have translated some Japanese yen amounts presented in this annual report into U.S. dollars solely for your convenience. Unless otherwise noted, the rate used for the translations was ¥117.56 per U.S. $1.00, 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, 2007, the date of our most recent consolidated balance sheet contained in this annual report. Translations do not imply that the yen amounts actually represent, or have been or could be converted into, equivalent amounts in U.S. dollars.

The following table presents the noon buying rates for Japanese yen per U.S. $1.00 in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York:

	High	Low	Average(1)	Period-end
Fiscal year ended March 31,				
2003	¥133.40	¥115.71	¥121.10	¥118.07
2004	120.55	104.18	112.75	104.18
2005	114.30	102.26	107.28	107.22
2006	120.93	104.41	113.67	117.48
2007	121.81	110.07	116.55	117.56
Calendar year 2007				
January	¥121.81	¥118.49	¥120.45	¥121.02
February	121.77	118.33	120.50	118.33
March	118.15	116.01	117.26	117.56
April	119.84	117.69	118.93	119.44
May	121.79	119.77	120.77	121.76
June	124.09	121.08	122.69	123.39
July (through July 3, 2007)	122.40	122.32	122.36	122.40

(1) For fiscal years, calculated from the average of the exchange rates on the last day of each month during the period. For calendar year months, calculated based on the average of daily exchange rates.

The noon buying rate on July 3, 2007 was ¥122.40 per $1.00.

B. Capitalization and Indebtedness.

Not required.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

You should carefully consider the following information, together with the other information contained in this annual report on Form 20-F, including our financial statements and the related notes, before making an investment decision. Any risks described below could result in a material adverse effect on our business, financial condition or results of operations.

We may not maintain our current level of revenues or achieve our expected revenues and profits in the future.

Although we recorded operating income and net income in and after the fiscal year ended March 31, 2005, we incurred operating losses and net losses in each of the prior six fiscal years, with the exception of positive operating income for the fiscal year ended March 31, 2002, and our accumulated deficit as of March 31, 2007 amounted to ¥24.3 billion.

If the Japanese economy deteriorates or does not improve, and it results in significantly lower levels of network-related investment or corporate customers respond to conditions by putting a priority on low price rather than quality, it may make it difficult to maintain our current level of revenues or achieve our expected revenues and profits.

In addition to factors related to general economic conditions in Japan, we may not be able to maintain our current level of revenues and profits or achieve our expected levels of revenues and profits due to several other factors, including, but not limited to:

- a decrease in revenues from our Internet connectivity services because of lower unit prices per bandwidth and cancellation of large accounts especially due to severe price competition,
- lower revenue growth and lower margins in our growing value-added services and systems integration, if we fail to successfully differentiate our services from those of our competitors, or experience a significant decrease in systems integration revenues from period to period due to the cancellation of one or more large projects or changes in the number of projects resulting from a seasonal fluctuation in the systems integration business in Japan,
- an increase in backbone costs due to increased volume of Internet traffic and demand for leasing backbone lines, or a decline in the profitability of connectivity services if we contract for more capacity than we actually utilize to serve our customers,
- an increase in expenses for network infrastructure, research and development and other similar investments which we may be forced to make in the future in order to remain competitive, or increased expenses relating to the leasing of additional equipment,
- an increase in outsourcing costs, especially in our systems integration, if outsourcing costs increase, or we fail to manage outsourcing projects effectively or fail to cover outsourcing costs by raising enough revenues from outsourced projects,
- an increase in SG&A costs, such as personnel expenses and advertising expenses, in conjunction with our expected or planned or continued business expansion,
- the recording of an impairment loss as a result of an impairment test on the non-amortized intangible assets such as goodwill that is recorded related to any mergers and acquisitions,
- a decline in the value and trading volume of our holding of available-for-sale securities from which we expect gains on sale or impairment losses on stocks of companies,
- an increase of equity in net loss of equity method investees affected by an increase of net loss of our equity method investees, and
- an amount and timing of recognition of deferred tax benefits or expenses resulting from a release or an increase of valuation allowance against deferred income tax assets related to tax operating loss carryforwards and others.

Please see Item 5, “Operating and Financial Review and Prospects” for more detailed information concerning our operations and other results.

