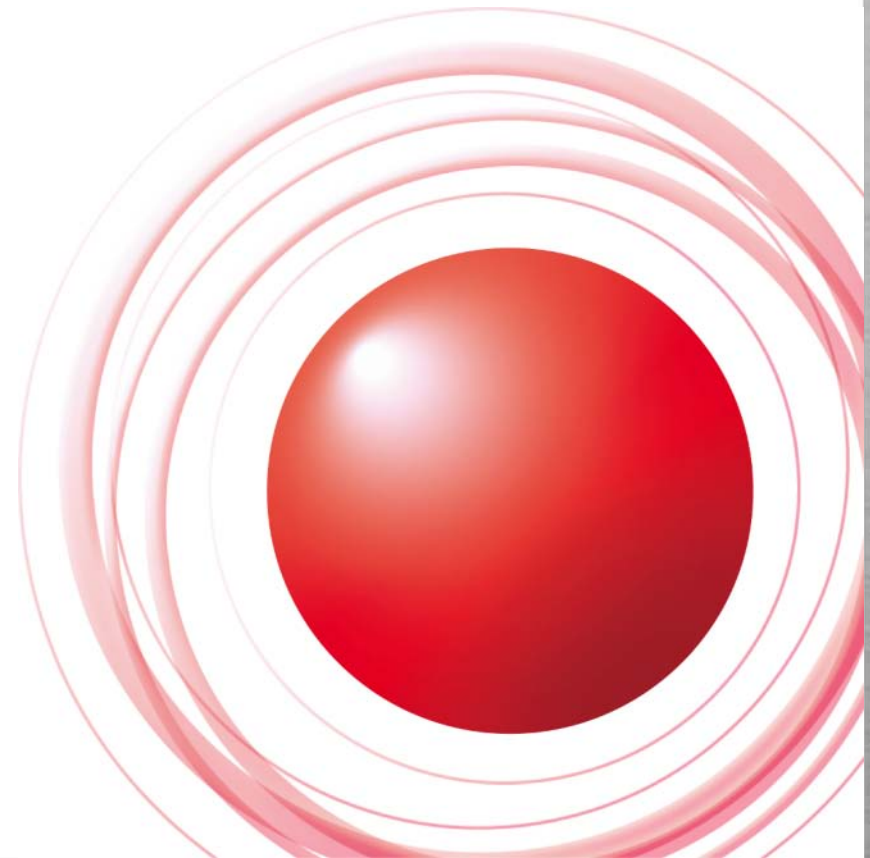


# Consolidated Financial Results for 1<sup>st</sup> Half FY2013 (First 6 months ended September 30, 2013)



Internet Initiative Japan Inc.  
TSE1(3774), NASDAQ(IIJI)  
November 8, 2013

Ongoing Innovation



# Agenda

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**I . Summary of 1H FY2013 Financial Results**

**II . Consolidated Financial Results for 1H FY2013**

**III . Reference Materials**

# I . Summary of 1H FY2013 Financial Results

## < 1H FY2013 Financial Results >

▪ Revenues	JPY54,397 million	(up 6.4% YoY)
▪ Gross margin	JPY10,430 million	(up 2.8% YoY)
▪ Operating income	JPY3,009 million	(down 7.8% YoY)
▪ Income before income tax expense	JPY3,348 million	(up 5.4% YoY)
▪ Net income attributable to IIJ	JPY2,205 million	(up 9.9% YoY)

### ◆ Strong IT investment demand, Solid market situation

- SI revenue: **up JPY1.55 billion, up 9.0% YoY**
  - Construction & equipment sales order backlog: **up JPY1.46 billion, up 30.4% YoY**
  - Aggressive IT investment along with *Abenomics*, expecting large SI revenue recognition in 2H13
- Network services revenue: **up JPY1.35 billion, up 4.2% YoY**
  - Corporate: Number of over Gbps contracts continue to increase, 1Q seasonal factor of price pressure from certain large users lasted longer but revenue growth should recover in 2H13
  - Consumer: YoY revenue growth due to LTE service growing popularity
- Cloud revenue: **JPY4.7 billion**, continue expanding enterprise service lineups

### ◆ Strengthening human resources for the next level of growth

- Added 195 personnel from Mar. 2013, FY13 plan includes addition of 250 personnel
- Expenses related to personnel & office each increased by JPY870 million & JPY300 million YoY

### ◆ Expenses increased with proactive business expansion while concentrated revenue recognition in 2H13, operating income decreased by JPY250 million YoY

- Certain large SNS game & telecommunications users decreased usage in recurring revenue, should absorb the negative impact in 2H13
- Overseas business in start-up, downward effect of JPY150 million YoY

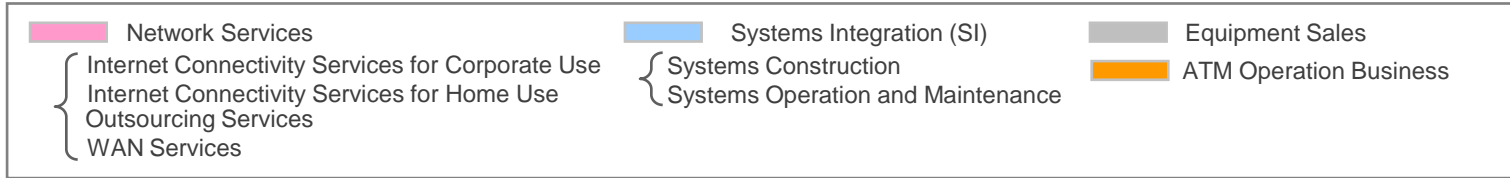
### ◆ FY2013 targets remain unchanged as our business expansion continues hereafter

## II - 1. Consolidated Financial Results for 1H FY2013

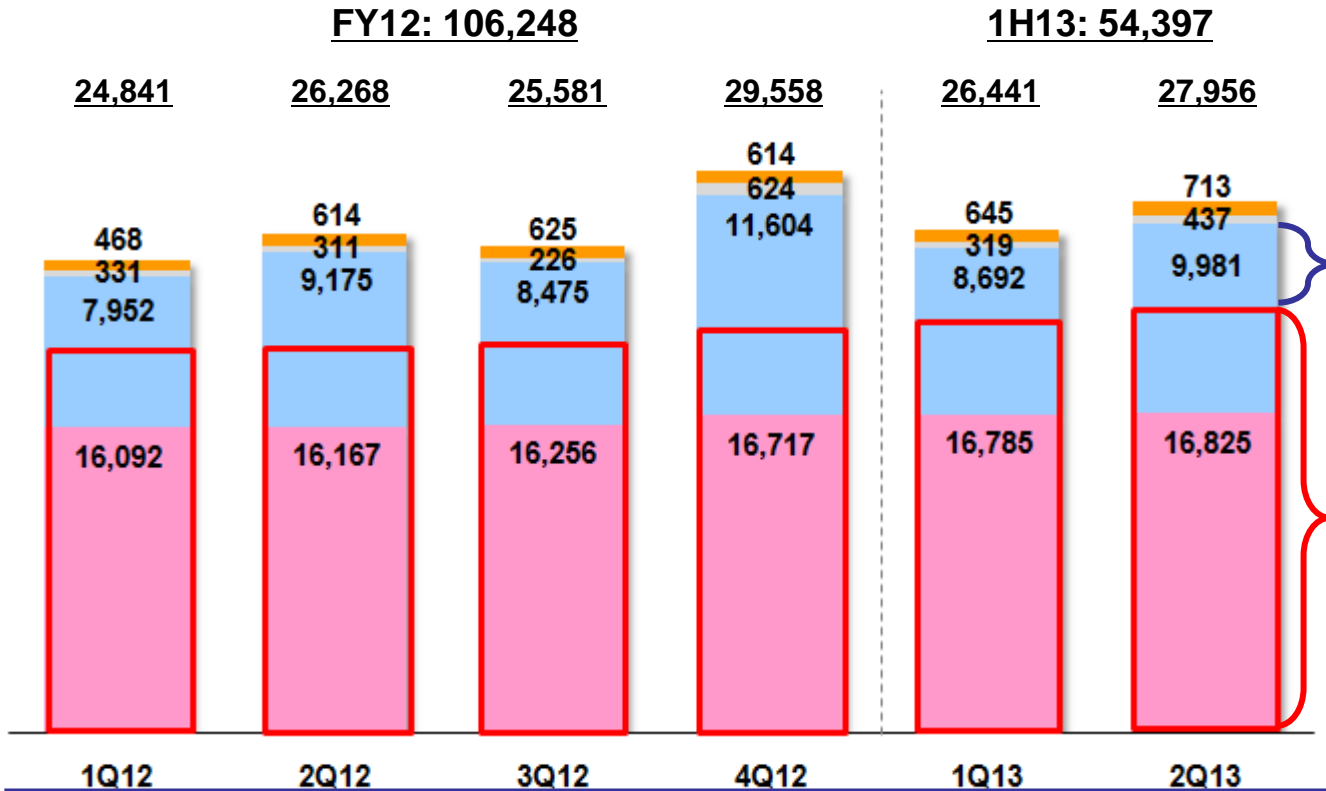
(Unit: JPY billion)

	% of Revenues		YoY (Change in %)	% of Revenues	
	1H13 (13/4~13/9)	1H12 (12/4~12/9)		1H13 Target (13/4~13/9)	Actual against Target in %
Total Revenues	54.4	51.1	+6.4%	54.5	(0.2%)
Total Cost of Revenues	80.8% 44.0	80.1% 41.0	+7.3%	—	—
Gross Margin	19.2% 10.4	19.9% 10.1	+2.8%	—	—
SG&A/R&D	13.6% 7.4	13.5% 6.9	+7.8%	—	—
Operating Income	5.5% 3.0	6.4% 3.3	(7.8%)	6.2% 3.4	(11.5%)
Income before Income Tax Expense	6.2% 3.3	6.2% 3.2	+5.4%	5.9% 3.2	+4.6%
Net Income attributable to IIJ	4.1% 2.2	3.9% 2.0	+9.9%	3.7% 2.0	+10.2%

# II - 2. Revenues



Unit: JPY million



**One-time Revenue**  
 (14.5% of 1H13 total revenues) is recognized only once when systems or equipments are delivered and accepted by customers.

