

Internet Initiative Japan Inc.

<http://www.ij.ad.jp/en/>



For Immediate Release

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**IIJ Announces Fourth Quarter and Full Fiscal Year Results for the
Year Ending March 31, 2004**

- Gross-Margin Expansion Leads the Way Toward Profitability -

Tokyo, May 14, 2004 / New York, May 13, 2004 - Internet Initiative Japan Inc. (Nasdaq: IIJIE) ("IIJ"), one of Japan's leading Internet access and comprehensive network solutions providers, today announced its financial results for the fourth quarter and full fiscal year ending March 31, 2004 ("FY 2003").¹

Highlights of fourth quarter FY2003 results:

- Revenues totaled JPY 11,617 million (\$ 111.5 million), an increase of 20.6% compared to 3Q03 and a decrease of 10.9% compared to 4Q02.
- Operating income was JPY 350 million (\$ 3.4 million), an increase of 48.3% from JPY 236 million in 3Q03 (which 3Q03 amount included the JPY 71 million of accounts receivable from Crosswave Communications Inc. ("Crosswave") that became collectible after previously being written-off), and a turnaround from an operating loss of JPY 446 million in 4Q02. The increase compared to 3Q03 reflects the increased revenues from our high-margin Systems Integration ("SI") services. The increase compared to 4Q02 reflects increased profitability of our SI services.
- Adjusted EBITDA² was JPY 1,358 million (\$ 13.0 million), an increase of 11.5% from an adjusted EBITDA of JPY 1,218 million in 3Q03 and JPY 459 million in 4Q02.
- Net income was JPY 669 million (\$ 6.4 million), a decrease from JPY 1,979 million in 3Q03 which amount included a special gain of JPY 1,572 million that was generated by the sale of an equity investment, and a substantial improvement from the net loss of JPY 9,290 million in 4Q02.

Highlights of full FY2003 results:

- Revenues totaled JPY 39 billion (\$ 372.2 million), a decrease of 11.9% from FY2002. The decrease largely reflects the first half of FY2003 decline in SI service and equipment sales revenues, which were adversely affected by weak corporate investment in Japan in that period.
- Operating loss of JPY 1.4 billion (\$ 13.9 million), an improvement from an operating loss of JPY 1.7 billion in FY2002. Positive operating income in 3Q03 and 4Q03 were not sufficient to cover the first half year's operating loss.
- Net loss was JPY 105 million (\$ 1.0 million), a significant improvement from JPY 16,477 million in FY2002 when net loss was negatively impacted by losses associated with our investment in Crosswave. Other factors affecting the improvement from FY2002 include positive operating income for the second half of FY2003, a special gain from the sale of an equity investment and income tax benefits associated with increased unrealized gains from certain available-for-sales securities.
- As a result of ongoing efforts to increase profitability throughout the Company, we expect yearly operating and net income to turn positive in FY2004.

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 4Q03 and full FY2003 results, 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 JPY 104.18 = US\$1.00, the approximate exchange rate on March 31, 2004.

² Please refer to the Reconciliation of Non-GAAP Financial Measures on page 5.

Overview of Fourth Quarter and Full FY2003 Financial Results and Business Outlook³

"I am pleased to report that IJ returned to profitability in the second half of FY2003," said Koichi Suzuki, President and CEO of IJ. "Although the total revenue for FY2003 did not reach the level of FY2002 due to weak corporate investment and slow economic recovery in the first half, we achieved positive operating and net income in the second half largely as a result of our strategic focus on high margin SI and Value Added Services ("VAS") such as Internet security services and virtual private networks ("VPNs"). We believe that this strategy has successfully countered the negative impact of Crosswave's commencement of corporate reorganization in the first half of FY2003 and that we are now firmly positioned for sustained and profitable growth."

President Suzuki continued, "Japan's economy is recovering and corporate IT investment has increased in the second half of FY2003. Broad economic growth, coupled with rapidly increasing demand by our enterprise customers for valued added and network services, such as security and operational outsourcing, provided good conditions for resumption in revenue growth. In this environment, we will continue to develop new high margin services for Japan's increasingly complicated, and critical, networked economy. By doing so, we hope to strengthen profitability and are expecting yearly operating and net income to be positive in FY2004."

"Gross-margins for all of our business lines increased from the fourth quarter of FY2002 due to an increased emphasis on high margin products and services, as well as across-the-board cost reductions and internal efficiency improvements," said Yasuhiro Nishi, CFO of IJ. "Connectivity and VAS gross-margin expansion reflects our reduction of Internet backbone costs by JPY 516 million in FY2003 and increased revenue from high margin VAS. SI service gross-margin increased due to our successful efforts to secure profitable SI contracts, of which a substantial amount are network-related."

Revenues

Revenues in 4Q03 totaled JPY 11,617 million, a decrease of 10.9% from JPY 13,036 million in 4Q02 and an increase of 20.6% from JPY 9,633 million in 3Q03.

