

Internet Initiative Japan Inc.

TSE1:3774

NASDAQ:IIJI



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**
 - Top IP engineers all over Japan gathered
 - Founded in 1992
 - 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

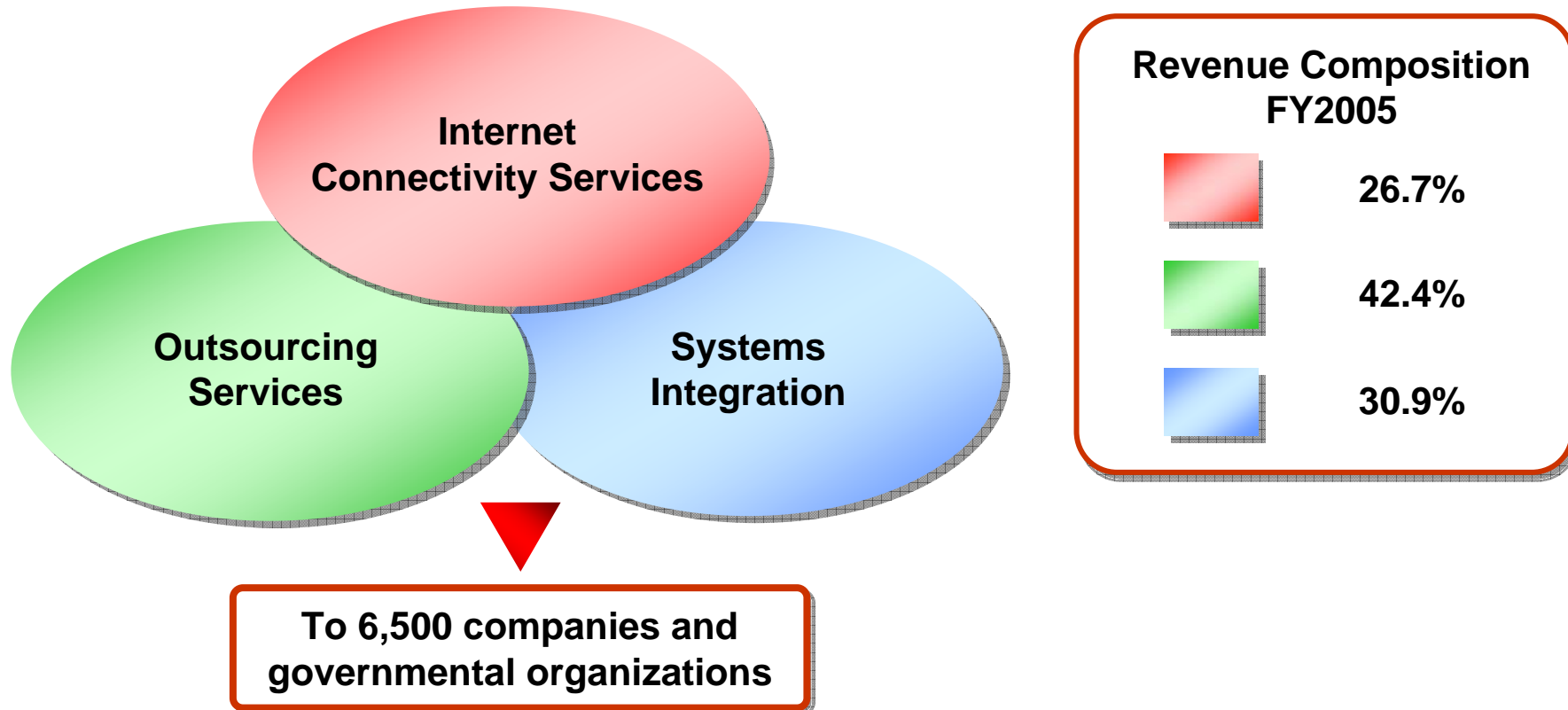
- 1992 **Established**
- 1993 Launched Internet Service
- 1994 Registered as Special Type II Telecom Carrier
Launched the **first Dial-up IP Service in Japan**
Launched the **first Firewall Service in Japan**
- 1995 Launched services of content production and information distribution
- 1996 Launched 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%
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 		Hero and Company *	16.0%
		Koichi Suzuki	6.1%	
			Itochu Corporation	5.1%
			* As securities traded on the NASDAQ	
Offices	Headquarters in Tokyo and 9 offices in the key cities over Japan	Number of Shares Outstanding	204,300 shares	
Number of Employees	Consolidated: 1,101 Non-consolidated: 559	Market	The First Section of the Tokyo Stock Exchange since 2006 (Code number: 3774) The U.S. NASDAQ Market since 1999 (Ticker symbol "IIJI")	
Major Financing Banks	Sumitomo Mitsui Banking Corporation, Mizuho Corporate Bank, Ltd., Bank of Tokyo-Mitsubishi UFJ, Ltd., Mitsubishi UFJ Trust and Banking Corporation	Recent Consolidated Financial Results	Revenues: JPY 49,813 million Operating income: JPY 2,411 million Net income: JPY 4,754 million	
		Market Value	JPY 86.6 billion (Based on the closing stock price on TSE1 on January 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)

