For Immediate Release

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IIJ Announces Fourth Quarter and Full Fiscal Year Results for the Year Ended March 31, 2006

- Annual Targets Met and a Number of Significant Business Developments Seen -

Tokyo and New York, May 10, 2006 - Internet Initiative Japan Inc. (Nasdaq: IIJI, Tokyo Stock Exchange Mothers: 3774) ("IIJ"), one of Japan's leading Internet-access and comprehensive network solutions providers, today announced its financial results for the fourth quarter and the full fiscal year ended March 31, 2006 ("FY2005").[1]

Highlights of Fourth Quarter FY2005 Results

- Revenue totaled JPY 16,133 million ($137.3 million), an increase of 31.7% from 4Q04.
- Operating income was JPY 966 million ($8.2 million), an increase of 47.4% from 4Q04.
- Net income was JPY 1,941 million ($16.5 million), a decrease of 13.9% from 4Q04.

Highlights of Full FY2005 Results

- Revenue totaled JPY 49.8 billion ($424.0 million), an increase of 19.4% from FY2004.
- Operating income was JPY 2.4 billion ($20.5 million), an increase of 93.3% from FY2004.
- Net income was JPY 4.8 billion ($40.5 million), an increase of 63.6% from FY2004.
- We surpassed the annual target that we released in 3Q05.

Target for FY2006[2]

- We target revenues of JPY 55.0 billion, operating income of JPY 3.2 billion and net income of JPY 5.0 billion in the fiscal year ending March 31, 2007 ("FY2006").

Overview of 4th Quarter and Full FY2005 Financial Results and Business Outlook[2]

"We had a very successful year in FY2005," said Koichi Suzuki, President and CEO of IIJ. "We surpassed the target that we released in 3Q05. We also had a number of significant business developments that provided a solid foundation for growth. First, our clients who are mainly large corporate customers have increasingly started using network systems for their mission critical work. We have focused on capturing this "networkization" trend by providing corporations with comprehensive services such as network consultation, construction and outsourced operation. This has resulted in a large increase in revenues from higher-margin outsourcing and systems integration projects, including some of the largest network systems in Japan. Second, the recovering economy in Japan has been encouraging corporate investment spending, which is a large driver of demand in our market. Third, we enhanced our line-up of comprehensive solutions by developing new products such as the "IIJ Quarantine Network Solution," the "IIJ DDoS Solution Service" and the "IIJ Internet-LAN Service." In addition, we promoted our OEM strategy to sell our "SEIL Management Framework ("SMF")", a centralized network management system to which we acquired patent rights for its basic operation.

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[1] Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with U.S. GAAP. All financial figures are unaudited and consolidated. For all 4Q05 and Full FY2005 results, the U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.48 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of March 31, 2006.

[2] This Overview and Business Outlook contains forward-looking statements and projections such as statements regarding FY2006 revenues and operating and net income that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by these statements. These risks and uncertainties include, but are not limited to, the factors noted at the end of this release and to the risk factors and other information included in IIJ's annual report on Form 20-F, filed with the SEC on August 3, 2005, as well as other filings and documents furnished to the Securities and Exchange Commission. IIJ plans to keep this press release publicly available on its Web site (www.iij.ad.jp), but may discontinue this practice at any time. IIJ intends to publish its next Overview and Business Outlook in its 1Q06 earnings release, presently scheduled for release in August 2006.

Fourth, we made a number of significant advances in research and development. We formed an alliance for the commercialization of radio frequency identification ("RFID") technology with IIJ Technology and Hewlett-Packard Japan, Ltd. and took part in a pilot project that was launched by the government. We also led the Japan Email Anti-abuse Group ("JEAG") to create policy that will help fight spam and other Internet and e-mail abuses. Lastly, we strengthened our presence in Japan and our overall corporate structure by listing in Tokyo, reorganizing our group companies and making investments in several companies, including "IPMobile Incorporated," "Internet Revolution Inc.," and "DREAMBOAT co., ltd."

"We saw favorable business trends in FY2005," said Akihisa Watai, CFO of IIJ. "Revenues from connectivity services turned around in 4Q05 from the previous quarter, due to an increase in demand for higher connection speeds from both existing and new customers, and a higher number of customer branches and offices that are connected by Internet VPN. Revenues from outsourcing and systems integration increased significantly mainly due to the typical seasonal effect of corporate investment expenditures in Japan that tend to rise toward the end of the fiscal year in March. As a result, in the fourth quarter, we saw an increase in the number of projects that required us to construct and operate large scale VPNs, business systems at our data centers and anti-spam solutions."

Mr. Watai continued, "We expect that this favorable trend to continue and we are targeting revenues of JPY 55.0 billion, operating income of JPY 3.2 billion and net income of JPY 5.0 billion in FY2006."

4th Quarter FY2005 Financial Results

Operating Result Summary (JPY in millions)

	4Q05	4Q04	**YoY % change**
Total Revenues	**16,133**	12,254	31.7%
Total Costs	**13,373**	10,012	33.6%
SG&A Expenses and R&D	**1,794**	1,586	13.1%
Operating Income	**966**	656	47.4%
Income before Income Tax Expense	**2,267**	2,385	(4.9%)
Net Income	**1,941**	2,256	(13.9%)

Revenues

Revenues in 4Q05 totaled JPY 16,133 million, an increase of 31.7% from JPY 12,254 million in 4Q04. The increase is mainly due to an increase in revenues from systems integration projects.

Revenues (JPY in millions)

	4Q05	4Q04	**YoY % change**
Total Revenues:	**16,133**	12,254	31.7%
Connectivity and Value-added Services	**5,849**	5,860	(0.2%)
Systems Integration	**9,242**	5,352	72.7%
Equipment Sales	**1,042**	1,042	0.0%

Connectivity and Value-added Services ("VAS") revenues were JPY 5,849 million in 4Q05, a decrease of 0.2% compared to 4Q04. The drop in revenues from Internet connectivity services was partly related to JPY 234 million in interconnection revenues between IIJ's network and Asia Internet Holding ("AIH"), our former equity method investee, because AIH was merged into IIJ. Recurring revenues from value-added services, such as e-mail related outsourcing services, data center services and security related services increased steadily. Although price competition continues to be intense, revenues from Internet connectivity services turned around in 4Q05 from the previous quarter, primarily due to an increase in demand for higher connection speeds from our customers and a steady increase of contracts for broadband services along with the acquisition of network systems that connect multiple operational sites.

SI revenues increased 72.7% to JPY 9,242 million in 4Q05 compared to 4Q04. The increase was mainly due to a significant increase in one-time revenues from the construction of a number of systems of JPY 6,258 million, an increase of 124.6% compared to 4Q04. This was largely a result of the acquisition of multiple construction projects for large-scale systems and the increase of consultation projects. The increase was also due to a rise in recurring revenues from the operation and maintenance of the systems after they have been constructed.

Equipment sales revenues were JPY 1,042 million in 4Q05, which was almost flat compared to 4Q04.

Cost and expense

The cost of revenues was JPY 13,373 million in 4Q05, an increase of 33.6% compared to 4Q04.

Cost of Revenues (JPY in millions)

	4Q05	4Q04	**YoY % change**
Cost of Revenues:	**13,373**	10,012	33.6%
Connectivity and Value-added Services	**5,091**	5,018	1.4%
Systems Integration	**7,381**	4,030	83.1%
Equipment Sales	**901**	964	(6.5%)

Cost of Connectivity and VAS revenues was JPY 5,091 million in 4Q05, an increase of 1.4% compared to 4Q04. The increase was mainly due to an increase in data center costs related to newly leased facilities.

Cost of SI revenues increased by 83.1% to JPY 7,381 million in 4Q05 from 4Q04, mainly due to a significant increase in revenues from systems integration.

Cost of Equipment Sales revenues was JPY 901 million in 4Q05, a decrease of 6.5% compared to 4Q04.

Sales and marketing expenses were JPY 757 million in 4Q05, an increase of 2.9% compared to 4Q04.

General and administrative expenses were JPY 995 million in 4Q05, an increase of 24.4% compared to 4Q04. The increase was mainly due to increases in advertising expenses for employee recruitment, personnel expenses and rent expenses.

Operating income

Operating income was JPY 966 million in 4Q05, an increase of 47.4% compared to 4Q04. The increase was mainly due to the increase in revenues from systems integration.

Other income and others

Other income in 4Q05 was JPY 1,301 million, a decrease of 24.8% compared to JPY 1,729 million in 4Q04. Other income includes gain from sale of available-for-sale securities of JPY 1,308 million. The income tax expense for 4Q05 was JPY 148 million. Equity in net loss of equity method investees totaled to JPY 67 million in 4Q05.

Net income was JPY 1,941 million in 4Q05, a decrease of 13.9% compared to 4Q04. The decrease is mainly due to a decrease in gain from sales of available-for-sale securities.

4th Quarter FY2005 Business Review

Analysis by Service

Connectivity and Value-added Services

The number of contracts and contracted bandwidth for dedicated access services continued to increase steadily. The number of contracts increased by 3,306 from 4Q04 to 14,549 in 4Q05, which was mainly due to an increase in the number of contracts for broadband services along with the acquisition of network systems connecting multiple operational sites. The total contracted bandwidth increased by 73.7Gbps from 4Q04 to 194.9Gbps in 4Q05 mainly due to the increasing contracts for broadband services and an increase in demand for higher connection speeds from customers.

Dedicated access service revenues were JPY 2,603 million in 4Q05, a decrease of 8.4% compared to 4Q04, partly due to the drop of JPY 234 million in interconnection revenues between IIJ and AIH mentioned above. However, revenue increased compared to 3Q05 due to the higher connection speeds and an increase in the number of contracts for broadband services.

Dial-up access service revenues were JPY 645 million in 4Q05. Revenue from services for individual customers, such as IIJ4U, have been declining.

