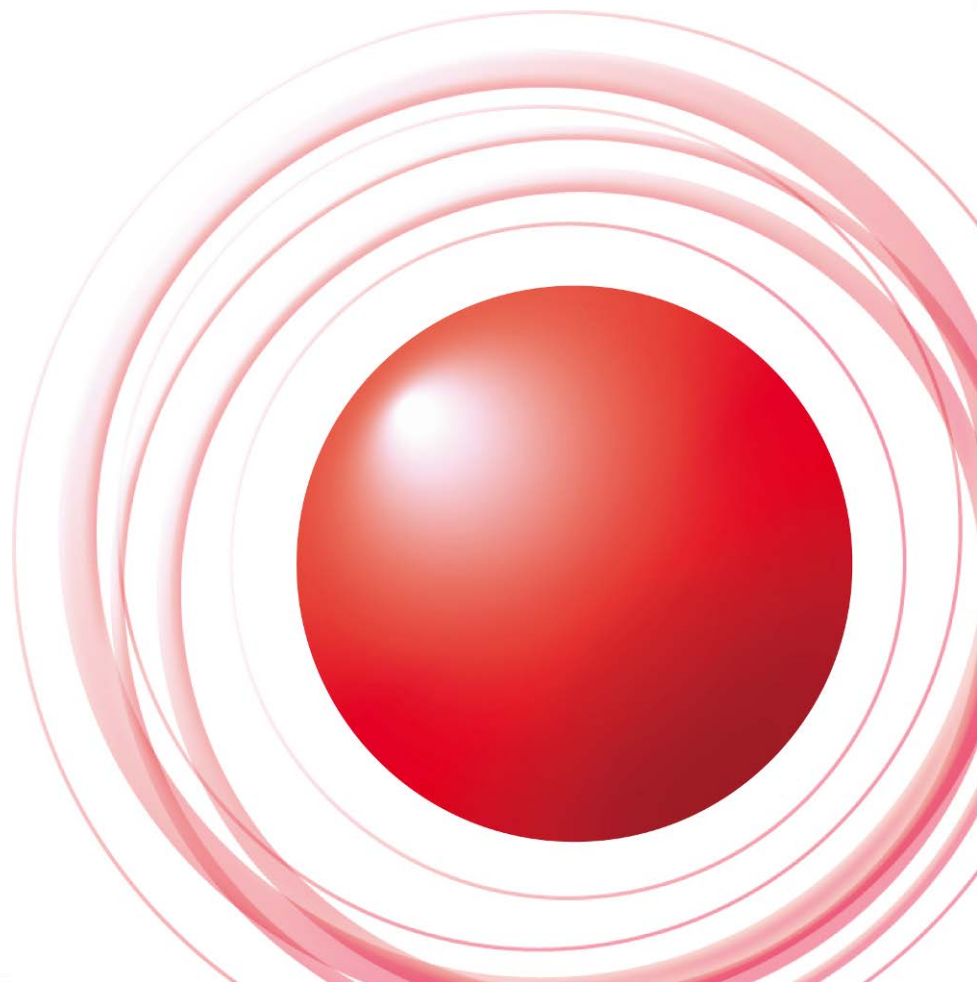


**IIJ** Internet Initiative Japan

# Internet Initiative Japan Inc. Corporate Overview

November 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>3,124</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> *Jointly owned by Mr. Suzuki's wholly owned private company

## ◆ 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

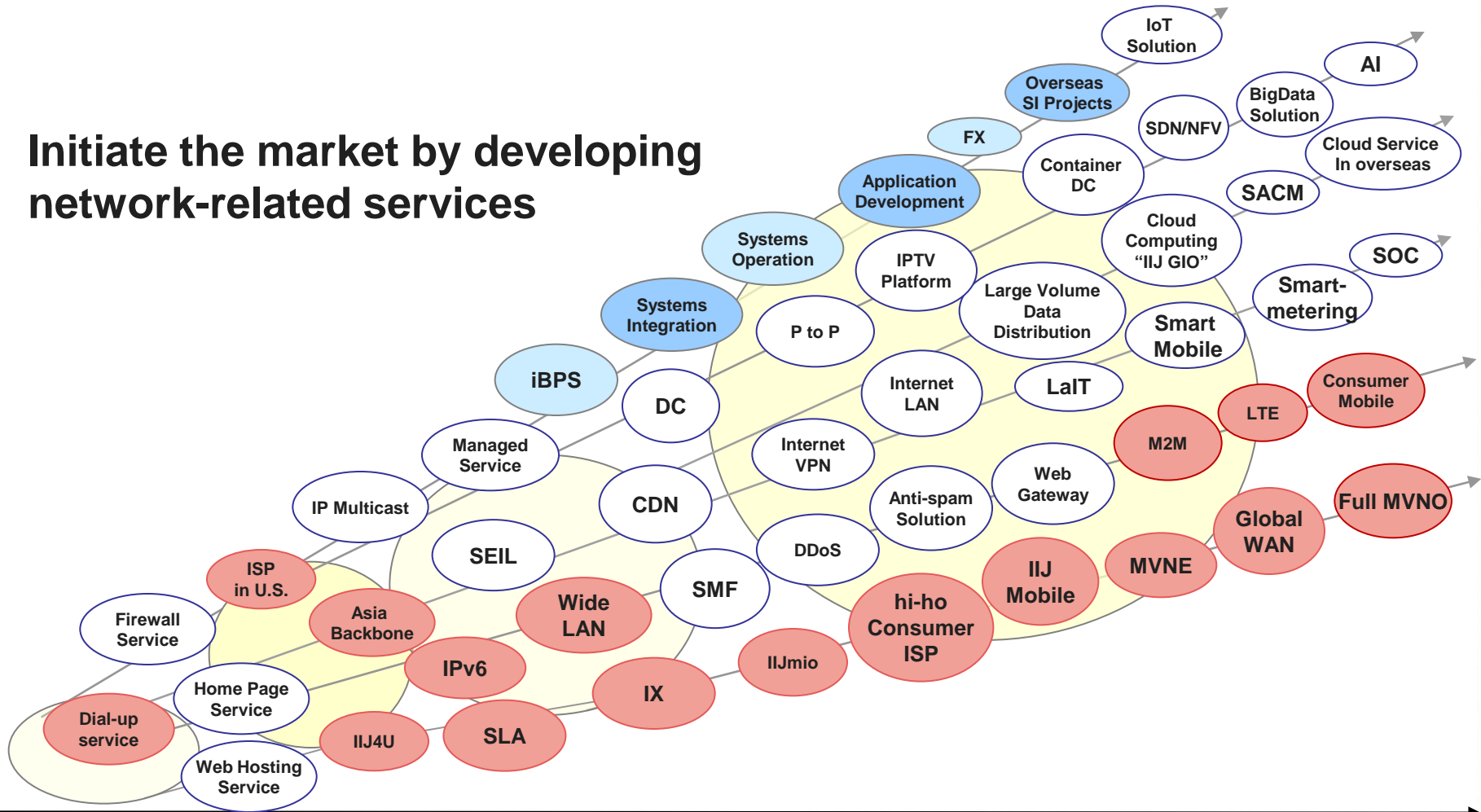
- Differentiate by continuous service developments and business investments
- Engaged in enhancing enterprise cloud services, mobile, security, contents delivery and solutions related to bigdata and IoT
- Participates in world-wide research and organizations ...and many more

\*as of Sep. 30, 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

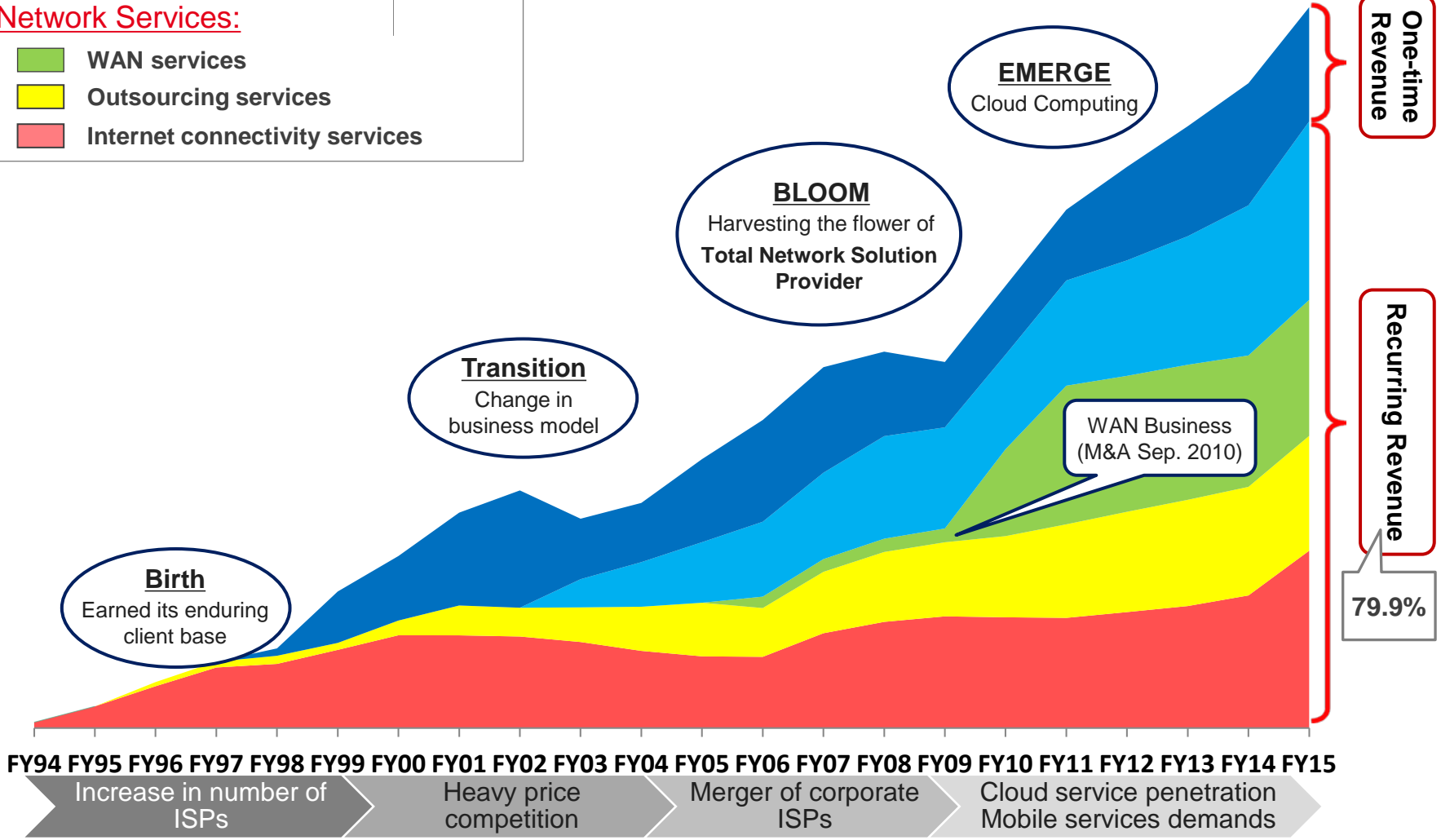
**FY16 Revenue Target**  
**JPY159.0 billion**  
 (+13.1% YoY)

Systems Integration:

- Systems construction
- Systems operation and maintenance

Network Services:

- WAN services
- Outsourcing services
- Internet connectivity services

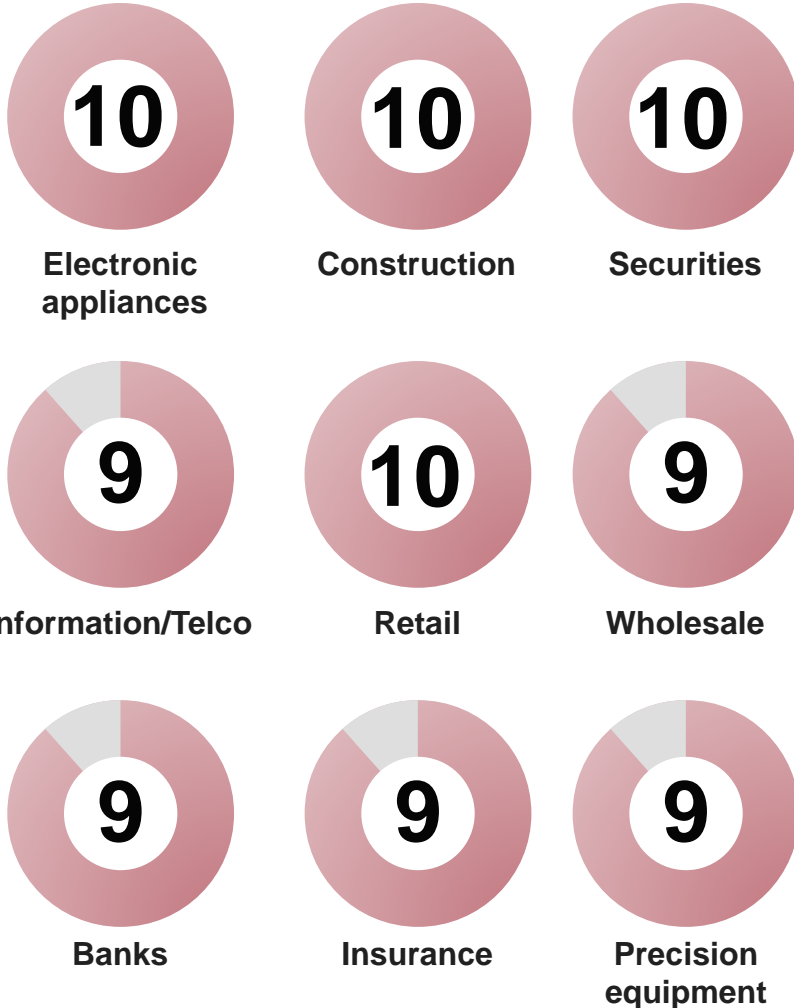


# Over 8,500 Excellent Enterprise Customers in Japan

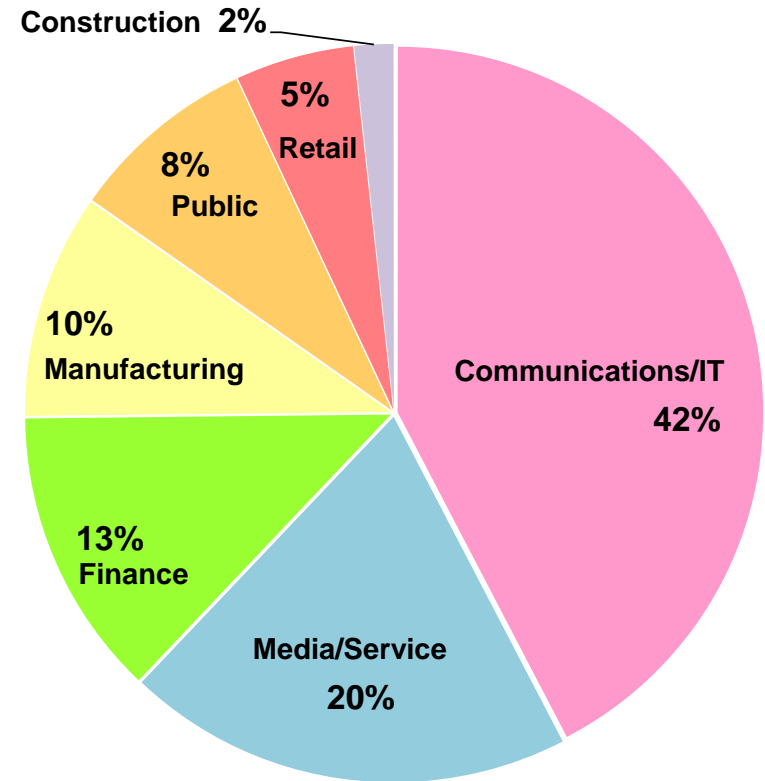
**Competitive Advantages**

## Cover Most of Top 10 Revenue Companies

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



## Revenue Distribution by Industry



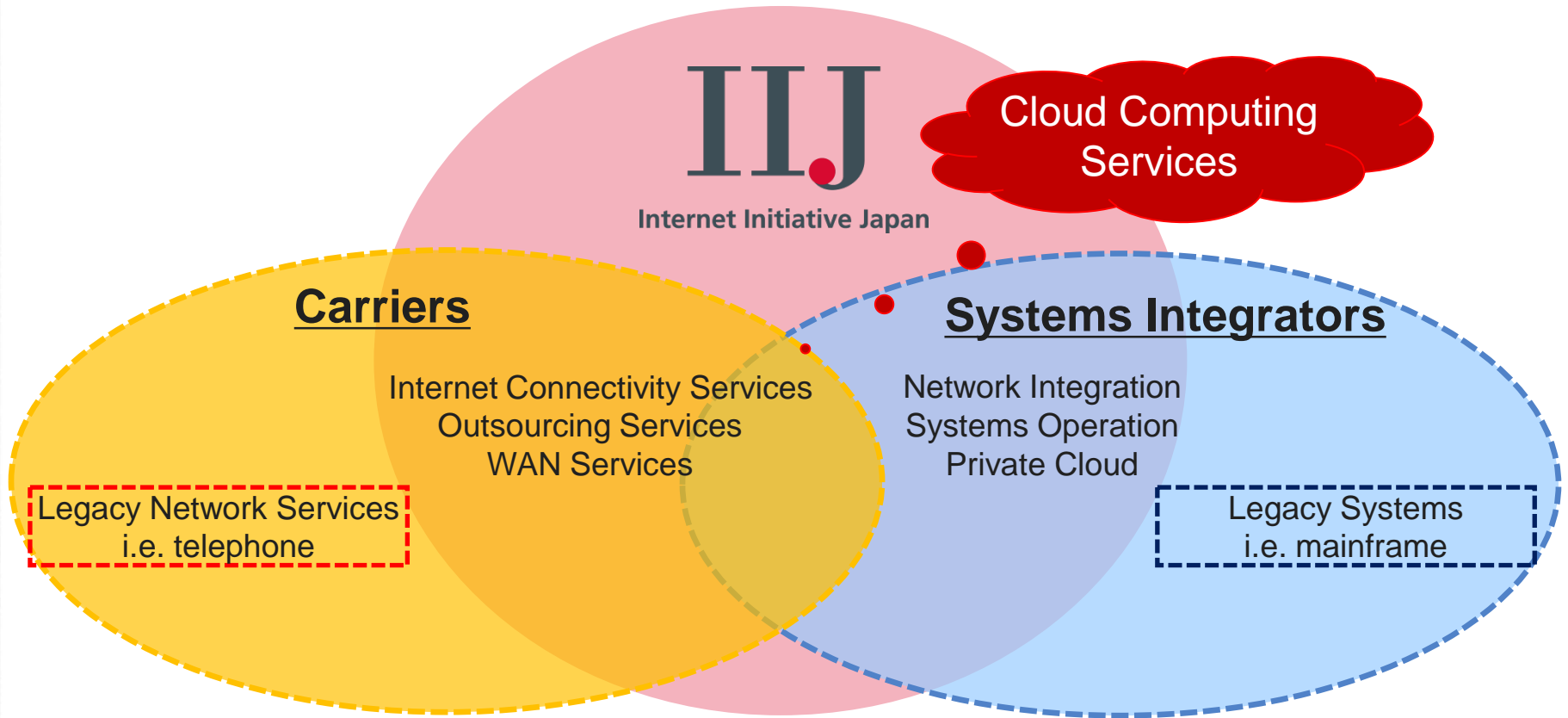
Source: IIJ's FY2015 financial results

# 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 GIO 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

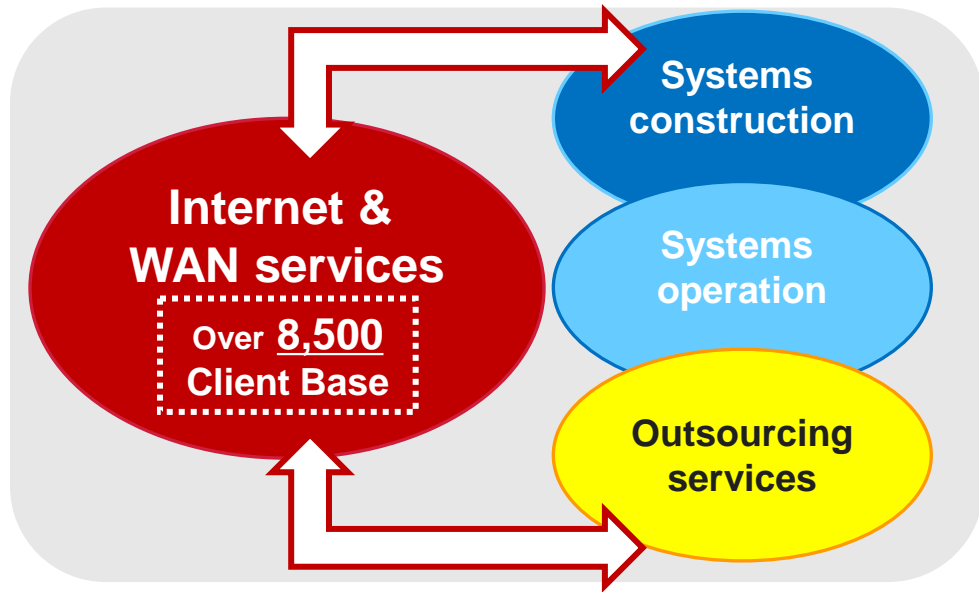
- Many highly skilled network engineers
- Corresponds to the Internet market rapidly
- Flat organization structure

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

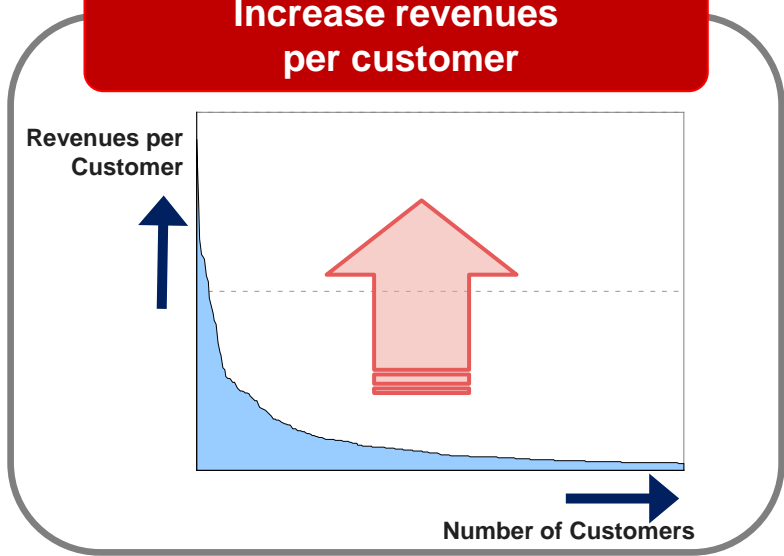


# Leveraging Blue-chip Customer Base

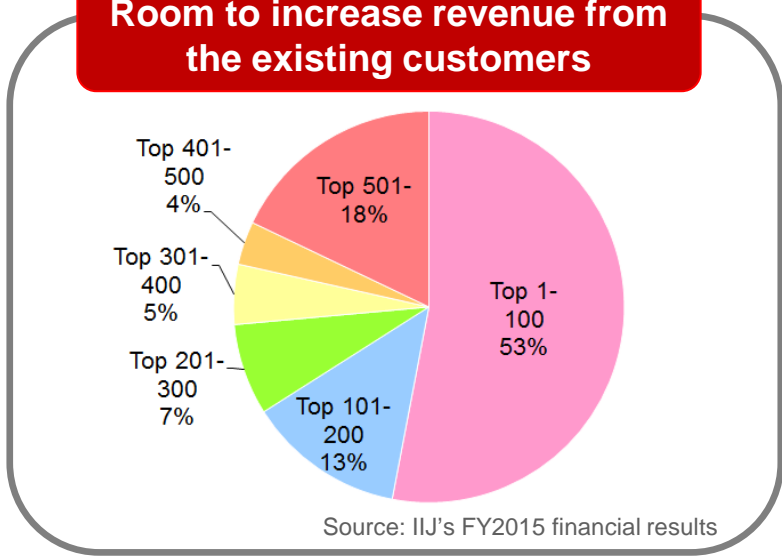
**Growth Strategy**



**Increase revenues per customer**



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



# 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

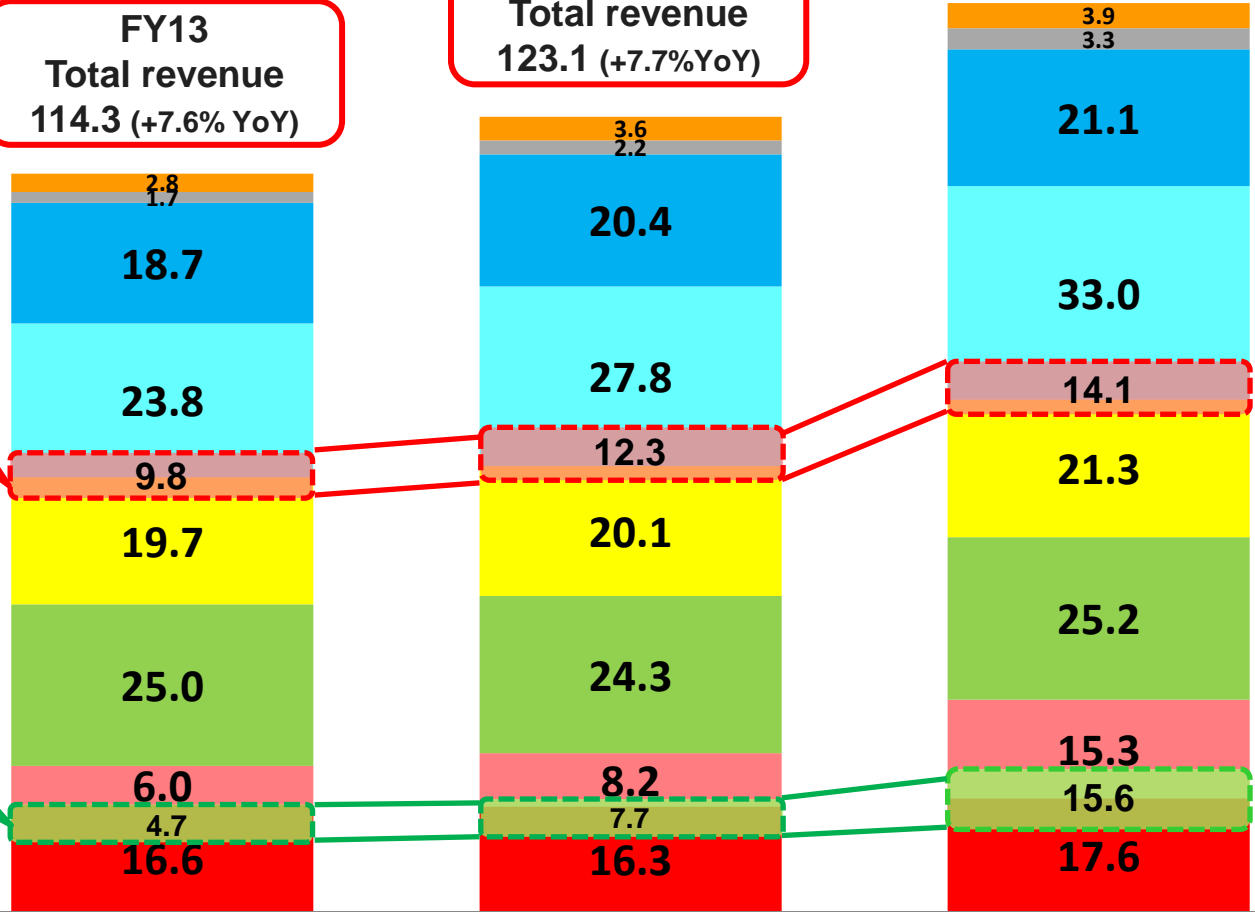
**Cloud services**

**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)



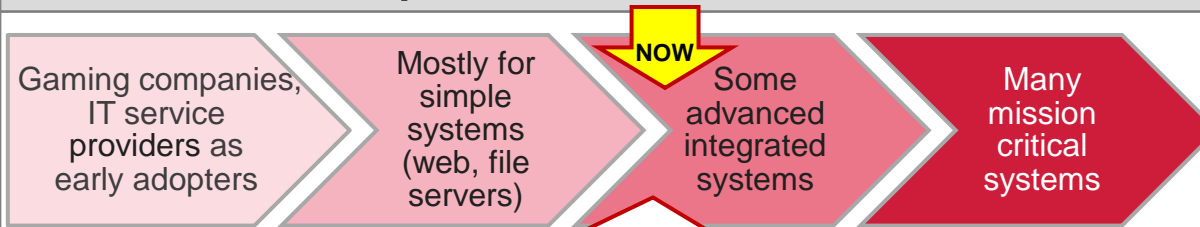
FY13

FY14

FY15

# Cloud Business Developments

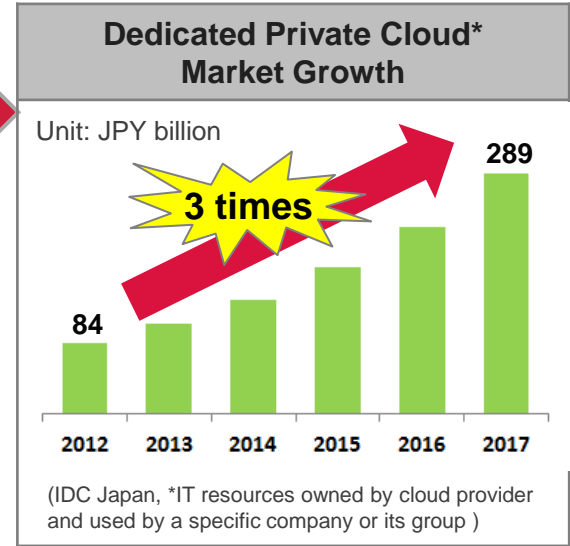
## Cloud Market in Japan



**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\*



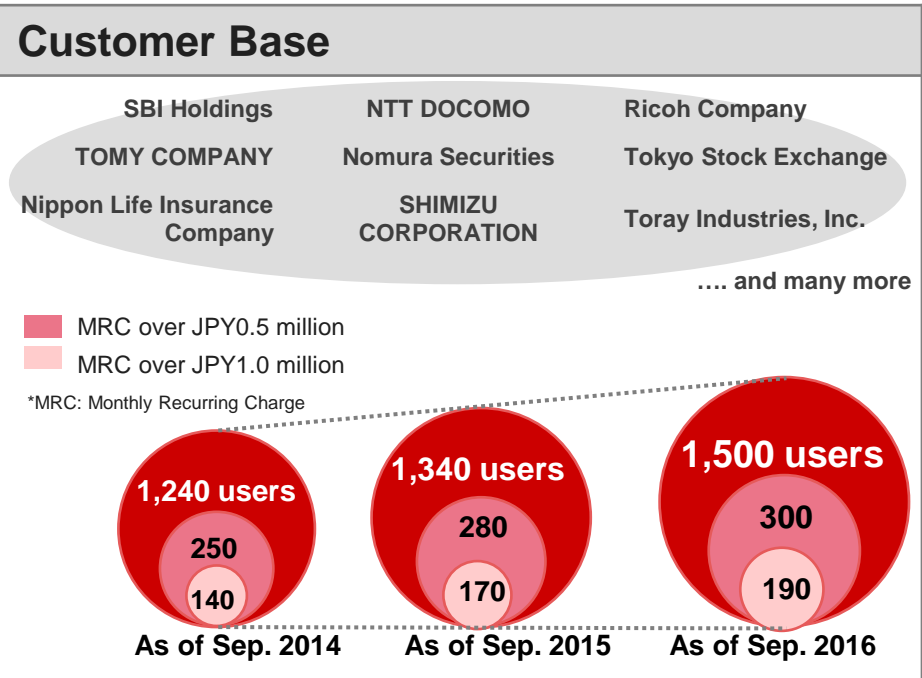
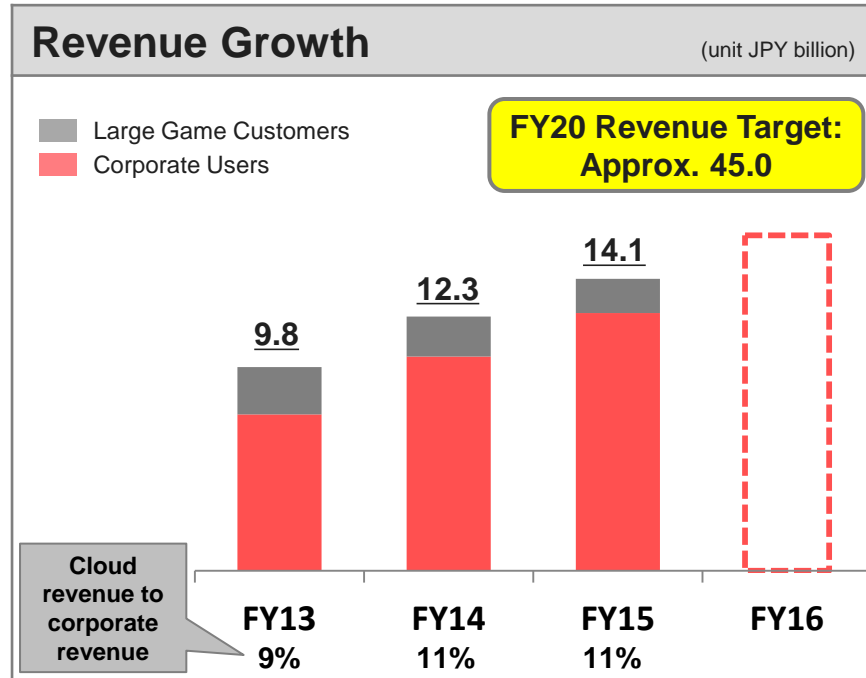
## IIJ's Cloud Services