1. Systems Construction
2. Equipment Sales

**Recurring Revenue**  
 (83.0% of 1H13 total revenues) represents monthly recurring revenues as shown below:

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

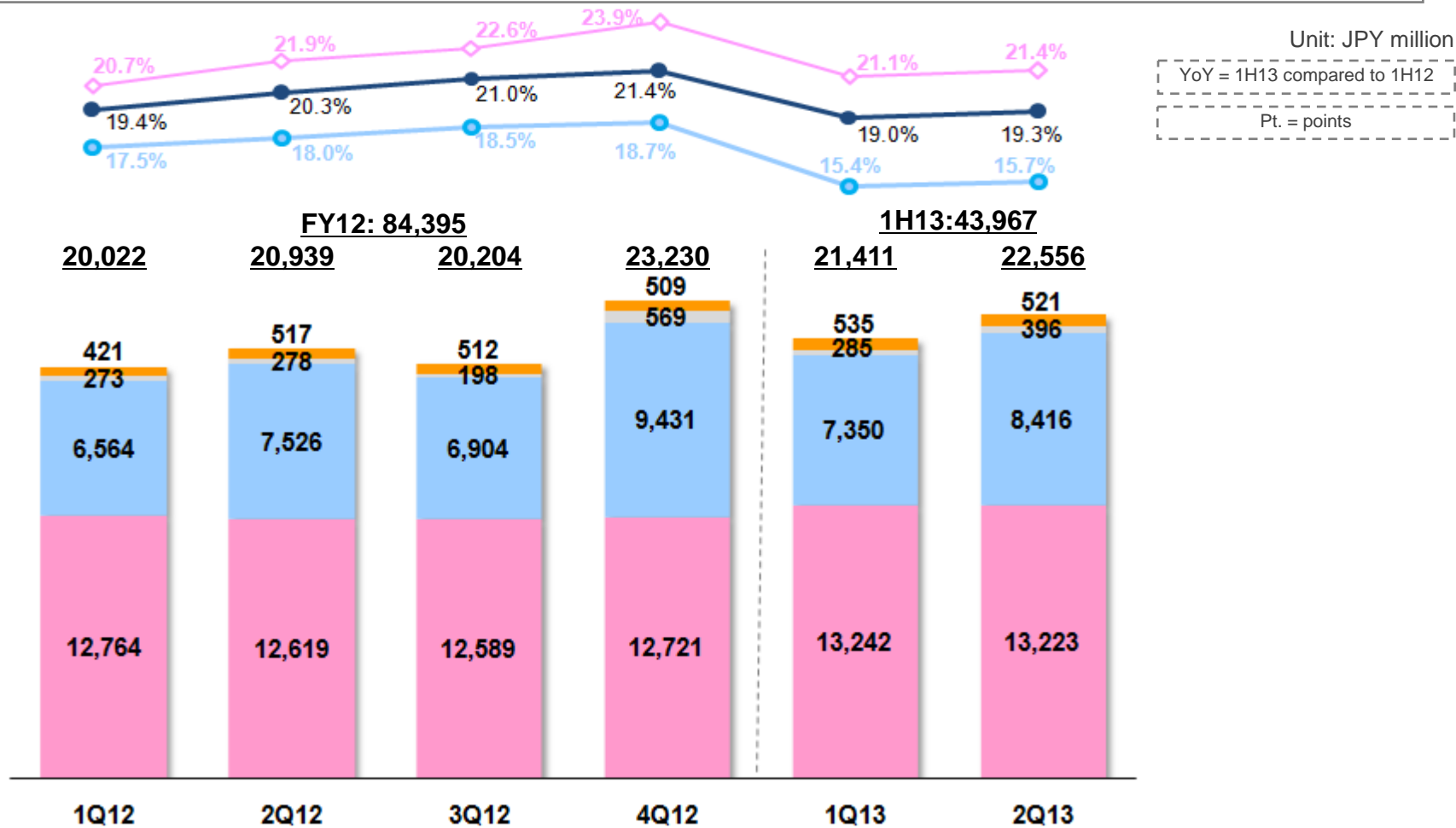
YoY = 1H13 compared to 1H12

- ◆ 1H13 Network services revenue: JPY33,611 million (up 4.2% YoY)
- ◆ 1H13 Systems integration revenue: JPY18,673 million (up 9.0% YoY)
- ◆ 1H13 Equipment sales revenue: JPY755 million (up 17.7% YoY)
- ◆ 1H13 ATM operation business revenue: JPY1,358 million (up JPY million YoY, up 25.5% YoY)
- ◆ 1H13 Recurring revenue: JPY45,132 million (up 5.7% YoY)
- ◆ 1H13 One-time revenue: JPY7,907 million (up 7.8% 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 Revenues



1H13 Gross margin: JPY10,430 million (up JPY283 million YoY, up 2.8% YoY), Gross margin ratio: 19.2% (down 0.7 Pt. YoY)

◆ 1H13 Network services gross margin: JPY7,146 million (up JPY270 million YoY, up 3.9% YoY), Gross margin ratio: 21.3% (down 0.1 Pt. YoY)

◆ 1H13 SI gross margin: JPY2,908 million (down JPY129 million YoY, down 4.3% YoY), Gross margin ratio: 15.6% (down 2.2 Pt. YoY)

◆ 1H13 ATM operation business gross margin: JPY302 million (up JPY158 million YoY)

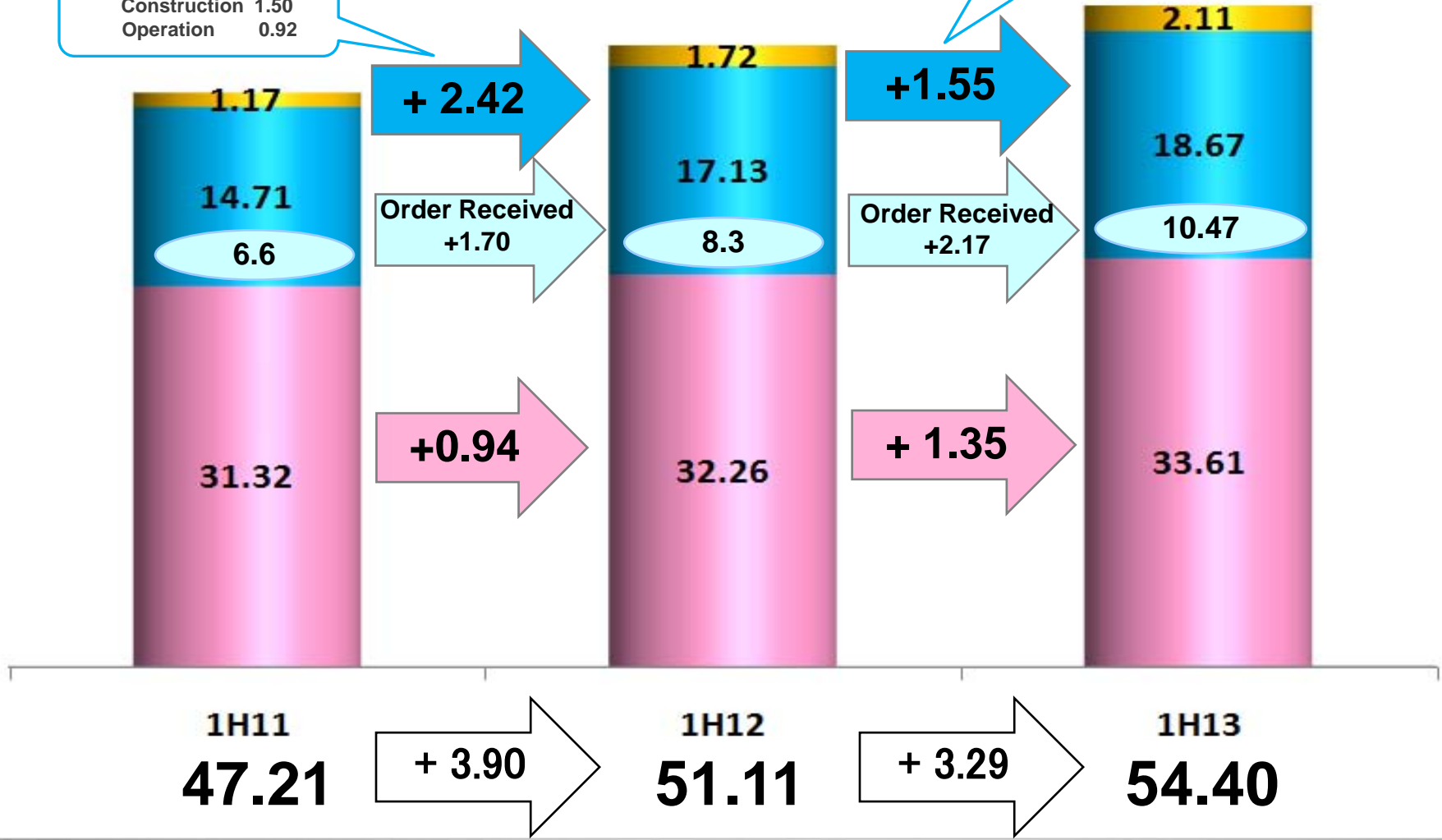
# II - 4. 1H Revenue YoY Change

Unit: JPY billion

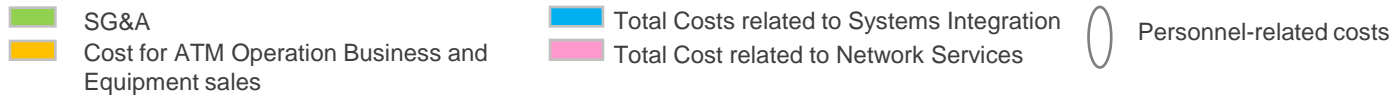
- ATM Operation Business and Equipment Sales Revenues
- Systems Construction and Equipment Sales Order Received
- Systems Integration Revenues (Construction and Operation and Maintenance)
- Network Services Revenues (Corporate and Consumer connectivity, Outsourcing, and WAN)

