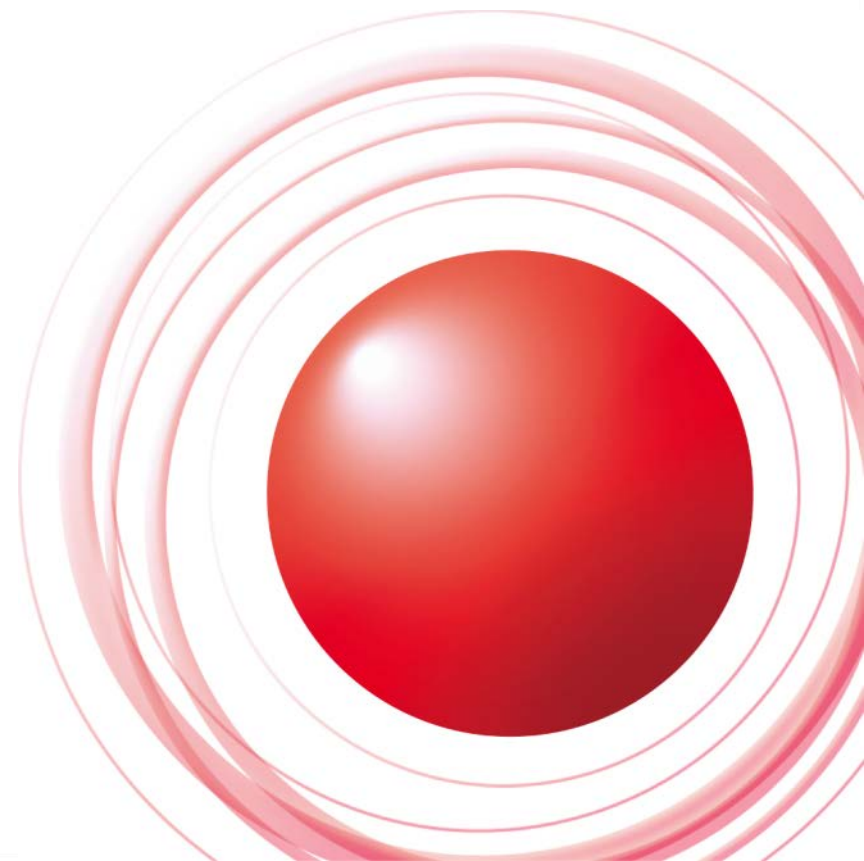


Consolidated Financial Results for 1H FY2016 (First 6 months ended September 30, 2016)



Internet Initiative Japan Inc.
TSE1(3774), NASDAQ(IIJI)
November 8, 2016

Ongoing Innovation



Agenda

I . Summary of 1H FY2016 Financial Results

II . Consolidated Financial Results for 1H FY2016

III . Reference Materials

I - 1. Summary of 1H FY2016 Financial Results

< 1H16 Results >

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

< FY2016 Targets >

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

1H16 Business Developments

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

1H16 Financial Results

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

FY2016 Outlook

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

Future Prospects

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

Share Buyback

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

Dividend Forecast

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

YoY= Compared to the same period in a previous year

I - 2. Focusing Business Investing Areas

Cloud

Many enterprise systems continuously migrating to cloud
Expect our cloud services to become the platform of full outsourcing in the future

- Launched “IIJ GIO Infrastructure P2” in Nov. 2015. Continuously enhancing several functions
- Multi-cloud: Private connectivity with Microsoft and amazon AWS etc.
- Continuously adding servers, storages and so on, Enhancing VM ware virtualization platform services
- Secure Browsing services for local governments launched Nov. 2016

- FY15 GIO P2-related CAPEX: approx. JPY2.2 billion
1H16 revenue: up approx. JPY0.14 billion YoY,
1H16 cost: up approx. JPY0.54 billion YoY
- Delay in revenue accumulation since large scale projects require longer lead-time, improved profitability to could be expected from FY17
- Information security cloud projects to contribute to FY17 recurring revenue growth in FY17

Omnibus

Flexibly available to use various NW services on IIJ NW service platform

- Using SDN, new cloud-like NW services launched in Sep. 2015. Continuously enhancing several functions
- Connecting to on-premises environments, strengthening monitoring, switching within virtualized network environment, private connectivity with IoT services(FY17)

- FY15 Omnibus-related CAPEX: approx. JPY0.17 billion
1H16 revenue: up approx. JPY0.03 billion,
1H16 cost: up approx. JPY0.1 billion
- Delay in revenue accumulation since complicated projects require longer lead-time, improved profitability could be expected from FY17
- Omnibus as fundamental NW service platform

Mobile

Significant growth in market for Customer
Scale-merit by integrating traffic of Consumers and Enterprises

- Implementing Full-MVNO, will release new service in 2H17
- Continuous enhancement of bandwidth, redundant MVNO infrastructure in Tokyo and Osaka, multi-career connectivity (DOCOMO, au)
- Enlarging BtoBtoC business : alliance with partners in different customer base

- Expect consumer & enterprise IoT market expansion
- Competitive advantage in MVNE business
- Gross margin increasing YoY, profitability to increase along with better network utilization
- Depreciation to increase along with Full MVNO service launch (2H17)

IoT

Integrated service solutions of NW・Mobile・Device Control・Cloud・Security・SI

- Launching IIJ IoT services in Nov. 2016
- Will launch dedicated connectivity between mobile and cloud network as well as control function of device management in FY17
- Launched trial program for Smart Meter in Sep. 2016, Starts service in Apr. 2017

- Some feasibility studies with clients regarding IoT, Enterprise M2M projects already in operation
- Expect IoT related subscription to boost in the future
- Leveraging our system and network platform

Security

Leading the market as one of the top players, strong at enterprise solution

- Launching SOC (Security Operation Center) for further expansion of security business in 2H16
- Enhancing service facility for Sand Box, increasing security engineers, offering CSIRT solutions
- Strengthening service: covering wider bandwidth DDoS attack In Jan. 2017

- Continuously keeping high profitability
- FY15 security related revenues (including SI): approx. JPY10 billion
- SOC to contribute FY17 recurring revenue growth

CDN

Enhancing infrastructure scalability by concentration of traffic toward merger of 4K and streaming service

- Strengthening contents distribution business, already carrying out projects such as census and popular high school baseball games delivery
- Enhancing CDN service facility, strengthening premium contents delivery services function

- FY15 CDN-related CAPEX: approx. JPY0.24 billion
1H16 revenue: flat growth YoY,
1H16 cost: up approx. JPY0.19 billion
- Having business opportunities with contents distribution business operators
- Scale-merit for network infrastructure

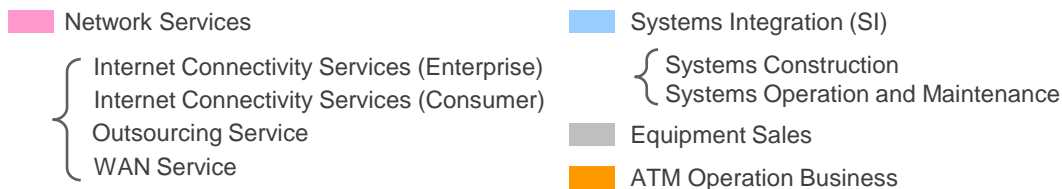
II - 1. Consolidated Financial Results for 1H FY2016

