



# Internet Initiative Japan Inc. Corporate Overview

## 2016 Mizuho Investment Conference

September 15, 2016  
TSE1:3774 NASDAQ:IIJI

Ongoing Innovation



## About IIJ

- Internet Technology Initiatives in Japan
- Technology and Service Developments
- ISP to Total Network Solution Provider

## Competitive Advantages

- Over 8,500 Excellent Enterprise Customers in Japan
- Comprehensive Line-up of IT Services
- Target Blue-chip's IT Shift

## Growth Strategy

- Leveraging Blue-chip Customer Base
- Cloud Business Developments
- Mobile Business Developments
- Enhancing Business Investments
- Line-ups to be Integrated for New IT Demands

## Financials Summary

## Appendix

## Financial Results

# Internet Technology Initiatives in Japan

About IIJ

<b>Established</b>	<b>December 1992</b>
<b>Number of Employees*</b> (Consolidated)	<b>3,110</b> (approx. 70% engineers)
<b>Listed Markets</b>	<b>NASDAQ (IIJI), TSE1 (3774)</b>
<b>Large Shareholders**</b>	<b>NTT (21.6%), Koichi Suzuki (5.6%*), NTT Communications (4.4%)</b> <small>*Jointly owned by Mr. Suzuki's wholly owned private company</small>

## ◆ The first established full-scale ISP in Japan

- Introduced many prototype Internet-related network services
- Highly skilled IP engineers
- Self-develop services and the related back office facilities

## ◆ “IIJ” brand towards blue-chips market

- Over 8,500 customers: mainly large enterprises & governmental organizations
- Differentiate by reliability and quality of network and systems operation
- Long term relationship with blue-chips based on no serious systems troubles

## ◆ At the leading edge of IP R&D

- Differentiate by continuous service developments and business investments
- Engaged in enhancing enterprise cloud services, mobile, security, contents delivery and solutions related to bigdata and IoT
- Participates in world-wide research and organizations ...and many more

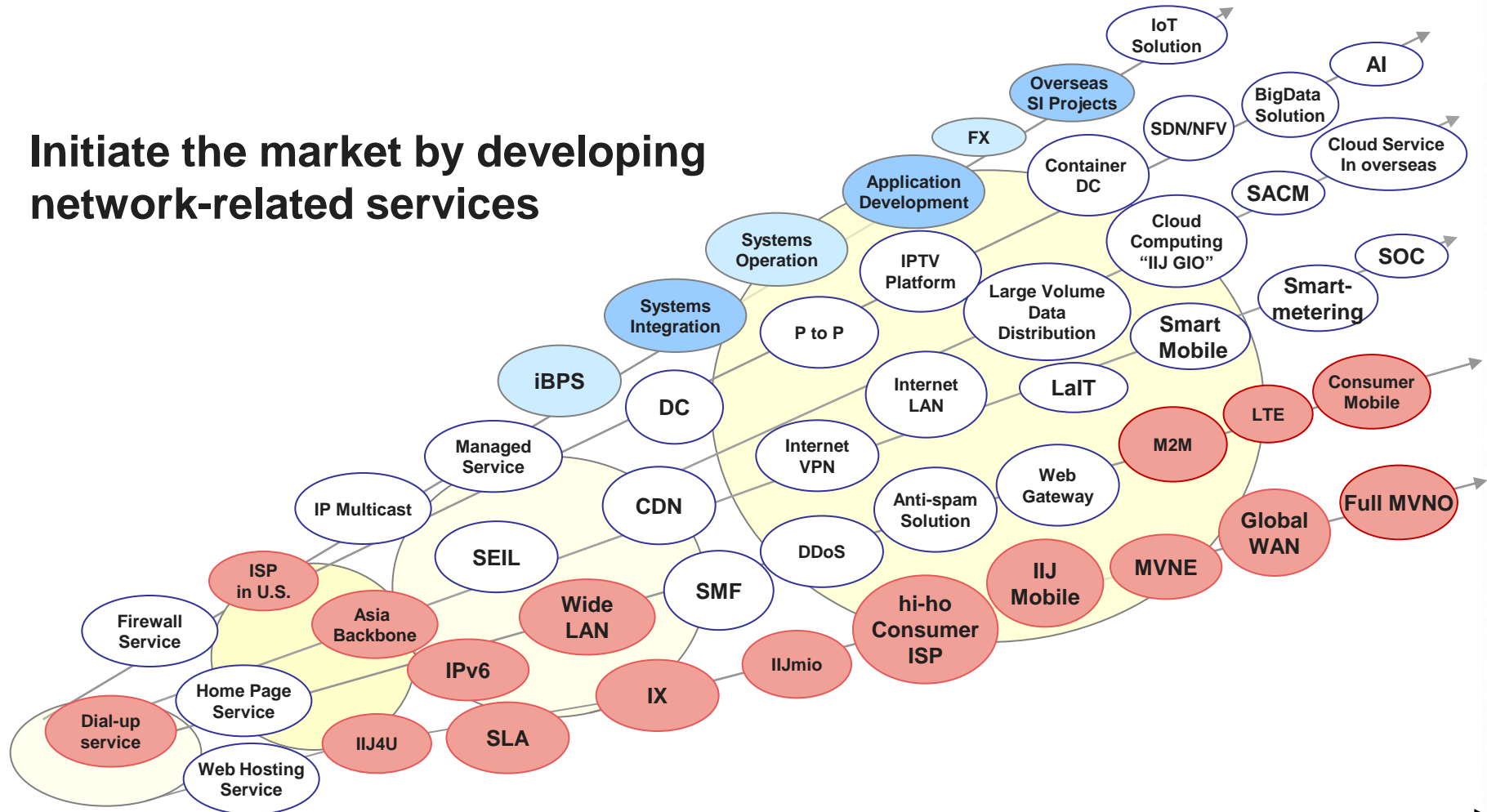
\*as of June 30, 2016

\*\*as of Mar. 31, 2016

# Technology and Service Developments

About IIJ

Initiate the market by developing network-related services



1992  Internet Initiative Japan	1996  IIJ America	1997 	2006  Net Chart Japan i-revo	2007  hi-ho	2008  INNOVATION INSTITUTE IIJ Global	2010  Loyalty Marketing Solutions TRINITY	2012  Trust Networks	2013  IIJ Europe	2014  ATKUSZETA NETWORKS
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IIJ Group

# ISP to Total Network Solution Provider

About IIJ

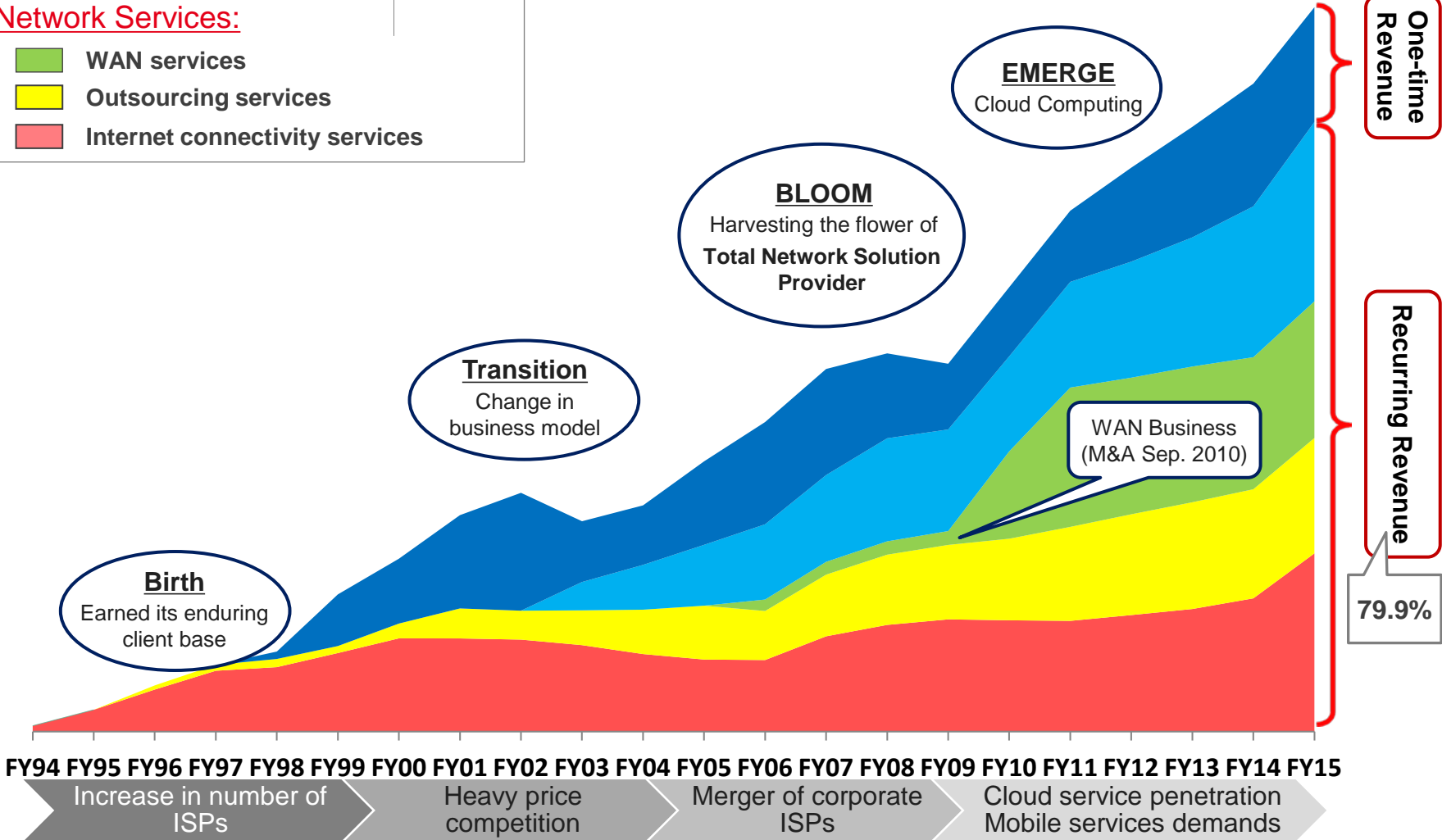
**FY16 Revenue Target**  
**JPY159.0 billion**  
 (+13.1% YoY)

Systems Integration:

- Systems construction
- Systems operation and maintenance

Network Services:

- WAN services
- Outsourcing services
- Internet connectivity services



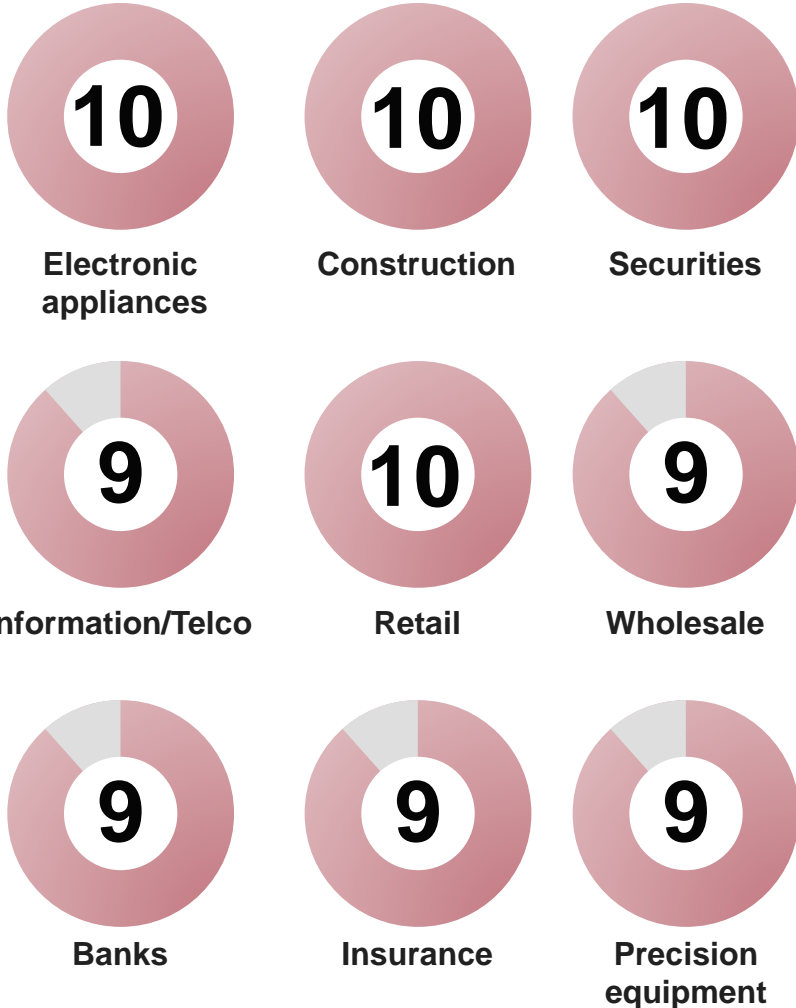


# Over 8,500 Excellent Enterprise Customers in Japan

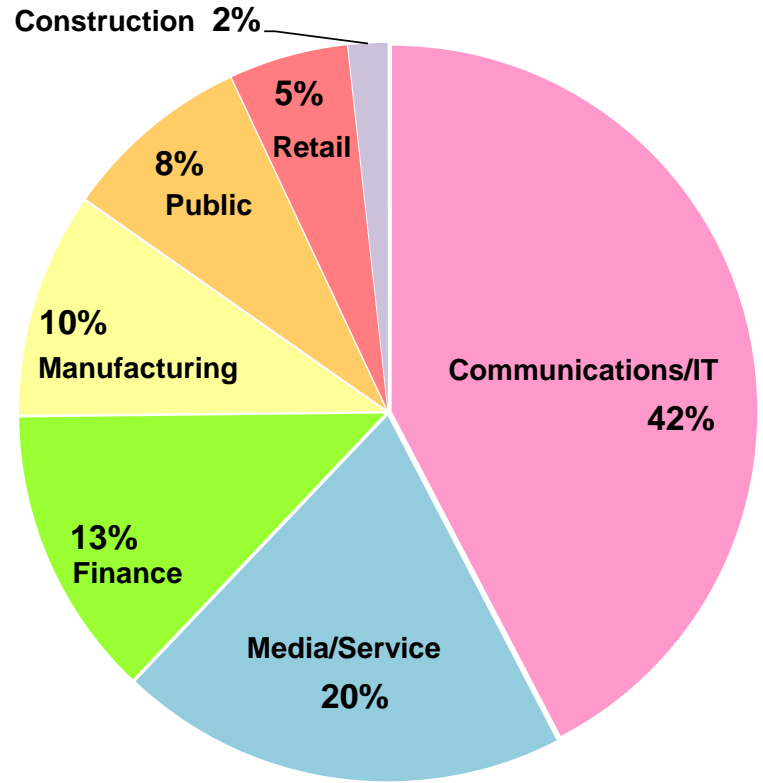
**Competitive Advantages**

## Cover Most of Top 10 Revenue Companies

The number of clients among the top 10 companies in each industry.



