



Internet Initiative Japan

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本資料は日本の方々の便宜性のために作成した簡易版です。8ページ目より正式決算発表資料(英文)が続きますので、そちらもあわせてご参照いただけますよう、お願い申し上げます。

2003年度第2四半期(7-9月)決算発表(抄訳)

本決算発表に関するカンファレンス・コールの様子を2003年11月21日23:00よりインターネット上(URL: www.vcall.com)で公開しております。

2003年度第2四半期(7-9月)決算発表 要約

2003年度第2四半期

- 2003年度第2四半期の売上高は、システム・インテグレーション(SI)およびデータセンター、その他付加価値サービスでの売上回復により、前期比10.1%増の9,185百万円となった(前年同期比では13.1%減)。
- 営業損失はSIの利益率改善と国内バックボーンコストの見直し等により、830百万円と前期の1,206百万円から減少した(前年同期は194百万円)。また(株)クロスウェイブコミュニケーションズ(以下クロスウェイブ)に関する売掛金等(更生債権部分)287百万円を全額処理した。
- 償却前営業利益(Adjusted EBITDA)は126百万円と、前期の▲243百万円から改善したが、前年同期の662百万円よりは低い水準となった。
- クロスウェイブの会社更生手続申請による、クロスウェイブに関する投融資、売掛金などの損失処理は上記の売掛金の損失処理によってすべて終了した。クロスウェイブに対する持分法適用の終了により、当期損失は前年同期の2,326百万円から278百万円へ大幅に改善した。従来IIJの財務諸表に大きな影響を与えていたクロスウェイブからの持分法損失は今後発生しない見込みである。
- 2003年9月16日付けにてNTTグループ(日本電信電話株式会社及びエヌ・ティ・ティ・コミュニケーションズ株式会社)、伊藤忠商事株式会社及び住友商事株式会社、その他3社を割当先とする約120億円の第三者割当増資の払込手続が完了した。本増資により、クロスウェイブの会社更生手続開始に伴う財務損失を補い、財務基盤を強化した結果、債務超過状態は解消した。
- 米国ナスダック市場への登録については、米国ナスダック(以下ナスダック)より登録廃止を示唆する通知を受領したものの、ナスダックのパネルによるレビュー手続の結果、ナスダックより登録継続決定の通知を受領した。ティッカーシンボルの末尾への"E"の付与については、登録継続の決定とは別に、2003年3月期の年次報告書に付与された監査人のクロスウェイブに関する意見の限定状態が回復するまで、継続される見込み。

業績見通し

- SIの利益率改善と売上高の拡大により、営業損益ベースで第3四半期はブレイクイーブン、第4四半期は黒字化を見込む。また第3四半期にはディーエルジェイディレクト・エスエフジー証券株式会社の株式売却益約16億円および2005年償還の円建転換社債買入消却による利益約1.2億円が計上される見込み。

概況

事業動向

ブロードバンド化の進展やネットワークの複雑化といった昨今のネットワーク環境の急激な変化により、インターネット接続も含め企業の社内ネットワークに対する投資の必要性についての認識は高まっており、日本経済が回復の兆しを見せる中で、これらの投資を取り巻く環境も今後改善していくものと認識している。IIJ ではこれに対応して「ネットワーク・インテグレーション」という新しいコンセプトのもと、拠点間接続の高速化やコスト低減の実現、インターネット向けトラフィックに対するセキュリティの確保、システム運用のアウトソース請負など、企業内ネットワーク向け SI サービスの充実を図っている。すでいくつかの案件を受注しており、SI の利益率が改善しているほか、これら受注案件の売上も第 3 四半期に継続して計上されるものと理解している。今後接続系サービスの利用顧客に対してこれらの新しいサービスを販売し、より利益率の高い売上基盤の拡大に努めることで、今年度下半期での営業損益の黒字化を目指したい。

また 2003 年 9 月 16 日に払込手続が完了した第三者割当増資により、NTT グループが筆頭株主となったが、今後 IIJ の経営の独立性は維持されつつ、技術開発や営業分野で協力関係を構築していくことを予定している。

今回の増資により、クロスウェイブの会社更生手続開始に伴う財務損失は補われたと認識しており、またこれに関するクロスウェイブへの投融資、売掛金などの損失処理は第 2 四半期で終了している。従来 IIJ の財務諸表に大きな影響を与えていたクロスウェイブからの持分法損失は今後発生しない見込みである。

サービス動向

インターネット接続分野では、インターネット VPN 技術による拠点間接続のアクセス回線としてのブロードバンドサービス利用といった新たな需要が見られる。すでに 100 ヶ所以上の拠点を接続する案件をいくつか受注しており、これらの需要が接続系サービスの売上維持や、関連したネットワーク・インテグレーション、機器販売の売上増加に寄与すると期待している。

SI 分野では、製造業や金融業を中心にいくつかのネットワーク・インテグレーション案件を受注しており、電子メールのウイルスチェック、監査*、記録を請け負う「Mail ゲートウェイサービス」や、ホームページへの接続を記録・制限する「Web ゲートウェイサービス」、ネットワーク運用のアウトソースならびにネットワークの災害対策に関するコンサルティングなどとなっている。またデータベースサーバ、ウェブサーバ、データストレージやファイアウォールなど、機器販売の売上も増加している。

* 事前にネットワーク管理者がキーワードを設定しておき、そのキーワードが含まれている電子メールを管理者が許可するまで送信保留にすることで、情報の外部漏洩などを防止する機能

(ご参考) 統計値について

表 1. 営業収益の内訳

(百万円)

	2Q03	2Q02	前年 同期比	1Q03	前期比
インターネット接続及び付加価値サービス:					
専用線接続サービス	3,236	3,546	(8.7%)	3,321	(2.6%)
ダイヤルアップ接続サービス	784	792	(1.0%)	768	2.1%
インターネット接続サービス収入合計	4,020	4,338	(7.3%)	4,089	(1.7%)
付加価値サービス	1,081	893	21.0%	987	9.5%
その他	536	468	14.6%	520	3.2%
インターネット接続及び 付加価値サービス収入合計	5,637	5,699	(1.1%)	5,596	0.7%
システムインテグレーション	2,549	3,094	(17.6%)	2,408	5.9%
機器販売	999	1,775	(43.7%)	340	193.2%
営業収益合計	9,185	10,568	(13.1%)	8,344	10.1%

表 2. 専用線接続サービスの売上高内訳 (百万円)

	2Q03	2Q02	前年同期比	1Q03	前期比
IP サービス+					
インターネットデータセンター接続サービス	2,485	2,657	(6.5%)	2,534	(2.0%)
その他	751	889	(15.4%)	787	(4.5%)
専用線接続サービス合計	3,236	3,546	(8.7%)	3,321	(2.6%)

