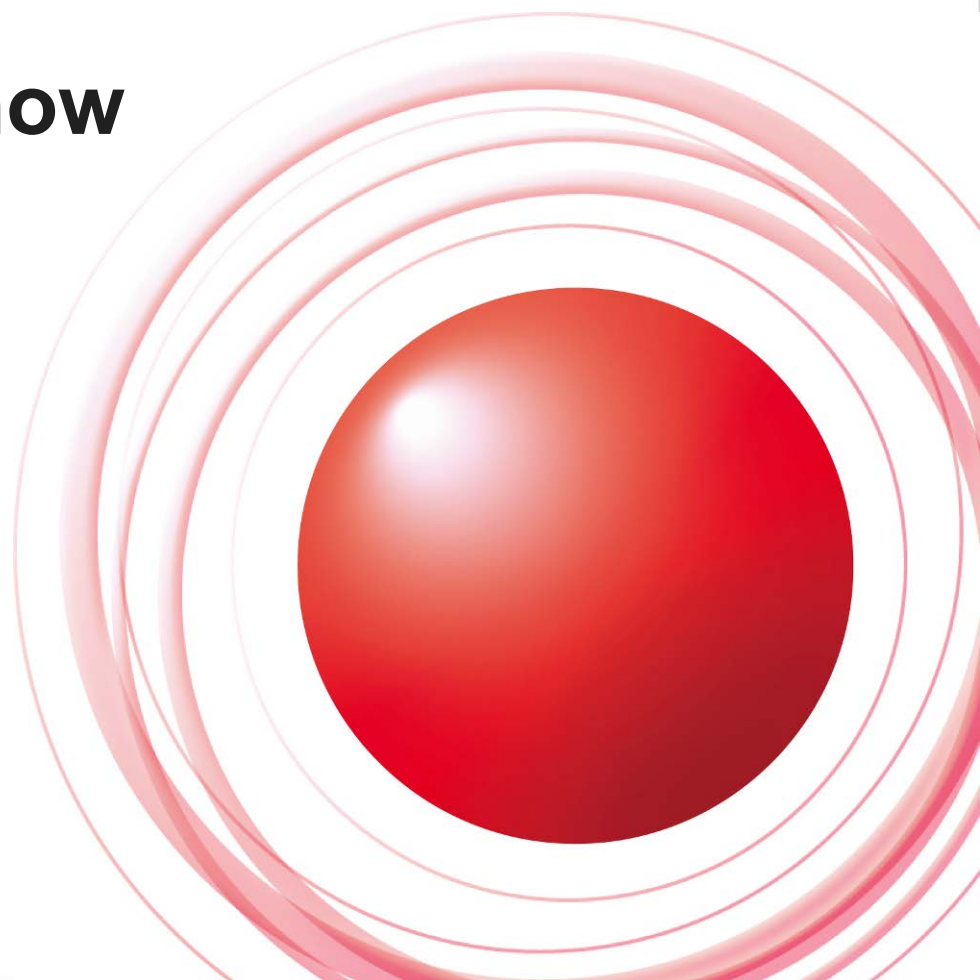


# Internet Initiative Japan Inc. Corporate Overview

## Overseas IR Roadshow

June and July 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

|   |   |
|---|---|
| <b>Established</b>                            | <b>December 1992</b>  |
| <b>Number of Employees*</b><br>(Consolidated) | <b>3,104</b> (approx. 70% engineers)  |
| <b>Listed Markets</b>                         | <b>NASDAQ (IIJI), TSE1 (3774)</b>   |
| <b>Large Shareholders*</b>                    | <b>NTT(21.6%), Dalton(6.3%) Koichi Suzuki(5.6%*), NTT Communications(4.4%)</b><br>*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

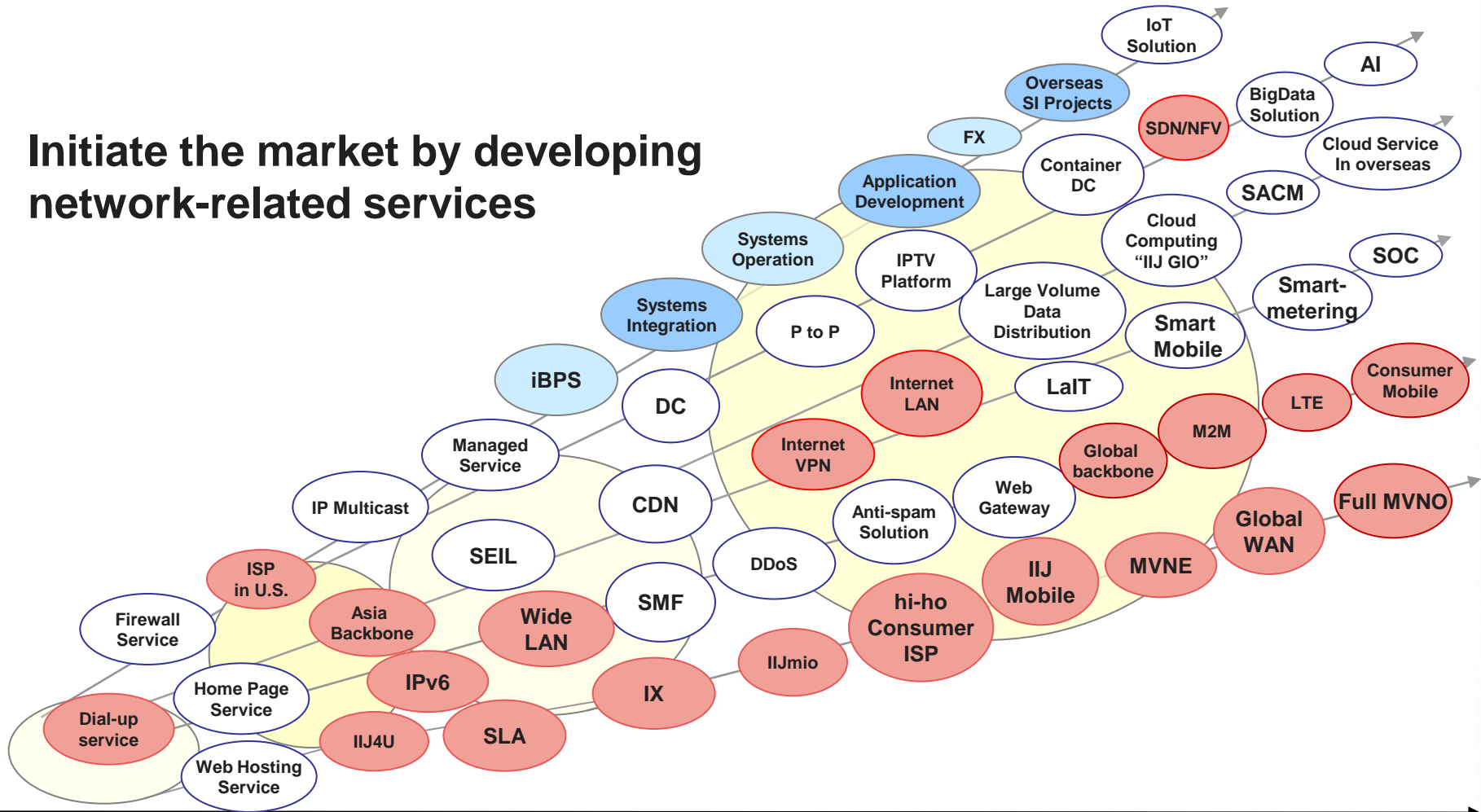
- Differentiate by continuous service developments and business investments
- Enhancing cloud, mobile, security, contents delivery and solutions related to bigdata and IoT
- Participates in world-wide research and organizations ...and many more

\* as of March 31, 2017

# Technology and Service Developments

About IIJ

Initiate the market by developing network-related services



|   |  |   |   |  |   |   |   |   |   |
|---|--|---|---|--|---|---|---|---|---|
| 1992<br><br>Internet Initiative Japan | 1996<br><br>IIJ America | 1997<br><br>internet m/s | 2006<br><br>Net Chart Japan<br>i-revo | 2007<br><br>hi-ho | 2008<br><br>INNOVATION INSTITUTE<br>IIJ Global | 2010<br><br>TRINITY<br>Loyalty Marketing Solutions | 2012<br><br>Trust Networks | 2013<br><br>IIJ Europe | 2014<br><br>ATKUSZETA NETWORKS |
|---|--|---|---|--|---|---|---|---|---|

IIJ Group

# ISP to Total Network Solution Provider

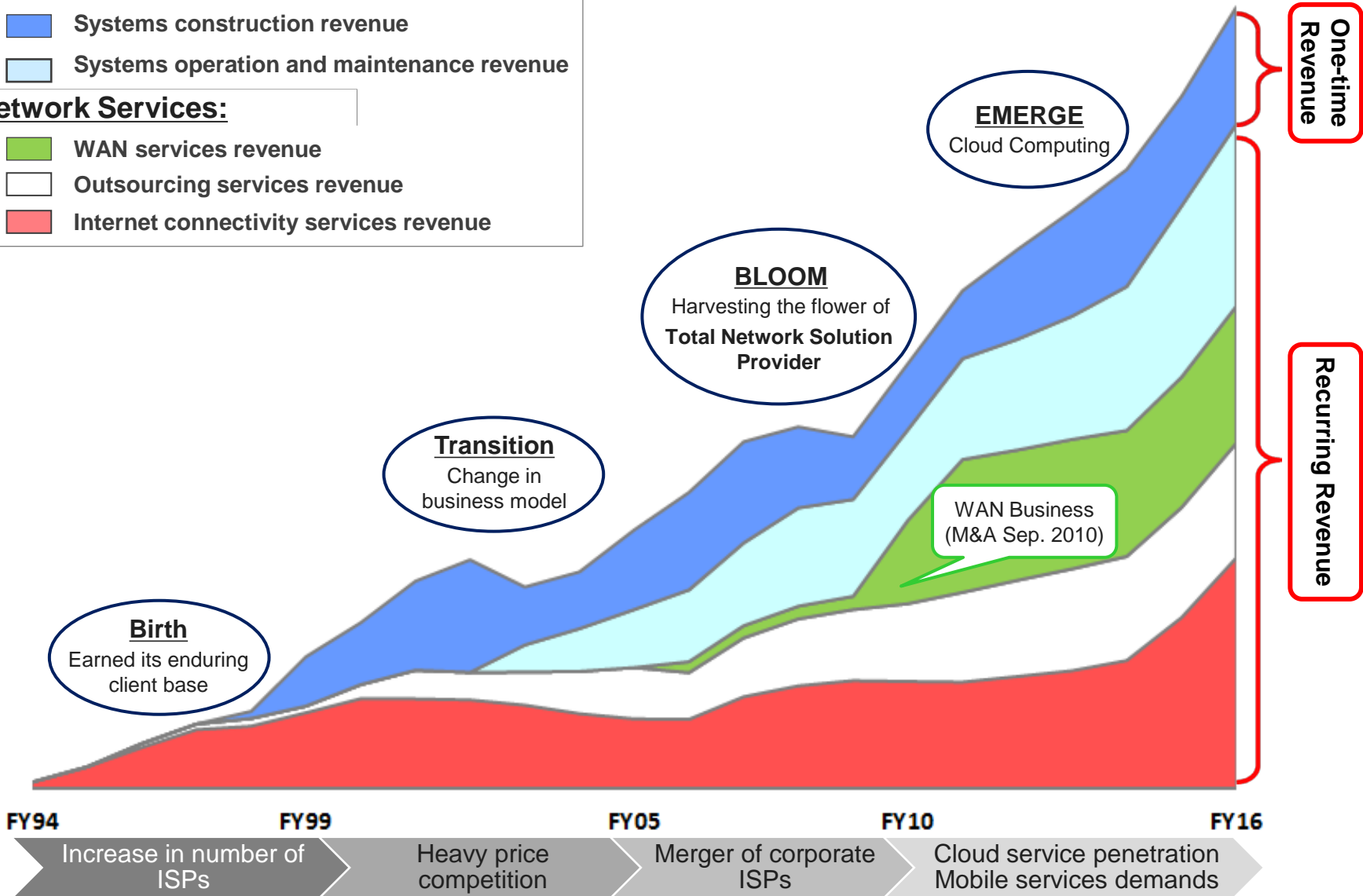
About IIJ

## 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.



Electronic appliances



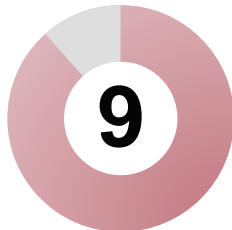
Construction



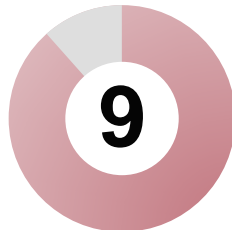
Securities



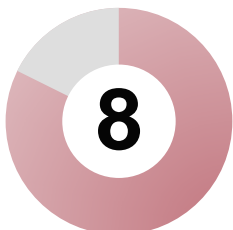
Information/Telco



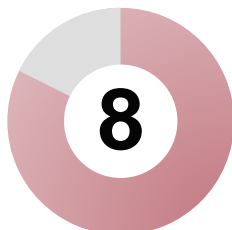
Retail



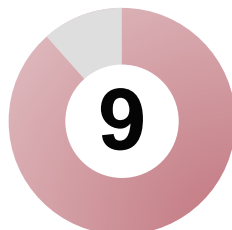
Wholesale



Banks

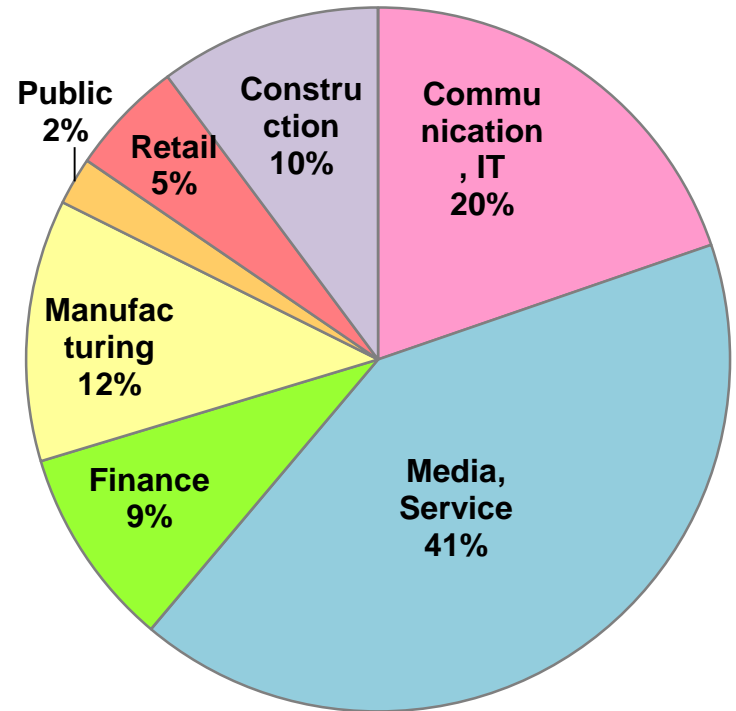


Insurance



Precision equipment

## Revenue Distribution by Industry



Source: IJ's FY2016 financial results

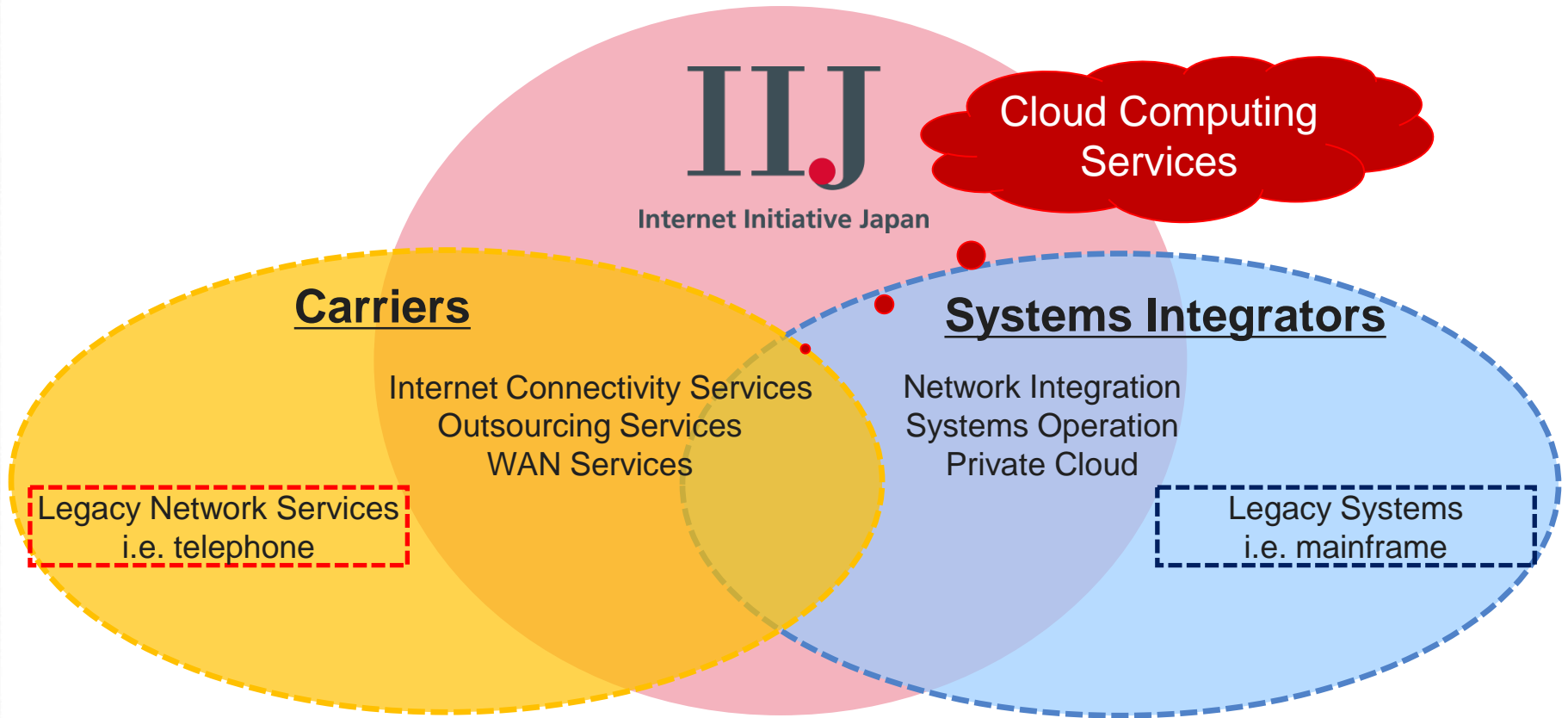
# Comprehensive Line-ups of IT services

| Revenues        |                                    | Services   | Business status  |
|-----------------|------------------------------------|--|--|
| NW Services     | Internet Connectivity (Enterprise) | <ul style="list-style-type: none"> <li>• Primary connectivity for head offices</li> <li>• High-performance dedicated connectivity</li> <li>• Redundant connectivity for multi-site</li> </ul>                      | <ul style="list-style-type: none"> <li>• Dominate the matured market</li> <li>• Revenue gradually increase with greater 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>• Over 60 in-house 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 functions to promote cloud, mobile systems etc.</li> </ul>  |
| Equipment Sales |                                    |  |  |