Breakdown of the increase:  
 Construction 1.50  
 Operation 0.92

Breakdown of the increase:  
 Construction 0.46  
 Operation 1.09

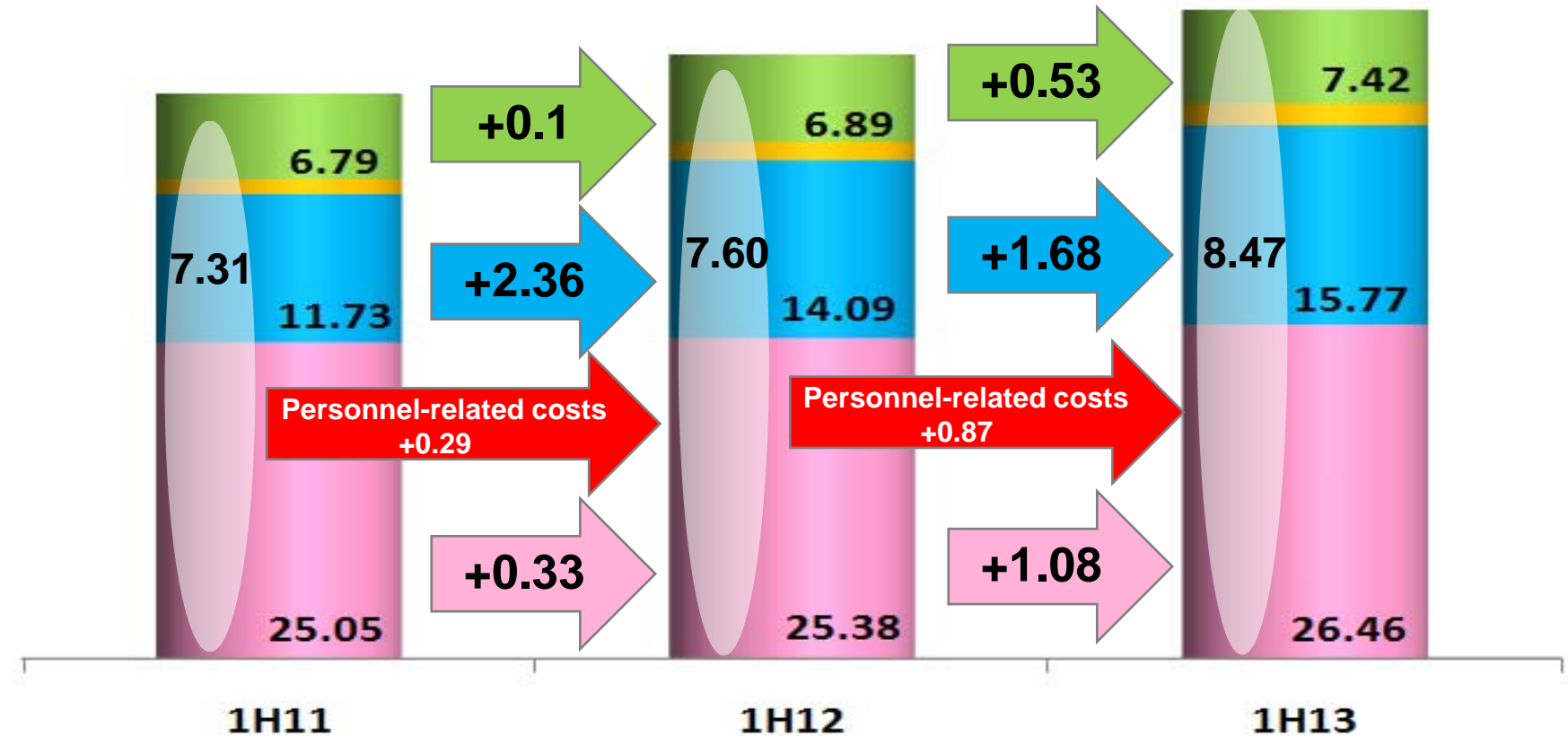


## II - 4. Operating Cost and Income YoY Change



Unit: JPY billion

### Operating Cost



### Operating Income

2.45

+0.81

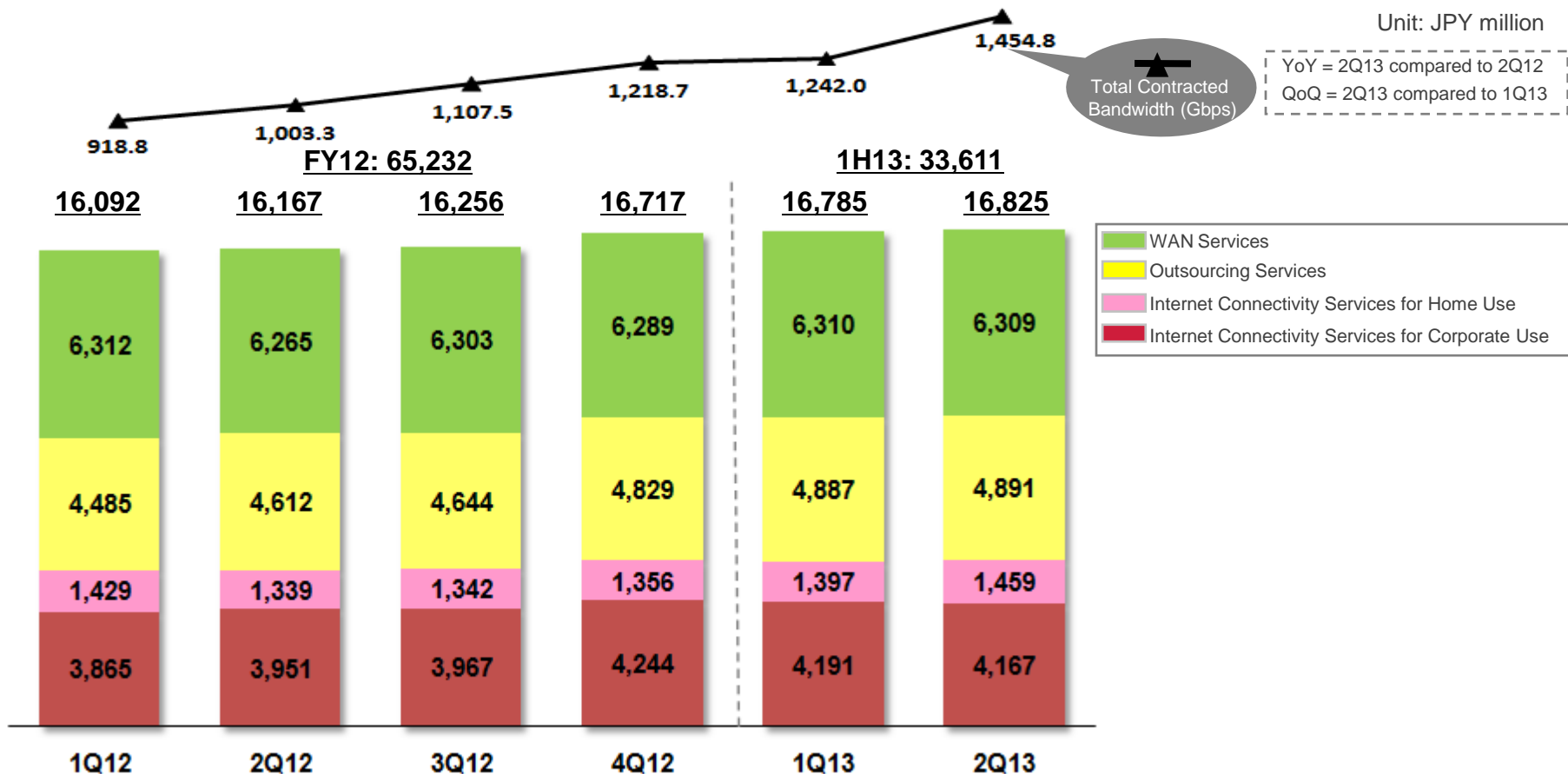
3.26

(0.25)

