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**Internet Initiative Japan Inc.
Consolidated Financial Results for the First Quarter of Fiscal
Year Ending March 31, 2007**

Internet Initiative Japan Inc.

August 9, 2006

* 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.



Internet Initiative Japan

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 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 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 in 1Q06

Favorable start to FY2006:

- Both revenues and operating income increased significantly compared to 1Q05, despite the fact that our first quarter is historically weakest due to seasonal fluctuations in Japanese corporate spending
- The strong quarter results were mainly due to steady increases in systems integration, such as network system design, construction, operation and maintenance and value-added services such as security-related services, e-mail-related services and data center services

Total Revenues : **JPY 12.4 billion** (+25.9% compared to 1Q05)

Operating income: **JPY 559 million** (+126.6% compared to 1Q05)

<Strengthening of Solution Line-up>

IIJ enhanced its solution line-up based on its engineering expertise to meet customers' demand for high quality and highly reliable network services and outsourcing services.

IIJ began to provide new services or added features for multi-site connectivity solutions and security-related services in 1Q06.

<Elimination of Accumulated Deficit>

IIJ reduced its additional paid-in capital and common stock to eliminate the accumulated deficit in its non-consolidated financial statements effective on August 4, 2006.

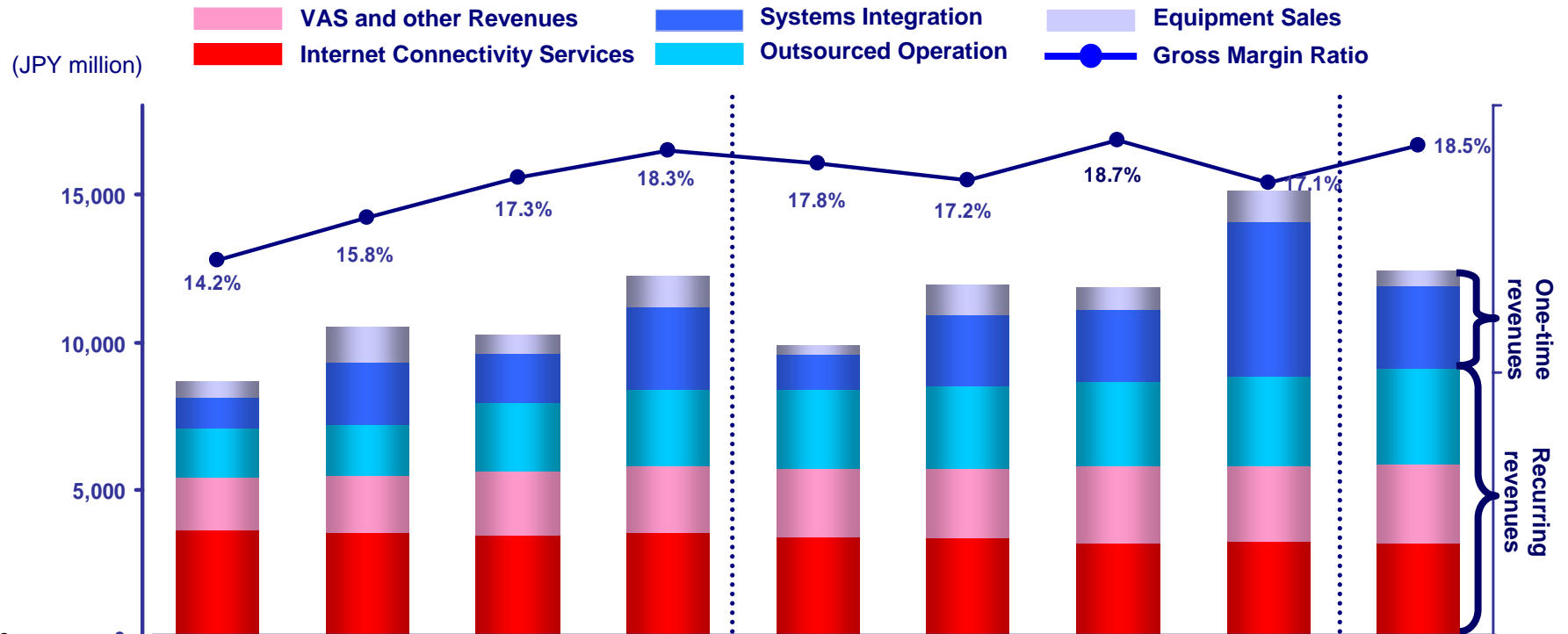
The reductions have not affected our consolidated financial statements under on U.S. GAAP.

