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IIJ Announces 3rd Quarter 2002 Results for the Quarter Ended December 31, 2002

-- IIJ continues pursuit of broadband strategies for further growth --

Tokyo, February 13, 2003 / New York, February 12, 2003 – Internet Initiative Japan Inc. (Nasdaq: IIJ) (“IIJ”), one of Japan’s leading Internet access and comprehensive network solutions providers, today announced its financial results for the 3rd quarter of the fiscal year ending March 31, 2003 (“fiscal 2002”). On February 13 at 9:00 am (EST), the Company will host a conference call to discuss the results and its outlook. There will be a simultaneous webcast available at www.vcall.com. A replay will also be available at the same URL.

The 3rd Quarter of FY2002 Results Summary

- In 3Q02, total revenues totaled to JPY10.6 billion (\$89.0 million) despite the prolonged sluggishness of Japan’s economy. This represents an increase of 6.3% compared to 3Q01 and no change from 2Q02.
- IIJ reported an operating loss of JPY567 million (\$4.8 million) in 3Q02. This represents a decrease from JPY151 million of operating profit in 3Q01, and a decrease from the JPY194 million operating loss in 2Q02. The results reflected IIJ’s evolving strategic initiatives in Japan’s growing broadband market, which includes reinforcing IIJ’s network infrastructure for broadband transmission.
- Adjusted EBITDA⁽¹⁾ was JPY349 million.
- For 4Q02, IIJ expects total revenues to be between JPY12.5 billion (\$105.3 million) and JPY13.0 billion (\$109.5 million), the highest amount of quarterly revenue in IIJ’s history. The revenue growth is expected to be driven by a strong Systems Integration (SI) business. The Company expects its operating profitability to improve in 4Q02.
- For the full 2002 fiscal year, IIJ expects total revenues to grow by approximately 10% compared to fiscal 2001.
- IIJ is currently preparing for a series of improvements to its capital structure, which will be effective by the end of March 2003.

⁽¹⁾ Adjusted EBITDA represents operating income (loss) plus depreciation and amortization. Adjusted EBITDA is provided because it is a measure commonly used by investors to analyze and compare companies on the basis of operating performance. Adjusted EBITDA is not a measurement of financial performance under generally accepted accounting principles and should not be construed as a substitute for operating income, net income or cash flows from operating activities for purposes of analyzing our operating performance, financial position and cash flows. Our adjusted EBITDA is not necessarily comparable with similarly titled measures for other companies.

Note: Translations of Japanese yen amounts into US dollars are solely for the convenience of readers outside of Japan and have been made at the rate of JPY118.75 = US\$1, the approximate exchange rate on December 31, 2002.

Overview of 3Q02 Results and Business Outlook

Overview “The 3Q02 results demonstrate that our strategic focus on the “broadband” and “enterprise markets” is successfully contributing to our steady growth, despite the prolonged sluggishness of Japan’s economy,” said Koichi Suzuki, President and CEO of IIJ. “In the changing environment for IP-based technology, the IIJ Group will continue to strengthen its position as a top IP engineering company, while capitalizing on the demand in the high-end corporate market.”

Recently, IIJ acquired various large-scale outsourcing contracts, including contracts with Plala Networks- an affiliate of NTT East, Panasonic hi-ho of Matsushita Electronic group, Hitachi group and Ricoh group.

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Operating Profitability Although IIJ expects improvements in its operating profitability in 4Q02, it has posted operating losses for the past three consecutive quarters. “For our revenues to grow further in fiscal 2003, we decided to pursue a strategy of strengthening our network infrastructure through the construction of the CDN (Content Delivery Network) platform, which is the primary cause of our increased expenses,” said Yasuhiro Nishi, CFO of IIJ. “We expect that there is approximately a six to nine month time-lag until such broadband projects becoming profitable. We believe that the current strategy will strengthen our position as a leader in the broadband market in Japan.”

Capital Improvement Plan IIJ is currently preparing for a series of capital improvements that will secure the financial means to allow IIJ to continue the implementation of its growth strategy, which will be effective by the end of March 2003. Details for the plan will be announced when finalized.

Discussion with PoweredCom IIJ, its 37.9% affiliate Crosswave Communications (“Crosswave”) and PoweredCom, Inc. (“PoweredCom”) agreed to extend the period for discussions regarding a possible integration of their businesses until the end of March 2003.

Market Prospects

Customer Base In 3Q02, revenues from IIJ’s top 150 customers accounted for approximately half of total revenues. IIJ has been actively cross-selling its Value-added Services, SI services and Data Center Services to existing users of its Dedicated Access Services. Cross-selling rates for 3Q02 are detailed in the following table. Going forward, IIJ expects its strategic marketing focus on Data Center Services to further increase the cross-selling rates.

IIJ Approximate Cross-selling rates among Top150 Customers in 3Q02 (Unit: %)

| | Value-added Service | SI | Data Center Service |
|--------------------------|---------------------|----|---------------------|
| Dedicated Access Service | 67 | 53 | 25 |

For example, in 3Q02, 67% of customers who use IIJ’s Dedicated Access Service also signed up for IIJ’s Value-added Service.

