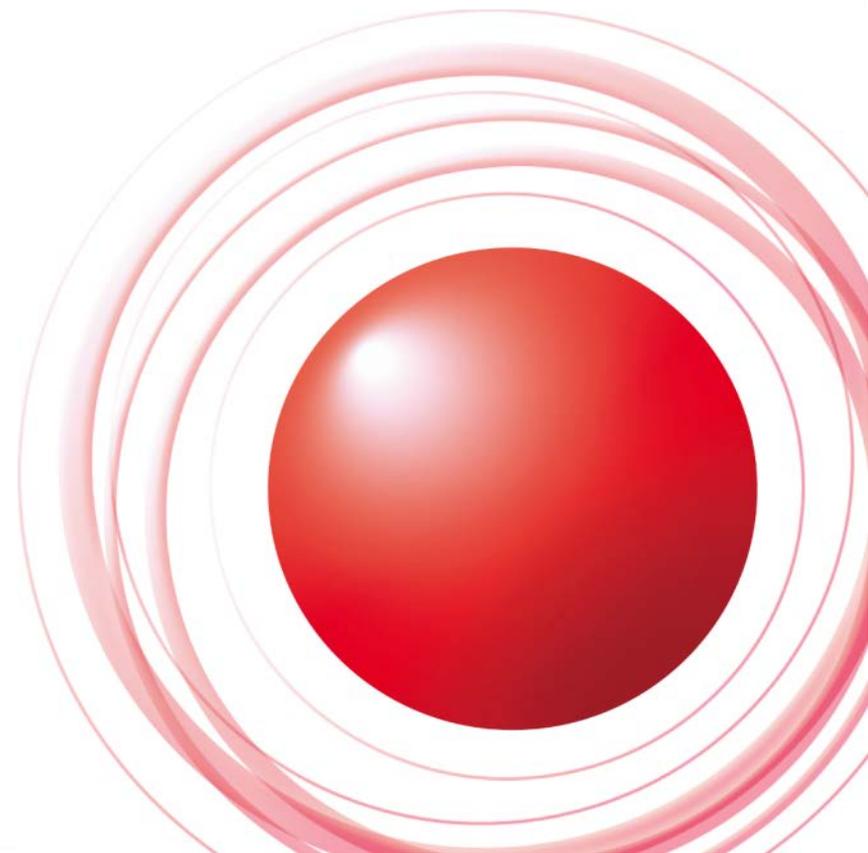


# FY2016 Consolidated Financial Results



Internet Initiative Japan Inc.  
TSE1(3774), NASDAQ(IIJI)  
May 15, 2017

Ongoing Innovation



# Agenda

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**I . Summary of FY2016 Financial Results**

**II . FY2017 Business Plan**

**III . Consolidated Financial Results for FY2016**

**IV . Reference Materials**

# I . Summary of FY2016 Financial Results

**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 IIJ

## 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 "IIJ 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
- \*JOCND Inc., IIJ 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

## II. FY2017 Business Plan

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

**Cloud**

- GIO P2 flagship projects to be recognized as revenue
  - Unified business operation platform for a global manufacturing company's group, virtual desktop services etc.
- Continuously developing services and service facility investment
  - ➔ FY17 target revenue : JPY18 billion (up 15% YoY)**

**Mobile, IoT**

- Continuously enhance service quality, strengthen sales promotion with sales partners for consumer
- Further acquire enterprise IoT/M2M solution orders
- Full-MVNO services from 4Q17, cost to be recorded from Dec. 2017 (included in the budget)
  - ➔ FY17 target subs. net addition: stronger than FY16**  
(FY16 net addition: 628 thousand, FY15: 555 thousand)

**Security**

- Stronger revenue accumulation with services developed in FY16
- Information Security Cloud project's revenue to increase
- Continuously developing services and enhancing differentiation
  - ➔ Security services revenue accumulation to accelerate**

**SI**

- Expect no significant YoY increase for SI construction revenue due to cloud trend
- Expect SI gross margin ratio to improve by 1 point YoY with SE productivity improvement and cloud revenue accumulation

**Overseas**

- Target revenue of JPY7.0 billion and plan to turn positive with each overseas subsidiaries making more contribution

**CDN**

- JOCDN Inc. to launch services
  - Provide CDN services for Japanese broadcasting companies' contents