VAS revenues were JPY 1,755 million in 4Q05, an increase of 32.7% compared to 4Q04. The increase was mainly due to a steady increase in revenues from e-mail related outsourcing services, data center services and security related services.

Other revenues were JPY 846 million in 4Q05, a decrease of 13.6% compared to 4Q04. The decrease was mainly due to a decrease in one-time revenues from the construction of Local Area Networks.

The gross margin for connectivity and value-added services was JPY 758 million in 4Q05, a decrease of 9.9% compared to 4Q04. The decrease was mainly due to an increase in data center costs related to newly leased facilities and backbone costs. The gross margin ratio for connectivity and value-added services was 13.0% in 4Q05.

Number of Contracts for Connectivity Services

	4Q05	4Q04	YoY Change
Dedicated Access Service Contracts	**14,549**	11,243	3,306
IP Service (Low Bandwidth: 64kbps-768kbps)[3]	**85**	89	(4)
IP Service (Medium Bandwidth: 1Mbps-99Mbps)[3]	**655**	660	(5)
IP Service (High Bandwidth: 100Mbps-)	**156**	114	42
IIJ T1 Standard and IIJ Economy	**109**	276	(167)
IIJ Data Center Connectivity Service	**247**	231	16
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	**13,297**	9,873	3,424
Dial-up Access Service Contracts	**630,483**	693,976	(63,493)
Dial-up Access Services, under IIJ Brand	**62,176**	68,068	(5,892)
Dial-up Access Services, OEM[4]	**568,307**	625,908	(57,601)
Total Contracted Bandwidth	**194.9Gbps**	121.2Gbps	73.7Gbps

Connectivity and VAS Revenue Breakdown and Cost (JPY in millions)

	4Q05	4Q04	YoY % Change
Connectivity Service Revenues	**3,248**	3,559	(8.7%)
Dedicated Access Service Revenues	**2,603**	2,841	(8.4%)
IP Service[5]	**2,016**	2,235	(9.8%)
IIJ T1 Standard and IIJ Economy	**82**	171	(51.8%)
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	**505**	435	16.2%
Dial-up Access Service Revenues	**645**	718	(10.2%)
Under IIJ Brand	**413**	471	(12.4%)
OEM	**232**	247	(5.9%)
VAS Revenues	**1,755**	1,322	32.7%
Other Revenues	**846**	979	(13.6%)
Total Connectivity and VAS Revenues	**5,849**	5,860	(0.2%)
Cost of Connectivity and VAS	**5,091**	5,018	1.4%
Backbone Cost (included in the cost of Connectivity and VAS)	**923**	831	11.0%
Connectivity and VAS Gross Margin Ratio	**13.0%**	14.4%	—

Systems Integration

Revenue from systems integration was JPY 9,242 million in 4Q05, an increase of 72.7% compared to 4Q04. The increase was mainly due to an increase in one-time revenues from the construction of systems to JPY 6,258 million, an increase of 124.6% compared to 4Q04. The increase was mainly due to the acquisition of multiple large-scale system construction projects, affected by the typical seasonal factors mentioned above. The increase was also due to an increase in recurring revenues from the

[3] Including IPv6 Services.
[4] OEM services provided to other service providers.
[5] IP Service revenues includes revenues from Data Center Connectivity Service.

operation and maintenance of the systems. These outsourced operation revenues totaled JPY 2,984 million, an increase of 16.3% compared to 4Q04. The gross margin ratio for SI in 4Q05 decreased by 4.6 points to 20.1% compared to 4Q04, mainly due to a significant increase in revenues from one-time construction of various systems, which have a lower-margin compared to systems operation and maintenance.

Systems Integration Revenue Breakdown and Cost (JPY in millions)

	4Q05	4Q04	YoY % Change
Systems Integration Revenues	**9,242**	5,352	72.7%
Systems Integration	**6,258**	2,786	124.6%
Outsourced Operation	**2,984**	2,566	16.3%
Cost of Systems Integration	**7,381**	4,030	83.1%
Systems Integration Gross Margin Ratio	**20.1%**	24.7%	—

Equipment Sales

Revenue from equipment sales was JPY 1,042 million in 4Q05. The gross margin ratio for equipment sales in 4Q05 was 13.5%.

Equipment Sales Revenue and Cost (JPY in millions)

	4Q05	4Q04	YoY % change
Equipment Sales Revenues	**1,042**	1,042	0.0%
Cost of Equipment Sales	**901**	964	(6.5%)
Equipment Sales Gross Margin Ratio	**13.5%**	7.6%	—

Other Financial Statistics

Other Financial Statistics (JPY in millions)

	4Q05	4Q04	YoY % change
Adjusted EBITDA[6]	**2,091**	1,698	23.2%
CAPEX, including capital leases[7]	**1,737**	724	140.0%
Depreciation and amortization[8]	**1,125**	1,061	6.1%

Reconciliation of Non-GAAP Financial Measures

The following table summarizes the reconciliation of adjusted EBITDA to net income according to the consolidated statements of income that are prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") and presented on page 9:

Adjusted EBITDA (JPY in millions)

	4Q05	4Q04
Adjusted EBITDA	**2,091**	1,698
Depreciation and Amortization[9]	**(1,125)**	(1,042)
Operating Income	**966**	656
Other Income (Expenses)	**1,301**	1,729
Income Tax Expense	**148**	30
Minority Interests in Earnings of Subsidiaries	**(111)**	(62)
Equity in Net Income (Loss) of Equity Method Investees	**(67)**	(37)
Net Income (Loss)	**1,941**	2,256

The following table summarizes the reconciliation of capital expenditures to the purchase of property and equipment according to the consolidated statements of cash flows that are prepared and presented

6 Please refer to the Reconciliation of Non-GAAP Financial Measures below.
7 Please refer to the Reconciliation of Non-GAAP Financial Measures on the next page.
8 Depreciation and amortization in 4Q04 includes amortization of issuance cost of convertible notes.
9 Depreciation and amortization in 4Q04 excludes amortization of issuance cost of convertible notes that was included in other expenses.

in accordance with U.S. GAAP on page 11:

CAPEX

(JPY in millions)

	4Q05	4Q04
Capital Expenditures	**1,737**	724
Acquisition of Assets by Entering into Capital Leases	**1,534**	627
Purchase of Property and Equipment	**203**	97

Target

Our target for the fiscal year ending March 31, 2007 is as follows:

(JPY in millions)

	Revenues	Operating Income	Income from Operations before Income Tax Expense, Minority Interests and Equity in Net Income (Loss) of Equity Method Investees	Net Income
Target	**55,000**	**3,200**	**6,300**	**5,000**
(For Reference) Fiscal Year Ended March 31, 2006	**49,813**	**2,411**	**5,379**	**4,754**

Presentation

On May 11, 2005, IIJ will post a presentation of its results on its website. For details, please access the following URL: http://www.iij.ad.jp/en/IR/

About Internet Initiative Japan Inc.

Founded in 1992, Internet Initiative Japan Inc. (IIJ, NASDAQ: IIJI, Tokyo Stock Exchange Mothers: 3774) is one of Japan's leading Internet-access and comprehensive network solutions providers. The company has built one of the largest Internet backbone networks in Japan, and between Japan and the United States. IIJ and its group of companies provide total network solutions that mainly cater to high-end corporate customers. The company's services include high-quality systems integration and security services, Internet access, hosting/housing, and content design.

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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 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 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.

Tables to follow

Quarterly Consolidated Financial Statements
(From January 1, 2006 through March 31, 2006)

(1) Quarterly Consolidated Balance Sheets

	As of March 31, 2006 (Unaudited)			As of March 31, 2005	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%
ASSETS					
CURRENT ASSETS:					
Cash	116,846	13,727,021		5,286,477	
Accounts receivable, net of allowance for doubtful accounts of JPY 23,411 thousand and JPY 41,400 thousand at March 31, 2006 and 2005, respectively	101,824	11,962,304		7,407,439	
Inventories	7,251	851,857		140,096	
Prepaid expenses	8,778	1,031,325		604,935	
Other current assets, net of allowance for doubtful accounts of JPY 33,250 thousand at March 31, 2006	1,823	214,121		108,228	
Total current assets	236,522	27,786,628	54.8	13,547,175	36.5
INVESTMENTS IN AND ADVANCES TO EQUITY METHOD INVESTEES, net of loan loss valuation allowance of JPY 16,701 thousand and JPY 31,378 thousand at March 31, 2006 and 2005, respectively	9,899	1,162,971	2.3	713,607	1.9
OTHER INVESTMENTS	68,273	8,020,705	15.8	9,930,781	26.8
PROPERTY AND EQUIPMENT—Net	87,670	10,299,496	20.3	9,722,366	26.2
INTANGIBLE ASSETS—Net	5,385	632,594	1.2	561,211	1.5
GUARANTEE DEPOSITS	13,191	1,549,653	3.1	2,050,665	5.5
OTHER ASSETS, net of allowance for doubtful accounts of JPY 40,980 thousand and JPY 376,092 thousand at March 31, 2006 and 2005, respectively	10,665	1,252,942	2.5	590,666	1.6
TOTAL	431,605	50,704,989	100.0	37,116,471	100.0

	As of March 31, 2006 (Unaudited)			As of March 31, 2005	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Short-term borrowings	38,772	4,555,000		4,724,633	
Long-term borrowings—current portion	16,939	1,989,963		2,736,056	
Payable under securities loan agreement	8,509	999,600		1,729,520	
Capital lease obligations—current portion	25,569	3,003,914		2,774,974	
Accounts payable	86,040	10,107,942		4,860,733	
Accrued expenses	4,597	540,027		541,118	
Other current liabilities	14,489	1,702,208		817,517	
Total current liabilities	194,915	22,898,654	45.2	18,184,551	49.0
LONG-TERM BORROWINGS	2,469	290,000	0.6	1,529,963	4.1
CAPITAL LEASE OBLIGATIONS —Noncurrent	42,396	4,980,659	9.8	4,339,028	11.7
ACCRUED RETIREMENT AND PENSION COSTS	1,901	223,332	0.4	143,346	0.4
OTHER NONCURRENT LIABILITIES	7,040	827,086	1.6	275,533	0.7
Total Liabilities	248,721	29,219,731	57.6	24,472,421	65.9
MINORITY INTEREST	10,753	1,263,320	2.5	1,028,977	2.8
COMMITMENTS AND CONTINGENCIES	—	—	—	—	—
SHAREHOLDERS' EQUITY:					
Common-stock—authorized, 377,600 shares; issued and outstanding, 204,300 shares at March 31, 2006, authorized, 377,600 shares; issued and outstanding, 191,800 shares at March 31, 2005	143,291	16,833,847	33.2	13,765,372	37.1
Additional paid-in capital	226,415	26,599,217	52.5	23,637,628	63.7
Accumulated deficit	(252,643)	(29,680,482)	(58.5)	(34,434,052)	(92.8)
Accumulated other comprehensive income	55,785	6,553,594	12.9	8,690,125	23.4
Treasury stock—777 shares and 602 shares held by an equity method investee at March 31, 2006 and 2005, respectively	(717)	(84,238)	(0.2)	(44,000)	(0.1)
Total shareholders' equity	172,131	20,221,938	39.9	11,615,073	31.3
TOTAL	431,605	50,704,989	100.0	37,116,471	100.0

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.48 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of March 31, 2006.

