



Internet Initiative Japan Inc.

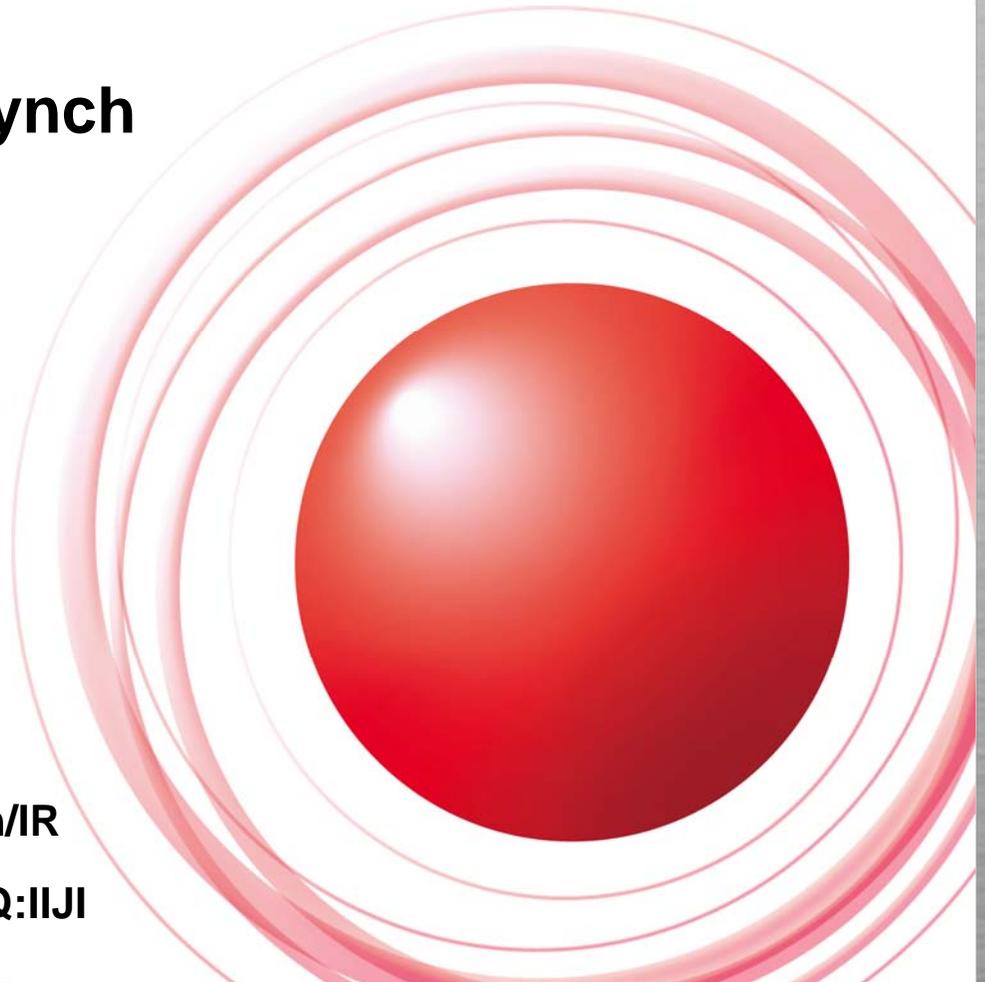
**Bank of America Merrill Lynch
Japan Conference 2009**

September 17, 2009

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

Ongoing Innovation

TSE1:3774 NASDAQ:IIJI



Key Investment Highlights

- ◆ Top IP Engineering Company in Japan
- ◆ Target Blue-chip and Governmental Organizations in Japan with dominant position
- ◆ Best Positioned in the Growing Outsourcing Market in Japan
- ◆ Stable revenue growth from the accumulating recurring revenue
- ◆ Solid Growth Strategy

details to follow

TOP IP Engineering Company in Japan

◆ The first established full-scale ISP in Japan

- A group of highly motivated and skilled TOP Level IP Engineers
- Pioneer of Network Technologies in Japan

◆ In-housed development

- Operate one of the largest Internet Backbone in Japan
- Fully develop its service and back office facilities
 - Internet Connectivity & Firewall Service, IP Multicast Delivery Service
 - IPv6 Service
 - NetBSD based Router Product Development (SEIL Series)

◆ “IIJ” brand among the Japanese IT market

- Well known for its high engineering skills and network support skills
- High customer Satisfaction with long term relationship
- Around 6,500 clients, mainly governmental and large enterprise

