

Consolidated Financial Results for 1H FY2018 (First 6 months ended September 30, 2018)



25th
Anniversary

Internet Initiative Japan Inc.
TSE1(3774), NASDAQ(IIJI)
November 6, 2018

Agenda

I . Summary of 1H18 Financial Results

II. Consolidated Financial Results for 1H18

III. Reference Materials

I. Summary of 1H18 Financial Results (※) Adjusted incomes exclude effect of the revision of U.S GAAP related to gains/losses on equity securities and funds

Enterprise recurring revenue growth & SI gross margin improvement led to income growth by absorbing cost increase,
Seek for stronger revenue accumulation & income growth with service function enhancement

Unit: JPY billion, % = Year over year change

	1H18 Results		1H18 Targets	2Q18 Results			1H18 Results		2Q18 Results	
Revenue	90.96	+9.6%	90.0	46.26	+10.1%	Adjusted EBITDA ^(※1)	9.66	+15.9%	5.19	+22.5%
Gross Margin	14.09	+8.2%	13.7	7.31	+12.5%	Adjusted pre-tax income ^(※2)	2.94	+25.2%	1.71	+37.6%
Operating Income	2.91	+25.8%	2.5	1.73	+45.4%	Adjusted net income ^(※3)	1.72	+22.7%	0.96	+30.3%

◆ Enterprise NW services

Recurring revenue ^(※4)78.25 (+11.0%) including Security 6.65 (+14.7%)

- **Expanded IIJ Omnibus functions:** Provide even more flexible enterprise NW with Cloud routing^(※5) & SD-LAN^(※6)
- **Enhanced Security solutions:** "IIJ Secure Endpoint" & inexpensive SOC^(※7) ; Together with the existing gateway type security services, meeting even wider enterprises' demand for security

◆ Mobile & IoT

Total mobile subscriptions ^(※8) 2.5 million (+24.2%) Total mobile revenue 20.38 (+21.8%)

- **Leveraging "SIM Life Cycle Management":** Accumulating prospective orders of surveillance & dashboard cameras, sensors etc.
- **IoT business developments:** Comprehensive projects such as factory IoT & traceability gradually increasing in addition simple projects such as gathering & analyzing data
- **Expanded full-MVNO solutions:** Small data volume-bundled services targeting IoT usages, verifying our eSIMs with partners, launched consumer services targeting IoT usages
- **Acquiring consumer subs. through MVNE strategy:** 145 MVNE clients (+17 from 1H17-end), MVNE subs. 936 thousand (+37.2%)

◆ Cloud & SI

**Cloud revenue 9.74 (+13.0%) SI revenue 28.63 (+6.0%) 1H18 SI construction order received 14.62 (+7.9%)
1H18-end order backlog 50.52 (+12.0%)**

- **Promoting Cloud migration:** New solution for smooth & live migration from on-premise to Cloud
- **Favorable SI appetite:** Large financial NW, NW for local governments, mail system for an ISP, LAN for a government agency etc.
- **Visible outcome from SE ^(※9) productivity improvement efforts:** SI profitability improved with reorganization at the beginning of FY18 & even stricter implementation of profitability controls etc.

(※1) Operating income before depreciation and amortization (※2)Pre-tax income is an abbreviation for income before income tax expense (※3)Net income is an abbreviation for net income attributable to IIJ (※4)Revenues in this slide show 1H18 (※5)Technology to best optimize traffic automatically (※6)Software Defined LAN: function enabling to control network equipment within LAN on per application basis and/or control bandwidth from Cloud (※7)Security Operation Center: organization that detects and notifies cyber attacks based on its monitoring and analysis on log from security equipment and network (※8)1H18-end subscription and MVNE clients (※9)Systems Engineers

II - 1. Consolidated Financial Results for 1H FY2018

Unit: JPY billion

	% of Revenues	% of Revenues	Year over Year Change		% of Revenues	% of Revenues
	1H18 Results (Apr. 2018 - Sep. 2018)	1H17 Results (Apr. 2017 - Sep. 2017)			1H18 Targets (Apr. 2018 - Sep. 2018)	FY18 Targets (Apr. 2018 - Mar. 2019)
Total Revenues	91.0	83.0	+9.6%	+8.0	90.0	190.0
Total Cost of Revenues	84.5% 76.9	84.3% 70.0	+9.9%	+6.9	84.8% 76.3	84.3% 160.2
Gross Margin	15.5% 14.1	15.7% 13.0	+8.2%	+1.1	15.2% 13.7	15.7% 29.8
SG&A/R&D	12.3% 11.2	12.9% 10.7	+4.4%	+0.5	12.4% 11.2	12.0% 22.8
Adjusted EBITDA*1	10.6% 9.7	10.0% 8.3	+15.9%	+1.3	-	-
Operating Income	3.2% 2.9	2.8% 2.3	+25.8%	+0.6	2.8% 2.5	3.7% 7.0
Adjusted Pre-tax Income*2	3.2% 2.9	2.8% 2.3	+25.2%	+0.6	-	-
Adjusted Net Income*2,*3	1.9% 1.7	1.7% 1.4	+22.7%	+0.3	-	-

*1: Operating income before depreciation and amortization

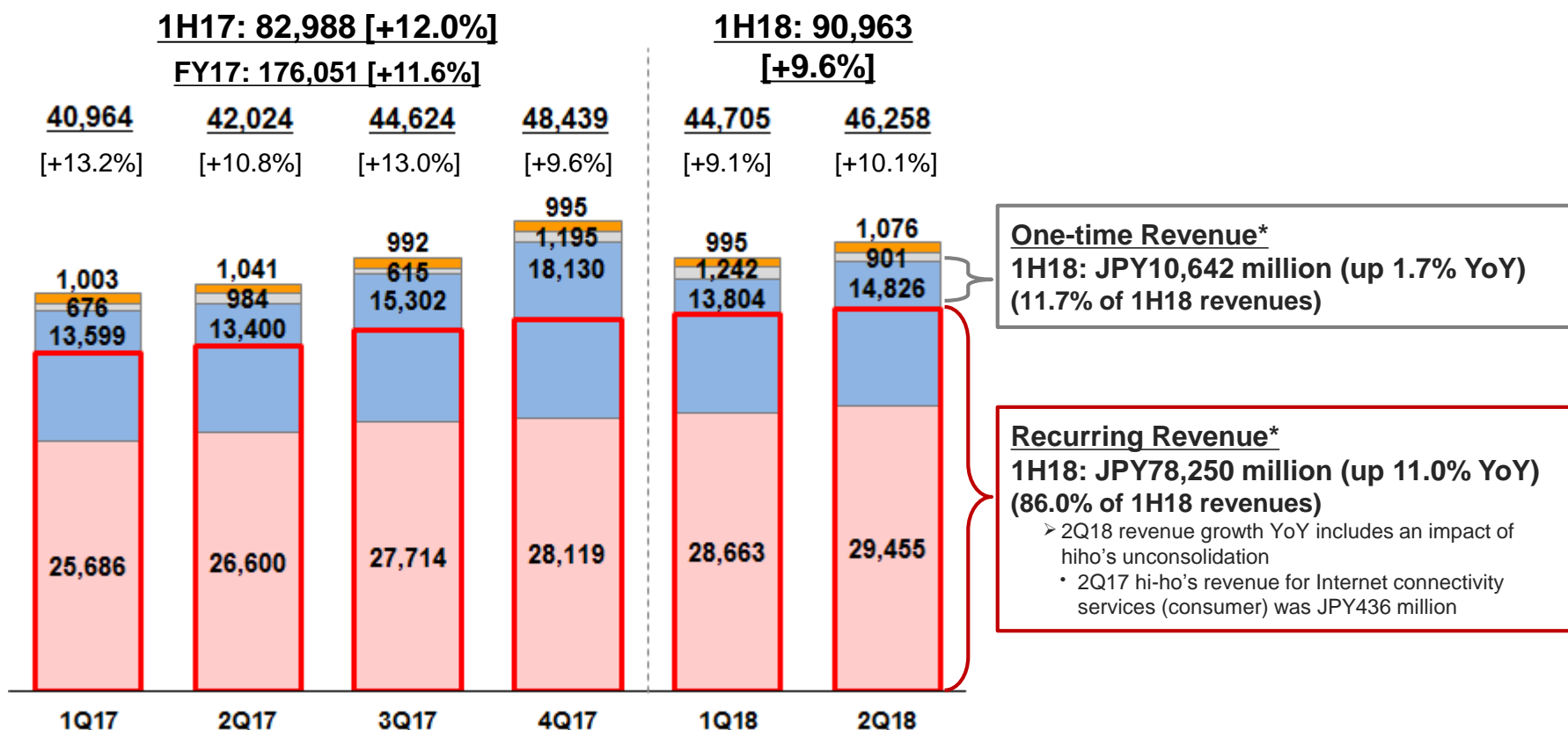
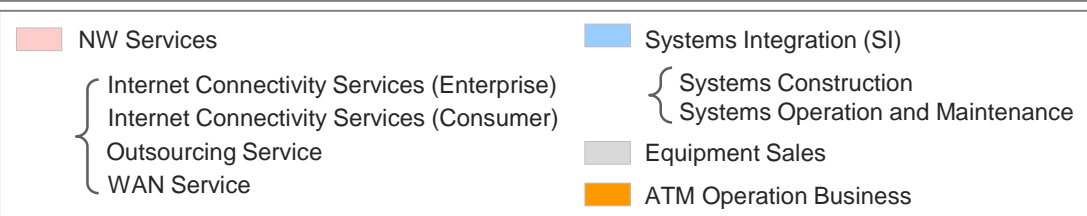
*2: Adjusted incomes exclude effect of the revision of U.S GAAP related to gains/losses on equity securities and funds