# Target Blue-chip's IT Shift

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



## IIJ's differentiation points towards competitors

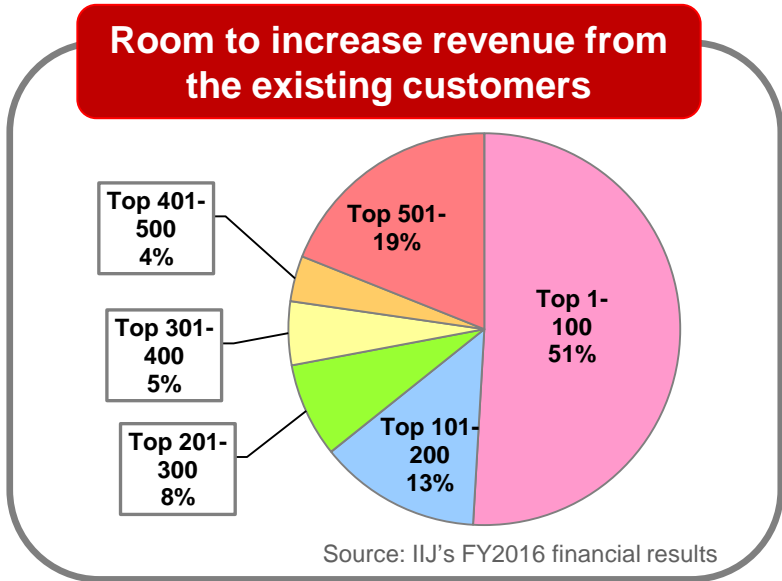
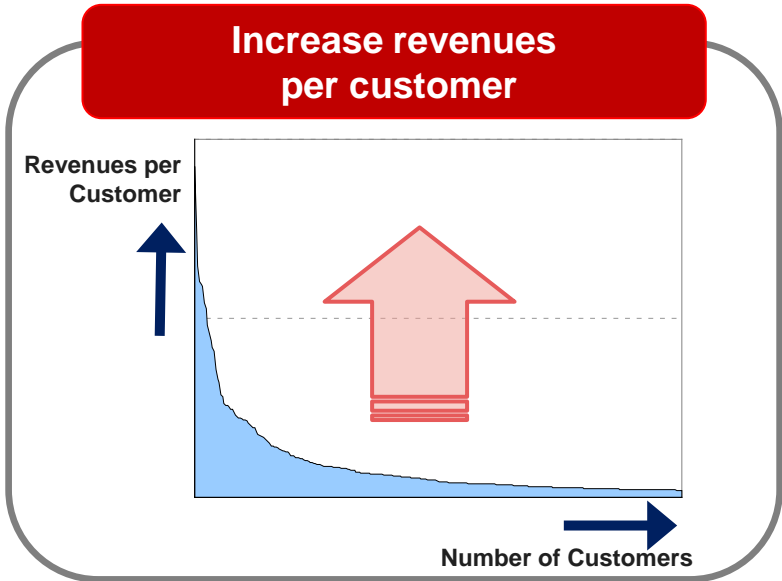
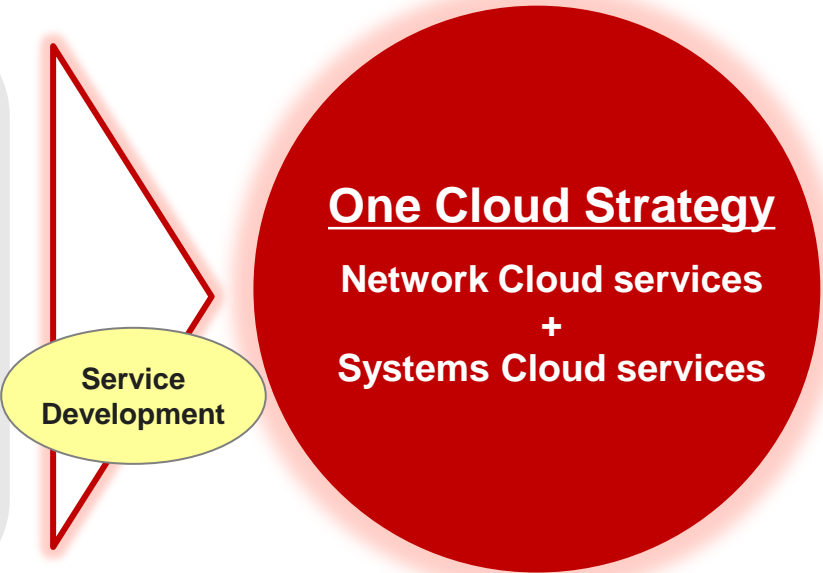
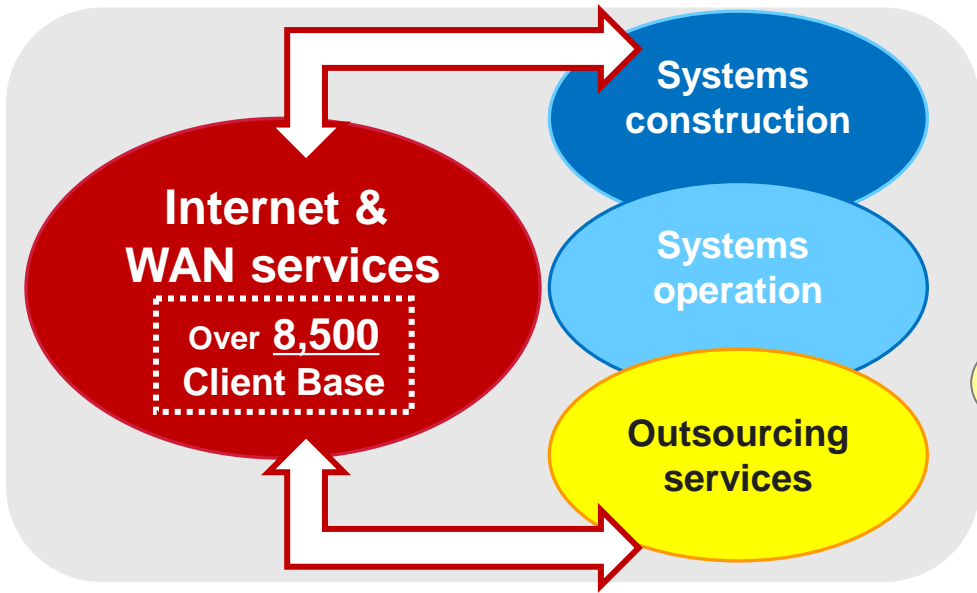
- Many highly skilled network engineers
- Corresponds to the Internet market rapidly
- Unbureaucratic organization structure

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



# Leveraging Blue-chip Customer Base

**Growth Strategy**



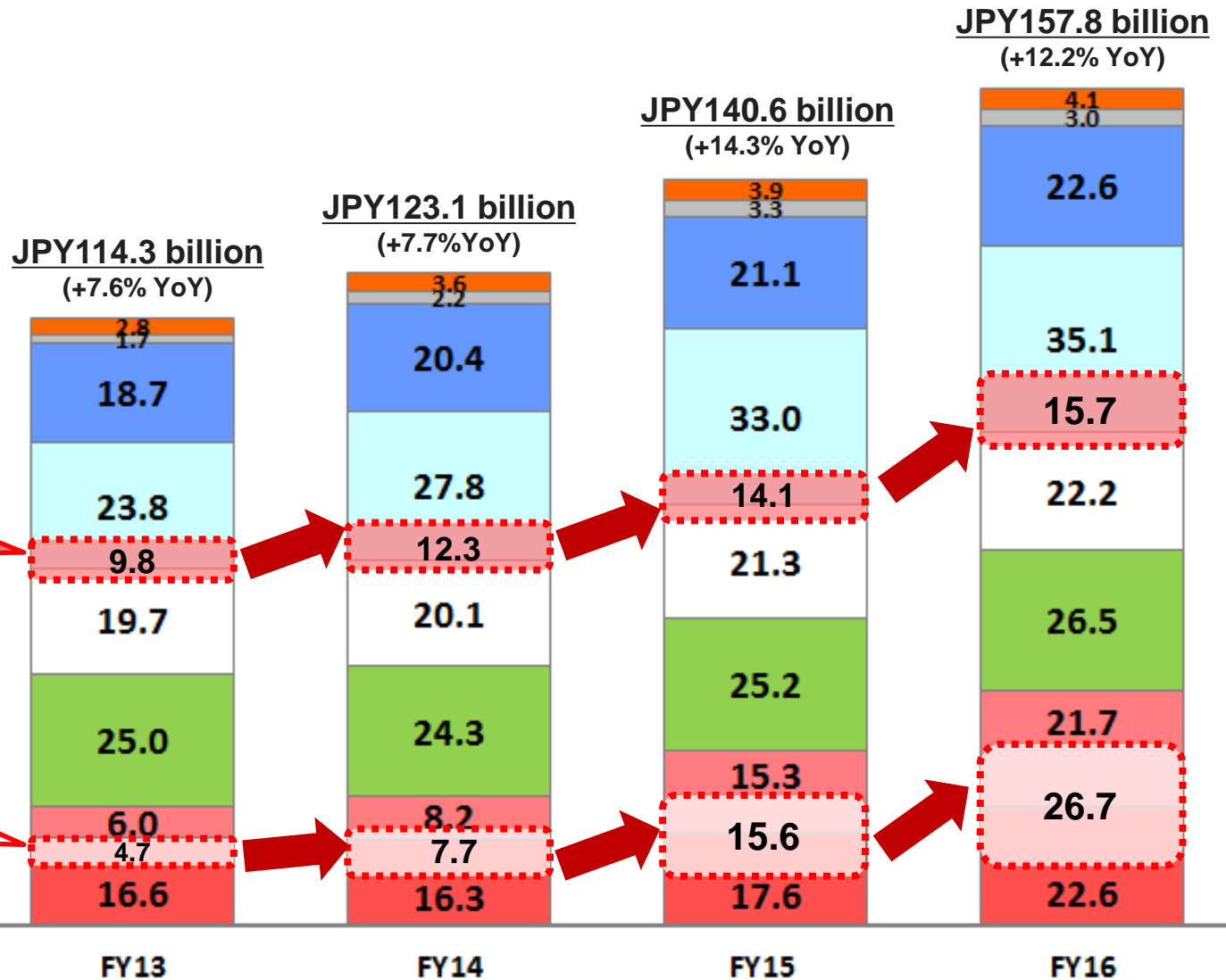
# Leveraging Blue-chip Customer Base

**Growth Strategy**

Unit: JPY billion

## ~ Cross-selling multiple service products ~

- < Revenue Breakdown >**
- ATM Operation Business
  - Equipment Sales
  - Systems construction
  - Systems operation & maintenance
  - Outsourcing services
  - WAN services
  - Consumer Internet services
  - Enterprise Internet services



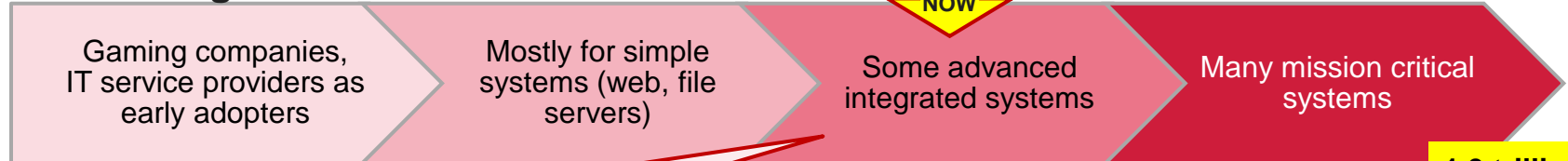
**Cloud services**

**Mobile services**

# Cloud Business Developments

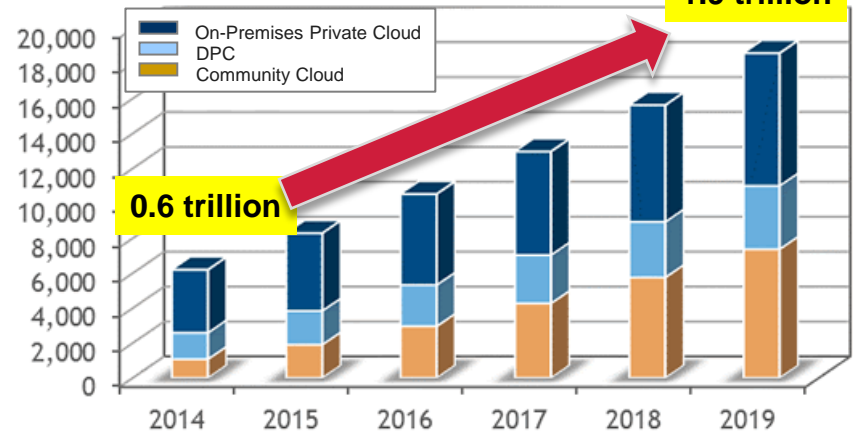
## Cloud Market in Japan

### ~ 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 2016

IDC Japan Domestic Private Cloud Market Estimation (2014-2019)

## 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



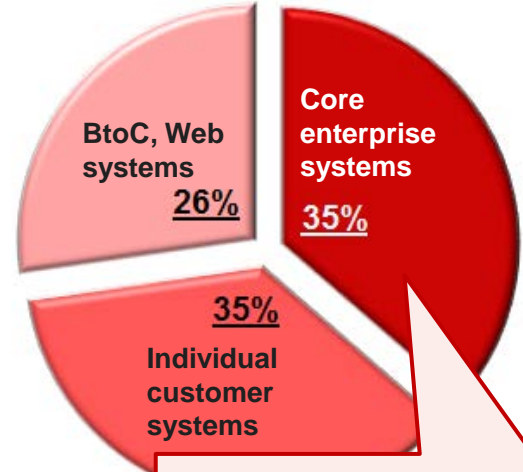
### Slers

- ◆ 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

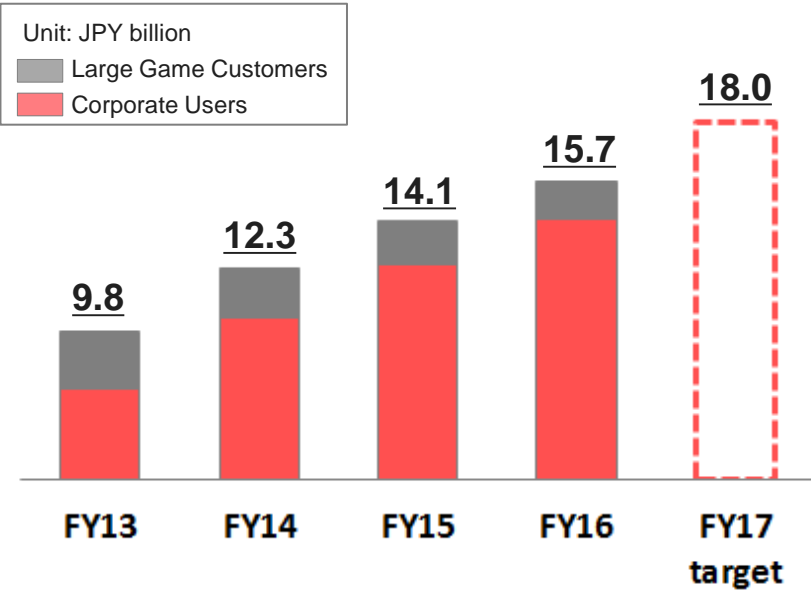
- ◆ Combination with network, security services and SI
- ◆ Reliability and value-added service features for Japanese systems
- ◆ Differentiate by face-to-face consultation, service line-ups, and operation-customer support
- ◆ Monitors IIJ GIO, other vendors' cloud service and on-premise systems
- ◆ Leverage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

## Ongoing Service Enhancement

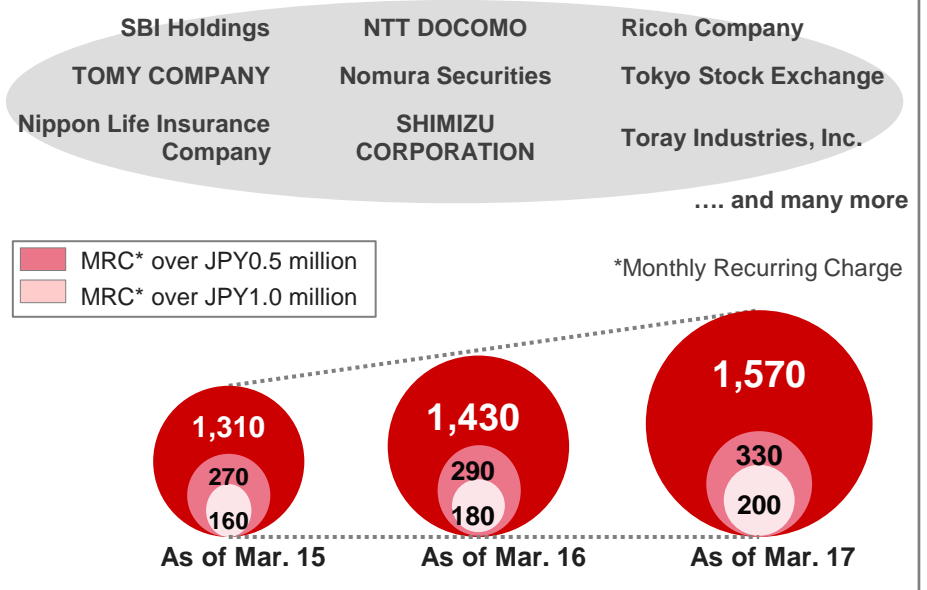
- Launched GIO P2 to provide public and private cloud resources seamlessly as most cloud systems require both
- Enhanced operation and maintenance service functions to oversee customers' systems from on-premise, other vendors' cloud and IIJ's, added some automation functions recently to provide genuine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

# Cloud Business Developments

## Revenue Growth



## Customer Base



## Business Model

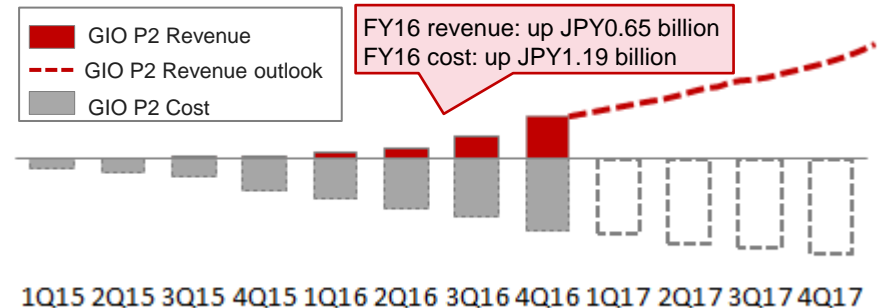
- Continuously invest in service facility and developments (servers, storage and datacenter)

| Cloud-related CAPEX (unit: JPY billion) |      |                             |                             |
|---|------|-----------------------------|-----------------------------|
| FY13                                    | FY14 | FY15                        | FY16                        |
| 3.7                                     | 1.7  | 4.4<br>(of P2-related: 2.2) | 3.6<br>(of P2-related: 2.0) |

- Benefit from large-scale service facility by improving utilization
- GIO P2 launched (fall '15), profit burden currently

## GIO P2 Services to growth

- Continuously accumulating prospective orders: approx. 800 as of FY16-end, up approx. 500 YoY
- GIO P2 revenue and cost:



