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## Internet Initiative Japan Inc.

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For Merrill Lynch Samurai Conference  
From 2<sup>nd</sup> to 7<sup>th</sup> of March, 2006



Internet Initiative Japan

## Forward-looking Statements

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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 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](http://www.sec.gov).

# Agenda

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- Who we are
- Company overview
- Recent update
- Appendix



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# Who We Are

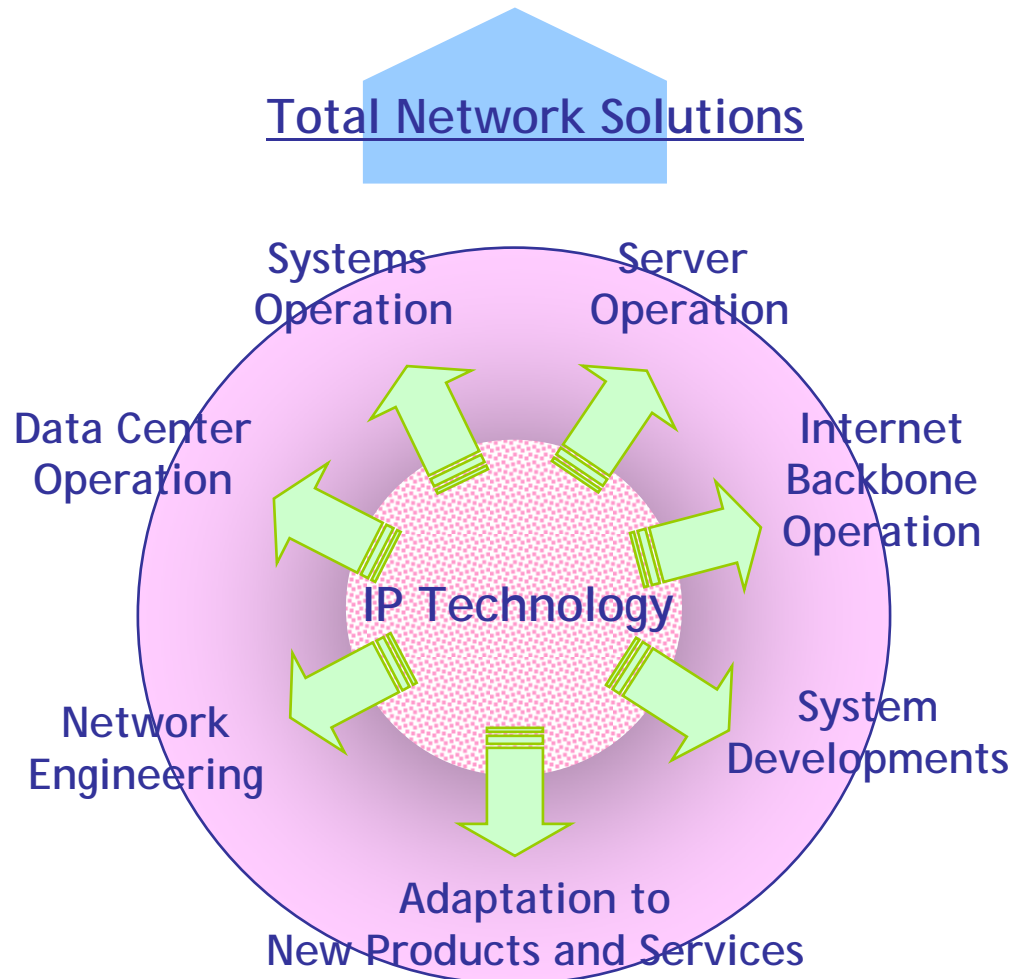


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# Network Engineering Company Based on Excellent IP Technology

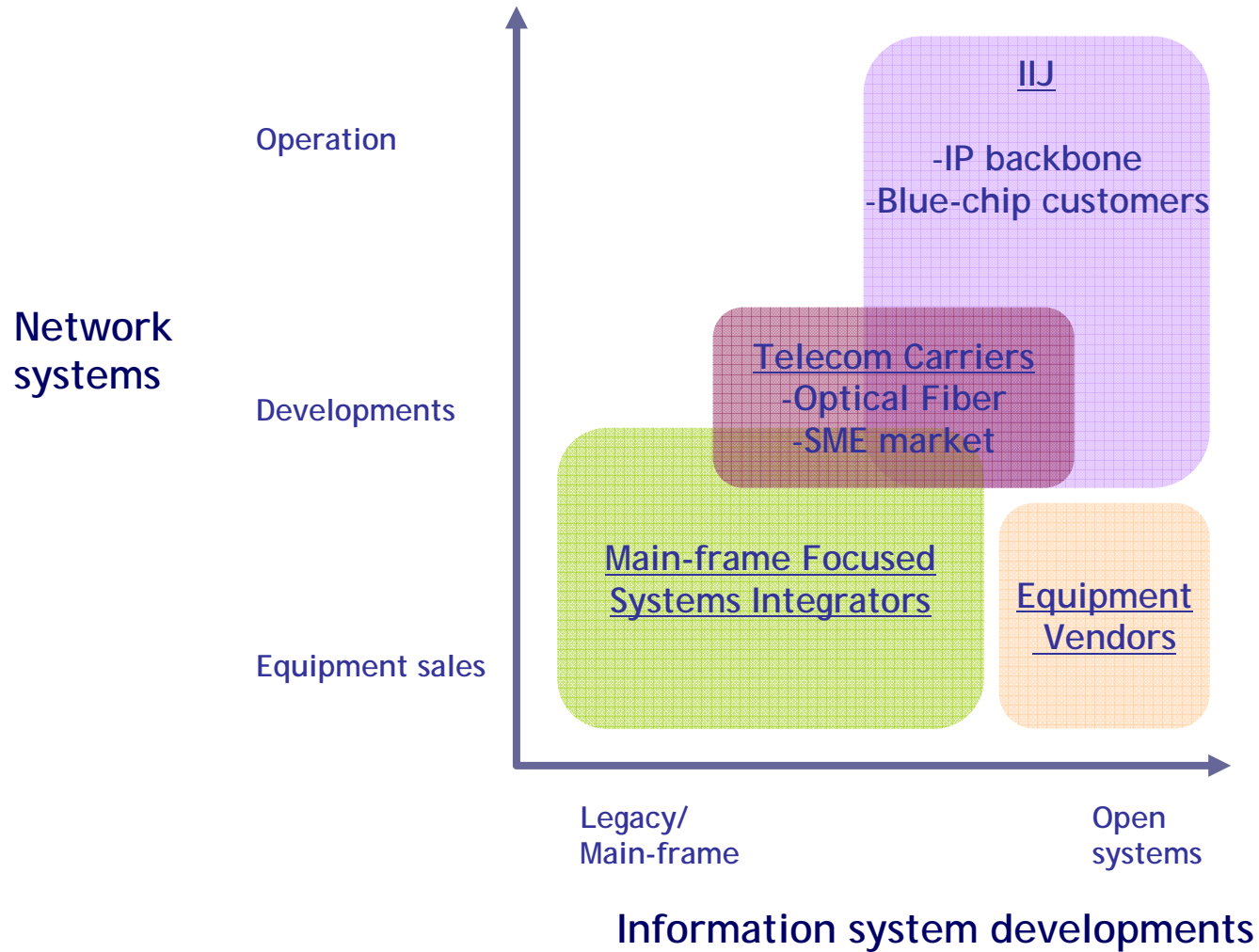
# Our Business Structure

6,500 Blue-chip Corporate Customers



- Providing total network solutions dedicated to customer needs based on our IP Technology
- Providing consultation, planning, development and operation of network systems on an one-stop basis

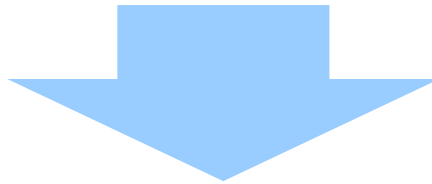
# Unique Position in Japanese IT Industry



