

# Internet Initiative Japan (Nasdaq: IJJI)

May, 2003

*Statements made in this press release that state 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 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 maintain positive operating income, IIJ's net loss for the past five fiscal years and its expectation that net losses will continue, IIJ's ability to continue to increase subscribers to its connectivity services, particularly at higher bandwidths; IIJ's ability to generate significant revenues from its other services such as systems integration; the success of IIJ's investments in Crosswave; the ability to compete in a rapidly evolving and competitive marketplace; the impact of technological changes in its industry; and other risks referred to from time to time in IIJ's filings on Form 20F of its annual report and other filings with the United States Securities and Exchange Commission.*

## 4Q02/FY2002 Highlights

### 4Q02

- Revenues totaled JPY 13 billion (US\$ 110 million), an increase of 7.7% compared to 4Q01 and 23.4% from 3Q02)
  - Despite the lethargic Japanese economy, IIJ achieved the highest total revenue amount in the Company`s history.
- Operating loss narrowed to JPY 446 million (\$ 3.8 million) from JPY 567 million in 3Q02. 4Q01 was a profit of JPY 186 million.
  - Mainly due to a non-recurring expense related to the IIJ Group`s move to its new headquarters in March. Profitability has showed a steady growth.
  - Adjusted EBITDA was JPY 459 million (\$3.9 million), a decrease of 53.0% compared to 4Q01 and an increase of 32.0% from 3Q02.

### FY2002

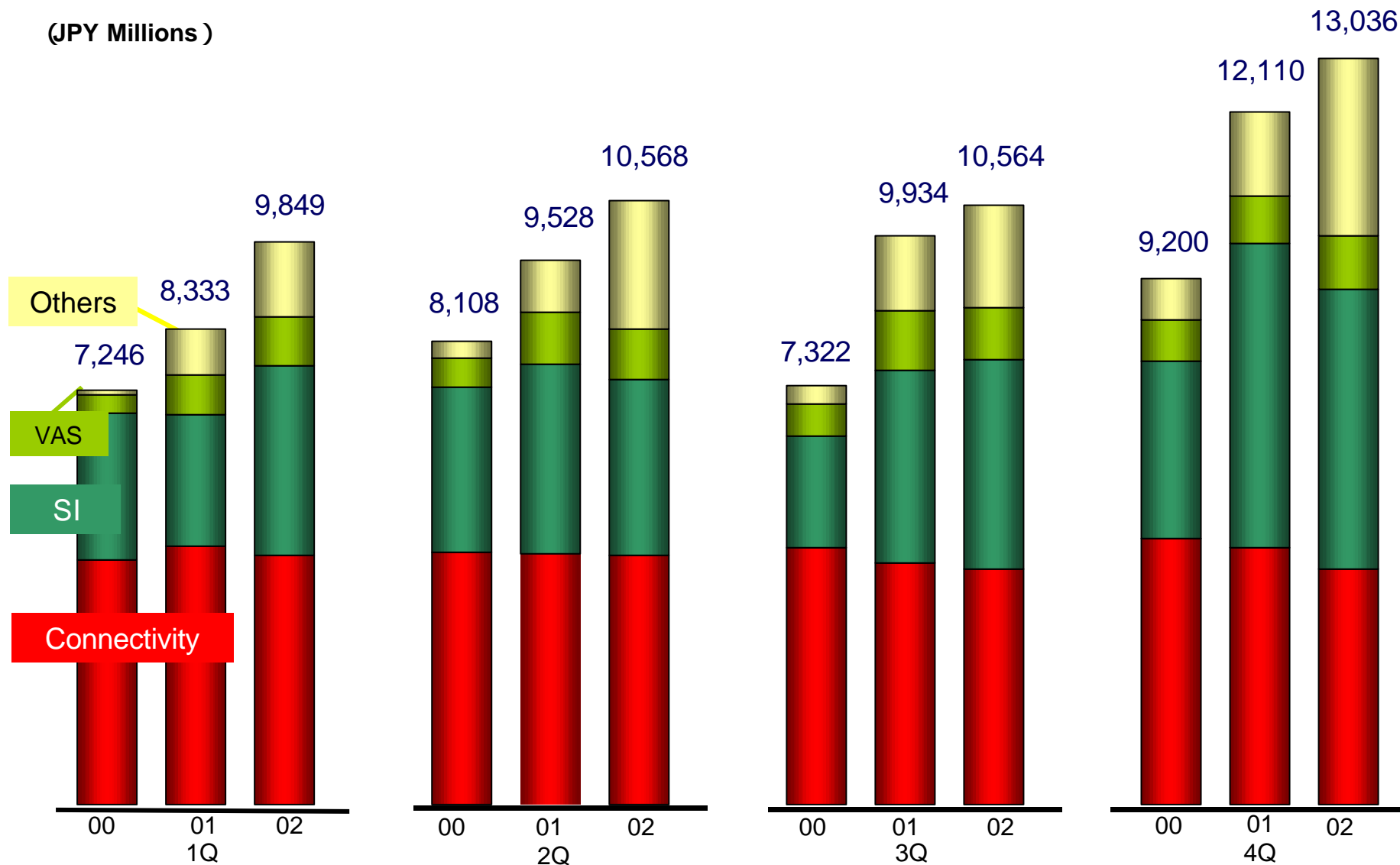
- Revenues increased to JPY 44 billion (\$ 373 million), a 10.3% increase from the previous year.
  - Marked the highest annual amount in the company`s history.
- Operating loss was JPY 1.7 billion (\$ 15 million)

