

Internet Initiative Japan Inc.

1st Quarter FY2007 Consolidated Financial Results

President and CEO

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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").

◆ Recorded the Highest Level of Total Revenues and Operating Income for the 1st Quarter

- **Total Revenues** **JPY 13.7 billion (+JPY 1.3 billion, +10.1% YoY)**
- **Operating Income** **JPY 0.7 billion (+JPY 0.1 billion, +23.7% YoY)**
- **Operating Margin Ratio** **5.0% (+0.5 points YoY)**

- Strengthened its growth trend for connectivity services due to corporate customers' shift to higher speeds.
- Value-added services ("VAS") such as e-mail and security, SEIL/SMF and data center grew respectively. Total accounts for IIJ's anti-spam solutions such as "IIJ Secure MX Service" surpassed 450 thousand accounts.
- Gross margin of connectivity service and VAS increased by JPY 407 million compared to 1Q06 contributing to the increase in operating income.
- Order backlog for systems integration was up 81.3% from Mar. 31, 2007. Head start for the 2nd half of FY2007.

◆ Business and Service Developments

- Launched the new "Content Delivery Platform Service"
 - IIJ will provide its Content Delivery Platform for acTVila.jp, a portal site established by TV Portal Service Corporation for digital television.
- Introduced the "Unified Management Platform"
 - The Unified Management Platform combines IIJ's services and solutions to build highly reliable and stable network environments that enable integrated administration and operation of entire customer networks.

◆ Development for Mid/Long-term Growth

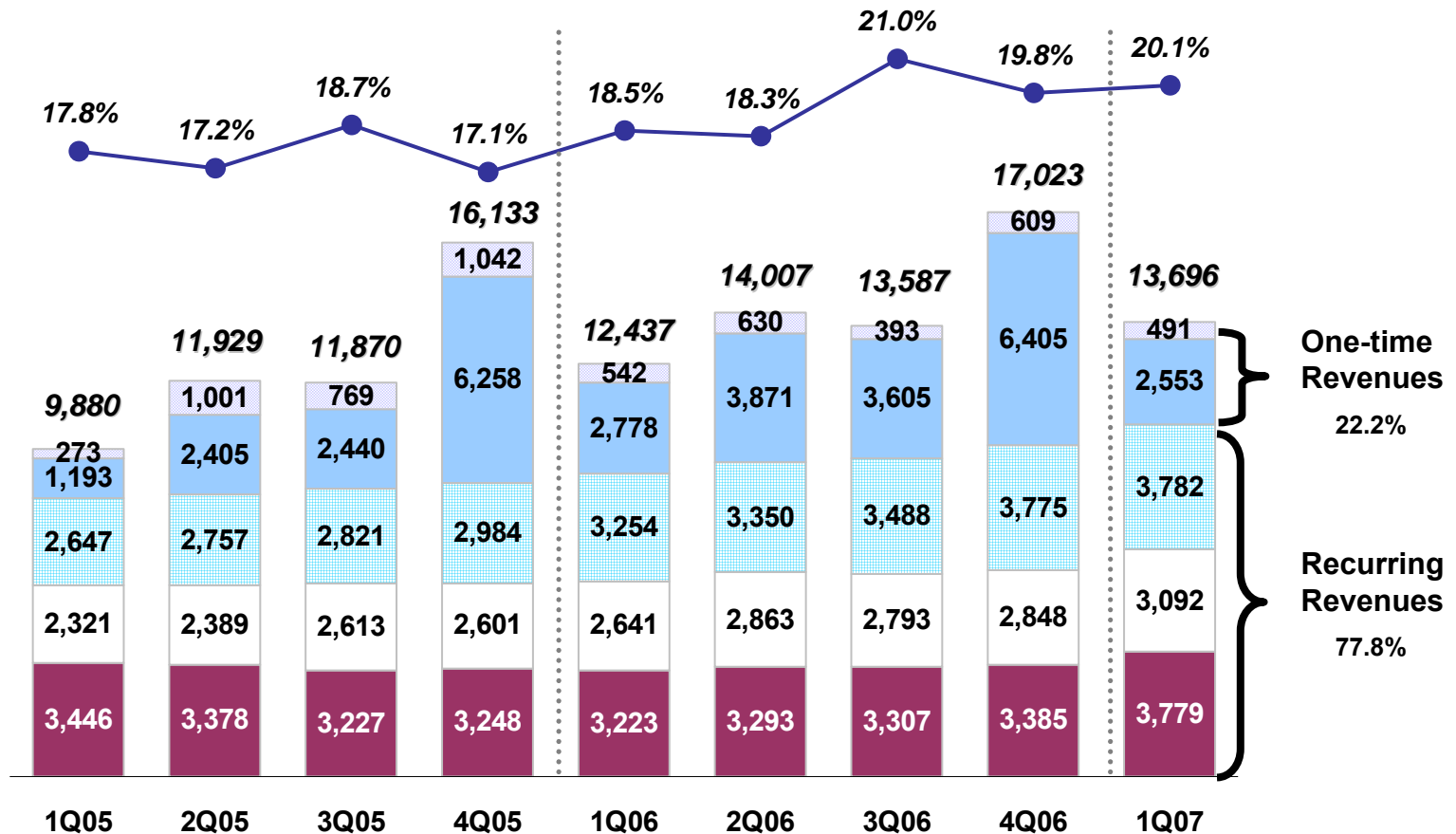
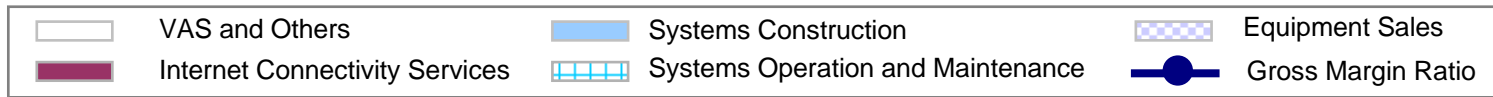
- IIJ Technology Inc. and Net Care, Inc. became 100% owned on May 11, 2007. We will further strengthen our group structure to provide better solutions and to increase group efficiency.
- hi-ho Inc. began its business as IIJ's 100% owned consolidated subsidiary on June 1, 2007 with the mission to expand ISP service for personal users.
- GDX Japan Inc. was established in joint venture with US-based GDX Network, Inc. to offer a safer e-mail environment.