## Best Positioned to Capitalize on the Opportunities

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- An increase in corporate IT investments in Japan
- Transfer from legacy main-frame based systems to open-network system based on IP
- Expanding usage of network for mission critical work



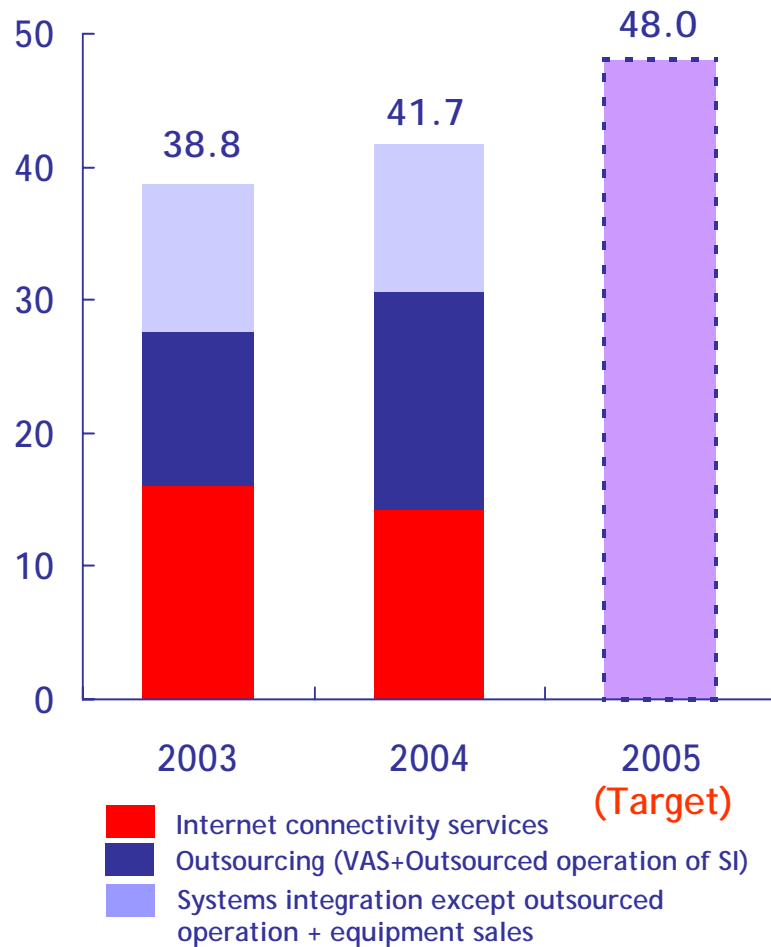
- Expansion of demands for more reliable network outsourcing
- IIJ is best positioned to capitalize on the opportunities



# Solid Growth in Revenues and Profits

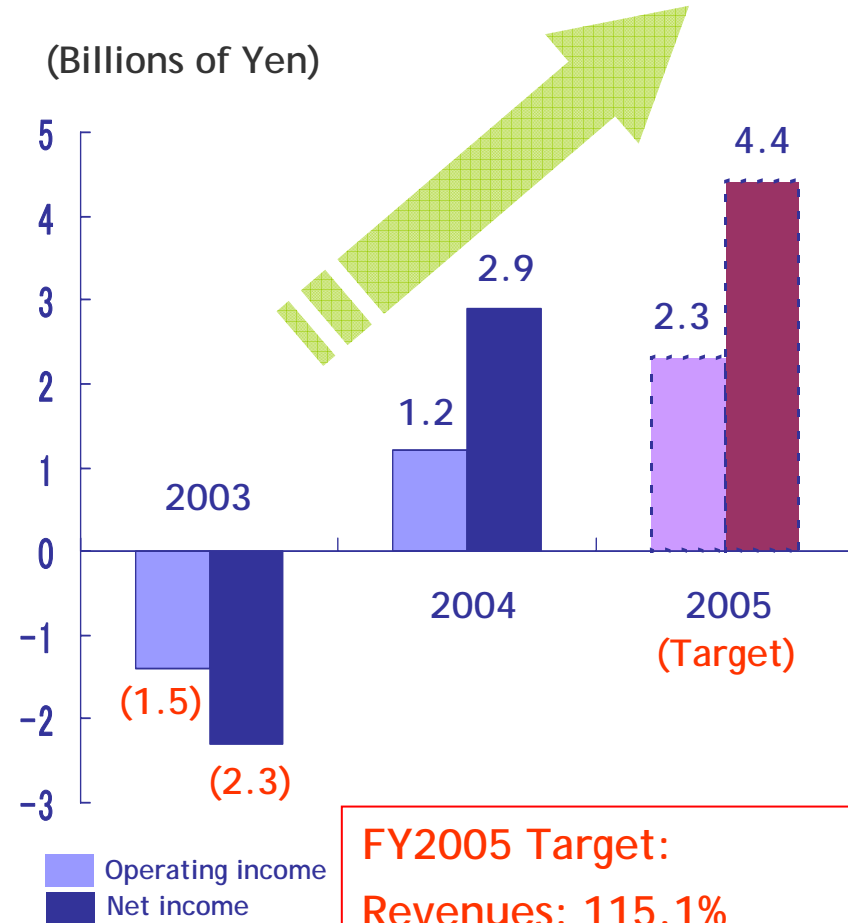
## Revenues

(Billions of Yen)



## Profits

(Billions of Yen)



**FY2005 Target:**  
Revenues: 115.1%  
Operating income: 185.9%  
Net income: 151.4%

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# IIJ Overview

NASDAQ: IIJI  
TSE Mothers: 3774

## Company Overview

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- Pioneer of Internet services in Japan, founded in 1992
- Total network solution provider mainly for enterprises
  - Unique position in Japanese IT industry
- Market leader in technology and services
- Excellent customer base of 6,500 blue-chip corporate customers in Japan
- More than 70% employees are IP specialists
- Turned positive in FY2004 and have been improving since
- Listed on NASDAQ in 1999 and TSE Mothers market in 2005
  - Market capitalization: approximately JPY 100 billion

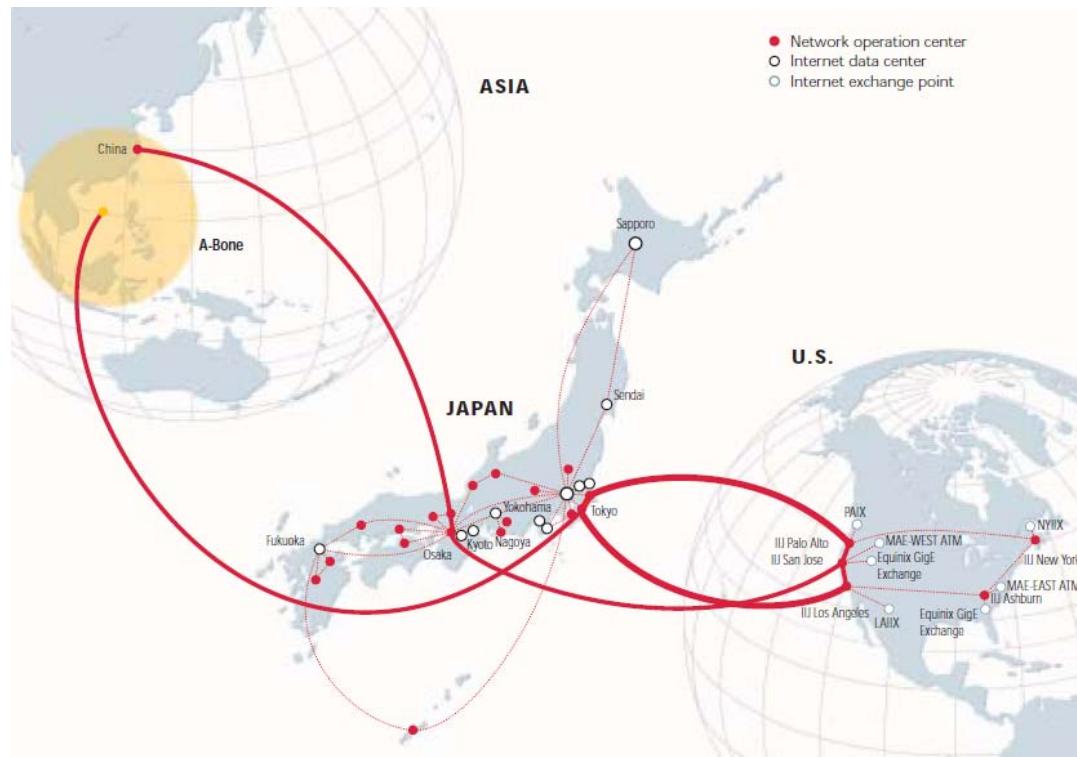
## Total Network Solution Provider

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- Unique position in Japan, providing comprehensive network solutions
  - Internet connectivity services
  - Outsourcing services/products
  - Systems integration
- Experienced and highly capable network engineers
- Leading innovator in market
  - Having created many Internet-related service prototypes
  - Making researches on and adaptation into products of: IPv6, RFID, counter-Spam technology, etc.

