



Internet Initiative Japan Inc.

Fourth Quarter Results for the Year Ending March 31, 2005

May 13, 2005

Statements made in this material 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 FY2004 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 expectation that net losses will continue or may increase; 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; IIJ's ability to generate significant revenues from its other services such as systems integration; 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 20-F of its annual report and other filings with the United States Securities and Exchange Commission.

Historical quarterly and annual figures have been restated to reflect the change in income tax expense (benefit) previously discussed by IIJ in its press release dated April 11, 2005. Please see page 15 and 16 for the details.

Full FY2004

- Revenue: JPY 41.7 billion (an increase of 7.5% from FY2003)
- Operating income: JPY 1.2 billion (compared to operating loss of JPY 1.4 billion in FY2003)
- Net income: JPY 2.9 billion (compared to a net loss of JPY 2.3 billion in FY2004)
- Beat guidance provided at the beginning of the fiscal year; achieved higher profitability than originally expected

4Q04

- Revenues: JPY 12,254 million (an increase of 5.5% from 4Q03 and 19.4% from 3Q04)
- Operating income: JPY 656 million (an increase of 87.5% from 4Q03 and 59.9% from 3Q04)
- Net income: JPY 2,256 million (compared to a loss of JPY 236 million, and an increase of 242.0% from 3Q04)
- Moved into a period of steadily increasing profitability
- Beat guidance provided in 3Q04; achieved higher profitability than originally expected

Achieved highest annual and quarterly operating and net income since NASDAQ listing in 1999

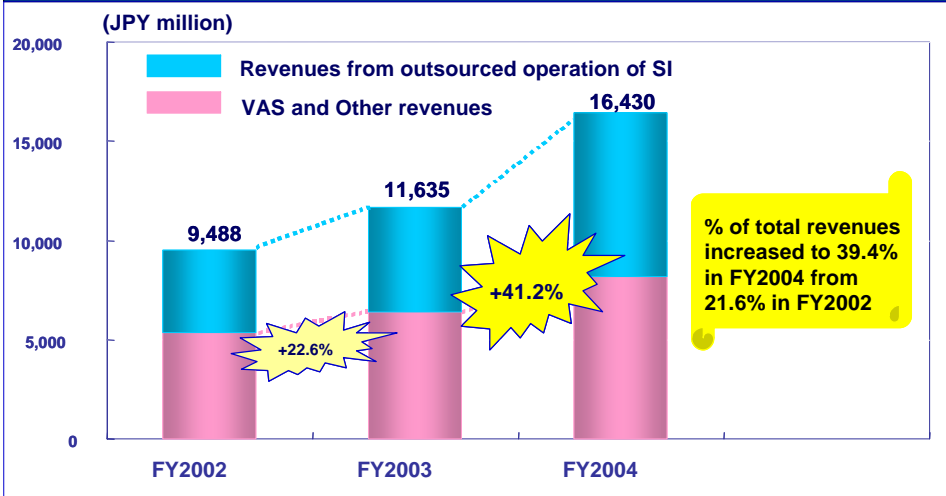
Network Solution Business Showing Progress

- Obtaining high number of multi-site connectivity cases (about 4,000 per year)
- Increase in large outsourcing mandates
Increase of outsourcing cases on a billion yen-scale a year
- Increase in network consulting mandates
Obtain of many consulting cases of a million yen-scale
- Promotion of Mail Solutions
- Turning new technologies into marketable product
 - SEIL/SMF
Provided OEM to other carriers, Provided licenses of software
 - RFID
Provided self-developed system to METI for its demonstration experiment

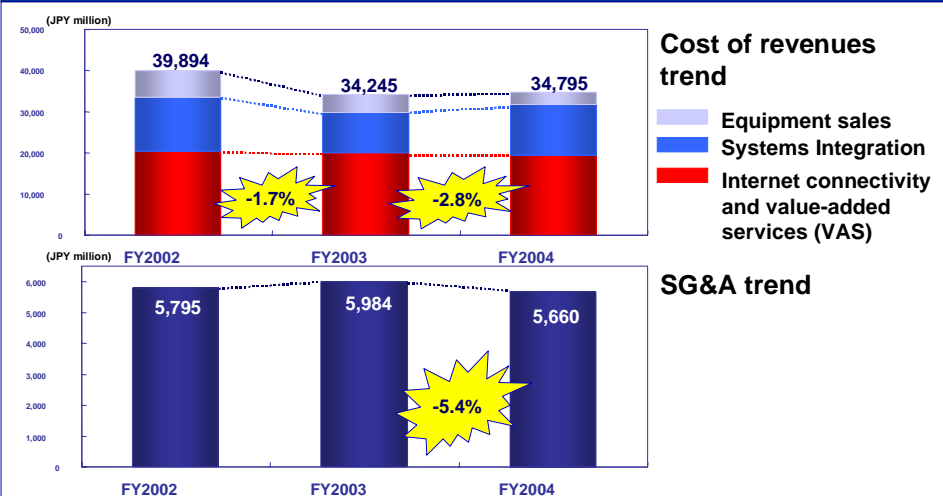
Upturn in Market Environment

- Increase and wider bandwidth of company traffic
 - Growth in need for highly-reliable outsourcing services
 - Demand for Network System upgrades and replacements
From "Host computer and dedicated line / FR line"
To "Distributed System and VPN connectivity/Internet"
 - Signs of economic recovery; Companies' demonstrating strong interest in investing in systems
- ➔ IIJ is primarily positioned to capture the demand

