



initiative

Internet Initiative Japan Inc.

**For Merrill Lynch Japan Conference
From September 4 to September 8, 2006**



Internet Initiative Japan

Forward-looking Statements

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 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 systems 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 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 ("SEC").

Key Investment Highlights

- **Top engineering talent and technological skills in Japan**
 - Leading innovator in the industry
- **Technological expertise used to develop reliable, high-quality services in packages of network solutions**
 - Different business model from the systems integrators and telecommunication carriers of the past
- **Customer base of approximately 6,500, mainly large blue-chip corporations and public organizations**
 - IIJ is able to successfully capture outsourcing needs of those blue-chip customers
- **Demand for corporate network outsourcing is increasing due to higher bandwidth demand and increasingly complex networks as Internet technologies are incorporated in corporate Intranet and business systems**
 - Internet utilization at Japanese corporations increasing, especially at companies with significant online businesses
- **Highest revenues and profit seen in its operating history in FY2005**
 - Trend of improving profitability building with focus on increasing revenues from outsourcing services and solutions while tightly controlling costs

IIJ Overview

IIJ at the forefront of the Japan's Internet development in 1992

- **“Internet technologies” is the Company's core competency**
- **IIJ always takes the “Technological Initiative” in the business**
 - Technological development and product development capturing customer needs in advance
- **IIJ “adapts the technologies into products”**
 - IIJ has a successful track record of creating many new Internet-focused products and technologies

IIJ deeply believes in further developing the infrastructure of the Internet

- **IIJ believes there is still further need for technological innovation of the Internet**
- **IIJ actively promotes technological development for more everyday use**

IIJ Overview (As of June 30, 2006)

Established	December 3, 1992	Directors	President & CEO Koichi Suzuki Executive Vice President Toshiya Asaba Executive Vice President Yoshiaki Hisamoto Managing Director Hideshi Hojo Director Takamichi Miyoshi Director Akihisa Watai (CFO) Director Hiroyuki Hisashima Director Kazuhiro Tokita Director* ¹ Yasuro Tanahashi Director* ¹ Takashi Hiroi Director* ¹ Yoshifumi Nishikawa Director* ¹ Junnosuke Furukawa Director Senji Yamamoto Standing Statutory Auditor* ² Junichi Tate Statutory Auditor* ² Masaki Okada Statutory Auditor* ² Masaaki Koizumi Statutory Auditor Hirofumi Takahashi						
Location of the Headquarter	Chiyoda-ku, Tokyo								
Branches	Osaka, Nagoya, Sapporo, Sendai, Toyama, Hiroshima, Fukuoka, Okinawa, Toyoda								
Common Stock	JPY 14,295 million (as of August 4, 2006)								
Number of Employees	Consolidated: 987 Non-consolidated: 513								
Main Shareholders	<table border="0"> <tr> <td>Nippon Telegraph and Telephone Corporation</td> <td>24.7%</td> </tr> <tr> <td>Hero and Company *</td> <td>20.0%</td> </tr> <tr> <td>Koichi Suzuki</td> <td>6.1%</td> </tr> <tr> <td>Itochu Corporation</td> <td>5.1%</td> </tr> </table> <p>* As securities traded on the NASDAQ</p>			Nippon Telegraph and Telephone Corporation	24.7%	Hero and Company *	20.0%	Koichi Suzuki	6.1%
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Hero and Company *	20.0%								
Koichi Suzuki	6.1%								
Itochu Corporation	5.1%								
Major Financing Banks	Sumitomo Mitsui Banking Corporation, Mizuho Corporate Bank, Ltd., Bank of Tokyo-Mitsubishi UFJ, Ltd., Mitsubishi UFJ Trust and Banking Corporation								
		* ¹ Outside Directors * ² Outside Statutory Auditors							
		Shares Outstanding	204,300 shares						
		Market	The Mothers market of the Tokyo Stock Exchange listed from 2005 (Code number: 3774) The U.S. NASDAQ Market listed from 1999 (Ticker symbol "IIJ")						

History of IIJ Group

	Management & Business Deployment	Development of Services
<p><u>Rise of Internet</u></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>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 Established IIJ Media Communications Inc. Established Asia Internet Holding Co.,Ltd.</p> <p>1996 Established IIJ America Inc. Established IIJ Technology Inc.</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><u>Development and spread of Internet</u></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>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 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>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><u>Internet becomes Infrastructure</u></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>

Businesses

Internet Connectivity Services

Provides various Internet connectivity services to corporations and public organizations

- 6,500 blue-chip corporations
- Provision of transits to major customers such as carriers, ISPs, CATV
- Providing OEM to carriers and ISP's Internet connectivity services (outsourcing or network operation)



Outsourcing Services

Provides a combination of outsourcing services such as security, network and server operations and management

- Outsourcing of mailing system
- Security services such as firewall
- Data center services
- Network management services with SEIL/SMF



- OEM Provision of network management system

We provide SEIL/SMF as basic functions of VPN service, management service that carriers provide



Systems Integration

Provides customized system design, consultation, development, implementation and operation

- Implementation and operation of online securities systems
- Implementation and operation of platform of online games
- Large-scale SI contracts
 - A financial institution: implementation of business network
 - A beverage vender: server outsourcing for core logistics systems, data management and, operation and management services