Consolidated Financial Results for 1Q07

Unit: JPY billion excluding Net Income per Share

	<i>% of Revenues</i> 1Q07 (2007/4-6)	<i>% of Revenues</i> 1Q06 (2006/4-6)	YoY
Total Revenues	13.7	12.4	10.1%
Total Costs	<i>79.9%</i> 10.9	<i>81.5%</i> 10.1	8.0%
Gross Margin	<i>20.1%</i> 2.8	<i>18.5%</i> 2.3	19.5%
SG&A/R&D	<i>15.1%</i> 2.1	<i>14.0%</i> 1.7	18.2%
Operating Income	<i>5.0%</i> 0.7	<i>4.5%</i> 0.6	23.7%
Income before Income Tax Expense	<i>5.5%</i> 0.8	<i>8.0%</i> 1.0	(24.3%)
Net Income	<i>4.2%</i> 0.6	<i>5.9%</i> 0.7	(22.2%)
Net Income per Share	JPY 2,777	JPY 3,597	(JPY 820)

Quarterly Revenues



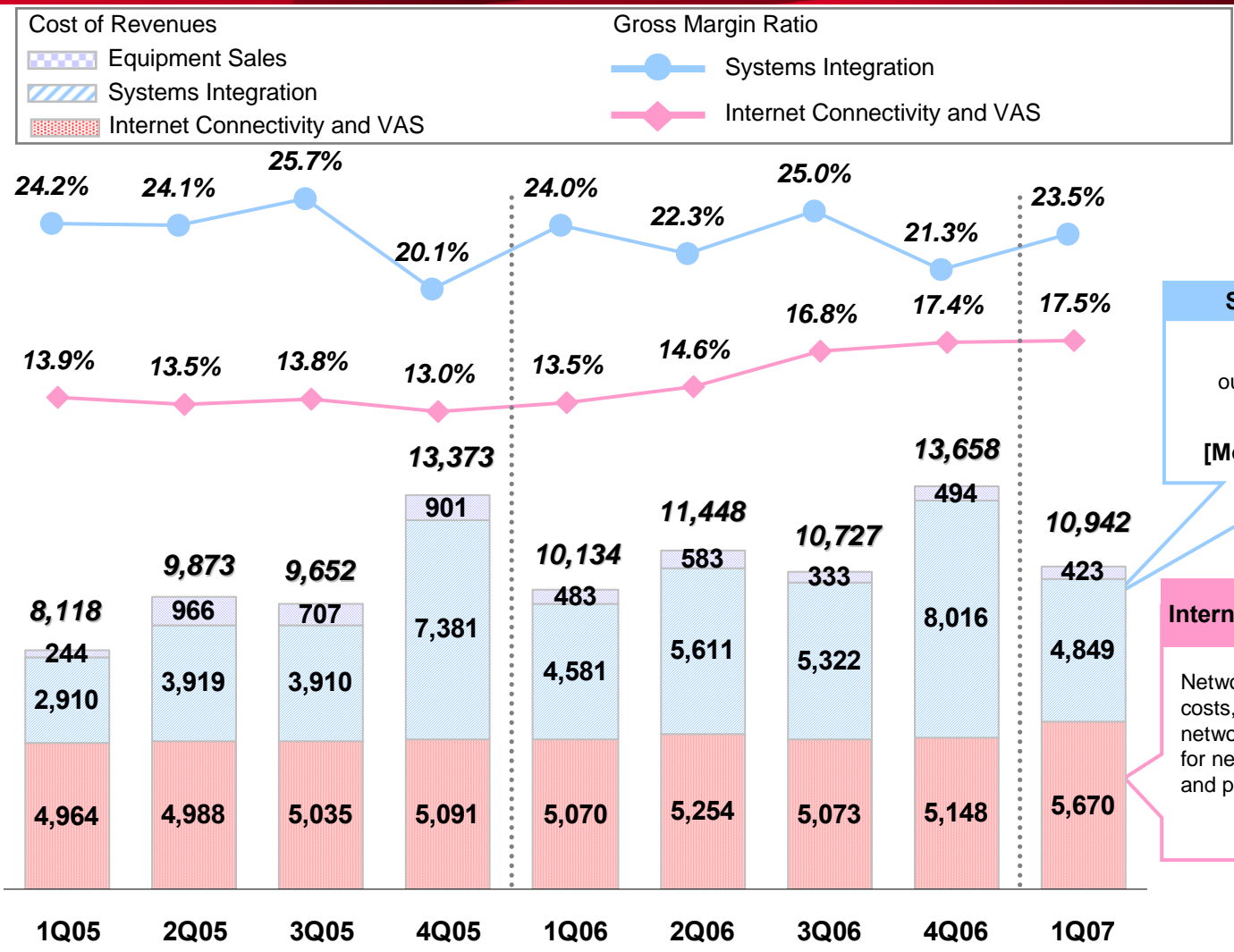
- ◆ Steady increase in recurring revenues lead the overall growth despite the weak trend in 1Q revenue due to season factors.
 - Connectivity services for corporate users grew as corporate customers shifted to higher speeds
 - Connectivity services for home users grew with the contribution from hi-ho since June 1, 2007 of JPY 339 million
 - VAS grew as revenues from major services increased
- ◆ Gross margin ratio was 20.1%, up 1.6 points from 1Q06.

Quarterly Cost of Revenues and Gross Margin Ratio



Internet Initiative Japan

Unit: JPY million



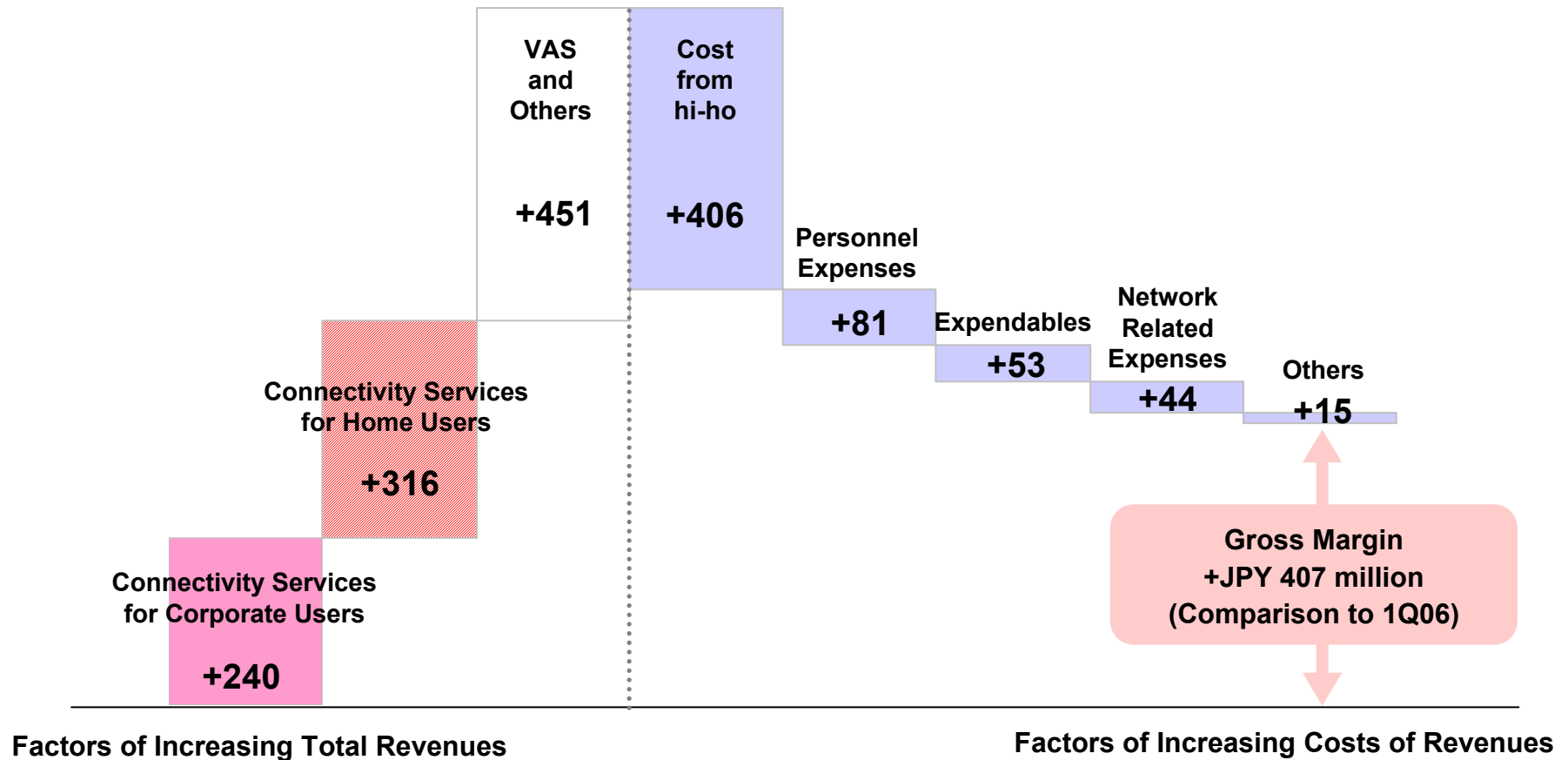
Systems Integration
 Personnel expenses, outsourcing expenses and purchase
[Mostly Fluctuating Cost]

