

Internet Initiative Japan Inc.

TSE1:3774 NASDAQ:IIJI






April 2007



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 IP engineering company in Japan**
-  **Expanding cross-selling of Total Network Solutions**
-  **Excellent blue-chip customer base**
-  **Increasing corporate IT spending in Japan**
-  **Convincing revenue and income growth**

Top IP Engineering Company in Japan

- ▶ **The first-established full-scale ISP in Japan**
 - Founded in 1992
 - Top IP engineers gathered from all over Japan
 - Keep attracting IP engineers
- ▶ **The market innovator for Internet connectivity services**
 - Standardized Internet related services and created the market
 - Evolved into “Total Network Solution Provider”
- ▶ **The Internet R&D oriented**
 - Foundation member of “Internet Society”
 - Delegated board members to “IETF”
 - Leading IPv6 and RFID R&D in Japan
 - Research and extensively developed security and mail solutions

“IIJ” technology brand among blue-chip companies in Japan

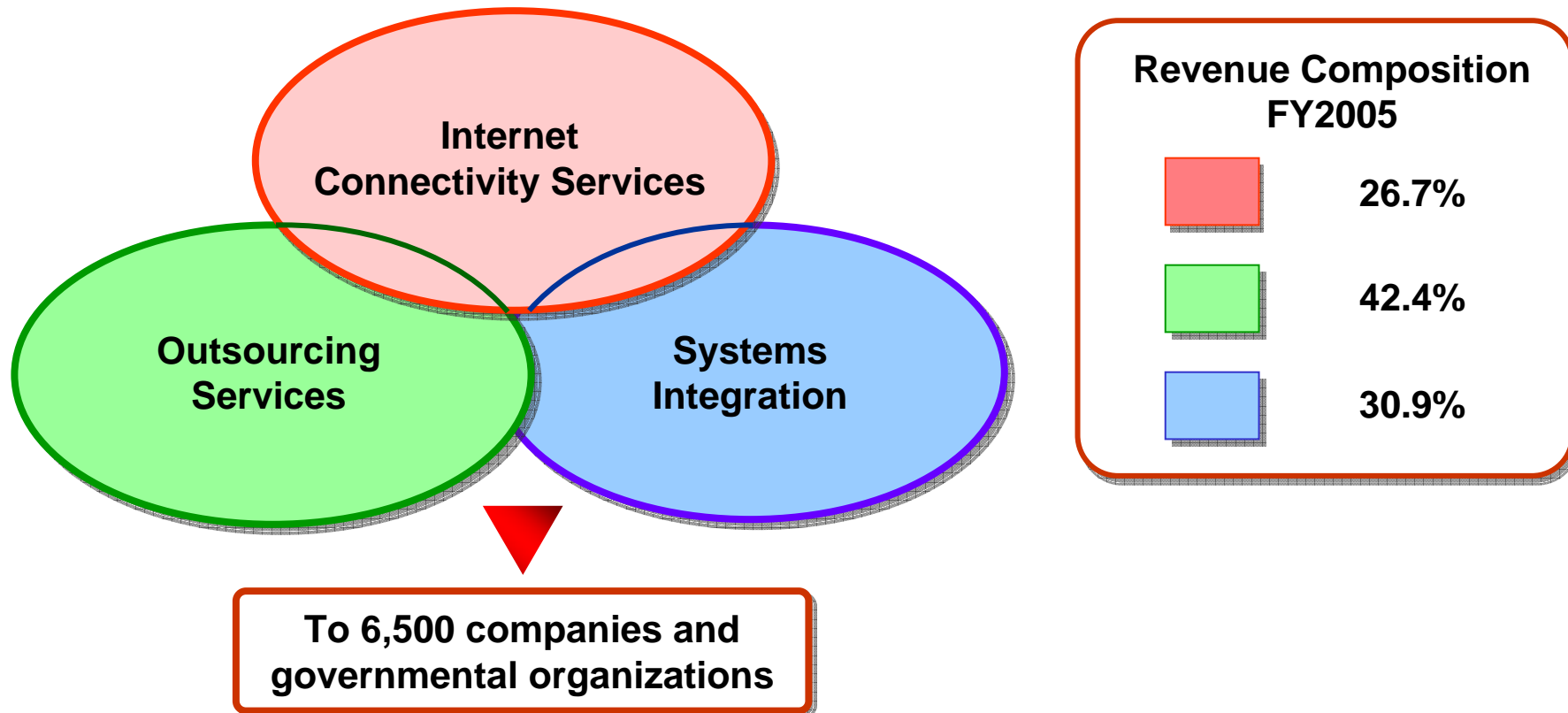
- 1992 **Established**
- 1993 Launched Internet Service
- 1994 Registered as Special Type II Telecom Carrier
Launched the **first Dial-up IP Service in Japan**
Launched the **first Firewall Service in Japan**
- 1995 Launched services of content production and information distribution
- 1996 Launched Internet backbone operation in Asia (A-Bone)
Launched Dial-up IP Service for individuals
- 1997 Launched **the first ISP business in the U.S. as a Japanese ISP**
- 1998 Launched **the first IP multicast distribution service in Japan**
- 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 in Japan**
- 2000 Launched iBPS Service, an outsourcing service for network business
- 2001 Launched IX Service, “JPNAP”
Established CDN Japan, a promoting organization of broadband content distribution
- 2003 Developed **World’s first network service operating system, “SEIL Management Framework (SMF)”**
- 2004 Became a founding member of “MAAWG”, a **global organization for solving messaging abuse as only one Japanese company**
- 2005 Launched **the new RFID solution, IIJ EPC Network Service**