### Outlook for FY2003

- IIJ expects total revenues to grow by more than 10% compared to FY2002, and anticipates that operating margins will move into positive territory.

# Revenue Growth (QoQ)

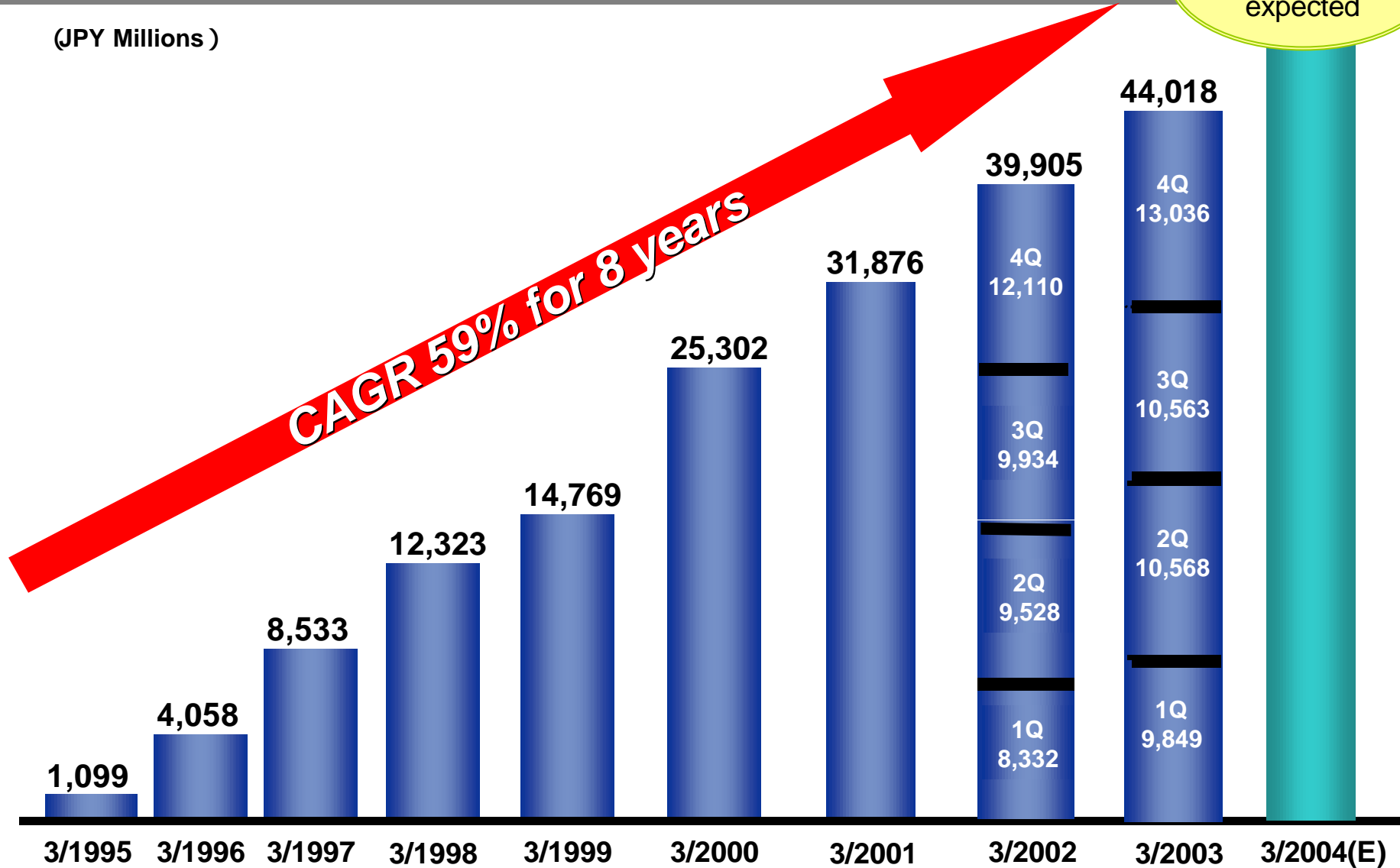
(JPY Millions)



