

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



**Internet Initiative Japan Inc.
2006.11.9**

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.

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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 for 2Q and 1H06



Internet Initiative Japan

◆ Total revenues and operating income continued to trend upward, in excess of IIJ's initial targets, due to strength in demand for systems integration and outsourcing services

<<1H06 (2006/4-9)>>

- Total revenues JPY 26,444 million
(+21.3% compared to 1H05, +5.6% compared to the initial target)
- Operating income JPY 1,370 million
(+81.8% compared to 1H05, +37.0% compared to the initial target)

<<2Q06 (2006/7-9)>>

- Total revenues JPY 14,007 million (+17.4% compared to 2Q05)
- Operating income JPY 811 million (+59.9% compared to 2Q05)

◆ Enhanced IIJ Solutions Line-up

IIJ enhanced its solutions line-up by developing and introducing new security and e-mail related services.

◆ Enhanced IIJ Group Structure

IIJ established a fully owned subsidiary, Net Chart Japan Inc., for cooperation in the field of network construction and sales force enhancement.

Consolidated Financial Results for 1H06

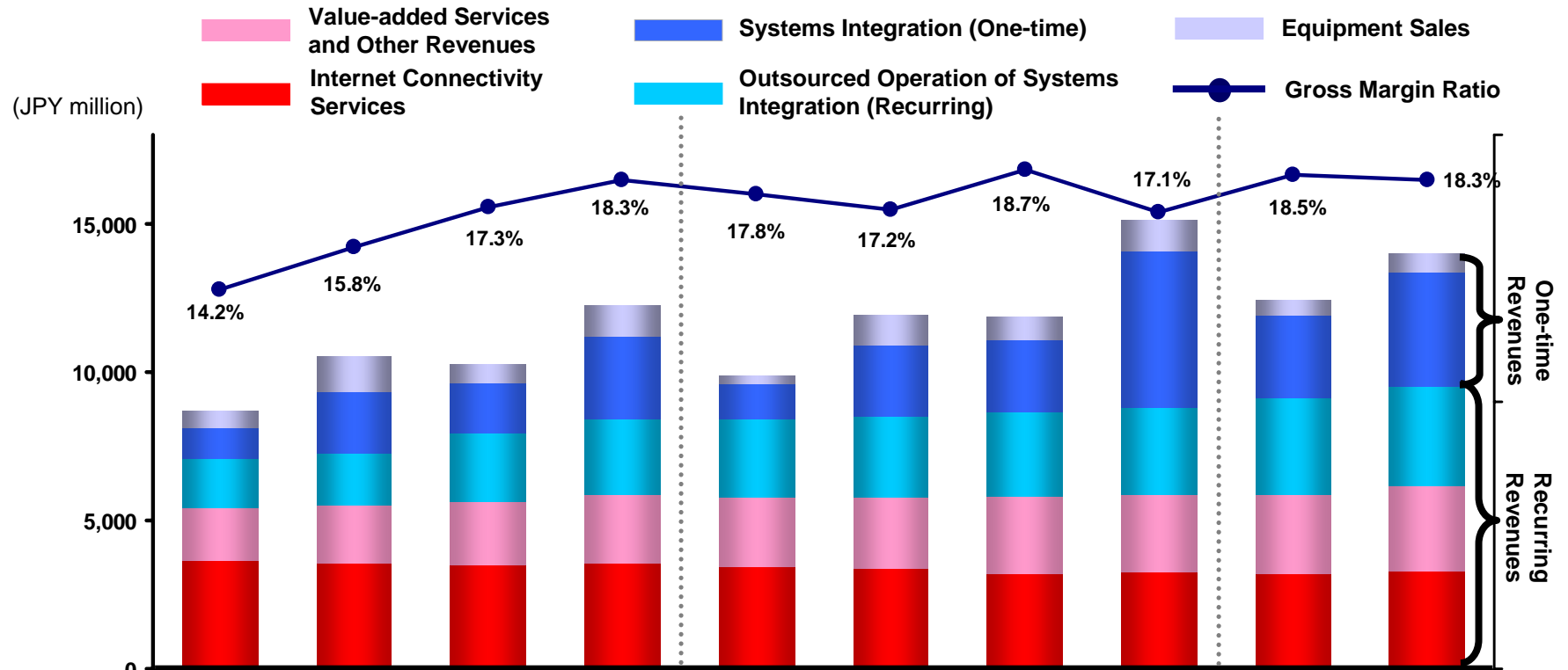
	1H06 (2006/4-2006/9)			1H05 (2005/4-2005/9)		YoY
	Initial Targets	Results	% of Total Revenues	Results	% of Total Revenues	
Total Revenues	25,000	26,444	100.0%	21,809	100.0%	+21.3%
Total Costs	-	21,582	81.6%	17,991	82.5%	+20.0%
Gross Margin	-	4,862	18.4%	3,818	17.5%	+27.3%
SG&A/R&D	-	3,492	13.2%	3,064	14.1%	+13.9%
Operating Income	1,000	1,370	5.2%	754	3.5%	+81.8%
Income before Income Tax Expense (Benefit)	2,600	2,144	8.1%	1,779	8.2%	+20.5%
Net Income	2,000	2,854	10.8%	1,623	7.4%	+75.8%

