



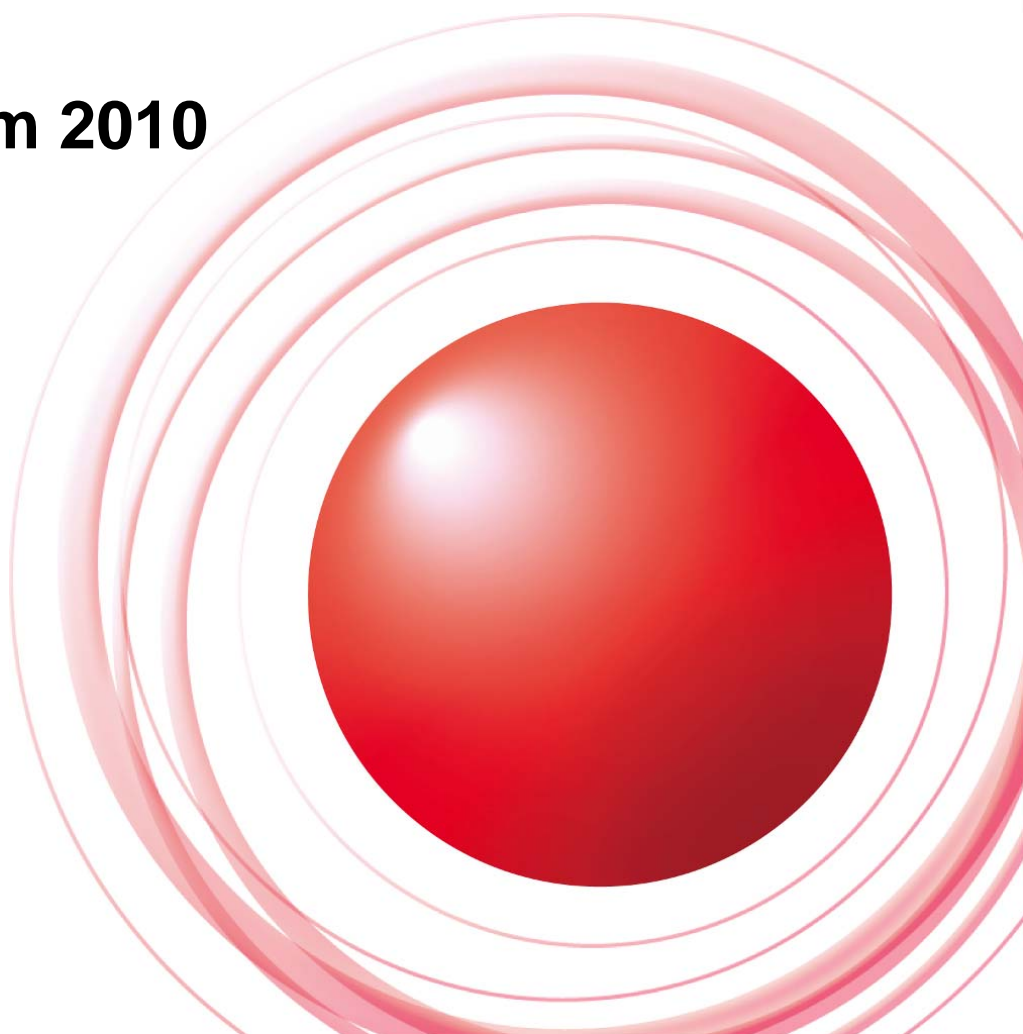
# Internet Initiative Japan Inc.

**Nomura Asia Equity Forum 2010**  
**June 8-9, 2010**

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

TSE1:3774 NASDAQ:IIJI

Ongoing Innovation



## Key Investment Highlights

- 1 Top IP Engineering Company in Japan**
- 2 Target Blue-chip and Governmental Organizations in Japan with dominant position**
- 3 Best Positioned in the Growing Outsourcing & Cloud Computing Market in Japan**
- 4 Stable revenue growth from the accumulating recurring revenue**
- 5 Solid Growth Strategy**

details to follow

# TOP IP Engineering Company in Japan

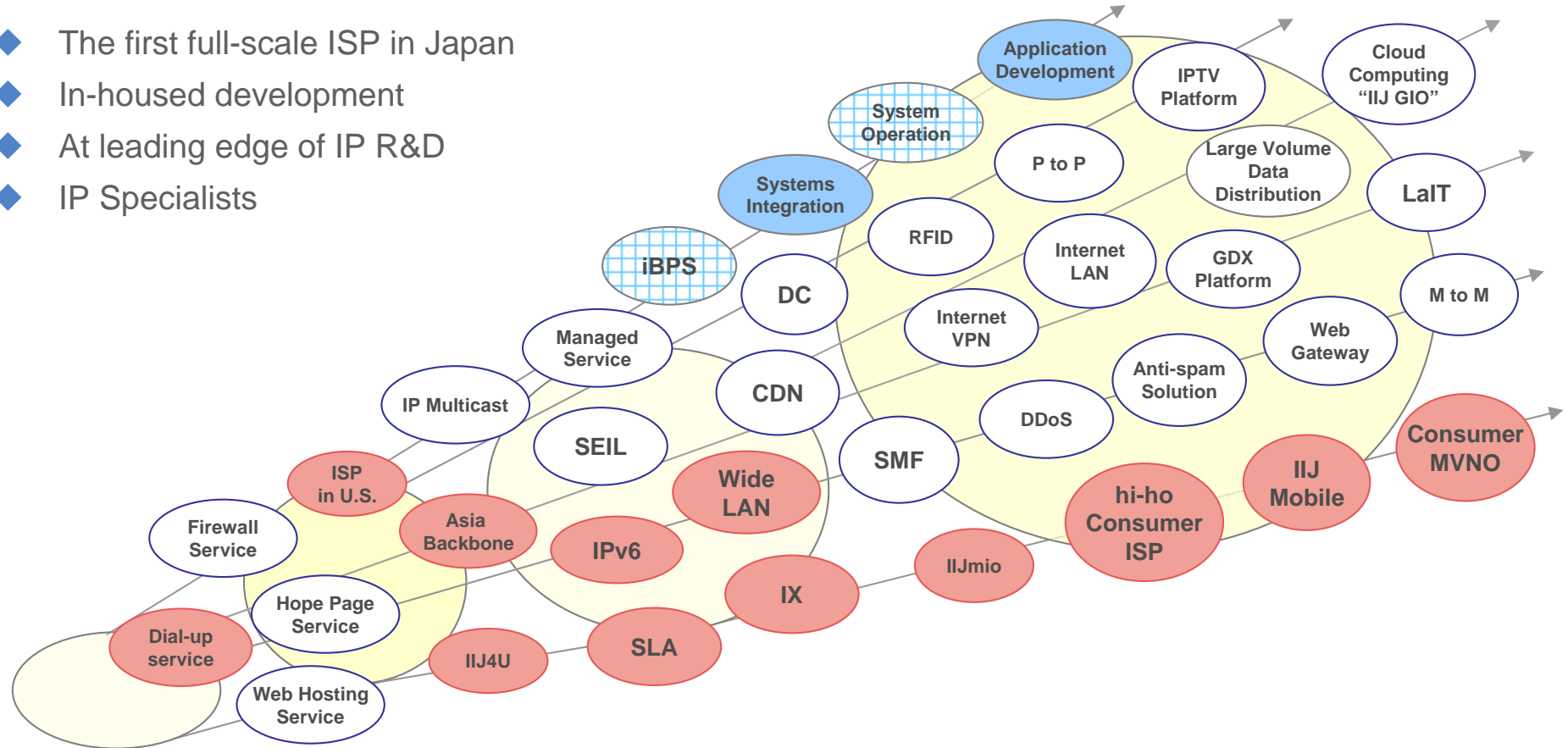
- ◆ The first established full-scale ISP in Japan
  - A group of highly motivated and skilled TOP Level IP Engineers
  - Pioneer of Network Technologies in Japan
- ◆ In-housed development
  - Operate one of the largest Internet Backbone in Japan
  - Fully develop its service and back office facilities
    - 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 March 2010)	
Established	December 1992
Number of Employees	Consolidated: 1,687 (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



“IIJ Group”

1992



Internet Initiative Japan

1995



II Media Communications



A-Bone

1996



IIJ America



IIJ Technology

1997



Internet m/j

1998



Net Care

2004



IIJ Financial Systems

2006



Net Chat Japan



i-revo

2007



GD&X TRUSTED COMMUNICATIONS



hi-ho



Trust Networks

2008



On Demand Solutions

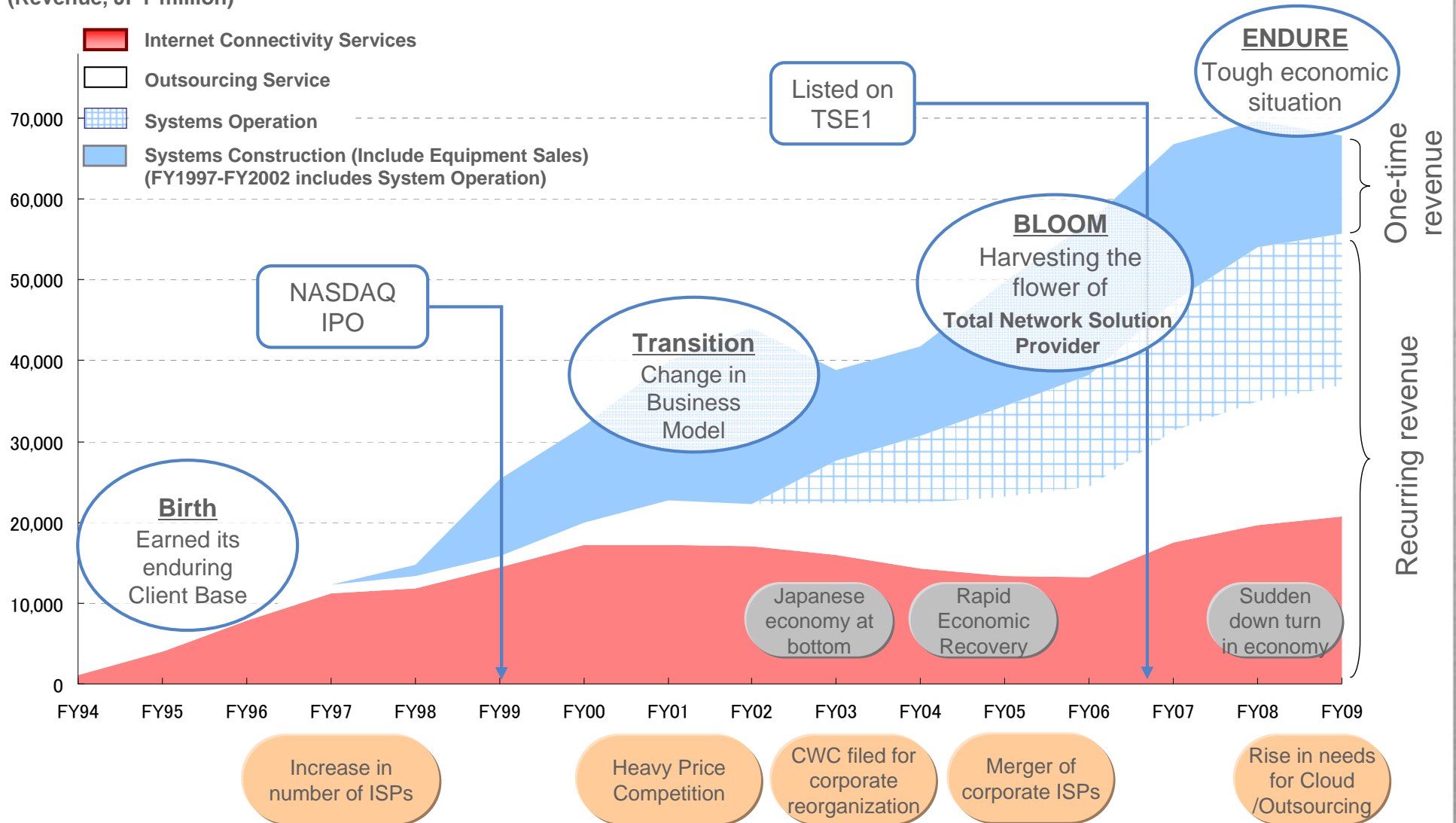


IIJ INNOVATION INSTITUTE

# Strategic Shift in Business Model

## From "ISP" to "Total Network Solution Provider"

(Revenue, JPY million)

