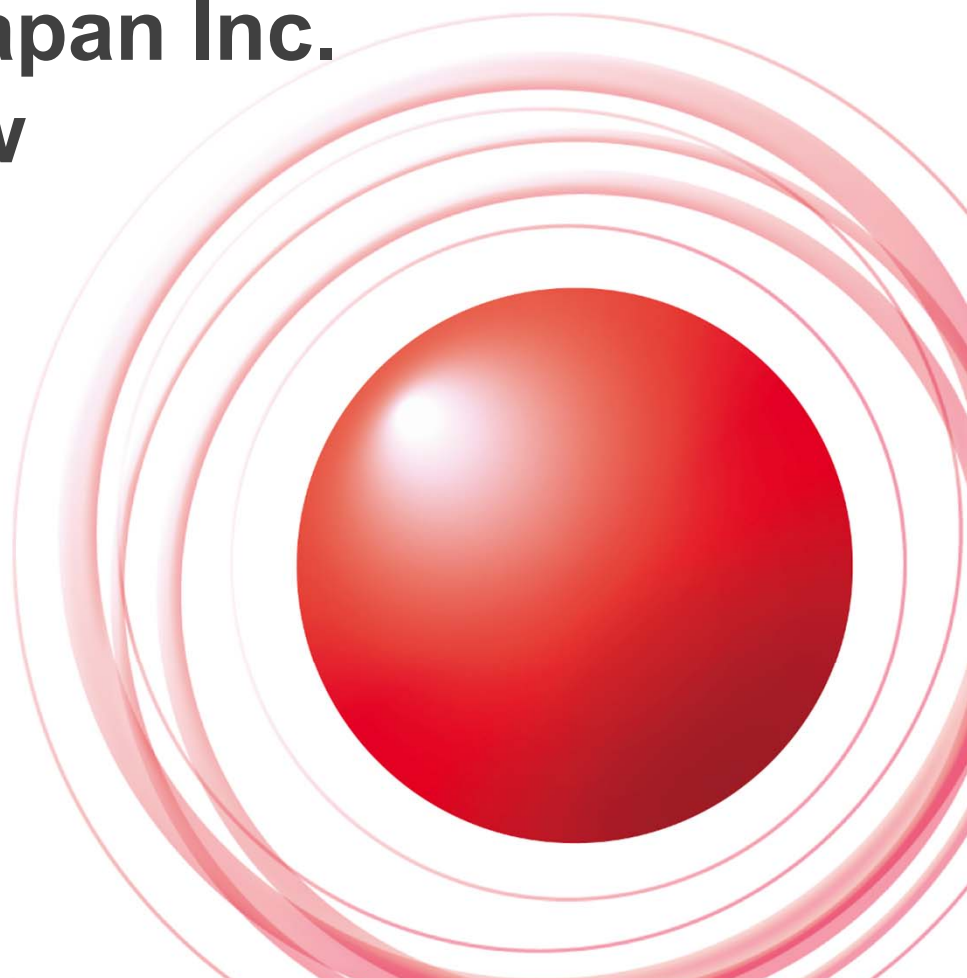




# Internet Initiative Japan Inc. Corporate Overview

February and March 2015  
TSE1:3774 NASDAQ:IIJI

Ongoing Innovation



## Key Investment Highlights

- ◆ **Pioneer and Top IP Engineering Company in Japan**
- ◆ **Shifted from ISP to Total Network Solution Provider**
- ◆ **Target Blue-chip & Governmental Organizations**
- ◆ **Over 8,500 Excellent Japanese Customers**
- ◆ **Growth Strategy with Recurring Revenues & Income Growth**

## Hot Topics

- ◆ **Best Positioned in the Growing Outsourcing & Cloud Computing Market**
- ◆ **MVNO Business Rapidly Growing by Capturing both Corporate and Consumer needs**

details to follow

# TOP IP Engineering Company in Japan

<b>Established</b>	<b>December 1992</b>
<b>Number of Employees</b> (as of Dec. 2014)	<b>Consolidated: 2,818</b> (approx. 70% engineers)
<b>Listed Markets</b>	<b>NASDAQ (IIJI), TSE1 (3774)</b>
<b>Large Shareholders</b> (as of Sep. 2014)	<b>NTT (21.6%), Koichi Suzuki (5.6%*), NTT Communications(4.4%)</b> *Jointly owned by Mr. Suzuki's wholly owned private company

## ◆ The first established full-scale ISP in Japan

- Introduced many prototype internet-related network services
- Highly skilled top level IP engineers
- Pioneer of network technologies in Japan
- Operates one of the largest Internet backbone networks in Japan
- Self-develop services and the related back office facilities

## ◆ Established “IIJ” brand among the Japanese IT market

- Known for its engineering & network operation skills
- High customer satisfaction & long term relationship
- Approx. 8,500 clients: mainly large enterprises & governmental organizations

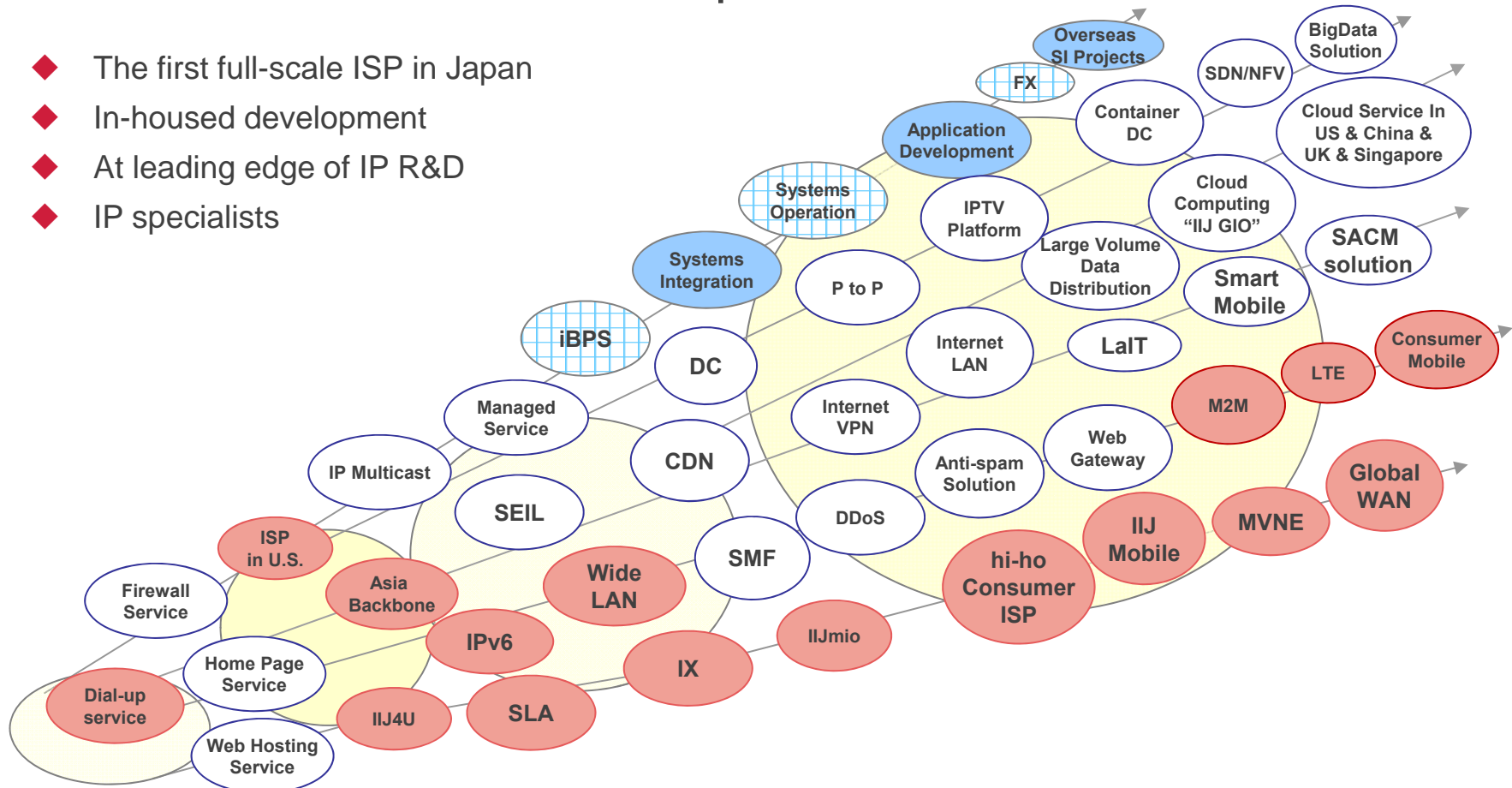
## ◆ At the leading edge of IP R&D

- Engaged in software development of SDN
- Founding member of JEAG
- Co-working with MIC\* \*MIC: Ministry of Internal Affairs and Communications
- Participation in world-wide research and organizations ...and many more

# Entrepreneur of Network Technologies

## Business and Service Development to Initiate the Market

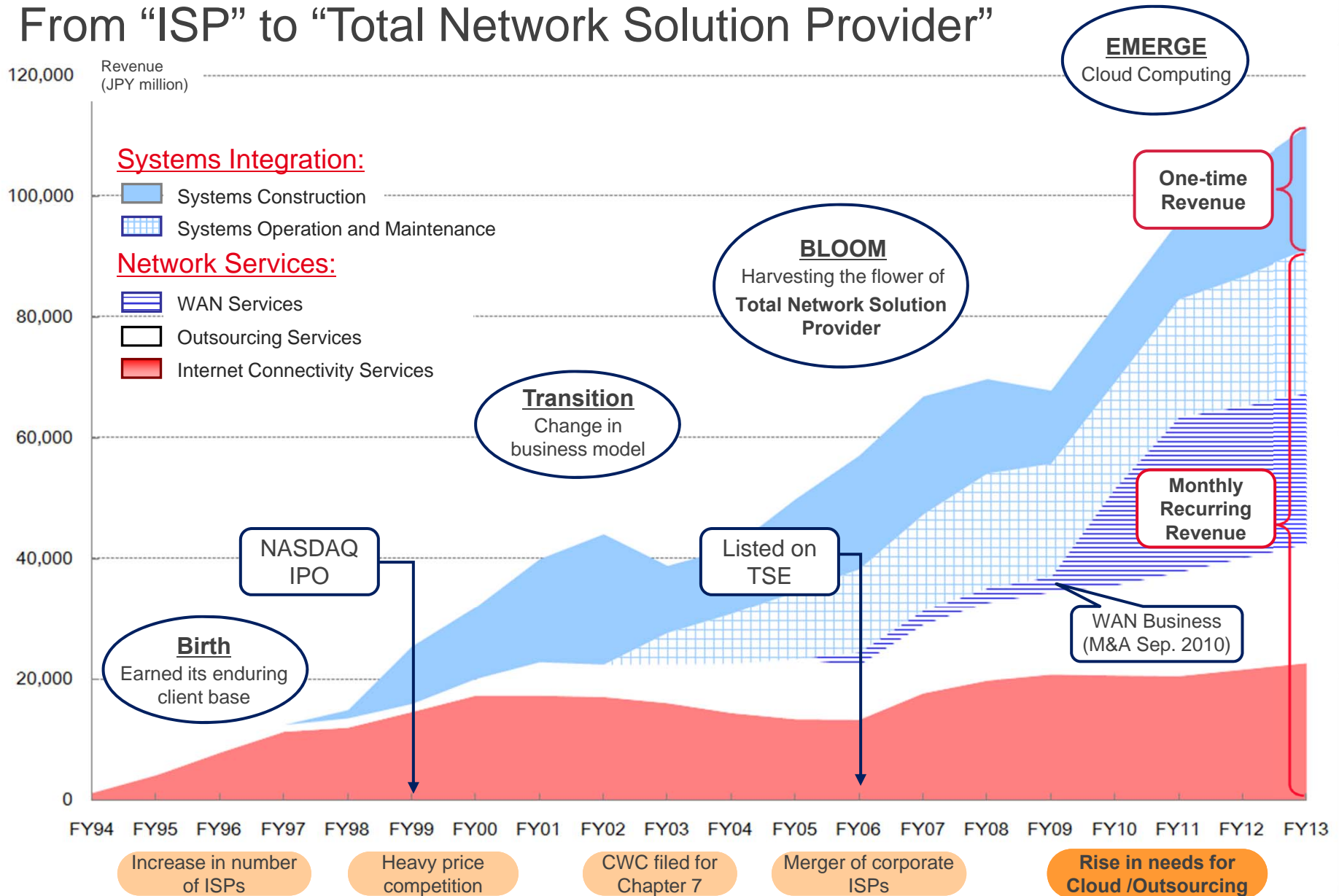
- ◆ The first full-scale ISP in Japan
- ◆ In-housed development
- ◆ At leading edge of IP R&D
- ◆ IP specialists



1992	1996	1997	1998	2006	2007	2008	2010	2012	2013	2014
<b>IIJ Group</b>										

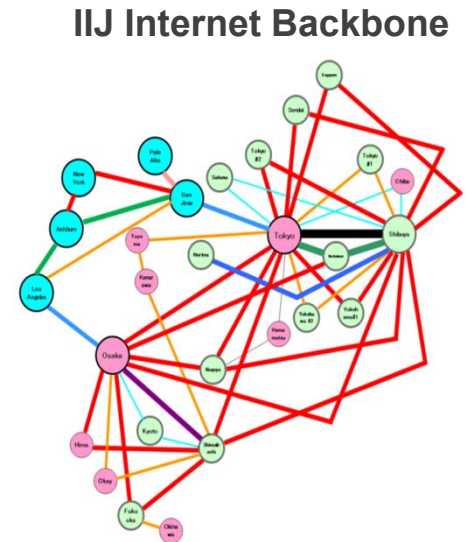
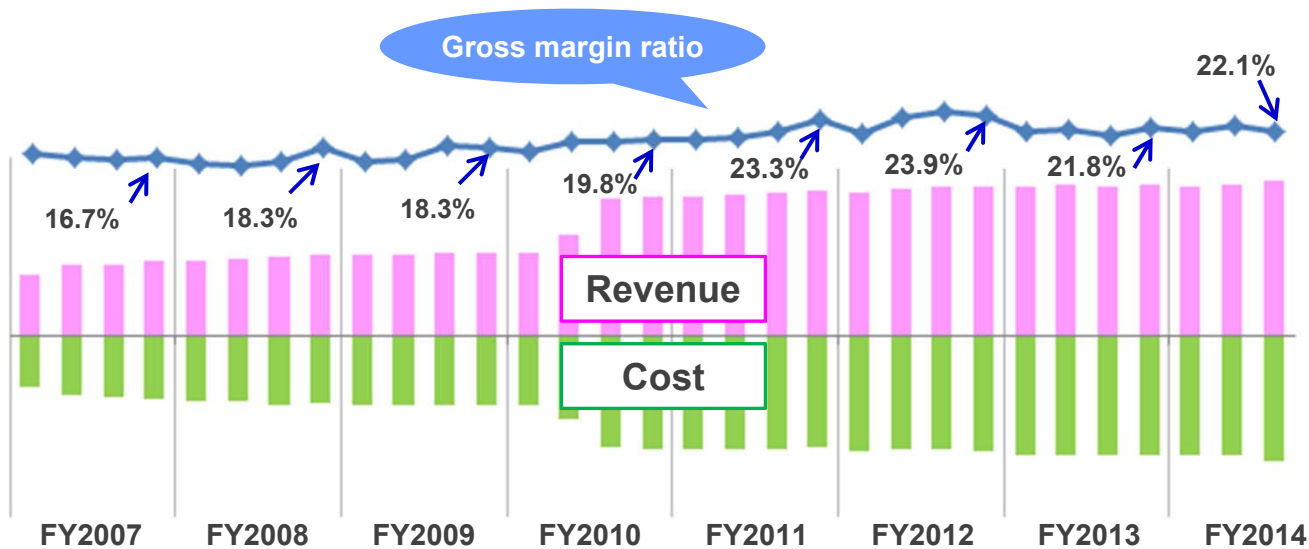
# Strategic Shift in Business Model