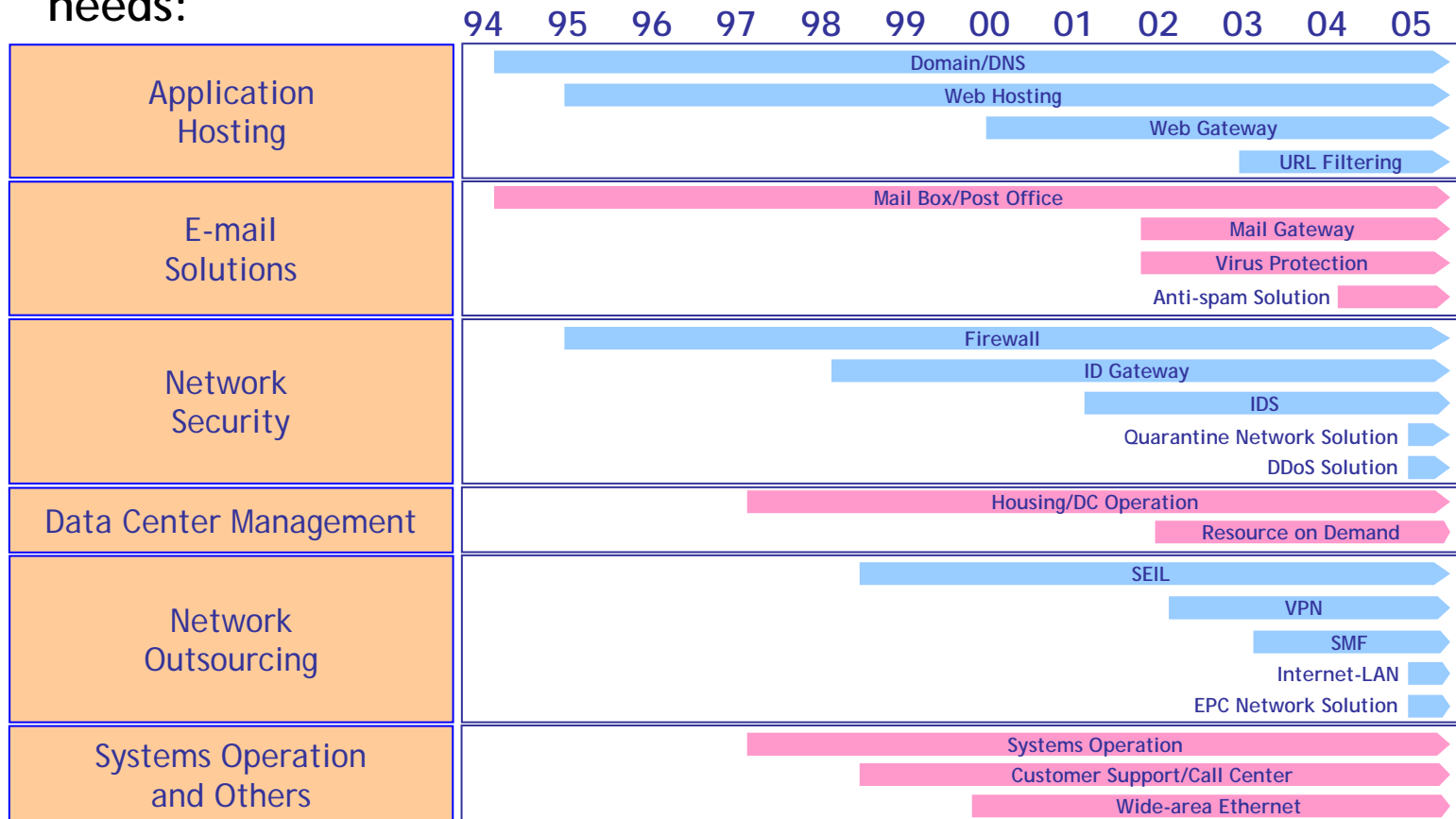
## Internet Connectivity Services

- Operate one of the largest Internet backbones in Japan
- Provide connectivity to the U.S. and Asia (mainly China)
- Supply variety of access options
  - Dedicated access
  - Up to 10Gbps
  - Mobile access
  - Data center access
  - Transit to carriers and ISPs
  - OEM operation for other ISPs



# Outsourcing Services

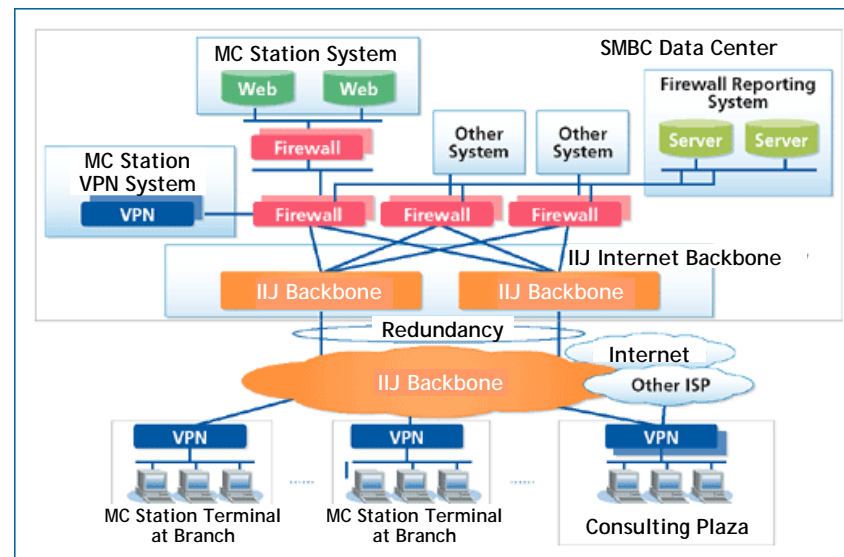
- Provide products using the highest of engineering skills to customers
- Having created many Internet-related service prototypes in the past
- Highly reliable services satisfy demanding high-end customers
- Continually adding and expanding service line-up to meet customer needs:



# Systems Integration

- From design to constructions of large-scaled dedicated systems
- Achieving higher-margins by utilizing the existing products as components
  - On-line security systems
  - Platform for on-line games
  - Large-scale multi-site networks (ie: VPN networks)
  - Online portals
  - Government web sites