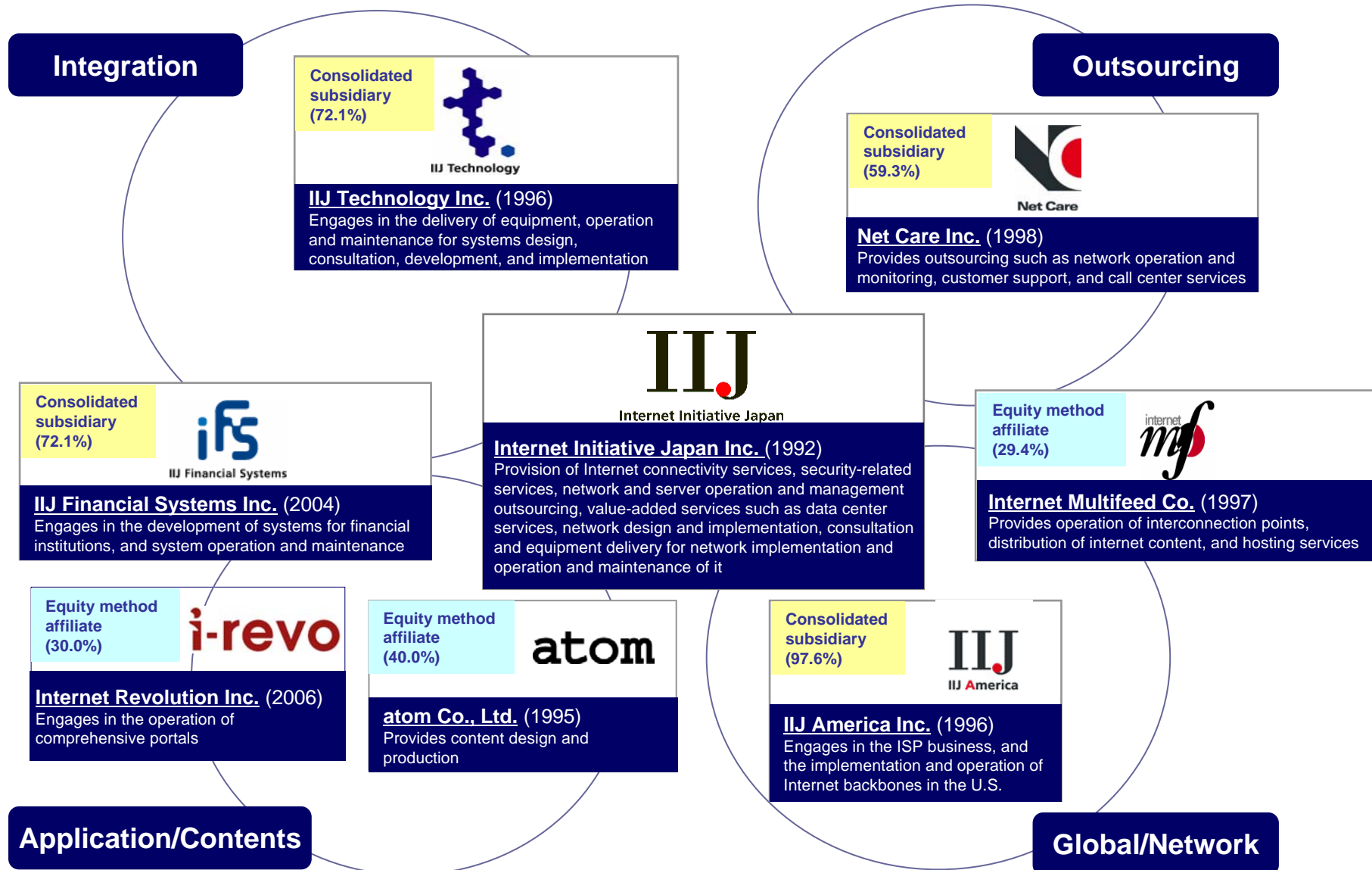
- Solutions for multi-site connectivity

With Internet VPN by SEIL/SMF, we implement and operate internal WANs that connect hundreds to thousands of sites including headquarters, factories or branch offices

We ensure stability by taking redundant configuration with wide Ethernet and IP-VPN, which get used more in business systems of financial institutions.



Group Framework supporting Solutions Deployment



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

Business Environment

Business Environment

- Japan's economy is recovering
- Corporate IT investment spending also recovering
- Government promoting Internet utilization, such as e-Japan and u-Japan
- There are about 80 million Internet users in Japan, markets will continue to expand

▶ **More uses and greater diversity of networks are expected in the future**

Corporate Trend

- **Corporations beginning to use networks extensively**
 - Network are becoming an important component of business systems in companies
 - Increased amount of contents for internal business and traffic
 - Development of services utilizing IT technologies for new customers
- **Demand for network implementation and outsourced operations**
 - Penetration of Internet technologies / Network systems getting more advanced and complicated
 - Importance of information management and security

▶ **From Cost Sensitivity to Quality Sensitivity - Demand for reliable and high quality total managed services rapidly increasing**

Source of High Technological Skills

Early adoption of new technologies

- Design and implementation of Japan's largest scale networks
- Design and implementation of application products
- Implementation of operation and monitoring systems
- Operating ability that introduced service level agreements (SLA)
- Implementation of support system of high quality customer service
- Back office system that supports business

IIJ's Technological Skills

Innovative technological development to capture needs in advance

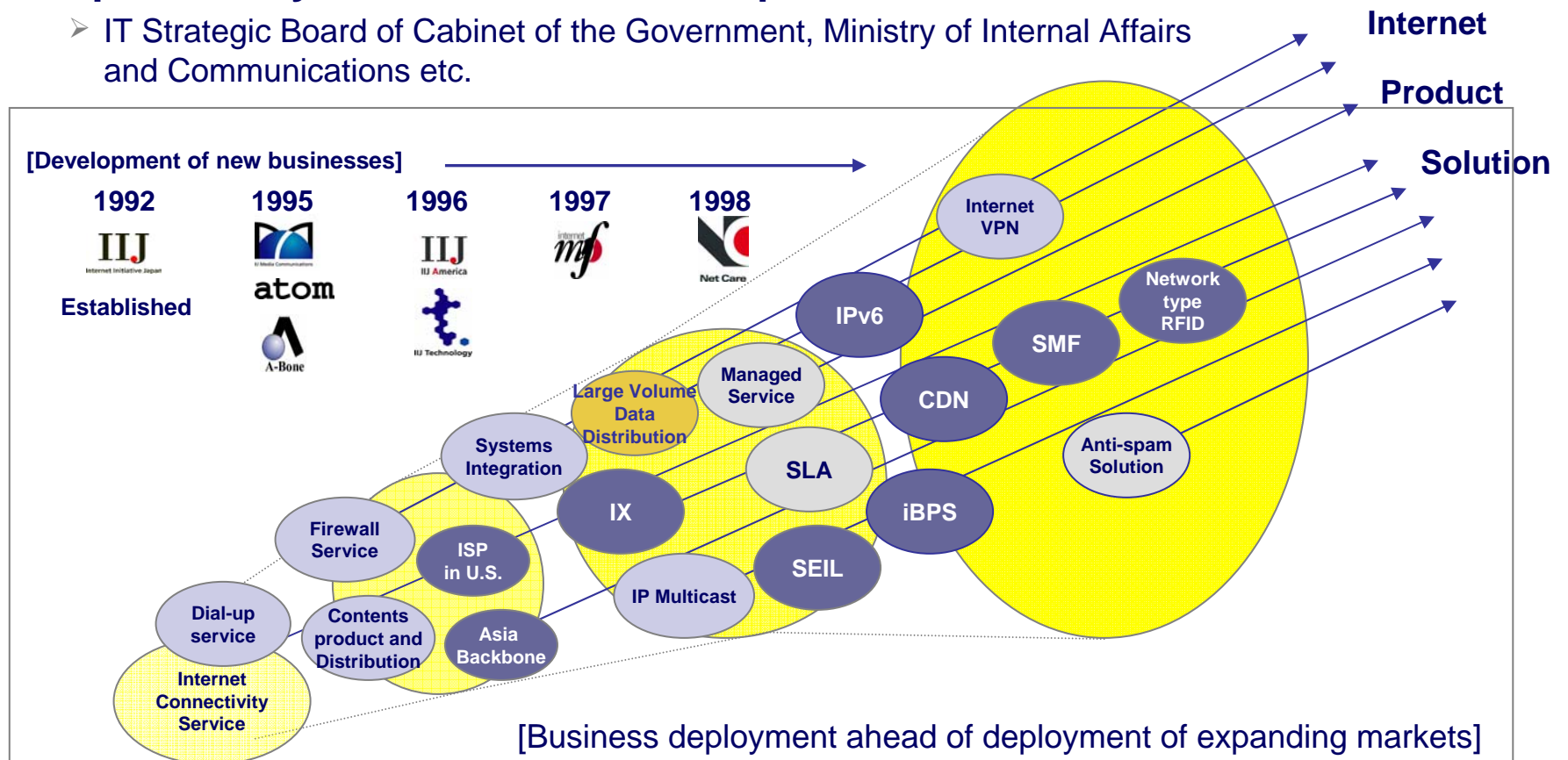
- Development of dial-up IP service model
- Implementation of firewalls
- Leading role in development and spread of IPv6
- Implementation and widespread provision of CDN
- Leading role in R&D of AutoID
- Headlining efforts to fight SPAM email