2) IIJ conducted a 1 for 5 stock split effective on October 11, 2005. The numbers of shares of common stock authorized, and issued and outstanding, and shares held by an equity method investee in this table are calculated with the assumption that the stock split was made at the beginning of FY2004. IIJ issued 12,500 new shares of common stock for public offering when it listed on the Mothers market of TSE in December 2005.

(2) Quarterly Consolidated Statements of Income

	Three Months Ended March 31, 2006 (Unaudited)			Three Months Ended March 31, 2005 (Unaudited)		
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues	YoY %
REVENUES:						
Connectivity and value-added services:						
Dedicated access	22,160	2,603,384	16.1	2,840,903	23.2	(8.4)
Dial-up access	5,491	645,103	4.0	718,285	5.8	(10.2)
Value-added services	14,935	1,754,548	10.9	1,321,816	10.8	32.7
Other	7,203	846,130	5.2	978,940	8.0	(13.6)
Total	49,789	5,849,165	36.2	5,859,944	47.8	(0.2)
Systems integration	78,668	9,241,995	57.3	5,351,865	43.7	72.7
Equipment sales	8,872	1,042,275	6.5	1,042,540	8.5	0.0
Total revenues	137,329	16,133,435	100.0	12,254,349	100.0	31.7
COST AND EXPENSES:						
Cost of connectivity and value-added services	43,337	5,091,179	31.6	5,018,522	40.9	1.4
Cost of systems integration	62,828	7,381,061	45.7	4,030,274	32.9	83.1
Cost of equipment sales	7,671	901,212	5.6	963,665	7.9	(6.5)
Total cost	113,836	13,373,452	82.9	10,012,461	81.7	33.6
Sales and marketing	6,446	757,245	4.7	736,219	6.0	2.9
General and administrative	8,472	995,301	6.2	799,929	6.5	24.4
Research and development	349	40,973	0.2	49,968	0.4	(18.0)
Total cost and expenses	129,103	15,166,971	94.0	11,598,577	94.6	30.8
OPERATING INCOME	8,226	966,464	6.0	655,772	5.4	47.4
OTHER INCOME:						
Interest income	29	3,430	0.0	4,222	0.0	(18.8)
Interest expense	(963)	(113,199)	(0.7)	(179,694)	(1.4)	(37.0)
Foreign exchange gains	1	157	0.0	8,126	0.1	(98.1)
Gain on other investments—net	11,174	1,312,682	8.1	1,842,609	15.0	(28.8)
Other—net	832	97,697	0.6	53,859	0.4	81.4
Other income— net	11,073	1,300,767	8.0	1,729,122	14.1	(24.8)
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE, MINORITY INTERESTS AND EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES	19,299	2,267,231	14.0	2,384,894	19.5	(4.9)
INCOME TAX EXPENSE	1,259	147,900	0.9	29,839	0.3	395.7
MINORITY INTERESTS IN EARNINGS OF SUBSIDIARIES	(946)	(111,084)	(0.7)	(62,468)	(0.5)	77.8
EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES	(569)	(66,842)	(0.4)	(36,966)	(0.3)	80.8
NET INCOME	16,525	1,941,405	12.0	2,255,621	18.4	(13.9)

	Three Months Ended March 31, 2006 (Unaudited)			Three Months Ended March 31, 2005 (Unaudited)		
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues	YoY %
WEIGHTED-AVERAGE NUMBER OF SHARES		203,989		191,559		
WEIGHTED-AVERAGE NUMBER OF SHARES (INCLUDING POTENTIAL SHARES)		204,490		191,559		
WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS		81,595,702		76,623,702		
WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS (INCLUDING POTENTIAL SHARES)		81,796,102		76,623,702		
BASIC NET INCOME PER SHARE		9,517		11,775		
DILUTED NET INCOME PER SHARE		9,494		11,775		
BASIC NET INCOME PER ADS EQUIVALENT		23.8		29.4		
DILUTED NET INCOME PER ADS EQUIVALENT		23.7		29.4		

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.48 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of March 31, 2006.

2) IIJ conducted a 1 for 5 stock split effective on October 11, 2005. The weighted-average numbers of shares of common stock in this table are calculated with the assumption that the stock split was made at the beginning of FY2004. IIJ issued 12,500 new shares of common stock for public offering when it listed on the Mothers market of TSE in December 2005. The numbers are calculated with the number of IIJ shares of common stock outstanding reduced by the number of IIJ's shares owned by IIJ's equity method investee multiplied by IIJ's percentage ownership in the equity method investee. All potential common shares are shares issuable upon exercise of stock options or conversion of convertible notes. Diluted net income per share are computed in consideration of a dilutive effect of the potential common shares.

(3) Quarterly Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2006 (Unaudited)		Three Months Ended March 31, 2005 (Unaudited)
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen
OPERATING ACTIVITIES:			
Net income	16,525	1,941,405	2,255,621
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,579	1,125,294	1,060,944
Provision for (reversal of) doubtful accounts and advances	95	11,183	36,204
Gains on other investments—net	(11,174)	(1,312,682)	(1,816,676)
Foreign exchange losses (gains)	52	6,079	(8,641)
Equity in net loss of equity method investees	569	66,842	36,966
Minority interests in earnings of subsidiaries	946	111,084	62,468
Deferred income tax benefit	(2,126)	(249,767)	(11,656)
Others	1,443	169,582	201,862
Changes in operating assets and liabilities:			
Increase in accounts receivable	(44,750)	(5,257,241)	(1,206,074)
Decrease (increase) in inventories	(1,236)	(145,200)	221,788
Increase in accounts payable	49,297	5,791,434	1,205,665
Others	3,004	352,901	502,581
Net cash provided by operating activities	22,224	2,610,914	2,541,052
INVESTING ACTIVITIES:			
Purchase of property and equipment	(1,725)	(202,665)	(96,542)
Purchase of short-term and other investments	(794)	(93,233)	(52,339)
Proceeds from sales of short-term and other investments	11,590	1,361,578	2,008,650
Investment in an equity method investee	(6,384)	(750,000)	—
Refund (payment) of guarantee deposits—net	4,687	550,606	(3,330)
Other	(274)	(32,204)	(9,495)
Net cash provided by investing activities	7,100	834,082	1,846,944
FINANCING ACTIVITIES:			
Repayments of long-term borrowings	(9,443)	(1,109,377)	(308,414)
Proceeds from securities loan agreement	8,509	999,600	1,729,520
Repayments of securities loan agreement	(9,610)	(1,128,960)	(722,800)
Redemption of convertible notes	—	—	(11,088,000)
Principal payments under capital leases	(6,746)	(792,558)	(753,177)
Net decrease in short-term borrowings	(5,237)	(615,216)	(101,211)
Net cash used in financing activities	(22,527)	(2,646,511)	(11,244,082)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	69	8,044	(16,227)
NET INCREASE (DECREASE) IN CASH	6,866	806,529	(6,872,313)
CASH,BEGINNING OF EACH PERIOD	109,980	12,920,492	12,158,790
CASH,END OF EACH PERIOD	116,846	13,727,021	5,286,477

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.48 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of March 31, 2006.

Note: The following information is to disclose IIJ's financial results for the fiscal year ended March 31, 2006 in the form defined by the Tokyo Stock Exchange.

Consolidated Financial Results for the Fiscal Year Ended March 31, 2006
[Under accounting principles generally accepted in the United States ("U.S. GAAP")]

May 10, 2006

Company name: Internet Initiative Japan Inc. Exchange listed: Tokyo Stock Exchange Mothers

Stock code number: 3774 Location of headquarters: Tokyo

(URL: http://www.iij.ad.jp)

Representative: Koichi Suzuki, President and Representative Director

Contact: Akihisa Watai, Director and CFO TEL: (03) 5259-6500

Name of the parent and other companies:
Nippon Telegraph and Telephone Corporation ("NTT") (stock code number: 9432)*

Percentage ownership by the parent and other companies: 29.7%

Adoption of U.S. GAAP: Yes

* Shown as a company in whose affiliates IIJ is included in accordance to the disclosure rules of the Tokyo Stock Exchange

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2006 (April 1, 2005 through March 31, 2006)

(1) Consolidated Results of Operations (Amounts less than one million yen are rounded)

	Total Revenues		Operating Income		Income before Income Tax Expense	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Fiscal Year Ended March 31, 2006	49,813	19.4	2,411	93.3	5,379	70.8
Fiscal Year Ended March 31, 2005	41,703	7.5	1,248	-	3,149	-

	Net Income		Basic Net Income per Share	Diluted Net Income per Share	Net Income to Total Shareholders' Equity	Income before Income Tax Expense to Total Assets	Income before Income Tax Expense to Total Revenues
	Millions of Yen	%	Yen	Yen	%	%	%
Fiscal Year Ended March 31, 2006	4,754	63.6	24,301	24,258	29.9	12.2	10.8
Fiscal Year Ended March 31, 2005	2,906	-	15,172	15,172	32.6	7.9	7.5

(Notes)

1) Equity in net loss of equity method investees was JPY 14 million and JPY 33 million for the fiscal year ended March 31, 2006 and the fiscal year ended March 31, 2005, respectively.

