

Internet Initiative Japan Inc.

1st Half of FY2007 Consolidated Financial Results

President and CEO

Koichi Suzuki

CFO

Akihisa Watai



2007.11.12

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 FY2007 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").

Structural Income Growth Trend

<1H07 (2007/4-9)>

- Total Revenues	30.0 billion	(13.4% YoY)
- Operating Income	1.8 billion	(32.5% YoY)
- Operating Margin Ratio	6.1 %	(+0.9 points YoY)

<2Q07 (2007/7-9)>

- Total Revenues	16.3 billion	(16.3% YoY)
- Operating Income	1.1 billion	(38.6% YoY)
- Operating Margin Ratio	6.9 %	(+1.1 points YoY)

- ◆ We see steady growth in recurring revenues from connectivity and value-added services (“VAS”). Gross margin was improved and structural income growth trend continued.
- ◆ Strong demands for systems integration continued due to the increasing corporate IT investment. Some projects are becoming larger in scale and the order backlog is increasing.

Development for Mid/Long-term Growth

- ◆ We started to provide our high-quality content delivery platform to TV portals, “acTVila”.
- ◆ GDX Japan Inc. (“GDX”) was established and it developed “GDX Trusted Platform” to create a new messaging environment – it plans to start to provide the service in November 2007.
- ◆ We acquired hi-ho, Inc. (“hi-ho”) as 100% owned company to expand our services in the home user market.
- ◆ We partnered with IP related companies such as Taihei Computer Co., Ltd. to expand our business fields.

Strengthening our Business Platform

- ◆ We developed and introduced the Unified Management Platform, Secure Web Platform and IBPS Server Management Services to meet customer outsourcing needs.
- ◆ We developed high-end routers, SEIL/X Series and plan to provide them with our network services from January 2008.
- ◆ We made IIJ Technology Inc. (“IIJ-Tech”) and Net Care, Inc. (“Net Care”) 100% owned. We plan to apply the consolidated tax payment system.
- ◆ We actively recruited new employees – +172 from 4Q06. We had 1,327 employees on the consolidated basis in 2Q07.

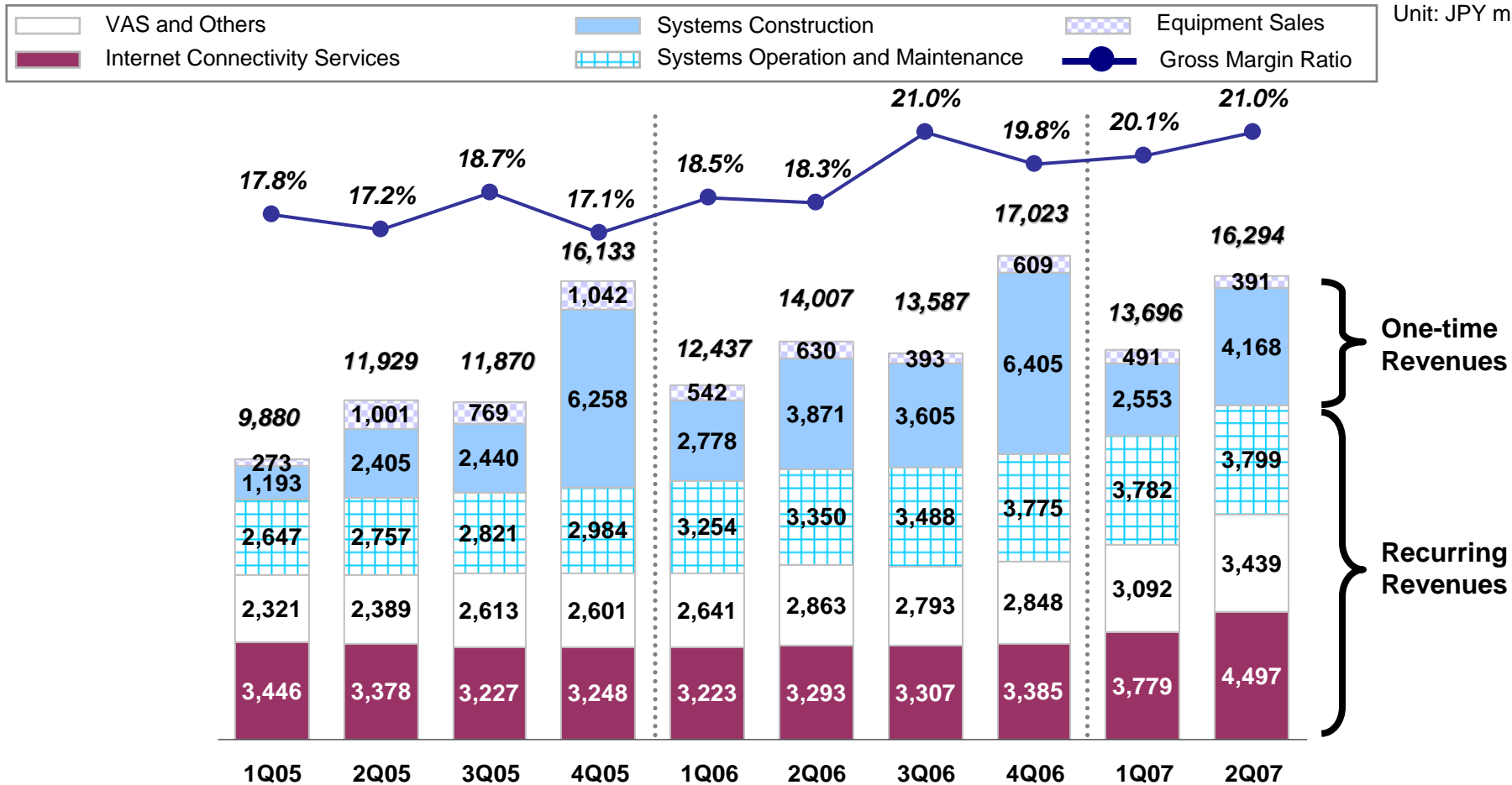
Consolidated Financial Results for 1H07

Unit: JPY billion excluding net income per share

	<i>% of Revenues</i> 1H07 (2007/4-9)	<i>% of Revenues</i> 1H06 (2006/4-9)	YoY
Total Revenues	30.0	26.4	13.4%
Total Costs	<i>79.4%</i> 23.8	<i>81.6%</i> 21.6	10.3%
Gross Margin	<i>20.6%</i> 6.2	<i>18.4%</i> 4.9	27.1%
SG&A/R&D	<i>14.5%</i> 4.4	<i>13.2%</i> 3.5	25.0%
Operating Income	<i>6.1%</i> 1.8	<i>5.2%</i> 1.4	32.5%
Income before Income Tax Benefit	<i>5.7%</i> 1.7	<i>8.1%</i> 2.1	(20.8%)
Net Income	<i>11.6%</i> 3.5	<i>10.8%</i> 2.9	21.8%