Human resources to maintain technological superiority

- Stability of engineers
- Practical education and experience using leading-edge facilities
- Strong awareness as professionals
- Participation in Internet Engineering Task Force
- Activity in the field of information security such as FIRST
- A leading role in the field of operation such as JANOG etc.
- Participation in study groups of public organizations

Initiative in the Industry

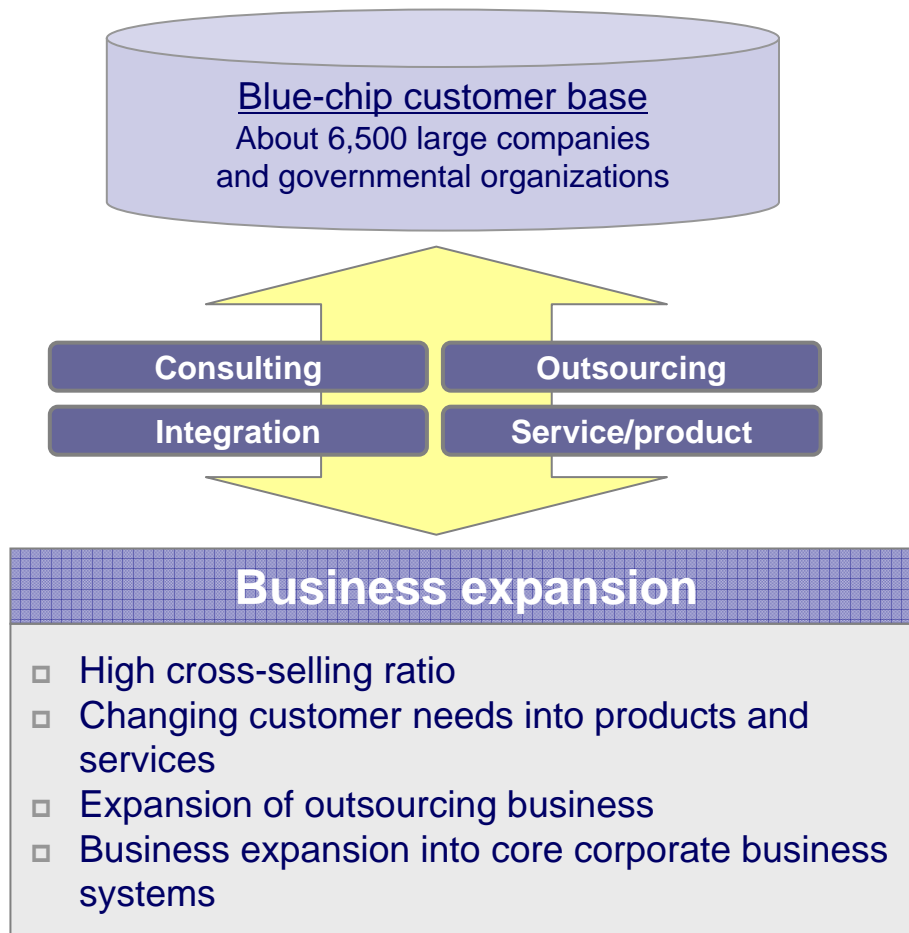
- **IIJ is a leading pioneer of network technologies**
 - Dial-up, security, IPv6, SLA, managed services, CDN and Auto-ID etc.
- **For new fields, IIJ newly established businesses within its group companies**
 - Multimedia, international networks, integration and outsourcing etc.
- **IIJ proactively contributed to create public vision**
 - IT Strategic Board of Cabinet of the Government, Ministry of Internal Affairs and Communications etc.



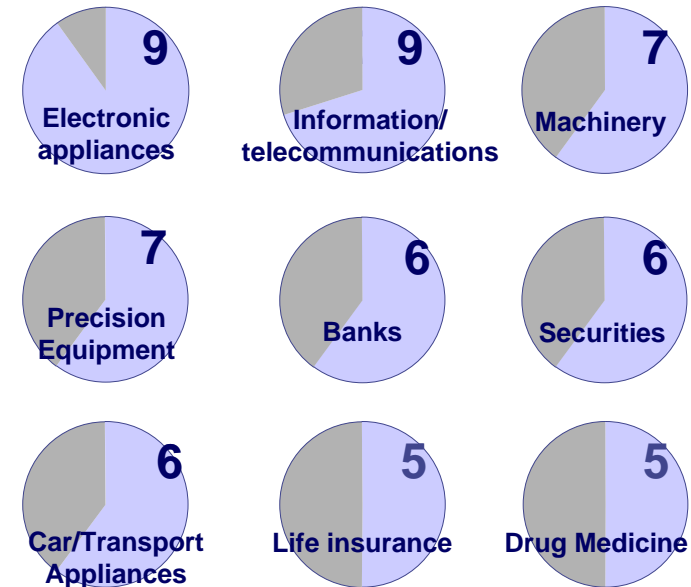
Excellent Customer Base as Business Resources

➤ Blue-chip customer base that IIJ cultivated as a leading Internet business

- IIJ developed it during its early days as dominant ISP (for connectivity)
- Many customers have maintained their contracts with us over a long term




- Customer base of about 6,500 customers, that are mainly large companies
- 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 Shimpo "Kaisha Shikihō, 3rd edition, 2006" and Nihon Keizai Shimbun "Nikkei Industry Map 2006"

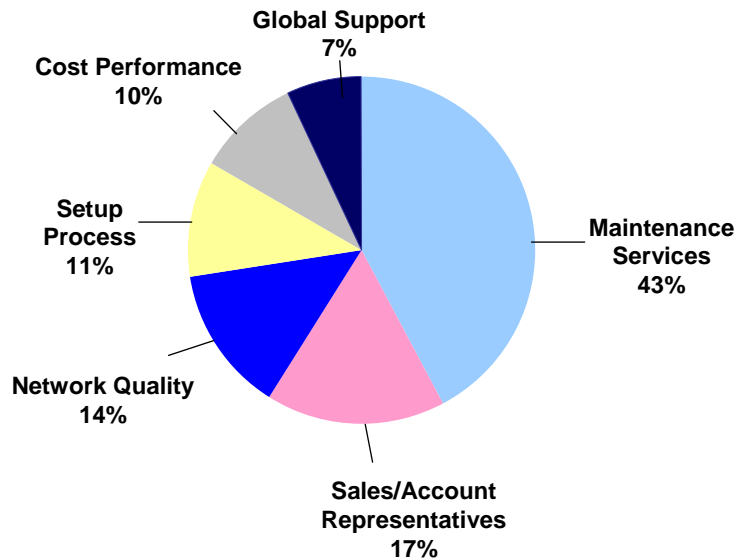
Highly Regarded by Customers



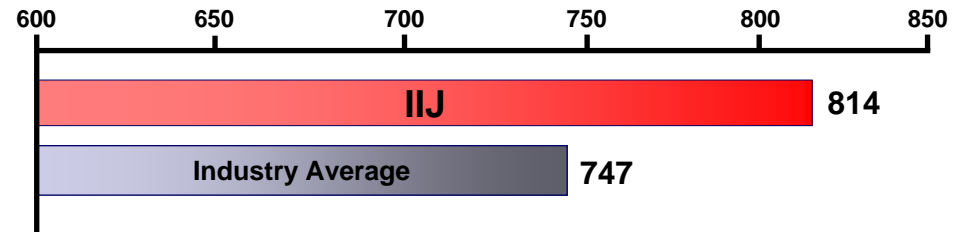
**J.D. Power Asia Pacific
2005 Japan Network Service Provider Satisfaction StudySM**

