

1st Quarter FY2008 Consolidated Financial Results



Internet Initiative Japan

Internet Initiative Japan Inc.
2008.8.12

<http://www.ij.ad.jp/IR/>

-1. Consolidated Financial Results for 1Q FY2008

Unit: JPY billion

	<i>% of Revenues</i> 1Q08 (08/4 ~ 08/6)	<i>% of Revenues</i> 1Q07 (08/4 ~ 08/6)	YoY
Total Revenues	16.3	13.7	19.2%
Total Costs	<i>81.5%</i> 13.3	<i>79.9%</i> 10.9	21.6%
Gross Margin	<i>18.5%</i> 3.0	<i>20.1%</i> 2.8	9.9%
SG&A/R&D	<i>16.0%</i> 2.6	<i>15.1%</i> 2.1	26.8%
Operating Income	<i>2.5%</i> 0.4	<i>5.0%</i> 0.7	40.5%
Income before Income Tax Expense	<i>1.9%</i> 0.3	<i>5.5%</i> 0.8	59.1%
Net Income	<i>1.0%</i> 0.2	<i>4.2%</i> 0.6	70.4%

Recurring revenues increased by 22.5% YoY due to the accumulation of recurring revenues.

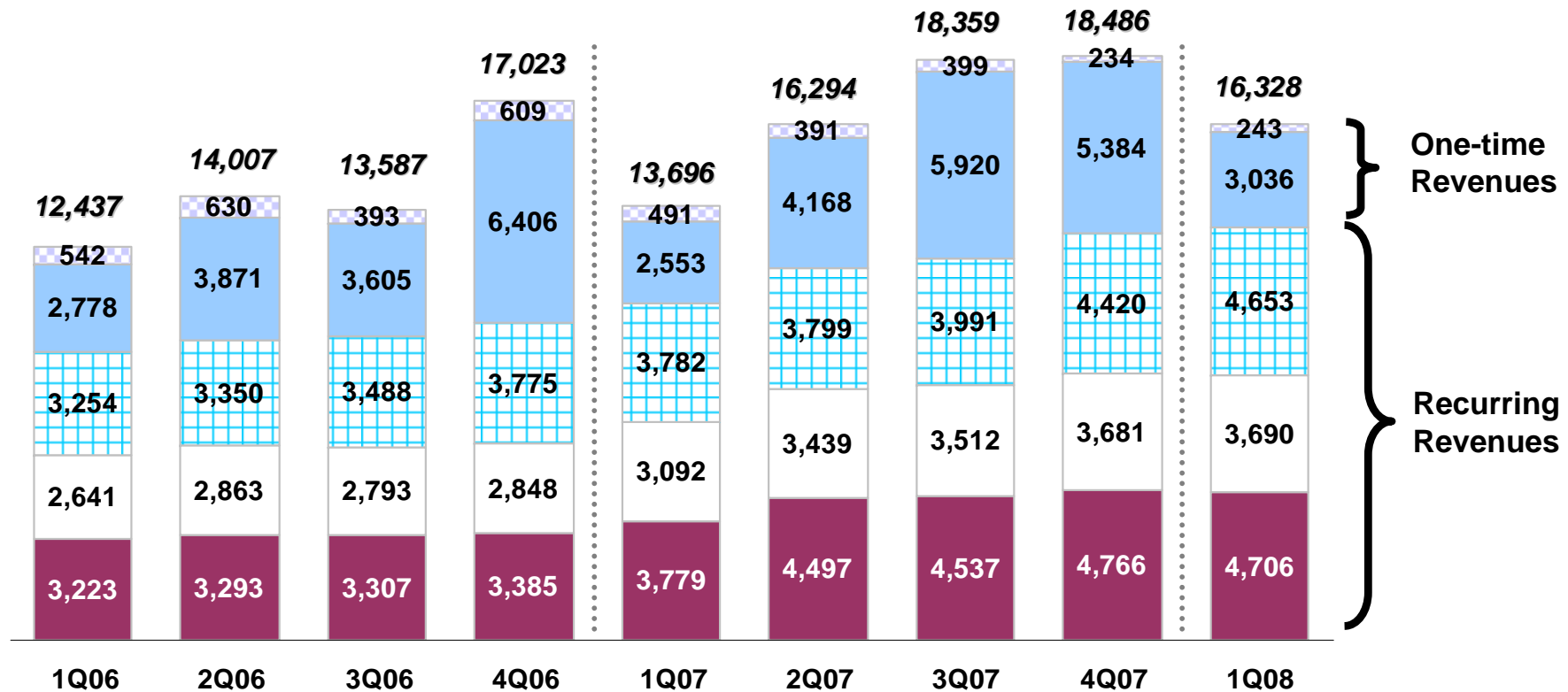
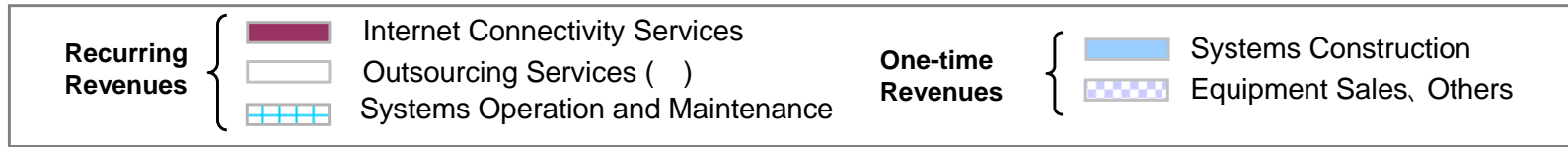
One-time revenues from systems construction was an increased of 18.9% YoY.

Cost of Connectivity and Outsourcing service revenues and cost of SI revenues increased (up 24.6% and up 24.2% YoY respectively) due to business expansion.

SG&A expense increased by 26.8% YoY mainly due to personnel related costs from business expansion and loss related to new business.

Absence of capital gains from the sale of equity securities which were recorded in 1Q07

