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Internet Initiative Japan Inc. First Quarter Results for the Year Ending March 31, 2006

Internet Initiative Japan Inc.

August 12, 2005

* Historical quarterly figures from 1Q03 to 3Q04 have been restated to reflect the change in income tax expense (benefit) previously discussed by IIJ in its press release dated April 11, 2005.



Internet Initiative Japan

Forward-looking Statements

Statements made in this press release 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 FY2005 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: IIJ's ability to achieve or sustain profitability in the near future; IIJ's ability to compete effectively against competitors which have greater financial, marketing and other resources; IIJ's ability to attract and retain qualified personnel; and other risks referred to in IIJ's annual report on Form 20-F filed with the United States Securities and Exchange Commission ("SEC") on August 3, 2005, and from time to time in other filings with the SEC available at www.sec.gov.

1Q05 Result Summary

1Q05

Achieved positive operating and net income in 1Q05, despite the fact that the first quarter has historically been our weakest quarter due to seasonal fluctuation of systems integration (“SI”)

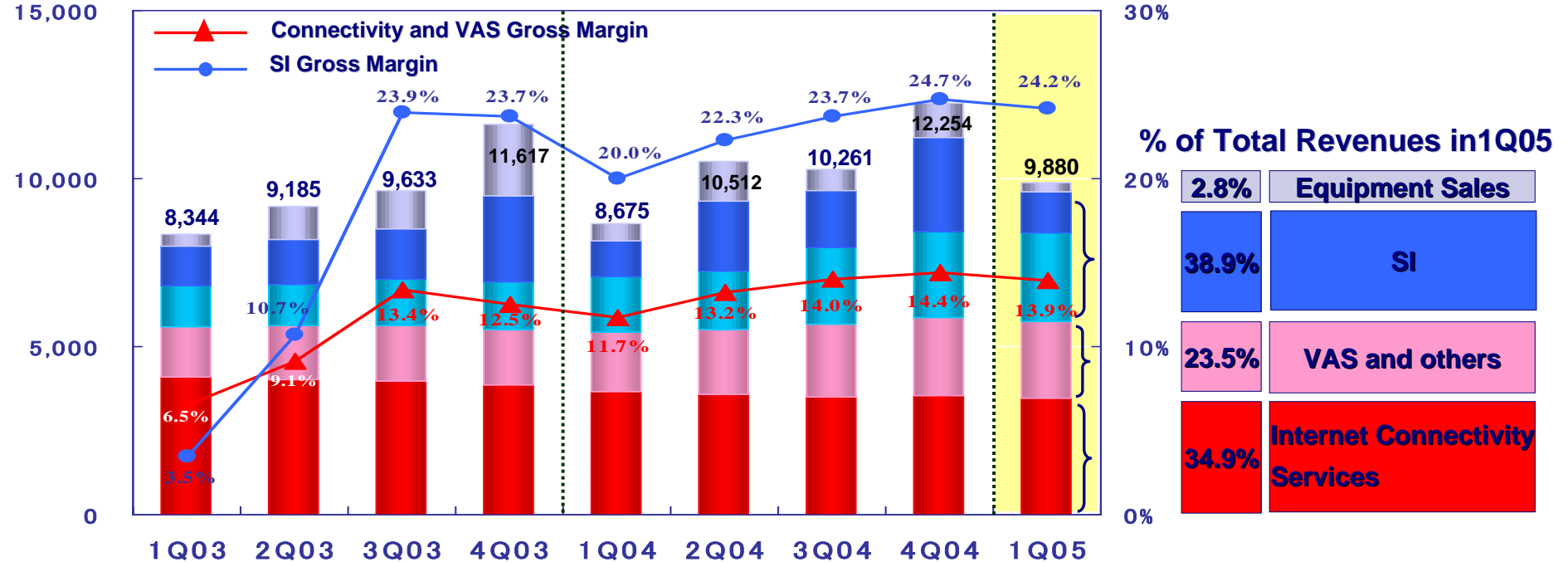
- **First time since NASDAQ listing in 1999**
- **Smooth start to achieving FY2005 targets**
- **Revenues: JPY 9,880 million
(+ 13.9% from 1Q04)**
- **Operating income: JPY 247 million
(Turned positive from operating loss of JPY 100 million in 1Q04)**
- **Net income: JPY 623 million
(Turned positive from net loss of JPY 238 million of 1Q04)**

