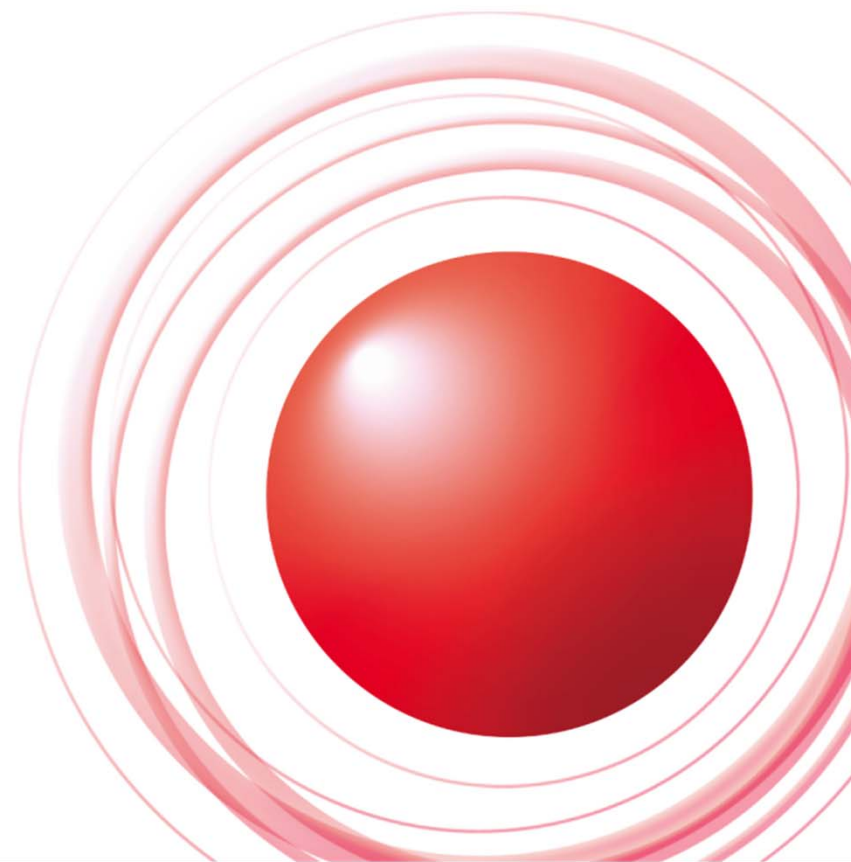


Consolidated Financial Results for 1Q FY2014 (First 3 months ended June 30, 2014)



Internet Initiative Japan Inc.
TSE1(3774), NASDAQ(IIJI)
August 8, 2014

Ongoing Innovation



Agenda

I . Summary of 1Q FY2014 Financial Results

II . Consolidated Financial Results for 1Q FY2014

III . Reference Materials

I . Summary of 1Q14 Financial Results

	< 1Q14 Financial Results >	<1H14 Financial Targets >
• Revenues	JPY27.6 billion (up 4.2%)	JPY57.5 billion (up 5.7%)
• Gross margin	JPY5.0 billion (down 0.6%)	
• Operating income	JPY0.8 billion (down 41.2%)	JPY2.8 billion (down 6.9%)
• Income before income tax expense	JPY0.8 billion (down 42.2%)	JPY2.7 billion (down 19.3%)
• Net income attributable to IJ	JPY0.5 billion (down 48.5%)	JPY1.8 billion (down 20.6%)

FY14 Business Developments

Business investment to expand business foundation for the middle to long term growth,
Some large-scale projects take shape

◆ Actively investing in service & solution developments

- BigData Solution, M2M Platform, SAP on GIO, multi-cloud, SDN/NFV* solution etc.
- Strategic partnerships with Microsoft Japan & SAP Japan etc.

◆ Further focus on rapidly growing MVNO business

- Consumer: voice call services, MNP**, unlocked SIM smartphones, expanding sales channels etc.
- Enterprise: M2M and MVNE demands from blue-chips continuously increasing

◆ Continuously acquiring large-scale advanced integrated transactions incorporating Cloud & SI

- Cloud-based online security control systems, service platform for a new public service etc.

◆ New potential overseas business opportunities arising

- Container type data centers (co-IZmo/I) construction projects in Russia & Laos
- Requests to construct and operate cloud infrastructure from some Asian countries

*SDN: Software Defined Network
NFV: Network Functions Virtualization
**MNP: Mobile Number Portability

1Q14 Financial Results

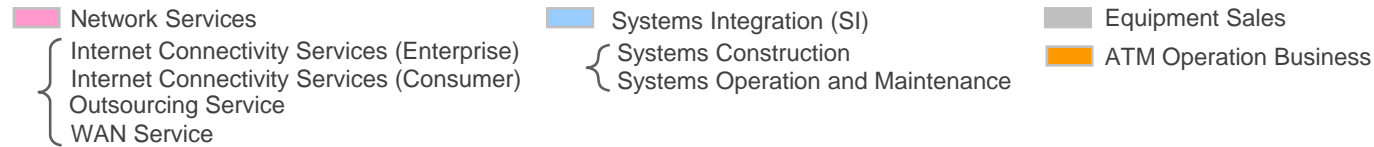
- Revenue almost in line with plan, operating expense increased as expected as the new fiscal year begins
- Slightly lower than expected SI gross margin affected by rework related to the projects completed in 4Q13
- Headquarter relocation: recognized cost of JPY0.16 billion in 1Q14 of the expected total related cost of JPY0.5 billion

II - 1. Consolidated Financial Results for 1Q FY2014

Unit: JPY billion

	% of Revenues		YoY Change in %	% of Revenues	
	1Q14 (Apr. 2014 -Jun. 2014)	1Q13 (Apr. 2013 -Jun. 2013)		FY14 Target (Apr. 2014 -March 2015)	YoY
Total Revenues	27.6	26.4	+4.2%	123.0	+7.6%
Total Cost of Revenues	81.9% 22.6	81.0% 21.4	+5.3%	—	—
Gross Margin	18.1% 5.0	19.0% 5.0	(0.6%)	—	—
SG&A/R&D	15.4% 4.2	14.1% 3.7	+13.6%	—	—
Operating Income	2.8% 0.8	4.9% 1.3	(41.2%)	5.9% 7.2	+25.8%
Income before Income Tax Expense	3.0% 0.8	5.4% 1.4	(42.2%)	5.7% 7.0	+11.6%
Net Income attributable to IIJ	1.8% 0.5	3.6% 1.0	(48.5%)	3.7% 4.5	+1.3%

