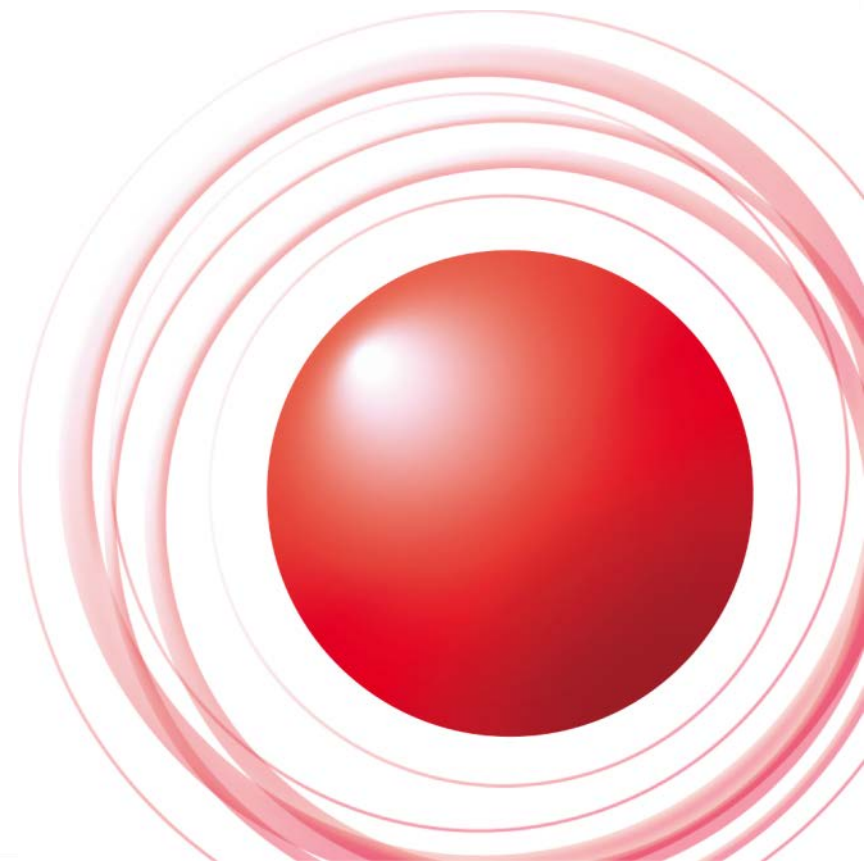


Consolidated Financial Results for 1Q FY2016 (First 3 months ended June 30, 2016)



Internet Initiative Japan Inc.
TSE1(3774), NASDAQ(IIJI)
August 5, 2016

Ongoing Innovation



Agenda

I . Summary of 1Q FY2016 Financial Results

II . Consolidated Financial Results for 1Q FY2016

III . Reference Materials

I . Summary of 1Q FY2016 Financial Results

< 1Q FY2016 Results >

YoY = 1Q16 compared to 1Q15

Revenues	JPY36.18 billion (up 15.0% YoY)	Operating income	JPY0.84 billion (down 26.7% YoY)
Gross margin	JPY5.78 billion (up 2.2% YoY)	Income before income tax	JPY0.99 billion (down 22.2% YoY)
SG&A	JPY4.95 billion (up 9.5% YoY)	Net income attributable to IJ	JPY0.53 billion (down 26.6% YoY)

1Q16 Business Developments

◆ Mobile services continued to grow – enhancing sales channels

QoQ: Compared to a previous quarter

- Total subscription 1.4 million (up 173 thousand QoQ, QoQ net addition: 155 thousand (4Q15), 139 thousand (3Q15))
 - MVNE subscription 333 thousand (up 83 thousand QoQ, QoQ net addition: 69 thousand (4Q15), 46 thousand (3Q15))
- Partnerships with Japan Post (Aug.) and U-NEXT, one of large MVNOs (July), and flat rate voice call service (Sep.) should further accelerate subscription accumulation

◆ Accumulating large-scale Cloud services prospective orders

- “IJ GIO Infrastructure P2” continued to accumulate prospective orders (1Q16-end: approx. 600, 4Q15-end: over 300)
- Accumulating prospective orders including monthly recurring revenue over tens of JPY million
 - Information platforms for local governments, service platform for a financial information service provider and many more

◆ Continued to focus on business and service developments

- New “IJ IoT Service” (Nov.), enhancing “IJ GIO Infrastructure P2 Service” (July) and “IJ Omnibus Service” (June)
- Developing functions for Security Operation Center (“SOC”), increasing security engineers, will launch “IJ GIO Secure Browsing Service” (Nov.) and more
- Enhancing Contents Delivery Network (“CDN”) service platform to capture the growing demand for contents delivery

1Q16 Financial Results

- ◆ **Strong revenue growth continued (1Q16 total revenue up 15.0% YoY), led by recurring revenue (up 16.7% YoY)**
- ◆ **Income decreased because business & service development costs increased, fixed-costs increased as a new fiscal year began when revenue and income are smallest, decrease amount was within our expectation**
 - Income negatively impacted by approx. JPY0.12 billion by technical mobile accounting issue (approx. JPY0.27 billion of onetime positive impact regarding mobile interconnectivity charge revision recognized in 1Q15 and approx. JPY0.15 billion of that in 1Q16)

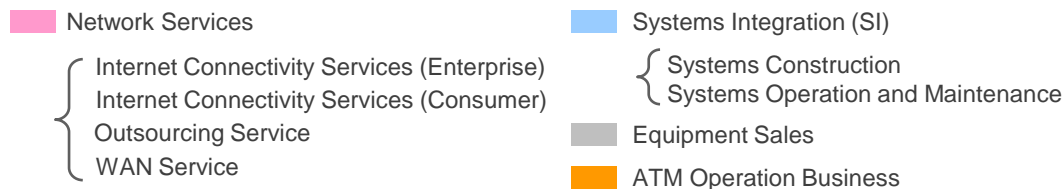
II - 1. Consolidated Financial Results for 1Q FY2016

Unit: JPY billion

	% of Revenues		YoY Change in %	% of Revenues	
	1Q16 (Apr. 2016 - Jun. 2016)	1Q15 (Apr. 2015 - Jun. 2015)		FY16 Target (Apr. 2016 - Mar. 2017)	YoY Change in %
Total Revenues	36.2	31.5	+15.0%	159.0	+13.1%
Total Cost of Revenues	84.0% 30.4	82.0% 25.8	+17.8%	82.6% 131.4	+13.3%
Gross Margin	16.0% 5.8	18.0% 5.7	+2.2%	17.4% 27.6	+11.9%
SG&A/R&D	13.7% 4.9	14.4% 4.5	+9.5%	12.8% 20.3	+9.6%
Operating Income	2.3% 0.8	3.6% 1.1	(26.7%)	4.6% 7.3	+18.9%
Income before Income Tax Expense	2.7% 1.0	4.1% 1.3	(22.2%)	4.6% 7.3	+17.9%
Net Income*	1.5% 0.5	2.3% 0.7	(26.6%)	3.1% 5.0	+23.8%

