

FY2014 Consolidated Financial Results



Internet Initiative Japan Inc.
TSE1(3774), NASDAQ(IIJI)
May 15, 2015

Ongoing Innovation



Agenda

I . Summary of FY2014 Financial Results

II . Consolidated Financial Results for FY2014

III. Reference Materials

I . Summary of FY2014 Financial Results

	< FY2014 Results >		< FY2015 Target > %: YoY change	
Revenues	JPY123.1 billion	up 7.7%	JPY139.0 billion	up 13.0%
Gross margin	JPY22.1 billion	up 4.8%	JPY25.1 billion	up 13.7%
Operating income	JPY5.1 billion	down 11.3%	JPY6.5 billion	up 28.1%
Net Income attributable to IIJ	JPY3.3 billion	down 25.2%	JPY4.0 billion	up 20.4%

FY14 Business Developments

Continuous business enhancement for mid-to- long term growth

MVNO	Revenue: JPY7.69 billion (up JPY2.99 billion YoY) Subscription: 673,000 (up 289,000 YoY)
	Market & demand expanding, tailwind for subscription increase <ul style="list-style-type: none"> • Consumer subscription*1: 169,000 (Mar. 2014) → 430,000 (Mar. 2015) • MVNE subscription*2: : 41,000 (Mar. 2014) → 95,000 (Mar. 2015)
Cloud	Revenue: JPY12.26 billion (up JPY2.43 billion YoY) Enterprise usage continued to grow, Game usage flattish growth
Overseas Business	Revenue: JPY4.90 billion (up 18.4% YoY) Deficit: JPY0.81 billion (FY13 deficit: JPY0.62 billion) Export container DCs, provide Cloud, expand Internet backbone etc.

- **Number of employees increased by 20.5% YoY** (excluding M&A, up 9.3% YoY)
2,353 (Mar. 2014) → **2,835** (Mar. 2015)

FY14 Financial Results

- **Revenue** grew by 7.7% YoY with revenue accumulation of mobile, Cloud and SI, Stronger growth in 2H14 (up 10.0% YoY)
- **Operating income** decreased due to the increased operating cost* along with proactive business expansion and weak gross margin growth
 - Personnel-related cost increased by JPY1.91 billion, mobile-related costs increased by approx. JPY2.3 billion, recognized approx. JPY0.5 billion for 1H14 HQ relocation, smaller than estimated mobile connectivity charge decrease

*1 IIJmio High-Speed mobile/D services subscription

*2 IIJ mobile MVNO Platform services subscription

FY15 Plan: Accelerated revenue growth & Expansion of business scale

MVNO	Target over 1 million subscription, revenue of JPY13 billion Market expansion, more SIM-lock free devices, MVNE/M2M growing demand etc.	➤ Introduce strategically new services (Cloud-related and gateway-related new services from 2H15)
Cloud	Target revenue of over JPY15 billion Continuous service line-ups expansion, emphasis on SAP business, leverage SI to capture large scale projects, promote level-up of infrastructure etc.	➤ Continuous investment for new areas (IoT, BigData, HEMS*3 etc.)
Overseas Business	Target revenue of over JPY6.5 billion, deficit to decrease by half Significant revenue growth through overseas subsidiaries, accumulate Cloud revenues, cross selling services to Japanese customers, export container DCs etc.	➤ Enhanced human resources, including employees to replace outsourcing resources
		➤ Seeking to accelerate growth with M&A implementation (not included in FY15 fin. target)

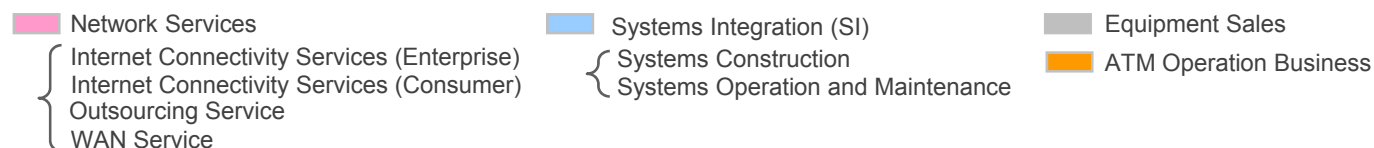
*3 Home Energy Management System

Ⅱ - 1. Consolidated Financial Results for FY2014

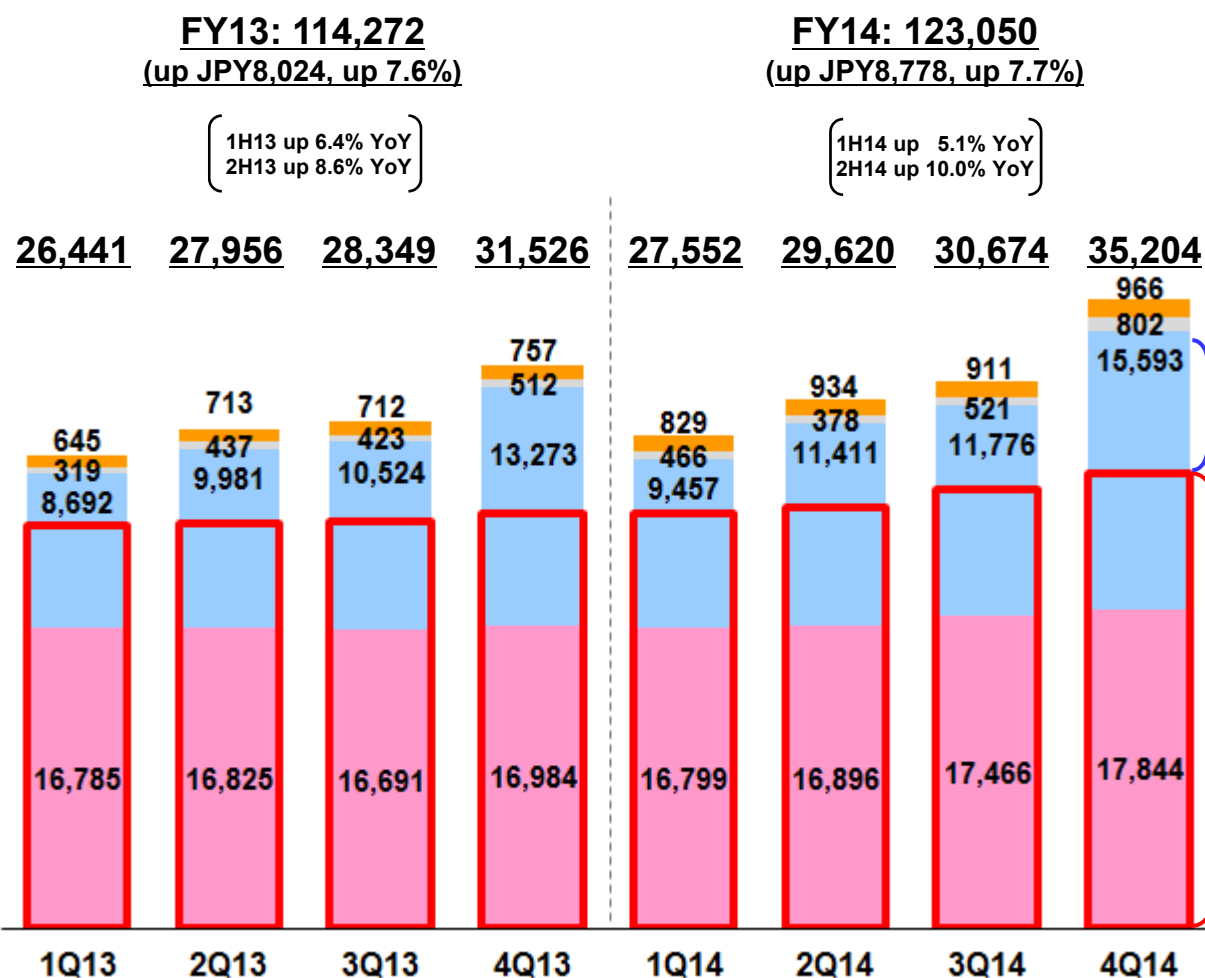
Unit: JPY billion

	<i>% of Revenues</i> FY14 (Apr. 2014 -Mar. 2015)	<i>% of Revenues</i> FY13 (Apr. 2013 -Mar. 2014)	YoY Change in %	<i>% of Revenues</i> FY15 Target (Apr. 2014 -Mar. 2015)	YoY Change in %
Total Revenues	123.1	114.3	+7.7%	139.0	+13.0%
Total Cost of Revenues	<i>82.1%</i> 101.0	<i>81.6%</i> 93.2	+8.3%	<i>81.9%</i> 113.9	+12.8%
Gross Margin	<i>17.9%</i> 22.1	<i>18.4%</i> 21.1	+4.8%	<i>18.1%</i> 25.1	+13.7%
SG&A/R&D	<i>13.8%</i> 17.0	<i>13.4%</i> 15.3	+10.8%	<i>13.4%</i> 18.6	+9.4%
Operating Income	<i>4.1%</i> 5.1	<i>5.0%</i> 5.7	(11.3%)	<i>4.7%</i> 6.5	+28.1%
Income before Income Tax Expense	<i>4.2%</i> 5.1	<i>5.5%</i> 6.3	(18.1%)	<i>4.6%</i> 6.4	+24.5%
Net Income attributable to IIJ	<i>2.7%</i> 3.3	<i>3.9%</i> 4.4	(25.2%)	<i>2.9%</i> 4.0	+20.4%

II - 2. Revenues



Unit: JPY million
YoY = FY14 compared to FY13



One-time Revenue *

FY14: JPY22,604 million (up 11.0% YoY)
(18.4% of FY14 revenue)