*3: Net income is an abbreviation for net income attributable to IIJ

II - 2. Revenues

Unit: JPY million

[], YoY = Year over year comparison



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

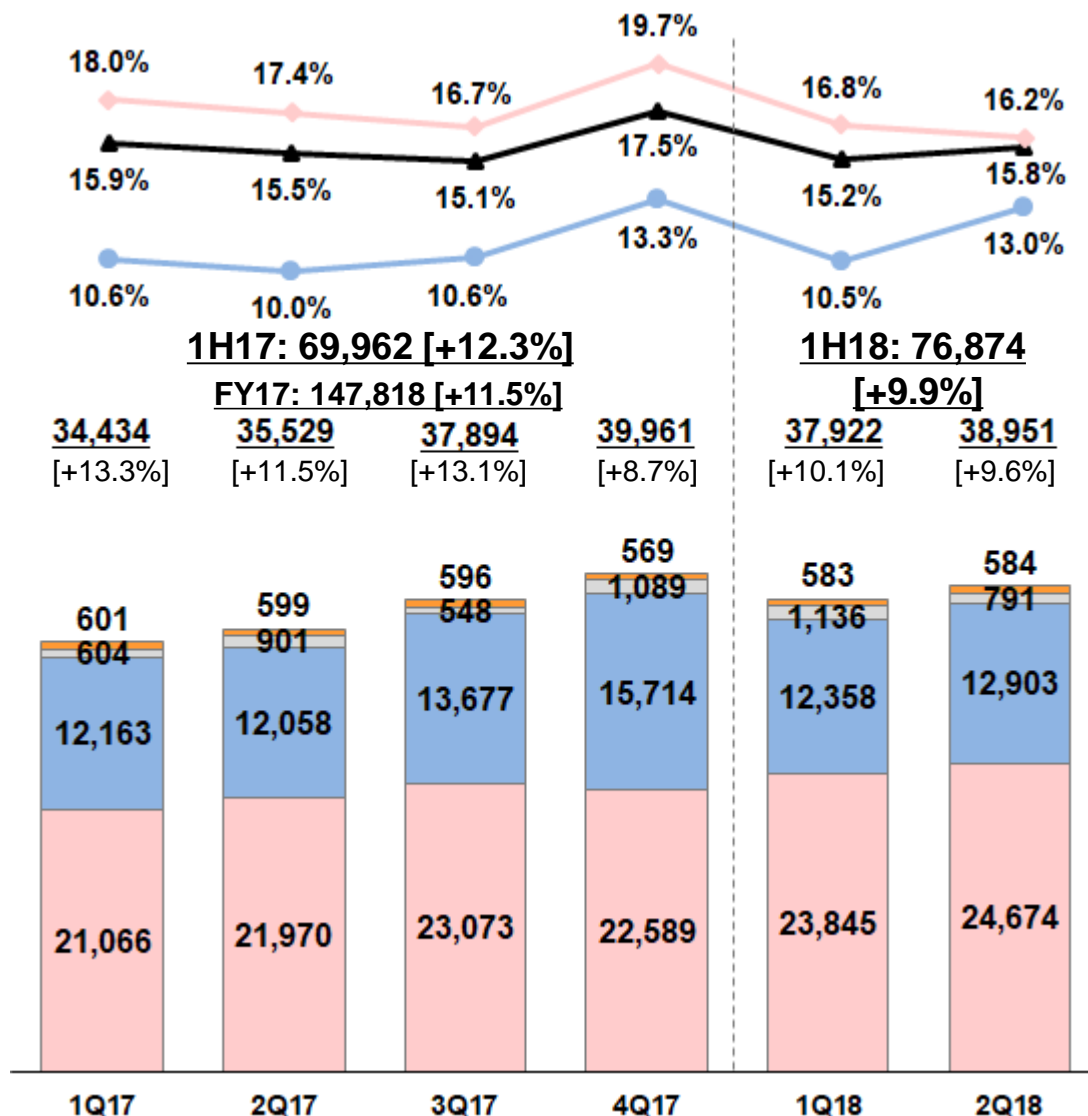
* Recurring revenues represent the following monthly recurring revenues: Internet Connectivity Services for Enterprise, Internet Connectivity Services for Consumer, Outsourcing Services, WAN Services, and Systems Operation and Maintenance

II - 3. Cost of Revenues & Gross Margin Ratio

Unit: JPY million

Cost of revenues: NW Services SI Equipment Sales ATM Operation Business
Gross margin ratio: NW Services SI Total

[], YoY = Year over year comparison



Gross Margin

◆ Total

1H18: JPY14,089 million (up 8.2% YoY)

1H17: JPY13,026 million (up 9.9% YoY)

- Gross margin ratio: 15.5% (down 0.2 points YoY)

◆ NW Services

1H18: JPY9,599 million (up 3.8% YoY)

1H17: JPY9,249 million (up 13.9% YoY)

- The revised NTT DOCOMO's mobile interconnectivity telecommunications charge was fixed in Mar. 2018 and its unit price decreased by 18.2% YoY
- Gross margin results include full-MVNO related fixed-type cost which increased by over JPY0.3 billion per quarter (from Mar. 2018)

◆ SI

1H18: JPY3,370 million (up 21.3% YoY)

1H17: JPY2,778 million (up 0.1% YoY)

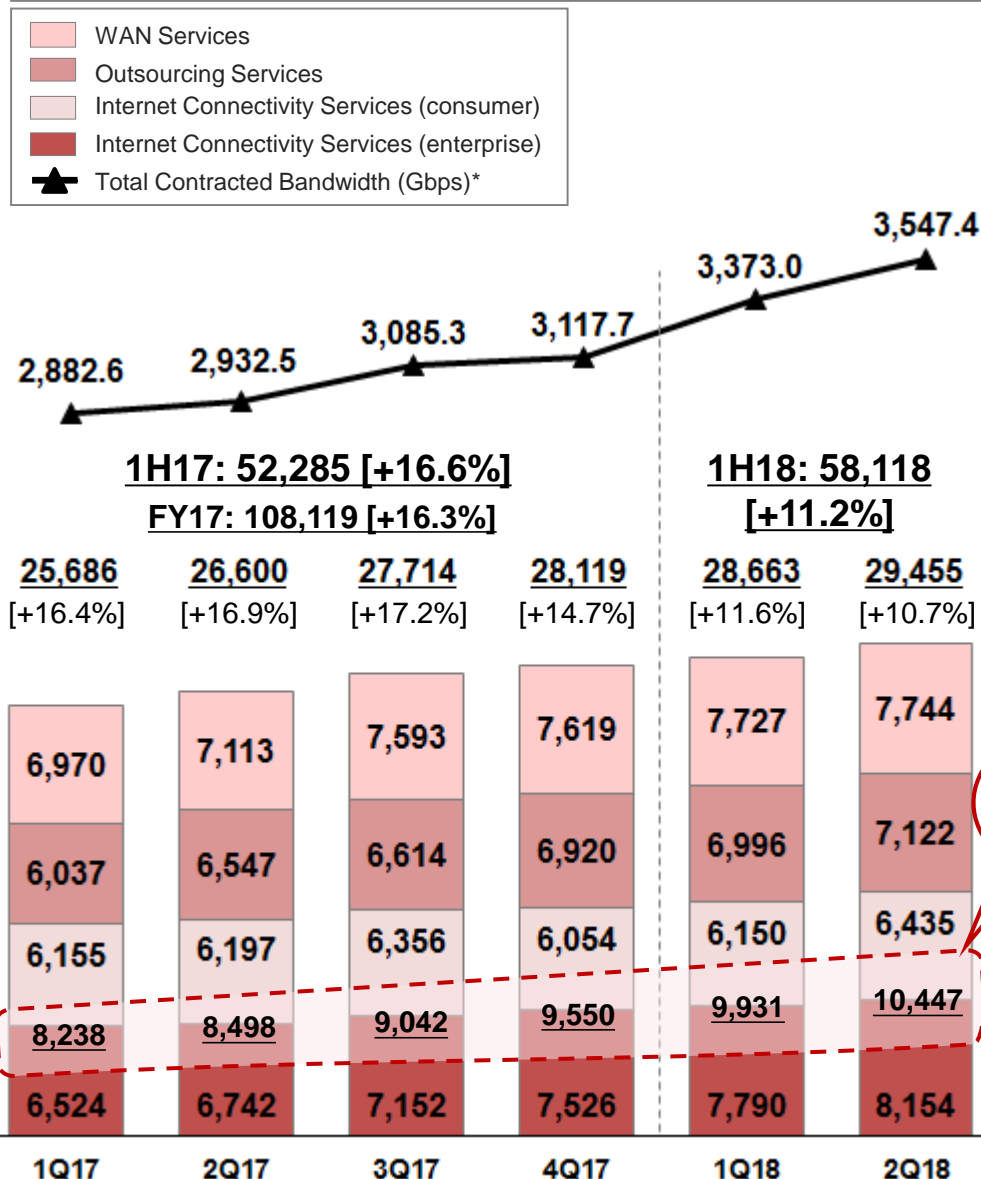
- Profitability improved due to our reorganization and strengthening of profitability management which took place from the beginning of this fiscal year