## From “ISP” to “Total Network Solution Provider”





# Business Structure of Network Services

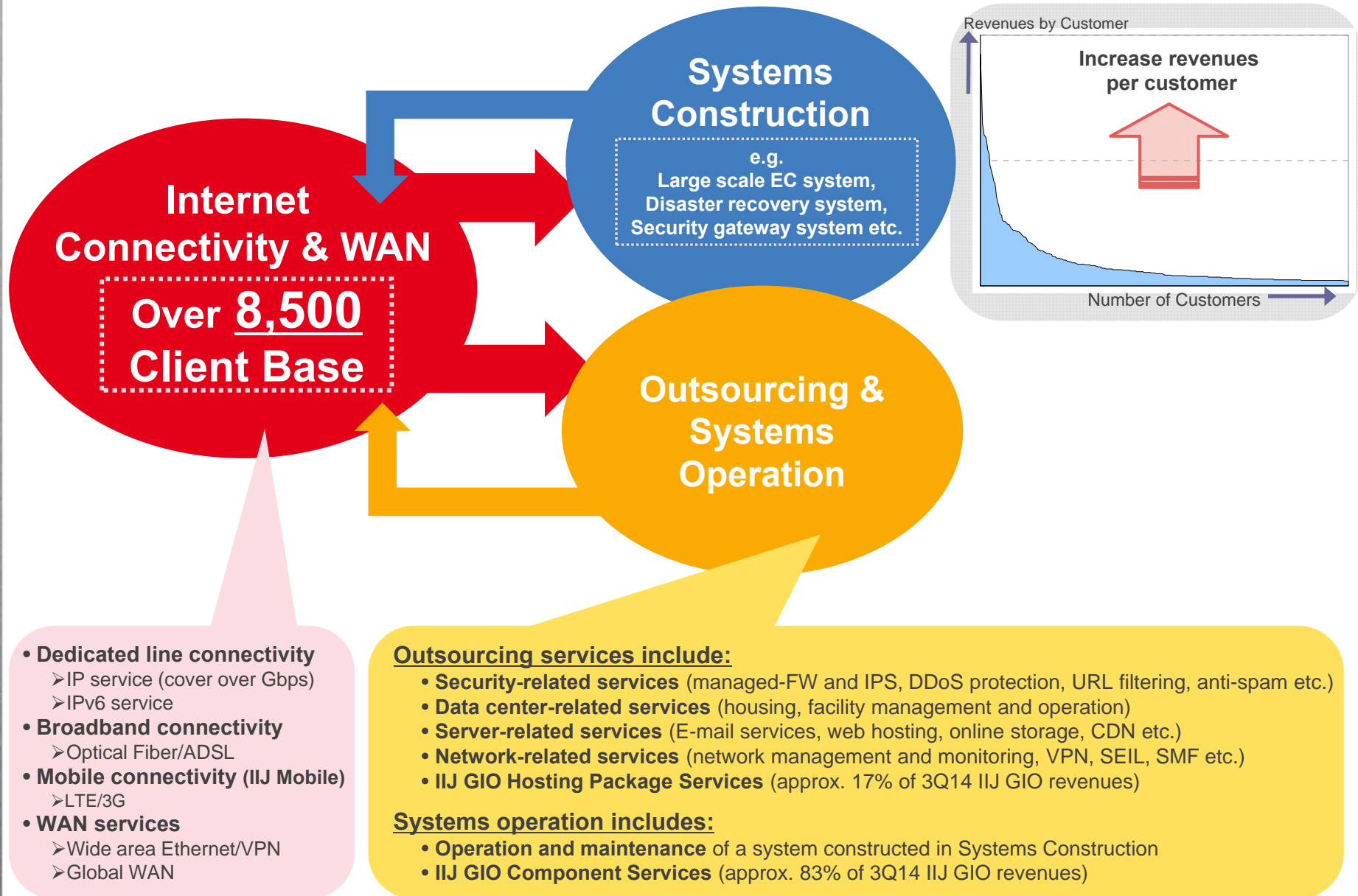


## Network services costs don't increase along with network services revenues

- If revenues are accumulated continuously, gross margin should continuously improve

<b>Revenues</b>	<ul style="list-style-type: none"> <li>• <b>Multiple cross-selling revenue sources*</b> provided from the Internet backbone</li> <li>• <b>Monthly recurring revenue</b>, contract periods are usually 1 year (contracts per network bandwidth)</li> <li>• <b>Blue-chip clients</b> with mission-critical business, network operator clients (Carriers, ISPs, CATVs, etc)</li> <li>• Tough competition ended, <b>only a few high-end ISPs survived</b></li> <li>• <b>Revenues increase along with bandwidth migration and accumulation of service orders</b></li> <li>• Enjoying scale merit along with increasing traffic</li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>• <b>Strong bargaining power</b> as one of the largest independent ISPs leasing fibers</li> <li>• Mainly related to circuit-borrowing, network equipment, DC-borrowing, operations, personnel &amp; outsourcing</li> <li>• While constantly expanding the network, costs barely increase</li> </ul>

# Business Model: Cross-selling of Network Solutions



- **Dedicated line connectivity**
  - IP service (cover over Gbps)
  - IPv6 service
- **Broadband connectivity**
  - Optical Fiber/ADSL
- **Mobile connectivity (IIJ Mobile)**
  - LTE/3G
- **WAN services**
  - Wide area Ethernet/VPN
  - Global WAN

**Outsourcing services include:**

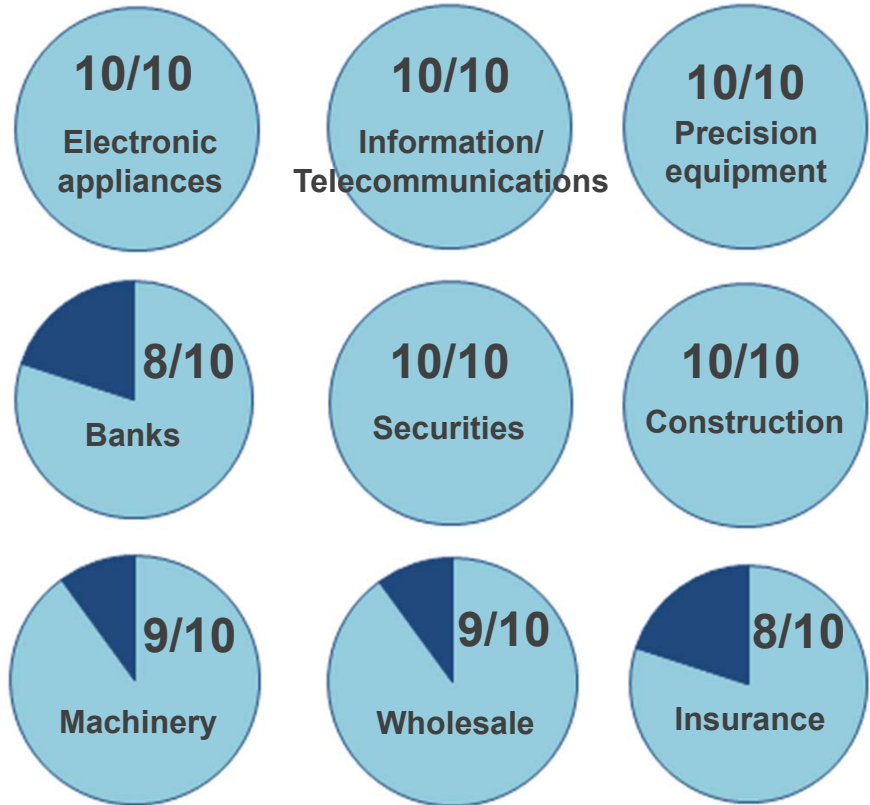
- **Security-related services** (managed-FW and IPS, DDoS protection, URL filtering, anti-spam etc.)
- **Data center-related services** (housing, facility management and operation)
- **Server-related services** (E-mail services, web hosting, online storage, CDN etc.)
- **Network-related services** (network management and monitoring, VPN, SEIL, SMF etc.)
- **IIJ GIO Hosting Package Services** (approx. 17% of 3Q14 IIJ GIO revenues)

**Systems operation includes:**

- **Operation and maintenance** of a system constructed in Systems Construction
- **IIJ GIO Component Services** (approx. 83% of 3Q14 IIJ GIO revenues)

# Excellent Blue-chip Client Base

High Market Penetration  
towards Top Tiers



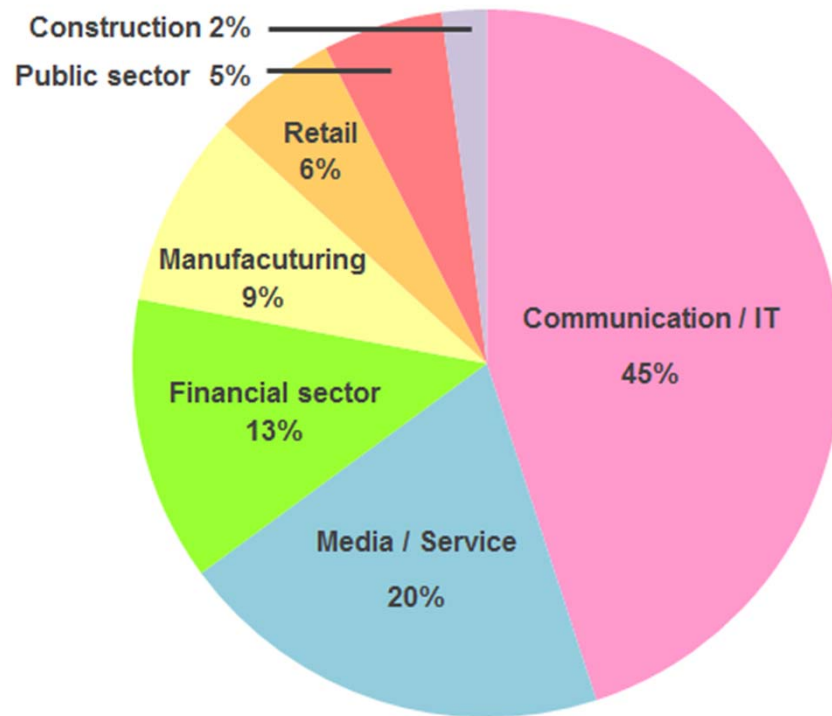
The number of clients among the top 10 companies in each industry.



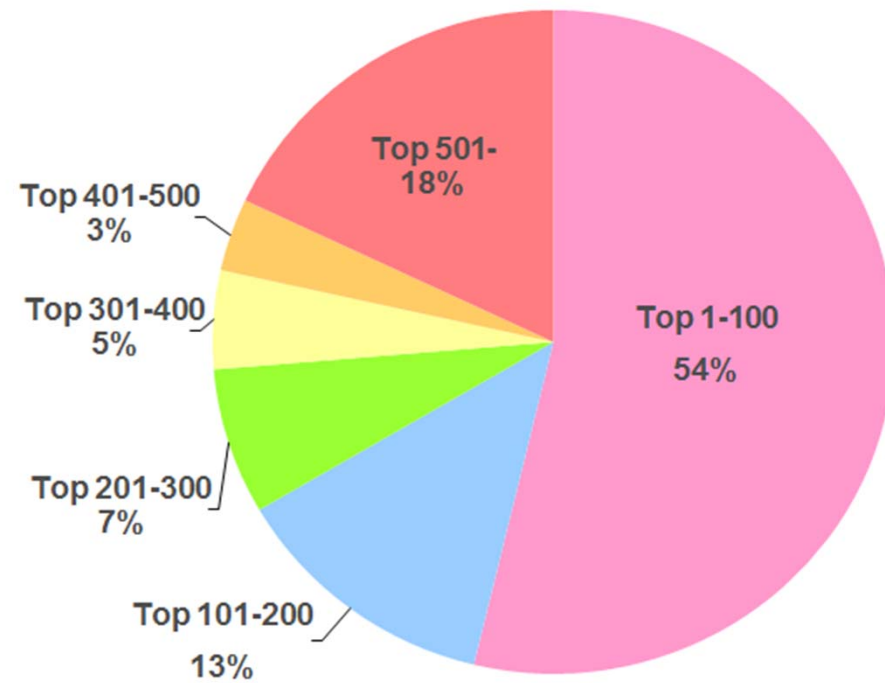
# Revenue Composition by Clients

- Largest customer's revenue is less than 3% of the total revenue
- Much room to increase revenue per customer

Revenue Distribution by Industry



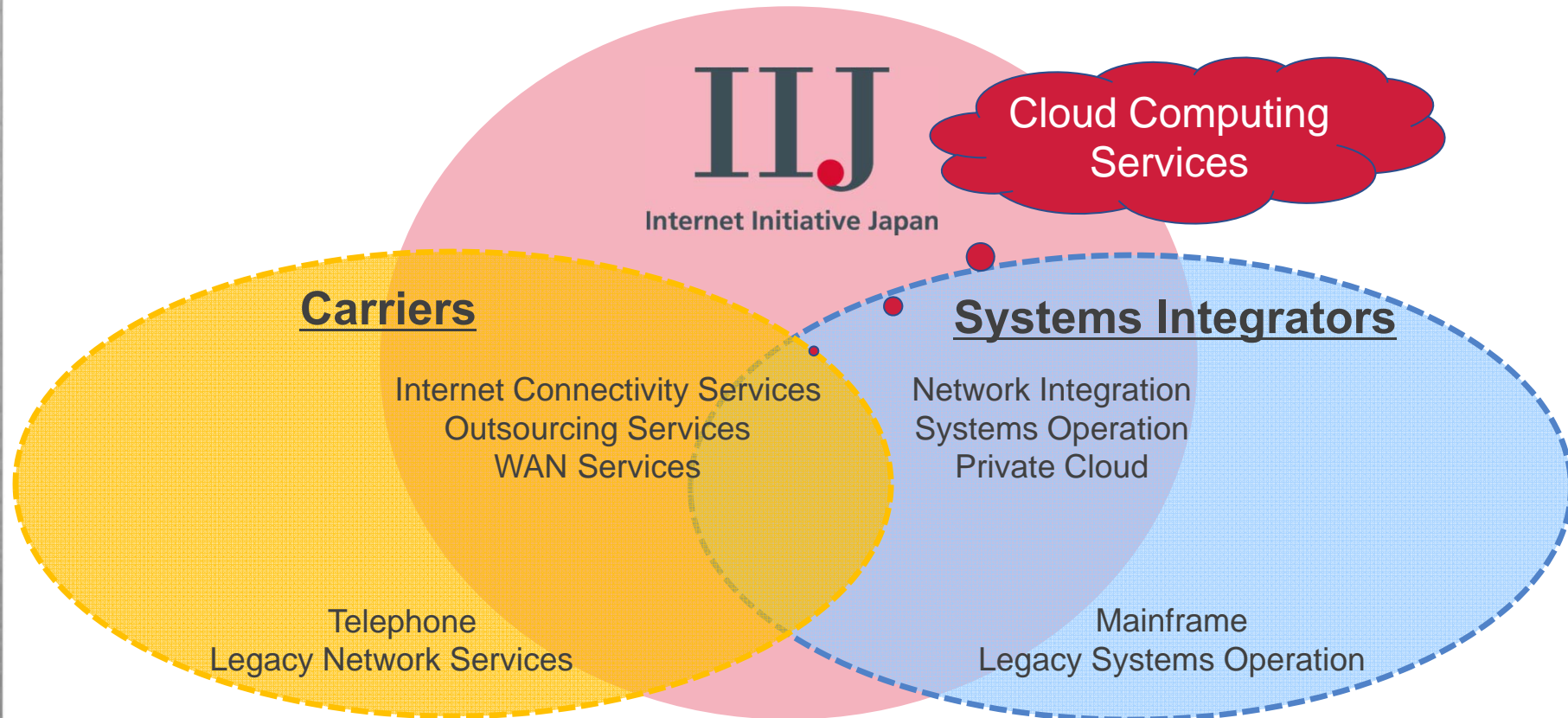
Revenue Distribution by Clients



Source: IIJ's FY2013 financial results

# Competitive Advantages

## IIJ can offer NW, Cloud, SI, and MVNO all at once



IIJ...  
has many **highly skilled network engineers**  
corresponds to the Internet market rapidly  
**focuses on enterprises**  
has **an established brand** among blue-chips  
has flat organization structure