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

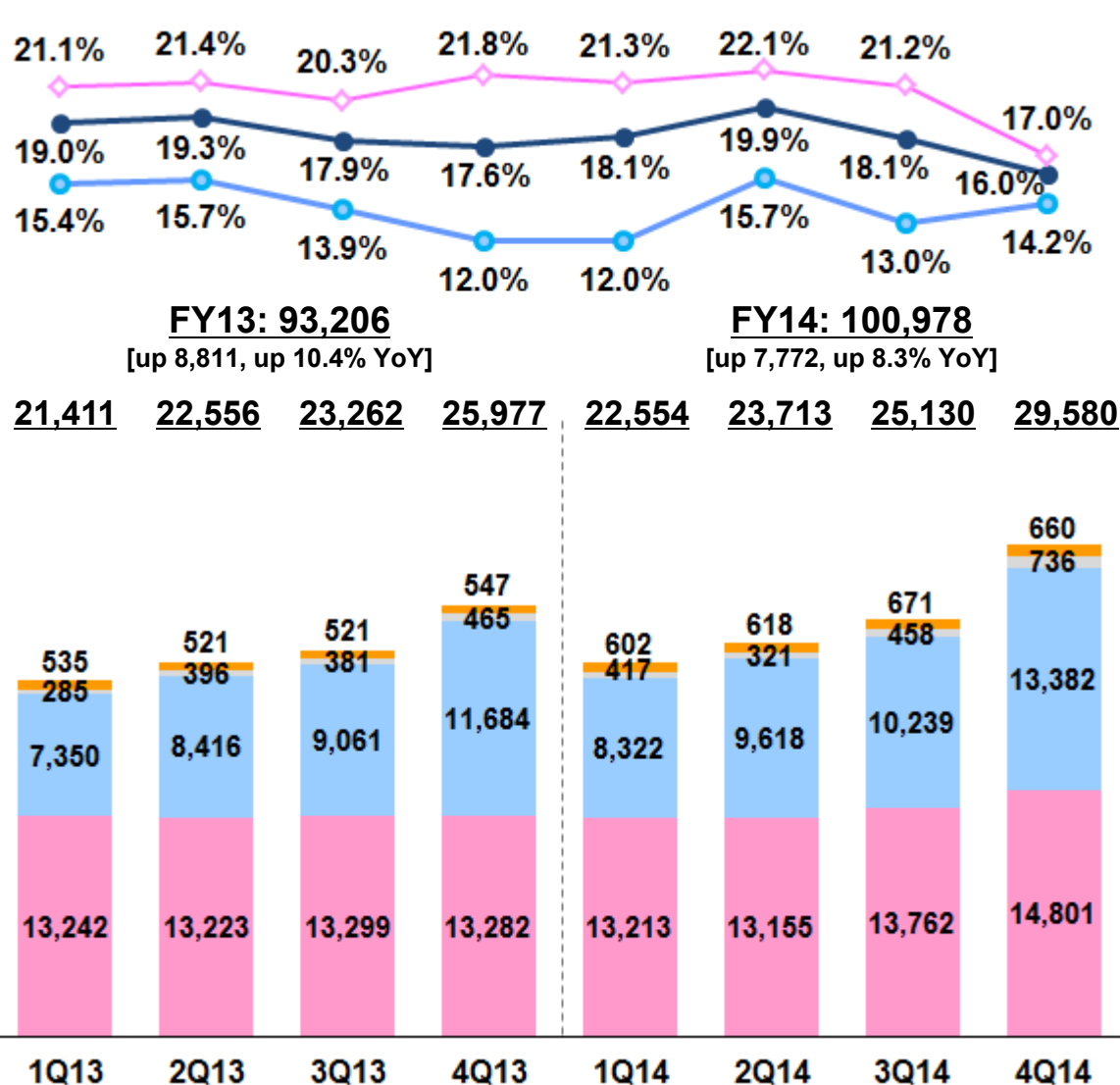
Recurring Revenue*

FY14: JPY96,806 million (up 6.3% YoY)
1H14 up 3.5% YoY, 2H14 up 9.1% YoY
(78.7% of FY14 revenue)

- * 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 Systems Integration (SI) Equipment Sales ATM Operation Business
 Gross margin ratio : Network Services Systems Integration (SI) Total Revenues



◆ FY14 Total Gross Margin:

- JPY22,073 million
 (up JPY1,006 million, up 4.8% YoY)
- Gross margin ratio: 17.9%
 (down 0.5 points YoY)

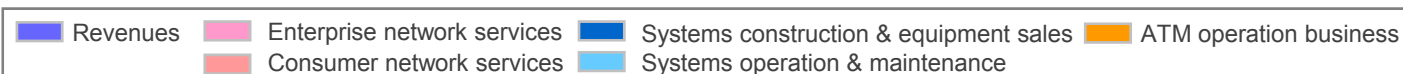
◆ FY14 Network Service Gross Margin

- JPY14,073 million
 (down JPY167 million, down 1.2% YoY)
- Gross margin ratio: 20.4%
 (down 0.8 points YoY)
- 4Q14 gross margin decreased due to the impact of applying the smaller than estimated decreased rate of mobile connectivity charge (fixed in Mar. 2015)
 - During FY14, the mobile cost were recognized 40% off of the actual costs based on a payment arrangement proposed by Docomo to all of its MVNOs
 - Estimated decrease rate: around 50% (56.6% decrease in last year)
 - Actual decreased rate: 23.5%
 - Approx. JPY0.36 billion plus impact in 4Q14 by applying the revised charge to 1Q14-3Q14 mobile costs

◆ FY14 SI Gross Margin:

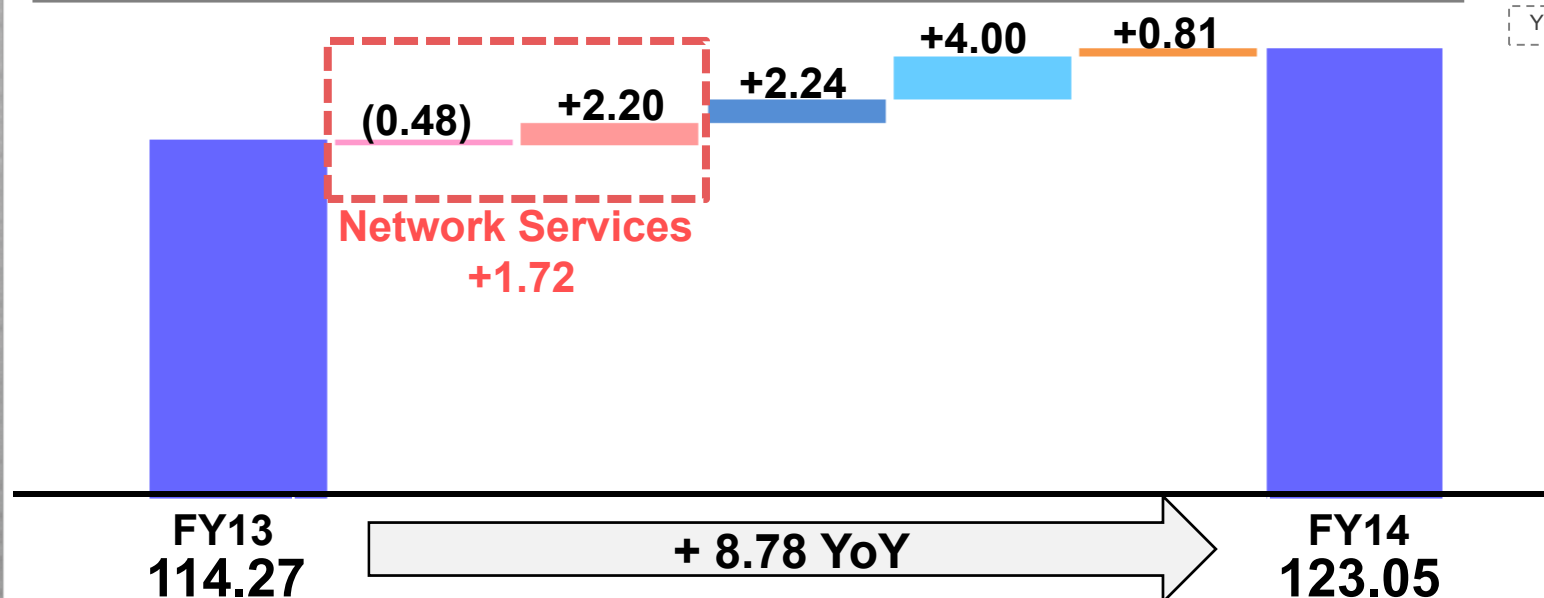
- JPY6,676 million
 (up JPY717 million, up 12.0% YoY)
- Gross margin ratio: 13.8%
 (down 0.2 points YoY)

II -4. Revenue YoY Change



Unit: JPY billion

YoY = FY14 compared to FY13



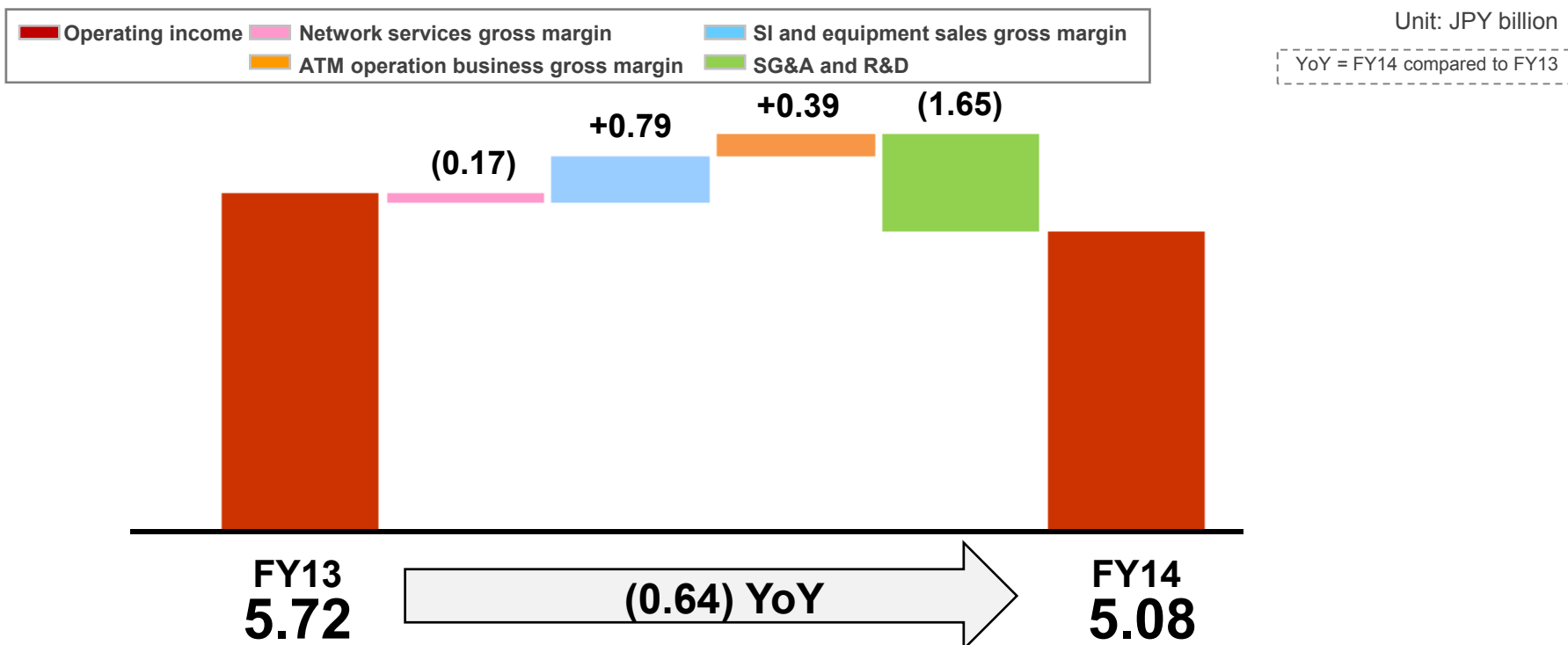
◆ FY14 Revenues: JPY123.05 billion (up JPY8.78 billion, up 7.7% YoY)