## Revenue Distribution by Industry



Source: IIJ's FY2015 financial results

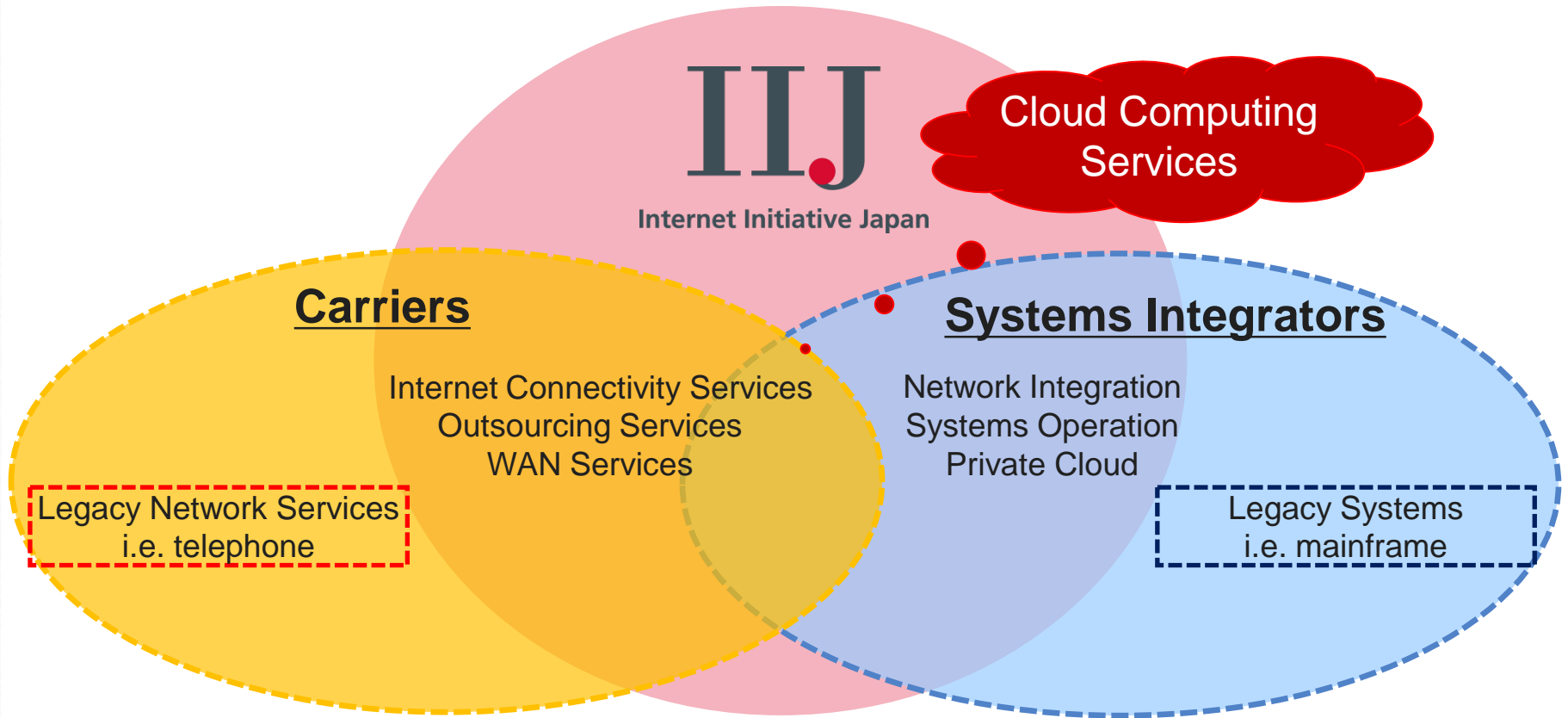
# Comprehensive Line-ups of IT services

Revenues		Services	Business status
NW Services	Internet Connectivity (Enterprise)	<ul style="list-style-type: none"> <li>Primary connectivity for HQ</li> <li>High-performance dedicated connectivity</li> <li>Redundant connectivity for multi-site</li> </ul>	<ul style="list-style-type: none"> <li>Enjoy/dominate matured market</li> <li>Gradual revenue increase by increasing contracted bandwidth/traffic</li> <li>Anticipate to grow with further cloud service penetration and CDN</li> <li>Continuous network expansion</li> </ul>
	Internet Connectivity (Consumer)	<b>Mobile</b> <ul style="list-style-type: none"> <li>Mobile solutions, M2M/IoT, MVNE for enterprises</li> <li>Inexpensive SIM card services for consumers</li> </ul>	<ul style="list-style-type: none"> <li>Emerging market, consumer rapidly expanding</li> <li>M2M/IoT for enterprises grow for mid-term</li> <li>Business investment for full-MVNO</li> </ul>
	WAN	<ul style="list-style-type: none"> <li>Closed NW for multi-site connection</li> </ul>	<ul style="list-style-type: none"> <li>Stable market for long term</li> </ul>
	Outsourcing	<ul style="list-style-type: none"> <li>Security, Data center, email outsource, NW/Server management service line-ups etc.</li> <li>Approx. 60 own-developed services</li> </ul>	<ul style="list-style-type: none"> <li>Cross-sell and accumulate various outsourcing services</li> <li>Growing demands for security</li> <li>Continuous service development</li> </ul>
SI	Operation & Maintenance	<b>Cloud</b> <ul style="list-style-type: none"> <li>Full service line-ups for IaaS</li> <li>SaaS/PaaS with partners</li> <li>Hybrid/Multi cloud solutions</li> <li>BigData, FX application etc.</li> </ul>	<ul style="list-style-type: none"> <li>Enormous opportunities with cloud shift of large enterprises' systems</li> <li>Core area of the mid-long term growth</li> <li>Continuous service enhancement including P2</li> </ul>
	Construction	<ul style="list-style-type: none"> <li>Internet-related SI, NW integration</li> <li>Cloud-related, mobile-related SI</li> <li>Operation &amp; maintenance after construction</li> </ul>	<ul style="list-style-type: none"> <li>Value-added function to promote cloud, mobile systems etc.</li> </ul>
Equipment Sales			



# Target Blue-chip's IT Shift

**Competitive Advantages**



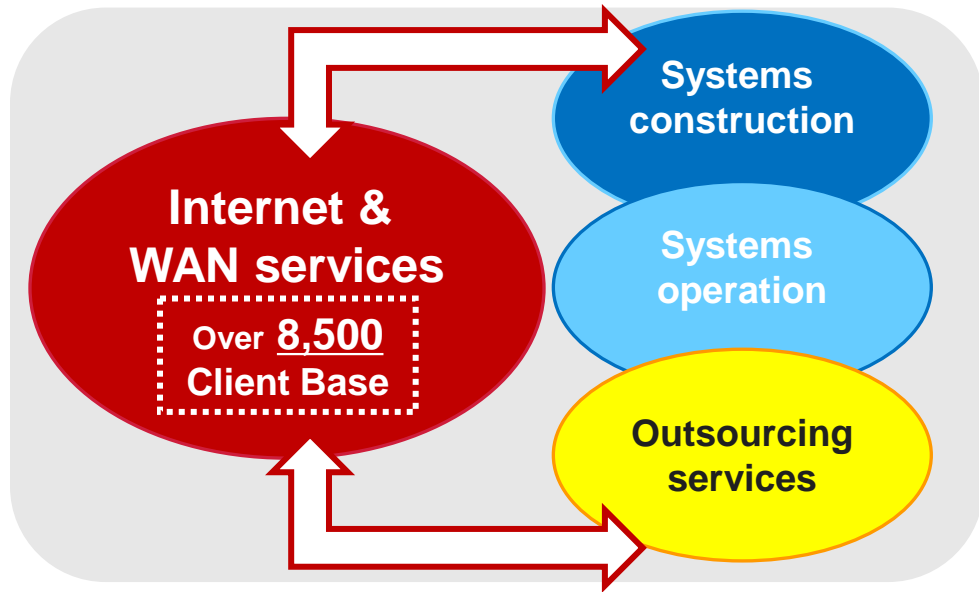
## IIJ's differentiation points towards competitors

- Many highly skilled network engineers
- Corresponds to the Internet market rapidly
- Flat organization structure

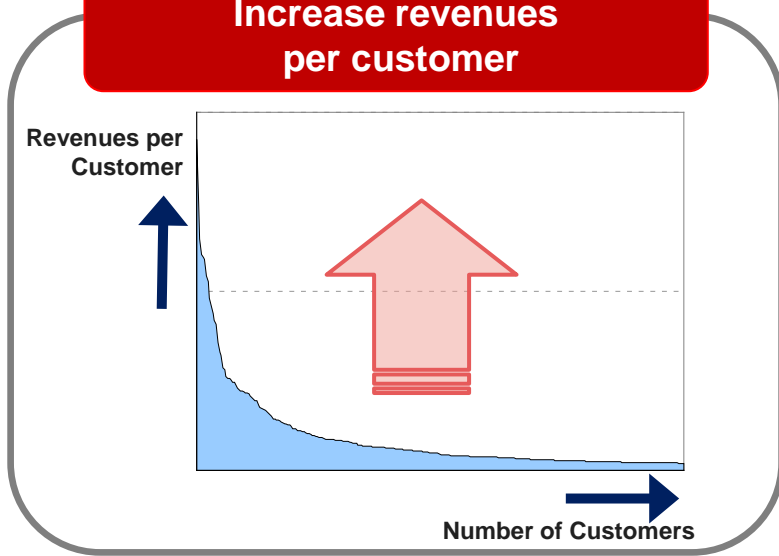
- Operates backbone network
- Develops network services
- Moderate number of employees

# Leveraging Blue-chip Customer Base

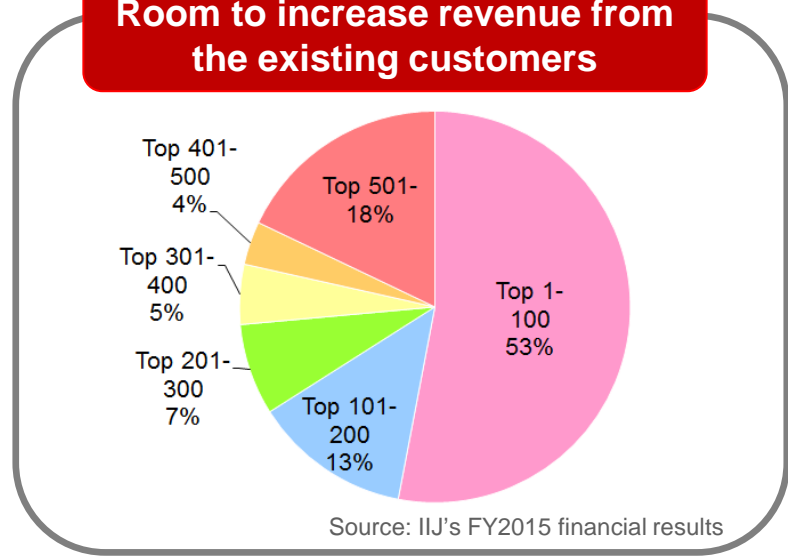
**Growth Strategy**



**Increase revenues per customer**



**Room to increase revenue from the existing customers**



Source: IIJ's FY2015 financial results

# Leveraging Blue-chip Customer Base

**Growth Strategy**

Unit: JPY billion

~ Cross-selling multiple service products ~

- ATM Operation Business
- Equipment Sales
- Systems construction
- Systems operation & maintenance
- Outsourcing services
- WAN services
- Consumer Internet services
- Enterprise Internet services

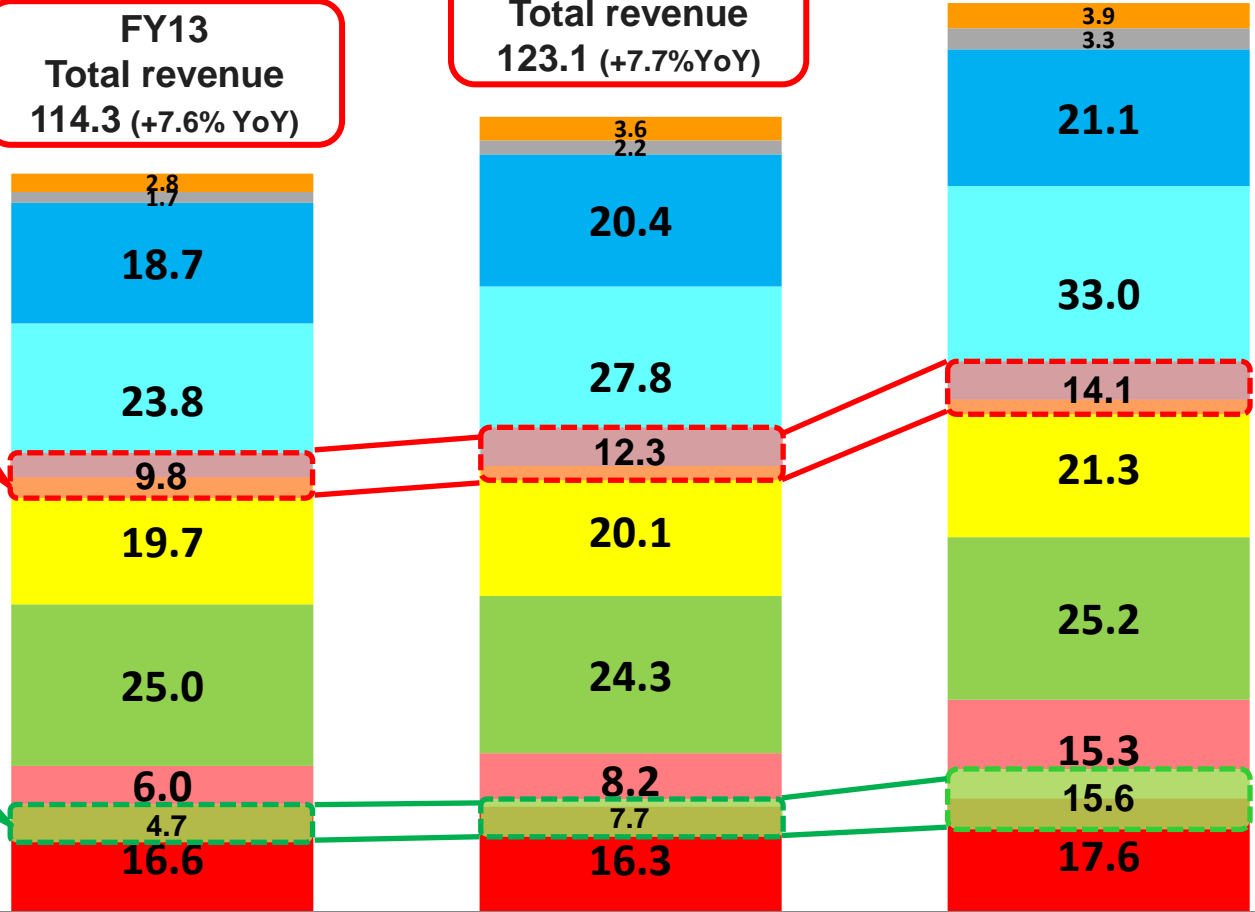
**Cloud services**

**Mobile services**

**FY13**  
Total revenue  
114.3 (+7.6% YoY)

**FY14**  
Total revenue  
123.1 (+7.7% YoY)

**FY15**  
Total revenue  
140.6 (+14.3% YoY)



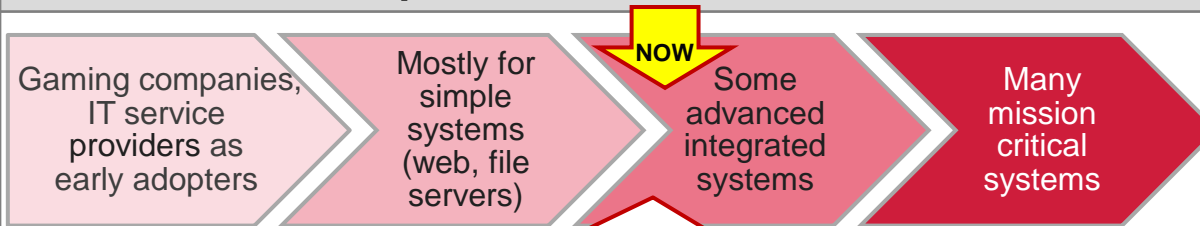
FY13

FY14

FY15

# Cloud Business Developments

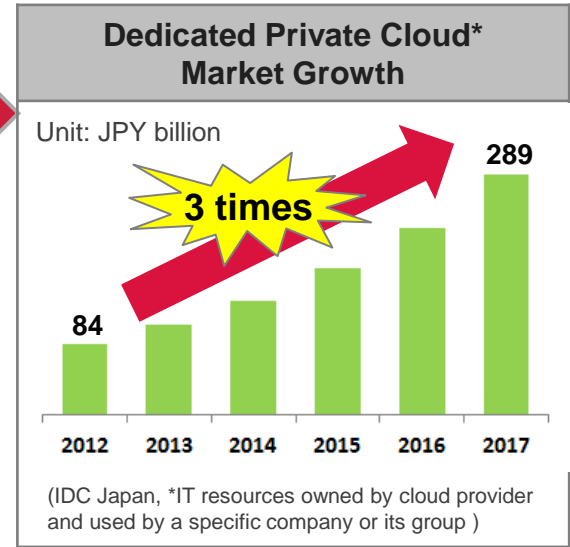
## Cloud Market in Japan



**Enterprises' cloud penetration : approx. 40%**

- Average system life cycle: 5 years
- Cloud migration expected to further penetrate
- Systems don't migrate all at once, especially large internal systems
  - Customization (SI feature) is required when migrating to cloud
- Great business opportunity with IoT and BigData

