

Consolidated Financial Results for 1Q FY2017 (First 3 months ended June 30, 2017)



Internet Initiative Japan Inc.
TSE1(3774), NASDAQ(IIJI)
August 8, 2017

Ongoing Innovation

Agenda

I . Summary of 1Q FY2017 Financial Results

II . Consolidated Financial Results for 1Q FY2017

III . Reference Materials

I . Summary of 1Q FY2017 Financial Results

	1Q17 Results		FY17 Targets		1H17 Targets	
Revenues	JPY41.0 bn	+13.2%	JPY176.0 bn	+11.5%	JPY82.4 bn	+11.2%
Gross margin	JPY6.5 bn	+12.9%	JPY28.2 bn	+11.7%	JPY12.6 bn	+6.3%
Operating income	JPY1.1 bn	+34.4%	JPY6.5 bn	+26.6%	JPY2.0 bn	+2.7%
Net income*	JPY0.7 bn	+33.4%	JPY4.0 bn	+26.3%	JPY1.1 bn	(0.7%)

1Q17 Financial Results

- ◆ Total revenue increased 13.2% YoY with good start of recurring revenue accumulation
- ◆ Operating income increased 34.4% YoY with margin expansion of both NW services and SI

1Q17 Business Developments

- ◆ **QoQ cloud revenue growth accelerated (JPY+0.19 bn)**, Cloud migration of blue-chips' core business systems continued
- ◆ **Strong security service revenue accumulation from 1Q** +22.7%YoY, +8.8%QoQ
 - Services such as secure browsing, mail gateway, Web access, DDoS protection each grew
- ◆ **Local governments' "Information Security Cloud"** projects contributed to QoQ recurring revenue growth, providing virtual desktop, security, Internet connectivity, cloud and other services
- ◆ **Total mobile subs.: 1,943 thousand (+543 thousand YoY)**
Total mobile revenues: JPY8.24 billion (+44.7% YoY)
 - Various enterprise M2M/IoT projects: security cameras, digital signage, BtoC service handy devices, large-scale solar panel monitoring, ticket vending machine etc.
- ◆ **Accumulating IoT-related prospective orders and discussions on feasibility and PoC**
 - Paddy water control, "Connected Homes," energy management, accidents prevention with "Smart Factory," remote control of facility etc.
- ◆ **Overseas business developments as planned**
Revenue JPY1.3 bn, Operating loss JPY0.05 bn
 - FY17 target: revenue of JPY7 bn and turn positive
- ◆ **JOCNDN to start providing CDN services**
 - Providing CDN services to Nippon TV and TVer (free online TV contents distribution platform by 5 Japanese major broadcasting companies) etc.

bn = billion, %, YoY=Year over year change, QoQ = Quarter over quarter change,
*Net income attributable to IIJ

II - 1. Consolidated Financial Results for 1Q FY2017

Unit: JPY billion

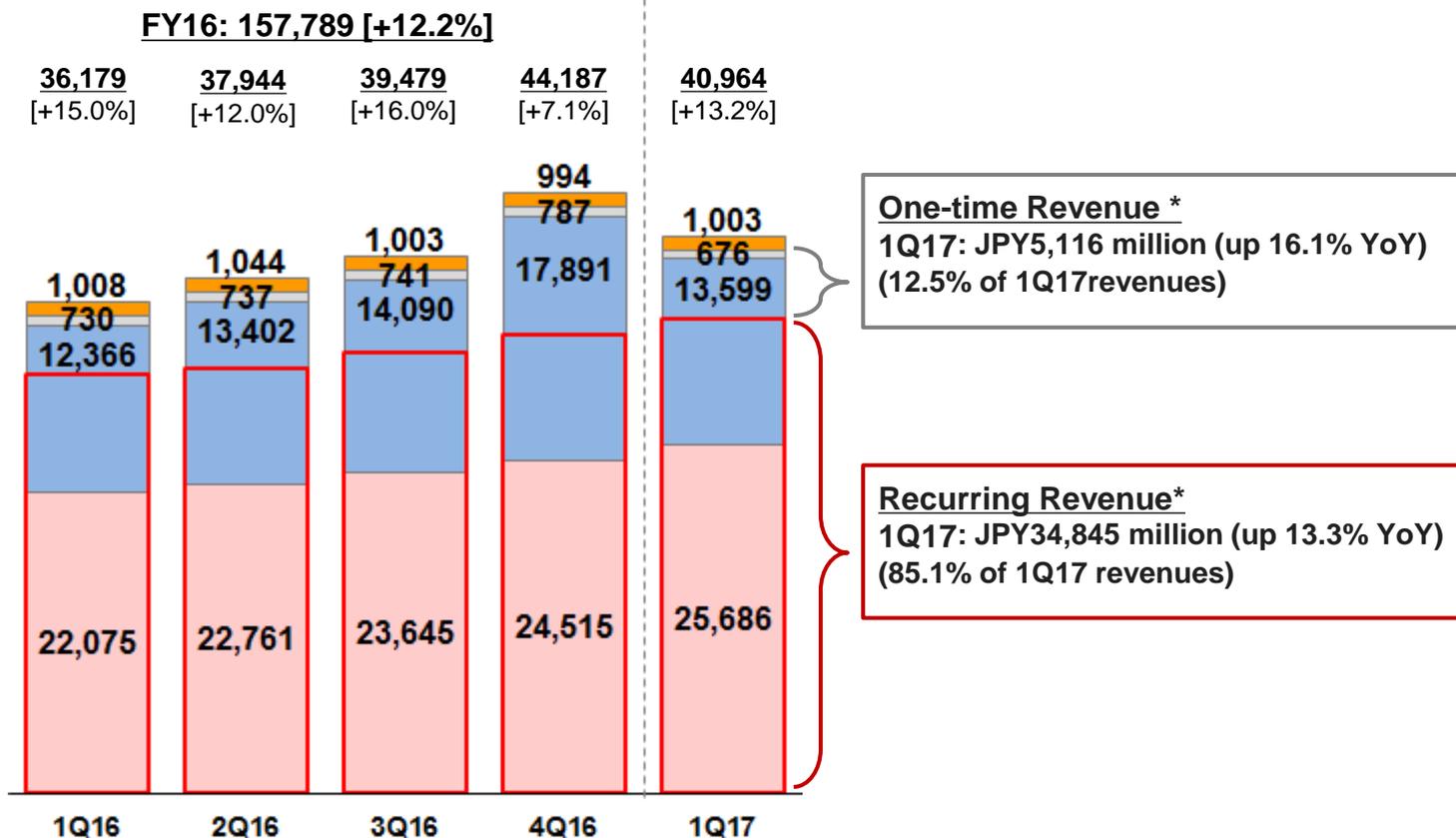
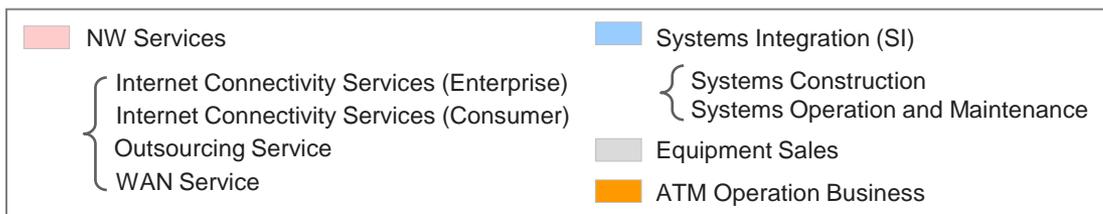
	<i>% of Revenues</i>	<i>% of Revenues</i>	YoY Change	<i>% of Revenues</i>	<i>% of Revenues</i>
	1Q17	1Q16		1H17 Target	FY17 Target
	(Apr. 2017 - Jun. 2017)	(Apr. 2016 - Jun. 2016)		(Apr. 2017 - Sep. 2017)	(Apr. 2017 - Mar. 2018)
Total Revenues	41.0	36.2	+13.2%	82.4	176.0
Total Cost of Revenues	34.4	30.4	+13.3%	69.8	147.8
Gross Margin	6.5	5.8	+12.9%	12.6	28.2
SG&A/R&D	5.4	4.9	+9.3%	10.6	21.7
Operating Income	1.1	0.8	+34.4%	2.0	6.5
Income before Income Tax Expense	1.2	1.0	+17.0%	2.0	6.5
Net Income*	0.7	0.5	+33.4%	1.1	4.0