表 3. 契約数

	2Q03	2Q02	1Q03
IP サービス			
64kbps - 128kbps	79	111	90
192kbps - 768kbps	23	30	26
1Mbps - 2Mbps	226	266	239
3Mbps - 1.2Gbps	336	205	294
インターネットデータセンター接続サービス契約数 ¹	184	129	171
その他 ²	5,402	3,568	5,056
専用線接続サービス合計	6,250	4,309	5,876
IJ4U (個人向けダイヤルアップ接続サービス)	72,560	84,432	76,209
その他ダイヤルアップ接続サービス	563,086	309,950	515,363
ダイヤルアップ接続サービス合計	635,646	394,382	591,572

表 4. 契約帯域数の総和 (単位: Gbps)

	2Q03	2Q02	1Q03
専用線接続サービス	51.6	18.0	41.1
インターネットデータセンター接続サービス	15.1	4.7	10.3
契約帯域合計	66.7	22.7	51.4

表 5. 付加価値サービスの売上高内訳 (百万円)

	2Q03	2Q02	前年同期比	1Q03	前期比
インターネットデータセンターサービス	371	371	0.0%	337	10.1%
その他付加価値サービス	710	522	36.0%	650	9.2%
付加価値サービス合計	1,081	893	21.0%	987	9.5%

表 6. 営業費用 (百万円)

	2Q03	2Q02	前年同期比	1Q03	前期比
インターネット接続及び付加価値サービス原価	5,127	5,081	0.9%	5,234	(2.1%)
システムインテグレーション原価	2,275	2,682	(15.1%)	2,324	(2.1%)
機器販売原価	935	1,648	(43.3%)	311	200.6%
売上原価合計	8,337	9,411	(11.4%)	7,869	6.0%
販売費	1,100	743	47.9%	973	13.0%
一般管理費	482	514	(6.2%)	612	(21.2%)
研究開発費	96	94	2.7%	96	0.0%
営業費用合計	10,015	10,762	(6.9%)	9,550	4.9%

¹ インターネットデータセンター接続サービスに、ホスティングサービスは含まれていない。

² その他: IJ FiberAccess/F、IJ Ethernet Standard、IJ DSL/F、IJ T1 スタンダード、IJ エコノミー。

表 7. バックボーンコスト

(百万円)

	2Q03	2Q02	前年同期比	1Q03	前期比
国際バックボーンコスト	247	448	(44.8%)	261	(5.2%)
国内バックボーンコスト	993	815	21.9%	1,057	(6.0%)

表 8. その他

(百万円)

	2Q03	2Q02	前年同期比	1Q03	前期比
Adjusted EBITDA (償却前営業利益)	126	662	81.0%	(243)	(152.0%)
設備投資 (キャピタルリースを含む)	579	1,504	(61.5%)	1,421	(59.2%)
減価償却費 ³	984	884	11.3%	990	(0.7%)

注意事項:この資料には、1995 年米国民事証券訴訟改革法 (Private Securities Litigation Reform Act of 1995) の「セーフハーバー」規定に定義する「将来性の見通しに関する記述 (forward-looking statements)」に該当する情報が記載されています。このプレゼンテーション資料の記載のうち、過去または現在の事実に関するもの以外は、将来の見通しに関する記述に該当します。将来の見通しに関する記述は、現在入手可能な情報に基づく IIJ 経営陣の仮定および判断に基づくものであり、これには既知または未知のリスクおよび不確実性が内在しています。IIJ の実際の活動または業績は、今後、将来の見通しに関する記述に示されたところと大きく異なる可能性があります。投資家の皆様におかれましては、1934 年米国証券取引法 (Securities Exchange Act of 1934) に基づく今後の報告書等において IIJ が行う開示をご参照ください。

³ 減価償却費は転換社債発行費用の償却額を含む。

株式会社 インターネットイニシアティブ
四半期連結損益計算書(米国会計基準未監査)
 2003年9月期、2002年9月期、2003年6月期
 JPY/千円単位、USD/千米ドル単位 (1)

Appendix 1

	前年同四半期比較						前四半期比較		
	2003年9月期		対営業収益 %	2002年9月期		対前年同四半期 %	2003年6月期		対前四半期 %
	USD (1)	JPY		JPY	対営業収益 %		JPY	対営業収益 %	
営業収益:									
インターネット接続及び付加価値サービス収入:									
専用線接続サービス	29,044	3,236,405	35.2%	3,546,372	33.6%	(8.7%)	3,321,229	39.8%	(2.6%)
ダイヤルアップ接続サービス	7,032	783,589	8.5	791,738	7.5	(1.0)	767,418	9.2	2.1
付加価値サービス	9,700	1,080,876	11.8	893,135	8.4	21.0	987,198	11.9	9.5
その他	4,814	536,389	5.9	467,976	4.4	14.6	519,709	6.2	3.2
インターネット接続及び付加価値サービス収入合計	50,590	5,637,259	61.4	5,699,221	53.9	(1.1)	5,595,554	67.1	0.7
システムインテグレーション	22,879	2,549,379	27.7	3,094,168	29.3	(17.6)	2,407,923	28.8	5.9
機器販売	8,962	998,621	10.9	1,774,953	16.8	(43.7)	340,569	4.1	193.2
営業収益合計	82,431	9,185,259	100.0	10,568,342	100.0	(13.1)	8,344,046	100.0	10.1
営業費用:									
インターネット接続及び付加価値サービス原価	46,008	5,126,708	55.8	5,081,186	48.1	0.9	5,234,158	62.7	(2.1)
システムインテグレーション原価	20,423	2,275,704	24.8	2,681,946	25.3	(15.1)	2,323,392	27.9	(2.1)
機器販売原価	8,388	934,711	10.2	1,648,106	15.6	(43.3)	310,946	3.7	200.6
売上原価合計	74,819	8,337,123	90.8	9,411,238	89.0	(11.4)	7,868,496	94.3	6.0
販売費	9,868	1,099,560	12.0	743,230	7.0	47.9	973,054	11.7	13.0
一般管理費	4,327	482,218	5.2	514,082	4.9	(6.2)	612,047	7.3	(21.2)
研究開発費	863	96,118	1.0	93,574	0.9	2.7	96,098	1.2	0.0
営業費用合計	89,877	10,015,019	109.0	10,762,124	101.8	(6.9)	9,549,695	114.5	4.9
営業損失	(7,446)	(829,760)	(9.0)	(193,782)	(1.8)	328.2	(1,205,649)	(14.5)	(31.2)
その他の費用	(1,412)	(157,294)	(1.7)	(160,247)	(1.5)	(1.8)	(204,398)	(2.4)	(23.0)
税引前当期損失	(8,858)	(987,054)	(10.7)	(354,029)	(3.3)	178.8	(1,410,047)	(16.9)	(30.0)
法人税等、住民税及び事業税	(5,130)	(571,642)	(6.2)	514,872	4.9	(211.0)	(390,035)	(4.7)	46.6
少数株主損益	1,677	186,931	2.0	23,146	0.2	707.6	254,886	3.0	(26.7)
持分法による投資利益(損失):									
持分法投資利益(損失)	(448)	(49,945)	(0.5)	(1,480,411)	(14.0)	(96.6)	10,559	0.1	(573.0)
クロスウェイブに対する投資等評価損							(1,719,981)	(20.6)	(100.0)
当期損失	(2,499)	(278,426)	(3.0%)	(2,326,166)	(22.0%)	(88.0%)	(2,474,548)	(29.7%)	(88.7%)
1株あたり当期損失		(10,082)		(103,477)			(109,440)		
米国預託証券1単位あたり当期損失		(5.04)		(51.74)			(54.72)		
期中平均発行済株式総数		27,617		22,480			22,611		
期中平均発行済米国預託証券総数		55,233,050		44,960,000			45,222,494		