- **Total revenues** were in line with initial target. Strong revenue growth of consumer network services^{*1} and systems integration absorbed the weaker than expected enterprise network services revenue accumulation.
- **Enterprise network services^{*2} revenues** did not grow as much as planned. WAN services revenue decreased by JPY0.68 billion YoY.
- **Consumer network services revenue** significantly grew due to the strong revenue growth of IIJmio High-speed mobile/D services which increased by JPY2.56 billion YoY. It included a negative impact of revenue decrease by approx. JPY0.2 billion due to the change in revenue recognition on traditional Flet's services to net.
- **Systems construction and equipment sales revenues** (one-time revenue) increased by 11.0% YoY mainly because of an increase in project scale.
- **Systems operation and maintenance revenue** grew with Cloud-related revenue whose contribution was an increase of JPY2.32 billion YoY and ordinary systems operation and maintenance revenue whose contribution was an increase of JPY1.68 billion YoY.

*1 Consumer network services: Internet connectivity services for consumer

*2 Enterprise network services: Internet connectivity services for enterprise, outsourcing services, and WAN services

Ⅱ -5. Operating Income YoY Change



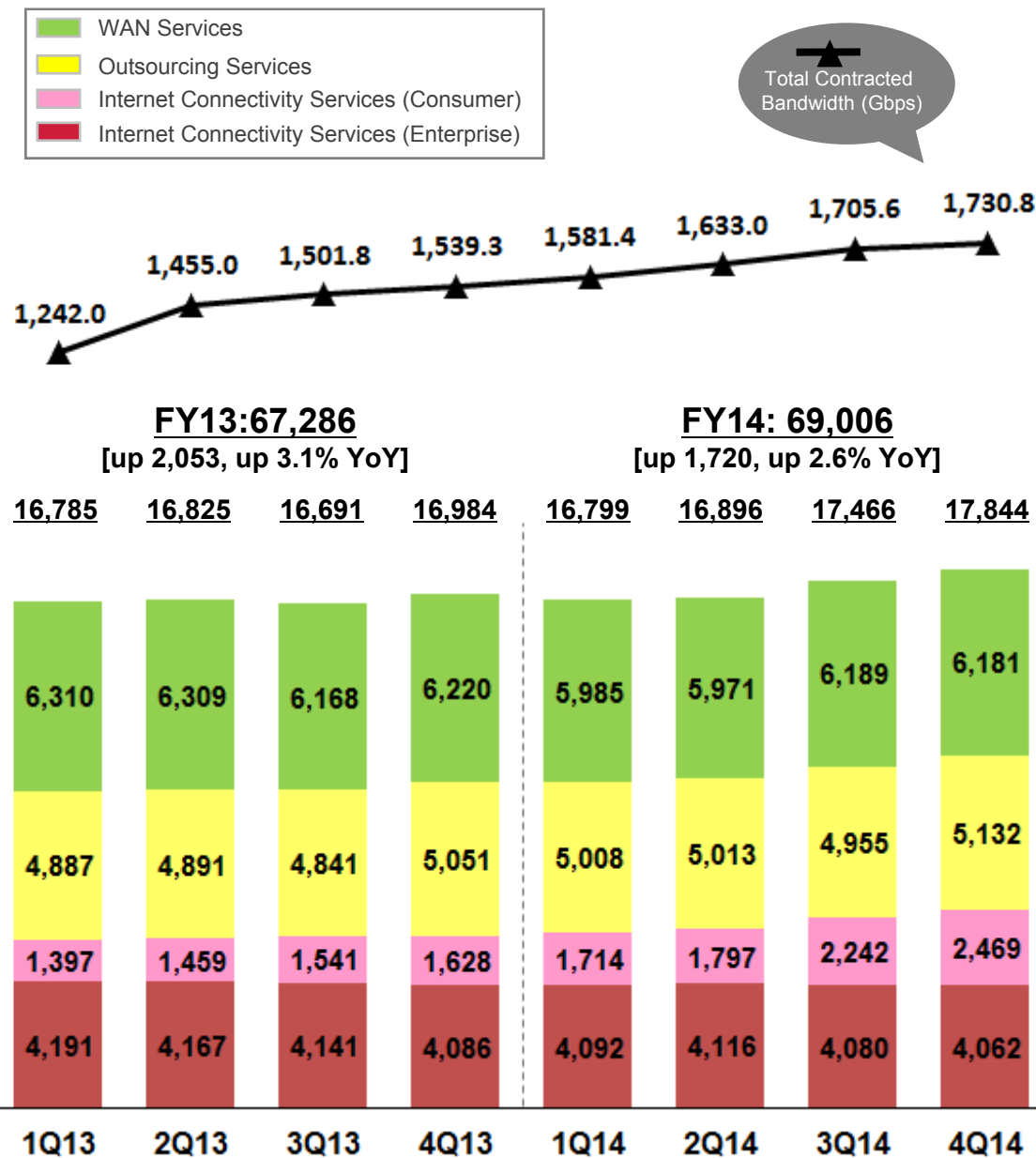
◆ FY14 Operating income: JPY5.08 billion (down JPY0.64 billion, down 11.3% YoY)

- **Operating income** decreased because of a weak network service gross margin, which is mainly because a weak enterprise network services revenue accumulation could not cover the increasing costs.
- **Network services gross margin** decreased mainly because enterprise network services' weak revenue accumulation, an increase in cost along with strong consumer revenue growth, and weaker than estimated decrease rate of mobile connectivity charge.
- **SI gross margin** was almost in line with initial plan. SI revenue growth covered 1Q and 3Q unprofitable projects.
- **SG&A** slightly exceed initial plan mainly due to an increase in sales commission expenses related to mobile sales activity.
Personnel-related expenses increased by JPY0.78 billion YoY, sales commission expenses increased by JPY0.27 billion YoY
Recognized approx. JPY0.5 billion for the headquarter relocation.

- ◆ Overseas business deficit increased by JPY0.19 billion YoY almost as planned.
Costs related to new service/solution development increased by approx. JPY0.3 billion YoY

II - 6. Network Services (1)Revenues

Unit: JPY million



◆ Internet Connectivity (Enterprise)

- FY14: JPY16,350 million
(down JPY235 million, down 1.4% YoY)
- Mobile service revenue continued to increase
- Over 1Gbps contracts:
 - ✓ As of 4Q14-end: 340 contracts
 - ✓ As of 4Q13-end: 271 contracts

◆ Internet Connectivity (Consumer)

- FY14: JPY8,222 million
(up JPY2,197 million, up 36.5% YoY)
- IIJmio mobile service continued to accumulate
 - ✓ 4Q14-end subscription: 430 thousand
(up 261 thousand YoY, up 91 thousand QoQ)
 - ✓ FY14 revenue: JPY4.26 billion (up 2.56 billion YoY)
 - ✓ Expect Flet's bundled service (launched in Mar. 2015) to contribute in accelerating mobile subscription accumulation

◆ Outsourcing Services

- FY14: JPY20,108 million
(up JPY438 million, up 2.2% YoY)
- IIJ/GIO Hosting Service grew slightly due to a decline in demand from game customers
- Due to a termination of a large-scale overseas datacenter contract for a game customer, the revenue decreased by JPY0.43 billion YoY

◆ WAN Services

- FY14: JPY24,326 million
(down JPY680 million, down 2.7% YoY)
- While revenue decreased at the beginning of FY14 with the renewal of a large contract, maintained revenue by accumulating new orders during FY14

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

FY13: 53,046 (21.2%)

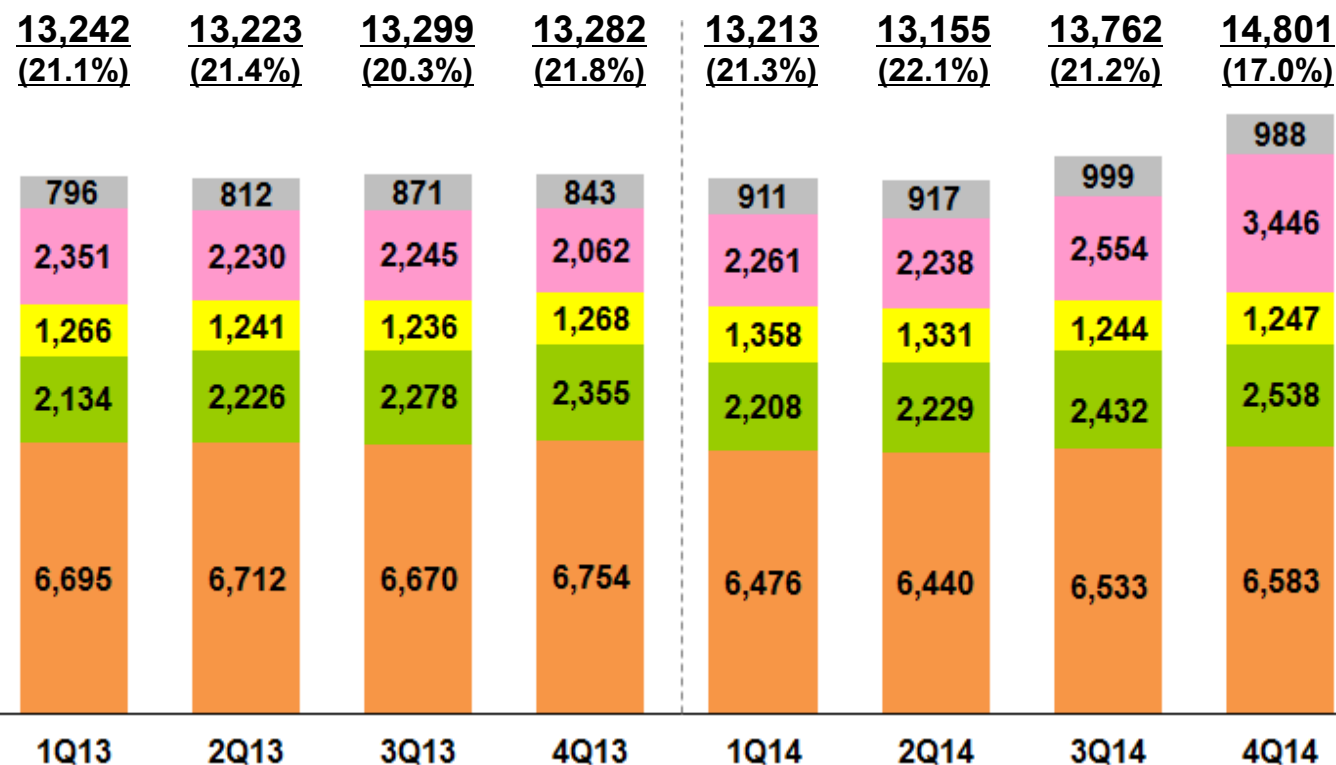
[up 2,354, up 4.6% YoY]