Unit: JPY billion

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

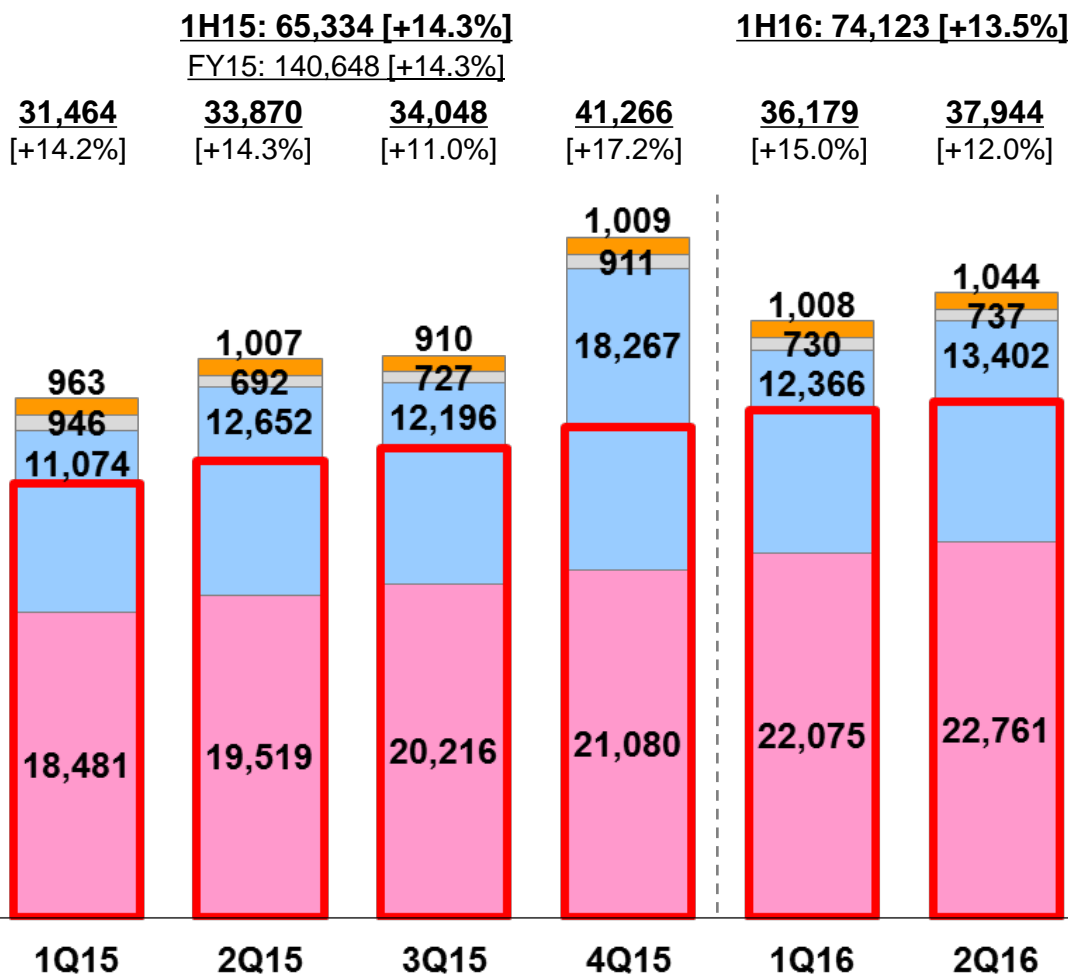
*Net income attributable to IIJ

II - 2. Revenues



Unit: JPY million

YoY = 1H16 compared to 1H15



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

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

1. Systems Construction
2. Equipment Sales

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

*Represents the following monthly recurring revenues

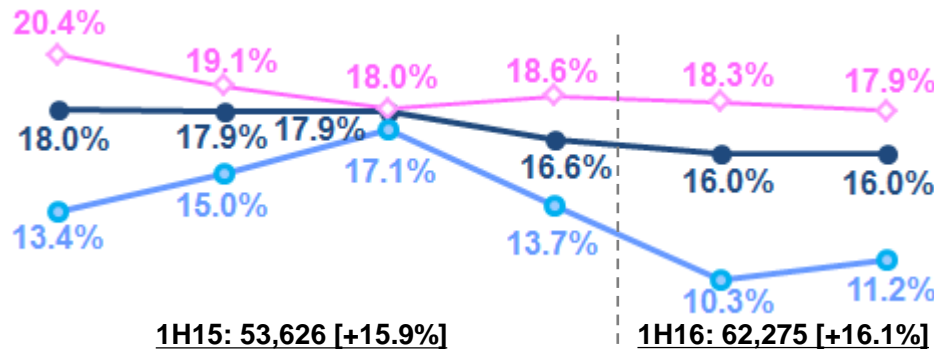
1. Internet Connectivity Services(Enterprise/Consumer)
2. Outsourcing Services
3. WAN Services
4. Systems Operation and Maintenance

II - 3. Cost of Revenues and Gross Margin Ratio

Cost of revenues: Network Services (Pink), SI (Light Blue), Equipment Sales (Grey), ATM Operation Business (Orange)
 Gross margin ratio: Network Services (Pink Diamond), SI (Light Blue Circle), Total Revenues (Dark Blue Circle)

Unit: JPY million

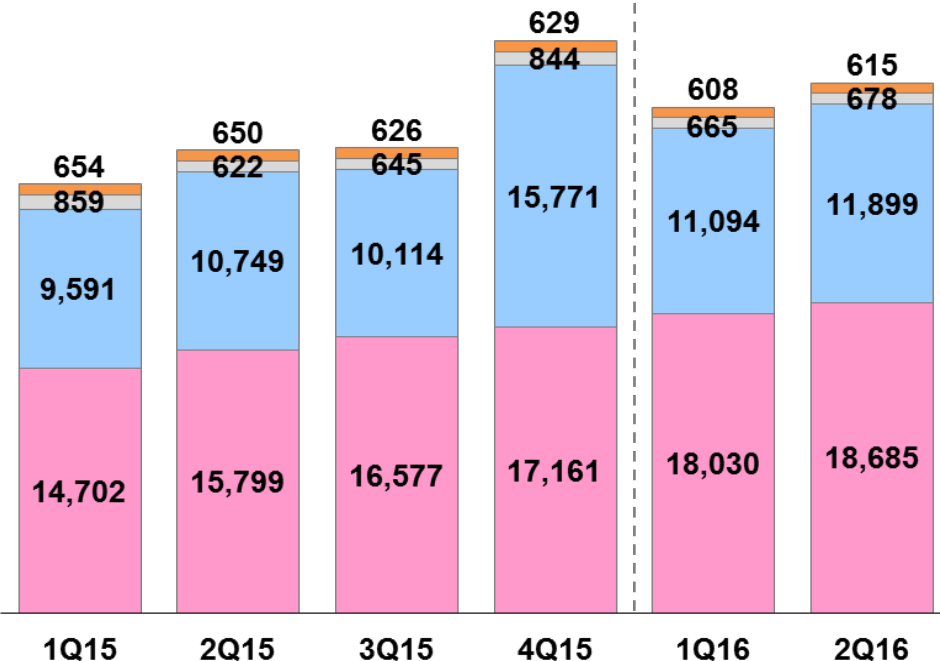
YoY = 1H16 compared to 1H15



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

1H16: 62,275 [+16.1%]

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

◆ Total

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

◆ Network Services

- 1H16 gross margin: JPY8,120 million (up JPY622 million, up 8.3% YoY)
- 1H15 gross margin: JPY7,498 million (up JPY171 million, up 2.3% YoY)
- Gross margin ratio: 18.1% (down 1.6 points YoY)
- 2Q16 mobile-related cost decreased approx. JPY0.15 billion as retroactively adjusted cost decrease is divided equally each quarter. (1Q15 cost decreased approx. JPY0.27 billion)
- In 4Q16, the revised DOCOMO's interconnectivity charge based on their FY15 mobile related cost is expected to be fixed and applied to our mobile usage during FY15 retroactively and during FY16 temporarily. In 4Q15, we had the same retroactive cost adjustment which amounted to a positive impact of approx. JPY0.1 billion (estimate 15.0% decrease, actual 16.9% decrease)
- The below table shows the actual network service gross margin ratio calculated by 1) incorporating the retroactively adjusted cost which quadrant amount is equally recognized in each quarter, 2) applying the most recent DOCOMO's interconnectivity charge (fixed in Mar. 2016 and decreased by 16.9%) and 3) our estimated decrease rate of 12.0% (will be fixed in 4Q16 based on DOCOMO's FY15 mobile-related cost):

1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	Unit:%
19.4	19.5	18.5	18.6	18.3	17.9	

