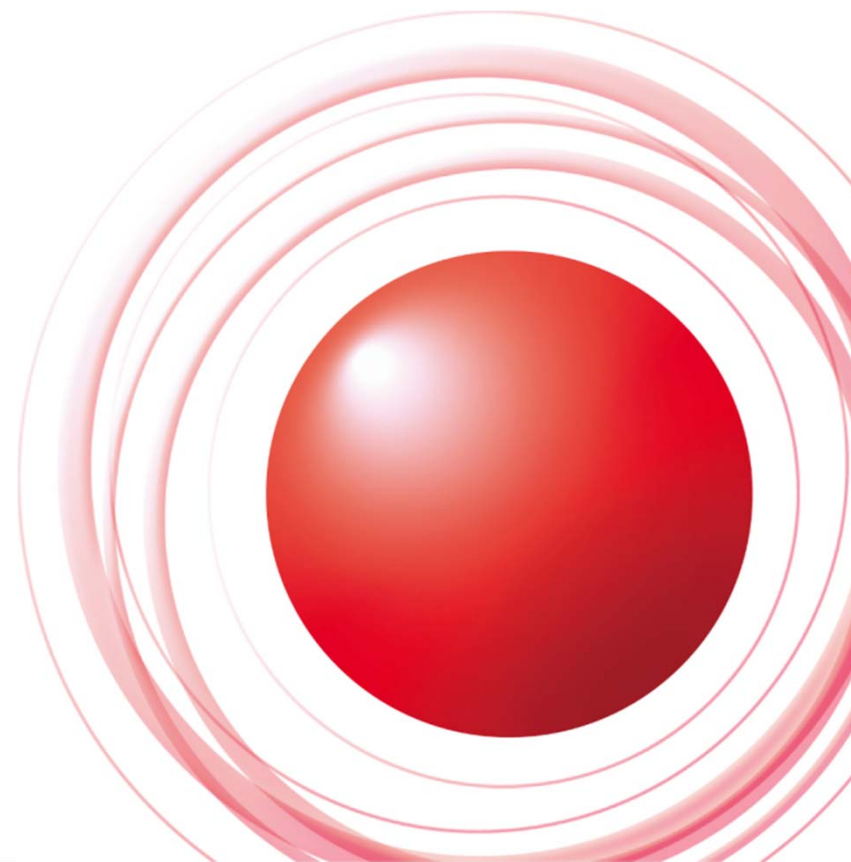


# FY2013 Consolidated Financial Results



Internet Initiative Japan Inc.  
TSE1(3774), NASDAQ(IIJI)  
May 15, 2014

Ongoing Innovation



# Agenda

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**I . Summary of FY2013 Financial Results**

**II . Consolidated Financial Results for FY2013**

**III . Reference Materials**

# I . Summary of FY2013 Financial Results

	< FY2013 Financial Results >		< FY2014 Financial Targets >	
• Revenues	JPY114.3 billion	(up 7.6% YoY)	JPY123.0 billion	(up 7.6% YoY)
• Gross margin	JPY21.1 billion	(down 3.6% YoY)		
• Operating income	JPY5.7 billion	(down 26.2% YoY)	JPY7.2 billion	(up 25.8% YoY)
• Income before income tax expense	JPY6.3 billion	(down 19.1% YoY)	JPY7.0 billion	(up 11.6% YoY)
• Net income attributable to IIJ	JPY4.4 billion	(down 16.2% YoY)	JPY4.5 billion	(up 1.3% YoY)

## FY2013 Business Developments

- ◆ Acquired several flagship large-scale projects incorporating cloud, SI & MVNO. Anticipatory mid- to long-term recurring transactions
- ◆ More advanced enterprise cloud usage
  - Major players in financial sector and more
  - Average revenue per general corporate customers increased by over 20% YoY
- ◆ Consumer LTE SIM card offerings rapidly growing
  - Revenue increased by JPY1.1 billion YoY, Contracts increased by 90,000 YoY
- ◆ Overseas Business: FY13 revenue: JPY4.1 billion, Operating loss: JPY0.6 billion
  - Increased employees, launched cloud services in Europe & Singapore, extended Internet backbone to London and Singapore, planning the sales of container DC
- ◆ Number of employees: increased over 10% YoY
- ◆ Service infrastructure expansion Doubling of container datacenter capacity etc.

## FY2013 Financial Results

- Revenue increased,  
Operating income decreased**
- Operating costs and expenses increased along with proactive business expansion (up JPY10.1 billion YoY)
  - Recurring revenues from certain large customers failed initial expectations by approx. JPY2.0 billion and impacted profit
  - SI gross margin decreased affected by large SI projects with lower margin

## FY2014 Planned Actions

### Various Developments to Strengthen Business

- ◆ Demonstrate competitive advantage toward blue-chips companies with new service development while maintaining service quality
- ◆ Acquire more personnel (same or more level as FY13)
- ◆ Further develop overseas business to increase cross-selling with Japanese customers
- ◆ Relocate headquarter and enhance group business synergies
- ◆ Continuously seek strategic M&A opportunities

### FY2014 26% YoY OP Income Growth

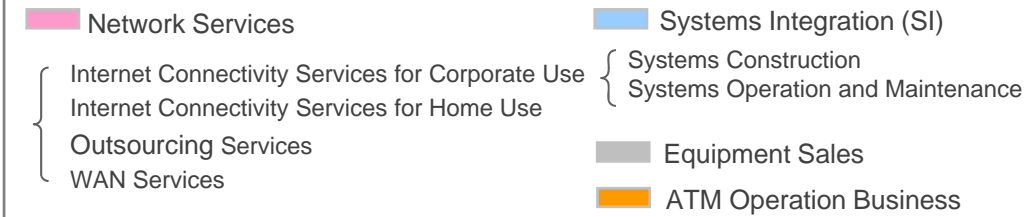
- ◆ Increase network services and SI gross margin by improving network utilization and accumulating systems operation projects
- ◆ Profit contribution from cloud service (target JPY13.0 billion in revenues) and ATM operation business by placing more ATMs
- ◆ Strict cost and resource control

## II -1. Consolidated Results for FY2013

Unit: JPY billion

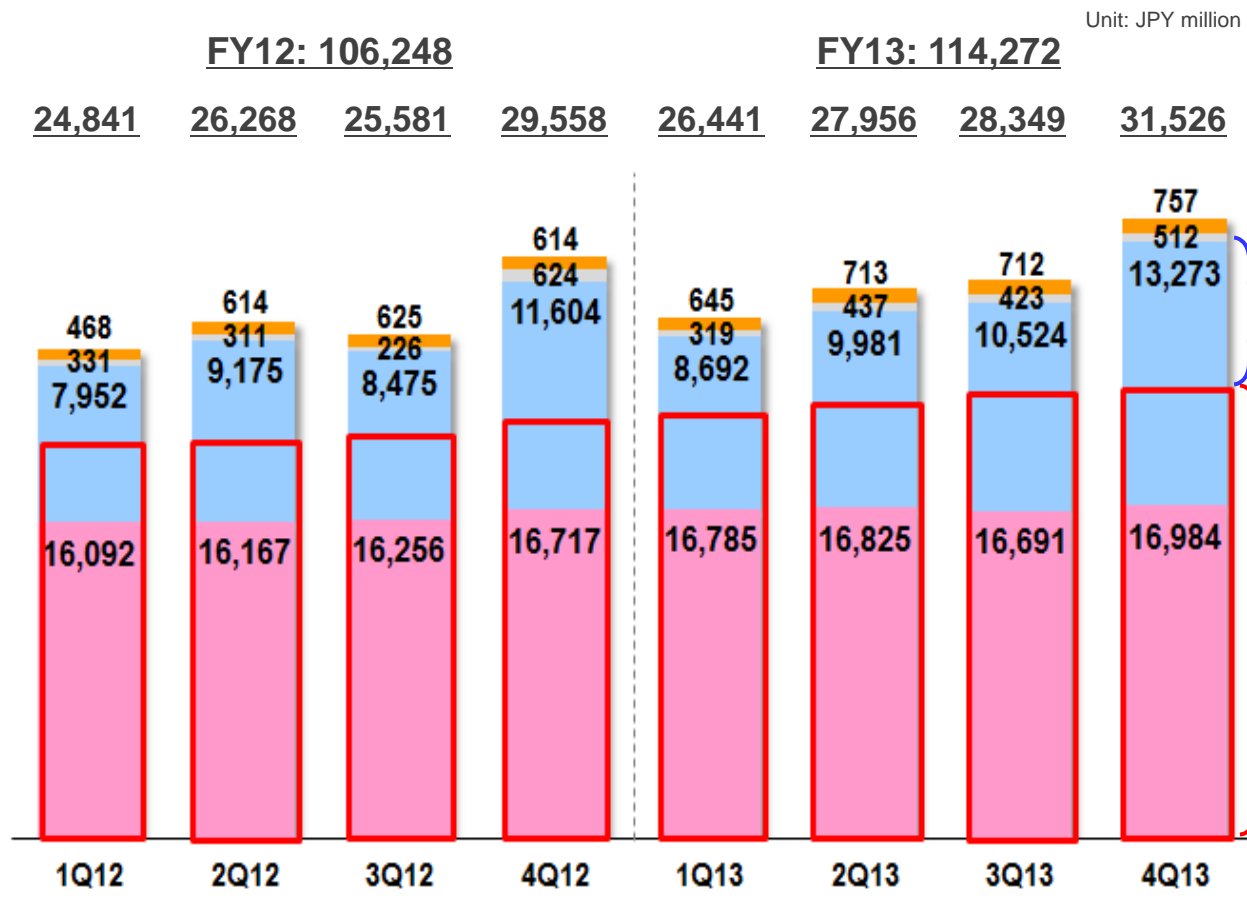
	<i>% of Revenues</i> <b>FY13</b> (Apr. 2013 -Mar. 2014)	<i>% of Revenues</i> <b>FY12</b> (Apr. 2012 -Mar. 2013)	<b>YoY</b> Change in %	<i>% of Revenues</i> <b>FY14 Target</b> (Apr. 2014 -Mar.2015)	<b>YoY</b> Change in %
<b>Total Revenues</b>	<b>114.3</b>	<b>106.2</b>	<b>+7.6%</b>	<b>123.0</b>	<b>+7.6%</b>
<b>Total Cost of Revenues</b>	81.6% <b>93.2</b>	79.4% <b>84.4</b>	<b>+10.4%</b>	-	-
<b>Gross Margin</b>	18.4% <b>21.1</b>	20.6% <b>21.9</b>	<b>(3.6%)</b>	-	-
<b>SG&amp;A/R&amp;D</b>	13.4% <b>15.3</b>	13.3% <b>14.1</b>	<b>+8.8%</b>	-	-
<b>Operating Income</b>	5.0% <b>5.7</b>	7.3% <b>7.8</b>	<b>(26.2%)</b>	5.9% <b>7.2</b>	<b>+25.8%</b>
<b>Income before Income Tax Expense</b>	5.5% <b>6.3</b>	7.3% <b>7.8</b>	<b>(19.1%)</b>	5.7% <b>7.0</b>	<b>+11.6%</b>
<b>Net Income attributable to IIJ</b>	3.9% <b>4.4</b>	5.0% <b>5.3</b>	<b>(16.2%)</b>	3.7% <b>4.5</b>	<b>+1.3%</b>