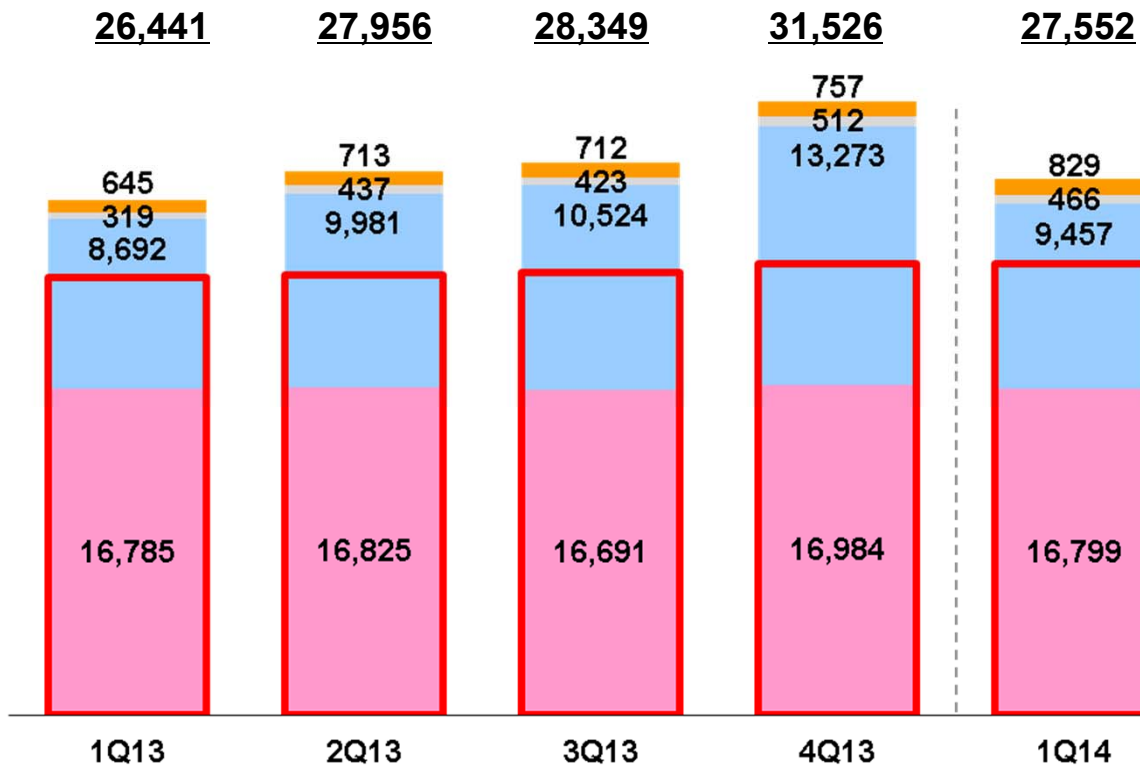
II - 2. Revenues



Unit: JPY million

YoY = 1Q14 compared to 1Q13

FY13: 114,272



One-time Revenue *

(12.9% of 1Q14 revenue)

1Q14: JPY3,551 million (up 8.2%YoY)

- *Revenue which is recognized when systems or equipment are delivered and accepted by customers
1. Systems Construction
 2. Equipment Sales

Recurring Revenue*

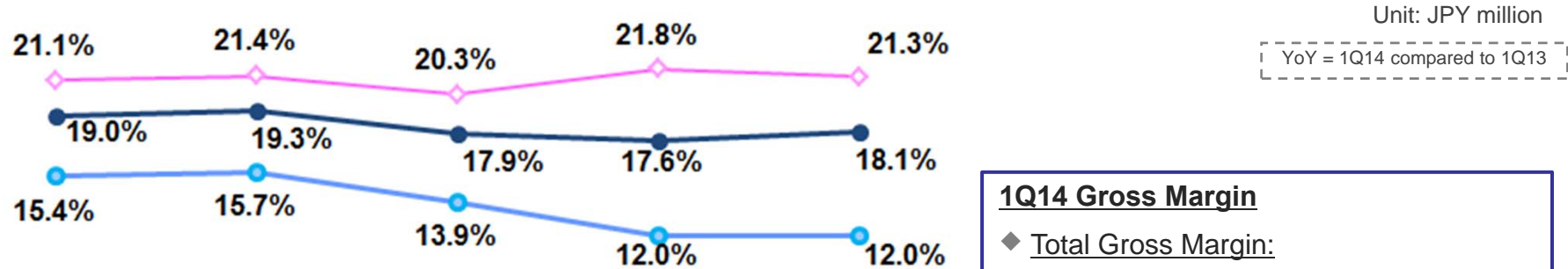
(84.1% of 1Q14 revenue)

1Q14: JPY23,172 million (up 2.9% YoY)

- *Represents the following monthly recurring revenues
1. Internet Connectivity Services (Enterprise)
 2. Internet Connectivity Services (Consumer)
 3. WAN Services
 4. Systems Operation and Maintenance

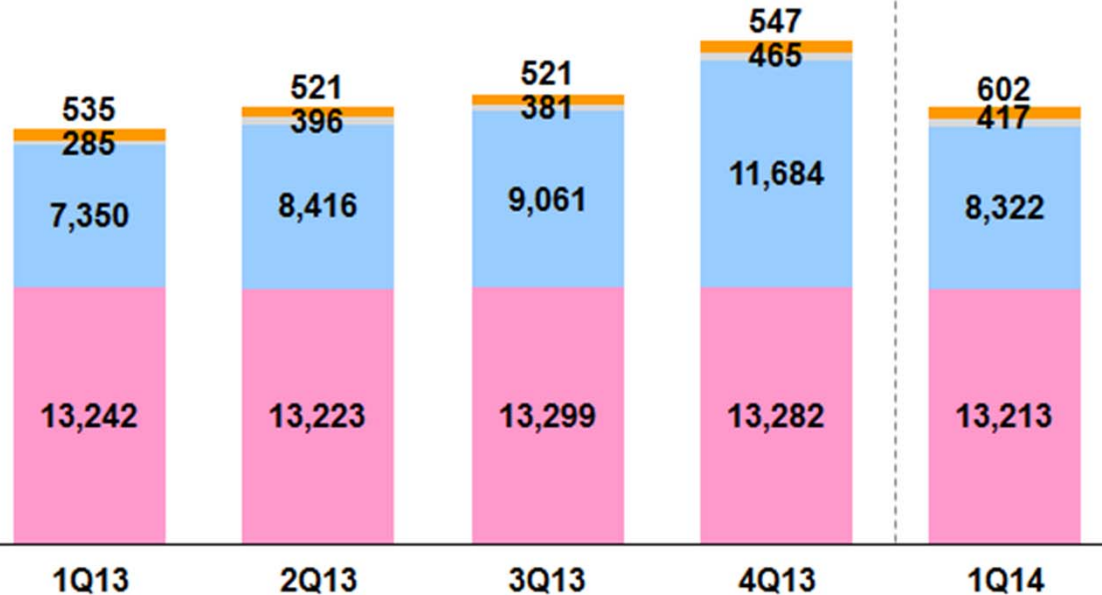
II -3. Cost of Revenues and Gross Margin Ratio

Cost of revenues : Network Services (pink), Systems Integration (SI) (light blue), Equipment Sales (grey), ATM Operation Business (orange)
 Gross margin ratio : Network Services (pink diamond), Systems Integration (SI) (light blue circle), Total Revenues (dark blue circle)