◆ At the leading edge of IP R&D

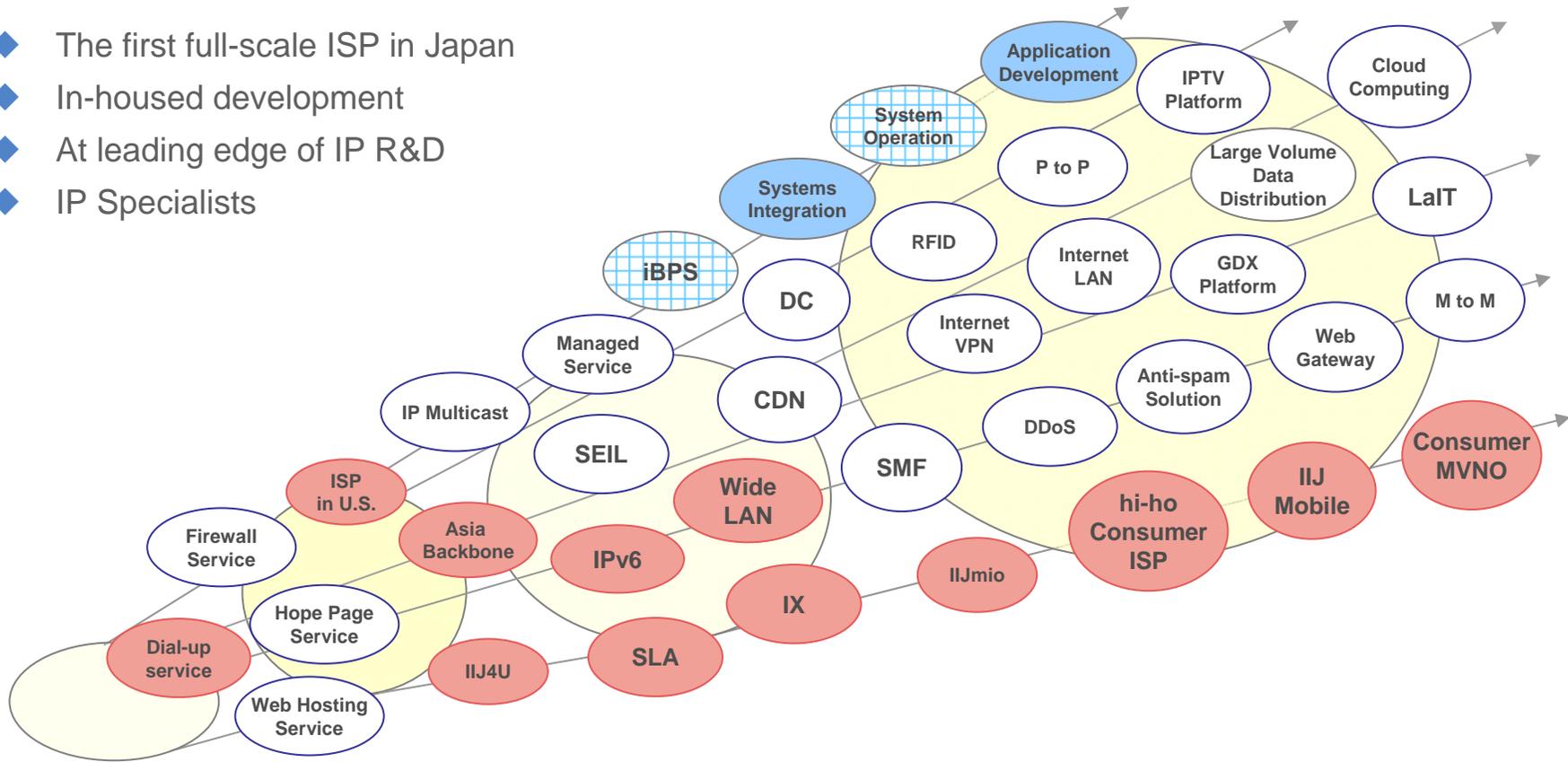
- IPv6, Mobile IPv6(MIPv6), NetBSD
- Distributed and Parallel Processing Platform for very large data sets
- Participation in world-wide research
- Board Member of “Telecom-ISAC Japan”

Company Profile (as of June 2009)	
Established	December 1992
Number of Employees	Consolidated: 1,673 (approx 70% engineers)
Listed Markets	NASDAQ(IIJI), TSE1(3774)
Large Shareholders	NTT(24.5%), Koichi Suzuki(6.2%), Itochu Corp.(5.1%), NTTCom(4.9%)