II - 4. Network Services (1) Revenues

Unit: JPY million

[], YoY = Year over year comparison

QoQ = 2Q18 compared to 1Q18



NW Services Revenues

◆Internet Connectivity (Enterprise)

- 1H18: up 20.2% YoY
- 2Q18: up 20.9% YoY, up 4.7% QoQ
 - Mobile services revenue continued to increase
 - ✓ IIJ Mobile 2Q18-end subscription: 1,483 thousand (up 462 thousand YoY)
 - ✓ 2Q18 IP services revenue favorably increased by 6.2% YoY

◆Internet Connectivity (Consumer)

- 1H18: up 1.9% YoY
- 2Q18: up 3.8% YoY, up 4.6% QoQ
 - Revenue increased including a negative impact of hiho's unconsolidation (Dec. 2017)
 - ✓ Hi-ho's revenue for Internet connectivity services (consumer): 2Q17 JPY436 million, 1H17 JPY894 million

◆Outsourcing Services

- 1H18: up 12.2% YoY
- 2Q18: up 8.8% YoY, up 1.8% QoQ
 - Strong demands for security services
 - ✓ 1H18 Security-related revenue: JPY6.65 billion, up 14.7% YoY

◆WAN Services

- 1H18: up 9.9% YoY
- 2Q18: up 8.9% YoY, up 0.2% QoQ

◆1H18 Mobile services revenue: up 21.8% YoY

◆1H18 NW Services Revenue (excluding mobile services revenue): up 6.2% YoY

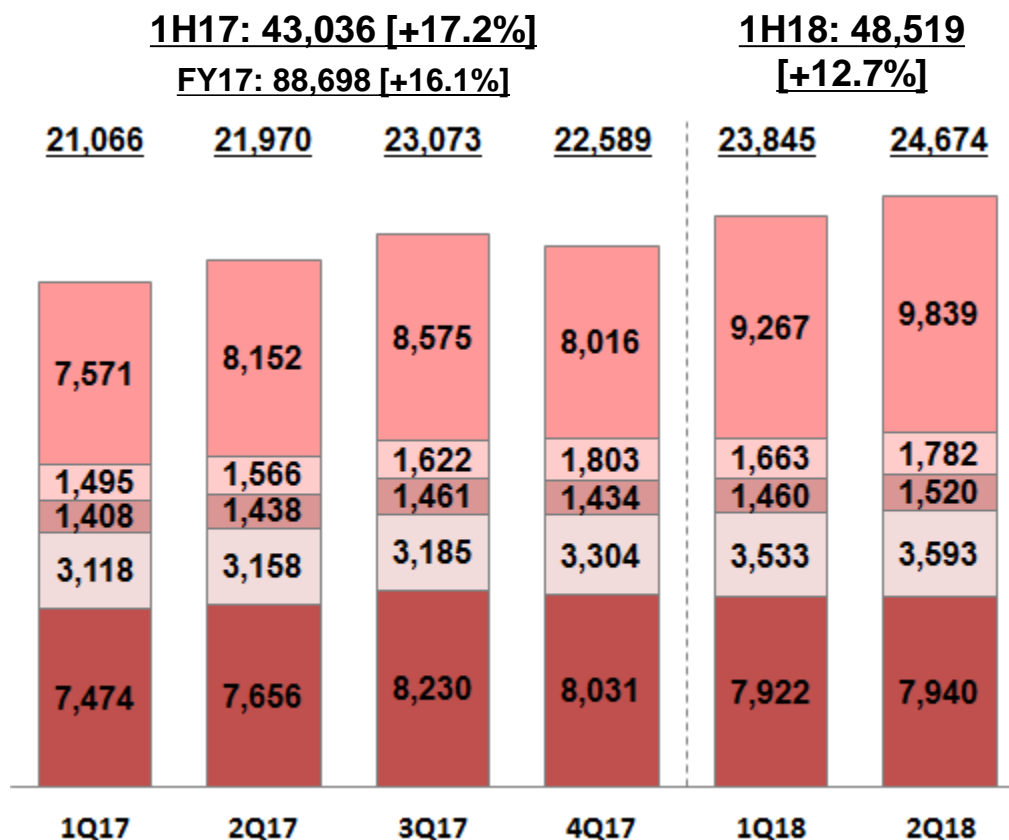
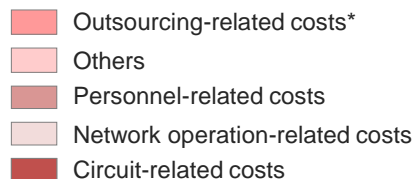
* Total contracted bandwidth is calculated by multiplying number of contracts by contracted bandwidths respectively for IP service (including data center connectivity service) and IIJ FiberAccess/F and IIJ DSL/F of Internet connectivity services (Enterprise).

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

Unit: JPY million

[], YoY = Year over year comparison

QoQ = 2Q18 compared to 1Q18



Cost of NW Services

- 1H18: up 12.7% YoY
- 2Q18: up 12.3% YoY, up 3.5% QoQ
 - Along with an increase in mobile subscriptions, mobile-related costs (mainly in outsourcing-related costs) increased
 - ✓ Additional expansion of mobile interconnectivity bandwidth to maintain connection quality (Jul. & Aug.)
 - Along with continuous service developments and enhance functions for Omnibus, security, etc., outsourcing-related costs, personnel-related costs and operation-related costs increased
 - ✓ Omnibus 2.0 (Oct.), New VPN service "IIJ Flex Mobility" (Dec.), "IIJ xSP Platform Service/Mail" (email outsourcing services for large-scale service providers) (Dec.), and more

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

- Regarding our FY17 & FY16 usage charge, DOCOMO's mobile interconnectivity telecommunications charge was fixed in Mar. 2018 and its unit price decreased by 18.2% YoY.
- Regarding our FY18 & FY17 usage charge, DOCOMO's mobile interconnectivity telecommunications charge, which is calculated based on DOCOMO's FY17 mobile-related cost, is expected to be fixed in Mar. 2019. DOCOMO's payment arrangement is 15% off temporarily from Apr. 2018 which is the same as FY17.
- During FY18, IIJ estimates certain decrease of the charge, based on the past results and the above mentioned payment arrangement, and applies to every quarter earnings (same procedure as in the past). The difference, if any, between estimate and result will be recognized in 4Q18 as adjustment

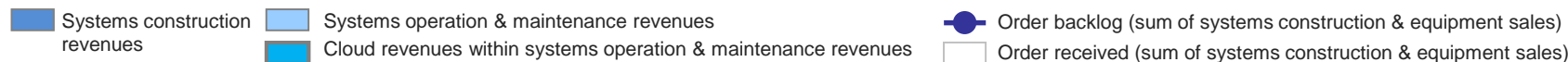
* Outsourcing-related costs include interconnectivity charge for mobile infrastructure, datacenter leasing costs and customer support center operation costs etc.

