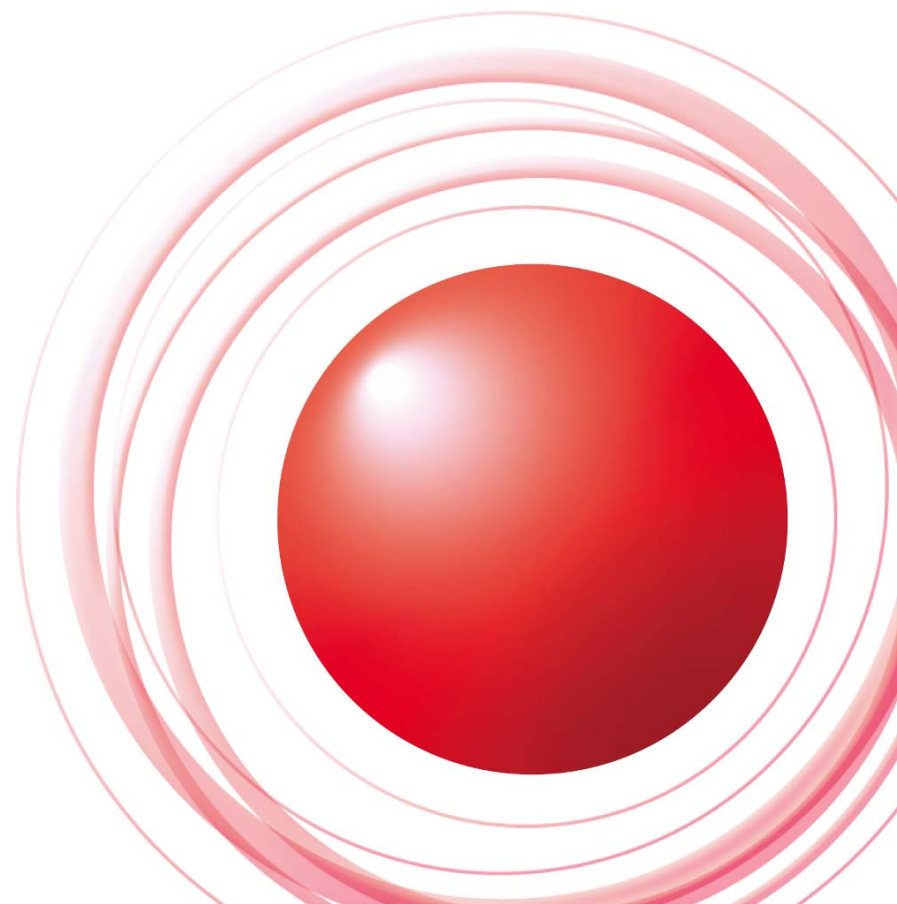


1st Quarter FY2010 Consolidated Financial Results



Internet Initiative Japan Inc.
2010.8.13

Ongoing Innovation



Agenda

I . Summary of 1Q FY2010 Financial Results

II . Consolidated Financial Results for 1Q FY2010

III . Reference Materials

I. Summary of 1Q FY2010 Financial Results

«1Q FY2010 Financial Results»

➤ Revenue	JPY 15,813 million (down 0.1 % YoY)
➤ Gross margin	JPY 3,025 million (up 0.9 % YoY)
➤ Operating Income	JPY 266 million (down 24.3 % YoY)
➤ Income before Income Tax Expense	JPY 279 million (down 6.9 % YoY)
➤ Net Income Attributable to IIJ	JPY 247 million (up 36.8 % YoY)

- **Connectivity and outsourcing service revenue increased 2.0%, SI revenue decreased 4.7% YoY**
 - Outsourcing service revenue continuously increased such as email related, security related & data center related services.
 - Systems operation and maintenance revenue decreased 10.8% YoY mainly due to the scale-down of a contract form a certain large client. Systems construction revenue increased 11.5% YoY with carried over projects from 4Q09.
 - Orders received of systems construction increased 22.3% YoY. Systems construction demands are gradually recovering compared to FY2009.
- **Our 1Q profit level are low. While revenues are seasonally low, expenses generally increases at the beginning of the fiscal year**
 - Number of employees as of June 2010 increased by 67 personnel YoY. Hired 60 newly graduates in April 2010.
- **Inquiries and contracts for our cloud computing service “IIJ GIO” has started out good**
 - Cloud-based application services such as email service gradually increased.
 - We will enhance IIJ GIO’s competitiveness by broadening service line-ups and cost reduction.
 - Expect to contribute to revenue in 2-3 years.
- **To acquire WAN and other domestic network outsourcing business from AT&T Japan
(announced June 1, 2010)**
 - Planning on acquiring the stock of the newly established subsidiary from AT&T on Sep. 1, 2010 (planned)
 - Planned acquisition price: JPY9,170 million (Plan to use its own cash and short-term bank borrowings)
 - We expect to expand the scale of our business through this acquisition by:
 - (1) expanding client bases from 6,500 clients to 7,800 clients,
 - (2) enhancing cross-selling of services,
 - (3) strengthening our sales force,
 - (4) pursuing global strategy such as in ASIA

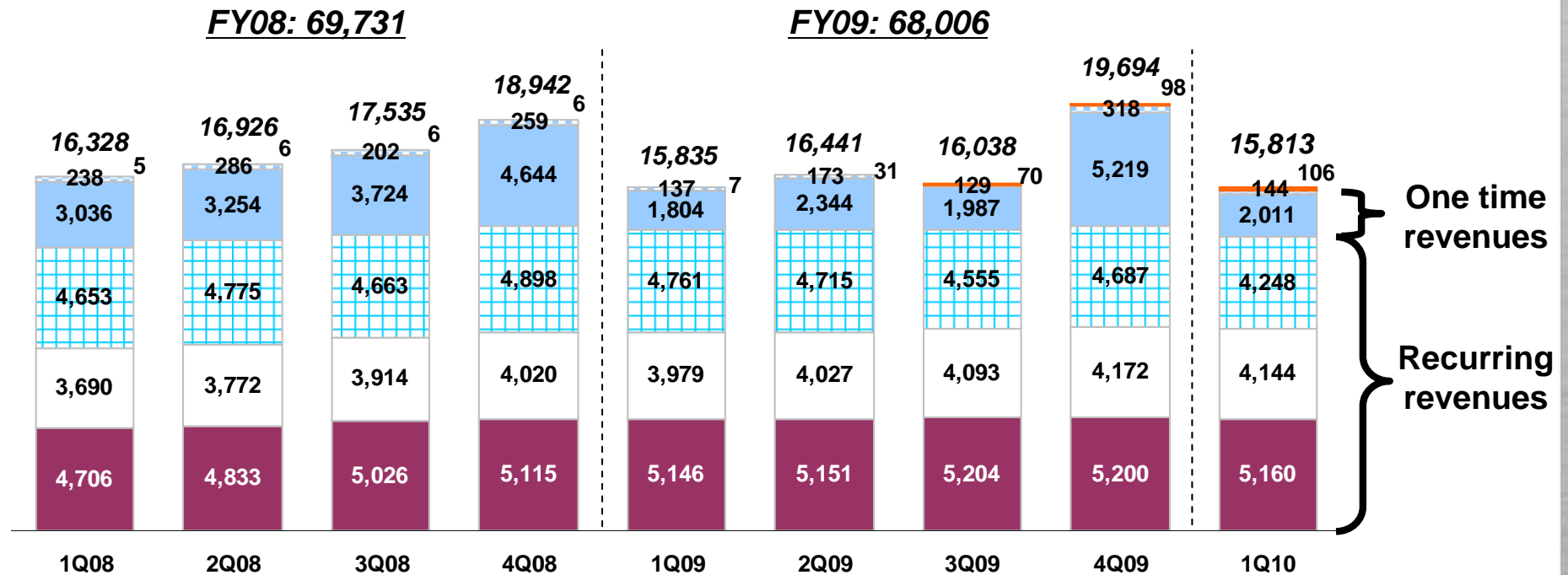
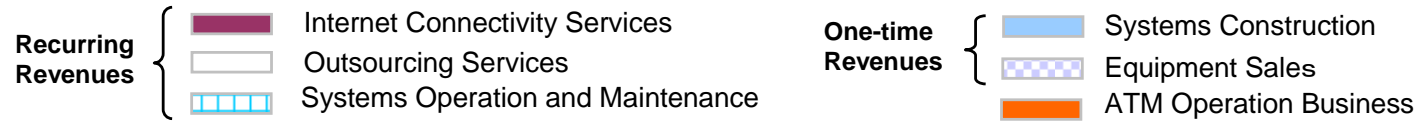
II-1. Consolidated Results for 1Q FY2010