Internet Connectivity and VAS
 Network costs such as backbone costs, network equipment costs, network operation costs such as for network operation centers and personnel costs
[Mostly Fixed Cost]

- ◆ Cost of Internet connectivity and VAS: additional cost of JPY 406 million resulting from the additional revenues from hi-ho from June 1, 2007
- ◆ Cost of systems integration: growth in personnel related expenses resulting from business expansion

Details of Factors of Increasing Total Revenues and Costs of Revenues

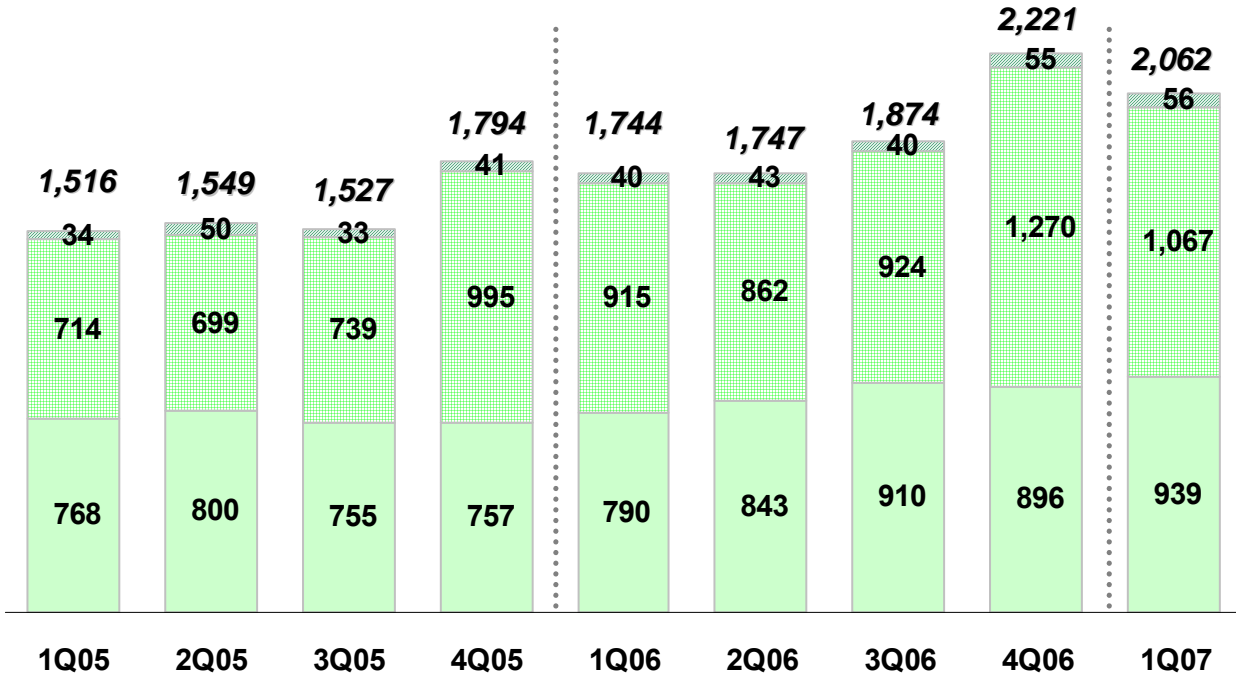
- Internet Connectivity and VAS -



<Comparison to 1Q06>

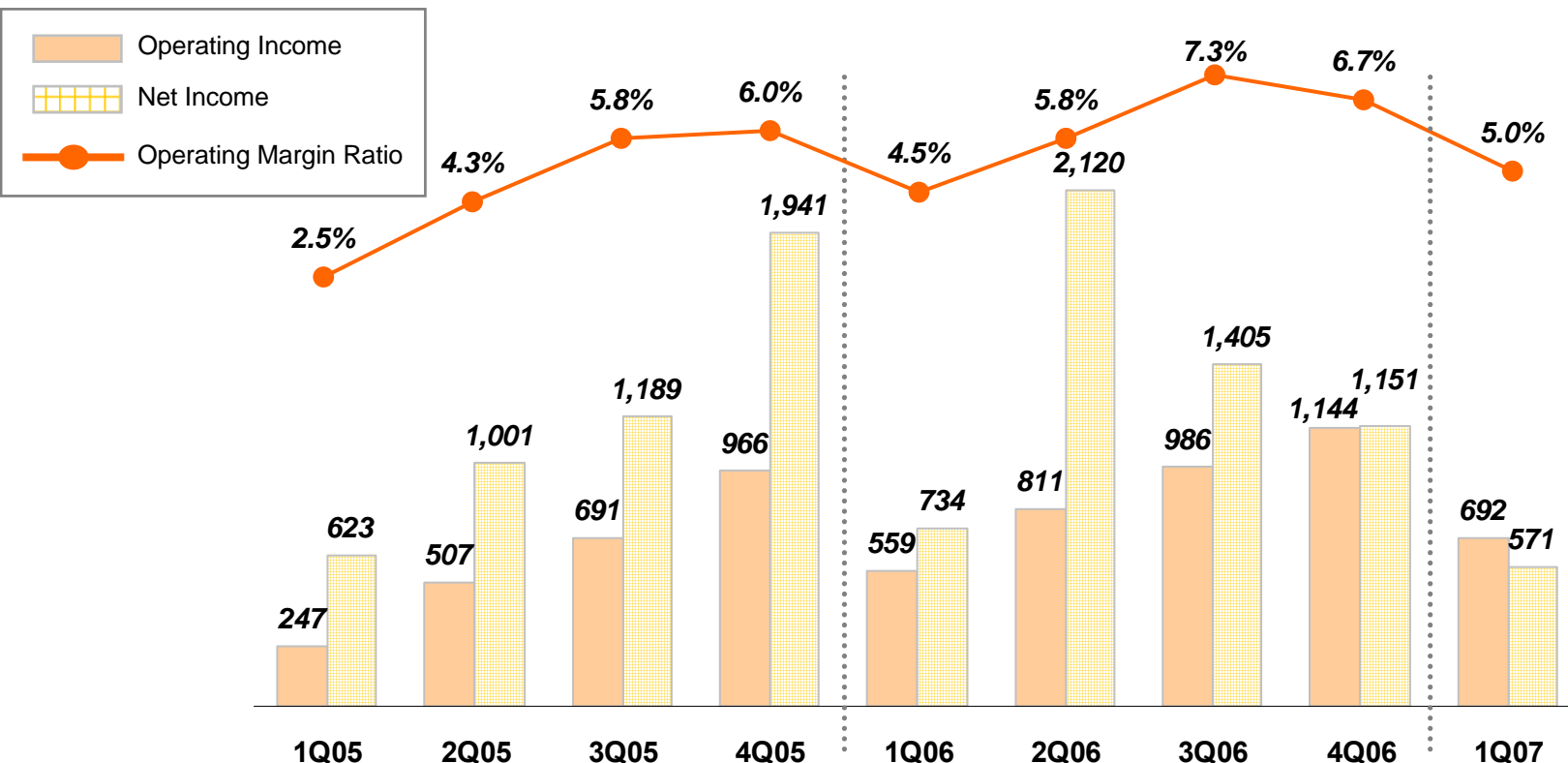
◆ Gross Margin:	1Q06: JPY 794 million	1Q07: JPY 1,202 million	(+JPY 407 million, +51.3%)
◆ Gross Margin Ratio:	1Q06: 13.5%	1Q07: 17.5%	(+4.0 points)