IIJ Ranks No.1 in Customer Satisfaction

< Six Factors Influencing Total Customer Satisfaction and their Importance >



< Customer Satisfaction Score >

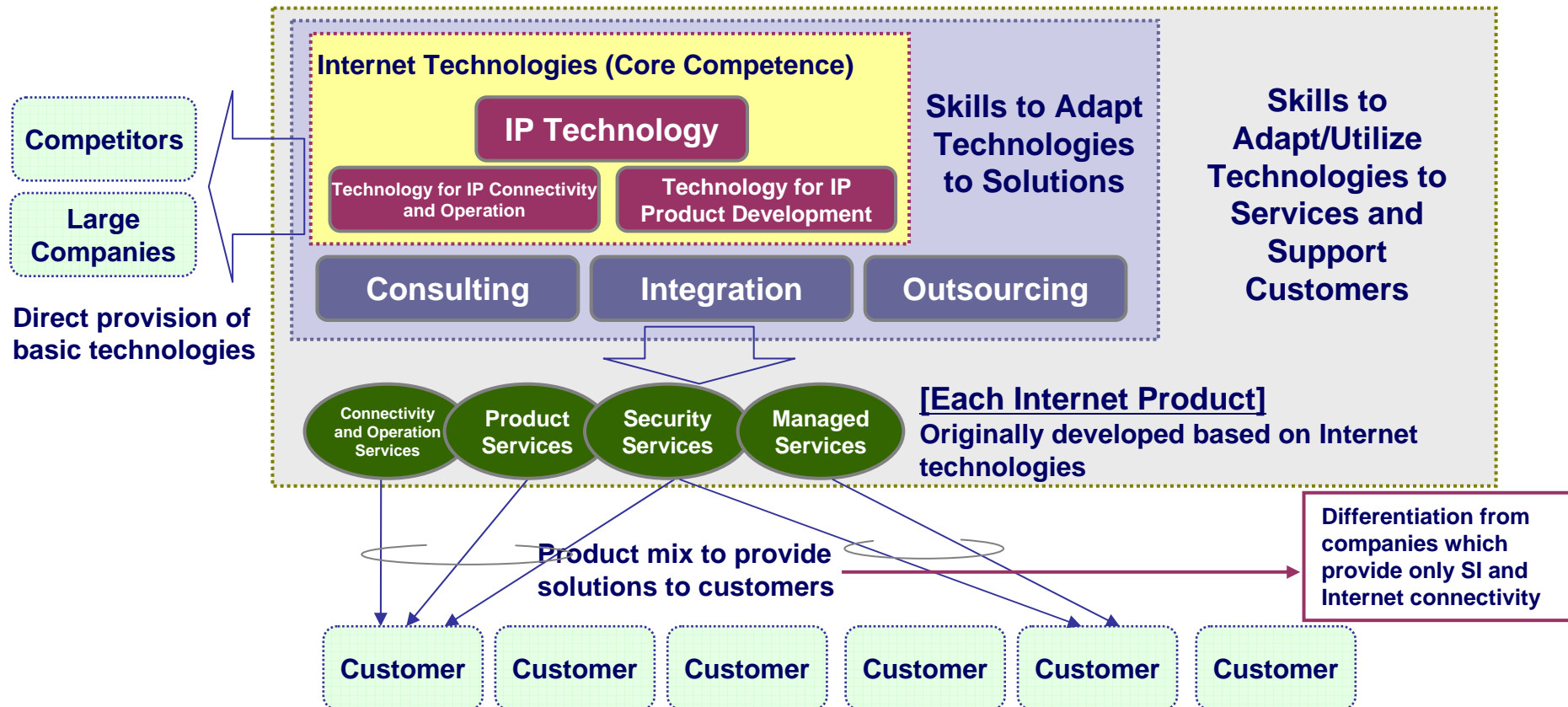


- IIJ scored 814 out of 1,000 points for total satisfaction. The industry average was 747 points.
- IIJ scored the highest for total satisfaction, being calculated based on 6 factors of “maintenance services”, “sales/account representatives”, “network quality”, “setup process”, “cost performance” and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

Source: J.D. Power Asia Pacific 2005 Japan Network Service Provider Satisfaction StudySM - 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

IIJ's Business Model

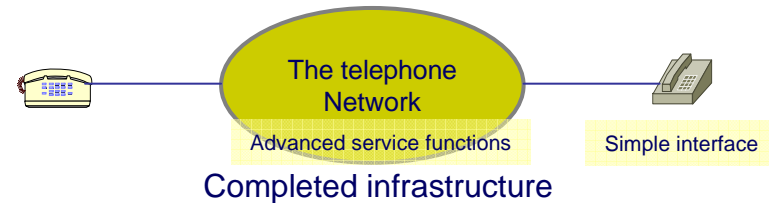
- **Taking the best “Internet technologies” and adapting them into products**
 - Providing backbone, system, development and operational skills to large companies and competitors
 - Providing higher margin “solution services” as a part of the product mix to meet customer needs



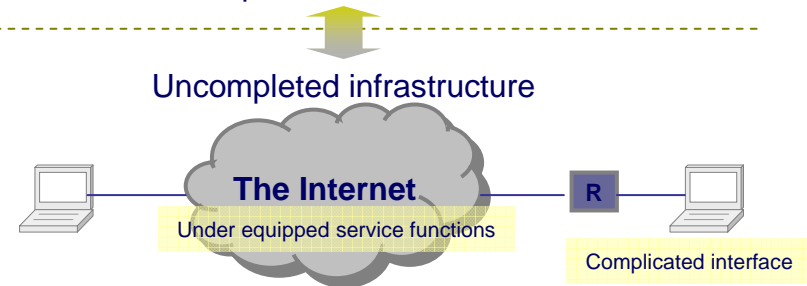
IIJ's Mission

- IIJ aims to continue to develop and provide comprehensive Internet technologies that can endure changes of drastically advancing and diversifying network uses
 - Efforts to make the Internet a true infrastructure
 - Presently the Internet is inconvenient as it is used in a limited fashion compared to other infrastructures
 - Enhancing user-friendliness and reliability, architecture design and technological development – they have just begun

- Today's telephone
 - It can be used by connecting a telephone
 - Anyone can talk by just pushing buttons
 - You can communicate safely without care
 - It never get unconnected



- Today's Internet
 - **You need a computer**
 - It requires users' **knowledge and setup**
 - You **cannot have safe communication** without care
 - Often, **it doesn't get connected**