- 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 (of P2-related: approx. 2.2)

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

### Prominent 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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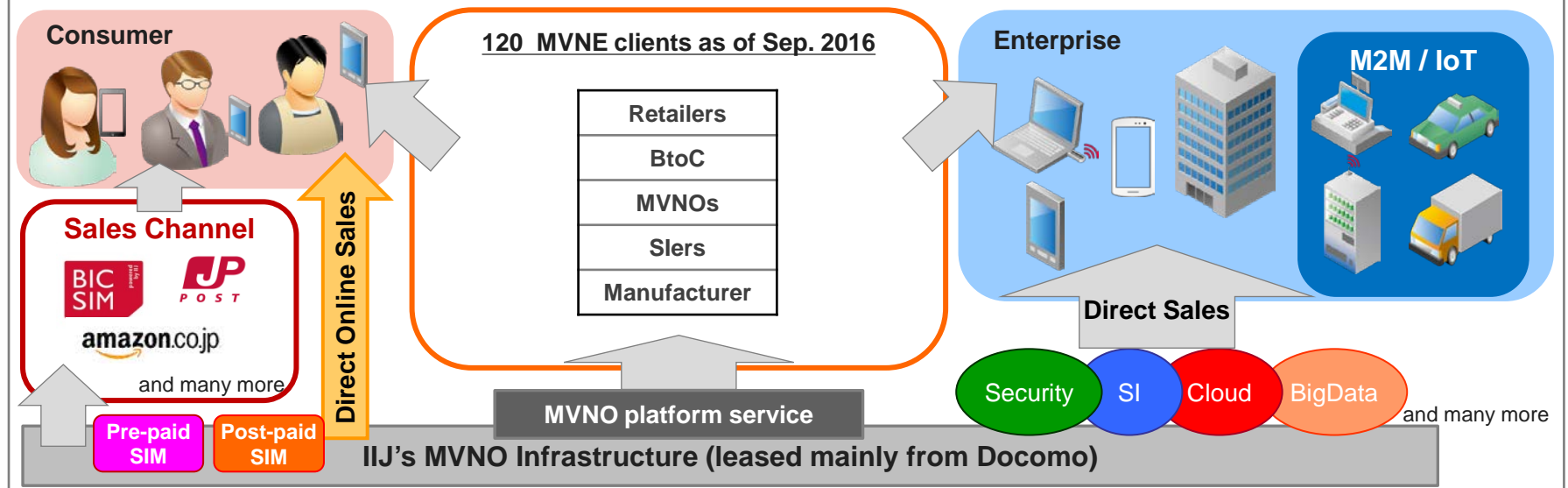
## MVNO Penetration in Japan (unit JPY billion)

■ Total mobile subscription  
■ MVNO subscription  
■ SIM subscription

Period	Total mobile subscription	MVNO subscription	SIM subscription
Dec. 2013	~16.0 mil	6.7 mil	1.4 mil
Dec. 2014	~18.0 mil	8.9 mil	2.0 mil
June 2016	~20.0 mil	13.5 mil	6.8 mil (4.5%)
Mar. 2021 (prospect)	-	-	20 mil*

Source: Ministry of Internal Affairs and Communications  
\* Assumption

## IJ's MVNO Business Model



# Mobile Business Developments

**Growth Strategy**

## IIJ's Competitive Advantage

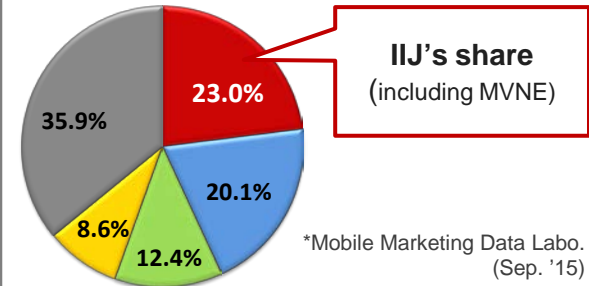
### ➤ For corporate

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

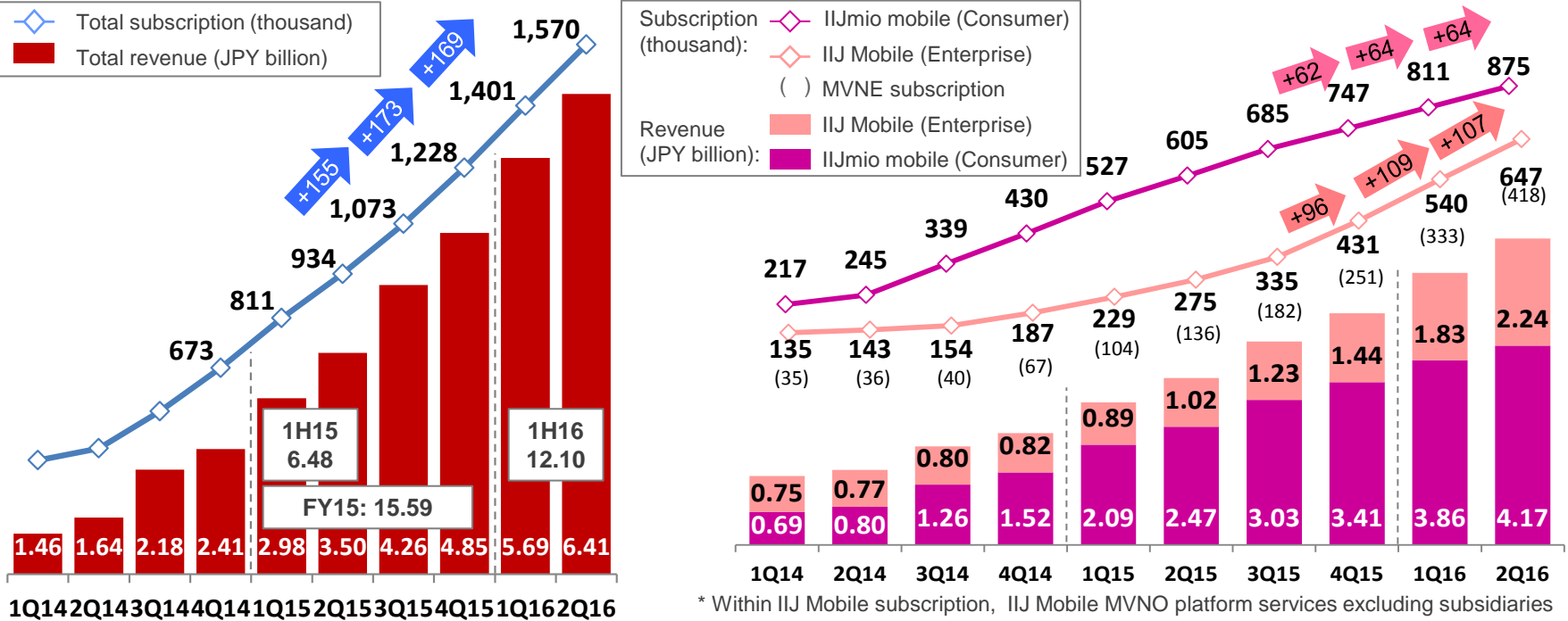
### ➤ For consumers

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

## Consumer Market Share\*



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



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

# Implementation of Full-MVNO

< Service launch >  
latter half of FY17

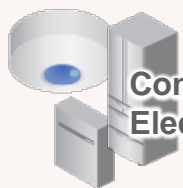
- Construct HLR/HSS systems
- Issue own data communications SIM cards
- First full-MVNO in Japan

- ◆ 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



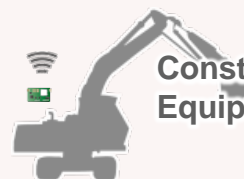
Industrial Internet



Consumer Electronics



Inventory Management



Construction Equipment



Sensor Monitoring



Smart Home



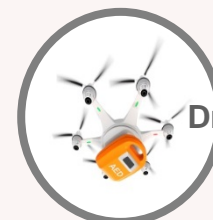
Wearable



Intelligent Transportation



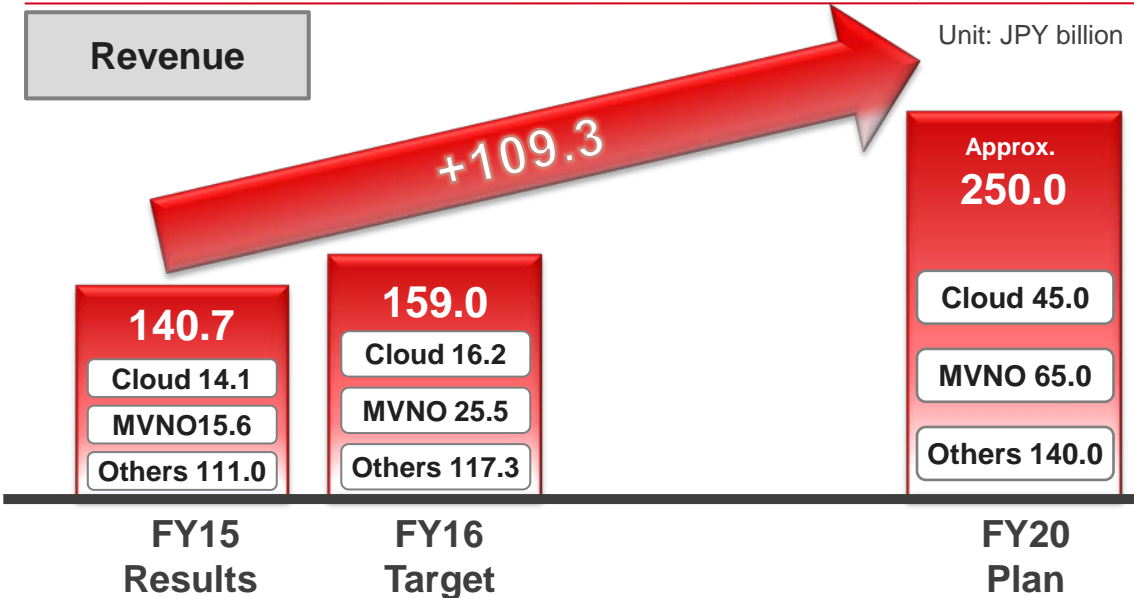
Multi-country MVNO



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. less than 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>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)

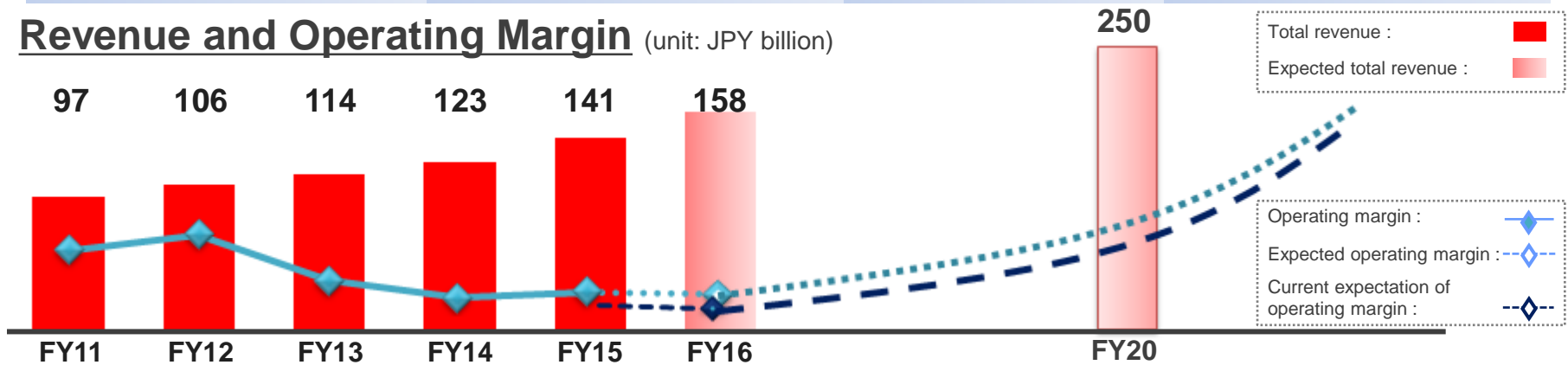
### Scale Merit

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

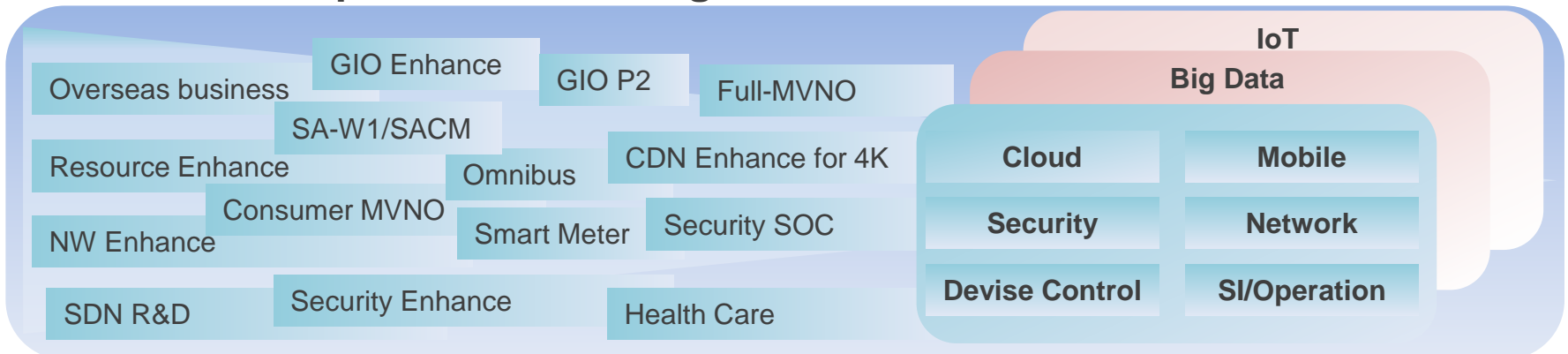
### Next Stage

- 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 1H FY2016 Financial Results

**Financial  
Summary**

## < 1H16 Results >

Revenues	JPY74.12 billion	(up 13.5% YoY)
Gross margin	JPY11.85 billion	(up 1.2% YoY)
Operating Income	JPY1.95 billion	(down 24.0% YoY)
Net income	JPY1.11 billion	(down 33.0% YoY)

## < FY2016 Targets >

JPY159.0 billion	JPY158.0 billion	(up 12.3% YoY)
JPY27.6 billion	JPY25.3 billion	(up 2.6% YoY)
JPY7.3 billion	JPY5.0 billion	(down 18.6% YoY)
JPY5.0 billion	JPY3.0 billion	(down 25.7% YoY)

## 1H16 Business Developments

- **Cloud: enhancing functions, accumulating large-scale projects**
  - 2Q16-end GIO P2 prospective orders: approx. 760 (up approx. 600 YoY)  
✓1/3 of prospective orders relates to core business operation systems
  - Acquiring Security Cloud Projects from local government
  - Enhancing cooperation with foreign cloud services and multi-cloud
- **Omnibus: enhancing functions, accumulating orders**
  - Comprehensive WAN projects increasing, strong at enterprise NW systems
- **Mobile: Total subs. 1,570 thousand** as of 2Q16-end (up 169 thousand QoQ)
  - MVNE strongly accumulated to subs. 418 thousand (up 85 thousand QoQ)  
✓1Q16 QoQ net addition: 83 thousand
  - Enhancing MVNO infrastructure, expanding the Japan Post project, preparing full MVNO, etc.
- **Security: increasing demand for “sandbox” service, etc.**
  - Preparing to enhance SOC functions, analysis infrastructure for BigData analysis, etc.
- **Developing new services and platforms such as IoT and Contents Delivery Networks (“CDN”)**