-2. Revenues

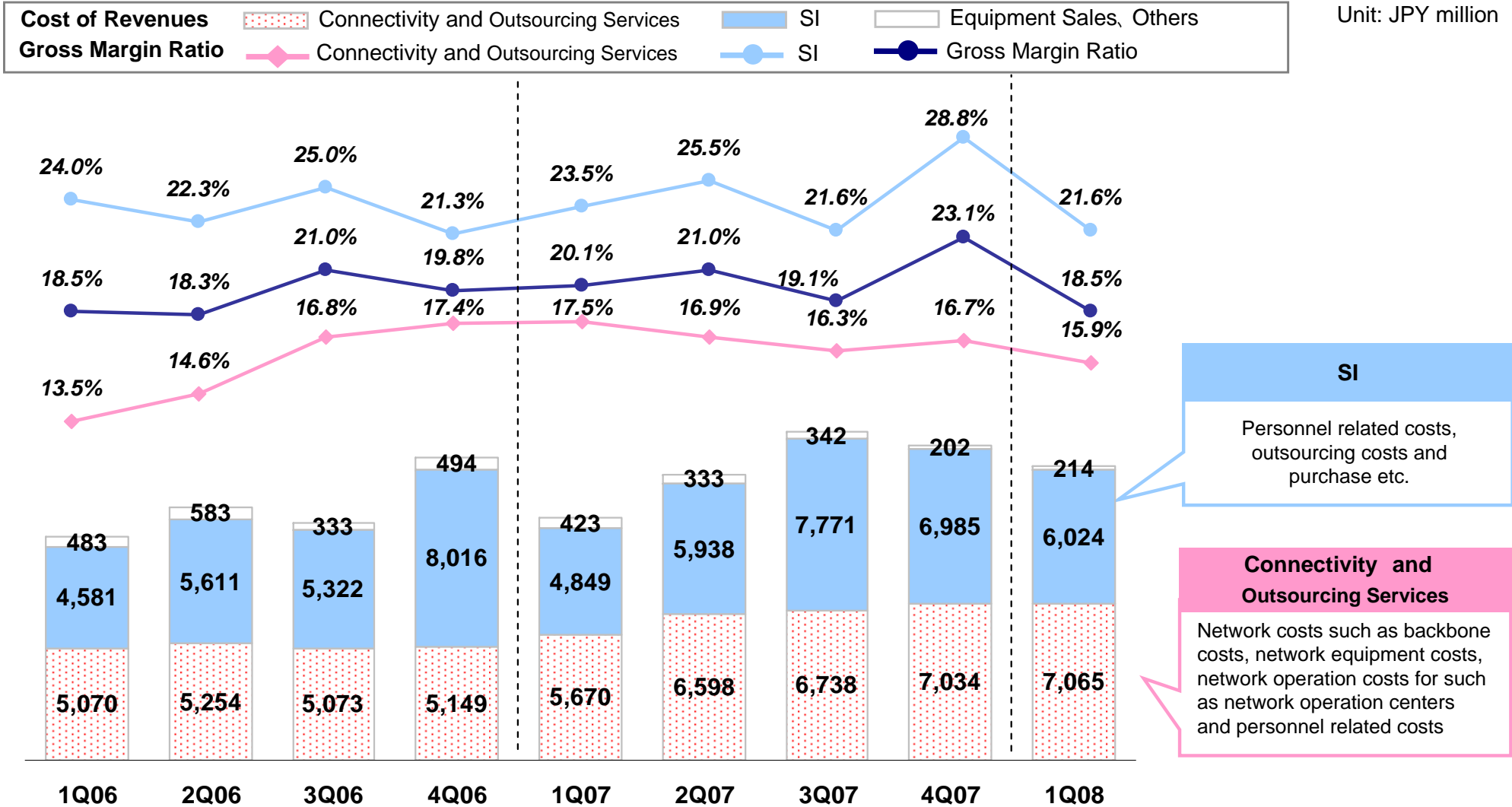


- ◆ **Recurring Revenues in 1Q08: JPY 13,050 million, up 22.5% from 1Q07 and up 1.4% from 4Q07**
 - Internet Connectivity Services in 1Q08: up 24.5% from 1Q07, down 1.3% from 4Q07
 - Outsourcing Services () in 1Q08: up 19.4% from 1Q07, up 0.2% from to 4Q07
 - Systems Operation and Maintenance 1Q08: up 23.0% from 1Q07, up 5.3% from 4Q07

From 1Q08, “Value-added Service” and “Other” have been reclassified to “Outsourcing Services”
- ◆ **Recurring Revenues increased to 79.9% of total revenues in 1Q08 as systems construction revenues (one-time revenue) are small in 1Q08.**
- ◆ **Systems Construction: JPY 3,036, up 18.9% from 1Q07, down 43.6% from 4Q07**

-3. Cost of Revenues and Gross Margin Ratio

Unit: JPY million



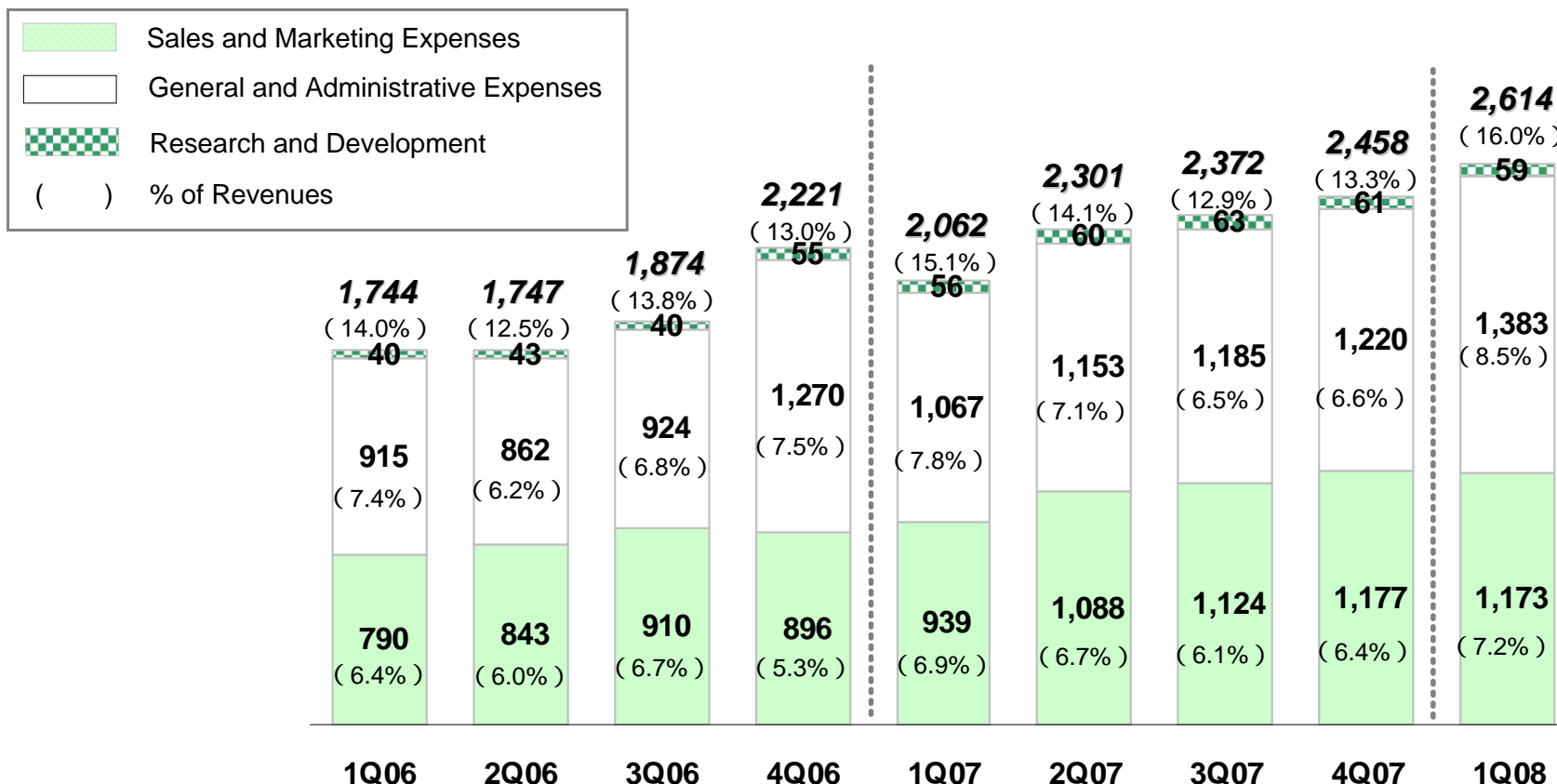
◆ **Connectivity and Outsourcing Services** : up 24.6% from 1Q07, up 0.4% from 4Q07

- Gross Margin Ratio was 15.9%, down 1.6 points from 1Q07 and down 0.8 points from 4Q07.

◆ **SI** : up 24.2% from 1Q07, down 13.8% from 4Q07

- Gross Margin Ratio was 21.6%, down 1.8 points from 1Q07 and down 7.1 points from 4Q07.

