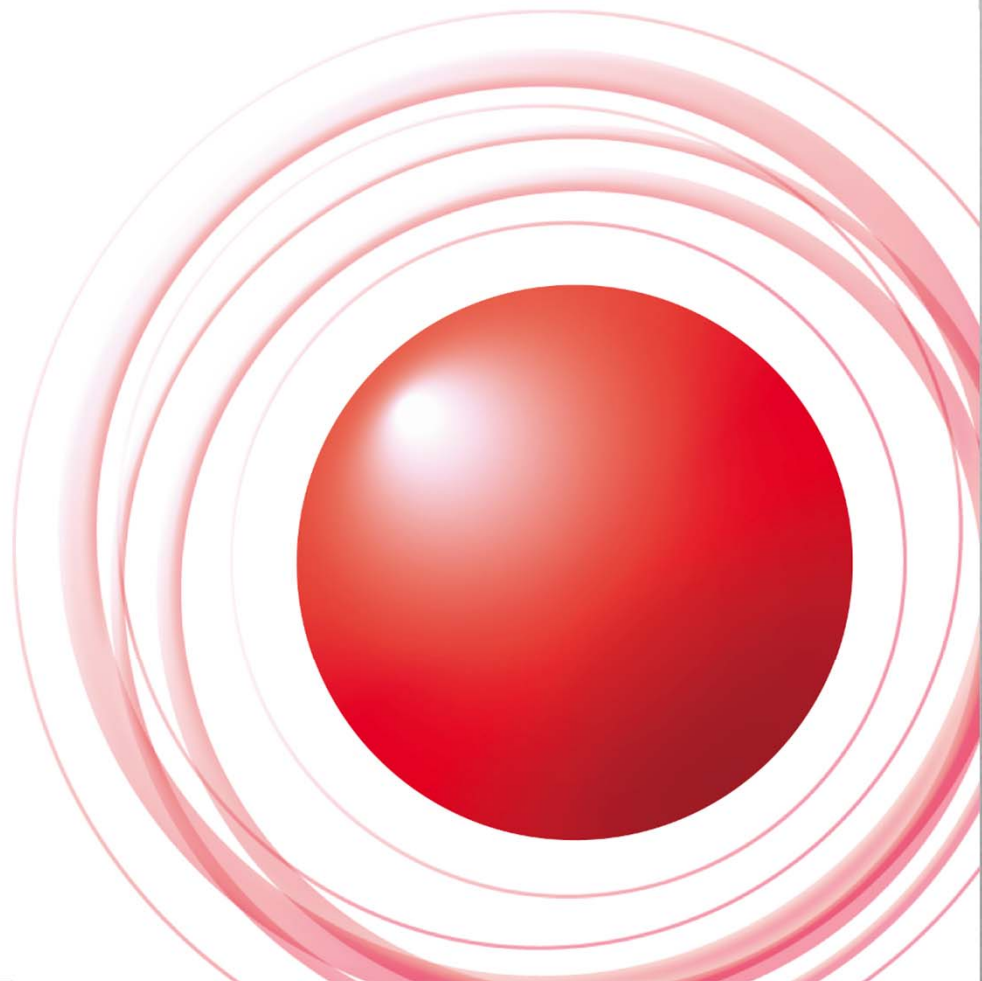




# Internet Initiative Japan Inc. Corporate Overview

September 2014  
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

- ◆ The first established full-scale ISP in Japan
  - Introduced many prototype internet-related network services
  - Highly motivated and 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\*
  - Participation in world-wide research and organizations ...and many more

Company Profile	
Established	December 1992
Number of Employees (as of June 2014)	Consolidated: 2,523 (approx. 70% engineers)
Listed Markets	NASDAQ (IIJI), TSE1 (3774)
Large Shareholders (as of Mar. 2014)	NTT (21.6%), Koichi Suzuki (5.8%*), NTTCom(4.4%)

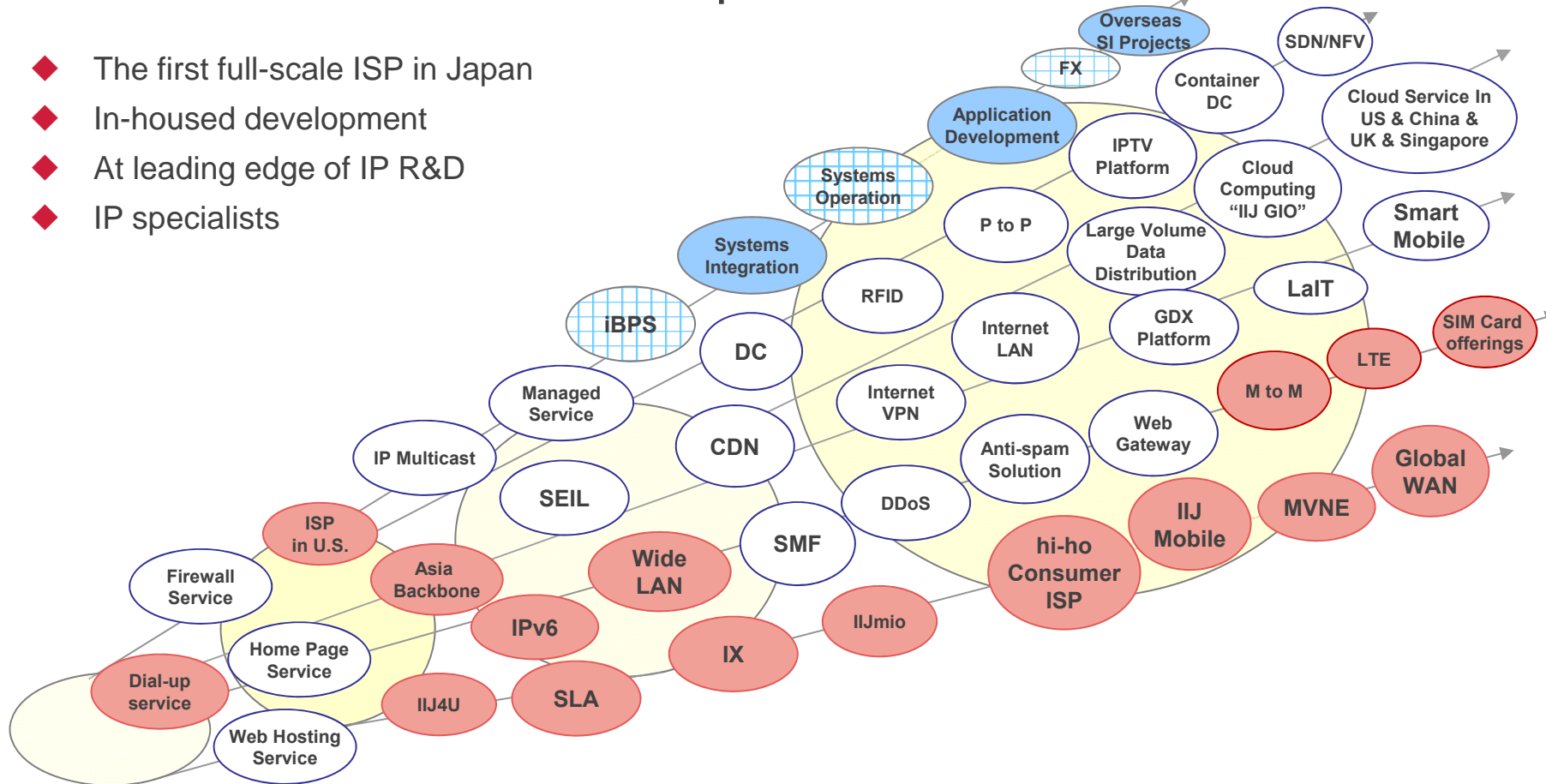
\*MIC: Ministry of Internal Affairs and Communications

\*Jointly owned by Mr. Suzuki's wholly owned private company

# 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



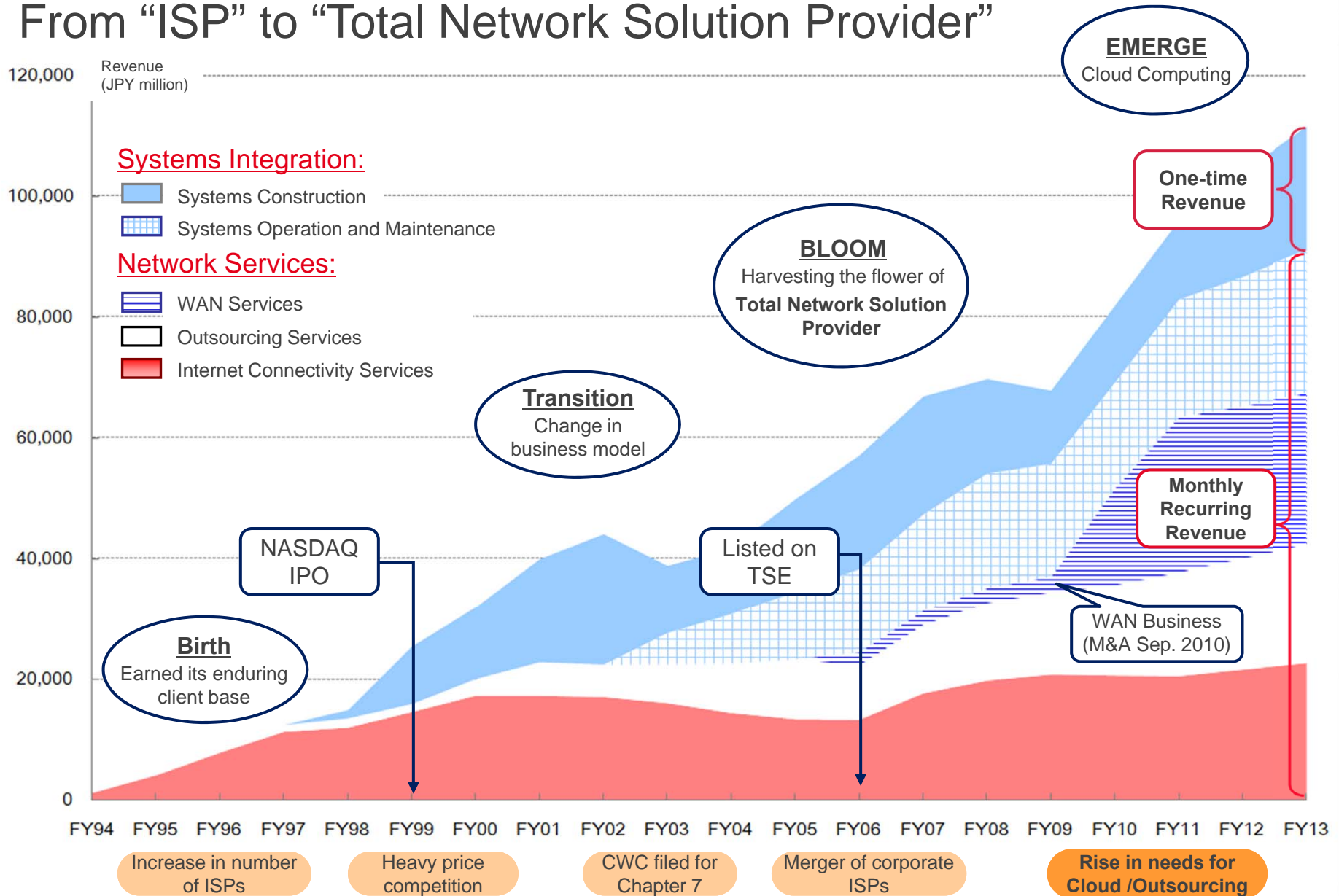
Timeline of IJ Group milestones and logos from 1992 to 2014:

- 1992:** IJ Internet Initiative Japan
- 1996:** IJ America
- 1997:** internet m/f
- 1998:** Net Care
- 2006:** Net Chart Japan, i-revo
- 2007:** hi-ho, Trust Networks
- 2008:** IJ INNOVATION INSTITUTE, TRINITY Loyalty Marketing Solutions
- 2010:** IJ Global, IJ Exlayer
- 2012:** IJ Europe, Stratosphere
- 2013-2014:** APIs appiaries