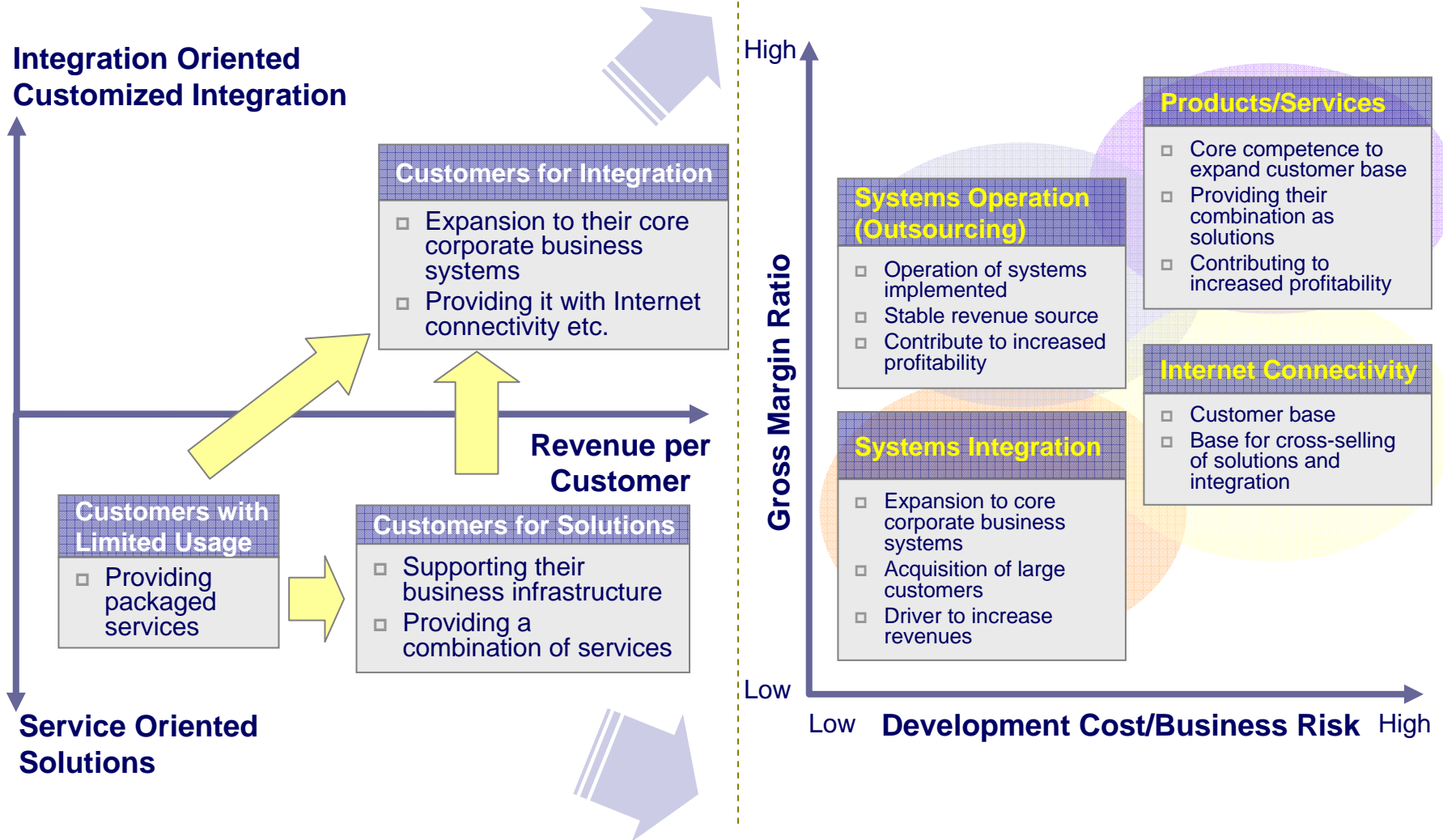


IIJ, with its core competency of Internet technologies, will solve these problems as it helps the Internet become a true social infrastructure

Business Expansion Strategy

➤ Increasing Revenue per Customer by Providing Solutions and Integration

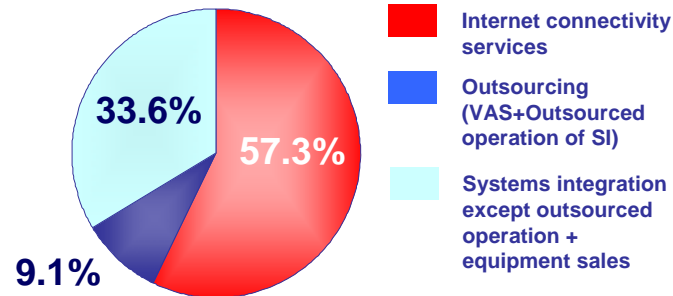
➤ Hybrid Business Developments



Change of Business Structure and Financial Growth

Revenues and its Composition

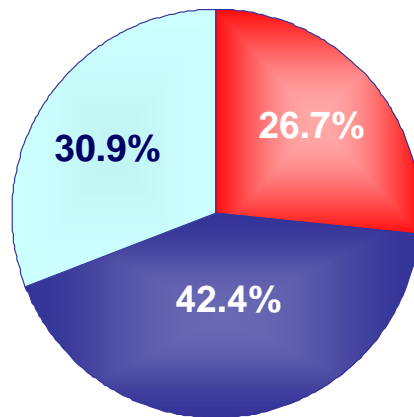
FY1999 (The year when IIJ listed on Nasdaq)



JPY 25.3 billion

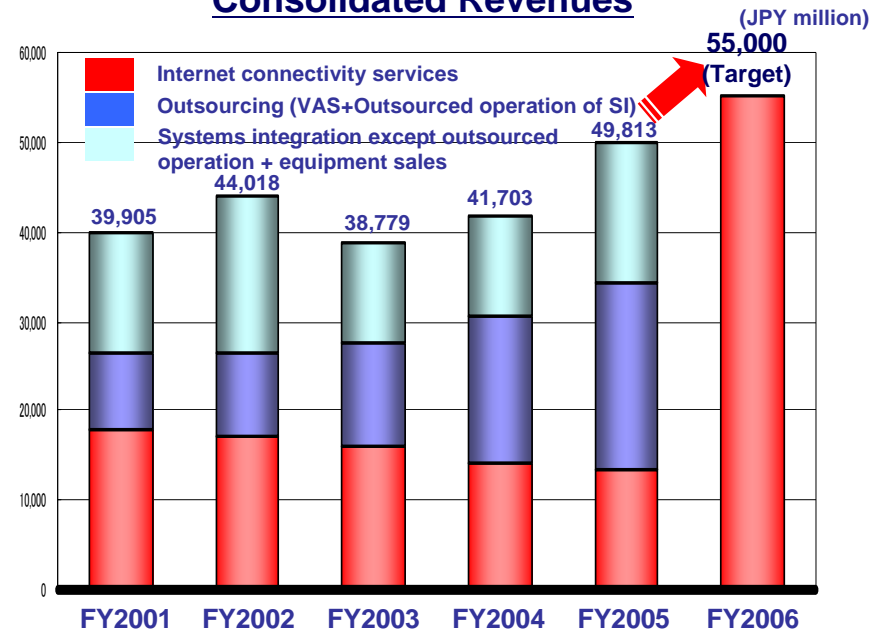


FY2005

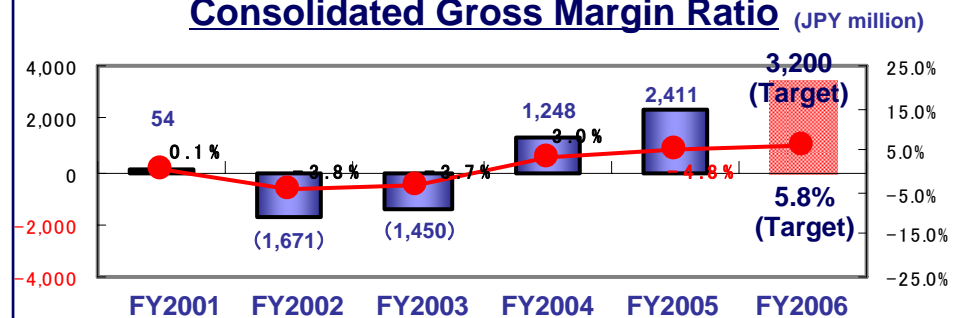


JPY 49.8 billion

Consolidated Revenues



Consolidated Operating Income and Consolidated Gross Margin Ratio





Financials

Consolidated Results for FY2005

(JPY million)