Quarterly SG&A Expenses/R&D



- ◆ **Sales and Marketing Expenses (up 18.9% YoY)**
Growth in personnel and advertising expenses resulting from business expansion, and hi-ho related expense.
- ◆ **General and Administrative Expenses (up 16.6% YoY)**
Growth in personnel expenses, outsourcing expenses and advertising expenses.
(In 4Q06, we recorded a transitory expenditure of allowance for retirement benefits for directors of JPY 200 million and allowance for compensated absence of JPY 225 million (including cost of revenues).)

Quarterly Operating and Net Income



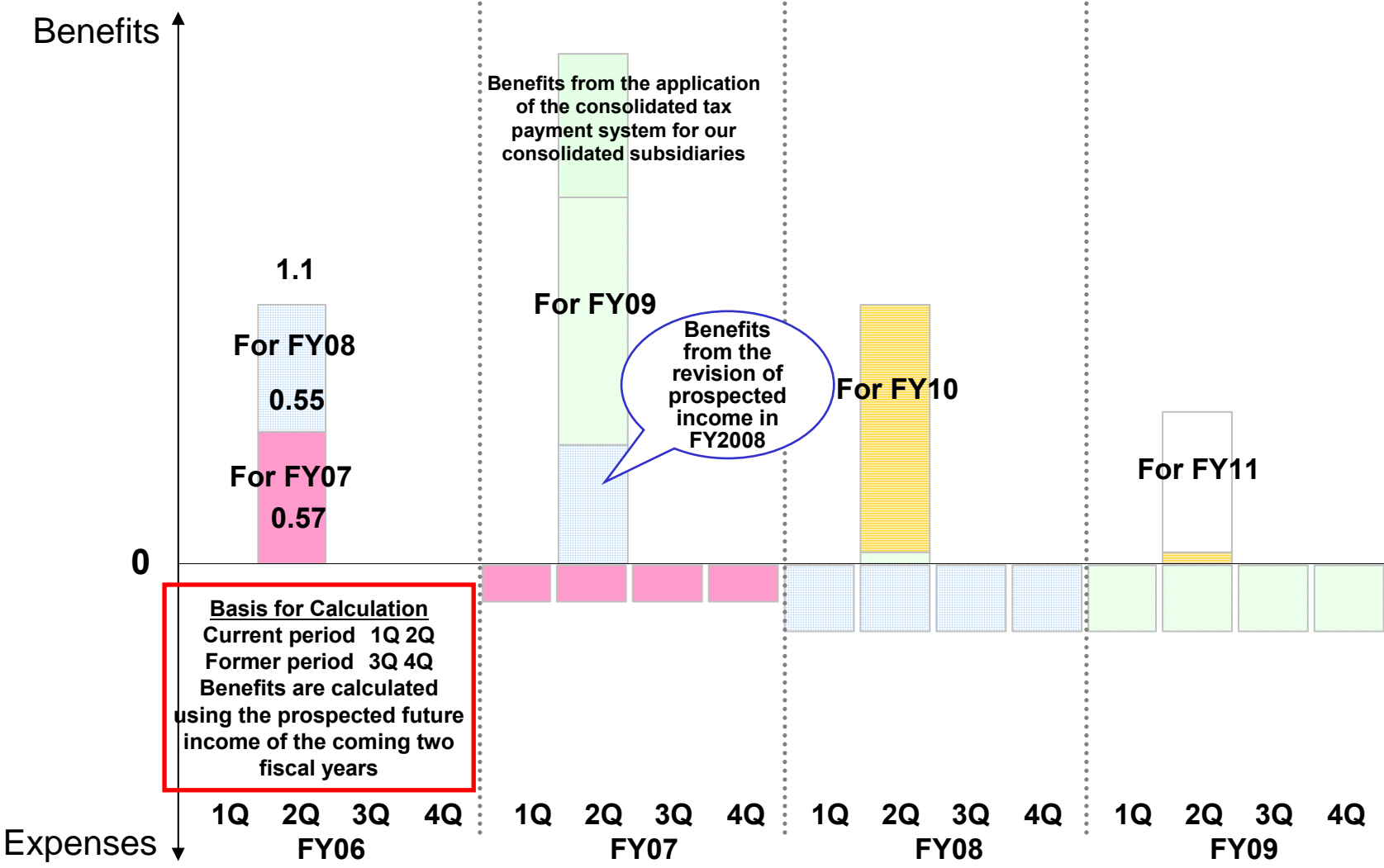
◆ **Operating Income:**

Operating margin increased by 23.7% compared to 1Q06 as recurring revenues from Internet connectivity and VAS services grew respectively. Operating margin ratio improved by 0.5% compared to 1Q06.

