



Internet Initiative Japan



***CONTACT IN JAPAN***

Internet Initiative Japan Inc.

Junko Higasa

Investor Relations/Media Relations

ir@ij.ad.jp

81-3-5259-6500

***CONTACT IN THE UNITED STATES***

Thomson Financial / Carson

Mami Ogawa

Investor Relations

mami.ogawa@tfn.com

212-701-1824

***IIJ Announces Positive Operating Income for the 2<sup>nd</sup> Quarter 2001 Results***  
***- Expects Further Improvement in Operating Income for Full Fiscal 2001 Year -***

**Tokyo and New York, November 13, 2001** – 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 second quarter ended September 30, 2001. On November 14 at 9:00am (EST), the Company will host a conference call, which will be simultaneously webcasted over the Internet at [www.vcall.com](http://www.vcall.com). Replay will also be available at the same URL.

**The 2nd Quarter of FY2001 Results Summary**

- Total revenues for 2Q01 were 9.5 billion, an increase of 17.5% from 2Q00, and 14.3% from 1Q01, which is on the upper end of the Company’s revenue target for the 2<sup>nd</sup> quarter. Despite the lagging economy in Japan, this successful growth was mainly due to stronger Systems Integration (SI) revenues in conjunction with the Company’s total network solutions approach for its targeted high-end corporate customers.
- Contracted bandwidth in Dedicated Access Services was 6.4Gbps, an increase from 2.7Gbps from 2Q00 and 4.6Gbps from 1Q01, demonstrating the strength of the Company’s broadband network services, which serve as the basis to grow its network solutions business.
- International backbone costs, the Company’s largest cost reduction target, further declined by 51.4% from 2Q00 and 28.2% from 1Q01 through the Company’s continuous focus on cost reduction initiatives to improve profitability.
- The Company turned positive on an operating basis with JPY16 million in operating income from an operating loss of (-) JPY300 million in 1Q01. Gross margin for 2Q01 continued to improve to 14.1% from 9.1% in 2Q00 and from 12.5% in 1Q01. EBITDA<sup>(\*)</sup> also continued to improve to JPY712 million, a 89.2% increase from 1Q01.
- For 3Q01, IIJ expects total revenues to be between JPY10.0 billion and JPY10.5 billion, exceeding the JPY10 billion mark for the first time in IIJ’s history and representing approximately 40% growth from 3Q00. Growth is expected to be driven by stronger SI revenues despite the typical seasonality experienced in the third quarter. Operating income is expected to be between JPY150 million and JPY300 million, and EBITDA between JPY890 and JPY1,040 million.
- IIJ reaffirms that it continues to expect to report positive operating income for the fiscal 2001.

<sup>(\*)</sup> EBITDA represents operating income (loss) plus depreciation and amortization.

## **Overview and Business Outlook**

### ***Overview of the 2Q Results and Business Outlook***

“This quarter marked a milestone for the Company by achieving positive operating income, thus demonstrating our capability to turn the business profitable despite the lagging macro economy in Japan,” said Koichi Suzuki, President and CEO of IIJ. “A key advantage of our industry is that backbone operators, in general, can continue to enjoy stable profitability once their cost structure is improved. Today, thanks to steady revenue growth and the easing burden of our international backbone costs, we expect total revenues in the next quarter to grow by 40% from 3Q00, and further improvement in operating income in the 3Q01 and thereafter. Thus, we expect to achieve positive operating income for the full fiscal 2001 year.”

“In this quarter, we successfully realized a further decline in our international backbone costs by 28.2% from 1Q01, through continuous renegotiations of Japan-US bandwidth procurement contracts with several cable carriers. We expect further declines in our international backbone costs over the next couple of quarters, and expect an approximate 50% decline in this segment for the full fiscal 2001 on a year over year basis,” said Yasuhiro Nishi, CFO of IIJ. “On the other hand, the amount of domestic backbone costs surpassed that of international backbone costs in this quarter, reflecting the growth of the Japanese broadband sector. However, we foresee a gradual decrease in the domestic backbone costs in the second half of the year as we are already benefiting from the price reductions driven by competition in the domestic bandwidth procurement market. We expect total cost of connectivity services, which includes domestic and international backbone costs, for full fiscal 2001 to be less than that of last fiscal year, and thus steadily contribute to improving our profitability.”