## II -2. Revenues



- ◆ FY13 Network Services: JPY67,286 million (up 3.1% YoY)
- ◆ FY13 Systems Integration: JPY42,470 million (up 14.1% YoY)
- ◆ FY13 Equipment sales: JPY1,690 million (up 13.4% YoY)
- ◆ FY13 ATM Operation Business: JPY2,827 million (up 21.8% YoY)

YoY = FY13 compared to FY12



**One-time Revenue**  
**FY13 up 17.6% YoY**  
 (17.8% of FY13 total revenues)  
 is recognized only once when systems or equipments are delivered and accepted by customers.  
 1. Systems Construction, 2. Equipment Sales

**Recurring Revenue**  
**FY13 up 5.2% YoY**  
 (79.7% of FY13 total revenues)  
 represents monthly recurring revenues as shown below:  
 1. Internet Connectivity Services (Corporate Use and Home Use)  
 2. Outsourcing Services  
 3. WAN Services  
 4. Systems Operation & Maintenance

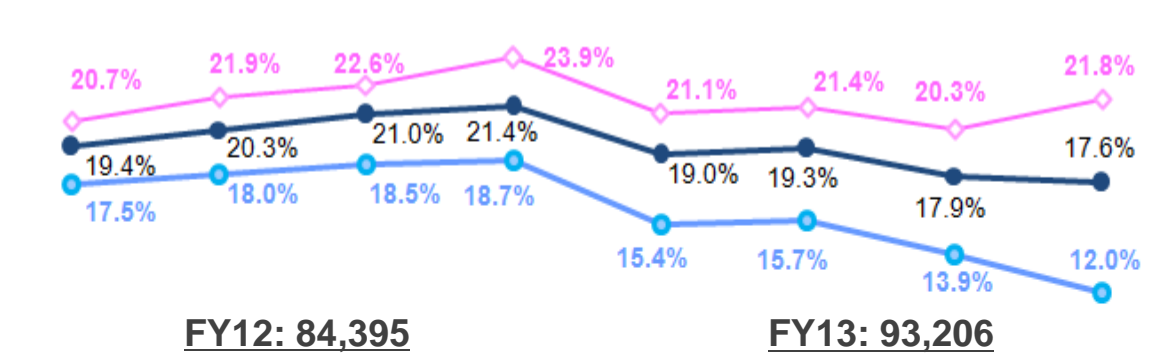
> Revenues from certain large customers (1 network carrier, 2 game providers and 3 customers in WAN Services) were:
 

- FY11: JPY12.8 billion
- FY12: JPY14.7 billion
- FY13: JPY14.3 billion

 > Compared to initial expectation, revenue from above mentioned certain large customers fell short by approx. JPY2.0 billion

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

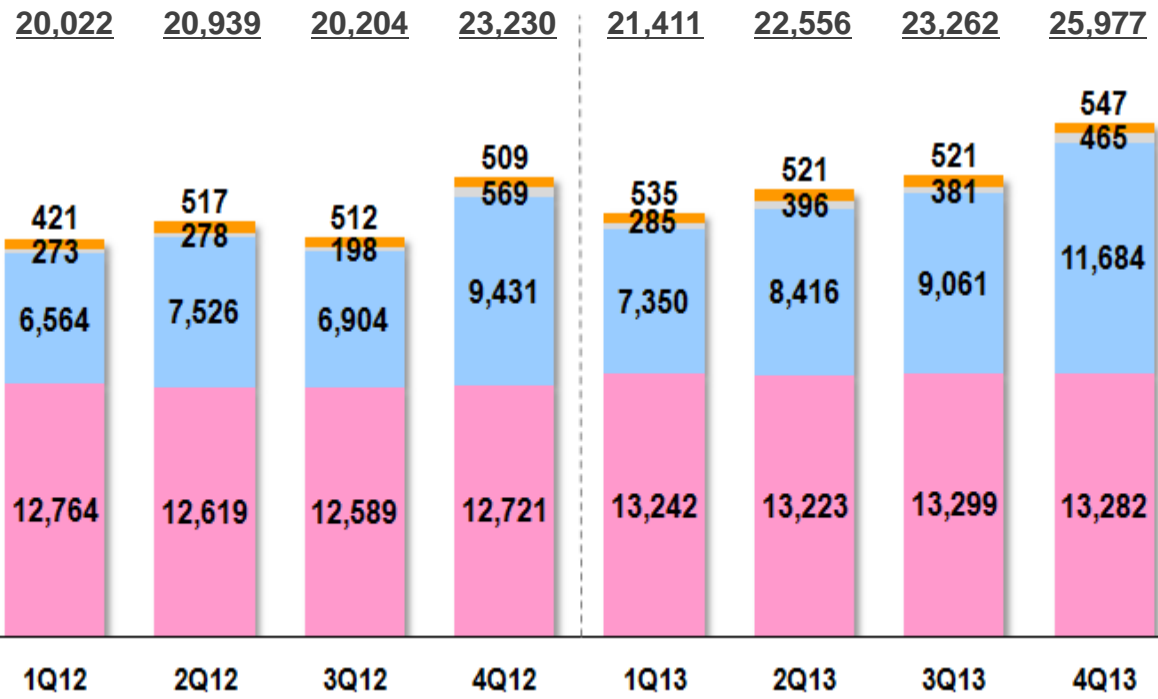
Cost of revenues : Network Services (pink), Systems Integration (SI) (light blue), Equipment Sales (grey), ATM Operation Business (orange)  
 Gross margin ratio : Network Services (pink diamond), Systems Integration (SI) (light blue circle), Total Revenues (dark blue circle)



Unit: JPY million

YoY = FY13 compared to FY12

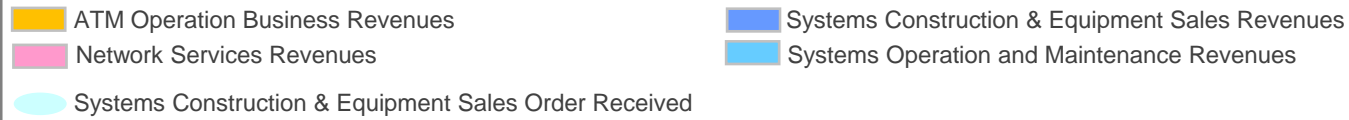
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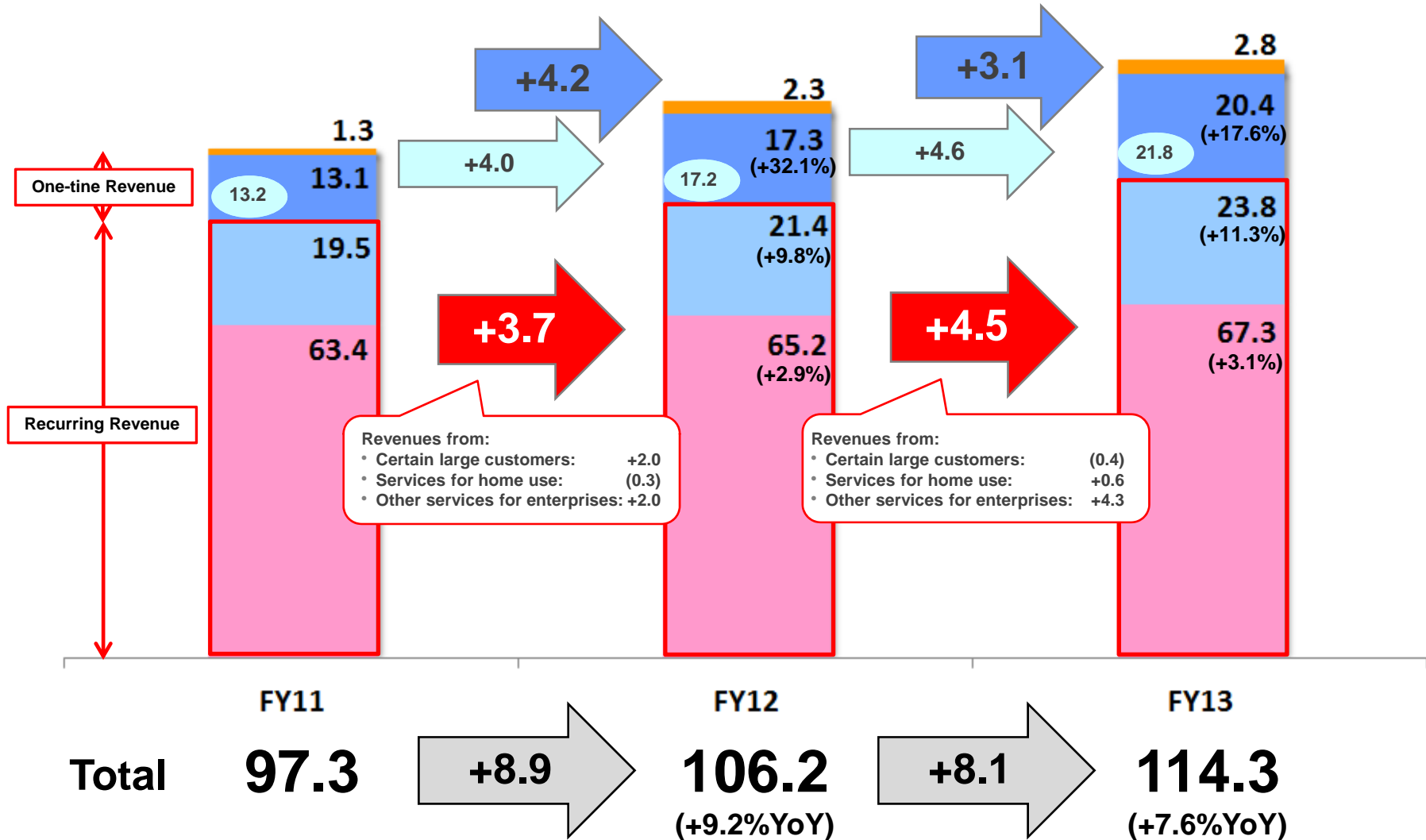
### FY13 Gross Margin