Broadband Solutions In the ISP market, IIJ expects to continue acquiring network-outsourcing contracts from major ISPs and network operators in Japan. In the CATV market, IIJ expects to continue increasing the number of its CATV customers. As of December 2002, the number of CATV operators connected to IIJ was 46, which represents approximately 60% of Japan’s CATV Internet market. In the SME (Small and Medium-sized Enterprise) market, IIJ expects to increase the number of contracts in second-tier package services with 10Mbps or 100Mbps access, such as with IIJ Fiber Access/F service. The number of contracts for 3Q02 is provided in Table 1 in the financial section.

Number of broadband subscribers in Japan (Unit: Thousand)

| Type of broadband connectivity | December 02 | September 02 | December 01 |
|-------------------------------------------|-------------|--------------|-------------|
| ADSL (Asymmetric Digital Subscriber Line) | 5,646 | 4,223 | 1,525 |
| CATV Internet | 1,954 | 1,800 | 1,303 |
| FTTH (Fiber to The Home) | 206 | 114 | n.a |

Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications.

WAN Solutions In response to the growing demand in the enterprise WAN (Wide Area Network) market, IIJ continues to maintain its marketing focus on IIJ VPN Standard, a VPN (Virtual Private Network) service for SMEs. At the same time, IIJ is also focusing on supporting sales activities of Crosswave’s WAN solution, Wide-area Ethernet Standard, which is for larger-scale customers.

Data Center Solutions IIJ recently opened two data centers in Yokohama and Saitama. The Company expects the new data centers to function as the hub for the IIJ Group’s suite of total network solution services, and to help differentiate the Company from other conventional service providers. As operations for network applications become more mission-critical, IIJ expects revenues from its application gateway services that utilize data center facilities to grow. The IIJ Group’s gateway solutions include IIJ Mail Gateway Service (email virus check, email audit and email archive), IIJ Web Filtering Service (web access control) and IIJ ID Gateway Service (remote access to internal network).

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In February 2003, the IIJ Group acquired a large-scale email-outsourcing contract from the Ricoh group.

Systems Integration (SI) Services Drawing upon its accumulated experience in component-based SI service offerings, IIJ Technology, IIJ's 64.0% subsidiary specializing in the SI business, announced the development of a new data center service called the Resource on Demand Data Center Service (see details in the "3rd Quarter FY2002 Operating Highlights" section). IIJ is positioning the new DC service as the key feature for data center marketing for the IIJ Group.

Forecasted Financial Performance for 4Q02 For 4Q02, IIJ expects total revenues to be between JPY12.5 billion and JPY13.0 billion, the highest amount of quarterly revenues in IIJ's history. The revenue growth is expected to be driven by strength in the SI business. The Company expects operating profitability to improve in 4Q02. For the full 2002 fiscal year, IIJ expects total revenues to grow by approximately 10% compared to fiscal 2001.

Status of Overview and Business Outlook

This Overview and Business Outlook contains forward-looking statements and projections such as statement regarding 4Q02 total revenues and operating profitability 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 contained in IIJ's filings on Form 20-F and Form 6-K, 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 4Q02 earnings release, presently scheduled for May 20, 2003. In conjunction with the 3Q02 earnings announcement, IIJ will hold a webcasted conference made available to the public at www.vcall.com.

3rd Quarter FY2002 Operating Highlights

Best Service Provider Award

In December 2002, IIJ was named the "best service provider of year 2002" in a major annual survey conducted by Nikkei Communications, a leading telecom industry trade magazine. According to the survey, which was based on responses from 856 corporations in Japan, IIJ was ranked number one in three of the four total qualifying categories, including "broadband service", "dedicated access service" and "dialup access service."

Ranking of best service provider survey 2002

| | Broadband service | Dedicated access service | Dialup access service |
|---|--------------------|--------------------------|-----------------------|
| 1 | IIJ | IIJ | IIJ |
| 2 | Nifty | Poweredcom | NEC |
| 3 | NTT Communications | Jens | Nifty |
| 4 | KDDI | Cable & Wireless IDC | AT&T |
| 5 | Japan Telecom | Fujitsu | NTT Communications |

Source: Nikkei Communications December 2002

New Service Developments under the Total Network Solutions Approach

Broadband Solutions In December 2002, IIJ won an outsourcing contract from Plala Networks Inc. ("Plala"), one of Japan's leading ISPs (Internet Service Provider), and an affiliate of NTT East. By utilizing a part of the CDN platform, IIJ provides network infrastructure and account management functions for Plala's new service for the retail market. Revenues from CDN services are recognized as a part of the "Connectivity and value-added services" and "Systems integration services" categories in IIJ's financial statements, depending on the specific service requirements.

WAN Solutions In November 2002, IIJ launched an Internet-VPN service called "IIJ VPN Standard", which enables corporate customers to construct private networks by utilizing inexpensive broadband access lines such as ADSL and FTTH. Revenues from this service are recognized as Value-added services in IIJ's financial statements. In addition, IIJ expects revenues to increase for its Connectivity Services since customers also need Internet connectivity for their VPN constructions.

