



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 Financial Results for the 1<sup>st</sup> Quarter Ended June 30, 2001**

**- Positive Operating Income Forecasted For the Fiscal 2001 -**

**Tokyo and New York, August 14, 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 first quarter ended June 30, 2001. On August 15 at 9:00am (EDT), the Company will host a conference call, which will be simultaneously webcasted at [www.vcall.com](http://www.vcall.com). Replay will also be available at the same URL.

**The 1st Quarter of FY2001 Results Summary**

- Total revenues for 1Q01 were in line with expectations at JPY8.3 billion, which increased 15.0% from 1Q00 and decreased 9.4% from 4Q00. This growth from 1Q00 was due to the steady revenue flow from high-end corporate customers despite the sluggish Japanese economy with 0% growth. The decline from 4Q00 reflected the expected seasonality in the Systems Integration (SI) business.
- Gross margin for 1Q01 increased to 12.5% from 6.3% in 1Q00 and from 8.7% in 4Q00, largely reflecting the rapid decline of international backbone costs and the Company’s continuous focus on cost reduction initiatives to achieve profitability.
- The Company recorded an operating loss of (-)JPY300 million for 1Q01, which was at the smaller end of the estimate range announced in the Company’s previous earnings release. The operating loss ratio was (-)3.6%, an improvement of 8.3 percentage points from 1Q00 and 0.7 percentage points from 4Q00. EBITDA<sup>(\*)</sup> improved to JPY376 million, a 27.5% increase from 4Q00.
- For 2Q01, IIJ expects total revenues to be between JPY9.0 billion and JPY9.5 billion, operating (loss) income to be between (-)JPY100 million and (+)JPY50 million, and EBITDA to be between JPY580 million to JPY730 million.
- IIJ expects to report positive operating income for the fiscal 2001, due to a combination of continued declines in international backbone costs, its largest cost reduction item, and increased sales revenues from each sales category under its total network solutions approach. IIJ expects revenues from SI services to be stronger in the second half of this fiscal year.

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

## Internet Initiative Japan Inc.

August 14, 2001

Page 2

### Overview and Business Outlook

#### *Overview of the 1Q Results and Business Outlook*

“In this quarter, I’m glad to demonstrate our clear path for profitability,” said Koichi Suzuki, President and CEO of IIJ. “As a result of our continuous focus to achieve profitability by increasing sales revenues from total network solutions and by realizing reductions in our international backbone costs, gross margin for this quarter sharply increased, the operating loss ratio improved, and EBITDA also positively grew, notwithstanding Japan’s sluggish economy.” “With this path for profitability, we expect the Company to achieve around breakeven in operating income for the next quarter, to further improve its operating performance in the second half of this fiscal year, and to have positive operating income for the fiscal 2001.”

“We successfully reduced our international backbone costs by 38.4% from 4Q00 by renegotiating contracts with a number of international cable carriers, even though we have approximately doubled our bandwidth of Japan-US lines since fiscal 1999.” said Yasuhiro Nishi, CFO of IIJ. “In the fiscal 2001, we expect further substantive declines in our international backbone costs in total terms, as the unit cost for lines are expected to decline for the year by about two-thirds.” “We also expect sales revenues in the fiscal 2001 to increase from each sales category under our total network solutions approach. We believe that revenues from SI services will be stronger in the second half of this fiscal year.”

#### **Anticipated Financial Performance for the 2nd Quarter** (JPY in millions)

	<b>The 2<sup>nd</sup> Quarter of the Fiscal 2001</b>
Revenues	9,000 – 9,500
Operating Income (Loss)	(-)100 – (+)50
EBITDA	580 – 730

#### *Strategies Taking For the Growth*

##### *Enhancing Relations with High-end Corporate Customers*

According to a recent survey by Accenture, Japan’s BtoB market size in 2000 reached JPY22 trillion, and is forecasted to grow five-fold to JPY110 trillion in 2005. “Industry in Japan has been built around manufacturing. With this strong industrial structure in place, I believe the future demand for new networking systems within Japan’s BtoB market is huge as indicated in the survey, and we are in a solid position to leverage our strong corporate customer base to capitalize on this growth opportunity,” said Suzuki.

