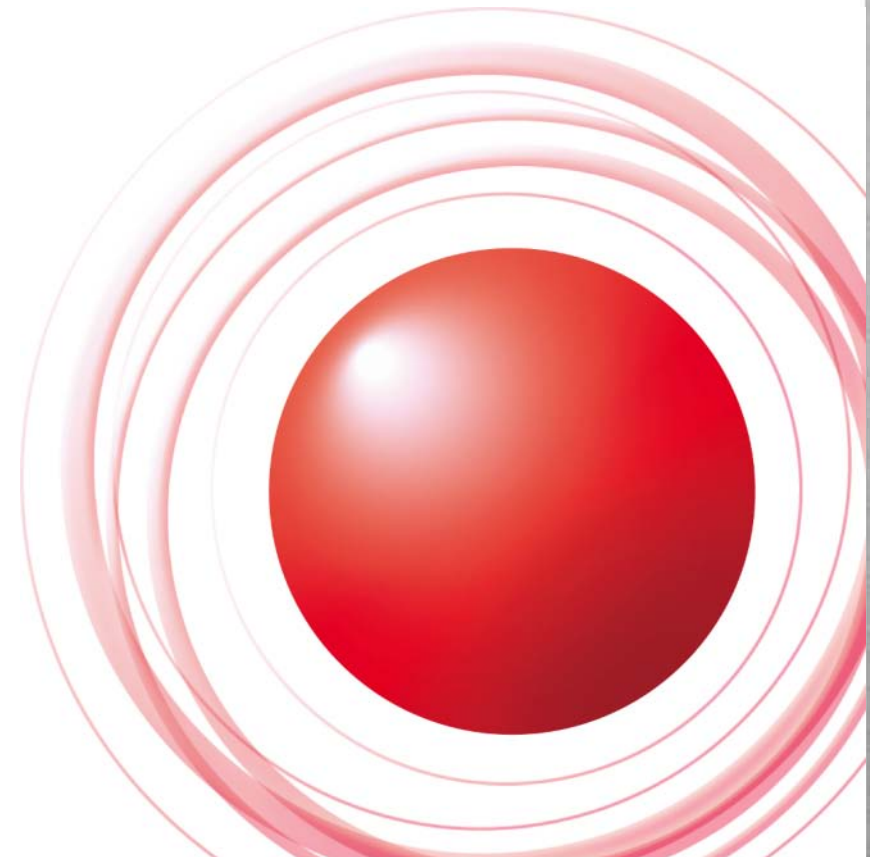


# Consolidated Financial Results

## For 1Q-3Q FY2012 (9 months ended December 31, 2012)



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

Ongoing Innovation

# Agenda

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

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

**III . Reference Materials**

\* "1Q-3Q" points to the 9 months period ended on December 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 |

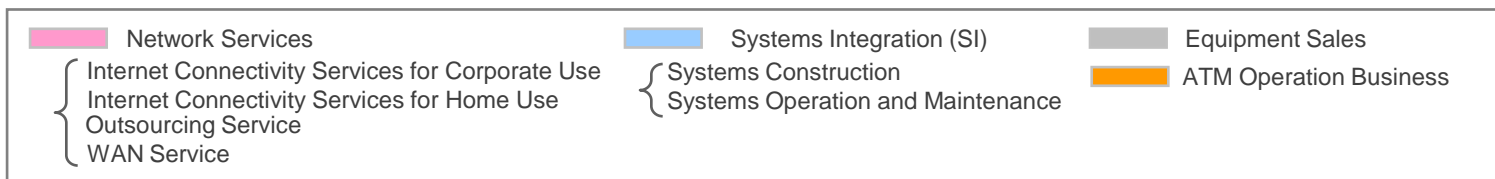
\* per share of common stock

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

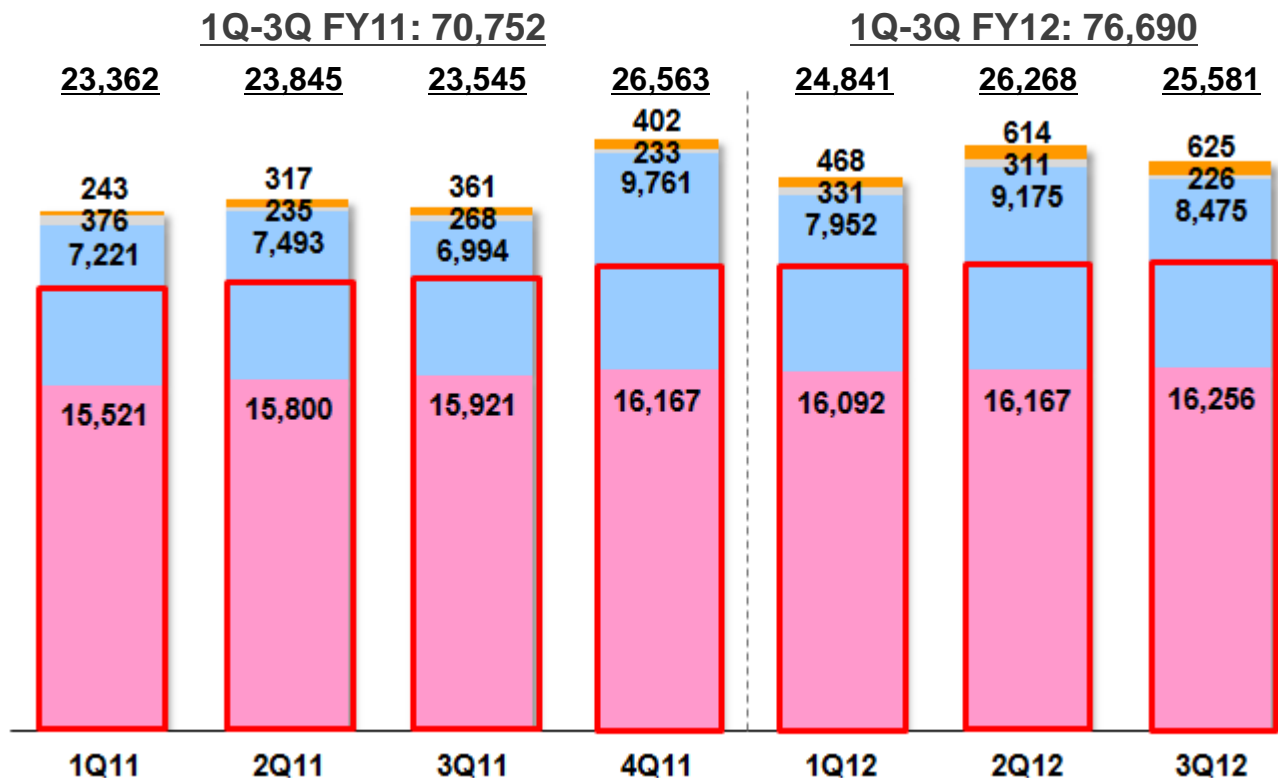
(Unit: JPY billion)

|  | FY12 Target<br>(Apr. 2012<br>-Mar.2013) | FY11 Actual<br>(Apr. 2011<br>-Mar.2012) | YoY<br>(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<br>Income Tax<br>Expense           | 6.9                                     | 6.0                                     | +0.9                         | +15.5% |
| Net Income<br>attributable to IJ                 | 4.0                                     | 3.6                                     | +0.4                         | +9.9%  |
| Net Income<br>attributable to IJ<br>per Share *1 | JPY 98.68                               | JPY 89.82                               | +JPY 8.86                    | +9.9%  |
| Cash Dividend per<br>Share *1                    | JPY 18.75<br>(Annual) <sup>*2</sup>     | JPY 16.25<br>(Annual)                   | +JPY 2.50                    | +15.4% |