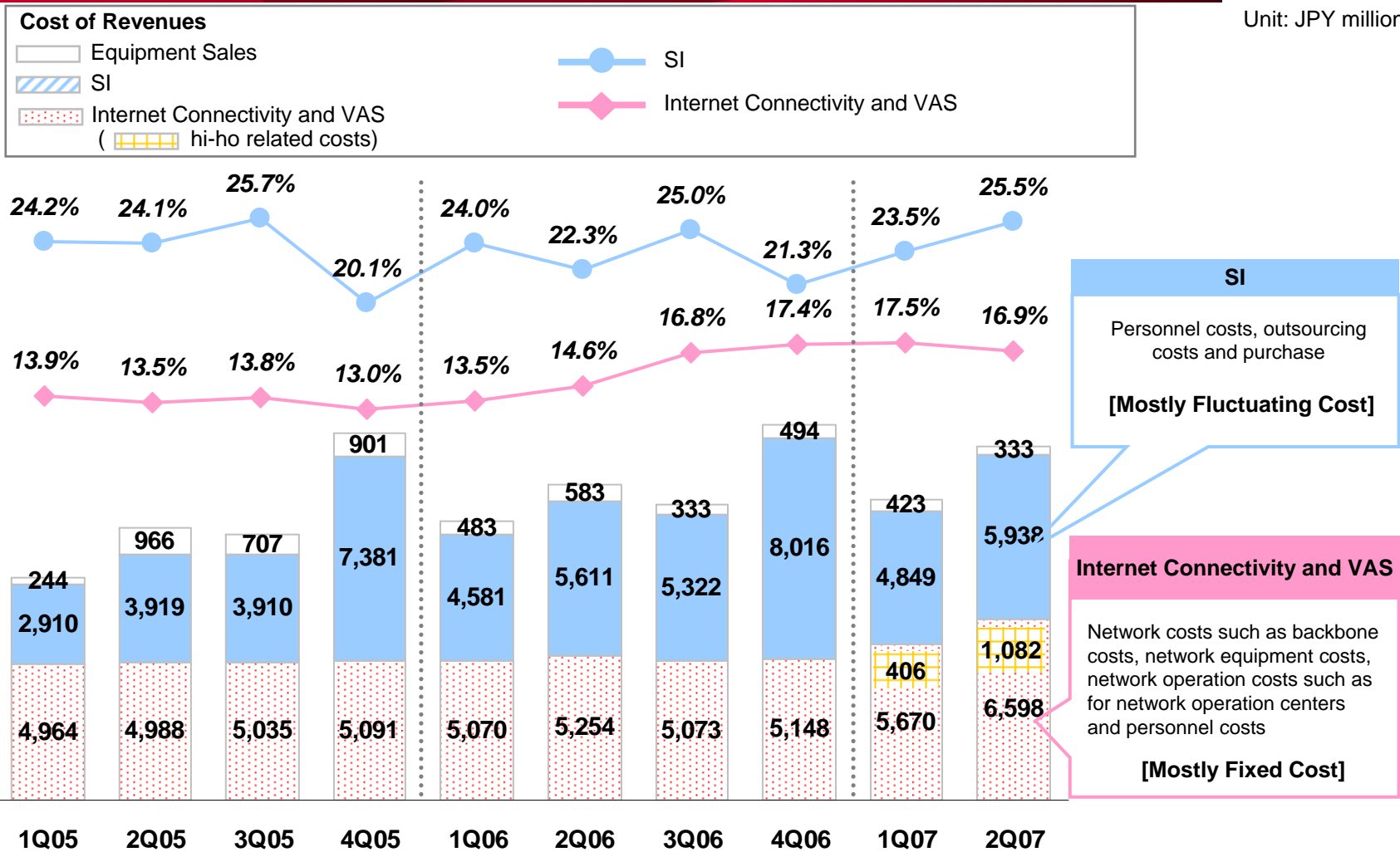
Revenues

Unit: JPY million



- ◆ Steady growth in connectivity services for corporate users (up 8.1% YoY) and the additional revenues from hi-ho of JPY 1,419 million contributed to the overall growth for Internet Connectivity Services (up 27.0% YoY).
- ◆ VAS showed steady growth (up 23.0% YoY) as revenues from anti-spam services or data centers etc. grew.
- ◆ Systems Integration (“SI”) was up 7.9% YoY. Recurring revenues from systems operation and maintenance continued to grow. Systems construction projects are becoming larger in scale to be completed in the latter half of FY2007.
- ◆ Gross margin ratio was 21.0% in 2Q07, up 2.7 points from 2Q06.

Cost of Revenues and Gross Margin Ratio



◆ Cost of Connectivity Service and VAS revenues: Increased by 18.8% YoY in 1H07. Additional cost from hi-ho, we acquired on June 1st 2007 was JPY 1,488 million.

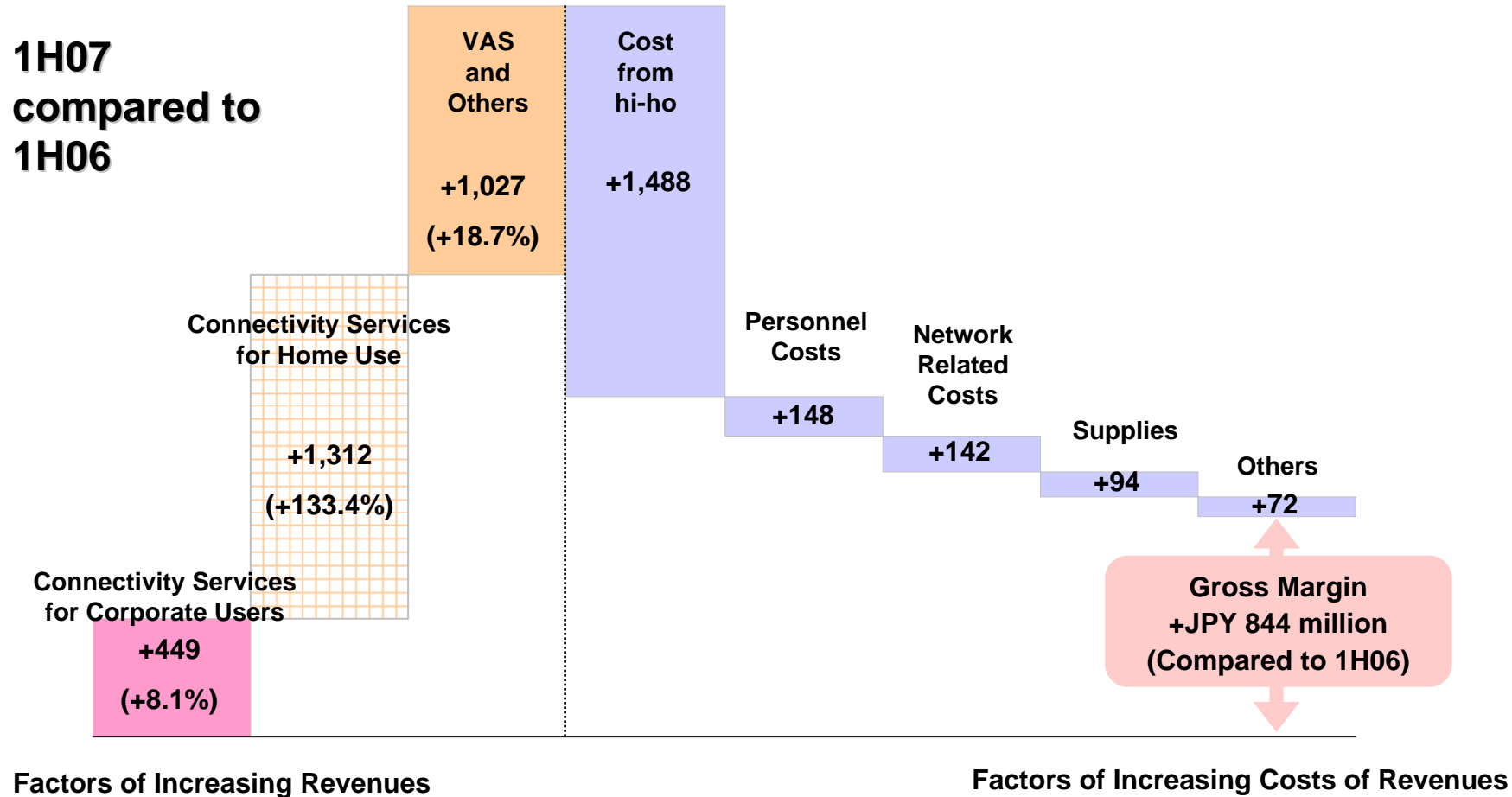
◆ Cost of SI revenues: Increased by 5.8% YoY in 1H07, due to an increase in personnel costs, outsourcing costs and purchase.