Consolidated Results for 1Q05

	1Q04 (2004/4-6)		1Q05 (2005/4-6)		YoY Change %	
	JPY million	% of Total Revenues	JPY million	% of Total Revenues		
Revenue	8,675	100.0%	9,880	100.0%	13.9%	<ul style="list-style-type: none"> Higher-margin revenue from outsourcing services, such as from VAS and SI continued to grow steadily
Total Cost	7,443	85.8%	8,118	82.2%	9.1%	<ul style="list-style-type: none"> Despite an increase in personnel expenses and outsourcing costs associated with increasing revenues, the ratio of total cost to revenues improved by 3.6
SG&A	1,332	15.4%	1,516	15.3%	13.8%	<ul style="list-style-type: none"> The ratio of SG&A to revenue was almost flat, due to an increase in personnel expenses, expenses for the preparation and subsequent termination of listing in Japan in June 2005
Operating Income	(100)	(1.2%)	247	2.5%	Turned Positive	<ul style="list-style-type: none"> Operating income substantially improved
Net Income	(238)	(2.7%)	623	6.3%	Turned Positive	<ul style="list-style-type: none"> Net income turned positive and substantially improved due to improved operating income and JPY 511 million of gain on sale of available-for-sale securities

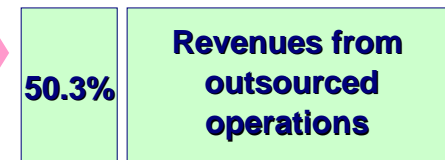
Trend of Quarterly Revenues and Gross Margin

(JPY million)