3.01



## II - 5. Network Services (1)Revenues



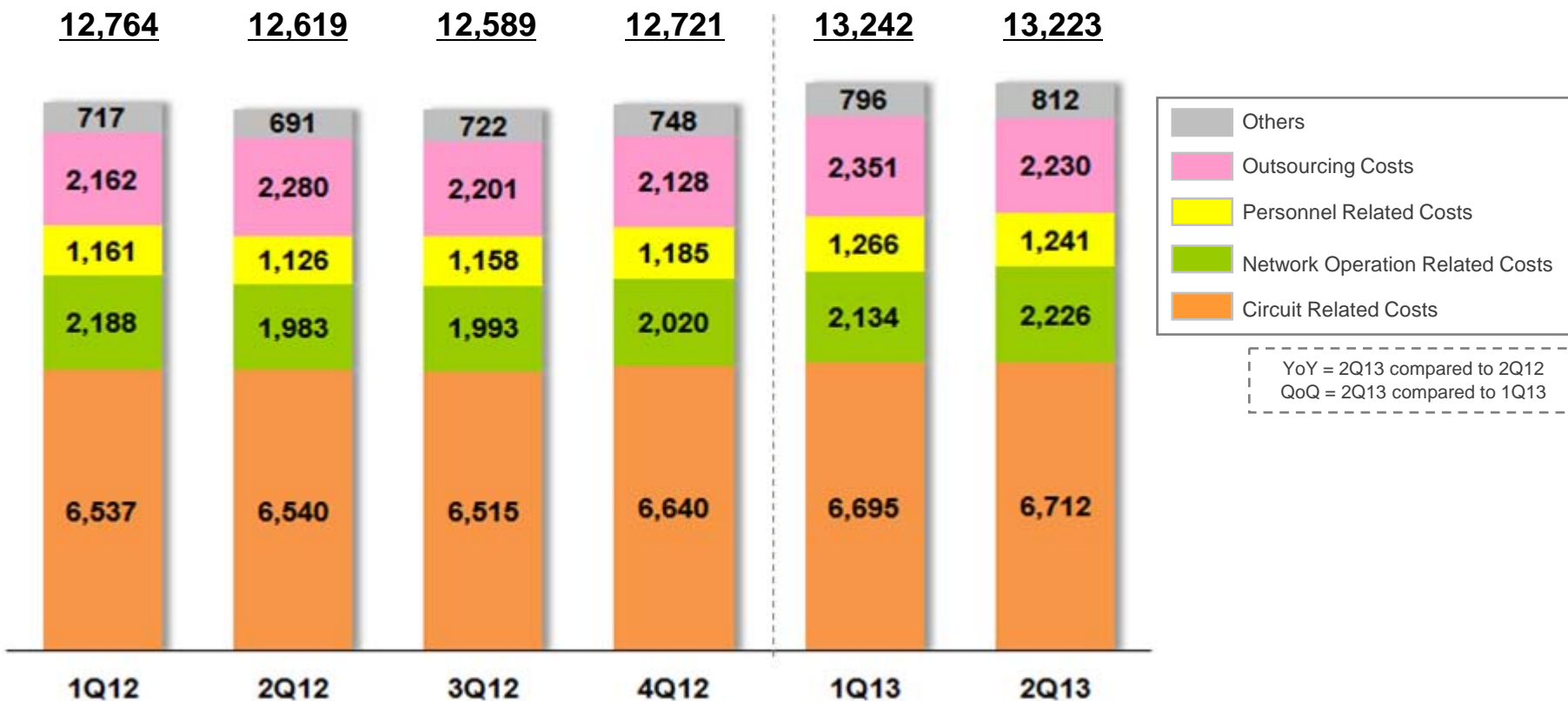
- ◆ 2Q13 Corporate Connectivity: up JPY216 million YoY, up 5.5% YoY, down JPY24 million QoQ, down 0.6% QoQ
  - Slightly decreased QoQ mainly due to the 1Q seasonal factor of price pressure from certain large users and mergers at clients side
  - Contracts for over 1Gbps as of Sep. 30, 2013: 255 (June 30, 2013: 235, Sep. 30, 2012: 164)
- ◆ 2Q13 Home Connectivity: up JPY120 million YoY, up 8.9% YoY, up JPY61 million QoQ, up 4.4% QoQ
  - LTE services led the growth, net additions of contracts increasing: 22,000(2Q13) -> 18,700(1Q13)
- ◆ 2Q13 Outsourcing services: up JPY279 million YoY, up 6.0% YoY, up JPY4 million QoQ, up 0.1% QoQ
  - IIJ GIO Hosting Package Services and datacenter-related services revenues continued to grow
  - Had revenue down from certain large SNS game clients by reduction in server usage
  - Email and web security gateway services were ranked as top share in the security services market in Japan (ITR "ITR market View: Security Market 2013")
- ◆ 2Q13 WAN services: up JPY44 million YoY, up 0.7% YoY, down JPY1 million QoQ, down 0.0% QoQ

# II - 5. Network Services (2) Cost of Revenues

Unit: JPY million

**FY12: 50,692**  
(Gross margin ratio: 22.3%)

**1H13: 26,465**  
(Gross margin ratio: 21.3%)



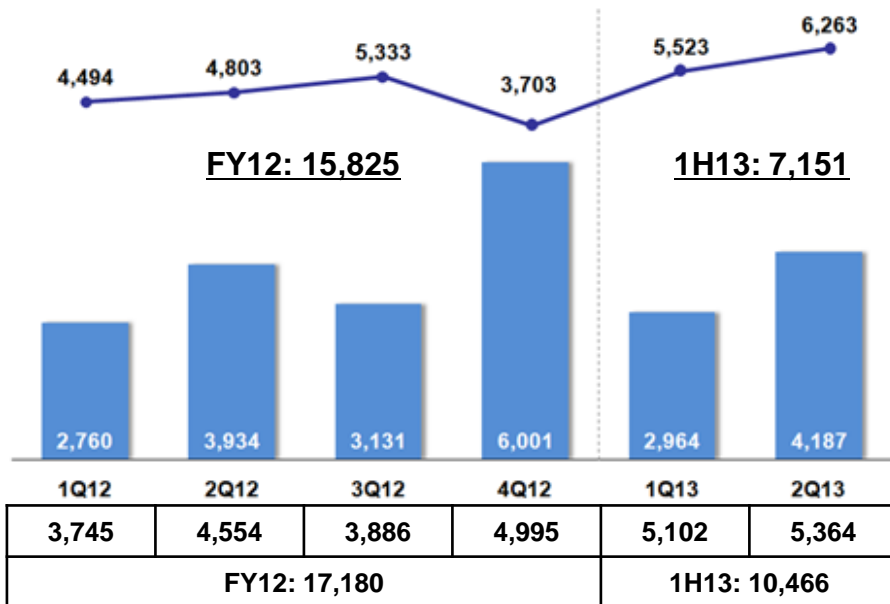
YoY = 2Q13 compared to 2Q12  
QoQ = 2Q13 compared to 1Q13

◆ 2Q13 Cost of network services: up JPY604 million YoY, up 4.8% YoY, down JPY19 million QoQ, down 0.1% QoQ  
 ➤ While expanding network continuously, the costs such as circuit-related costs are stable because of our scale-merited network efficiency

# II - 6. Systems Integration (SI) (1)Revenues

## <Systems Construction>

Unit: JPY million



- Systems Construction Revenues
- Systems Operation and Maintenance Revenues
- Order Backlog
- Order Received

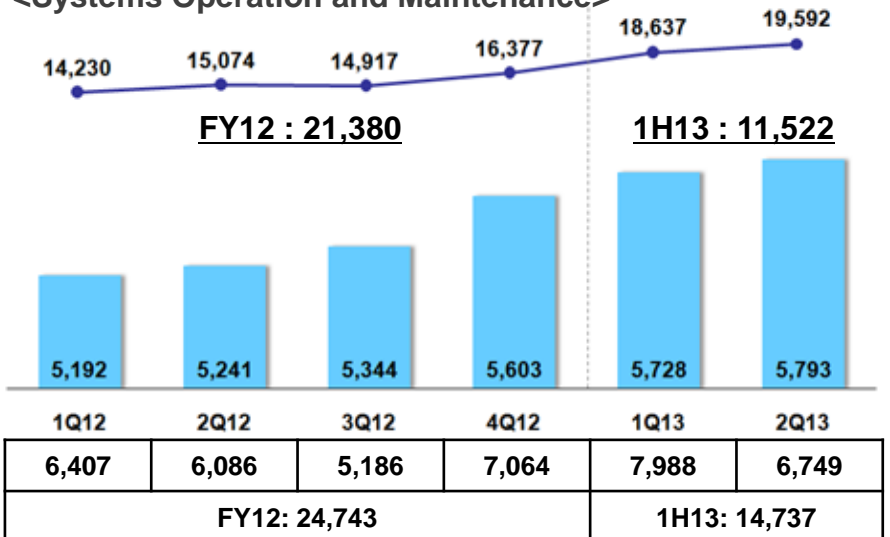
※Systems construction's order backlog and order received include equipment sales

YoY = 2Q13 compared to 2Q12  
QoQ = 2Q13 compared to 1Q13

### Systems Construction

- ◆2Q13 Revenue: up JPY254 million YoY, up 6.4% YoY, up JPY1,223 million QoQ, up 41.3% QoQ
- ◆2Q13 Order received: up JPY810 million YoY, up 17.8% YoY, up JPY262 million QoQ, up 5.1% QoQ
- ◆2Q13 Order backlog: up JPY1,460 million YoY, up 30.4% YoY
  - Accumulating orders as corporate IT investment appetite returns
  - In addition to small to middle size network integration projects, acquiring large scale projects of over JPY0.1 billion such as university campus network replacement, BtoB system expansion, accordingly with the economic recovery

