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**Internet Initiative Japan Inc.  
Fourth Quarter and Full Fiscal Year Results for  
the Year ended March 31, 2006**

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Internet Initiative Japan Inc.

2006.5.10

\* Figures in the consolidated financial statements for historical quarterly figures from 1Q04 to 3Q04 have been restated 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

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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 FY2006 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 maintain and increase revenues from higher margin services such as system integration and value-added services; the possibility that revenues from connectivity services may decline substantially as a result of competition and other factors; the ability to compete in a rapidly evolving and competitive marketplace; the impact on IIJ's profits of fluctuations in costs such as backbone costs and subcontractor costs; the impact on IIJ's profits of fluctuations in the price of available-for-sale securities; the impact of technological changes in its industry; IIJ's ability to raise additional capital to cover its indebtedness; the possibility that NTT, IIJ's largest shareholder, may decide to exercise substantial influence over IIJ; 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.

## FY2005 Business Overview

### Corporations Expanding Use of IP-based Systems for Mission Critical Work

- ✓ Existing businesses starting to begin network businesses for further growth
- ✓ Investment in Information systems starting to be critical for companies to be competitive
- ✓ Companies renovating legacy corporate systems to new network systems
- ✓ Stable operation of network systems (ie: e-mail) becoming indispensable
- ✓ Corporate investments increasing due to the recovering economy in Japan
- ✓ Number of network users increasing as broadband services expand
- ✓ Issues such as security problems appearing
- ✓ Demand growing for outsourcing to experts of more diversified and complicated networks

### IIJ Group's FY2005 Business Highlights

- ✓ Developed products that anticipate needs and create new business
- ✓ Enhanced line-up of solutions that meet corporate demand for outsourcing services
- ✓ Demonstrated differentiation by providing superior technological skills in the construction, operation and maintenance of network systems
- ✓ Maintained active R&D for mid- and long-term growth
- ✓ Enhancement of corporate and group structure for growth

#### Results for Full FY2005

Revenues and profits increased substantially as outsourcing and Systems Integration (SI) revenue grew, recording the highest revenues and profits in the past.

- Revenues JPY 49.8 billion (+19.4% YoY)
- Operating income JPY 2.4 billion (+93.3% YoY)
- Net income JPY 4.8 billion (+63.6% YoY)

## FY2005 Business Overview

### Product Development and Solution Line-up Enhancement

- ✓ Security related solutions line-up:  
DDoS solutions, quarantine network solution and database security assessment
- ✓ E-mail related solutions line-up:  
Mail system outsourcing, mail archive, mail auditing, anti-spam and anti-virus
- ✓ Promoted OEM partnerships for SEIL and SMF and acquired patent rights to SMF

### Active R&D Pursuing Mid- and Long-Term Growth

- ✓ Continued to focus on R&D to maintain technological expertise and provide a base for mid and long-term business development
  - RFID: Participated in METI's RFID Pilot Project
  - Anti-spam: Lead establishment of JEAG. Drafted recommendations on the fight against spam and the introduction of sender authentication

### Enhancement of Corporate and Group Structure

- ✓ Listed on the Mothers market of the Tokyo Stock Exchange to expand IIJ's presence in Japan
- ✓ Group companies reorganization to streamline provisioning of total solutions (AIH and MC)
- ✓ Established Internet Revolution Inc. ("i-revo") with Konami Corporation for operating comprehensive portals sites – Helps IIJ enter a new field and responds to networking needs of existing businesses
- ✓ Promoted business partnerships (financed IPMobile Incorporated, DREAMBOAT co., ltd)

