

1H FY2008 Consolidated Financial Results



Internet Initiative Japan

Internet Initiative Japan Inc.
2008.11.13

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

- . Summary of 1st Half Financial Results and Target for Full FY2008**

- . 1st Half Financial Results**

- . Reference Materials**

. Summary of 1H08 Financial Results

1H08 (1Q+2Q) Financial Results

- Revenue JPY33,254 million (up 10.9% YoY)
- Operating Income JPY1,005 million (down 44.6% YoY)
(*Loss from 4 new subsidiaries JPY453 million)

- Operating income increased by 10.9% YoY supported by the continuous increase in recurring revenues
- Systems construction revenue fell short of our budget and there were impact from an unprofitable systems integration project
 - New investment for application development projects are especially affected by the weak economy
 - With extra support for an unprofitable systems integration project, human resource were taken, and gross margin was affected.
- Increase in costs in-view of our mid- to long-term growth
 - Increase in costs from 4 new subsidiaries
 - Increased 186 employees compared to FY2007.

- Revised our Full FY2008 Financial Target (announced on 08/10/24)
 - No changes in per share cash dividends (Full Year Target of JPY2,000, up JPY250 YoY)
 - Although IT related demands were interrupted by the weak economy in the short term, we are determined that IT related investments are essential for Japanese corporate in the mid- to long-term
- Board-approved plan to repurchase own shares (announced on 08/10/28)
 - Up to 4,000 Shares or up to JPY400 million in total amount (Purchasing period is from 08/11/14 to 09/1/30)

-1. Consolidated Financial Results for 1H08

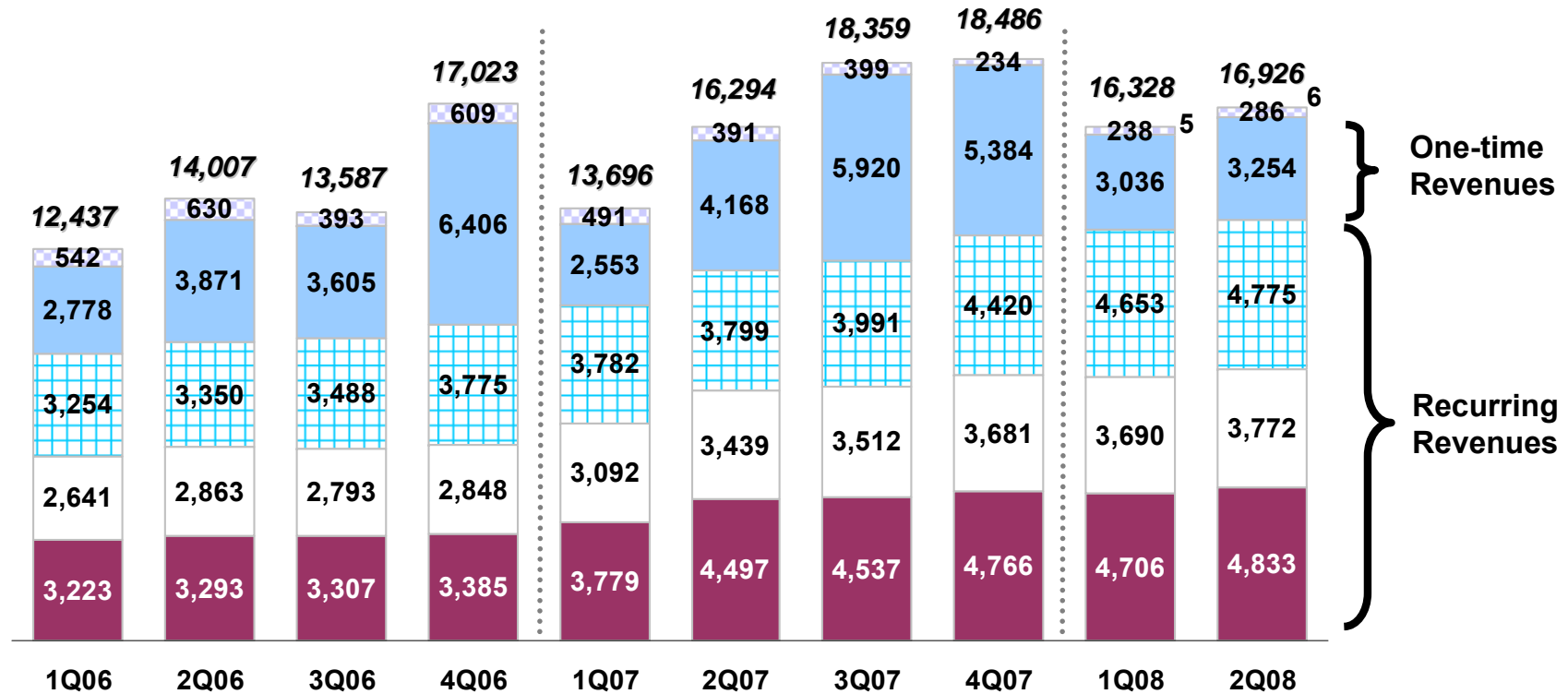
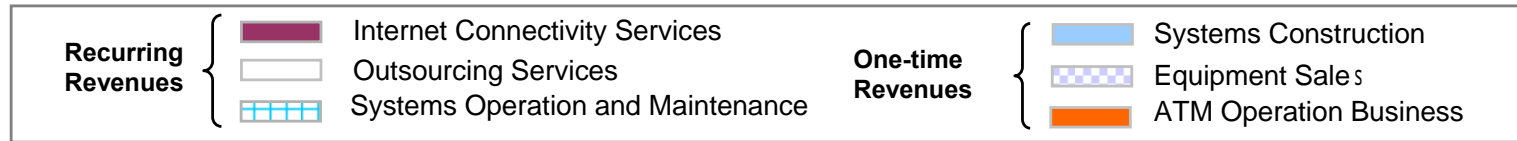


Internet Initiative Japan

Unit: JPY billion

	<i>% of Revenues</i> 1H08 (08/4 ~ 08/9)	<i>% of Revenues</i> 1H07 (07/4 ~ 07/9)	YoY	New Target	Previous Target
Total Revenues	33.3	30.0	10.9%	33.2	34.5
Total Costs	<i>81.4%</i> 27.1	<i>79.4%</i> 23.8	13.7%	—	—
Gross Margin	<i>18.6%</i> 6.2	<i>20.6%</i> 6.2	(0.2%)	—	—
SG&A/R&D	<i>15.5%</i> 5.2	<i>14.5%</i> 4.4	18.4%	—	—
Operating Income	<i>3.0%</i> 1.0	<i>6.1%</i> 1.8	(44.6%)	1.0	1.9
Income before Income Tax Benefit	<i>2.3%</i> 0.8	<i>5.7%</i> 1.7	(54.9%)	0.7	1.7
Net Income	<i>1.1%</i> 0.4	<i>11.6%</i> 3.5	(89.4%)	0.3	0.8