2) The weighted-average number of shares of common stock outstanding (consolidated) was 195,613 and 191,559 for the fiscal year ended March 31, 2006 and the fiscal year ended March 31, 2005, respectively. IIJ conducted a 1 for 5 stock split effective on October 11, 2005. The numbers are calculated with the assumption that the stock spilt was made at the beginning of the year ended March 31, 2005. IIJ issued 12,500 new shares of common stock for public offering when it listed on the Mothers market of the Tokyo Stock Exchange in December 2005. The numbers are calculated with the number of IIJ shares of common stock outstanding deducted by the number of IIJ shares owned by IIJ's equity method investee multiplied by IIJ's ownership in the equity method investee.

3) There was no change in IIJ's accounting methods from the fiscal year ended March 31, 2006.

4) In this document, income before income tax expense represents income from operations before income tax expense, minority interests and equity in net loss of equity method investees in IIJ's consolidated financial statements.

5) The percentage figures for the total revenues, operating income, income before income tax expense and net income show an increase or a decrease compared to each year's previous fiscal year. As IIJ recorded an operating loss, loss before income tax expense and net loss for the fiscal year ended March 31, 2004, IIJ does not show the percentage figures for operating income, income before tax expense and net income for the fiscal year ended March 31, 2005.

(2) Consolidated Financial Position

	Total Assets	Total Shareholders' Equity	Equity-to-Assets Ratio	Total Shareholders' Equity per Share
	Millions of Yen	Millions of Yen	%	Yen
Fiscal Year Ended March 31, 2006	50,705	20,222	39.9	99,132
Fiscal Year Ended March 31, 2005	37,116	11,615	31.3	60,634

(Note)

The number of shares of common stock outstanding (consolidated) was 203,989 and 191,559 as of March 31, 2006 and March 31, 2005, respectively. IIJ conducted a 1 for 5 stock split effective on October 11, 2005. The numbers are calculated with the assumption that the stock spilt was made at the beginning of the year ended March 31, 2005. IIJ issued 12,500 new shares of common stock for public offering when it listed on the Mothers market of the Tokyo Stock Exchange in December 2005. The numbers are calculated with the number of IIJ shares of common stock outstanding reduced by the number of IIJ's shares owned by IIJ's equity method investee multiplied by IIJ's percentage ownership in the equity method investee.

(3) Consolidated Cash Flows

	Net Cash Provided by Operating Activities	Net Cash Provided by Investing Activities	Net Cash Provided by (Used in) Financing Activities	Cash and Cash Equivalents at End of Period
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Fiscal Year Ended March 31, 2006	6,559	1,805	39	13,727
Fiscal Year Ended March 31, 2005	5,238	1,974	(14,213)	5,286

(4) Items regarding the Scope of Consolidation and Adoption of Equity Method

We had 4 consolidated subsidiaries, no non-consolidated equity method subsidiaries and 4 equity method affiliates.

(5) Changes in the Scope of Consolidation and Adoption of Equity Method

We added 1 subsidiary into the consolidation and excluded 2 subsidiaries from the consolidation. We added 1 subsidiary into the equity method and excluded 1 subsidiary from the equity method.

2. Target of Consolidated Financial Results for the Fiscal Year Ending March 31, 2007 (April 1, 2006 through March 31, 2007)

(Amounts less than one million yen are rounded)

	Total Revenues	Operating Income	Income before Income Tax Expense	Net Income
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Interim Period Ending September 30, 2006	25,000	1,000	2,600	2,000
Fiscal Year Ended March 31, 2007	55,000	3,200	6,300	5,000

(Reference) Net income per share for the fiscal year ending March 31, 2007, based on the target above is JPY 24,511

(Note)

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 revenues and operating and net profitability above, 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. For a list of the risks that might affect the target above and other related items, please see page 22 of the attached document.

1. Current Status of IIJ Group

(1) Overview of the IIJ Group

IIJ, which has four consolidated subsidiaries and four equity method investees as of the date of the announcement of this document, provides mainly enterprises and public organizations that use networks for their business with various reliable and highly value-added network services (Internet connectivity services, value-added services ("VAS"), systems integration ("SI") and equipment sales) based on its Internet technologies comprehensively.

An overview of the businesses of IIJ and its group companies is as follows:

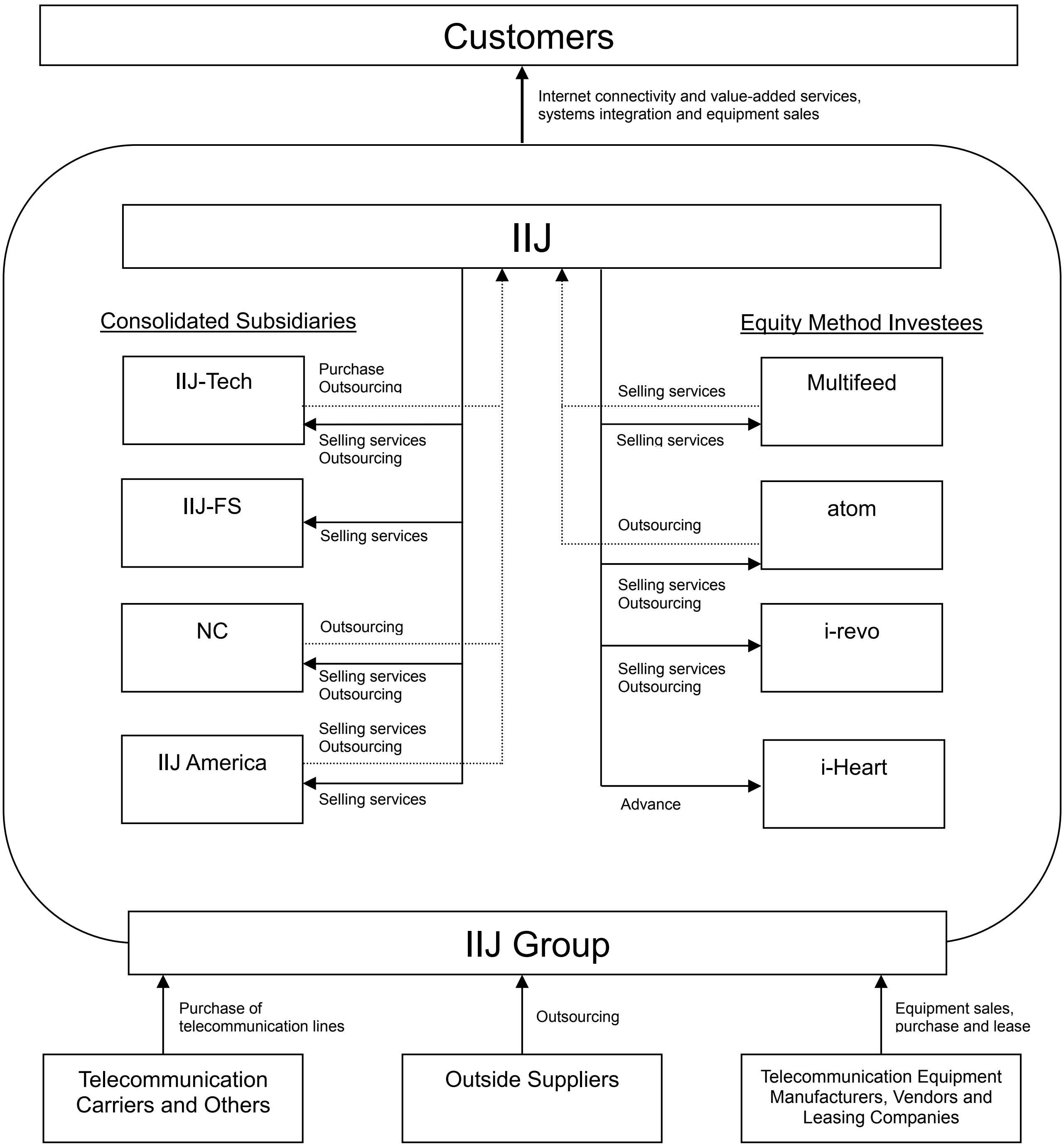
Company Name	Overview of Business
IIJ	IIJ mainly provides Internet connectivity services, value-added services such as security related outsourcing services, outsourcing services of network and servers and data center services. IIJ also provides design, consultation and construction of networks and provides equipment for the construction of networks and its operation and maintenance. IIJ provides services classified into connectivity and VAS, SI, and equipment sales in its consolidated financial statements.
Four Consolidated Subsidiaries	
IIJ Technology Inc. ("IIJ-Tech")	IIJ-Tech mainly provides systems design, consultation, development, construction, operation and maintenance, and supply of equipment and its operation and maintenance for the construction of systems. IIJ-Tech provides services classified into SI and equipment sales in IIJ's consolidated financial statements.
IIJ Financial Systems, Inc. ("IIJ-FS")	IIJ-FS mainly provides the development, operation and maintenance of systems for financial institutions. IIJ-FS provides services classified into SI in IIJ's consolidated financial statements.
Net Care, Inc. ("NC")	NC mainly provides the monitoring and operation of networks and outsourced customer support and call centers. NC provides services classified connectivity and VAS and SI in IIJ's consolidated financial statements.
IIJ America Inc. ("IIJ America")	IIJ America mainly provides Internet connectivity services in the United States and constructs and operates an Internet backbone in the United States as the IIJ Group's presence in the United States. IIJ America provides services classified into connectivity and VAS in IIJ's consolidated financial statements.
Four Equity Method Investees	
Internet Multifeed Co. ("Multifeed")	Multifeed was established as a joint venture with NTT Group and mainly operates Internet exchange, distributes high-volume Internet content, and provides housing services.
atom Co., Ltd ("atom")	atom mainly provides content design and production.
i-Heart Inc. ("i-Heart")	i-Heart was established as a joint venture with Samsung Corporation in South Korea and provides data center services in South Korea.
Internet Revolution Inc. ("i-revo")	i-revo was established as a joint venture with Konami Corporation and mainly operates Internet portals.