## 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:

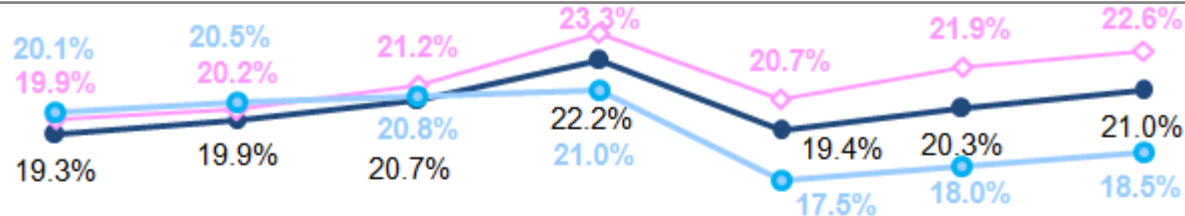
1. Internet Connectivity Services (Corporate Use and Home Use)
2. Outsourcing Services
3. WAN Service
4. Systems Operation and Maintenance

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

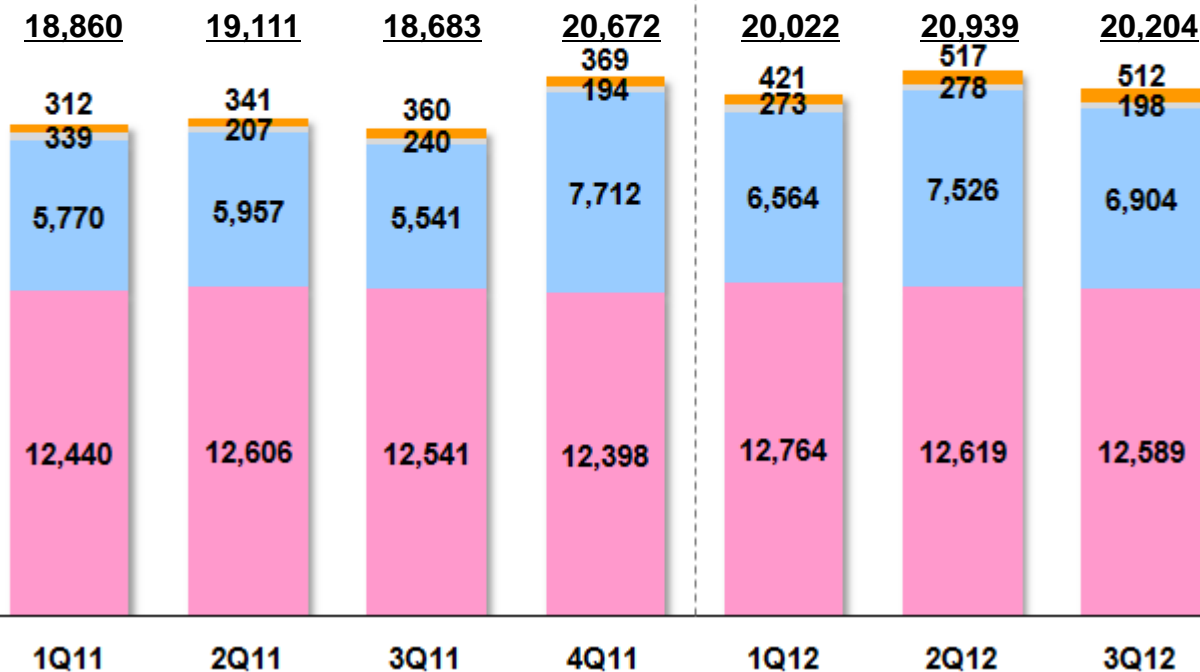
Cost of revenues : Network Services (Pink), Systems Integration (SI) (Light Blue), Equipment Sales (Grey), ATM Operation Business (Orange)  
 Gross margin ratio : Network Services (Pink Diamond), Systems Integration (SI) (Light Blue Circle), Total revenue (Dark Blue Circle)



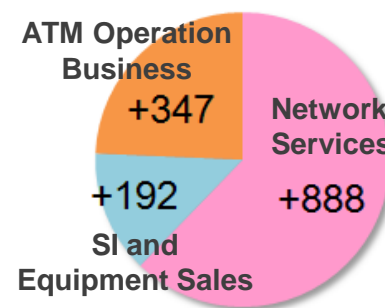
Unit: JPY million

1Q-3Q FY11: 56,654

1Q-3Q FY12: 61,165



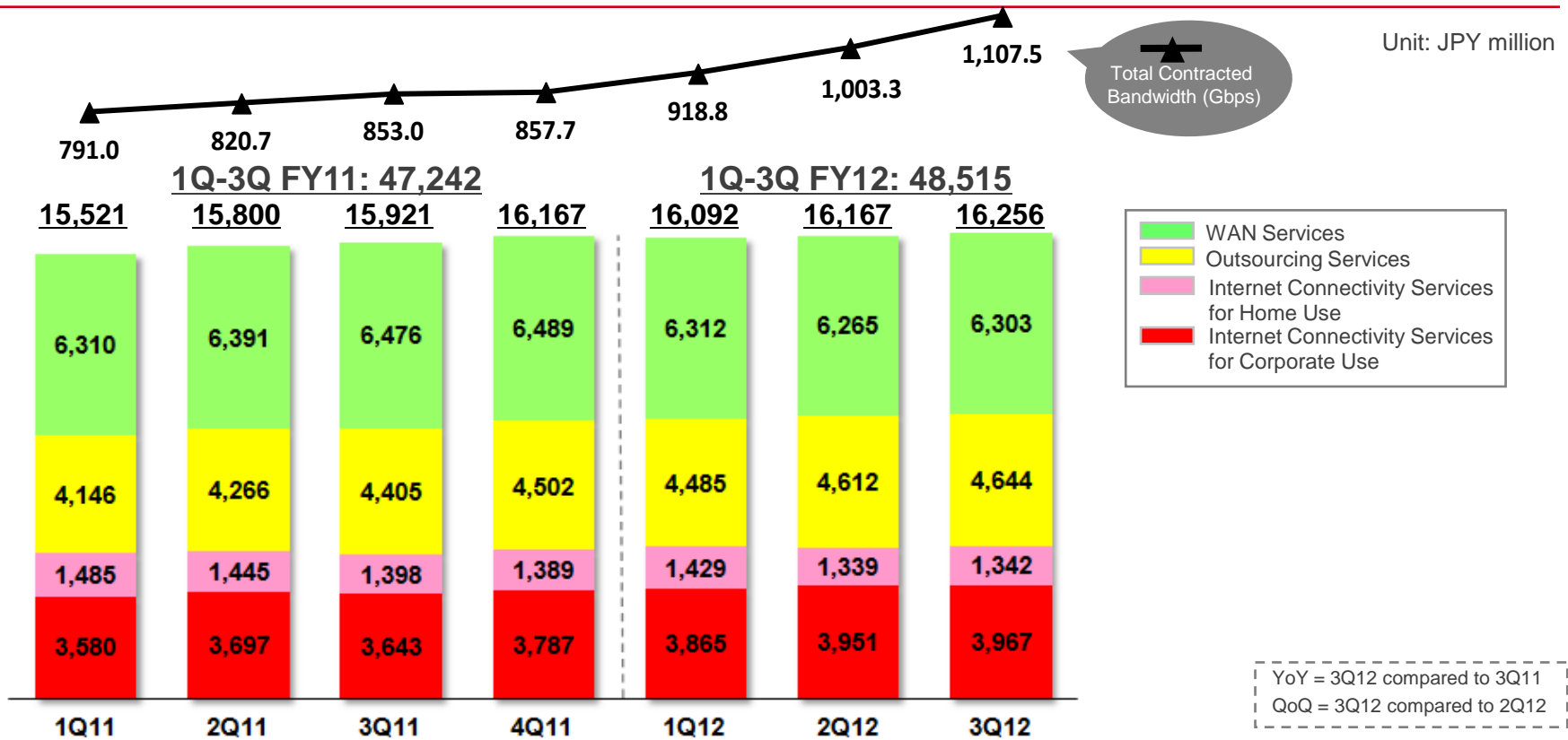
Breakdown of the increased portion of gross margin: 1Q-3Q FY11 to 1Q-3Q FY12