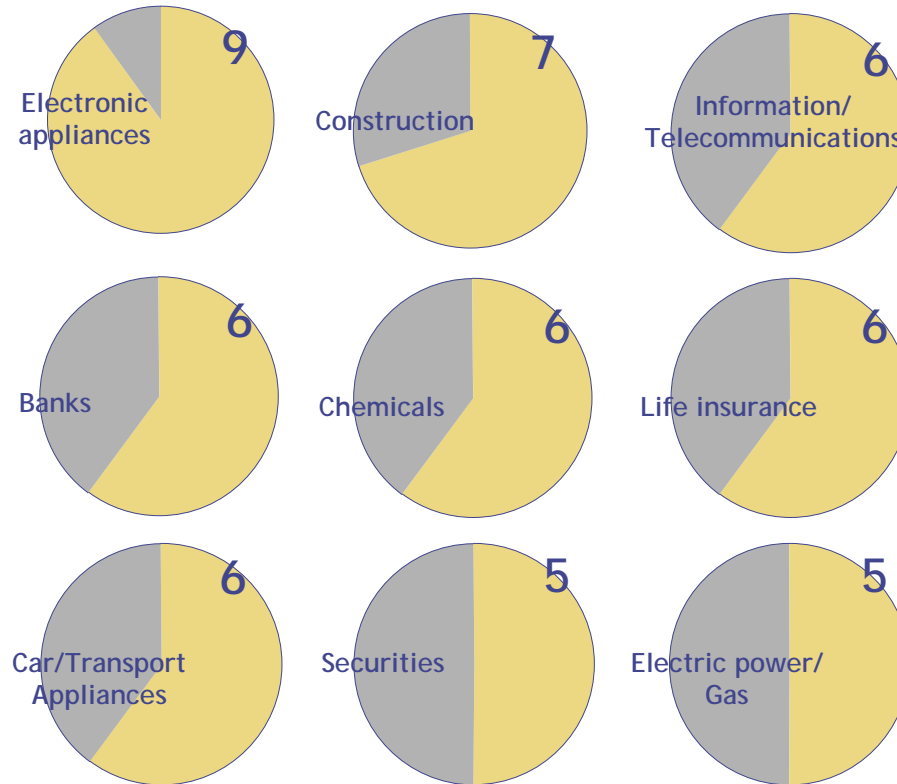
Sumitomo Mitsui Banking Corporation;  
Integration and operation of Internet based network with  
approximately 400 branch terminals throughout Japan



# Customer Base

- Approximately 6,500 corporate customers
- Over half of ministries, and major financial organizations

Ratio of usage of IIJ services within top 10 companies in each industry



\* 10 major companies listed by annual consolidated revenue in each industry. Revenue data based on Toyo Keizai Shimbum "Kaisha Shikiho, 4th edition, 2004" (excluding banks, securities companies and life insurance companies)



# Examples of Our Success Stories

## Blue-chip Companies



Sumitomo Mitsui Banking Corporation

Private network with high-level security to connect about 400 branches



Takashimaya co., Ltd.

Web shopping sites



Nihon Keizai Shimbun, Inc.

Integration of systems for 5 newspapers and electronic media



MOS FOOD SERVICES, INC.

Network to connect about 150 shops in Japan



JAPAN ENERGY CORPORATION

Network to connect about 4,100 gas stations for shop and customer management



kabu.com Securities Co., Ltd.

Connectivity, security and operation and monitoring for online securities trading system

## Other Telecommunication Carriers/ISPs



NTT Communications Corporation

Provision of SEIL, IIJ's originally developed routers and SMF, remote monitoring system as an OEM



Nippon Telegraph and Telephone East Corporation and Nippon Telegraph and Telephone West Corporation

Provisioning of outsourced operations on their network



SHARP CORPORATION

Construction and operation of the Internet portal for PDA users



Excite Japan Co., Ltd.

Contents distribution network, user management system and content management system



Panasonic Network Services Inc.

Outsourced operation of network

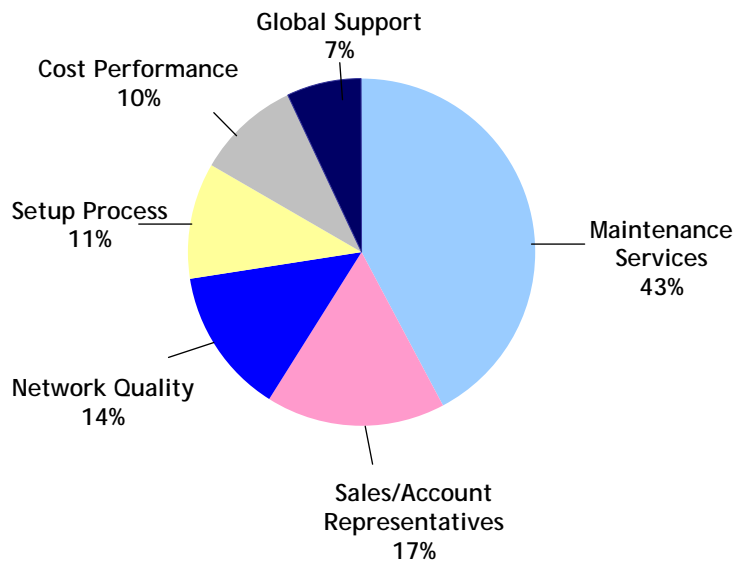
# High-Quality Reputation through Excellence in Execution



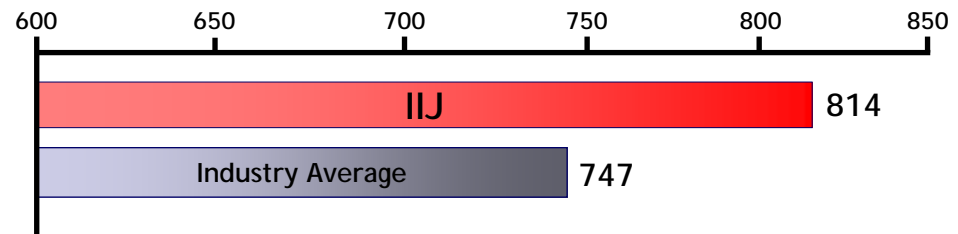
J.D. Power Asia Pacific  
2005 Japan Network Service Provider Satisfaction Study<sup>SM</sup>

**IIJ Ranks No.1 in Customer Satisfaction**

< Six Factors Influencing Total Customer Satisfaction and their Importance >



< Customer Satisfaction Score >



- IIJ scored 814 out of 1,000 points for total satisfaction. The industry average was 747 points.
- IIJ scored the highest for total satisfaction, being calculated based on 6 factors of "maintenance services", "sales/account representatives", "network quality", "setup process", "cost performance" and "global support".

Source: J.D. Power Asia Pacific 2005 Japan Network Service Provider Satisfaction Study<sup>SM</sup> - based on a total of 5,309 responses from 2,992 companies (up to two responses from one company) with 100 or more employees for satisfaction of telecommunication carriers that provide corporate network services.

[www.jdpower.co.jp](http://www.jdpower.co.jp)