Substantial Growth of Outsourcing Revenues



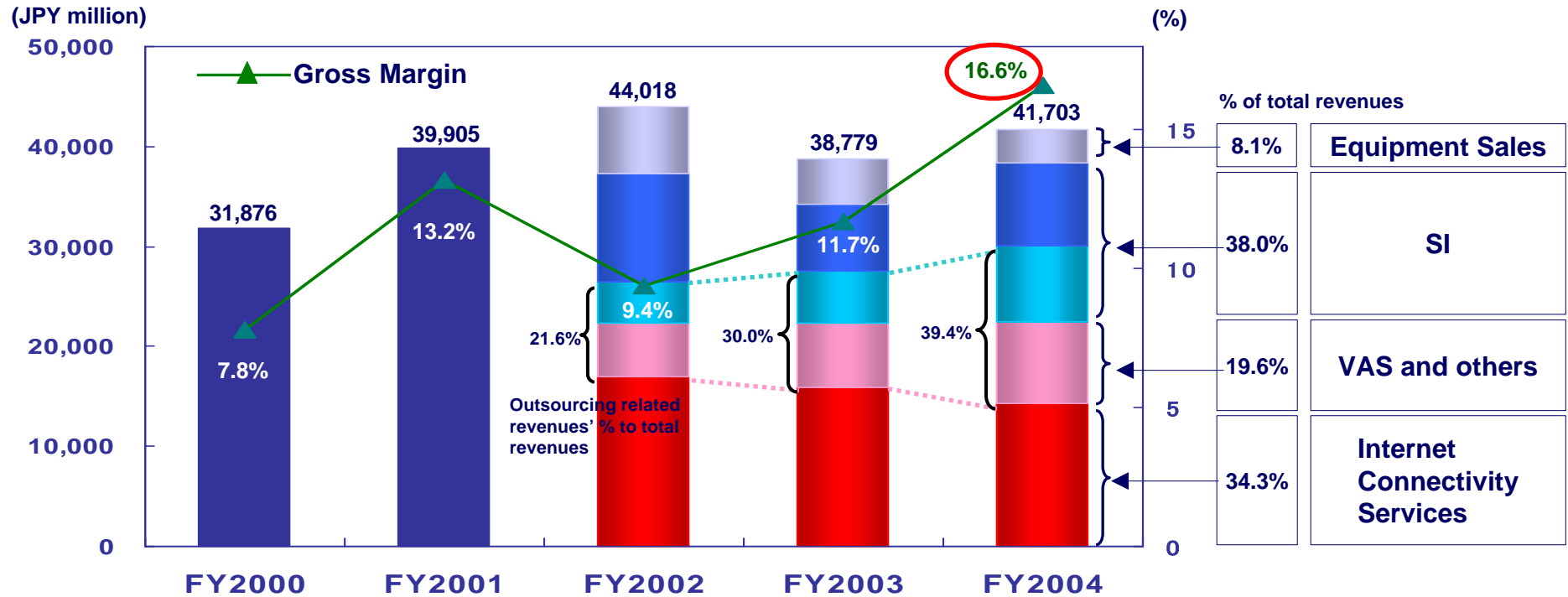
Declining Trend of Cost of Revenues and SG&A



Results for Fiscal Year 2004

	FY2003		FY2004		YoY Change %	
	JPY	% of Total Revenues	JPY	% of Total Revenues		
Revenues	38.8 billion	100.0%	41.7 billion	100.0%	7.5%	<ul style="list-style-type: none"> Higher-margin outsourcing revenues such as revenues from VAS and operational outsourcing of Systems Integration (SI) substantially increased
Total Costs	34.2 billion	88.3%	34.8 billion	83.4%	1.6%	<ul style="list-style-type: none"> % of cost of revenues to total revenues improved by 4.9% due to sustained fixed cost such as backbone costs
SG&A	6.0 billion	15.4%	5.7 billion	13.6%	(5.4%)	<ul style="list-style-type: none"> Special factor of JPY 370 million in FY2003 (write-off of accounts receivable from Crosswave etc.) Even with the above, % of SG&A to total revenues improved by 0.9%
Operating Income	(1.4 billion)	(3.7%)	1.2 billion	3.0%	Turned Positive	<ul style="list-style-type: none"> Operating Income substantially improved as we moved into full profitability
Net Income	(2.3 billion)	(5.9%)	2.9 billion	7.0%	Turned Positive	<ul style="list-style-type: none"> Net income benefited from gain on sale of available-for-sale securities of JPY 2.6 billion and the improvement in operating income

Trend of Yearly Revenues and Gross Margin

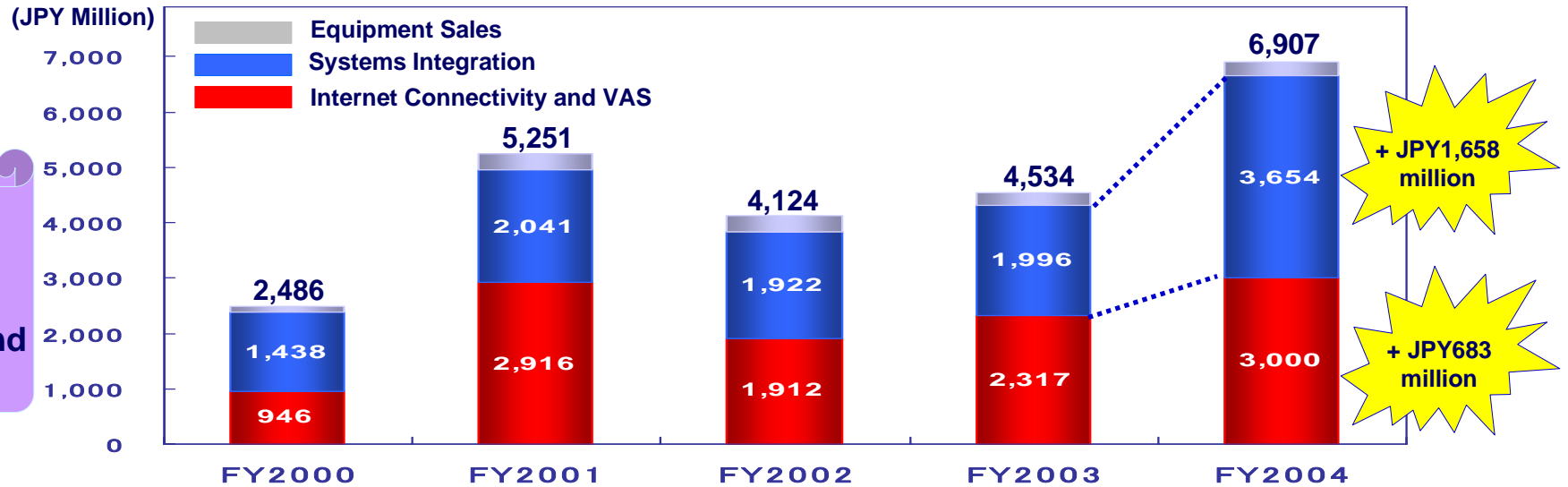


		(JPY million)			
		FY2003	FY2004	% of Total Revenues	YoY change
■	Equipment Sales	4,567	3,365	8.1%	-26.3%
SI	■ Systems Integration	6,626	7,598	18.2%	14.7%
	■ Outsourced Operation	5,221	8,256	19.8%	58.1%
■	VAS and Other Revenues	6,414	8,174	19.6%	27.4%
■	Internet Connectivity Services	15,951	14,310	34.3%	-10.3%