Corporate Profile (As of September 30, 2006)

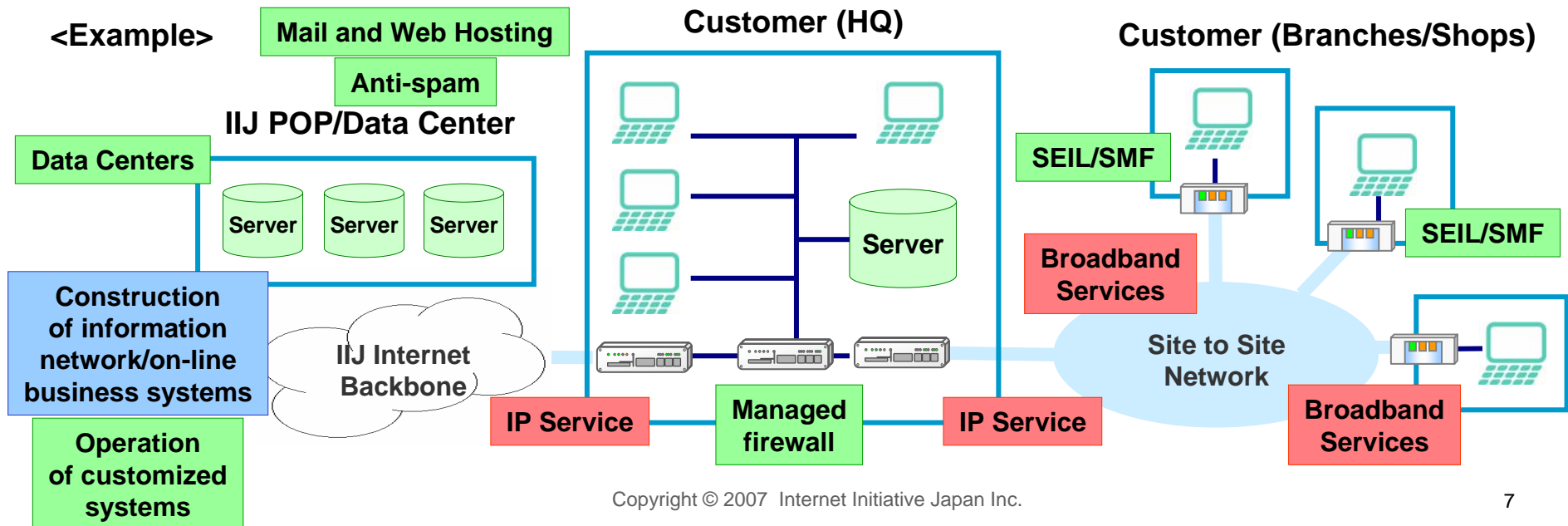
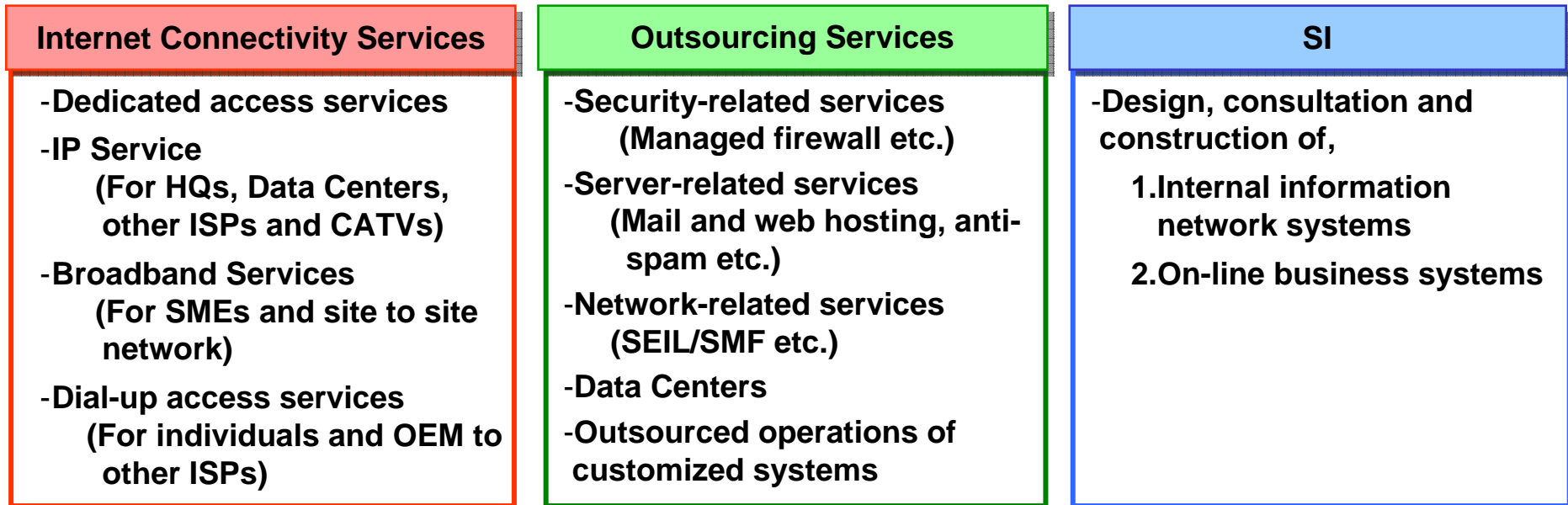
Established	December 3, 1992	Main Shareholders	Nippon Telegraph and Telephone Corporation 24.7% Hero and Company * 16.0% Koichi Suzuki 6.1% Itochu Corporation 5.1% * As securities traded on the NASDAQ
Executives	<ul style="list-style-type: none"> - President & CEO Koichi Suzuki and 7 directors to cover each division - 5 well-known outside directors to watch directors' activities - 4 statutory auditors <ul style="list-style-type: none"> 1: accountant 1: lawyer 	Number of Shares Outstanding	204,300 shares
Offices	Headquarters in Tokyo and 9 offices in the key cities of Japan	Market	The First Section of the Tokyo Stock Exchange since 2006 (Code number: 3774) The U.S. NASDAQ Market since 1999 (Ticker symbol "IIJ")
Number of Employees	Consolidated: 1,101 70% of employees are engineers Non-consolidated: 559	Recent Consolidated Financial Results	Revenues: JPY 49,813 million Operating income: JPY 2,411 million Net income: JPY 4,754 million
Major Financing Banks	Sumitomo Mitsui Banking Corporation, Mizuho Corporate Bank, Ltd., Bank of Tokyo-Mitsubishi UFJ, Ltd., Mitsubishi UFJ Trust and Banking Corporation	Market Value	JPY 95.6 billion (Based on the closing stock price on TSE1 on April 5, 2007)

