

Internet Initiative Japan Inc. Corporate Overview

IR Roadshow in New York, Boston, and Chicago

April 2017

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
- Implementation of Full-MVNO
- Current Business Situation
- Middle Term Plan
- Revenue and Operating Margin Growth

Financial Summary

Appendix

Financial Results

Internet Technology Initiatives in Japan

About IIJ

Established	December 1992
Number of Employees* (Consolidated)	3,108 (approx. 70% engineers)
Listed Markets	NASDAQ (IIJI), TSE1 (3774)
Large Shareholders**	NTT(21.6%), Dalton(6.3%) Koichi Suzuki(5.6%*), NTT Communications(4.4%) *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 client relationship with no serious systems troubles

◆ At the leading edge of IP R&D

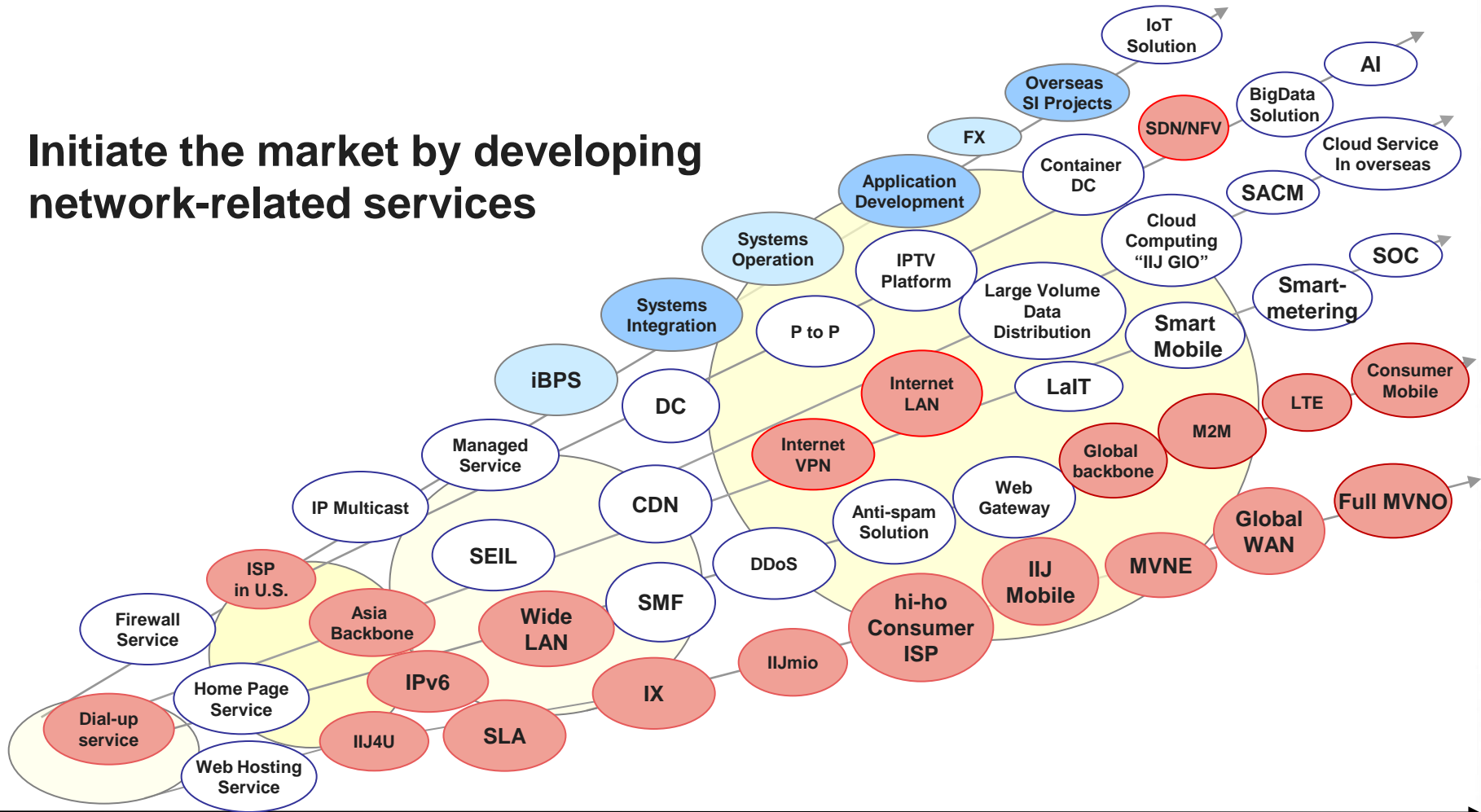
- Differentiate by continuous service developments and business investments
- Enhancing cloud, mobile, security, contents delivery and solutions related to bigdata and IoT
- Participates in world-wide research and organizations ...and many more

* as of Dec. 31, 2016 **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 INNOVATION INSTITUTE	2008  IIJ Global	2010  TRINITY Loyalty Marketing Solutions	2012  Trust Networks	2013  IIJ Europe	2014  ATKUSZETA NETWORK
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IIJ Group

ISP to Total Network Solution Provider

About IIJ

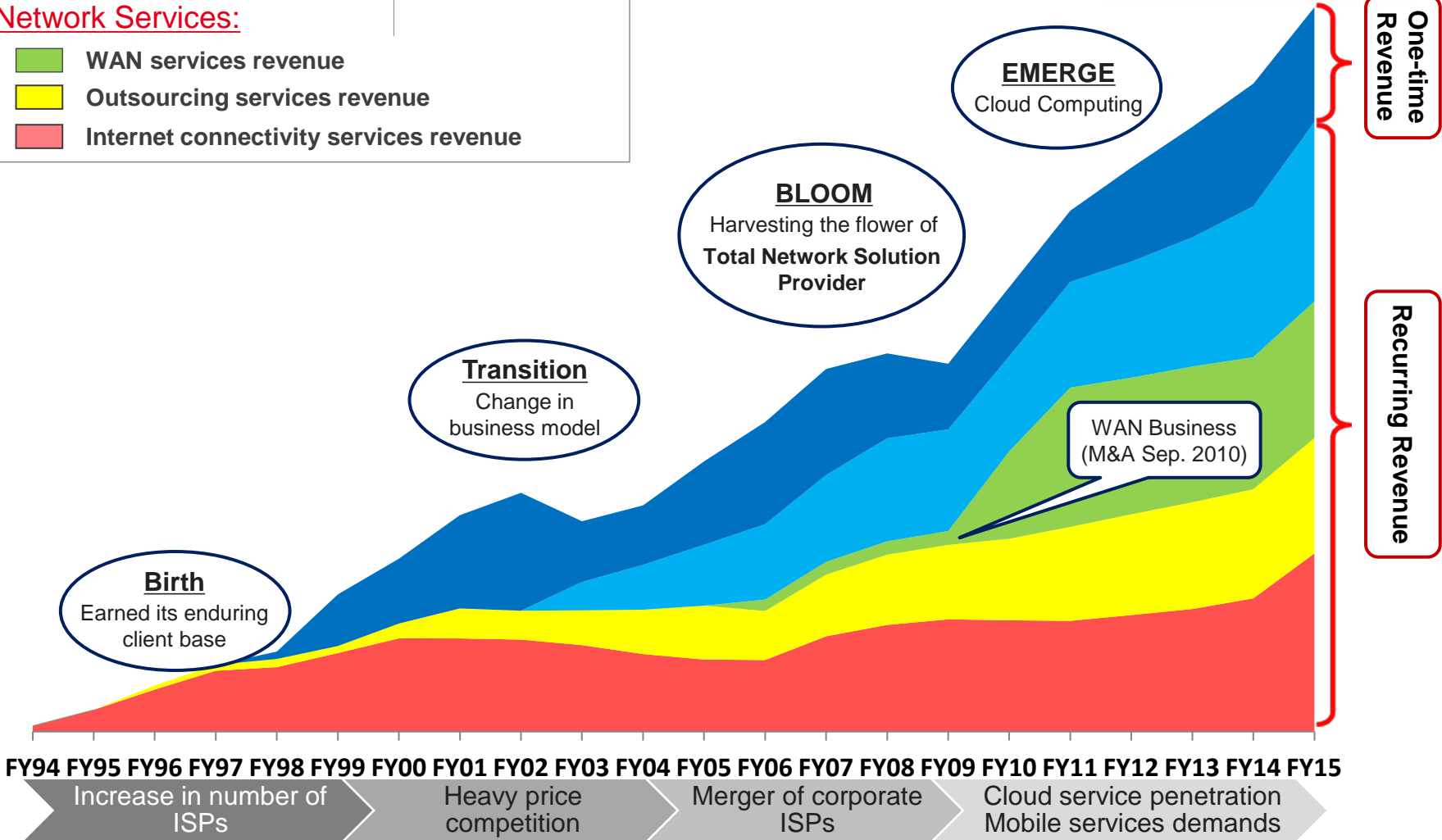
FY16 Revenue Target
JPY158.0 billion
 (+12.3% YoY)

Systems Integration:

- Systems construction revenue
- Systems operation and maintenance revenue

Network Services:

- WAN services revenue
- Outsourcing services revenue
- Internet connectivity services revenue