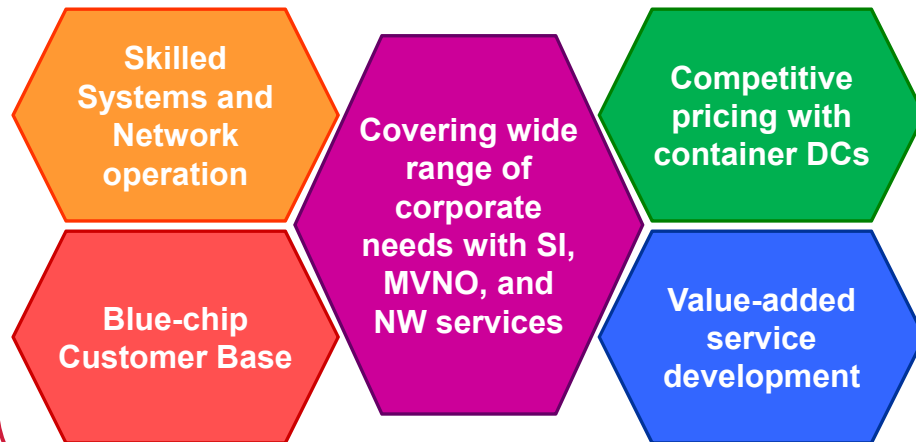
IIJ...  
operates its **own backbone network**  
develops network services in-housed  
targets new IT market, not legacy SI  
has long and rich experience in server operation  
has moderate number of employees

# Best Positioned in Cloud Market

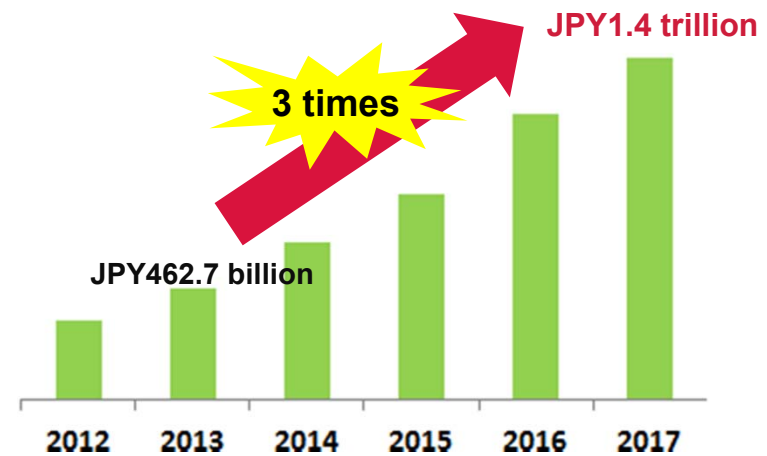
## Target Private Cloud market with **Public** Cloud infrastructure

<b>Service Features</b>	<ul style="list-style-type: none"> <li>➤ One of the <b>first Cloud providers</b> (2009)</li> <li>➤ Offer <b>public Cloud infrastructure</b>: forefront investment in servers, storages, datacenters etc.                             <ul style="list-style-type: none"> <li>✓ Cloud-related CAPEX: FY13 JPY3.7 billion</li> </ul> </li> <li>➤ <b>Promote Cloud shift of blue-chips by continuously expanding service lineups</b> <ul style="list-style-type: none"> <li>✓ Microsoft Azure, VMware Hypervisor, SAP Basic, IBM AS400, Oracle Database and many more</li> <li>✓ Aggressively investing in new service and solution development (BigData, M2M etc.)</li> </ul> </li> </ul>
<b>Growth Strategy</b>	<ul style="list-style-type: none"> <li>➤ <b>Target large business enterprises' internal IT systems</b>, which are traditionally covered by Slers</li> <li>➤ <b>Leverage blue-chip customer base</b>: IIJ GIO user: 1,260, IIJ group customer: 8,500</li> <li>➤ Chosen for reliable connectivity and skilled operation for network and system</li> <li>➤ Meeting growing corporate needs of <b>large-scale NW systems with SI, Cloud, MVNO and NW services</b></li> <li>➤ Some advanced integrated cloud usages among primitive and simple system purposes</li> </ul>

### IIJ GIO's Competitive Advantages



### Private Cloud Market Growth in Japan



Source: IDC Japan, Sep. 2014, Private Cloud Market

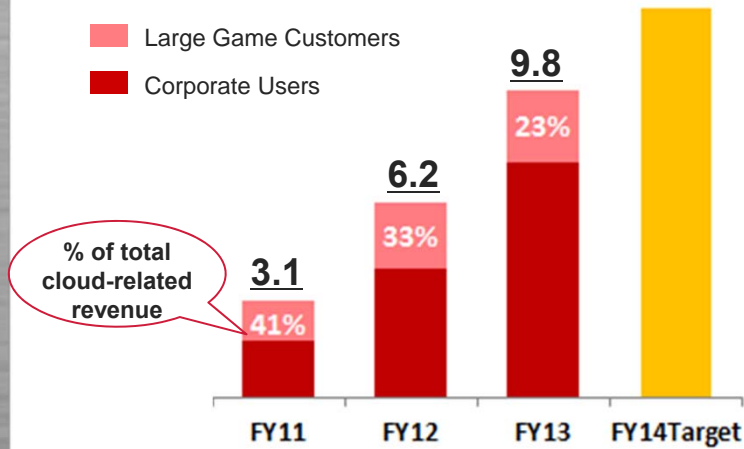
# Cloud Business Developments



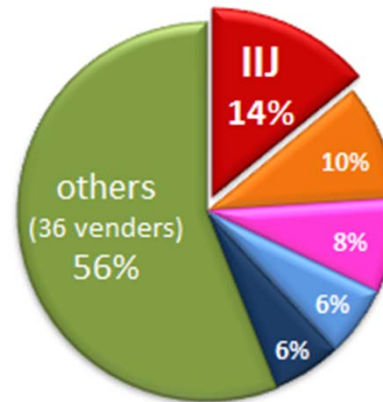
## Cloud-related Revenue

Reached break-even in 4Q13,  
Entered a profit making phase

- Large Game Customers
- Corporate Users



## Market Share



Japan's public cloud market by revenue  
Source: Fuji Chimera Report (Aug. 2013)

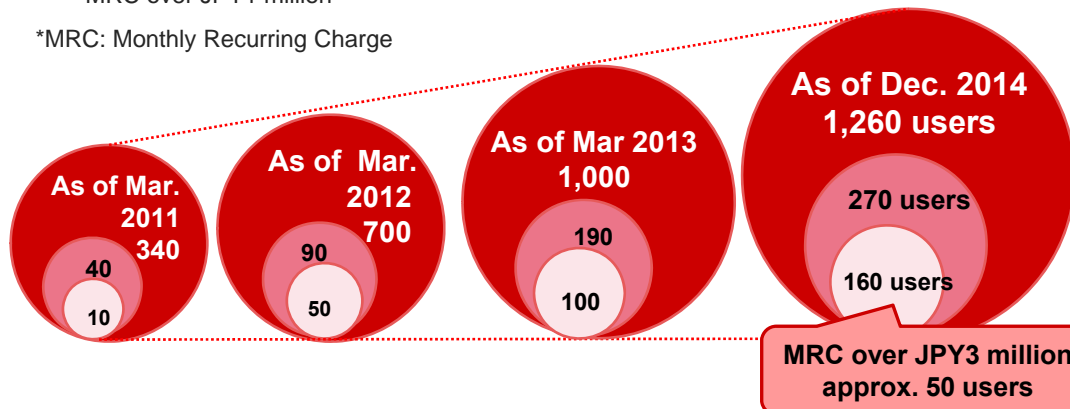
## Fastidious Users

- SBI Holdings
- TOMY COMPANY
- Nippon Life Insurance Company
- Tokyo Stock Exchange
- Ricoh Company
- NTT DOCOMO
- Nomura Securities
- Sompo Japan Nipponkoa
- DAIWA HOUSE
- SHIMIZU CORPORATION
- .... and many more

## Expansion of Customer Base

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

\*MRC: Monthly Recurring Charge



## Container Type Datacenter

- First in Japan to commercialize (2011)
- PUE\*1.2, applying outside air cooling system
- Located in western Japan, country side
- Doubled the capacity in Nov. 2013 (48 modules)



PUE: Power Usage Effectiveness  
a terminology created by Green Grid as a metric used to determine the energy efficiency for a datacenter



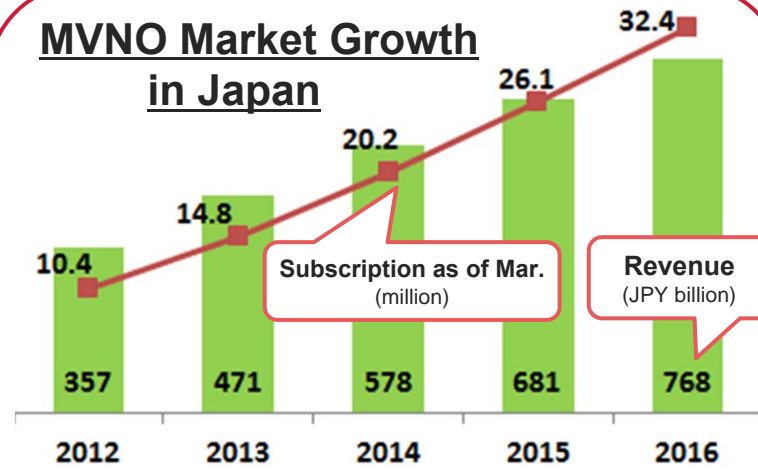
# MVNO Business

## Business Strategy

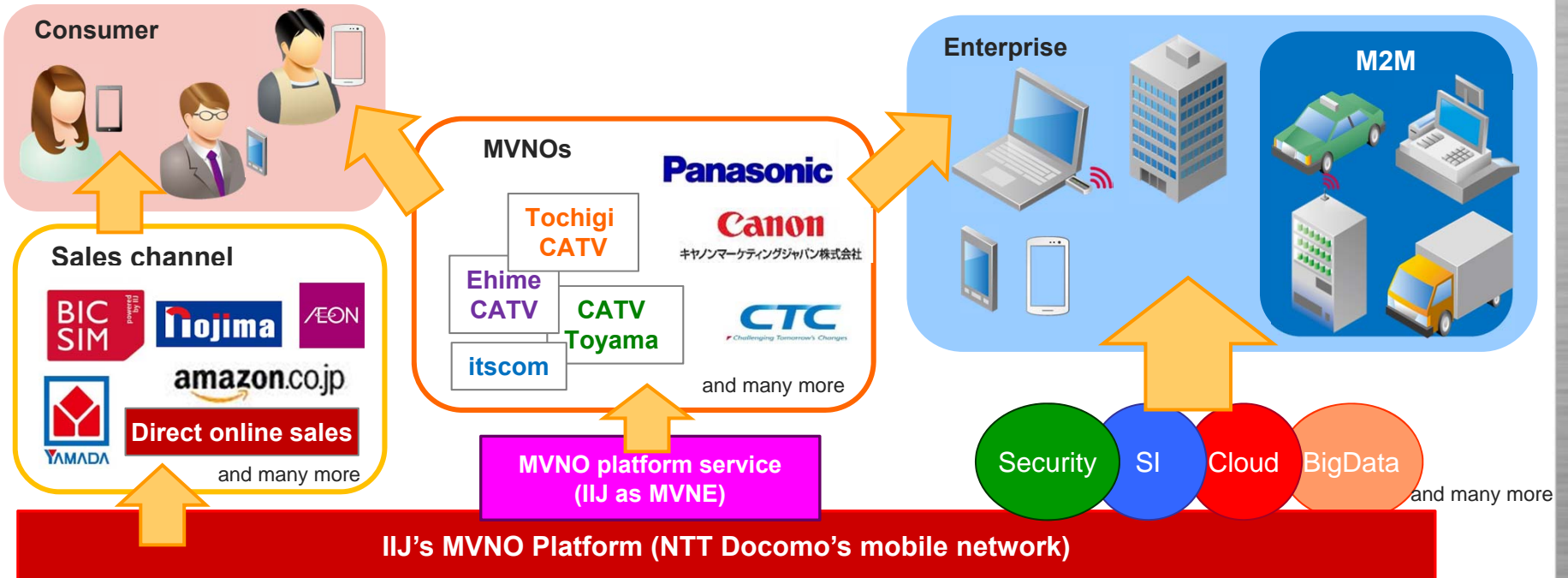
**Improve MVNO infrastructure efficiency with enterprise & consumer traffic**

- 1<sup>st</sup> MVNO to use NTT Docomo's network (2008)
- 1<sup>st</sup> MVNO to offer LTE connectivity (2012)
- **Best positioned to meet corporate MVNO demands**
  - 1) large-scale MVNO infrastructure (constructed in 2008)
  - 2) one of the largest internet backbone networks
  - 3) various network services
  - 4) offer MVNO, SI, and Cloud, NW all at once

## MVNO Market Growth in Japan

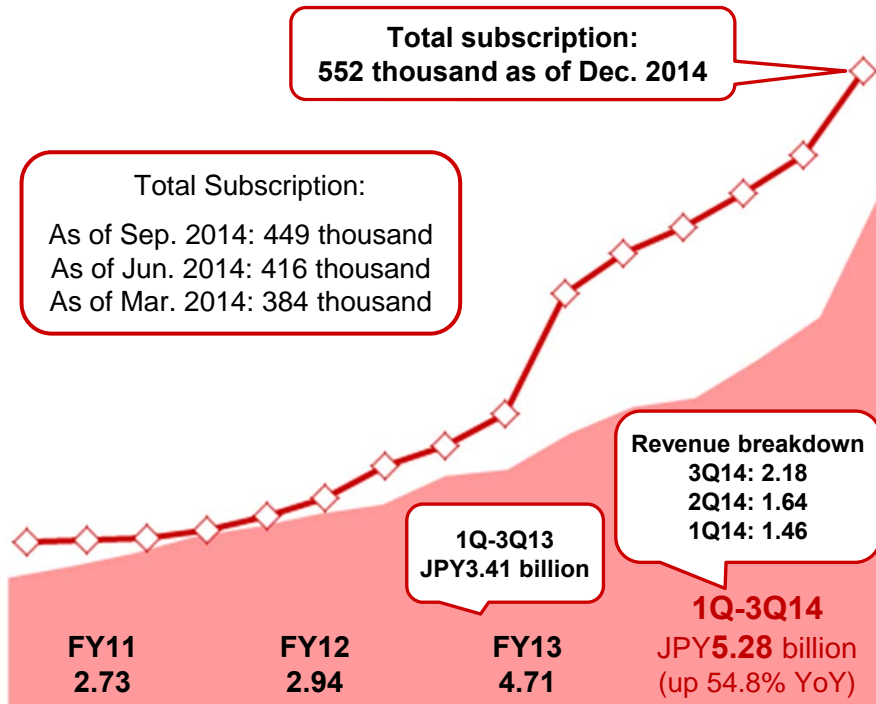


Source : MM Research (June 2014)  
Total of mobile phone (3G/LTE), BWA (WiMAX/AXGP) and PHS