FY14: 54,932 (20.4%)

[up 1,886, up 3.6% YoY]

Unit: JPY million

YoY = FY14 compared to FY13

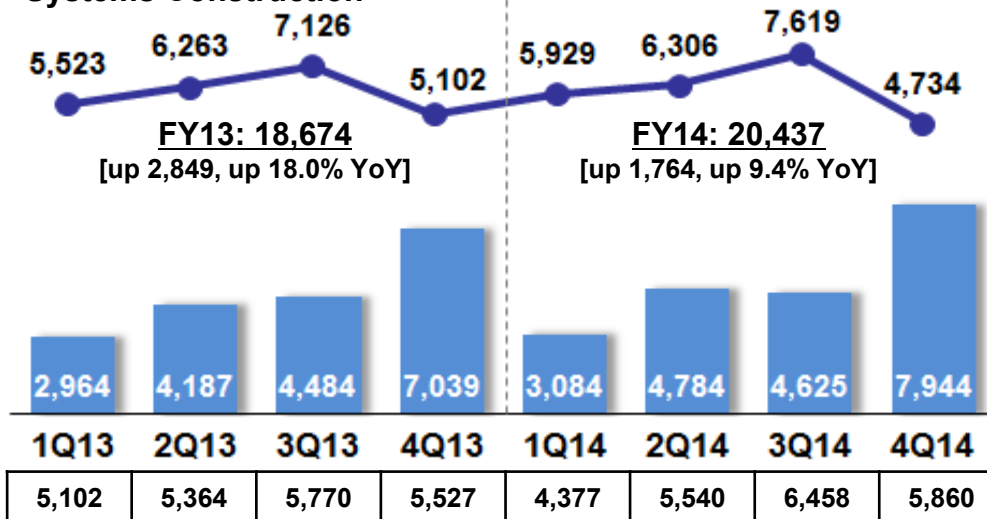


◆ FY14 Cost of Network Services: up JPY1,886 million, up 3.6% YoY

- Mobile-related cost (recognized in outsourcing-related costs) increased along with the increase in mobile services subscription and traffic volume
- 4Q14 outsourcing-related costs temporarily increased because of the recognition of approx. JPY0.36 billion which comes from the gap between the actual and our estimated connection charge of mobile-related cost in 1Q14-3Q14
- Circuit-related costs decreased by JPY0.8 billion YoY mainly due to a decrease in WAN services revenue
- Depreciation and amortization costs (recognized in network operation-related costs) increased by JPY0.45 billion YoY mainly due to upgrading our network to 100Gbps compatible environment and enhancing mobile infrastructure

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

< Systems Construction >



Systems Construction Revenues

Systems Operation and Maintenance Revenues

Order backlog

Order received

※Systems construction's order backlog and order received include equipment sales

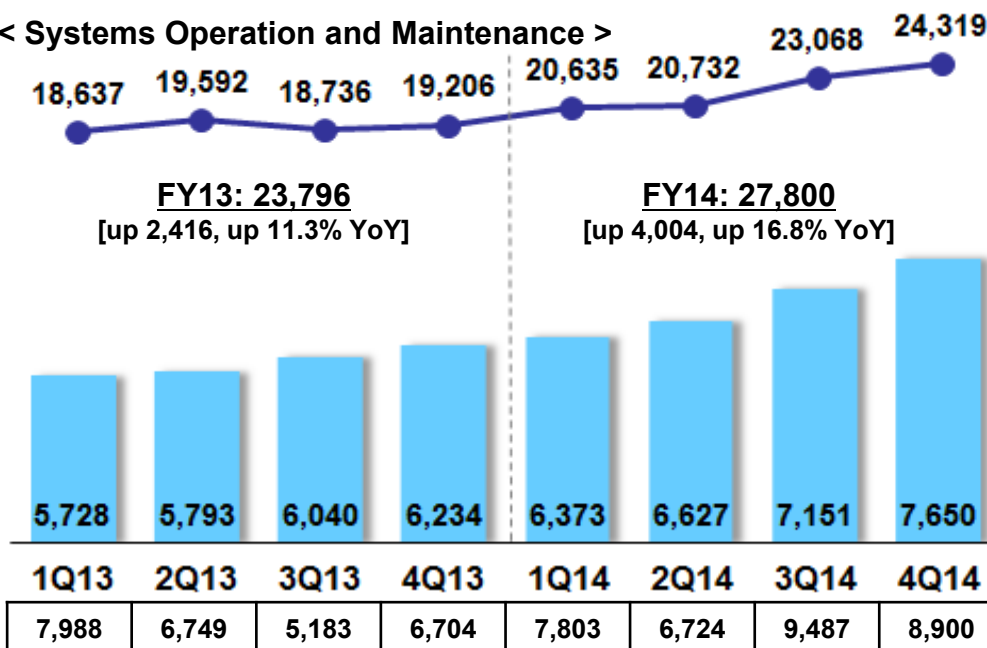
Systems construction revenues

- ◆ FY14 revenue: up JPY1,764 million, up 9.4% YoY
- ◆ FY14 order received: up JPY473 million, up 2.2% YoY
- ◆ Revenue increased due to an increase in projects scale

➢ Large-scale projects received in 4Q14:

- Comprehensive security systems for overseas offices
- Unified network for a prominent insurance agency group
- Upgrading core business operation systems for a major online trading company
- Large-scale database storage system for a university etc.

< Systems Operation and Maintenance >



Systems operation and maintenance revenue

- ◆ FY14 revenue: up JPY4,004 million, up 16.8% YoY
- Added RYUKOSHA's 4Q14 revenue (JPY347 million)
- 81.8% of FY14 Cloud-related revenue is recognized in systems operation and maintenance revenues (18.2% in outsourcing)
- Breakdown of the revenue growth:
 - From Cloud-related, up JPY2,322 million, up 30.1% YoY
 - From ordinary operation and maintenance, up JPY1,682 million, up 10.5% YoY
- ◆ FY14 order received: up JPY6,288 million, up 23.6% YoY

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

FY13: 36,510 (14.0%)

[up 6,086, up 20.0% YoY]

7,350
(15.4%)

8,416
(15.7%)

9,061
(13.9%)

11,684
(12.0%)

FY14: 41,562 (13.8%)

[up 5,051, up 13.8% YoY]

8,322
(12.0%)

9,618
(15.7%)

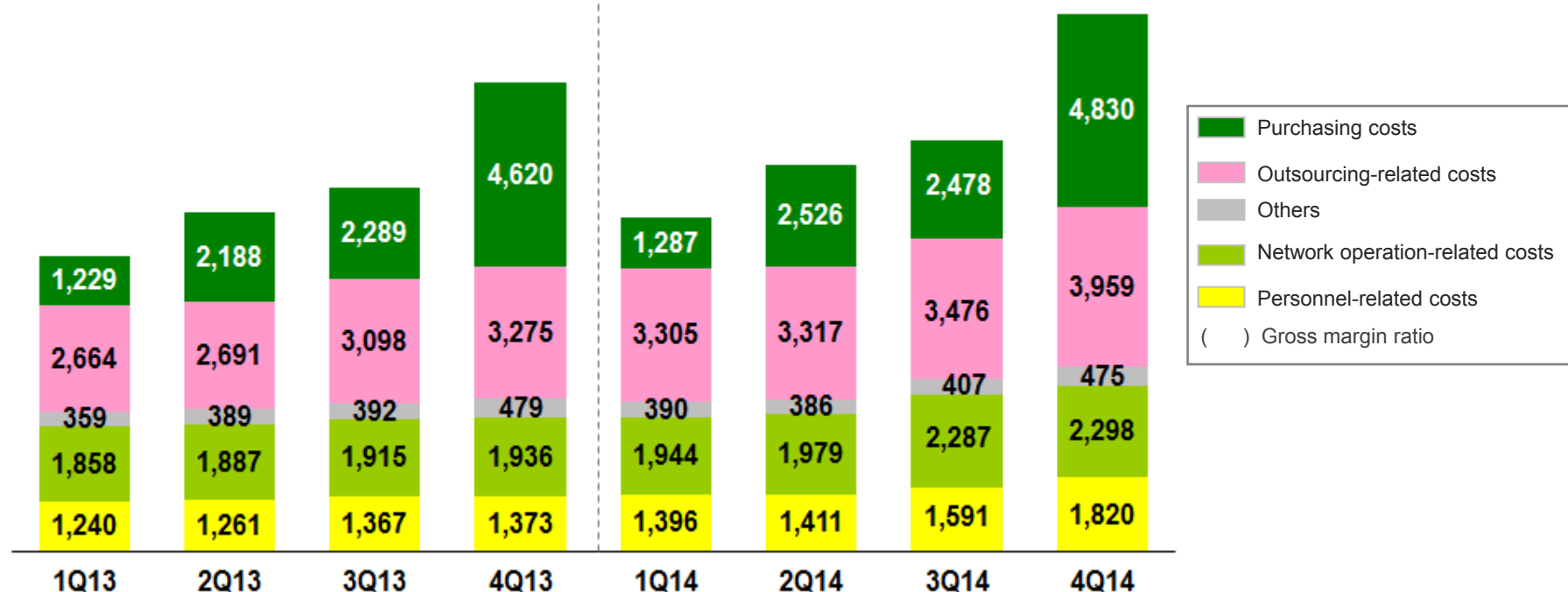
10,239
(13.0%)