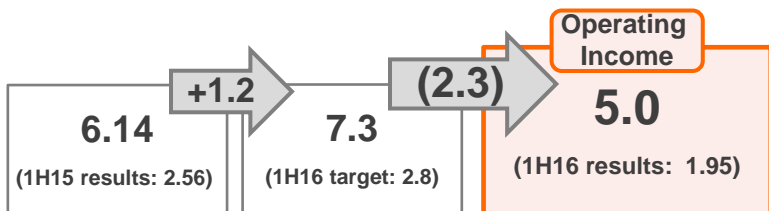
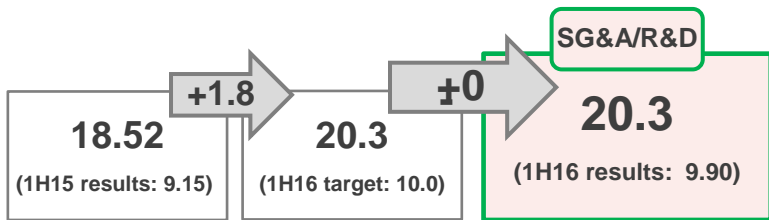
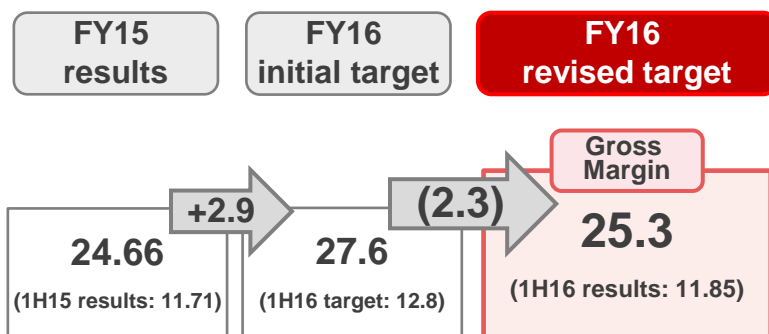
- Gross margin ratio decreased mainly because increases of upfront costs such as for development of "IIJ Omnibus", CDN services and security services.

◆ SI

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

II - 4. Operating Income (1) comparison with initial full-year target

Unit: JPY billion



Gap between Initial and Revised Targets

◆ Gap in SI^(*) gross margin: **approx. JPY1.5 billion weaker**

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

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

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

approx. JPY0.4 billion weaker

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

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

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

approx. JPY0.4 billion weaker

- Larger than expected mobile-related cost increase:

approx. JPY0.4 billion weaker

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

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

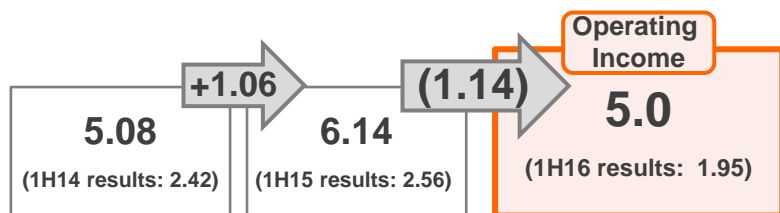
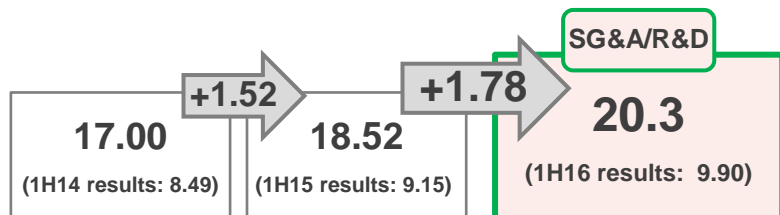
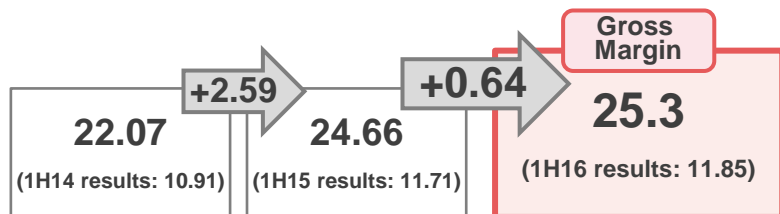
◆ Gap in SG&A/R&D: **almost as initially expected**

(*) SI gross margin includes equipment sales gross margin

II - 4. Operating Income (2) comparison with FY15 results

Unit: JPY billion

FY14 results FY15 results **FY16 forecast**



FY16 Business Outlook

◆ SI(*) gross margin outlook:

approx. down JPY0.8 billion

(up JPY1.36 billion YoY in FY15)

- Low productivity of SEs, delay in offering some functions for our foreign exchange system ASP service, decrease in margin mainly due to cancellation of a large operation and maintenance project: **approx. down JPY1.1 billion**
- Decrease in gross margin due to an increase in GIO P2 related costs and slower than expected its revenue growth: **approx. down JPY0.5 billion**

◆ NW gross margin outlook:

approx. up JPY1.2 billion

(up JPY0.98 billion YoY in FY15)

- NW & mobile gross margin continue growing
- The costs of mobile infrastructure would exceed out initial expectation: **approx. down JPY0.4 billion**
- Slight deterioration of profitability for our subsidiary's large WAN project: **approx. down JPY0.2 billion**

◆ ATM gross margin outlook:

approx. up JPY0.2 billion

(up JPY0.24 billion YoY in FY15)

- Almost as expected

◆ SG&A/R&D outlook:

approx. up JPY1.8 billion

(up JPY1.52 billion YoY in FY15)

- Almost as expected

Future Prospects

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

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

- The number of placed ATMs will increase moderately but steady

- Increase continuously

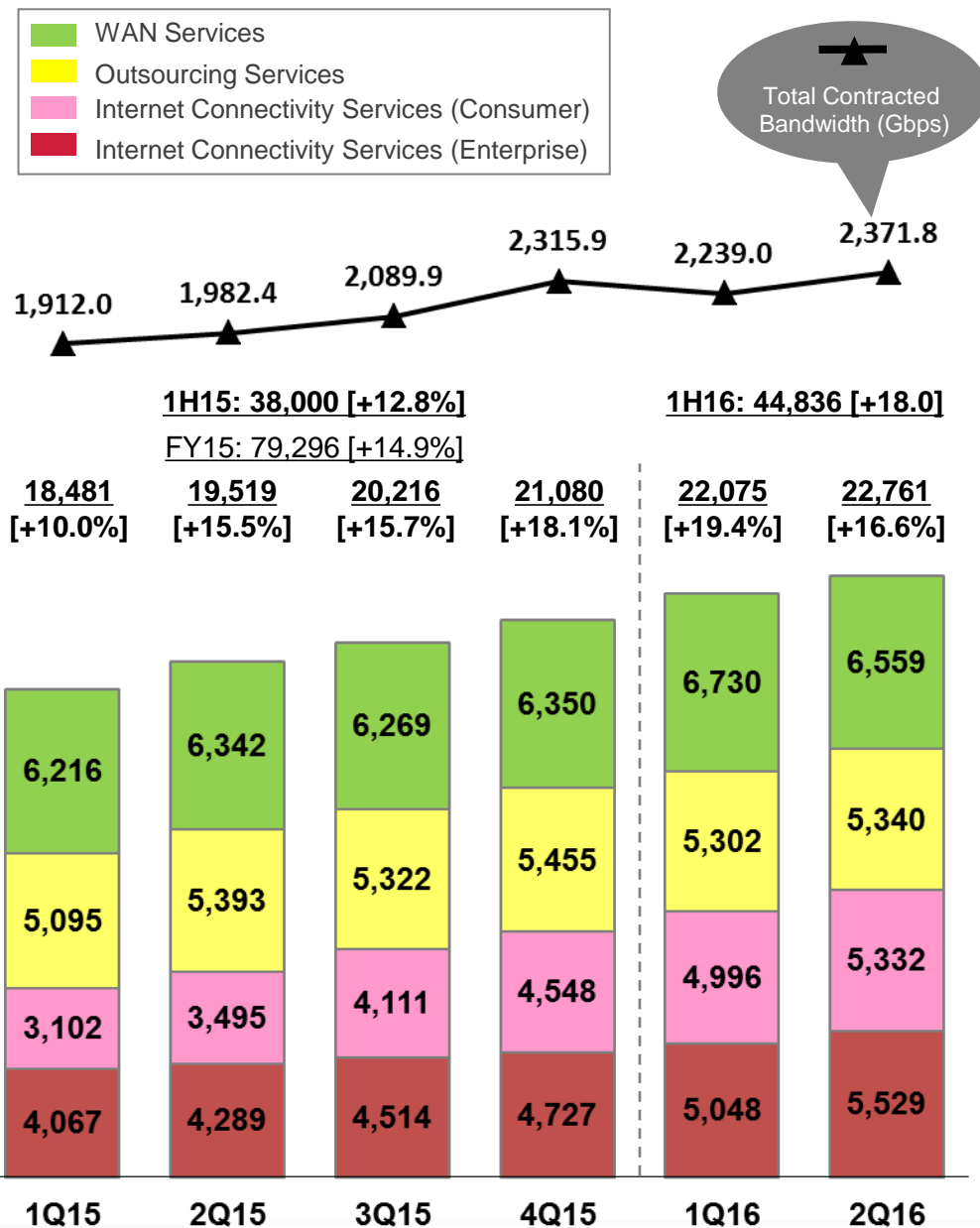
Operating income level is expected to be 1-1.5 years behind from our initial expectation set at the beginning of FY16