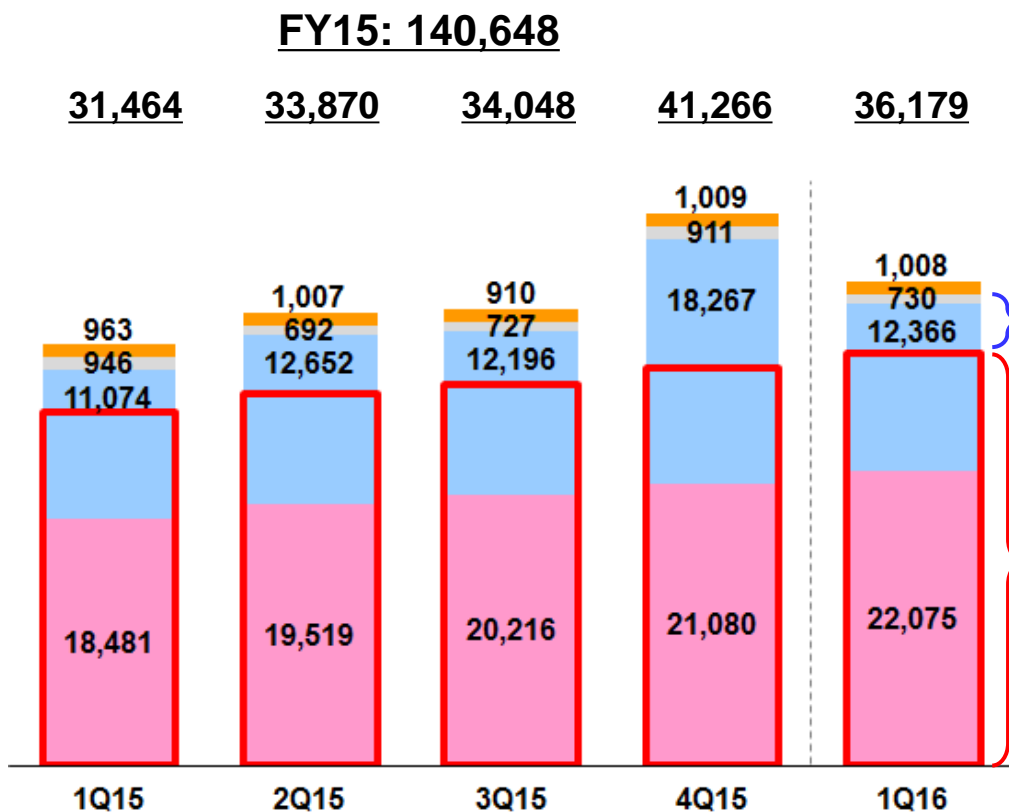
*Net income attributable to IIJ

II - 2. Revenues



Unit: JPY million

YoY = 1Q16 compared to 1Q15



One-time Revenue *

1Q16: JPY4,408 million (up 6.3% YoY)
(12.2% of 1Q16 revenues)

* Revenue which is recognized when systems or equipment are delivered and accepted by customers

1. Systems Construction
2. Equipment Sales

Recurring Revenue*

1Q16: JPY30,763 million (up 16.7% YoY)
(85.0% of 1Q16 revenues)

*Represents the following monthly recurring revenues

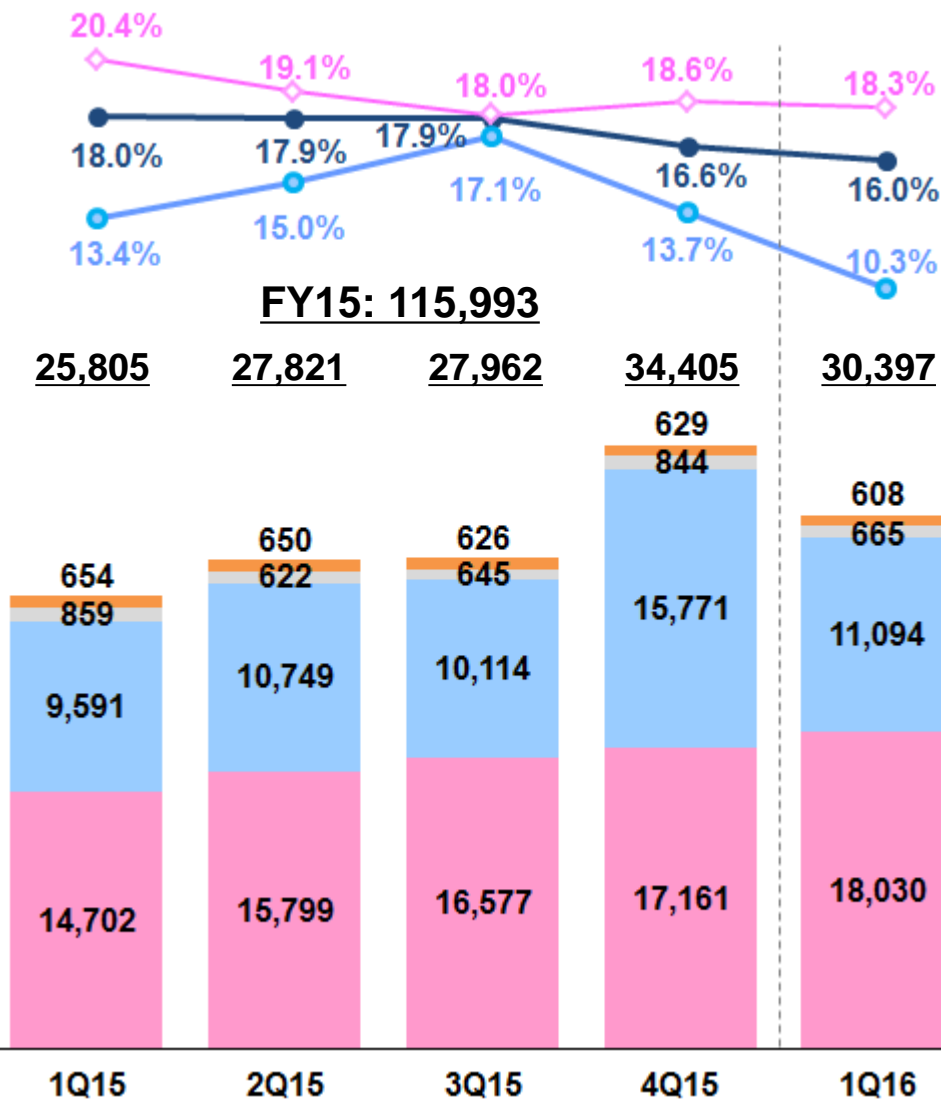
1. Internet Connectivity Services(Enterprise/Consumer)
2. Outsourcing Services
3. WAN Services
4. Systems Operation and Maintenance

II - 3. Cost of Revenues and Gross Margin Ratio

Cost of revenues: ■ Network Services ■ SI ■ Equipment Sales ■ ATM Operation Business
 Gross margin ratio: ◇ Network Services ○ SI ● Total Revenues

Unit: JPY million

YoY = 1Q16 compared to 1Q15



1Q16 Gross Margin

◆ Total

- JPY5,782 million (up JPY124 million, up 2.2% YoY)
- Gross margin ratio: 16.0% (down 2.0 points YoY)

◆ Network Services

- JPY4,045 million (up JPY266 million, up 7.0% YoY)
- Gross margin ratio: 18.3% (down 2.1 points YoY)
- The below table shows the actual network service gross margin ratio calculated by 1) incorporating the retroactively adjusted cost which quadrant amount is equally recognized in each quarter, 2) applying the most recent Docomo's interconnectivity charge (fixed in Mar. 2016 and decreased by 16.9%) and 3) our estimated decrease rate of 12.0% (will be fixed in 4Q16 based on Docomo's FY15 mobile-related cost):

1Q15	2Q15	3Q15	4Q15	1Q16	Unit:%
19.4	19.5	18.5	18.6	18.3	

- In 4Q16, the revised Docomo's interconnectivity charge based on their FY15 mobile related cost is expected to be fixed and applied to our mobile usage during FY15 retroactively and during FY16 temporarily. In 4Q15, we had the same retroactive and temporary cost adjustment which amounted to a temporary positive impact of approx. JPY0.1 billion (estimate 15.0% decrease, actual 16.9% decrease)
- Gross margin ratio decreased mainly because mobile interconnectivity costs and increases of upfront costs such as for development of "IIJ Omnibus" and CDN services

