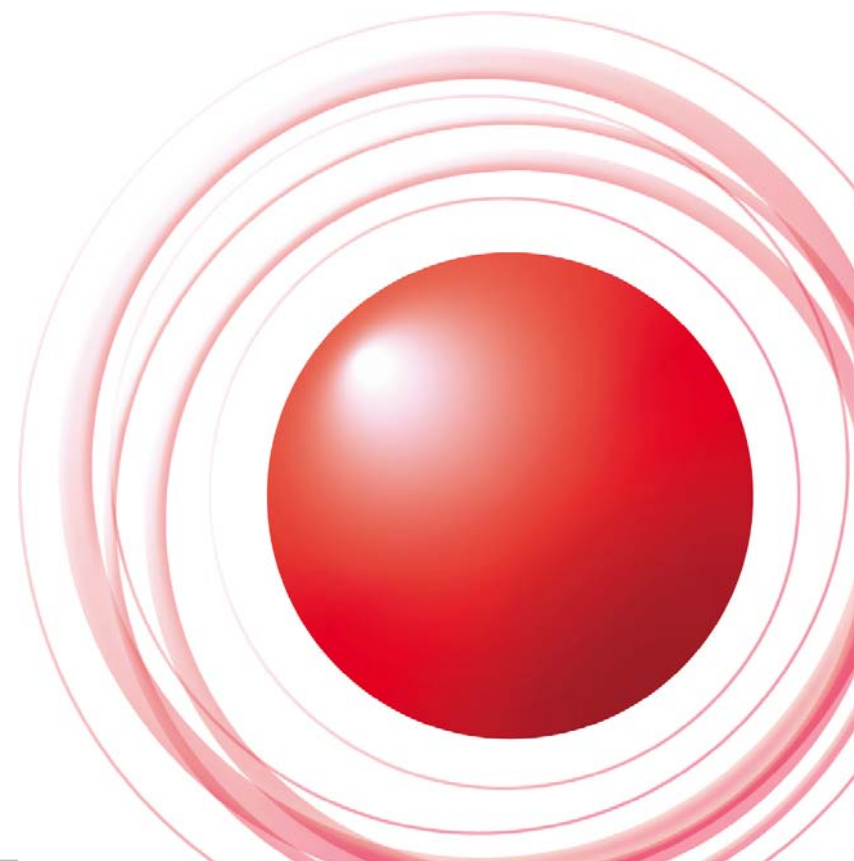


# 1st Quarter FY2009 Consolidated Financial Results



Internet Initiative Japan Inc.  
2009.8.11

Ongoing Innovation



# Agenda

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**I . Summary of 1Q FY2009 Financial Results**

**II . Consolidated Financial Results for 1Q FY2009**

**III . Reference Materials**

# I. Summary of 1Q FY2009 Financial Results

## « 1Q FY2009 Financial Results »

➤ Revenue	JPY15,835 million (down 3.0% YoY)
➤ Operating Income	JPY 351 million (down 14.7% YoY)
➤ Income before Income Tax Expense	JPY 300 million (down 3.1% YoY)
➤ Net Income Attributable to IIJ	JPY 180 million (up 6.7% YoY)

- **Operating income of Connectivity and outsource service and SI increased 21.9% YoY, from JPY584 million in 1Q09 to JPY479 million in 1Q08**

- Profitability progressed due to increase in gross margin as a result of continuous increase in recurring revenues and cost control while systems construction revenues decreased
- Total Operating income for 1Q09 was above company target

- **Recurring revenues : up 6.4% YoY, Systems Construction revenues: down 40.6% YoY**

- Contracted bandwidth increased along with the increase in the internet among corporate customers. Contracts of over 1Gbps increased.
- Mobile data communication service (MVNO service) reached 28,000 lines

- **ATM operation business is in its course of business start up**

- Begun placing ATMs in *Kansai* area. Operates 26 ATMs as of June 30, 2009.

- **Launched new service brand “LaIT” for med-to small size enterprises in July 2009**

- Launched LaIT rental server and LaIT private ethernet service.
- Target 20,000 contracts and revenues of JPY1 billion in 3 years

- **Transferred IIJ Research Laboratory to IIJ Innovation Institute Inc. in July 2009 to strengthen R&D**

## II-1. Consolidated Financial Results for 1Q FY2009

Unit: JPY billion

	<i>% of Revenues</i> <b>1Q09</b> (09/04~09/06)	<i>% of Revenues</i> <b>1Q08</b> (08/04~08/06)	<b>YoY</b>
Total Revenues	<b>15.8</b>	<b>16.3</b>	<b>(3.0%)</b>
Total Costs	<b>12.8</b>	<b>13.3</b>	<b>(3.5%)</b>
Gross Margin	<b>3.0</b>	<b>3.0</b>	<b>(0.9%)</b>
SG&A/R&D	<b>2.6</b>	<b>2.6</b>	<b>1.3%</b>
Operating Income	<b>0.4</b>	<b>0.4</b>	<b>(14.7%)</b>
Income before Income Tax Expense	<b>0.3</b>	<b>0.3</b>	<b>(3.1%)</b>
Net Income Attributable to IIJ	<b>0.2</b>	<b>0.2</b>	<b>6.7%</b>

➤ Revenue in line with original target  
 ➤ Recurring revenues increased YoY but systems construction revenues decreased affected by weak economy

➤ Continuous cost control  
 ➤ Cost of ATM Operation business: 1Q09: JPY192 mil, 1Q08: JPY15 mil

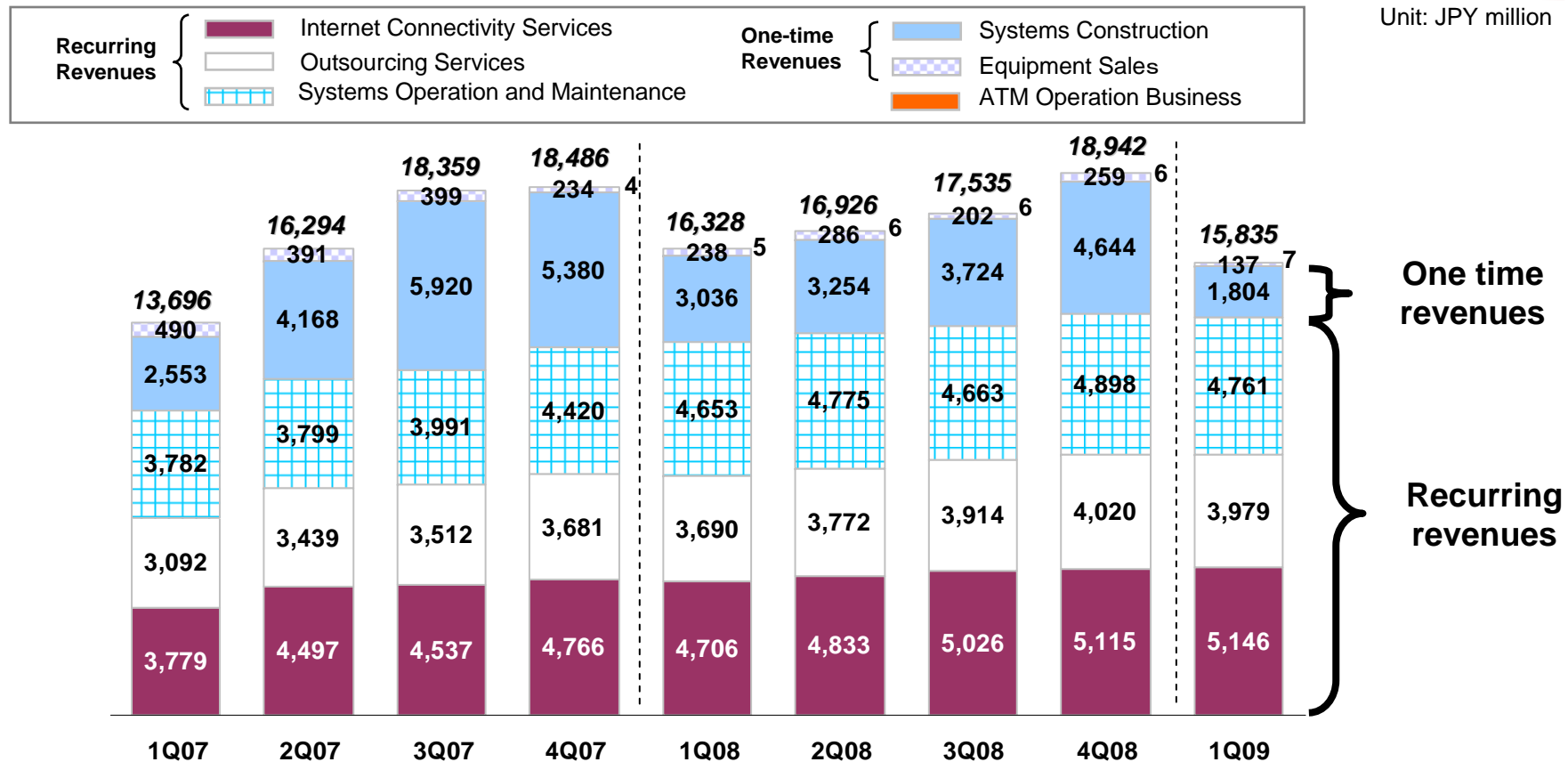
➤ Personnel related expenses increases in the beginning of the fiscal year but general expenses were reduced

➤ Operating income of connectivity and outsource service and SI increased YOY  
 ➤ Operating loss of ATM operation business: 1Q09: JPY233 mil, 1Q08: 67 mil

➤ Net loss attributable to noncontrolling interests: 1Q09: JPY93 mil, 1Q08: JPY55 mil