# Revenue Growth (Full Fiscal)

more than 10%  
growth  
expected

(JPY Millions)



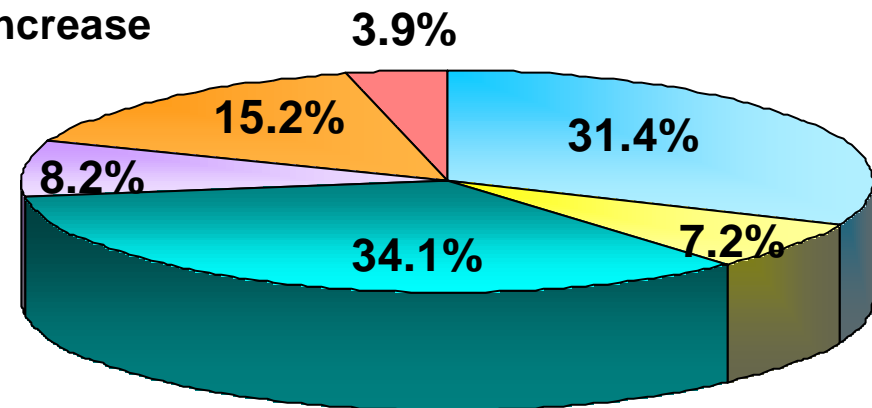
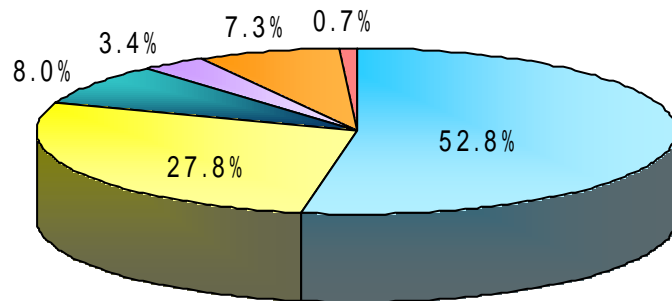
# Revenue Portfolio (FY2002)

FY 1998 (Before IPO)

FY 2002 (Current)

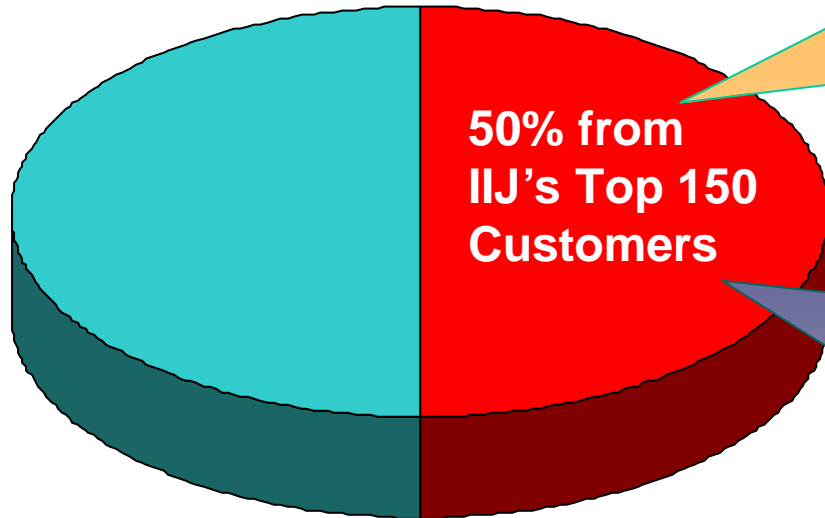


SI services: 4x increase



- Dedicated Access services
- Dial-up Access services
- Systems Integration services
- Value-added services including data center services
- Equipment Sales
- Others

