

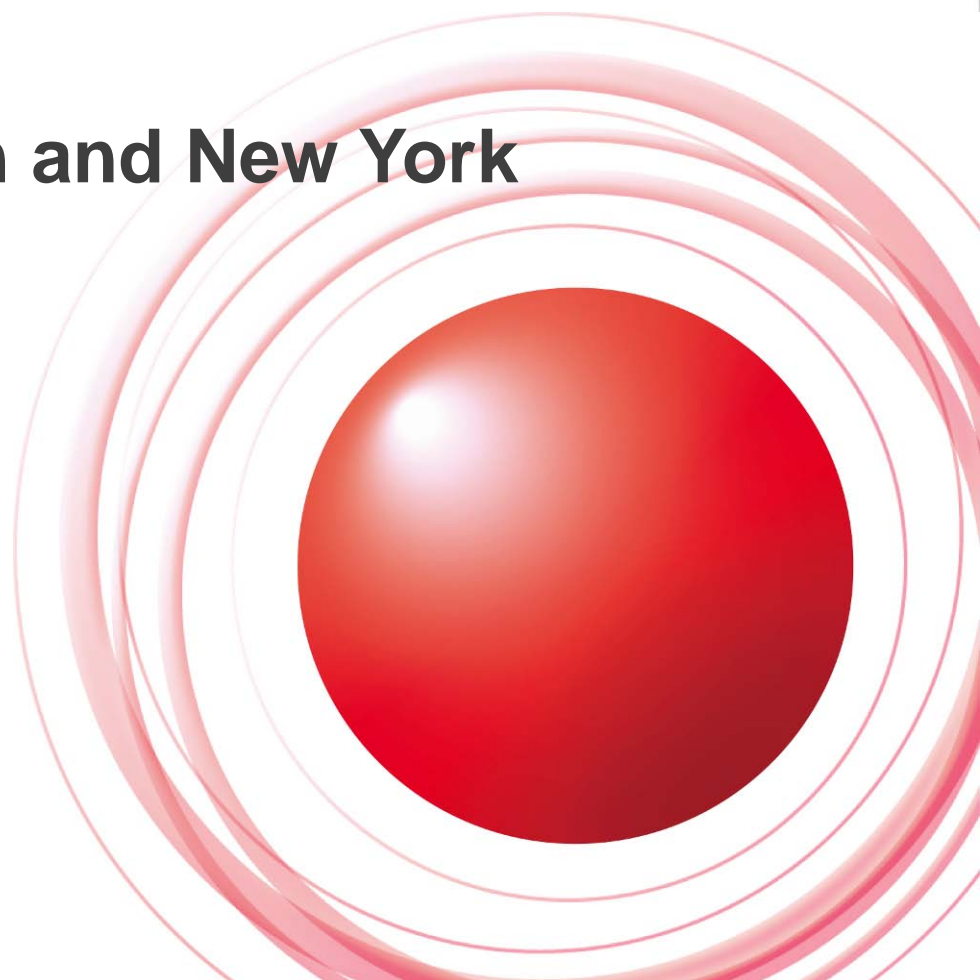


# Internet Initiative Japan Inc.

## IR Roadshow in Boston and New York February 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 Corporate 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

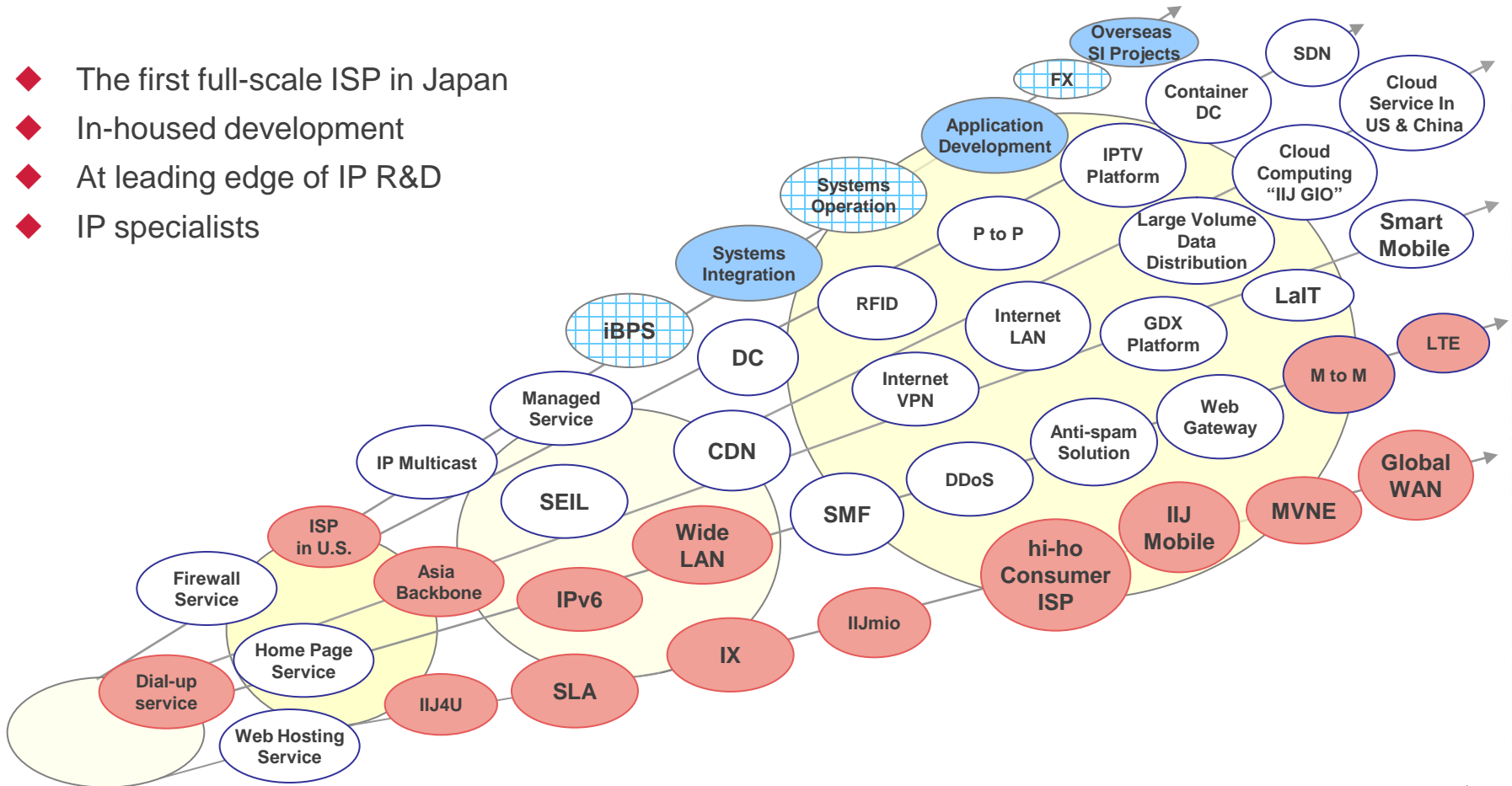
- ◆ The first established full-scale ISP in Japan
  - Introduced many prototype internet-related network services and led the market
  - A group of highly motivated and skilled TOP level IP engineers
  - Pioneer of network technologies in Japan historically
- ◆ Service initiative with in-house development
  - Operate one of the largest Internet backbone in Japan
  - Self-develop its service and back office facilities
    - Internet Connectivity & Security Services, IPv6 Services, Cloud IaaS Services, develop own routers, etc.
- ◆ 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
  - Participation in world-wide research and organizations
    - Member of "FIRST," international organization handling security incidents
    - Board member of Telecom-ISAC Japan
    - ...and many more
  - Engaged in software development of SDN

Company Profile	
Established	December 1992
Number of Employees (as of Dec. 2012)	Consolidated: 2,086 (approx. 70% engineers)
Listed Markets	NASDAQ (IIJI), TSE1 (3774)
Large Shareholders (as of Sep. 2012)	NTT (24.5%), Koichi Suzuki (6.3%), Itochu Corp. (5.1%), NTTCom (4.9%)

# 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



“IJ Group”

1992



Internet Initiative Japan

1995



IJ Media Communications



A-Bone

1996



IJ America



IJ Technology

1997



mcf

1998



Net Care

2004



IF Financial Systems

2006



Net Chat Japan

i-revo

2007



Trust Networks



Trust Networks

2008



IJ INNOVATION INSTITUTE

2010



IJ Global

2012



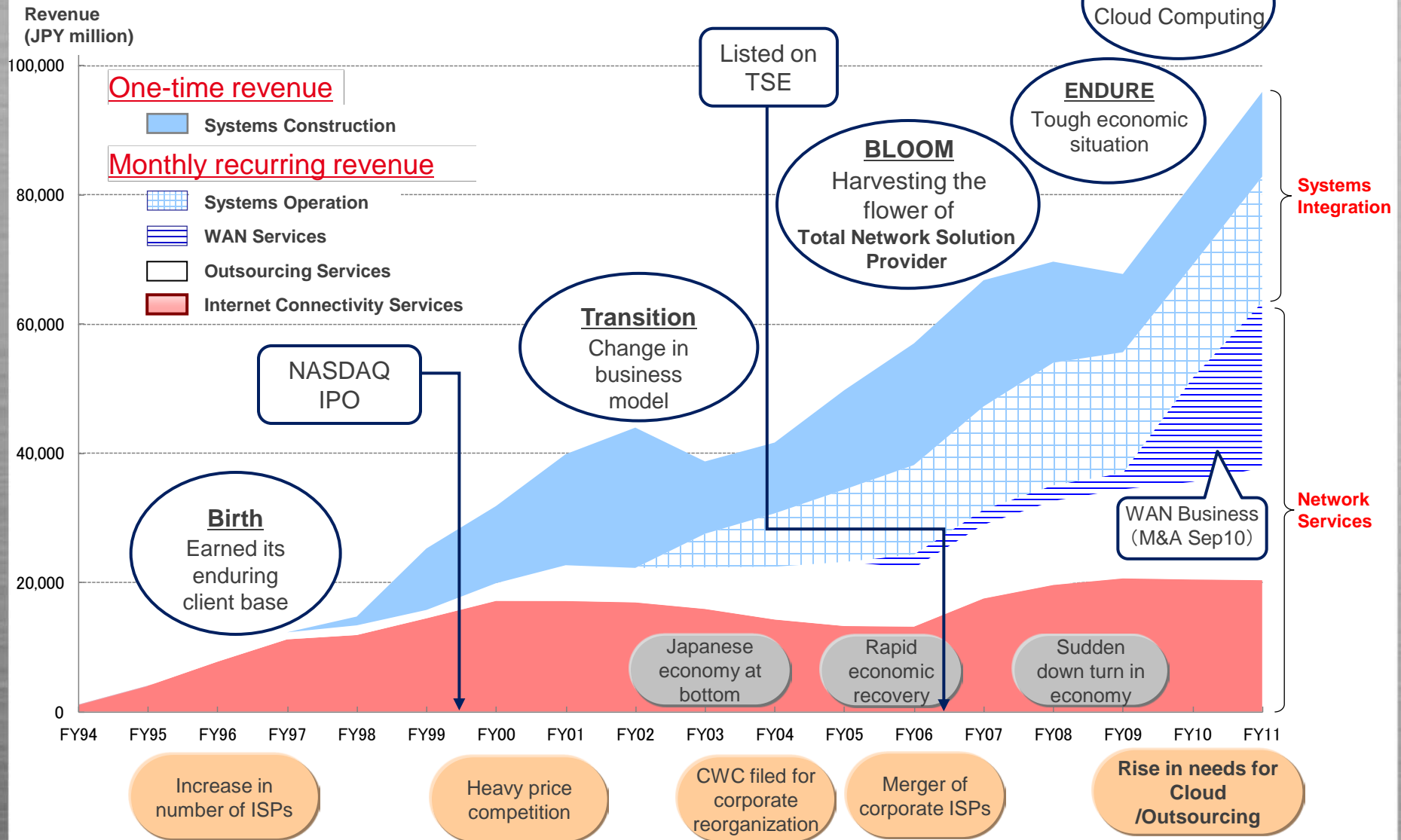
IJ Exlayer



Stratosphere

# Strategic Shift in Business Model

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



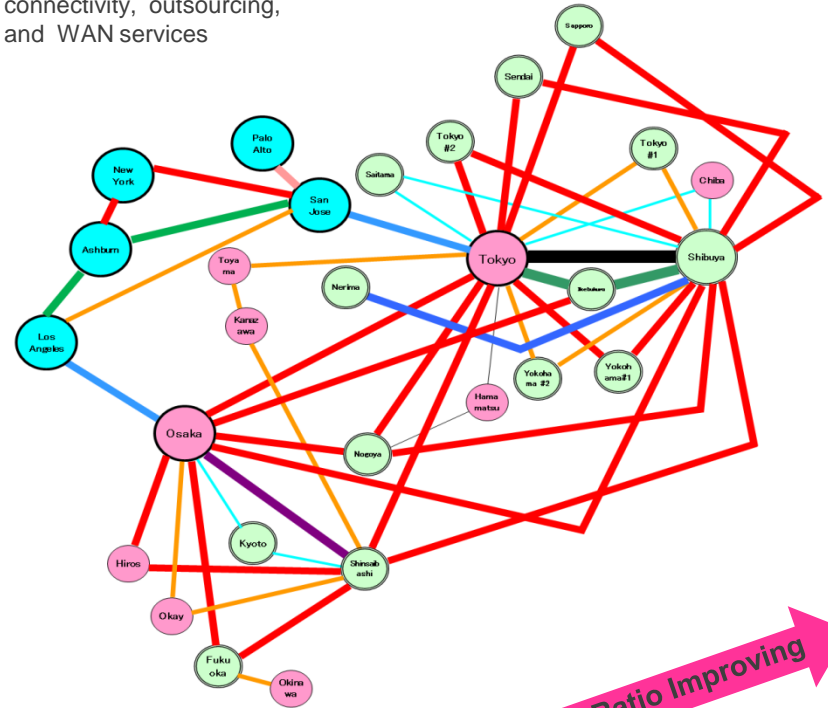
# Business Structure of Network Services