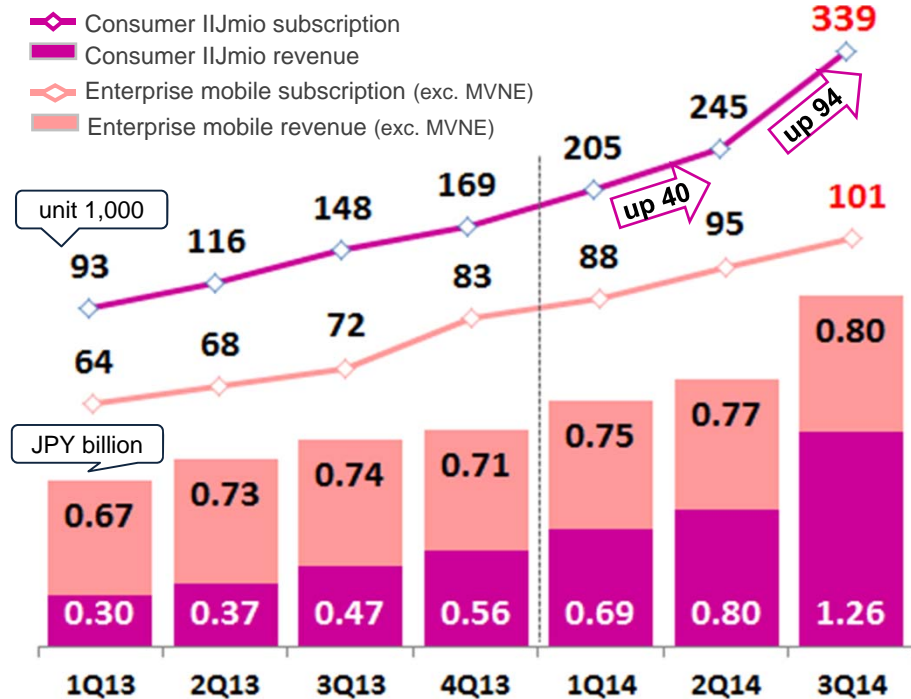


# MVNO Business Developments

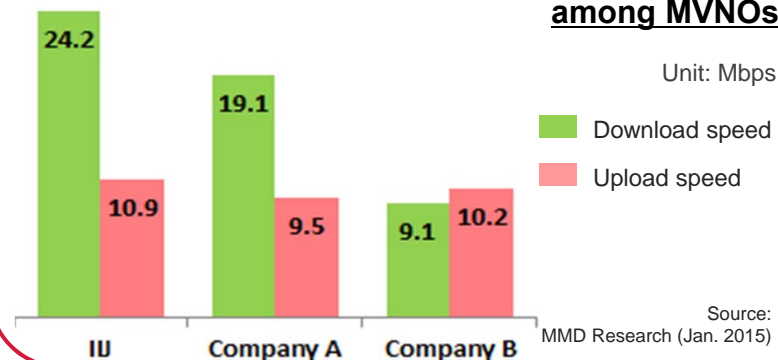
## Total Subscription & Revenue



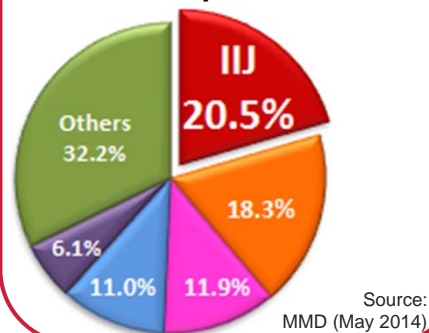
## IIJmio & IIJmobile Subscription & Revenue



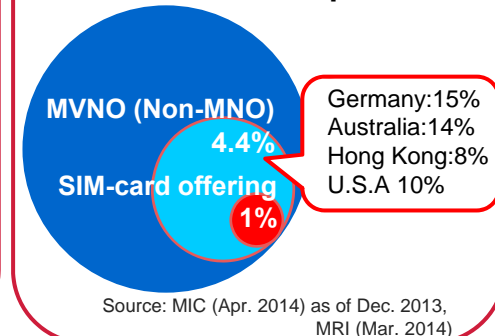
### Network Speed Comparison among MVNOs



### Consumer MVNO Subscription Share



### Japan's Mobile Market 160 mil subscription\*





# Overseas Business Developments

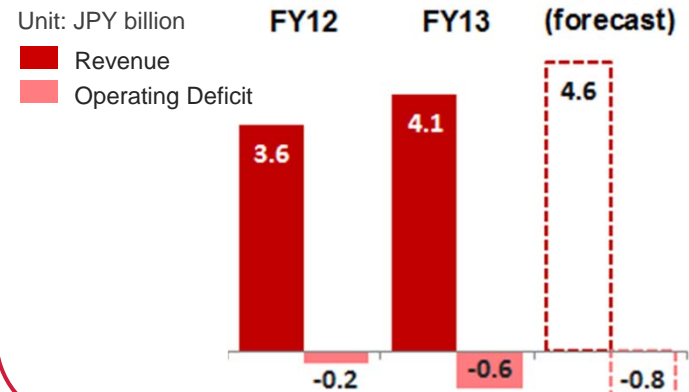
- ◆ Building stronger relationship with Japanese customers by cross-selling network, Cloud and SI to meet various IT needs of Japanese customers globally
- ◆ Seeking growth opportunity both inside and outside of Japan

FY12	<ul style="list-style-type: none"> <li>➢ Launched Cloud services in the U.S. and China (partnership with China Telecom)</li> <li>➢ Opened an office in Thailand, started focusing on Asian region</li> <li>➢ Japanese large SNS game customers aggressively expanded overseas market</li> </ul>
FY13	<ul style="list-style-type: none"> <li>➢ Launched Cloud services in the U.K.</li> <li>➢ Opened a datacenter in London, Extended Internet backbone to cover worldwide</li> <li>➢ Enhanced service lineups for Cloud services in the U.S.</li> <li>➢ Revenue accumulation from general customers while game customers' demand slowed down</li> </ul>
FY14	<ul style="list-style-type: none"> <li>➢ Export container type datacenters to Russia, Laos and more</li> <li>➢ Launched Cloud services in Singapore</li> <li>➢ Cloud business in Indonesia with a local carrier</li> <li>➢ Received order from a large contents delivery company</li> </ul>



## Financial Results

Unit: JPY billion



# ATM Operation Business Developments

Total number of ATMs & daily transaction per ATM

are the keys to the profit growth

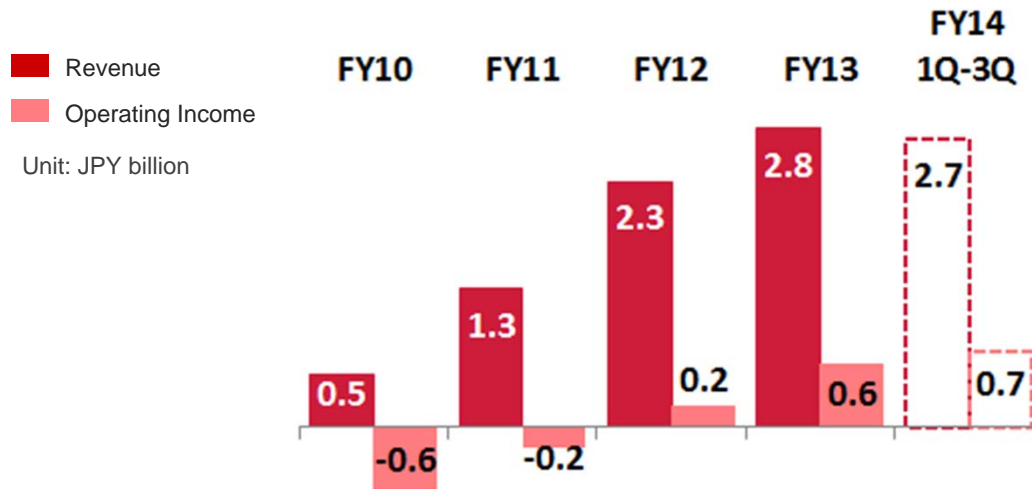
## ◆ Business Model

- Similar to “Seven Bank” model, high profitability
  - Seven Bank: 18,142 ATMs, revenue JPY106.0 billion, profit ratio 34.0% as of March 31, 2014
- Placing ATMs in Pachinko parlors in Japan **with dominant position**
  - After long discussion, started to place in Kanto, Kansai, Kyushu and Tokai areas
- Receive commission for each withdrawal transaction
- Strong revenue & income driver in mid-term
  - Approx.11,900 Pachinko parlors in Japan as of Dec. 2013 (Metropolitan Police Dept.)

< Trust Networks Inc. >

- 79.5% subsidiary
- Established in July 2007
- Pursue ATM operation business

## ◆ Revenue and Income growth



Number of placed ATMs*	280	440	625	855	1,048
------------------------	-----	-----	-----	-----	-------

\*Number of placed ATMs are as of May each year except for FY14 which is the number as of Feb. 2015

# IIJ Group – The Way Forward

## Environment

### Japanese enterprise systems at a turning point

- National ID system, mainstream adoption of cloud services, outsourcing of corporate IT systems, increasing interest of incorporating MVNO infrastructure etc.
- Systems becoming larger and requiring Cloud, MVNO, and network services all at once
- Data traffic explosion: pervasive usage of smart phones, portable devices etc.

## IIJ Position

### IIJ is best positioned to capture the growing demand with the combination of NW services, SI expertise, MVNO infrastructure - strong competitive advantage -

- Expertise in operating large Internet backbone network
- Blue-chip customer base of over 8,500 entities
- Long history of developing various network services
- A number of highly skilled engineers
- Continuously taking initiatives in network technology field

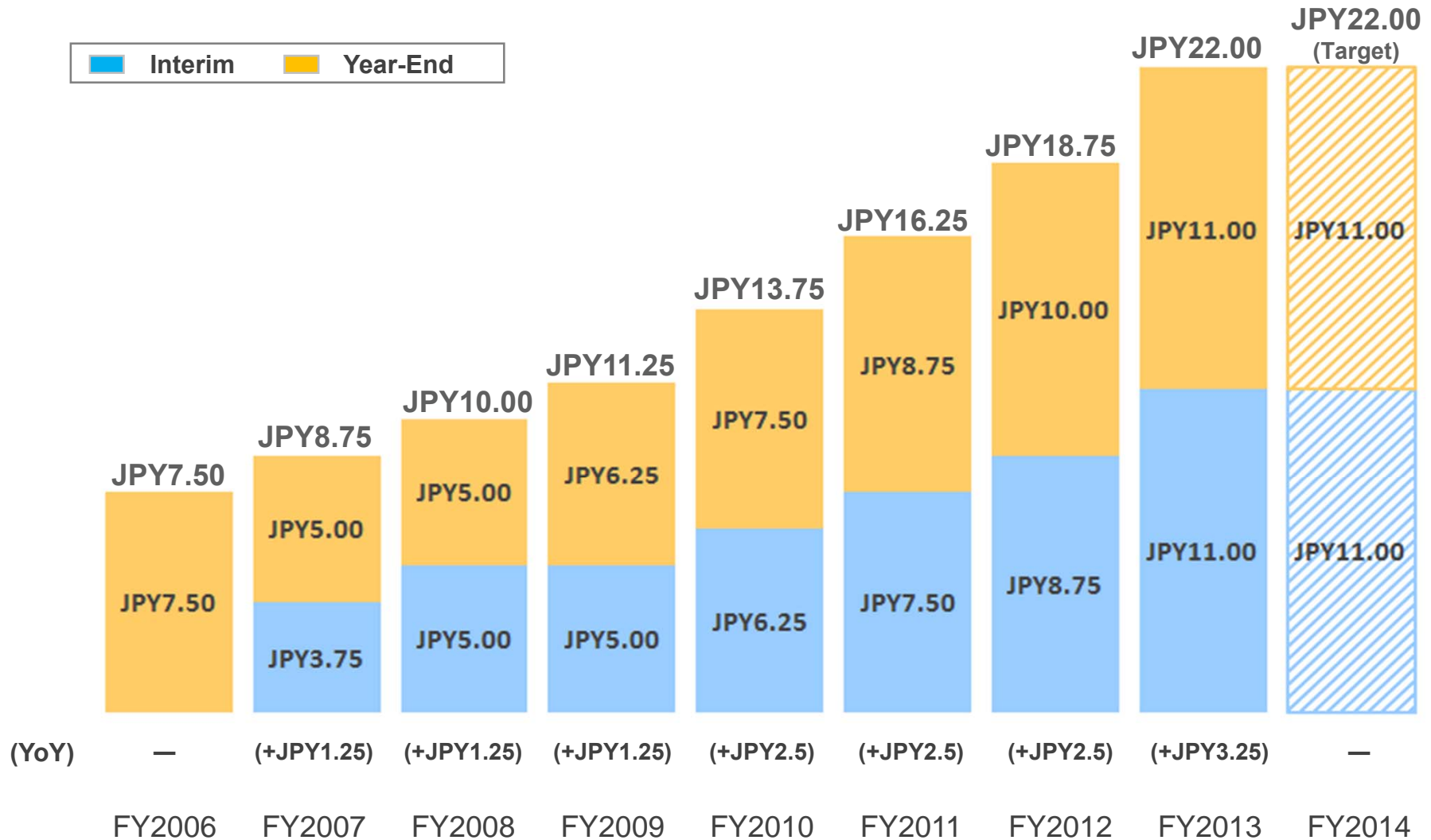
## Action

### Aggressive business investment actions to leap into the next phase of growth

- Stronger management structure: CEO Suzuki & COO Katsu
- Enhancement of human resources: number of employees increased by approx. 10%
- Further focus on service & solution development (Cloud, mobile, BigData etc.)
- Overseas business expansion:
  - Building stronger relationship with Japanese customers
  - Seeking growth opportunities outside of Japan
- Continuous service facility investment (Doubled container type DC capacity)

# FY2014 Dividend Forecast

IIJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. Dividend figures shown below are retroactively adjusted to reflect the stock split.