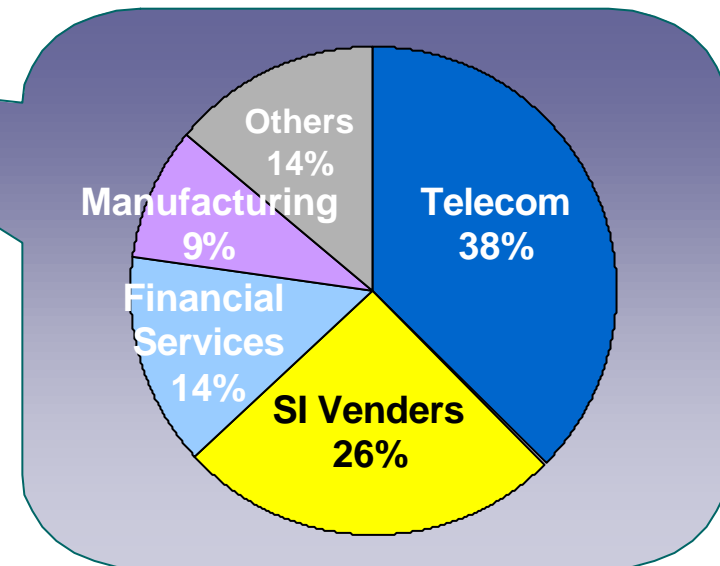
## IIJ Top 150 Customers (FY2002)

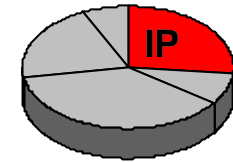


Revenues in FY2002

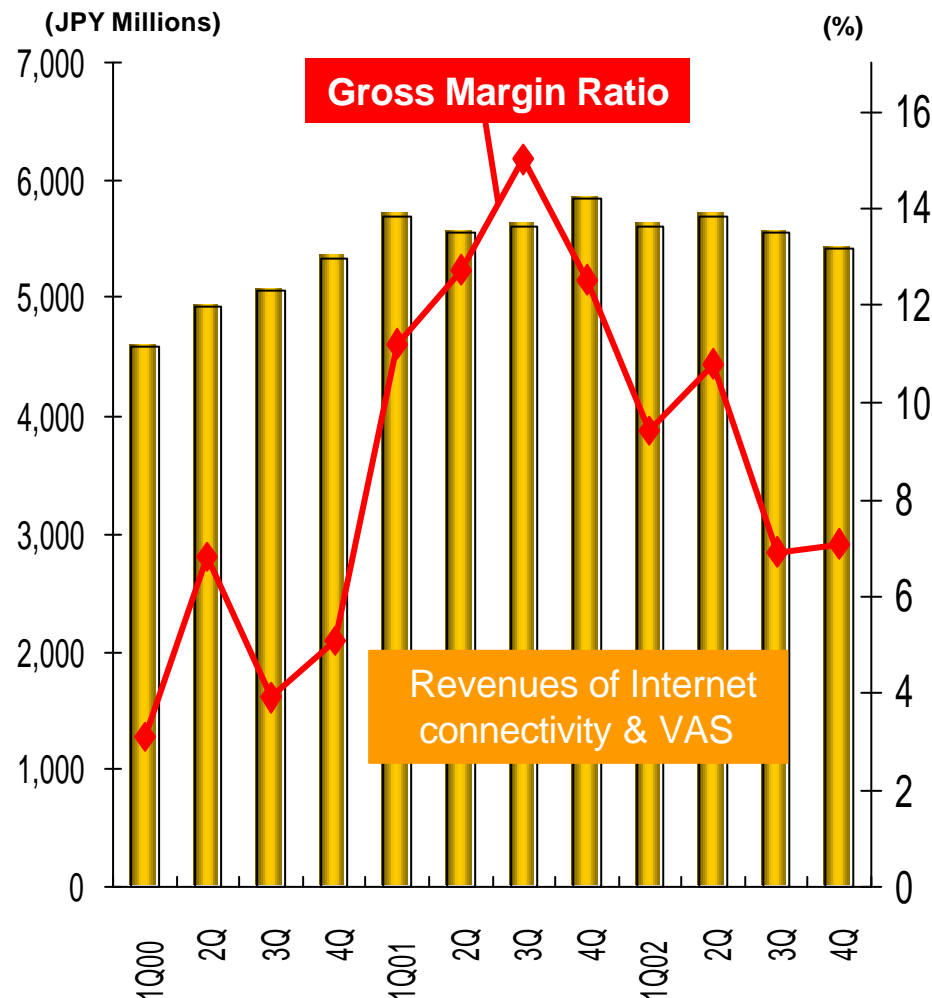
### Cross Selling Rate

- Connectivity & VAS = 70.6%
- Connectivity & SI = 58.2%
- Connectivity & DC = 35.3%