- ◆ Total Gross Margin:
  - JPY21,066 million (down JPY787 million YoY, down 3.6% YoY)
  - Gross margin ratio: 18.4% (down 2.2 pt. YoY)
- ◆ Network Service Gross Margin:
  - JPY14,240 million (down JPY300 million YoY, down 2.1% YoY)
  - Gross margin ratio: 21.2% (down 1.1 pt. YoY)
- ◆ SI Gross Margin:
  - JPY5,959 million (down JPY821 million YoY, down 12.1% YoY)
  - Gross margin ratio: 14.0% (down 4.2 pt. YoY)
    - Gross margin decreased affected by large SI projects with lower margin
- ◆ ATM Operation Business Gross Margin:
  - JPY704 million (up JPY343 million YoY, up 95.2% YoY)
  - Gross margin ratio: 24.9% (up 9.4 pt. YoY)

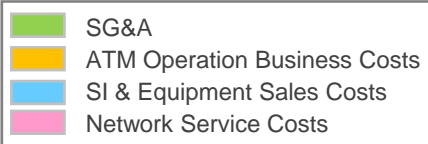
## II -4. Revenues YoY Change



Unit: JPY billion  
 YoY = FY13 compared to FY12



## II -5. Operating Costs / SG&A YoY Change



Unit: JPY billion

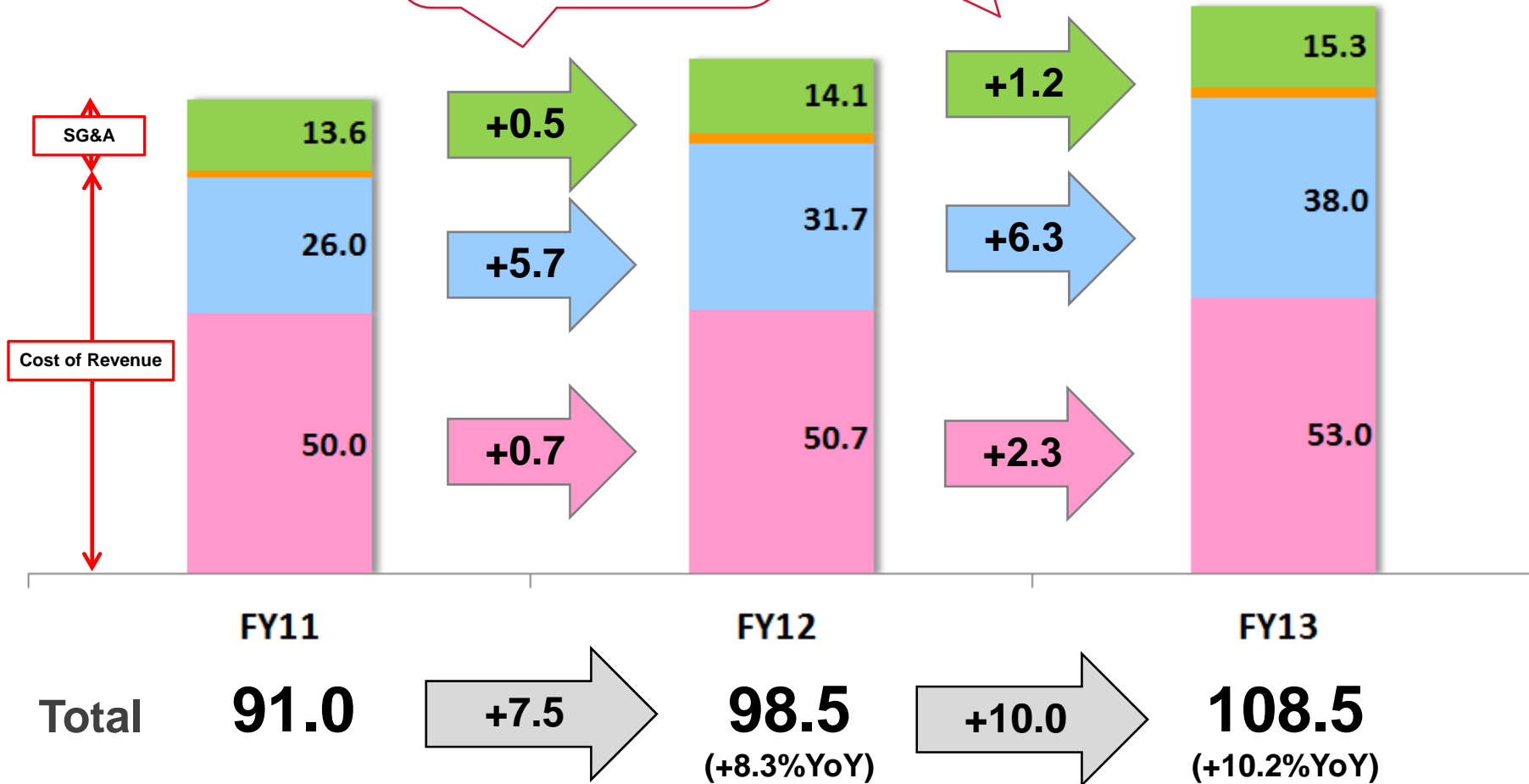
YoY = FY13 compared to FY12

### <Breakdown of Major Difference>

Personnel-related:	+1.0
Rent-related:	(0.1)
Circuit-related:	(0.4)
Depreciation:	+0.4
Outsourcing-related:	+2.7
Purchasing costs:	+2.4

### <Breakdown of Major Difference>

Personnel-related:	+1.7
Rent-related:	+0.4
Circuit-related:	+0.6
Depreciation:	+1.3
Outsourcing-related:	+2.4
Purchasing costs:	+2.6



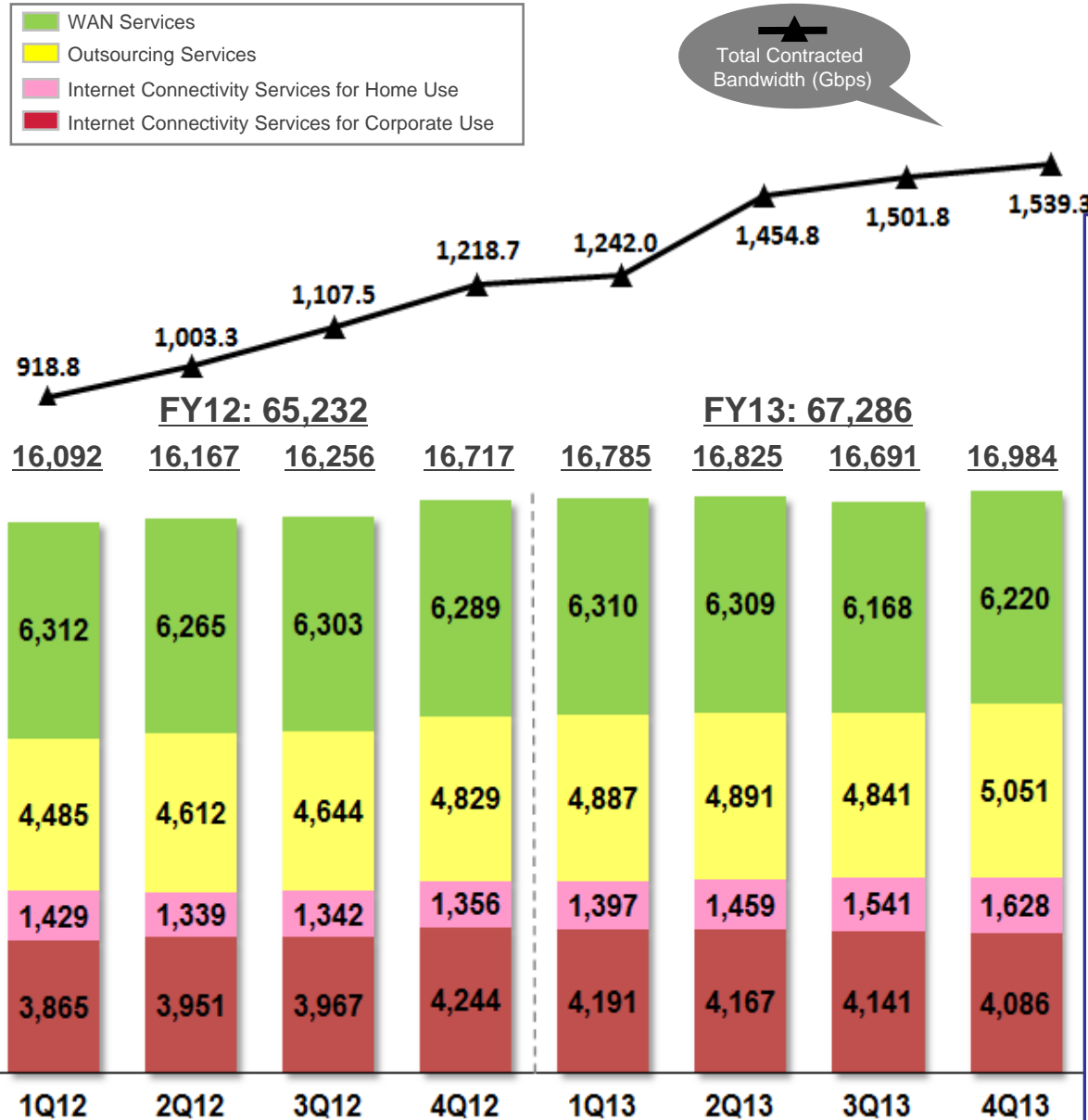


# II -6. Network Services (1) Revenues



Unit: JPY million

YoY= FY13 compared to FY12



### ◆FY13 Corporate Connectivity

- up JPY558 million YoY, up 3.5% YoY
  - Weaker than expected growth mainly due to price down at the beginning of FY13 and the weaker than expected traffic increase from our certain large customer (carrier)
  - Over 1Gbps contracts:
    - ✓ As of Mar. 31, 2014: 271 contracts
    - ✓ As of Dec. 31, 2013: 263 contracts
    - ✓ As of Mar. 31, 2013: 207 contracts