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

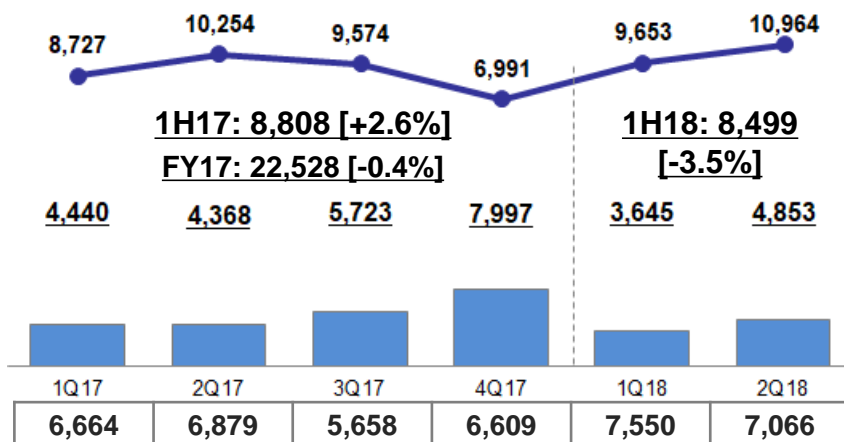
Unit: JPY million

[], YoY = Year over year comparison

QoQ = 2Q18 compared to 1Q18

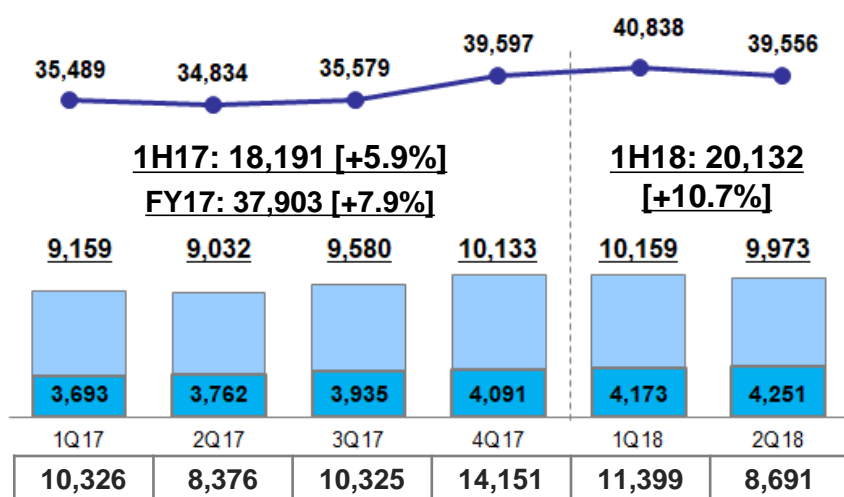


Systems Construction



- 1H18 revenue: down JPY309 million, down 3.5% YoY
 - 1H18 revenue decreased YoY as 4Q17-end order backlog decreased YoY
 - 2Q18 revenue: up 11.1% YoY, up 33.1% QoQ
- Favorable systems construction order environment continued;
 - 1H18 order received: up 7.9% YoY
 - 2Q18-end order backlog: up 6.9% YoY
- Large-scale construction orders received in 2Q18:
 - Network infrastructure for a local govt.
 - Core business network for a major financial institution
 - Mail system for a major network operator
 - Thin client terminal for a major financial institution
 - Replacing LAN environment for a central govt. agency etc.

Systems Operation & Maintenance



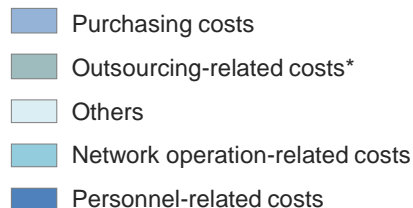
- 1H18 revenue: up JPY1,941 million, up 10.7% YoY
- Continuous revenue growth mainly due to the accumulation of systems construction which are migrated to systems operation & maintenance phase as well as continuous increase in private cloud revenue
 - 1H18 revenue from private cloud: up 13.0% YoY
 - 1H18 revenue from SI construction: up 9.1% YoY
- 86.4% of 2Q18 cloud-related revenue is recognized in systems operation and maintenance revenues (13.6% in outsourcing)

Overseas business

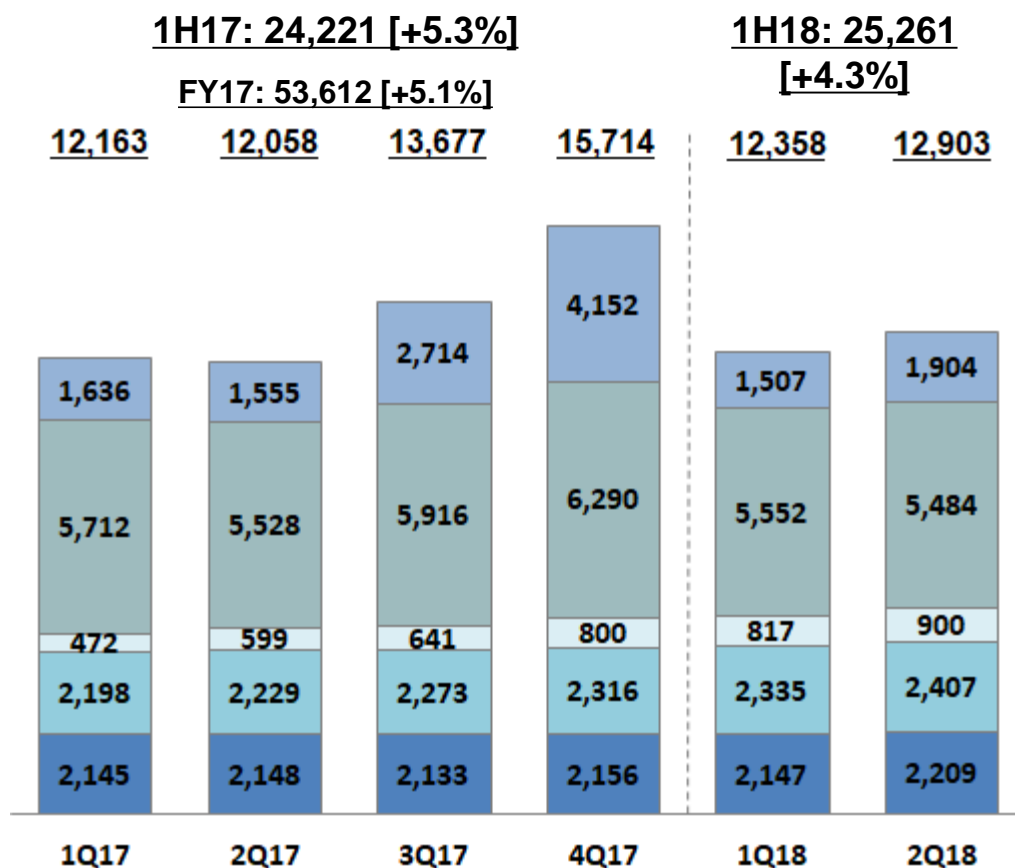
- **Progressing as planned:** 1H18 revenue JPY3.35 billion, almost break even. FY18 target: revenue: approx. JPY 7.0 billion, operating income: approx. JPY 0.1 billion
- **Demands for GDPR-related continue:** Expect more demands as similar laws are to be implemented in California (the U.S) and China following EU.
 - FY18 expected GDPR-related revenue: JPY0.7 ~ 0.8 billion

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

Unit: JPY million



[], YoY = Year over year comparison
QoQ = 2Q18 compared to 1Q18



Cost of SI

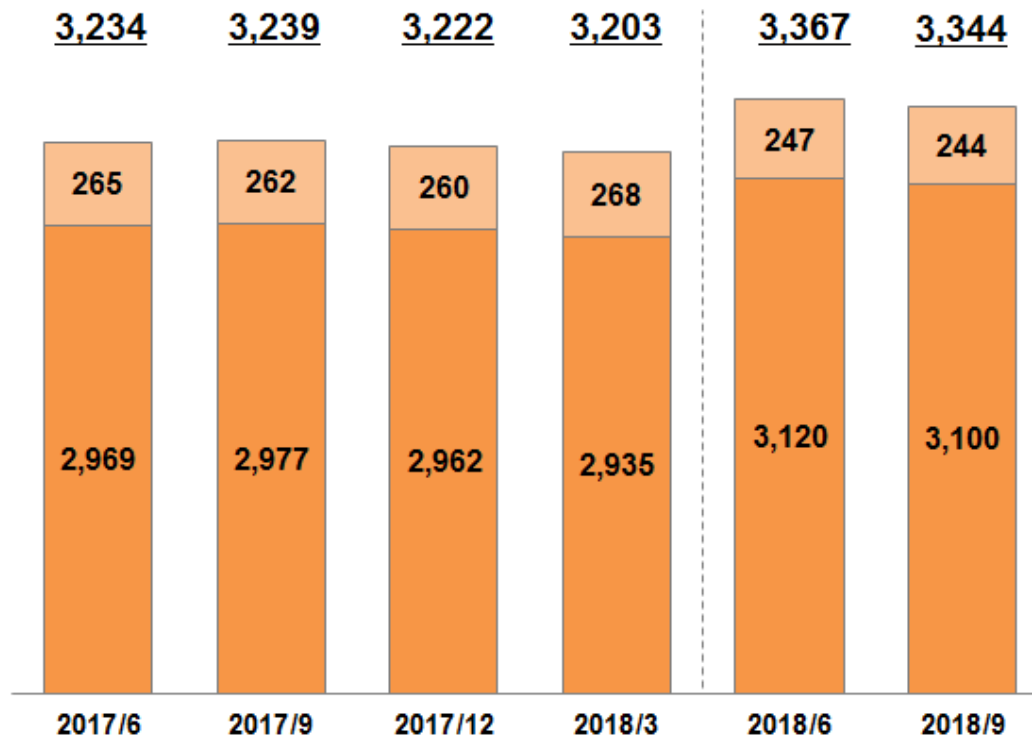
- 1H18: up JPY1,039 million, up 4.3% YoY
- 1H18 outsourcing-related costs decreased YoY as 1H18 systems construction revenues decreased YoY
 - 2Q18-end number of SI-related outsourcing personnel: 1,093 personnel (increased by 14 personnel YoY, increased by 54 personnel QoQ)
- Network operation-related costs slightly increased QoQ
 - IJ GIO P2 facility in western Japan (Matsue data center) started to provide services from June as planned. Depreciation and equipment maintenance costs to gradually increase
- No particularly unprofitable projects. Favorable productivity condition of system engineers

