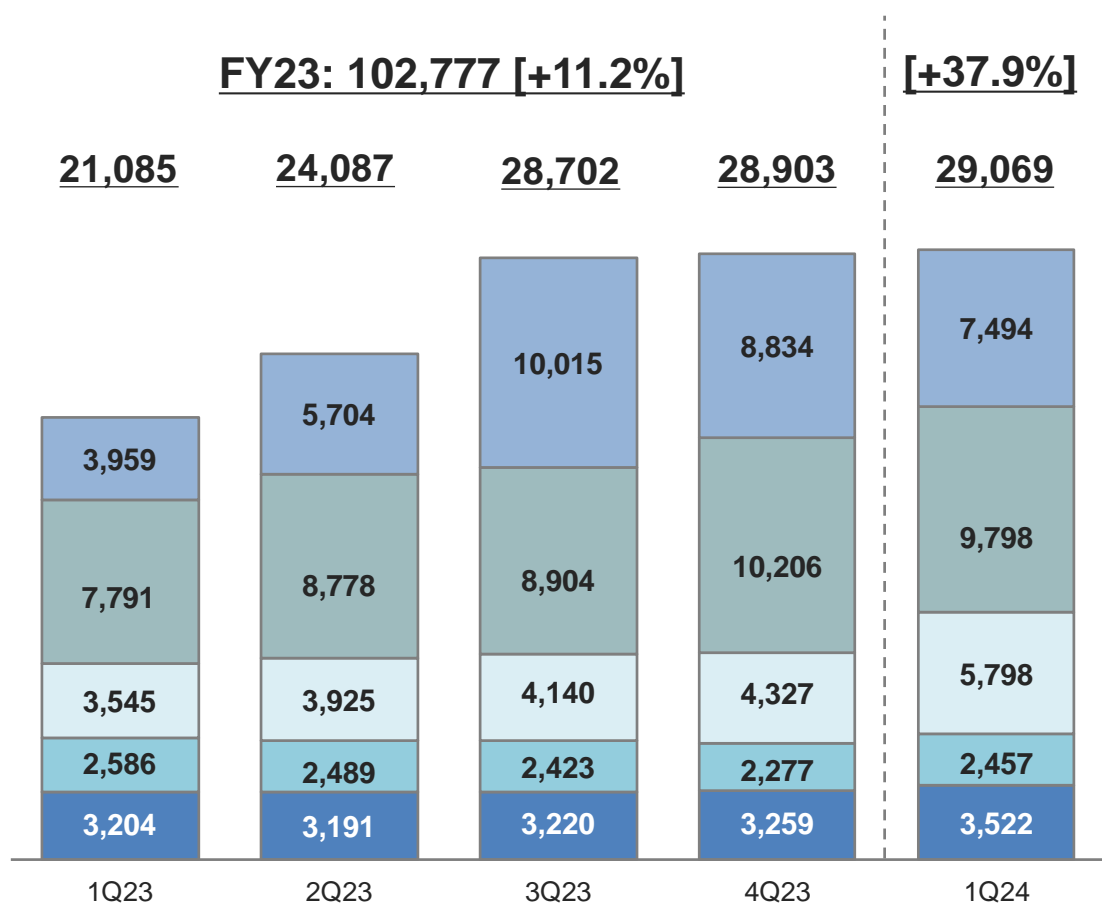
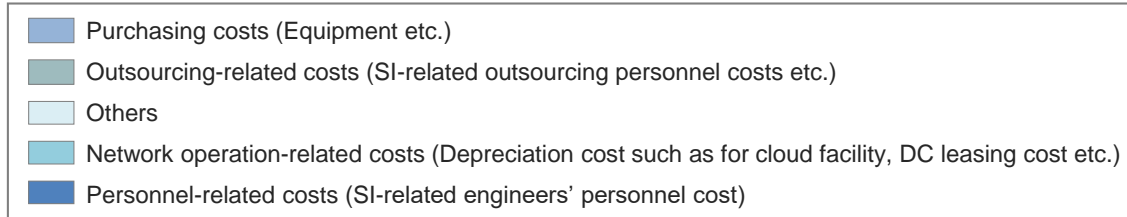
- Systems Construction revenues (including equipment sales)
- Systems operation & maintenance revenues for on-premise system
- Cloud revenues such as private cloud which are recognized as systems operation & maintenance revenues



- Favorable demand from all industries continued
- Below projects were acquired in 1Q24
  - Information infrastructure system for a public sector organization, ¥3.0 bn, 4 years
  - Research platform renewal for a private educational institution, ¥2.0 bn, 4 years
- 1Q24 revenue included approx. ¥1.8 bn of a percentage-of-completion method revenue which was due to the progress of large-scale projects (1Q23: almost none)

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

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



- Purchasing, outsourcing-related costs, etc. are linked to the size of project and revenue to a certain degree. Decreased QoQ from 4Q23 due to seasonality
  - Portion of purchasing costs to SI construction revenue was relatively high in 1Q24: approx. 59%, which did not result in so high gross margin
- Others include license purchasing costs and others
  - Multi-cloud license costs fluctuate along with its revenue
  - The cost impact related to VMware was approx. +¥1.2 bn both YoY and QoQ (of which, approx. ¥0.7 bn was one-time cost due to provisions in 1Q24)
- No significant change in network operation-related costs on a quarterly basis

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

1Q23-end	2Q23-end	3Q23-end	4Q23-end	1Q24-end
1,367	1,395	1,456	1,521	1,513

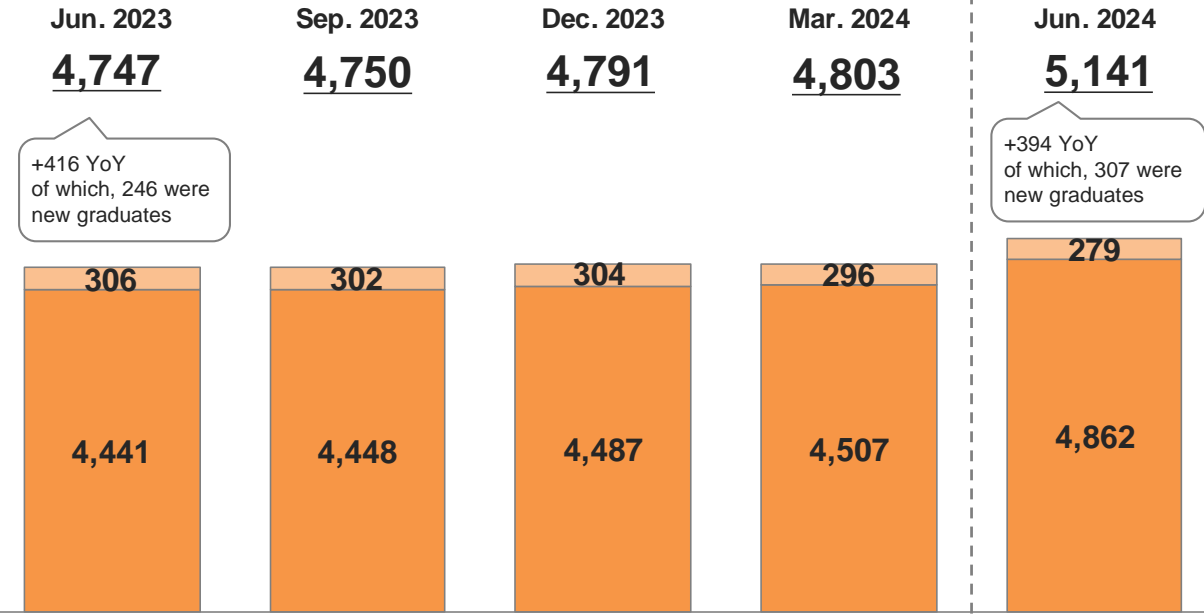
- The number of SI-related outsourcing personnel can be increased in comparison with the number of IJ's SI engineers
- Due to many ongoing projects before order-received, the number of 1Q24 outsourcing personnel has been at a high level

• 3Q23 purchasing costs included most of the costs related to the overseas DC construction project (revenue approx. ¥2.8 bn)

# Human Capital Disclosure

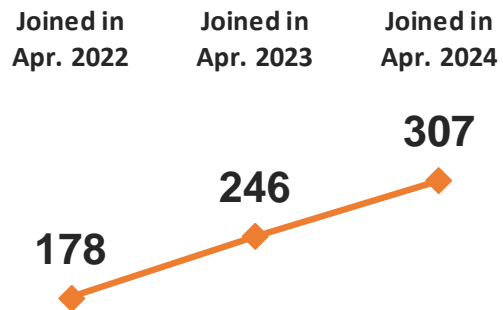
## Number of Employees (consolidated basis)