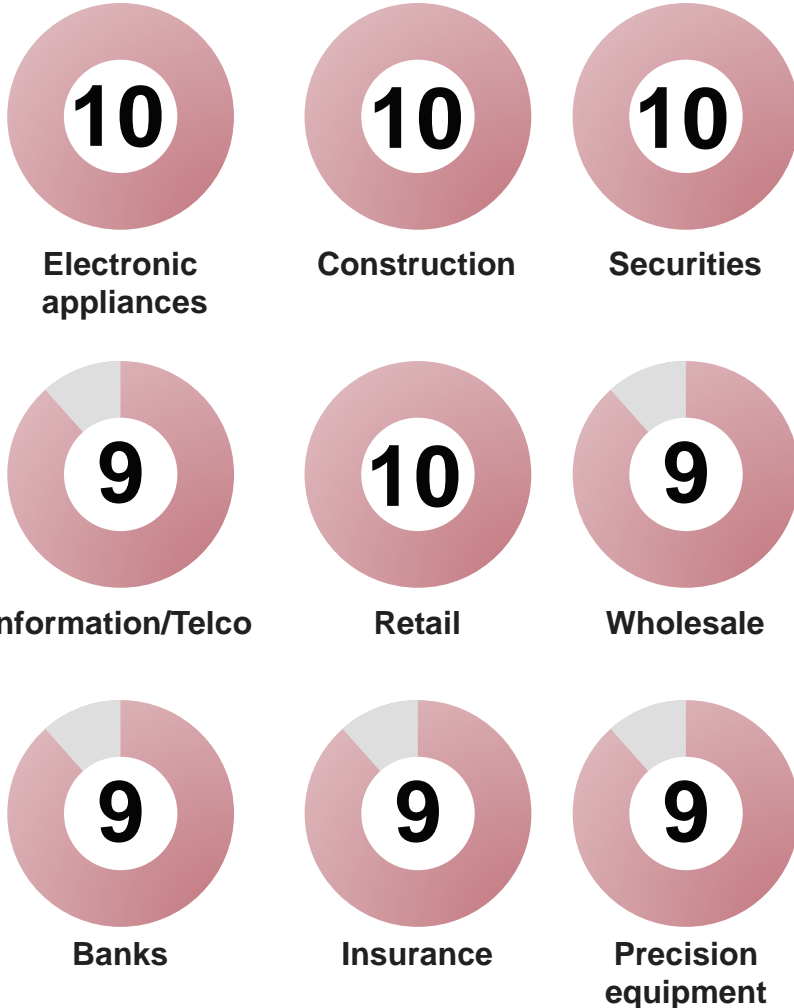


Over 8,500 Excellent Enterprise Customers in Japan

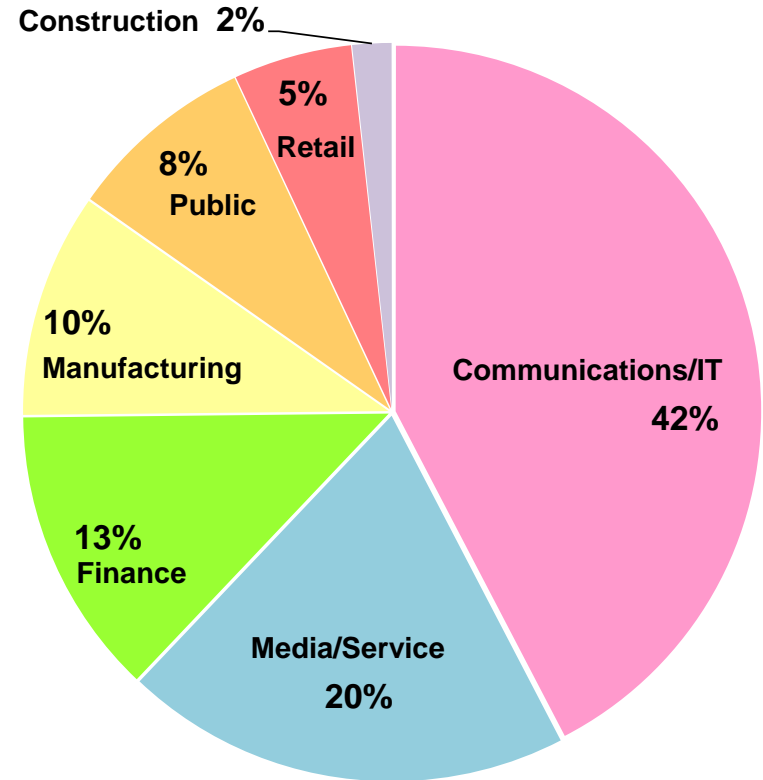
Competitive Advantages

Cover Most of Top 10 Revenue Companies

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



Revenue Distribution by Industry



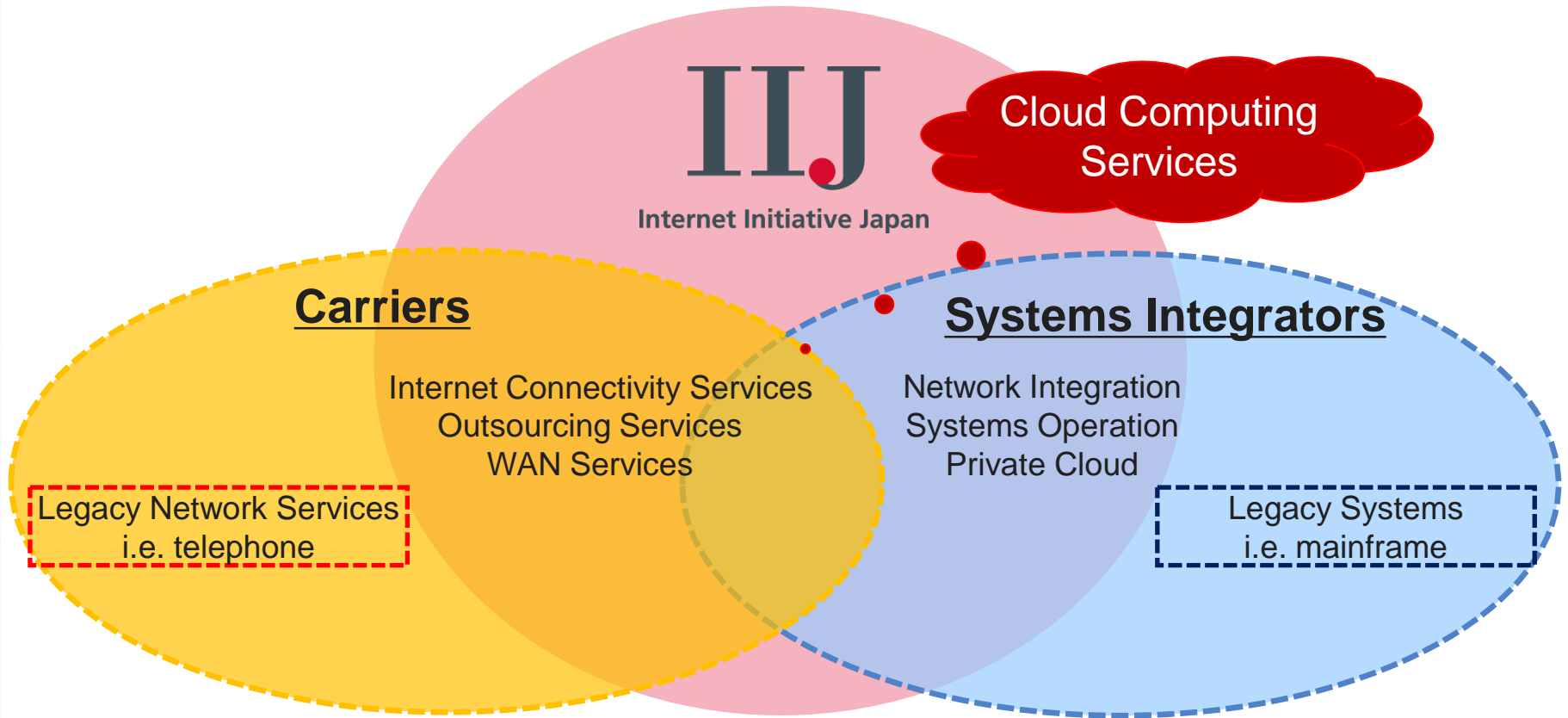
Source: IIJ's FY2015 financial results

Comprehensive Line-ups of IT services

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

Target Blue-chip's IT Shift

~ Cover Corporates' New IT Services Demands with reliable operation ~



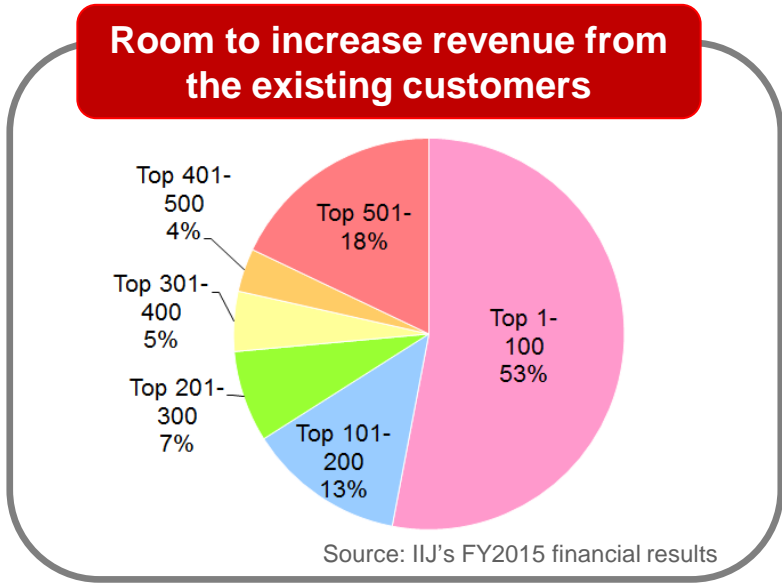
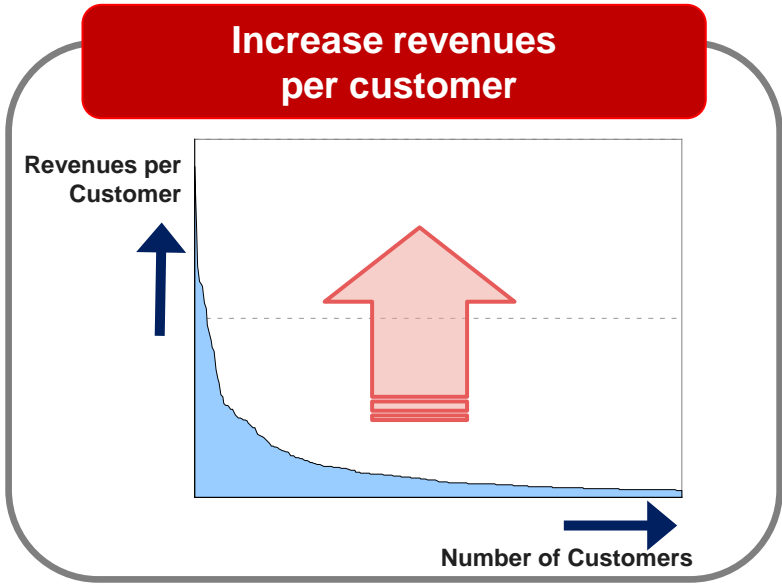
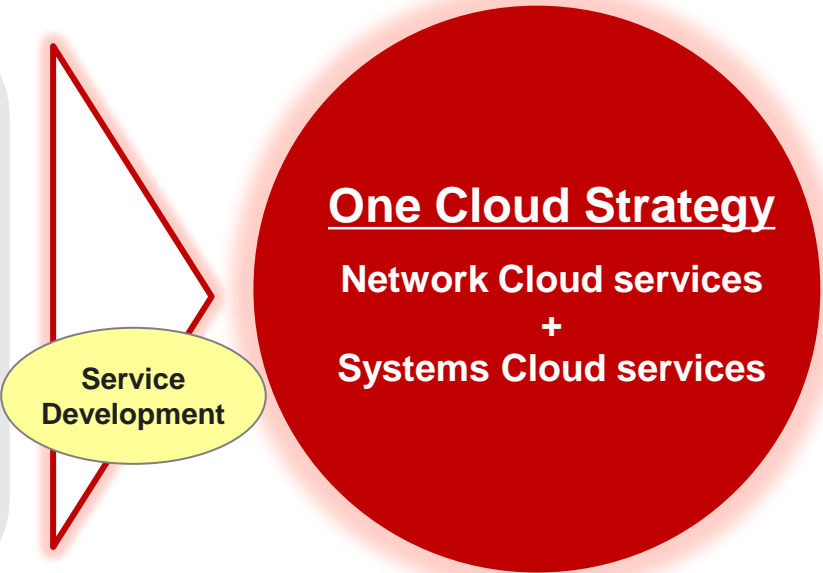
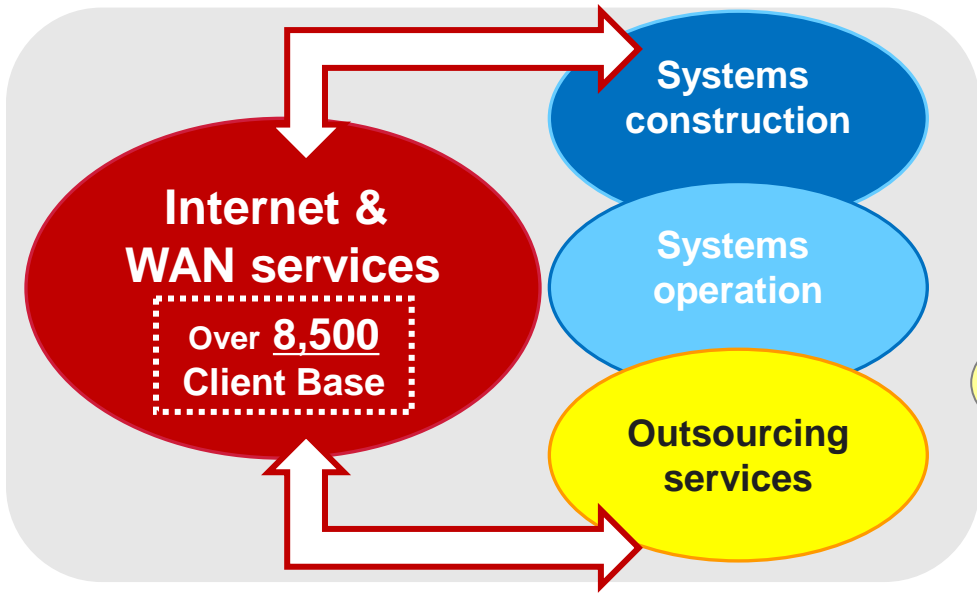
IIJ's differentiation points towards competitors

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

- Operates network facilities by ourselves
- Develops network services
- Moderate number of employees

Leveraging Blue-chip Customer Base

Growth Strategy



Leveraging Blue-chip Customer Base

Growth Strategy

~ Cross-selling multiple service products ~

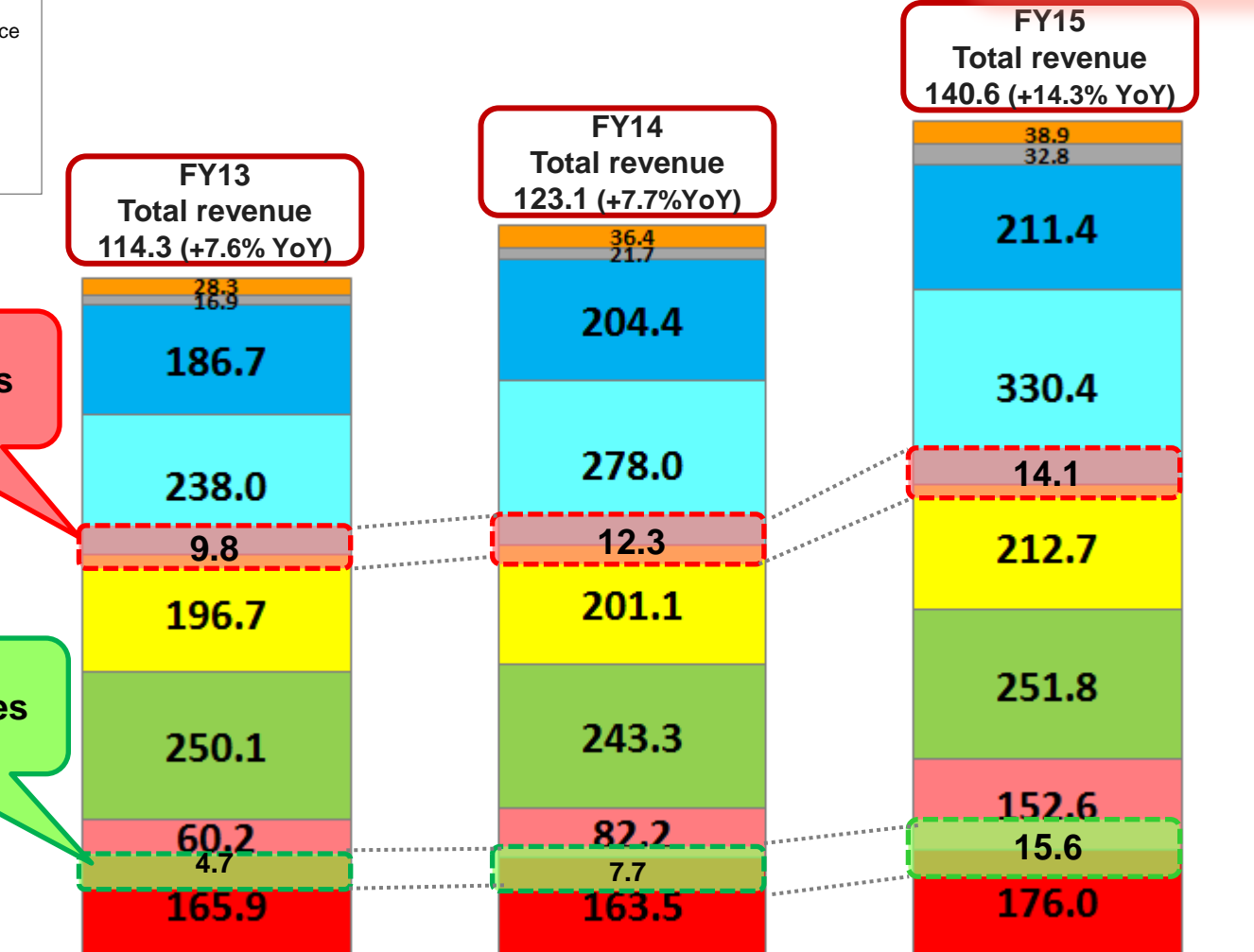
Unit: JPY billion

FY16 Revenue Target
JPY158.0 billion
 (+12.3% YoY)

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

Cloud services

Mobile services



Cloud Business Developments

Cloud Market in Japan

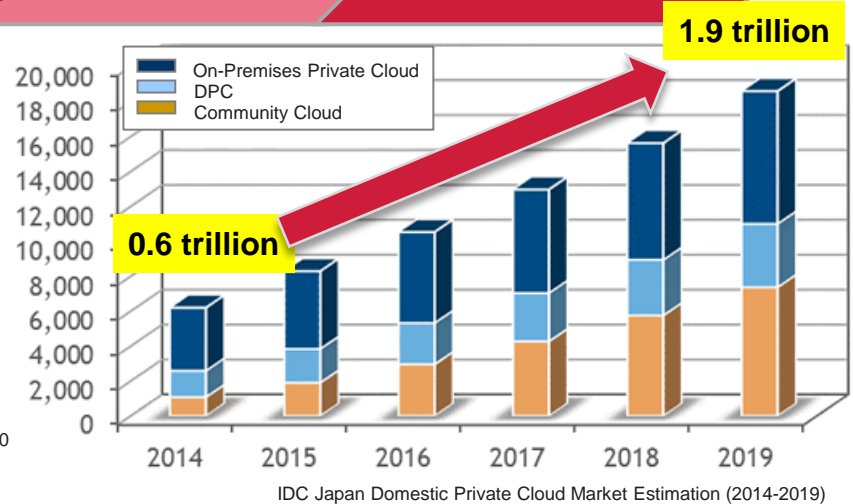
~ Cloud Usage ~



Enterprises' cloud penetration : 44.5%*

- 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) is required when migrating to cloud
- Great business opportunity with IoT and BigData

*WHITE PAPER "Information and Communications in Japan (as of Dec. 2015)" published by MIC in July 20



IIJ's Cloud Services

- One of the first cloud service providers in Japan (launched services in FY10)
- Offer private/public infrastructure (virtual servers, storage, etc.)
- Target large business enterprises' internal IT systems, traditionally covered by SIers
 - Current IIJ's SI is mostly Internet-related systems
- Approx. 600 partners (Microsoft, VMware, SAP, IBM, etc.)
- Promote cloud shift of blue-chips by continuously enhancing service line-ups including GIO P2
- Engage in solution development (BigData, M2M, etc.)

Cloud Business Developments

Growth Strategy

IIJ's Cloud

- ◆ Target large enterprises
- ◆ Experience and reputation
- ◆ Reliable operation
- ◆ Deep relationships with blue-chip customers
- ◆ One of the largest cloud providers
- ◆ Own-service developments

Competitors

AWS/Azure etc.

- ◆ Strong scale merit
- ◆ Not so strong about meeting individual system needs
 - Service specs
 - SI expertise
 - Customer support

Slers

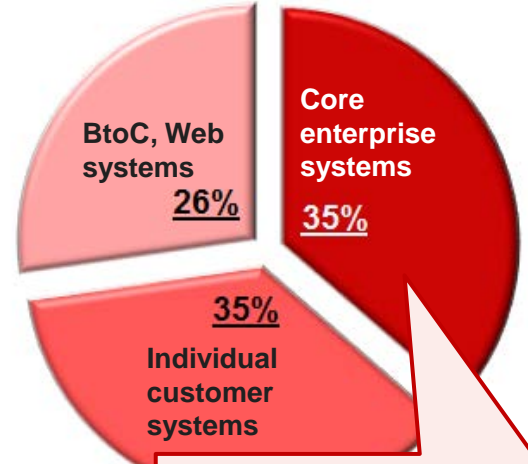
- ◆ Tailored toward individual private cloud, in principal
- ◆ Target current clients, in principal

GIO P2 ~ new service infra.~

- ◆ Hybrid (private & public)
- ◆ Multi-cloud
- ◆ User-oriented VMware usage
- ◆ Various options for CPUs/OSs/storage/network usage etc.