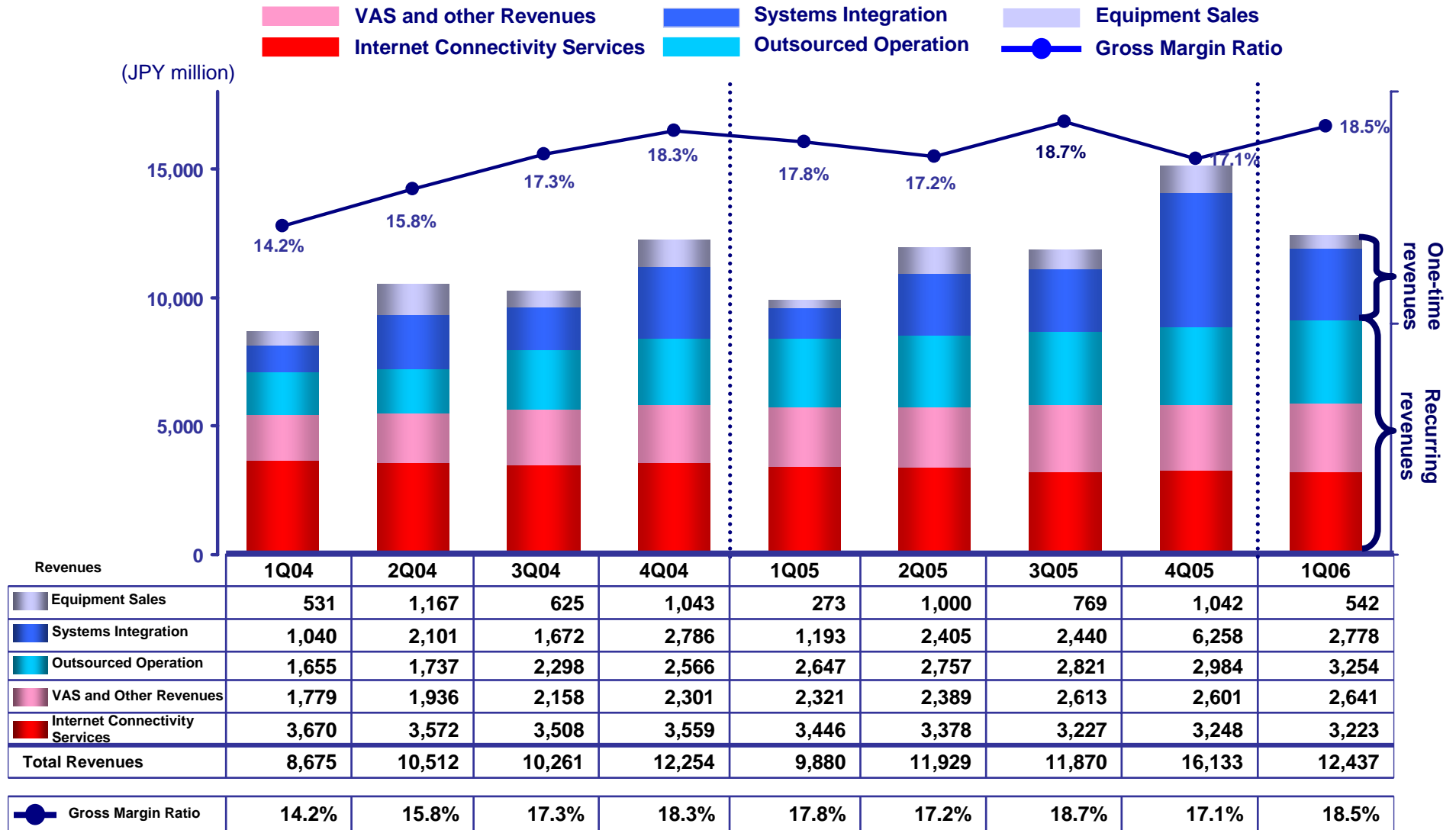
	FY2005 (2005/4-2006/3)			FY2004 (2004/4-2005/3)		YoY Change %
	Target	Results	% of Total Revenues	Results	% of Total Revenues	
Total Revenues	48,000	49,813	100.0%	41,703	100.0%	+19.4%
Total Costs	—	41,016	82.3%	34,795	83.4%	+17.9%
Gross Margin	—	8,796	17.7%	6,907	16.6%	+27.3%
SG&A/R&D	—	6,385	12.8%	5,660	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%

Financial Results in 1Q06

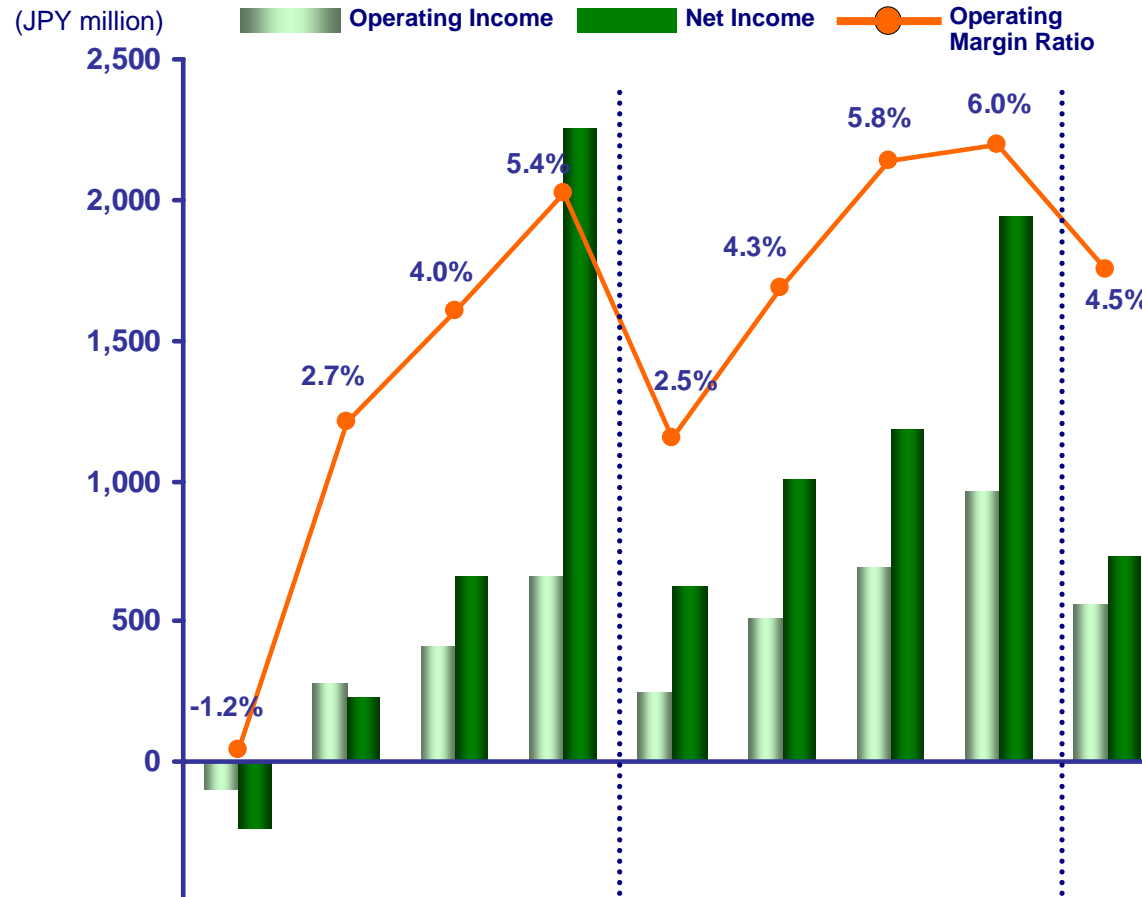
(JPY million)