Table 1. Revenues (JPY in millions)

Revenues	4Q03	4Q02	YoY % change	3Q03	QoQ % change
Connectivity and value-added services:					
Dedicated access services	3,100	3,341	(7.2%)	3,204	(3.2%)
Dial-up access services	758	765	(0.9%)	780	(2.8%)
Total Connectivity Services	3,858	4,106	(6.0%)	3,984	(3.1%)
Value-added services	1,104	931	18.5%	1,125	(1.9%)
Other	537	381	40.8%	525	2.2%
Total Connectivity and value-added services	5,499	5,419	1.5%	5,633	(2.4%)
Systems integration revenues	4,001	4,905	(18.4%)	2,889	38.5%
Equipment sales	2,117	2,712	(21.9%)	1,111	90.6%
Total revenues	11,617	13,036	(10.9%)	9,633	20.6%

Connectivity and VAS revenues were JPY 5,499 million in 4Q03, an increase of 1.5% from JPY 5,419 million in 4Q02 and a decrease of 2.4% from JPY 5,633 million in 3Q03.

³ This Overview and Business Outlook contains forward-looking statements and projections such as statements regarding FY2004 operating and net 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 IJ's filings on Form 20-F and Form 6-K, as well as other filings and documents furnished to the Securities and Exchange Commission. IJ plans to keep this press release publicly available on its Web site (www.ij.ad.jp), but may discontinue this practice at any time. IJ intends to publish its next Overview and Business Outlook in its 1Q04 earnings release, presently scheduled for August 2004.

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Table 2. Connectivity Services (JPY in millions)

Connectivity Services	4Q03	4Q02	YoY % change	3Q03	QoQ % change
Dedicated access services:					
IP Service + DC (connectivity)	2,423	2,518	(3.8%)	2,485	(2.5%)
Others ⁴	677	823	(17.7%)	719	(5.8%)
Total Dedicated Access Services	3,100	3,341	(7.2%)	3,204	(3.2%)

Dedicated access service revenues were JPY 3,100 million in 4Q03, a decrease of 7.2% compared to 4Q02 and a decrease of 3.2% compared to 3Q03. IP Service, including Data Center Connectivity services, decreased by 3.8% in 4Q03 compared to 4Q02 and decreased by 2.5% compared to 3Q03, mainly due to the cancellation of service by a regional electric power company's telecom service arm. IJ FiberAccess/F Service revenue, which is included in Others, substantially increased compared to 4Q02 and steadily increased compared to 3Q03, however, the increase did not offset the revenue decreases in IJ T1 Standard and IJ Economy Service, which are also included in Others.

Table 3. Number of Contracts

	4Q03	4Q02	3Q03
IP Services			
64kbps – 128kbps	73	112	76
192kbps – 768kbps	20	35	22
1Mbps – 2Mbps	218	268	226
3Mbps – 1.2Gbps	427	248	381
Number of Contracts of DC Connectivity Services	196	156	188
Other	6,292	4,489	5,991
Total Dedicated Access Services	7,226	5,308	6,884
IJ4U (Dial-up access services for retail market)	67,105	79,464	69,688
Other Dial-Up Access Services	628,762	450,320	597,232
Total Dial-Up Access Services	695,867	529,784	666,920

Table 4. Number of Contract Bandwidth (Unit: Gbps)

	4Q03	4Q02	3Q03
Dedicated Access Services	64.5	32.1	60.3
DC Connectivity Services	15.6	9.9	15.5
Total Contract Bandwidth	80.1	42.0	75.8

Dial-up access service revenues were JPY 758 million in 4Q03, a decrease of 0.9% compared to 4Q02 and a decrease of 2.8% compared to 3Q03. For dial-up services for individual customers, the decrease in IJ4U service revenues was offset by the revenue growth of Original Equipment Manufacturer services, including the CDN ("Contents Delivery Network") platform and NTT's regional L-mode service. However, dial-up service revenues for corporate customers decreased due to an increase in their demand for lower-cost broadband services.

Table 5. Value-added Services (JPY in millions)

Value-Added Services	4Q03	4Q02	YoY % change	3Q03	QoQ % change
Internet Data Center services	324	341	(5.2%)	373	(13.1%)
Other value-added services	780	590	32.2%	752	3.7%
Total Value-Added Service Revenues	1,104	931	18.5%	1,125	(1.9%)

⁴ Others are IJ FiberAccess/F Service, IJ Ether Standard, IJ DSL/F Service, IJ T1 Standard and IJ Economy Service.

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VAS revenues were JPY 1,104 million in 4Q03, an increase of 18.5% compared to 4Q02 but a decrease of 1.9% compared to 3Q03. Internet Data Center services decreased by 5.2% compared to 4Q02 and by 13.1% compared to 3Q03. The revenue decrease from 3Q03 was mainly due to the absence in 4Q03 of "one-time" revenues associated with the construction of special facilities for large customers.