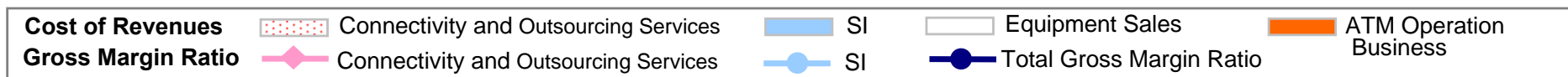
-2. Revenues



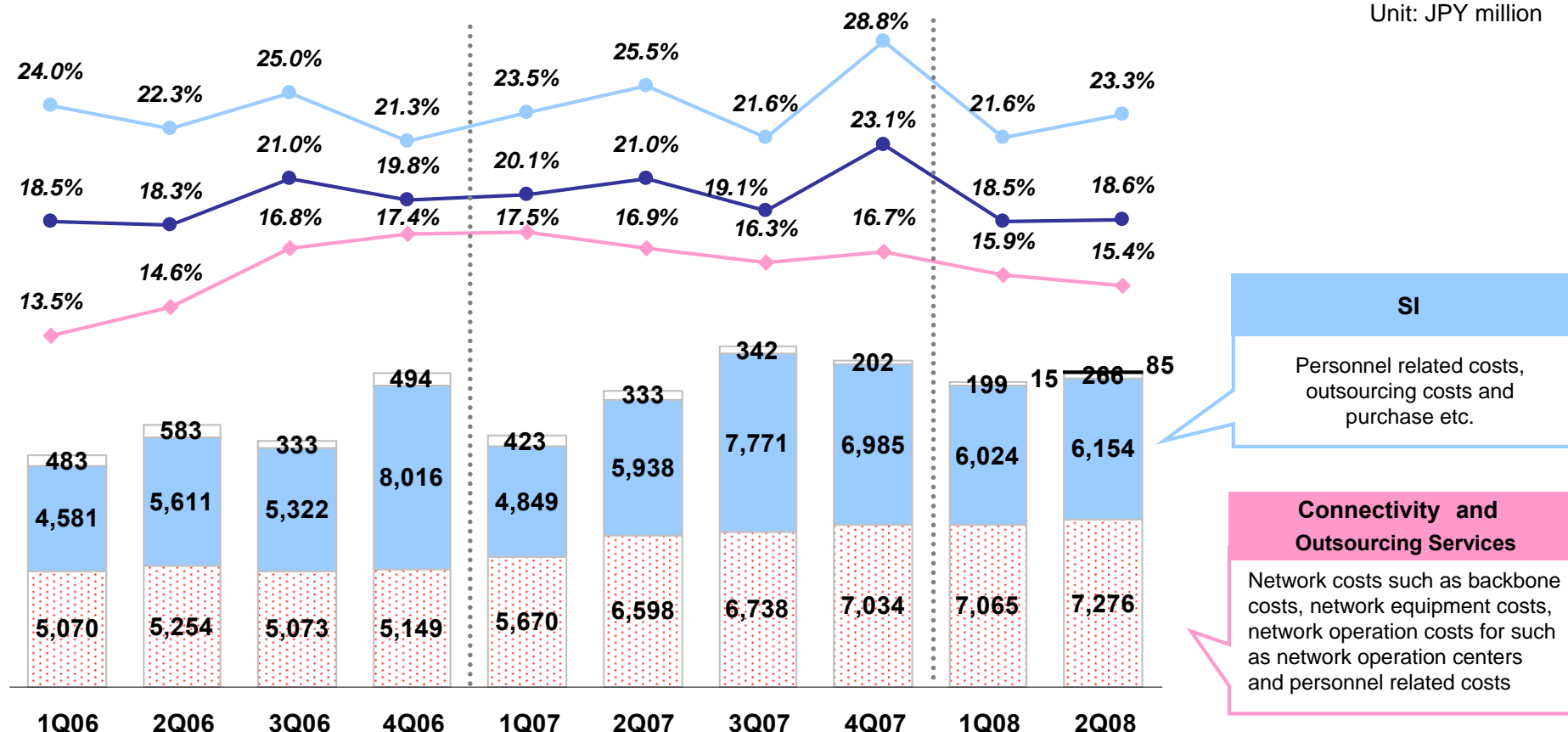
- ◆ Recurring revenues increased steadily to JPY13,379 million in 2Q08 (up 14.0% YoY, up 2.5% QoQ)
- ◆ One-time revenue were JPY3,546 million in 2Q08 affected by the weak economy and an unprofitable systems integration project (down 22.2% YoY, down 8.2% QoQ)

YoY = 2Q08 compared to 2Q07
 QoQ = 2Q08 compared to 1Q08

-3. Cost of Revenues and Gross Margin Ratio



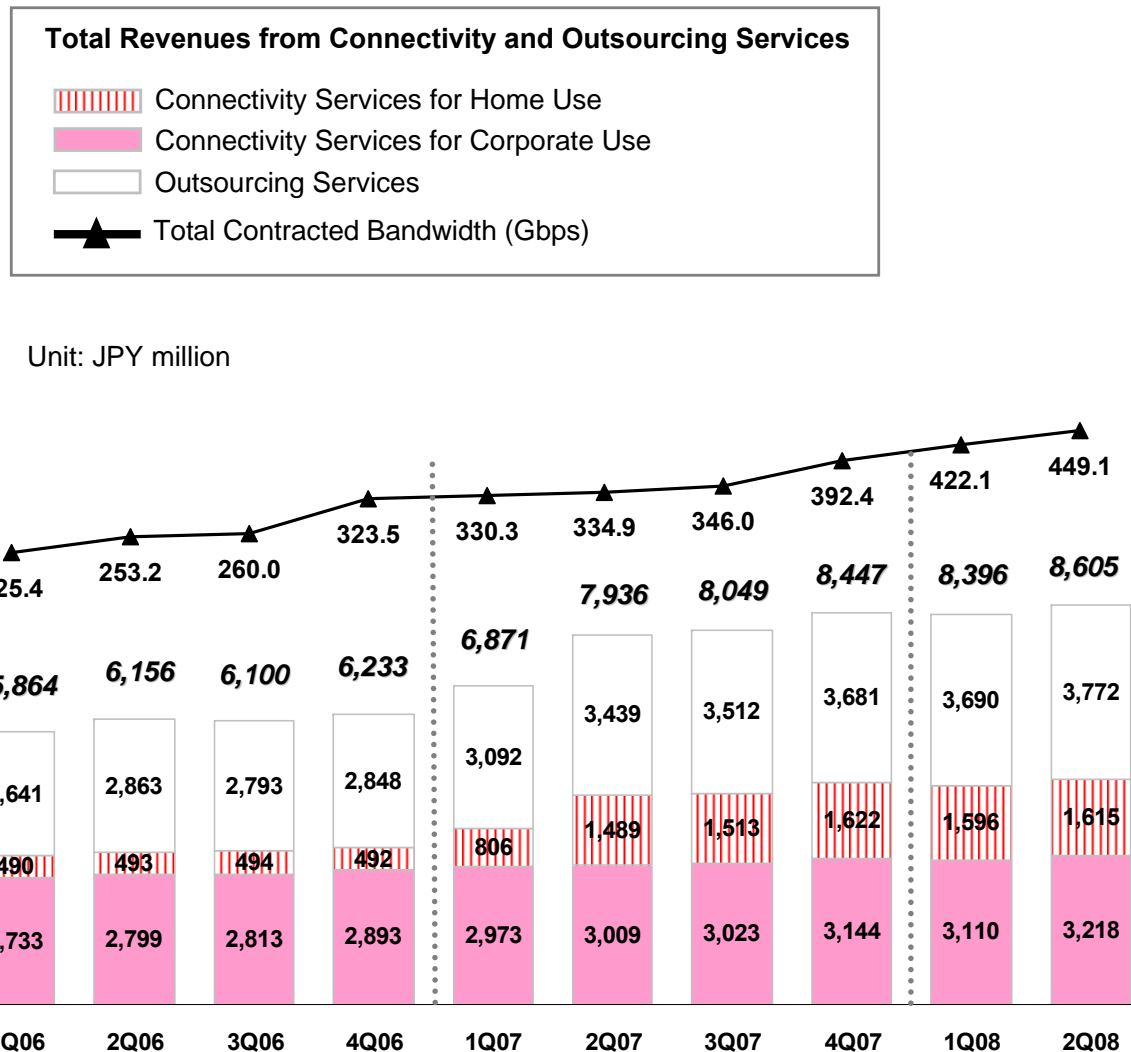
Unit: JPY million



- ◆ **Cost of Connectivity and Outsourcing Services revenue: up 10.3% YoY, up 3.0% QoQ**
 - Gross Margin was down 0.5% QoQ. There were increased in circuit related and network operation related cost (fixed type costs) and initial cost related to 2 new subsidiaries.
- ◆ **Cost of SI revenue: up 3.6% YoY, up 2.2% QoQ**
 - Gross Margin was up 1.7% QoQ as SI revenue increased although there were an unprofitable systems integration project.
- ◆ **Cost of ATM Operation Business revenue were JPY85 million, up JPY71 million QoQ**

-4. Connectivity and Outsourcing Services

Revenues and Total Contracted Bandwidth



Connectivity Service

◆ Connectivity services for corporate use:

Revenues: JPY3,218 million (up 7.0% YoY, up 3.5% QoQ)

- IP Service revenues increased along with the increase in over 1Gbps connectivity (up 15 contracts YoY) and expects revenue contribution in the following quarters.
- IIJ Mobile Service reached 17,000 contracts, in line with our expectations. Also expects revenue contribution in the following quarters.

◆ Connectivity services for home use:

Revenues: JPY1,615 million (up 8.5% YoY, up 1.2% QoQ)

- For 1H08, contribution from hi-ho was JPY2,425 million (6 months) compared to JPY1,419 million in 1H07 (4 months).
- Users are shifting from dial-up and ADSL services to optical line services which charges higher monthly fees.