注記(1): 2003年9月期につきましては、米ドル換算レート111.43円=1米ドル(2003/9/30)にて参考表示しております。

株式会社 インターネットイニシアティブ
四半期連結貸借対照表(米国会計基準未監査)
 2003年9月期、2002年9月期、2003年6月期
 JPY/千円単位、USD/千米ドル単位(1)

Appendix 2

	2003年9月期			2002年9月期		2003年6月期	
	USD (1)	JPY	%	JPY	%	JPY	%
資産の部							
流動資産:							
現金及び現金同等物	105,743	11,782,935	30.7%	4,772,753	12.2%	2,819,007	10.2%
売掛金	60,366	6,726,563	17.5	7,844,256	20.1	5,889,315	21.3
棚卸資産	2,410	268,519	0.7	415,771	1.1	347,971	1.3
前払費用	5,871	654,269	1.7	498,668	1.3	845,908	3.1
その他流動資産	4,168	464,418	1.2	141,923	0.3	534,025	1.9
流動資産合計	178,558	19,896,704	51.8	13,673,371	35.0	10,436,226	37.8
関連会社投資等	9,926	1,106,062	2.9	5,896,219	15.1	1,141,728	4.1
その他投資	49,476	5,513,137	14.3	3,751,532	9.6	3,967,719	14.4
有形固定資産等	81,744	9,108,783	23.7	8,617,873	22.1	9,244,442	33.5
拘束預金				5,000,000	12.8		
敷金保証金	18,673	2,080,764	5.4	1,392,519	3.6	2,082,118	7.6
その他資産	6,539	728,580	1.9	706,828	1.8	714,367	2.6
資産合計	344,916	38,434,030	100.0%	39,038,342	100.0%	27,586,600	100.0%
負債及び資本の部							
流動負債:							
短期借入金	38,633	4,304,906	11.2%	4,832,286	12.4%	5,675,341	20.6%
買掛金及び未払金	43,582	4,856,325	12.6	5,131,068	13.1	4,406,928	16.0
未払費用	4,393	489,568	1.3	271,557	0.7	537,236	1.9
その他流動負債	3,685	410,577	1.1	442,564	1.1	542,538	1.9
1年以内に期限到来の長期借入金	26,442	2,946,377	7.7	1,400,000	3.6	1,545,452	5.6
短期リース債務	23,230	2,588,505	6.7	2,271,145	5.8	2,677,038	9.7
流動負債合計	139,965	15,596,258	40.6	14,348,620	36.7	15,384,533	55.7
長期借入金	17,793	1,982,612	5.2	3,400,000	8.7	3,419,555	12.4
転換社債	134,614	15,000,000	39.0	15,000,000	38.4	15,000,000	54.4
長期リース債務	28,700	3,198,073	8.3	3,250,922	8.4	3,407,735	12.3
退職給付引当金	626	69,794	0.2	83,058	0.2	74,764	0.3
その他固定負債	1,732	193,043	0.5	153,993	0.4	187,579	0.7
負債合計	323,430	36,039,780	93.8	36,236,593	92.8	37,474,166	135.8
少数株主持分	3,928	437,678	1.1	942,650	2.4	624,609	2.3
資本:							
資本金(2)	123,534	13,765,372	35.8	7,082,336	18.1	7,765,048	28.2
資本準備金(2)	212,130	23,637,628	61.5	17,068,353	43.7	17,751,065	64.3
欠損金	(335,980)	(37,438,265)	(97.4)	(23,129,652)	(59.2)	(37,159,839)	(134.7)
その他有価証券評価差額金等	17,875	1,991,900	5.2	838,062	2.2	1,131,644	4.1
自己株式	(1)	(63)	0.0			(93)	0.0
資本合計	17,558	1,956,572	5.1	1,859,099	4.8	(10,512,175)	(38.1)
負債、少数株主持分及び資本合計	344,916	38,434,030	100.0%	39,038,342	100.0%	27,586,600	100.0%

注記(1): 2003年9月期につきましては、米ドル換算レート111.43円=1米ドル(2003/9/30)にて参考表示しております。

注記(2): 2003年9月17日付け新規株式12,615株を発行、正味増資額は11,886,887千円です。

株式会社 インターネットイニシアティブ
四半期連結キャッシュフロー計算書(米国会計基準未監査)

Appendix 3

2003年9月期、2002年9月期、2003年6月期

JPY/千円単位、USD/千米ドル単位 (1)

	2003年9月期		2002年9月期	2003年6月期
	USD (1)	JPY	JPY	JPY
営業活動によるキャッシュフロー:				
当期損失	(2,499)	(278,426)	(2,326,166)	(2,474,548)
減価償却費等	8,828	983,736	883,732	990,190
貸倒引当金繰入(戻入)額	2,818	313,968	(5,048)	149,378
持分法による投資損失(益)	448	49,945	1,480,411	(10,559)
クロスウェイブに対する投資等評価損	-	-	-	1,719,981
少数株主損益	(1,677)	(186,931)	(23,146)	(254,886)
為替差損(差益)	30	3,282	(39,060)	3,245
投資有価証券評価損等	875	97,530	13,620	37,572
売掛金の減少(増加)額	(9,878)	(1,100,671)	(972,056)	4,229,010
買掛金及び未払金の増加(減少)額	1,941	216,306	7,462	(3,671,049)
棚卸資産の減少(増加)額	650	72,432	(142,950)	69,689
法人税等調整額	(5,182)	(577,444)	509,228	(395,698)
その他	(1,078)	(120,151)	(3,003)	264,043
営業活動によるキャッシュフロー	(4,724)	(526,424)	(616,976)	656,368
投資活動によるキャッシュフロー:				
有形固定資産等の取得による支出	(1,328)	(148,007)	(222,308)	(933,646)
その他投資の売却による収入	1,101	122,650	480	34,672
関連会社への投資および貸付	-	-	-	(1,719,981)
短期投資の取得による支出	(2,733)	(304,517)	(33,294)	(12,971)
敷金保証金の返還(支出)	11	1,199	(87,518)	123,632
その他	88	9,875	2,473	11
投資活動によるキャッシュフロー	(2,861)	(318,800)	(340,167)	(2,508,283)
財務活動によるキャッシュフロー:				
長期借入金の返済による支出	(323)	(36,017)	-	(434,994)
リース債務の元本返済による支出	(6,025)	(671,376)	(601,144)	(697,830)
短期借入金の純増減額	(12,299)	(1,370,436)	282,164	851,742
普通株式の発行による収入	106,676	11,886,887	-	1,365,424
財務活動によるキャッシュフロー	88,029	9,809,058	(318,980)	1,084,342
現金及び現金同等物に係る換算差額	1	94	34,183	(1,772)
現金及び現金同等物の増加(減少)額	80,445	8,963,928	(1,241,940)	(769,345)
現金及び現金同等物の期首残高	25,298	2,819,007	6,014,693	3,588,352
現金及び現金同等物の期末残高	105,743	11,782,935	4,772,753	2,819,007