Expanding Cross-selling of Total Network Solutions (1)

- ▶ Provide IP-based outsourcing services and SI with Internet connectivity services
- ▶ Mainly target blue-chip companies and the government
- ▶ Differentiated by reliable, stable, value-added service and network operations
- ▶ Own development products/services to adopt total network solutions



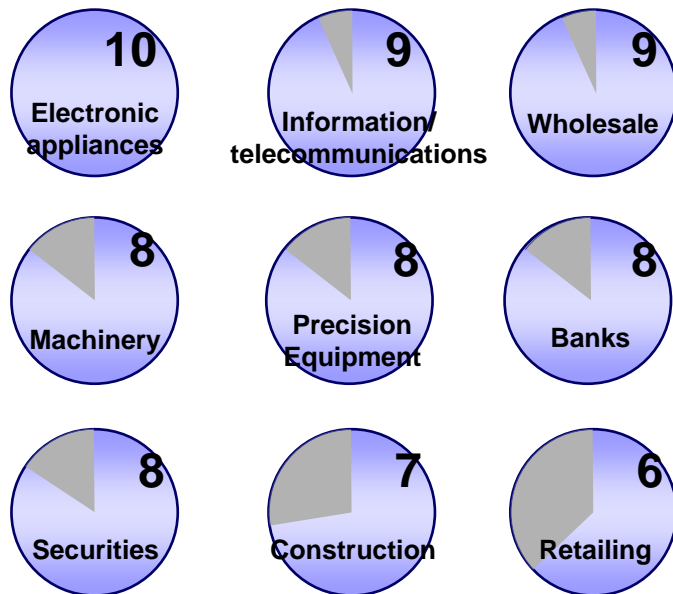
Expanding Cross-selling of Total Network Solutions (2)



Excellent Blue-chip Customer Base

- ▶ 6,500 companies with long-term relationships in connectivity services
- ▶ High penetration among largest companies and well-balanced among industries

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 Shikiho, 3rd edition, 2006" and Nihon Keizai Shimbun "Nikkei Industry Map 2006"