## 1H16 Financial Results

- **Strong revenue growth continued, led by mobile services**
- **Operating income decreased because SI gross margin deteriorated. Could not absorb SG&A.R&D increase when overall costs increasing along with aggressive business investments**
  - Low productivity of SEs, temporal profit deterioration due to the delay in offering certain function of foreign exchange system ASP service, cancellation of the large-scale project in system operation and so on, led to deterioration of SI gross margin ration. Yet, NW gross margin ratio continuously increased

## FY2016 Outlook

- Low SE productivity to improve in 2H16, sluggish revenue growth of systems operation and maintenance from 1H16
- Preceding cost continues with slower than expected revenue growth of new services including GIO P2 and Omnibus, Larger than expected increase in mobile-related cost due to increasing MVNO leasing bandwidth largely although gross margin of mobile services is expected to increase YoY
- Focusing on the large-scale project, which we've acquired, offering Information Security Cloud to a prefecture. It will lead to further increase recurring revenues in next fiscal year

## Future Prospects

- 1H16 SI deterioration as temporal, continuous revenue accumulation of GIO P2 & Omnibus to recoup preceding costs, network utilization to improve with various type of mobile traffic
- Strong revenue growth to lead operating income increase, operating income level 1~1.5 years delayed from initial expectation

### Share Buyback

- Up to JPY1.5 billion, 950 thousand shares
- Nov. 7, 2016 to Jan. 31, 2017
- Open market purchase

### Dividend Forecast

- Unchanged from initial target
- Annual JPY27.0 per share
- Payout ratio 41.1%

YoY= Compared to the same period in a previous year

# FY2016 Financial Target

**Financial  
Summary**

Unit: JPY billion

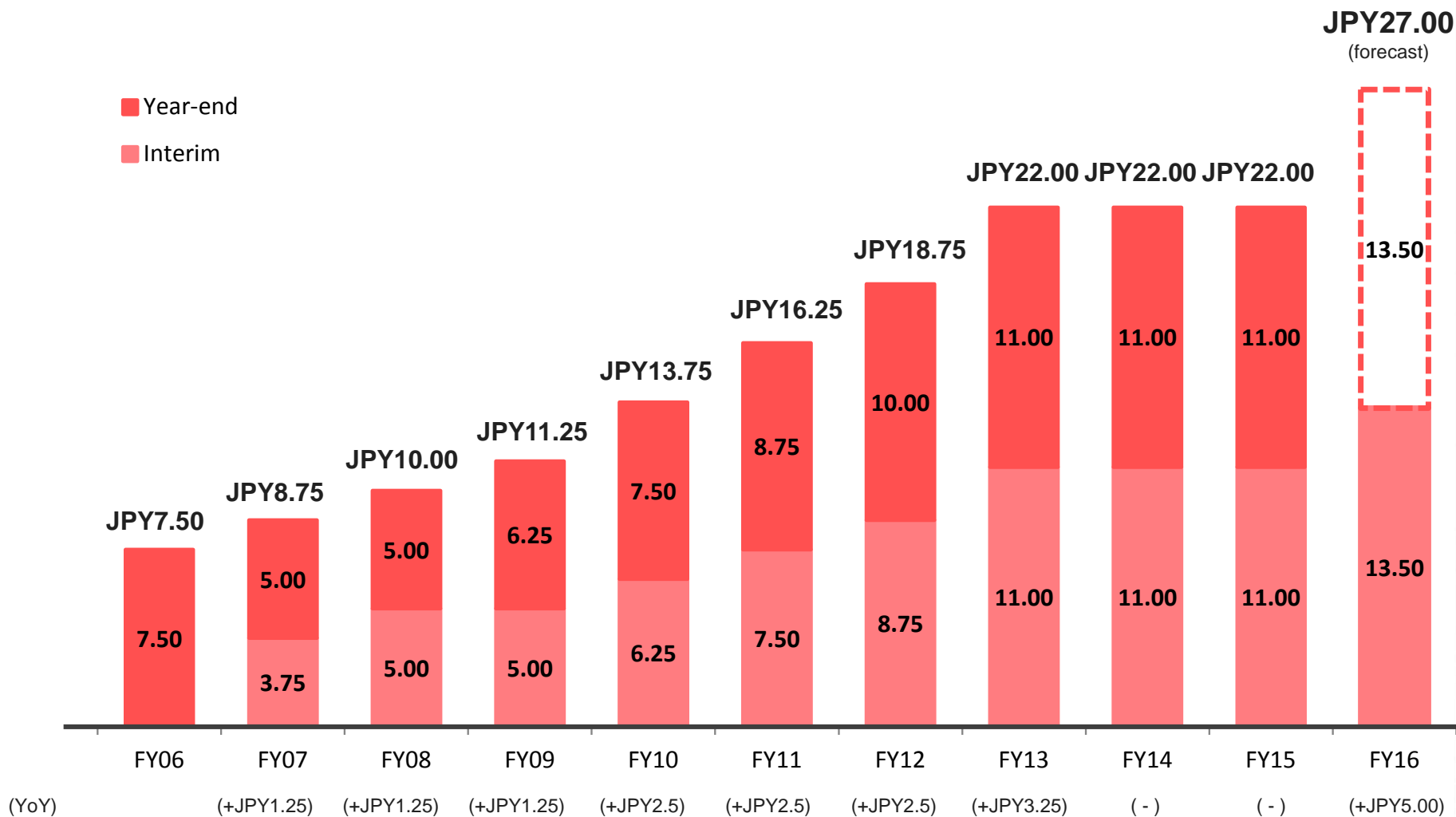
	<i>% of Revenues</i> <b>1H16 Results</b> <small>(Apr. 2016 - Sep. 2016)</small>	<i>% of Revenues</i> <b>1H15 Results</b> <small>(Apr. 2015 - Sep. 2015)</small>	<b>YoY Change</b>	<i>% of Revenues</i> <b>FY16 Revised Target</b> <small>(Apr. 2016 - Mar. 2017)</small>	<i>% of Revenues</i> <b>FY15 Results</b> <small>(Apr. 2015 - Mar. 2016)</small>
<b>Total Revenues</b>	<b>74.1</b>	<b>65.3</b>	<b>+13.5%</b>	<b>158.0</b>	<b>140.7</b>
<b>Total Cost of Revenues</b>	<small>84.0%</small> <b>62.3</b>	<small>82.1%</small> <b>53.6</b>	<b>+16.1%</b>	<small>84.0%</small> <b>132.7</b>	<small>82.5%</small> <b>116.0</b>
<b>Gross Margin</b>	<small>16.0%</small> <b>11.8</b>	<small>17.9%</small> <b>11.7</b>	<b>+1.2%</b>	<small>16.0%</small> <b>25.3</b>	<small>17.5%</small> <b>24.7</b>
<b>SG&amp;A/R&amp;D</b>	<small>13.4%</small> <b>9.9</b>	<small>14.0%</small> <b>9.1</b>	<b>+8.3%</b>	<small>12.8%</small> <b>20.3</b>	<small>13.2%</small> <b>18.5</b>
<b>Operating Income</b>	<small>2.6%</small> <b>1.9</b>	<small>3.9%</small> <b>2.6</b>	<b>(24.0%)</b>	<small>3.2%</small> <b>5.0</b>	<small>4.4%</small> <b>6.1</b>
<b>Income before Income Tax Expense</b>	<small>2.8%</small> <b>2.1</b>	<small>4.1%</small> <b>2.6</b>	<b>(20.5%)</b>	<small>3.2%</small> <b>5.1</b>	<small>4.4%</small> <b>6.2</b>
<b>Net Income*</b>	<small>1.5%</small> <b>1.1</b>	<small>2.5%</small> <b>1.7</b>	<b>(33.0%)</b>	<small>1.9%</small> <b>3.0</b>	<small>2.9%</small> <b>4.0</b>

\*Net income attributable to IIJ

# 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.

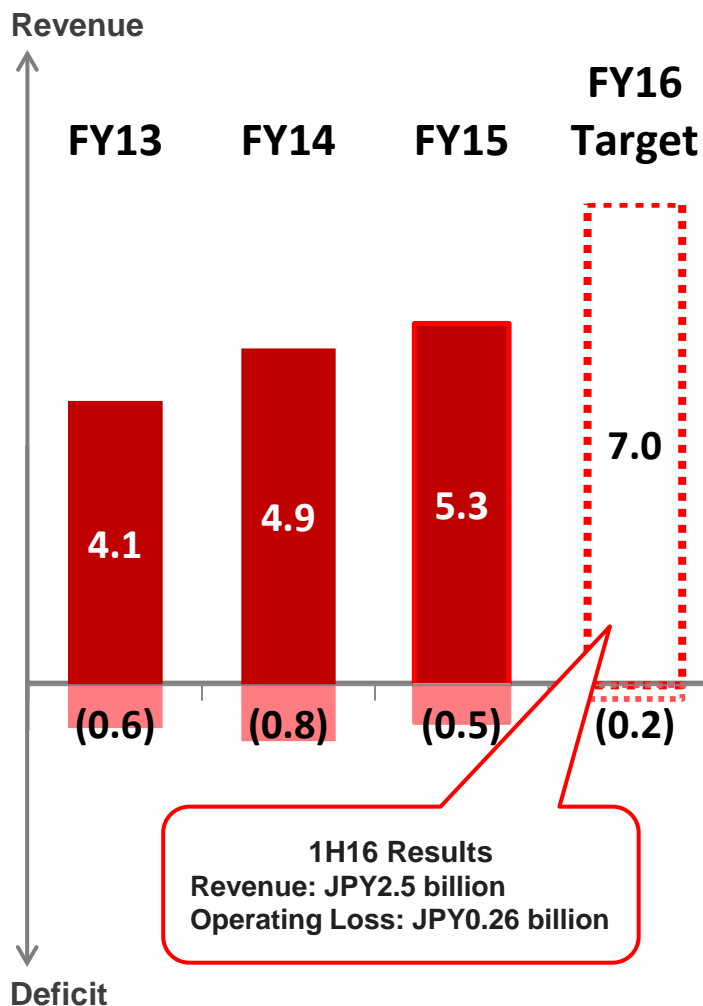


# Appendix

# 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

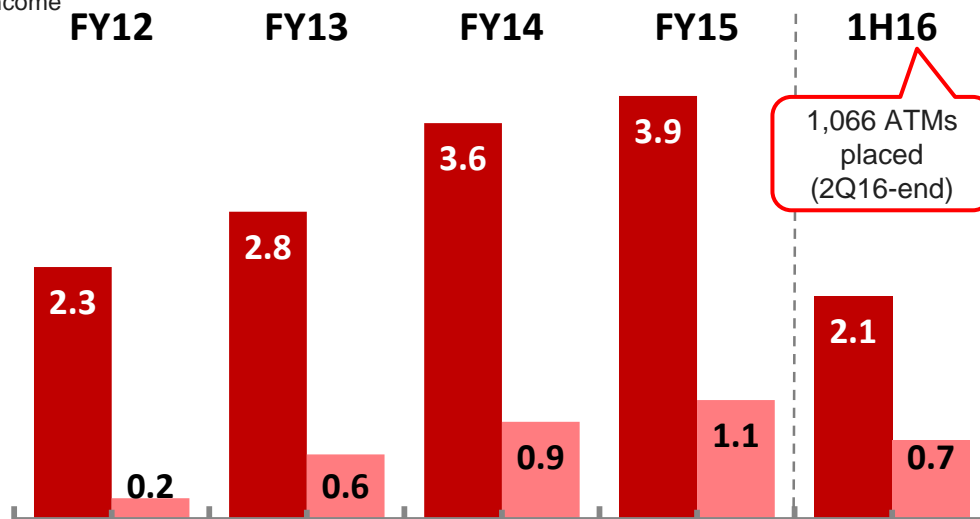
## Business Model

- 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

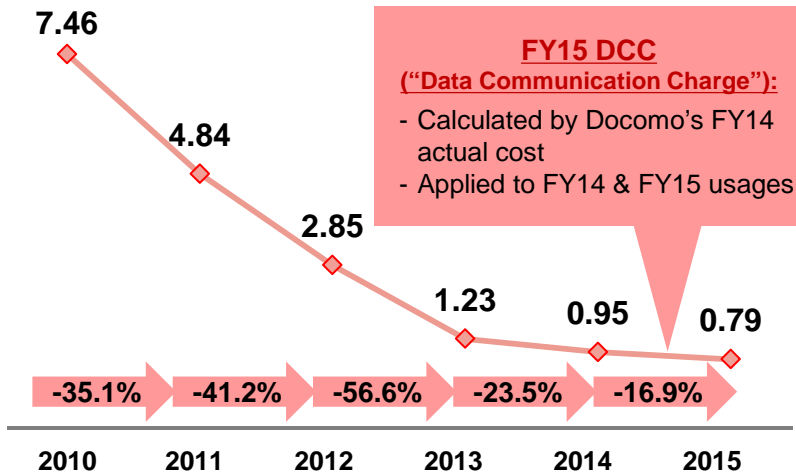


\*Number of placed ATMs are as of May each year except for FY14 and FY15 which are the number as of Mar. 2015

# 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

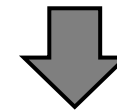
	(1) Docomo's payment arrangement	(2) IIJ's estimation	(3) Actual results
FY14	40%	40%	23.5%
FY15	25%	15%	16.9%
FY16**	15%	12%	n/a*

(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**



# **Consolidated Financial Results for 1H16 Announced on November 8, 2016**

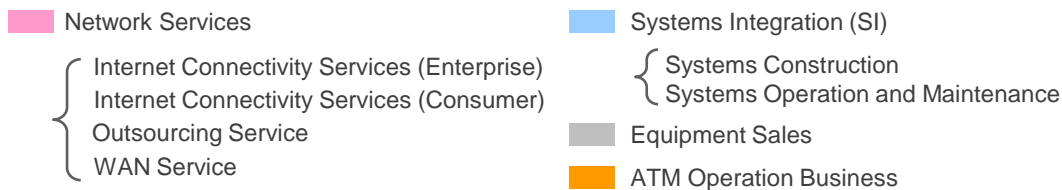
# Consolidated Financial Results for 1H FY2016

Unit: JPY billion

	% of Revenues		YoY Change	% of Revenues		% of Revenues		% of Revenues
	1H16 Results (Apr. 2016 - Sep. 2016)	1H15 Results (Apr. 2015 - Sep. 2015)		1H16 Initial Target (Apr. 2016 - Sep. 2016)	FY16 Initial Target (Apr. 2016 - Mar. 2017)	FY16 Revised Target (Apr. 2016 - Mar. 2017)	FY15 Results (Apr. 2015 - Mar. 2016)	
Total Revenues	<b>74.1</b>	<b>65.3</b>	<b>+13.5%</b>	<b>73.8</b>	<b>159.0</b>	<b>158.0</b>	<b>140.7</b>	
Total Cost of Revenues	84.0% <b>62.3</b>	82.1% <b>53.6</b>	<b>+16.1%</b>	—	82.6% <b>131.4</b>	84.0% <b>132.7</b>	82.5% <b>116.0</b>	
Gross Margin	16.0% <b>11.8</b>	17.9% <b>11.7</b>	<b>+1.2%</b>	17.3% <b>12.8</b>	17.4% <b>27.6</b>	16.0% <b>25.3</b>	17.5% <b>24.7</b>	
SG&A/R&D	13.4% <b>9.9</b>	14.0% <b>9.1</b>	<b>+8.3%</b>	—	12.8% <b>20.3</b>	12.8% <b>20.3</b>	13.2% <b>18.5</b>	
Operating Income	2.6% <b>1.9</b>	3.9% <b>2.6</b>	<b>(24.0%)</b>	3.8% <b>2.8</b>	4.6% <b>7.3</b>	3.2% <b>5.0</b>	4.4% <b>6.1</b>	
Income before Income Tax Expense	2.8% <b>2.1</b>	4.1% <b>2.6</b>	<b>(20.5%)</b>	3.8% <b>2.8</b>	4.6% <b>7.3</b>	3.2% <b>5.1</b>	4.4% <b>6.2</b>	
Net Income*	1.5% <b>1.1</b>	2.5% <b>1.7</b>	<b>(33.0%)</b>	2.6% <b>1.9</b>	3.1% <b>5.0</b>	1.9% <b>3.0</b>	2.9% <b>4.0</b>	