## 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

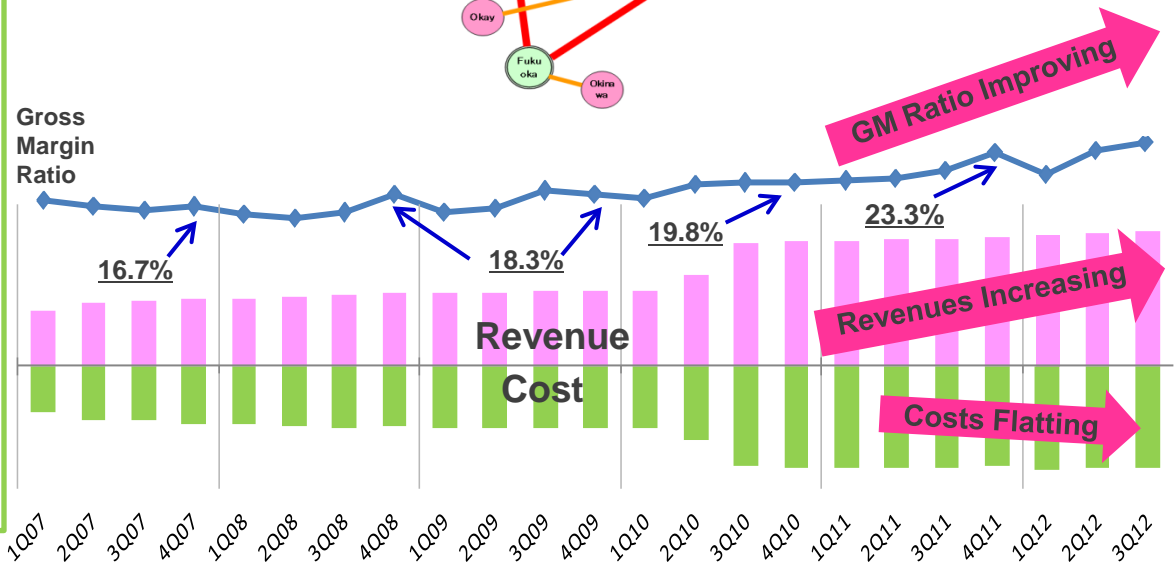
\* Network services: Internet connectivity, outsourcing, and WAN services

## IIJ Internet Backbone



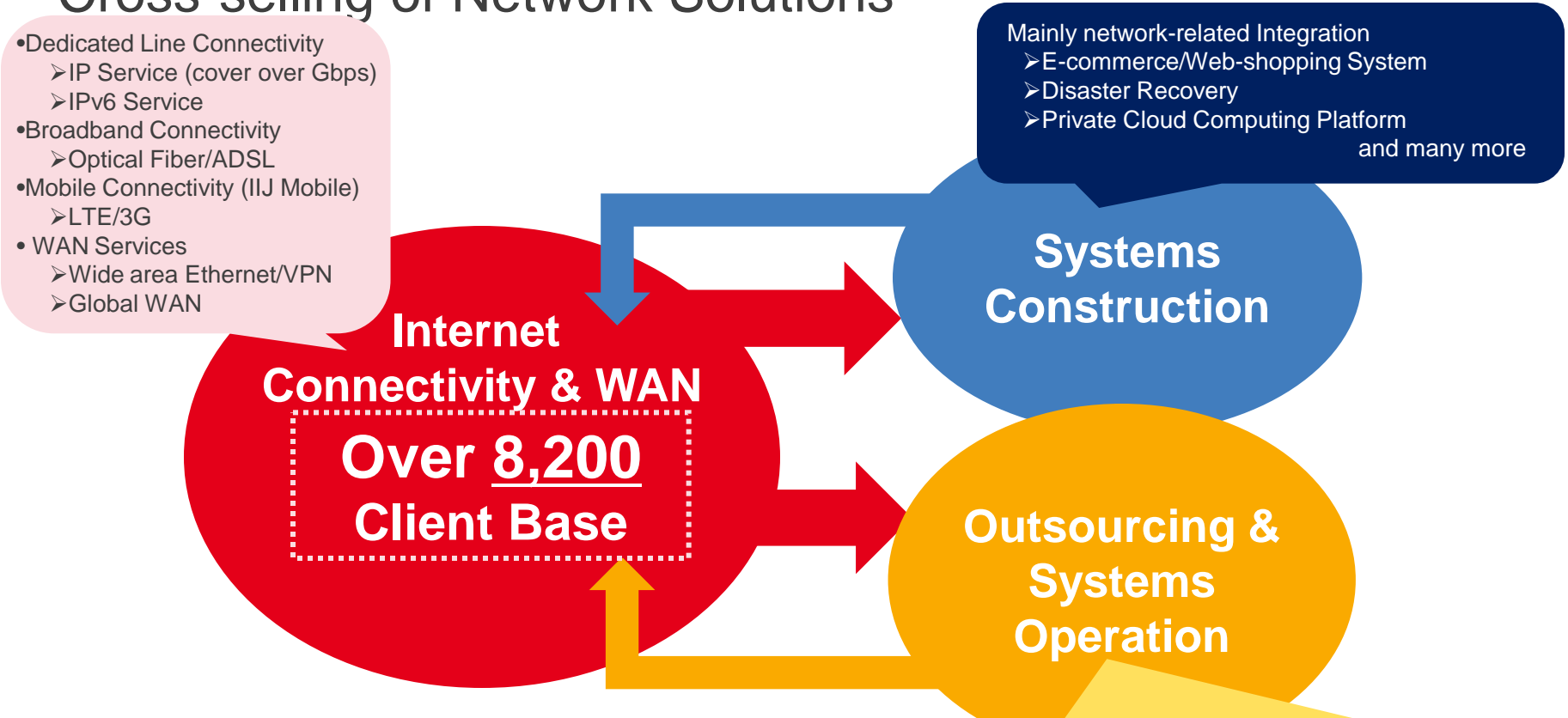
## Costs

- 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



# Recurring Business Model

## Cross-selling of Network Solutions



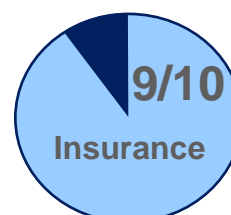
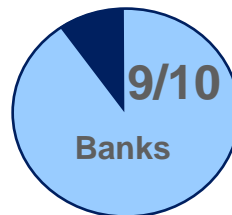
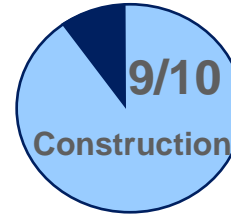
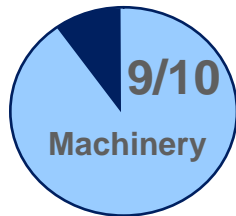
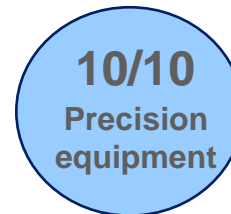
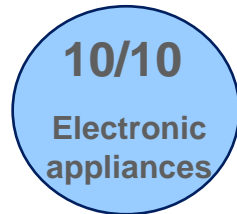
- Dedicated Line Connectivity
  - IP Service (cover over Gbps)
  - IPv6 Service
- Broadband Connectivity
  - Optical Fiber/ADSL
- Mobile Connectivity (IIJ Mobile)
  - LTE/3G
- WAN Services
  - Wide area Ethernet/VPN
  - Global WAN

- Mainly network-related Integration
- E-commerce/Web-shopping System
  - Disaster Recovery
  - Private Cloud Computing Platform
- and 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. IIJ GIO Hosting Package Services (more than 20% of IIJ GIO revenues)
- Systems Operation includes:
1. Operation and maintenance of a system constructed in Systems Construction
  2. IIJ GIO Component Services (less than 80% of IIJ GIO revenues)

# Excellent Blue-chip Client Base

## Top Tiers



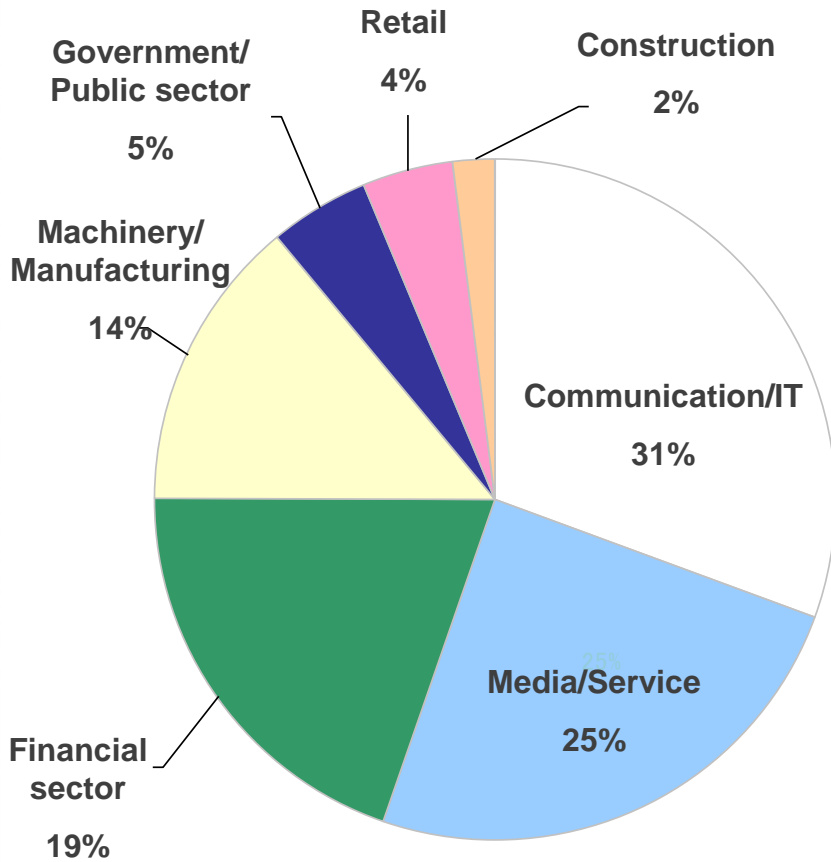
- The number of clients among the TOP 10 companies in each industry.