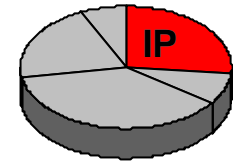




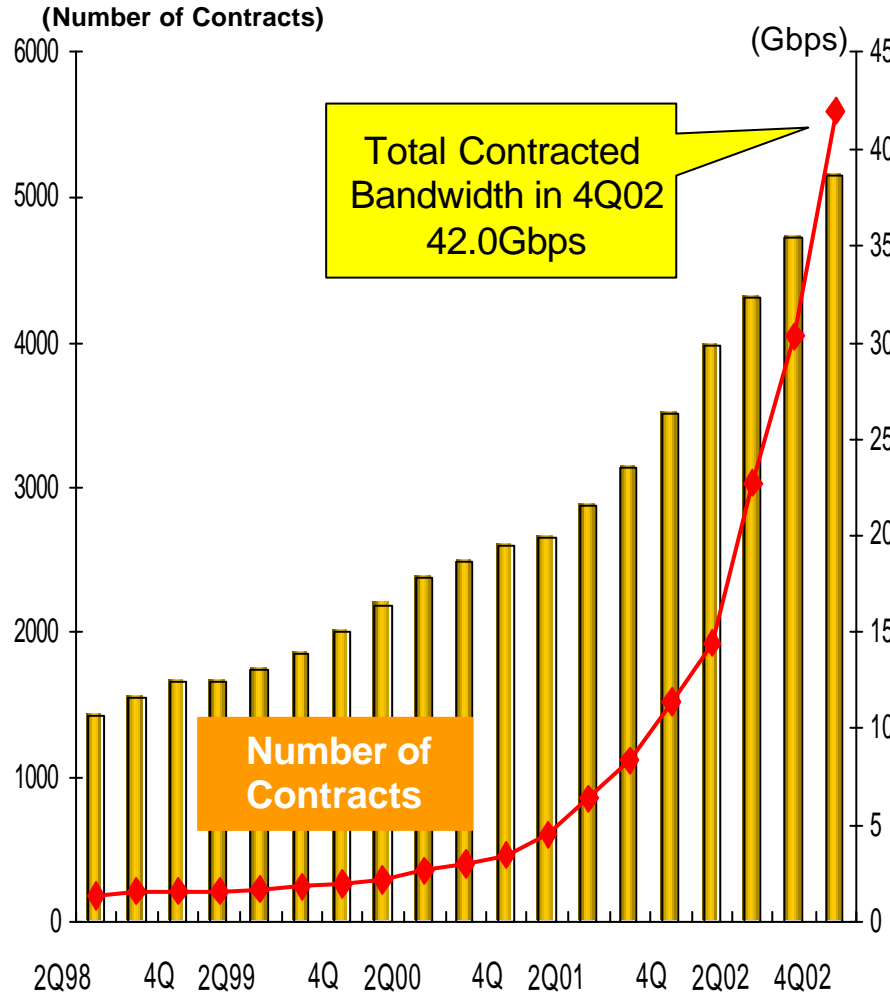
## Revenues and Gross Margin



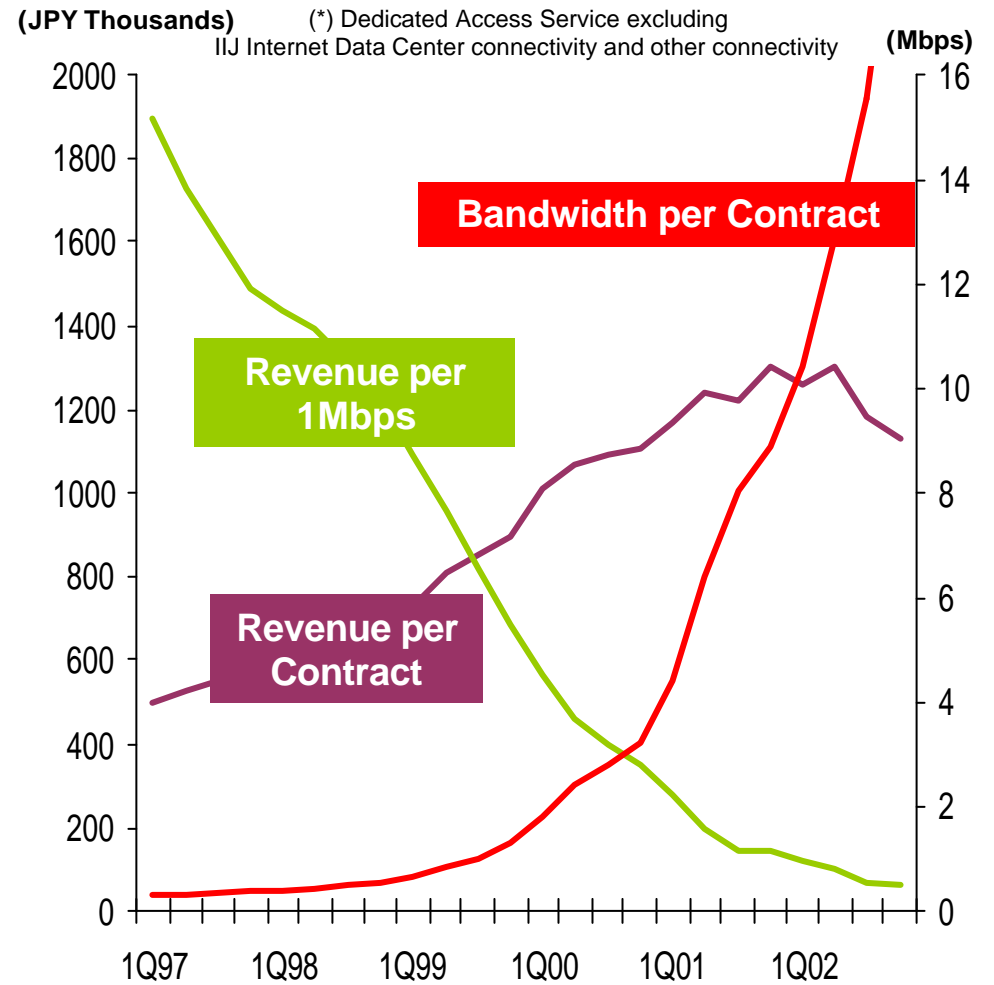
- **Temporary decline in revenues for FY2002 due to**
  - Cancellations by NCC of the electric power companies.
  - Shift from IIJ T1 Standard and IIJ Economy to lower-priced package-type connectivity services using NTT's Flets.
- **Expected recovery of revenues in FY 2003**
  - No large cancellation of contracts and decline in revenues for existing connectivity services.
  - Expansion in sales for connectivity services that utilize IIJ's new large-scale Data Center
  - Expansion in OEM service sales for ISP's
  - Expansion in sales for IIJ VPN Standard