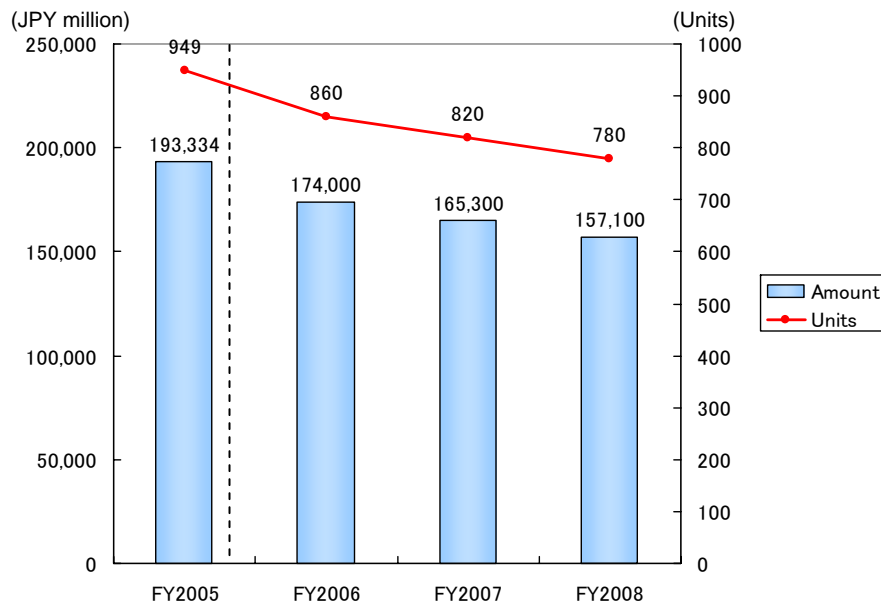
Example of Our Blue-chip Customers



Increasing Corporate IT Spending in Japan

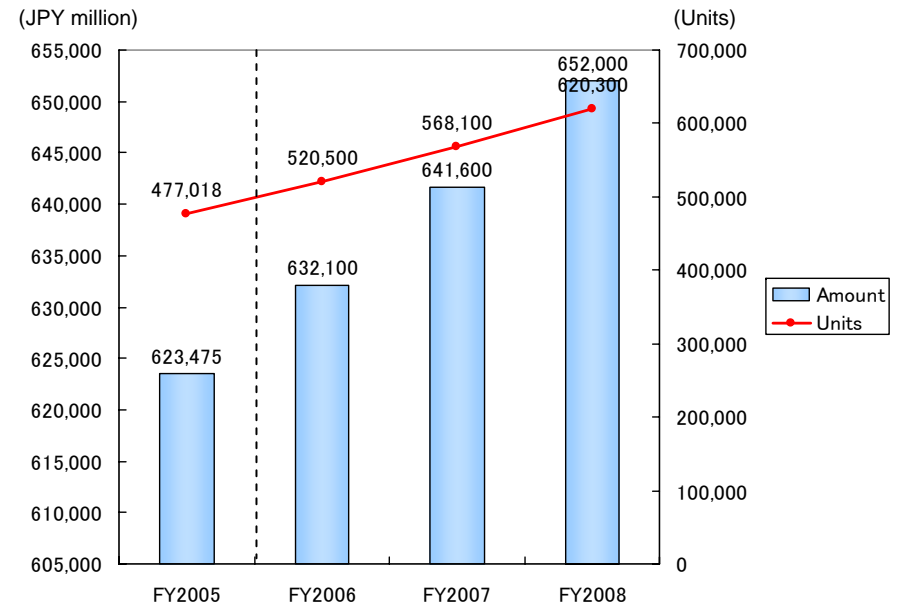
- ▶ Expanding trend of Japan's economy
- ▶ Increasing demand for greater availability and higher security
- ▶ Engineering skills with extensive IP knowledge are required
- ▶ Transfer from mainframe systems to IP-based systems to increase utility and cost efficiency
- ▶ Expanding on-line businesses

Expectation of Demands for Mainframe Computers



Source: Japan Electronics and Information Technology Industries Association

Expectation of Demands for UNIX and PC Servers



Source: Japan Electronics and Information Technology Industries Association

Uniquely Positioned to its Peers

Telecommunication Carriers

(NTT, KDDI, JT)

- Mainly engaged in telephone business
- Own networks
- Heavy investments
- Lack of IP engineers
- Not specialized in outsourcing and SI

IIJ Group

- IP-oriented service provider
- Network operation
- Own network service
- One-stop provider

System Integrators

(NEC, Fujitsu, IBM)

- Mainly engaged in host computer systems
- Depend on certain large customers
- Revenues mainly come from equipment sales
- Lack of network services
- Host system oriented

Provide Network Service

Provide Total Network Solutions

Provide Systems Construction

① Favorable Business Environment

<Macro environment>

- Expanding trend of Japanese economy
- Increasing corporate IT investment
- Government promoting Internet utilization
- Expanding broadband usage

<Corporate trend>

- Increasing outsourcing needs
- Expanded usage of Internet for more mission critical work
- More usage of IP technology for internal network systems
- Expanding on-line businesses

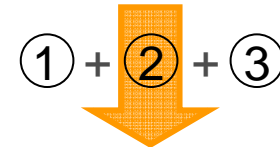
② Growing Customer Needs

- Cost efficient IP-based network systems
- Reliable Internet services
- Outsourcing services to fulfill shortage of IP know-how and engineers

③ IIJ Group's Outstanding IP Skills

- Thick layers of skilled IP engineers
- Excellent customer base
- Established brand for reliable services
- Market innovator for IP-based services, from connectivity to outsourcing and SI

With the three elements combined



Contribution to Financials

- Rapidly increasing revenues from systems integration as a strong growth driver
- Steady increasing recurring revenues and income from higher-margin outsourcing services
- Revenues from connectivity services started to increase in quarterly comparisons

Financials

Summary of Financial Results for 3Q06

▶ Financial Results for 3Q06

- Internet connectivity service revenues continued to increase steadily
- Outsourcing service and systems integration revenues showed healthy increases
- Revenues and profits continued to increase
- The operating margin improved to 7.3% in 3Q06

▶ Results for nine months from April 2006 to December 2006

- Revenues: JPY 40.0 billion (+18.9% YoY)
- Operating income: JPY 2.4 billion (+63.1% YoY)
- Operating margin ratio: 5.9% (+1.6 point YoY)

▶ Increasing Demand for E-mail Related Solutions

IIJ introduced “IIJ Secure MX Service” in October 2006;

- Provides e-mail security functions (ie: anti-spam, recording of e-mails, e-mail connection encryption, etc)
- Over 200,000 e-mail accounts of blue-chip customers supported by our anti-spam solutions (ie: Fuji-TV, Fuji Xerox and Fancl) at the end of 3Q

▶ A Pilot for broadcasting high quality video of NHK and others

- Expand content distribution platform

▶ Transferred to TSE First Section

- From TSE Mothers on December 14, 2006

▶ Revised Financial Targets for FY2006

- Revenues: JPY 56.0 billion to JPY 56.5 billion
- Operating income: JPY 3.2 billion to JPY 3.4 billion
- Net income: JPY 5.0 billion to JPY 5.2 billion

▶ Introduced Dividend Payment

- Board resolved the plan for annual dividend for FY2006
- JPY 1,500 per share of common stock planned (400 ADRs represent one share)
- IIJ plans to propose the dividend payment at its general shareholders' meeting in June 2007

Consolidated Financial Results for 3Q06 (9 Months)