\*WHITE PAPER Information and Communications in Japan as of Dec. 2014\*



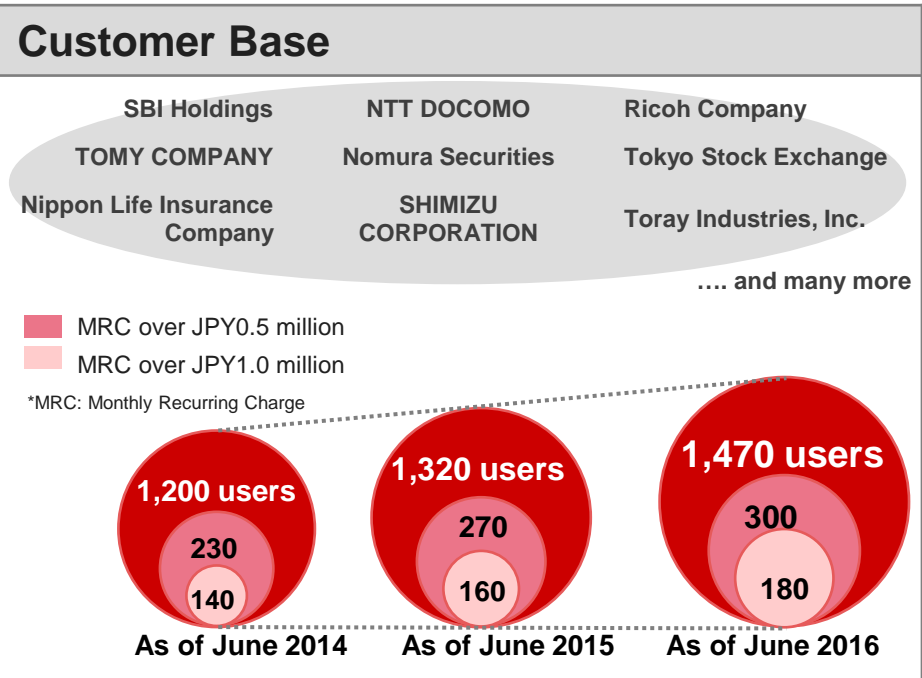
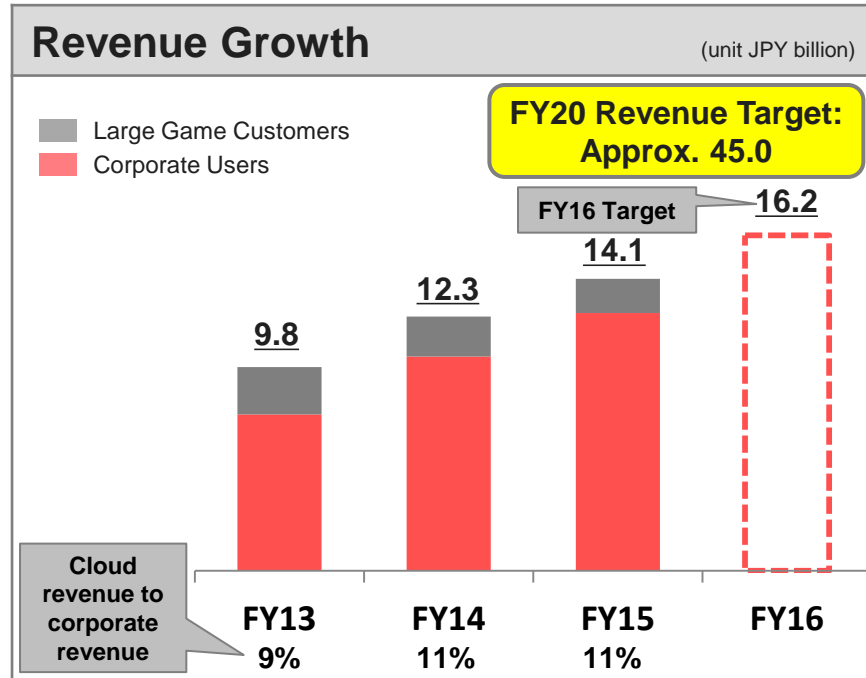
## IIJ's Cloud Services

- Public cloud infrastructure (virtual servers, storage, etc.)
- Target large business enterprises' internal IT systems, traditionally covered by SIers
- Promote cloud shift of blue-chips by continuously enhancing service line-ups including the launch of P2
- Approx. 600 partners (Microsoft, VMware, SAP, IBM , etc. )
- Engage in new service and solution development (BigData, M2M, etc.)

## IIJ's Competitive Advantage

Experience, Reputation	One of Largest Providers	Reliable Operation	Own-Services Development
Deep Relationships with Blue-chip Customers	Genuine Public Cloud as Private	SI + MVNO + NW	Container Datacenters

# Cloud Business Developments



### Business Model

- Continuously invest in service facility and developments (servers, storage and datacenter)

Cloud-related CAPEX (unit: JPY billion)		
FY13	FY14	FY15
3.7	1.7	4.4

- Benefit from large-scale service facility by improving utilization
- Turned positive in 4Q13, Cloud business gross margin : approx. JPY0.6 billion (FY15)
- P2 launched (fall '15), business investment

### Prominet Cloud Usages to Increase

- Cloud migration of all internal IT systems
- Full-Scale Cloud migration of large BtoC site
- Financial information service platform
- Global manufacturing management system
- Information platform for local governments
- Common operation infrastructure for a group companies

and many more

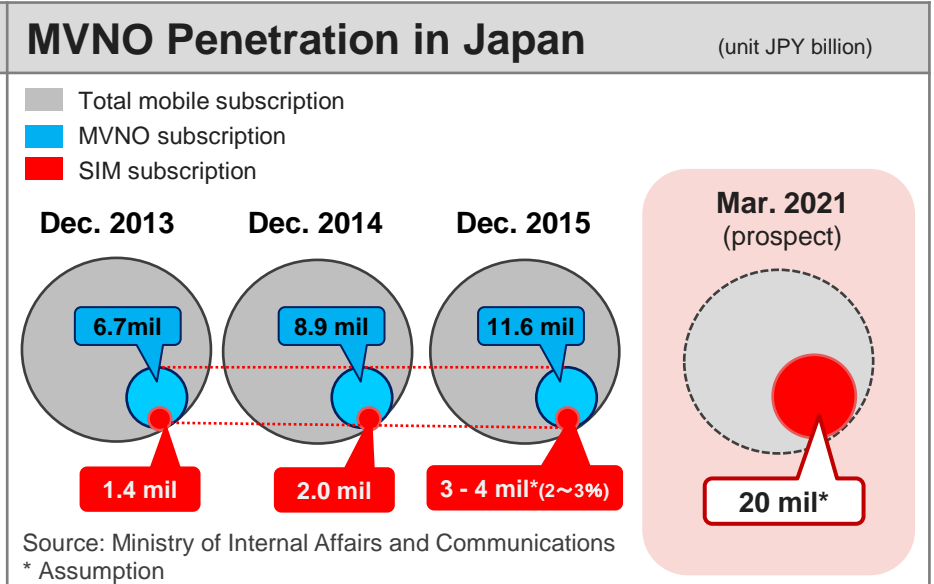
# Mobile Business Developments

**Growth Strategy**

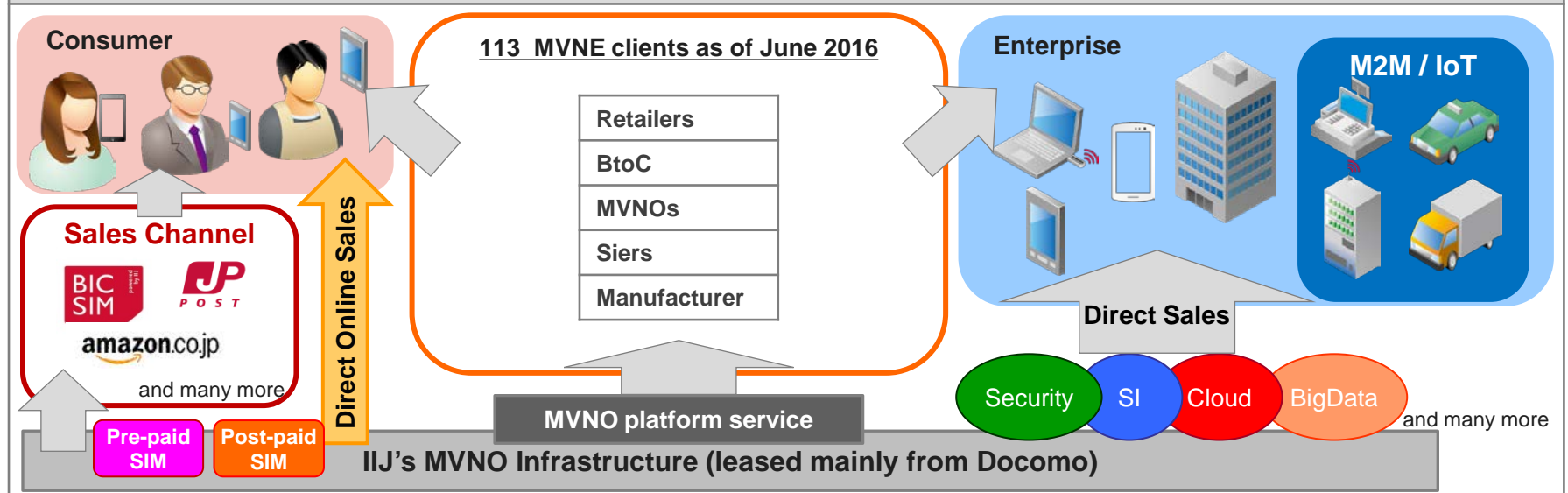
## MVNO Market in Japan (YoY= year over year)

- **160 million** mobile subscription in total
- 3 MNOs dominate
- MVNO in early stage, Consumer services began 2012
- MVNO penetration
  - 🇩🇪 40%
  - 🇩🇰 25%
  - 🇪🇺 14%
  - 🇯🇵 8%
- Government promotes MVNO strongly
  - SIM lock free, PM's comment, more variety of pricing, 2 years contract in dispute, HLR/HSS discussion
- MVNO infra. cost by Docomo decreased each year
  - By 16.9% (FY15), 23.5% (FY14), 56.6% (FY13), 41.2% (FY12)

<b>MNOs</b>	¥6-7,000 per month full package service	<b>MVNOs</b>	¥1,600 per month upper limit of 3GB
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## IJ's MVNO Business Model



# Mobile Business Developments

**Growth Strategy**

## IIJ's Competitive Advantage

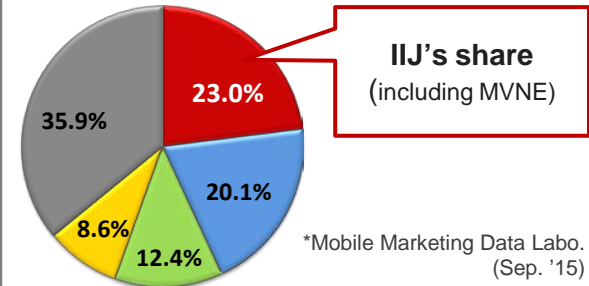
### ➤ For corporate

Blue-Chip Client Base	SI + Cloud for M2M/IoT	Large Scale NW Infra.
Reliable, Redundant	Security, GW Solution	Services Development

### ➤ For consumers

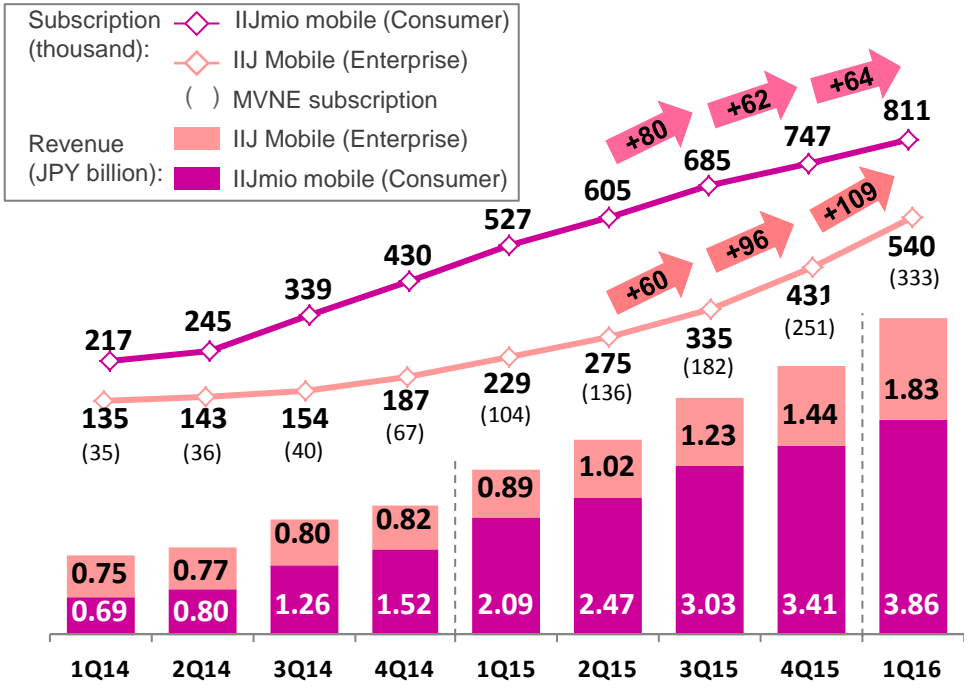
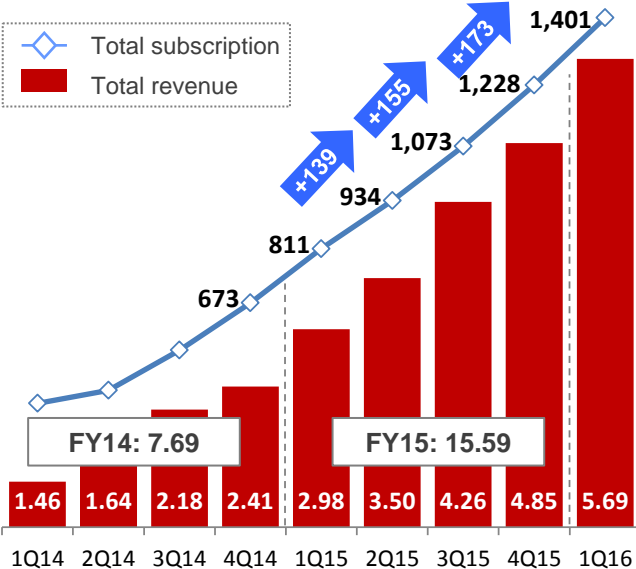
High Satisfaction	MVNE Strategy	Sales Partnerships
Fast, Reputation	NW Utilization	Improving Services

