

***For Immediate Release***



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***IIJ Achieves 25.2% Revenue Growth and Positive Operating Income for the Fiscal Year Ended March 31, 2002***

***-- Fourth quarter results beat revenue target --***

**Tokyo and New York, May 21, 2002** – 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 4<sup>th</sup> quarter ended March 31, 2002. On May 22 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 4<sup>th</sup> Quarter of FY2001 Results Summary**

- Total revenues were JPY12.1 billion, an increase of 31.6% from 4Q00 and an increase of 21.9% from 3Q01, which was above the expected range of JPY10.5 billion to JPY11.0 billion. This strong growth was primarily due to the successful execution of IIJ’s total network solutions strategy targeting the Japanese corporate market.
- The Company improved its operating income to JPY186 million, versus a loss of JPY394 million in 4Q00 and a profit of JPY151 million in 3Q01. Operating margin was 1.5%, compared with negative 4.3% in 4Q00 and 1.5% in 3Q01. EBITDA<sup>(\*)</sup> also continued to improve to JPY968 million by 228% from 4Q00 and by 7% from 3Q01. Operating income and EBITDA results were within the ranges of the Company’s targets for the 4<sup>th</sup> quarter.
- For the full fiscal 2001 year, total revenues increased to JPY39.9 billion, a 25.2% increase from the full fiscal 2000 year. As expected, operating income turned to positive on a full year fiscal basis to JPY54 million.
- For the first quarter of fiscal year 2002, IIJ expects total revenues to be between JPY9.0 billion and JPY9.5 billion, which is below that of the fourth quarter due to anticipated seasonality<sup>(\*\*)</sup> in the Systems Integration (SI) business. Also, IIJ expects an operating loss in the first quarter, which reflects the anticipated lower revenues, as well as the typical higher costs in human resources primarily associated with annual recruiting activity. The anticipated operating loss is expected to be temporary, and is expected to return to a positive level in the second quarter.
- For the first half of fiscal 2002, IIJ expects total revenues to grow by more than 15% from the first half of fiscal 2001.

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

<sup>(\*\*)</sup> The SI business is seasonally stronger in 2Q and 4Q, as companies in Japan typically make large investments in or around September and March before they close their semiannual and annual budgetary cycles.

## Overview and Business Outlook

### *Overview of the 4Q results and full fiscal 2001 year*

“The strong results of the full fiscal 2001 year mark a milestone for IJ, proving our commitment to strong growth and positive operating income,” said Koichi Suzuki, President and CEO of IJ. “This fiscal year, as part of our total network solutions strategy, we introduced more than 30 new services, most of which relate to broadband connectivity, managed security systems and various outsourcing services at Internet data centers. IJ’s solid performance reflects our market initiatives against a changing and growing environment. In turn, we have been able to successfully capitalize on the demand for broadband and new network systems in the Japanese corporate marketplace, despite the weakness of the overall economy.”

“The robust revenue growth in the fourth quarter was mainly driven by strong performance in the SI business, where SI revenues increased by 70.6% from 4Q00 and by 57.2% from 3Q01,” said Yasuhiro Nishi, CFO of IJ. “On the cost side, international backbone costs further declined, resulting in a significant reduction for the full 2001 fiscal year of more than half that of the previous fiscal year. As a result of IJ’s solid revenue growth and cost containment initiatives, we realized both positive operating income and EBITDA for the fourth quarter and full fiscal 2001 year.”

### *Business Outlook for fiscal 2002 --- Industry Landscape*

The network infrastructure industry in Japan continues to be driven by the broadband boom. According to the Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPT), the number of ADSL subscribers reached 2.7 million at the end of April 2002, a significant increase from 0.1 million subscribers in April 2001. CATV Internet users reached 1.5 million in March 2002 from 0.8 million in March 2001. The FTTH access market is also becoming increasingly competitive, benefiting end users in Japan by enabling them to utilize faster last mile access than ADSL lines. As of March 2002, the number of FTTH subscribers was 26,400. Currently this broadband user ratio is approximately 10% of total Internet users in Japan, but the ratio is expected to increase to more than 20% in Japan at the end of March 2003.

In the corporate market within Japan, demand for network restructuring remains strong. In addition to upgrading corporate networks to higher bandwidth, companies have started establishing new digital information platforms that connect offices, stores and customers throughout the country with cost-effective access lines, such as ADSL. According to a survey of IDG Japan, Japanese companies continue to indicate that they are likely to increase their IT investments, including network systems (WAN and LAN), security systems, storage systems, and outsourcing services for operation and maintenance.