◆ **Net Income**

- Other Income decreased to JPY 65 million in 1Q07 compared to the JPY 440 million in 1Q06 as gains from sale of available-for-sale securities decreased to JPY 214 million compared to the JPY 478 million in 1Q06.
- Income tax expense was JPY 175 million in 1Q07 mainly due to a record of deferred tax expense of JPY 144 million.
- Minority interests in losses of subsidiaries in 1Q07 was JPY 9 million. The decrease of minority interests in losses of subsidiaries was mainly due to an elimination of minority interests related to our 4 consolidated subsidiaries wholly owned, because we acquired shares of IIJ Technology Inc. and Net Care, Inc. from their minority shareholders.
- Equity in net loss of equity method investees in 1Q07 was JPY 20 million, mainly affected by equity in net loss of Internet Revolution Inc.

Image of Deferred Tax Benefits (or Expenses)



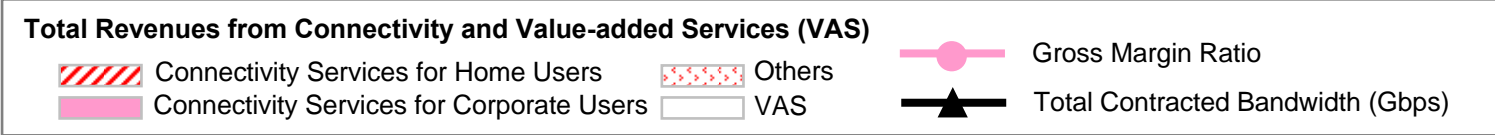
This page shows an image of deferred tax benefit (or expenses) and does not show the actual figures.

Results by Service – Connectivity and VAS

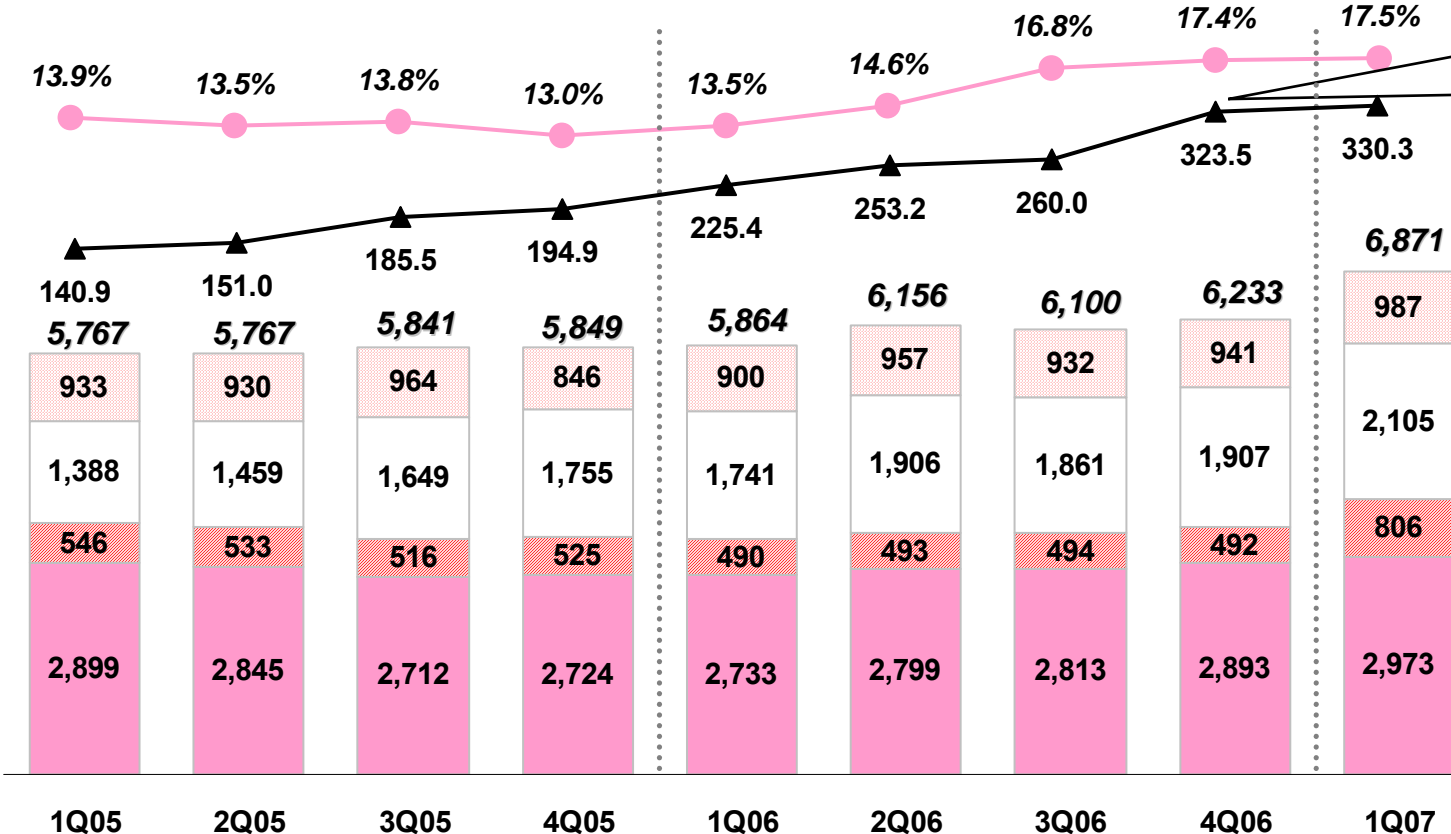


Internet Initiative Japan

Unit: JPY million



Included customers with double contracts of 15.2 Gbps while shifting to higher speeds