YoY = 1Q09 compared to 1Q08  
 QoQ = 1Q09 compared to 4Q08

## II-2. Revenues



◆ **Recurring revenues: JPY13,887 million (up 6.4% YoY, down 1.0% QoQ)**

- Connectivity service: up 9.4% YoY, up 0.6% QoQ
- Outsourcing service: up 7.8% YoY, down 1.0% QoQ
- Systems operation and maintenance: up 2.3% YoY, down 2.8% QoQ

◆ **One time revenues: JPY1,940 million (down 40.7% YoY, down 60.4% QoQ)**

- Systems construction: down 40.6% YoY, down 61.2% QoQ

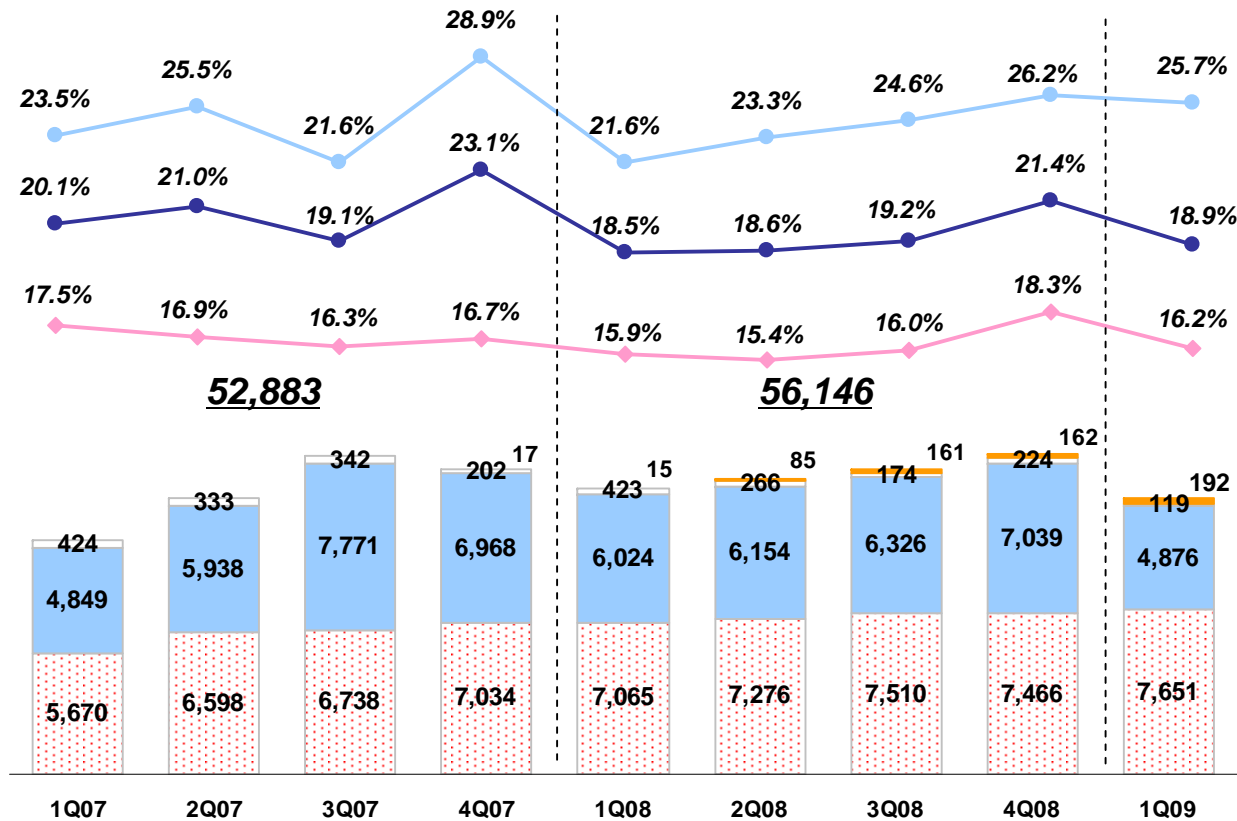
◆ **ATM operation business revenues: JPY7 million (up 54.3% YoY, up 20.6% QoQ)**

YoY = 1Q09 compared to 1Q08  
QoQ = 1Q09 compared to 4Q08

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



Unit: JPY million



**SI**  
 Personnel related costs, outsourcing costs and purchase etc.

**Connectivity and Outsourcing Services**  
 Network costs such as backbone costs, network equipment costs, network operation costs for such as network operation centers and personnel related costs

◆ **Cost of connectivity and outsourcing service:** up 8.3% YoY, up 2.5% QoQ

Gross margin ratio: up 0.3points YoY, down 2.1 points QoQ

◆ **Cost of SI:** down 19.1% YoY, down 30.7% QoQ

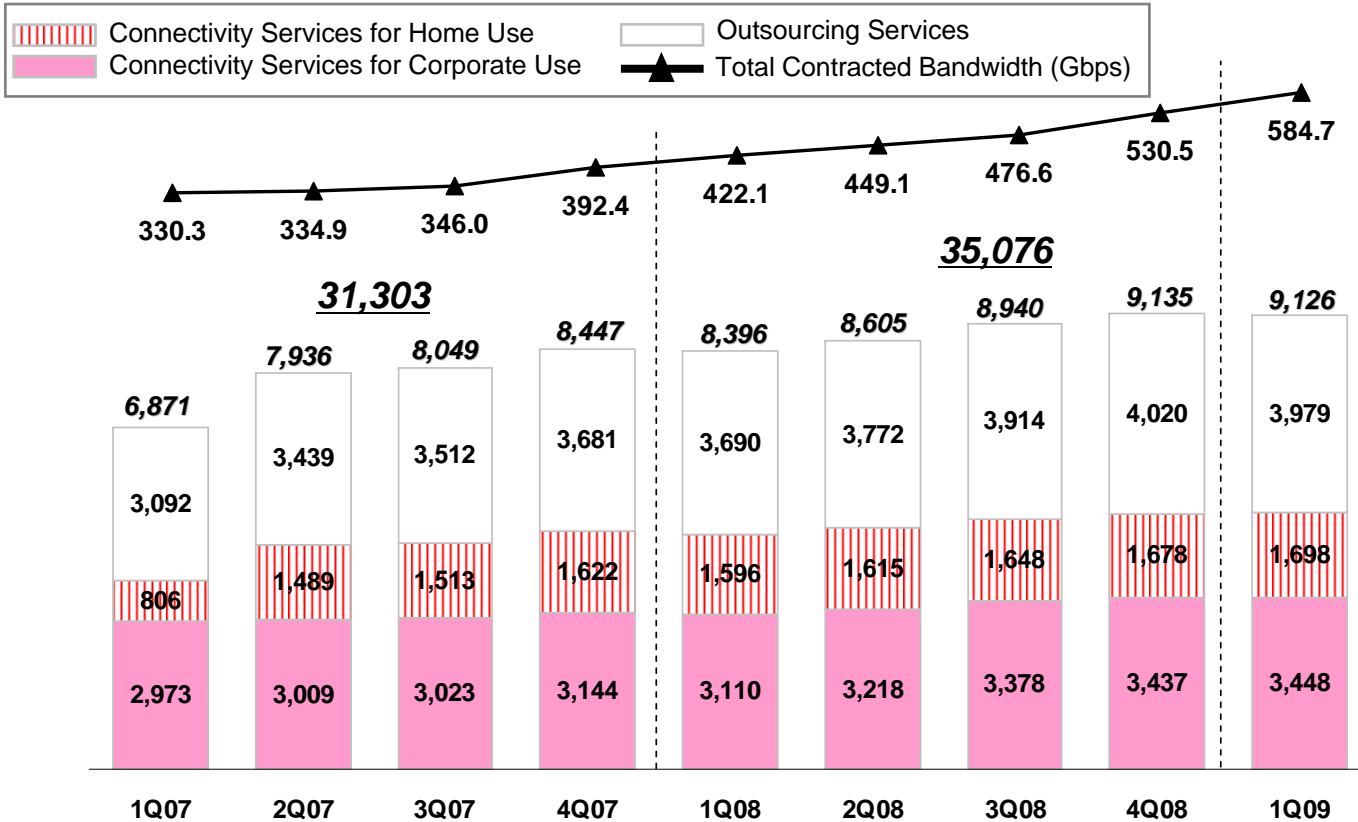
Gross margin ratio: up 4.1points YoY, down 0.5 points QoQ

◆ **Cost of ATM operation business:** up JPY177 million YoY, up JPY30 million QoQ (up 18.6% QoQ)