Consolidated Financial Results for 2Q06

(JPY million)

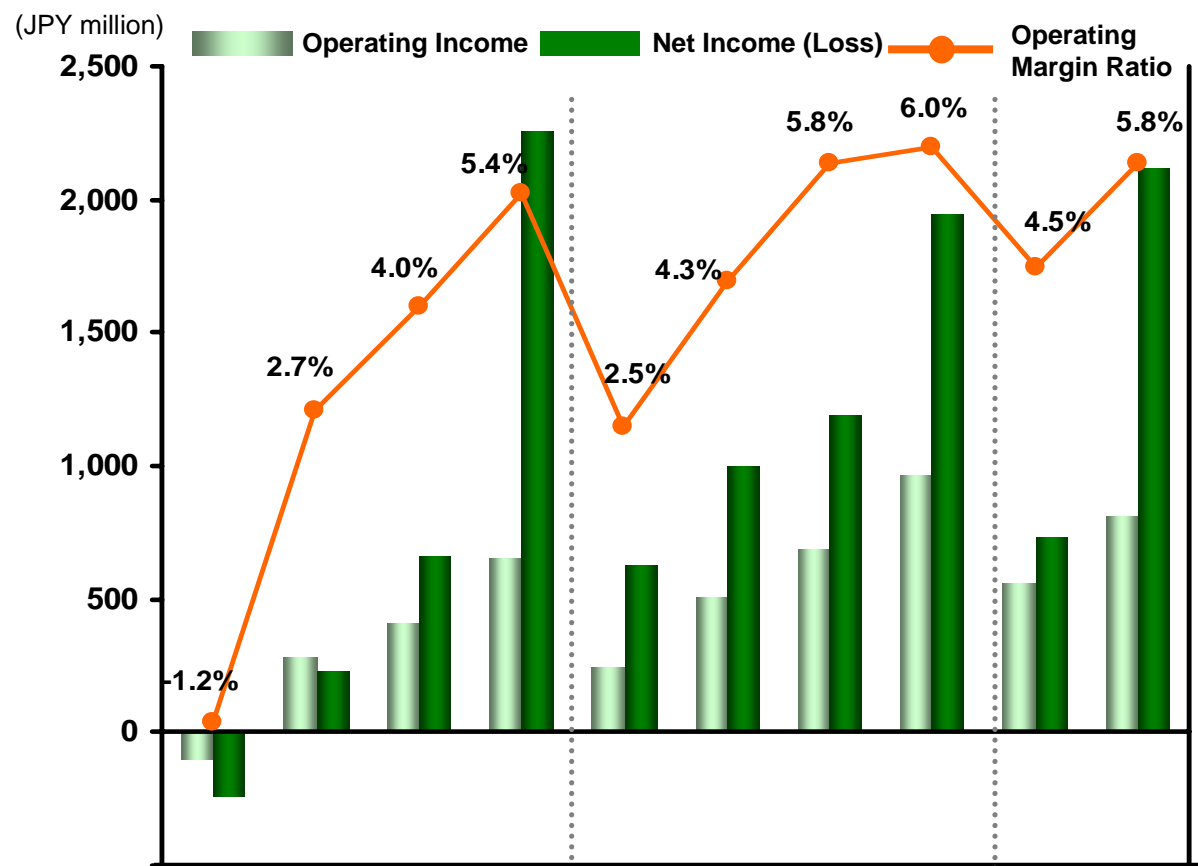
	2Q06 (2006/7-2006/9)		2Q05 (2005/7-2005/9)		YoY
	Results	% of Total Revenues	Results	% of Total Revenues	
Total Revenues	14,007	100.0%	11,929	100.0%	+17.4%
Total Costs	11,448	81.7%	9,873	82.8%	+16.0%
Gross Margin	2,559	18.3%	2,056	17.2%	+24.5%
SG&A/R&D	1,747	12.5%	1,549	13.0%	+12.8%
Operating Income	811	5.8%	507	4.3%	+59.9%
Income before Income Tax Expense (Benefit)	1,145	8.2%	1,097	9.2%	+4.4%
Net Income	2,120	15.1%	1,001	8.4%	+111.9%