*Net income attributable to IJJ

II - 2. Revenues

Unit: JPY million

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



- One-time revenues, which are systems construction and equipment sales, are recognized when systems or equipment are delivered and accepted by customers
- Recurring revenues represent the following monthly recurring revenues: Internet Connectivity Services for Enterprise, Internet Connectivity Services for Consumer, Outsourcing Services, WAN Services, and Systems Operation and Maintenance

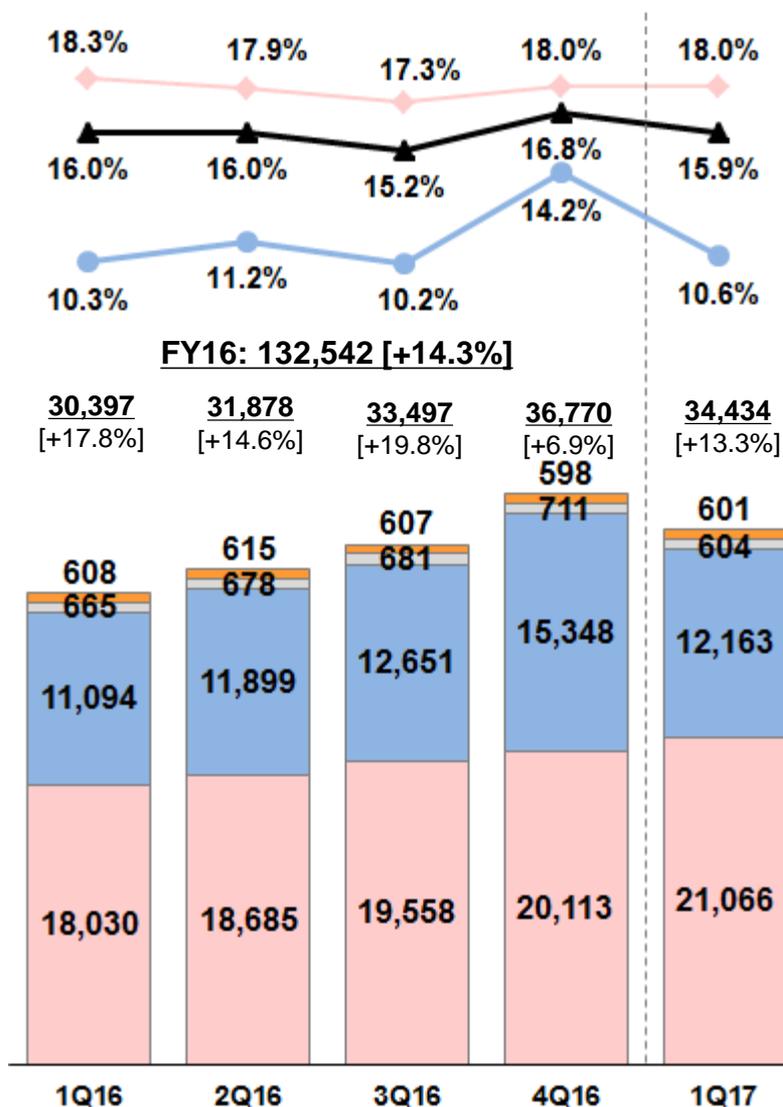
II - 3. Cost of Revenues and Gross Margin Ratio

Cost of revenues: ■ NW Services ■ SI ■ Equipment Sales ■ ATM Operation Business

Gross margin ratio: ◆ NW Services ◆ SI ▲ Overall

Unit: JPY million

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



Gross Margin

◆ Total

- 1Q17: JPY6,530 million (up 12.9% YoY)
 - Gross margin ratio: 15.9% (down 0.1points YoY)

◆ NW Services

- 1Q17: JPY4,619 million (up 14.2% YoY)
- 1Q16: JPY4,045 million (up 7.0% YoY)
 - The revised NTT DOCOMO's interconnectivity charge, fixed in Mar. 2017, decreased by 14% YoY (unlike last revised charge, the calculation excluded the cost for lending SIM).

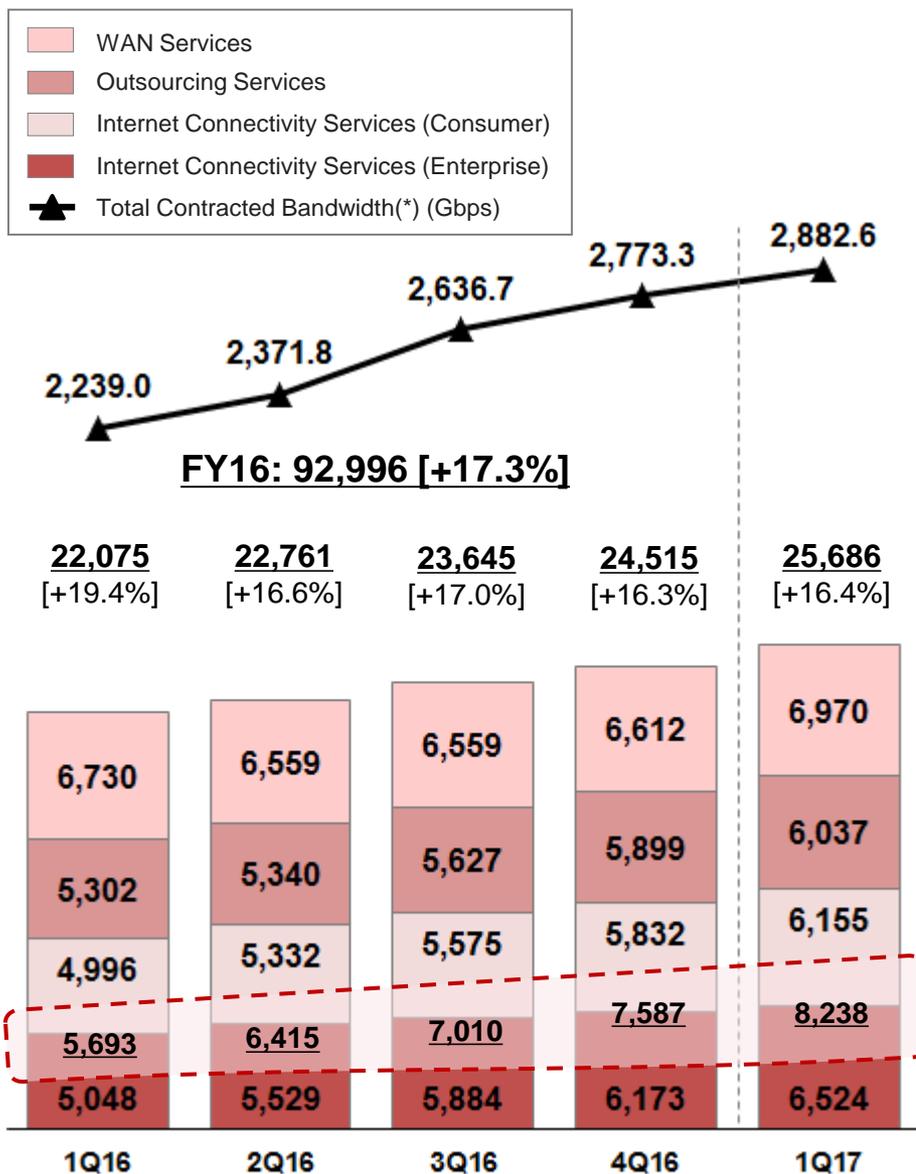
◆ SI

- 1Q17: JPY1,436 million (up 12.9% YoY)
- 1Q16: JPY1,273 million (down 14.2% YoY)
 - While 1Q16 SE productivity was low, 1Q17 SE productivity had a good start
 - Although the profitability of IIJ GIO P2 improved (1Q17 revenue up JPY0.4 billion YoY, 1Q17 cost up JPY0.33 billion YoY), it made SI gross margin ratio low