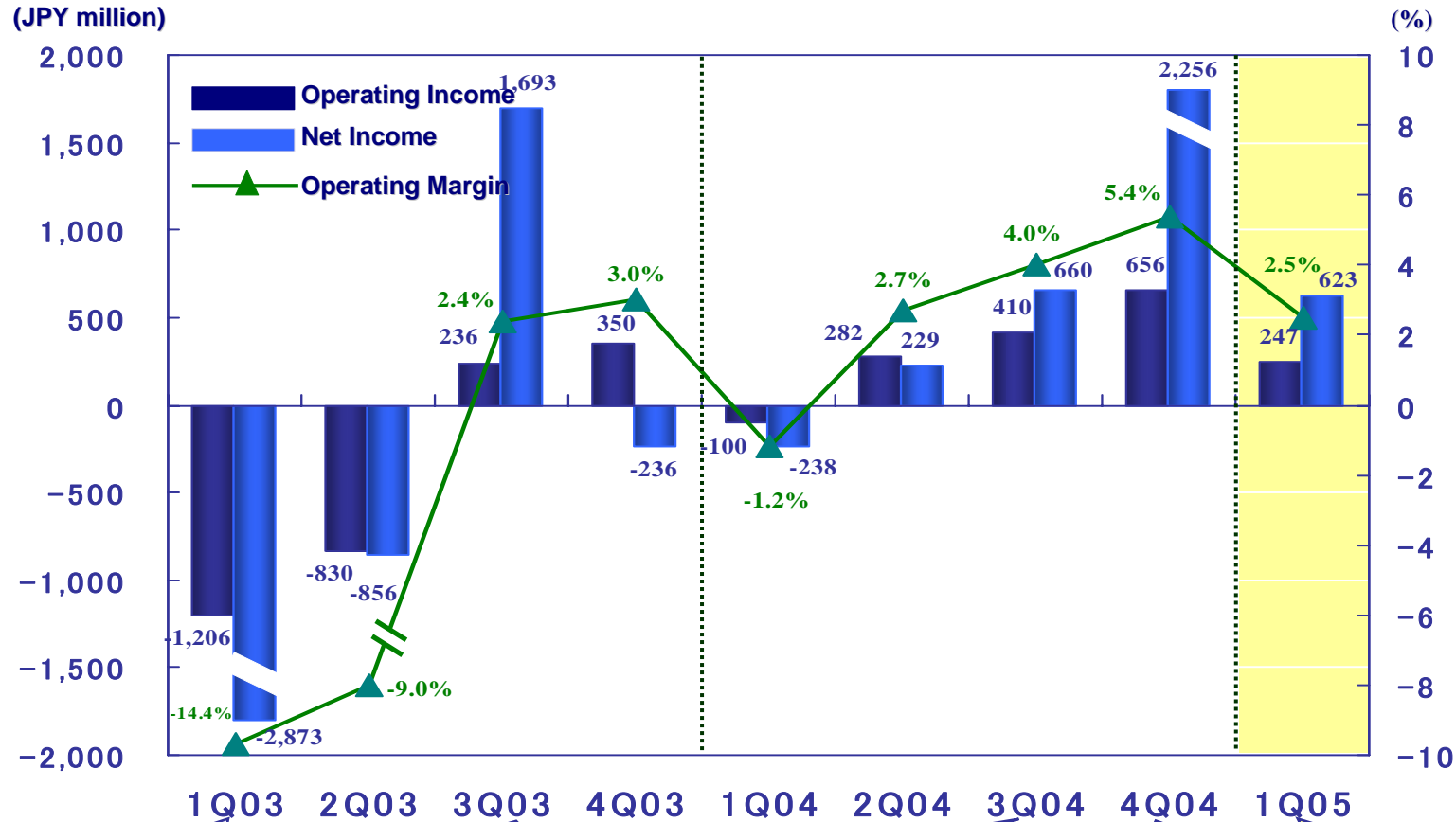


		1Q04		1Q05		YoY change
			% of Total Revenues		% of Total Revenues	
	Equipment Sales	530	6.1%	273	2.8%	-48.5%
SI	Systems Integration	1,040	12.0%	1,193	12.1%	14.7%
	Outsourced Operation	1,655	19.1%	2,647	26.8%	60.0%
	VAS and other Revenues	1,779	20.5%	2,321	23.5%	30.5%
	Internet Connectivity Service	3,671	42.3%	3,446	34.9%	-6.1%
Total		8,675	100.0%	9,880	100.0%	14.0%

% of Total Revenues in 1Q05



Trend of Quarterly Operating and Net Income (Loss)



Impairment loss on investment etc. for Crosswave JPY 1,719 million

Gain on sale of available-for-sale securities of JPY 1,572 million

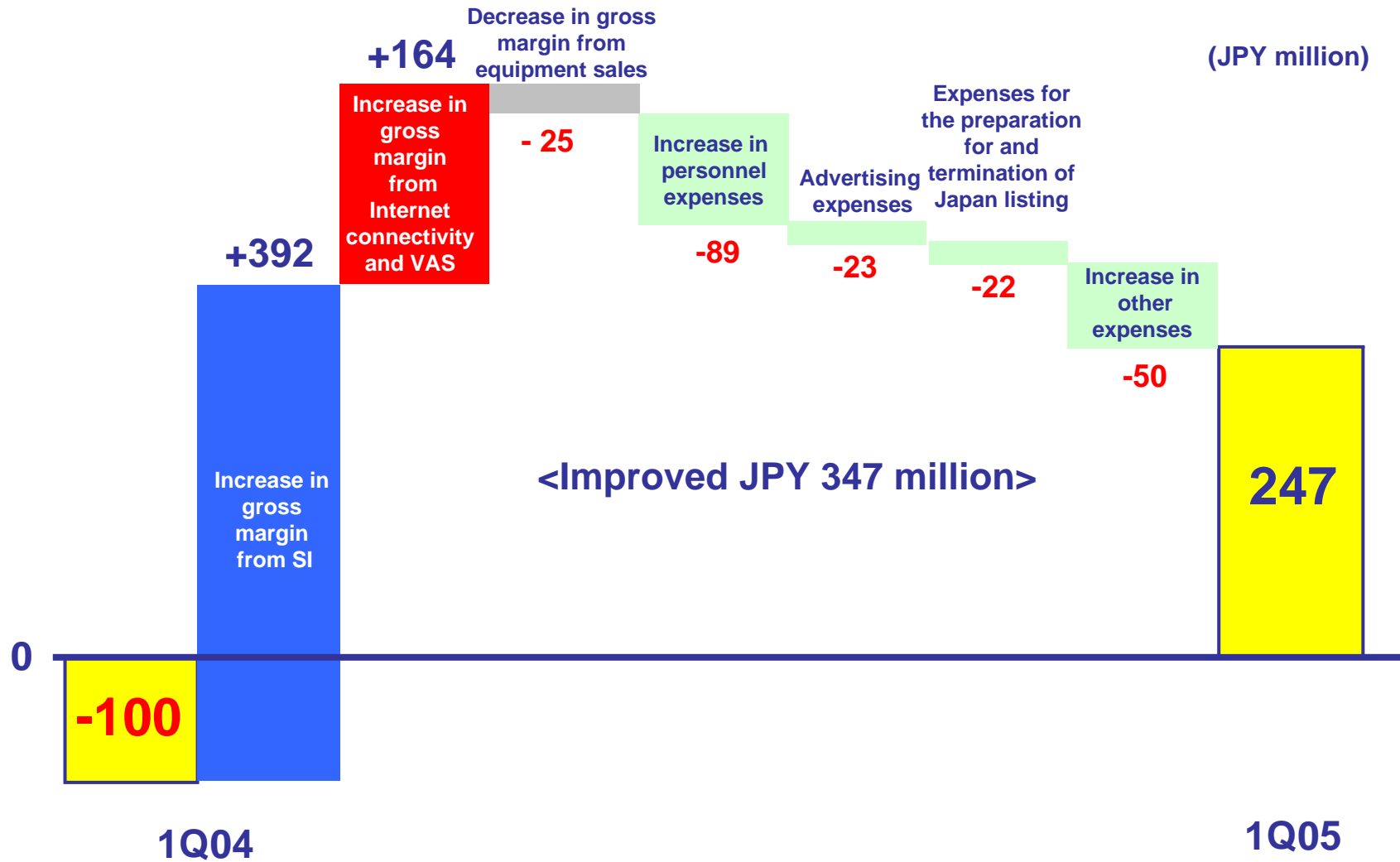
Gain on sale of available-for-sale securities of JPY 550 million