-4. SG&A Expenses/R&D



◆ **SG&A expenses : % of revenues was 16.0%, up 26.8% from 1Q07, up 6.4% from 4Q07**

- Sales and marketing expenses: percentage of revenues were 7.2%, up 24.9% from 1Q07, down 0.4% from 4Q07
- General and administrative expenses: percentage of revenues were 8.5%, up 29.6% from 1Q07, up 13.4% from 4Q07
- Research and development expenses: percentage of revenues were 0.4%, up 4.4% from 1Q07, down 4.0% from 4Q07

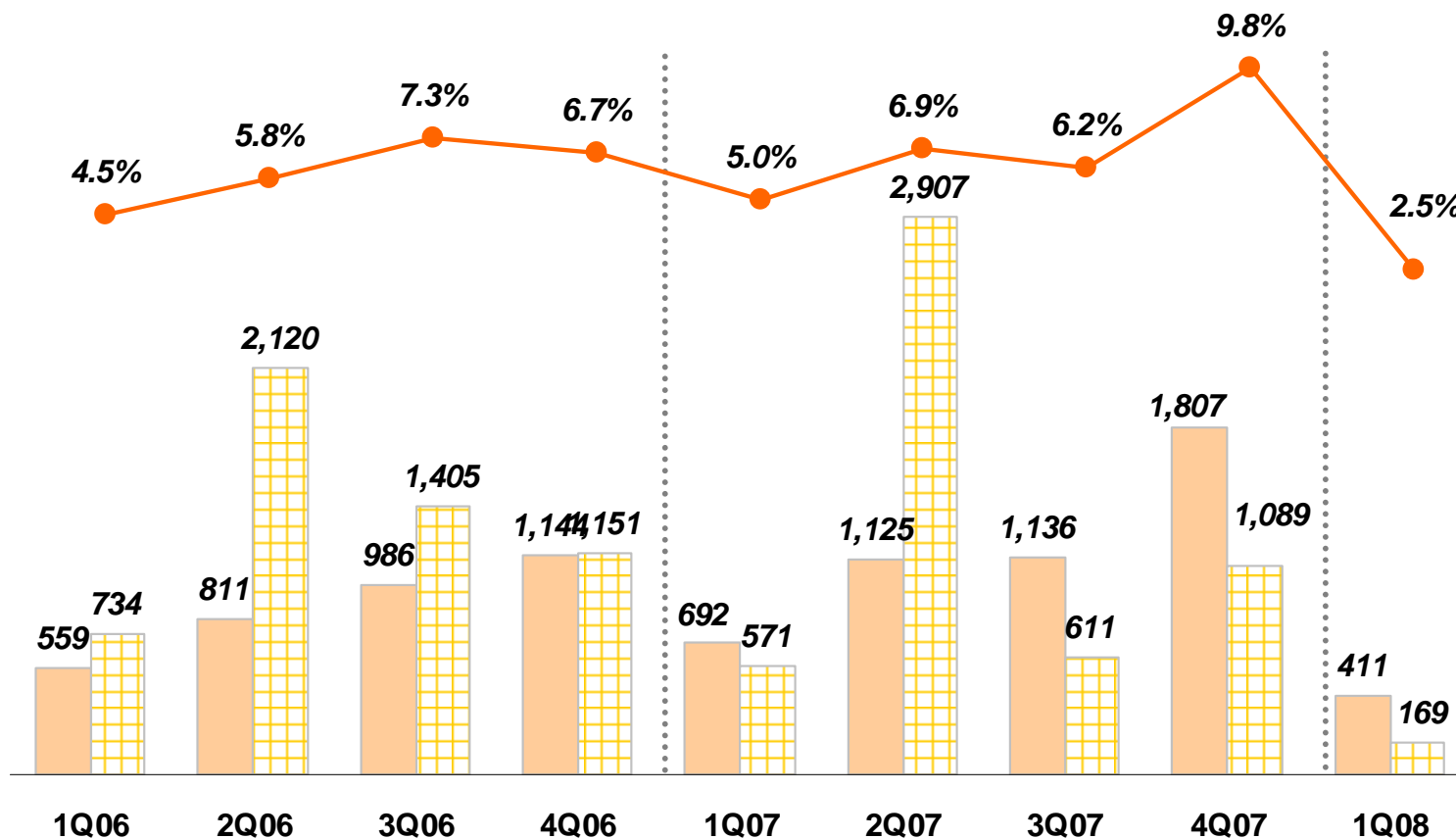
◆ **SG&A expenses of newly established 4 subsidiaries: JPY 111 million**

◆ **Consolidated Number of Employees: 1,513 employees at end of 1Q08. an increase of 221 from 1Q07 and an increase of 140 from 4Q07 end**

-5. Operating and Net Income

Operating Income
 Net Income
 Operating Margin Ratio

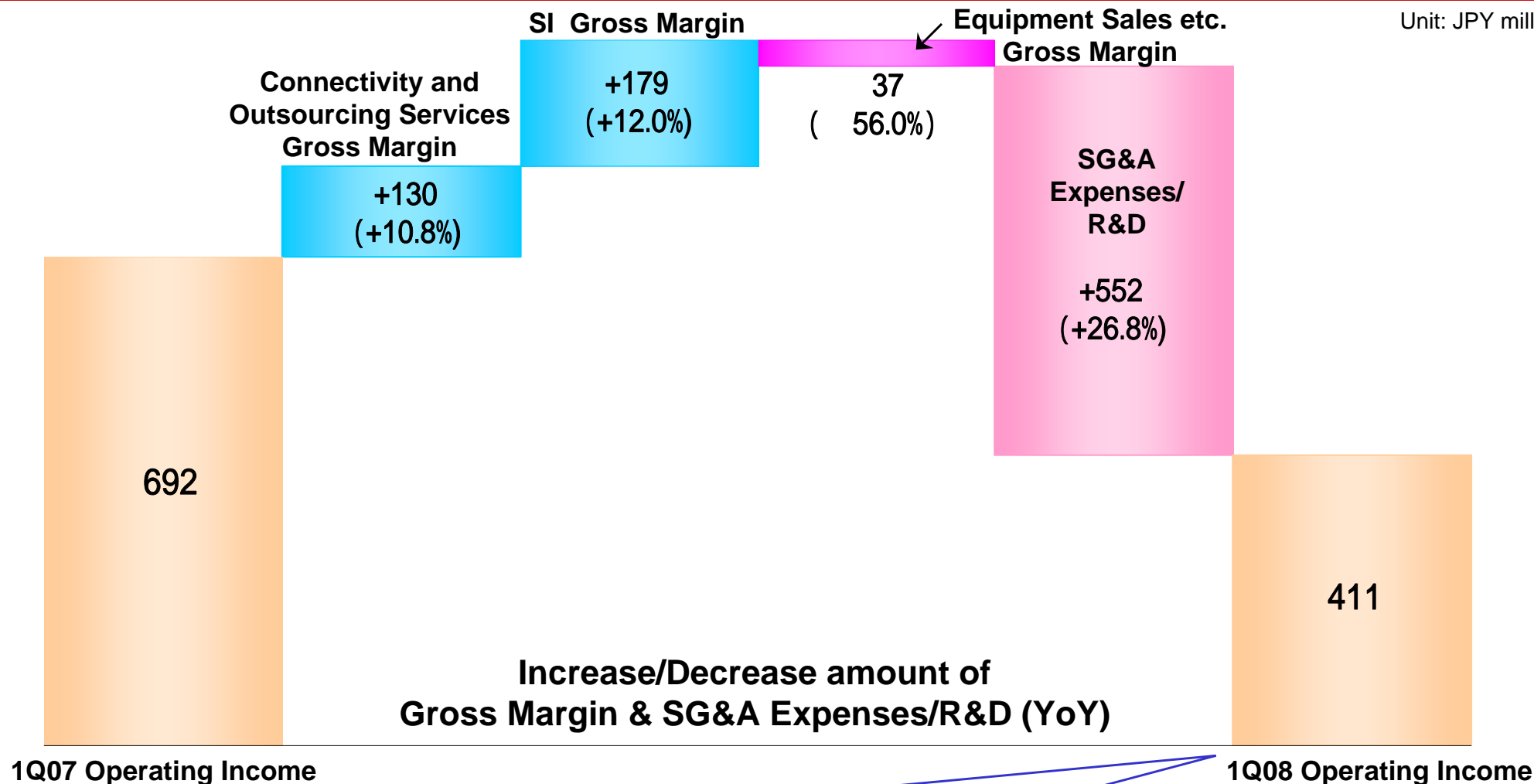
Unit: JPY million



- ◆ **Operating income: Down 40.5% from 1Q07, down 77.2% from 4Q07**
 - Operating loss from 4 newly established subsidiaries were JPY166 million.
- ◆ **Net Income: Down 70.4% from 1Q07, down 84.5% from 4Q07**
 - Net loss or gain from impairment loss and capital gain from equity securities of JPY 7 million (1Q07: JPY 142 million)
 - Income tax expense was JPY 213 million due to deferred tax expense of JPY 127 million.
 - Minority interests in losses of subsidiaries was JPY 55 million by new subsidiaries losses.
 - Equity in net income of equity method investees was JPY18 million, mainly affected by Internet Multifeed's profit.

