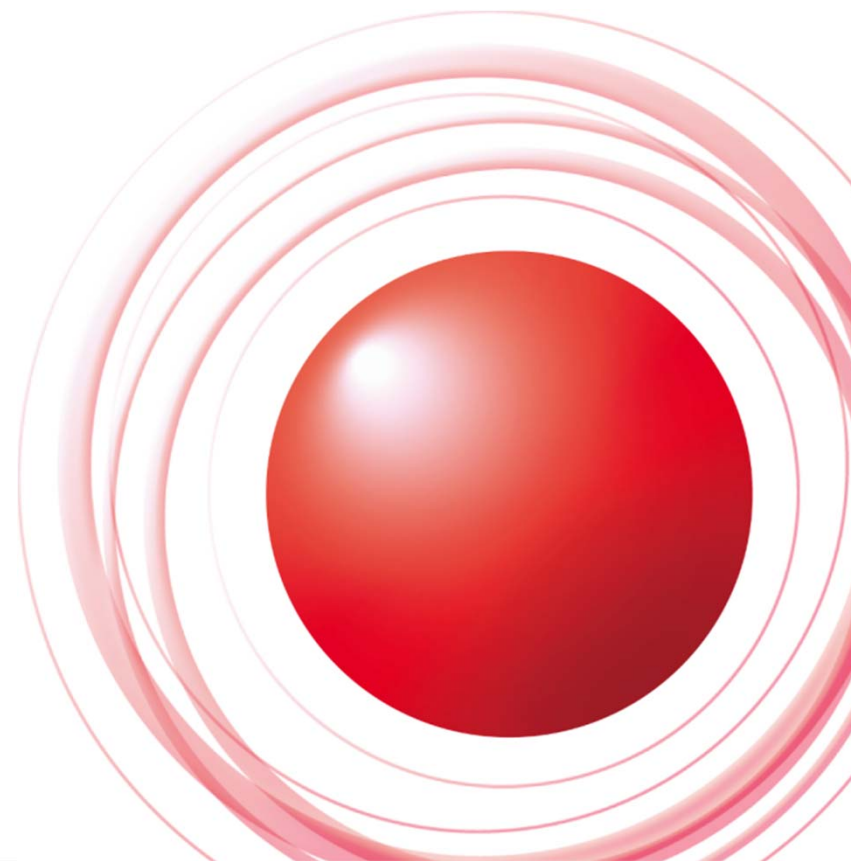


# Consolidated Financial Results for 1H FY2014 (First 6 months ended September 30, 2014)



Internet Initiative Japan Inc.  
TSE1(3774), NASDAQ(IIJI)  
November 7, 2014

Ongoing Innovation



# Agenda

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**I . Summary of 1H FY2014 Financial Results**

**II . Consolidated Financial Results for 1H FY2014**

**III . Reference Materials**

# I . Summary of 1H14 Financial Results

	< 1H14 >		< 2Q14 >		YoY change
Revenues	JPY57.17 billion	up 5.1%	JPY29.62 billion	up 6.0%	
Gross margin	JPY10.90 billion	up 4.5%	JPY5.91 billion	up 9.4%	
Operating income	JPY2.42 billion	down 19.7%	JPY1.65 billion	down 3.2%	

## Business Developments:

- Growing number of integrated projects requiring Cloud, MVNO, NW services, and SI altogether, Continuously focusing on developing service and solution related to Cloud, BigData, M2M etc.
- Consumer MVNO business expanding - subscription rapidly increasing with iPhone6 launch etc.

<b>Cloud</b>	<ul style="list-style-type: none"> <li>• Meeting enterprise IT system needs with our VMware Virtualization Platform Services</li> <li>• Leveraging partnerships and broad range of solutions to grasp Cloud migration demands such as SAP</li> <li>• Continuously developing service and solution especially for BigData and M2M-related</li> </ul>
<b>MVNO</b>	<ul style="list-style-type: none"> <li>• Growing SI+ MVNE business opportunities: Panasonic's entry to MVNO, Nationwide CATV operators</li> <li>• Meeting the growing M2M needs with M2M Platform Services</li> <li>• Gathering consumer and enterprise MVNO needs and leveraging the shared MVNO infrastructure</li> </ul>
<b>Overseas</b>	<ul style="list-style-type: none"> <li>• Enhanced service lineups for Europe Cloud</li> <li>• Exporting container datacenter modules for Russia &amp; Laos, Expect business opportunities to expand</li> <li>• To start Cloud business in Indonesia as a joint venture with a local carrier</li> <li>• Overseas business deficit increased by JPY0.3 billion YoY with an up-front investment</li> </ul>

## Financial Results:

- While operating cost increased along with enhanced business investment, increase in employees, and HQ relocation, service revenue growth was behind our target as projects becoming larger and taking longer
- Revised FY14 full year target
- Business growth outlook remain unchanged, Continuing strategic business investment

Unit: JPY billion %: YoY change

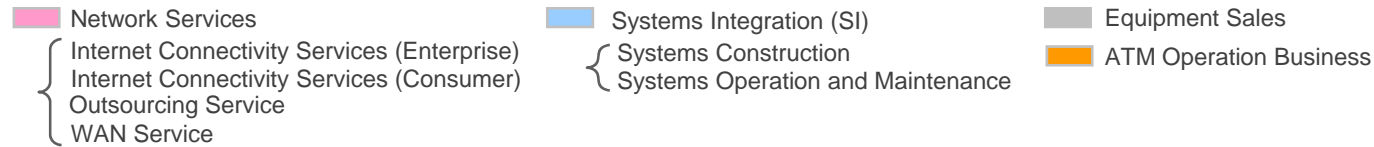
	1H14		FY14	
	Target	Result	Target	New Target
Revenues	57.50	57.17	123.0 (+7.6%)	122.0 (+6.8%)
OP*	2.80	2.42	7.2 (+25.8%)	6.5 (+13.6%)

## II - 1. Consolidated Financial Results for 1H FY2014

Unit: JPY billion

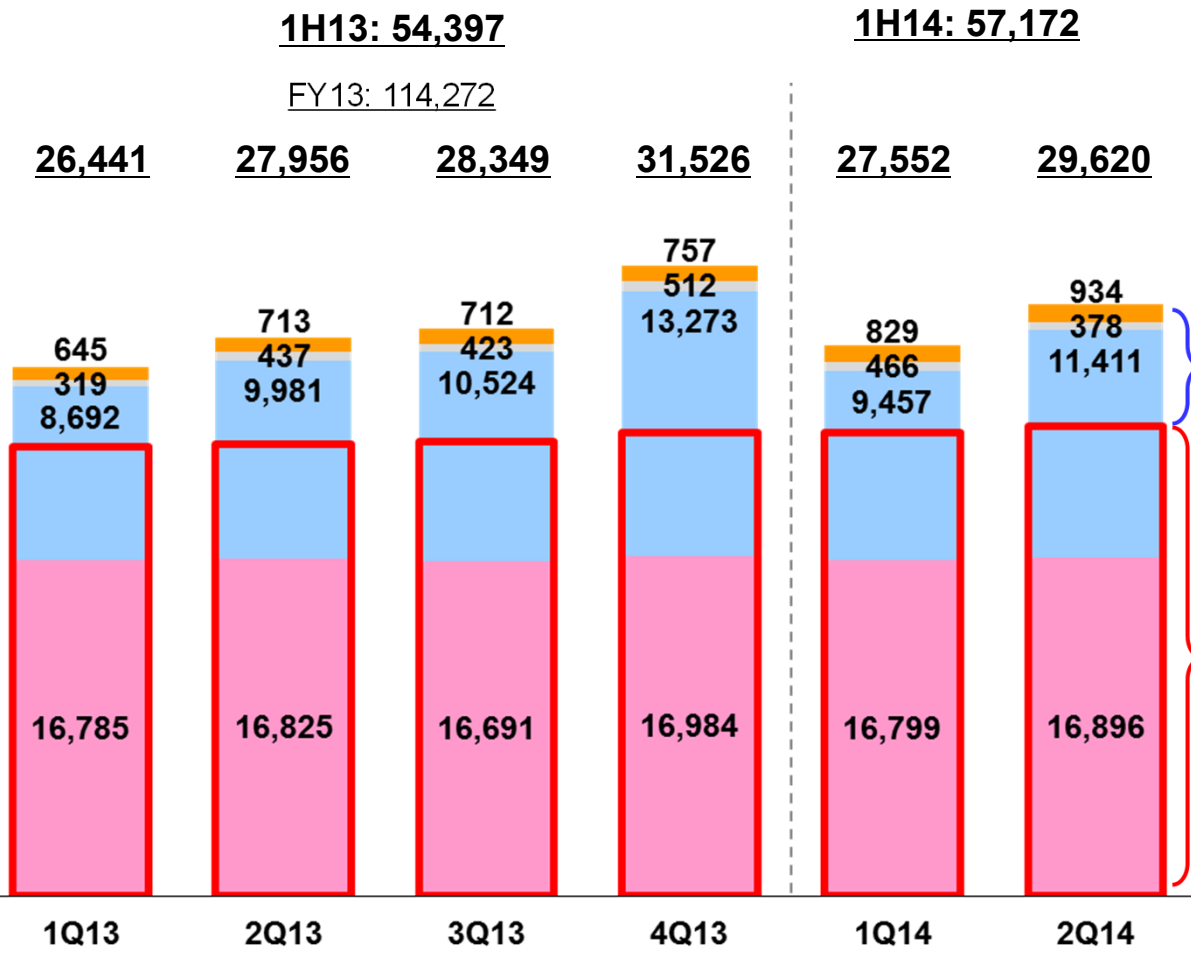
	<i>% of Revenues</i> <b>1H14</b> (Apr. 2014 -Sep. 2014)	<i>% of Revenues</i> <b>1H13</b> (Apr. 2013 -Sep. 2013)	<b>YoY Change in %</b>	<i>% of Revenues</i> <b>1H14 Original Target</b> (Apr. 2014 -Sep. 2015)	<i>% of Revenues</i> <b>FY14 Original Target</b> (Apr. 2014 -Mar. 2015)	<i>% of Revenues</i> <b>FY14 Revised Target</b> (Apr. 2014 -Mar. 2015)
<b>Total Revenues</b>	<b>57.2</b>	<b>54.4</b>	<b>+5.1%</b>	<b>57.5</b>	<b>123.0</b>	<b>122.0</b>
<b>Total Cost of Revenues</b>	80.9% <b>46.3</b>	80.8% <b>44.0</b>	<b>+5.2%</b>	—	—	—
<b>Gross Margin</b>	19.1% <b>10.9</b>	19.2% <b>10.4</b>	<b>+4.5%</b>	—	—	—
<b>SG&amp;A/R&amp;D</b>	14.8% <b>8.5</b>	13.6% <b>7.4</b>	<b>+14.4%</b>	—	—	—
<b>Operating Income</b>	4.2% <b>2.4</b>	5.5% <b>3.0</b>	<b>(19.7%)</b>	4.9% <b>2.8</b>	5.9% <b>7.2</b>	5.3% <b>6.5</b>
<b>Income before Income Tax Expense</b>	4.4% <b>2.5</b>	6.2% <b>3.3</b>	<b>(25.6%)</b>	4.7% <b>2.7</b>	5.7% <b>7.0</b>	5.3% <b>6.5</b>
<b>Net Income attributable to IIJ</b>	2.5% <b>1.4</b>	4.1% <b>2.2</b>	<b>(34.5%)</b>	3.0% <b>1.8</b>	3.7% <b>4.5</b>	3.3% <b>4.0</b>