IJ Group

# Strategic Shift in Business Model

## From "ISP" to "Total Network Solution Provider"





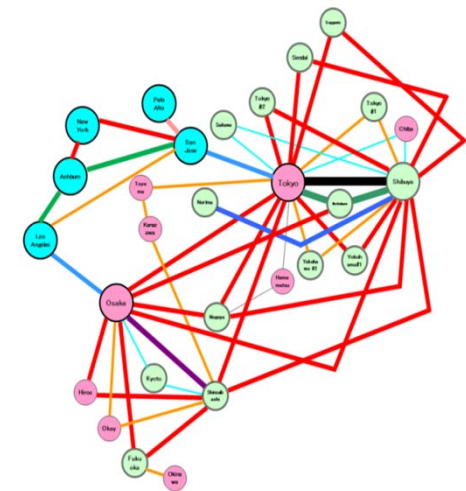
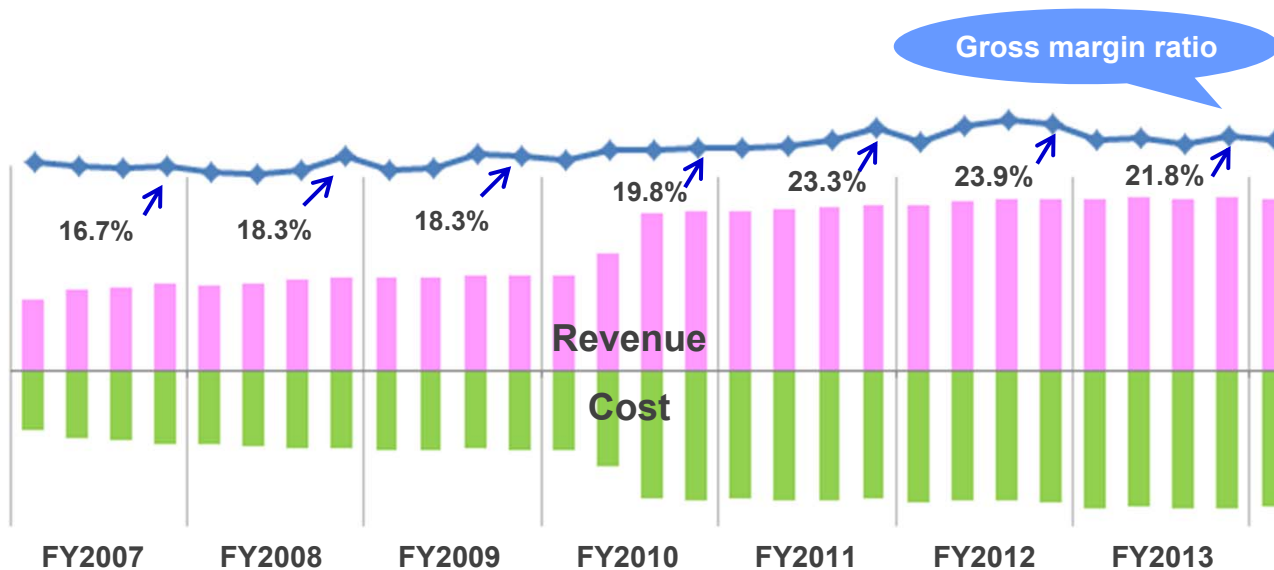
# Business Structure of Network Services

\*Network services: Internet connectivity, outsourcing, and WAN services

<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>

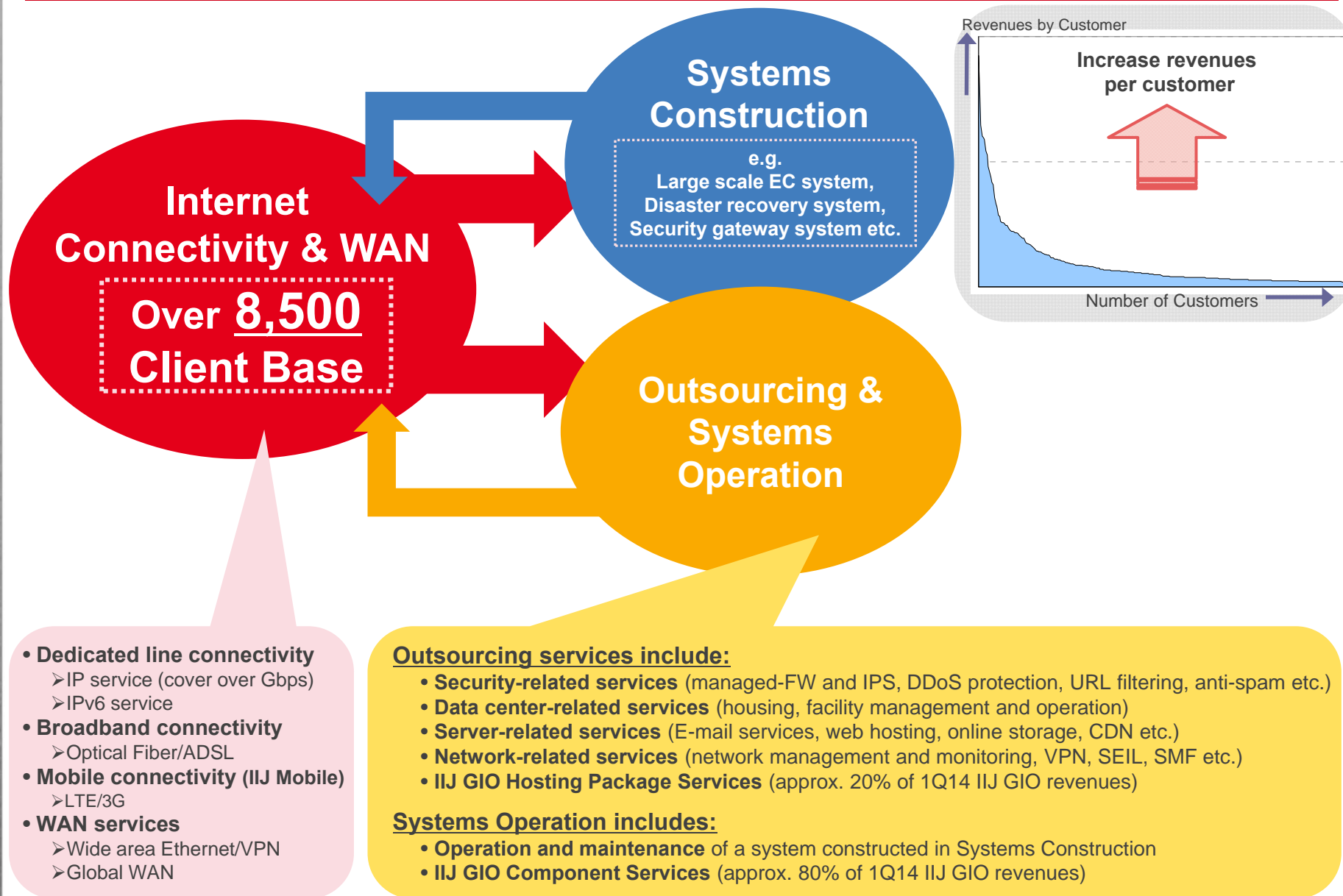
Network services costs don't increase along with network services revenues

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



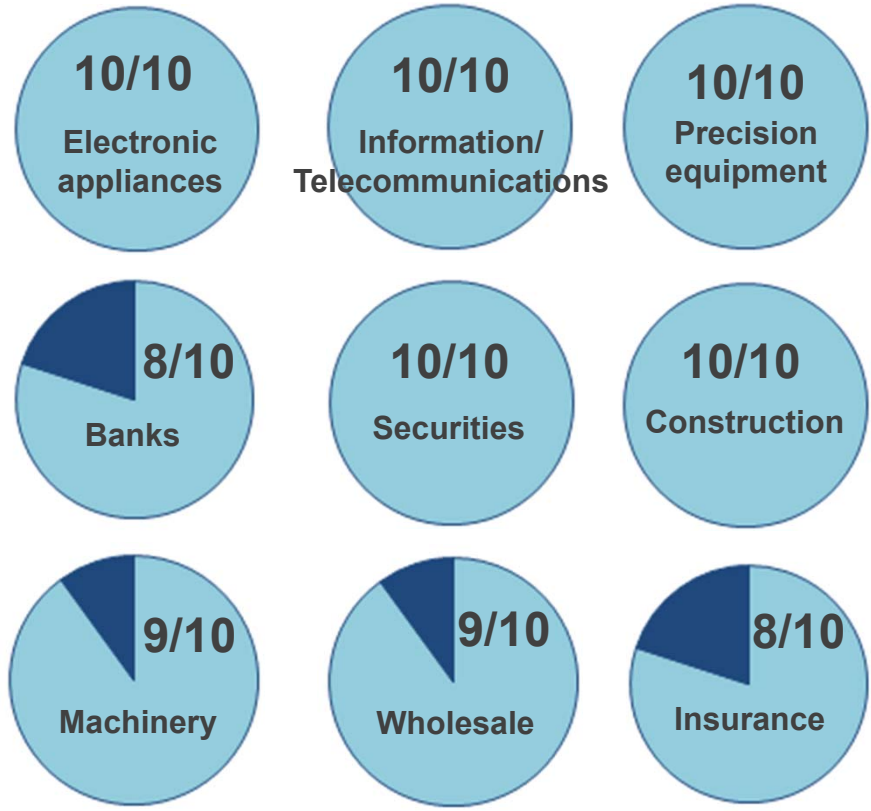
IJ Internet Backbone

# Business Model: Cross-selling of Network Solutions



# Excellent Blue-chip Client Base

High Market Penetration  
towards Top Tiers



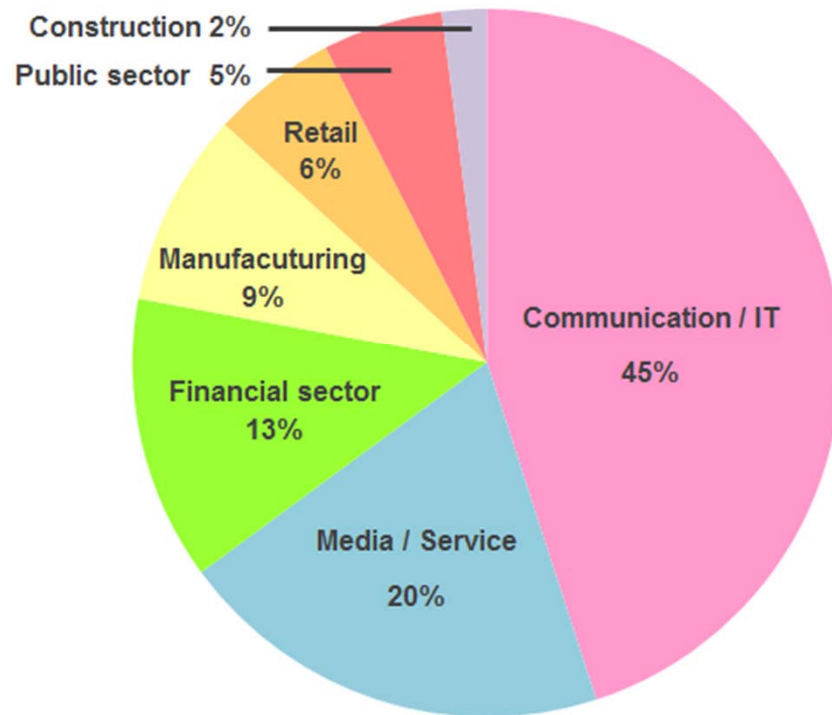
The number of clients among the top 10 companies in each industry.



