

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



**Internet Initiative Japan Inc.
2007.2.8**

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 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 Fanci) 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)

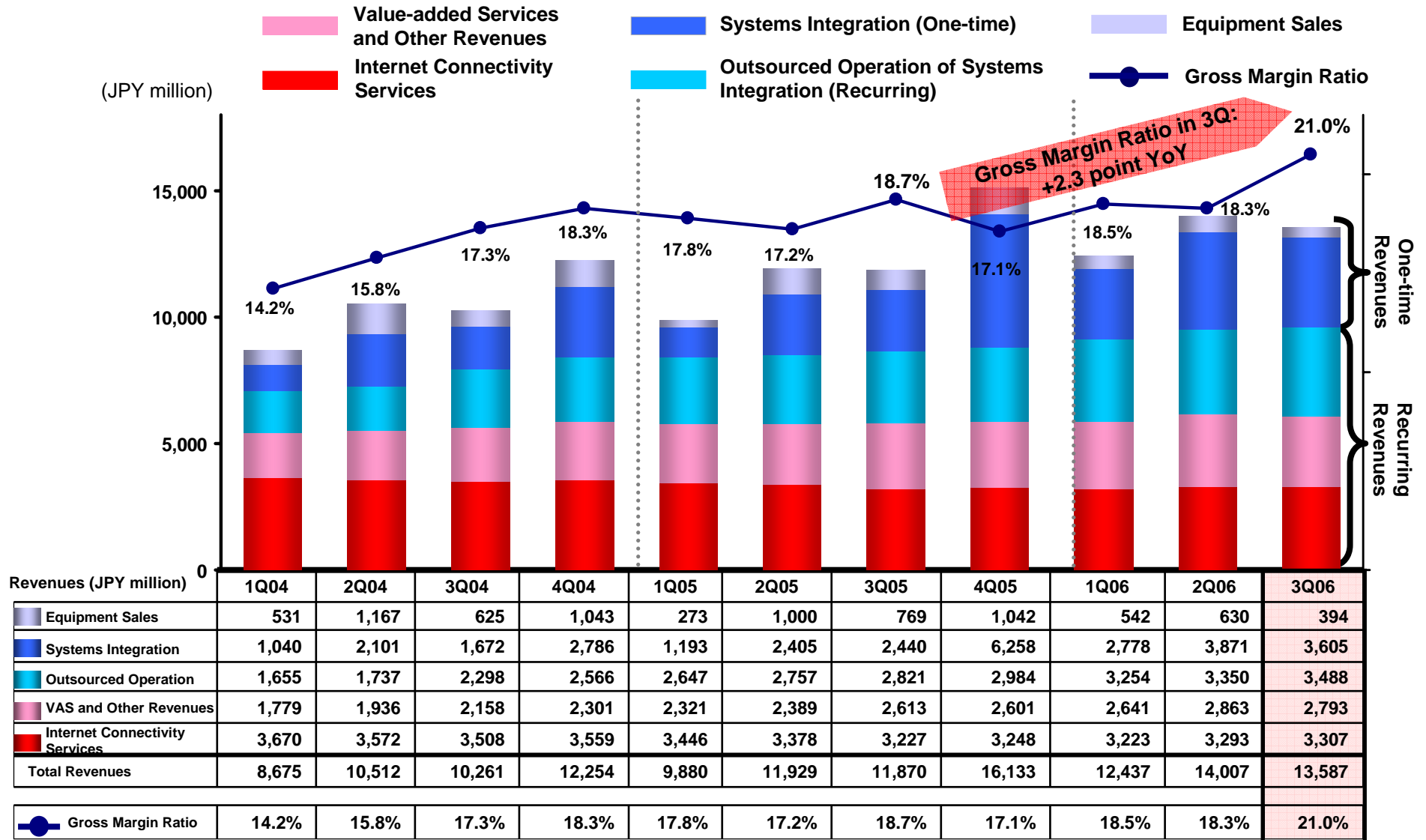
	1Q06-3Q06 (2006/4-2006/12)		1Q05-3Q05 (2005/4-2005/12)		YoY
	Results	% of Total Revenues	Results	% of Total Revenues	
Total Revenues	40,031	100.0%	33,679	100.0%	+18.9%
Total Costs	32,309	80.7%	27,643	82.1%	+16.9%
Gross Margin	7,722	19.3%	6,036	17.9%	+27.9%
SG&A/R&D	5,366	13.4%	4,591	13.6%	+16.9%
Operating 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)