Outsourcing Service

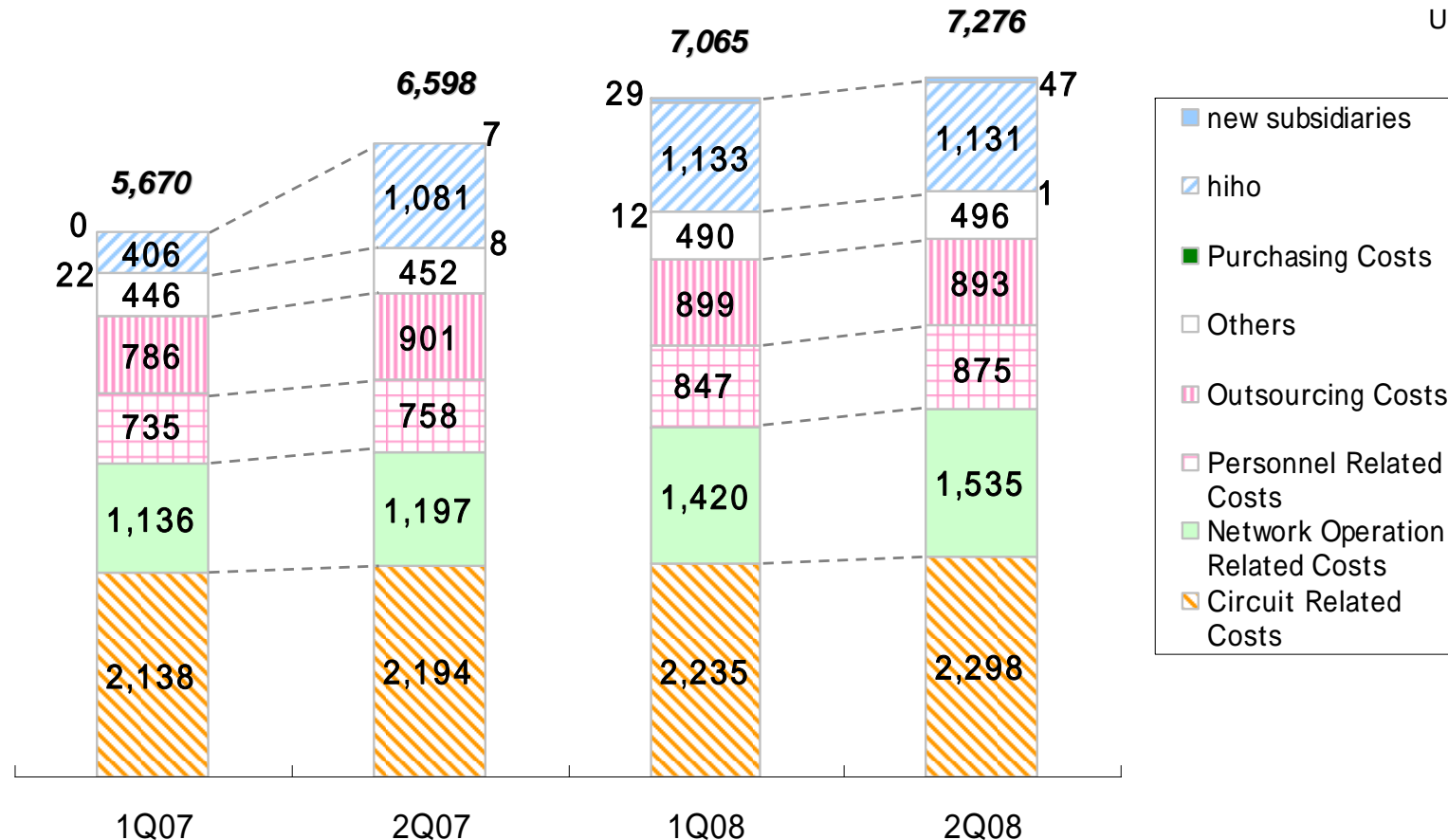
Revenues: JPY3,772 million (up 9.7% YoY, up 2.2% QoQ)

- The new Nerima DC will begin operation in February 2009 to meet the strong demands for Data Center Services.
- Security and email related services revenues are steadily increasing supported by SPAM mail services and security services such as DDoS Services.

-4. Connectivity and Outsourcing Services

Cost of Revenues

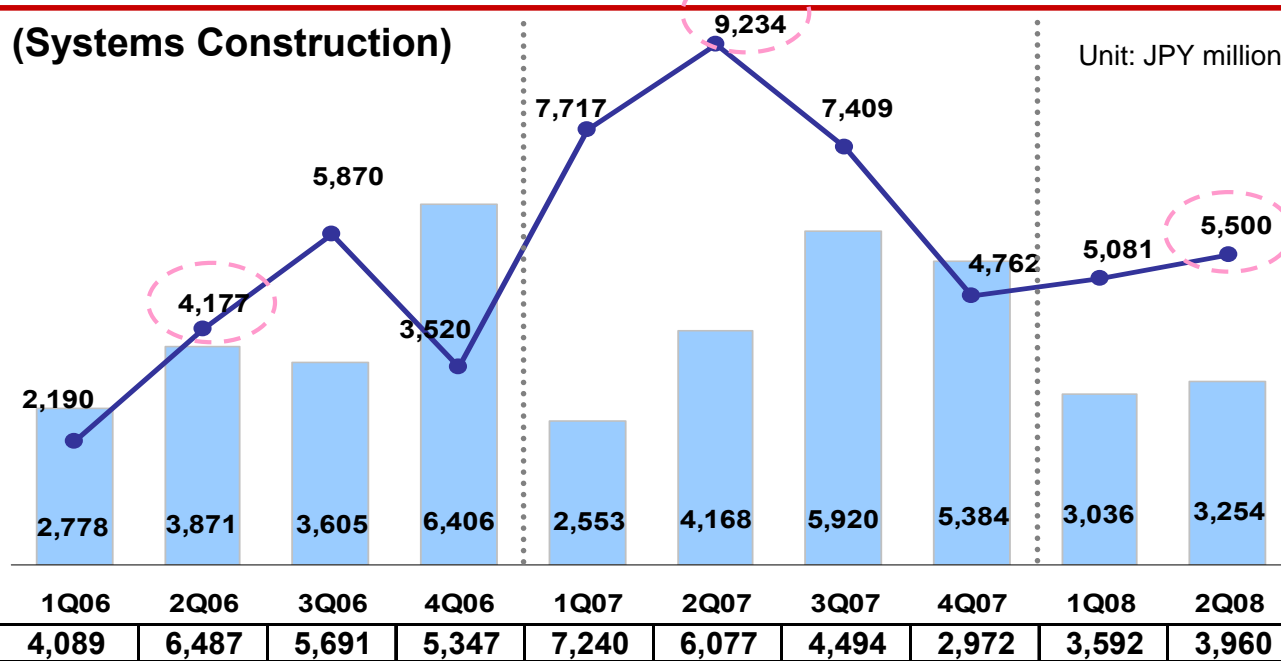
Unit: JPY million



- ◆ **Cost of Connectivity and Outsourcing Service revenue were:**
up JPY678 million YoY (up 10.3%), up JPY211 million QoQ (up 3.0%)
- ◆ **Circuit related, network operation related, personnel related costs increased due to business expansion.**
 - Increase in circuit related cost due to backbone upgrade between Japan and the United States in 2Q08 and within Japan
 - Increase in network operation related costs mainly due to increase in maintenance cost for back bone routers, rent and data center rental fee
 - Increase in personnel related cost resulting from the hiring of personnel mainly in 1Q08.
- ◆ **Initial cost related to GDX Japan and On-Demand Solutions of JPY47 million.**

-5. SI Revenues

(Systems Construction)