II - 4. Network Services (1)Revenues

Unit: JPY million

[], YoY = compared to the same period in a previous year
QoQ = 1Q17 compared to 4Q16



NW Services Revenues

◆ Internet Connectivity (Enterprise)

- 1Q17: up 29.2% YoY, up 5.7% QoQ
 - Mobile services revenue continued to increase
 - ✓ 1Q17-end subs. (unit: thousand): 931 (up 391 YoY)
 - ✓ Accumulating IoT-related prospective orders and PoC such as projects to remotely control facility
 - IP services revenues also increased QoQ as seasonal factor of pricing pressure impact was small

◆ Internet Connectivity (Consumer)

- 1Q17: up 23.2% YoY, up 5.5% QoQ
 - “IIJmio Mobile Services”
 - ✓ 1Q17-end subs. (unit: thousand): 966 (up 155 YoY)

◆ Outsourcing Services

- 1Q17: up 13.9% YoY, up 2.3% QoQ
 - Security-related revenue: up 22.7% YoY, up 8.8% QoQ
 - ✓ Services such as secure browsing, secure mail, DDoS protection, sandbox, SOC grew
 - Local governments’ “Information Security Cloud” projects also contributed to QoQ revenue growth

◆ WAN Services

- 1Q17: up 3.6% YoY, up 5.4% QoQ
- Revenues increased QoQ as seasonal factor of pricing pressure impact was small

◆ Mobile services

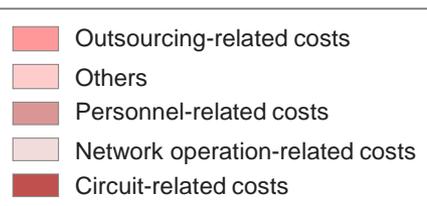
- 1Q17: up 45.0% YoY

◆ Non-mobile services

- 1Q17: up 6.5% 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).

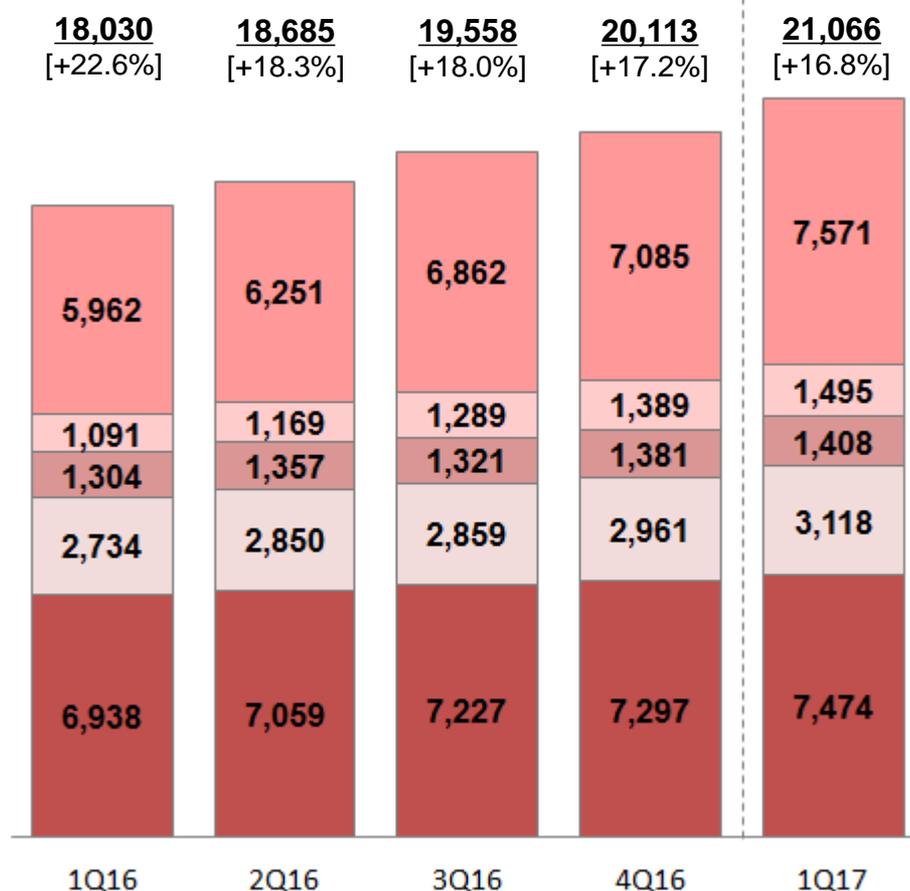
II - 4. Network Services (2)Cost of Revenues



Unit: JPY million

[], YoY = compared to the same period in a previous year
 QoQ = 1Q17 compared to 4Q16

FY16: 76,387 [+18.9%]



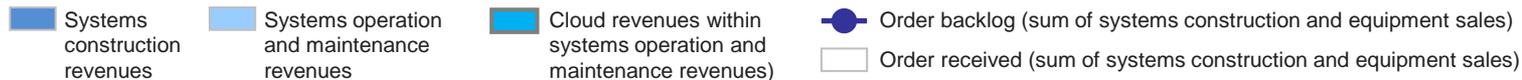
Cost of NW Services

- 1Q17: up 16.8% YoY, up 4.7% QoQ
- 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 such as IIJ Omnibus and security services

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

- Regarding our FY16 and FY15 usage charge, DOCOMO's interconnectivity telecommunications service charge was fixed in Mar. 2017 and it decreased by 14% (excluding the cost for lending SIM) YoY.
- Regarding our FY17 and FY16 usage charge, 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.

