



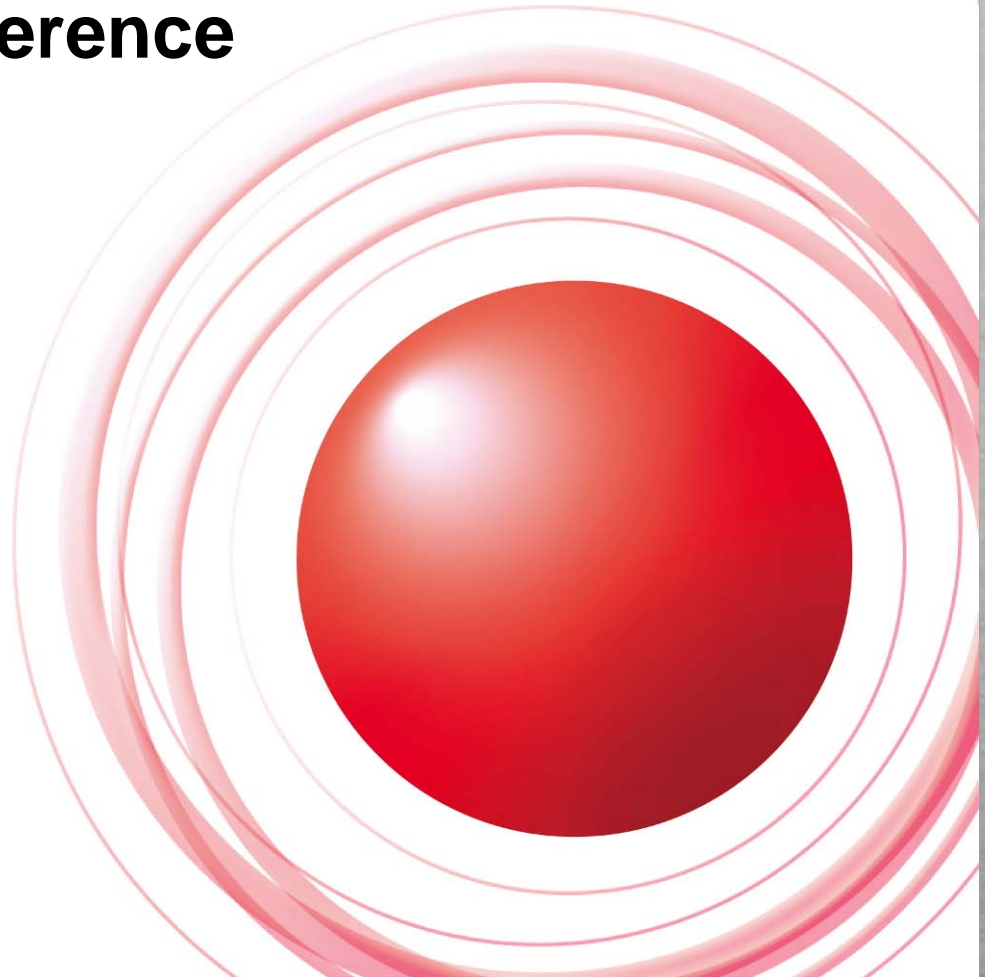
# Internet Initiative Japan Inc.

## Daiwa Investment Conference Hong Kong 2012

<http://www.iij.ad.jp/en/ir>

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 6,500 Japanese Excellent Corporate Customers & Added 1,300 Customer Base through M&A**
- **Solid Growth Strategy with Proved Revenues and Income Growth**
- **Best Positioned in the Growing Outsourcing & Cloud Computing Market**

details to follow

# TOP IP Engineering Company in Japan

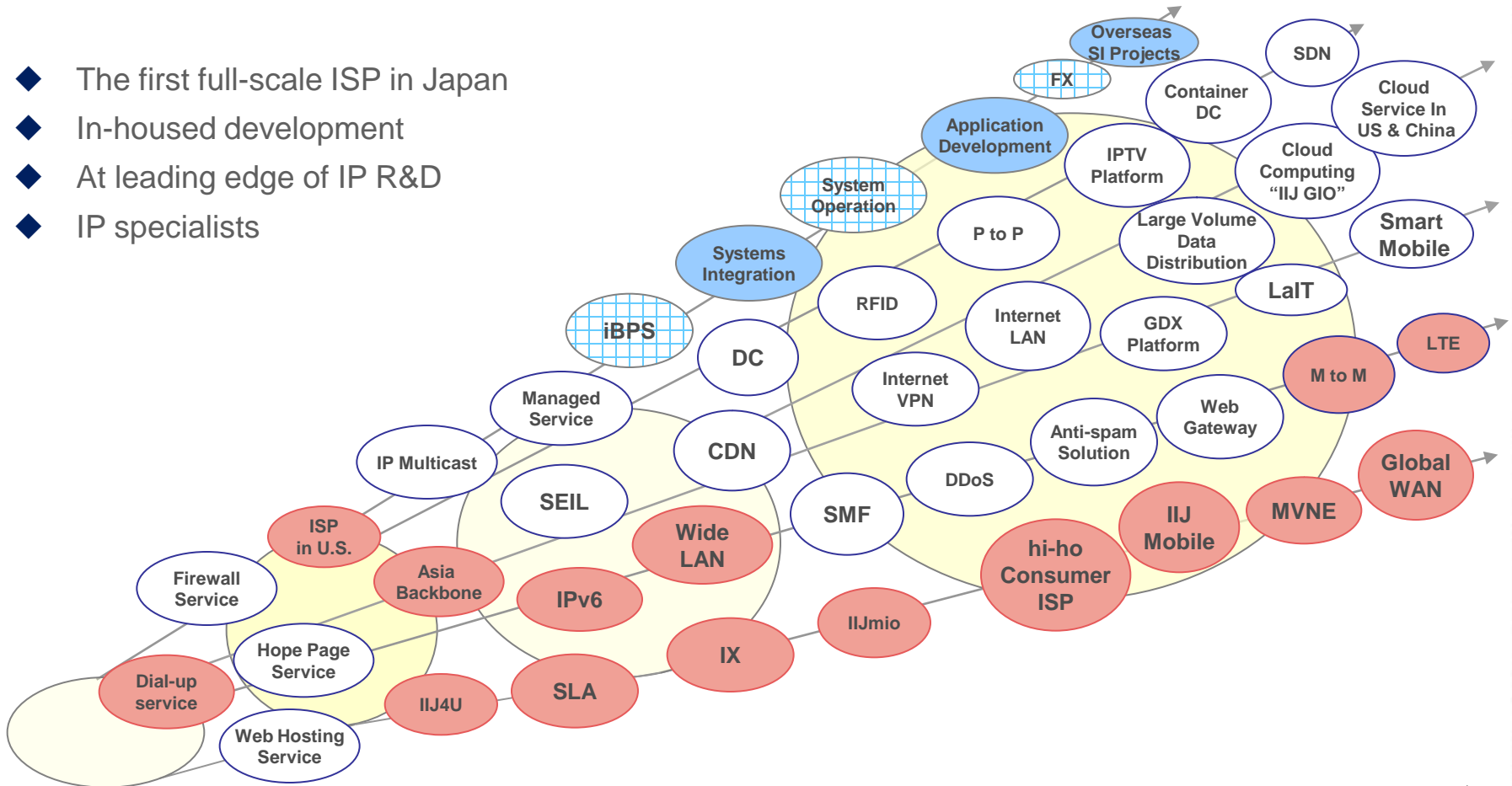
- ◆ The first established full-scale ISP in Japan
  - A group of highly motivated and skilled TOP level IP engineers
  - Pioneer of network technologies in Japan historically
- ◆ Service initiative with in-house development
  - Operate one of the largest Internet backbone in Japan
  - Self-develop its 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 support skills
  - High customer satisfaction/long term relationship
  - Approx. 6,500 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 (as of Sep. 2012)	
Established	December 1992
Number of Employees	Consolidated: 2081 (approx. 70% engineers)
Listed Markets	NASDAQ (IIJI), TSE1 (3774)
Large Shareholders	NTT (24.4%), 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



Net Case

1998



Net Case

2004



IJ Financial Systems

2006



Net Case Japan

i-revo

2007



Trust Networks



Trust Networks

2008



IJ INNOVATION INSTITUTE

2010



IJ Global

2012



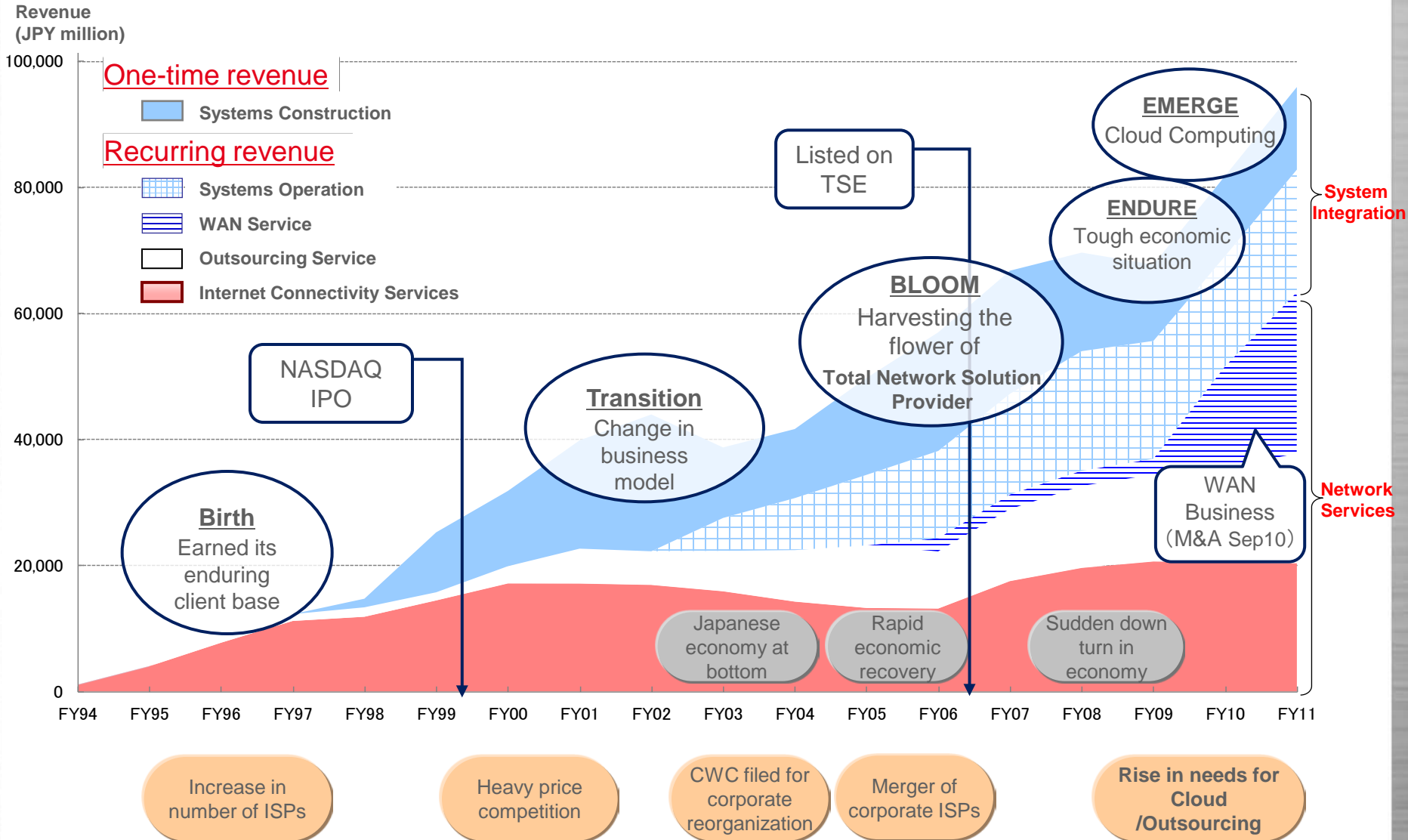
IJ Exlayer



Stratosphere

# Strategic Shift in Business Model

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



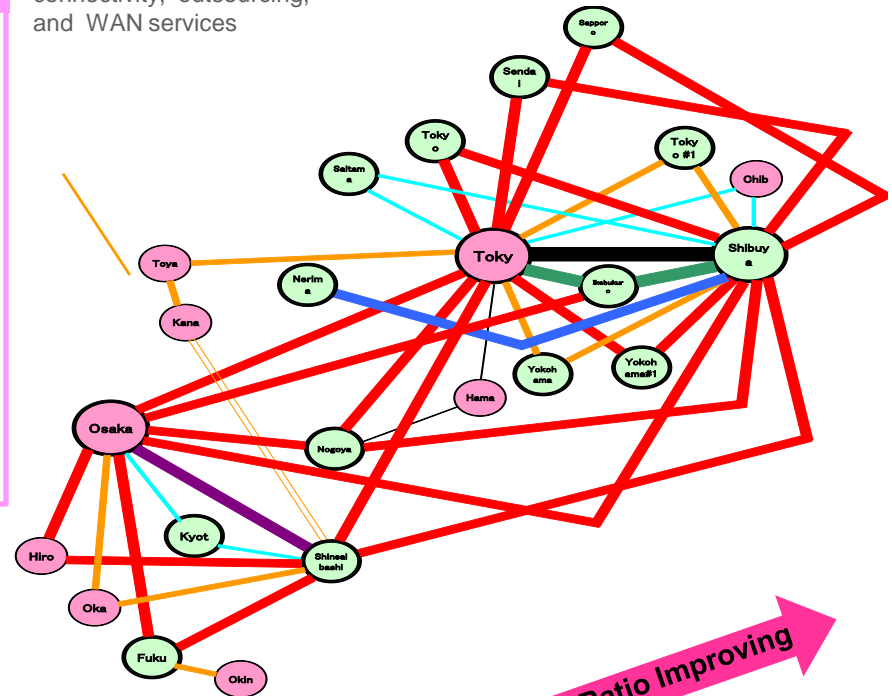
# Business Structure of Network Services