## <Systems Operation and Maintenance>

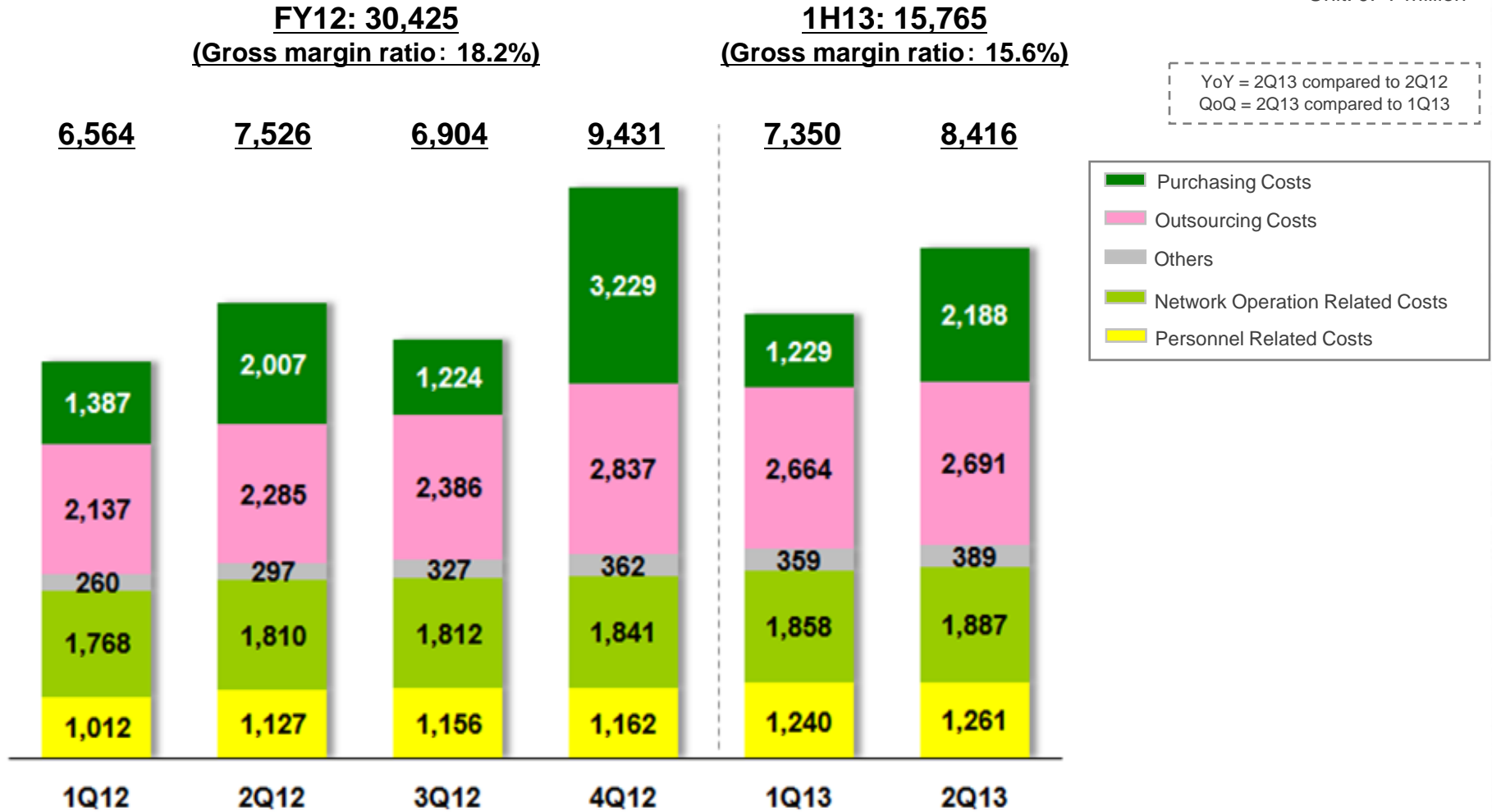


### Systems Operation and Maintenance

- ◆2Q13 Revenue: up JPY552 million YoY, up 10.5% YoY, up JPY65 million QoQ, up 1.1% QoQ
- ◆2Q13 Order received: up JPY663 million YoY, up 10.9% YoY, down JPY1,239 million QoQ, down 15.5% QoQ
- ◆2Q13 Order backlog: up JPY4,518 million YoY, up 30.0% YoY
  - 77% of 2Q13 cloud total revenues are recognized in systems operation and maintenance (the remaining 23% in outsourcing)
  - Had revenue down from certain large SNS game clients by reduction in server usage

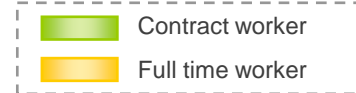
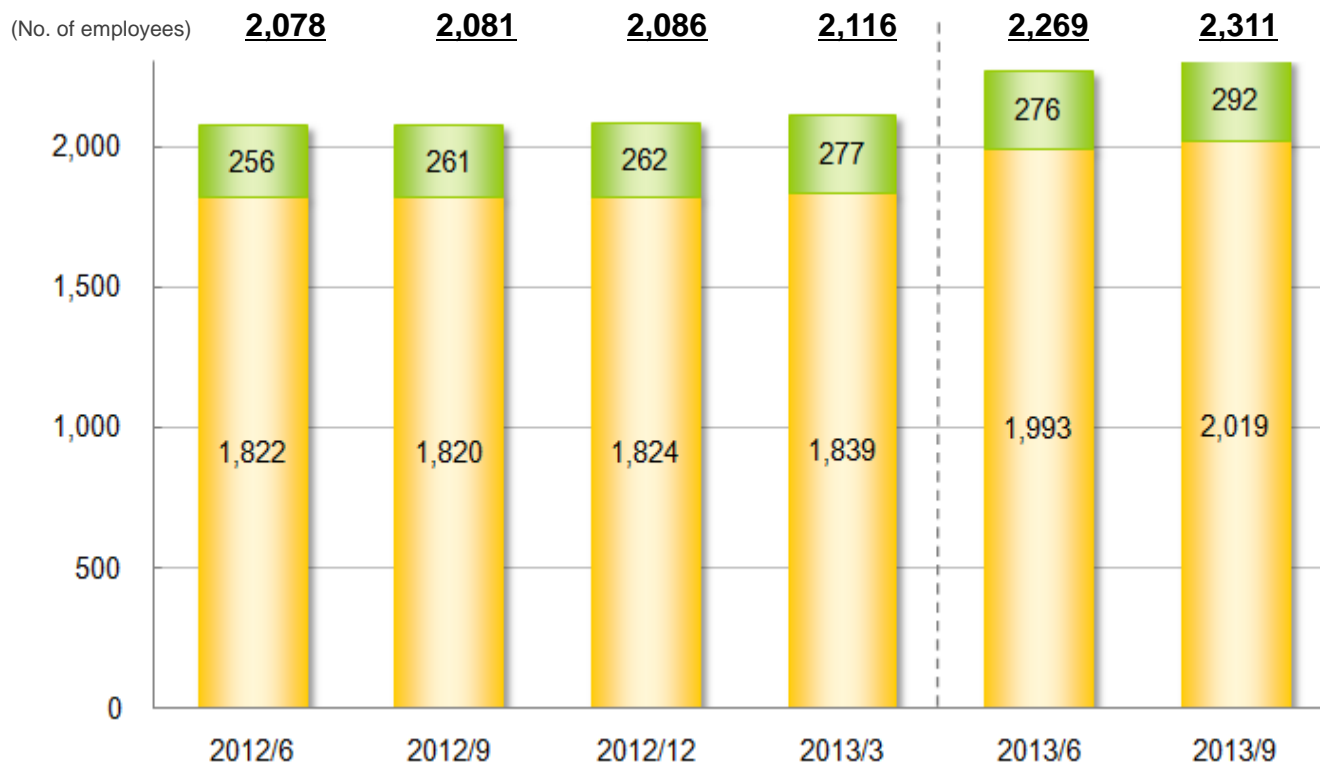
# II - 6. Systems Integration (SI) (2)Cost of Revenues

Unit: JPY million

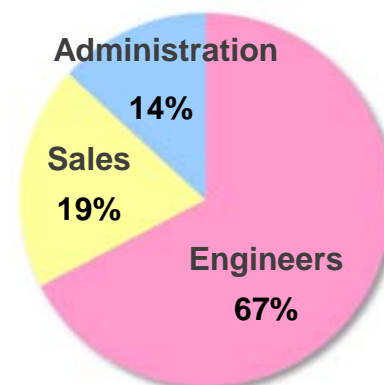


- ◆ 2Q13 Cost of SI: up JPY890 million YoY, up 11.8% YoY, up JPY1,066 million QoQ, up 14.5% QoQ
  - The number of full-time outsourcing personnel as of September 30, 2013: 744 (up 158 personnel YoY, up 61 personnel QoQ)
  - Outsourcing costs and personnel related costs increased QoQ due to the increased number of projects

## II - 7. Number of Employees



[Employee Distribution]



3,741 (15.1%)	3,858 (14.7%)	3,902 (15.3%)	3,979 (13.5%)	4,212 (15.9%)	4,254 (15.2%)
FY12: 15,480 (14.6%)				1H13: 8,465 (15.6%)	

Personnel related costs and expenses (% of revenue)