# Revenue Composition by Clients

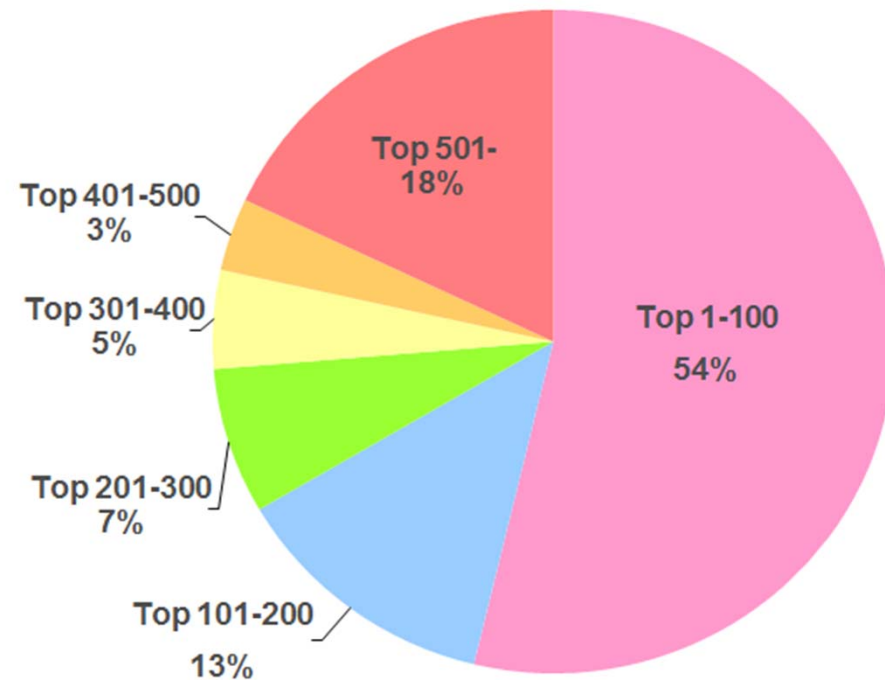
Source: IJ's FY2013 financial results

## Revenue Distribution by Industry



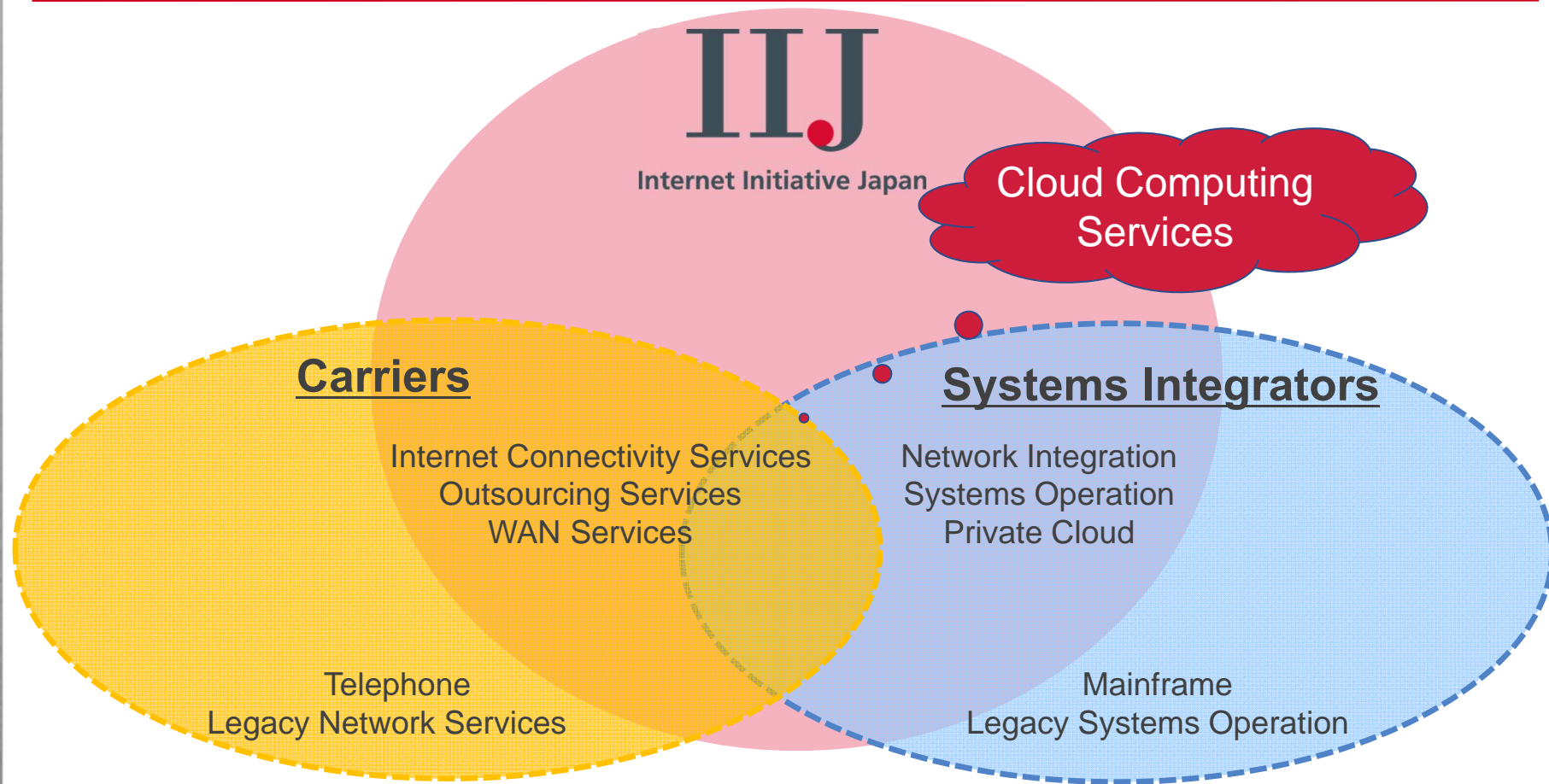
## Revenue Distribution by Clients

Largest customer's revenue is less than 3% of the total



- Our growth strategy is to increase the number of large revenue customers by growing general customers' network usage

# Competitive Advantages



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



## Service Features

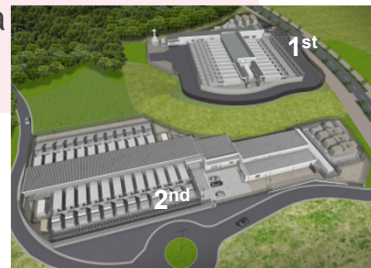
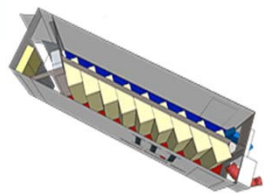
- ◆ Launched in 2009 (one of the first cloud providers)
- ◆ Offering **public cloud** services (forefront investment in servers, storages, datacenters etc.)
  - Cloud-related CAPEX: JPY1.6 billion (FY10), JPY4.3 billion (FY11), JPY2.3 billion (FY12), JPY3.7 billion (FY13)
- ◆ **Top revenue share for 2 consecutive years\***
- ◆ **Promoting Cloud Shift of blue-chips** by continuously expanding service lineups:
  - Microsoft Azure, VMware Hypervisor, SAP Basic, IBM AS400, Oracle Database and many more
  - Aggressively investing in new service and solution development (**BigData, M2M etc.**)

## Growth Strategy

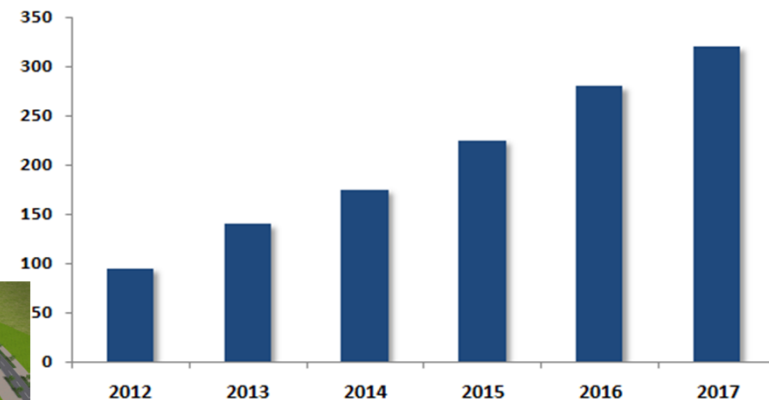
- ◆ **Target blue-chips' internal IT systems**, which are traditionally covered by legacy Slers
- ◆ **Leverage blue-chip customer base:**
  - IIJ GIO user: 1,200, IIJ group customer: 8,500
- ◆ Chosen for reliable connectivity and rich experience in NW and system operation
  - Cloud: combination of NW and system
- ◆ **Acquiring flagship projects** (SI +Cloud + MVNO)
- ◆ **Some advanced integrated cloud usages** among primitive and simple system purposes
  - Construction of online security controls for one of the largest Japanese financial institutions etc,

## Container Module Type Datacenter

- ◆ First in Japan to commercialize (Apr. 2011-)
- ◆ Doubled the capacity in Nov. 2013 (48 modules)
- ◆ PUE\* 1.2 - applying outside air cooling system
- ◆ Patent for the unique alignment of racks: keeping necessary working space while reducing the overall container size
- ◆ Construction projects in Laos and Russia



Domestic Cloud Market Growth(IDC)



Source: IDC Japan, Apr. 2013, Public Cloud Market  
\*Fuji Chimera Report (2012 and 2013)

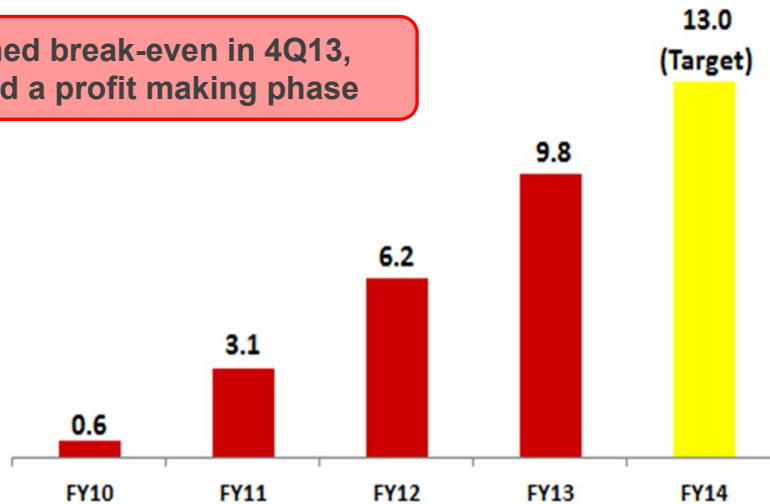
PUE: Power Usage Effectiveness, a terminology created by the members of by Green Grid as a metric used to determine the energy efficiency for a datacenter

# Cloud Business Developments

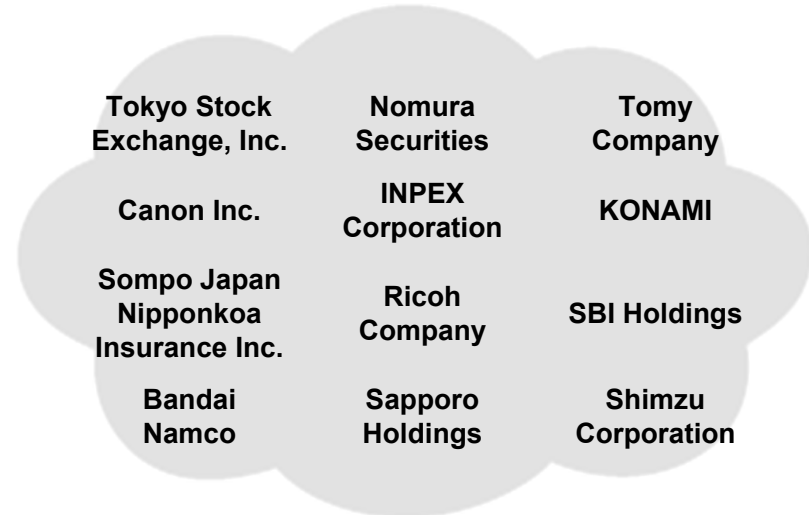


## Cloud-related Revenue (Unit: JPY billion)

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

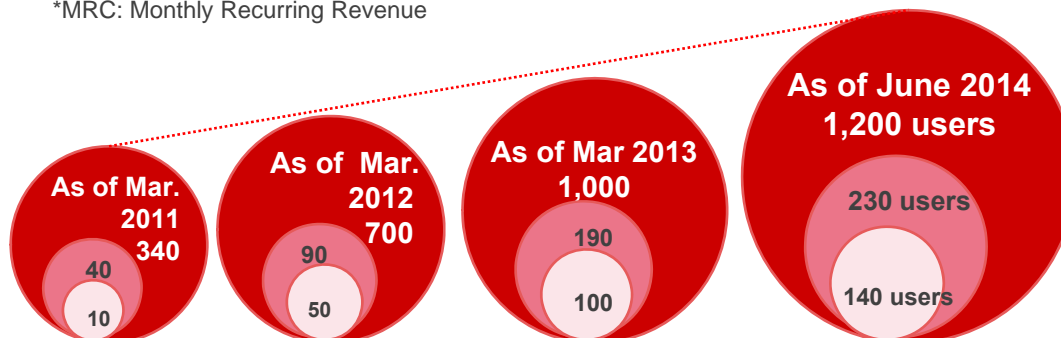


## Fastidious Users

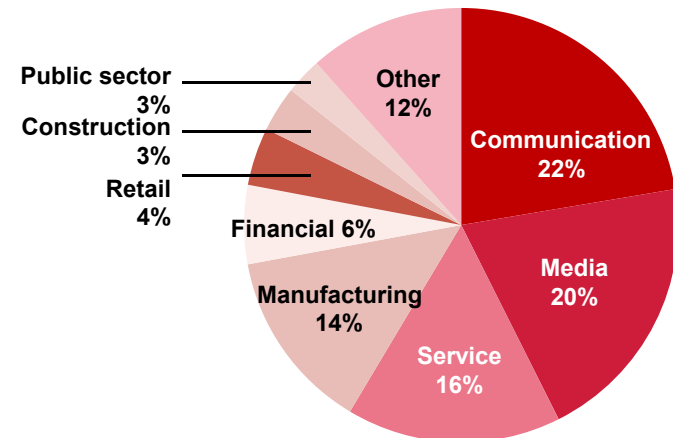


## Expansion of Customer Base

■ MRC over JPY0.5 million  
■ MRC over JPY1 million  
 \*MRC: Monthly Recurring Revenue



## Customer Composition



% calculated by the number of customers (as of Mar. 2014)  
1,160 users as of Mar. 2014



# MVNO Business

## Business Strategy

### MVNO to grow mid-to-long term by gathering corporate and consumers traffic

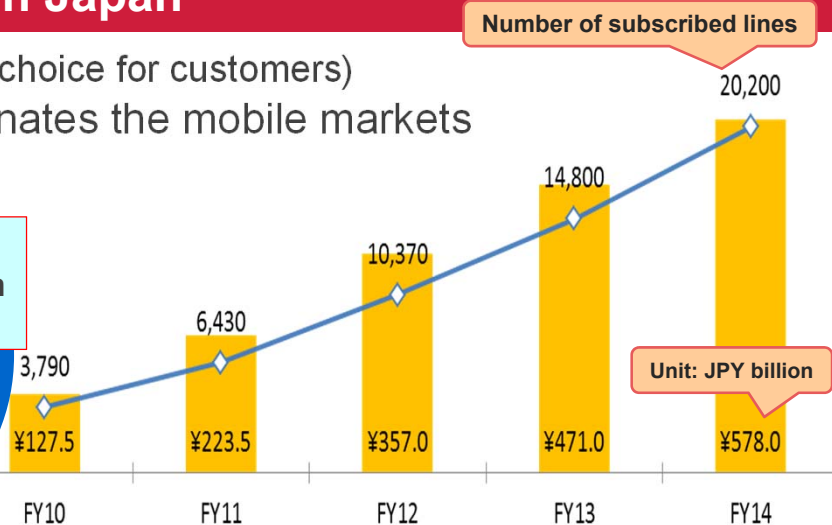
- ◆ **First MVNO in Japan to use NTT Docomo's network (2008)**
  - Started offering corporate wireless solution
- ◆ **First MVNO in Japan to offer LTE connectivity (2012)**
  - Offering to both consumers and enterprises to gather traffic efficiently
- ◆ **Best positioned to meet the growing corporate MVNO demands as IJ**
  - 1) already has **large-scale MVNO infrastructure** (constructed in 2008)
  - 2) operates one of the **largest internet backbone networks** in Japan
  - 3) has developed **a number of network services including cloud**
  - 4) is one of the very few players who can offer **MVNO, SI, and NW services** all at once
  - 5) can anticipate the margin to increase by absorbing increasing corporate traffic

## MVNO Market in Japan

- ◆ Low-cost SIM Smartphone market growing (new choice for customers)
- ◆ MIC\* encouraging MVNO to grow as MNO dominates the mobile markets
  - abolishment of 2 year service contract
  - increase unlocked SIM devices
  - spreading the custom of switching SIM cards etc.