### ◆FY13 Home Connectivity

- up JPY558 million YoY, up 10.2% YoY
  - LTE services accumulation absorbs NTT Flets change in revenue recognition from gross to net
  - IIJ mio/LTE Services:
    - ✓ FY13 end contracts: approx. 139,000 (up approx. 90,000 contracts YoY)
    - ✓ FY13 revenue: approx. JPY1.7 billion (up JPY1.1 billion YoY)

### ◆FY13 Outsourcing Services

- up JPY1,099 million YoY, up 5.9% YoY
  - Weaker than expected growth mainly due to large game providers' revenue down in cloud and data center services

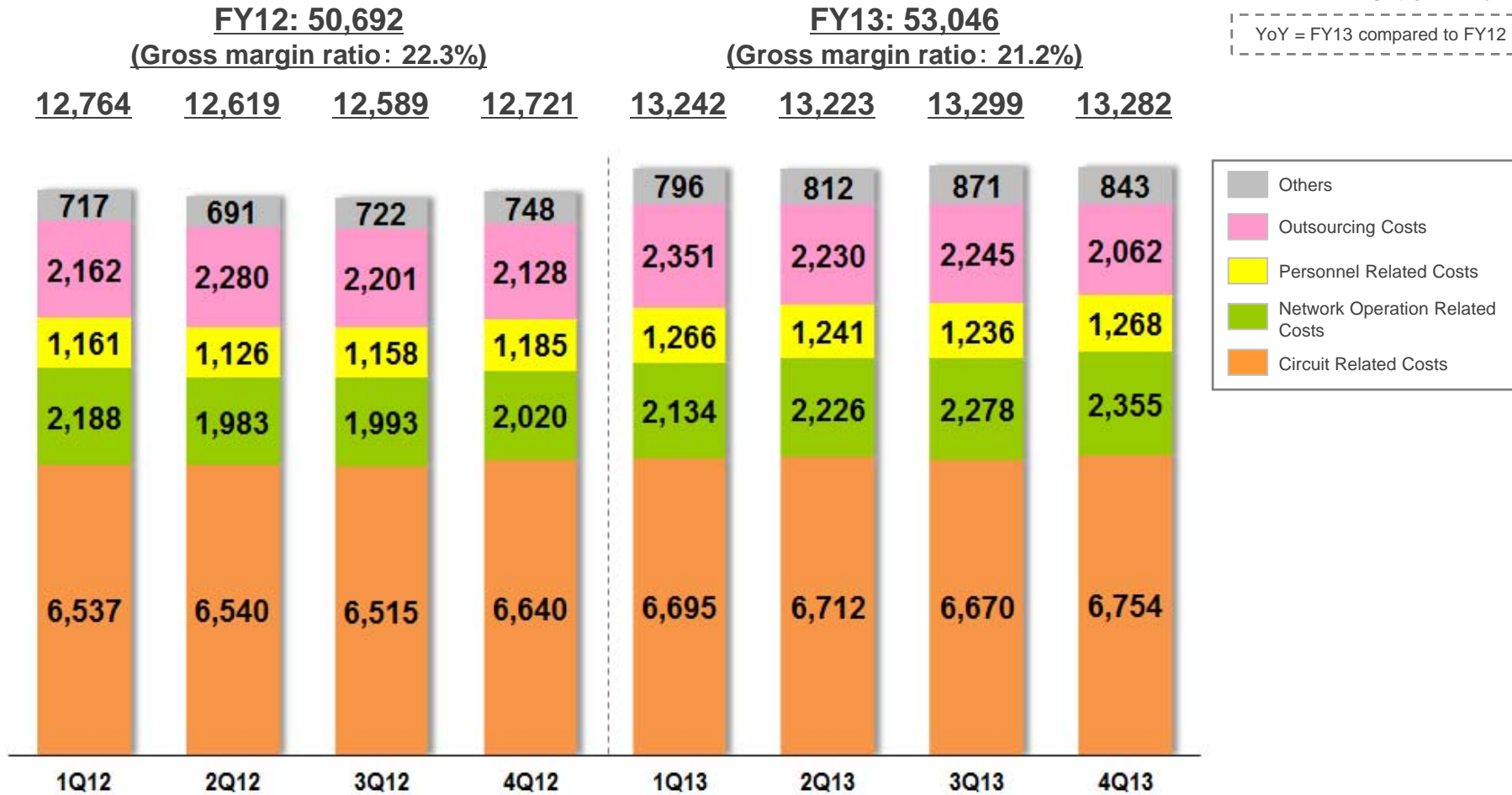
### ◆FY13 WAN Services

- down JPY163 million YoY, down 0.6% YoY
  - Negative impact on the profit due to certain large customers' price revision in FY13

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

Unit: JPY million

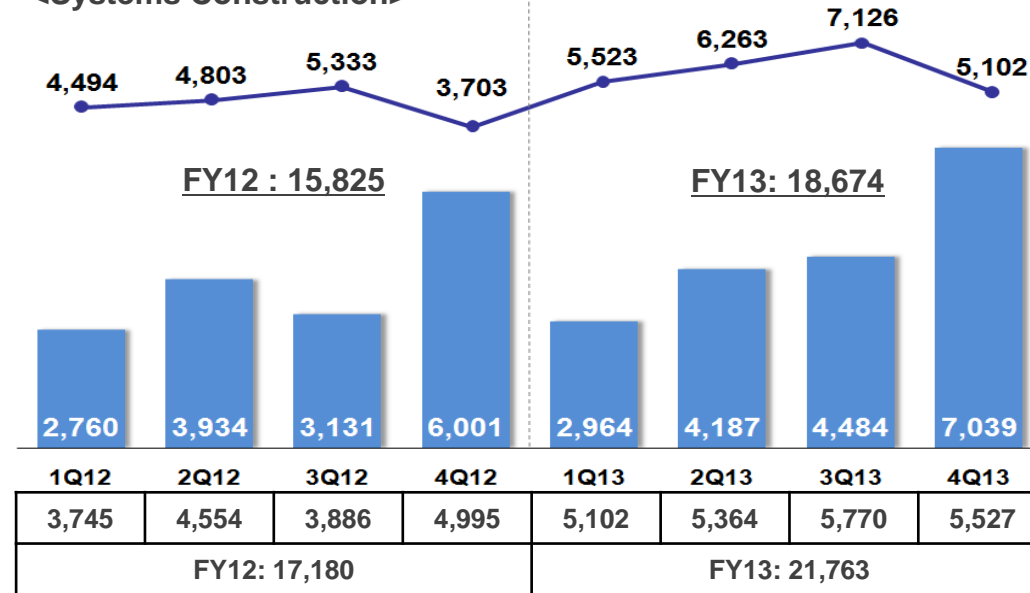
YoY = FY13 compared to FY12



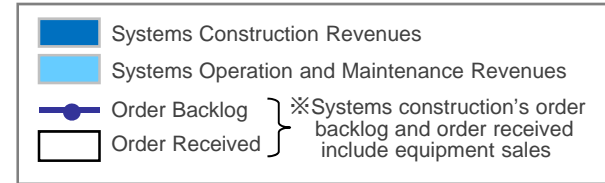
- ◆ FY13 Cost of network services: up JPY2,354 million YoY, up 4.6% YoY
  - Recurring costs such as personnel related, network operation related costs increased in the beginning of FY13
  - Gross margin ratio decreased YoY mainly as revenues from certain large customers were weak while recurring costs increased
  - 4Q13 outsourcing costs decreased due to the yearly revision of MVNO interconnectivity costs

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

### <Systems Construction>



YoY = FY13 compared to FY12 Unit: JPY million



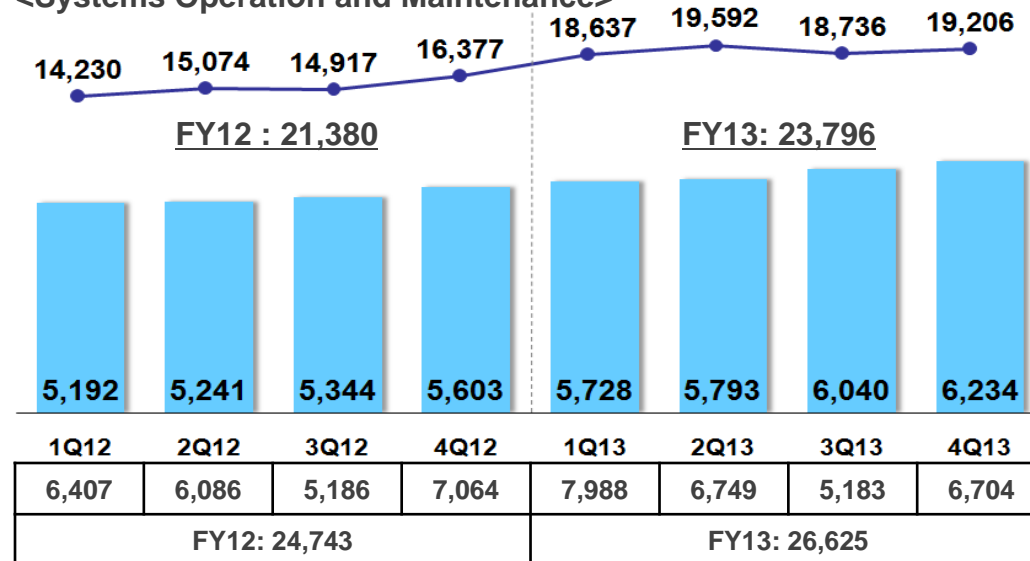
### Systems Construction

- ◆ FY13 Revenue: up JPY2,849 million YoY, up 18.0% YoY
- ◆ FY13 Order received: up JPY4,582million YoY, up 26.7% YoY
- ◆ FY13 Order backlog: up JPY1,399 million YoY, up 37.8% YoY