Unit: JPY million

	% of Revenues 1Q10 (10/04~10/6)	% of Revenues 1Q09 (09/04~09/6)	YoY	
Total Revenues	15.8	15.8	(0.1%)	➤ 1Q revenues are seasonally low but revenue was in line with original target
Total Costs	12.8	12.8	(0.4%)	➤ Gross margin and gross margin ratio was nearly the same as 1Q09
Gross Margin	3.0	3.0	0.9%	➤ Personnel related expenses increases annually at the beginning of the fiscal year
SG&A/R&D	2.8	2.6	4.3%	➤ Operating loss for ATM Operation Business 1Q10 : JPY161 million (losses) 1Q09 : JPY233 million (losses)
Operating Income	0.3	0.4	(24.3%)	➤ Deferred tax expense 1Q10 : JPY88 million (losses) 1Q09 : JPY186 million (losses)
Income before Income Tax Expense	0.3	0.3	(6.9%)	
Net Income Attributable to IJ	0.2	0.2	36.8%	

II-2. Revenues

Unit: JPY million



◆ **Recurring revenues: JPY 13,552 million (down 2.4% YoY, down 3.6% QoQ)**

➔ Growth rate of 1Q recurring revenues are weak due to price down pressure which are common at the beginning of every fiscal year.

- Internet connectivity service: up 0.3% YoY, down 0.8% QoQ
- Outsourcing service: up 4.1% YoY, down 0.7% QoQ
- Systems operation and maintenance: down 10.8% YoY, down 9.4% QoQ

◆ **One time revenues: JPY 2,156 million (up 11.1% YoY, down 61.1% QoQ)**

- Systems construction: up 11.5% YoY, down 61.5% QoQ

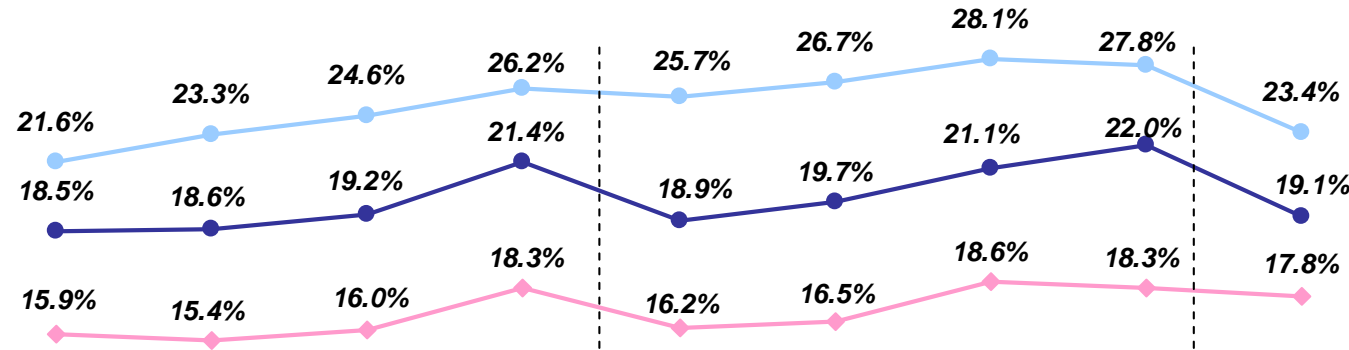
◆ **ATM operation business revenue: up JPY 98 million YoY, up JPY 7 million QoQ)**

YoY = 1Q10 compared to 1Q09
QoQ = 1Q10 compared to 4Q09

II-3. Cost of Revenues and Gross Margin Ratio

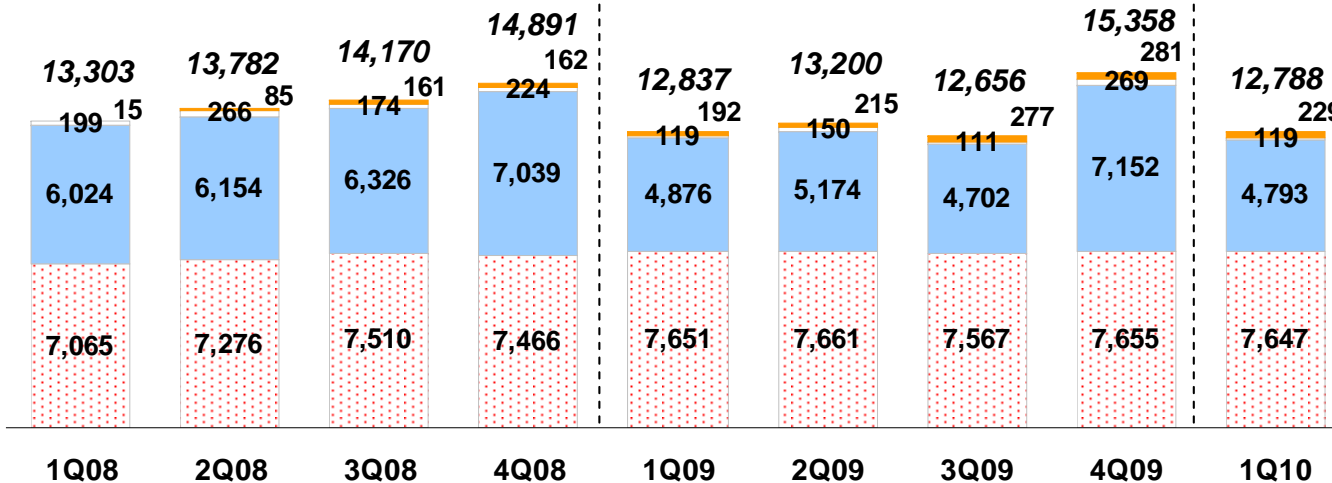


Unit: JPY million



FY08 : 56,146

FY09 : 54,051



SI

Personnel related costs, outsourcing costs and purchase etc.