Systems Integration services revenues decreased 18.4% to JPY 4,001 million in 4Q03 from JPY 4,905 million in 4Q02 and increased 38.5% from JPY 2,889 million in 3Q03.

Equipment sales revenues were JPY 2,117 million in 4Q03, a decrease of 21.9% compared to 4Q02 and an increase of 90.6% compared to 3Q03.

Cost and expenses

Cost of revenues was JPY 9,915 million in 4Q03, a decrease of 16.8% compared to 4Q02 and an increase of 22.0% compared to 3Q03.

Table 6. Costs and Expenses (JPY in millions)

Costs and expenses:	4Q03	4Q02	YoY % change	3Q03	QoQ % change
Cost of Revenues:					
Cost of connectivity and value-added services	4,810	5,033	(4.4%)	4,877	(1.4%)
Cost of systems integration	3,054	4,248	(28.1%)	2,198	38.9%
Cost of equipment sales	2,051	2,638	(22.3%)	1,050	95.4%
Total of Cost of Revenues	9,915	11,919	(16.8%)	8,125	22.0%
Sales and marketing	756	789	(4.2%)	699	8.2%
General and administrative	518	662	(21.7%)	486	6.5%
Research and development	78	113	(30.2%)	87	(9.4%)
Total costs and expenses	11,267	13,483	(16.4%)	9,397	19.9%

Cost of Connectivity and VAS was JPY 4,810 million, a decrease of 4.4% compared to 4Q02 and a decrease of 1.4% compared to 3Q03. The gross-margin ratio for Connectivity and VAS in 4Q03 was 12.5%, compared to 7.1% in 4Q02 and 13.4% in 3Q03. The improvement in gross-margin since 4Q02 was largely the result of our continuous efforts to reduce Internet backbone costs.

Table 7. Backbone Costs (JPY in millions)

Backbone Costs	4Q03	4Q02	YoY % Change	3Q03	QoQ % Change
International Backbone Costs	165	315	(47.7%)	156	5.7%
Domestic Backbone Costs	902	1,075	(16.1%)	939	(3.8%)

International backbone costs were JPY 165 million, a decrease of 47.7% compared to 4Q02 and an increase of 5.7% compared to 3Q03 as we benefited from our on-going efforts to optimize our network.

Domestic backbone costs were JPY 902 million, a decrease of 16.1% compared to 4Q02 and a decrease of 3.8% compared to 3Q03. These decreases reflect a decline in backbone prices, which offset an increase in connection fees with NTT's regional access networks (FLET'S).

Cost of SI service revenues was JPY 3,054 million in 4Q03, a decrease of 28.1% compared to 4Q02 and an increase of 38.9% compared to 3Q03. The gross margin for SI was 23.7% in 4Q03 compared to 13.4% in 4Q02 and 23.9% in 3Q03. The year-over-year improvement in gross-margin was the result of the increased profitability of SI development contracts and higher consulting fees for network services.

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Sales and marketing expenses were JPY 756 million in 4Q03, a decrease of 4.2% compared to 4Q02 reflecting a reduction in advertising expenses. Sales and marketing expenses increased of 8.2% compared to 3Q03 primarily as the result of inclusion in 3Q03 of JPY 71 million of income as a result of the reversal of allowance for doubtful receivables from Crosswave.

General and administrative expenses were JPY 518 million in 4Q03, a decrease of 21.7% compared to 4Q02 and an increase of 6.5% compared to 3Q03. The expense decrease from 4Q02 reflects the absence in 4Q03 of costs associated with our move into a new office.

Operating income (loss)

Operating income was JPY 350 million in 4Q03, compared to an operating loss of JPY 446 million in 4Q02 and operating income of JPY 236 million in 3Q03. The improvement from 4Q02 is due to an increase in SI service profitability. The improvement from 3Q03 is due to an increase in SI service revenue.

Other expenses for 4Q03 was JPY 226 million, compared to Other Expenses of JPY 360 million in 4Q02 and Other Income of JPY 1,570 million in 3Q03. The income in 3Q03 included a special gain on the sale of an equity investment, which amounted to JPY 1,572 million.

Income tax benefit (expense) for 4Q03 was a benefit of JPY 891 million, compared to an expense of JPY 97 million in 4Q02 and a benefit of JPY 280 million in 3Q03. The increase compared to 4Q02 and 3Q03 is due to a decrease in the valuation allowance for deferred tax assets, which decrease is primarily attributable to the income tax effect of increased unrealized gains during the quarter on certain available-for-sale securities.

Equity in net loss of equity method investees amounted to JPY 189 million in 4Q03, compared to JPY 8,407 million in 4Q02, and JPY 58 million in 3Q03. The year-over-year improvement largely reflects the absence of losses associated with our previous equity investment in Crosswave.