(*) SI gross margin includes equipment sales gross margin
YoY= Compared to the same period in a previous year

II - 5. Network Services (1)Revenues

Unit: JPY million

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



◆ 1H16 Internet Connectivity (Enterprise)

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

◆ 1H16 Internet Connectivity (Consumer)

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

◆ 1H16 Outsourcing Services

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

◆ 1H16 WAN Services

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

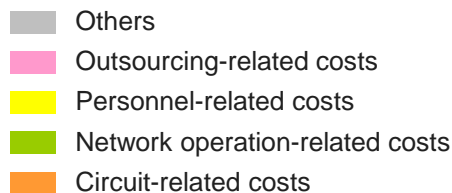
◆ 1H16 Mobile services

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

◆ 1H16 Non-mobile services

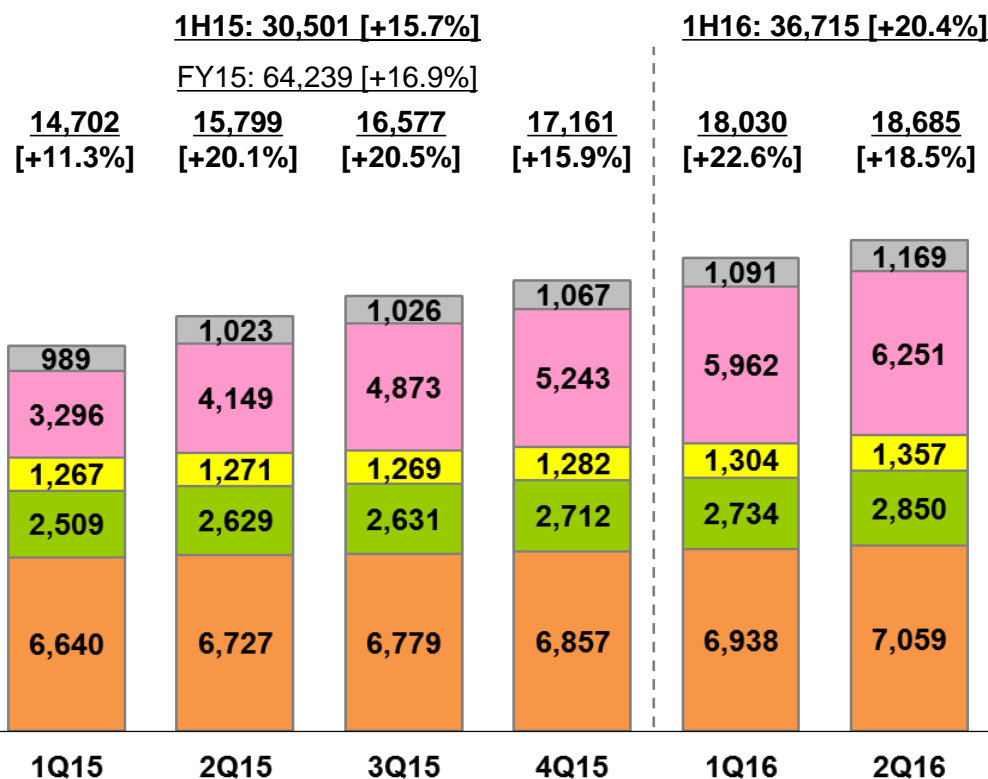
- JPY32,728 million (up JPY1,210 million, up 3.8% YoY)

II - 5. Network Services (2)Cost of Revenues



Unit: JPY million

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



◆ Cost of network services

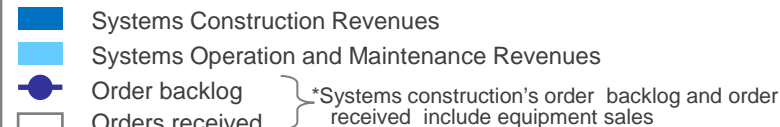
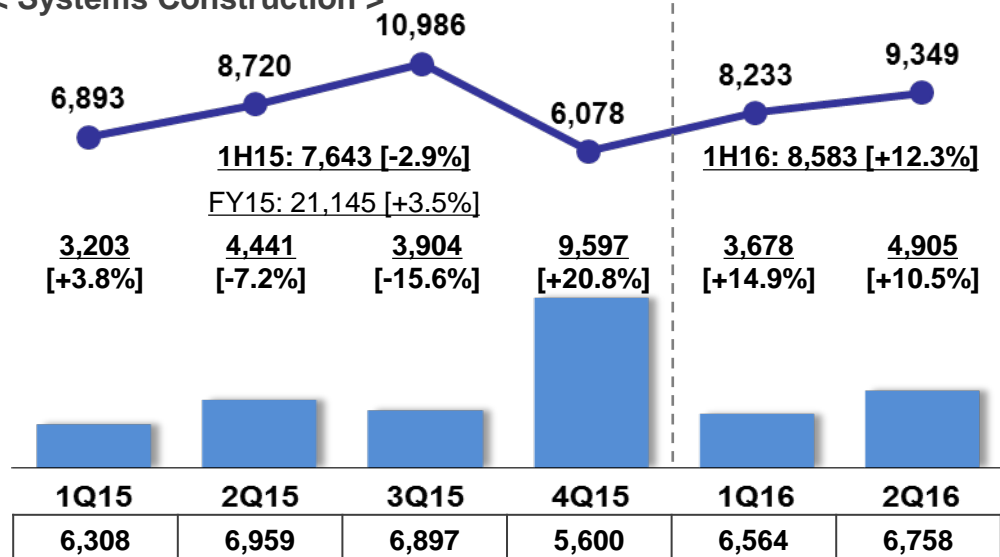
- 1H16: up JPY6,214 million, up 20.4% YoY
- Along with the increase in mobile subscription and traffic, mobile-related costs (mainly in outsourcing-related costs) increased
- Outsourcing-related, personnel-related and network operation-related costs increased mainly due to enhancing functions related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

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

- For FY16 usage, IIJ estimates the charge to decrease by 12.0% YoY and has been applying it from 1Q16.
- DOCOMO's interconnectivity charge, which is calculated by Docomo's FY15 mobile-related cost, is expected to be fixed in Mar. 2017. DOCOMO's payment arrangement is 15% off from 1Q16.
- IIJ's estimate of 12.0% decrease leads to approx. JPY0.6 billion cost decrease for its FY15 mobile interconnectivity usage. Its quadrant amount, approx. JPY0.15 billion, is to be recognized each quarter during FY16. Its FY14 mobile interconnectivity usage was approx. JPY0.27 billion which was recognized in 1Q15.
- DOCOMO's interconnectivity telecommunications service charge, which was calculated by DOCOMO's FY14 mobile-related cost, was fixed in Mar. 2016 and it decreased by 17% from a year ago. The positive impact of approx. JPY0.1 billion was recognized in 4Q15, as IIJ had estimated it would decrease by 15%.