## 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 services orders
- Enjoying scale merit along with increasing traffic

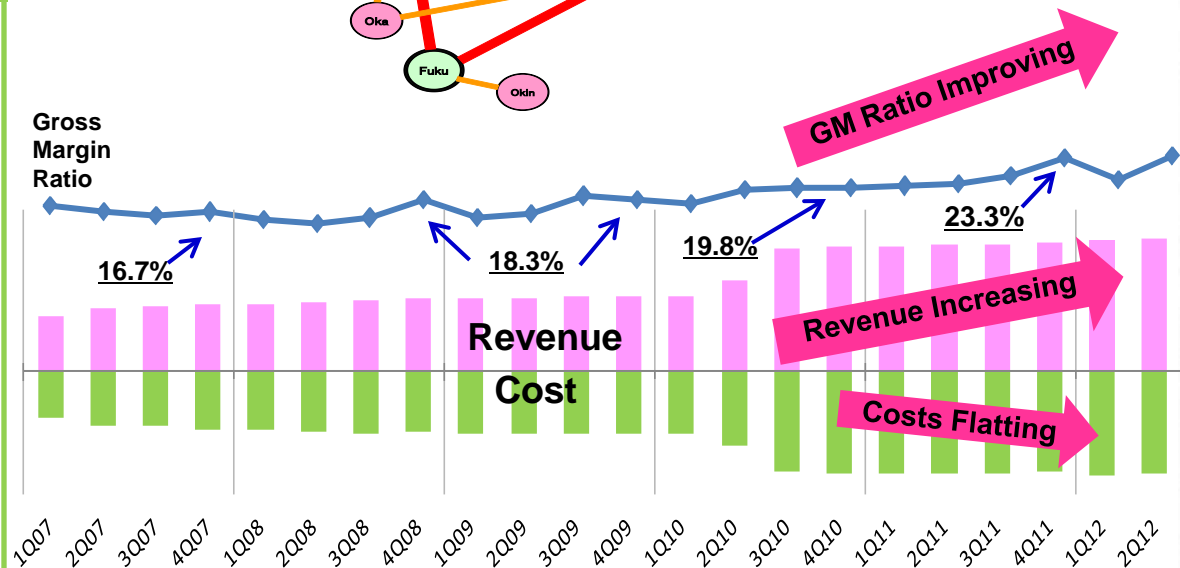
\* Network services: Internet connectivity, outsourcing, and WAN services

## 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 equipments, DC- borrowing, operations, personnel and outsourcing costs
- Not always directly related to the revenues growth
- While constantly expanding the network, costs barely increase

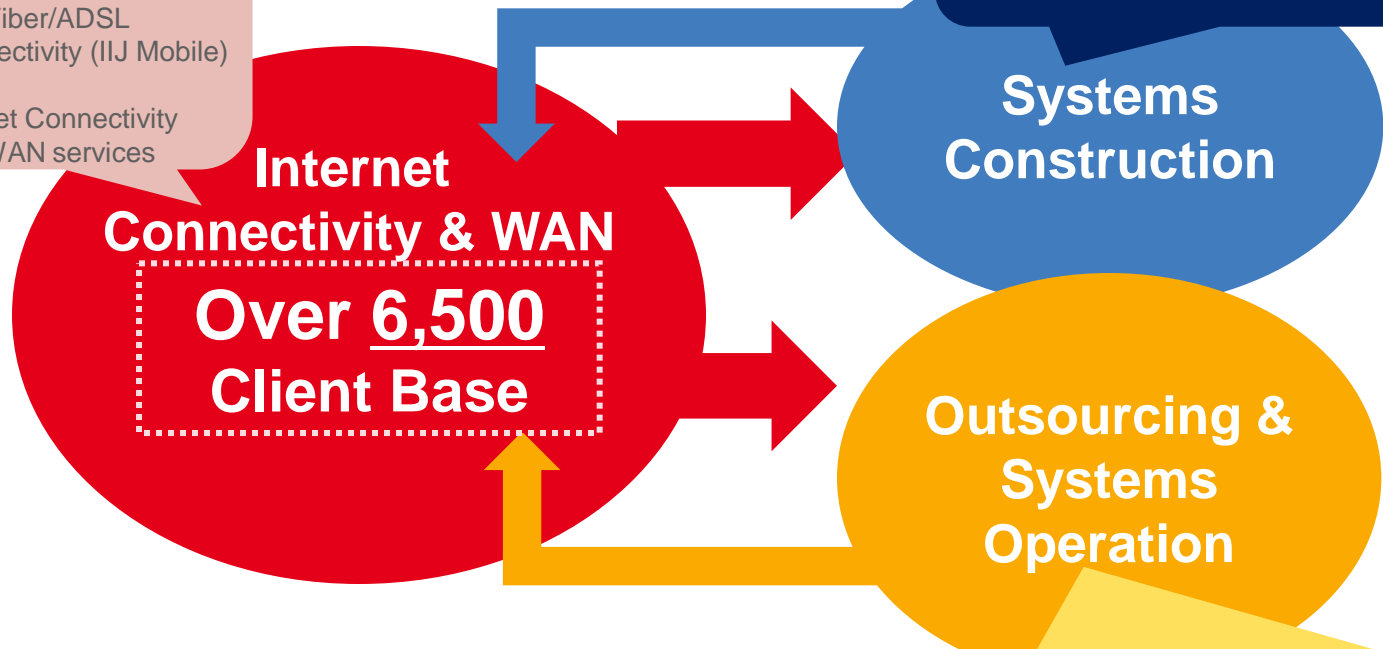


# Recurring Business Model

## 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 Ethernet Connectivity
  - Global-WAN services

- Mainly network-related Integration
  - Ecommerce/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 (public cloud/approx. 20% of IIJ GIO revenues)

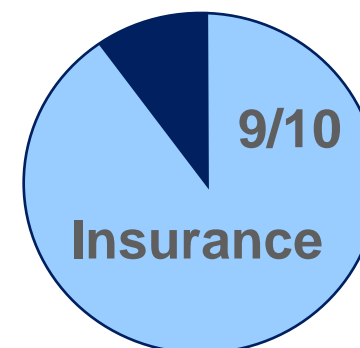
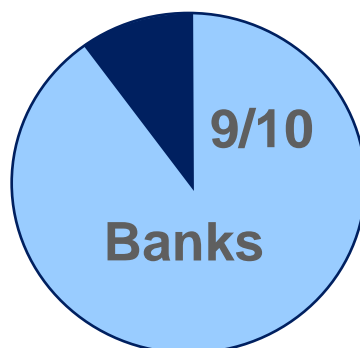
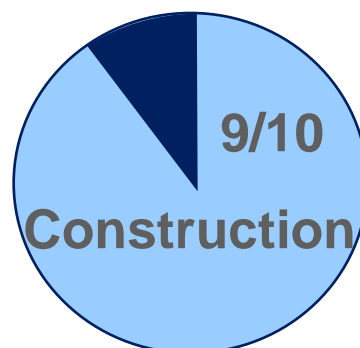
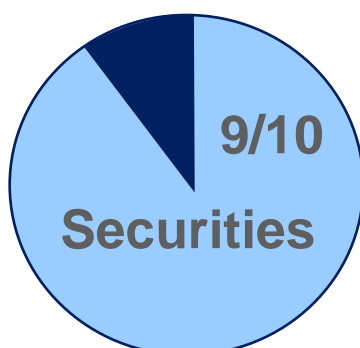
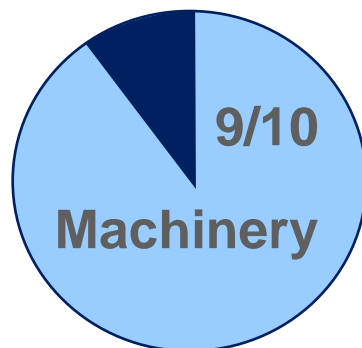
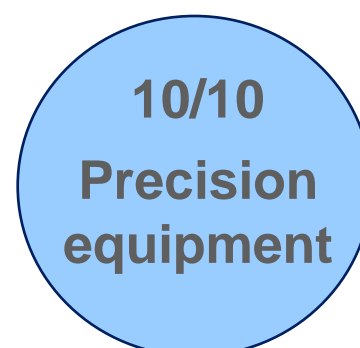
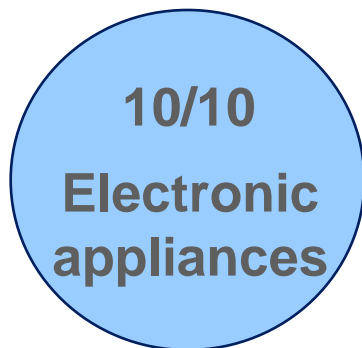
Systems Operation includes:

1. Operation and maintenance of a system constructed in Systems Construction
2. IIJ GIO Component Services (private cloud/approx. 80% of IIJ GIO revenues)

# Excellent Blue-chip Client Base

## Top Tiers

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

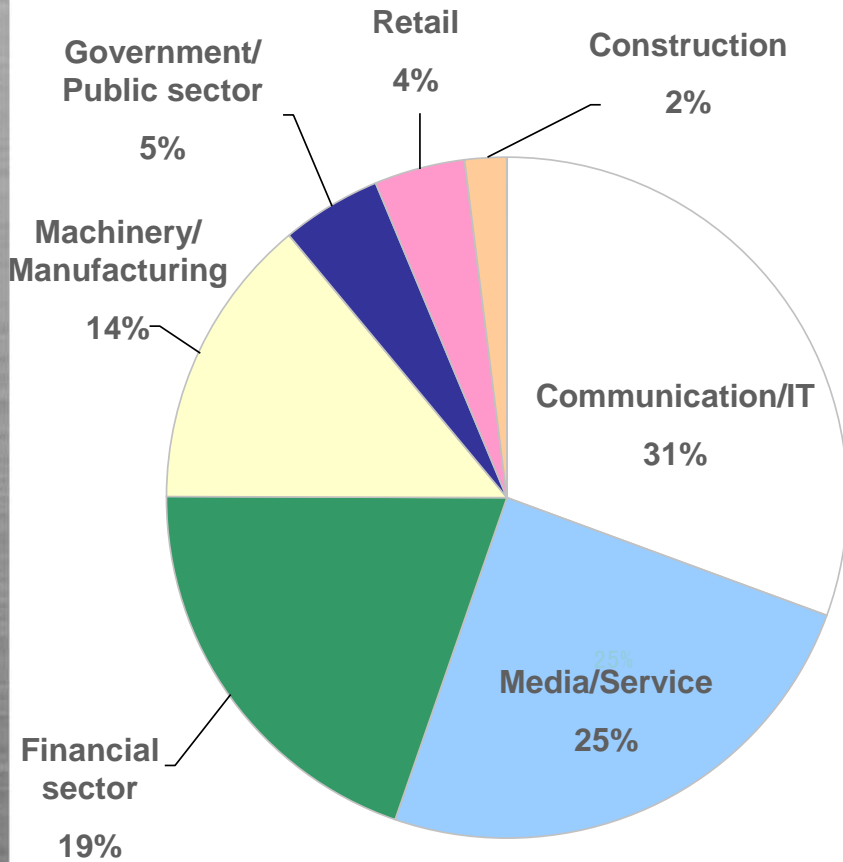




# Revenue Composition by Clients

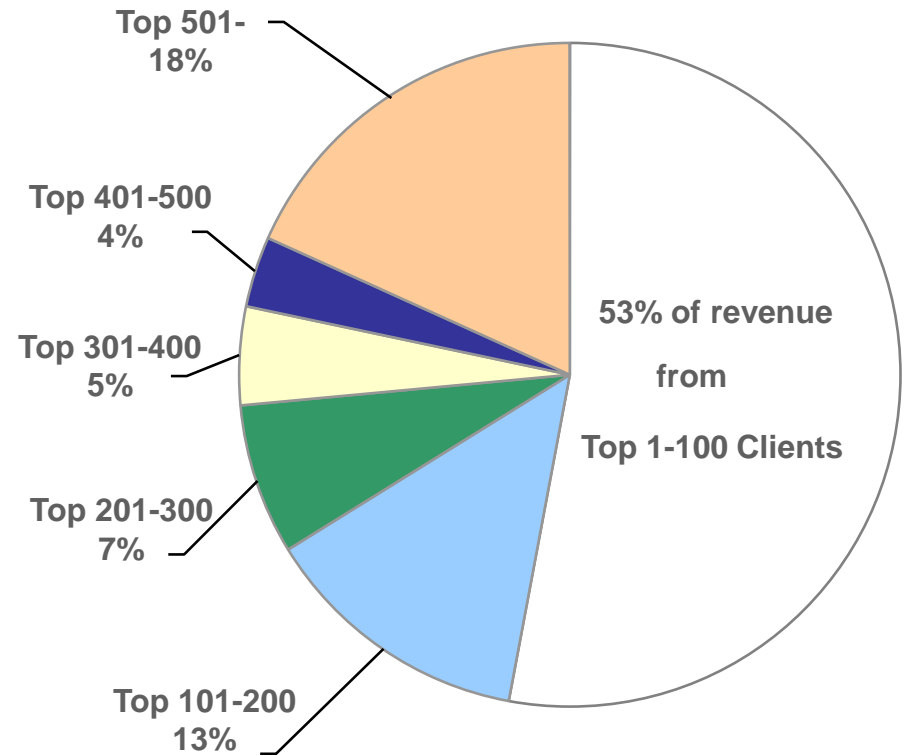
## Revenue Distribution by Industry

Not dependent on specific industry



## Revenue Distribution by Clients

Approx. 500 companies out of 6,500 client base make up the  $\frac{3}{4}$  of the total revenue