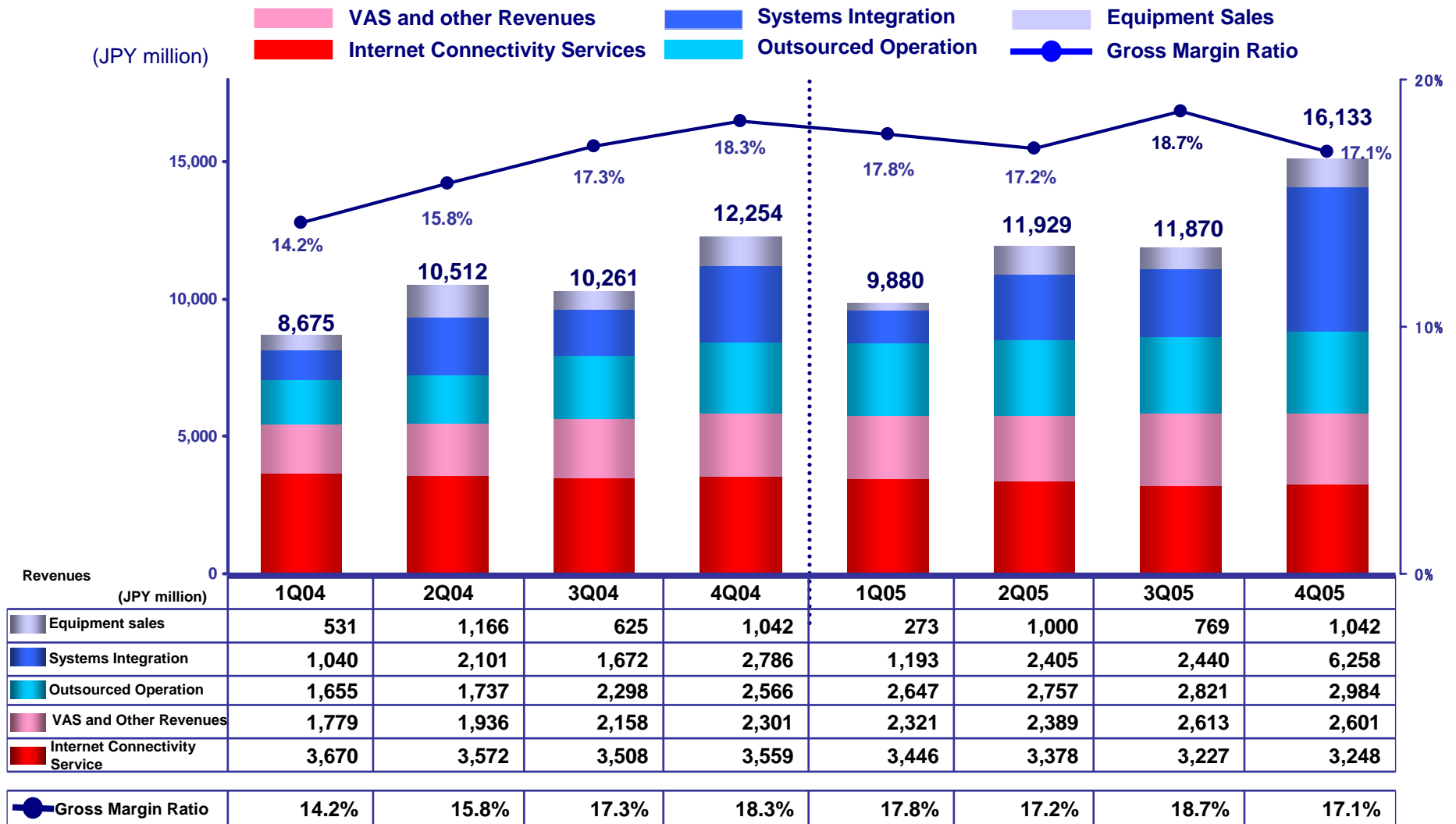
## Consolidated Results for FY2005

(JPY million)	FY2005 (2005/4-2006/3)			FY2004 (2004/4-2005/3)		YoY Change %
	Target	Results	% of Total Revenues	Results	% of Total Revenues	
Total Revenues	48,000	49,813	100.0%	41,703	100.0%	+19.4%
Total Costs	—	41,016	82.3%	34,795	83.4%	+17.9%
Gross Margin	—	8,796	17.7%	6,907	16.6%	+27.3%
SG&A/R&D	—	6,385	12.8%	5,660	13.6%	+12.8%
Operating Income	2,320	2,411	4.8%	1,248	3.0%	+93.3%
Net Income	4,400	4,754	9.5%	2,906	7.0%	+63.6%