Gain on sale of available-for-sale securities of JPY 1,890 million

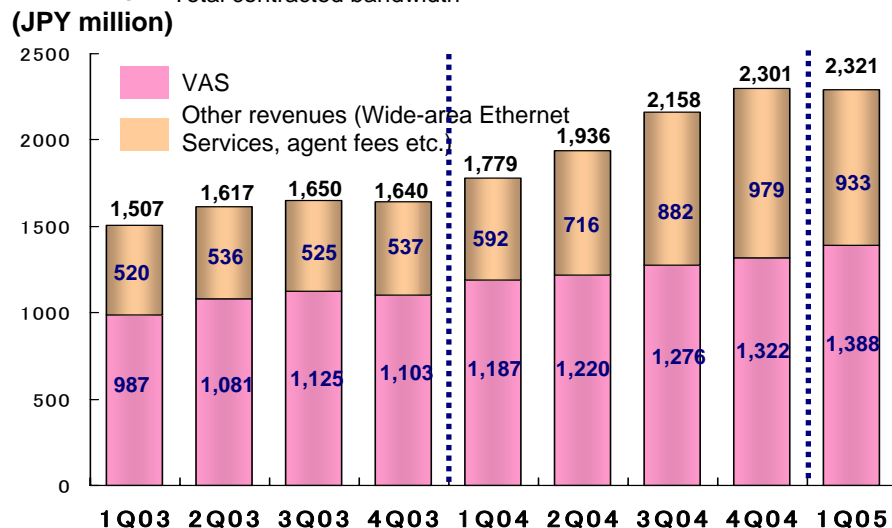
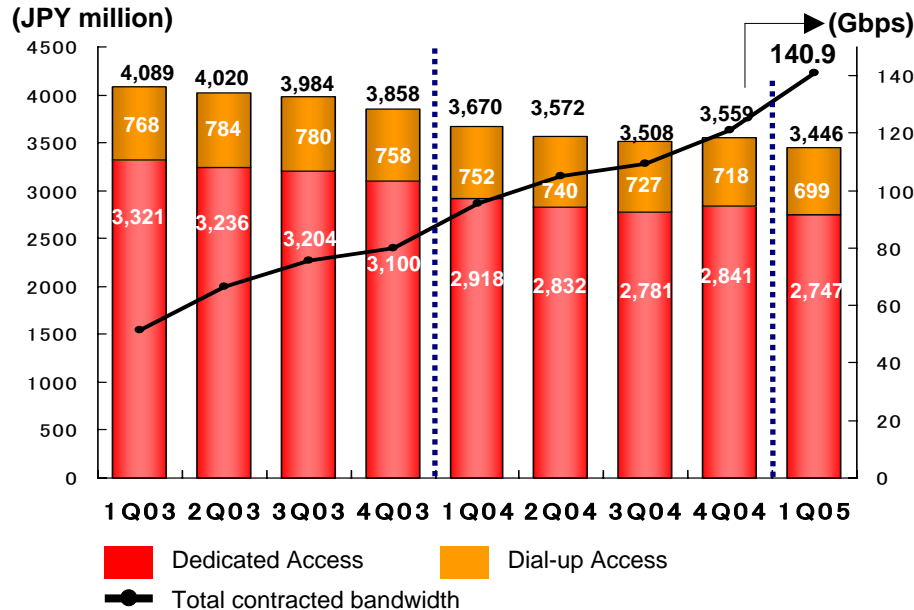
Gain on sale of available-for-sale securities of JPY 511 million