# 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)

## 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)

## 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)

## 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)

## Core Business System

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

**JPY12 million**  
(from 1Q17)

## Financial Service

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



# Mobile Business Developments

**Growth Strategy**

## MVNO Market in Japan

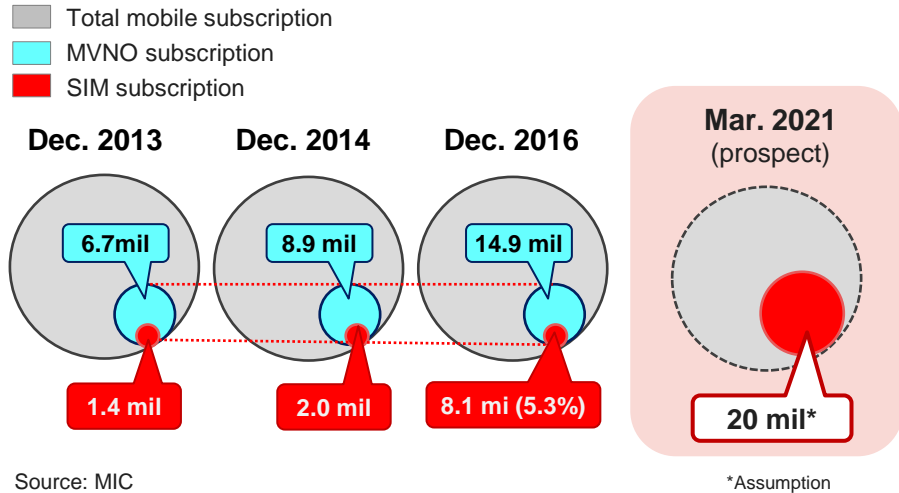
(YoY= year over year)

- **160 million** mobile subscription in total, 3 MNOs dominate
- MVNO in early stage, Consumer services began 2012
- MVNO penetration\*
  - Germany 40%
  - Denmark 25%
  - Spain 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 14% (FY16), 17% (FY15), 24% (FY14), 57% (FY13) YoY

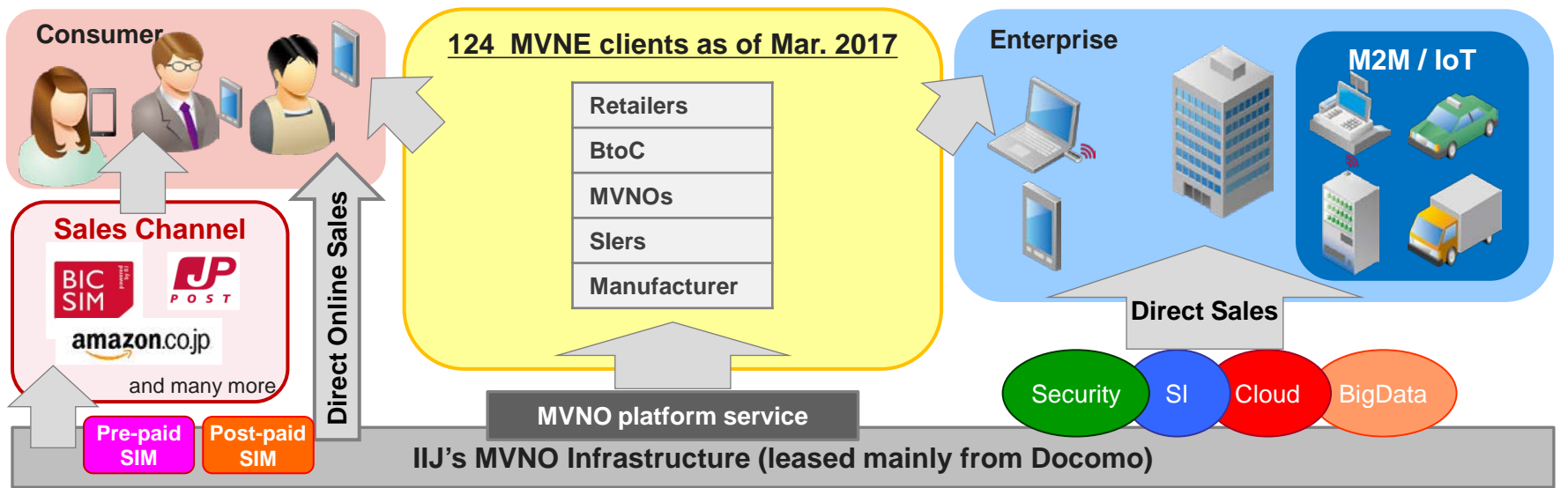
|             |   |              |                                     |
|-------------|---|--------------|-------------------------------------|
| <b>MNOs</b> | ¥6-7,000 per month full package service | <b>MVNOs</b> | ¥1,600 per month upper limit of 3GB |
|-------------|---|--------------|-------------------------------------|

## MVNO Penetration in Japan

(unit JPY billion)



## IJ'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

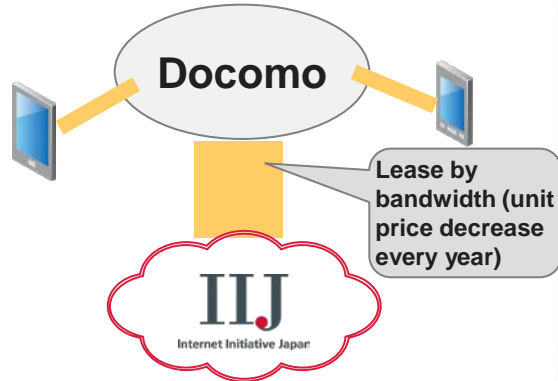
**MNOs**

- Strong service and infrastructure provider
- No SI expertise

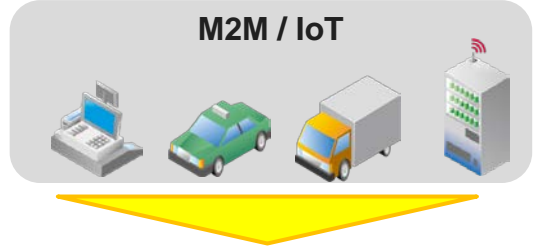
**IIJ's Competitiveness**

- ◆ 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



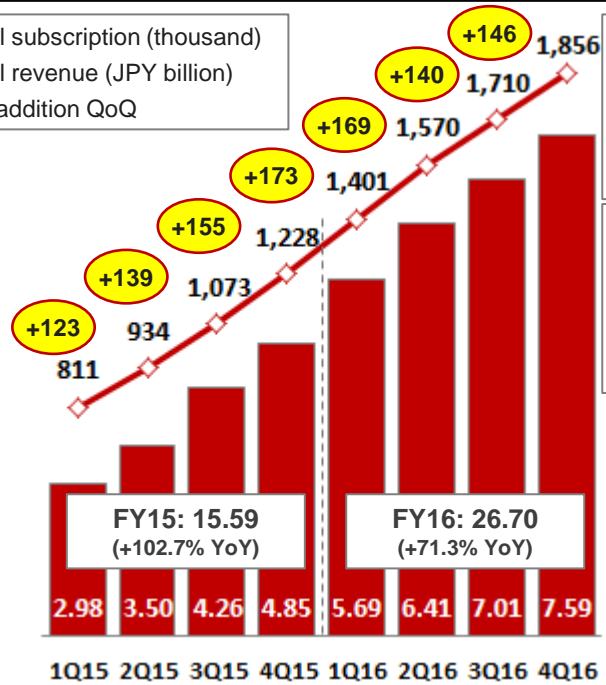
- ◆ IIJ MVNO gross margin: approx. 16% (4Q16 3month) \*internal accounting
  - to improve with accumulation of corporate traffic

# Mobile Business Developments

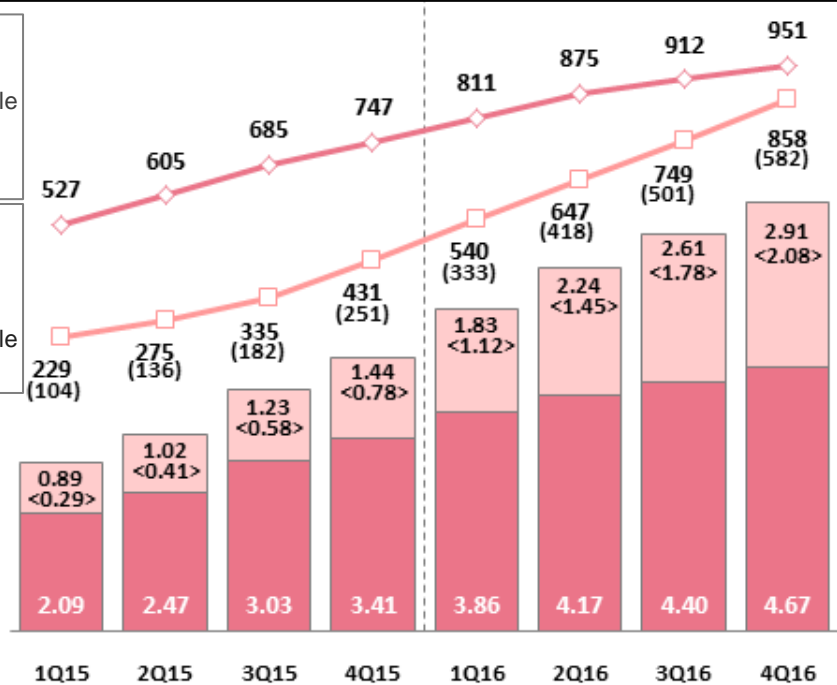
**Growth Strategy**

## Subscription and Revenue

- ◇ Total subscription (thousand)
- Total revenue (JPY billion)
- Net addition QoQ

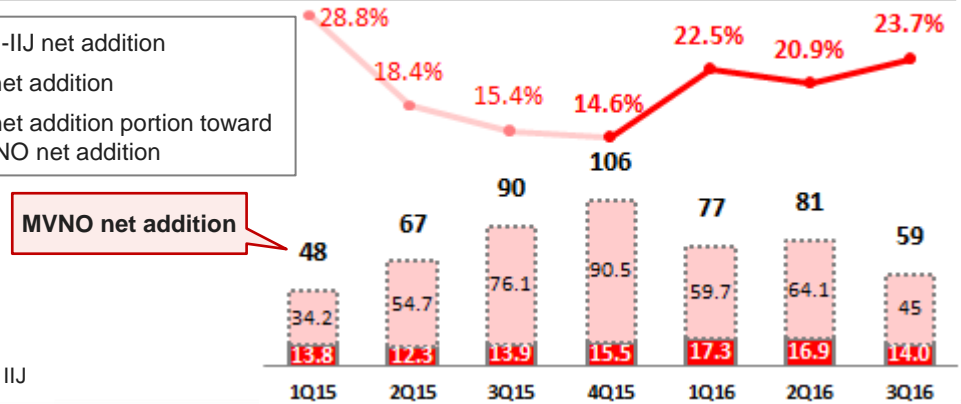


- Subscription (thousand):
  - ◇ IJmio Mobile
  - IJ Mobile
  - ( ) MVNE
- Revenue (JPY billion):
  - IJ Mobile
  - IJmio Mobile
  - < > MVNE

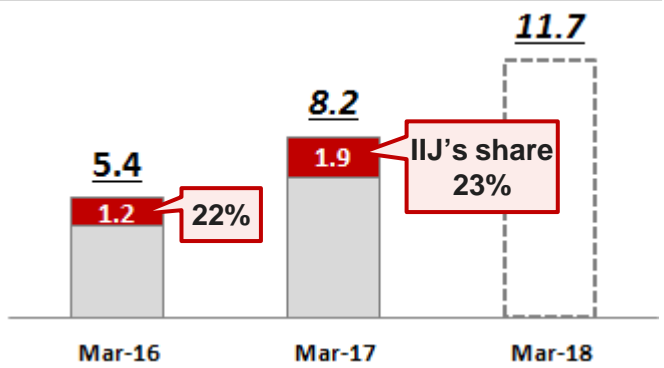


## MVNO Net Addition Share\* (unit: ten thousand)

- Non-IJ net addition
- IJ net addition
- IJ net addition portion toward MVNO net addition



## Market Share\* (unit: million subscription)



\*MIC and IJ

\*Market prediction report published by MMRI in June 2016

# Implementation of Full-MVNO

Growth  
Strategy

< Service launch >  
4Q17

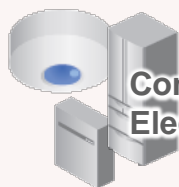
- Construct HLR/HSS systems
- Issue own data communications SIM cards
- To become the first full-MVNO in Japan

- ◆ 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



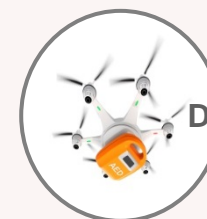
Wearable



Intelligent  
Transportation



Multi-  
country  
MVNO



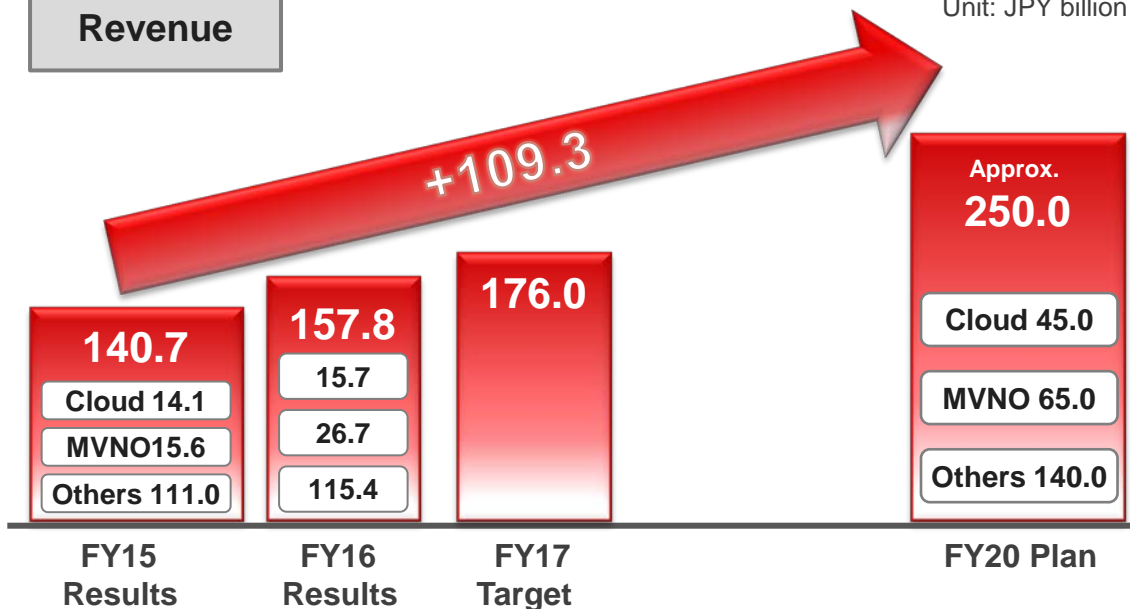
Drone

- 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 IJ CAPEX)
  - For FY2017, full-MVNO related costs is approx. JPY0.4 billion (from Dec. 2017) related CAPEX up JPY0.8 billion YoY

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

## Revenue

Unit: JPY billion



## 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)

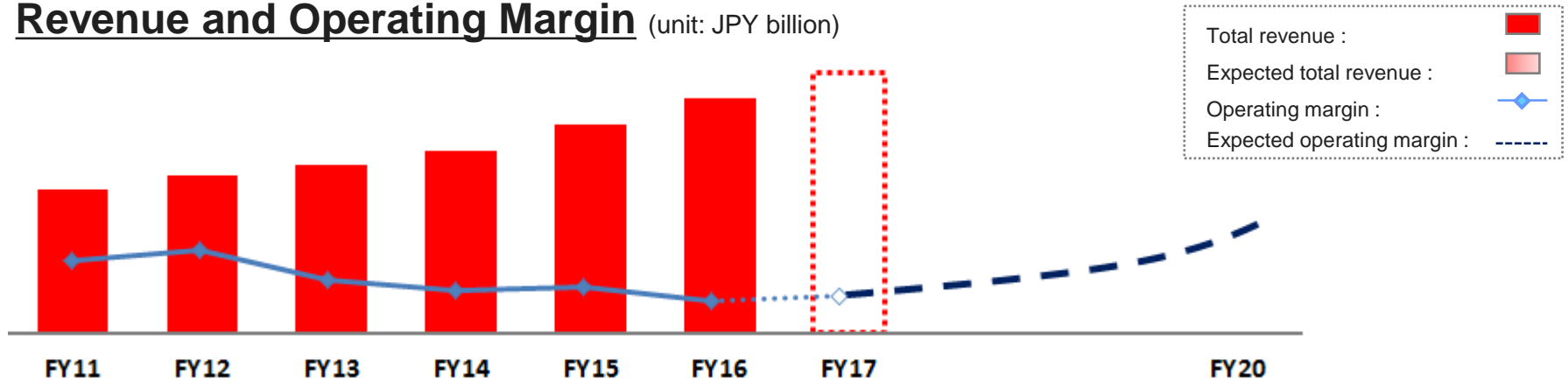
### Scale Merit

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

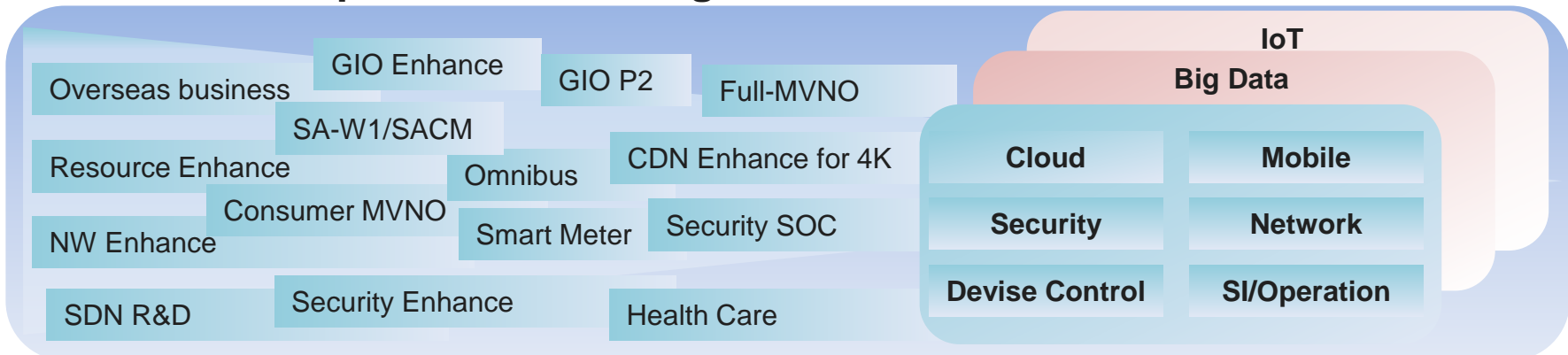
### Next Stage

- 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 FY2016 Financial Results

**Financial  
Summary**

**Strong revenue growth continued with aggressive business investment  
Income decreased due to heavy investment and SI deterioration**

|                  |                  |            |                                       |                 |
|------------------|------------------|------------|---------------------------------------|-----------------|
| Revenues         | JPY157.8 billion | up 12.2%   | EBITDA                                | JPY16.1 billion |
| Gross margin     | JPY25.2 billion  | up 2.4%    | ROE                                   | 4.8%            |
| Operating income | JPY5.1 billion   | down 16.4% | Annual cash dividend per common share | JPY27.00        |
| Net income*      | JPY3.2 billion   | down 21.6% | Payout ratio                          | 38.9%           |