# Consolidated Financial Results for 1Q-3Q FY2014

Unit: JPY billion

	% of Revenues		YoY Change in %	% of Revenues	
	1Q-3Q14 (Apr. 2014 -Dec. 2014)	1Q-3Q13 (Apr. 2013 -Dec. 2013)		FY14 Target (Apr. 2014 -Mar. 2015)	
Total Revenues	87.8	82.7	+6.2%	122.0	
Total Cost of Revenues	81.3% 71.4	81.2% 67.2	+6.2%	—	
Gross Margin	18.7% 16.4	18.8% 15.5	+6.0%	—	
SG&A/R&D	14.4% 12.7	13.7% 11.3	+12.0%	—	
Operating Income	4.3% 3.8	5.1% 4.2	(10.1%)	5.3% 6.5	
Income before Income Tax Expense	4.4% 3.9	5.6% 4.6	(15.9%)	5.3% 6.5	
Net Income attributable to IJ	2.6% 2.3	3.5% 2.9	(20.9%)	3.3% 4.0	

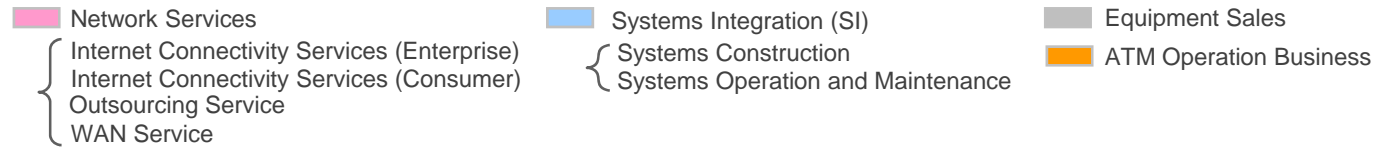
**Consolidated Financial Results for 1Q-3Q FY2014  
Announced on February 10, 2015**



Internet Initiative Japan



## II - 2. Revenues



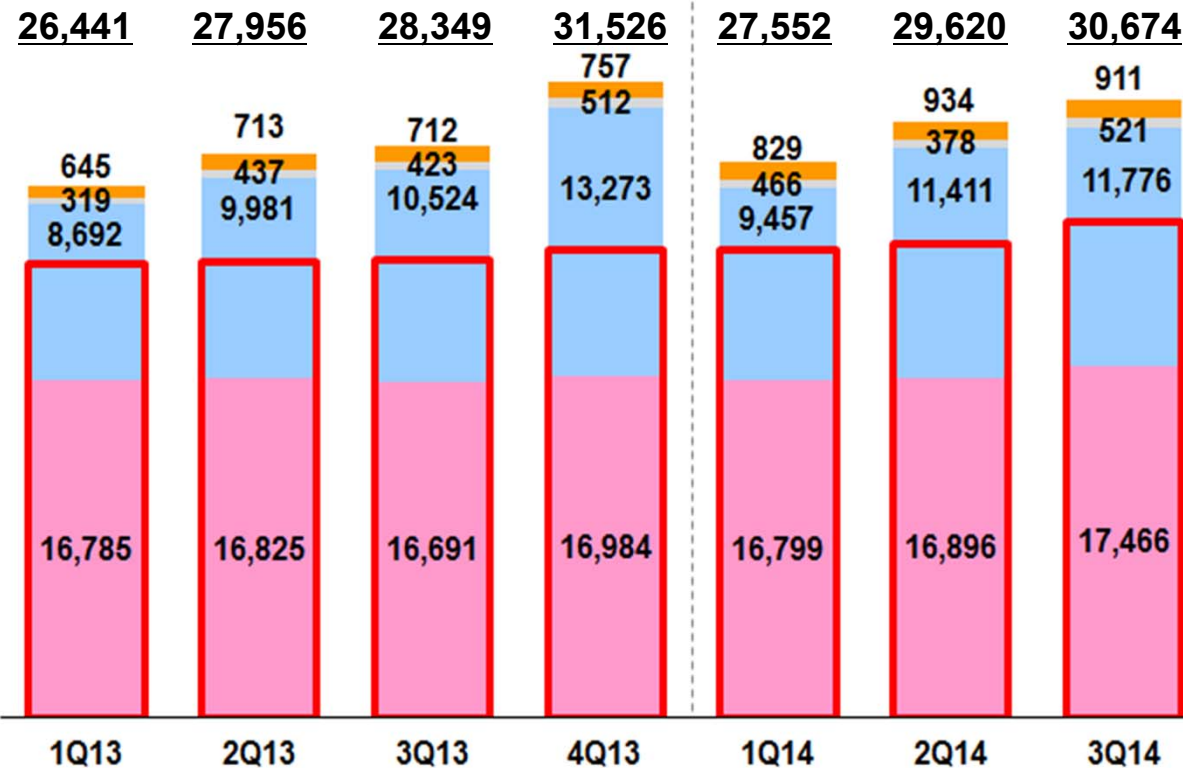
Unit: JPY million

YoY = 1Q-3Q FY14 compared to 1Q-3Q FY13

**1Q-3Q FY13: 82,746**

**1Q-3Q FY14: 87,846**

FY13: 114,272



**One-time Revenue \***

(15.8% of 1Q-3Q14 revenue)

1Q-3Q14: JPY13,859 million (up 8.2% YoY)

3Q14: JPY5,146 million (up 4.9% YoY)

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

**Recurring Revenue\***

(81.2% of 1Q-3Q14 revenue)

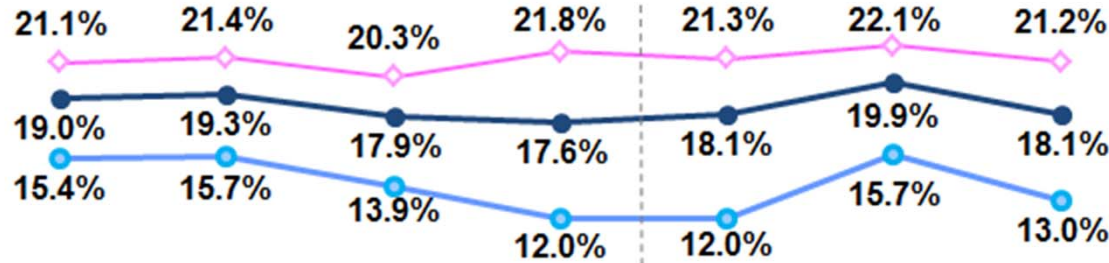
1Q-3Q14: JPY71,312 million (up 5.1% YoY)

3Q14: JPY24,617 million (up 8.3% YoY)

- \* Represents the following monthly recurring revenues
1. Internet Connectivity Services (Enterprise)
  2. Internet Connectivity Services (Consumer)
  3. Outsourcing Services
  4. WAN Services
  5. 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 (Dark Blue Circle)



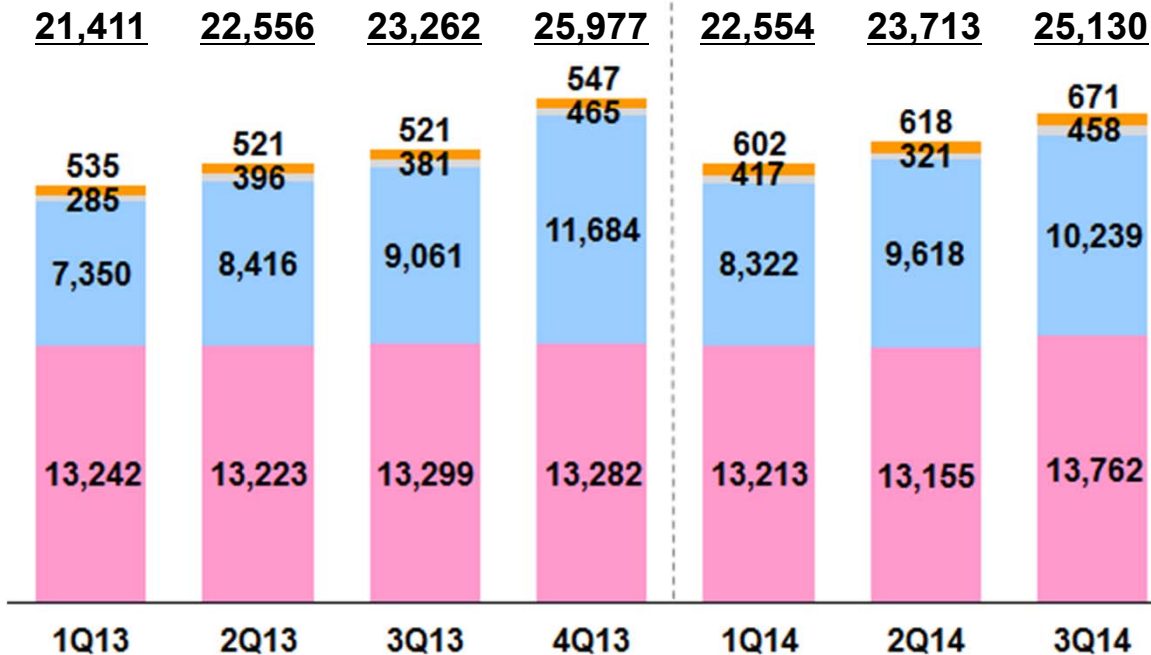
Unit: JPY million

YoY = 1Q-3Q FY14 compared to 1Q-3Q FY13

1Q-3Q FY13: 67,229

1Q-3Q FY14: 71,398

FY13: 93,206



### 1Q-3Q14 Gross Margin

#### ◆ Total Gross Margin:

- JPY16,448 million (up JPY930 million, up 6.0% YoY)
- Gross margin ratio: 18.7% (down 0.1 points YoY)

#### ◆ Network Service Gross Margin

- JPY11,031 million (up JPY493 million, up 4.7% YoY)
- Gross margin ratio: 21.6% (up 0.6 points YoY)

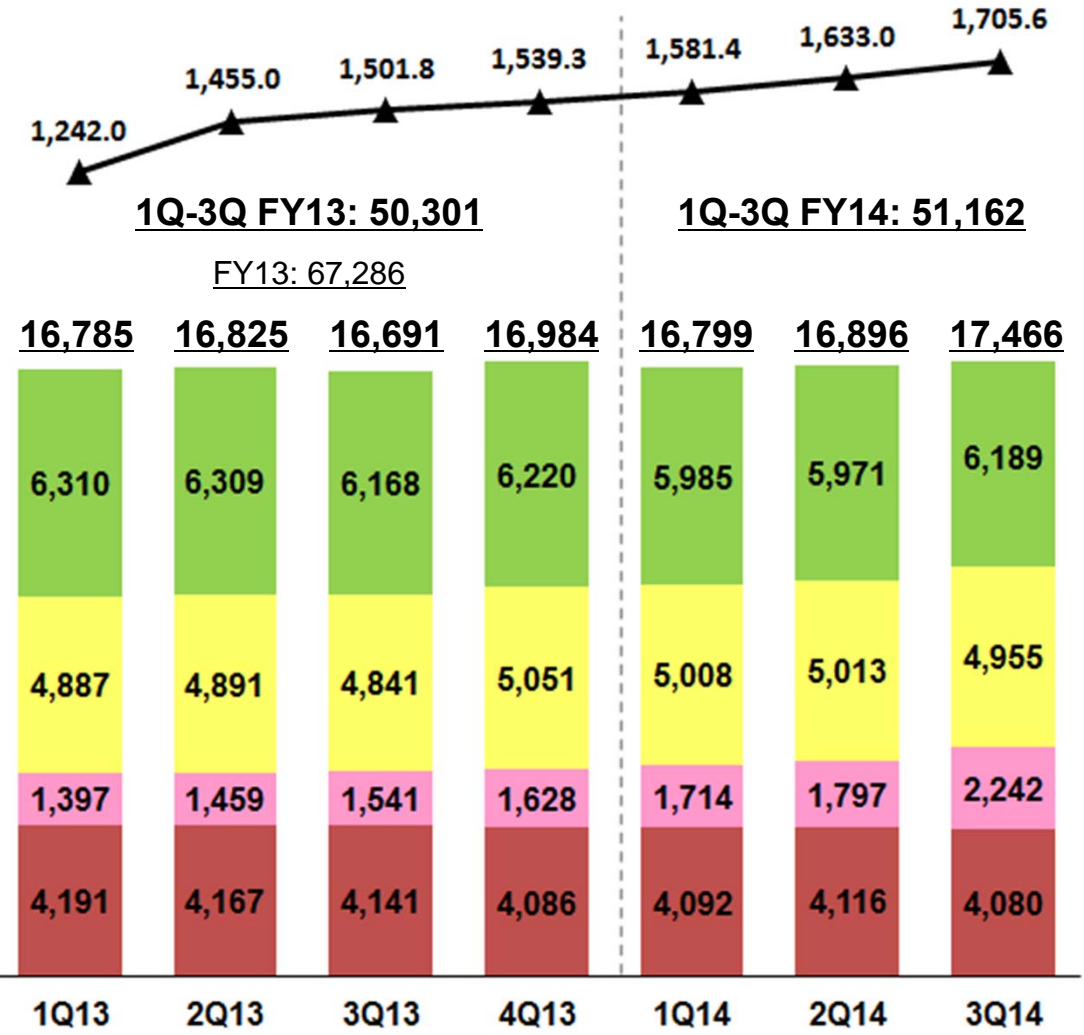
#### ◆ SI Gross Margin:

- JPY4,465 million (up JPY94 million, up 2.2% YoY)
- Gross margin ratio: 13.7% (down 1.3 points YoY)

# II - 4. Network Services (1)Revenues



Unit: JPY million  
 YoY = 1Q-3Q FY14 compared to 1Q-3Q FY13  
 QoQ = 3Q14 compared to 2Q14



- ◆ **Internet Connectivity (Enterprise)**
  - 1Q-3Q14: down JPY211 million, down 1.7% YoY
  - 3Q14: down JPY61 million, down 1.5% YoY
    - Mobile service revenue continued to increase
    - Over 1Gbps contracts:
      - ✓ As of 3Q14-end: 330 contracts
      - ✓ As of 3Q13-end: 263 contracts
- ◆ **Internet Connectivity (Consumer)**
  - 1Q-3Q14: up JPY1,356 million, up 30.8% YoY
  - 3Q14: up JPY701 million, up 45.5% YoY
    - IJmio mobile service continued to accumulate
      - ✓ Subscription (approx.):
        - 3Q14-end: 339 thousand, up 94 thousand QoQ
        - 2Q14-end: 245 thousand, up 40 thousand QoQ
      - ✓ Revenue (approx.):
        - 1Q-3Q14: JPY2.75 billion, up 1.6 billion YoY
        - 3Q14: JPY1.26 billion, up 0.46 billion YoY
- ◆ **Outsourcing Services**
  - 1Q-3Q14: up JPY356 million, up 2.4% YoY
  - 3Q14: up JPY114 million, up 2.3% YoY
    - IJ/GIO Hosting Service is growing but slower YoY due to decline in demand from game customer
    - Revenue decreased from 2Q14 due to termination of large-scale overseas datacenter contract
- ◆ **WAN Services**
  - 1Q-3Q14: down JPY641 million, down 3.4% YoY
  - 3Q14: up JPY21 million, up 0.3% YoY

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

Unit: JPY million

YoY = 1Q-3Q FY14 compared to 1Q-3Q FY13

**1Q-3Q FY13: 39,764 (20.9%)**

**1Q-3Q FY14: 40,131 (21.6%)**

FY13: 53,046 (21.2%)

