

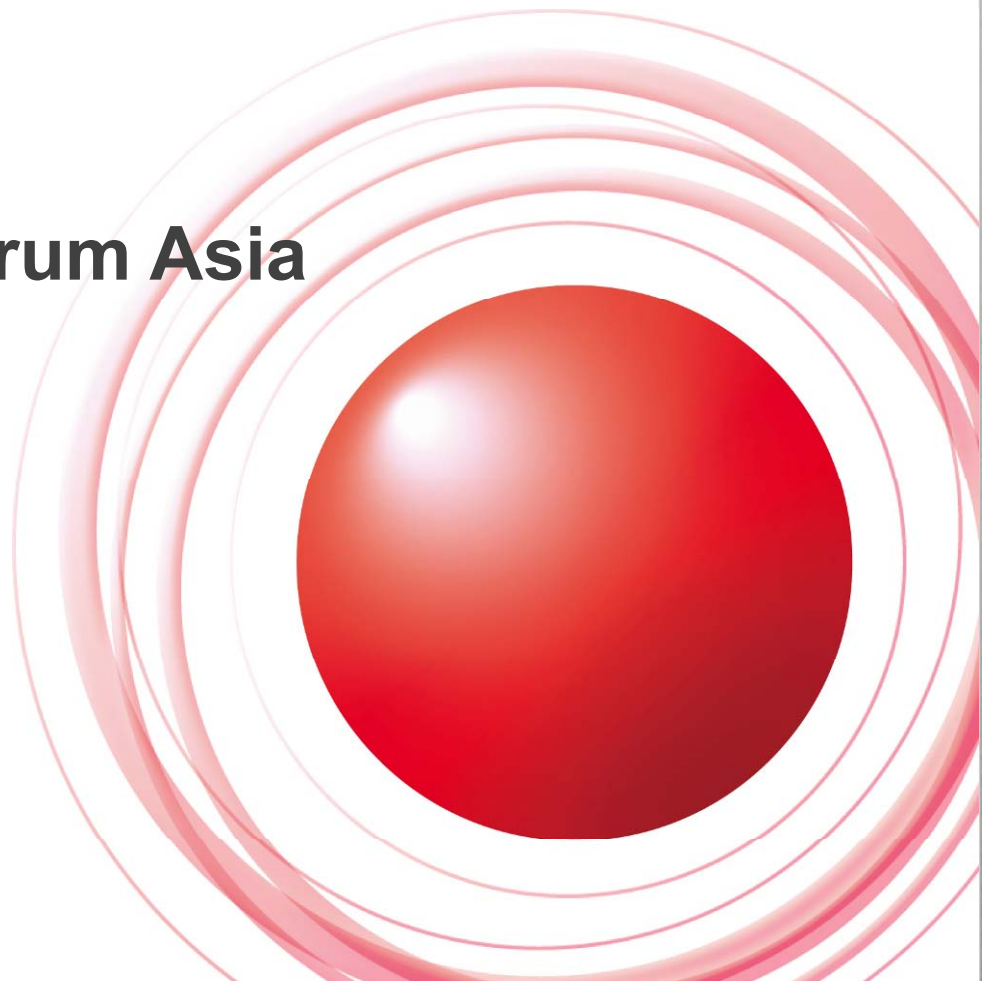


# Internet Initiative Japan Inc.

**Nomura Investment Forum Asia  
June 2013**

**TSE1:3774  
NASDAQ:IIJI**

**Ongoing Innovation**



## Key Investment Highlights

- ◆ **Top IP Engineering Company in Japan**
- ◆ **Shifted from ISP to Total Network Solution Provider**
- ◆ **Target Blue-chip & Governmental Organizations**
- ◆ **Over 8,200 Japanese Excellent Customers**
- ◆ **Solid Growth Strategy with Proved Revenues & Income Growth**
- ◆ **Best Positioned in the Growing Outsourcing & Cloud Computing Market**

details to follow

# TOP IP Engineering Company in Japan

- ◆ The first established full-scale ISP in Japan
  - Introduced many prototype internet-related network services and led the market
  - A group of highly motivated and skilled top level IP engineers
  - Pioneer of network technologies in Japan historically
- ◆ Service initiative with in-house development
  - Operate one of the largest Internet backbone networks in Japan
  - Self-develop services and back office facilities
- ◆ Established “IIJ” brand among the Japanese IT market
  - Known for its engineering & network operation skills
  - High customer satisfaction/long term relationship
  - Over 8,200 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-work with Ministry of Internal Affairs and Communications
  - Participation in world-wide research and organizations

...and many more

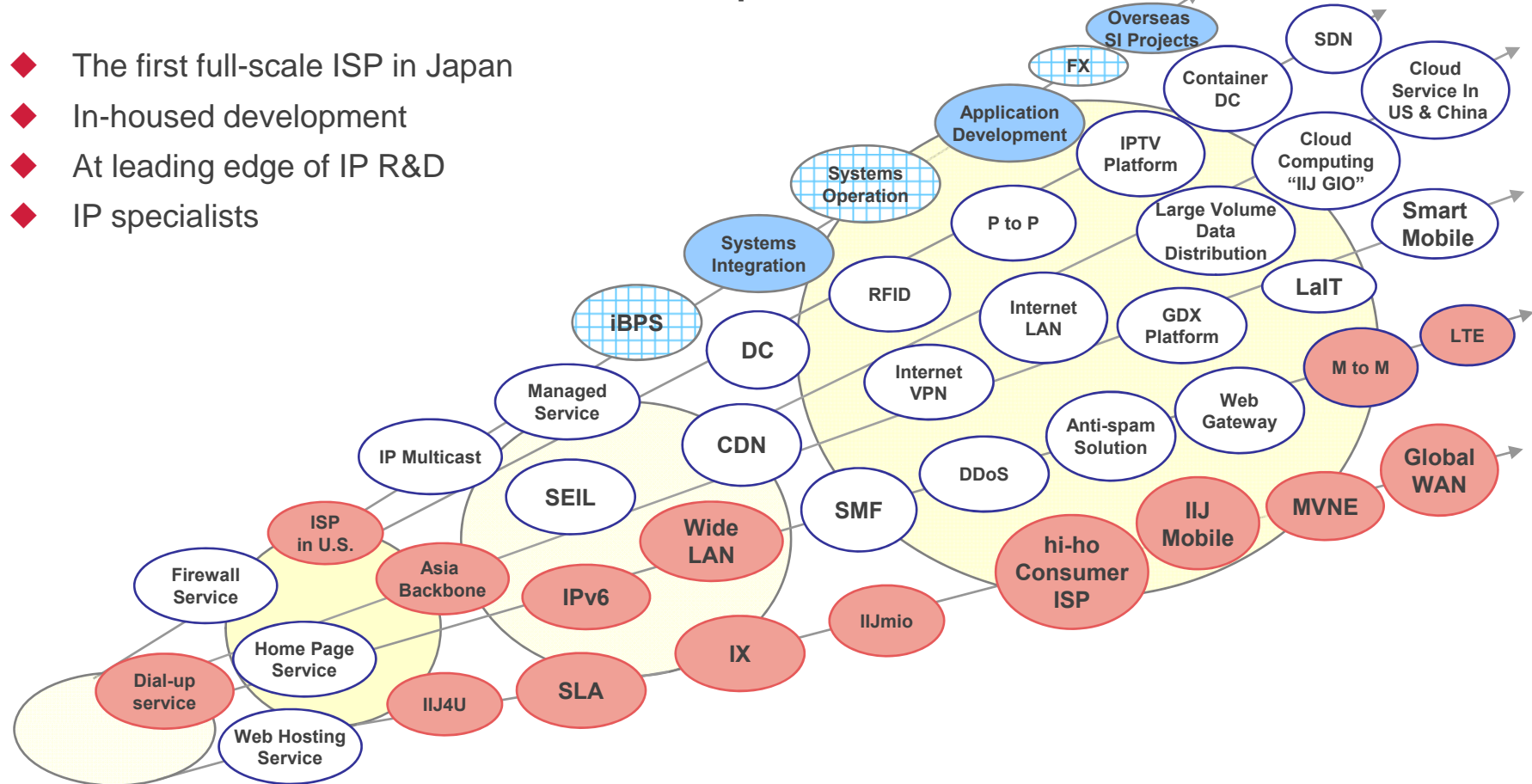
Company Profile	
Established	December 1992
Number of Employees (as of Mar. 2013)	Consolidated: 2,116 (approx. 70% engineers)
Listed Markets	NASDAQ (IIJI), TSE1 (3774)
Large Shareholders (as of Mar. 2013)	NTT (24.5%), Koichi Suzuki (6.3%*), Itochu Corp. (5.1%), NTTCom (4.9%)

\*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:

- 1992:** IJ (Internet Initiative Japan)
- 1996:** IJ America
- 1997:** Internet m/j
- 1998:** Net Care
- 2006:** Net Chat Japan
- 2007:** hi-ho
- 2008:** IJ INNOVATION INSTITUTE
- 2010:** IJ Global
- 2012:** IJ Exlayer
- 2013:** IJ Europe

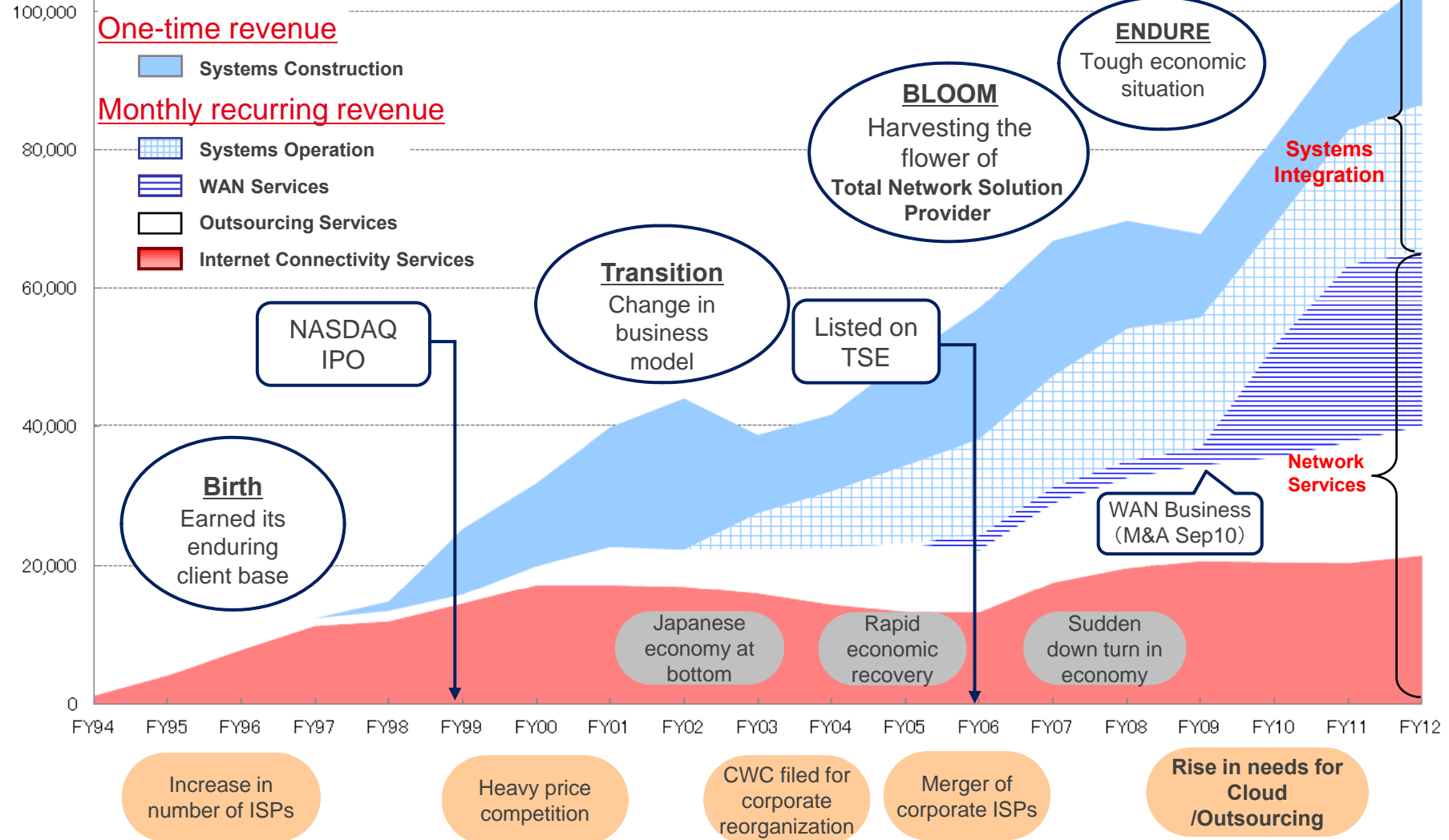
Additional logos at the bottom include: i-revo, Trust Networks, TRINITY (Loyalty Marketing Solutions), and Stratosphere.

IJ Group

# Strategic Shift in Business Model

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

Revenue (JPY million)



# Business Structure of Network Services

## Revenues

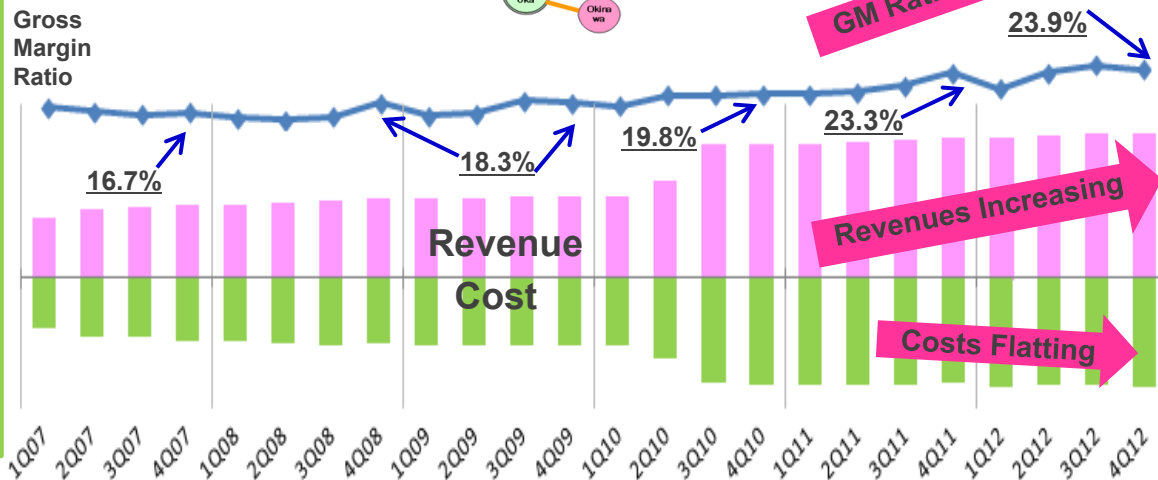
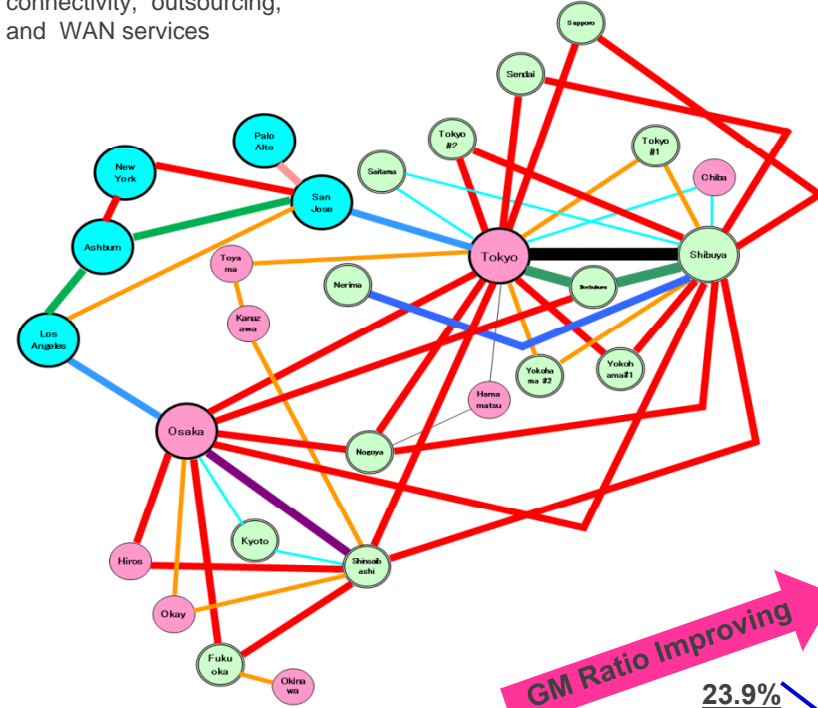
- Multiple cross-selling revenue sources with Internet connectivity for corporate/home and outsourcing services on the Internet backbone
- Internet connectivity contract is per bandwidth
- A monthly recurring-type revenue
- Blue-chip with mission-critical business & network operators clients (Carriers, ISPs, CATVs, etc)
- Tough competition ended, only few high-end ISPs left
- Revenues increase along with migration of bandwidth and accumulation of outsourcing service orders
- Enjoying scale merit along with increasing traffic

## Costs

- Constant expansion of Internet backbone
- Strong bargaining power as one of the largest independent ISPs
- Mainly related to circuit-borrowing, network equipment, DC-borrowing, operations, personnel and outsourcing costs
- Not always directly related to the revenue growth
- While constantly expanding the network, costs barely increase