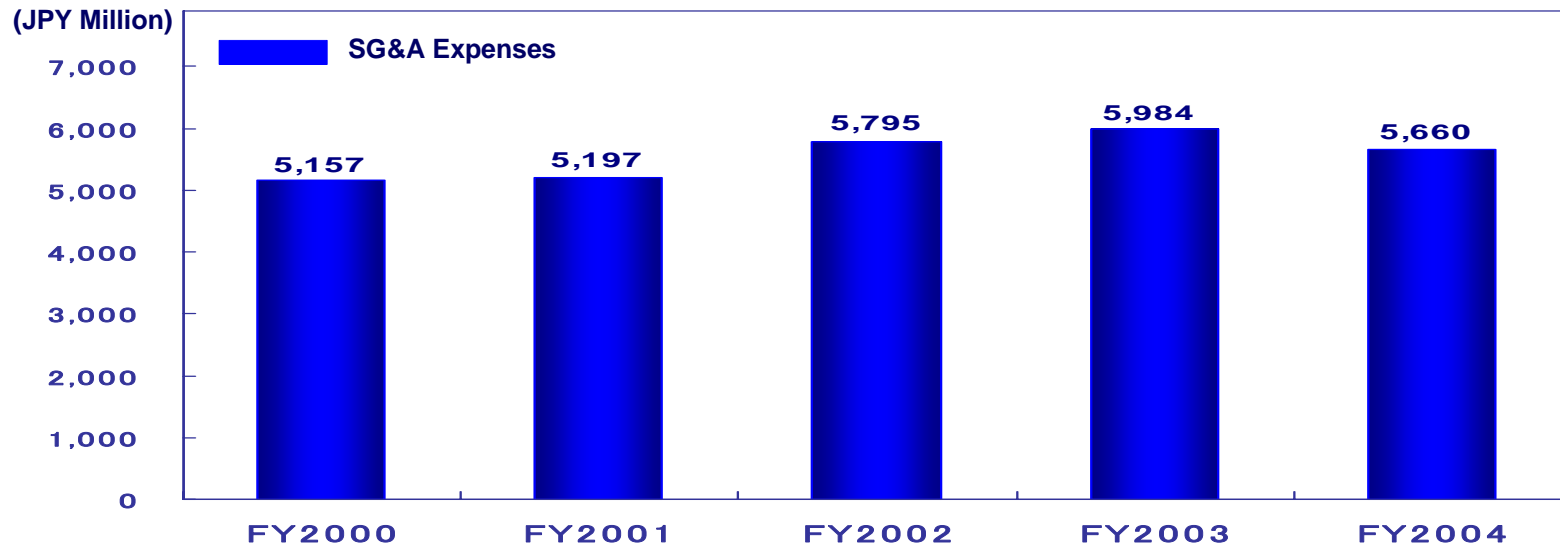
Trend of Yearly Gross Margin and SG&A Expenses

Gross Margin:

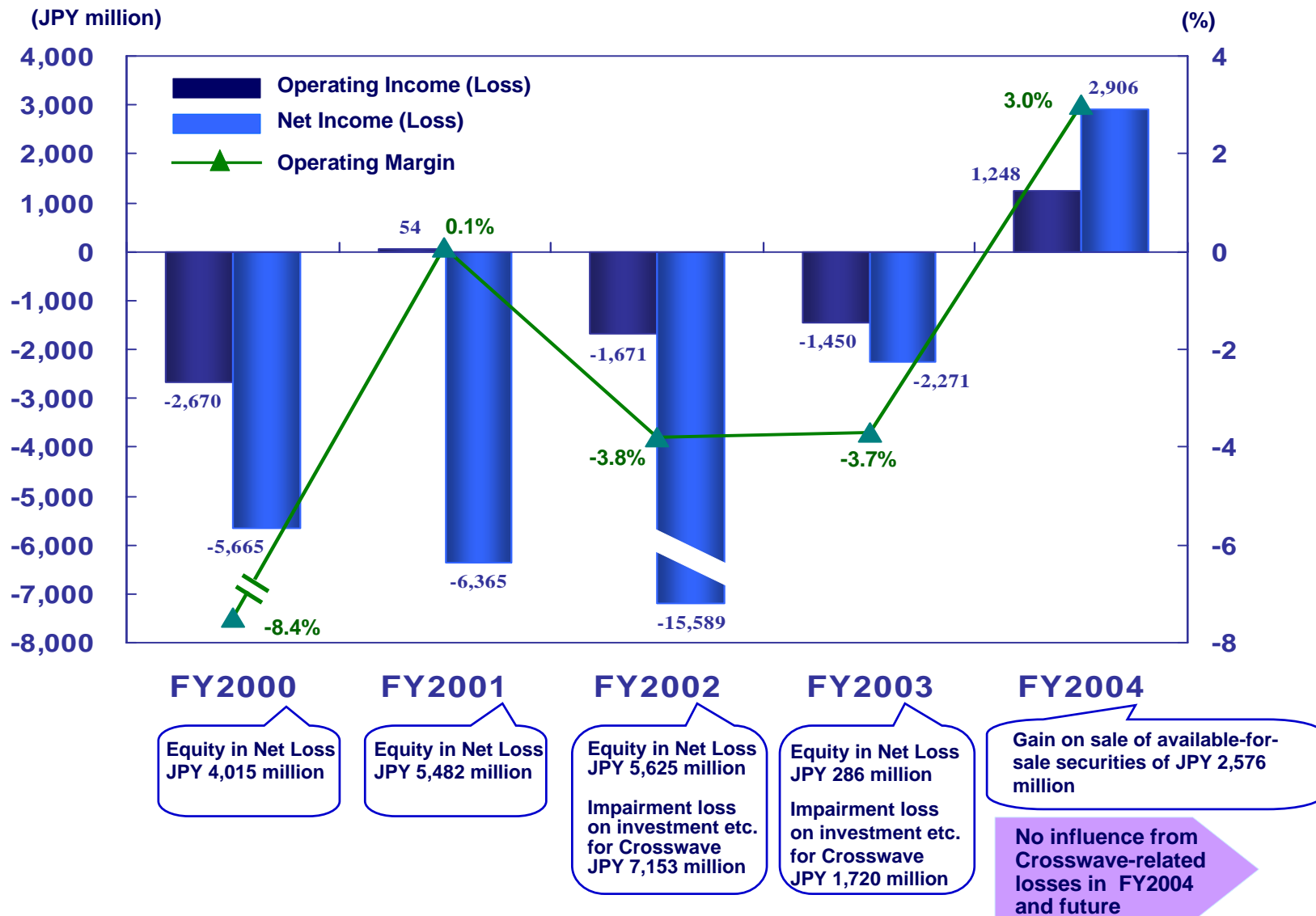
Profits increased both in Internet connectivity and VAS, and SI



SG&A Expenses:



Trend of Yearly Operating and Net Income (Loss)