**13,242**  
**(21.1%)**

**13,223**  
**(21.4%)**

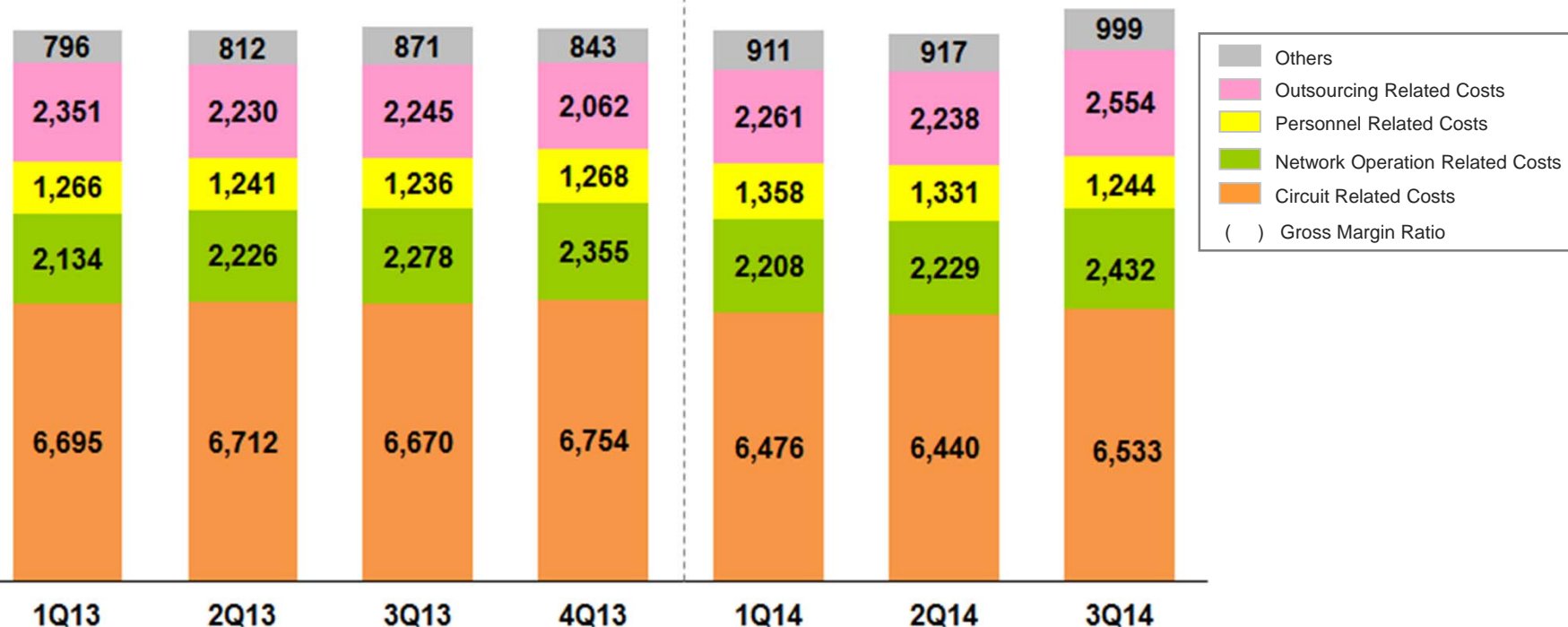
**13,299**  
**(20.3%)**

**13,282**  
**(21.8%)**

**13,213**  
**(21.3%)**

**13,155**  
**(22.1%)**

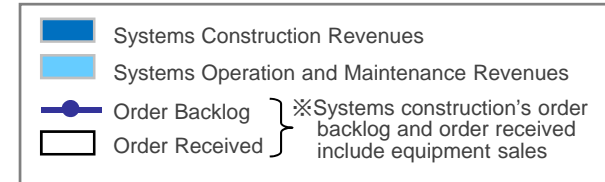
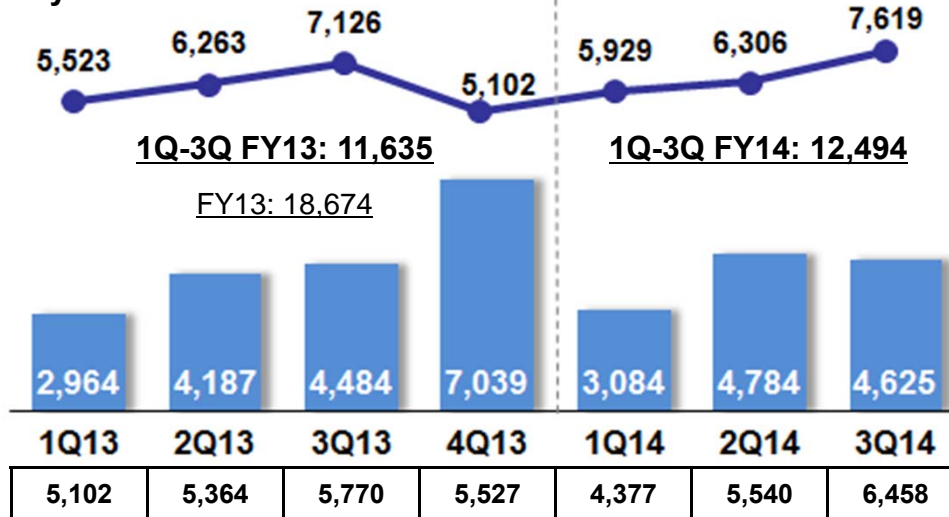
**13,762**  
**(21.2%)**



- ◆ 1Q-3Q14 Cost of Network Services: up JPY367 million, up 0.9% YoY
  - 3Q14 outsourcing costs increased from 2Q14 along with the increase in mobile subscription and traffic volume (MVNO interconnectivity cost is recognized in outsourcing related costs)

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

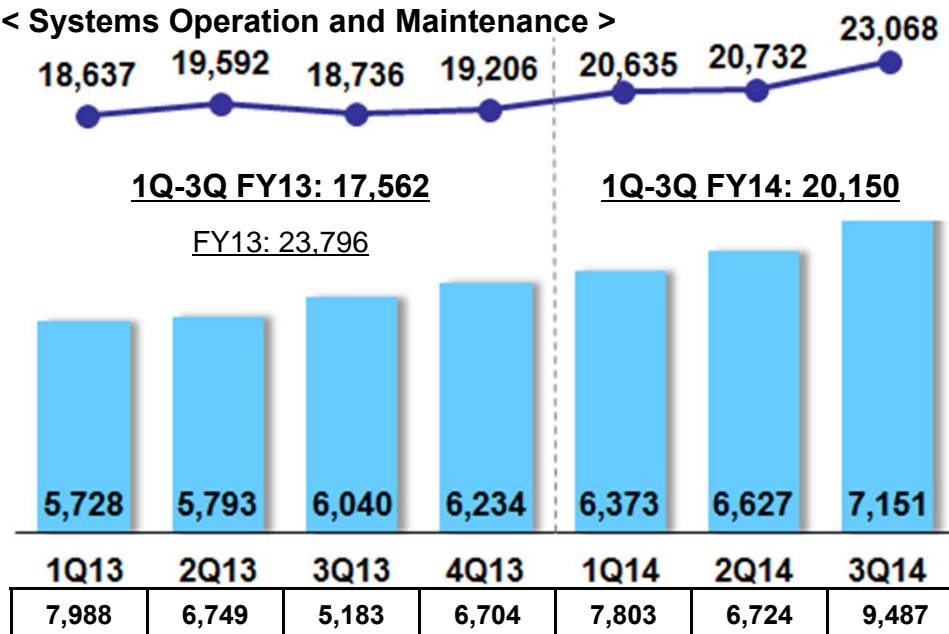
### < Systems Construction >



### Systems construction revenues

- ◆ 1Q-3Q14 revenue: up JPY859 million, up 7.4% YoY
- ◆ 3Q14 revenue: up JPY141 million, up 3.1% YoY
- ◆ 3Q14-end order backlog: up 6.9% YoY
- Continue to accumulate projects with over JPY10 million
- Examples of large-scale projects received in 3Q14:
  - Upgrading network security systems for a media company
  - Constructing large-scale ticketing system
  - Renewing a large-scale web system for an online retailer etc.

### < Systems Operation and Maintenance >



### Systems operation and maintenance revenue

- ◆ 1Q-3Q14 revenue: up JPY2,589 million, up 14.7% YoY
- ◆ 3Q14 revenue: up JPY1,111 million, up 18.4% YoY
- Added RYUKOSHA's one-month revenue (JPY113 million)
- 83% of 3Q14 total cloud revenue is recognized in systems operation and maintenance revenues (17% in outsourcing)
- Cloud revenue continuously increasing. Revenues from system construction projects which migrated to operation and maintenance phase strongly increased
- ◆ 3Q14-end order backlog: up 23.1%



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

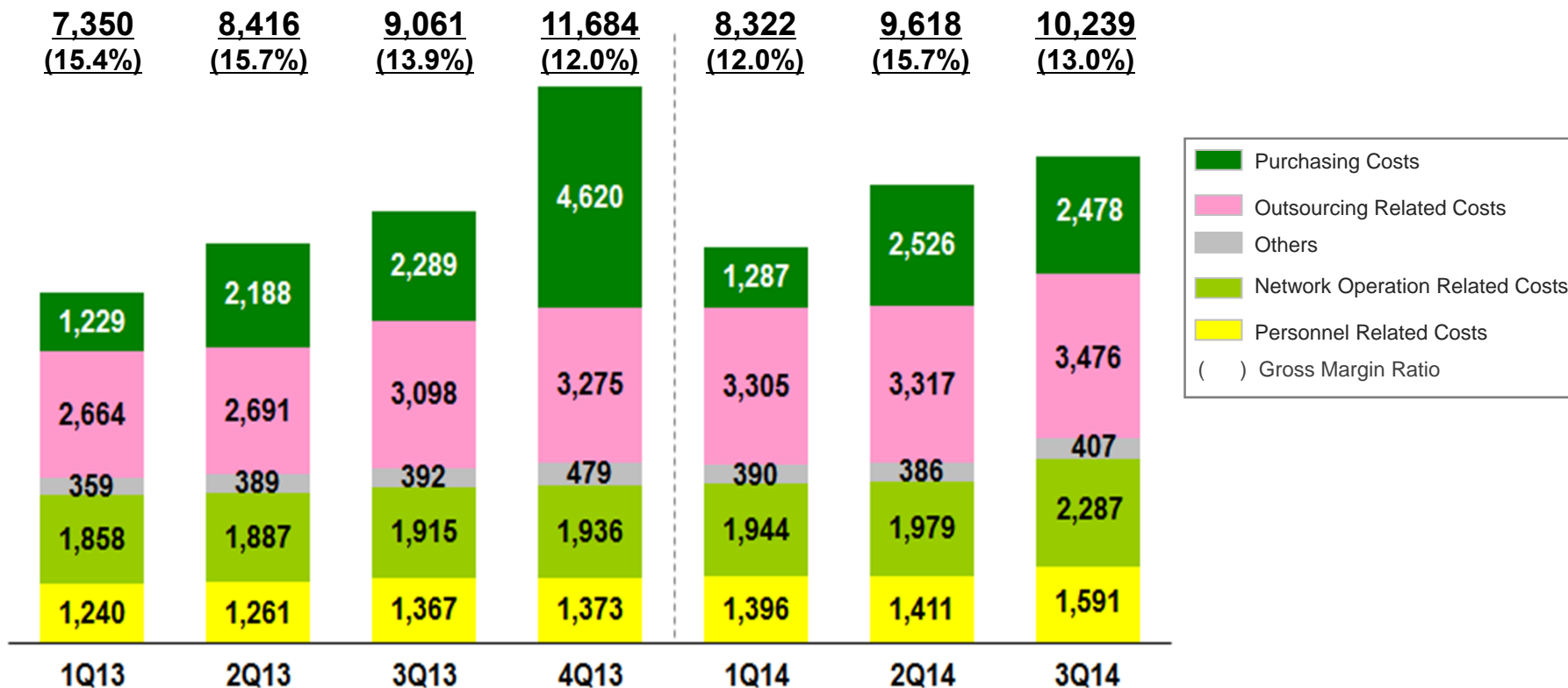
1Q-3Q FY13: 24,826 (15.0%)

1Q-3Q FY14: 28,179 (13.7%)

Unit: JPY million

FY13: 36,510 (14.0%)

YoY = 1Q-3Q FY14 compared to 1Q-3Q FY13  
QoQ = 3Q14 compared to 2Q14



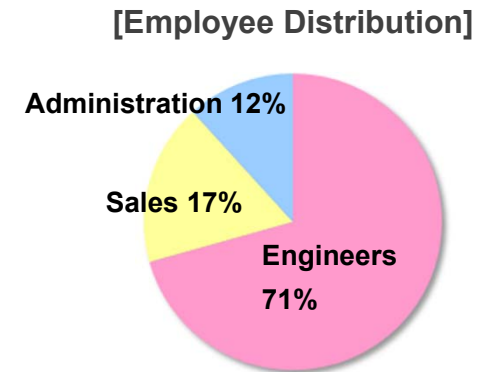
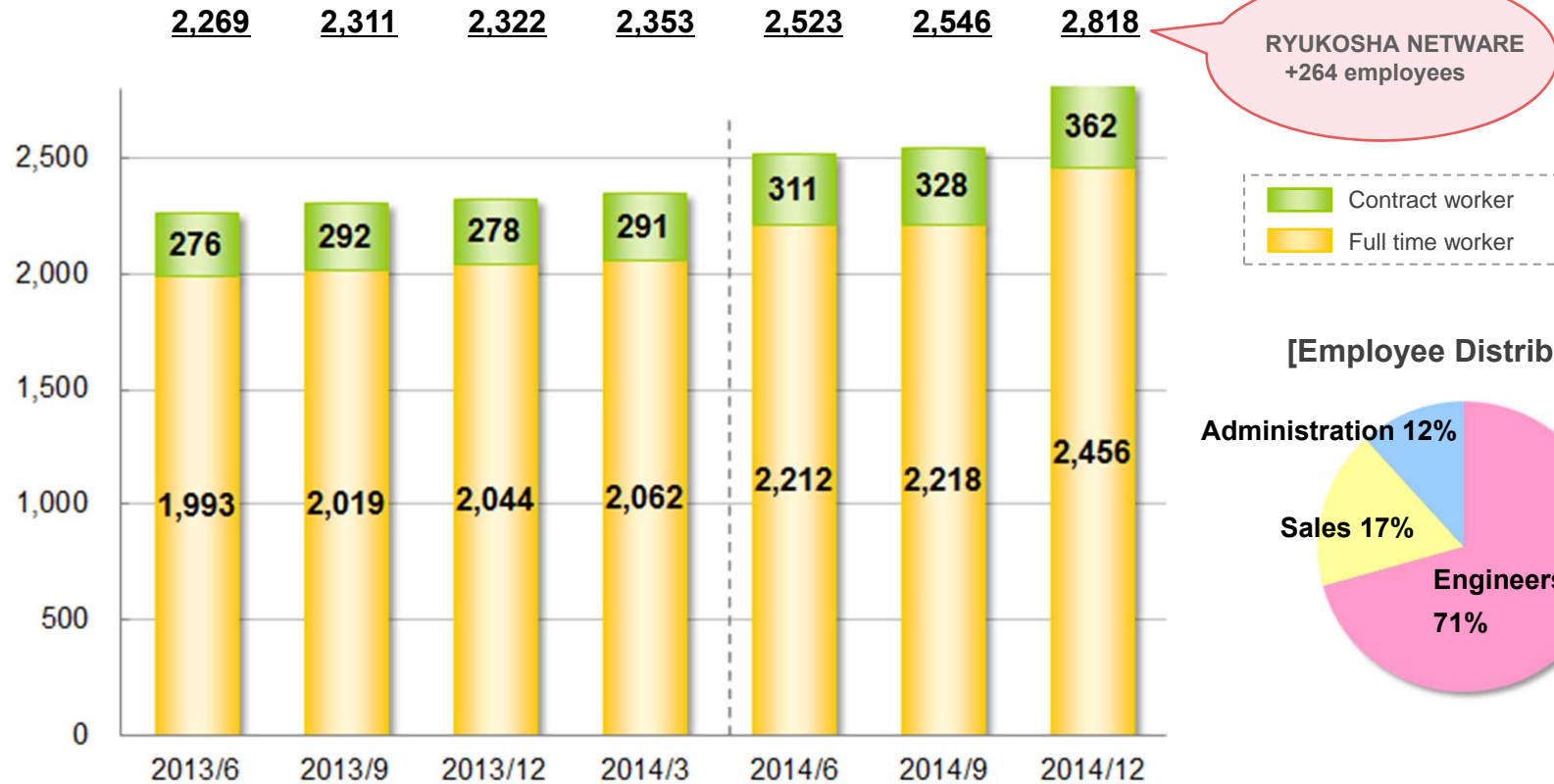
- ◆ 1Q-3Q14 Cost of SI: up JPY3,353 million, up 13.5% YoY
- Number of outsourcing personnel as of Dec. 2014: 948 personnel (up 132 personnel YoY, up 41 personnel QoQ)
- SI gross margin decreased in 3Q14 due to a temporary increase of network operation related costs with the disposal of facility for overseas project (JPY174 million) and the disposal of software for domestic project (JPY46 million)