*Outsourcing-related costs include

II - 6. Number of Employees

YoY = Year over year comparison

Contract worker (personnel)
Full time worker (personnel)

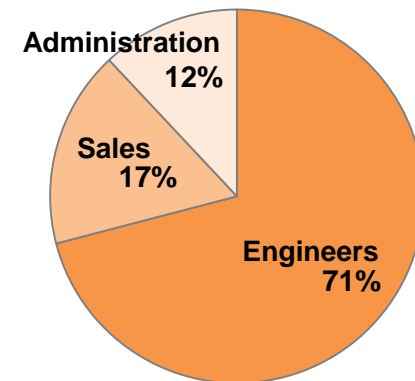


Personnel-related costs & expenses

Unit: JPY million
() = % of total revenue

1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
5,797 (14.2%)	5,784 (13.8%)	5,775 (12.9%)	5,843 (12.1%)	5,909 (13.2%)	6,053 (13.1%)
1H17:11,581 (14.0%)+6.2%YoY FY17:23,199 (13.2%)+5.6%YoY				1H18:11,962 (13.2%) +3.3%YoY	

Employee Distribution

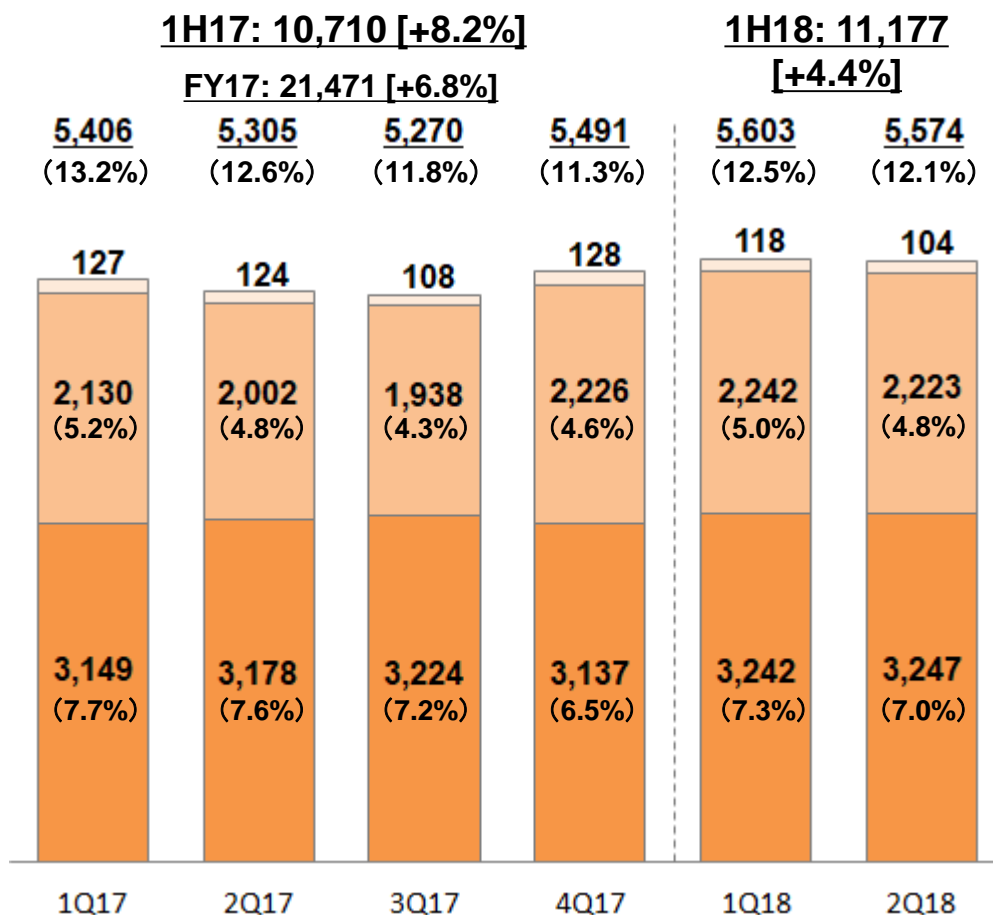


- ◆ 1H18: up JPY381 million, up 3.3% YoY
- ◆ Hired 175 new graduates in Apr. 2018 (148 in Apr. 2017, 137 in Apr. 2016)

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

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

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



SG&A

- ◆ Sales & marketing expenses
 - 1H18: up 2.6% YoY
 - Personnel-related expenses and outsourcing expenses increased
- ◆ General & administrative expenses
 - 1H18: up 8.1% YoY
 - Personnel-related expenses increased
- ◆ Progressing accordingly within the plan
 - FY18 SG&A plan: JPY22.8 billion
 - 2Q18 SG&A slightly decreased compared to 1Q18 as employee trainings were concentrated in 1Q18

◆SG&A related to ATM operation business

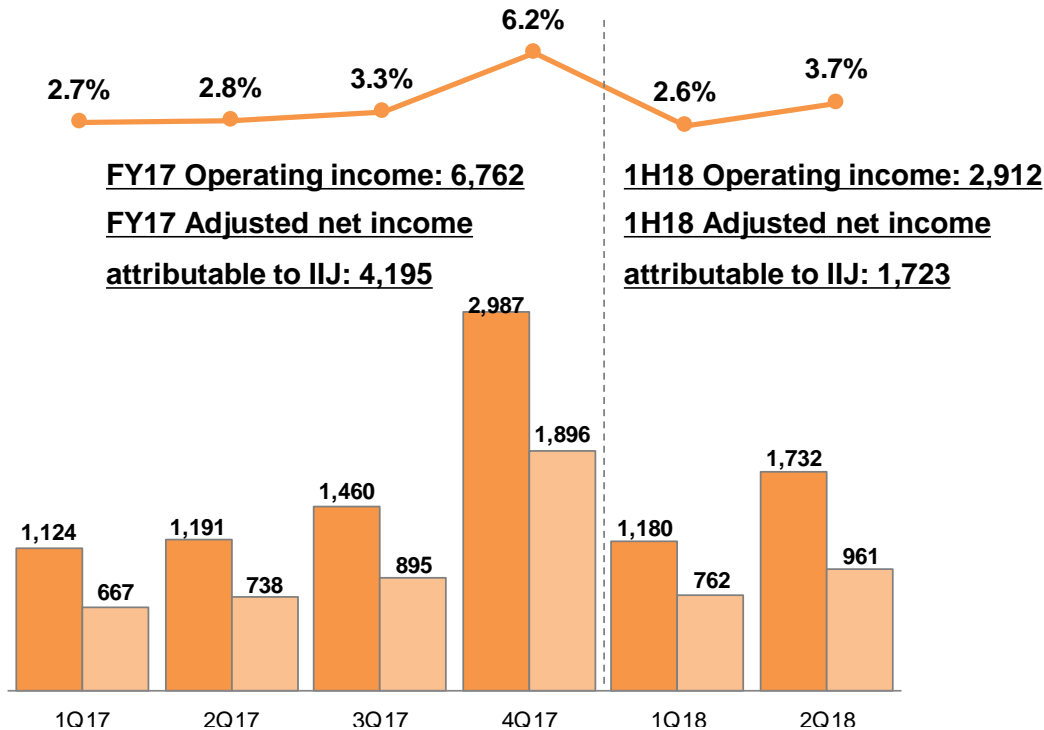
1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
35.5	44.8	36.4	38.4	47.0	50.8

- Placed 1,126 ATMs as of September 30, 2018

II - 8. Operating Income & Net Income

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

Operating income Adjusted net income attributable to IIJ (*) Operating margin ratio



Income

- ◆ **Adjusted income before income tax expense: (*)**
 - 1H18: JPY2,939 million (up 25.2% YoY)
 - Miscellaneous income: JPY109 million
 - Dividend income: JPY75 million
 - Interest expense: JPY197 million
- ◆ **Adjusted net income attributable to IIJ: (*)**
 - 1H18: JPY1,723 million (up 22.7% YoY)
 - Equity in net loss of DeCurret was JPY148 million, as planned (1Q18 JPY62 million, 2Q18 JPY86 million)
 - ✓ FY18 equity in net loss of DeCurret is expected to be approx. JPY0.6 billion
 - Net income attributable to noncontrolling interests including Trust Networks: JPY86 million

(*) These amount exclude effect of the revision of U.S GAAP related to gains/losses on equity securities and funds.

324	743	390	1,128	424	932	Current income tax expense (*)
109	(245)	113	(290)	(26)	(223)	Deferred tax expense (benefit)* (*)
36	41	24	33	(31)	7	Equity in net income (loss) of equity method investees
(42)	(47)	△39	(42)	(41)	(45)	Less: Net income attributable to noncontrolling interests

Consideration of IFRS Adoption

- Plan to adopt IFRS from the filing of FY18 Annual Report “Yuka-shoken Houkokusho”
 - Because of different accounting principles, P/L impact due to gains/losses on marketable equity securities are not expected under IFRS
- FY18 earnings press release & documents for ordinary general meeting of shareholders will be prepared under U.S. GAAP; P/L will be impacted by stock price fluctuation, FY18 Annual Report “Yuka-shoken Houkokusho” will be prepared under IFRS; P/L will not be impacted by stock price fluctuation; Retained earnings & AOCI will be different from the U.S. GAAP etc.