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Data Center Solutions In November 2002, IIJ announced that it would begin a new data center service called "Resource on Demand DC Service" starting February 2003. The new service will be comprised of various network, facility and engineering resources that enable customers to utilize these resources as much as they need, whenever they need. Fees for the service will depend on customer requirements.

Security Solutions In December 2002, IIJ started a low-cost managed firewall service called "IIJ Security Lite" that targets SMEs. Also in December 2002, IIJ started a free security scanning service called "Network Sweep", which is a promotional service and is available to all customers of IIJ's security services at no extra charge. Revenues from IIJ security solutions are recognized under "Connectivity and Value-added Services" in IIJ's financial statements.

Router Solutions In November 2002, IIJ introduced a new router product called "SEIL/neu ATM", which provides various control functions that are optimized for high quality ATM (Asynchronous Transfer Mode)-based networks for enterprises and telecom carriers. Revenue from SEIL/neu ATM is recognized as a part of the "Equipment Sales" category in IIJ's financial statements.

Network Infrastructure Development

In 3Q02, IIJ increased the capacity of eleven of its domestic backbone network lines. IIJ also upgraded its US backbone network that runs between Los Angeles, California and Ashburn, Virginia.

R&D (IPv6)

With IPv6 multicast streaming technologies, IIJ broadcasted a part of the Global IPv6 Summit programs in December 2002, which marked the first time in Japan that the IPv6 multicast streaming technologies were used nationwide for IPv6 users, including consumer households.

Key Developments of IIJ Group Companies

Asia Internet Holding Co., Ltd., the Company's 26.7% affiliate, has completed a capacity increase for its link with Malaysia's Jaring to 45Mbps. Jaring is one of the largest ISPs in Malaysia.

IIJ America Inc., the Company's 91.3% owned subsidiary, launched a new security monitoring service called "Security CheckUp" for companies in the U.S. The new service scans for security holes in customers' servers and enterprise networks.

IIJ Media Communications, the Company's 50.1% owned subsidiary, launched "Easy Pack Live", an economical Internet broadcasting service. Revenues from the IIJ-MC service are recognized as a part of the "Systems Integration" category in IIJ's income statement.

Internet Multifeed Co., the Company's 26.0% owned affiliate, announced that it would introduce Japan's first 10Gbps ethernet interface as a part of its JPNAP Service, Japan's major distributed IX (Internet exchange) service, starting in January 2003.

3rd Quarter FY2002 Financial Results

Revenues

Revenues in 3Q02 totaled JPY10,564 million, an increase of 6.3% compared to 3Q01, though flat compared to 2Q02.

Connectivity services and value-added services revenues were JPY5,561 million in 3Q02, a decrease of 1.0% compared to 3Q01 and a decrease of 2.4% compared to 2Q02.

Dedicated access services revenues were JPY3,404 million in 3Q02, a decrease of 3.8% compared to 3Q01 and a decrease of 4.0% compared to 2Q02. IP services, including Data center connectivity services, decreased 4.1% in 3Q02 compared to 2Q02, due to the cancellation by a telecom service arm of a regional electric power company. Conventional second-tier services, IIJ Economy Service (64-128kbps) and IIJ T1 Standard Service (1.5Mbps), also decreased, because customers in the category have gradually been migrating to new services such as the IIJ FiberAccess/F service (10-100Mbps) and IIJ DSL/F service (1.5-12Mbps).

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Dial-up access service revenues were JPY776 million in 3Q02, a decrease of 12.2% compared to 3Q01 and a decrease of 2.0% compared to 2Q02. The decline in revenues from Dial-up access services has been offset by the steady revenue growth of IIJ's various OEM services, which include NTT's regional L-mode service and other network services through the CDN platform.

Value-added services revenues increased 12.4% to JPY913 million in 3Q02 compared to 3Q01 and 2.2% compared to 2Q02. These increases were mainly due to the revenue growth of security related services.

Systems integration services revenues increased 8.6% to JPY3,684 million in 3Q02 compared to 3Q01 and 19.1% compared to 2Q02, as revenues from customers in the financial service sector continued to increase steadily.

Equipment sales revenues were JPY1,319 million in 3Q02, an increase of 42.2% compared to 3Q01 and a decrease of 25.7% compared to 2Q02.

Table 1. Number of Contracts

| Internet Access Services | 3Q02 | 2Q02 | 3Q01 |
|------------------------------------------------------------------|--------------|-------------|-------------|
| <i>IP Service</i> 64kbps – 128kbps | 130 | 111 | 176 |
| 192kbps – 768kbps | 37 | 30 | 46 |
| 1Mbps – 2Mbps | 279 | 266 | 269 |
| 3Mbps – 1.2Gbps | 212 | 205 | 131 |
| <i>Internet Data Center Connectivity Services</i> ⁽²⁾ | 139 | 129 | 100 |
| <i>Others</i> ⁽³⁾ | 3,922 | 3,568 | 2,516 |
| Total Dedicated Access Services Contracts | 4,719 | 4,309 | 3,238 |

⁽²⁾ The figures of Internet data center connectivity services do not include contracts for data center housing services.