### *Business Outlook for fiscal 2002 --- IJ Strategy*

For fiscal 2002, IJ’s main focus is on the enterprise network market, targeting high-end corporate customers with new information strategies. In order to effectively compete within this market, IJ continues to enhance its total network solutions strategy, specifically by: 1) further integrating new generation network services of its 37.9% affiliate, Crosswave Communications (“Crosswave”, Nasdaq: CWCI), 2) strengthening its SI services lineup for enterprise solutions, and 3) enhancing its network support business, which include 24-7 operation management and monitoring services. Such management services can be coordinated between IJ and the customer by installing IJ’s managed router “SEIL” at customer premises, while employing IJ’s Internet data center facilities as a hub of various network services.

As a central part of its broadband strategy, IJ launched its CDN (Content Delivery Network) business in April 2002, which IJ expects to eventually bring the industry's structural change by leveraging the scalability of the IJ group's network infrastructure and operational expertise in large-scale networking. Although the CDN platform is not yet available for end-use consumers, IJ has already acquired large

contracts from corporate customers who intend to utilize the CDN platform as their strategic information platform for full-scale broadband content transmission. The CDN business is expected to drive revenue growth for the Company in many areas, such as connectivity services for OEMs, Internet data center and systems integration services for broadband content transmission.

IIJ expects to open two large-scale Internet data centers at Yokohama and Saitama in 2003, allowing the Company to execute its total solutions strategy in a more scalable and price-competitive manner.

### ***Forecasted financial performance for the first quarter and the first half of fiscal 2002***

For the first quarter of fiscal 2002, IIJ expects total revenues to be between JPY9.0 billion and JPY9.5 billion. While reflecting the typical seasonality of the SI business in the first quarter, revenues are still expected to increase from 1Q01 by 8.0% to 14.0%. IIJ also expects to report a slightly negative operating loss for the quarter as a result of the characteristically weaker revenue stream, and higher human resources costs primarily associated with annual recruiting activity. The anticipated operating loss is expected to be temporary, and is expected to return to a positive level in the second quarter. EBITDA is expected to remain positive.

For the first half of fiscal 2002, IIJ expects total revenues to grow by more than 15% from the first half of fiscal 2001.

### ***Status of Overview and Business Outlook***

This Overview and Business Outlook contains 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 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 IIJ's filings on Form 20-F or Form 6-K as well as other filings and documents furnished to the Securities and Exchange Commission. IIJ plans to keep this press release publicly available on its Web site ([www.iij.ad.jp](http://www.iij.ad.jp)) but may discontinue this practice at any time. IIJ intends to publish its next Overview and Business Outlook in its 1Q02 earnings release, presently scheduled for August 13, 2002. In conjunction with the 4Q01 earnings announcement, IIJ will hold a webcasted conference made available to the public for listening over the Company's website.

## **The 4<sup>th</sup> Quarter of FY2001 Operating Highlights**

### ***Ten New Service Developments under the Total Network Solutions Approach***

In 4Q01, as part of its total network solutions, IIJ and its group companies launched 8 new services for the corporate market, namely two connectivity services, three security services, two hosting services, and the network management solution "Omnibus." For the individual market, IIJ launched two network services under the IIJmio brand.

### ***Network Infrastructure and Internet Data Center Development***

In 4Q01, IIJ upgraded four domestic backbone networks, one of which being a new link to JPNAP, the Internet eXchange point operated by IIJ's 26.0% affiliate Internet Multifeed. Also in this quarter, IIJ upgraded its Japan-US backbone network from 1.8Gbps to 2.25Gbps.

IIJ America, IIJ's 90.3% subsidiary, strengthened its U.S. backbone, enhancing its network stability for customers of IIJ America and other IIJ Group customers. The upgrade included establishing a new POP in Ashburn, Virginia, a focal point for Internet traffic in the U.S., and new links between the new POP in Ashburn and IXs (Internet eXchange points), such as Equinix GigE Exchange and MAE-EAST ATM.

## The 4<sup>th</sup> Quarter of FY2001 Financial Results

### Revenues

Revenues in 4Q01 totaled JPY12,110 million, up 31.6% compared with 4Q00, and up 21.9% compared with 3Q01.