◆ SI

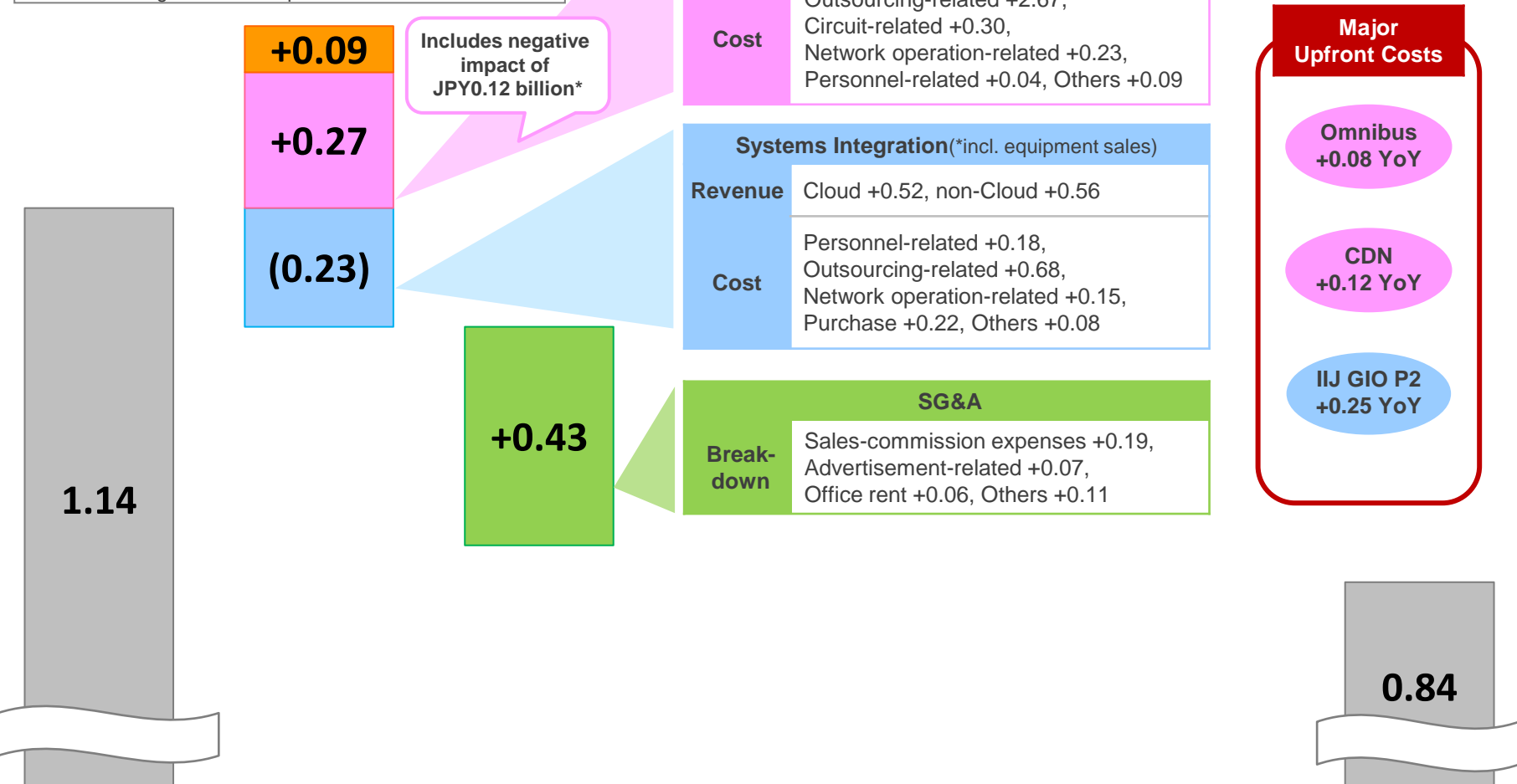
- JPY1,273 million (down JPY210 million, down 14.2% YoY)
- Gross margin ratio: 10.3% (down 3.1 points YoY)
- Gross margin ratio decreased mainly due to increases of upfront costs related to the enhancement for "IIJ GIO P2" and IoT/BigData related solutions, and the situation of SI projects

II - 4. 1Q16 Income Change YoY

- YoY change in ATM operation business gross margin
- YoY change in SI gross margin (incl. equipment sales)
- YoY change in network services gross margin
- YoY change in SG&A expenses

Unit: JPY billion

YoY = 1Q16 compared to 1Q15



Includes negative impact of JPY0.12 billion*

* approx. JPY0.12 billion related to NTT Docomo's mobile interconnectivity charge revision

II - 5. Situation of Business and Service Development

IIJ GIO P2

- Launched in Nov. 2015. Unified operation management service and enlargement of servers and storage facilities in 1Q16
- Depreciation costs increased by service facility investment in FY15. Enhancing personnel and outsourcing recourses
- Service enhancement to continue

Omnibus

- Launched in Sep. 2015. Additional functions such as Internet and WAN access modules, closed network connection to IIJ's web security and mail services in 1Q16
- Depreciation costs increased by service facility investment in FY15. Enhancing personnel and outsourcing recourses
- Service enhancement to continue

Mobile

- Strengthened sales channel, service lineup (flat-rate voice call) and headsets lineup in 1Q
- Expanding mobile infrastructure continuously along with revenue and traffic increase
 - Bandwidth enlargement, duplicate mobile infrastructure in Tokyo and Kansai, connecting with KDDI
- Working diligently on feasibility study about "full MVNO"

IoT

- Will launch "IIJ IoT Service" in Nov. 2016
- Expanding functions such as mobile closed network, data integration/visualization, devise GW

Security

- "sandbox" service facility largely expanded in 1Q16 along with the demand increase, expect such momentum to continue beyond 2Q
- Working diligently to enhance SOC functions, increasing security engineers

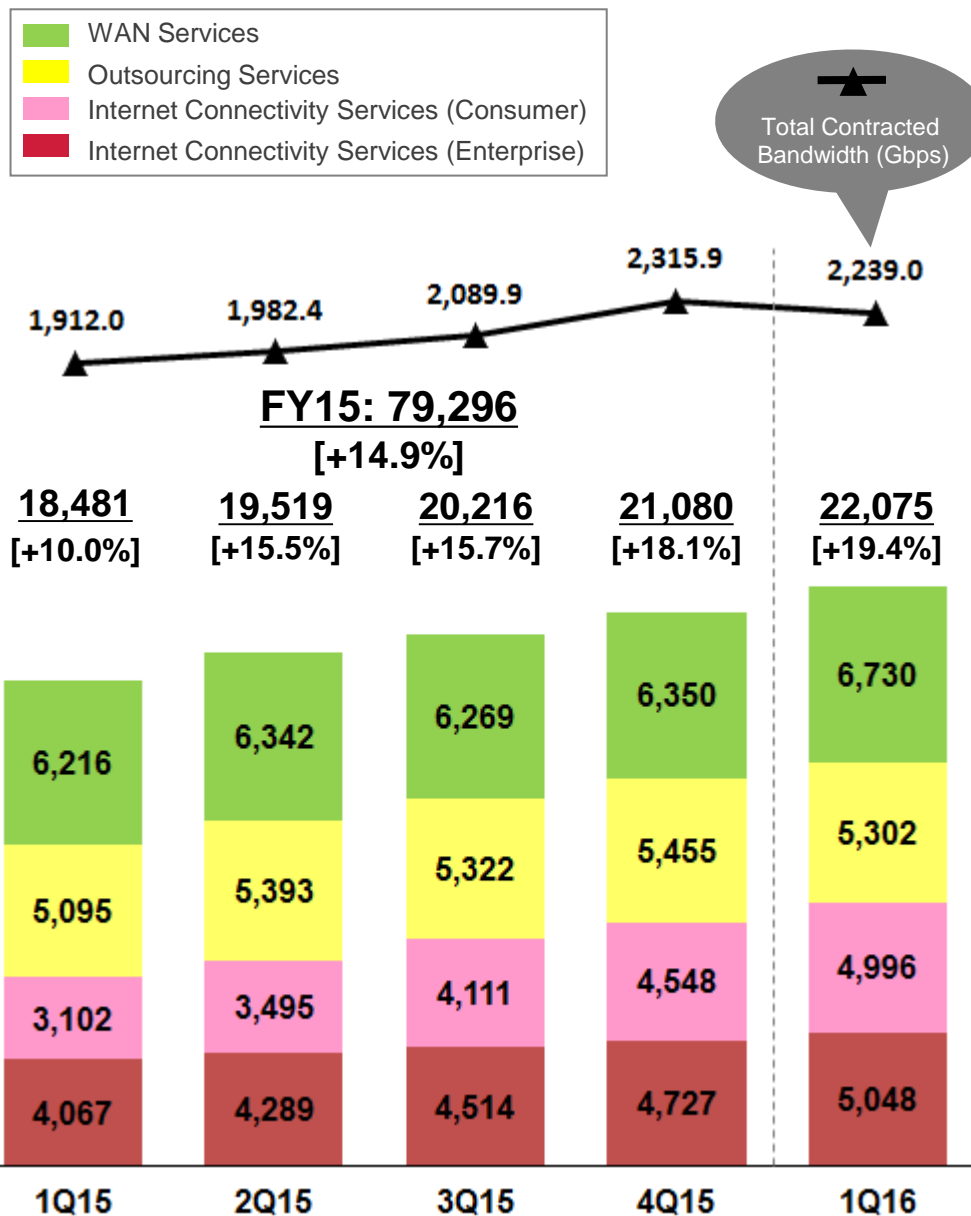
CDN

- Enhancing CDN service facility as demands from broadcasting industry increases, Strengthening premium contents delivery services' functions
- Adding service contents for "IIJ PrimeSeat," live streaming service delivering high resolution audio, offering services through "BtoC" and "BtoB" business models

II - 6. Network Services (1)Revenues

Unit: JPY million

[], YoY = compared to the same period in a previous year
QoQ: 1Q16 compared to 4Q15



◆ Internet Connectivity (Enterprise)

- JPY5,048 million (up JPY980 million, up 24.1% YoY)
- Strong MVNE contributed to continuous growth of mobile services
 - Subscription (unit: thousand):
1Q16-end: 333 (up 229 YoY, up 83 QoQ)

◆ Internet Connectivity (Consumer)

- JPY4,996 million (up JPY1,894 million, up 66.1% YoY)
- IJmio mobile services continued to increase
 - Subscription (unit: thousand):
1Q16-end: 811 (up 284 YoY, up 63 QoQ)