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



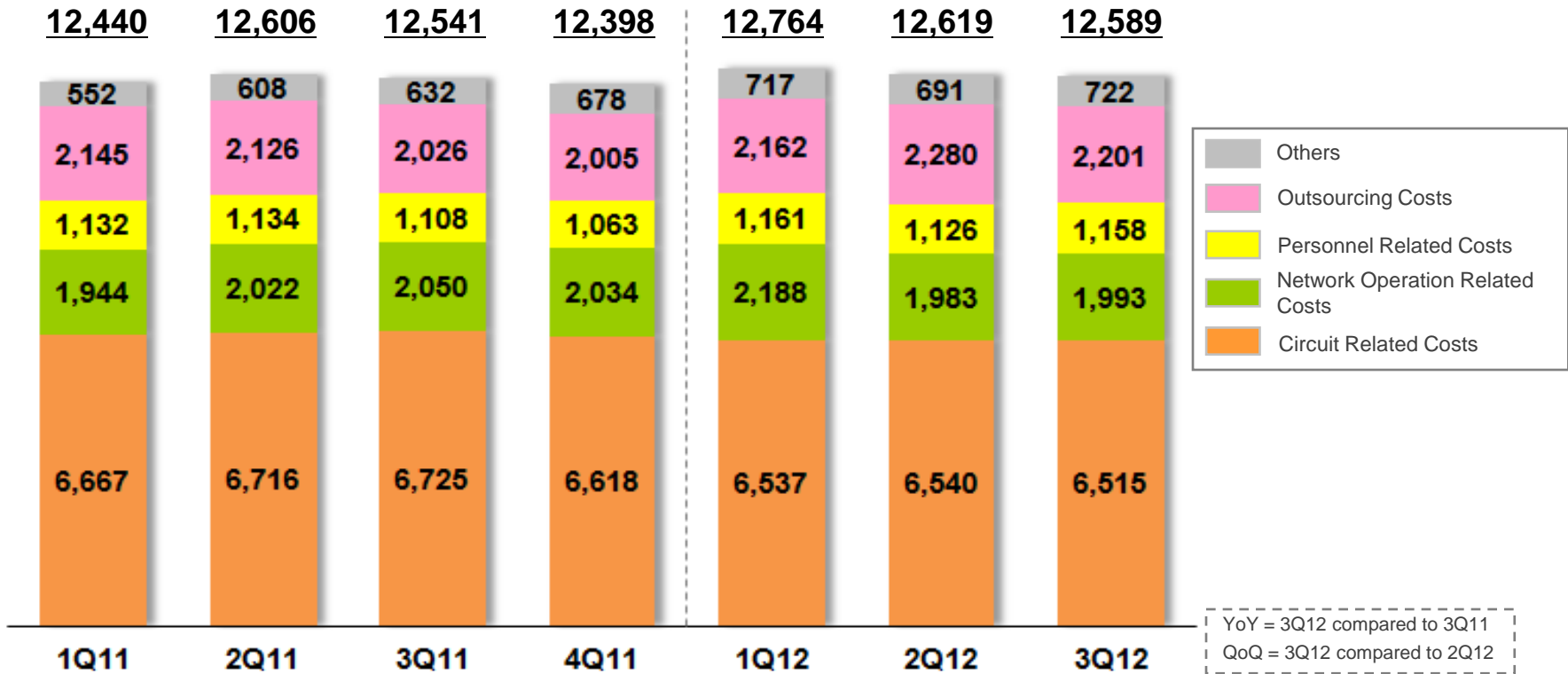
- ◆ 3Q12 Internet connectivity services for corporate use revenue: up JPY325 million YoY, up 8.9% YoY, up JPY17 million QoQ, up 0.4% QoQ
  - IP services continued to grow along with the increasing demands for broader bandwidth by over 1Gbps users
  - Number of contracts for over 1Gbps as of Dec. 31, 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%)



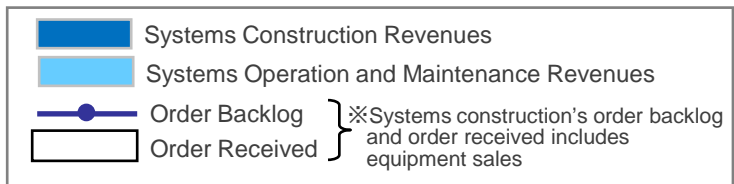
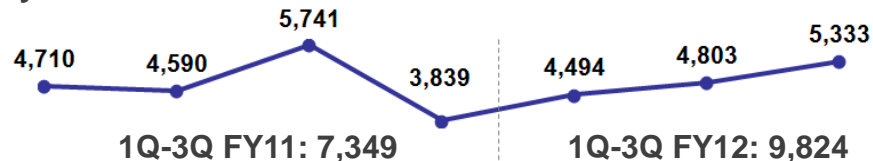
3Q12 Cost of network services: up JPY48 million YoY, up 0.4% YoY, down JPY30 million QoQ, down 0.2% QoQ  
 ➤ No large changes compared to 3Q11 and 2Q12