**Connectivity services and value-added services** revenues increased 9.3% from 4Q00 to JPY5,844 million in 4Q01, and grew by 4.1% from 3Q01.

Dedicated access services increased 1.0% from 4Q00 to JPY3,386 million in 4Q01, and were up 1.4% from 3Q01. The modest growth of dedicated access services was mainly a result of a customer shift to data center connectivity services. IIJ DSL/F service increased rapidly, which offset a decline in the IIJ Economy service.

Dial-up access service decreased 18.3% from 4Q00 to JPY844 million in 4Q01, and declined 4.5% from 3Q01. These declines were primarily due to the decrease in conventional dial-up services revenues and IIJ4U revenues. The decrease in IIJ4U revenues was due not only to the decrease in the number of subscribers, but also to a shift towards the lower-end IIJ4U fixed price service by users of NTT's Flet's service.

Value-added services increased 54.5% from 4Q00 to JPY1,081 million in 4Q01, and by 6.6% from 3Q01. The year-over-year increase was mainly due to steady revenue growth of Data center services.

**Systems integration services** revenues increased 70.6% from 4Q00 to JPY5,332 million in 4Q01, and by 57.2% from 3Q00.

**Table 1. Number of Contracts**

<b>Internet Access Services</b>	<b>4Q01</b>	<b>3Q01</b>	<b>4Q00</b>
<i>IP Service</i> 64kbps – 128kbps	<b>142</b>	176	295
192kbps – 768kbps	<b>42</b>	46	80
1Mbps – 2Mbps	<b>270</b>	269	240
3Mbps – 1.2Gbps	<b>156</b>	131	111
<i>IIJ FiberAccess/F</i> <sup>(1)</sup>	<b>73</b>	25	n/a
<i>IIJ Ethernet Standard</i> <sup>(2)</sup>	<b>2</b>	0	n/a
<i>IIJ T1 Standard</i> 1.5Mbps	<b>667</b>	681	575
<b>Total IP Service</b>	<b>1,352</b>	1,328	1,301
<i>IIJ Economy</i> 64kbps – 128kbps	<b>921</b>	1,060	1,295
<i>IIJ DSL/F</i> <sup>(3)</sup> Maximum 1.5Mbps	<b>1,237</b>	750	n/a
<b>Total Dedicated Access Services Contracts</b>	<b>3,510</b>	3,138	2,596

<sup>(1)</sup> IIJ FiberAccess/F is a new service launched in August 2001.

<sup>(2)</sup> IIJ Ethernet Standard is a new service launched in December 2001.

<sup>(3)</sup> IIJ DSL/F is a new service launched in May 2001.

<i>IIJ4U</i> (dialup services for individuals)	<b>89,213</b>	91,924	95,273
<b>Others</b>	<b>171,363</b>	114,676	66,857
<b>Total Dial-up Access Services Contracts</b>	<b>260,576</b>	206,600	162,130

<b>Total Data Center Services Contracts</b>	<b>138</b>	127	113
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**Table 2. Revenue Breakdown in Dedicated Access Services** (JPY in millions)

	<b>4Q01</b>	<b>3Q01</b>	<b>4Q00</b>
<b>Total IP Service</b> ( <i>IP Service, IIJ T1 Standard, and IIJ FiberAccess/F</i> )	<b>3,061</b>	2,990	3,020
<i>IIJ Economy + IIJ DSL/F</i>	<b>325</b>	348	333

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

	4Q01	3Q01	4Q00
<b>Dedicated Access Services</b>	<b>9.4</b>	7.7	3.5
<b>Internet Data Center Connectivity Service</b>	<b>2.0</b>	0.7	n/a
<b>Total Contracted Bandwidth</b>	<b>11.4</b>	8.4	3.5

**Cost and expenses**

**Cost of total revenues** increased 24.3% from 4Q00 to JPY11,924 million in 4Q01, and by 21.9% from 3Q01.

International backbone costs decreased 68.6% from 4Q00 to JPY443 million in 4Q01, and by 17.4% from 3Q01. These decreases reflect IIJ's continuous efforts to reduce costs of Japan-US backbone lines. The monthly unit backbone cost declined by approximately 81% year-over-year, and by approximately 35% quarter-over-quarter.

Domestic backbone costs increased 17.1% from 4Q00 to JPY836 million in 4Q01, and increased 8.2% from 3Q01. These increases were mainly due to rising domestic backbone capacity, along with a usage increase in IIJ Internet data center connectivity services.