### **Anticipated Financial Performance for the 3<sup>rd</sup> Quarter (JPY in millions)**

	<b>The 3<sup>rd</sup> Quarter of the Fiscal 2001</b>
Revenues	10,000 to 10,500
Operating Income	150 to 300
EBITDA	890 to 1,040

### ***Strategies under Sluggish Economy in Japan for the Second Half of Fiscal 2001 Year***

Although the macro economy in Japan remains soft, IIJ expects further top line growth in the second half of fiscal 2001 by continuously capturing strong demand for newly introduced network architectures for mission critical network systems. To address the growing market, IIJ continues to leverage its expertise in IP (Internet Protocol) technologies and its leading position in the high-end corporate market by strengthening its quality-focused broadband network services, reinforcing its total network solutions approach, and enhancing its customer relations.

### **Strengthening Quality-focused Broadband Network Services:**

As a result of success in capturing the growing demand for IIJ’s quality-focused broadband network services, within IP Services, average bandwidth per contract increased by 2.5 times from 2Q00, as did the average revenue per contract by 15% from 2Q00. “Despite strong growth for our higher bandwidth services, we anticipate revenue growth from Connectivity Services for the second half of 2001 to be modest due to the decrease in unit price per bit,” said Nishi. “However, IIJ’s success in promoting its broadband network services, which utilize the Company’s IP technological expertise, continues to serve as the basis for capitalizing other IIJ services.”

## **Internet Initiative Japan Inc.**

November 13, 2001

Page 3

In order to expand its operation in broadband services, IIJ has leveraged its strategic relations in various fields. For example, in October, IIJ announced a tie-up with Japan Research Institute (“JRI”), a think-tank of the Sumitomo-Mitsui Banking Corporation group, to provide one-stop corporate reengineering solutions, through which IIJ provides broadband network services to JRI customers. Also, in November, IIJ announced that a content delivery consortium, CDN JAPAN, started distribution of broadband content over IIJ broadband platform HSMN (High Speed Media Network). By leveraging strategic relations with CDN JAPAN, IIJ is able to further promote its connectivity services for regional broadband network operators in Japan, as well as its Internet data center services and SI services for broadband content providers.

### Reinforcement of its Total Network Solutions Approach

IIJ continues to reengineer its total network solutions approach through cooperation with the IIJ Group companies, whereby combining the three business operations, namely “network services,” “SI services” and “operation and management services”. Within network services, the IIJ Group provides comprehensive network services, with Internet services by IIJ, nationwide LAN service by Crosswave (its 37.9% affiliate), intra-Asia connectivity by Asia Internet Holding (its 26.7% affiliate), and value-added Internet connectivity in the U.S. by IIJ America (its 88.2% subsidiary). For the SI services, IIJ and IIJ Technology (its 64.1% subsidiary) have newly allocated their top-tier human resources to the growing new network systems market for corporations. With this new operational focus, revenues from SI services are expected to be stronger in the second half of the year, as IIJ acquires contracts for large-scale SI projects by leveraging its SI know-how in mission critical network systems. Within operation and management services, IIJ is strengthening the operation of Net Care (its 52.5% subsidiary) by closely aligning itself with its strategic shareholders, including JGC Corporation, one of the world’s six largest engineering groups.

### Enhancement of Customer Relations

IIJ’s strong customer base has enabled the Company to maintain strong revenue growth, while strategically positioning itself to capitalize on the anticipated increase in corporate investment in new network systems. “We continue to strengthen our corporate customer base of 6,000 by enhancing customer satisfaction levels through offering our total network solutions,” said Suzuki. IIJ’s top 40 customers operate in manufacturing, financial services and telecommunications and include Toyota, Sharp, Sanwa Bank, NTT Docomo and Japan Telecom.

### Status of Overview and Business Outlook

This Overview and Business Outlook contains certain forward-looking statements and projections that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, but are not limited to, the factors noted at the end of this release and to the risk factors and other information contained in IIJ’s filings with and other documents furnished to the Securities and Exchange Commission on, e.g., Form 20-F and Form 6-K. IIJ will keep this press release publicly available on its Web site ([www.ij.ad.jp](http://www.ij.ad.jp)). Unless IIJ is in a quiet period or unless IIJ publishes an update press release stating otherwise, the public can continue to rely on the Overview and Business Outlook announced in this 2Q01 press release as being IIJ’s current expectations on matters covered. IIJ intends to publish its next Overview and Business Outlook in its 3Q01 earnings release, presently scheduled for February 12, 2001. In conjunction with the 3Q01 earnings announcement, IIJ will hold a webcasted conference call, that will be made available to the public for listening over the Company’s website. Additionally, IIJ will observe a quiet period from February 1, 2001 until publication of the 3Q01 earnings release. During the quiet period, readers are referred to the documents filed with or furnished to the SEC by IIJ, specifically the most recent reports on Forms 20-F and 6-K. These documents speak to the timeframe prior to the quiet period only, and are not subject to update by the Company. During the quiet period, IIJ representatives will not comment on IIJ’s financial results or expectations.