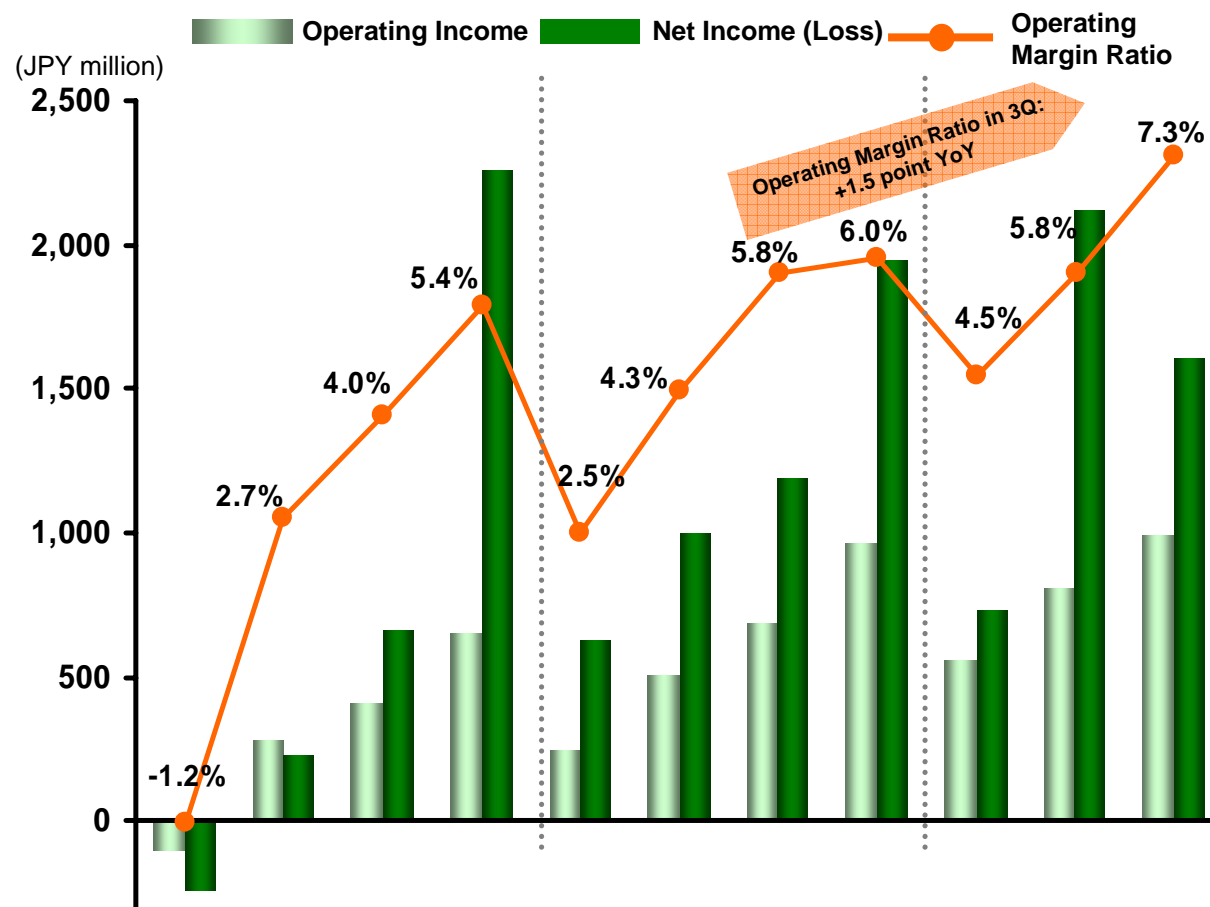
(JPY million)

	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)



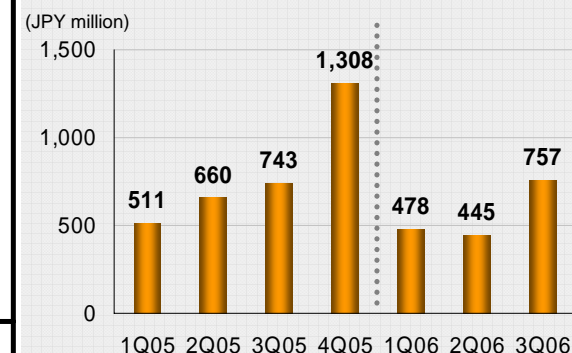
	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06
Operating Income	(100)	282	410	656	247	507	691	966	559	811	986
Net Income	(238)	229	660	2,256	623	1,001	1,189	1,941	734	2,120	1,405
Operating Margin Ratio	(1.2%)	2.7%	4.0%	5.4%	2.5%	4.3%	5.8%	6.0%	4.5%	5.8%	7.3%

<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.