Unit: JPY million

Systems Construction

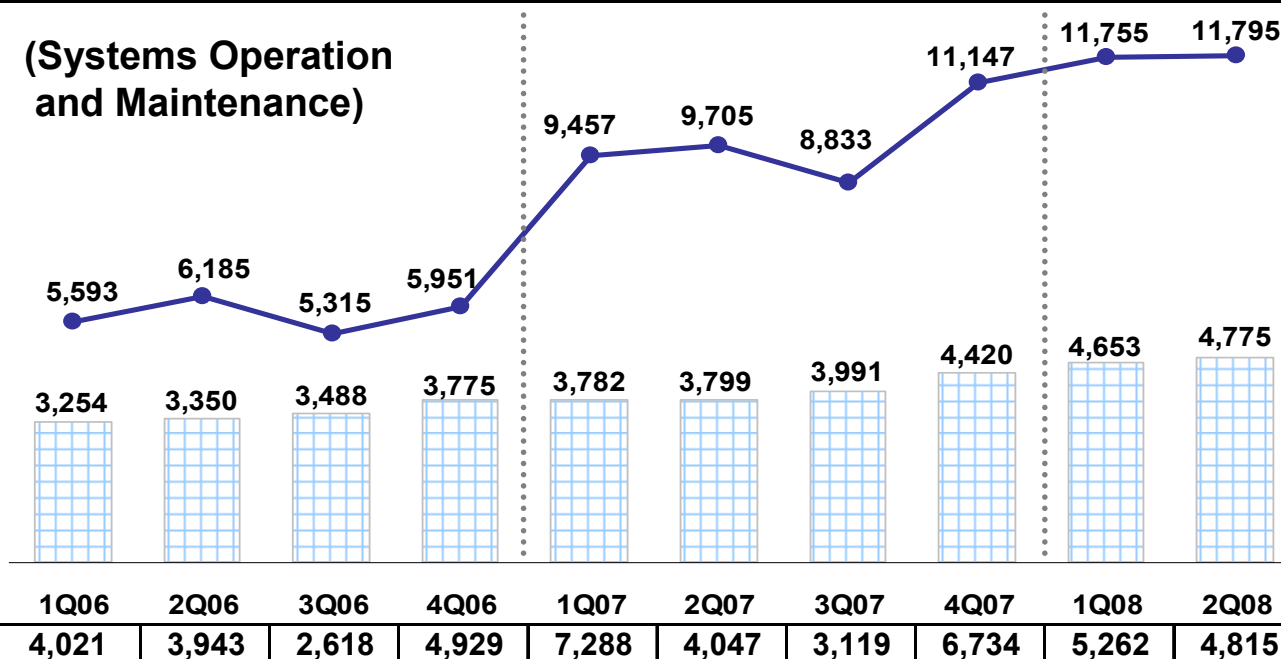
Revenues were short of our budget

- Down JPY914 million YoY (down 21.9%)
- Up JPY218 million QoQ (up 7.2%)
- New investment for application development projects were especially affected by the weak economy.
- With extra support for an unprofitable systems integration project, human resource were taken, and gross margin was affected.

Order Backlog was:

- Down JPY3,734 million YoY (down 40.4%)
- Up JPY1,324 million compared to 2Q06 (up 31.7%)

(Systems Operation and Maintenance)

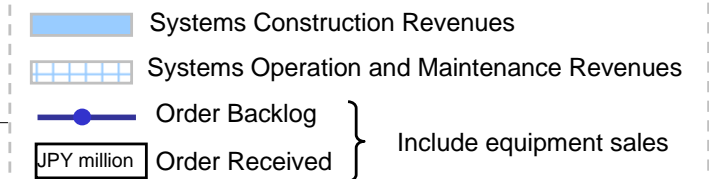


Systems Operation and Maintenance

Revenues are increasing steadily

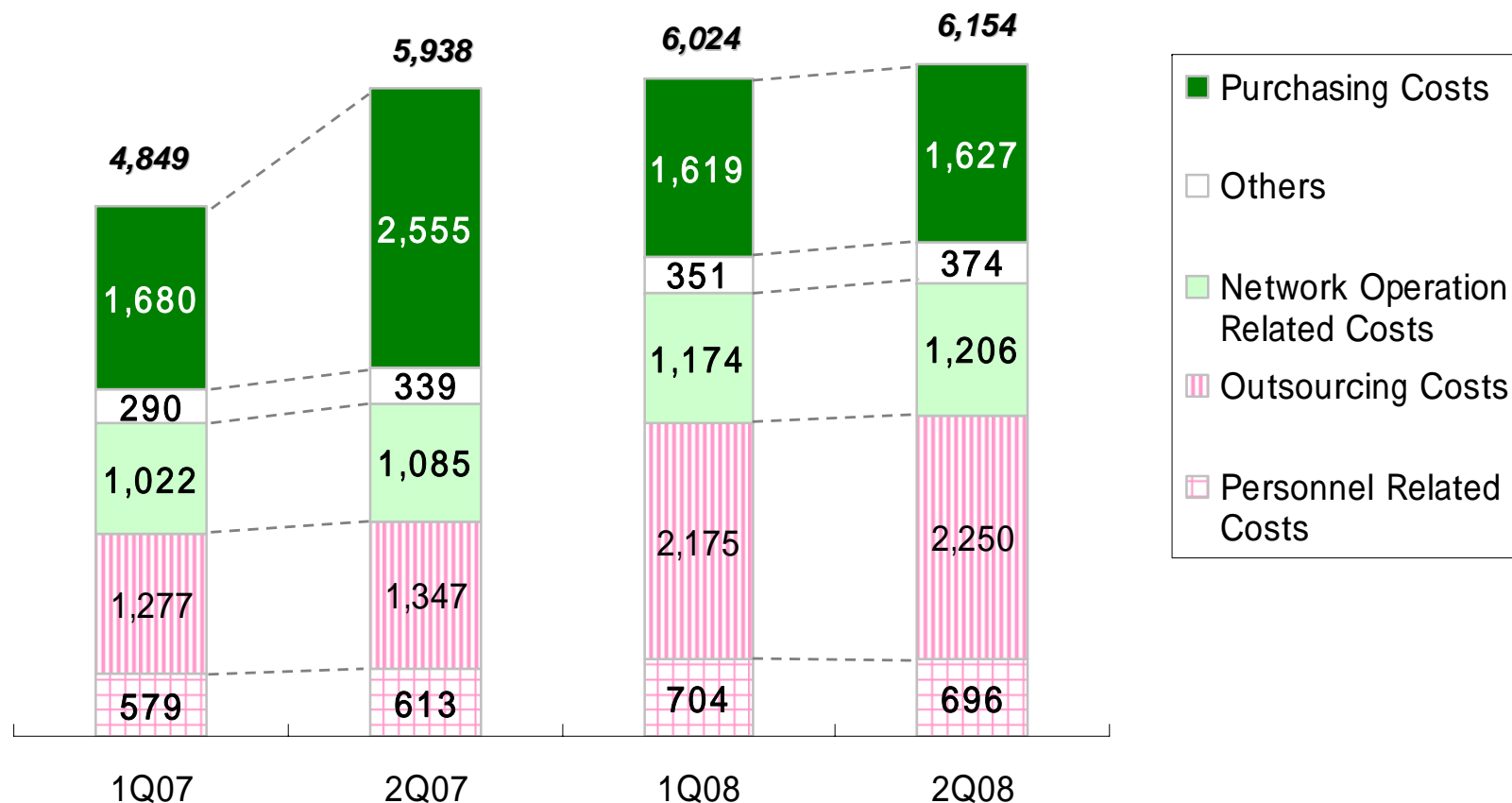
- UP JPY975 million YoY (up 25.7%)
- Up JPY121 million QoQ (up 2.6%)
- Systems operation and maintenance revenues are recurring revenues which accumulates along with the increase in systems construction revenues