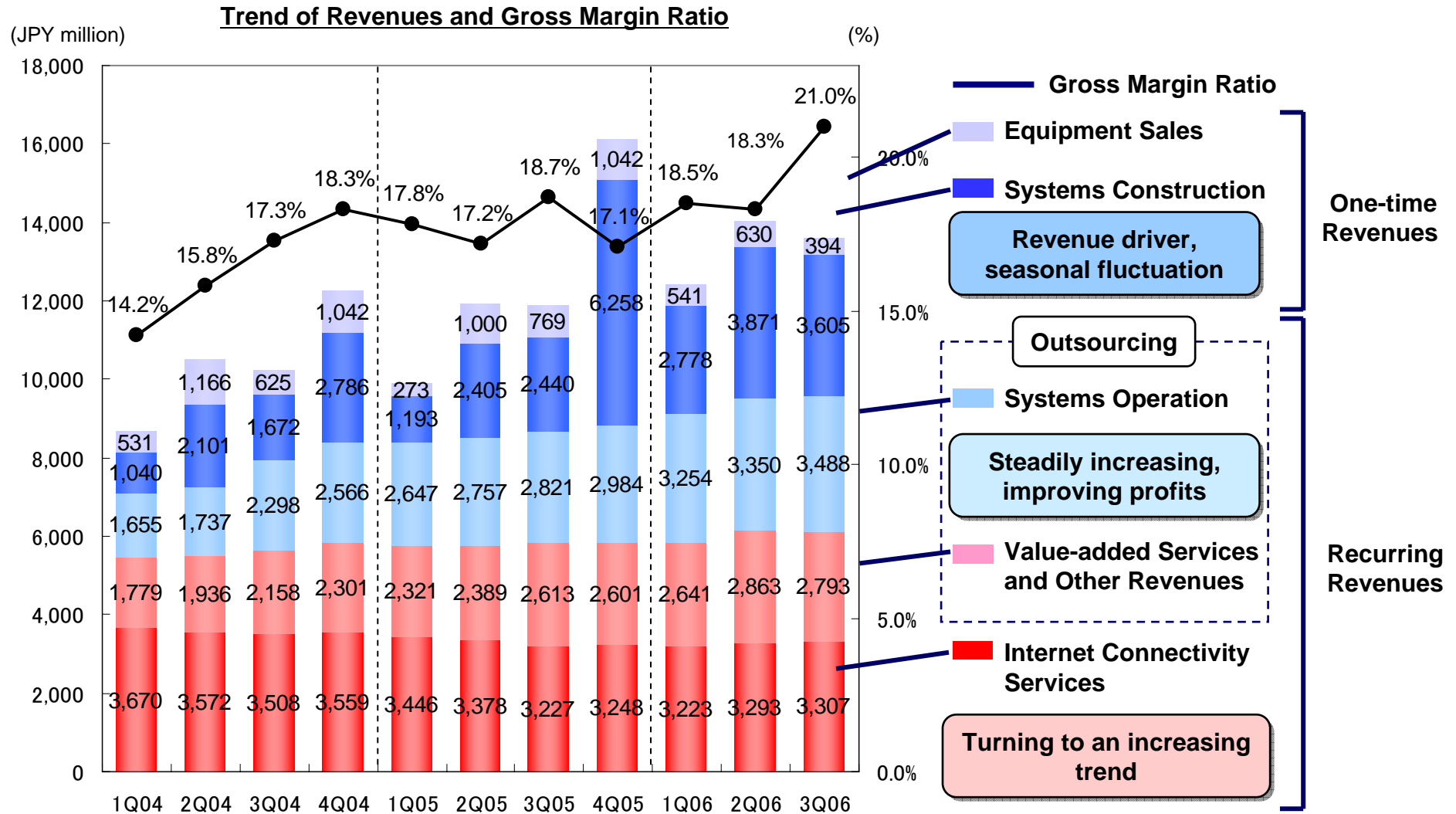
	1Q06-3Q06 (2006/4-2006/12)		1Q05-3Q05 (2005/4-2005/12)		YoY
	Results	% of Total Revenues	Results	% of Total Revenues	
Total Revenues	40,031	100.0%	33,679	100.0%	+18.9%
Total Costs	32,309	80.7%	27,643	82.1%	+16.9%
Gross Margin	7,722	19.3%	6,036	17.9%	+27.9%
SG&A/R&D	5,366	13.4%	4,591	13.6%	+16.9%
Operating Income	2,356	5.9%	1,445	4.3%	+63.1%
Income before Income Tax Expense (Benefit)	3,748	9.4%	3,111	9.2%	+20.4%
Net Income	4,259	10.6%	2,812	8.3%	+51.4%

Consolidated Financial Results for 3Q06 (3 Months)

(JPY million)