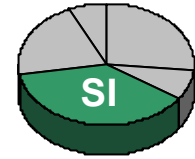


## Total Number of Contracts and Bandwidth in Dedicated Access Services

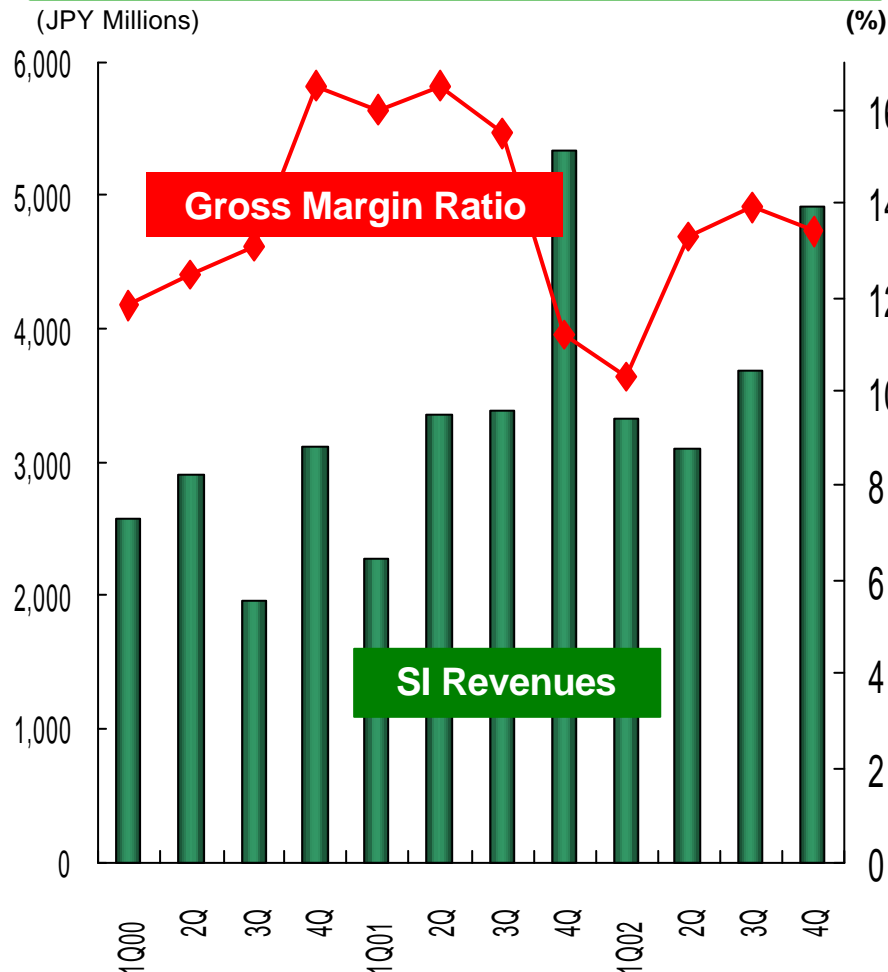


## IP Service(\*) ARPU





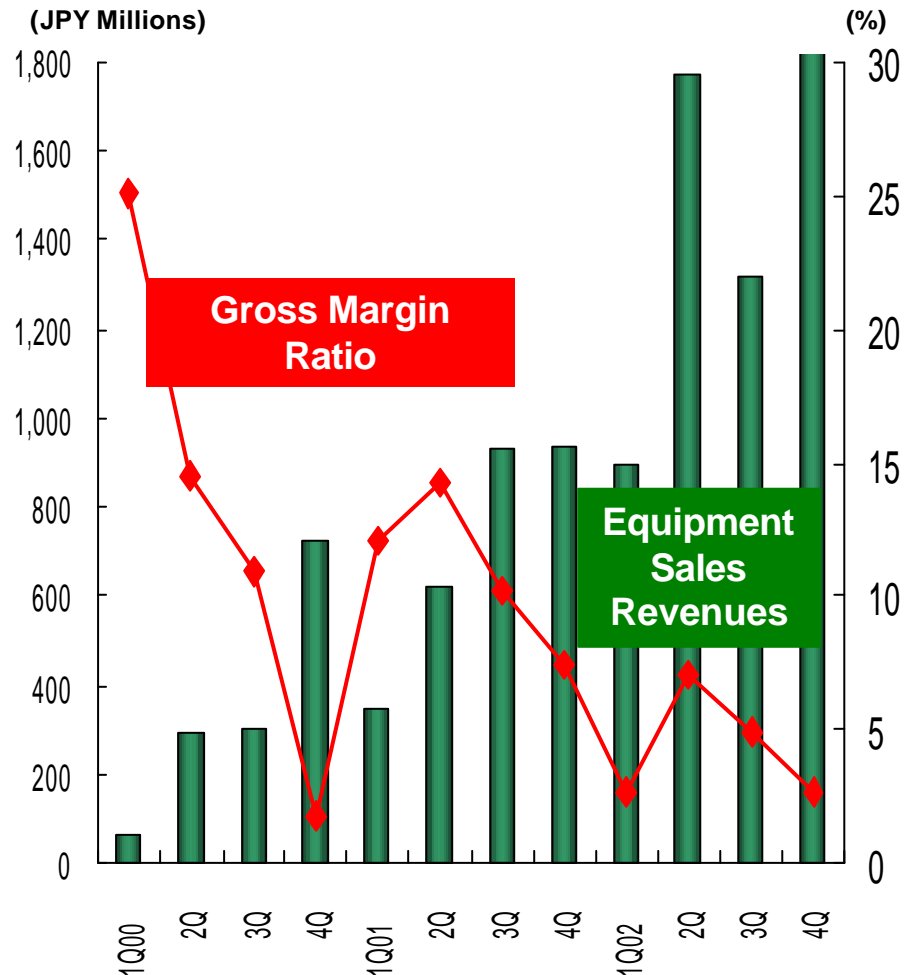
## Revenues and Gross Margin



- Revenues from the Systems Integration Business for 4Q02 increased by 33% sequentially