## Consolidated Results for the Fourth Quarter of FY2005

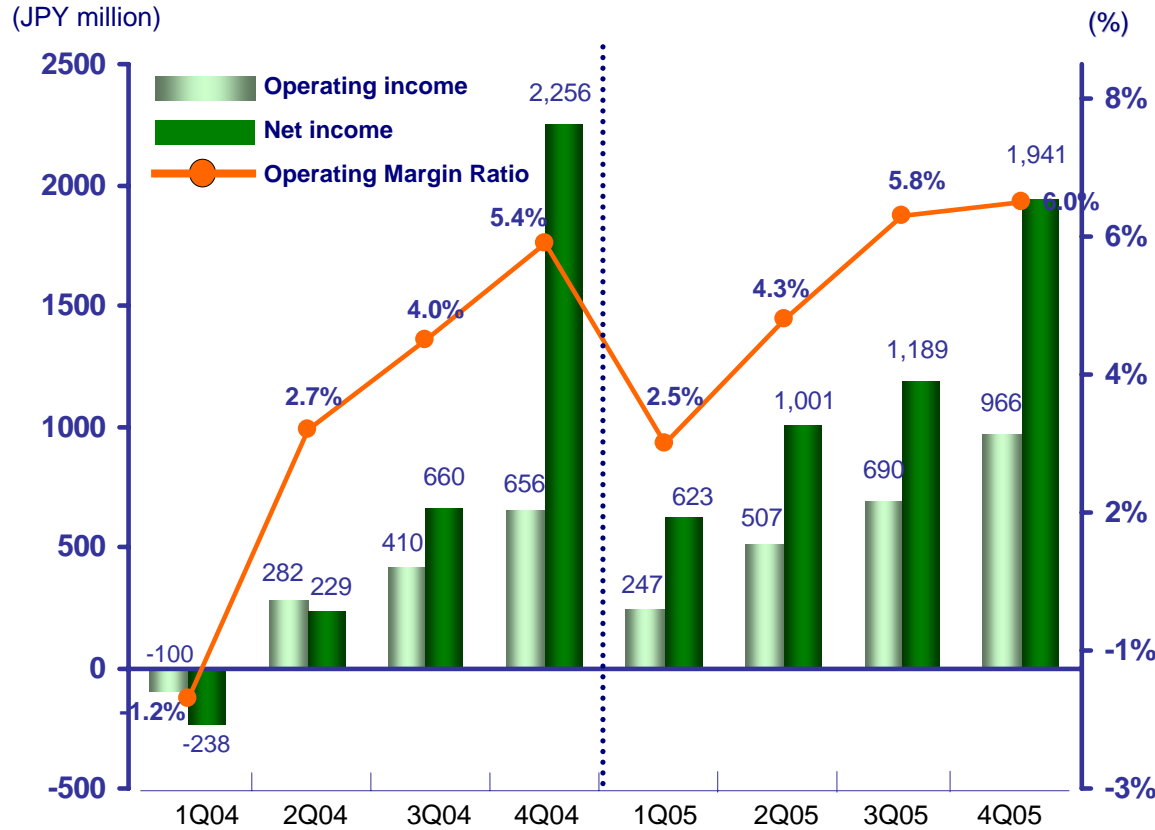
(JPY million)	4Q05 (2006/1-3)		4Q04 (2005/1-3)		YoY Change %
	Results	% of Total Revenues	Results	% of Total Revenues	
<b>Total Revenues</b>	<b>16,133</b>	<b>100.0%</b>	<b>12,254</b>	<b>100.0%</b>	<b>+31.7%</b>
<b>Total Costs</b>	<b>13,373</b>	<b>82.9%</b>	<b>10,012</b>	<b>81.7%</b>	<b>+33.6%</b>
<b>Gross Margin</b>	<b>2,760</b>	<b>17.1%</b>	<b>2,242</b>	<b>18.3%</b>	<b>+23.1%</b>
<b>SG&amp;A/R&amp;D</b>	<b>1,794</b>	<b>11.1%</b>	<b>1,586</b>	<b>12.9%</b>	<b>+13.1%</b>
<b>Operating Income</b>	<b>966</b>	<b>6.0%</b>	<b>656</b>	<b>5.4%</b>	<b>+47.4%</b>
<b>Net Income</b>	<b>1,941</b>	<b>12.0%</b>	<b>2,256</b>	<b>18.4%</b>	<b>-13.9%</b>