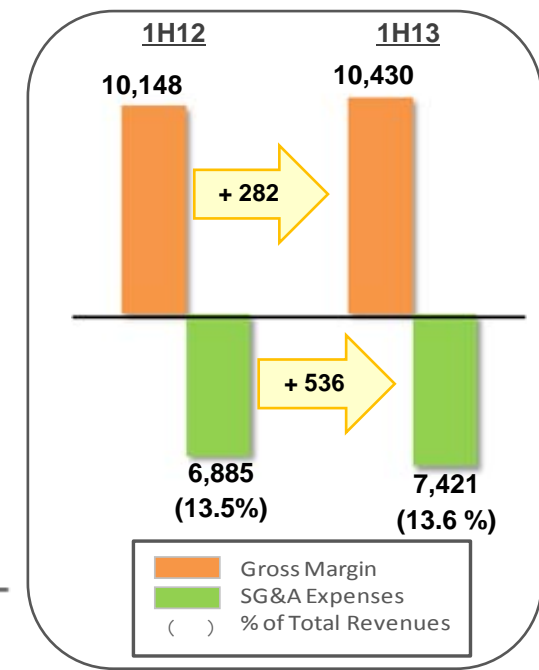
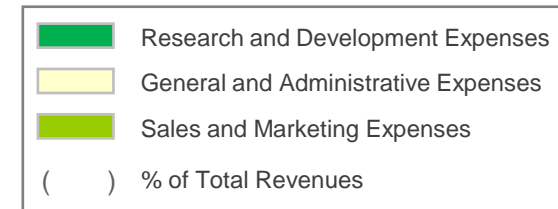
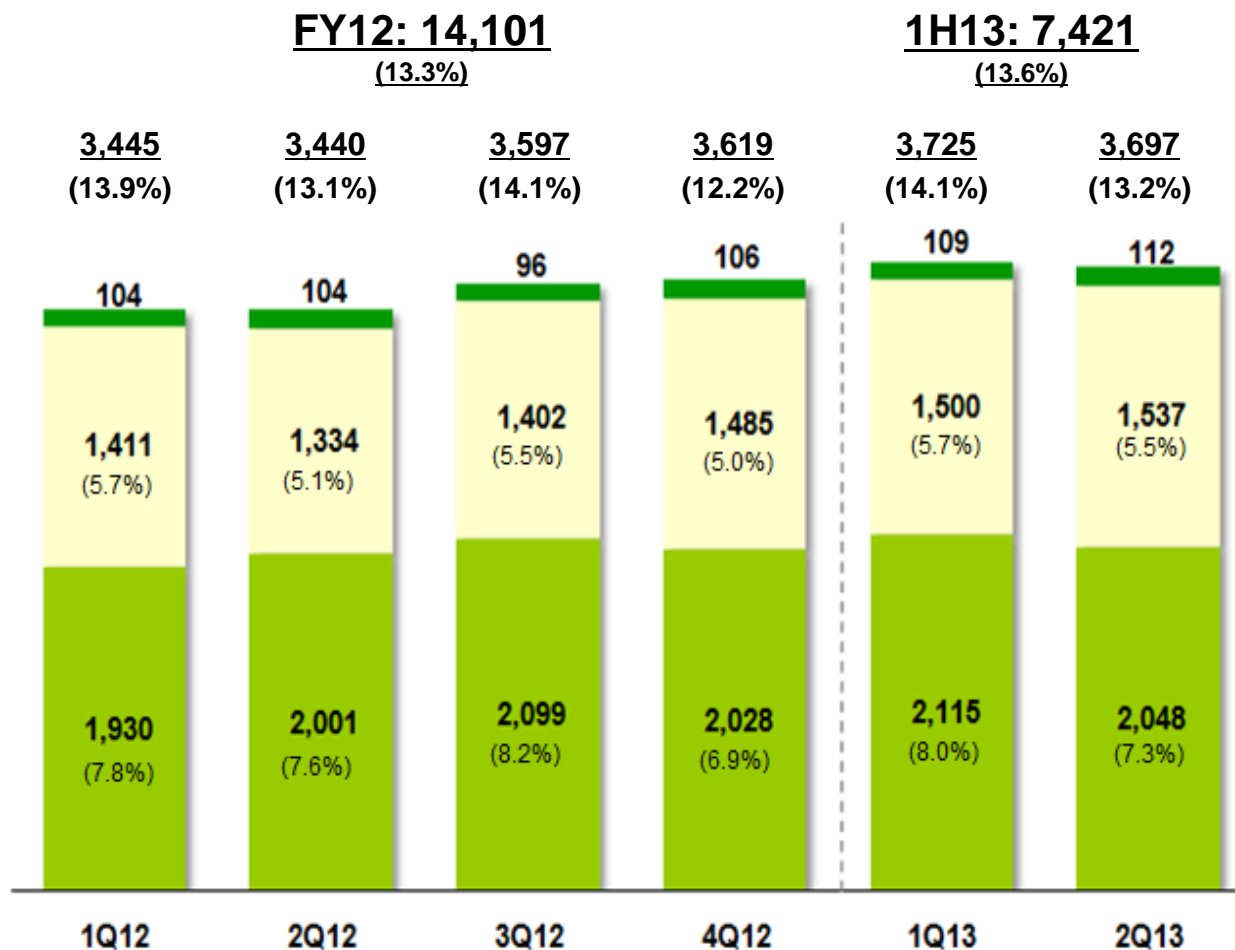
Unit: JPY million

- ◆ 2Q13 Personnel-related costs and expenses: up JPY395 million YoY, up JPY42 million QoQ
- ◆ Hired 136 newly graduates in Apr. 2013 (Apr. 2012: 75 newly graduates)
  - Planning to hire about the same number of new graduates in Apr. 2014
- ◆ FY13 plan includes addition of 250 personnel

YoY = 2Q13 compared to 2Q12  
QoQ = 2Q13 compared to 1Q12

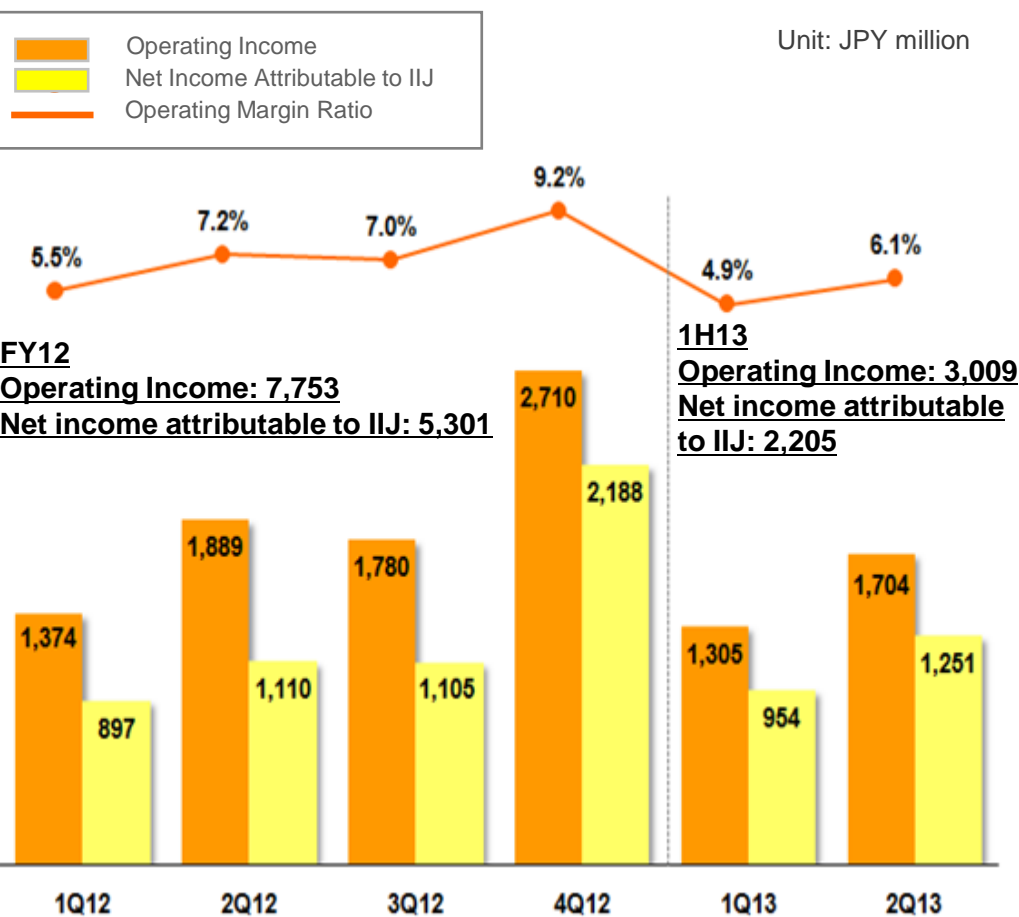
# II - 8. SG&A Expenses/R&D

YoY = 2Q13 compared to 2Q12  
 QoQ = 2Q13 compared to 1Q13  
 Unit: JPY million



◆ 2Q13 SG&A: up JPY257 million YoY, down JPY28 million QoQ, 13.2% of total revenue, down 0.1 points YoY  
 > Personnel-related expenses increased YoY by JPY100 million, sales commission expenses increased YoY by JPY46 million, rent expenses increased YoY by JPY30 million

## II - 9. Operating Income and Net Income



### ◆ ATM operation segment operating income:

Unit: JPY million

1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
16	67	81	75	81	160
FY12: 239				1H13:241	

- 698 ATMs were placed as of Nov. 8, 2013

### ◆ 2Q13 Income before income tax expense:

JPY1,917 million

(up JPY114 million YoY, up 6.3% YoY)

- Majority of non-operating expenses is interest expenses
- Recognized gain on other investments of JPY172 million and foreign exchange gains of JPY47 million

### ◆ 2Q13 Net income attributable to IIJ: JPY1,251 million

(up JPY141 million YoY, up 12.7% YoY)

- Equity in net income of Internet Revolution, Inc. and Internet Multifeed Co.

YoY = 2Q13 compared to 2Q12

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

## II - 10. Summary of Consolidated Balance Sheets

(Unit: JPY million)

	March 31, 2013	September 30, 2013	Changes
Cash and Cash Equivalents	12,259	25,782	+13,523
Accounts Receivable	18,765	16,707	(2,058)
Inventories and Prepaid Expenses (Current and Noncurrent)	5,995	7,757	+1,762
Other Investments	3,771	5,180	+1,408
Property and Equipment	23,026	23,784	+758
Goodwill and Other Intangible Assets	10,761	10,537	(224)
<b>Total Assets</b>	<b>82,111</b>	<b>97,842</b>	<b>+15,731</b>
Accounts Payable	11,922	10,368	(1,554)
Income Taxes Payable	1,670	876	(793)
Bank Borrowings (Short-term and Long-term)	11,390	10,380	(1,010)
Capital Lease Obligations (Current and Noncurrent)	8,876	8,769	(106)
<b>Total Liabilities</b>	<b>44,477</b>	<b>40,634</b>	<b>(3,843)</b>
Common Stock	16,834	25,497	+8,663
Additional paid-in capital	27,300	35,933	+8,633
Accumulated Deficit	(6,399)	(4,600)	+1,800
Accumulated Other Comprehensive Income	264	715	+451
<b>Total IJ Shareholders' Equity</b>	<b>37,607</b>	<b>57,153</b>	<b>+19,547</b>

IJ shareholders' equity ratio:  
45.8% (as of Mar. 31, 2013)  
58.4% (as of Sep. 30, 2013)