**Japan's Mobile Market**  
**160 million subscription**  
 (Dec. 2013)

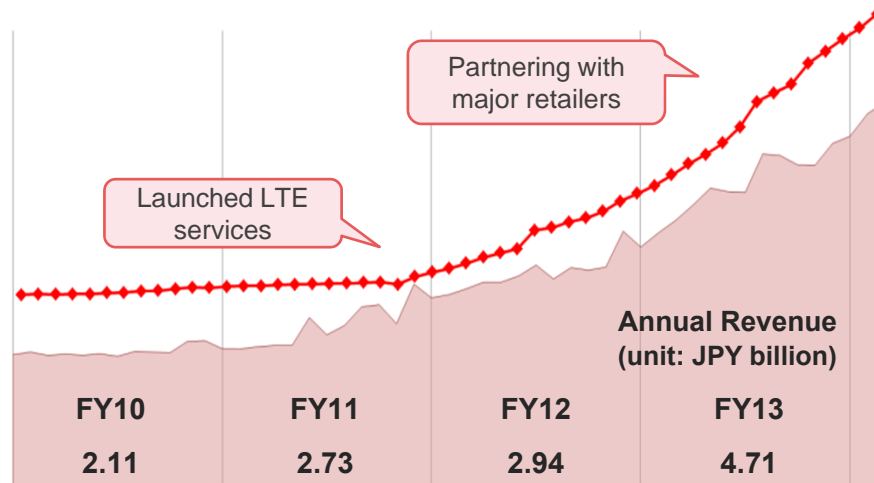
**MVNO (Non-MNO)**  
 of which, **4.4%**  
**SIM-card offering 1%**



MIC: Ministry of Internal Affairs and Communications  
 Source: MIC and MM Research (June 2014)

# MVNO Business Developments

## IIJ MVNO Revenue (Enterprise+ Consumer)



IIJ's total MVNO subscribed Line:  
 approx. 420,000 (as of June end)  
 approx. 380,000 (as of Mar. end)

- Interconnectivity related fees with NTT Docomo's infrastructure are recognized in "outsourcing costs" of network services costs
- Enterprise MVNO revenues are recognized in "Internet connectivity services for enterprises"
- Consumer MVNO revenues are recognized in "Internet connectivity services for consumers"

### Enterprises

- ◆ **Enterprise MVNO revenues:**  
 JPY2.0 billion (FY11), JPY2.4 billion (FY12), JPY2.8 billion (FY13), JPY0.8 billion (1Q14)
- ◆ **M2M related projects increasing**
  - Accumulating along with recent trend of "IoT"
  - Various needs: security, merchandising, smart metering, networked vehicles etc.
- ◆ **Growing MVNE requirements**
  - From Slers and other blue-chips customers who want to incorporate MVNO into their B2C service platform
  - Meeting their demands by offering cloud and SI together

\*IoT: Internet of Things

### Consumers

- ◆ **LTE SIM card revenues:**  
 JPY1.7 billion (FY13), JPY0.6 billion (FY12), JPY0.7 billion (1Q14), JPY0.3 billion (1Q13)
- ◆ **No.1 in MVNO customer satisfaction survey\***  
 - infrastructure prepared for corporate use
- ◆ **Continuously updating service lineups**  
 - Voice call, MNP, SMS, package of 3 SIM cards etc.
- ◆ **Offering unlocked devices together with cards**
- ◆ **Direct and sales channel:**



\*MMD Research Feb. 2014



# Overseas Business Developments


- ◆ Providing network, cloud and SI to meet various IT **needs of Japanese customers globally**
- ◆ **Focusing on Asia**: partnership with China Telecom and other prominent local players
- ◆ **Container type data centers construction** projects in Russia, Laos and other countries
- ◆ Growing needs to construct and operate **cloud infrastructure from Asian countries**

	FY12	FY13
Revenues	JPY3.6 billion	JPY4.1 billion
Operating Loss	JPY0.2 billion	JPY0.6 billion


- **Forefront investment** along with cloud services in multiple locations and enhancement of employees
- **Expect operating loss to increase in FY14**, still in the investment phase and trying to expand the business further
- **Aim JPY10.0 billion of revenue as a mid-term goal**



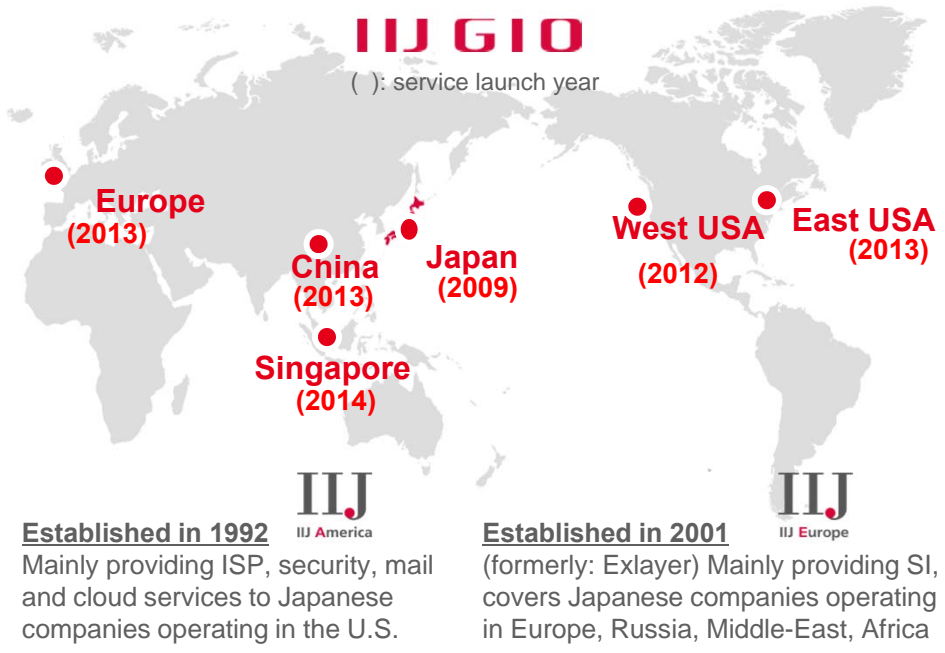
**Example of Users**



Constructed global IT infrastructure for INPEX's Europe and U.S. offices with IIJ GIO US service, Global Internet VPN service and bilingual helpdesk



Offering video conference services, global network outsourcing service, and system monitoring service for general assembly meeting between 10 offices including Hong Kong, Thailand, and Taiwan



# ATM Operation Business Developments

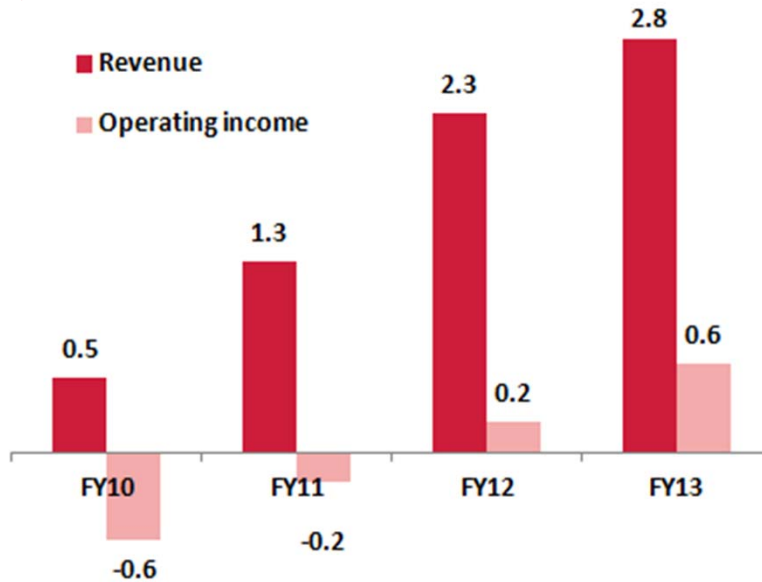


## ◆ Business Model

- 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 2013 (Metropolitan Police Dept.)
- Plan to place approx. 300 or more ATMs in FY14



## ◆ Financial Results (JPY billion)



Number of Placed ATMs	
May 13, 2011	280
May 15, 2012	440
May 15, 2013	625
May 15, 2014	855
Aug. 8, 2014	915

< Trust Networks Inc. >

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

**➔ Total number of ATMs & daily usage per ATM are the keys to profit growth**

# Developing SDN Platform

**SDN (Software Defined Network):** future networking technology with which network is virtualized and controlled by software, independent from physical boundaries, allowing

- Aim to be the leader in SDN market
  - Develop services internally
  - Apply the technology to IJJ's large backbone network for even better efficiency in the future
- Covers broad networking reach of Cloud/WAN/Enterprise LAN on a single platform
- Offers services to support "Lagopus"

\*Lagopus is a SDN compatible software switch

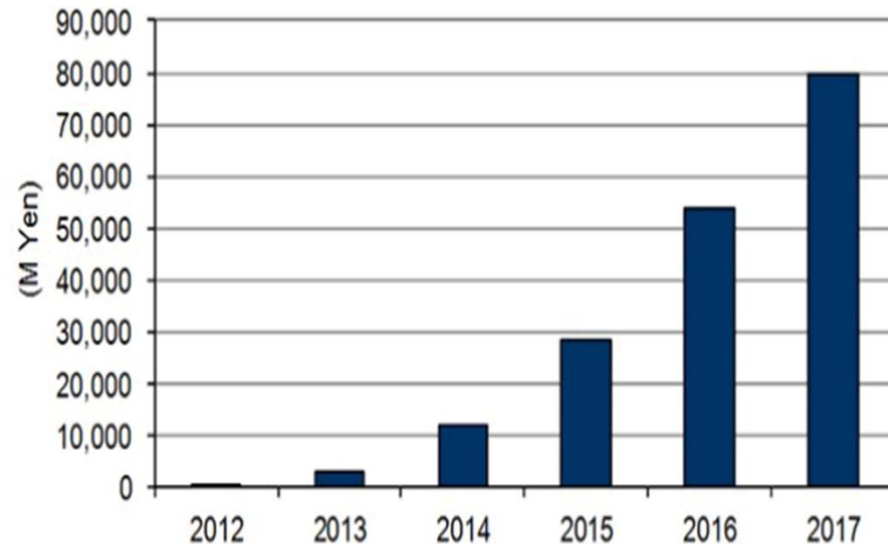
## Stratosphere Inc.

- Stakeholder composition: 50% IJJ, 50% ACCESS
- Established: April 2012
- Business: R&D of NaaS (Network as a Service)

## Stratosphere SDN Platform 1.0

- Released: October 2012
- Controller of virtualized network platform
- Applicable to OpenFlow, Overlay Protocols, MPLS, IPsec etc
- Users: data center operators, large EC operators, cloud service operators, and service providers

## SDN Market Growth in Japan



Source: IDC Japan, April 2014

Note: Sum of data center, enterprise network, carrier SDN including hardware

## OmniSphere

- Released: August 2013
- Controller enabling automatic and flexible network configuration
- Ubiquitous networking environment
- Adopted by Osaka City University



## IIJ Group – The Way Forward

### Market Opportunity

- Return of IT investment along with Japanese economic recovery
- Increasing needs to outsource of complicated IT systems
- Explosion of data traffic due to the pervasive usage of portable devices