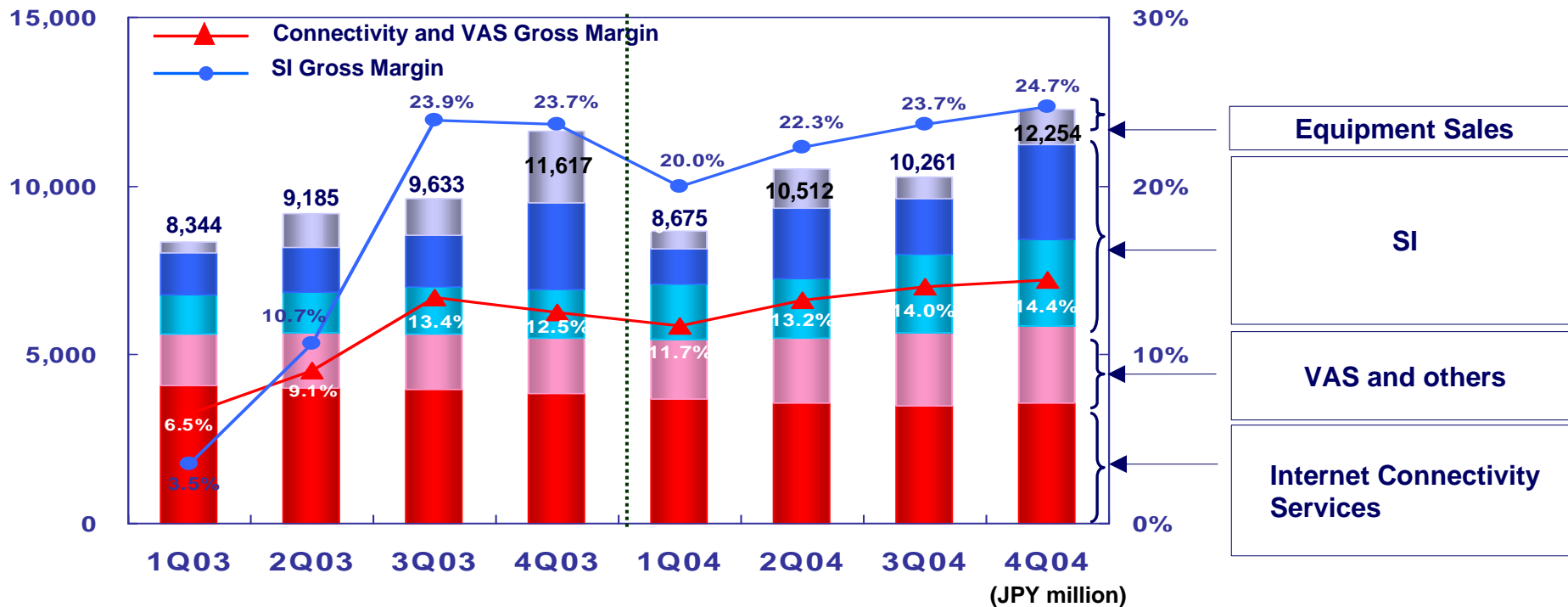


Results for Fourth Quarter FY2004

	4Q03 (2004/1-3)		4Q04 (2005/1-3)		YoY Change %	
	JPY	% of Total Revenues	JPY	% of Total Revenues		
Revenues	11,617 million	100.0%	12,254 million	100.0%	5.5%	<ul style="list-style-type: none"> Higher-margin outsourcing revenues such as revenues from VAS and operational outsourcing of SI substantially increased
Total Costs	9,915 million	85.3%	10,012 million	81.7%	1.0%	<ul style="list-style-type: none"> Connectivity service revenues increased from previous quarter for the first time in the past 12 quarters % of cost of revenues to total revenues improved due to steadying of fixed costs
SG&A	1,353 million	11.6%	1,586 million	12.9%	17.3%	<ul style="list-style-type: none"> SG&A slightly increased due to newly introduced enterprise tax and costs related to preparations for Sarbanes-Oxley Act, section 404
Operating Income	350 million	3.0%	656 million	5.4%	87.5%	<ul style="list-style-type: none"> Operation income continued to increase
Net Income	(236 million)	(2.0%)	2,256 million	18.4%	Turned Positive	<ul style="list-style-type: none"> Income from gain on sale of available-for-sale securities of JPY 1,890 million in addition to the improvement in operating income

Trend of Quarterly Revenues and Gross Margin

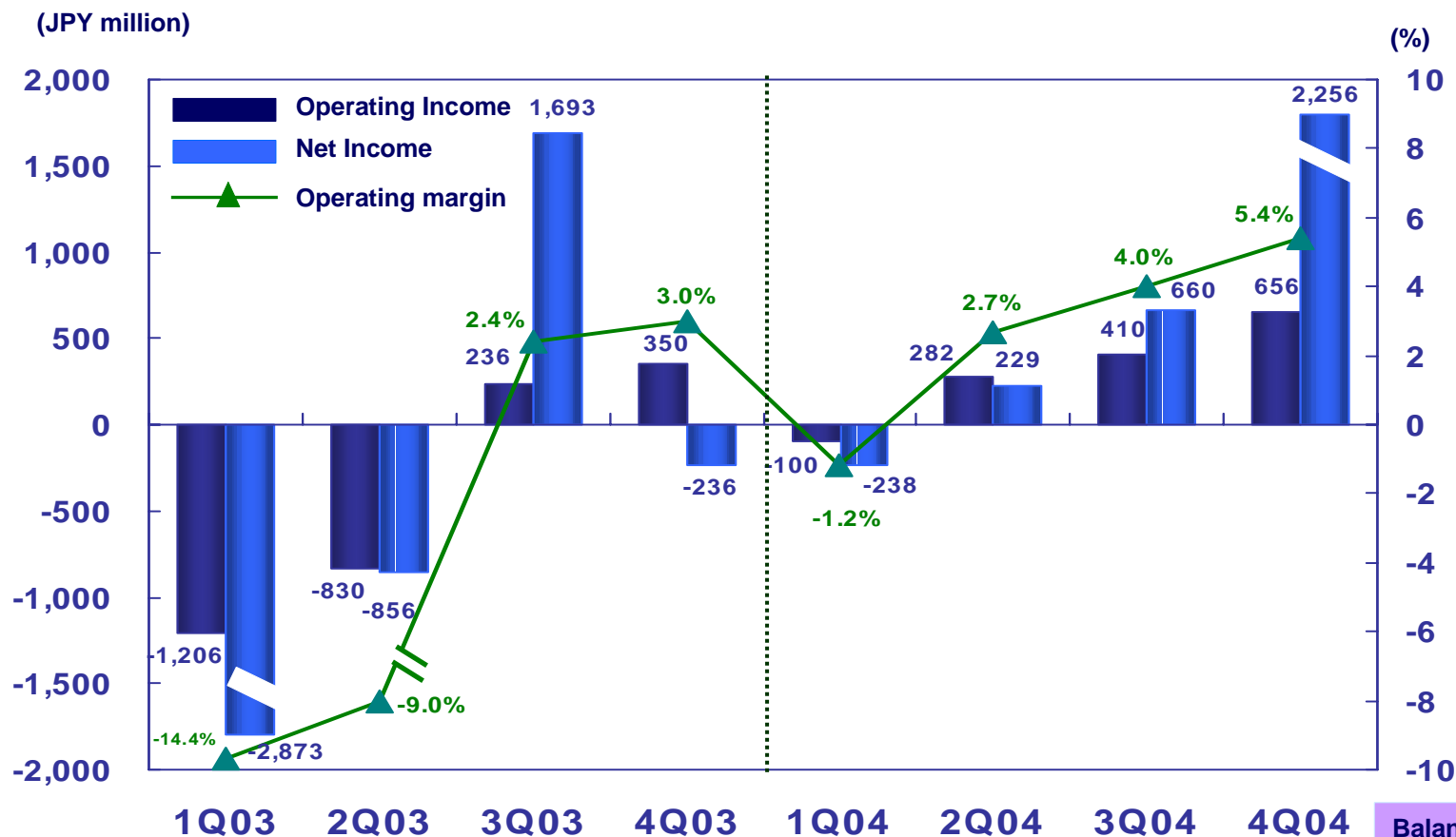
(JPY million)