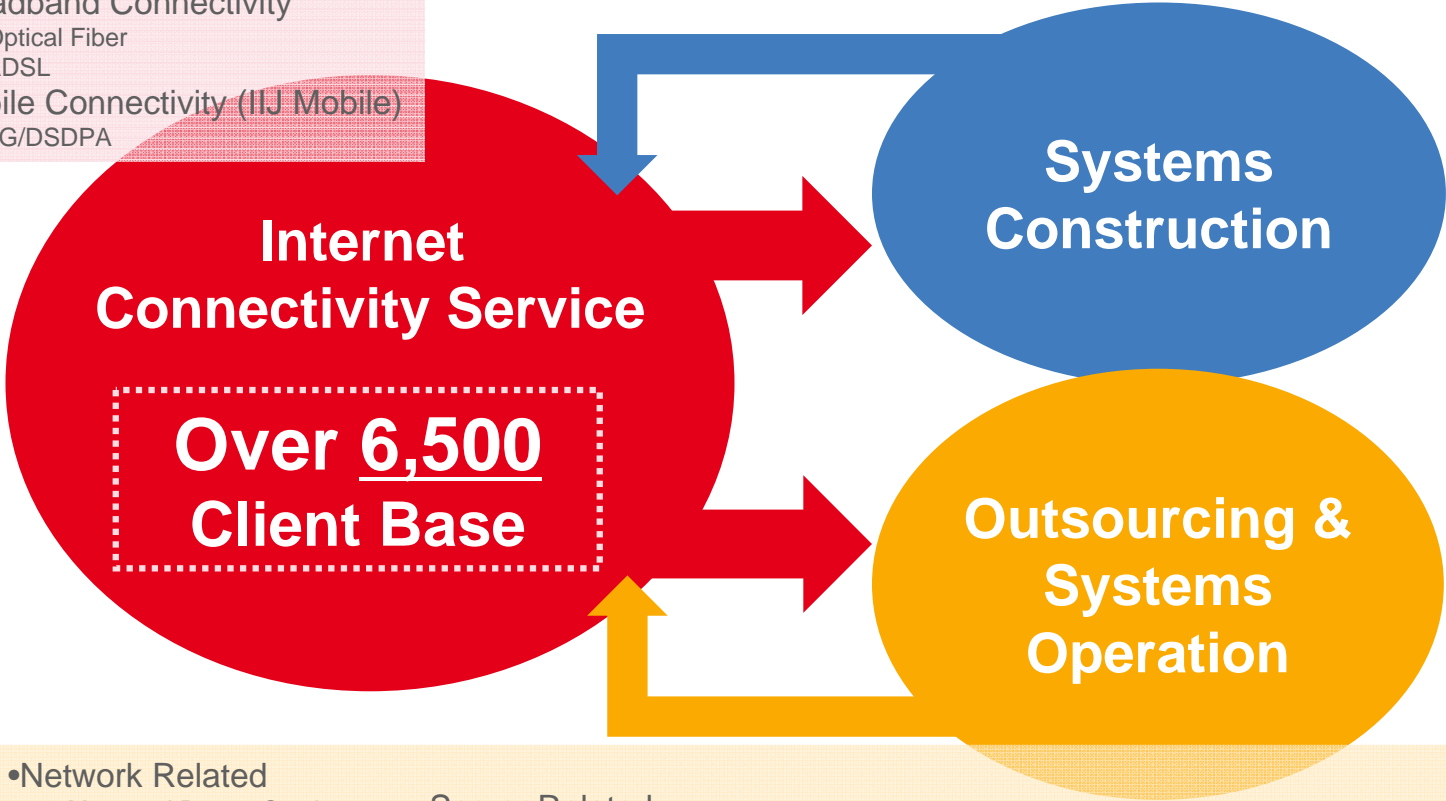


# Recurring Business Model

## Cross Selling of Total Network Solutions

- Dedicated Line Connectivity
  - IP Service (64kbps to over Gbps) etc.
- Broadband Connectivity
  - Optical Fiber
  - ADSL
- Mobile Connectivity (IIJ Mobile)
  - 3G/DSDPA

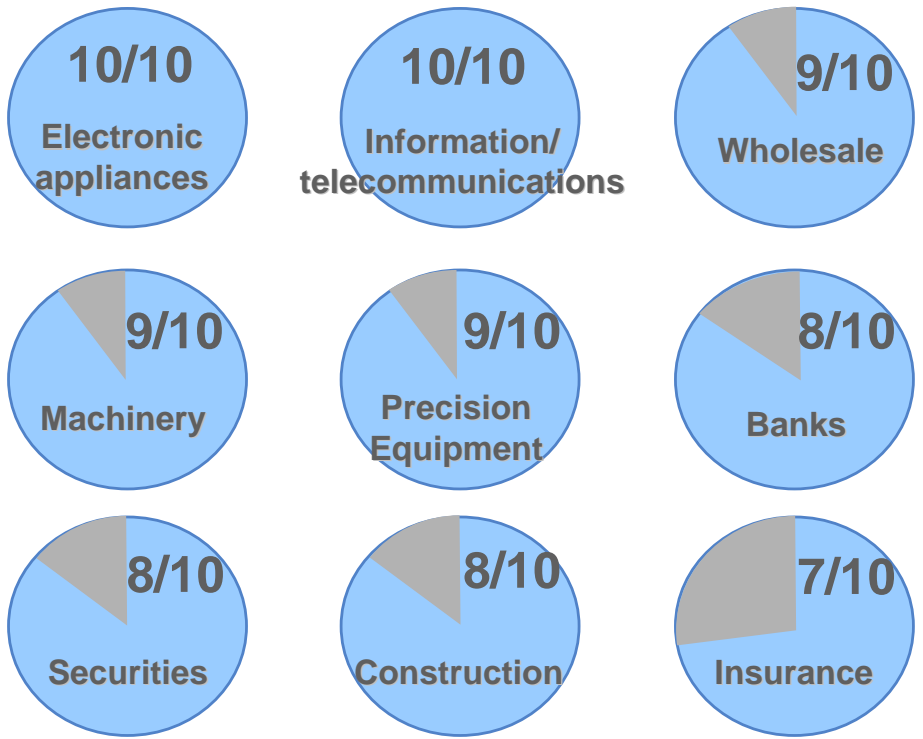
- Network-related Integration
  - Site-to-Site Network Construction
  - Content Delivery Platform
  - Email System for ISPs etc.
- Application-related Development
  - On-line Security System
  - Ticketing System
  - On-line Shopping System etc.



- Network Related
  - Managed Router Service
  - SMF-VPN Solution
  - IIJ Internet-LAN Service etc.
- Server Related
  - Web Hosting Service
  - Email Service
  - DNS Service
  - File Exchange Service etc.
- Security Related
  - Managed Firewall Service
  - URL Filtering Service
  - DDoS Solution etc.
- Data Center Related
  - Facility Management
  - Operation etc.
- Customer Support
- IIJ GIO (Cloud Service)

# 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.**

**三井住友銀行**

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

**読売新聞**  
 (The Yomiuri Shimbun)

**Cabinet Office**

**Ministry of Justice**

**Ministry of Environment**

**Ministry of Internal Affairs and Communications**

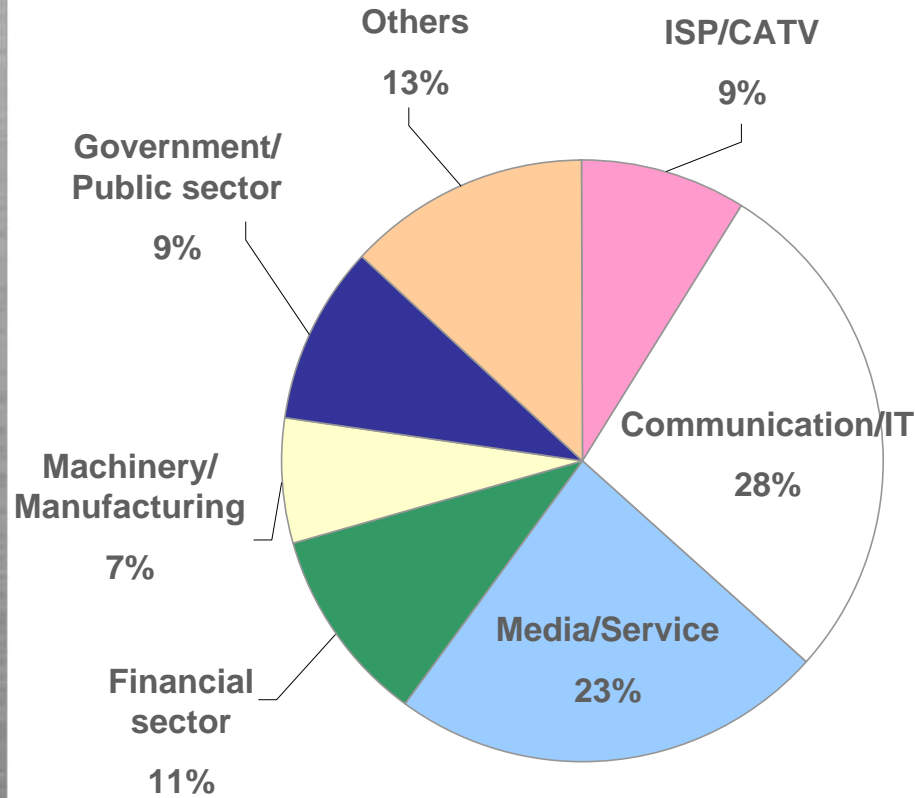
**Ministry of Land, Infrastructure, Transport and Tourism**

