

Internet Initiative Japan Inc.

Consolidated Financial Results for the Fourth Quarter and Full Fiscal Year Ended March 31, 2007 (FY2006)

President and CEO

Koichi Suzuki

CFO

Akihisa Watai



Internet Initiative Japan Inc.

2007.5.15

Note: Historical quarterly figures from 1Q04 to 3Q04 have been restated to reflect the change in income tax expense (benefit) previously discussed by IIJ in its press release dated April 11, 2005.

Forward-looking Statements

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 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 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.

Summary of Financial Results for FY2006

Highest Level of Revenue and Operating Income in Our History

- Revenues JPY 57.1 billion (YoY +JPY 7.2 billion, +14.5%)
- Operating income JPY 3.5 billion (YoY +JPY 1.1 billion, +45.2%)
- Operating margin ratio 6.1% (YoY +1.3 points)
- Net income JPY 5.4 billion (YoY +JPY 0.7 billion, +13.8%)

Business and Service Developments

- Shift to higher speeds in connectivity services
+23 contracts for over 1Gbps YoY
- Meeting increasing outsourcing needs
 - Development and provisioning of products, such as "IIJ Secure MX Service"
 - New data centers (Shibuya/Ikebukuro)
- Platform service for content distribution
 - Pilot project with a broadcasting company
 - Planning to begin the service in FY2007

Development for Mid/Long-term Growth

- Acquisition of hi-ho, Inc. to expand our services for personal users
- Having made IIJ Technology Inc. and Net Care, Inc 100% owned to enhance our structure and increase efficiency
- Establishment of Net Chart Japan Inc., and GDX Japan, K.K. to expand our business
- Partnership with DreamArts Corporation and Taihei Computer Co., Ltd.

Strengthening Our Corporate Structure

- Elimination of accumulated deficit
Accumulated deficit in our non-consolidated financial statements was eliminated in August 2006
- Listing transferred to TSE1 in Dec. 2006

Return to Shareholders

- Starting dividend payment
 - Planning JPY 1,500 per share for FY2006
 - Targeting JPY 750 for the interim period ending September 30, 2007 and JPY 750 per share for FY2007 (400 ADRs=1 share)

Consolidated Financial Results for FY2006

Unit: JPY billion excluding net income per share

	<i>% of Revenues</i> FY2006 (2006/4-2007/3)	<i>% of Revenues</i> FY2005 (2005/4-2006/3)	YoY	Target (Announced Feb. 8)	% to Target
Total Revenues	57.1	49.8	+ 14.5%	56.5	+ 1.0%
Total Costs	80.6% 46.0	82.4% 41.0	+ 12.1%	-	-
Gross Margin	19.4% 11.1	17.7% 8.8	+ 26.0%	-	-
SG&A/R&D	13.3% 7.6	12.8% 6.4	+ 18.8%	-	-
Operating Income	6.1% 3.5	4.8% 2.4	+ 45.2%	6.0% 3.4	+ 2.9%
Income before Income Tax Expense (Benefit)	8.8% 5.0	10.8% 5.4	- 6.1%	9.2% 5.2	- 2.9%
Net Income	9.5% 5.4	9.5% 4.8	+ 13.8%	9.2% 5.2	+ 4.0%
Net Income per Share	JPY 26,519	JPY 24,301	+ 9.1%	JPY 25,492	+ 4.0%

Consolidated Financial Results for 4Q06 (3 months) IIJ

Internet Initiative Japan

Unit: JPY billion except net income per share

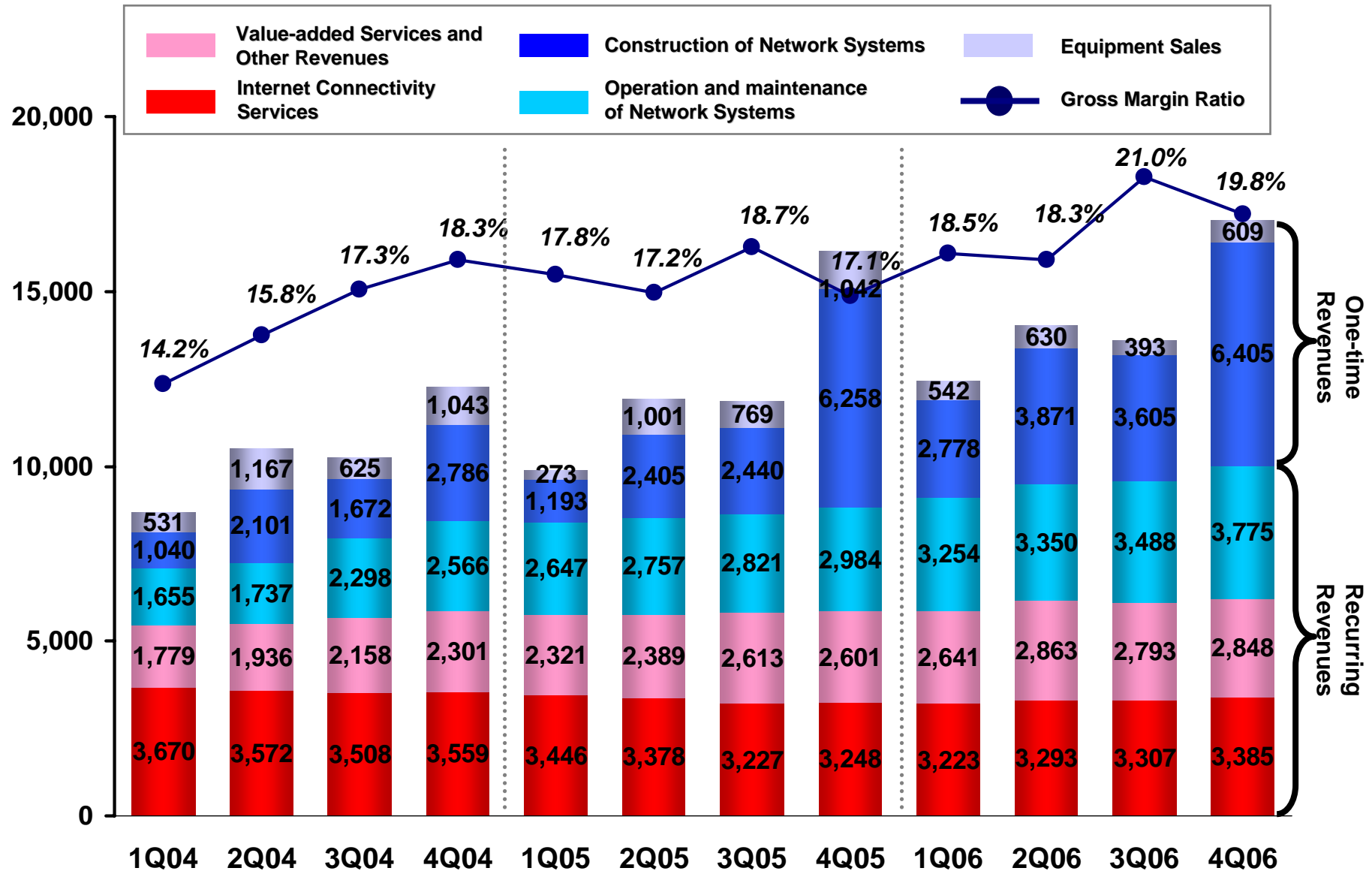
	<i>% of Revenues</i> 4Q FY2006 (2007/1-3)	<i>% of Revenues</i> 4Q FY2005 (2006/1-3)	YoY
Total Revenues	17.0	16.1	+ 5.5%
Total Costs	<i>80.2%</i> 13.7	<i>82.9%</i> 13.4	+ 2.1%
Gross Margin	<i>19.8%</i> 3.4	<i>17.1%</i> 2.8	+ 21.9%
SG&A/R&D	<i>13.0%</i> 2.2	<i>11.1%</i> 1.8	+ 23.8%
Operating Income	<i>6.7%</i> 1.1	<i>6.0%</i> 1.0	+ 18.4%
Income before Income Tax Expense (Benefit)	<i>7.6%</i> 1.3	<i>14.0%</i> 2.3	- 42.6%
Net Income	<i>6.7%</i> 1.2	<i>12.0%</i> 1.9	- 40.7%
Net Income per Share	JPY 5,641	JPY 9,517	- 40.7%