## II - 2. Revenues



Unit: JPY million

YoY = 1H14 compared to 1H13



**One-time Revenue \***  
 (15.2% of 1H14 revenue)  
 1H14: JPY8,713 million (up 10.2%YoY)

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

1. Systems Construction
2. Equipment Sales

**Recurring Revenue\***  
 (81.7% of 1H14 revenue)  
 1H14: JPY46,696 million (up 3.5% YoY)

\*Represents the following monthly recurring revenues

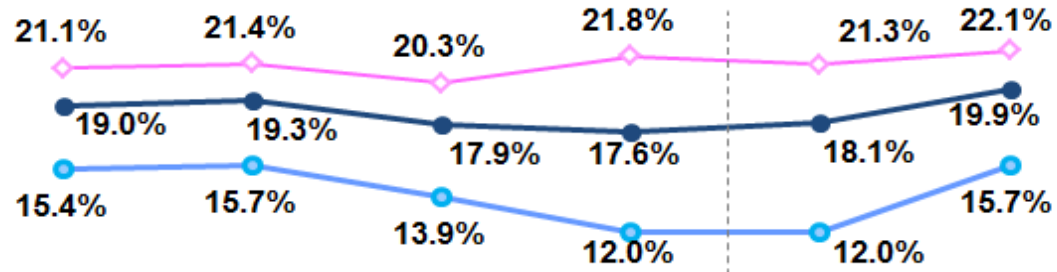
1. Internet Connectivity Services (Enterprise)
2. Internet Connectivity Services (Consumer)
3. WAN Services
4. Systems Operation and Maintenance

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

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

Unit: JPY million

YoY = 1H14 compared to 1H13

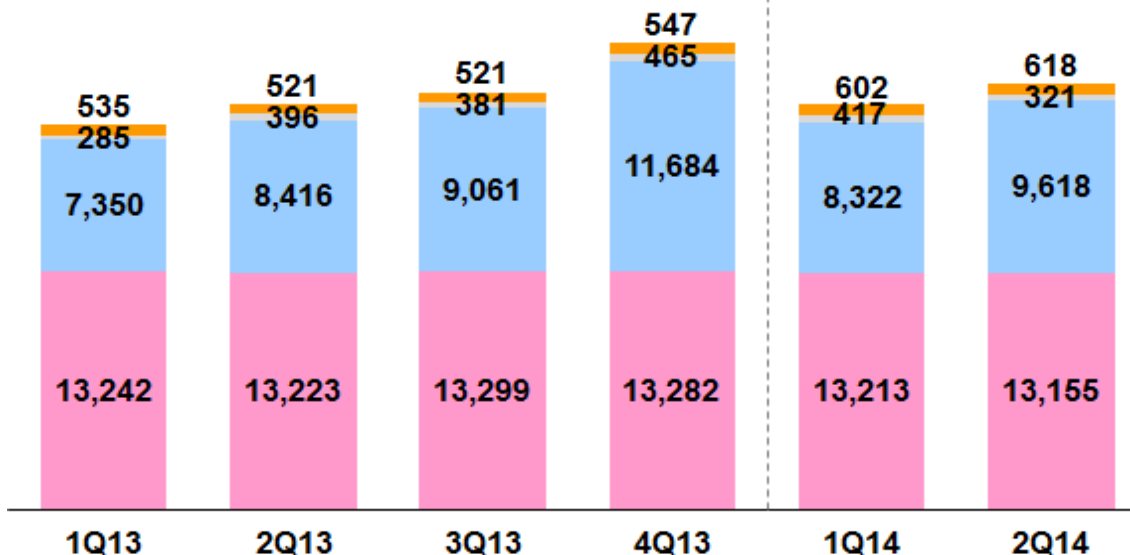


**1H13: 43,967**

**1H14: 46,267**

FY13: 93,206

**21,411    22,556    23,262    25,977    22,554    23,713**



### 1H14 Gross Margin

#### ◆ Total Gross Margin:

- JPY10,905 million (up JPY474 million, up 4.5% YoY)
- Gross margin ratio: down 0.1 point YoY

#### ◆ Network Service Gross Margin

- JPY7,327 million (up JPY181 million, up 2.5% YoY)
- Gross margin ratio: up 0.5 points YoY, Gross margin improving quarterly with cost almost flat

#### ◆ SI Gross Margin:

- JPY2,929 million (up JPY21 million, up 0.7% YoY)
- Gross margin ratio: down 1.5 points YoY, 2Q14 improved from 4Q13 and 1Q14 when dealt with unprofitable projects

#### ◆ ATM Operation Business Gross Margin:

- JPY543 million (up JPY241 million, up 79.7 % YoY)
- Gross margin ratio: 30.8% (up 8.5 points YoY)

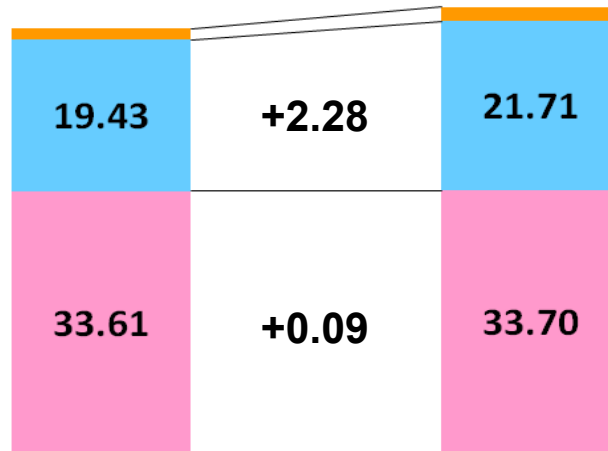
## II - 4. 1H Revenue and Operating Cost YoY Change

Unit: JPY billion

### Revenue

1H13 **54.40** ➔ +2.77 1H14 **57.17**

- ATM operation business
- SI and Equipment sales
- Network Services



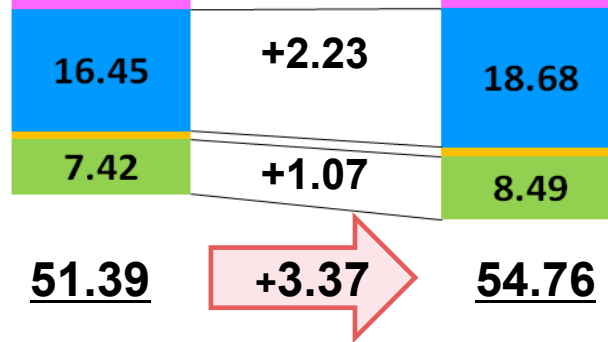
#### <Breakdown of Major Difference>

Cloud	+1.10
System construction	+0.72
Consumer services	+0.65
System operation and maintenance (Cloud excluded)	+0.46
ATM operation	+0.41
WAN services	(0.66)

### Operating Cost

26.46 (0.09) 26.37

- Network services cost
- SI and Equipment sales cost
- ATM operation business cost
- SG&A and R&D



#### <Breakdown of Major Difference>

Outsourcing-related costs*	+1.29
Personnel-related costs	+0.82
HQ relocation-related costs	approx. +0.50
Depreciation and amortization	+0.44
Purchasing-related costs	+0.40
Circuit-related costs*	(0.49)
(of new service/solution development)	+0.17
(of overseas business-related)	+0.21

\*Outsourcing-related costs include the costs related to outsourcing personnel  
 \*Circuit-related costs include such as Internet backbone and WAN line procurement costs

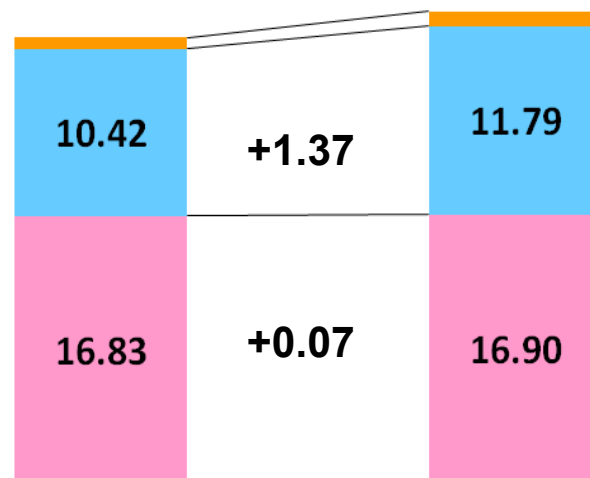
## II - 5. 2Q Revenue and Operating Cost YoY Change