# Consolidated Quarterly Revenues

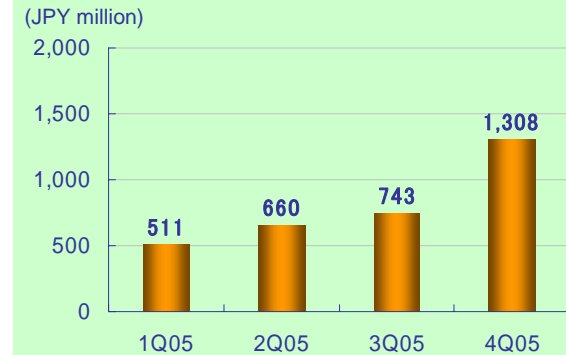


Gross margin ratio decreased to 17.1% due to a significant increase in revenues from one-time construction of various systems, which have a lower-margin compared to systems operation and maintenance.

# Quarterly Operating and Net Income (Loss)



## Gain on sale of available-for-sale securities



The balance of available-for-sale securities at March 31, 2006 was approximately JPY 6.8 billion.

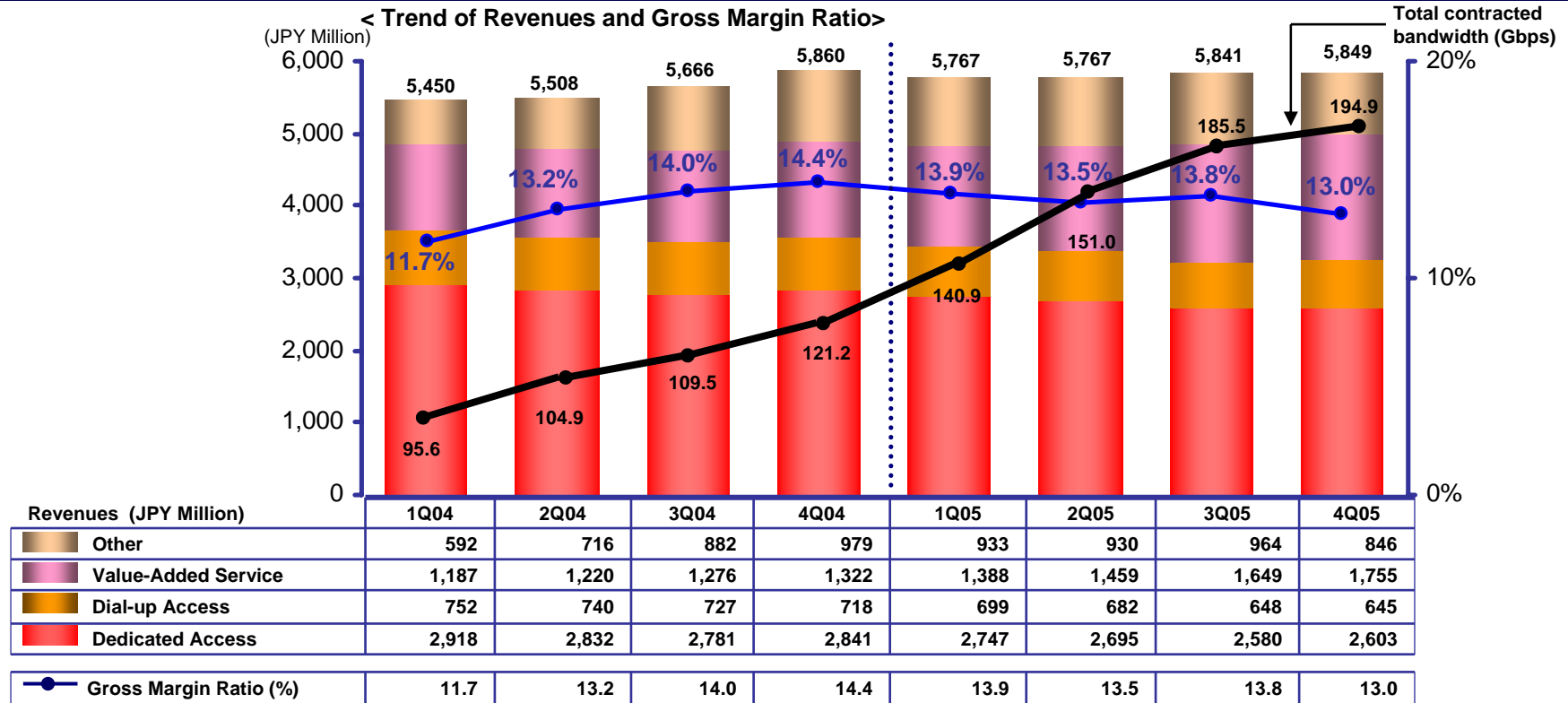
We expect continued income from the steady sale of our available-for-sale securities.