### M&A on Dec. 1, 2014: RYUKOSHA NETWORKARE Inc.

- Engage in human resources outsourcing business
- Capital: JPY10 million, Annual revenue: over JPY1 billion
- Aim to strengthen our engineering resources to meet growing demands for system outsourcing projects and to increase cost efficiency by in-housing outsourcing personnel
- Costs and expenses are mostly personnel-related, which are mostly recognized in cost of SI



## II - 6. Number of Employees



Personnel related costs & expenses (% of revenue)

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
	4,212 (15.9%)	4,254 (15.2%)	4,317 (15.2%)	4,408 (14.0%)	4,641 (16.8%)	4,643 (15.7%)	4,704 (15.3%)

Unit: JPY million

YoY = 1Q-3Q FY14 compared to 1Q-3Q FY13

- ◆ 1Q-3Q14 personnel-related costs and expenses: JPY14.0 billion, up JPY1.2 billion YoY
- ◆ Number of employees and personnel-related expenses increased due to M&A of RYUKOSHA NETWORK Inc.(Dec. 1, 2014)
- ◆ Planning to hire 156 newly graduates in Apr. 2015, which includes 17 for RYUKOSHA and 13 for replacing outsourcing resources (129 in Apr. 2014, 136 in Apr. 2013, 75 in Apr. 2012)

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

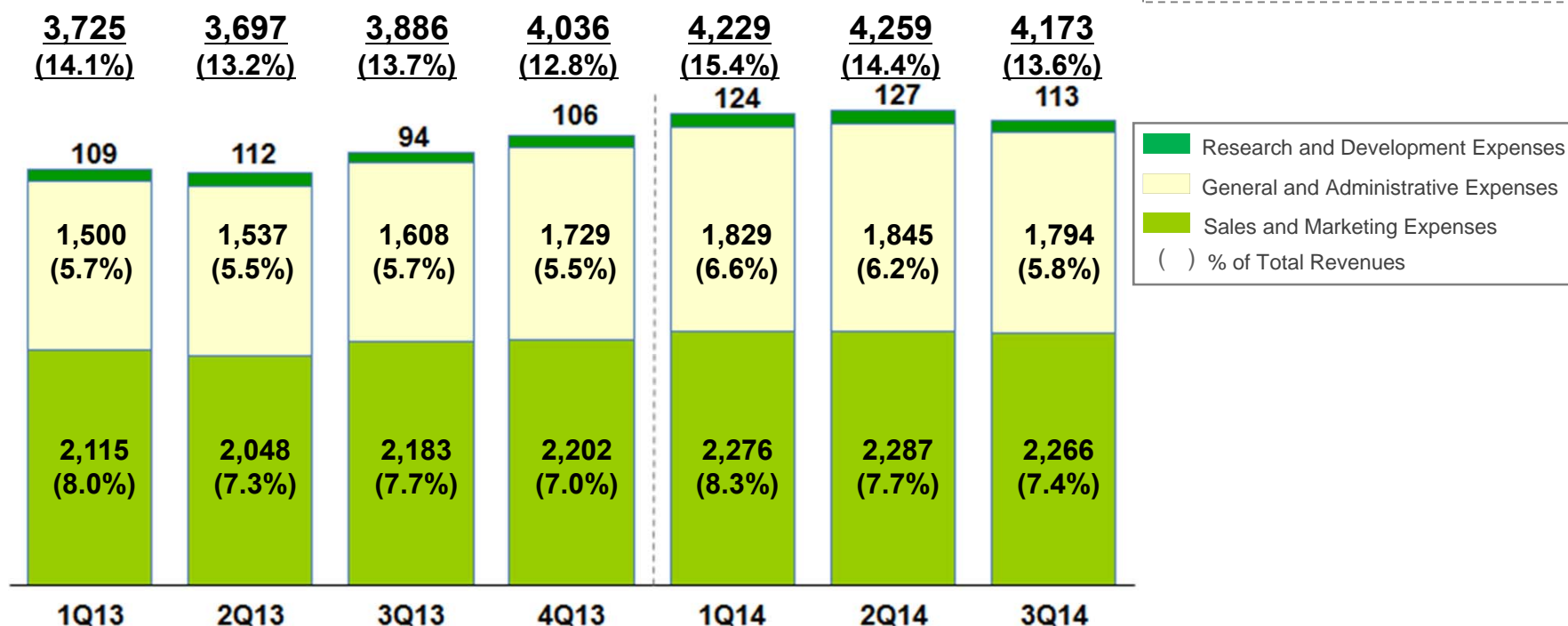
1Q-3Q FY13: 11,307 (13.7%)

1Q-3Q FY14: 12,662 (14.4%)

Unit: JPY million

FY13: 15,343 (13.4%)

YoY = 1Q-3Q FY14 compared to 1Q-3Q FY13



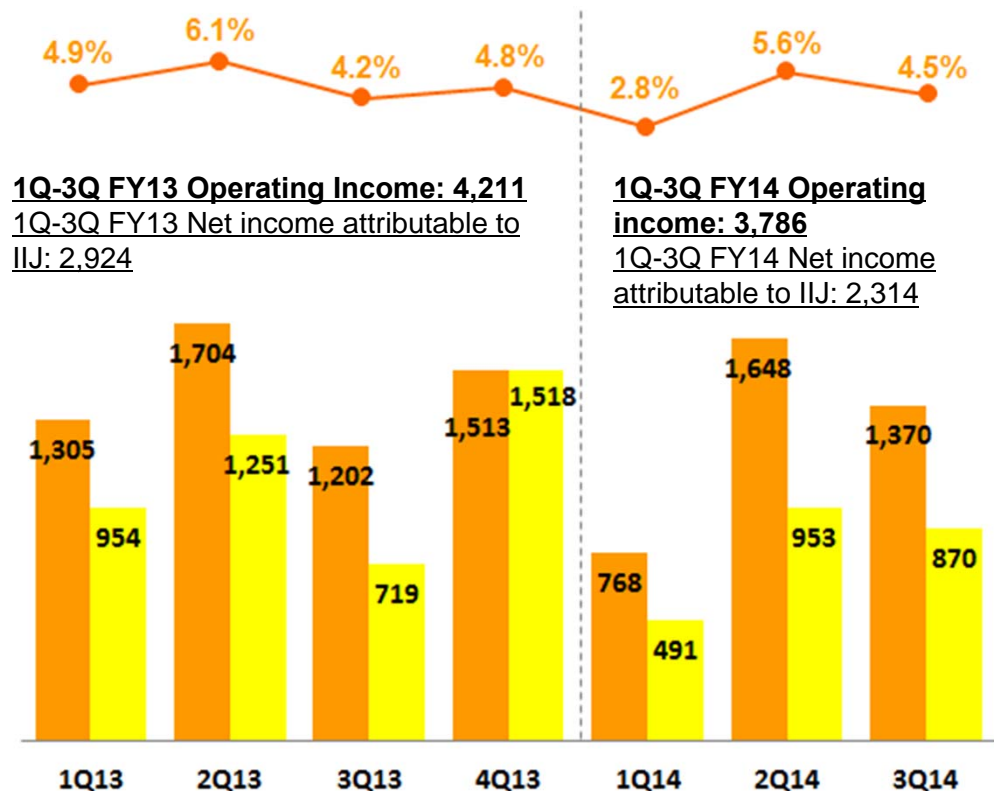
- ◆ 1Q-3Q14 SG&A Expenses/R&D: up JPY1,355 million YoY, up 12.0% YoY
  - Increase in personnel-related, outsourcing-related, rent/relocation expenses, commission payments (recruiting agent fee etc.), and sales commission expenses (MVNO related)
- ◆ Costs and expenses related to 1H14 headquarter relocation\*: approx. JPY0.5 billion (1Q14:JPY0.2 billion, 2Q14: JPY0.3 billion)
  - \*rent, relocation fee, depreciation and disposal of assets
- ◆ 3Q14 SG&A decreased from 2Q14. While advertising and sales commission expenses increased, headquarter relocation related costs and expenses decreased
- ◆ SG&A related to ATM Operation Business:
  - 3Q14:JPY45.9 million, 2Q14:JPY45.4 million, 1Q14:JPY37.6 million, 4Q13:JPY31.2 million, 3Q13:JPY32.4 million
  - 1,048 ATMs in operation as of Feb. 10, 2015

## II - 8 Operating Income and Net Income



Unit: JPY million

YoY = 1Q-3Q FY14 compared to 1Q-3Q FY13



**1Q-3Q FY13 Operating Income: 4,211**  
 1Q-3Q FY13 Net income attributable to IIJ: 2,924

**1Q-3Q FY14 Operating income: 3,786**  
 1Q-3Q FY14 Net income attributable to IIJ: 2,314

### ◆ Income before income tax expenses:

- 1Q-3Q14: JPY3,889 million (down JPY737 million, down 15.9% YoY)
  - Interest expense: JPY180 million
  - Dividend income: JPY59 million
  - Gains from fund investments: JPY142 million
- 3Q14: JPY1,397 million (up JPY119 million, up 9.3% YoY)

### ◆ Net income attributable to IIJ:

- 1Q-3Q14: JPY2,314 million (down JPY610 million, down 20.9% YoY)
  - Equity in net income of Internet Multifeed and Internet Revolution: JPY115 million
  - Net income attributable to noncontrolling interests related to Trust Networks: JPY57 million
- 3Q14: JPY870 million (up JPY150 million, up 20.9% YoY)

269	804	378	1,044	220	624	523	Current income tax expense
268	(99)	221	(1,090)	132	98	36	Deferred tax expense (benefit)
65	61	64	13	34	35	46	Equity in net income of equity method investees
(5)	(22)	(24)	(191)	(18)	(24)	(15)	Less: Net income attributable to noncontrolling interests

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

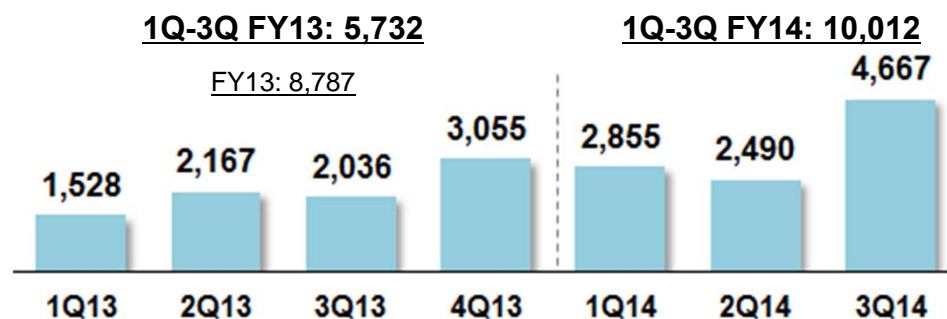
Unit: JPY million

	March 31, 2014	December 31, 2014	Changes
Cash and Cash Equivalents	22,421	21,047	(1,374)
Accounts Receivable	19,214	17,705	(1,509)
Inventories and Prepaid Expenses (Current and Noncurrent)	7,432	9,834	+2,402
Investments in Equity Method Investees	2,086	2,227	+142
Other Investments	6,356	6,543	+187
Property and Equipment	26,971	28,458	+1,487
Goodwill and Other Intangible Assets	10,309	10,210	(99)
Guarantee Deposits (Current and Noncurrent)	2,727	2,784	+57
<b>Total Assets</b>	<b>103,867</b>	<b>105,829</b>	<b>+1,962</b>
Accounts Payable	12,542	11,779	(763)
Income Taxes Payable	1,079	336	(743)
Bank Borrowings (Short-term and Long-term)	10,380	9,400	(980)
Capital Lease Obligations (Current and Noncurrent)	8,356	7,943	(413)
<b>Total Liabilities</b>	<b>43,686</b>	<b>44,240</b>	<b>+554</b>
Common Stock	25,497	25,500	+3
Additional Paid-in Capital	35,962	36,001	+39
Accumulated Deficit	(2,868)	(1,564)	+1,303
Accumulated Other Comprehensive Income	1,713	1,720	+8
<b>Total IJ Shareholders' Equity</b>	<b>59,912</b>	<b>61,264</b>	<b>+1,352</b>

➤ Total IJ Shareholders' Equity to Total Assets: 57.7% as of March 2014 and 57.9% as of December 2014

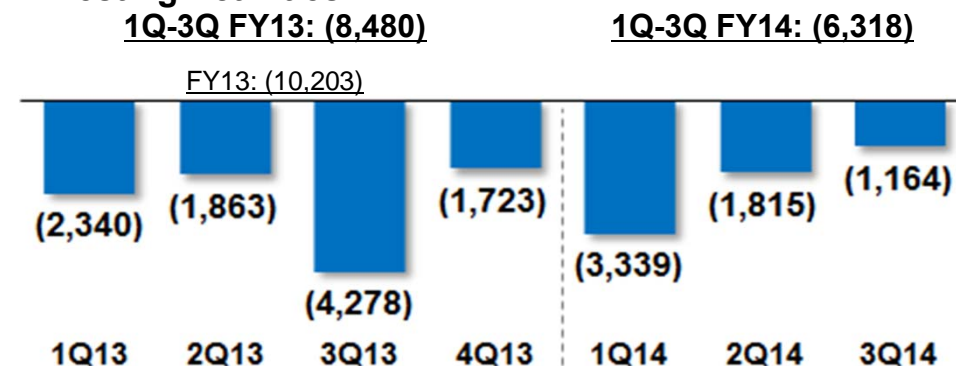
## II - 10. Consolidated Cash Flows

### < Operating Activities >



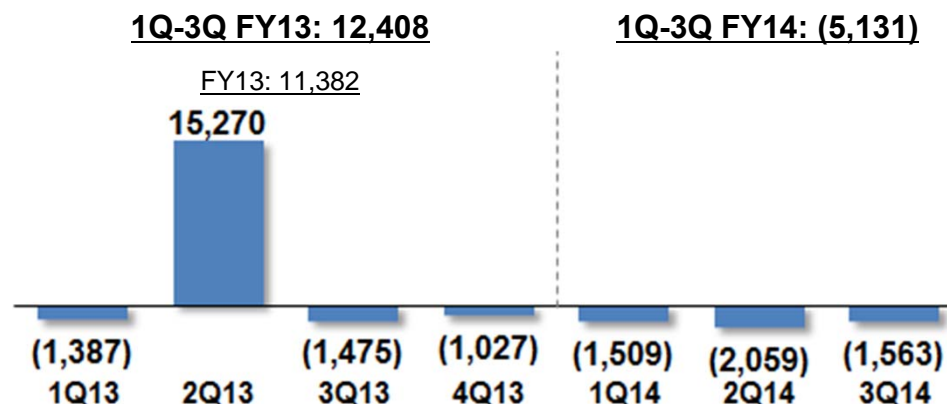
Operating Activities	1Q-3Q14 Breakdown	YoY Change
Net income	2,371	(604)
Depreciation and amortization	7,217	+713
Net gain on other non-cash transactions	388	+432
Fluctuation of operating assets and liabilities	35	+3,738

### < Investing Activities >



Investing Activities	1Q-3Q14 Breakdown	YoY Change
Purchases of property and equipment	(6,569)	+659
Payments of guarantee deposits	(1,611)	(930)
Refund of guarantee deposits	1,559	+1,552