# Revenue Composition by Clients

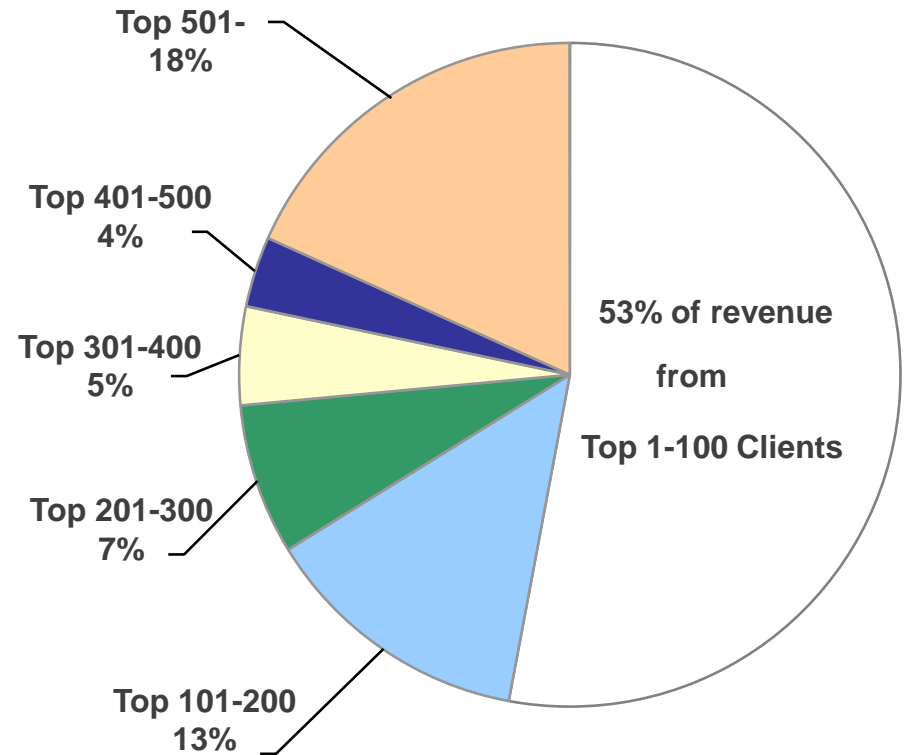
## Revenue Distribution by Industry

Not dependent on specific industry



## Revenue Distribution by Clients

Not dependent on specific company

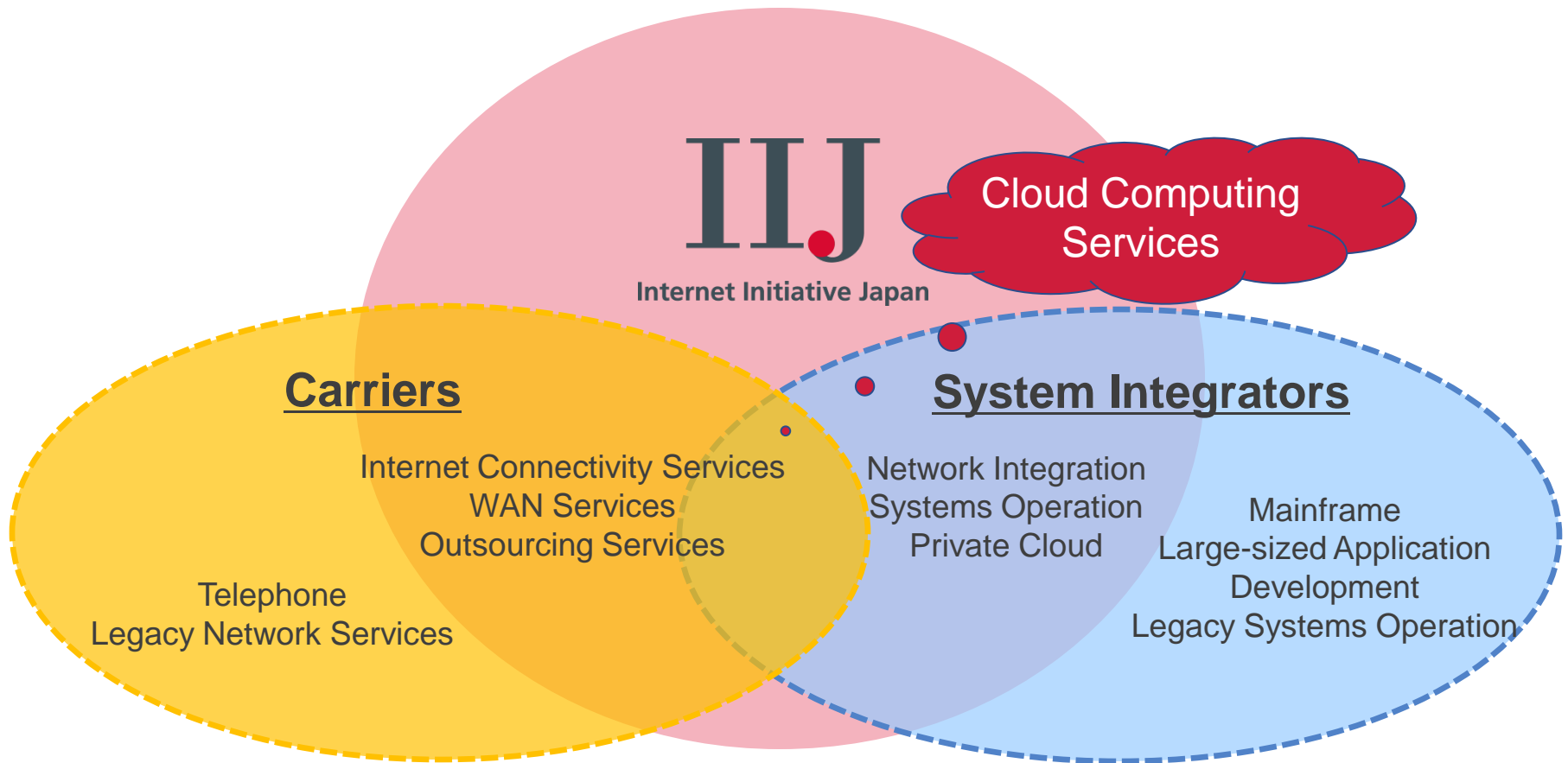


Source: IIJ's consolidated data for FY2011

# 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

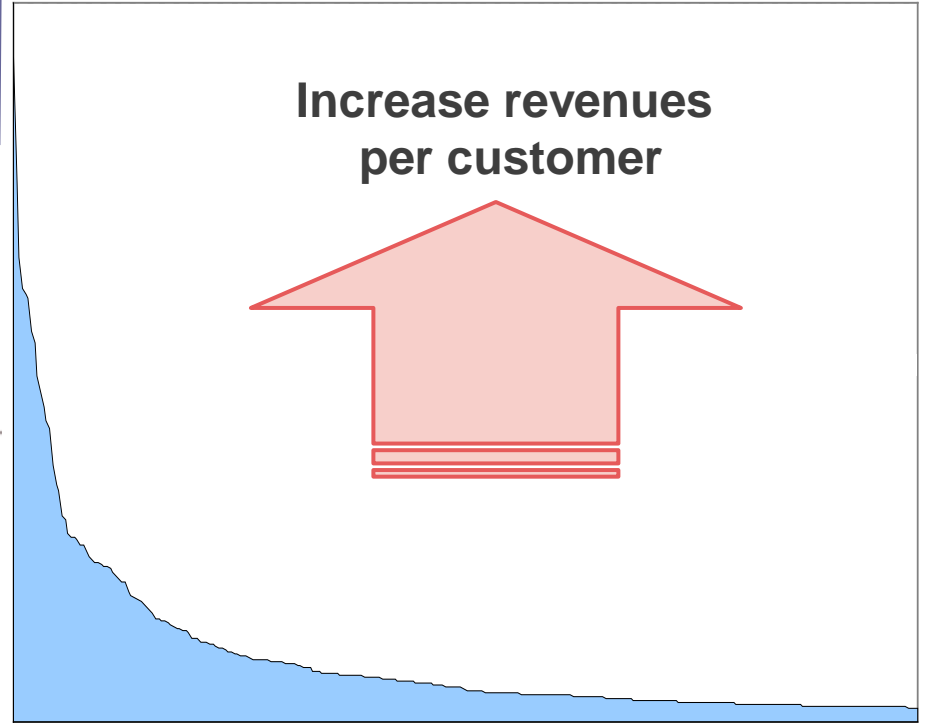
Maximize IIJ's potential as a total network service provider

Focus on cloud computing services

Revenues by Customer

## Solid Growth Strategy

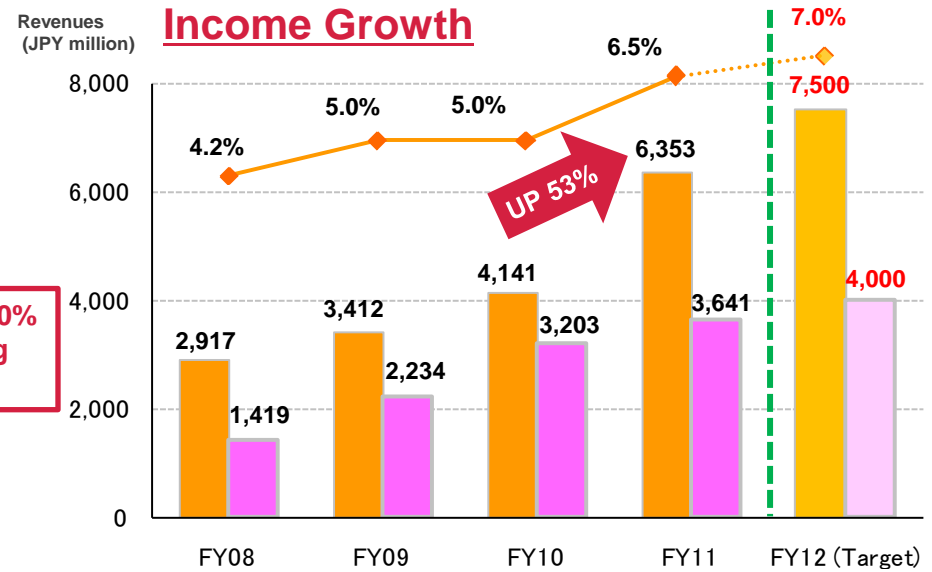
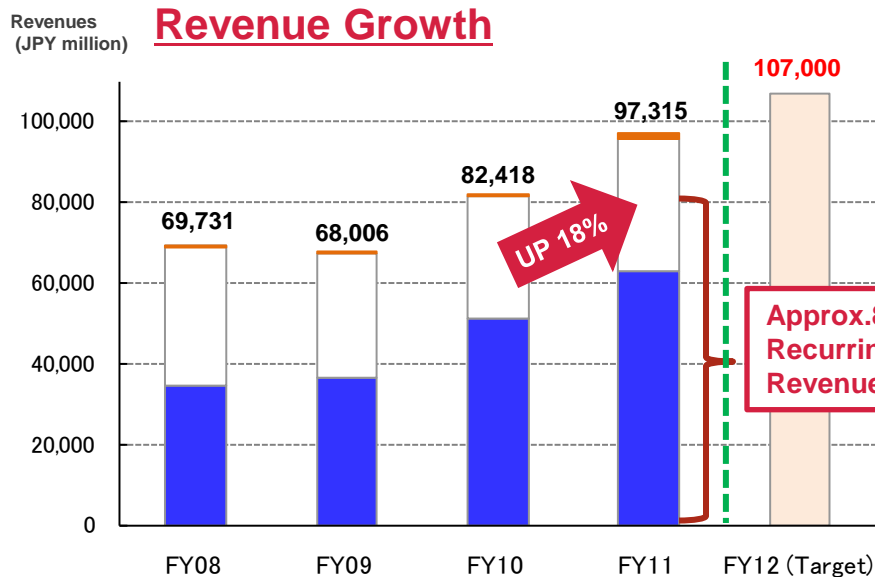
Increase revenues per customer



Number of Customers

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

# Proven Solid Business Strategy



- ◆ Over 80% of total revenues are stock-type recurring revenues
- ◆ Stable growth with stock-type recurring revenues
  - Up 19.8% YoY in FY2011
  - Accumulating additional contracts, not so many cancellations
- ◆ Income grew along with stock revenue growth

# Growth Strategy Hereafter

## Connectivity Services

- Survived tough competition. Few high-end corporate ISPs remain
- Rapid traffic increase → Bandwidth migration → Further revenue growth
- Enjoying scale merit: multiple revenue sources on the Internet backbone
- Internet connectivity services for corporate use revenue:  
5% growth YoY in FY11, 7.9% growth YoY in 1Q-3Q FY12

## 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 over 900 corporate clients in almost 2 years
- Revenue: FY10 JPY0.6 billion → FY11 JPY3.1 billion, 1Q-3Q FY2012 JPY4.3 billion

## Outsourcing/WAN 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 (2012/4-) and China Cloud(2013/1-)
- Planning further expansion of overseas cloud in accordance with clients' needs
- 1Q-3Q FY12 overseas revenue: approx. JPY2.9 billion

## ATM Operation Business

- Strong revenue and income driver in mid-term
- Revenue: 1Q-3Q FY11 JPY922 million → 1Q-3Q FY12 JPY1,707 million, up 85.0%
- Operating loss JPY194 million (1Q-3Q FY11) → Operating income JPY164 million (1Q-3Q FY12)

## 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

# Best Positioned in Cloud Computing Market



## Features of IIJ GIO - IIJ's cloud computing services -

- Services released in 1Q10
- Mainly IaaS/PaaS services, focus on private cloud
- 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 Matsue Container Data Center, second one to be completed in the fall 2013 to meet the prospective demands
- Differentiate by service reliability and network operation
- 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
- Ranked as the top cloud provider in Japanese public cloud market (reported by Fuji Chimera Research Inst., July 2012)

## Figures of IIJ GIO

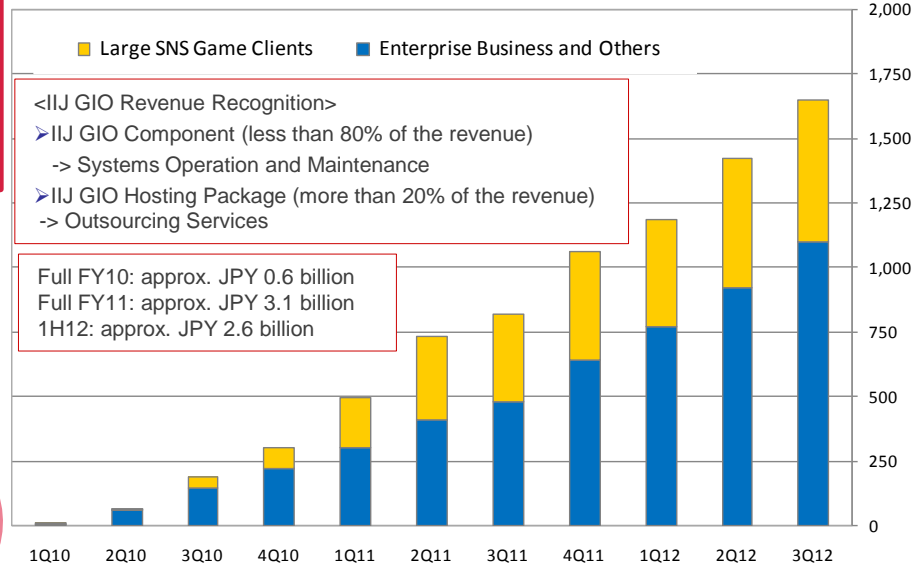
- Monthly recurring revenues
  - Less than 80% of GIO revenues are in systems operation and maintenance, the rest in outsourcing services
- FY11 revenue: approx. JPY3.1 billion (5 times of FY10 revenue)
- 1Q-3Q FY12 revenue: approx. JPY4.3 billion
- Monthly revenue: approx. JPY580 million as of Dec. 2012
- Number of projects and clients: approx. 1,600 and 900

## Fastidious IIJ GIO 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	

## IIJ GIO Domestic Revenues

(JPY million)

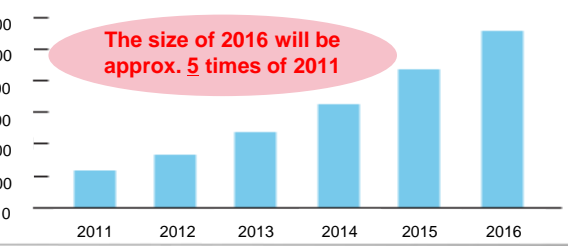


<IIJ GIO Revenue Recognition>  
 ➢ IIJ GIO Component (less than 80% of the revenue)  
 -> Systems Operation and Maintenance  
 ➢ IIJ GIO Hosting Package (more than 20% of the revenue)  
 -> Outsourcing Services

Full FY10: approx. JPY 0.6 billion  
 Full FY11: approx. JPY 3.1 billion  
 1H12: approx. JPY 2.6 billion

## Domestic Private Cloud Market Growth

Source: IDC



The size of 2016 will be approx. 5 times of 2011

# 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 US and China
- Global-WAN, Internet-VPN services
  - Around 200 pre-sales discussion
- Multilingual helpdesk (Japanese, English, Chinese)
- SI such as servers construction and operation
- ◆ Constructing large server platform in US for a prominent Japanese SNS game client
- ◆ IJ GIO US starting up well, require additional servers
- ◆ Co-working with IJ Exlayer, acquired in April 2012
  - Targets SI projects for Japanese enterprises in US, UK, Germany, Singapore;
  - Annual revenue of approx. JPY0.8 billion; 57 employees
  - Rapid business development through this M&A
- ◆ Established subsidiaries in Shanghai and Bangkok

< IJ Group Overseas Branches >



- 1Q-3Q FY12 total revenues: approx. JPY2.9 billion, exceeded expectation
- Further expansion of overseas cloud services along with clients' demands
- Receiving orders of Global-WAN transactions