Net income was JPY 669 million in 4Q03, compared to a net loss of JPY 9,290 million in 4Q02 and net income of JPY 1,979 million in 2Q03. The year-over-year improvement largely reflects the absence of losses associated with our previous equity investment in Crosswave and an increase in revenue from high margin business lines. The quarter-over-quarter improvement is the result of positive operating income and the income tax effect of increases in unrealized gains during the quarter on certain available-for-sale securities. Basic net income per ADS equivalent was JPY 8.73 in 4Q03, compared to a net loss of JPY 206.62 in 4Q02 and JPY 25.83 in 3Q03.

Table 8. Other Financial Statistics (JPY in millions)

Other Financial Statistics	4Q03	4Q02	YoY % Change	3Q03	QoQ % Change
Adjusted EBITDA ⁵	1,358	459	195.5%	1,218	11.5%
CAPEX, including capitalized leases ⁶	1,014	936	8.4%	508	99.6%
Depreciation and amortization ⁷	1,030	933	10.4%	1,004	2.6%

Reconciliation of Non-GAAP Financial Measures

The following table summarizes the reconciliation of adjusted EBITDA to net income according to the consolidated statements of operations that are prepared and presented in accordance with U.S. generally accepted accounting principles in Appendix 1:

⁵ Please refer to the Reconciliation of Non-GAAP Financial Measures below.

⁶ Please refer to the Reconciliation of Non-GAAP Financial Measures below.

⁷ Depreciation and amortization includes amortization of issuance cost of convertible notes.

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Table 9. Adjusted EBITDA (JPY in millions)

	4Q03	4Q02	3Q03
Adjusted EBITDA	1,358	459	1,218
Depreciation and amortization ⁸	(1,008)	(905)	(982)
Operating income (loss)	350	(446)	236
Other income (expenses)	(226)	(361)	1,570
Income tax expense (benefit)	(891)	97	(280)
Minority interests in consolidated subsidiaries	(157)	21	(49)
Equity in net income (loss) of equity method investees	(189)	(8,407)	(58)
Net income (loss)	669	(9,290)	1,979

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 in accordance with U.S. generally accepted accounting principles in Appendix 4:

Table 10. CAPEX (JPY in millions)

	4Q03	4Q02	3Q03
Capital expenditures	1,014	936	508
Acquisition of assets by entering into capital leases	778	772	168
Purchase of property and equipment	236	164	340

Fourth Quarter FY2003 Business Review

Key Service Developments

Enhancement of managed firewall services:

In April 2004, IIJ enhanced its two Internet security managed firewall services. "IIJ Security Light Service", a low-cost service for small- and medium-sized enterprises ("SMEs"), has been enhanced to allow for increased broadband usage by SMEs in Japan. "IIJ Security Standard," a standard service for corporate customers, has been enhanced to provide greater reliability.

Anti-virus and spam movements:

Since the start of FY2003, IIJ has increased its involvement with industry groups formed to combat Internet viruses and spam. IIJ and IIJ America participated in founding the Messaging Anti Abuse Working Group and attended the December 2003 kick-off meeting. This group, which is composed of 19 international telecommunications companies, ISPs, and related businesses, is aimed at developing measures to combat spam e-mails and other unethical uses of the Internet. Additionally, on April 27, 2004, IIJ announced that it had joined the Japan Messaging User Group ("JMUG"), a working group established in Japan to discuss ways of implementing countermeasures against spam, viruses, and other Internet messaging related issues.

Network Infrastructure Developments

In 4Q03, IIJ continued to develop its Internet backbone in order to maintain the network quality that it provides to its customers. This quarter, IIJ installed one new circuit and upgraded one pre-existing circuit for the international backbone. For the domestic backbone, IIJ installed one new circuit and upgraded two pre-existing circuits. IIJ considered cost effectiveness and overall profitability in undertaking these upgrades.

⁸ Depreciation and amortization excludes amortization of issuance cost of convertible notes that was presented as other expenses.

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Key Developments of the IJ Group

Enhancement on security solutions:

On April 26, 2004, IJ announced that IJ-Tech introduced Security Check-up Service. Security Check-up Service evaluates the overall security level of corporate e-mail systems and provides a diagnostic analysis of potential emerging threats. The service is targeted to customers that do not require a full instant diagnosis but require an initial glimpse and a thorough "check-up" of the security level of a company, which will be provided within approximately two weeks.

Teleconference/Webcast

On May 14 at 9:00 am (ET), IJ will host a conference call to discuss the Company's results and outlook. There will be a simultaneous webcast available at www.vcall.com. A replay will also be available at the same URL.

About Internet Initiative Japan Inc.