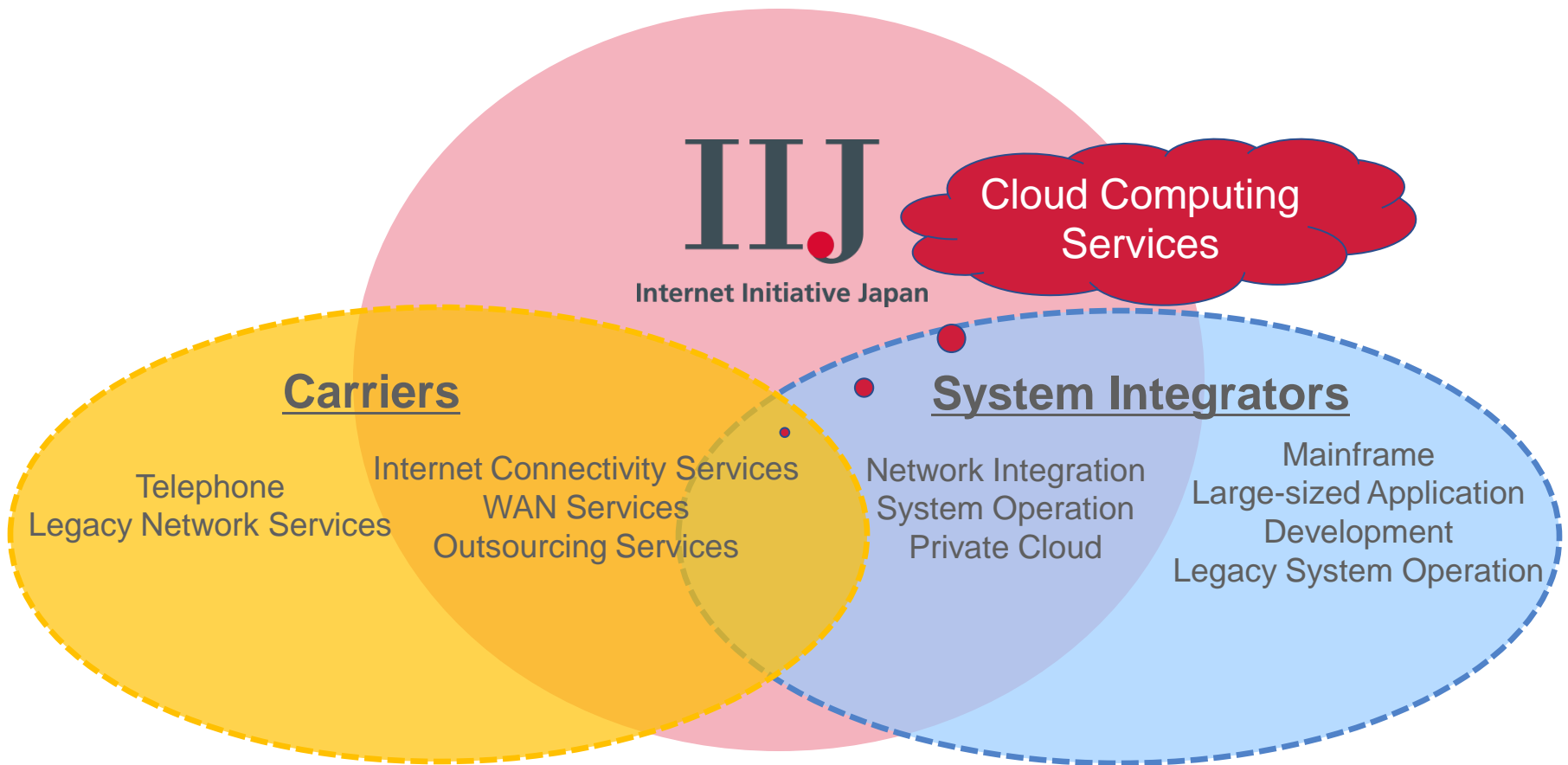


Source: IIJ's consolidated data for FY2011

# 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

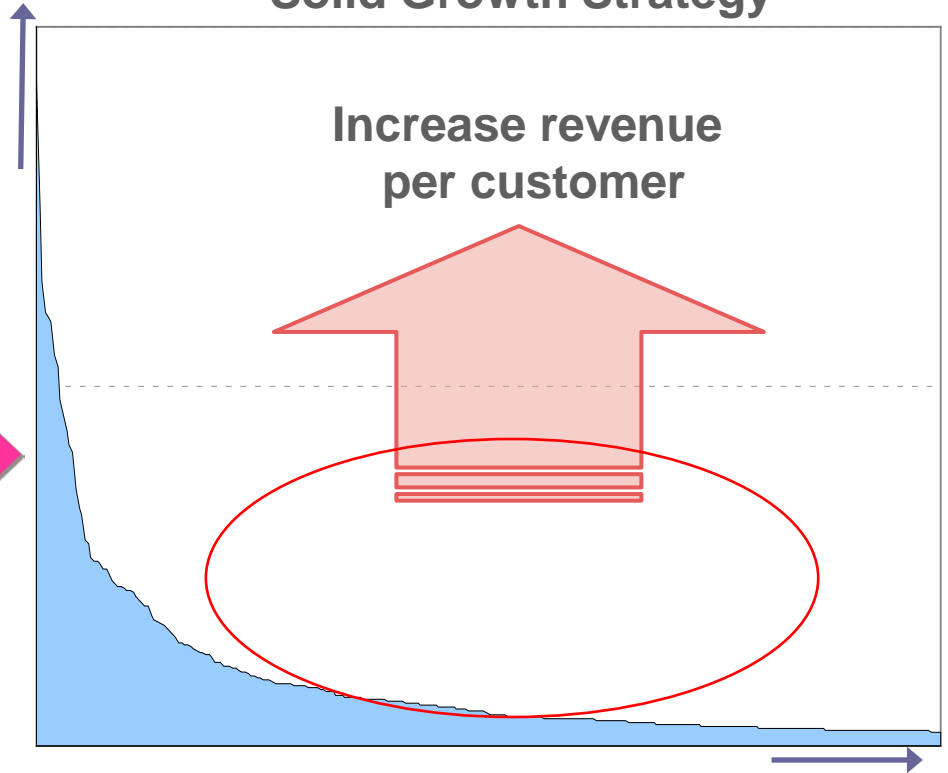
Maximize IIJ's potential as a total network service provider

Focus on cloud computing services

Revenues by Customer

## Solid Growth Strategy

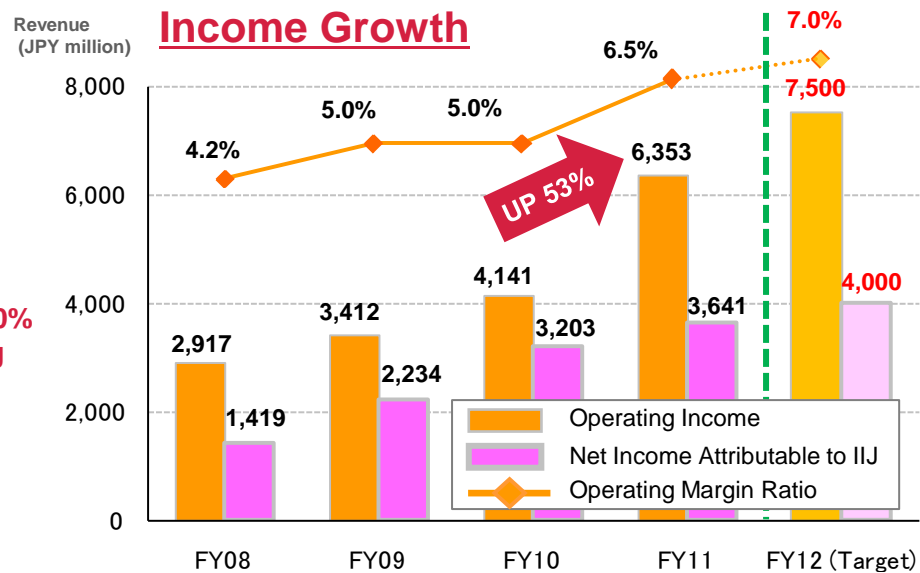
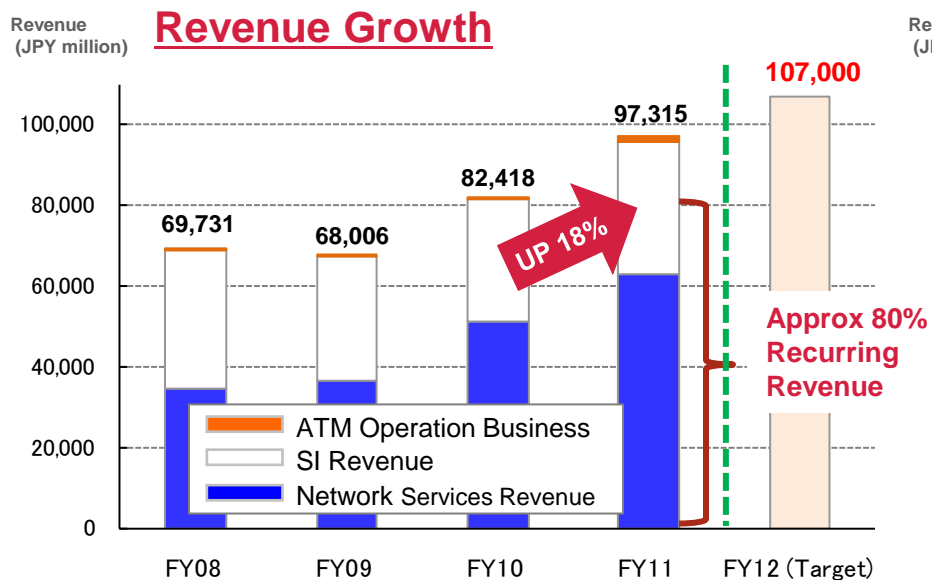
Increase revenue per customer



Number of Customers (~6,500)

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

# Proven Solid Business Strategy



- ◆ Over 80% of total revenue 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, 7.4% growth YoY in 1H12

## 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 800 corporate clients in 2 years
- Revenue: FY10 JPY0.6 billion → FY11 JPY3.1 billion → FY12 (planned) JPY7.0 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
- IJ GIO US starting up well, accumulating orders
- Planning further expansion of overseas cloud in accordance with clients needs
- 1H12 overseas revenue: approx. JPY2.1 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: network virtualization. Developing a software for SDN platform, plan to release software products within this fiscal year

# Best Positioned in Cloud Computing Market



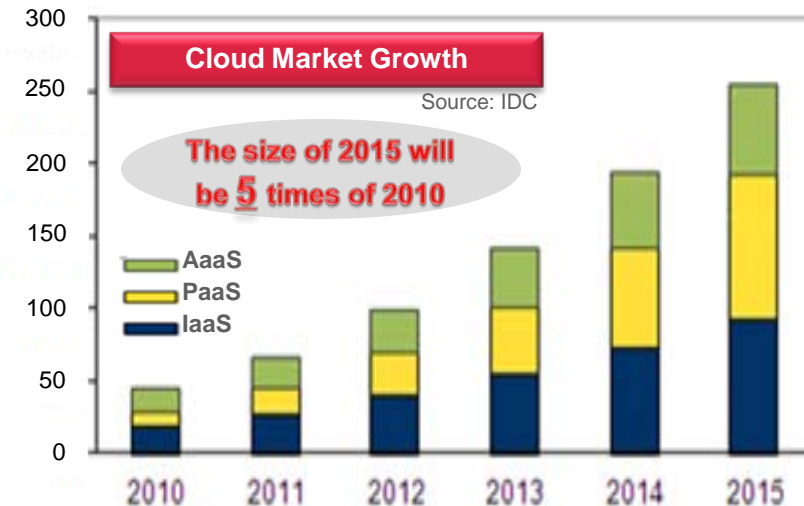
## Features of IIJ GIO - IIJ's cloud computing services -

- Services released in 1Q10
- Mainly IaaS/PaaS services, focus on private cloud
- Invest in servers, storages and DC etc. and offer as service
- Targets blue-chip companies' internal IT systems
- Improve facility efficiency and price competitiveness with Matsue Container Data Center
- 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)

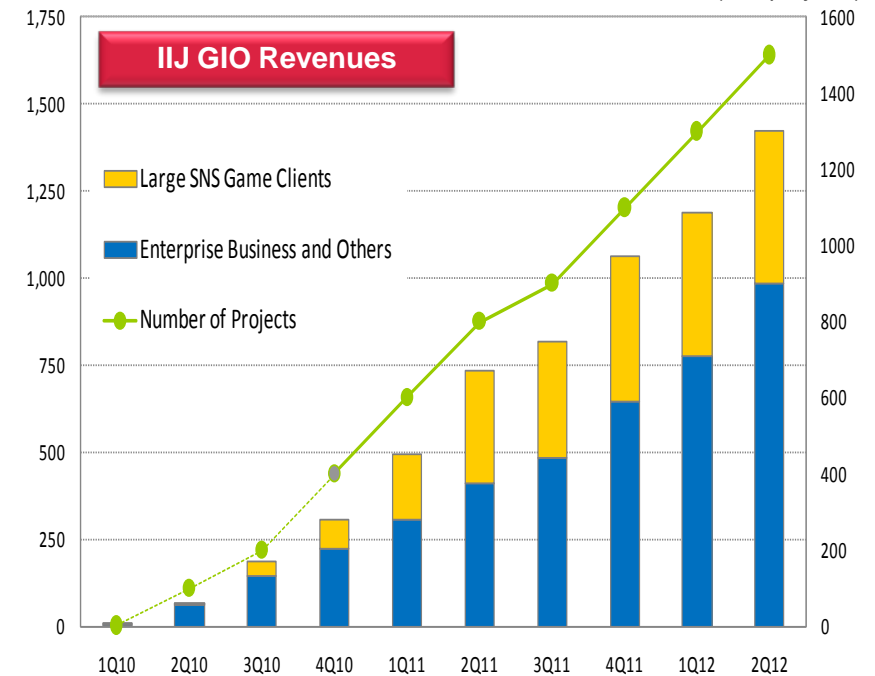
## Figures of IIJ GIO

- Monthly recurring revenue
  - Approx. 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)
- 1H12 revenue: approx. JPY2.6 billion (more than twice of 1H11)
- Monthly revenue: JPY0.5 billion as of Sep. 2012
- Numbers of projects approx. 1,500, number of clients: approx. 850 (approx. twice of 1H11)