II - 6. Systems Integration (SI) (1)Revenues

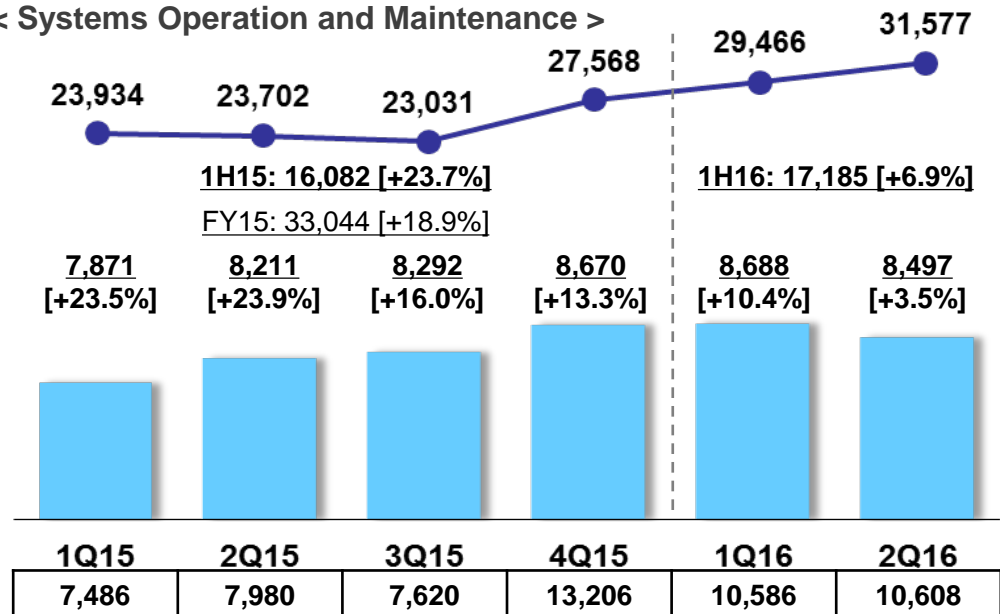
< Systems Construction >



◆ Systems construction

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

< Systems Operation and Maintenance >



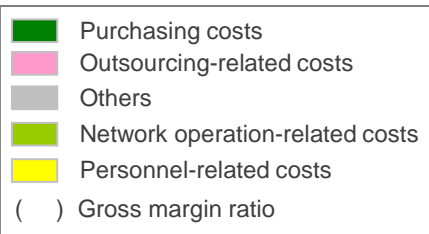
◆ Systems operation and maintenance

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

◆ Overseas business developments almost as planned

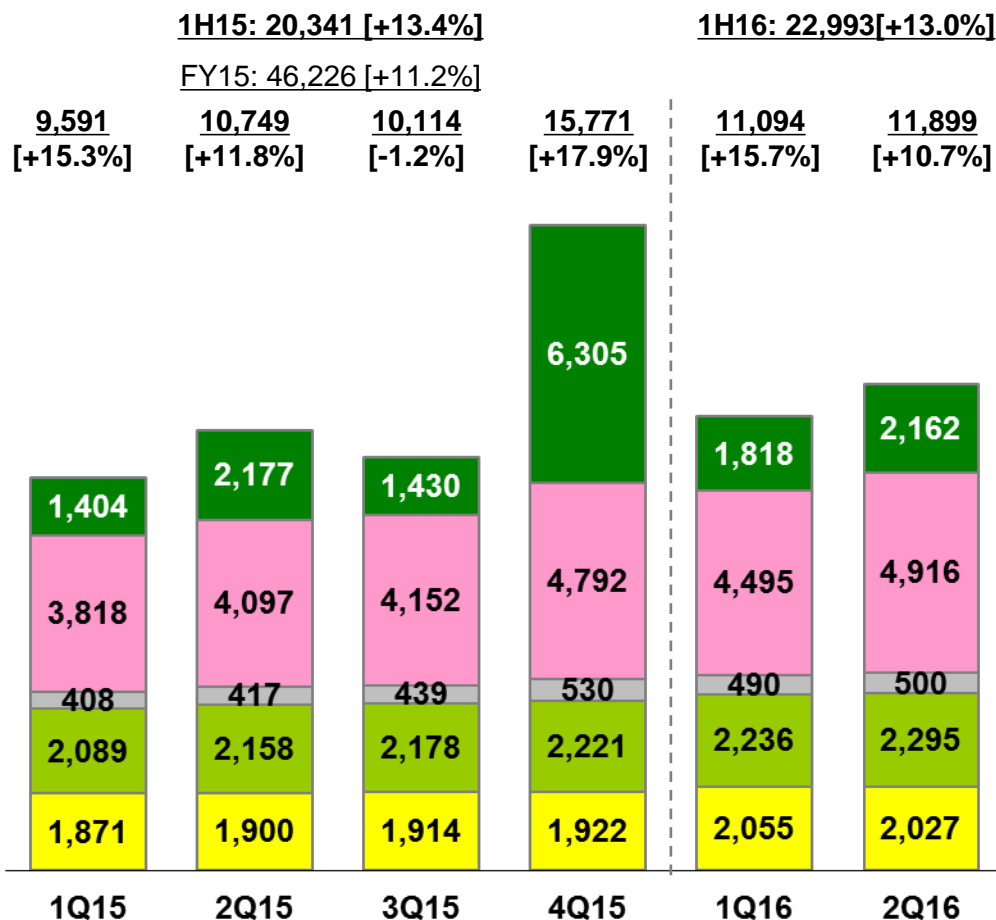
- 1H16 revenue: approx. JPY2.5 billion, operating loss: approx. JPY0.26 billion
- FY16 target revenue: approx. JPY7.0 billion, target operating loss: approx. JPY0.2 billion

II - 6. Systems Integration (SI) (2)Cost of Revenues



Unit: JPY million

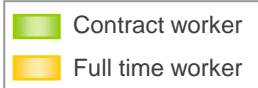
[], YoY = compared to the same period in a previous year
 QoQ: 2Q16 compared to 1Q16



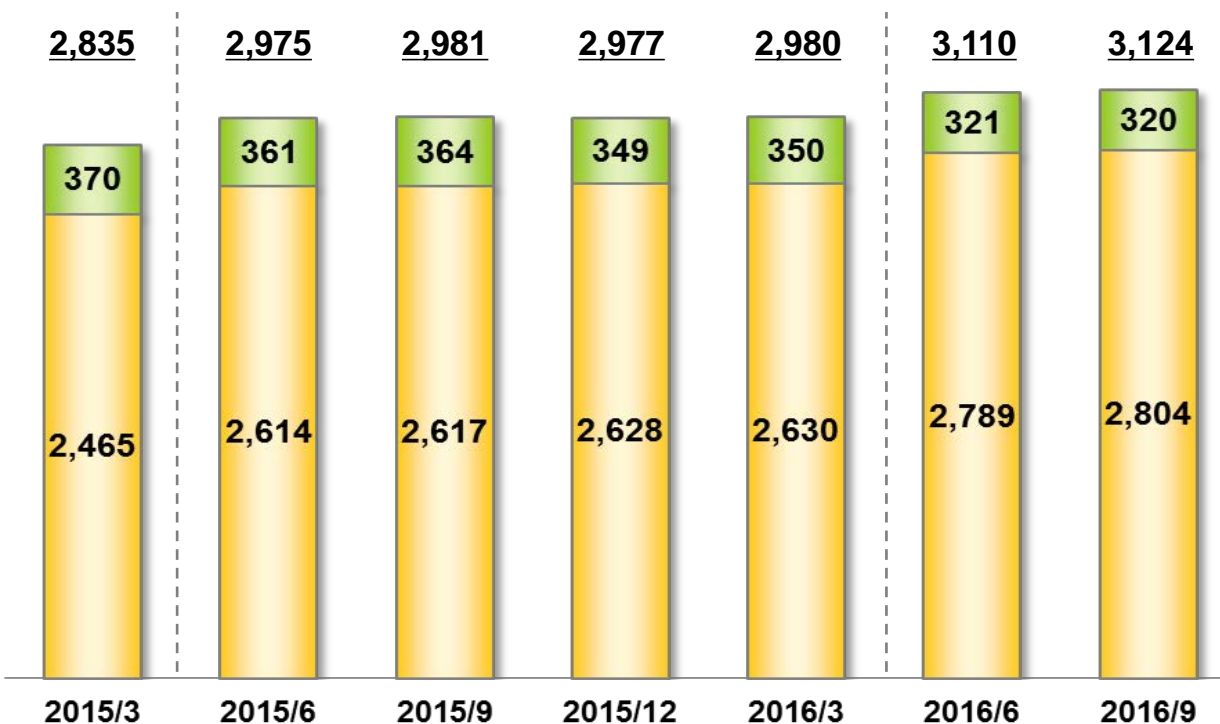
◆ Cost of SI

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

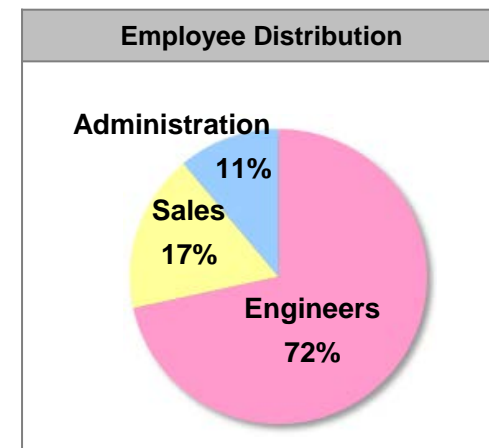
II - 7. Number of Employees



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



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



Personnel related costs & expenses
 (% of revenue)