(Note) In August 2005, IIJ Media Communications Inc. ("IIJ-MC"), IIJ's former consolidated subsidiary, became IIJ's wholly owned consolidated subsidiary, and was merged into IIJ after a portion of IIJ-MC's business was transferred to IIJ-Tech in October 2005. Asia Internet Holding Co., Ltd. ("AIH"), IIJ's former equity method investee became IIJ's wholly-owned subsidiary in September 2005 and was merged into IIJ in October 2005.

In addition to the above, NTT is IIJ’s other related company as defined in the disclosure rules of the Tokyo Stock Exchange, since IIJ is NTT's affiliate.

(2) Business Diagram

The overview of IIJ's business can be illustrated as follows:



(Notes) 1. The diagram above illustrates the overview of principal transactions between IIJ and IIJ's affiliated companies.

2. ◄— shows transactions from IIJ to each of the IIJ Group companies. ◄-- shows transactions from each of the IIJ Group companies to IIJ

3. Telecommunications carriers include Nippon Telegraph and Telephone East Corporation ("NTT East"), Nippon Telegraph and Telephone West Corporation ("NTT West") and NTT Communications, Inc. ("NTT Communications"), that are the subsidiaries of IIJ's other related company as defined in the disclosure rules of the Tokyo Stock Exchange, NTT.

2. Management Policy

(1) Basic Management Policy

IIJ's basic management policy is to lead the development of the information society in Japan based on Internet technologies and contribute to the creation of new markets and the development of industries. IIJ intends to fulfill its social responsibility as a company by realizing this policy and by continuously increasing its value.

(2) Basic Policy on the Distribution of Profits

While it regards the payment of dividends to shareholders as an important management issue, no amount was available for dividends under the Code as of March 31, 2006, based on the amount recorded in IIJ's general books of account and IIJ's policy is to give priority to securing funds to strengthen its financial position and to prepare for its operational development. Therefore, there is a possibility that IIJ will not pay dividends in the near future. Although it intends to return its profit to shareholders, IIJ does not have any concrete plans at this moment.

(3) Policies regarding the Reduction in the Size of the Investment Unit

IIJ believes that reducing the size of the investment unit is one of the effective ways to expand its investor base and increase the liquidity of its shares. IIJ intends to take it into account in the future, by closely watching the level of the stock price, the number of shareholders, the effectiveness of expenditures and the stock market environment and other items in general.

(4) Business Indicators as Targets

In conducting its business activities, the IIJ Group closely considers the composition of total revenues, profitability, financial position, and other factors. The IIJ Group is making efforts to enhance its profitability by increasing revenues and controlling costs and general and administrative expenditures, while closely watching its revenue growth ratio, gross margin ratio, operating margin ratio and other figures.

(5) Medium and Long-term Business Strategies

The IIJ Group recognizes that companies use network systems, including the Internet, more efficiently by integrating them with their mission critical business systems and demand for reliable network services has been increasing, related to that network usage has expanded as broadband network is more used and companies are also encouraged to make investments as the economy in Japan recovers. The business strategy of the IIJ Group is to meet the customer demands for network systems by recognizing the market trend as an opportunity for our growth, developing reliable and highly value-added Internet related services based on Internet technologies and providing them as comprehensive solutions.

(6) Issues that IIJ should Address

Although the environment surrounding the IIJ Group is becoming more favorable and its results of operations are improving, it is important for the IIJ Group to recognize the expansion of network usage by enterprises and public organizations as a market opportunity, continue to provide reliable and highly value-added services and enhance the business structure of the IIJ and the IIJ Group. In the fiscal year ending March 31, 2007, the IIJ Group will continue its efforts to increase revenues and profits, promote its research and development, introduce new services, investigate business partnerships including investments and enhance its corporate governance.

It is also important for the IIJ Group to attract and educate excellent engineers and sales personnel to maintain its growth in the future, and the IIJ Group is especially focusing on educating recent graduates. The IIJ Group recruited 41 recent graduates (including 29 new graduates recruited by IIJ) in the fiscal year ended March 31, 2006. 82 recent graduates joined the IIJ Group in April 2006 (including 49 new graduates recruited by IIJ).

(7) Items regarding the Parent and Other Companies

a. Trade Name of the Parent and Other Companies (as of March 31, 2006)

Parent and Other Company	Type	Its Ownership Percentage (%)	Securities Exchanges where its Shares are Listed
Nippon Telegraph and Telephone Corporation	Other related company defined in the disclosure rules of the Tokyo Stock Exchange (IIJ is NTT's affiliate)	29.70 (4.99)	Tokyo Stock Exchange, Inc. (First Section) Osaka Securities Exchange, Co., Ltd. (First Section) Nagoya Stock Exchange, Inc. (First Section) Fukuoka Stock Exchange Sapporo Stock Exchange New York Stock Exchange, Inc.

			London Stock Exchange plc.

(Note) The percentage in parentheses is the indirect ownership by NTT included in the figure above.

b. Position of the Listed Company (IIJ) in the Group of the Parent Company and other Companies

The ownership percentage by NTT, which is IIJ's largest shareholder, was 29.7% as of March 31, 2006, including its indirect ownership. However, IIJ's sales activities are not affected by NTT's ownership in IIJ and IIJ is maintaining its management independence.

IIJ entered into a subscription agreement with NTT in which IIJ granted to NTT pre-emptive rights to subscribe to its pro rata portion of any future issuances of shares by IIJ upon its completion of its private placement to NTT in 2003. NTT did not exercise the rights upon IIJ's issuance of new shares of common stock for public offering when it listed on the Mothers market of the Tokyo Stock Exchange in 2005.

c. Personal Relationships with the Parent Company, other Related Company and their Group Companies

IIJ's board of directors consists of 12 members including 4 outside directors. Within the directors, Fukuzo Inoue and Takashi Hiroi are employees of NTT or its group company.

Fukuzo Inoue, a director and an executive vice president of IIJ, is an employee of NTT Communications, NTT's fully owned subsidiary. However, he is working as a full-time director to enhance IIJ's corporate functions and does not have any personal relationships, such as family relationships, with IIJ's other directors and auditors. He did not acquire any interest such as capital or business relationships upon becoming a director.

Takashi Hiroi, an outside director (part-time director) of IIJ, is an employee of NTT (Senior Manager, Corporate Management Strategy Division of NTT). However, he is monitoring IIJ's business operations as an outside director and does not have any personal relationships, such as family relationships, with IIJ's other directors and auditors. He did not acquire any interest such as capital or business relationships upon becoming an outside director.

Toshiya Asaba, a director and an executive vice president of IIJ, is an outside director (part-time director) of NTT Resonant Inc., NTT's fully owned subsidiary. However, he does not have any personal relationships, such as family relationships, with NTT and its other directors and auditors. He did not acquire any interest such as capital or business relationships upon becoming an outside director.

d. Business Relationship with NTT Group

IIJ uses services provided by NTT East and NTT West for a significant portion of its access circuits, and services provided by NTT Communications for a significant portion of its domestic and international backbones. The amount paid to NTT East and West, and NTT Communications for their telecommunication circuits was JPY 735,280 thousand and JPY 5,122,984 thousand, respectively for the fiscal year ended March 31, 2006.

Business transactions with the NTT Group are within the scope of normal business practices, and there is no special contract made in relation to the investment by NTT Group, as the business transactions existed before NTT Group became our largest shareholder.

(8) Transactions with Special Interest Groups

IIJ provides Internet connectivity services to Applied Research Institute, Inc., which is wholly owned by Koichi Suzuki, President and Representative Director of IIJ. The transaction amount for the services was JPY 702 thousand for the fiscal year ended March 31, 2006, and the transaction is within the scope of normal business practices.

3. Results of Operations and Financial Conditions

(1) Consolidated Results of Operations for the fiscal year ended March 31, 2006
(from April 1, 2005 to March 31, 2006)

a. Overview of Financial Results

The economy in Japan in the fiscal year ended March 31, 2006 generally showed a trend of recovery, represented by an improvement of corporate earnings and an increase of corporate investments, and a gradual increase of consumer spending, though it was necessary to pay attention to the crude oil prices.

In the data communication market that the IIJ Group belongs to, users have been increasing the usage of networks as broadband networks have been expanding. In accordance with these trends, and having been encouraged by the recovering economy, companies use network systems, including the Internet, more efficiently by integrating them with their mission critical business systems, and demand for reliable network services has been increasing continuously. While IP technologies have become one of the critical factors for the future social infrastructure and they are anticipated to be used in all networks, such as telecommunications and broadcasting, issues such as security-related troubles and increasing traffic have appeared.

In this business environment, customers have been demanding outsourcing services and systems integration. The IIJ Group continued to actively provide value-added network services as solutions and systems integration in the fiscal year ended March 31, 2006. The IIJ Group started to provide "IIJ Quarantine Network Solution," "IIJ DDoS Solution Service" and the "IIJ Internet-LAN Service" in its line-up of solution services.

From a sales perspective, outsourcing services and systems integration continued to see strong demand. The IIJ Group also promoted projects to design, construct and operate customer network systems overall, especially providing corporate customers that hold multiple operational sites with Internet VPN services with "SEIL", IIJ's internally developed routers and "SEIL Management Framework ("SMF")", a platform to automatically configure and centrally control SEIL. IIJ Group started to provide SMF to multiple telecommunication carriers and telecommunication equipment vendors on an OEM basis and acquired the patent rights to the basic operations SMF for the originality. In addition, the projects to construct and operate large-scale network systems increased and along with it, consultation projects also increased.