(JPY billion)



(JPY million)



# 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

### ◆ IIJ GIO US starting up well, require additional servers

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

- Targets SI projects for Japanese enterprise 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

< IIJ Group Overseas branches >



- 1H12 total revenue: approx. JPY2.1 billion, exceeded expectation
- Expecting repeat orders for large server construction
- Expansion of IIJ GIO US with strong demands by Japanese enterprises
- 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
- Strong revenue & income driver in mid-term

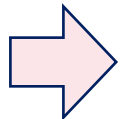
## ◆ 1H12 Financial Results

- FY11: Annual revenue of JPY1.3 billion  
Operating deficit of JPY0.2 billion
- 1H12 (6 months): revenue of JPY1.1 billion  
Operating income of JPY83 million
- Turned positive in 1Q12
- 567 ATMs placed as of mid-Nov. 2012,
  - Placed approx. 170 ATMs in 1H12
- Expect FY12 revenue to almost double



### < Trust Networks >

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



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



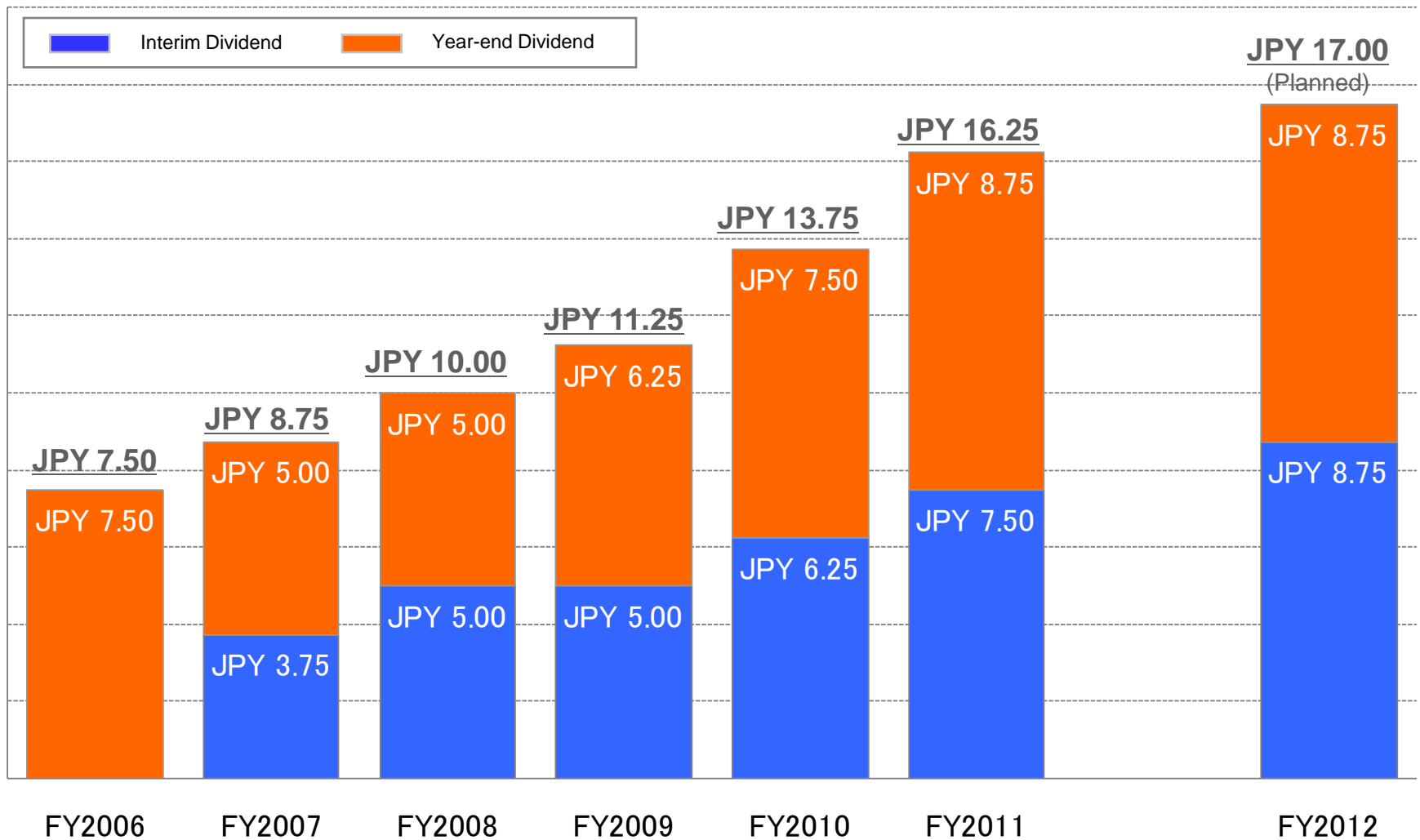
# FY2012 Financial Target

Unit: JPY billion

	FY12 Target ( 12/4 ~ 13/3 )	FY11 Actual ( 11/4 ~ 12/3 )	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*	JPY 98.68	JPY 89.82	+JPY 8.86	9.9%
Cash Dividend per Share*	JPY 17.50 (Annual)	JPY 16.25 (Annual)	+JPY 1.25	7.7%

\*IIJ conducted a 1:200 stock split on October 1, 2012. "Net income attributable to IIJ per Share" and "Cash Dividend per Share" have been retroactively adjusted to reflect the stock split.













# FY2012 Dividend Forecast



\*IIJ conducted a 1:200 stock split on October 1, 2012. These figures are retroactively adjusted to reflect the stock split.

# IIJ Group Companies

(As of November 2012)

	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

# **2<sup>nd</sup> Quarter FY2012 Consolidated Financial Results**

# I . Summary of 1H FY2012 Financial Results

## < 1H FY2012 Financial Results >

▪ Revenues	JPY51,109 million (up 8.3% YoY)
▪ Gross margin	JPY10,148 million (up 9.9% YoY)
▪ Operating income	JPY 3,263 million (up 33.3% YoY)
▪ Income before tax income expense	JPY 3,176 million (up 38.7% YoY)
▪ Net income attributable to IJ	JPY 2,007 million (up 47.4% YoY)

### ● Revenues and incomes exceeded the interim targets

- Corporate internet connectivity revenue grew strongly along with the increasing demands for broader bandwidth, steadily growing recurring revenues contributing to the income growth, network services gross margin increased by 9.6% YoY
- Systems construction recovering, acquiring orders of mid-to-large sized projects, revenue increased by 28.9% YoY
- Cloud services in the U.S. and overseas SI, our focus since FY11, beginning to contribute to the revenue growth
- ATM operation business, which turned positive in 1Q12, gradually expanding its revenue and profit quarter by quarter

### ● Cloud services, overseas business and R&D each expanded its business

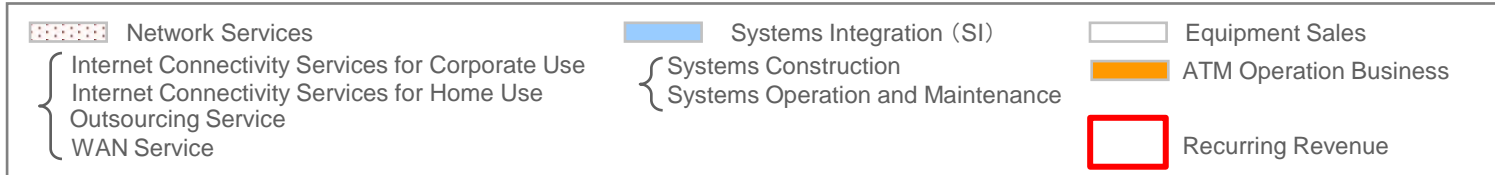
- 1H12 total cloud revenue: JPY2.6 billion, number of projects approx.1,500 at 2Q12, doubling its business size  
Leading the enterprise cloud market in Japan, new service line-ups of VW series and unified operation management services in targeting hybrid cloud have been gathering prospective orders, ranked as the top share in the Japanese public cloud (HaaS/IaaS) market (Fuji Chimera Institute, Jul. 2012), evaluated as one of “Best Brands” and received 3 awards for “Best Services”( Nikkei BP Agency, Oct. 2012)
- 1H12 total overseas revenues: JPY2.1 billion, providing services such as cloud services, overseas SI, and global-WAN  
Cloud services in the U.S. expanding and its revenues recognized in 2Q12, preparing the release of cloud services for China (plan in Jan. 2013), continue to operate large sized SI projects in the U.S. and Europe, co-working with IJ-Exlayer (acquired in Apr. 2012, P/L consolidated from 2Q12) on projects such as server construction and global-WAN
- Focused R&D theme SDN: released the first commercial SDN platform in Oct. 2012

## Ⅱ -1. Consolidated Financial Results for 1H FY2012

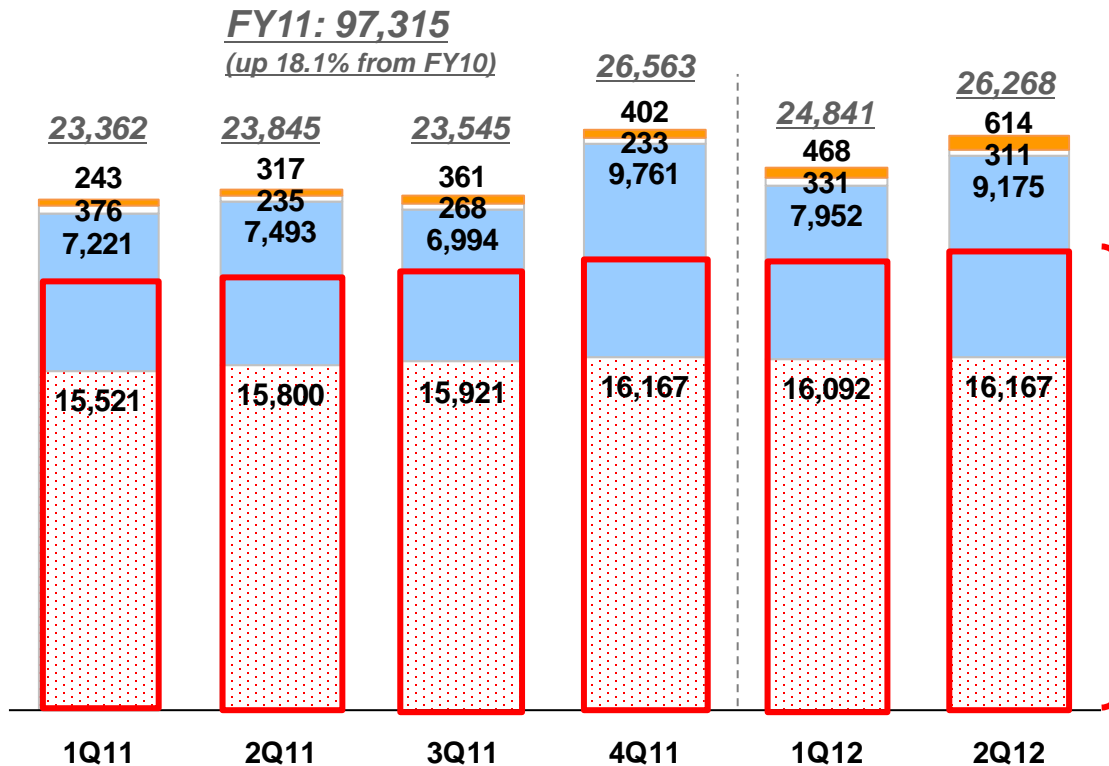
Unit: JPY billion

	% of Revenues	% of Revenues	YoY (Change in %)	% of Revenues	Actual against Target in %
	1H12 (12/4~12/9)	1H11 (11/4~11/9)		1H12 Target (12/4~12/9)	
Total Revenues	51.1	47.2	8.3%	50.5	101.2%
Total Costs	80.1% 41.0	80.4% 38.0	7.9%	—	—
Gross Margin	19.9% 10.1	19.6% 9.2	9.9%	—	—
SG&A/R&D	13.5% 6.9	14.4% 6.8	1.4%	—	—
Operating Income	6.4% 3.3	5.2% 2.4	33.3%	5.3% 2.7	120.8%
Income before Income Tax Expense	6.2% 3.2	4.9% 2.3	38.7%	5.0% 2.5	127.1%
Net Income Attributable to IIJ	3.9% 2.0	2.9% 1.4	47.4%	2.8% 1.4	143.4%

## II-2. Revenues



Unit: JPY million



### Recurring Revenue

represents monthly recurring revenue as shown below.