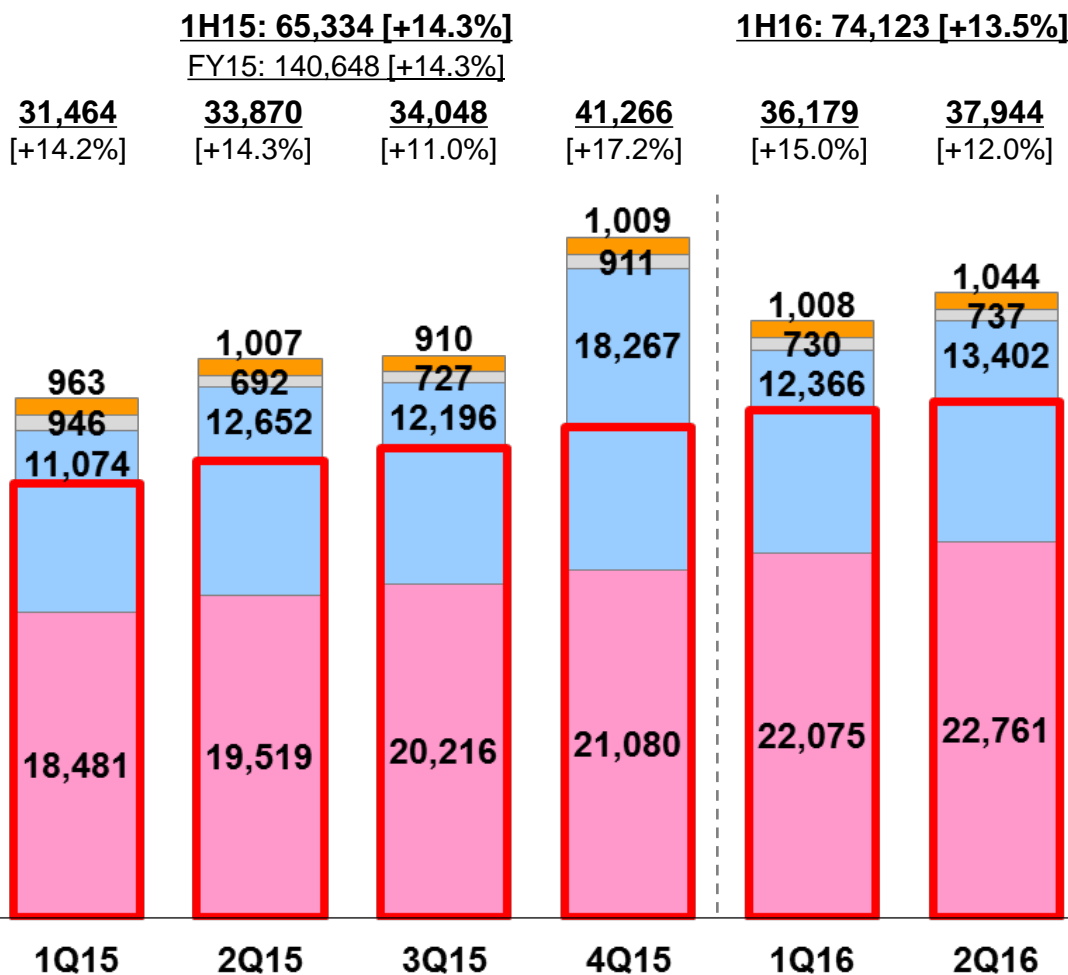
\*Net income attributable to IIJ

# Revenues



Unit: JPY million

YoY = 1H16 compared to 1H15



**One-time Revenue \***  
 1H16: JPY10,050 million (up 8.3% YoY)  
 (13.6% of 1H16 revenues)

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

1. Systems Construction
2. Equipment Sales

**Recurring Revenue\***  
 1H16: JPY62,021 million (up 14.7% YoY)  
 (83.7% of 1H16 revenues)

\*Represents the following monthly recurring revenues

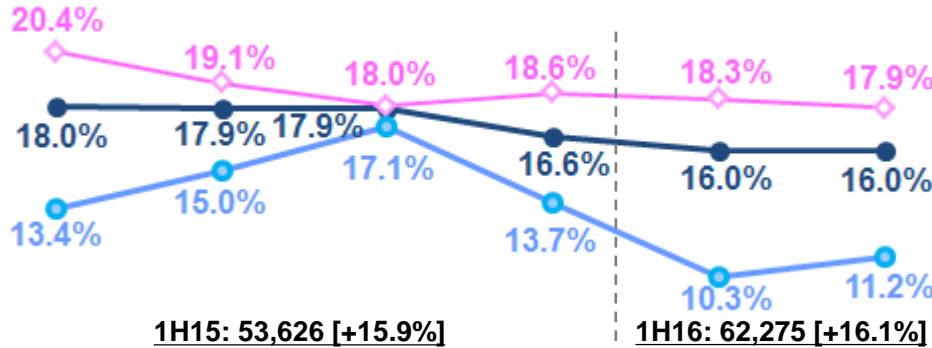
1. Internet Connectivity Services(Enterprise/Consumer)
2. Outsourcing Services
3. WAN Services
4. Systems Operation and Maintenance

# Cost of Revenues and Gross Margin Ratio

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

Unit: JPY million

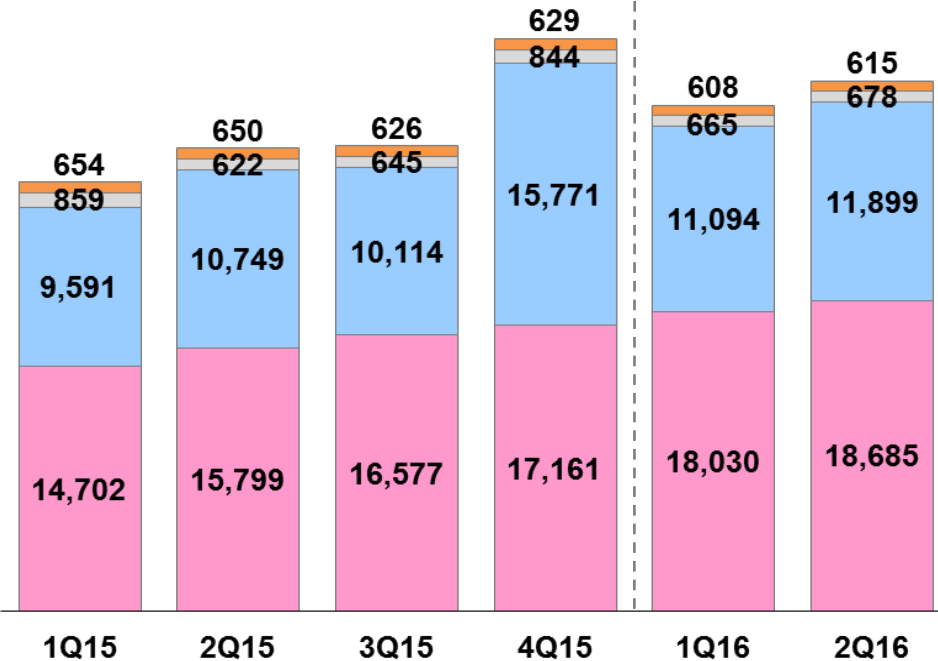
YoY = 1H16 compared to 1H15



**1H15: 53,626 [+15.9%]**  
 FY15: 115,993 [+14.9%]

**1H16: 62,275 [+16.1%]**

25,805 [+14.4%]	27,821 [+17.3%]	27,962 [+11.3%]	34,405 [+16.3%]	30,397 [+17.8%]	31,878 [+14.6%]
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## 1H16 Gross Margin

### ◆ Total

- JPY11,848 million (up JPY141 million, up 1.2% YoY)
- Gross margin ratio: 16.0% (down 1.9 points YoY)

### ◆ Network Services

- 1H16 gross margin: JPY8,120 million (up JPY622 million, up 8.3% YoY)
- 1H15 gross margin: JPY7,498 million (up JPY171 million, up 2.3% YoY)
- Gross margin ratio: 18.1% (down 1.6 points YoY)
- 2Q16 mobile-related cost decreased approx. JPY0.15 billion as retroactively adjusted cost decrease is divided equally each quarter. (1Q15 cost decreased approx. JPY0.27 billion)
- 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 cost adjustment which amounted to a positive impact of approx. JPY0.1 billion (estimate 15.0% decrease, actual 16.9% decrease)
- 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	2Q16	Unit:%
19.4	19.5	18.5	18.6	18.3	17.9	

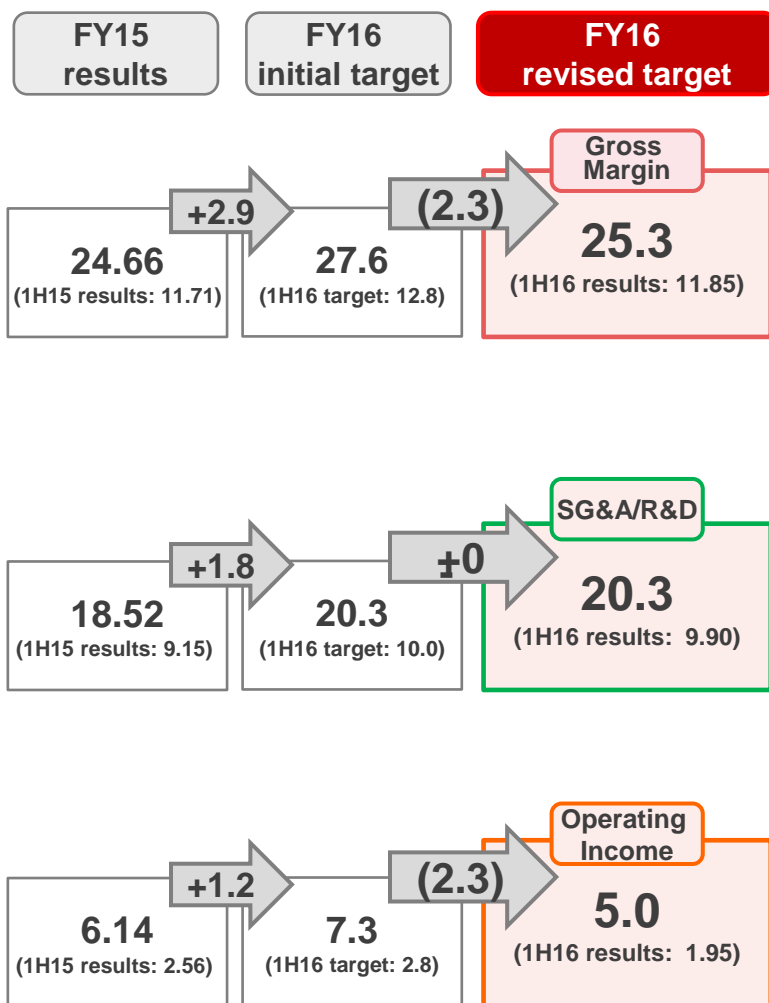
- Gross margin ratio decreased mainly because increases of upfront costs such as for development of "IIJ Omnibus", CDN services and security services.

### ◆ SI

- 1H16 gross margin: JPY2,775 million (down JPY610 million, down 18.0% YoY)
- 1H15 gross margin: JPY3,385 million (up JPY456 million, up 15.6% YoY)
- Gross margin ratio: 10.8% (down 3.5 points YoY)
- Gross margin ratio decreased mainly due to increases of preceding costs related to "IIJ GIO P2" etc. and low productivity of SEs

# Operating Income (1) comparison with initial full-year target

Unit: JPY billion



## Gap between Initial and Revised Targets

### ◆ Gap in SI<sup>(\*)</sup> gross margin: **approx. JPY1.5 billion weaker**

- Low productivity of SEs, a low profitable construction project, unexpected revenue decrease in systems operation and maintenance mainly due to a cancellation of large systems operation and maintenance, and temporal profit deterioration due to the delay in offering some functions of foreign exchange system ASP service:

**1H16 approx. JPY0.9 billion weaker, 2H16 approx. JPY0.2 billion weaker**

- Impact due to GIO P2 related cost increase along with its service launch and its slower than expected revenue growth:

**approx. JPY0.4 billion weaker**

- Low productivity of SEs and temporal profit deterioration regarding our foreign exchange system ASP service as temporal issues, low productivity of SEs is expected to improve in 2H16
- Though busy sales activity, slower than expected revenue growth of GIO P2 is due to projects scale becoming larger thus requiring longer lead-time while fixed-type cost increasing

### ◆ Gap in NW gross margin: **approx. JPY0.8 billion weaker**

- Impact due to IIJ Omnibus Service related cost along with its service launch and its slower than expected revenue growth:

**approx. JPY0.4 billion weaker**

- Larger than expected mobile-related cost increase:

**approx. JPY0.4 billion weaker**

- Though busy sales activity, slower than expected revenue growth of IIJ Omnibus Service is due to projects becoming more complex thus requiring longer lead-time while fixed-type cost increasing
- Mobile service gross margin increasing YoY, Mobile-related cost exceeded initial expectation due to MVNO infrastructure enhancement

### ◆ Gap in ATM gross margin: **almost as initially expected**

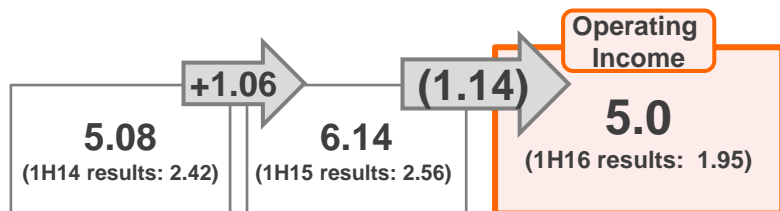
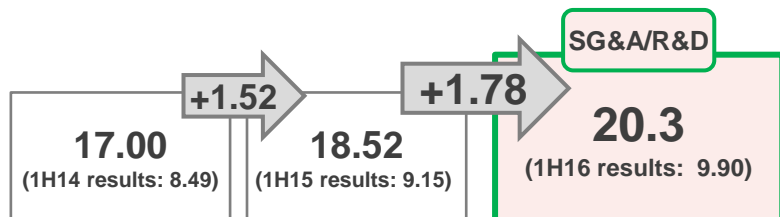
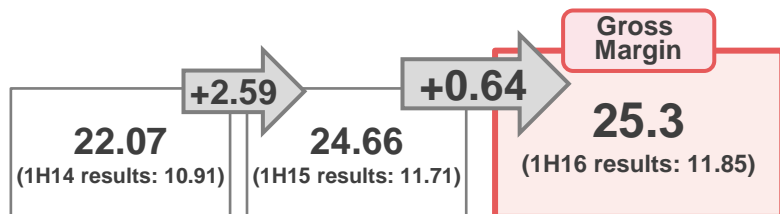
### ◆ Gap in SG&A/R&D: **almost as initially expected**

(\*) SI gross margin includes equipment sales gross margin

# Operating Income (2) comparison with FY15 results

Unit: JPY billion

FY14 results    FY15 results    **FY16 forecast**



## FY16 Business Outlook

### ◆ SI(\*) gross margin outlook:

**approx. down JPY0.8 billion**

(up JPY1.36 billion YoY in FY15)

- Low productivity of SEs, delay in offering some functions for our foreign exchange system ASP service, decrease in margin mainly due to cancellation of a large operation and maintenance project:

approx. down JPY1.1 billion

- Decrease in gross margin due to an increase in GIO P2 related costs and slower than expected its revenue growth: approx. down JPY0.5 billion

### ◆ NW gross margin outlook:

**approx. up JPY1.2 billion**

(up JPY0.98 billion YoY in FY15)

- NW & mobile gross margin continue growing
- The costs of mobile infrastructure would exceed out initial expectation:

approx. down JPY0.4 billion

- Slight deterioration of profitability for our subsidiary's large WAN project:

approx. down JPY0.2 billion

### ◆ ATM gross margin outlook:

**approx. up JPY0.2 billion**

(up JPY0.24 billion YoY in FY15)

- Almost as expected

### ◆ SG&A/R&D outlook:

**approx. up JPY1.8 billion**

(up JPY1.52 billion YoY in FY15)

- Almost as expected

## Future Prospects

- Productivity of SEs is expected to improve from 2H16. The impact of foreign exchange system ASP service is expected to mitigate hereafter
- Continuous revenue accumulation of GIO P2 is expected to recoup upfront costs