II - 9. Consolidated Balance Sheets (Summary)

Unit: JPY million

	Mar. 31, 2018	Sep. 30, 2018	Changes
Cash and Cash Equivalents	21,403	28,051	+6,648
Accounts Receivable	31,831	29,745	(2,086)
Inventories	1,715	3,560	+1,846
Prepaid Expenses (Current and Noncurrent)	16,409	18,971	+2,562
Investments in Equity Method Investees	5,246	5,143	(103)
Other Investments	11,374	12,456	+1,081
Property and Equipment	46,414	46,089	(326)
Goodwill and Other Intangible Assets	8,787	8,608	(179)
Guarantee Deposits	3,422	3,385	(38)
Total Assets:	<u>153,449</u>	<u>161,694</u>	<u>+8,245</u>
Accounts Payable	16,399	19,828	+3,428
Income Taxes Payable	1,928	1,290	(638)
Borrowings (Short-term and Long-term)	24,750	24,750	-
Capital Lease Obligations (Current and Noncurrent)	16,577	17,264	+688
Total Liabilities:	<u>79,460</u>	<u>85,310</u>	<u>+5,850</u>
Common Stock	25,512	25,519	+7
Additional Paid-in Capital	36,176	36,197	+22
Retained earnings	8,404	15,899	+7,495
Accumulated Other Comprehensive Income (Loss)	5,075	Δ 91	(5,165)
Treasury stock	(1,897)	Δ 1,897	-
Total IIJ Shareholders' Equity:	<u>73,270</u>	<u>75,628</u>	<u>+2,358</u>

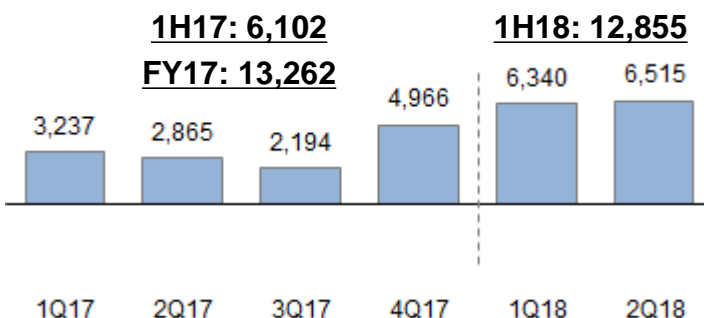
Due to the revision of U.S. GAAP on other investments. Please refer to page 20 of this document for details

➤ Total IIJ Shareholders' Equity to Total Assets: 46.8% as of Sep. 30, 2018; 47.7% as of Mar. 31, 2018

II - 10. Consolidated Cash Flows

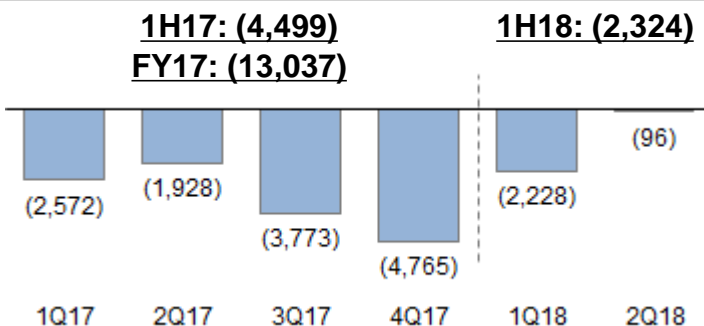
Unit: JPY million
YoY = Year over year comparison

Operating Activities



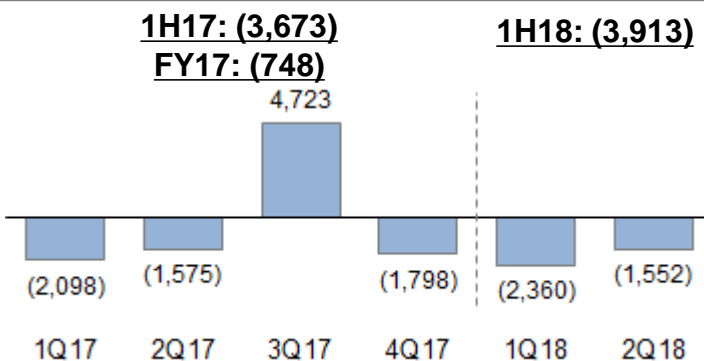
	Major Breakdown	YoY Change
Net income	2,068	+492
Depreciation and amortization	6,751	+729
Fluctuations of operating assets and liabilities	4,220	+5,732
Realized and unrealized loss on other investments	(378)	(378)

Investing Activities



	Major Breakdown	YoY Change
Purchase of property and equipment	(4,446)	(1,977)
Proceeds from sales of property & equipment (mainly lease-back transaction)	1,767	(616)

Financing Activities

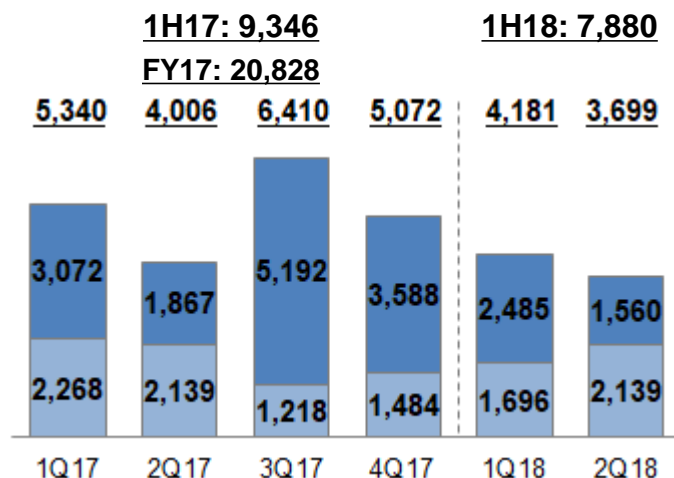
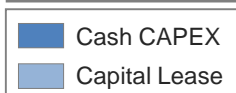


	Major Breakdown	YoY Change
Principal payments under capital leases	(3,145)	(381)
Dividends paid	(608)	(0)