Entrepreneur of Network Technologies

Business and Service Development to Initiate the Market

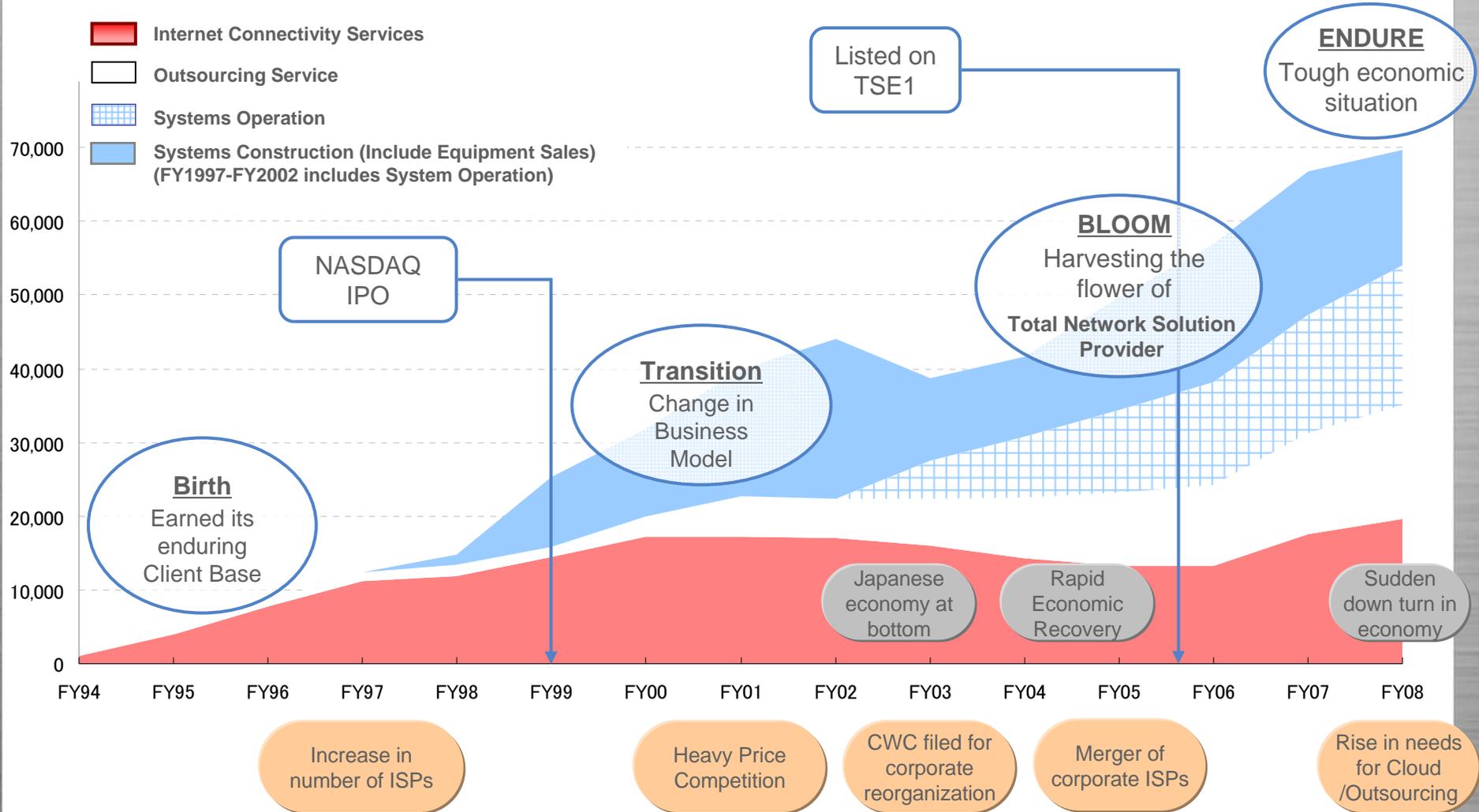
- ◆ The first full-scale ISP in Japan
- ◆ In-housed development
- ◆ At leading edge of IP R&D
- ◆ IP Specialists