- The network utilization should improve by aggregating mobile subscriptions and traffics
- Recurring revenues to further increase by fully outsourcing projects for local governments

- The number of placed ATMs will increase moderately but steady

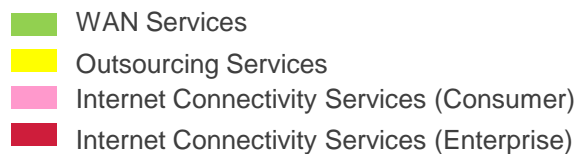
- Increase continuously

**Operating income level is expected to be 1-1.5 years behind from our initial expectation set at the beginning of FY16**

(\*) SI gross margin includes equipment sales gross margin

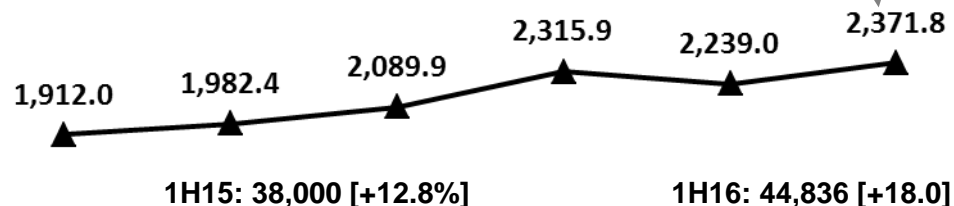
YoY= Compared to the same period in a previous year

# Network Services (1)Revenues



Unit: JPY million

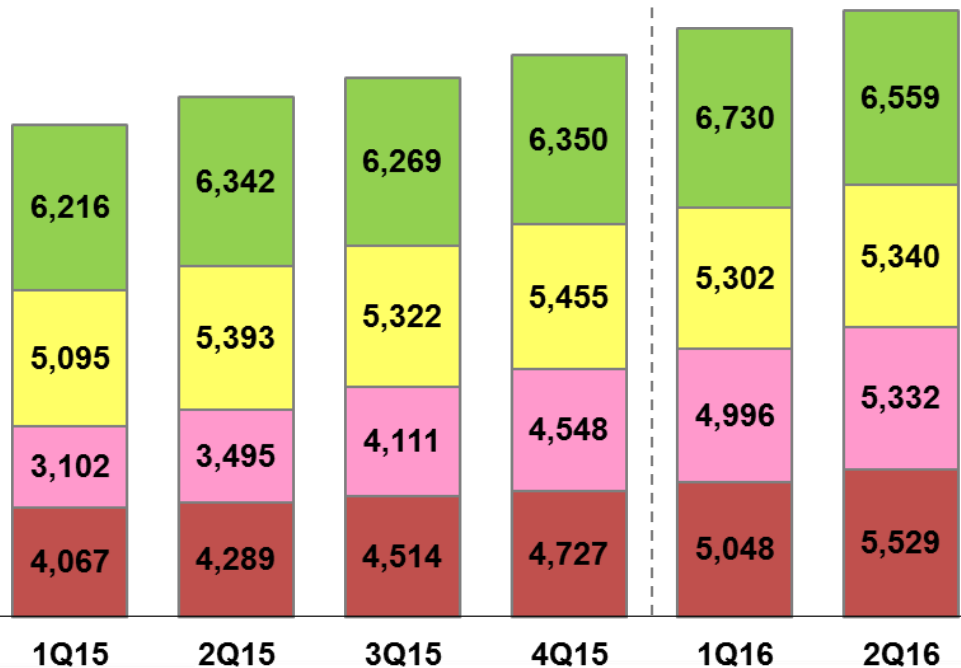
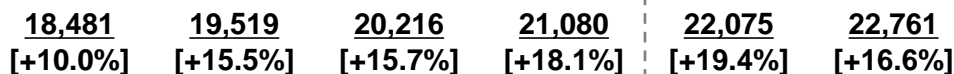
[ ], YoY = compared to the same period in a previous year  
QoQ: 2Q16 compared to 1Q16



1H15: 38,000 [+12.8%]

1H16: 44,836 [+18.0%]

FY15: 79,296 [+14.9%]



## ◆ 1H16 Internet Connectivity (Enterprise)

- JPY10,577 million (up JPY2,220 million, up 26.6% YoY)
- Strong MVNE contributed to continuous growth of mobile services
  - Subscription (unit: thousand):  
2Q16-end: 418 (up 282 YoY, up 85 QoQ)

## ◆ 1H16 Internet Connectivity (Consumer)

- JPY10,328 million (up JPY3,732 million, up 56.6% YoY)
- IJmio mobile services continued to increase
  - Subscription (unit: thousand):  
2Q16-end: 875 (up 270 YoY, up 64 QoQ)

## ◆ 1H16 Outsourcing Services

- JPY10,642 million (up JPY153 million, up 1.5% YoY)
- Public cloud revenues decreased mainly due to reductions and cancellations by gaming customers

## ◆ 1H16 WAN Services

- JPY13,289 million (up JPY731 million, up 5.8% YoY)
- 2Q16 revenue decreased QoQ as a certain large customer's revenue decreased as planned

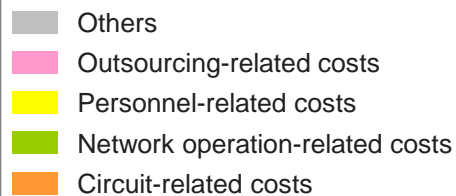
## ◆ 1H16 Mobile services

- JPY12,108 million  
(up JPY5,626 million, up 86.8% YoY)

## ◆ 1H16 Non-mobile services

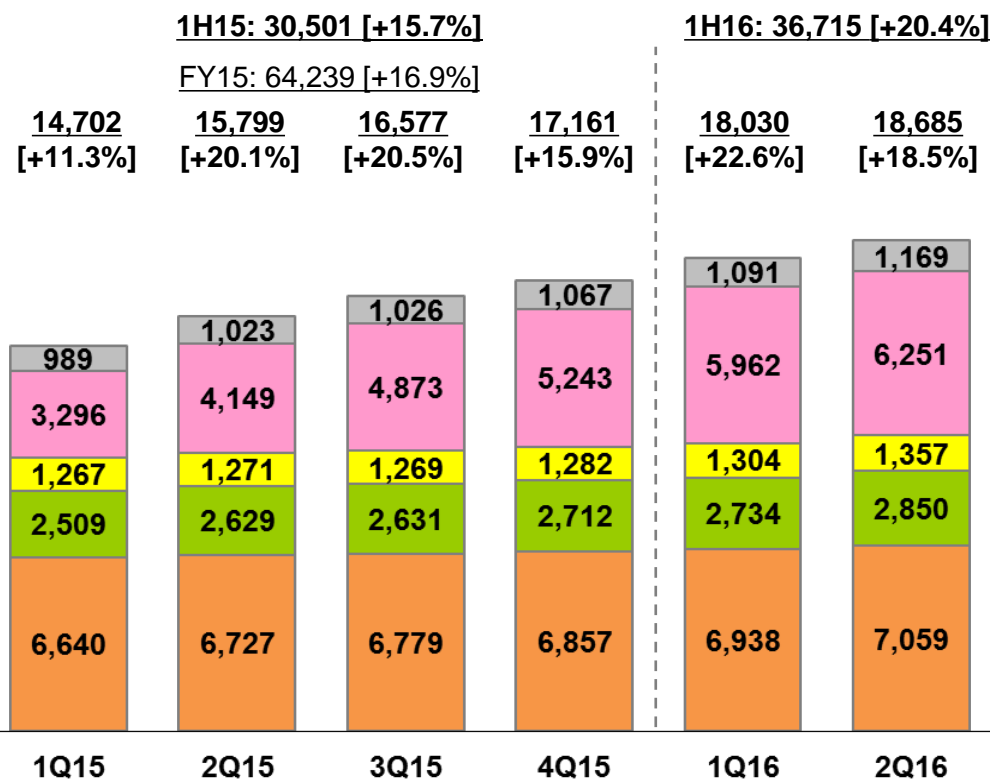
- JPY32,728 million  
(up JPY1,210 million, up 3.8% YoY)

# Network Services (2) Cost of Revenues



Unit: JPY million

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



## ◆ Cost of network services

- 1H16: up JPY6,214 million, up 20.4% YoY
- Along with the increase in mobile subscription and traffic, mobile-related costs (mainly in outsourcing-related costs) increased
- Outsourcing-related, personnel-related and network operation-related costs increased mainly due to enhancing functions related to "IIJ Omnibus Service," security services and CDN services

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

- For FY16 usage, IIJ estimates the charge to decrease by 12.0% YoY and has been applying it from 1Q16.
- 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.
- IIJ'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.
- 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 17% from a year ago. The positive impact of approx. JPY0.1 billion was recognized in 4Q15, as IIJ had estimated it would decrease by 15%.

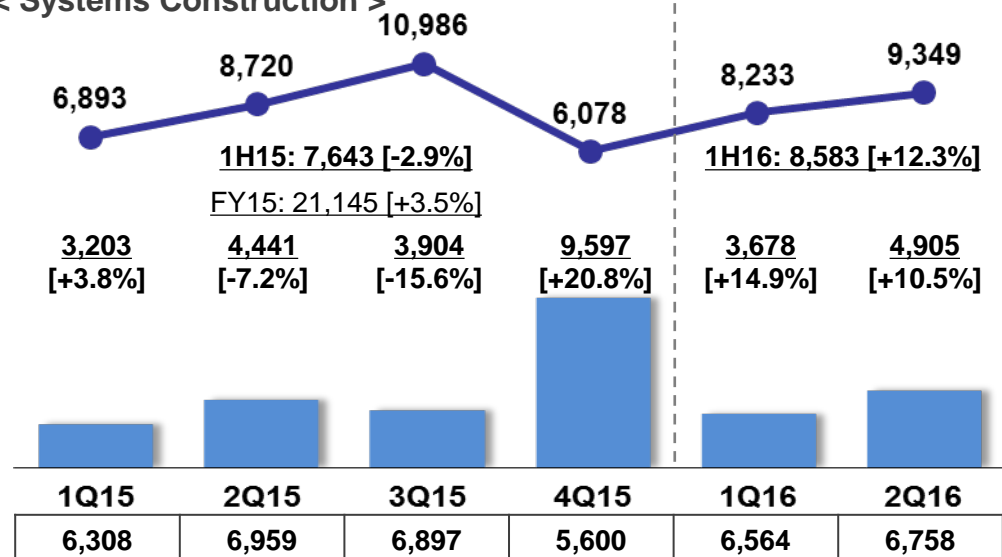


# Systems Integration (SI) (1)Revenues

## < Systems Construction >

Unit: JPY million

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

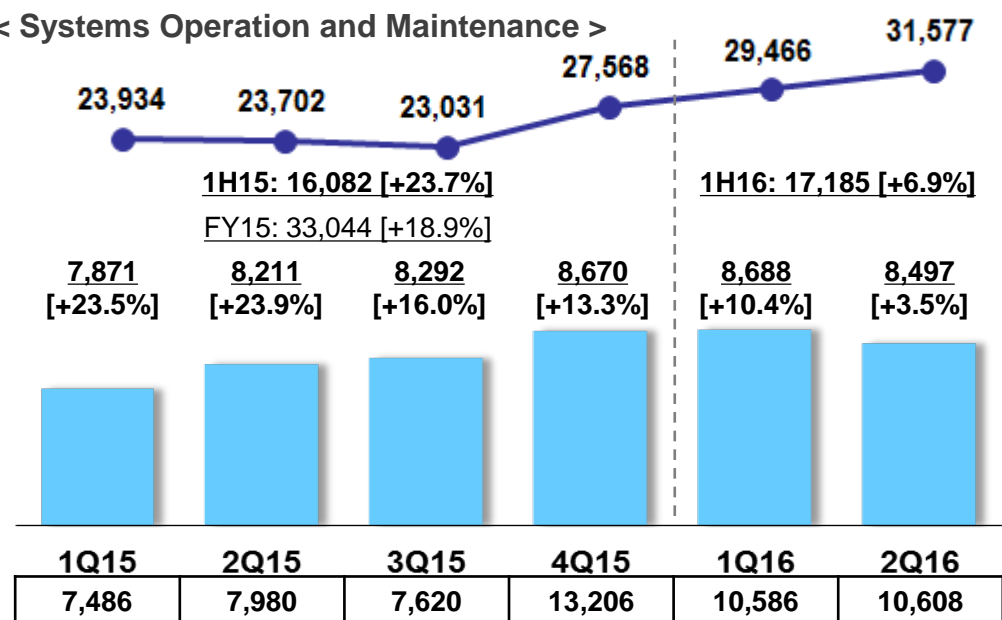


- Systems Construction Revenues
  - Systems Operation and Maintenance Revenues
  - Order backlog
  - Orders received
- \*Systems construction's order backlog and order received include equipment sales

### ◆ Systems construction

- 1H16 revenue: up JPY940 million, up 12.3% YoY
- Container type DC export project received in 3Q15 is to be recognized in 3Q16 (approx. JPY1.3 billion)
- Large-scale construction projects orders received in 2Q16:
  - Support on implementing SOC, including constructing system for detecting would-be attacks
  - Constructing integrated virtual system platform for major financial institutions
  - Campus network systems etc.

## < Systems Operation and Maintenance >



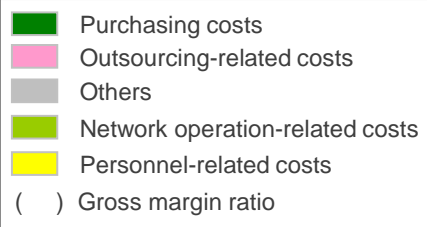
### ◆ Systems operation and maintenance

- 1H16 revenue: up JPY1,103 million, up 6.9% YoY
- Continuous revenue growth of private cloud, slower revenue growth due to cancellation of the large-scale project, delay in offering some functions for our foreign exchange system ASP service
  - From private cloud: up JPY943 million, up 16.3% YoY
  - From SI construction: up JPY160 million, up 1.6% YoY
  - ✓2Q16 revenue decreased QoQ due to large customer's revenue decrease as well as foreign exchange system ASP service
- 88.9% of 2Q16 cloud-related revenue is recognized in systems operation and maintenance revenues (11.1% in outsourcing)

### ◆ Overseas business developments almost as planned

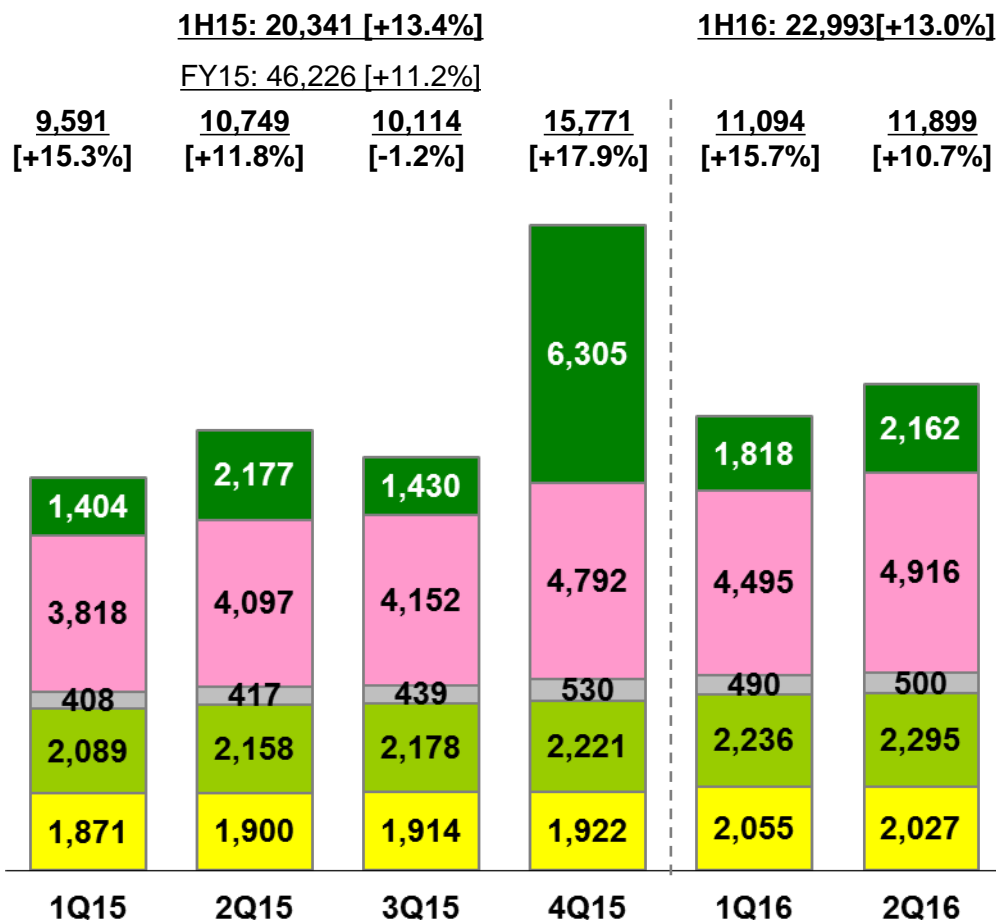
- 1H16 revenue: approx. JPY2.5 billion, operating loss: approx. JPY0.26 billion
- FY16 target revenue: approx. JPY7.0 billion, target operating loss: approx. JPY0.2 billion