Trend of Quarterly Revenues



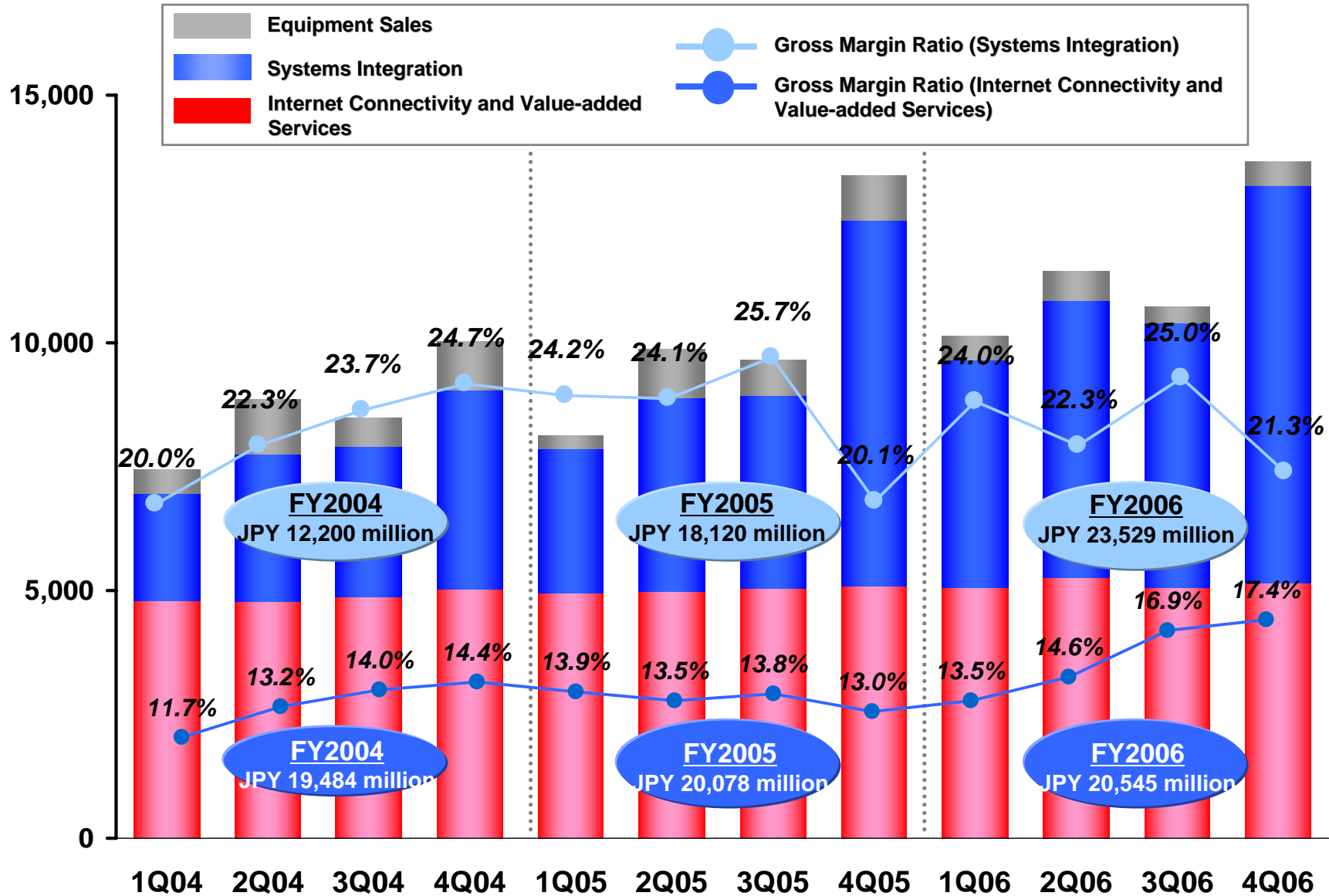
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Unit: JPY million



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Trend of Quarterly Cost of Revenues