Contract worker (personnel)  
Full-time worker (personnel)



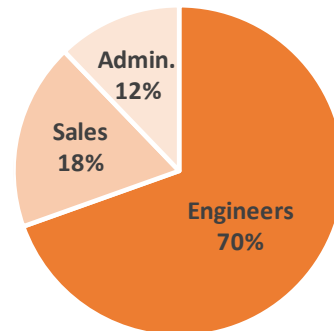
## Number of new graduates

Unit: personnel



## Breakdown of Employees

(As of Jun. 30, 2024)



## Personnel-related costs & expenses (consolidated basis)

Unit: ¥ (JPY) million

	1Q23	2Q23	3Q23	4Q23	1Q24
Consolidated personnel-related costs & expenses (YoY)	9,358 (+14.4%)	9,252 (+6.9%)	9,410 (+12.8%)	9,622 (+13.1%)	10,333 (+10.4%)
	FY23: 37,642(+11.8%)				-
% of revenue	15.2%	13.9%	12.9%	12.8%	14.3%

### FY24 outlook

- Number of employees (consolidated basis) to increase by over 400 personnel (including 307 of new graduates)
- Average salary increase of approx. 3.6% at the beginning of FY24 (IIJ)
  - Increased the new graduates salary table in Apr. 2023 (previous revision in Apr. 2019). New graduates with bachelor's degree: ¥256,667 per month, up 4.8%

## Ratio of Female Managers

- Achieved FY24 target (6% or more) a year in advance
- Brought FY27 target forward by 1 year (IIJ)

Apr. 2022	Apr. 2023	Apr. 2024	FY26 target
5.7%	6.3%	7.5%	8% or more

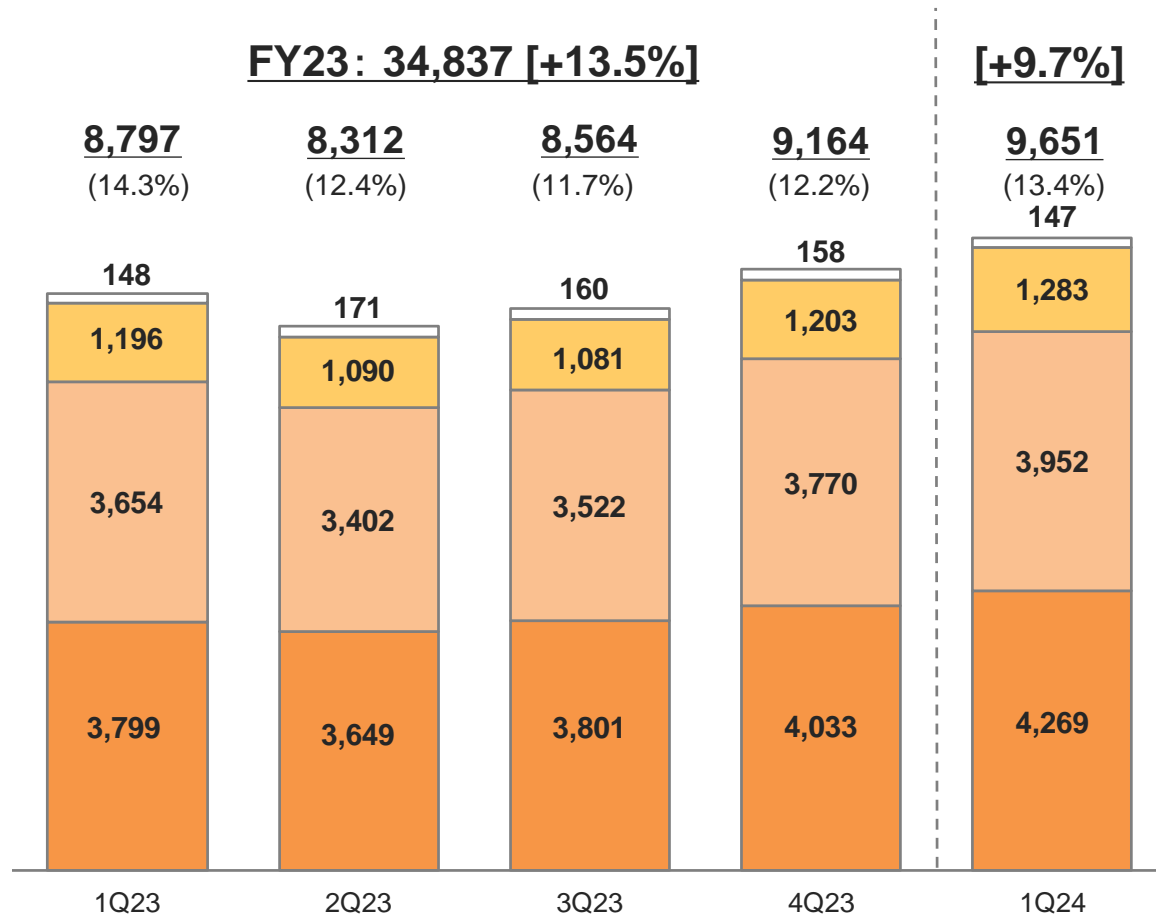
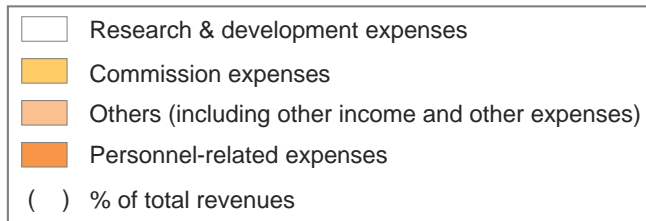
## Turnover rates

- Lower than the industry average turnover

FY19	FY20	FY21	FY22	FY23
4.6%	3.6%	4.2%	3.8%	4.6%

- The turnover rate of IIJ is calculated by dividing leavers for the fiscal year by the number of full-time employees at the beginning of that fiscal year. The industry average turnover rate of approx. 10% is announced by the Ministry of Health, Labor, and Welfare

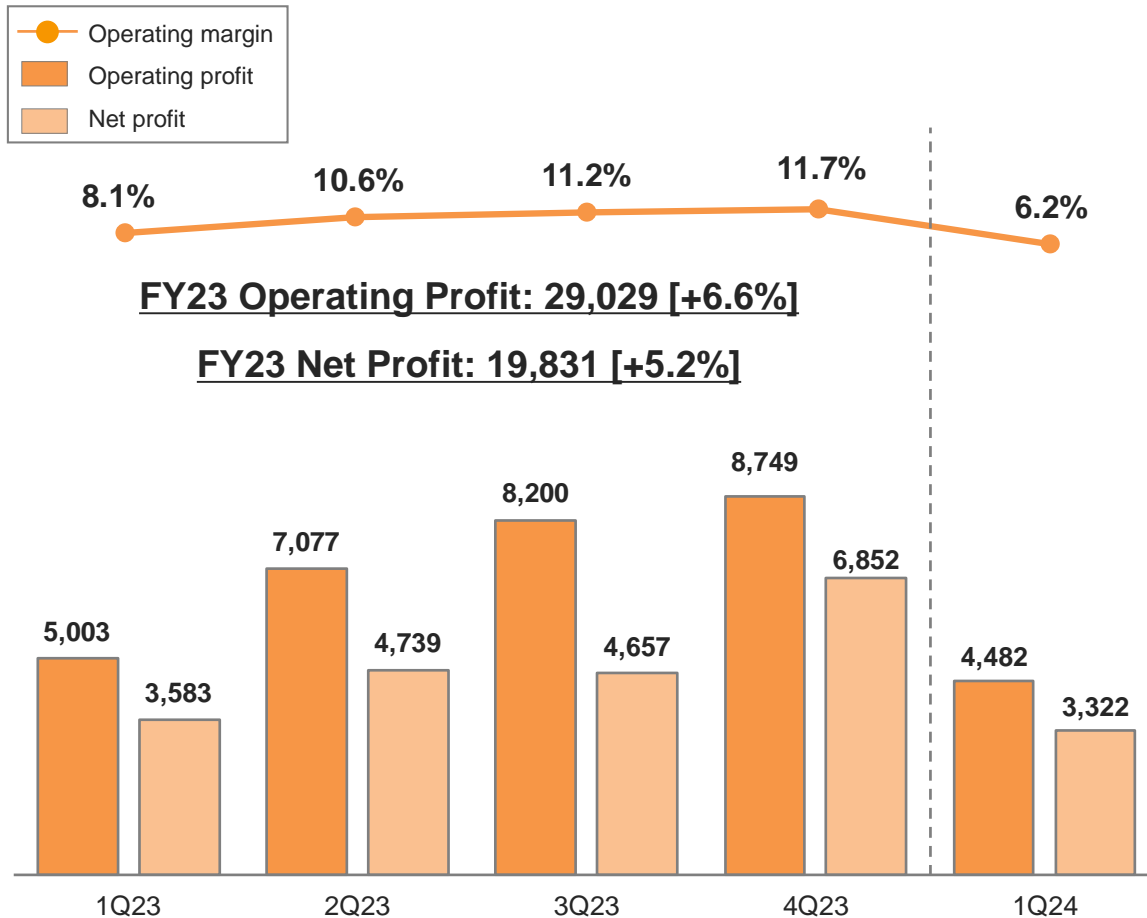




- Research & development expenses are mainly personnel expenses of research institute division. No major changes
- Commission expenses are mainly recruitment expenses and credit card fees for consumers
- Others are increasing mainly because of an increase in activity-related expenses such as advertisement and travel expenses. 1Q training expenses also increased temporarily due to new graduate hire
- Personnel-related expenses (salary, employee benefits, etc.) increased as expected due to new graduate hire and regular salary increase