注記(1):2003年9月期につきましては、米ドル換算レート111.43円=1米ドル(2003/9/30)にて参考表示しております。



For Immediate Release

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IIJ Announces Second Quarter Results for the Year Ending March 31, 2004

Tokyo, November 21, 2003 / New York, November 20, 2003 -- Internet Initiative Japan Inc. (Nasdaq: IIJE) ("IIJ"), one of Japan's leading Internet access and comprehensive network solutions providers, today announced its financial results for the 2nd quarter of the fiscal year ending March 31, 2004 ("Fiscal Year 2003").

Second Quarter FY2003 Highlights¹

2nd Quarter FY2003:

- Revenues totaled JPY 9,185 million (\$ 82.4 million), an increase of 10.1% from JPY 8,344 million in 1Q03, though a decrease of 13.1% compared to 2Q02. The increase from 1Q03 is mainly due to revenue increases from Systems Integration ("SI"), Data Center and other value-added services.
- Operating loss was JPY 830 million (\$ 7.4 million), a decrease from 1,206 million in 1Q03 and an increase from JPY 194 million in 2Q02. The loss includes accounts receivable write-offs of JPY 287 million that related to transactions with Crosswave Communications Inc. ("Crosswave"), a former equity method affiliate of IIJ. The improvement in operating loss from 1Q03 was mainly due to increased SI profitability and a reduction of domestic backbone costs.
- Adjusted EBITDA² was JPY 126 million (\$ 1.1 million), an increase from the JPY 243 million adjusted EBITDA loss in 1Q03, though a decrease from JPY 662 million in 2Q02.
- On August 20, Crosswave filed a voluntary petition for the commencement of corporate reorganization proceedings in Japan. IIJ has written-off all of its investments in, deposits for, loans to and accounts receivable due from Crosswave regarding the above through the end of this quarter. As a result of Crosswave no longer being accounted for under the equity method, the net loss decreased from JPY 2,326 million in 2Q02 to JPY 278 million in 2Q03. IIJ will not have further equity loss from Crosswave, which in the past had a significant negative impact on IIJ's financial statements.
- IIJ completed an approximately JPY 12 billion private placement to NTT Group, Itochu Corporation, Sumitomo Corporation and three other companies on September 17, 2003. With this capital injection, the financial impact due to Crosswave's reorganization proceedings has been offset. As a result, IIJ's shareholders' equity has become positive.
- IIJ received notice from Nasdaq that IIJ's American Depositary Shares will continue to be listed on the Nasdaq National Market, subject to requirements that IIJ file its annual report on Form 20-F for the fiscal year ending March 31, 2004 with the U.S. Securities and Exchange Commission and Nasdaq on or before September 30, 2004, and the IIJ demonstrate compliance with all requirements for continued listing on the Nasdaq National Market throughout this period. The fifth character "E" will remain appended to IIJ's trading symbol pending confirmation that IIJ has evidenced full compliance with Nasdaq's filing requirement and all other requirements for continued listing on the Nasdaq Stock Market.

¹ Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with U.S. GAAP. All financial figures are unaudited, consolidated, and represent comparisons between the three-month period ended September 30, 2003, and the equivalent three-month period ended September 30, 2002. For all 2Q03 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 JPY111.43 = US\$1., the approximate exchange rate on September 30, 2003.

Outlook:

- By improving gross-margins and expanding SI service revenues, IJ expects to reach a break-even level of operating income in 3Q03 and to achieve positive operating income in 4Q03. In addition, IJ expects an additional one-time increase in "other income" of approximately JPY 1.6 billion in 3Q03 from the sales of our shares of DLJ*direct*SFG Securities Inc. and approximately JPY 120 million by repurchasing and canceling a portion of IJ's convertible notes that are due in 2005.

Overview of 2nd Quarter FY2003 Financial Results and Business Outlook³

Financial Results and Business Outlook

"As Japan's economy is beginning to show indications that it is in a recovery phase, there seems to be an environment where Japanese corporate customers are considering investing in their networks," said Koichi Suzuki, President and CEO of IJ. "With the rapid changes in corporate networks, as expansion of broadband and increasing complexity, Japanese corporate customers are focusing more on in-house networks including the gateway to Internet. For example, Japanese companies are starting to use the latest network technology to connect branch offices or other sites at higher speeds with lower cost, increasing security on Internet traffic and outsourcing the operations of network equipment and servers. We are currently changing our SI development and business to meet those demands rapidly. We call this "Network Integration". Our strategy in the coming quarters is to seek new source of revenue by cross-selling these new solutions to meet the requirements of our current connectivity customers".

Koichi Suzuki continued, "On September 17, we completed the private placement to third parties to improve our capital structure, and NTT Group became our largest shareholder holding 31.6%. While we will retain our operating independence even after the private placement, we are going to have a collaborative relationship with NTT in the technological development and sales partnership".

"In 2Q03, revenues recovered compared to 1Q03, mainly driven by sales of SI, Data Center Services and other value-added services", said Yasuhiro Nishi, CFO of IJ. "We have succeeded in acquiring new customers for network integration services, and the revenue from these cases will be accounted for in 3Q03. By continuing to expand in the higher-margin SI area and cross-selling to customers as well as reducing costs, we will keep on track for a recovery in profitability and hopefully achieve positive operating income in the second half of the year".

Yasuhiro Nishi also stated, "As for Crosswave's commencement of reorganization proceedings, we have written off all investments in, deposits for, loans to and accounts receivable due from Crosswave regarding the above through this quarter. We believe that the private placement on September 17 will cover the financial impact of Crosswave's reorganization, and we will not have further equity losses from Crosswave, which in the past had a significant negative impact on IJ's financial statements".