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



Unit: JPY million

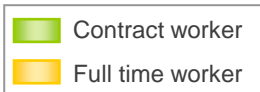
[ ], YoY = compared to the same period in a previous year  
 QoQ: 2Q16 compared to 1Q16



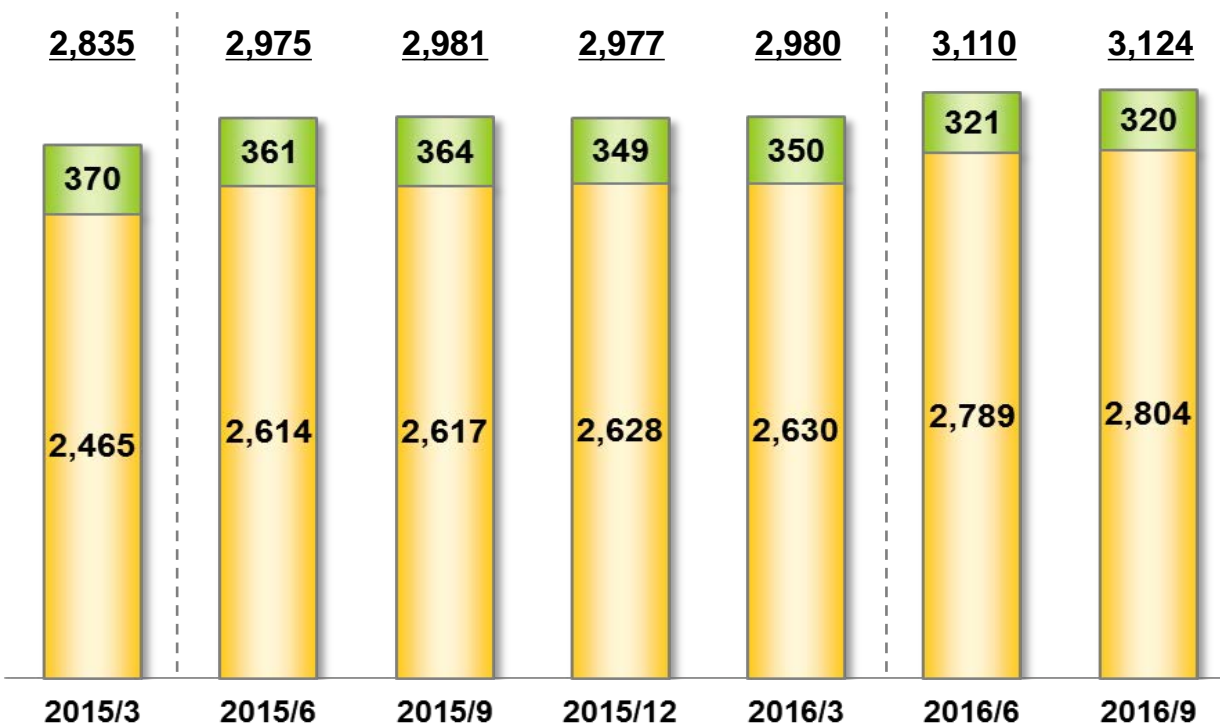
### ◆ Cost of SI

- 1H16: up JPY2,652 million, up 13.0% YoY
  - 2Q16-end number of outsourcing personnel: 1,225 personnel (up 246 YoY, up 73 QoQ)
  - In 1Q16, there was a large-scale construction project with low profitability
  - Low productivity of system engineers was because of 1) the projects already recognized as revenue in FY2015, 2) we assigned SEs to handle several large projects while other projects were postponed, and 3) some projects including cloud-related systems required pre-sales activities involving SE
  - Network operation-related, outsourcing-related and personnel-related costs increased mainly due to developments of GIO P2

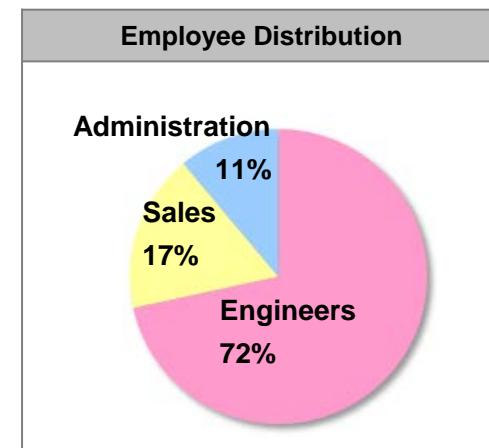
# Number of Employees



Unit: JPY million  
YoY = 1H16 compared to 1H15



4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
5,114 (14.5%)	5,266 (16.7%)	5,297 (15.6%)	5,271 (15.5%)	5,321 (12.9%)	5,464 (15.1%)	5,446 (14.4%)



Personnel related costs & expenses  
(% of revenue)

## ◆ Personnel-related costs and expenses

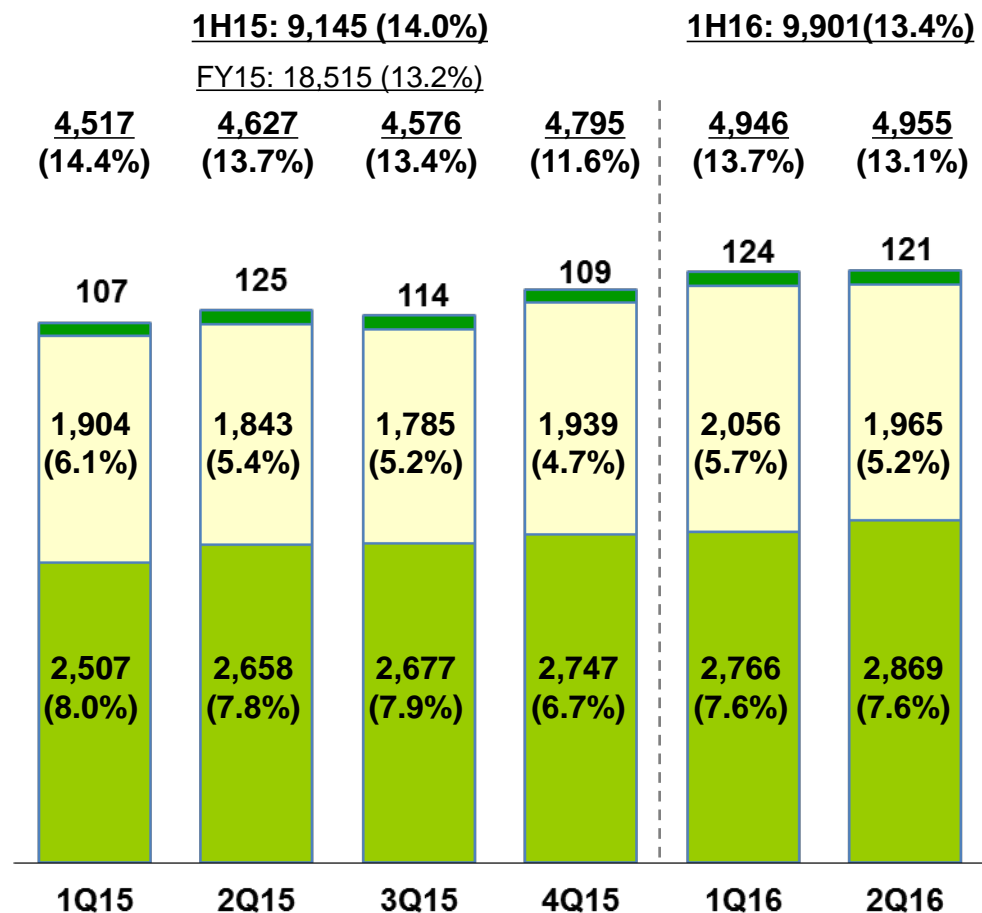
- 1H16: up JPY347 million, up 3.3% YoY
- Hired 137 new graduates in Apr. 2016 (155 in Apr. 2015, 129 in Apr. 2014, 136 in Apr. 2013)

# SG&A Expenses/R&D



Unit: JPY million

YoY = 1H16 compared to 1H15



## ◆ Sales & marketing expenses

- 1H16: up JPY470 million, up 9.1% YoY
  - Sales commission expenses and advertising expenses increased

## ◆ General & administrative expenses

- 1H16: up JPY274 million, up 7.3% YoY
  - Office rent expenses, commission expenses and taxes and public dues increased

## ◆ SG&A related to ATM operation business

Unit: JPY million

1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
44.9	45.1	41.3	46.9	43.5	51.1

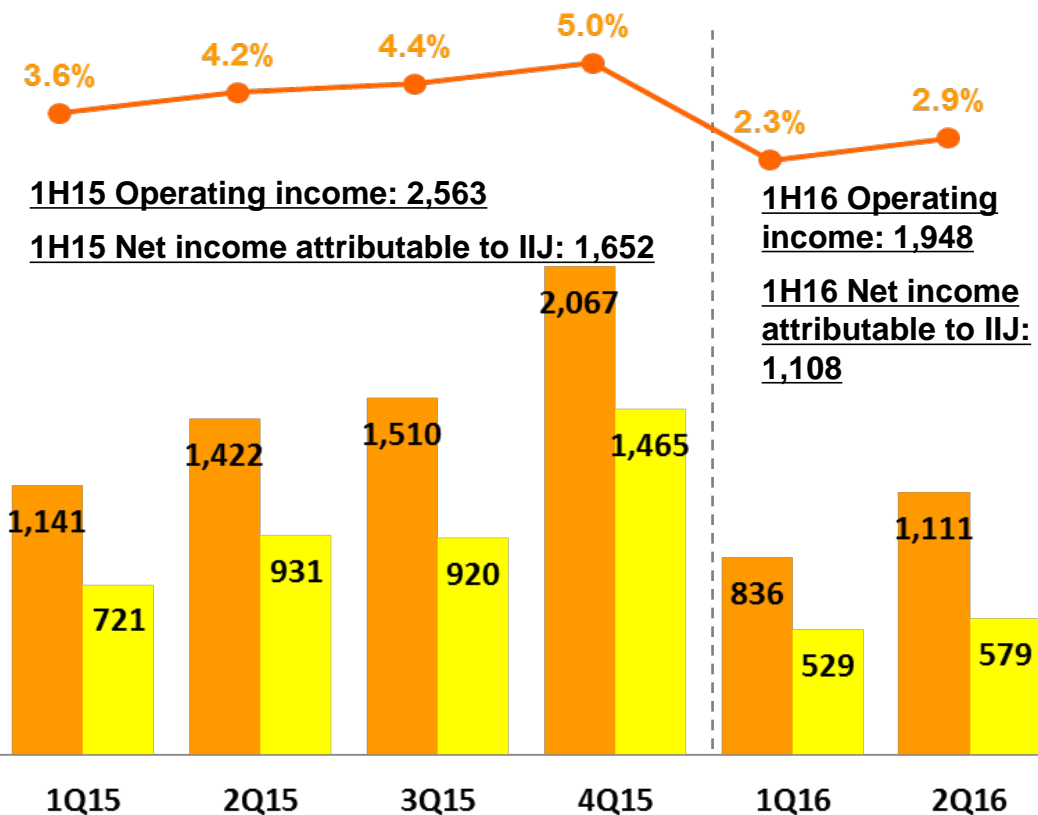
- Placed 1,066 ATMs as of September 30, 2016

# Operating Income and Net Income

■ Operating Income   
 ■ Net Income Attributable to IIJ   
 —●— Operating Margin Ratio

Unit: JPY million

YoY = 1H16 compared to 1H15



## ◆ Income before income tax expense:

- 1H16: JPY2,105 million  
(down JPY542 million, down 20.5% YoY)
  - Net gain on sales of other investments: JPY214 million
  - Distribution from fund investments: JPY120 million
  - Dividend income: JPY91 million
  - Interest expense: JPY142 million
  - Foreign exchange loss: JPY106 million

## ◆ Net income attributable to IIJ:

- 1H16: JPY1,108 million  
(down JPY545 million, down 33.0% YoY)
  - Equity in net income of equity method investees including Internet Multifeed: JPY42 million
  - Net income attributable to noncontrolling interests including Trust Networks: JPY85 million

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	
	450	472	466	546	139	531	Current income tax expense
	111	6	191	(59)	301	(18)	Deferred tax expense (benefit)
	61	76	69	(27)	17	25	Equity in net income (loss) of equity method investees
	(57)	(35)	(23)	(37)	(42)	(43)	Less: Net income attributable to noncontrolling interests

# Consolidated Balance Sheets (Summary)

Unit: JPY million

	Mar. 31, 2016	Sep. 30, 2016	Changes
Cash and Cash Equivalents	19,569	19,668	+99
Accounts Receivable	23,747	23,161	(586)
Inventories and Prepaid Expenses (Current and Noncurrent)	11,761	14,616	+2,855
Investments in Equity Method Investees	2,980	2,938	(41)
Other Investments	5,949	6,772	+824
Property and Equipment	34,324	36,613	+2,288
Goodwill and Other Intangible Assets	9,719	9,529	(190)
Guarantee Deposits	3,085	3,040	(45)
<b>Total Assets</b>	<b>117,835</b>	<b>123,113</b>	<b>+5,278</b>
Accounts Payable	15,404	15,646	+242
Income Taxes Payable	1,078	485	(593)
Borrowings (Short-term and Long-term)	9,250	12,250	+3,000
Capital Lease Obligations (Current and Noncurrent)	11,734	13,182	+1,448
<b>Total Liabilities</b>	<b>52,491</b>	<b>57,031</b>	<b>+4,540</b>
Common Stock	25,509	25,509	-
Additional Paid-in Capital	36,060	36,088	+29
Retained earnings	2,471	3,074	+602
Accumulated Other Comprehensive Income	1,197	1,245	+48
<b>Total IJ Shareholders' Equity</b>	<b>64,845</b>	<b>65,524</b>	<b>+679</b>

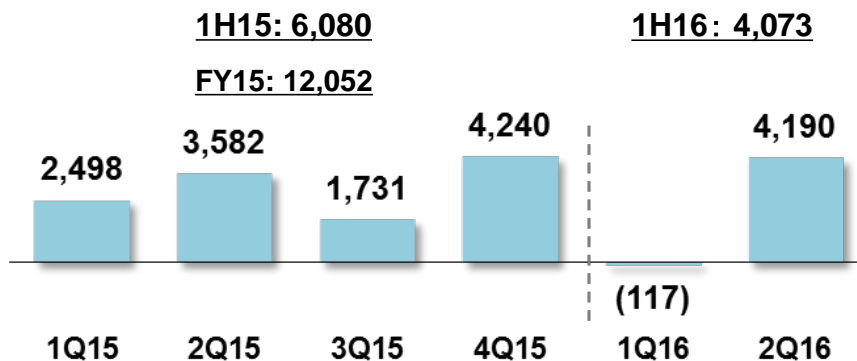
▶ Total IJ Shareholders' Equity to Total Assets: 55.0% as of Mar. 31, 2016, 53.2% as of Sep. 30, 2016

# Consolidated Cash Flows

Unit: JPY million

YoY = 1H16 compared to 1H15

## < Operating Activities >

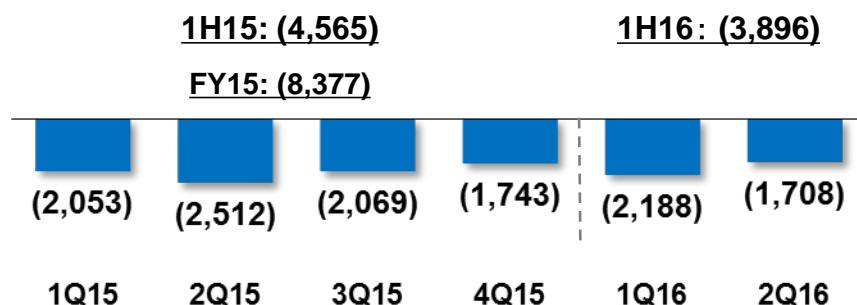


### ◆ 1H16 Operating Activities

	Major Breakdown	YoY Change
Net income	1,193	(551)
Depreciation and amortization	5,284	+483
Fluctuation of operating assets and liabilities	(2,747)	(2,163)