◆ Outsourcing Services

- JPY5,302 million (up JPY206 million, up 4.1% YoY)
- Revenue decreased QoQ due to seasonal factors common as a new fiscal year begins

◆ WAN Services

- JPY6,730 million (up JPY514 million, up 8.3% YoY)
- Revenue continuously grew along with accumulation of orders

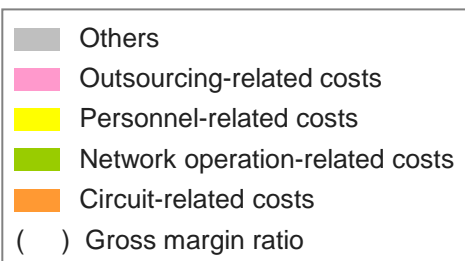
◆ Mobile services

- JPY5,693 million (up JPY2,709 million, up 90.8% YoY)

◆ Non-mobile services

- JPY16,382 million (up JPY886 million, up 5.7% YoY)

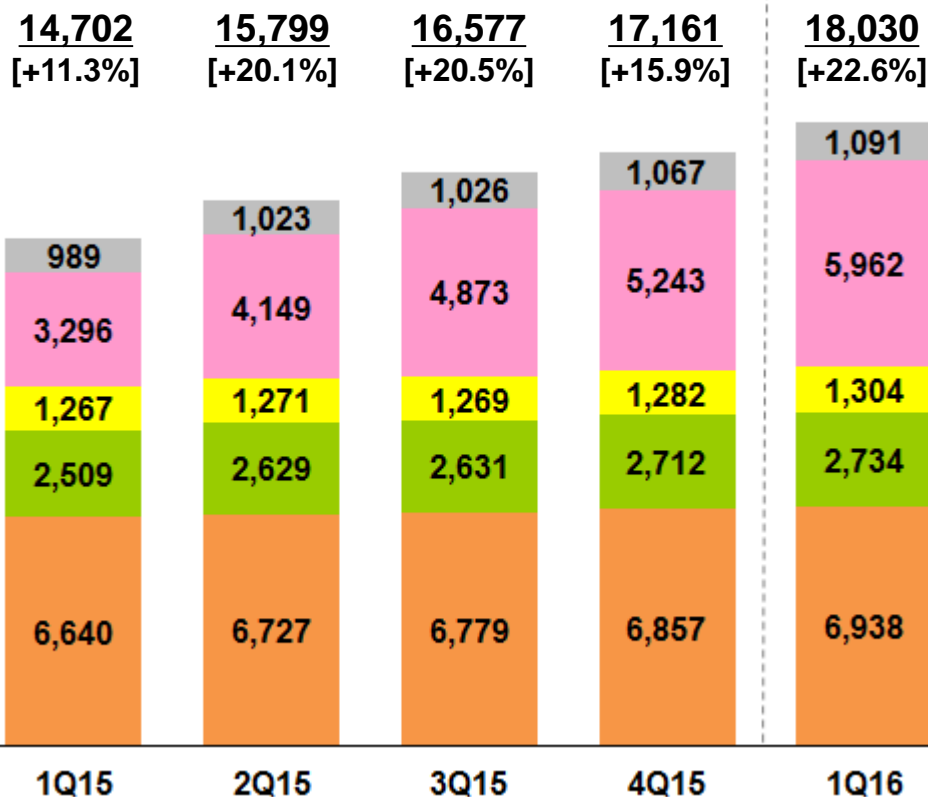
II - 6. Network Services (2)Cost of Revenues



Unit: JPY million

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

FY15: 64,239 (19.0%)
[+16.9%]



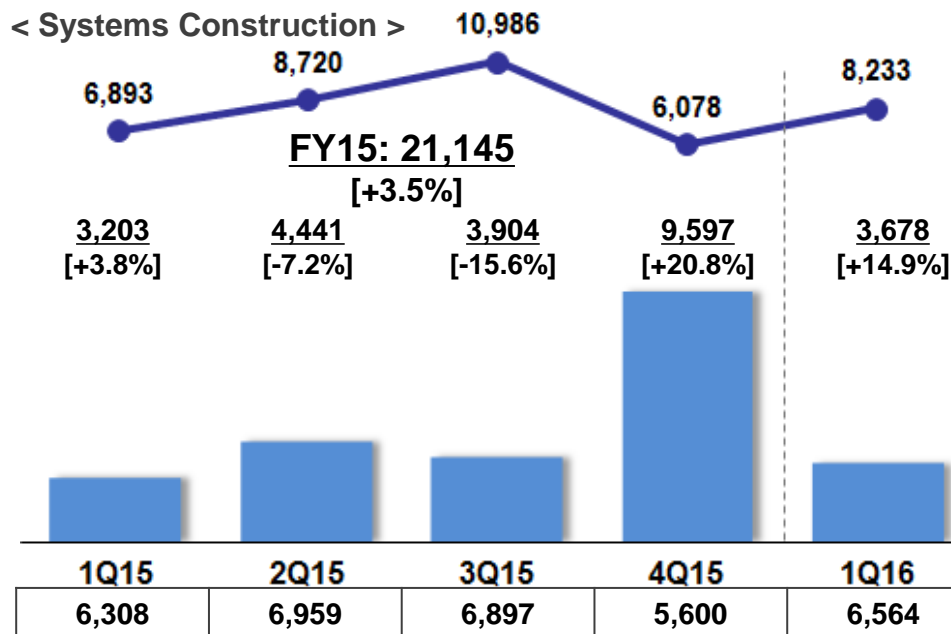
◆ Cost of network services

- 1Q16: up JPY3,328 million, up 22.6% YoY
- Along with the increase in mobile subscription and traffic, mobile-related costs (mainly in outsourcing-related costs) increased
- Outsourcing-related and personnel-related costs increased mainly due to releasing new functions related to "IJ Omnibus Service," enhancing security services and CDN services
- Circuit-related costs increased along with the increase in WAN services revenue

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

- Docomo's interconnectivity charge, which is calculated by Docomo's FY15 mobile-related cost, is expected to be fixed in Mar. 2017. Docomo's payment arrangement is 15% off from 1Q16
- IJ estimates the charge to decrease by 12.0% YoY and has been applying it from 1Q16 for its FY16 usage.
- IJ's estimate of 12.0% decrease leads to approx. JPY0.6 billion cost decrease for its FY15 mobile interconnectivity usage. Its quadrant amount, approx. JPY0.15 billion, is to be recognized each quarter during FY16. Its FY14 mobile interconnectivity usage was approx. JPY0.27 billion which was recognized in 1Q15.
 - ✓ Therefore, 1Q16 income negatively impacted by approx. JPY0.12 billion
- Docomo's interconnectivity telecommunications service charge, which was calculated by Docomo's FY14 mobile-related cost, was fixed in Mar. 2016 and it decreased by 16.9% from a year ago. The positive impact of approx. JPY0.1 billion was temporarily recognized in 4Q15, as IJ had estimated it would decrease by 15%

II - 7. Systems Integration (SI) (1)Revenues



Unit: JPY million

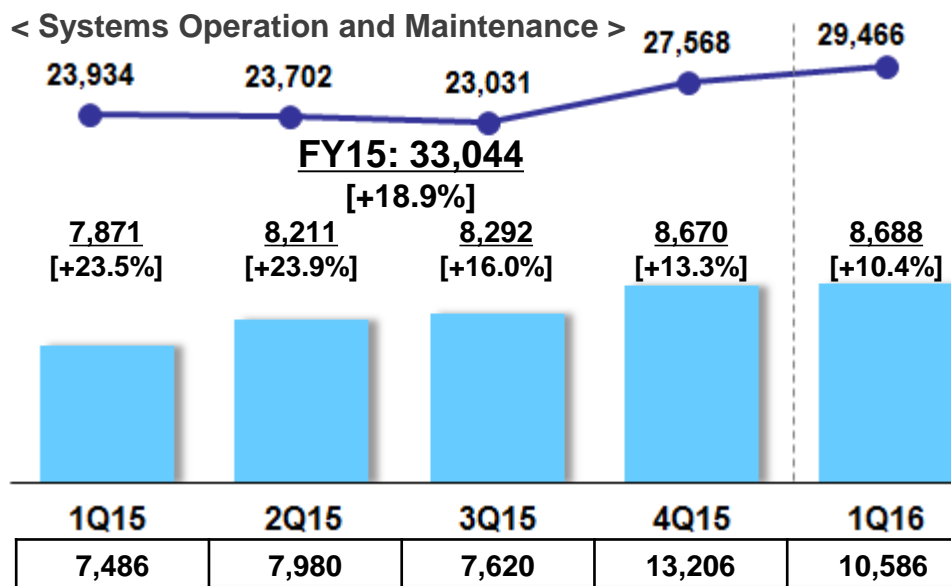
[], YoY = compared to the same period in a previous year