Balance of available-for-sale securities at the end of June, 2005 was approximately JPY 6.9 billion. We expect continued income from gain on sale of available-for-sale securities.

Factors affecting changes in operating income



Results by Service



Internet Connectivity Service

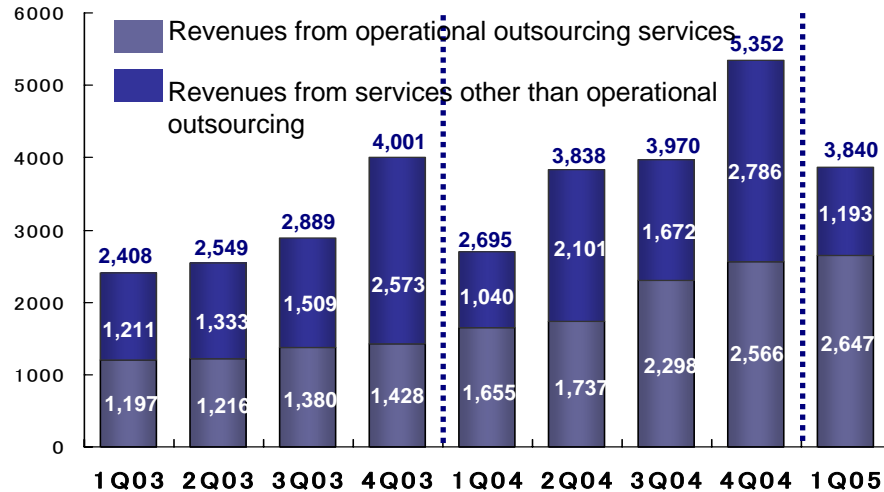
- Revenue decreased due to network review by some major customers, and pricing discounts
- Total contracted bandwidth: 140.9Gbps, which continues to increase steadily (+45.4Gbps (47.5%) from 1Q04,+19.8Gbps (16.3%) from 4Q04)
- Number of contracts of dedicated lines: 12,274 (+4,198 (52.0%) from 1Q04, +1,031(9.2%) from 4Q04)
- For IP Service, contracts for over 1Gbps increased substantially due to new contracts and increased bandwidth demand from existing contracts
Contracts of 1Gbps 4Q04: 24 → 1Q05: 33 (+9)
- Backbone costs remained stable

VAS and Other Revenues

- Revenues from VAS continued to increase to JPY 1,388 million (Increased by 16.9% from 1Q04, increased by 5.0% from 4Q04)
- Other revenues were JPY 933 million, an increase of 57.5 % from 1Q04. Other revenues decreased from 4Q04 due to decrease in revenues from initial charges related to Wide-area Ethernet services and LAN related services

Results by Service

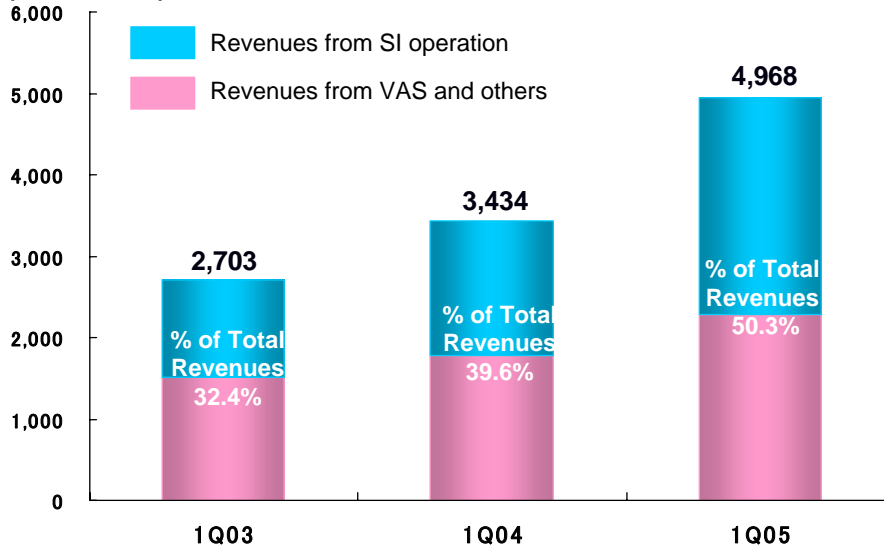
(JPY million)