YoY = 1Q09 compared to 1Q08  
 QoQ = 1Q09 compared to 4Q08

## II-4. Connectivity and Outsourcing Services (1) Revenues

Unit: JPY million

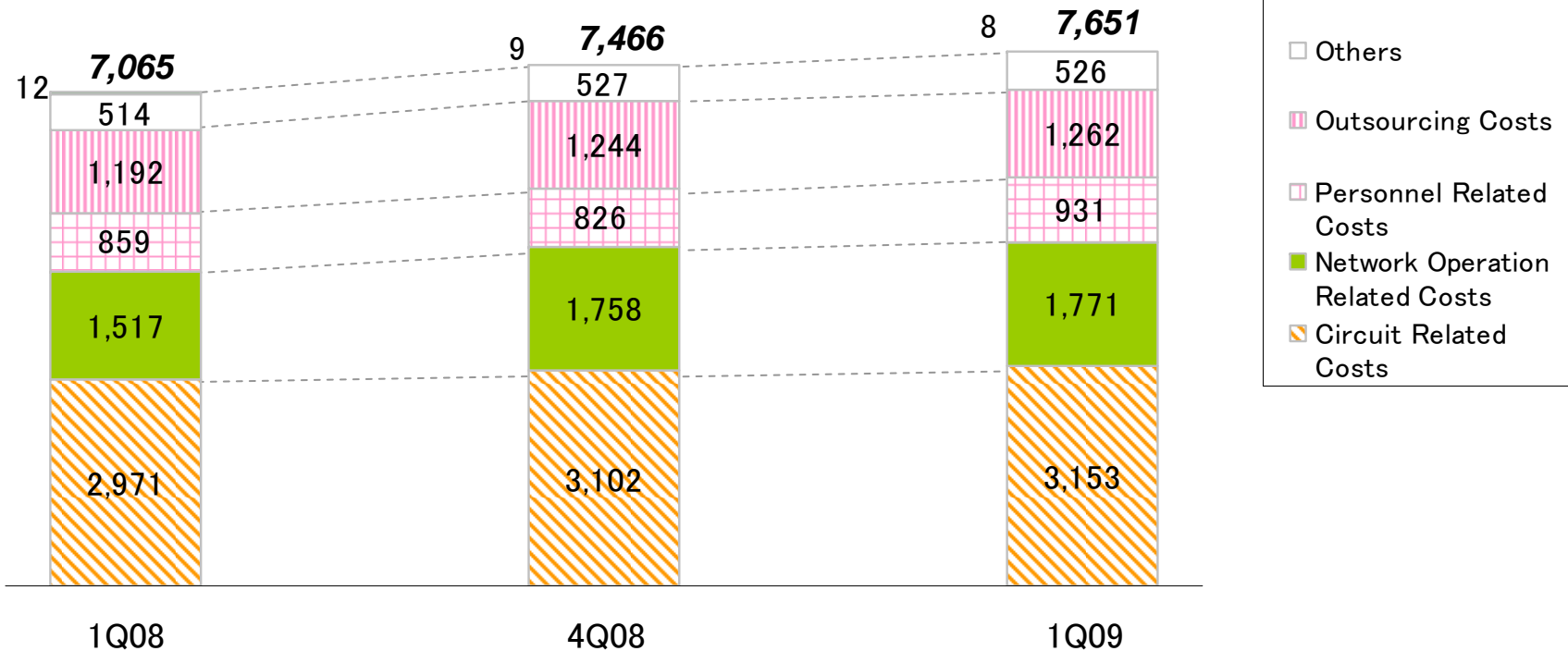


YoY = 1Q09 compared to 1Q08  
QoQ = 1Q09 compared to 4Q08

- ◆ **Connectivity service for corporate use:** up 10.9% YoY, up 0.3% QoQ
  - Contracts of over 1Gbps: 102 contracts, up 30 contracts YoY. Total contracted bandwidth continuously increased. Revenue growth weakened QoQ. There were price pressure which are common in the beginning of the fiscal year.
- ◆ **Connectivity service for home use:** up 6.4% YoY, up 1.2% QoQ
  - Revenues increased due to shifts toward optical line service which charge higher monthly fees. Increase in contracts of MVNO for home use will contribute in the coming quarters
- MVNO service:** reached 28,000 lines (up 5,000 lines compared to 4Q08.) Corporate use and home use both increased.
- ◆ **Outsourcing service:** up 7.8% YoY, down 1.0% QoQ
  - Decreased QoQ , just like it decreased in FY2008, as there were one time revenues in 4Q08 and also changes in contracts which are common in the beginning of every fiscal year.

## II-4. Connectivity and Outsourcing Services (1) Cost of Revenues

Unit: JPY million



◆ **Total costs: up 8.3% YoY, up 2.5% QoQ**

- QoQ: personnel related cost increased due to increase in the number of personnel such as newly graduates
- QoQ: circuit related cost such as exterior connectivity increased corresponding with the growth of MVNO services. Backbone cost was JPY919 million, up 2.6% YoY and up 0.3% QoQ

YoY = 1Q09 compared to 1Q08  
 QoQ = 1Q09 compared to 4Q08

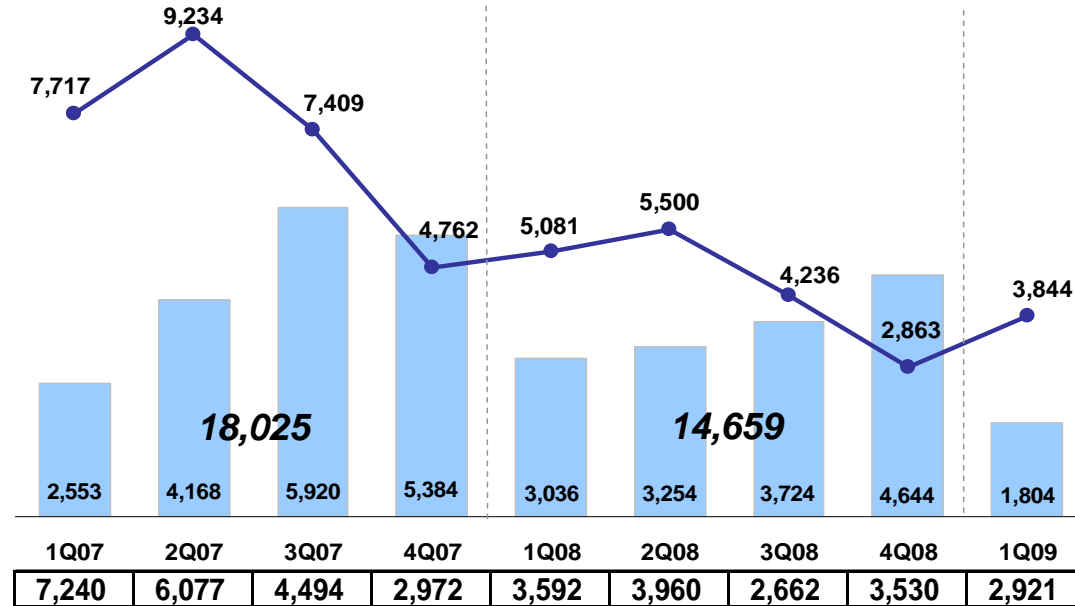


# II-5. Systems Integration (1) Revenues

Unit: JPY million

YoY = 1Q09 compared to 1Q08  
QoQ = 1Q09 compared to 4Q08

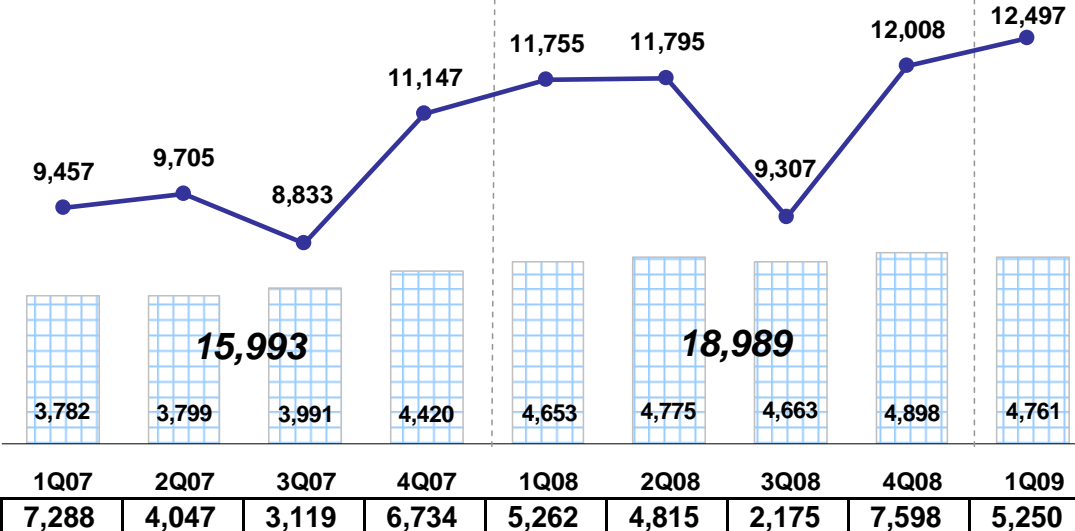
## [Systems construction]



## Systems construction

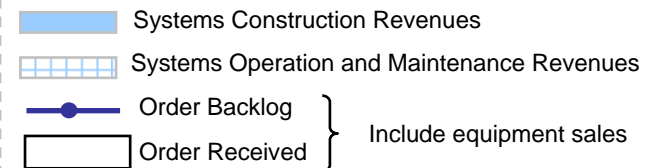
- ◆ Revenues: down 40.6% YoY, down 61.2% QoQ
- ◆ Order Backlog:
  - YoY: down 24.3%, down JPY1,236 million
  - QoQ: up 34.3%, up JPY981 million
- Revenue decreased compared to 1Q08, when the economy had not yet deteriorated
- Construction demands continue to be weak from 2H08, however slightly better compared to 3Q08.
- Mainly network related projects and no large application projects
- Corporate wish to pay for the provided service more as recurring contracts rather than a one-time contract
- 1st quarters are usually lowest due to seasonal factors