Internet Connectivity Services

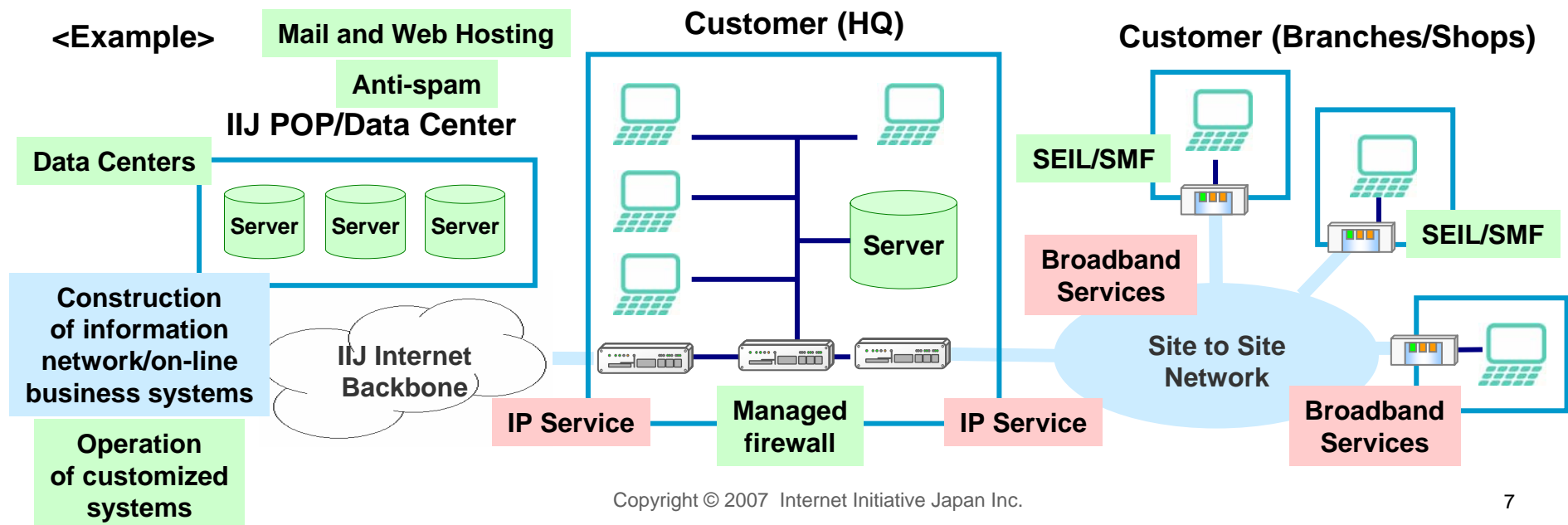
- Dedicated access services
 - IP Service (For HQs, Data Centers, other ISPs and CATVs)
 - Broadband Services (For SMEs and site to site network)
- Dial-up access services (For individuals and OEM to other ISPs)

Outsourcing Services

- Security-related services (Managed firewall etc.)
- Server-related services (Mail and web hosting, anti-spam etc.)
- Network-related services (SEIL/SMF etc.)
- Data Centers
- Outsourced operations of customized systems