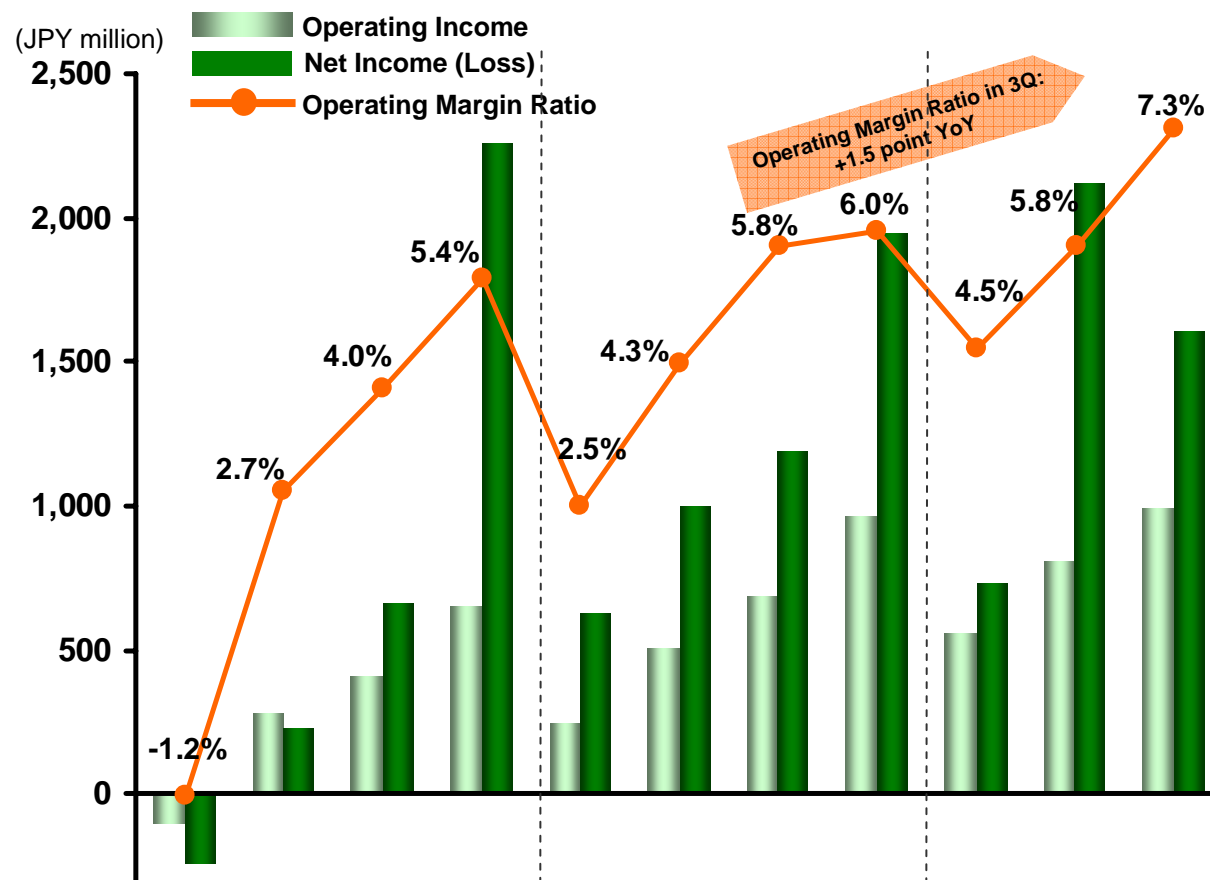
	3Q06 (2006/10-2006/12)		3Q05 (2005/10-2005/12)		YoY
	Results	% of Total Revenues	Results	% of Total Revenues	
Total Revenues	13,587	100.0%	11,870	100.0%	+14.5%
Total Costs	10,727	78.9%	9,652	81.3%	+11.1%
Gross Margin	2,860	21.0%	2,218	18.7%	+28.9%
SG&A/R&D	1,874	13.8%	1,527	12.9%	+22.7%
Operating Income	986	7.3%	691	5.8%	+42.7%
Income before Income Tax Expense (Benefit)	1,603	11.8%	1,333	11.2%	+20.3%
Net Income	1,405	10.3%	1,189	10.0%	+18.2%

Trend of Quarterly Revenues



Trend of Quarterly Operating and Net Income (Loss)

Trend of Operating and Net Income and Operating Margin Ratio



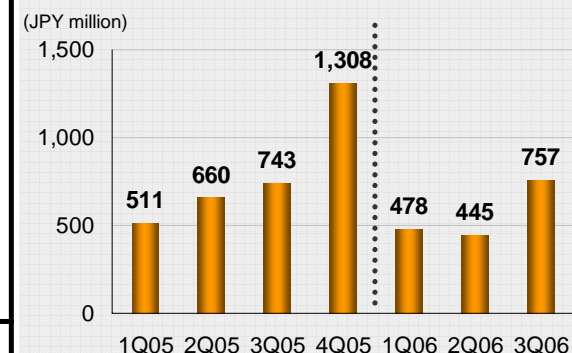
	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06
Operating Income	(100)	282	410	656	247	507	691	966	559	811	986
Net Income	(238)	229	660	2,256	623	1,001	1,189	1,941	734	2,120	1,405
Operating Margin Ratio	(1.2%)	2.7%	4.0%	5.4%	2.5%	4.3%	5.8%	6.0%	4.5%	5.8%	7.3%

<Operating Income (3Q06)>

- Increased by **42.7%** compared to 3Q05 due to an increase in revenues from systems integration and outsourcing.
- Operating margin ratio increased by **1.5 percentage points** compared to 3Q05.

<Net Income (3Q06)>

- Gain from sale of available-for-sale securities was JPY 757 million.