Factors for the Increasing Gross Margin from Connectivity and VAS



Internet Initiative Japan

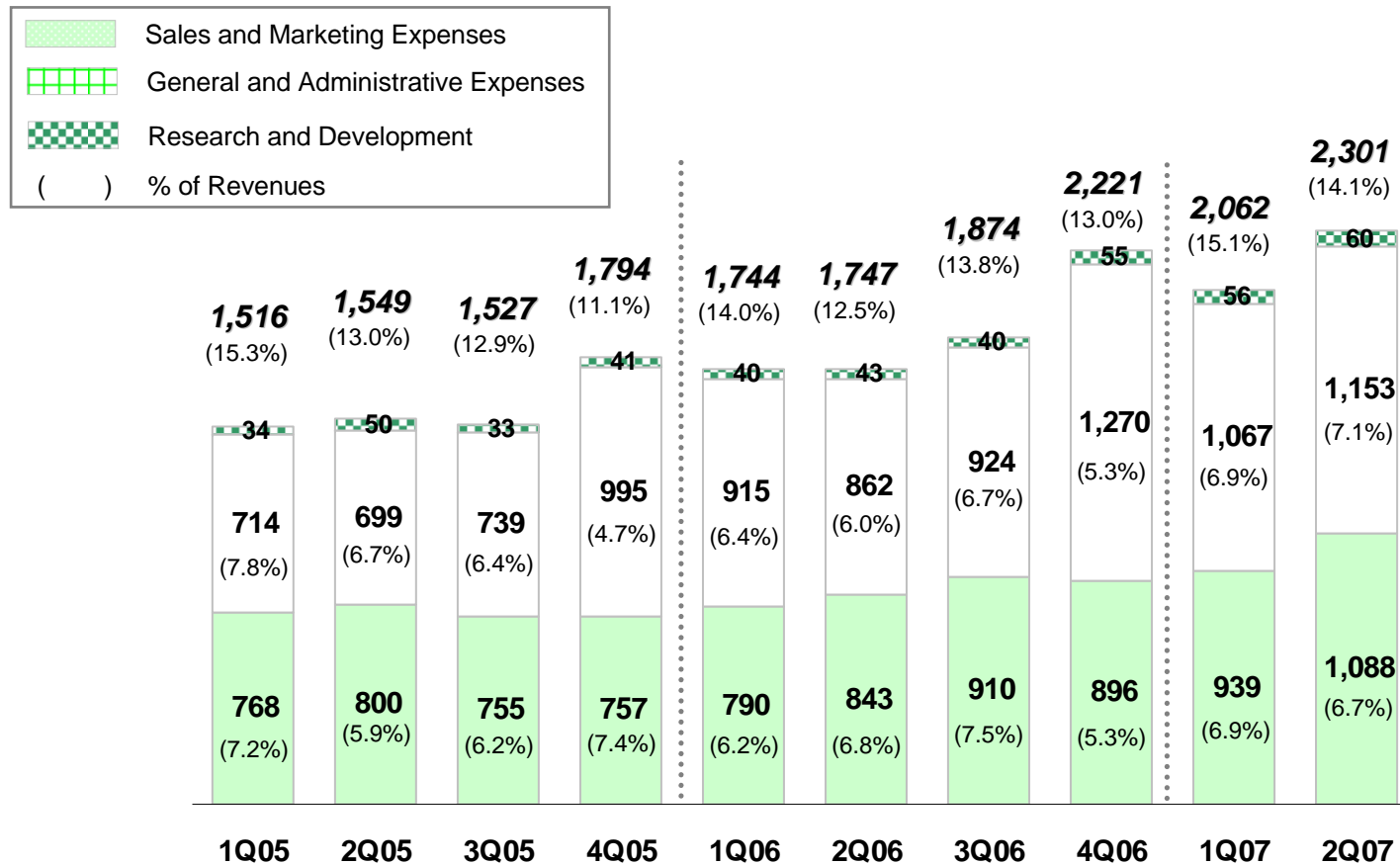
Unit: JPY million



<Comparison to 1H06>

- ◆ Gross Margin: 1H06: JPY 1,695 million -> 1H07: JPY 2,539 million (+JPY 844 million, +49.8%)
- ◆ Gross Margin Ratio: 1H06: 14.1% -> 1H07: 17.1% (+3.0%)