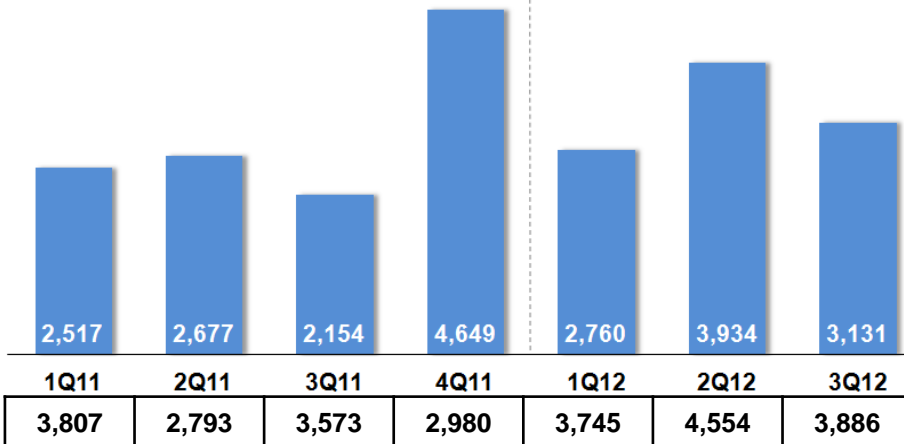
# II-5. Systems Integration (1)Revenues

## <Systems Construction>

Unit: JPY million



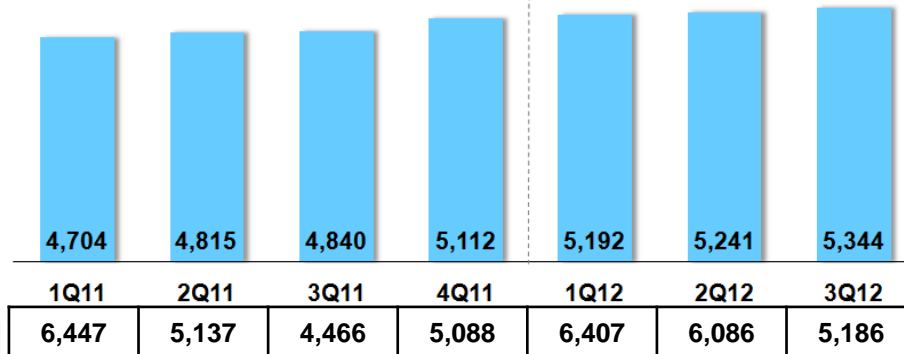
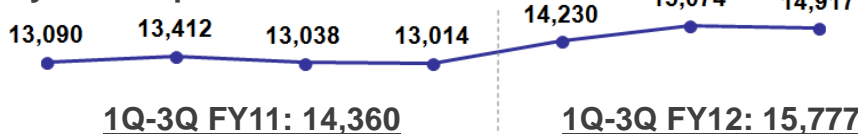
YoY = 3Q12 compared to 3Q11



### 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

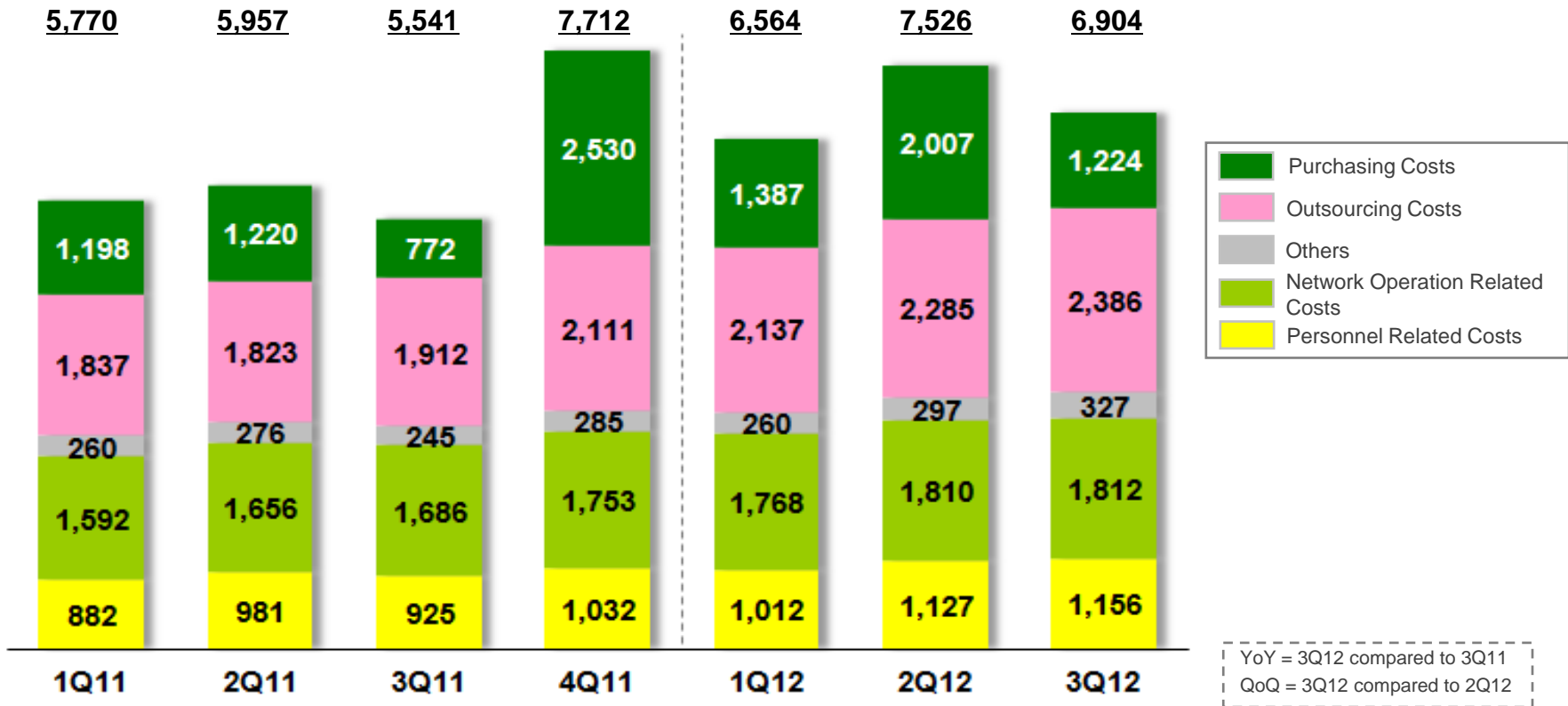
Unit: JPY million

**1Q-3Q FY11: 17,267**

(Gross margin ratio: 20.5%)