## II - 11. Consolidated Cash Flows

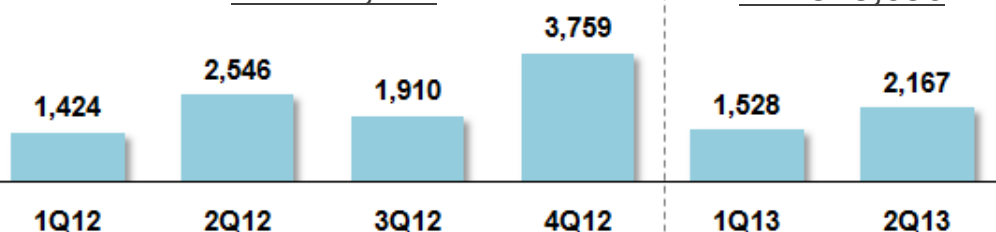
### Operating Activities:

Unit: JPY million

YoY = 2Q13 compared to 2Q12

FY12: 9,639

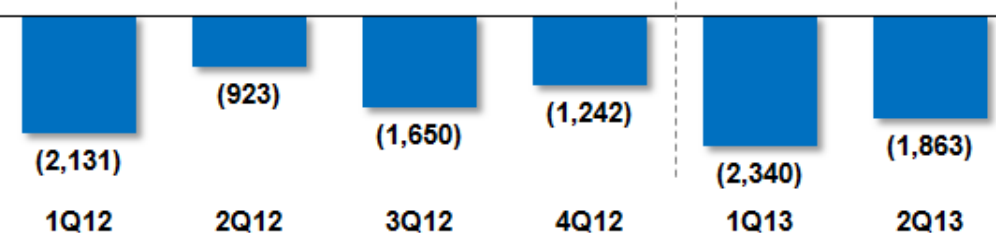
1H13: 3,696



### Investing Activities:

FY12: (5,946)

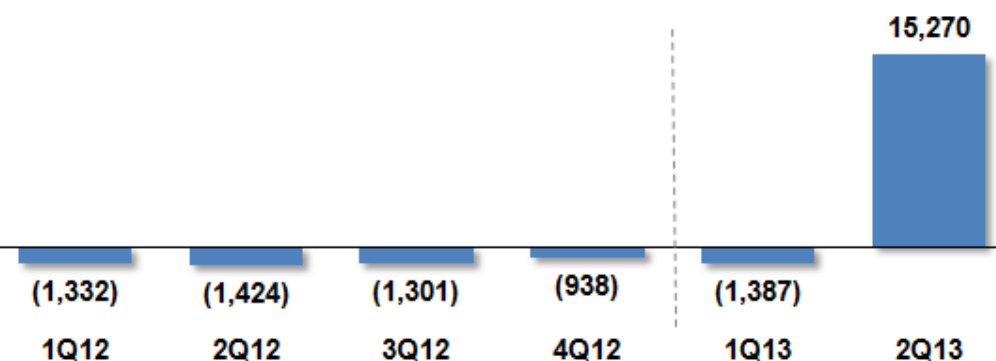
1H13: (4,202)



### Financing Activities:

FY12: (4,996)

1H13: 13,883



#### 1H13 Operating Activities:

- Decrease in accounts receivable: JPY2,136 million
- Depreciation and amortization: JPY4,238 million
- Decrease in accounts payable: (JPY1,513 million)
- Increase in prepaid expenses: (JPY933 million)  
etc.

#### ◆ Breakdown of YoY major difference:

- Decrease in accounts receivable: plus JPY1,959 million
- Decrease in accounts payable: minus JPY1,814 million
- Decrease in accrued expenses and other current and noncurrent liabilities: minus JPY764 million

#### 1H13 Investing Activities:

- Payments for purchases of property and equipment: JPY2,784 million
- Payments for other investments: JPY1,083 million  
etc.

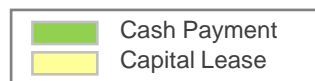
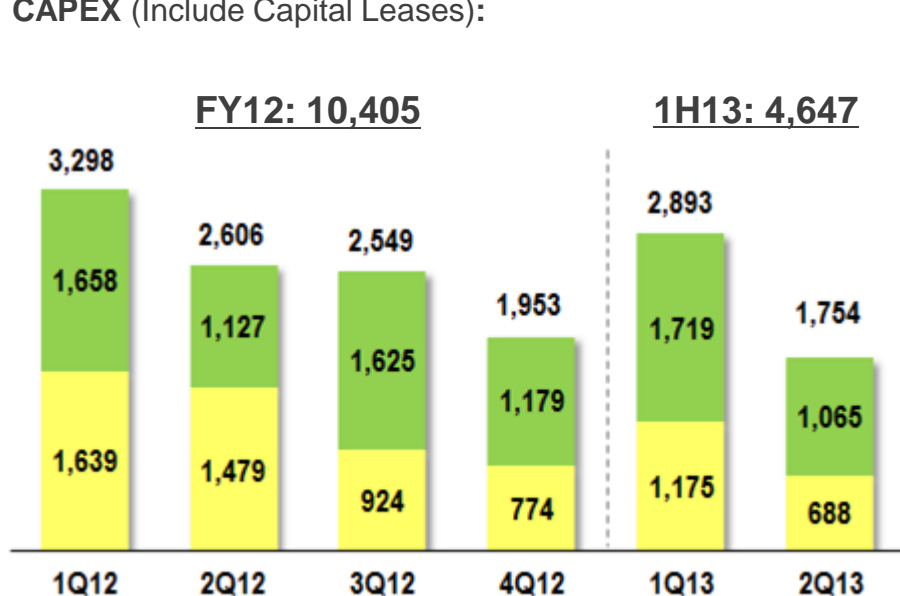
#### 1H13 Financing Activities:

- Proceeds from issuance of common stock, net of issuance cost: JPY17,271 million
- Principal payments under capital leases: JPY1,972 million
- Repayment for borrowings (net): JPY1,010 million  
etc.

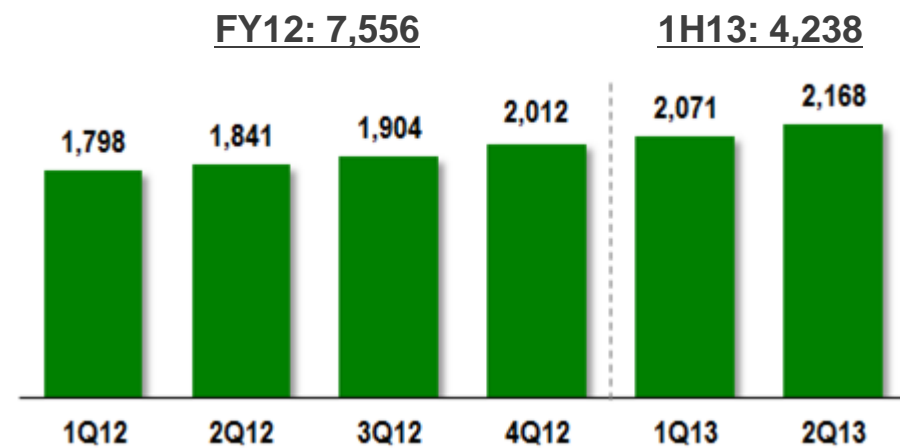
## II - 12. Other Financial Data (CAPEX etc.)

CAPEX (Include Capital Leases):

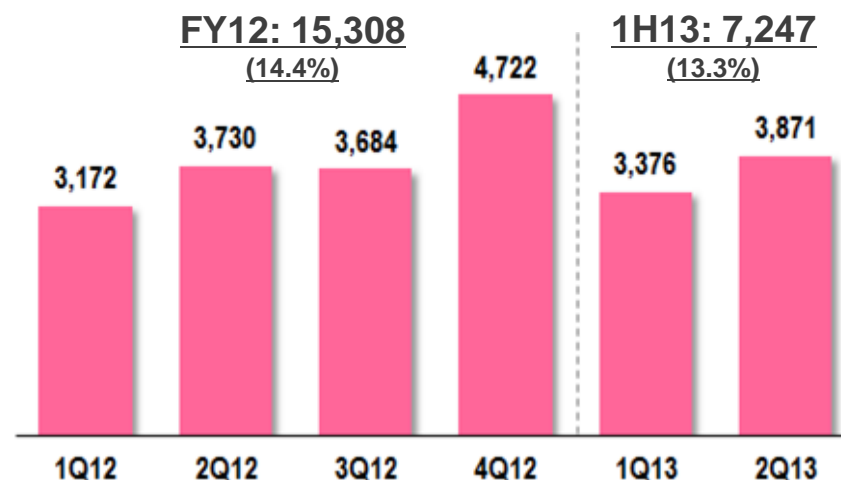
Unit: JPY million



Depreciation and Amortization:



Adjusted EBITDA: \* ( ) % of total revenues



# III- 1. Developments of Cloud Business

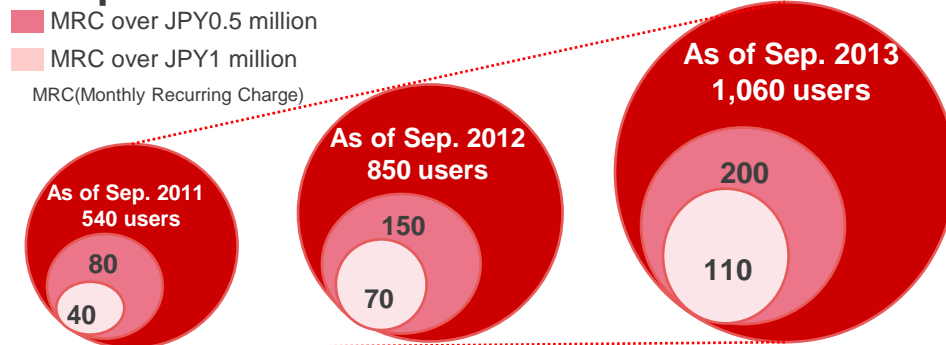


## Cloud Revenue

Unit: JPY billion	FY11	FY12	FY13
1st Half (Sep.)	1.2 (0.25)	2.6 (0.49)	4.7 (0.83)
2nd Half (Mar.)	1.9 (0.37)	3.6 (0.66)	
Full Year	3.1	6.2	Target over 10