	1Q06 (2006/4-2006/6)		1Q05 (2005/4-2005/6)		YoY Change %
	Results	% of Total Revenues	Results	% of Total Revenues	
Total Revenues	12,437	100.0%	9,880	100.0%	+25.9%
Total Costs	10,134	81.5%	8,118	82.2%	+24.8%
Gross Margin	2,303	18.5%	1,762	17.8%	+30.7%
SG&A/R&D	1,744	14.0%	1,516	15.3%	+15.1%
Operating Income	559	4.5%	247	2.5%	+126.6%
Net Income	734	5.9%	623	6.3%	+17.8%

Trend of Quarterly Revenues



Trend of Quarterly Operating and Net Income (Loss)



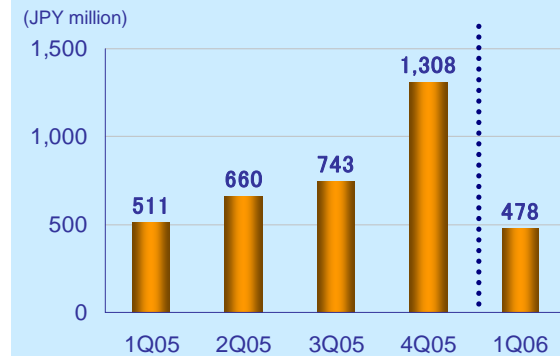
	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06
Operating Income	(100)	282	410	656	247	507	691	966	559
Net Income	(238)	229	660	2,256	623	1,001	1,189	1,941	734
Operating Margin Ratio	(1.2%)	2.7%	4.0%	5.4%	2.5%	4.3%	5.8%	6.0%	4.5%

<Operating Income>

- Increased by **126.6%** compared to 1Q05 due to a steady increase in revenues from outsourcing services.
- The operating margin ratio increased by **2.0 percentage points** compared to 1Q05.
- The operating income and operating margin ratios exceed the operating income and operating margin ratios from 2Q05.

<Net Income>

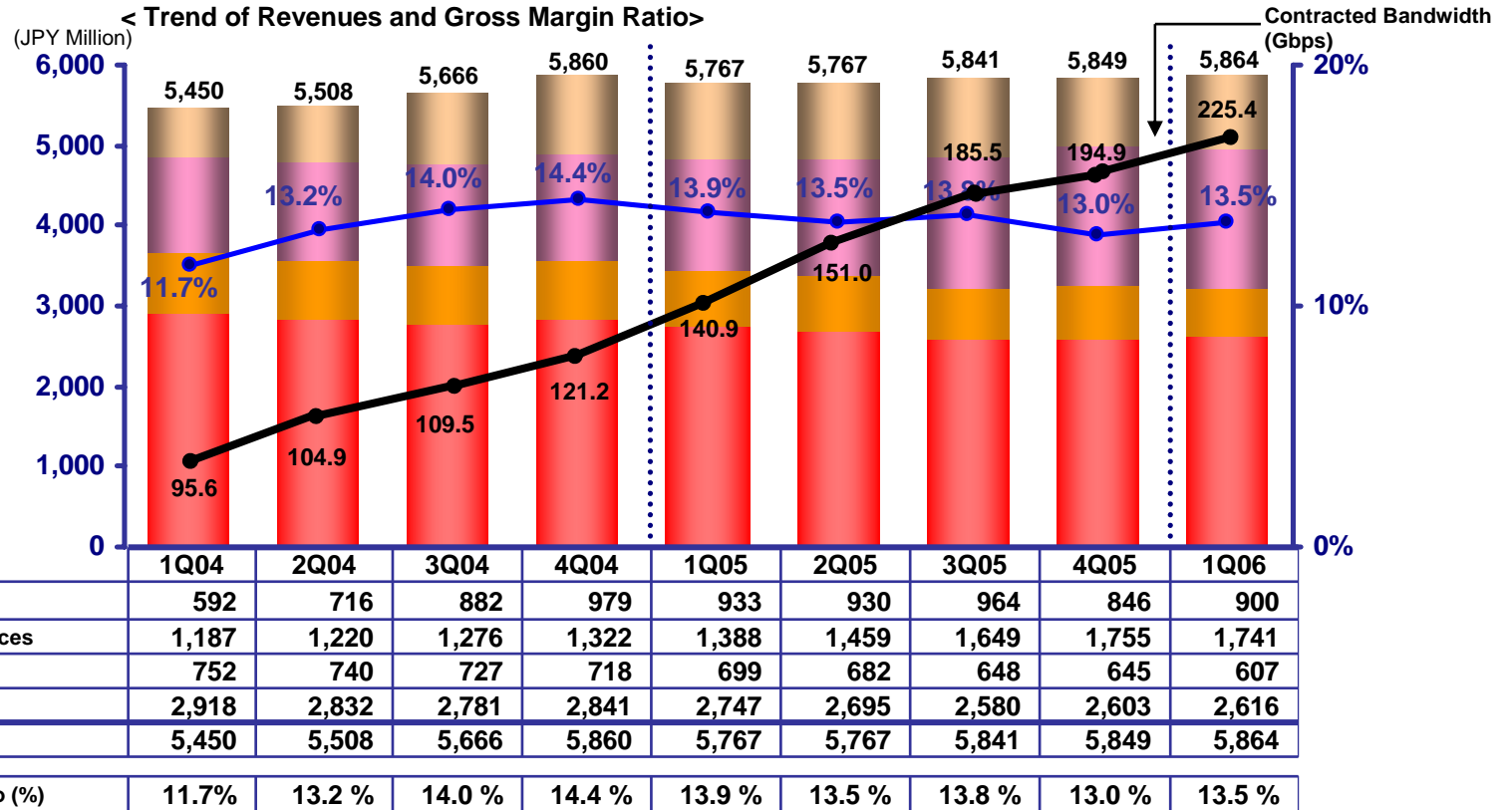
- Gain on sale of available-for-sale securities : JPY 478 million



- Income tax expense increased to JPY149 million compared to 1Q05 mainly due to higher taxable income at our consolidated subsidiaries.
- The equity in net loss of equity method investees increased to JPY 73 million compared to 1Q05 mainly due to an increase of equity in net loss from a newly established equity method investee.