We may not be able to compete effectively, especially against competitors with greater financial, marketing and other resources.

The major competitors of our connectivity and value-added services are major telecommunications carriers like NTT Communications Corporation (“NTT Communications”) and KDDI Corporation (“KDDI”). Price competition for Internet connectivity services is still severe and may increase. For value-added services, price competition may also increase. This competition may adversely affect our revenues and profitability and may make it difficult for us to retain existing customers or attract new customers. The major competitors of our systems integration business are systems integrators like IBM Japan, NEC Corporation, Fujitsu Limited, NTT Data Corporation and their affiliates. Our major competitors have the financial resources to reduce prices in an effort to gain market share. There is strong competition among systems integrators that may adversely affect our revenues and profitability. Even though Nippon Telegraph and Telephone Corporation (“NTT”) and NTT Communications purchased shares of our company in September 2003, which resulted in the NTT Group becoming our largest shareholder, we plan to continue to operate our company separately and independently from the NTT Group, and will therefore continue to compete with the NTT Group.

Our competitors have advantages over us, including, but not limited to:

- substantially greater financial resources,
- more extensive and well-developed marketing and sales networks,
- higher brand recognition among consumers,
- larger customer bases, and
- more diversified operations which allow profits from some operations to support operations with lower profitability, such as the network services, for which we are a competitor.

With these advantages, our competitors may be better able to:

- sustain downward pricing pressure, including pressure on low-price Internet connectivity services offered to corporate customers, which are our target customers,
- develop, market and sell their services,
- adapt quickly to new and changing technologies,
- obtain new customers, and
- aggressively pursue mergers and acquisitions to enlarge their customer base and market share.

If we fail to attract and retain qualified personnel, we may not be able to achieve our expected business growth.

Our network, services, products and technologies are complex, and as a result, we depend heavily on the continued service of our engineering, research and development, and other personnel. As our business grows, we need to hire additional engineering, research and development, and other personnel. In particular, in order to continue to increase our revenues from value-added services and systems integration, we require more sales and engineering personnel to achieve our expectations. We are not sure that we will be able to keep or attract these human resources and control human resources cost adequately. Competition for qualified engineers, research and development personnel and employees in the telecommunications service industry in Japan is intense, and there is a limited number of persons with the necessary knowledge and experience. None of our employees are bound by any employment or noncompetition agreement. The realization of any or all of these risks may result in a failure to achieve our expected business growth.

Our business may be adversely affected if our network suffers interruptions, errors or delays.

Interruptions, errors or delays with respect to our network may be caused by a number of man made or natural factors, many of which are beyond our control, including, but not limited to, damage from fire, earthquakes or other natural disasters, power loss, sabotage, computer hackers, human error, computer viruses and other similar events. Much of our computer and networking equipment and the lines that make up our network backbones are concentrated in a few locations that are in earthquake-prone areas. Any disruption, outages, or delays or other difficulties experienced by any of our technological and information systems and networks could result in a decrease in new or existing accounts, loss or exposure of confidential information, reduction in revenues and profits, costly repairs or upgrades, reputational damage and decreased consumer confidence in our business, any or all of which could have a material adverse effect on our business, financial condition and results of operations.

If we fail to keep and manage our confidential customer information, we could be subject to lawsuits, incur expenses associated with our security systems or suffer damage to our reputation.

We keep and manage confidential information and trade secrets obtained from our customers. We exercise care in protecting the confidentiality of such information and take steps to ensure the security of our network, in accordance with the law protecting personal information that came into effect in April 2005 and the requirements set by the Ministry of Internal Affairs and Communications (“MIC”), and the Ministry of Economy, Trade and Industry. However, our network, like all Information Technology systems, is vulnerable to external attack from computer viruses, hackers or other such sources. In addition, despite internal controls, misconduct by an employee could result in the improper use or disclosure of confidential information. If any material leak of such information were to occur, we could be subject to lawsuits for damages from our customers, incur expenses associated with repairing or upgrading our security systems and suffer damages to our reputation that could result in a severe decline in new customers as well as an increase in service cancellations. The realization of these or similar risks may have a material adverse effect on our business, financial condition and result of operations.

Business growth and a rapidly changing operating environment may strain our limited resources.