## Ⅲ- 1. Consolidated Financial Results for FY2016 (1)

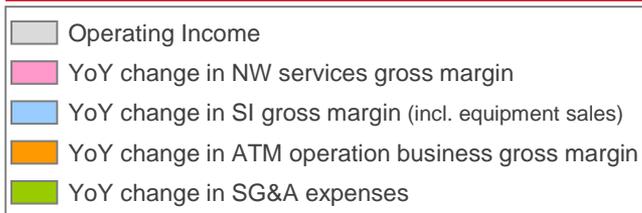
Unit: JPY billion

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

\*Net income attributable to IIJ

# III- 1. Consolidated Financial Results for FY2016 (2)

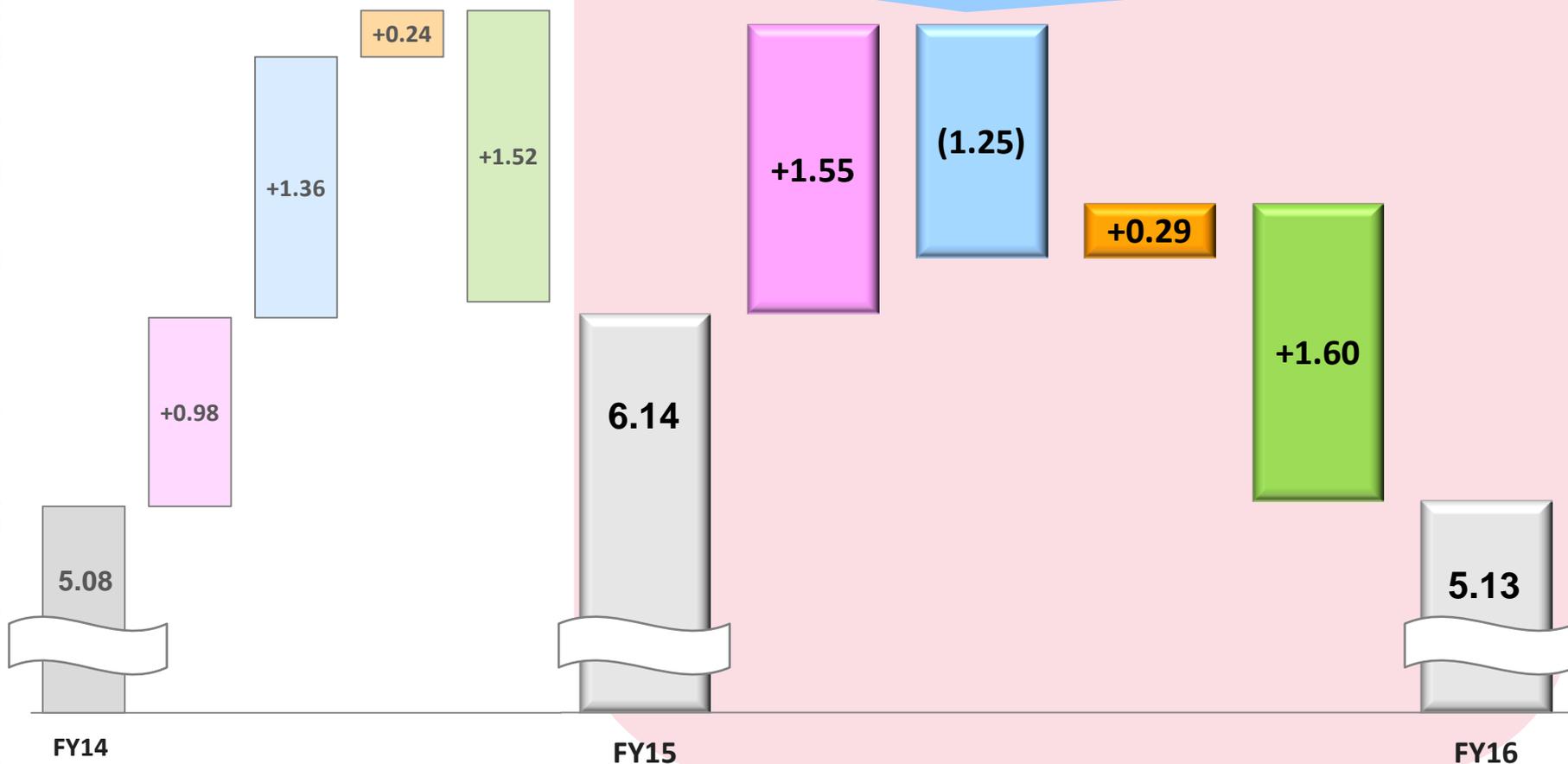
Unit: JPY billion



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



# III- 2. Revenues



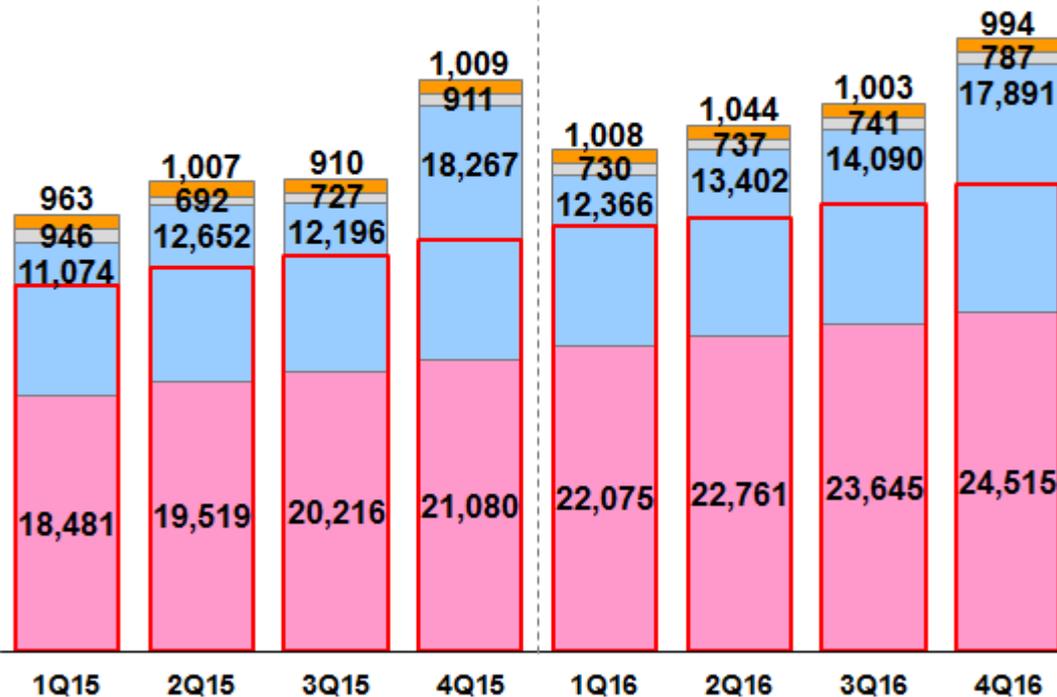
Unit: JPY million

[ ], 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

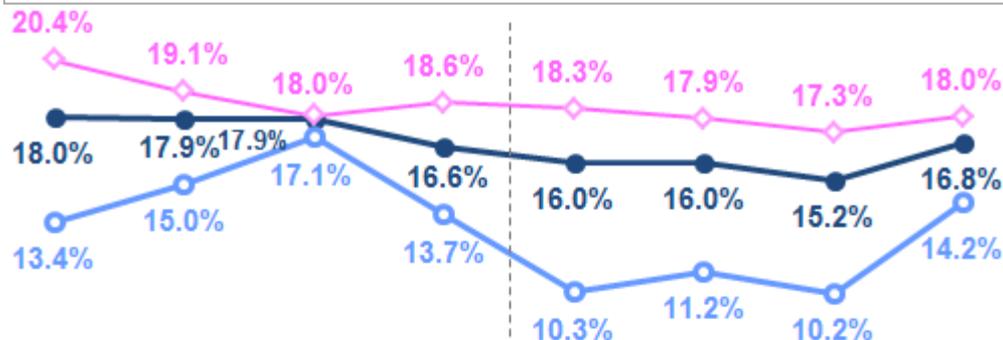
# III- 3. Cost of Revenues and Gross Margin Ratio

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

Gross margin ratio: ◇ NW Services ○ SI ● Total Revenues

Unit: JPY million

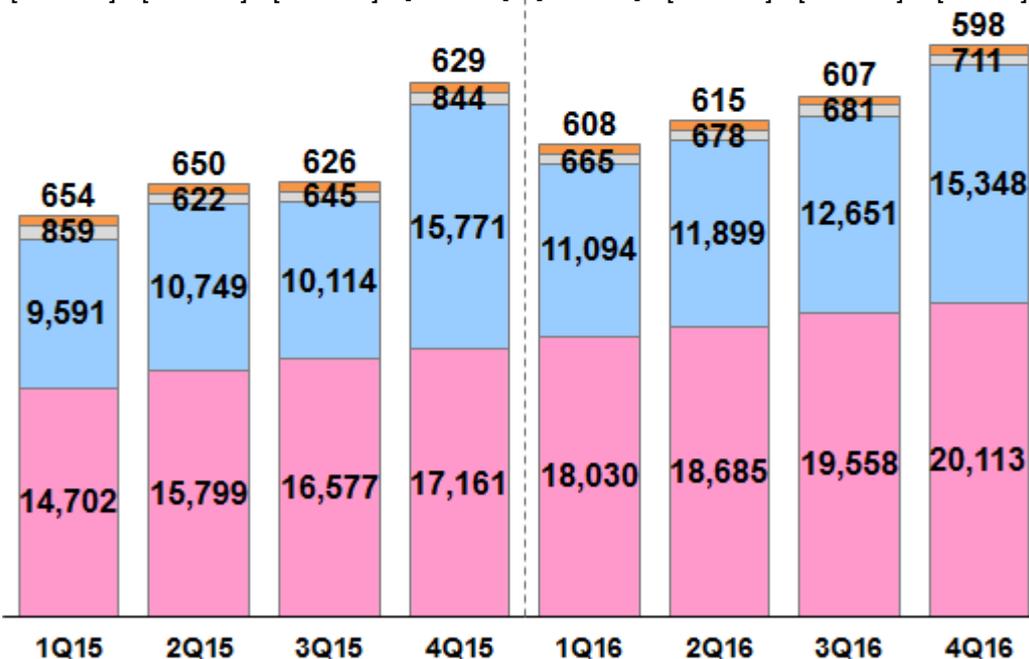
[ ] , YoY = compared to the same period in a previous year