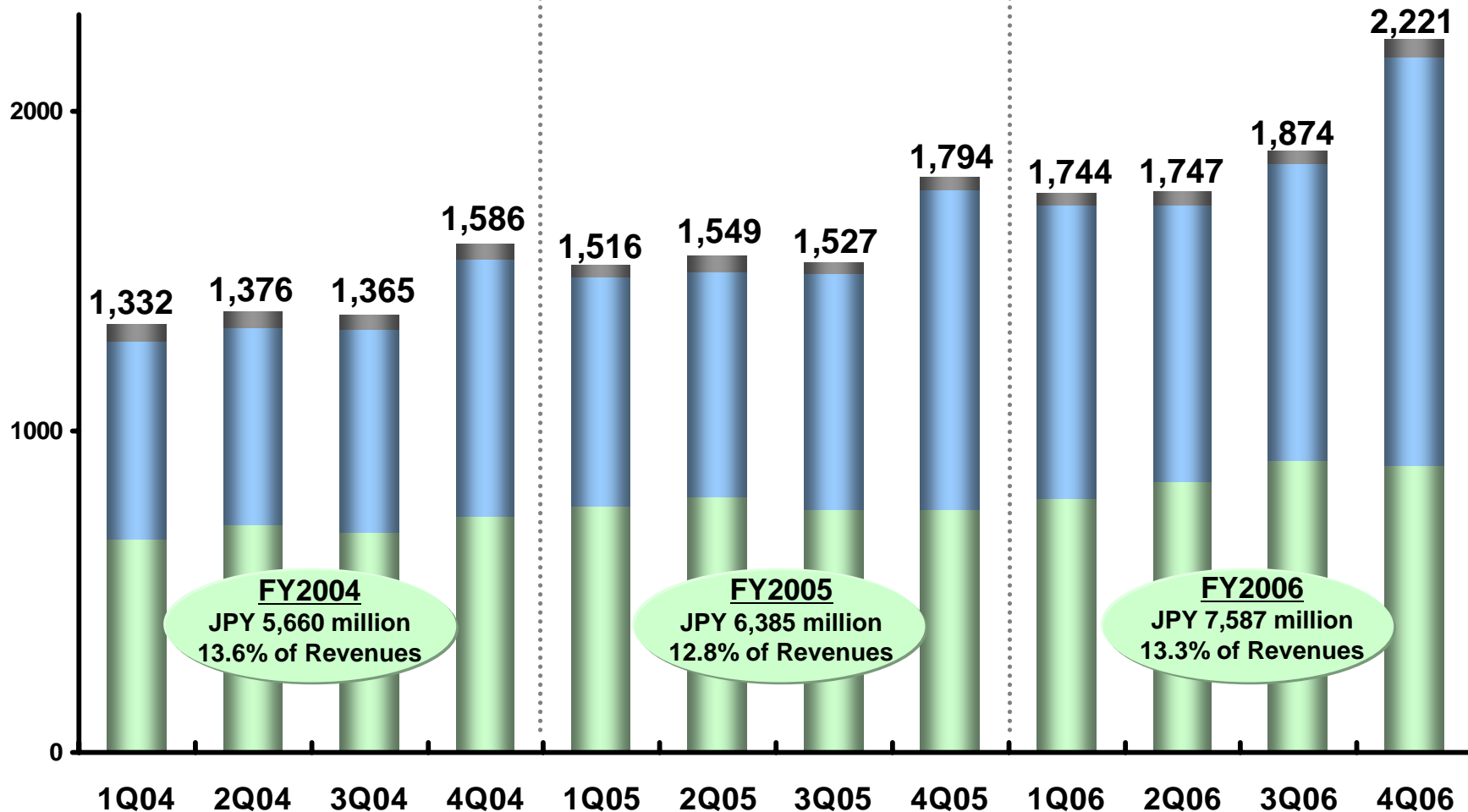


Trend of Quarterly SG&A Expenses/R&D

■ Sales and Marketing
 ■ General and Administrative
 ■ Research and Development

General and administrative expenses in FY2006 increased by 18.8% YoY mainly due to an increase in personnel expenses and advertising expenses

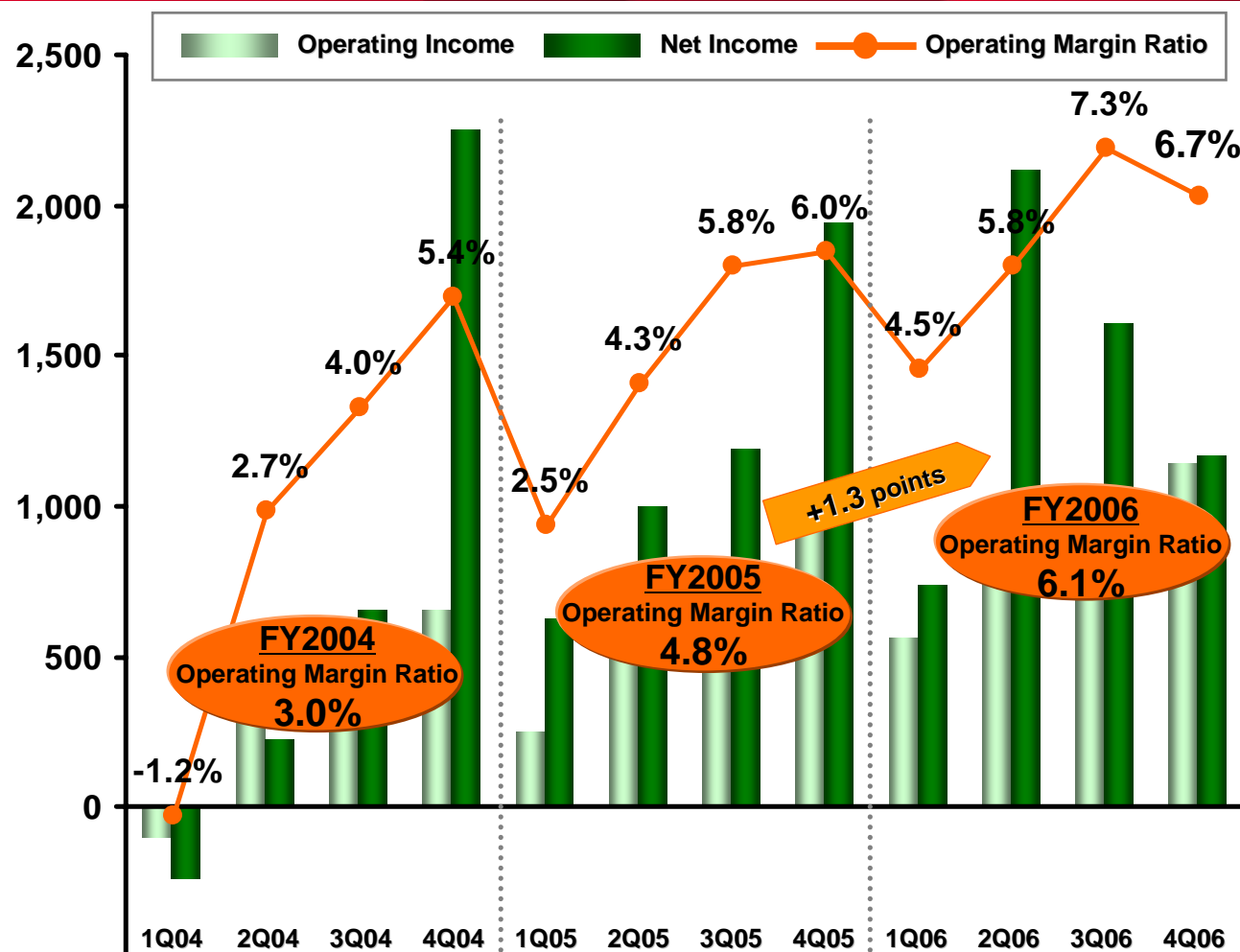
In 4Q06, there was a one-time factor of allowance of retirement benefit for directors of JPY 200 million and allowance for compensated absence of JPY 225 million (including cost of revenues)



Trend of Quarterly Operating and Net Income (Loss) IIJ

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Unit: JPY million



	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06
Operating Income	(100)	282	410	656	247	507	691	966	559	811	986	1,144
Net Income	(238)	229	660	2,256	623	1,001	1,189	1,941	734	2,120	1,405	1,151
OMR*	(1.2%)	2.7%	4.0%	5.4%	2.5%	4.3%	5.8%	6.0%	4.5%	5.8%	7.3%	6.7%

* Operating Margin Ratio

◆ Operating Income

Revenues from Internet connectivity and value-added services and systems integration increased

FY05: JPY 2,411 million
-> FY06: JPY 3,500 million
(+45.2% YoY)