## **Internet Initiative Japan Inc.**

November 13, 2001

Page 4

### **The 2<sup>nd</sup> Quarter of FY2001 Operating Highlights**

#### **Network Infrastructure**

In the quarter, IJ increased the number of its dial-up access points to 75 from 74. Also, IJ expanded its IPv6 (Internet Protocol Version 6, or the next generation Internet protocol) network operation by linking its IPv6 network to NY6IX, 6IIX-NY and 6TAP Palo Alto, which are US-based IPv6 IXs (Internet eXchange points).

#### **Service Development under Total Network Solutions Approach**

In the quarter, IJ launched 7 new services in various network-related markets to enhance its total network solutions.

Virtual Private Network (VPN) Services: IJ began offering a Japan-US VPN service, in cooperation with IJ America and U.S.-based leading Internet infrastructure provider Genuity Inc. The VPN service enables Japan-based businesses and organizations to establish secure Internet communications between locations in Japan and the United States via the Internet.

ADSL and FTTH Services: IJ launched a new connectivity service "IJ Fiber Access/F" for regional NTT's FTTH (Fiber to The Home) lines, with a focus on small and medium sized enterprise (SME) users. Additionally, IJ started accommodating regional NTT's ISDN/ADSL open lines for its corporate dialup service.

New Consumer Lineup: IJ introduced a new brand for consumers, "IJmio," which enables users to freely combine a variety of Internet-related functions. In the quarter, IJ released "IJmio Prime Mail Service," a premium email account service and "IJmio DSL/De Service," an Internet connectivity service offered over eAccess's ADSL open lines.

IPv6: IJ completed the IPv6-adaptation for all Dedicated Access Services in September 2001.

#### **Customer Relations**

IJ waived its charges on dialup Internet connections in the United States from September 11 to September 30, 2001, in recognition of the September 11<sup>th</sup> tragedies. IJ also enhanced its Service Level Agreements ("SLA") with all its customers by raising the benchmark for an average round trip time across the IJ entire domestic backbone network to 30 milliseconds from 40 milliseconds.

#### **Investment**

To further strengthen its operation in the Asia Pacific region, IJ increased its stake in AIH, which operates a pan-Asian Internet backbone network, from 20.6% to 26.7%. IJ acquired an additional 1,966 shares of common stock of AIH in August 2001. During the quarter, IJ also purchased 6,000 shares in Net Care, its subsidiary specializing in the customer support business, increasing its equity stake from 50.0% to 52.5%. With the increased investment in Net Care, it is IJ's objective to strengthen network and systems management services under its total network solutions approach.

#### **Development of IJ Group Companies**

During the quarter, Crosswave added a new 512kbps bandwidth to its Wide-area Ethernet Platform Services, to address a broader range of customer bandwidth needs. Crosswave also launched Metro Wave Service to offer end-to-end broadband platforms for the Tokyo metropolitan area, and added a 10Mbps service to its High-speed Backbone Service, which is Japan's first long distance point-to-point service offered with an Ethernet interface.

Internet Multifeed, a 26.0% affiliate, announced that it will launch "JPNAP Osaka", an Internet exchange service, in Osaka later this fiscal year. The expansion aims to diversify Japan's Internet

## Internet Initiative Japan Inc.

November 13, 2001

Page 5

traffic, which is currently heavily weighted towards Tokyo.

AIH upgraded their A-Bone capacity of its Japan-China Internet backbone, to a total 90Mbps.

### The 2<sup>nd</sup> Quarter of FY2001 Financial Results

#### Revenues

Revenues in 2Q01 totaled JPY 9,528 million, up 17.5% compared with 2Q00, and up 14.3% compared with 1Q01.

**Connectivity services and value-added services** revenues increased 12.9% to JPY 5,553 million from 2Q00, and decreased 2.6% from 1Q01.

Dedicated access services increased 9.1% to JPY 3,431 million from 2Q00, and by 1.3% from 1Q01. In comparison to 1Q01, IIJ's T1 Standard and IIJ DSL/F service increased steadily, which more than offset a decline in the IIJ Economy service.

Dial-up access service decreased 19.3% to JPY 933 million from 2Q00, and by 5.2% from 1Q01. Both the year-over-year and sequential declines were due mainly to the decrease in conventional dial up services revenues, as the Company's corporate dial-up customers shift to IIJ's DSL/F services.