Strategic Shift in Business Model

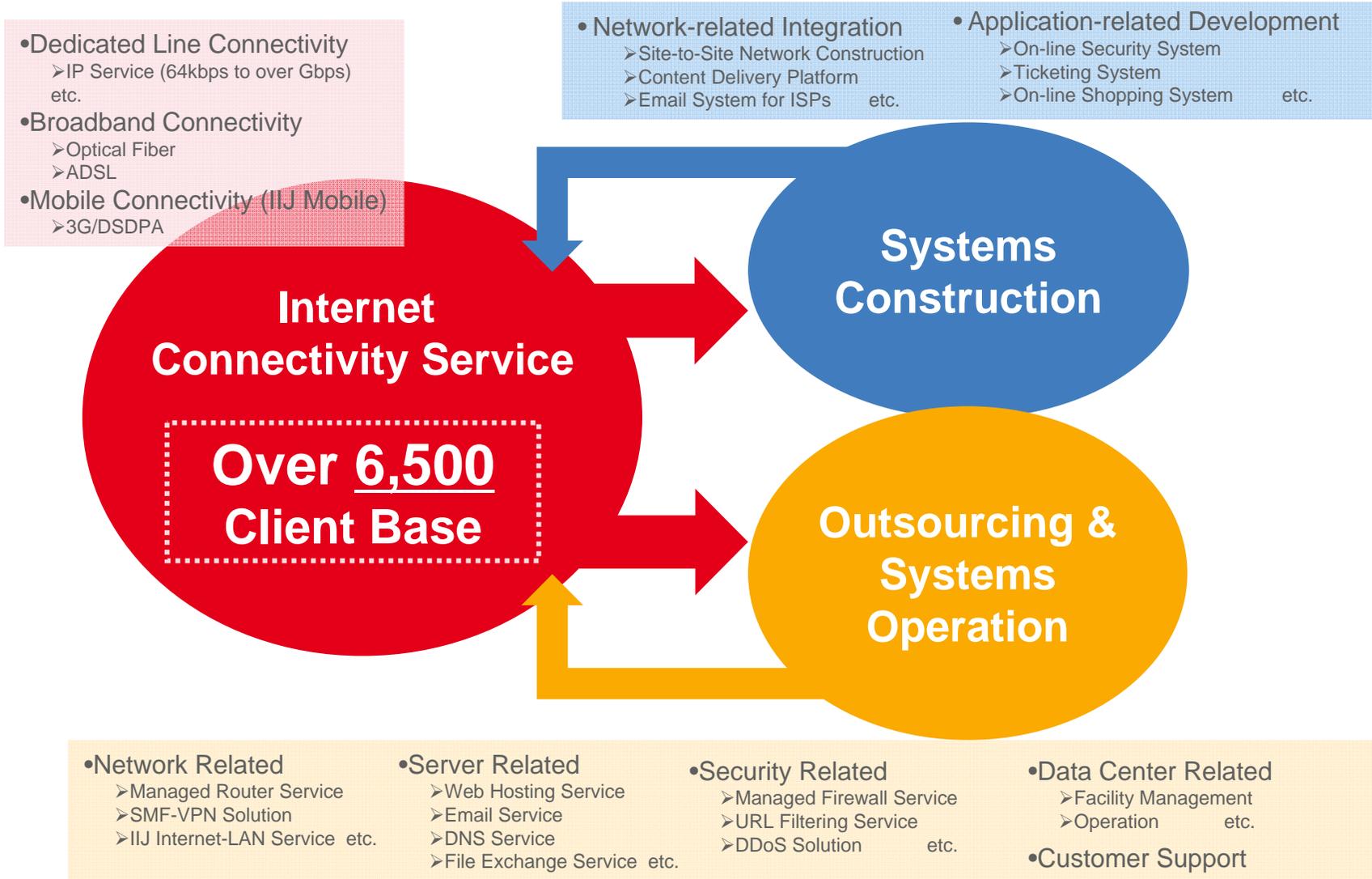
From "ISP" to "Total Network Solution Provider"

(Revenue, JPY million)



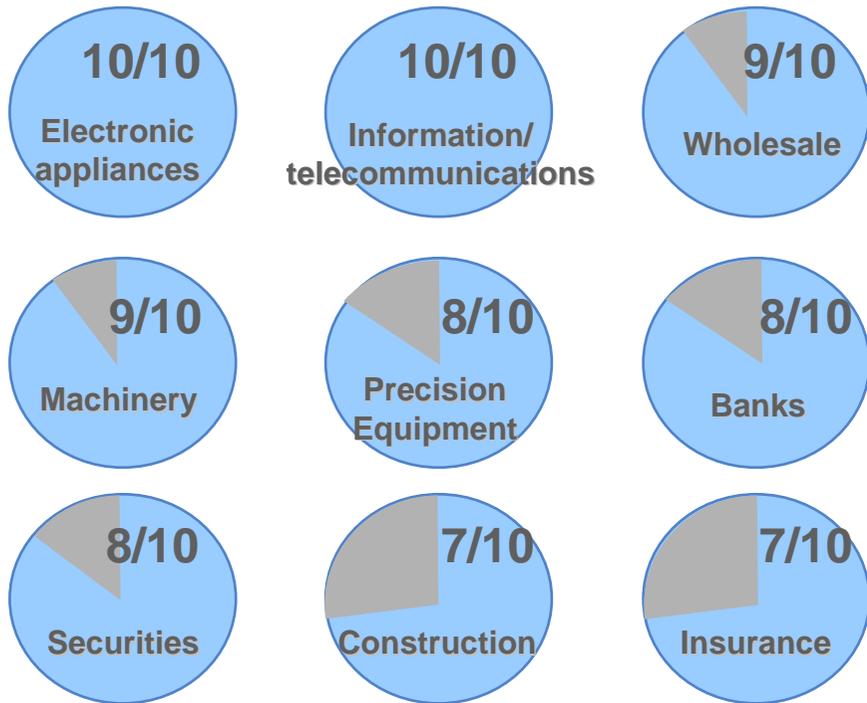
Recurring Business Model

Cross Selling of Total Network Solutions



Excellent Blue-chip Client Base

Top Tiers



- The number of contracts we have among 10 major companies listed by annual consolidated revenue in each industry.
- Revenue data based on Toyo Keizai Shimpo "Kaisha Shikiho," and Nihon Keizai Shimbun "Nikkei Industry Map"

