



Internet Initiative Japan

For Immediate Release

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IIJ Announces First Quarter 2003 Results

IIJ Maintains 2003 Annual Revenue Growth Expectations of 10% as Systems Integration Revenues Are Expected to Recover in 2Q03

Tokyo, August 13, 2003 / New York, August 12, 2003 - Internet Initiative Japan Inc. (Nasdaq: IJJI ("IIJ")), one of Japan's leading Internet access and comprehensive network solutions providers, today announced its financial results for the 1st quarter of the fiscal year ending March 31, 2004 ("fiscal 2003").

First Quarter 2003 Highlights¹

1st Quarter 2003:

- Revenues totaled JPY 8,344 million (\$ 69.6 million), a decrease of 15.3% compared to 1Q02 and a decrease of 36.0% from 4Q02. The results are due to a decrease in sales of System Integration (SI) business because of the decrease in new contracts in SI development caused by weakness in the Japanese stock market through the end of March.
- Operating loss of JPY 1,060 million (\$ 8.8 million) increased from JPY 464 million in 1Q02, and from JPY 446 million in 4Q02.
- Adjusted EBITDA² was JPY -97 million (\$ -0.8 million), a decrease compared to JPY 329 million in 1Q02 and JPY 459 million in 4Q02.
- IIJ completed a private placement to third parties with a total amount of JPY 1.37 billion in June 2003.

Outlook:

- Break-even expected at operating level for 2Q03.
- For full fiscal 2003, year-over-year revenues are expected to grow by more than 10%.

¹ Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with U.S. GAAP. They are unaudited, consolidated, and represent comparisons between the three-month period ended March 31, 2003, and the equivalent three-month period ended June 30, 2002. For all 1Q03 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 JPY119.87 = US\$1., the approximate exchange rate on June 30, 2003.

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

Overview of 1st Quarter FY2003 Financial Results and Business Outlook³

Financial Results and Business Outlook

“Our strategy to achieve profitability has focused on higher margin services in response to significant growth in demand for corporate customers’ network outsourcing. As a result, IJ’s network solutions business has become a significant and growing part of our business portfolio. Revenues from our Systems Integration (SI) business, which are largely influenced by seasonal fluctuations in capital spending, have increased substantially over the past few years as a percentage of total revenues. Consequently, fluctuations in revenues from our network solutions business, including SI, have a more dramatic impact on our total revenues on a sequential quarterly basis than ever before,” said Koichi Suzuki, President and CEO of IJ.

IJ’s revenues in 1Q03 declined by 36.0% from 4Q02. “In addition to the seasonal decline in SI revenues from the fourth quarter to the first, weakness in the Japanese stock market through the end of March caused some of IJ’s customers, especially the online trading companies, to significantly reduce investments in their network systems. This resulted in a delay in the receipt of orders for the SI business with substantial negative impact on SI revenues for this quarter. However, the decline was partially offset by winning various large-scale outsourcing contracts in the network solution business such as IJ Mail Gateway Service and IJ Web Gateway Service. Additionally, we believe that a large current backlog of contracts for network solution services and the improving business environment as a result of the recent recovery of the Japanese stock market should generate a substantial increase in revenues in 2Q03 in this sector. Our connectivity services continue to grow steadily, reflecting the demand for increased bandwidth, which offsets lower ARPU. Based on all these factors, we believe that IJ’s total revenues will return to their historical growth pattern and that we will reach break-even at the operating level in 2Q03,” said Yasuhiro Nishi, CFO of IJ.

Recent Trends in Major Services and Contracts

In the first quarter, IJ’s network solution business witnessed increasing sales, including some large-scale contracts. The IJ group has been building revenues from its application gateway solutions, including “IJ Mail Gateway Service” (email virus check, email audit and email archive) and “IJ Web Gateway Service” (web access control and remote access to internal network), that capitalize on the Company’s own data center facilities. The IJ Mail Gateway service has already captured 100,000 accounts from 15 clients and we expect an additional 100,000 accounts by the end of fiscal 2003. IJ also won large-scale outsourcing contracts for the IJ Web Gateway Service from a number of Japanese blue-chip companies. We expect continued growth in corporate demand for internet security systems in the future. As demand from corporations for outsourced network systems has been increasing, the IJ Group has focused on network integration and mission-critical system services to capture this market and we fully expect that this strategy will allow us to achieve profitability.