SI

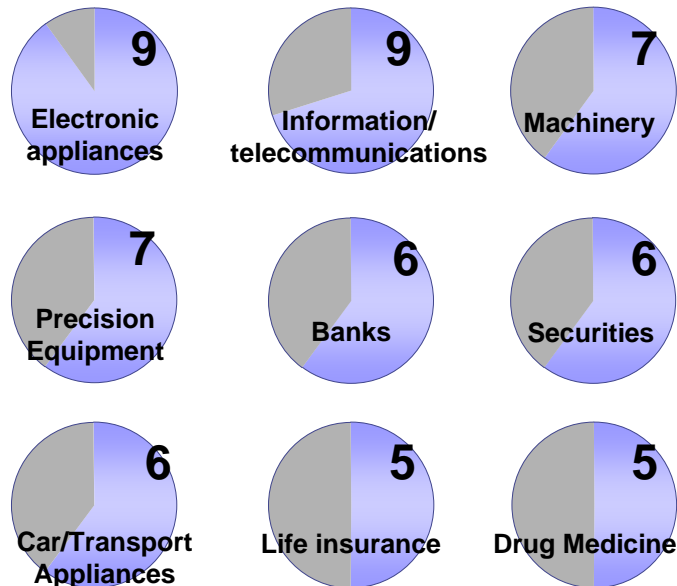
- Design, consultation and construction of
 - Internal information network systems
 - On-line business systems



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

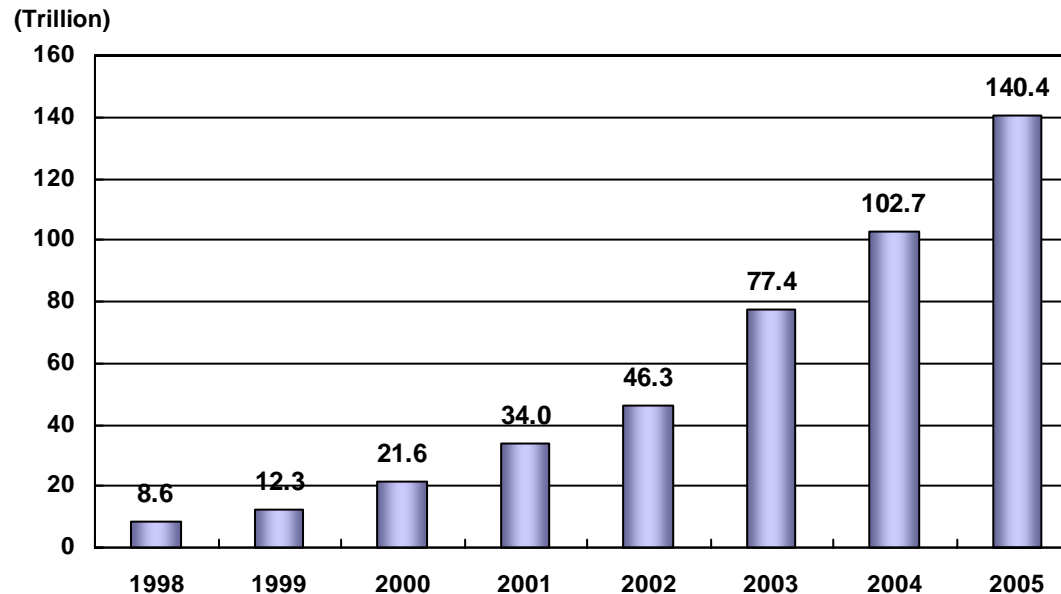


and more...

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

Trend of B2B E-Commerce Market in Japan



Source: InfoCom Research, Inc., Information Telecommunications Handbook 2007

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

Slers

(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

IIJ Group

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



Provide Network Service

Provide Total Network Solutions

Provide Systems Construction

Convincing Revenue and Income Growth

Business Environment

<Macro environment>

- Expanding trend of Japan's 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

Customer Needs

- IP-based network systems for more cost efficiency
- Reliable Internet services
- Outsourcing services to fulfill shortage of IP know-how and engineers

IIJ Group

- One stop IP network solutions from connectivity to outsourcing and SI
- Established brand for reliable services