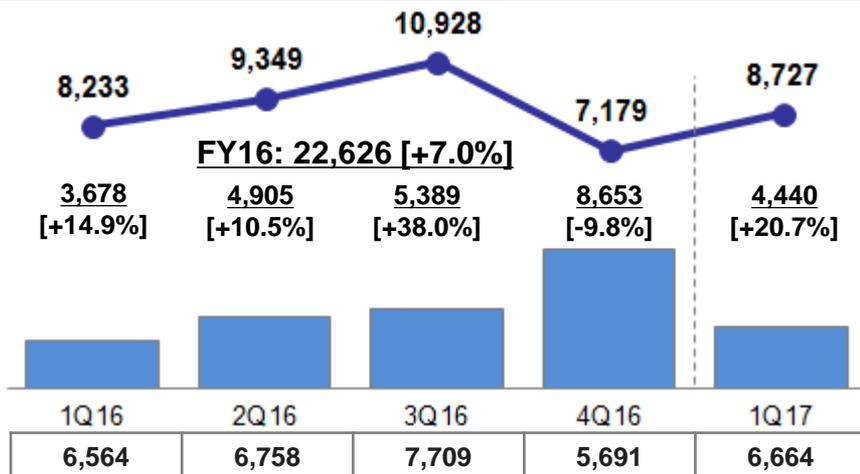
II - 5. Systems Integration (SI) (1)Revenues



Unit: JPY million

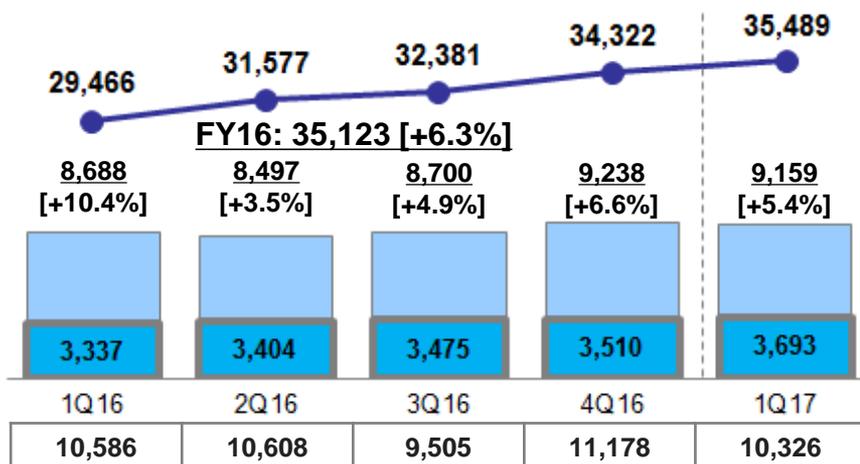
[], YoY = compared to the same period in a previous year
QoQ = 1Q17 compared to 4Q16

Systems Construction



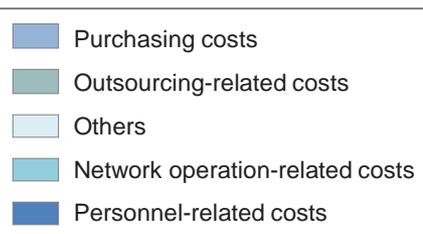
- 1Q17 revenue: up JPY762 million, up 20.7% YoY
- Good start with 1Q17 order received up 1.5% YoY and 1Q17 order backlog up 6.0% YoY
- Large-scale construction projects orders received in 1Q17:
 - Core information platform for university campus
 - Official website for central government agencies
 - Research system for one of the largest libraries
 - Wi-Fi network for university campus
 - Mail and web systems for Sler etc.

Systems Operation and Maintenance



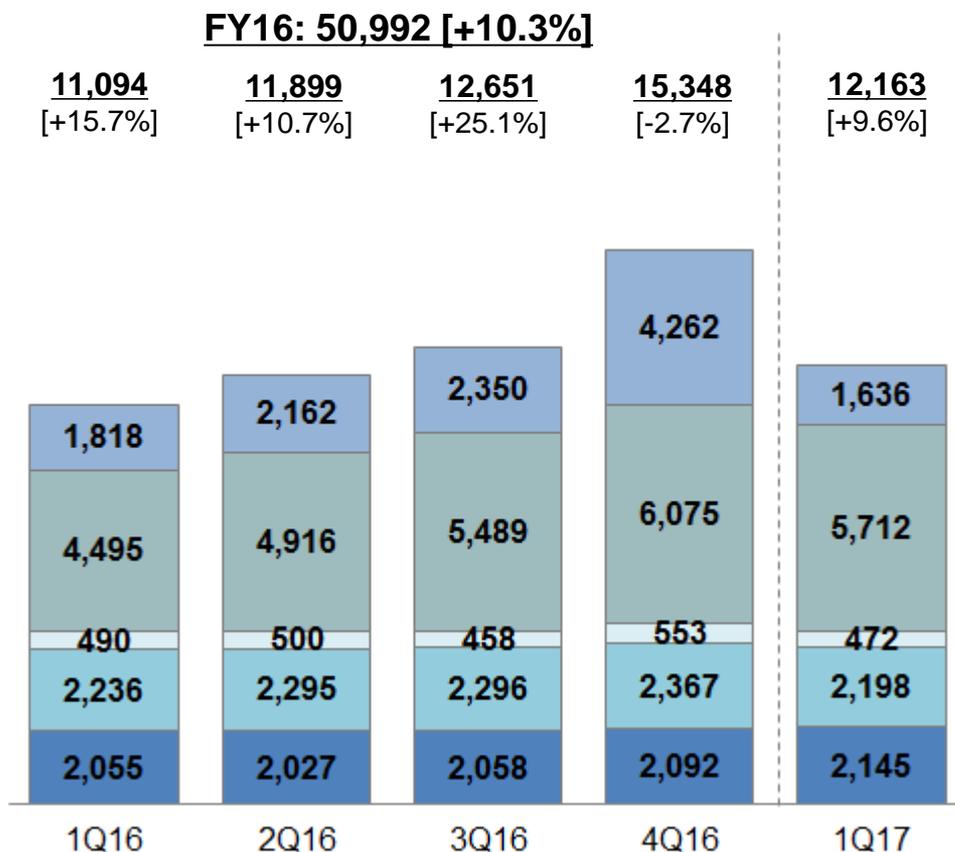
- 1Q17 revenue: up JPY471 million, up 5.4% YoY
- Continuous revenue growth mainly due to the accumulation of systems construction projects which migrated to systems operation and maintenance phase as well as continuous increase in private cloud revenue
 - From private cloud: up JPY356 million, up 10.7% YoY
 - From SI construction: up JPY116 million, up 2.2% YoY
- Sluggish growth due to expected termination of datacenter contract with a large game customer
- 86.6% of 1Q17 cloud-related revenue is recognized in systems operation and maintenance revenues (13.4% in outsourcing)

II - 5. Systems Integration (SI) (2)Cost of Revenues



Unit: JPY million

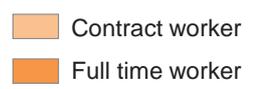
[], YoY = compared to the same period in a previous year
 QoQ = 1Q17 compared to 4Q16



Cost of SI

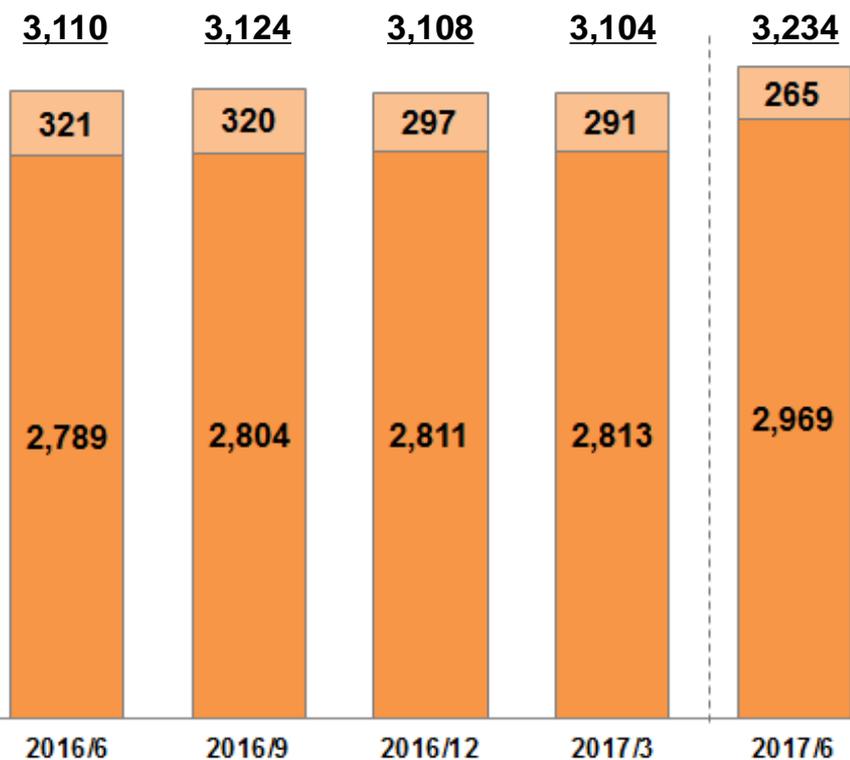
- 1Q17: up JPY1,069 million, up 9.6% YoY
 - 1Q17-end number of outsourcing personnel: 1,567 personnel (up 415 YoY, up 144 QoQ)
 - Although the number of SI-related outsourcing personnel and outsourcing-related costs decreased from 4Q16, they are to increase during FY17 along with an increase in SI projects
 - While 1Q16 SE productivity was low, 1Q17 SE productivity had a good start
 - Although the profitability of IJ GIO P2 improved (1Q17 revenue up JPY0.4 billion YoY, 1Q17 cost up JPY0.33 billion YoY), it made SI gross margin ratio low