GIO P2 Systems Usage



Among monthly revenue charge over JPY1 million P2 prospective projects, 35% are core enterprise systems-related

IIJ's Cloud Competitive Advantages

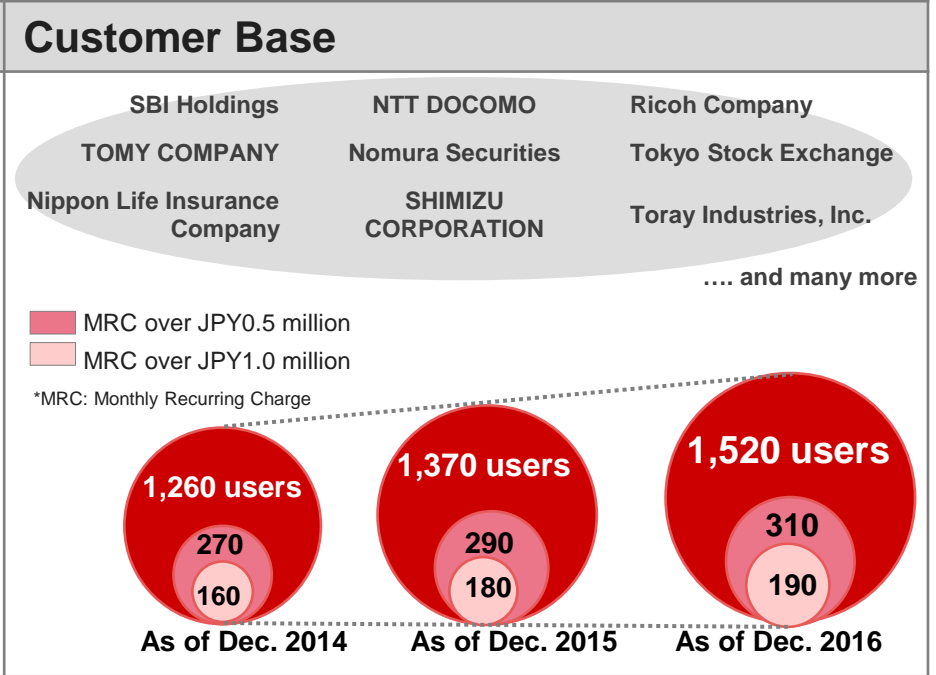
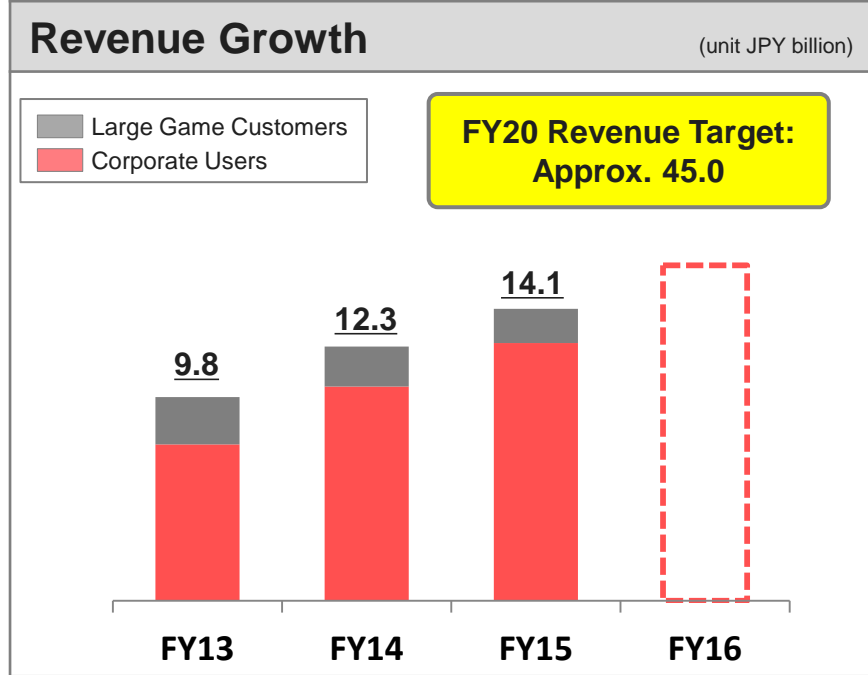
- ◆ Combination with network, security services and SI
- ◆ Reliability and value-added service features for Japanese systems
- ◆ Differentiate by face-to-face consultation, service line-ups, and operation-customer support
- ◆ Monitors IIJ GIO, other vendors' cloud service and on-premise systems
- ◆ Leverage network service clients to cover large enterprises' internal systems' cloud shift
- ◆ Integrate Full-MVNO, security, SI into IoT/Big Data transactions

Ongoing Service Enhancement

- Launched GIO P2 to provide public and private cloud resources seamlessly as most cloud systems require both
- Enhanced operation and maintenance service functions to oversee customers' systems from on-premise, other vendors' cloud and IIJ's, added some automation functions recently to provide genuine total support

and many more

Cloud Business Developments

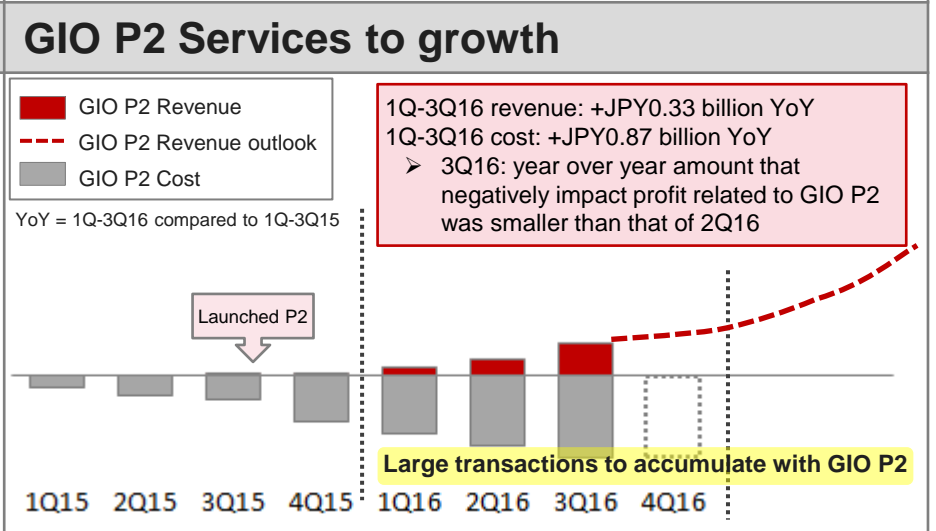


Business Model

- 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), profit burden currently



Cloud Business Developments

~ Flagship GIO P2 transactions ~

Core Business System

Nippon Express, one of the largest global logistics companies, chose IJ's cloud service for its fully-outsourced internal systems (3,500 servers and 2PT storage)

JPY9 million
(from 4Q16)

Financial Service

Major financial information service provider chose IJ's cloud service for its main and prominent service platform

JPY15 million
(from 4Q17)

Public Sector

Kanagawa, one of the largest prefectures, and other local governments chose IJ's cloud services for "Local Government Information Security Cloud" systems

JPY60 million
(from 1Q17)

Group Unified Platform

One of the largest global manufacturing companies chose IJ's cloud service for its group companies' unified operation systems

JPY3 million
(FY17)

Online service

One of the largest online ticketing companies chose IJ's cloud service for its main and prominent service platform

JPY14 million
(from 2H17)

Core Business System

One of the largest travel agencies chose IJ's cloud services for its core business operation systems

JPY12 million
(from 1Q17)

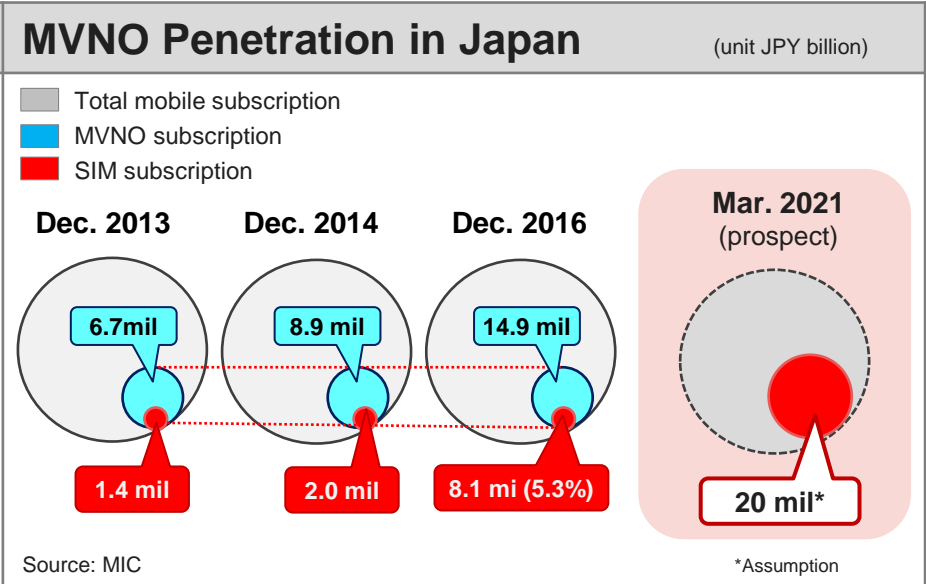
Mobile Business Developments

Growth Strategy

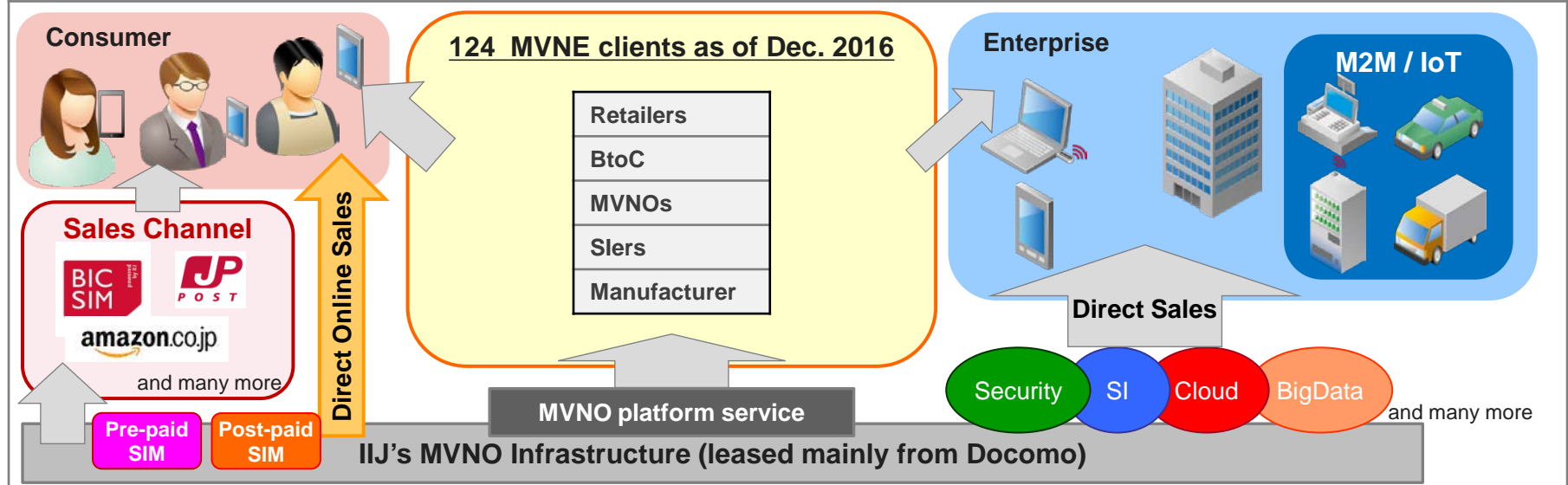
MVNO Market in Japan (YoY= year over year)

- **160 million** mobile subscription in total, 3 MNOs dominate
- MVNO in early stage, Consumer services began 2012
- MVNO penetration*
 - Germany 40%
 - Denmark 25%
 - France 25%
 - Japan 8%
- Government promotes MVNO strongly
 - SIM lock free, more variety of pricing, 2 years contract in dispute, opening of HLR/HSS, separation of headsets and communication services
- MVNO infra. cost by Docomo decreased each year
 - By 16.9% (FY15), 23.5% (FY14), 56.6% (FY13), 41.2% (FY12) YoY

MNOs	¥6-7,000 per month full package service	MVNOs	¥1,600 per month upper limit of 3GB
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IIJ's MVNO Business Model



Mobile Business Developments

Growth Strategy

IIJmio (consumer)

- ◆ JPY1,600 per month with 3GB & basic fee for voice
- ◆ High customer satisfaction with service qualities (speed, support etc.)
- ◆ Strong sales channel:
 - ✓ Bic Camera, Japan Post etc

MVNOs

OCN, Rakuten, Mineo etc.

- Almost same service spec with IIJmio
- Difficulties with profitability

MVNE (consumer)

- ◆ Many prominent partners:
 - ✓ Aeon, U-NEXT, DMM, cable TV operators, and many more (124 clients as of 3Q16-end)
- ◆ Add business consultation and SI for MVNOs
- ◆ Not many competitors as MVNE (just OCN)
 - ✓ Differentiate with full-MVNO service (4Q17~)

MNO's sub-brands

Y!mobile, UQ mobile

- JPY2,980 per month with 1GB & voice + campaign
- Strong advertisement
- Still price gap with MVNO's service

Corporate Transactions

- ◆ Leverage blue-chip clients base
- ◆ M2M/IoT solutions with SI
- ◆ Becoming the first full-MVNO in Japan

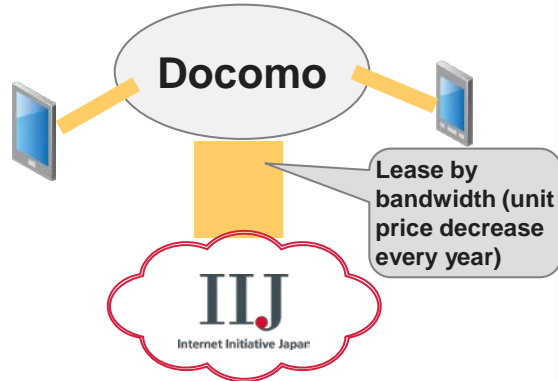
MNOs

- Strong service and infrastructure provider
- No SI expertise

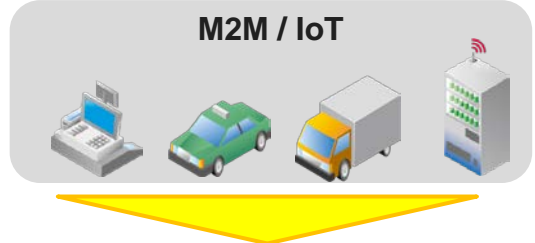
IIJ's Competitiveness

- ◆ Maintain infra. quality and profitability with consumer and corporate revenues
 - ✓ Expect better network utilization
- ◆ Gather various consumer traffic (young, old, student, households, business persons etc.) with MVNE strategy
 - ✓ Increase infrastructure; room to absorb corporate traffic; margin to improve
- ◆ Leverage cloud, security, SI elements for enterprise usage (ie. IoT transaction)

IIJ's Profit Model



- ◆ Consumer usage to explode
 - Currently only 5% penetration
 - ✓ mostly business persons, creating traffic peak time at lunch and commute hours
- ◆ Corporate usage to continuously increase



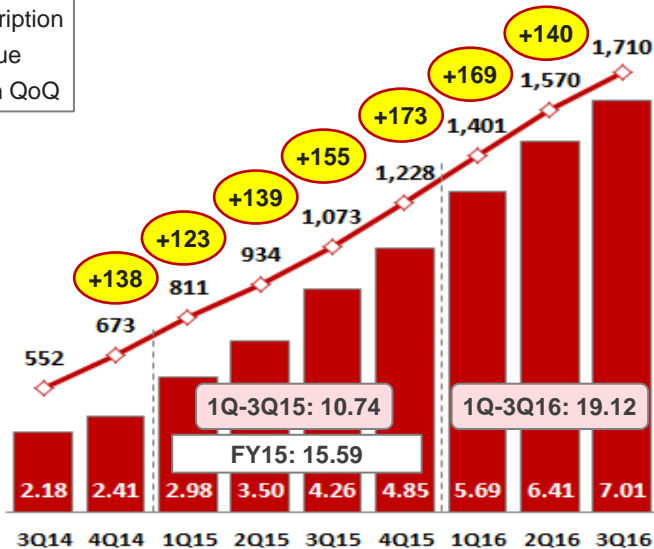
- ◆ IIJ MVNO gross margin: approx. 16% (3Q16 3month) *internal accounting
 - to improve with accumulation of corporate traffic

Mobile Business Developments

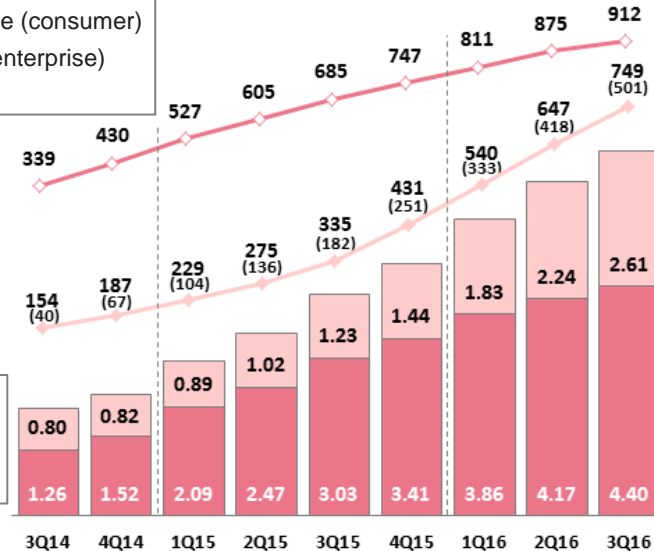
Growth Strategy

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

- ◇ Total subscription
- Total revenue
- Net addition QoQ



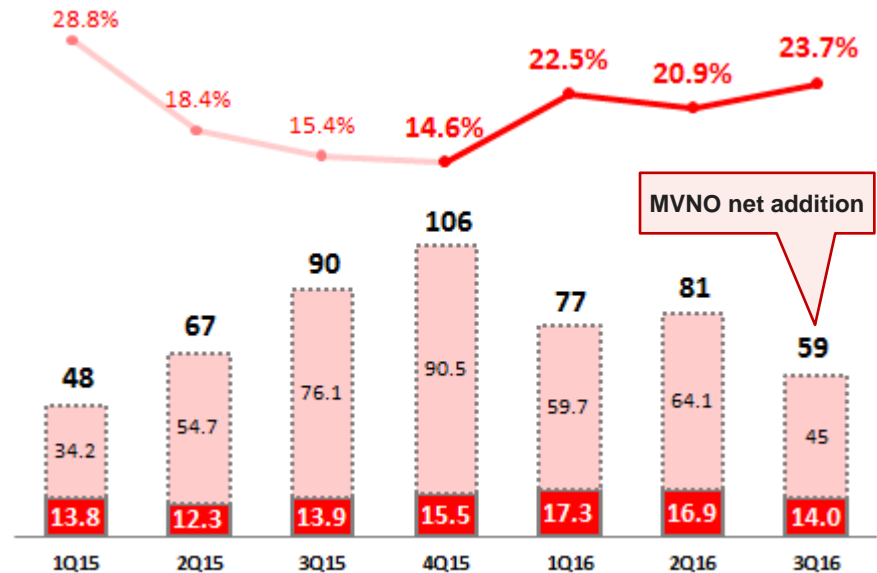
- Subscription:
- ◇ IJmio Mobile (consumer)
 - ◇ IJ Mobile (enterprise)
 - () MVNE



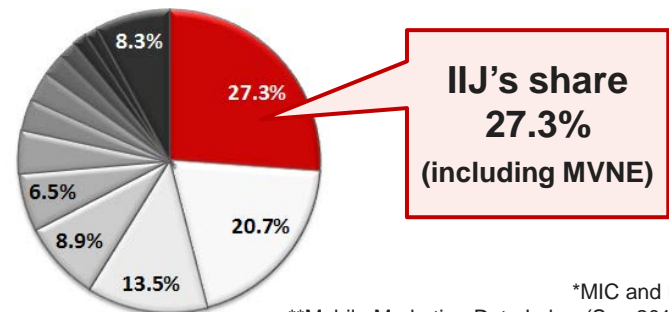
- Revenue:
- IJ Mobile
 - IJmio Mobile

MVNO net addition share* (unit: ten thousand)

- Non-IIJ net addition
- IIJ net addition/MVNO net addition
- IIJ net addition



Consumer Market Share**



*MIC and IJ
**Mobile Marketing Data Lab. (Sep.2016)

Implementation of Full-MVNO

Growth
Strategy

< Service launch >
4Q17

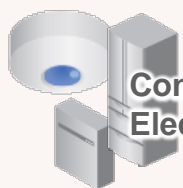
- Construct HLR/HSS systems
- Issue own data communications SIM cards
- To become the first full-MVNO in Japan

- ◆ 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)

Current Business Situation

Growth
Strategy

FY16 Business Status

◆ Enhanced business development & investment

- IIJ GIO P2 (new cloud service platform)
- IIJ Omnibus (new network service)
- Security, IoT, CDN etc
- ➔ Fixed-type cost increased

◆ Achieved strong revenue growth

- 1Q-3Q16 +14.3% YoY
(3Q +16.0%, 2Q +12.0%, 1Q +15.0%)

◆ Revised down FY16 income target (Nov.)