**Ministry of Finance**

**Ministry of Education, Culture, Sports, Science and Technology**

# Broad Client Base

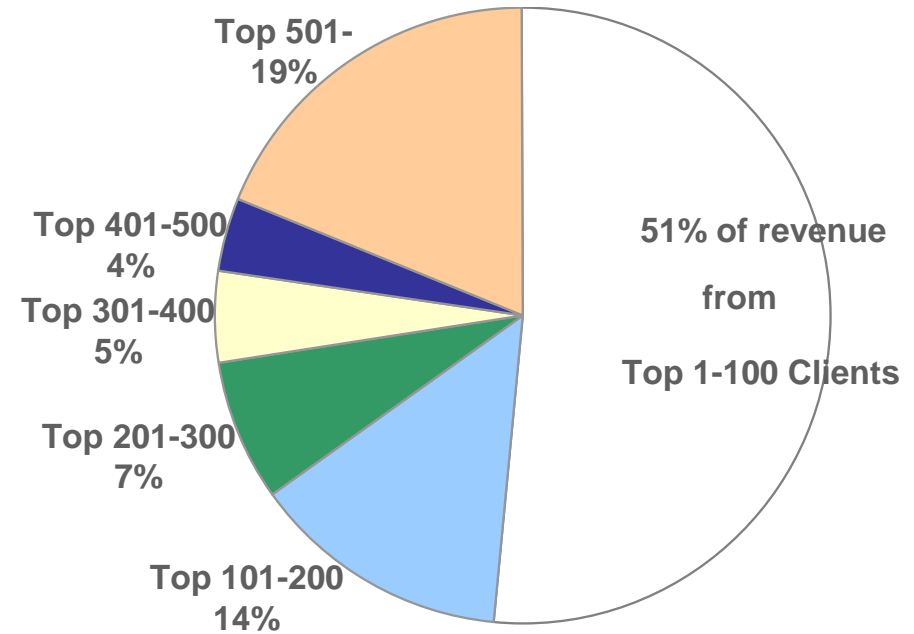
Revenue Distribution by Industry



Source: IIJ's consolidated data for FY2008

• Not dependent on specific industry

Revenue Distribution by Clients



Source: IIJ's non-consolidated data for FY2009

• Not dependent on specific company



# Solid Growth Model

Customer Retention Strategy

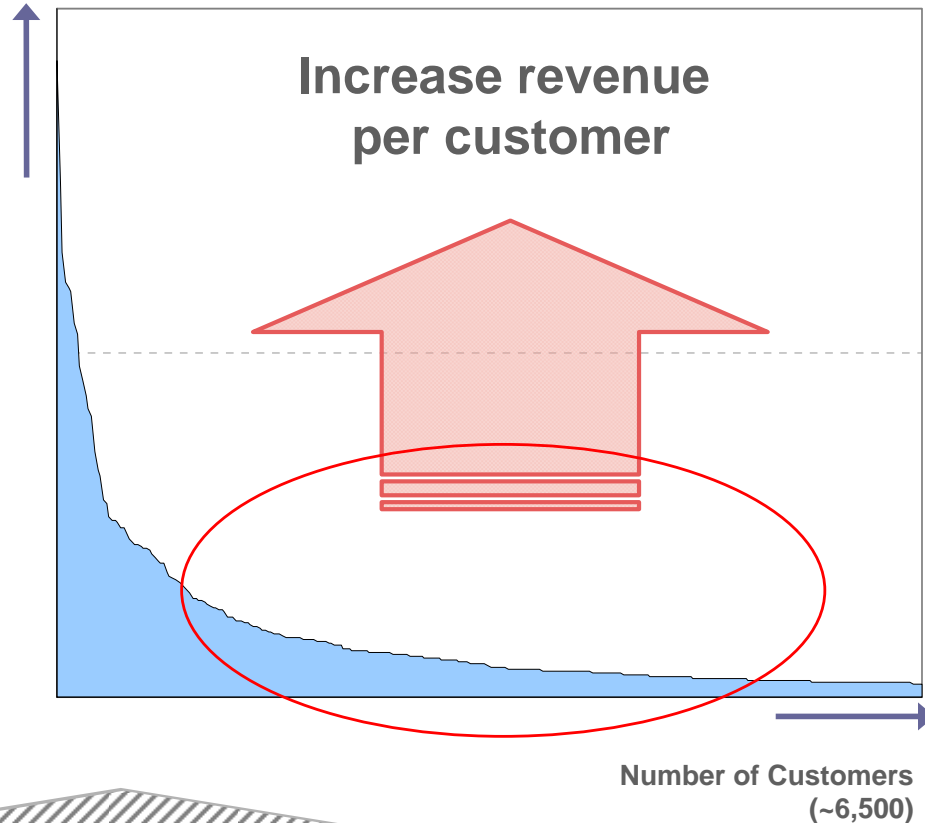
Cross Selling of Services

Provide high quality/reliable total network solution

Introduce new services

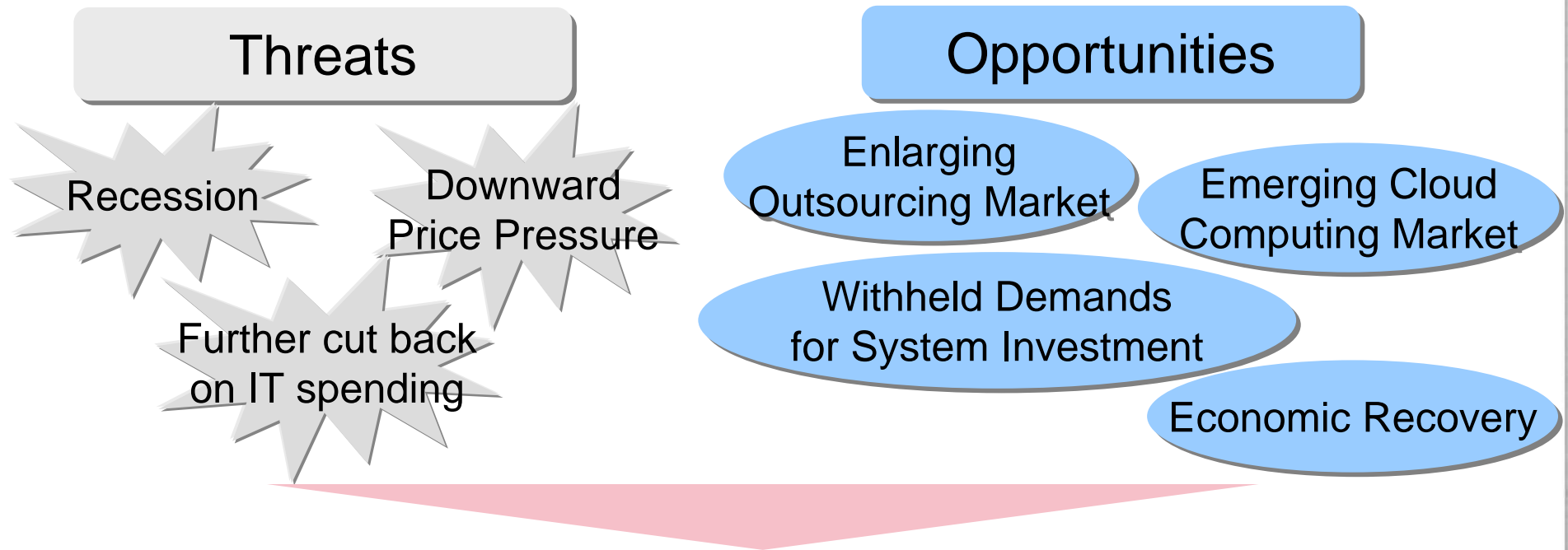
Increase recurring revenues for Stable revenues and profit growth

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

# Current Business Situation



## FY2009 Summary

- Connectivity and outsourcing service revenues are steadily growing (up 5.4% YoY)
  - continuous demands for higher bandwidth and outsourcing needs
- SI is weak heavily affected by the cut back on IT spending (down 10.6% YoY)
- Cost control in progress
- Improving profitability despite the weak Japanese Economy
  - FY09 Financial Results:
    - OP ¥3.4billion (up 16.9% YoY), net income ¥2.2 billion (up 57.4% YoY)
- FY2009 year-end cash dividend forecast revised up to JPY1,250 from JPY1,000 per share of common stock.

**Future Growth Opportunities  
And  
Recent Business Developments**

# Growth Opportunity Awaits Ahead

## Growth Opportunities

### Connectivity Service

- Increase in bandwidth (over Gbps)
- Contents Delivery Network
- Mobile data service (emergence of M2M market)
- IPv6

### Outsourcing Service

- Security Services (DDoS, Spam, etc)
- Cloud Computing Services
- Data Center Market Growth

### Systems Integration

- Return of Mid-sized network integration projects
- “Cloud Computing” related SI
- New strategic IT investments for Japanese companies

## Solid Growth Model

Best positioned with growing IT demands

## IJJ's Strength

- Strong Technical Skills
- High Reputation in Reliability
- Established brand within the IT market
- Enduring relationship with blue-chip companies
- Decentralized Customer Distribution

## M&A of AT&T Japan

- Expand Scale of Group Business
- Acquire 1,600 Corporate Clients
- Strong Relationship with IBM
- Expand Service Scope
- Enforce Sales Force
- Improve Service Range

## Total Network Solution Provider

Cross Selling Strategy to over 7,800 Clients (6,500 → 7,800)

# A Big Step Forward – To Increase Presence in Cloud Computing –

Merged two 100% Owned Consolidated Subsidiaries  
To Seize Leadership in Emerging Cloud Computing Market

- The merger will allow us to strengthen our ability to provide the best cloud computing solutions. Both know-how to operate a service and the skills to construct a network system is indispensable for the Leader in the cloud computing market.

**Strengthened Business Foundation**

Merged (April 1, 2010)

Network and Outsourcing Service

**IIJ**

Internet Initiative Japan

SI business



IIJ Technology



IIJ Financial Systems

*The Era of  
Cloud  
Computing*

## Mid- to Long-term Growth

**IIJ GIO**

- Launched in November 2009
- Receiving over 600 inquiries from all different sectors
- Direct sales channel and Partner sales channel

### Representative Partners

Microsoft Co., Ltd.

Citrix Systems Inc.

Cybozu Research Institute, Inc.

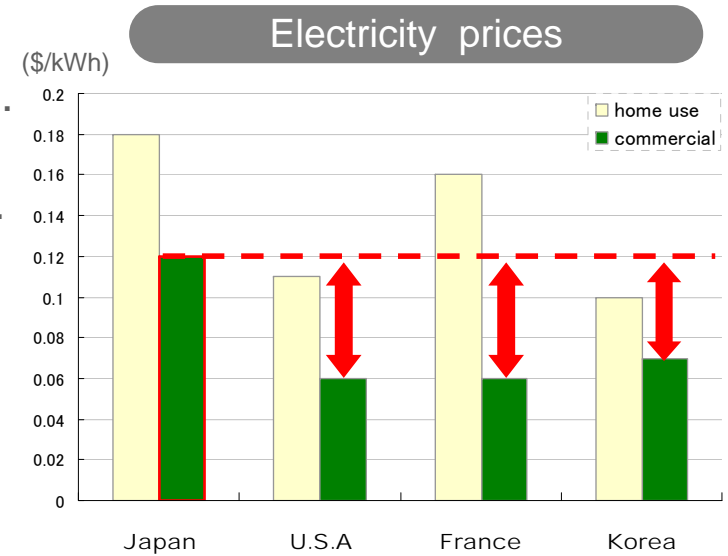
# Module Eco-Data Center – Perfect for Cloud Computing Era –

## The solution to the tasks we face today

- ➔ The tasks Japanese companies faces when using a data center facility are (1) the high energy cost and (2) the responsibility for CSR, to be an eco-friendly company
- ➔ The risks service providers faces are (1) construction cost and (2) the difficult to predict demands for data center and cloud computing services

### ◆ Reduces 40% of facility cost by:

- Uses outside air to cool the container. The first in Japan.
- Efficient power usage. Reduces CO2 emission.
  - ⇒ Achieved Partial PUE of under 1.1. => Eco-friendly.



Agency for Natural Resources and Energy, FY 2008 Annual Energy Report

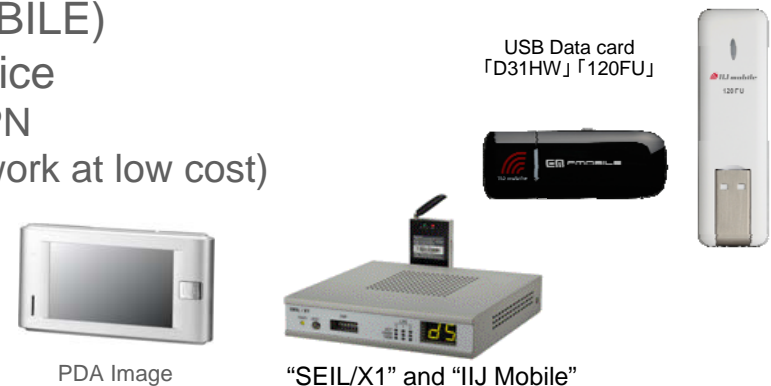
### ◆ Best suited for cloud computing services because:

- Low construction cost by using a module. JPY1.1 billion for 5 modules (can host 1,600 servers)
- Easy to expand facility. Can gradually increase the necessary module along with the growing demands

# Other Business Developments in Progress

## ◆ Mobile Data Communication Service (MVNO)

- Launched in January 2008 (NTT Docomo/EMOBILE)
- Security features exclusively for IJJ Mobile Service
  - IP Address Access Restriction, Remote Access VPN
  - IJJ Direct Access (provides a complete private network at low cost)
- Contributing to revenue growth
  - Reached over 40,000 lines as of March 2010
  - Target 100,000 in 3 years
  - Average monthly fee: 4,000 to 5,000 yen



## ◆ High-quality Content Delivery Platform

- Network Platform System for Japanese IPTV
  - “NHK On-Demand”, “Japan International Broadcasting” & “acTVila”
  - Revenue share model with “acTVila” and “NHK” of around 10%
- Digital terrestrial TV broadcasts in FY2011 is expected to boost “acTVila”
- AcTVila aims to reach 600 million acTVila compatible TVs & 200 million unique users
  - As of Feb 2010, AcTVila reached 170 million acTVila compatible TVs



## ◆ “SMFv2” and “SMF-LAN”

- Received patents in both Japan and the U.S.A.
- Aggressively deploying SMF technology to other router makers to establish and realize a safe and reliable network society.



# Trust Networks Inc. in Business Start Up



## ◆ ATM Network Operation Business

- Established July 2007
- Places ATMs in Amusement Parlors
- Operates 136 ATMs as of April 2010
- Receives commission from each withdrawal
- Similar model to “Seven Bank”
  - (ex.) Seven Bank FY09 Revenue; 90 billion yen,  
Operating Income; 30 billion yen with 14,601 ATMs
- Daily usage per ATM is the key to profit growth

**The total number of ATMs placed and the daily usage per ATM is the key to profit growth**

**For FY2010, we target to reach break even at some point in the latter half of FY2010 although we expect operating loss of around JPY400 million.**



ATM Image



## Enhancing business scope by AT&T Japan M&A (1)

Agreed to acquire WAN and other domestic network outsourcing services from AT&T Japan

→ IIJ to expand its Group client bases as well as to strengthen its abilities to provide total network solutions by maximizing Group synergy.

- Add 1,600 blue-chip corporate clients
- Especially strong in providing WAN services
- Provides network operation for financial industries and manufacturing companies
- Strong direct and partner sales channel

- Strong relationship with IBM
- AT&T historically ties up with IBM for sales activities
- The new company will succeed the same relationship between IBM

- Enhance business scope
- Consolidated revenue is expected to reach JPY100 billion soon

- Enhance cross-selling
- Strong sales force
- Cross-selling WAN services to existing and newly acquired blue-chip customers
- Business tie-up with AT&T to provide global services

# Enhancing business scope by AT&T Japan M&A (2)

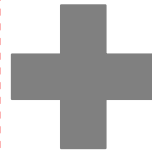


Internet Initiative Japan

Client Base over 6,500

Total Network Solution

About 300 Sales personnel  
(as of March, 2010)



AT&T Japan  
(the acquiring business)

Client Base about 1,600

WAN service,  
International service

About 250 Sales &  
Customer support Personnel

Expand  
Client Base  
(about 7,800)

Enhance  
Cross-selling

Expand  
services

Pursue global  
strategy  
especially in  
ASIA

Strengthen  
sales force

## ◆ Details of this acquisition

- To acquire stock of the newly established subsidiary from AT&T on Sep. 1, 2010 (planned)
- Acquisition price: JPY9,170 million (Plans to use its own cash and short-term bank borrowings)

# FY2010 Revised Target (announced June 1, 2010)

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	+3,782	34.3%
Cash Dividend per Share	JPY2,500 (Annual)	JPY 2,500 (Annual)	JPY 2,250 (Annual)	+250	11.1%

- ◆ Connectivity and outsourcing service revenue to steadily increase
- ◆ Despite the recovering trend in the number of new SI construction projects, the full recovery of IT investments are still uncertain and the order backlog for systems operation and maintenance as of March 2010 decreased by JPY1.6 billion YoY as a result of a size-down in a certain contracted account. We expect SI revenue to decrease compared to FY2009.
- ◆ For ATM operation business, target to reach break even at some point during the later half of FY2010. For full FY2010, estimated approx. JPY0.4 billion in operating losses.
- ◆ Target cash dividend of JPY2,500 per share of common stock for FY2010 (FY2009 total dividend: JPY2,250)

## Dividends

FY2009 Year-end and FY2010 dividends were revised upward along with the income growth

### FY2009

	interim	Year-end	Full year
Original Plan	JPY1,000	JPY1,000	JPY2,000
Revised Plan (announced on May 14, 2010)	JPY1,000	JPY1,250	JPY2,250

Per share  
cash dividend  
UP 25%

### FY2010 Target Cash Dividend

	interim	Year-end	Full year
Planned (announced on May 14, 2010)	JPY1,250	JPY1,250	JPY2,500