- Above figures are SG&A expenses plus other income and other expenses
- 1Q personnel-related and others expenses increase mainly due to an increase in training and human capital development expenses along with the entry of new graduates. Such expenses decrease in 2Q QoQ as expenses for new graduate engineers are recorded as cost of revenues from 2Q

## Profit



1Q23	2Q23	3Q23	4Q23	1Q24	
632	114	(957)	581	719	Finance income (expense), net
(154)	(119)	(150)	(42)	(162)	Share of profit (loss) of investments accounted for using equity method
(1,824)	(2,320)	(2,365)	(2,449)	(1,654)	Income tax expense
74	13	71	(13)	63	Profit (loss) for the period attributable to non-controlling interests

- Net profit shows "Profit for the period attributable to owners of the parent"
- Under IFRS, equity securities are measured at fair value through OCI (Other Comprehensive Income) while funds are measured through profit or loss

## ◆ Operating profit

- 1Q24: ¥4.48 bn, -10.4% YoY
  - Profit decreased by approx. ¥1.2 bn due to the VMware impact. The profit level was slightly stronger than initially expected

## ◆ Profit before tax

- 1Q24: ¥5.04 bn, -8.1% YoY
  - Foreign exchange gain: +¥196 million (1Q23: +¥401 million)
  - Valuation gain(loss) on funds, etc.: +¥585 million (1Q23: +¥310 million)

1Q23	2Q23	3Q23	4Q23	1Q24	FY24 plan
+310	+13	(535)	+361	+585	±0

- ✓ Foreign exchange impacts were also included as lots of assets are dominated in USD, Exchange rate at the end of FY23: ¥151.41 for 1 USD

- Share of loss of investments accounted for using equity method: ¥162 million (1Q23: ¥154 million)  
DeCurret-related loss (IIJ ownership: 38.2%)

1Q23	2Q23	3Q23	4Q23	1Q24	FY24 plan
125	124	143	143	182	Approx. 800

- ✓ Launched Japan's first digital currency platform service "DCJPY Network" in Jul. 2024 (For detail, please refer to P.23)
- ✓ Expect cost and expenses such as personnel are to increase in FY24 toward the service launch. After the launch, anticipate to become profitable on a monthly basis within FY26 by the revenue accumulation

## ◆ Net profit

- 1Q24: ¥3.32 bn, -7.3% YoY

# Consolidated Statements of Financial Position (Summary)

Unit: ¥ (JPY) million

Financials

	Mar. 31, 2024	June 30, 2024	Changes		Mar. 31, 2024	June 30, 2024	Changes
<b>Cash &amp; cash equivalents</b>	45,474	<b>29,784</b>	(15,690)	<b>Trade &amp; other payables</b>	25,435	<b>26,020</b>	+585
<b>Trade receivables</b>	45,683	<b>42,692</b>	(2,991)	<b>Borrowings (current &amp; non-current)</b>	30,180	<b>28,419</b>	(1,761)
<b>Inventories</b>	3,227	<b>5,031</b>	+1,804	<b>Contract liabilities &amp; Deferred income (current &amp; non-current)</b>	21,530	<b>24,146</b>	+2,616
<b>Prepaid expenses (current &amp; non-current)</b>	39,496	<b>55,007</b>	+15,511	<b>Income taxes payable</b>	5,328	<b>1,710</b>	(3,618)
<b>Tangible assets</b>	29,072	<b>31,854</b>	+2,782	<b>Retirement benefit liabilities</b>	4,991	<b>5,127</b>	+136
<b>Right-of-use assets</b>	41,242	<b>42,038</b>	+796	<b>Other financial liabilities (current &amp; non-current)</b>	49,138	<b>53,578</b>	+4,440
Of which, operating leases (rent of office, data center etc.)	26,428	<b>25,250</b>	(1,178)	Of which, operating leases (rent of office, data center etc.)	26,982	25,817	(1,165)
Of which, finance leases (network equipment etc.)	14,814	<b>16,788</b>	+1,974	Of which, finance leases (network equipment etc.)	15,750	17,717	+1,967
<b>Goodwill &amp; intangible assets</b>	28,685	<b>29,488</b>	+803	<b>Others</b>	10,079	<b>11,444</b>	+1,365
<b>Investments accounted for using the equity method</b>	5,169	<b>4,960</b>	(209)	<b>Total liabilities:</b>	<b>146,681</b>	<b>150,444</b>	+3,763
<b>Investment securities (Equity)</b>	14,563	<b>15,261</b>	+698	<b>Share capital</b>	25,562	<b>25,577</b>	+15
<b>Other investments</b>	9,805	<b>10,838</b>	+1,033	<b>Share premium</b>	35,737	<b>35,708</b>	(29)
<b>Others</b>	11,297	<b>11,988</b>	+691	<b>Retained earnings</b>	65,616	<b>65,900</b>	+284
				<b>Other components of equity</b>	10,863	<b>11,987</b>	+1,124
				<b>Treasury shares</b>	(12,027)	<b>(11,970)</b>	+57
				<b>Total equity attributable to owners of the parent:</b>	<b>125,751</b>	<b>127,202</b>	+1,451
				<b>Non-controlling interests</b>	<b>1,281</b>	<b>1,295</b>	+14
<b>Total assets:</b>	<b>273,713</b>	<b>278,941</b>	+5,228	<b>Total liabilities and equity:</b>	<b>273,713</b>	<b>278,941</b>	+5,228

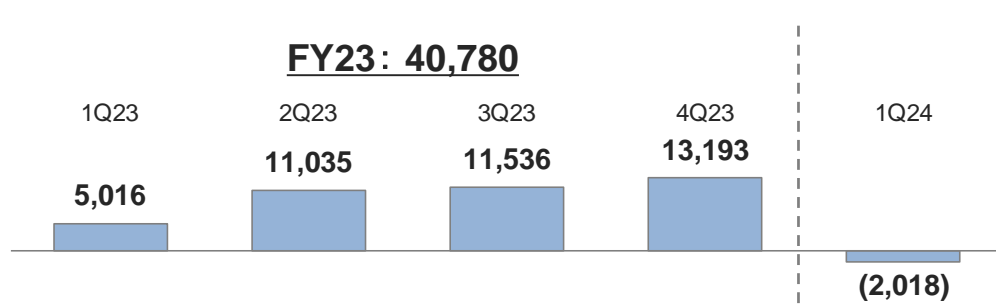
- Prepaid expenses increased mainly due to an increase in projects for clients (in addition to constant increase, two large-scale projects' impact: approx. +¥2.0 bn), license fee (in addition to constant increase, VMware license fee: approx. +¥4.2 bn), maintenance for facility (constant increase) and prepaid expenses for bonus (personnel increase), etc.
- Tangible assets increased mainly due to investment in Matsue DC
- Ratio of total equity attributable to owners of the parent: 45.9% as of Mar. 31, 2024, 45.6% as of Jun. 30, 2024