1st Quarter FY2003 Financial Results

Revenues

Revenues in 1Q03 totaled JPY8,344 million, a decrease of 15.3% compared to 1Q02 and a decrease

³This Overview and Business Outlook contains forward-looking statements and projections such as statements regarding 2Q03 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 2Q03 earnings release, presently scheduled for November 12, 2003.

of 36.0% compared to 4Q02.

Table 1. Revenues (JPY in millions)

Revenues	1Q03	1Q02	YoY % change	4Q02	QoQ % change
Connectivity and value-added services:					
Dedicated access services	3,321	3,523	-5.7%	3,341	-0.6%
Dial-up access services	767	822	-6.7%	765	0.3%
Total Connectivity Services	4,089	4,346	-5.9%	4,106	-0.4%
Value-added services	987	865	14.1%	931	6.0%
Other	520	409	27.1%	381	36.3%
Total Connectivity and value-added services	5,596	5,620	-0.4%	5,419	3.3%
Systems integration revenues	2,408	3,329	-27.7%	4,905	-50.9%
Equipment sales	341	900	-62.2%	2,712	-87.4%
Total revenues	8,344	9,849	-15.3%	13,036	-36.0%

Connectivity and value-added services revenues were JPY5,596 million in 1Q03, a decrease of 0.4% compared to 1Q02, but an increase of 3.3% compared to 4Q02.

Table 2. Connectivity Services (JPY in millions)

Connectivity Services	1Q03	1Q02	YoY % change	4Q02	QoQ % change
Dedicated access services:					
IP Service + DC (connectivity)	2,534	2,574	-1.5%	2,518	0.6%
Others	787	949	-17.1%	823	-4.4%
Total dedicated access services	3,321	3,523	-5.7%	3,341	-0.6%

Dedicated access services revenues were JPY3,321 million in 1Q03, a decrease of 5.7% compared to 1Q02 and a decrease of 0.6% compared to 4Q02. These decreases were mainly due to the decreases of our conventional second-tier services, IJ Economy Service and IJ T1 Standard Service. However, steady revenue growth of IJ FiberAccess/F(10-100Mbps) service and IJ Data Center connectivity services partially offset the decreases.

Table 3. Number of Contracts

	1Q03	1Q02	4Q02
IP Services			
64kbps – 128kbps	90	108	112
192kbps – 768kbps	26	33	35
1Mbps – 2Mbps	239	263	268
3Mbps – 1.2Gbps	294	183	248
Number of Contracts of DC Connectivity Services⁴	171	122	156
Other⁵	5,056	3,269	4,489
Total Dedicated Access Services	5,876	3,978	5,308
IJ4U (Dial-up access services for retail market)	76,209	86,297	79,464
Other Dial-Up Access Services	515,363	232,330	450,320
Total Dial-Up Access Services	591,572	318,627	529,784

⁴ Please refer to the Reconciliation of Non-GAAP Financial Measures on page 6.

⁵ Please refer to the Reconciliation of Non-GAAP Financial Measures on page 6.

Dial-up access service revenues were JPY767 million in 1Q03, a decrease of 6.7% compared to 1Q02 but an increase of 0.3% compared to 4Q02. The increase in sequential comparison was due to the increase of IIJ's various OEM services, which include NTT's regional L-mode service and other network services through the CDN platform.

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

	1Q03	1Q02	4Q02
Dedicated Access Services	41.1	12.2	32.1
DC Connectivity Services	10.3	2.2	9.9
Total Contract Bandwidth	51.4	14.4	42.0

Value-added services revenues were JPY987 million in 1Q03, an increase of 14.1% compared to 1Q02 and an increase of 6.0% compared to 4Q02. These increases were mainly due to the revenue growth of IIJ security-related services.

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

Value-Added Services	1Q03	1Q02	YoY % change	4Q02	QoQ % change
Value-Added Service Revenues					
Internet data center services	337	370	-8.8%	341	-1.1%
Other value-added services	650	495	31.2%	590	10.1%
Total Value-Added Service Revenues	987	865	14.1%	931	6.0%

Systems integration services revenues decreased 27.7% to JPY2,408 million in 1Q03 compared to 1Q02 and 50.9% compared to 4Q02 due to a decrease in new contracts in SI development.