Recent Trends in Major Services and Contracts

As for connectivity services, there appears to be new demand for broadband services such as using

² Please refer to the Reconciliation of Non-GAAP Financial Measures on page 6.

³ This Overview and Business Outlook contains forward-looking statements and projections such as statements regarding 3Q03 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 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 3Q03 earnings release, presently scheduled for February 12, 2004.

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these services for access lines for site connectivity utilizing Internet VPN technology. IJ has already acquired several customers for these services connecting over 100 sites. In addition to proposing bandwidth upgrades to existing customers and approaching new customers, we expect these new demands might help us to maintain current levels of revenue of connectivity services, as well as related network integration and equipment sales.

Revenues for SI services benefited as IJ won several network integration customers from the manufacturing and financial sectors. The major contents of the integration work was mail and web gateway services that control outgoing and incoming e-mails and web access, server housing in Data Centers and outsourcing of operation and network consultation for disaster recovery. Also, we increased revenues from equipment sales, such as database servers, web servers, data storage and firewall equipment.

2nd Quarter FY2003 Financial Results

Revenues

Revenues in 2Q03 totaled JPY 9,185 million, a decrease of 13.1% compared to 2Q02 and an increase of 10.1% from JPY 8,344 million in 1Q03.

Table 1. Revenues (JPY in millions)

Revenues	2Q03	2Q02	YoY % change	1Q03	QoQ % change
Connectivity and value-added services:					
Dedicated access services	3,236	3,546	(8.7%)	3,321	(2.6%)
Dial-up access services	784	792	(1.0%)	768	2.1%
Total Connectivity Services	4,020	4,338	(7.3%)	4,089	(1.7%)
Value-added services	1,081	893	21.0%	987	9.5%
Other	536	468	14.6%	520	3.2%
Total Connectivity and value-added services	5,637	5,699	(1.1%)	5,596	0.7%
Systems integration revenues	2,549	3,094	(17.6%)	2,408	5.9%
Equipment sales	999	1,775	(43.7%)	340	193.2%
Total revenues	9,185	10,568	(13.1%)	8,344	10.1%

Connectivity and value-added services revenues were JPY 5,637 million in 2Q03, a decrease of 1.1% compared to 2Q02, but an increase of 0.7% compared to 1Q03.

Table 2. Connectivity Services (JPY in millions)

Connectivity Services	2Q03	2Q02	YoY % change	1Q03	QoQ % change
Dedicated access services:					
IP Service + DC (connectivity)	2,485	2,657	(6.5%)	2,534	(2.0%)
Others ⁴	751	889	(15.4%)	787	(4.5%)
Total Dedicated Access Services	3,236	3,546	(8.7%)	3,321	(2.6%)

Dedicated access services revenues were JPY 3,236 million in 2Q03, a decrease of 8.7% compared to 2Q02 and a decrease of 2.6% compared to 1Q03. IP Service, including Data Center Connectivity services, decreased by 6.5% in 2Q03 compared to 2Q02 and decreased by 2.0% compared to 1Q03, mainly due to the decline of unit prices despite an increase in the number of contracts. Customers continued to shift from dedicated line-based connectivity services such as IJ T1 Standard and IJ Economy, to lower-cost broadband services such as IJ FiberAccess/F service (Maximum 10-100Mbps), and the increase in IJ FiberAccess/F service did not offset the decrease in IJ T1 Standard and IJ Economy.

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

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Table 3. Number of Contracts

	2Q03	2Q02	1Q03
IP Services			
64kbps – 128kbps	79	111	90
192kbps – 768kbps	23	30	26
1Mbps – 2Mbps	226	266	239
3Mbps – 1.2Gbps	336	205	294
Number of Contracts of DC Connectivity Services	184	129	171
Other	5,402	3,568	5,056
Total Dedicated Access Services	6,250	4,309	5,876
IJ4U (Dial-up access services for retail market)	72,560	84,432	76,209
Other Dial-Up Access Services	563,086	309,950	515,363
Total Dial-Up Access Services	635,646	394,382	591,572

Dial-up access service revenues were JPY 784 million in 2Q03, a decrease of 1.0% compared to 2Q02 and an increase of 2.1% compared to 1Q03. The revenue increased sequentially because of continued revenue increases of OEM services including CDN platform and NTT's regional L-mode service.

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

	2Q03	2Q02	1Q03
Dedicated Access Services	51.6	18.0	41.1
DC Connectivity Services	15.1	4.7	10.3
Total Contract Bandwidth	66.7	22.7	51.4

Value-added service revenues were JPY 1,081 million in 2Q03, an increase of 21.0% compared to 2Q02 and an increase of 9.5% compared to 1Q03. These increases were mainly due to revenue increases from Data Center services and security related services, including mail gateway service.

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

Value-Added Services	2Q03	2Q02	YoY % change	1Q03	QoQ % change
Internet Data Center services	371	371	0.0%	337	10.1%
Other value-added services	710	522	36.0%	650	9.2%
Total Value-Added Service Revenues	1,081	893	21.0%	987	9.5%

Systems integration services revenues decreased 17.6% to JPY 2,549 million in 2Q03 compared to 2Q02 but recovered 5.9% compared to 1Q03 due to increase of new network integration contracts.

Equipment sales revenues were JPY 999 million in 2Q03, a decrease of 43.7% compared to 2Q02 but an increase of 193.2% compared to 1Q03.

Cost and expenses

Cost of total revenues was JPY 8,337 million in 2Q03, a decrease of 11.4% compared to 2Q02, and an increase of 6.0% compared to 1Q03.

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Table 6. Costs and Expenses (JPY in millions)

Costs and expenses:	2Q03	2Q02	YoY % change	1Q03	QoQ % change
Cost of Revenues:					
Cost of connectivity and value-added services	5,127	5,081	0.9%	5,234	(2.1%)
Cost of systems integration	2,275	2,682	(15.1%)	2,324	(2.1%)
Cost of equipment sales	935	1,648	(43.3%)	311	200.6%
Total of Cost of Revenues	8,337	9,411	(11.4%)	7,869	6.0%
Sales and marketing	1,100	743	47.9%	973	13.0%
General and administrative	482	514	(6.2%)	612	(21.2%)
Research and development	96	94	2.7%	96	0.0%
Total costs and expenses	10,015	10,762	(6.9%)	9,550	4.9%

Cost of connectivity and value-added services was JPY 5,127 million, an increase of 0.9% compared to 2Q02 and a decrease of 2.1% compared to 1Q03. The gross margin ratio for connectivity and value-added services in 2Q03 was 9.1%, compared to 10.8% in 2Q02 and 6.5% in 1Q03. The improvement of the gross margin ratio compared to 1Q03 was as a result of our effort for overall cost reduction such as backbone costs, the expense for network nodes and office rent expenses.