## Consumer Market Share\*



## Subscription (unit: thousand) and Revenue (unit: JPY billion)

**Targets for FY16 and FY20**  
**Revenue: 25.5 billion (FY16) → 65.0 billion (FY20)**  
**Subscription: 2 million (FY16-end) → 7 million (FY20-end)**



**➔ Target to improve margin with network infra. utilization by gathering various traffic**



# Implementation of Full-MVNO

**< Service launch >  
latter half of FY17**

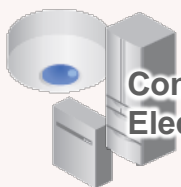
- Construct HLR/HSS systems
- Issue own data communications SIM cards
- First full-MVNO in Japan

- ◆ Able to manage SIM card usages
  - ✓ Embedded SIM (“eSIM”), Re-Programmable SIM, Multi-Profile SIM
- ◆ Able to develop various type of mobile solutions for IoT (BtoB, BtoBtoB, BtoBtoC)

## Targeting IoT Usages



Industrial Internet



Consumer Electronics



Inventory Management



Construction Equipment



Sensor Monitoring



Smart Home



Wearable



Intelligent Transportation



Multi-country MVNO



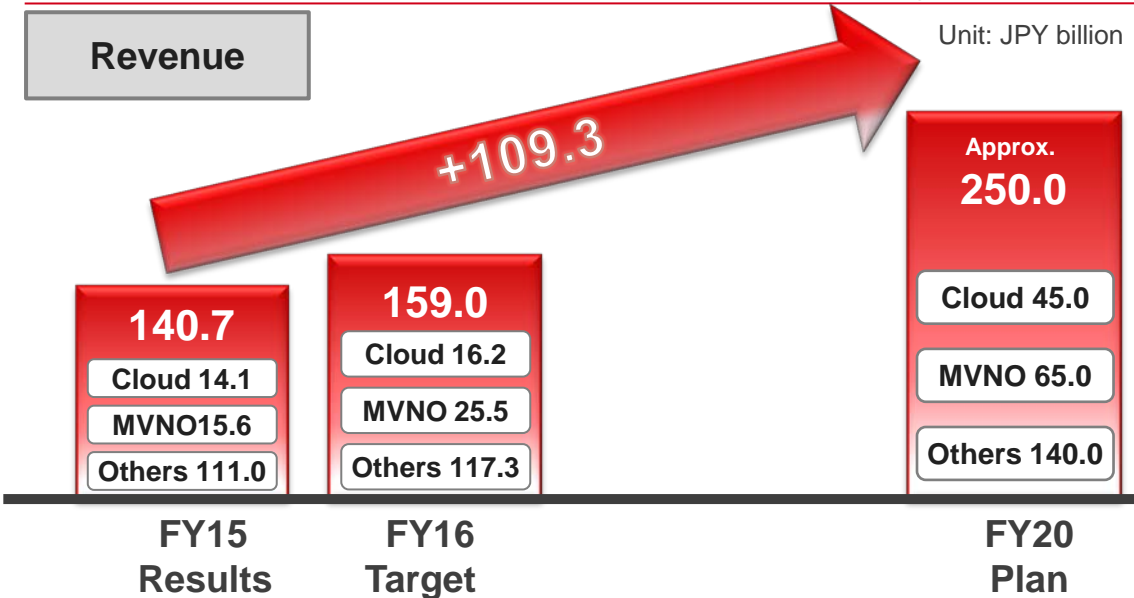
Drone

- Strong competitive advantage as MVNO and MVNE business provider with full-MVNO
- Aim to become top market share MVNO in Japan
  - FY2020 target subscription: 7 million, target revenue: JPY65.0 billion
- Expected investment for full-MVNO: approx. JPY4.5 billion
  - Construction of HLR/HSS systems
  - Accumulation of monthly payment to NTT Docomo for their network remodeling fee (not IIJ CAPEX)





# Middle Term Plan (Disclosed on May 13, 2016)



- ## Business Strategies
- Provide comprehensive solutions meeting enterprise systems demand with “Network cloud services” and “System cloud services” with SI functions
  - Enhance advantageous businesses such as MVNO and security
  - Pursue new business opportunities related to contents distribution, M2M/IoT, health care, further developments in overseas, etc.

<b>Target Revenues</b>	<p>◆ <b>Maintain annual revenue growth rate of more than 10%</b></p> <ul style="list-style-type: none"> <li>➤ FY20 Cloud business revenue: approx. JPY45 billion (up JPY30.9 billion from FY15)</li> <li>➤ FY20 MVNO business revenue : approx. JPY65 billion (up JPY49.4 billion from FY15)</li> <li>➤ FY20 Network, SI and others: approx. JPY140 billion (up JPY29.0 billion from FY15)</li> </ul>
<b>Business Scale</b>	<p>◆ <b>Aim to be top market share player in the following markets in Japan</b></p> <ul style="list-style-type: none"> <li>➤ Enterprise Cloud (IaaS domain)</li> <li>➤ MVNO (Target 7 million subscriptions by the end of FY20)</li> <li>➤ Enterprise Internet-related security</li> </ul>
<b>Operating Income</b>	<p>◆ <b>Maintain double-digit annual operating income growth rate</b> by expanding gross margin along with revenue growth</p> <p>◆ <b>Exceed JPY10 billion early in the plan</b></p>

# Revenue & Operating Margin Growth

## Business Status

### Investment

- Cost increase / Large AC Revenue down (Game etc.)
- Accumulate Business Assets

### Revenue Growth

- MVNO to explode
- Cloud accumulation
- GP increase lead OP increase
- Continuous business investment (P2, Omnibus, Full-MVNO, CDN, AI etc)

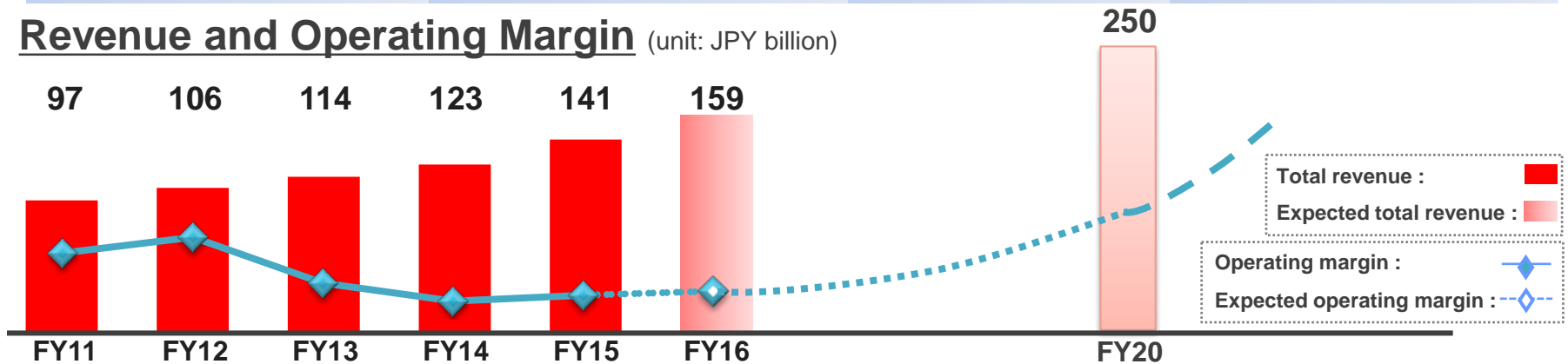
### Scale Merit

- Cloud GPM up by scale
- MVNO GPM up by NW utilization
- Integrated Transactions

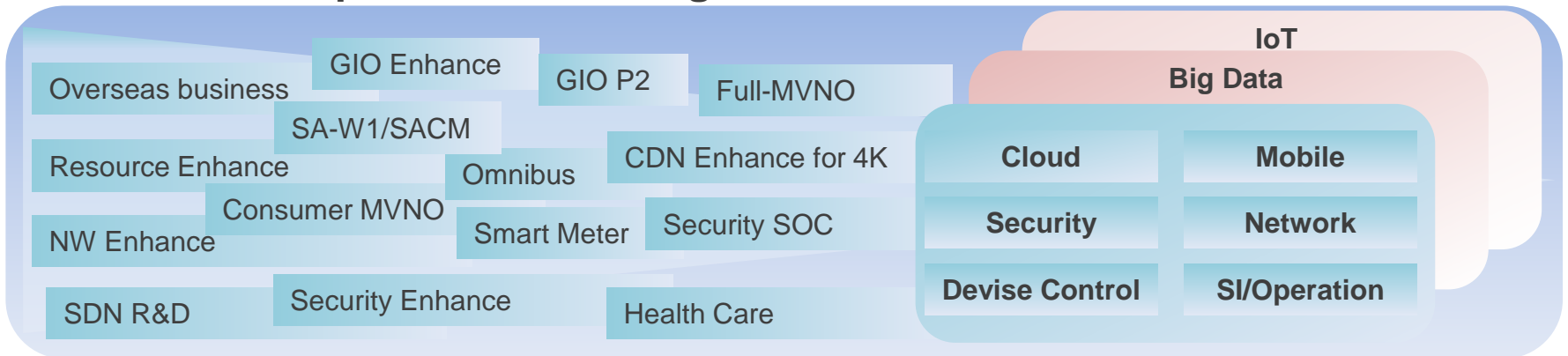
### Next Stage

- Main platform provider for enterprises' next usage of IT (ie. Big Data/IoT)
- Operating margin growth as a service provider

## Revenue and Operating Margin (unit: JPY billion)



## Business Developments to be Integrated



# Summary of 1Q FY2016 Financial Results

**Financial  
Summary**

## < 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)

# FY2016 Financial Target

**Financial  
Summary**

Unit: JPY billion

	% of Revenues		% of Revenues		% of Revenues	
	1H16 Target	FY16 Target	FY15 Results	FY16 Target to FY15 Results		
Total Revenues	73.8	159.0	140.7	+18.4	+13.1%	
Gross Margin	17.3% 12.8	17.4% 27.6	17.5% 24.7	+2.9	+11.9%	
Operating Income	3.8% 2.8	4.6% 7.3	4.4% 6.1	+1.2	+18.9%	
Income before Income Tax Expense	3.8% 2.8	4.6% 7.3	4.4% 6.2	+1.1	+17.9%	
Net Income*	2.6% 1.9	3.1% 5.0	2.9% 4.0	+1.0	+23.8%	
Cash Dividends per common share	JPY13.50	JPY27.00	JPY22.00	+ JPY5.00	+22.7%	

\* Net income attributable to IIJ  
YoY = FY16 targets compared to FY15 results

## Revenue Targets

- **Cloud: approx. JPY16.2 billion (up approx. JPY2.11 billion YoY)**
- **Mobile: approx. JPY25.5 billion (up approx. JPY9.91 billion YoY)**
  - 2 million subscriptions at FY16-end (up approx. 772 thousand YoY)
- **Other network services and SI: continuous growth**
- **Overseas business: approx. JPY7.0 billion (up approx. JPY1.74 billion YoY)**
  - Operating loss: approx. JPY0.2 billion (improve by approx. JPY0.3 billion YoY)

- **FY16 CAPEX:  
about the same as  
FY15 results**
- **Plan to increase  
dividend along with  
income growth**

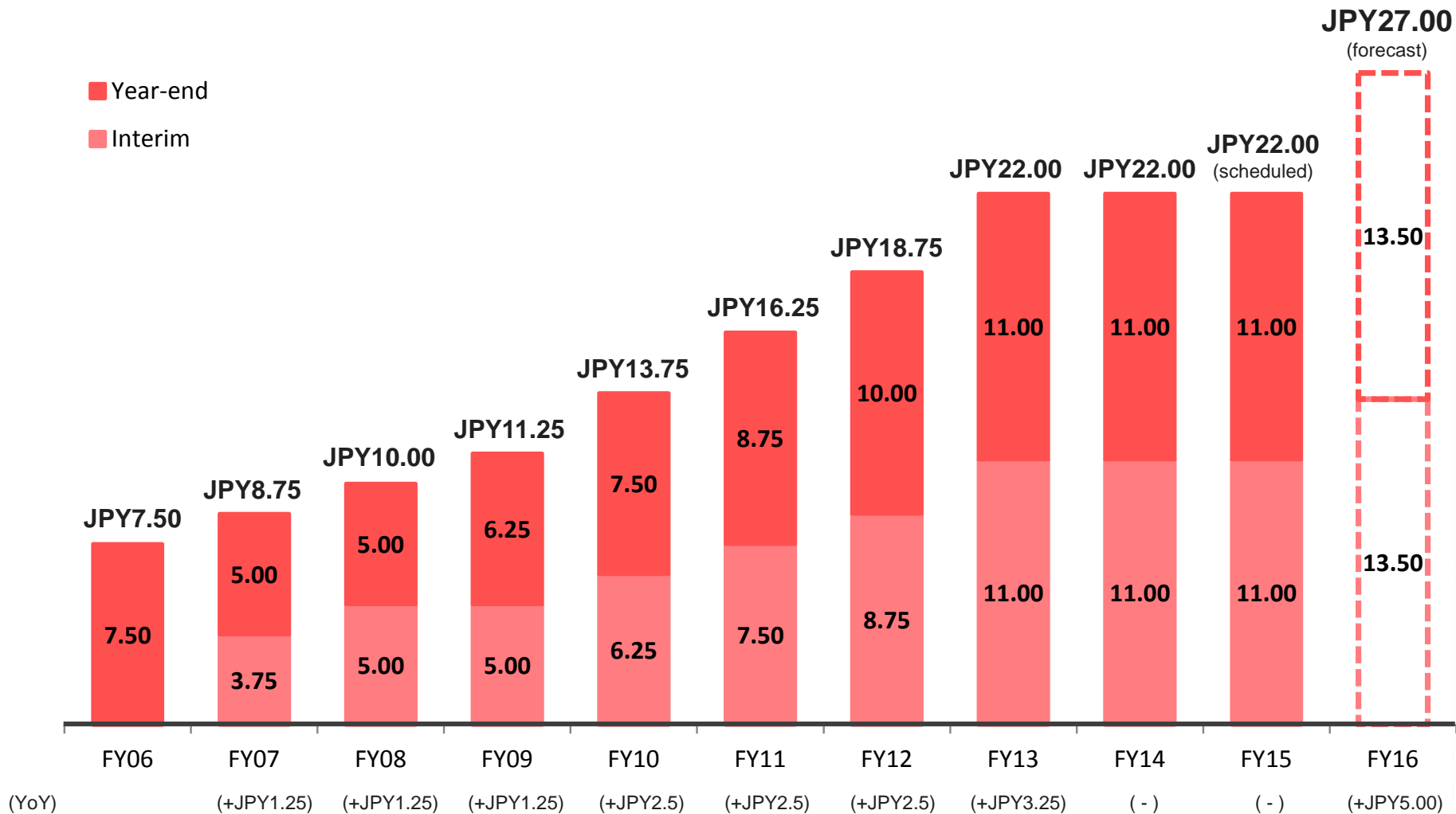
## Cost Estimation

- **Docomo's wholesale telecommunications service charge:** IIJ estimates 12% decrease YoY (Docomo's payment arrangement: 15% off)
  - We estimate approx. JPY0.6 billion temporary positive cost impact for FY15 mobile interconnectivity usage as the actual decrease rate was larger than our expectation. We plan to recognize its quadrant amount in each FY16 quarter. Because of this specific accounting procedure, 1Q16 income will be negatively impacted by approx. JPY0.12 billion because we had recognized approx. JPY0.27 billion of onetime positive impact regarding FY14 mobile interconnectivity usage in 1Q15.
- **Add approx. 180 personnel (including 137 new graduates)**
- **SG&A to increase by approx. JPY1.8 billion YoY**

# Dividend Forecast

Financial Summary

IIJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. Dividend figures shown below are retroactively adjusted to reflect the stock split.