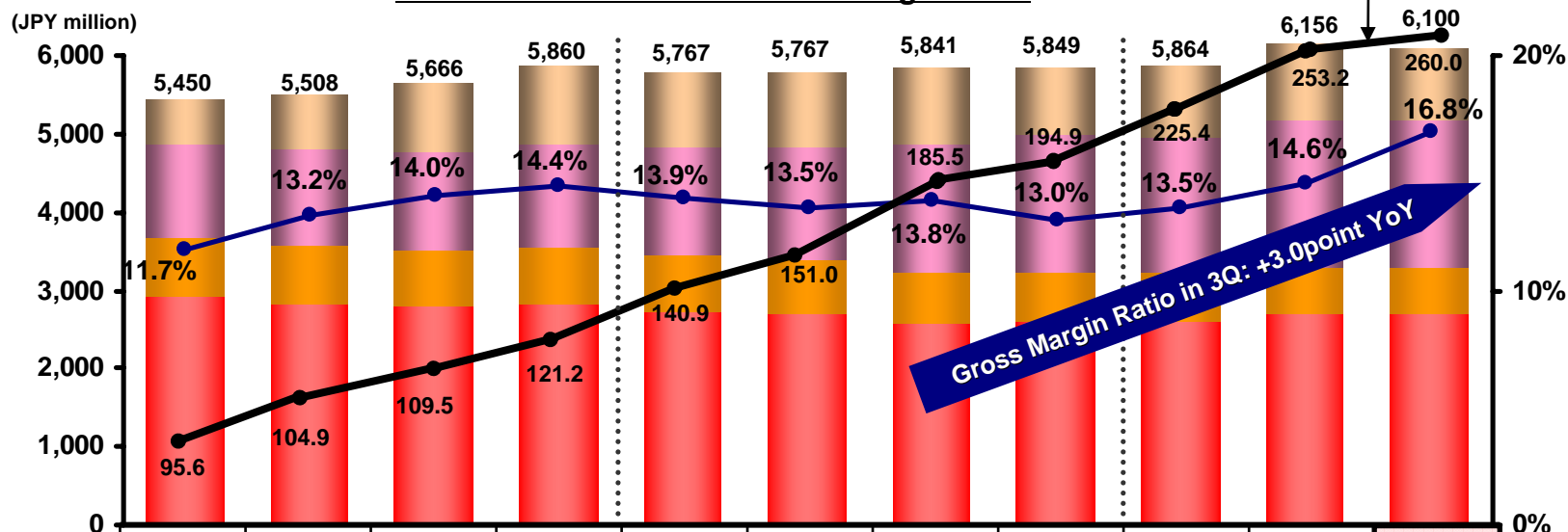
- Income tax expense was JPY 93 million, including tax expense by our consolidated subsidiaries.
- Minority interests in earnings of subsidiaries was JPY 70 million.
- Equity in net loss of equity method investees was JPY 36 million.

Results by Service – Connectivity and Value-added Services



Internet Initiative Japan

Trend of Revenues and Gross Margin Ratio



Revenues (JPY million)	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06
Other Revenues	592	716	882	979	933	930	964	846	900	957	932
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
Dial-up Access Services	752	740	727	718	699	682	648	645	607	606	604
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
Total Revenues	5,450	5,508	5,666	5,860	5,767	5,767	5,841	5,849	5,864	6,156	6,100
Cost	4,811	4,780	4,874	5,019	4,964	4,988	5,035	5,091	5,070	5,254	5,073
Gross Margin Ratio (%)	11.7%	13.2%	14.0%	14.4%	13.9%	13.5%	13.8%	13.0%	13.5%	14.6%	16.8%

Dedicated Access Service Revenues Turning to Increase

- IP Services shifting to higher bandwidth (ex. 60 contracts for over 1Gbps)
- New broadband service demands to connect branch offices and shops over Internet VPN

Value-added Service Revenues Continued to Increase Steadily

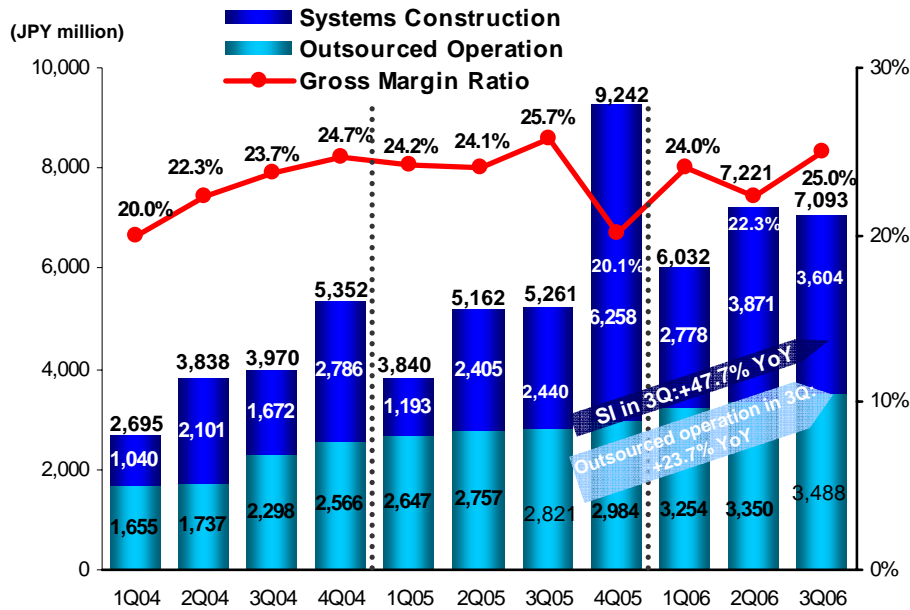
- Growing outsourcing demands
- Especially strong demands for anti-spam and Internet VPN solutions

Revenue Growth Improving Gross Margin Ratio

- No significant cost increase compared to the bandwidth increase
- Customers sharing our facilities to use our outsourcing services