## Business Expansion Strategy

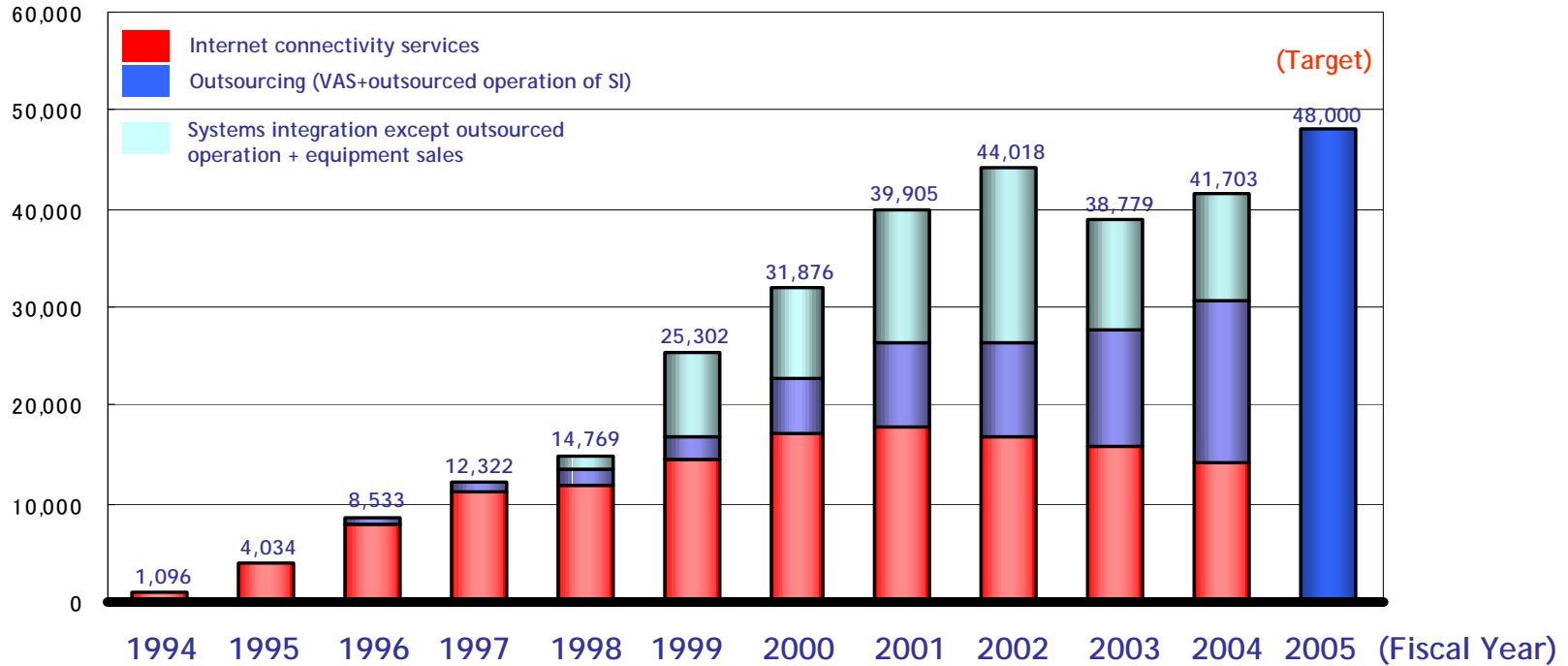
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Leverage customer base to:

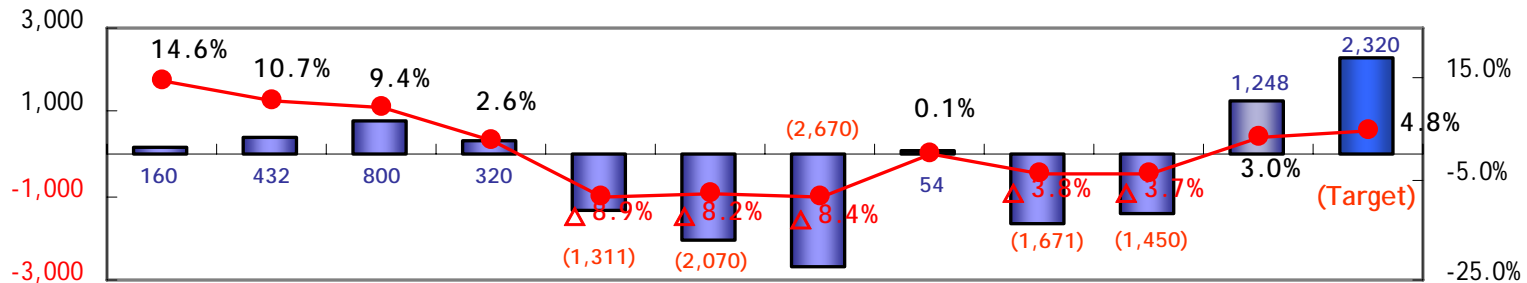
- Increase revenue-per-customer and recurring revenues by providing total solutions and integration services
- Increase cross-selling ratio;
  - Migrate core blue-chip customers from connectivity services to total network solutions
- Expand offering of business outsourcing services;
  - Develop new business by selling services that bundle several different solutions and newly developed technologies
- Adapt products and services to changing customer needs
- Expand into core corporate business systems

# Financial Trend

(Millions of Yen) Consolidated Revenues



(Millions of Yen) Consolidated Operating Income and Gross Margin Ratio



## Leverage Alliance with NTT Group

- NTT invested in IIJ in September 2003 (29.7% as of now)
- IIJ has been jointly developing new IT technologies for broadband while maintaining management independence
  - Dispatch of Executives/Exchange of Personnel
    - Two NTT officers on IIJ's Board
    - IIJ's Chief Technology Officer on the Board of NTT RESONANT
  - Business Partnership/Joint Research
    - IIJ provided SEIL/SMF for NTT Communications' services
    - Promotion of joint research related to Next Generation Networks (NGN)

### NTT

- Strong in infrastructure
- Access to general households
- Optical fiber implementation plan for over 30 million subscribers<sup>\*1</sup>

### IIJ

- Technological development and operational skills
- Ability to implement services
- SEIL/SMF

\*1 Source: NTT Group's Medium-Term Management Strategy (November 2004)

## Expansion of OEM Partnerships for SEIL/SMF

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- SEIL: New-generation high-performance routers for all types of networks
- SMF: Network management system, which provides centralized remote administration of routers over the Internet
- Originally developed and under patent application
- New business model for IIJ - OEM
  - Increasing recurring revenues
  - Expansion of sales in the markets that IIJ is not mainly targeting
- Expansion of OEM partnerships
  - Oki Electric: As a function of Oki BB MediaRouters
  - NTT Com: Adapted to new “OCN-SMF Service” of NTT Com’s Internet VPN services



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# Recent Update

## Consolidated Results for the Third Quarter of FY2005

3 Months  
Ended December  
2005  
(2005/10-12)

- Increased revenues and profits from 3Q04
  - Increased sales of higher-margin services, including outsourced operations in Systems Integration ("SI"), value-added services ("VAS") and other services
- Revenues: JPY 11,870 million (+15.7% YoY)
  - Increased revenues from outsourced operations to JPY 5,434 million (+21.9% YoY)
- Operating income: JPY 691 million (+68.4% YoY)
- Net income: JPY 1,189 million (+80.3% YoY)