**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.

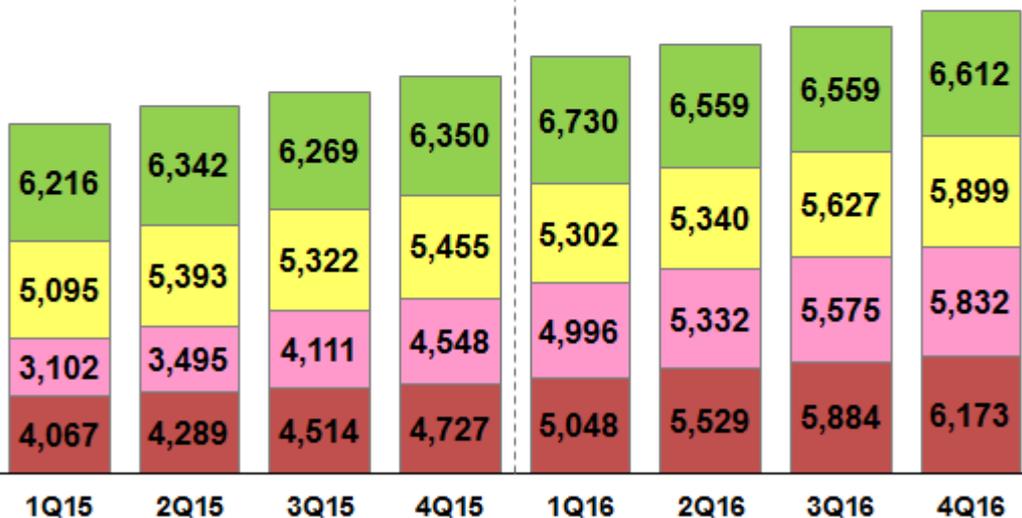
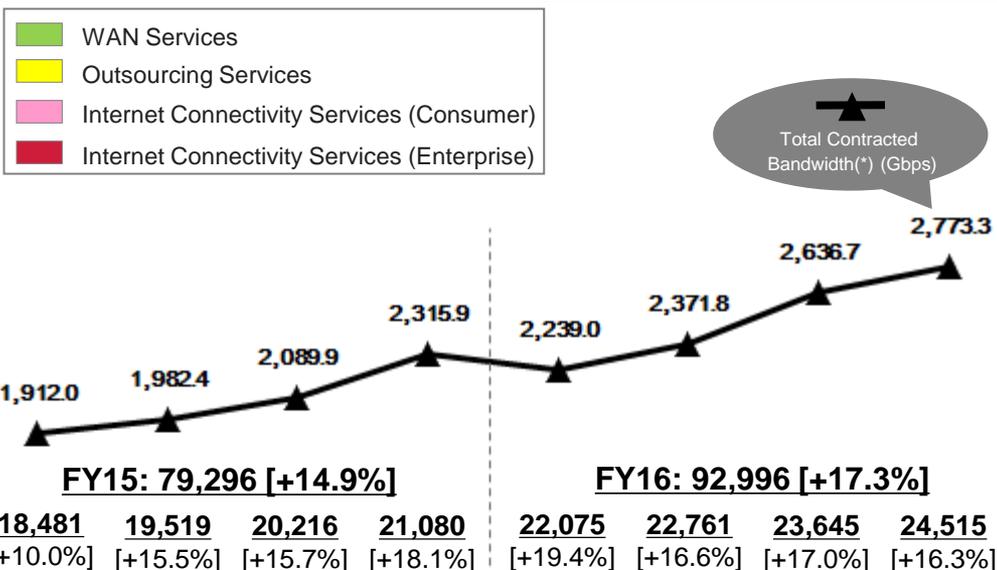
### ◆ SI

- 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

# III- 4. Network Services (1)Revenues

Unit: JPY million

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



(\*) 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).

## ◆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

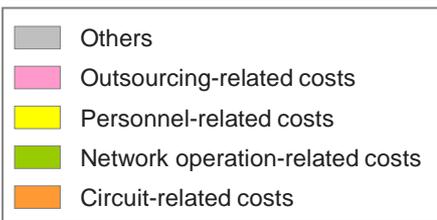
## ◆Mobile services

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

## ◆Non-mobile services

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

# III- 4. Network Services (2)Cost of Revenues



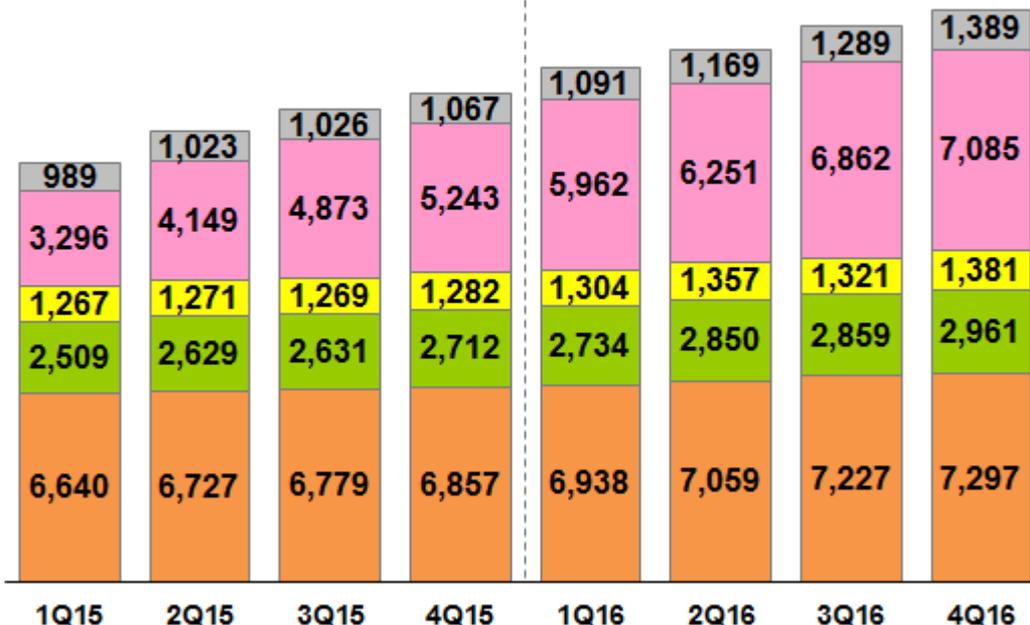
Unit: JPY million

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

**FY15: 64,239 [+16.9%]**

**FY16: 76,387 [+18.9%]**

14,702	15,799	16,577	17,161	18,030	18,685	19,558	20,113
[+11.3%]	[+20.1%]	[+20.5%]	[+15.9%]	[+22.6%]	[+18.3%]	[+18.0%]	[+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