In the fiscal year 2000, one third of IIJ’s total revenues were generated from IIJ’s top 40 high-end corporate customers such as Toyota, Sharp, Konami, Toppan, Daiwa Research Institute, Sanwa Bank, NTT Docomo, Japan Telecom and Its Communication (former Tokyu CATV). The three main industries in which these top customers operate are manufacturing, financial services and telecommunications. “Although the number of high-end corporate customers in the market is not large, the revenue stream is very solid. We continue to strengthen our customer relationships and increase their satisfaction by offering a wide range of services as components of our total network solutions,” said Suzuki.

##### *Strengthening business in Network and Systems Management Services*

As announced on August 14, Net Care, Inc. (“Net Care”), IIJ’s subsidiary specializing in the customer support business, will issue an additional 11,000 shares of their common stock in the

## **Internet Initiative Japan Inc.**

August 14, 2001

Page 3

amount of JPY825 million, of which IIJ will purchase 6,000 shares. Upon completion of the transaction, which is subject to approval at the shareholders' meeting scheduled on August 28, IIJ's equity interests in Net Care will increase to 52.5% from the 50.0%. As strategic shareholders, JGC Corporation, one of the world's six biggest full-service engineering and construction groups, and CRC Solutions Corp., a leading IT solutions and data center provider in Japan, will also purchase shares and will each hold 12.5% of Net Care's common stock. Net Care will use the proceeds to strengthen its business in network and systems management services.

"Along with both our network services and systems integration services, network and systems management services are expected to grow to be one of the key offerings in IIJ group's total solutions strategy," said Suzuki. "As the scale of corporations' new network systems grows larger, secure operation and management services with around-the-clock support are increasingly critical for these systems. With an anticipated growing demand for comprehensive management and operation services, we plan to strengthen our capabilities in this field through Net Care."

Net Care will initially focus on enhancing network and systems management services targeting customers of Internet data centers, systems integration services, and security services. As business grows, Net Care aims to integrate these services into comprehensive outsourcing solutions for large-scale network systems.

### *Capturing Demand in Japan's Broadband Business*

Japan's broadband access market has been rapidly expanding. According to Japan's Ministry of Public Management, Home Affairs, Posts and Telecommunications, the contract number of DSL lines in Japan totaled to 400,760 by the end of July 2001, which is an increase of 250 times in a year period. The Ministry also reported that CATV (cable modem) Internet subscribers increased by 3 times since June 2000 to approximately 967,000 subscribers by the end of June 2001. "As one of the largest nationwide backbone providers and data center operators in Japan, IIJ is a beneficiary of the expanding broadband demand by regional network operators and content providers for full-fledged connectivity and data center services. Also as a top quality service provider, we are in a position to attract customers in the end corporate and individual markets that require high performance in Internet connectivity geared to new access lines such as DSL and FTTH (Fiber To The Home)," said Suzuki. "We continue to benefit from the increasing flow of Internet traffic by leveraging our position in the market place."

### *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 described below 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 1Q01 press release as being IIJ's current expectations on matters covered. IIJ intends to publish its next Overview and Business Outlook in its 2Q01 earnings release, presently scheduled for November 13, 2001. In conjunction with the 2Q01 earnings announcement, IIJ will hold a webcasted conference made available to the public for listening over the Company's website. Additionally, IIJ will observe a two-week quiet period from October 31, 2001 until publication of the 2Q01 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.**

August 14, 2001

Page 4

### **The 1<sup>st</sup> Quarter of FY2001 Operating Highlights**

#### ***Network Infrastructure and Internet Data Center Development (International and Domestic)***

During 1Q01, IIJ upgraded its Japan-US backbone lines to approximately 1.7Gbps from 1.4Gbps. Also, IIJ announced that it will open its ninth data center in Kyoto this fall, in cooperation with its 37.9% affiliate, Crosswave Communications ("Crosswave", NASDAQ: CWCI).

#### ***Taking the Lead in the Japanese Broadband Market***

IIJ's broadband network platform, HSMN (High Speed Media Network), delivers more than 20 broadband content applications, such as games, sports, movie, music and broadcasting, to CATV Internet users in Japan through an alliance with regional CATV network operators. Recently, IIJ began transmitting the entire content (both text and image) of Sankei Shimbun, one of Japan's leading daily newspapers, over HSMN.