Unit: JPY billion

### Revenue

2Q13 **27.96** ➔ +1.66 2Q14 **29.62**

- ATM operation business
- SI and Equipment sales
- Network Services



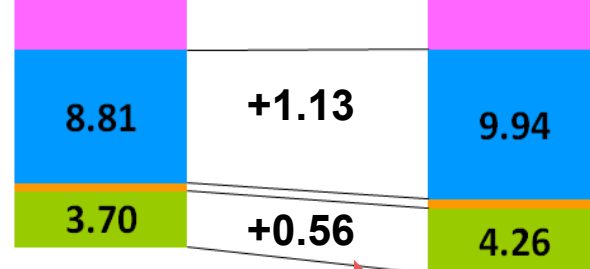
#### <Breakdown of Major Difference>

Cloud	+0.56
System construction	+0.60
Consumer services	+0.34
System operation and maintenance (Cloud excluded)	+0.32
ATM operation	+0.22
WAN services	(0.34)

### Operating Cost

2Q13 **13.22** ➔ (0.06) 2Q14 **13.16**

- Network services cost
- SI and Equipment sales cost
- ATM operation business cost
- SG&A and R&D



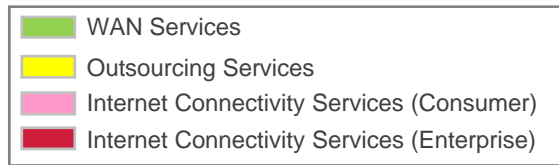
#### <Breakdown of Major Difference>

Outsourcing-related costs*	+0.68
Personnel-related costs	+0.39
HQ relocation-related costs	approx. +0.34
Depreciation and amortization	+0.20
Purchasing-related costs	+0.24
Circuit-related costs*	(0.26)
(of new service/solution development)	+0.10
(of overseas business-related)	+0.05

\*Outsourcing-related costs include the costs related to outsourcing personnel  
 \*Circuit-related costs include such as Internet backbone and WAN line procurement costs

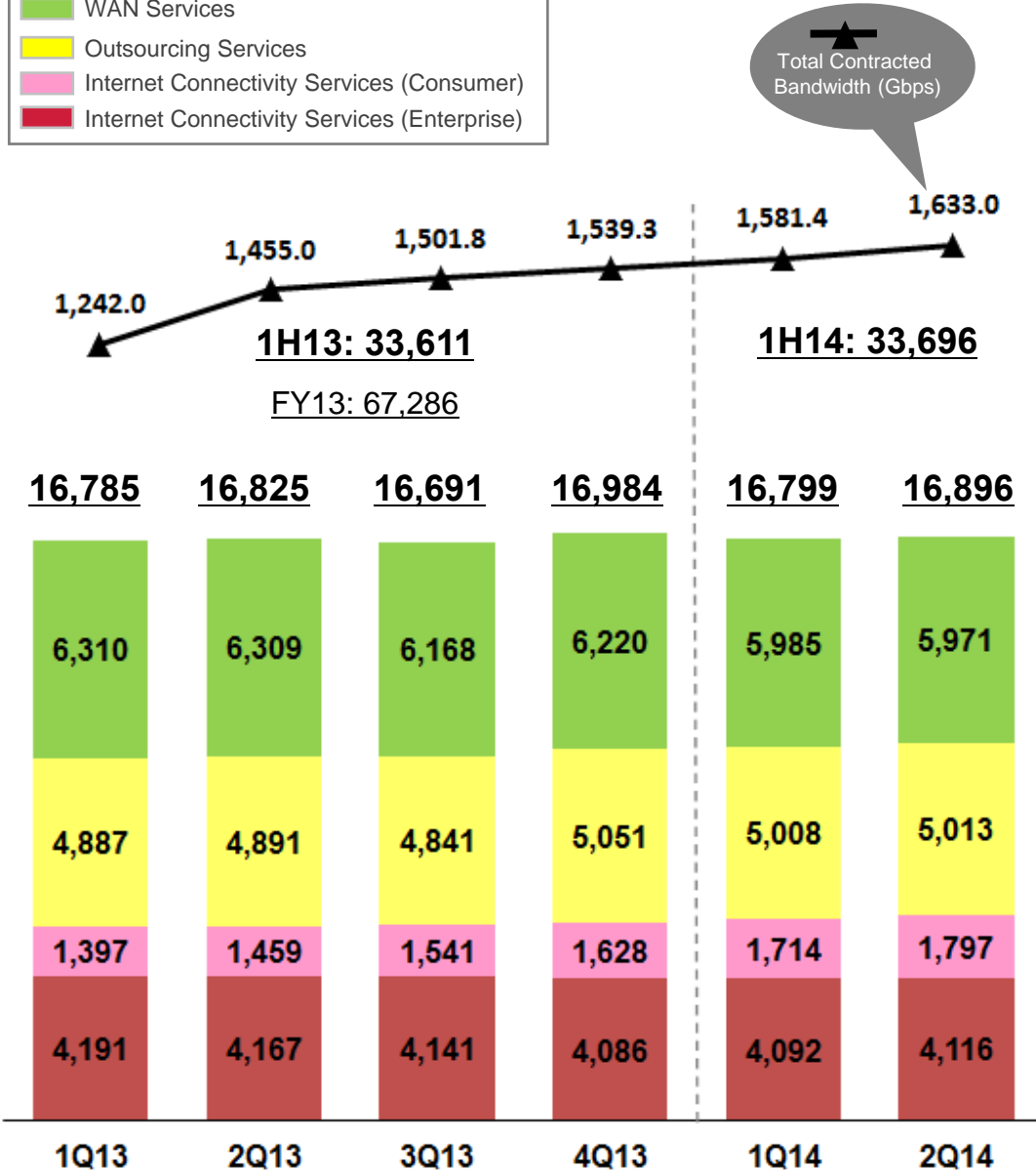


# II - 6. Network Services (1)Revenues



Unit: JPY million

YoY = 1H14 compared to 1H13



### ◆ 1H14 Internet Connectivity (Enterprise)

- JPY8,208 million (down JPY150 million, down 1.8% YoY)
  - Mobile service revenue continued to increase
  - 2Q14 IP service's slight decrease was affected by volume charge revenue. Expect to grow in 2H14
  - Over 1Gbps contracts:
    - ✓ As of 1H14 end: 305 contracts
    - ✓ As of 1H13 end: 255 contracts

### ◆ 1H14 Internet Connectivity (Consumer)

- JPY3,510 million (up JPY655 million, up 22.9% YoY)
  - IJmio/LTE Service continued to accumulate
    - ✓ 1H14 end subscription: approx. 245,000
    - 1H13 end: approx. 116,000 subscription
    - 1Q14 end: approx. 205,000 subscription
    - ✓ 2Q14 revenue: approx. JPY0.8 billion
    - 1Q14: approx. JPY0.7 billion
    - FY13: approx. JPY1.7 billion
    - 1H13: approx. JPY0.7 billion

### ◆ 1H14 Outsourcing Services

- JPY10,021 million (up JPY243 million, up 2.5% YoY)
  - IJ/GIO Hosting Service increased
  - 2Q14 Large SNS game users' cloud revenue slightly decreased from 1Q14 and were impacts from overseas DC service contracts ending