13,382
(14.2%)

Unit: JPY million

YoY = FY14 compared to FY13

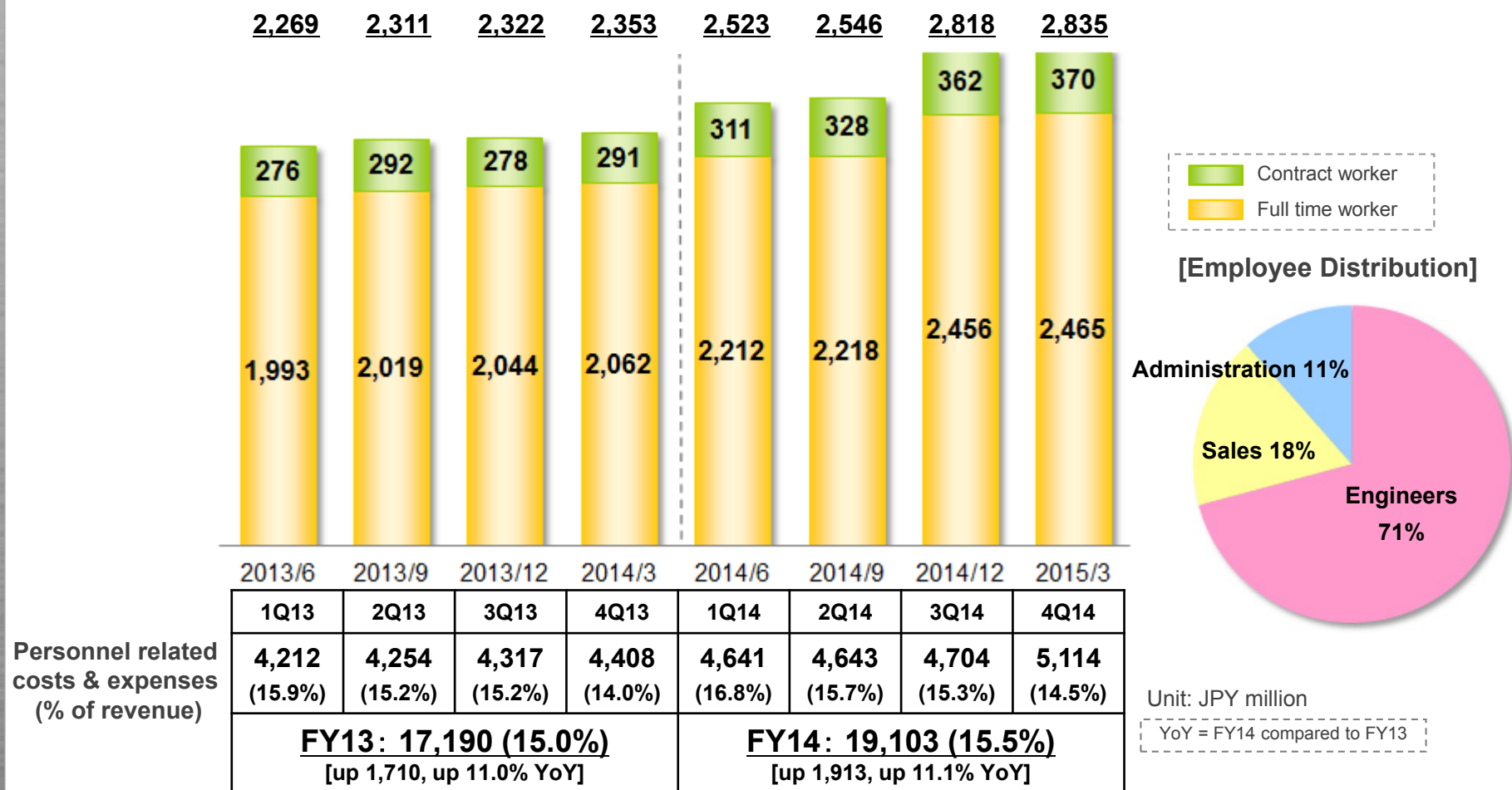
QoQ = 4Q14 compared to 3Q14



◆ FY14 Cost of SI: up JPY5,051 million, up 13.8% YoY

- Number of outsourcing personnel as of Mar. 2015: 969 personnel (up 186 personnel YoY, up 21 personnel QoQ)
- Purchasing costs and outsourcing-related costs increased as construction projects' scale expanded.
- 4Q14 personnel-related costs increased due to an acquisition of RYUKOSHA whose 4Q14 personnel-related costs was JPY263 million.
- 4Q14 gross margin ratio improved as no material incident of asset disposal and/or unprofitable projects.

Ⅱ - 8. Number of Employees



- ◆ FY14 personnel-related costs and expenses: up JPY1,913 million, up 11.1% YoY
- ◆ Number of employees (up 264) and personnel-related expenses increased due to an acquisition of RYUKOSHA (Dec. 2014)
- ◆ Hired 155 newly graduates in Apr. 2015, which includes 16 for RYUKOSHA and 13 for replacing outsourcing resources (129 new graduates in Apr. 2014)

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

FY13: 15,343 (13.4%)

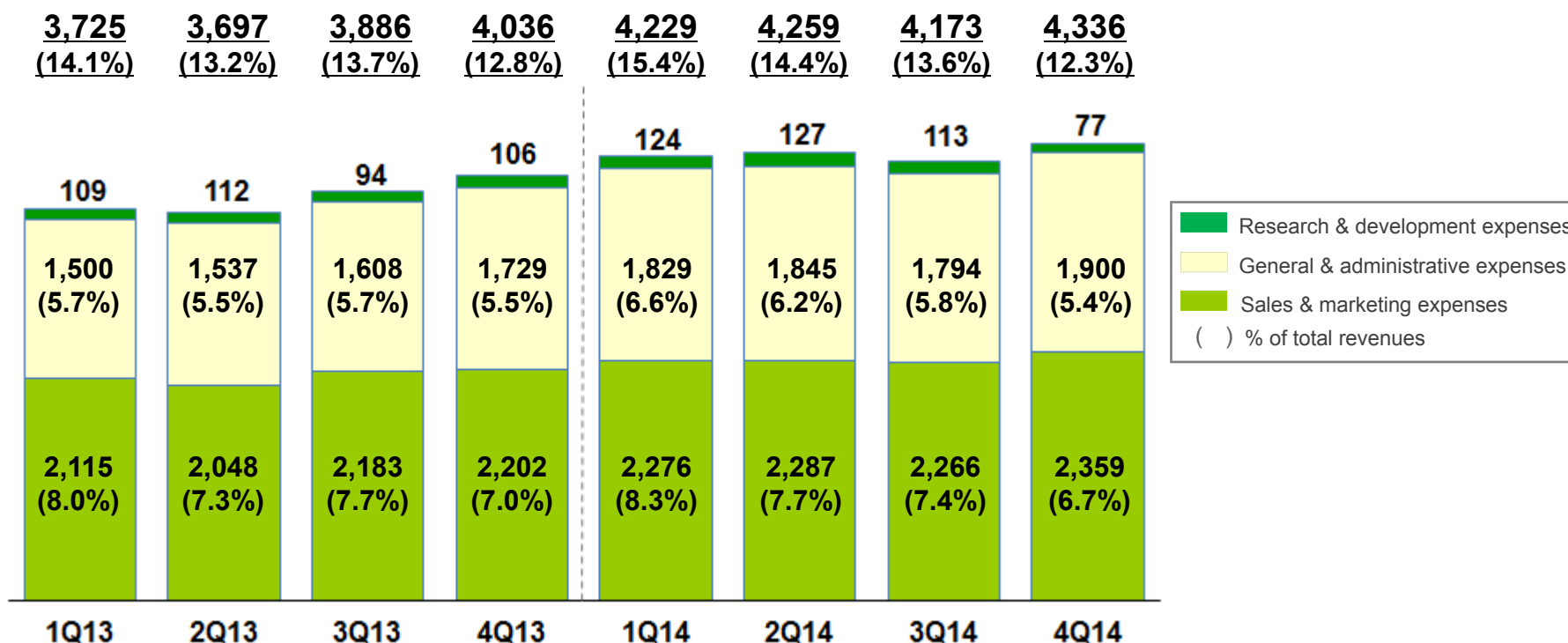
[up 1,242, up 8.8% YoY]

FY14: 16,977 (13.8%)

[up 1,654, up 10.8% YoY]

Unit: JPY million

YoY = FY14 compared to FY13



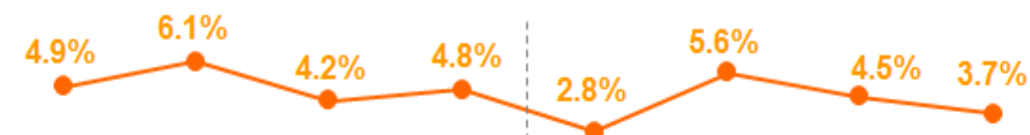
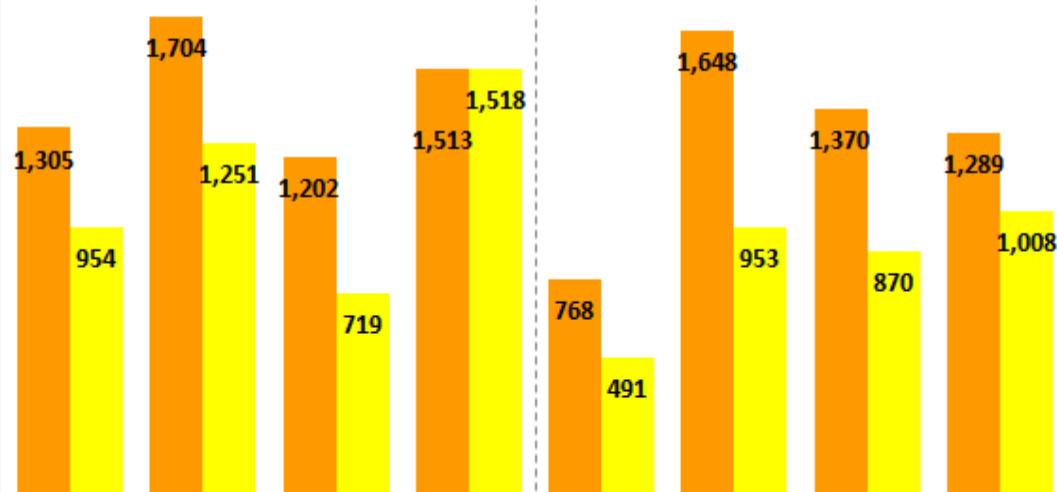
- ◆ FY14 SG&A Expenses/R&D: up JPY1,654 million, up 10.8% YoY
 - Increase in personnel-related, outsourcing-related, rent/relocation expenses, commission payments (recruiting agent fee etc.), and sales commission expenses (mobile-related)
- ◆ Costs and expenses related to 1H14 headquarter relocation*: approx. JPY0.5 billion
 - *double rent, relocation fee, depreciation and disposal of assets, etc.
- ◆ SG&A related to ATM operation business:
 - 4Q14:JPY73.4 million, 3Q14:JPY45.9 million, 2Q14:JPY45.4 million, 1Q14:JPY37.6 million, 4Q13:JPY31.2 million
 - 1,059 ATMs in operation as of Mar. 31, 2015