SG&A Expenses/R&D

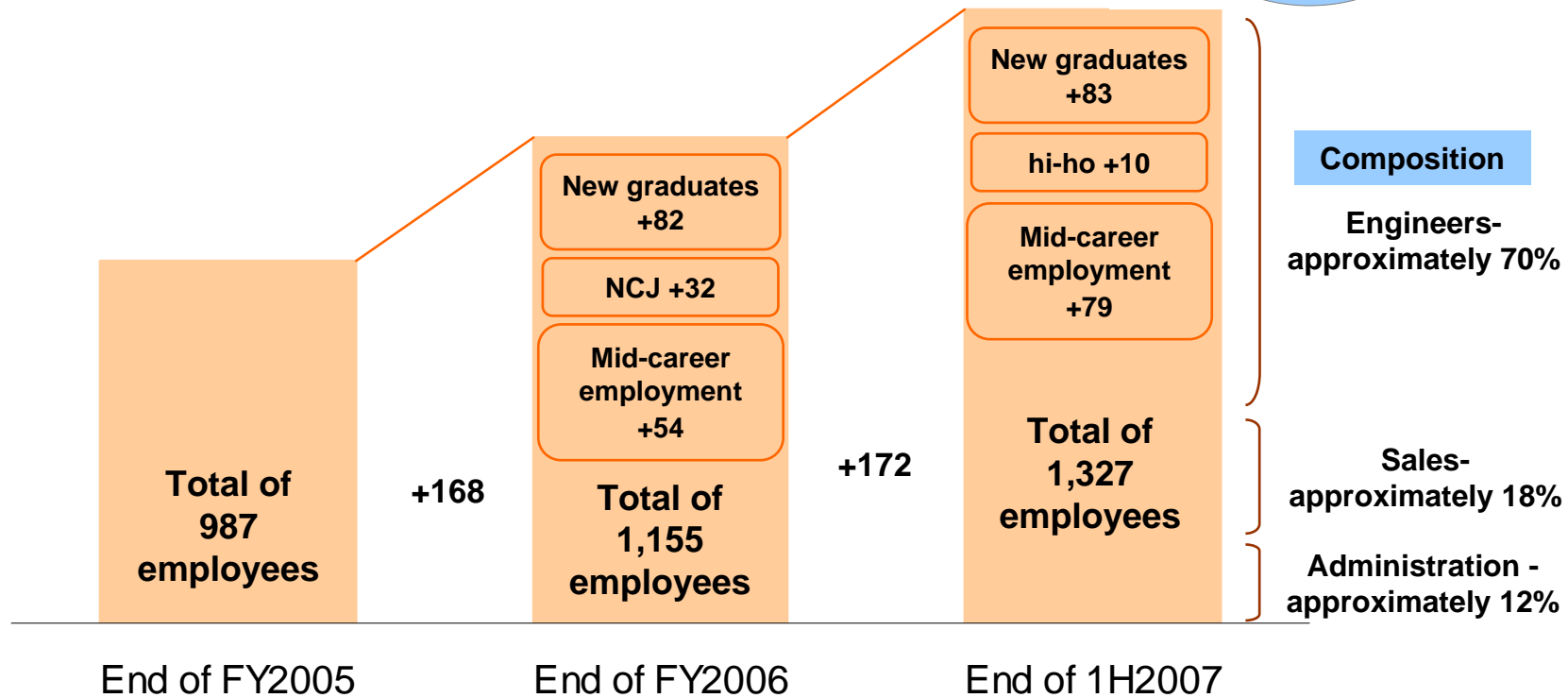
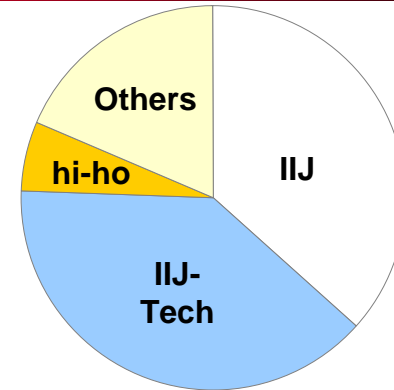


- ◆ Sales and Marketing Expenses (JPY 2,027 million, up 24.2% YoY in 1H07)
Growth in personnel related and advertising expenses, and the addition from hi-ho related sales and marketing expense of JPY 184 million from June 1, 2007.
- ◆ General and Administrative Expenses (JPY 2,220 million, up 24.9% YoY in 1H07)
Growth in personnel related expenses, and an increase in rent expenses due to increase in office space affected by business growth.

Trend in Number of Employees on the Consolidated Basis

We actively recruited new employees to maintain our growth.

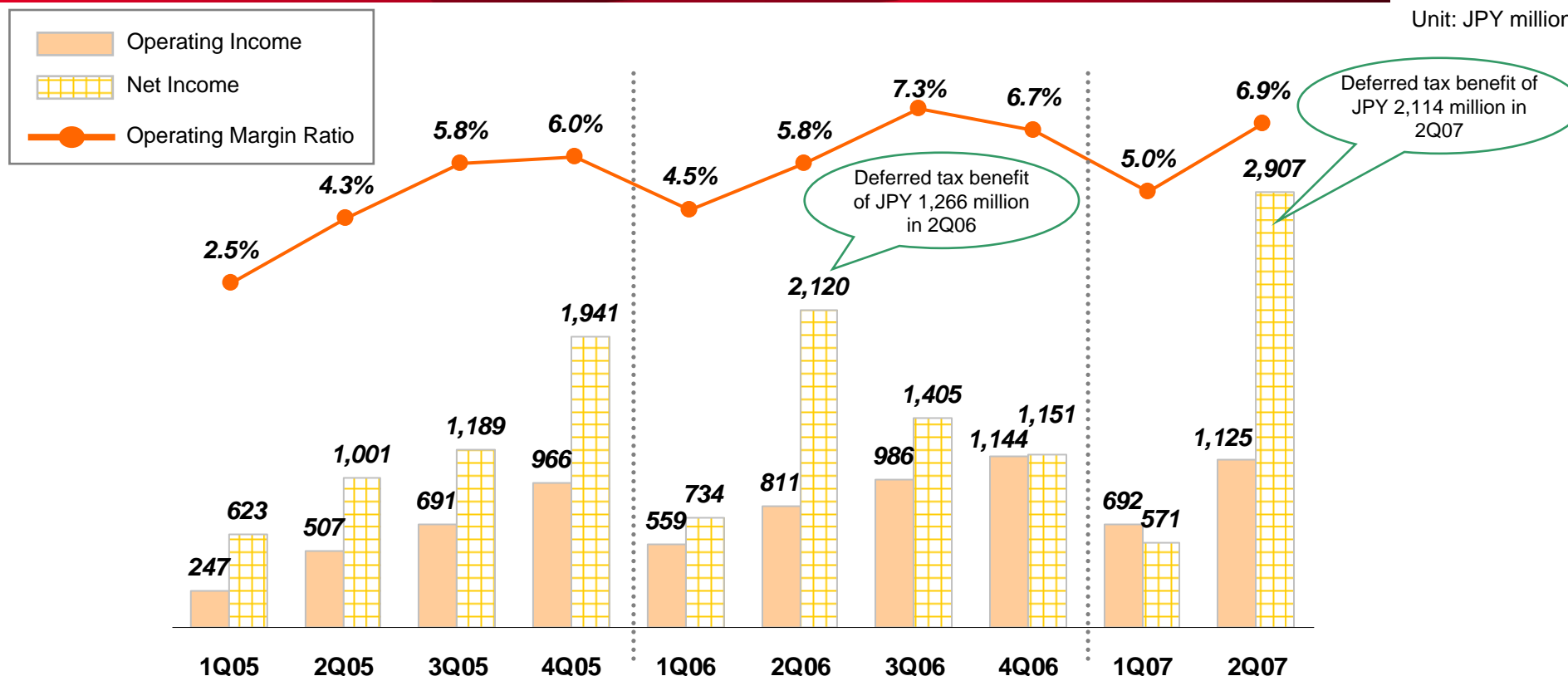
Breakdown of increased numbers of employees by company



(Total of permanent employees and contracted employees)