◆ Personnel-related costs and expenses

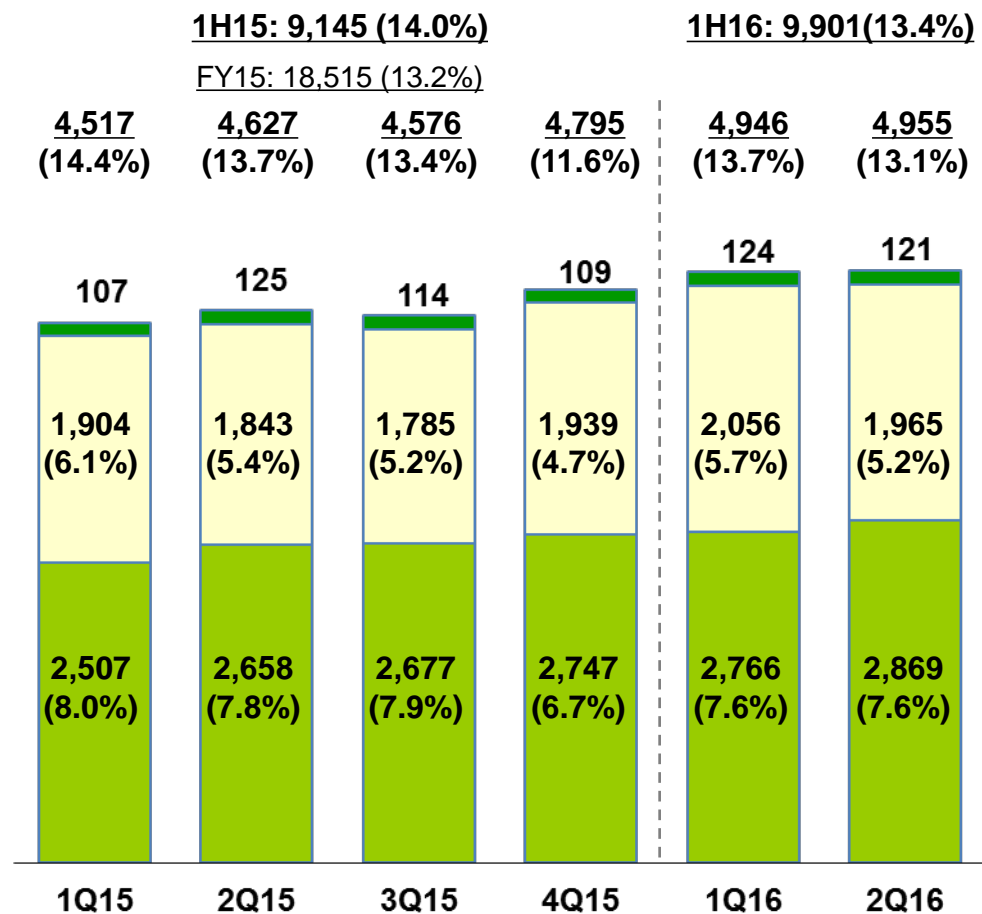
- 1H16: up JPY347 million, up 3.3% YoY
- Hired 137 new graduates in Apr. 2016 (155 in Apr. 2015, 129 in Apr. 2014, 136 in Apr. 2013)

II - 8. SG&A Expenses/R&D



Unit: JPY million

YoY = 1H16 compared to 1H15



◆ Sales & marketing expenses

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

◆ General & administrative expenses

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

◆ SG&A related to ATM operation business

Unit: JPY million

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

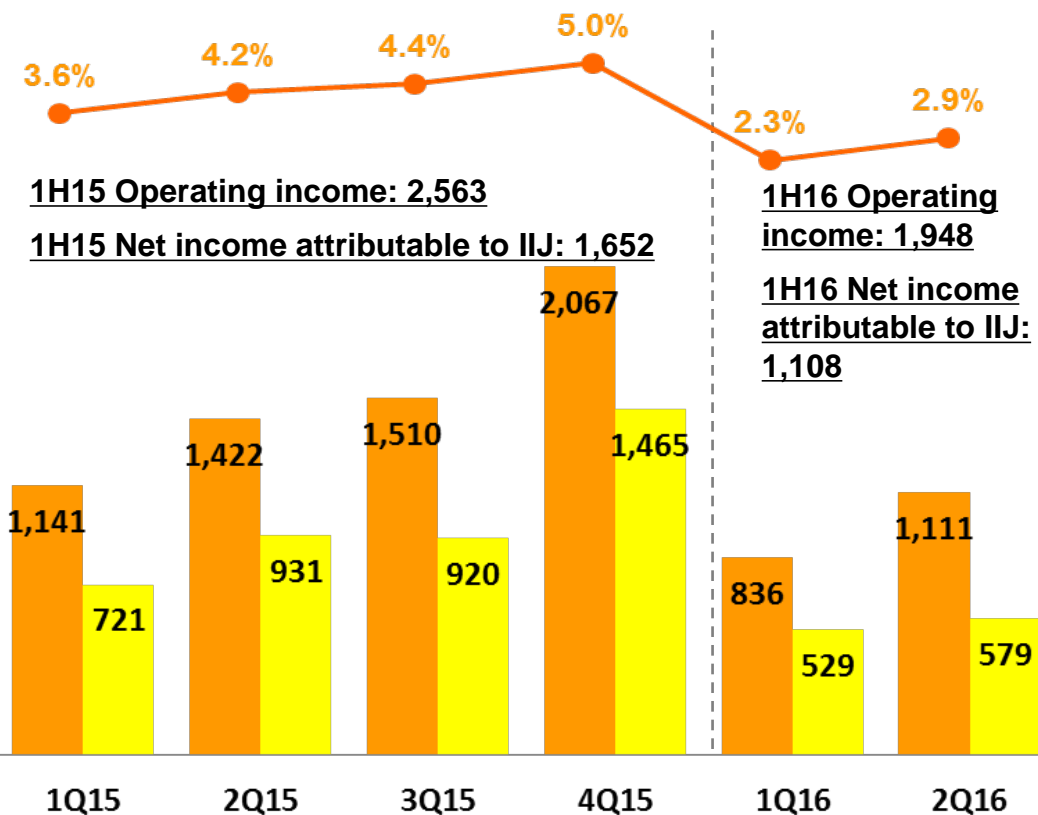
- Placed 1,066 ATMs as of September 30, 2016

II - 9. Operating Income and Net Income

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

Unit: JPY million

YoY = 1H16 compared to 1H15



1H15 Operating income: 2,563

1H15 Net income attributable to IJ: 1,652

1H16 Operating income: 1,948

1H16 Net income attributable to IJ: 1,108

◆ Income before income tax expense:

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

◆ Net income attributable to IJ:

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

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

II - 10. Consolidated Balance Sheets (Summary)

Unit: JPY million

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

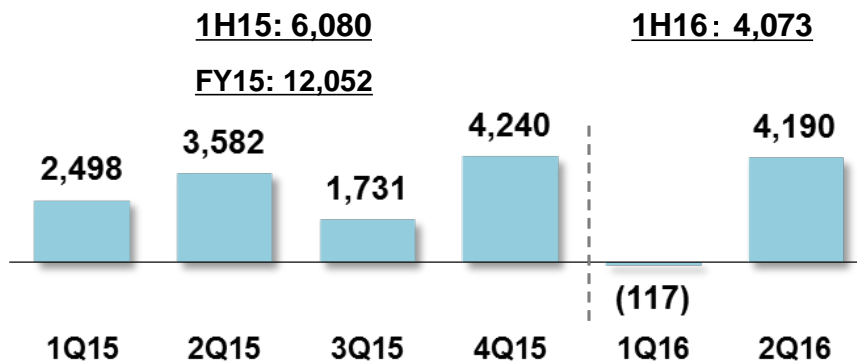
▶ Total IJ Shareholders' Equity to Total Assets: 55.0% as of Mar. 31, 2016, 53.2% as of Sep. 30, 2016