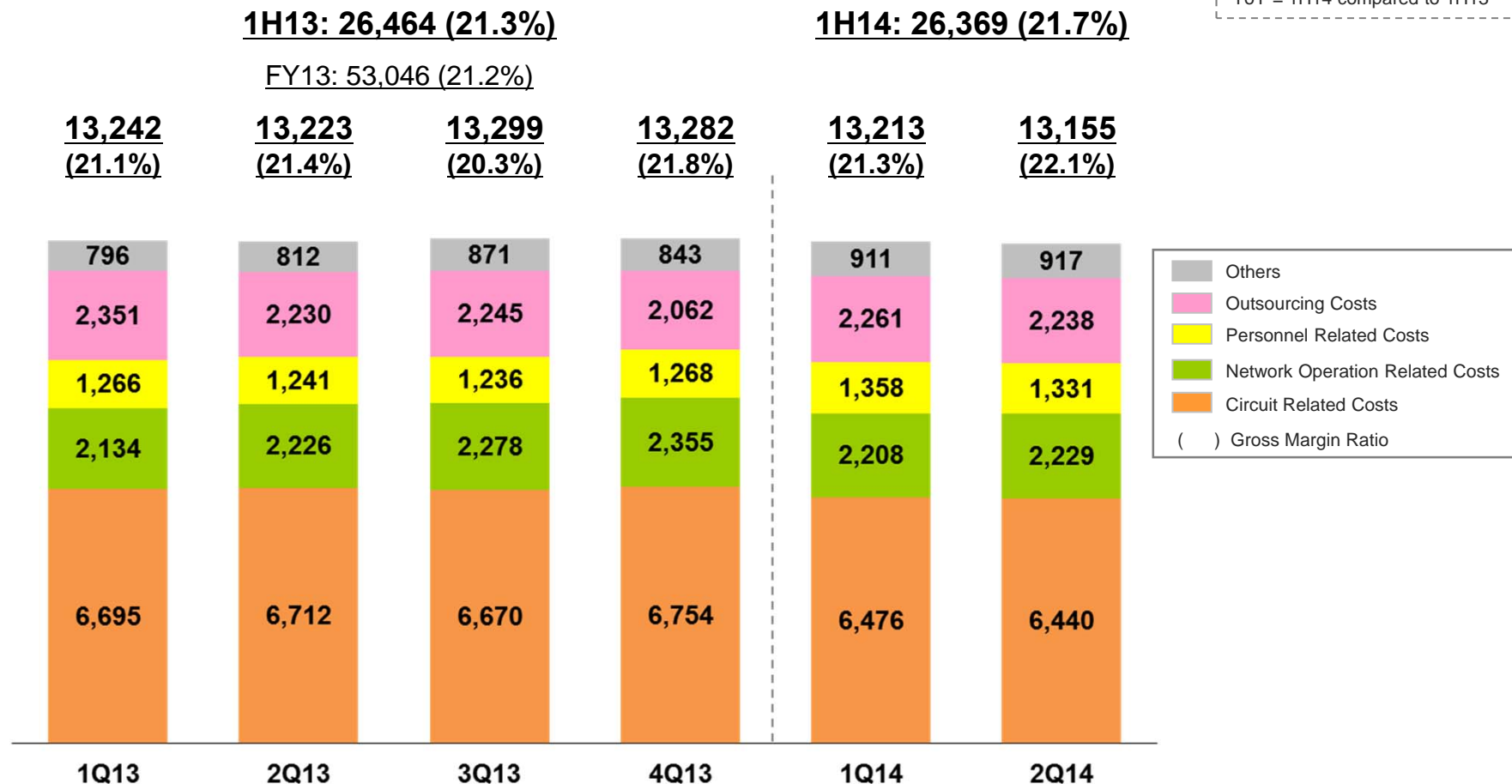
### ◆ 1H14 WAN Services

- JPY11,956 million (down JPY662 million, down 5.2% YoY)

## II - 6. Network Services (2)Cost of Revenues

Unit: JPY million

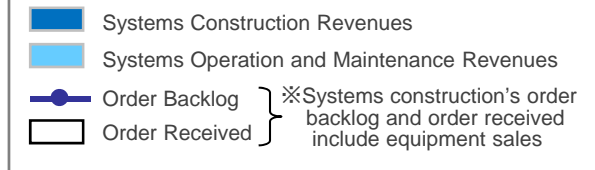
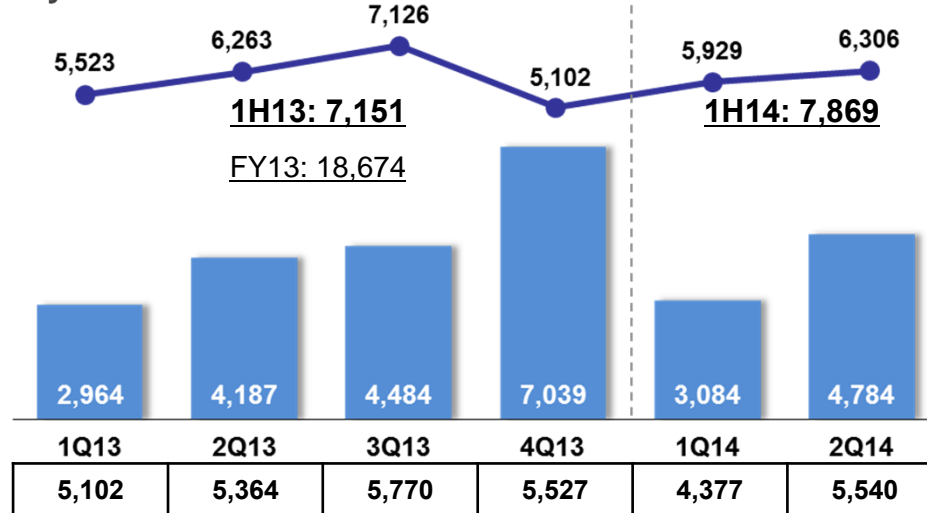
YoY = 1H14 compared to 1H13



- ◆ 1H14 Cost of Network Services: down JPY96 million, down 0.4% YoY
  - 2Q14 had no major change from 1Q14,
  - 2Q14 circuit related costs decreased from 1Q14 along with the decrease in WAN services revenue and cost reduction efforts

# II - 7. Systems Integration (SI) (1)Revenues

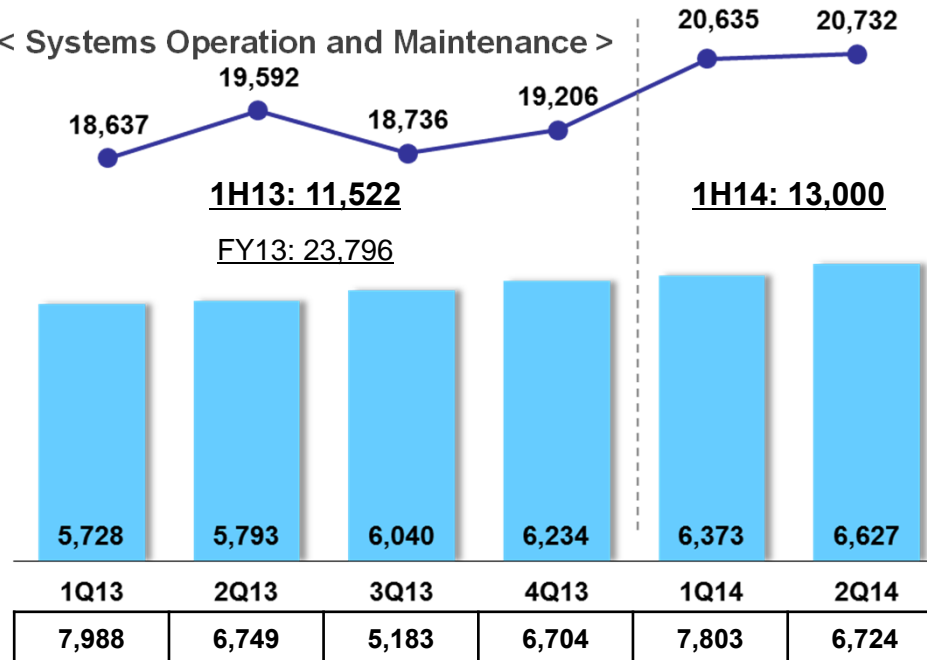
## < Systems Construction >



Unit: JPY million

YoY = 1H14 compared to 1H13

## < Systems Operation and Maintenance >



### 1H14 Systems construction

- ◆ Revenue: up JPY717 million, up 10.0%YoY
- ◆ 1H14-end Order Backlog: up JPY43 million, up 0.7%YoY
- Project volume increased along with the recovery of corporate IT investment
- Examples of large-scale projects received in 2Q14:
  - Internet gateway to connect with third party cloud services
  - Large-scale mail service infrastructure for consumer
  - VST\* platform
  - Hybrid system for a large-scale portal website
  - Mail and ID management system for a major university etc.
- Large-scale integrated projects tend to take longer from order-received to revenue recognition

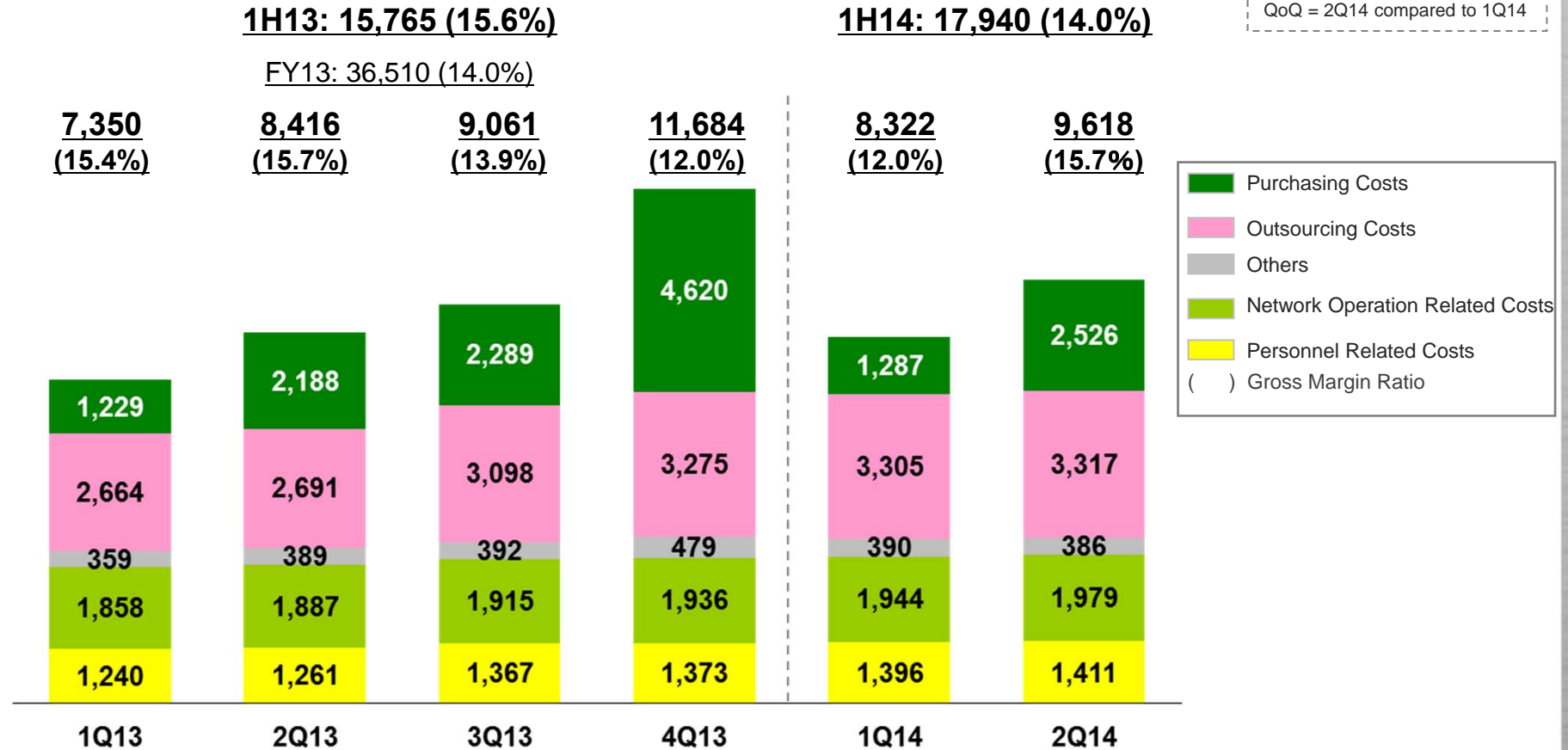
### 1H14 Systems Operation and Maintenance