# Consolidated Cash Flows

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

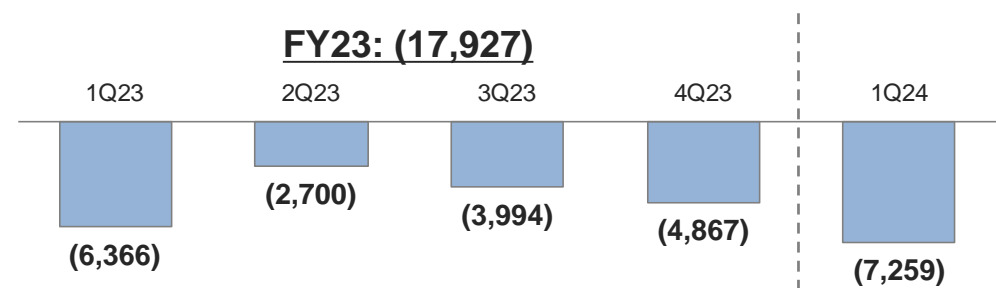
Financials

## Operating Activities



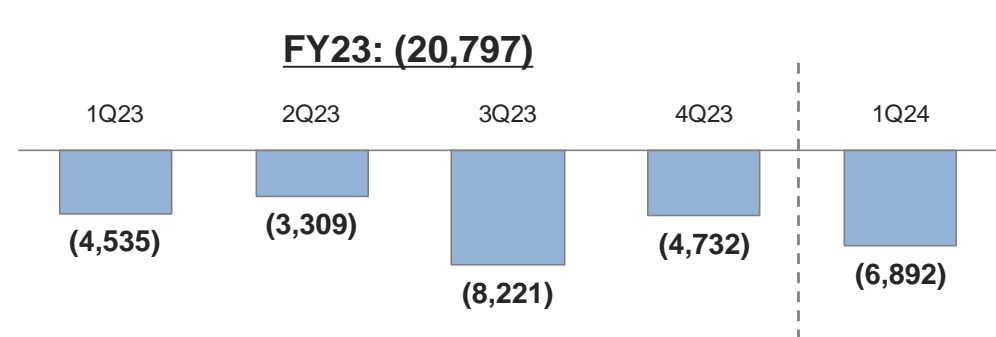
	1Q24 Major Breakdown	YoY Change
Profit before tax	5,039	(442)
Depreciation and amortization	7,599	+314
Changes in operating assets & liabilities	(9,052)	(5,939)
Of which, decrease (increase) in prepaid expenses	(15,185)	(6,697)
Income taxes paid	(5,286)	(987)

## Investing Activities



	1Q24 Major Breakdown	YoY Change
Purchase of tangible assets	(4,220)	(550)
Purchase of intangible assets such as software	(2,513)	+176

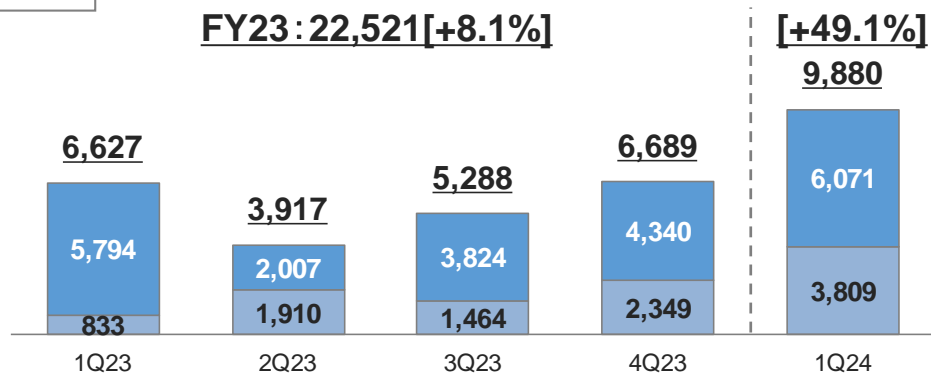
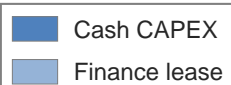
## Financing Activities



	1Q24 Major Breakdown	YoY Change
Payment of operating/finance leases and other financial liabilities	(5,281)	(271)
Dividends paid	(3,038)	(394)
Repayment of long-term borrowings	(1,766)	(751)
Short-term borrowings (Borrowings for acquisition of treasury shares, etc.)	-	(12,000)
Purchase of treasury shares	-	(11,405)

# Other Financial Data

## CAPEX



➤ Major breakdown of CAPEX (Unit: ¥ bn)

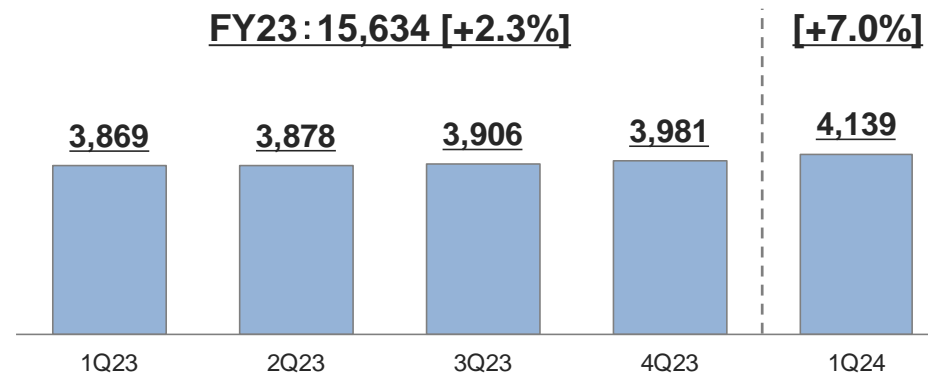
	1Q23	1Q24
Ordinal CAPEX (NW equipment & server, etc.)	2.7	3.3
Shiroi DC second site -related	2.4	0.1
Matsue DC -related	0	1.9
Customer-related	1.1	3.4
Renewal of Full-MVNO 5G infrastructure	0.2	1.0
Renewal of Raptor service facility	0.2	0.2

➤ FY24 CAPEX plan: approx. ¥23.0 bn

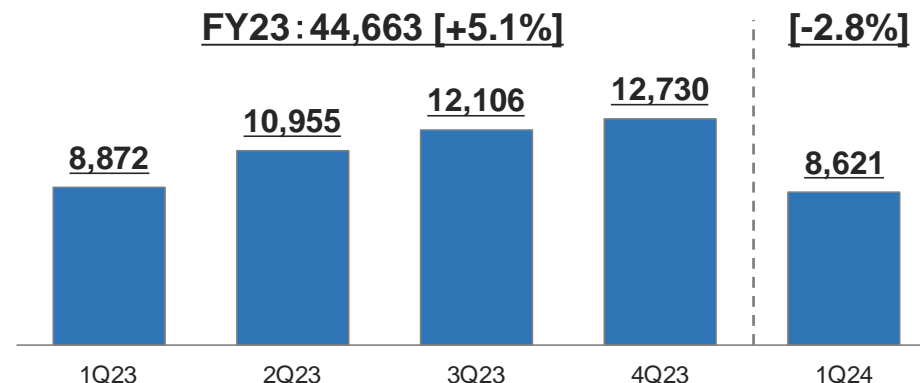
- Of which, approx. ¥3.7 bn is for Matsue DC's construction of additional modules
- Of which, approx. ¥2.0 bn is for Shiroi DC's expansion investment

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

## CAPEX-related depreciation and amortization



## Adjusted EBITDA



# Appendix

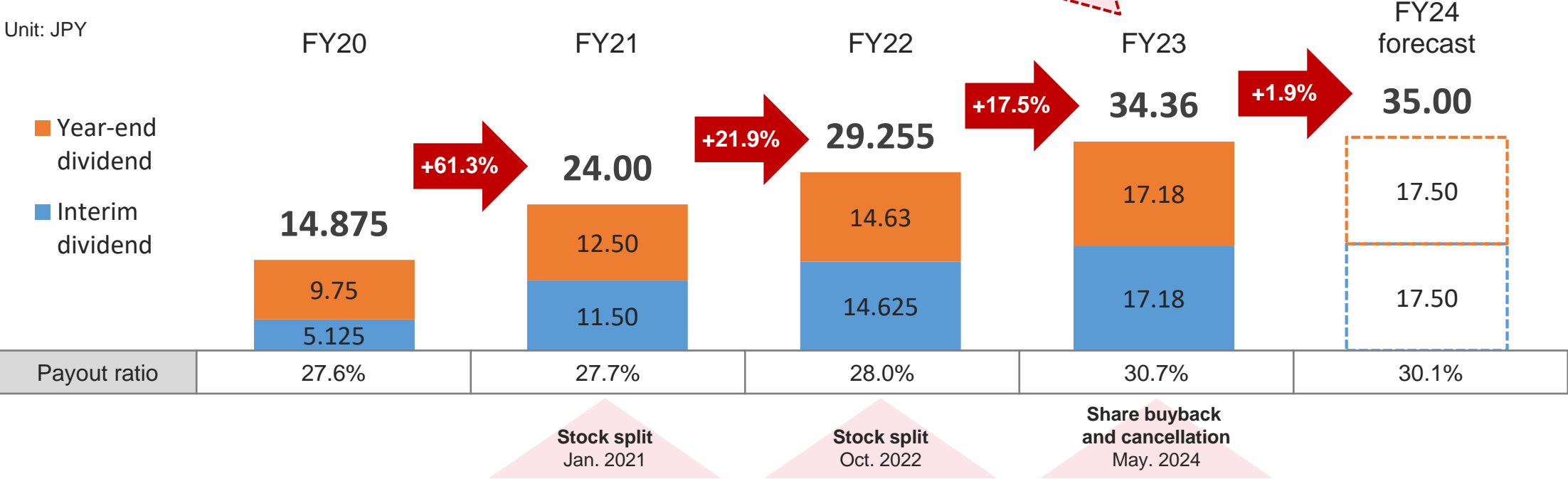
Shareholders' Return	P. 62
Market Growth Forecast	P. 63
NTT Docomo's Mobile data interconnectivity charge	P. 64
Consumer Mobile Price list	P. 65
Overseas Business	P. 66
ATM Operation Business	P. 67
FinTech Business: DeCurret	P. 68 – P. 70
CDN Business: JOCDN	P. 71