1. Internet Connectivity Services (Corporate Use and Home Use)
2. Outsourcing Services
3. WAN Service
4. Systems Operation and Maintenance

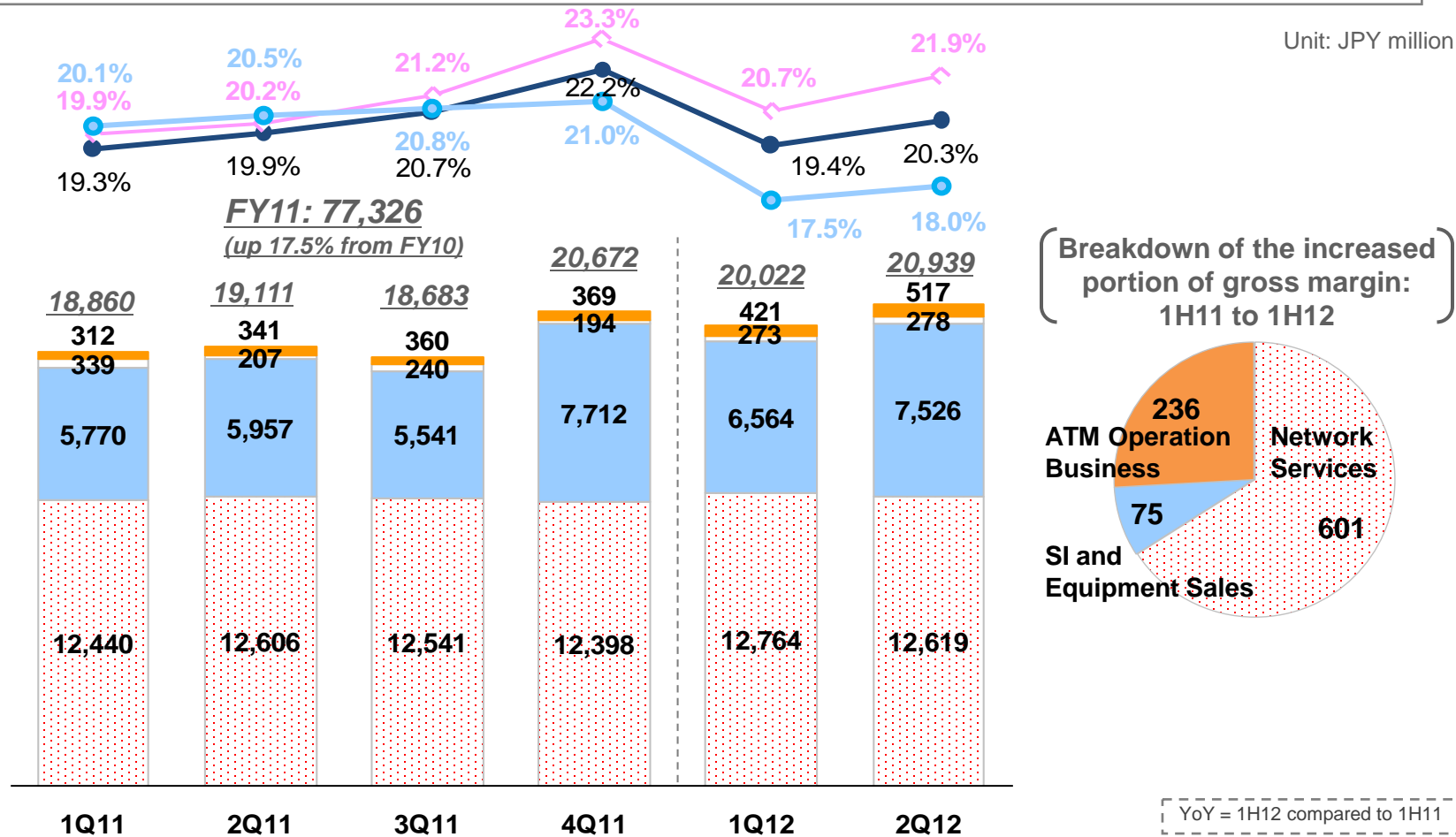
YoY = 1H12 compared to 1H11

- ◆ 1H12 Network services revenue: JPY32,259 million (up 3.0% YoY)
- ◆ 1H12 Systems integration revenue: JPY17,127 million (up 16.4% YoY)
- ◆ 1H12 Equipment sales revenue: JPY642 million (up 5.1% YoY)
- ◆ 1H12 ATM operation business revenue: JPY1,082 million (up JPY521 million YoY, up 92.9% YoY)

- ◆ 1H12 Recurring revenue: JPY42,692 million (up 4.5% YoY)
  - 83.5% of 1H12 total revenues
- ◆ 1H12 One-time revenue (sum of systems construction and equipment sales revenue): JPY7,335 million (up 26.4% YoY)

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

Cost of revenues : Network Services Systems Integration (SI) Equipment Sales ATM Operation Business  
 Gross margin ratio : Network Services Systems Integration (SI) Total revenue



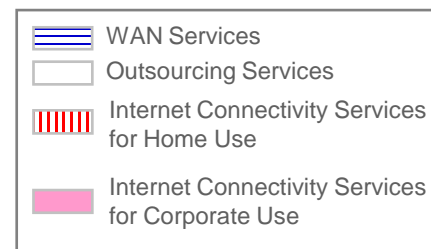
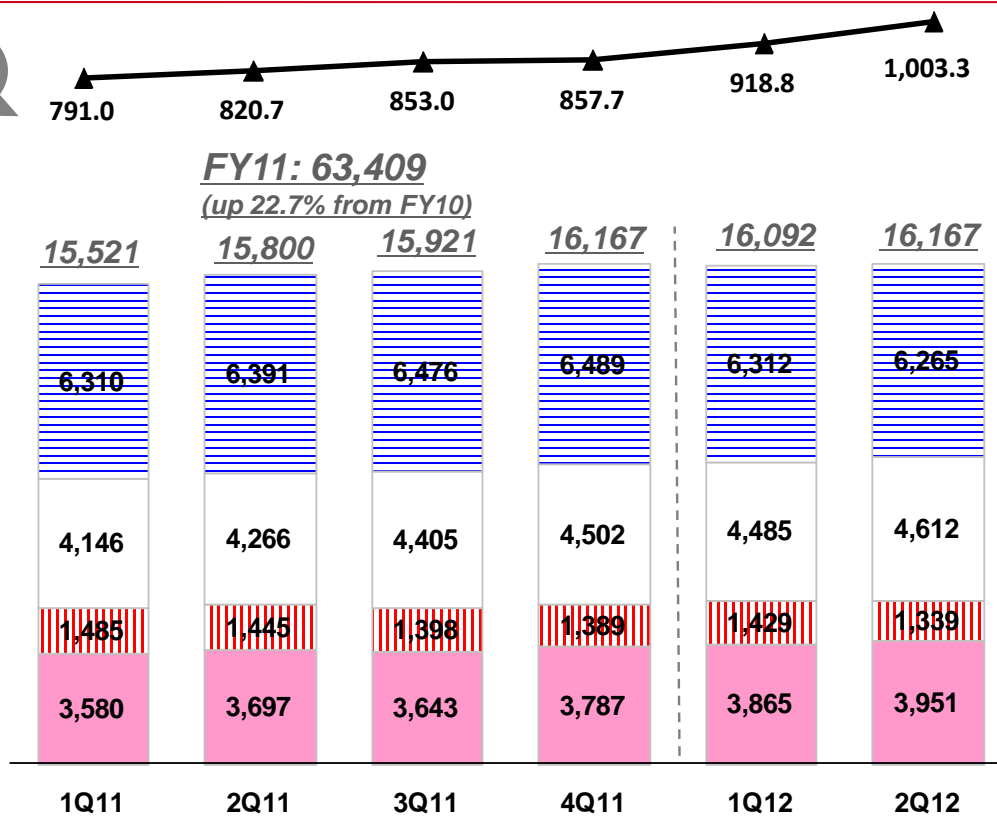
- ◆ 1H12 Gross margin: JPY10,148 million (up JPY912 million YoY, up 9.9% YoY)
  - Network services gross margin: JPY6,876 million (up JPY601 million YoY, up 9.6% YoY)
  - SI gross margin: JPY3,037 million (up JPY49 million YoY, up 1.6% YoY)
  - ATM operation business gross margin: JPY144 million (gross loss of JPY92 million in 1H11)



# II -4. Network Services (1)Revenues

Unit: JPY million

Total Contracted Bandwidth (Gbps)



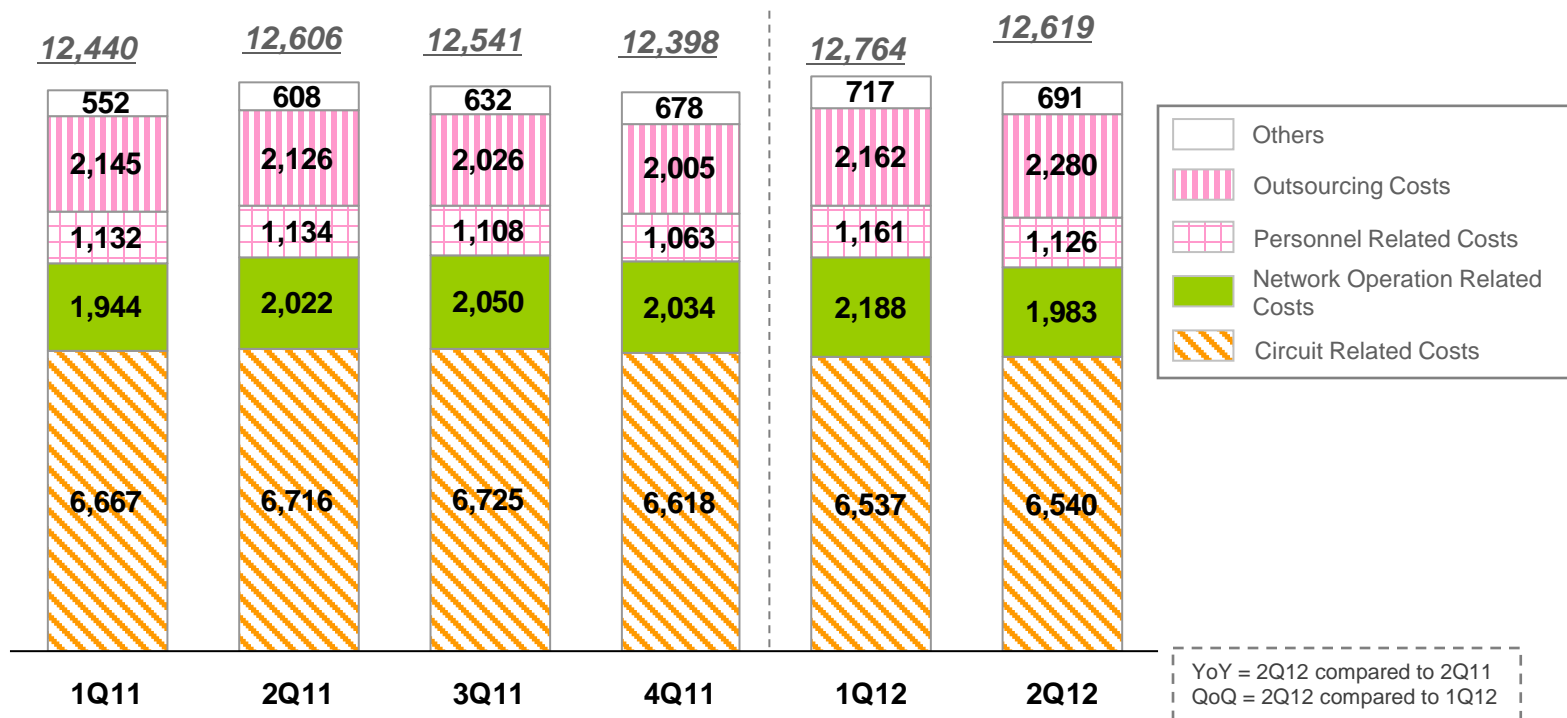
YoY = 2Q12 compared to 2Q11  
 QoQ = 2Q12 compared to 1Q12

- ◆ 2Q12 Internet connectivity services for corporate use revenue: up 6.9% YoY, up 2.2% QoQ
  - IP services continued to grow due to the increasing demands by over 1Gbps users
  - Number of contracts for over 1Gbps as of Sep. 30, 2012: 164 contracts (129 contracts as of Sep. 30, 2011)
- ◆ 2Q12 Internet connectivity services for home use revenue: down 7.3 % YoY, down 6.3% QoQ
  - LTE services' contracts constantly increasing by 4Q11: approx. 6,500, 1Q12: approx. 13,800, 2Q12: approx. 11,200, revenue recognition on initial set up fees for LTE services' has been adjusted, resulted in the decrease of approx. JPY40 million in revenue
  - Continued minus effects by the changes in net revenue recognition for FLET'S portion
- ◆ 2Q12 Outsourcing services revenue: up 8.1% YoY, up 2.8% QoQ
- ◆ 2Q12 WAN service revenue: down 2.0% YoY, down 0.8% QoQ
  - Decrease was mainly due to price adjustment requests and cancellation by a couple of large clients in 1Q11, global-WAN services accumulating prospective orders particularly from manufacturing industry

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

Unit: JPY million

**FY11: 49,985**  
 (Gross margin ratio: 21.2%)

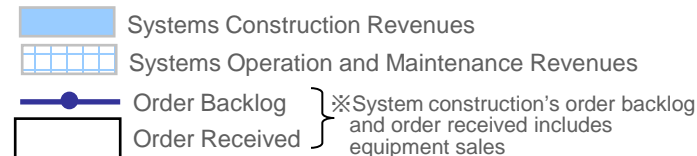
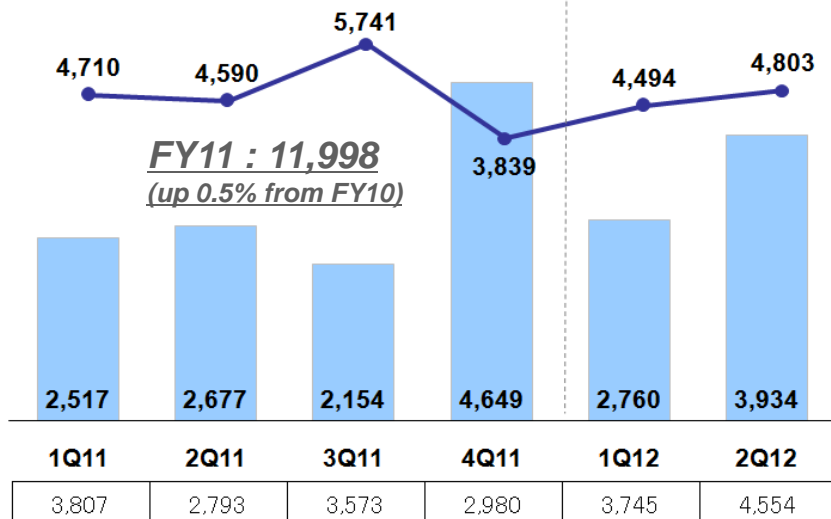