II - 11. Consolidated Cash Flows

Unit: JPY million

YoY = 1H16 compared to 1H15

< Operating Activities >

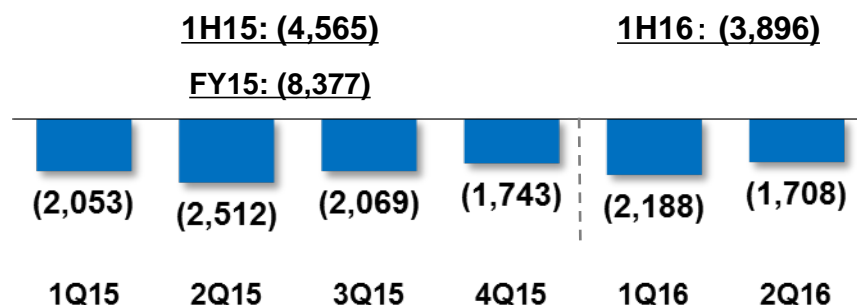


◆ 1H16 Operating Activities

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

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

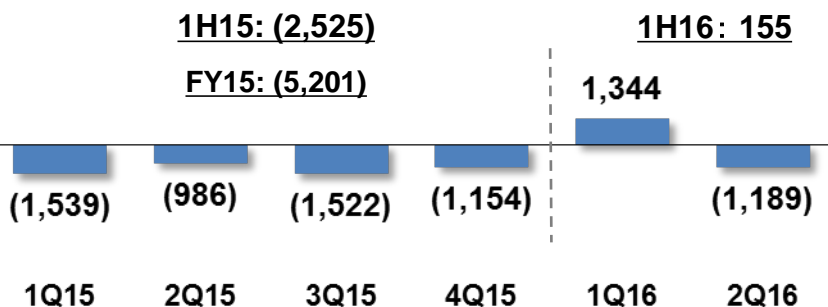
< Investing Activities >



◆ 1H16 Investing Activities

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

< Financing Activities >



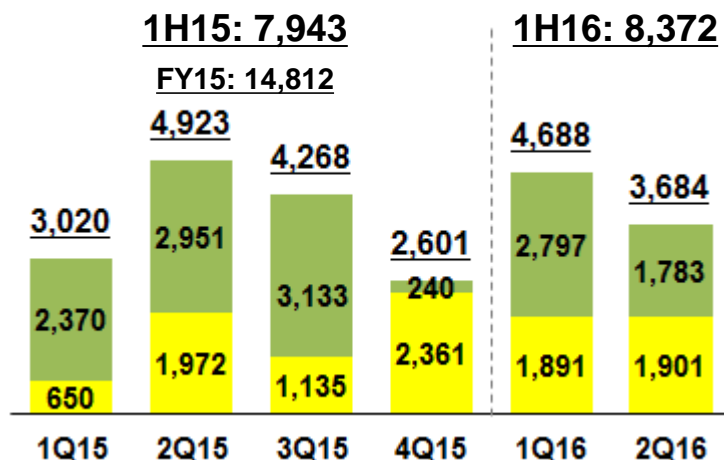
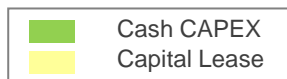
◆ 1H16 Financing Activities

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

II - 12. Other Financial Data (CAPEX etc.)

< CAPEX >

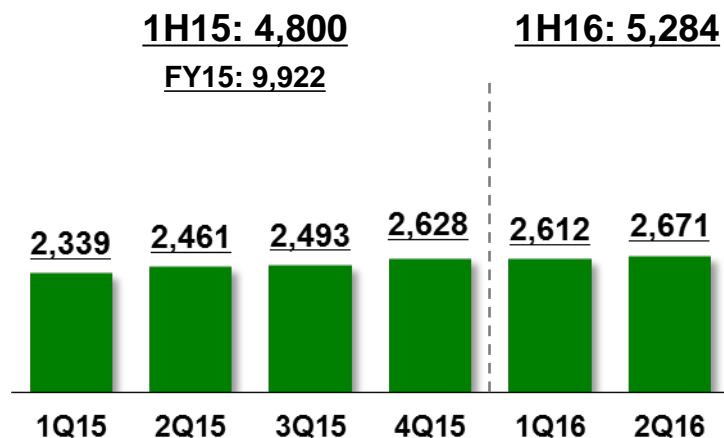
Unit: JPY million



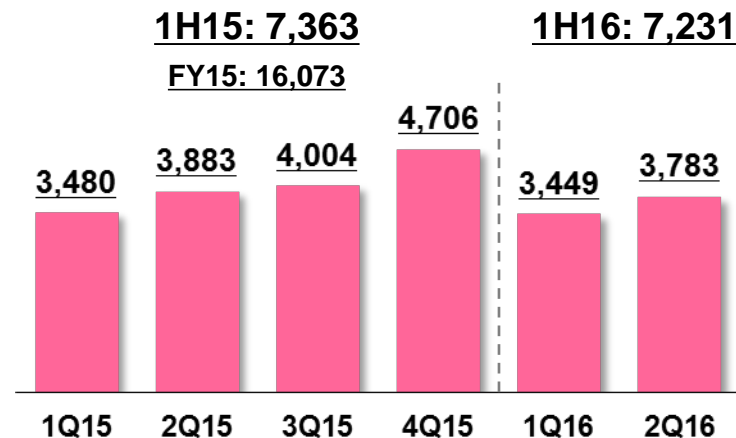
< Breakdown of CAPEX (unit: JPY billion) >

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

< Depreciation and Amortization >



< Adjusted EBITDA >



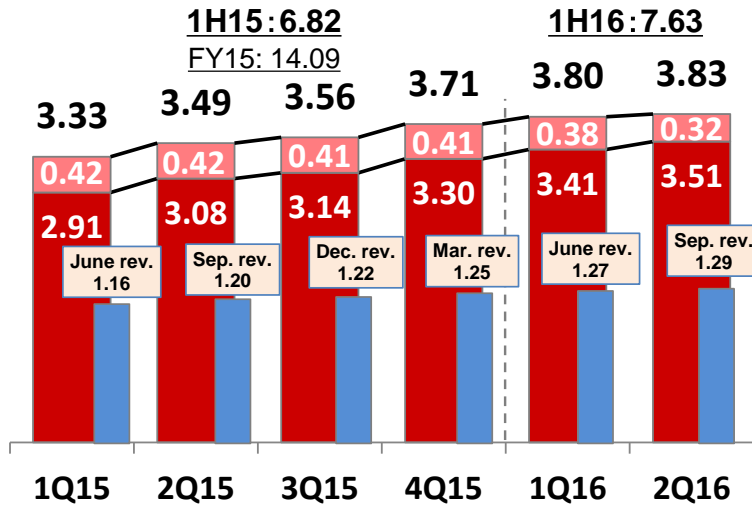
III- 1. Cloud Business Developments

Cloud-related revenue

(Unit: JPY billion)

- Large game customers
- Business enterprise customers

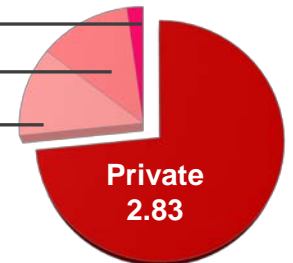
2Q16 cloud-related revenue recognition:
88.9% in systems operation and maintenance
11.1% in outsourcing



2Q16 revenue

(Unit: JPY billion)

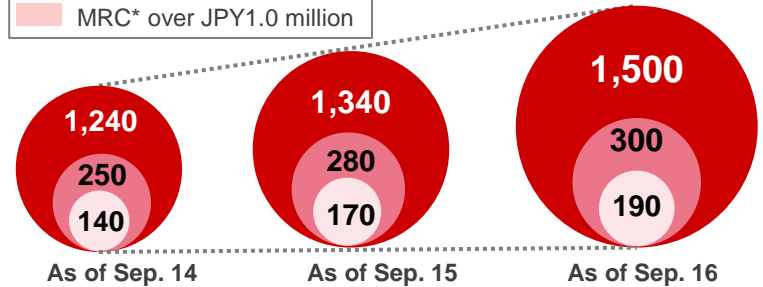
- General purpose SaaS 0.09 (groupware etc.)
- Task-specific SaaS 0.49 (FX, POS etc.)
- Public 0.42
- Private 2.83