Utilizing HSMN, IIJ began transmitting various broadband content for CDN Japan, which is an alliance formed by IIJ, Oracle and Cisco. The alliance aims to help content providers more effectively deliver broadband content by controlling the data transmission flow. Additionally, IIJ and Sun Microsystems, K.K. (Sun) formed an alliance to support start-up broadband content providers in their business launch through a special program named "IIJ HSMN/Sun Startup Accelerator Alliance". While Sun provides a package of servers and software, IIJ provides housing space in its Internet data centers, Internet connectivity and connection to the HSMN platform.

To continue providing a variety of high-quality, high-speed options to Japan's diversifying broadband access market, IIJ launched a new broadband connectivity service, which is adapted to the regional NTT's ADSL access lines for corporate and individual customers, and enables a maximum speed of 1.5Mbps. Also during this quarter, IIJ announced the launch in August of broadband connectivity services, which are adapted to the regional NTT's FTTH access lines, for corporate and individual customers, and enables a maximum speed of 100Mbps.

#### ***New Services Offered as Part of the IIJ Total Solutions Strategy***

As a new lineup in the Value-added services category, IIJ commercially launched its on-line backup services for corporate users and individual users. Also during the quarter, IIJ announced the launch in July of a new e-mail hosting service called "IIJ Post Office/Virus Protection Service" that detects and removes computer viruses. In June, IIJ launched a new VPN (Virtual Private Network) service optimally suited for extranet use, which is an optional service to "IIJ Security Premium", the Company's large-scale managed firewall service.

#### ***Expansion of IPv6-Capable Services***

During this quarter, IIJ announced the launch of the IPv6 (Internet protocol version 6, the next generation Internet protocol) Solutions Services in early July. The new service utilizes IIJ's technological and operational know-how in offering total IPv6 business support, and the offerings range from project-base consulting, through to systems and network integration. At the same time, IIJ upgraded its original router named "SEIL T1" with IPv6-compatible software.

#### ***Stock Option Grant***

At the shareholders' meeting held in June 2001, IIJ resolved to grant subscription rights for new shares of total 395 common stock to 44 directors and employees with the aim of further raising their motivation and morale to improve business performance. The Company granted the rights to the subject directors and employees at the early August 2001.

## Internet Initiative Japan Inc.

August 14, 2001

Page 5

### *Affiliate Companies*

Crosswave has signed a contract with U's Communications, an FTTH operator, to provide gigabit-class nationwide high-speed backbone services by interconnecting with U's Communications' last mile network beginning in October 2001.

Internet Multifeed Co., a 26.0% affiliate, began full commercial operation of JPNAP, which is a distributed IX (Internet eXchange point) service. JPNAP already has 14 network operators including IJ and NTT Communications as customers.

Asia Internet Holding ("AIH"), a 26.7%<sup>(\*)</sup> affiliate and operator of "A-Bone", one of the largest IP backbone networks in Asia, expanded its "A-Bone VPN Service" to Korea by cooperating with Hanaro Telecom, one of Korea's leading telecommunications and Internet services providers. A-Bone VPN Service covers 7 countries in Asia.

<sup>(\*)</sup> As of August 13, 2001, IJ's equity interests in AIH was increased to 26.7% from 20.6%.

## The 1<sup>st</sup> Quarter of FY2001 Financial Results

Due mainly to the large growth in Internet data center services, IJ has changed its segmentation disclosure for its revenues in the statements of operations, starting from 1Q01 results in quarterly earnings release.

### *Revenues*

Revenues in 1Q01 totaled JPY8,333 million, up 15.0% compared with 1Q00 but decreased by 9.4% compared with 4Q00.

**Connectivity services and value-added services** revenues increased 24.0% from 1Q00 to JPY5,704 million in 1Q01 and grew by 6.7% from 4Q00. The year-over-year increase was due to the steady revenue growth of Dedicated access services and Value-added services. Among the Value-added services, data center services and security-related services were particularly strong.

**Systems integration services** revenues decreased by 11.7% from 1Q00 to JPY2,280 million in 1Q01 and by 27.0% from 4Q00, which was consistent with the Company's expectations.