FY13: 93,206

21,411 22,556 23,262 25,977 22,554



1Q14 Gross Margin

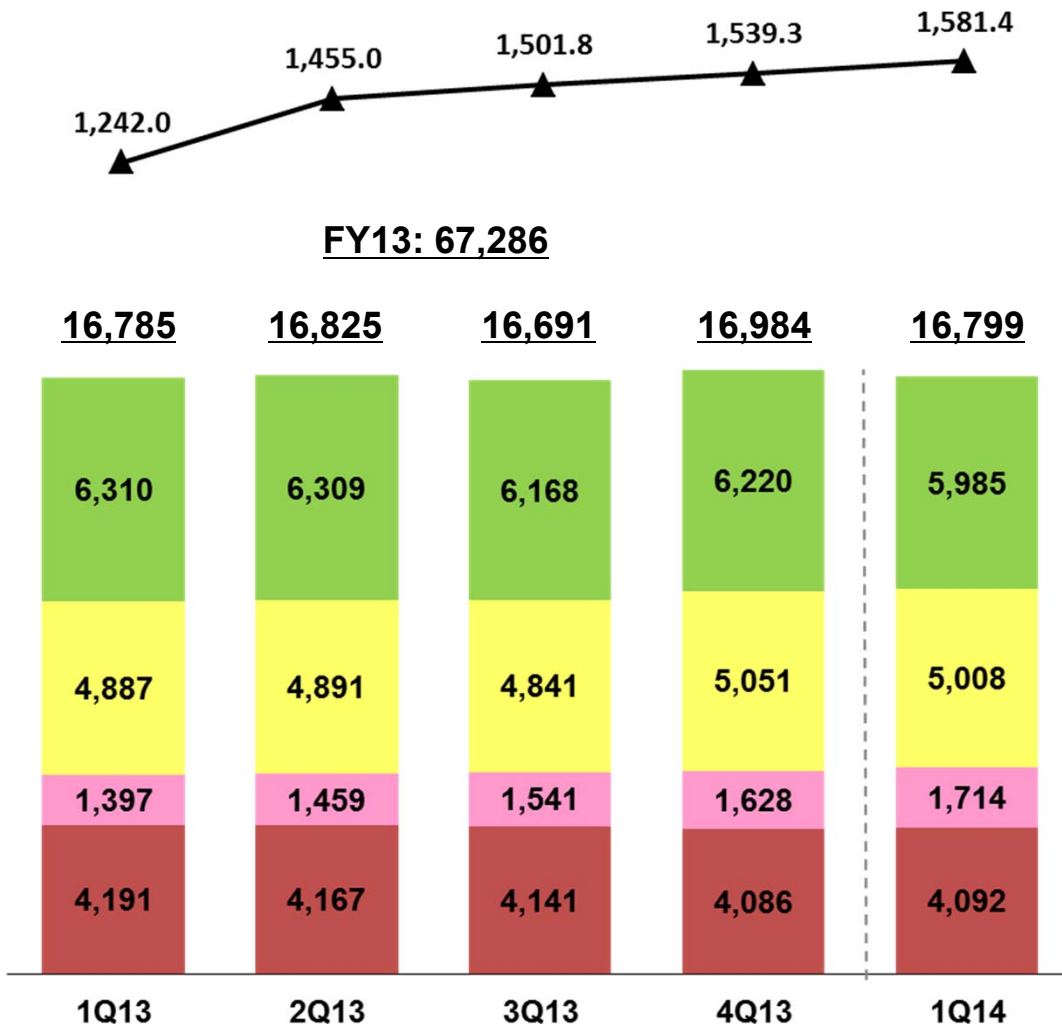
- ◆ **Total Gross Margin:**
 - JPY4,998million (down JPY33 million, down 0.6% YoY)
 - Gross margin ratio: down 0.9 points YoY
- ◆ **Network Service Gross Margin**
 - JPY3,586million (up JPY42 million, up 1.2% YoY)
 - Gross margin ratio: up 0.2 points YoY
- ◆ **SI Gross Margin:**
 - JPY1,136 million (down JPY207 million, down 15.4% YoY)
 - Gross margin ratio: down 3.4 points YoY
- ◆ **ATM Operation Business Gross Margin:**
 - JPY227 million (up JPY117 million, up 107.1 % YoY)
 - Gross margin ratio: 27.4% (up 10.4 points YoY)

II - 4. Network Services (1)Revenues



Unit: JPY million

YoY = 1Q14 compared to 1Q13



◆ 1Q14 Internet Connectivity (Enterprise)

- Down JPY99 million, down 2.4% YoY
 - Mobile service revenue continued to increase
 - IP Service affected by previous year's decrease
 - Over 1Gbps contracts:
 - ✓ As of 1Q14 end: 284 contracts
 - ✓ As of 1Q13 end: 235 contracts
 - ✓ As of 4Q13 end: 271 contracts
 - Revenue affected by 1Q seasonal factor

◆ 1Q14 Internet Connectivity (Consumer)

- Up JPY316 million, up 22.7% YoY
 - IIJmio/LTE Service continued to accumulate
 - ✓ 1Q14 end contracts: approx. 205,000
 - 1Q13 end: approx. 93,000 subscribed lines
 - 4Q13 end: approx. 169,000 subscribed lines
 - ✓ 1Q14 revenue: approx. JPY0.69 billion
 - FY13: approx. JPY1.70 billion
 - 1Q13: approx. JPY0.30 billion

◆ 1Q14 Outsourcing Services

- Up JPY121 million, up 2.5% YoY
 - IIJ/GIO Hosting Service increased
 - Revenue affected by 1Q seasonal factor