⁽³⁾ Others include, IIJ FiberAccess/F, IIJ Ethernet Standard, IIJ DSL/F, IIJT1 Standard and IIJ Economy.

| | | | |
|------------------------------------------------|----------------|---------|---------|
| <i>IIJ4U</i> (dialup services for individuals) | 82,193 | 84,432 | 91,924 |
| Others | 370,543 | 309,950 | 114,676 |
| Total Dial-up Access Services Contracts | 452,736 | 394,382 | 206,600 |

Table 2. Revenue Breakdown in Dedicated Access Services (JPY in millions)

| | 3Q02 | 2Q02 | 3Q01 |
|-------------------------------------------|--------------|-------------|-------------|
| Total IP Service + DC connectivity | 2,548 | 2,657 | 2,520 |
| Others | 856 | 889 | 1,020 |

Table 3. Contracted Bandwidth (Unit: Giga bits per second)

| | 3Q02 | 2Q02 | 3Q01 |
|--------------------------------------------------|-------------|-------------|-------------|
| Dedicated Access Services | 23.3 | 18.0 | 7.7 |
| Internet Data Center Connectivity Service | 7.0 | 4.7 | 0.7 |
| Total Contracted Bandwidth | 30.3 | 22.7 | 8.4 |

Cost and expenses

Cost of total revenues was JPY9,607 million in 3Q02, an increase of 13.4% compared to 3Q01, and an increase of 2.1% compared to 2Q02.

Backbone Costs

International backbone costs were JPY432 million, a decrease of 19.4% compared to 3Q01 and a decrease of 3.6% compared to 2Q02.

Domestic backbone costs were JPY902 million, an increase of 16.7% compared to 3Q01 and an increase of 10.7% compared to 2Q02. These increases were a result of an increase in connection fees

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with NTT's regional access networks (Flets), along with the implementation of its broadband strategy to strengthen its backbone network for providing various broadband network services and solutions nationwide.

Table 4. Backbone Costs (JPY in millions)

| | 3Q02 | 2Q02 | 3Q01 |
|-------------------------------------|------------|------|------|
| International Backbone Costs | 432 | 448 | 536 |
| Domestic Backbone Costs | 902 | 815 | 772 |

Cost of SI (Systems Integration) revenues

Cost of SI revenues was JPY3,173 million in 3Q02, an increase of 10.7% compared to 3Q01 and an increase of 18.3% compared to 2Q02. The gross margin ratio for SI deteriorated to 13.9% in 3Q02 compared to 15.5% in 3Q01, but improved from 13.3% in 2Q02.

Sales and Marketing Expenses

Sales and marketing expenses were JPY894 million in 3Q02, an increase of 21.7% compared to 3Q01 and an increase of 20.3% compared to 2Q02. These increases were a result of the increase in promotional expenses for the CDN platform services and bad debt expenses of JPY50 million for certain customers.

General and administrative expenses

General and administrative expenses were JPY512 million in 3Q02, an increase of 3.7% compared to 3Q01 but a decrease of 0.5% compared to 2Q02.

Operating loss

Primarily as a result of the decrease of Dedicated access service revenues and the increase of domestic backbone costs and sales and marketing expenses, the operating loss increased to JPY567 million in 3Q02 compared to operating income of JPY151 million in 3Q01 and a loss of JPY194 million in 2Q02. The operating income (loss)-to-revenue ratio for 3Q02 was (-)5.4%, compared to 1.5% in 3Q01, and to (-)1.8% in 2Q02.

Other expenses

Other expenses for 3Q02 were JPY228 million, compared to JPY114 million in 3Q01 and JPY160 million in 2Q02. IIJ recorded a foreign exchange loss of JPY35 million on dollar denominated monetary assets due to the appreciation of the Japanese Yen against the U.S. dollar in 3Q02. This compared to exchange gain of JPY379 million in 3Q01 and to exchange gain of JPY54 million in 2Q02. In 3Q01, IIJ recorded a JPY299 million of impairment loss on marketable equity security investment, which offset a foreign exchange gain of JPY379 million.

Income tax expense

Income tax expense for 3Q02 was JPY138 million, compared to benefit of JPY154 million in 3Q01 and an expense of JPY515 million in 2Q02. This is a result of an increase in the valuation allowance for deferred tax assets attributable primarily to the income tax effect of decreasing unrealized gains during the quarter on certain available-for-sale-securities.

Equity in net loss of equity method investees

Equity in net loss of equity method investees amounted to JPY1,375 million in 3Q02, compared to JPY1,218 million in 3Q01, and JPY1,480 million in 2Q02. This is mostly attributed to the equity loss in Crosswave.

Net loss

Net loss was JPY2,266 million in 3Q02, compared to JPY1,030 million in 3Q01 and JPY2,326 million in 2Q02. Basic net loss per ADS equivalent was JPY(-)50.40 in 3Q02, compared to JPY(-)22.91 in 3Q01 and JPY(-)51.74 in 2Q02.