Order Backlog is steadily accumulating and the order scales are growing



-5. SI Cost of Revenues

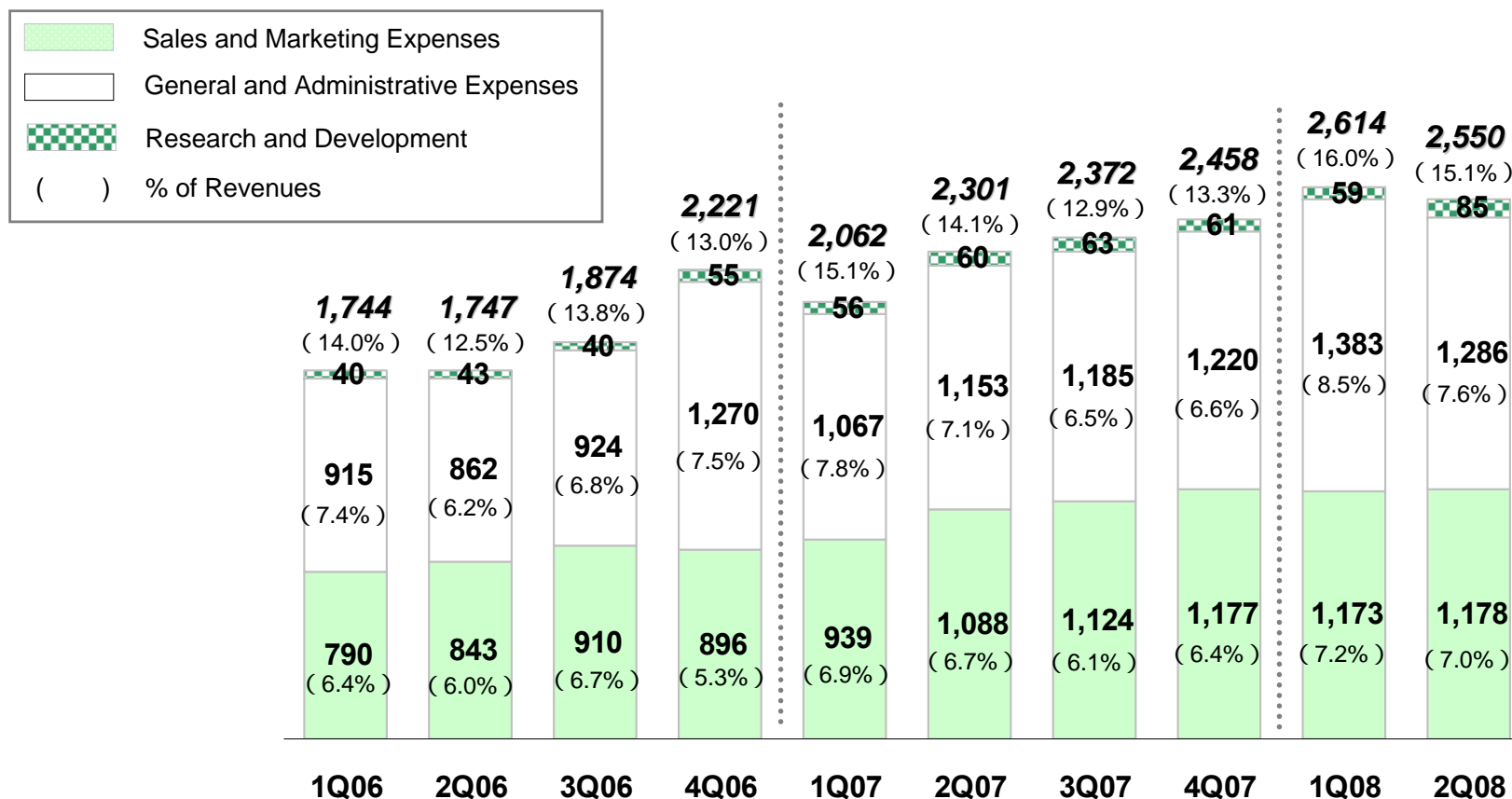
Unit: JPY million



◆ **Cost of SI revenue were:**
up JPY216 million YoY (up 3.6%), up JPY130 million QoQ (up 2.2%)

- Personnel related cost increased due to business expansion YoY of 13.7% but slightly decreased by 1.1% QoQ.
- Outsourcing related costs increased by 67.1% YoY and 3.4% QoQ along with the increase in revenues from systems operation and maintenance.
- Purchasing costs decreased by 21.9% YoY along with the decrease in revenues from systems construction.

-6. SG&A Expenses/R&D



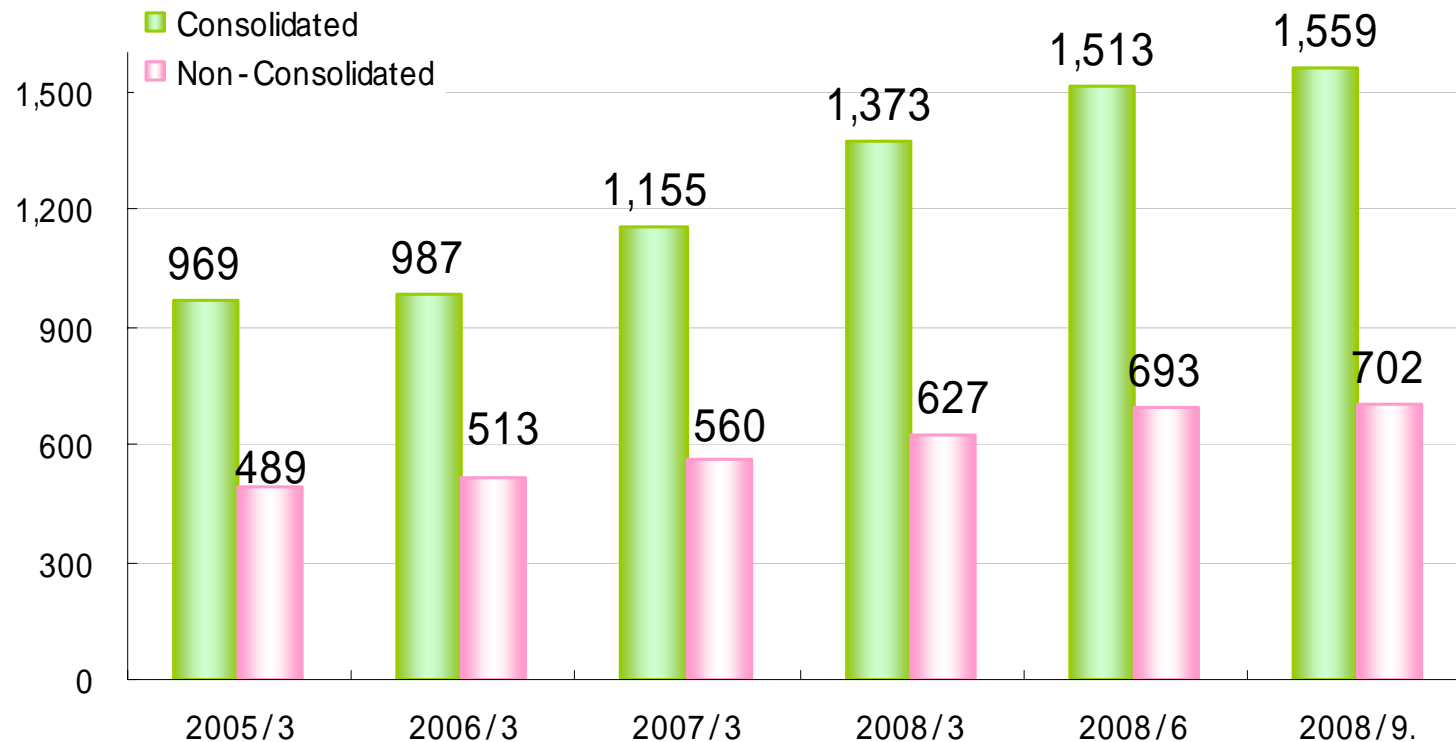
◆ **SG&A Expenses were:**

up 10.8% YoY, down 2.4% QoQ and the % of revenues was 15.1%

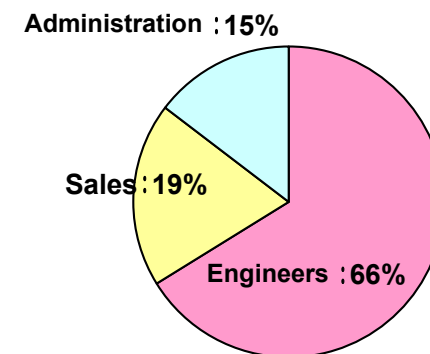
- Increase in expenses related to hi-ho (1H08 was 6 months compared to 4 months for 1H07).
- Advertising and employee education expenses decreased QoQ.
- Expenses related to 4 new subsidiaries were JPY165 million.