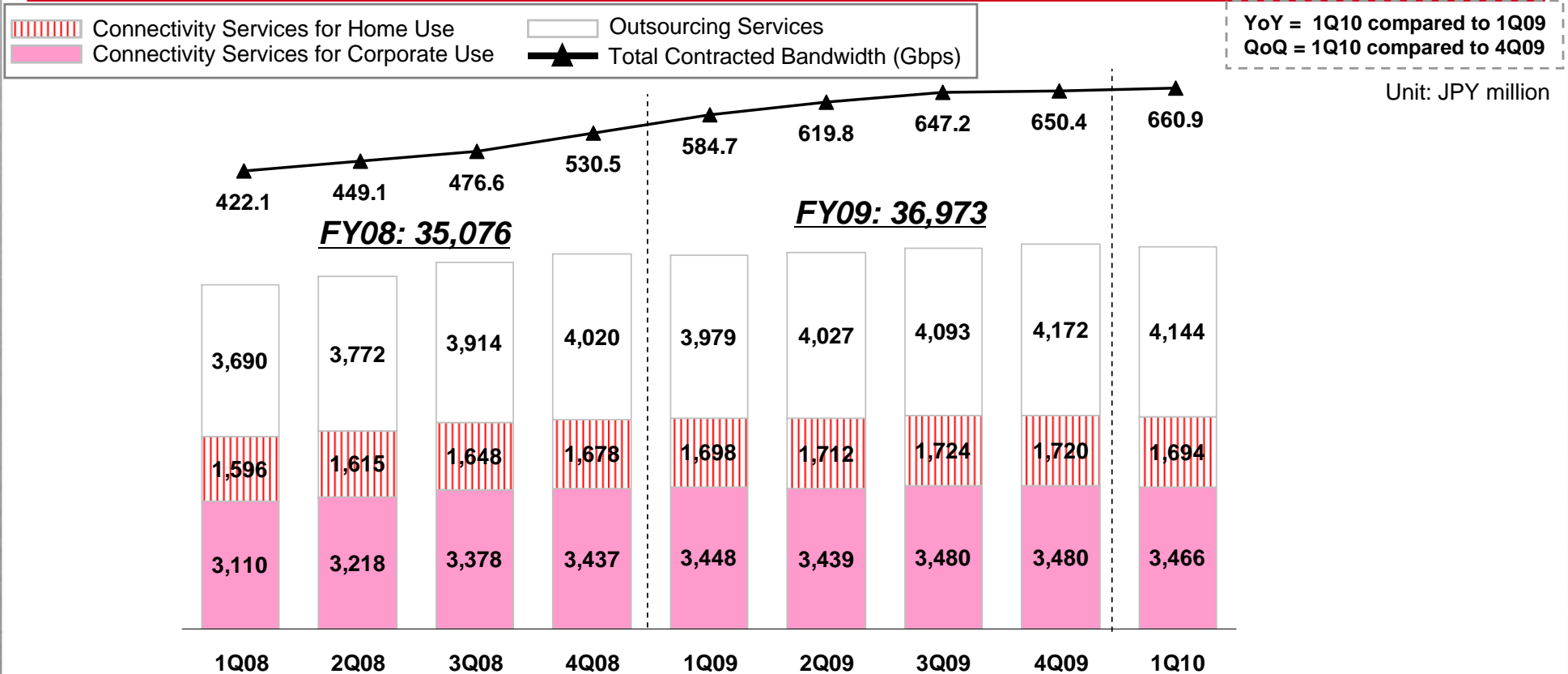
Connectivity and Outsourcing Services

Backbone costs, network equipment costs, network operation related costs, outsourcing related cost and personnel related costs

- ◆ **Cost of connectivity and outsourcing service: YoY, down 0.1% QoQ**
 - Gross margin ratio: up 1.6 points YoY, down 0.5 points QoQ
- ◆ **Cost of SI: down 1.7% YoY, down 33.0% QoQ**
 - Gross margin ratio: down 2.3 points YoY, down 4.4 points QoQ
- ◆ **Cost of ATM operation business: up JPY37 million YoY, down JPY51 million QoQ)**

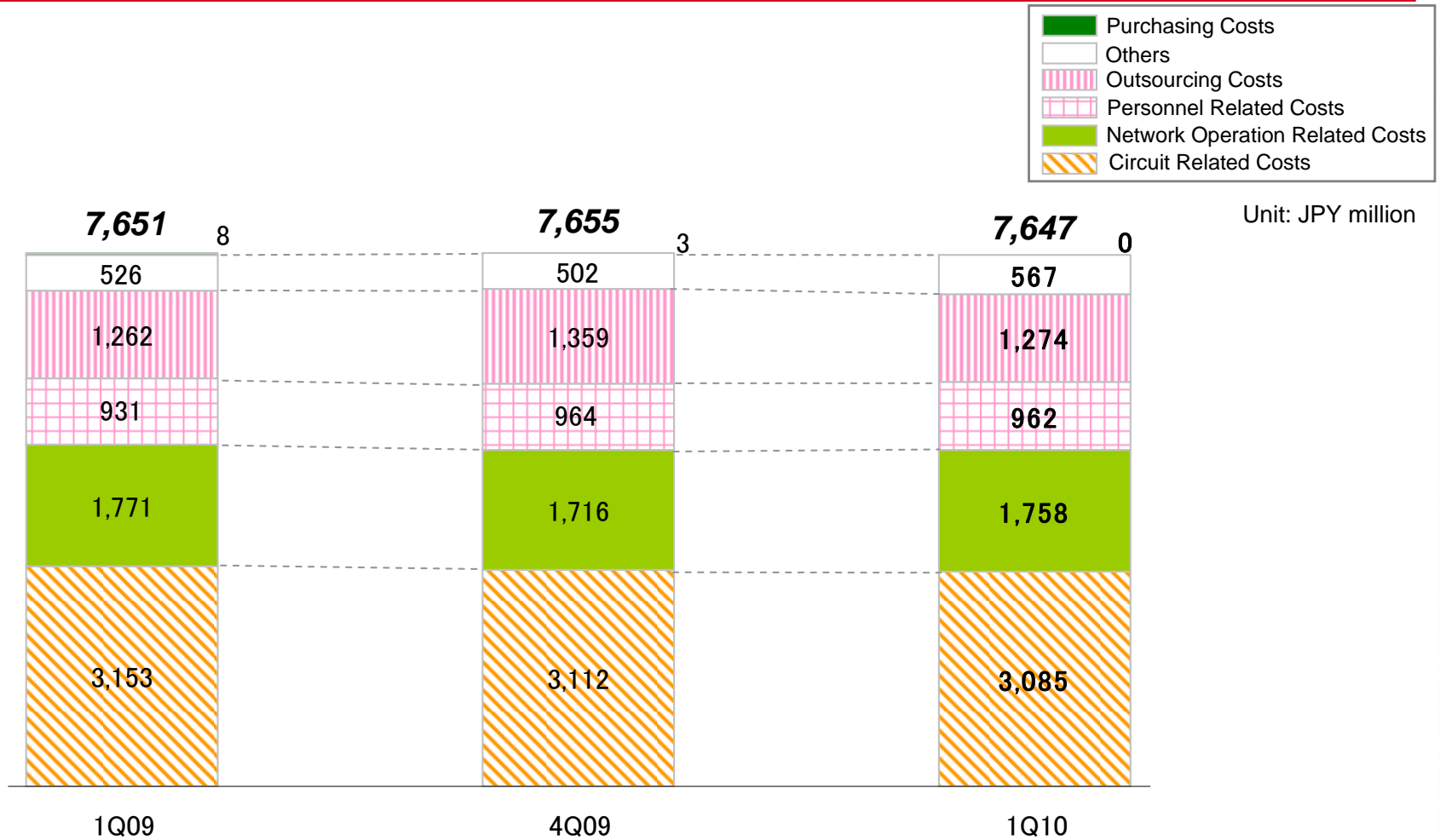
YoY = 1Q10 compared to 1Q09
QoQ = 1Q10 compared to 4Q09

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



- ◆ **Connectivity service for corporate use: up 0.5% YoY, down 0.4% QoQ**
 - QoQ : IP service revenue decreased due to price pressure at the beginning of the fiscal year. IJ Mobile service revenue increased.
 - Over 1Gbps contracts reached 123 contracts as of June 2010 (up 21 contracts YoY, down 2 contracts QoQ).
- ◆ **Connectivity service for home use: down 0.2% YoY, down 1.5% QoQ**
 - QoQ : OEM service revenue decreased as one of our OEM clients terminated their service as planned. MVNO revenue for home use increased.
- ✓ Mobile service contracts were over 40,000 lines (slight increase QoQ). There was a cancellation from a large client during this first quarter.
We are enhancing M2M service this fiscal year in expectation to increase Mobile service contracts.
- ◆ **Outsourcing service: up 4.1% YoY, down 0.7% QoQ**
 - QoQ : Decreased as there were one time revenue in 4Q09. Outsourcing services in general are steadily increasing.
 - Inquiries for "IJ GIO" are increasing. Currently, most contracts are for trial use but we are gradually receiving orders for mid to large size contracts such as email related systems. We will enhance IJ GIO's competitiveness by broadening service line-ups and cost reduction by introducing effective operation and the Module-Type Eco Data Center.