**Table 1. Number of Contracts**

<b>Internet Access Services</b>	<b>1Q01</b>	<b>4Q00</b>	<b>1Q00</b>
<i>IP Service</i> 64kbps – 128kbps	245	295	427
192kbps – 768kbps	61	80	122
1Mbps – 2Mbps	246	240	184
3Mbps – 600Mbps	115	111	82
<i>IJ T1 Standard</i> 1.5Mbps	662	575	255
<b>Total IP Service</b>	<b>1,329</b>	<b>1,301</b>	<b>1,070</b>
<i>IJ Economy</i> 64kbps – 128kbps	1,283	1,295	1,115
<i>IJ DSL/F</i> <sup>(*)</sup> Maximum 1.5Mbps	45	NA	NA
<b>Total Dedicated Access Services Contracts</b>	<b>2,657</b>	<b>2,596</b>	<b>2,185</b>

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

<i>IJ4U</i> (dialup service for individuals)	94,802	95,273	87,297
<b>Others</b>	<b>66,341</b>	<b>66,857</b>	<b>60,778</b>
<b>Total Dial-up Access Services Contracts</b>	<b>161,143</b>	<b>162,130</b>	<b>148,075</b>

## Internet Initiative Japan Inc.

August 14, 2001

Page 6

<b>Total Data Center Services Contracts</b>	116	113	47
---	-----	-----	----

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

	1Q01	4Q00	1Q00
<b>Total IP Service (IP Service and IIJ T1 Standard)</b>	3,048	3,020	2,703
<b>IIJ Economy + IIJ DSL/F</b>	339	333	285

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

	1Q01	4Q00	1Q00
<b>Dedicated Access Services</b>	4.6	3.5	2.2

### *Cost and expenses*

Cost of total revenues increased 7.4% to JPY7,288 million in 1Q01 from 1Q00 but declined by 13.2% from 4Q00.

International backbone costs decreased 39.5% from 1Q00 to JPY867 million in 1Q01, and by 38.4% from 4Q00. These decreases on both a year-over-year and sequential basis reflect the sharp reduction of Japan-US backbone lines cost. Monthly unit backbone cost declined by approximately 65% in the year-over-year comparison and by approximately 39% in the quarter-over-quarter comparison.

Domestic backbone costs increased 34.1% from 1Q00 to JPY774 million in 1Q01, and by 8.4% from 4Q00. These increases reflect a substantial upgrade of IIJ's domestic backbone lines in order to install large-capacity backbones for the deployment of its multi-site Internet data centers.

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

	1Q01	4Q00	1Q00
<b>International Backbone Costs</b>	867	1,409	1,433
<b>Domestic Backbone Costs</b>	774	714	577

Cost of SI revenues decreased 16.0% to JPY1,914 million in 1Q01 from 1Q00 and by 26.7% from 4Q00 reflecting the decrease in SI revenues. Due to the increase of iBPS contracts, IIJ's e-business solutions packages service, the gross margin ratio improved steadily in the year-over-year comparison.

Sales and marketing expenses decreased 2.6% to JPY819 million in 1Q01 and increased 7.8% from 4Q00. This decrease from 1Q00 was due to a decrease in advertising costs. Sales personnel expense increased 24.6% to JPY341 million in 1Q01 from 1Q00 and by 8.7% from 4Q00.

Mainly as a result of the decrease in international backbone cost, operating loss decreased to JPY300 million in 1Q01, compared to JPY865 million in 1Q00 and to JPY394 million in 4Q00. The operating loss ratio against revenues for 1Q01 improved to (-)3.6%, compared to (-)11.9% in 1Q00, and to (-)4.3% in 4Q00.

### *Other income (expenses)*

Other expenses for 1Q01 was JPY61 million, compared to other expenses of JPY162 million in 1Q00 and to other income of JPY127 million in 4Q00. Due to the depreciation of the Japanese yen against the US dollar, IIJ recorded a foreign exchange gain of JPY412 million in 4Q00 and more modest gain in 1Q01 of JPY23 million.

## Internet Initiative Japan Inc.

August 14, 2001

Page 7

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

Equity in the net loss of affiliated companies increased to JPY1,219 million in 1Q01, compared to JPY1,005 million in 1Q00 and JPY1,179 million in 4Q00, mainly resulting from the equity loss in Crosswave.