- ◆ 1H14 Revenue: up JPY1,478 million, up 12.8%YoY
- ◆ 1H14-end Order Backlog: up JPY1,140 million, up 5.8%YoY
- 81% of 1H14 total cloud revenue is recognized in systems operation and maintenance revenues (remaining 19% in outsourcing)
- ◆ Cloud revenue continuously increasing, accumulating revenues from system construction projects migrating to operation and maintenance phase

## II - 7. Systems Integration (SI) (2)Cost of Revenues

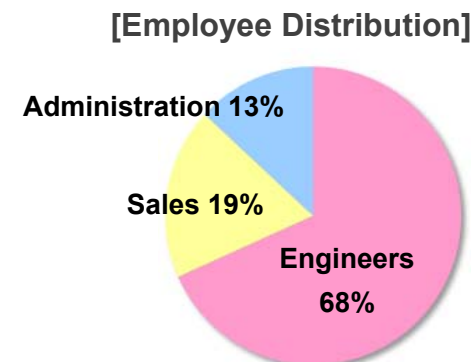
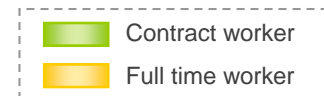
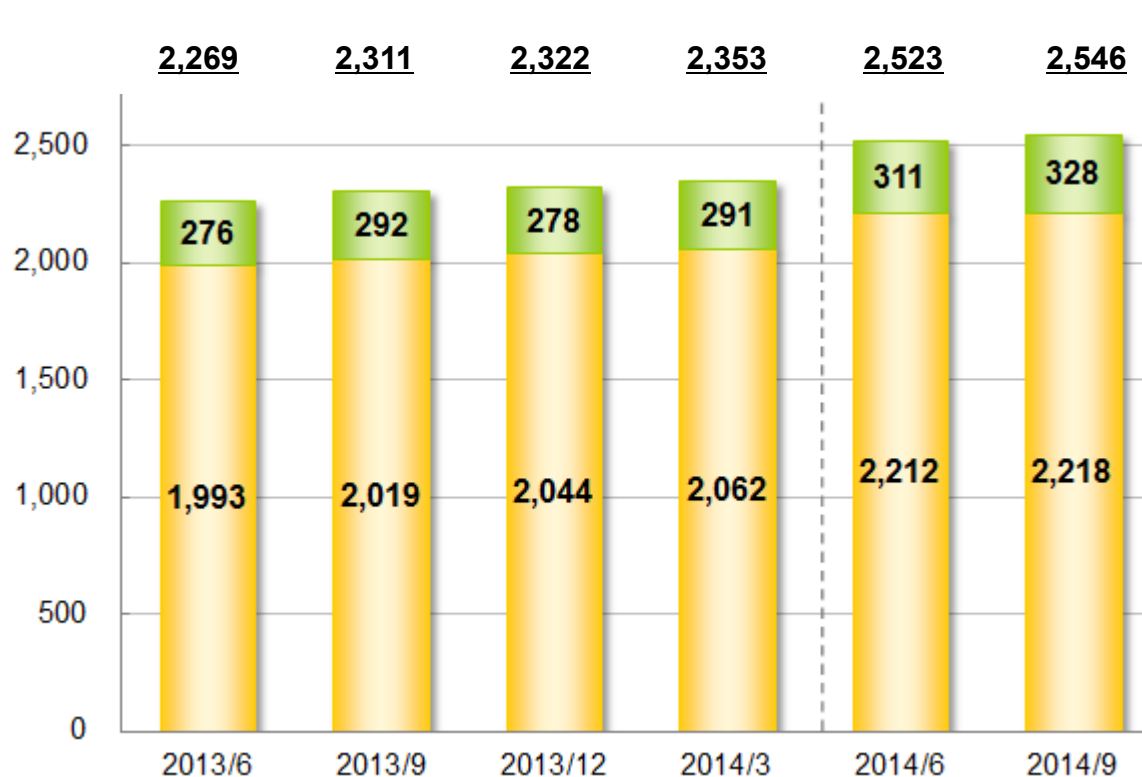
Unit: JPY million

YoY = 1H14 compared to 1H13  
QoQ = 2Q14 compared to 1Q14



- ◆ 1H14 Cost of SI: JPY17,940 million, up JPY2,175 million, up 13.8%YoY
  - Number of outsourcing personnel as of Sep. 30, 2014: 907personnel (up 163 personnel YoY, up 97 personnel QoQ)
  - 2Q14 SI gross margin improved compared to 4Q13 and 1Q14, when dealt with unprofitable projects

## II - 8. Number of Employees



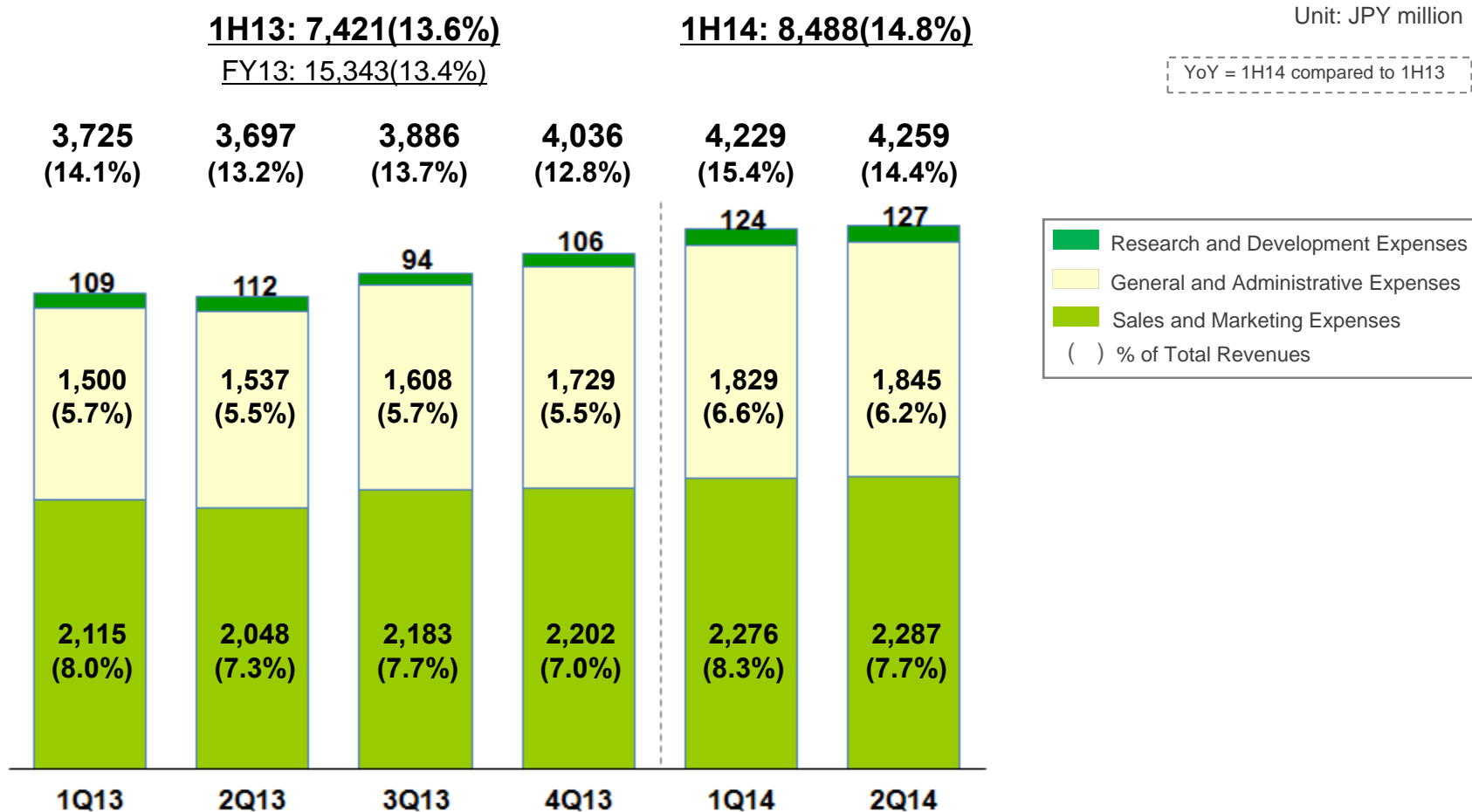
Personnel related costs & expenses (% of revenue)	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
	4,212 (15.9%)	4,254 (15.2%)	4,317 (15.2%)	4,408 (14.0%)	4,641 (16.8%)	4,643 (15.7%)

Unit: JPY million

YoY = 1H14 compared to 1H13

- ◆ 1H14 Personnel-related costs and expenses: JPY9.28 billion, up JPY0.8 billion YoY
- ◆ 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 JPY1.7 billion YoY)