Founded in 1992, Internet Initiative Japan Inc. (IJ, NASDAQ: IJIE) 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. IJ 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 IJ's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding FY2004 operating and net profitability, are subject to various risks, uncertainties and other factors that could cause IJ's actual results to differ materially from those contained in any forward-looking statement. These risks, uncertainties and other factors include: IJ's expectation that net losses will continue or may increase; IJ's ability to raise additional capital to cover its accumulated deficit; IJ's ability to continue to increase subscribers to its connectivity services, particularly at higher bandwidths; IJ's ability to generate significant revenues from its other services such as systems integration; 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 IJ's filings on Form 20-F 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 Mar 31, 2004, Mar 31, 2003 and Dec 31, 2003

(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		
	Mar 31, 2004			Mar 31, 2003			Dec 31, 2003		
	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	29,760	3,100,452	26.7%	3,341,255	25.6%	(7.2%)	3,204,046	33.3%	(3.2%)
Dial-up access services	7,275	757,947	6.5	764,958	5.9	(0.9)	779,544	8.1	(2.8)
Value-added services	10,593	1,103,558	9.5	931,399	7.2	18.5	1,124,596	11.7	(1.9)
Other	5,151	536,590	4.6	381,206	2.9	40.8	525,106	5.4	2.2
Total connectivity and value-added services	<u>52,779</u>	<u>5,498,547</u>	<u>47.3</u>	<u>5,418,818</u>	<u>41.6</u>	<u>1.5</u>	<u>5,633,292</u>	<u>58.5</u>	<u>(2.4)</u>
Systems integration revenues	38,409	4,001,449	34.5	4,905,429	37.6	(18.4)	2,888,936	30.0	38.5
Equipment sales	20,321	2,117,006	18.2	2,712,192	20.8	(21.9)	1,110,927	11.5	90.6
Total revenues	<u>111,509</u>	<u>11,617,002</u>	<u>100.0</u>	<u>13,036,439</u>	<u>100.0</u>	<u>(10.9)</u>	<u>9,633,155</u>	<u>100.0</u>	<u>20.6</u>
Costs and expenses:									
Cost of connectivity and value-added services	46,169	4,809,831	41.4	5,033,266	38.6	(4.4)	4,876,741	50.6	(1.4)
Cost of systems integration revenues	29,314	3,053,962	26.3	4,247,690	32.6	(28.1)	2,198,668	22.8	38.9
Cost of equipment sales	19,686	2,050,923	17.6	2,638,334	20.2	(22.3)	1,049,663	10.9	95.4
Total costs	<u>95,169</u>	<u>9,914,716</u>	<u>85.3</u>	<u>11,919,290</u>	<u>91.4</u>	<u>(16.8)</u>	<u>8,125,072</u>	<u>84.3</u>	<u>22.0</u>
Sales and marketing	7,256	755,928	6.5	789,234	6.0	(4.2)	698,948	7.3	8.2
General and administrative	4,971	517,884	4.5	661,502	5.1	(21.7)	486,332	5.1	6.5
Research and development	756	78,786	0.7	112,845	0.9	(30.2)	86,966	0.9	(9.4)
Total costs and expenses	<u>108,152</u>	<u>11,267,314</u>	<u>97.0</u>	<u>13,482,871</u>	<u>103.4</u>	<u>(16.4)</u>	<u>9,397,318</u>	<u>97.6</u>	<u>19.9</u>
Operating income(loss)	<u>3,357</u>	<u>349,688</u>	<u>3.0</u>	<u>(446,432)</u>	<u>(3.4)</u>	<u>(178.3)</u>	<u>235,837</u>	<u>2.4</u>	<u>48.3</u>
Other income(expenses)	<u>(2,170)</u>	<u>(226,045)</u>	<u>(1.9)</u>	<u>(360,292)</u>	<u>(2.8)</u>	<u>(37.3)</u>	<u>1,569,957</u>	<u>16.3</u>	<u>(114.4)</u>
Income(Loss) before income tax expense(benefit)	<u>1,187</u>	<u>123,643</u>	<u>1.1</u>	<u>(806,724)</u>	<u>(6.2)</u>	<u>(115.3)</u>	<u>1,805,794</u>	<u>18.7</u>	<u>(93.2)</u>
Income tax expense(benefit)	<u>(8,552)</u>	<u>(890,928)</u>	<u>(7.7)</u>	<u>97,256</u>	<u>0.8</u>	<u>(1,016.1)</u>	<u>(280,406)</u>	<u>(2.9)</u>	<u>217.7</u>
Minority interests in consolidated subsidiaries	<u>(1,510)</u>	<u>(157,295)</u>	<u>(1.4)</u>	<u>21,342</u>	<u>0.2</u>	<u>(837.0)</u>	<u>(48,710)</u>	<u>(0.5)</u>	<u>222.9</u>
Equity in net loss of equity method investees:									
Equity method net loss	(1,810)	(188,577)	(1.6)	(1,253,875)	(9.6)	(85.0)	(58,354)	(0.6)	223.2
Impairment loss on investment and deposits for Crosswave				(7,153,087)	(54.9)	0.0			
Net income(loss)	<u>6,419</u>	<u>668,699</u>	<u>5.8%</u>	<u>(9,289,600)</u>	<u>(71.3%)</u>	<u>(107.2%)</u>	<u>1,979,136</u>	<u>20.5%</u>	<u>(66.2%)</u>
Basic Net Income(Loss) Per Share		17,454		(413,238)			51,658		
Basic Net Income(Loss) Per ADS Equivalent		8.73		(206.62)			25.83		
Weighted Average Number of Shares		38,312		22,480			38,312		
Weighted Average Number of ADS Equivalents		76,623,702		44,960,000			76,623,702		