Ⅱ - 10 Operating Income and Net Income



Unit: JPY million

YoY = FY14 compared to FY13

**FY13 Operating Income: 5,723****FY13 Net income attributable to IIJ: 4,442****FY14 Operating income: 5,075****FY14 Net income attributable to IIJ: 3,322**

◆ Income before income tax expenses:

- FY14: JPY5,139 million
(down JPY1,136 million, down 18.1% YoY)
- Interest expense: JPY238 million
- Dividend income: JPY63 million
- Gains from fund investments: JPY171 million

◆ Net income attributable to IIJ:

- FY14: JPY3,322 million
(down JPY1,120 million, down 25.2% YoY)
- Equity in net income of Internet Revolution and Internet Multifeed: JPY155 million
- Net income attributable to noncontrolling interests related to Trust Networks: JPY75 million

1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	
269	804	378	1,044	220	624	523	319	Current income tax expense
268	(99)	221	(1,090)	132	98	36	(55)	Deferred tax expense (benefit)
65	61	64	13	34	35	46	40	Equity in net income of equity method investees
(5)	(22)	(24)	(191)	(18)	(24)	(15)	(18)	Less: Net income attributable to noncontrolling interests

II - 11. Consolidated Balance Sheets (Summary)

Unit: JPY million

	March 31, 2014	March 31, 2015	Changes
Cash and Cash Equivalents	22,421	21,094	(1,327)
Accounts Receivable	19,214	22,252	+3,038
Inventories and Prepaid Expenses (Current and Noncurrent)	7,432	7,835	+404
Investments in Equity Method Investees	2,086	2,561	+475
Other Investments	6,356	6,661	+305
Property and Equipment	26,971	29,370	+2,399
Goodwill and Other Intangible Assets	10,309	10,111	(198)
Guarantee Deposits (Current and Noncurrent)	2,727	2,800	+73
Total Assets	103,867	108,705	+4,839
Accounts Payable	12,542	13,626	+1,084
Income Taxes Payable	1,079	499	(580)
Bank Borrowings (Short-term and Long-term)	10,380	9,250	(1,130)
Capital Lease Obligations (Current and Noncurrent)	8,356	7,863	(494)
Total Liabilities	43,686	45,862	+2,176
Common Stock	25,497	25,500	+3
Additional Paid-in Capital	35,962	36,014	+52
Accumulated Deficit	(2,868)	(556)	+2,311
Accumulated Other Comprehensive Income	1,713	1,939	+226
Total IIJ Shareholders' Equity	59,912	62,504	+2,592

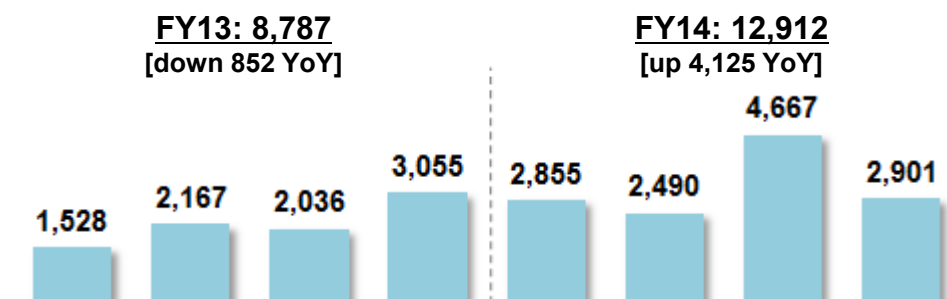
➤ Total IIJ Shareholders' Equity to Total Assets: 57.7% as of Mar. 31, 2014 and 57.5% as of Mar. 31, 2015

II - 12. Consolidated Cash Flows

< Operating Activities >

Unit: JPY million

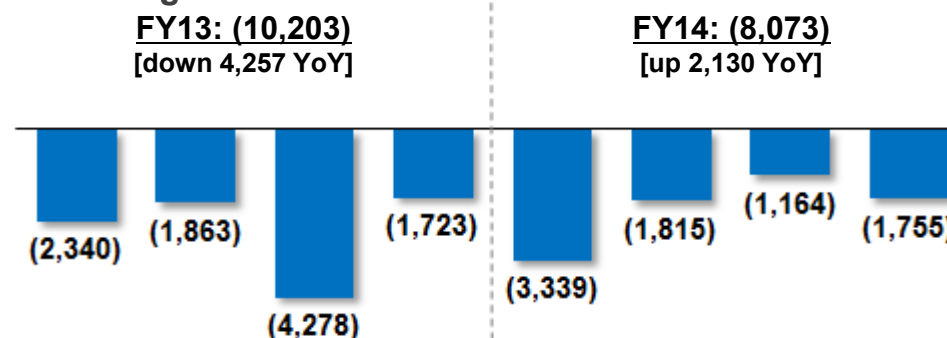
YoY = FY14 compared to FY13



Operating Activities

	<u>FY14</u> <u>Breakdown</u>	<u>YoY Change</u>
Net income	3,397	(1,287)
Depreciation and amortization	9,677	+854
Net gain on other non-cash transactions	428	+1,549
Fluctuation of operating assets and liabilities	(590)	+3,009

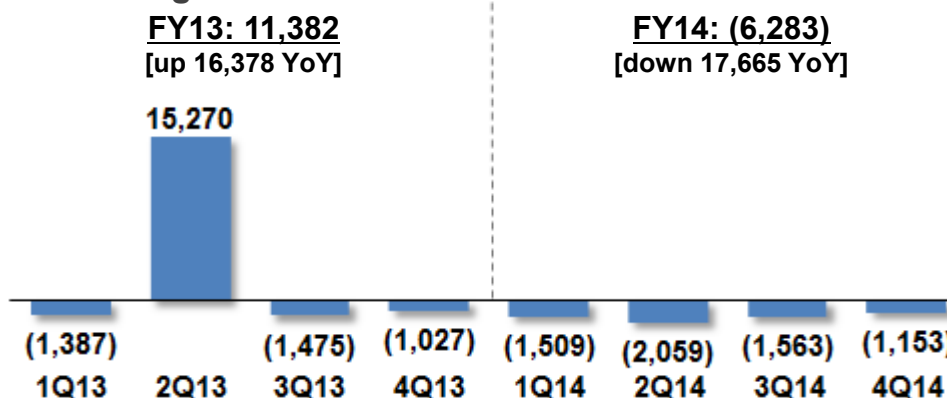
< Investing Activities >



Investing Activities

	<u>FY14</u> <u>Breakdown</u>	<u>YoY Change</u>
Purchases of property and equipment	(8,157)	+967
Payments of guarantee deposits	(1,636)	(947)
Refund of guarantee deposits	1,573	+1,553

< Financing Activities >

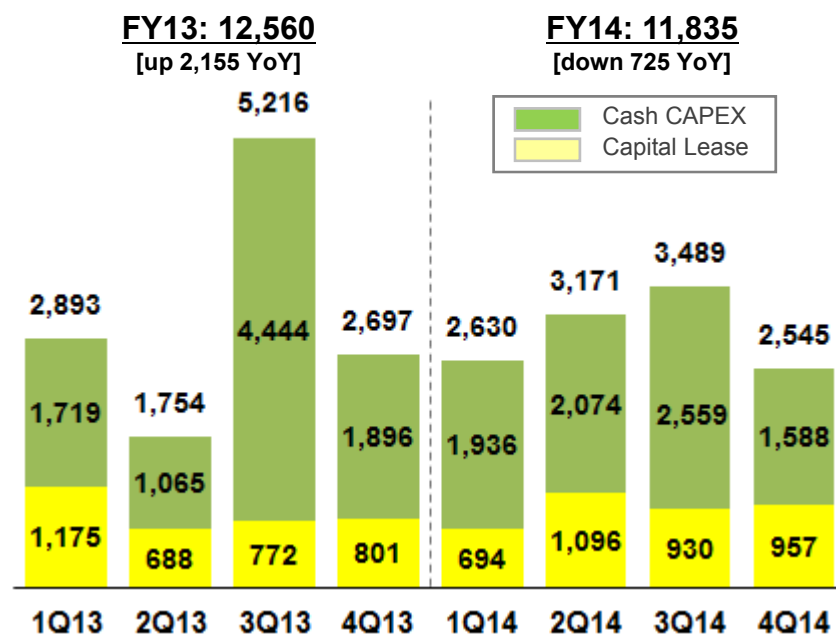


Financing Activities

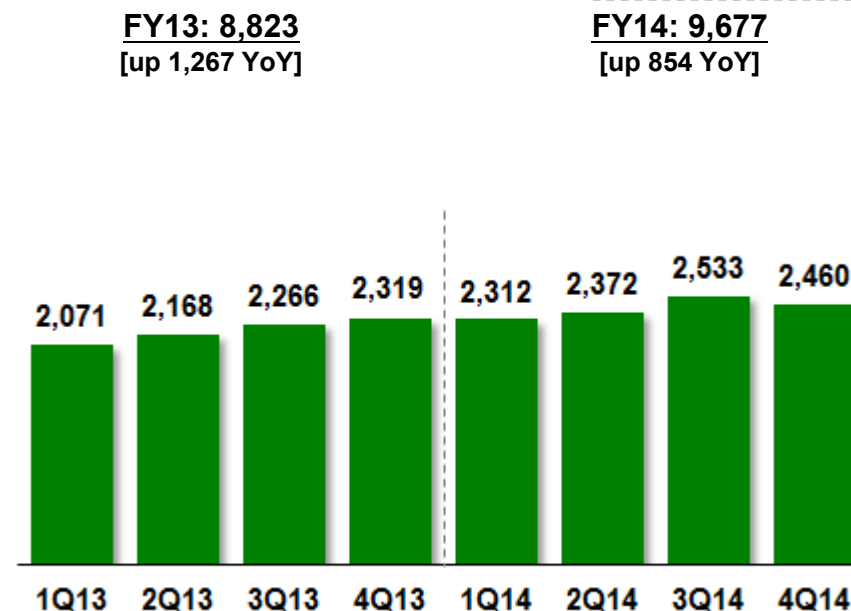
	<u>FY14</u> <u>Breakdown</u>	<u>YoY Change</u>
Principal payments under capital leases	(4,194)	(225)
Repayments of borrowings (short and long-term)	(1,130)	(120)
Dividends paid	(1,011)	(100)