Value-added services increased 73.9% to JPY886 million from 2Q00, and by 0.5% from 1Q01. While IIJ has substantially increased the number of value-added services from last year, the slight increase from 1Q01 was due mainly to significant increase in registration fees for DNS services in 1Q01.

**Systems integration services** revenues increased 15.9% to JPY3,352 million from 2Q00, and by 47.0% from 1Q01

**Table 1. Number of Contracts**

<b>Internet Access Services</b>	<b>2Q01</b>	<b>1Q01</b>	<b>2Q00</b>
<i>IP Service</i> 64kbps – 128kbps	213	245	369
192kbps – 768kbps	49	61	104
1Mbps – 2Mbps	258	246	201
3Mbps – 1.2Gbps	123	115	92
<i>IIJ FiberAccess/F</i> <sup>(*)</sup>	2	N/A	N/A
<i>IIJ T1 Standard</i> 1.5Mbps	690	662	386
<b>Total IP Service</b>	<b>1,335</b>	<b>1,329</b>	<b>1,152</b>
<i>IIJ Economy</i> 64kbps – 128kbps	1,171	1,283	1,220
<i>IIJ DSL/F</i> <sup>(*)</sup> Maximum 1.5Mbps	286	45	N/A
<b>Total Dedicated Access Services Contracts</b>	<b>2,792</b>	<b>2,657</b>	<b>2,372</b>

<sup>(\*)</sup> IIJ FiberAccess/F is a new service launched in August 2001.

<sup>(\*)</sup> IIJ DSL/F is a new service launched in May 2001.

<i>IIJ4U</i> (dialup service for individuals)	94,104	94,802	93,253
<b>Others</b>	<b>86,123</b>	<b>66,341</b>	<b>63,917</b>
<b>Total Dial-up Access Services Contracts</b>	<b>180,227</b>	<b>161,143</b>	<b>157,168</b>

## Internet Initiative Japan Inc.

November 13, 2001

Page 6

<b>Total Data Center Services Contracts</b>	119	116	61
---	-----	-----	----

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

	2Q01	1Q01	2Q00
<b>Total IP Service (IP Service and IIJ T1 Standard)</b>	3,081	3,048	2,829
<b>IIJ Economy + IIJ DSL/F</b>	350	339	316

**Table 3. Contracted Bandwidth** (Unit: Gbps)

	2Q01	1Q01	2Q00
<b>Dedicated Access Services</b>	6.4	4.6	2.7

### *Cost and expenses*

Cost of total revenues increased 11.0% to JPY 8,182 million from 2Q00, and by 12.3% from 1Q01.

International backbone costs decreased 51.4% to JPY 623 million from 2Q00, and by 28.2% from 1Q01. These decreases on both a year-over-year and sequential basis reflect the sharp price reduction in Japan-US backbone lines. Monthly unit backbone cost declined by approximately 66% in the year-over-year comparison, and by approximately 41% in the sequential comparison.

Domestic backbone costs increased 29.9% to JPY805 million from 2Q00, and by 4.0% from 1Q01, reflecting the growth of the Japanese broadband sector.

**Table 4. Backbone Costs** (JPY in millions)

	2Q01	1Q01	2Q00
<b>International Backbone Costs</b>	<b>623</b>	867	1,283
<b>Domestic Backbone Costs</b>	<b>805</b>	774	620

Cost of SI revenues increased 10.7% to JPY2,800 million from 2Q00, by 46.3% from 1Q01. The gross margin ratio for SI improved steadily, reflecting the increase in monitoring, maintenance and other operation services revenues, which are more profitable than system development revenues.

Sales and marketing expenses decreased 7.7% to JPY820 million from 2Q00, and up by 0.1% from 1Q01. While advertisement expenses decreased by 55.6% to JPY119 million from 2Q00 and by 0.9% from 1Q01, IIJ increased sales personnel as part of its total network solution strategy to enhance customer relations. As a result, sales personnel expenses increased 26.9% to JPY363 million from 2Q00, and by 6.5% from 1Q01.

Primarily as a result of growth in the SI revenues and the decrease in international backbone costs, IIJ achieved operating income of JPY16 million in 2Q01, compared to a loss of JPY 632 million in 2Q00, and a loss of JPY 300 million in 1Q01. The operating income ratio against revenues for 2Q01 was 0.2%, compared to (-)7.8% in 2Q00, and to (-)3.6% in 1Q01.