We have limited operational, administrative and financial resources, which could be inadequate to sustain the growth we want to achieve. As the number of our customers and their Internet usage increases, as traffic patterns change and as the volume of information transferred increases, we will need to increase expenditures for our network and other facilities in order to adapt our services and to maintain and improve the quality of our services. If we are unable to manage our growth and expansion, the quality of our services could deteriorate and our business may suffer.

If we fail to keep up with the rapid technological changes in our industry, our services may become obsolete and we may lose customers.

Our markets are characterized by:

- rapid technological change,
- frequent new product and service introductions,

- continually changing customer requirements, and
- evolving industry standards.

If we fail to obtain access to new or important technologies or to develop and introduce new services and enhancements that are compatible with changing industry technologies and standards and customer requirements, we may lose customers.

Our pursuit of necessary technological advances may require substantial time and expense. Many of our competitors have greater financial and other resources than we do and, therefore, may be better able to meet the time and expense demands of achieving technological advances. Additionally, this may allow our competitors to respond more quickly to new and emerging technologies and standards or invest more heavily in upgrading or replacing equipment to take advantage of new technologies and standards.

We depend on our executive officers, and if we lose the service of our executive officers, particularly Mr. Koichi Suzuki, our business and our relationships with the customers, major shareholders of IIJ and other IIJ Group companies and our employees could suffer.

Our future success depends on the continued service of our executive officers, particularly Mr. Koichi Suzuki, who is our president, chief executive officer and representative director, as well as the president and chief executive officer and representative director of our major subsidiaries. We rely in particular on his expertise in the operation of our businesses and on his relationships with our shareholders, the shareholders of the IIJ Group companies, our business partners and our employees. None of our executive officers, including Mr. Suzuki, is bound by an employment or noncompetition agreement.

Our investments in our subsidiaries and affiliated companies may not produce the returns we expect and may require additional funding.

As part of our business strategy and for the purpose of maintaining various strategic business relations, we have, in the past, invested in a number of companies. There can be no assurance that we will be able to maintain or enhance the value or performance of such companies in which we have invested or may invest in the future, or that we will achieve the returns or benefits sought from these investments. Our substantial investment in Crosswave, our former equity method investee, for example, became worthless due to Crosswave's commencement of corporate reorganization proceedings. In August 2003, Crosswave filed a voluntary petition for the commencement of corporate reorganization proceedings in Japan, and as a result of our equity method net loss and an impairment loss taken in respect of our investment in Crosswave, our net loss for the fiscal year ended March 31, 2003 was ¥15.6 billion, the highest net loss that we have ever experienced. We also wrote off ¥2.1 billion of loans and accounts receivable outstanding from Crosswave for the fiscal year ended March 31, 2004. We also had an impairment loss relating to our investment in Asia Internet Holding Co., Ltd. ("AIH") for the fiscal year ended March 2004. To the extent that these investments are accounted for by the equity-method and to the extent that the investee companies have net losses, our financial results will be adversely affected to the extent of our pro rata portion of these losses. Furthermore, we may lose all or part of our investment in these companies if their value decreases as a result of their financial performance or if these companies go bankrupt. If our interests differ from those of other investors in entities over which we do not exercise control, we may not be able to enjoy synergies with the investees and it may adversely affect our financial results or financial condition.

We have invested in new subsidiaries and affiliated companies to expand our business and service offerings available to our customers. In February 2006, we invested ¥750 million in Internet Revolution Inc. ("i-revo"), a joint venture that we established with Konami Corporation, and i-revo is our equity method investee. In August 2006, we invested ¥110 million and established Net Chart Japan Inc. ("NCJ") as our wholly owned subsidiary and NCJ succeeded the network construction business of Net Chart Japan

Corporation for ¥75 million. In April 2007, we invested ¥300 million in GDX Japan, K.K. ("GDX") to acquire 51% of the equity of GDX and GDX became our consolidated subsidiary. GDX is a joint venture established with GDX Network, Inc. which is a company in the United States, to provide a message exchange network service in Japan. In June 2007, we acquired 100% of the equity of hi-ho, Inc. ("hi-ho") from Panasonic Network Services Inc. ("PNS") to take over PNS's Internet service business for personal users and its solution business for its corporate customers for ¥1,200 million. In July 2007, we invested ¥235 million in Taihei Computer Co., Ltd ("TCC") to acquire 45% of the equity of TCC, which manages customer loyalty reward program systems. TCC became our equity method investee. We may provide additional financial support in the form of loans to or additional equity investments in these subsidiaries and affiliated companies to enhance or maintain our business synergies with these subsidiaries and affiliated companies.