# Shareholders' Return

- ◆ **Basic shareholders' return policy:**  
Continuous and stable dividend payment while considering the need to have retained earnings for the enhancement of financial position, mid-to-long term business expansion and future investment
- ◆ **Dividend per share:**  
Continued to increase dividend in line with profit increase due to revenue growth

**FY23 total payout ratio: 82.4%**  
In May 2023, IIJ executed share buyback of ¥11.4 bn and cancellation of shares

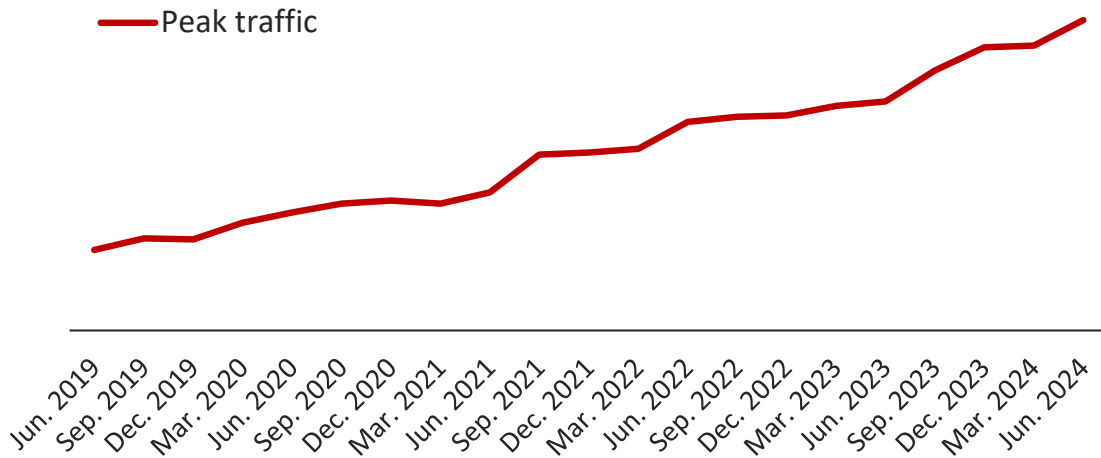
Unit: JPY



- Dividend per share is written on the post-stock-split basis
- FY21 payout ratio: adjusted payout ratio is around 30% which is calculated by deducting temporary and non-cash transaction such as valuation on funds and impairment loss
- FY22 payout ratio takes the retrospective application of IAS 12 "Income Taxes" into consideration
- FY23 payout ratio takes the share buyback with cancellation which took place in May 2023 into consideration

# Market Growth Forecast

## Historical traffic data of major domestic IX



Source: INTERNET MULTIFEED CO., IX = Internet Exchange

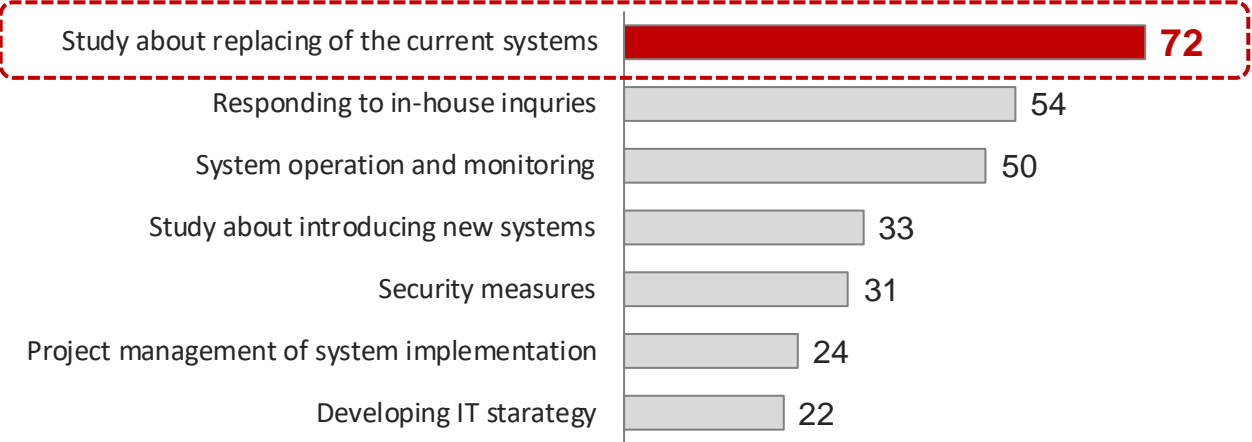
## Digital Competitiveness Ranking 2023

1	U.S.A
2	The Netherlands
3	Singapore
4	Denmark
5	Switzerland
6	South Korea
(omission)	
31	Spain
32	Japan
33	Malaysia

Source: IMD WORLD DIGITAL COMPETITIVENESS RANKING 2023

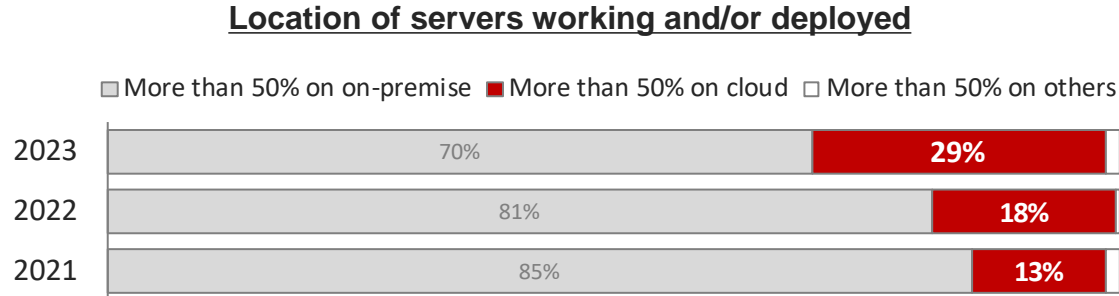
## Operation where IT department spends the most time

Top 7 items are shown below



Source: Internet Initiative Japan "Nationwide survey on IT department 2023" Dec. 2023, N=359

## Majority of enterprise systems are still operating on-premise



Source: Internet Initiative Japan "Nationwide survey on IT department 2023" Dec. 2023, 2021 N=737, 2022 N=598, 2023 N=214



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

Fiscal Year	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Method	Actual cost method		Future cost method: MNOs are to disclose the charges for next three years based on their prediction about cost etc.						
New							<b>Announced in Mar. 2024</b> To be fixed around the end of Dec. 2025 ¥12,862 -17.8% YoY	¥10,874 -15.5% YoY	¥10,708 -1.5% YoY(*)
Fixed	¥49,311 -6.0% YoY	¥42,702 -13.4% YoY	¥37,280 -12.7% YoY	¥27,024 -27.5% YoY	Fixed in Dec. 2023 ¥19,979 -26.1% YoY		Slight decrease in the unit price		(*) Impacted by the revision of allocation standards for voice & data transmission services
Old						<b>Announced in Mar. 2023</b> To be fixed around the end of Dec. 2024 ¥15,644 -21.7% YoY	¥13,084 -16.4% YoY	¥11,255 -14.0% YoY	
					<b>Announced in Mar. 2022</b> ¥20,327 -24.8% YoY	¥15,697 -22.8% YoY	¥13,207 -15.9% YoY		
				<b>Announced in Apr. 2021</b> ¥28,385 -23.9% YoY	¥22,190 -21.8% YoY	¥18,014 -18.8% YoY			
			<b>Announced in Mar. 2020</b> ¥41,436 -3.0% YoY	¥33,211 -19.8% YoY	¥27,924 -15.9% YoY				