	1Q07	2Q07	3Q07	4Q07	1Q08
Income tax expense (benefit)	175	(1,980)	392	552	213
Minority interests	9	15	27	45	55
Equity in net loss (income) of equity method investees	(20)	(29)	(42)	(52)	18

-6. Operating Income YoY Comparison



Negative Impact on 1Q08 Operating Income

- Operating loss from 4 newly established subsidiaries: 166 JPY million
- Unrealized profit due to the increase in work in process related to personnel cost in SI: approximately 186 JPY million (realises 2008 or after)
- Temporary cost increase in lease accounting changes: about 57 JPY million

-7. Results by Service – Connectivity and Outsourcing Services (Revenues and Total Contracted Bandwidth)

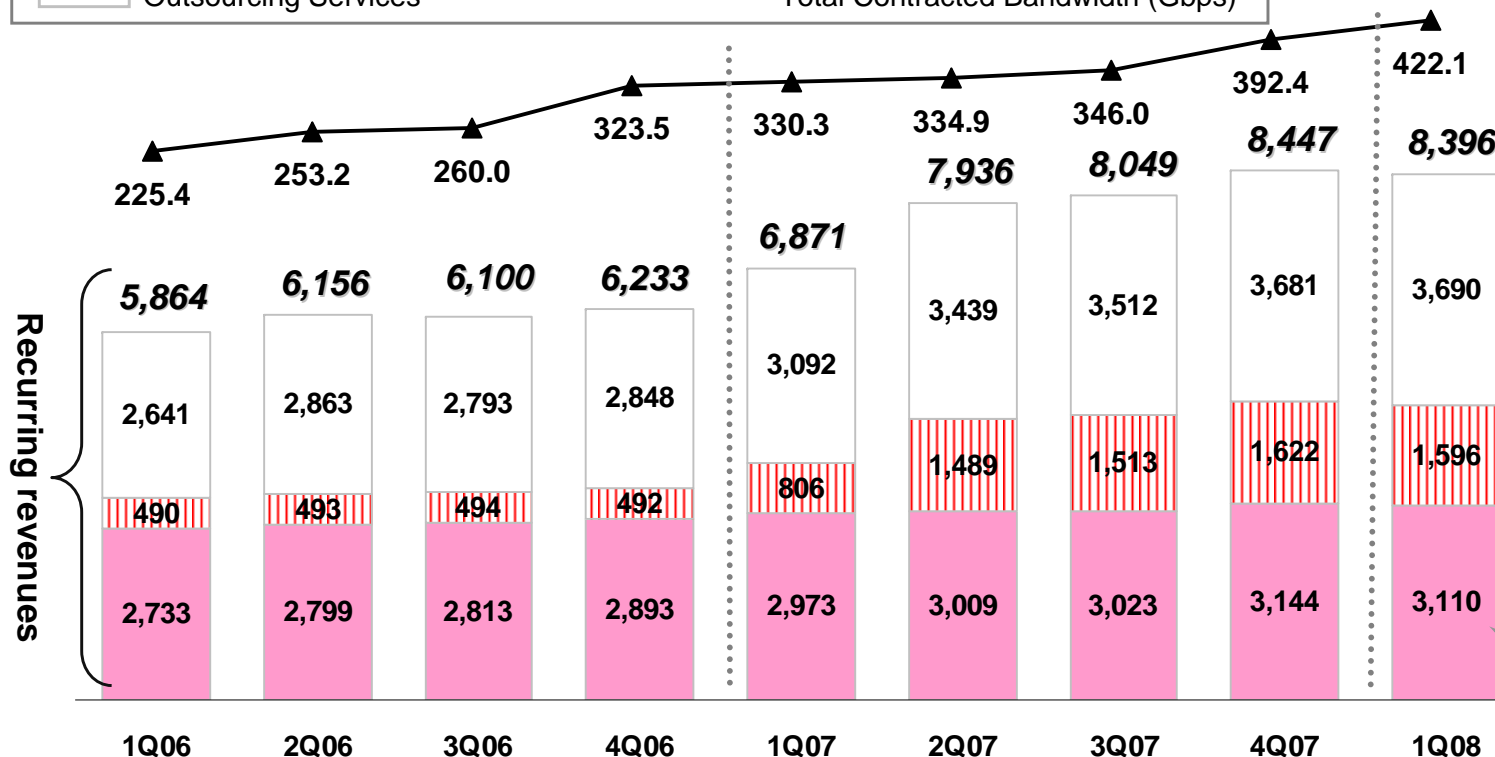
Total Revenues from Connectivity and Outsourcing Services

- Connectivity Services for Home Users
- Connectivity Services for Corporate Users
- Outsourcing Services



Total Contracted Bandwidth (Gbps)

Unit: JPY million



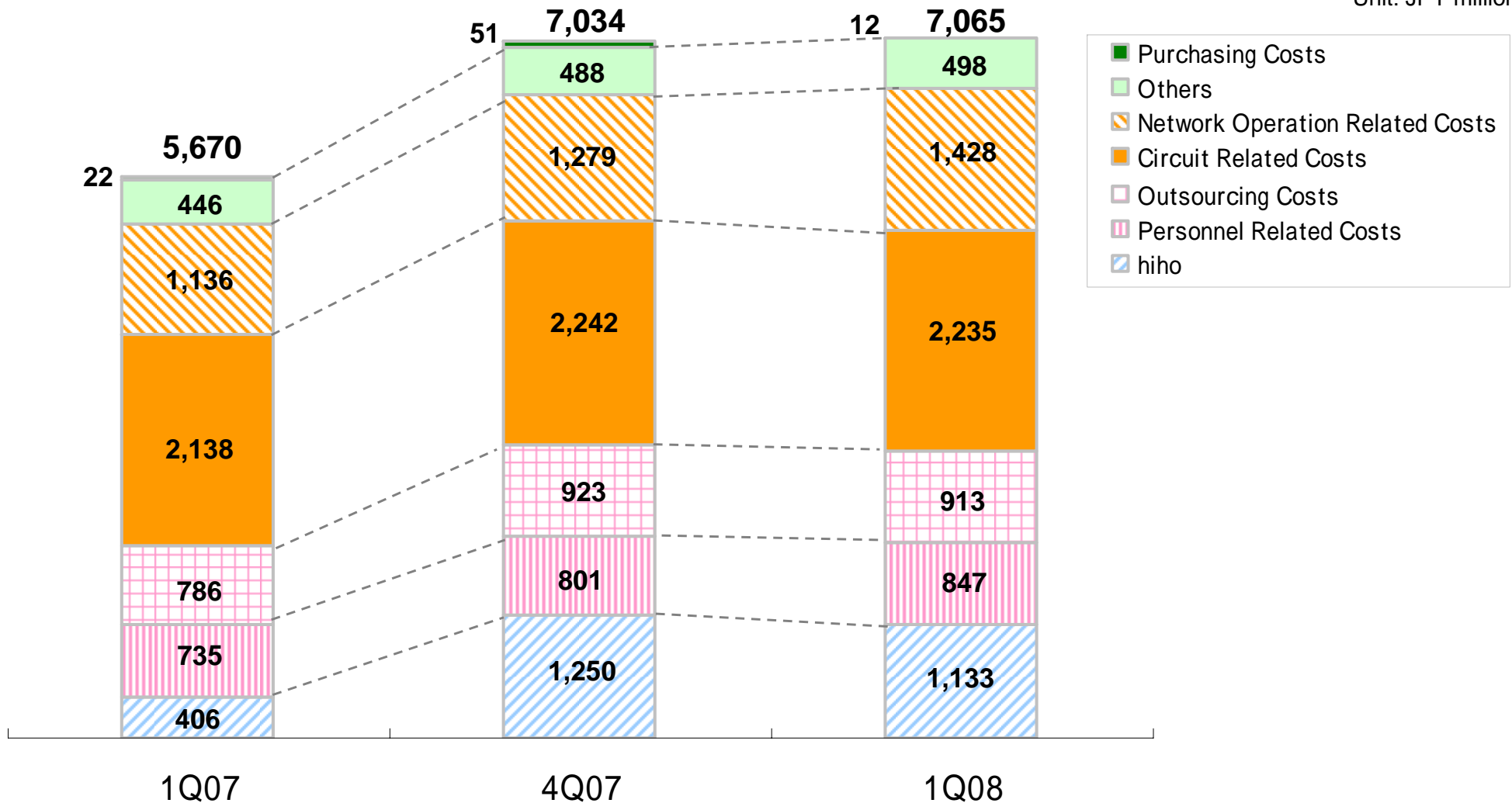
YoY Main Factors of decrease in Revenues in 1Q08