%, YoY=FY16 compared to FY15, \*Net income attributable to IJ

**Cloud**

- Promoting GIO P2 services
    - FY16-end GIO P2 prospective orders: approx. 800 (up 500 YoY)
    - Acquired core business platform system, local governments' Information Security Cloud projects etc.
  - Continuously expanding functions: hybrid/multi-cloud, unified operation and maintenance services
- ➔ **FY16 cloud revenue: JPY15.7 billion (up 11.1% YoY)**

**Security**

- Continuously expanded services features: Sandbox function, DDoS protection services, virtual desktop services
  - Launched Security Operation Center service leveraging security incidents/threats information gathered from our renewed information analysis platform (Mar. 2017)
- ➔ **FY16 Security services revenue: up 10.9% YoY**

**Mobile, IoT**

- Enhanced MVNE and sales partners
    - FY16-end MVNE clients: 124 (up 18 companies YoY)
    - Nationwide Japan Post branches, University Co-ops
  - Implementation of Full-MVNO services
    - Target IoT solutions for enterprises, Preparing to launch in 4Q17
  - Launched "IJ IoT Services" (Nov. 2016)
    - Accumulating IoT prospective orders via PoC
    - Chosen by the Ministry of Agriculture, Forestry and Fisheries on paddy water control management system
- ➔ **FY16-end total subs.: 1,856 thousand (up 628 YoY)**  
**FY16 total revenue: JPY26.7 billion (up 71.3% YoY)**

\*Proof of Concept: process of testing a new concept for its real-world application

**CDN**

- Providing CDN to Berlin Phil., NHK Symphony and more
- ➔ **Established JV with 15 major Japanese broadcasting companies to provide CDN platform services**
- Towards the coming era of convergence of broadcasting and communications, Simulcast, 4K/Internet-based broadcasting
- \*JOCN Inc., IJ ownership 20%

**Overseas**

- Existing overseas subsidiaries starting up, Cloud JV in Thailand and Vietnam with local partners (Feb. 2016 and Nov. 2016)
  - Exported container datacenter module to Laos
- ➔ **FY16 revenue: JPY6.4 billion (up 21.5% YoY)**  
**FY16 operating loss: JPY0.18 billion (improved by JPY0.36 billion YoY)**

**Financials**

- ◆ FY16 results in line with revised target (announced in Nov. 2016)
- ◆ 4Q16 resulted as planned with SI gross margin recovered, services revenues accumulated, portion of Information Security Cloud project's revenue recognized

**Shareholders return**

- ◆ Dividend: as initially planned, increased from FY15
- ◆ Share buyback: from Nov. 2016 to Jan. 2017, 892 thousand shares, 1.9% of the total number of shares issued, JPY1.5 billion

# FY2017 Business Plan

**Financial  
Summary**

**Continuous strong revenue growth just as the the middle term plan's second year  
Operating income to largely improve with strong revenue absorbing cost increase**

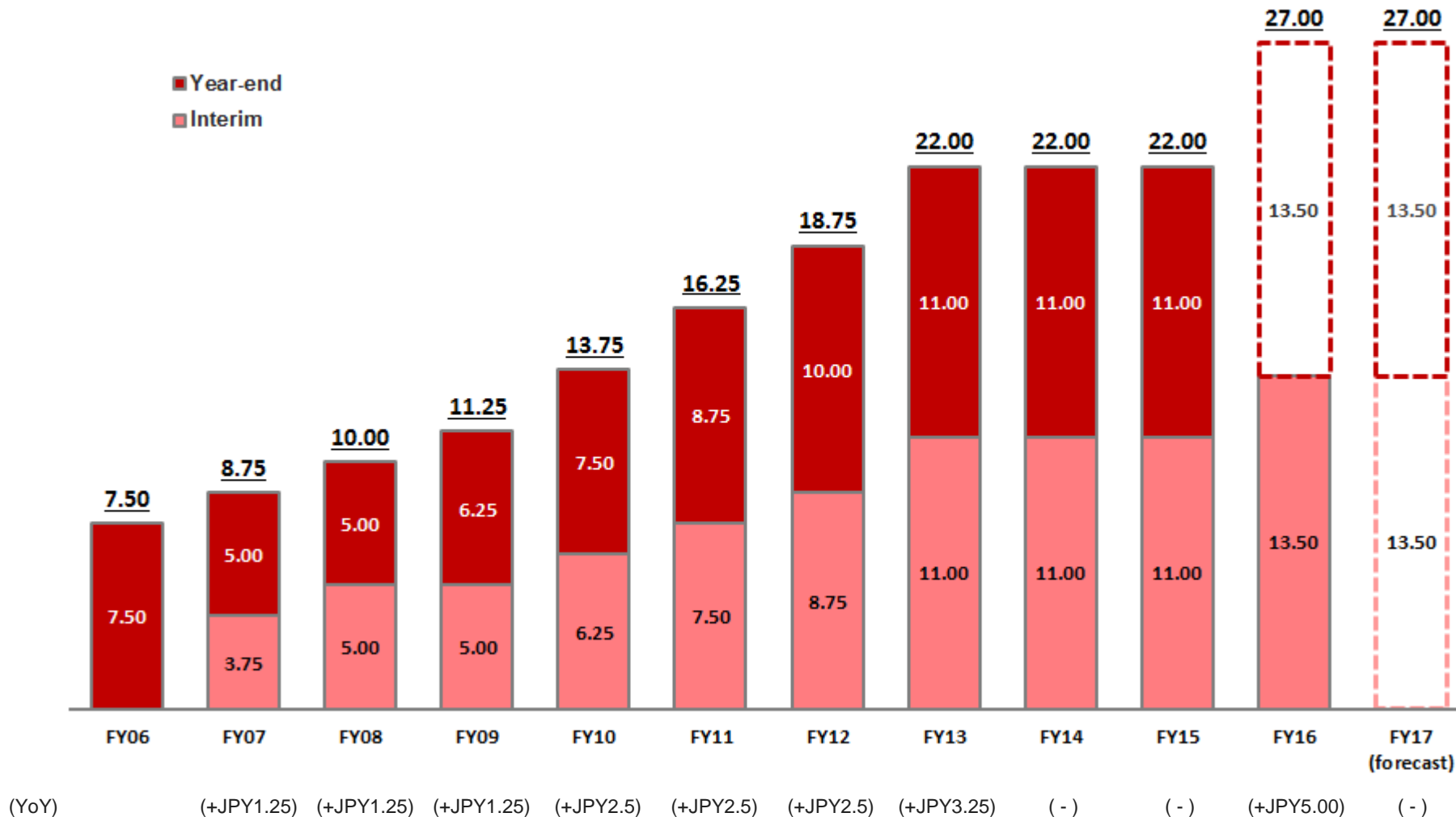
Unit: JPY billion, YoY=FY target compared with FY16 results, \*Net income attributable to IJ

|                                  | % of Revenues  |   | YoY Change |        |
|----------------------------------|--|---|------------|--------|
|                                  | FY16 Results<br><small>(Apr. 2016 - Mar. 2017)</small> | FY17 Target<br><small>(Apr. 2017 - Mar. 2018)</small> |            |        |
| Total Revenues                   | 157.8  | 176.0   | +18.2      | +11.5% |
| Total Cost of Revenues           | 84.0%<br>132.5   | 84.0%<br>147.8  | +15.3      | +11.5% |
| Gross Margin                     | 16.0%<br>25.2  | 16.0%<br>28.2   | +3.0       | +11.7% |
| SG&A/R&D                         | 12.7%<br>20.1  | 12.3%<br>21.7   | +1.6       | +7.9%  |
| Operating Income                 | 3.3%<br>5.1  | 3.7%<br>6.5   | +1.4       | +26.6% |
| Income before Income Tax Expense | 3.4%<br>5.4  | 3.7%<br>6.5   | +1.1       | +19.8% |
| Net Income*                      | 2.0%<br>3.2  | 2.3%<br>4.0   | +0.8       | +26.3% |
| Cash Dividend per common share   | JPY27.00   | JPY27.00  | -          | -      |

|             |   |
|-------------|---|
| Cloud       | <ul style="list-style-type: none"> <li>GIO P2 flagship projects to be recognized as revenue               <ul style="list-style-type: none"> <li>➢ Unified business operation platform for a global manufacturing company's group, virtual desktop services etc.</li> </ul> </li> <li>Continuously developing services and service facility investment               <ul style="list-style-type: none"> <li>➔ <b>FY17 target revenue : JPY18 billion (up 15% YoY)</b></li> </ul> </li> </ul>              |
| Mobile, IoT | <ul style="list-style-type: none"> <li>Continuously enhance service quality, strengthen sales promotion with sales partners for consumer</li> <li>Further acquire enterprise IoT/M2M solution orders</li> <li>Full-MVNO services from 4Q17, cost to be recorded from Dec. 2017 (included in the budget)               <ul style="list-style-type: none"> <li>➔ <b>FY17 target subs. net addition: stronger than FY16</b><br/>(FY16 net addition: 628 thousand, FY15: 555 thousand)</li> </ul> </li> </ul> |
| Security    | <ul style="list-style-type: none"> <li>Stronger revenue accumulation with services developed in FY16</li> <li>Information Security Cloud project's revenue to increase</li> <li>Continuously developing services and enhancing differentiation               <ul style="list-style-type: none"> <li>➔ <b>Security services revenue accumulation to accelerate</b></li> </ul> </li> </ul>  |
| SI          | <ul style="list-style-type: none"> <li>Expect no significant YoY increase for SI construction revenue due to cloud trend</li> <li>Expect SI gross margin ratio to improve by 1 point YoY with SE productivity improvement and cloud revenue accumulation</li> </ul>   |
| Overseas    | <ul style="list-style-type: none"> <li>Target revenue of JPY7.0 billion and plan to turn positive with each overseas subsidiaries making more contribution</li> </ul>   |
| CDN         | <ul style="list-style-type: none"> <li>JOCDN Inc. to launch services               <ul style="list-style-type: none"> <li>➢ Provide CDN services for Japanese broadcasting companies' contents</li> </ul> </li> </ul>   |



# Dividend Forecast

**Financial  
Summary**


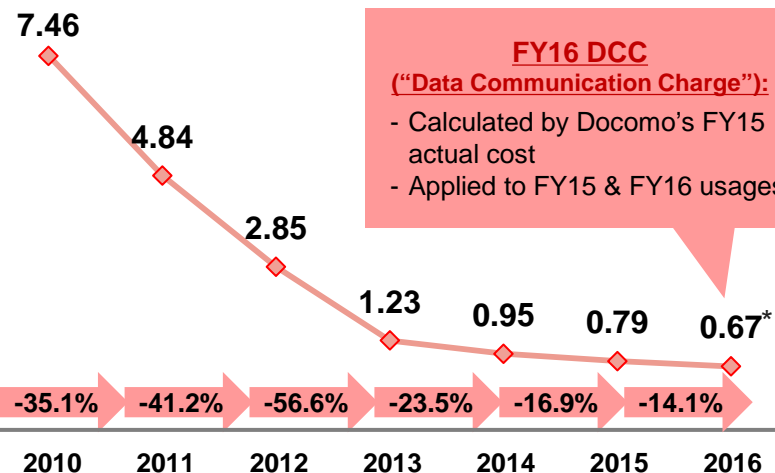
\*IIJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. Dividend figures shown below are retroactively adjusted to reflect the stock split.

# Data Communication Charge for MVNO (NTT Docomo)

Appendix

## NTT Docomo's Monthly DCC per 10Mbps

(JPY million)



2010 2011 2012 2013 2014 2015 2016

\*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

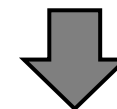
|        | (1) Docomo's payment arrangement | (2) IIJ's estimation | (3) Actual results |
|--------|----------------------------------|----------------------|--------------------|
| FY14   | 40%                              | 40%                  | 24%                |
| FY15   | 25%                              | 15%                  | 17%                |
| FY16** | 15%                              | 12%                  | 14%*               |

(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

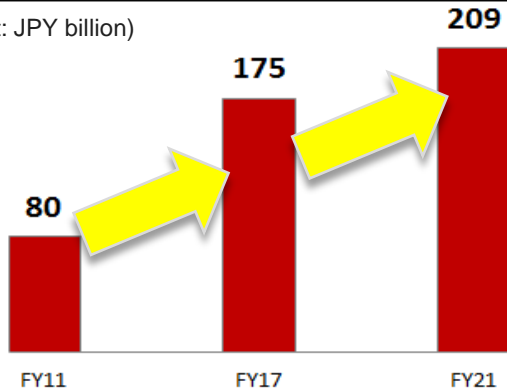
- Greater needs to distribute contents over Internet, especially in specific areas
- 4K/8K and high-definition contents to increase towards the Tokyo Olympics
- Nippon TV owns Hulu Japan, broadcasting companies operate "TVer"
- Akamai strong in Japan CDN market, no prominent Japanese provider currently
- 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**

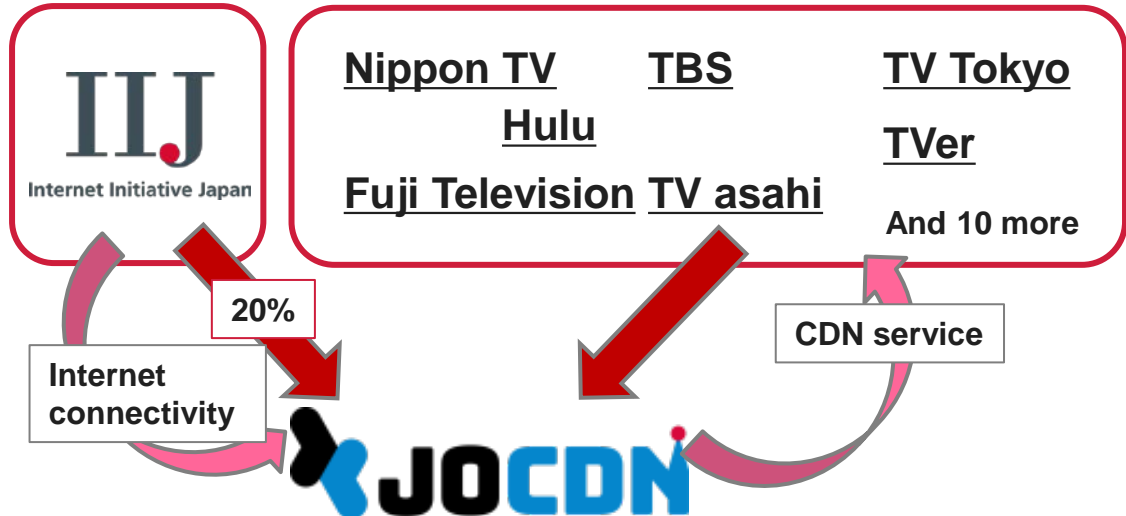
|                     |  |
|---------------------|--|
| <b>Company name</b> | JOCDN Inc.   |
| <b>Shareholders</b> | IIJ (20%), Nippon TV (14%), TV asahi (14%), TBS (14%), TV Tokyo (14%), Fuji TV (14%) and 10 more commercial broadcasting companies   |
| <b>Capital</b>      | JPY710 million   |
| <b>Management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

## 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



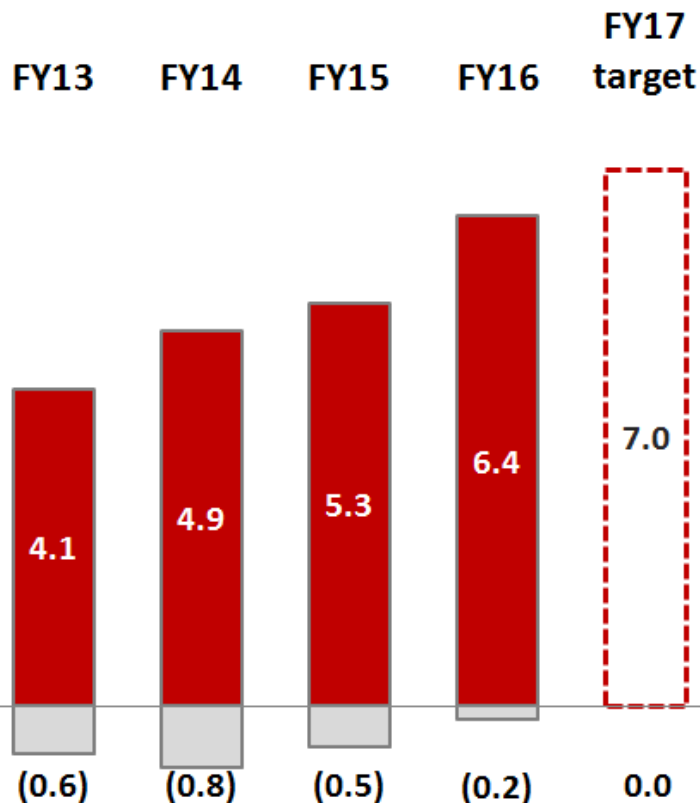
# Overseas Business Developments

## Financial Results

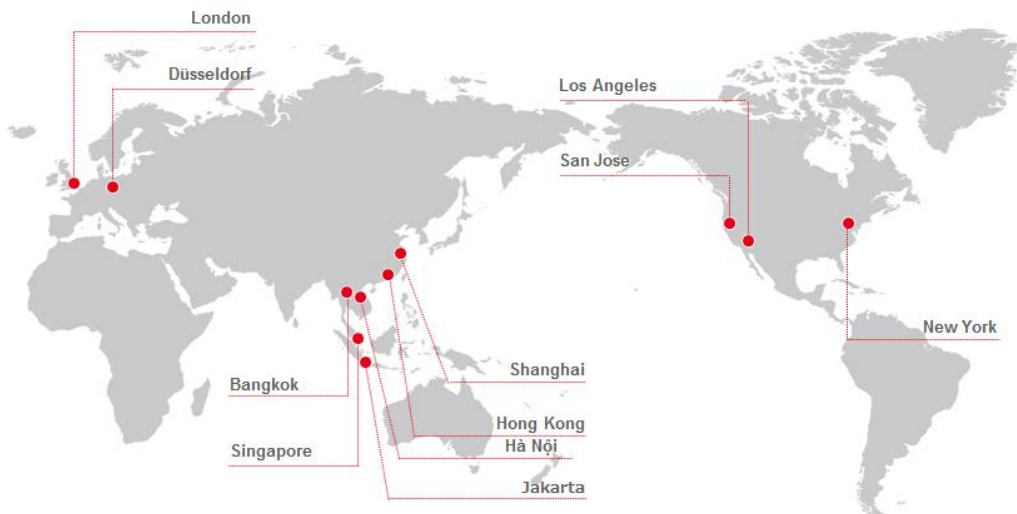
Unit: JPY billion

■ Revenue

■ Operating loss



## Overseas offices



## Business Developments

- **Provide cloud services in Indonesia, Thailand and Vietnam together with local prominent IT companies**
  - With Biznet Networks in Indonesia (from March 2015)
  - With T.C.C. Technology Co., Ltd, in Thailand (February 2016)
  - With FTP Telecom Partner in 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