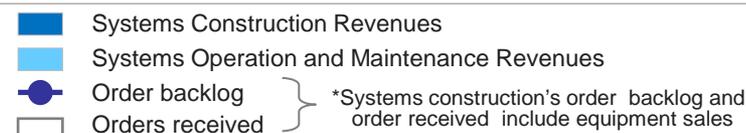
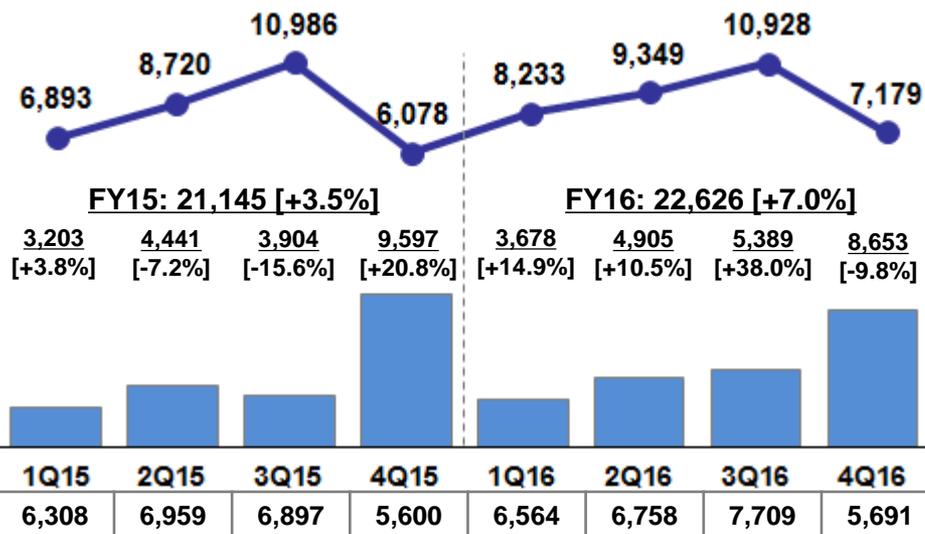
### ◆ Regarding NTT DOCOMO's ("DOCOMO") mobile interconnectivity cost recognition:

- 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.

# Ⅲ- 5. Systems Integration (SI)

## (1) Revenues

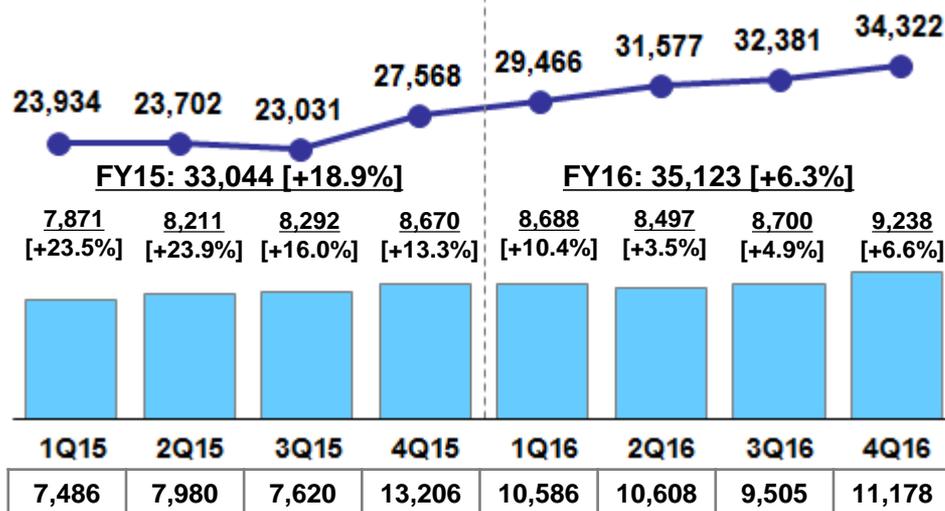
### Systems Construction



### ◆ 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



### ◆ 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)

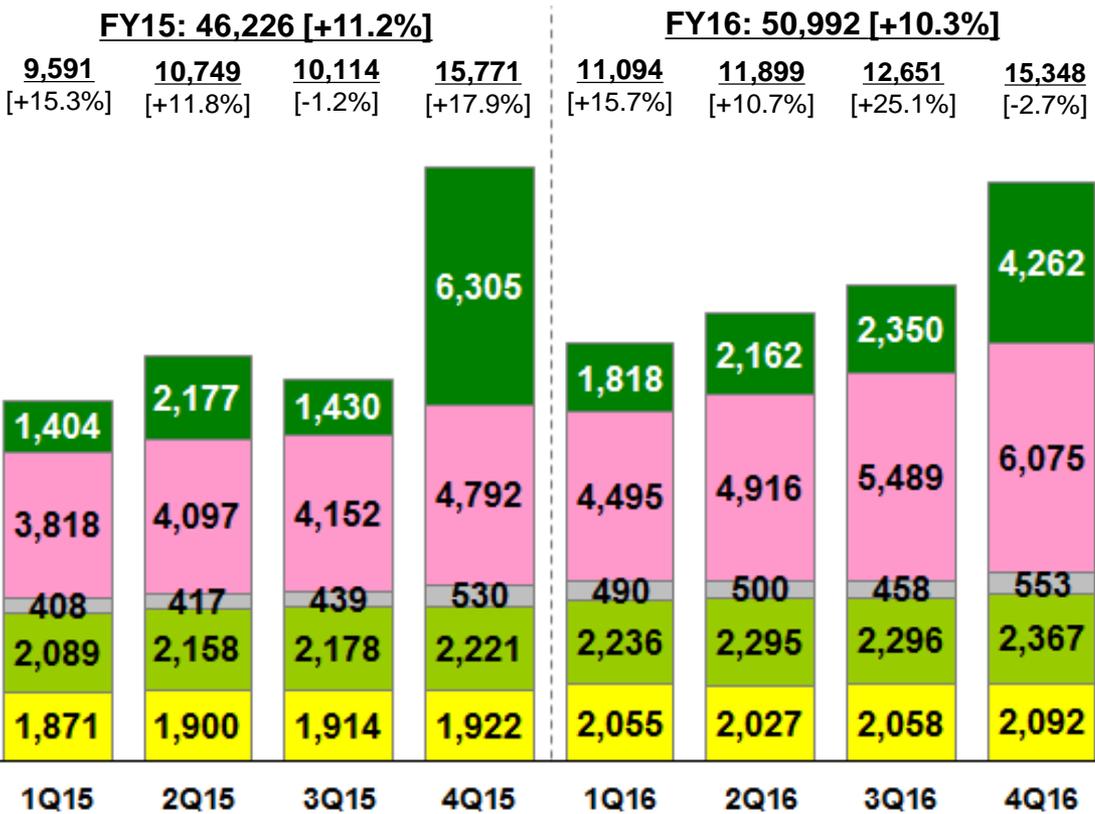
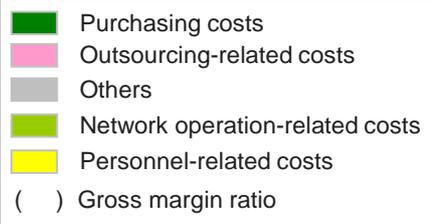
### ◆ Overseas business