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

	4Q01	3Q01	4Q00
<b>International Backbone Costs</b>	<b>443</b>	536	1,409
<b>Domestic Backbone Costs</b>	<b>836</b>	772	714

Sales and marketing expenses decreased 12.4% from 4Q00 to JPY 665 million in 4Q01, and were down 9.4% from 3Q01. This decrease in sequential comparison was due to declining advertising costs and bad debt expense.

General and administrative expenses increased 30.2% from 4Q00 to JPY 480 million in 4Q01, and were down 2.6% from 3Q01. This decrease in sequential comparison was a result of declining recruiting costs.

As a result of the strong revenue growth in the systems integration business and the continuous reduction in international backbone costs, operating income increased to JPY186 million in 4Q01, compared to a loss of JPY394 million in 4Q00, and to income of JPY151 million in 3Q01. The operating income ratio against revenues for 4Q01 was 1.5%, compared to (-)4.3% in 4Q00, and to 1.5% in 3Q01.

**Other income (expenses)**

Other expenses for 4Q01 were JPY338 million, compared to other income of JPY127 million in 4Q00, and to other expenses of JPY114 million in 3Q01. IIJ recorded a foreign exchange gain of JPY31 million in 4Q01, compared to a gain of JPY 412 million in 4Q00, and to a gain of JPY 379 million in 3Q01. In 4Q01, IIJ incurred a JPY105 million impairment loss on non-marketable securities, and net interest expense of JPY123 million.

**Income tax benefit**

Income tax benefit for 4Q01 was JPY140 million as a result of a decrease in the valuation allowance for deferred tax assets attributable primarily to the income tax effect of unrealized gains in the quarter on certain available-for-sale securities. This compared to JPY96 million in 4Q00 and JPY154 million in 3Q01.

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

Equity in the net loss of affiliated companies increased to JPY1,647 million in 4Q01, compared to JPY1,179 million in 4Q00, and JPY1,218 million in 3Q01, mainly resulting from the equity loss in Crosswave.

### ***Net loss***

Net loss was JPY1,667 million in 4Q01, compared to JPY 1,353 million in 4Q00 and JPY 1,030 million in 3Q01. Basic net loss per ADS equivalent was (-) 37.07 in 4Q01, compared to (-) JPY30.09 in 4Q00 and (-) JPY22.91 in 3Q01.

**Table 5. Other Financial Statistics**

(JPY in millions)

	<b>4Q01</b>	3Q01	4Q00
EBITDA	<b>968</b>	904	295
CAPEX, including capitalized leases	<b>913</b>	804	1,115
Depreciation and amortization <sup>(4)</sup>	<b>812</b>	783	714

<sup>(4)</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 primarily 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 United States Securities and Exchange Commission.*