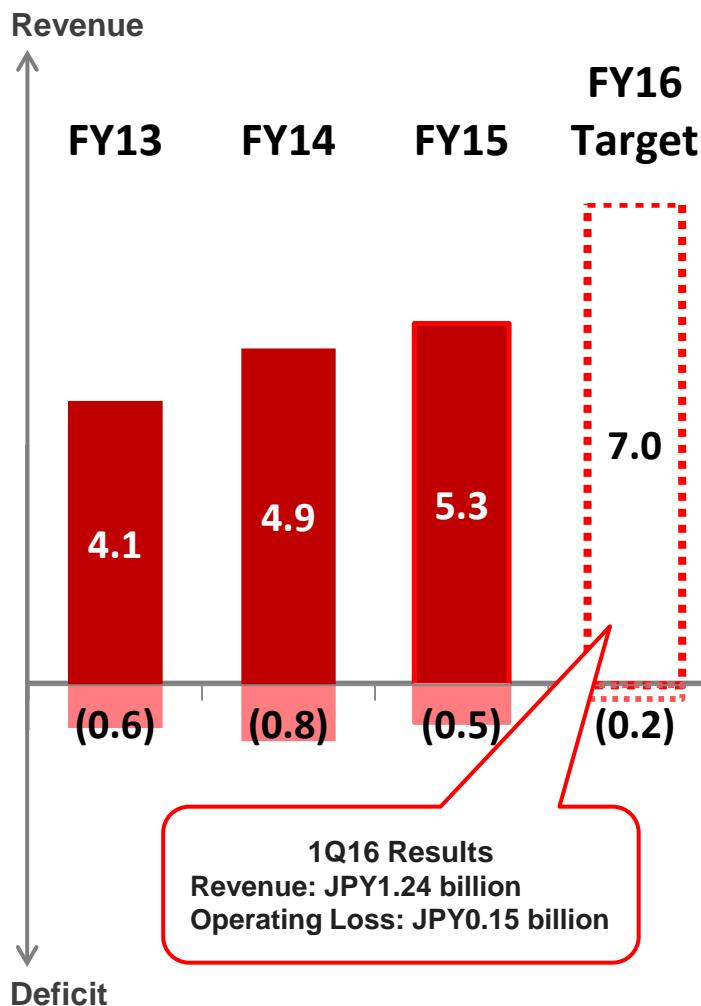


# Appendix

# Overseas Business Developments

## Financial Results

(Unit: JPY billion)



## Overseas offices

Main subsidiaries	Est.	Employees <sup>1</sup>	Business
IIJ America Inc.	1996	32	Mainly ISP services, Cloud services and SI to the Japanese companies in the U.S.A.
IIJ Europe Limited	2012* <sub>2</sub>	52* <sub>3</sub>	Mainly SI and Cloud services to the Japanese companies in Europe
IIJ Global Solutions China Inc.	2012	18	Mainly SI and Cloud services in China
IIJ Global Solutions Singapore Pte. Ltd.	2012* <sub>1</sub>	16	Mainly SI and Cloud services to local and Japanese companies in Singapore
Pt. IIJ Global Solutions Indonesia	2015	2	Cloud-related services operation in Indonesia

\*1 as of March 31, 2016

\*2 Became our subsidiaries

\*3 Includes IIJ Europe's subsidiary of IIJ Deutschland GmbH

## Business Developments

- **Requests to support build Cloud infrastructure from Asian countries**
  - Jointly provide Cloud services with a local carrier in Indonesia (March 2015) and Thailand (February 2016)
- **Export container datacenters, Expect transactions to expand in the middle-to-long term**
  - Exported to Russia (FY15)
  - Exporting to Laos; revenue to be recognized in latter half of FY16
  - Accumulating similar prospective orders from other emerging countries





# ATM Operation Business Developments

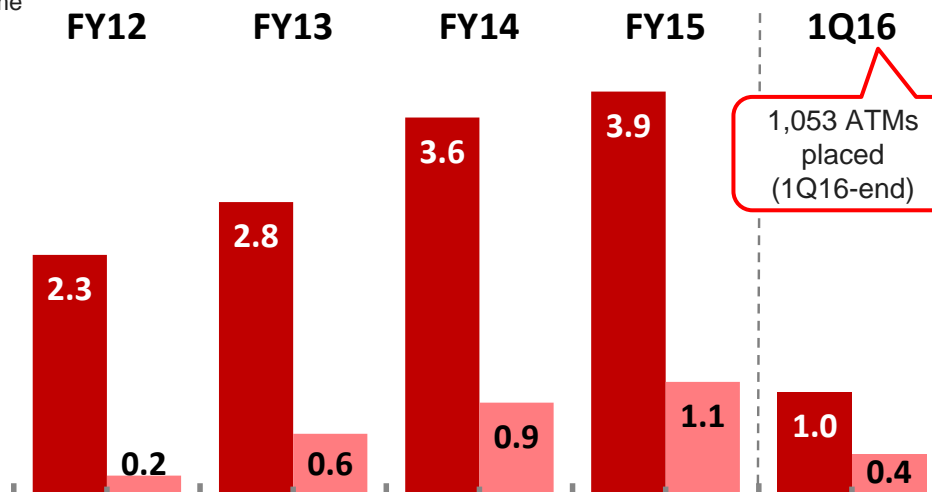
## Business Model

- Similar to “Seven Bank” model, high profitability
  - Seven Bank: 21,056 ATMs, revenue JPY106.0 billion, profit ratio 32.5% as of March 31, 2015
- Placing ATMs in Pachinko parlors in Japan with dominant position
  - After long discussion, started to place in Kanto, Kansai, Kyushu and Tokai areas
- Receive commission for each withdrawal transaction
- Strong revenue & income driver in mid-term
  - Approx.11,310 Pachinko parlors in Japan 2015 (Nichiyukyo)

## Financial Results

Unit: JPY billion

■ Revenue  
■ Operating Income



< Trust Networks Inc. >

- 79.5% subsidiary
- Established in July 2007
- Pursue ATM operation business

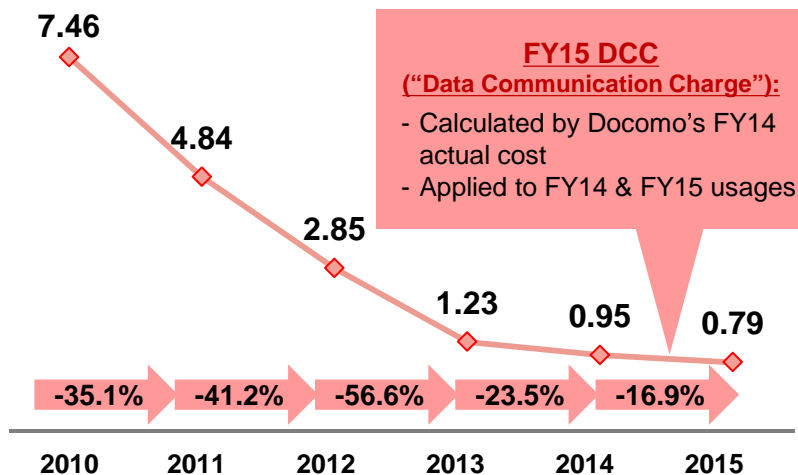


\*Number of placed ATMs are as of May each year except for FY14 and FY15 which are the number as of Mar. 2015

# Data Communication Charge by NTT Docomo for Mobile

## NTT Docomo's Monthly DCC per 10Mbps

(JPY million)



## MVNO infrastructure cost for Docomo: Data Communication Charge ("DCC")

- Mobile infrastructure leasing fee from Docomo
- Fixed charge by bandwidth
- Regulated price by government (MIC & guideline)
- Same flat-rate for all MVNOs
- Renews every year based on Docomo's actual cost etc.
- Decreased dramatically in recent years
- Fixed 1 year after, applied to current and a previous year
- FY16 DCC payment has been deducted 15% from 1Q16 by Docomo's arrangement
- Around March 2017, FY15 DCC is to be fixed and its decrease rate shall be applied to FY16 DCC

## IIJ's Estimation against Actual decrease rate

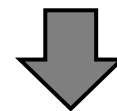
	(1) Docomo's payment arrangement	(2) IIJ's estimation	(3) Actual results
FY14	40%	40%	23.5%
FY15	25%	15%	16.9%
FY16**	15%	12%	n/a*

(1) Fixed in April  
(2) Fixed based on (1)  
(3) Fixed next March

(\*) to be fixed around March 2017  
(\*\*) IIJ's fiscal year ending March 31, 2017

## Docomo Plans to Change Depreciation Method

- Docomo historically used **declining-balance method** for calculating the depreciation of property, plant and equipment
  - From fiscal year ending March 31, 2017 Docomo plans to use **straight-line method**



**Docomo's DCC based on their FY16 actual costs are to be noticed to their MVNOs in around March 2018**

# FY2016 Business Strategies

**Expect operating income to grow with strong revenue growth**

## ◆ Capture enterprise IT needs more

- Introduce new functions of our new service platform for network and cloud “IIJ Omnibus” and “IIJ GIO Infrastructure P2” respectively to promote the concept of “One Cloud”

## ◆ Further expand MVNO business

- Enhancement of MVNE strategy
- Focus on IoT related projects through M2M, HEMS with smart-metering

## ◆ Further enhance security business

- Formed security department as independent organization
- Enhancing functions of the existing services such as DDoS Protection services and more
- Will launch SOC (Security Operation Center) for further expansion of security business
- Develop new solution incorporating AI technology

## ◆ Overseas business

- Revenue target: approx. JPY7.0 billion
- Operating loss target: approx. JPY0.2 billion
- Expect business to expand along with each overseas business starting up fine and executing container DCs export projects to Laos and more

- ◆ **Focus on new areas** such as businesses related to contents distribution, M2M/IoT, health care and further development of overseas business

## Financial Targets

Unit: JPY billion

	FY15 Results	FY16 Targets	YoY
Revenue	140.7	159.0	+13.1%
Operating Income	6.1	7.3	+18.9%

YoY = FY16 targets compared to FY15 results

### ➤ Mobile:

- Revenue target: approx. JPY25.5 billion  
(up JPY9.91 billion YoY)
- Subscription target: approx. 2 million  
(up 772 thousand YoY)

### ➤ Cloud:

- Revenue target: approx. JPY16.2 billion  
(up JPY2.11 billion YoY)

### ➤ Other businesses: grow continuously

- **SG&A:** increase by about JPY1.8 billion YoY
- **CAPEX:** be about the same as FY15 results

**Increase dividend along with income growth**

Annual dividend per common share:  
JPY27.00 (+JPY5.00 YoY)

# **Consolidated Financial Results for 1Q16 Announced on August 5, 2016**

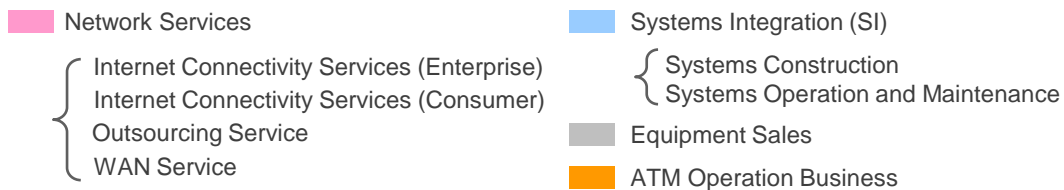
# Consolidated Financial Results for 1Q FY2016