Contribution to Financials

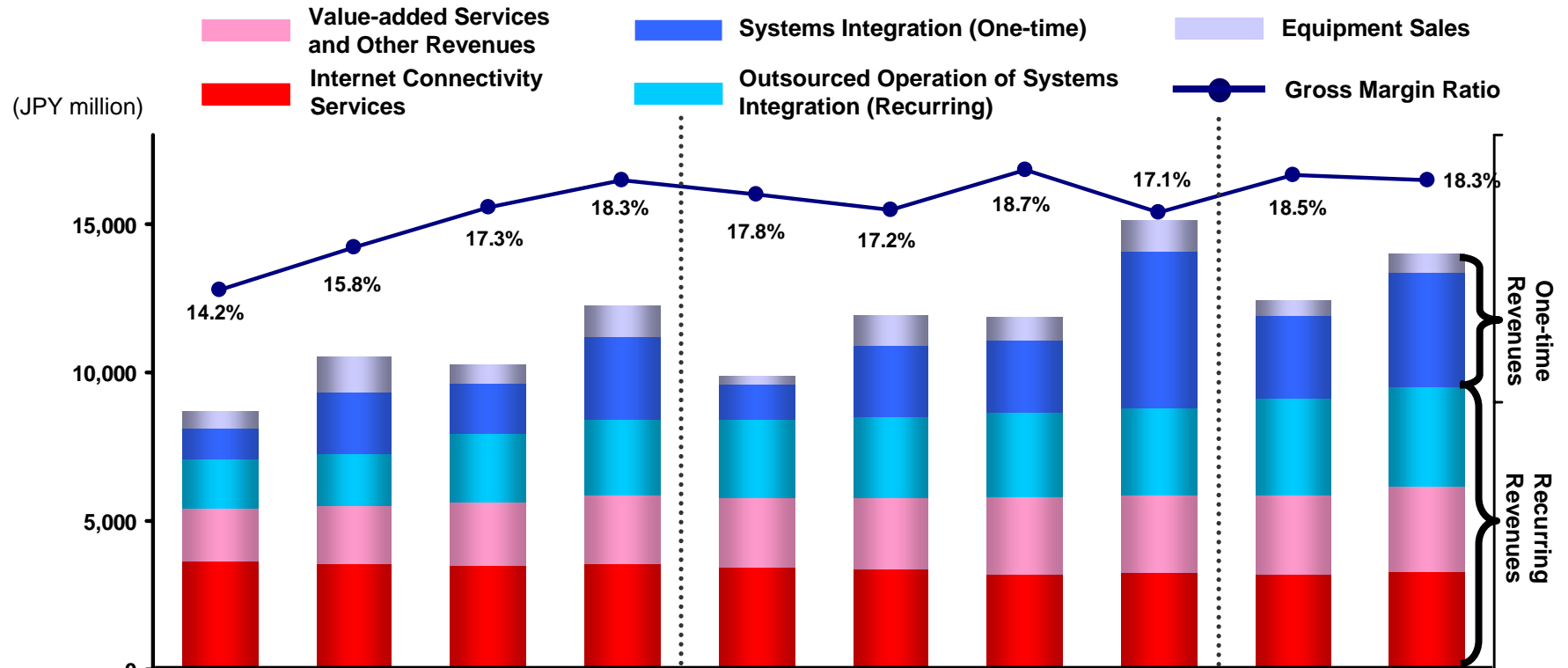
- Rapidly increasing revenues from systems integration as a strong growth driver
- Steady increasing recurring revenues and income from higher-margin outsourcing services
- Revenues from connectivity services started to increase in quarterly comparisons