II - 6. Number of Employees

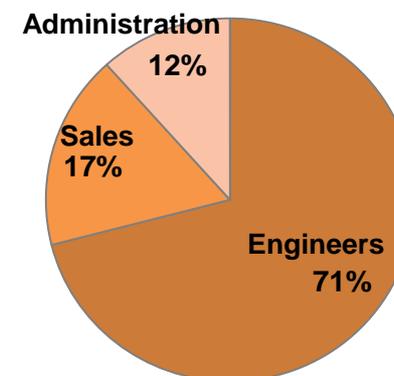


Unit: JPY million

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



Employee Distribution



- ◆ 1Q17: up JPY333 million, up 6.1% YoY
- ◆ Hired 148 new graduates in Apr. 2017 (137 in Apr. 2016, 155 in Apr. 2015)
- ◆ Estimate number of employees to increase by approx. 190 during FY17

Personnel related costs & expenses

(% of revenue)

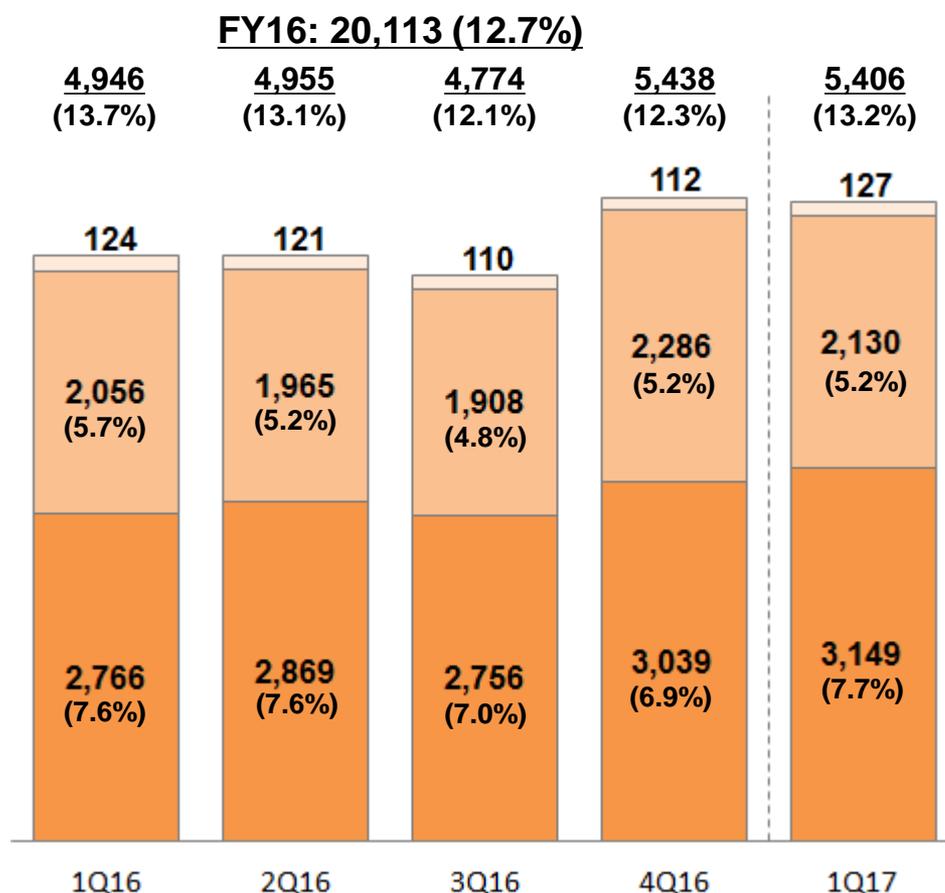
1Q16	2Q16	3Q16	4Q16	1Q17
5,464 (15.1%)	5,446 (14.4%)	5,432 (13.8%)	5,635 (12.8%)	5,797 (14.2%)
FY16: 21,977 (13.9%)				
up 822, up 3.9% YoY				

II - 7. SG&A Expenses/R&D



Unit: JPY million

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



Sales & marketing expenses

- 1Q17: up 13.8% YoY
 - Sales commission expenses, advertising expenses, and personnel-related expenses increased

General & administrative expenses

- 1Q17: up 3.6% YoY
 - Office rent expenses, commission expenses, and taxes and public dues increased

◆SG&A related to ATM operation business

Unit: JPY million

1Q16	2Q16	3Q16	4Q16	1Q17
43.5	51.1	42.9	47.0	35.5

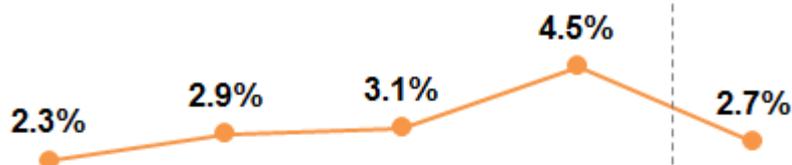
- Placed 1,083 ATMs as of June 30, 2017

II - 8. Operating Income and Net Income

Operating Income Net Income Attributable to IIJ Operating Margin Ratio

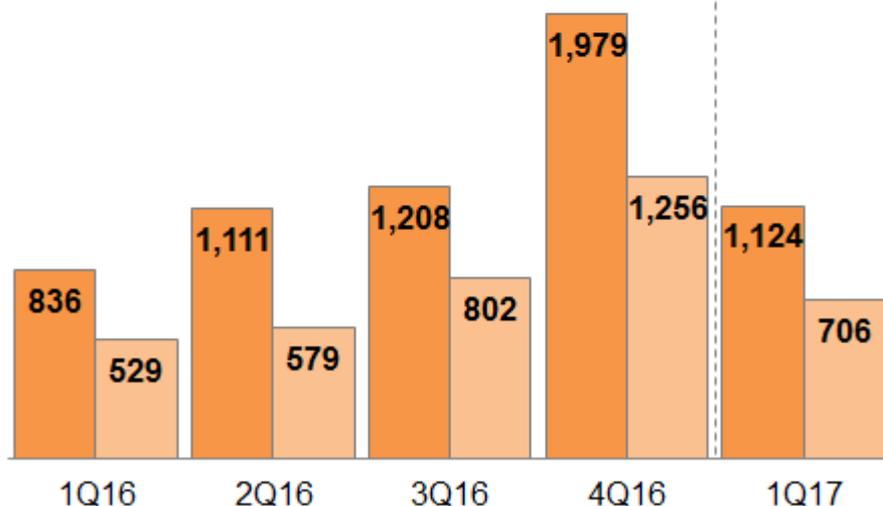
Unit: JPY million

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



FY16 Operating income: 5,134

FY16 Net income attributable to IIJ: 3,167



1Q16	2Q16	3Q16	4Q16	1Q17	
139	531	446	1,203	342	Current income tax expense
301	(18)	67	(444)	109	Deferred tax expense (benefit)
17	25	28	61	36	Equity in net income of equity method investees
(42)	(43)	(41)	(39)	(42)	Less: Net income attributable to noncontrolling interests