-7. Number of Employees

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



< Employee distribution >



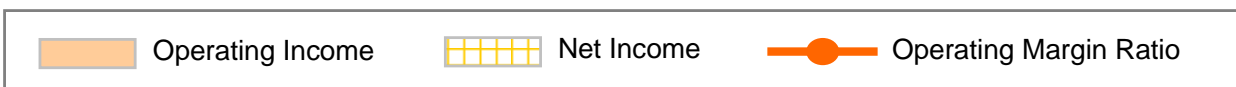
Personnel related costs and expenses

2,599	2,605
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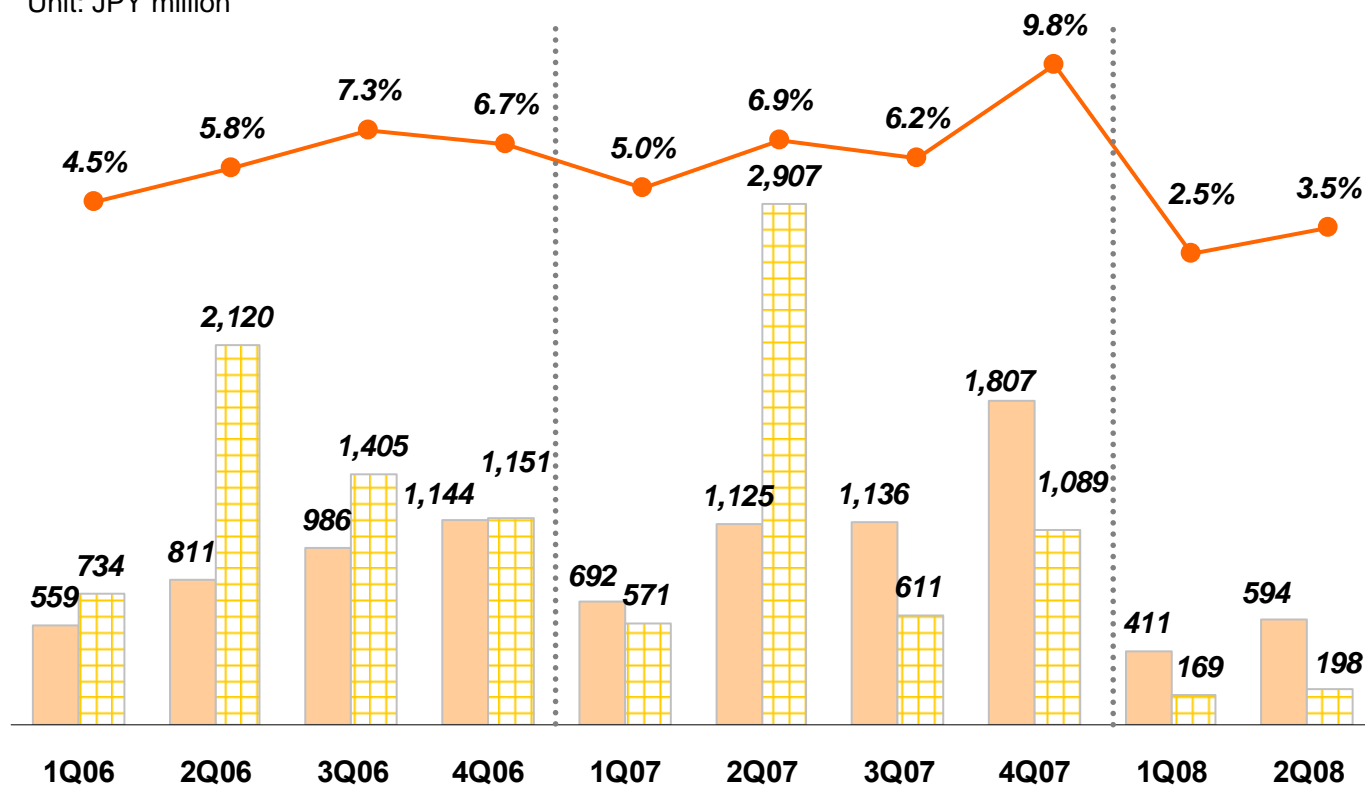
 Unit: JPY million

- ◆ **Number of employees increased by 46 QoQ**
 - Employing temporary staff in our subsidiary was the main reason for the increase in 2Q08
 - Personnel related costs and expenses were about the same level as 1Q08
 - We plan to exercise effective cost control in the latter half of FY2008.

-8. Operating and Net Income



Unit: JPY million



◆ **Operating Income was**

- Down 47.2% YoY
- Down 44.5% QoQ

➢ Loss from 4 new subsidiaries were JPY287 million.

◆ **Net Income was:**

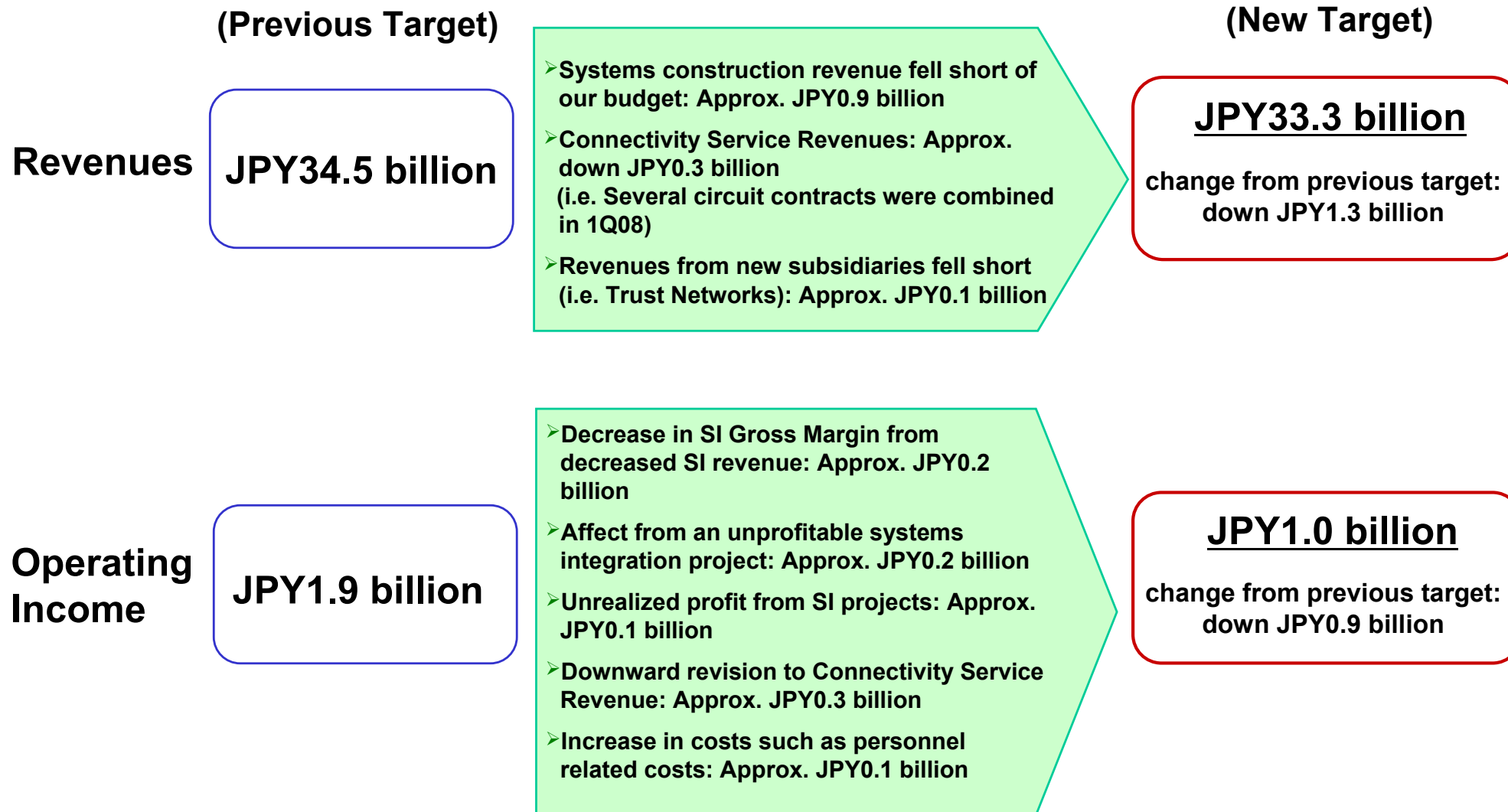
- Down 93.2% YoY
- Up 17.4% QoQ

- Other income (expenses): JPY8 million of net other income.
 - interest expense of JPY100 million
 - losses on write-down of other investments of JPY54 million
- Income tax expense: JPY326 million.
 - deferred tax expense of JPY251 million
- Minority interest in losses of subsidiaries: JPY85 million
 - GDX Japan and Trust Networks
- Equity in net income of equity method investees: JPY17 million.