## [Systems operation and maintenance]



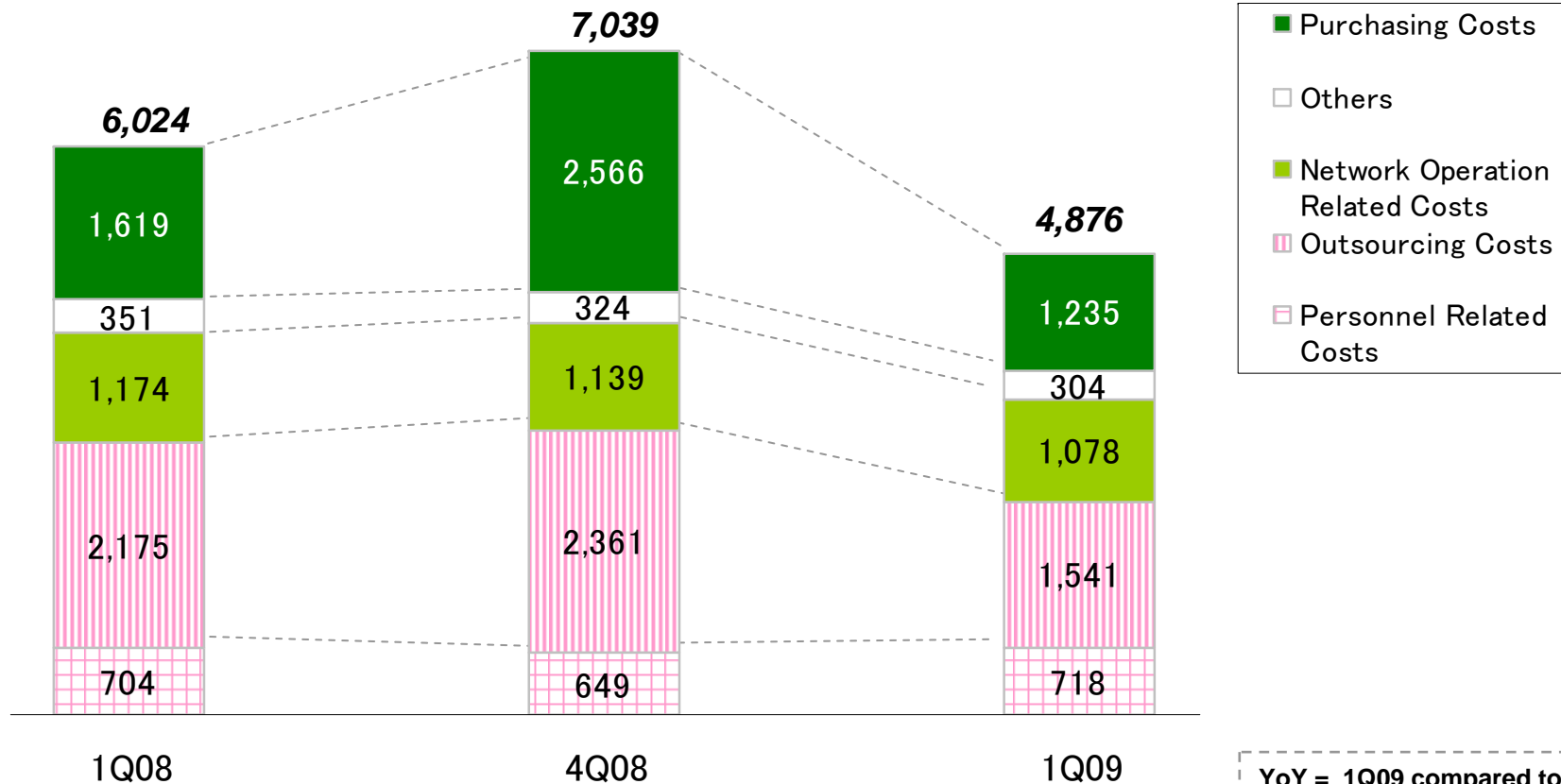
## Systems operation and maintenance

- ◆ Revenues: up 2.3% YoY, down 2.8% QoQ
- ◆ Order Backlog:
  - YoY: up 6.3%, up JPY741 million
  - QoQ: up 4.1%, up JPY489 million
- Order backlog increased mainly due to continuous projects from FY2008.
- Revenues decreased QoQ affected by the one-time revenue in 4Q08 and changes in contracts which are common in the beginning of every fiscal year



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

Unit: JPY million



YoY = 1Q09 compared to 1Q08  
 QoQ = 1Q09 compared to 4Q08

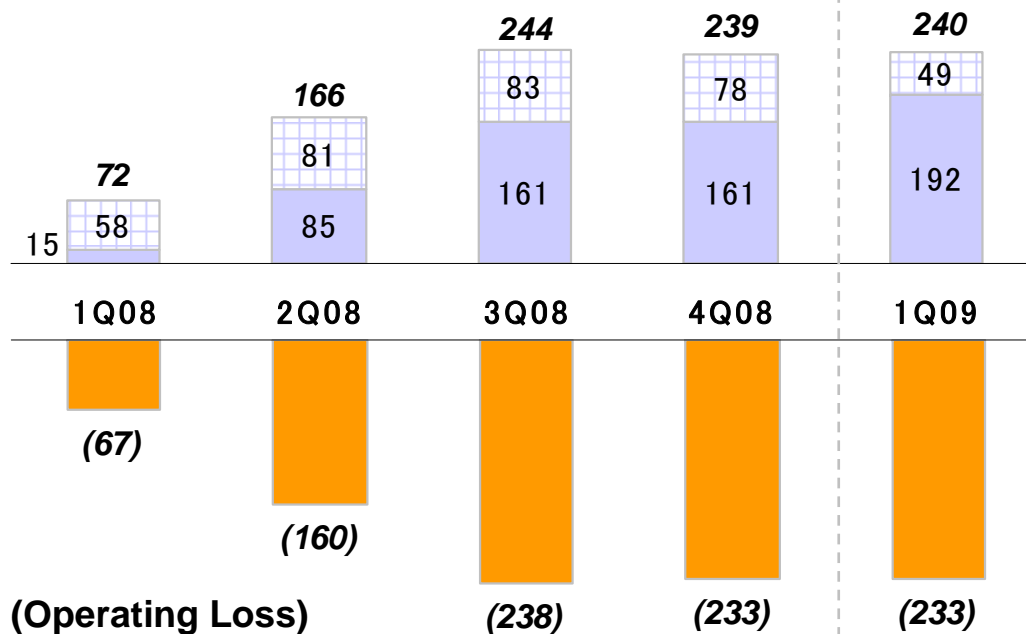
◆ **Total Costs: down 19.1% YoY, down 30.7% QoQ**

- QoQ: purchasing cost decreased corresponding to systems construction revenue
- QoQ: outsourcing related cost decreased as a result of decrease in systems construction revenue and cost control  
 The number of full-time outsourcing personnel: 222 people (down 130 people YoY, down 32 people QoQ)
- QoQ: personnel related expenses increased as a result of increase in employees such as newly graduates

## II-6. ATM Operation Business

Unit: JPY million

(Operating cost and expenses)



### Trust Networks Inc.

- Established July 2007
  - Consolidated subsidiary
  - Ownership: 72.3% (as of July 2009)
- Places and operates ATMs in amusement parlors
- Receives commission from each ATM withdrawal
- ATMs acquired under capital lease

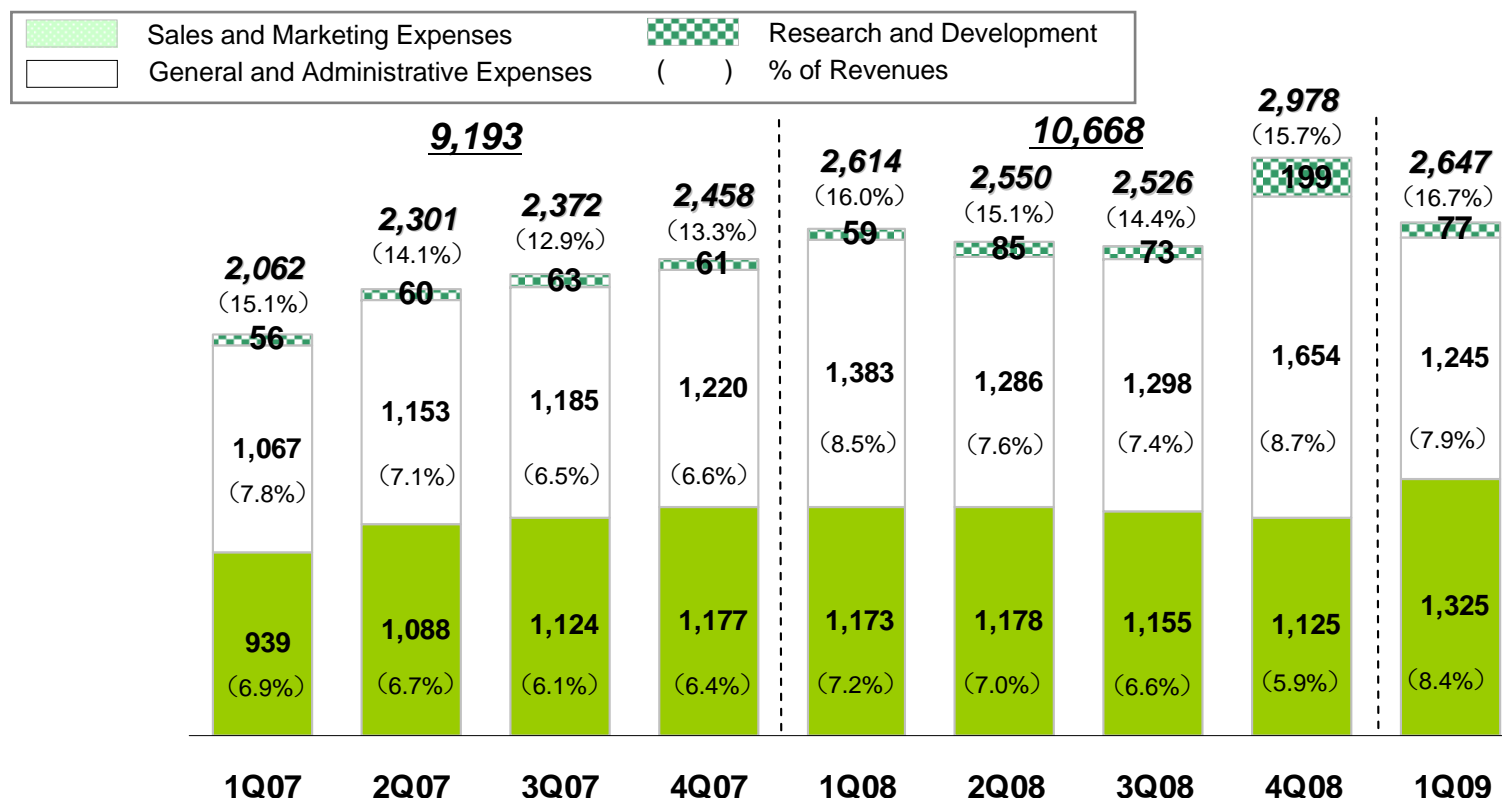
- ◆ Operated 10 ATMs during FY2008 as a testing phase
- ◆ Operates 26 ATMs as of June 30, 2009. Gradually placing ATMs
  - Begun placing ATMs in *Kansai* area from 1Q09. Introduction to *Kanto* is expected to begin from 3Q09
  - Withdrawals are gradually increasing once the ATMs are recognized they had been placed
- ◆ Expects to introduce around 8,000 ATMs in 4-5 years