### Actively Investing

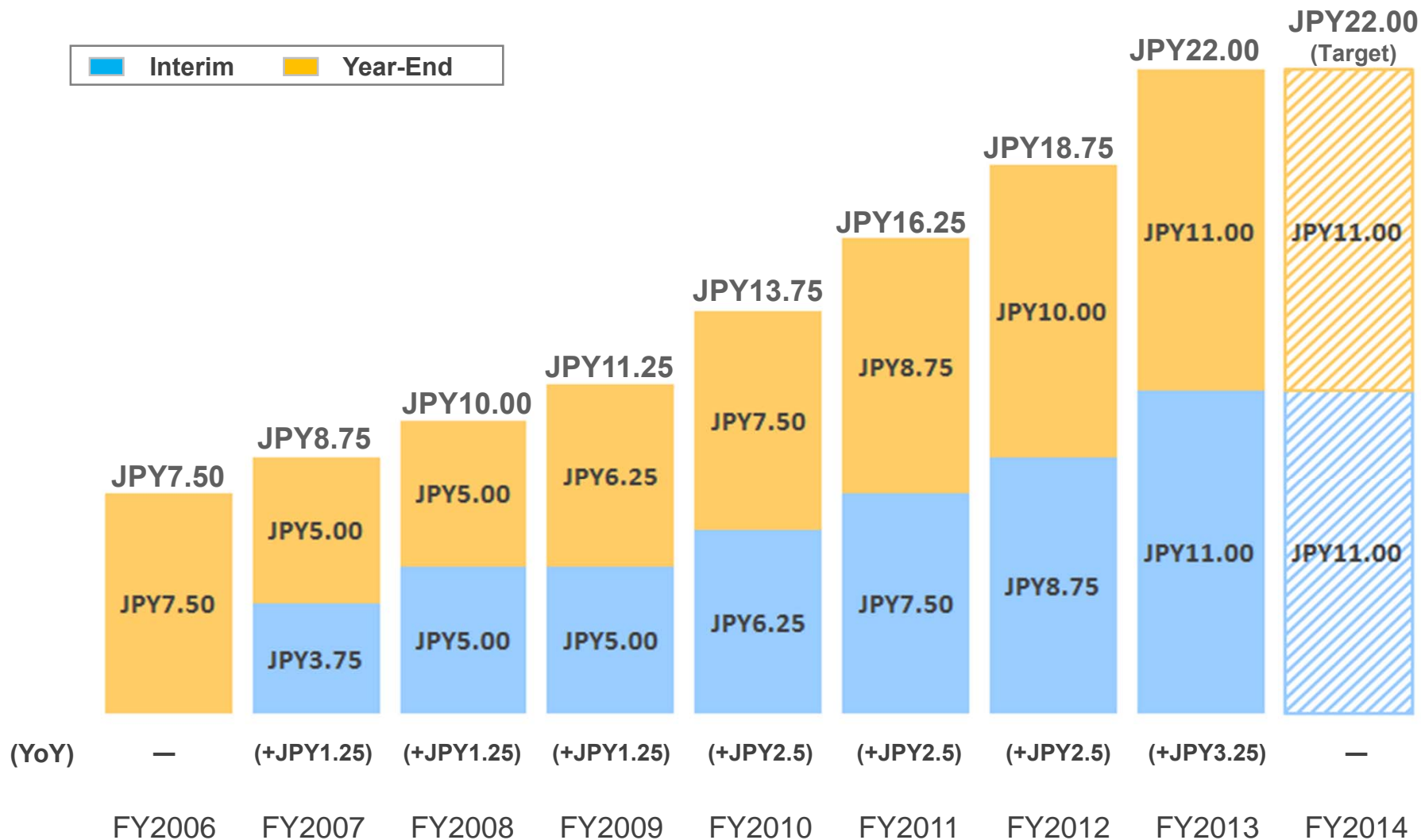
- Stronger management: Suzuki CEO and Katsu COO
- Increasing employees around 10% YoY (238 personnel joined in FY13).
- New service and solution investment: BigData, M2M, overseas business etc.

### Sustainable Growth

- Strengthening of business foundation
- Leverage the existing blue-chip customer base
- Continuously seeking M&As opportunities to accelerate our core business development with high synergy

# 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 FY2014

	< 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%)

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 IJ	1.8% 0.5	3.6% 1.0	(48.5%)	3.7% 4.5	+1.3%



# FY2014 Financial Target (announced on May 15, 2014)

## Full Year FY14 Target

Unit: JPY billion

	FY14 Target (Apr. 2014 -Mar.2015)	FY13 Actual (Apr. 2013 -Mar.2014)	YoY (FY14 Target to FY13 Actual)	
Total Revenues	123.0	114.3	+8.7	+7.6%
Operating Income	7.2	5.7	+1.5	+25.8%
Income before Income Tax Expense	7.0	6.3	+0.7	+11.6%
Net Income attributable to IIJ	4.5	4.4	+0.1	+1.3%
Net Income attributable to IIJ per Share	JPY 97.96	JPY 100.26	JPY(2.3)	(2.3%)
Cash Dividends per Share	JPY 22.00 (Annual)	JPY 22.00 (Annual)	-	-

## 1H FY14 Target

	1H14 Target (Apr. 2014 -Sep.2014)	1H13 Actual (Apr. 2013 -Sep. 2013)	YoY (1H14 Target to 1H13 Actual)	
Total Revenues	57.5	54.4	+3.1	+5.7%
Operating Income	2.8	3.0	(0.2)	(6.9%)
Income before Income Tax Expense	2.7	3.3	(0.6)	(19.3%)
Net Income attributable to IIJ	1.8	2.2	(0.5)	(20.6%)

## Revenue :

Pursue recurring revenue increase and cloud related revenue to reach approx. JPY13.0 billion (+JPY3.2 billion YoY)

Unit: JPY billion

Increase breakdown	FY14 YoY Target	FY13 YoY Actual
Network Services	Slightly less than +3.0	+2.1
SI/Equipment sales	Slightly less than +4.5	+5.5
ATM Operation	+1.3 - 1.5	+0.5
<b>TOTAL</b>	<b>approx. +8.7</b>	<b>+8.0</b>

## Gross Margin:

Increase by improving network utilization, accumulating systems operation projects and profit contribution from cloud services

	FY14 Target	FY13 Actual (gross margin ratio)
Network Services	Improve gross margin ratio by approx. 1.0 pt.	JPY14.2 billion (21.2%)
SI/Equipment sales	Improve gross margin ratio by approx. 0.4 pt.	JPY6.1 billion (13.9%)
ATM Operation	Improve gross margin by approx. JPY0.6 billion	JPY0.7 billion

## Sales and marketing expenses:

Expect same level of increase as FY13 (FY13 Actual: +JPY1.2 billion YoY) including headquarter relocation costs & expenses of approx. JPY0.4 billion to JPY0.5 billion in 1H14

## Non operating gains (losses):

Considering interest expenses and others

## Net Income attributable to IIJ:

Considering taxes calculated by a normal statutory rate and income of equity method investees and non-controlling interests

### ◆ 1H FY14 Operating Income: down YoY

Headquarter relocation costs and expenses in June and July

**Consolidated Financial Results for 1Q FY2014  
Announced on August 8, 2014**



Internet Initiative Japan

# 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

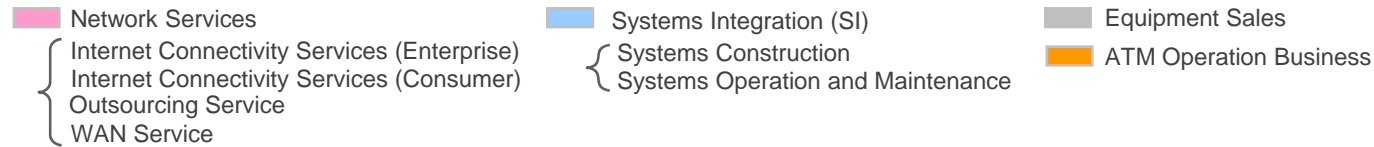
- Revenue almost in line with plan, operating expense increased as expected as the new fiscal year begins
- Slightly lower than expected SI gross margin affected by rework related to the projects completed in 4Q13
- Headquarter relocation: recognized cost of JPY0.16 billion in 1Q14 of the expected total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

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

Unit: JPY billion

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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%

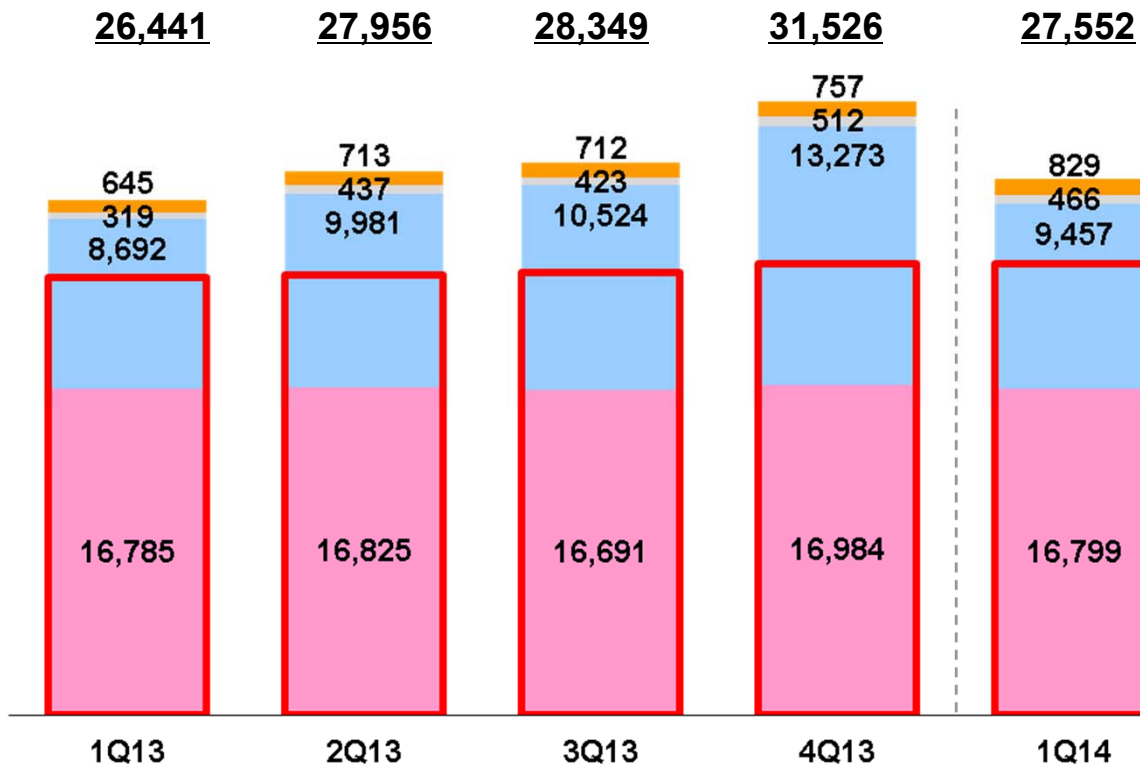
## II - 2. Revenues



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

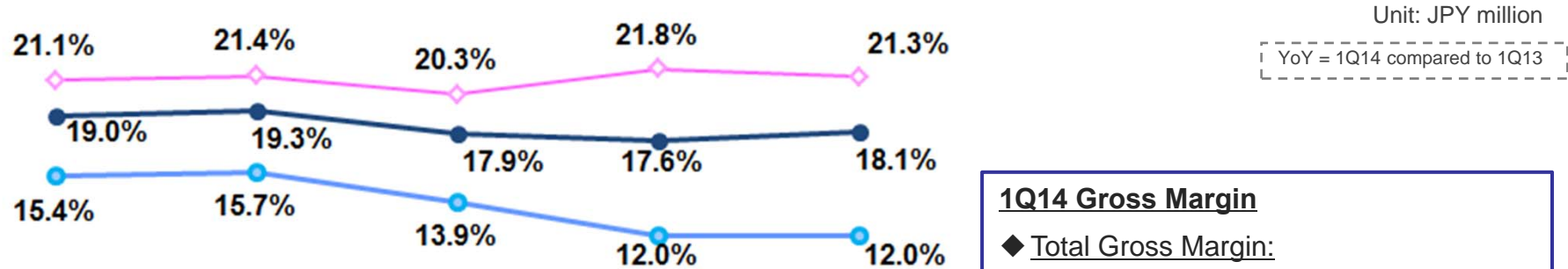
**Recurring Revenue\***  
 (84.1% of 1Q14 revenue)  
**1Q14: JPY23,172 million (up 2.9% YoY)**

\*Represents the following monthly recurring revenues

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

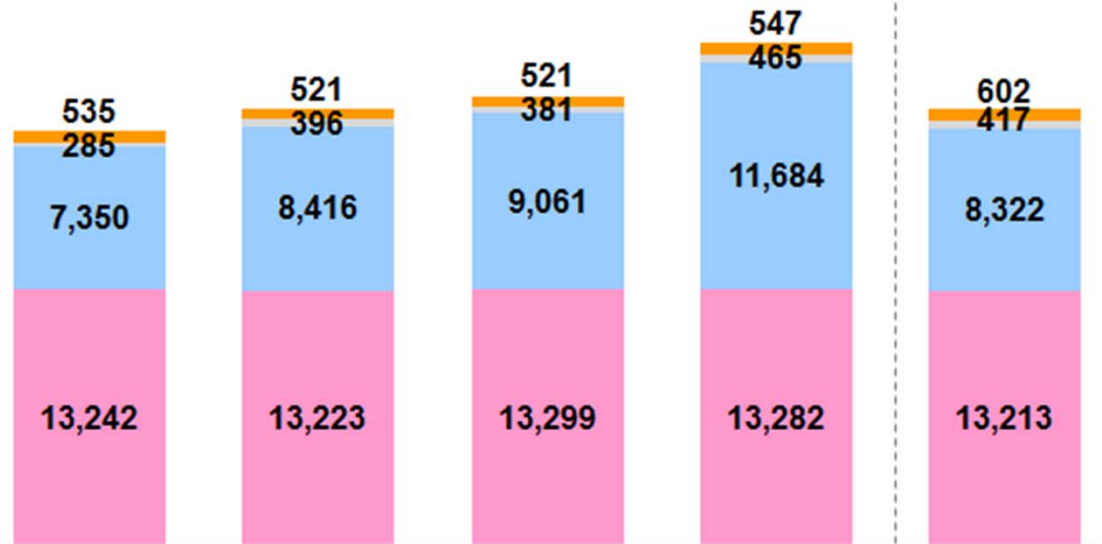
## II -3. Cost of Revenues and Gross Margin Ratio

**Cost of revenues :** Network Services (Pink), Systems Integration (SI) (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)



**FY13: 93,206**

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



1Q13      2Q13      3Q13      4Q13      1Q14

### 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:

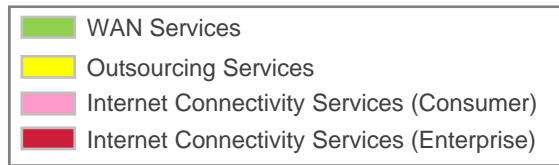
- JPY1,136 million (down JPY207 million, down 15.4% YoY)
- Gross margin ratio: down 3.4 points YoY