Recurring Revenues

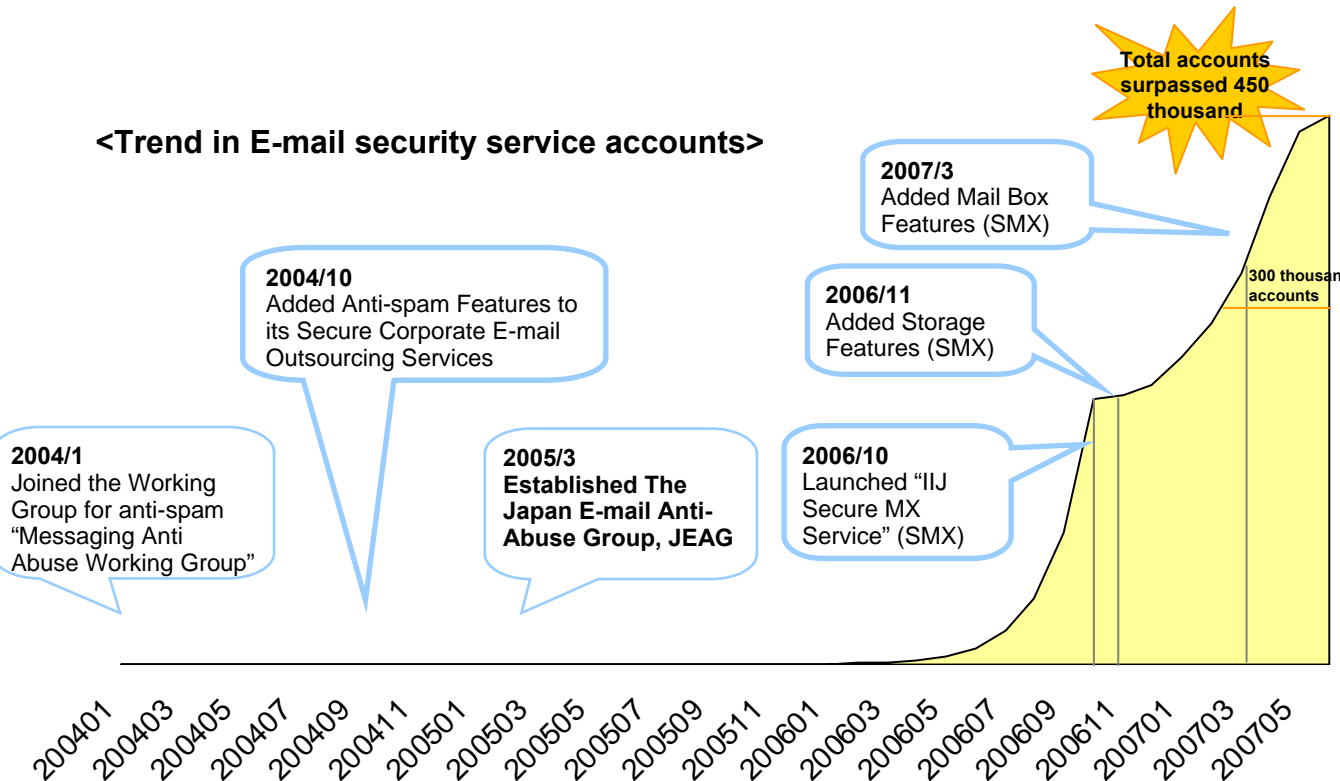
- ◆ Connectivity Services for Corporate Users: IP Services grew with the growing needs for higher speeds (21,210 contracts as of June 30, 2007).
- ◆ Connectivity Services for Home Users: Total contracts were 555,946 as of June 30, 2007, including additional contracts of 186,677 and revenues of JPY 339 million from hi-ho for one month.
- ◆ VAS and Others: Major services such as “IIJ Secure MX Service” grew respectively. Began the operation of “Ikebukuro Data Center” in April.
- ◆ Total Contracted Bandwidth: The total contracted bandwidth as of June 30, 2007 included customers that had double contracts while shifting to higher speeds (contracts totally for 15.2 Gbps). When deducting the 15.2Gbps from 4Q06 figure, the total bandwidth increased from 308.3Gbps as of March 31, 2007 to 330.3Gbps as of June 30, 2007 and an increasing trend continues.

Trend in E-mail Security Service (VAS)

Needs for e-mail security related services such as “IIJ Secure MX Service” are growing as damage from spam is increasing. IIJ had over 450 thousand accounts as of June 30, 2007.

The services are used mainly in IIJ’s large-scale existing customers. IIJ plans to promote the services to its about 6,500 existing customers and new customers.

<Trend in E-mail security service accounts>



<About IIJ Secure MX Service>

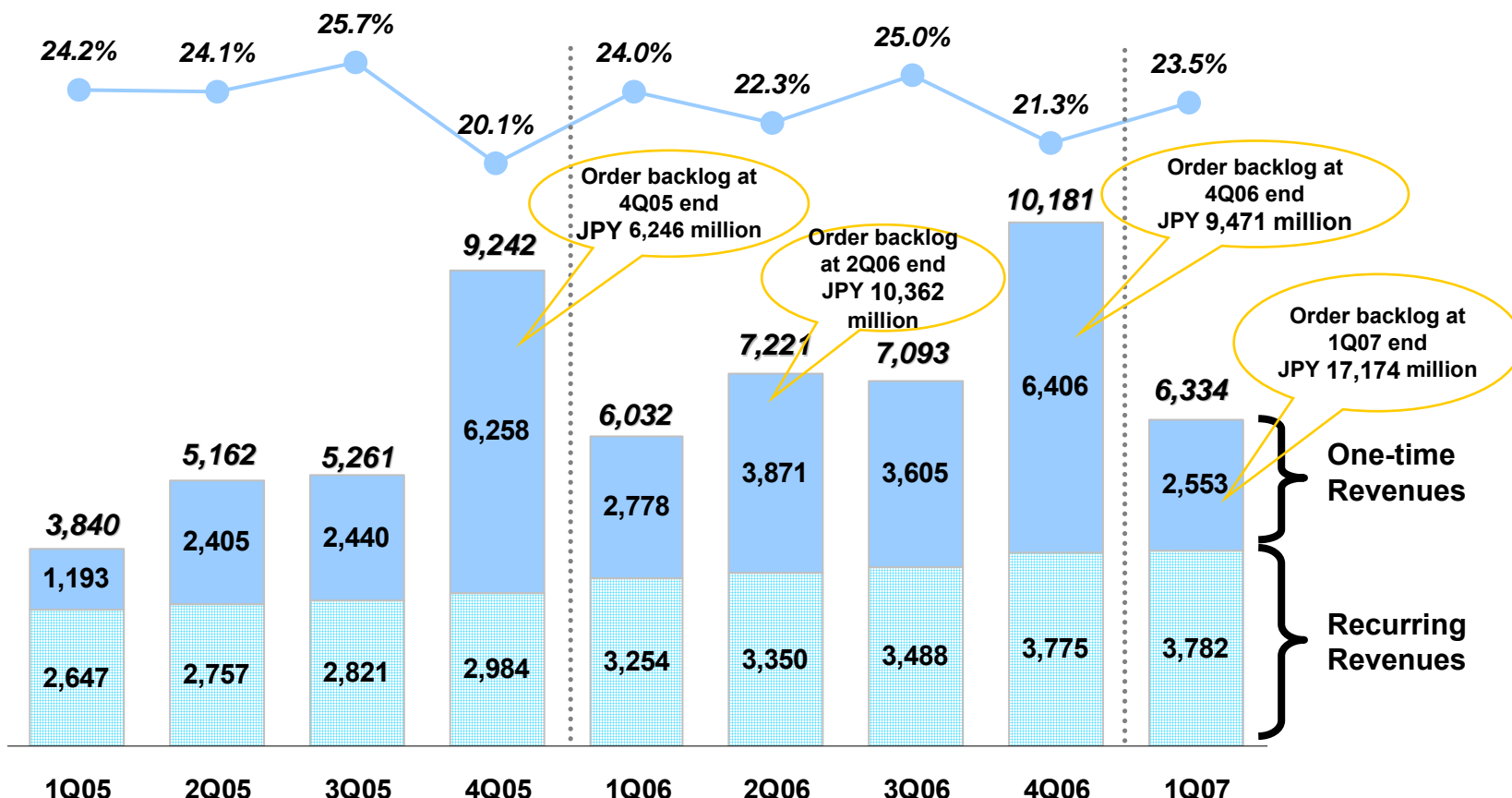
A complete lineup of email security measures, including email storage and other functions considered important parts of the Japanese-version SOX. An ASP Gateway model means that you can be confident in the service quality, without having to change your current email system, and without incurring operational labor or asset risks.