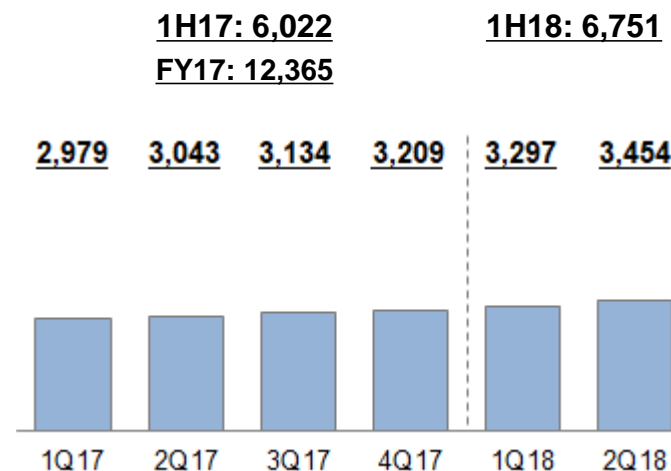
II - 11. Other Financial Data

Unit: JPY million
[] = Year over year comparison

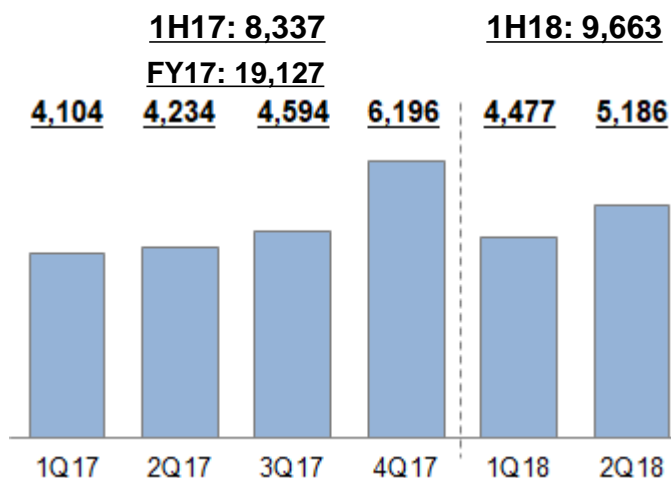
CAPEX



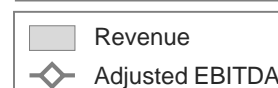
Depreciation and Amortization



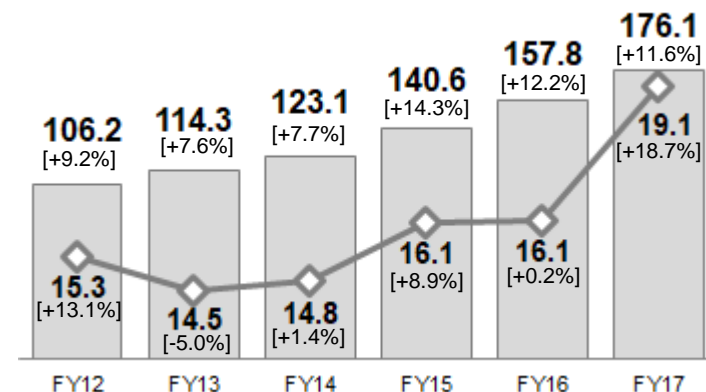
Adjusted EBITDA



Revenue & Adjusted EBITDA Annual Growth



Unit: JPY billion

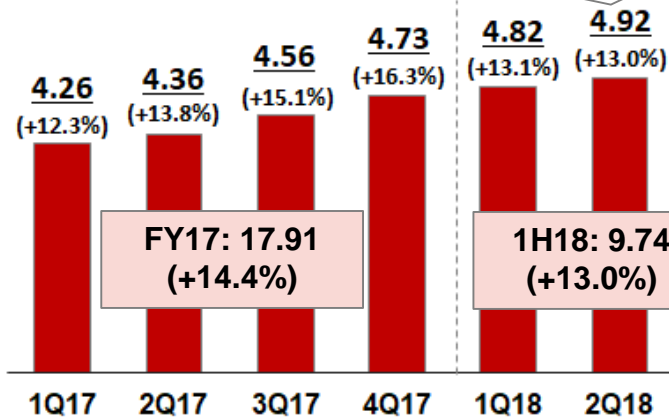


III - 1. Cloud & Mobile/IoT Business

Unit: JPY billion (bn)
% = Year over year comparison
Subs. = subscriptions

Cloud-related revenue

Major Breakdown of 2Q18 Revenue
Private 3.57, Public 0.67, IIJ Raptor 0.58

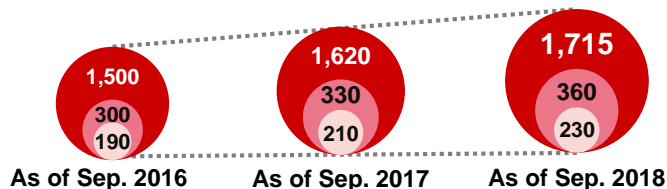


◆ Continuously accumulating revenue FY18 revenue target: JPY20.0 billion

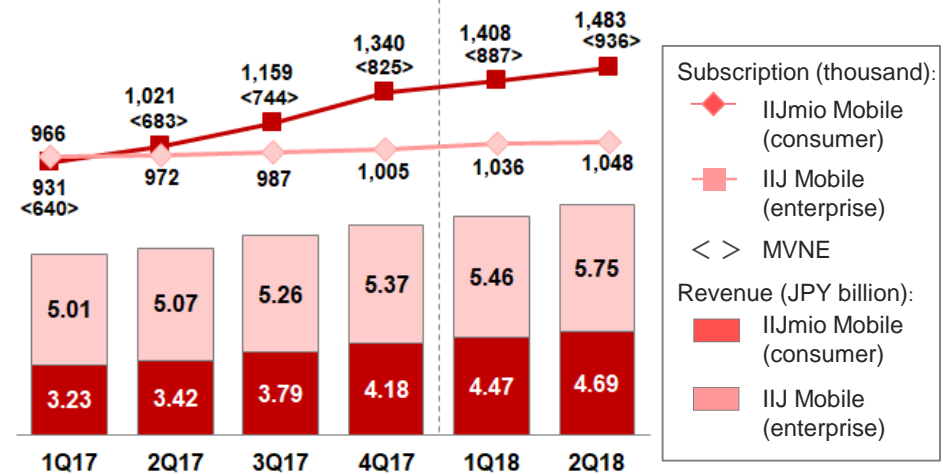
- Promoting Hybrid/Multi Cloud by expanding functions
 - ✓ Seamless connection between on-premise VMware systems and IIJ GIO P2 systems
 - ✓ Real time, smooth, one-stop Cloud migration solution
 - ✓ Comprehensive control panel covering multi-Cloud systems
 - ✓ Enhanced reporting, research and alert function of "UOM"
 - ✓ "IIJ Flex Mobility" provides secure, reliable, and fast VPN; suited to use Office365 and other multi cloud systems

◆ Customer Base

■ Total number of customer
■ MRC over JPY0.5 million
■ MRC over JPY1.0 million
 MRC=Monthly Recurring Charge



Mobile revenue & subscription



◆ Accumulating mobile subscriptions & revenue continuously

- 1H18-end subs: 2.532 million, 1H18 total revenue: JPY20.38 bn (+21.8%)
- Additional expansion of mobile interconnectivity bandwidth to maintain good connectivity quality (Jul.& Aug.), Optimization of mobile traffic patterns with multiple connection points between Tokyo & Osaka, Expect to improve network utilization with uplink traffic from enterprise mobile orders
- Favorable order situation for smartphone-bundled services as continuously expanding line-ups such as OPPO and Essential Phone

◆ Full-MVNO revenue: 1Q JPY0.09 billion, 2Q JPY0.16 billion, FY18 revenue target: approx. JPY0.5 billion

- "SIM Life Cycle Management" as competitive advantage
 - ✓ Panasonic "Let's Note," Mitsui Bussan Electronics "FORKERS" etc.
- Gradually increasing sales partners, now include South-east Asia and Europe for prepaid SIMs for foreigners visiting Japan, "Japan Travel SIM"
- Verifying eSIM toward the launch of eSIM platform services in spring '19

◆ Updates on enterprise mobile (excluding MVNE)

- 1H18-end subs: 547 thousand (+61.6%), 1H18 revenue: JPY2.23 billion (+29.2%)
- Receiving orders of surveillance & dashboard cameras, vending machines, taxi dispatch systems, work style reform/remote work etc.

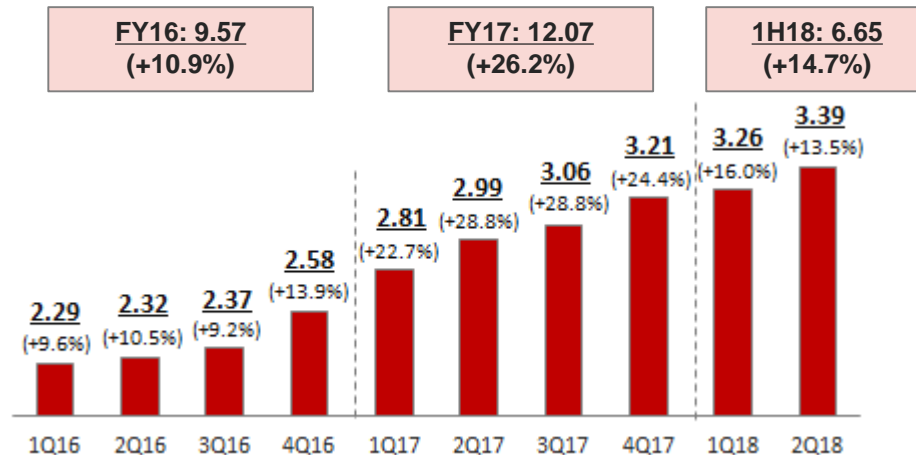
III - 2. Business Developments

Unit: JPY billion
% = Year over year comparison
METI = Ministry of Economy, Trade and Industry

Security

◆ Security-related services revenue growth

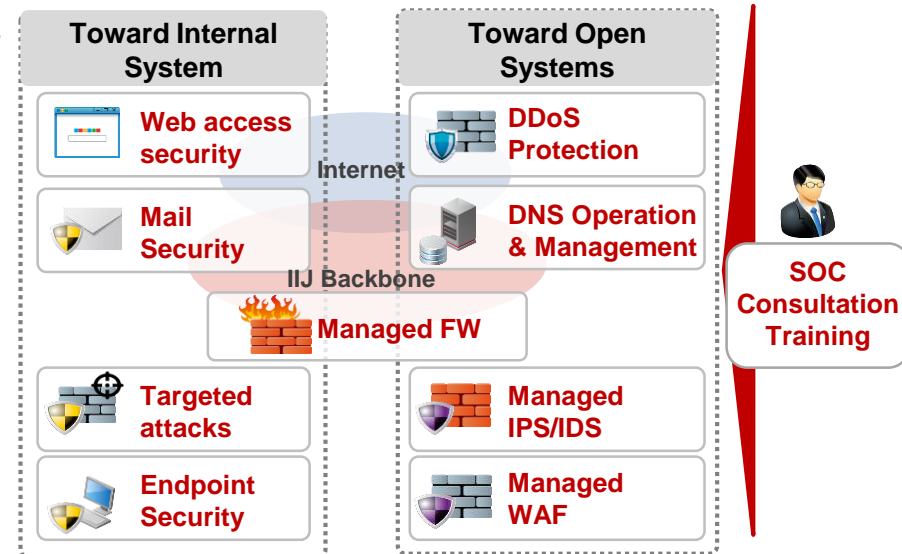
- Recognized in Outsourcing Services
- In addition to services, provide SI for security needs
- Particularly large security Cloud project for local government in FY17