#### ◆ ATM Operation Business Gross Margin:

- JPY227 million (up JPY117 million, up 107.1 % YoY)
- Gross margin ratio: 27.4% (up 10.4 points YoY)

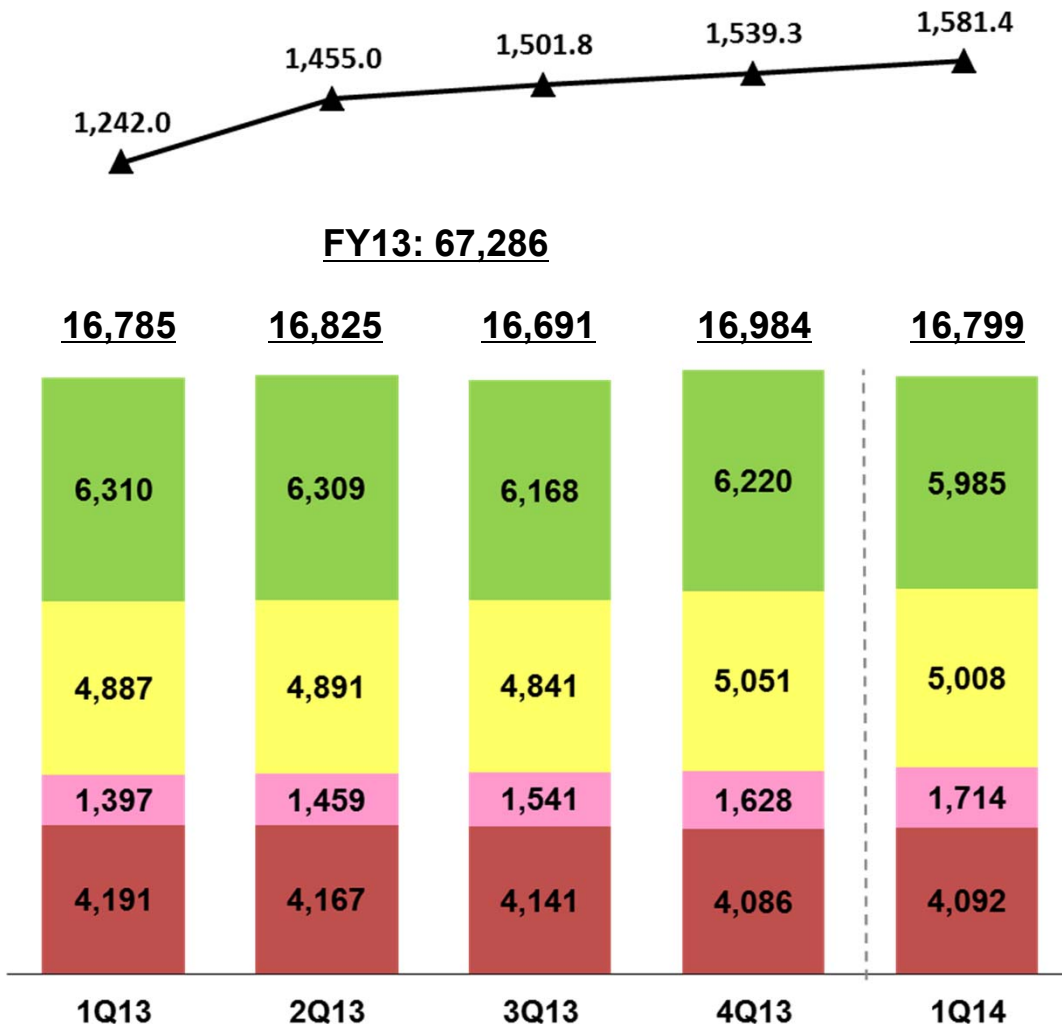


# II - 4. Network Services (1)Revenues



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

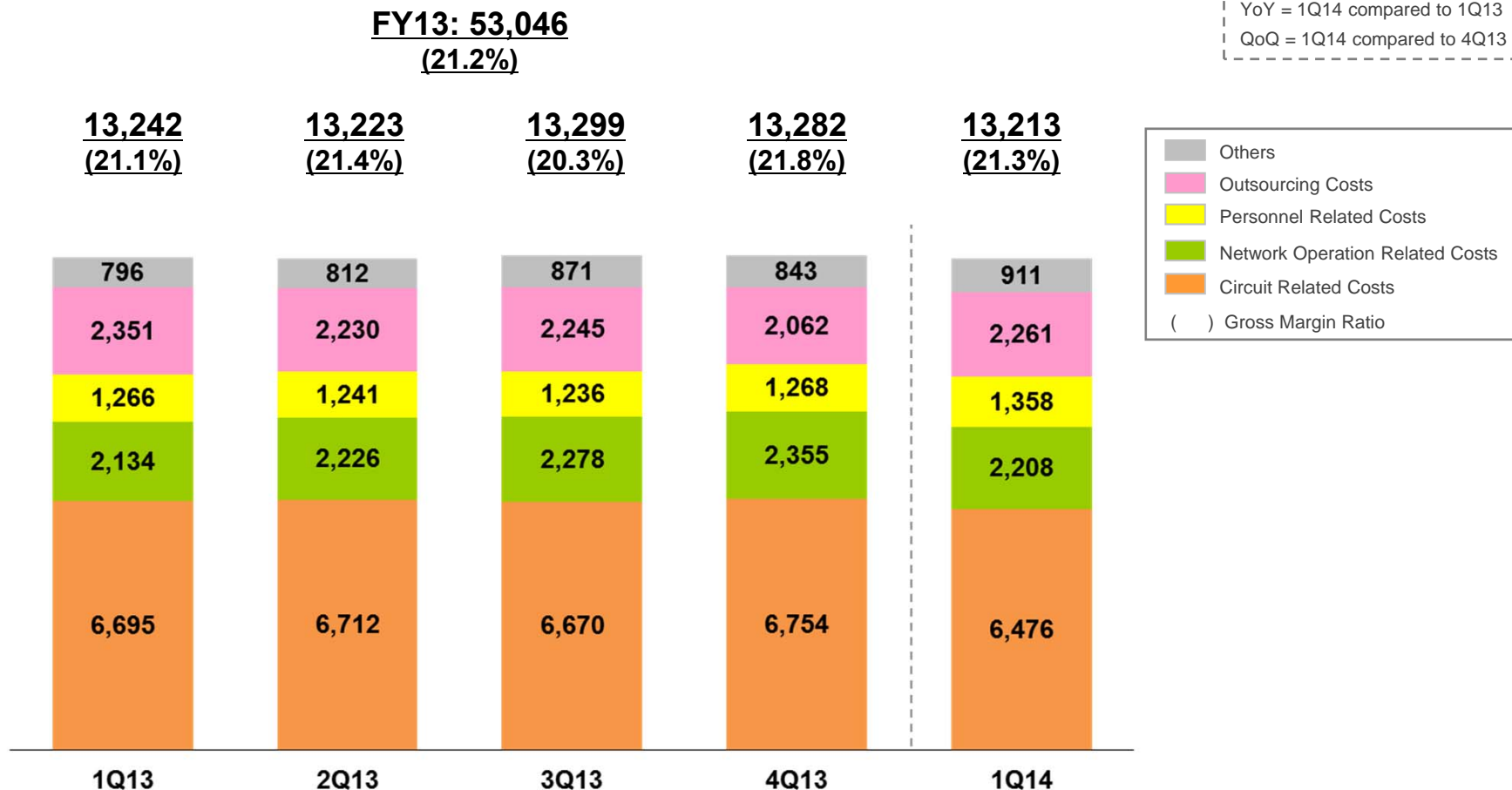
### ◆ 1Q14 WAN Services

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

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

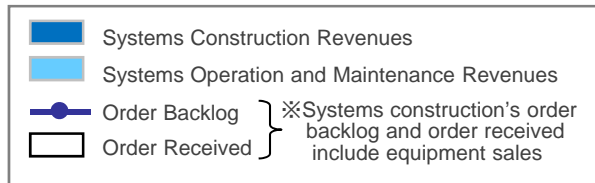
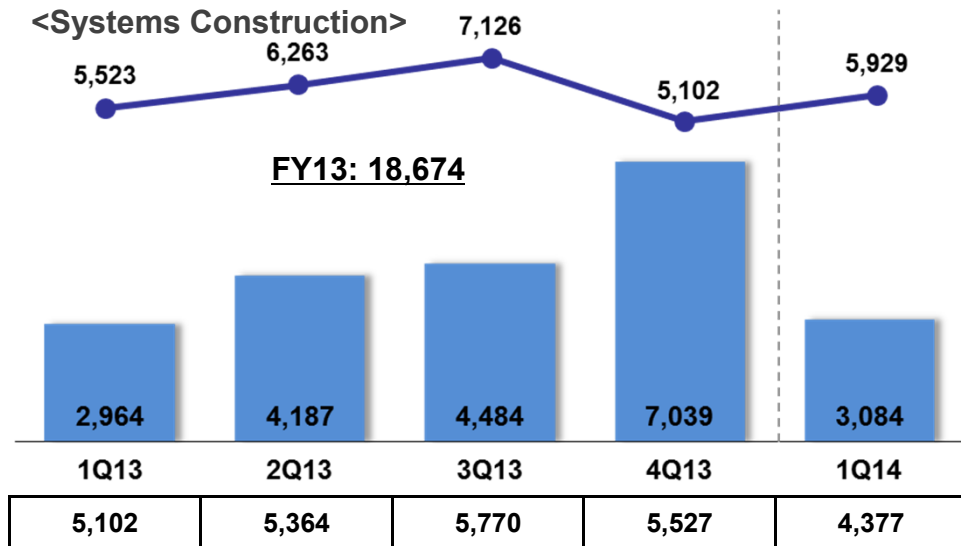
Unit: JPY million

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

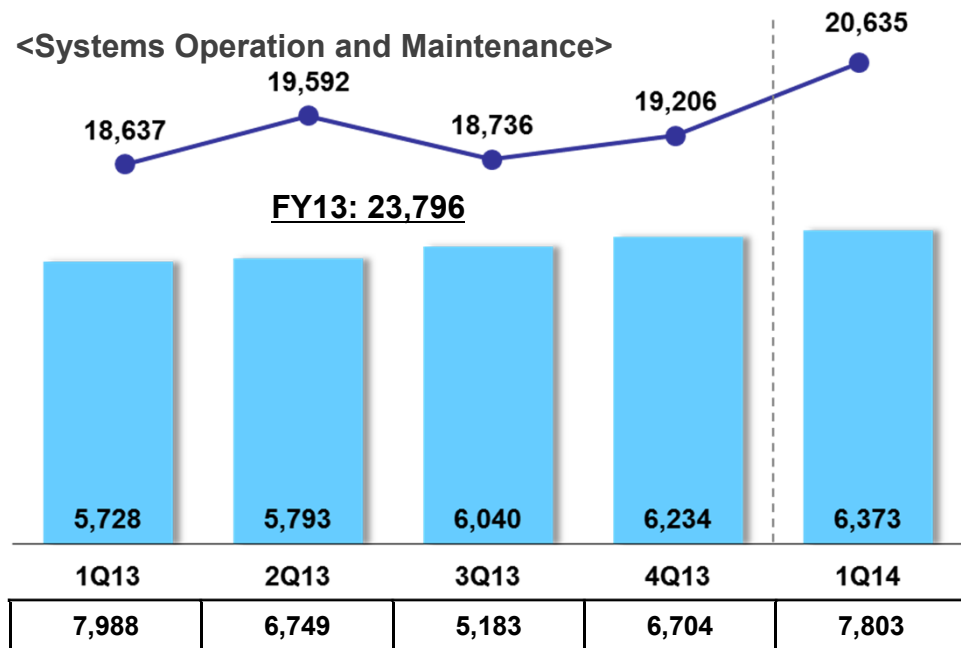


Unit: JPY million

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.