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

< CAPEX (Include Capital Leases) >



< Depreciation and Amortization >

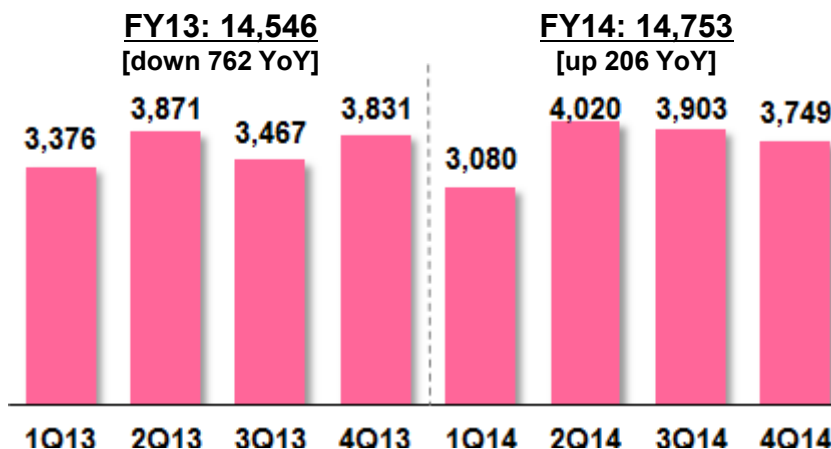


< Breakdown of CAPEX >

(Unit: approx. JPY billion)

	FY13	FY14
Network update, back office investment etc.	8.0	8.9
Cloud-related (of Matsue DCP)	3.7 (1.6)	1.7 (0.1)
Headquarter relocation	0.4	0.6
ATM operation business	0.5	0.6

< Adjusted EBITDA >



III-1. Cloud Business Developments

Cloud-related revenue

(Unit: JPY billion)

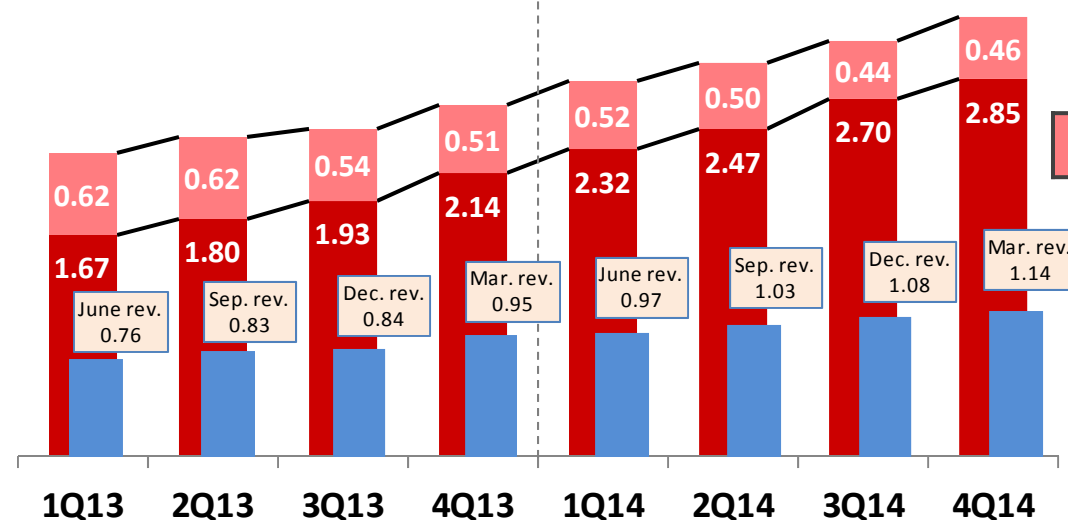
- Large game customers
- Business enterprise customers

4Q14 Cloud-related revenue recognition:
83.2% in system operation and maintenance, 16.8% in outsourcing

FY13: JPY9.83 billion

FY14: JPY12.26 billion

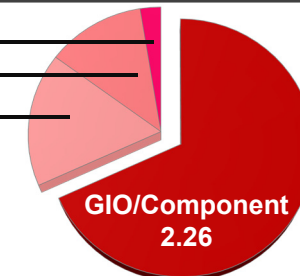
2.29 2.42 2.48 2.65 2.84 2.97 3.14 3.31



Breakdown of 4Q14 revenue

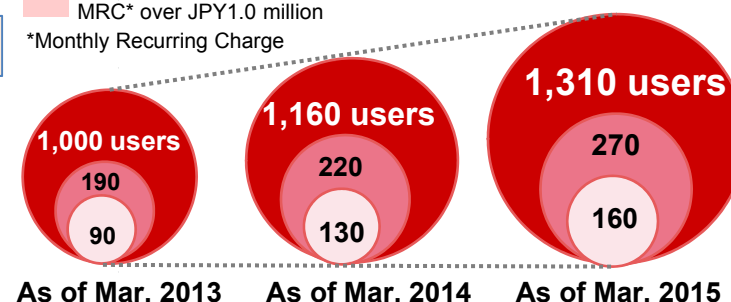
(Unit: JPY billion)

General purpose SaaS 0.08
Task-specific SaaS 0.41
GIO/Hosting 0.56



Expansion of Customer Base & Usage

- MRC* over JPY0.5 million
- MRC* over JPY1.0 million
- *Monthly Recurring Charge



Business Progress

- Seeking enterprise IT demand continuously
 - Introducing Cloud-based online security solution which is already used by a major Japanese commercial bank to other financial institutions
- Large game customers' demand slowing down

Large game customers' revenue & its ratio to total Cloud revenue (Unit: JPY billion)			
FY11	FY12	FY13	FY14
1.27 (41.0%)	2.08 (33.4%)	2.29 (23.3%)	1.92 (15.7%)

- New area, gradually expanding:
 - **SAP business:**
 - Accelerated order accumulation with increasing number of partners
 - Promoting Cloud migration of SAP systems with SAP HANA Cloud services
 - **BigData-related projects:**
 - Acquiring orders with "IIJ GIO BigData Lab," introductory BigData solution

FY2015 Plan

Target revenue of over JPY15 billion, profit to improve by approx. JPY0.4 billion along with the revenue growth

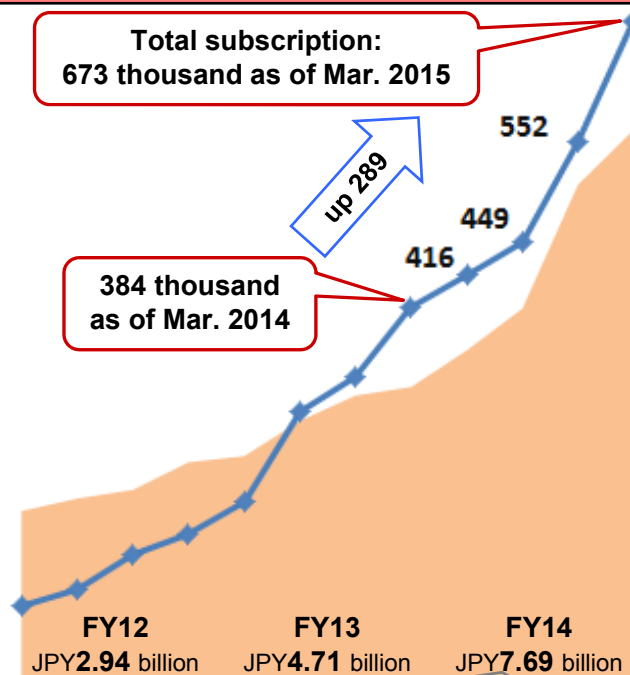
- Continuous enhancement of service line-ups
- Upgrade of Cloud service infrastructure
- Focus on acquiring large scale projects by leveraging SI etc.

III-2. MVNO Business Developments

Total subscription & revenue

Total subscription:
673 thousand as of Mar. 2015

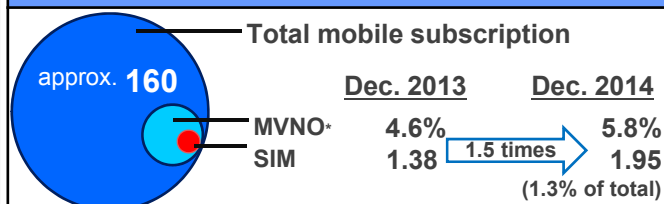
384 thousand
as of Mar. 2014



Breakdown of FY14 revenue (unit: JPY billion)

	1Q14	2Q14	3Q14	4Q14
Revenue	1.46	1.64	2.18	2.41

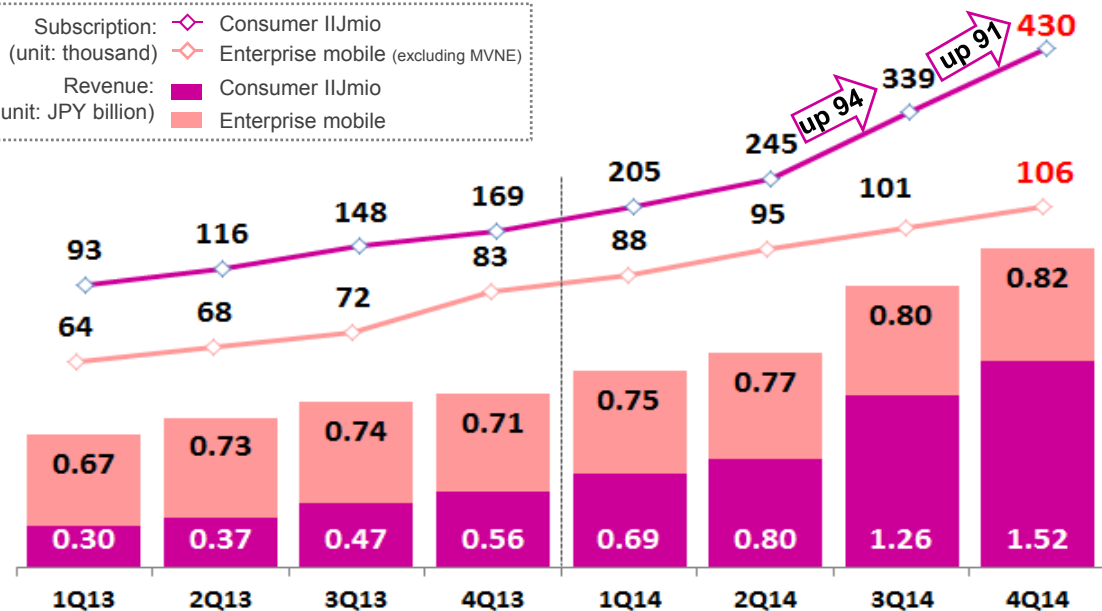
Mobile Market in Japan (unit: million subscription)