• 1Q16 portion of a certain large customer's payment was executed in 2Q16

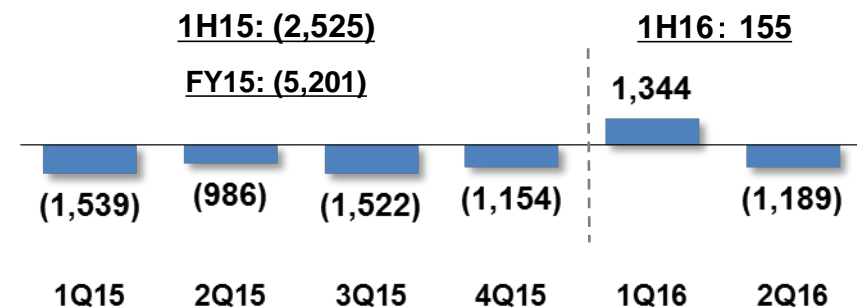
## < Investing Activities >



### ◆ 1H16 Investing Activities

	Major Breakdown	YoY Change
Purchase of property and equipment	(5,358)	(37)
Proceeds from sales of property & equipment (lease-back transaction)	1,209	+720
Proceeds from sale of other investments	305	+2

## < Financing Activities >



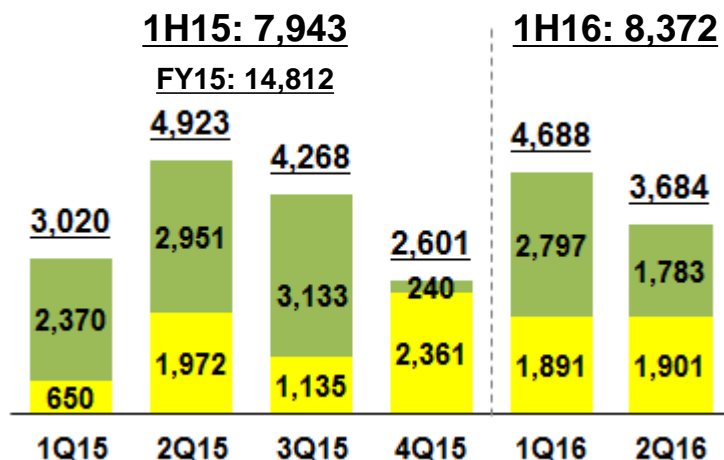
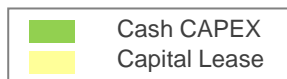
### ◆ 1H16 Financing Activities

	Major Breakdown	YoY Change
Proceeds from long-term borrowings	3,000	+3,000
Principal payments under capital leases	(2,314)	(294)
Dividends paid	(505)	(0)

# Other Financial Data (CAPEX etc.)

## < CAPEX >

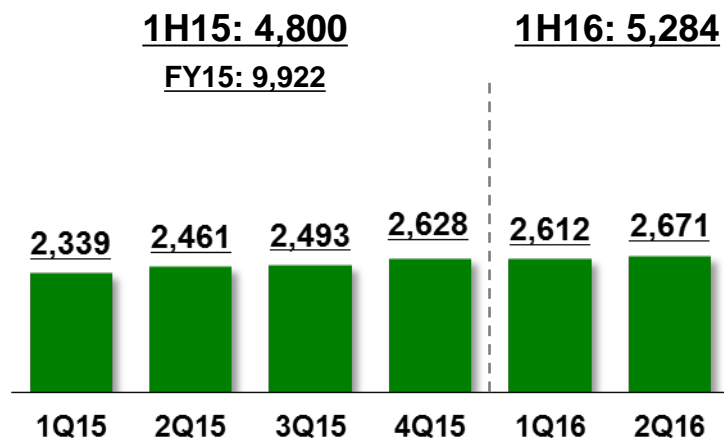
Unit: JPY million



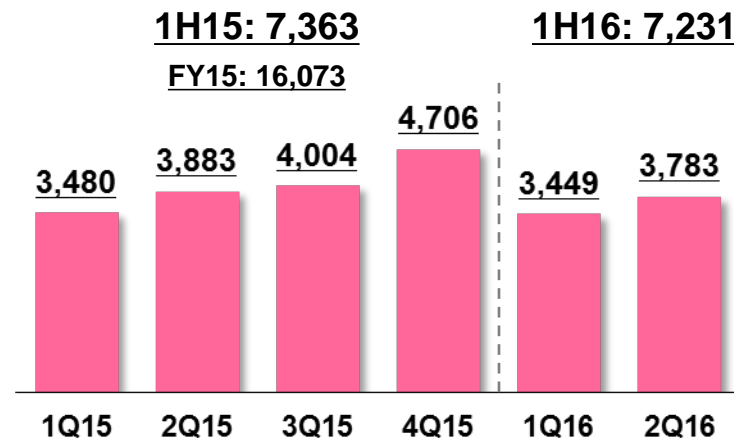
## < Breakdown of CAPEX (unit: JPY billion) >

	1H15	FY15	1H16
<b>Total CAPEX</b>	<b>7.9</b>	<b>14.8</b>	<b>8.4</b>
Network update, back office investment and others	5.2	10.2	6.1
Cloud-related (of GIO P2-related)	2.6 (0.3)	4.4 (2.2)	2.1 (1.3)
ATM operation business	0.1	0.2	0.2

## < Depreciation and Amortization >



## < Adjusted EBITDA >





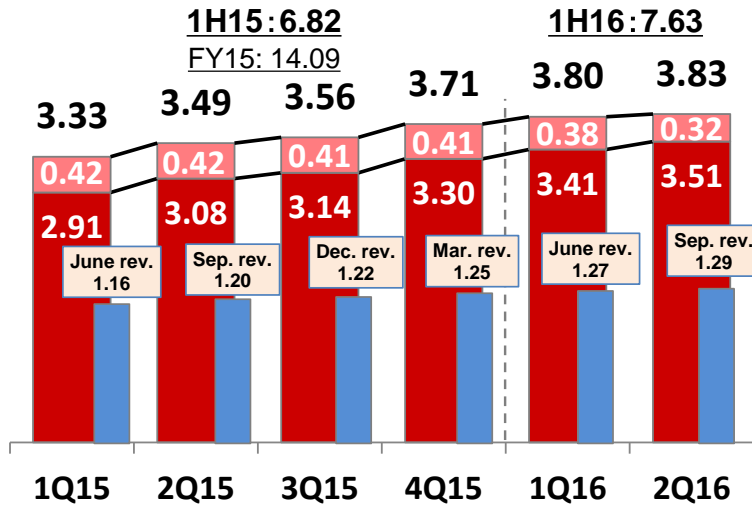
# Cloud Business Developments

## Cloud-related revenue

(Unit: JPY billion)

Large game customers  
Business enterprise customers

2Q16 cloud-related revenue recognition:  
88.9% in systems operation and maintenance  
11.1% in outsourcing



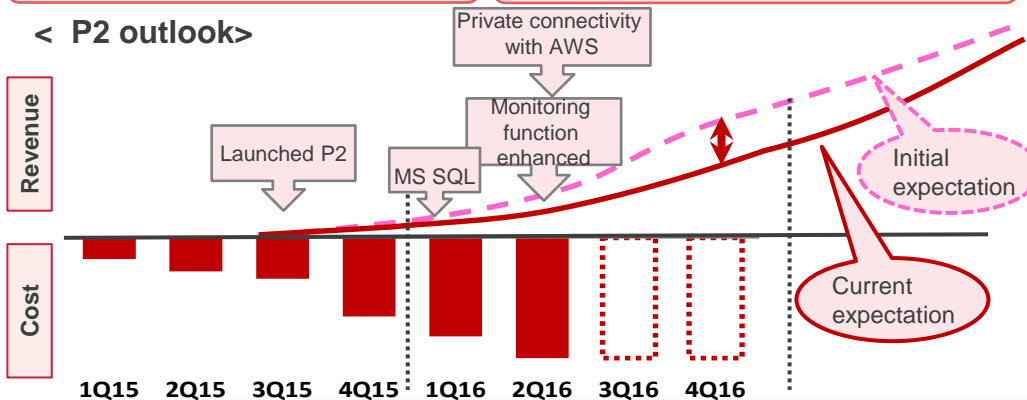
## Business Investments

(Unit: JPY billion)

FY15 Cloud CAPEX 4.4  
(including GIO P2-related CAPEX 2.2)

1H16 GIO P2 revenue up approx. 0.14 YoY  
1H16 GIO P2 cost up approx. 0.54 YoY

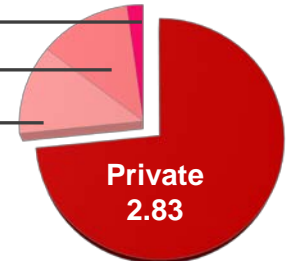
### < P2 outlook >



## 2Q16 revenue

(Unit: JPY billion)

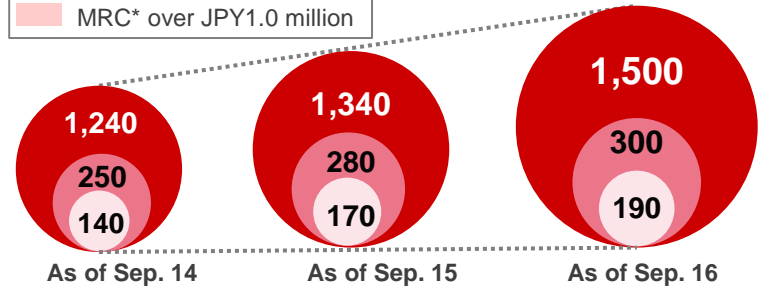
General purpose SaaS 0.09  
(groupware etc.)  
Task-specific SaaS 0.49  
(FX, POS etc.)  
Public 0.42



## Cloud Customer Base

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

\*Monthly Recurring Charge



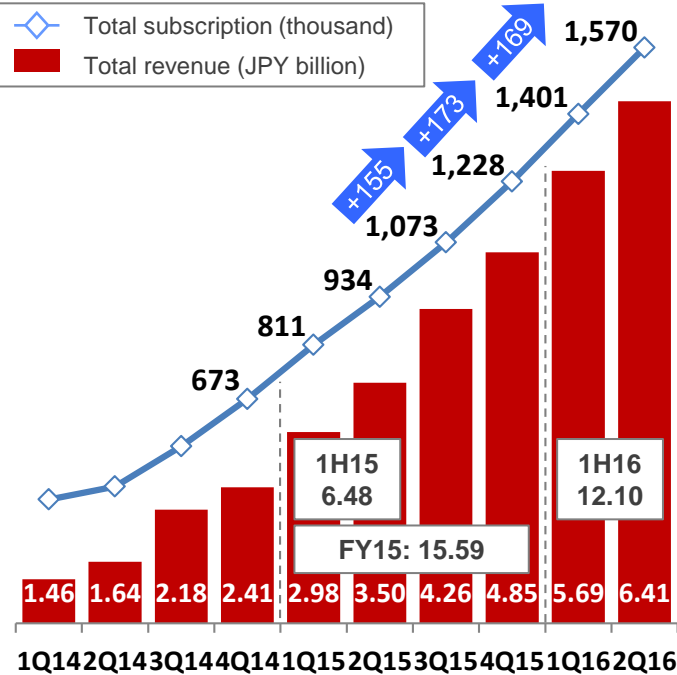
## Business Developments

YoY = 2Q16-end compared to 2Q15-end

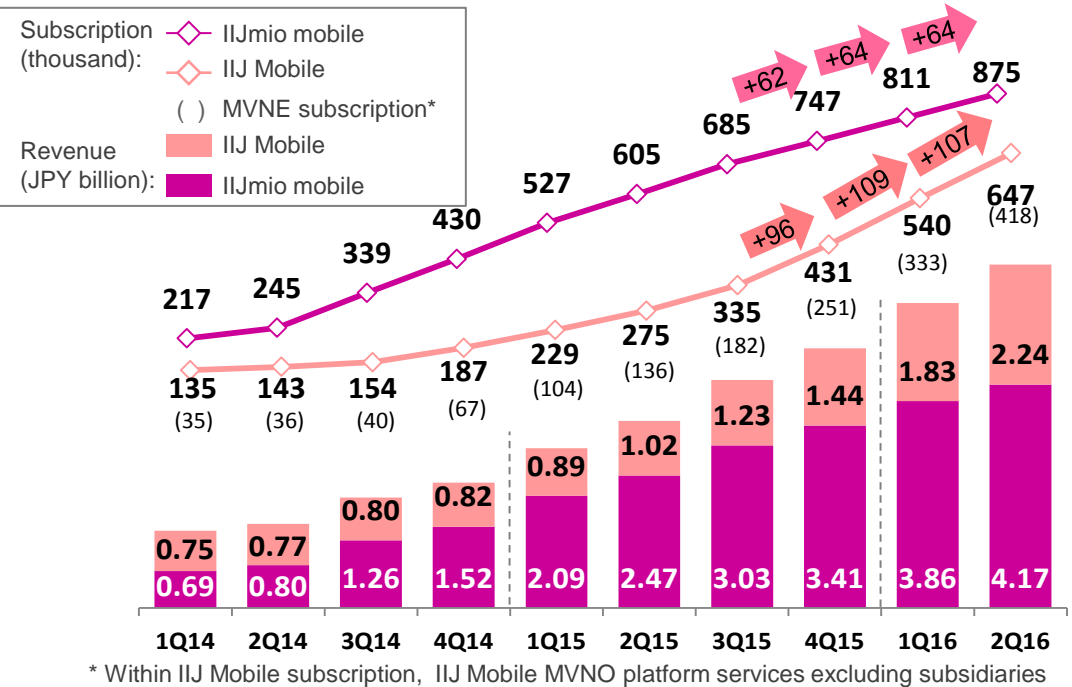
- **GIO P2 accumulating prospective orders**
  - 2Q16-end prospective orders approx. 760 (up 600 YoY)
  - 1/3 of the orders relate to core business operation
  - Projects include full-scale cloud migration of large BtoC site, virtual desktop infrastructure for financial institutions and more
- **Acquired local government Information Security Cloud Projects, Based on GIO platform, network, system, security full-outsourced**
- **Still weak demand from game customers**
  - 2Q16 revenue decreased by 23.1% from 2Q15

# Mobile Business Developments

## Total subscription & revenue



## IJmio mobile (consumer) & IJ Mobile (enterprise)

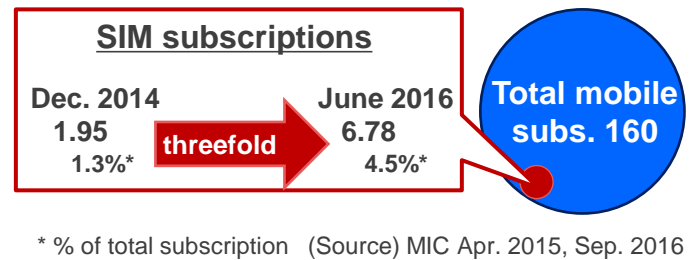


## FY16 Plan

Revenue: JPY25.5 billion, Subscription: 2 million

## Mobile Market Situation

(Unit: million)



## Business Developments

YoY = 1H16 compared to 1H15

- ◆ **Maintaining good customer review** with continuous MVNO infrastructure enhancement, redundant service infrastructure in Tokyo and Osaka, multi-carrier (DOCOMO & au), etc.
- ◆ **Increased Japan Post branches** to approx. 10,000 branches, seeking to obtain diversified mobile traffic in order to improve network utilization
- ◆ **MVNE-related revenue\***: JPY2.57billion (up JPY1.87 billion YoY)
  - 120 MVNE clients as of 1H16-end including prominent retailer, CATV operators
- ◆ **M2M-related revenue: approx. JPY0.32 billion** (up more than 20% YoY)
  - Accumulating prospective orders related to uplink communication projects such as security cameras, also projects related to digital signage etc.
- ◆ **Full-MVNO related services to be launched 2H17**

## ※ 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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