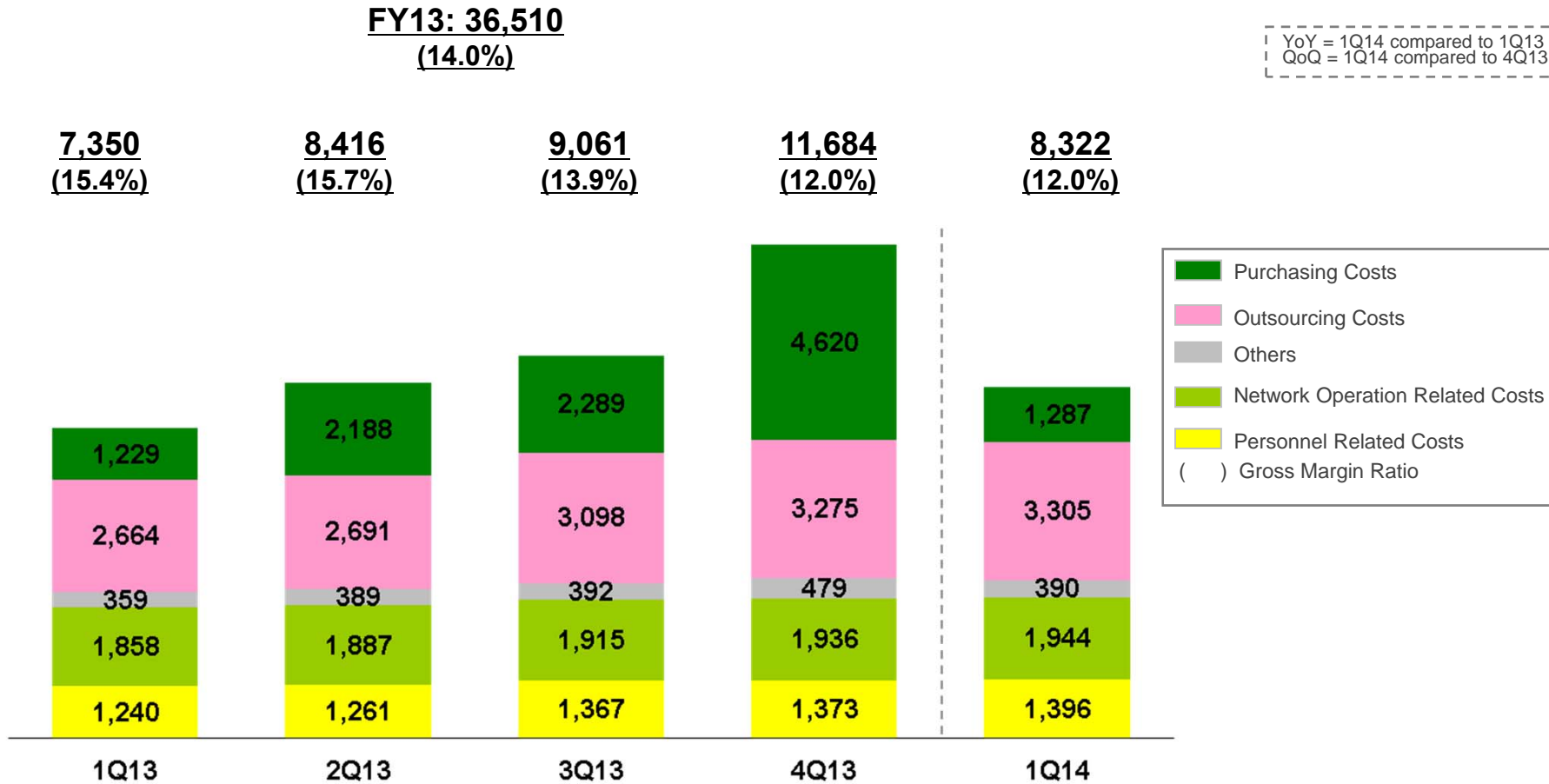
### 1Q14 Systems Operation and Maintenance

- ◆ 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

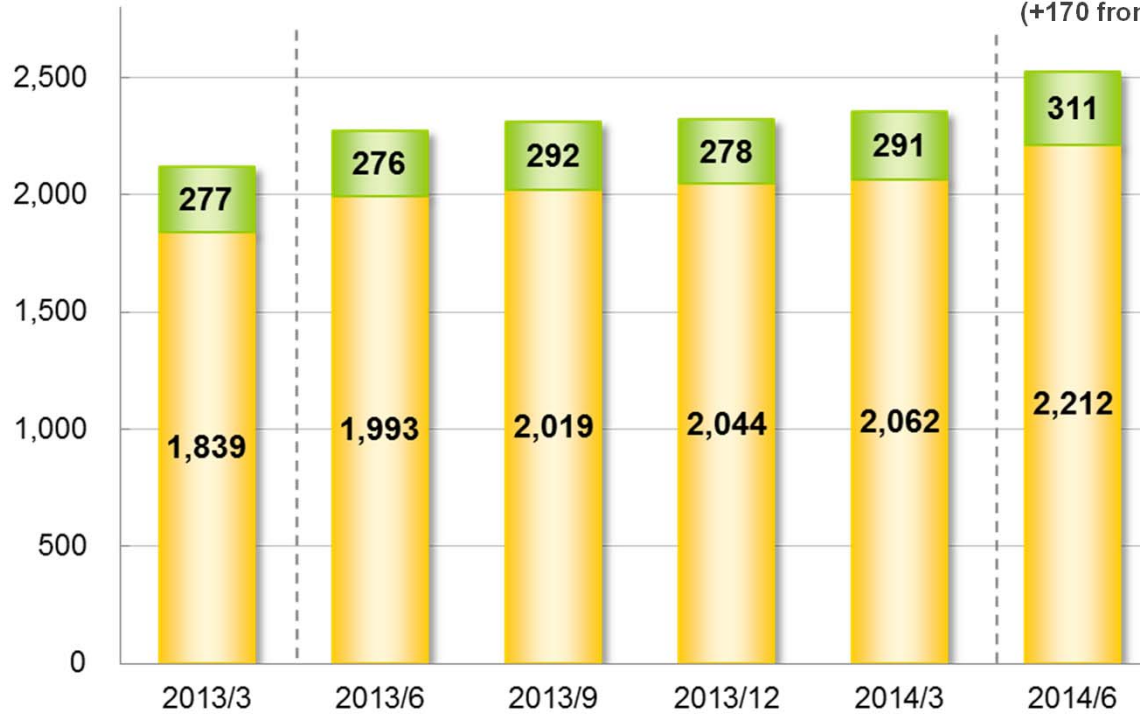
YoY = 1Q14 compared to 1Q13  
QoQ = 1Q14 compared to 4Q13



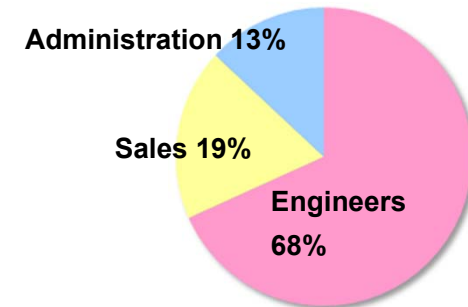
- ◆ 1Q14 Cost of SI: up JPY972 million, up 13.2% YoY
  - Number of outsourcing personnel as of June 30, 2014: 810 personnel (up 97 personnel YoY, up 27 personnel QoQ) , increase in outsourcing-related costs
  - Slightly lower than expected gross margin caused by some rework related to the projects we 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)



[Employee Distribution]



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

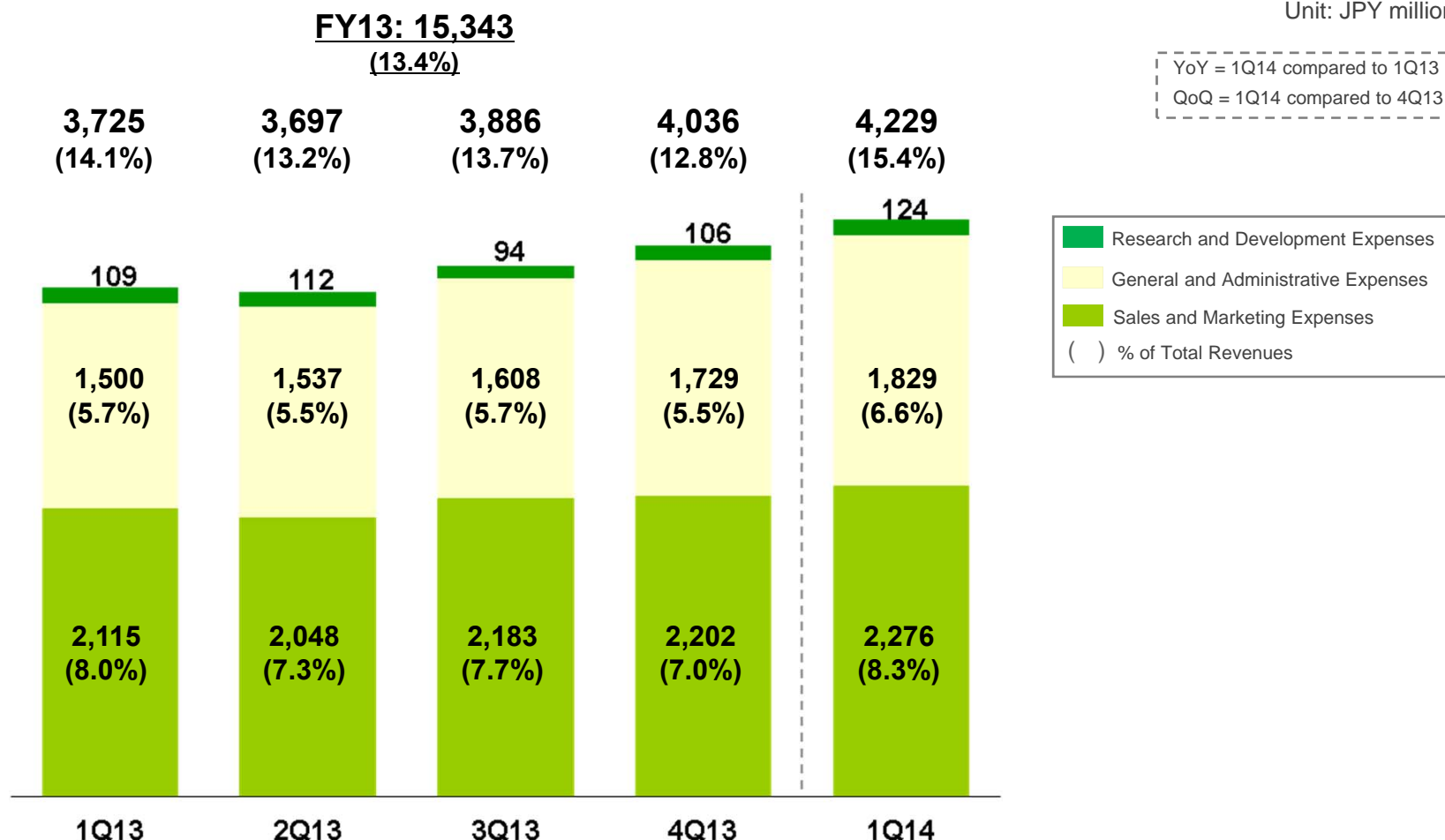
Unit: JPY million

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

Unit: JPY million



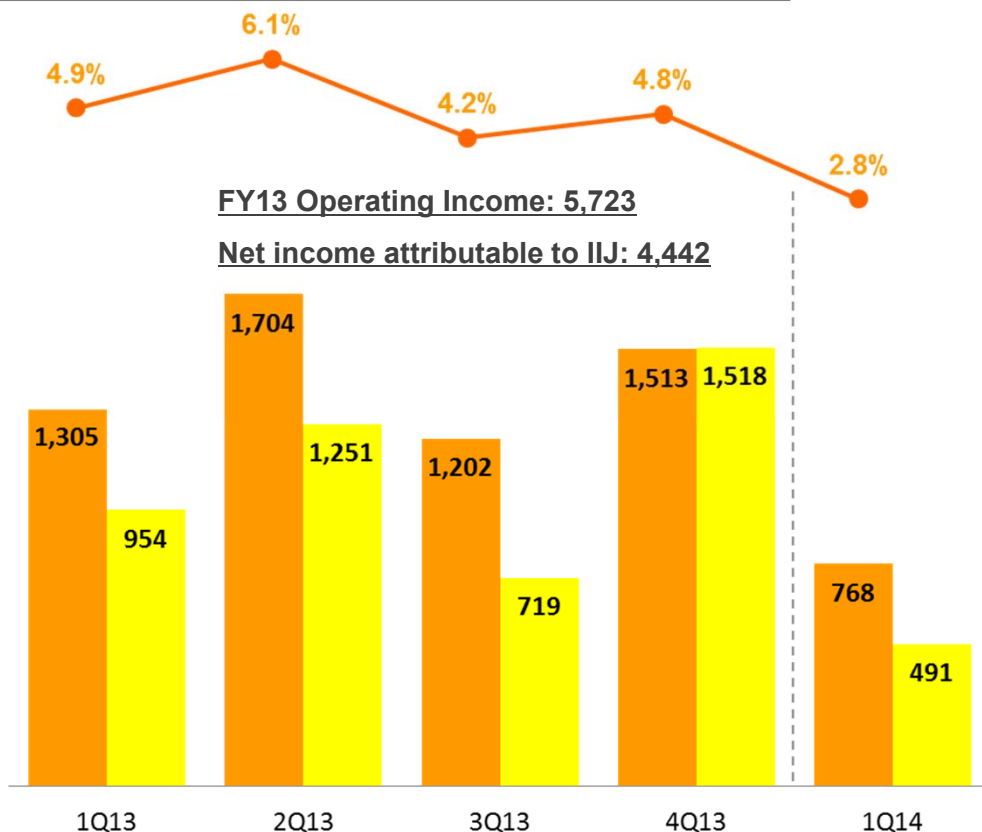
- ◆ 1Q14 SG&A Expenses/R&D: up JPY505 million YoY, up JPY193 million QoQ
  - Increase in personnel-related, outsourcing-related, rent expenses, commission payments (recruit agent fee etc), depreciation and disposal of assets
- ◆ Recognized JPY0.16 billion in 1Q14 as costs and expenses related to headquarter 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
<b>Total Assets</b>	<b>103,867</b>	<b>101,703</b>	<b>(2,164)</b>
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)
<b>Total Liabilities</b>	<b>43,686</b>	<b>42,041</b>	<b>(1,645)</b>
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)
<b>Total IIJ Shareholders' Equity</b>	<b>59,912</b>	<b>59,375</b>	<b>(537)</b>