(Source) MIC, Apr. 2014 and Apr. 2015, *MVNOs excluding MNOs

IIJmio & IIJmobile subscription & revenue

Subscription: ◆ Consumer IIJmio
(unit: thousand) ◆ Enterprise mobile (excluding MVNE)
Revenue: ■ Consumer IIJmio
(unit: JPY billion) ■ Enterprise mobile



Enterprise

- **FY14 MVNE-related revenue: approx. JPY0.5 billion (up approx. 40% YoY)**
 - ✓ Growing demand for MVNE business as seen in cases of Panasonic, Cable TV operators, prominent contents delivery company and many more
- **FY14 M2M-related revenue: approx. JPY0.4 billion (up approx. 40% YoY)**
 - ✓ Accumulating orders of integrated projects where M2M platform, mobile, and Cloud are needed all at once especially from sensors manufacturing companies

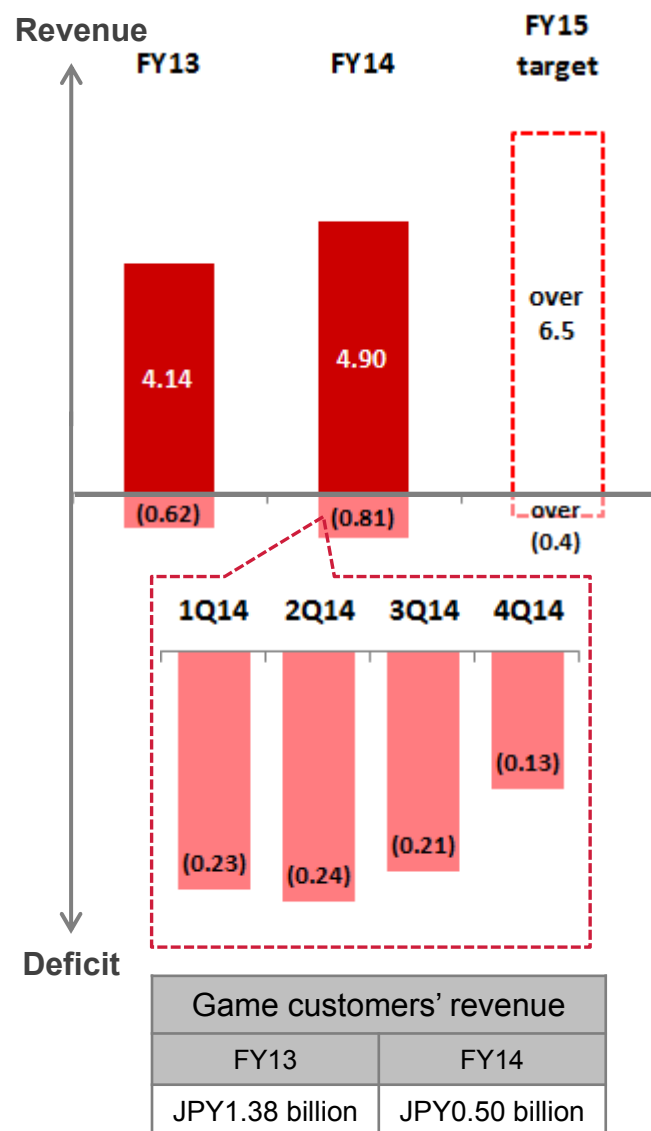
Consumer

- **Maintaining strong subscription growth pace**
 - ✓ Expansion of sales counters (16 as of Apr. 2015, covering from Hokkaido to Okinawa)
 - ✓ Competitive and various price lists to cover a wide range of needs
- Making efforts to improve brand recognition through hosting events for consumers etc.

III-3. Overseas Business Developments

Financial Results

(Unit: JPY billion)



Overseas offices

Main subsidiaries	Est.	Employees	Business
IIJ America Inc.	1996	39	Provide mainly ISP services , Cloud services and SI to the Japanese companies in the U.S.A.
IIJ Europe Limited	2012* ₁	54* ₂	Provide mainly SI and Cloud services to the Japanese companies in Europe
IIJ Global Solutions China Inc.	2012	18	Provide mainly SI and Cloud services in China
IIJ Global Solutions Singapore Pte. Ltd.	2012* ₁	18	Provide mainly SI and Cloud services to local and Japanese companies in Singapore
Pt. IIJ Global Solutions Indonesia	2015	-	Provide Cloud-related services operation in Indonesia

Business Developments

- **Requests to support build Cloud infrastructure from Asian countries**
 - Jointly provide Cloud services with a local carrier in Indonesia (Mar. 2015)
- **Export container DCs to Laos and Russia, Expect transactions to expand in the middle-to-long term**
 - Accumulating similar prospective orders from other emerging countries
- **Enhance network infrastructure including an expansion of Internet backbone**
- **Overseas Cloud business developments**
 - Enhanced Cloud service lineups for Europe, Providing VMware hypervisor services (Oct. 2014)
 - Launched Cloud services in Singapore (June 2014)



*1 Became our subsidiaries

*2 Includes IIJ Europe's subsidiary of IIJ Deutschland GmbH

III - 4. Business/Services Developments for Mid term growth

Unit: JPY billion

	FY10	FY11	FY12	FY13	FY14	FY15 Target
Revenue	82.4	97.3	106.2	114.3	123.1	139.0
Operating Income	4.14	6.35	7.75	5.72	5.08	6.5
Business Situation	➢ Weak SI after Lehman shock ➢ Achieved revenue & operating income growth with enterprise services ➢ Acquisition of IIJ Global Solutions Inc.					➢ Enhance business investment ➢ Recurring revenues decreased by certain large customers ➢ Accelerate business developments ➢ Seeing strong revenue growth ➢ Docomo's mobile costs ➢ Accelerate revenue growth ➢ Expansion of business scale
Cloud services	▼ Start in 2009 ▼ Continuous front investment ▼ Games' usage increase ▼ Service line-ups enhancement (VMware, SAP, etc.) ▼ Opened Container DC ▼ Games' usage decrease ▼ Profit turn positive ▼ Increase of large-scale proj.					Target enterprises' deep adoption of Cloud in mid-term, pursue scale merit with SI
Mobile services	▼ Start in 2008 ▼ Add mobile solutions for corp. ▼ Turn positive early stage ▼ Start consumer services ▼ Acquiring M2M-related proj. ▼ Growing demand for MVNE ▼ Consumer accelerate					Consumer market explode, Corp. & Consumer traffic to improve network efficiency
SI	▼ Low SI demand after Lehman shock ▼ Weak revenue growth ▼ Return of IT investment appetite ▼ Operation & maintenance grew by 16.8% YoY					Continuous increase of SI, especially profitable recurring maintenance revenues
Overseas business	▼ Began focus on overseas business ▼ New subsidiaries and Cloud investment ▼ Deficit at max ▼ Export Container DCs					Seek new opportunities, Deficit to decrease as its revenue largely increasing
Service/Solution	▼ SDN ▼ SAP solution ▼ M2M/Bigdata platform services ▼ DWH solution ▼ Smart-meter platform					Continuous investment for service and solution developments (HEMS, IoT etc.)
Employees	▼ Hire over 100 new graduates ▼ Increase approx. 10% YoY					Continuous enhancement of human resources

Ⅲ-5. FY2015 Financial Target

YoY = FY15 target compared to FY14 results

Unit: JPY billion

	FY15 Target (Apr. 2015 -Mar.2016)	FY14 Actual (Apr. 2014 -Mar.2015)	YoY (FY15 Target to FY14 Actual)	
Total Revenues	139.0	123.1	+15.9	+13.0%
Gross Margin	25.1	22.1	+3.0	+13.7%
Operating Income	6.5	5.1	+1.4	+28.1%
Income before Income Tax Expense	6.4	5.1	+1.3	+24.5%
Net Income attributable to IIJ	4.0	3.3	+0.7	+20.4%
Net Income attributable to IIJ per Share	JPY 87.07	JPY 72.31	+ JPY 14.76	+20.4%
Cash Dividends per Share	JPY 22.00 (Annual)	JPY 22.00 (Annual)	-	-

• Mobile-related services

Target over 1 million subscription by Dec. 2015, Target revenue of approx. JPY13 billion for FY2015 (up JPY5.3 billion YoY). Expect a slight decrease in gross margin ratio due to an increase in unprofitable voice service revenues. Expect Docomo's mobile connectivity charge per bandwidth to decrease by 15% from the charge fixed in Mar. 2015.

• Cloud-related services

Target revenue of over JPY15 billion (up JPY2.7 billion YoY) by accumulating enterprise needs. Expect gross margin to increase by over JPY0.4 billion along with revenue growth.

• Overseas business

Target revenue of over JPY6.5 billion (up JPY1.6 billion YoY). Expect margin to increase by approx. JPY0.4 billion with revenue growth.

• Enterprise network services

Target revenue (excluding Cloud and mobile related) to increase by approx. JPY1.8 billion, considering an enhanced sales activity and expecting no large revenue decrease in WAN services.

• SI

Target revenue (excluding Cloud and overseas business related) to increase by approx. JPY3.8 billion with strong economy and accumulation of systems operation and maintenance revenue.

• SG&A and R&D expenses

Expect to increase by approx. JPY1.6 billion which is almost the same amount increased in FY14, expecting the increase in personnel-related costs and sales commission fee etc.

• Human resources

Hired 155 new graduates. Plan to hire 160 second-career personnel (including approx. 140 personnel to replace outsourcing resource). Expect personnel-related cost to increase by approx. JPY3.0 billion.

※ 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, mobile-related cost, outsourcing cost, personnel cost etc,
- a possibility to lose business opportunity due to our inadequate resources in personnel and others,
- an increase in competition and strong pricing pressure,
- the recording of an impairment loss as a 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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