- ◆ 2Q12 Cost of network services: up 0.1% YoY, down 1.1% QoQ
  - Network operation related costs decreased mainly due to the decrease in depreciation and amortization costs

## Ⅱ-5. Systems Integration (1)Revenues

### <Systems construction>

Unit: JPY million

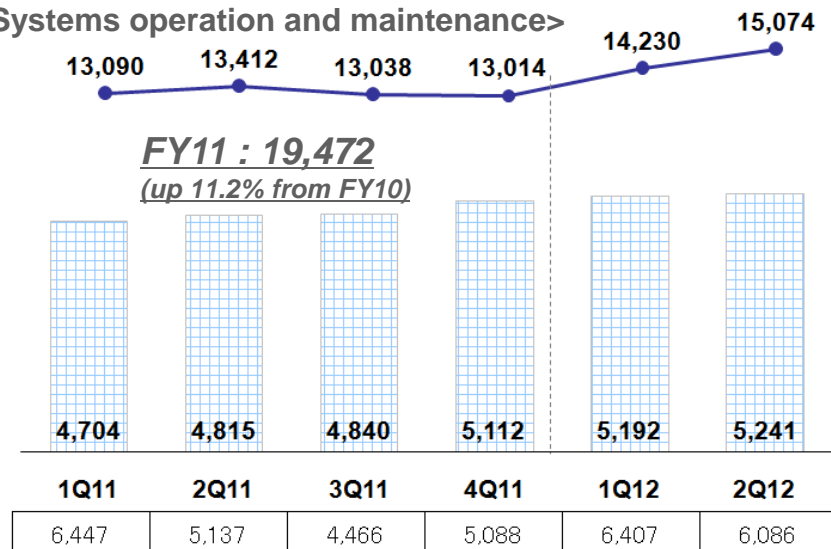


YoY = 2Q12 compared to 2Q11

### Systems Construction

- ◆ **2Q12 revenue: up JPY1,256 million YoY, up 46.9% YoY**
  - Accumulating mid- to large-sized projects such as network systems for educational institutions, network renewal of business platform systems and FX systems
  - Continued to acquire server construction and maintenance projects for a prominent Japanese SNS provider in the U.S. and Europe.
  - Consolidated P/L of IIJ Exlayer (acquired in Apr. 2012) and its overseas subsidiaries from 2Q12 (2Q12 revenues:JPY171 million)
- ◆ **2Q12 order backlog: up 4.6% YoY**
  - 2Q12 order received: up 63.1% YoY

### <Systems operation and maintenance>

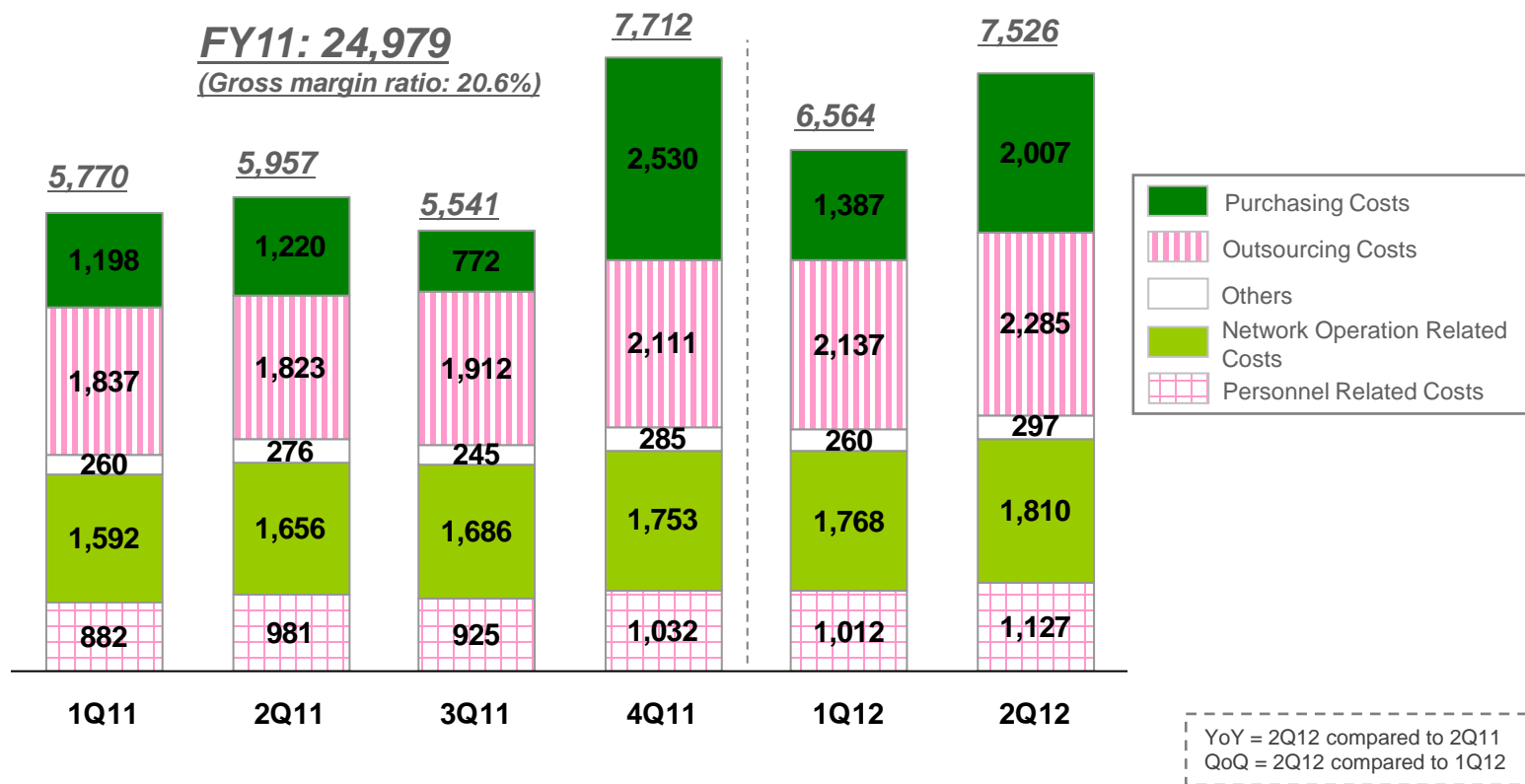


### Systems operation and maintenance

- ◆ **2Q12 revenue: up JPY426 million YoY, up 8.8% YoY**
  - IIJ GIO Component Services consistently accumulating prospective orders
  - Approx. 80% of IIJ GIO total revenues are recognized in systems operation and maintenance revenue and the rest is recognized in outsourcing services revenue
- ◆ **2Q12 order backlog: up 12.4% YoY**
  - 2Q12 order received: up 18.5% YoY

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

Unit: JPY million

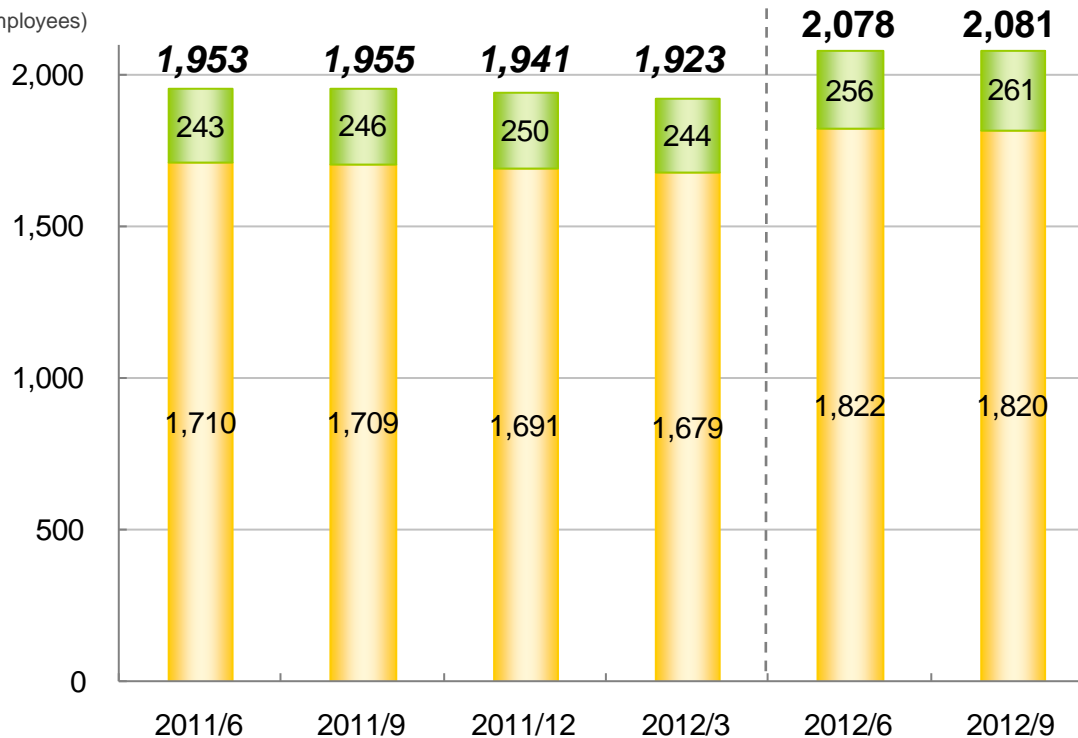


◆ 2Q12 Cost of SI: up JPY1,569 million YoY, up 26.3% YoY

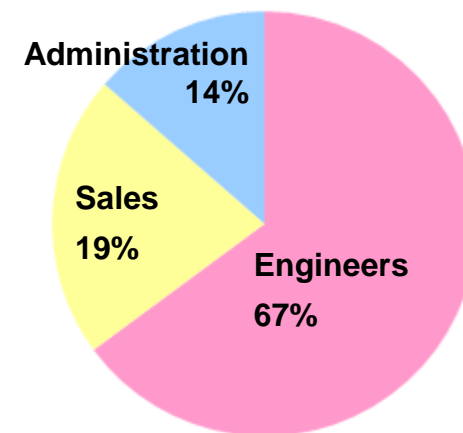
- The number of full-time outsourcing personnel as of Sep. 30, 2012 was 586 (up 172 personnel YoY, up 89 personnel QoQ)
- 2Q12 SI gross margin: JPY1,649 million, up JPY113 million YoY, up 7.4% YoY
- Overall SI costs increased along with the increase in SI revenues

## II -6. Number of Employees

(No. of employees)



[Employee Distribution]



Unit: JPY million

<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%)
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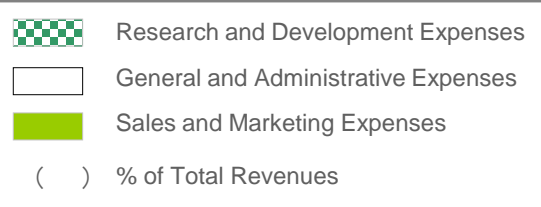
Personnel related costs and expenses (% of revenue)

- ◆ Number of consolidated employees as of Sep. 30, 2012: 2,081 personnel
  - Hired 75 newly graduates in Apr. 2012 (Apr. 2011: 44 newly graduates)
  - Planning to hire over 100 newly graduates in Apr. 2013
  - 2Q12 personnel related costs and expenses: up JPY172 million YoY

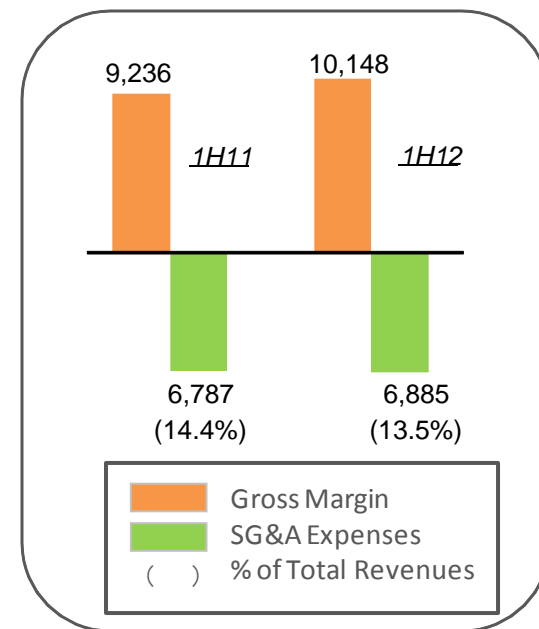
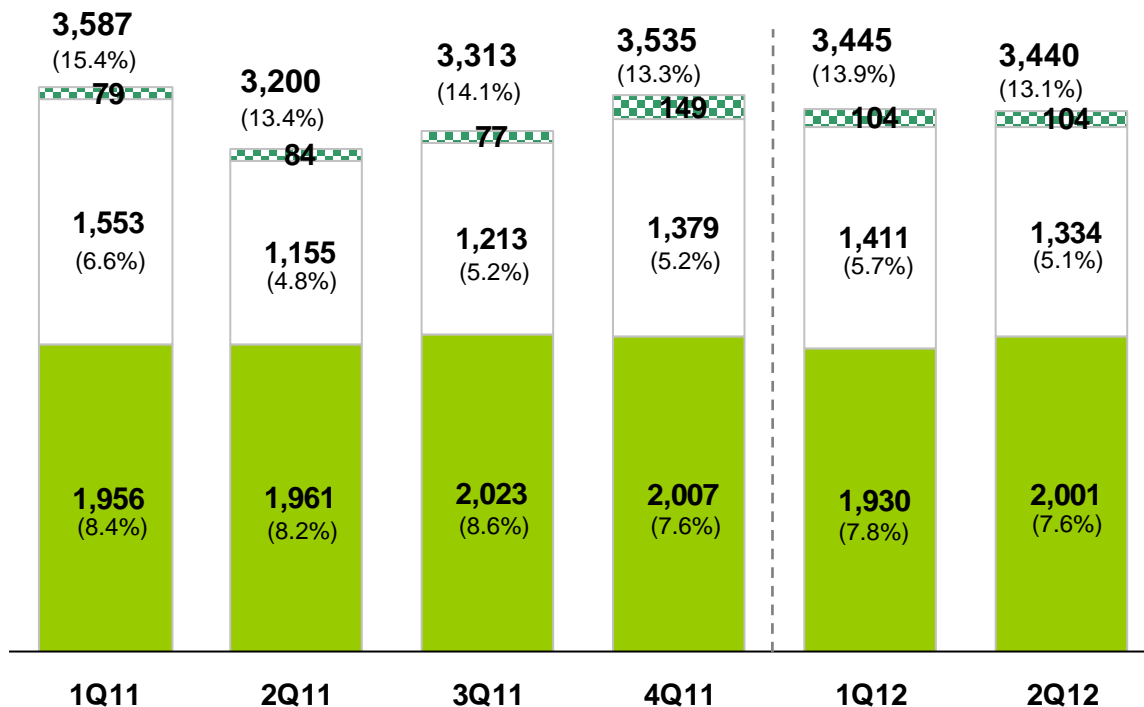
YoY = 2Q12 compared to 2Q11