(\*) The figures used for the explanation of the ATM operation business:

For FY2008 financial results presentation materials, Trust Network non consolidated figures were used. From FY2009: Due to segment reporting, consolidated figures after elimination are used, and the figures for FY2008 has been revised accordingly.

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

Unit: JPY million



◆ **SG&A expenses: up 0.6% YoY, down 7.5% QoQ**

➤ **Sales and marketing expenses: up 13.0% YoY, up 17.8% QoQ**

QoQ: increase in disposal of customer relationship of non-amortized intangible assets of JPY119 million, increase in personnel related costs

➤ **General and administrative expenses: down 9.9% YoY, down 24.7% QoQ**

QoQ: decreased as there were disposal of property and equipment for our services in 4Q08 of JPY424 million and outsourcing and general expenses decreased due to overall cost control.

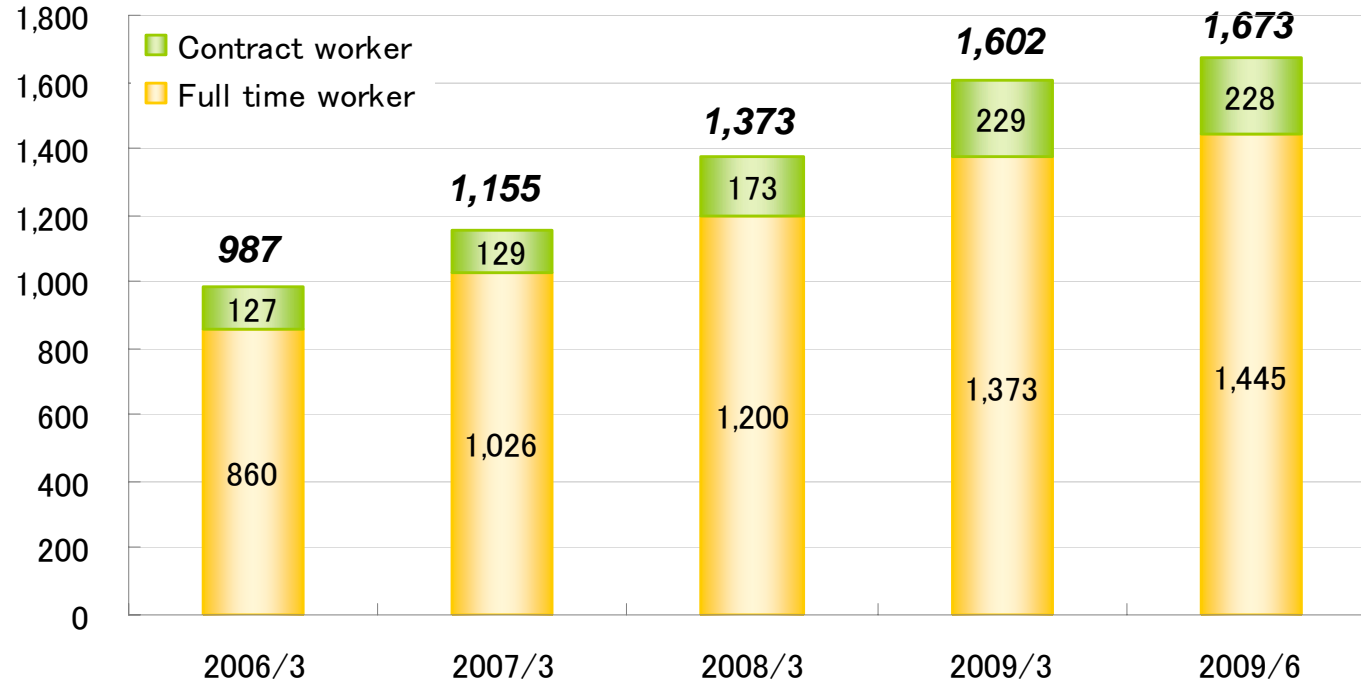
➤ **SG&A expenses related to ATM operation business: JPY49 million**

◆ **R&D expenses: up 31.0% YoY, down 61.5% QoQ**

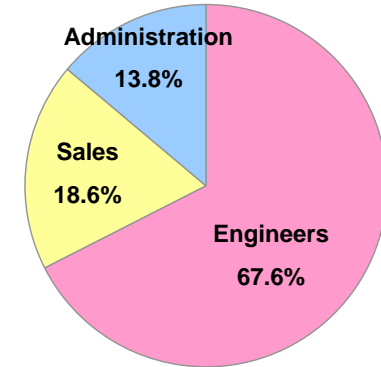
YoY = 1Q09 compared to 1Q08  
QoQ = 1Q09 compared to 4Q08

## II-8. Number of Employees

Number of Employees (total of full time and contract worker)



[Employee Distribution]



Personnel related costs and expenses

2,439  
(12.9%)

2,771  
(17.5%)

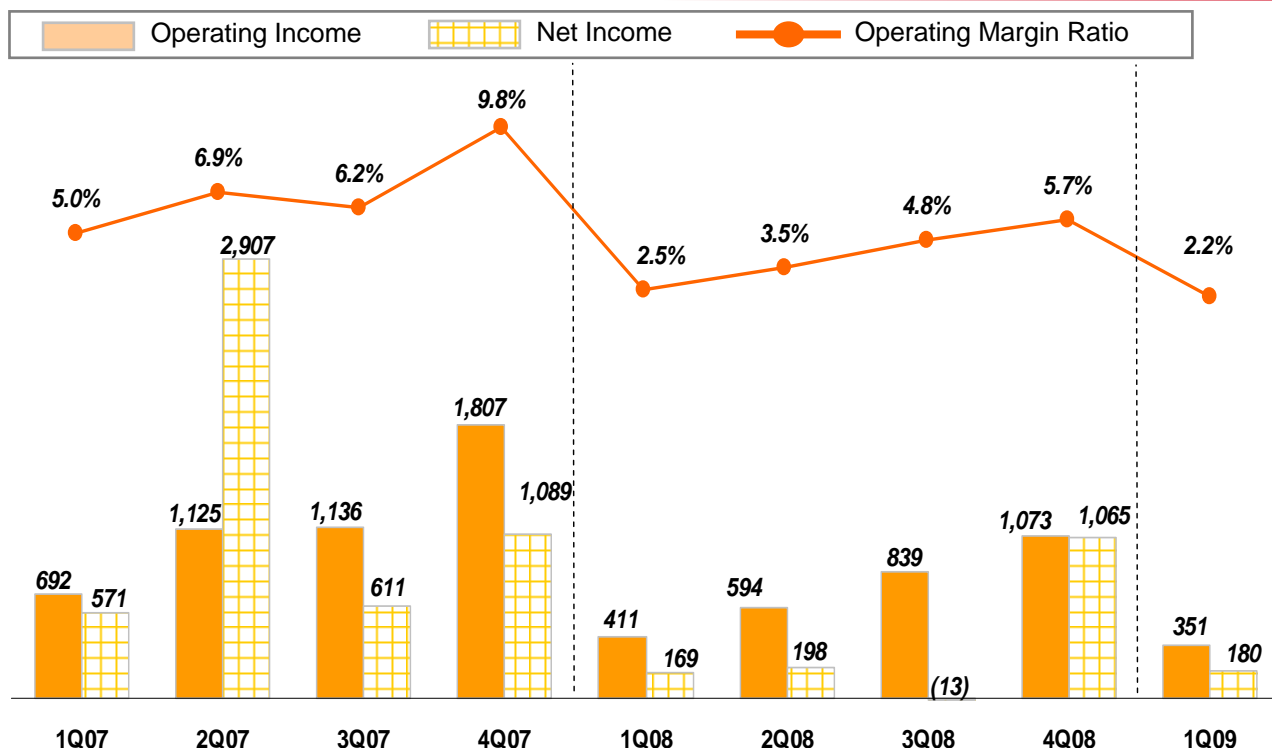
Unit: JPY million

◆ **Number of employees: up 71 employees QoQ**

- Hired 77 newly graduates in FY2009 (92 newly graduates for FY2008)
- Employees working for Trust Networks as of June 2009: 9 employees (4 of whom are second from within the group)
- Employment of non-graduates in FY2009 are not expected to increase largely