The operating margin improved 0.6 percentage points from 5.4% in 4Q04 to 6.0% in 4Q05, and 1.8 percentage points from 3.0% in FY2004 to 4.8% in FY2005, due to an increase in gross margin that resulted from a significant increase in one-time revenues from systems integration. Net income decreased 6.4 percentage points from 4Q04 to 4Q05 due to a lower gain from the sale of available-for-sale securities (JPY 1.3 billion in 4Q05 vs JPY 1.9 billion in 4Q04).

[Operating income] : + 47.4% YoY, + 39.9% QoQ  
 [Net income] : - 13.9% YoY, + 63.3% QoQ

# Results by Service

## Internet Connectivity and VAS



- Dedicated access - Revenue increased compared to 3Q05 due to an increase in contracts of higher bandwidth IP services and steady stream of ongoing multi-site connectivity projects.
- VAS – Revenues increased steadily in security, server and network related outsourcing, and data center services due to increasing demand for security and anti-spam solutions.
- Other – One-time revenues such as those from LAN construction decreased by JPY 118 million from 3Q05.

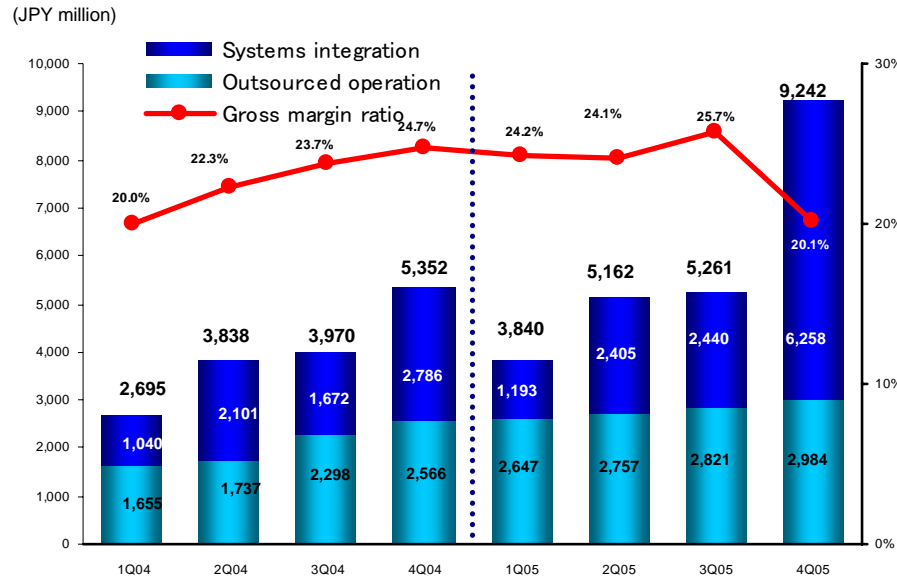
- Gross margin ratio - 13.0%, decreased mainly due to an increase in data center costs related to newly leased facilities.