- Fixed cost increased with GIO P2 launch and other business enhancement
- Slower than expected cloud revenue growth due to conservative Japanese enterprise
- SI profitability deteriorated:
 - SE's low productivity and some unprofitable transactions
 - Delay in offering some functions of our foreign exchange system ASP service

◆ Executed share buyback (Nov. – Jan.)

- 892,200 shares (1.9% of the total number of shares outstanding), JPY15 billion
- Kept the original dividend target

Business Trend Going Forward

◆ Expect revenue growth to keep accelerating with:

- Mobile penetration
- GIO P2 revenue accumulation
- Large-scale transactions such as “Local Government Information Security Cloud”

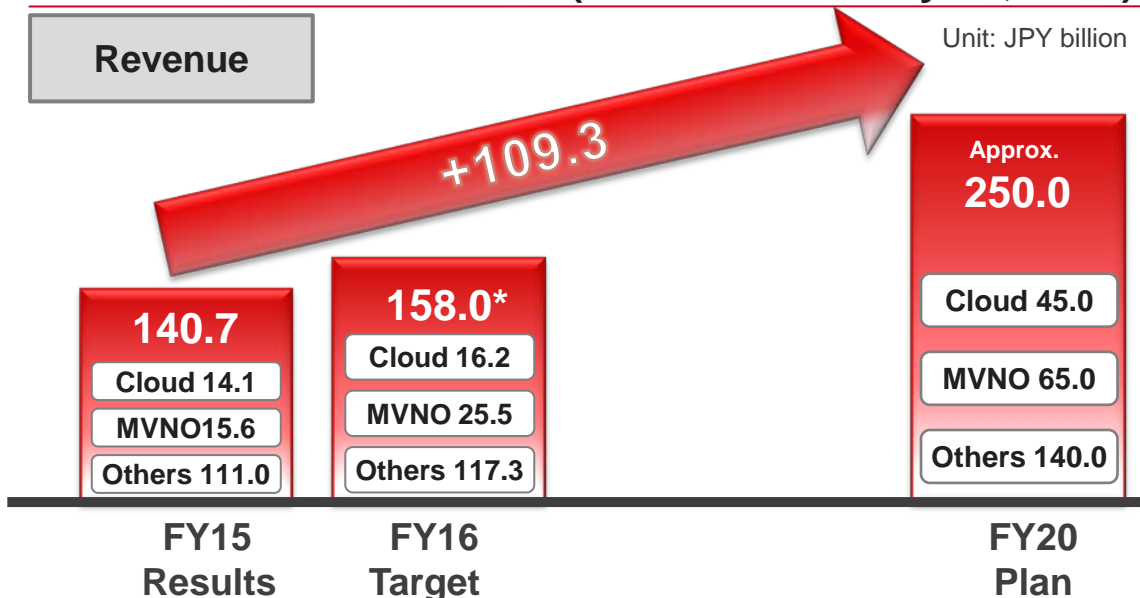
◆ Carry out business development

- To launch Full-MVNO services (4Q17)
- Keep enhancing GIO P2, security, IoT and many other services

◆ Expect income growth to return

- GIO P2 revenue growth
- ➔ Income improvement
- SI deterioration
- ➔ Mostly one-time impact

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.

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

* Revised down in Nov. 2016

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)

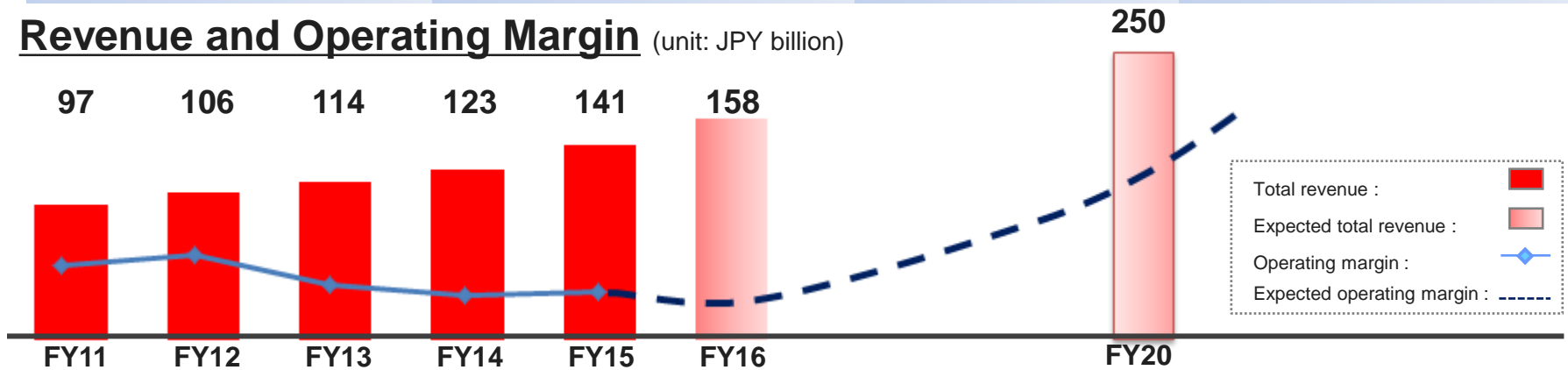
Scale Merit

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

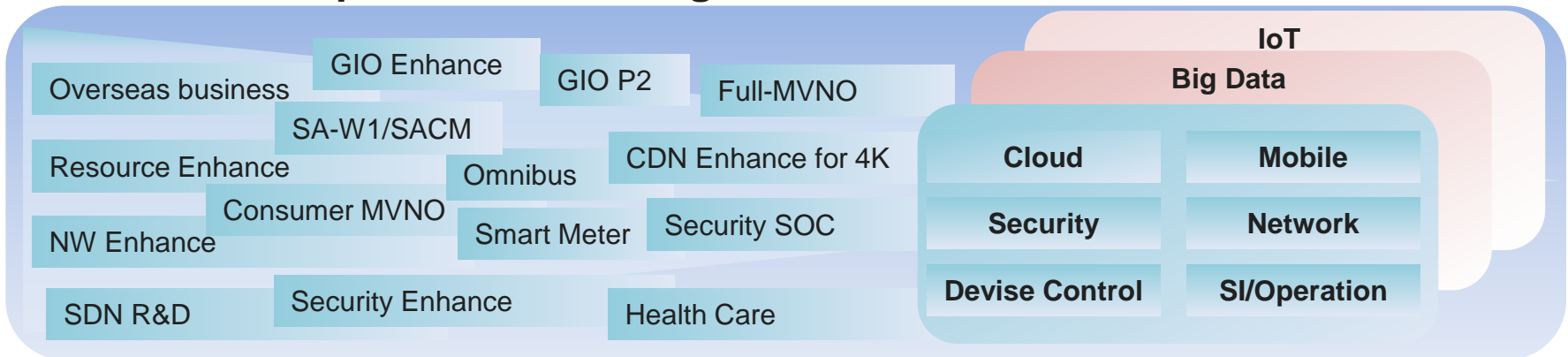
Next Stage

- 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-3Q FY2016 Financial Results

**Financial
Summary**

	< 1Q-3Q16 Results >		< FY16 Targets >	
Total revenues	JPY113.60 billion	up 14.3%	JPY158.0 billion	up 12.3%
Gross margin	JPY17.83 billion	up 0.2%	JPY25.3 billion	up 2.6%
Operating income	JPY3.16 billion	down 22.5%	JPY5.0 billion	down 18.6%
Net income	JPY1.91 billion	down 25.8%	JPY3.0 billion	down 25.7%

Maintaining strong revenue growth: 1Q-3Q16: +14.3%YoY 3Q16: +16.0%YoY

3Q16 financials: making progress as planned at the time of financial target revision

- ◆NW: Mobile continued to be revenue growth driver, IJ Omnibus and other services accumulating revenues
- ◆SI: Container DC project's revenue recognized, cloud revenue continued increasing, SI gross margin still low: SE productively improved yet work in process increased toward 4Q and delay in releasing some functions of our foreign exchange system ASP service

Mobile	<p>Subscription continued to increase: Total subs. 1,710 thousand (+637 thousand YoY)</p> <ul style="list-style-type: none"> ➢ Consumer subs.: 912 thousand⁽¹⁾ (+227 thousand YoY), consumer market share No.1⁽²⁾ ➢ MVNE subs.: 501 thousand⁽¹⁾ (+320 thousand YoY), MVNE clients increased to 124⁽¹⁾ (+30 clients YoY) ➢ Constructing facilities and developing services to launch full-MVNO services in 4Q17 (scheduled)
Cloud	<p>Enterprise & game customers' revenue increased QoQ: 1Q-3Q16 revenue JPY11.59 billion (+11.6%YoY)</p> <ul style="list-style-type: none"> ➢ GIO P2 prospective orders approx. 900⁽¹⁾ (fourfold YoY), Blue-chip's core systems migrating more to cloud and many other ➢ Multiple orders of "Local Government Information Security Cloud" projects, offering NW, cloud, security and SI all at once
Security	<p>Great demand: Enhancing service line-ups continuously</p> <ul style="list-style-type: none"> ➢ Will launch "C-SOC⁽³⁾" services by leveraging security incidents/threats info. gathered from renewed information analysis (Mar. 2017) ➢ Strengthen DDoS⁽⁴⁾ protection services: distributing NW systems globally to protect customers from global DDoS attacks (Jan. 2017) ➢ Acquiring many orders of over few thousands accounts projects combining DDoS protection, <i>Sandbox</i>⁽⁵⁾, mail outsource services etc.
IoT	<ul style="list-style-type: none"> ➢ Launched "IJ IoT Service" unified service offering network, cloud, devise and other necessary elements for IoT system, seeing an increase in warning detection/analysis related business talks (Dec. 2016) ➢ Continuously accumulating mobile-related projects: elevator, security cameras, taxi, bus, vending machine, etc.
CDN	JV with Nippon TV (Dec. 2016), Provide CDN platform which demand is to expand with the coming age of 4K/Internet-based broadcasting

% YoY = compared to the same period in a previous year
QoQ: 3Q16 compared to 2Q16

(1) Mobile subscription, number of MVNE clients and GIO P2 prospective orders are as of Dec. 2016, (2) MM Research Institute "Domestic MVNO market as of Sep. 2016" (Dec. 2016), (3) SOC "Security Operation Center" is an organization monitoring network and devises to detect and analyze cyber attacks and/or suspicious activity, (4) DDoS "Distributed Denial of Service" attacks are one form of cyber attacks in which multiple machines making massive volume of connection request to disturb the service of attacked servers (5) Sandbox is a technology detecting suspicious files by opening email attachment in a safe virtualized area.

FY2016 Financial Target

**Financial
Summary**

Unit: JPY billion

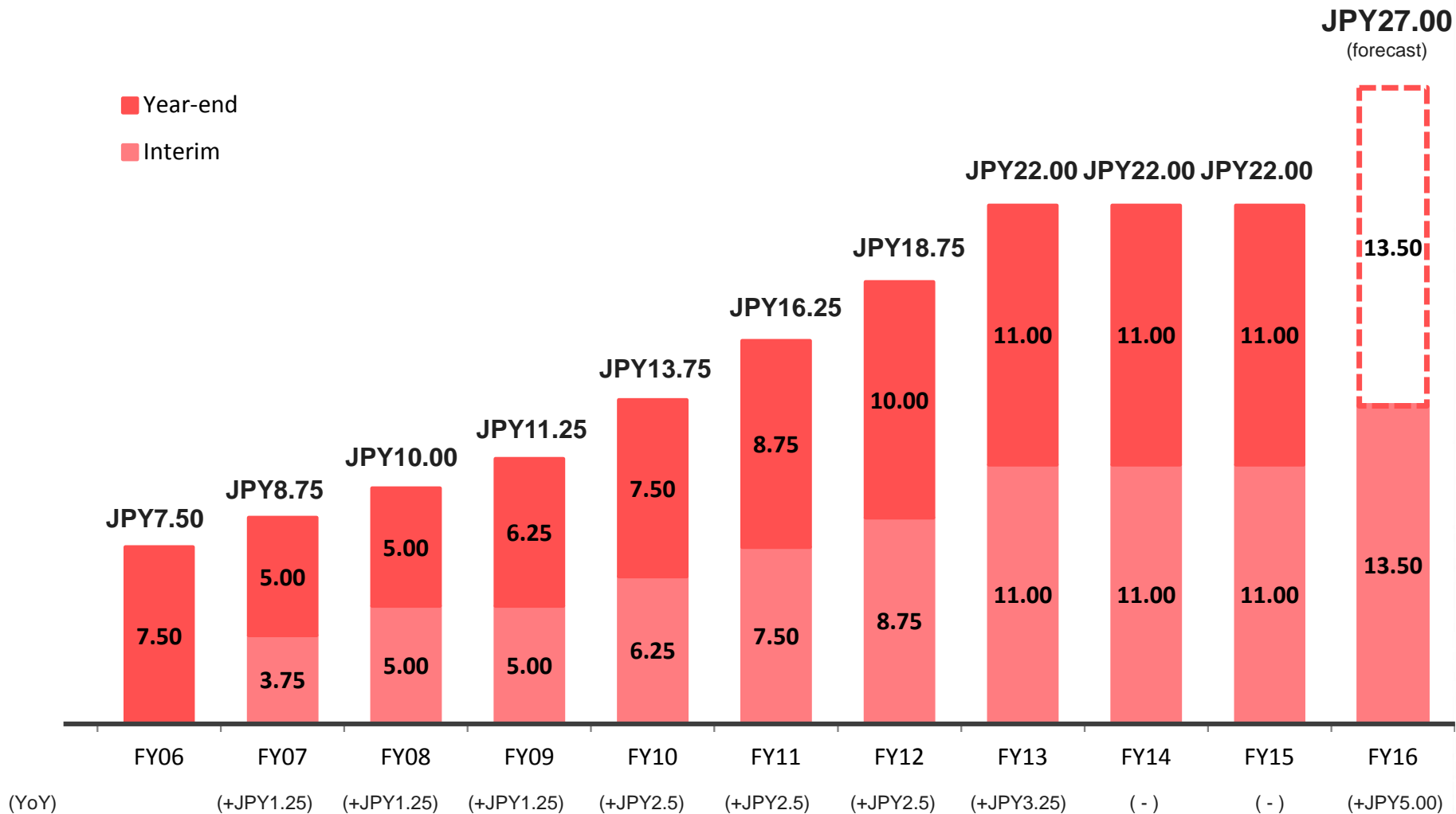
	<i>% of Revenues</i> 1Q-3Q16 Results	<i>% of Revenues</i> 1Q-3Q15 Results	YoY Change	<i>% of Revenues</i> FY16 Target	YoY Change
	(Apr. 2016 - Dec. 2016)	(Apr. 2015 - Dec. 2015)		(Apr. 2016 - Mar. 2017)	
Total Revenues	113.60	99.38	+14.3%	158.0	+12.3%
Total Cost of Revenues	<i>84.3%</i> 95.77	<i>82.1%</i> 81.59	+17.4%	<i>84.0%</i> 132.7	+14.4%
Gross Margin	<i>15.7%</i> 17.83	<i>17.9%</i> 17.79	+0.2%	<i>16.0%</i> 25.3	+2.6%
SG&A/R&D	<i>12.9%</i> 14.67	<i>13.8%</i> 13.72	+7.0%	<i>12.8%</i> 20.3	+9.6%
Operating Income	<i>2.8%</i> 3.16	<i>4.1%</i> 4.07	(22.5%)	<i>3.2%</i> 5.0	(18.6%)
Income before Income Tax Expense	<i>3.0%</i> 3.43	<i>4.2%</i> 4.18	(17.8%)	<i>3.2%</i> 5.1	(17.7%)
Net Income*	<i>1.7%</i> 1.91	<i>2.6%</i> 2.57	(25.8%)	<i>1.9%</i> 3.0	(25.7%)

*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.