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

## IIJ Internet Backbone



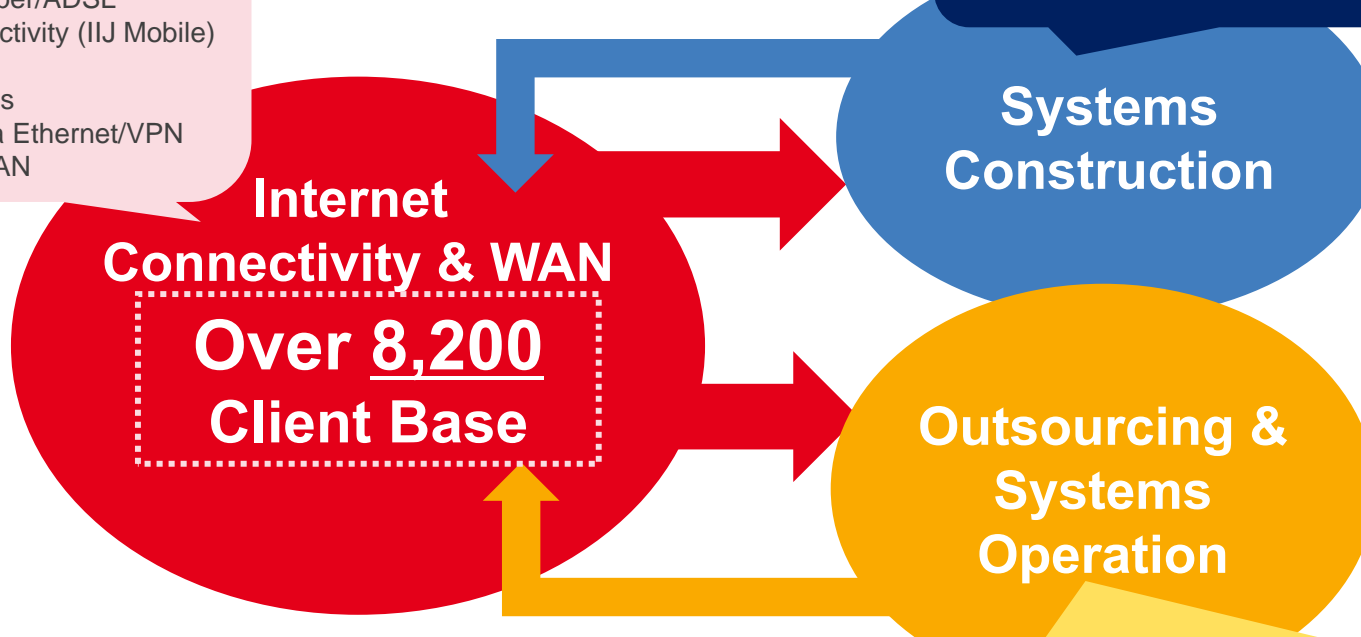


# Recurring Business Model

## Cross-selling of Network Solutions

- Dedicated Line Connectivity
  - IP Service (cover over Gbps)
  - IPv6 Service
- Broadband Connectivity
  - Optical Fiber/ADSL
- Mobile Connectivity (IJJ Mobile)
  - LTE/3G
- WAN Services
  - Wide area Ethernet/VPN
  - Global WAN

- Mainly network-related Integration
  - E-commerce/Web-shopping System
  - Disaster Recovery
  - Private Cloud Computing Platformand many more



Outsourcing services include:

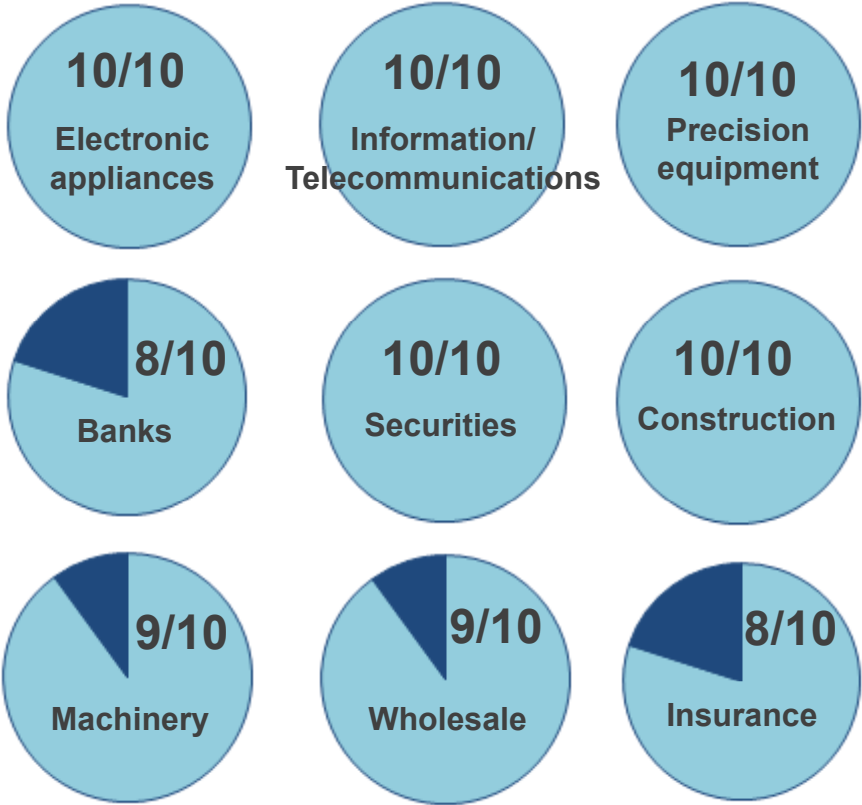
1. Security-related services (managed-firewall and IPS, DDoS protection, URL filtering, anti-spam etc.)
2. Data center-related services (housing, facility management and operation)
3. Server-related services (E-mail services, web hosting, online storage, CDN etc.)
4. Network-related services (network management and monitoring, VPN, SEIL, SMF etc.)
5. IJJ GIO Hosting Package Services (more than 20% of IJJ GIO revenues)

Systems Operation includes:

1. Operation and maintenance of a system constructed in Systems Construction
2. IJJ GIO Component Services (less than 80% of IJJ GIO revenues)

# Excellent Blue-chip Client Base

## Top Tiers



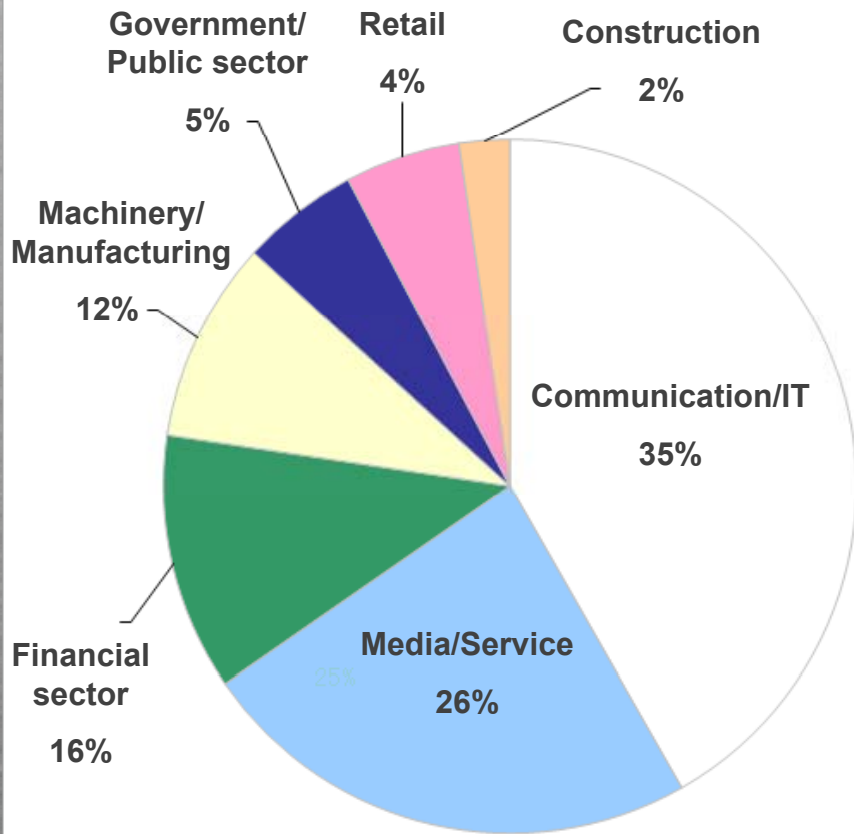
• The number of clients among the TOP 10 companies in each industry.



# Revenue Composition by Clients

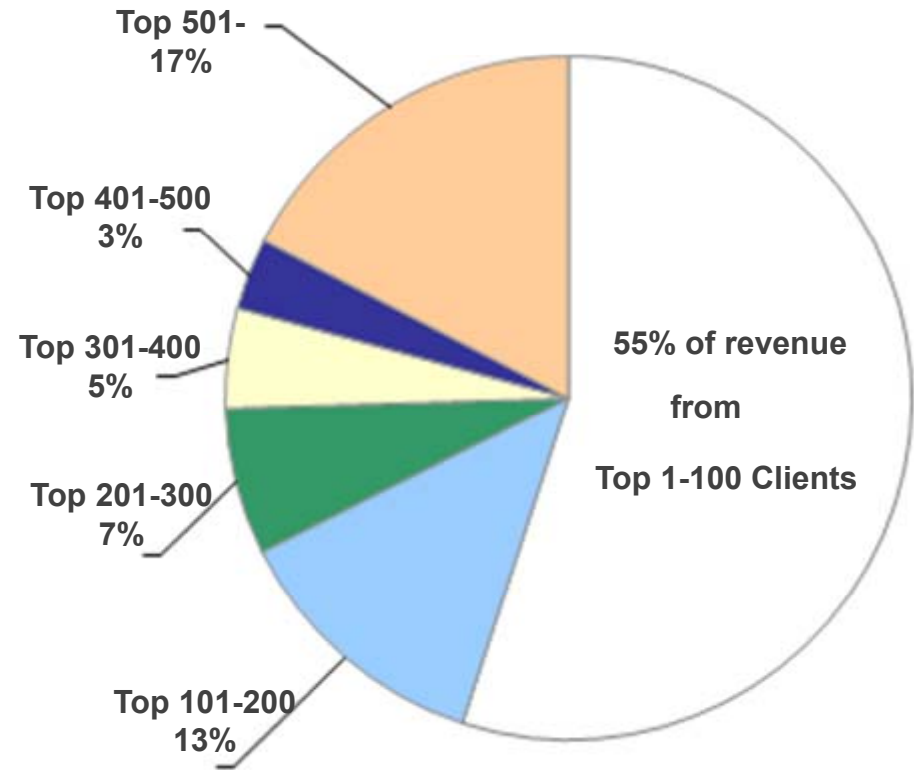
Revenue Distribution by Industry

Not dependent on specific industry



Revenue Distribution by Clients

Not dependent on specific company

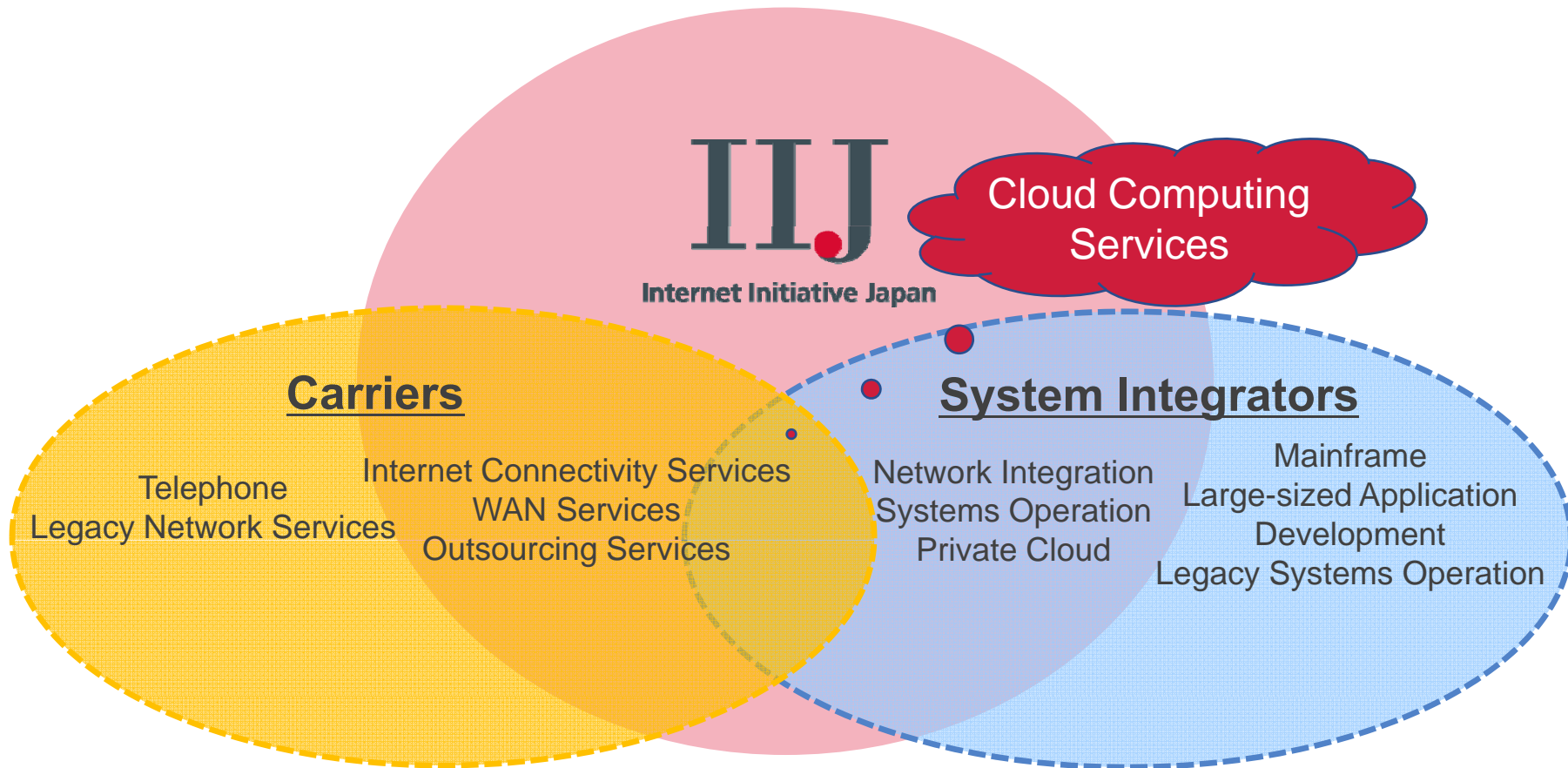


Source: IJ's consolidated data for FY2012

# Competitive Advantages

- Many highly skilled network engineers
- Rapidly correspond to the Internet market
- Focus on enterprises
- Established brand among blue-chips
- Flat organization structure

- Operate own backbone network
- In-house developed network services
- Target new IT market, not legacy SI
- Long and rich experience in server operation
- Not so huge number of employees



# Customer Retention Strategy

## Cross-selling of Services

Provide high quality and reliable services

Develop and introduce new technologies and solution continuously

Leverage and strengthen client base

## Seizing business opportunities in the transitional phase of companies internal network system

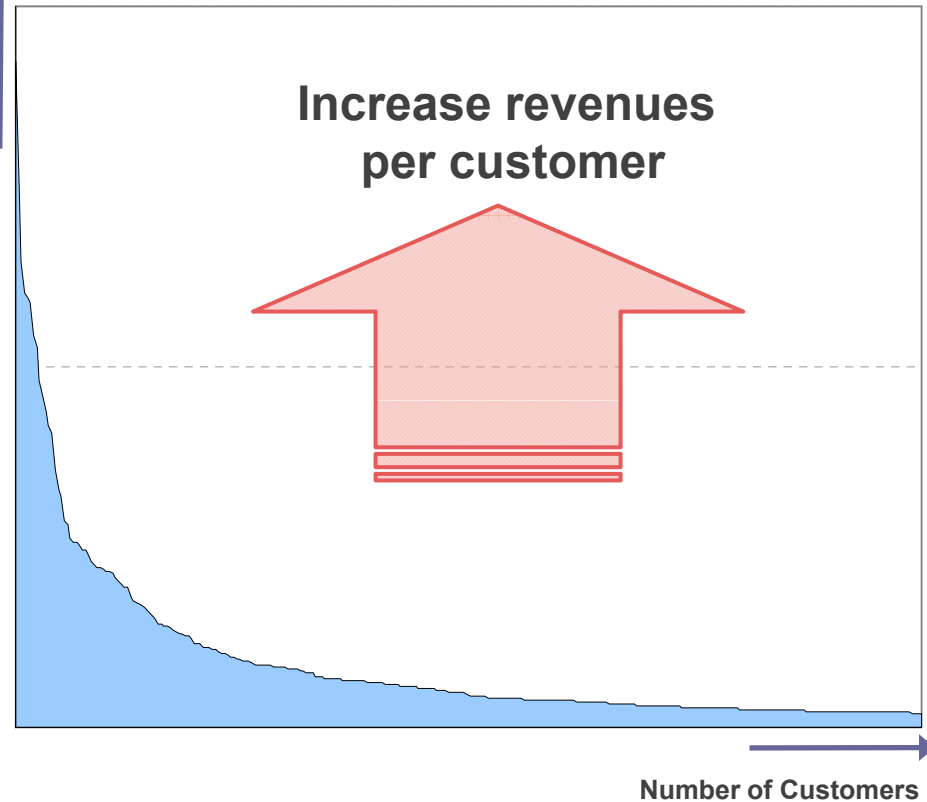
Maximize IIJ's potential as a total network service provider