### < Financing Activities >



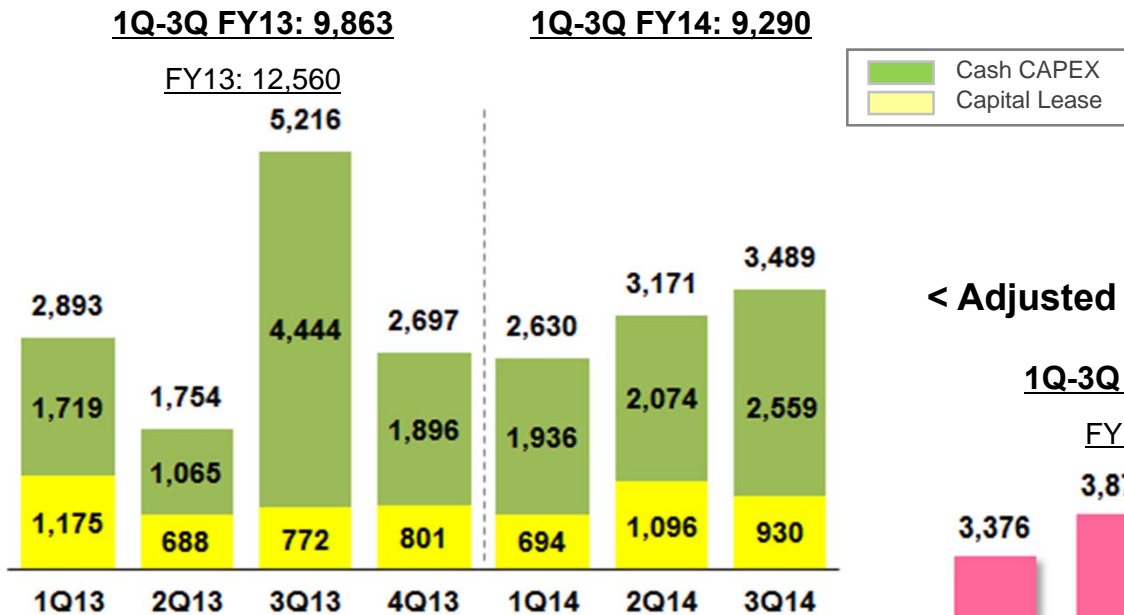
Financing Activities	1Q-3Q14 Breakdown	YoY Change
Principal payments under capital leases	(3,140)	(198)
Repayments of borrowings (short and long-term)	(980)	+30
Dividends paid	(1,011)	(100)



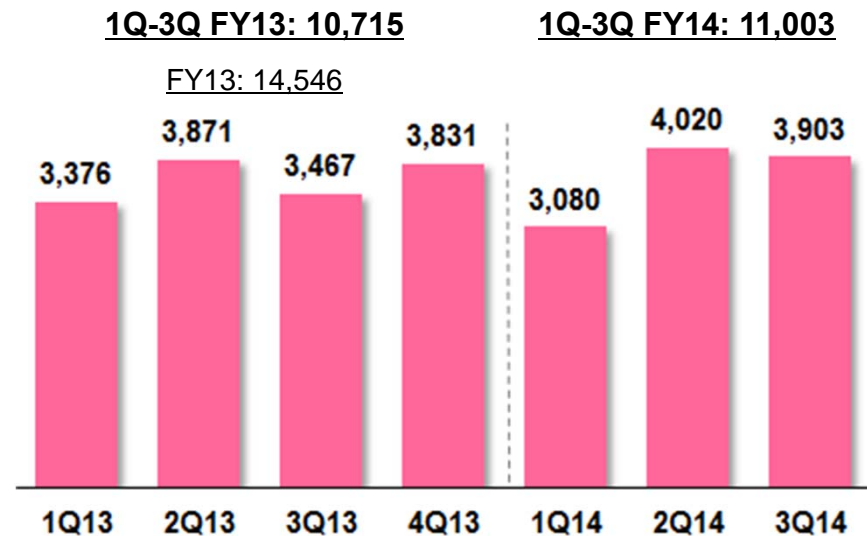
## II - 11. Other Financial Data (CAPEX etc.)

< CAPEX (Include Capital Leases) >

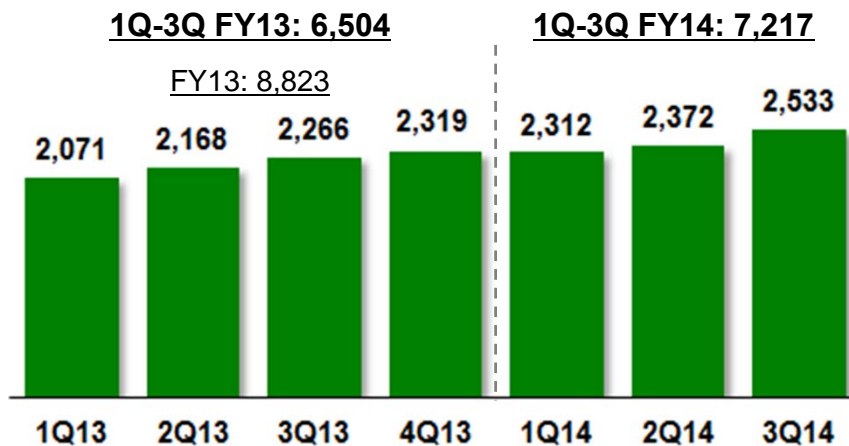
Unit: JPY million



< Adjusted EBITDA >



< Depreciation and Amortization >

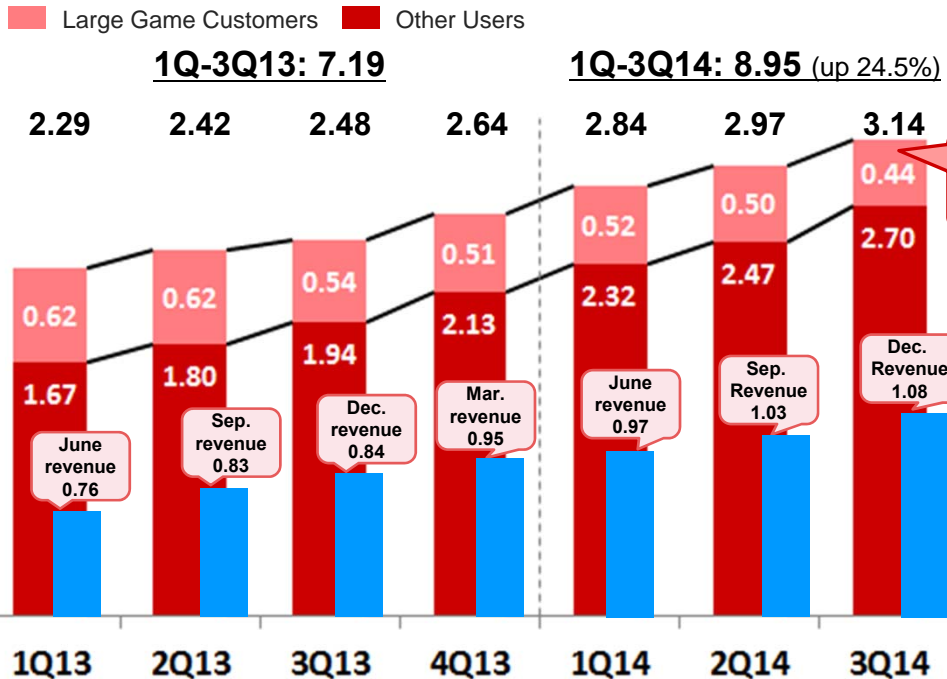


# III-1. Cloud Business Developments



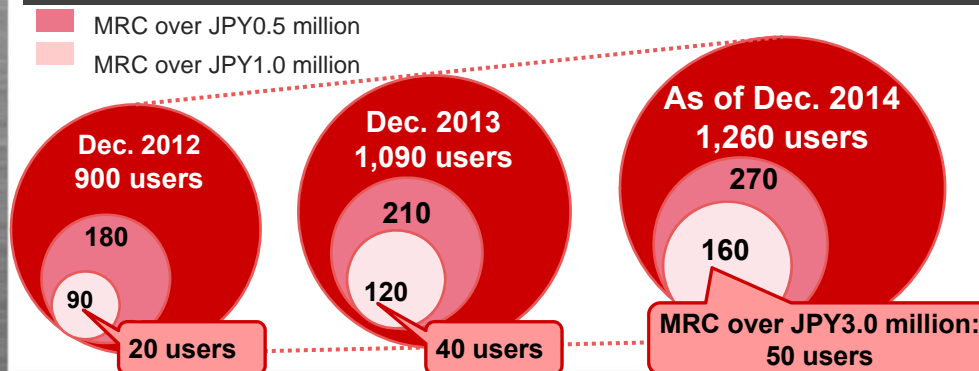
## Cloud-related revenue

(Unit: JPY billion)



3Q14 Cloud revenue recognition: 83% in systems operation and maintenance, 17% in outsourcing

## Expansion of Customer Base and Usage



## Breakdown of 3Q14 revenue

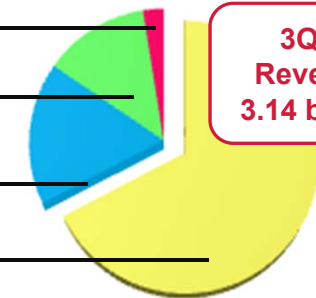
(Unit: JPY billion)

General purpose SaaS (groupware SaaS etc.) 0.08

Task-specific SaaS (FX & POS) 0.41

GIO/Hosting 0.53

GIO/Component 2.12



3Q14 Revenue 3.14 billion

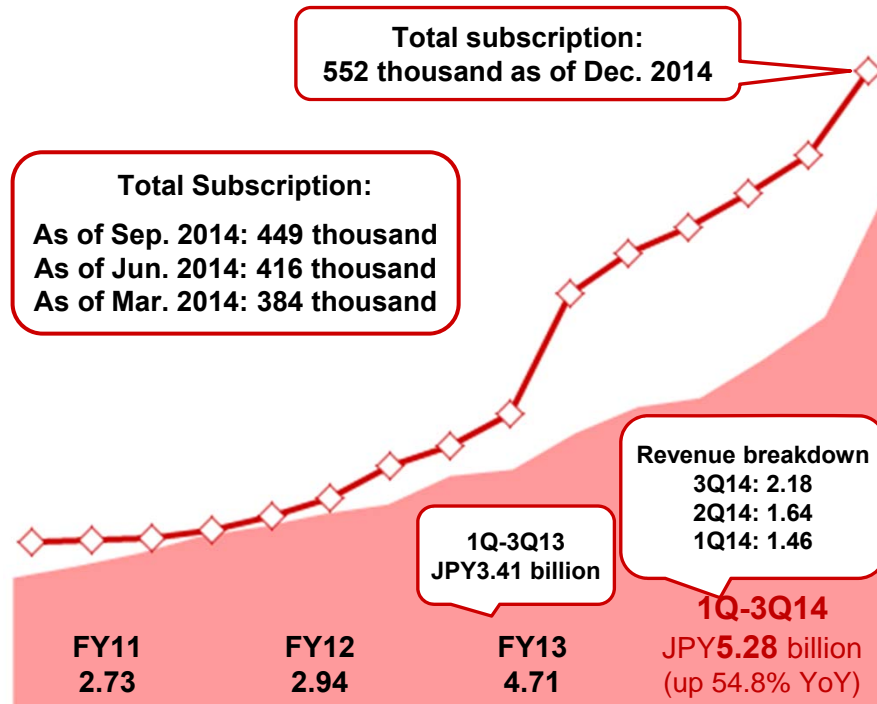
Approx. 14% of total Cloud-related revenue

## Business Progress

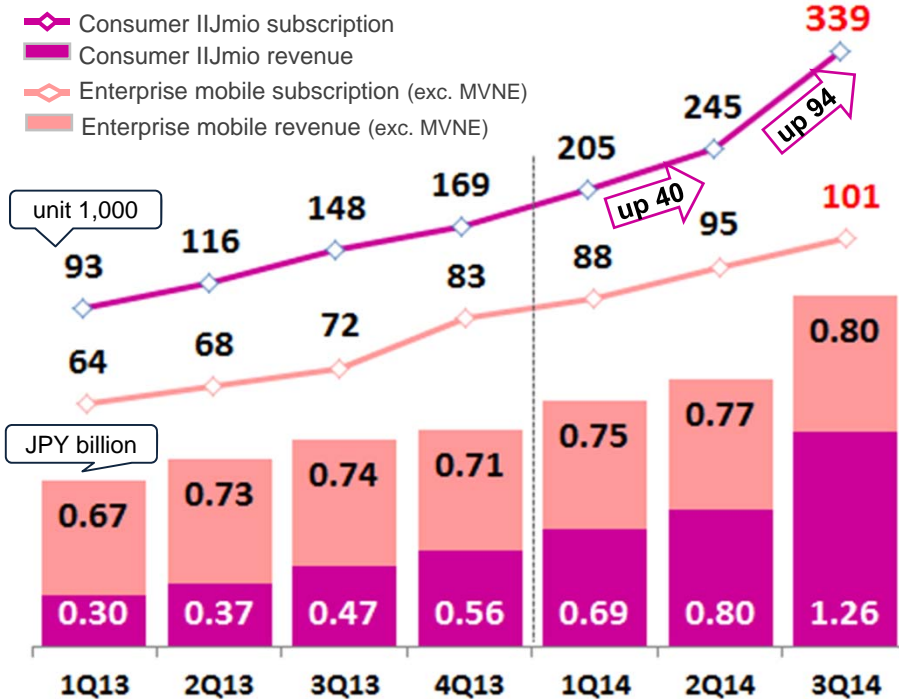
- ◆ Continuously growing and accumulating enterprises' demand while large game customers' demand slowing down
- ◆ Enhance competitive advantage in service qualities to acquire core business systems, accumulating orders of full-scale Cloud migration projects
  - Average revenue per customer (excluding large gaming customers) increased by more than 20% from 3Q13
- ◆ SAP business continues to grow, prospective orders for middle-to large scale projects increasing
- ◆ FX (Foreign Exchange) transactions increased, contributed to its continuous revenue growth
- ◆ Continuously developing and introducing new solutions
  - Solution to prevent unauthorized online banking remittance for a major Japanese bank, plan to introduce to other financial organizations
  - Solution for analyzing and applying Big Data with SAS and ZEAL
  - Insurance agency system with Sompo Japan Nipponkoa Insurance Inc.

## III-2. MVNO Business Developments

### Total Subscription and Revenue



### IIJmio & IIJmobile Subscription & Revenue



#### Consumer

- **Subscription accelerated with:**
  - ✓ Expansion of **sales counters** (10 counters as of Jan. 2015)  
In addition to urban areas, opened a new store in suburb area
  - ✓ **Release of SIM lock-free** devices such as iPhone6, ZenFone5
  - ✓ Competitive **new price list** from Oct. 2014
  - ✓ High customer satisfaction (MMD Labo. etc.)
- **MNP-compatible subscription increasing**
  - ✓ Approx. 50% of 3Q14 net addition were with voice call
  - ✓ Over 80% of 3Q14 net addition were via sales partners, others via direct online sales

#### Enterprise

- **MVNE-related revenue\*: JPY0.3 billion** (up approx. 20% YoY)
  - ✓ MVNO platform business for Panasonic, Canon Marketing Japan etc.
  - ✓ Partnership with CATV association going well, Ehime CATV (Dec. 2014), under negotiation with tens of CATV operators
- **M2M-related revenue\*: JPY0.3 billion** (up approx. 40% YoY)
  - ✓ Continuously accumulating orders such as temperature measurement etc.
  - ✓ M2M projects tend to take longer to revenue recognition because of device development, testing, etc.

\*1Q-3Q FY14 revenue YoY: 1Q-3Q FY14 compared to 1Q-3Q FY13

\*MVNE-related subscription is included in OEM under Consumer Internet Connectivity Services

## ※ 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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