◆ **Personnel related cost and expenses: up 6.6% YoY (up JPY172 million), up 13.6% QoQ, up JPY333 million**

## II-9. Operating Income and Net Income



Unit: JPY million

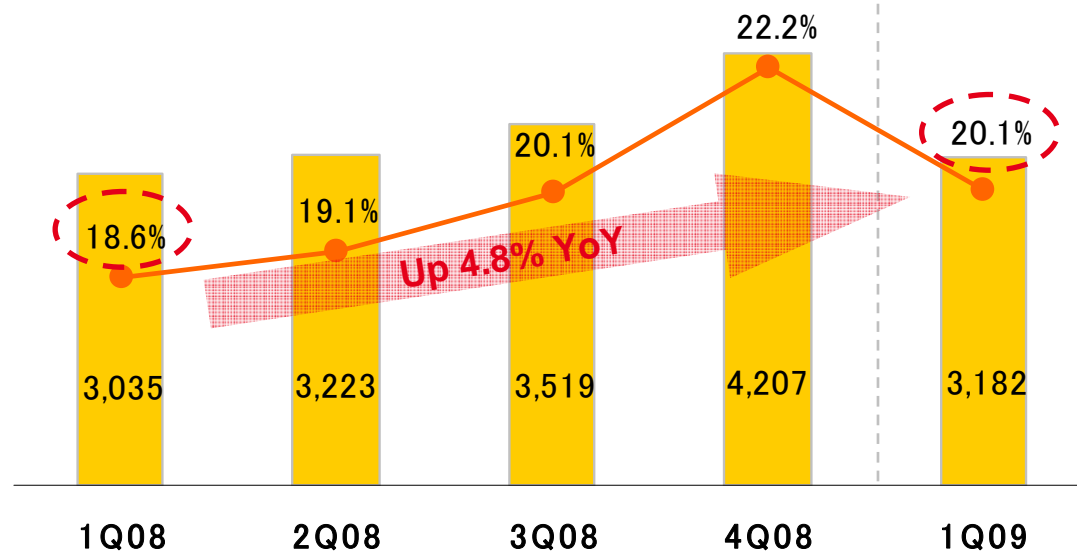
- ◆ **Operating income:**  
**down 14.7% YoY, down 67.3% QoQ**
  - Operating income decreased. While gross margin for connectivity and outsource service and SI increased YoY, operating loss related to ATM operation business increased and SG&A and R&D expenses slightly increased
- ◆ **Net income attributable to IIJ:**  
**up 6.7% YoY, down 83.1% QoQ**
  - Deferred tax expenses (income):  
 1Q09: JPY186 million in expense  
 1Q08: JPY127 million in expense  
 4Q08: JPY335 million in income
  - Equity in net loss of equity method investees: JPY32 million, slightly up compared to 1Q08
  - Net loss attributable to noncontrolling interests: 1Q09: JPY93 million related to losses of GDx Japan Inc. and Trust Networks Inc., up YoY

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09
Income Tax Expenses	175	(1,980)	392	552	213	326	653	(190)	244
Equity in net loss (income) of equity method investees	(20)	(29)	(42)	(52)	18	(17)	44	(10)	32
Net loss attributable to noncontrolling interests	9	15	27	45	55	85	120	93	93

## II-10. Connectivity and Outsourcing Service and SI

Unit: JPY million

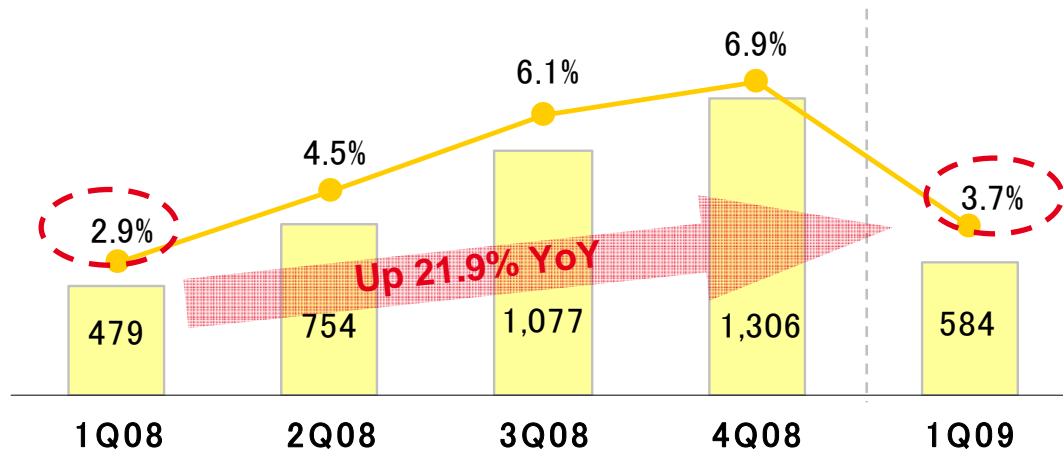
[Gross margin and gross margin ratio]



**Gross margin and operating margin of connectivity and outsourcing service and SI**

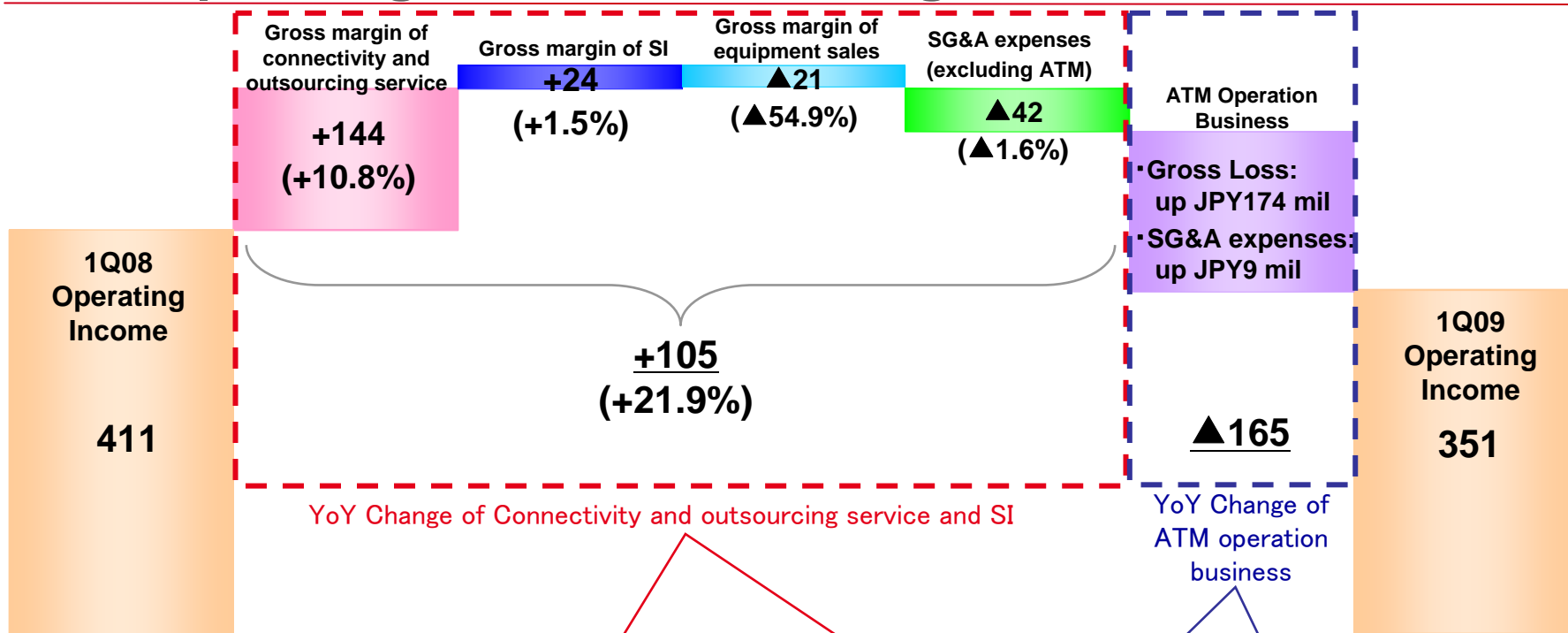
- ◆ 1Q profitability tend to decline compared to 4Q due to decrease in SI revenue from seasonal factors, and increase in cost due to increase in newly graduates
- ◆ Gross margin increased 4.8% YoY and gross margin ratio improved 1.5 points, while revenues decreased YoY due to the decrease in systems construction revenue
- ◆ Operating income: up 21.9% YoY, operating income ratio was up 0.8 points YoY
- ◆ Operating loss related to three new subsidiaries (the new business excluding Trust Networks)
  - YoY: JPY80 million
  - QoQ: JPY83 million

[Operating income and operating income ratio]



# II-11. Operating Income YoY Change

Unit: JPY million



◆ **Gross margin of Connectivity and outsourcing service:**  
Increased as revenue increase was greater than the increase in costs

◆ **Gross margin of SI:**  
Slightly increased as a result of the decrease in costs such as outsourcing related costs due to cost control while total systems construction revenue decreased due to weak economic environment

◆ **Gross margin of equipment sales:**  
Decreased corresponding to the decrease in total revenues

◆ **SG&A expenses:**  
Increased due to the increase in personnel related expenses and the disposal of customer relationship of non-amortized intangible assets, while general expenses decreased as a result of tight cost control