We have reorganized our subsidiaries. In October 2005, IIJ Media Communications Inc. ("IIJ-MC"), our former subsidiary, was merged into us after a portion of IIJ-MC's business was transferred to IIJ Technology Inc. ("IIJ-Tech") and we have acquired AIH, our former equity method investee, after AIH became our wholly owned consolidated subsidiary. In May 2007, we made our two subsidiaries, IIJ-Tech and Net Care, Inc., wholly owned through share exchanges to increase synergies among our group companies and allocate group resources more efficiently to provide our total network solutions to our customers. However, there is no guarantee that we will be able to achieve the benefit of the transactions as expected.

We may have an impairment loss as a result of an impairment test on the non-amortized intangible assets that is recorded related to mergers and acquisitions.

As of March 31, 2007, our intangible assets such as goodwill were approximately ¥2.8 billion. If the business operations of our subsidiaries and others are adversely affected by factors such as a significant adverse change in their business climate, we may have an impairment loss as a result of an impairment test on the non-amortized intangible assets such as goodwill. The realization of any impairment losses on the non-amortized intangible assets may result in material adverse effects on our financial condition and results of operations.

The amounts and timing of recognition of deferred tax benefits or expenses related to tax operating loss carryforwards may adversely affect our financial results.

As of March 31, 2007, the Company had tax operating loss carryforwards of ¥17.1 billion. The loss carryforwards are available to offset future taxable income and will expire as shown in Note 9 to our consolidated financial statements. We recorded ¥1.5 billion of deferred tax benefit resulting from a release of valuation allowance against deferred income tax assets related to tax operating loss carryforwards for the fiscal year ended March 31, 2007. The amounts and timing of recognition of the deferred tax benefits or expenses may adversely affect our financial condition and results of operations.

Fluctuations in the stock prices of companies or impairment losses on stocks of companies in which we have invested may significantly influence our financial condition.

We have invested in non-affiliated companies in order to further our business relationships with these companies. We recorded gross realized gains from the sale of available-for-sale securities of ¥3.2 billion for the fiscal year ended March 31, 2007 and the book value of our remaining available-for-sale securities was ¥1.3 billion at March 31, 2007. We may acquire additional securities of non-affiliated companies. However, the book value can change significantly due to changes in the financial condition of non-affiliated companies, general economic conditions in Japan or fluctuations in the Japanese stock markets. Fluctuations in the stock prices of companies in which we have invested may have a significant effect on our financial results. As a result, we may not be able to achieve our expected gains on the sale of available-for-sale securities. In addition, should we choose to sell all or a portion of these shares, it is not certain that we will be able to do so on favorable terms. Furthermore, we may have an impairment loss on stocks of companies in which we have invested. For the fiscal year ended March 31, 2007, we recorded an impairment loss of ¥ 1.4 billion on unlisted securities, including an impairment loss of ¥1.0 billion on the securities of IPMobile Incorporated.

NTT, our largest shareholder, could exercise substantial influence over us in a manner which may not necessarily be in our interest or that of our other shareholders.

NTT and its affiliates currently own 29.7% of our outstanding shares as of March 31, 2007. In September 2003, we entered into a subscription agreement with NTT. Under this subscription agreement, we have agreed to allow NTT to nominate up to three persons as either directors or company auditors, subject to approval by our shareholders at our first general shareholders' meeting after NTT's investment. At our general shareholders' meeting on June 24, 2004, two directors nominated from NTT Group were appointed, one of whom was nominated as an executive vice president. At our general shareholders' meeting on June 28, 2006, our executive vice president, Mr. Fukuzo Inoue, completed his term and retired, and an other director, Mr. Takashi Hiroi was reapproved to be an outside director. As our largest shareholder, NTT may be able to exercise substantial influence over us. In addition, as part of this subscription agreement, we have agreed to collaborate with NTT in various businesses. While we intend to conduct our day-to-day operations independently of NTT and its group companies and believe that NTT also plans for us to operate independently, NTT may decide to exercise substantial influence over us in a manner which could impair our ability to operate independently. Furthermore, NTT may take actions that are in its best interests, which may not be in our interest or that of other shareholders.