Equipment sales revenues were JPY341 million in 1Q03, a decrease of 62.2% compared to 1Q02 and a decrease of 87.4% compared to 4Q02.

Cost and expenses

Cost of total revenues was JPY7,868 million in 1Q03, a decrease of 12.1% compared to 1Q02, and a decrease of 34.0% compared to 4Q02.

Table 6. Costs and Expenses (JPY in millions)

Costs and expenses:	1Q03	1Q02	YoY % change	4Q02	QoQ % change
Cost of Revenues:					
Cost of connectivity and value-added services	5,234	5,093	2.8%	5,033	4.0%
Cost of systems integration	2,323	2,987	-22.2%	4,248	-45.3%
Cost of equipment sales	311	876	-64.5%	2,638	-88.2%
Total of Cost of Revenues	7,868	8,956	-12.1%	11,919	-34.0%
Sales and marketing	827	749	10.4%	789	4.8%
General and administrative	612	517	18.3%	662	-7.5%
Research and development	96	91	5.9%	113	-14.8%
Total costs and expenses	9,404	10,313	-8.8%	13,483	-30.3%

Backbone Costs

International backbone costs were JPY261 million, a decrease of 41.9% compared to 1Q02 and a decrease of 17.1% compared to 4Q02 through our continuous effort in reducing backbone costs. The monthly unit backbone costs declined by approximately 54% compared to 1Q02 and by approximately 17% compared to 4Q02.

Table 7. Backbone Costs (JPY in millions)

Backbone Costs	1Q03	1Q02	YoY	4Q02	QoQ
			% Change		% Change
International Backbone Costs	261	449	-41.9%	315	-17.2%
Domestic Backbone Costs	1,057	800	32.1%	1,075	-1.7%

Domestic backbone costs was JPY1,057 million, an increase of 32.1% compared to 1Q02 but a decrease of 1.7% compared to 4Q02. The increases in year over year comparison was a result of an increase in connection fees with NTT's regional access networks (FLET'S), along with our broadband strategy to strengthen its backbone network for our providing various broadband network services and solutions nationwide.

Cost of SI Revenues was JPY2,323 million in 1Q03, a decrease of 22.2% compared to 1Q02 and a decrease of 45.3% compared to 4Q02. The gross margin ratio for SI deteriorated to 3.5% in 1Q03 compared to 10.3% in 1Q02 and 13.4% in 4Q02. The deterioration of the gross margin was caused because the profits from SI were diminished due to the decline in the number of new SI development contracts and the fixed costs of SI could not be offset by the profits.

Sales and Marketing Expenses were JPY827 million in 1Q03, an increase of 10.4% compared to 1Q02 and an increase of 4.8% compared to 4Q02. These increases were due to the increase in personnel expenses.

General and administrative expenses were JPY612 million in 1Q03, an increase of 18.3% compared to 1Q02 but a decrease of 7.5% compared to 4Q02. The 4Q02 expenses included the cost of the move to new headquarters.

Operating loss

Primarily as a result of the decline of SI profitability, the operating loss increased to JPY1,060 million in 1Q03 compared to a loss of JPY464 million in 1Q02 and a loss of JPY446 million in 4Q02.

Other expenses for 1Q03 were JPY204 million, compared to JPY521 million in 1Q02 and JPY360 million in 4Q02. These decreases were as a result of the decrease in foreign exchange loss and impairment loss of equity security investments. IJ recorded a foreign exchange loss of only JPY3 million in 1Q03 and impairment loss on non-marketable equity security investments of JPY38 million.

Income tax benefit (expense) for 1Q03 was a benefit JPY390 million, compared to an expense of JPY161 million in 1Q02 and an expense of JPY97million in 4Q02. This is a result of an 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 JPY1,317 million in 1Q03, compared to JPY1,516 million in 1Q02, and JPY1,254 million in 4Q02. This is mostly attributed to the equity loss in Crosswave.