Financial Results in 1Q06

(Unit: JPY million)

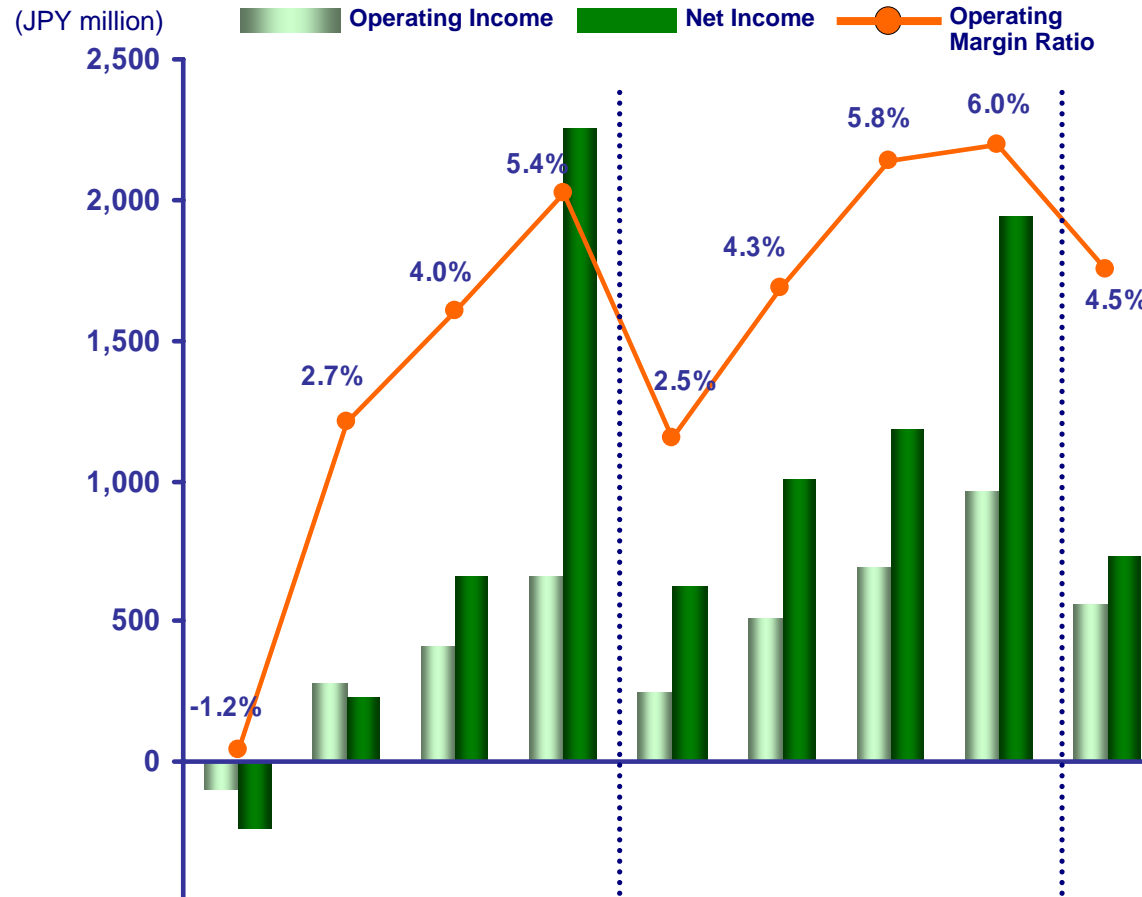
(JPY million)	1Q06 (2006/4-2006/6)		1Q05 (2005/4-2005/6)		QoQ Change %
	Results	% of Total Revenues	Results	% of Total Revenues	
Total Revenues	12,437	100.0%	9,880	100.0%	+25.9%
Total Costs	10,134	81.5%	8,118	82.2%	+24.8%
Gross Margin	2,303	18.5%	1,762	17.8%	+30.7%
SG&A/R&D	1,744	14.0%	1,516	15.3%	+15.1%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