Enduring Relationship with leading companies

THE DOCUMENT COMPANY
FUJI XEROX

excite

hi-ho

SMBC 三井住友銀行

plala

kabu.com

JOMO

QTNet

MOS BURGER.

ドンキホーテ

The Asahi Shimbun
Japan's Leading National Newspaper | English Edition

NTT Communications

Cabinet Office

Ministry of Justice

Ministry of Environment

Ministry of Internal Affairs and Communications

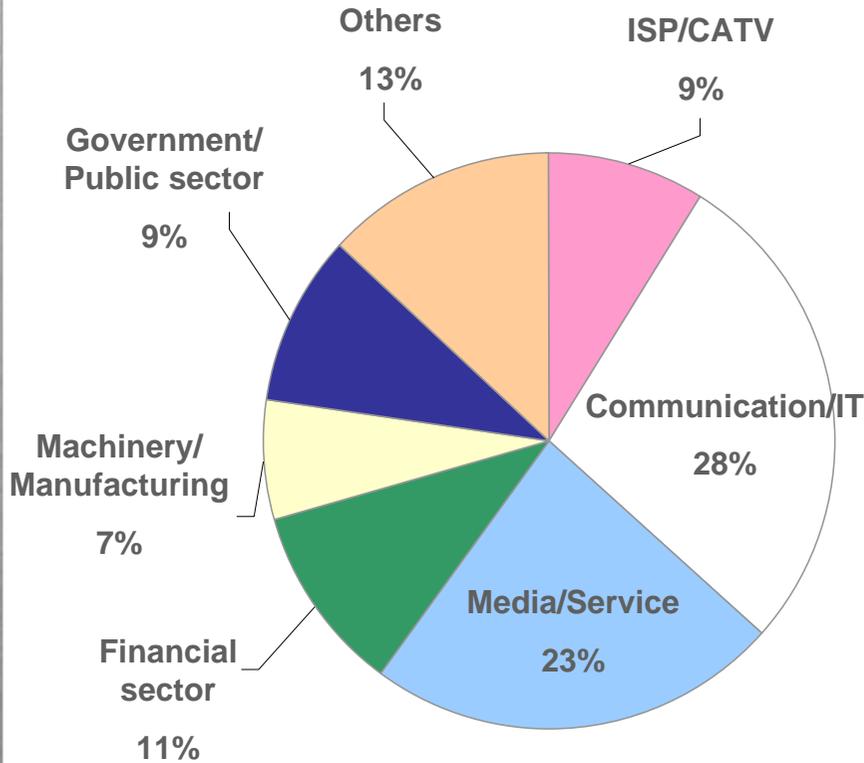
Ministry of Land, Infrastructure, Transport and Tourism