- ◆ Number of dedicated line contracts: **14,549** (+3,306 (+29.4%) from 4Q04, +825 (+6.0%) from 3Q05)
- ◆ Total contracted bandwidth: **194.9Gbps** (+73.7Gbps from 4Q04, +9.4Gbps from 3Q05)

# Trend of Revenues from SI and Outsourcing

## Systems Integration (SI)

<Trend of Revenues and Gross Margin Ratio>



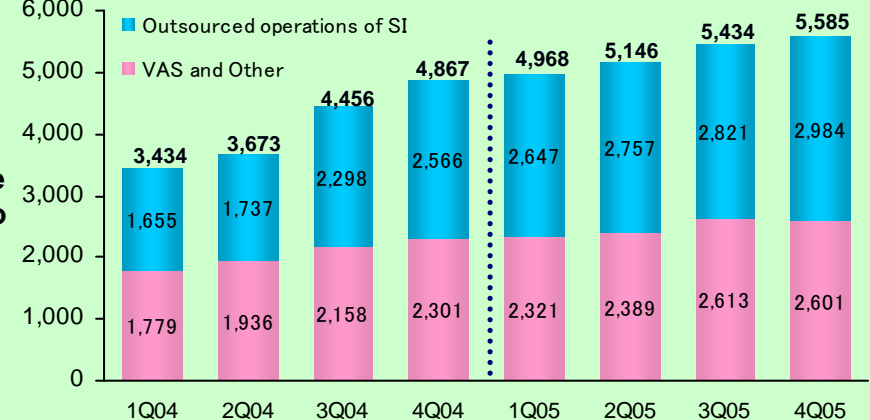
- SI revenues totaled JPY 9.2 billion, a substantial increase of 72.7% from 4Q04, mainly due to the typical seasonal effects of corporate investment expenditures in Japan that tend to rise toward the end of the fiscal year in March
- Recurring revenues from outsourced operations increased steadily-  
Revenue for 4Q05: JPY 2,984 million (+16.3% from 4Q04)  
Revenue for FY2005: JPY 11,209 million (+35.8% from FY2004)
- Gross margin ratio: 20.1% - decreased from 4Q04 mainly due to a substantial increase in revenues from one-time systems integration projects, which have a lower-margin compared to systems operation and maintenance.

### OUTSOURCING

“Outsourced operations of SI and VAS and other

- Continued to increase steadily due to increasing multi-site connectivity projects and large-scale VPN projects
- Projects such as the outsourced operation of internal corporate systems, including business systems, increased steadily due to surging outsourcing needs for security measures as well as those for disaster recovery, shortages of network engineers and increasing traffic
- Revenues: **JPY 5,585 million (+14.8% YoY, +2.8% QoQ)**

<Trend of Revenues >



## Consolidated B/S and CF for FY2005

(Unit: JPY million)

### <Balance Sheets>

	March 31, 2006	March 31, 2005	Change %
Cash	13,727	5,286	8,441
Available-for-sale securities	6,775	8,948	(2,173)
Long/short-term borrowings	6,835	8,991	(2,156)
Common stock	16,834	13,765	3,068
Additional paid- in capital	26,599	23,638	2,962
Accumulated Deficit	(29,680)	(34,434)	4,754
Accumulated other comprehensive income	6,554	8,690	(2,136)
Total shareholders' equity	20,222	11,615	8,607

### <Cash Flow>

	FY2005	FY2004	Change %
Net Cash Provided by Operating Activities	6,559	5,238	1,320
Net Cash Provided by Investing Activities	1,805	1,974	(169)
Net Cash Provided by (Used in) Financing Activities	39	(14,213)	14,252
Cash, End of Each Period	13,727	5,286	8,441

## Other Financial Data for FY2005

(Unit: JPY million)