Trend of Quarterly Revenues



Revenues (JPY million)	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06
Equipment Sales	531	1,167	625	1,043	273	1,000	769	1,042	542	630
Systems Integration	1,040	2,101	1,672	2,786	1,193	2,405	2,440	6,258	2,778	3,871
Outsourced Operation	1,655	1,737	2,298	2,566	2,647	2,757	2,821	2,984	3,254	3,350
VAS and Other Revenues	1,779	1,936	2,158	2,301	2,321	2,389	2,613	2,601	2,641	2,863
Internet Connectivity Services	3,670	3,572	3,508	3,559	3,446	3,378	3,227	3,248	3,223	3,293
Total Revenues	8,675	10,512	10,261	12,254	9,880	11,929	11,870	16,133	12,437	14,007
Gross Margin Ratio	14.2%	15.8%	17.3%	18.3%	17.8%	17.2%	18.7%	17.1%	18.5%	18.3%

Trend of Quarterly Operating and Net Income (Loss)



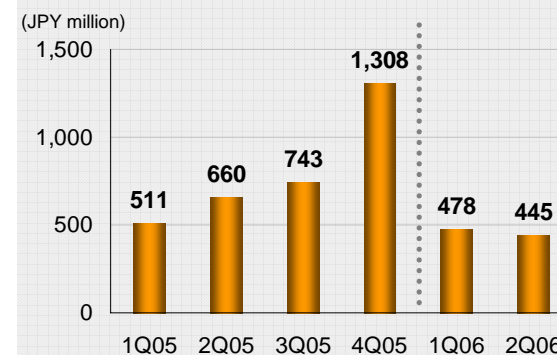
	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06
Operating Income	(100)	282	410	656	247	507	691	966	559	811
Net Income	(238)	229	660	2,256	623	1,001	1,189	1,941	734	2,120
Operating Margin Ratio	(1.2%)	2.7%	4.0%	5.4%	2.5%	4.3%	5.8%	6.0%	4.5%	5.8%

<Operating Income - 2Q06>

- Increased by **59.9%** compared to 2Q05 due to an increase in revenues from value-added services and systems integration.
- Operating margin ratio increased by **1.5 percentage points** compared to 2Q05.

<Net Income - 2Q06>

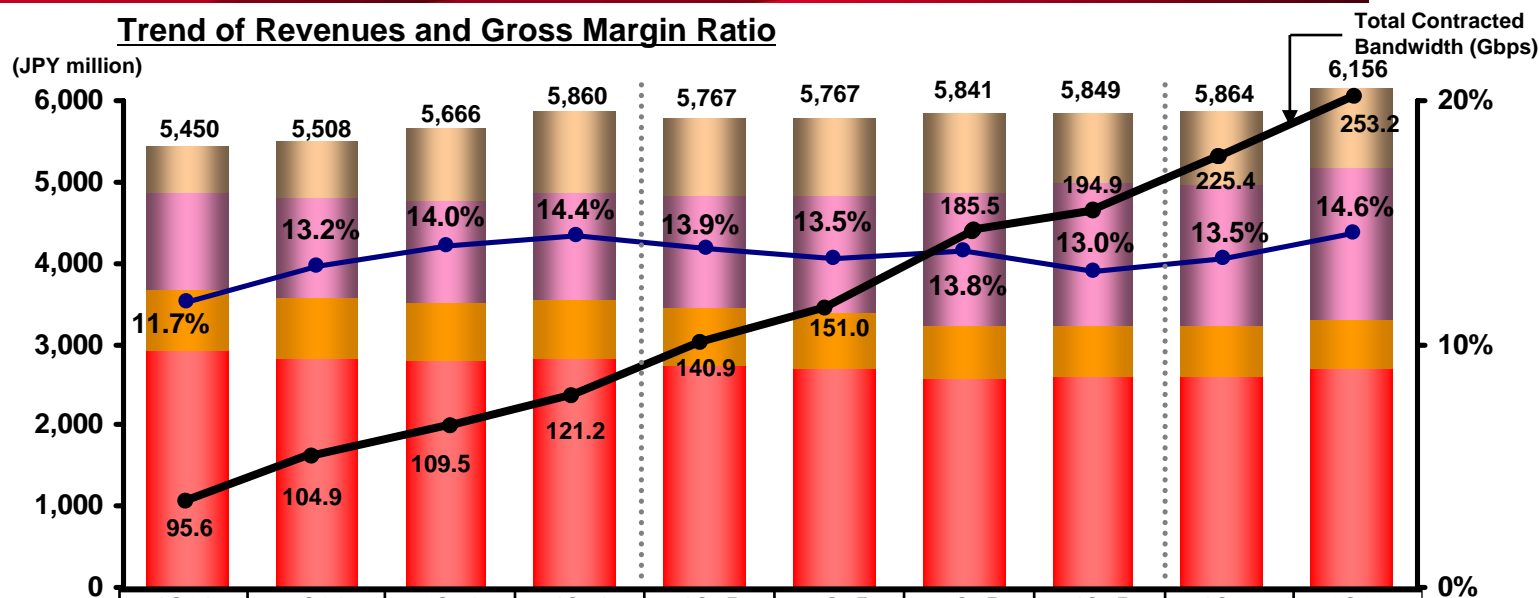
- Gain from sale of available-for-sale securities was JPY 445 million.