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Table 5. Other Financial Statistics

(JPY in millions)

| | 3Q02 | 2Q02 | 3Q01 |
|----------------------------------------------|-------|-------|------|
| Adjusted EBITDA | 349 | 662 | 904 |
| CAPEX, including capitalized leases | 1,519 | 1,504 | 804 |
| Depreciation and amortization ⁽⁴⁾ | 943 | 884 | 783 |

⁽⁴⁾ Depreciation and amortization includes amortization of issuance cost of convertible notes.

Company Information

Founded in 1992, Internet Initiative Japan Inc. (IIJ, NASDAQ: IJJ) is Japan's leading Internet-access and comprehensive network solutions provider. 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. Services range from the delivery of new generation network services over an optical-fiber infrastructure that is optimized for data communications, to the construction of pan-Asian IP backbone networks. The company also offers high-quality systems integration and security services, internet access, hosting/housing, and content design.

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 4Q02 and fiscal year 2002 total revenues and operating 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 expectation that net losses will continue; IIJ's ability to raise additional capital to cover its accumulated deficit; IIJ's ability to continue to increase subscribers to its connectivity services, particularly at higher bandwidths; IIJ's ability to generate significant revenues from its other services such as systems integration; the success of IIJ's investments in Crosswave; the ability to compete in a rapidly evolving and competitive marketplace; the impact of technological changes in its industry; and other risks referred to from time to time in IIJ's filings on Form 20F of its annual report and other filings with the United States Securities and Exchange Commission.

Tables to follow

INTERNET INITIATIVE JAPAN INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

For the Three Months Ended Dec 31, 2002, Dec 31, 2001 and Sept 30, 2002
(Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD) Except for Per Share and ADS Data) (1)

| | Year-over-year Comparison | | | | | | Sequential Comparison | | |
|--------------------------------------------------------|---------------------------|--------------------|---------------------------|--------------------|---------------------------|------------------|-----------------------|---------------------------|---------------|
| | Dec 31, 2002 | | | Dec 31, 2001 | | | Sept 30, 2002 | | |
| | USD (1) | JPY | % of Total Revenues | JPY | % of Total Revenues | YOY Chg % | JPY | % of Total Revenues | QOQ Chg % |
| Revenues: | | | | | | | | | |
| Connectivity and value-added services: | | | | | | | | | |
| Dedicated access services(2) | 28,665 | 3,404,016 | 32.2% | 3,539,924 | 35.6% | (3.8%) | 3,546,372 | 33.6% | (4.0%) |
| Dial-up access services | 6,536 | 776,173 | 7.4 | 883,698 | 8.9 | (12.2) | 791,738 | 7.5 | (2.0) |
| Value-added services(2) | 7,690 | 913,152 | 8.6 | 812,157 | 8.2 | 12.4 | 893,135 | 8.4 | 2.2 |
| Other | 3,938 | 467,629 | 4.4 | 379,188 | 3.8 | 23.3 | 467,976 | 4.4 | (0.1) |
| Total connectivity and value-added services | 46,829 | 5,560,970 | 52.6 | 5,614,967 | 56.5 | (1.0) | 5,699,221 | 53.9 | (2.4) |
| Systems integration revenues | 31,023 | 3,683,978 | 34.9 | 3,391,122 | 34.2 | 8.6 | 3,094,168 | 29.3 | 19.1 |
| Equipment sales | 11,104 | 1,318,630 | 12.5 | 927,545 | 9.3 | 42.2 | 1,774,953 | 16.8 | (25.7) |
| Total revenues | 88,956 | 10,563,578 | 100.0 | 9,933,634 | 100.0 | 6.3 | 10,568,342 | 100.0 | 0.0 |
| Costs and expenses: | | | | | | | | | |
| Cost of connectivity and value-added services | 43,620 | 5,179,920 | 49.0 | 4,774,788 | 48.1 | 8.5 | 5,081,186 | 48.1 | 1.9 |
| Cost of systems integration revenues | 26,722 | 3,173,211 | 30.0 | 2,865,601 | 28.8 | 10.7 | 2,681,946 | 25.3 | 18.3 |
| Cost of equipment sales | 10,561 | 1,254,073 | 11.9 | 832,972 | 8.4 | 50.6 | 1,648,106 | 15.6 | (23.9) |
| Total costs | 80,903 | 9,607,204 | 90.9 | 8,473,361 | 85.3 | 13.4 | 9,411,238 | 89.0 | 2.1 |
| Sales and marketing | 7,531 | 894,340 | 8.5 | 734,623 | 7.4 | 21.7 | 743,230 | 7.0 | 20.3 |
| General and administrative | 4,308 | 511,604 | 4.9 | 493,327 | 5.0 | 3.7 | 514,082 | 4.9 | (0.5) |
| Research and development | 985 | 116,950 | 1.1 | 80,946 | 0.8 | 44.5 | 93,574 | 0.9 | 25.0 |
| Total costs and expenses | 93,727 | 11,130,098 | 105.4 | 9,782,257 | 98.5 | 13.8 | 10,762,124 | 101.8 | 3.4 |
| Operating income (loss) | (4,771) | (566,520) | (5.4) | 151,377 | 1.5 | (474.2) | (193,782) | (1.8) | 192.3 |
| Other expenses | (1,920) | (228,058) | (2.1) | (113,705) | (1.1) | 100.6 | (160,247) | (1.5) | 42.3 |
| Income(Loss) before income tax expense(benefit) | (6,691) | (794,578) | (7.5) | 37,672 | 0.4 | (2,209.2) | (354,029) | (3.3) | 124.4 |
| Income tax expense(benefit) | 1,161 | 137,936 | 1.3 | (154,239) | (1.5) | (189.4) | 514,872 | 4.9 | (73.2) |
| Minority interests in consolidated subsidiaries | 352 | 41,813 | 0.4 | (3,985) | 0.0 | (1,149.3) | 23,146 | 0.2 | 80.6 |
| Equity in net loss of equity method investees | (11,582) | (1,375,338) | (13.0) | (1,217,755) | (12.3) | 12.9 | (1,480,411) | (14.0) | (7.1) |
| Net loss | (19,082) | (2,266,039) | (21.4%) | (1,029,829) | (10.4%) | 120.0% | (2,326,166) | (22.0%) | (2.6%) |
| Basic Net Loss Per Share | | (100,802) | | (45,811) | | | (103,477) | | |
| Basic Net Loss Per ADS Equivalent | | (50.40) | | (22.91) | | | (51.74) | | |
| Weighted Average Number of Shares | | 22,480 | | 22,480 | | | 22,480 | | |
| Weighted Average Number of ADS Equivalents | | 44,960,000 | | 44,960,000 | | | 44,960,000 | | |