# **FY2009 Consolidated Financial Results**

**(Announced May 14 , 2010)**

## II-1. Consolidated Results for FY2010

Unit: JPY million

	% of Revenues FY09 (09/4~10/03)	% of Revenues FY08 (08/4~09/03)	YoY
<b>Total Revenues</b>	<b>68.0</b>	<b>69.7</b>	<b>(2.5%)</b>
<b>Total Costs</b>	<b>54.1</b>	<b>56.1</b>	<b>(3.7%)</b>
<b>Gross Margin</b>	<b>14.0</b>	<b>13.6</b>	<b>2.7%</b>
<b>SG&amp;A/R&amp;D</b>	<b>10.5</b>	<b>10.7</b>	<b>(1.2%)</b>
<b>Operating Income</b>	<b>3.4</b>	<b>2.9</b>	<b>16.9%</b>
<b>Income before Income Tax Benefit</b>	<b>2.9</b>	<b>2.0</b>	<b>40.5%</b>
<b>Net Income attributable to IIJ per Share</b>	<b>2.2</b>	<b>1.4</b>	<b>57.4%</b>

- Connectivity and outsourcing service revenue increased 5.4% YoY
- SI revenue decreased 10.6% YoY affected by the weak economy

- Continued cost control
- Outsourcing and purchasing cost decreased due to the decrease in systems construction revenue

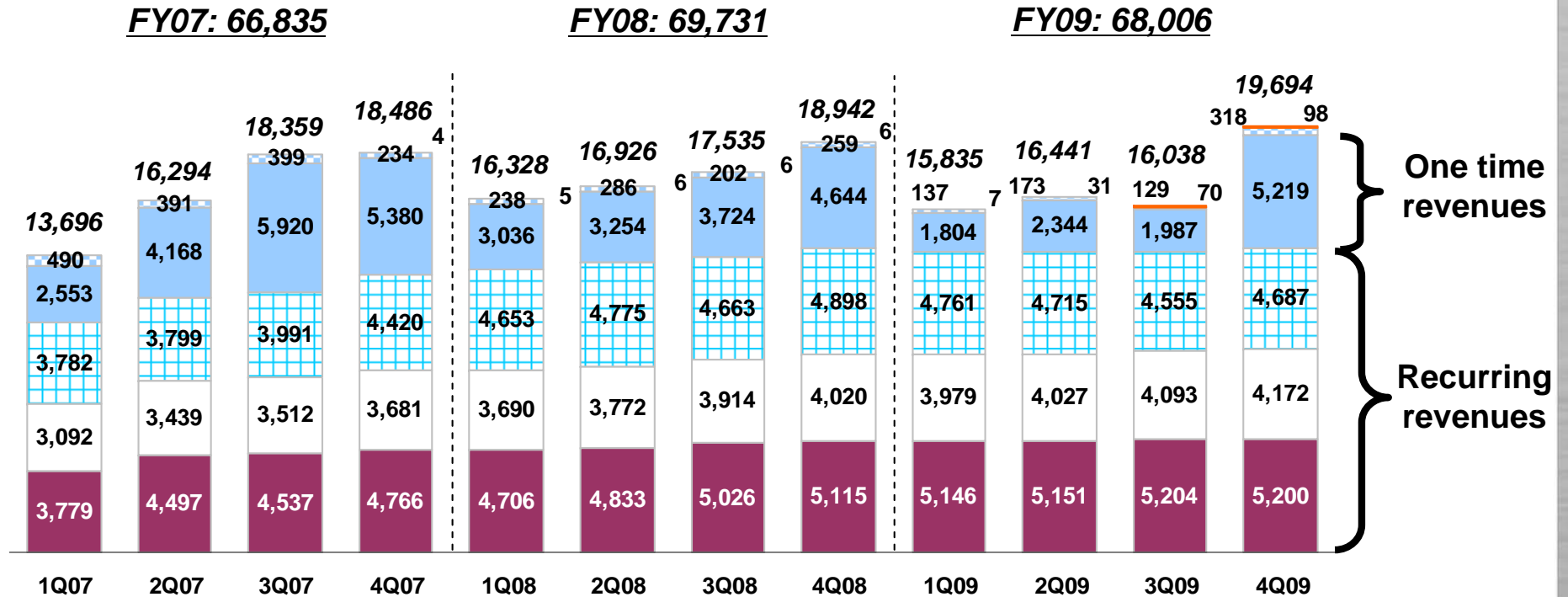
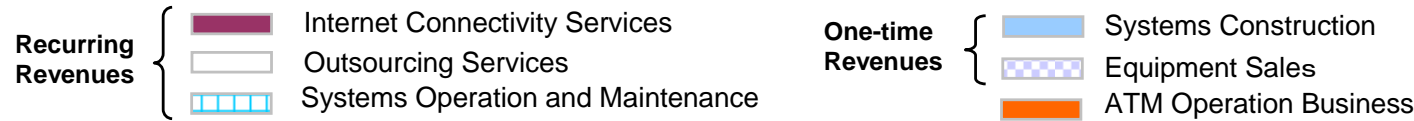
- Gross margin and gross margin ration increased despite the decrease in revenue

- General and administrative cost decreased due to cost control

- Operating income increased 16.9% YoY, Operating Margin Ratio was up 0.8 points YoY
- Operating loss for ATM Operation Business  
FY09 : JPY1,000 million (losses)  
FY08 : JPY698 million (losses)

# II-2. Revenues

Unit: JPY million



◆ **Recurring revenues: FY09: JPY55,690 million (up 3.0% YoY), 4Q09: JPY14,059 million (up 0.2% YoY, up 1.5% QoQ)**

- Internet Connectivity Service : FY09: JPY20,701 million (up 5.2% YoY) ,4Q09: up 1.7% YoY, down 0.1% QoQ
- Outsourcing Service : FY09: JPY16,271 million (up 5.7% YoY), 4Q09: up 3.8% YoY, up 1.9% QoQ
- Systems Operation and Maintenance : FY09: JPY18,717 million (down 1.4% YoY), 4Q09: down 4.3% YoY, up 2.9% QoQ

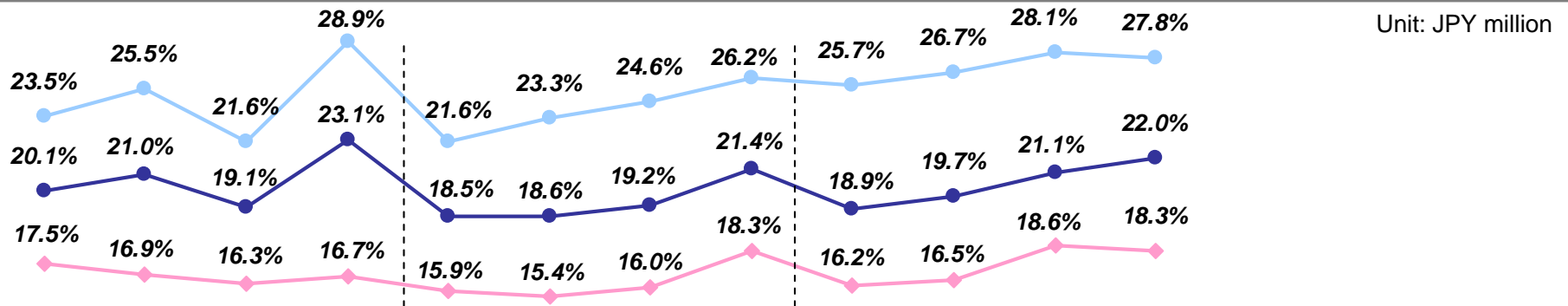
◆ **One time revenues: FY09: JPY12,110 million (down 22.6% YoY), 4Q09: JPY5,536 million (up 12.9% YoY, up 161.6% QoQ)**

- Systems Construction : FY09: JPY11,354 million (down 22.5% YoY) ,4Q09: up 12.4% YoY, up 162.6% QoQ

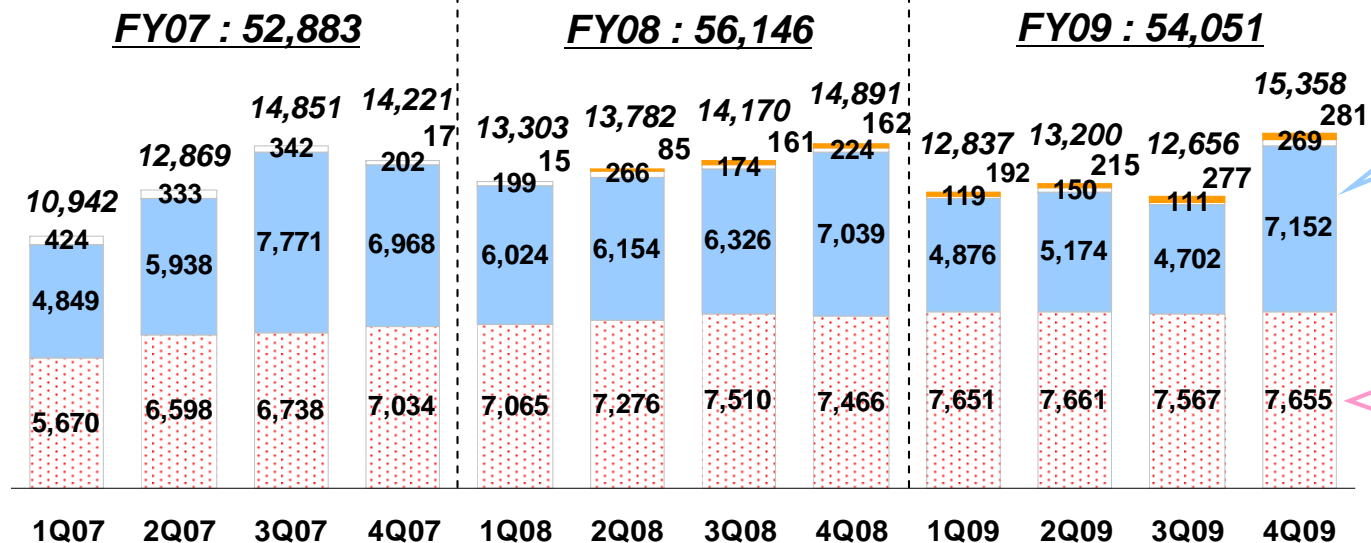
◆ **ATM operation business revenue: FY09: JPY207 million (up JPY183 million YoY), 4Q09: up JPY92 million YoY, up JPY28 million QoQ)**

YoY = 4Q09 compared to 4Q08  
QoQ = 4Q09 compared to 3Q09

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



Unit: JPY million



**SI**

Personnel related costs, outsourcing costs and purchase etc.

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**Connectivity and Outsourcing Services**

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

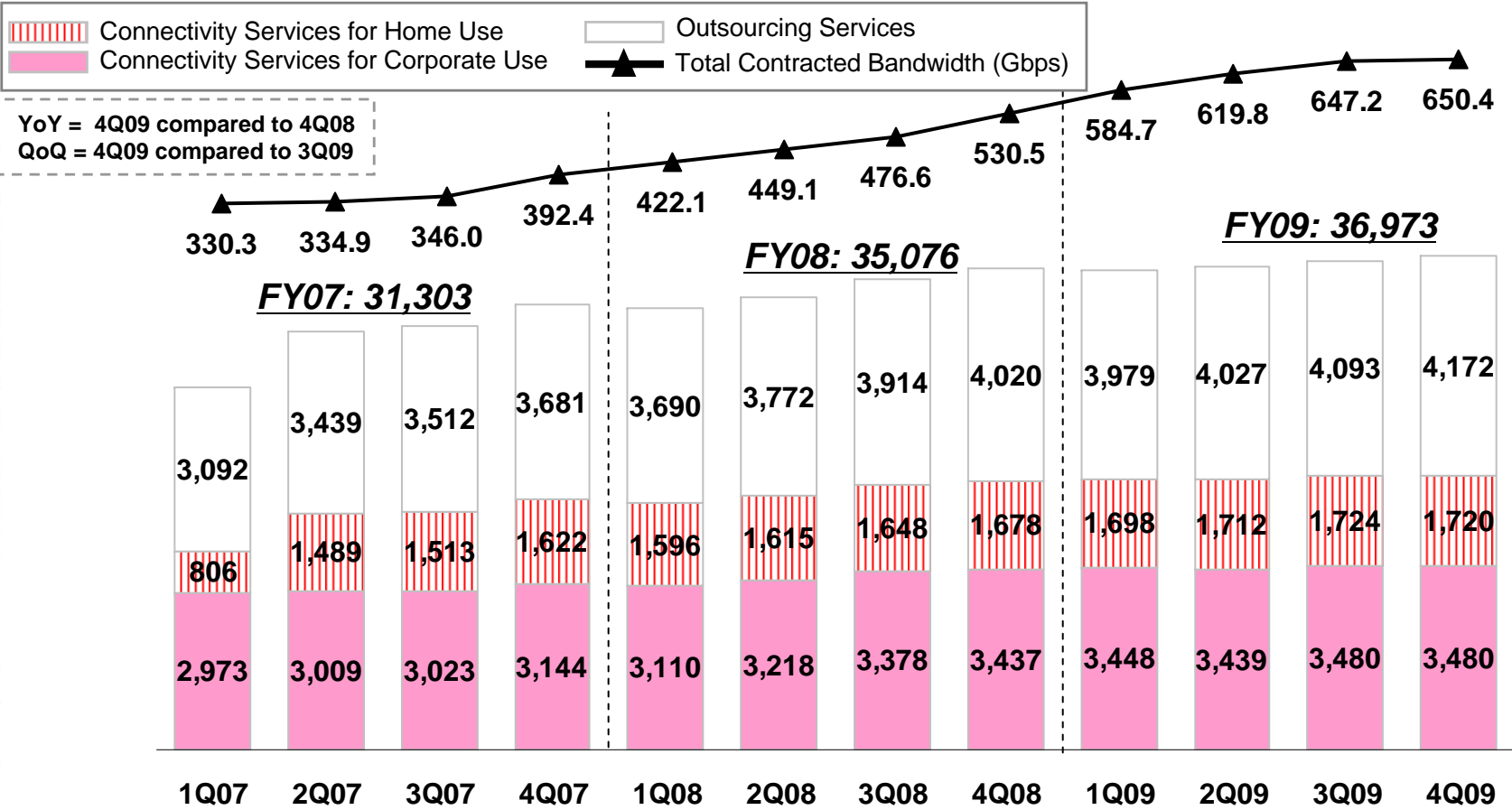
- ◆ **Cost of connectivity and outsourcing service: FY09: JPY30,534 million (up 4.1% YoY), 4Q09: up 2.5% YoY, up 1.2% QoQ**  
 Gross margin ratio: FY09 17.4% (up 1.0 points YoY), 4Q09: unchanged YoY, down 0.3 points QoQ
- ◆ **Cost of SI: FY09: JPY21,904 million (down 14.2% YoY), 4Q09: up 1.6% YoY, up 52.1% QoQ**  
 Gross margin ratio: FY09 27.2% (up 3.1 points YoY), 4Q09: up 1.6 points YoY, down 0.3 points QoQ
- ◆ **Cost of ATM operation business: FY09: JPY964 million (up JPY542 million YoY), 4Q09: up JPY119 million YoY, up JPY4 million QoQ)**

YoY = 4Q09 compared to 4Q08  
 QoQ = 4Q09 compared to 3Q09



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

Unit: JPY million



◆ **Connectivity service for corporate use: FY09: JPY13,847 million (up 5.4% YoY), 4Q09: up 1.3% YoY, unchanged QoQ)**

- 4Q09 IP service revenue decreased affected by the decrease in volume charge revenue.
- Over 1Gbps contracts reached 125 contracts as of Mar. 2010 (up 31 contracts YoY).