<Service Image>



Results by Service - Systems Integration

Revenue from System Integration
 Systems Construction
 Systems Operation and Maintenance
 Gross Margin Ratio



- ◆ **Systems Construction (down 8.1% compared to 1Q06)**
 - Demands for 1Q weakens affected by season factors. However, the order backlog for systems integration at June 30, 2007 was JPY 17,174 million (up 81.3% from March 31, 2007) and many projects are expected to complete in the second half of FY2007.
- ◆ **Systems Operation and Maintenance (up 16.2 % compared to 1Q06)**
 - Outsourcing needs are very strong contributing to the growth in recurring revenues.

Consolidated Balance Sheets

	June 30, 2007	March 31, 2007	Change
Cash	12,598	13,555	(957)
Accounts Receivable	7,945	9,676	(1,731)
Inventories	2,077	1,111	+966
Prepaid Expenses	2,228	1,053	+1,175
Available-for-sale Securities	1,018	1,310	(292)
Property and Equipment	11,319	9,832	+1,486
Intangible Assets	5,856	2,877	+2,979
Other Assets	3,630	3,260	+370
Borrowings (Long and Short-term)	11,319	6,340	+4,979
Accumulated Deficit	(24,006)	(24,271)	(265)
Accumulated Other Comprehensive Income	638	950	(312)
Total Shareholders' Equity	21,077	20,112	+965
Total Assets	51,775	47,693	+4,082

Increased as on-going system integration projects increased

Bonus payments for employees and maintenance expenses for systems integration projects increased

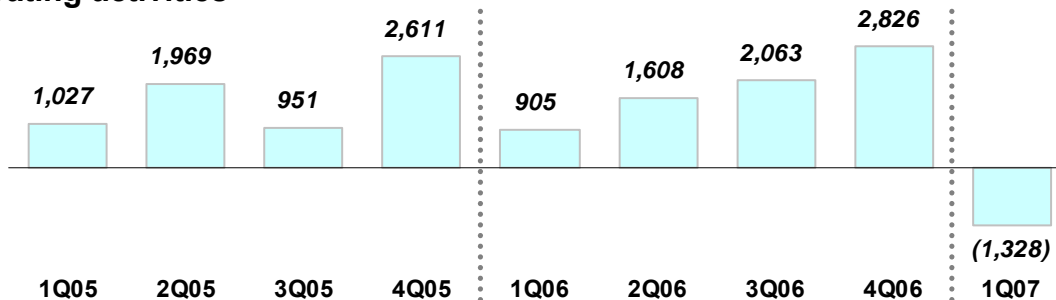
Increase in assets from the acquisition of hi-ho, systems integration related assets, and network related assets

Increase in non-amortized intangible assets due to acquisition of subsidiary shares

Short term borrowings of JPY 5,000 million for the acquisition of subsidiary shares from minority shareholders

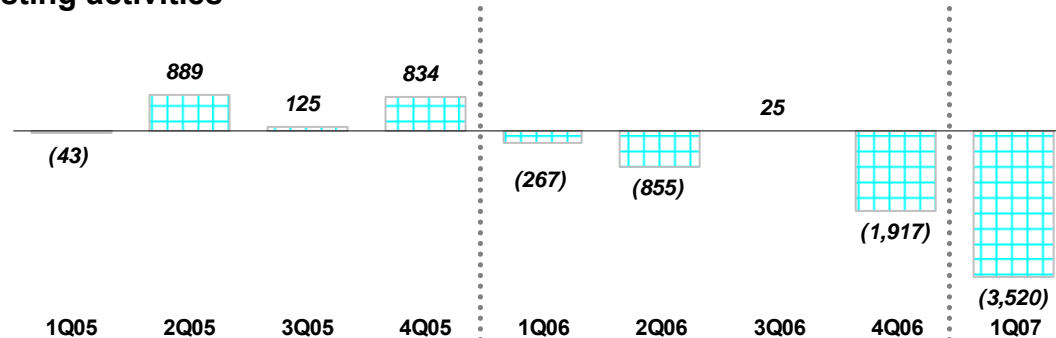
Consolidated Cash Flows

Net cash provided by (used in) operating activities



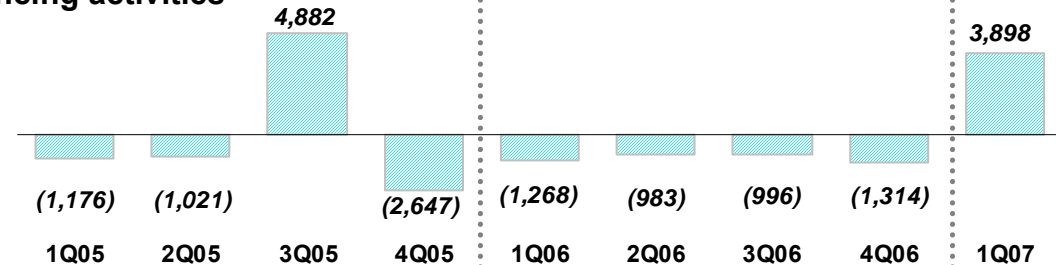
- Operating income grew due to growth in recurring revenues from connectivity services and VAS
- Payments for inventories and pre-paid expenses related to on-going SI projects
- Decrease of accounts payable of JPY 1,065 million related to SI projects completed in 4Q06
- Income tax payments of JPY 726 million

Net cash provided by (used in) investing activities



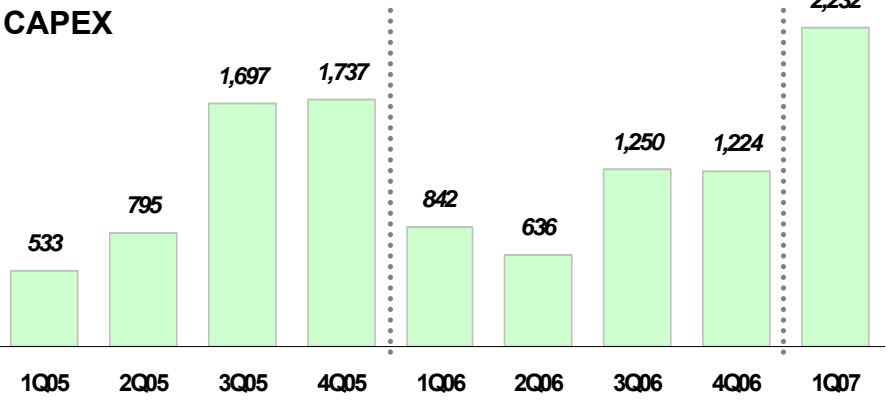
- Gains from sale of available-for-sale securities of JPY 538 million
- Payments for the acquisition of shares of consolidated subsidiaries from minority shareholders of JPY 1,975 million.
- Payment of JPY 912 million from the acquisition of hi-ho.
- Payments for the purchase of property and equipment of JPY 570 million.

Net cash provided by (used in) financing activities



- Borrowing of JPY 5,729 million including short-term borrowing of JPY 5,000 million for the acquisition of the two consolidated subsidiaries
- Principal payments under capital leases of JPY 775 million
- A net decrease in short-term borrowing of JPY 750 million

Other Financial Data (CAPEX etc.)