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Dec. 31, 2002 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 118.75 = \$1, the approximate rate of exchange on Dec 31, 2002.

Note (2): IJL datacenter connectivity services revenues have been reclassified from value added services revenues into dedicated access services revenues since the 1st quarter of FY2002. The 3rd quarter of FY2001 presented has been reclassified to conform to the current presentation and such reclassification resulted in an increase of dedicated access services revenue by Y201,554, as compared to the previous classification method.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

For the Nine Months Ended Dec 31, 2002 and Dec 31, 2001

(Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD) Except for Per Share and ADS Data) (1)

| | Year-over-year Comparison | | | | | |
|--------------------------------------------------------|---------------------------|-------------|---------------------|--------------|---------------------|-----------|
| | Dec 31, 2002 | | | Dec 31, 2001 | | |
| | USD (1) | JPY | % of Total Revenues | JPY | % of Total Revenues | YoY Chg % |
| Revenues: | | | | | | |
| Connectivity and value-added services: | | | | | | |
| Dedicated access services _{S(2)} | 88,200 | 10,473,722 | 33.8% | 10,660,201 | 38.3% | (1.7%) |
| Dial-up access services | 20,128 | 2,390,179 | 7.7 | 2,799,812 | 10.1 | (14.6) |
| Value-added services _{S(2)} | 22,497 | 2,671,448 | 8.6 | 2,276,654 | 8.2 | 17.3 |
| Other | 11,322 | 1,344,530 | 4.4 | 1,134,795 | 4.1 | 18.5 |
| Total connectivity and value-added services | 142,147 | 16,879,879 | 54.5 | 16,871,462 | 60.7 | 0.0 |
| Systems integration revenues | 85,113 | 10,107,204 | 32.6 | 9,023,339 | 32.5 | 12.0 |
| Equipment sales | 33,634 | 3,994,039 | 12.9 | 1,900,038 | 6.8 | 110.2 |
| Total revenues | 260,894 | 30,981,122 | 100.0 | 27,794,839 | 100.0 | 11.5 |
| Costs and expenses: | | | | | | |
| Cost of connectivity and value-added services | 129,294 | 15,353,621 | 49.6 | 14,689,111 | 52.9 | 4.5 |
| Cost of systems integration revenues | 74,463 | 8,842,530 | 28.5 | 7,579,795 | 27.3 | 16.7 |
| Cost of other equipment sales | 31,816 | 3,778,191 | 12.2 | 1,674,735 | 6.0 | 125.6 |
| Total costs | 235,573 | 27,974,342 | 90.3 | 23,943,641 | 86.2 | 16.8 |
| Sales and marketing | 20,101 | 2,386,931 | 7.7 | 2,373,208 | 8.5 | 0.6 |
| General and administrative | 12,994 | 1,543,002 | 5.0 | 1,359,149 | 4.9 | 13.5 |
| Research and development | 2,537 | 301,304 | 1.0 | 251,280 | 0.9 | 19.9 |
| Total costs and expenses | 271,205 | 32,205,579 | 104.0 | 27,927,278 | 100.5 | 15.3 |
| Operating loss | (10,311) | (1,224,457) | (4.0) | (132,439) | (0.5) | 824.5 |
| Other expenses | (7,656) | (909,141) | (2.9) | (605,448) | (2.2) | 50.2 |
| Loss before income tax expense | (17,967) | (2,133,598) | (6.9) | (737,887) | (2.7) | 189.1 |
| Income tax expense | 6,856 | 814,109 | 2.6 | 1,239,416 | 4.4 | (34.3) |
| Minority interests in consolidated subsidiaries | 1,111 | 131,909 | 0.4 | 33,316 | 0.1 | 295.9 |
| Equity in net loss of affiliated companies | (36,812) | (4,371,424) | (14.1) | (3,835,479) | (13.8) | 14.0 |
| Net loss | (60,524) | (7,187,222) | (23.2%) | (5,779,466) | (20.8%) | 24.4% |
| Basic Net Loss Per Share | | (319,716) | | (257,094) | | |
| Basic Net Loss Per ADS Equivalent | | (159.86) | | (128.55) | | |
| Weighted Average Number of Shares | | 22,480 | | 22,480 | | |
| Weighted Average Number of ADS Equivalents | | 44,960,000 | | 44,960,000 | | |