Focus on cloud computing services

Revenues by Customer

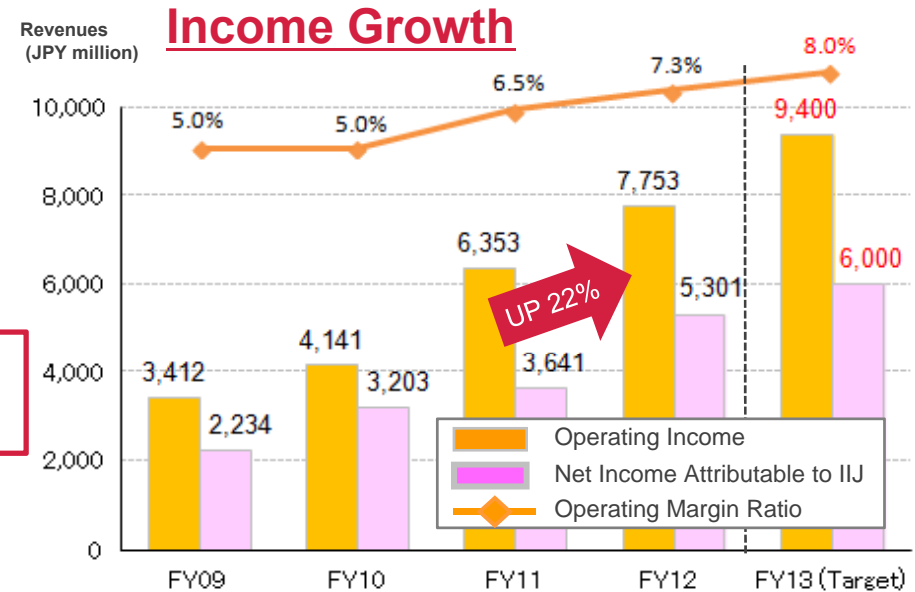
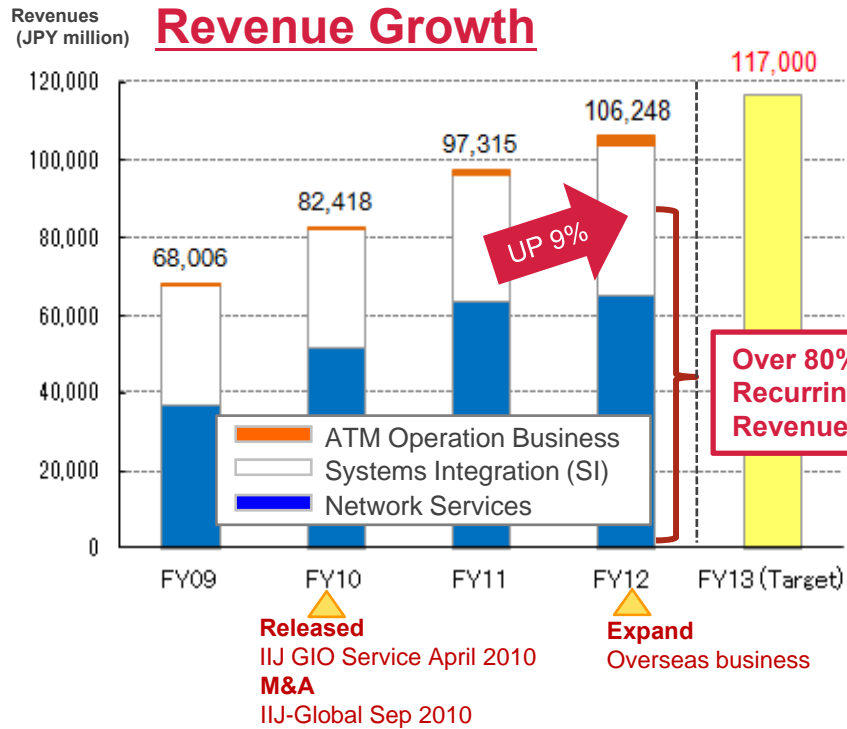
## Solid Growth Strategy

Increase revenues per customer



- Increased demands of outsourcing and cloud computing
- Indispensable IT investment in the mid-to-long-term

# Proven Solid Business Strategy and FY13 Target



- ◆ Stable growth with stock-type recurring revenues
- ◆ SI revenue to expand with the return of IT investment along with the Japanese economy recovery
- ◆ ATM operation business to continuously grow in both revenue and income by increasing the number of placed ATMs and daily transaction
- ◆ Gross margin and gross margin ratio of each network services, SI, ATM operation business to increase

# Growth Strategy Hereafter

## Connectivity Services

- Survived tough competition. Few high-end corporate ISPs remain
- Rapid traffic increase → Bandwidth migration → Further revenue growth
- Enjoying greater network efficiency by having multiple revenue sources on the Internet backbone
- Internet connectivity services for corporate use revenue:  
FY11 : up 5% from FY10, FY12 up 9% from FY11
- Internet connectivity services for home use:  
4Q12 revenue increased from 3Q12 as the minus effects caused by the net revenue recognition for FLET's portion were absorbed by the accumulation of LTE services

## Cloud Computing Services

- Cloud services at the beginning. Rapid market growth
- Network outsourcing opportunities arise, shift from legacy system integrators
- Leading cloud service market, gathering approximately 1,000 corporate users in 2 years
- Revenue: FY10 JPY0.6 billion → FY11 JPY3.1 billion → FY12 JPY6.2 billion, FY13 plan JPY10.0 billion

## Outsourcing Services

- Continuous needs for security and datacenter related services etc.
- Need to deal with constantly evolving Internet threats such as DDoS attacks
- Steady organic growth awaits

## Overseas Business

- Headed overseas to support Japanese corporate customers
- Constructing server platform in US for a prominent Japanese SNS game provider
- Enhancing the service line-ups with the U.S. cloud (Apr. 2012 -) and China Cloud (Jan. 2013 -)
- Planning further expansion of overseas cloud in accordance with clients' needs
- FY12 overseas revenue: approx. JPY3.6 billion

## ATM Operation Business

- Strong revenue and income driver in mid-term

## R&D

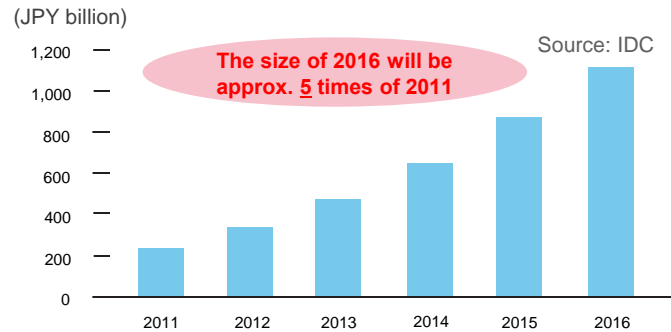
- Keep focusing on R&D toward mid-to long term growth
- Key theme: Software Defined Network (SDN), released a SDN product in Oct. 2012 and an updated version in Feb. 2012, being used by datacenter operators

# Best Positioned in Cloud Computing Market



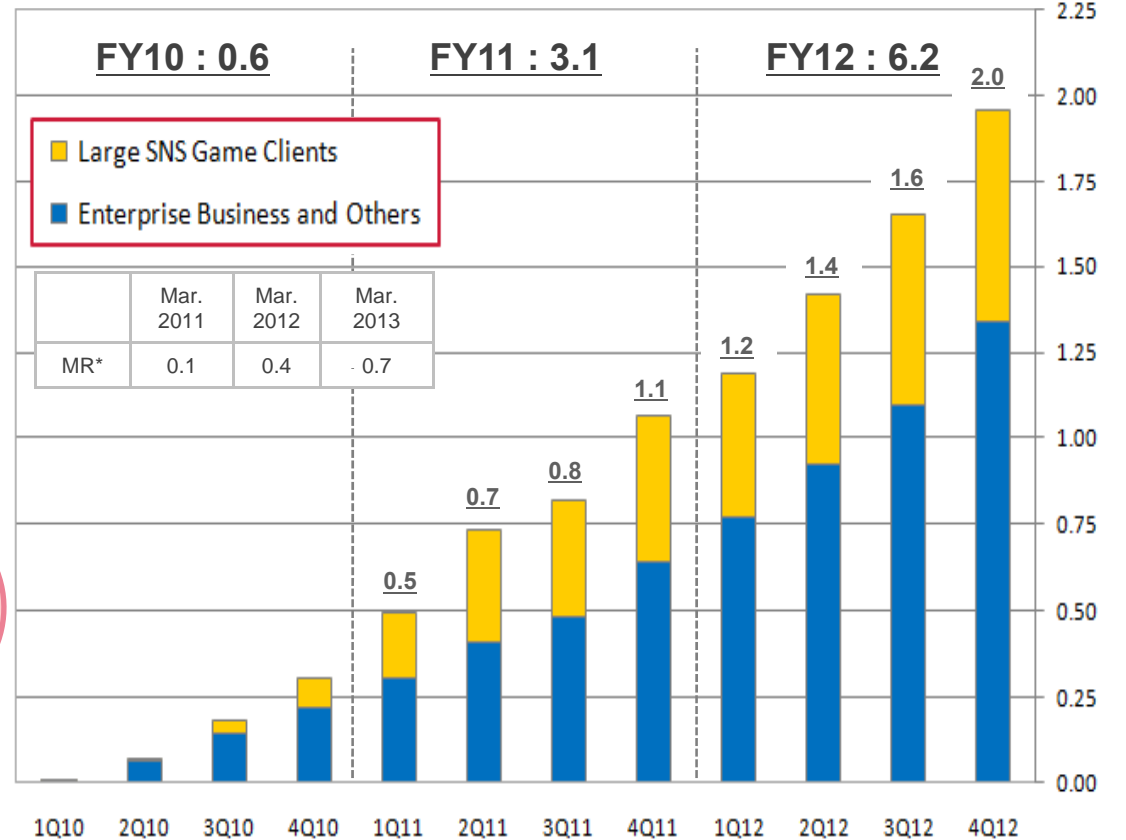
- Services released in 1Q10, Ranked as the top cloud provider in Japanese public cloud market (Fuji Chimera Research Inst., July 2012)
- Mainly IaaS/PaaS services, Continuously adding service line-ups to meet enterprises' needs
  - Providing VMware hypervisor functions, targeting hybrid cloud usage, Offering Oracle Database on a monthly fee, first in Japan
- Invest in servers, storages and DC etc. and offer as service
- Target blue-chip companies' internal IT systems
- Improve facility efficiency and price competitiveness with Container Data Center, second one to be completed in fall 2013
- Chosen for service reliability and network operation skill

## Domestic Cloud Market Growth



\*MR: Monthly Revenue

## IIJ GIO Domestic Revenue



## Fastidious Users

SBI Holdings, Inc.    NTT DOCOMO, INC.    Saitama Prefecture  
 Ministry of Education, Culture, Sports, Science and Technology    Nomura Securities Co., Ltd.    SUMITOMO FORESTRY INFORMATION SYSTEMS CO.,LTD  
 Nippon Life Insurance Company    DAIWA HOUSE INDUSTRY CO., LTD    TOMY COMPANY,LTD.  
 Tokyo Stock Exchange, Inc.    Tohoku Electric Power Co., Inc.    SHIMIZU CORPORATION  
 Ricoh Company, Ltd.    Nihon University    Japan Mint  
 .... and many more



# Overseas Business in Progress

Increasing customer demands for global network services and server operation

- Strong demands from SNS game providers to operate global business
- Japanese customers seeking for network services abroad, especially in Asia
- To offer network services seamlessly

## ◆ Services to offer

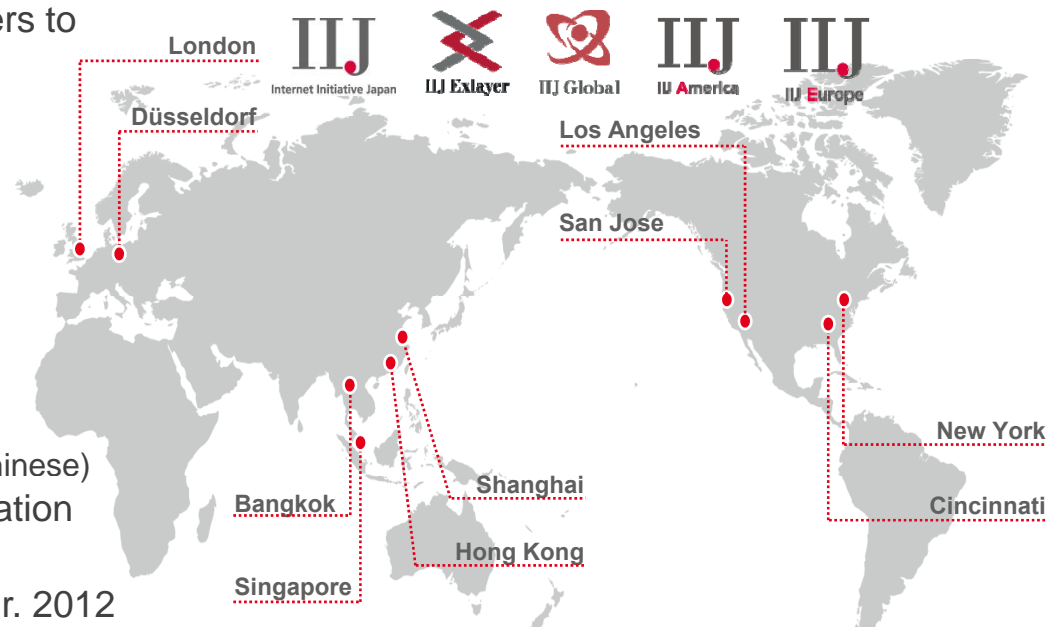
- Cloud services in the US and China
- Global-WAN, Internet-VPN services
  - Global-WAN FY12 revenue: approx. JPY0.4 billion
- Multilingual helpdesk (Japanese, English, Chinese)
- SI such as servers construction and operation

## ◆ Co-working with IIJ Exlayer, acquired in Apr. 2012

- Targets SI projects for Japanese enterprise in the US, UK, Germany, Singapore; Annual revenue of approx. JPY0.8 billion
- Rapid business development through this M&A

## ◆ Enhancing presence in Europe

## ◆ Established subsidiaries in Shanghai and Bangkok



- **FY12 total revenue: approx. JPY3.6 billion**
- **Constructing large server platform in overseas**
- **Further expansion of overseas cloud services along with clients' demands**

# ATM Operation Business Developments

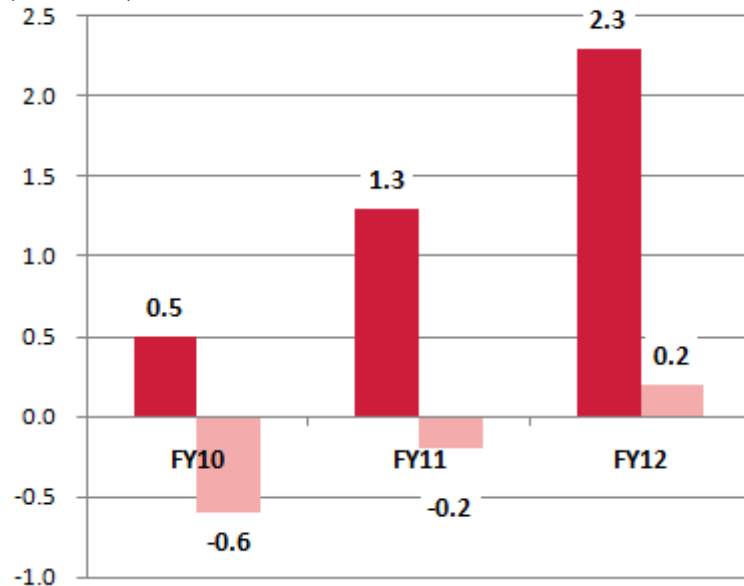


## ◆ Business Model

- Receive commission for each withdrawal transaction
- Now in a start-up phase
- Strong revenue & income driver in mid-term

## ◆ Financial Results

(JPY billion)



Number of ATMs Placed:

May 13, 2011	May 15, 2012	May 15, 2013
280	440	625

■ Revenue  
■ Operating income



< Trust Networks Inc. >

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



**Total number of ATMs & daily usage per ATM is key to profit growth**

# FY2013 Financial Target

(Unit: JPY billion)

	FY13 Target (Apr. 2013 -Mar.2014)	FY12 Actual (Apr. 2012 -Mar.2013)	YoY (FY13 Target to FY12 Actual)	
Total Revenues	117.0	106.2	+10.8	+10.1%
Operating Income	9.4	7.8	+1.6	+21.2%
Income before Income Tax Expense	9.0	7.8	+1.2	+16.0%
Net Income attributable to IIJ	6.0	5.3	+0.7	+13.2%
Net Income attributable to IIJ per Share	JPY 148.01	JPY 130.76 <sup>*</sup>	+JPY 17.25	+13.2%
Cash Dividend per Share	JPY 22.00 (Annual)	JPY 18.75 <sup>*</sup> (Annual)	+JPY 3.25	+17.3%

\* IIJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. Accordingly, net income attributable to IIJ per share and cash dividend per share (IIJ common share) in the above are adjusted based on post stock split basis.