- Systems Construction Revenues
- Systems Operation and Maintenance Revenues
- Order backlog
- Orders received

*Systems construction's order backlog and order received include equipment sales

◆ Systems construction

- 1Q16 revenue: up JPY476 million, up 14.9% YoY
- Container type DC export project received in 3Q15 is to be recognized in 4Q16 (approx. JPY1.3 billion)
- Large-scale construction projects orders received in 1Q16:
 - Renewing mail security systems for a major manufacturer
 - Smartphone apps for a major financial institution
 - Official web sites for government office
 - ICT environments for an elementary school
 - Online schooling sites for a university



◆ Systems operation and maintenance

- 1Q16 revenue: up JPY817 million, up 10.4% YoY
- Continuous revenue growth mainly due to the accumulation of systems construction projects which migrated to systems operation and maintenance phase as well as continuous increase in private cloud revenue
 - From private cloud: up JPY520 million, up 18.5% YoY
 - From SI construction: up JPY296 million, up 5.9% YoY
- 87.9% of 1Q16 cloud-related revenue is recognized in systems operation and maintenance revenues (12.1% in outsourcing)

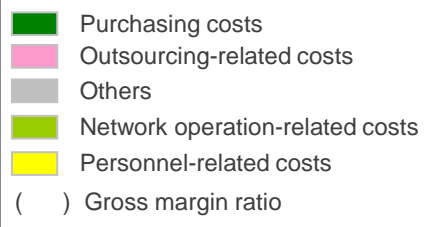
◆ Overseas business

- 1Q16 revenue: approx. JPY1.24 billion, operating loss: approx. JPY0.15 billion
- FY16 target revenue: approx. JPY7.0 billion, target operating loss: approx. JPY0.2 billion

II - 7. Systems Integration (SI) (2)Cost of Revenues

Unit: JPY million

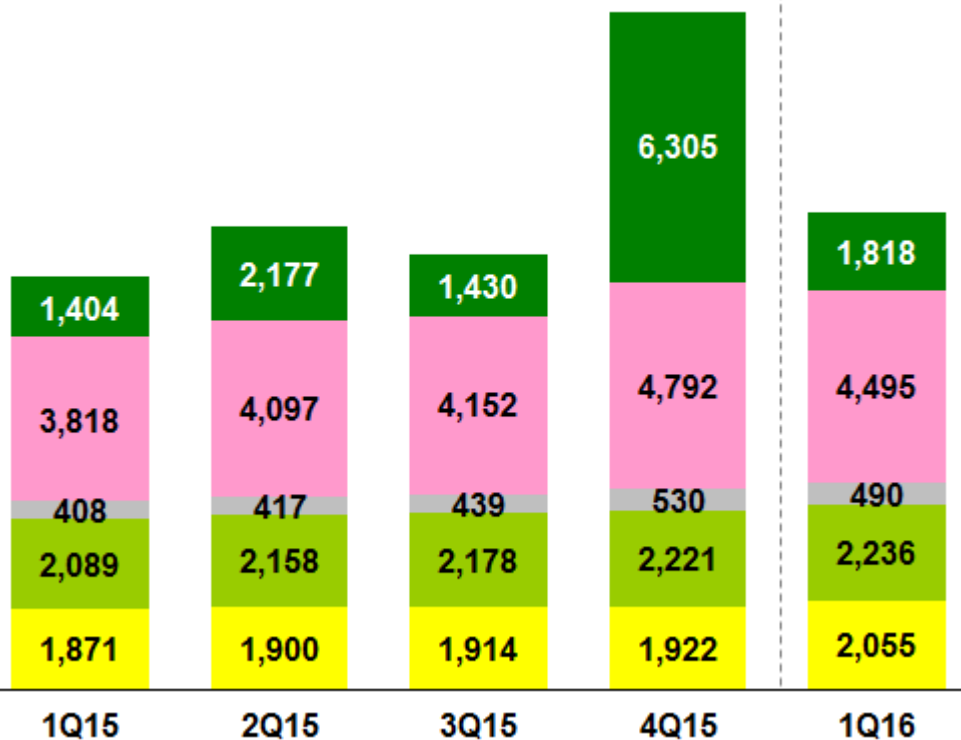
[], YoY = compared to the same period in a previous year
 QoQ: 1Q16 compared to 4Q15



FY15: 46,226 (14.7%)

[+11.2%]

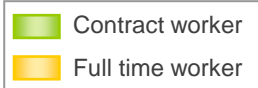
9,591	10,749	10,114	15,771	11,094
[+15.3%]	[+11.8%]	[-1.2%]	[+17.9%]	[+15.7%]



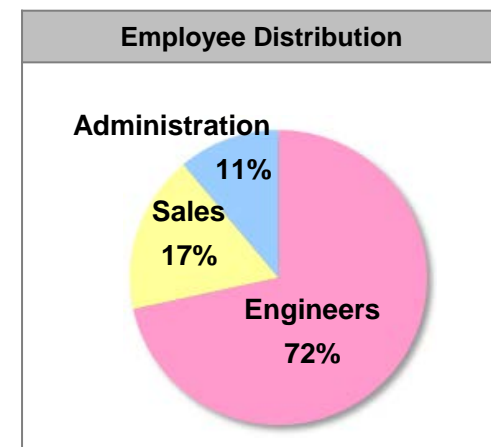
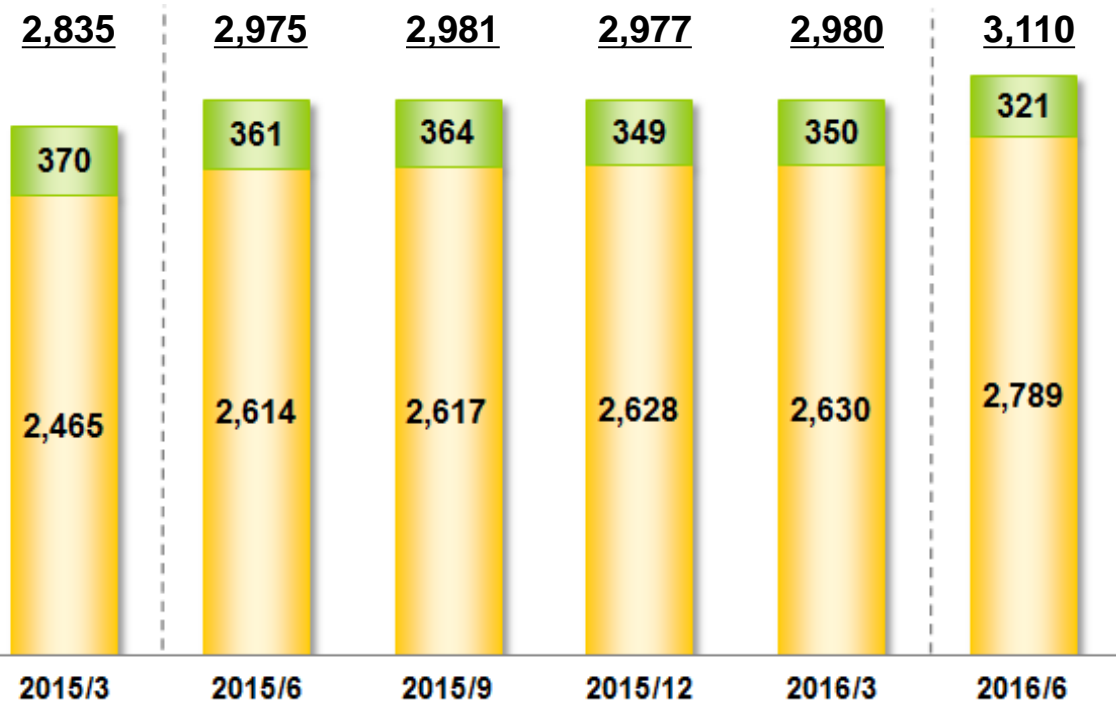
◆ Cost of SI

- 1Q16: up JPY1,502 million, up 15.7% YoY
 - 1Q16-end number of outsourcing personnel: 1,152 personnel (up 167 YoY, up 83 QoQ)
 - 1Q16 purchasing-cost to 1Q16 SI construction revenue: 49.4% (1Q15 43.9%)
 - Gross margin slightly decreased due to the situation of SI projects in 1Q16
 - Network operation-related, outsourcing-related and personnel-related costs increased mainly due to developments of "IJ GIO P2." In addition, outsourcing-related and personnel-related costs increased as we focus on healthcare business