	4Q03	FY2004		YoY change	
			% of Total Revenues		
Equipment Sales	2,117	1,042	8.5%	-50.8%	
SI	Systems Integration	2,573	2,786	22.7%	8.3%
	Outsourced Operation	1,428	2,566	20.9%	79.6%
VAS and Other Revenues	1,640	2,301	18.8%	40.3%	
Internet Connectivity Services	3,858	3,559	29.0%	-7.8%	

Gross margin ratio increased steadily both in Connectivity and VAS, and SI

Trend of Quarterly Operating and Net Income (Loss)



Impairment loss on investment etc. for Crosswave JPY 1,720 million

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

Gain on sale of available-for-sale securities of JPY 551 million

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

Balance of other investments mainly available-for-sale securities at the end of FY2004 was approximately JPY 9 billion. We expect continued income of gain on sale of available-for-sale securities

[Market Environment]

- Corporate business traffic will continue to increase
- Internet Technology will increasingly spread to corporate networks and business systems
- Demand for systems and network outsourcing will grow due to increasing traffic and increasingly complex networks (Companies cannot easily hold skilled Internet engineers full-time in their IT departments)
- Governmental organizations promote e-governance such as e-Japan strategy

[IIJ's Service Trend]

- Given the increasing outsourcing needs of companies, we assume our VAS and SI segments will grow at the same level as FY2004
- The former trend of decreasing revenues for Internet connectivity services ended because companies shifted to wider bandwidth and expanded use of multi-site connectivity.
- Enhancing lineup of service products
e.g. Mail solutions
- We will continue to introduce new products. New schemes such as licensing of SEIL software are smoothly in motion. We are also focusing on RFID and security.

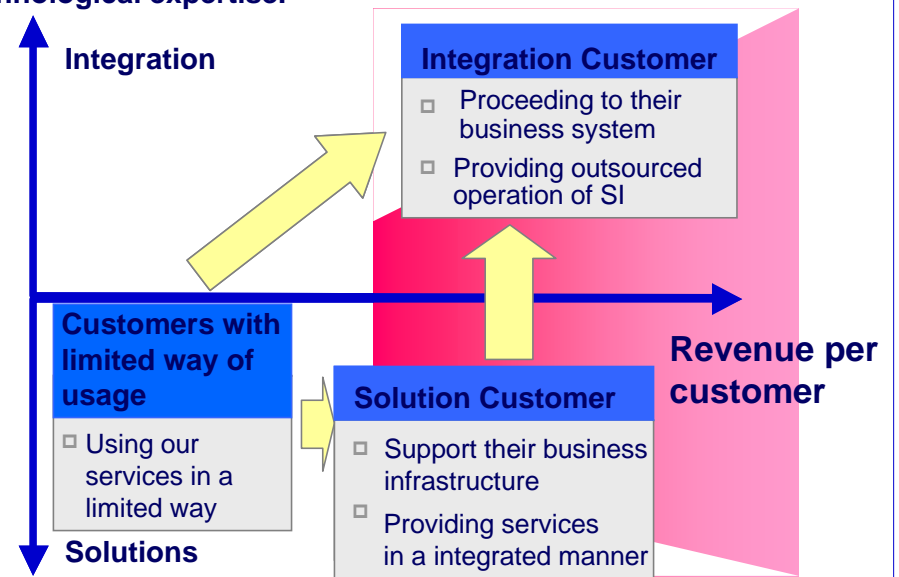
[Strategy for FY2005]

- Turn new technologies into products, bring new products to market, and promote new products

We aim to take new technologies such as RFID, SEIL, SMF, turn them into new products, and differentiate them from the competition by getting them to the market fast.

- Provide solution and integration, boost revenue per customer

We aim to increase our revenue-per-customer by providing multiple services or products as a total solution for our approximately 6,500 corporate customers etc. We aim to obtain large customers with consulting/ integration proposals using our technological expertise.