- The number of orders and project volume increasing along with the return in appetite of corporate IT investments
- Projects such as:
  - National Diet Library network replacement
  - B to C Email system and network replacement
  - Cabinet Secretariats' Web system
  - Financial sectors' back office system replacement
  - Local government thin client system construction

- Acquired a flagship transaction in 4Q13 with an unprofitable initial year contract. Recognized certain loss in 4Q13 in accordance with U.S. GAAP. Expect to have profit in the following years from additional construction projects and multiple year systems operation

### <Systems Operation and Maintenance>



### Systems Operation and Maintenance

- ◆ FY13 Revenue: up JPY2,416 million, up 11.3% YoY
- ◆ FY13 Order received: up JPY1,882 million, up 7.6% YoY
- ◆ FY13 Order backlog: up JPY2,829 million, up 17.3% YoY

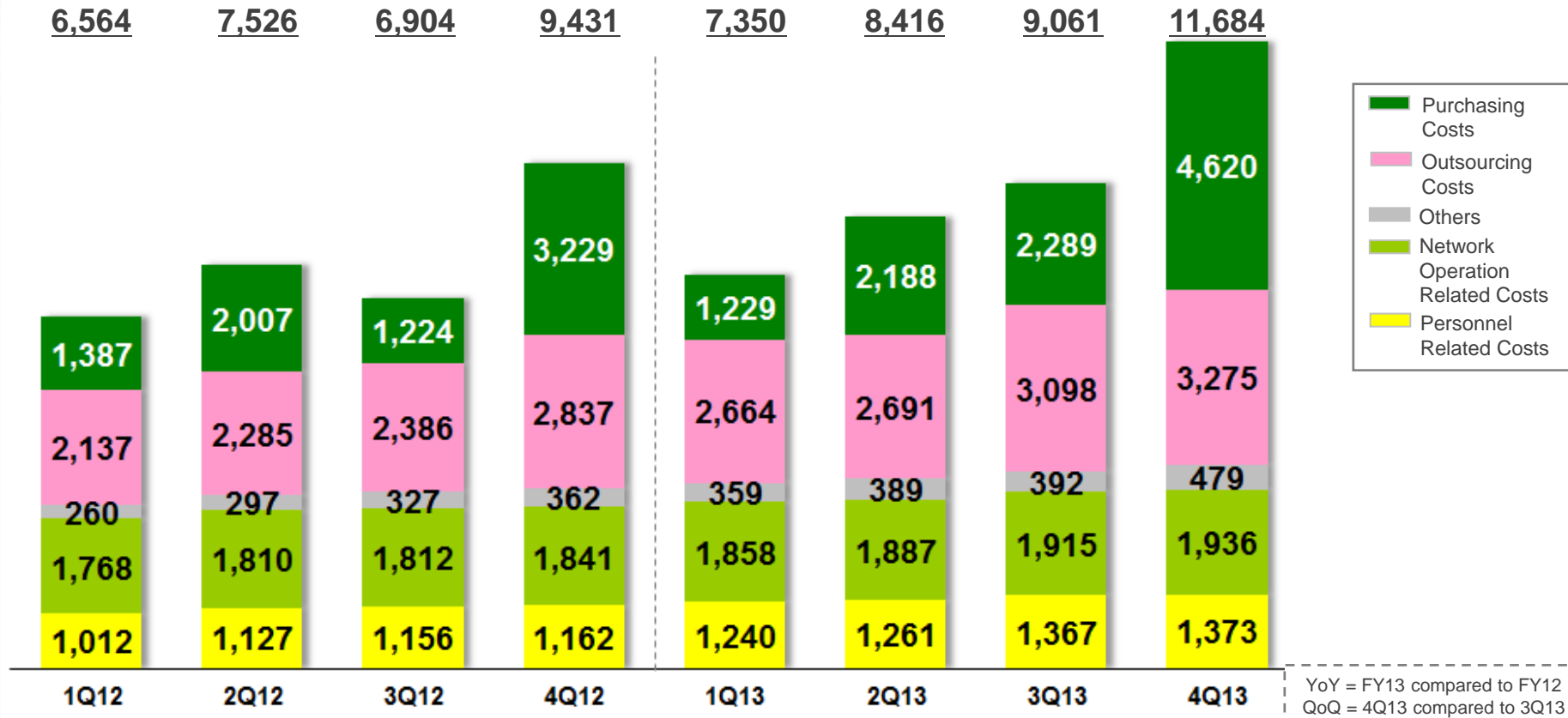
- 79% of 4Q13 cloud total revenues is recognized in systems operation and maintenance revenue (remaining 21% in outsourcing)
- Weaker than expected growth mainly due to large game providers' revenue down in cloud and data center services

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

**FY12: 30,425**  
(Gross margin ratio: 18.2%)

**FY13: 36,510**  
(Gross margin ratio: 14.0%)

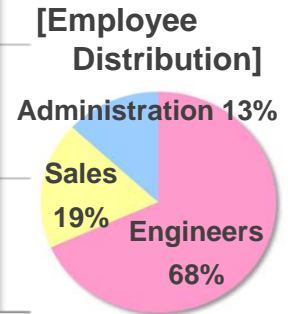
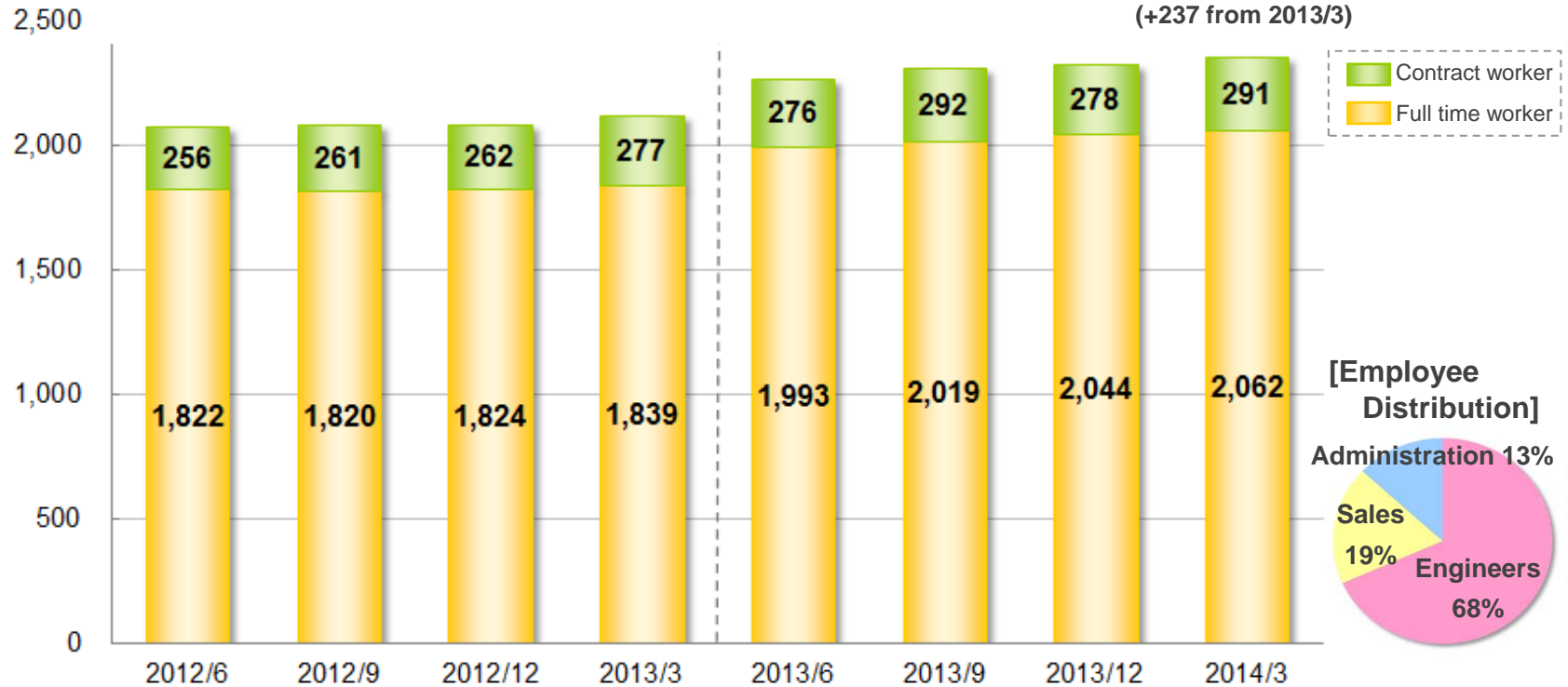
Unit: JPY million



- ◆ FY13 Cost of SI: up JPY6,086 million YoY, up 20.0% YoY
  - The number of outsourcing personnel as of Mar. 31, 2014: 783 personnel (up 132 personnel YoY, down 33 personnel QoQ)
  - Purchasing costs and outsourcing costs increased along with the increase in the number and volume of projects
  - Personnel related costs increased along with the increase in the number of employees
  - Large SI construction projects with lower gross margin affected SI construction profit by approx.JPY0.6 billion and there were also unprofitable construction projects in 4Q13 compared to initial expectation

## II -8. Number of Employees

(Number of employees) **2,078** **2,081** **2,086** **2,116** **2,269** **2,311** **2,322** **2,353**  
 (+237 from 2013/3)



Personnel related costs & expenses (% of revenue)