II - 8. Number of Employees



Unit: JPY million
 YoY = 1Q16 compared to 1Q15



2015/3	2015/6	2015/9	2015/12	2016/3	2016/6
4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
5,114 (14.5%)	5,266 (16.7%)	5,297 (15.6%)	5,271 (15.5%)	5,321 (12.9%)	5,464 (15.1%)

Personnel related costs & expenses
 (% of revenue)

- ◆ **Personnel-related costs and expenses**
- 1Q16 up JPY198 million, up 3.8% YoY
 - Hired 137 new graduates in Apr. 2016
 (155 in Apr. 2015, 129 in Apr. 2014, 136 in Apr. 2013)

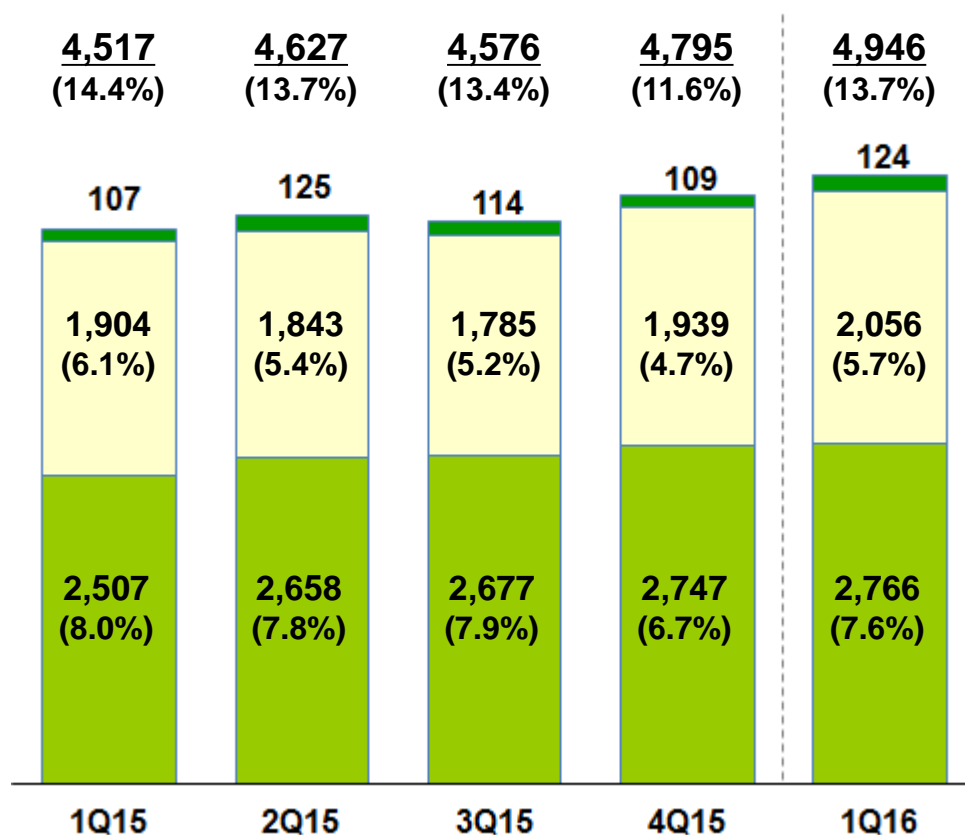
II - 9. SG&A Expenses/R&D



Unit: JPY million

YoY = 1Q16 compared to 1Q15

FY15: 18,515 (13.2%)



◆ Sales & marketing expenses

- 1Q16: up JPY259 million, up 10.3% YoY
 - Mobile services' sales commission and advertising expenses increased

◆ General & administrative expenses

- 1Q16: up JPY152 million, up 8.0% YoY
 - Rent expenses, commission expenses, personnel-related expenses and taxes and public dues increased

◆ SG&A related to ATM operation business

Unit: JPY million

1Q15	2Q15	3Q15	4Q15	1Q16
44.9	45.1	41.3	46.9	43.5

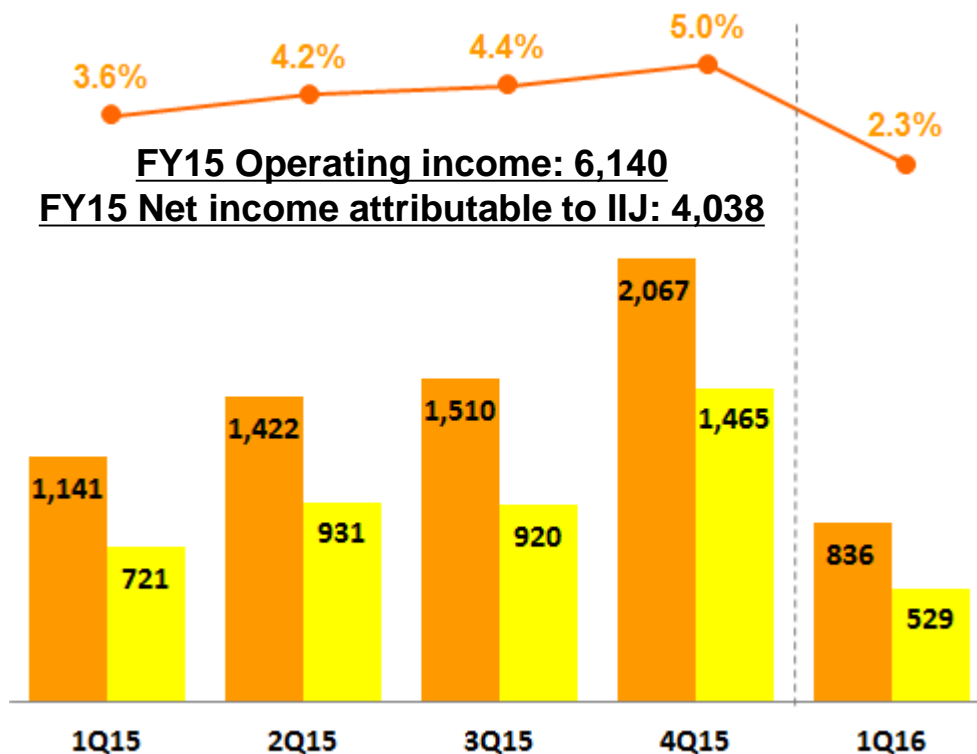
- Placed 1,053 ATMs as of June 30, 2016

II - 10. Operating Income and Net Income

Operating Income Net Income Attributable to IIJ Operating Margin Ratio

Unit: JPY million

YoY = 1Q16 compared to 1Q15



◆ Income before income tax expense:

- 1Q16: JPY994 million
(down JPY284 million, down 22.2% YoY)
 - Net gain on sales of other investments: JPY214 million
 - Dividend income: JPY63 million
 - Distribution from fund investments: JPY49 million
 - Foreign exchange loss: JPY91 million
 - Interest expense: JPY69 million

◆ Net income attributable to IIJ:

- 1Q16: JPY529 million
(down JPY192 million, down 26.6% YoY)
 - Mainly due to equity in net income of Internet Multifeed: JPY17 million
 - Net income attributable to noncontrolling interests including Trust Networks: JPY42 million

	1Q15	2Q15	3Q15	4Q15	1Q16	
	450	472	466	546	139	Current income tax expense
	111	6	191	(59)	301	Deferred tax expense (benefit)
	61	76	69	(27)	17	Equity in net income (loss) of equity method investees
	(57)	(35)	(23)	(37)	(42)	Less: Net income attributable to noncontrolling interests

II - 11. Consolidated Balance Sheets (Summary)

Unit: JPY million

	Mar. 31, 2016	Jun. 30, 2016	Changes
Cash and Cash Equivalents	19,569	18,504	(1,065)
Accounts Receivable	23,747	22,034	(1,712)
Inventories and Prepaid Expenses (Current and Noncurrent)	11,761	14,568	+2,807
Investments in Equity Method Investees	2,980	2,894	(86)
Other Investments	5,949	6,054	+105
Property and Equipment	34,324	35,367	+1,042
Goodwill and Other Intangible Assets	9,719	9,624	(95)
Guarantee Deposits	3,085	3,073	(11)
Total Assets	117,835	119,272	+1,437
Accounts Payable	15,404	12,649	(2,755)
Income Taxes Payable	1,078	242	(836)
Borrowings (Short-term and Long-term)	9,250	12,250	+3,000
Capital Lease Obligations (Current and Noncurrent)	11,734	12,487	+753
Total Liabilities	52,491	53,976	+1,485
Common Stock	25,509	25,509	-
Additional Paid-in Capital	36,060	36,074	+14
Retained earnings	2,471	2,495	+24
Accumulated Other Comprehensive Income	1,197	1,095	(101)
Total IJ Shareholders' Equity	64,845	64,782	(63)