## II - 9. SG&A Expenses/R&D

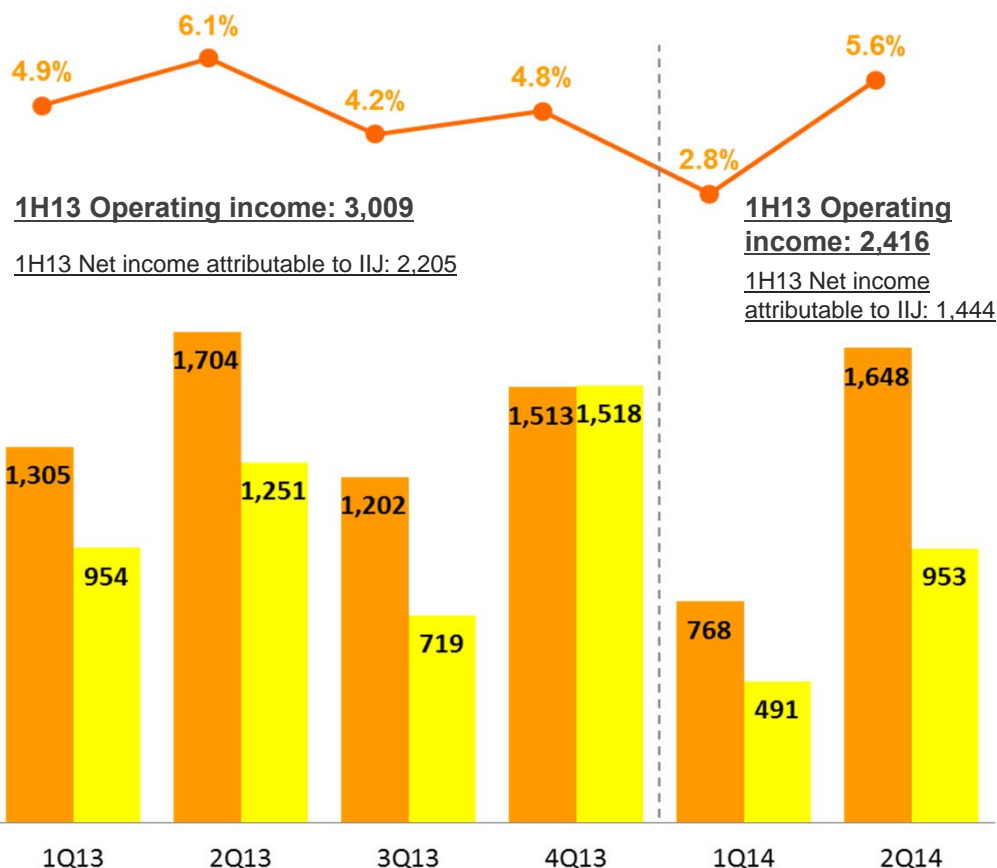


- ◆ 1H14 SG&A Expenses/R&D: up JPY1,067 million YoY, up 14.4% YoY
  - Increase in personnel-related, outsourcing-related, rent/relocation expenses, commission payments (recruit agent fee etc.), depreciation and disposal of assets
- ◆ Recognized JPY0.5 billion in 1H14 as costs and expenses related to headquarter relocation\*  
 (\*rent, relocation fee, depreciation and disposal of assets) 1Q14: JPY0.2 billion, 2Q14: JPY0.3 billion
- ◆ 2Q14 SG&A Expenses/R&D: decrease in employee training and advertising expenses while increase in relocation expenses from 1Q14

## II - 10. Operating Income and Net Income



Unit: JPY million  
YoY = 1H14 compared to 1H13



### ◆ ATM Operation Segment Operating Income:

Unit: JPY million

1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
81	160	159	178	189	271

- 950 ATMs in operation as of November 7, 2014, Plan to start placing in Kagoshima prefecture from 3Q14
- Daily transaction did not grow much mainly due to newly place ATMs and decrease trend in pachinko users
- ◆ 1H14 Income before income tax expenses: JPY2,491 million (down JPY856 million, down 25.6% YoY)
  - Interest expense: JPY123 million
  - Dividend income : JPY48 million
  - Gains from fund investments: JPY99 million
- ◆ 1H14 Net income attributable to IIJ: JPY1,444 million (down JPY761 million, down 34.5% YoY)
  - Equity in net income of Internet Multifeed and Internet Revolution: JPY69 million
  - Net income attributable to noncontrolling interests related to Trust Networks: JPY42 million

1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	
269	804	378	1,044	220	624	Current income tax expense
268	(99)	221	(1,090)	132	98	Deferred tax expense (benefit)
65	61	64	13	34	35	Equity in net income of equity method investees
(5)	(22)	(24)	(191)	(18)	(24)	Less: Net income attributable to noncontrolling interests

## II - 11. Consolidated Balance Sheets (Summary)

Unit: JPY million

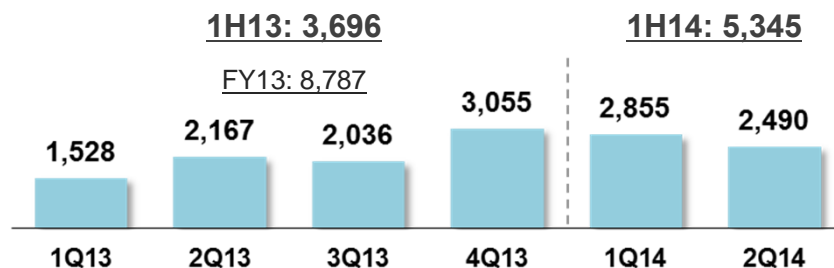
	March 31, 2014	September 30, 2014	Changes
Cash and Cash Equivalents	22,421	19,049	(3,372)
Accounts Receivable	19,214	19,439	+224
Inventories and Prepaid Expenses (Current and Noncurrent)	7,432	8,737	+1,306
Investments in Equity Method Investees	2,086	2,173	+87
Other Investments	6,356	5,160	(1,196)
Property and Equipment	26,971	28,085	+1,113
Goodwill and Other Intangible Assets	10,309	10,110	(199)
Guarantee Deposits (Current and Noncurrent)	2,727	4,299	+1,573
<b>Total Assets</b>	<b>103,867</b>	<b>103,222</b>	<b>(645)</b>
Accounts Payable	12,542	11,718	(824)
Income Taxes Payable	1,079	751	(328)
Bank Borrowings (Short-term and Long-term)	10,380	9,400	(980)
Capital Lease Obligations (Current and Noncurrent)	8,356	8,057	(299)
<b>Total Liabilities</b>	<b>43,686</b>	<b>42,938</b>	<b>(748)</b>
Common Stock	25,497	25,500	+3
Additional Paid-in Capital	35,962	35,987	+25
Accumulated Deficit	(2,868)	(1,929)	+939
Accumulated Other Comprehensive Income	1,713	806	(906)
<b>Total IJ Shareholders' Equity</b>	<b>59,912</b>	<b>59,973</b>	<b>+61</b>

➤ Total IJ Shareholders' Equity to Total Assets: 57.7% as of March 2014 and 58.1% as of September 2014

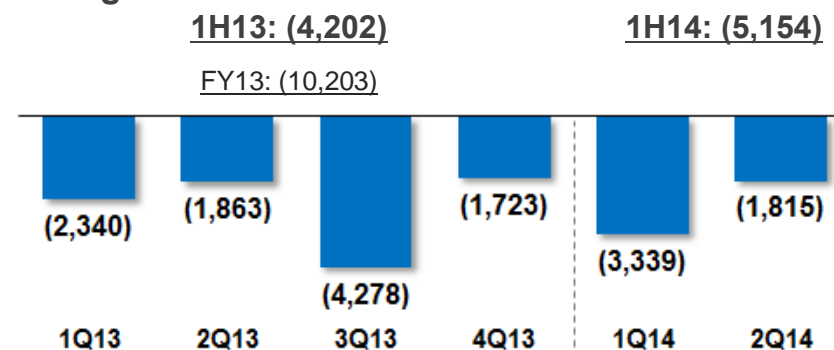


## II - 12. Consolidated Cash Flows

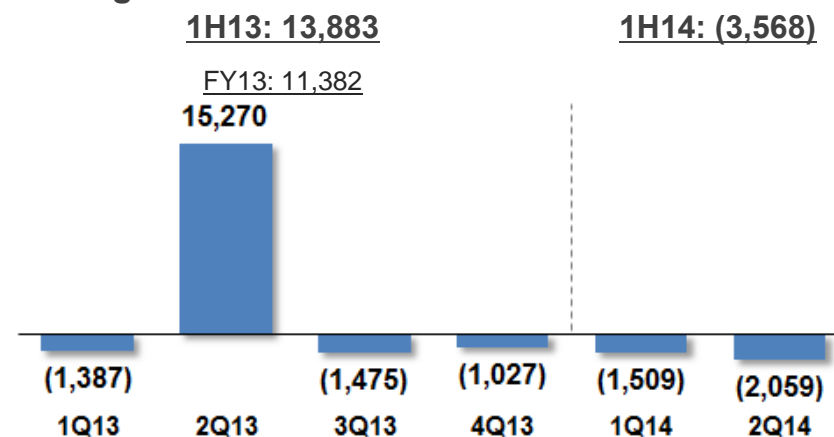
### Operating Activities:



### Investing Activities:



### Financing Activities:



### Operating Activities

	1H14 Breakdown	YoY Change
Net income	1,486	(746)
Depreciation and amortization	4,684	+445
Net gain on other non-cash transactions	311	+537
Fluctuation of operating assets and liabilities	(1,136)	+1,413

### Investing Activities

	1H14 Breakdown	YoY Change
Purchases of property and equipment	(4,010)	(1,226)
Payments of guarantee deposits	(1,608)	(946)