- The same calculation method is applied to both the actual cost method and the future cost method: (Data communication cost + profit) /demand
- The charge disclosed based on the future cost method is to be finalized based on MNOs actual cost results etc.
- The YoY (Year over Year) decrease percentage written under each charge is compared with the previous year charge
- The charge is public information disclosed in NTT Docomo's service terms and conditions document uploaded on NTT Docomo's website (only available in Japanese)  
<https://www.docomo.ne.jp/binary/pdf/corporate/disclosure/mvno/business/oroshi.pdf>
- The impact of the revision of allocation standards for voice & data transmission services refers to the fact that, from 2023, with regard to the calculation of data communication cost (MNO investment) as the numerator of the MIC formula, a part of the costs that were previously recognized as voice related costs are to be recognized as data communication related costs

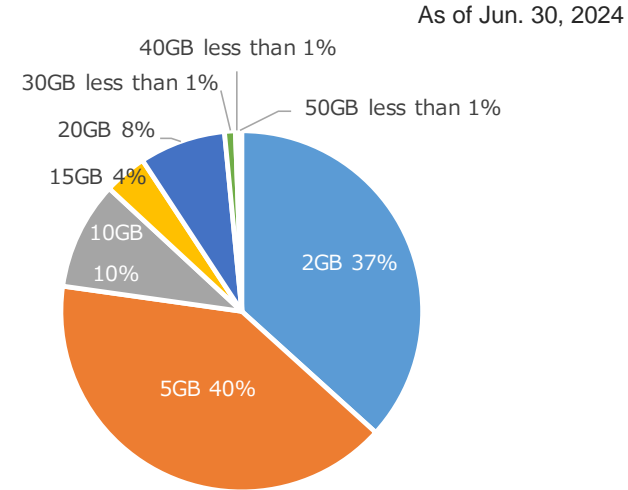
# Comparison between the old & new plans of consumer mobile

Old		
Minimum Start Plan (3GB)	With voice	¥1,760
	Data-only	¥990
Light Start Plan (6GB)	With voice	¥2,442
	Data-only	¥1,672
Family Share Plan (12GB)	With voice	¥3,586
	Data-only	¥2,816

New: GigaPlans (Apr. 2021~)		
2Giga Plan (2GB)	With voice	¥850
	Data-only	¥740
5Giga Plan (5GB)	With voice	¥990
	Data-only	¥900
10Giga Plan (10GB)	With voice	¥1,500
	Data-only	¥1,400
15Giga Plan (15GB)	With voice	¥1,800
	Data-only	¥1,730
20Giga Plan (20GB)	With voice	¥2,000
	Data-only	¥1,950
30Giga Plan (30GB)	With voice	¥2,700
	Data-only	¥2,640
40Giga Plan (40GB)	With voice	¥3,300
	Data-only	¥3,240
50Giga Plan (50GB)	With voice	¥3,900
	Data-only	¥3,840

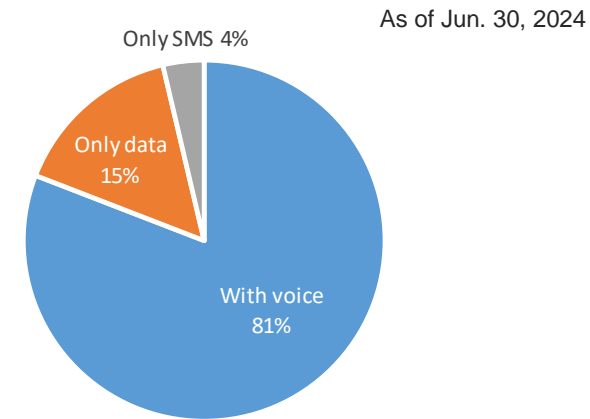
Launched large data volume plan (Mar. 1, 2024)

## GigaPlans: by data plans



- Current users' migration as well as the start of the large data volume was from Apr. 1, 2024

## GigaPlans: by plans

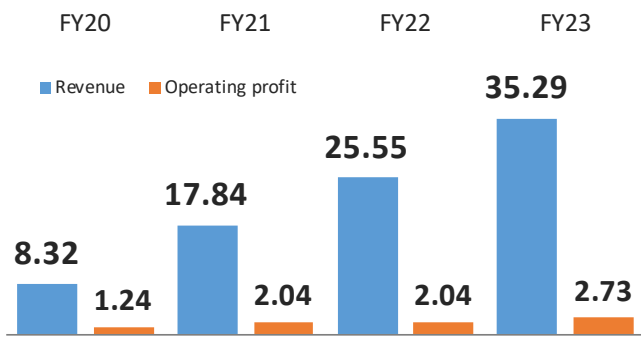


- The above table briefly indicates service prices for major functions to show the differences between the old and new plans
- GigaPlans pricings are as of Mar. 2024. eSIM with voice function services are offered at the same price.
- Voice call charge is only for domestic calls. Old plan: ¥22 for 30 seconds, new plan: ¥11 for 30 seconds

# Overseas Business

## Revenue and Operating Profit (included in SI and NW)

Unit: JPY bn



• PTC financial results (included in the above results) : FY21 revenue ¥6.89 bn, operating profit ¥0.31 bn, FY22 revenue ¥10.68 bn, operating profit: ¥0.47 bn

- FY23: Significant revenue growth for overseas business
  - Completed the overseas DC construction project (¥2.8 bn), executing its subsequent projects (¥3.2 bn in total, multi-year)
  - Increased momentum for PTC (Singaporean Sler): NVIDIA's "ASEAN Top Value Partners of the Year" (sole recipient in ASEAN). Received large-scale AI infrastructure construction project, ASEAN business growing with M&A of PTC Malaysia, etc.
- Expect in FY24 to also achieve revenue & profit growth through global SASE and ASEAN business expansion, compared to FY23 results including the overseas DC construction project

## Overseas offices

• IIJ Group has offices in 14 cities in nine countries around the world



(As of Sep. 2024)

## Business Developments

- **Started focusing on overseas business around FY11.** It was when Japanese companies started to expand their business overseas and requested us to provide the same service quality we offer in Japan
- **While IT markets in the U.S. and Europe are relatively matured, the markets in Asia are just beginning to build up**
  - Increasing demand for network services and SI in China and Thailand
  - Vietnam: Cybersecurity Law (Jan. 2019), Opened another facility in Hanoi in addition to Ho Chi Min
  - In Apr. 2021, we bought a Singaporean system integrator, PTC – expect to strengthen ASEAN business
  - From Dec. 1, 2023, a small business operator “PTC Malaysia” became a new consolidated subsidiary (no significant financial impact), expect higher productivity of a support center in Malaysia
- **Providing cloud services in Indonesia, Thailand and Vietnam. Working with local prominent IT companies**
  - With Biznet Networks in Indonesia (from Mar. 2015)
  - With T.C.C. Technology Co., Ltd, in Thailand (Feb. 2016)
  - With FTP Telecom Partner in Vietnam (Nov. 2016)

## Business Model

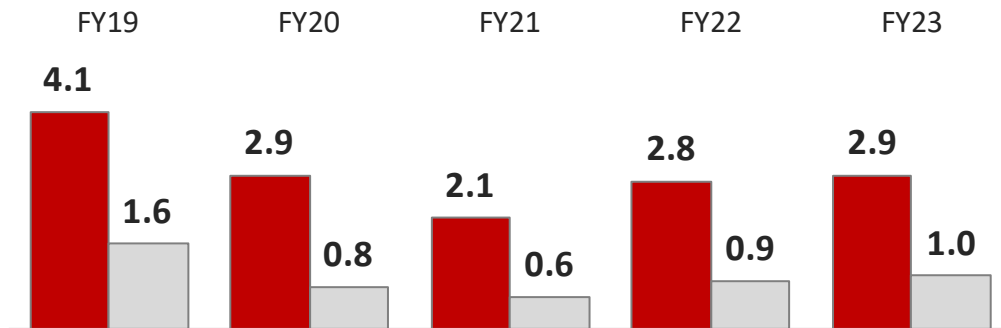
- Similar to “Seven Bank” model
- Placing ATMs in pachinko parlors in Japan
  - After long discussion, started to place in Kanto, Kansai, Kyushu and Tokai areas
  - 7,665 pachinko parlors in Japan as of Dec. 31, 2022 (Source: National Police Agency)
- Receive commission for each withdrawal transaction