# 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

- Revenue growth:
  - FY11 annual revenue: JPY1,324 million
  - 1Q-3Q FY12 total revenue: JPY1,707 million
- Operating income growth:
  - FY11 operating loss of JPY194 million
  - 1Q-3Q FY12 operating income of JPY164 million
- Number of placed ATMs:
  - 440 ATMs (May 15, 2012) → 593 ATMs (Feb. 8, 2013)
- Expect FY12 annual revenue to almost double



### < 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**



# FY2012 Financial Target

(Unit: JPY billion)

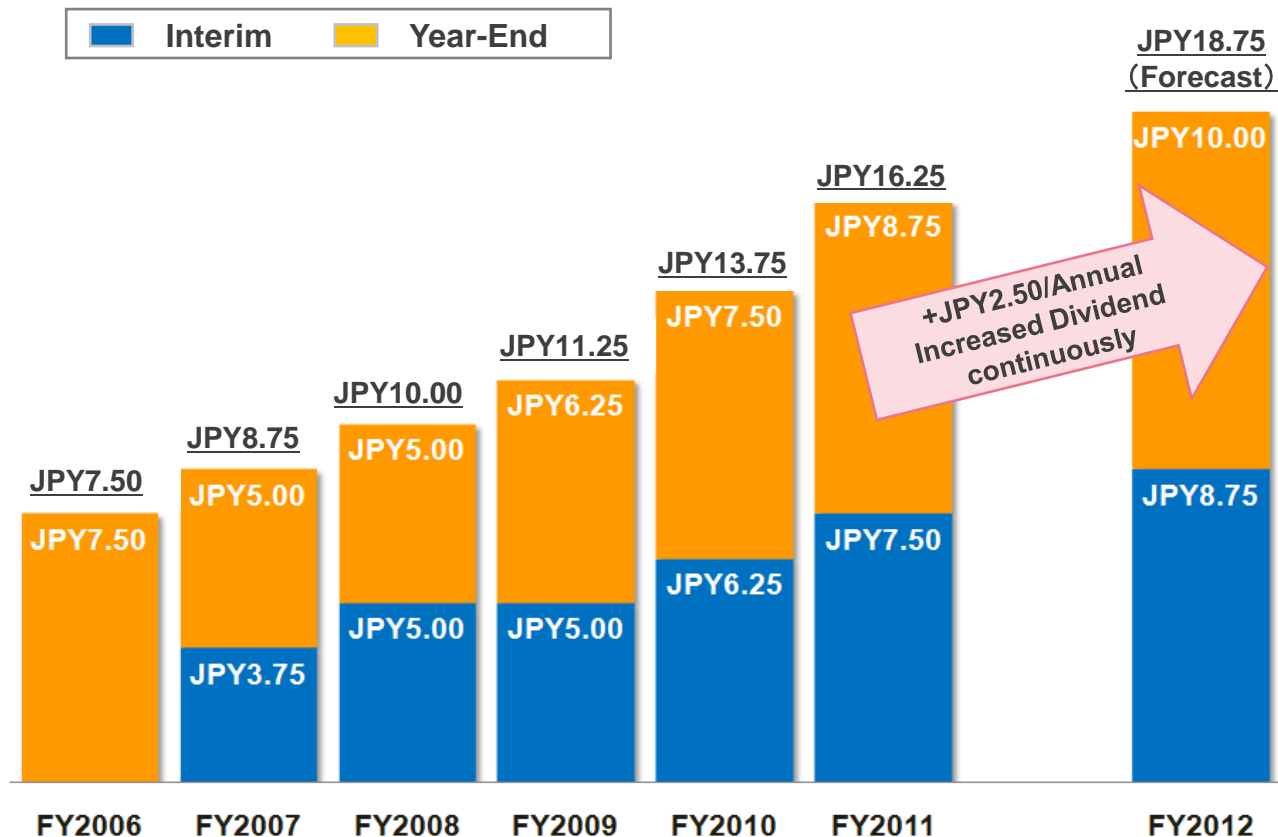
	FY12 Target (Apr. 2012 -Mar.2013)	FY11 Actual (Apr. 2011 -Mar.2012)	YoY (FY12 to FY11 Actual)	
Total Revenues	107.0	97.3	+9.7	+10.0%
Operating Income	7.5	6.4	+1.1	+18.0%
Income before Income Tax Expense	6.9	6.0	+0.9	+15.5%
Net Income attributable to IJ	4.0	3.6	+0.4	+9.9%
Net Income attributable to IJ per Share *1	JPY 98.68	JPY 89.82	+JPY 8.86	+9.9%
Cash Dividend per Share *1	JPY 18.75 *2 (Annual)	JPY 16.25 (Annual)	+JPY 2.50	+15.4%

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

\*2 IJ revised our FY2012 year-end dividend forecast from JPY8.75 to JPY10.00 per share of our common stock.

# FY2012 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.



Revised FY2012 year-end dividend forecast from JPY8.75 to JPY10.00 per share of our common stock along with income for 1Q-3Q FY2012.



**Consolidated Financial Results**  
**for 1Q-3Q FY12 (9months ended Dec. 31, 2012)**

# I . Summary of 1Q-3Q FY2012 Financial Results

## < 1Q-3Q FY2012 Financial Results >

▪ Revenues	JPY76,690 million (up 8.4% YoY)
▪ Gross margin	JPY15,525 million (up 10.1% YoY)
▪ Operating income	JPY5,043 million (up 26.1% YoY)
▪ Income before tax income expense	JPY4,946 million (up 30.8% YoY)
▪ Net income attributable to IJ	JPY3,112 million (up 30.2% YoY)

### ◆ Business expanding properly, Investing on business proactively

- **Network:** With the continued trend of broader bandwidth usage, enjoying competitive advantages and utilizing the large-scale network
- **Cloud:** The cloud usage advancing and systems becoming larger with VW series, the service targeting hybrid cloud systems. 1Q-3Q FY12 cloud revenue: approx. JPY4.3 billion. Construction of our second container type datacenter to be completed in the fall 2013 in meeting the prospective demands of FY2013
- **Overseas:** Starting up well mainly because of a number of large projects' orders. 1Q-3Q FY12 overseas revenue: approx JPY2.9 billion. The U.S. cloud service turned positive on a monthly base. Released the China cloud in January 2013
- **SI:** Seeing the return of corporate IT systems investment appetite in Japan with the number and volume of projects increasing, including some over JPY0.1 billion orders of large-scale projects with multiple years

### ◆ Income level progressed well

- Gross margin of network services, systems integration and ATM operation business each increased
- Operating Income grew together with gross margin while SG&A only slightly increased

### ◆ Revised year-end dividend forecast along with the income growth, consecutive increase in 6 fiscal years

	FY2012	FY2011	FY2010
Interim Dividend	JPY8.75	JPY7.50	JPY6.25
Year-end Dividend	<u>JPY10.00</u>	JPY8.75	JPY7.50

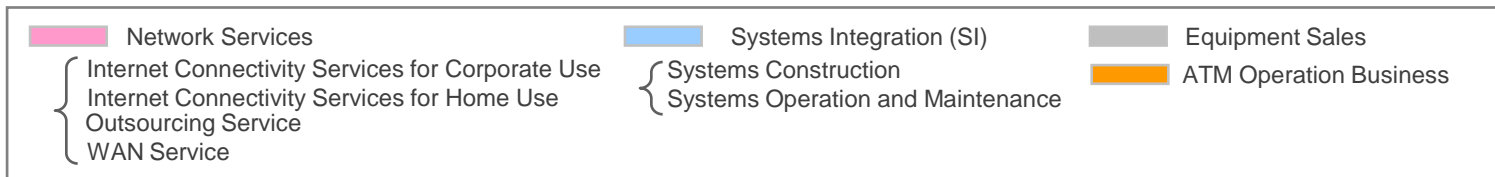
\* per share of common stock

## II -1. Consolidated Financial Results for 1Q-3Q FY2012

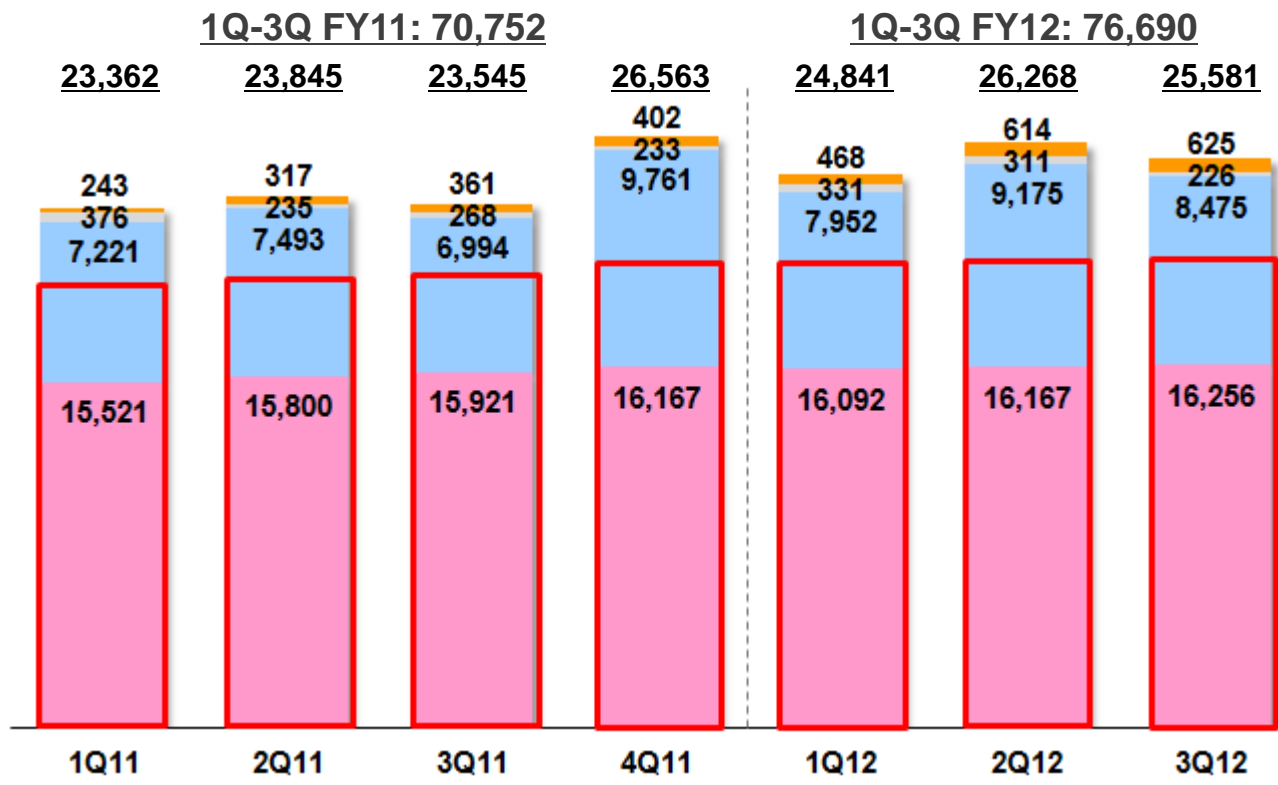
Unit: JPY billion

	% of Revenues 1Q-3Q FY12 (Apr. 2012 -Dec. 2012)	% of Revenues 1Q-3Q FY11 (Apr. 2011 -Dec. 2011)	YoY Change in %	% of Revenues FY12 Target (Apr. 2012 -Mar.2013)
Total Revenues	<b>76.7</b>	<b>70.8</b>	<b>+8.4%</b>	<b>107.0</b>
Total Costs	79.8% <b>61.2</b>	80.1% <b>56.7</b>	<b>+8.0%</b>	-
Gross Margin	20.2% <b>15.5</b>	19.9% <b>14.1</b>	<b>+10.1%</b>	-
SG&A/R&D	13.7% <b>10.5</b>	14.3% <b>10.1</b>	<b>+3.8%</b>	-
Operating Income	6.6% <b>5.0</b>	5.7% <b>4.0</b>	<b>+26.1%</b>	7.0% <b>7.5</b>
Income before Income Tax Expense	6.4% <b>4.9</b>	5.3% <b>3.8</b>	<b>+30.8%</b>	6.4% <b>6.9</b>
Net Income Attributable to IJ	4.1% <b>3.1</b>	3.4% <b>2.4</b>	<b>+30.2%</b>	3.7% <b>4.0</b>

# II -2. Revenues



Unit: JPY million



**One-time Revenue**  
 (13.9% of 1Q-3Q FY12 total revenues)  
 is recognized only once when systems or equipments are delivered and accepted by customers.  
 1. Systems Construction  
 2. Equipment Sales

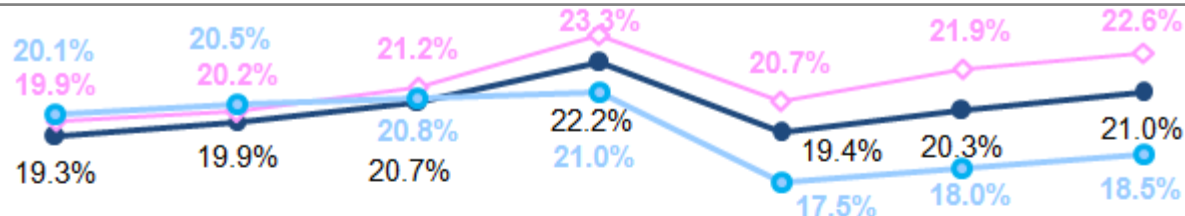
**Recurring Revenue**  
 (83.8% of 1Q-3Q FY12 total revenues)  
 represents monthly recurring revenues as shown below:  
 1. Internet Connectivity Services (Corporate Use and Home Use)  
 2. Outsourcing Services  
 3. WAN Service  
 4. Systems Operation and Maintenance

YoY = 1Q-3Q FY12 compared to 1Q-3Q FY11

- ◆ 1Q-3Q FY12 Network services revenue: JPY48,515 million (up 2.7% YoY)
- ◆ 1Q-3Q FY12 Systems integration revenue: JPY25,601 million (up 17.9% YoY)
- ◆ 1Q-3Q FY12 Equipment sales revenue: JPY867 million (down 1.3% YoY)
- ◆ 1Q-3Q FY12 ATM operation business revenue: JPY1,707 million (up JPY784 million YoY, up 85.0% YoY)
- ◆ 1Q-3Q FY12 Recurring revenue: JPY64,292 million (up 4.4% YoY)
- ◆ 1Q-3Q FY12 One-time revenue: JPY10,691 million (up 29.9% YoY)