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%

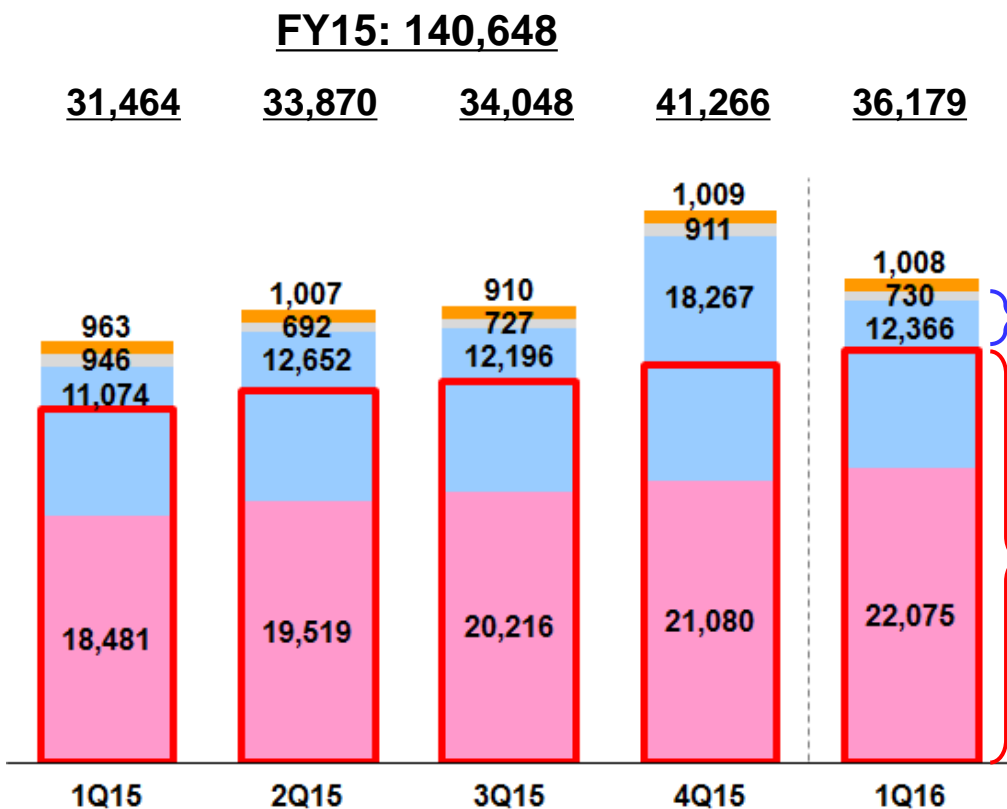
\*Net income attributable to IIJ

# 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

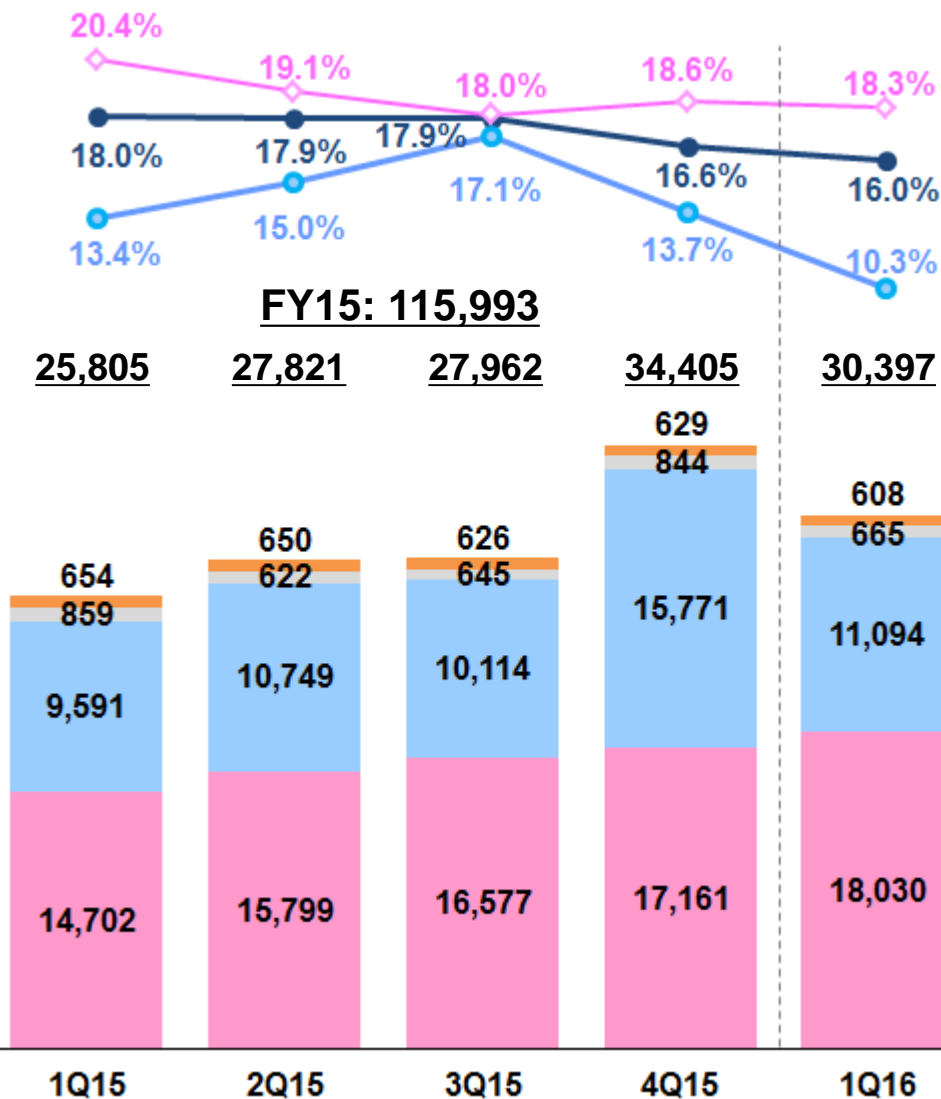
1. Internet Connectivity Services(Enterprise/Consumer)
2. Outsourcing Services
3. WAN Services
4. Systems Operation and Maintenance

# Cost of Revenues and Gross Margin Ratio

Cost of revenues: Network Services (pink), SI (light blue), Equipment Sales (grey), ATM Operation Business (orange)  
 Gross margin ratio: Network Services (pink diamond), SI (light blue circle), Total Revenues (dark blue circle)

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

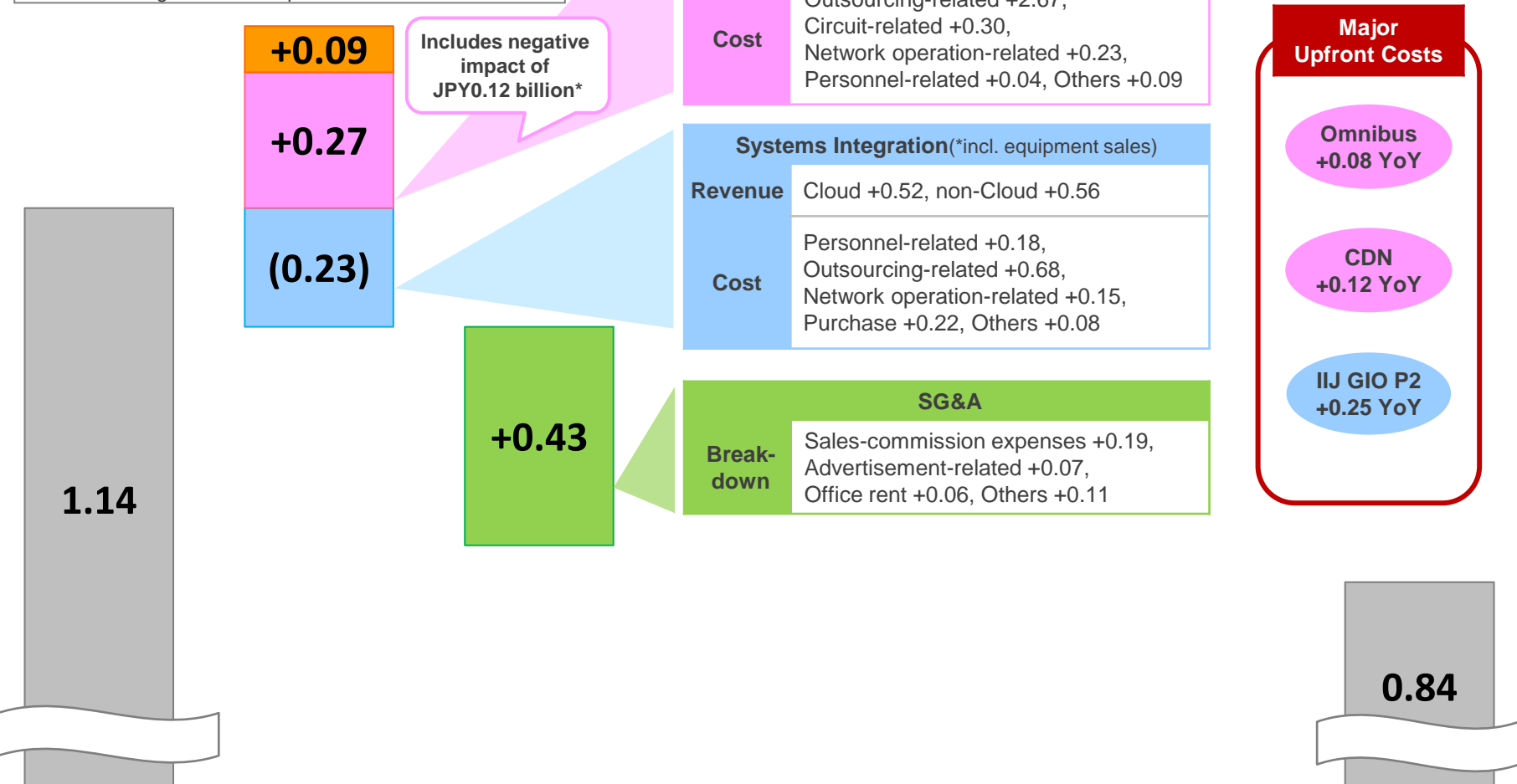


# 1Q16 Income Change YoY

- 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\*

**Major Upfront Costs**

- Omnibus +0.08 YoY
- CDN +0.12 YoY
- IIJ GIO P2 +0.25 YoY

1Q15 Operating Income

YoY change of Gross Margin

YoY change of SG&A

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

1Q16 Operating Income



# 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

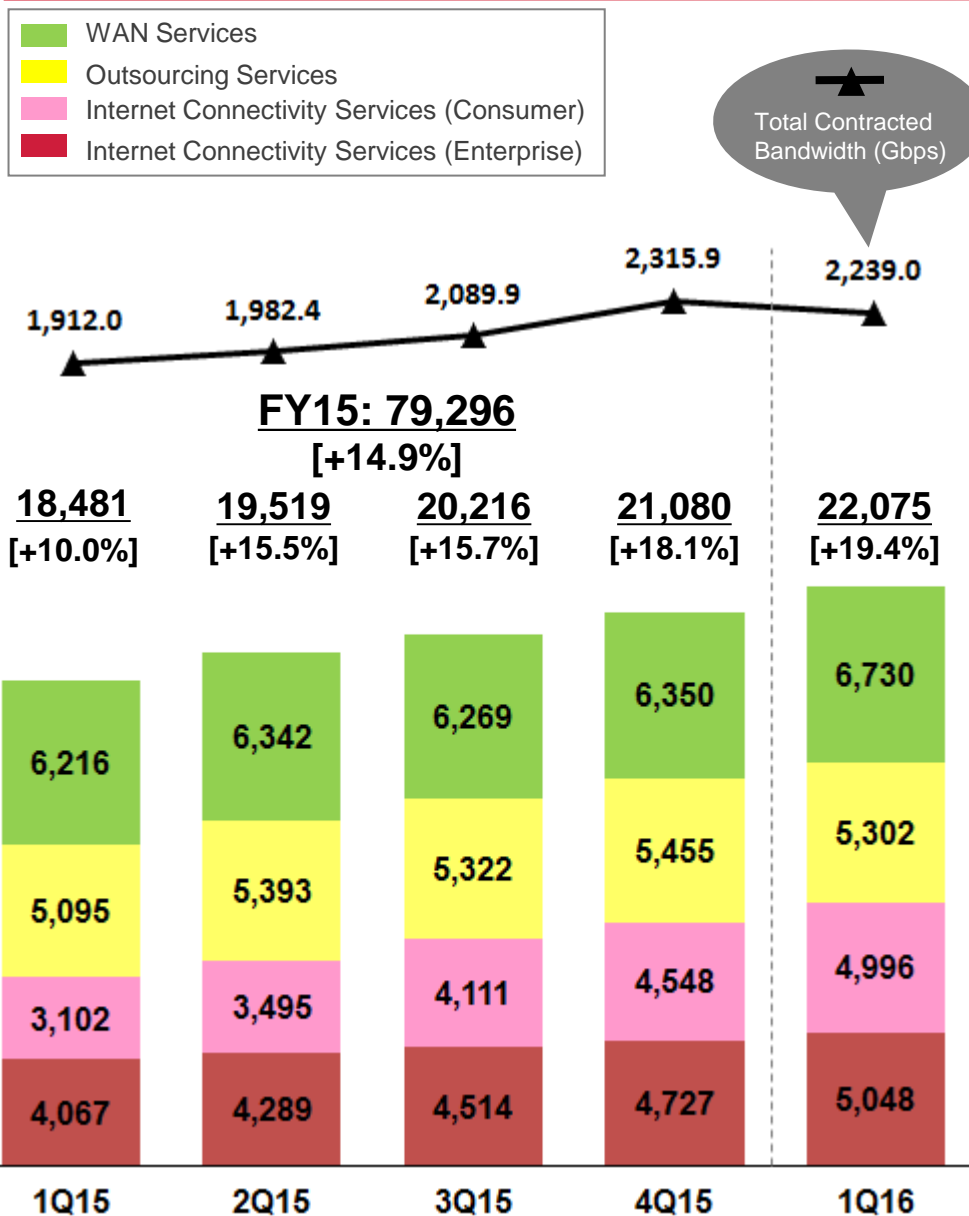
## CDN

- 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

# 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)
- IIJmio 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

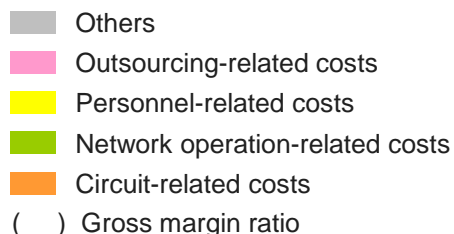
## ◆ Mobile services

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

## ◆ Non-mobile services

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

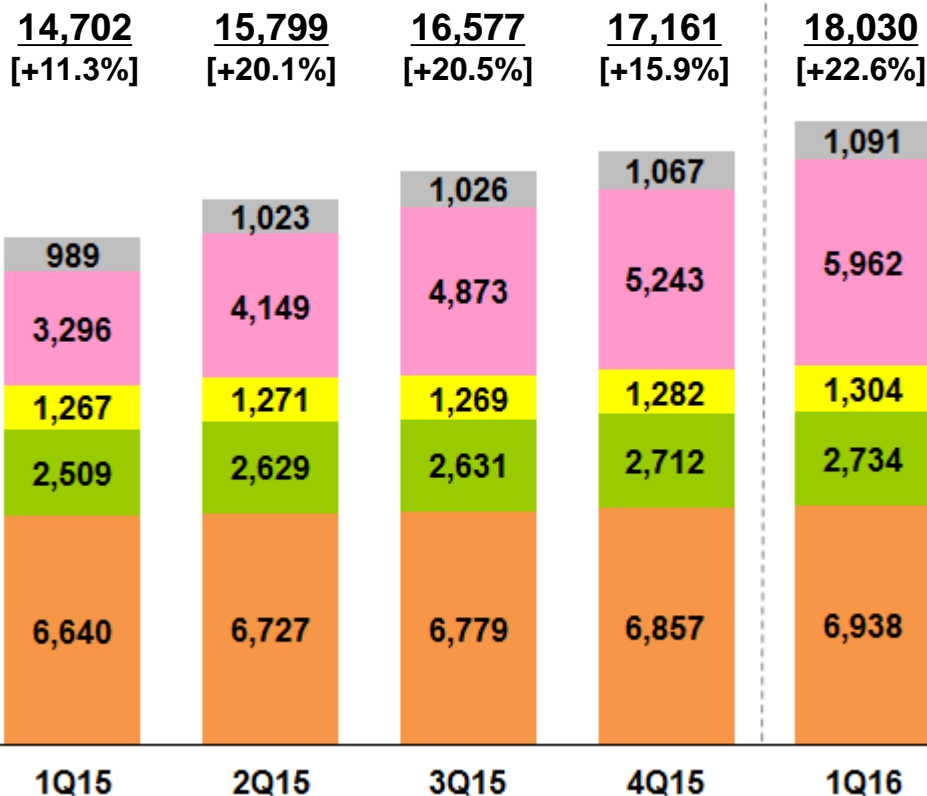
# Network Services (2) Cost of Revenues



Unit: JPY million

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

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



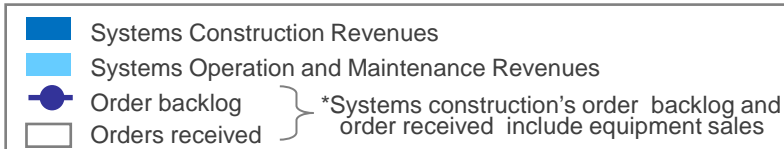
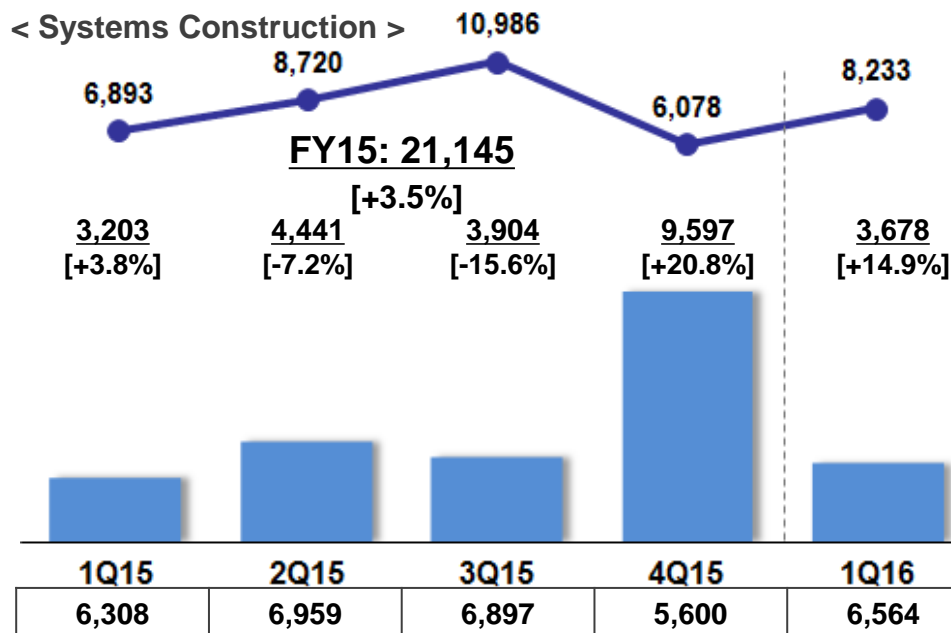
## ◆ Cost of network services