### *Other income (expenses)*

Other expenses for 2Q01 was JPY 430 million, compared to other income of JPY 440 million in 2Q00, and to other expenses of JPY 61 million in 1Q01. IIJ recorded a foreign exchange loss of JPY179 million in 2Q01, a gain of JPY 256 million in 2Q00 and a gain of JPY 23 million in 1Q01. Interest and dividend income decreased to JPY 41 million in 2Q01, compared to JPY 144 million in 2Q00, and to JPY105 million in 1Q01.

## Internet Initiative Japan Inc.

November 13, 2001

Page 7

### *Equity in net loss of affiliated companies*

Equity in the net loss of affiliated companies increased to JPY1,399 million in 2Q01, compared to JPY1,046 million in 2Q00, and to JPY1,219 million in 1Q01, mainly resulting from the equity loss in Crosswave.

### *Income tax expense (benefit)*

Income tax expense for 2Q01 was JPY 1,266 million, compared to an income tax benefit of JPY 900 million in 2Q00, and to an income tax expense of JPY 127 million in 1Q01. The increase in income tax expense in 2Q01 was a result of an increase in the valuation allowance for deferred tax assets. The increase in the valuation allowance was attributable to the income tax effect of unrealized gains on certain available-for-sale securities, which have been decreasing in recent quarters.

### *Net loss*

Mainly as a result of the increase in foreign exchange loss, the equity loss in Crosswave and the income tax expense, net loss increased to JPY3,085 million in 2Q01, compared to JPY 337 million in 2Q00, and JPY 1,665 million in 1Q01. Basic net loss per ADS equivalent was JPY(-)68.61 in 2Q01, compared to JPY(-)7.50 in 2Q00 and JPY(-)37.03 in 1Q01.

**Table 5. Other Financial Statistics**

(JPY in millions)

	2Q01	1Q01	2Q00
EBITDA	712	376	10
CAPEX, including capitalized leases	931	1,076	1,409
Depreciation and amortization <sup>(*)</sup>	726	706	667

<sup>(\*)</sup> Depreciation and amortization includes amortization of issuance cost of convertible notes.

## Company Information

Internet Initiative Japan Inc. is one of Japan's leading Internet-access and comprehensive Internet solution providers mainly targeting high-end corporate customers. Founded in 1992, IJ 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 solutions ranging from new generation network services over optical-fiber infrastructure optimized for data communications to construction of Asia-wide IP backbone networks, high-quality Internet access, security system services, hosting/housing, content design and systems integration.

*Statements made in this press release that state 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 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 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 from time to time in IJ's filings with the Securities and Exchange Commission.*