Results by Service

Internet Connectivity and VAS



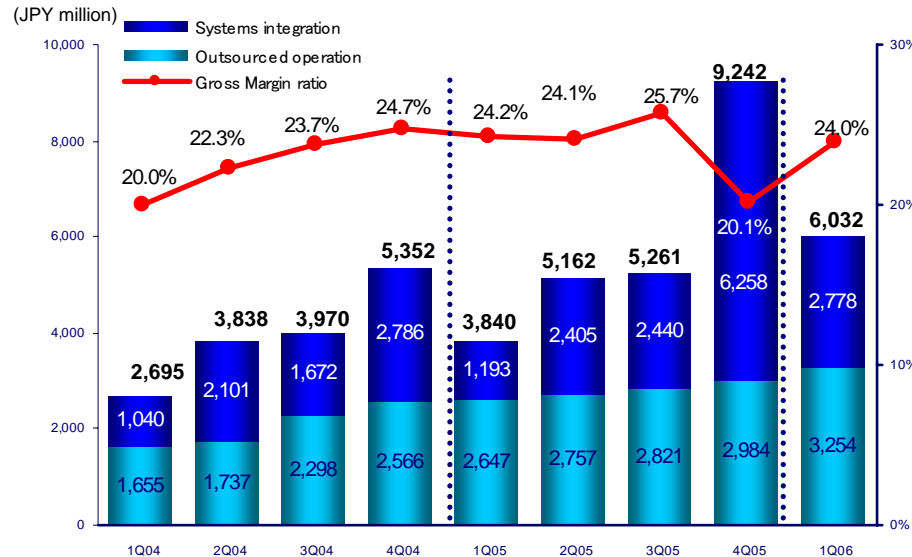
- Dedicated access – Revenues increased by 0.5% compared to 4Q05 due to the steady increase in multi-site connection projects and contracts of higher bandwidth IP services. Revenues decreased compared to 1Q05 due to a decrease in revenue (JPY 234 million) caused by network interconnection of former affiliate AIH.
- Dial-up access – Revenues decreased compared to 1Q05 and 4Q05 due to a discontinuance of services of certain large customer to which IIJ provided services as OEM.

- Value-added services – Revenues increased by 25.5% compared to 1Q05 due to an increase in revenues from data center services, e-mail outsourcing, SEIL rental service and SMF service, though revenues decreased from 4Q05 due to an absence of data center related one-time revenues which we had in 4Q05.
- Gross margin ratio increased by 0.5 percentage points compared to 1Q05
- Number of dedicated access contracts: **15,354** (+3,080, +25.1% from 1Q05) (+805, +5.5% from 4Q05)
- Contracted bandwidth: **225.4Gbps** (+84.5Gbps from 1Q05 / +30.5Gbps from 4Q05)

Results by Service

Systems Integration (SI)

<Trend of Revenues and Gross Margin Ratio>



- Despite the fact that our first quarter is historically weakest due to seasonal fluctuations in Japanese corporate spending, revenues from construction projects increased significantly compared to 1Q05.
- Recurring revenues from systems operation and maintenance also increased due to a substantial increase of construction projects in the last quarter.

Revenues: **JPY 6,032 million (+57.1% from 1Q05)**

- Systems integration: JPY 2,778 million (+132.9% from 1Q05)

- Outsourced operation: JPY 3,254 million (+22.9% from 1Q05)

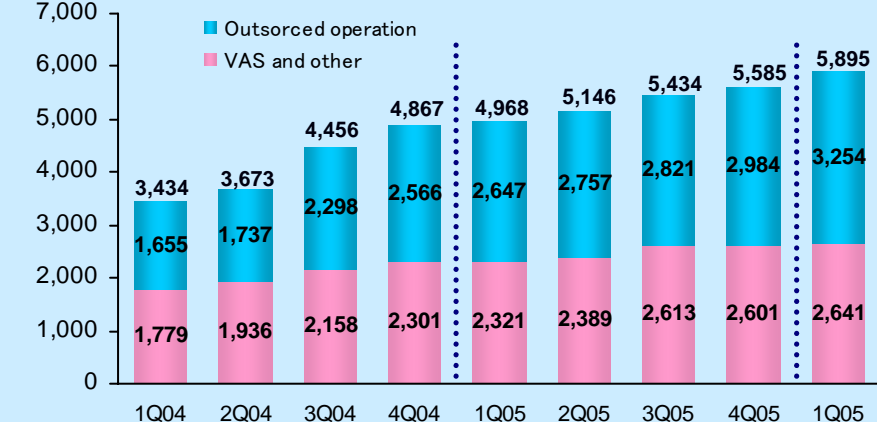
- Gross margin ratio increased by 3.9 percentage points from 1Q05.

OUTSOURCING

Outsourced operations of SI and VAS and other

- Revenues: **JPY 5,895 million (+18.7% from 1Q05)**
 - VAS and other: JPY 2,641 million (+13.8% from 1Q05)
 - Outsourced operation: JPY 3,254 million (+22.9% from 1Q05)
- IIJ expects further increases in the number of outsourced operations and maintenance projects, along with an increase in the number of network systems construction projects

<Trend of Revenues >



Balance Sheets and Cash Flows in 1Q06

(JPY million)

<Balance Sheets>	June 30, 2006	June 30, 2005	Change
Cash	13,091	13,727	(636)
Available-for-sale Securities	4,288	6,775	(2,487)
Long/short-term Borrowings	6,970	6,835	135
Common Stock	16,834	16,834	—
Additional Paid- in Capital	26,559	26,599	—
Accumulated Deficit	(28,947)	(29,680)	734
Accumulated Other Comprehensive Income	4,073	6,554	(2,480)
Total Shareholders' Equity	18,475	20,222	(1,747)
<Cash Flows>	1Q06	1Q05	Change
Net Cash Provided by Operating Activities	905	1,027	(123)
Net Cash Used in Investing Activities	(267)	(43)	(224)
Net Cash Used in Financing Activities	(1,268)	(1,176)	(92)
Cash, End of Each Period	13,091	5,106	7,985

Other Financial Data

(JPY million)

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

(JPY million)

	1Q06	1Q05	Change %
CAPEX	842	533	+57.9%
Deprecation and Amortization	1,107	1,014	+9.2%
Adjusted EBITDA	1,666	1,261	+32.2%

Target for FY2006 Results

(JPY million)

	Actual Results for Three Months Ended June 30, 2006	Target for FY2006	Actual Results for FY2005	YoY Change %
Revenues	12,437	55,000	49,813	+10.4%
Operating Income	559	3,200	2,411	+32.7%
Income before Income Tax Expense	999	6,300	5,379	+17.1%
Net Income	734	5,000	4,754	+5.2%