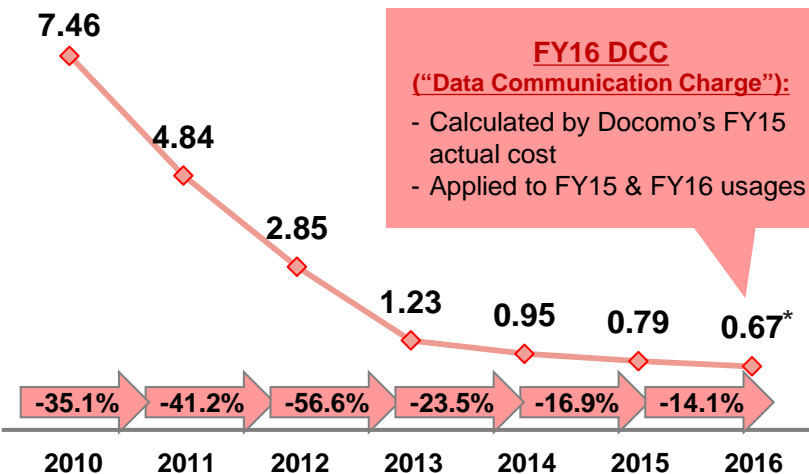


Data Communication Charge for MVNO (NTT Docomo)

Appendix

NTT Docomo's Monthly DCC per 10Mbps

(JPY million)



*From FY16, SIM issue fee has been excluded from the DCC calculation (MVNOs need to pay the fee separately to Docomo)

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.
- Continuously decreasing
- Fixed 1 year after, applied to current and a previous year
- FY16 DCC payment has been deducted 15% from 1Q16 by Docomo's arrangement
- FY15 DCC was fixed in March 2017 and its decrease rate shall be applied to FY16 DCC

IIJ's Estimation against Actual decrease rate

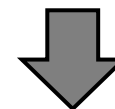
	(1) Docomo's payment arrangement	(2) IIJ's estimation	(3) Actual results
FY14	40%	40%	23.5%
FY15	25%	15%	16.9%
FY16**	15%	12%	14.1%*

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

(*) Fixed on March 31, 2017
(**) IIJ's fiscal year ending March 31, 2017

Docomo Changed Depreciation Method

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



Docomo's DCC based on their March 31, 2017 actual costs are to be noticed to their MVNOs in around March 2018

CDN (Contents Distribution Network) Business

Appendix

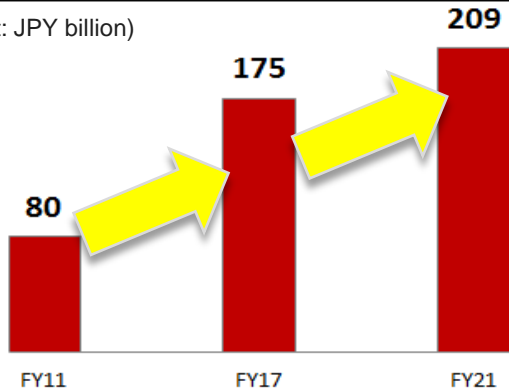
- Greater needs to distribute contents over Internet, especially in specific areas
- 4K/8K and high-definition contents to increase towards the Tokyo Olympics
- Nippon TV owns Hulu Japan, broadcasting companies operate “TVer”
- Akamai strong in Japan CDN market, no prominent Japanese provider currently
- IIJ has rich and long experience in CDN business
 - ✓ Olympics games, high school base ball games, and many more

➤ **Established JV as All Japan TVs’ CDN platform provider**
 ➤ **IIJ will provide Internet transit to the JV**

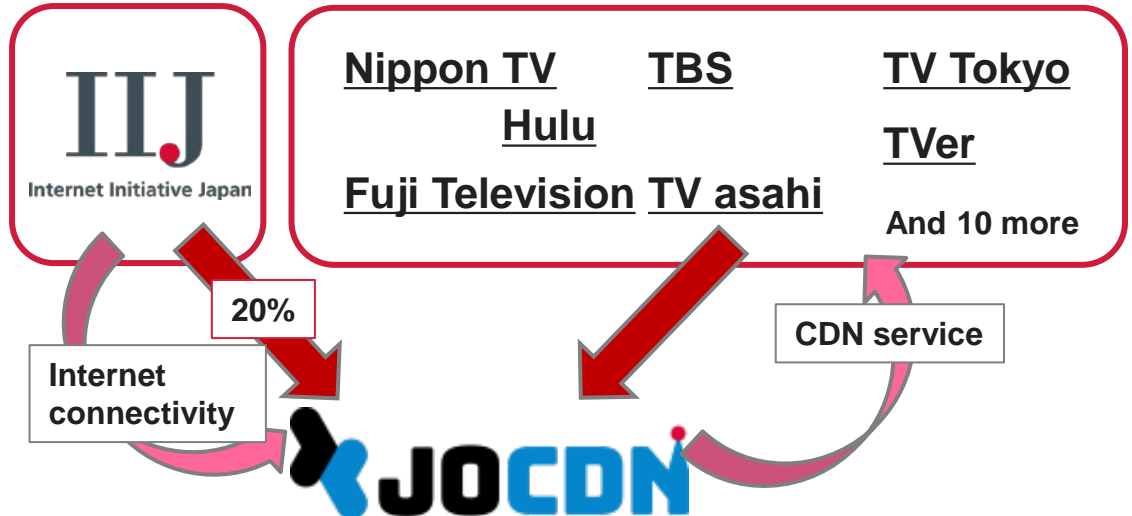
Company name	JOCDN Inc.
Shareholders	IIJ (20%), Nippon TV (14%), TV asahi (14%), TBS (14%), TV Tokyo (14%), Fuji TV (14%) and 10 more commercial broadcasting companies
Capital	JPY710 million
Management	Chairman: Koichi Suzuki (IIJ), President: Shunichi Shinozaki (Nippon TV)
Est.	December 1, 2016
Business	<ul style="list-style-type: none"> ➤ Provide a video content distribution platform service for use within Japan ➤ Construct and operate broadcasting systems

CDN market growth in Japan

(unit: JPY billion)



*Source: Nomura Research Institute
 “Outlook on ICT and media market and trend toward FY21”
 Published on November 25, 2015

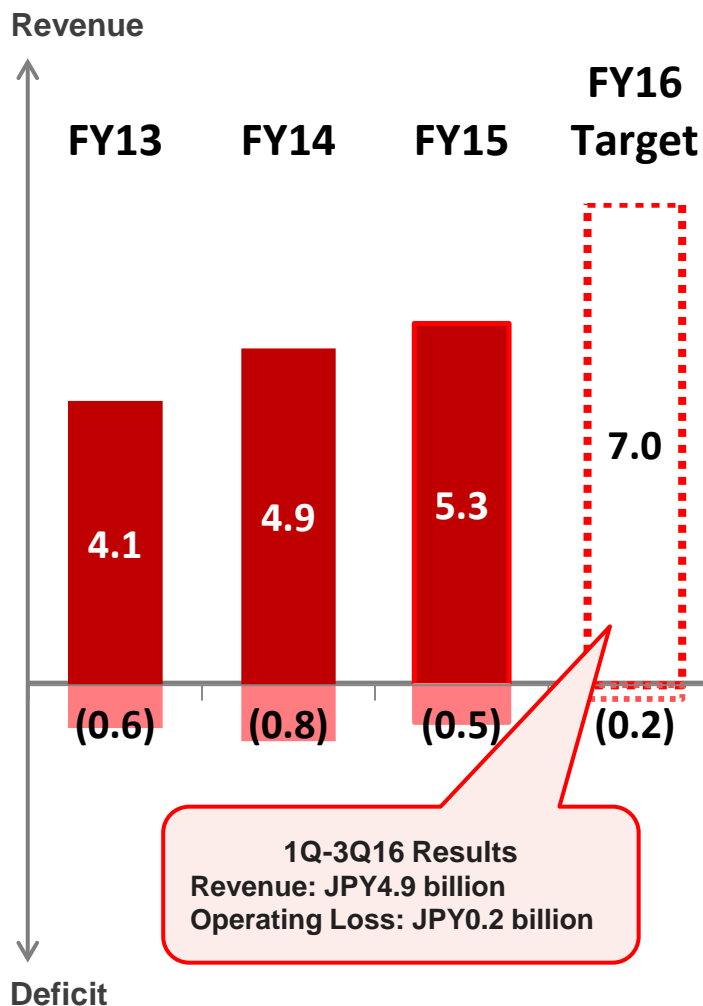


Overseas Business Developments

Appendix

Financial Results

(Unit: JPY billion)



Overseas offices

Main subsidiaries	Est.	Employees ¹	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* ₂	52* ₃	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* ₁	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 local players in Indonesia (March 2015), Thailand (February 2016) and Vietnam (November 2016)
- **Export container datacenters, Expect transactions to expand in the middle-to-long term**
 - Exported to Russia (FY15)
 - Exported to Laos (3Q16) revenue of JPY1.2 billion
 - Accumulating similar prospective orders from other emerging countries



ATM Operation Business Developments

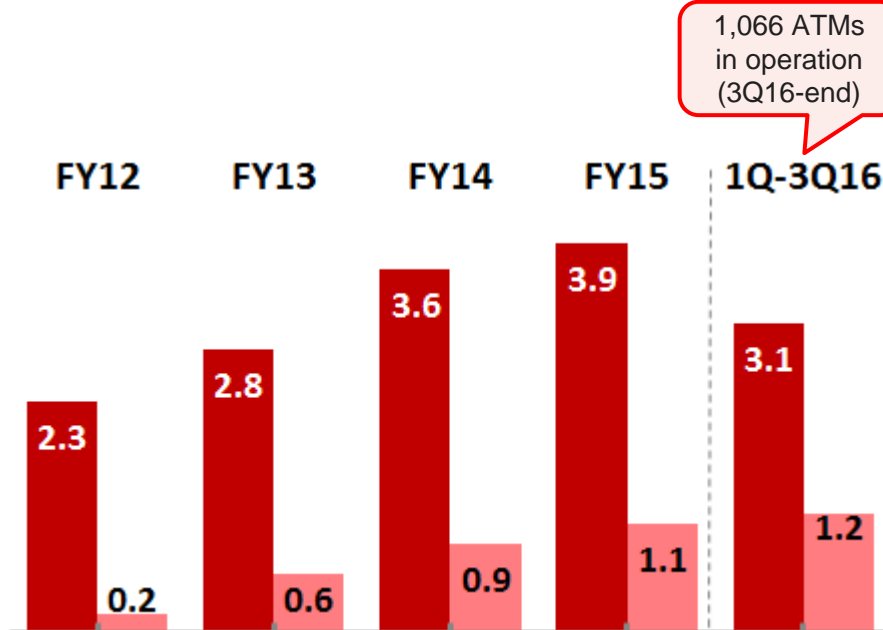
Business Model

- Similar to “Seven Bank” model, high profitability
 - Seven Bank: 22,472 ATMs, revenue JPY119.9 billion, profit ratio 31.0% as of March 31, 2016
- Placing ATMs in Pachinko parlors in Japan with dominant position
 - After long discussion, started to place in Kanto, Kansai, Kyushu and Tokai areas
 - Approx.11,310 Pachinko parlors in Japan 2015 (Nichiyukyo)
- Receive commission for each withdrawal transaction

Revenue and Operating Income

Unit: JPY billion

■ Revenue
■ Operating Income



Trust Networks

- 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

Revenues

Financial Results

Unit: JPY million

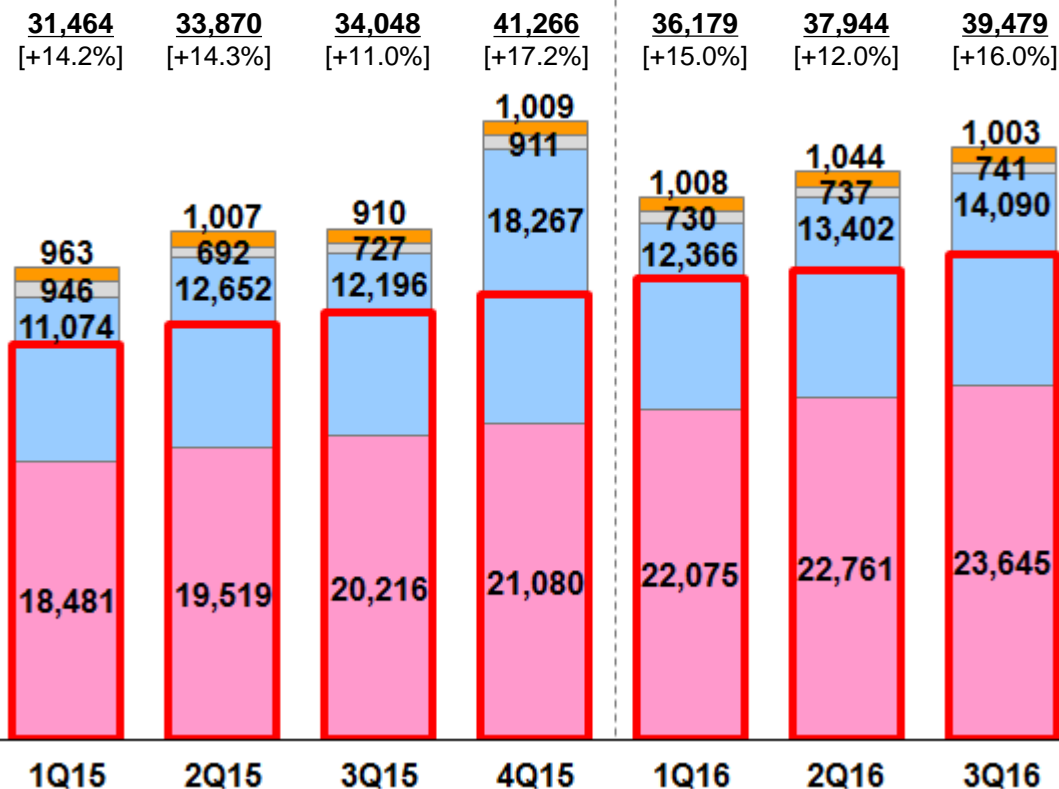
[], YoY = compared to the same period in a previous year



1Q-3Q15: 99,382 [+13.1%]

FY15: 140,648 [+14.3%]

1Q-3Q16: 113,602 [+14.3%]



One-time Revenue *

**1Q-3Q16: JPY16,180 million (up 16.3% YoY)
(14.2% of 1Q-3Q16 revenues)**

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

1. Systems Construction
2. Equipment Sales

Recurring Revenue*

**1Q-3Q16: JPY94,366 million (up 14.3% YoY)
(83.1% of 3Q16 revenues)**

*Represents the following monthly recurring revenues

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

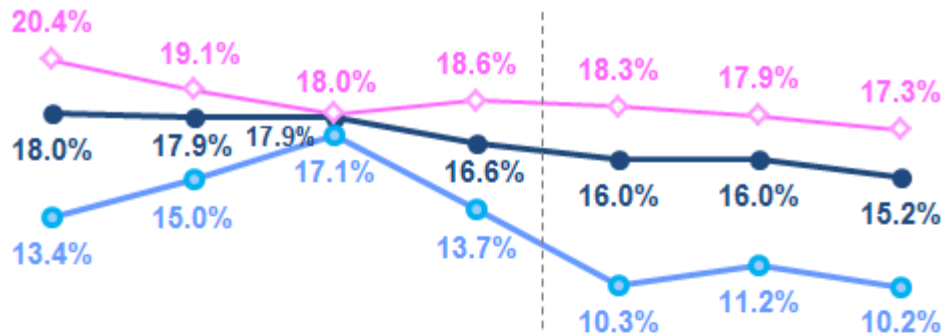
Cost of Revenues and Gross Margin Ratio

Financial Results

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

Unit: JPY million

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

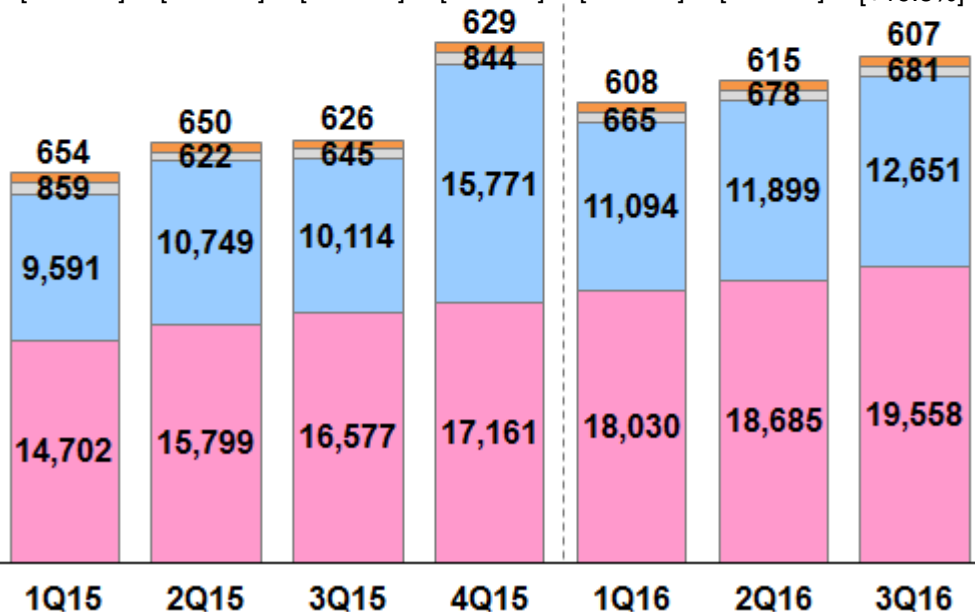


1Q-3Q15: 81,588 [+14.3%]