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

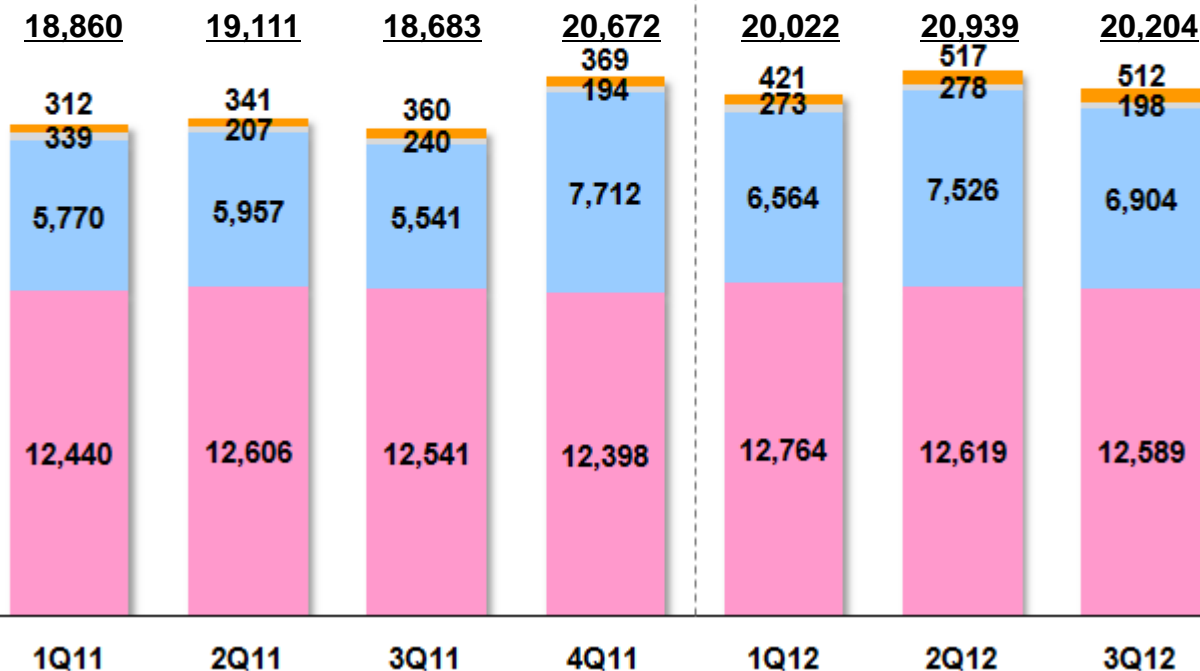
Cost of revenues : Network Services (Pink), Systems Integration (SI) (Light Blue), Equipment Sales (Grey), ATM Operation Business (Orange)  
 Gross margin ratio : Network Services (Pink Diamond), Systems Integration (SI) (Light Blue Circle), Total revenue (Dark Blue Circle)



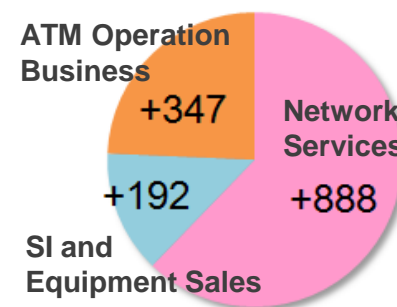
Unit: JPY million

1Q-3Q FY11: 56,654

1Q-3Q FY12: 61,165



Breakdown of the increased portion of gross margin: 1Q-3Q FY11 to 1Q-3Q FY12

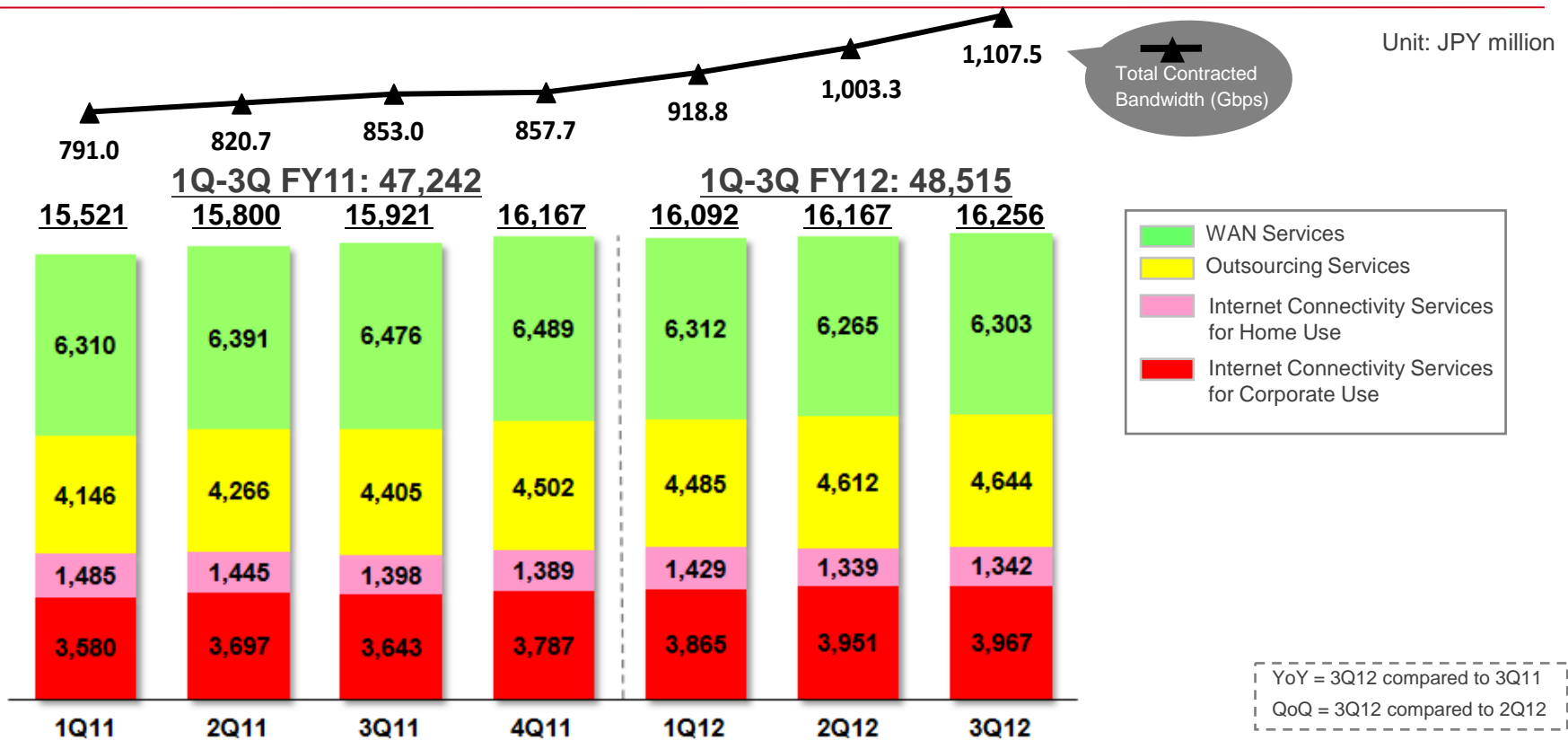


YoY = 1Q-3Q FY12 compared to 1Q-3Q FY11

1Q-3Q FY12 Gross margin: JPY15,525 million (up JPY1,427 million YoY, up 10.1% YoY)  
 ◆ Network services gross margin: JPY10,543 million (up JPY888 million YoY, up 9.2% YoY)  
 ◆ SI gross margin: JPY4,608 million (up JPY166 million YoY, up 3.7% YoY)  
 ◆ ATM operation business gross margin: JPY256 million (gross loss of JPY91 million in 1Q-3Q FY11)



## II -4. Network Services (1)Revenues



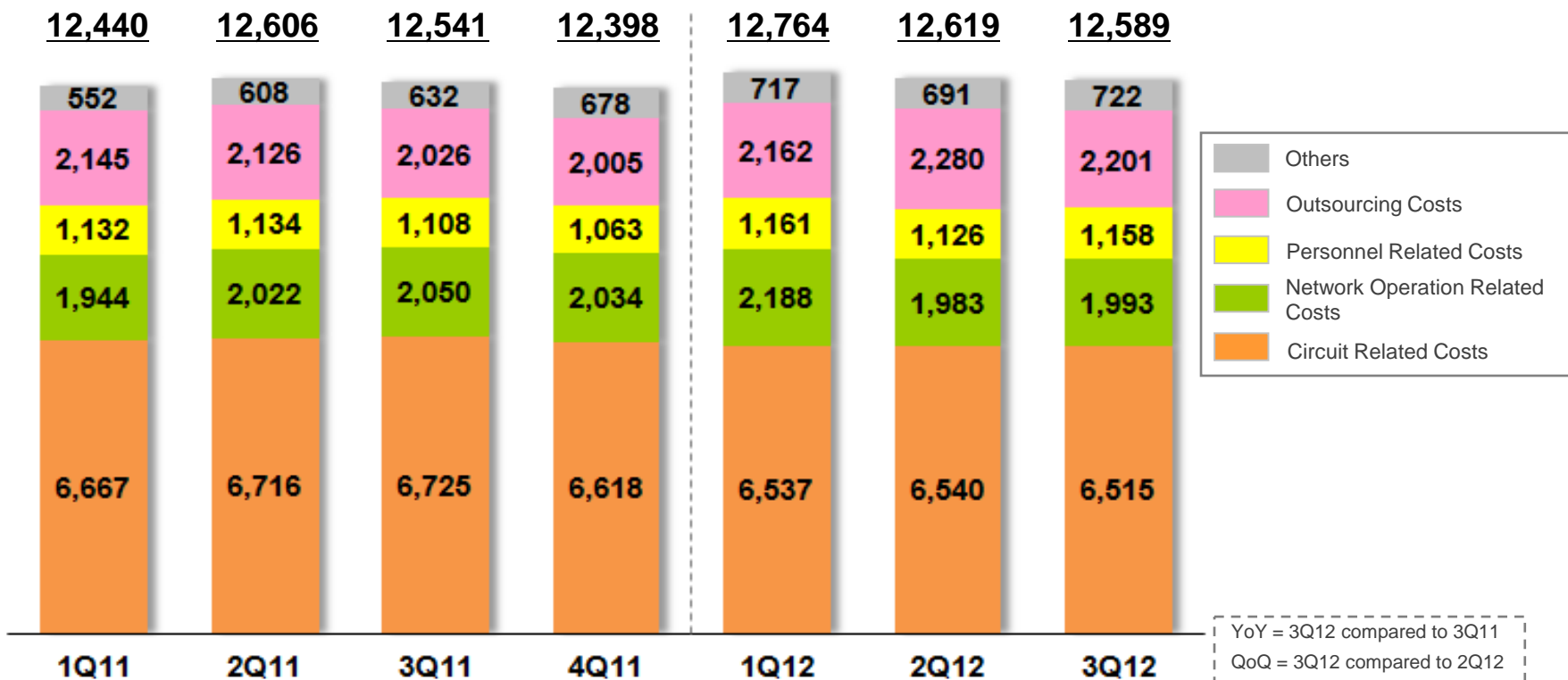
- ◆3Q12 Internet connectivity services for corporate use revenue: up JPY325 million YoY, up 8.9% YoY, up JPY17 million QoQ, up 0.4% QoQ
  - IP services continued to grow along with the increasing demands for broader bandwidth by over 1Gbps users
  - Number of contracts for over 1Gbps as of Dec. 31, 2012: 186 contracts (164 contracts as of Sep. 30, 2012, 132 contracts as of Dec. 31, 2011)
- ◆3Q12 Internet connectivity services for home use revenue: down JPY55 million YoY, down 4.0% YoY, up JPY3 million QoQ, up 0.3% QoQ
  - LTE services' contracts constantly increasing by: 1Q12: approx. 13,800, 2Q12: approx. 11,200, 3Q12: approx. 8,700. Accumulating orders via Aeon Group, one of the largest retail companies in Japan, at a good pace
  - Revenue increased QoQ as a reaction to the minus revenue adjustment on initial set-up fee for LTE services in 2Q12 by approx. JPY40 million, while minus effects continued due to the changes in net revenue recognition for FLET'S portion
- ◆3Q12 Outsourcing services revenue: up JPY239 million YoY, up 5.4% YoY, up JPY32 million QoQ, up 0.7% QoQ
  - IIJ GIO Hosting Package Services, datacenter-related and security-related outsourcing services revenues continued to grow
- ◆3Q12 WAN service revenue: down JPY173 million YoY, down 2.7% YoY, up JPY38 million QoQ, up 0.6% QoQ

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

Unit: JPY million

**1Q-3Q FY11: 37,587**  
(Gross margin ratio: 20.4%)

**1Q-3Q FY12: 37,972**  
(Gross margin ratio: 21.7%)

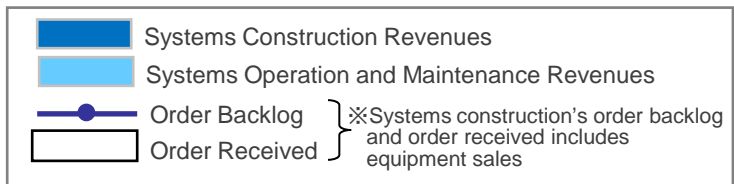
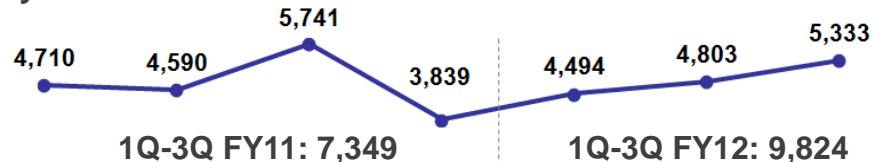


3Q12 Cost of network services: up JPY48 million YoY, up 0.4% YoY, down JPY30 million QoQ, down 0.2% QoQ  
 ➤ No large changes compared to 3Q11 and 2Q12