◆ **Connectivity service for home use: FY09: JPY6,854 million (up 4.8% YoY), 4Q09: up 2.5% YoY, down 0.2% QoQ)**

- Continuous shift towards optical fiber service which charge higher monthly fees and increases from MVNO for home use

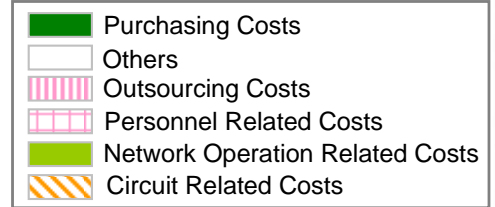
✓ Mobile service increased with contracts reaching over 40,000 lines (up 4,000 lines compared to 3Q09).

◆ **Outsourcing service: FY09: JPY16,271 million (up 5.7% YoY), 4Q09: up 3.8% YoY, up 1.9% QoQ)**

- Each service line-ups, such as "IIJ SecureMX Service" of email related services and "IIJ Secure Web Gateway Service", increased steadily. "IIJ Secure Web Gateway Service" prevents virus infection through a web browser and also prevents information leakage.

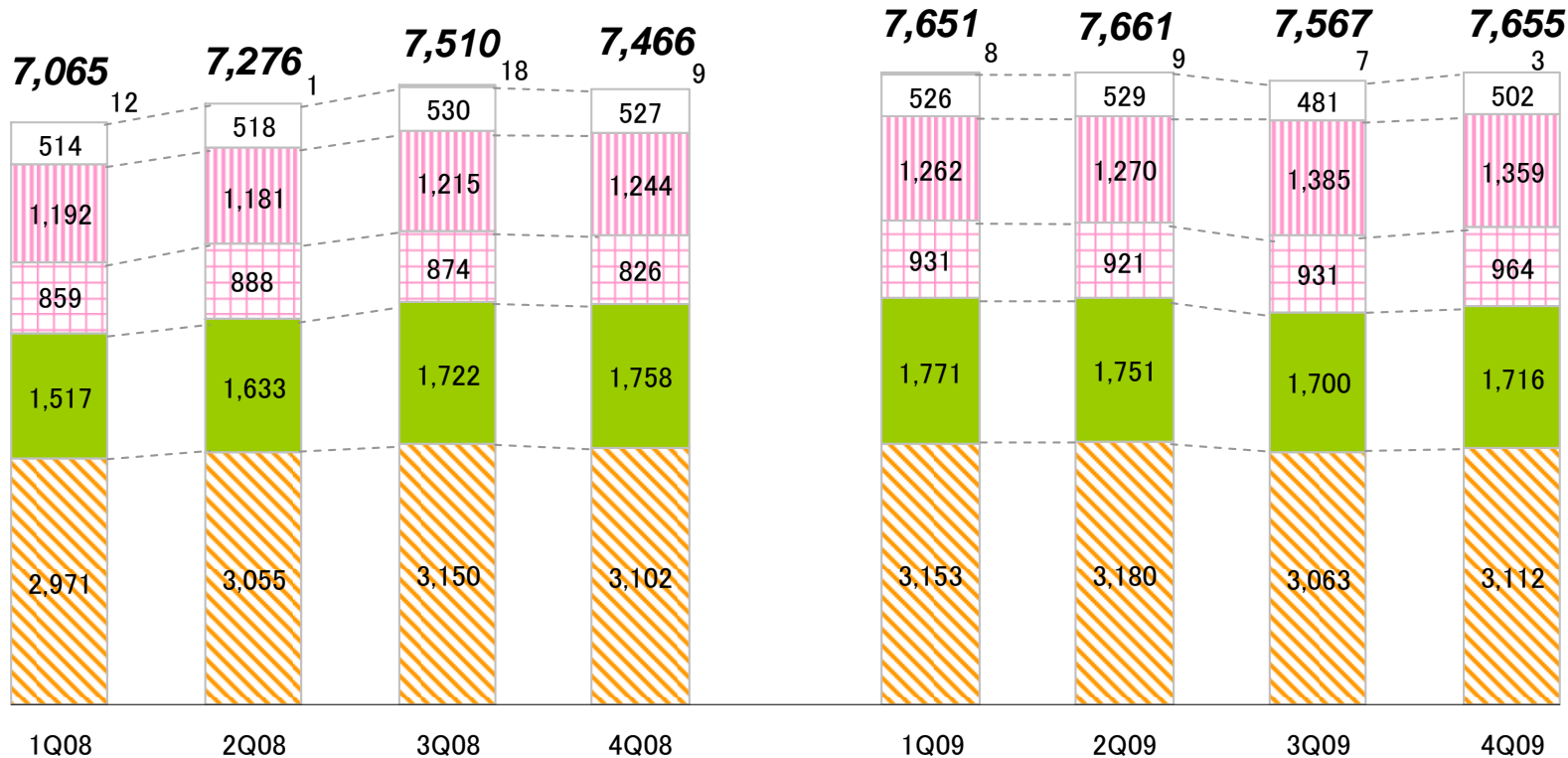
# II-4. Connectivity and Outsourcing Services (2) Cost of Revenues

Unit: JPY million



**FY08 : 29,318**

**FY09 : 30,534**



◆ **Total cost of connectivity and outsourcing service: FY09 : up 4.1% YoY, 4Q09 : up 2.5% YoY, up 1.2% QoQ**

➢ FY09 : increase in outsourcing costs, network operation related costs and personnel costs

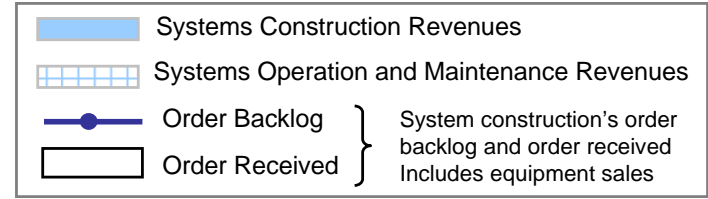
➢ Backbone cost : FY09 : JPY3,699 million (up 0.2% YoY)  
 4Q09 : JPY954 million (up 4.2% YoY, up 4.3% QoQ)

YoY = 4Q09 compared to 4Q08  
 QoQ = 4Q09 compared to 3Q09

# II-5. Systems Integration (1) Revenues

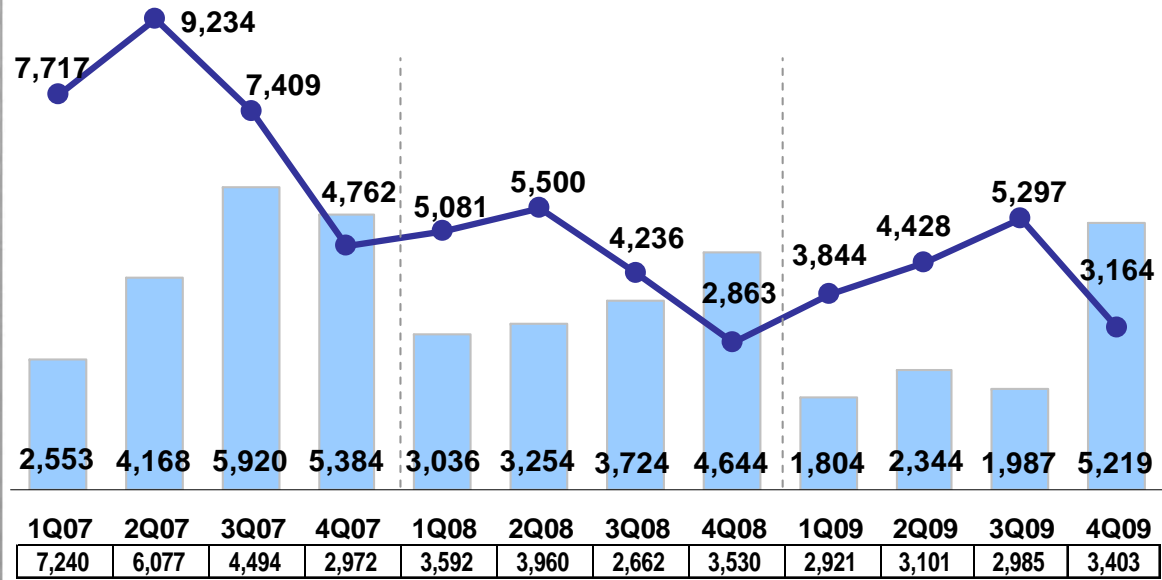
YoY = 4Q09 compared to 4Q08  
QoQ = 4Q09 compared to 3Q09

Unit: JPY million



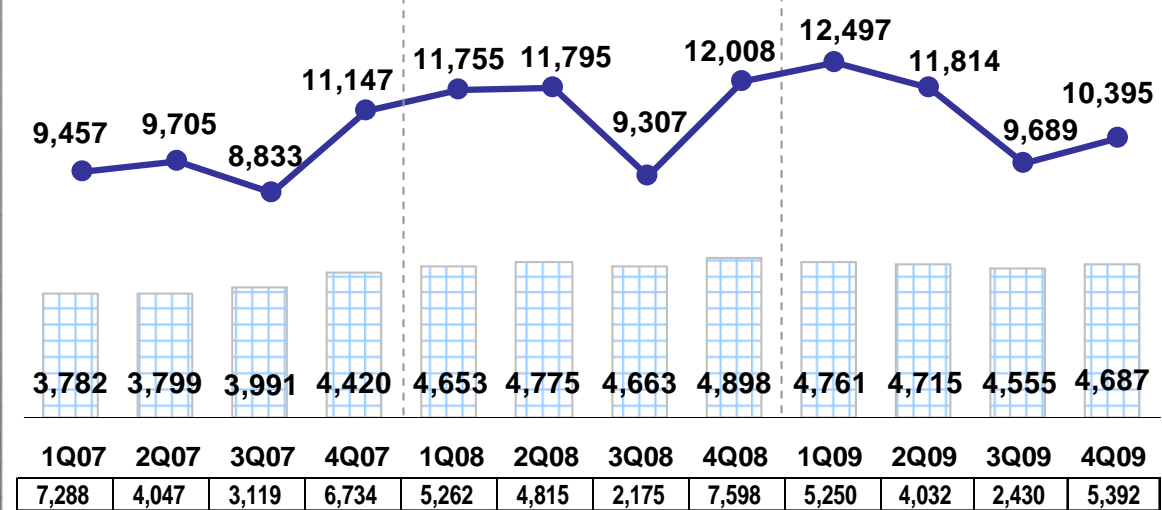
## (Systems construction)

**FY07 : 18,025**      **FY08 : 14,659**      **FY09 : 11,354**



## (Systems operation and maintenance)

**FY07 : 15,993**      **FY08 : 18,989**      **FY09 : 18,717**



### Systems Construction

- ◆ Revenue: FY09 : down 22.5% YoY  
4Q09 : up 12.4% YoY, up 162.6% QoQ
- ◆ 4Q09 Order Backlog:  
YoY: up 10.5%, up JPY301 million  
QoQ: down 40.3%, down JPY2,133 million
- 4Q09 revenue increased due to seasonal factors (Many Japanese companies have fiscal year ending in March)
- Mid-size projects of over several hundred million are increasing compared to 1H09.
- IIJ will strengthen group solution and promote cloud computing related services by merging the two 100% owned subsidiaries

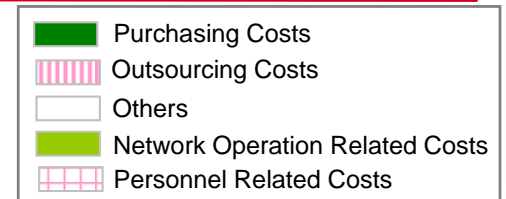
### Systems operation and maintenance

- ◆ Revenue: FY09 : down 1.4% YoY  
4Q09 : down 4.3% YoY, up 2.9% QoQ
- ◆ 4Q09 Order Backlog:  
YoY: down 13.4%, down JPY1,613 million  
QoQ: up 7.3%, up JPY705 million
- 4Q09 revenue increased compared to 3Q09. 3Q09 decreased affected by scale down by certain large client.
- 1H10 to decrease affected by the further scale down or cancellations.