***Tables to follow***

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

Appendix 1

For the Three Months Ended Mar 31, 2002, Mar 31, 2001 and Dec 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		
	Mar 31, 2002			Mar 31, 2001			Dec 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	25,513	3,385,542	28.0%	3,353,198	36.5%	1.0%	3,338,370	33.6%	1.4%
Dial-up access services	6,362	844,279	7.0	1,033,029	11.2	(18.3)	883,698	8.9	(4.5)
Value-added services:									
Internet datacenter services	4,721	626,436	5.2	431,640	4.7	45.1	586,816	5.9	6.8
Other value-added services	3,423	454,300	3.7	267,749	2.9	69.7	426,895	4.3	6.4
Total value-added services	8,144	1,080,736	8.9	699,389	7.6	54.5	1,013,711	10.2	6.6
Other	4,018	533,191	4.4	260,885	2.8	104.4	379,188	3.8	40.6
Total connectivity and value-added services	44,037	5,843,748	48.3	5,346,501	58.1	9.3	5,614,967	56.5	4.1
Systems integration revenues	40,181	5,331,986	44.0	3,124,909	34.0	70.6	3,391,122	34.2	57.2
Equipment sales	7,039	934,040	7.7	728,165	7.9	28.3	927,545	9.3	0.7
<b>Total revenues</b>	<b>91,257</b>	<b>12,109,774</b>	<b>100.0</b>	<b>9,199,575</b>	<b>100.0</b>	<b>31.6</b>	<b>9,933,634</b>	<b>100.0</b>	<b>21.9</b>
<b>Costs and expenses:</b>									
Cost of connectivity and value-added services	38,510	5,110,291	42.2	5,073,952	55.1	0.7	4,774,788	48.1	7.0
Cost of systems integration revenues	35,677	4,734,363	39.1	2,609,855	28.4	81.4	2,865,601	28.8	65.2
Cost of equipment sales	6,521	865,354	7.1	714,916	7.8	21.0	832,972	8.4	3.9
Total costs	80,708	10,710,008	88.4	8,398,723	91.3	27.5	8,473,361	85.3	26.4
Sales and marketing	5,013	665,204	5.5	759,660	8.3	(12.4)	734,623	7.4	(9.4)
General and administrative	3,620	480,376	4.0	369,039	4.0	30.2	493,327	5.0	(2.6)
Research and development	513	68,090	0.6	66,205	0.7	2.8	80,946	0.8	(15.9)
<b>Total costs and expenses</b>	<b>89,854</b>	<b>11,923,678</b>	<b>98.5</b>	<b>9,593,627</b>	<b>104.3</b>	<b>24.3</b>	<b>9,782,257</b>	<b>98.5</b>	<b>21.9</b>
<b>Operating income (loss)</b>	<b>1,403</b>	<b>186,096</b>	<b>1.5</b>	<b>(394,052)</b>	<b>(4.3)</b>	<b>(147.2)</b>	<b>151,377</b>	<b>1.5</b>	<b>22.9</b>
<b>Other income (expenses)</b>	<b>(2,545)</b>	<b>(337,694)</b>	<b>(2.8)</b>	<b>126,677</b>	<b>1.4</b>	<b>(366.6)</b>	<b>(113,705)</b>	<b>(1.1)</b>	<b>197.0</b>
<b>Income (Loss) before income tax benefit</b>	<b>(1,142)</b>	<b>(151,598)</b>	<b>(1.3)</b>	<b>(267,375)</b>	<b>(2.9)</b>	<b>(43.3)</b>	<b>37,672</b>	<b>0.4</b>	<b>(502.4)</b>
<b>Income tax benefit</b>	<b>(1,058)</b>	<b>(140,381)</b>	<b>(1.2)</b>	<b>(96,070)</b>	<b>(1.0)</b>	<b>46.1</b>	<b>(154,239)</b>	<b>(1.5)</b>	<b>(9.0)</b>
<b>Minority interests in consolidated subsidiaries</b>	<b>(67)</b>	<b>(8,849)</b>	<b>(0.1)</b>	<b>(2,550)</b>	<b>0.0</b>	<b>247.0</b>	<b>(3,985)</b>	<b>0.0</b>	<b>122.1</b>
<b>Equity in net loss of affiliated companies</b>	<b>(12,409)</b>	<b>(1,646,603)</b>	<b>(13.6)</b>	<b>(1,179,050)</b>	<b>(12.8)</b>	<b>39.7</b>	<b>(1,217,755)</b>	<b>(12.3)</b>	<b>35.2</b>
<b>Net loss</b>	<b>(12,560)</b>	<b>(1,666,669)</b>	<b>(13.8%)</b>	<b>(1,352,905)</b>	<b>(14.7%)</b>	<b>23.2%</b>	<b>(1,029,829)</b>	<b>(10.4%)</b>	<b>61.8%</b>
<b>Basic Net Loss Per Share</b>		(74,140)		(60,183)			(45,811)		
<b>Basic Net Loss Per ADS Equivalent</b>		(37.07)		(30.09)			(22.91)		
<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 Mar 31, 2002 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 132.70 = \$1, the approximate rate of exchange on Mar 29, 2002.