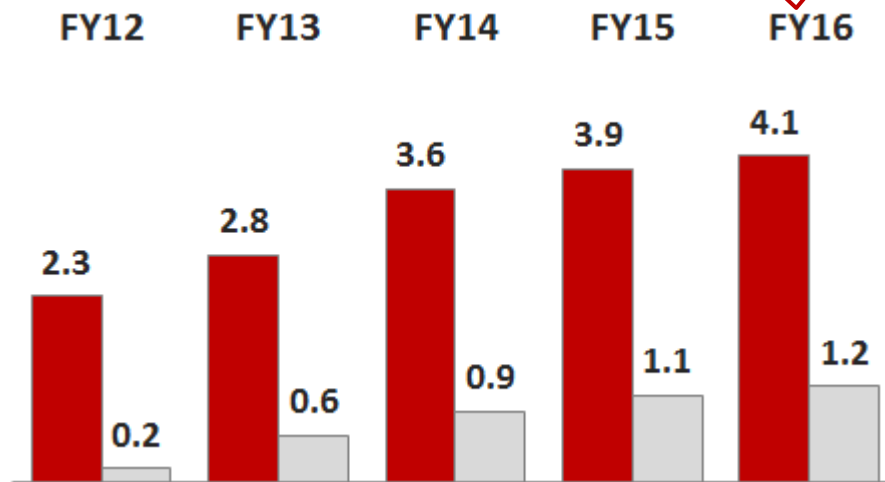
## Business Model

- Similar to “Seven Bank” model, high profitability
  - Seven Bank: 23,368 ATMs, revenue JPY121.6 billion, profit ratio 30.2% as of March 31, 2017
- Placing ATMs in Pachinko parlors in Japan with dominant position
  - After long discussion, started to place in Kanto, Kansai, Kyushu and Tokai areas
  - 10,986 Pachinko parlors in Japan as of December 31, 2016 (Zennichi Yuren)
- 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

# **FY2016 Consolidated Financial results**

**Announced on May 15, 2017**

# Consolidated Financial Results for FY2016 (1)

**Financial  
Results**

Unit: JPY billion

|   | <i>% of Revenues</i><br><b>FY16 Results</b><br><small>(Apr. 2016 - Mar. 2017)</small> | <i>% of Revenues</i><br><b>FY15 Results</b><br><small>(Apr. 2015 - Mar. 2016)</small> | <b>YoY Change</b> | <i>% of Revenues</i><br><b>FY16 Target</b><br><small>(revised in Nov. 2016)</small><br><small>(Apr. 2016 - Mar. 2017)</small> |
|---|---|---|-------------------|---|
| <b>Total Revenues</b>                   | <b>157.8</b>  | <b>140.6</b>  | <b>+12.2%</b>     | <b>158.0</b>  |
| <b>Total Cost of Revenues</b>           | 84.0%<br><b>132.5</b>   | 82.5%<br><b>116.0</b>   | <b>+14.3%</b>     | 84.0%<br><b>132.7</b>   |
| <b>Gross Margin</b>                     | 16.0%<br><b>25.2</b>  | 17.5%<br><b>24.7</b>  | <b>+2.4%</b>      | 16.0%<br><b>25.3</b>  |
| <b>SG&amp;A/R&amp;D</b>                 | 12.7%<br><b>20.1</b>  | 13.2%<br><b>18.5</b>  | <b>+8.6%</b>      | 12.8%<br><b>20.3</b>  |
| <b>Operating Income</b>                 | 3.3%<br><b>5.1</b>  | 4.4%<br><b>6.1</b>  | <b>(16.4%)</b>    | 3.2%<br><b>5.0</b>  |
| <b>Income before Income Tax Expense</b> | 3.4%<br><b>5.4</b>  | 4.4%<br><b>6.2</b>  | <b>(12.4%)</b>    | 3.2%<br><b>5.1</b>  |
| <b>Net Income*</b>                      | 2.0%<br><b>3.2</b>  | 2.9%<br><b>4.0</b>  | <b>(21.6%)</b>    | 1.9%<br><b>3.0</b>  |

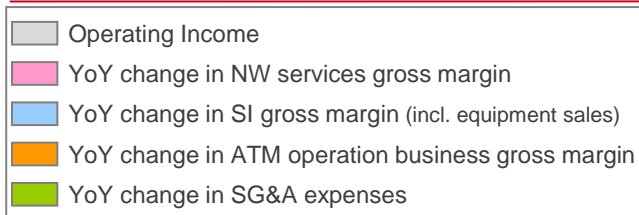
\*Net income attributable to IJ



# Consolidated Financial Results for FY2016 (2)

**Financial Results**

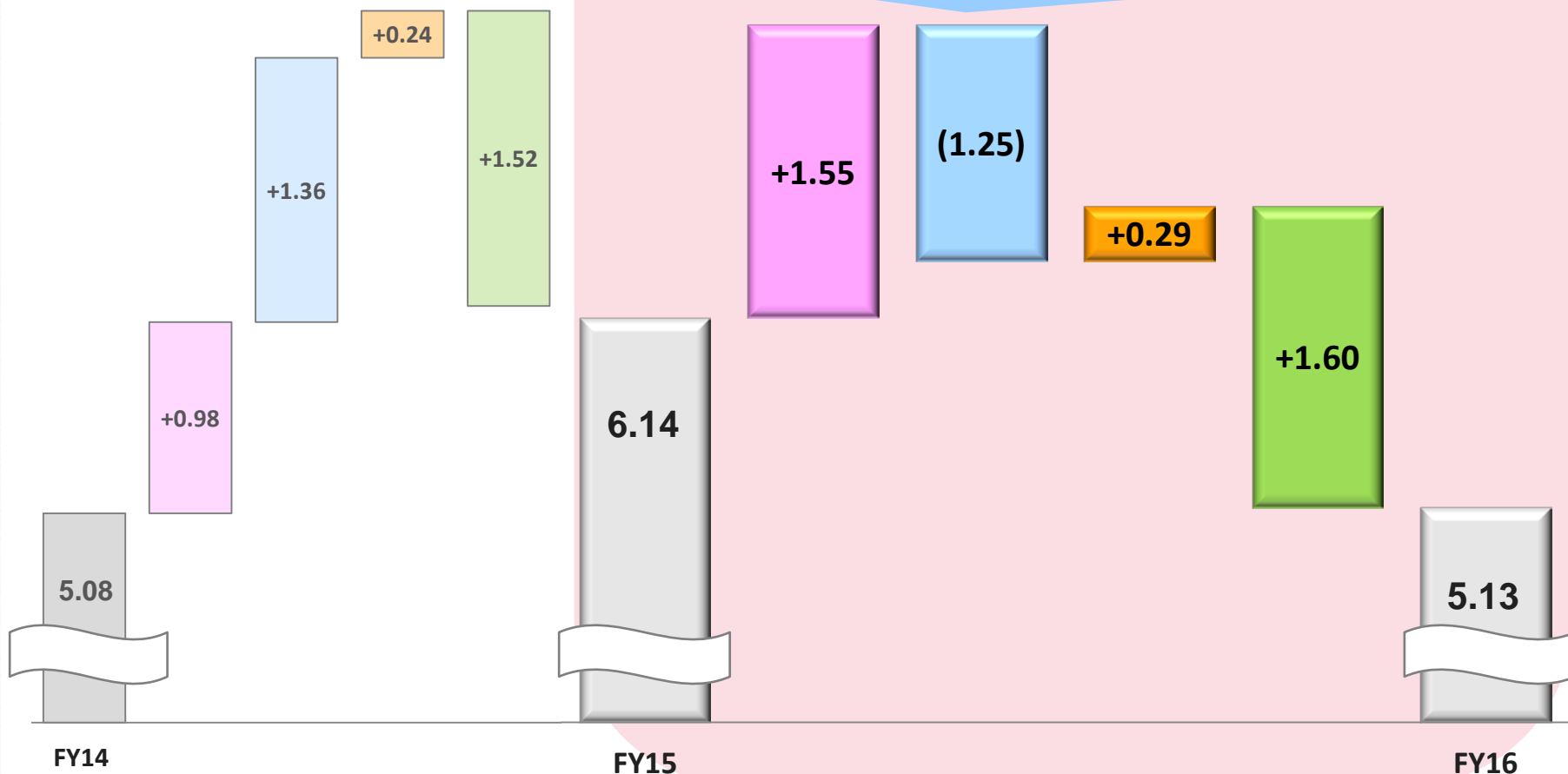
Unit: JPY billion



YoY = compared to the same period in a previous year

**Factors affected SI gross margin YoY decrease**

- Profitability decreased mainly because of low productivity of SEs, cancellation of large-scale operation and maintenance project, delay in offering some function of our foreign exchange ASP services
- Profit negatively impacted by increase in cost along with the launch of GIO P2 and others and slower than expected revenue accumulation



# Revenues

## Financial Results

Unit: JPY million

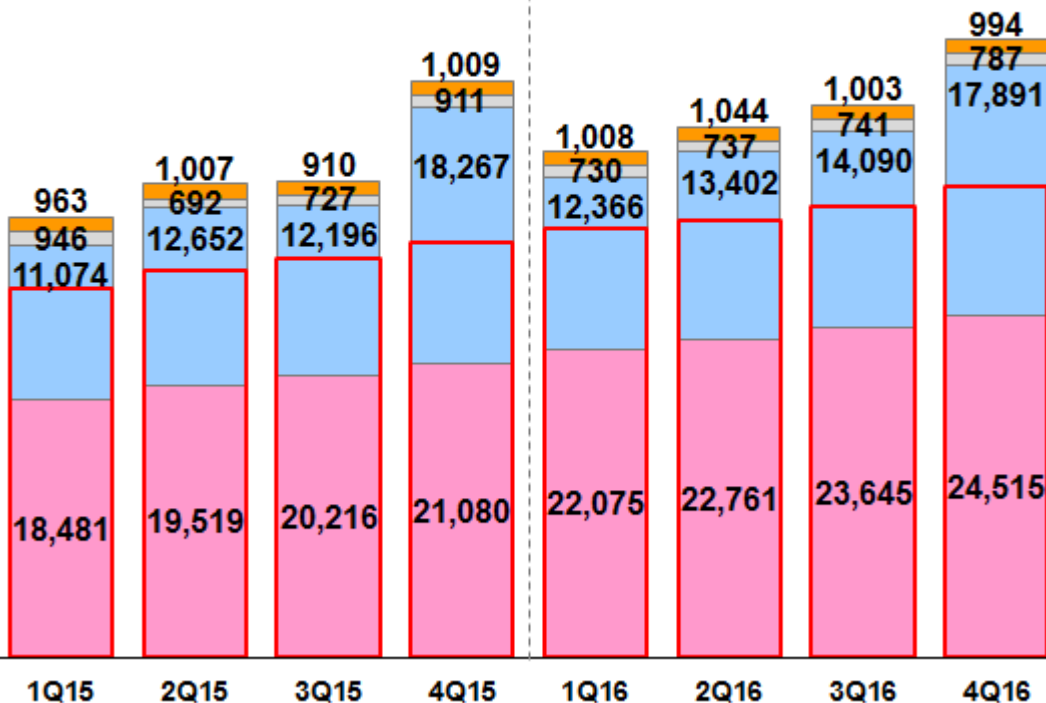
[ ], YoY = compared to the same period in a previous year



**FY15: 140,648 [+14.3%]**

**FY16: 157,789 [+12.2%]**

|          |          |          |          |          |          |          |         |
|----------|----------|----------|----------|----------|----------|----------|---------|
| 31,464   | 33,870   | 34,048   | 41,266   | 36,179   | 37,944   | 39,479   | 44,187  |
| [+14.2%] | [+14.3%] | [+11.0%] | [+17.2%] | [+15.0%] | [+12.0%] | [+16.0%] | [+7.1%] |



**One-time Revenue \***  
**FY16: JPY25,620 million (up 4.9% YoY)**  
**(16.2% of FY16 revenues)**

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

1. Systems Construction
2. Equipment Sales

**Recurring Revenue\***  
**FY16: JPY128,119 million (up 14.0% YoY)**  
**(81.2% of FY16 revenues)**

\*Represents the following monthly recurring revenues

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

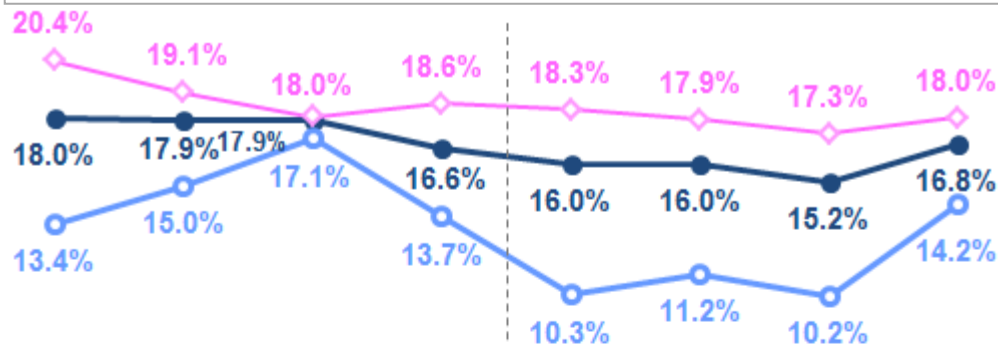
# Cost of Revenues and Gross Margin Ratio

**Financial Results**

Unit: JPY million

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

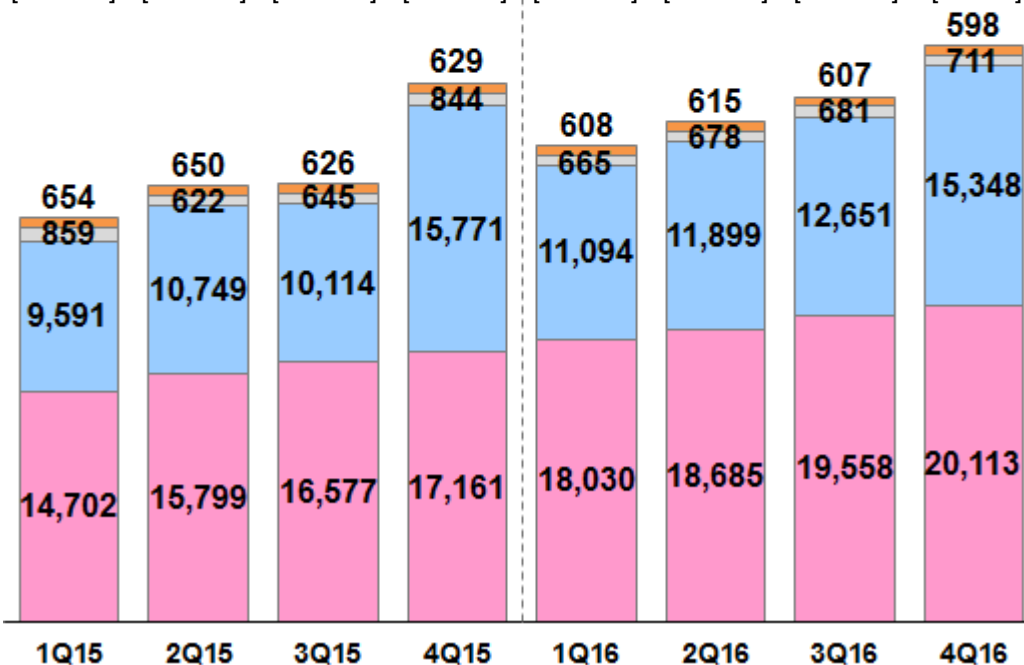
Cost of revenues: ■ NW Services ■ SI ■ Equipment Sales ■ ATM Operation Business  
 Gross margin ratio: ◇ NW Services ○ SI ● Total Revenues



**FY15: 115,993 [+14.9%]**

**FY16: 132,542 [+14.3%]**

| Period     | 1Q15     | 2Q15     | 3Q15     | 4Q15     | 1Q16     | 2Q16     | 3Q16     | 4Q16    |
|------------|----------|----------|----------|----------|----------|----------|----------|---------|
| Revenue    | 25,805   | 27,821   | 27,962   | 34,405   | 30,397   | 31,878   | 33,497   | 36,770  |
| YoY Change | [+14.4%] | [+17.3%] | [+11.3%] | [+16.3%] | [+17.8%] | [+14.6%] | [+19.8%] | [+6.9%] |



## Gross Margin

### ◆ Total

- FY16: JPY25,247 million (up 2.4% YoY)
  - Gross margin ratio: 16.0% (down 1.5 points YoY)
  - 4Q16 Gross margin ratio increased YoY

### ◆ NW Services

- FY16: JPY16,609 million (up 10.3% YoY)
- FY15: JPY15,056 million (up 7.0% YoY)
  - FY16 Gross margin ratio: 17.9% (down 1.1 points YoY)
  - Gross margin ratio on a decreasing trend along with increase in mobile revenues
    - The revised DOCOMO's interconnectivity charge decreased by 14% YoY (unlike last revised charge, the calculation excluded the cost for lending SIM). Our estimate of 12% decrease for the charge ended up in line with our initial estimate together with the cost for borrowing SIM.
  - 4Q16 NW services gross margin ratio increased from 3Q16 with accumulation of enterprise services.