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

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

Unit: JPY million

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



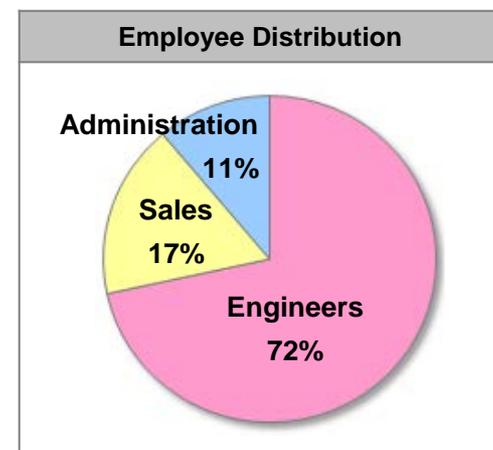
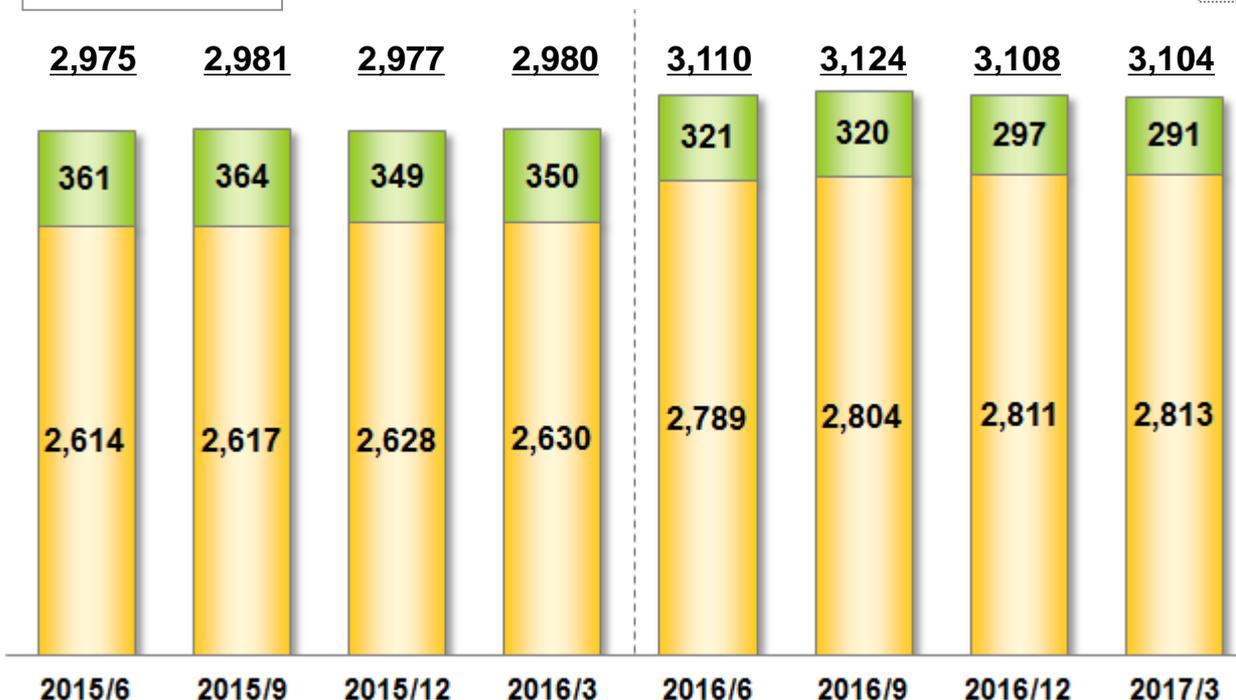
- ◆ **Cost of SI**
- FY16: up JPY4,767 million, up 10.3% YoY
  - 4Q16: down JPY423 million, down 2.7% YoY
    - 4Q16-end number of outsourcing personnel: 1,423 personnel (up 354 YoY, up 97 QoQ)
    - Network operation-related, outsourcing-related and personnel-related costs increased mainly due to an 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

# III- 6. Number of Employees

■ Contract worker  
■ Full time worker

Unit: JPY million

YoY = compared to the same period in a previous year



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

Personnel related costs & expenses  
(% of revenue)

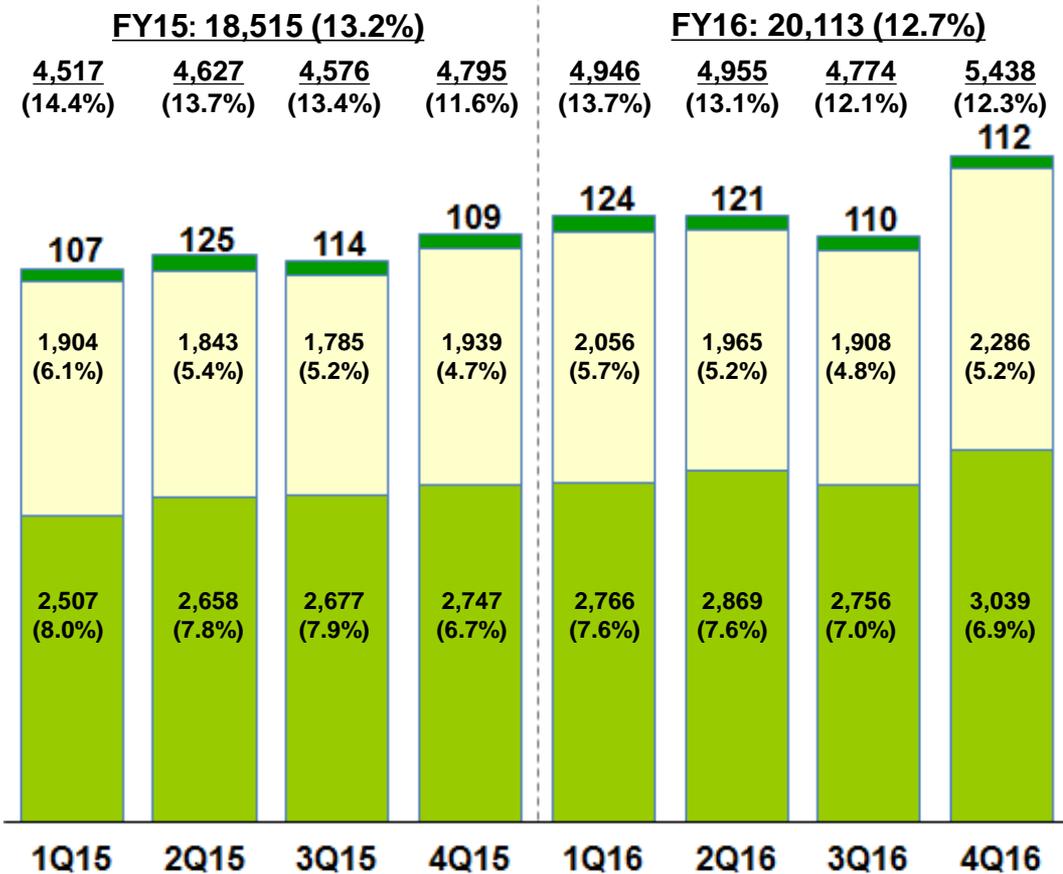
- ◆ Hired 148 new graduates in Apr. 2017 (137 in Apr. 2016, 155 in Apr. 2015, 129 in Apr. 2014)
- ◆ Estimate number of employees to increase by approx. 190 during FY17