## < Assumption for Target >

### ◆ Revenue

#### ➢ Network Services

Corporate use grow continuously, Home use revenue increase, Outsourcing grow along with Cloud revenue over JPY10 billion

#### ➢ Systems Integration

Operation and Maintenance grow along with the cloud growth, the absolute figure of SI construction to increase

#### ➢ ATM Operation Business

Continuous growth by placing more ATMs than FY12 results (FY12 added 215 ATMs)

### ◆ Operating Income

➢ Gross margin and GM ratio of each NW, SI, ATM to increase

➢ SG&A to total revenue at mid-13% due to some increase in personnel-related, advertisement, sales & marketing related expenses while the total SG&A does not increase as much as gross margin

### ◆ Income before income tax expense, Net income attributable to IIJ

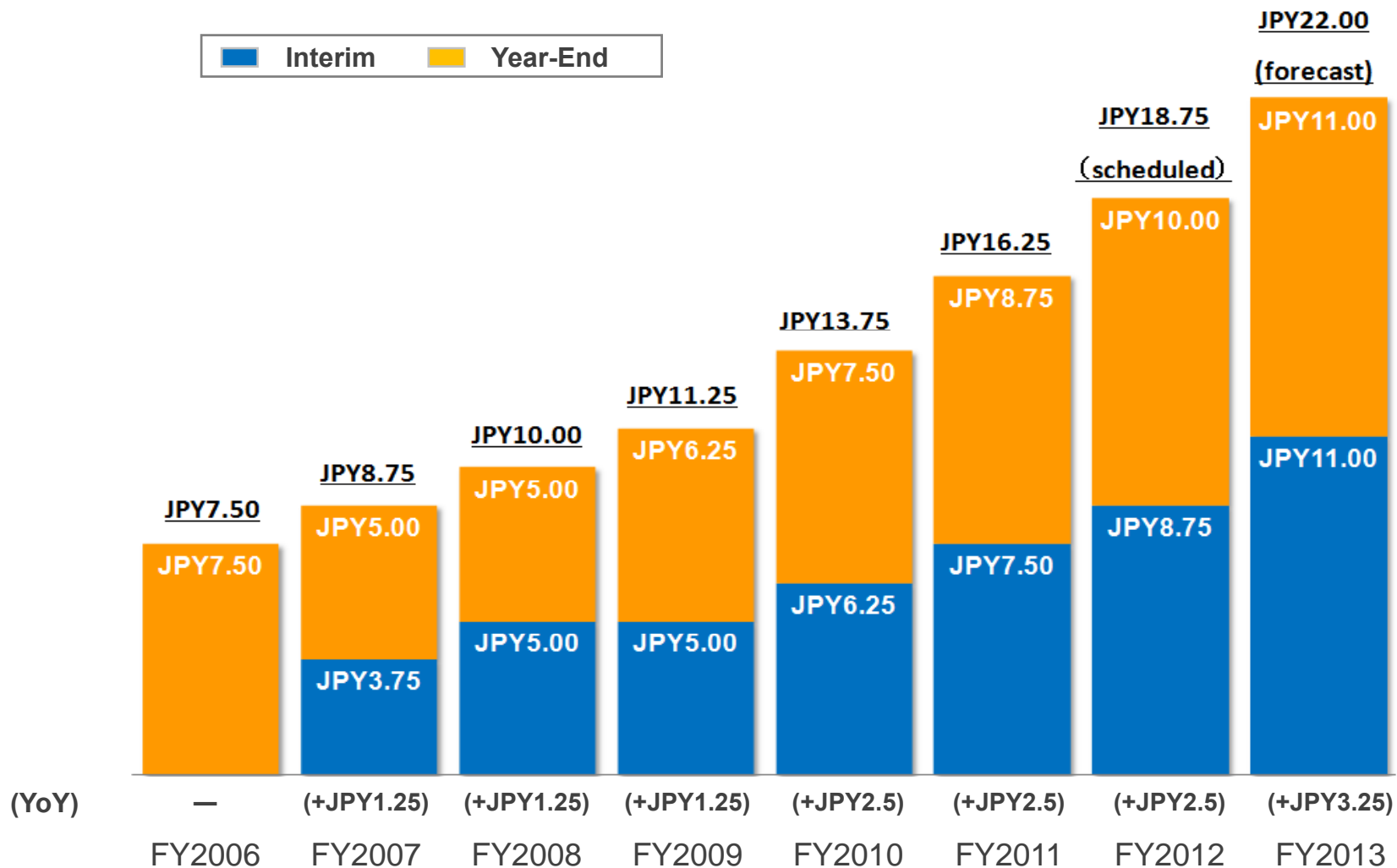
- Consider mainly interest expense
- Income taxes benefit of approx. JPY0.7 billion related to ATM operation business
- Normal tax rate

### ◆ CAPEX

➢ Increase compared to FY11 mainly due to FY12 deferred portion and construction for 2<sup>nd</sup> container type DC in Matsue














# FY2013 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.



# IIJ Group Companies

(As of May 2013)

	Company Name	Ownership	Main Business
Consolidated Subsidiaries	 IIJ Global Solutions Inc.	100%	Provides domestic network outsourcing related services including WAN service and international network related services (Joined IIJ group in 2010)
	 IIJ Europe Inc.		Provides support to Japanese companies located in Europe by using its technological expertise to deliver high quality network solutions and high value-added system integration (SI) services
	 Net Care, Inc.		Provides a full range of network operation and management services, from customer support, end user help desks, monitoring and trouble shooting to integrated management services.
	 hi-ho, Inc		Supports customers' safe, secure and comfortable internet life based on ISP business for personal users.
	 IIJ America Inc.		Provides quality Internet services in the U.S. with a focus on U.S.-based enterprises doing business in the Asia-Pacific region. Also IIJ-A constructs and operates on U.S. Internet backbone network. (Est. 1996)
	 IIJ Innovation Institute Inc.		Develops internet related technologies (R&D)
	 Net Chart Japan Inc.		Provides network construction services, primarily for LANs, such as network installation wiring, installation and set-up of equipment, installation of applications, and operational support.
	 IIJ Exlayer Inc.	99.9%	Provides overseas SI to mainly Japanese-owned local corporations. Japanese holding company and 100% owned subsidiaries in UK, Germany, U.S., Singapore and Hong Kong. (Joined IIJ group in 2012)
	 Trust Networks Inc.	79.5%	Operates ATM network systems placed in designated facilities. Receives commission for each withdrawal transaction from a bank account. (Est. 2007)
Equity Method Investees	 Stratosphere Inc.	50%	Develops SDN (Software Defined Network) platform (Est. 2012)
	 Internet Multifeed Co.	33%	Provides mutual access with other major ISPs. Also MFEED operates JPNAP, a distributed IX service.
	 Internet Revolution, Inc.	30%	Joint company with KONAMI CORPORATION. Operates internet portal web sites.
	 Trinity Inc.	33.7%	Provides operation of reward point management system



**FY2012 Consolidated Financial Results  
Announced on May 15, 2013**



# I . Summary of FY2012 Financial Results

	< FY2012 Results >	< FY2013 Target >
• Revenues	JPY106.2 billion (up 9.2% YoY)	JPY117.0 billion (up 10.1% YoY)
• Gross margin	JPY21.9 billion (up 9.3% YoY)	
• Operating income	JPY7.8 billion (up 22.0% YoY)	JPY9.4 billion (up 21.2% YoY)
• Income before income tax expense	JPY7.8 billion (up 29.8% YoY)	JPY9.0 billion (up 16.0% YoY)
• Net income attributable to IJ	JPY5.3 billion (up 45.6% YoY)	JPY6.0 billion (up 13.2% YoY)

- ◆ Each service grew, achieved stable revenue and income growth for FY2012  
Revenue exceeding JPY100 billion, first time in the company's history

<b>Network</b>	Continued demand for broader bandwidth, Enjoying competitive advantage with high network efficiency	Internet connectivity for corporate: revenue up 9.0% YoY
<b>Cloud</b>	Business growing with the continuous acquisition of new users and the extended usage by the current users	FY2011 revenue: JPY3.1 billion FY2012 revenue: JPY6.2 billion
<b>SI</b>	IT investment appetite coming back, Acquiring over JPY0.1 billion large scale projects as well as the usual small-to- medium scale projects	Systems construction: revenue up 31.9% YoY
<b>Overseas</b>	Providing large SI projects & Global-WAN services, Launched U.S. & China cloud services	FY2012 revenue: JPY3.6 billion
<b>ATM</b>	Continuously expanding as a stock-type revenue business, Number of placed ATMs & transaction increasing	Stable profit contributor Profit ratio 10.3%

- ◆ Target double-digit growth for FY2013
- Stock revenue growing, Cloud revenue over JPY10 billion & turn positive, Overseas revenue increasing, SI recovering, ATM continuous expansion
  - Dividend increase in 7 consecutive fiscal years along with the income growth, Larger dividend increase for FY2013 forecast

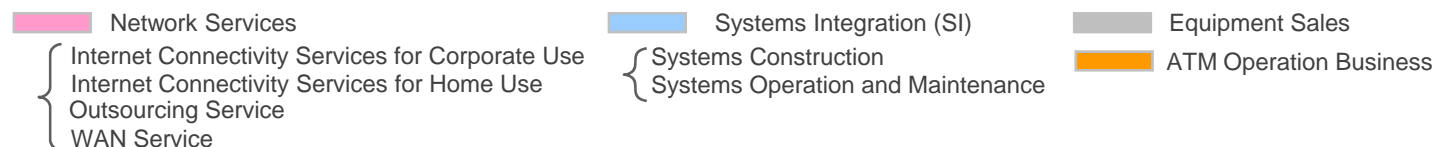
Annual Cash Dividend per Share			(amount of YoY increase)
FY2011 (paid)	FY2012 (scheduled)	FY2013 (forecast)	
JPY16.25 (+ JPY2.50)	JPY18.25 (+JPY2.50) Announced 3Q12	JPY22.00 (+JPY3.25) Announced 4Q12	

## II -1. Consolidated Financial Results for FY2012

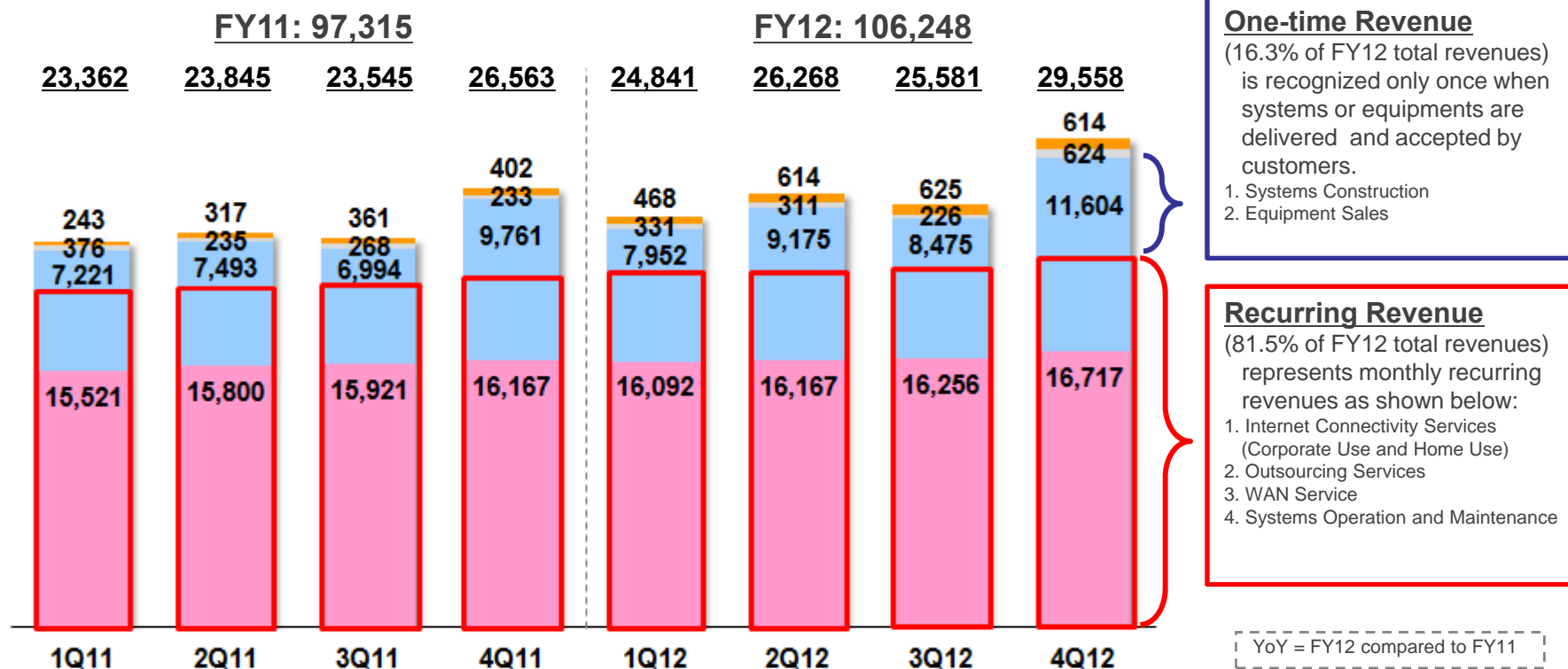
Unit: JPY billion

	<i>% of Revenues</i> <b>FY12</b> (Apr. 2012 -Mar. 2013)	<i>% of Revenues</i> <b>FY11</b> (Apr. 2011 -Mar. 2012)	<b>YoY</b> <b>Change in %</b>	<i>% of Revenues</i> <b>FY13 Target</b> (Apr. 2013 -Mar.2014)	<b>YoY</b> <b>Change in %</b>
<b>Total Revenues</b>	<b>106.2</b>	<b>97.3</b>	<b>+9.2%</b>	<b>117.0</b>	<b>+10.1%</b>
<b>Total Costs</b>	79.4% <b>84.4</b>	79.5% <b>77.3</b>	<b>+9.1%</b>	-	-
<b>Gross Margin</b>	20.6% <b>21.9</b>	20.5% <b>20.0</b>	<b>+9.3%</b>	-	-
<b>SG&amp;A/R&amp;D</b>	13.3% <b>14.1</b>	14.0% <b>13.6</b>	<b>+3.4%</b>	-	-
<b>Operating Income</b>	7.3% <b>7.8</b>	6.5% <b>6.4</b>	<b>+22.0%</b>	8.0% <b>9.4</b>	<b>+21.2%</b>
<b>Income before Income Tax Expense</b>	7.3% <b>7.8</b>	6.1% <b>6.0</b>	<b>+29.8%</b>	7.7% <b>9.0</b>	<b>+16.0%</b>
<b>Net Income Attributable to IJ</b>	5.0% <b>5.3</b>	3.7% <b>3.6</b>	<b>+45.6%</b>	5.1% <b>6.0</b>	<b>+13.2%</b>

## II -2. Revenues



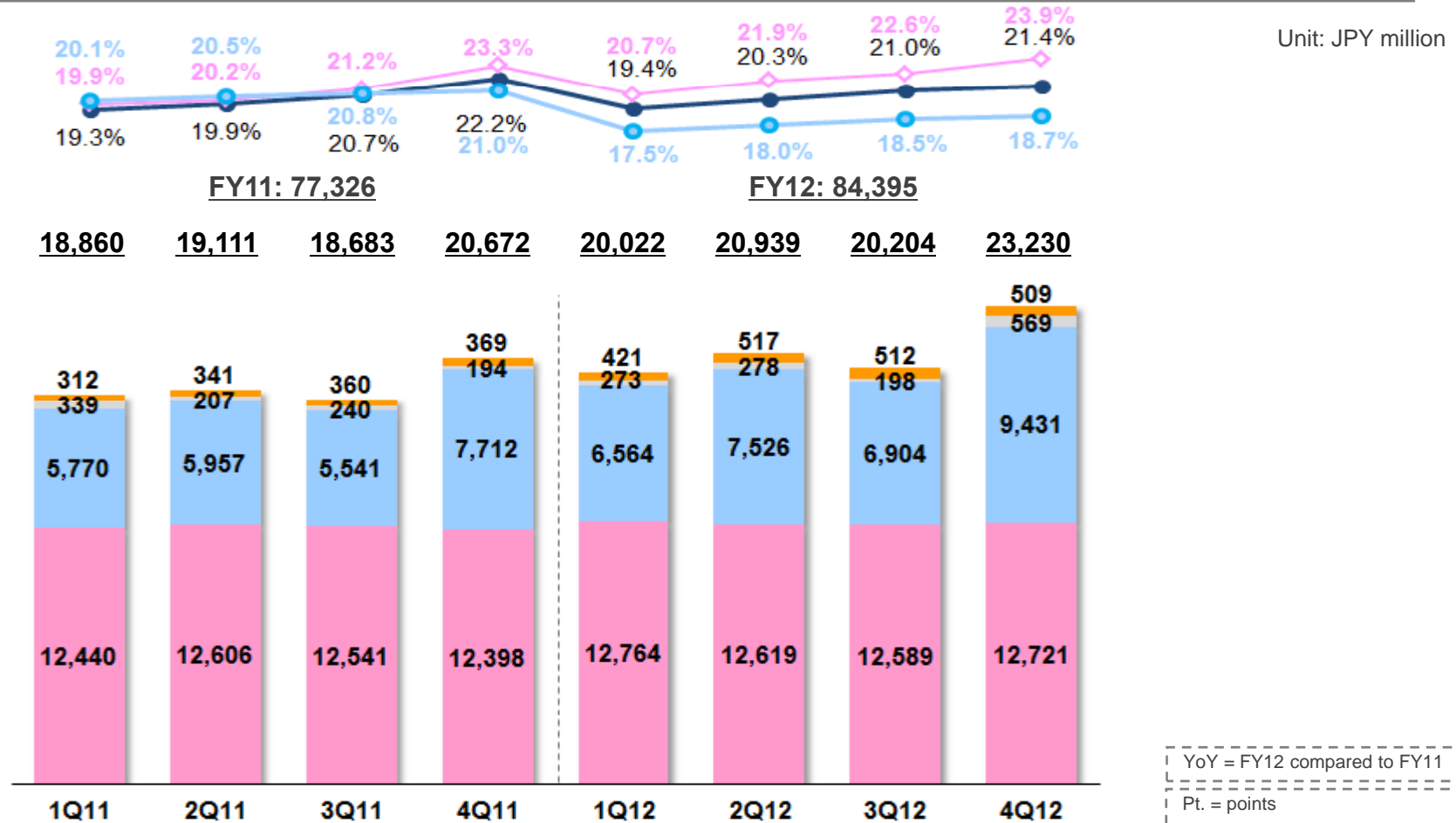
Unit: JPY million



- ◆ FY12 Network services revenue: JPY65,232 million (up 2.9% YoY)
- ◆ FY12 Systems integration revenue: JPY37,205 million (up 18.2% YoY)
- ◆ FY12 Equipment sales revenue: JPY1,491 million (up 34.1% YoY)
- ◆ FY12 ATM operation business revenue: JPY2,320 million (up JPY996 million YoY, up 75.2% YoY)
- ◆ FY12 Recurring revenue: JPY86,613 million (up 4.5% YoY)
- ◆ FY12 One-time revenue: JPY17,316 million (up 32.1% YoY)