Net loss was JPY1,989 million in 1Q03, compared to JPY2,595 million in 1Q02 and JPY2,137 million in 4Q02. Basic net loss per ADS equivalent was JPY -43.98 in 1Q03, compared to JPY -57.72 in 1Q02 and JPY -47.52 in 4Q02.

Table 8. Other Financial Statistics (JPY in millions)

Other Financial Statistics	1Q03	1Q02	YoY % Change	4Q02	QoQ % Change
Adjusted EBITDA ⁶	-97	329	-129.5%	459	-121.1%
CAPEX, including capitalized leases ⁷	1,421	1,015	40.0%	936	51.8%
Depreciation and amortization ⁸	990	820	20.7%	933	6.1%

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)

	1Q03	1Q02	4Q02
Adjusted EBITDA	-97	329	459
Depreciation and amortization ⁹	-963	-793	-905
Operating loss	-1,060	-464	-446
Other expenses	-204	-521	-361
Income tax benefit (expense)	-390	161	97
Minority interests in consolidated subsidiaries	202	67	21
Equity in net loss of equity method investees	-1,317	-1,516	-1,254
Net loss	-1,989	-2,595	-2,137

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:

Table 10. CAPEX (JPY in millions)

	1Q03	1Q02	4Q02
Capital expenditures	1,421	1,015	936
Acquisition of assets by entering into capital leases	487	591	772
Purchase of property and equipment	934	424	164

1st Quarter Business Review

Service Development

Outsourcing Solutions: In May 2003, IIJ launched “IIJ Web Gateway Service”, a new security service that will be provided in cooperation with IIJ Technology Inc., our 64.1% owned subsidiary. The new service meets a variety of enterprise needs by providing proxy-caching server operation and management functions and URL filtering. Outsourcing these responsibilities to the IIJ Group enables efficient Web access security administration without building a costly network and without much of the

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

⁷ Please refer to the Reconciliation of Non-GAAP Financial Measures on this page.

⁸ Depreciation and amortization includes amortization of issuance cost of convertible notes.

⁹ Depreciation and amortization excludes amortization of issuance cost of convertible notes that was presented as other expenses.

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cost and work that is involved in administering and operating such a network. The IJ Web Gateway service has captured 60,000 accounts in this quarter. The IJ group expects the number of accounts to double by the end of the fiscal 2003.

Network Management Solutions: In June 2003, IJ launched the "IJ SMF Service", a network management solution for business users that have a few to several thousand base stations. The new service makes use of the network service operating system "SMF (SEIL Management Framework)," to streamline and centralize the control of diverse and complex operations, from the setup and construction to the implementation, administration, and maintenance of corporate networks. The service drastically reduces the labor-intensive work of implementation, configuration, and modification of equipment and network functions. These advantages reduce initial network setup costs by 90% and lower operation and maintenance costs by nearly 50%. IJ expects revenues from this service to grow further.

IJ has continued to develop new services that take advantage of IJ's engineering expertise in the router area. In April 2003, IJ developed "SEIL/Turbo," a high-end enterprise-class router that is the most advanced unit to date in the next-generation, high-performance SEIL series of routers. The router was added to the SEIL Rental Service lineup. In addition to the features available in the SEIL/neu series, SEIL/Turbo has an embedded gigabit interface, dedicated high-speed VPN processing hardware, robust management and other advanced administrative functions. The introduction of SEIL/Turbo allows IJ to construct entire networks using only the SEIL series.

Hosting Services: IJ expanded the functionality of IJ's Download Site Service. The new functionality makes it possible to provide Web server solutions with a bandwidth of 1Gbps while allowing 40,000 simultaneous sessions. At the same time, disk space is increased to 500MB. With this upgrade, the service becomes a flexible resource for large-scale projects and allows IJ to customize configurations for each systems integration project.

Network Infrastructure Development

In 1Q03, IJ increased the capacity of four of its domestic backbone network lines and also established one new line. These upgrades facilitate faster and more-reliable transmission of data communications.

Finance

Capital Improvement Plan: IJ completed a private placement to some of its business partners and raised a total amount of JPY 1.37 billion in June 2003. It issued 3,265 new shares of common stock at a price of JPY 418,200 per share. Total number of issued common shares after the private placement was 25,745.