Income

◆ Income before income tax expense:

- 1Q17: JPY1,163 million
(up JPY169 million, up 17.0% YoY)
 - Distribution from fund investments: JPY57 million
 - Dividend income: JPY72 million
 - Interest expense: JPY89 million
 - Foreign exchange gain: JPY5 million

◆ Net income attributable to IIJ:

- 1Q17: JPY706 million
(up JPY177 million, up 33.4% YoY)
 - Equity in net income of equity method investees including Internet Multifeed: JPY36 million
 - Net income attributable to noncontrolling interests including Trust Networks: JPY42 million

II - 9. Consolidated Balance Sheets (Summary)

Unit: JPY million

	Mar. 31, 2017	Jun. 30, 2017	Changes
Cash and Cash Equivalents	21,959	20,508	(1,451)
Accounts Receivable	27,384	24,059	(3,325)
Inventories	2,798	3,116	+318
Prepaid Expenses (Current and Noncurrent)	14,218	16,687	+2,469
Investments in Equity Method Investees	3,150	3,173	+23
Other Investments	7,925	8,831	+906
Property and Equipment	39,775	40,415	+640
Goodwill and Other Intangible Assets	9,257	9,165	(92)
Guarantee Deposits	3,060	3,066	+6
Total Assets:	137,395	136,500	(895)
Accounts Payable	16,962	13,981	(2,981)
Income Taxes Payable	1,076	318	(758)
Borrowings (Short-term and Long-term)	17,750	17,750	-
Capital Lease Obligations (Current and Noncurrent)	15,203	16,133	+930
Total Liabilities:	70,015	68,478	(1,537)
Common Stock	25,509	25,512	+3
Additional Paid-in Capital	36,118	36,130	+12
Retained earnings	4,512	4,610	+98
Accumulated Other Comprehensive Income	2,500	3,034	+534
Treasury stock	(1,897)	(1,897)	-
Total IJ Shareholders' Equity:	66,742	67,389	+647

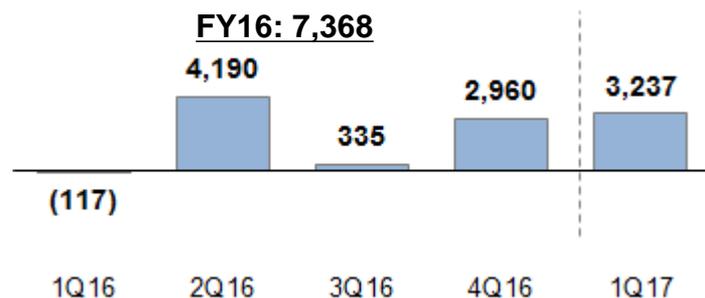
➤ Total IJ Shareholders' Equity to Total Assets: 48.6% as of Mar. 31, 2017, 49.4% as of Jun. 30, 2017

II - 10. Consolidated Cash Flows

Unit: JPY million

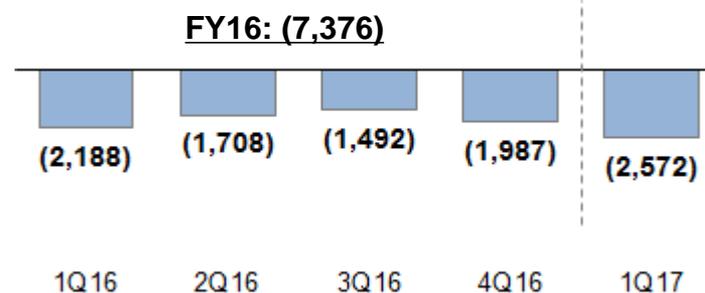
[], YoY = compared to the same period in a previous year

Operating Activities



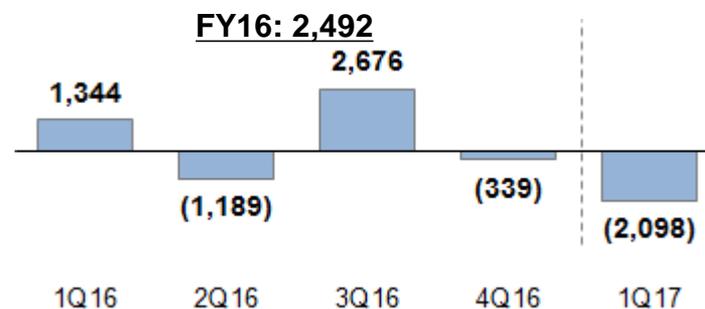
	<u>Major Breakdown</u>	<u>YoY Change</u>
Net income	748	+177
Depreciation and amortization	2,979	+367
Fluctuations of operating assets and liabilities	(690)	+2,881

Investing Activities



	<u>Major Breakdown</u>	<u>YoY Change</u>
Purchase of property and equipment	(3,839)	(755)
Proceeds from sales of property & equipment (lease-back transaction)	1,276	+871

Financing Activities

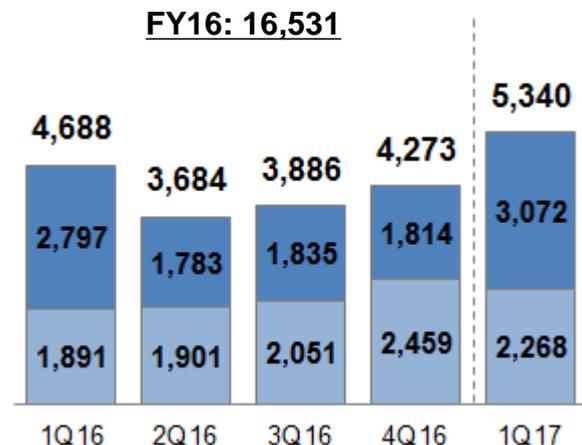


	<u>Major Breakdown</u>	<u>YoY Change</u>
Principal payments under capital leases	(1,335)	(210)
Dividends paid	(608)	(103)

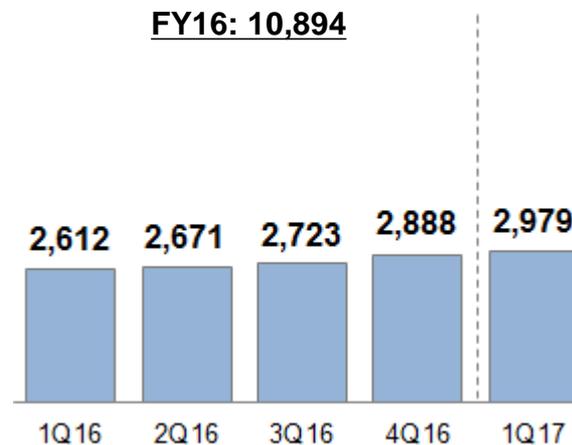
II - 11. Other Financial Data (CAPEX etc.)