## Trust Networks Inc.

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

## Revenue and Operating Profit

Unit: JPY billion  
■ Revenue  
■ Operating Profit



• ATM (Automated Teller Machine)

• FY20 revenue significantly decreased from FY19 as the stores we had placed ATMs were closed temporarily and fewer customers visited due to the COVID-19 pandemic and stay-at-home-order/request

# FinTech Business through DeCurret (1)

## Launched “DCJPY Network” as the first digital currency platform service in Japan (Jul. 2024)

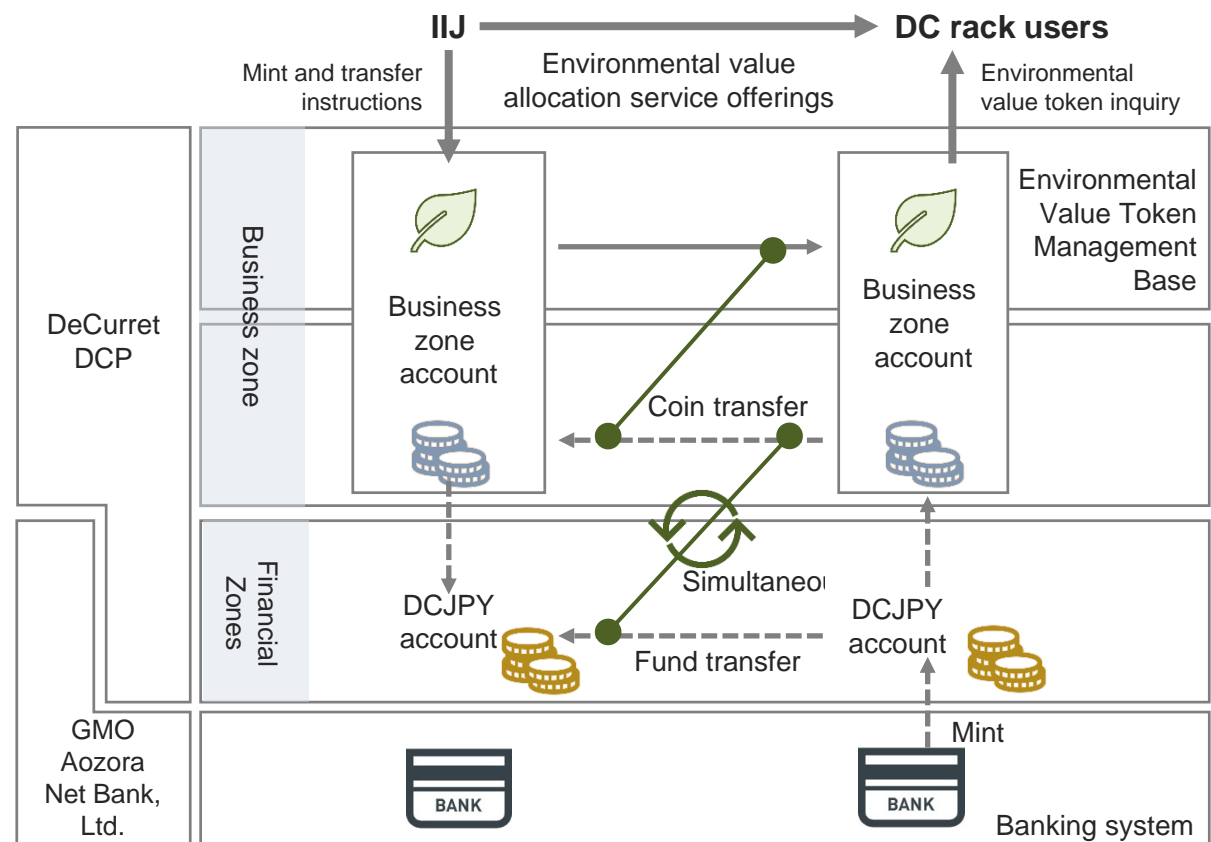
### About DeCurret HLD & DCP

DeCurret HLD	<ul style="list-style-type: none"> <li>Shareholder: 43 companies including IIJ</li> <li>IIJ’s equity method investee (IIJ ownership: 34.8%)</li> <li>Management: Representative Director and President: Murabayashi (Mr.) (IIJ Vice President, former CIO at MUFG Financial Group, Inc.) Part-time directors: IIJ, au Financial Holdings, MUFG bank, JAPAN POST bank, NTT</li> </ul>
DeCurret DCP	<ul style="list-style-type: none"> <li>Shareholder: DeCurret HLD 100%</li> <li>Business:                     <ul style="list-style-type: none"> <li>Digital currency business</li> <li>Secretary for the “Digital Currency Forum”                             <ul style="list-style-type: none"> <li>As of Mar. 31, 2024, there are 104 companies, organization, experts, as members and related regulatory agencies (FSA, MIC, MOF, METI, BOJ)</li> </ul> </li> </ul> </li> </ul>

### The first Case of Digital Currency DCJPY Settlement Transactions

Issuer of digital currency	GMO Aozora Net Bank, Ltd.
Usages of digital currency	<ul style="list-style-type: none"> <li>Digitalization of environmental value transaction (non-fossil certificates, etc.)</li> <li>Transactions and settlement in the digital currency DCJPY</li> </ul>

### Flow on DCJPY on the Two-tiered Digital Currency Platform (Aug. 2024)



### ◆ Background

- In Jan. 2018, IIJ established DeCurret Inc. as an equity method investee engaging in crypto asset business and digital currency business with prominent Japanese companies
  - IIJ has been providing IIJ Raptor Service, an ASP based FX systems, which have been used by prominent Japanese security companies
- In Dec. 2021, DeCurret Inc. established DeCurret Holdings through a share transfer
- In Feb. 2022, DeCurret Holdings divested its crypto asset business to dedicate its business resources to digital currency business

### ◆ Business

- Digital Current Platform Business (mainly BtoB)
- Have been executing various proof of concepts with various business partners
- Released “DCJPY Network” as the first digital currency business in Japan in Jul. 2024

**Raised capital of approx. JPY6.3 billion through a third-party allotment from 13 companies, including 8 new shareholders for further business expansion (Sep. 2024)**

- Internet Initiative Japan Inc., SBI Holdings, Inc., Hitachi, Ltd., SHIZUOKA BANK, LTD., TIS Inc., NSD Co., Ltd., FUJITSU LIMITED, KDDI CORPORATION, MUFG Bank, Ltd., Higo Bank, Ltd., Kagoshima Bank, Ltd., GMO Financial Holdings, Inc. and ABeam Consulting Ltd.