	<b>FY2005</b>	<b>FY2004</b>	<b>Change %</b>
CAPEX	<b>4,762</b>	<b>5,386</b>	<b>(11.6%)</b>
Deprecation and amortization	<b>4,209</b>	<b>4,118</b>	<b>2.2%</b>
Adjusted EBITDA	<b>6,620</b>	<b>5,365</b>	<b>+23.4%</b>

## Target for FY2006 Consolidated Results

	Target for Interim Period Ending Sep. 30, 2006	Actual Results for Interim Period Ended Sep. 30, 2005	YoY Change %	Target for FY2006	Actual Results for FY2005	YoY Change %
Revenues	25,000	21,809	+14.6%	55,000	49,813	+10.4%
Operating Income	1,000	754	+32.6%	3,200	2,411	+32.7%
Income before Income Tax Expense	2,600	1,779	+46.2%	6,300	5,379	+17.1%
Net Income	2,000	1,623	+23.2%	5,000	4,754	+5.2%

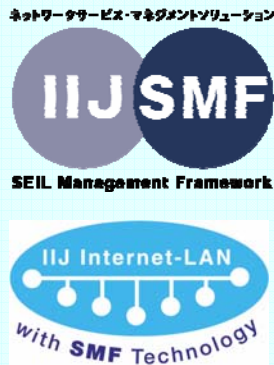
## TOPIC

## IIJ Acquires Patent Rights to SMF



SEIL Management Framework (SMF) - an innovative centralized network management system to which we acquired patent rights for its basic operation (Patent No. 3774433)

## &lt;IIJ Services based on SMF&gt;

IIJ SMF Service

A service to provide a central management of SEIL, IIJ's internally developed routers at customer premises

IIJ Internet-LAN Service

A service that uses broadband access lines, such as NTT's FLET's, to create a low-cost and maintenance-free broadband Ethernet WAN

## &lt;Services using SMF provided by Other Companies&gt;

- KCOM SMF Service (KDDI Network and Solutions Inc.)
- SMF SETTERFREE (NEC Networks & System Integration Corporation)
- QNet SMF Service (Kyushu Telecommunication Network Co., Inc.)
- OCN-SMF Service (NTT Communications Corporation)

## &lt;Equipment using SMF technology provided by Other Companies&gt;

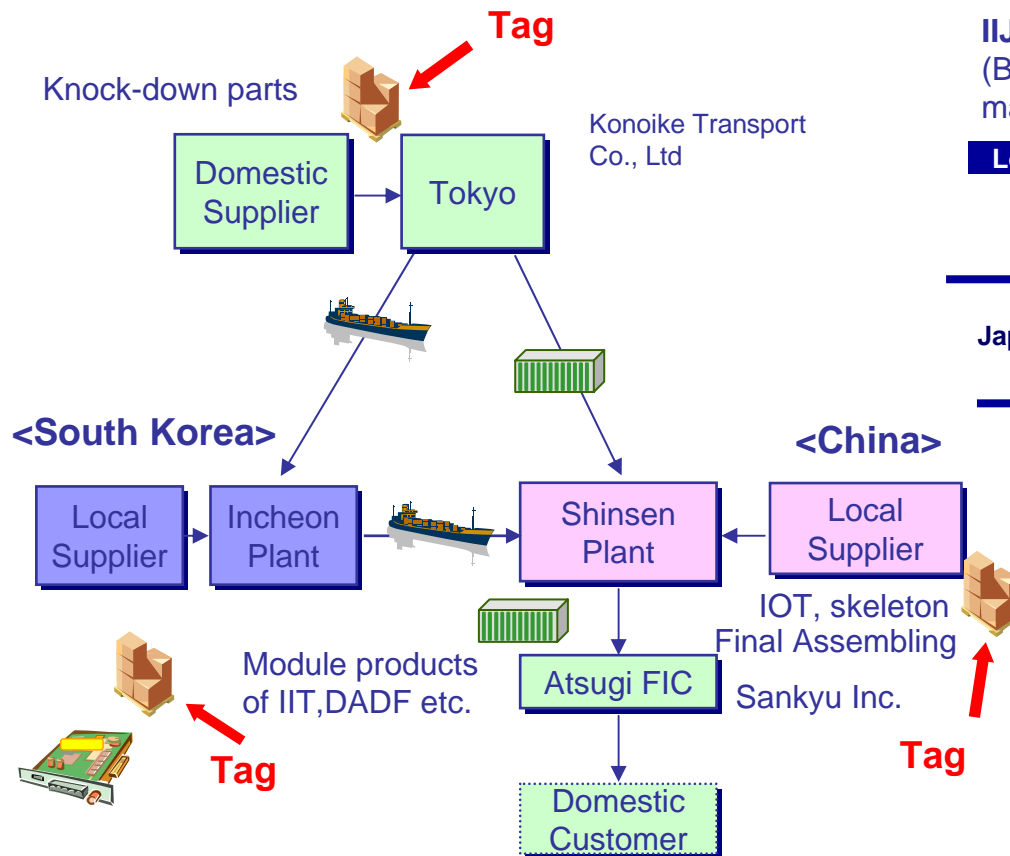
- FutureNet MA-410-SEIL Series (Century Systems Inc.)
- BB MediaRouter (Oki Electric Industry Co., Ltd.)