II-4. Connectivity and Outsourcing Services (2) Cost of Revenues



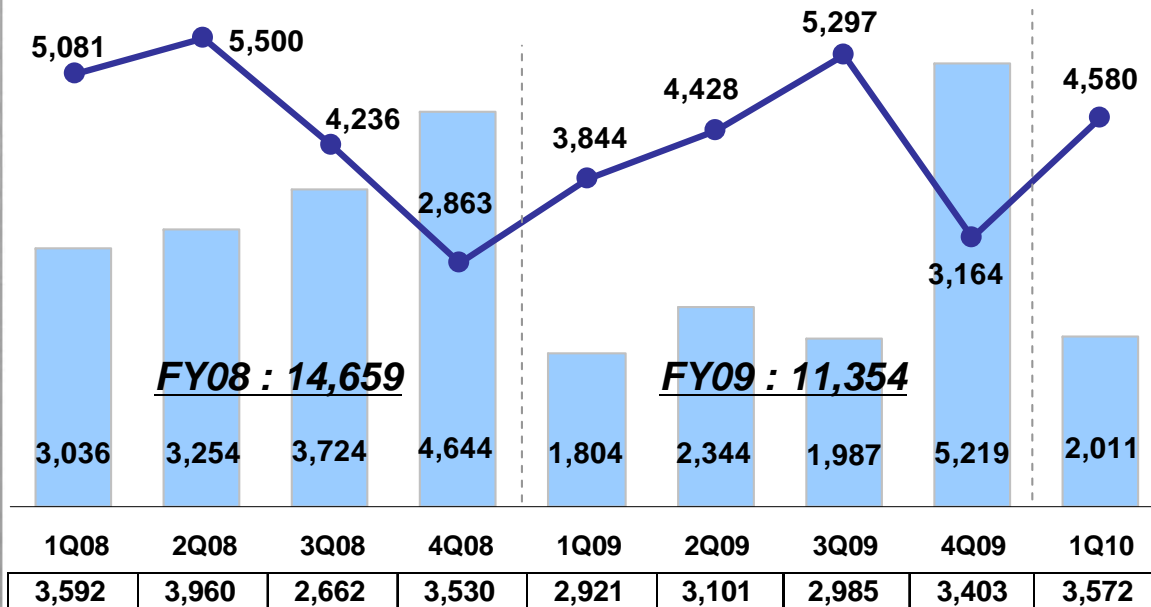
◆ **Total cost of connectivity and outsourcing service:**

- Costs for 1Q10 are nearly the same as 1Q09 and 4Q09.
- In FY2010, we expect total cost to increase in connection with the increase in revenues. However, we do not expect it would increase rapidly nor largely

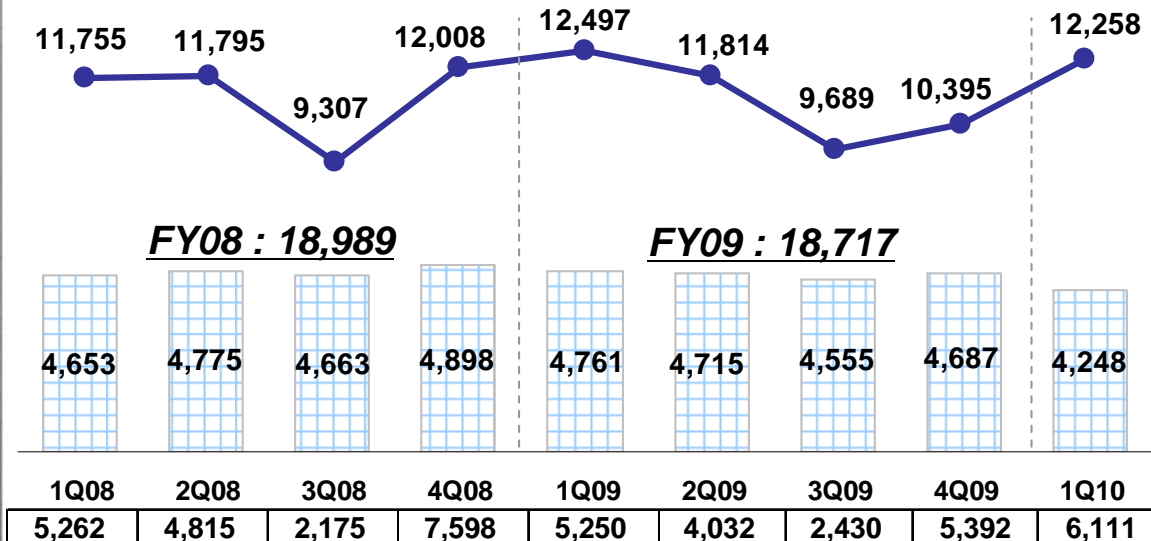
YoY = 1Q10 compared to 1Q09
 QoQ = 1Q10 compared to 4Q09

II-5. Systems Integration (1) Revenues

(Systems construction)

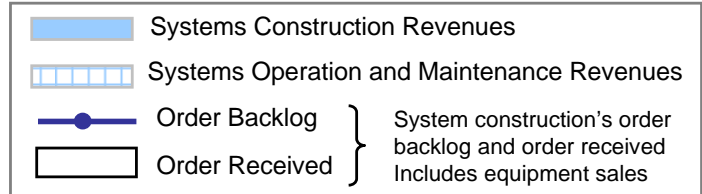


(Systems operation and maintenance)



Unit: JPY million

YoY = 1Q10 compared to 1Q09
QoQ = 1Q10 compared to 4Q09



Systems Construction

- ◆ Revenue: up 11.5% YoY, down 61.5% QoQ
- ◆ Order Backlog: up 19.1% YoY, up 44.8% QoQ

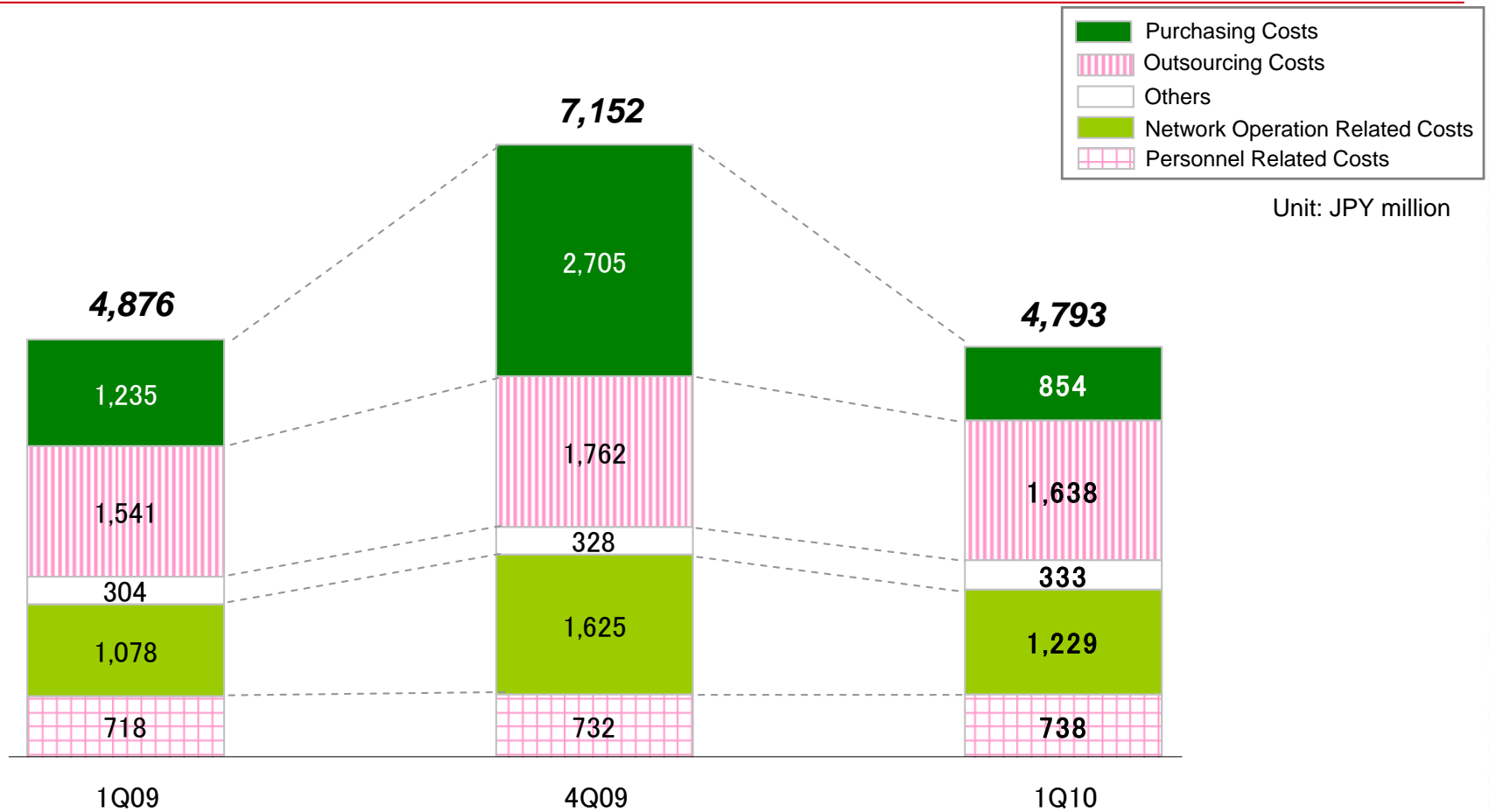
- SI transactions during the first quarter are seasonally low and tend to increase in the latter half of the fiscal year.
- YoY: Revenue increased with carried over projects from 4Q09, though there was scale-down of a contract from a certain large client (down JPY 0.6 billion YoY).
- We received several large orders from mainly public sectors.
- Orders Received increased 22.3% YoY.