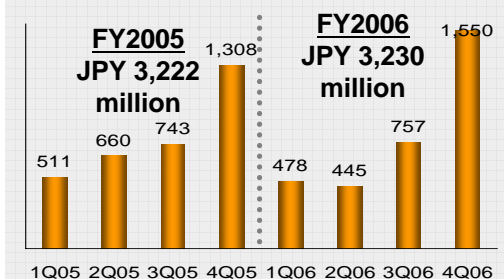
◆ Operating Margin Ratio

FY05: 4.8% -> FY06: 6.1%
(+1.3 points YoY)

◆ Net Income

➤ Other income: JPY 1,548 million, affected by an impairment loss of JPY 1,363 million on unlisted securities, JPY 1,043 million on securities of IPMobile Incorporated

➤ Gain from sale of available-for-sale securities (in other income)



➤ Income tax benefit: JPY 804 million

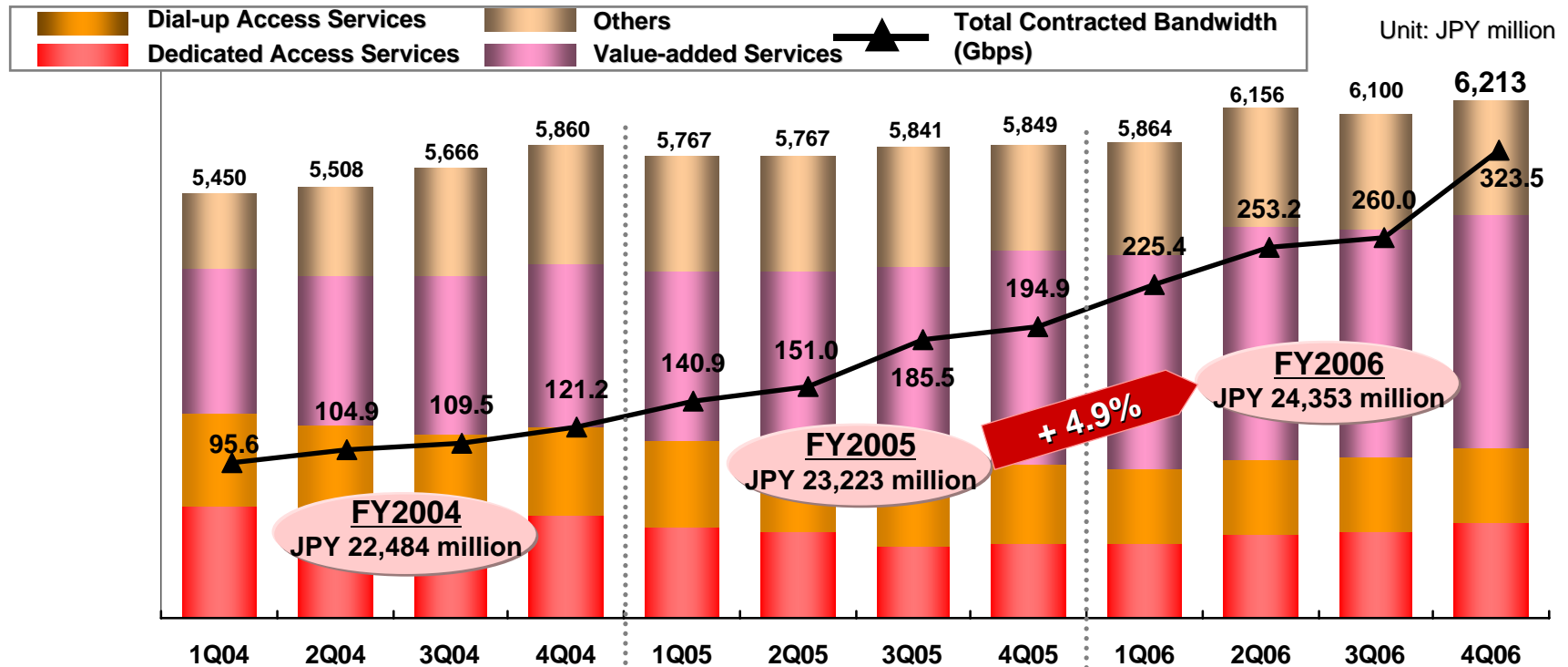
➤ Minority interests in earnings of subsidiaries: JPY 233 million

➤ Equity in net loss of equity method investees: JPY 210 million

Results by Service – Connectivity and Value-added Services



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	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06
Other	592	716	882	979	933	930	964	846	900	957	932	941
Value-added Services	1,187	1,220	1,276	1,322	1,388	1,459	1,649	1,755	1,741	1,906	1,861	1,907
Dial-up access Services	752	740	727	718	699	682	648	645	607	606	604	599
Dedicated access Services	2,918	2,832	2,781	2,841	2,747	2,695	2,580	2,603	2,616	2,687	2,703	2,786

- Dedicated Access Services

Number of contracts increased for higher speeds of IP Services (63 contracts over 1Gbps, +18 contracts YoY)
 Revenues: JPY 10,792 million, +1.6% YoY, despite a decrease in revenues from interconnection of networks with Asia Internet Holding, due to a merger of the company into IIJ (JPY 468 million) (+6.3% YoY without the decrease)

- Dial-up Access Services

Revenues: -9.6% YoY, mainly due to the discontinuance of services IIJ had provided as an OEM and a decrease in revenues from IIJ4U/mio

- Value-added Services

Revenues: +18.7% YoY. Outsourcing demands continued to be strong, including products such as "IIJ Secure MX" and data centers

- Gross Margin Ratio

FY05: 13.5% -> FY06 : 15.6%
 (+2.1 points YoY)

- Number of Contracts for Dedicated Access Services

FY05: 14,549 -> FY06 : 17,720
 (+3,171 contracts YoY)

- Total Contracted Bandwidth

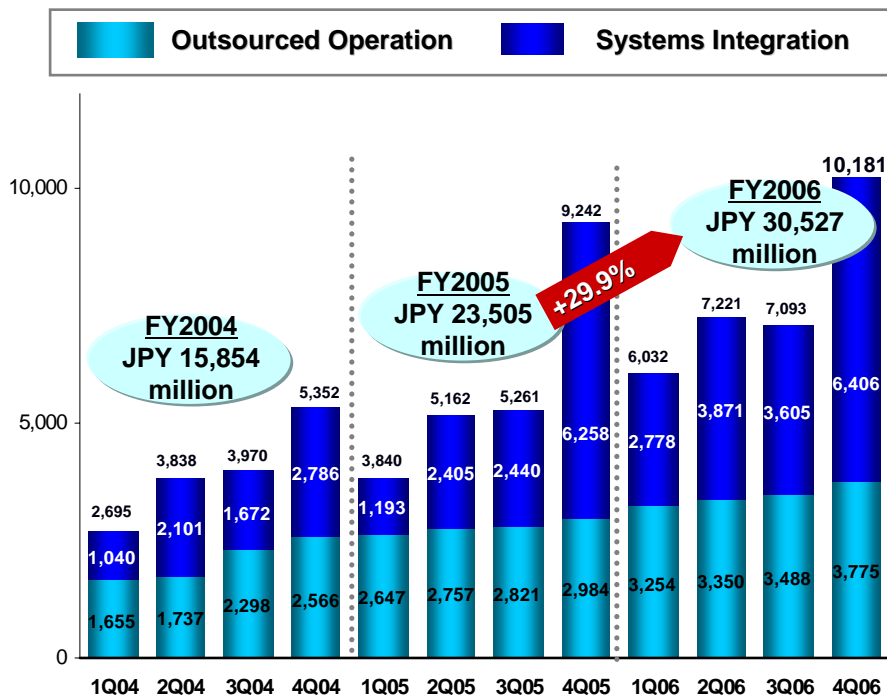
FY05 : 194.9Gbps -> FY06 : 323.5Gbps
 (+128.6Gbps YoY)