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

Appendix 2

For the Years Ended Mar 31, 2002 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					
	Mar 31, 2002			Mar 31, 2001		
	USD (1)	JPY	% of Total Revenues	JPY	% of Total Revenues	YoY Chg %
<b>Revenues:</b>						
Connectivity and value-added services:						
Dedicated access services	102,049	13,541,980	33.9%	12,779,284	40.1%	6.0%
Dial-up access services	27,461	3,644,091	9.1	4,422,884	13.9	(17.6)
Value-added services:						
Internet datacenter services	16,650	2,209,412	5.5	1,236,524	3.9	78.7
Other value-added services	12,447	1,651,741	4.2	898,996	2.8	83.7
Total value-added services	29,097	3,861,153	9.7	2,135,520	6.7	80.8
Other	12,570	1,667,986	4.2	591,819	1.8	181.8
Total connectivity and value-added services	171,177	22,715,210	56.9	19,929,507	62.5	14.0
Systems integration revenues	108,179	14,355,325	36.0	10,555,675	33.1	36.0
Equipment sales	21,357	2,834,078	7.1	1,390,407	4.4	103.8
<b>Total revenues</b>	<b>300,713</b>	<b>39,904,613</b>	<b>100.0</b>	<b>31,875,589</b>	<b>100.0</b>	<b>25.2</b>
<b>Costs and expenses:</b>						
Cost of connectivity and value-added services	149,204	19,799,402	49.6	18,983,305	59.6	4.3
Cost of systems integration revenues	92,797	12,314,158	30.9	9,117,410	28.6	35.1
Cost of other equipment sales	19,142	2,540,089	6.4	1,288,530	4.0	97.1
Total costs	261,143	34,653,649	86.9	29,389,245	92.2	17.9
Sales and marketing	22,897	3,038,412	7.6	3,251,900	10.2	(6.6)
General and administrative	13,862	1,839,525	4.6	1,617,984	5.1	13.7
Research and development	2,407	319,370	0.8	286,850	0.9	11.3
<b>Total costs and expenses</b>	<b>300,309</b>	<b>39,850,956</b>	<b>99.9</b>	<b>34,545,979</b>	<b>108.4</b>	<b>15.4</b>
<b>Operating income (loss)</b>	<b>404</b>	<b>53,657</b>	<b>0.1</b>	<b>(2,670,390)</b>	<b>(8.4)</b>	<b>(102.0)</b>
<b>Other income (expenses)</b>	<b>(7,107)</b>	<b>(943,142)</b>	<b>(2.3)</b>	<b>899,320</b>	<b>2.8</b>	<b>(204.9)</b>
<b>Loss before income tax expense (benefit)</b>	<b>(6,703)</b>	<b>(889,485)</b>	<b>(2.2)</b>	<b>(1,771,070)</b>	<b>(5.6)</b>	<b>(49.8)</b>
<b>Income tax expense (benefit)</b>	<b>8,282</b>	<b>1,099,035</b>	<b>2.8</b>	<b>(925,678)</b>	<b>(2.9)</b>	<b>(218.7)</b>
<b>Minority interests in consolidated subsidiaries</b>	<b>184</b>	<b>24,467</b>	<b>0.1</b>	<b>159,850</b>	<b>0.5</b>	<b>(84.7)</b>
<b>Equity in net loss of affiliated companies</b>	<b>(41,312)</b>	<b>(5,482,082)</b>	<b>(13.8)</b>	<b>(4,014,680)</b>	<b>(12.6)</b>	<b>36.6</b>
<b>Net loss</b>	<b>(56,113)</b>	<b>(7,446,135)</b>	<b>(18.7%)</b>	<b>(4,700,222)</b>	<b>(14.8%)</b>	<b>58.4%</b>
<b>Basic Net Loss Per Share</b>		(331,234)		(209,085)		
<b>Basic Net Loss Per ADS Equivalent</b>		(165.62)		(104.54)		
<b>Weighted Average Number of Shares</b>		22,480		22,480		
<b>Weighted Average Number of ADS Equivalents</b>		44,960,000		44,960,000		

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the year ended Mar 31, 2002 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 132.70 = \$1, the approximate rate of exchange on Mar 29, 2002.