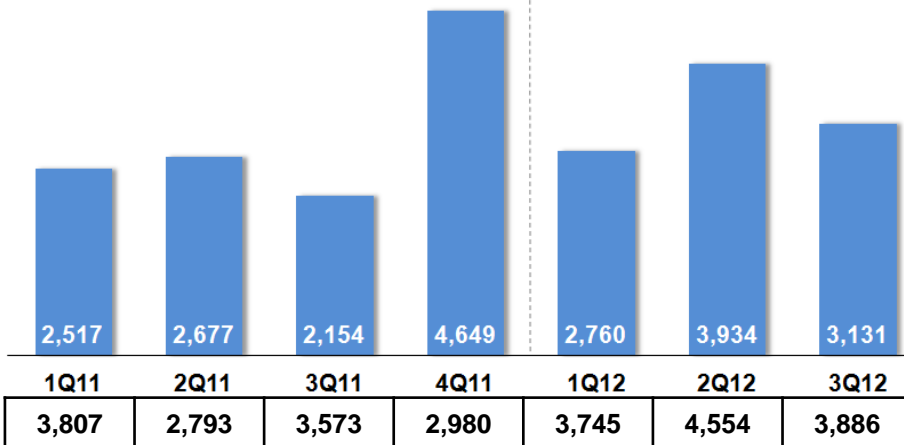
# II-5. Systems Integration (1)Revenues

## <Systems Construction>

Unit: JPY million



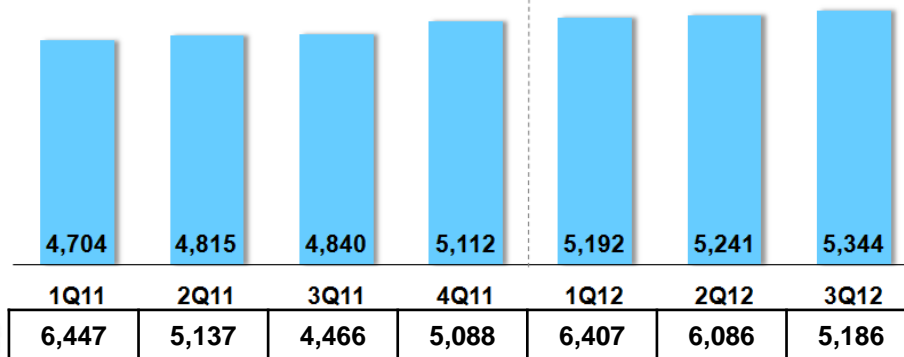
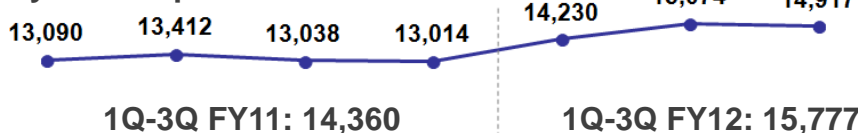
YoY = 3Q12 compared to 3Q11



### Systems Construction

- ◆ **3Q12 revenue: up JPY976 million YoY, up 45.3% YoY**
  - Large-scale projects such as construction of virtualized systems, installation of thin client systems, and FX systems contributed to the revenue growth, in addition to the continuous accumulation of small- to medium- scale projects
- ◆ **3Q12 order backlog: down JPY408 million YoY, down 7.1% YoY**
  - 3Q12 order received: up JPY313 million YoY, up 8.7% YoY
  - Received orders of projects related to construction/maintenance of fully managed network gateway, replacement of large-scale network, reconstruction/maintenance of mail systems for multiple years

## <Systems Operation and Maintenance>



### Systems Operation and Maintenance

- ◆ **3Q12 revenue: up JPY504 million YoY, up 10.4% YoY**
  - In addition to the revenue accumulation by IIJ GIO Component Services, the original systems operation and maintenance began to accumulate along with the construction growth
  - Less than 80% of IIJ GIO total revenues are recognized in systems operation and maintenance revenues
- ◆ **3Q12 order backlog: up JPY1,879 million YoY, up 14.4% YoY**
  - 3Q12 order received: up JPY720 million YoY, up 16.1% YoY

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

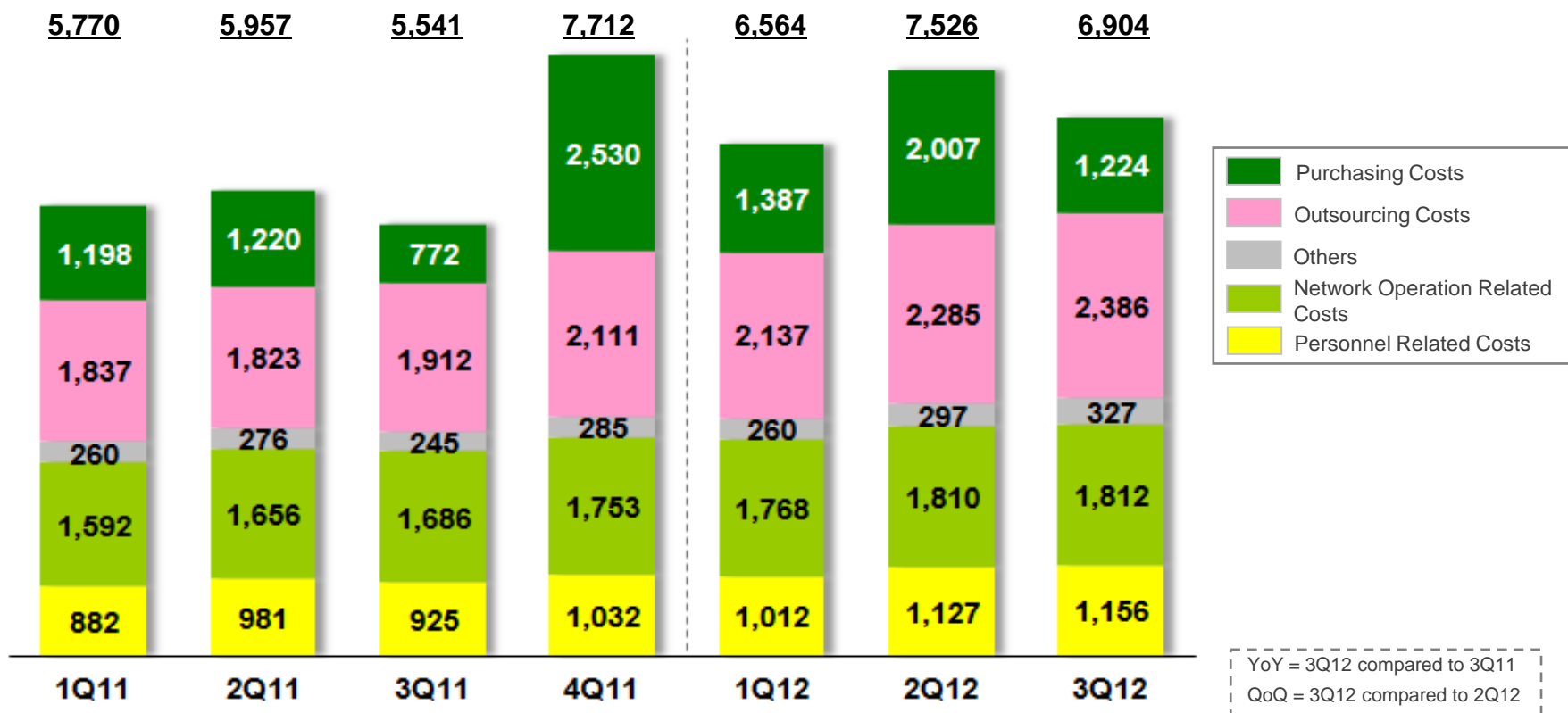
Unit: JPY million

1Q-3Q FY11: 17,267

(Gross margin ratio: 20.5%)

1Q-3Q FY12: 20,994

(Gross margin ratio: 18.0%)

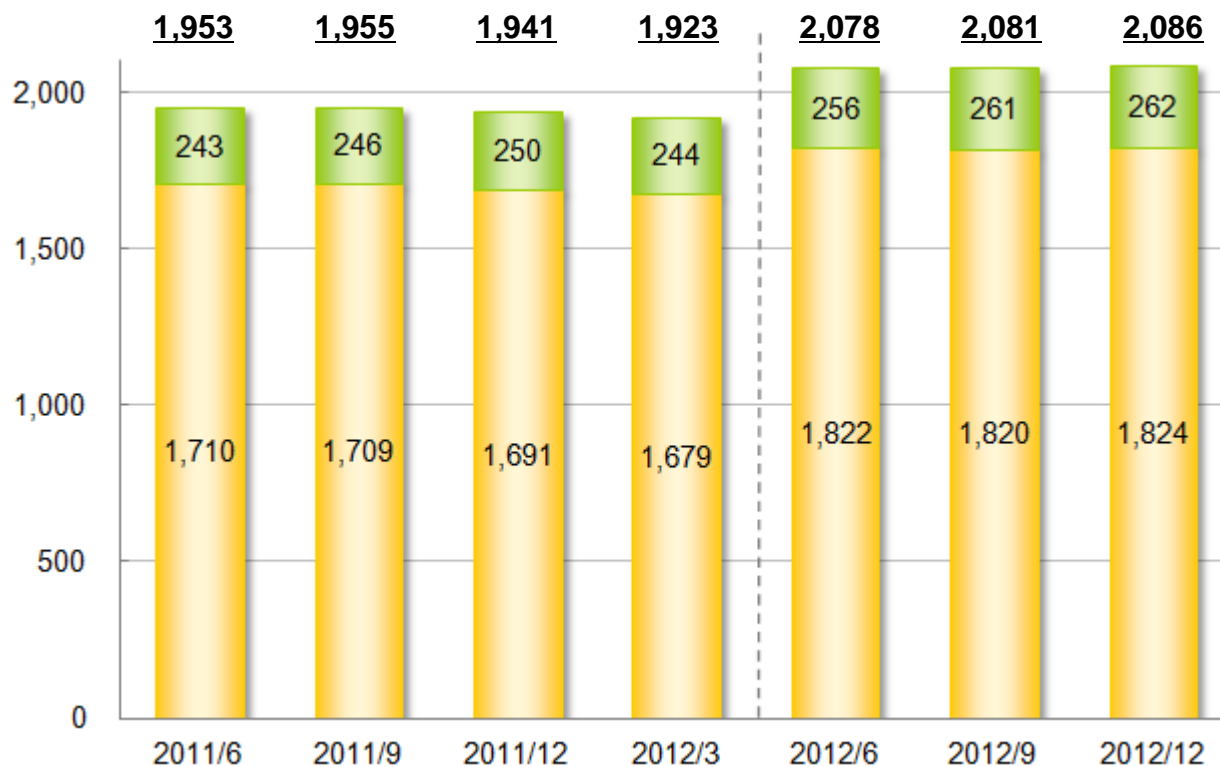


◆ 3Q12 Cost of SI: up JPY1,363 million YoY, up 24.6% YoY

- The number of full-time outsourcing personnel as of Dec. 31, 2012 was 624 (up 156 personnel YoY, up 38 personnel QoQ)
- 3Q12 SI gross margin: JPY1,570 million, up JPY117 million YoY, up 8.1% YoY
- Purchasing and some portion of outsourcing costs fluctuate along with the SI revenues

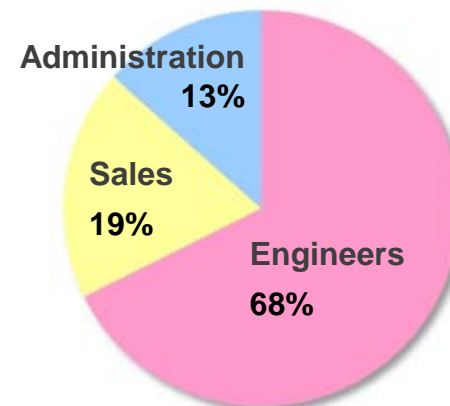
## II -6. Number of Employees

(No. of employees)



<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%)
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[Employee Distribution]



Personnel related costs and expenses (% of revenue)

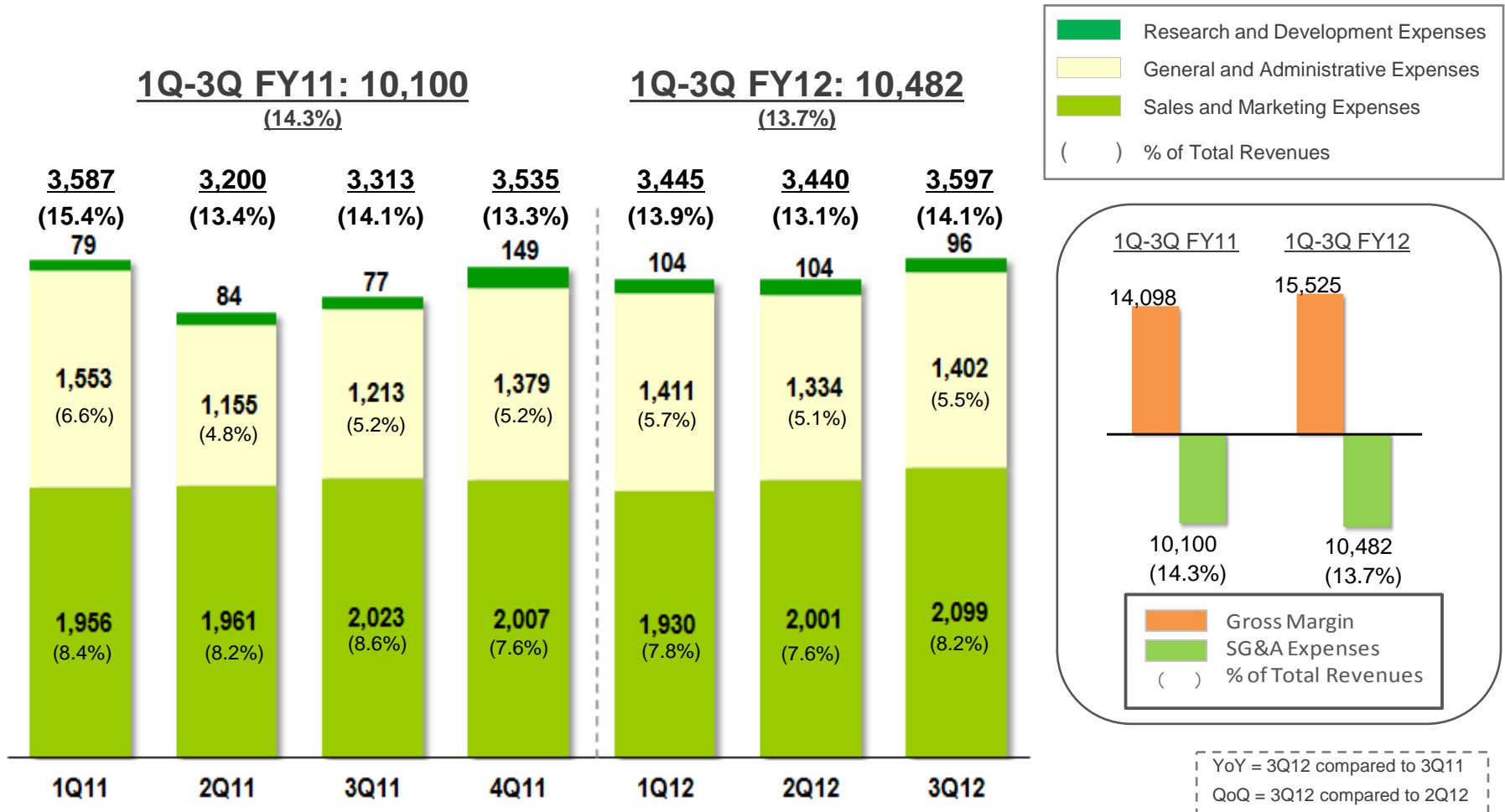
Unit: JPY million

YoY = 3Q12 compared to 3Q11

- ◆ Number of consolidated employees as of Dec. 31, 2012: 2,086 personnel
  - Hired 75 newly graduates in Apr. 2012 (Apr. 2011: 44 newly graduates)
  - Planning to hire over 100 newly graduates in Apr. 2013
  - 3Q12 personnel related costs and expenses: up JPY351 million YoY