Financials

Consolidated Financial Results

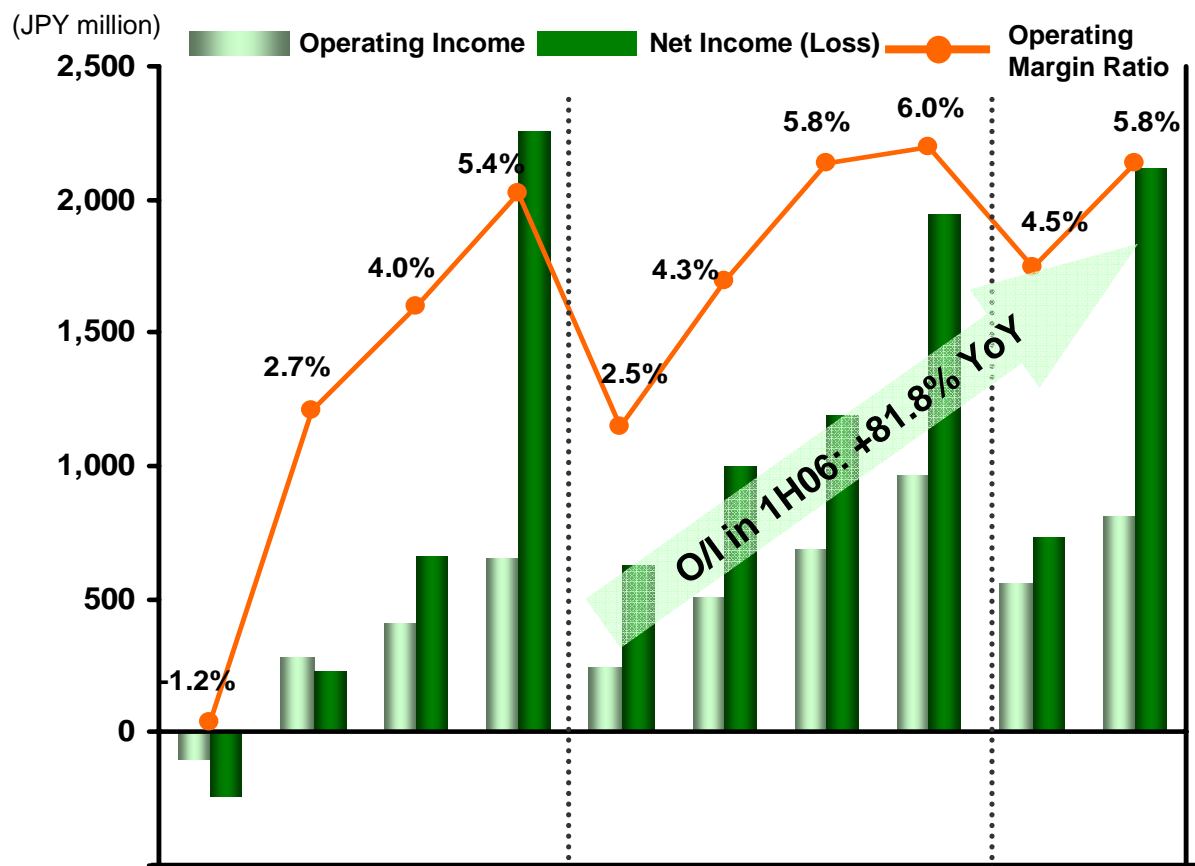
	1H06 (2006/4-2006/9)				FY2005 (2005/4-2006/3)		
	Annual Targets	Results	% of Total Revenues	YoY Change %	Results	% of Total Revenues	YoY Change %
Total Revenues	56,000	26,444	100.0%	+21.3%	49,813	100.0%	+19.4%
Total Costs	-	21,582	81.6%	+20.0%	41,016	82.3%	+17.9%
Gross Margin	-	4,862	18.4%	+27.3%	8,796	17.7%	+27.3%
SG&A/R&D	-	3,492	13.2%	+13.9%	6,385	12.8%	+12.8%
Operating Income	3,200	1,370	5.2%	+81.8%	2,411	4.8%	+93.3%
Income before Income Tax Expense (Benefit)	5,000	2,144	8.1%	+20.5%	5,379	10.8%	+70.8%
Net Income	5,000	2,854	10.8%	+75.8%	4,754	9.5%	+63.6%

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)



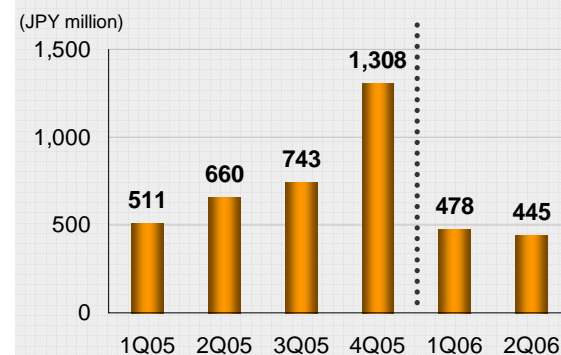
	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06
Operating Income	(100)	282	410	656	247	507	691	966	559	811
Net Income	(238)	229	660	2,256	623	1,001	1,189	1,941	734	2,120
Operating Margin Ratio	(1.2%)	2.7%	4.0%	5.4%	2.5%	4.3%	5.8%	6.0%	4.5%	5.8%

<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.