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

Appendix 3

As of Mar 31, 2002, Mar 31, 2001 and Dec 31, 2001

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

	Mar 31, 2002			Mar 31, 2001		Dec 31, 2001	
	USD (1)	JPY	%	JPY	%	JPY	%
<b>ASSETS</b>							
<b>Current Assets:</b>							
Cash	83,240	11,045,919	24.4%	13,570,707	26.8%	11,166,077	25.9%
Short-term investments	0	0	0.0	0	0.0	0	0.0
Accounts receivable, net	67,686	8,981,912	19.9	5,417,456	10.7	5,830,688	13.5
Inventories	4,675	620,409	1.4	245,520	0.5	228,063	0.5
Prepaid expenses	3,142	416,945	0.9	253,648	0.5	806,515	1.9
Other current assets	1,084	143,798	0.3	347,600	0.7	425,411	1.0
<b>Total current assets</b>	<b>159,827</b>	<b>21,208,983</b>	<b>46.9</b>	<b>19,834,931</b>	<b>39.2</b>	<b>18,456,754</b>	<b>42.8</b>
<b>Investments in and Advances to Affiliated Companies</b>	<b>66,722</b>	<b>8,854,028</b>	<b>19.6</b>	<b>13,895,654</b>	<b>27.4</b>	<b>10,386,964</b>	<b>24.1</b>
<b>Other Investments</b>	<b>40,739</b>	<b>5,406,065</b>	<b>11.9</b>	<b>8,455,840</b>	<b>16.7</b>	<b>4,814,114</b>	<b>11.1</b>
<b>Property and Equipment, net</b>	<b>58,443</b>	<b>7,755,426</b>	<b>17.1</b>	<b>6,927,575</b>	<b>13.7</b>	<b>7,609,238</b>	<b>17.6</b>
<b>Guarantee Deposits</b>	<b>9,541</b>	<b>1,266,055</b>	<b>2.8</b>	<b>837,115</b>	<b>1.6</b>	<b>1,263,819</b>	<b>2.9</b>
<b>Other Assets</b>	<b>5,819</b>	<b>772,226</b>	<b>1.7</b>	<b>689,687</b>	<b>1.4</b>	<b>638,652</b>	<b>1.5</b>
<b>Total assets</b>	<b>341,091</b>	<b>45,262,783</b>	<b>100.0%</b>	<b>50,640,802</b>	<b>100.0%</b>	<b>43,169,541</b>	<b>100.0%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
<b>Current Liabilities:</b>							
Short-term borrowings	28,789	3,820,232	8.4%	5,620,000	11.1%	3,700,214	8.6%
Accounts payable	53,395	7,085,579	15.7	4,313,811	8.5	3,428,098	7.9
Accrued expenses	1,866	247,606	0.5	211,302	0.4	292,996	0.7
Other current liabilities	3,819	506,797	1.1	455,212	0.9	696,682	1.6
Long-term borrowings-current portion	10,550	1,400,000	3.1	0	0.0	1,200,000	2.8
Capital lease obligations-current portion	14,874	1,973,769	4.4	1,644,354	3.3	1,928,505	4.5
<b>Total current liabilities</b>	<b>113,293</b>	<b>15,033,983</b>	<b>33.2</b>	<b>12,244,679</b>	<b>24.2</b>	<b>11,246,495</b>	<b>26.1</b>
<b>Long-term Borrowings</b>	<b>25,622</b>	<b>3,400,000</b>	<b>7.5</b>	<b>2,800,000</b>	<b>5.5</b>	<b>3,600,000</b>	<b>8.3</b>
<b>Convertible Notes</b>	<b>113,037</b>	<b>15,000,000</b>	<b>33.2</b>	<b>15,000,000</b>	<b>29.6</b>	<b>15,000,000</b>	<b>34.7</b>
<b>Capital Lease Obligations-Noncurrent</b>	<b>21,564</b>	<b>2,861,556</b>	<b>6.3</b>	<b>2,679,224</b>	<b>5.3</b>	<b>2,969,253</b>	<b>6.9</b>
<b>Accrued Retirement and Pension Costs</b>	<b>760</b>	<b>100,841</b>	<b>0.2</b>	<b>124,640</b>	<b>0.2</b>	<b>126,085</b>	<b>0.3</b>
<b>Other Noncurrent Liabilities</b>	<b>816</b>	<b>108,376</b>	<b>0.2</b>	<b>188,413</b>	<b>0.4</b>	<b>34,238</b>	<b>0.1</b>
<b>Total liabilities</b>	<b>275,092</b>	<b>36,504,756</b>	<b>80.6</b>	<b>33,036,956</b>	<b>65.2</b>	<b>32,976,071</b>	<b>76.4</b>
<b>Minority Interest</b>	<b>7,783</b>	<b>1,032,746</b>	<b>2.3</b>	<b>676,096</b>	<b>1.3</b>	<b>1,023,897</b>	<b>2.4</b>
<b>Shareholders' Equity:</b>							
<b>Common stock</b>	<b>53,371</b>	<b>7,082,336</b>	<b>15.7</b>	<b>7,082,336</b>	<b>14.0</b>	<b>7,082,336</b>	<b>16.4</b>
<b>Additional paid-in capital</b>	<b>128,623</b>	<b>17,068,353</b>	<b>37.7</b>	<b>17,068,353</b>	<b>33.7</b>	<b>17,068,353</b>	<b>39.5</b>
<b>Accumulated deficit</b>	<b>(137,215)</b>	<b>(18,208,469)</b>	<b>(40.2)</b>	<b>(10,762,334)</b>	<b>(21.2)</b>	<b>(16,541,800)</b>	<b>(38.3)</b>
<b>Accumulated other comprehensive income</b>	<b>13,437</b>	<b>1,783,061</b>	<b>3.9</b>	<b>3,539,395</b>	<b>7.0</b>	<b>1,560,684</b>	<b>3.6</b>
<b>Total shareholders' equity</b>	<b>58,216</b>	<b>7,725,281</b>	<b>17.1</b>	<b>16,927,750</b>	<b>33.5</b>	<b>9,169,573</b>	<b>21.2</b>
<b>Total liabilities and shareholders' equity</b>	<b>341,091</b>	<b>45,262,783</b>	<b>100.0%</b>	<b>50,640,802</b>	<b>100.0%</b>	<b>43,169,541</b>	<b>100.0%</b>