- 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 "IJJ 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:

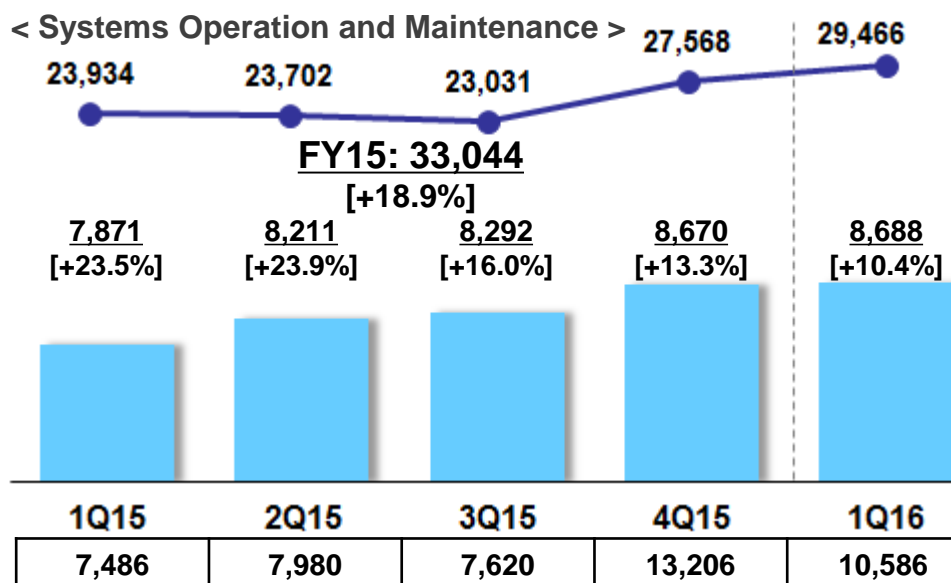
- Docomo's interconnectivity charge, which is calculated by Docomo's FY15 mobile-related cost, is expected to be fixed in Mar. 2017. Docomo's payment arrangement is 15% off from 1Q16
- IJJ estimates the charge to decrease by 12.0% YoY and has been applying it from 1Q16 for its FY16 usage.
- IJJ's estimate 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 IJJ had estimated it would decrease by 15%

# Systems Integration (SI) (1)Revenues



## ◆ 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
 etc.



## ◆ 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)

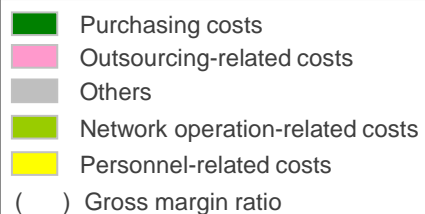
## ◆ Overseas business

- 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

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

Unit: JPY million

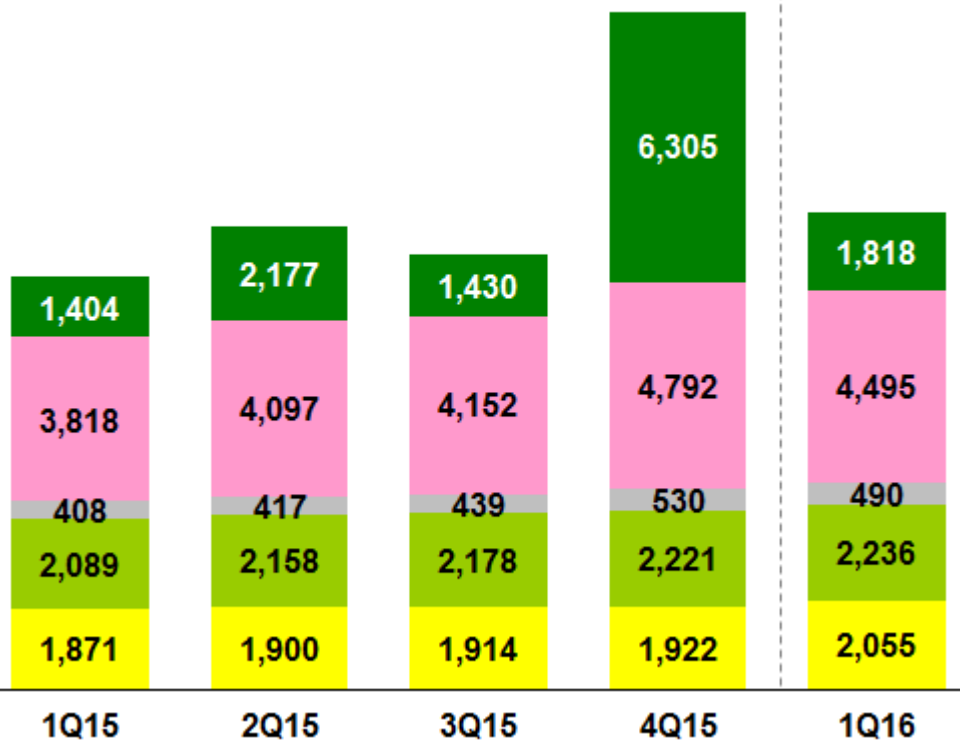
[ ], YoY = compared to the same period in a previous year  
 QoQ: 1Q16 compared to 4Q15



**FY15: 46,226 (14.7%)**

[+11.2%]

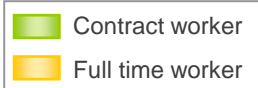
<b>9,591</b>	<b>10,749</b>	<b>10,114</b>	<b>15,771</b>	<b>11,094</b>
[+15.3%]	[+11.8%]	[-1.2%]	[+17.9%]	[+15.7%]



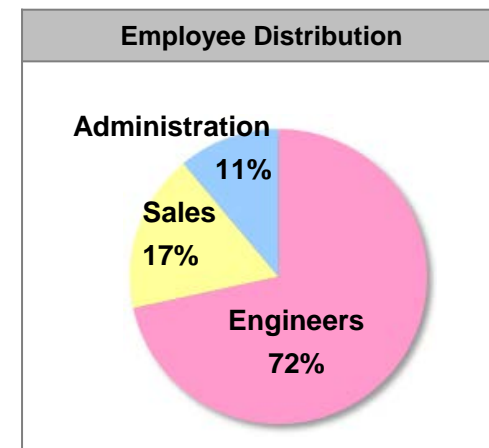
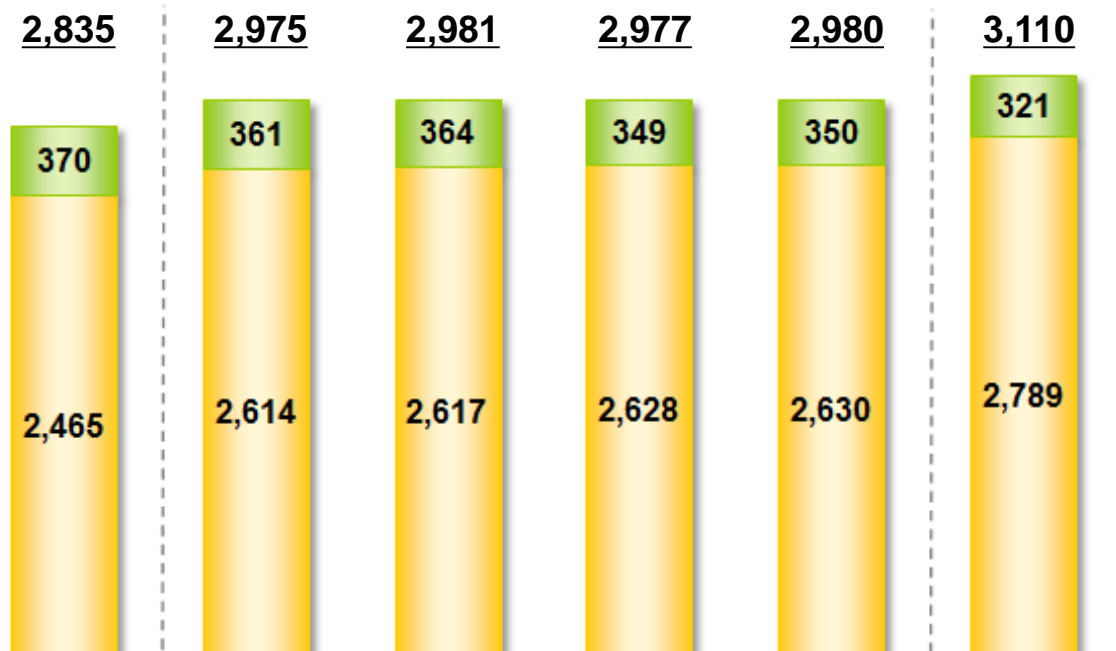
## ◆ Cost of SI

- 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

# Number of Employees



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



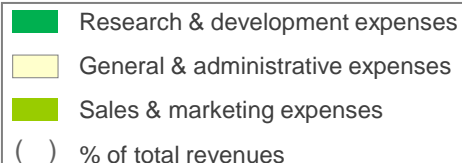
2015/3	2015/6	2015/9	2015/12	2016/3	2016/6
4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
5,114 (14.5%)	5,266 (16.7%)	5,297 (15.6%)	5,271 (15.5%)	5,321 (12.9%)	5,464 (15.1%)

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)

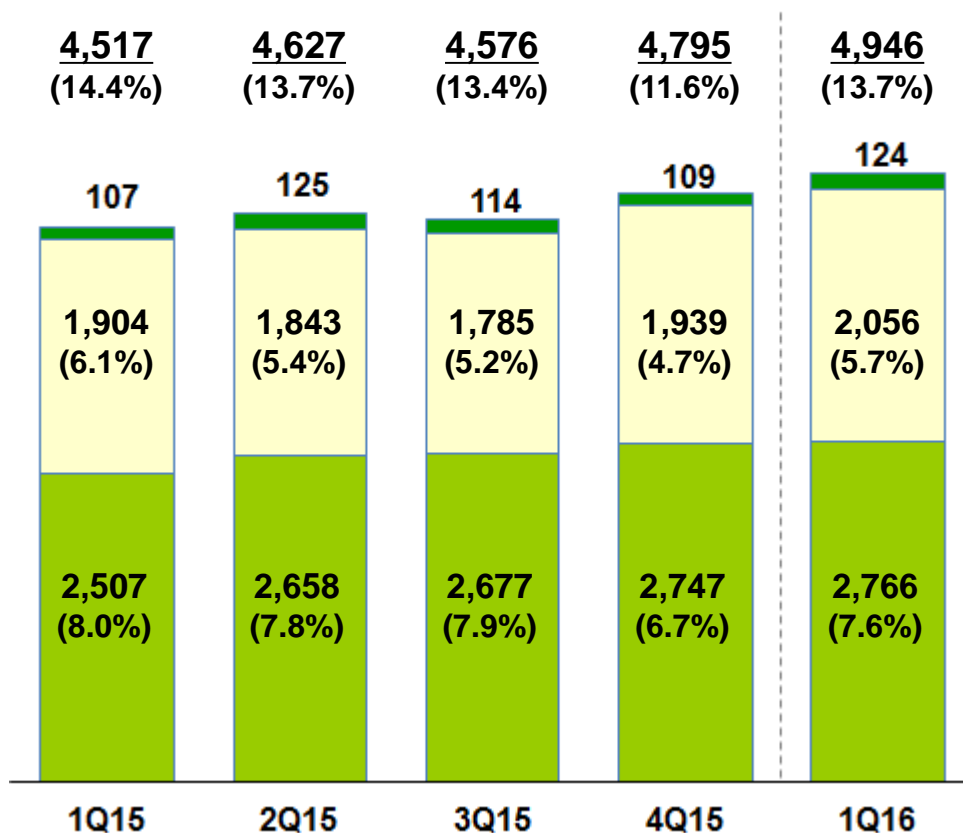
# SG&A Expenses/R&D



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

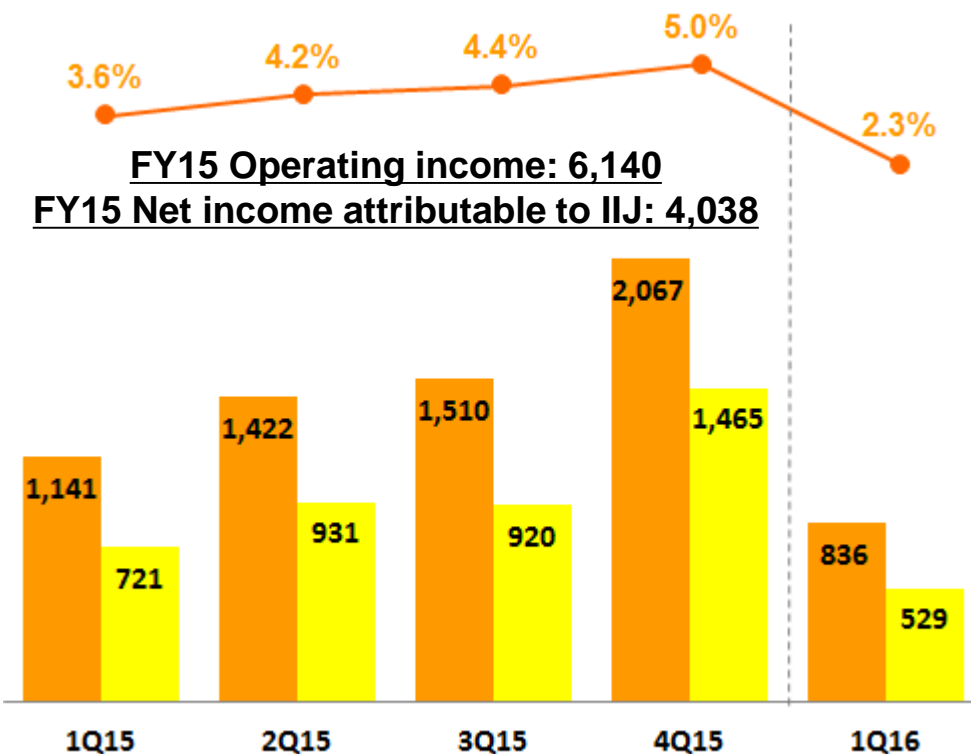


# Operating Income and Net Income

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



# 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)
<b>Total Assets</b>	<b>117,835</b>	<b>119,272</b>	<b>+1,437</b>
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
<b>Total Liabilities</b>	<b>52,491</b>	<b>53,976</b>	<b>+1,485</b>
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)
<b>Total IJ Shareholders' Equity</b>	<b>64,845</b>	<b>64,782</b>	<b>(63)</b>