◆ Business Developments

- Continuously expand service lineups: "IIJ Secure Endpoint Service" (Oct.), inexpensive SOC services (Oct.)
- DDoS Protection & other IIJ security services were registered to METI's Information Security Service Standards Complying Service List
- Invited local governments' law enforcement cyber officers and training them on cyber security

◆ Comprehensive Total Security Solution Provider



IoT

◆ Accumulating prospective orders including factory IoT

- Partnership with Hirata Corporation on **cognitive factory**. Accumulating prospective orders especially from manufacturers along with demands to include IoT for higher productivity
- Partnership with Sumitomo Corporation on **agriculture IoT**. Received a project for large plantation data collection through a partnership with a prominent system integrator
- JV with Chubu Electric Power launched "IoT services" by connecting web cameras & thermo-hygrometer sensors etc. to create **connected home** environment

Omnibus

- ◆ Virtualize functions such as Internet connectivity, security, and WAN as cloud services (Sep. '15), Updated to meet large scale WAN demands (Aug. '18), Incorporated SD-LAN (Oct. '18)
- ◆ Use cases continuously increasing:
 - ISID, Daiwa Lifenext, Regal Corporation (shoe company), At Home (real estate), Hibiya Kadan (large flower store chain), GABA (large foreign tutor school chain) etc.

III - 3. Recent Press Releases of Services' Function Expansion



III - 4. FY2018 Business Plan (announced in May 2018)

Unit: JPY billion

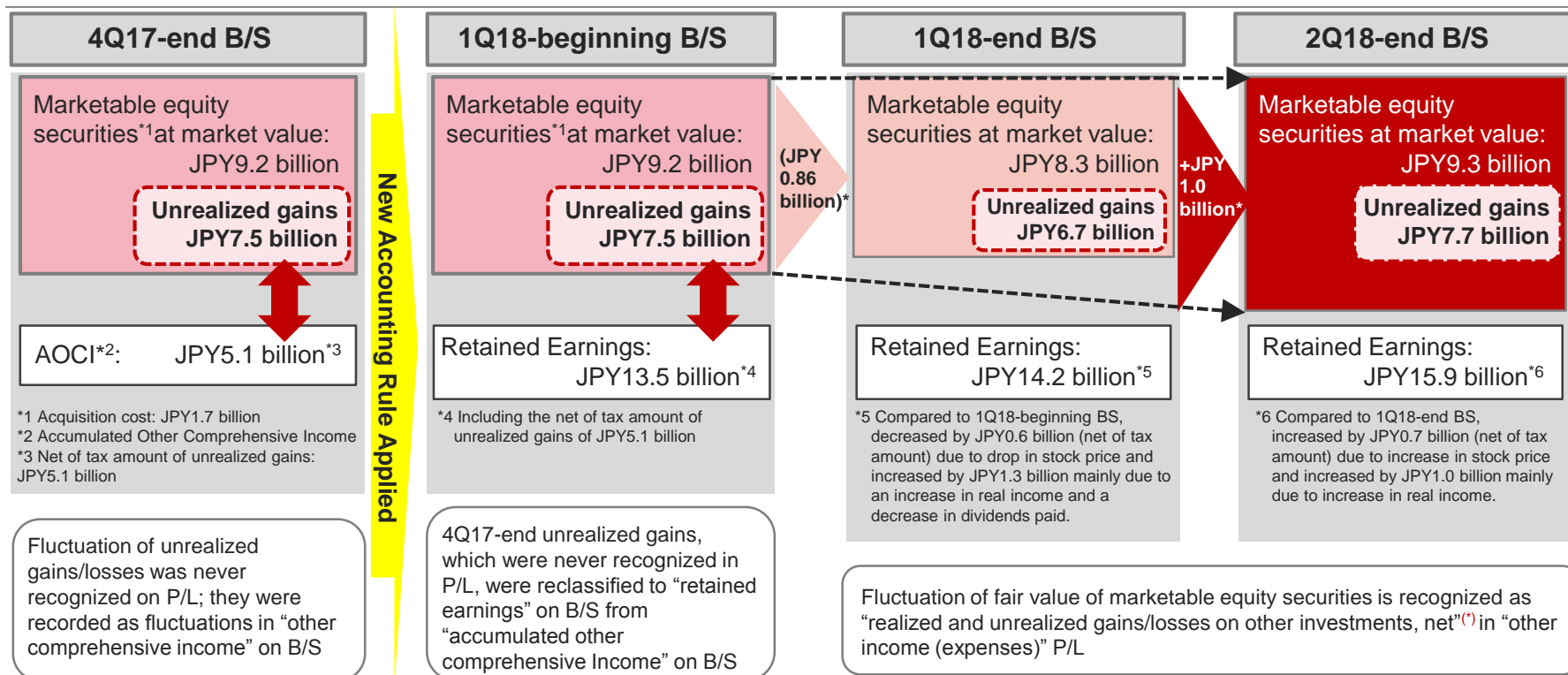
**Aim to increase income with continuous recurring revenue growth
while full-MVNO-related costs increase,
Seek significant income growth in FY19 by strengthening revenue accumulation**

	% of Revenues FY17 Results (Apr. 2017 - Mar. 2018)	% of Revenues FY18 Target (Apr. 2018 - Mar. 2019)	YoY Change	
Total Revenues	176.1	190.0	+13.9	+7.9%
Total Cost of Revenues	147.8	160.2	+12.4	+8.4%
Gross Margin	28.2	29.8	+1.6	+5.6%
SG&A/R&D	21.5	22.8	+1.3	+6.3%
Operating Income	6.8	7.0	+0.2	+3.5%
Cash Dividend per common share	JPY27.00	JPY27.00	-	-

- Others**
- Overseas: Revenue JPY7.0 billion, OP JPY0.1 billion
 - In addition to NW services and SI, GDPR consultation and others to expand global solution offerings
 - Consolidated subsidiaries in Asia as a whole turn positive
 - JOCDN to provide full-scale CDN service
 - DeCurret plans to launch cryptocurrency exchange service

Target & Assumption	
Enterprise NW	<ul style="list-style-type: none"> ➢ Strengthen income level with continuous revenue accumulation of already invested service line-ups ➢ Enhance xSP-targeted sales structure ➢ Security services to further increase with DDoS protection and SOC <ul style="list-style-type: none"> • Leveraging security log and cyber threats information obtained as an ISP to apply to our services ➢ IP service to expand with CDN traffic through JOCDN
Mobile & IoT	<ul style="list-style-type: none"> ➢ Focus on acquiring and gathering enterprise traffic through IoT/M2M <ul style="list-style-type: none"> • Expect mobile profitability to improve in the mid-term • Security, Cloud, SI revenues to increase with IoT projects • MVNE business to grow continuously along with increase in clients and subscription ➢ Collaborate IJ IoT Services & full-MVNO functions to establish B2B2X scheme; Leverage case studies to accelerate the penetration
Cloud/SI	<ul style="list-style-type: none"> ➢ SI profitability to improve with an increase in SE utilization rate etc. ➢ Further enhance to acquire Multi/Private cloud demands <ul style="list-style-type: none"> • Collaboration with NW services such as security • Focus on Unified Operation Management (UOM) services ➢ Cloud revenue JPY20 billion (+11.7% YoY) <ul style="list-style-type: none"> • Cloud gross margin to improve with revenue growth
Dividends	<ul style="list-style-type: none"> ➢ Accordingly with our basic policy of continuous and stable dividend policy, JPY27.00 per common share

III - 5. Gains/Losses on Marketable Equity Securities



* Major breakdown of gains/losses on marketable equity securities

Stock	IIJ holdings (shares)	Stock Price (JPY)		Gains/losses for 1Q18 P/L (JPY0.86 billion)	Stock Price (JPY)	Gains/losses for 2Q18 P/L +JPY1.0 billion	Gains/Losses for 1H18 P/L +JPY0.1 billion
		4Q17-end	1Q18-end		2Q18-end		
SIGMAXYZ Inc.	1.98 million	2,137	1,331	(JPY1.6 billion)	1,306	(JPY0.1 billion)	(JPY1.6 billion)
Recruit HLDG	1.5 million	2,645	3,066	+JPY0.6 billion	3,792	+JPY1.1 billion	+JPY1.7 billion
PIA Corp.	0.15 million	5,450	6,230	+JPY0.1 billion	5,880	(JPY0.1 billion)	+JPY0.1 billion

(*) "Realized and unrealized loss on other investments, net" for 1Q18 was JPY0.75 billion. The breakdown of which were losses of JPY0.86 billion on marketable equity securities and gains of JPY0.12 billion on funds that were available to be measured at fair value. "Realized and unrealized loss on other investments, net" for 2Q18 was JPY1.12 billion. The breakdown of which were gains of JPY1.0 billion on marketable equity securities and gains of JPY0.13 billion on funds. Due to the recent share price down, it is expected to recognize losses on marketable equity securities again in 3Q18.

※ Forward-looking statements

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

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

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

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