Results by Service – Systems Integration



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Unit: JPY million



Corporate customers' needs for construction of IP-based network systems continued to be strong

- One-time revenues from systems construction increased significantly
- Recurring revenues from systems operation and maintenance increased stably

- Total Revenues

FY05: JPY 23,505 million -> FY06: JPY 30,527 million

(+29.9% YoY)

➤ Network systems construction

FY05: JPY 12,296 million -> FY06: JPY 16,660 million

(+35.5% YoY)

➤ Network systems operation and maintenance

FY05: JPY 11,209 million -> FY06: JPY 13,867 million

(+23.7% YoY)

- Order Backlog

FY05: JPY 6,247 million -> FY06: JPY 9,471 million

(+51.6% YoY)

- Gross Margin Ratio FY05 : 22.9% -> FY06 : 22.9%

<Outsourcing> Network Systems Operation and Maintenance + Value-added Services and Other Revenues

- Outsourcing Revenues

FY05: JPY 21,133 million -> FY06: JPY 25,013 million

(+18.4% YoY)

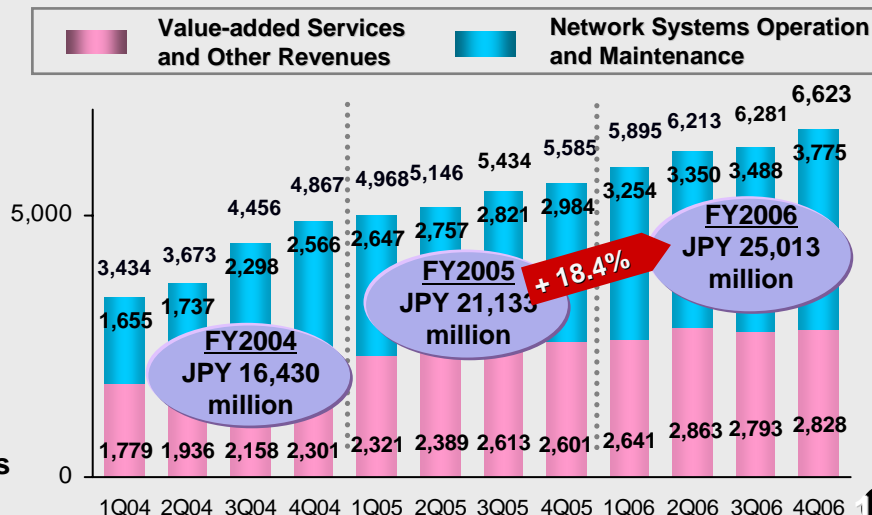
➤ Value-added Services and Others

FY05: JPY 9,924 million -> FY06: JPY 11,145 million (+12.3% YoY)

➤ Network Systems Operation and Maintenance

FY05: JPY 11,209 million -> FY06: JPY 13,867 million (+23.7% YoY)

- Operation and maintenance will be expected to increase along with increasing systems construction revenues and value-added services
- will be expected to increase by enhancement of solution line-ups



Balance Sheets

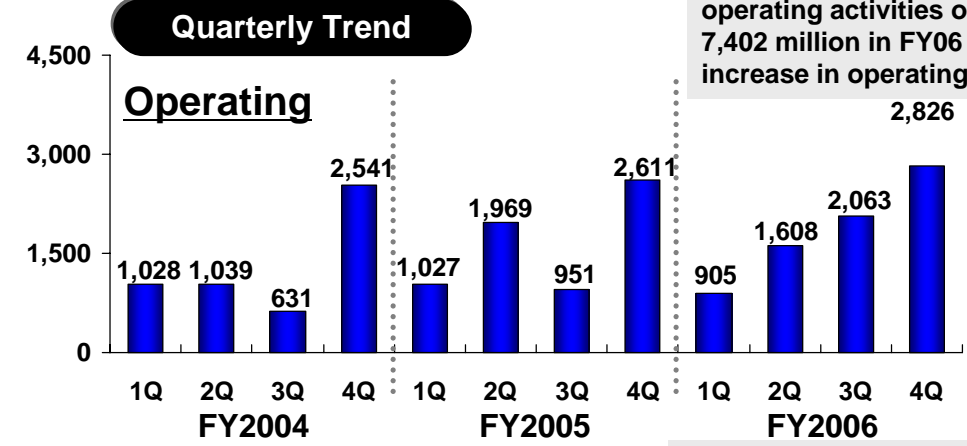
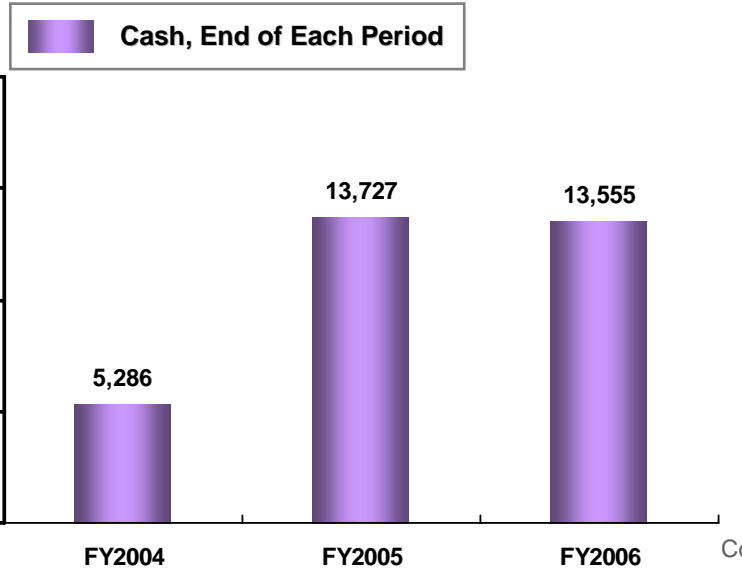
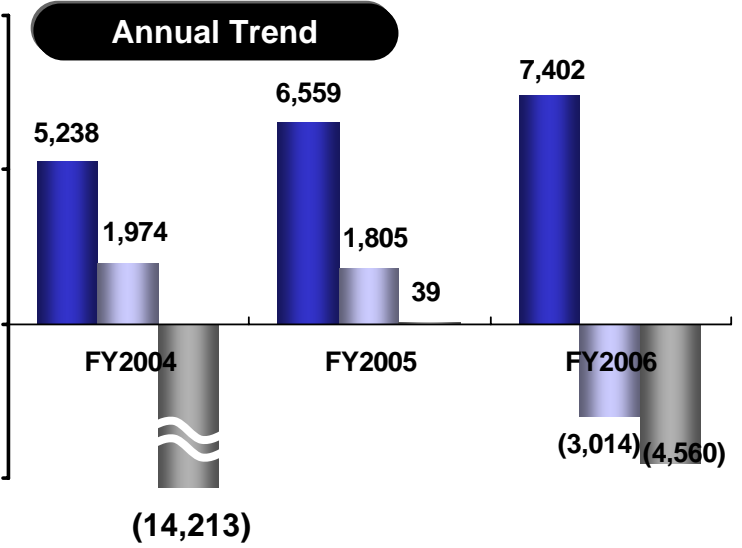