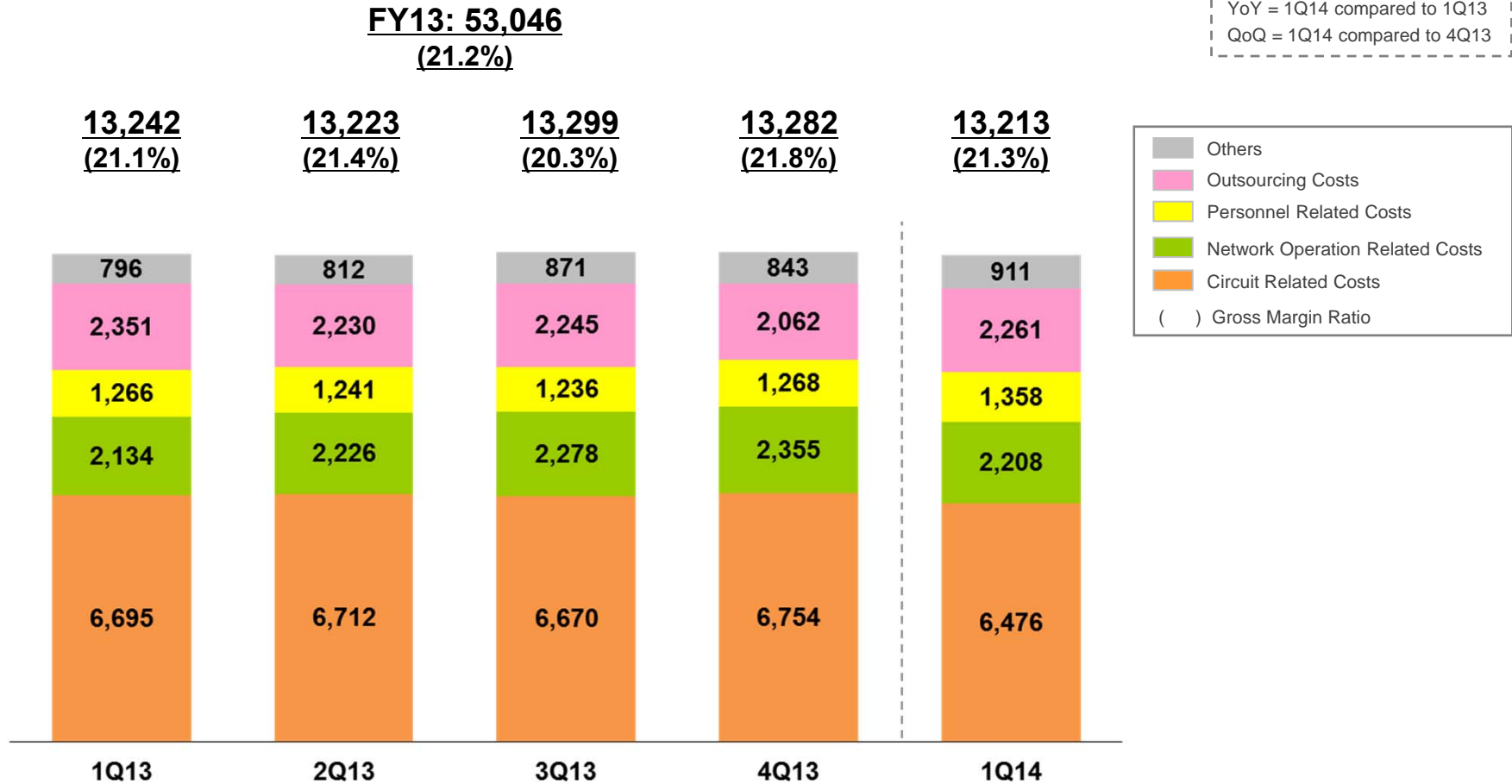
◆ 1Q14 WAN Services

- Down JPY325 million, down 5.1% YoY
 - Revenue affected by 1Q seasonal factor

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

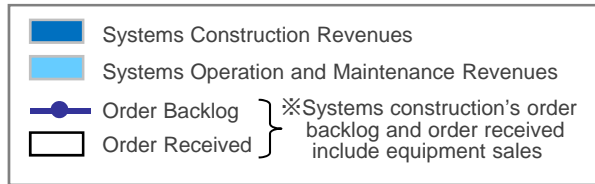
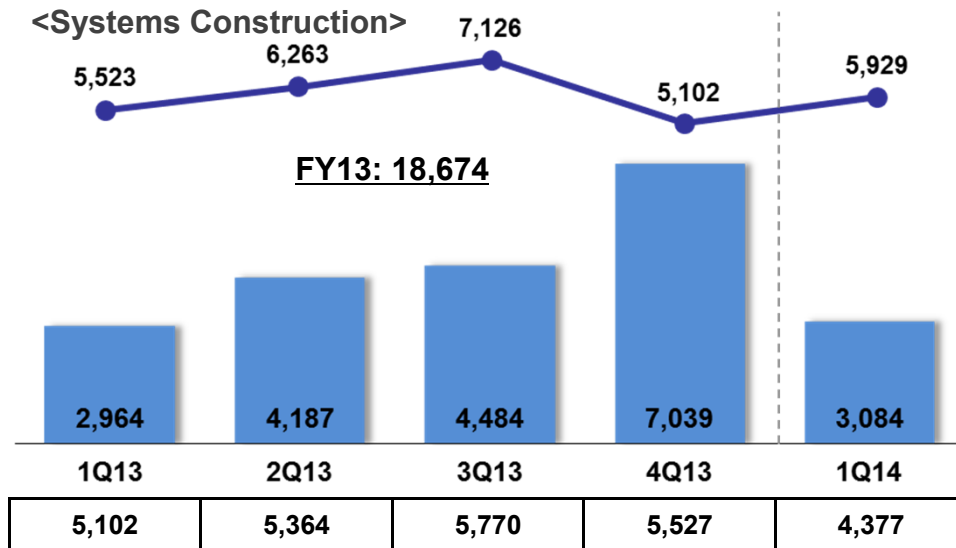
Unit: JPY million

YoY = 1Q14 compared to 1Q13
QoQ = 1Q14 compared to 4Q13

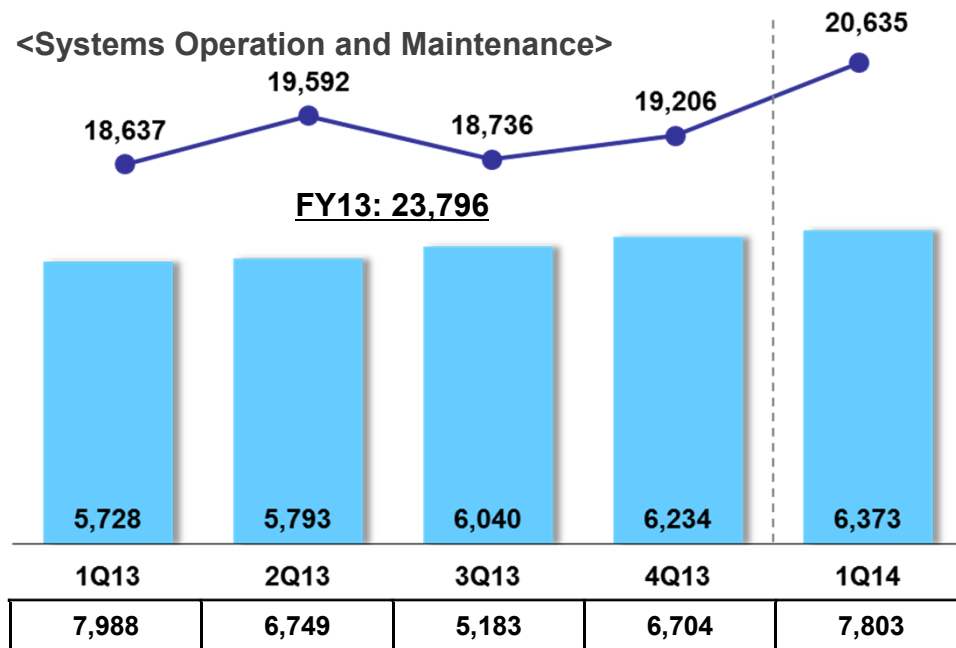


- ◆ 1Q14 Cost of Network Services: down JPY28 million, down 0.2% YoY, down JPY69 million, down 0.5% QoQ
 - Circuit related costs decreased along with the decrease in WAN services revenues
 - Personnel related costs to increase due to increase in number of employee and annual salary raise

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



YoY = 1Q14 compared to 1Q13



1Q14 Systems Construction

- ◆ 1Q14 Revenue: up JPY120 million, up 4.1% YoY
- ◆ 1Q14-end Order Backlog: up JPY406 million, up 7.4% YoY
 - Number and size of contracts continue to grow
 - Examples of our construction projects:
 - large-scale core business operation system for a service provider
 - large-scale storage platform for collecting traffic accidents data for a claims adjusting company
 - cloud-based Office Appliance for a large financial institution
 - large-scale BtoB information transmission platform for a prominent manufacturing company etc.

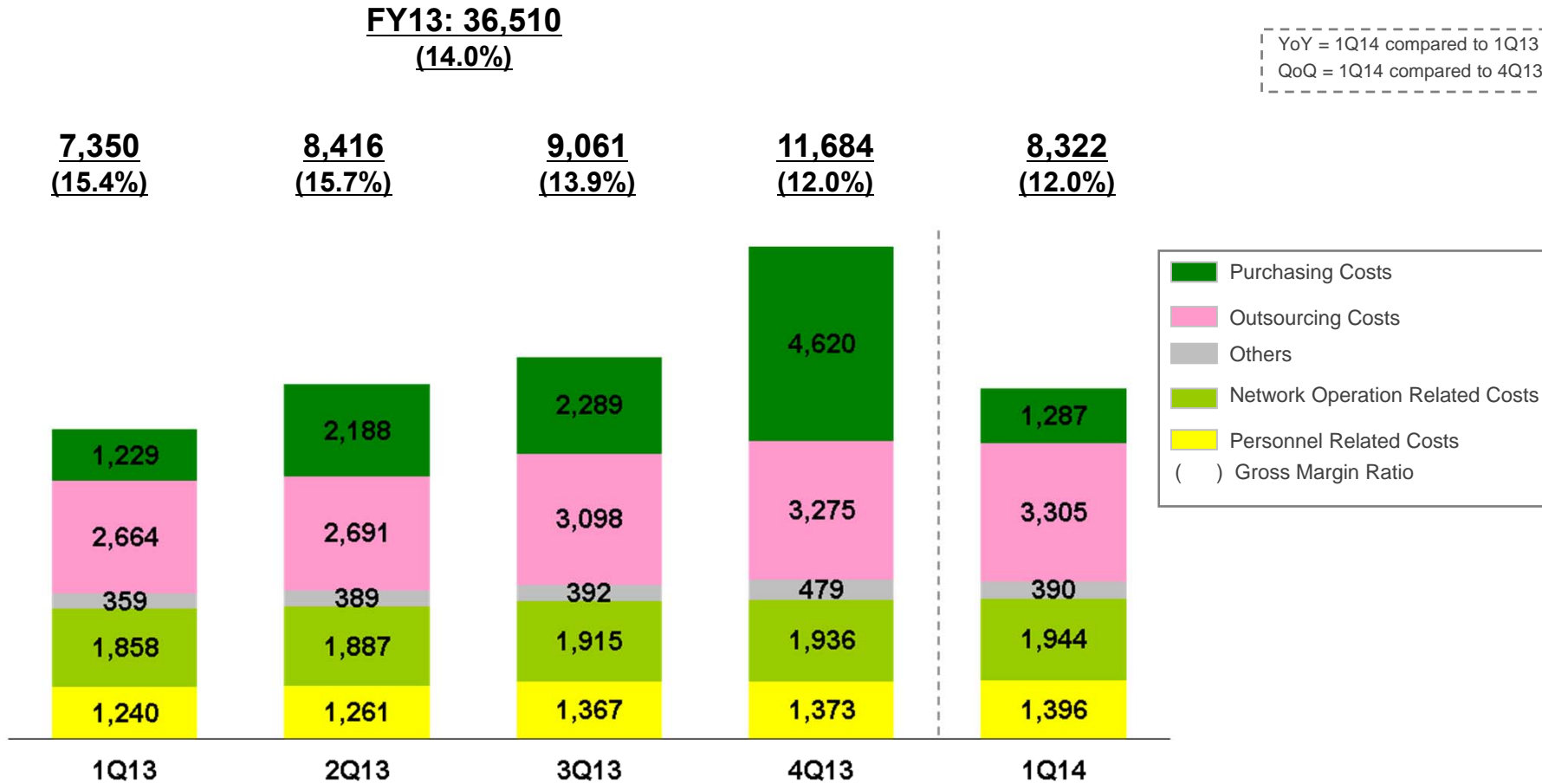
1Q14 Systems Operation and Maintenance

- ◆ 1Q14 Revenue: up JPY645 million, up 11.3% YoY
- ◆ 1Q14-end Order Backlog: up JPY1,999 million, up 10.7% YoY
 - 80% of 1Q14 total cloud revenue is recognized in systems operation and maintenance revenues (remaining 20% in outsourcing)