**1Q-3Q FY12: 20,994**

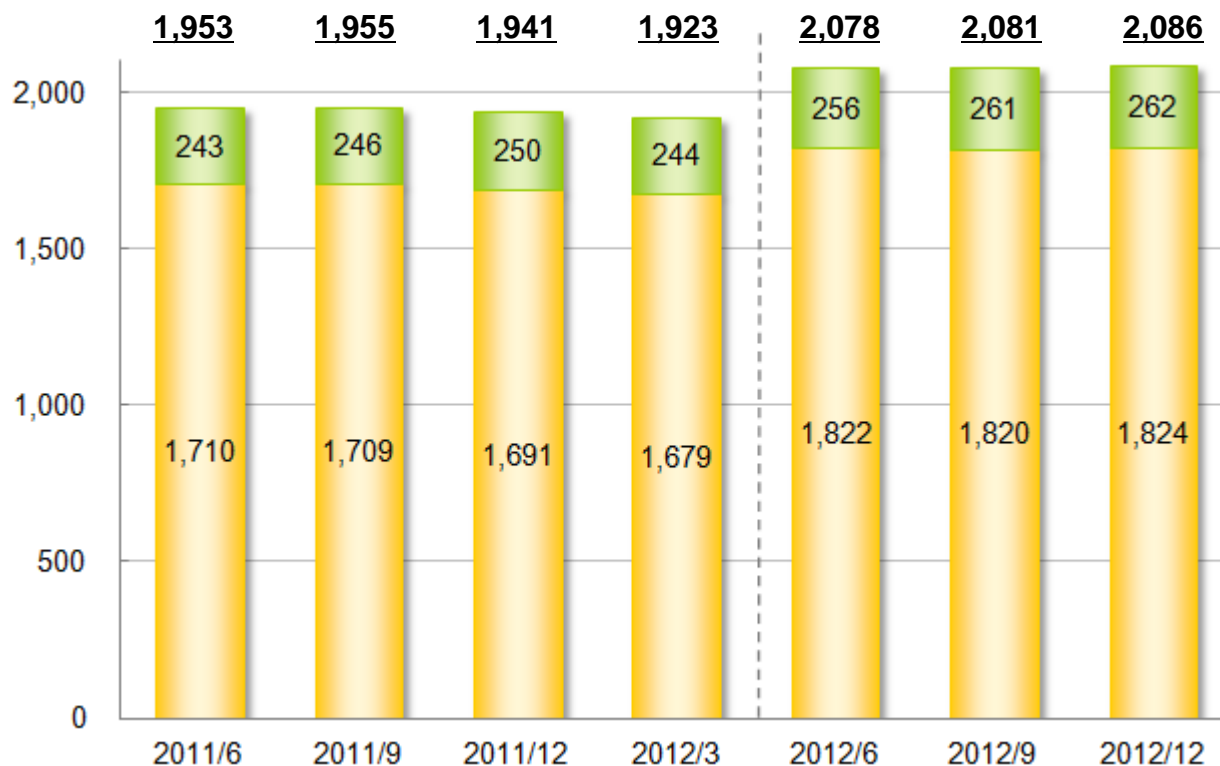
(Gross margin ratio: 18.0%)



- ◆ 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

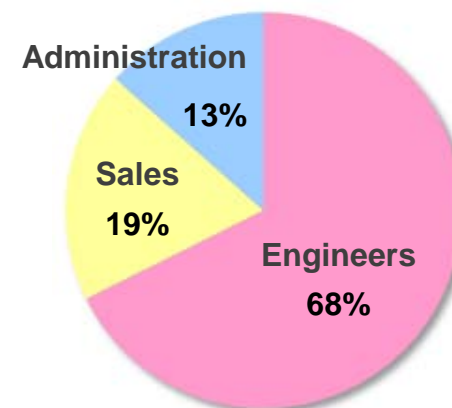
(No. of employees)



|                         |                         |                         |                         |                         |                         |                         |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>3,627</b><br>(15.5%) | <b>3,686</b><br>(15.5%) | <b>3,551</b><br>(15.1%) | <b>3,613</b><br>(13.6%) | <b>3,741</b><br>(15.1%) | <b>3,858</b><br>(14.7%) | <b>3,902</b><br>(15.3%) |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|



[Employee Distribution]



Personnel related costs and expenses (% of revenue)