Trend of Quarterly Revenues



Revenues (JPY million)	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06
Equipment Sales	531	1,167	625	1,043	273	1,000	769	1,042	542
Systems Integration	1,040	2,101	1,672	2,786	1,193	2,405	2,440	6,258	2,778
Outsourced Operation	1,655	1,737	2,298	2,566	2,647	2,757	2,821	2,984	3,254
VAS and Other Revenues	1,779	1,936	2,158	2,301	2,321	2,389	2,613	2,601	2,641
Internet Connectivity Services	3,670	3,572	3,508	3,559	3,446	3,378	3,227	3,248	3,223
Total Revenues	8,675	10,512	10,261	12,254	9,880	11,929	11,870	16,133	12,437
Gross Margin Ratio	14.2%	15.8%	17.3%	18.3%	17.8%	17.2%	18.7%	17.1%	18.5%

Trend of Quarterly Operating and Net Income (Loss)



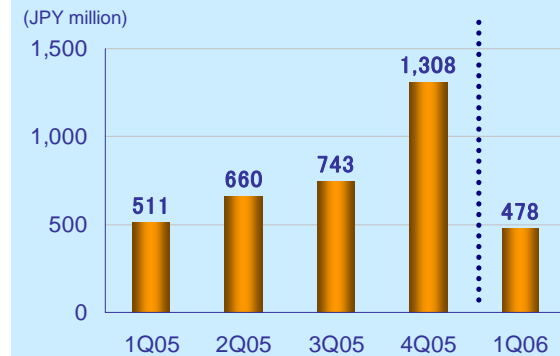
	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06
Operating Income	(100)	282	410	656	247	507	691	966	559
Net Income	(238)	229	660	2,256	623	1,001	1,189	1,941	734
Operating Margin Ratio	(1.2%)	2.7%	4.0%	5.4%	2.5%	4.3%	5.8%	6.0%	4.5%

<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>

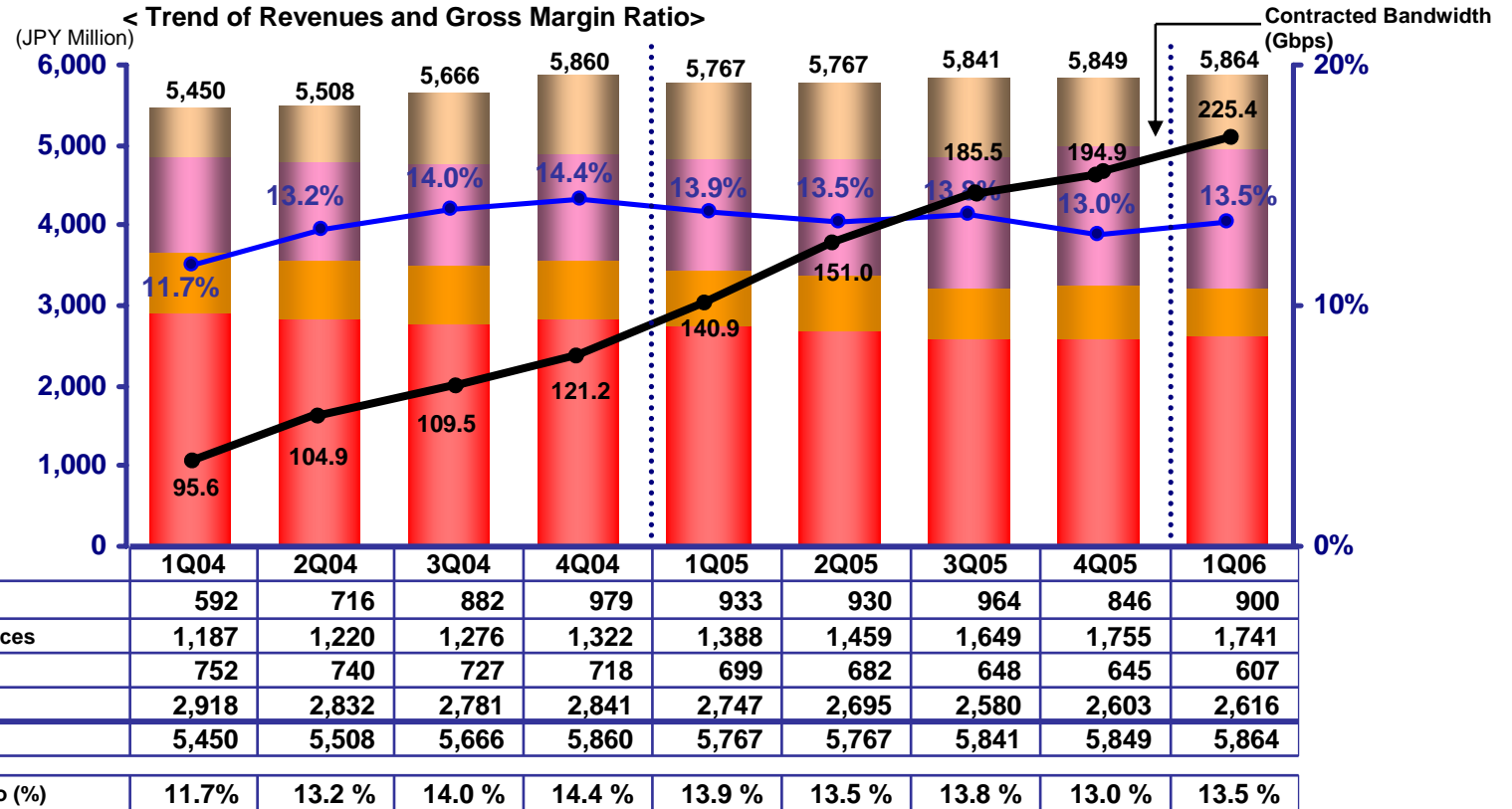
- Gain on sale of available-for-sale securities : JPY 478 million