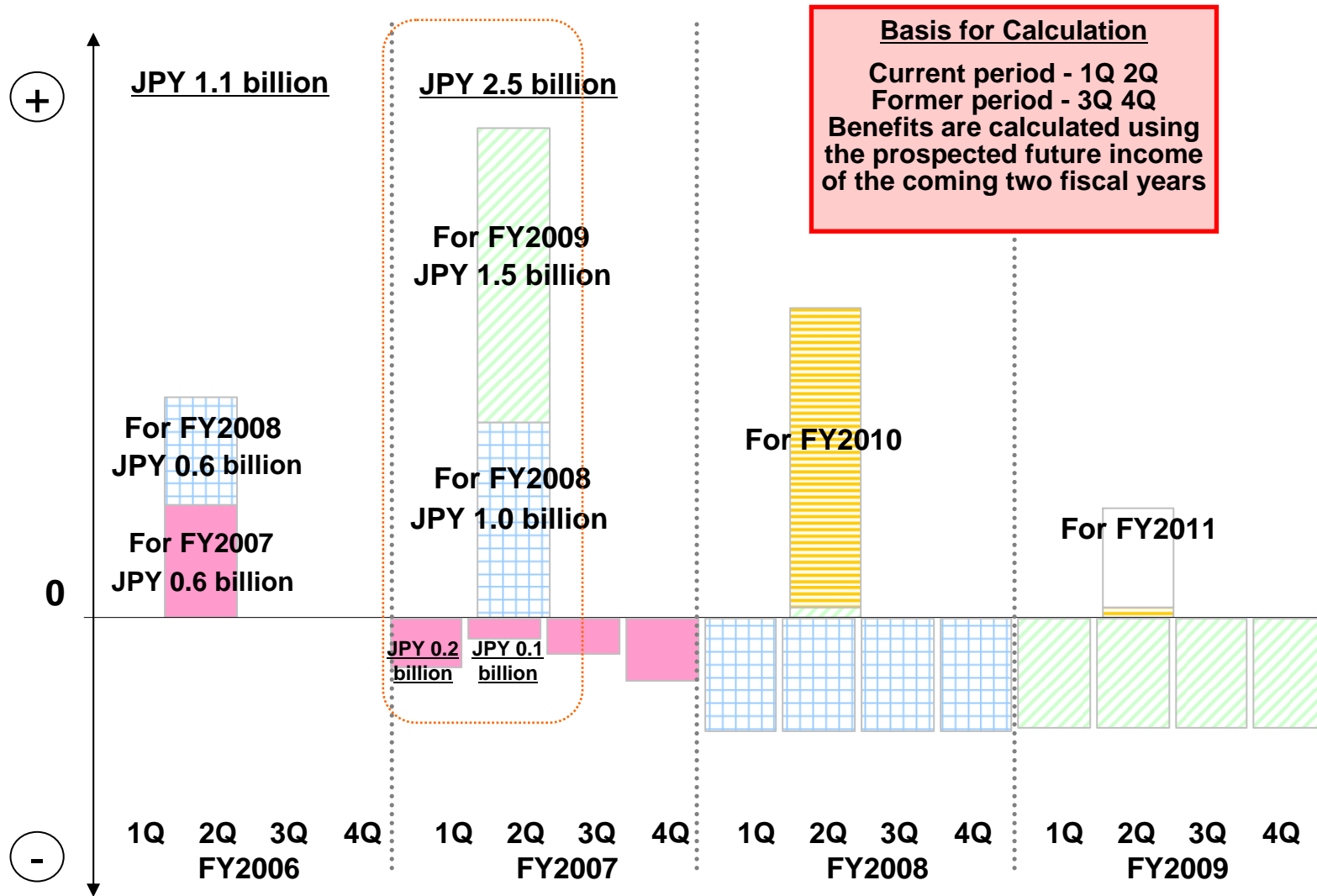
(NCJ: Net Chart Japan Inc.)

Operating and Net Income



- ◆ Operating Income: JPY 1,816 million for 1H07 (up 32.5% YoY) as gross margin from connectivity and VAS, and SI grew steadily.
- ◆ Net Income:
 - Other Income (expense) decreased to other expense of JPY 119 million as gains from sales of available-for-sale securities decreased to JPY 214 million compared to JPY 925 million in 1H06.
 - Income tax benefit was JPY 1,805 million compared to the benefit of JPY 960 million in 1H06 mainly because of deferred tax benefits of JPY 1,970 million resulting from a revision of valuation allowance against deferred income tax assets.
 - Minority interest in losses of subsidiaries in 1H07 was JPY 24 million, affected by the elimination of minority interests related to our 4 consolidated subsidiaries wholly owned by us, after we made our two subsidiaries, IIJ-Tech and Net Care, wholly owned through the share exchanges in May 2007. Minority interest in losses of subsidiaries were related to GDx.
 - Equity in net loss of equity method investees in 1H07 was JPY 49 million, mainly affected by Internet Revolution Inc.

Image of Deferred Tax Benefits (or Expenses)



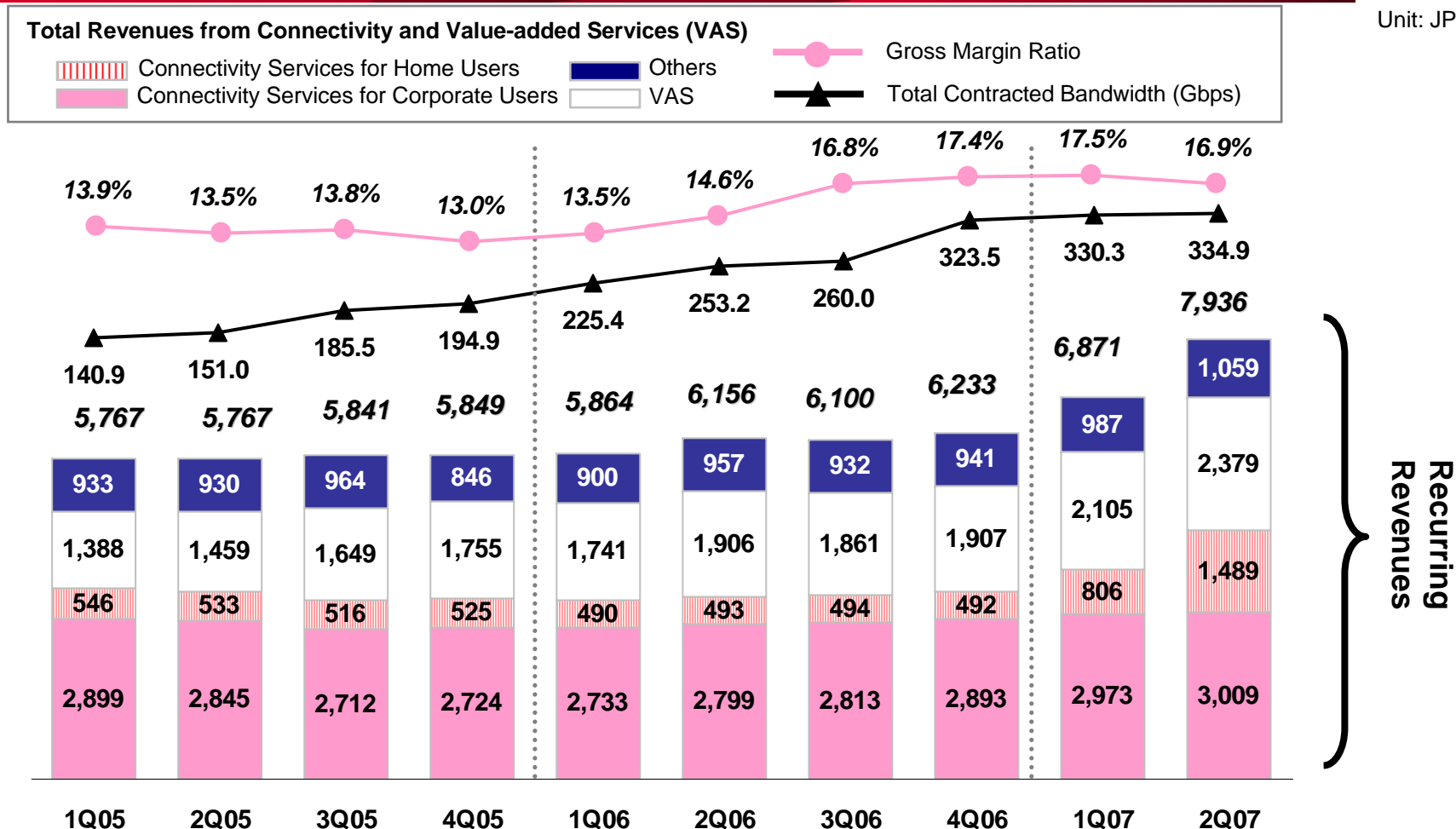
This page shows an image of deferred tax benefit (or expenses) resulting from deferred income tax assets related to the increasing income trend and does not show the actual figures.