**Tables to follow**

**INTERNET INITIATIVE JAPAN INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

Appendix 1

For the Three Months Ended Sept 30, 2001, Sept 30, 2000 and Jun 30, 2001

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

	Year-over-year Comparison						Sequential Comparison		
	Sept 30, 2001		% of Total Revenues	Sept 30, 2000		YOY Chg %	Jun 30, 2001		QOQ Chg %
	USD (1)	JPY		JPY	% of Total Revenues		JPY	% of Total Revenues	
<b>Revenues:</b>									
Connectivity and value-added services:									
Dedicated access services	28,778	3,431,156	36.0%	3,145,493	38.8%	9.1%	3,386,912	40.6%	1.3%
Dial-up access services	7,822	932,653	9.8	1,155,763	14.2	(19.3)	983,461	11.8	(5.2)
Value-added services:									
Internet datacenter services	4,251	506,775	5.3	297,349	3.7	70.4	489,385	5.9	3.6
Other value-added services	3,177	378,815	4.0	211,913	2.6	78.8	391,731	4.7	(3.3)
Total value-added services	7,428	885,590	9.3	509,262	6.3	73.9	881,116	10.6	0.5
Other	2,545	303,481	3.2	109,935	1.4	176.1	452,126	5.4	(32.9)
Total connectivity and value-added services	46,573	5,552,880	58.3	4,920,453	60.7	12.9	5,703,615	68.4	(2.6)
Systems integration revenues	28,117	3,352,363	35.2	2,892,535	35.7	15.9	2,279,854	27.4	47.0
Equipment sales	5,225	623,064	6.5	294,947	3.6	111.2	349,429	4.2	78.3
<b>Total revenues</b>	<b>79,915</b>	<b>9,528,307</b>	<b>100.0</b>	<b>8,107,935</b>	<b>100.0</b>	<b>17.5</b>	<b>8,332,898</b>	<b>100.0</b>	<b>14.3</b>
<b>Costs and expenses:</b>									
Cost of connectivity and value-added services	40,656	4,847,467	50.9	4,587,295	56.6	5.7	5,066,856	60.8	(4.3)
Cost of systems integration revenues	23,484	2,799,940	29.4	2,529,957	31.2	10.7	1,914,254	23.0	46.3
Cost of equipment sales	4,484	534,575	5.6	252,172	3.1	112.0	307,188	3.7	74.0
<b>Total costs</b>	<b>68,624</b>	<b>8,181,982</b>	<b>85.9</b>	<b>7,369,424</b>	<b>90.9</b>	<b>11.0</b>	<b>7,288,298</b>	<b>87.5</b>	<b>12.3</b>
Sales and marketing	6,876	819,799	8.6	888,159	10.9	(7.7)	818,786	9.8	0.1
General and administrative	3,579	426,792	4.5	411,643	5.1	3.7	439,030	5.3	(2.8)
Research and development	702	83,736	0.8	71,011	0.9	17.9	86,598	1.0	(3.3)
<b>Total costs and expenses</b>	<b>79,781</b>	<b>9,512,309</b>	<b>99.8</b>	<b>8,740,237</b>	<b>107.8</b>	<b>8.8</b>	<b>8,632,712</b>	<b>103.6</b>	<b>10.2</b>
<b>Operating income (loss)</b>	<b>134</b>	<b>15,998</b>	<b>0.2</b>	<b>(632,302)</b>	<b>(7.8)</b>	<b>(102.5)</b>	<b>(299,814)</b>	<b>(3.6)</b>	<b>(105.3)</b>
<b>Other income (expenses)</b>	<b>(3,608)</b>	<b>(430,259)</b>	<b>(4.5)</b>	<b>440,388</b>	<b>5.4</b>	<b>(197.7)</b>	<b>(61,484)</b>	<b>(0.7)</b>	<b>599.8</b>
<b>Loss before income tax expense (benefit)</b>	<b>(3,474)</b>	<b>(414,261)</b>	<b>(4.3)</b>	<b>(191,914)</b>	<b>(2.4)</b>	<b>115.9</b>	<b>(361,298)</b>	<b>(4.3)</b>	<b>14.7</b>
<b>Income tax expense (benefit)</b>	<b>10,622</b>	<b>1,266,458</b>	<b>13.3</b>	<b>(899,952)</b>	<b>(11.1)</b>	<b>(240.7)</b>	<b>127,197</b>	<b>1.5</b>	<b>895.7</b>
<b>Minority interests in consolidated subsidiaries</b>	<b>(46)</b>	<b>(5,533)</b>	<b>(0.1)</b>	<b>649</b>	<b>0.0</b>	<b>(952.5)</b>	<b>42,834</b>	<b>0.5</b>	<b>(112.9)</b>
<b>Equity in net loss of affiliated companies</b>	<b>(11,730)</b>	<b>(1,398,509)</b>	<b>(14.7)</b>	<b>(1,045,665)</b>	<b>(12.9)</b>	<b>33.7</b>	<b>(1,219,215)</b>	<b>(14.7)</b>	<b>14.7</b>
<b>Net loss</b>	<b>(25,872)</b>	<b>(3,084,761)</b>	<b>(32.4%)</b>	<b>(336,978)</b>	<b>(4.2%)</b>	<b>815.4%</b>	<b>(1,664,876)</b>	<b>(20.0%)</b>	<b>85.3%</b>
<b>Basic Net Loss Per Share</b>		(137,222)		(14,990)			(74,060)		
<b>Basic Net Loss Per ADS Equivalent</b>		(68.61)		(7.50)			(37.03)		
<b>Weighted Average Number of Shares</b>		22,480		22,480			22,480		
<b>Weighted Average Number of ADS Equivalents</b>		44,960,000		44,960,000			44,960,000		

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Sept 30, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 119.23 = \$1, the approximate rate of exchange on Sept 28, 2001.