### ◆ SI

- FY16: JPY6,756 million (down 15.2% YoY)
- FY15: JPY7,963 million (up 19.3% YoY)
  - Gross margin ratio: 11.7% (down 3.0 points YoY)
  - Gross margin was weak due to increases of preceding costs related to GIO P2, unprofitable SI projects and low productivity of SEs
    - GIO P2 profitability negatively impacted the total SI gross margin by JPY 0.54 billion YoY
    - As the productivity of SEs improved in 4Q16, gross margin ratio increased from 4Q15

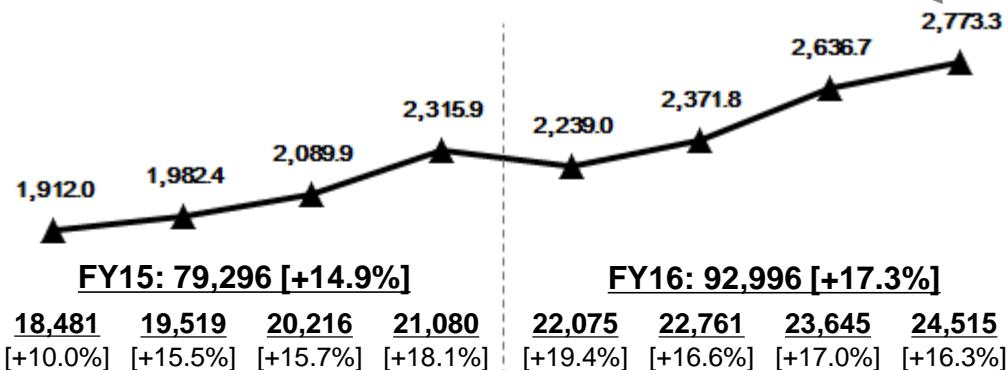
# Network Services (1)Revenues

## Financial Results

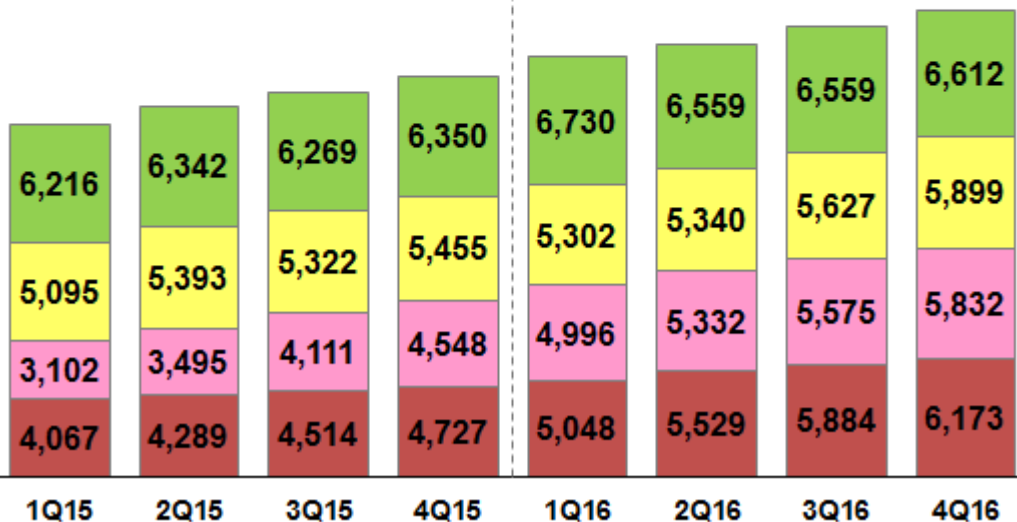
Unit: JPY million

[ ], YoY = compared to the same period in a previous year  
QoQ = 4Q16 compared to 3Q16

- WAN Services
- Outsourcing Services
- Internet Connectivity Services (Consumer)
- Internet Connectivity Services (Enterprise)



| FY15: 79,296 [+14.9%] |          |          |          | FY16: 92,996 [+17.3%] |          |          |          |
|-----------------------|----------|----------|----------|-----------------------|----------|----------|----------|
| 18,481                | 19,519   | 20,216   | 21,080   | 22,075                | 22,761   | 23,645   | 24,515   |
| [+10.0%]              | [+15.5%] | [+15.7%] | [+18.1%] | [+19.4%]              | [+16.6%] | [+17.0%] | [+16.3%] |



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

### ◆ Internet Connectivity (Enterprise)

- FY16: up JPY5,036 million, up 28.6% YoY
- Strong subscription of MVNE contributed to continuous growth of mobile services
  - ✓ Subscription (unit: thousand):  
4Q16-end: 582 (up 331 YoY, up 81 QoQ)
- “IIJ IoT Service” attracting PoC and prospective order, approx. 100 projects

### ◆ Internet Connectivity (Consumer)

- FY16: up JPY6,479 million, up 42.5% YoY
- “IIJmio Mobile Services” continued to increase
  - ✓ Subscription (unit: thousand):  
4Q16-end: 951 (up 204 YoY, up 39 QoQ)

### ◆ Outsourcing Services

- FY16: up JPY902 million, up 4.2% YoY
- Demand for security services continuously increasing, FY16 security-related service revenue was approx. JPY9.6 billion
- FY16 “IIJ Omnibus” revenue: JPY0.12 billion  
Projects related to office network connecting hundreds of branches increased.
- 4Q16: revenue growth accelerated  
(up 8.1% YoY, up 4.8% QoQ)
  - Public cloud services up JPY76 million QoQ
  - Non-public cloud services up JPY196 million QoQ
- In Mar. 2017, recognized part of monthly recurring revenue of the large-scale Information Security Cloud project: JPY60 million (including security, other outsourcing, cloud, Internet connectivity, and systems operation and maintenance)

### ◆ WAN Services

- FY16: up JP1,283 million, up 5.1% YoY

### ◆ Mobile services

- FY16: up JPY11,112 million, up 71.3% YoY

### ◆ Non-mobile services

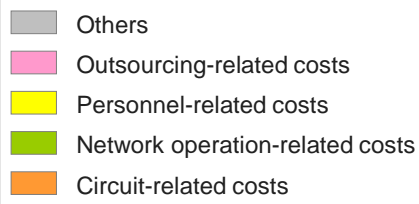
- FY16: up JPY2,588 million, up 4.1% YoY

# Network Services (2) Cost of Revenues

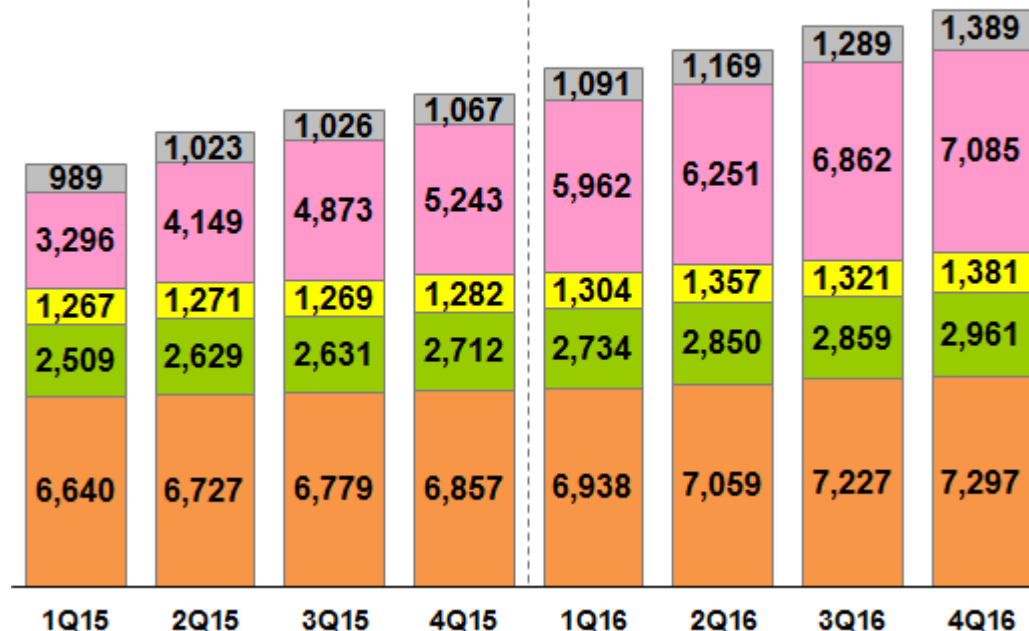
**Financial Results**

Unit: JPY million

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


**FY15: 64,239 [+16.9%]**
**FY16: 76,387 [+18.9%]**

| Q  | FY15   | FY16   | YoY %  |
|----|--------|--------|--------|
| 1Q | 14,702 | 18,030 | +22.6% |
| 2Q | 15,799 | 18,685 | +18.3% |
| 3Q | 16,577 | 19,558 | +18.0% |
| 4Q | 17,161 | 20,113 | +17.2% |


**◆ Cost of NW services**

- FY16: up JPY12,147 million, up 18.9% 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 and continuous service functions enhancement for IIJ Omnibus and security services in particular
- Total amount that negatively impacted profit related to "IIJ Omnibus" was JPY0.35 billion in FY16

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

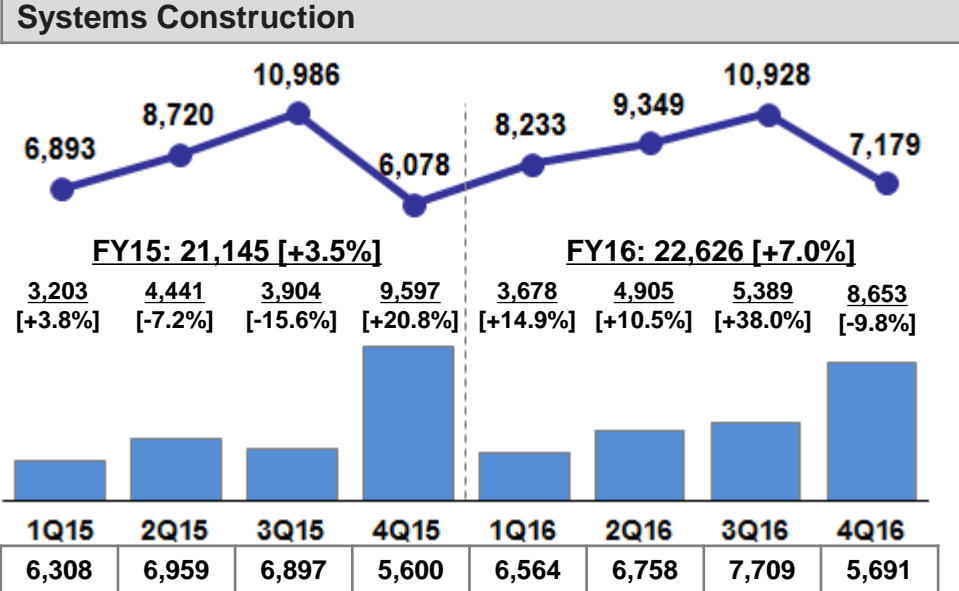
- Regarding our FY15 and FY16 usage charge, it was in line with our initial estimate. DOCOMO's interconnectivity charge, which was calculated by Docomo's FY15 mobile-related cost was fixed in Mar. 2017 and it decreased by 14% (excluding the cost for lending SIM) YoY.
- IIJ's estimate of 12% decrease led to approx. JPY0.6 billion cost decrease for its FY15 mobile interconnectivity usage. Its quadrant amount, approx. JPY0.15 billion, was recognized each quarter during FY16. Actual amount after applying the revised charge announced in Mar. 2017 was almost the same.
- Regarding our FY17 and FY16 usage, DOCOMO's interconnectivity telecommunications service charge, which is calculated by DOCOMO's FY16 mobile-related cost, is expected to be fixed in Mar. 2018. DOCOMO's payment arrangement is 15% off temporarily from Apr. 2017 which is same as FY16.

# Systems Integration (SI) (1)Revenues

**Financial Results**

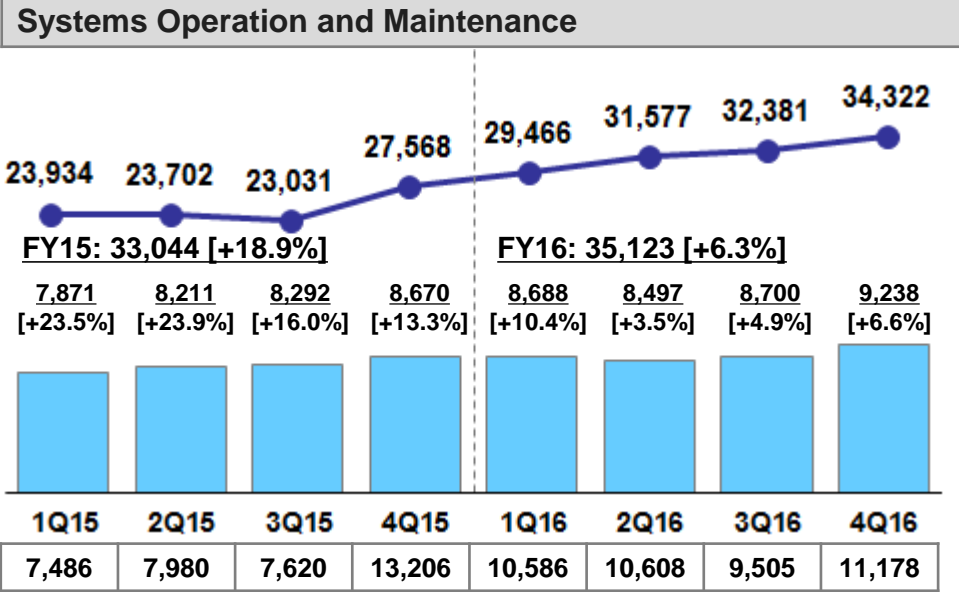
Unit: JPY million

[ ], YoY = compared to the same period in a previous year  
QoQ = 4Q16 compared to 3Q16



- 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
- 4Q16 systems construction revenue decreased from 4Q15 due to large-scale NI project (approx. JPY2.1 billion) was recognized in 4Q15. 4Q16 order received increased from 4Q15.
  - Revenue of the container DC export project was recognized in 3Q16 (approx. JPY1.2 billion)
  - Large-scale construction projects orders received in 4Q16:
    - Number of orders (over JPY100 million in revenue) received in 4Q16: 10 orders
      - ✓Virtual desktop environment to a large BtoC company
      - ✓Campus network etc.



- #### ◆ Systems operation and maintenance
- Private cloud: revenue continuously increasing
    - 4Q16 revenue from private cloud: up JPY307 million, up 9.6% YoY, up JPY35 million QoQ
  - Non-private cloud systems operation and maintenance: although 1H16 was negatively impacted by cancellation of large-scale projects, revenue growth accelerated in 2H16
    - 4Q16 revenue from SI construction: up JPY261 million, up 4.8% YoY, up JPY503 million QoQ
  - 86.2% of 4Q16 cloud-related revenue is recognized in systems operation and maintenance revenues (13.8% in outsourcing)

- #### ◆ Overseas business
- FY16 results almost as planned
    - FY16 revenue: JPY6.4 billion
    - FY16 operating loss: JPY0.18 billion

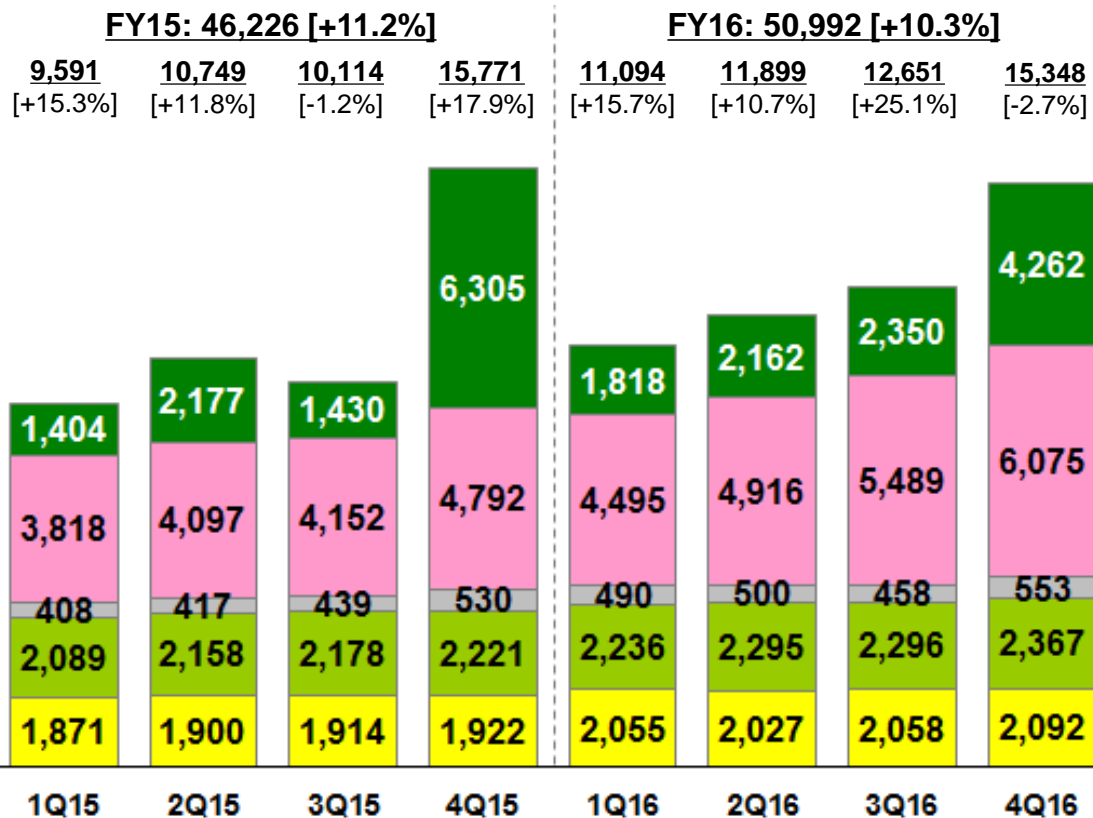
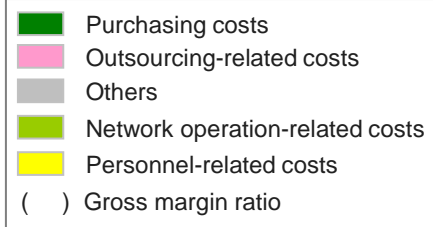


# Systems Integration (SI) (2)Cost of Revenues

**Financial Results**

Unit: JPY million

[ ], YoY = compared the same period in a previous year  
QoQ: 4Q16 compared to 3Q16



### ◆ Cost of SI

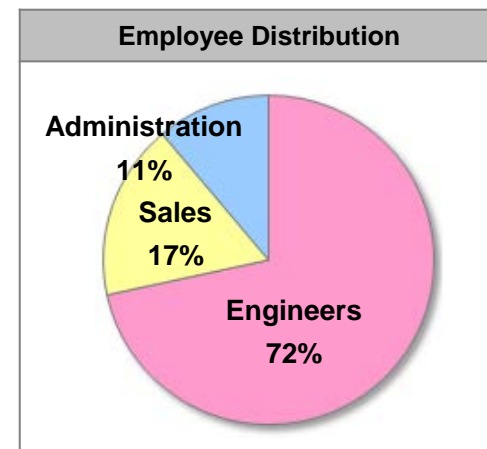
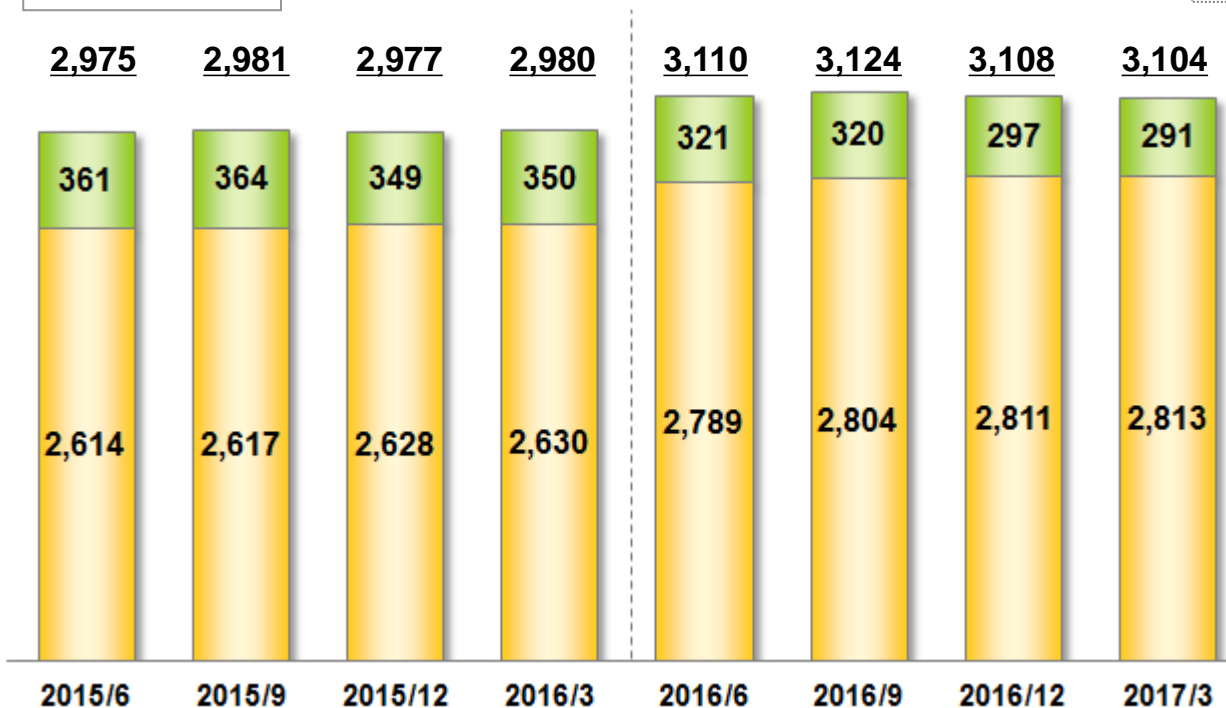
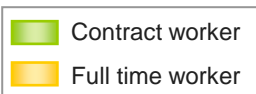
- FY16: up JPY4,767 million, up 10.3% YoY
- 4Q16: down JPY423 million, down 2.7% YoY
- 4Q16-end number of outsourcing personnel: 1,423 personnel (up 354 YoY, up 97 QoQ)
- Network operation-related, outsourcing-related and personnel-related costs increased mainly due to an increase in number of SI projects and service developments of GIO P2
- 4Q16 gross margin recovered from 1H16. 1H16 gross margin was affected by unprofitable projects and low SE productivity
- 3Q16: purchasing and outsourcing-related costs increased with the container DC export project