### *Net loss*

Net loss was JPY1,665 million in 1Q01, compared to JPY2,031 million in 1Q00 and JPY1,353 million in 4Q00. Basic net loss per ADS equivalent was JPY(-)37.03 in 1Q01, compared to JPY(-)45.18 in 1Q00 and JPY(-)30.09 in 4Q00.

**Table 5. Other Financial Statistics**

(JPY in millions)

	1Q01	4Q00	1Q00
EBITDA	376	295	(-)251
CAPEX, including capitalized leases	1,076	1,115	686
Depreciation and amortization <sup>(*)</sup>	706	714	639

<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, IIJ has built one of the largest Internet backbone networks in Japan and between Japan and the United States. IIJ and its group of companies provide total 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 IIJ's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements are subject to various risks, uncertainties and other factors that could cause IIJ's actual results to differ materially from those contained in any forward-looking statement. These risks, uncertainties and other factors include: IIJ's ability to continue to increase subscribers to its connectivity services, particularly at higher bandwidths; IIJ's ability to generate significant revenues from its other services such as systems integration; the success of IIJ's investments in Crosswave; the ability to compete in a rapidly evolving and competitive marketplace; the impact of technological changes in its industry; and other risks referred from time to time in IIJ'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 Jun 30, 2001, Jun 30, 2000 and Mar 31, 2001

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

	Year-over-year Comparison						Sequential Comparison		
	Jun 30, 2001			Jun 30, 2000			Mar 31, 2001		
	USD (1)	JPY	% of Total Revenues	JPY	% of Total Revenues	YOY Chg %	JPY	% of Total Revenues	QOQ Chg %
<b>Revenues:</b>									
Connectivity and value-added services:									
Dedicated access services	27,154	3,386,912	40.6%	2,987,266	41.2%	13.4%	3,353,198	36.5%	1.0%
Dial-up access services	7,885	983,461	11.8	1,159,801	16.0	(15.2)	1,033,029	11.2	(4.8)
Value-added services:									
Internet datacenter services	3,923	489,385	5.9	165,621	2.3	195.5	431,640	4.7	13.4
Other value-added services	3,141	391,731	4.7	179,678	2.5	118.0	267,749	2.9	46.3
Total value-added services	7,064	881,116	10.6	345,299	4.8	155.2	699,389	7.6	26.0
Other	3,625	452,126	5.4	106,696	1.5	323.8	260,885	2.8	73.3
Total connectivity and value-added services	45,728	5,703,615	68.4	4,599,062	63.5	24.0	5,346,501	58.1	6.7
Systems integration revenues	18,278	2,279,854	27.4	2,582,732	35.6	(11.7)	3,124,909	34.0	(27.0)