◆ **Gross loss of ATM operation business:**

1Q09: JPY184 million  
1Q08: JPY10 million

**Loss increased as it is in its course of business start up**

◆ **SG&A expenses of ATM operation business:**

1Q09: JPY49 million  
1Q08: JPY58 million



## II-12. Consolidated Balance Sheets

Unit: JPY million

	June 30, 2009	March 31, 2009	Changes
Cash and Cash Equivalents	9,897	10,188	(290)
Accounts Receivable	8,532	10,257	(1,724)
Inventories	536	530	+6
Prepaid Expenses	2,611	1,772	+839
Deferred tax assets (current)	586	762	(177)
Other Investments	2,125	1,915	+211
Property and Equipment	13,109	13,173	(64)
Goodwill and Other Intangible Assets	5,701	5,841	(140)
Deferred tax assets (non-current)	2,254	2,253	+0
Borrowings (Short-term)	7,150	7,350	(200)
Accumulated Deficit	(18,571)	(18,549)	(22)
Accumulated Other Comprehensive Income	(82)	(321)	+239
Total IIJ Shareholders' Equity	25,296	25,169	+127
Total Assets	50,671	52,301	(1,630)

➤ Decreased correspondingly to decreases in SI projects

➤ Bonus payments and maintenance expenses related to SI projects

➤ Available for sale equity securities: JPY900 million  
 ➤ Nonmarketable equity securities: JPY861 million  
 ➤ Others: JPY364 million

➤ Non-amortized intangible asset: JPY5,418 million  
 ➤ Amortized intangible asset: JPY274 million

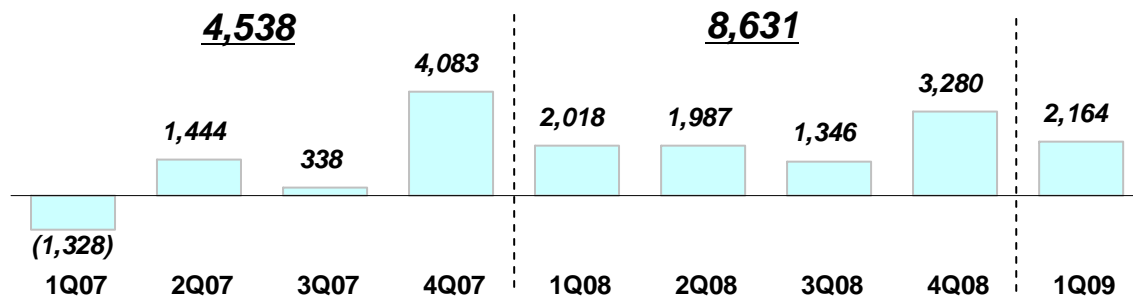
➤ Repayment of short term borrowings

➤ IIJ Shareholders' equity ratio: 49.9%

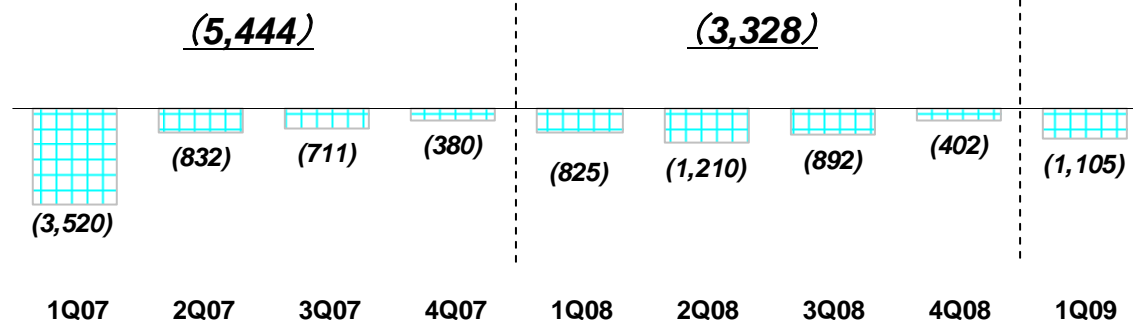
# II-13. Consolidated Cash Flows

Unit: JPY million

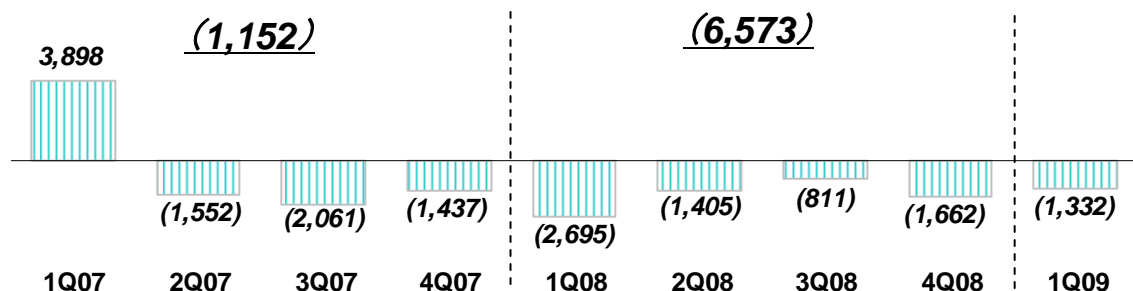
## Net cash provided by (used in) operating activities



## Net cash used in investing activities



## Net cash provided by (used in) financing activities



### Net cash provided by operating activities: JPY2,164 million

- Decrease in accounts receivable: JPY1,735 million
- Decrease in inventories, prepaid expenses and other current and noncurrent assets: JPY501 million
- Decrease in accounts payable related to on-going SI projects: JPY937 million
- Payment of income taxes: JPY208 million etc.

### Net cash used in investing activities: JPY1,105 million

- Purchase of property and equipment: JPY1,094 million etc.

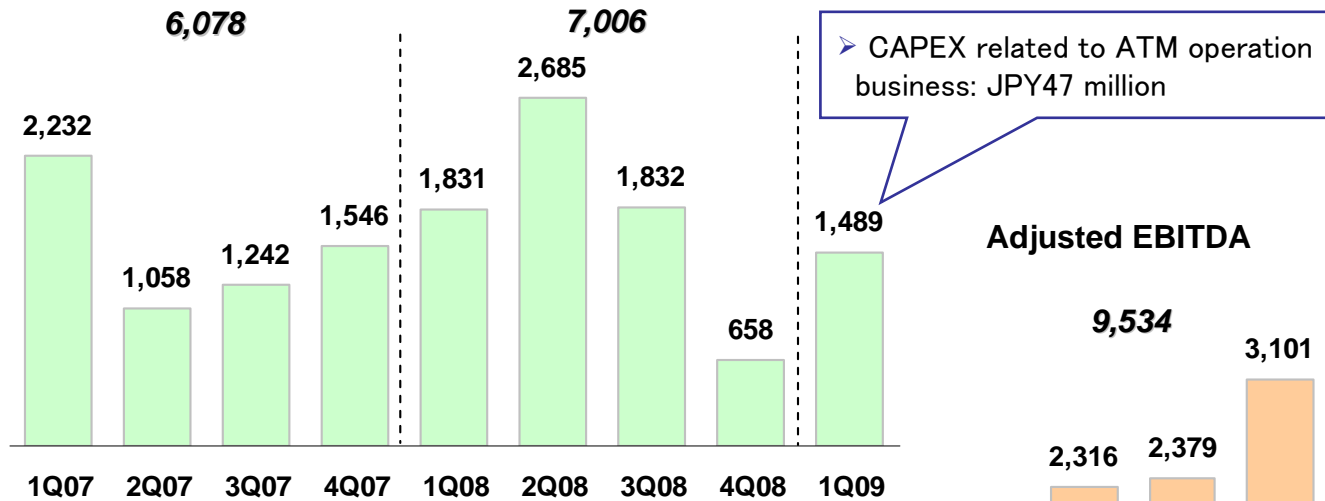
### Net cash used in financing activities: JPY1,332 million

- Principle payments under capital leases: JPY930 million
- Net repayment of short-term borrowings with initial maturities less than three months: JPY200million
- Dividend payment; JPY203 million etc.

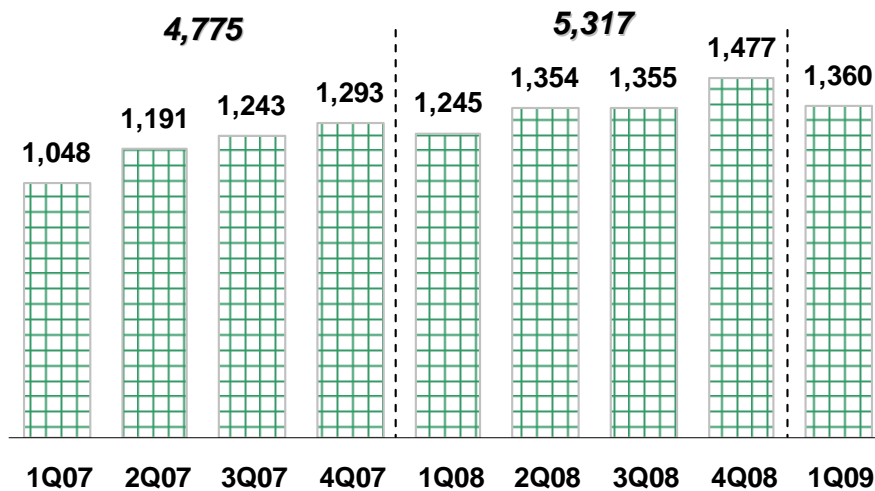
## II-14. Other Financial Data (CAPEX etc.)