Results by Service – Connectivity and VAS



Internet Initiative Japan

Unit: JPY million



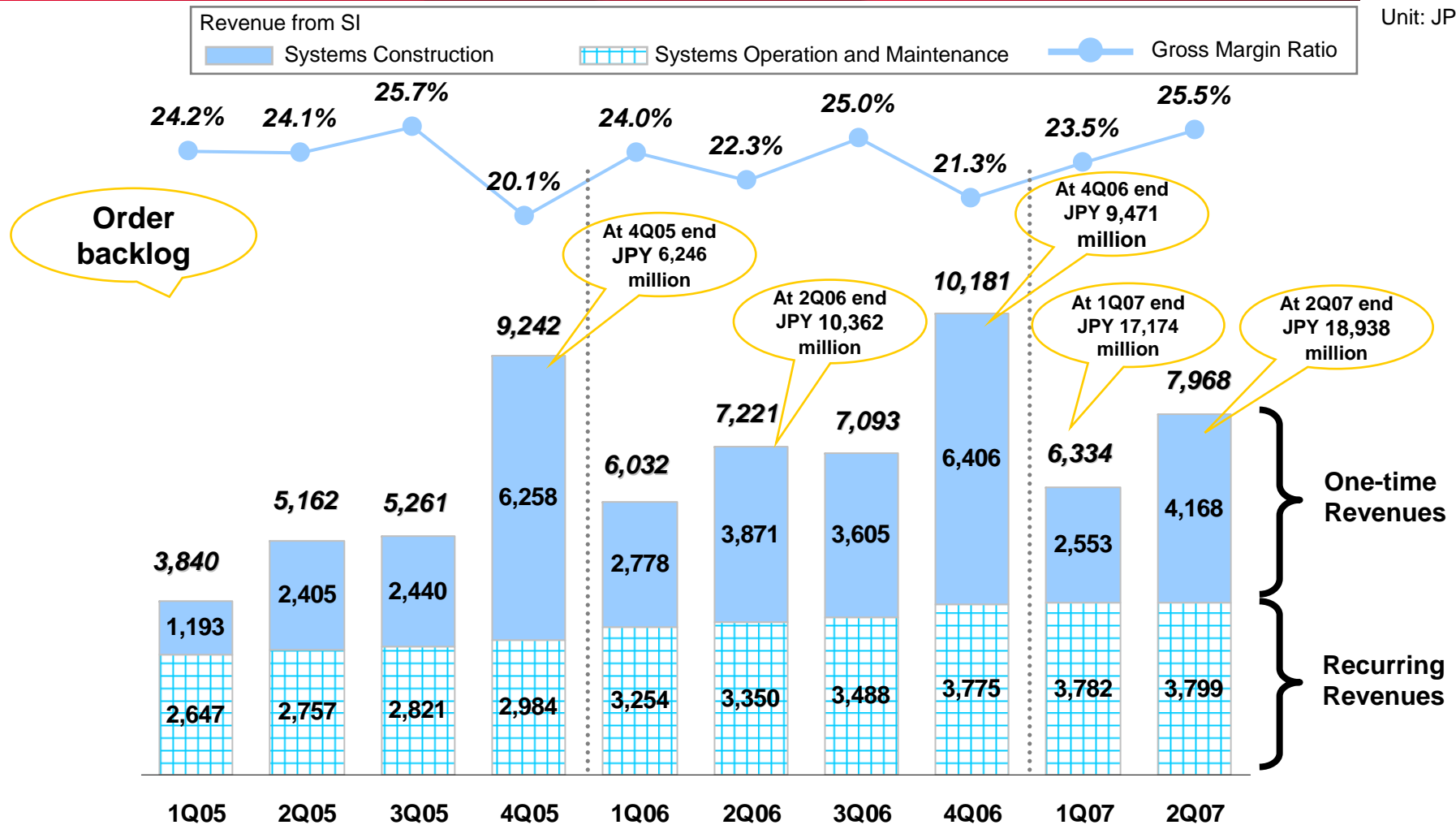
- ◆ Connectivity Service for Corporate Users: JPY 5,981 million in 1H07 (up 8.1% YoY) due to the growth in the contracted bandwidth and in the numbers of connectivity contracts (1H06: 17,739 contracts ->1H07: 22,949 contracts).
- ◆ Connectivity Services for Home Users: up 133.4% YoY in 1H07 contributed by the revenues from hi-ho of JPY 1,419 million from June 1, 2007. Number of hi-ho contracts were 189,872 contracts at the end of 1H07.
- ◆ VAS: Grew 23.0% YoY in 1H07 as revenues grew in anti-spam services, Internet VPN and data centers.
- ◆ Gross Margin Ratio showed a slight decline as there were additional costs from hi-ho, etc. compared to 1Q07.