**INTERNET INITIATIVE JAPAN INC.**  
**CONSOLIDATED BALANCE SHEETS**

Appendix 2

As of Sept 30, 2001, Sept 30, 2000 and Jun 30, 2001

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

	Sept 30, 2001			Sept 30, 2000		Jun 30, 2001	
	USD (1)	JPY	%	JPY	%	JPY	%
<b>ASSETS</b>							
<b>Current Assets:</b>							
Cash	95,714	11,411,967	25.5%	12,970,293	23.3%	12,574,744	25.9%
Short-term investments	0	0	0.0	6,196,408	11.1	0	0.0
Accounts receivable, net	49,815	5,939,468	13.3	4,640,987	8.3	5,381,435	11.1
Inventories	8,491	1,012,403	2.3	315,751	0.6	263,553	0.5
Prepaid expenses	3,388	403,982	0.9	269,900	0.5	473,154	1.0
Other current assets	3,279	390,966	0.9	347,245	0.6	493,692	1.0
<b>Total current assets</b>	<b>160,687</b>	<b>19,158,786</b>	<b>42.9</b>	<b>24,740,584</b>	<b>44.4</b>	<b>19,186,578</b>	<b>39.5</b>
<b>Investments in and Advances to Affiliated Companies</b>	<b>97,364</b>	<b>11,608,736</b>	<b>26.0</b>	<b>12,941,280</b>	<b>23.3</b>	<b>12,690,980</b>	<b>26.2</b>
<b>Other Investments</b>	<b>39,650</b>	<b>4,727,410</b>	<b>10.6</b>	<b>9,997,623</b>	<b>18.0</b>	<b>7,766,900</b>	<b>16.0</b>
<b>Property and Equipment, net</b>	<b>63,621</b>	<b>7,585,480</b>	<b>17.0</b>	<b>6,376,357</b>	<b>11.5</b>	<b>7,348,823</b>	<b>15.1</b>
<b>Guarantee Deposits</b>	<b>7,468</b>	<b>890,444</b>	<b>2.0</b>	<b>848,089</b>	<b>1.5</b>	<b>887,636</b>	<b>1.8</b>
<b>Other Assets</b>	<b>5,575</b>	<b>664,675</b>	<b>1.5</b>	<b>733,160</b>	<b>1.3</b>	<b>671,331</b>	<b>1.4</b>
<b>Total assets</b>	<b>374,365</b>	<b>44,635,531</b>	<b>100.0%</b>	<b>55,637,093</b>	<b>100.0%</b>	<b>48,552,248</b>	<b>100.0%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
<b>Current Liabilities:</b>							
Short-term borrowings	31,623	3,770,445	8.5%	7,010,000	12.6%	5,020,000	10.3%
Accounts payable	37,961	4,526,061	10.1	4,825,858	8.7	4,012,148	8.3
Accrued expenses	1,862	222,003	0.5	189,682	0.3	281,105	0.6
Other current liabilities	3,066	365,625	0.8	279,539	0.5	481,994	1.0
Long-term borrowings-current portion	8,387	1,000,000	2.2	290,000	0.5	0	0.0
Capital lease obligations-current portion	15,543	1,853,146	4.2	1,575,712	2.8	1,787,436	3.7
<b>Total current liabilities</b>	<b>98,442</b>	<b>11,737,280</b>	<b>26.3</b>	<b>14,170,791</b>	<b>25.4</b>	<b>11,582,683</b>	<b>23.9</b>
<b>Long-term Borrowings</b>	<b>31,871</b>	<b>3,800,000</b>	<b>8.5</b>	<b>1,200,000</b>	<b>2.2</b>	<b>3,400,000</b>	<b>7.0</b>
<b>Convertible Notes</b>	<b>125,807</b>	<b>15,000,000</b>	<b>33.6</b>	<b>15,000,000</b>	<b>27.0</b>	<b>15,000,000</b>	<b>30.9</b>
<b>Capital Lease Obligations-Noncurrent</b>	<b>24,651</b>	<b>2,939,079</b>	<b>6.6</b>	<b>2,546,805</b>	<b>4.6</b>	<b>2,963,868</b>	<b>6.1</b>
<b>Accrued Retirement and Pension Costs</b>	<b>1,049</b>	<b>125,099</b>	<b>0.2</b>	<b>132,557</b>	<b>0.2</b>	<b>124,368</b>	<b>0.2</b>
<b>Other Noncurrent Liabilities</b>	<b>221</b>	<b>26,306</b>	<b>0.1</b>	<b>1,282,971</b>	<b>2.3</b>	<b>25,941</b>	<b>0.1</b>
<b>Total liabilities</b>	<b>282,041</b>	<b>33,627,764</b>	<b>75.3</b>	<b>34,333,124</b>	<b>61.7</b>	<b>33,096,860</b>	<b>68.2</b>
<b>Minority Interest</b>	<b>8,554</b>	<b>1,019,912</b>	<b>2.3</b>	<b>802,466</b>	<b>1.5</b>	<b>633,262</b>	<b>1.3</b>
<b>Shareholders' Equity:</b>							
<b>Common stock</b>	<b>59,401</b>	<b>7,082,336</b>	<b>15.9</b>	<b>7,082,336</b>	<b>12.7</b>	<b>7,082,336</b>	<b>14.6</b>
<b>Additional paid-in capital</b>	<b>143,155</b>	<b>17,068,353</b>	<b>38.2</b>	<b>17,068,353</b>	<b>30.7</b>	<b>17,068,353</b>	<b>35.1</b>
<b>Accumulated deficit</b>	<b>(130,101)</b>	<b>(15,511,971)</b>	<b>(34.7)</b>	<b>(8,430,378)</b>	<b>(15.2)</b>	<b>(12,427,210)</b>	<b>(25.6)</b>
<b>Accumulated other comprehensive income</b>	<b>11,315</b>	<b>1,349,137</b>	<b>3.0</b>	<b>4,781,192</b>	<b>8.6</b>	<b>3,098,647</b>	<b>6.4</b>
<b>Total shareholders' equity</b>	<b>83,770</b>	<b>9,987,855</b>	<b>22.4</b>	<b>20,501,503</b>	<b>36.8</b>	<b>14,822,126</b>	<b>30.5</b>
<b>Total liabilities and shareholders' equity</b>	<b>374,365</b>	<b>44,635,531</b>	<b>100.0%</b>	<b>55,637,093</b>	<b>100.0%</b>	<b>48,552,248</b>	<b>100.0%</b>