FY15: 115,993 [+14.9%]

1Q-3Q16: 95,772 [+17.4%]

25,805 [+14.4%]	27,821 [+17.3%]	27,962 [+11.3%]	34,405 [+16.3%]	30,397 [+17.8%]	31,878 [+14.6%]	33,497 [+19.8%]
---------------------------	---------------------------	---------------------------	---------------------------	---------------------------	---------------------------	---------------------------



Gross Margin

◆ Total

- JPY17,830 million (up 0.2% YoY)
- Gross margin ratio: 15.7% (down 2.2 points YoY)

◆ Network Services

- 1Q-3Q16: JPY12,207 million (up 9.6% YoY)
- 1Q-3Q15: JPY11,137 million (up 1.0% YoY)
- Gross margin ratio: 17.8% (down 1.3 points YoY)
- 3Q16 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 substantial 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	3Q16	Unit:%
	19.4	19.5	18.5	18.6	18.3	17.9	17.3	

◆ SI

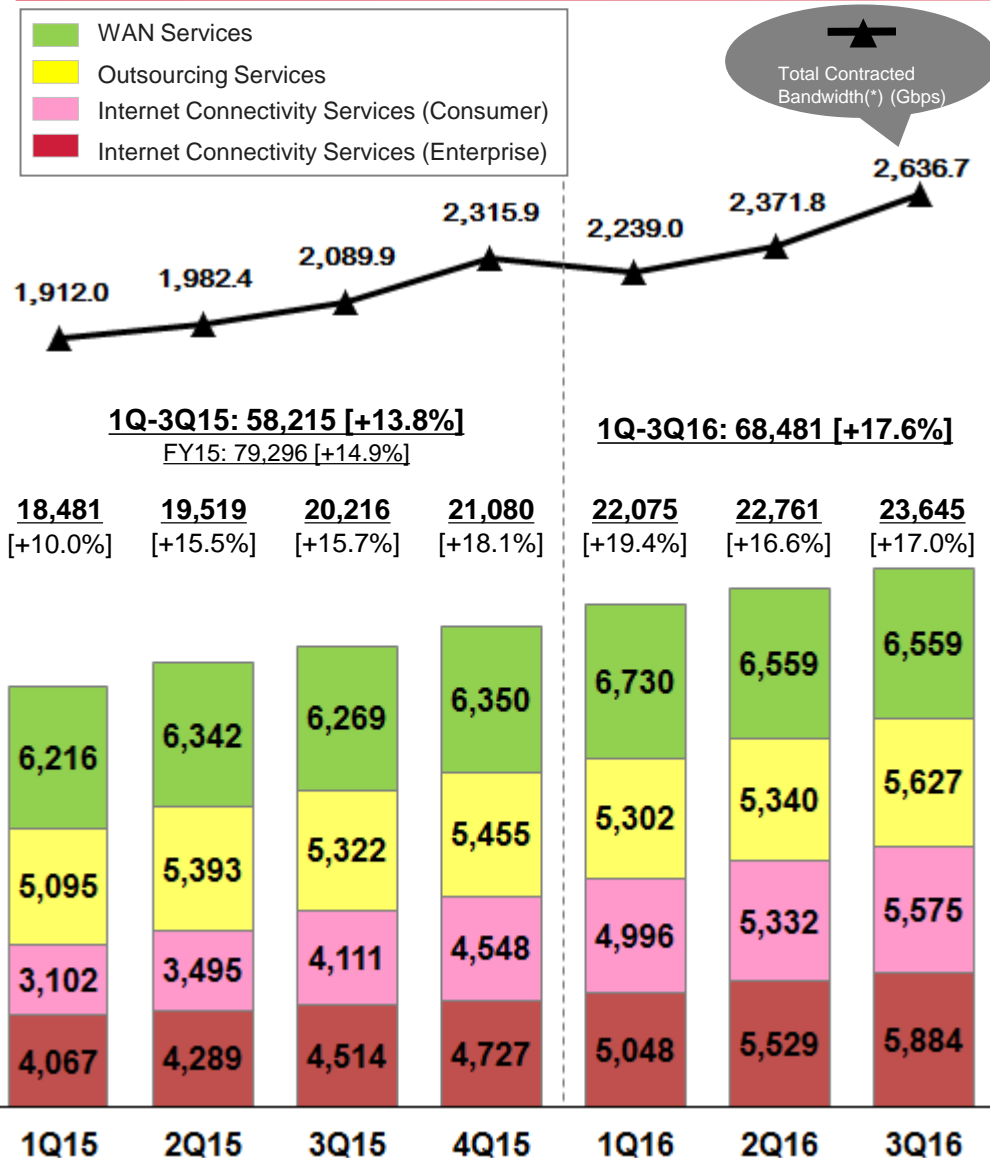
- 1Q-3Q16: JPY4,214 million (down 22.9% YoY)
- 1Q-3Q15: JPY5,467 million (up 22.4% YoY)
- Gross margin ratio: 10.6% (down 4.6 points YoY)
- Although profitability of SEs improved in 3Q16 from 1H16, an increase in work in process due to projects toward 4Q and a delay in offering some functions of our foreign exchange system ASP service, gross margin ratio still at low level

Network Services (1)Revenues

Financial Results

Unit: JPY million

[], YoY = compared to the same period in a previous year
QoQ = 3Q16 compared to 2Q16



◆ Internet Connectivity (Enterprise)

- 1Q-3Q16: up JPY3,591 million, up 27.9% YoY
- Strong subscription via MVNE contributed to continuous growth of mobile services
 - Subscription (unit: thousand):
3Q16-end: 501 (up 320 YoY, up 83 QoQ)

◆ Internet Connectivity (Consumer)

- 1Q-3Q16: up JPY5,195 million, up 48.5% YoY
- IIJmio Mobile Services continued to increase
 - Subscription (unit: thousand):
3Q16-end: 912 (up 227 YoY, up 38 QoQ)

◆ Outsourcing Services

- 1Q-3Q16: up JPY458 million, up 2.9% YoY
 - Demand for security services continued increasing, public cloud revenue increased QoQ mainly due to a certain large game customer increased their usage
- IIJ Omnibus Service revenue almost doubled QoQ: approx. JPY0.03 billion in 3Q16
 - Seeing an increase in projects related to office network connecting hundreds of branches due to continuous addition of service functions
- QoQ revenue growth accelerated in 3Q16
 - Public cloud services up JPY61 million QoQ
 - Non-public cloud services up JPY226 million QoQ

◆ WAN Services

- 1Q-3Q16: up JPY1,021 million, up 5.4% YoY

◆ Mobile services

- 1Q-3Q16: up JPY8,374 million, up 77.9% YoY

◆ Non-mobile services

- 1Q-3Q16: up JPY1,891 million, up 4.0% YoY

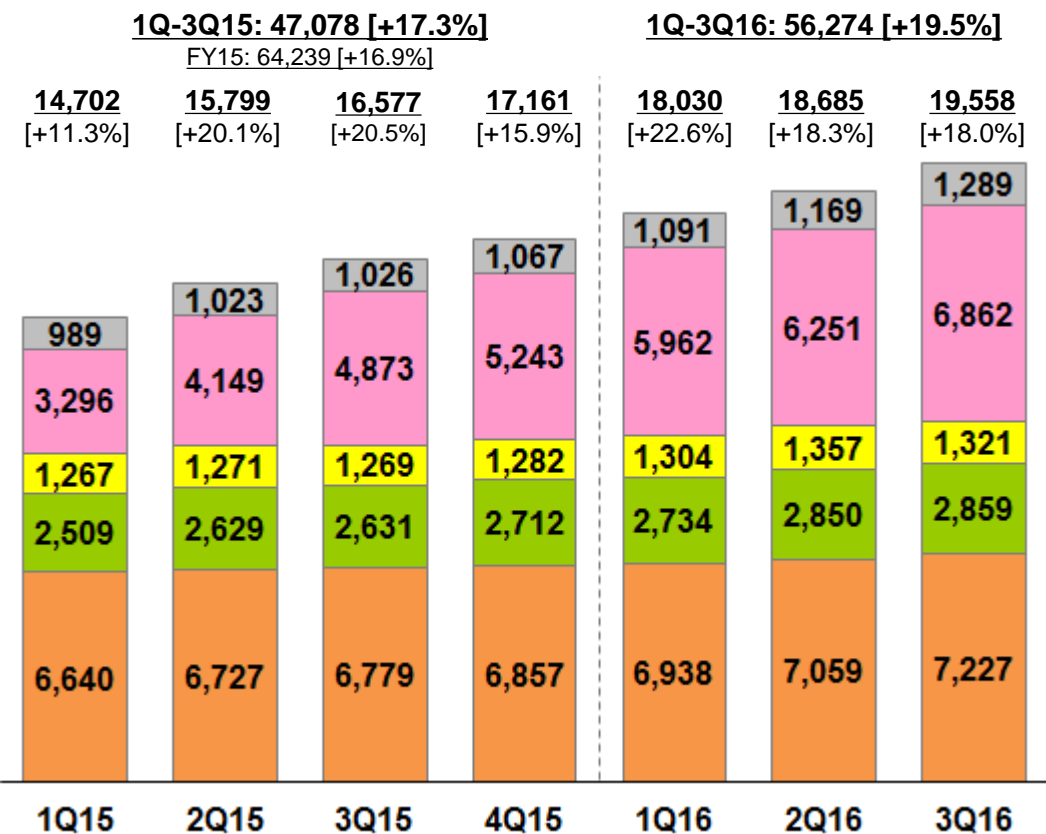
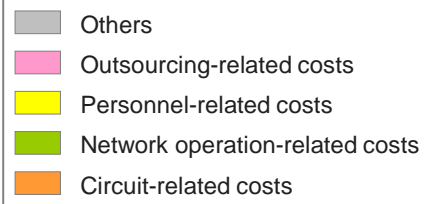
(*) Total contracted bandwidth is calculated by multiplying number of contracts by contracted bandwidths respectively for IP service, data center connectivity service and IIJ FiberAccess/F and IIJ DSL/F of Internet connectivity services (Enterprise).

Network Services (2) Cost of Revenues

Financial Results

Unit: JPY million

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



◆ Cost of network services

- 1Q-3Q16: up JPY9,195 million, up 19.5% 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 along with the enhancement of our network, continuous service functions enhancement for "IJJ Omnibus Service" and security services, and engagement in CDN business
- 1Q-3Q16: year over year amount that negatively impacted profit related to IJJ Omnibus became no larger than JPY0.07 billion of 1H16

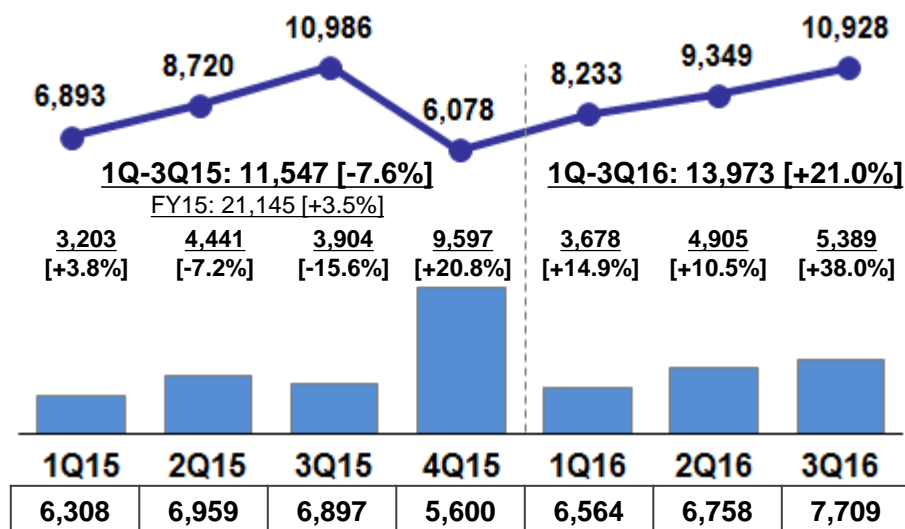
◆ Regarding NTT DOCOMO's ("DOCOMO") mobile interconnectivity cost recognition:

- For FY16 usage, IJJ 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.
- 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.
- 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 IJJ had estimated it would decrease by 15%.

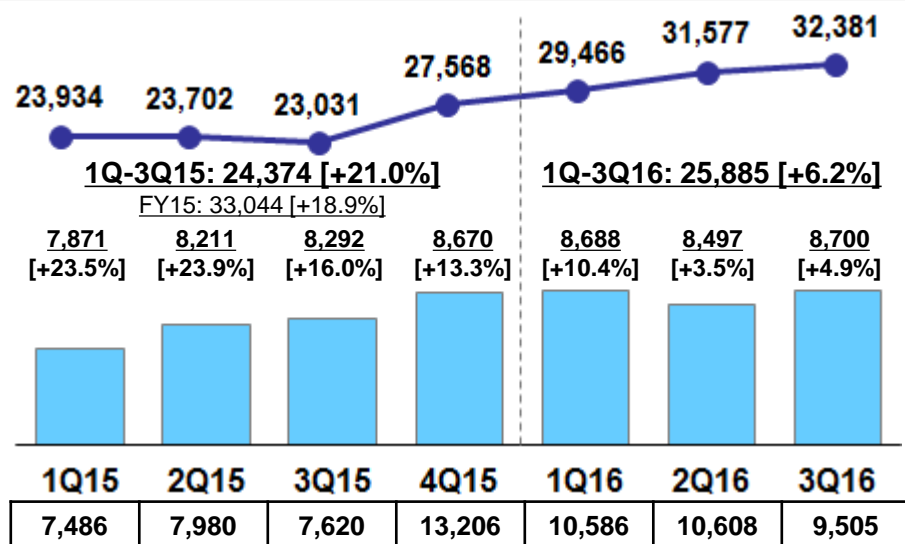
Systems Integration (SI) (1)Revenues

Financial Results

Systems Construction



Systems Operation and Maintenance



◆ Systems construction

- 1Q-3Q16 revenue: up JPY2,426 million, up 21.0% YoY
- The container DC project revenue was recognized in 3Q16 (approx. JPY1.2 billion)
- Large-scale construction projects orders received in 3Q16:
 - Systems construction and operation and maintenance of "Local Government Information Security Cloud" for Kanagawa prefecture
 - Cloud migration of large BtoC site
 - Constructing security environment for a major automotive manufacturer etc.