## 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 Revenue (dark blue circle)

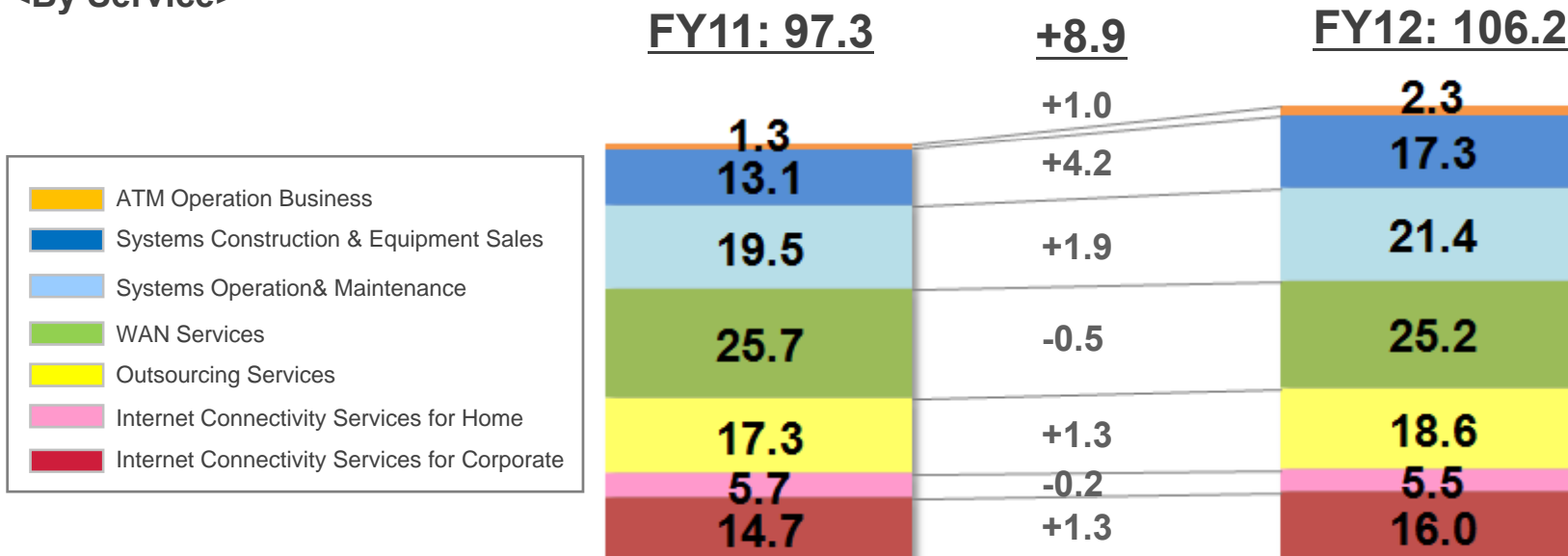


FY12 Gross margin: JPY21,854 million (up JPY1,865 million YoY, up 9.3% YoY), Gross margin ratio: 20.6% (up 0.1 Pt. YoY)  
 ◆ Network services gross margin: JPY14,540 million (up JPY1,116 million YoY, up 8.3% YoY), Gross margin ratio: 22.3% (up 1.1 Pt. YoY)  
 ◆ SI gross margin: JPY6,780 million (up JPY290 million YoY, up 4.5% YoY), Gross margin ratio: 18.2% (down 2.4 Pt. YoY)  
 ◆ ATM operation business gross margin: JPY360 million (gross loss of JPY58 million in FY11)