# Number of Employee

Unit: JPY million

YoY = compared to the same period in a previous year



| 1Q15  | 2Q15             | 3Q15             | 4Q15             | 1Q16   | 2Q16             | 3Q16             | 4Q16             |
|---|------------------|------------------|------------------|--|------------------|------------------|------------------|
| 5,266<br>(16.7%)                                      | 5,297<br>(15.6%) | 5,271<br>(15.5%) | 5,321<br>(12.9%) | 5,464<br>(15.1%)                                   | 5,446<br>(14.4%) | 5,432<br>(13.8%) | 5,635<br>(12.8%) |
| <b>FY15: 21,155 (15.0%)</b><br>up 2,052, up 10.7% YoY |                  |                  |                  | <b>FY16: 21,977 (13.9%)</b><br>up 822, up 3.9% YoY |                  |                  |                  |

Personnel related costs & expenses  
(% of revenue)

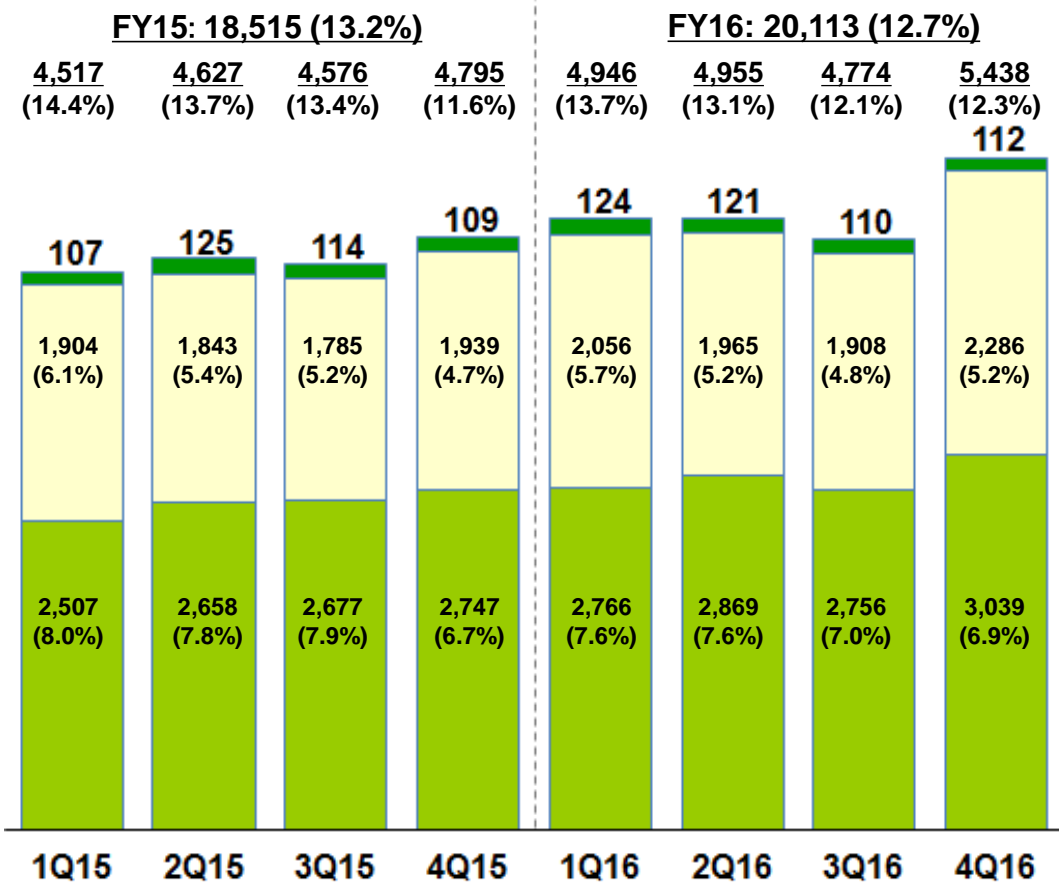
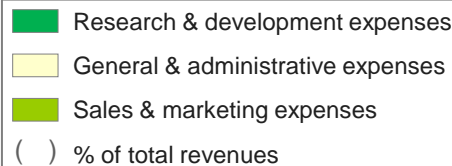
- ◆ Hired 148 new graduates in Apr. 2017 (137 in Apr. 2016, 155 in Apr. 2015, 129 in Apr. 2014)
- ◆ Estimate number of employees to increase by approx. 190 during FY17

# SG&A Expenses/R&D

**Financial  
Results**

Unit: JPY million

YoY = compared to the same period in a previous year



## ◆ Sales & marketing expenses

- FY16: up JPY843 million, up 8.0% YoY
  - Sales commission expenses and advertising expenses increased

## ◆ General & administrative expenses

- FY16: up JPY744 million, up 10.0% YoY
  - Office rent expenses, commission expenses and taxes and public dues increased
  - In 4Q16, disposal loss increased

## ◆ SG&A related to ATM operation business

Unit: JPY million

| 1Q15 | 2Q15 | 3Q15 | 4Q15 | 1Q16 | 2Q16 | 3Q16 | 4Q16 |
|------|------|------|------|------|------|------|------|
| 44.9 | 45.1 | 41.3 | 46.9 | 43.5 | 51.1 | 42.9 | 47.0 |

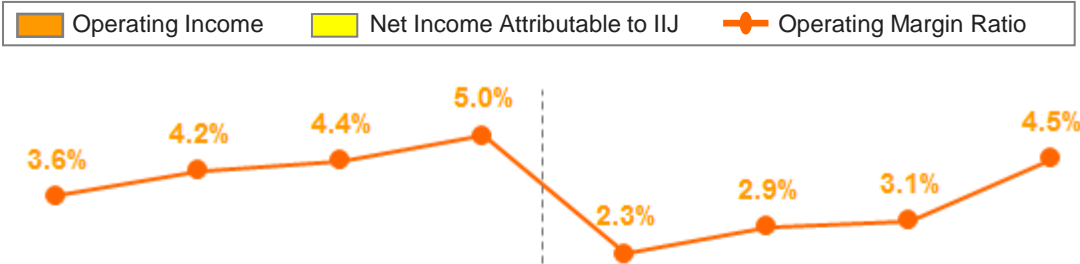
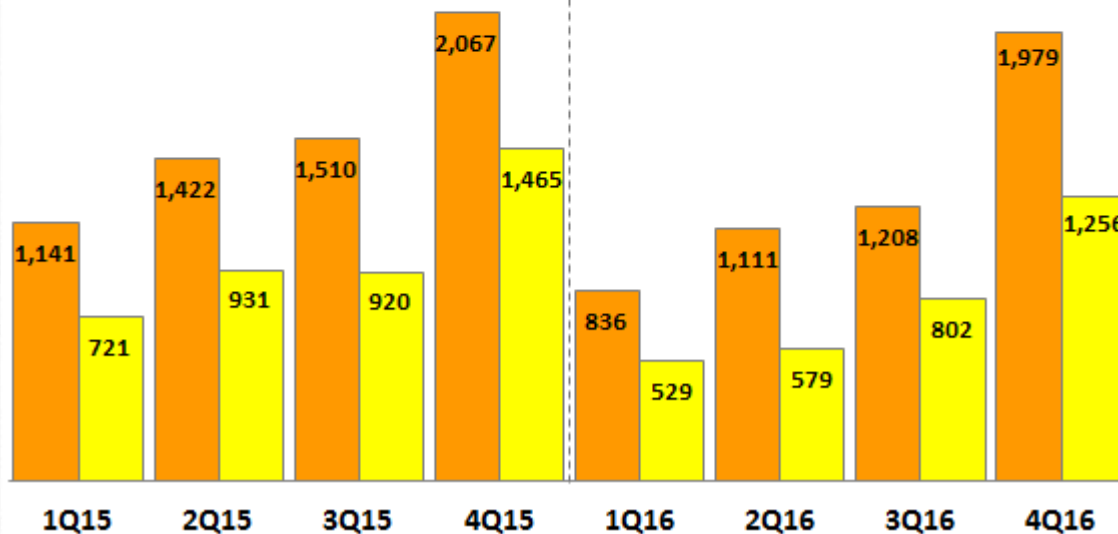
- Placed 1,066 ATMs as of March 31, 2017

# Operating Income and Net Income

**Financial  
Results**

Unit: JPY million

YoY = FY16 compared to FY15


**FY15 Operating income: 6,140**
**FY15 Net income attributable to IIJ:  
4,038**
**FY16 Operating income: 5,134**
**FY16 Net income attributable to IIJ:  
3,167**

**◆ Income before income tax expense:**

- FY16: JPY5,427 million  
(down JPY766 million, down 12.4% YoY)
  - Gain on sales of securities: JPY205 million
  - Distribution from fund investments: JPY321 million
  - Dividend income: JPY118 million
  - Interest expense: JPY304 million
  - Foreign exchange loss: JPY45 million

**◆ Net income attributable to IIJ:**

- FY16: JPY3,167 million  
(down JPY872 million, down 21.6% YoY)
  - Equity in net income of equity method investees including Internet Multifeed: JPY130 million
  - Net income attributable to noncontrolling interests including Trust Networks: JPY165 million

| 1Q15 | 2Q15 | 3Q15 | 4Q15 | 1Q16 | 2Q16 | 3Q16 | 4Q16  |   |
|------|------|------|------|------|------|------|-------|---|
| 450  | 472  | 466  | 546  | 139  | 531  | 446  | 1,203 | Current income tax expense                                |
| 111  | 6    | 191  | (59) | 301  | (18) | 67   | (444) | Deferred tax expense (benefit)                            |
| 61   | 76   | 69   | (27) | 17   | 25   | 28   | 61    | Equity in net income (loss) of equity method investees    |
| (57) | (35) | (23) | (37) | (42) | (43) | (41) | (39)  | Less: Net income attributable to noncontrolling interests |

# Consolidated Balance Sheets (Summary)

**Financial  
Results**

Unit: JPY million

|  | Mar. 31, 2016  | Mar. 31, 2017  | Changes        |
|--|----------------|----------------|----------------|
| Cash and Cash Equivalents                          | 19,569         | 21,959         | +2,389         |
| Accounts Receivable                                | 23,747         | 27,384         | +3,637         |
| Inventories  | 2,004          | 2,798          | +794           |
| Prepaid Expenses (Current and Noncurrent)          | 9,757          | 14,218         | +4,461         |
| Investments in Equity Method Investees             | 2,980          | 3,150          | +171           |
| Other Investments                                  | 5,949          | 7,925          | +1,976         |
| Property and Equipment                             | 34,324         | 39,775         | +5,451         |
| Goodwill and Other Intangible Assets               | 9,719          | 9,257          | (462)          |
| Guarantee Deposits                                 | 3,085          | 3,060          | (24)           |
| <b>Total Assets:</b>                               | <b>117,835</b> | <b>137,395</b> | <b>+19,560</b> |
| Accounts Payable                                   | 15,404         | 16,962         | +1,557         |
| Income Taxes Payable                               | 1,078          | 1,076          | (3)            |
| Borrowings (Short-term and Long-term)              | 9,250          | 17,750         | +8,500         |
| Capital Lease Obligations (Current and Noncurrent) | 11,734         | 15,203         | +3,470         |
| <b>Total Liabilities:</b>                          | <b>52,491</b>  | <b>70,015</b>  | <b>+17,524</b> |
| Common Stock                                       | 25,509         | 25,509         | -              |
| Additional Paid-in Capital                         | 36,060         | 36,118         | +58            |
| Retained earnings                                  | 2,471          | 4,512          | +2,041         |
| Accumulated Other Comprehensive Income             | 1,197          | 2,500          | +1,303         |
| Treasury stock                                     | △392           | △1,897         | (1,505)        |
| <b>Total IIJ Shareholders' Equity:</b>             | <b>64,845</b>  | <b>66,742</b>  | <b>+1,897</b>  |

➤ Total IIJ Shareholders' Equity to Total Assets: 55.0% as of Mar. 31, 2016, 48.6% as of Mar. 2017

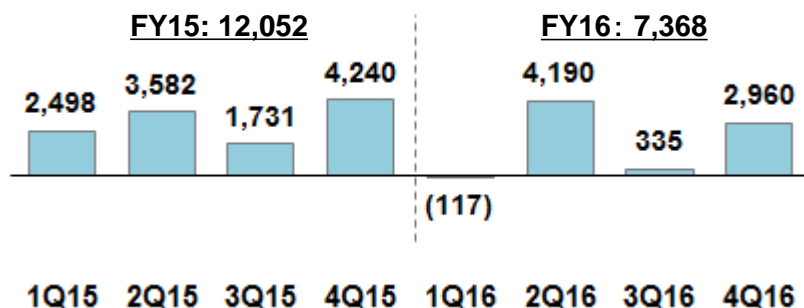
# Consolidated Cash Flows

**Financial  
Results**

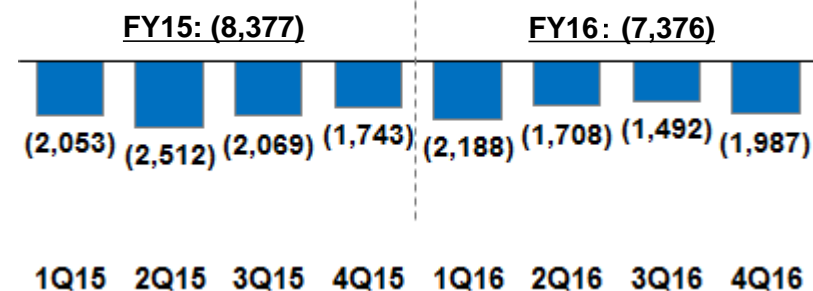
Unit: JPY million

YoY = compared to the same period in a previous year

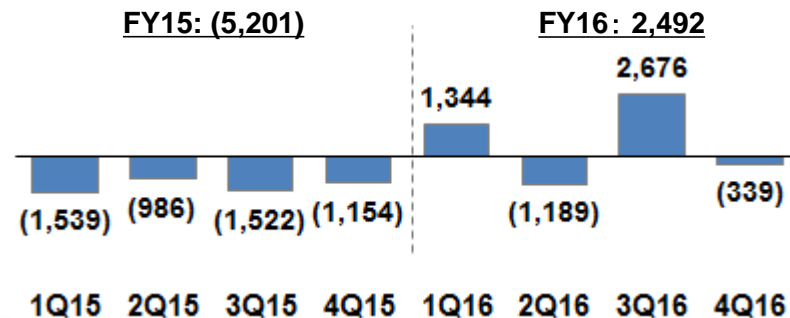
## Operating Activities



## Investing Activities



## Financing Activities



### ◆ FY16 Operating Activities

|   | Major Breakdown | YoY Change |
|---|-----------------|------------|
| Net income  | 3,332           | (858)      |
| Depreciation and amortization   | 10,894          | +972       |
| Fluctuations of operating assets and liabilities  | (7,026)         | (4,626)    |
| (an increase in accounts receivable mainly due to revenue growth, an increase in prepaid expenses (including prepaid expenses-noncurrent) and payments in relation to up front payment for software licenses and maintenance cost for service facilities) |                 |            |

### ◆ FY16 Investing Activities

|  | Major Breakdown | YoY Change |
|--|-----------------|------------|
| Purchase of property and equipment                                   | (10,624)        | +275       |
| Proceeds from sales of property & equipment (lease-back transaction) | 3,046           | +472       |
| Payments of guarantee deposits                                       | (50)            | +298       |

### ◆ FY16 Financing Activities

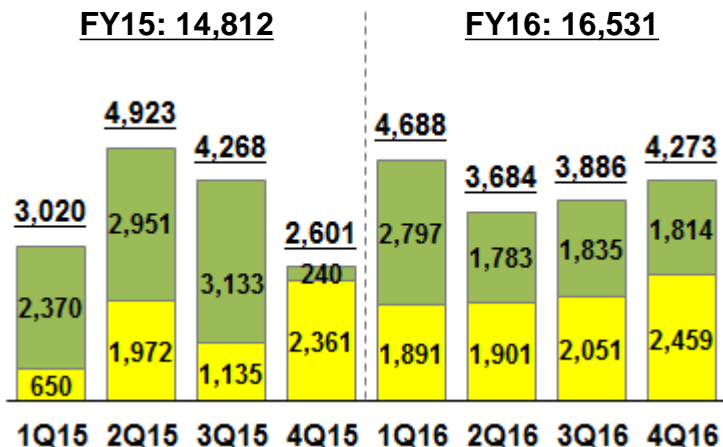
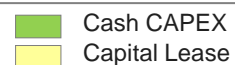
|  | Major Breakdown | YoY Change |
|--|-----------------|------------|
| Proceeds from long-term borrowings (through transaction with major Japanese banks) | 8,500           | +8,500     |
| Principal payments under capital leases  | (4,820)         | (625)      |
| Payments for purchase of treasury stock  | (1,505)         | (1,505)    |
| Dividends paid   | (1,126)         | (115)      |

# Other Financial Data (CAPEX etc.)

**Financial Results**

Unit: JPY million

## CAPEX



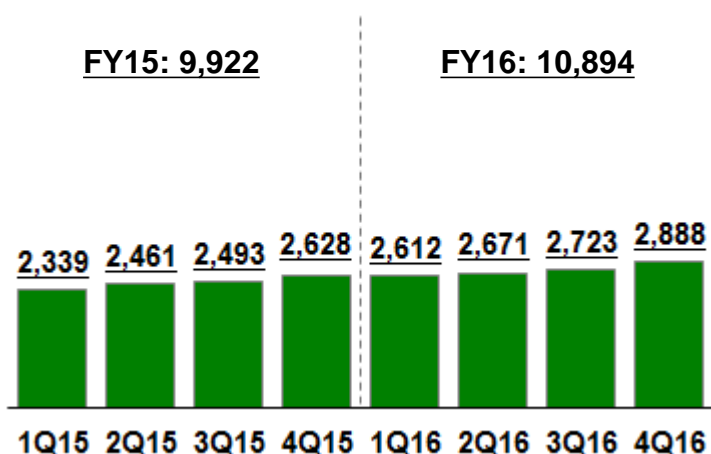
## < Breakdown of CAPEX (unit: JPY billion) >

|   | FY15      | FY16      |
|---|-----------|-----------|
| Network update, back office investment and others | 10.2      | 12.6      |
| Cloud-related (of GIO P2-related)                 | 4.4 (2.2) | 3.6 (2.0) |
| ATM operation business                            | 0.2       | 0.3       |