Ministry of Finance

Ministry of Education, Culture, Sports, Science and Technology

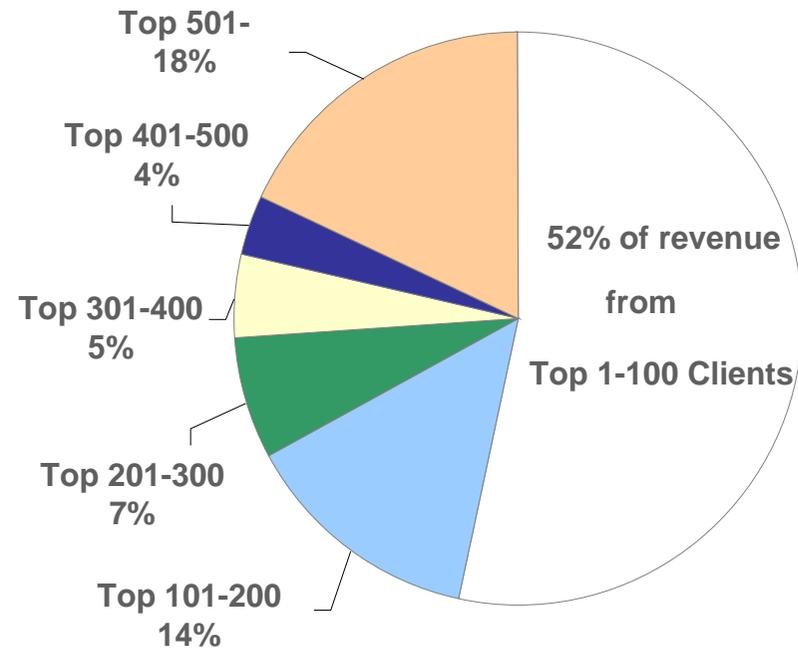
Diversified Client Base

Revenue Distribution by Industry



Source: IIJ's consolidated data for FY2008

Revenue Distribution by Clients



Source: IIJ's non-consolidated data for FY2008

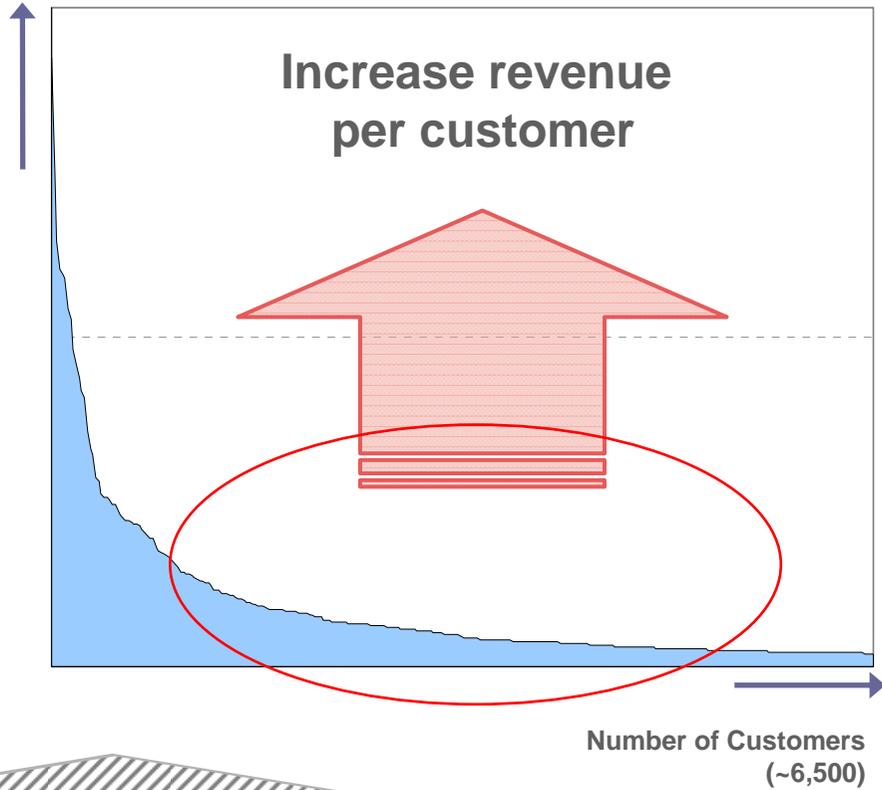
• Not dependent on specific industry

- Not dependent on specific company
- Revenue by Top1 Client is less than 4%

Solid Growth Model

- Customer Retention Strategy
- Cross Selling of Services
- Provide high quality/reliable total network solution
- Introduce new services
- Increase recurring revenues for Stable revenues and profit growth

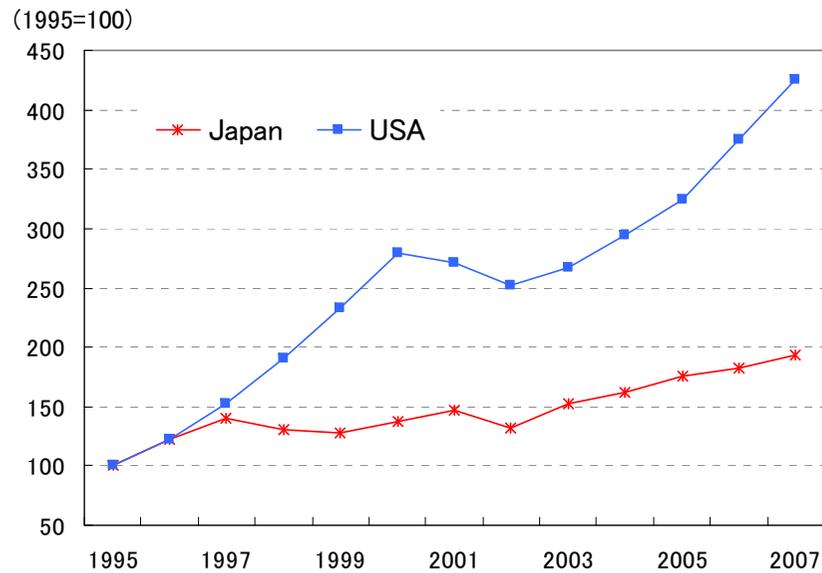
Revenues by Customer (JPY million)