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

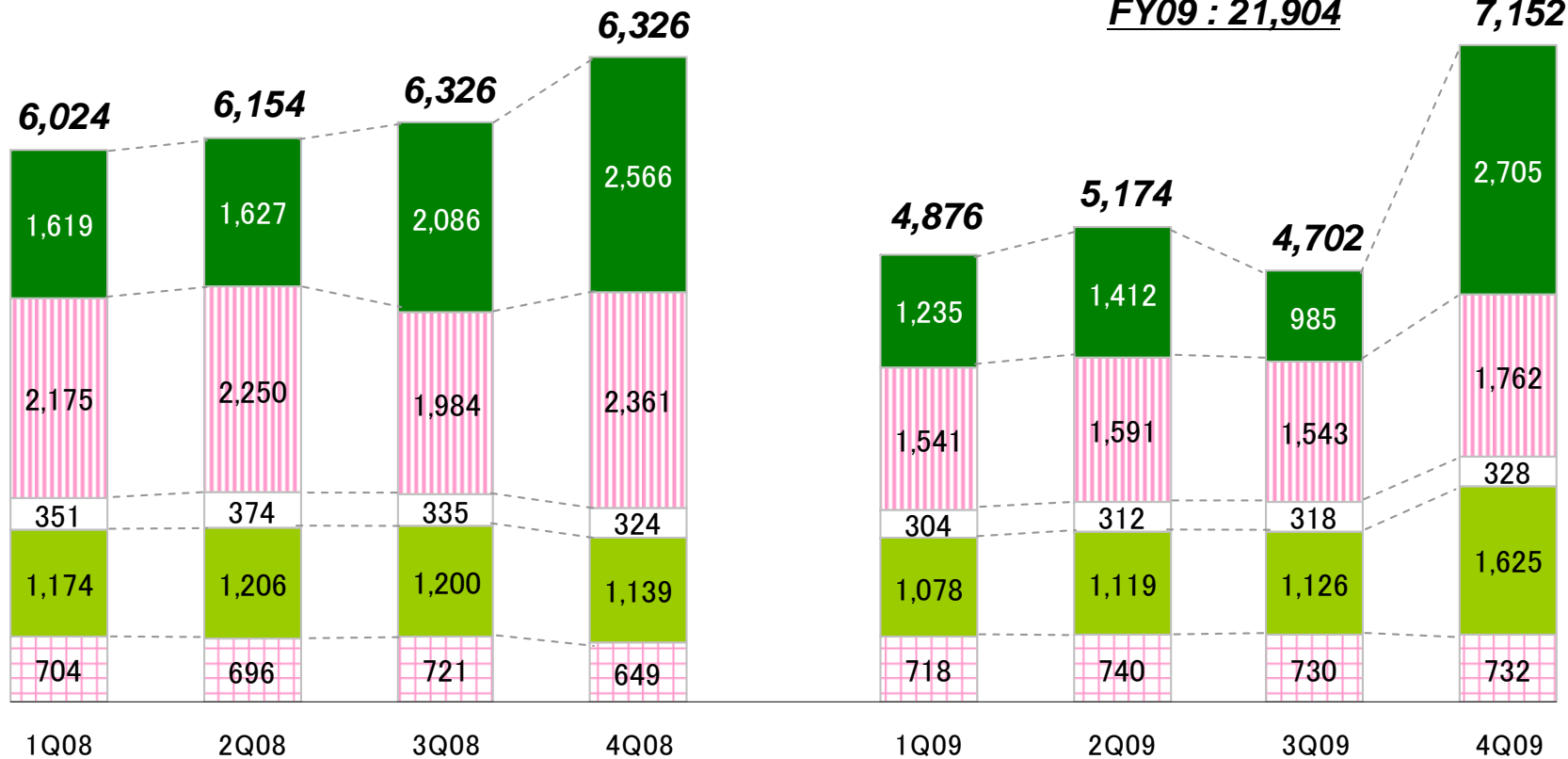
YoY = 4Q09 compared to 4Q08  
QoQ = 4Q09 compared to 3Q09

Unit: JPY million



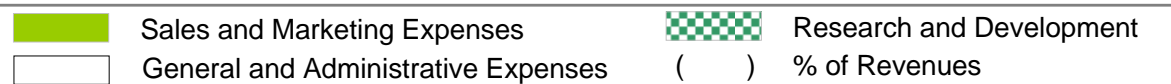
**FY08 :25,543**

**FY09 : 21,904**

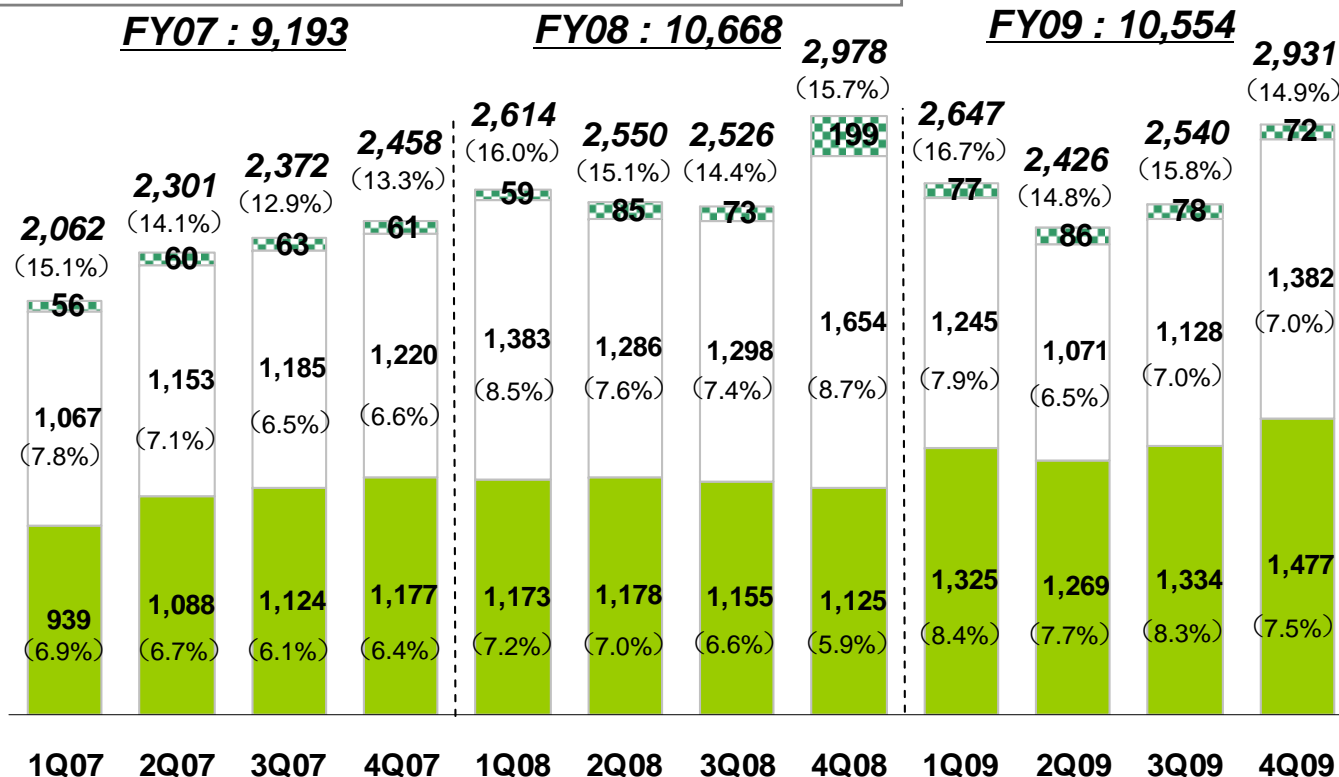


- ◆ **Total cost of systems integration: FY09 : down 14.2% YoY, 4Q09 : up 1.6% YoY, up 52.1% QoQ**
  - FY09 : Decreased as a result of reduction in full-time outsourcing personnel and purchasing cost in relation to the decrease in revenues
  - 4Q09 : Purchasing and outsourcing related costs decreased along with the decrease in SI revenues QoQ
  - The number of full-time outsourcing personnel: 312 people as of Mar. 2010 (up 58 people YoY, up 76 people QoQ)

## II-6. SG&A Expenses/R&D



Unit: JPY million



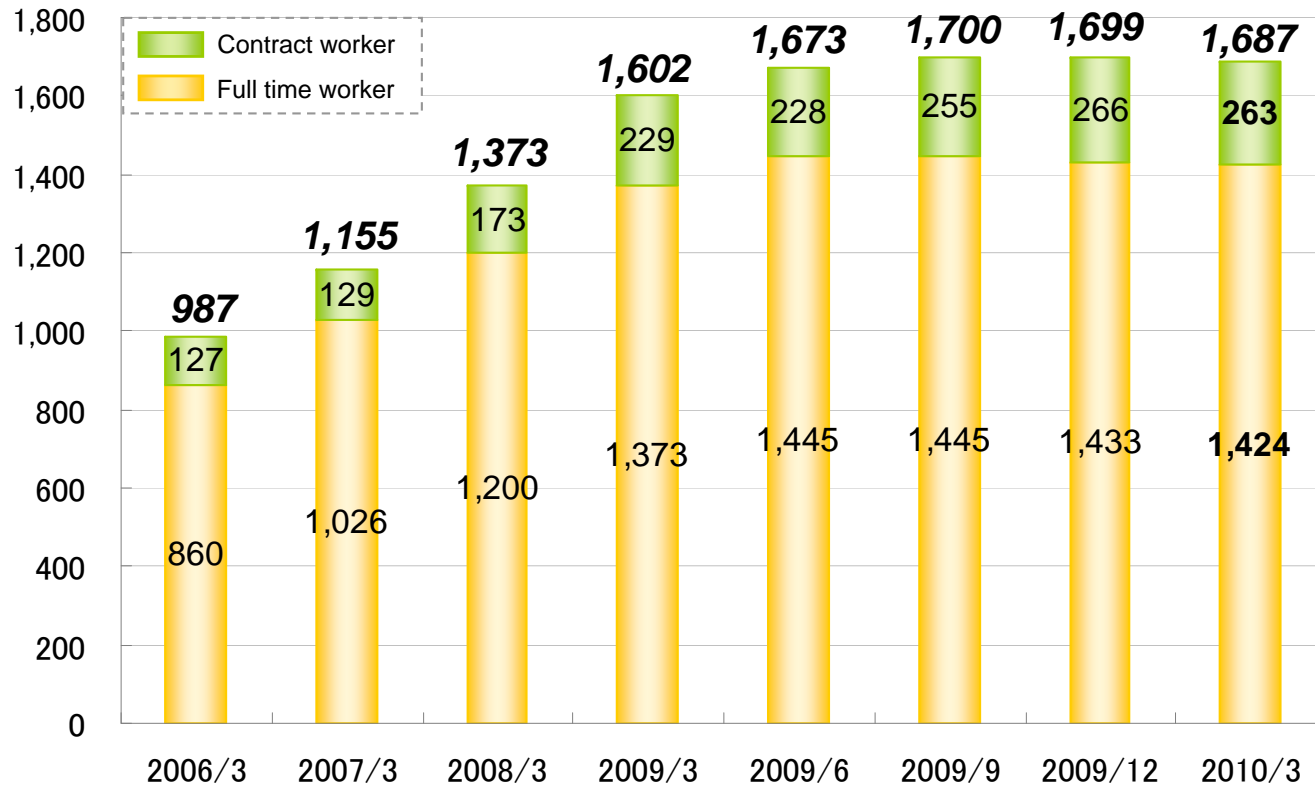
◆ **SG&A/R&D expenses: FY09 : down 1.2% YoY, 4Q09 : down 1.6% YoY, up 15.4% QoQ**

- **Sales and marketing expenses: FY09: JPY5,405 million (up 16.7% YoY), 4Q09: up 31.4% YoY, up 10.7% QoQ**  
 FY09 : personnel related costs and amortization related to the back-office system which began its operation from 3Q09 increased YoY  
 4Q09 : depreciation and disposals of assets increased QoQ
- **General and administrative expenses: FY09: JPY4,826 million (down 14.2% YoY), 4Q09: down 16.5% YoY, up 22.5% QoQ**  
 FY09 YoY : decrease in outsourcing related cost, decrease in amount of depreciation of assets and decrease in general expenses  
 4Q09 : QoQ disposals of assets
- **R&D expenses: FY09: JPY313 million (down 24.6% YoY), 4Q09: down 63.7% YoY, down 7.3% QoQ)**
- **SG&A expenses related to ATM operation business:**  
 FY09 : JPY243 million, 4Q09 JPY88 million (JPY78 million in 4Q08, JPY56 million in 3Q09)

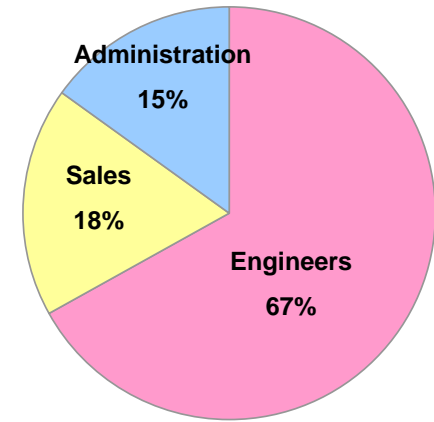
YoY = 4Q09 compared to 4Q08  
 QoQ = 4Q09 compared to 3Q09