# III- 7. SG&A Expenses/R&D



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

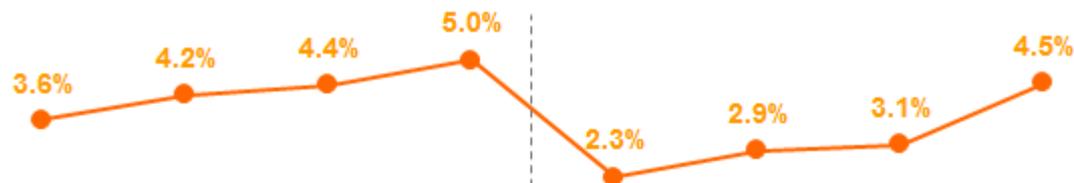
- Placed 1,066 ATMs as of March 31, 2017

## Ⅲ- 8. Operating Income and Net Income

Operating Income    Net Income Attributable to IIJ    Operating Margin Ratio

Unit: JPY million

YoY = FY16 compared to FY15

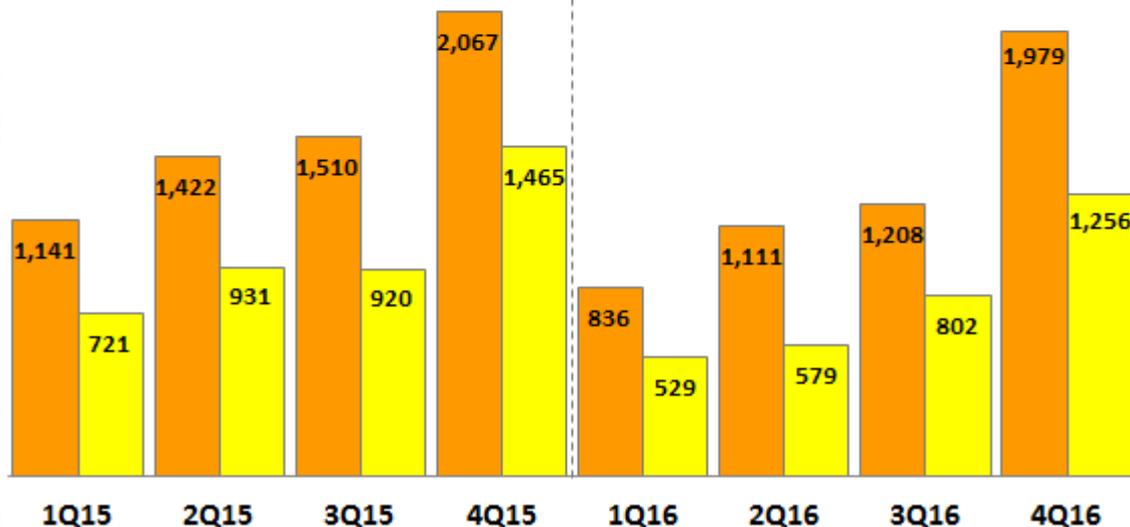


**FY15 Operating income: 6,140**

**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

## Ⅲ- 9. Consolidated Balance Sheets (Summary)

Unit: JPY million

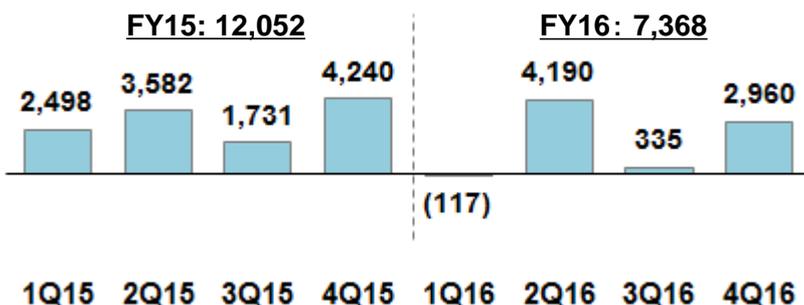
	Mar. 31, 2016	Mar. 31, 2017	Changes
Cash and Cash Equivalents	19,569	21,959	+2,389
Accounts Receivable	23,747	27,384	+3,637
Inventories	2,004	2,798	+794
Prepaid Expenses (Current and Noncurrent)	9,757	14,218	+4,461
Investments in Equity Method Investees	2,980	3,150	+171
Other Investments	5,949	7,925	+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

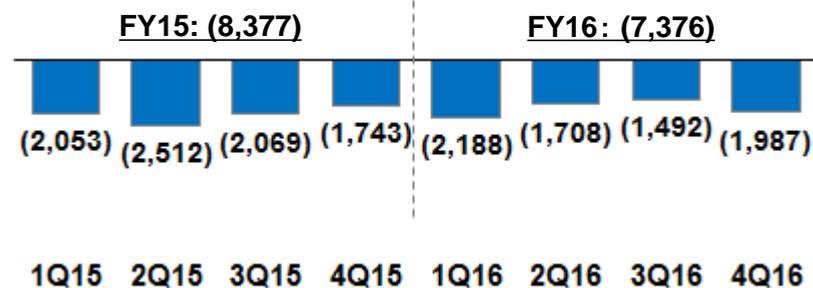
# III- 10. Consolidated Cash Flows

Unit: JPY million

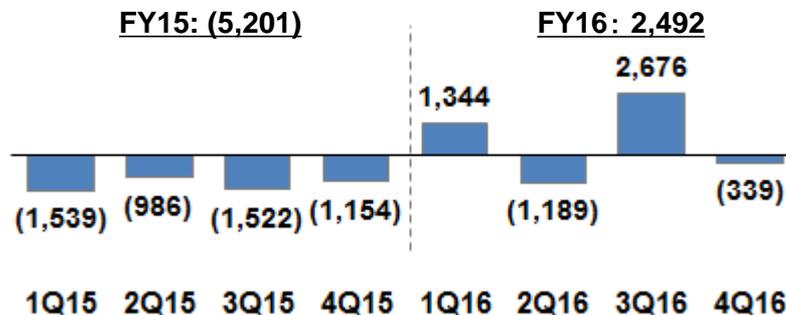
## Operating Activities



## Investing Activities



## Financing Activities



YoY = compared to the same period in a previous year

### ◆ 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

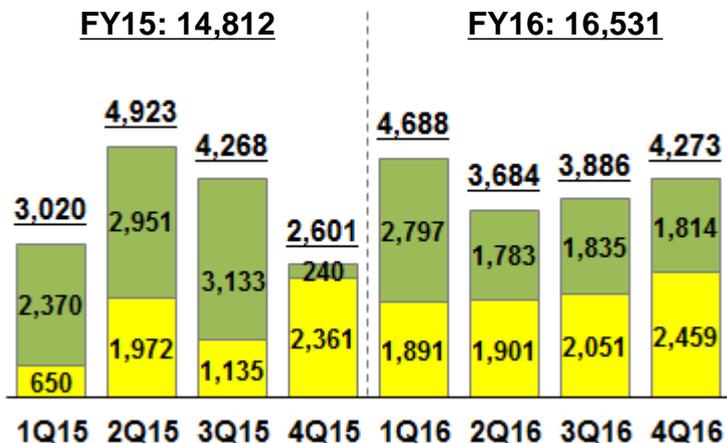
### ◆ FY16 Financing Activities

	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)