Systems operation and maintenance

- ◆ Revenue: down 10.8% YoY, down 9.4% QoQ
- ◆ Order Backlog: down 1.9% YoY, up 17.9% QoQ

- YoY: Revenue decreased due to scale-down of a contract from a certain large client (down JPY 0.7 billion YoY).
- Orders Received increased 16.4% YoY
- Order Backlog was almost the same as 1Q09 .
- We expect systems operation and maintenance to recover in connection with the gradual increase in systems construction demands.

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



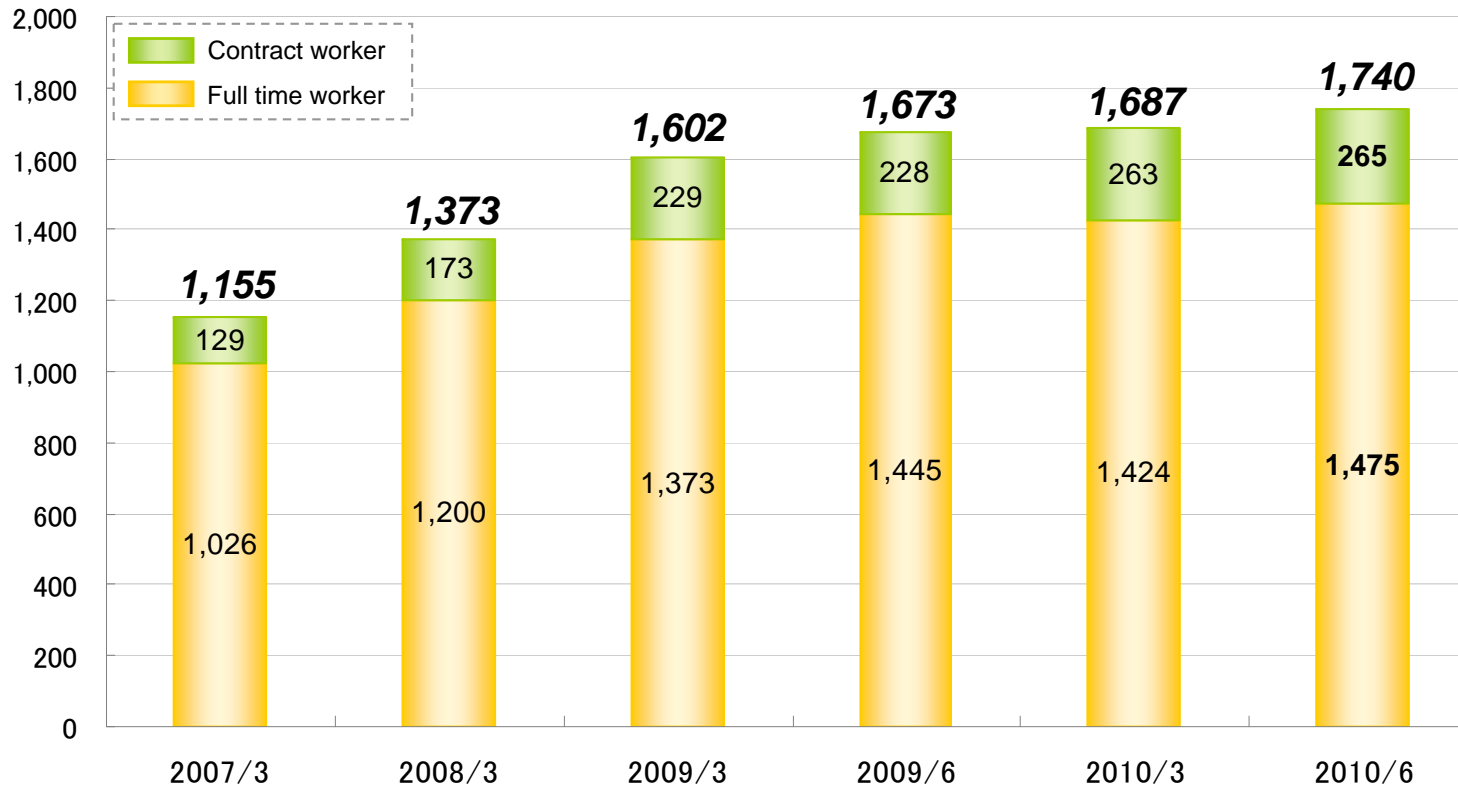
YoY = 1Q10 compared to 1Q09
 QoQ = 1Q10 compared to 4Q09

◆ **Total cost of systems integration: down 1.7% YoY, down 33.0% QoQ**

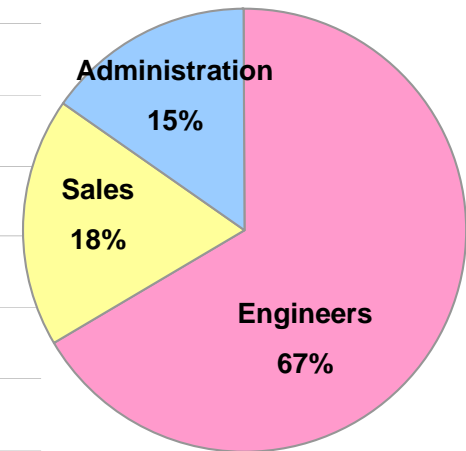
- YoY: Network operation related costs and outsourcing costs increased while purchasing costs decreased.
- QoQ: Purchasing costs decreased in relation with the decrease in revenues and network operation related costs decreased.
- The number of full-time outsourcing personnel increased in connection with the increase in systems construction orders: 341 people as of June, 2010 (YoY: up 119 personnel. QoQ: up 29 personnel)

II-6. Number of Employees

(number of employees)



[Employee Distribution]



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

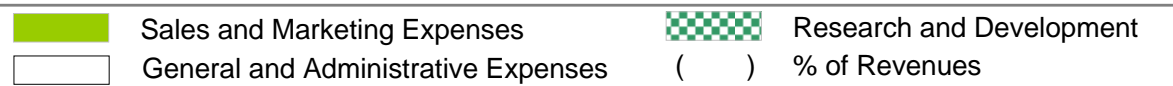
2,771 (17.5%)	2,887 (14.7%)	2,925 (18.5%)
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Unit: JPY million