Results by Service - SI



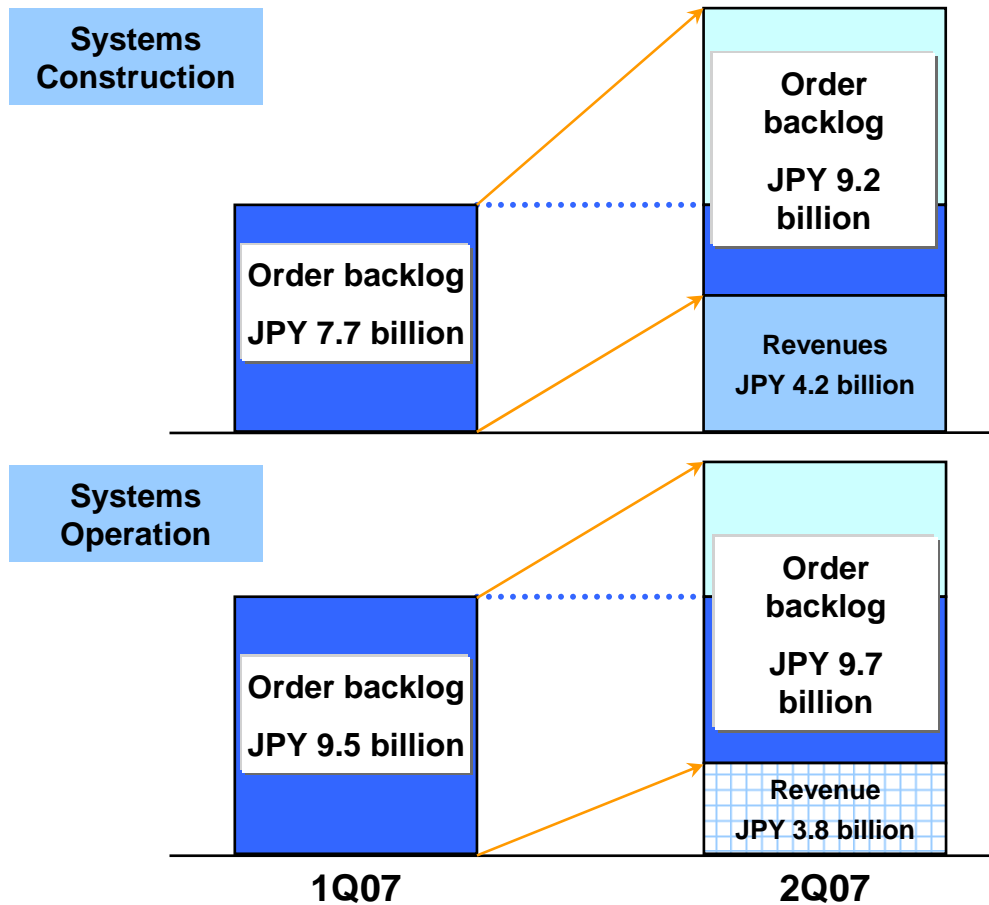
Internet Initiative Japan

Unit: JPY million

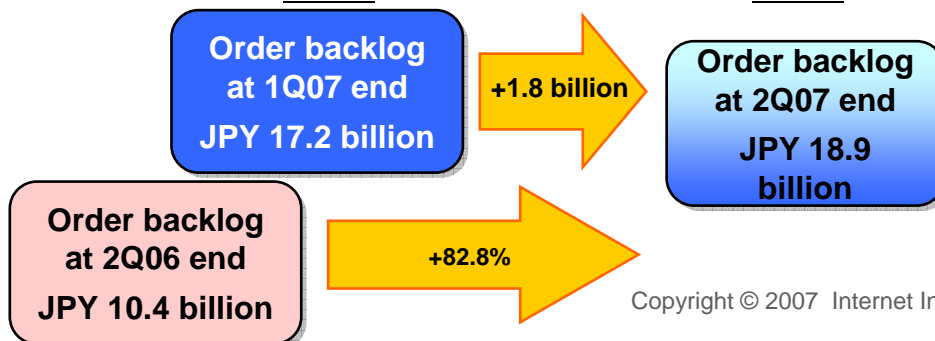


- ◆ Systems Construction: Construction projects are becoming larger in scale to be completed in the latter half of FY2007. Order backlog for SI and equipment sales at 1H07 end increased by 82.8% compared to 2Q06.
- ◆ Systems Operation and Maintenance: Revenues from systems operation and maintenance increased by 14.8% in 1H07 compared to 1H06 as recurring revenues increased continuously.

An Outline of IIJ's SI Projects



- Network Infrastructure Integration
 - Consultation, construction and operation of information network such as corporate WAN projects.
- Server/Hosting Infrastructure Integration
 - Construction and operation of server infrastructure projects such as mail system and data centers.
- Web Application Integration
 - Development of business applications constructed over the network such as large web order systems
- Operation and maintenance, upgrade and replacement projects of existing systems



* Order backlog includes the one for equipment sales.

* This picture is an image.

Consolidated Balance Sheets



Internet Initiative Japan

Unit: JPY million

	September 30, 2007	March 31, 2007	Changes	
Cash	11,670	13,555	(1,885)	
Accounts Receivable	9,107	9,676	(568)	Increased as on-going SI projects increased
Inventories	1,878	1,111	+767	
Prepaid Expenses	1,736	1,053	+682	Increase in maintenance expenses for SI projects
Available-for-sale Securities	1,043	1,310	(266)	
Property and Equipment	11,301	9,832	+1,468	Acquisition of hi-ho and an increase in property for us and to provide services to our customers
Intangible Assets	5,817	2,877	+2,940	Recording of intangible assets of JPY 2,302 million related to acquisition of subsidiary shares and JPY 659 million related to our acquisition of hi-ho (includes amortizable intangible assets of JPY 289 million).
Other Assets	4,478	3,260	+1,217	
Borrowings (Short-term)	10,650	6,340	+4,310	Increase in short-term borrowings of JPY 4,310 million for the acquisition of subsidiary shares from minority shareholders
Accumulated Deficit	(21,100)	(24,271)	+3,171	
Accumulated Other Comprehensive Income	440	950	(509)	
Total Shareholders' Equity	23,786	20,112	+3,674	
Total Assets	53,238	47,693	+5,545	

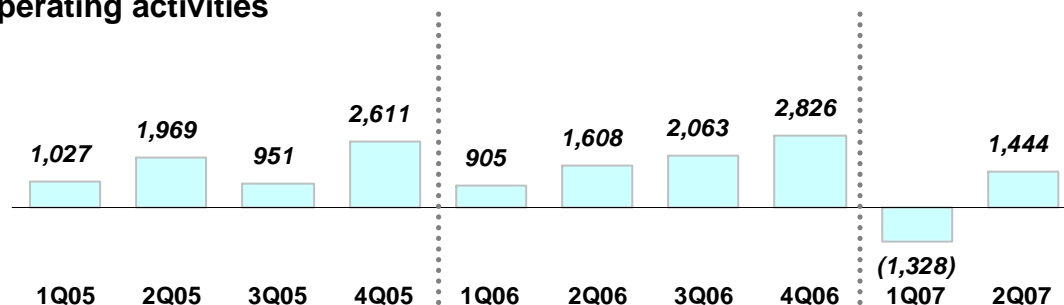
Consolidated Cash Flows



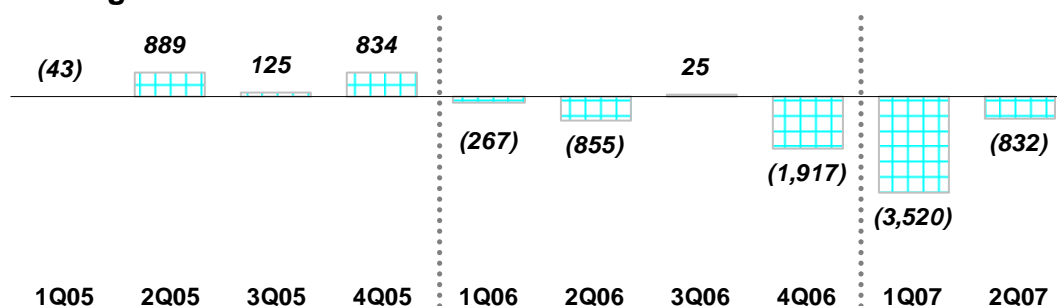
Internet Initiative Japan

Unit: JPY million

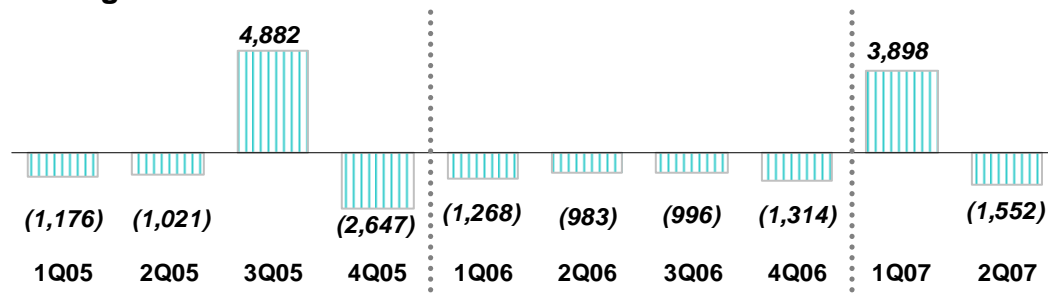
Net cash provided by (used in) operating activities



Net cash provided by (used in) investing activities



Net cash provided by (used in) financing activities



Net cash provided by operating activities was JPY 117 million in 1H07.