Equipment sales	2,801	349,429	4.2	64,001	0.9	446.0	728,165	7.9	(52.0)
<b>Total revenues</b>	<b>66,807</b>	<b>8,332,898</b>	<b>100.0</b>	<b>7,245,795</b>	<b>100.0</b>	<b>15.0</b>	<b>9,199,575</b>	<b>100.0</b>	<b>(9.4)</b>
<b>Costs and expenses:</b>									
Cost of connectivity and value-added services	40,623	5,066,856	60.8	4,458,138	61.5	13.7	5,073,952	55.1	(0.1)
Cost of systems integration revenues	15,347	1,914,254	23.0	2,279,004	31.5	(16.0)	2,609,855	28.4	(26.7)
Cost of other equipment sales	2,463	307,188	3.7	51,126	0.7	500.8	714,916	7.8	(57.0)
Total costs	58,433	7,288,298	87.5	6,788,268	93.7	7.4	8,398,723	91.3	(13.2)
Sales and marketing	6,564	818,786	9.8	840,892	11.6	(2.6)	759,660	8.3	7.8
General and administrative	3,520	439,030	5.3	406,159	5.6	8.1	369,039	4.0	19.0
Research and development	694	86,598	1.0	75,187	1.0	15.2	66,205	0.7	30.8
<b>Total costs and expenses</b>	<b>69,211</b>	<b>8,632,712</b>	<b>103.6</b>	<b>8,110,506</b>	<b>111.9</b>	<b>6.4</b>	<b>9,593,627</b>	<b>104.3</b>	<b>(10.0)</b>
<b>Operating loss</b>	<b>(2,404)</b>	<b>(299,814)</b>	<b>(3.6)</b>	<b>(864,711)</b>	<b>(11.9)</b>	<b>(65.3)</b>	<b>(394,052)</b>	<b>(4.3)</b>	<b>(23.9)</b>
<b>Other income (expenses)</b>	<b>(493)</b>	<b>(61,484)</b>	<b>(0.7)</b>	<b>(162,462)</b>	<b>(2.3)</b>	<b>(62.2)</b>	<b>126,677</b>	<b>1.4</b>	<b>(148.5)</b>
<b>Loss before income tax expense (benefit)</b>	<b>(2,897)</b>	<b>(361,298)</b>	<b>(4.3)</b>	<b>(1,027,173)</b>	<b>(14.2)</b>	<b>(64.8)</b>	<b>(267,375)</b>	<b>(2.9)</b>	<b>35.1</b>
<b>Income tax expense (benefit)</b>	<b>1,020</b>	<b>127,197</b>	<b>1.5</b>	<b>32,372</b>	<b>0.4</b>	<b>292.9</b>	<b>(96,070)</b>	<b>(1.0)</b>	<b>(232.4)</b>
<b>Minority interests in consolidated subsidiaries</b>	<b>344</b>	<b>42,834</b>	<b>0.5</b>	<b>32,831</b>	<b>0.5</b>	<b>30.5</b>	<b>(2,550)</b>	<b>-</b>	<b>(1,779.8)</b>
<b>Equity in net loss of affiliated companies</b>	<b>(9,775)</b>	<b>(1,219,215)</b>	<b>(14.7)</b>	<b>(1,004,574)</b>	<b>(13.9)</b>	<b>21.4</b>	<b>(1,179,050)</b>	<b>(12.8)</b>	<b>3.4</b>
<b>Net loss</b>	<b>(13,348)</b>	<b>(1,664,876)</b>	<b>(20.0%)</b>	<b>(2,031,288)</b>	<b>(28.0%)</b>	<b>(18.0%)</b>	<b>(1,352,905)</b>	<b>(14.7%)</b>	<b>23.1%</b>
<b>Basic Net Loss Per Share</b>		(74,060)		(90,360)			(60,183)		
<b>Basic Net Loss Per ADS Equivalent</b>		(37.03)		(45.18)			(30.09)		
<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 Jun 30, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 124.73 = \$1, the approximate rate of exchange on Jun 29, 2001.