- Other revenue (former classification) decreased as there were one-time revenue of JPY 57 million from “VoIP System Support” in 4Q07.
- VAS (former division) increased by 2.8% in 1Q08 from 4Q07 to JPY 2,654 million, (4Q07 was JPY2,583 million)
- Payment of commission from NTT changed from one-time to recurring payment (JPY 57 million in 4Q07)
- Some clients combined their several circuit contracts to higher bandwidth contracts at the start of FY08.

- ◆ **Connectivity services for corporate use: JPY3,110 million in 1Q08, up 4.6% from 1Q07**
 - IP Service: JPY 2,270, up 2.4% from 1Q07. The number of contracts was 1,415 contracts, up 138 contracts from 1Q07. The number of contracts for over 1 Gbps were 72.
 - Broadband Services: JPY 713 million, up 15.8% From 1Q07. The number of contracts was 24,466 contracts, up 6,214 contracts compared to 1Q07.
 - Others: JPY 126 million, down 9.2% from 1Q07.
- ◆ **Connectivity services for home users: JPY1,596 million, up 98.0% from 1Q07.**
 - Lead by revenues from hi-ho of JPY1,203 million (JPY 339 million in 1Q07). The number of contracts was 188,575 contracts at the end of 1Q08.
- ◆ **Outsourcing Services : JPY3,690 million, up 19.4% from 1Q07**
 - Lead by the steady growth in anti-spam mail services, Internet VPN and data centers

-8. Results by Service – Connectivity and Outsourcing Services (Cost of Revenues)

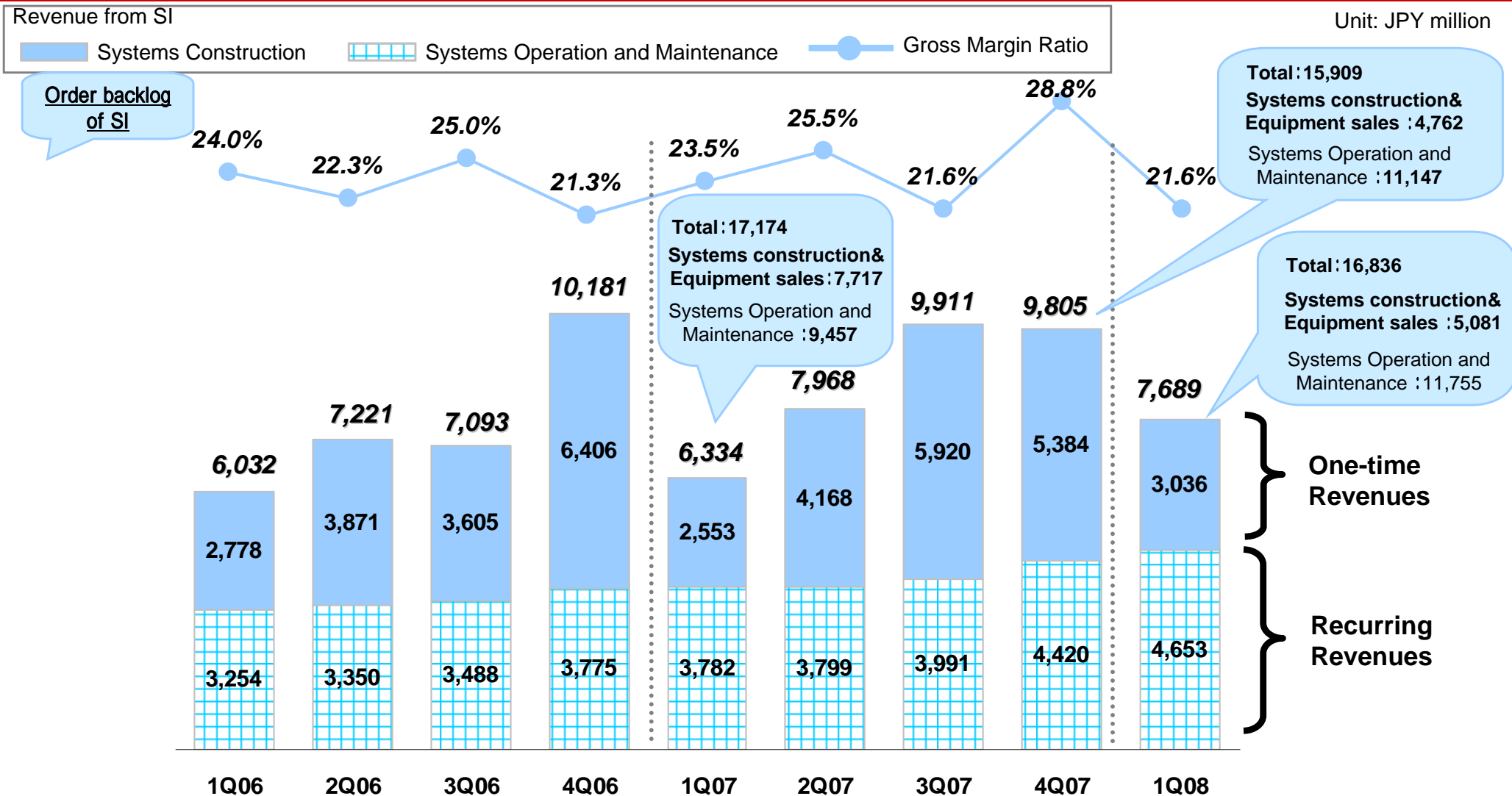
Unit: JPY million



- ◆ Total cost almost equaled to 4Q07: +JPY 31 million, up 0.4%
 - increase in personnel related costs, Lease payments, etc.
- ◆ Cost of revenues related to new established subsidiaries in 1Q08 : JPY29 million
- ◆ Cost reduction in progress for hi-ho
- ◆ IIJ Mobile Service and Content delivery platform for acTVila have not yet broken even in gross margin

-9. Results by Service – SI (Revenue and Gross Margin Ratio)