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

Unit: JPY million



**FY11: 13,635**  
(14.0%)

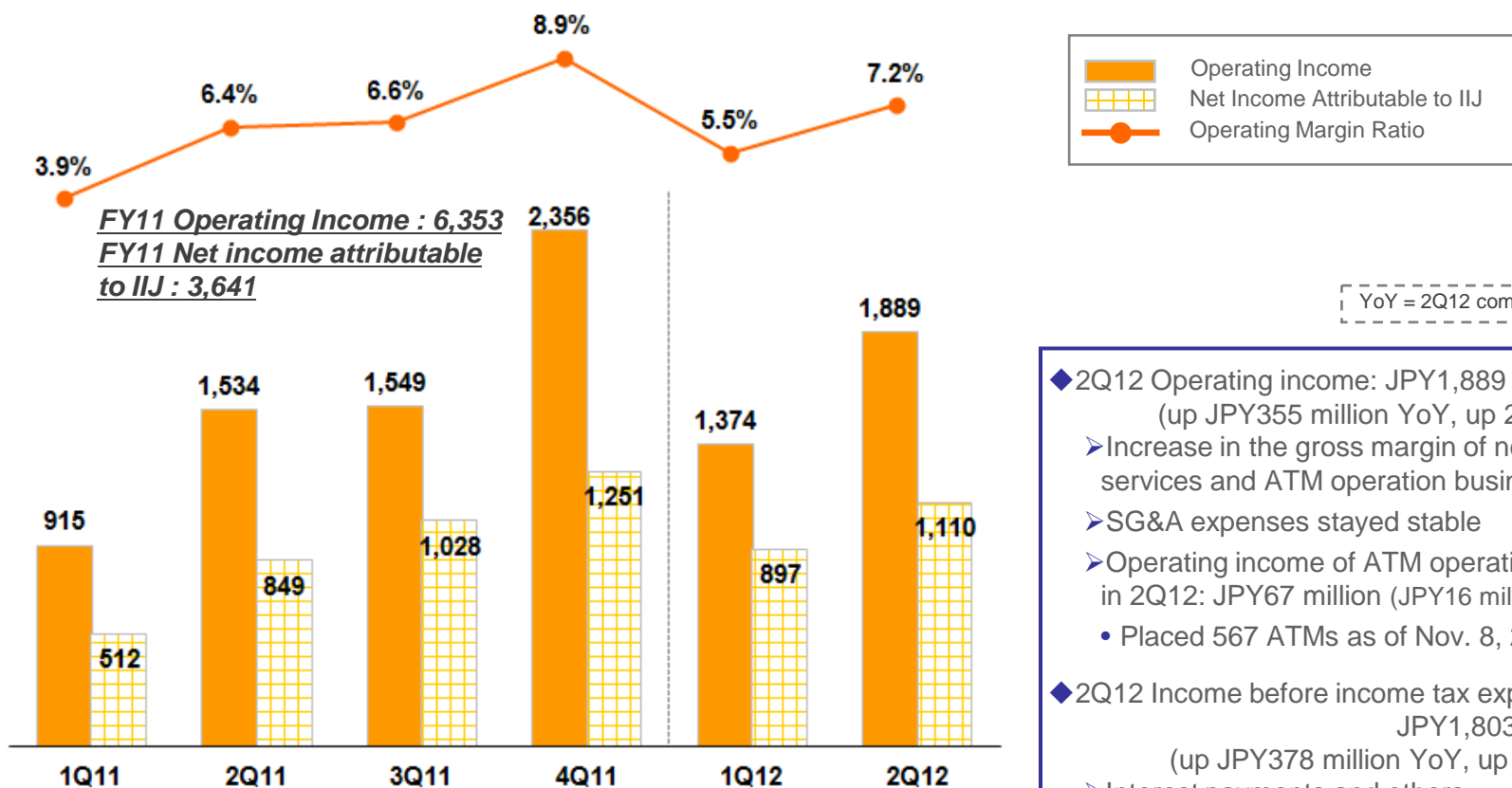


YoY = 2Q12 compared to 2Q11  
QoQ = 2Q12 compared to 1Q12

- ◆ 2Q12 SG&A: up JPY239 million YoY, down JPY5 million QoQ
  - SG&A is stable and does not directly increase along with revenue growth
  - Compared to 2Q12, SG&A slightly increased due to the increase in number of personnel
  - Compared to 1Q12, SG&A slightly decreased due to seasonal factor such as newly graduates related costs

## Ⅱ -8. Operating Income and Net Income

Unit: JPY million



- ◆ 2Q12 Operating income: JPY1,889 million  
(up JPY355 million YoY, up 23.2% YoY)
  - Increase in the gross margin of network services and ATM operation business
  - SG&A expenses stayed stable
  - Operating income of ATM operation business in 2Q12: JPY67 million (JPY16 million in 1Q12)
    - Placed 567 ATMs as of Nov. 8, 2012
- ◆ 2Q12 Income before income tax expense: JPY1,803 million  
(up JPY378 million YoY, up 26.5% YoY)
  - Interest payments and others
- ◆ 2Q12 Net income attributable to IIJ: JPY1,110 million  
(up JPY261 million YoY, up 30.8% 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
Income Tax Expenses	425	631	548	922	515	736
Equity in net income (loss) of equity method investees	40	37	77	(30)	33	50
Net loss (income) attributable to non-controlling interests	31	18	11	6	5	(6)

## II -9. Summary of Consolidated Balance Sheets

Unit: JPY million

	March 31, 2012	September 30, 2012	Changes
Cash and Cash Equivalents	13,537	11,670	(1,866)
Accounts Receivable	15,722	15,648	(74)
Inventories	752	1,591	+839
Prepaid Expenses	1,848	2,784	+935
Other Investments	2,938	3,251	+313
Property and Equipment	19,736	21,911	+2,175
Goodwill and Other Intangible Assets	11,185	11,087	(98)
Accounts payable	9,753	10,233	+480
Income taxes payable	2,211	895	(1,316)
Borrowings (Short-term and Long-term)	12,000	11,411	(589)
Capital Lease Obligations (Current and Noncurrent)	7,739	9,044	+1,305
Accumulated Deficit	(10,990)	(9,338)	+1,652
Accumulated Other Comprehensive Loss	(24)	(33)	(10)
<b>Total IJ Shareholders' Equity</b>	<b>32,688</b>	<b>34,350</b>	<b>+1,662</b>
<b>Total Assets</b>	<b>73,493</b>	<b>75,723</b>	<b>+2,230</b>

### ◆ Balance Sheet

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

### ◆ IJ Shareholders' equity ratio

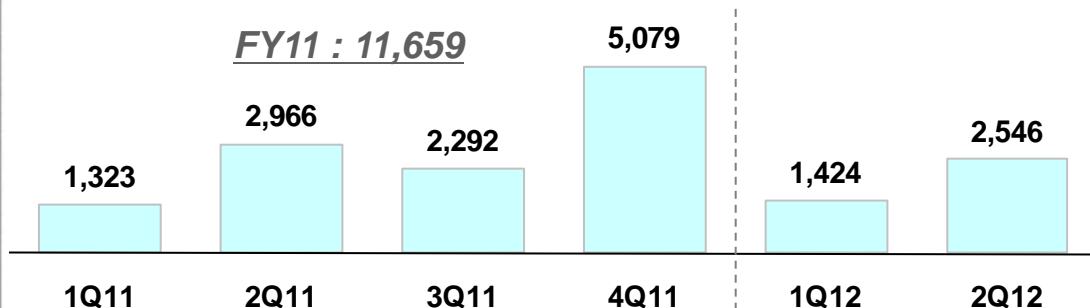
- End of Sep. 2012: 45.4%
- End of Jun. 2012: 45.2%
- End of Mar. 2012: 44.5%



## II -10. Consolidated Cash Flows

### Operating Activities:

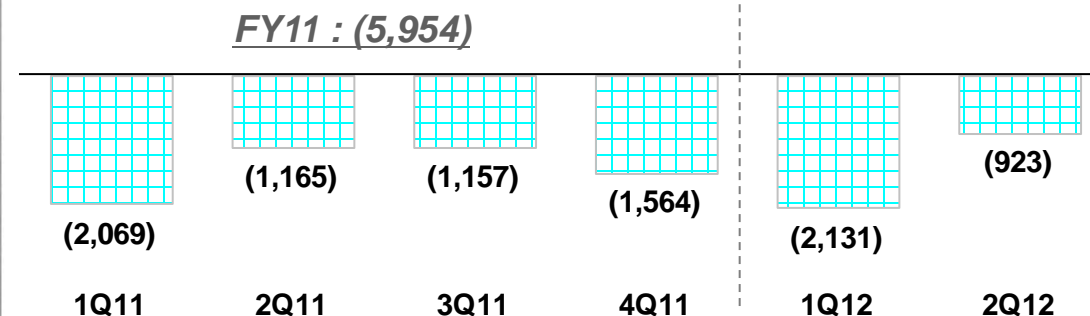
Unit: JPY million



#### 1H12 Operating Activities:

- Depreciation and amortization JPY3,639 million
- Payments for income taxes: JPY1,321 million etc.

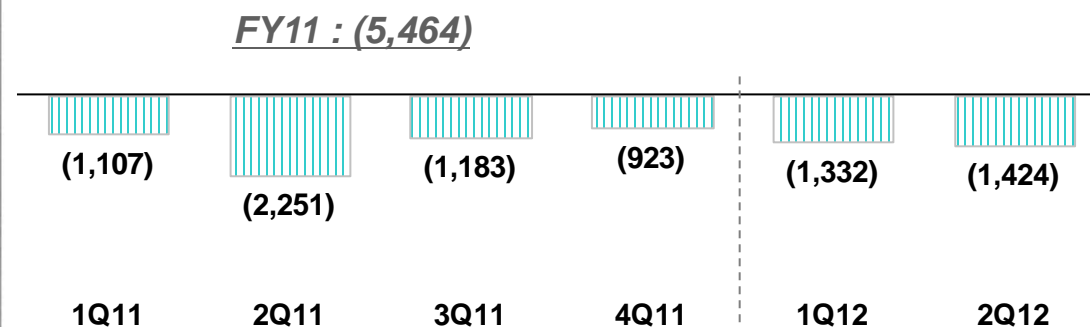
### Investing Activities:



#### 1H12 Investing Activities:

- Payment for purchases of property and equipment: JPY2,785 million etc.

### Financing Activities:



#### 1H12 Financing Activities:

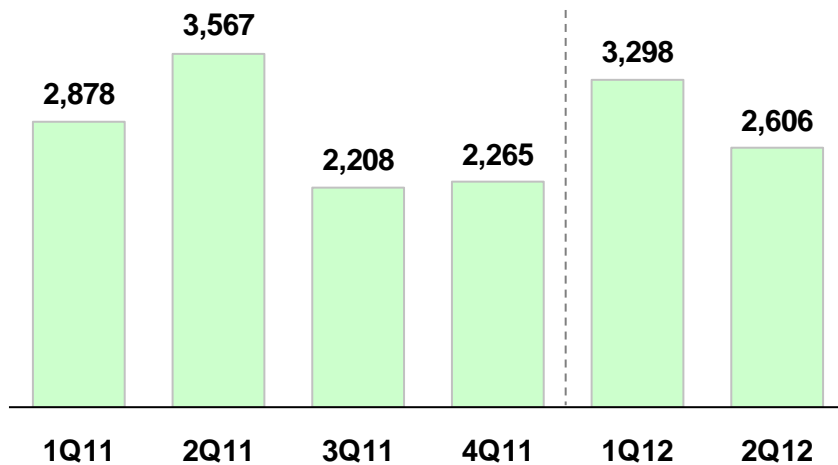
- Repayment for bank borrowings (net): JPY589 million
- Principal payments under capital leases: JPY1,813 million
- Payments for FY2011 year-end dividends: JPY355 million etc.