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

Appendix 2

As of Jun 30, 2001, Jun 30, 2000 and Mar 31, 2001

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

	Jun 30, 2001			Jun 30, 2000		Mar 31, 2001	
	USD (1)	JPY	%	JPY	%	JPY	%
<b>ASSETS</b>							
<b>Current Assets:</b>							
Cash	100,816	12,574,744	25.9%	17,660,882	38.7%	13,570,707	26.8%
Short-term investments	0	0	0.0	6,028,260	13.2	0	0.0
Accounts receivable, net	43,145	5,381,435	11.1	4,488,683	9.8	5,417,456	10.7
Inventories	2,113	263,553	0.5	414,310	0.9	245,520	0.5
Prepaid expenses	3,793	473,154	1.0	380,227	0.8	253,648	0.5
Other current assets	3,958	493,692	1.0	351,873	0.8	347,600	0.7
<b>Total current assets</b>	<b>153,825</b>	<b>19,186,578</b>	<b>39.5</b>	<b>29,324,235</b>	<b>64.2</b>	<b>19,834,931</b>	<b>39.2</b>
<b>Investments in and Advances to Affiliated Companies</b>	<b>101,748</b>	<b>12,690,980</b>	<b>26.2</b>	<b>4,384,444</b>	<b>9.6</b>	<b>13,895,654</b>	<b>27.4</b>
<b>Other Investments</b>	<b>62,270</b>	<b>7,766,900</b>	<b>16.0</b>	<b>4,773,356</b>	<b>10.5</b>	<b>8,455,840</b>	<b>16.7</b>
<b>Property and Equipment, net</b>	<b>58,918</b>	<b>7,348,823</b>	<b>15.1</b>	<b>5,609,707</b>	<b>12.3</b>	<b>6,927,575</b>	<b>13.7</b>
<b>Guarantee Deposits</b>	<b>7,116</b>	<b>887,636</b>	<b>1.8</b>	<b>804,367</b>	<b>1.8</b>	<b>837,115</b>	<b>1.6</b>
<b>Other Assets</b>	<b>5,382</b>	<b>671,331</b>	<b>1.4</b>	<b>751,449</b>	<b>1.6</b>	<b>689,687</b>	<b>1.4</b>
<b>Total assets</b>	<b>389,259</b>	<b>48,552,248</b>	<b>100.0%</b>	<b>45,647,558</b>	<b>100.0%</b>	<b>50,640,802</b>	<b>100.0%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
<b>Current Liabilities:</b>							
Short-term borrowings	40,247	5,020,000	10.3%	8,420,260	18.4%	5,620,000	11.1%
Accounts payable	32,167	4,012,148	8.3	3,182,090	7.0	4,313,811	8.5
Accrued expenses	2,254	281,105	0.6	252,354	0.6	211,302	0.4
Other current liabilities	3,864	481,994	1.0	363,718	0.8	455,212	0.9
Long-term borrowings-current portion	0	0	0.0	690,000	1.5	0	0.0
Capital lease obligations-current portion	14,330	1,787,436	3.7	1,525,097	3.3	1,644,354	3.3
<b>Total current liabilities</b>	<b>92,862</b>	<b>11,582,683</b>	<b>23.9</b>	<b>14,433,519</b>	<b>31.6</b>	<b>12,244,679</b>	<b>24.2</b>
<b>Long-term Borrowings</b>	<b>27,259</b>	<b>3,400,000</b>	<b>7.0</b>	<b>200,000</b>	<b>0.4</b>	<b>2,800,000</b>	<b>5.5</b>
<b>Convertible Notes</b>	<b>120,260</b>	<b>15,000,000</b>	<b>30.9</b>	<b>15,000,000</b>	<b>32.9</b>	<b>15,000,000</b>	<b>29.6</b>
<b>Capital Lease Obligations-Noncurrent</b>	<b>23,762</b>	<b>2,963,868</b>	<b>6.1</b>	<b>2,198,515</b>	<b>4.8</b>	<b>2,679,224</b>	<b>5.3</b>
<b>Accrued Retirement and Pension Costs</b>	<b>997</b>	<b>124,368</b>	<b>0.2</b>	<b>123,328</b>	<b>0.3</b>	<b>124,640</b>	<b>0.2</b>
<b>Other Noncurrent Liabilities</b>	<b>208</b>	<b>25,941</b>	<b>0.1</b>	<b>9,081</b>	<b>0.0</b>	<b>188,413</b>	<b>0.4</b>
<b>Total liabilities</b>	<b>265,348</b>	<b>33,096,860</b>	<b>68.2</b>	<b>31,964,443</b>	<b>70.0</b>	<b>33,036,956</b>	<b>65.2</b>
<b>Minority Interest</b>	<b>5,077</b>	<b>633,262</b>	<b>1.3</b>	<b>803,115</b>	<b>1.8</b>	<b>676,096</b>	<b>1.3</b>
<b>Shareholders' Equity:</b>							
<b>Common stock</b>	<b>56,781</b>	<b>7,082,336</b>	<b>14.6</b>	<b>7,082,336</b>	<b>15.5</b>	<b>7,082,336</b>	<b>14.0</b>
<b>Additional paid-in capital(2)</b>	<b>136,843</b>	<b>17,068,353</b>	<b>35.1</b>	<b>12,028,557</b>	<b>26.3</b>	<b>17,068,353</b>	<b>33.7</b>
<b>Accumulated deficit</b>	<b>(99,633)</b>	<b>(12,427,210)</b>	<b>(25.6)</b>	<b>(8,093,400)</b>	<b>(17.7)</b>	<b>(10,762,334)</b>	<b>(21.2)</b>
<b>Accumulated other comprehensive income</b>	<b>24,843</b>	<b>3,098,647</b>	<b>6.4</b>	<b>1,862,507</b>	<b>4.1</b>	<b>3,539,395</b>	<b>7.0</b>
<b>Total shareholders' equity</b>	<b>118,834</b>	<b>14,822,126</b>	<b>30.5</b>	<b>12,880,000</b>	<b>28.2</b>	<b>16,927,750</b>	<b>33.5</b>
<b>Total liabilities and shareholders' equity</b>	<b>389,259</b>	<b>48,552,248</b>	<b>100.0%</b>	<b>45,647,558</b>	<b>100.0%</b>	<b>50,640,802</b>	<b>100.0%</b>