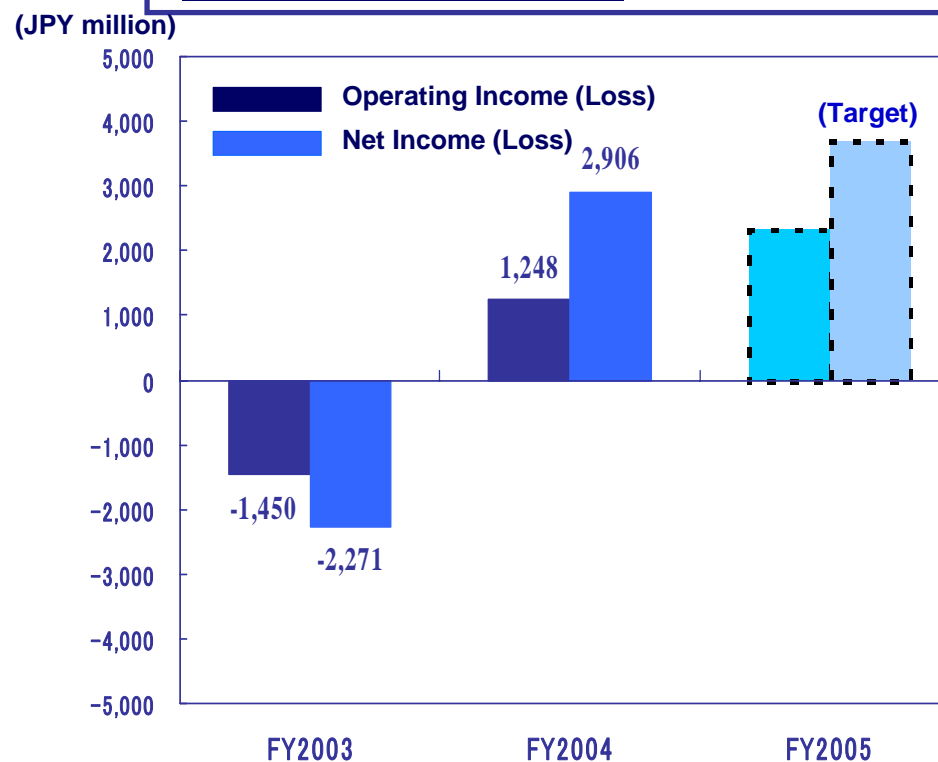
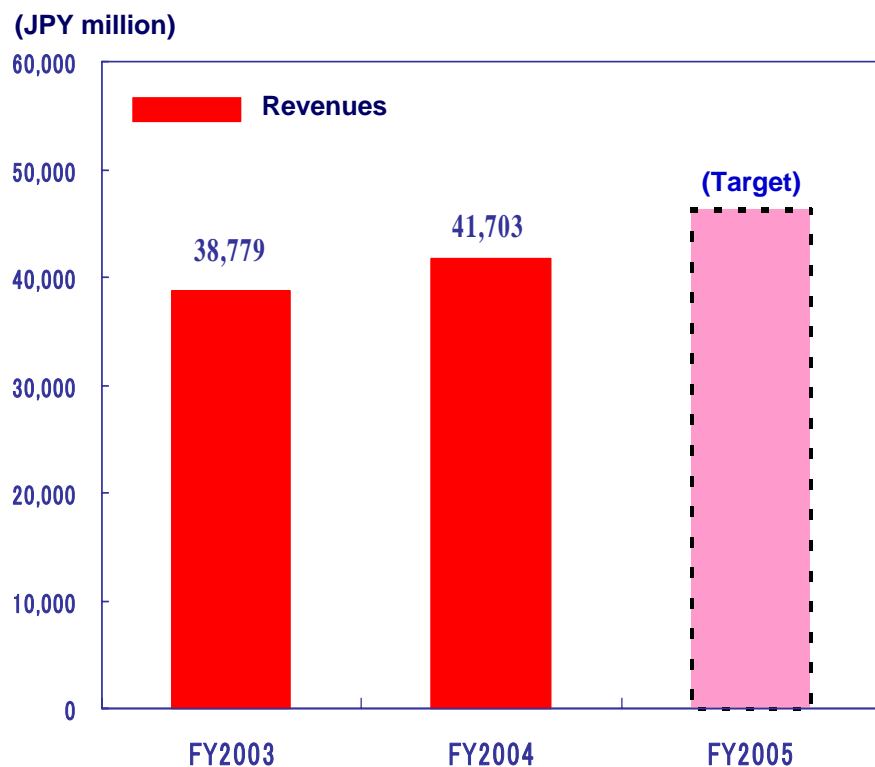


Target for FY2005

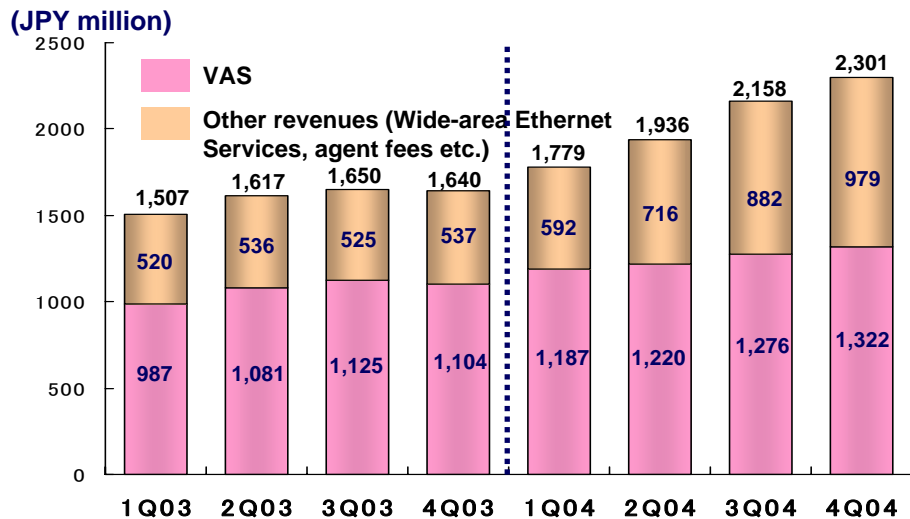
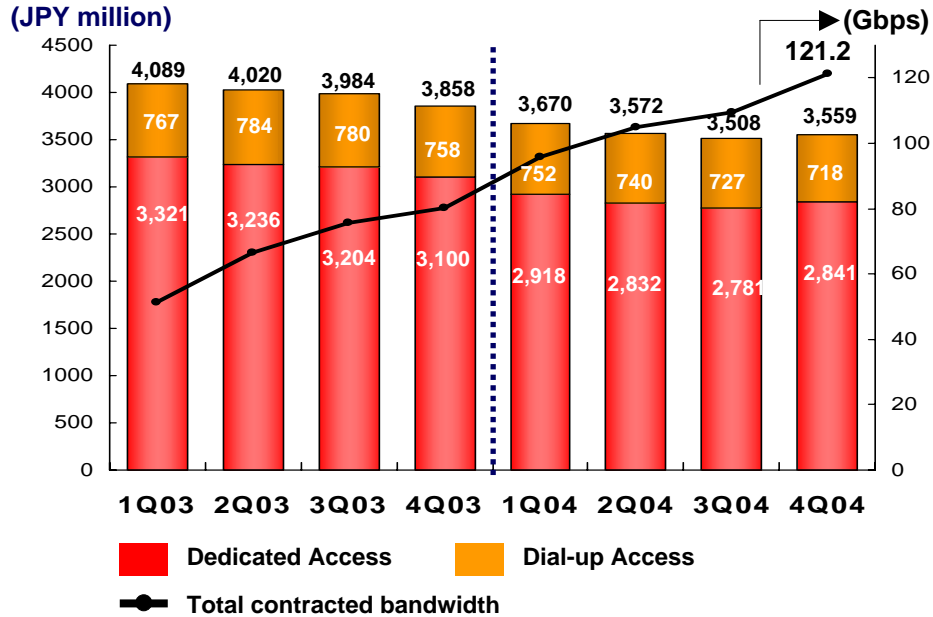
In FY2005, we aim to surpass our achievement in 2004 where we earned the highest revenues and profits since our NASDAQ listing