Unit: JPY million

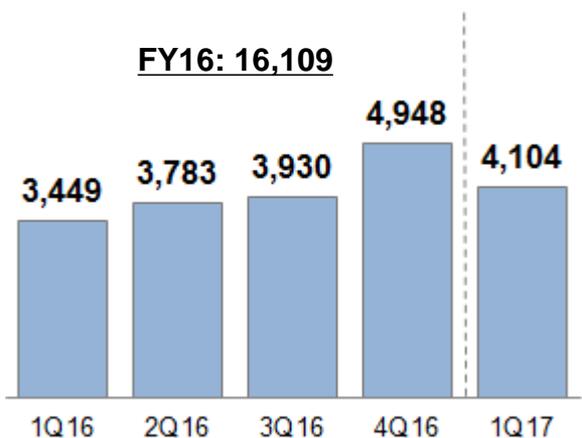
CAPEX



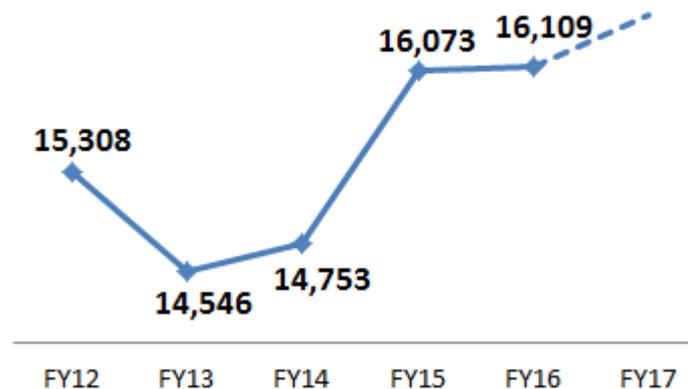
Depreciation and Amortization



Adjusted EBITDA



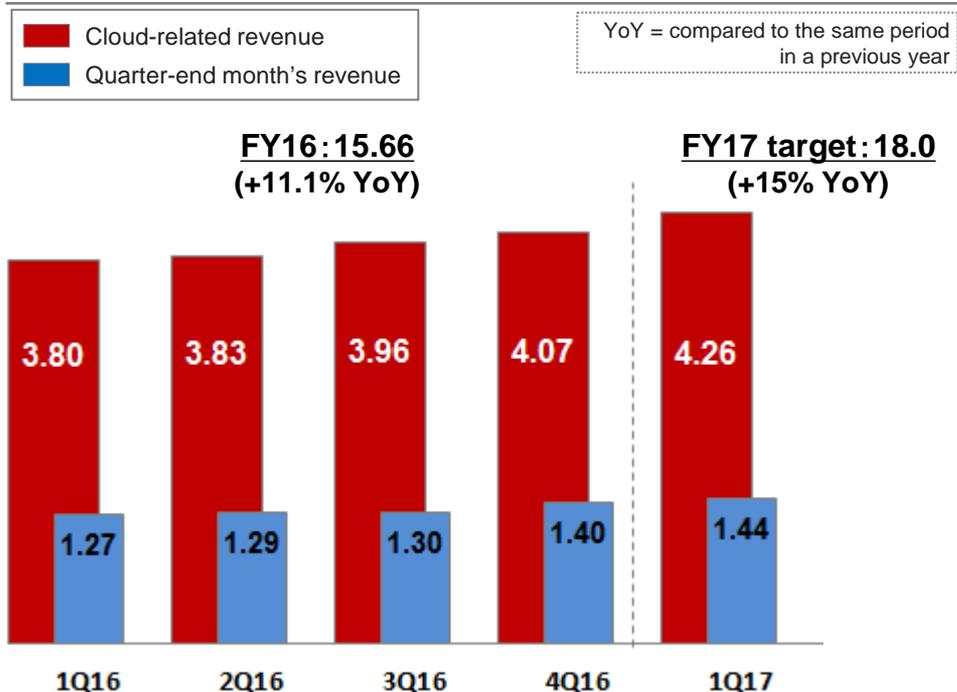
Adjusted EBITDA Annual Growth



III - 1. Cloud Business Developments

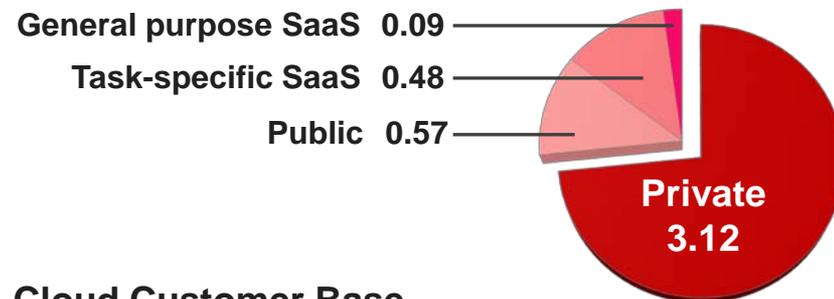
Cloud-related revenue

Unit: JPY billion

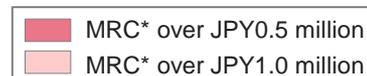


1Q17 revenue

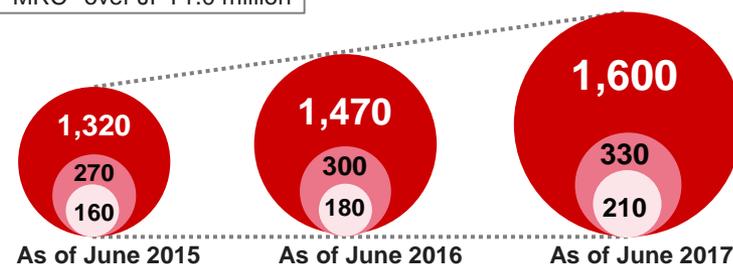
Unit: JPY billion



Cloud Customer Base



*Monthly Recurring Charge



◆ 1Q17 Quarter over quarter revenue growth accelerated (+JPY0.19 billion)

- Demands for virtual desktop services, VMware virtualization platform services, IIJ GIO Infrastructure P2
- Large-scale projects such as virtual desktop for a prominent insurance company, core business platform for a major travel agency, and Information Security Cloud for local governments contributed to the growth
- No large change in large game customers revenue from 4Q16

◆ IIJ GIO Infrastructure P2:

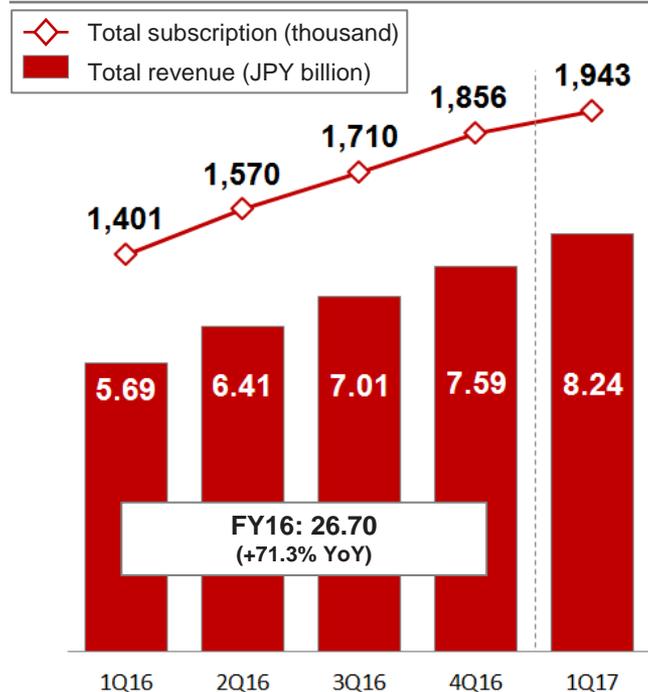
- 1Q17 revenue up JPY0.4 billion YoY
- 1Q17 cost up JPY0.33 billion YoY
- Continuously accumulating large-scale projects such as internal core business platform systems for a global manufacture and residents information systems for local governments