YoY = 1Q10 compared to 1Q09
QoQ = 1Q10 compared to 4Q09

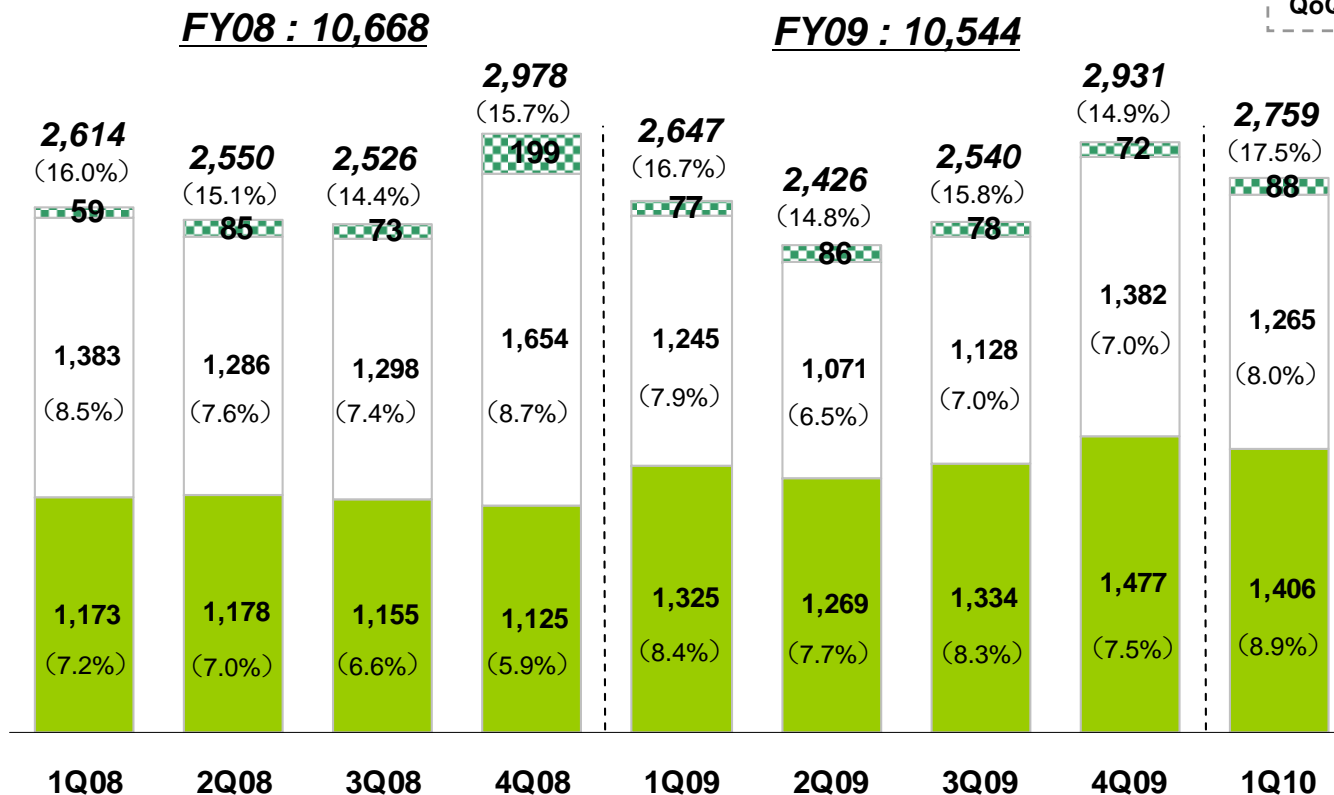
- ◆ **Number of employees as of June 2010: increased 67 personnel YoY, increased 53 personnel QoQ**
 - Hired 60 newly graduates in FY2010 (FY2009: 77 newly graduates, FY2008: 92 newly graduates)
- ◆ **Personnel related cost and expenses: up JPY154 million (up 5.6 %) YoY, up JPY38 million (up 1.3%) QoQ**

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



Unit: JPY million

YoY = 1Q10 compared to 1Q09
QoQ = 1Q10 compared to 4Q09



◆ **SG&A/R&D expenses: up 4.3% YoY, down 5.9% QoQ**

➤ **Sales and marketing expenses:**

YoY: increase in personnel related costs in relation to the increase in the number of employees.

QoQ: while personnel related costs increased, depreciation expenses decreased

➤ **General and administrative expenses:**

YoY: increase in depreciation expenses.

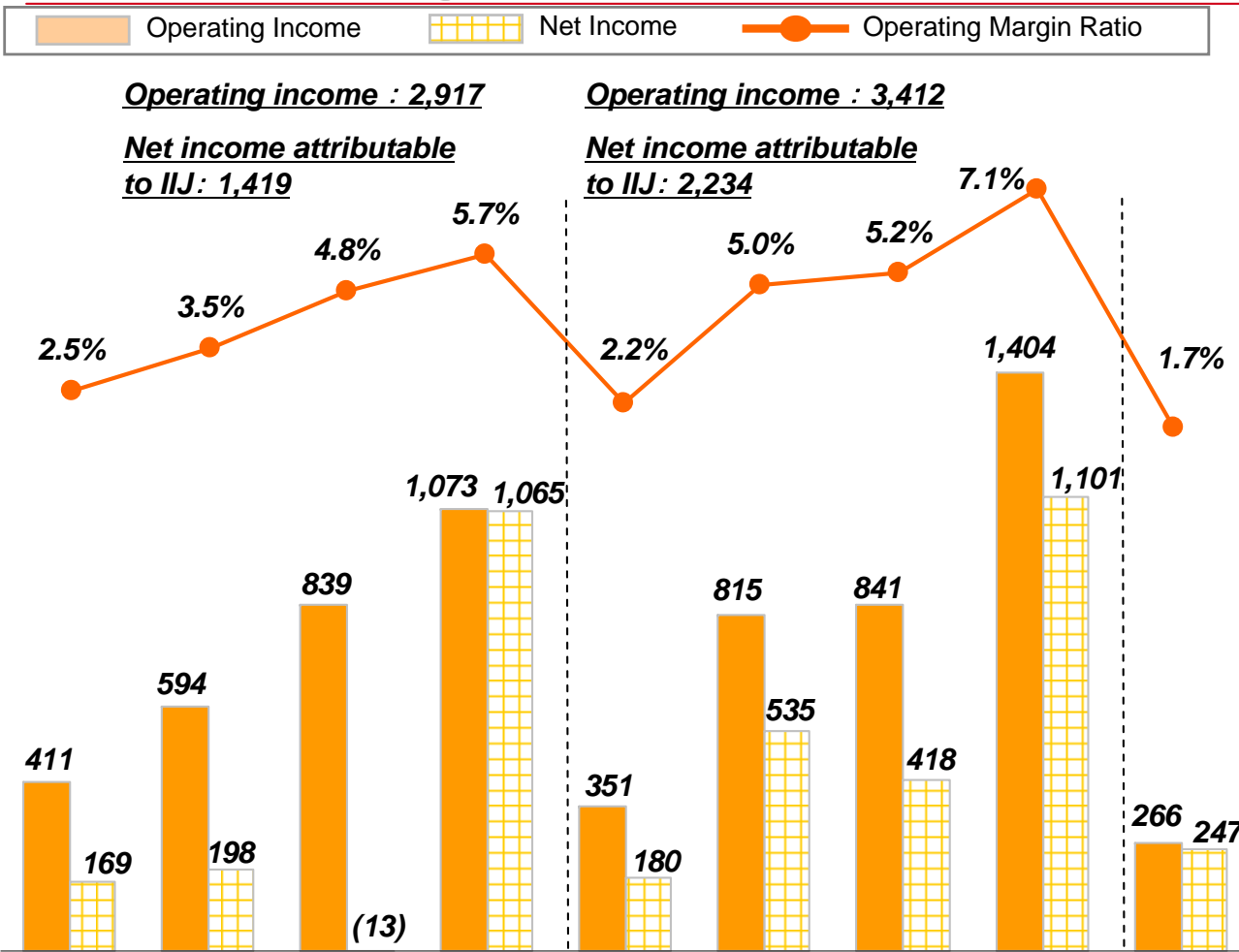
QoQ: decrease as there were disposal of assets in 4Q09.