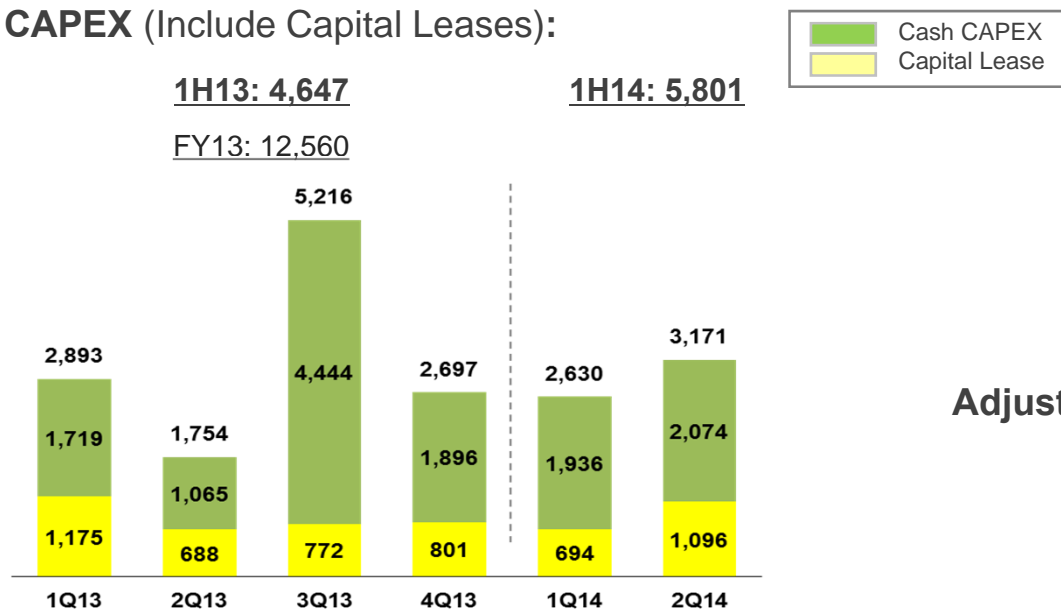
### Financing Activities

	1H14 Breakdown	YoY Change
Principal payments under capital leases	(2,083)	(110)
Repayments of borrowings (short and long-term)	(980)	+30
Dividends paid	(505)	(100)

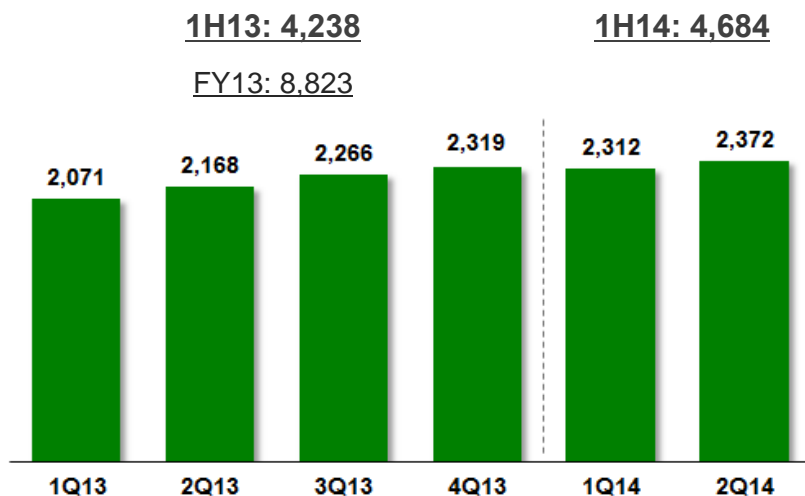
## II - 13. Other Financial Data (CAPEX etc.)

CAPEX (Include Capital Leases):

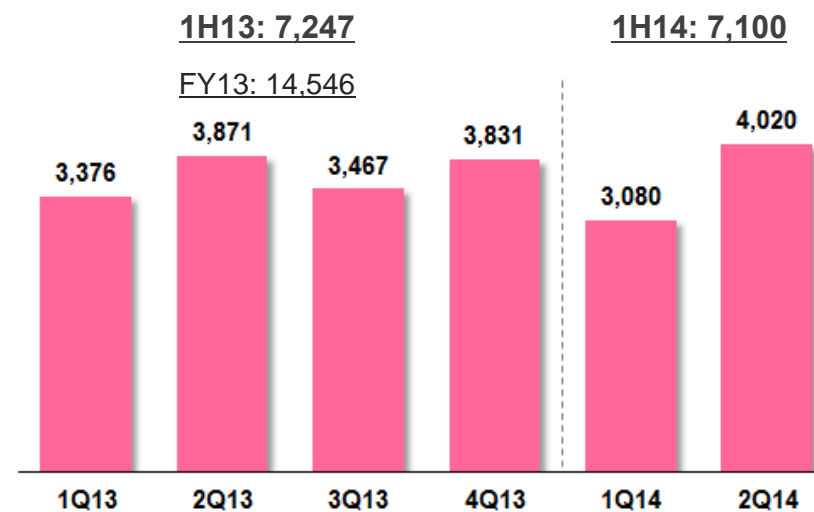
Unit: JPY million



Depreciation and Amortization:



Adjusted EBITDA:

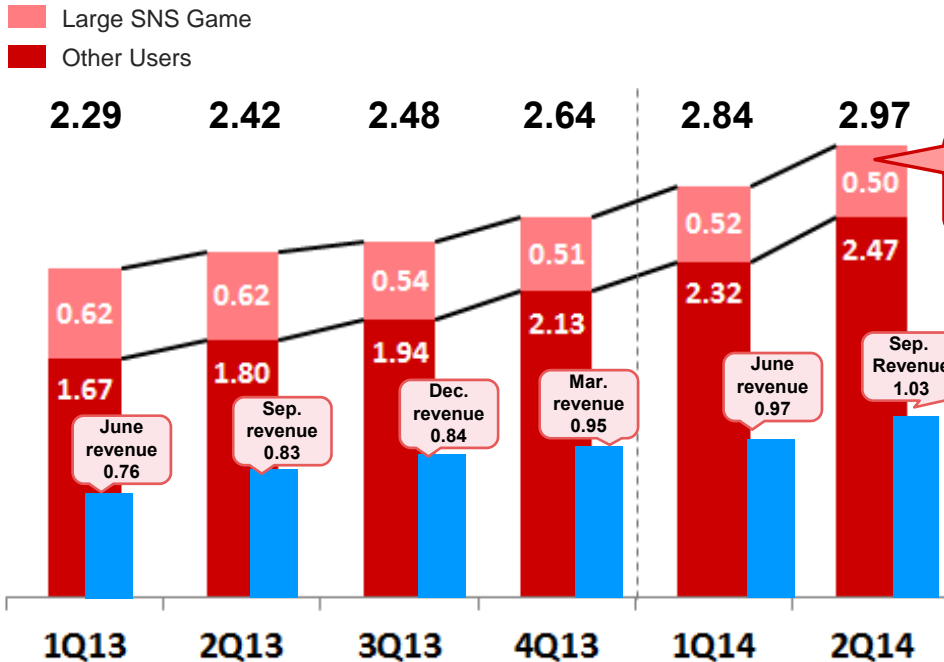


## < Reference Materials >

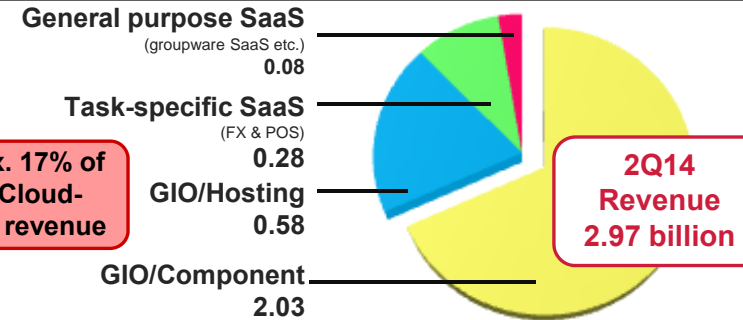
# III-1. Cloud Business Developments



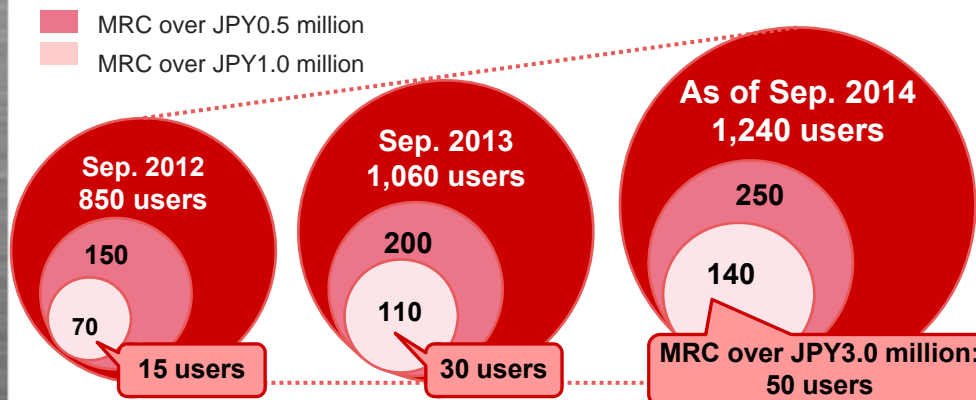
## Cloud-related revenue (Unit: JPY billion)



## Breakdown of 2Q14 revenue (Unit: JPY billion)



## Expansion of Customer base and Usage



## IIJ GIO for Enterprise Systems:

- ✓ Service lineups meeting Japanese blue-chips' IT needs
  - VMware virtualization platform services to link corporates' internal on-premise systems and/or private Cloud, high performance servers etc.
- ✓ Skilled engineers, face-to-face sales support etc.
- ✓ Single point of contact from infrastructure, application development, SI, and maintenance
- ✓ Total solution covering security services and many others
- ✓ High level of service agreement, operational experience etc.