Key Developments of the IJ Group

VoIP Solution

April 2003- Net Care Inc., IJ's 52.5% subsidiary, launched a new IP (Internet Protocol) telephony solution service for enterprises, which provides a comprehensive VoIP (Voice over IP) solution.

May 2003- IJ Launched Internet Telephone Service which is provided to IJ4U customers as a part of its "FLET'S IP Telephone Option" service, and to IJ mio customers as a part of its "IP Phone/F" service.

May 2003- Crosswave Communications Inc., IJ's 37.9% affiliate, began developing IP telephone services dedicated to corporate users. As a first step, Crosswave provides "IP-Centrex", an audio transmission service for corporate users leveraging VoIP technology as another option available to users of the "Wide-area Ethernet Platform Service".

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June 2003- Asia Internet Holding Co., Ltd., ("AIH"), IJ's 26.7% affiliate, launched "A-Bone VoIP Service", an internet telephony service that leverages the A-Bone platform, an Internet backbone network that covers the Asia-pacific region.

International Backbone

May 2003- AIH reached an agreement with Malaysia's TMNet, and upgraded its connectivity to STM-1x2 (310Mbps) from 45Mbps. AIH also upgraded its connectivity for the Philippines' Globe Telecom to 45Mbps from 2Mbps and for the Korea's Hanaro Telecom to 155Mbps from 2Mbps.

Teleconference/Webcast

On August 13 at 9:45 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: IJJI) 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 2Q03 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 success of IJ'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 IJ'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 Jun 30, 2003, Jun 30, 2002 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						Sequential Comparison		
	Jun 30, 2003			Jun 30, 2002			Mar 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	27,707	3,321,229	39.8%	3,523,334	35.8%	(5.7%)	3,341,255	25.6%	(0.6%)
Dial-up access services	6,402	767,418	9.2	822,268	8.3	(6.7)	764,958	5.9	0.3
Value-added services	8,235	987,198	11.8	865,161	8.8	14.1	931,399	7.2	6.0
Other	4,336	519,709	6.2	408,925	4.2	27.1	381,206	2.9	36.3
Total connectivity and value-added services	46,680	5,595,554	67.0	5,619,688	57.1	(0.4)	5,418,818	41.6	3.3
Systems integration revenues	20,088	2,407,923	28.9	3,329,058	33.8	(27.7)	4,905,429	37.6	(50.9)
Equipment sales	2,841	340,569	4.1	900,456	9.1	(62.2)	2,712,192	20.8	(87.4)
Total revenues	69,609	8,344,046	100.0	9,849,202	100.0	(15.3)	13,036,439	100.0	(36.0)
Costs and expenses:									
Cost of connectivity and value-added services	43,665	5,234,158	62.7	5,092,515	51.7	2.8	5,033,266	38.6	4.0
Cost of systems integration revenues	19,383	2,323,392	27.9	2,987,373	30.3	(22.2)	4,247,690	32.6	(45.3)
Cost of equipment sales	2,594	310,946	3.7	876,012	8.9	(64.5)	2,638,334	20.2	(88.2)
Total costs	65,642	7,868,496	94.3	8,955,900	90.9	(12.1)	11,919,290	91.4	(34.0)
Sales and marketing	6,899	826,979	9.9	749,361	7.6	10.4	789,234	6.0	4.8
General and administrative	5,106	612,047	7.3	517,316	5.3	18.3	661,502	5.1	(7.5)
Research and development	802	96,098	1.2	90,780	0.9	5.9	112,845	0.9	(14.8)
Total costs and expenses	78,449	9,403,620	112.7	10,313,357	104.7	(8.8)	13,482,871	103.4	(30.3)
Operating loss	(8,840)	(1,059,574)	(12.7)	(464,155)	(4.7)	128.3	(446,432)	(3.4)	137.3
Other expenses	(1,705)	(204,398)	(2.4)	(520,836)	(5.3)	(60.8)	(360,292)	(2.8)	(43.3)
Loss before income tax expense(benefit)	(10,545)	(1,263,972)	(15.1)	(984,991)	(10.0)	28.3	(806,724)	(6.2)	56.7
Income tax expense(benefit)	(3,254)	(390,035)	(4.7)	161,301	1.6	(341.8)	97,256	0.8	(501.0)
Minority interests in consolidated subsidiaries	1,683	201,701	2.4	66,950	0.7	201.3	21,342	0.2	845.1
Equity in net loss of equity method investees	(10,986)	(1,316,854)	(15.8)	(1,515,675)	(15.4)	(13.1)	(1,253,875)	(9.6)	5.0
Net loss	(16,594)	(1,989,090)	(23.8%)	(2,595,017)	(26.3%)	(23.3%)	(2,136,513)	(16.4%)	(6.9%)
Basic Net Loss Per Share		(87,970)		(115,437)			(95,041)		
Basic Net Loss Per ADS Equivalent		(43.98)		(57.72)			(47.52)		
Weighted Average Number of Shares		22,611		22,480			22,480		
Weighted Average Number of ADS Equivalents		45,222,494		44,960,000			44,960,000		