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

Unit: JPY million

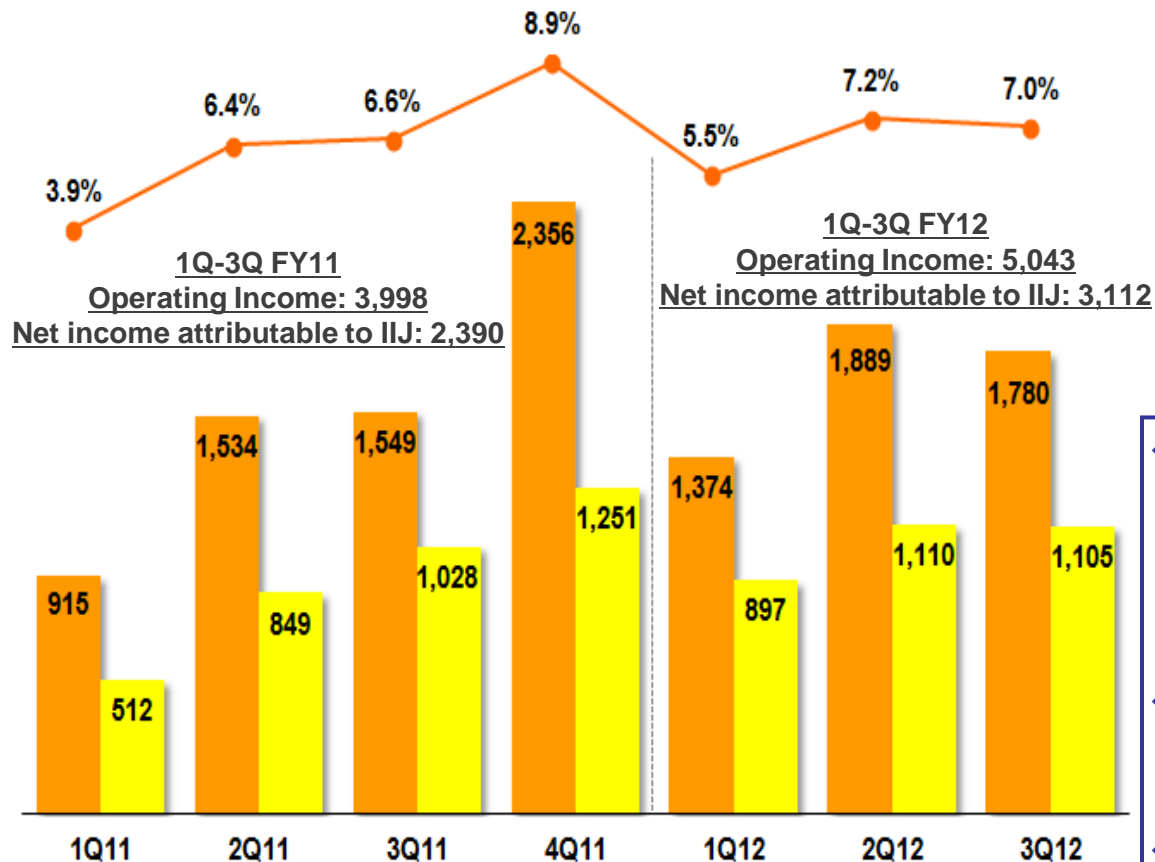


- ◆ 3Q12 SG&A: up JPY284 million YoY, up JPY157 million QoQ
  - SG&A is stable and does not directly increase along with revenue growth
  - SG&A increased slightly due to the increase in advertising expenses compared to 2Q12

YoY = 3Q12 compared to 3Q11  
 QoQ = 3Q12 compared to 2Q12

## II -8. Operating Income and Net Income

Unit: JPY million



YoY = 3Q12 compared to 3Q11

- ◆ 3Q12 Operating income: JPY1,780 million  
(up JPY231 million YoY, up 14.9% YoY)
  - Operating income of ATM operation business in 3Q12: JPY81 million  
(JPY16 million in 1Q12, JPY67 million in 2Q12)
    - Placed 593 ATMs as of Feb. 8, 2013
- ◆ 3Q12 Income before income tax expense: JPY1,770 million  
(up JPY281 million YoY, up 18.8% YoY)
  - Interest payments and others
- ◆ 3Q12 Net income attributable to IIJ: JPY1,105 million  
(up JPY77 million YoY, up 7.5% YoY)
  - Equity in net income of Internet Revolution, Inc. and Internet Multifeed Co.
  - Apply a normal rate of effective tax

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12
Income Tax Expenses	425	631	548	922	515	736	703
Equity in net income (loss) of equity method investees	40	37	77	(30)	33	50	49
Net loss (income) attributable to non-controlling interests	31	18	11	6	5	(6)	(10)

## II -9. Summary of Consolidated Balance Sheets

Unit: JPY million

	March 31, 2012	December 31, 2012	Changes
Cash and Cash Equivalents	13,537	10,648	(2,889)
Accounts Receivable	15,722	15,389	(333)
Inventories	752	1,790	+1,038
Prepaid Expenses	1,848	3,242	+1,394
Other Investments	2,938	3,466	+528
Property and Equipment	19,736	22,167	+2,432
Goodwill and Other Intangible Assets	11,185	10,948	(237)
Accounts payable	9,753	9,518	(235)
Income taxes payable	2,211	396	(1,815)
Borrowings (Short-term and Long-term)	12,000	11,390	(610)
Capital Lease Obligations (Current and Noncurrent)	7,739	9,040	+1,301
Accumulated Deficit	(10,990)	(8,587)	+2,403
Accumulated Other Comprehensive Income(Loss)	(24)	52	+76
<b>Total IJ Shareholders' Equity</b>	<b>32,688</b>	<b>35,196</b>	<b>+2,508</b>
<b>Total Assets</b>	<b>73,493</b>	<b>75,892</b>	<b>+2,399</b>

### ◆ Balance Sheet

- Cash and cash equivalents:
  - Decreased mainly due to the increase in operating assets such as inventories and prepaid expenses, payment of income taxes and repayments for the borrowings
- Accounts receivable and Accounts payable:
  - No major changes
- Property and Equipment and Capital lease obligations :
  - Increased mainly due to the increase in investment for cloud computing related investment

### ◆ IJ Shareholders' equity ratio

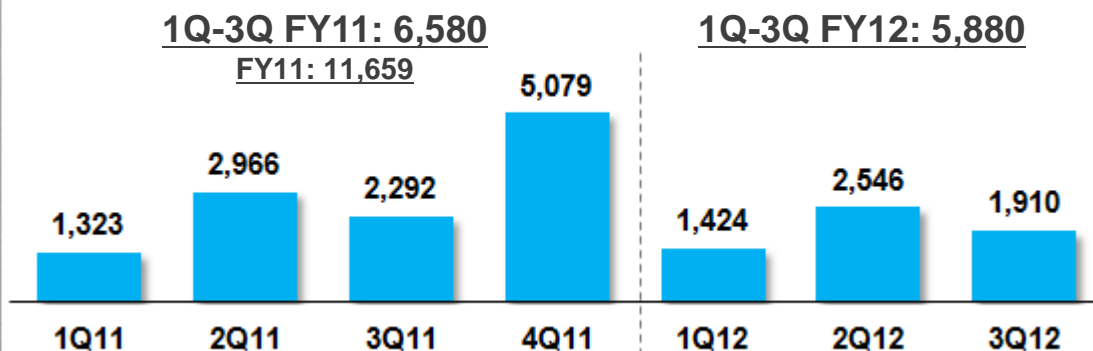
- As of Dec. 2012: 46.4%
- As of Sep. 2012: 45.4%
- As of Jun. 2012: 45.2%
- As of Mar. 2012: 44.5%



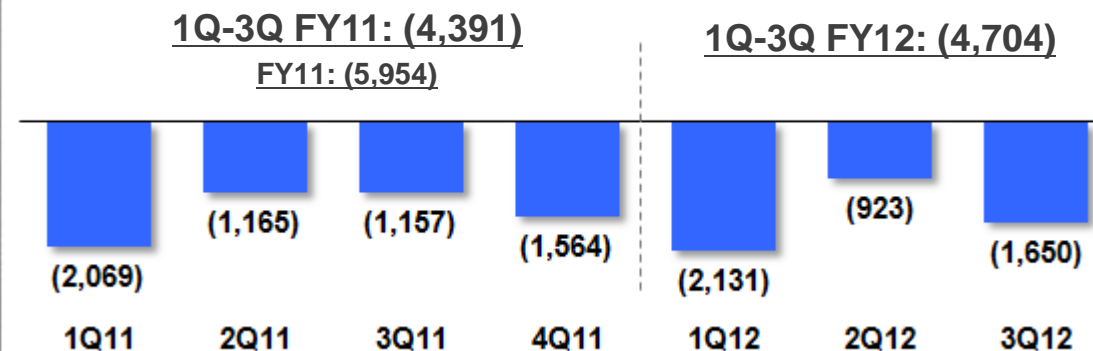
## II -10. Consolidated Cash Flows

### Operating Activities:

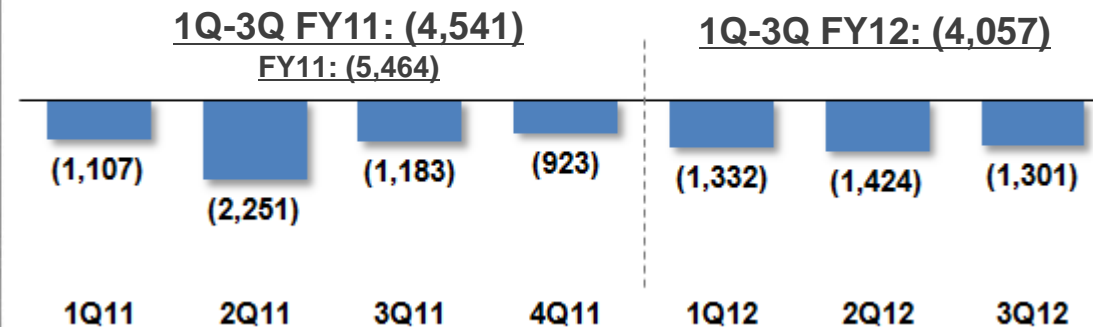
Unit: JPY million



### Investing Activities:



### Financing Activities:



#### 1Q-3Q FY12 Operating Activities:

- Depreciation and amortization: JPY5,544 million
- Increase in inventories, prepaid expenses, and other operating assets: JPY2,952 million
- Payments for income taxes: JPY1,820 million etc.

◆ The decrease in 1Q-3Q FY12 compared to 1Q-3Q FY11 mainly consists of

- Payment of income taxes (minus JPY2,653 million)
- Increase in inventories, prepaid expenses and other operating assets (minus JPY1,904 million)

#### 1Q-3Q FY12 Investing Activities:

- Payment for purchases of property and equipment: JPY4,410 million etc.

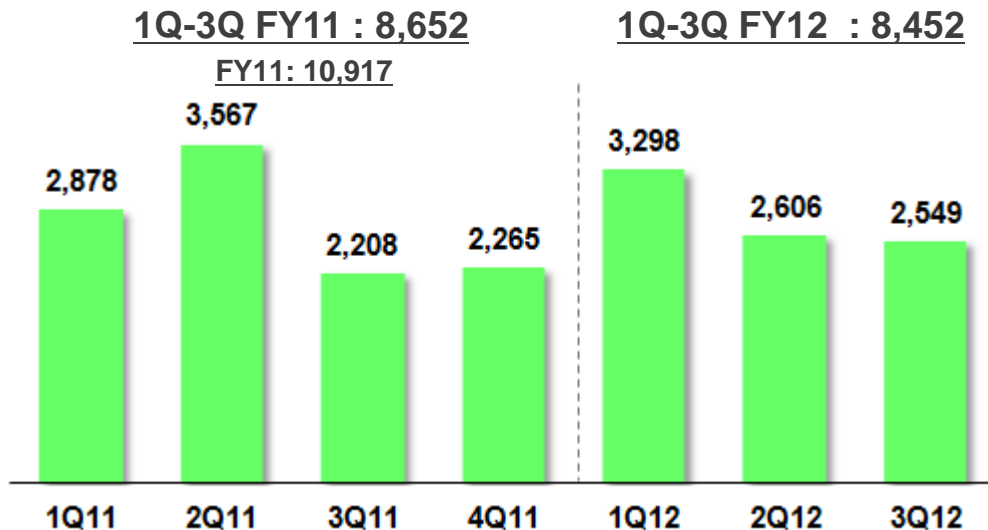
#### 1Q-3Q FY12 Financing Activities:

- Repayment for borrowings (net): JPY610 million
- Principal payments under capital leases: JPY2,741 million
- Dividends paid: JPY709 million etc.