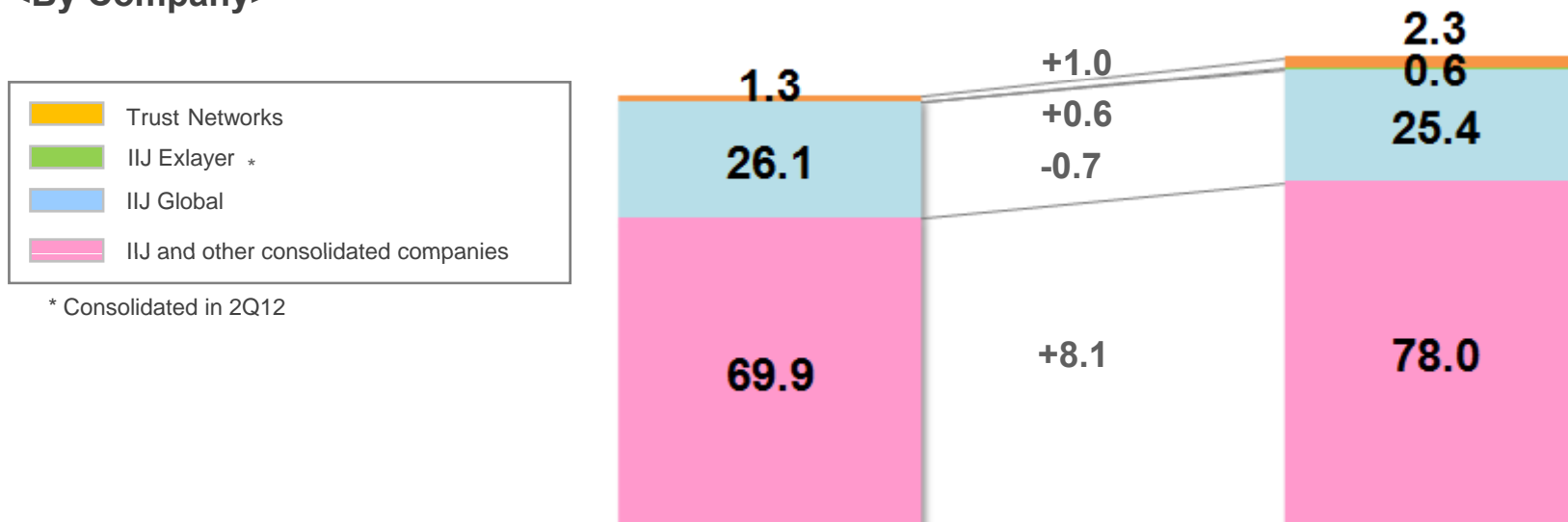
## II -4. Revenue YoY Change

Unit: JPY billion

### <By Service>



### <By Company>

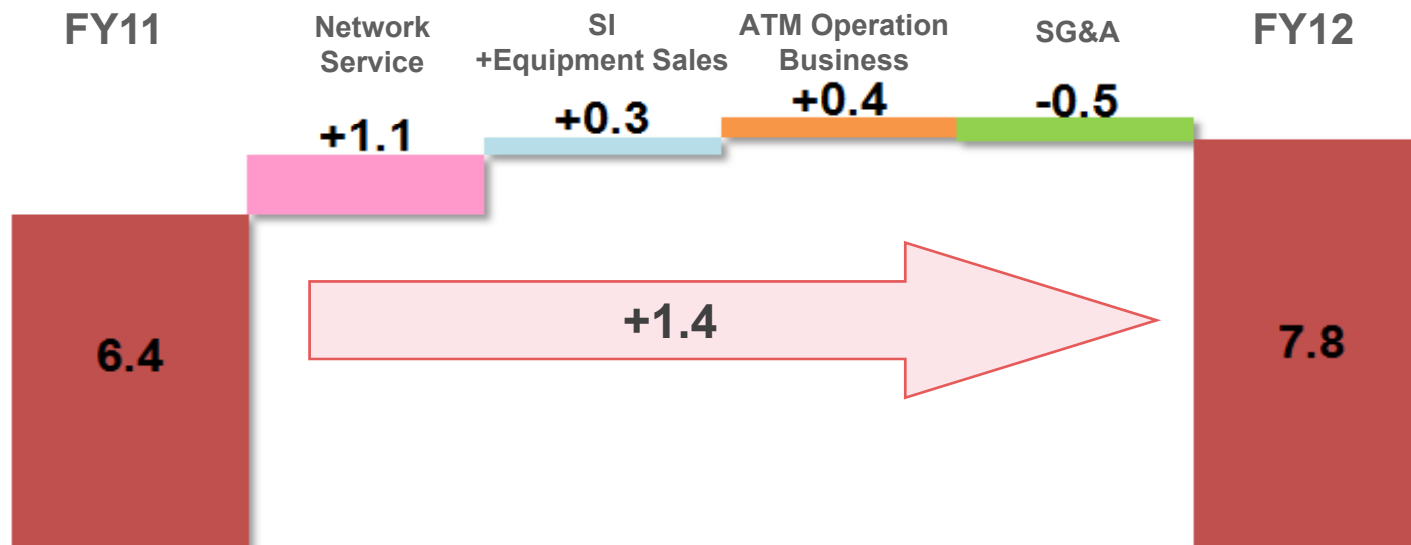


\* Consolidated in 2Q12

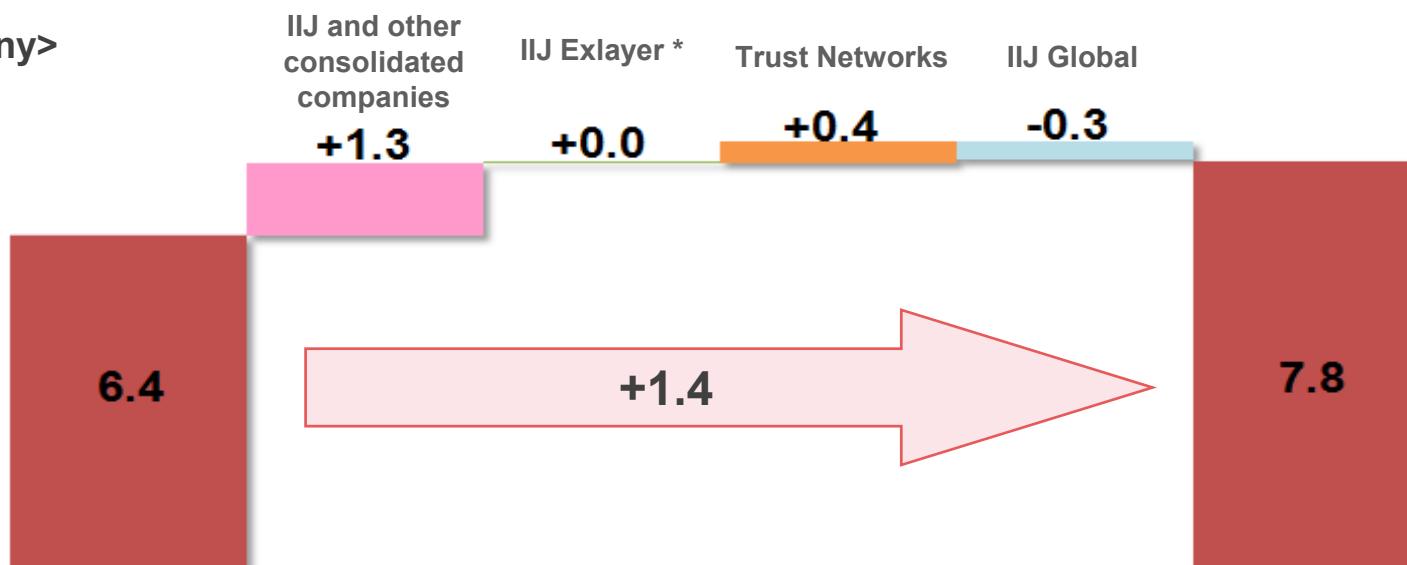
## Ⅱ -5. Operating Income YoY Change

Unit: JPY billion

<By Service>



<By Company>

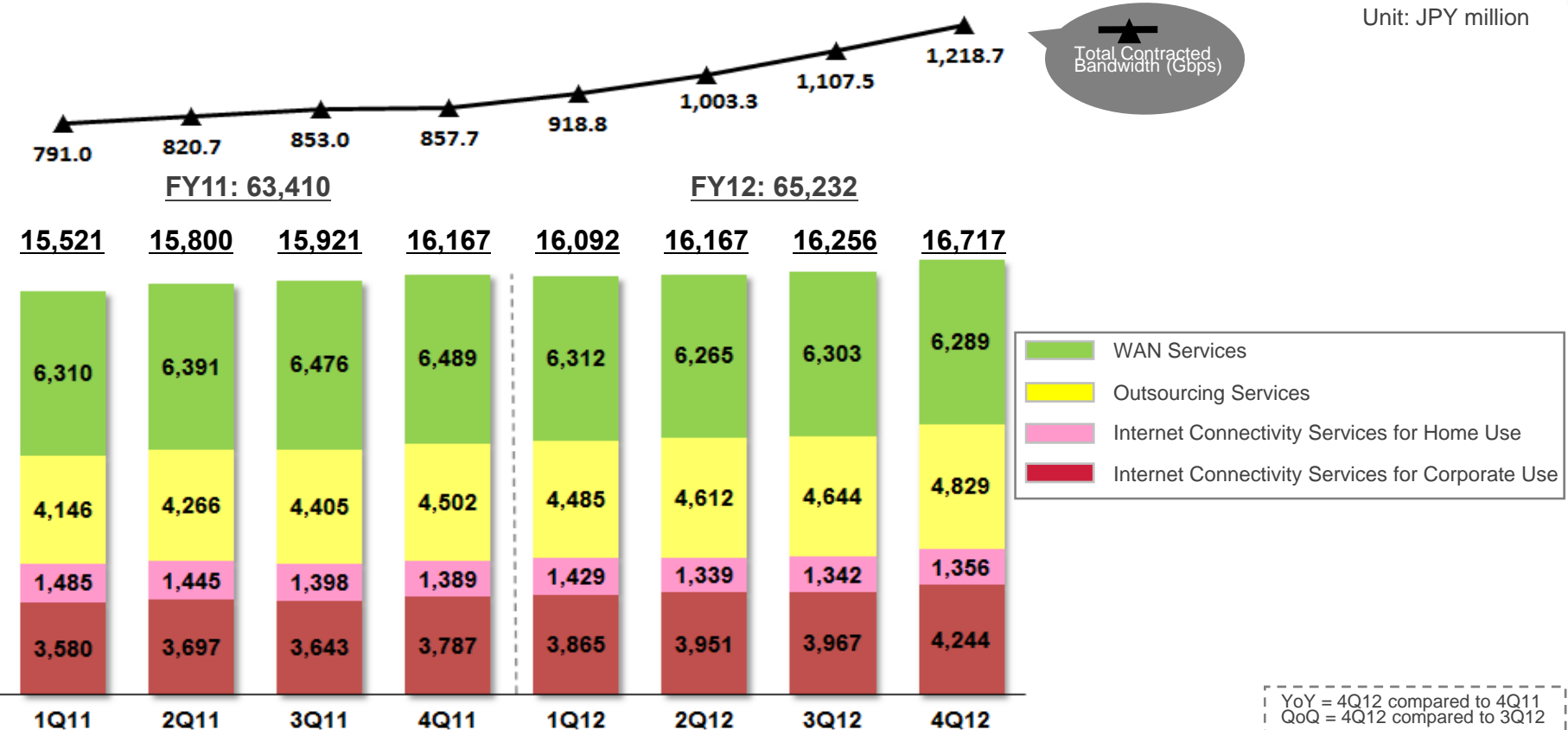


\* Consolidated in 2Q12



## II -6. Network Services (1)Revenues

Unit: JPY million

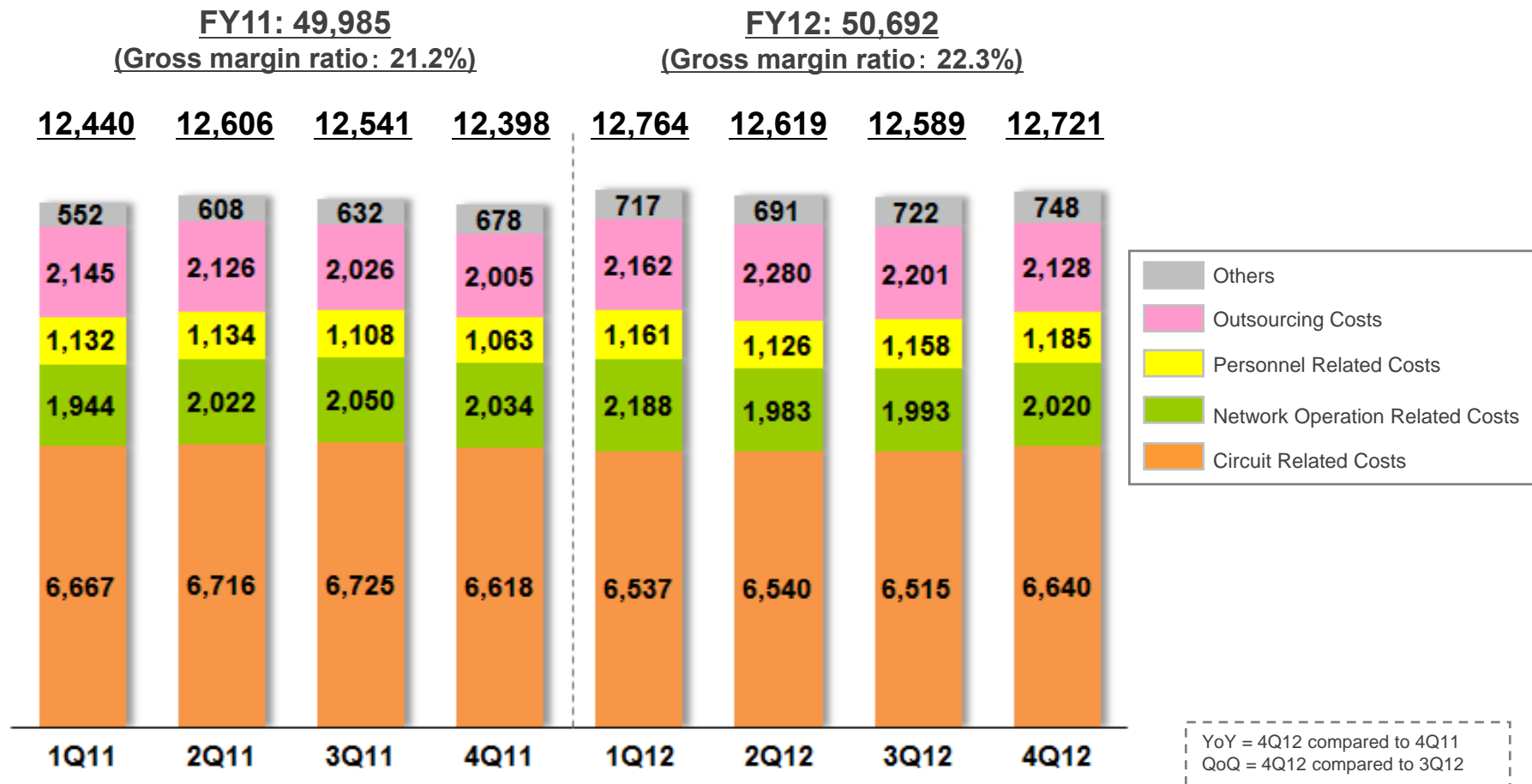


YoY = 4Q12 compared to 4Q11  
QoQ = 4Q12 compared to 3Q12

- ◆ **Internet connectivity services for corporate: 4Q12 up 12.1% YoY, up 7.0% QoQ, FY12 up 9.0% from FY11**
  - IP services continued to grow along with the increasing demands for broader bandwidth by over 1Gbps users
  - Contracts for over 1Gbps as of Mar. 31, 2013: 207 contracts (186 contracts as of Dec. 31, 2012, 132 contracts as of Mar. 31, 2012)
- ◆ **Internet connectivity services for home: 4Q12 down 2.4% YoY, up 1.0% QoQ, FY12 down 4.4% from FY11**
  - LTE services FY12 revenue: approx. JPY 0.6 billion, contracts increasing by: 1Q12: 13,800, 2Q12: 11,200, 3Q12: 8,700, 4Q12: 11,000 (all figures in approx.) Accumulating orders via Aeon Group, one of the largest Japanese retail companies, at a good pace, Minus effects caused by the net revenue recognition for FLET'S portion were absorbed and revenue increased QoQ
- ◆ **Outsourcing services: 4Q12 up 7.3% YoY, up 4.0% QoQ, FY12 up 7.2% from FY11**
  - IIJ GIO Hosting Package Services and datacenter-related services revenues continued to grow
- ◆ **WAN services: 4Q12 down 3.1% YoY, down 0.2% QoQ, FY12 down 1.9% from FY11, Global-WAN revenue grew to JPY0.4 billion for FY12**

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

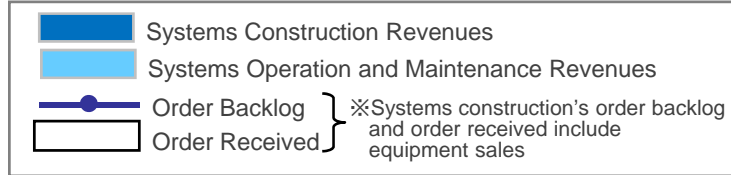
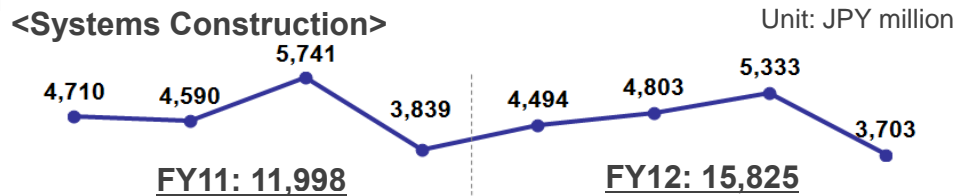
Unit: JPY million



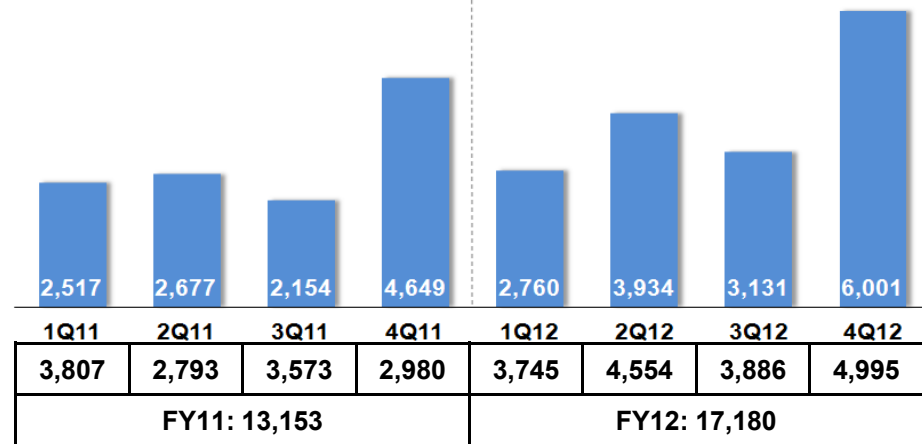
- ◆ Cost of network services: 4Q12 up 2.6% YoY, up 1.0% QoQ, FY12 up 1.4% from FY11
  - No large changes compared to 4Q11, 3Q12 and FY11
  - While the total contracted bandwidth grows which has been leading to the expansion of circuit and network infrastructure, the total network services cost stays flattish because of our scale-merited network efficiency

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

### <Systems Construction>



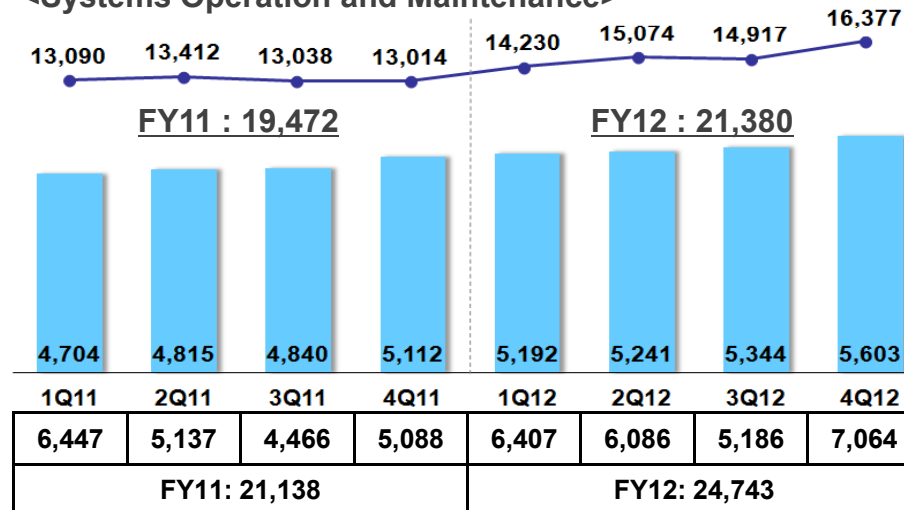
YoY = 4Q12 compared to 4Q11



### Systems Construction

- ◆ Revenue: 4Q12 up JPY1,352 million YoY, up 29.1% YoY  
FY12 up JPY3,827 million from FY11, up 31.9% from FY11
- ◆ Order received: 4Q12 up JPY2,015 million YoY, up 67.6% YoY  
FY12 up JPY4,027 million from FY11, up 30.6% from FY11
- ◆ Order backlog: 4Q12 down JPY136 million YoY, down 3.5% YoY
  - In addition to the usual orders of middle to small size network integration projects, received large scale project orders of over JPY0.1 billion (ex: large scale DR system, large scale mail system renewal, unified IT platform, campus IT system migration etc)
  - Adding to the above domestic projects, accumulated orders of large scale overseas server construction and operation, which accounted to over half of FY12 overseas revenue of JPY3.6 billion

### <Systems Operation and Maintenance>



### Systems Operation and Maintenance

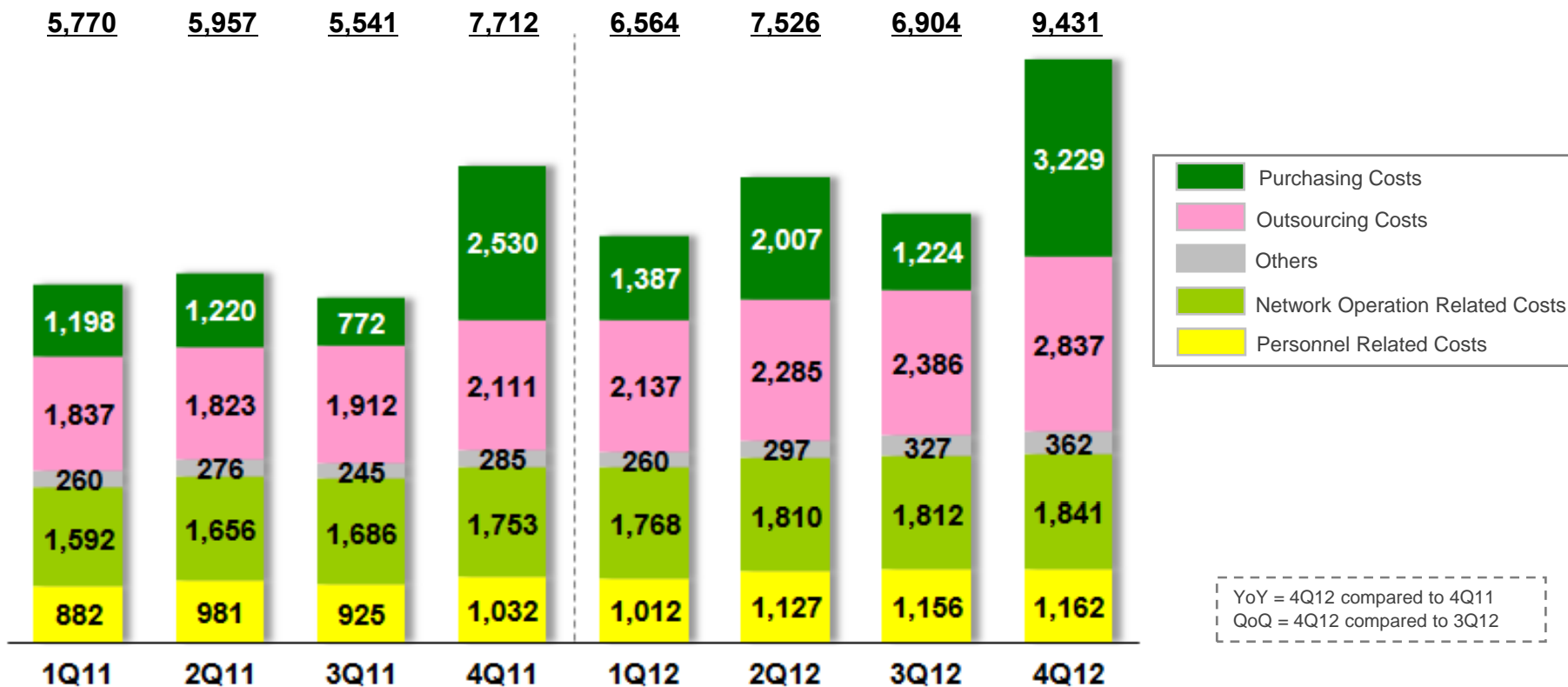
- ◆ Revenue: 4Q12 up JPY491 million YoY, up 9.6% YoY  
FY12 up JPY1,908 million from FY11, up 9.8% from FY11
- ◆ Order received: 4Q12 up JPY1,976 million YoY, up 38.8% YoY  
FY12 up JPY3,605 million from FY11, up 17.1% from FY11
- ◆ Order backlog: 4Q12 up JPY3,363 million YoY, up 25.8% YoY
  - Continuous accumulation of IIJ GIO Component Services revenue, the existing systems operation and maintenance revenue to be increasing along with the increase in construction revenue
  - Less than 80% of IIJ GIO total revenues are recognized in systems operation and maintenance revenues, and the rest in outsourcing

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

Unit: JPY million

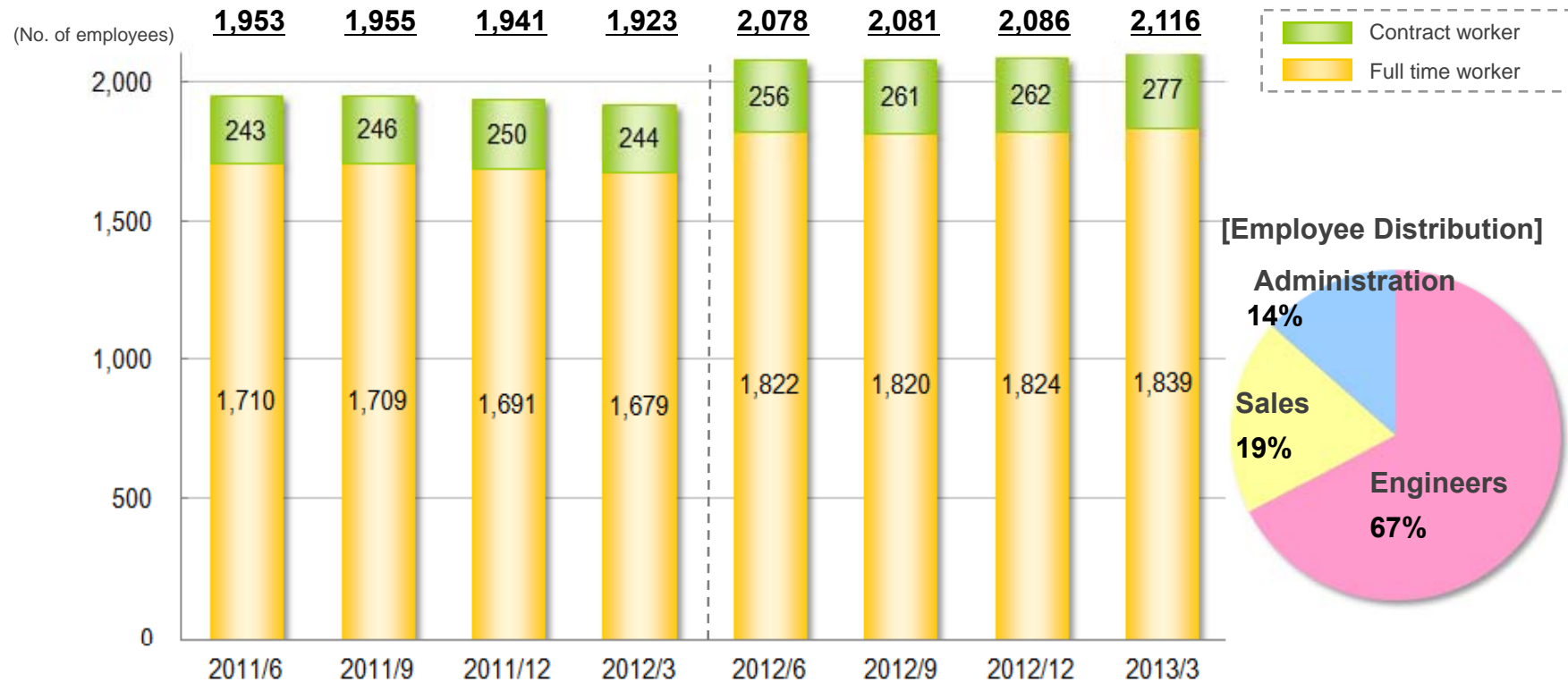
**FY11: 24,979**  
(Gross margin ratio: 20.6%)