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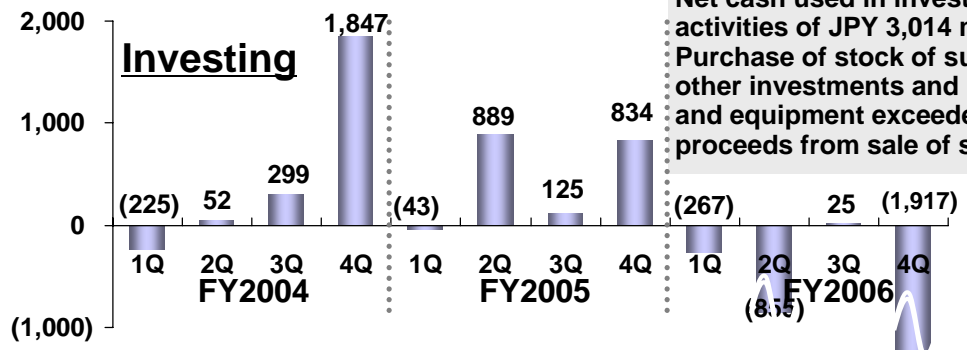
Unit: JPY million

	<i>% of Total Assets</i> March 31, 2007	<i>% of Total Assets</i> March 31, 2006	YoY	
Cash	28.4% 13,555	27.1% 13,727	-172	
Accounts Receivable	20.3% 9,676	23.6% 11,962	-2,287	
Available-for-sale Securities	2.7% 1,310	13.3% 6,775	-5,465	Sale of equity securities and market value fluctuation
Intangible Assets	6.0% 2,877	1.2% 633	+2,244	Purchase of minority interests in subsidiaries
Other Assets	6.9% 3,260	2.5% 1,253	+2,007	A release of valuation allowance against deferred income tax assets
Bank Borrowings (Long and Short-term)	13.3% 6,340	13.5% 6,835	-495	Repayment of long-term borrowings
Accumulated Deficit	-50.9% -24,271	-58.5% -29,680	+5,410	
Accumulated Other Comprehensive Income	2.0% 950	12.9% 6,554	-5,604	Decrease in the market value of equity securities
Total Shareholders' Equity	42.2% 20,112	39.9% 20,222	-110	
Total Assets	47,693	50,705	-3,012	

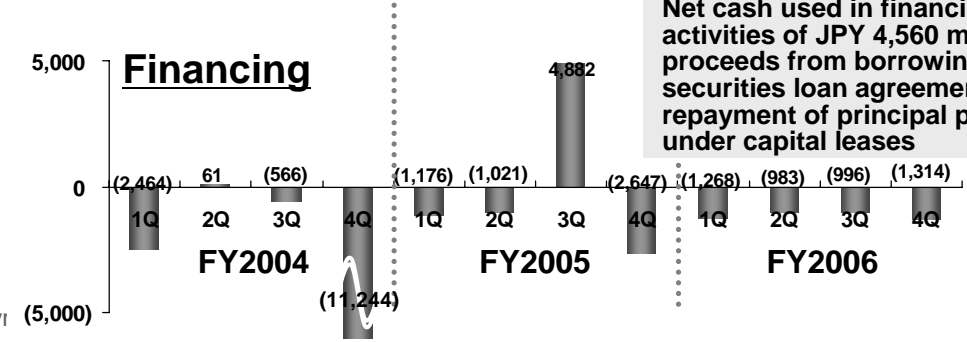
Cash Flows



Net cash provided by operating activities of JPY 7,402 million in FY06 due to an increase in operating income



Net cash used in investing activities of JPY 3,014 million: Purchase of stock of subsidiaries, other investments and property and equipment exceeded proceeds from sale of securities

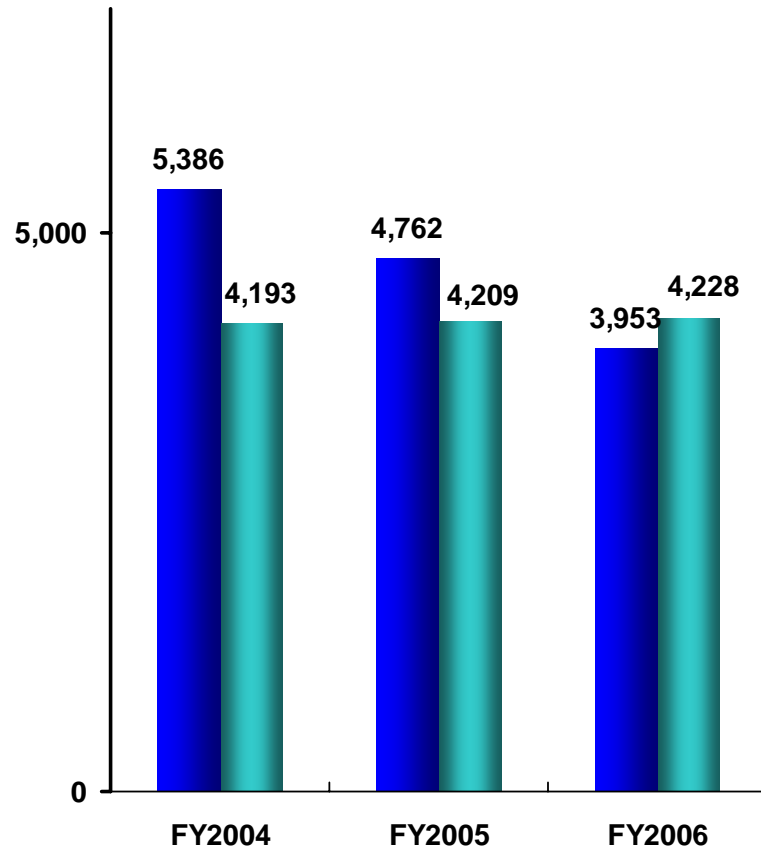


Net cash used in financing activities of JPY 4,560 million: proceeds from borrowings and securities loan agreement, repayment of principal payments under capital leases