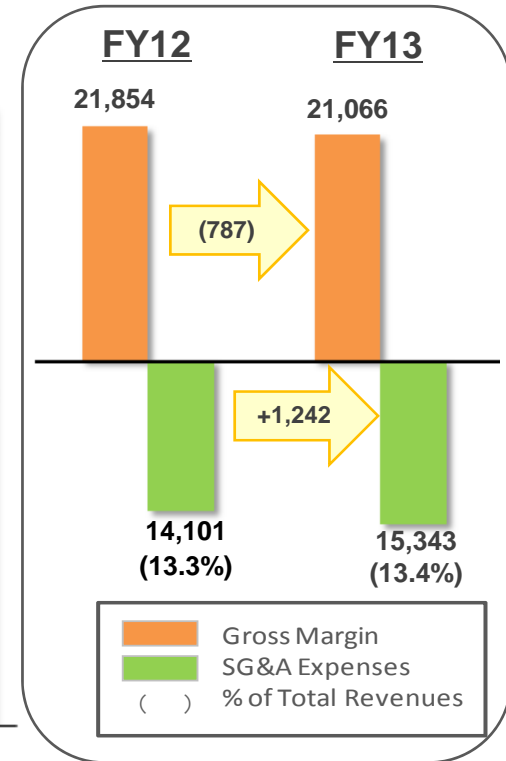
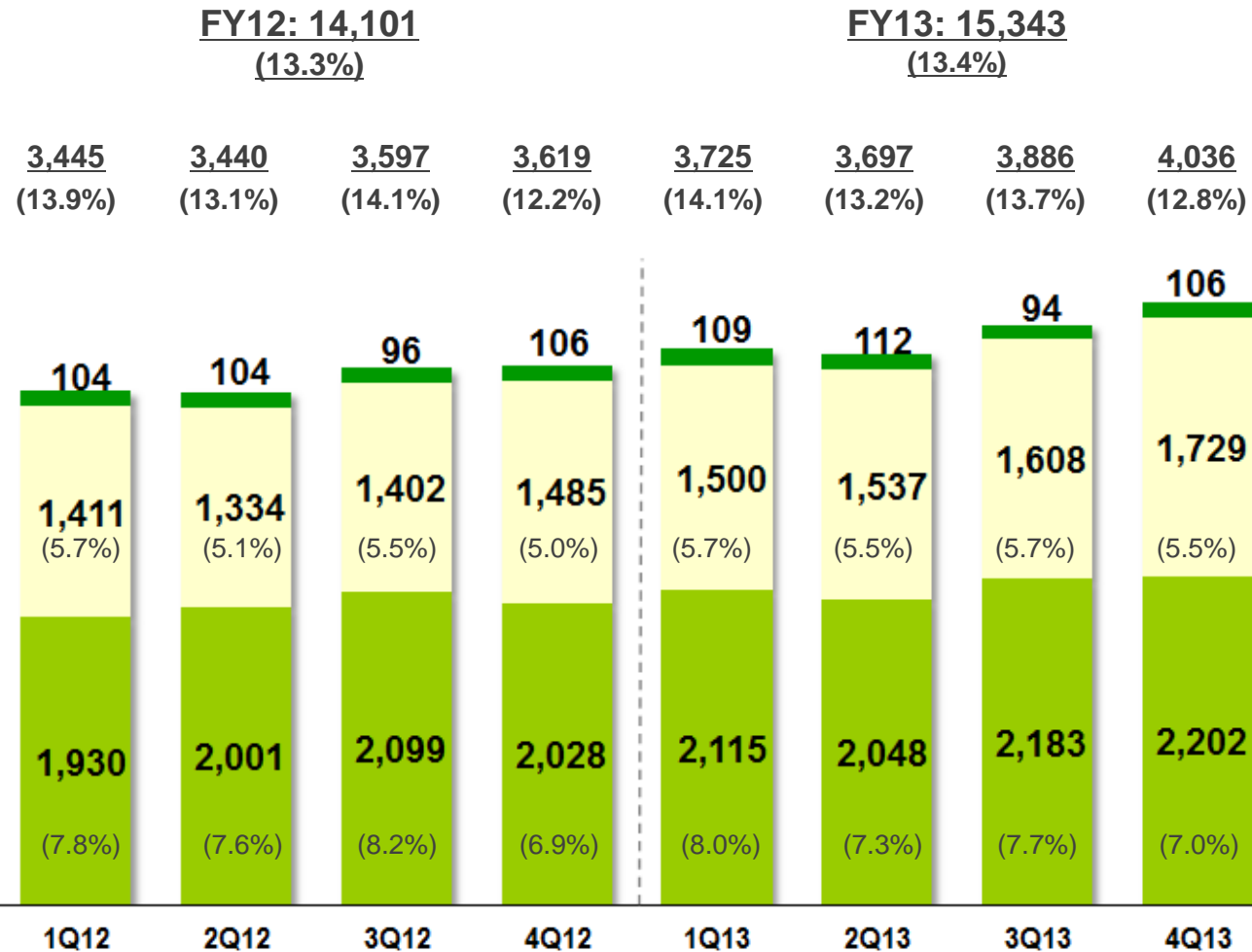
3,741 (15.1%)	3,858 (14.7%)	3,902 (15.3%)	3,979 (13.5%)	4,212 (15.9%)	4,254 (15.2%)	4,317 (15.2%)	4,408 (14.0%)
FY12: 15,480 (14.6%)				FY13: 17,190 (15.0%)			

Unit: JPY million

- ◆ FY13 Personnel-related costs and expenses: up JPY1.7 billion YoY
- ◆ Hired 129 newly graduates in Apr. 2014 (136 in Apr. 2013, 75 in Apr. 2012)
- ◆ FY14 hiring plans: to increase in the same level as or slightly more compared to FY13

YoY = FY13 compared to FY12

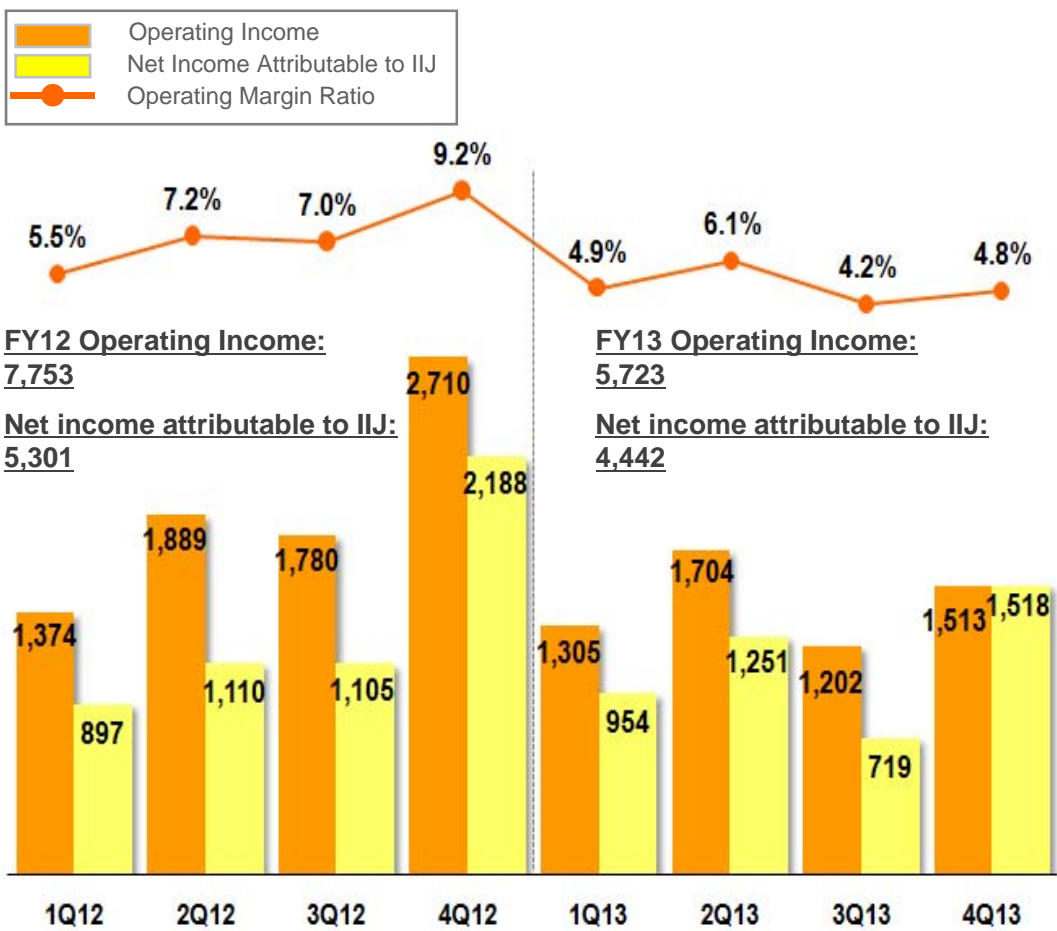
## II -9. SG&A Expenses/R&D



- ◆ FY13: up JPY1.2 billion YoY  
 Personnel-related expenses increased by JPY0.4 billion, Rent expenses increased by JPY0.2 billion,  
 Sales commission expenses increased by JPY0.2 billion
- ◆ 4Q13: up JPY0.2 billion QoQ  
 Personnel-related expenses increased by JPY0.1 billion, disposal of assets (temporary) increased by JPY0.1 billion
- ◆ Expect additional JPY0.4 billion to JPY0.5 billion of costs of revenues and SG&A (total) in relation to headquarter relocation in 1H14

YoY = FY13 compared to FY12  
 QoQ = 4Q13 compared to 3Q13

# II -10. Operating Income and Net Income



**FY12 Operating Income:**  
7,753

**Net income attributable to IIJ:**  
5,301

**FY13 Operating Income:**  
5,723

**Net income attributable to IIJ:**  
4,442

YoY = FY13 compared to FY12

Unit: JPY million

◆ **ATM operation segment operating income:**

Unit: JPY million					
FY12	1Q13	2Q13	3Q13	4Q13	FY13
239	81	160	159	178	578

- 855 ATMs were placed as of May 15, 2014 (625 ATMs as of May 15, 2013)
- Plan to place approx.300 or more additional ATMs in FY14

◆ **FY13 Income before income tax expense:JPY6,275 million**  
(down JPY1,482million YoY, down 19.1% YoY)

- Recognized net gain on other investments of JPY313 million, Foreign exchange gains of JPY219 million, Interest expense of JPY256 million etc.