Revenue: Approximately 10% increase from FY2004

Operating income: Approximately 85% increase from FY2004
Net income: Approximately 25% increase from FY2004



Summary by Service



Internet Connectivity Service

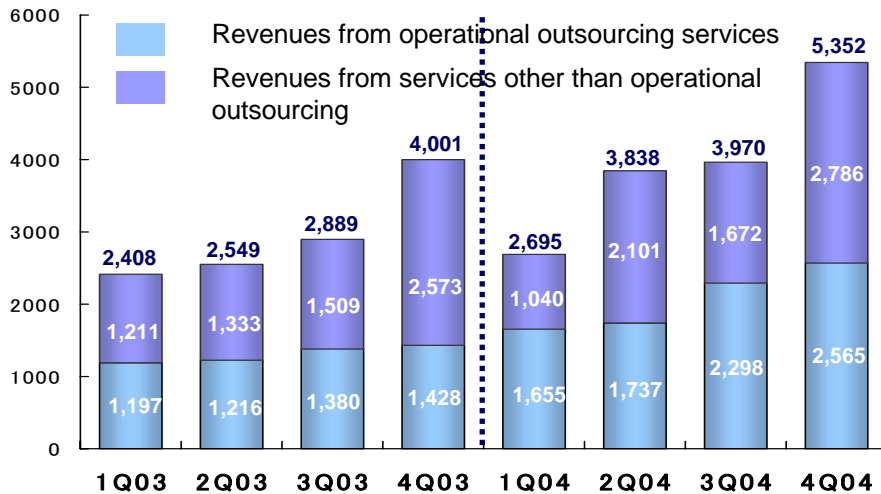
- First increase in 12 quarters (+51 million from 3Q04)
- Total contracted bandwidth: 121.2Gbps (+41.1Gbps (51.3%) from 4Q03, +11.7Gbps (10.7%) from 3Q04)
- Number of contracts of dedicated lines: 11,243 (+4,017 (55.6%) from 4Q03, +1,816 (19.3%) from 3Q04)
- IP Service - Bandwidth is growing
 Number of contracts (10bps) 3Q04:436 -> 4Q04:483
 Number of contracts (100Mbps) 3Q04:150 -> 4Q04:161
 Number of contracts (1Gbps) 3Q04:22 -> 4Q04: 24
- Backbone costs are continuously decreasing.

VAS and Other Revenues

- Revenues continued to increase by 40.3% from 4Q03 and by 6.6% from 3Q04
- Network/outsourcing business as multi-site connectivity utilizing SEIL,SMF were in high demand and also contributed to increase in revenues for Internet connectivity services.
- Regarding to multi-point connectivity cases- revenues from wide-area Ethernet services or internal LAN -related services continued to increase (to be recorded as Other revenues)

Summary by Service

(JPY million)



System Integration (SI)

- Revenue from systems integration (excluding operational outsourcing) substantially increased from 3Q04 due to the seasonal increase (33.7% increase from 4Q03, 34.8% increase from 3Q04)
- Winning consulting cases and network design cases leveraging IIJ's technological expertise contributed to the increase in profitability
- Revenues for outsourced operation of SI continued to increase steadily (79.6% increase from 4Q03, and 11.7% increase from 3Q04)

Cross-Selling

- VAS service utilization ratio of customers using Internet connectivity service remained at a high level.
- Connectivity service utilization ratio of customers using SI was also higher.

	4Q04
	Result
VAS Cross-selling Ratio *1	88.2%
SI Cross-selling Ratio *2	78.0%

*1 Percentage of customers using VAS together among top 1000 companies using Internet connectivity service.
 *2 Percentage of customers using Internet connectivity service together among top 100 companies using SI.

Scope: Audited U.S. GAAP consolidated financial statements for the three years ended March 31, 2004, and unaudited financial information for the three quarters of the year ended March 31, 2005

Details: Before the restatement, we recorded the income tax effect of the change in unrealized gains on certain available-for-sale securities as an income tax expense (benefit) in continuing operations in the statement of operations.

After the restatement, we recorded this income tax effect as a component of other comprehensive income on our balance sheet.

Impact: Does not affect operating figures such as revenues, operating income, or operating income before income tax expense.

(Unaffected items)

Revenues
Operating income
Operating income before income tax expense
Total shareholder's equity
Total assets, and liabilities
Net cash flow
(changes in cash and cash equivalent)

(Affected Items)

Net income (loss)
Accumulated deficit
Accumulated other comprehensive income

} Change by the same amounts

Audited U.S. GAAP consolidated financial statements for the three years ended March 31, 2004

(JPY Thousand)

	2002			2003			2004		
	As previously Reported	As Restated	Difference	As previously Reported	As Restated	Difference	As previously Reported	As Restated	Difference
For the year ended March 31;									
Income tax expense (benefit)	1,099,035	17,794		911,365	23,152		(2,133,011)	32,536	
Net loss	(7,446,135)	(6,364,894)		(16,476,822)	(15,588,609)		(105,139)	(2,270,686)	
As of March 31;									
Accumulated deficit	(18,208,469)	(19,481,026)	- 1,272,557	(34,685,291)	(35,069,635)	- 384,344	(34,790,430)	(37,340,321)	- 2,549,891
Accumulated other comprehensive income	1,783,061	3,055,618	+ 1,272,557	530,266	914,610	+ 384,344	3,645,558	6,195,449	+ 2,549,891

Unaudited consolidated financial information for the first three quarters of the year ended March 31, 2005

(JPY Thousand)

	1Q04			2Q04			3Q04		
	As previously Reported	As Restated	Difference	As previously Reported	As Restated	Difference	As previously Reported	As Restated	Difference
For the year ended March 31;									
Income tax expense (benefit)	(1,657,335)	15,089		517,379	15,506		(220,980)	39,436	
Net loss	1,434,335	(238,089)		(272,667)	229,206		919,947	659,531	
As of March 31;									
Accumulated deficit	(33,356,095)	(37,578,410)	- 4,222,315	(33,628,762)	(37,349,204)	- 3,720,442	(32,708,815)	(36,689,673)	- 3,980,858
Accumulated other comprehensive income	6,051,370	10,273,685	+ 4,222,315	5,327,042	9,047,484	+ 3,720,442	5,711,952	9,692,810	+ 3,980,858

▶ **Spam damage is expanding**

It is reported that 70% of emails is spam in the USA and it creates a great burden for mail servers as they have to invest extra resources to tackle this. It can also be a source of infection- of a virus or a worm.