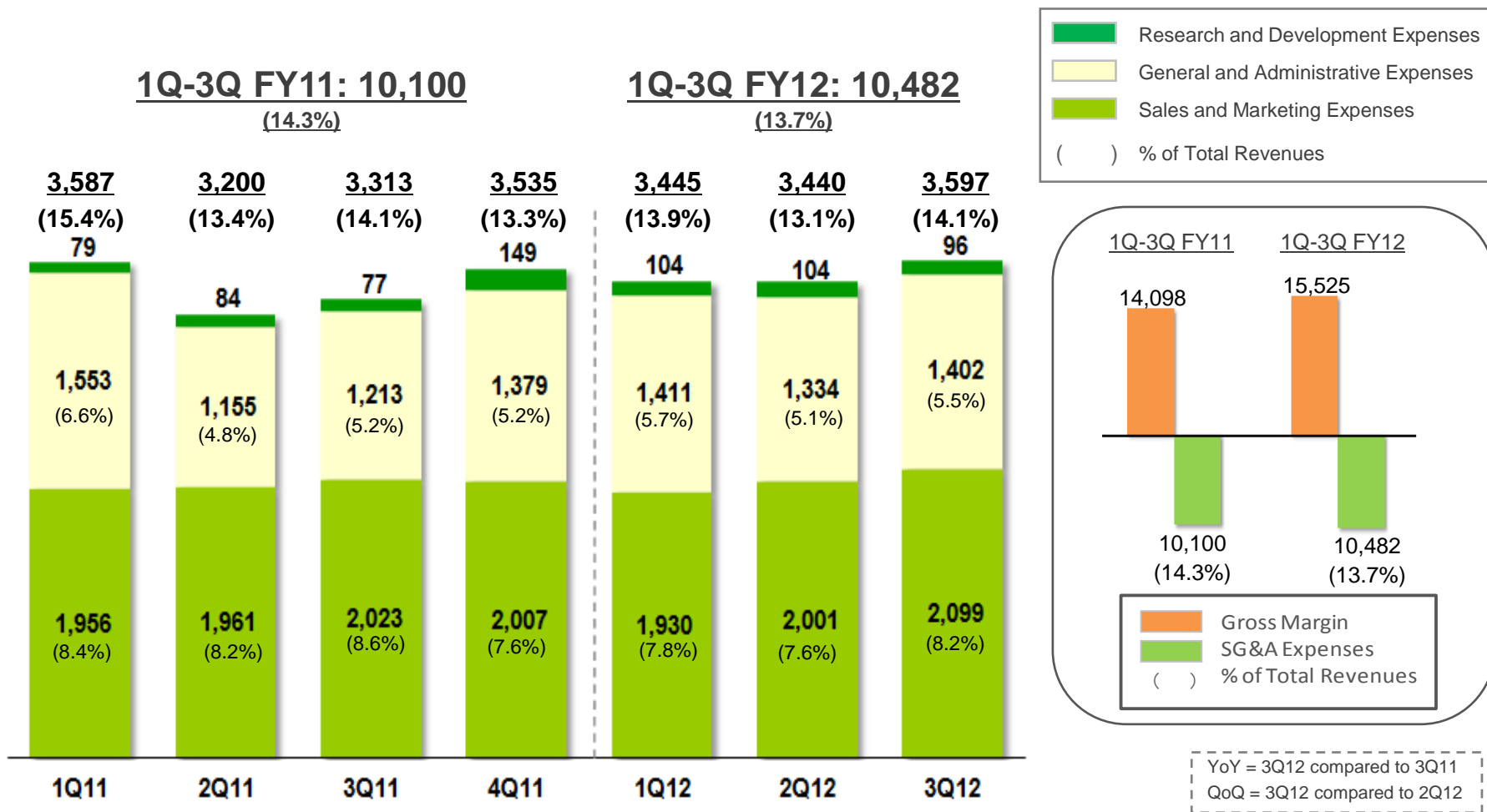
Unit: JPY million

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

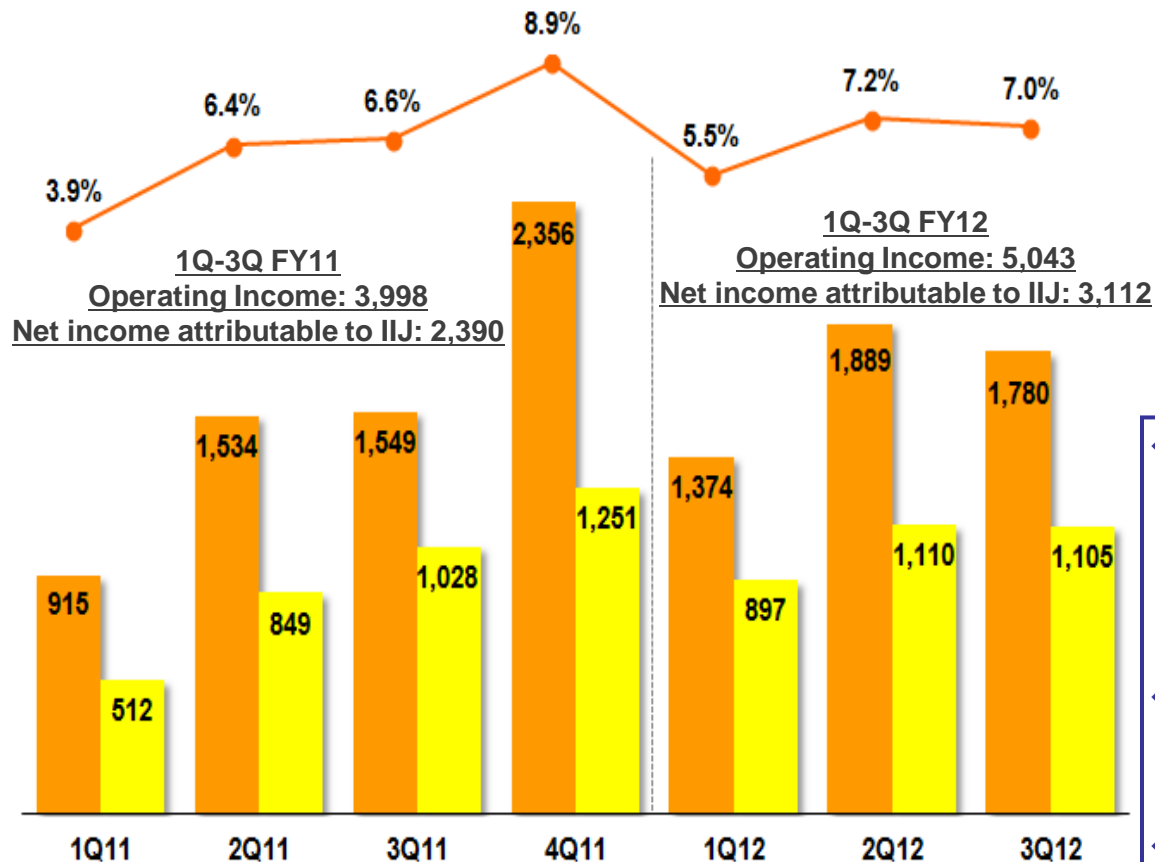


- ◆ 3Q12 SG&A: up JPY284 million YoY, up JPY157 million QoQ
  - SG&A is stable and does not directly increase along with revenue growth
  - SG&A increased slightly due to the increase in advertising expenses compared to 2Q12

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,<br>2012 | December 31,<br>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<br>Other Intangible Assets               | 11,185            | 10,948               | (237)         |
| Accounts payable                                      | 9,753             | 9,518                | (235)         |
| Income taxes payable                                  | 2,211             | 396                  | (1,815)       |
| Borrowings<br>(Short-term and Long-term)              | 12,000            | 11,390               | (610)         |
| Capital Lease Obligations<br>(Current and Noncurrent) | 7,739             | 9,040                | +1,301        |
| Accumulated Deficit                                   | (10,990)          | (8,587)              | +2,403        |
| Accumulated Other<br>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