Unit: JPY million



◆ **Systems construction: JPY 2,928 million, up 14.7% from 1Q07**

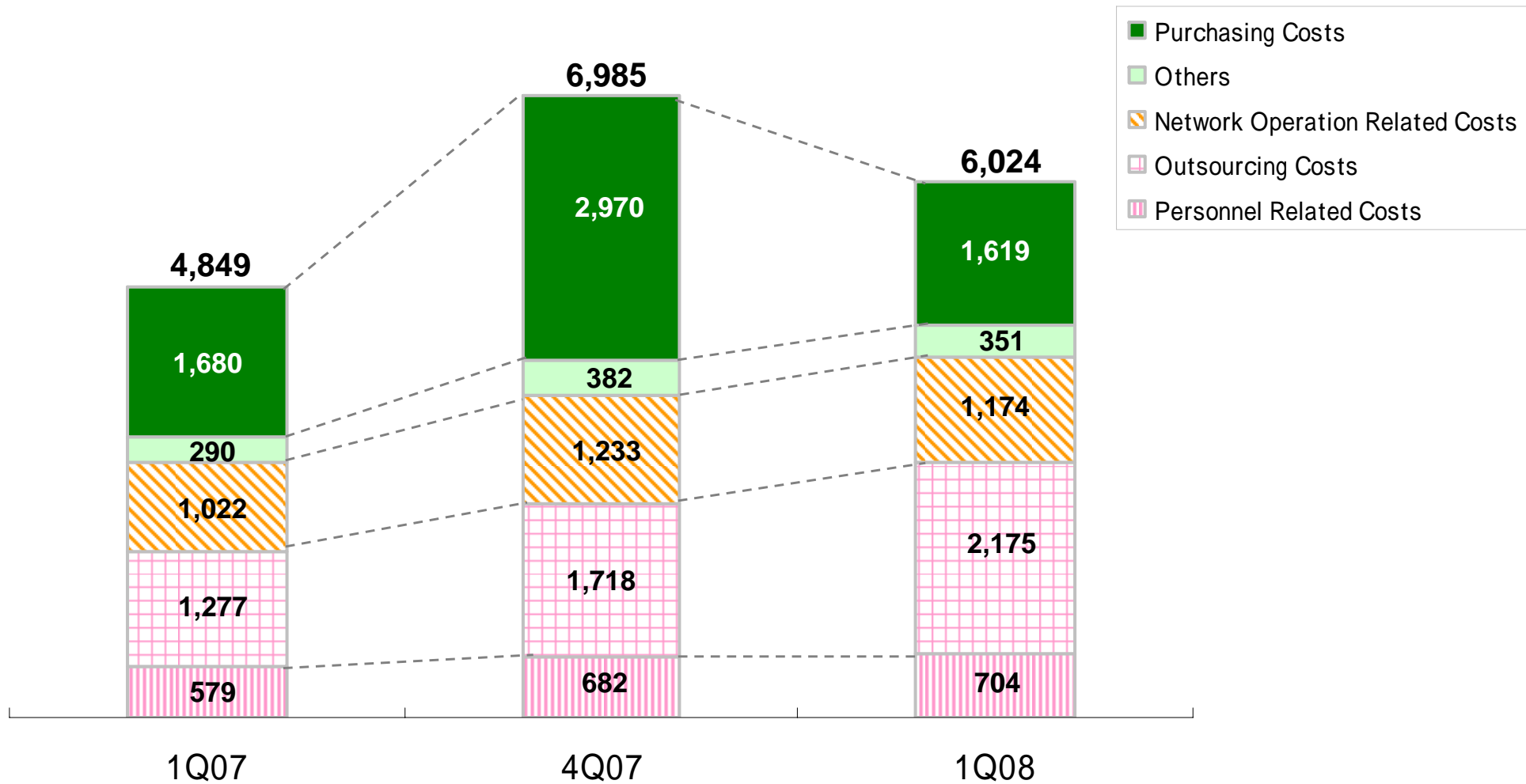
- increase in work in process related to personnel cost of SI (Unrealized revenue of about JPY 520 million, income about JPY 186 million)

◆ **Systems operation and maintenance: JPY 4,760 million, up 25.9% in 1Q07**

- System operation and maintenance by the completion of the large-scaled SI project that completed in 1Q07. Other systems construction projects also generally increased

-10. Results by Service – SI (Cost of Revenues)

Unit: JPY million



◆ **Cost of SI increased by 24.2% compared to 1Q07, decreased by 13.8% compared to 4Q07.**

- Purchasing costs: down 45.5% because one-time revenues from systems construction decreased by 43.6% from 4Q07.
- Personnel Related Costs: up 21.6% From 1Q07, up 3.3% from 4Q07
- Outsourcing Costs: up 70.3% from 1Q07, up 26.6% from 4Q07

-11. New Business development

IIJ's new business

IIJ Mobile Service

(A mobile Internet connectivity service by MVNO exclusively for corporate use)



- **The number of contracts increased with large contracts of over thousand lines**
Total contracts have exceeded 10,000
- **The realization of SMF's automatic connectivity technology on a mobile network**
Introduced the Mobile-WAN Solution, highly suited for construction and retail sectors



High-quality content delivery platform for "acTVila"

- **TVs deal with acTVila are becoming widespread and Contents for delivery are increasing**
Ex : 「TSUTAYA TV」 「NHK On-Demand」 etc.
- **IIJ Develops Proprietary Video Distribution Server Software for Digital TV**
It is expected to lower the estimated cost of server software by 75% or more over planning to sell it to other clients.

New subsidiaries



On-Demand Solutions Inc.

- Established April 2008 (100% Consolidated subsidiary)
- They will start to provide network system for print-on demand services for 1st financial user from September.



IIJ Innovation Institute Inc.

- Established June 2008 (100% Consolidated subsidiary)
- IIJ-II starts the research and development of Distributed and Parallel Processing Platform for very large data sets. This platform has possibilities to apply data mining application, data searching mechanism, etc in large data sets.
- Second Round recruitment beginning August 1, 2008.



Trust Networks Inc.

- Established July 2007 (60.2% Consolidated subsidiary)
- They're preparing and trialing for start ATM network operating business.



GDX Japan, KK

- Established April 2007 (51.0% Consolidated subsidiary)
- They're developing and trialing message exchange network service "GDX Trusted Platform"

-12. IIJ In-house Developed “SEIL/SMF”

In August 2008, IIJ's feature-rich SEIL routers, it's patent technology for centralized network management system, the “IIJ SMF” and IIJ Mobile Service collaborated to a New Solution



Drastically changes all the process related to network construction with the World's first Mobile Auto Configuration Service.

Mobile Auto Configuration

Connects to the network without connecting cables. The Ultimate Auto Configuration Network



“SEIL/X1” and “IIJ Mobile/ Type D”

“SEIL” and “SMF”

SMF offers complete control over the in-house developed high-end router “SEIL Series”. With this centrally manageable SMF system, it drastically changes the process such as initial configuration, configuration changes, monitoring, management and operational maintenance.

(Patent Technology, Patent No. 3774433)

In August 2008, NEC released a new router “UNIVERGE IX2005-Z” compatible to “SMFv2”



Aggressively deploying SMF technology to other router makers to establish and realize a safe and reliable network society

UNIVERGE IX2005-Z Zero Config Model



Automatically downloads its' configuration by just connecting the network to the WAN interface.

It simplifies router management and dramatically changes VPN-WAN construction process

“SMFv2”

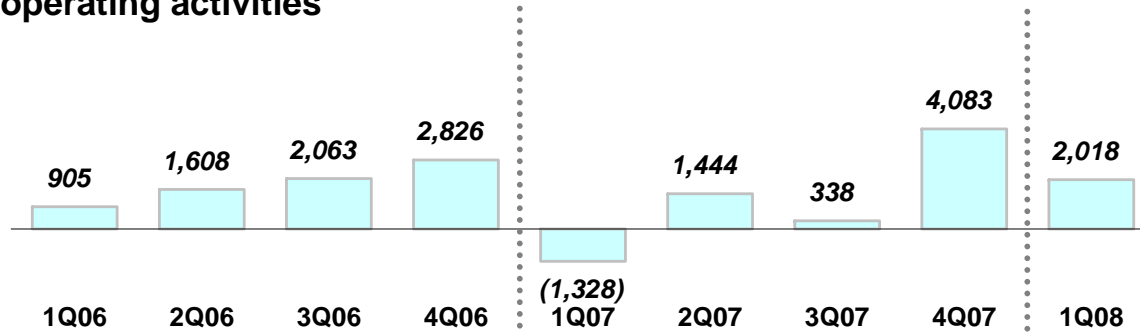
“SMFv2” gives and provides a framework for network adaptors other than the SEIL series to be centrally controlled. The server system that controls and configures the network adaptor can be self developed with the server development kit called the “SMF SDK”.