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the year ended Dec. 31, 2002 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 118.75 = \$1, the approximate rate of exchange on Dec 31, 2002.

Note (2): IJJ datacenter connectivity services revenues have been reclassified from value added services revenues into dedicated access services revenues since the 1st quarter of FY2002.

The 3rd quarter of FY2001 presented has been reclassified to conform to the current presentation and such reclassification resulted in an increase of dedicated access services revenues by Y503,763, as compared to the previous classification method.

INTERNET INITIATIVE JAPAN INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
As of Dec 31, 2002, Dec 31, 2001 and Sept 30, 2002
(Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD)) ⁽¹⁾

| | Dec 31, 2002 | | | Dec 31, 2001 | | Sept 30, 2002 | |
|---------------------------------------------------------------|--------------------|---------------------|---------------|---------------------|---------------|---------------------|---------------|
| | USD ⁽²⁾ | JPY | % | JPY | % | JPY | % |
| ASSETS | | | | | | | |
| Current Assets: | | | | | | | |
| Cash | 35,963 | 4,270,613 | 11.4% | 11,166,077 | 25.9% | 4,772,753 | 12.2% |
| Accounts receivable, net | 61,517 | 7,305,169 | 19.5 | 5,830,688 | 13.5 | 7,844,256 | 20.1 |
| Inventories | 6,854 | 813,863 | 2.2 | 228,063 | 0.5 | 415,771 | 1.1 |
| Prepaid expenses | 7,434 | 882,854 | 2.4 | 806,515 | 1.9 | 498,668 | 1.3 |
| Other current assets | 1,144 | 135,828 | 0.4 | 425,411 | 1.0 | 141,923 | 0.3 |
| Total current assets | 112,912 | 13,408,327 | 35.9 | 18,456,754 | 42.8 | 13,673,371 | 35.0 |
| Investments in and Advances to Equity Method Investees | 38,085 | 4,522,602 | 12.1 | 10,386,964 | 24.1 | 5,896,219 | 15.1 |
| Other Investments | 29,151 | 3,461,695 | 9.2 | 4,814,114 | 11.1 | 3,751,532 | 9.6 |
| Property and Equipment, net | 74,932 | 8,898,123 | 23.8 | 7,609,238 | 17.6 | 8,617,873 | 22.1 |
| Restricted Cash⁽²⁾ | 42,105 | 5,000,000 | 13.4 | 0 | 0.0 | 5,000,000 | 12.8 |
| Guarantee Deposits | 11,533 | 1,369,596 | 3.7 | 1,263,819 | 2.9 | 1,392,519 | 3.6 |
| Other Assets | 5,895 | 699,998 | 1.9 | 638,652 | 1.5 | 706,828 | 1.8 |
| Total assets | 314,613 | 37,360,341 | 100.0% | 43,169,541 | 100.0% | 39,038,342 | 100.0% |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | |
| Current Liabilities: | | | | | | | |
| Short-term borrowings | 37,979 | 4,510,000 | 12.1% | 3,700,214 | 8.6% | 4,832,286 | 12.4% |
| Accounts payable | 49,287 | 5,852,779 | 15.7 | 3,428,098 | 7.9 | 5,131,068 | 13.1 |
| Accrued expenses | 3,068 | 364,366 | 1.0 | 292,996 | 0.7 | 271,557 | 0.7 |
| Other current liabilities | 4,806 | 570,719 | 1.5 | 696,682 | 1.6 | 442,564 | 1.1 |
| Long-term borrowings-current portion | 10,105 | 1,200,000 | 3.2 | 1,200,000 | 2.8 | 1,400,000 | 3.6 |
| Capital lease obligations-current portion | 20,419 | 2,424,701 | 6.5 | 1,928,505 | 4.5 | 2,271,145 | 5.8 |
| Total current liabilities | 125,664 | 14,922,565 | 40.0 | 11,246,495 | 26.1 | 14,348,620 | 36.7 |
| Long-term Borrowings | 28,631 | 3,400,000 | 9.1 | 3,600,000 | 8.3 | 3,400,000 | 8.7 |
| Convertible Notes | 126,316 | 15,000,000 | 40.1 | 15,000,000 | 34.7 | 15,000,000 | 38.4 |
| Capital Lease Obligations-Noncurrent | 29,163 | 3,463,132 | 9.3 | 2,969,253 | 6.9 | 3,250,922 | 8.4 |
| Accrued Retirement and Pension Costs | 632 | 75,047 | 0.2 | 126,085 | 0.3 | 83,058 | 0.2 |
| Other Noncurrent Liabilities | 1,557 | 184,847 | 0.5 | 34,238 | 0.1 | 153,993 | 0.4 |
| Total liabilities | 311,963 | 37,045,591 | 99.2 | 32,976,071 | 76.4 | 36,236,593 | 92.8 |
| Minority Interest | 7,586 | 900,837 | 2.4 | 1,023,897 | 2.4 | 942,650 | 2.4 |
| Shareholders' Equity: | | | | | | | |
| Common stock | 59,641 | 7,082,336 | 18.9 | 7,082,336 | 16.4 | 7,082,336 | 18.1 |
| Additional paid-in capital | 143,733 | 17,068,353 | 45.7 | 17,068,353 | 39.5 | 17,068,353 | 43.7 |
| Accumulated deficit | (213,859) | (25,395,691) | (68.0) | (16,541,800) | (38.3) | (23,129,652) | (59.2) |
| Accumulated other comprehensive income | 5,549 | 658,915 | 1.8 | 1,560,684 | 3.6 | 838,062 | 2.2 |
| Total shareholders' equity | (4,936) | (586,087) | (1.6) | 9,169,573 | 21.2 | 1,859,099 | 4.8 |
| Total liabilities and shareholders' equity | 314,613 | 37,360,341 | 100.0% | 43,169,541 | 100.0% | 39,038,342 | 100.0% |