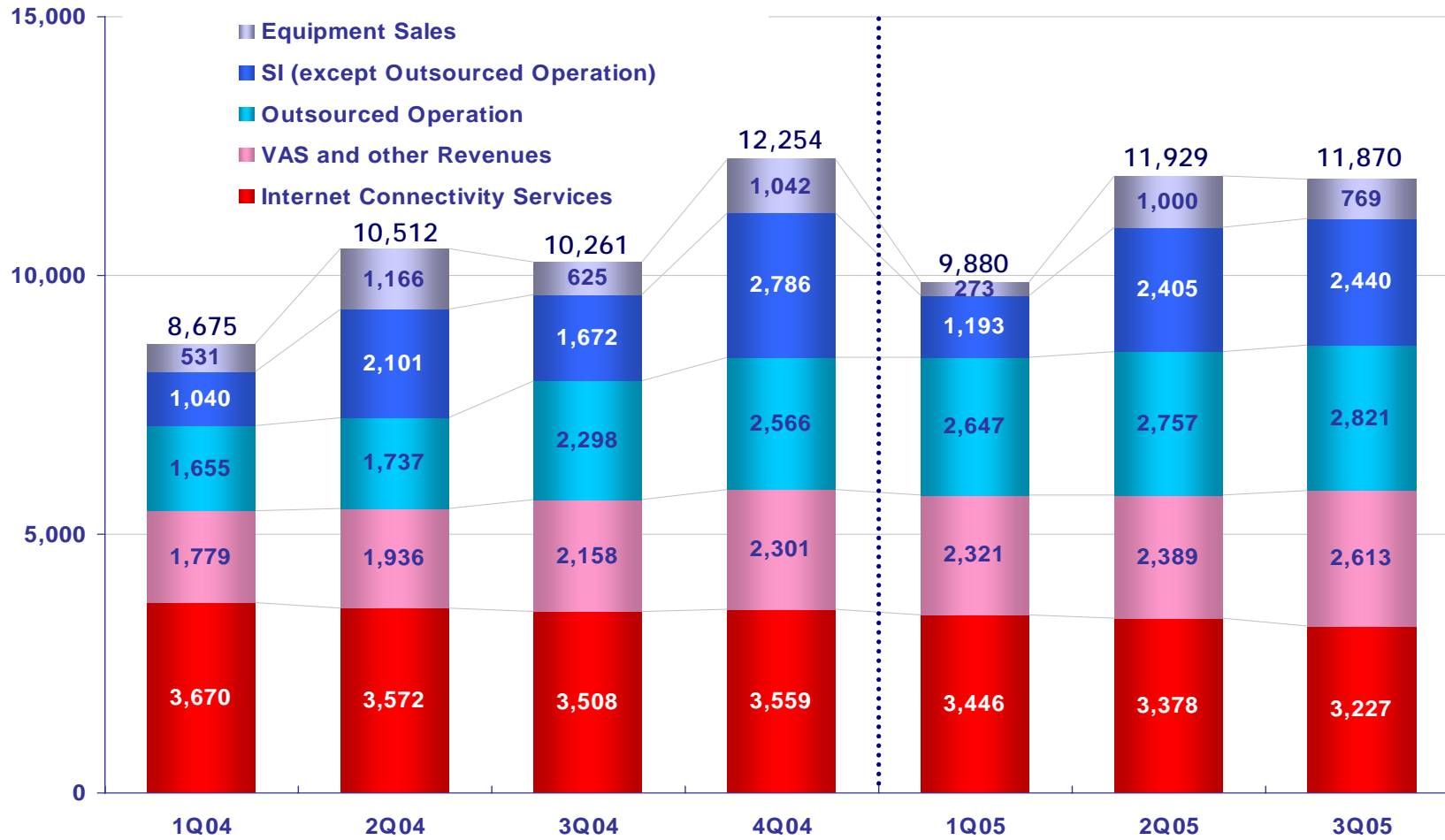


## Consolidated Results for 3 Months Ended December 31, 2005

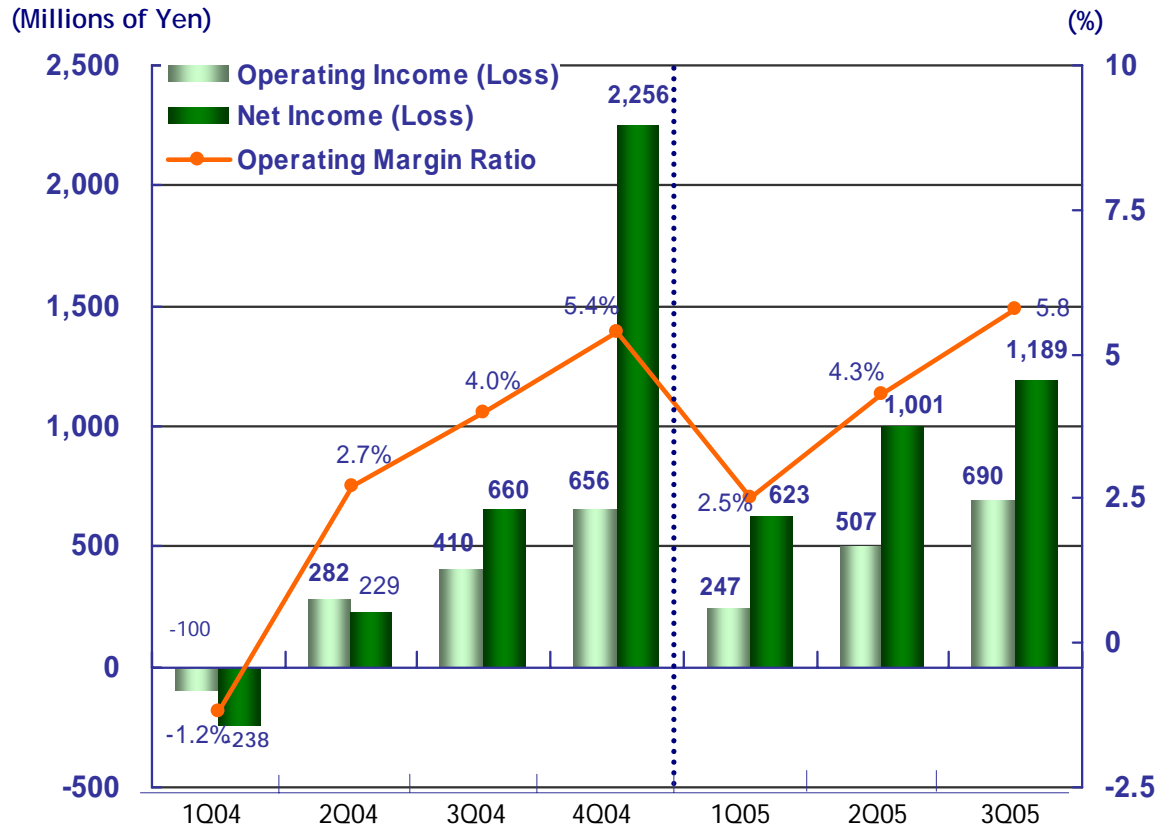
	3Q05 (2005/10-12)		3Q04 (2004/10-12)		YoY Change %
	Millions of Yen	% of Total Revenues	Millions of Yen	% of Total Revenues	
Revenues	11,870	100.0%	10,261	100.0%	115.7%
Total Cost	9,652	81.3%	8,486	82.7%	113.7%
Gross Margin	2,218	18.7%	1,775	17.3%	124.9%
SG&A	1,527	12.9%	1,365	13.3%	111.9%
Operating Income	691	5.8%	410	4.0%	168.4%
Net Income	1,189	10.0%	660	6.4%	180.3%

# Trend of Consolidated Quarterly Revenues

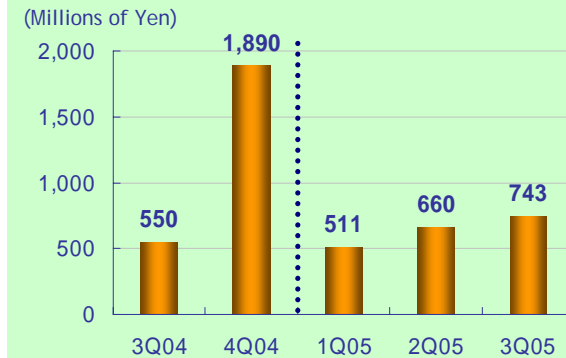
(Millions of Yen)



# Trend of Quarterly Operating and Net Income (Loss)



- Gain on sale of available-for-sale securities



The balance of available-for-sale securities at December 31, 2005 was approximately JPY 7.5 billion.

We expect continued income from the steady sale of our available-for-sale securities.

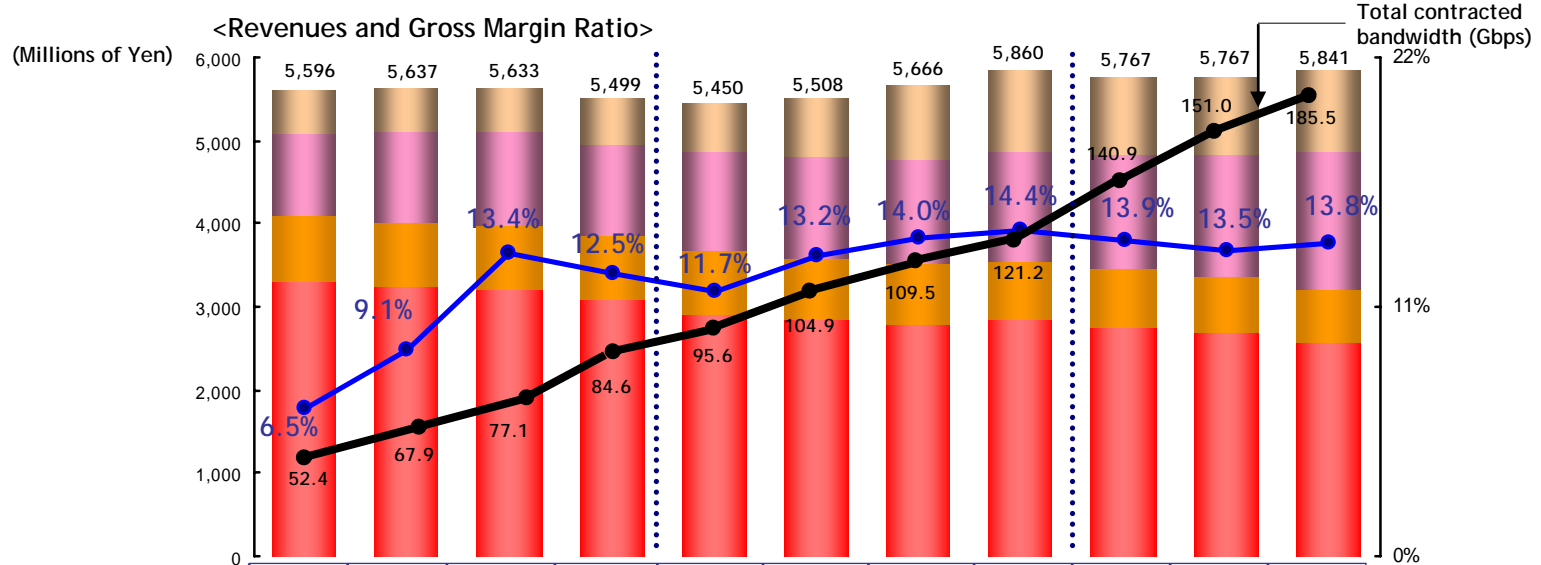
Income increased compared to both 3Q04 and 2Q05 due to increased revenues from higher-margin VAS and SI services, an improvement in the gross margin ratio and gains from sale of available-for-sale securities.