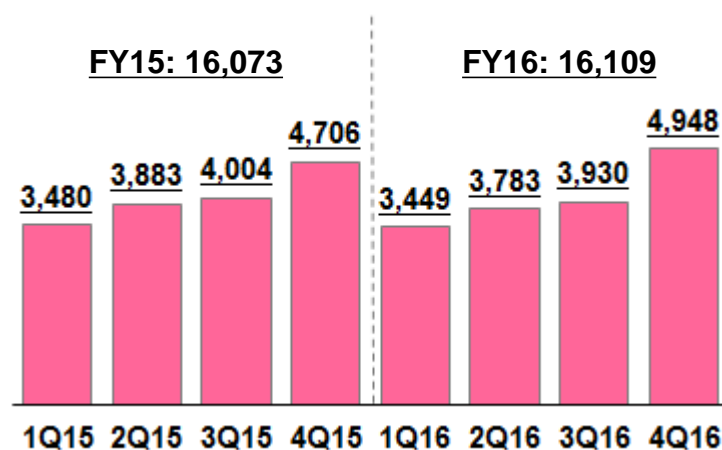
### Major YoY change:

- Back office-related (up 0.7)
- Security-related (up 0.3)
- DDoS facility-related (up 0.3)
- Data center-related (up 0.3)
- Service facility-related (up 0.2)
- Mobile-related (up 0.2)

## Depreciation and Amortization



## Adjusted EBITDA





# Cloud Business Developments

**Financial Results**

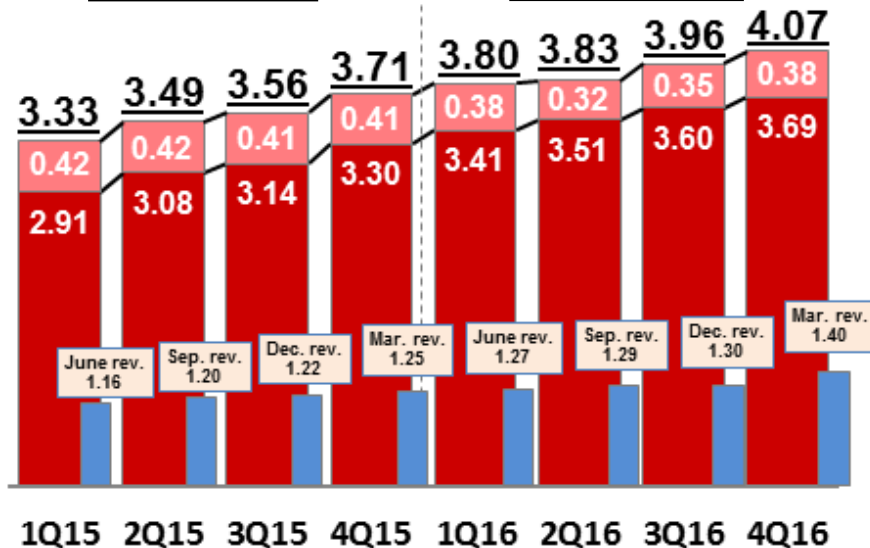
## Cloud-related revenue

(Unit: JPY billion)

Large game customers  
Business enterprise customers

**FY15: 14.09**

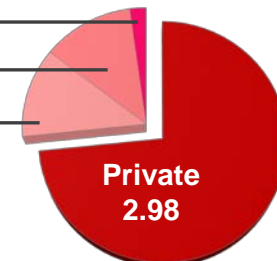
**FY16: 15.66**



## 4Q16 revenue

(Unit: JPY billion)

General purpose SaaS 0.09  
(groupware etc.)  
Task-specific SaaS 0.44  
(FX, POS etc.)  
Public 0.56

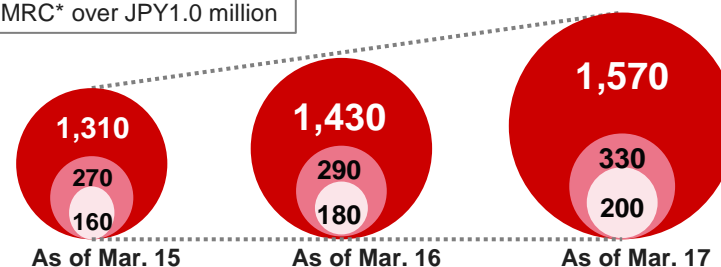


4Q16 cloud-related revenue recognition:  
86.2% in systems operation and maintenance  
13.8% in outsourcing

## Cloud Customer Base

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

\*Monthly Recurring Charge



## Flagship GIO P2 Transactions

- Information security cloud systems for Kanagawa prefecture and other local governments
  - Providing cloud, NW, SI, security and others together
- Large-scale BtoC site for a famous BtoC service provider
  - MRC JPY14 million, from 2H17
- Unified platform for a global manufacturing company group
  - MRC JPY3 million, from 1Q17
- Virtual desktop services for financial institutions including prominent insurance company
  - MRC JPY10 million and more
- Core business operation systems for a travel agency
  - MRC JPY12 million, from 1Q17
- Service platform for a financial information provider

## Business Developments

YoY = FY16 compared to FY15

- Continuously accumulating GIO P2 orders
  - FY16-end GIO P2 prospective orders: approx. 800 (up 500 YoY)
  - GIO P2 FY16 revenue up JPY0.65 billion YoY, cost up JPY1.19 billion YoY
- Cloud-type web browsing services now providing to both public sector (Nov. 2016) and private sector (Feb. 2017)

## FY17 Plan

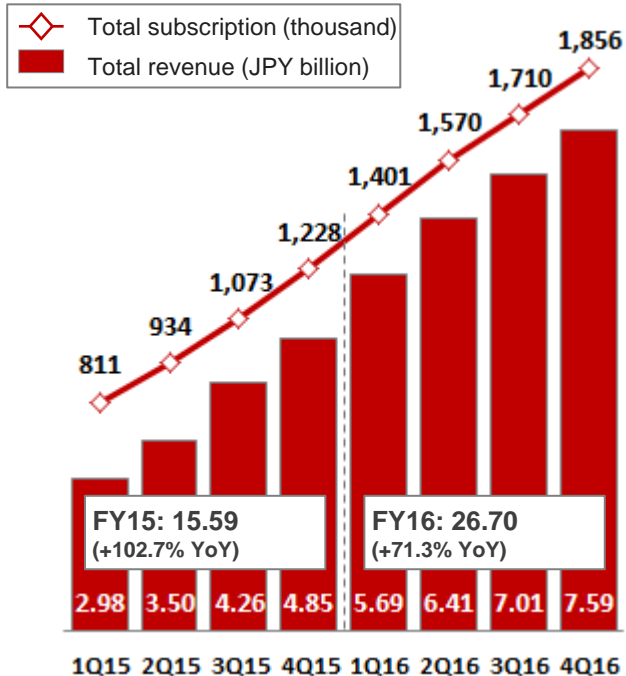
YoY = FY17 target compared to FY16 result

- FY17 revenue target: JPY18.0 billion (up 15% YoY)
  - Margin to improve around JPY0.4 billion to JPY0.6 billion
  - Revenue to continuously expand with GIO P2 flagship projects
  - Continuous service development and facility investment

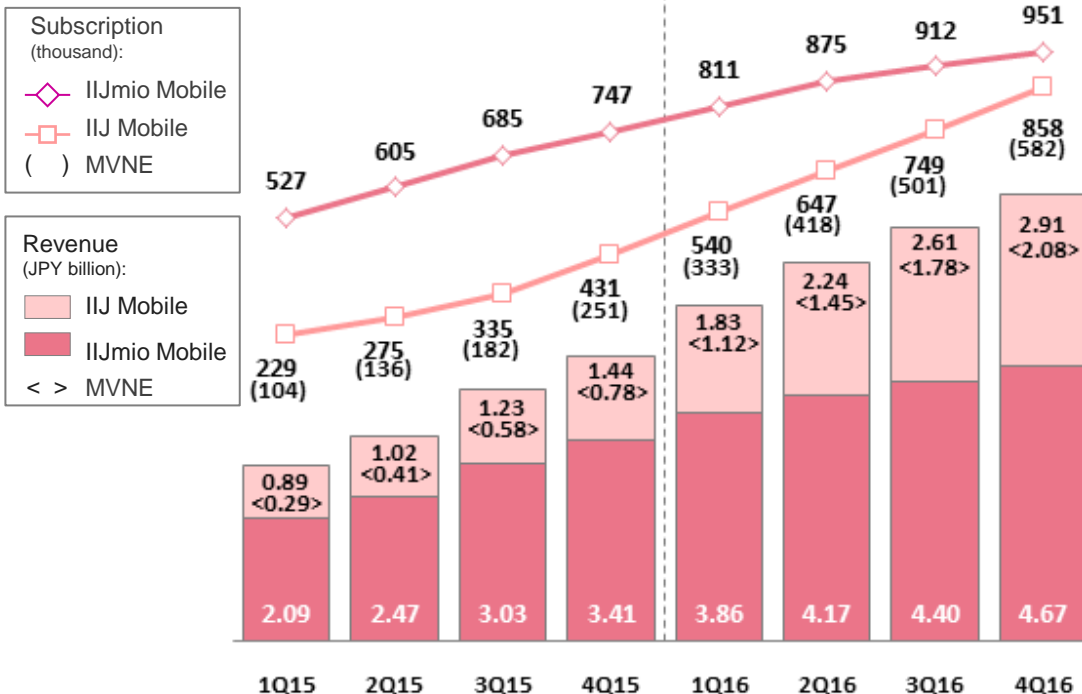
# Mobile Business Developments

Financial Results

## Total subscription & revenue



## IIJmio Mobile (consumer) & IIJ Mobile (enterprise)



## Business Developments

YoY = FY16-end compared to FY15-end  
 QoQ = FY16-end compared to 3Q16

- ◆ MVNE business continued expanding
  - FY16-end subscription: 582 thousand (up 331 thousand YoY, 81 thousand QoQ)
  - FY16-end MVNE clients: 124 clients, including prominent contents holder, prominent retailer, U-NEXT, CATVs, Slers, etc.
- ◆ Mobile solution for enterprise continuously expanding:
  - Partnership with Panasonic Corporation, Uniadex Co., Ltd. and other prominent manufacturing
- ◆ FY16 IoT-type M2M revenue: approx. JPY0.73 billion (up more than 30% YoY)

## FY17 Plan

- ◆ Along with market expansion, continue to focus on acquiring subscription and maintain market share
  - FY17 target subs. net addition: stronger than FY16 with IoT/M2M subs. (FY16 net addition: 628 thousand, FY15: 555 thousand)
- ◆ Further enhance connectivity quality and sales promotion for sales partners
- ◆ Focus on acquiring enterprise IoT and M2M projects
- ◆ Full-MVNO services to be launched in 4Q17
  - Related cost: approx. JPY0.4 billion (to be recorded from Dec. 2017)

# FY2017 Financial Target (1)

**Financial  
Results**

Unit: JPY billion

|                                  | % of Revenues                           | % of Revenues                          | % of Revenues                          | FY17 Target          |               |
|----------------------------------|---|--|--|----------------------|---------------|
|                                  | FY16 Results<br>(Apr. 2016 - Mar. 2017) | 1H17 Target<br>(Apr. 2017 - Sep. 2017) | FY17 Target<br>(Apr. 2017 - Mar. 2018) | against FY16 Results |               |
| Total Revenues                   | <b>157.8</b>                            | <b>82.4</b>                            | <b>176.0</b>                           | <b>+18.2</b>         | <b>+11.5%</b> |
| Total Cost of Revenues           | <b>132.5</b>                            | <b>69.8</b>                            | <b>147.8</b>                           | <b>+15.3</b>         | <b>+11.5%</b> |
| Gross Margin                     | <b>25.2</b>                             | <b>12.6</b>                            | <b>28.2</b>                            | <b>+3.0</b>          | <b>+11.7%</b> |
| SG&A/R&D                         | <b>20.1</b>                             | <b>10.6</b>                            | <b>21.7</b>                            | <b>+1.6</b>          | <b>+7.9%</b>  |
| Operating Income                 | <b>5.1</b>                              | <b>2.0</b>                             | <b>6.5</b>                             | <b>+1.4</b>          | <b>+26.6%</b> |
| Income before Income Tax Expense | <b>5.4</b>                              | <b>2.0</b>                             | <b>6.5</b>                             | <b>+1.1</b>          | <b>+19.8%</b> |
| Net Income*                      | <b>3.2</b>                              | <b>1.1</b>                             | <b>4.0</b>                             | <b>+0.8</b>          | <b>+26.3%</b> |
| Cash Dividend per common share   | <b>JPY27.00</b>                         | <b>JPY13.50</b>                        | <b>JPY27.00</b>                        | -                    | -             |

\*Net income attributable to IIJ

|            |   |
|------------|---|
| NW service | <ul style="list-style-type: none"> <li>➢ Revenue growth to accelerate with large-scale Information Security Cloud project (MRC over JPY100 million), outsourcing and Internet connectivity services</li> <li>➢ FY17 mobile net addition target to be greater than FY16 along with market expansion, enhancement of sales promotion for sales partners, and M2M/IoT subs.</li> <li>➢ Full-MVNO related cost approx. JPY0.4 billion (to be recorded from Dec. 2017)</li> <li>➢ Keep NW services gross margin ratio to be on 17% with service revenue accumulation and expansion of gross margin with outsourcing, Internet connectivity, while mobile service gross margin slightly decrease</li> </ul> |
|            | <ul style="list-style-type: none"> <li>➢ Systems construction revenue with same level as FY16 affected by further cloud service penetration</li> <li>➢ Systems operation and maintenance revenue to continuously increase, target JPY18.0 billion for cloud revenue</li> <li>➢ SI gross margin ratio to improve approx. 1 point from FY16, Cloud margin to improve by JPY0.4 billion to JPY0.6 billion</li> </ul>   |
|            | <ul style="list-style-type: none"> <li>➢ Expect no significantly large number of additional ATM placement</li> </ul>  |
|            | <ul style="list-style-type: none"> <li>◆ Sales commission fee, sales promotion, personnel-related, rent to increase continuously</li> </ul>   |
| HR         | ◆ Net addition of approx. 190 personnel   |
| CAPEX      | ◆ Recent years' CAPEX volume + full-MVNO related investment (up JPY0.8 billion YoY)   |

# FY2017 Financial Target (2)

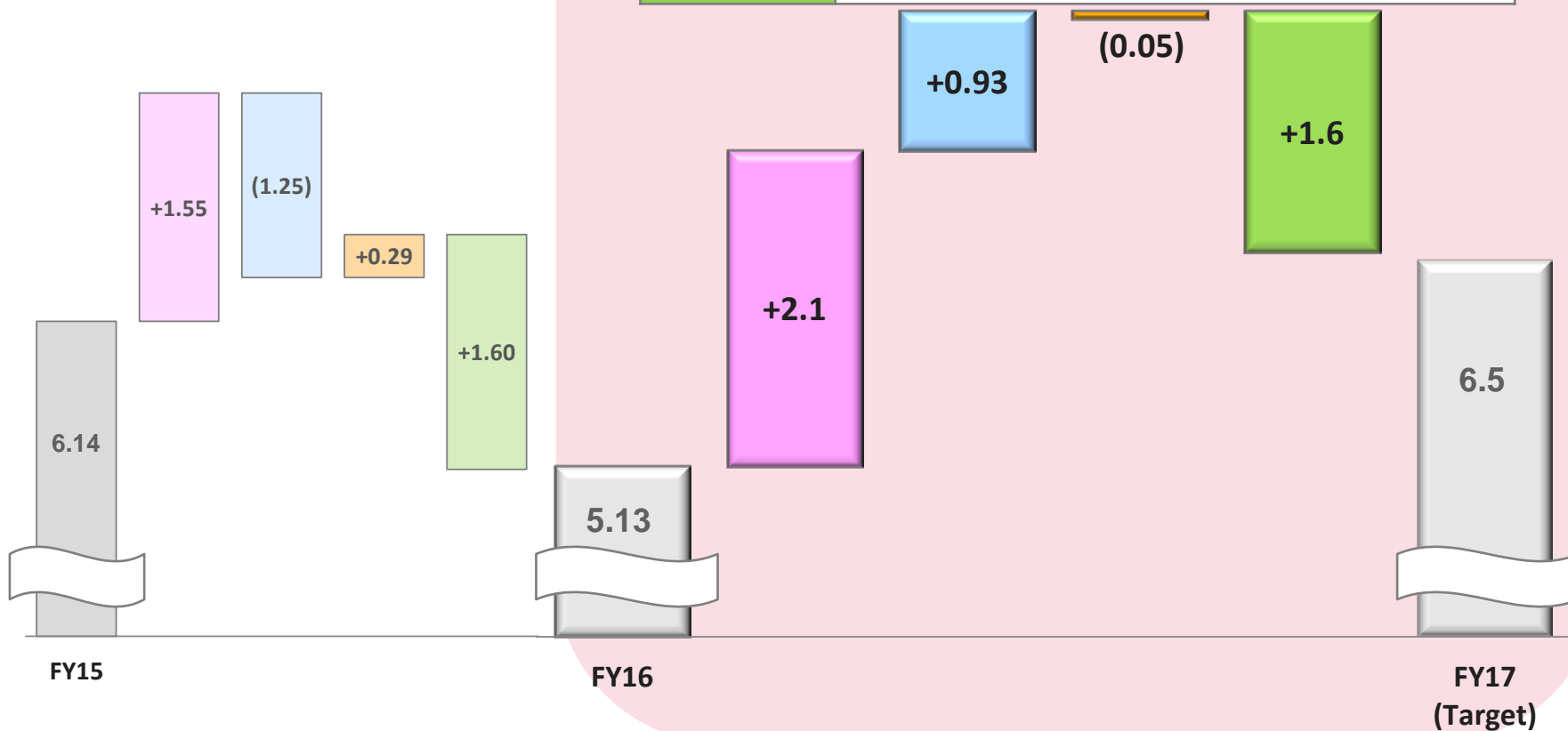
## Financial Results

Unit: JPY billion

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

YoY = compared to the same period in a previous year

|                                |   |
|--------------------------------|---|
| <b>NW service gross margin</b> | Greater gross margin than FY16 with continuously acquiring mobile subscription, accumulation of enterprise network services |
| <b>SI gross margin</b>         | Cloud profit to improve by JPY0.4 billion to JPY0.6 billion, SI profitability improvement                                   |
| <b>SG&amp;A</b>                | Continuously increase with the same level, Gross margin expansion to absorb the increase of SG&A                            |



## ※ 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.

### ※ Contact Information IIJ Investor Relations

Iidabashi Grand Bloom, 2-10-2 Fujimi, Chiyoda-ku, Tokyo, 102-0071, Japan

TEL: 81-3-5205-6500 URL: <http://www.ij.ad.jp/en/ir/> E-Mail: [ir@ij.ad.jp](mailto:ir@ij.ad.jp)