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to Dec. 31, 2002 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY118.75 = \$1, the approximate rate of exchange on Dec 31, 2002.

Note (2): At the end of May, 2002, IJ deposited ¥5 billion into a restricted account with a participating bank under Cash Deficiency Support Agreement with Crosswade and four Japanese commercial banks.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Three Months Ended Dec 31, 2002, Dec 31, 2001 and Sept 30, 2002

(Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD))(1)

| | Dec 31, 2002 | | Dec 31, 2001 | Sept 30, 2002 |
|----------------------------------------------------------------------|----------------|--------------------|-------------------|--------------------|
| | USD (1) | JPY | JPY | JPY |
| Operating Activities: | | | | |
| Net loss | (19,083) | (2,266,039) | (1,029,829) | (2,326,166) |
| Depreciation and amortization | 7,940 | 942,854 | 783,194 | 883,732 |
| Equity in net loss of equity method investees | 11,582 | 1,375,338 | 1,217,755 | 1,480,411 |
| Minority interests in net (loss) income of consolidated subsidiaries | (352) | (41,813) | 3,985 | (23,146) |
| Foreign exchange losses (gains) | 276 | 32,834 | (379,315) | (39,060) |
| Losses on other investments | - | - | 299,428 | 13,620 |
| Decrease (increase) in accounts receivable | 4,160 | 493,961 | 175,291 | (972,056) |
| Increase (decrease) in accounts payable | 8,707 | 1,033,939 | (1,103,244) | 7,462 |
| Decrease (increase) in inventories | (3,352) | (398,092) | 784,340 | (142,950) |
| Deferred income taxes | 1,113 | 132,230 | (159,611) | 509,228 |
| Other | (446) | (52,956) | (8,113) | (8,051) |
| Net cash provided by (used in) operating activities | 10,545 | 1,252,256 | 583,881 | (616,976) |
| Investing Activities: | | | | |
| Purchase of property and equipment | (4,254) | (505,169) | (162,852) | (222,308) |
| Investments in and advances to equity method investees | - | - | (17,497) | - |
| Purchase of other investments | (239) | (28,377) | - | (33,294) |
| (Payment) refund of guarantee deposits-net | 194 | 22,972 | (373,471) | (87,518) |
| Other | (257) | (30,506) | (7,718) | 2,953 |
| Net cash used in investing activities | (4,556) | (541,080) | (561,538) | (340,167) |
| Financing Activities: | | | | |
| Repayments of long-term borrowings | (1,684) | (200,000) | - | - |
| Principal payments under capital leases | (5,487) | (651,546) | (530,423) | (601,144) |
| Net increase (decrease) in short-term borrowings | (2,714) | (322,254) | (70,231) | 282,164 |
| Net cash used in financing activities | (9,885) | (1,173,800) | (600,654) | (318,980) |
| Effect of Exchange Rate Changes on Cash | (333) | (39,516) | 332,421 | 34,183 |
| Net Decrease in Cash | (4,229) | (502,140) | (245,890) | (1,241,940) |
| Cash, Beginning of Period | 40,192 | 4,772,753 | 11,411,967 | 6,014,693 |
| Cash, End of Period | 35,963 | 4,270,613 | 11,166,077 | 4,772,753 |

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Dec. 31, 2002 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY118.75 = \$1, the approximate rate of exchange on Dec 31, 2002.