# III- 11. Other Financial Data (CAPEX etc.)

Unit: JPY million

## CAPEX

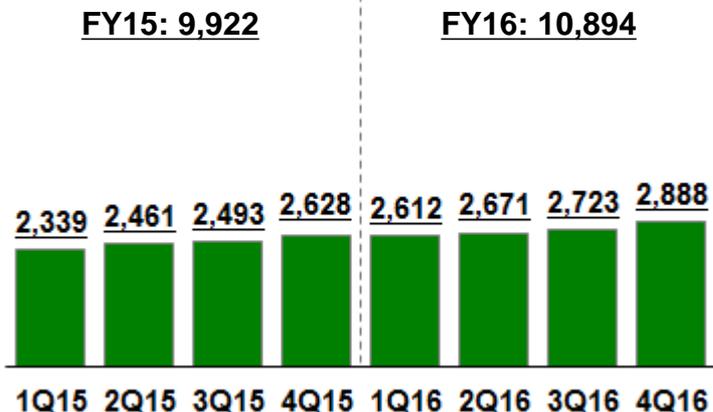


### < Breakdown of CAPEX (unit: JPY billion) >

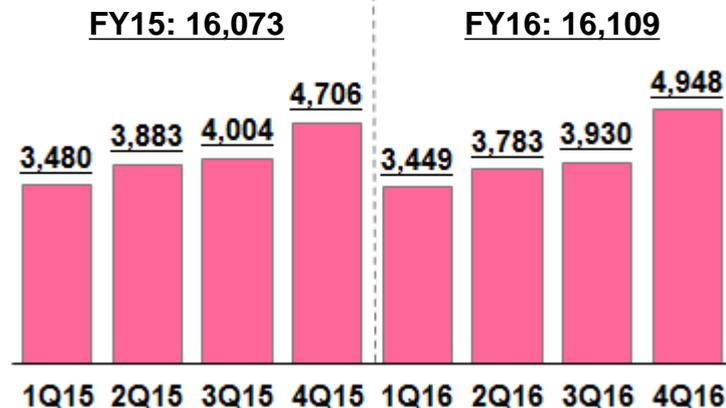
	FY15	FY16
Network update, back office investment and others	10.2	12.6
Cloud-related (of GIO P2-related)	4.4 (2.2)	3.6 (2.0)
ATM operation business	0.2	0.3

- 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



# IV- 1. Cloud Business Developments

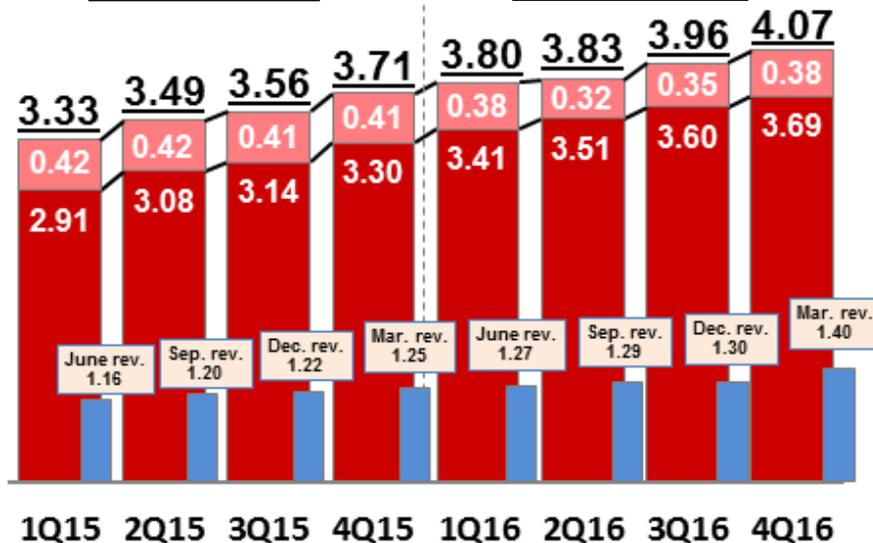
## Cloud-related revenue

(Unit: JPY billion)

- Large game customers
- Business enterprise customers

**FY15: 14.09**

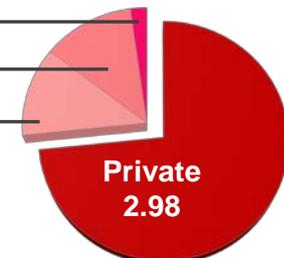
**FY16: 15.66**



## 4Q16 revenue

(Unit: JPY billion)

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

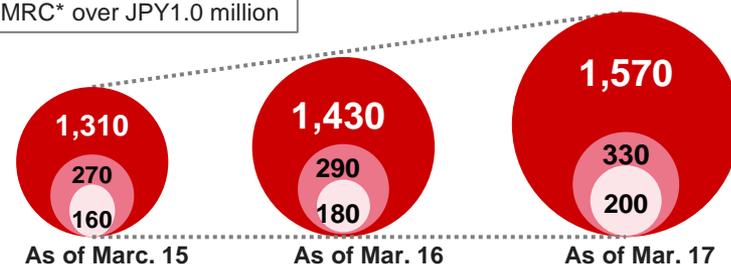


4Q16 cloud-related revenue recognition:  
86.2% in systems operation and maintenance  
13.8% in outsourcing