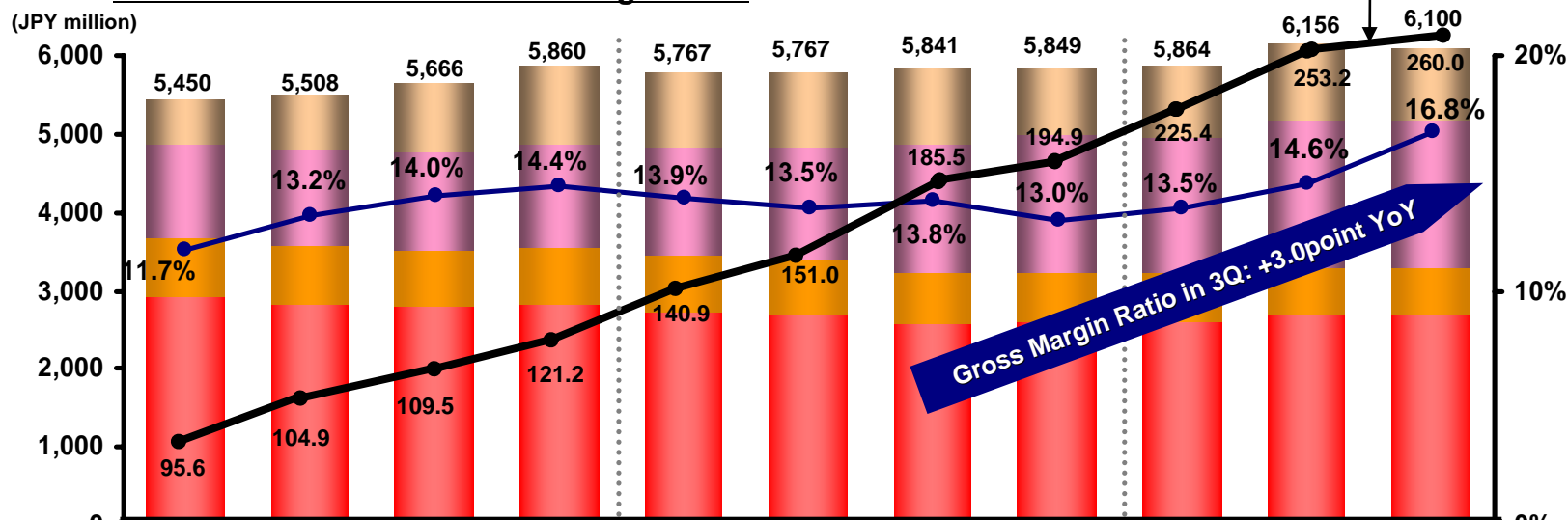
- Income tax expense was JPY 93 million, including tax expense by our consolidated subsidiaries.
- Minority interests in earnings of subsidiaries was JPY 70 million.
- Equity in net loss of equity method investees was JPY 36 million.

Results by Service – Connectivity and Value-added Services



Internet Initiative Japan

Trend of Revenues and Gross Margin Ratio



Total Contracted Bandwidth (Gbps)

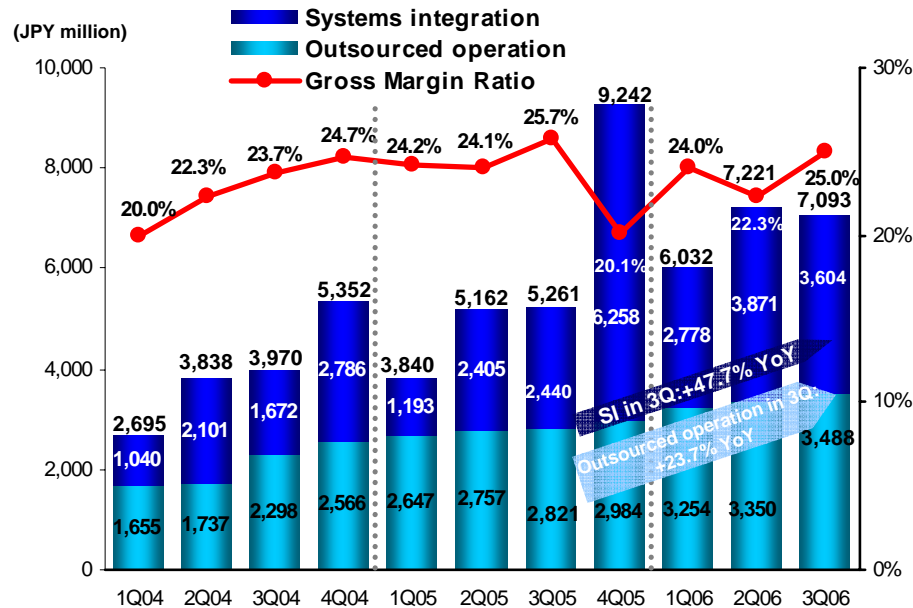
Revenues (JPY million)	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06
Other Revenues	592	716	882	979	933	930	964	846	900	957	932
Value-added Services	1,187	1,220	1,276	1,322	1,388	1,459	1,649	1,755	1,741	1,906	1,861
Dial-up Access Services	752	740	727	718	699	682	648	645	607	606	604
Dedicated 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 increased steadily, mainly due to the shift to higher speed bandwidth by customers in IP Services (60 contracts for speeds over 1Gbps) and an increase in number of contracts for broadband services to connect branch offices/shops (+0.6% QoQ, +4.8% YoY).
- Dial-up access service revenues decreased mainly due to a decrease in revenues from services for individual customers, such as IJ4U (-0.2% QoQ, -6.6% YoY).