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

CAPEX (Include Capital Leases):

Unit: JPY million

**FY11 : 10,917**

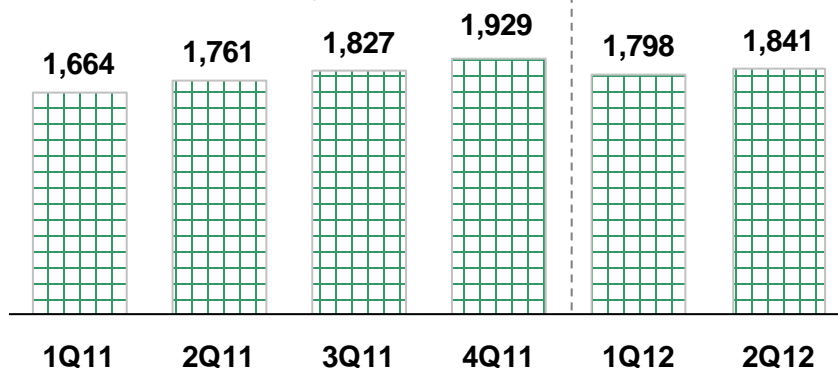


Domestic IIJ GIO related CAPEX	
1H11	JPY2.6 billion (of JPY0.9 billion related to Matsue DC)
1H12	JPY1.6 billion

Depreciation and Amortization:

Unit: JPY million

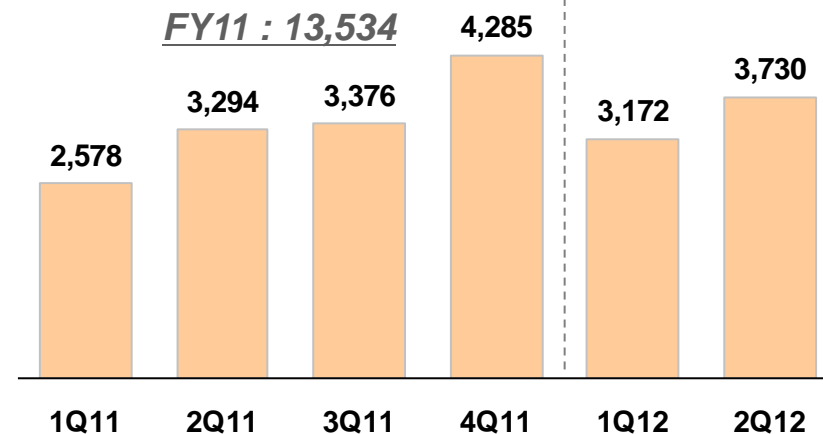
**FY11 : 7,181**



Adjusted EBITDA:

Unit: JPY million

**FY11 : 13,534**



# III-1. Developments of “IJ GIO”

# IJ GIO

## Business developments of IJ GIO

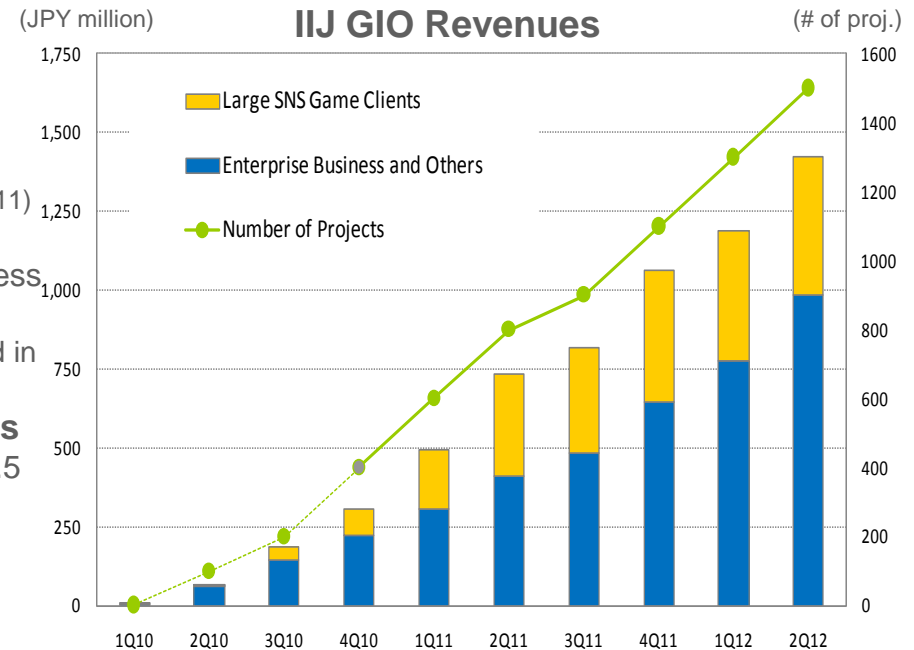
- **2Q12 revenue: JPY1.4 billion** (1Q12: JPY 1.2 billion)
  - Mainly, HaaS and IaaS revenues
  - Sep. 2012 monthly revenue: JPY0.5 billion
  - # of projects: approx. 1,500 as of 2Q12 (approx. 830 as of 2Q11)
  - # of clients: approx. 850 as of 2Q12 (approx. 540 as of 2Q11)
- Adding to the above, IJ GIO-based SaaS for specific business (ex. FX, SmartPos) would grow hereafter
  - **2Q12 specific SaaS revenue: JPY0.4 billion** (not included in the above mentioned 2Q12 revenue of JPY1.4 billion)
- **Increasing adoption of cloud by enterprise business**
  - Approx. 150 clients with monthly revenue of approx. JPY0.5 million as of Sep. 2012 (up 20 clients from 1Q12)
  - VWseries revenue recognized from 2Q12, # of order received approx. 20 projects, prospective orders over 100 projects
  - Increased IJ GIO usage by blue chip companies
- **Evaluated as “Best Brand” and received 3 “Best Service Awards” of Nikkei BP Agency (Oct. 2012)**
  - Cloud Platform Service(IaaS/PaaS), General Information SaaS, Specified Tasks SaaS

## Overseas IJ GIO developments

- **IJ GIO US Services:** expanding the facilities to meet the growing demands of clients, revenue recognized from 2Q, approx. JPY20 million, expect FY12 revenue to be around JPY0.2 billion
- **IJ GIO China Services:** began providing some functions to the first user from Oct. 2012

### <IJ GIO Revenue Recognition>

- IJ GIO Component (private cloud) -> Systems operation and maintenance
- IJ GIO Hosting Package (public cloud) -> Outsourcing services



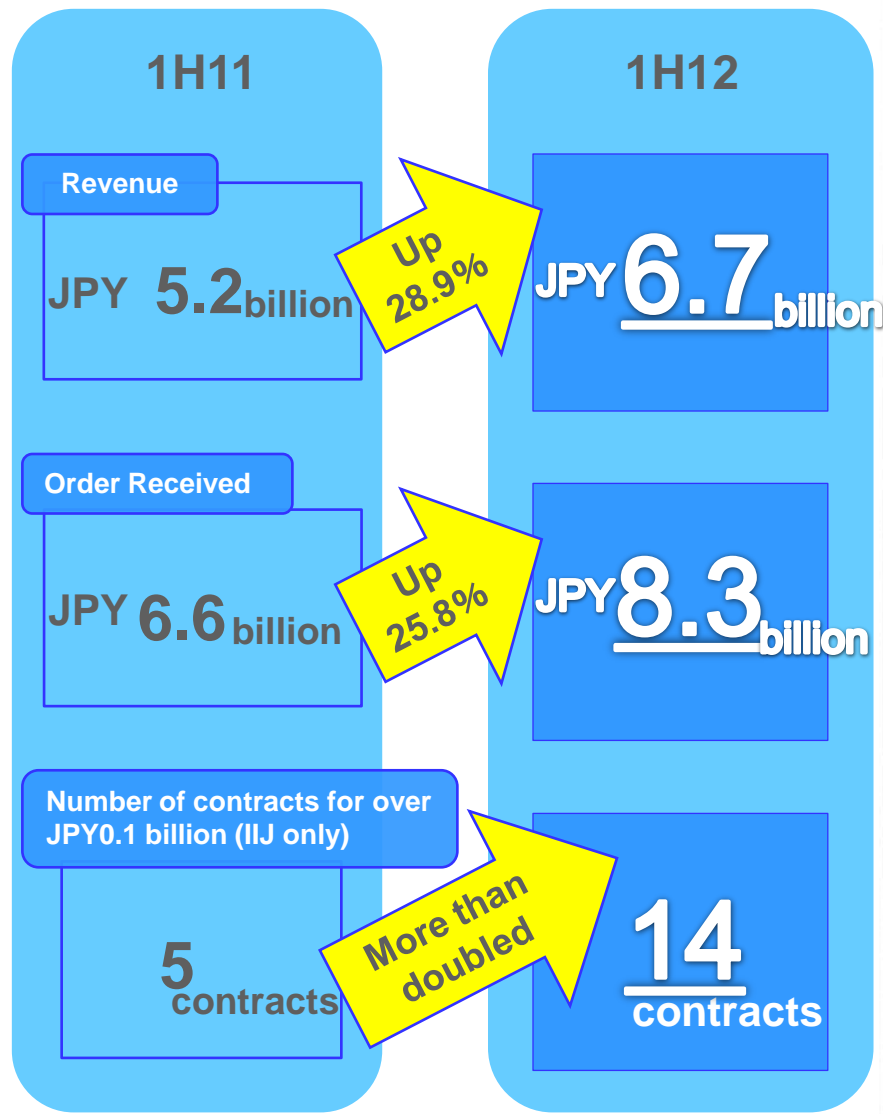
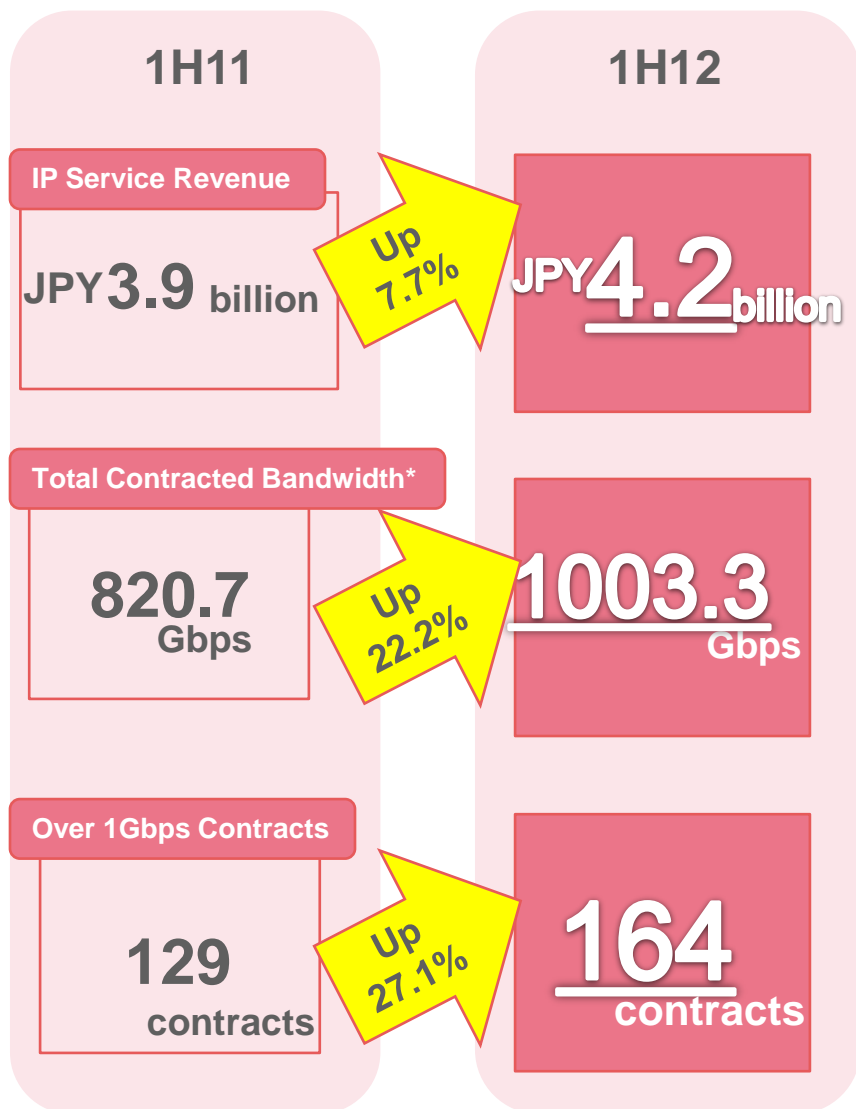
## Expansion of IJ GIO service line-ups

- **IJ GIO Virtualization Platform “VWseries”**
  - Released in Aug., provides VMware hypervisor, targeting hybrid cloud market, longer preparation period as to complicated systems, accumulating orders and order received,
- **“IJ GIO Social App Support Solution”**
  - Providing high-capacity servers incorporating Fusion-IO model and others to meet the various needs
- **“IJ GIO Unified Operation Management Service”**
  - Released in Oct., systems monitoring and operation for hybrid cloud, SaaS-based
- **“IJ GIO Hadoop Solution”**
  - Cloud-based solution for operating high-speed data procession systems for big data

## III-2. Continuous Growth of our Core Businesses

### Internet Connectivity for Corporate

### Systems Construction



\* Total contracted bandwidth is calculated by multiplying the number of contracts and the contracted bandwidth for all of the followings: IP Services, Internet Data Center Connectivity Services, and IIJ FiberAccess/F and IIJ DSL/F

### Ⅲ-3. FY2012 Financial Target (Remain unchanged)

Unit: JPY billion

	FY12 Target ( 12/4 ~ 13/3 )	FY11 Actual ( 11/4 ~ 12/3 )	YoY (FY12 to FY11 Actual)	
Total Revenues	<b>107.0</b>	<b>97.3</b>	<b>+9.7</b>	<b>10.0%</b>
Operating Income	<b>7.5</b>	<b>6.4</b>	<b>+1.1</b>	<b>18.0%</b>
Income before Income Tax Expense	<b>6.9</b>	<b>6.0</b>	<b>+0.9</b>	<b>15.5%</b>
Net Income attributable to IIJ	<b>4.0</b>	<b>3.6</b>	<b>+0.4</b>	<b>9.9%</b>
Net Income attributable to IIJ per Share*	<b>JPY 98.68</b>	<b>JPY 89.82</b>	<b>+JPY 8.86</b>	<b>9.9%</b>
Cash Dividend per Share*	<b>JPY 17.50 (Annual)</b>	<b>JPY 16.25 (Annual)</b>	<b>+JPY 1.25</b>	<b>7.7%</b>

\* 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.

## 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 possibility a decrease of corporate spending or capital expenditure due to depression in Japanese economy and/or corporate earnings decreased; the possibility that less of reliability for our services and loss of business chances due to interrupt or suspend 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

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