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to Jun 30, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 124.73 = \$1, the approximate rate of exchange on Jun 29, 2001.

Note (2): The effect of increase in equity in net assets of Crosswave resulting from IPO proceeds, net of IJ's additional investment, has been accounted for as capital transactions.

**INTERNET INITIATIVE JAPAN INC.**

Appendix 3

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Three Months Ended Jun 30, 2001, Jun 30, 2000 and Mar 31, 2001

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

	Jun 30, 2001		Jun 30, 2000	Mar 31, 2001
	USD (1)	JPY	JPY	JPY
<b>Operating Activities:</b>				
Net loss	(13,348)	(1,664,876)	(2,031,288)	(1,352,905)
Depreciation and amortization	5,664	706,463	638,528	714,130
Equity in net loss of affiliated companies	9,775	1,219,215	1,004,574	1,179,050
Minority interests in consolidated subsidiaries	(343)	(42,834)	(32,831)	2,550
Foreign exchange losses (gains)	(183)	(22,776)	57,462	(411,981)
Decrease (increase) in accounts receivable	126	15,781	11,002	(1,449,025)
Decrease in accounts payable	(2,391)	(298,183)	(400,392)	(2,027,616)
Deferred income tax	976	121,705	18,133	(113,444)
Other	(2,129)	(265,574)	(362,329)	613,635
<b>Net cash used in operating activities</b>	<b>(1,853)</b>	<b>(231,079)</b>	<b>(1,097,141)</b>	<b>(2,845,606)</b>
<b>Investing Activities:</b>				
Purchase of property and equipment	(1,436)	(179,145)	(147,100)	(501,808)
Investments in and advances to affiliated companies	-	-	(89,017)	-
Purchase of short-term investments	-	-	(8,416,096)	-
Purchase of other investments	(397)	(49,500)	(622,724)	(478,500)
Proceeds from redemption of short-term investments	-	-	3,253,320	3,136,244
Payment of insurance policies-net	23	2,802	(1,868)	(3,422)
Payment of guarantee deposits-net	(404)	(50,353)	(102,456)	(10,145)
Other	(209)	(26,067)	27,437	(103,925)
<b>Net cash provided by (used in) investing activities</b>	<b>(2,423)</b>	<b>(302,263)</b>	<b>(6,098,504)</b>	<b>2,038,444</b>
<b>Financing Activities:</b>				
Proceeds from long-term borrowings	4,810	600,000	-	400,000
Net proceeds from issuance of convertible notes	-	-	14,502,639	-
Repayments of long-term borrowings	-	-	-	(90,000)
Principal payments under capital leases	(3,815)	(475,813)	(453,417)	(500,144)
Net increase (decrease) in short-term borrowings	(4,810)	(600,000)	(5,270,680)	(489,436)
<b>Net cash provided by (used in) financing activities</b>	<b>(3,815)</b>	<b>(475,813)</b>	<b>8,778,542</b>	<b>(679,580)</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>106</b>	<b>13,192</b>	<b>(80,454)</b>	<b>454,633</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(7,985)</b>	<b>(995,963)</b>	<b>1,502,443</b>	<b>(1,032,109)</b>
<b>Cash, Beginning of Period</b>	<b>108,801</b>	<b>13,570,707</b>	<b>16,158,439</b>	<b>14,602,816</b>
<b>Cash, End of Period</b>	<b>100,816</b>	<b>12,574,744</b>	<b>17,660,882</b>	<b>13,570,707</b>

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Jun 30, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY124.73 = \$1, the approximate rate of exchange on Jun 29, 2001.