- Operating income grew in both 1Q07 and 2Q07 due to the growth in recurring revenues from connectivity and VAS
- 1Q: Recorded net cash used in operating activities of JPY 1,328 million due to payments for inventories and pre-paid expenses related to on-going SI projects, a decrease in accounts payable related to SI projects completed in 4Q06 and payments of income tax.
- 2Q: Recorded net cash provided by operating activities of JPY 1,444 million as effect from changes in operating assets and liabilities weakened.

Net cash used in investing activities was JPY 4,352 million in 1H07.

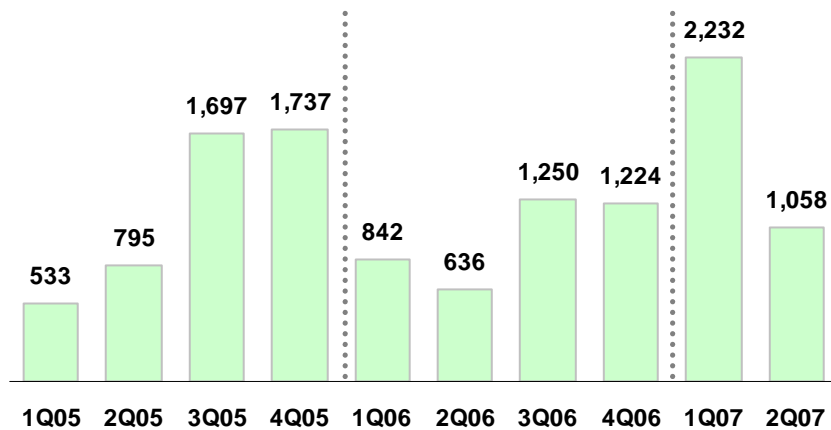
- 1Q: acquisition of shares of consolidated subsidiaries from minority shareholders of JPY 1,975 million, JPY 912 million for the acquisition of hi-ho and purchase of property and equipment of JPY 570 million
- 2Q: purchase of property and equipment of JPY 422 million and investment in an equity method investee of JPY 250 million

Net cash used in financing activities was JPY 2,346 million in 1H07.

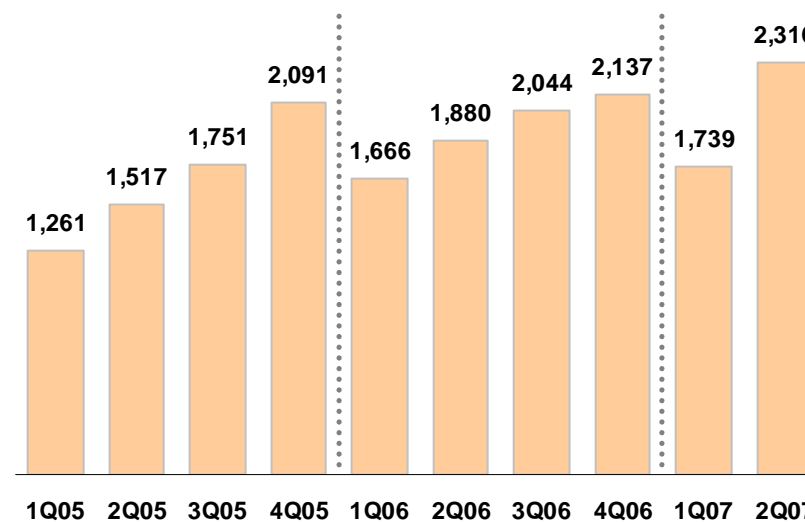
- Borrowing of JPY 4,310 million for 1H07 including short-term borrowings for the acquisition of the two consolidated subsidiaries.
- Principal payments under capital leases of JPY 1,658 million
- Dividend Payments of JPY 306 million

Other Financial Data (CAPEX etc.)

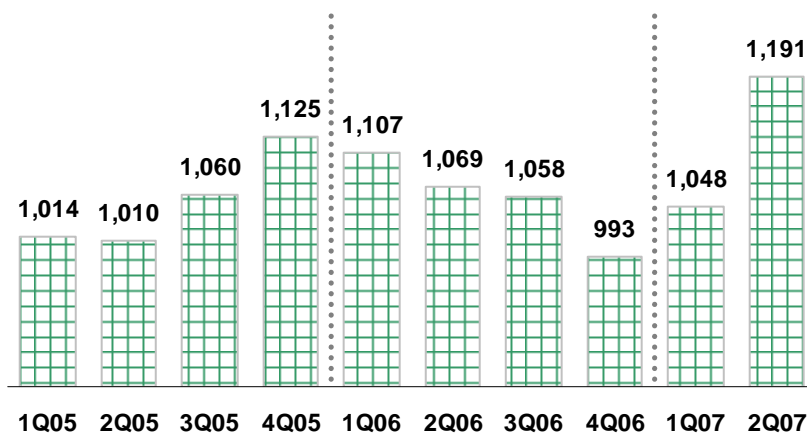
CAPEX



Adjusted EBITDA



Depreciation and Amortization



Major Press Releases

Date	Press Release
7/19	IIJ to Offer Free Trial of the IIJ Document Exchange Service
8/ 9	IIJ to Provide High-Definition Content Delivery Platform to TV Portal Service acTVila
8/29	IIJ to Launch IIJ Secure Web Platform
9/ 3	New Fees Released for the hi-ho HIKARI with FLET'S Mansion Course
9/ 3	IIJ to Test the Earthquake Early Warnings Distribution Service
9/13	GDX Japan Announces the Next Generation Messaging Network for the Enterprise
9/27	Net Care Launches Corporate Hosting Service "Net Care Virtual Platform f.a.s.t"
10/ 1	IIJ to Develop New SEIL/X Series
10/ 2	MF Launches "Multifeed JPNAP Tokyo II Service"
10/10	IIJ Announces New Customer Campaign for IIJ URL Filtering Service
10/29	IIJ Acquires Exclusive License to Patented Information Security Technology
10/31	IIJ Acquires Patent for SMF-LAN

(Reference) Consolidated Financial Results for 2Q07

Unit: JPY billion excluding Net Income per Share

	<i>% of Revenues</i> 2Q07 <i>(2007/7-9)</i>	<i>% of Revenues</i> 2Q06 <i>(2006/7-9)</i>	YoY
Total Revenues	16.3	14.0	16.3%
Total Costs	<i>79.0%</i> 12.9	<i>81.7%</i> 11.4	12.4%
Gross Margin	<i>21.0%</i> 3.4	<i>18.3%</i> 2.6	33.9%
SG&A/R&D	<i>14.1%</i> 2.3	<i>12.5%</i> 1.7	31.7%
Operating Income	<i>6.9%</i> 1.1	<i>5.8%</i> 0.8	38.6%
Income before Income Tax Benefit	<i>5.8%</i> 0.9	<i>8.2%</i> 1.1	(17.9%)
Net Income	<i>17.8%</i> 2.9	<i>15.1%</i> 2.1	37.1%

(Reference) -Revenues from Internet Connectivity and VAS-



Internet Initiative Japan

Unit: JPY million

<Old Classification>