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

Unit: JPY million

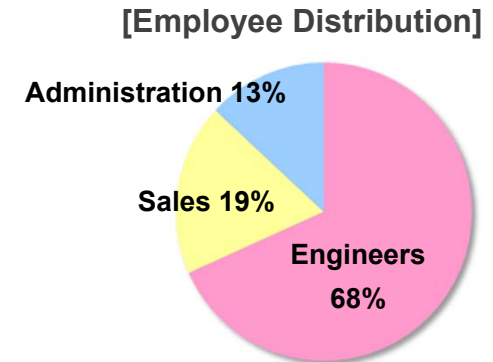
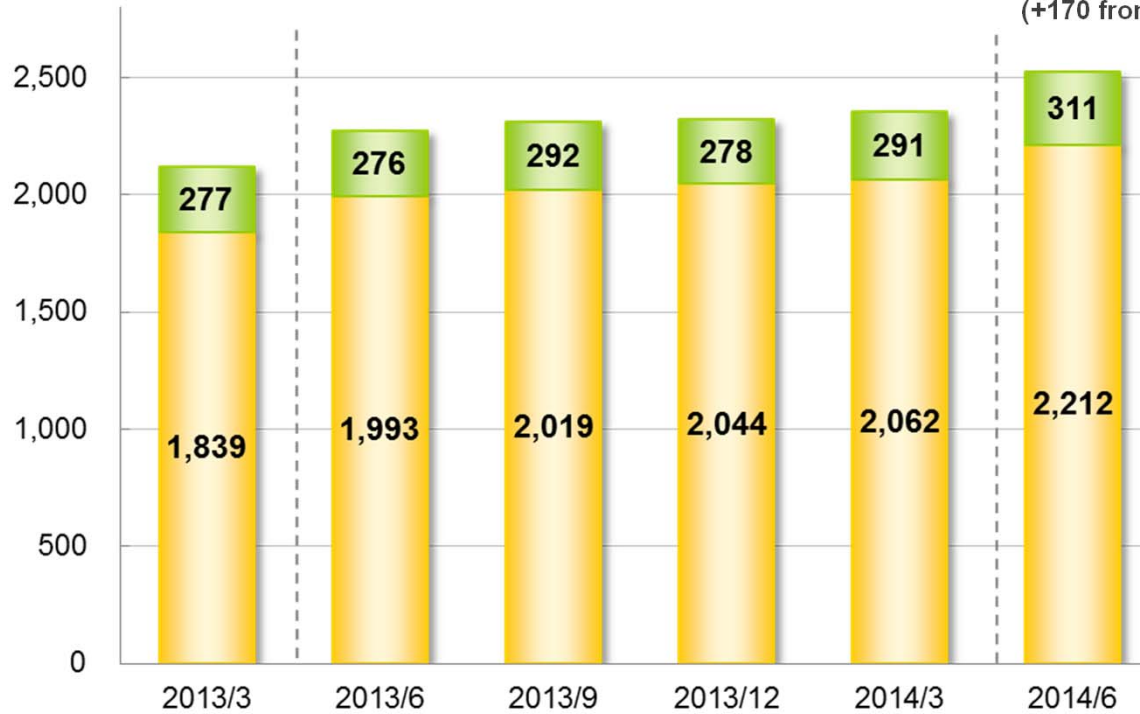
YoY = 1Q14 compared to 1Q13
QoQ = 1Q14 compared to 4Q13



- ◆ 1Q14 Cost of SI: up JPY972 million, up 13.2% YoY
 - Number of outsourcing personnel as of June 30, 2014: 810 personnel (up 97 personnel YoY, up 27 personnel QoQ) , increase in outsourcing-related costs
 - Slightly lower than expected gross margin caused by some rework related to the projects we completed in 4Q13
 - Allocating personnel and outsourcing man-hour to solution development such as for BigData and Cloud

II - 6. Number of Employees

(Number of employees) **2,116** **2,269** **2,311** **2,322** **2,353** **2,523**
 (+170 from 2014/3)



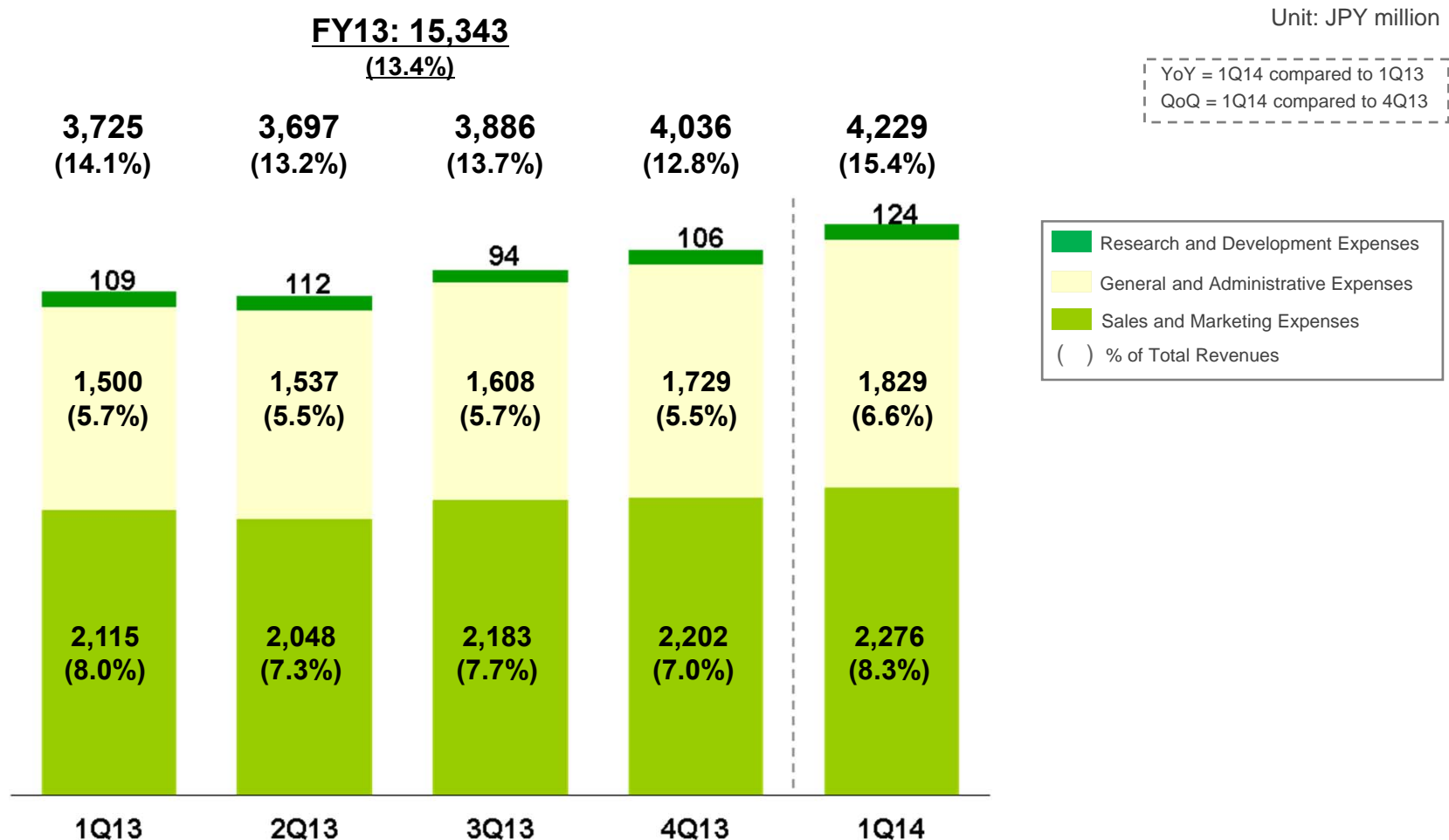
Personnel related costs & expenses (% of revenue)	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
	3,979 (13.5%)	4,212 (15.9%)	4,254 (15.2%)	4,317 (15.2%)	4,408 (14.0%)	4,641 (16.8%)