-13. Consolidated Balance Sheets

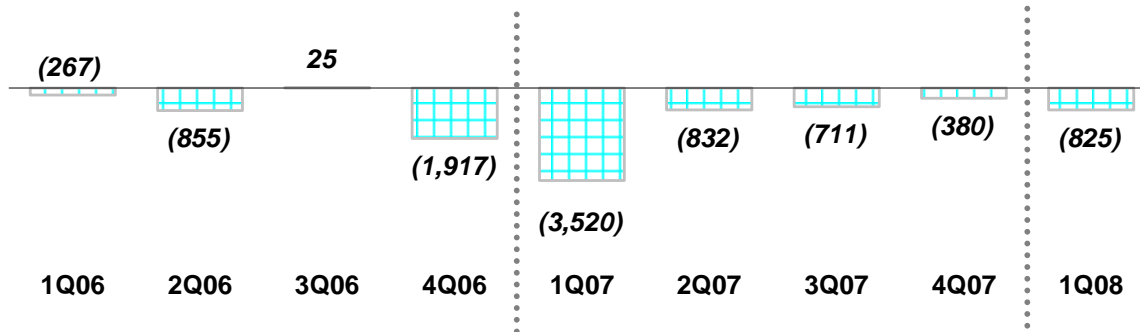
	June 30, 2008	March 31, 2008	Changes
Cash	9,943	11,471	1,528
Accounts Receivable	8,910	12,255	(3,346)
Inventories	1,185	1,184	+1
Prepaid Expenses	2,937	2,005	+931
Available-for-sale Securities	934	844	90
Property and Equipment	12,013	11,740	+273
Goodwill and Other Intangible Assets	5,888	5,907	(19)
Other Assets	4,079	4,177	(99)
Borrowings (Short-term)	7,500	9,150	(1,650)
Accumulated Deficit	19,593	19,555	(37)
Accumulated Other Comprehensive Income	139	91	48
Total Shareholders' Equity	24,991	24,981	+11
Total Assets	51,934	55,703	(3,768)

-14. Consolidated Cash Flows

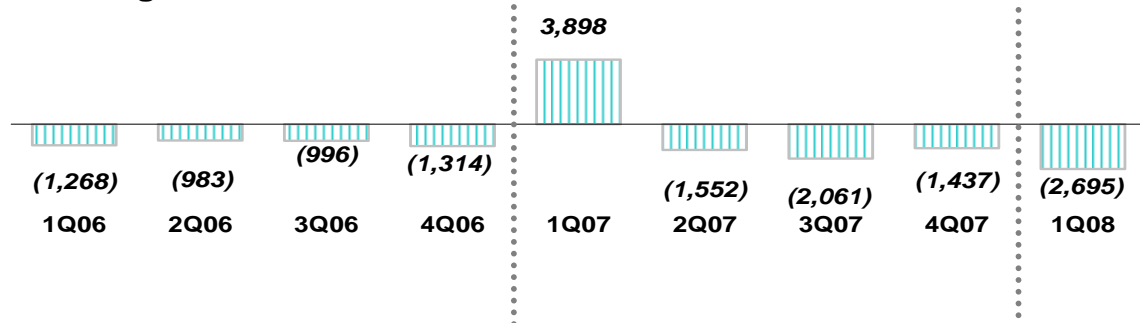
Net cash provided by (used in) operating activities



Net cash provided by (used in) investing activities



Net cash provided by (used in) financing activities



Net cash provided by operating activities: JPY 2,018 million

- ▶ decrease in accounts receivable of JPY3,328 million
- ▶ decrease in prepaid expenses related to on-going SI projects of JPY832 million and accounts payable of JPY1,811 million mainly related to SI projects
- ▶ payment of JPY512 million for income taxes etc.

Net Cash used in investing activities: JPY 825 million

- ▶ payment for the purchase of property and equipment (back office and equipment for clients) JPY768 million etc.

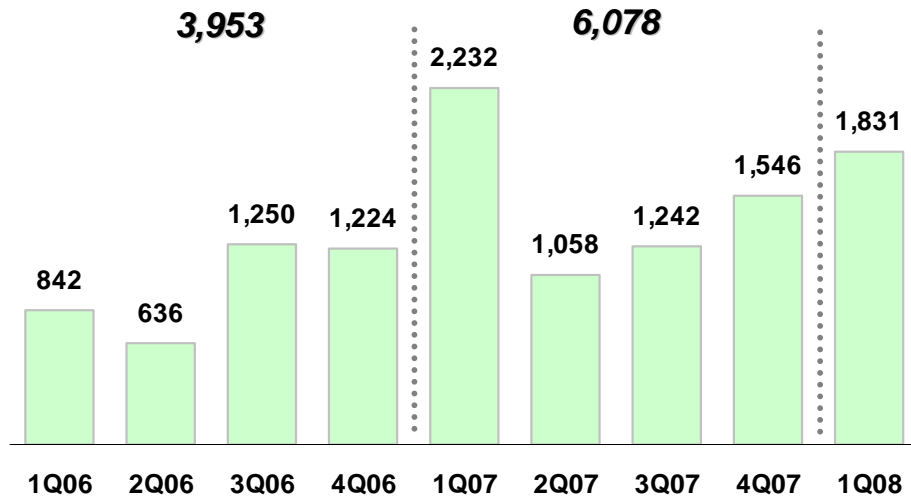
Net cash provided by financing activities: JPY 2,695 million

- ▶ repayments of short-term borrowing with initial maturities JPY1,650 million
- ▶ principal payments under capital leases JPY839 million
- ▶ payments of dividend JPY 206 million

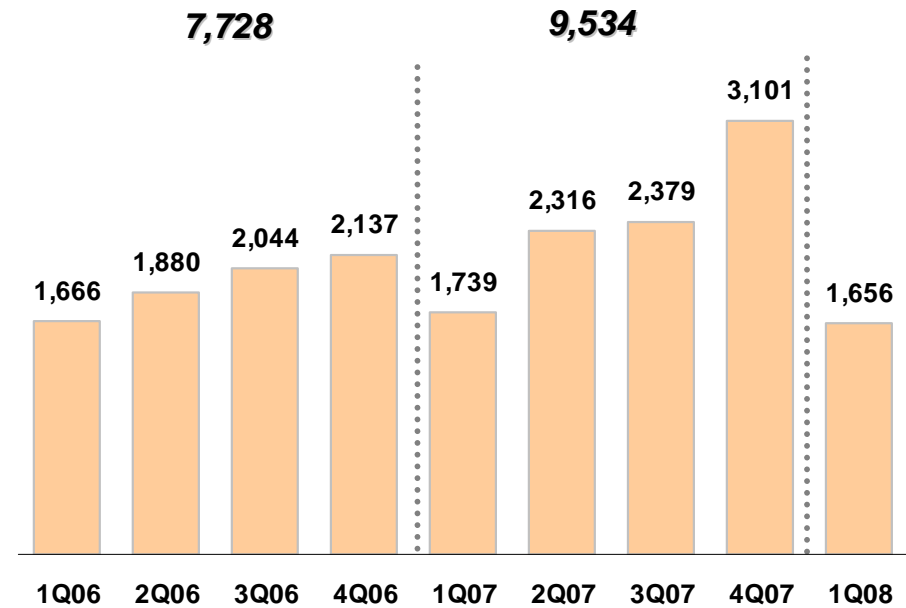
etc.

-15. Other Financial Data (CAPEX etc.)