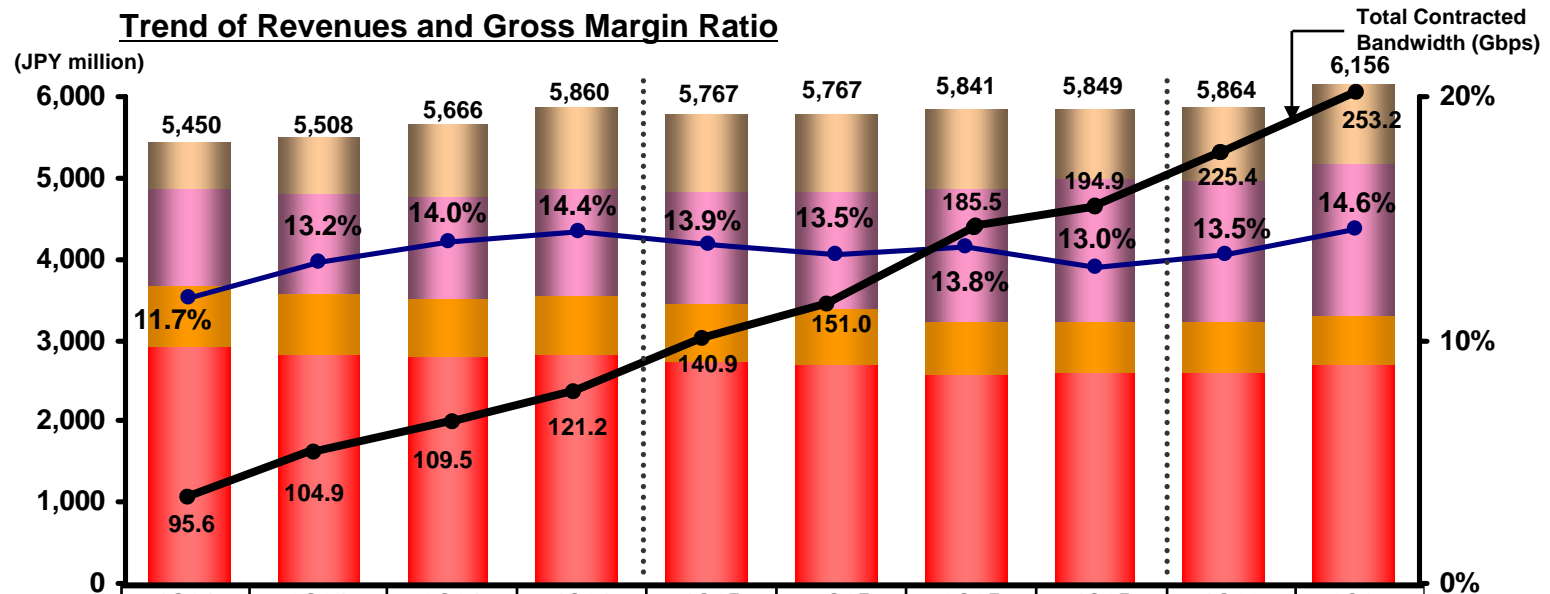
- Income tax benefit was JPY 1,109 million, because of deferred tax benefits of JPY 1,266 million due to an application of income tax effect.
- Minority interests in earnings of subsidiaries was JPY 82 million.
- Equity in net loss of equity method investees was JPY 52 million.