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to Sept 30, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY119.23 = \$1, the approximate rate of exchange on Sept 28, 2001.

**INTERNET INITIATIVE JAPAN INC.**

Appendix 3

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Three Months Ended Sept 30, 2001, Sept 30, 2000 and Jun 30, 2001

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

	Sept 30, 2001		Sept 30, 2000	Jun 30, 2001
	USD (1)	JPY	JPY	JPY
<b>Operating Activities:</b>				
Net loss	(25,872)	(3,084,761)	(336,978)	(1,664,876)
Depreciation and amortization	6,091	726,278	666,798	706,463
Equity in net loss of affiliated companies	11,730	1,398,509	1,045,665	1,219,215
Minority interests in consolidated subsidiaries	46	5,533	(649)	(42,834)
Foreign exchange losses (gains)	1,498	178,577	(255,921)	(22,776)
Decrease (increase) in accounts receivable	(4,752)	(566,601)	(155,613)	15,781
Increase (decrease) in accounts payable	4,309	513,802	1,659,494	(298,183)
Deferred income tax	10,607	1,264,707	(903,938)	121,705
Other	(6,036)	(719,638)	(155,226)	(265,574)
<b>Net cash provided by (used in) operating activities</b>	<b>(2,379)</b>	<b>(283,594)</b>	<b>1,563,632</b>	<b>(231,079)</b>
<b>Investing Activities:</b>				
Purchase of property and equipment	(3,303)	(393,770)	(524,792)	(179,145)
Investments in and advances to affiliated companies	(2,693)	(321,094)	(4,565,400)	-
Purchase of short-term investments	-	-	(8,291,392)	-
Purchase of other investments	(1)	(100)	(70,000)	(49,500)
Proceeds from redemption of short-term investments	-	-	8,291,424	-
Payment of guarantee deposits-net	(23)	(2,794)	(43,732)	(50,353)
Other	(169)	(20,141)	138,746	(23,265)
<b>Net cash used in investing activities</b>	<b>(6,189)</b>	<b>(737,899)</b>	<b>(5,065,146)</b>	<b>(302,263)</b>
<b>Financing Activities:</b>				
Proceeds from long-term borrowings	11,742	1,400,000	1,000,000	600,000
Repayments of long-term borrowings	-	-	(400,000)	-
Principal payments under capital leases	(4,152)	(494,991)	(485,264)	(475,813)
Net decrease in short-term borrowings	(10,480)	(1,249,555)	(1,410,260)	(600,000)
Proceeds from issuance of common stock of a subsidiary	3,145	375,000	-	-
<b>Net cash provided by (used in) financing activities</b>	<b>255</b>	<b>30,454</b>	<b>(1,295,524)</b>	<b>(475,813)</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>(1,439)</b>	<b>(171,738)</b>	<b>106,449</b>	<b>13,192</b>
<b>Net Decrease in Cash</b>	<b>(9,752)</b>	<b>(1,162,777)</b>	<b>(4,690,589)</b>	<b>(995,963)</b>
<b>Cash, Beginning of Period</b>	<b>105,466</b>	<b>12,574,744</b>	<b>17,660,882</b>	<b>13,570,707</b>
<b>Cash, End of Period</b>	<b>95,714</b>	<b>11,411,967</b>	<b>12,970,293</b>	<b>12,574,744</b>

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Sept 30, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY119.23 = \$1, the approximate rate of exchange on Sept 28, 2001.