- Income tax benefit was JPY 1,109 million, because of deferred tax benefits of JPY 1,266 million due to an application of income tax effect.
- Minority interests in earnings of subsidiaries was JPY 82 million.
- Equity in net loss of equity method investees was JPY 52 million.

Results by Service – Connectivity and Value-added Services

Trend of Revenues and Gross Margin Ratio



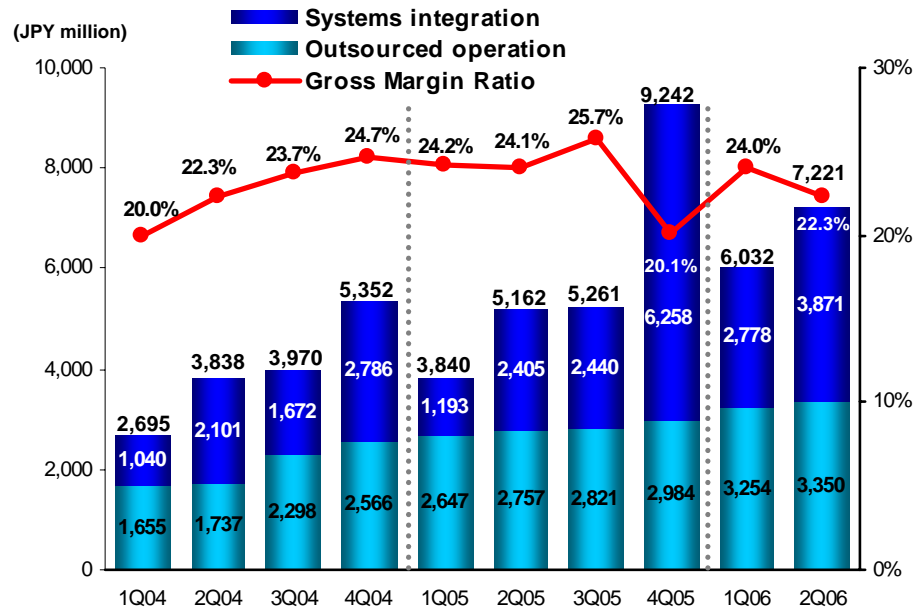
Revenues (JPY million)	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06
Other Revenues	592	716	882	979	933	930	964	846	900	957
Value-added Services	1,187	1,220	1,276	1,322	1,388	1,459	1,649	1,755	1,741	1,906
Dial-up Access Services	752	740	727	718	699	682	648	645	607	606
Dedicated Access Services	2,918	2,832	2,781	2,841	2,747	2,695	2,580	2,603	2,616	2,687
Total Revenues	5,450	5,508	5,666	5,860	5,767	5,767	5,841	5,849	5,864	6,156
Gross Margin Ratio (%)	11.7%	13.2%	14.0%	14.4%	13.9%	13.5%	13.8%	13.0%	13.5%	14.6%

- **Dedicated access:** Revenues increased 2.7% compared to 1Q06, due to an increase in contracts of higher speed IP services and broadband services connecting corporate branch offices and shops over Internet VPN. Revenues decreased 0.3% mainly due to a decrease of JPY 234 million in interconnection revenues between IIJ's network and Asia Internet Holding Co., Ltd. ("AIH"), IIJ's former equity method investee.
- **Dial-up access:** Revenues decreased 0.2% compared to 1Q06 and by 11.2% compared to 2Q05, mainly due to the discontinuance of services of certain large customer to which IIJ provided services as OEM and a decrease in revenues from services for individual customers.