◆ **FY13 Net income attributable to IIJ: JPY4,442 million**  
(down JPY 858 million YoY, down 16.2% YoY)

- Recognized defferd tax benefit related to Trust Networks Inc. of JPY822 million
- Recognized equity in net income of Internet Revolution, Inc. and Internet Multifeed Co. of JPY204 million
- Recognized net income attributable to non-controlling interests related to Trust Networks Inc. of JPY254 million

1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	
363	764	675	1,333	269	804	378	1,044	Current income tax expense
152	(27)	28	(679)	268	(99)	221	(1,090)	Deferred tax expense (benefit)
33	50	49	36	65	61	64	13	Equity in net income of equity method investees
5	(6)	(10)	(5)	(5)	(22)	(24)	(191)	Net loss (income) attributable to non-controlling interests

## II -11. Summary of Consolidated Balance Sheets

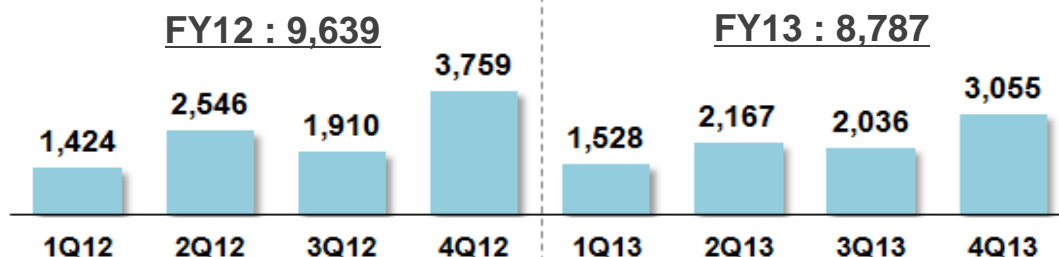
Unit: JPY million

	March 31, 2013	March 31, 2014	Changes
Cash and Cash Equivalents	12,259	22,421	+10,162
Accounts Receivable	18,765	19,214	+450
Inventories and Prepaid Expenses (Current and Noncurrent)	5,995	8,672	+2,677
Investments in Equity Method Investees	1,682	2,086	+404
Other Investments	3,771	6,356	+2,585
Property and Equipment	23,026	26,971	+3,946
Goodwill and Other Intangible Assets	10,761	10,309	(452)
Guarantee Deposits (Current and Noncurrent)	2,051	1,265	(787)
<b>Total Assets</b>	<b>82,111</b>	<b>103,867</b>	<b>+21,755</b>
Accounts Payable	11,922	12,542	+620
Income Taxes Payable	1,670	1,079	(590)
Bank Borrowings (Short-term and Long-term)	11,390	10,380	(1,010)
Capital Lease Obligations (Current and Noncurrent)	8,876	8,356	(520)
<b>Total Liabilities</b>	<b>44,477</b>	<b>43,686</b>	<b>(791)</b>
Common Stock	16,834	25,497	+8,663
Additional Paid-in Capital	27,300	35,962	+8,662
Accumulated Deficit	(6,399)	(2,868)	+3,532
Accumulated Other Comprehensive Income	264	1,713	+1,449
<b>Total IJ Shareholders' Equity</b>	<b>37,607</b>	<b>59,912</b>	<b>+22,305</b>



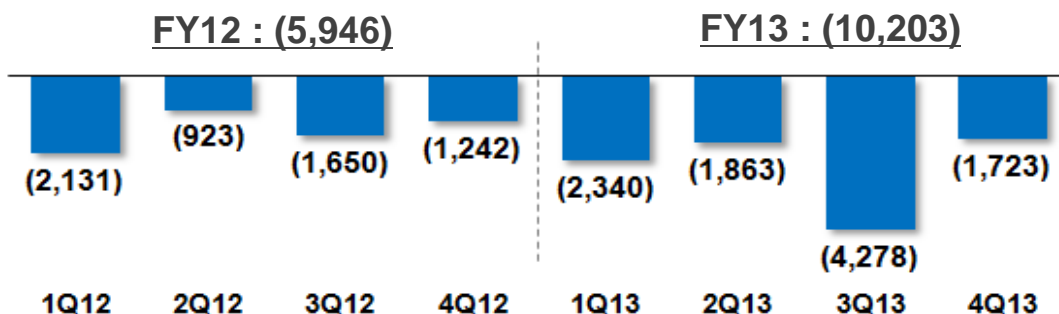
## II -12. Consolidated Cash Flows

### ◆ Operating Activities:



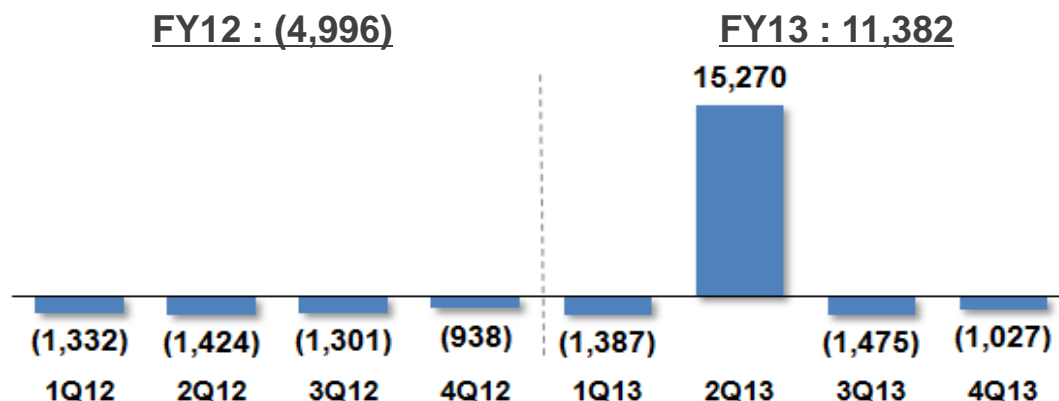
Operating Activities	FY13 major Breakdown	YoY Change
Net income	4,684	(634)
Depreciation and amortization	8,823	+1,267
Net gain on other non-cash transactions	(1,120)	(632)
Fluctuation of operating assets and liabilities	(3,600)	(853)

### ◆ Investing Activities:



Investing Activities	FY13 major Breakdown	YoY Change
Purchases of property and equipment	(9,124)	(3,535)
Purchases of other investments	(1,186)	(718)
Payments of guarantee deposits	(689)	(524)

### ◆ Financing Activities:

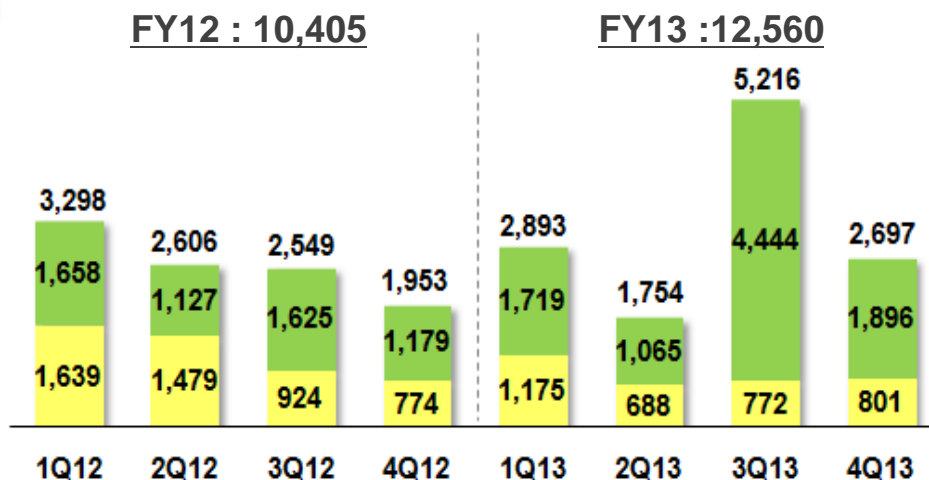


Financing Activities	FY13 major Breakdown	YoY Change
Proceeds from issuance of common stock (net of issuance cost)	17,271	+17,271
Principal payments under capital leases	(3,969)	(290)
Repayment for borrowings (net)	(1,010)	(400)
Dividends paid	(911)	(201)

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

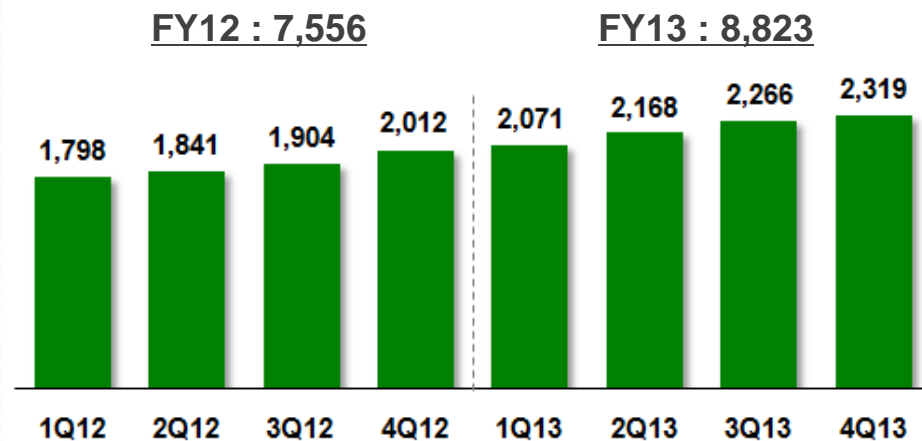
CAPEX (Include Capital Leases):

Unit: JPY million



Depreciation and Amortization:

Unit: JPY million



<CAPEX BREAKDOWN>

	FY12 (JPY billion)	FY13 (JPY billion)
Cloud related (include Matsue DCP)	2.3	3.7
Headquarter relocation	-	0.4
ATM operation business	0.6	0.5
Others*	7.5	8.0

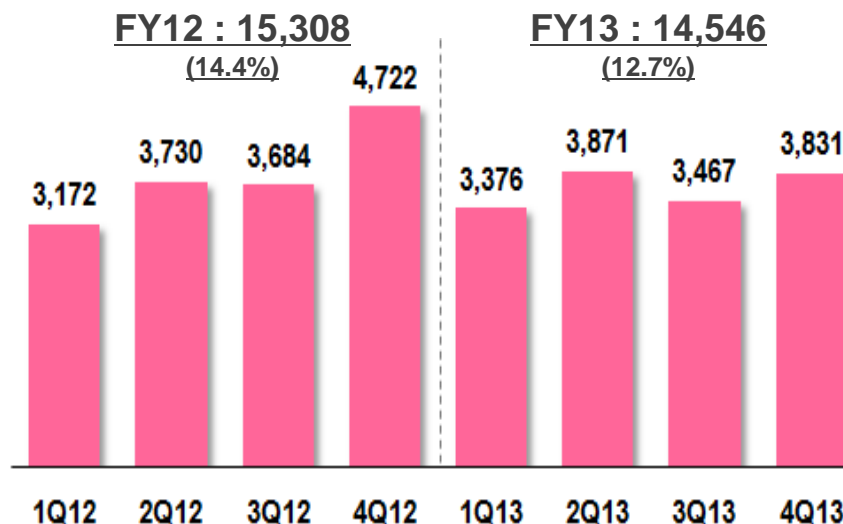
\*Others include network upgrade, SI related, back office investments