Unit: JPY million

YoY = 1Q14 compared to 1Q13
 QoQ = 1Q14 compared to 4Q13

- ◆ 1Q14 Personnel-related costs and expenses: up JPY0.43 billion YoY, up JPY0.23 billion QoQ
- ◆ Hired 129 newly graduates in April 2014 (136 in April 2013, 75 in April 2012)
- ◆ FY14 plan to hire the same level as or slightly more compared to FY13
 (FY13: number of employees increased by 237 YoY, personnel related costs and expenses increased by JPY1.71 billion YoY)

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

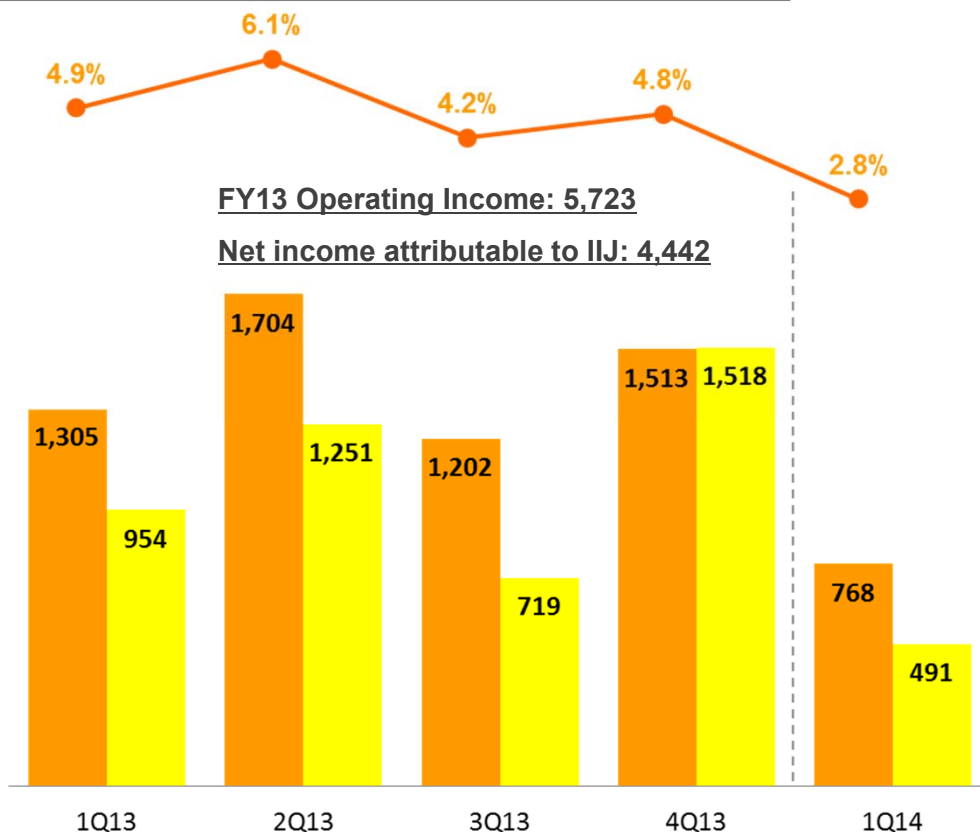


- ◆ 1Q14 SG&A Expenses/R&D: up JPY505 million YoY, up JPY193 million QoQ
 - Increase in personnel-related, outsourcing-related, rent expenses, commission payments (recruit agent fee etc), depreciation and disposal of assets
- ◆ Recognized JPY0.16 billion in 1Q14 as costs and expenses related to headquarter relocation*
(*double rent, relocation fee, depreciation and disposal of assets)
Expect total of JPY0.5 billion for the relocation costs and expenses and the remaining to be recognized in 2Q14

II - 8. Operating Income and Net Income



Unit: JPY million
 YoY = 1Q14 compared to 1Q13



◆ ATM Operation Segment Operating Income:

Unit: JPY million

1Q13	2Q13	3Q13	4Q13	1Q14
81	160	159	178	189

- 915 ATMs in operation as of August 8, 2014
 - Began placing ATMs in Tokai-area from 1Q14
 - Plan to place approx. 300 or more additional ATMs in FY14
- ◆ 1Q14 Income before income tax expenses: JPY827 million (down JPY603 million, down 42.2% YoY)
 - Gains related to other investments: JPY82million
 - Interest expense: JPY61 million
 - Foreign exchange losses: JPY15 million
 - ◆ 1Q14 Net income attributable to IIJ: JPY491 million (down JPY463 million, down 48.5% YoY)
 - Equity in net income of Internet Multifeed and Internet Revolution: JPY34 million
 - Net income attributable to noncontrolling interests related to Trust Networks: JPY18 million

1Q13	2Q13	3Q13	4Q13	1Q14	
269	804	378	1,044	220	Current income tax expense
268	(99)	221	(1,090)	132	Deferred tax expense (benefit)
65	61	64	13	34	Equity in net income of equity method investees
(5)	(22)	(24)	(191)	(18)	Less: Net income attributable to noncontrolling interests

II - 9. Consolidated Balance Sheets (Summary)

Unit: JPY million

	March 31, 2014	June 30, 2014	Changes
Cash and Cash Equivalents	22,421	20,421	(2,000)
Accounts Receivable	19,214	17,295	(1,919)
Inventories and Prepaid Expenses (Current and Noncurrent)	7,432	9,101	+1,670
Investments in Equity Method Investees	2,086	2,170	+84
Other Investments	6,356	5,676	(680)
Property and Equipment	26,971	26,940	(31)
Goodwill and Other Intangible Assets	10,309	10,210	(99)
Guarantee Deposits (Current and Noncurrent)	2,727	4,253	+1,526
Total Assets	103,867	101,703	(2,164)
Accounts Payable	12,542	10,719	(1,823)
Income Taxes Payable	1,079	166	(914)
Bank Borrowings (Short-term and Long-term)	10,380	10,380	-
Capital Lease Obligations (Current and Noncurrent)	8,356	8,043	(314)
Total Liabilities	43,686	42,041	(1,645)
Common Stock	25,497	25,500	+3
Additional Paid-in Capital	35,962	35,974	+12
Accumulated Deficit	(2,868)	(2,882)	(14)
Accumulated Other Comprehensive Income	1,713	1,176	(537)
Total IJ Shareholders' Equity	59,912	59,375	(537)

➤ Total IJ Shareholders' Equity to Total Assets: 57.7% as of March 2014 and 58.4% as of June 2014

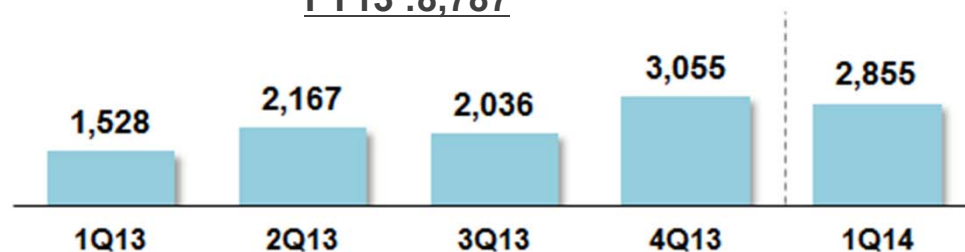
II - 10. Consolidated Cash Flows

Operating Activities:

Unit: JPY million

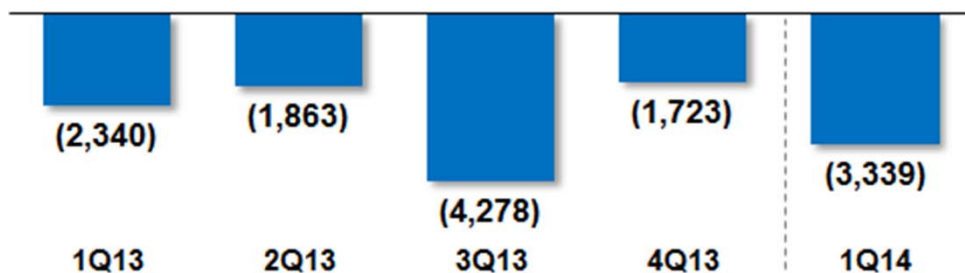
YoY = 1Q14 compared to 1Q13

FY13 :8,787



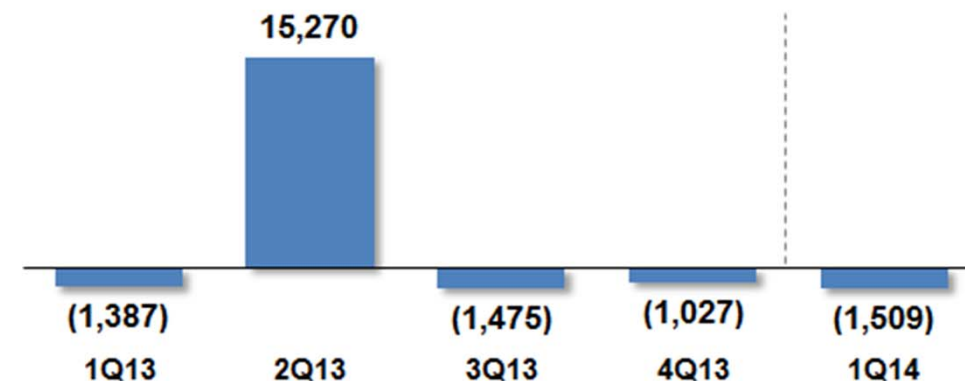
Investing Activities:

FY13 : (10,203)



Financing Activities:

FY13 : 11,382



Operating Activities

	<u>1Q14</u> <u>Breakdown</u>	YoY Change
Net income	509	(450)
Depreciation and amortization	2,312	+241
Net gain on other non-cash transactions	146	+22
Fluctuation of operating assets and liabilities	(112)	1,514

Investing Activities

	<u>1Q14</u> <u>Breakdown</u>	YoY Change
Purchases of property and equipment	(1,936)	(217)
Payments of guarantee deposits	(1,537)	(876)

Financing Activities

	<u>1Q14</u> <u>Breakdown</u>	YoY Change
Principal payments under capital leases	(1,004)	(23)
Dividends paid	(505)	(100)

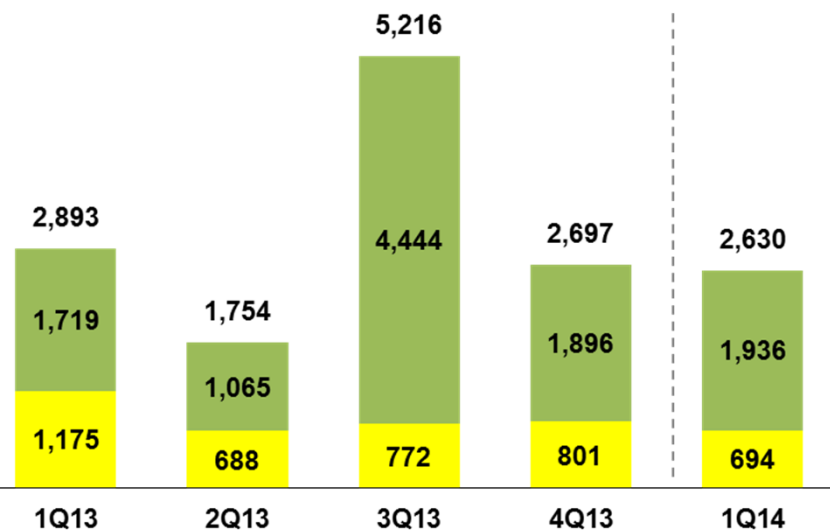
II - 11. Other Financial Data (CAPEX etc.)

CAPEX (Include Capital Leases):



Unit: JPY million

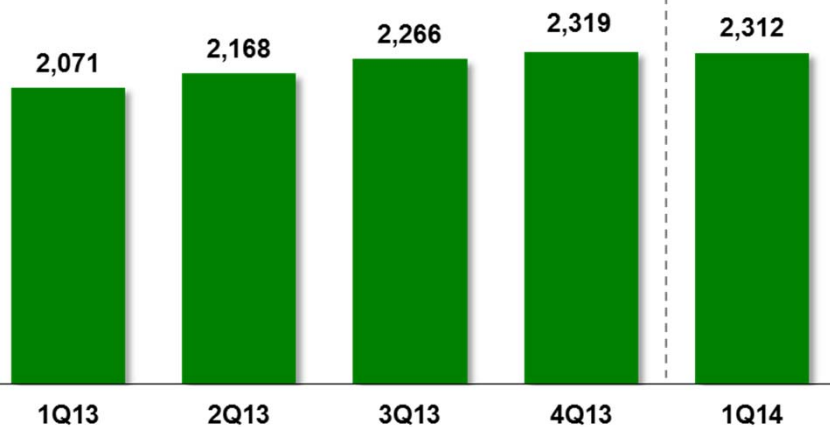
FY13 :12,560



CAPEX related to headquarter relocation:
3Q13 JPY0.42 billion, 1Q14 JPY0.18 billion

Depreciation and Amortization:

FY13 : 8,823

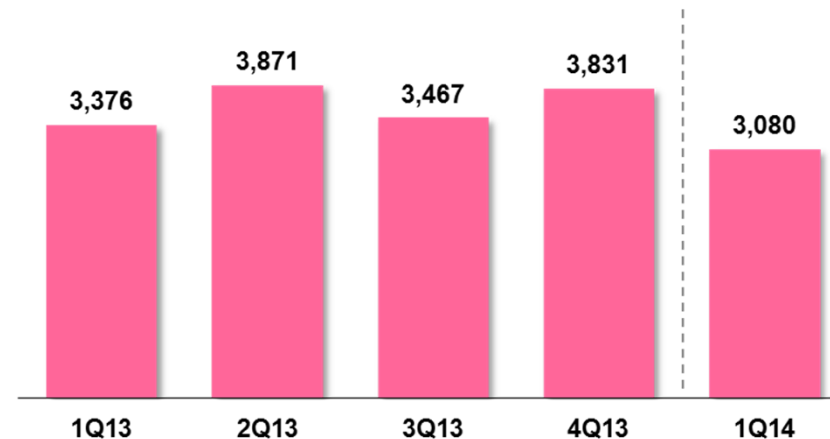


Adjusted EBITDA:

*() % of total revenues

FY13 : 14,546

(12.7%)