## 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)

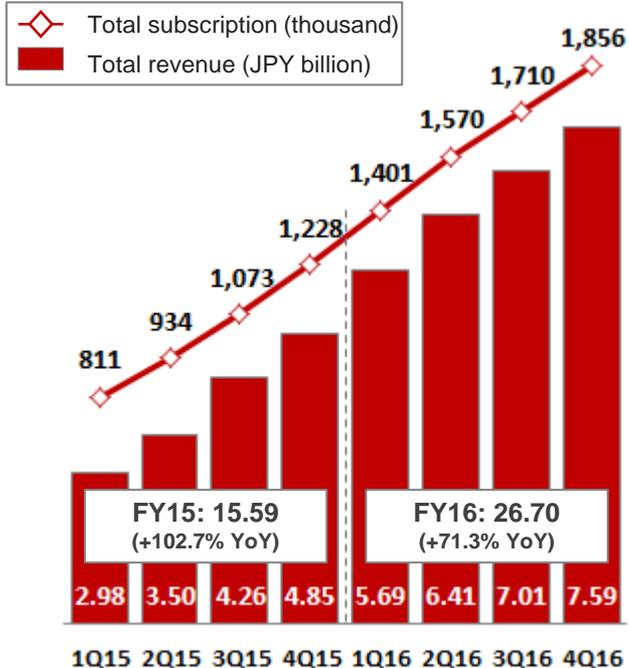
## FY17 Plan

YoY = FY17 target compared to FY16 result

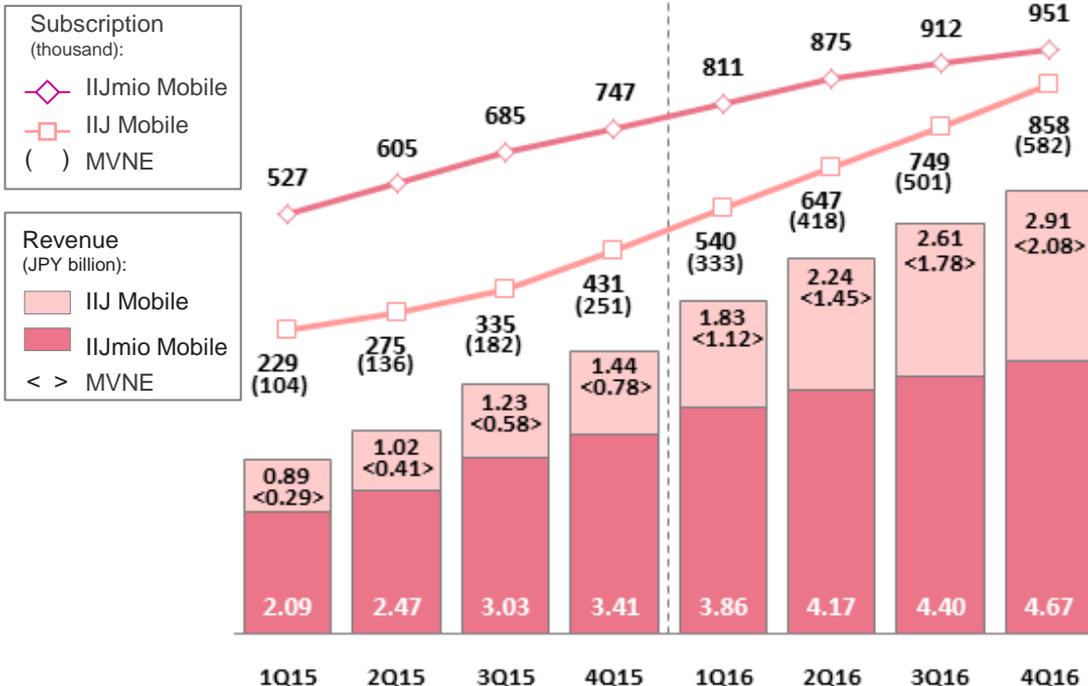
- ◆ FY17 revenue target: JPY18.0 billion (up 15% YoY)
  - Margin to improve around JPY0.4 billion to JPY0.6 billion
  - Revenue to continuously expand with GIO P2 flagship projects
  - Continuous service development and facility investment

# IV- 2. Mobile Business Developments

## 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)

# IV- 3. FY2017 Financial Target (1)

Unit: JPY billion

	% of Revenues	% of Revenues	% of Revenues	FY17 Target	
	FY16 Results	1H17 Target	FY17 Target	against FY16 Results	
	(Apr. 2016 - Mar. 2017)	(Apr. 2017 - Sep. 2017)	(Apr. 2017 - Mar. 2018)		
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)

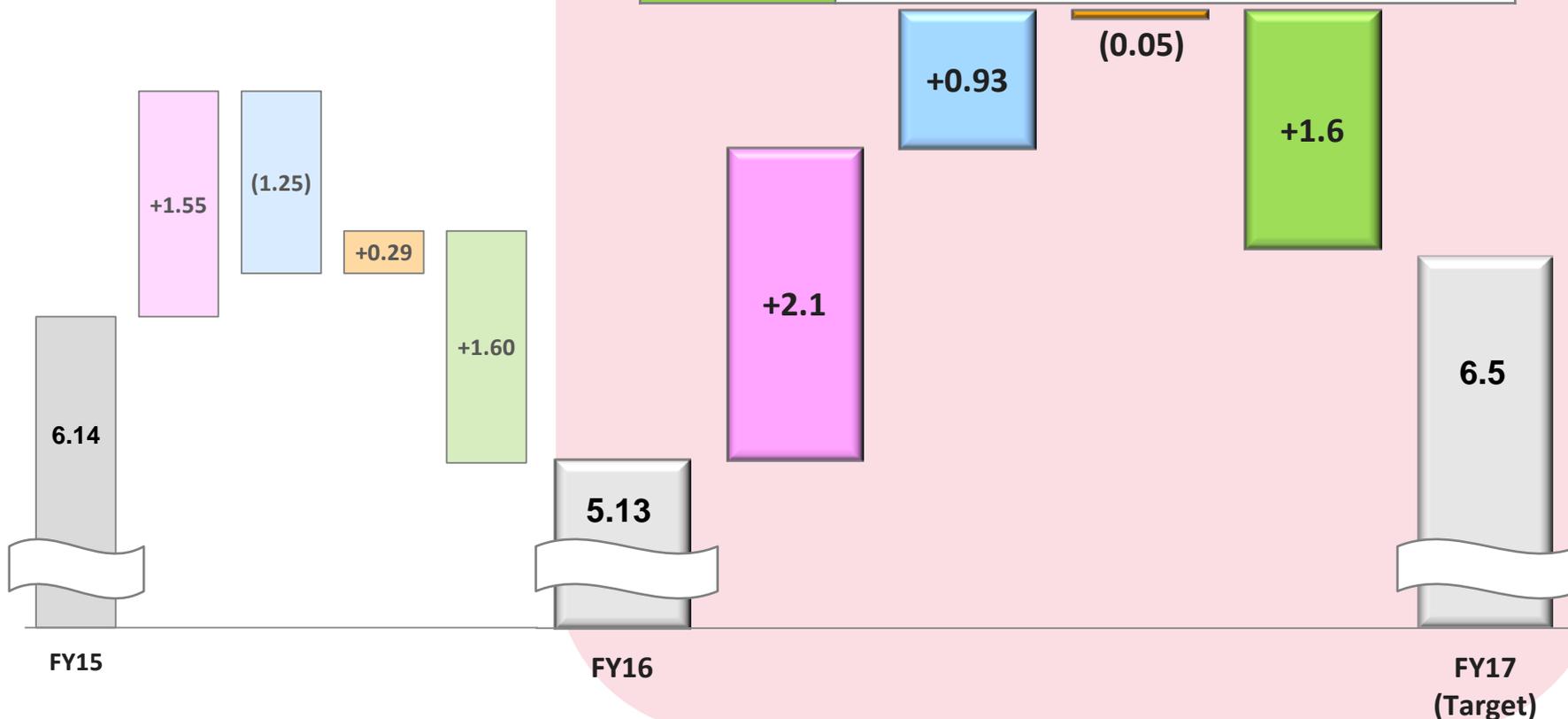
# IV- 3. FY2017 Financial Target (2)

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

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