**Cross-selling efforts**  
**Increase in contracts for the construction of network systems for enterprises**  
**Increase in corporate outsourcing demand (Gateway solutions, etc.)**

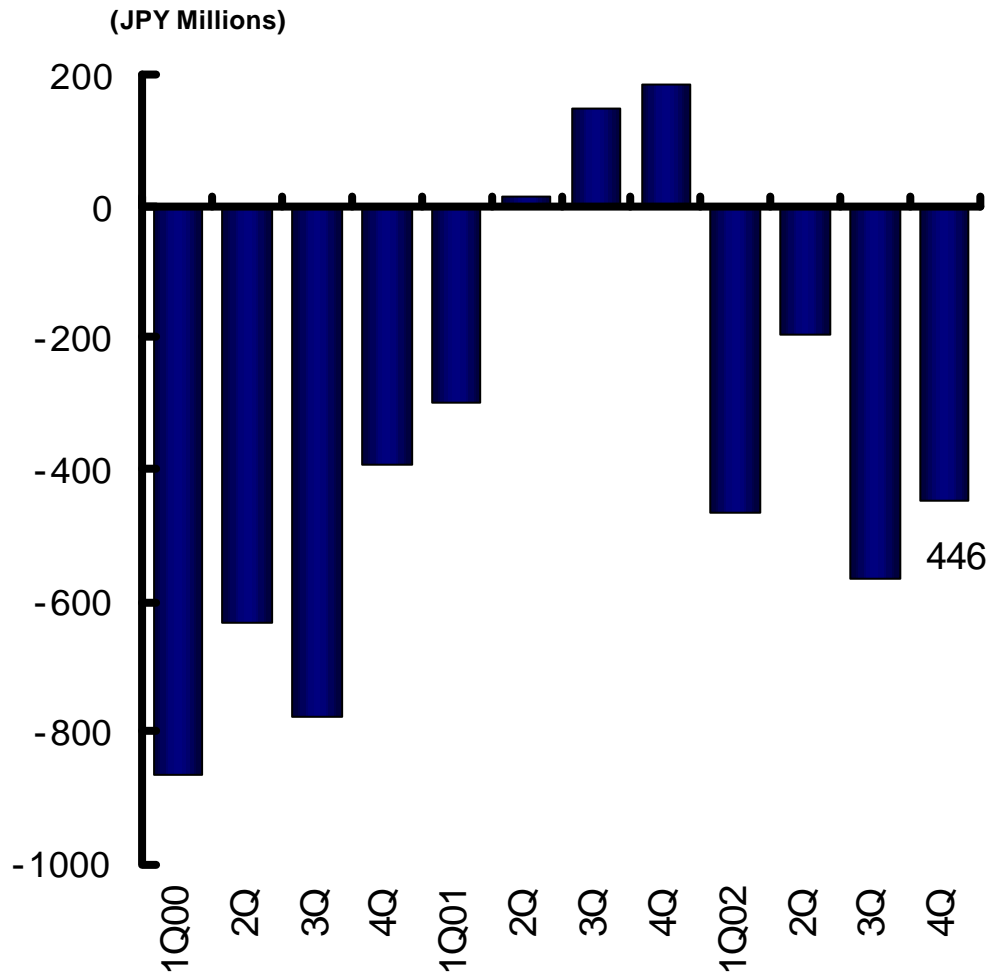
## Revenues and Gross Margin



- Keep high level of revenues from contracts related to Systems Integration businesses for FY 2002
- February 2003, IIJ developed SEIL Management Framework

# Operating Profit ( QoQ )

## Operating Profit



- 4Q02 Operating loss of JPY 446 million
- Operating margins will move into positive territory for FY2003

## Capital Improvement Plan

---

### *Issuance of new shares of common stock in a private placement to third parties*

- Number of shares to be issued 8,400 common stocks
- Issue Price JPY 418,200 per share
- Amount not to be credited to the paid-in capital out of the issue price of new shares JPY 209,100 per share
- Application date June 6, 2003
- Payment date June 6, 2003
- Method of Allocation Private placement to certain third parties
- Commencement Date for Calculation of Dividend April 1, 2003