## Business progress

- Acquiring SAP system needs with VW series, Accumulating prospective orders by leveraging strategic alliances
- Introducing cloud solutions related to M2M and BigData in particular
- Large SNS game users demand slowing down, GIO/Hosting revenue slightly decreased from 1Q14
  - Number of contracted servers decreasing along with system optimization

## III-2. MVNO Business Overview and for Consumers

### IJ MVNO Total\* Revenue and Subscription

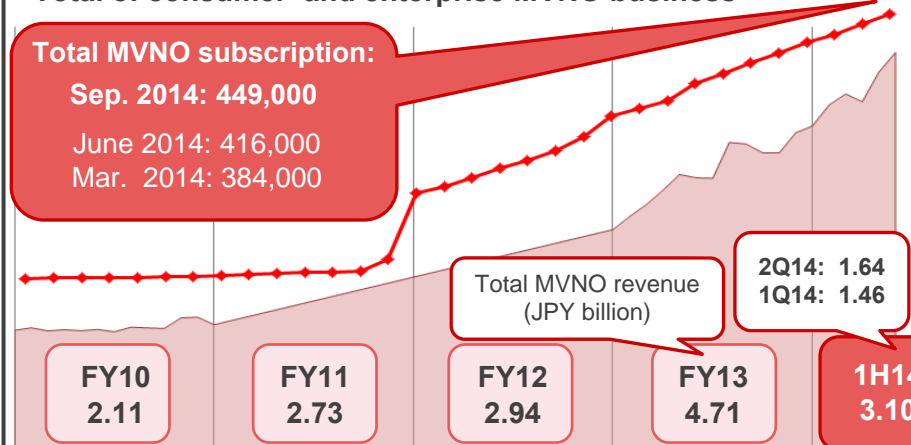
\*Total of consumer and enterprise MVNO business

Total MVNO subscription:

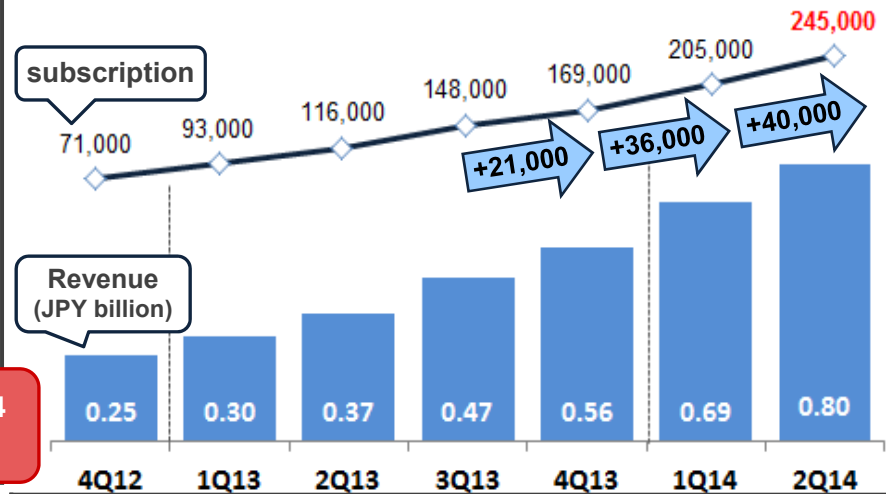
Sep. 2014: 449,000

June 2014: 416,000

Mar. 2014: 384,000



### IJmio/LTE service revenue and subscription



### Sales Activities for IJmio/LTE services

2012	Feb. First in Japan to offer LTE SIM Cards (IJmio/LTE) Sep. Started selling Aeon stores
2013	June Started offering in BIC CAMERA stores
2014	Mar. Started offering voice call features Apr. Started accepting MNP May Started offering SIM-free devices (Huawei May, LG Aug.) June 1 <sup>st</sup> sales counter in BIC CAMERA (Yurakucho) July Revised down voice call feature's monthly fee Aug. Increasing BIC SIM sales counters located stores Sep. Started offering to foreign travelers Oct. Doubled data volume while keeping monthly fee

### IJmio/LTE service order situation

- **Subscription acquisition pace accelerating, Oct. net addition: approx. 30,000 subscription**
  - Introduction of competitive pricing (Oct.1~)
  - SIM-free iPhone 6 (Sep. 19), nano SIM order increasing
  - BIC SIM sales counter located stores increasing nationwide
    - ✓ As of Oct. 2014, 6 stores in Tokyo, Osaka etc.
    - ✓ Opening in Sapporo and Nagoya in Nov.
- **MNP-compatible subscription increasing**  
More than 50% of Oct. net addition were with voice call, Less than 40% of Oct. net addition came with MNP
- **Some examples of sales channels:**



### III-3. MVNO Business for Enterprises

#### Examples of Enterprise Mobile Usage

##### Mobile access

- USB data communication terminals + laptop PC
- Offer with configuration features
- Broad customer base

##### Tablet solution

- SIM card + tablet
- iPad for sales officers to replace paper-based presentation materials etc.

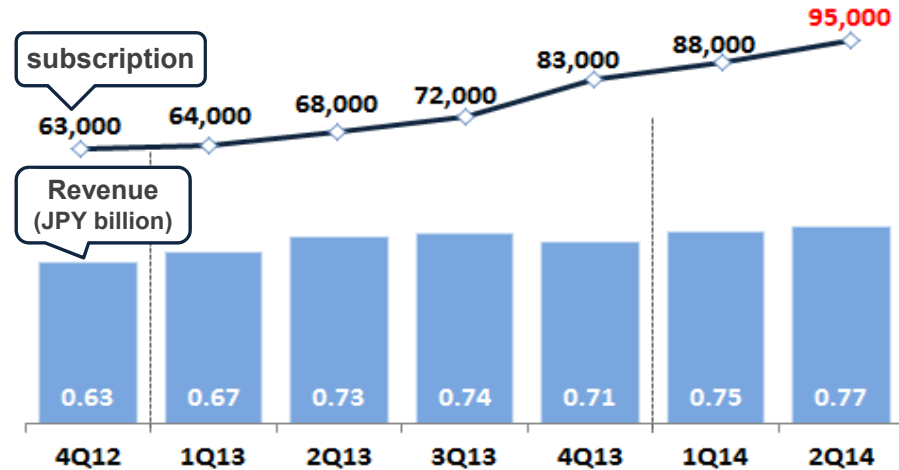
##### M2M

- Mobile + cloud services etc.
- Covering wide range needs: collecting sensor data, storage, and analysis etc.

##### MVNE

- MVNO + SI + NW services etc.
- Growing interests together with IoT trend

#### IIJ mobile revenue and subscription



#### Wireless M2M Solution

- **M2M-related subscription: approx. 50,000** (as of Sep. 2014)
  - 1H14 revenue: approx. JPY 0.2 billion, Up more than 30% YoY
- Few hundreds to thousands subscription per contract
- Seeking opportunities in Smart house, healthcare sector such as nursing home and BigData analytics compatible systems

##### < Business Cases >

- |                        |                            |
|------------------------|----------------------------|
| Pollen count           | Natural disaster detection |
| Earthquake observation | Taxi cab wireless solution |
| Building management    | Digital signage etc.       |

#### Leveraging IIJ's Competitive Advantages NW + SI + Services

#### Growing MVNE Needs

- **MVNE-related subscription: approx. 60,000** (as of Sep. 2014)
  - 1H14 revenue: approx. JPY 0.2 billion, Up approx. 30% YoY
- Increasing interests especially from BtoC service providers

##### < Ongoing Projects >

##### Supporting Panasonic's entry to MVNO for enterprises

Offering MVNO infrastructure and constructing related systems including billing and remote access platform

##### Offering MVNO platform to Japanese cable TV operators

Expect accelerated pace of subscription acquisition by offering inexpensive SIM card services to cable TV users all over Japan

##### Partnership with CTC

Offering MVNO infrastructure for their enterprise mobile services

## III -4. Revision of FY14 Full Year Financial Target

	FY14 Initial Target (Apr. 2014 -Mar.2015)	FY14 Revised Target (Apr. 2014 -Mar.2015)	FY13 Actual (Apr. 2013 -Mar.2014)	FY14 Revised Target compared to FY13 Actual	
Total Revenues	123.0	122.0	114.3	+7.7	+6.8%
Operating Income	7.2	6.5	5.7	+0.8	+13.6%
Income before Income Tax Expense	7.0	6.5	6.3	+0.2	+3.6%
Net Income attributable to IJ	4.5	4.0	4.4	(0.4)	(10.0%)
Net Income attributable to IJ per Share	JPY 97.96	JPY 87.07	JPY 100.26	JPY(13.2)	(13.2%)
Cash Dividends per Share	JPY 22.00 (Annual)	JPY 22.00 (Annual)	JPY 22.00 (Annual)	-	-

Unit: JPY billion

- **1H14 financial results** fell short of our target mainly because operating costs increased from the beginning of this year along with the enhancement of business investment including an increase in personnel-related costs, and the recognition of one-time costs and expenses related to headquarter relocation.
- **1H14 NW service revenue** fell short of our target. While consumer MVNO revenue has been rapidly increasing, SNS game customers' Cloud revenue did not grow much, overseas DC service revenues also decreased, and projects becoming larger which tend to take longer to be recognized as revenue. Cost increased accordingly with our plan.
- **1H14 SI revenue** expanding along with project-scale becoming larger. Systems operation and maintenance revenue is accumulating as well. Gross margin was almost in line with our plan.
- Revised the full year financial target considering the gap between our target and 1H14 results, especially the weaker than expected accumulation of recurring service, whose impact could continue in 2H14.

## ※ 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.

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