Cloud Customer Base

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

*Monthly Recurring Charge



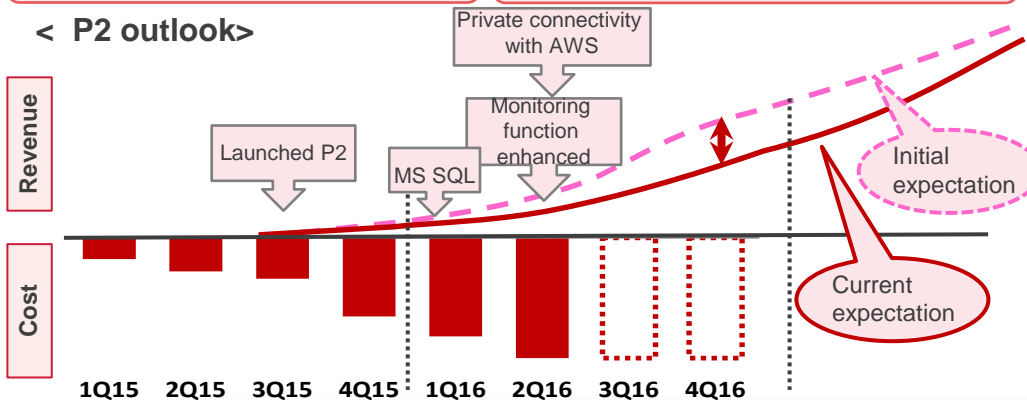
Business Investments

(Unit: JPY billion)

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

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

< P2 outlook >



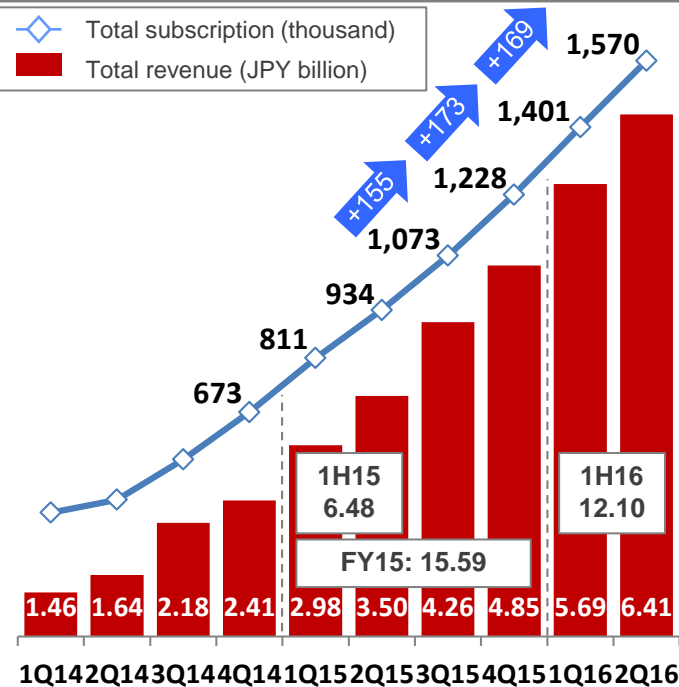
Business Developments

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

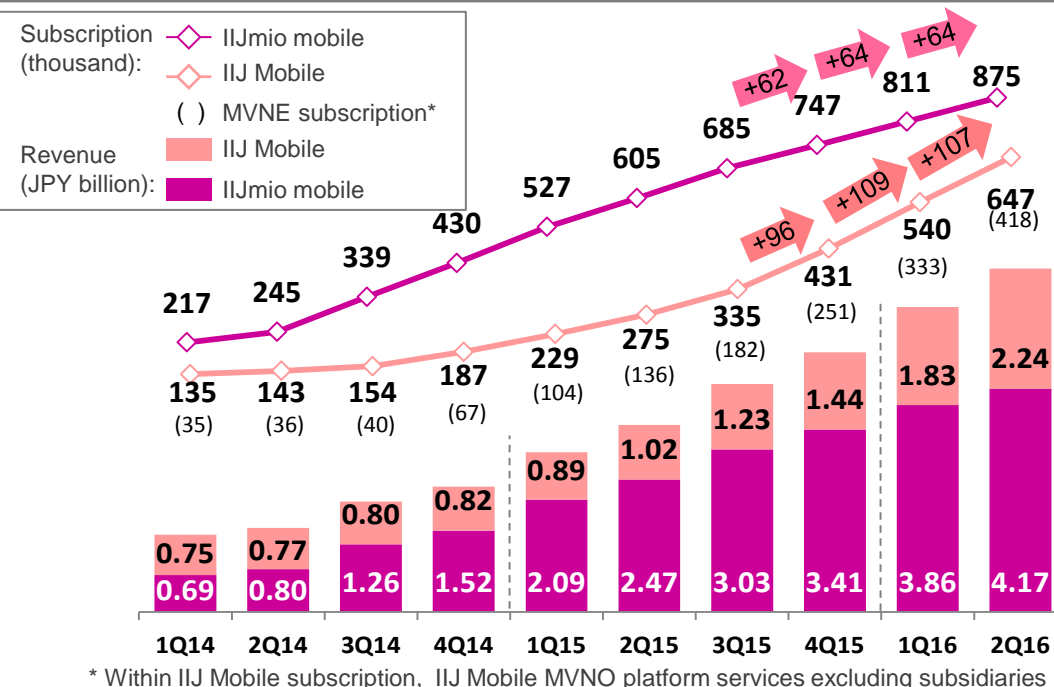
- GIO P2 accumulating prospective orders**
 - 2Q16-end prospective orders approx. 760 (up 600 YoY)
 - 1/3 of the orders relate to core business operation
 - Projects include full-scale cloud migration of large BtoC site, virtual desktop infrastructure for financial institutions and more
- Acquired local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

III- 2. Mobile Business Developments

Total subscription & revenue



IIJmio mobile (consumer) & IIJ Mobile (enterprise)



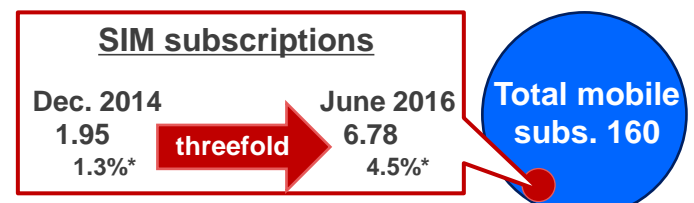
* Within IIJ Mobile subscription, IIJ Mobile MVNO platform services excluding subsidiaries

FY16 Plan

Revenue: JPY25.5 billion, Subscription: 2 million

Mobile Market Situation

(Unit: million)



* % of total subscription (Source) MIC Apr. 2015, Sep. 2016

Business Developments

YoY = 1H16 compared to 1H15

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

※ Forward-looking statements

Statements made in this presentation regarding IIJ's or managements' intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding revenues, operating and net profitability are subject to various risks, uncertainties and other factors that could cause IIJ's actual results to differ materially from those contained in any forward-looking statement. These risks, uncertainties and other factors include but not limited to:

- a decrease of corporate spending or capital expenditure due to depression in the Japanese economy and/or corporate earnings decreased,
- an inability to achieve anticipated results and cause negative impact on profitability,
- a possibility that less of reliability for our services and loss of business chances due to interruption or suspension of our services,
- an excess increase and fluctuation in network-related cost, mobile-related cost, outsourcing cost, personnel cost etc,
- a possibility to lose business opportunity due to our inadequate resources in personnel and others,
- an increase in competition and strong pricing pressure,
- the recording of an impairment loss as a result of an impairment test on the non-amortized intangible assets such as goodwill,
- a decline in value and trading value of our holding securities.

Please refer to IIJ's filings on Form 20-F of its annual report and other filings with the United States Securities and Exchange Commission ("SEC") for other risks.

※ Contact Information

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