We rely greatly on other telecommunications carriers and other suppliers, and could be affected by disruptions in service or delays in the delivery of their products and services.

We rely on telecommunications carriers such as NTT Communications and KDDI for a significant portion of our network backbone and Nippon Telegraph and Telephone East Corporation and Nippon Telegraph Telephone West Corporation and electric power companies and their affiliates for local access lines for our customers. After the transfer of operating lease agreements from Crosswave, our former equity method investee, following its filing for corporate reorganization, we now procure significant portions of our network backbone and data center facilities pursuant to operating lease agreements with NTT Communications, our largest provider of network infrastructure. For the fiscal year ended March 31, 2007, 66.2% in costs for our domestic network backbone was for NTT Communications. We are subject to potential disruptions in these telecommunications services and, in the event of such disruption, we may have no means of replacing these services, on a timely basis or at all.

In the Asia-Pacific region, we depend on telecommunications carriers in various countries including less-developed countries whose quality of service may not be stable or who are more susceptible to economic or political instability.

We also depend on third-party suppliers of hardware components like routers that are used in our network. We acquire certain components from limited sources, typically from Cisco Systems, Inc. A failure by one of our suppliers to deliver quality products on a timely basis, or the inability to develop alternative sources if and as required, may delay our ability to expand the capacity and scope of our network.

Any problems experienced by our telecommunications carriers and other suppliers could have a material adverse effect on our business, financial condition and results of operations.

The risks inherent in international markets and other risks associated with our international business may adversely affect our future international expansion and our financial results.

By operating our network internationally, we expose ourselves to the risks of international markets and to other risks that do not exist or are less significant in Japan. One of the components of our strategy is to continue to expand our network reach through our network between the United States and Japan to maintain our network quality. In addition, we have invested in the data center businesses in South Korea. Our international business operations continue to require management attention and financial resources, both of which are in limited supply. We face significant exposure to risks in connection with our international operations, including:

- the impact of economic conditions outside Japan,
- unexpected changes in or delays resulting from regulatory requirements,
- the rate of the development of the Internet industry in countries in Asia,
- political and economic instability, and
- potential unsatisfactory financial returns from our investments in Asia, including the data center businesses in which we have invested in South Korea.

These factors could adversely affect our future international expansion and, consequently, our business, financial condition and results of operations.

If we fail to execute our systems integration projects in a timely or satisfactory manner or if we fail to manage customer data in a professional manner, we could be sued and our reputation could suffer.

A significant portion of our future revenue depends on systems integration projects which we, in cooperation with IIJ-Tech and Net Care, have been contracted to perform. We may not be able to perform our responsibilities under these contracts to the satisfaction of our customers, or at all, if we lack a sufficient number of qualified engineers, lack sufficient task-management capabilities for software-development vendors or fail to manage customer data adequately. If we do not execute these services and projects as contracted or fail to manage customer data in a professional manner, our receipt of revenues may be delayed or lost altogether and we could be sued by our counterparties, which could in turn have an adverse impact on our reputation, results of operation and financial condition.

Regulatory matters and new legislation could impact our ability to conduct our business.

The licensing, construction and operation of telecommunications systems and services in Japan are subject to regulation and supervision by the MIC. We operate pursuant to licenses and approvals that have been granted by the MIC.

Our licenses have an unlimited duration, but are subject to revocation by the MIC if we violate any telecommunications laws and regulations in a manner that is deemed to harm the public interest, if we or any of our directors are sentenced to a fine or any more severe penalty under the telecommunications laws, if we employ a director who was previously sentenced to a fine or more severe penalty thereunder or if we have had a license revoked in the past.

Existing and future governmental regulation may substantially affect the way in which we conduct business. These regulations may increase the cost of doing business or may restrict the way in which we offer products and services. As a result of the amendment in April 2004 of the Telecommunication Business Law