Note (1): The translation of Japanese yen amounts into US dollar amounts with respect to the three months ended Mar 31, 2004 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 104.18 = \$1, the approximate rate of exchange on Mar 31, 2004.

CONSOLIDATED STATEMENTS OF OPERATIONS(UNAUDITED)

For the Years Ended Mar 31, 2004 and Mar 31, 2003

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

	Year-over-year Comparison					
	Mar 31, 2004			Mar 31, 2003		
	USD (1)	JPY	% of Total Revenues	JPY	% of Total Revenues	YoY Chg %
Revenues:						
Connectivity and value-added services:						
Dedicated access services	123,461	12,862,132	33.2%	13,814,977	31.4%	(6.9%)
Dial-up access services	29,646	3,088,498	8.0	3,155,137	7.2	(2.1)
Value-added services	41,238	4,296,228	11.1	3,602,847	8.2	19.2
Other	20,328	2,117,794	5.4	1,725,736	3.9	22.7
Total connectivity and value-added services	214,673	22,364,652	57.7	22,298,697	50.7	0.3
Systems integration revenues	113,723	11,847,687	30.5	15,012,633	34.1	(21.1)
Equipment sales	43,839	4,567,123	11.8	6,706,231	15.2	(31.9)
Total revenues	372,235	38,779,462	100.0	44,017,561	100.0	(11.9)
Costs and expenses:						
Cost of connectivity and value-added services	192,431	20,047,438	51.7	20,386,887	46.3	(1.7)
Cost of systems integration revenues	94,564	9,851,726	25.4	13,090,220	29.7	(24.7)
Cost of other equipment sales	41,719	4,346,243	11.2	6,416,525	14.6	(32.3)
Total costs	328,714	34,245,407	88.3	39,893,632	90.6	(14.2)
Sales and marketing	33,859	3,527,490	9.1	3,176,165	7.2	11.1
General and administrative	20,143	2,098,481	5.4	2,204,504	5.0	(4.8)
Research and development	3,436	357,968	0.9	414,149	1.0	(13.6)
Total costs and expenses	386,152	40,229,346	103.7	45,688,450	103.8	(11.9)
Operating loss	(13,917)	(1,449,884)	(3.7)	(1,670,889)	(3.8)	(13.2)
Other income(expenses)	9,428	982,220	2.5	(1,269,433)	(2.9)	(177.4)
Loss before income tax expense(benefit)	(4,489)	(467,664)	(1.2)	(2,940,322)	(6.7)	(84.1)
Income tax expense(benefit)	(20,474)	(2,133,011)	(5.5)	911,365	2.1	(334.0)
Minority interests in consolidated subsidiaries	2,264	235,812	0.6	153,251	0.4	53.9
Equity in net loss of equity method investees:						
Equity method net loss	(2,748)	(286,317)	(0.8)	(5,625,299)	(12.8)	(94.9)
Impairment loss on investment, advances and deposits for Crosswave	(16,510)	(1,719,981)	(4.4)	(7,153,087)	(16.2)	(76.0)
Net loss	(1,009)	(105,139)	(0.3%)	(16,476,822)	(37.4%)	(99.4%)
Basic Net Loss Per Share		(3,316)		(732,955)		
Basic Net Loss Per ADS Equivalent		(1.66)		(366.48)		
Weighted Average Number of Shares		31,711		22,480		
Weighted Average Number of ADS Equivalents		63,421,571		44,960,000		

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the year ended Mar 31, 2004 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 104.18 = \$1, the approximate rate of exchange on Mar 31, 2004.