Operating income: +68.4% YoY, +36.2% QoQ

Net income : +80.3% YoY, +18.8% QoQ

# Results by Service

## Internet Connectivity and VAS



Revenues (Millions of Yen)	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05
Other	520	536	525	537	592	716	882	979	933	930	964
VAS	987	1,081	1,125	1,104	1,187	1,220	1,276	1,322	1,388	1,459	1,649
Dial-up Access	767	784	780	758	752	740	727	718	699	682	648
Dedicated Access	3,321	3,236	3,204	3,100	2,918	2,832	2,781	2,841	2,747	2,695	2,580
Gross Margin Ratio (%)	6.5	9.1	13.4	12.5	11.7	13.2	14.0	14.4	13.9	13.5	13.8

**- Dedicated Access**

Despite a shift to higher bandwidth and an increase in contracts of broadband services due to multi-site connectivity projects, revenues decreased because of IIJ's group reorganization (JPY 234 million). When this decrease excluded, revenues increased from 3Q04.

**- Dial-up Access**

Revenues from services for individuals such as IIJ4U showed a declining trend (-10.9% from 3Q04)

**- Number of dedicated line contracts: 13,724**

(+4,297 (+45.6%) from 3Q04, +1,022 (+8.0%) from 2Q05)

**- VAS**

Revenues increased due to data center services, security services, e-mail solutions such as anti-spam, and network outsourcing such as SEIL and SMF, along with multi-site connectivity projects. (+29.2% from 3Q04)

**- Other**

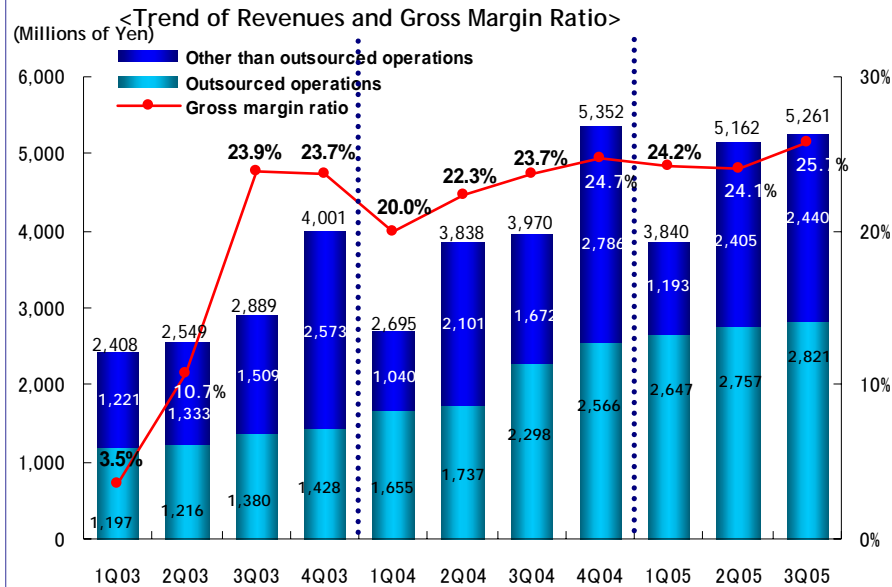
Revenues increased significantly as sales of wide-area Ethernet services continued to increase steadily. (+9.3% from 3Q04)

**- Total contracted bandwidth: 185.5Gbps**

(+76.0Gbps from 3Q04, +34.5Gbps from 2Q05)

# Results by Service

## SI

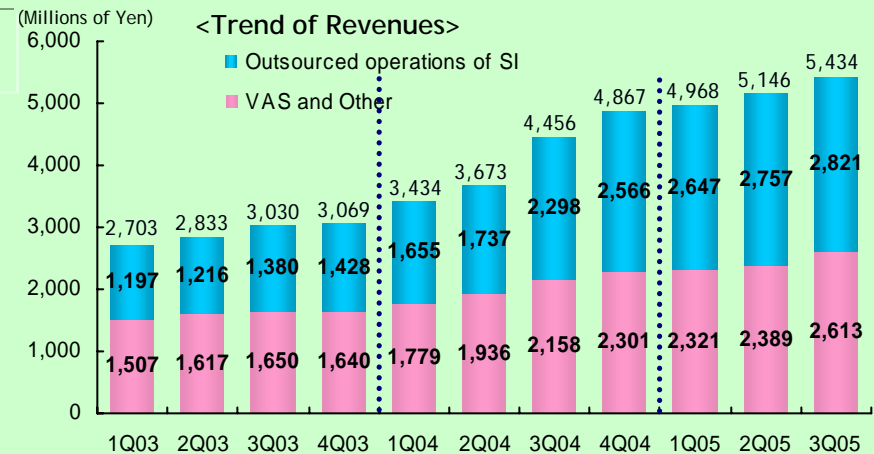


- Revenues from one-time SI projects such as systems design and implementation increased (+46.0% YoY)
- Revenues from higher-margin outsourced operations continued to increase (+22.8% YoY)
- Gross margin ratio increased 2.0 points to 25.7% compared to 23.7% in 3Q04

### OUTSOURCING

“Outsourced operations of SI” and “VAS and others”

- Revenues from higher-margin outsourced operations, along with the associated recurring monthly revenues continued to increase
- Outsourcing revenues were JPY 5,434 million, +21.9% from 3Q04



## Raised Annual Financial Target

- IIJ revised its target for consolidated financial results for full FY2005 that we announced on November 9, 2005
  - Along with a trend of increasing corporate spending related to information networks reflecting steady corporate earnings and the recovery of Japan's economy, our outsourcing and SI projects have steadily increased
  - We expect an increase in the gains from sale of available-for-securities reflected by the recovering securities market

(Millions of Yen)

	Target for FY2005 (2005/4-2006/3)			Results for FY2004 (2004/4-2005/3)	YoY Change %
	Announced in November 2005	Revised	Change %		
Revenues	46,330	48,000	3.6%	41,703	115.1%
Operating Income	2,320	2,320	—	1,248	185.9%
Income before Tax	3,990	4,800	20.3%	3,149	152.5%
Net Income	3,700	4,400	18.9%	2,906	151.4%

## Balance Sheet as of December 31, 2005

(Millions of Yen)