- IT market growth to continue
- Rise in demands from Outsourcing/Cloud Computing
- IT spending is indispensable in the mid/long term

Market Environment

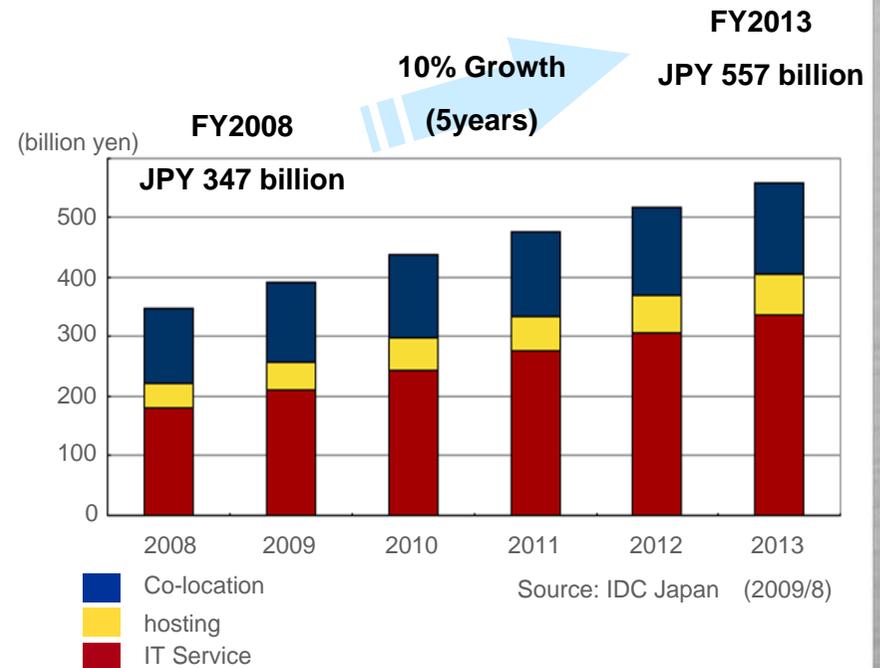
Comparison of Japan-U.S. change in real investment for informatization



Source: Ministry of Internal Affairs and Communications (2009/7) "Survey on Economic Analysis of ICT"

- According to government research, Japan are yet behind on IT investments compared to the U.S.

Internet Data Center Market Growth



- From owning to using
- More companies are shifting their server equipment into data centers from corporate head quarters

FY2008 Results Summary & FY2009 Outlook

	FY2008 (Summary)	FY2009 (Outlook)
Exterior Environment	<ul style="list-style-type: none"> • Sudden Economic Down Turn • Halt in IT Investments in Japan 	<ul style="list-style-type: none"> • Weak Economy to continue • Weak IT investments in Japan
	Demands for Outsourcing & Cloud Computing remain to continue	
Business Operation	Constantly Introducing new services and accelerate cross selling	
Recurring Business	<ul style="list-style-type: none"> • Good start for IIJ Mobile • Increased Gbps contracts • Had irregular capital expenditure 	<ul style="list-style-type: none"> • To increase the use of IIJ Mobile Solutions
SI	<ul style="list-style-type: none"> • Excessive outsourcing personnel (1H08) • Adopt resource/cost control from 2H08 • Small-sized network related SI projects 	<ul style="list-style-type: none"> • Continue tight cost control from 1Q09 • Target network-related SI
New Business	Focus on growing new business	
	<ul style="list-style-type: none"> • Completed field test for ATMs operation with good results 	<ul style="list-style-type: none"> • Boost the business startup of ATM operation business
FY2008 Results	<ul style="list-style-type: none"> • Steady increase in recurring revenues on plan (up 14.3% YoY) • Weak SI construction revenues (down 18.7% YoY) • Operating loss related to new business: ¥1.3 billion (¥0.2 billion in FY07) • Decrease in profitability in 1H08 due to the increase in personnel, although operating income for current business (exclude new business) improved in 2H08 as a result of tightened cost control 	

Target 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%

- Expect Connectivity and outsourcing service revenues to continue its steady increase
- Systems construction revenues : Expect a decrease of approx. JPY2 billion in revenues compared to FY08
- Systems operation and maintenance revenue : Expect an increase however with a lower growth rate compared to FY08 year due to the decrease in systems construction revenues
- Operating loss related to 4 new subsidiaries : Expected a decrease compared to FY08 to approx. JPY1 billion
- 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

Mid- to Long-term Growth

Anticipated IT Investments in Japan

- Behind on IT Investments compared to U.S.