- 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



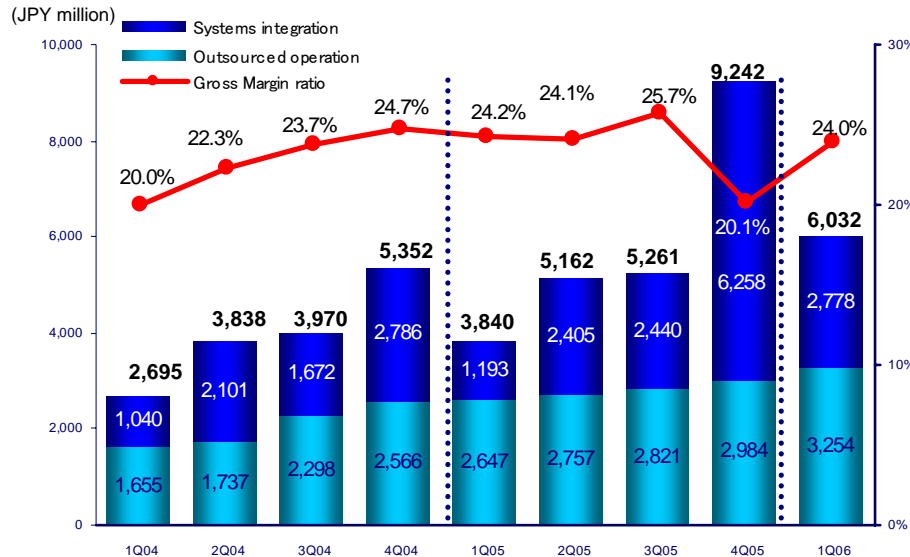
- Dedicated access – Revenues increased by 0.5% compared to 4Q05 due to the steady increase in multi-site connection projects and contracts of higher bandwidth IP services. Revenues decreased compared to 1Q05 due to a decrease in revenue (JPY 234 million) caused by network interconnection of former affiliate 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)

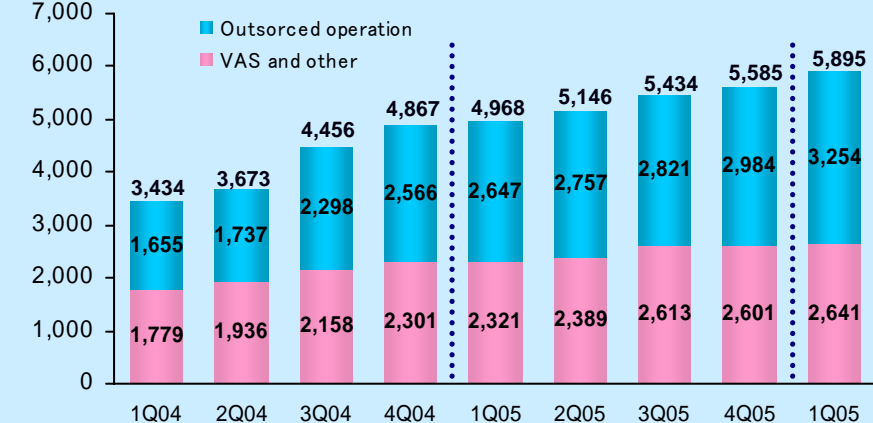
- Gross margin ratio increased by 3.9 percentage points from 1Q05.