	December 31, 2005	March 31, 2005	Change
Cash and cash equivalents	12,920	5,286	7,634
Available-for-sale securities	7,528	8,948	(1,420)
Long/short-term borrowings	8,560	8,991	(431)
Common stock	16,834	13,765	3,069
Additional paid-in capital	26,599	23,638	2,961
Accumulated deficit	(31,622)	(34,434)	2,812
Accumulated other comprehensive income	7,323	8,690	(1,367)
Total shareholders' equity	19,050	11,615	7,435
		March 31, 2005	
Tax operating loss carryforwards		24,133	



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**END**

NASDAQ: IIJI  
TSE Mothers: 3774





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# Appendix

## Company Profile

# IIJ Overview

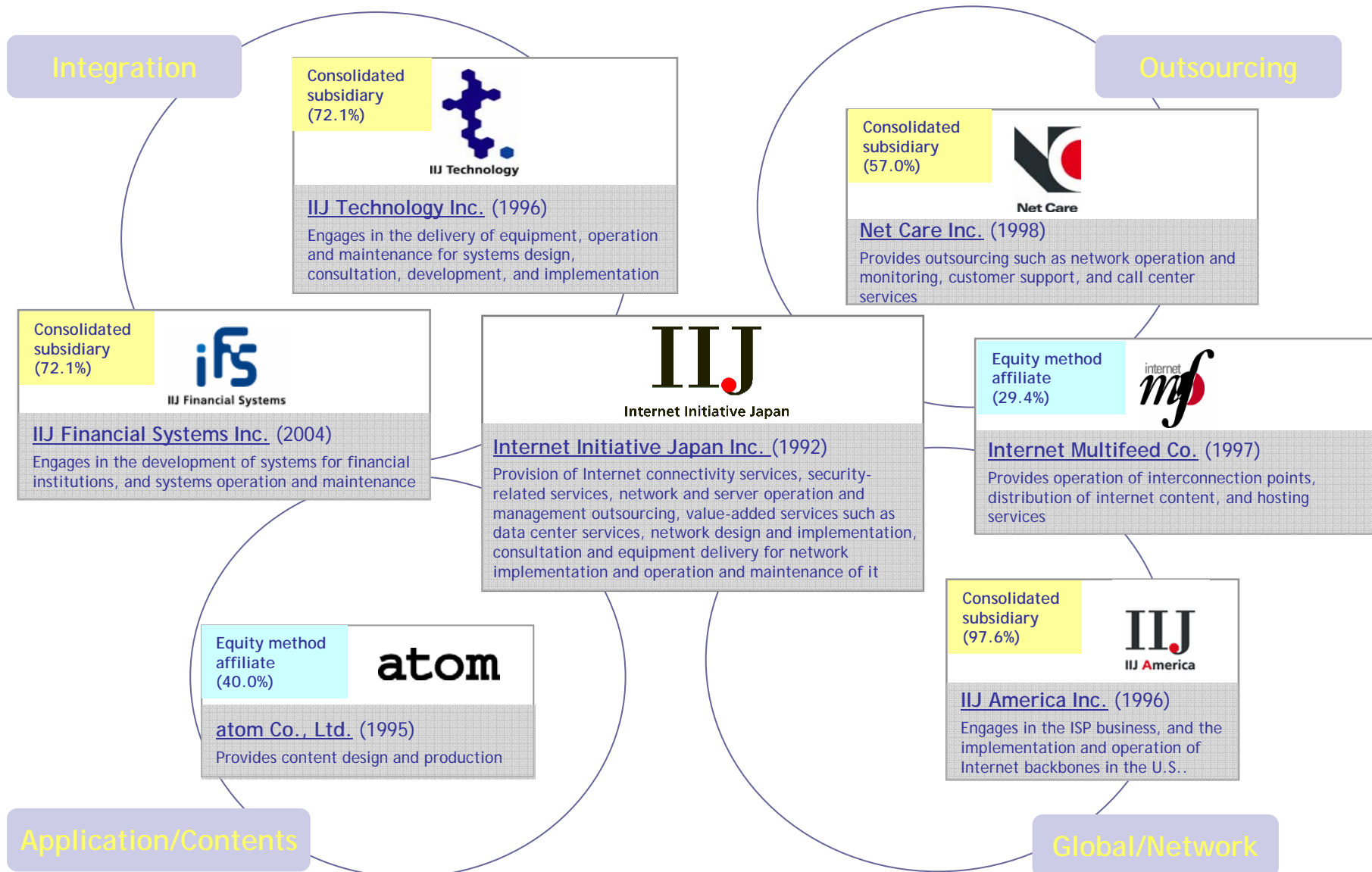
Established	December 3, 1992	Market	<p>The U.S. NASDAQ National Market from 1999 (ticker symbol: IIJ)</p> <p>The Mothers Market of the Tokyo Stock Exchange from 2005 (code number: 3774)</p>
Address of the Headquarter	Chiyoda-ku, Tokyo		
Number of Employees	Consolidated: 966 Non-consolidated: 513		
Fiscal Year End	March 31		
Shares Outstanding	204,300 shares		
Directors	<p>President &amp; CEO: Koichi Suzuki</p> <p>Executive Vice President: Toshiya Asaba</p> <p>Executive Vice President: Fukuzo Inoue</p> <p>Managing Director: Hideshi Hojo</p> <p>Director: Takamichi Miyoshi</p> <p>Director: Akihisa Watai (CFO)</p> <p>Director*1: Yasuro Tanahashi</p> <p>Director*1: Takashi Hiroi</p> <p>Director*1: Yoshifumi Nishikawa</p> <p>Director*1: Junnosuke Furukawa</p>	Main Shareholders	<p>Nippon Telegraph and Telephone Corporation 24.7%</p> <p>Hero and Company* 17.8%</p> <p>Koichi Suzuki 6.1%</p> <p>Itochu Corporation 5.1%</p> <p>NTT Communications Corporation 5.0%</p> <p>* As securities traded on the NASDAQ</p>

\*1 Outside Statutory Auditors

# History of IIJ Group

	Management & Business Deployment	Development of Services
<p><b>Rise of Internet</b></p> <p>Development of Internet connectivity services</p>	<p>1992 Established Became a founding member of the Internet Society</p> <p>1994 Registered as Special Type II Telecommunication Carrier</p> <p>1995 Established IIJ Media Communications Inc. Established Asia Internet Holding Co., Ltd.</p> <p>1996 Established IIJ America Inc. Established IIJ Technology Inc.</p>	<p>1993 Launched Internet Service</p> <p>1994 Launched the first Dial-up IP Service in Japan Launched the first Firewall Service in Japan</p> <p>1995 Launched services of content production and information distribution</p> <p>1996 Launched Internet backbone operation in Asia (A-Bone) Launched Dial-up IP Service for individuals</p>
<p><b>Development and Spread of Internet</b></p> <p>Productization of Internet technology Growth of outsourcing needs</p>	<p>1997 Established Internet Multifeed Co.</p> <p>1998 Established Net Care, Inc. Established IIJ Research Laboratory Established Crosswave Communications</p> <p>1999 Listed on the NASDAQ National Market</p> <p>2000 Crosswave Communications listed on the NASDAQ National Market</p> <p>2001 Established CDN JAPAN, a promoting organization of broadband content distribution</p>	<p>1997 Launched the first ISP business in the U.S. as a Japanese ISP</p> <p>1998 Launched the first IP multicast distribution service in Japan Developed and launched advanced router "SEIL" first as a Japanese ISP</p> <p>1999 Introduced Service Level Agreement (SLA) for the first time in Japan Launched IPv6 Commercial Service first in Japan Developed the first Wide Ethernet Service</p> <p>2000 Launched iBPS Service, an outsourcing service for network business</p> <p>2001 Launched IX Service, "JPNAP"</p> <p>2002 Launched Japan's largest CDN Platform</p>
<p><b>Internet Becomes Infrastructure</b></p> <p>Needs for solution emerging</p>	<p>2003 Network Integration department launched</p> <p>2004 Became a founding member of "MAAWG", a global organization for solving massaging abuse as only one Japanese company</p>	<p>2003 Developed World's first network service operating system "SMF"</p>

# IIJ Group Companies



\* Percent figures in the brackets are ratios of voting right that include indirectly-held ones.