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

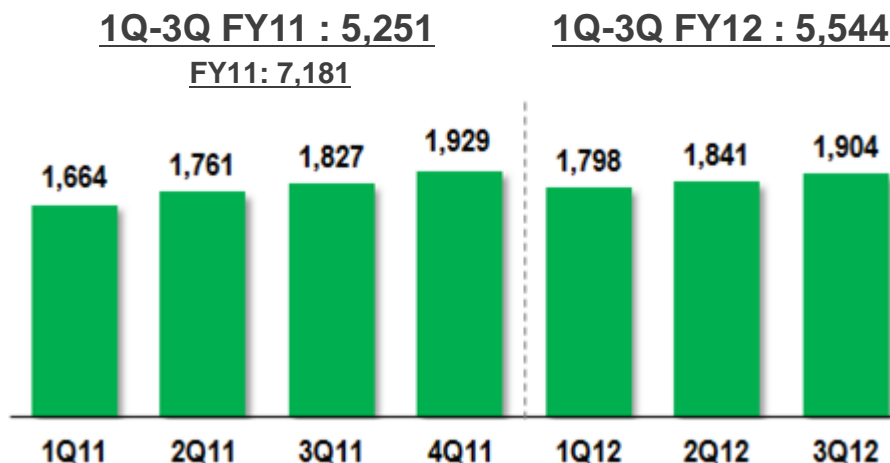
CAPEX (Include Capital Leases):

Unit: JPY million

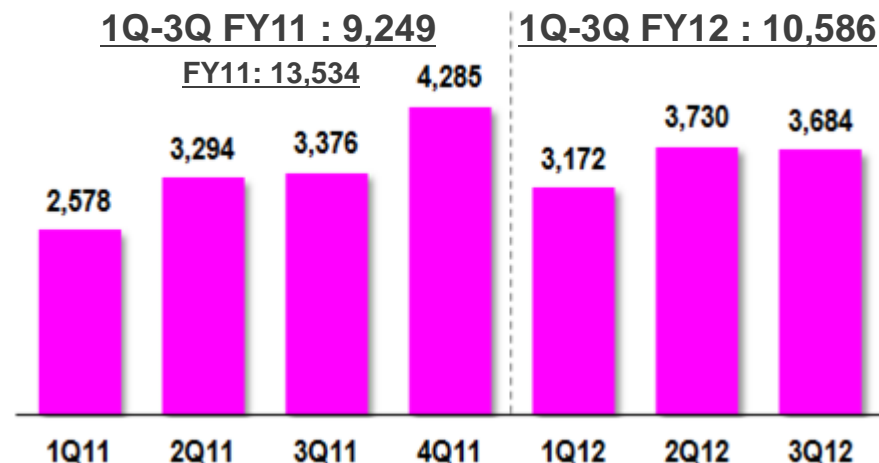


Domestic IJ GIO related CAPEX	
1Q-3Q FY11	JPY3.2 billion (of JPY1.1 billion related to Matsue DC's core facilities)
1Q-3Q FY12	JPY2.1 billion

Depreciation and Amortization:



Adjusted EBITDA:



# III-1. Developments of "IIJ GIO"

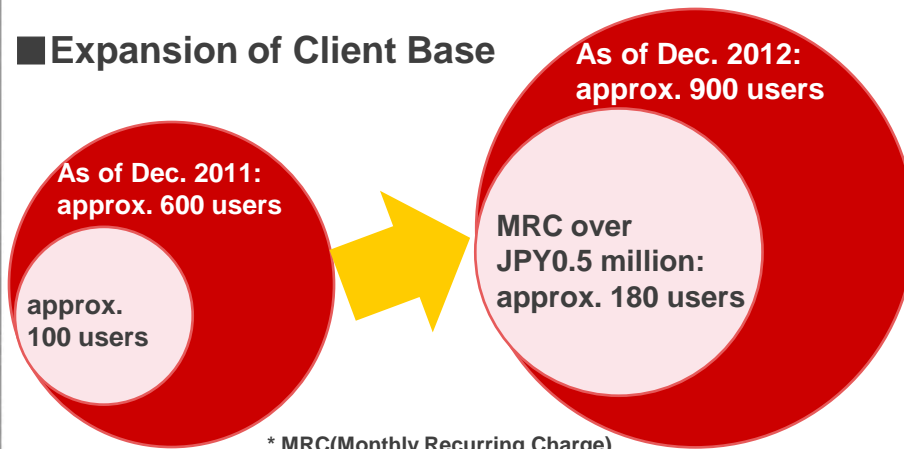


## Business Developments of IIJ GIO

- 3Q12 revenue: approx. JPY1.6 billion
- 1Q-3Q FY12 revenue: approx. JPY4.3 billion (2Q12: approx. JPY1.4 billion, 3Q11: approx. JPY0.8 billion)
- Dec. 2012 monthly revenue: JPY580 million (Sep. 2012 monthly revenue: JPY490 million)
- Number of projects and clients: approx.1,600 and 900 (added approx. 600 projects and 300 clients from 3Q11)
- Revenue increased due to the continuous acquisition of new clients and the extended cloud usage by the current users
- **VW Series starting off with positive reviews**
  - Released in Aug. 2012, revenue recognized from 2Q12
  - Number of order received and prospective orders: approx. 30 and 200
  - Due to hybrid cloud system requirements, scale is getting larger and systems becoming more complex
  - Began to receive orders of project with over JPY1 million MRC
- **More IIJ GIO business partners**

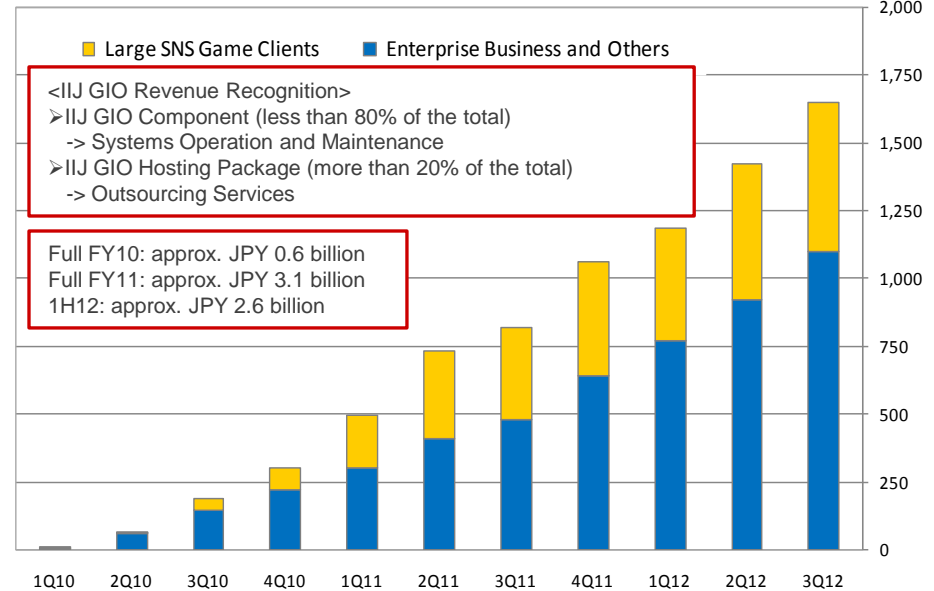
More than 300 entities have become IIJ GIO partners to co-promote IIJ GIO, by installing their software on it (approx. 200 entities as of Dec. 2011)

## Expansion of Client Base



## IIJ GIO Domestic Revenues

(JPY million)

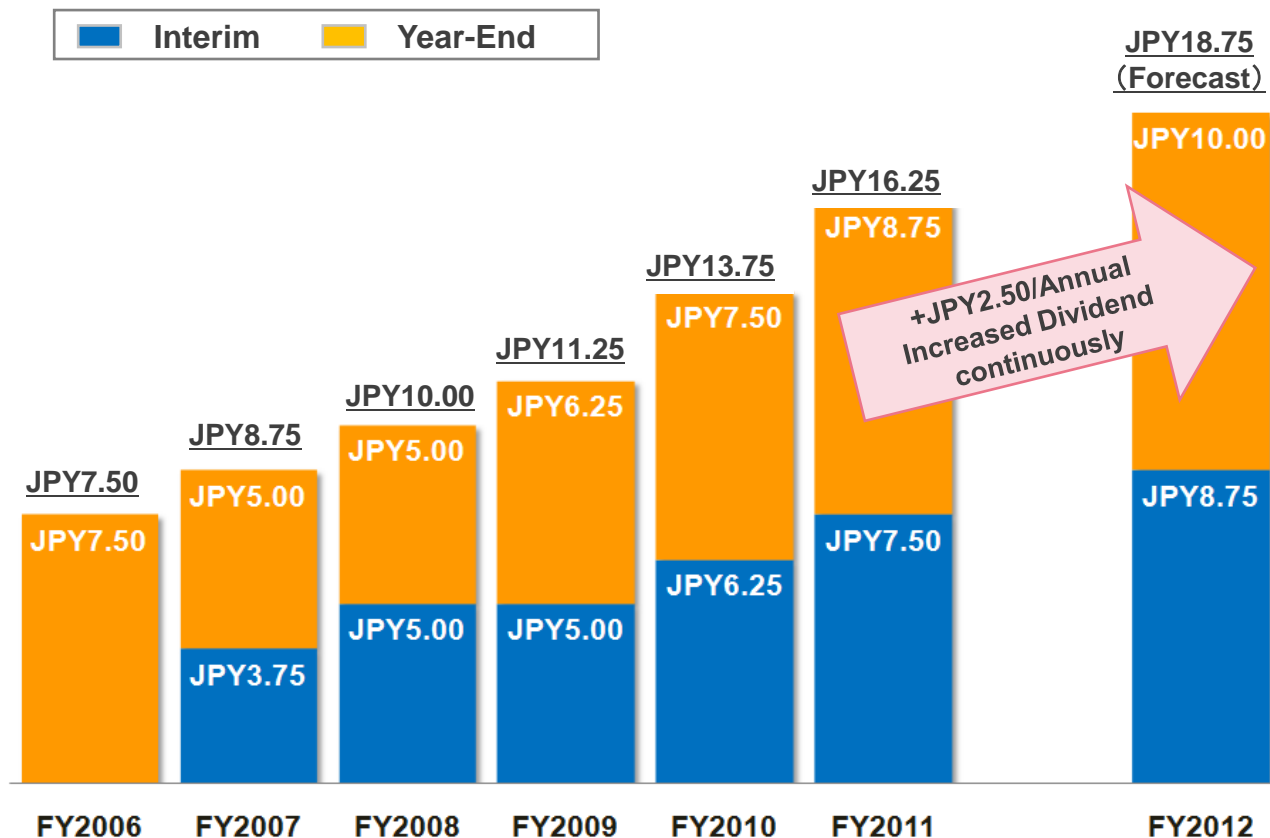


## Blue-chip Client Base



## III-2. Revision of FY2012 Year-End Dividend Forecast

IJ 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.



Revised FY2012 year-end dividend forecast from JPY8.75 to JPY10.00 per share of our common stock along with income for 1Q-3Q FY2012.

### III-3. FY2012 Financial Target (Dividend forecast changed)

(Unit: JPY billion)













	FY12 Target (Apr. 2012 -Mar.2013)	FY11 Actual (Apr. 2011 -Mar.2012)	YoY (FY12 to FY11 Actual)	
Total Revenues	107.0	97.3	+9.7	+10.0%
Operating Income	7.5	6.4	+1.1	+18.0%
Income before Income Tax Expense	6.9	6.0	+0.9	+15.5%
Net Income attributable to IIJ	4.0	3.6	+0.4	+9.9%
Net Income attributable to IIJ per Share *1	JPY 98.68	JPY 89.82	+JPY 8.86	+9.9%
Cash Dividend per Share *1	JPY 18.75 <sup>*2</sup> (Annual)	JPY 16.25 (Annual)	+JPY 2.50	+15.4%

\*1 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.

\*2 IIJ revised our FY2012 year-end dividend forecast from JPY8.75 to JPY10.00 per share of our common stock.

# IIJ Group Companies

(As of February 2013)

	Company Name	Ownership	Main Business
Consolidated Subsidiaries	 IIJ Global	100%	Provides domestic network outsourcing related services including WAN service and international network related services (Joined IIJ group in 2010)
	 Net Care		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		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		Develops internet related technologies (R&D)
	 NET CHART JAPAN		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	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	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	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.
	 i-revo	30%	Joint company with KONAMI CORPORATION. Operates internet portal web sites.
	 TRINITY Loyalty Marketing Solutions	33.7%	Provides operation of reward point management system

## Forward Looking Statement

Statements made in this presentation regarding IIJ's or management's 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: the possible decrease of corporate spending or capital expenditure due to depression in Japanese economy and/or corporate earnings decreased; the possible loss of reliability for our services and loss of business chances due to interruption or suspension of our services; the possibility an increase over estimate in network related cost and outsourcing cost, personnel cost etc. ;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; the amount and timing of the recognition of deferred tax benefits or expenses; and other risks referred to from time to time in IIJ's filings on Form 20-F of its annual report and other filings with the United States Securities and Exchange Commission ("SEC").

## Contact Information

Internet Initiative Japan Inc. (Corporate Planning Department)

Jinbocho Mitsui Bldg., 1-105 Kanda Jinbo-cho, Chiyoda-ku, Tokyo, 101-0051, Japan

TEL: 03-5259-6500 URL: <http://www.iij.ad.jp/en/ir> E-Mail: [ir@iij.ad.jp](mailto:ir@iij.ad.jp)