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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

(Unit: 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 in 1Q06

(Unit: 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

	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%

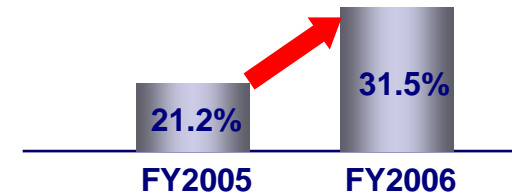
IIJ Began to Provide “IIJ Managed VPN PRO”

IIJ began to provide “IIJ Managed VPN PRO”, a new Internet-based VPN service that will offer a high level of flexibility through IIJ’s SEIL routers.

IIJ Managed VPN PRO Feature Highlights

- ✓ Flexibility and a long menu of features to meet a variety of network requirements
 - Customers can use routers other than SEIL, such as CISCO and NetScreen
 - Redundant and mesh network is available
- ✓ Service adapter is easy to configure and manage, and provides strong security
 - SEIL routers can be managed from a central location
- ✓ One-stop support, from design to administration
 - IIJ can provide access lines as well

Percentage of corporate users using Internet-based VPN for Wide-area Network



22.2% of corporate users are using Internet-based VPN for their core network in FY2006

Source: IDC Japan, Survey on enterprise user demand, released on June 27, 2006

TOPICS

IIJ Added New Features for Network/Security Services

IIJ Group Added a New Feature to Automatically Detect and Remove the Winny File Sharing Program on IIJ Quarantine Network Solution

- IIJ Quarantine Network Solution creates a secure internal local area network environment by automatically detecting PCs with security weaknesses and isolating them from the network
- It detects all of 82 types of Winny program

IIJ Expands Access Lines for IIJ Internet-LAN Service

- IIJ Internet-LAN Service provided a dedicated, virtual Ethernet space by using IIJ's Internet backbone to create a secure private network environment
- IIJ added ACCA Networks ADSL and other various telecom carriers' private lines for local accesses

Elimination of Accumulated Deficit

At the Ordinary General Shareholders' Meeting held on June 28, 2006, the reductions of the Company's additional paid-in capital and common stock were resolved and became effective on August 4, 2006. The details of the reductions are as follows:

Amount of the reductions

- Amount of additional paid-in capital to be reduced: JPY 21,980,395,078
- Amount of common stock to be reduced: JPY 2,539,222,196

Breakdown of capital after the reductions

- Common stock: JPY 14,294,625,054
- Additional paid-in capital: JPY 0
- Accumulated deficit: JPY 0

* Total shareholders' equity, number of shares of common stock outstanding and shareholders' equity per share will not change.

* The reductions have not affected our consolidated financial statements under U.S. GAAP due to the difference in accounting principles between Japan and the United States.

Major Press Releases

Date	Headlines
2006/8/1	<p><u>IIJ Adds Features and Broader Network Compatibility to IIJ SMF Service</u> SMF now compatible with closed-network services on all carriers as well as ISP services of Yahoo!BB, CATV and others</p>
2006/7/3	<p><u>IIJ Delivers Intrusion Prevention via IIJ Managed IPS Service</u> Functionality of IIJ Network Intrusion Detection Service greatly expanded to bolster security services lineup</p>
2006/6/13	<p><u>IIJ Expands Access Lines for IIJ Internet-LAN Service</u> Service now compatible with ACCA ADSL to provide the cheapest redundantly-configured broadband Ethernet WAN in Japan</p>
2006/5/9	<p><u>IIJ Releases “IIJ Managed VPN Pro”, a Robust, Flexible VPN Service</u> Advanced Internet-based VPN service to be fully managed by IIJ engineers</p>
2006/4/27	<p><u>IIJ Group Adds a New Feature to Automatically Detect and Remove the Winny File Sharing Program on IIJ Quarantine Network Solution Type B</u> Automatically detects and removes Winny program files from PCs connected to a corporate network</p>