Results by Service – Connectivity and Value-added Services



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Trend of Revenues and Gross Margin Ratio



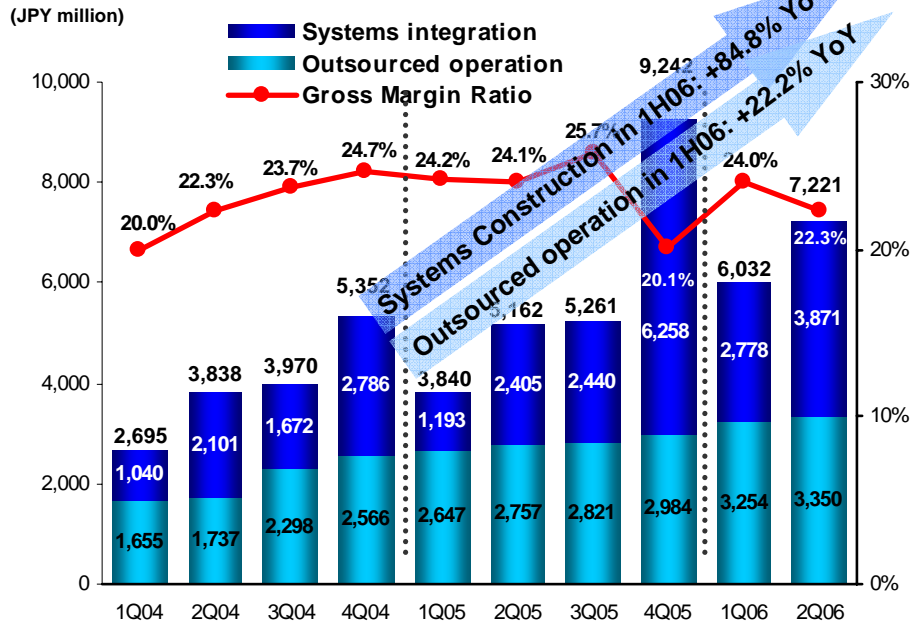
Revenues (JPY million)	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06
Other Revenues	592	716	882	979	933	930	964	846	900	957
Value-added Services	1,187	1,220	1,276	1,322	1,388	1,459	1,649	1,755	1,741	1,906
Dial-up Access Services	752	740	727	718	699	682	648	645	607	606
Dedicated Access Services	2,918	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



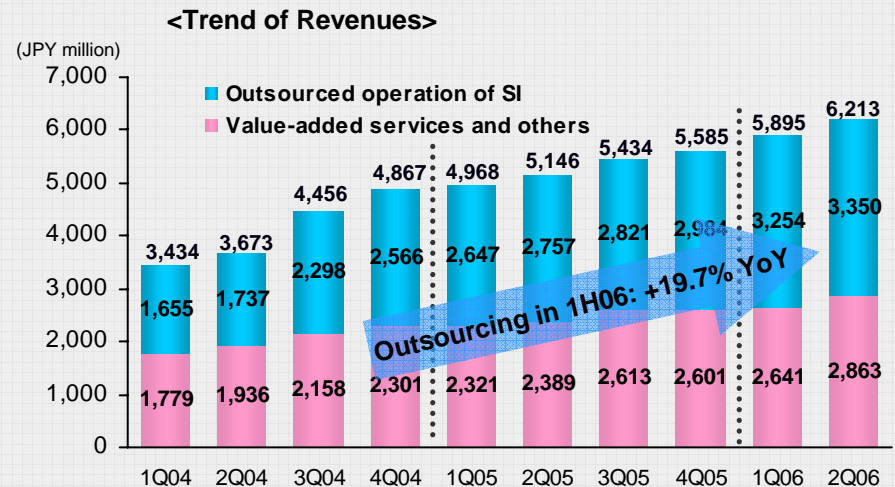
- One-time revenues mainly from construction of network systems continued to increase and recurring revenues from outsourced operations and maintenance increased steadily.

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	1H06 (2006/4-2006/9)	FY2005 (2005/4-2006/3)	FY2004 (2004/4-2005/3)
Net Cash Provided by Operating Activities	2,512	6,559	5,238
Net Cash Provided by (Used in) Investing Activities	(1,122)	1,805	1,974
Net Cash Used in Financing Activities	(2,251)	39	(14,213)
Cash, End of Each Period	12,860	13,727	5,286

Other Financial Data

(JPY million)

	1H06	FY2005	FY2004
CAPEX	1,478	4,762	5,386
Deprecation and amortization	2,176	4,209	4,118
Adjusted EBITDA	3,547	6,620	5,365