Systems Integration (SI)

- 1Q is the weakest quarter of the fiscal year due to seasonal fluctuations of corporate investment spending
- Though revenues from SI development decreased compared to 4Q04, for the reason mentioned above, the total SI revenues increased significantly by 42.5% from 1Q04
- Revenues from higher-margin outsourced operations of SI continued to increase
(60.0% increase from 1Q04, 3.2% increase from 4Q04)

(JPY million)



Outsourced Operation

- Monthly revenues from outsourced operations (total of VAS revenues, other revenues and revenues from outsourced operation with SI) continued to increase
- Total revenues from outsourced operation were JPY 4,968 million, an increase of 44.7% compared to 1Q04 - This reached 50.3% of total revenues and contributed to the increase in revenues and improvement of gross margin

TOPIC

IIJ ADS Ratio Change and Stock Split

We will change in the ratio of its American Depositary Shares ("ADSs") to the shares of common stock of IIJ ("Shares") from 1 ADS = 1 / 2,000 of a Share to 1 ADS = 1 / 400 of a Share. We will also do a 1 to 5 stock split of Shares.

The ratio change and stock split will not affect the total number of ADSs in issue and are not expected to affect the ADS trading price on the NASDAQ market, because: (1) the ADS ratio change will be reciprocal to the stock split and (2) the effective date for the ratio change will be the payable date for the stock split.

About the Stock Split

Purpose of the stock split : To reduce our stock price per investment unit by means of the stock split

Outline of the stock split : (1) Number of additional shares:

The number of Shares outstanding as of August 31, 2005 multiplied by four

(2)Method:

A 1 to 5 stock split will be made for shareholders of record listed in the register of shareholders as of the end of business on Wednesday, August, 31, 2005

Effective date : October 11, 2005

About change in ADR Ratio

Current ratio : 1ADR = 1/2,000 shares

New ratio : 1ADR = 1/400 shares

Effective date : October 11, 2005 (EST)

*** In connection with the ratio change and stock split, the ADS depository facility at The Bank of New York will be temporarily closed for deposits of Shares for delivery of American Depositary Receipts ("ADRs") representing the ADSs and withdrawal of Shares upon surrender of ADRs from and including Friday, August 26, 2005, to, and including, the payable date for the stock split, Tuesday, October 11, 2005.**

Please see the press release datd August 4, 2005 for details.

TOPIC

IIJ Group Corporate Reorganization

**IIJ will reorganize its businesses to meet customer needs and to reinforce the Company's focus and efficiency.
We will maintain the targets for FY2005 revenue and profitability.**