INTERNET INITIATIVE JAPAN INC.
CONSOLIDATED BALANCE SHEETS(UNAUDITED)

Appendix 3

As of Mar 31, 2004, Mar 31, 2003 and Dec 31, 2003
(Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD)) (1)

	Mar 31, 2004			Mar 31, 2003		Dec 31, 2003	
	USD (1)	JPY	%	JPY	%	JPY	%
ASSETS							
Current Assets:							
Cash and cash equivalent	117,914	12,284,239	28.7%	3,588,352	11.2%	12,140,595	31.5%
Accounts receivable, net	86,333	8,994,156	21.1	10,253,096	32.0	6,640,226	17.3
Inventories	4,208	438,435	1.0	417,666	1.3	196,252	0.5
Prepaid expenses	5,353	557,703	1.3	564,501	1.7	875,338	2.3
Other current assets	3,124	325,422	0.8	932,873	2.9	391,766	1.0
Total current assets	216,932	22,599,955	52.9	15,756,488	49.1	20,244,177	52.6
Investments in and Advances to Equity Method Investees	7,469	778,152	1.8	1,116,020	3.5	1,024,126	2.7
Other Investments	76,136	7,931,893	18.6	3,040,189	9.5	5,821,912	15.1
Property and Equipment, net	82,568	8,601,905	20.1	9,151,572	28.5	8,448,327	22.0
Guarantee Deposits	19,919	2,075,123	4.9	2,205,652	6.9	2,076,387	5.4
Other Assets	7,198	749,897	1.7	794,455	2.5	849,954	2.2
Total assets	410,222	42,736,925	100.0%	32,064,376	100.0%	38,464,883	100.0%
LIABILITIES AND SHAREHOLDERS' EQUITY(CAPITAL DEFICIENCY)							
Current Liabilities:							
Short-term borrowings	63,007	6,564,093	15.4%	4,823,599	15.0%	6,764,410	17.6%
Accounts payable	68,996	7,187,976	16.8	8,406,170	26.2	4,611,586	12.0
Accrued expenses	4,361	454,366	1.1	389,495	1.2	513,996	1.3
Other current liabilities	4,645	483,925	1.1	551,985	1.7	594,974	1.5
Long-term borrowings-current portion	14,861	1,548,246	3.6	1,943,735	6.1	1,947,309	5.1
Capital lease obligations-current portion	22,920	2,387,754	5.6	2,716,386	8.5	2,415,596	6.3
Total current liabilities	178,790	18,626,360	43.6	18,831,370	58.7	16,847,871	43.8
Long-term Borrowings	22,154	2,308,019	5.4	3,456,265	10.8	1,945,434	5.0
Convertible Notes	113,573	11,832,000	27.7	15,000,000	46.8	11,832,000	30.7
Capital Lease Obligations-Noncurrent	27,647	2,880,298	6.7	3,635,780	11.3	2,801,993	7.3
Accrued Retirement and Pension Costs	698	72,687	0.2	80,601	0.3	67,557	0.2
Other Noncurrent Liabilities	1,547	161,122	0.4	185,201	0.6	180,329	0.5
Total liabilities	344,409	35,880,486	84.0	41,189,217	128.5	33,675,184	87.5
Minority Interest	6,165	642,311	1.5	879,495	2.7	486,388	1.3
Shareholders' Equity(Capital Deficiency):							
Common stock	132,131	13,765,372	32.2	7,082,336	22.1	13,765,372	35.8
Additional paid-in capital	226,892	23,637,628	55.3	17,068,353	53.2	23,637,628	61.5
Accumulated deficit	(333,946)	(34,790,430)	(81.4)	(34,685,291)	(108.2)	(35,459,129)	(92.2)
Accumulated other comprehensive income	34,993	3,645,558	8.5	530,266	1.7	2,359,503	6.1
Treasury stock	(422)	(44,000)	(0.1)			(63)	0.0
Total shareholders' equity(capital deficiency)	59,648	6,214,128	14.5	(10,004,336)	(31.2)	4,303,311	11.2
Total liabilities and shareholders' equity(capital deficiency)	410,222	42,736,925	100.0%	32,064,376	100.0%	38,464,883	100.0%

Note (1): The translation of Japanese yen amounts into US dollar amounts with respect to Mar 31, 2004 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY104.18 = \$1, the approximate rate of exchange on Mar 31, 2004.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Three Months Ended Mar 31, 2004, Mar 31, 2003 and Dec 31, 2003