Note (1): The translation of Japanese yen amounts into US dollar amounts with respect to the three months ended Jun 30, 2003 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 119.87 = \$1, the approximate rate of exchange on Jun 30, 2003.

INTERNET INITIATIVE JAPAN INC.
CONSOLIDATED BALANCE SHEETS(UNAUDITED)

As of Jun 30, 2003, Jun 30, 2002 and Mar 31, 2003
(Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD)) (1)

	Jun 30, 2003			Jun 30, 2002		Mar 31, 2003	
	USD (1)	JPY	%	JPY	%	JPY	%
ASSETS							
Current Assets:							
Cash	23,517	2,819,007	8.0%	6,014,693	14.7%	3,588,352	9.2%
Accounts receivable, net	50,254	6,023,935	17.0	6,872,763	16.7	10,253,096	26.1
Inventories	2,903	347,971	1.0	272,821	0.7	417,666	1.1
Prepaid expenses	7,057	845,908	2.4	645,763	1.6	564,501	1.4
Other current assets	4,642	556,492	1.6	140,162	0.3	932,873	2.4
Total current assets	88,373	10,593,313	30.0	13,946,202	34.0	15,756,488	40.2
Investments in and Advances to Equity Method Investees	30,777	3,689,206	10.5	7,396,756	18.0	3,271,032	8.3
Other Investments	33,100	3,967,719	11.2	4,954,787	12.0	3,040,189	7.8
Property and Equipment, net	77,120	9,244,442	26.2	7,709,559	18.8	9,151,572	23.3
Restricted Cash	41,712	5,000,000	14.2	5,000,000	12.2	5,000,000	12.8
Guarantee Deposits	17,370	2,082,118	5.9	1,302,234	3.2	2,205,652	5.6
Other Assets	5,899	707,063	2.0	743,614	1.8	794,455	2.0
Total assets	294,351	35,283,861	100.0%	41,053,152	100.0%	39,219,388	100.0%
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current Liabilities:							
Short-term borrowings	47,346	5,675,341	16.1%	4,550,835	11.1%	4,823,599	12.3%
Accounts payable	36,795	4,410,636	12.5	4,834,546	11.8	8,406,170	21.4
Accrued expenses	4,482	537,236	1.5	317,968	0.8	389,495	1.0
Other current liabilities	4,526	542,538	1.5	556,494	1.3	551,985	1.4
Long-term borrowings-current portion	12,892	1,545,452	4.4	1,400,000	3.4	1,943,735	5.0
Capital lease obligations-current portion	22,333	2,677,038	7.6	2,060,284	5.0	2,716,386	6.9
Total current liabilities	128,374	15,388,241	43.6	13,720,127	33.4	18,831,370	48.0
Long-term Borrowings	28,527	3,419,555	9.7	3,400,000	8.3	3,456,265	8.8
Convertible Notes	125,135	15,000,000	42.5	15,000,000	36.6	15,000,000	38.2
Capital Lease Obligations-Noncurrent	28,429	3,407,735	9.7	2,800,483	6.8	3,635,780	9.3
Accrued Retirement and Pension Costs	624	74,764	0.2	91,037	0.2	80,601	0.2
Other Noncurrent Liabilities	1,565	187,579	0.5	163,686	0.4	185,201	0.5
Total liabilities	312,654	37,477,874	106.2	35,175,333	85.7	41,189,217	105.0
Minority Interest	5,655	677,794	1.9	965,796	2.3	879,495	2.3
Shareholders' Equity:							
Common stock(2)	64,779	7,765,048	22.0	7,082,336	17.3	7,082,336	18.1
Additional paid-in capital(2)	148,086	17,751,065	50.3	17,068,353	41.6	17,068,353	43.5
Accumulated deficit	(246,278)	(29,521,294)	(83.6)	(20,803,486)	(50.7)	(27,532,204)	(70.2)
Accumulated other comprehensive income	9,456	1,133,467	3.2	1,564,820	3.8	532,191	1.3
Treasury stock	(1)	(93)	0.0	0	0.0	0	0.0
Total shareholders' equity	(23,958)	(2,871,807)	(8.1)	4,912,023	12.0	(2,849,324)	(7.3)
Total liabilities and shareholders' equity	294,351	35,283,861	100.0%	41,053,152	100.0%	39,219,388	100.0%