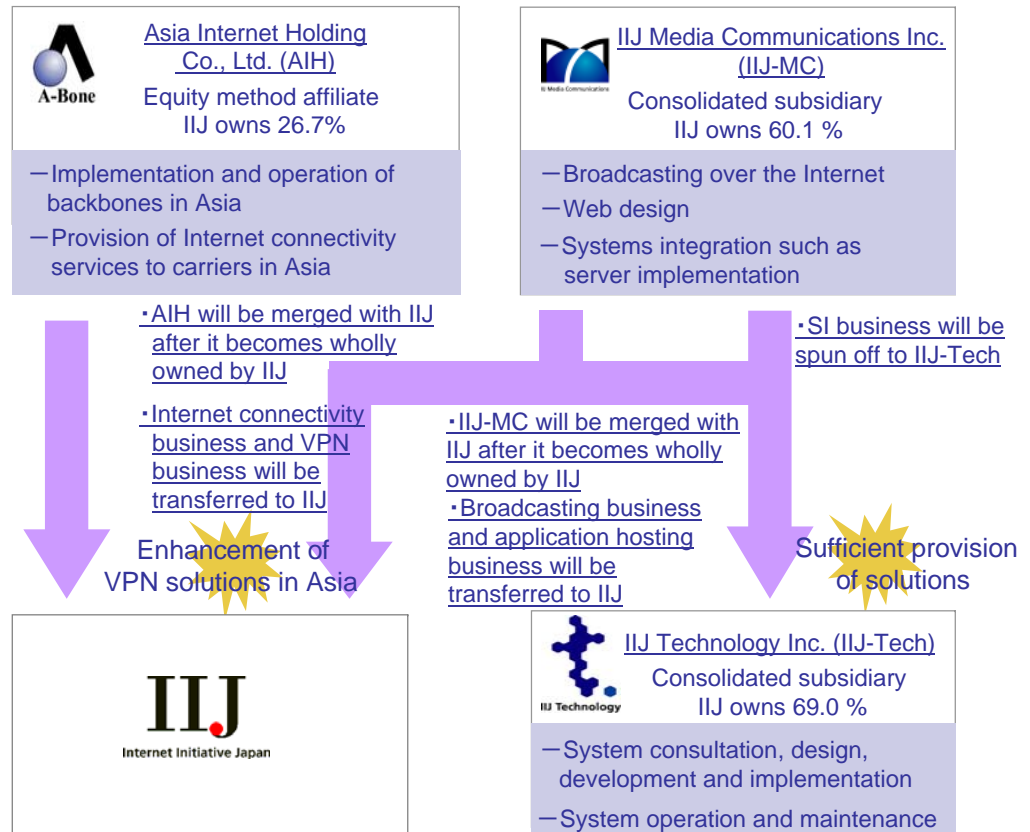
IIJ Media Communications Inc. (IIJ-MC)

- It will be wholly owned by IIJ (August 19, 2005)
- IIJ-MC SI business will be spun off to IIJ-Tech (October 1, 2005)
- By merging with IIJ (surviving company: IIJ), IIJ-MC broadcasting business and application hosting business will be transferred to IIJ (October 1, 2005)

Asia Internet Holding Co., Ltd. (AIH)

- Will be wholly owned by IIJ (August 19, 2005)
- By merging with IIJ (surviving company: IIJ), its Internet connectivity business and VPN business will be transferred to IIJ (October 1, 2005)

The reorganization should cause no change to IIJ's capital and shares outstanding. For details, please see the press release dated August 12, 2005.



After the reorganization, IIJ's shareholding in IIJ-Tech will increase to 72.1% from 69.0%

TOPIC Corporate Governance

Two more outside directors has been newly assigned to strengthen and enhance corporate governance.

Newly appointed outside directors (June 29, 2005) :

**Yoshifumi Nishikawa- Sumitomo Mitsui Banking Corporation
Advisor**

**Junnosuke Furukawa-The Furukawa Electric Co., Ltd.
The board & senior advisor**

Current outside directors

**Yasurou Tanahashi- NS Solutions Corporation
Chairman and Representative Director**

**Takashi Hiroi- Nippon Telegraph and Telephone Corporation
Senior manager of the Corporate Management
Strategy Division**

***1 They are outside statutory auditors pursuant to Article 18,8 Paragraph 2, Item 7-2 of Commercial Code.**

TOPIC

Major Business Developments

Date	Subject
August 1	<p>IIJ, IIJ-Tech, and HP Japan Form Alliance to Deliver RFID (Radio Frequency Identification Tag) Platform - Commercialization of the RFID Platform for Intercompany and International Logistics Using the Internet for Global, Real-time SCM -</p>
July 13	<p>IIJ and IIJ-MC to Broadcast Live High Quality DV for CATV Using DV-over-IP Technology - Live Broadcast from the Space Shuttle after July 14 Launch -</p>
June 7	<p>Toshiba to Adopt IIJ's Anti-spam Solution - Ensuring email protection and security with a multi-tiered filtering technology -</p>
May 25	<p>Joint experiments on basic operation of Photonic IX dealing with interoperability of next generation Internet employing photonic networking</p>
April 8	<p>IIJ Provides Toyota with IIJ NetLightning Service - IIJ will provide IIJ NetLightning, the Web access application acceleration service, to the Toyota Motor Corporation -</p>
April 6	<p>IIJ, ROOT, and Novatec Jointly Develop Micro Multi-Platform Mobile Router - SEIL Engine featured as the core of the embedded router software -</p>