- Value-added service revenues decreased by 2.3% from 2Q06 due to a factor to decrease the revenues such as a merger between our customers, but increased by 12.9% from 3Q05 mainly due to increasing orders for services such as IIJ Secure MX Service etc.
- The gross margin ratio significantly improved by 3.0 percentage points from 3Q05.
- Number of dedicated access contracts: **16,663** (+551, +3.4% from 2Q06, +2,939, +21.4% from 3Q05)
- Total contracted bandwidth: **260.0Gbps** (+6.8Gbps from 2Q06, +74.5Gbps from 3Q05)

Results by Service – Systems Integration

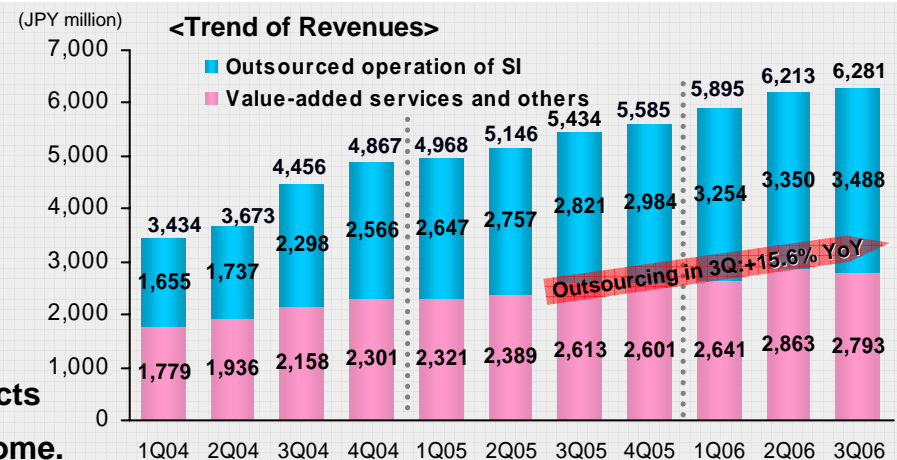
Trend of Revenues and Gross Margin Ratio



- Corporate demand for the construction of network systems continued to be favorable
- Projects for outsourced operation have been on an upward trend
- Revenues: 7,093 million
(-1.8% from 2Q06, **+34.8%** from 3Q05)
- Systems integration: JPY 3,605 million
(-6.9% from 2Q06, **+47.7%** from 3Q05)
- Outsourced operation: JPY 3,488 million
(+4.1% from 2Q06, **+23.7%** from 3Q05)
- The gross margin ratio increased by 2.7 percentage points from 2Q06

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)
- IIJ expects that an increase in outsourced operation projects along with an increase in network systems construction projects and an enhancement in the value-added services line-up will continue to generate increases in revenues and operating income.



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 Secure MX Service” (Press release on September 5 and October 19, 2006)

- A service that provides comprehensive e-mail security functions for corporate risk management
- Anti-spam, the recording of all incoming and outgoing e-mails, the encryption of e-mail connections and the provision of on-line storage
- Currently over 200,000 e-mail accounts supported by our anti-spam solutions

A pilot program for broadcasting high quality video content (Press release on December 5, 2006)

- Broadcasting high quality video content of NHK (Japan Broadcasting Corporation)
- Expand content distribution platform

The international logistics pilot program using RFID (Press release on January 24, 2007)

- IIJ, NTT Comware, Oracle Japan and VeriSign Japan will construct an RFID system based on a jointly developed standard for use in the international logistics pilot program
- Program is being conducted by EPCglobal, the international RFID standards group, in January 2007