# II-7. Number of Employees

(number of employees)



[Employee Distribution]



Personnel related costs and expenses (% of revenue)	2,771 (17.5%)	2,733 (16.6%)	2,728 (17.0%)	2,887 (14.7%)

Unit: JPY million

YoY = 4Q09 compared to 4Q08  
QoQ = 4Q09 compared to 3Q09

- ◆ **Number of employees as of Mar. 2010: slightly decreased**
  - Hired 60 newly graduates in FY2010 (FY2009: 77 newly graduates, FY2008: 92 newly graduates)
- ◆ **Personnel related cost and expenses: FY09 : JPY11,119 million (up 8.4% YoY)**

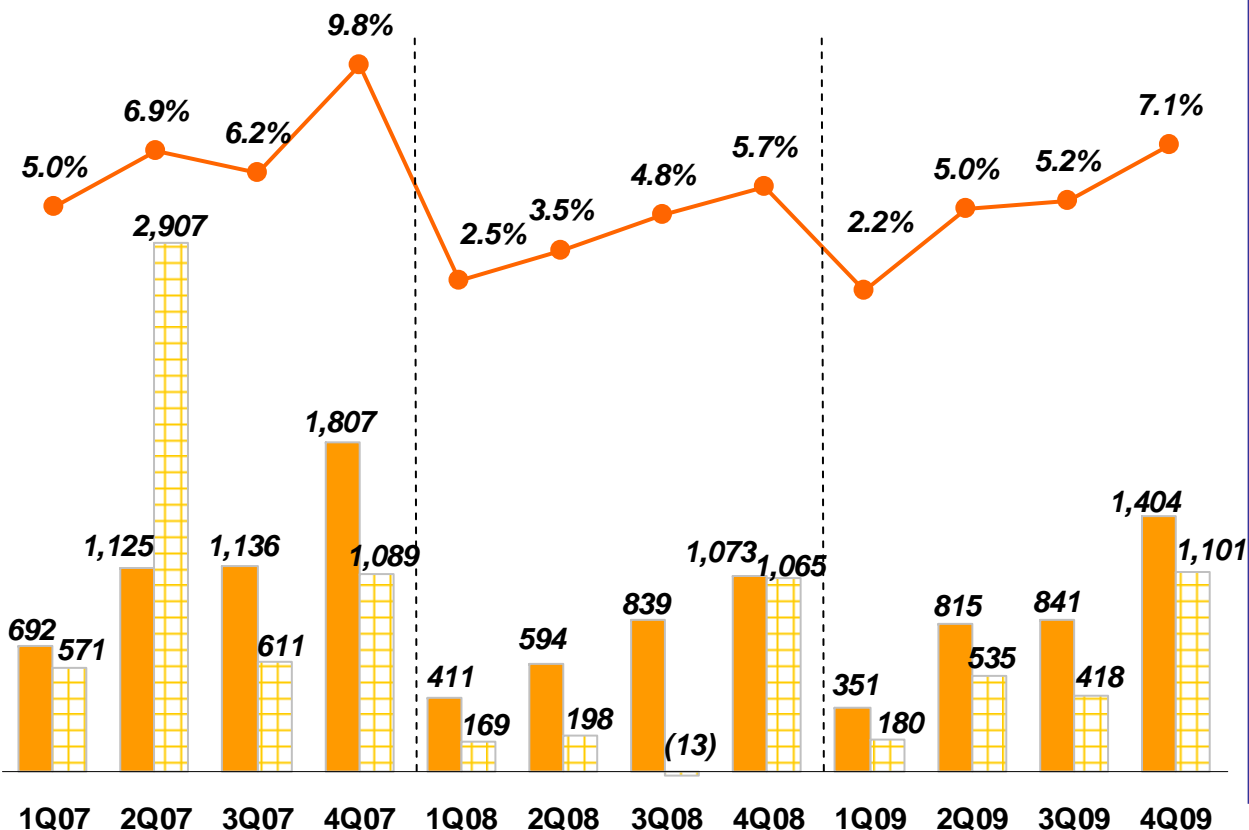
# II-8. Operating Income and Net Income

YoY = 4Q09 compared to 4Q08  
QoQ = 4Q09 compared to 3Q09

Operating Income      Net Income      Operating Margin Ratio

Unit: JPY million

**Operating income : 4,759**      **Operating income : 2,917**      **Operating income : 3,412**  
**Net income attributable to IJ: 5,177**      **Net income attributable to IJ: 1,419**      **Net income attributable to IJ: 2,234**



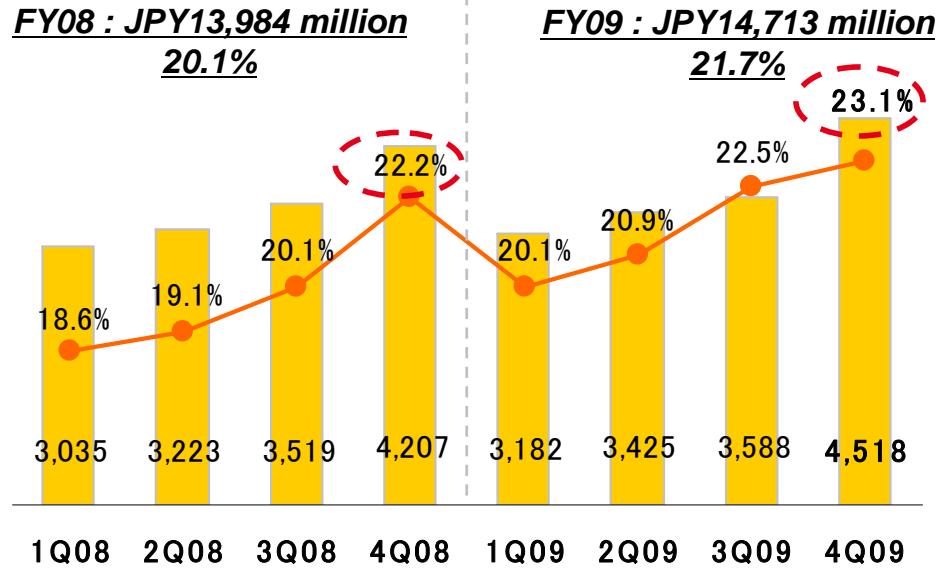
- ◆ **Operating Income:**  
**FY09: up 16.9% YoY**
  - Gross margin of connectivity and outsourcing service increased YoY.
  - General expenses decreased as a result of tight cost control**4Q09: up 30.9% YoY, up 67.0% QoQ**
  - Gross margin of SI increased YoY.
  
- ◆ **Income before income tax expense: FY09: up 40.5% YoY**
  - Impairment losses on equity securities and interest expenses decreased**4Q09: up 35.8% YoY, up 42.0% QoQ**
  - 4Q09 impairment loss (net) of JPY293 million
  
- ◆ **Net income attributable to IJ: down FY09: up 57.4% YoY, 4Q09: up 3.4% YoY, up 163.4% QoQ**
  - Deferred tax expense  
 FY09: JPY756 million in expense  
 FY08: JPY637 million in expense  
 4Q09: JPY34 million in income  
 3Q09: JPY418 million in expense  
 4Q08: JPY335 million in income
  - Equity in net income of equity method investees:  
 FY09: JPY159 million, FY08: JPY35 million
  - Net loss attributable to noncontrolling interests: FY09: JPY348 million in losses related to GDJ Japan and Trust Networks, FY08: JPY352 million

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Income Tax Expenses	175	(1,980)	392	552	213	326	653	(190)	244	284	514	90
Equity in net income (loss) of equity method investees	(20)	(29)	(42)	(52)	18	(17)	44	(10)	32	11	85	32
Net loss attributable to noncontrolling interests	9	15	27	45	55	85	120	93	93	82	90	83

# II-9. Connectivity and Outsourcing Service and SI

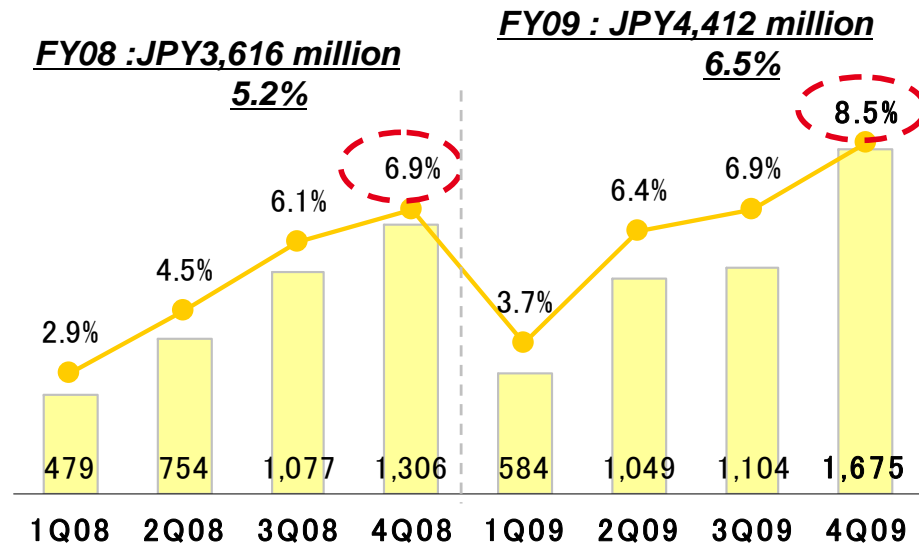
Unit: JPY million

## [Gross margin and gross margin ratio]



YoY = 4Q09 compared to 4Q08  
QoQ = 4Q09 compared to 3Q09

## [Operating income and operating margin ratio]



## Connectivity and Outsourcing Service and SI

### ◆ Gross margin:

- FY09: up 5.2% YoY due to the increase in connectivity and outsourcing service revenue and cost control. Gross margin ratio improved 1.6 points YoY.
- 4Q09: up 7.4% YoY and 25.9% QoQ as a result of recovered SI. Gross margin ratio improved 0.8 points YoY and 0.6 points QoQ.

### ◆ Operating income:

- FY09: up 22.0% YoY as a result of increase in gross margin and decrease in general and administrative expense due to cost control. Operating margin ratio improved 1.3 points YoY.
- 4Q09: up 28.2% YoY and 51.7% QoQ. Operating margin ratio improved 1.6 points YoY and 1.6 points QoQ

## ATM Operation Business

### ◆ Placed 136 ATMs as of Mar. 2009

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Revenue	5	6	6	6	7	31	70	98
Cost	15	85	161	161	192	215	277	281
Expenses	58	81	83	78	49	50	56	88
Sum	72	166	244	239	240	265	333	369
Operating Loss	(67)	(160)	(238)	(233)	(233)	(234)	(263)	(270)



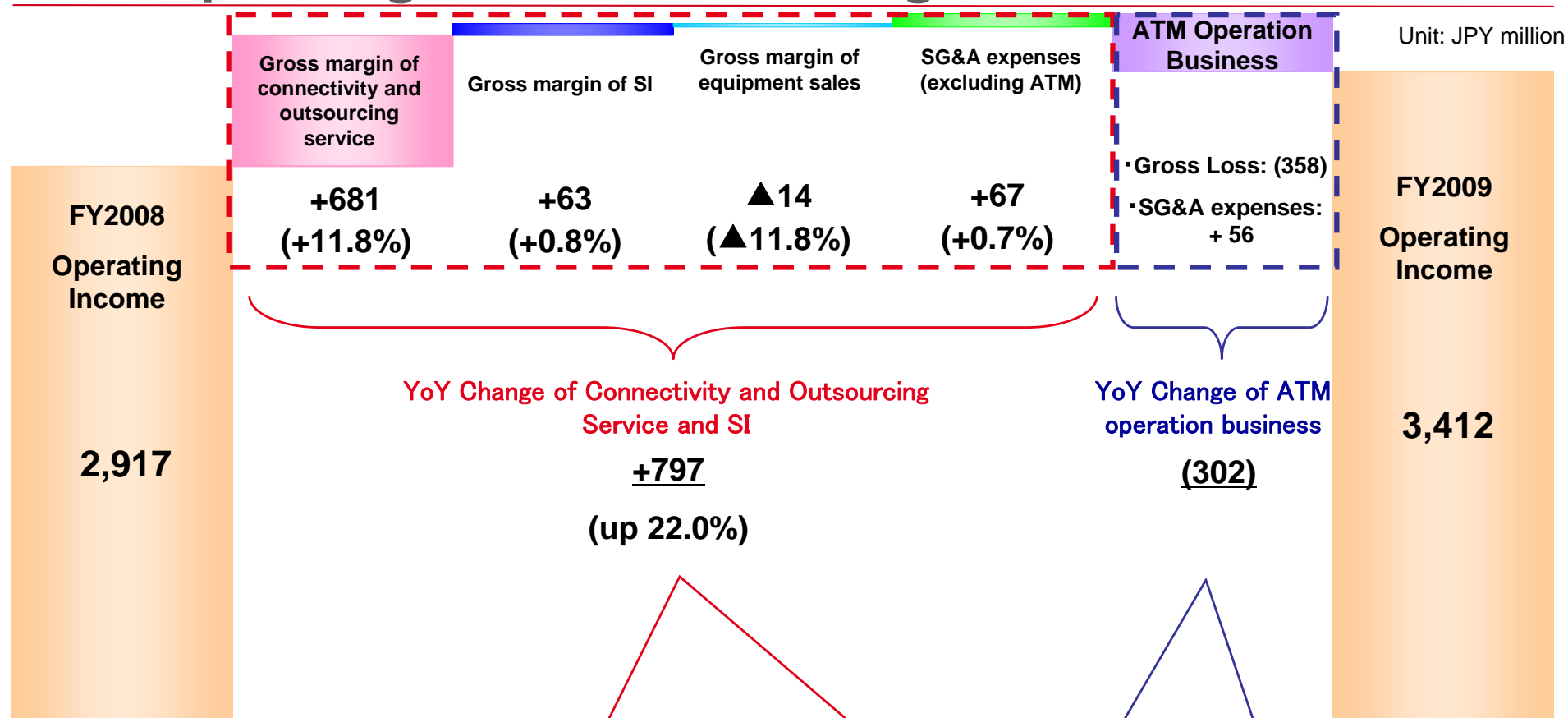
Trust Networks Inc.