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

	Mar 31, 2004		Mar 31, 2003	Dec 31, 2003
	USD (1)	JPY	JPY	JPY
Operating Activities:				
Net income (loss)	6,419	668,699	(9,289,600)	1,979,136
Depreciation and amortization	9,888	1,030,162	933,374	1,004,236
Provision for doubtful accounts	265	27,587	30,866	(40,428)
Equity method net loss	1,810	188,577	1,253,875	58,354
Impairment loss on investment in and deposits for Crosswave	-	-	7,153,087	-
Minority interests in net income (loss) of consolidated subsidiaries	1,510	157,295	(21,342)	48,710
Foreign exchange losses (gains)	(131)	(13,682)	149,262	12,279
Gain on retirement of convertible notes	-	-	-	(88,975)
Net losses (gains) on other investments	407	42,352	184,723	(1,532,033)
Decrease (increase) in accounts receivable	(23,838)	(2,483,404)	(2,983,254)	138,452
Increase (decrease) in accounts payable	22,968	2,392,795	2,200,392	(70,261)
Decrease (increase) in inventories	(2,354)	(245,201)	392,051	72,267
Deferred income taxes	(8,680)	(904,221)	91,486	(286,208)
Other	3,798	395,710	395,418	(209,740)
Net cash provided by operating activities	12,062	1,256,669	490,338	1,085,789
Investing Activities:				
Purchase of property and equipment	(2,266)	(236,028)	(163,592)	(339,621)
Proceeds from sale-leaseback	-	-	66,940	-
Proceeds from sales of other investment	637	66,387	13,663	1,946,875
Purchase of other investments	(20)	(2,138)	-	(6,039)
Refund (payment) of guarantee deposits-net	(6)	(576)	(1,387,210)	727
Other	(36)	(3,778)	(7,606)	(225)
Net cash provided by (used in) investing activities	(1,691)	(176,133)	(1,477,805)	1,601,717
Financing Activities:				
Proceeds from long-term borrowings	3,840	400,000	2,000,000	-
Repayments of long-term borrowings	(4,190)	(436,477)	(1,200,000)	(1,036,247)
Repurchase of convertible notes	-	-	-	(3,047,460)
Principal payments under capital leases	(6,647)	(692,467)	(656,238)	(671,339)
Net increase (decrease) in short-term borrowings	(1,923)	(200,316)	312,854	2,459,505
Net cash provided by (used in) financing activities	(8,920)	(929,260)	456,616	(2,295,541)
Effect of Exchange Rate Changes on Cash	(72)	(7,632)	(151,410)	(34,305)
Net Increase (Decrease) in Cash	1,379	143,644	(682,261)	357,660
Cash, Beginning of Period	116,535	12,140,595	4,270,613	11,782,935
Cash, End of Period	117,914	12,284,239	3,588,352	12,140,595

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Mar 31, 2004 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY104.18 = \$1, the approximate rate of exchange on Mar 31, 2004.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Year Ended March 31, 2004, March 31, 2003

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

	March 31, 2004		March 31, 2003
	USD (1)	JPY	JPY
Operating Activities:			
Net loss	(1,009)	(105,139)	(16,476,822)
Depreciation and amortization	38,475	4,008,324	3,580,212
Provision for doubtful accounts	4,324	450,505	84,339
Equity method net loss	2,748	286,317	5,625,299
Impairment loss on investment, advance and deposits for Crosswave	16,510	1,719,981	7,153,087
Minority interests in net loss of consolidated subsidiaries	(2,263)	(235,812)	(153,251)
Foreign exchange losses	49	5,124	277,856
Gain on retirement of convertible notes	(854)	(88,975)	-
Losses (gains) on other investments-net	(13,562)	(1,412,858)	277,162
Decrease (increase) in accounts receivable	7,520	783,387	(1,351,380)
Increase (decrease) in accounts payable	(10,868)	(1,132,209)	1,245,431
Decrease (increase) in inventories	(296)	(30,813)	198,597
Deferred income taxes	(20,768)	(2,163,571)	885,784
Other	(1,544)	(160,895)	235,378
Net cash provided by operating activities	18,462	1,923,366	1,581,692
Investing Activities:			
Purchase of property and equipment	(15,908)	(1,657,302)	(1,315,390)
Advances to Crosswave	(16,510)	(1,719,981)	-
Deposit of restricted cash for and purchase of stock purchase right of Crosswave	-	-	(5,056,250)
Proceeds from sales of other investment	20,835	2,170,584	-
Purchase of other investments	(3,126)	(325,665)	(51,671)
Refund (payment) of guarantee deposits-net	6,470	674,018	(1,487,911)
Other	56	5,883	33,301
Net cash used in investing activities	(8,183)	(852,463)	(7,877,921)
Financing Activities:			
Proceeds from long-term borrowings	3,839	400,000	2,000,000
Repayments of long-term borrowings	(18,657)	(1,943,735)	(1,400,000)
Repurchase of convertible notes	(29,252)	(3,047,460)	-
Principal payments under capital leases	(26,234)	(2,733,012)	(2,475,433)
Net increase in short-term borrowings	16,707	1,740,495	1,003,367
Proceeds from issuance of common stock	127,206	13,252,311	-
Net cash provided by (used in) financing activities	73,609	7,668,599	(872,066)
Effect of Exchange Rate Changes on Cash	(418)	(43,615)	(289,272)
Net Increase (decrease) in Cash	83,470	8,695,887	(7,457,567)
Cash, Beginning of Period	34,444	3,588,352	11,045,919
Cash, End of Period	117,914	12,284,239	3,588,352

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the year ended Mar 31, 2004 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY104.18 = \$1, the approximate rate of exchange on Mar 31, 2004.