As a result, for the IIJ Group's consolidated results of operation for the fiscal year ended March 31, 2006, total revenues amounted to JPY 49,813 million, an increase of 19.4% compared to the fiscal year ended March 31, 2005, operating income amounted to JPY 2,411 million, an increase of 93.3% compared to the fiscal year ended March 31, 2005, income before income tax expense amounted to JPY 5,379 million, an increase of 70.8% compared to the fiscal year ended March 31, 2005 and net income amounted to JPY 4,754 million, an increase of 63.6% compared to the fiscal year ended March 31, 2005.

b. Analysis of the Results of Operations

1) Revenues

Revenues for the fiscal year ended March 31, 2006 totaled JPY 49,813 million, an increase of 19.4% compared to the fiscal year ended March 31, 2005.

	Fiscal Year ended March 31, 2005	Fiscal Year ended March 31, 2006	YoY % Change
	Millions of Yen	Millions of Yen	%
Connectivity and VAS	22,484	23,223	3.3
Systems Integration	15,854	23,505	48.3
Equipment Sales	3,365	3,085	(8.3)
Total Revenues	41,703	49,813	19.4

Connectivity and VAS revenues were JPY 23,223 million for the fiscal year ended March 31, 2006, an increase of 3.3% compared to the fiscal year ended March 31, 2005. Although revenues from Internet connectivity services decreased, revenues from VAS increased due to an increase in demand for outsourcing services, such as security-related services for mission critical network systems. SI revenues increased significantly by 48.3% from the fiscal year ended March 31, 2005 to JPY 23,505 million for the fiscal year ended March 31, 2006. The increase was mainly due to an increase in one-time revenues from systems design, construction and consultation and an increase in recurring revenues from the operation and maintenance of the systems. Equipment sales revenues were JPY 3,085 million for the fiscal year ended March 31, 2006, a decrease of 8.3% compared to the fiscal year ended March 31, 2005.

2) Cost of Revenues

The cost of revenues was JPY 41,016 million for the fiscal year ended March 31, 2006, an increase of 17.9% compared to the fiscal year ended March 31, 2005.

	Fiscal Year ended March 31, 2005	Fiscal Year ended March 31, 2006	YoY % Change
	Millions of Yen	Millions of Yen	%
Connectivity and VAS	19,484	20,078	3.0
Systems Integration	12,200	18,120	48.5
Equipment Sales	3,111	2,818	(9.4)
Total Cost of Revenues	34,795	41,016	17.9

The cost of connectivity and VAS revenues was JPY 20,078 million for the fiscal year ended March 31, 2006, an increase of 3.0% compared to the fiscal year ended March 31, 2005. The cost of SI revenues increased by 48.5% to JPY 18,120 million for the fiscal year ended March 31, 2006 from the fiscal year ended March 31, 2005, mainly due to a significant increase in revenues from systems integration. The cost of equipment sales revenues was JPY 2,818 million for the fiscal year ended March 31, 2006, a decrease of 9.4% compared to the fiscal year ended March 31, 2005.

3) Sales and Marketing Expenses

Sales and marketing expenses were JPY 3,080 million for the fiscal year ended March 31, 2006, an increase of 10.2% compared to the fiscal year ended March 31, 2005. The increase was mainly due to an increase in advertising expenses, personnel expenses and outsourcing expenses that increased along with the business expansion.

4) General and Administrative Expenses

General and administrative expenses were JPY 3,147 million for the fiscal year ended March 31, 2006, an increase of 18.1% compared to the fiscal year ended March 31, 2005. The increase was mainly due to increases in personnel expenses and rent expenses. The increase in rent expenses is mainly due to an expansion of the office for the administrative section, necessitated by an enhancement of administrative function.

5) Operating Income

Operating income was JPY 2,411 million for the fiscal year ended March 31, 2006, an increase of 93.3% compared to the fiscal year ended March 31, 2005. The increase was mainly due to the increase in gross margin, which was caused by the increase in revenues from value-added services and systems integration.

6) Other Income and Others

Other income for the fiscal year ended March 31, 2006 was JPY 2,967 million, an increase of 56.1% compared to the fiscal year ended March 31, 2005. The increase was mainly due to an increase in gain from the sale of available-for-sale securities of JPY 3,222 million, and a decrease in interest expense that was caused by the redemption of convertible notes in March 2005.

The income tax expense for the fiscal year ended March 31, 2006 was JPY 257 million, mainly recorded as income taxes payable related to by taxable income of the consolidate subsidiaries. The equity in net loss of equity method investees totaled JPY 14 million for the fiscal year ended March 31, 2006.

7) Net Income

Net income for the fiscal year ended March 31, 2006 was JPY 4,754 million, an increase of 63.6% compared to the fiscal year ended March 31, 2005. The increase was mainly due to the increase in operating income and the increase of gain from the sale of available-for-sale securities.

c. Analysis by Service

1) Internet connectivity and VAS

Dedicated access service revenues were JPY 10,625 million for the fiscal year ended March 31, 2006, a decrease of 6.6% compared to the fiscal year ended March 31, 2005. Although customers shifted to higher connection speeds, and the contracts for broadband services increased due to an increase in usage of Internet VPN in the business systems and an increase of projects to connect multiple operational sites of customers, the revenues decreased mainly due to a decrease of revenues of JPY 468 million from the interconnection of IIJ's network with AIH, our former equity method investee, which was caused by the merger of AIH into IIJ. The decrease is also due to the decline in unit price per bandwidth affected the decrease of revenues.

Dial-up access service revenues were JPY 2,674 million for the fiscal year ended March 31, 2006, a decrease of 9.0% compared to the fiscal year ended March 31, 2005. Revenue from services for individual customers, such as IIJ4U, has been declining.

VAS revenues were JPY 6,250 million for the fiscal year ended March 31, 2006, an increase of 24.9% compared to the fiscal year ended March 31, 2005. The increase was mainly due to a steady increase in revenues from solutions such as data center services, security and e-mail related outsourcing services and network related solutions such as SEIL and SMF, along with projects to connect customers' multiple operational sites. The steady increase is affected by an increase of demands for outsourcing services by corporate customers.

Other revenues were JPY 3,674 million for the fiscal year ended March 31, 2006, an increase of 15.9% compared to the fiscal year ended March 31, 2005. The increase was mainly due to a continuous increase in sales of Wide-area Ethernet Services.

As a result, revenues from Internet connectivity services and VAS for the fiscal year ended March 31, 2006 was JPY 23,223 million, an increase of 3.3% compared to the fiscal year ended March 31, 2005. The gross margin for connectivity and VAS was JPY 3,145 million for the fiscal year ended March 31, 2006, an increase of 4.8% compared to the fiscal year ended March 31, 2005. The increase is mainly due to an increase in revenues from VAS and a decrease in backbone costs. The gross margin ratio for connectivity and VAS was 13.5% for the fiscal year ended March 31, 2006.

<Connectivity and VAS Revenues, Cost of Revenues and Gross Margin Ratio>

	Fiscal Year ended March 31, 2005	Fiscal Year ended March 31, 2006	YoY % Change
	Millions of Yen	Millions of Yen	%
Connectivity and VAS Revenues	22,484	23,223	3.3
Dedicated Access Service Revenues	11,373	10,625	(6.6)
Dial-up Access Service Revenues	2,937	2,674	(9.0)
VAS Revenues	5,005	6,250	24.9
Other Revenues	3,169	3,674	15.9
Cost of Connectivity and VAS	19,484	20,078	3.0
Backbone Cost (included in the cost of Connectivity and VAS)	3,551	3,516	(1.0)
Connectivity and VAS Gross Margin Ratio	13.3%	13.5%	—

2) Systems integration

Revenue from systems integration was JPY 23,505 million for the fiscal year ended March 31, 2006, an increase of 48.3% compared to the fiscal year ended March 31, 2005. The increase was mainly due to an increase in one-time revenues from the design and construction of large-scale network systems and a steady increase in recurring revenues from the operation and maintenance of the systems. The gross margin from SI was JPY 5,384 million and the gross margin ratio for SI decreased to 22.9% for the fiscal year ended March 31, 2006, mainly due to an increase in revenues from the construction of large-scale network systems, that has a lower-margin compared to systems operation and maintenance.

<Systems Integration Revenues, Cost of Revenues and Gross Margin Ratio>

	Fiscal Year ended March 31, 2005	Fiscal Year ended March 31, 2006	YoY % Change
	Millions of Yen	Millions of Yen	%
SI Revenues	15,854	23,505	48.3
Systems Integration	7,598	12,296	61.8
Outsourced Operation	8,256	11,209	35.8
Cost of SI	12,200	18,120	48.5
SI Gross Margin Ratio	23.0%	22.9%	—

3) Equipment sales

Revenue from equipment sales was JPY 3,085 million for the fiscal year ended March 31, 2006. Revenue decreased compared to the fiscal year ended March 31, 2005, mainly due to the Company's focus on selling IIJ's internally developed router, SEIL instead of selling lower-margin equipment. The gross margin for the equipment sales for the fiscal year ended March 31, 2006 was JPY 267 million, and the gross margin ratio was 8.7%, having improved from the fiscal year ended March 31, 2005.

<Equipment Sales Revenue and Cost>

	Fiscal Year ended March 31, 2005	Fiscal Year ended March 31, 2006	YoY % Change
	Millions of Yen	Millions of Yen	%
Equipment Sales Revenues	3,365	3,085	(8.3)
Cost of Equipment Sales	3,111	2,818	(9.4)
Equipment Sales Gross Margin Ratio	7.5%	8.7%	—

(2) Consolidated Financial Position

Cash at the end of the fiscal year ended March 31, 2006 increased to JPY 13,727 million from JPY 5,286 million at the end of the fiscal year ended March 31, 2005. The increase was mainly due to an increase in cash flows provided by operating activities from record operating income, proceeds from sale of available-for-sale securities and proceeds from the issuance of common stock along with IIJ's listing on the Mothers Market of the Tokyo Stock Exchange in December 2005.