International backbone costs were JPY 247 million, a decrease of 44.8% compared to 2Q02 and a decrease of 5.2% compared to 1Q03. The monthly unit backbone costs per Mbps declined by 61% compared to 2Q02 and by 29% compared to 1Q03.

Table 7. Backbone Costs (JPY in millions)

Backbone Costs	2Q03	2Q02	YoY % Change	1Q03	QoQ % Change
International Backbone Costs	247	448	(44.8%)	261	(5.2%)
Domestic Backbone Costs	993	815	21.9%	1,057	(6.0%)

Domestic backbone costs were JPY 993 million, an increase of 21.9% compared to 2Q02 and a decrease of 6.0% compared to 1Q03. The year-over-year increase was due to an increase in connection fees with NTT's regional access networks (FLET'S), along with our broadband strategy to strengthen our backbone network to provide various broadband network services and solutions nationwide.

Cost of SI Revenues was JPY 2,275 million in 2Q03, a decrease of 15.1% compared to 2Q02 and a decrease of 2.1% compared to 1Q03. The gross margin for SI deteriorated to 10.7% in 2Q03 compared to 13.3% in 2Q02 but improved from 3.5% in 1Q03. The gross margin ratio in 2Q03 improved compared to 1Q03 because of improvement of profitability in SI development contracts.

Sales and Marketing Expenses were JPY 1,100 million in 2Q03, an increase of 47.9% compared to 2Q02 and an increase of 13.0% compared to 1Q03. The 2Q03 expenses include the written-off accounts receivable due from Crosswave, which amounted to JPY 287 million.

General and administrative expenses were JPY 482 million in 2Q03, a decrease of 6.2% compared to 2Q02 and a decrease of 21.2% compared to 1Q03. The 1Q03 expenses included the cost of the move to new headquarters.

Operating loss

Operating loss increased to JPY 830 million in 2Q03 compared to a loss of JPY 194 million in 2Q02. The increase is primarily due to the write-off of accounts receivable from Crosswave and a decrease in connectivity service revenues. The operating loss in 2Q03 declined compared to a loss of JPY 1,206 million in 1Q03, due to improved profitability in IJ's SI business.

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Other expenses for 2Q03 were JPY 157 million, compared to JPY 160 million in 2Q02 and JPY 204 million in 1Q03. IIJ recorded a gain on sales of available-for-securities, which amounted to JPY 47 million in 2Q03.

Income tax benefit (expense) for 2Q03 was a benefit of JPY 572 million, compared to an expense of JPY 515 million in 2Q02 and a benefit of JPY 390 million in 1Q03. This is due to a decrease in the valuation allowance for deferred tax assets attributable primarily to the income tax effect of increasing unrealized gains during the quarter on certain available-for-sale securities.

Equity in net loss of equity method investees amounted to JPY 50 million in 2Q03, compared to JPY 1,480 million in 2Q02, and JPY 1,709 million in 1Q03. The equity in net loss of Crosswave is included in the equity in net loss of equity method investees in 1Q03 and 2Q02, but not included in 2Q03.

Net loss was JPY 278 million in 2Q03, compared to JPY 2,326 million in 2Q02 and JPY 2,475 million in 1Q03. The decreases in net loss was a result of the increasing income tax benefit reflecting the increasing unrealized gains on available-for-sale securities and the absence of equity method loss in Crosswave due to the full write-down of IIJ's equity investment in Crosswave. Basic net loss per ADS equivalent was JPY -5.04 in 2Q03, compared to JPY -51.74 in 2Q02 and JPY -54.72 in 1Q03.

Table 8. Other Financial Statistics (JPY in millions)

Other Financial Statistics	2Q03	2Q02	YoY % Change	1Q03	QoQ % Change
Adjusted EBITDA ⁵	126	662	81.0%	(243)	(152.0%)
CAPEX, including capitalized leases ⁶	579	1,504	(61.5%)	1,421	(59.2%)
Depreciation and amortization ⁷	984	884	11.3%	990	(0.7%)

Reconciliation of Non-GAAP Financial Measures

The following table summarizes the reconciliation of adjusted EBITDA to net loss per the consolidated statements of operations prepared and presented in accordance with U.S. generally accepted accounting principles in Appendices 1:

Table 9. Adjusted EBITDA (JPY in millions)

	2Q03	2Q02	1Q03
Adjusted EBITDA	126	662	(243)
Depreciation and amortization ⁸	(956)	(856)	(963)
Operating loss	(830)	(194)	(1,206)
Other expenses	(157)	(160)	(204)
Income tax expense (benefit)	(572)	515	(390)
Minority interests in consolidated subsidiaries	187	23	254
Equity in net loss of equity method investees	(50)	(1,480)	(1,709)
Net loss	(278)	(2,326)	(2,475)

The following table summarizes the reconciliation of capital expenditures to purchase of property and equipment per the consolidated statements of cash flows prepared and presented in accordance with the U.S. generally accepted accounting principles in Appendices 3:

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

⁶ Please refer to the Reconciliation of Non-GAAP Financial Measures on this page.

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

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

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Table 10. CAPEX (JPY in millions)

	2Q03	2Q02	1Q03
Capital expenditures	579	1,504	1,421
Acquisition of assets by entering into capital leases	431	1,282	487
Purchase of property and equipment	148	222	934

2nd Quarter FY2003 Business Review

Service Development

Outsourcing Solutions: Under IJ Technology, the IJ Group further expanded its Integration & Business Platform Service (IBPS) product line. IBPS is a service offered to corporate customers which allows them to combine ready-made network service components with integration. These components include network equipment, controlling functions of outgoing and incoming Internet traffic (virus check, auditing and archiving e-mails and controlling web-access), data storage, operational resources, etc. By providing these components on demand at the Group's data centers and allowing customers to use these network components without having to purchase them, IJ's corporate customers can launch the network systems more smoothly and cost effectively. In October 2003, IJ Technology started to provide over 40 terabyte storage service.

Network Management Solutions: In 2Q03, we began "IJ NetLightning", based on Netli, Inc's technology which improves web application performance. By using IJ NetLightning, end users can more quickly access to customer websites and customers can reduce the cost to set up mirror sites.

Also in June 2003, IJ launched IJ SMF (SEIL Management Framework), a service which provides remote configuration and monitoring features for IJ's high-end SEIL/neu Series routers at customer remote sites from central management servers at IJ and customer main office/data center. SMF, the technology used for this service is patent pending.

Hosting Services: In 2Q03, we began "IJ Document Exchange Service" for medium and small-sized corporate customers. This service allows the creation of virtual folders on Internet, and customers to share files with workers outside the office or with commercial partners.