FY14 CAPEX is expected to be around JPY13.0 billion, including headquarter relocation related CAPEX

Adjusted EBITDA:

Unit: JPY million

\*(%) % of total revenues

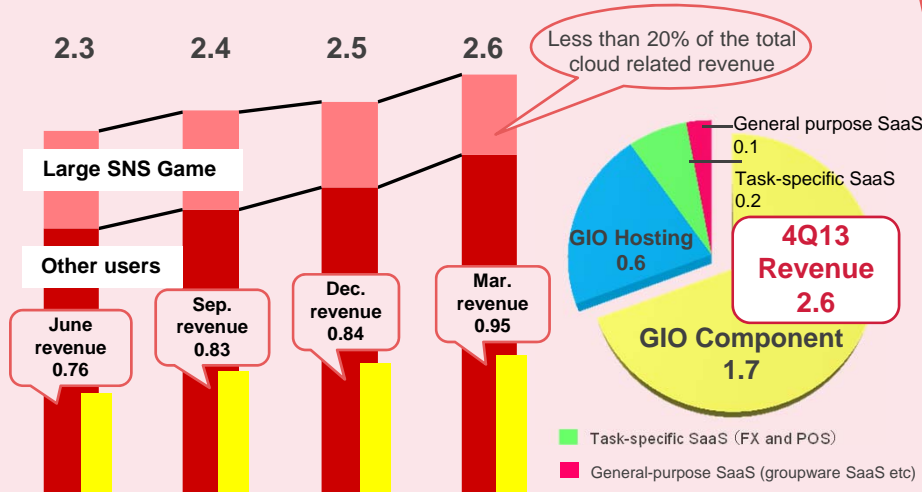


# III-1. IJ Cloud Business

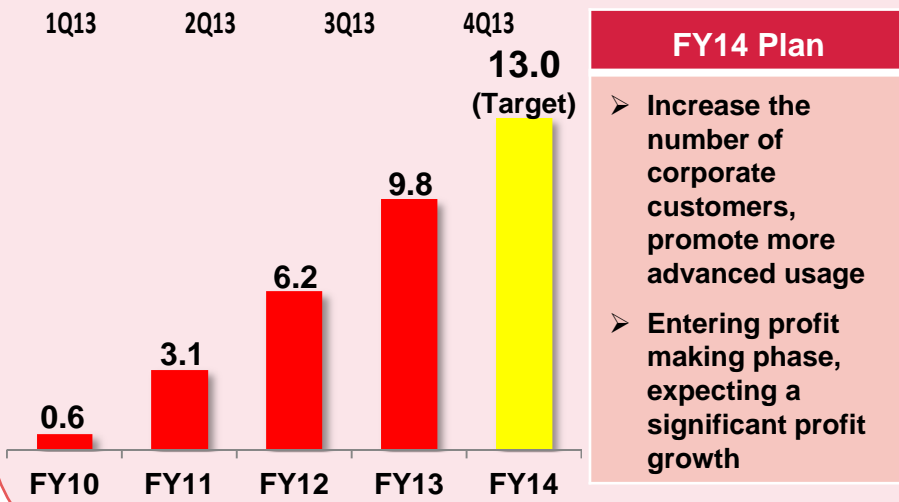


## Cloud-related Revenue

Unit: JPY billion



Less than 20% of the total cloud related revenue



\*Includes task-specific SaaS from FY2013

### FY14 Plan

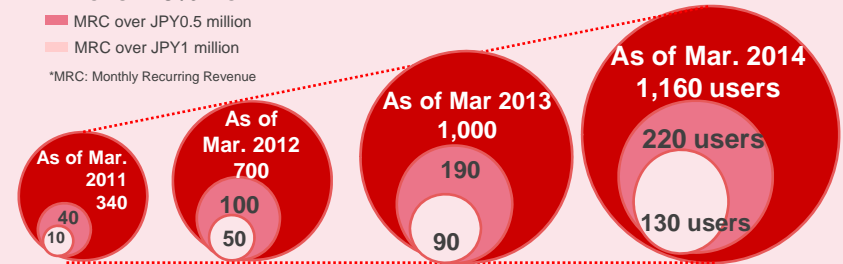
- Increase the number of corporate customers, promote more advanced usage
- Entering profit making phase, expecting a significant profit growth

## FY13 Business Development

### Expansion of Customer Base and Usage

- Average revenue per general corporate customers increased by over 20% YoY

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



### Main stream cloud adoption to continue

- Sompo Japan, one of the largest Japanese insurance companies, adopting IJ GIO for their group unified platform system, jointly building cloud-based insurance-related services
- Migration of a core business operation system, large scale web systems for blue-chips, virtualization of internal back office systems, and more active usages
- Certain large game customers' revenue decrease almost hitting the bottom month by month

### Enhancement of Competitiveness

- Expansion of service lineups continuously
- Accumulating BigData related projects triggered by "IJ GIO BigData Lab" (launched in 2013/6), particular interests from merchandising, service, manufacturing and finance industries
- Strategic partnership with SAP Japan, and more than 500 GIO Partners (as of Mar. 31, 2014)
- Entered BaaS market, Established a Joint Venture *Appiaries*

### Overseas Cloud Services

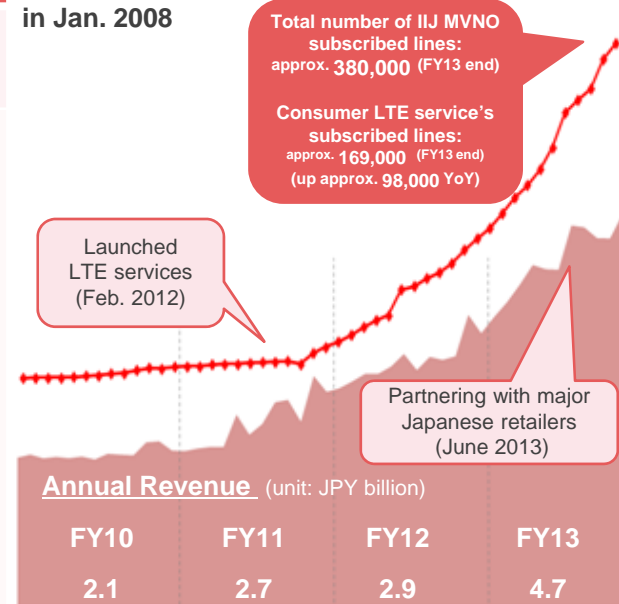
- Launched cloud services in Europe and Singapore

## III-2. MVNO Business

For Enterprises	For Consumers
<p><b>Providing enterprise solution, B2C service platform</b></p> <ul style="list-style-type: none"> <li>• <b>First MVNO in Japan to use NTT Docomo's network</b> <ul style="list-style-type: none"> <li>➢ Layer2 connection with NTT Docomo's 3G&amp;LTE network, greater functionality to offer valued added services</li> </ul> </li> <li>• <b>M2M related projects increasing</b> especially from security and merchandising industries, smart metering, networked vehicles etc</li> <li>• <b>Increasing MVNE requirements</b> integrating SI to construct B2C service platform for enterprise customers</li> </ul>	<p><b>LTE SIM card offerings growing</b> Revenue increased by JPY1.1 billion YoY</p> <ul style="list-style-type: none"> <li>• <b>Highly reliable connectivity, resulting in high customer satisfaction<sup>(*)</sup></b> leveraging renowned operation expertise from corporate services</li> <li>• <b>Continuously updating service lineups by answering customer feedback</b> SMS &amp; MNP compatibility, package of 3 SIM cards, speed control coupon, voice function etc.</li> <li>• <b>Greater customer reach</b> Partnering with major electronic retailers such as BicCamera and Aeon to increase sales channel, in addition to direct sales</li> </ul>

### IIJ MVNO Revenue & Subscribed Lines:

Started MVNO Business in Jan. 2008

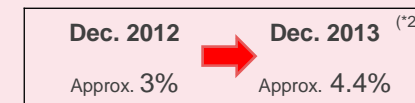


### Driving Further Growth

**Increase MVNO infrastructure utilization by gathering traffic, Improve network services gross margin**

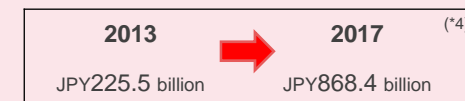
- Accumulation of M2M related projects along with the recent trend "Internet of Things"
- Meeting MVNE demands from major manufacturing, Slers, and other existing blue-chip customers
- "Low-cost SIM·Smartphone" market rapidly growing

■ **Japanese MVNO market size: Ratio of MVNO contracts to number of MNO service subscribers**



➢ Europe, USA, Australia 10%-14%<sup>(\*)</sup>

■ **Japanese M2M market size:**



(\*)1) Ranked at top in a inexpensive SIM card user survey by MMD Research Feb. 2014

(\*)2) Ministry of IAC "Publication on MVNO service usage (as of Dec. 2013)" Apr. 2014

(\*)3) MRI "MVNO trend and issues" Mar. 2014

(\*)4) NRI "Issues and societal system approach towards next generation M2M market" Nov. 2013

## III-3. Reference: FY2014 Financial Target

### 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

## 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 lack of service reliability and loss of business chances due to interrupt or suspend of our services,
- an excess increase in network related cost and outsourcing cost, personnel cost etc,
- a possibility to lose business opportunity due to our inadequate resources in personnel and others,
- an increase in competition and strong pricing pressure,
- the recording of an impairment loss as a results of an impairment test on the non-amortized intangible assets such as goodwill,
- a decline in value and trending value of our holding securities.

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

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