➤ **SG&A expenses related to ATM operation business: JPY37 million (JPY49 million in 1Q09, JPY88 million in 4Q09)**

While focusing on starting-up the business, we are executing expense reduction such as outsourcing related expenses

II-8. Operating Income and Net Income

Unit: JPY million



YoY = 1Q10 compared to 1Q09
QoQ = 1Q10 compared to 4Q09

Operating income : 2,917

Net income attributable to IJ: 1,419

Operating income : 3,412

Net income attributable to IJ: 2,234

- ◆ **Operating Income:**
 - YoY: Though gross margin of connectivity and outsourcing services increased, gross margin of SI decreased and SG&A expenses increased.
- ◆ **Income before income tax expense:**
 - YoY: dividends received increased, gains on sales of other investments increased and interest expense decreased.
- ◆ **Net income attributable to IJ:**
 - Deferred tax expense
1Q10: JPY88 million in expenses
1Q09: JPY186 million in expenses
 - Net loss attributable to noncontrolling interests:
1Q10: JPY54 million
1Q09: JPY93 million

◆ **ATM Operation Business:**

	1Q09	2Q09	3Q09	4Q09	1Q10
Revenue	7	31	70	98	106
Cost	192	215	277	281	229
Expenses	49	50	56	88	37
Sum	240	265	333	369	266
Operating Loss	(233)	(234)	(263)	(270)	(161)

- Placed 140 ATMs as of Aug.13 2010.
- Trust Networks Inc.
 - Established July 2007
 - Ownership: 74.2% (as of July 2010)

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10
Income Tax Expenses	213	326	653	(190)	244	284	514	90	120
Deferred tax expense	127	251	594	(335)	186	187	418	(34)	88
Equity in net income (loss) of equity method investees	18	(17)	44	(10)	32	11	85	32	34
Net loss attributable to noncontrolling interests	55	85	120	93	93	82	90	83	54

II-9. Consolidated Balance Sheets

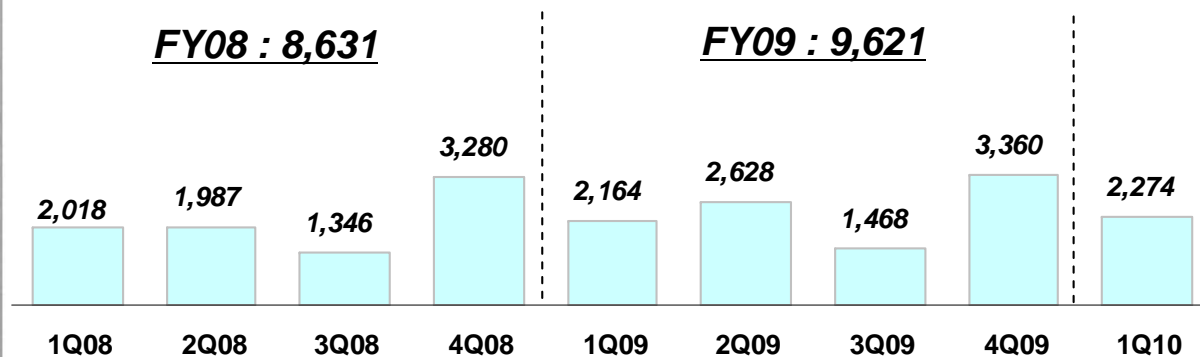
Unit: JPY million

	June 30, 2010	March 31, 2009	Changes	
Cash and Cash Equivalents	9,137	8,764	+373	
Accounts Receivable	9,635	11,397	(1,761)	➤ Decreased in connection to the decrease in on-going SI Projects
Inventories	639	808	(169)	
Prepaid Expenses	3,019	1,593	+1,426	➤ Payments of bonuses
Deferred tax assets (current)	1,446	1,571	(125)	➤ Nonmarketable equity securities: JPY1,486 million
Other Investments	2,642	2,582	+60	➤ Available for sale equity securities: JPY888 million ➤ Others: JPY268 million
Property and Equipment	13,221	12,970	+251	
Goodwill and Other Intangible Assets	5,375	5,459	(83)	➤ Non-amortized intangible assets: JPY2,806 million - Goodwill: JPY2,614 million - Trademark: JPY192 million
Deferred tax assets (non-current)	573	685	(112)	
Borrowings (Short-term)	4,520	4,450	+70	➤ Amortized intangible assets: JPY2,560 million - Customer relationships: JPY2,486 million - Licenses: JPY74 million
Accumulated Deficit	(16,726)	(16,720)	(6)	
Accumulated Other Comprehensive Income	144	169	(25)	
Total IIJ Shareholders' Equity	27,288	27,320	(31)	➤ IIJ Shareholders' equity ratio: 53.7%
Total Assets	50,805	51,115	(310)	

II-10. Consolidated Cash Flows

Unit: JPY million

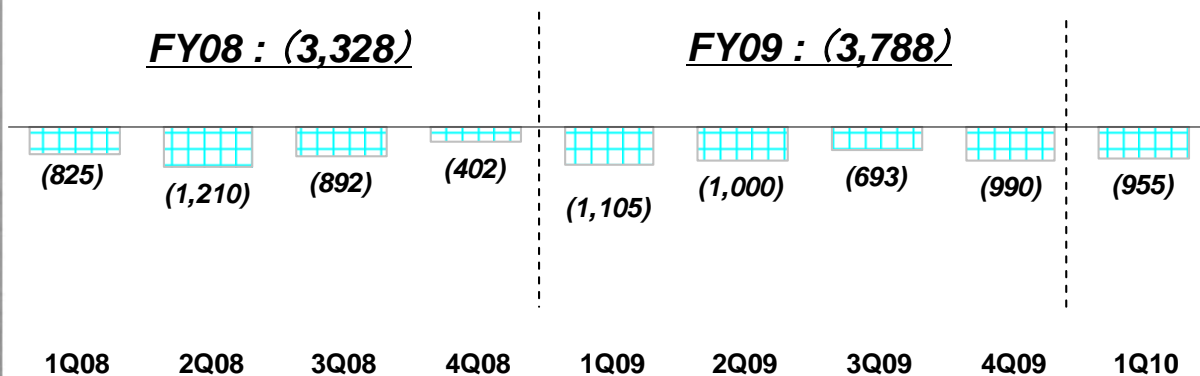
Net cash provided by (used in) operating activities



- Decrease in accounts receivable: JPY1,768 million
- Increase in accrued expenses, other current and noncurrent liabilities: JPY1,085 million
- Increase in inventories, prepaid expenses and other current and noncurrent assets: (JPY1,084 million)

etc.

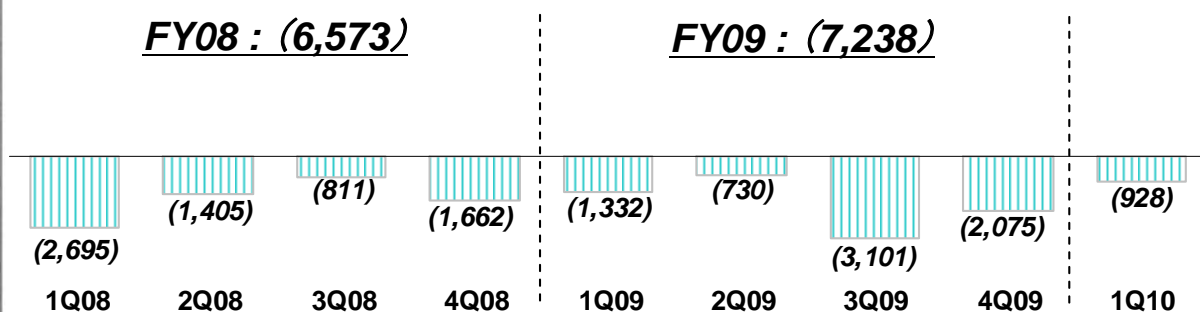
Net cash used in investing activities



- Purchase of property and equipment: (JPY913 million)
- Purchase of other investments (net): (JPY50 million)
- Purchase of available-for-sale securities: (JPY36 million)

etc.