◆ Systems operation and maintenance

- Private cloud: revenue continuously increasing
 - From private cloud: up JPY1,369 million, up 15.5% YoY, up JPY71 million QoQ(2Q→3Q)
- Non-private cloud systems operation and maintenance: although 1H16 was negatively impacted by cancellation of large-scale projects, QoQ revenue growth accelerated in 3Q16
 - From SI construction: up JPY142 million, up 0.9% YoY, up JPY132 million QoQ(2Q→3Q)
- Expect even stronger revenue growth for FY17 with "Local Government Information Security Cloud" projects
- 87.8% of 3Q16 cloud-related revenue is recognized in systems operation and maintenance revenues (12.2% in outsourcing)

◆ Overseas business: almost as planned

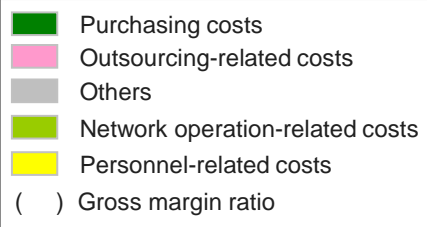
- 3Q16 turned profitable with the container DC project
 - 1Q-3Q16 revenue: approx. JPY4.9 billion
 - 1Q-3Q16 operating loss: slightly less than JPY0.2 billion
- FY16 target revenue: approx. JPY7.0 billion, FY16 target operating loss: slightly more than JPY0.2 billion

Systems Integration (SI) (2)Cost of Revenues

Financial Results

Unit: JPY million

[], YoY = compared to the same period in a previous year
QoQ: 3Q16 compared to 2Q16



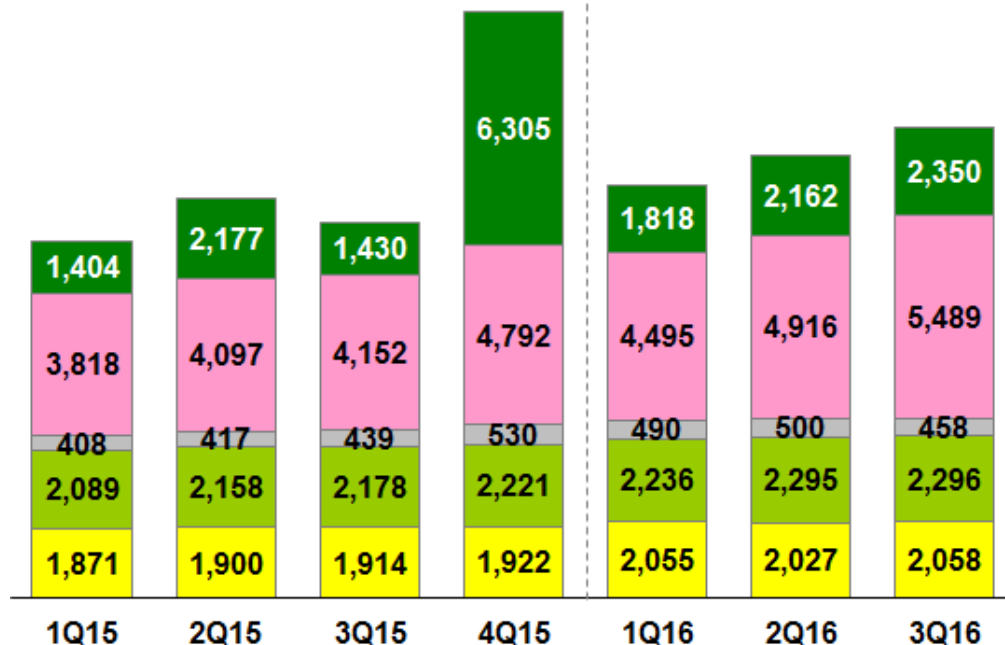
1Q-3Q15: 30,454 [+8.1%]

FY15: 46,226 [+11.2%]

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

1Q-3Q16: 35,644 [+17.0%]

11,094 [+15.7%] **11,899** [+10.7%] **12,651** [+25.1%]



◆ Cost of SI

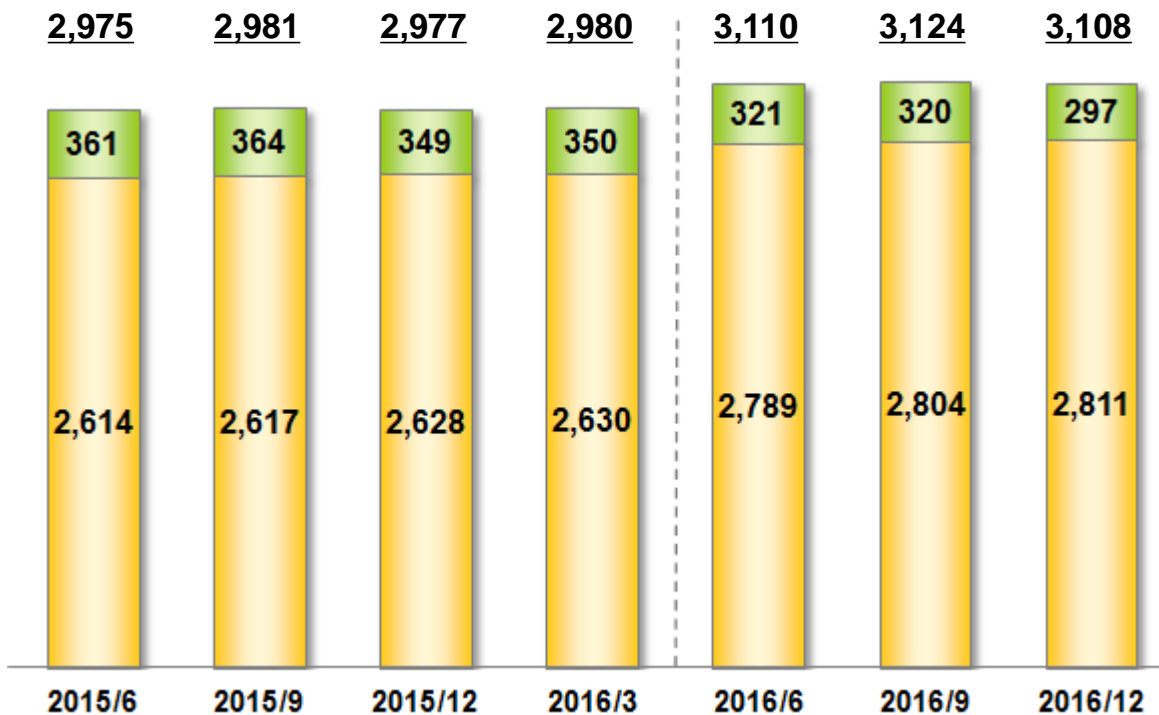
- 1Q-3Q16: up JPY5,190 million, up 17.0% YoY
- 3Q16-end number of outsourcing personnel: 1,326 personnel (up 306 YoY, up 101 QoQ)
- 3Q16 productivity of SE improved from 1H16, when low SE productivity was caused by 1) the projects already recognized as revenue in FY2015, 2) an increase in pre-sales activity requiring SEs involvement, and 3) we assigned SEs to handle several large projects while other projects were postponed
- Network operation-related, outsourcing-related and personnel-related costs increased mainly due to service developments of GIO P2
- 3Q16: purchasing and outsourcing-related costs increased with the container DC export project

Number of Employees

■ Contract worker
■ Full time worker

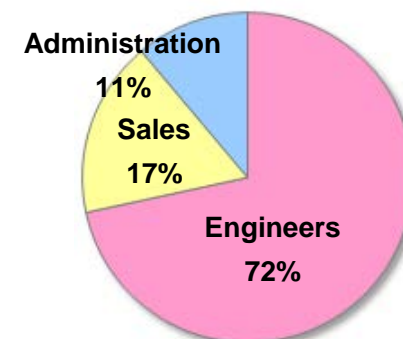
Unit: JPY million

YoY = compared to the same period in a previous year



➤ 3Q16: Number of employees slightly decreased at group company's customer support division

Employee Distribution



1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16
5,266 (16.7%)	5,297 (15.6%)	5,271 (15.5%)	5,321 (12.9%)	5,464 (15.1%)	5,446 (14.4%)	5,432 (13.8%)

Personnel related costs & expenses (% of revenue)

◆ Personnel-related costs and expenses

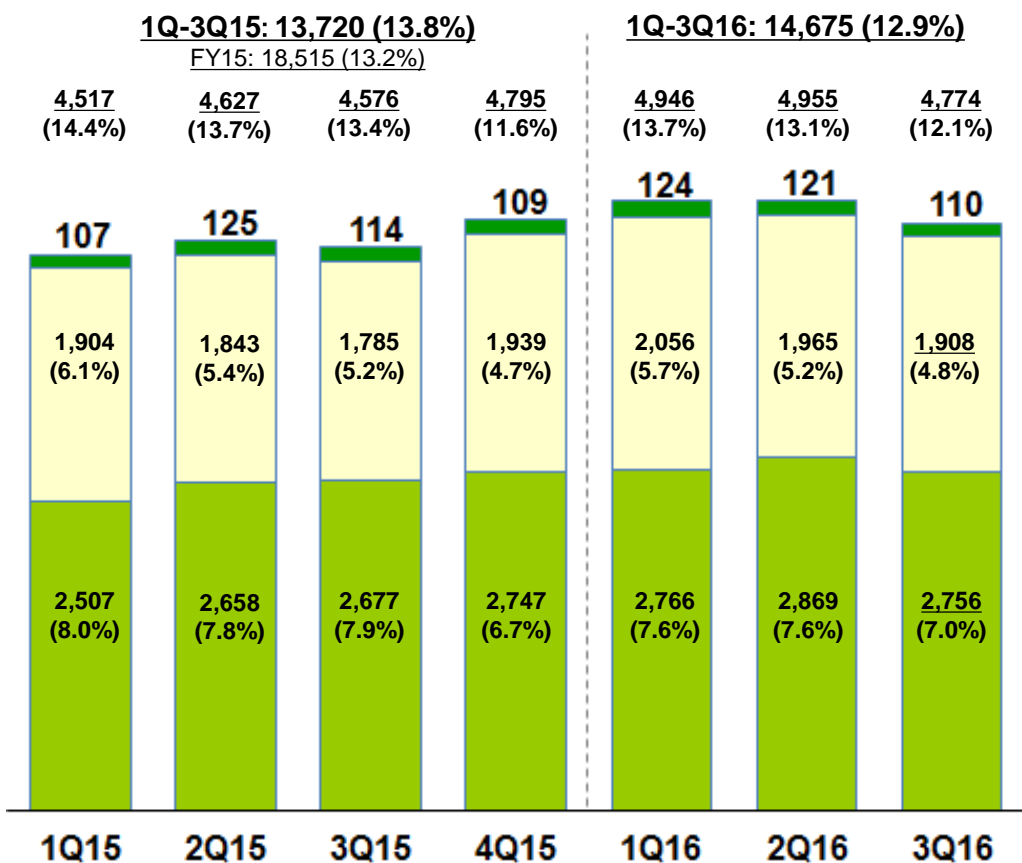
- 1Q-3Q16: up JPY508 million, up 3.2% YoY
- Plan to hire 142 new graduates in Apr. 2017 (137 in Apr. 2016, 155 in Apr. 2015, 129 in Apr. 2014)

SG&A Expenses/R&D

**Financial
Results**

Unit: JPY million

YoY = compared to the same period in a previous year


◆ Sales & marketing expenses

- 1Q-3Q16: up JPY550 million, up 7.0% YoY
 - Sales commission expenses and advertising expenses increased

◆ General & administrative expenses

- 1Q-3Q16: up JPY396 million, up 7.2% 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	3Q16
44.9	45.1	41.3	46.9	43.5	51.1	42.9

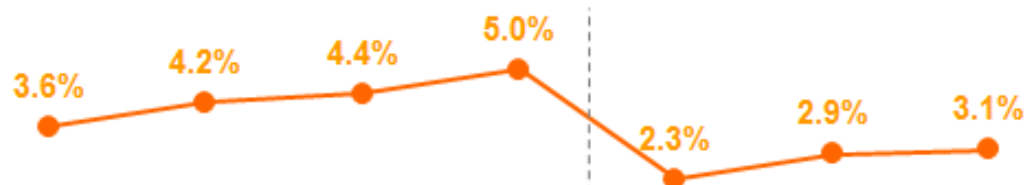
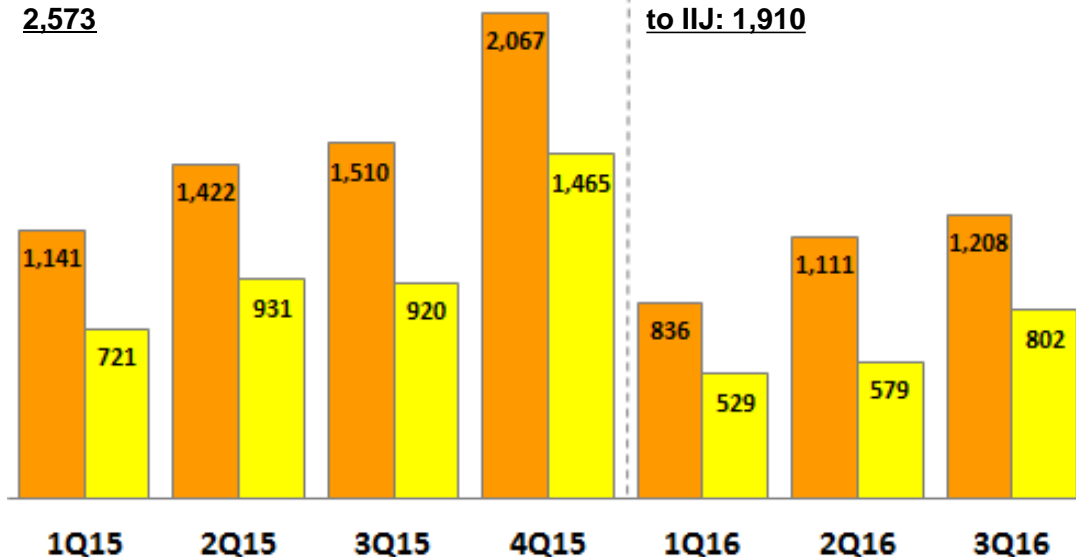
- Placed 1,066 ATMs as of December 31, 2016

Operating Income and Net Income

Financial Results

Unit: JPY million

YoY = compared to the same period in a previous year

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

1Q-3Q15 Operating income: 4,073
1Q-3Q15 Net income attributable to IIJ: 2,573
1Q-3Q16 Operating income: 3,155
1Q-3Q16 Net income attributable to IIJ: 1,910

◆ Income before income tax expense:

- 1Q-3Q16: JPY3,433 million (down JPY745 million, down 17.8% YoY)
 - Gain on sales of securities: JPY214 million
 - Distribution from fund investments: JPY208 million
 - Dividend income: JPY106 million
 - Interest expense: JPY218 million
 - Foreign exchange loss: JPY23 million

◆ Net income attributable to IIJ:

- 1Q-3Q16: JPY1,910 million (down JPY663 million, down 25.8% YoY)
 - Equity in net income of equity method investees including Internet Multifeed: JPY69 million
 - Net income attributable to noncontrolling interests including Trust Networks: JPY126 million

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	
	450	472	466	546	139	531	446	Current income tax expense
	111	6	191	(59)	301	(18)	67	Deferred tax expense (benefit)
	61	76	69	(27)	17	25	28	Equity in net income (loss) of equity method investees
	(57)	(35)	(23)	(37)	(42)	(43)	(41)	Less: Net income attributable to noncontrolling interests

Consolidated Balance Sheets (Summary)

**Financial
Results**

Unit: JPY million

	Mar. 31, 2016	Dec. 31, 2016	Changes
Cash and Cash Equivalents	19,569	21,266	+1,697
Accounts Receivable	23,747	23,701	(46)
Inventories	2,004	3,576	+1,572
Prepaid Expenses (Current and Noncurrent)	9,757	13,458	+3,701
Investments in Equity Method Investees	2,980	3,061	+82
Other Investments	5,949	7,310	+1,362
Property and Equipment	34,324	37,081	+2,757
Goodwill and Other Intangible Assets	9,719	9,433	(286)
Guarantee Deposits	3,085	3,029	(56)
Total Assets	117,835	130,915	+13,081
Accounts Payable	15,404	14,946	(459)
Income Taxes Payable	1,078	311	(767)
Borrowings (Short-term and Long-term)	9,250	17,750	+8,500
Capital Lease Obligations (Current and Noncurrent)	11,734	14,010	+2,276
Total Liabilities	52,491	65,149	+12,659
Common Stock	25,509	25,509	-
Additional Paid-in Capital	36,060	36,103	+43
Retained earnings	2,471	3,256	+784
Accumulated Other Comprehensive Income	1,197	1,673	+476
Treasury stock	(392)	(1,374)	(982)
Total IJ Shareholders' Equity	64,845	65,167	+322

➤ Total IJ Shareholders' Equity to Total Assets: 55.0% as of Mar. 31, 2016, 49.8% as of Dec. 31, 2016

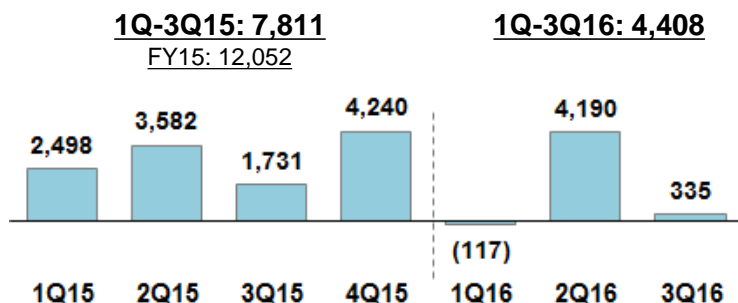
Consolidated Cash Flows

**Financial
Results**

Unit: JPY million

YoY = compared to the same period in a previous year

Operating Activities

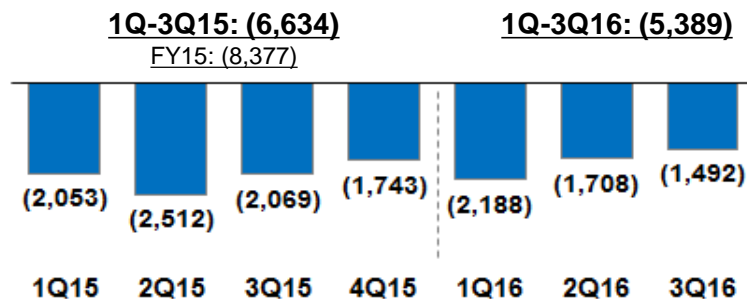


◆ 1Q-3Q16 Operating Activities

	Major Breakdown	YoY Change
Net income	2,036	(651)
Depreciation and amortization	8,006	+712
Fluctuation of operating assets and liabilities	(5,979)	(3,552)

An increase in prepaid expenses (including prepaid expenses-noncurrent) along with an increase in maintenance for service facilities and systems integration projects and an increase in account receivable from large scale projects.