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**INTERNET INITIATIVE JAPAN INC.**

Appendix 4

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Three Months Ended Mar 31, 2002, Mar 31, 2001 and Dec 31, 2001

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

	<u>Mar 31, 2002</u>		<u>Mar 31, 2001</u>	<u>Dec 31, 2001</u>
	<u>USD (1)</u>	<u>JPY</u>	<u>JPY</u>	<u>JPY</u>
<b>Operating Activities:</b>				
Net loss	(12,560)	(1,666,669)	(1,352,905)	(1,029,829)
Depreciation and amortization	6,116	811,652	714,130	783,194
Equity in net loss of affiliated companies	12,409	1,646,603	1,179,050	1,217,755
Minority interests in consolidated subsidiaries	67	8,849	2,550	3,985
Foreign exchange losses (gains)	30	3,990	(411,981)	(379,315)
Write down of other investment	789	104,700	398,226	299,428
Decrease (increase) in accounts receivable	(23,993)	(3,183,806)	(1,449,025)	175,291
Increase (decrease) in accounts payable	27,855	3,696,329	(2,027,616)	(1,103,244)
Decrease (increase) in inventories	(3,006)	(398,876)	(75,756)	784,340
Deferred income tax	(1,097)	(145,560)	(113,444)	(159,611)
Other	1,619	214,793	291,165	(8,113)
<b>Net cash provided by (used in) operating activities</b>	<u>8,229</u>	<u>1,092,005</u>	<u>(2,845,606)</u>	<u>583,881</u>
<b>Investing Activities:</b>				
Purchase of property and equipment	(3,780)	(501,667)	(501,808)	(162,852)
Investments in and advances to affiliated companies	(182)	(24,123)	-	(17,497)
Purchase of other investments	(2,638)	(350,000)	(478,500)	-
Proceeds from redemption of short-term investments	-	-	3,136,244	-
(Payment) refund of guarantee deposits-net	(15)	(2,007)	(10,145)	(373,471)
Other	168	22,299	(107,347)	(7,718)
<b>Net cash provided by (used in) investing activities</b>	<u>(6,447)</u>	<u>(855,498)</u>	<u>2,038,444</u>	<u>(561,538)</u>
<b>Financing Activities:</b>				
Proceeds from long-term borrowings	-	-	400,000	-
Repayments of long-term borrowings	-	-	(90,000)	-
Principal payments under capital leases	(4,038)	(535,906)	(500,144)	(530,423)
Net increase (decrease) in short-term borrowings	904	120,018	(489,436)	(70,231)
<b>Net cash used in financing activities</b>	<u>(3,134)</u>	<u>(415,888)</u>	<u>(679,580)</u>	<u>(600,654)</u>
<b>Effect of Exchange Rate Changes on Cash</b>	447	59,223	454,633	332,421
<b>Net Decrease in Cash</b>	<u>(905)</u>	<u>(120,158)</u>	<u>(1,032,109)</u>	<u>(245,890)</u>
<b>Cash, Beginning of Period</b>	84,145	11,166,077	14,602,816	11,411,967
<b>Cash, End of Period</b>	<u>83,240</u>	<u>11,045,919</u>	<u>13,570,707</u>	<u>11,166,077</u>

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Mar 31, 2002 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY132.70 = \$1, the approximate rate of exchange on Mar 29, 2002.