Net cash provided by (used in) financing activities



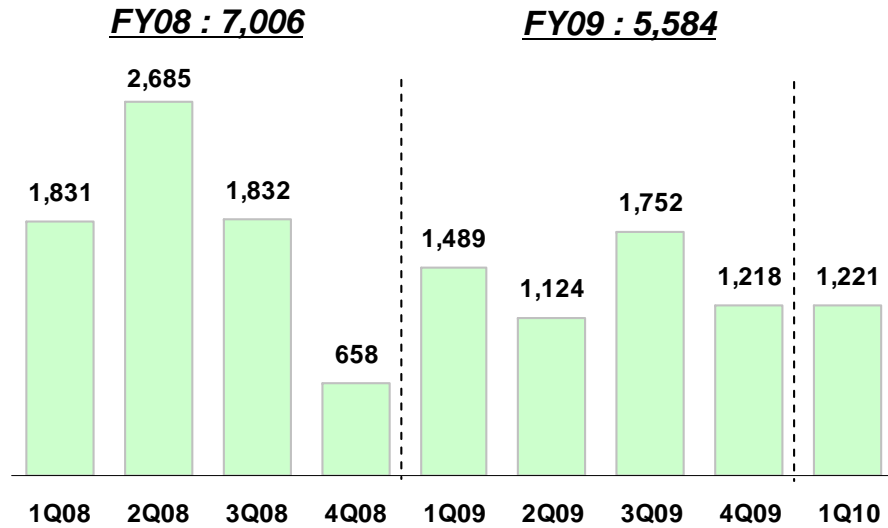
- Principle payments under capital leases: (JPY745 million)
- Dividend payment: (JPY253 million)
- Borrowing of short-term borrowings: JPY70 million

etc.

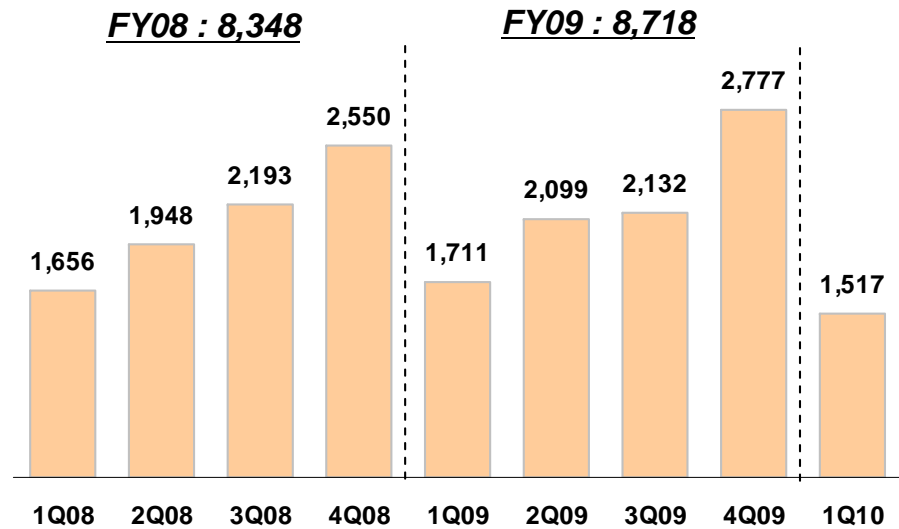
II-11. Other Financial Data (CAPEX etc.)

Unit: JPY million

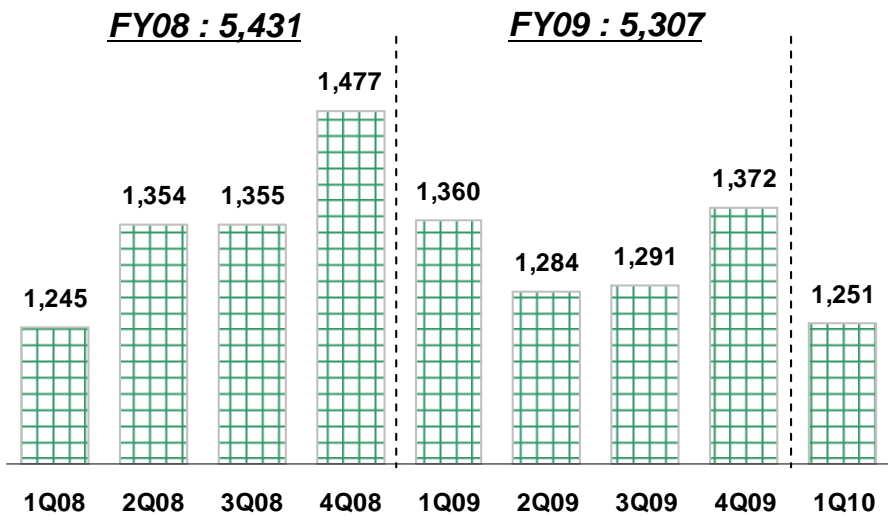
CAPEX (Include Capital Lease)



Adjusted EBITDA



Depreciation and Amortization



III-1. Reference: FY2010 Financial Target











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

	FY10 Previous Target (10/4~11/3)	Revised FY10 Target (10/4~11/3)	FY09 Actual (09/4~10/3)	YoY (Revised FY10 to FY09 Actual)	
Total Revenues	71.0	84.5	68.0	+16.5	24.3%
Operating Income	4.3	4.8	3.4	+1.4	40.7%
Income before Income Tax Expense (Benefit)	3.7	4.1	2.9	+1.2	43.4%
Net Income attributable to IIJ	2.6	3.0	2.2	+0.8	34.3%
Net Income attributable to IIJ per Share	JPY12,837	JPY 14,812	JPY 11,030	-	-
Cash Dividend per Share	JPY2,500 (Annual)	JPY 2,500 (Annual)	JPY 2,250 (Annual)	+250	11.1%

➤ Revised on June 1, 2010. As announced on, we have agreed to acquire WAN and other domestic network outsourcing business from AT&T Japan.

III-2. Reference: IIJ Group Companies

(As of Jul. 30, 2010)

	Company Name	Ownership	Main Business
Consolidated Subsidiaries	 Net Care, Inc.	100%	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.
	 IIJ Innovation Institute Inc.		An incubation business for the next generation internet. (R&D)
	 Trust Networks Inc.	74.2%	Operates ATM network systems placed in designated facilities. Receives commission for each withdrawal transaction from a bank account.
	 GDX Japan Inc.	62.3%	Building safe, reliable corporate messaging networks and providing message exchange services.
Equity Method Investees	 Internet Mfeed Co.	32%	Provides mutual access with other major ISPs and content distribution services based on Mfeed 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	4Q	1/19 IIJ Builds Web Infrastructure for Cabinet Office Survey Site using IIJ's Cloud Service
		1/26 IIJ Introduces DKIM Sender Authentication Technology to the IIJ Post Office Service
		1/28 IIJ Offers Enterprise PDA with IIJ Mobile Service/Type D
		2/4 IIJ to Absorb Wholly-Owned Subsidiary
		2/12 IIJ Announces Nine Months Financial Results for FY2009
		3/4 IIJ Announced Its Proposed Management Team and the Introduction of the Executive Officer System
		3/23 IIJ-Tech Acquires PCI DSS Certification as Security Standard for Its Own Cloud Services
FY10	1Q	4/8 IIJ Obtains US and Japanese Patents for SMFv2
		4/12 IIJ Introduces New Products to the IIJ SSL Certificate Management Service
		5/12 IIJ and EC-One Form Alliance in Cloud Computing
		5/14 IIJ Announces the Construction of Next-Generation Modular Eco-Data Center
		5/14 IIJ Announces Full Year and Fourth Quarter Results for the Fiscal Year Ended March 31, 2010
		5/31 IIJ Adds SSL Inspect Option on IIJ Secure Web Gateway Service
		6/1 IIJ Releases the IIJ GIO Hosting Package Service
		6/1 IIJ to Acquire Subsidiary from AT&T Japan LLC to make it IIJ's Wholly Owned Subsidiary
		6/1 IIJ Revises Full-Year Financial Targets for FY2010
		6/2 GDX Launches Browser Version of GDX Drop Box File Transfer Service
		6/3 IIJ To Launch Cloud-Based Virtual Desktop Solution: IIJ GIO Remote Office
		6/28 IIJ Announces the IIJ GIO Storage Service
	2Q	7/13 IIJ Provides IIJ Mobile Service for the CWE-640J M2M-capable W-CDMA Module
		7/28 IIJ4U and IIJmio Mail Services for Individuals are Now Compatible with IPv6 Networks
		8/4 IIJ to Launch IIJ File Server Remote Backup for NetApp Solution

※ 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").

※ Contact Information

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