➤ Total IJ Shareholders' Equity to Total Assets: 55.0% as of Mar. 31, 2016, 54.3% as of June 30, 2016

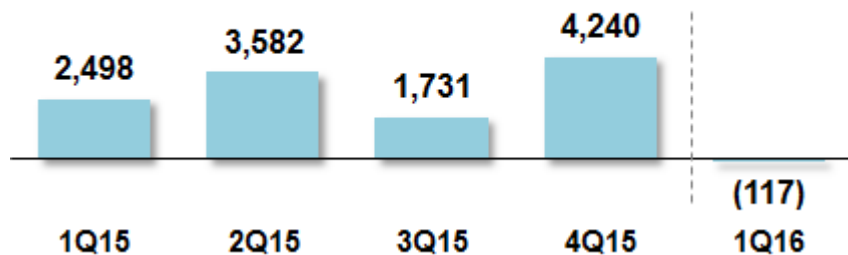
IV- 12. Consolidated Cash Flows

Unit: JPY million

YoY = 1Q16 compared to 1Q15

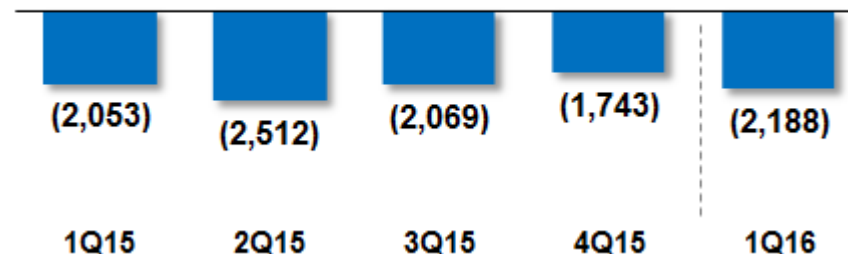
< Operating Activities >

FY15: 12,052



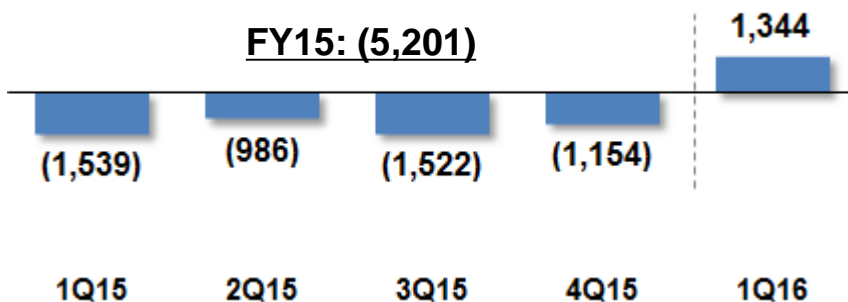
< Investing Activities >

FY15: (8,377)



< Financing Activities >

FY15: (5,201)



◆ 1Q16 Operating Activities

	Major Breakdown	YoY Change
Net income	571	(208)
Depreciation and amortization	2,612	+273
Fluctuation of operating assets and liabilities	(3,571)	(2,882)

Cash flow decreased mainly because 1) prepaid expenses increased along with an increase in maintenance for service facilities and SI projects and 2) accounts receivable increased along with an increase in SI projects, increase in mobile related service revenue and a certain customer's payment procedure

◆ 1Q16 Investing Activities

	Major Breakdown	YoY Change
Purchase of property and equipment	(3,085)	(715)
Proceeds from sales of property & equipment	404	+186
Proceeds from sale of other investments	304	+300

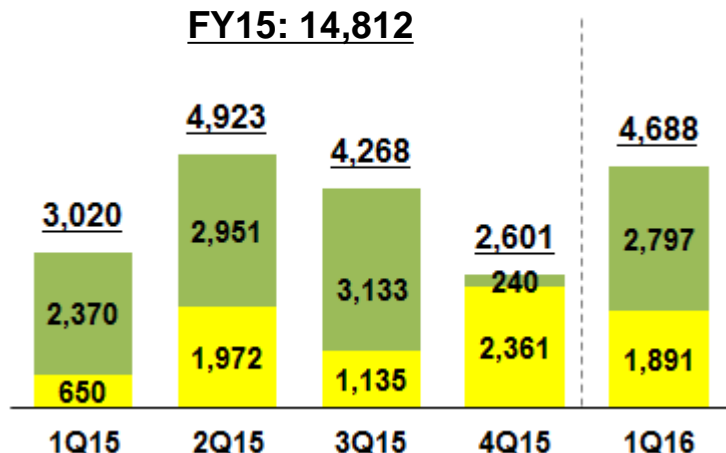
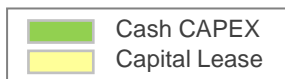
◆ 1Q16 Financing Activities

	Major Breakdown	YoY Change
Proceeds from long-term borrowings	3,000	+3,000
Principal payments under capital leases	(1,125)	(91)
Dividends paid	(505)	(0)

IV- 13. Other Financial Data (CAPEX etc.)

Unit: JPY million

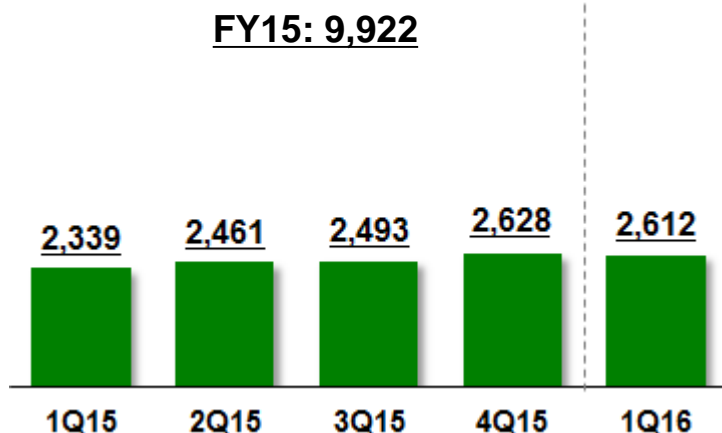
< CAPEX >



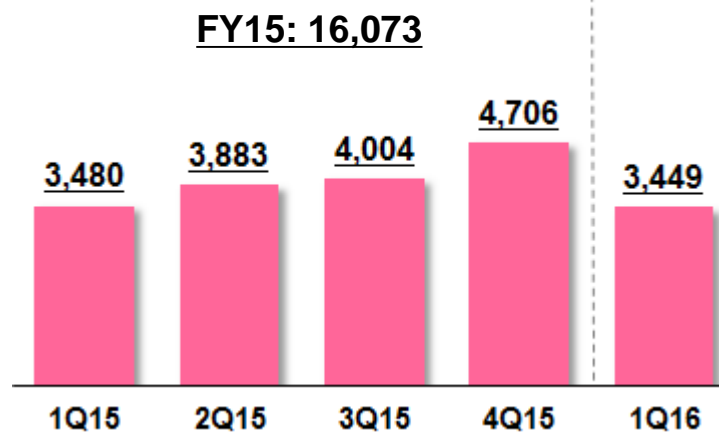
< Breakdown of CAPEX (unit: JPY billion) >

	1Q15	FY15	1Q16
TOTAL CAPEX	3.0	14.8	4.7
Network update, back office investment and others	2.3	10.2	3.3
Cloud-related	0.6	4.4	1.3
ATM operation business	0.1	0.2	0.1

< Depreciation and Amortization >



< Adjusted EBITDA >



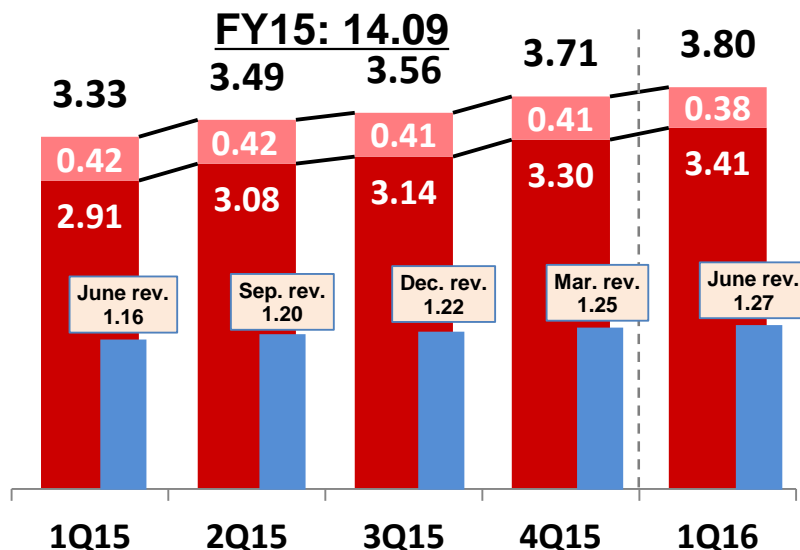
III- 1. Cloud Business Developments

Cloud-related revenue

(Unit: JPY billion)