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

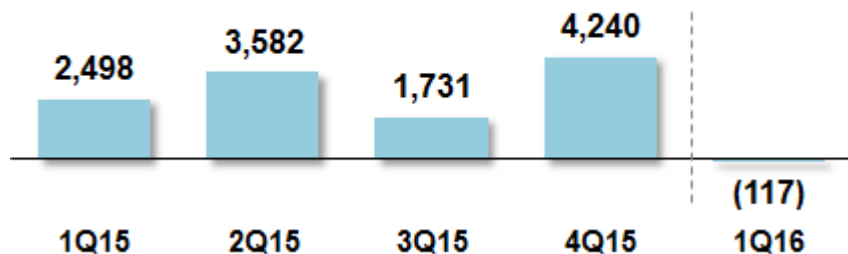
# Consolidated Cash Flows

Unit: JPY million

YoY = 1Q16 compared to 1Q15

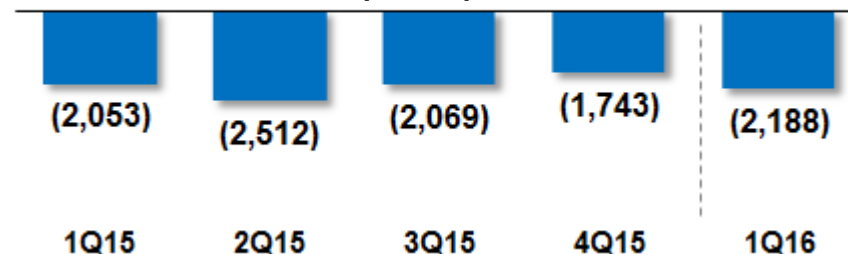
## < Operating Activities >

FY15: 12,052



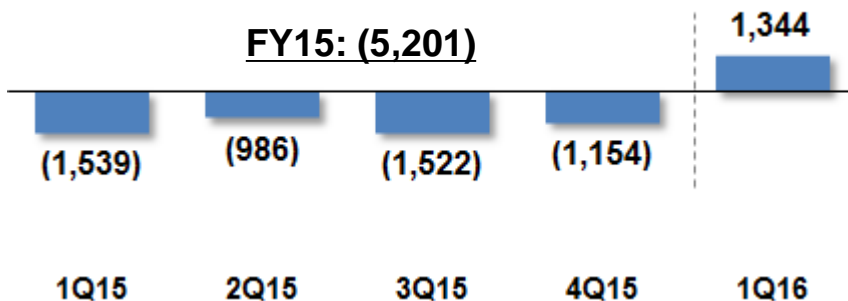
## < Investing Activities >

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

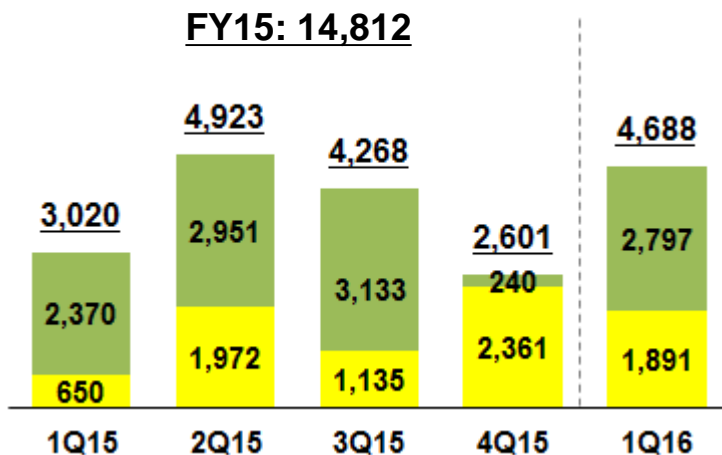
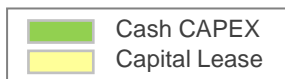
### ◆ 1Q16 Financing Activities

	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)

# Other Financial Data (CAPEX etc.)

## < CAPEX >

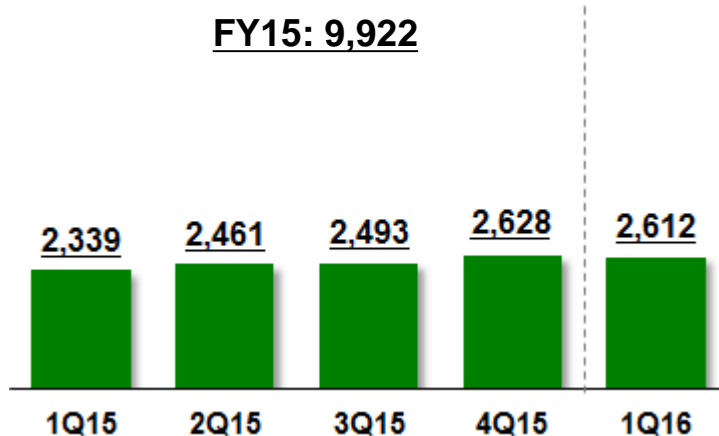
Unit: JPY million



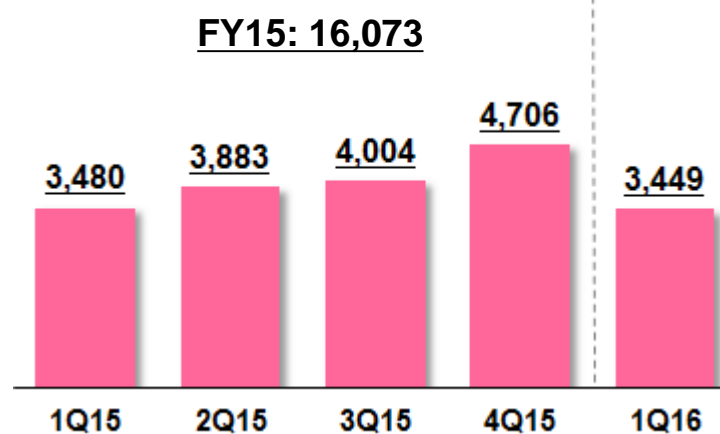
## < Breakdown of CAPEX (unit: JPY billion) >

	1Q15	FY15	1Q16
<b>TOTAL CAPEX</b>	<b>3.0</b>	<b>14.8</b>	<b>4.7</b>
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 >



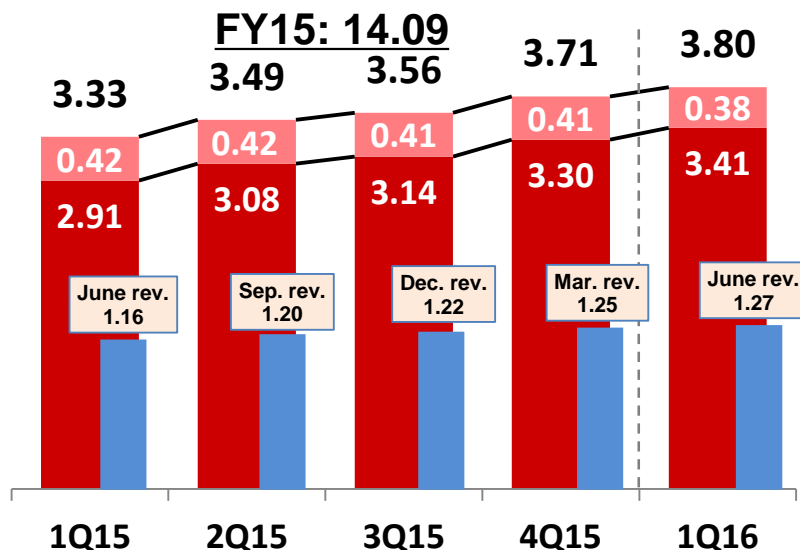
# Cloud Business Developments

## Cloud-related revenue

(Unit: JPY billion)

- Large game customers
- Business enterprise customers

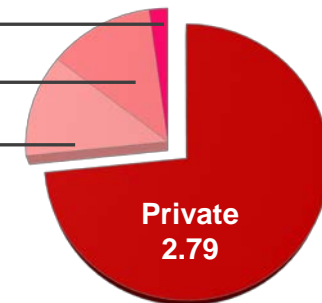
1Q16 cloud-related revenue recognition:  
87.9% in systems operation and maintenance  
12.1% in outsourcing



## 1Q16 revenue

(Unit: JPY billion)

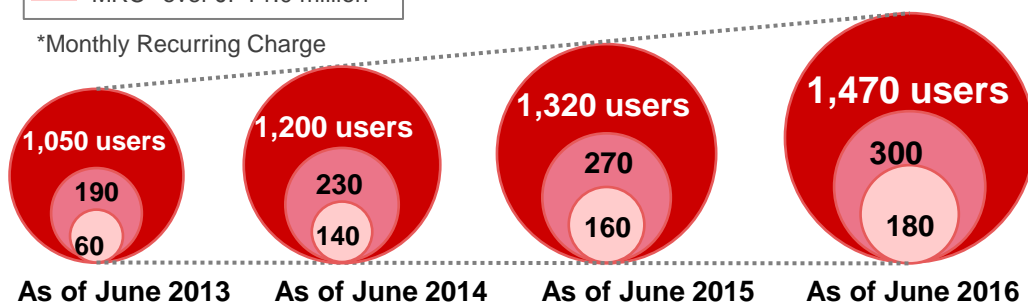
- General purpose SaaS 0.08  
(groupware etc.)
- Task-specific SaaS 0.47  
(FX, POS etc.)
- Public 0.46



## Cloud Customer Base

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

\*Monthly Recurring Charge



## Business Developments

- New cloud services “IIJ GIO Infrastructure P2” continued to accumulate prospective orders

IIJ GIO Infrastructure P2 prospective orders			
2Q15-end	3Q15-end	4Q15-end	1Q16-end
over 100	approx. 200	over 300	approx. 600

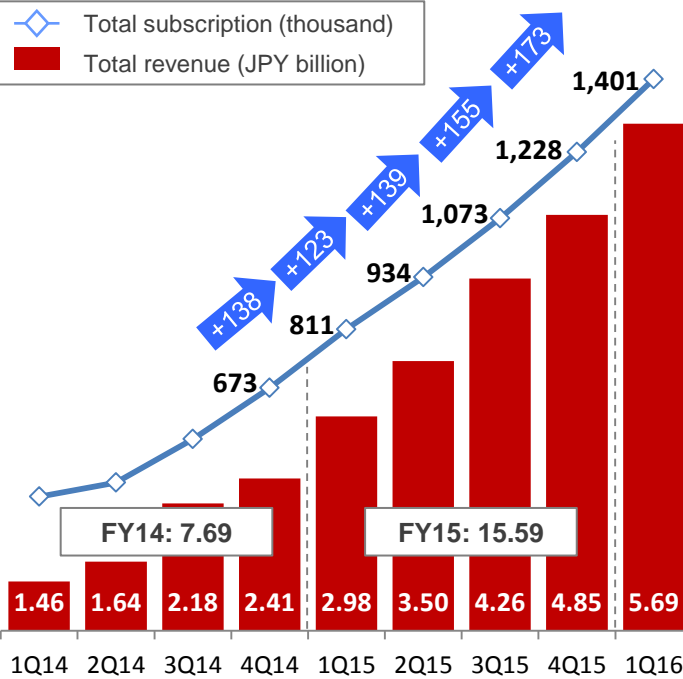
- Large-scale prospective orders
  - Service platform for a financial information service provider, information platforms for local governments, full-scale cloud migration of large BtoC site, virtual desktop infrastructure for a financial institution and many more
- Still weak demand from large game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

## FY16 Plan

- Target revenue of approx. JPY16.2 billion
  - Expect large-scale projects incorporating “IIJ GIO P2” to make contribution for revenue growth

# Mobile Business Developments

## Total subscription & revenue

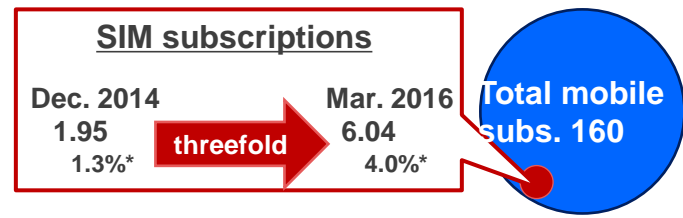


## FY16 Plan

Revenue: JPY25.5 billion, Subscription: 2 million

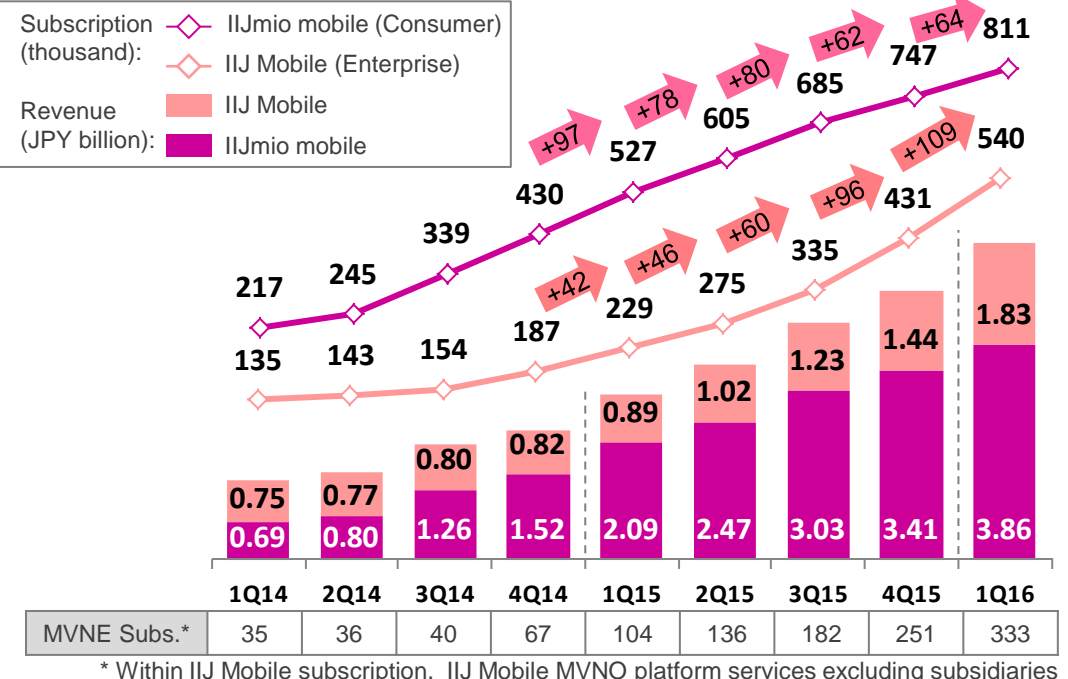
## Mobile Market Situation

(Unit: million)



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

## IJmio mobile & IJ Mobile subscription & revenue



## 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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