- Established July 2007 (Consolidated subsidiary)
- Ownership: 73.3% (as of Apr. 2010)



YoY = 4Q09 compared to 4Q08  
QoQ = 4Q09 compared to 3Q09

# II-10. Operating Income YoY Change



- ◆ **Increase in gross margin of connectivity and outsourcing service:**  
Revenue increase 5.4% YoY. Gross margin was greater than the increase in costs (JPY1,216 million)
- ◆ **Decrease in gross margin of SI:**  
Revenue decreased 10.6% YoY. Gross margin increased due to the decrease in costs (JPY3,639 million) such as outsourcing related costs and purchasing costs
- ◆ **Decrease in gross margin of equipment sales:**  
Slightly decreased corresponding to the decrease in revenues
- ◆ **Decrease in SG&A expenses (positive impact on operating income):**  
Decreased as general expenses decreased as a result of tight cost control

- ◆ **Gross loss of ATM operation business:**  
FY09 : JPY757 million (losses)  
FY08 : JPY399 million (losses)
- ◆ **SG&A expenses of ATM operation business:**  
FY09 : JPY243 million  
FY08 : JPY299 million

## II-11. Consolidated Balance Sheets

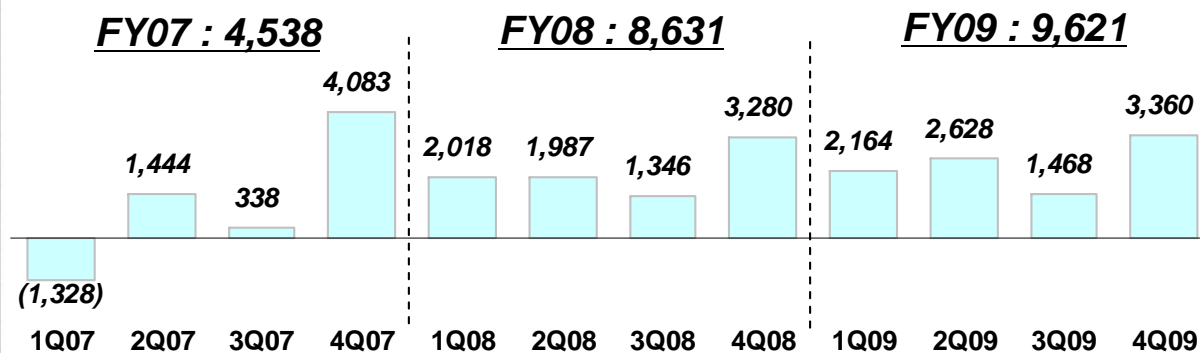
Unit: JPY million

	March 31, 2010	March 31, 2009	Changes	
Cash and Cash Equivalents	8,764	10,188	(1,423)	
Accounts Receivable	11,397	10,257	+1,140	➤ Increased correspondingly to the increase in on-going SI Projects
Inventories	808	530	+278	
Prepaid Expenses	1,593	1,772	(179)	
Deferred tax assets (current)	1,571	762	+809	➤ Nonmarketable equity securities: JPY1,447 million
Other Investments	2,582	1,915	+667	➤ Available for sale equity securities: JPY867 million
Property and Equipment	12,970	13,173	(203)	➤ Others: JPY268 million
Goodwill and Other Intangible Assets	5,459	5,841	(383)	➤ Non-amortized intangible assets: JPY2,831 million
Deferred tax assets (non-current)	685	2,253	(1,568)	➤ Amortized intangible assets: JPY2,618 million
Borrowings (Short-term)	4,450	7,350	(2,900)	➤ Repayment of short term borrowings
Accumulated Deficit	(16,720)	(18,549)	+1,829	➤ Decreased due to income growth
Accumulated Other Comprehensive Income	+169	(321)	+489	
Total IJJ Shareholders' Equity	27,320	25,169	+2,150	➤ IJJ Shareholders' equity ratio: 53.4%
Total Assets	51,115	52,301	(1,186)	

# II-12. Consolidated Cash Flows

Unit: JPY million

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

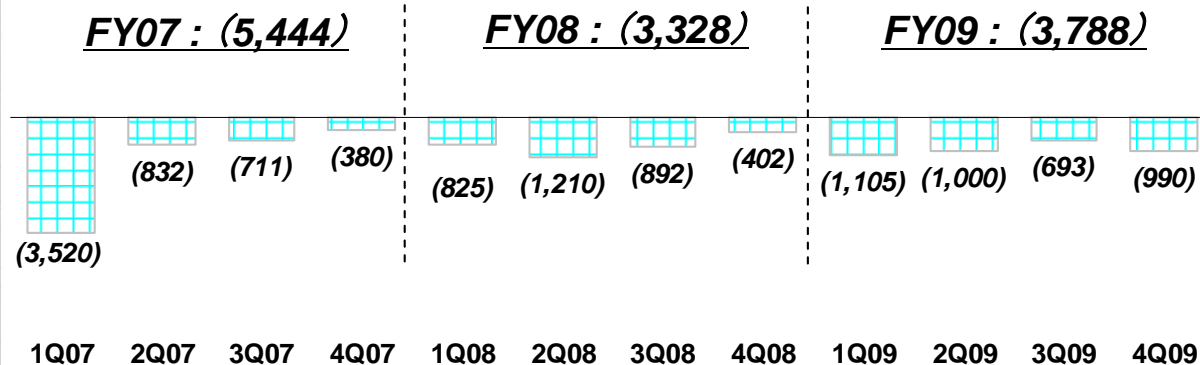


### FY09 : YoY

- Increase in operating income
- Increase in accounts receivable: JPY1,179 million
- Increase in accounts payable: JPY809 million
- Decrease in inventories, prepaid expenses and other current and noncurrent assets: JPY486 million

etc.

## Net cash used in investing activities

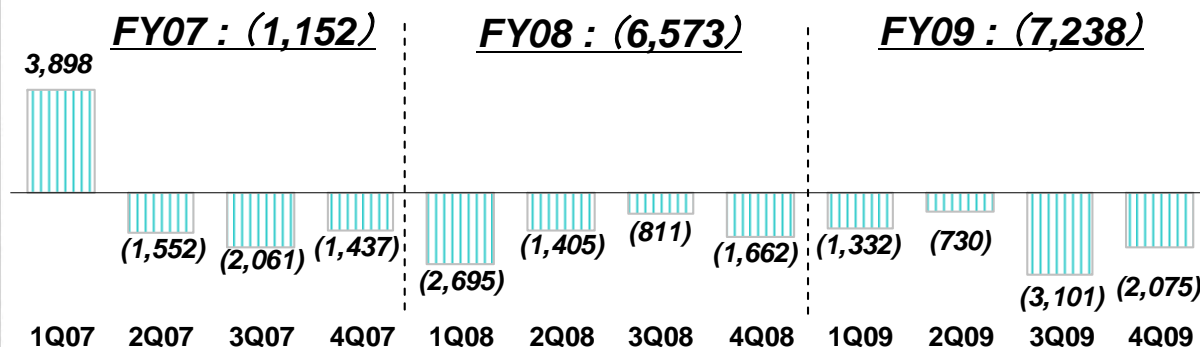


### FY09 : YoY

- Purchase of property and equipment: JPY3,254 million
- Purchase of short-term and other investments (net): JPY875 million

etc.

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



### FY09 : YoY

- Principle payments under capital leases: JPY4,083 million
- Net repayment of short-term borrowings : JPY2,900 million
- Dividend payment: JPY405 million

etc.

# II-13. Other Financial Data (CAPEX etc.)

Unit: JPY million

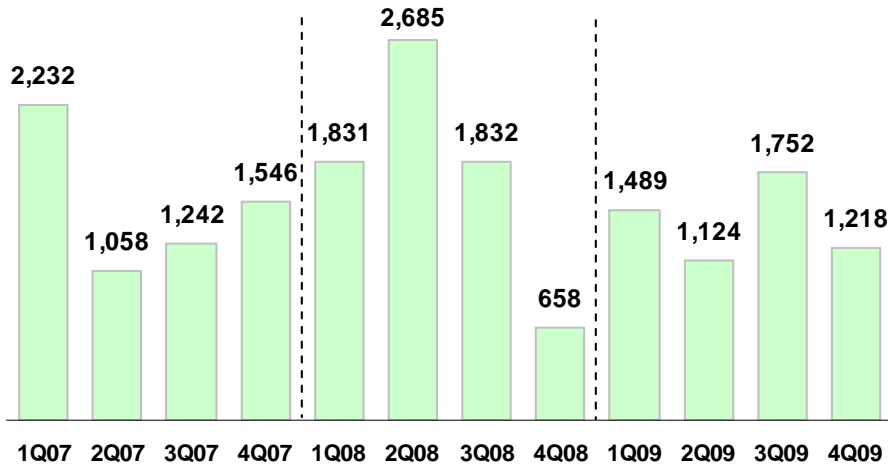
## CAPEX (Include Capital Lease)

**FY07 : 6,078**

**FY08 : 7,006**

**FY09 : 5,584**

▶ CAPEX related to ATM operation business: JPY297 million

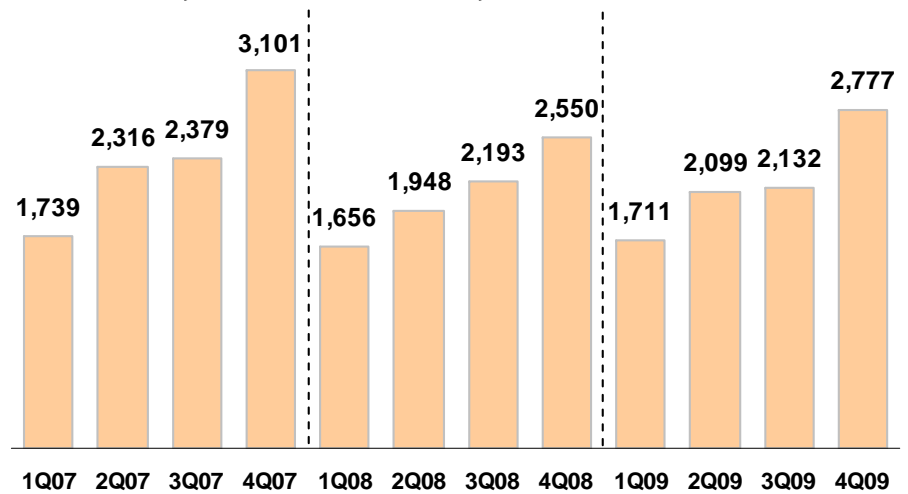


## Adjusted EBITDA

**FY07 : 9,534**

**FY08 : 8,348**

**FY09 : 8,718**

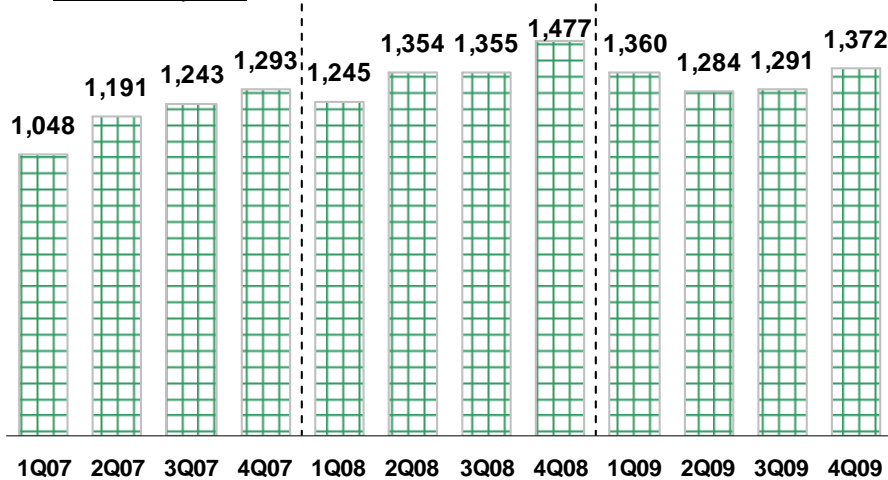


## Depreciation and Amortization

**FY07 : 4,775**











**FY08 : 5,431**

**FY09 : 5,307**



# IIJ Group Companies

(As of April 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.	73.3%
	 GDX Japan Inc.	62.3%	Building safe, reliable corporate messaging networks and providing message exchange services.
Equity Method Investees	 Internet Multifeed Co.	32%	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. (Finance Department )

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.iij.ad.jp/IR> E-Mail: [ir@iij.ad.jp](mailto:ir@iij.ad.jp)