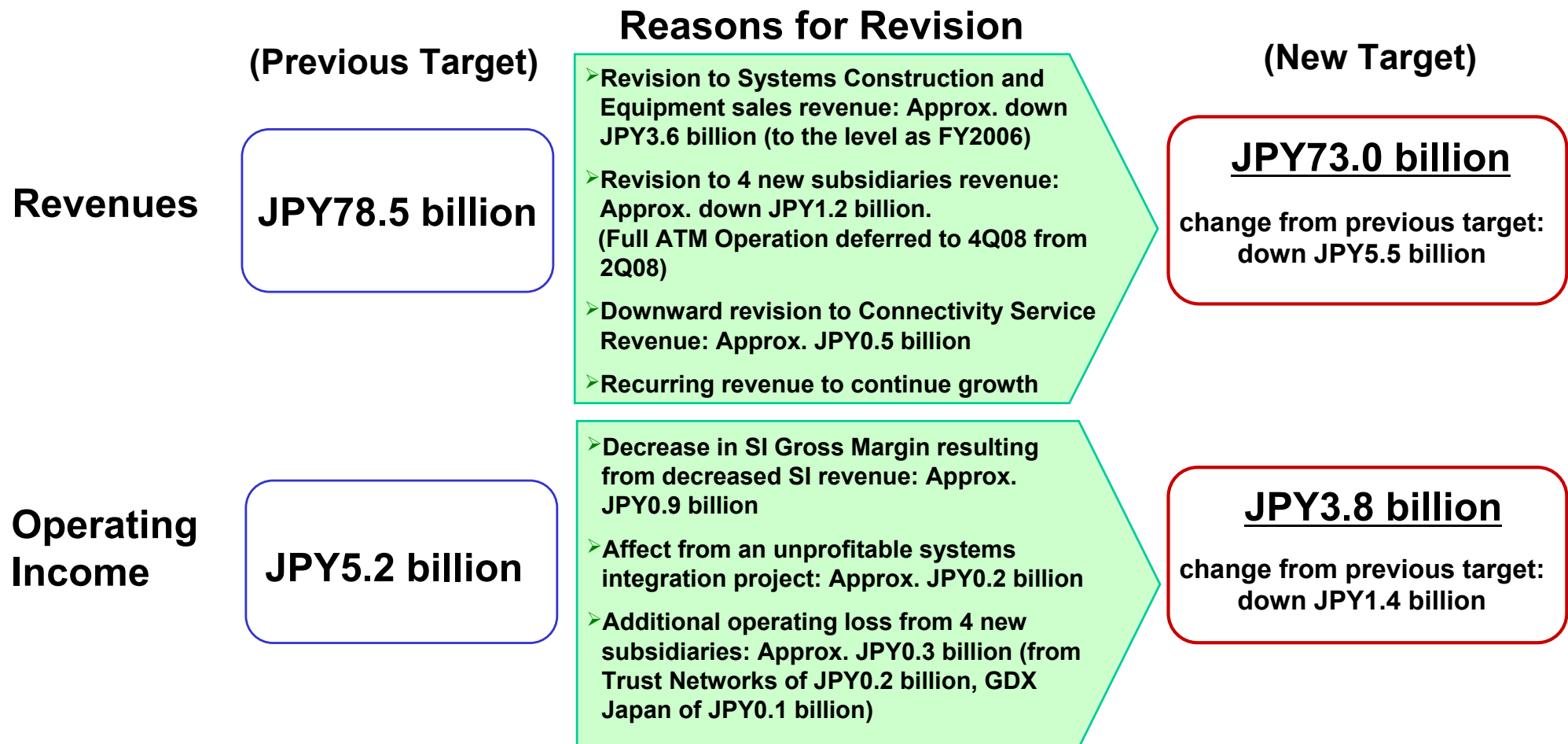
	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08
Income tax expense (benefit)	175	(1,980)	392	552	213	326
Minority interests	9	15	27	45	55	85
Equity in net loss (income) of equity method investees	(20)	(29)	(42)	(52)	18	17

-9. Revised Target for 1H FY2008 Financial Results

Factors for Revision



-9. Revised Target for Full FY2008 Financial Results



To Achieve our Full FY2008 Financial Target

- Strengthen group marketing synergy to better acquire new projects.
- Re-distribute SI resources and cut down on SI outsourcing related costs.
- Hired personnel in advance in 1H08. 2H08 will depend on financial results.
- To exercise effective cost control in costs and expenses.

-10. Topics and New Business Development

“SMFv2” Compatible Routers



- Aggressively deploying SMF technology to other router makers to establish and realize a safe and reliable network society.
- “UNIVERGE IX2005-Z” by NEC, “Rooster Series” by SUNCORPORATION, “JUNOS” by Juniper Networks
- By just connecting the router to the network, it automatically access the Location Server and downloads its' configuration.

IIJ to Open New Nerima Data Center

- Begin its operation in February 2009
- Billed as an outsourcing-on-demand data center, it will provide a wide range of services as a total solution.
- Environmentally friendly design equipped with energy-saving devices.



On-Demand Solutions

On-Demand Solutions Inc.

- Established April 2008 (100% Consolidated subsidiary)
- They have began providing network system for print-on demand services for 1st financial user and are increasing customers.



Trust Networks Inc.

- Established July 2007 (60.2% Consolidated subsidiary)
- Currently preparing for operation. Expected to move on from trial start from 4Q08.



TRUSTED COMMUNICATIONS

GDX Japan Inc.

- Established April 2007 (51.0% Consolidated subsidiary)
- Currently providing message exchange network service “GDX Trusted Platform”



IIJ INNOVATION INSTITUTE

IIJ Innovation Institute Inc.

- Established June 2008 (100% Consolidated subsidiary)
- In research and development for “Distributed and Parallel Processing Platform” for very large data sets.

-11. Consolidated Balance Sheets



Internet Initiative Japan

Unit: JPY million

	September 30, 2008	March 31, 2008	Changes
Cash and Cash Equivalents	9,319	11,471	(2,152)
Accounts Receivable	9,981	12,255	(2,275)
Inventories	1,537	1,184	353
Prepaid Expenses	2,148	2,005	143
Available-for-sale Securities	753	844	(92)
Property and Equipment	13,668	11,740	1,928
Goodwill and Other Intangible Assets	5,869	5,907	(38)
Other Assets	4,023	4,177	(154)
Borrowings (Short-term)	7,000	9,150	(2,150)
Accumulated Deficit	(19,394)	(19,555)	161
Accumulated Other Comprehensive Income	(72)	91	(163)
Total Shareholders' Equity	24,979	24,981	(1)
Total Assets	53,275	55,703	(2,427)

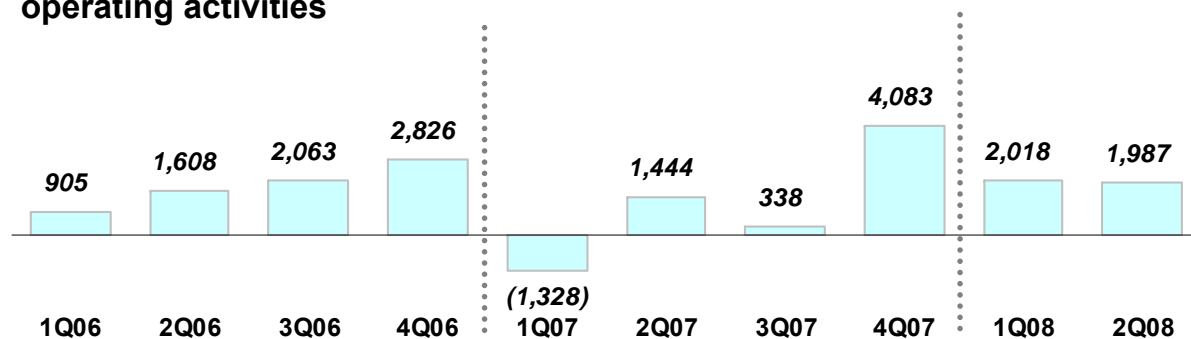
-12. Consolidated Cash Flows



Internet Initiative Japan

Unit: JPY million

Net cash provided by (used in) operating activities

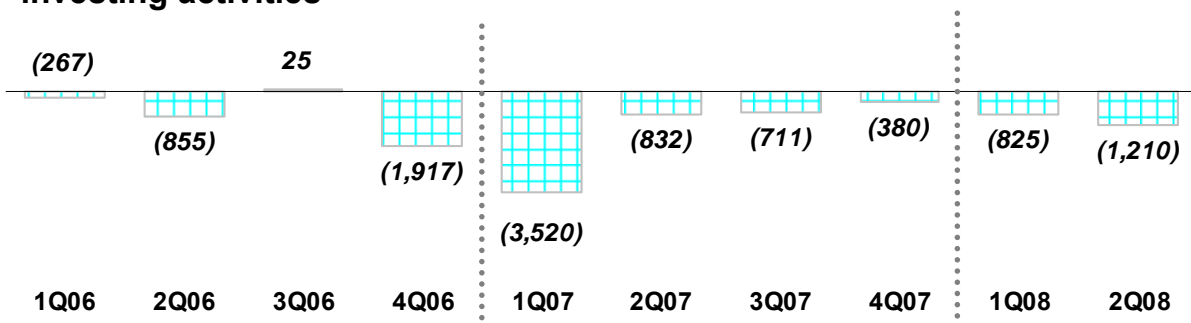


Net Cash provided by operating activities: JPY1,987 million

- Increase in accounts receivable of JPY1,185 million
- Decrease in inventories and prepaid expenses related to on-going SI projects of JPY533 million
- Increase in accounts payable of JPY573 million related to SI projects.

etc.