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

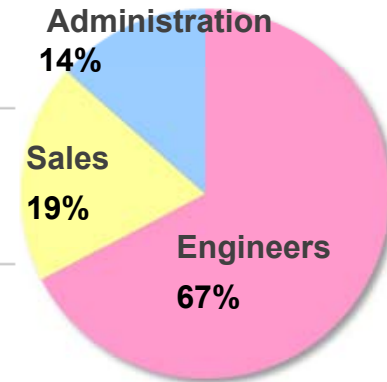


- ◆ Cost of SI: 4Q12 up JPY1,719 million YoY, up 22.3% YoY, FY12 up JPY5,446 million from FY11, up 21.8% from FY11
  - The number of full-time outsourcing personnel as of Mar. 31, 2013: 651 (up 176 personnel YoY, up 27 personnel QoQ)
  - Outsourcing and network operation related costs increased due to cloud business expansion
  - 4Q12 purchasing costs increased accordingly with the construction revenue growth, 53.8% of 4Q12 SI construction revenue (4Q11 54.4%)
  - SI gross margin decreases along with the increase of large scale projects

## II -8. Number of Employees



[Employee Distribution]



<b>3,627</b> (15.5%)	<b>3,686</b> (15.5%)	<b>3,551</b> (15.1%)	<b>3,613</b> (13.6%)	<b>3,741</b> (15.1%)	<b>3,858</b> (14.7%)	<b>3,902</b> (15.3%)	<b>3,979</b> (13.5%)
<b>FY11: 14,477 (14.9%)</b>				<b>FY12: 15,480 (14.6%)</b>			

Personnel related costs and expenses (% of revenue)

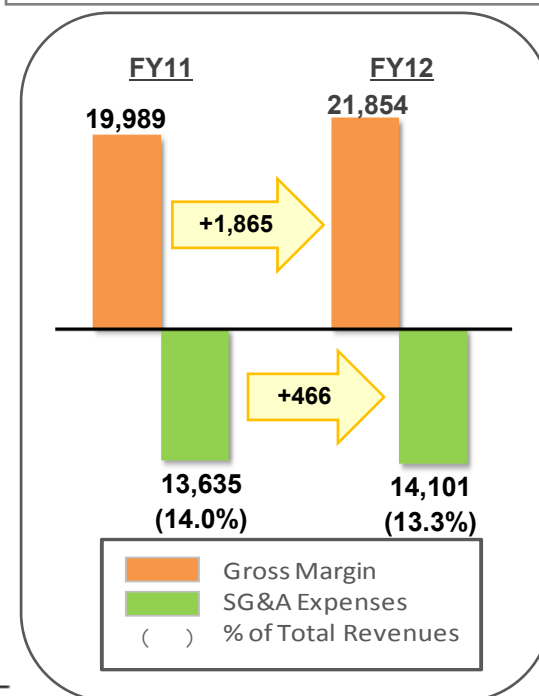
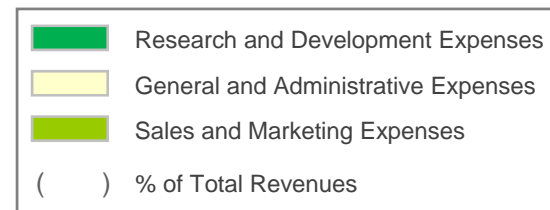
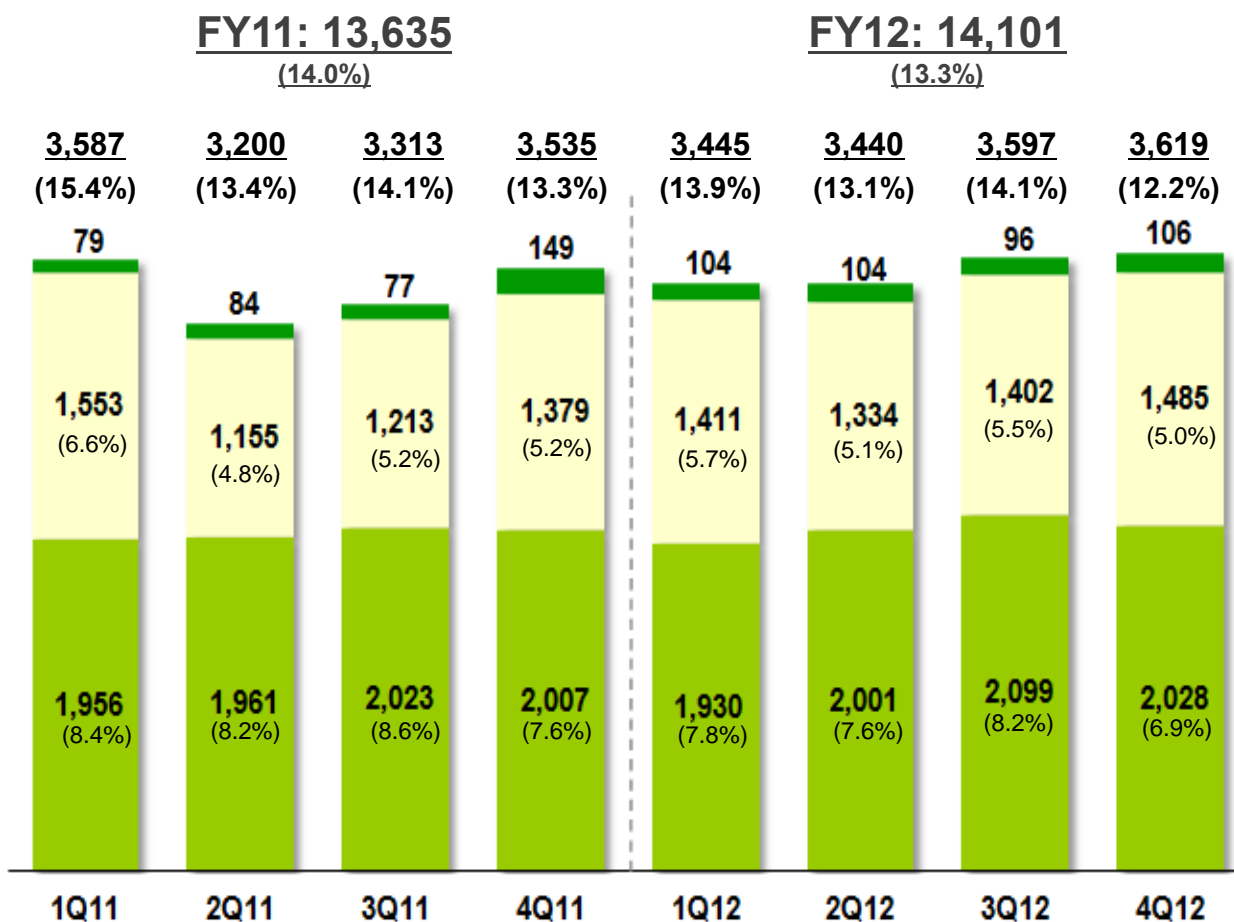
Unit: JPY million

YoY = 4Q12 compared to 4Q11

- ◆ Personnel related costs and expenses:  
4Q12 up JPY366 million YoY, FY12 up JPY1,003 million from FY11
- ◆ Hired 136 newly graduates in Apr. 2013 (Apr. 2012: 75 newly graduates)  
Planning to hire over 100 newly graduates in Apr. 2014
- ◆ Addition of over 250 personnel is planned for FY13

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

Unit: JPY million

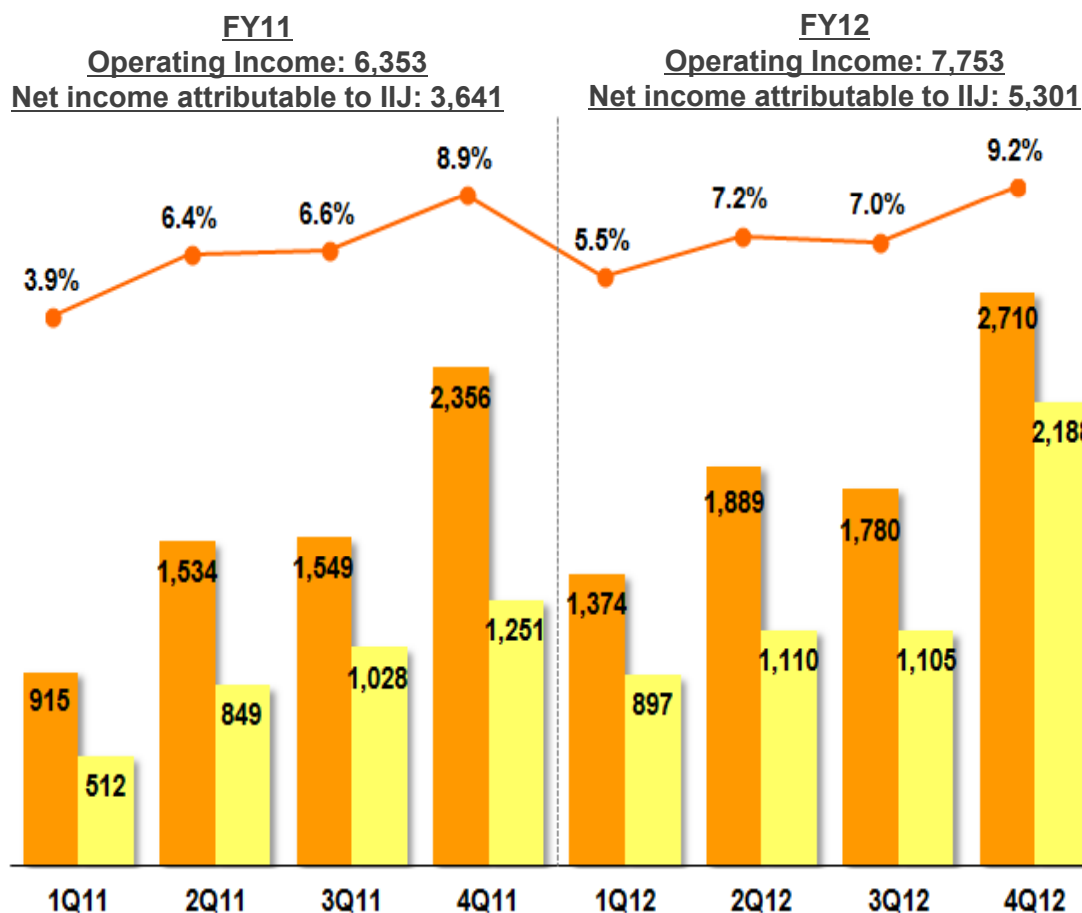


YoY = 4Q12 compared to 4Q11  
QoQ = 4Q12 compared to 3Q12

- ◆ SG&A: 4Q12 up JPY84 million YoY, up JPY22 million QoQ, FY12 up JPY466 million from FY11, 13.3% of the total revenue, down 0.7 points from FY11
- ◆ Headquarter office relocation planned in 1H14 to prepare for the personnel increase, expect not so large cost impact on profitability



## II -10. Operating Income and Net Income



Unit: JPY million

- Operating Income
- Net Income Attributable to IIJ
- Operating Margin Ratio

◆ **4Q12 Operating income: JPY2,710 million**  
(up JPY354 million YoY, up 15.0% YoY)

➤ **ATM operation segment operating income (loss):**

Unit: JPY million					
FY11	1Q12	2Q12	3Q12	4Q12	FY12
(194)	16	67	81	75	239

- 625 ATMs in placed as of May 15, 2013, added 215 in FY12
- 4Q12 ATM operating days were approx. 5% less than 3Q12, resulting in slight decrease in revenue and profit QoQ

◆ **4Q12 Income before income tax expense: JPY2,811 million**  
(up JPY615 million YoY, up 28.0% YoY)

- Majority of non-operating expenses is interest payment, recognized a small foreign exchange gain

◆ **4Q12 Net income attributable to IIJ: JPY2,188 million**  
(up JPY937 million YoY, up 74.9% YoY)

- Equity in net income of Internet Revolution, Inc. and Internet Multifeed Co.
- Recognized deferred tax benefit of JPY527 million related to deductible temporary difference in 4Q12

YoY = 4Q12 compared to 4Q11

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	
	119	771	606	994	363	764	675	1,333	Current income tax expense
	306	(140)	(58)	(72)	152	(27)	28	(679)	Deferred tax expense (benefit)
	40	37	77	(30)	33	50	49	36	Equity in net income (loss) of equity method investees
	31	18	11	6	5	(6)	(10)	(5)	Net loss (income) attributable to non-controlling interests

## II -11. Summary of Consolidated Balance Sheets

Unit: JPY million

	March 31, 2012	March 31, 2013	Changes
Cash and Cash Equivalents	13,537	12,259	(1,278)
Accounts Receivable	15,722	18,765	+3,043
Inventories and Prepaid Expenses (Current and Noncurrent)	4,137	5,995	+1,858
Other Investments	2,938	3,771	+833
Property and Equipment	19,736	23,026	+3,290
Goodwill and Other Intangible Assets	11,185	10,761	(423)
<b>Total Assets</b>	<b>73,493</b>	<b>82,111</b>	<b>+8,618</b>
Accounts payable	9,753	11,922	+2,169
Income taxes payable	2,211	1,670	(541)
Borrowings (Short-term and Long-term)	12,000	11,390	(610)
Capital Lease Obligations (Current and Noncurrent)	7,739	8,876	+1,137
<b>Total Liabilities</b>	<b>40,797</b>	<b>44,477</b>	<b>+3,680</b>
Accumulated Deficit	(10,990)	(6,399)	+4,591
Accumulated Other Comprehensive Income(Loss)	(24)	264	+287
<b>Total IJ Shareholders' Equity</b>	<b>32,688</b>	<b>37,607</b>	<b>+4,919</b>

Decreased mainly due to:

- purchase of property and equipment,
- increase in operating assets along with business expansion,
- payment of income taxes
- repayments for the borrowings

Increased as the business scale expands

Increased mainly due to investment for network and software development

### ◆ IJ Shareholders' equity ratio

- As of Mar. 31, 2013: 45.8%

### ◆ Return on Equity (ROE)

- As of Mar. 2013: 15.1%

- As of Mar. 2012: 11.7%

## II -12. Consolidated Cash Flows

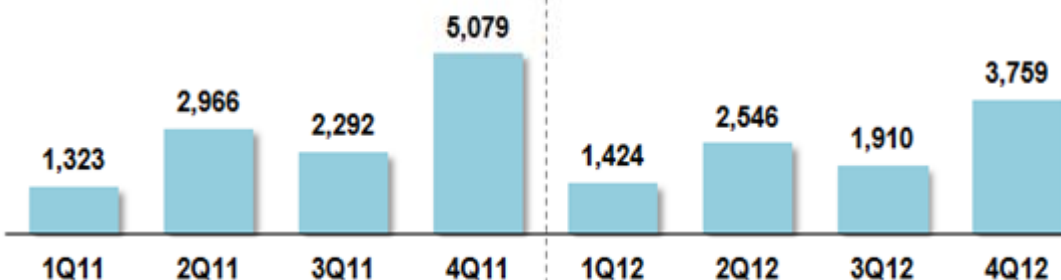
### Operating Activities:

Unit: JPY million

YoY = FY2012 compared to FY2011

**FY11: 11,659**

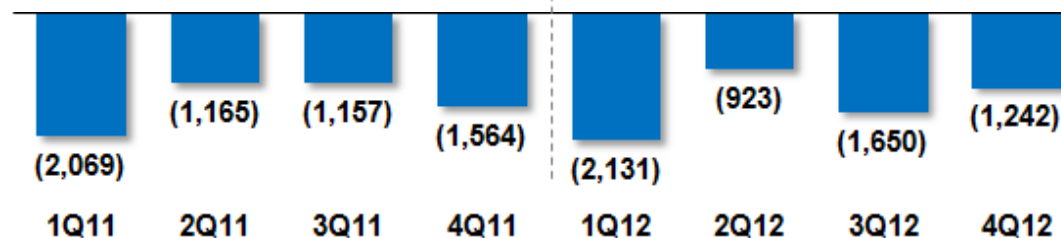
**FY12: 9,639**



### Investing Activities:

**FY11: (5,954)**

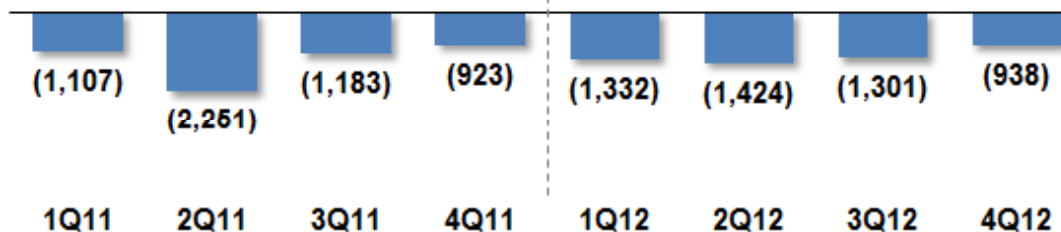
**FY12: (5,946)**



### Financing Activities:

**FY11: (5,464)**

**FY12: (4,996)**



#### FY12 Operating Activities:

- Depreciation and amortization: JPY7,556 million
- Increase in accounts receivable: JPY2,906 million
- Increase in inventories, prepaid expenses, and other operating assets: JPY2,422 million etc.