(Net cash provided by operating activities)

Net cash provided by operating activities was JPY 6,559 million for the fiscal year ended March 31, 2006, an increase of JPY 1,320 million compared to the fiscal year ended March 31, 2005. The increase in net cash provided by operating activities was mainly due to an increase in operating income that was caused by an increase in revenues from VAS and SI.

(Net cash provided by investing activities)

Net cash provided by investing activities was JPY 1,805 million for the fiscal year ended March 31, 2006, a decrease of JPY 169 million compared to the fiscal year ended March 31, 2005. Net cash provided by investing activities mainly consisted of proceeds of JPY 3,613 million from sales of short-term and other investments, including available-for-sale securities, purchases of property and equipment of JPY 919 million and purchase of other investments of JPY 675 million.

(Net cash provided by financing activities)

Net cash provided by financing activities was JPY 39 million for the fiscal year ended March 31, 2006, an increase by JPY 14,252 million compared to the fiscal year ended March 31, 2005. Net cash provided by financing activities included proceeds from the issuance of common stock of JPY 6,030 million along with IIJ's listing on the Mothers Market of the Tokyo Stock Exchange, proceeds from issuance of long-term borrowings of JPY 1,000 million and proceeds from securities loan agreement of JPY 4,897 million. Net cash provided by financing activities also included repayments of long-term borrowings of JPY 2,986 million, repayments of securities loan agreement of JPY 5,627 million and principal payments under capital leases of JPY 3,106 million.

(3) Targets for the Fiscal Year Ending March 31, 2007

For the fiscal year ending March 31, 2007, we are targeting revenues of JPY 55,000 million, an increase of 10.4 % compared to the fiscal year ended March 31, 2006, operating income of JPY 3,200 million, an increase of 32.7 % compared to the fiscal year ended March 31, 2006, income before income tax expense of 6,300 million, an increase of 17.1% compared to the fiscal year ended March 31, 2006 and net income of 5,000 million, an increase of 5.2% compared to the fiscal year ended March 31, 2006.

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 revenues and operating and net profitability in the fiscal year ending March 31, 2007, 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 annual report on Form 20-F and other filings with the United States Securities and Exchange Commission.

4. Risk Factors

The results of operations and financial position of IIJ or the IIJ Group may be adversely and materially impacted by the following and other factors.

- Risk from effects on the IIJ Group's financial results by a lack of improvement of Japan's economy, or a change in economic conditions
- Risk from the IIJ Group's dependence on other companies for telecommunication circuits
- Risk from the IIJ Group's failure to differentiate itself from its competitors due to a decline in its quality of service or risk from an increase of costs to maintain its quality of service
- Risk from the possibility of an interruption of services by the IIJ Group due to natural disasters and/or human errors
- Risk of the IIJ Group's failure to keep and manage its private customer information, such as personal information
- Risk due to the IIJ Group's failure to keep up with technological developments or the necessity of vast financial resources
- Risk associated with a change in business environment of countries abroad where the IIJ Group is conducting businesses and requirement of management attention and financial resources
- Risk from the effects on the IIJ Group's results of operations and financial position by increased price competition in Internet connectivity and value-added services and systems integration
- Risk from the IIJ Group's results of operations and financial position being affected by the IIJ Group's failure to lease backbone circuits properly
- Risk from the IIJ Group's results of operations and financial position being affected by the IIJ Group's failure to manage outsourcing costs, such as failure to control the period or amount of contracts properly.
- Risk of less achievement in business developments than expected, due to the IIJ Group's failure to differentiate itself from its competitors
- Risk due to the IIJ Group's dependence on its executive officers
- Risk of the IIJ Group's failure to attract and control its human resources properly
- Risk associated with a reduction of value of investments into the IIJ Group companies or requirement of additional financial resources
- Risk from the IIJ Group's results of operations and financial position being affected by seasonal fluctuations in systems integration and equipment sales (revenues and income tend to increase in the fourth quarter of each fiscal year)
- Risk from the impact on the IIJ Group's results of operations and financial position by fluctuations in the stock prices of companies in which it has invested
- Risk associated with regulatory matters and new legislation related to the telecommunications law, and legal regulations of the Internet
- Risk of the IIJ Group's violation of intellectual property rights of other parties

IIJ is planning to disclose a *Yuka-shoken-hokokusho,* an annual report submitted to the regulatory public organization in Japan in accordance with the laws and regulations in Japan, and an annual report on Form 20-F submitted to United States Securities and Exchange Commission after late in June this year. Please refer to these documents for details of risk regarding IIJ Group's business.

5. Consolidated Financial Statements
(Unaudited, from April 1, 2005 through March 31, 2006)

(1) Consolidated Balance Sheets

	As of March 31, 2006			As of March 31, 2005		Change
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%	Thousands of Yen
ASSETS						
CURRENT ASSETS:						
Cash	116,846	13,727,021		5,286,477		8,440,544
Accounts receivable, net of allowance for doubtful accounts of JPY 23,411 thousand and JPY 41,400 thousand at March 31, 2006 and 2005, respectively	101,824	11,962,304		7,407,439		4,554,865
Inventories	7,251	851,857		140,096		711,761
Prepaid expenses	8,778	1,031,325		604,935		426,390
Other current assets, net of allowance for doubtful accounts of JPY 33,250 thousand at March 31, 2006	1,823	214,121		108,228		105,893
Total current assets	236,522	27,786,628	54.8	13,547,175	36.5	14,239,453
INVESTMENTS IN AND ADVANCES TO EQUITY METHOD INVESTEES, net of loan loss valuation allowance of JPY 16,701 thousand and JPY 31,378 thousand at March 31, 2006 and 2005, respectively	9,899	1,162,971	2.3	713,607	1.9	449,364
OTHER INVESTMENTS	68,273	8,020,705	15.8	9,930,781	26.8	(1,910,076)
PROPERTY AND EQUIPMENT —Net	87,670	10,299,496	20.3	9,722,366	26.2	577,130
INTANGIBLE ASSETS—Net	5,385	632,594	1.2	561,211	1.5	71,383
GUARANTEE DEPOSITS	13,191	1,549,653	3.1	2,050,665	5.5	(501,012)
OTHER ASSETS, net of allowance for doubtful accounts of JPY 40,980 thousand and JPY 376,092 thousand at March 31, 2006 and 2005, respectively	10,665	1,252,942	2.5	590,666	1.6	662,276
TOTAL	431,605	50,704,989	100.0	37,116,471	100.0	13,588,518

	As of March 31, 2006			As of March 31, 2005		Change
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%	Thousands of Yen
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES:						
Short-term borrowings	38,772	4,555,000		4,724,633		(169,633)
Long-term borrowings —current portion	16,939	1,989,963		2,736,056		(746,093)
Payable under securities loan agreement	8,509	999,600		1,729,520		(729,920)
Capital lease obligations—current portion	25,570	3,003,914		2,774,974		228,940
Accounts payable	86,040	10,107,942		4,860,733		5,247,209
Accrued expenses	4,597	540,027		541,118		(1,091)
Other current liabilities	14,489	1,702,208		817,517		884,691
Total current liabilities	194,915	22,898,654	45.2	18,184,551	49.0	4,714,103
LONG-TERM BORROWINGS	2,469	290,000	0.6	1,529,963	4.1	(1,239,963)
CAPITAL LEASE OBLIGATIONS —Noncurrent	42,396	4,980,659	9.8	4,339,028	11.7	641,631
ACCRUED RETIREMENT AND PENSION COSTS	1,901	223,332	0.4	143,346	0.4	79,986
OTHER NONCURRENT LIABILITIES	7,040	827,086	1.6	275,533	0.7	551,553
Total Liabilities	248,721	29,219,731	57.6	24,472,421	65.9	4,747,310
MINORITY INTEREST	10,753	1,263,320	2.5	1,028,977	2.8	234,343
COMMITMENTS AND CONTINGENCIES	—	—	—	—	—	—

	As of March 31, 2006			As of March 31, 2005		Change
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%	Thousands of Yen
SHAREHOLDERS' EQUITY:						
Common-stock—authorized, 377,600 shares; issued and outstanding, 204,300 shares at March 31, 2006 and authorized, 377,600 shares; issued and outstanding, 191,800 shares at March 31, 2005	143,291	16,833,847	33.2	13,765,372	37.1	3,068,475
Additional paid-in capital	226,415	26,599,217	52.5	23,637,628	63.7	2,961,589
Accumulated deficit	(252,643)	(29,680,482)	(58.5)	(34,434,052)	(92.8)	4,753,570
Accumulated other comprehensive income	55,785	6,553,594	12.9	8,690,125	23.4	(2,136,531)
Treasury stock—777 shares and 602 shares held by an equity method investee at March 31, 2006 and 2005, respectively	(717)	(84,238)	(0.2)	(44,000)	(0.1)	(40,238)
Total shareholders' equity	172,131	20,221,938	39.9	11,615,073	31.3	8,606,865
TOTAL	431,605	50,704,989	100.0	37,116,471	100.0	13,588,518

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.48 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of March 31, 2006.