- **Value-added services:** Revenues increased 9.5% compared to 1Q06 and 30.7% compared to 2Q05, mainly due to an increase in revenues from various types of services, such as e-mail, security and Internet VPN related services and data center services.
- **Gross margin ratio improved by 1.1 percentage points compared to 1Q06.**
- **Number of dedicated access contracts: 16,112 (+758, +4.9% from 1Q06, +3,410, +26.8% from 2Q05)**
- **Total contracted bandwidth: 253.2Gbps (+27.8Gbps from 1Q06, +102.2Gbps from 2Q05)**

Results by Service – Systems Integration

Trend of Revenues and Gross Margin Ratio



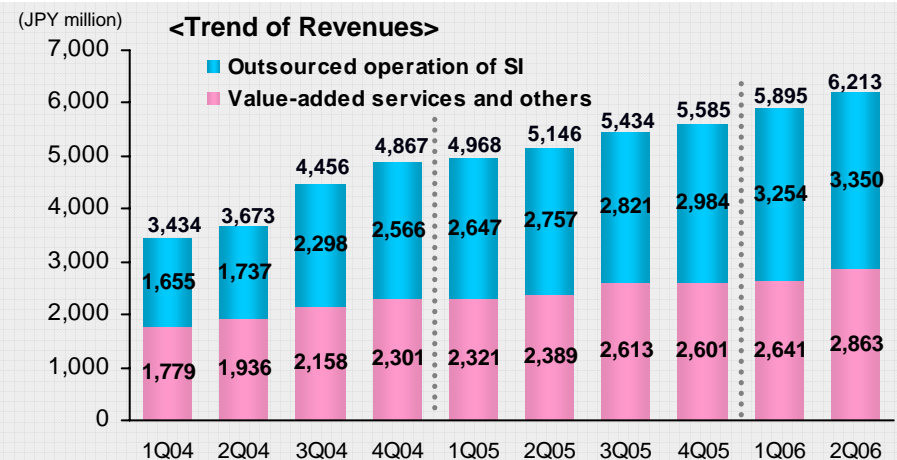
- One-time revenues mainly from construction of network systems continued to increase and recurring revenues from outsourced operations and maintenance increased steadily.

Revenues: 7,221 million
 (+19.7% from 1Q06, +39.9% from 2Q05)

- Systems integration: JPY 3,871 million (+39.3% from 1Q06, +61.0% from 2Q05)
- Outsourced operation: JPY 3,350 million (+3.0% from 1Q06, +21.5% from 2Q05)
- Gross margin ratio decreased by 1.7 percentage points from 1Q06 and 1.8 percentage points from 2Q05 mainly due to an individual large-scale transaction.

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

- Revenues: JPY 6,213 million
 (+5.4% from 1Q06, +20.7% from 2Q05)
- Value-added services and other revenues: JPY 2,863 million (+8.4% from 1Q06, +19.9% from 2Q05)
- Outsourced operation: JPY 3,350 million (+3.0% from 1Q06, +21.5% from 2Q05)
- IIJ expects that increased outsourcing and maintenance projects along with increased network systems construction projects, coupled with the enhancement of line-ups of value-added services will continue to contribute to increased revenues and operating income.



Balance Sheets and Cash Flows in 2Q06



Internet Initiative Japan

(JPY million)

● Balance Sheets	September 30, 2006	March 31, 2006	Change
Cash	12,860	13,727	-867
Available-for-sale Securities	3,500	6,775	-3,275
Long and Short-term Borrowings	6,810	6,835	-24
Common Stock	16,834	16,834	—
Additional Paid-in Capital	26,599	26,599	—
Accumulated Deficit	(26,827)	(29,680)	+2,854
Accumulated Other Comprehensive Income	3,286	6,554	-3,268
Total Shareholders' Equity	19,808	20,222	-414
● Cash Flows (3 months)	2Q06 (2006/7-2006/9)	2Q05 (2005/7-2005/9)	Change
Net Cash Provided by Operating Activities	1,608	1,969	-362
Net Cash Provided by (Used in) Investing Activities	(855)	889	-1,744
Net Cash Used in Financing Activities	(983)	(1,021)	+38
Cash, End of Each Period	12,860	6,953	5,906