The growth rate of the U.S. is about twice that of Japan

(source: Ministry of Internal Affairs and Communications)

- Growing needs for Outsourcing & Cloud Computing

SaaS/PaaS/IaaS Market:

→ ¥500 billion market in 2012

(source: IDC, Japan)

- Rouse in withheld IT investments during the economic downturn

Strongly Positioned as

Total Network Solution Provider

- Top IP Engineering Company in Japan
- Enduring relationship with blue-chip companies
- Reliable and best experienced IP specialists to constantly provide new services



Best positioned with growing IT demands

Additional Revenue/Income Growth

- Anticipated growth from new business
- Trust Networks expects to introduce around 8,000 ATMs by FY2013

Growth opportunities awaits ahead

Trust Networks Inc.



◆ ATM Network Operation Business

- Established July 2007
- As of June 2009, operates 26 ATMs placed in Japanese pinball shops

◆ Strong Dominant Position

- Introducing its bank ATM to Amusement Parlors
- Completed its test phase
- Expects to place approx. 8,000 machines in 4-5 years all over Japan
- To introduce ATMs in Kanto area from 3Q09
- Network platform fully operated by IJ

◆ Business Model

- Commission for each withdrawal
- High daily usage per ATM, the key to profit growth



(image)

Mobile Data Communication Service (MVNO)



◆ Unique Service Features

- Launched in January 2008 (NTT Docomo/EMOBILE)
- In-house developed security features
 - IP Address Access Restriction, Remote Access VPN
 - IIJ Direct Access (provides a complete private network at low cost)
 - Mobile-WAN solution with SMF (*1)
- Variable service fee (packet share, connection share or fixed price)

“SEIL/X1”
and “IIJ Mobile”



(*1)SMF is a patent right independently developed by IIJ which provides centralized network management system

SMF reduces configuration time by 70%, maintenance fee by 50% and installation cost by 90%. Must use feature for large-scaled internet VPN construction.

◆ Contribution to the Increase in Recurring Revenues

- 4,000 to 5,000 yen / month per user
- Currently 28,000 users (20,000 Target for FY2009 and 100,000 in 3 years)
- Launched consumer data communication service in Dec 2008

◆ Large Potential Market

- Market growth: from 140 billion yen (FY2007) to 290 billion yen (FY2010)
- BCP and pandemic needs
- Increasing demands for M2M (Machine to Machine) use

High-quality Content Delivery Platform



◆ Network Platform System for “NHK On-Demand”, “Japan International Broadcasting” & “acTVila”

- IIJ Provides the best video distribution platform with extensive experience in content delivery networking (“CDN”)

◆ Profitable Revenue Share Model with “acTVila” and “NHK”

- Revenue share model (around 10%)
- acTVila is expected to reach several hundred millions of dollars in revenue after FY2011

◆ Year of Emergence of IPTV Services in Japan

- Digital terrestrial TV broadcasts in FY2011 is expected to boost “acTVila”
- Penetration of Digital TVs in FY2011 is expected to reach 100 million TVs
- “acTVila” is targeting 70% or More Market Share for Digital TVs in Japan
- Increasing participating content holders for IPTV
 - ➔ As of March 2009: 1 million acTVila TVs, 35 contents holders with 8,000 contents

“acTVila”

Established by Panasonic, Sony and three major home electronic companies in Japan. Provides portal site and pay-per-view streaming/downloading video service. The only IPTV to provide high-definition video streaming. Simply offers IPTV by just plugging in the Ethernet Cable to your home TV with no additional cost.

“NHK On-Demand”

Launched in December, 2008
A new IPTV service provided by Japan Broadcasting Corporation.
Users may choose to watch the program over 1)acTVila, 2)PC, 3)CATV or 4)Hikari TV.
Users may watch TV programs which you missed or special contents such as NHK Special by pay-per-view or monthly charges.

“Japan International Broadcasting Inc. (JIB)”

Established April 2008.
JIB is working to enable reception in 110 million households in North America, Europe, the Middle East, North Africa, Southeast Asia, and other regions around the world by the end of March 2009.
It will be broadcasted using Satellite Broadcasting and the Internet (from Feb 09).

IIJ Group Companies

(As of August 31, 2009)

	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.		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.	73.8%	Operates ATM network systems placed in designated facilities. Receives commission for each withdrawal transaction from a bank account.
	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

Forward Looking Statement

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

Internet Initiative Japan Inc. (Investor Relations Office)

Jinbocho Mitsui Bldg., 1-105 Kanda Jinbo-cho, Chiyoda-ku, Tokyo, 101-0051, Japan

TEL: 03-5259-6500 FAX: 03-5259-6311

URL: <http://www.ij.ad.jp/IR> E-Mail: ir@ij.ad.jp