Net cash provided by (used in) investing activities

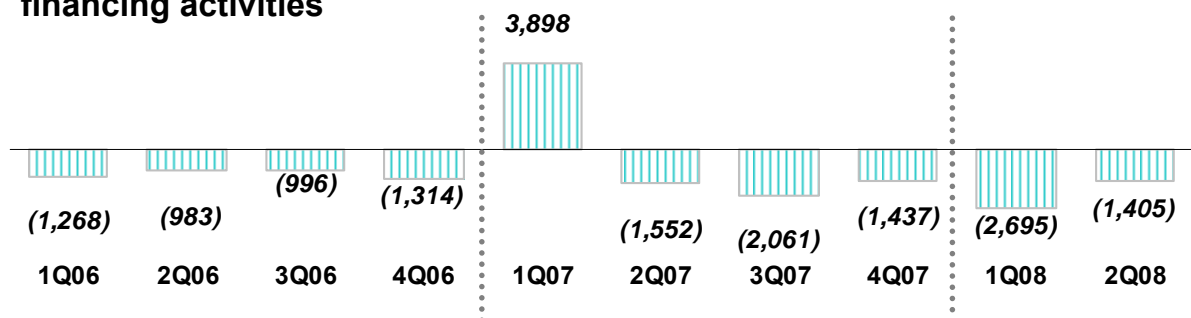


Net Cash provided by investing activities: JPY1,210 million

- Payment for the purchase of property and equipment of JPY980 million
- Purchase of short-term and other investments of JPY119 million.

etc.

Net cash provided by (used in) financing activities



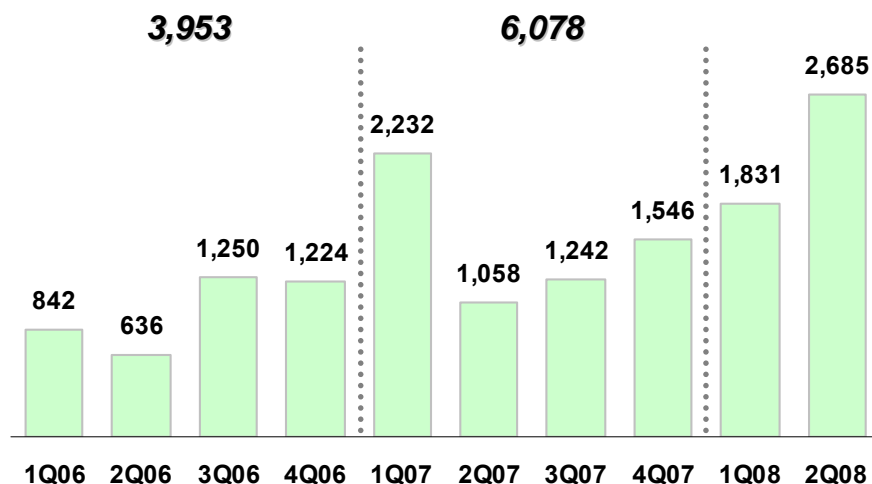
Net Cash provided by financing activities: JPY1,405 million

- repayments of short-term borrowing of JPY500 million (net)
- Principal payments under capital leases of JPY905 million.

etc.

-13. Other Financial Data (CAPEX etc.)

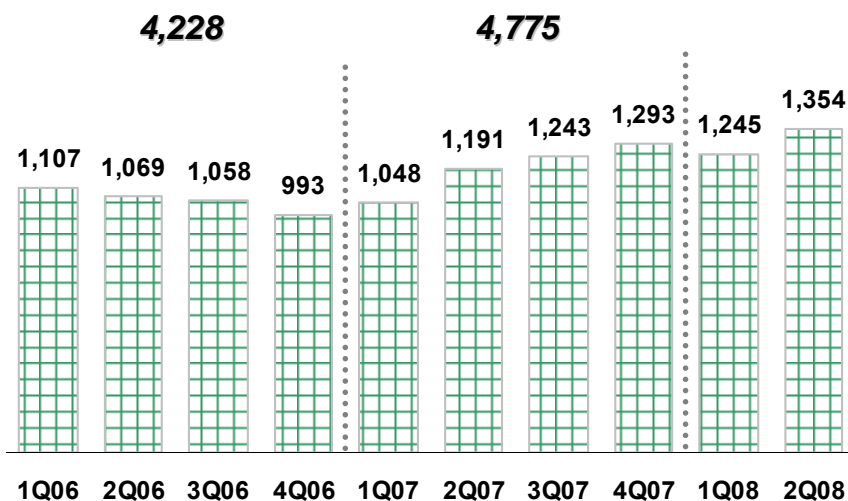
CAPEX (Include Capital Lease)



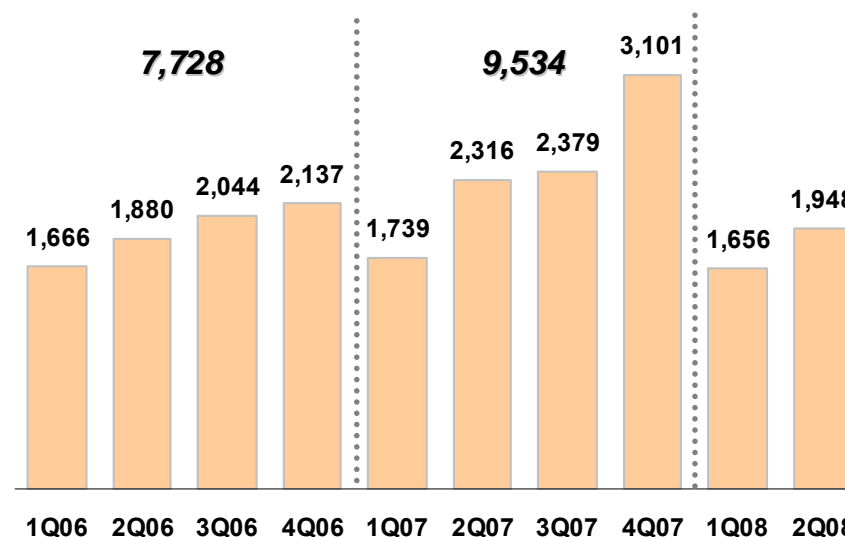
Breakdown of CAPEX

- Regulatory Investment (Investments for IIJ services, etc) JPY1,071 million
- New subsidiaries related: JPY585 million
- Renewal of IIJ backbone router: JPY784 million
- Renewal of IIJ back office system JPY245 million

Depreciation and Amortization



Adjusted EBITDA



-1. Reference : Consolidated Financial Results for 2Q08



Internet Initiative Japan

Unit: JPY billion














	<i>% of Revenues</i> 2Q08 <i>(08/7 ~ 08/9)</i>	<i>% of Revenues</i> 2Q07 <i>(07/7 ~ 07/9)</i>	YoY
Total Revenues	16.9	16.3	3.9%
Total Costs	<i>81.4%</i> 13.8	<i>79.0%</i> 12.9	7.1%
Gross Margin	<i>18.6%</i> 3.1	<i>21.0%</i> 3.4	(8.2%)
SG&A/R&D	<i>15.1%</i> 2.6	<i>14.1%</i> 2.3	10.8%
Operating Income	<i>3.5%</i> 0.6	<i>6.9%</i> 1.1	(47.2%)
Income before Income Tax Expense	<i>2.7%</i> 0.5	<i>5.8%</i> 0.9	(51.5%)
Net Income	<i>1.2%</i> 0.2	<i>17.8%</i> 2.9	(93.2%)

-2. Reference : Forecast for FY2008





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

	FY08 Target (08/4 ~ 09/3)	FY07 Actual (07/4 ~ 08/3)	YoY	
Total Revenues	73.0	66.8	6.2	9.2%
Operating Income	3.8	4.8	(1.0)	(20.2%)
Income before Income Tax Expense (Benefit)	3.0	4.4	(1.4)	(31.2%)
Net Income	2.8	5.2	(2.4)	(45.9%)
Net Income per Share	JPY13,561	JPY25,100	(JPY11,539)	(46.0%)
Cash Dividend per Share	JPY2,000 (Annual)	JPY1,750 (Annual)	JPY250	14.3%

-3. Reference: IJ Group Companies

	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.	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.
	 IJ 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 Mfeed Co.	31%	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

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.
	IJ 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 Automati
	2Q	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
		8/11 IIJ Releases IIJ Mobile Secure Link
		8/12 IIJ Announces First Quarter Results for the Fiscal Year Ending March 31, 2009
		8/13 iPass and IIJ Partner For Mobile Broadband in Japan
		8/28 IIJ Releases Sender Authentication Mail Filtering Software as Open Source
		9/29 IIJ to Develop New SEIL/B1
	3Q	10/1 IIJ Introduces the IIJ Contents Delivery Service
		10/7 IIJ to Establish Quarterly Publication on Latest Internet Technology and Security Issues
		10/14 IIJ Partners with Alcatel-Lucent in Corporate Mobile Communications
		10/20 IIJ to Provide Network Infrastructure for kabu.com's Innovative Mobile Vehicle Sales Office
10/24 IIJ Revises First Half and Full-Year Financial Targets for FY2008		
10/28 Notice Regarding Repurchase of Own Shares of Internet Initiative Japan Inc.		

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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