**TOPIC**

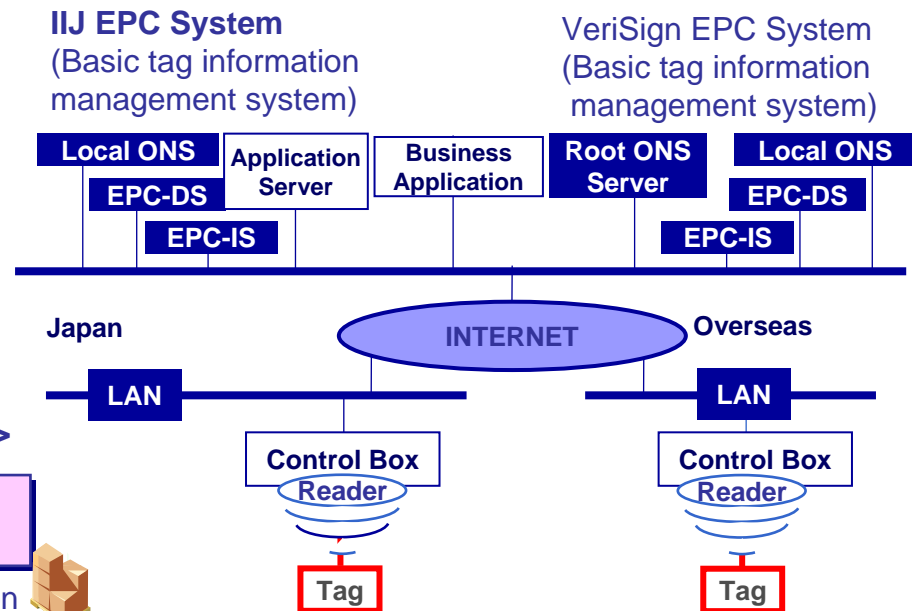
# IIJ Group Participates in METI's RFID Pilot Project

IIJ provided "IIJ EPC Network Service" and Network Infrastructure for East-Asian RFID Tag Test

### <Pilot Project Summary>



### <Network>



## TOPIC

## IIJ Adds Storage Feature to IIJ Mail Gateway Service

IIJ released its Mail Archive Option, an e-mail archive feature on the enterprise mail management service, IIJ Mail Gateway Service

## &lt; Search screen of mail archive &gt;



## &lt;Features&gt;

- IIJ Mail Gateway monitors e-mail between corporate e-mail systems and the Internet.
- The new Mail Archive Option archives all incoming and outgoing e-mail on a storage medium at the IIJ Data Center, and allows customers to search, monitor, download, and delete messages through a special Web interface.
- The archived mail can be searched by date, header information (From, To, Subject, and other fields), and other keyword searches, and when archive sizes reach a critical level, e-mail notification is sent out, and the customer can choose to delete messages by date.
- Used in conjunction with the IIJ Mail Gateway's anti-virus feature, this new service allows the removal in advanced of useless messages to save space and increase efficiency.