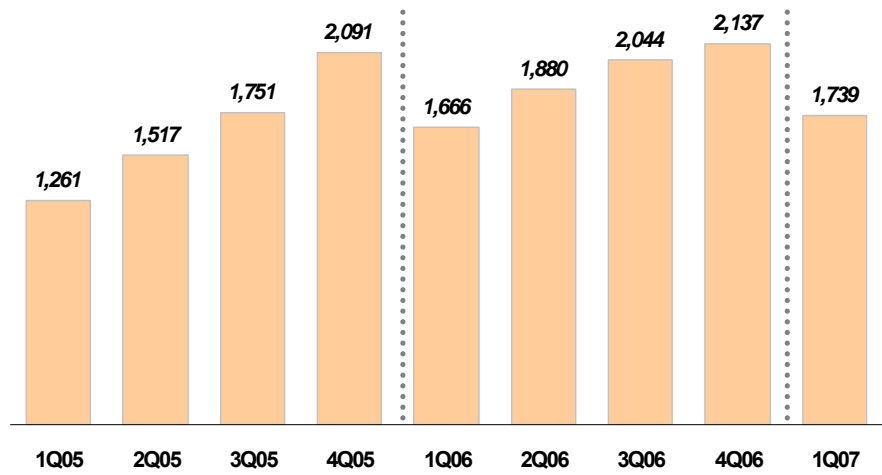


CAPEX increased by 165% compared to 1Q06.

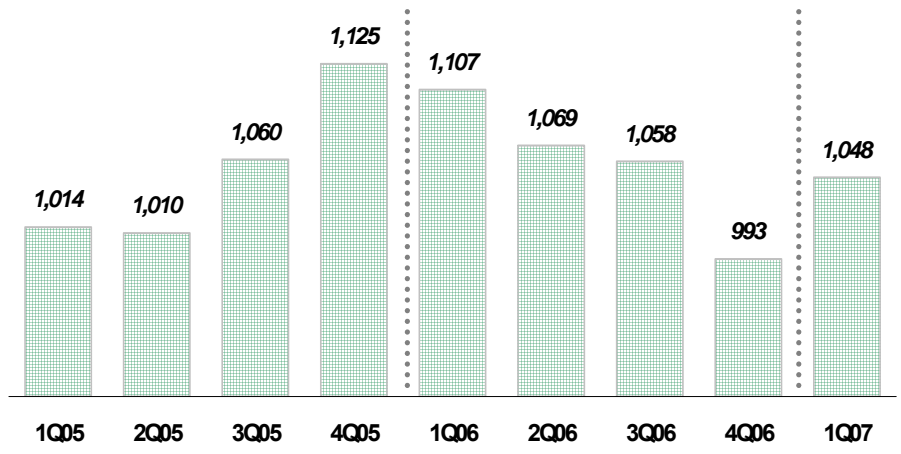
<Details>

- Payment for the purchase of equipment for SI project in FY2006
- Capital lease: JPY 1,662 million (network related equipment and systems integration related equipment)
- Purchase of property and equipment: JPY 570 million (back office related, software etc.)

Adjusted EBITDA



Depreciation and Amortization



Revised Targets for the First Half of FY2007

Unit: JPY billion excluding Net Income per Share











	Target for 1H2007		Change	Change (%)	(For Reference) Target for Full FY2007 (No Change)
	% of Revenues Revised Target	% of Revenues Initial Target			
Total Revenues	30.2	30.2	—	—	69.0
Operating Income	6.0% 1.8	6.0% 1.8	—	—	6.7% 4.6
Income before Income Tax Expense (Benefit)	6.0% 1.8	6.0% 1.8	—	—	7.4% 5.1
Net Income	5.1% 3.0	4.6% 1.4	+1.6	+114.3%	8.1% 5.6
Net Income per Share	14,529 Yen	6,780 Yen	+7,749 Yen	+114.3%	27,122 Yen

The revision is related to the timing of the recording of income tax benefits or expenses in the fiscal year

<We maintain our initial target for the full FY2006>

- ◆ As of March 31, 2007, IIJ had tax operating loss carryforwards of JPY 17,083 million. IIJ recorded deferred tax benefits of JPY 1,245 million resulting from a release of valuation allowance against deferred income tax assets in the first half of FY2006 in consideration of the income trend.
- ◆ In the second quarter of FY2007, IIJ plans to revise valuation allowance against deferred income tax assets, related to the application of the consolidated tax payment system for IIJ and its wholly owned subsidiaries in addition to the increasing income trend. As a result, IIJ expects to record deferred tax benefits exceeding the deferred tax expenses that it recorded in the first quarter of FY2007.

IIJ Group Companies (as of August 13, 2007)

	Company Name	Ownership	Main Business
Consolidated Subsidiaries	 IIJ Technology Inc.	100%	Offers a comprehensive suite of systems integration services from design, physical installation, operation, and maintenance to monitoring for our customers' diverse network systems.
	 IIJ Financial Systems Inc.		Provides full outsourcing services for integration and operation of the front- and back-end for securities systems.
	 Net Care, Inc.		Provides a full range of network operation and management services, from customer support, end-user help desks, monitoring and troubleshooting to integrated management services.
	 Net Chart Japan Inc.		Provides network construction services, primarily for LANs, such as network installation wiring, installation and set-up of equipment, installation of applications, and operational support.
	 IIJ America Inc.		Provides quality Internet services in the U.S. with a focus on U.S.-based enterprises doing business in the Asia-Pacific region. Also IIJ-A constructs and operates on U.S. Internet backbone network.
	 hi-ho, Inc.		Supports customer's safe, secure and comfortable Internet life based on ISP business for personal users.
	 GDX Japan, K.K.		51%
Equity Method Investees	 Internet Multifeed Co.	29.4%	Provides mutual access with other major ISPs and content distribution services based on Multifeed technology. Also MFEED operates JPNAP, a distributed IX service.
	 Internet Revolution, Inc.	30%	Operates a comprehensive portal site that provides various contents, such as SNS, blogs, stunning games, videos, and music.
	 TAIHEI COMPUTER Taihei Computer Co., Ltd.	45%	Provides operation of reward point management system

Date	Press Release
4/ 2	IIJ Group Opens New Ikebukuro Data Center
4/ 5	IIJ Makes its Two Consolidated Subsidiaries 100% Owned through Exchanges of Shares
4/ 9	IIJ to Create New Generation Messaging Services in Joint Venture with GDX Japan
4/16	IIJ and Hirata Form Partnership for Joint Management of Taihei Computer
4/23	IIJ Introduces IIJ SSL Certificate Management Service
5/10	IIJ Expands Access Lines for IIJ FiberAccess/F Service
5/24	MF Starts Providing JPNAP Osaka "PI/CUG Service"
6/ 1	IIJ Completes Acquisition of hi-ho Inc.
6/ 5	IIJ-Tech Launches IBPS Server Management Service
6/27	IIJ to Launch the Unified Management Platform
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

(Reference) -Revenues from Internet Connectivity and VAS-

<Old Classification>