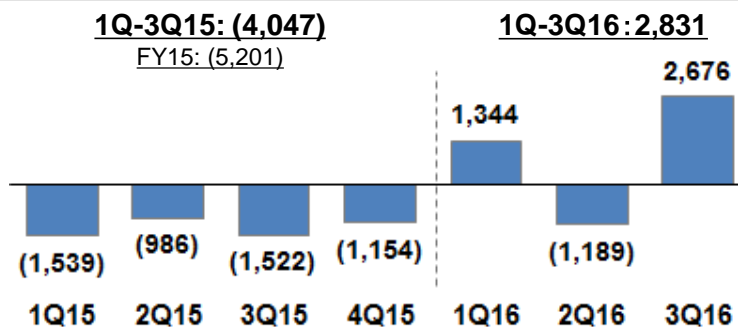
Investing Activities



◆ 1Q-3Q16 Investing Activities

	Major Breakdown	YoY Change
Purchase of property and equipment	(7,940)	+514
Proceeds from sales of property & equipment (lease-back transaction)	2,219	+1,126
Proceeds from sale of other investments	534	(270)

Financing Activities



◆ 1Q-3Q16 Financing Activities

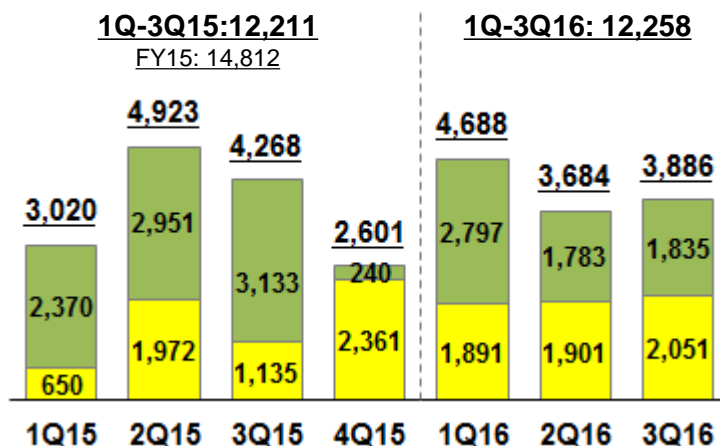
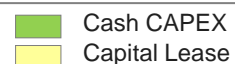
	Major Breakdown	YoY Change
Proceeds from long-term borrowings	8,500	+8,500
Principal payments under capital leases	(3,535)	(495)
Dividends paid	(1,126)	(115)
Repurchase of own shares	(982)	(982)

Other Financial Data (CAPEX etc.)

Financial Results

Unit: JPY million

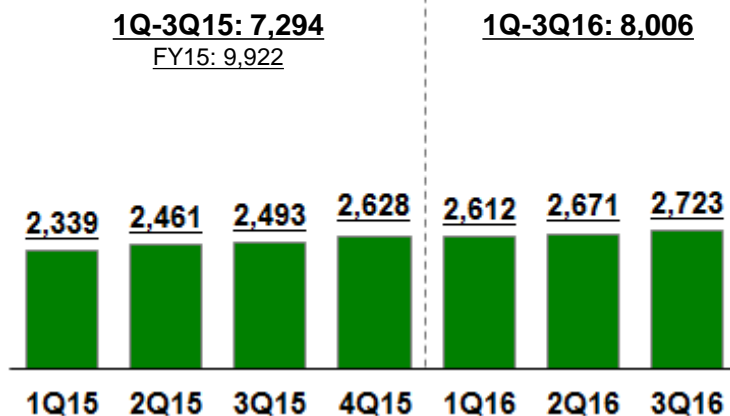
CAPEX



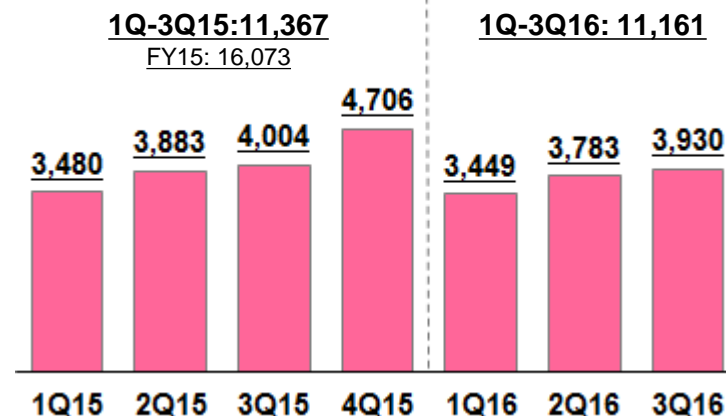
< Breakdown of CAPEX (unit: JPY billion) >

	FY15	1Q-3Q16
Network update, back office investment and others	10.2	9.0
Cloud-related (of GIO P2-related)	4.4 (2.2)	3.0 (1.6)
ATM operation business	0.2	0.3

Depreciation and Amortization



Adjusted EBITDA



Cloud Business Developments

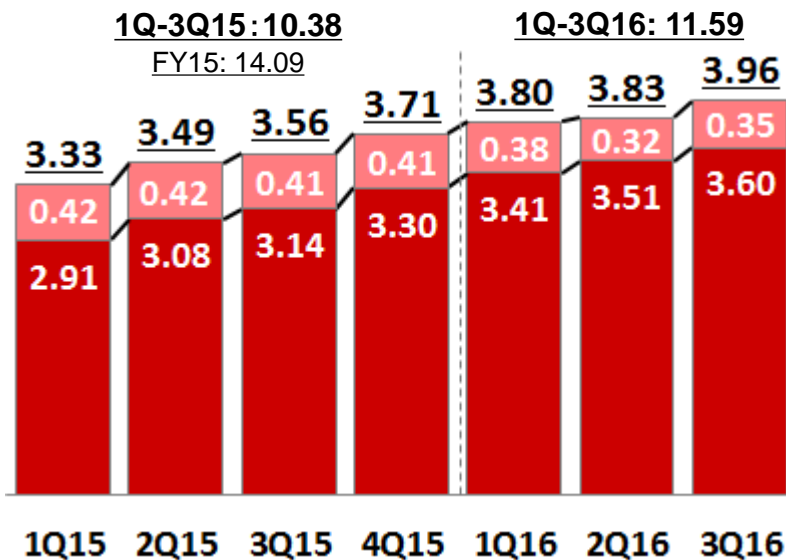
Financial Results

Cloud-related revenue

(Unit: JPY billion)

- Large game customers
- Business enterprise customers

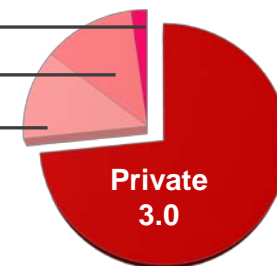
3Q16 cloud-related revenue recognition:
87.8% in systems operation and maintenance
12.2% in outsourcing



3Q16 revenue

(Unit: JPY billion)

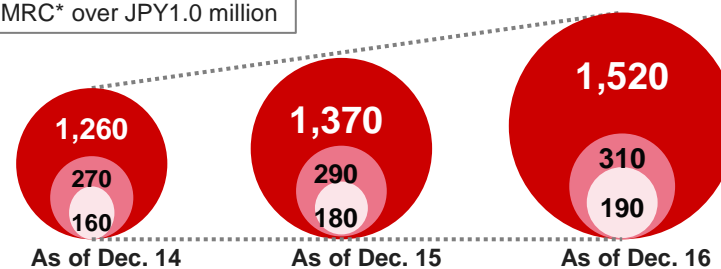
- General purpose SaaS 0.09 (groupware etc.)
- Task-specific SaaS 0.39 (FX, POS etc.)
- Public 0.48
- Private 3.0



Cloud Customer Base

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

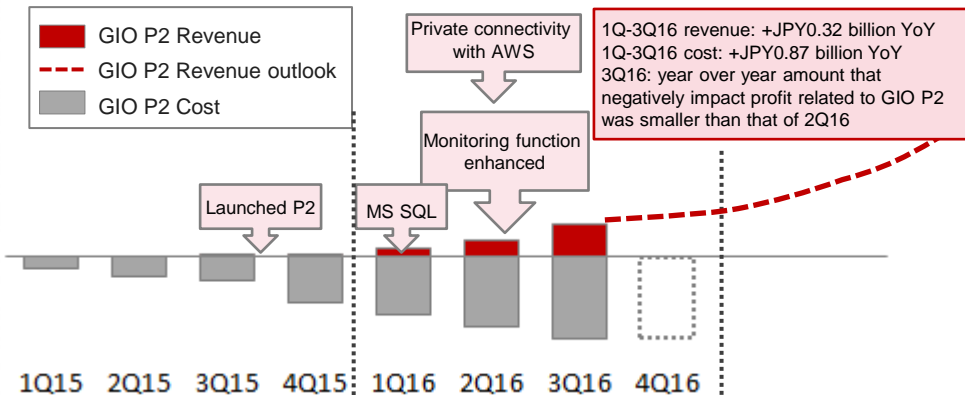
*Monthly Recurring Charge



GIO P2 Business Investments

YoY = 1Q-3Q16 compared to 1Q-3Q15

- GIO P2 Revenue
- GIO P2 Revenue outlook
- GIO P2 Cost



Business Developments

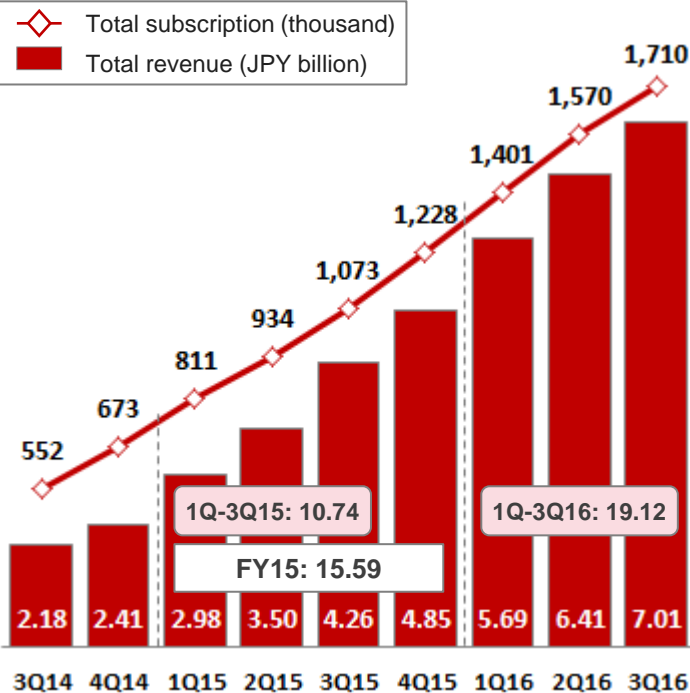
YoY = 1Q-3Q16 compared to 1Q-3Q15
QoQ = 3Q16 compared to 2Q16

- GIO P2 revenue almost doubled QoQ: approx. JPY 0.19 billion in 3Q16. Expect revenue to continue increasing with strong sales of a certain game customer and continuous accumulation of enterprises
 - 3Q16-end GIO P2 prospective orders: approx. 900 (more than fourfold YoY), including a cloud migration project for blue-chip's core business operation system (MRC of several JPY million)
- Virtual desktop service projects increased with security concerns, prospective orders include a prominent insurance company's information platform systems and more
- Received multiple orders for "Local Government Information Security Cloud" projects
 - Cloud, NW, systems and security are fully outsourced
 - Order includes large-scale projects (total MRC over JPY100 million), expect as strong revenue growth driver for FY17

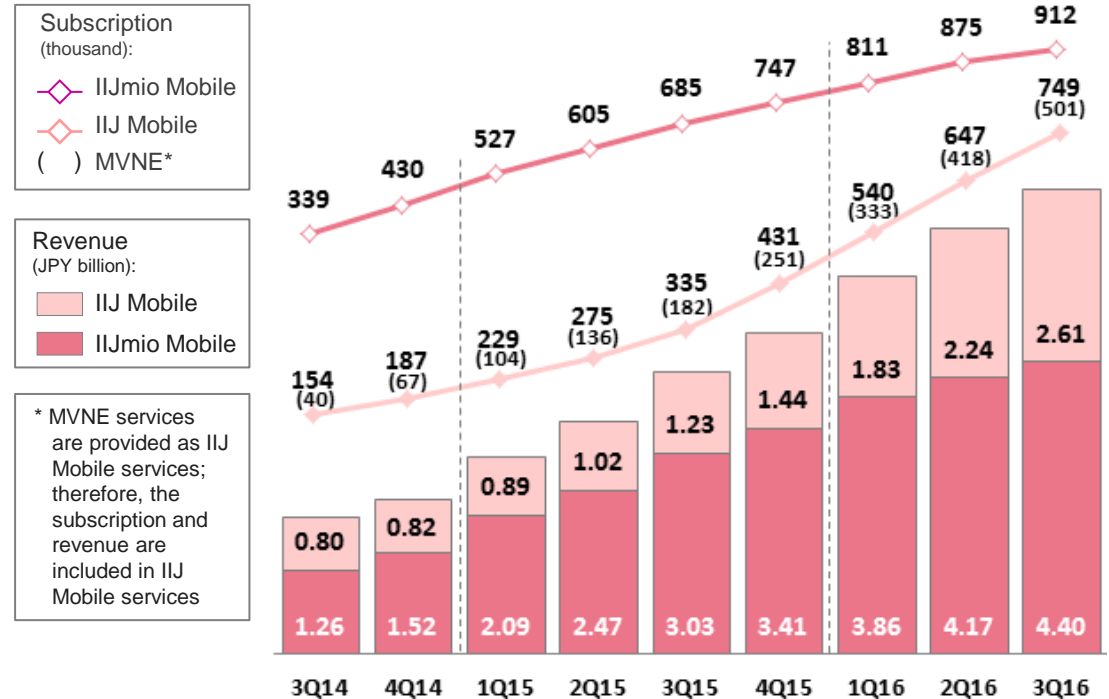
Mobile Business Developments

Financial Results

Total subscription & revenue



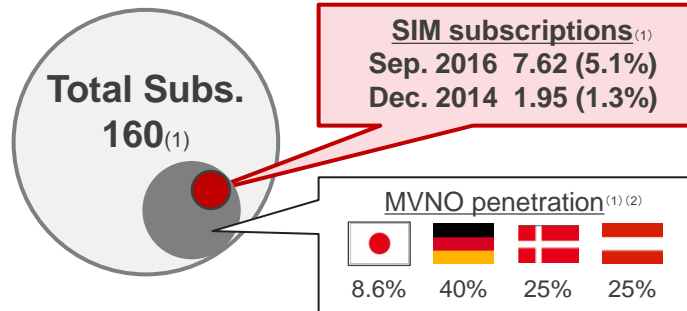
IIJmio Mobile (consumer) & IIJ Mobile (enterprise)



* MVNE services are provided as IIJ Mobile services; therefore, the subscription and revenue are included in IIJ Mobile services

Japanese Mobile Market

(Unit: million)



(1) MIC (Apr. 2015, Dec. 2016) , % of total subscription

(2) "Promoting a vibrant mobile market in New Zealand" (Nov. 2015)

Business Developments

YoY = 1Q-3Q16 compared to 1Q-3Q15

- ◆ MVNE business continued expanding:
 1Q-3Q16 MVNE* revenue: JPY4.36 billion (up JPY3.07 billion YoY)
 ➢ 124 MVNE clients (3Q16-end), MVNOs, prominent retailers, CATV operators etc.
- ◆ Now all Japan Post branches introducing our SIM cards nation-wide (more than 20,000 branches), seeking diversified mobile traffic to improve network utilization
- ◆ 1Q-3Q16 IoT-type M2M revenue: approx. JPY0.5 billion (up more than 20% YoY)
 ➢ Strong needs for closed network: stores, security cameras/videos, digital signage, vehicles and more
- ◆ Preparing to launch Full-MVNO services in 4Q17
 ➢ Discussions with enterprises on various IoT-related topics including partnerships rapidly increasing since we announced our engagement in full-MVNO

※ 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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