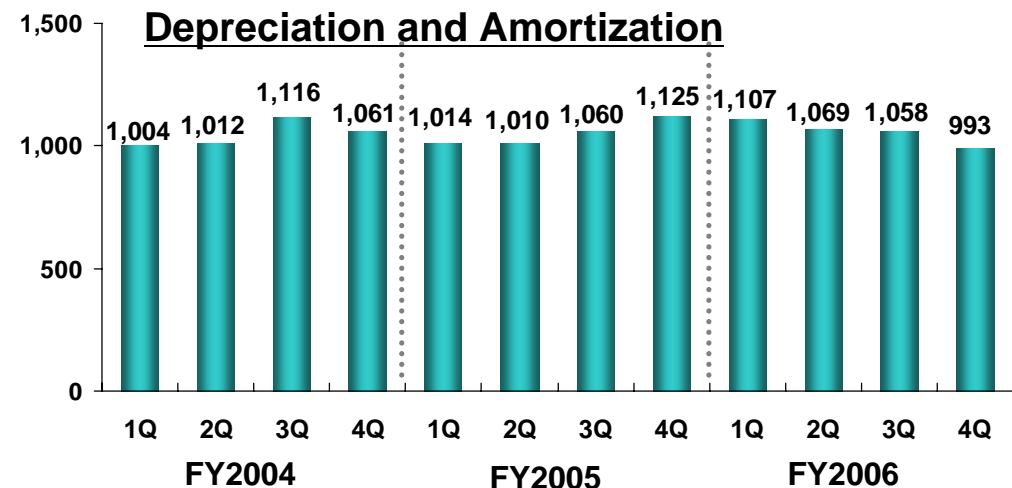
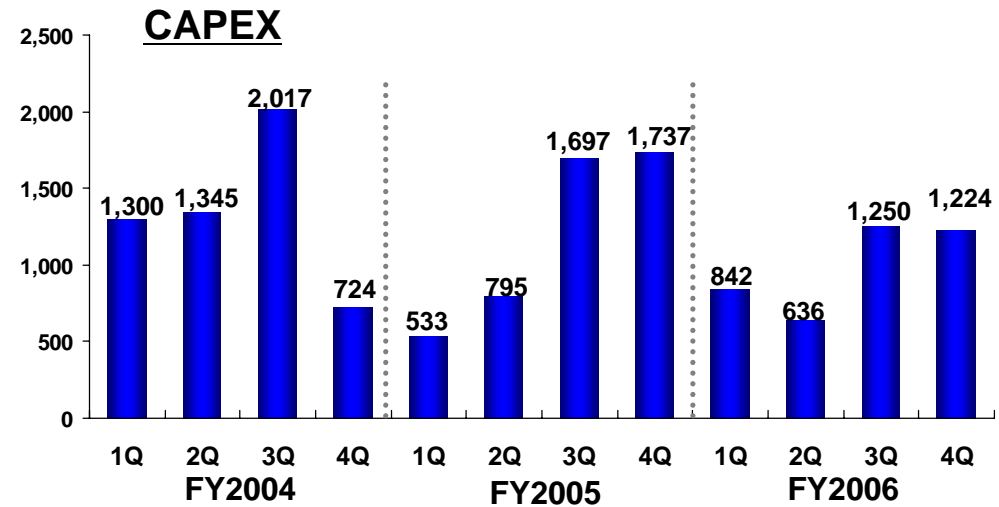
Other Financial Data (CAPEX etc.)

■ CAPEX
 ■ Depreciation and Amortization

Annual Trend



Quarterly Trend



Other Financial Data (Adjusted EBITDA)

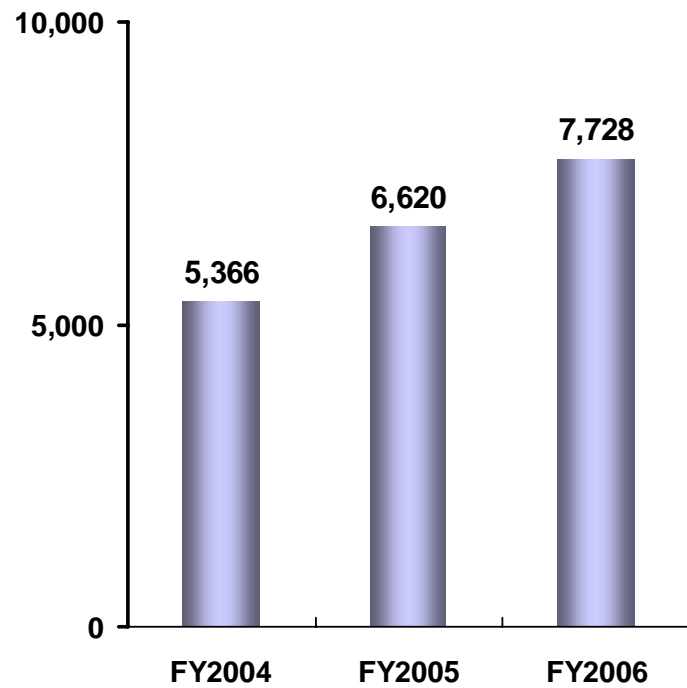


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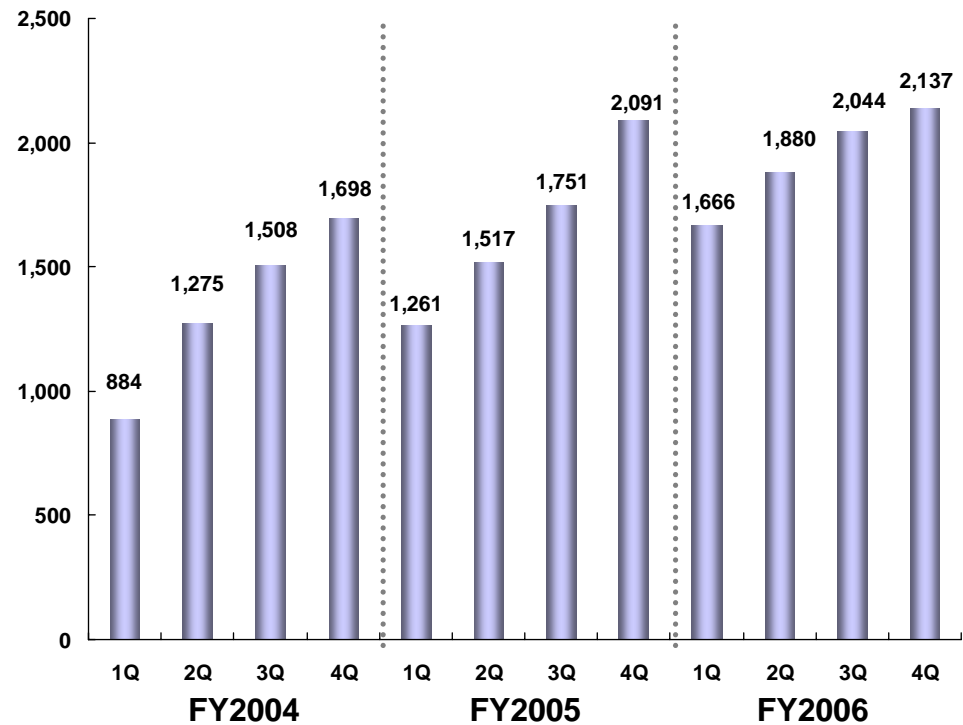
Unit: JPY million