Other Financial Data in 1Q06

(JPY million)

	2Q06 (2006/7-2006/9)	2Q05 (2005/7-2005/9)	Change
CAPEX	636	795	-20.0%
Depreciation and Amortization	1,069	1,010	+5.8%
Adjusted EBITDA	1,880	1,517	+23.9%

Revision of Financial Targets (November 2, 2006)



Internet Initiative Japan

Consolidated	1H06 (2006/4-2006/9)		(JPY million)	FY2006 (2006/4-2007/3)		(JPY million)
	Initial	Revised		Initial	Revised	
Total Revenues	25,000	26,400	Increasing mainly due to favorable trends of revenues from connectivity, value-added services and systems integration	55,000	56,000	Increasing reflecting the results for 1H06
Operating Income	1,000	1,370	Increasing mainly due to an increase in revenues	3,200	3,200	Maintained since IIJ's annual revenues and profits related to systems integration are largely influenced by the results in the fourth quarter
Income before Income Tax Expense (Benefit)	2,600	2,140	The gain from sale of available-for-sale securities decreases due to decrease in its value due to market fluctuations	6,300	5,000	The gain from sale of available-for-sale securities decreases due to decrease in its value due to market fluctuations
Net Income	2,000	2,850	Increasing due to deferred tax benefits resulting from a release of valuation allowance against deferred income tax assets related to tax operating loss carryforwards and others	5,000	5,000	Maintained mainly due to an application of income tax effect
Non-Consolidated	Initial	Revised	(JPY million)	Initial	Revised	(JPY million)
Total Revenues	18,900	19,200	Increasing mainly due to favorable trends of revenues from connectivity, value-added services and systems integration	41,000	41,000	Maintained since IIJ's annual revenues and profits related to systems integration are largely influenced by the results in the fourth quarter and IIJ has a large amount of integration projects that have relatively short lead-time
Operating Income	300	580	Increasing mainly due to an increase in revenues	1,300	1,300	
Ordinary Income	300	600		1,300	1,300	
Net Income	2,000	1,620	The gain from sale of available-for-sale securities decreases due to decrease in its value due to market fluctuations	4,800	4,200	The gain from sale of available-for-sale securities decreases due to decrease in its value due to market fluctuations

Enhanced IIJ Solutions Line-up

IIJ has been enhancing its solutions line-up and continued to develop new security and e-mail related services and enhance its existing services.

Services	Date of Introduction	Descriptions
IIJ Managed IPS Service	7/3	<Security> Service to protect corporate internal networks from unsolicited accesses from Internet
IIJ SMF Service (Feature enhancement)	8/3	<Internet VPN> Feature enhancement to support closed network services and other services provided by other telecommunications carriers and ISPs
IIJ Managed VPN PRO (Feature enhancement)	9/4	<Internet VPN> Feature enhancement of the service to construct full managed type of Internet VPN on IIJ's Internet backbone to connect customer sites in Japan and abroad
IIJ Secure MX Service	10/1	<E-mail solutions> ASP service to provide anti-spam, encapsulation of routes of incoming and outgoing e-mails, recoding all of e-mails and others
IIJ Document Exchange Service (Feature enhancement)	10/5	<E-mail solutions> Feature enhancement to enable easily sharing of large computer files by linking on-line storage and Web mail functions
iiMail	10/10	<E-mail solutions> Service to construct e-mail systems for corporate customers in a relatively short time and for more reasonable price
IIJ Managed Firewall Service	11/1	<Security> Service for IIJ's security engineers to operate and monitor firewalls at customer premises
IIJ Secure MX Service (Feature enhancement)	11/1	<E-mail solutions> Feature enhancement to add on-line storage functions

Enhanced IIJ Group Structure

IIJ established a fully owned subsidiary, Net Chart Japan Inc. for cooperation in the field of network construction and sales force enhancement.
 (Net Chart Japan Inc. started its business operations after it succeeded the business operations of Net Chart Japan Corporation on October 1, 2006)

Overview of Net Chart Japan Inc.

Location: Yokohama, Kanagawa

Representative: Kazuhiro Kusumoto

Date of establishment: August 10, 2006

Shareholders: Internet Initiative Japan Inc.
 (100%)

Number of employees: 40

Capital: JPY 55 million

Additional paid-in capital: JPY 55 million
 Business: Installation and configuration of equipment, construction such as wiring and installation of applications and its support