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

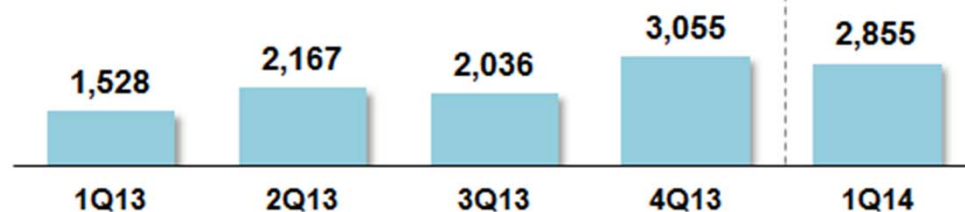
## II - 10. Consolidated Cash Flows

### Operating Activities:

Unit: JPY million

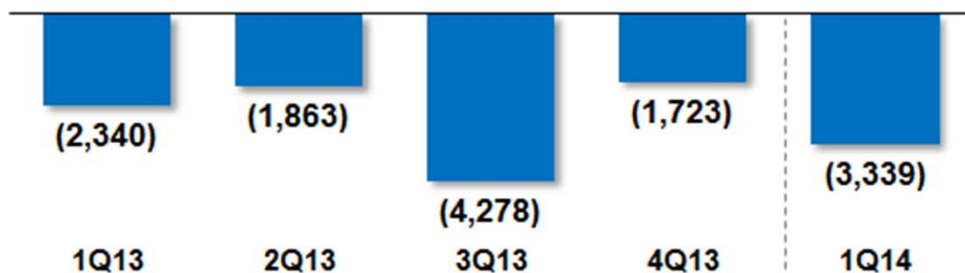
YoY = 1Q14 compared to 1Q13

FY13 :8,787



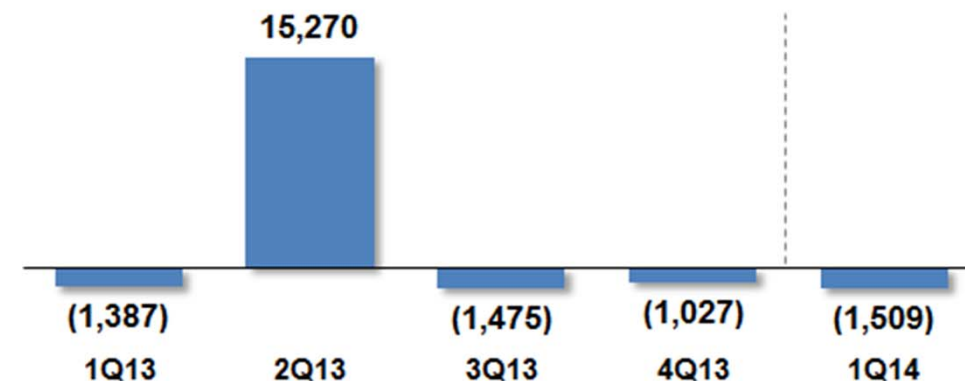
### Investing Activities:

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)

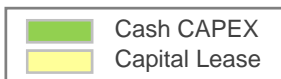
#### Financing Activities

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

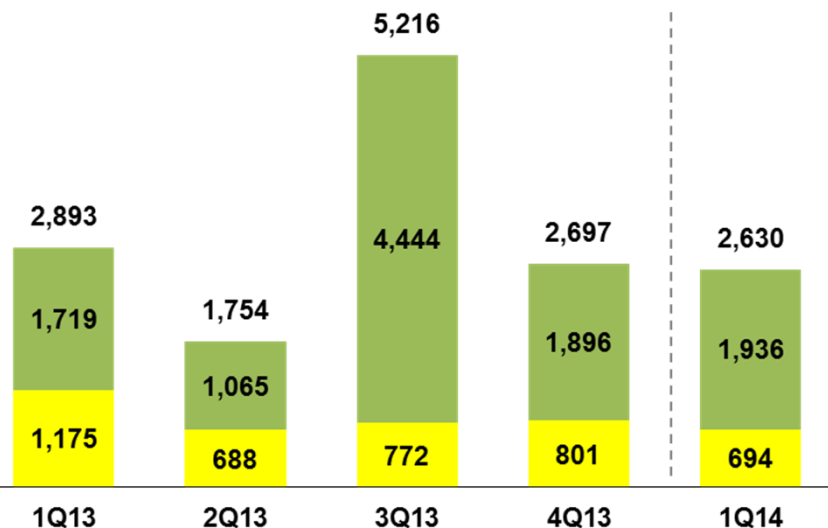
## II - 11. Other Financial Data (CAPEX etc.)

Unit: JPY million

CAPEX (Include Capital Leases):



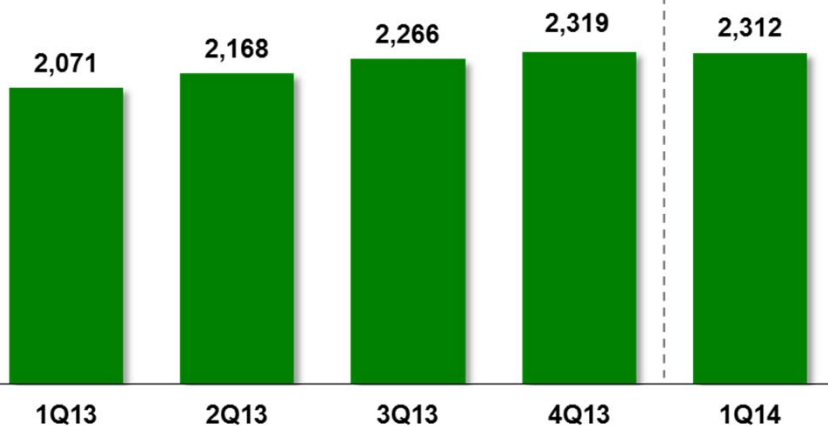
**FY13 : 12,560**



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

Depreciation and Amortization:

**FY13 : 8,823**

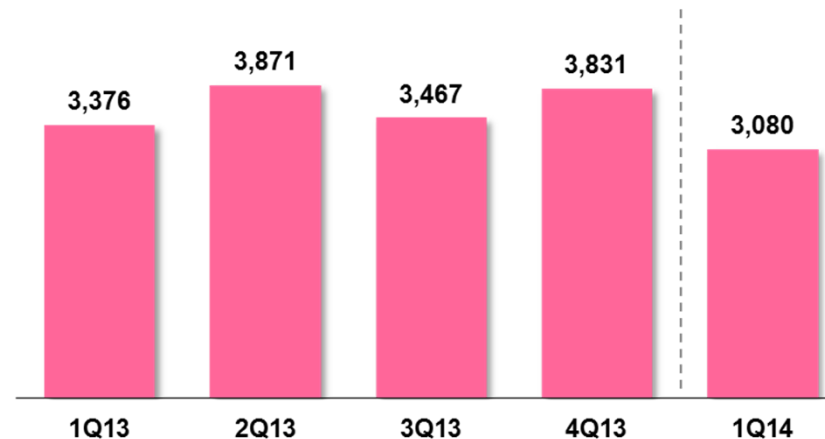


Adjusted EBITDA:

\*( ) % of total revenues

**FY13 : 14,546**

(12.7%)

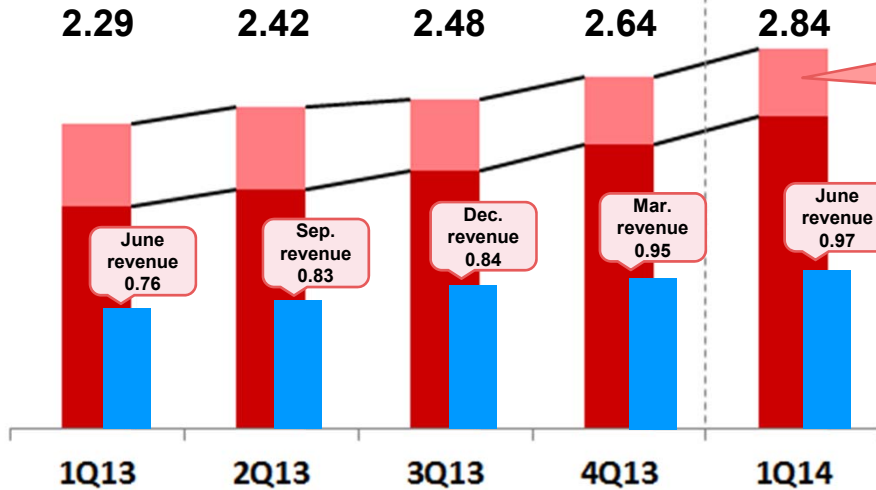


# III-1. Developments of Cloud Business

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)

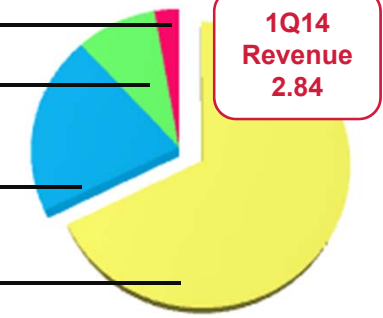
0.26

## GIO/Hosting

0.58

## GIO/Component

1.92



## Enhancing BigData & M2M related services

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

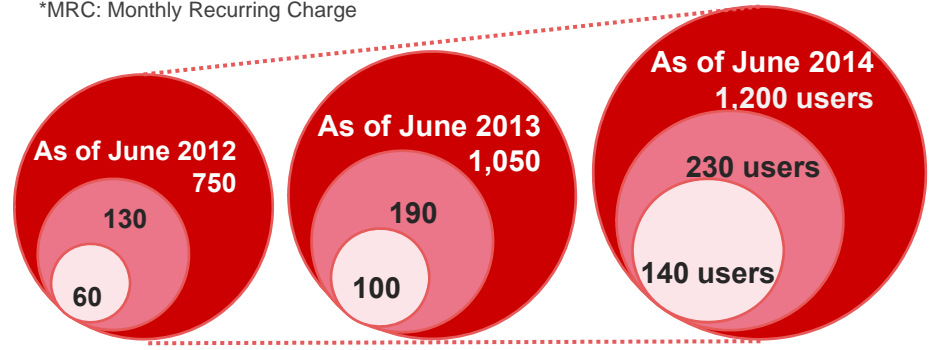
## Further focus on enterprises' cloud adoption

- 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 SIers with SAP Japan
- Cloud migration of ERP systems by offering hybrid cloud comprised of SAP HANA Cloud and IIJ GIO VW Series<sup>(4)</sup>

## Expansion of Customer Base and Usage

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

\*MRC: Monthly Recurring Charge

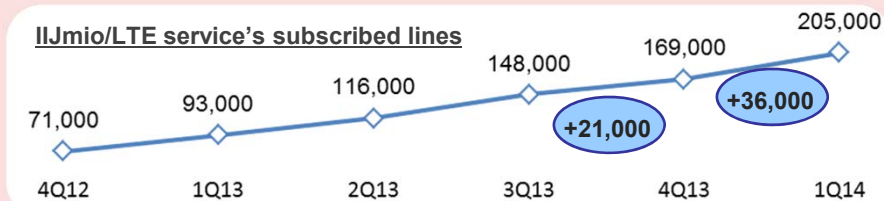


(1) IIJ GIO Component Service Database Add-on  
 (2) DWH: Data Warehouse  
 (3) IIJ GIO M2M Platform Services  
 (4) IIJ GIO for SAP Solution PoC (Proof of Concept) for SAP HANA

## 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



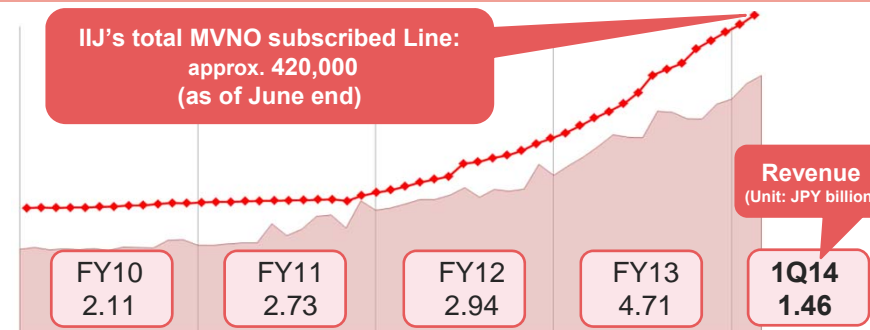
- More unlocked SIM devices lined-up
  - Huawei “Ascend G6” (from May)
  - LG G2mini LG-D620J (from August)
- Japan’s Mobile Market
  - MIC\* study group proposed policies regarding “remove SIM-locked handsets” and “introduce cooling-off”
  - Juvenile protection, consumer protection also in debate

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

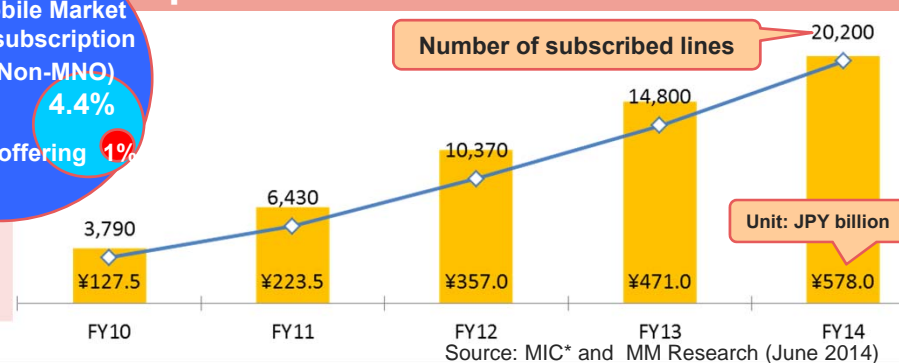
### MVNO for Enterprise

- 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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Internet Initiative Japan