Note (1): The translation of Japanese yen amounts into US dollar amounts with respect to Jun 30, 2003 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY119.87 = \$1, the approximate rate of exchange on Jun 30, 2003.

Note (2): New 3,265 shares have been issued on June 26, 2003, in the amount of JPY1,365,423.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Three Months Ended June 30, 2003, June 30, 2002 and Mar 31, 2003

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

	Jun 30, 2003		Jun 30, 2002	Mar 31, 2003
	USD (1)	JPY	JPY	JPY
Operating Activities:				
Net loss	(16,594)	(1,989,090)	(2,595,017)	(2,136,513)
Depreciation and amortization	8,261	990,190	820,252	933,374
Equity in net loss of equity method investees	10,986	1,316,854	1,515,675	1,253,875
Minority interests in net loss of consolidated subsidiaries	(1,683)	(201,701)	(66,950)	(21,342)
Foreign exchange losses	27	3,245	134,820	149,262
Losses on other investments	314	37,572	78,819	184,723
Decrease (increase) in accounts receivable	35,280	4,229,010	2,109,969	(2,983,254)
Increase (decrease) in accounts payable	(30,625)	(3,671,049)	(1,996,362)	2,200,392
Decrease in inventories	581	69,689	347,588	392,051
Deferred income taxes	(3,301)	(395,698)	152,840	91,033
Other	2,230	267,346	(45,560)	426,737
Net cash provided by operating activities	5,476	656,368	456,074	490,338
Investing Activities:				
Purchase of property and equipment	(7,789)	(933,646)	(424,321)	(163,592)
Proceeds from sale-leaseback	-	-	-	66,940
Proceeds from sales of other investment	289	34,672	8,553	13,663
Investments in and advances to equity method investees	(14,349)	(1,719,981)	(56,250)	-
Purchase of other investments	(108)	(12,971)	-	-
Deposit to restricted cash	-	-	(5,000,000)	-
Refund (payment) of guarantee deposits-net	1,032	123,632	(36,155)	(1,387,210)
Other	-	11	(10,696)	(7,606)
Net cash used in investing activities	(20,925)	(2,508,283)	(5,518,869)	(1,477,805)
Financing Activities:				
Proceeds from long-term borrowings	-	-	-	2,000,000
Repayments of long-term borrowings	(3,629)	(434,994)	-	(1,200,000)
Principal payments under capital leases	(5,822)	(697,830)	(566,505)	(656,238)
Net increase in short-term borrowings	7,106	851,742	730,603	312,854
Proceeds from issuance of common stock	11,391	1,365,424	-	-
Net cash provided by financing activities	9,046	1,084,342	164,098	456,616
Effect of Exchange Rate Changes on Cash	(15)	(1,772)	(132,529)	(151,410)
Net Decrease in Cash	(6,418)	(769,345)	(5,031,226)	(682,261)
Cash, Beginning of Period	29,935	3,588,352	11,045,919	4,270,613
Cash, End of Period	23,517	2,819,007	6,014,693	3,588,352

Note (1): The translation of Japanese yen amounts into US dollar amounts with respect to the three months ended Jun 30, 2003 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY119.87 = \$1, the approximate rate of exchange on Jun 30, 2003.