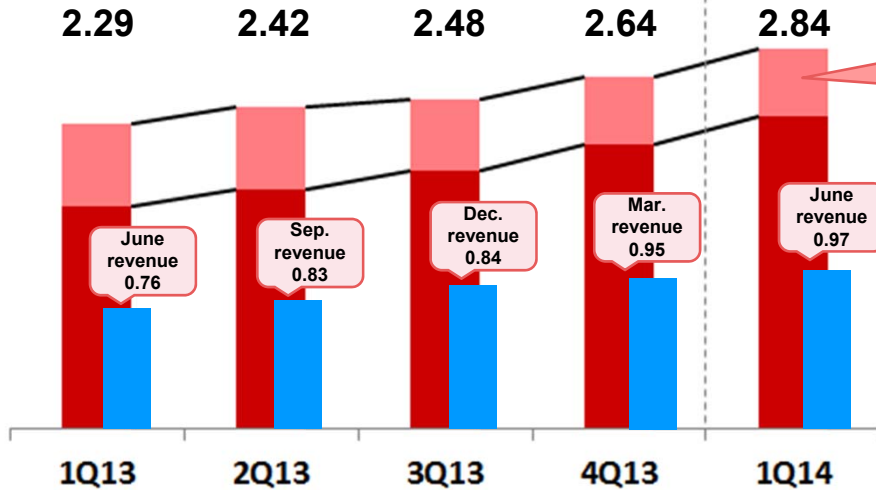


III-1. Developments of Cloud Business

IIJ GIO

Cloud-related Revenue (Unit: JPY billion)

- Large SNS Game
- Other Users



*1Q14 Cloud-related revenue recognition: 80% in systems operation and 20% in outsourcing

General purpose SaaS (groupware SaaS etc.)

0.08

Task-specific SaaS (FX & POS)

0.26

GIO/Hosting

0.58

GIO/Component

1.92

Unit: JPY billion

1Q14 Revenue 2.84

Enhancing BigData & M2M related services

- High-performance database services⁽¹⁾ for BigData using DWH⁽²⁾
- Cloud-based M2M platform, collecting data from equipment attached sensors, analysis for BigData⁽³⁾

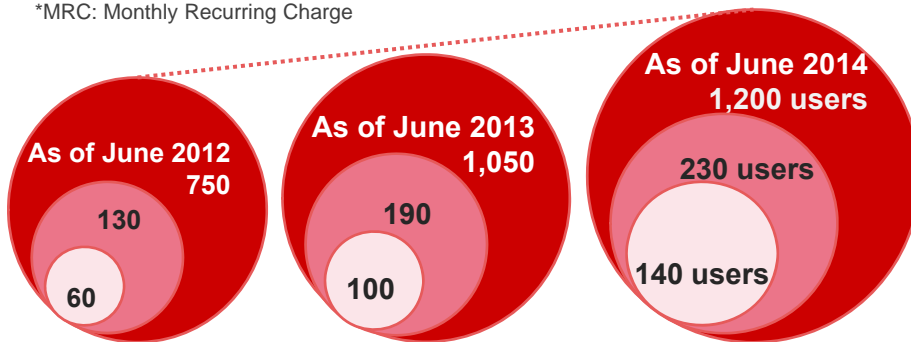
Further focus on enterprises' cloud adoption

- Strategic partnership with Microsoft Japan via its Azure ExpressRoute services
 - Cross selling of our WAN and security services
 - Acquisition of new customer base
 - Multi-cloud functionality
- Reaching out to consulting firms and SME-oriented SIs with SAP Japan
- Cloud migration of ERP systems by offering hybrid cloud comprised of SAP HANA Cloud and IIJ GIO VW Series⁽⁴⁾

Expansion of Customer Base and Usage

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

*MRC: Monthly Recurring Charge



(1) IIJ GIO Component Service Database Add-on

(2) DWH: Data Warehouse

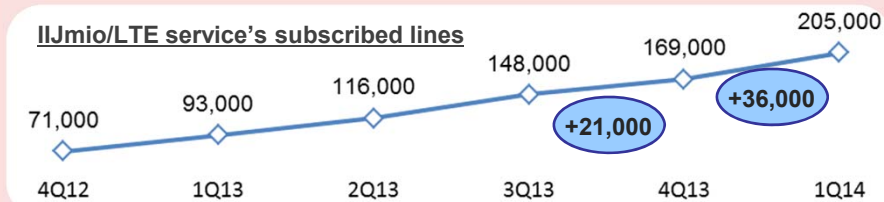
(3) IIJ GIO M2M Platform Services

(4) IIJ GIO for SAP Solution PoC (Proof of Concept) for SAP HANA

III-2. Developments of MVNO Business

MVNO for Consumer “IIMio/LTE Service”

- Established Leading Position for consumer MVNO
 - Additional features to SIM boost new subscriptions
 - SIM card with voice call feature (from March), MNP (from April) (Voice call features contributed in accelerating 1Q14 new subscription. Almost half the voice call features came as MNP)



- Number of stores selling IIMio/LTE increasing
 - BIC Camera to open more BICSIM sales counters in Kansai & Nagoya following the success of Yuraku-cho store



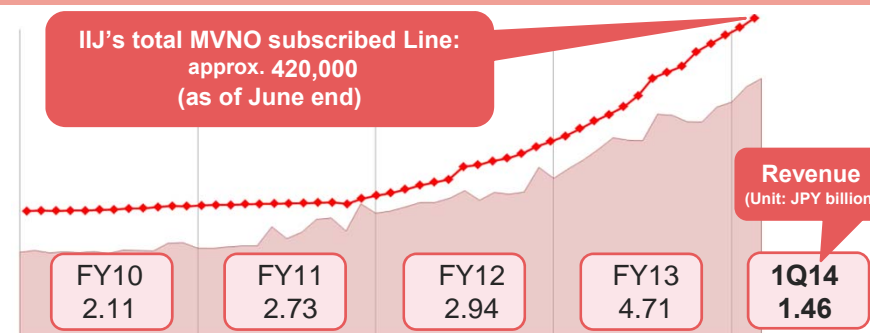
- More unlocked SIM devices lined-up
 - Huawei “Ascend G6” (from May)
 - LG G2mini LG-D620J (from August)
- Japan’s Mobile Market
 - MIC* study group proposed policies regarding “remove SIM-locked handsets” and “introduce cooling-off”
 - Juvenile protection, consumer protection also in debate

Dec. 2013
 Japan's Mobile Market
 160 million subscription
 MVNO (Non-MNO)
 of which,
 SIM-card offering 4.4%
 1%

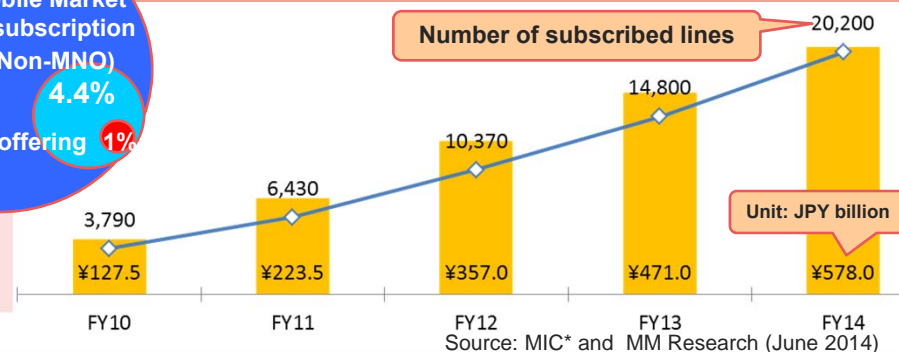
MVNO for Enterprise

- Various line-ups of M2M Solutions
 - Continuously acquiring many M2M projects
 - Taxi dispatch, vending machine, agricultural control etc.
 - “IIJ GIO M2M Platform Service” “Healthcare Solution” “mobile M2M fixed-rate bandwidth-based Plan (first in Japan)”
- Increasing MVNE business opportunities
 - Clients interested in providing mobile service as MVNOs. Several large-scale ongoing negotiations

IIJ MVNO Revenue & Subscribed Lines



Japan's MVNO Market Growth



*MIC: The Ministry of Internal Affairs and Communications

※ 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 interrupt or suspend of our services,
- an excess increase in network related cost and 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 results of an impairment test on the non-amortized intangible assets such as goodwill,
- a decline in value and trending value of our holding securities.

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

※ Contact Information IIJ Investor Relations

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