(2) Consolidated Statements of Income

	Fiscal Year Ended March 31, 2006			Fiscal Year Ended March 31, 2005		Change
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues	Thousands of Yen
REVENUES:						
Connectivity and value-added services:						
Dedicated access	90,443	10,625,268		11,372,701		(747,433)
Dial-up access	22,760	2,673,808		2,936,973		(263,165)
Value-added services	53,200	6,249,891		5,004,730		1,245,161
Other	31,272	3,673,872		3,169,413		504,459
Total	197,675	23,222,839		22,483,817		739,022
Systems integration	200,072	23,504,537		15,853,824		7,650,713
Equipment sales	26,262	3,085,208		3,364,926		(279,718)
Total revenues	424,009	49,812,584	100.0	41,702,567	100.0	8,110,017
COST AND EXPENSES:						
Cost of connectivity and value-added services	170,906	20,077,990		19,483,890		594,100
Cost of systems integration	154,243	18,120,418		12,200,137		5,920,281
Cost of equipment sales	23,987	2,818,036		3,111,369		(293,333)
Total cost	349,136	41,016,444	82.4	34,795,396	83.4	6,221,048
Sales and marketing	26,213	3,079,526	6.2	2,794,561	6.7	284,965
General and administrative	26,790	3,147,315	6.3	2,665,980	6.4	481,335
Research and development	1,346	158,155	0.3	198,979	0.5	(40,824)
Total cost and expenses	403,485	47,401,440	95.2	40,454,916	97.0	6,924,524
OPERATING INCOME	20,524	2,411,144	4.8	1,247,651	3.0	1,163,493
OTHER INCOME:						
Interest income	111	13,099		12,877		222
Interest expense	(3,723)	(437,364)		(685,857)		248,493
Foreign exchange gains	30	3,470		5,958		(2,488)
Gain on other investments—net	27,219	3,197,690		2,439,330		758,360
Gain arising from issuance of equity method investee's share	—	—		25,933		(25,933)
Other—net	1,622	190,520		102,616		87,904
Other income—net	25,259	2,967,415	6.0	1,900,857	4.6	1,066,558

	Fiscal Year Ended March 31, 2006			Fiscal Year Ended March 31, 2005		Change
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues	Thousands of Yen
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE, MINORITY INTERESTS AND EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES	45,783	5,378,559	10.8	3,148,508	7.6	2,230,051
INCOME TAX EXPENSE	2,191	257,360	0.5	99,870	0.2	157,490
MINORITY INTERESTS IN LOSSES OF SUBSIDIARIES	(3,012)	(353,883)	(0.7)	(109,161)	(0.3)	(244,722)
EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES	(117)	(13,746)	(0.1)	(33,208)	(0.1)	19,462
NET INCOME	40,463	4,753,570	9.5	2,906,269	7.0	1,847,301
BASIC WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		195,613		191,559		
DILUTED WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		195,955		191,559		
BASIC NET INCOME PER COMMON SHARE		24,301		15,172		
DILUTED NET INCOME PER COMMON SHARE		24,258		15,172		

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.48 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of March 31, 2006.

(3) Consolidated Statements of Shareholders' Equity

Consolidated statements of shareholders' equity for the fiscal year ended March 31, 2006 (Unit: Thousands of Yen)

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE, APRIL 1, 2005	38,360	13,765,372	23,637,628	(34,434,052)	8,690,125	(44,000)	11,615,073
Net income				4,753,570			4,753,570
Other comprehensive loss, net of tax					(2,136,531)		(2,136,531)
Total comprehensive income							2,617,039
Stock split	153,440						
Issuance of common stock, net of issuance cost	12,500	3,068,475	2,961,589				6,030,064
Purchase of common stock by an equity method investee						(40,238)	(40,238)
BALANCE, MARCH 31, 2006	204,300	16,833,847	26,599,217	(29,680,482)	6,553,594	(84,238)	20,221,938

Consolidated statements of shareholders' equity for the fiscal year ended March 31, 2006 (Unit: Thousands of U.S. Dollars)

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE, APRIL 1, 2005	38,360	117,172	201,206	(293,106)	73,971	(375)	98,868
Net income				40,463			40,463
Other comprehensive loss, net of tax					(18,186)		(18,186)
Total comprehensive income							22,277
Stock split	153,440						
Issuance of common stock, net of issuance cost	12,500	26,119	25,209				51,328
Purchase of common stock by an equity method investee						(342)	(342)
BALANCE, MARCH 31, 2006	204,300	143,291	226,415	(252,643)	55,785	(717)	172,131

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.48 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of March 31, 2006.

Consolidated statements of shareholders' equity for the fiscal year ended March 31, 2005 (Unit: Thousands of Yen)

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE, APRIL 1, 2004	38,360	13,765,372	23,637,628	(37,340,321)	6,195,449	(44,000)	6,214,128
Net income				2,906,269			2,906,269
Other comprehensive income, net of tax					2,494,676		2,494,676
Total comprehensive income							5,400,945
BALANCE, MARCH 31, 2005	38,360	13,765,372	23,637,628	(34,434,052)	8,690,125	(44,000)	11,615,073

(4) Condensed Consolidated Statements of Cash Flows

	Fiscal Year Ended March 31, 2006		Fiscal Year Ended March 31, 2005	Change
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen	Thousands of Yen
OPERATING ACTIVITIES:				
Net income	40,463	4,753,570	2,906,269	1,847,301
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	35,827	4,209,037	4,193,093	15,944
Provision for retirement and pension costs, less payments	648	76,095	70,659	5,436
Provision for (reversal of) doubtful accounts and advances	(102)	(12,009)	24,781	(36,790)
Loss on disposal and sale of property and equipment	1,012	118,855	143,887	(25,032)
Loss on disposal and impairment of telephone rights	17	2,040	99,075	(97,035)
Gains on other investments—net	(27,219)	(3,197,690)	(2,439,330)	(758,360)
Foreign exchange gains	(67)	(7,825)	(15,466)	7,641
Gain arising from issuance of equity method investee's share	—	—	(25,933)	25,933
Loss on retirement of convertible notes	—	—	5,195	(5,195)
Equity in net loss of equity method investees	117	13,746	33,208	(19,462)
Minority interests in earnings of subsidiaries	3,012	353,883	109,161	244,722
Deferred income tax benefit	(1,965)	(230,843)	(11,023)	(219,820)
Others	157	18,492	79,247	(60,755)
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable	(37,965)	(4,460,173)	1,607,692	(6,067,865)
Decrease (increase) in inventories, prepaid expenses and other current and noncurrent assets	(11,835)	(1,390,398)	228,358	(1,618,756)
Increase (decrease) in accounts payable	42,353	4,975,623	(2,307,729)	7,283,352
Increase in income taxes payable	2,850	334,854	97,913	236,941
Increase in accrued expenses, other current and noncurrent liabilities	8,526	1,001,567	439,440	562,127
Net cash provided by operating activities	55,829	6,558,824	5,238,497	1,320,327

	Fiscal Year Ended March 31, 2006		Fiscal Year Ended March 31, 2005	Change
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen	Thousands of Yen
INVESTING ACTIVITIES:				
Purchases of property and equipment	(7,826)	(919,366)	(577,133)	(342,233)
Purchase of short-term and other investments	(5,742)	(674,569)	(12,566)	(662,003)
Investment in an equity method investee	(6,384)	(750,000)	—	(750,000)
Purchase of subsidiary stock from minority shareholders	(1,635)	(192,142)	(61,680)	(130,462)
Proceeds from sales and redemption of short-term and other investments	30,756	3,613,239	2,976,017	637,222
Payments of guarantee deposits	(528)	(62,074)	(48,683)	(13,391)
Refund of guarantee deposits	4,842	568,869	71,850	497,019
Payment for refundable insurance policies	(221)	(25,917)	(25,231)	(686)
Refund from insurance policies	54	6,301	18,348	(12,047)
Acquisition of a newly controlled company, net of cash acquired—net	1,953	229,457	—	229,457
Acquisition of business	—	—	(375,123)	375,123
Other	94	11,052	8,204	2,848
Net cash provided by investing activities	15,363	1,804,850	1,974,003	(169,153)

	Fiscal Year Ended March 31, 2006		Fiscal Year Ended March 31, 2005	Change
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen	Thousands of Yen
FINANCING ACTIVITIES:				
Proceeds from issuance of long-term borrowings	8,512	1,000,000	2,250,000	(1,250,000)
Repayments of long-term borrowings	(25,418)	(2,986,056)	(1,840,246)	(1,145,810)
Proceeds from securities loan agreement	41,684	4,897,040	2,546,320	2,350,720
Repayments of securities loan agreement	(47,897)	(5,626,960)	(816,800)	(4,810,160)
Principal payments under capital leases	(26,434)	(3,105,519)	(2,867,625)	(237,894)
Net decrease in short-term borrowings	(1,444)	(169,633)	(1,839,460)	1,669,827
Repurchase of convertible notes	—	—	(745,488)	745,488
Redemption of convertible notes	—	—	(11,088,000)	11,088,000
Proceeds from issuance of common stock, net of issuance cost	51,328	6,030,064	—	6,030,064
Proceeds from issuance of subsidiary stock to minority shareholders	—	—	188,632	(188,632)
Net cash provided by (used in) financing activities	331	38,936	(14,212,667)	14,251,603
EFFECT OF EXCHANGE RATE CHANGES ON CASH	322	37,934	2,405	35,529
NET INCREASE (DECREASE) IN CASH	71,847	8,440,544	(6,997,762)	15,438,306
CASH, BEGINNING OF EACH PERIOD	44,999	5,286,477	12,284,239	(6,997,762)
CASH, END OF EACH PERIOD	116,846	13,727,021	5,286,477	8,440,544

ADDITIONAL CASH FLOW INFORMATION:				
Interest paid	3,632	426,692	613,817	(187,125)
Income taxes paid	1,261	148,101	29,227	118,874
NONCASH INVESTING AND FINANCING ACTIVITIES:				
Acquisition of assets by entering into capital leases	32,712	3,842,952	4,433,906	(590,954)
Exchange of common stock investment due to merger:				
Market value of common shares acquired	63	7,390	37,950	(30,560)
Cost of investment	22	2,584	2,500	84
Acquisition of business and a company:				
Assets acquired	7,180	843,485	1,202,007	(358,522)
Cash paid	(6,244)	(733,589)	(375,123)	(358,466)
Liabilities assumed	936	109,896	826,884	(716,988)

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.48 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of March 31, 2006.