Network Infrastructure Development and Optimization

In 2Q03, IJ increased the capacity of ten of its domestic backbone network lines and also established two new lines. IJ also increased the capacity of three U.S. backbone network lines and established one additional U.S. backbone network line to maintain current throughput and quality. At the same time, from a cost point of view, IJ is now trying to optimize the network in accordance with the number of customers connected to the network nodes, and has ceased the operations of several network nodes for dedicated line-based Internet connectivity services.

Finance

Financial Impact of Crosswave's Commencement of Reorganization Proceedings:

On August 20, Crosswave filed a voluntary petition for the commencement of corporate reorganization. In light of Crosswave's reorganization, IJ has fully written-off the accounts receivable due from Crosswave prior to entering corporate reorganization, amounting to JPY 287 million in 2Q03. As a result, IJ has fully written-off the remaining value of its investment in and deposits for, loans to and accounts receivable due from Crosswave through the end of this quarter.

Capital Improvement Plan:

On September 17, 2003, IJ completed a private placement to NTT Group, Itochu Corporation, Sumitomo Corporation and three other companies for a total amount of approximately JPY 12 billion. With this capital injection, the financial impact of Crosswave's commencement of reorganization has been offset and IJ's shareholders' equity has turned positive.

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Key Developments of the IJ Group

IP*VLAN

In November 2003, IJ developed and announced a new technology called, IP*VLAN (Internet Protocol-Virtual Local Area Network). This technology is for the construction and management of layer 2 networks over existing IP networks (layer 3) for Internet or corporate users. It enables PCs and other client devices to connect to the same LAN, regardless of distances between offices, and it enables access control for all services without requiring client certification (patent pending).

Teleconference/Webcast

On November 21 at 9:00 am (EST), IJ will host a conference call to discuss the results and the Company's outlook. There will be a simultaneous webcast available at www.vcall.com. A replay will also be available at the same URL.

Company Information

Founded in 1992, Internet Initiative Japan Inc. (IJ, NASDAQ: IJIE) 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. 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 3Q03 total revenues and operating 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 20F of its annual report and other filings with the United States Securities and Exchange Commission.

Tables to follow

CONSOLIDATED STATEMENTS OF OPERATIONS(UNAUDITED)

For the Three Months Ended Sept 30, 2003, Sept 30, 2002 and Jun 30, 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			
	Sept 30, 2003		% of Total Revenues	Sept 30, 2002		YOY Chg %	Jun 30, 2003		QOQ Chg %
	USD (1)	JPY		JPY	% of Total Revenues		JPY	% of Total Revenues	
Revenues:									
Connectivity and value-added services:									
Dedicated access services	29,044	3,236,405	35.2%	3,546,372	33.6%	(8.7%)	3,321,229	39.8%	(2.6%)
Dial-up access services	7,032	783,589	8.5	791,738	7.5	(1.0)	767,418	9.2	2.1
Value-added services	9,700	1,080,876	11.8	893,135	8.4	21.0	987,198	11.9	9.5
Other	4,814	536,389	5.9	467,976	4.4	14.6	519,709	6.2	3.2
Total connectivity and value-added services	50,590	5,637,259	61.4	5,699,221	53.9	(1.1)	5,595,554	67.1	0.7
Systems integration revenues	22,879	2,549,379	27.7	3,094,168	29.3	(17.6)	2,407,923	28.8	5.9
Equipment sales	8,962	998,621	10.9	1,774,953	16.8	(43.7)	340,569	4.1	193.2
Total revenues	82,431	9,185,259	100.0	10,568,342	100.0	(13.1)	8,344,046	100.0	10.1
Costs and expenses:									
Cost of connectivity and value-added services	46,008	5,126,708	55.8	5,081,186	48.1	0.9	5,234,158	62.7	(2.1)
Cost of systems integration revenues	20,423	2,275,704	24.8	2,681,946	25.3	(15.1)	2,323,392	27.9	(2.1)
Cost of equipment sales	8,388	934,711	10.2	1,648,106	15.6	(43.3)	310,946	3.7	200.6
Total costs	74,819	8,337,123	90.8	9,411,238	89.0	(11.4)	7,868,496	94.3	6.0
Sales and marketing	9,868	1,099,560	12.0	743,230	7.0	47.9	973,054	11.7	13.0
General and administrative	4,327	482,218	5.2	514,082	4.9	(6.2)	612,047	7.3	(21.2)
Research and development	863	96,118	1.0	93,574	0.9	2.7	96,098	1.2	0.0
Total costs and expenses	89,877	10,015,019	109.0	10,762,124	101.8	(6.9)	9,549,695	114.5	4.9
Operating loss	(7,446)	(829,760)	(9.0)	(193,782)	(1.8)	328.2	(1,205,649)	(14.5)	(31.2)
Other expenses	(1,412)	(157,294)	(1.7)	(160,247)	(1.5)	(1.8)	(204,398)	(2.4)	(23.0)
Loss before income tax expense(benefit)	(8,858)	(987,054)	(10.7)	(354,029)	(3.3)	178.8	(1,410,047)	(16.9)	(30.0)
Income tax expense(benefit)	(5,130)	(571,642)	(6.2)	514,872	4.9	(211.0)	(390,035)	(4.7)	46.6
Minority interests in consolidated subsidiaries	1,677	186,931	2.0	23,146	0.2	707.6	254,886	3.0	(26.7)
Equity in net loss of equity method investees:									
Equity method net income(loss)	(448)	(49,945)	(0.5)	(1,480,411)	(14.0)	(96.6)	10,559	0.1	(573.0)
Impairment loss on investment in and advances to Crosswave							(1,719,981)	(20.6)	(100.0)
Net loss	(2,499)	(278,426)	(3.0%)	(2,326,166)	(22.0%)	(88.0%)	(2,474,548)	(29.7%)	(88.7%)
Basic Net Loss Per Share		(10,082)		(103,477)			(109,440)		
Basic Net Loss Per ADS Equivalent		(5.04)		(51.74)			(54.72)		
Weighted Average Number of Shares		27,617		22,480			22,611		
Weighted Average Number of ADS Equivalents		55,233,050		44,960,000			45,222,494		

Note (1): The translation of Japanese yen amounts into US dollar amounts with respect to the three months ended Sept 30, 2003 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 111.43 = \$1, the approximate rate of exchange on Sept 30, 2003.