Unit: JPY million

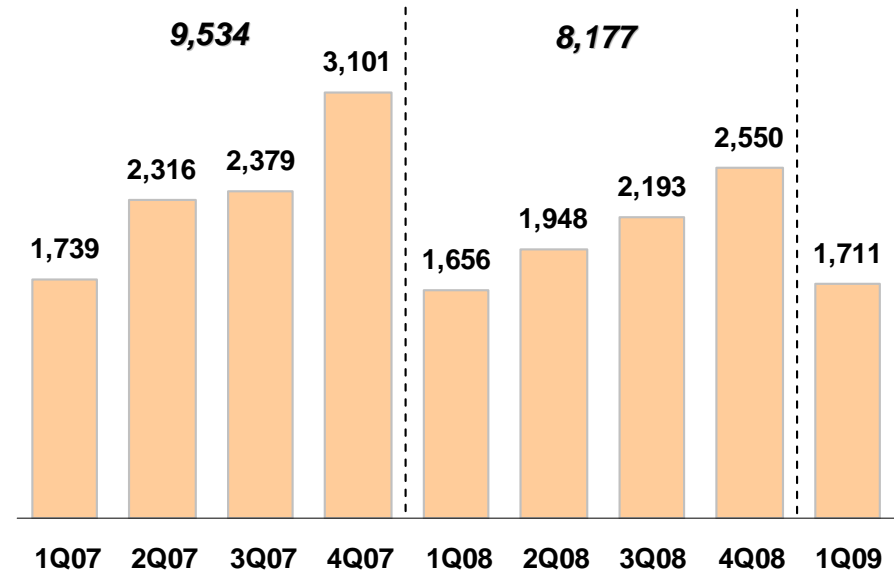
CAPEX (Include Capital Lease)



Depreciation and Amortization



Adjusted EBITDA



## II-15. Topics

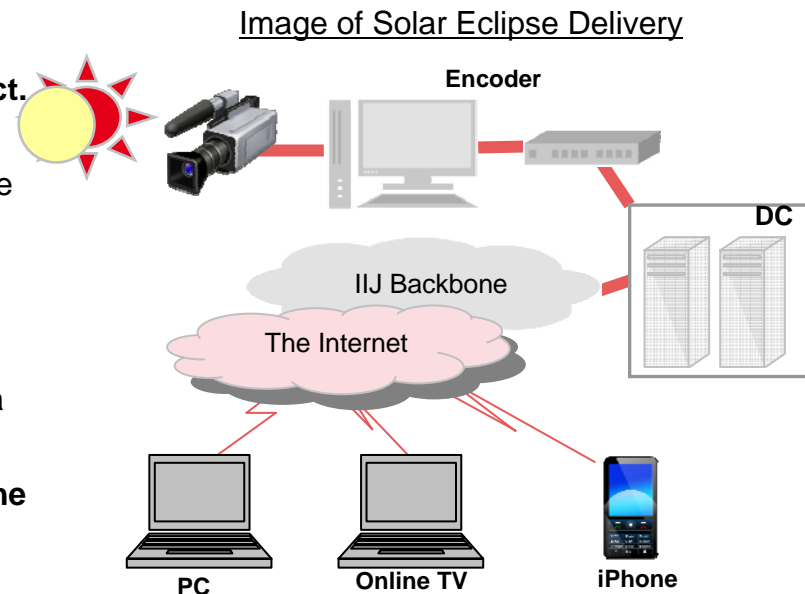
### ◆ Contents Delivery Service

- **Provided HD video distribution platform for solar eclipse project. Had approx. 20 thousands of simultaneous access**

- Distribution platform for Solar eclipse occurred on July 22, 2009, the first to be viewable from Japan in 46 years
- In addition to the Flash<sup>®</sup> Video format, we also corresponded to Microsoft<sup>®</sup> Silverlight<sup>™</sup> format
- Also distributed to iPhone users as one of the world's first trial
- Accumulated the latest technology and the know-how for large data distribution

- **We plan to expand our service for contents delivery by using the know-how and our world's finest backbone**

- Needs for rich contents delivery are increasing along as usage of broadband spread. We are developing new service that correspond to various distribution format
- Currently developing new services using technology for cloud computing



### ◆ Launched a new service brand for mid-to small sized enterprises

- **Provides LaIT Rental Server service, LaIT Private Ethernet Service from July 2009**
- **Plan to increase its service lineup with broadband and mobile connectivity services**

- The basic concept of the LaIT brand is to provide small and medium enterprises with low-cost, basic services with the same quality enjoyed by IJ's large corporate and government customers.
  - LaIT Rental Server: rental server with features for mail, web, anti-virus, spam mail etc. Also comes with a feature that converts web contents for mobile web contents
  - LaIT Private Ethernet: Maximizes SEIL/X, an IJ developed router and its SMFv2 feature for an auto configuration and provides a protocol free network

LaIT

SMF<sup>v2</sup>  
SEIL Management Framework Version 2



独自開発ルータ  
「SEIL/X」

### III-1. Reference: Forecast for FY2009














Unit: JPY billion  
(except for Net Income and Cash Dividend per Share)

	1H09 Target (09/4~09/9)	FY09 Target (09/4~10/3)	FY08 Actual (08/4~09/3)	YoY	
Total Revenues	33.5	73.0	69.7	+3.3	4.7%
Operating Income	0.8	3.3	2.9	+0.4	13.1%
Income before Income Tax Expense (Benefit)	0.6	2.7	2.0	+0.7	32.7%
Net Income attributable to IIJ	0.3	1.7	1.4	+0.3	19.8%
Net Income attributable to IIJ per Share	JPY 1,481	JPY 8,393	JPY 6,918	+1,475	21.3%
Cash Dividend per Share	JPY 1,000	JPY 2,000 (Annual)	JPY 2,000 (Annual)	0	0.0%

- ◆ We expect Connectivity and Outsourcing service revenues to continue its steady increase
- ◆ Systems construction revenues :  
We expect a decrease of approximately JPY2 billion in revenues compared to FY08 affected by the weak economic conditions.
- ◆ Systems operation and maintenance revenue :  
We expect an increase however with a lower growth rate compared to the previous fiscal year due to the decrease in systems construction revenues.
- ◆ Operating loss related to 4 new subsidiaries :  
We expected a decrease compared to the previous fiscal year to approximately JPY1 billion.
- ◆ We expect operating income to decrease in 1Q09 compared to 1Q08 because the operating loss related to 4 new subsidiaries are expect to have larger effect on our operating income in 1H09.

## III-2. Reference: IJ Group Companies

(As of July 31, 2009)

	Company Name	Ownership	Main Business
Consolidated Subsidiaries	 IJ Technology Inc.	100%	Offers a comprehensive suite of systems integration services from design, physical installation, operation, and maintenance to monitoring for our customers' diverse network systems.
	 IJ Financial Systems Inc.		Provides full outsourcing services for integration and operation of the front- and back-end for securities systems.
	 Net Care, Inc.		Provides a full range of network operation and management services, from customer support, end-user help desks, monitoring and troubleshooting to integrated management services.
	 Net Chart Japan Inc.		Provides network construction services, primarily for LANs, such as network installation wiring, installation and set-up of equipment, installation of applications, and operational support.
	 IJ America Inc.		Provides quality Internet services in the U.S. with a focus on U.S.-based enterprises doing business in the Asia-Pacific region. Also IJ-A constructs and operates on U.S. Internet backbone network.
	 hi-ho, Inc.		Supports customer's safe, secure and comfortable Internet life based on ISP business for personal users.
	 On-Demand Solutions Inc.		Provides network system for print-on-demand services for the financial sector to help them reduce printing and delivery cost for brochures and other related documents.
	 IJ Innovation Institute Inc.		An incubation business for the next generation internet. (R&D)
	 Trust Networks Inc.		72.3%
	 GDX Japan Inc.	60.2%	Building safe, reliable corporate messaging networks and providing message exchange services.
Equity Method Investees	 Internet Multifeed Co.	31%	Provides mutual access with other major ISPs and content distribution services based on Multifeed technology. Also MFEED operates JPNAP, a distributed IX service.
	 Internet Revolution, Inc.	30%	Operates a comprehensive portal site that provides various contents, such as SNS, blogs, stunning games, videos, and music.
	 Taihei Computer Co., Ltd.	45%	Provides operation of reward point management system

### III-3. Reference: Press Release

Date		Press Releases
FY09	1Q	4/9 IIJ and SkillUpJapan Embark on Proof-of-Concept Testing of Japan's First Streaming Distribution of Flash Video with Copyright Protection
		4/17 IIJ Adds New URL Filtering Service to High-Performance SEIL Series Routers
		4/27 IIJ Releases a Free IPv6 Connection Feature, IPv6 Virtual Access
		5/15 IIJ Announces Full Year and Fourth Quarter Results for the Fiscal Year Ended March 31, 2009
		5/20 IIJ Introduces New IIJ Mobile Fee Plan and Proprietary Data Communications Terminal
		5/22 IIJ Announces Partial Amendments to FY2008 Consolidated Financial Results
		5/26 IIJ Announces Partial Amendment of its Articles of Incorporation
		5/26 IIJ Announces Director and Executive Officer Nominations
		6/1 IIJ Launches IIJ Laptop Security Solution
		6/3 IIJ-Tech Releases Integrated Email Security Solution "iiMail Suite"
	6/9 GDX Expands Features on the GDX Drop Box Corporate File Transfer Service	
	2Q	7/1 IIJ Group to Strengthen R&D Organization
		7/1 IIJ Launches LaIT for SMEs
		7/8 IIJ to Distribute Live HD Video for the First Time Using Live Smooth Streaming Technology and Silverlight
7/9 IIJ to Provide Internet Connectivity Service in AT TOKYO Data Center		
7/14 IIJ to Provide HD Video Distribution Platform for Solar Eclipse Project		

## ※ 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; 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").

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