- Large game customers
- Business enterprise customers

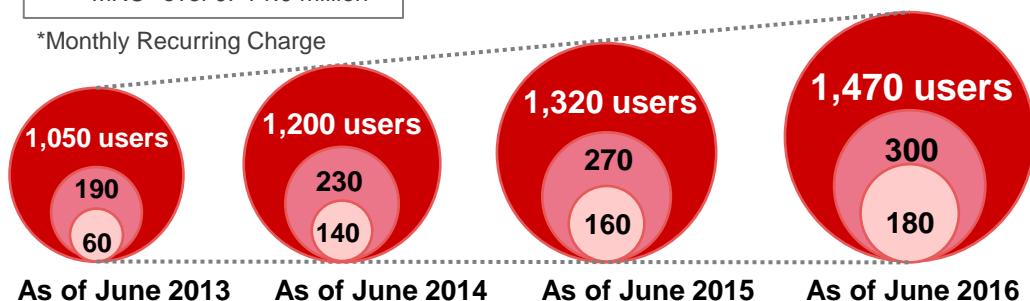
1Q16 cloud-related revenue recognition:
87.9% in systems operation and maintenance
12.1% in outsourcing



Cloud Customer Base

- MRC* over JPY0.5 million
- MRC* over JPY1.0 million

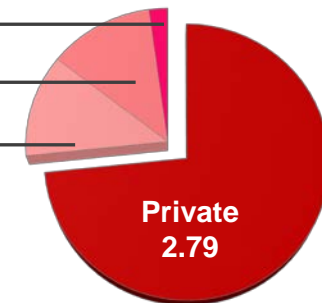
*Monthly Recurring Charge



1Q16 revenue

(Unit: JPY billion)

- General purpose SaaS 0.08 (groupware etc.)
- Task-specific SaaS 0.47 (FX, POS etc.)
- Public 0.46
- Private 2.79



Business Developments

- New cloud services "I I J G I O Infrastructure P2" continued to accumulate prospective orders

I I J G I O Infrastructure P2 prospective orders

2Q15-end	3Q15-end	4Q15-end	1Q16-end
over 100	approx. 200	over 300	approx. 600

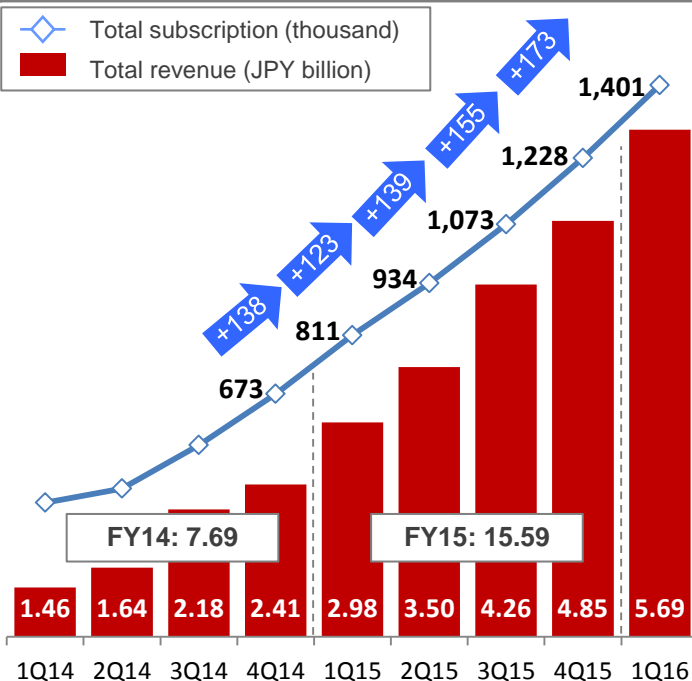
- Large-scale prospective orders
 - Service platform for a financial information service provider, information platforms for local governments, full-scale cloud migration of large BtoC site, virtual desktop infrastructure for a financial institution and many more
- Still weak demand from large game customers
 - 1Q16 revenue decreased by 7.7% from 1Q15

FY16 Plan

- Target revenue of approx. JPY16.2 billion
 - Expect large-scale projects incorporating "I I J G I O P2" to make contribution for revenue growth

III- 2. Mobile Business Developments

Total subscription & revenue

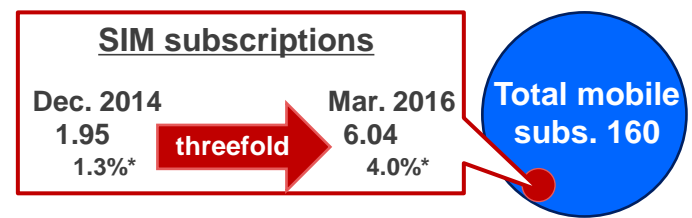


FY16 Plan

Revenue: JPY25.5 billion, Subscription: 2 million

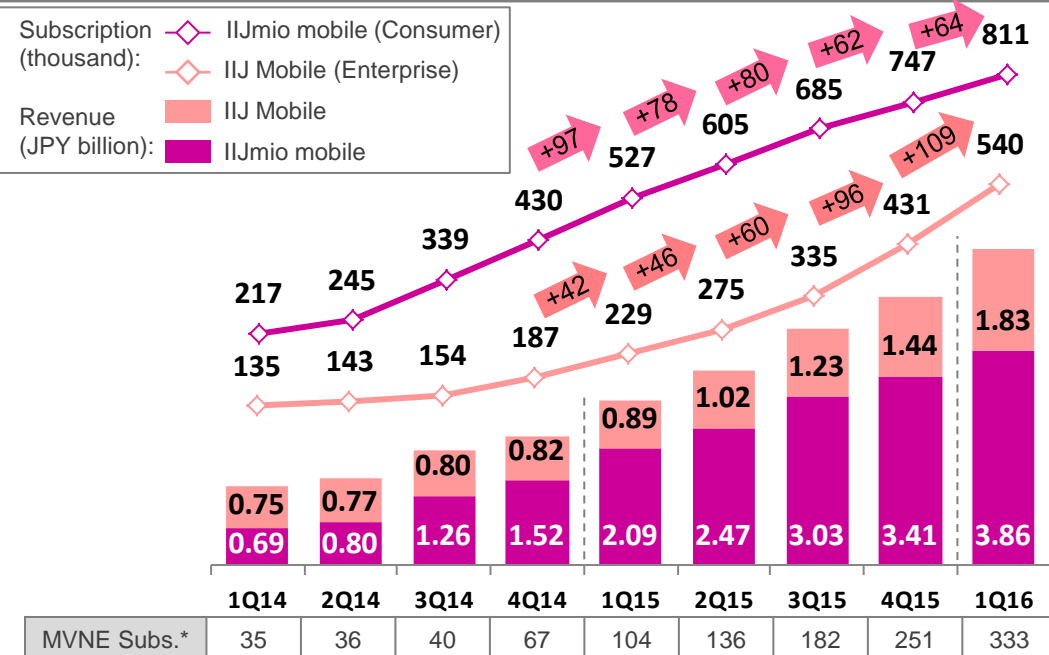
Mobile Market Situation

(Unit: million)



* % of total subscription (Source) MIC Apr. 2015, June 2016

IIJmio mobile & IIJ Mobile subscription & revenue



* Within IIJ Mobile subscription, IIJ Mobile MVNO platform services excluding subsidiaries

Business Developments

YoY = 1Q16 compared to 1Q15

- ◆ Reaching out to the mass market with Japan Post's 2,050 branches in Tokai area (Aug.), aim to cover nationwide. Prepaid SIM card sold at 7-ELEVEN stores in Taiwan (July), Flat rate voice call service (Sep.), working diligently on feasible study about full MVNO
- ◆ **MVNE-related revenue*: JPY1.1 billion** (up JPY0.8 billion YoY)
 - U-NEXT (July) and a large sales partner became MVNE clients (Feb.)
 - 113 MVNE clients as of 1Q16-end including major retailer, CATV operators, prominent contents distributor
- ◆ **M2M-related revenue: JPY0.16 billion** (up JPY0.04 billion YoY)
 - Accumulating prospective orders related to security cameras, digital signage as well as replacing metal communications cable line with mobile etc.

※ Forward-looking statements

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

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

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

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