\*FY11 and FY12 revenues do not include task-specific SaaS revenue  
 \*77% of 2Q13 cloud revenue is recognized in systems operation and maintenance, 23% in outsourcing  
 \*Figures in (parentheses) are Sep. and Mar. month revenue, respectively

## Expansion of Client Base

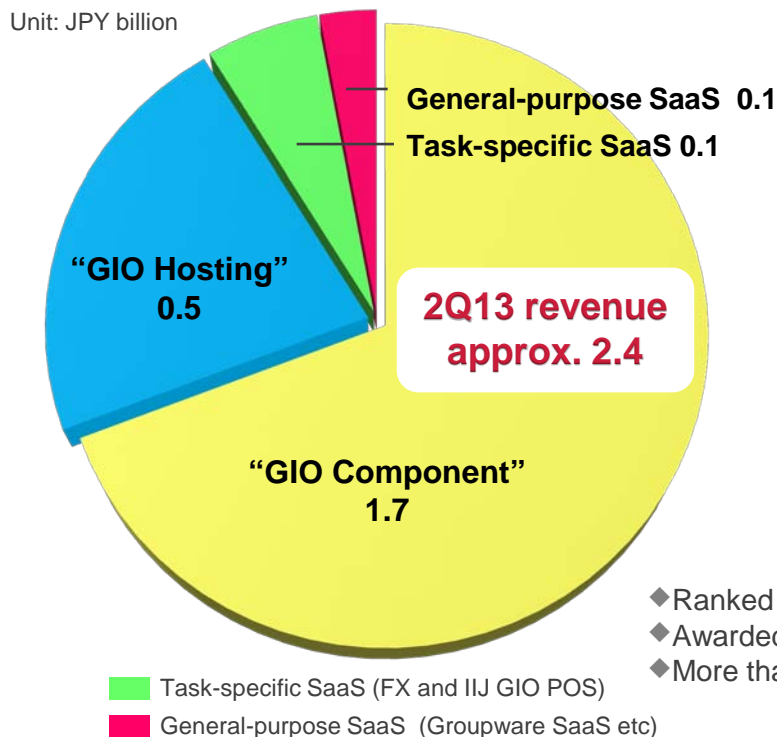


### Expanding enterprise cloud service lineups

- Seeing adoption of cloud services for internal systems on the rise
- Encouraging the transition from owning IT assets to using cloud services by offering VMware (Aug. 2012), SAP BASIS (Jul. 2013), IBM i (AS400) (Sep. 2013) and other as cloud services
- Large SNS game clients revenue ratio slowly decreasing: 25%(2Q13), 27%(1Q13), 32%(4Q12), 40%(4Q11)

### Increasing number of VW Series case studies

- Sompo Japan, one of the largest insurance companies in Japan, adopted VW series for group companies communication platform, first in the insurance industry to adopt cloud for such system
- PEUGEOT CITROËN JAPON, automobile manufacture, adopted VW series for shared accounting system with automobile dealers
- Anritsu, TSE listed electronic test equipment provider, enjoying SAP system on virtualized secure cloud platform etc



- ◆ Ranked as the top share in the Japanese public cloud market for 2 consecutive years\*
- ◆ Awarded for "Best Cloud Brand" and "Best Cloud Services" \*\*
- ◆ More than 400 entities have become IIJ GIO partners to co-promote IIJ GIO

\*Fuji Chimera Research Institute" Business Technology Aug. 2013"  
 \*\*Nikkei BP Agency 7<sup>th</sup> "Cloud Ranking"

## III- 2. FY2013 Financial Target (Remain unchanged from May 15, 2013)

- Due to seasonal factors, revenue volume is larger in 2nd half than 1st half while fixed type expenses such as personnel-related expenses tend to increase from the beginning of a fiscal year
- 1H13 operating income decreased YoY mainly due to:
  - 1) increase in fixed type expenses such as personnel and office-related expenses, reflecting the increased number of new employees accordingly with our business expansion strategy,
  - 2) relatively small systems construction revenue recognition while we accumulated a large number of order backlog,
  - 3) decrease in recurring revenue from certain large telecommunication and SNS game clients for pricing revision at the beginning FY2013 and reduction in their server usage
- FY2013 financial target remain unchanged: systems construction orders accumulated at a good pace, monthly recurring revenue of network services and systems operation and maintenance should continue to grow

(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 135.42	JPY 130.76	+JPY 4.66	+3.6%
Cash Dividends per Share	JPY 22.00 (Annual)	JPY 18.75 (Annual)	+JPY 3.25	+17.3%

\*1 Changed from JPY148.01 announced on May 15, 2013 due to the issuance of new shares of 5,400,000 shares of common stock in July and August 2013.

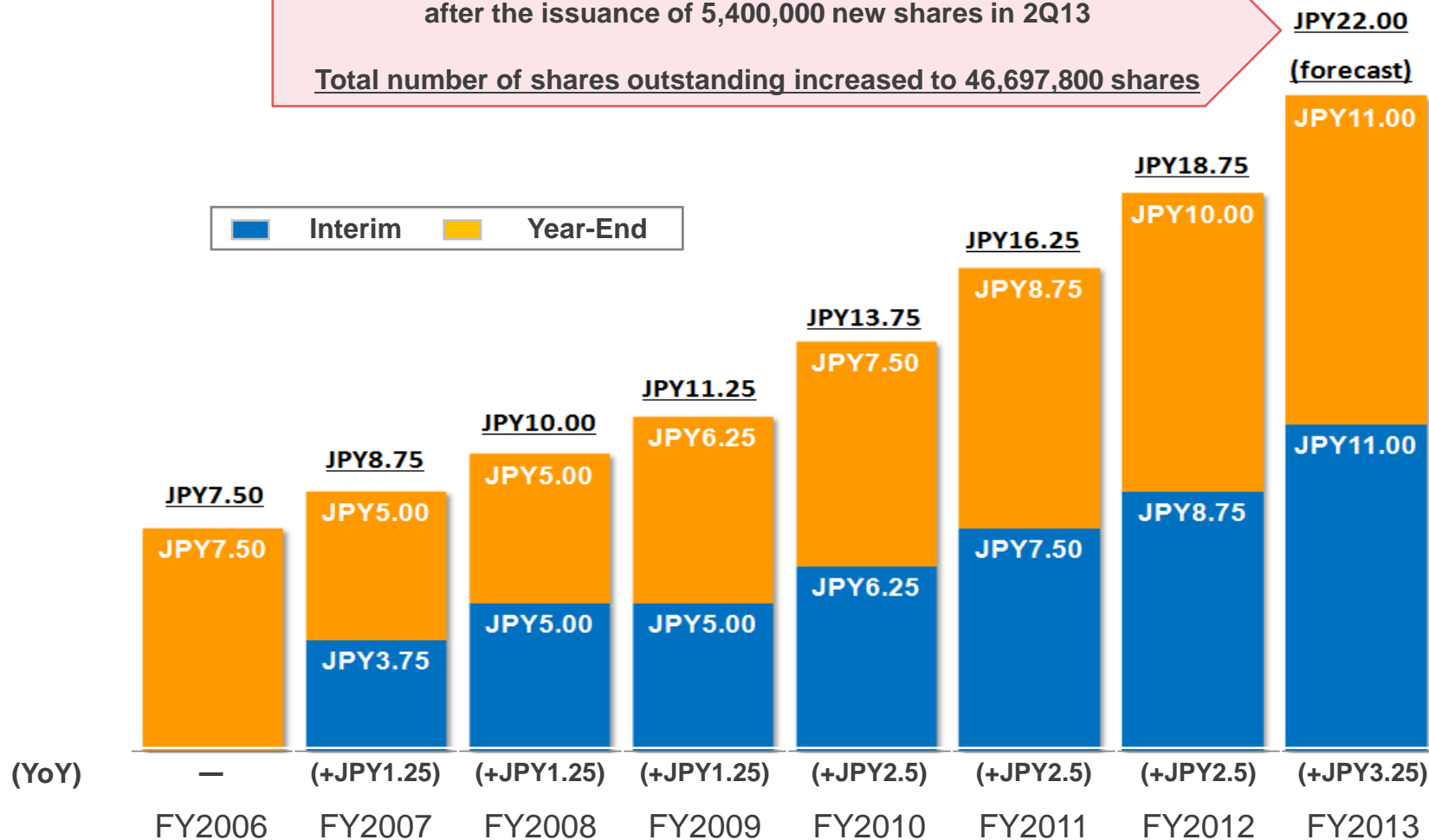
\*2 IIJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. Accordingly, net income attributable to IIJ per share and cash dividends per share are adjusted based on the post stock split basis.

### Ⅲ- 3. FY2013 Dividend Forecast (Remain unchanged from May 15, 2013)

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.

Target cash dividends per share remains unchanged after the issuance of 5,400,000 new shares in 2Q13

Total number of shares outstanding increased to 46,697,800 shares



## ※ Forward-looking Statements

Statements made in this presentation regarding IIJ's or managements' intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding revenues, operating and net profitability are subject to various risks, uncertainties and other factors that could cause IIJ's actual results to differ materially from those contained in any forward-looking statement. These risks, uncertainties and other factors include but not limited to:

- a decrease of corporate spending or capital expenditure due to depression in the Japanese economy and/or corporate earnings decreased,
- an inability to achieve anticipated results and cause negative impact on profitability,
- a possibility that less of reliability for our services and loss of business chances due to interrupt or suspend of our services,
- an excess increase in network related cost 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

### IIJ Investor Relations

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

TEL: 81-3-5259-6500 URL: <http://www.ij.ad.jp/en/ir/> E-Mail: [ir@ij.ad.jp](mailto:ir@ij.ad.jp)