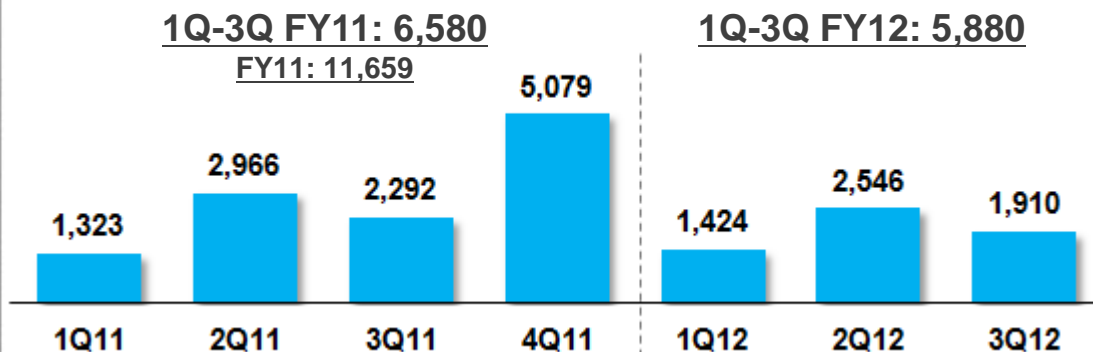
### ◆ IJ Shareholders' equity ratio

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

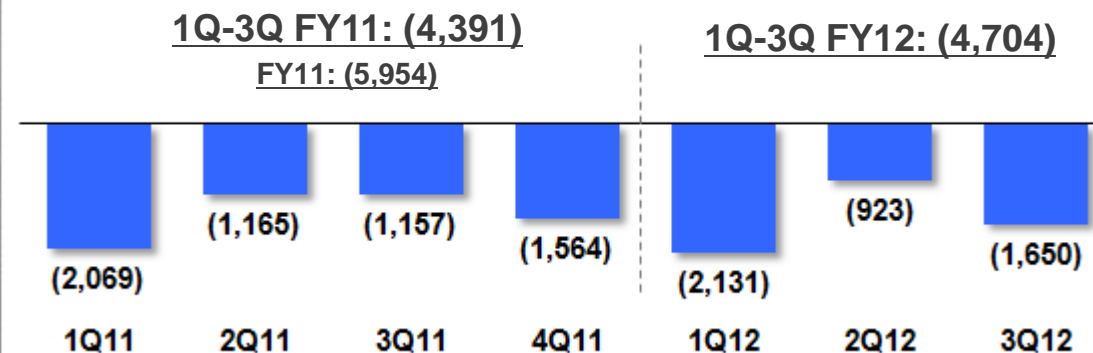
## II -10. Consolidated Cash Flows

### Operating Activities:

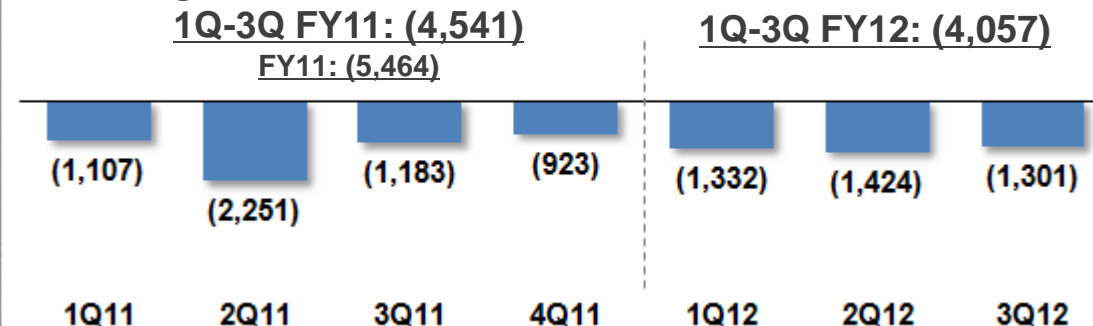
Unit: JPY million



### 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.

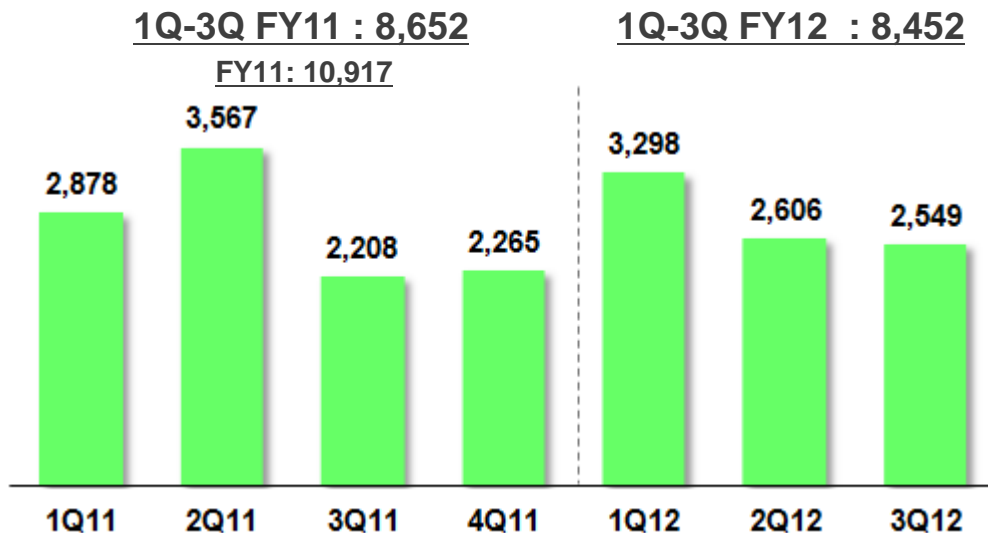
#### 1Q-3Q FY12 Financing Activities:

- 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.)

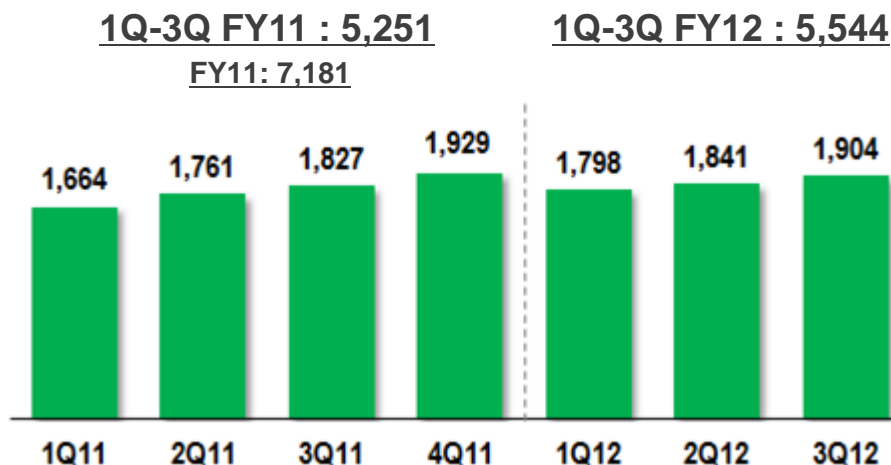
CAPEX (Include Capital Leases):

Unit: JPY million

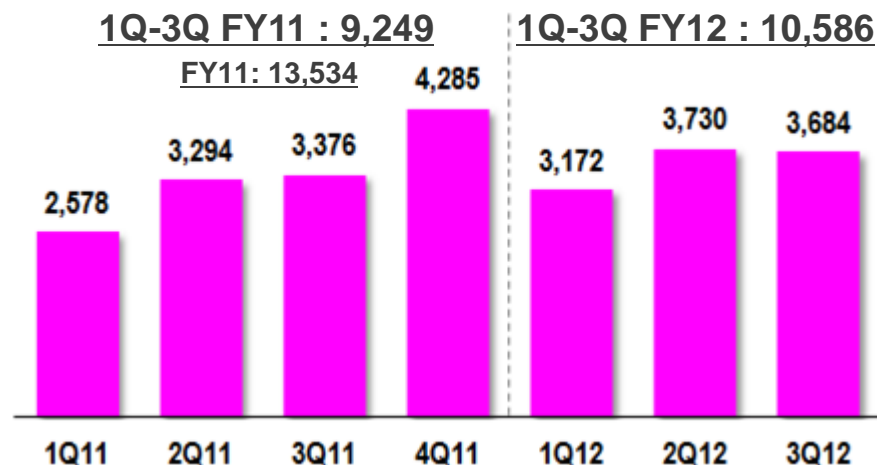


| Domestic IJ GIO related CAPEX |  |
|-------------------------------|--|
| 1Q-3Q FY11                    | JPY3.2 billion<br>(of JPY1.1 billion related to Matsue DC's core facilities) |
| 1Q-3Q FY12                    | JPY2.1 billion   |

Depreciation and Amortization:



Adjusted EBITDA:





# III-1. Developments of "IIJ GIO"

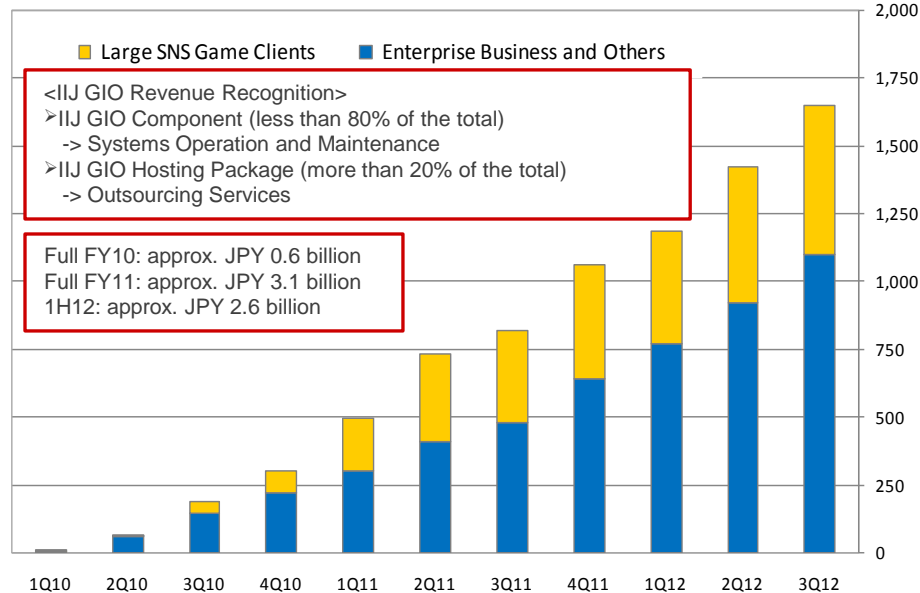


## Business Developments of IIJ GIO

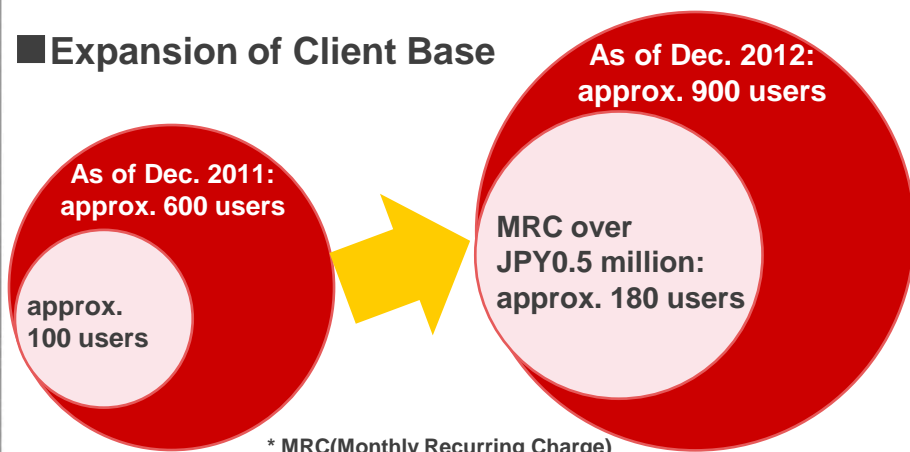
- **3Q12 revenue: approx. JPY1.6 billion**  
**1Q-3Q FY12 revenue: approx. JPY4.3 billion**  
**(2Q12: approx. JPY1.4 billion, 3Q11: approx. JPY0.8 billion)**
  - Dec. 2012 monthly revenue: JPY580 million  
 (Sep. 2012 monthly revenue: JPY490 million)
  - Number of projects and clients: approx.1,600 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)

## IIJ GIO Domestic Revenues

(JPY million)



## Expansion of Client Base

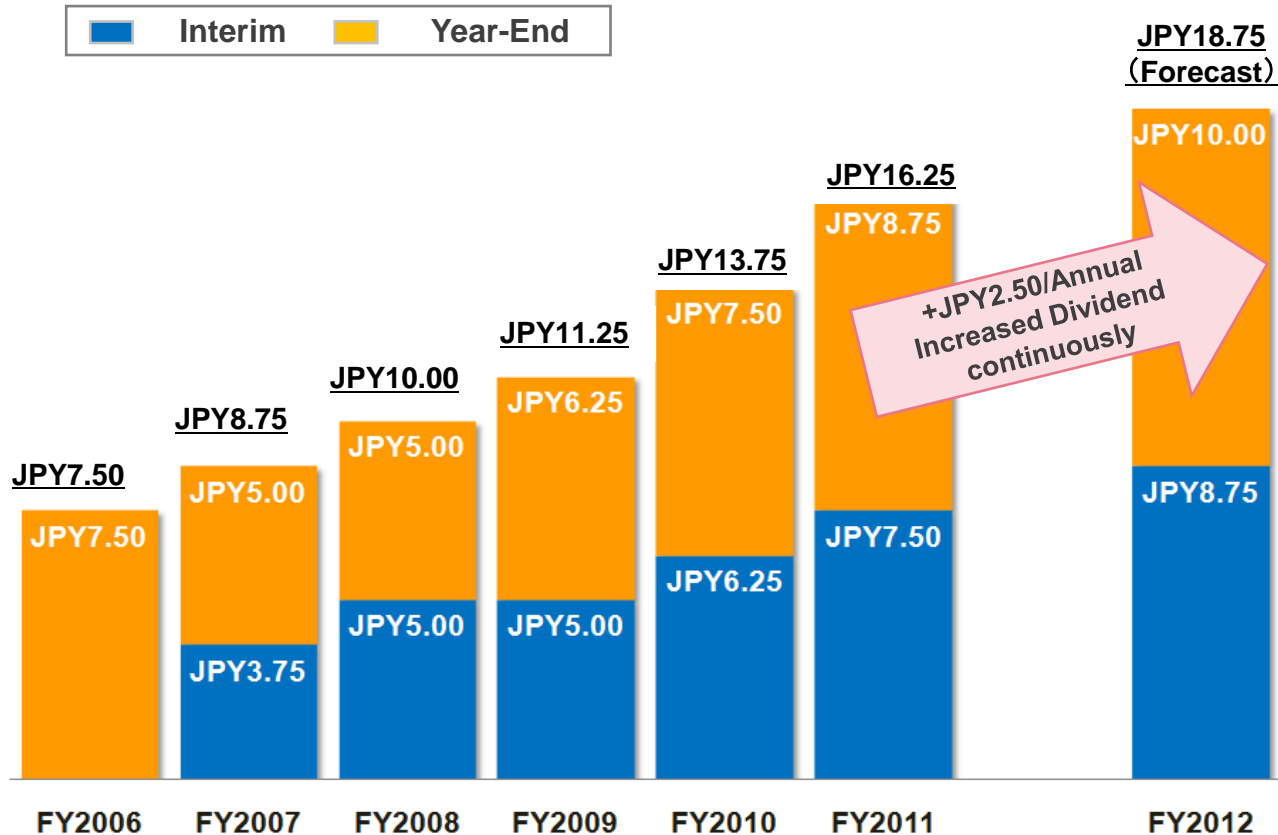


## Blue-chip Client Base

|  |                                |   |
|--|--------------------------------|---|
| 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  |                                |   |

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

IIJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. Dividend figures shown below are retroactively adjusted to reflect the stock split.



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<br>(Apr. 2012<br>-Mar.2013) | FY11 Actual<br>(Apr. 2011<br>-Mar.2012) | YoY<br>(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<br>Income Tax<br>Expense            | 6.9                                     | 6.0                                     | +0.9                         | +15.5% |
| Net Income<br>attributable to IIJ                 | 4.0                                     | 3.6                                     | +0.4                         | +9.9%  |
| Net Income<br>attributable to IIJ<br>per Share *1 | JPY 98.68                               | JPY 89.82                               | +JPY 8.86                    | +9.9%  |
| Cash Dividend per<br>Share *1                     | JPY 18.75 <sup>*2</sup><br>(Annual)     | JPY 16.25<br>(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.

## ※ Forward-looking Statements

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; 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)**

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)