## Shareholders of DeCurret Holdings, Inc. (43 companies, as of Sep.2024)

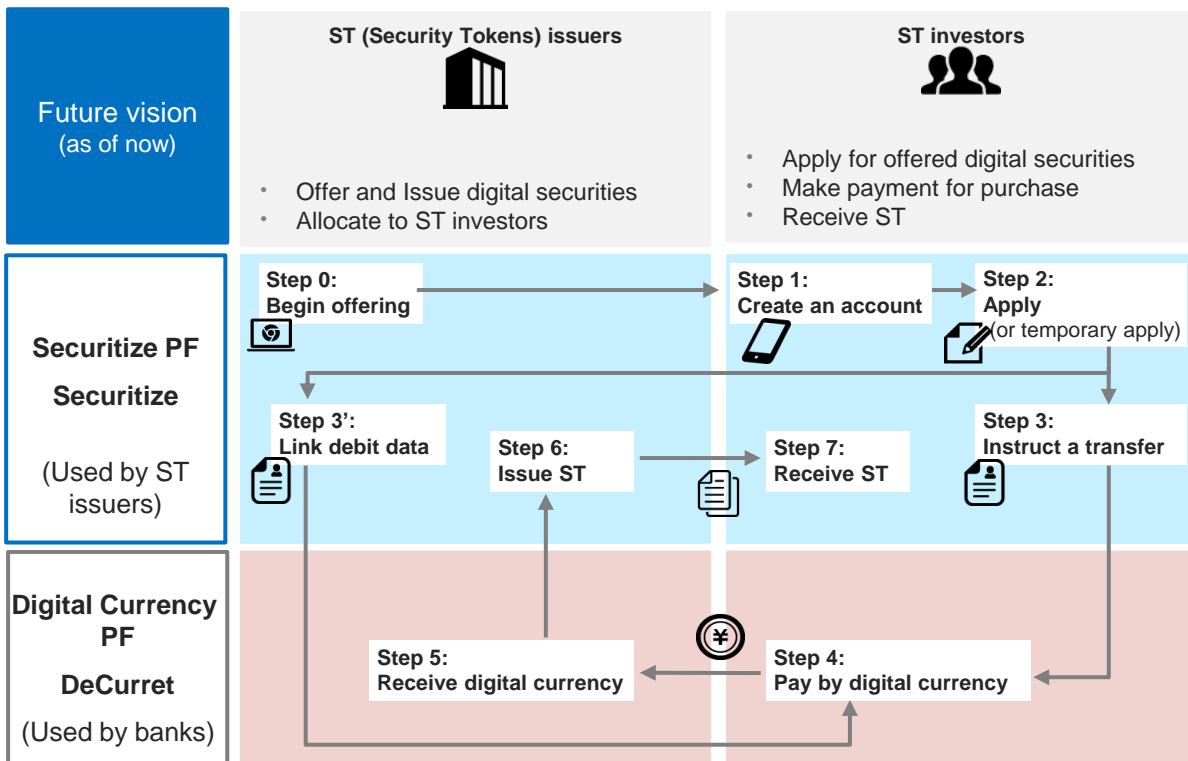
Internet Initiative Japan Inc.	SBI Holdings, Inc.	Hitachi, Ltd. *
KDDI CORPORATION	MUFG Bank, Ltd.	TIS Inc.
THE SHIZUOKA BANK,LTD. *	NSD Co., Ltd. *	NTT Corporation
Fujitsu Limited *	Sumitomo Mitsui Banking Corporation	JAPAN POST BANK Co., Ltd.
The Higo Bank, Ltd. *	ITOCHU Corporation	OPTAGE Inc.
QTnet, Inc.	Sumitomo Life Insurance Company	SOHGO SECURITY SERVICES CO., LTD.
SOMPO Light Vortex Inc.	The Dai-ichi Life Insurance Co., Limited	Daido Life Insurance Company
Daiwa Securities Group Inc.	Tokio Marine & Nichido Fire Insurance Co., Ltd.	Nippon Life Insurance Company
Nomura Holdings, Inc.	East Japan Railway Company	BICCAMERA INC.
Mitsui Sumitomo Insurance Company, Limited	Mitsui Fudosan Co., Ltd.	Mitsubishi Corporation
Meiji Yasuda Life Insurance Company	Yamato Holdings Co., Ltd.	The Kagoshima Bank, Ltd. *
GMO Financial Holdings, Inc. *	ABeam Consulting Ltd. *	ITOCHU Techno-Solutions Corporation
Chubu Electric Power Co., Inc.	Dentsu Group Inc.	Hankyu Hanshin Holdings Inc.
Matsui Securities Co., Ltd.	Enecom,Inc.	SECOM CO., LTD.
TOPPAN HOLDINGS INC.		

# FinTech Business through DeCurret (3)

## DeCurret DCP Partnership with Securitize

- ◆ **Aim to adopt digital currency for digital securities' settlement**
  - Securitize, Inc., a parent company of Securitize Japan K.K., was established in 2017 and proves platform to issue and manage digital securities
  - The scope of partnership includes the followings:
    - Explanation and discussion with prospective issuers and other related companies
    - Specifics of the scheme and workflow
    - Legal research and preparation of contract templates
    - Development of system integration

### ◆ Image of transaction/flow (idea)



## Digital Currency Forum Subcommittees

(as of Sep. 2024)



- The participants include companies, local governments and others

## Difference between “DCJPY” and Trust Bank’s Stablecoins

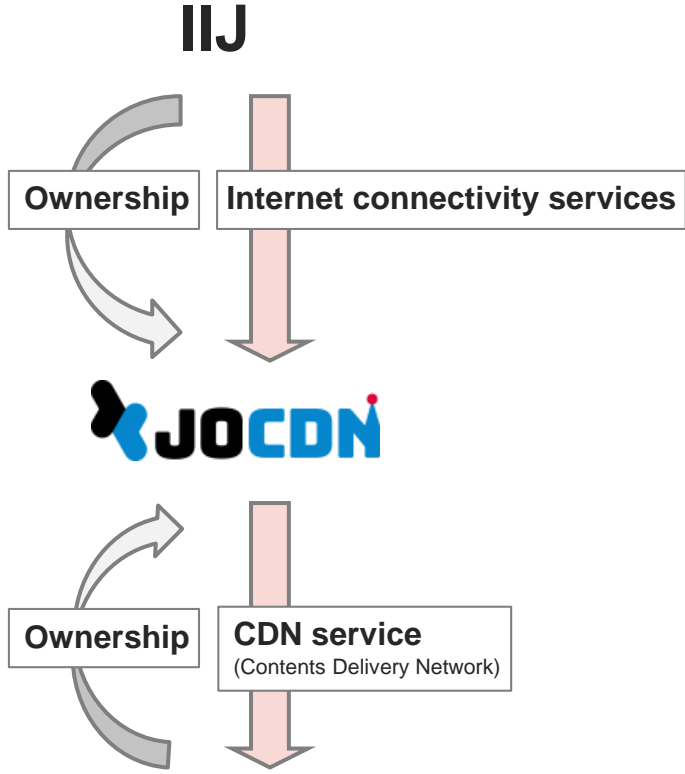
	DeCurret’s digital currency “DCJPY”	Trust Bank’s stablecoins
<b>Corresponding act</b>	The Banking Act	The revised Payment Services Act (enforced in June 2023)
<b>Form</b>	Bank deposits	Stablecoins
<b>Scheme of issuance</b>	<ul style="list-style-type: none"> <li>Withdraw from user’s bank deposit</li> <li>DCJPY will be issued after booking the same amount of such withdrawal to DCJPY account on the digital currency platform</li> </ul>	<ul style="list-style-type: none"> <li>User needs to deposit money and set up a trust asset each time</li> <li>Then, stablecoins can be issued by a trust bank</li> </ul>
<b>Features</b>	<ul style="list-style-type: none"> <li>Highly compatible with the current settlement system</li> <li>Issuers are reliable and trustworthy banks</li> <li>Banks support DCJPY can use the Digital Currency services</li> </ul>	<ul style="list-style-type: none"> <li>User needs to open an account with the Trust bank and deposit money each time</li> <li>User needs to arrange a trust asset each time transferring funds other than the two companies, a trust bank and a beneficiary</li> </ul>

# CDN Business through JOCDN

## Company Profile

Name	JOCDN Inc. (IIJ's equity method investee)
IIJ Ownership	16.8%
Capital	JPY845 million (including capital reserve)
Established	December 1, 2016
Shareholders	IIJ, Nippon TV, TV Asahi, TBS, TV Tokyo, Fuji TV, WOWOW (Prominent satellite broadcaster in Japan), NHK (Japan's only public broadcaster) and non-Tokyo local broadcasters
Directors	Chairman: Koichi Suzuki (IIJ CEO) President: Shunichi Shinozaki (Nippon TV)

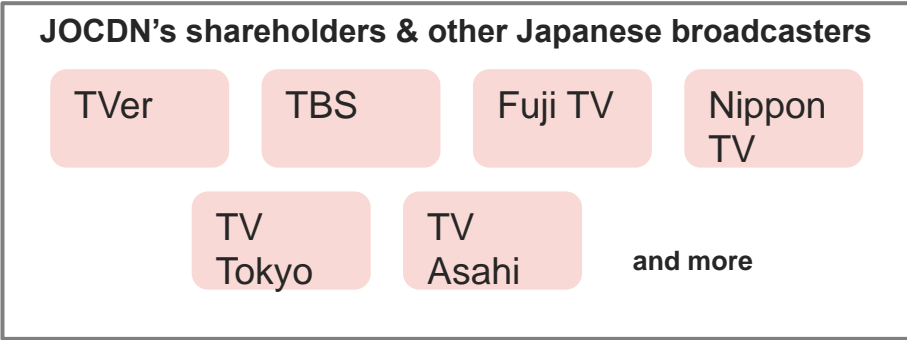
## Business Model



### ◆ All Japan CDN company JOCDN

- Akamai Technologies (global leader in CDN services, US company) has been dominating CDN market in Japan.
- Growing needs to distribute contents over Internet
- Broadcasting companies distributing contents via Internet
  - Nippon TV bought Hulu Japan in 2014
  - Japanese broadcasting companies operate “TVer”
- IIJ has rich and well-renowned expertise in CDN business
  - Olympics games, high school base ball games, university sport and many other popular sports events

• TVer is a web platform where viewers can watch certain TV programs for free. Its system was developed jointly by major commercial television networks in Japan to broadcast TV programs over Internet







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.