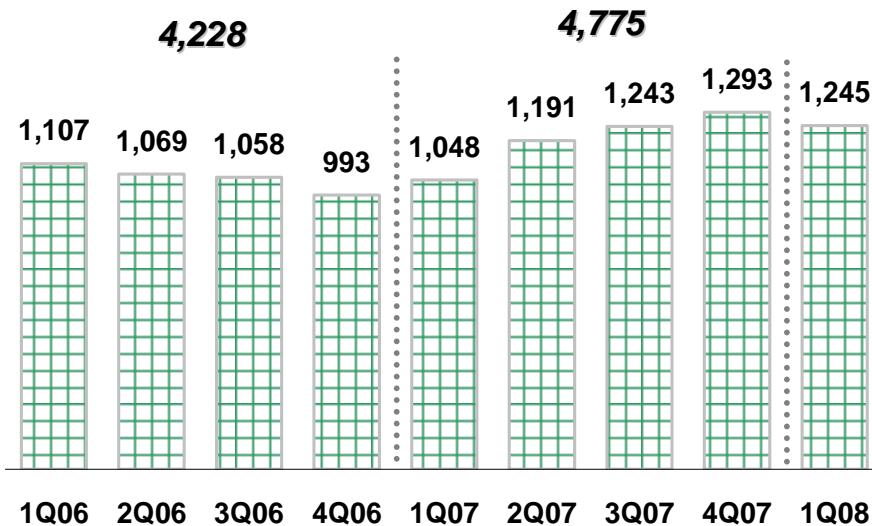
CAPEX



Adjusted EBITDA



Depreciation and Amortization

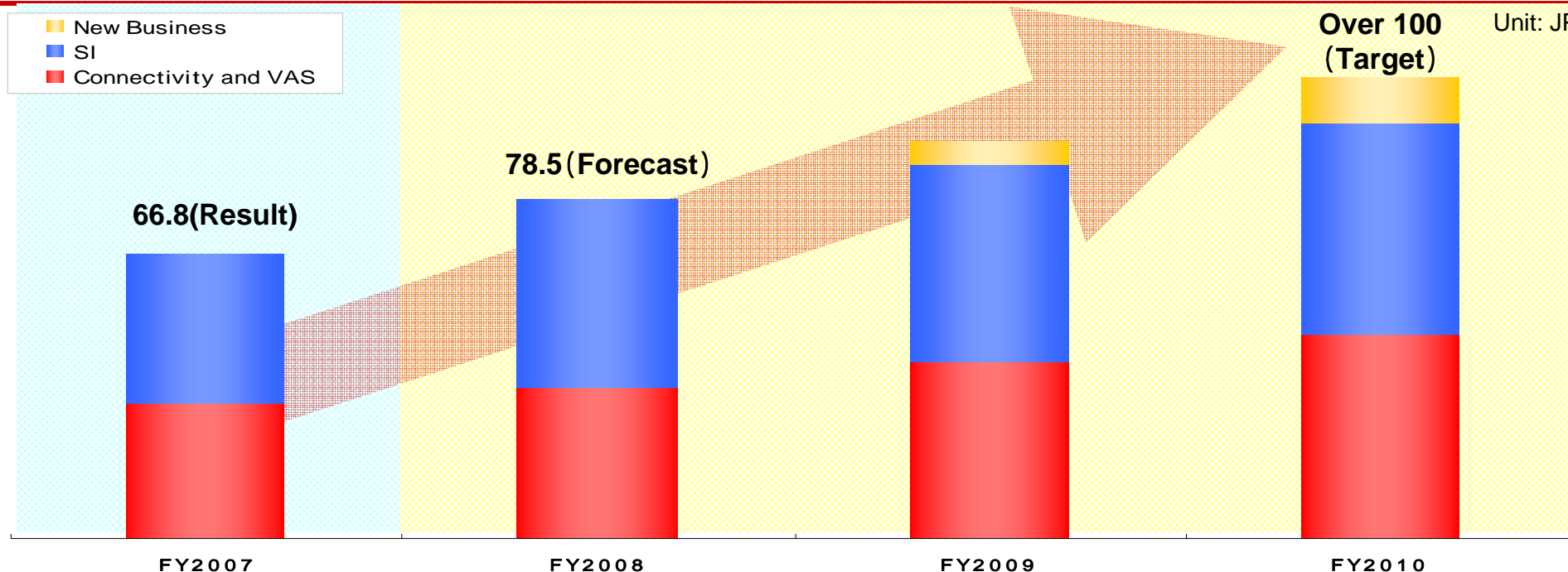


-1. Reference : Forecast for FY2008

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

	Interim Period of FY08 Target (08/4 ~ 08/9)	FY08 Target (08/4 ~ 09/3)	FY07 Actual (07/4 ~ 08/3)	YoY		
Total Revenues	34.5	78.5	668.4	11.7	17.5%	Recurring revenues continue to increase, Scale up of Systems construction.
Operating Income	1.9	5.2	47.6	0.4	9.3%	Operating income continue to increase along with the recurring revenues. Operating Costs include JPY0.9 billion loss for new subsidiaries related costs.
Income before Income Tax Expense (Benefit)	1.7	4.7	43.6	0.3	7.8%	
Net Income	0.8	5.2	51.8	0.2	0.5%	Doesn't include gains from the sale of available-for-sale securities.
Net Income per Share	JPY3,875	JPY25,184	JPY25,100	JPY84	0.3%	Include Deferred tax benefit of JPY 0.5 billion in 4Q08.
Cash Dividend per Share	JPY1,000	JPY2,000 (Annual)	JPY1,750 (Annual)	JPY250	14.3%	Yearly Cash Dividend per Share increased to JPY2,000 in FY08, up JPY250 YoY.

-2. Reference: Medium-term target



Expansion the Growth basis by Recurring Revenues
 Ensuring the increase of Operating Income
 Approach to large-scale SI project
 Seeding to new business development

Acceleration of the growth speed by Recurring Revenues
 Expansion of SI business, Income basis strengthen
 Initiated new business development
 Full-Operation

**Total Revenues;
 over JPY 100 billion**
**Operating Income;
 JPY 10 billion**

(Market Environment)

IP Network Market in Japan continuously expand (From Legacy Network to IP Network)














Continuously Growth in Corporate IT Spending (From Mainframe to Open System)

Market Size of IT Outsourcing Services in Japan :28.6% expand for 5 years (JPY3,596 billion in 2012)(By MIC Research Institute Ltd.)





Market Size of Data Center in Japan :40.8% expand for 5 years (JPY1,634 billion in 2012) (By MIC Research Institute Ltd.)

Internet traffic enlarge by image distribution etc. (Total traffic enlarge about 2.5 times from 2005 to 2007)

-3. Reference: IIJ Group Companies

	Company Name	Ownership	Main Business
Consolidated Subsidiaries	 IIJ 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.
	 IIJ 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.
	 IIJ 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 IIJ-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.	60.2%	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.
	 IIJ Innovation Institute Inc.		An incubation business for the next generation internet. (R&D)
	 Trust Networks Inc.	51%	Operates ATM network systems placed in designated facilities. Receives commission for each withdrawal transaction from a bank account.
	 GDX Japan Inc.		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

New Business (FY07~)

	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.
	IIJ Innovation Institute Inc.		An incubation business for the next generation internet. (R&D)
	Trust Networks Inc.	60.2%	Operates ATM network systems placed in designated facilities. Receives commission for each withdrawal transaction from a bank account.
	GDX Japan Inc.	51%	Building safe, reliable corporate messaging networks and providing message exchange services.

-4. Reference: Press Releases

Date		Press Releases
FY07	4Q	2008/1/21 IIJ Launches IIJ Mobile for Corporate Customers as an MVNO
		2/6 IIJ and EMOBILE Agree to Start MVNO Service
		3/12 IIJ to Establish New Print-on-Demand Company
FY08	1Q	2008/5/15 IIJ Announces Revision to its Year-end Dividend Forecast for the Fiscal Year Ended March 31, 2008
		5/15 IIJ Announces Full Year and 4th Quarter Results for the Fiscal Year Ended March 31, 2008
		6/2 IIJ to Offer IIJ FiberAccess/A Service for ACCA Fiber Access
		6/10 IIJ Establishes IIJ Innovation Institute Inc.
		6/16 IIJ Research Laboratory and ALAXALA Networks Agree to Joint Research of Network Configuration Automation
		7/3 IIJ to Add Fixed IP Address Feature to IIJ Mobile Access Service
		7/4 IIJ SMF sx Service Adapts to IIJ Mobile
		7/17 IIJ Introduces DKIM Sender Authentication Technology to the IIJ Secure MX Service
		7/23 IIJ Develops Proprietary Video Distribution Server Software for Digital TV

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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