INTERNET INITIATIVE JAPAN INC.
CONSOLIDATED BALANCE SHEETS(UNAUDITED)

Appendix 2

As of Sept 30, 2003, Sept 30, 2002 and Jun 30, 2003
(Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD)) (1)

	Sept 30, 2003			Sept 30, 2002		Jun 30, 2003	
	USD (1)	JPY	%	JPY	%	JPY	%
ASSETS							
Current Assets:							
Cash and cash equivalent	105,743	11,782,935	30.7%	4,772,753	12.2%	2,819,007	10.2%
Accounts receivable, net	60,366	6,726,563	17.5	7,844,256	20.1	5,889,315	21.3
Inventories	2,410	268,519	0.7	415,771	1.1	347,971	1.3
Prepaid expenses	5,871	654,269	1.7	498,668	1.3	845,908	3.1
Other current assets	4,168	464,418	1.2	141,923	0.3	534,025	1.9
Total current assets	178,558	19,896,704	51.8	13,673,371	35.0	10,436,226	37.8
Investments in and Advances to Equity Method Investees	9,926	1,106,062	2.9	5,896,219	15.1	1,141,728	4.1
Other Investments	49,476	5,513,137	14.3	3,751,532	9.6	3,967,719	14.4
Property and Equipment, net	81,744	9,108,783	23.7	8,617,873	22.1	9,244,442	33.5
Restricted Cash				5,000,000	12.8		
Guarantee Deposits	18,673	2,080,764	5.4	1,392,519	3.6	2,082,118	7.6
Other Assets	6,539	728,580	1.9	706,828	1.8	714,367	2.6
Total assets	344,916	38,434,030	100.0%	39,038,342	100.0%	27,586,600	100.0%
LIABILITIES AND SHAREHOLDERS' EQUITY(CAPITAL DEFICIENCY)							
Current Liabilities:							
Short-term borrowings	38,633	4,304,906	11.2%	4,832,286	12.4%	5,675,341	20.6%
Accounts payable	43,582	4,856,325	12.6	5,131,068	13.1	4,406,928	16.0
Accrued expenses	4,393	489,568	1.3	271,557	0.7	537,236	1.9
Other current liabilities	3,685	410,577	1.1	442,564	1.1	542,538	1.9
Long-term borrowings-current portion	26,442	2,946,377	7.7	1,400,000	3.6	1,545,452	5.6
Capital lease obligations-current portion	23,230	2,588,505	6.7	2,271,145	5.8	2,677,038	9.7
Total current liabilities	139,965	15,596,258	40.6	14,348,620	36.7	15,384,533	55.7
Long-term Borrowings	17,793	1,982,612	5.2	3,400,000	8.7	3,419,555	12.4
Convertible Notes	134,614	15,000,000	39.0	15,000,000	38.4	15,000,000	54.4
Capital Lease Obligations-Noncurrent	28,700	3,198,073	8.3	3,250,922	8.4	3,407,735	12.3
Accrued Retirement and Pension Costs	626	69,794	0.2	83,058	0.2	74,764	0.3
Other Noncurrent Liabilities	1,732	193,043	0.5	153,993	0.4	187,579	0.7
Total liabilities	323,430	36,039,780	93.8	36,236,593	92.8	37,474,166	135.8
Minority Interest	3,928	437,678	1.1	942,650	2.4	624,609	2.3
Shareholders' Equity(Capital Deficiency):							
Common stock(2)	123,534	13,765,372	35.8	7,082,336	18.1	7,765,048	28.2
Additional paid-in capital(2)	212,130	23,637,628	61.5	17,068,353	43.7	17,751,065	64.3
Accumulated deficit	(335,980)	(37,438,265)	(97.4)	(23,129,652)	(59.2)	(37,159,839)	(134.7)
Accumulated other comprehensive income	17,875	1,991,900	5.2	838,062	2.2	1,131,644	4.1
Treasury stock	(1)	(63)	0.0			(93)	0.0
Total shareholders' equity(capital deficiency)	17,558	1,956,572	5.1	1,859,099	4.8	(10,512,175)	(38.1)
Total liabilities and shareholders' equity(capital deficiency)	344,916	38,434,030	100.0%	39,038,342	100.0%	27,586,600	100.0%

Note (1): The translation of Japanese yen amounts into US dollar amounts with respect to Sept 30, 2003 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY111.43 = \$1, the approximate rate of exchange on Sept 30, 2003.

Note (2): New 12,615 shares have been issued on Sept 17, 2003, in the net proceeds of JPY11,886,887.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Three Months Ended Sept 30, 2003, Sept 30, 2002 and Jun 30, 2003

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

	Sept 30, 2003		Sept 30, 2002	Jun 30, 2003
	USD (1)	JPY	JPY	JPY
Operating Activities:				
Net loss	(2,499)	(278,426)	(2,326,166)	(2,474,548)
Depreciation and amortization	8,828	983,736	883,732	990,190
Provision for doubtful accounts	2,818	313,968	(5,048)	149,378
Equity method net loss (income)	448	49,945	1,480,411	(10,559)
Impairment loss on investment in and advances to Crosswave	-	-	-	1,719,981
Minority interests in net loss of consolidated subsidiaries	(1,677)	(186,931)	(23,146)	(254,886)
Foreign exchange losses (gains)	30	3,282	(39,060)	3,245
Losses on other investments	875	97,530	13,620	37,572
Decrease (increase) in accounts receivable	(9,878)	(1,100,671)	(972,056)	4,229,010
Increase (decrease) in accounts payable	1,941	216,306	7,462	(3,671,049)
Decrease (increase) in inventories	650	72,432	(142,950)	69,689
Deferred income taxes	(5,182)	(577,444)	509,228	(395,698)
Other	(1,078)	(120,151)	(3,003)	264,043
Net cash provided by (used in) operating activities	(4,724)	(526,424)	(616,976)	656,368
Investing Activities:				
Purchase of property and equipment	(1,328)	(148,007)	(222,308)	(933,646)
Proceeds from sales of other investment	1,101	122,650	480	34,672
Investments in and advances to equity method investees	-	-	-	(1,719,981)
Purchase of other investments	(2,733)	(304,517)	(33,294)	(12,971)
Refund (payment) of guarantee deposits-net	11	1,199	(87,518)	123,632
Other	88	9,875	2,473	11
Net cash used in investing activities	(2,861)	(318,800)	(340,167)	(2,508,283)
Financing Activities:				
Repayments of long-term borrowings	(323)	(36,017)	-	(434,994)
Principal payments under capital leases	(6,025)	(671,376)	(601,144)	(697,830)
Net increase (decrease) in short-term borrowings	(12,299)	(1,370,436)	282,164	851,742
Proceeds from issuance of common stock	106,676	11,886,887	-	1,365,424
Net cash provided by (used in) financing activities	88,029	9,809,058	(318,980)	1,084,342
Effect of Exchange Rate Changes on Cash	1	94	34,183	(1,772)
Net Increase (Decrease) in Cash	80,445	8,963,928	(1,241,940)	(769,345)
Cash, Beginning of Period	25,298	2,819,007	6,014,693	3,588,352
Cash, End of Period	105,743	11,782,935	4,772,753	2,819,007

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Sept 30, 2003 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY111.43 = \$1, the approximate rate of exchange on Sept 30, 2003.