Results by Service – Systems Integration

Trend of Revenues and Gross Margin Ratio



Systems Construction Revenues Increased Significantly

- Seasonal fluctuation
- Shorter lead-time with the average of 3 months
- Relatively lower-margin since it needs purchase servers and network equipment
- Significant increase of **47.7% YoY**

Systems Operation Revenues Continued to Increase Steadily

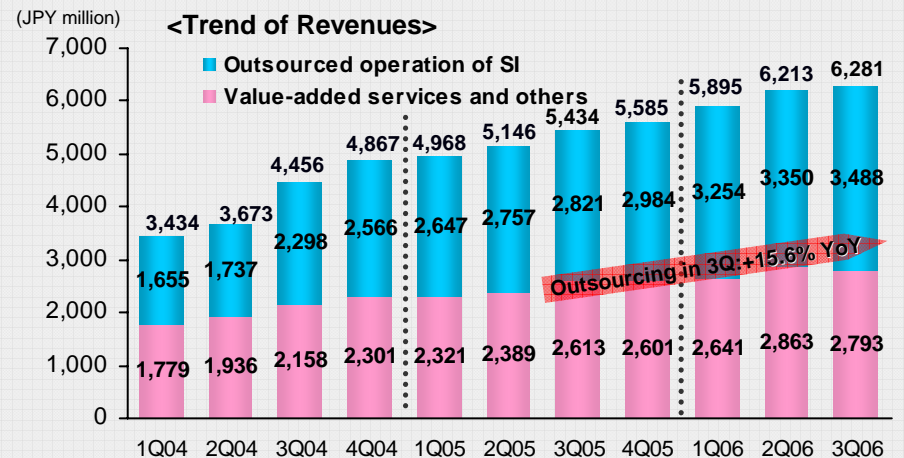
- Relatively higher-margin
- Most customer renew the contracts
- Steady increase of **23.7% YoY**

▶ The gross margin ratio increased by 2.7 percentage points YoY

Outsourcing revenues - Outsourced operation of systems integration, value-added services and other revenues

Revenues: JPY 6,281 million
 (+1.1% from 2Q06, +15.6% from 3Q05)

- ▶ Value-added services and other revenues: JPY 2,793 million (-2.4% from 2Q06, +6.9% from 3Q05)
- ▶ Outsourced operation: JPY 3,488 million (+4.1% from 2Q06, +23.7% from 3Q05)



Balance Sheet in 3Q06

	(JPY million)		
	December 31, 2006	September 30, 2006	Change
Cash	13,955	12,860	+1,095
Available-for-sale Securities	2,730	3,500	(770)
Long and Short-term Borrowings	6,600	6,810	(210)
Common Stock	16,834	16,834	-
Additional Paid-in Capital	26,599	26,599	-
Accumulated Deficit	(25,422)	(26,827)	+1,405
Accumulated Other Comprehensive Income	2,346	3,286	(940)
Total Shareholders' Equity	20,273	19,808	+465

Cash Flows and Other Financial Data in 3Q06

(JPY million)

▶ Cash Flows

	FY2006		FY2005		Change	
	3Q (2006/10-12)	1Q-3Q (2006/4-12)	3Q (2005/10-12)	1Q-3Q (2005/4-12)	3Q	1Q-3Q
Net Cash Provided by Operating Activities	2,063	4,576	951	3,948	+1,112	+628
Net Cash Provided by (Used in) Investing Activities	25	(1,097)	125	971	-100	-2,068
Net Cash Used in Financing Activities	(996)	(3,246)	4,882	2,685	-5,878	-5,932
Cash, End of Each Period	13,955	13,955	12,920	12,920	+1,035	+1,035

▶ Other Financial Data

(JPY million)

	FY2006		FY2005		Change	
	3Q (2006/10-12)	1Q-3Q (2006/4-12)	3Q (2005/10-12)	1Q-3Q (2005/4-12)	3Q	1Q-3Q
CAPEX	1,250	2,728	1,697	3,025	-26.3%	-9.8%
Depreciation and Amortization	1,058	3,235	1,060	3,084	-0.1%	+4.9%
Adjusted EBITDA	2,044	5,591	1,751	4,528	+16.8%	+23.5%

Target for FY2006 Results

(JPY million)

	Actual Results for 9 Months Ended December 31, 2006	Target for FY2006	Actual Results for FY2005	YoY Change %
Total Revenues	40,031	56,500	49,813	+13.4%
Operating Income	2,356	3,400	2,411	+41.0%
Operating Income Ratio	5.9%	6.0%	4.8%	+1.2point
Income before Income Tax Expense (Benefit)	3,748	5,200	5,379	-3.3%
Net Income	4,259	5,200	4,754	+9.4%

IIJ and PNS Agreed on the Transfer of ISP Operations

- ▶ IIJ and Panasonic Network Services Inc. agreed on the transfer of PNS's ISP operations under "hi-ho" brand and its corporate solutions business
- ▶ IIJ will fully acquire hi-ho, Inc., a company newly established by spinning off of the ISP businesses of PNS on June 1, 2007
- ▶ hi-ho will become IIJ's 100% owned consolidated subsidiary

Company name	hi-ho, Inc.
Location	Kyobashi MID Bldg., 2-13-10 Kyobashi, Chuo-ku, Tokyo
Chairman	Koichi Suzuki, IIJ President and Representative Director
President	Isao Momota
Capital	JPY 100 million
Major shareholder	Panasonic Network Services Inc. (100%) * All PNS shares will be transferred to IIJ
Employees	46 (estimated as of June 1, 2007)

Appendix

Customer Cases