Phishing is causing millions of dollars in damage.

- UFJ cards are fabricated case in Japan

▶ **Self-Solving is not enough**

Increasing burdens to mail servers, money-losing investment in equipment

Increasing management cost and burdens of information technology dept. -> Growth of outsourcing needs

▶ **Improvement of security literacy**

Roused by the enforcement of laws protecting personal information, to strengthen measures against email-borne attacks, viruses and leaks of internal information.



IIJ's Efforts

Started service to grasp companies' needs early

IIJ Post Office Service (July 1998)

- Virus Protection (July, 2004)

IIJ Mail Gateway Service (March 2002)

- Virus Protection (March 2002)

- Mail Auditing (March 2002)

- Spam mail filtering (October 2004)

IIJ Edge Filtering (December 2004)

IIJ Spam Mail Filtering (May 2005)

Leading the industry for anti-spam

Participated in MAAWG establishment

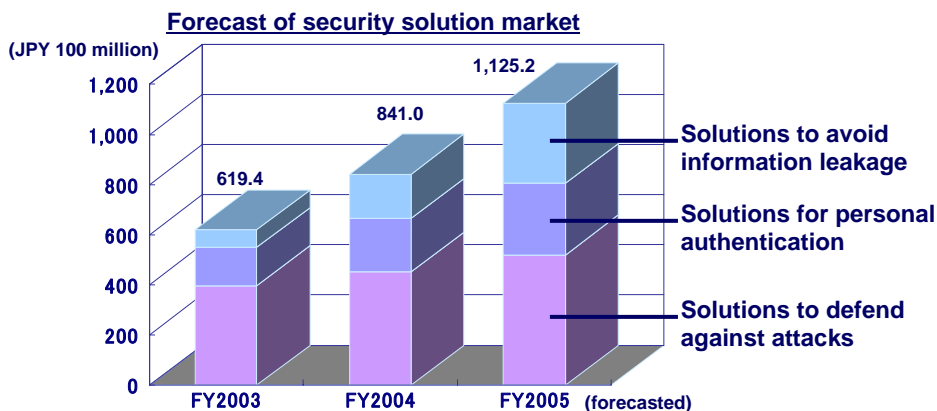
- A global organization for tackling spam established by global carriers and 19 ISPs
- Only IIJ participated from Japan

Led establishment of domestic organization JEAG

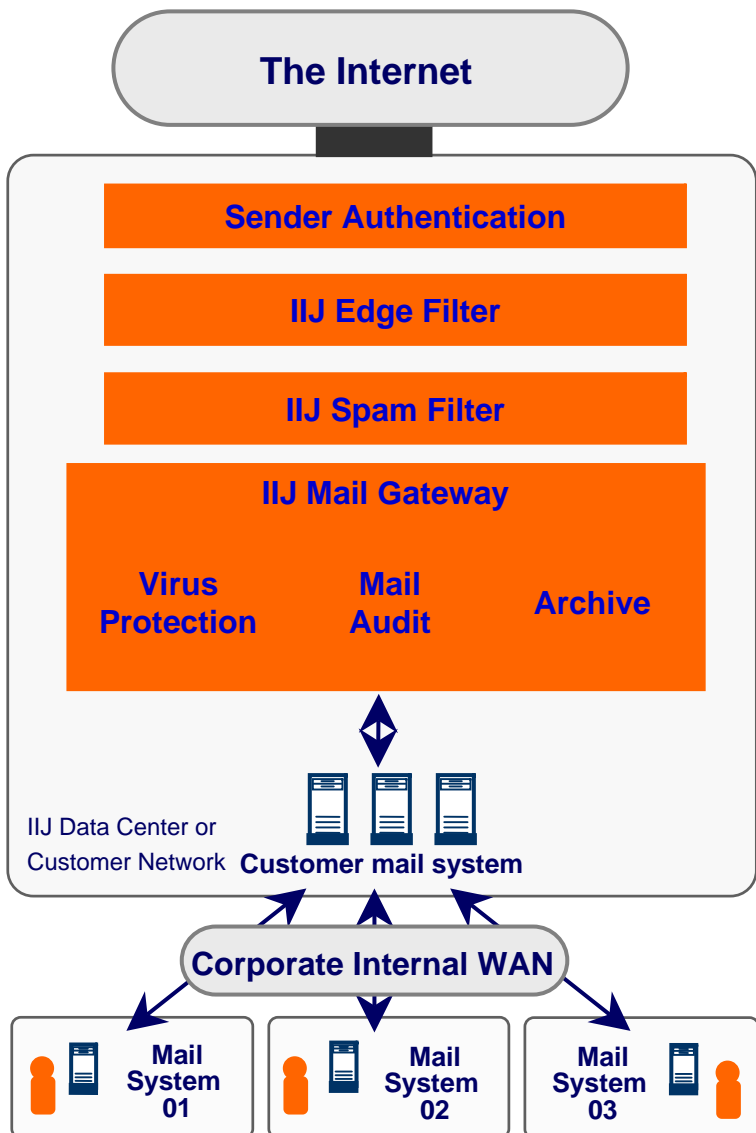
- Established with Mobile companies like DOCOMO and other ISPs.

Introduced new technologies like sender's domain authentication into IIJ

- Planning providing it as service



Source: MIC Research Institute Ltd.
"Status and future outlook of information security solution market"



Anti-spam

Sender Authentication (Service Planned)

IIJ Edge Filter

Blocks or limits emails massively coming into mail servers and emails including those with malicious content.

IIJ Spam Filter

It blocks and quarantines unsolicited email or phishing email that IIJ edge filtering cannot avoid. Incoming mail judges "spam level", adds it to mail header and forwards to customers.

Anti-virus

Virus protection

Against Information Leakage

Mail Auditing

It avoids leaking information by prohibiting or suspending outgoing email from inside. Can include specified words.

Mail Storage

It stores all incoming & Outgoing email. It enables user keep evidence if information is leaked.

Customer example: An electronic manufacturer

— Company applied IIJ Edge Filtering and IIJ Spam Filtering —

Applied IIJ's solutions against spam to millions of mail accounts in their group network, including headquarters.

- ✓ Applied IIJ Edge Filtering and IIJ Spam Filtering as measures against spam
- ✓ Mail traffic was decreased by 30% by applying IIJ Edge Filtering and further effect is expected by applying IIJ Spam Filtering. This contributed to a reduction in the cost burden of new servers and system management.
- ✓ It uses IIJ Web Gateway Service that offers security control functions on Web accessing. The Company highly appreciates IIJ's advanced technologies, track record of operating the service and IIJ's ability to provide countermeasures against spam.

This was the reason the Company applied IIJ's solution against spam.