#### ◆ Breakdown of YoY difference:

- Increase in accounts receivable (minus JPY3,533 million)
- Increase in inventories, prepaid expenses and other operating assets (minus JPY2,261 million)
- Increase in accounts payable (plus JPY4,810 million)
- Payment of income taxes (minus JPY2,388 million)

#### FY12 Investing Activities:

- Payment for purchases of property and equipment: JPY5,589 million etc.

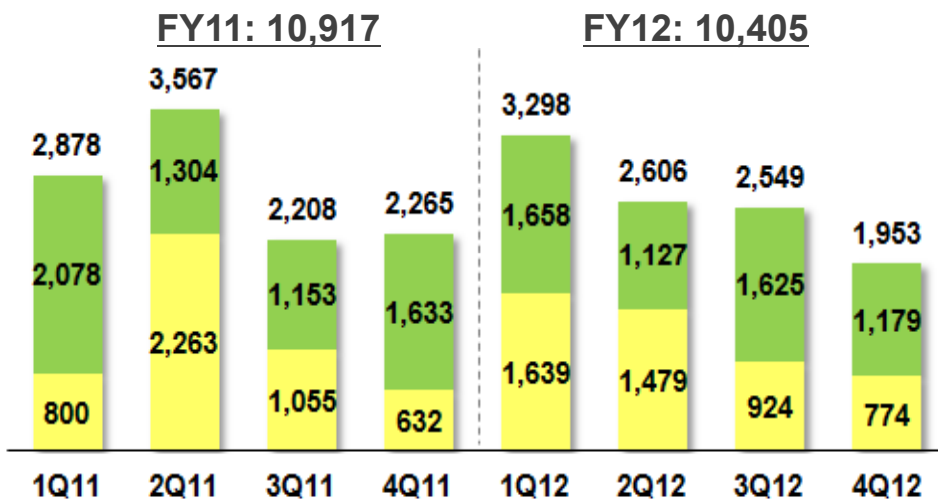
#### FY12 Financing Activities:

- Repayment for borrowings (net): JPY610 million
- Principal payments under capital leases: JPY3,679 million
- Dividends paid: JPY709 million etc.

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

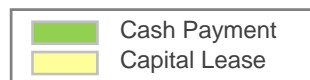
CAPEX (Include Capital Leases):

Unit: JPY million

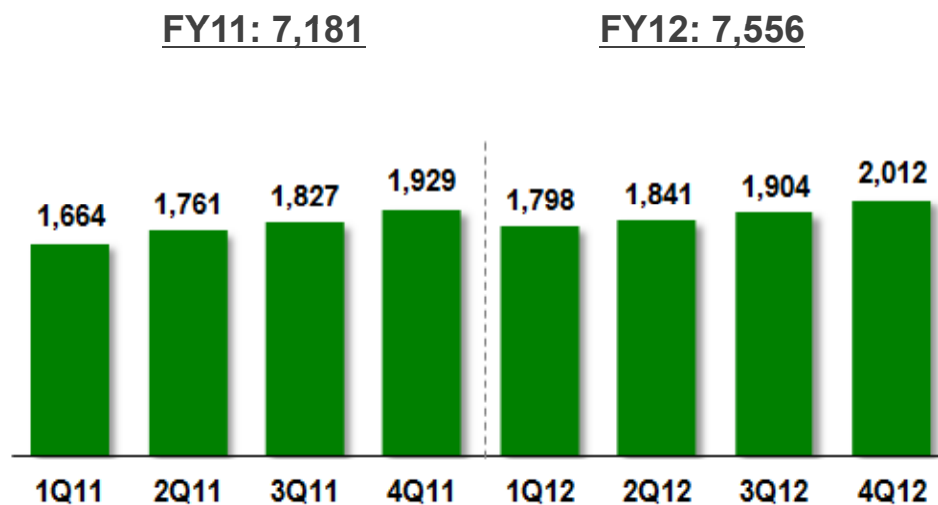


	FY11	FY12
CAPEX related to domestic cloud	JPY4.3 billion*	JPY2.3 billion
ATM	JPY0.4 billion	JPY0.6 billion
Network equipment and others	JPY6.3 billion	JPY7.4 billion

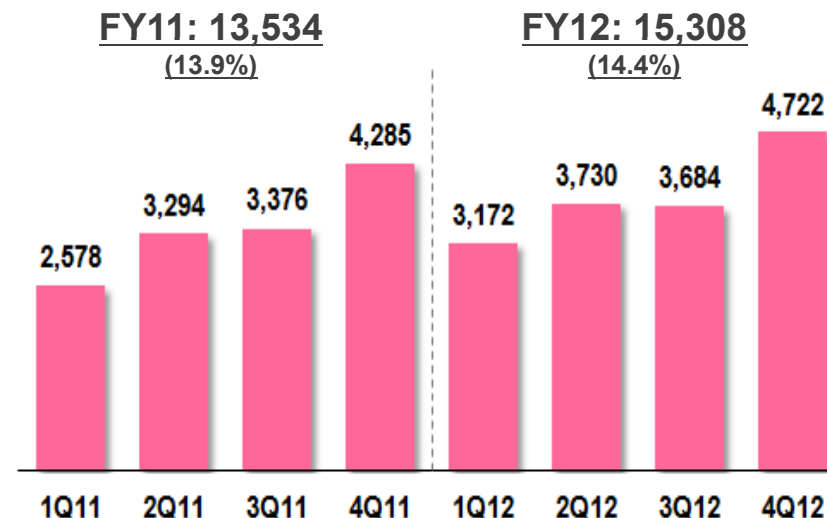
\*of JPY1.3 billion related to 1<sup>st</sup> Matsue DC's core facilities



Depreciation and Amortization:



Adjusted EBITDA: (\*) % of total revenue



# III-1. Developments of "IJ GIO"



## ➤ FY12 Total Revenue: JPY6.2 billion

(revenue recognition: less than 80% in SI operation and maintenance, the rest in outsourcing)  
 4Q12 number of projects: approx. 1,800 (4Q11: approx. 1,100)  
 IJ GIO-based SaaS FY12 revenue: JPY0.8 billion  
 (not included in the above total figure, mainly FX and SmartPOS)

## ➤ FY13 Target

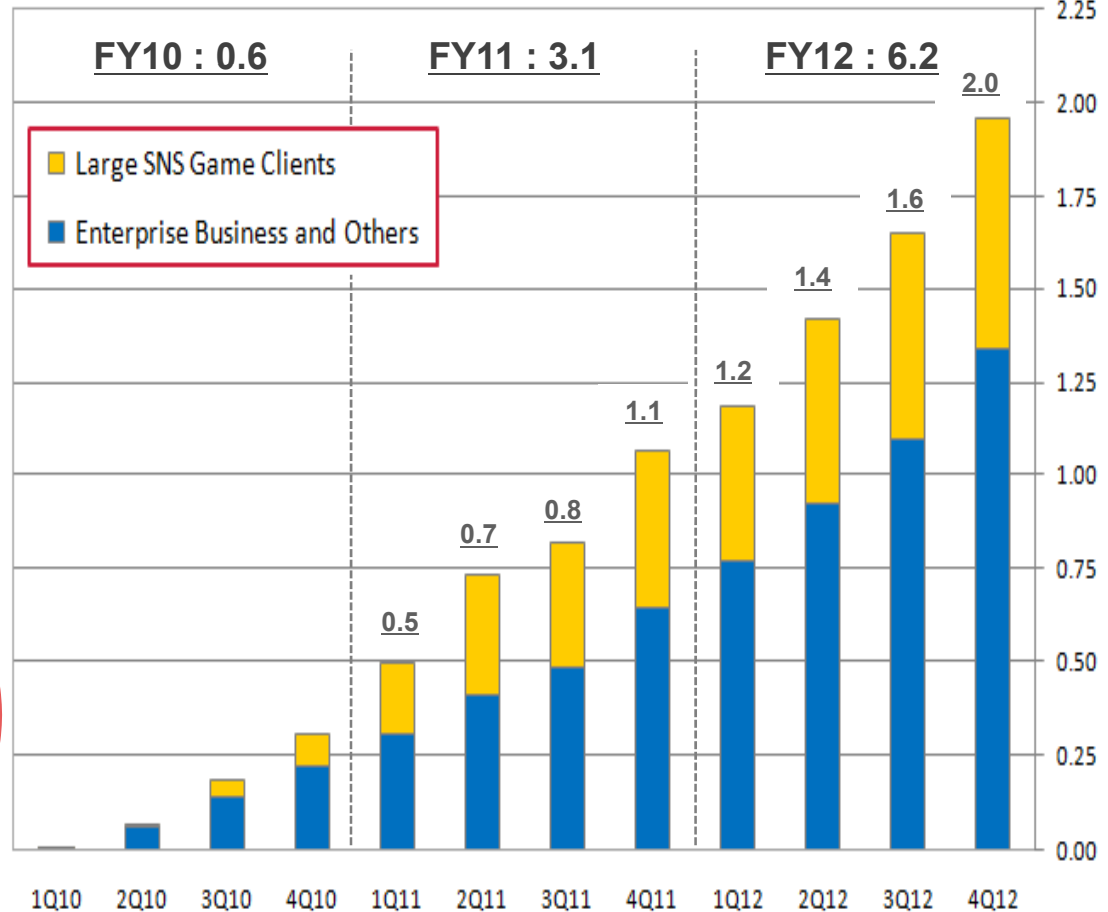
Cloud related revenue over JPY10 billion,  
 Opening of 2<sup>nd</sup> container type DC in Matsue

	Mar. 2011	Mar. 2012	Mar. 2013
Monthly Revenue	0.1	0.4	0.7

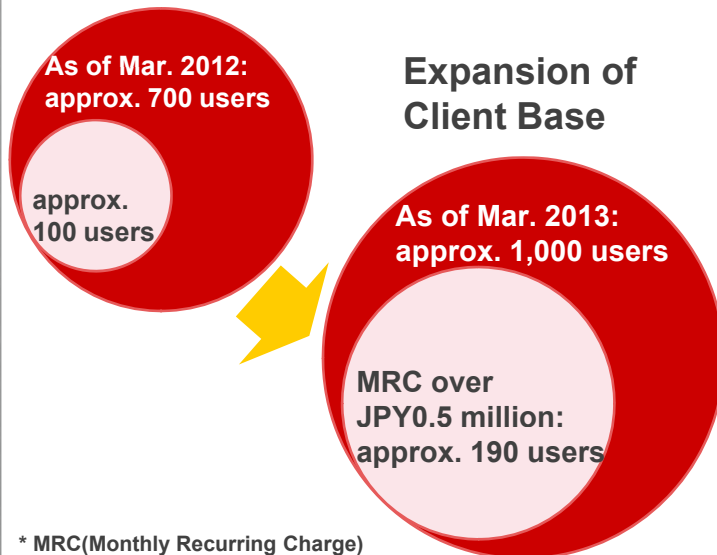
Unit: JPY billion

## IJ GIO Domestic Revenue

Unit: JPY billion



- Acquired several large scale business systems incorporating VW series (service targeting hybrid systems), project revenue over JPY0.1 billion and planned to be used for over 5 years
- Expanding and accumulating MRC over JPY5 million SNS game client



\* MRC(Monthly Recurring Charge)

## III-2. FY2013 Financial Target

(Unit: JPY billion)

	FY13 Target (Apr. 2013 -Mar.2014)	FY12 Actual (Apr. 2012 -Mar.2013)	YoY (FY13 Target to FY12 Actual)	
Total Revenues	117.0	106.2	+10.8	+10.1%
Operating Income	9.4	7.8	+1.6	+21.2%
Income before Income Tax Expense	9.0	7.8	+1.2	+16.0%
Net Income attributable to IIJ	6.0	5.3	+0.7	+13.2%
Net Income attributable to IIJ per Share	JPY 148.01	JPY 130.76 <sup>*</sup>	+JPY 17.25	+13.2%
Cash Dividend per Share	JPY 22.00 (Annual)	JPY 18.75 <sup>*</sup> (Annual)	+JPY 3.25	+17.3%

\* IIJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. Accordingly, net income attributable to IIJ per share and cash dividend per share (IIJ common share) in the above are adjusted based on post stock split basis.

### < Assumption for Target >

#### ◆ Revenue

##### ➢ Network Services

Corporate use grow continuously, Home use revenue increase, Outsourcing grow along with Cloud revenue over JPY10 billion

##### ➢ Systems Integration

Operation and Maintenance grow along with the cloud growth, the absolute figure of SI construction to increase

##### ➢ ATM Operation Business

Continuous growth by placing more ATMs than FY12 results (FY12 added 215 ATMs)

#### ◆ Operating Income

➢ Gross margin and GM ratio of each NW, SI, ATM to increase

➢ SG&A to total revenue at mid-13% due to some increase in personnel-related, advertisement, sales & marketing related expenses while the total SG&A does not increase as much as gross margin

#### ◆ Income before income tax expense, Net income attributable to IIJ

➢ Consider mainly interest expense

➢ Income taxes benefit of approx. JPY0.7 billion related to ATM operation business

➢ Normal tax rate

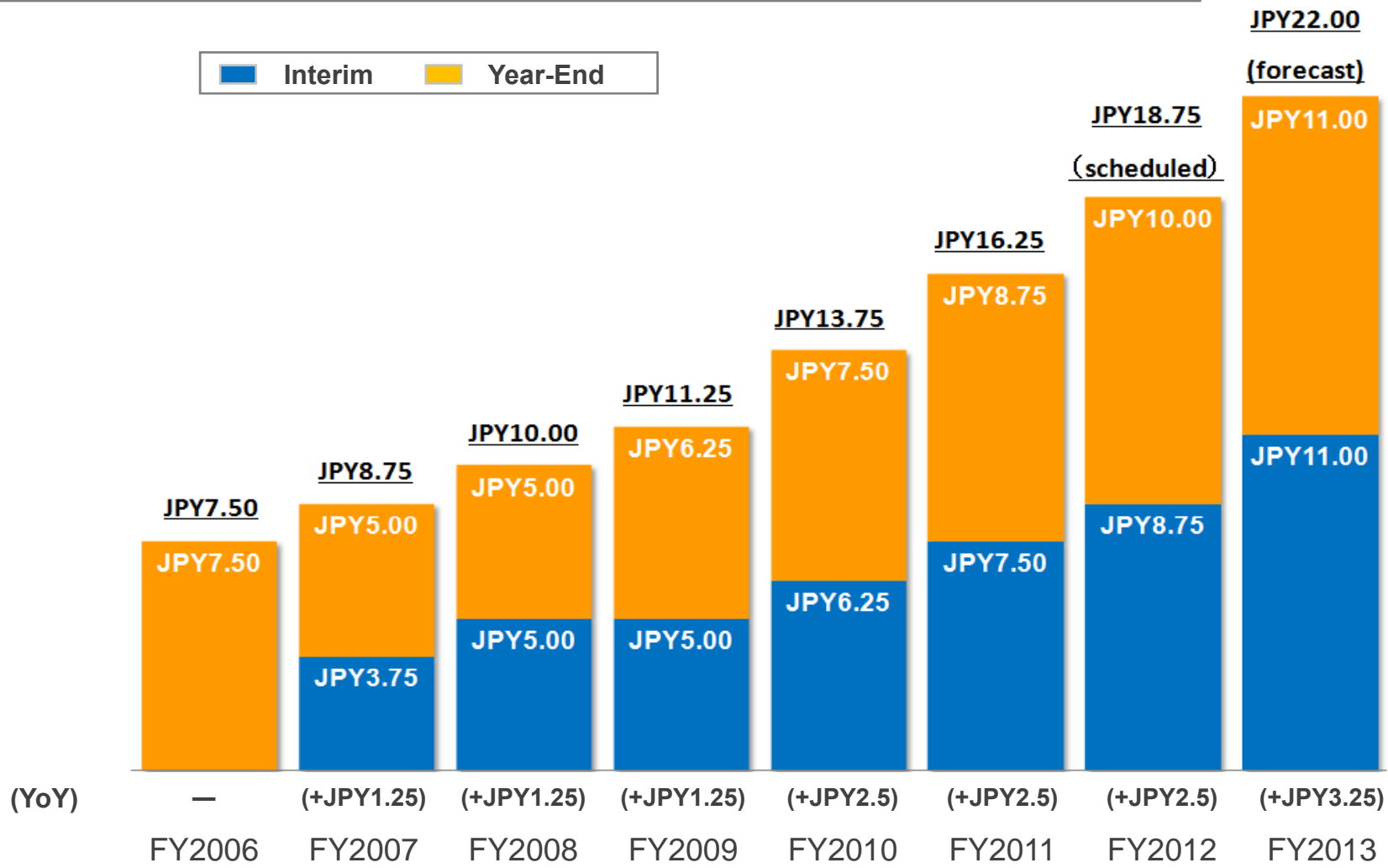
#### ◆ CAPEX

➢ Increase compared to FY11 mainly due to FY12 deferred portion and construction for 2<sup>nd</sup> container type DC in Matsue



### III-3. FY2013 Year-End 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.



## ❖ 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 and 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

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