◆ 1Q17 cloud-related revenue recognition:

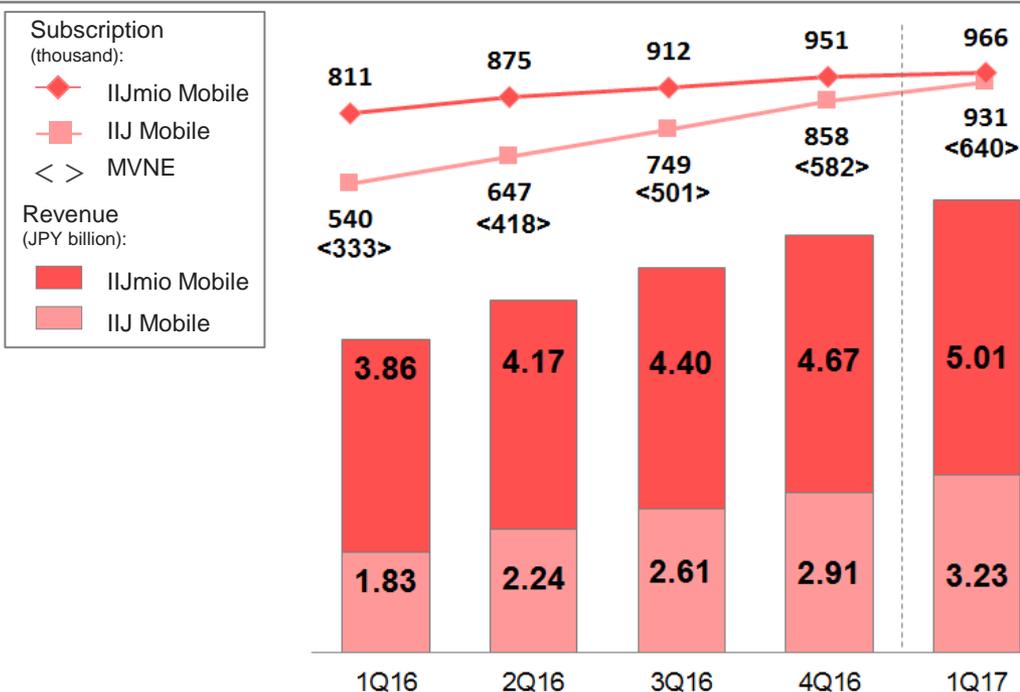
- 86.6% in systems operation and maintenance
- 13.4% in outsourcing

III - 2. Mobile and IoT Business Developments

Total subscription & revenue



IIJmio Mobile (consumer) & IIJ Mobile (enterprise)



◆ **1Q17 enterprise mobile revenue (excluding MVNE): JPY0.87 billion (+22.7% from 1Q16, +4.1% from 4Q16)**

- Continuously accumulating enterprise mobile solutions
 - Security camera, digital signage, BtoC service handy devices, large-scale solar panel monitoring, ticket vending machine etc.

◆ **Accumulating IoT-related prospective orders and discussions on feasibility study and PoC**

- Paddy water control, Connected Homes, energy management, accidents prevention with Smart Factory, remote control of facility etc.

- ◆ Toward consumers, expect to expand MVNE business clients' transactions, differentiate with reliable connectivity, introduce various handsets and optional add-on features, execute campaigns etc.

◆ **Full-MVNO services to be launched in 4Q17, generate IoT demands**

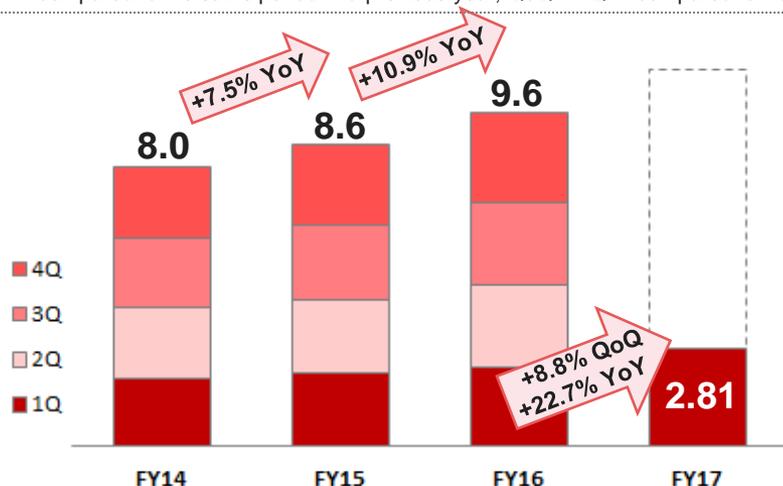
- Preparation proceeding as planned: constructing systems and verifying communication confirmation etc.
- Expect to offer closed network, eSIM, private roaming, business solution with inventory optimization, cost compression of SIM by issuing own original SIM

◆ **Mobile services' gross margin and operating income amount continued to increase year over year and quarter over quarter**

III - 3. Security Business Developments

Security-related Services Revenue JPY billion

YoY = compared to the same period in a previous year, QoQ = 1Q17 compared to 4Q16



Including security-related SI, FY16 security related revenue was over JPY11 billion

Security service line-ups

◆ Provide together with NW and SI as comprehensive

Various security service line-ups

- Firewall
- Targeted attacks protection
- Unified security solution/SOC
- Web access security
- Smart devices security
- WAF
- IPS/IDS
- DDoS protection
- Mail security
- Security hole testing

etc.

NW

SI



Enterprise customers

Business Developments

- ◆ First in Japan to provide **firewall services** (since 1994)
- ◆ Protecting **several hundreds of thousands email accounts** with our services for such as global manufacturing companies, local governments and more from external threats and information leaks
- ◆ Providing **DDoS protection services** which are able to handle terabit cyber attacks to many of central government agencies and prominent financial institutions
- ◆ Providing **SOC services** with approx. 6 billion daily log records of network etc. (others: approx. 0.8 billion records a day), able to detect Internet threats and execute countermeasures in early stage
- ◆ **Advising regional police departments about cyber security** such as unauthorized access and Internet network

Competitive Advantage of IIJ

	NW	Analysis	Monitoring	SI
IIJ	○	○	○	○
Security vendor	×	△	○	×
Sler	×	△	○	○

III - 4. FY2017 Financial Target (Announced on May 15, 2017)

Unit: JPY billion

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

*Net income attributable to IIJ

NW services

- Revenue growth to accelerate with large-scale Information Security Cloud project (MRC over JPY100 million), outsourcing and Internet connectivity services
- 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.
- Full-MVNO related cost approx. JPY0.4 billion (to be recorded from Dec. 2017)
- 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

SI

- Systems construction revenue with same level as FY16 affected by further cloud service penetration
- Systems operation and maintenance revenue to continuously increase, target JPY18.0 billion for cloud revenue
- SI gross margin ratio to improve approx. 1 point from FY16, Cloud margin to improve by JPY0.4 billion to JPY0.6 billion

ATM

- Expect no significantly large number of additional ATM placement

SG & A	◆ Sales commission fee, sales promotion, personnel-related, rent to increase continuously
HR	◆ Net addition of approx. 190 personnel
CAPEX	◆ Recent years' CAPEX volume + full-MVNO related investment (up JPY0.8 billion YoY)

※ 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

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