Adjusted EBITDA

Annual Trend



Quarterly Trend



Financial Target for FY2007

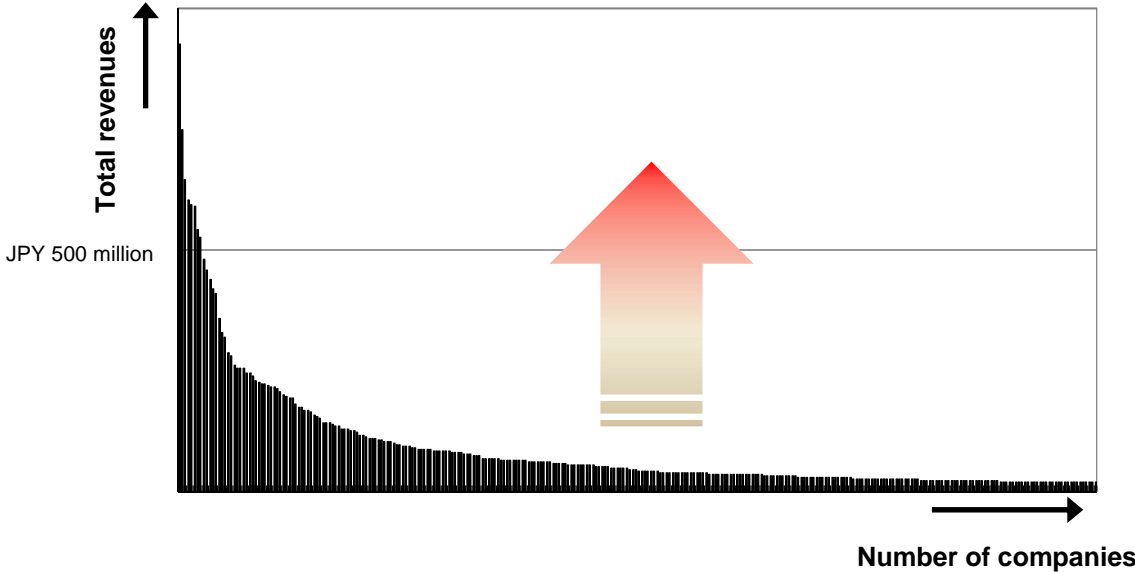
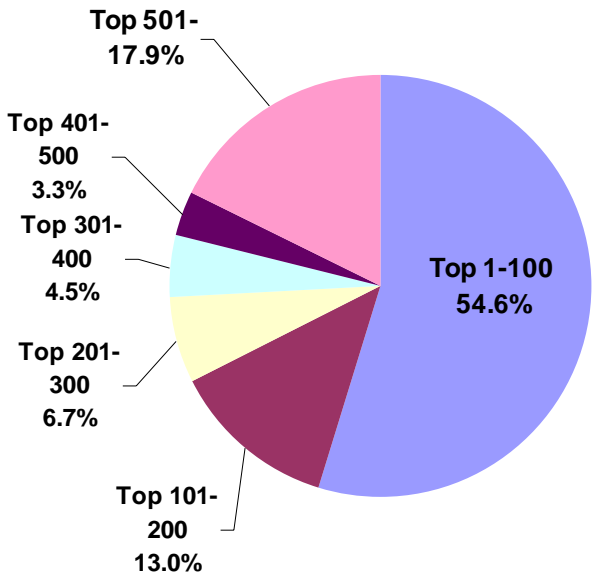
Unit: JPY billion except net income per share and cash dividend per share

	<i>% of Total Revenues</i> FY2007 Target (2007/4-2008/3)	<i>% of Total Revenues</i> FY2006 Actual (2006/4-2007/3)	YoY
Total Revenues	69	57.1	+ 20.9%
Operating Income	6.7% 4.6	6.1% 3.5	+ 31.4%
Income before Income Tax Expense (Benefit)	7.4% 5.1	8.8% 5.0	+ 1.0%
Net Income	8.1% 5.6	9.5% 5.4	+ 3.5%
Net Income per Share	JPY 27,122	JPY 26,519	+ 2.3%
Cash Dividend per Share	Annual JPY 1,500 (Interim Period JPY 750 End of Year JPY 750)	Annual JPY 1,500	—

Status of Customers

Occupation of Total Revenues by Top Customers

Distribution of Customers by Annual Revenues



* Based on IIJ's non-consolidated data for FY2006

Acquisition of hi-ho Inc. as 100% owned subsidiary **IIJ**

Internet Initiative Japan

IIJ will acquire the ISP Business that Panasonic Network Services Inc. is doing under the brand “hi-ho” on June 1, 2007

<Purpose>

While usage of Internet is expanding in personal users, measures against viruses and phishing are becoming critical. IIJ intends to expand its ISP business by leveraging its engineering expertise and network operation know-how and enhancing secure network services for personal users.

<Overview of hi-ho, Inc.>

Representative	Koichi Suzuki, Chairman and Representative Director
	Isao Momota, President and Representative Director
Establishment	June 1, 2007 (planned)
Fiscal Year End	March 31
Capital	JPY 100 million
Total shareholders' Equity	JPY 556 million (estimated)
Number of customers	Approximately 0.20 million (estimated)

<Number of Shares Acquired/Cost>

Number of shares acquired 2,000

(Ownership 100%)

Cost of acquisition JPY 1,200 million

IIJ classifies goodwill into assets and costs under US GAAP.








Impact to the financial target for FY2007

Total revenues: JPY 4,500 million

Operating income: JPY 200 million

Enhancement of Group Structure

IIJ enhanced its group structure to contribute to mid and long-term growth

 <small>IIJ Technology</small>	IIJ Technology Inc.	IIJ made the two subsidiaries 100% owned to seek for enhancement of business structure and increasing efficiency (May 2007).	
 <small>Net Care</small>	Net Care, Inc.	IIJ acquired the subsidiary stock with JPY 5,025 million and issued new 2,178 shares through exchanges of shares.	
 <small>IIJ Financial Systems</small>	IIJ Financial Systems Inc.	The subsidiaries became IIJ's 100% owned as IIJ Technology Inc. became IIJ's 100% owned.	Minority interests related to the subsidiaries will be eliminated (Minority interests in earnings of subsidiaries: JPY 233 million in FY06)
 <small>IIJ America</small>	IIJ America Inc.		Expected to take consolidated tax system from FY08
 <small>NET CHART JAPAN</small>	Net Chart Japan Inc.	IIJ established the subsidiary as 100% owned by acquiring the business with JPY 110 million to enhance cooperation in network construction field and sales structure.	
 <small>TRUSTED COMMUNICATIONS</small>	GDX Japan, K.K.	IIJ established the subsidiary with GDX Network, Inc. in the United States to provide secure e-mail environment for business use (April 2007), and invested JPY 300 million (ownership 51%).	
 <small>hi-ho</small>	hi-ho, Inc.	IIJ acquired hi-ho, Inc. as 100% owned subsidiary to expand its ISP business for personal users (June 2007).	