



Internet Initiative Japan Inc.

Fourth Quarter and Full Fiscal Year Results for the Year Ending March 31, 2004

May 14, 2004

Statements made in this material with respect to IIJ's plans, objectives, strategies, intentions, beliefs, predictions and other statements that are not historical facts are forward-looking statements about the future performance or intentions of IIJ, and are based on management's expectations, assumptions, estimates, projections and beliefs in light of information currently available to it. These forward-looking statements, such as statements regarding the effect of the private placement on IIJ's capital structure, are subject to various risks and uncertainties that could cause actual results to be materially different from those described in the forward-looking statements. Potential risks and uncertainties include, without limitation, the ability of Crosswave to continue as a going concern, the adverse impact of the filing for corporate reorganization of Crosswave on IIJ's business operations, management, employees and customers, the outcome and timing of Crosswave's efforts to restructure; and other risks referred to from time to time in IIJ's filings with the Securities and Exchange Commission.

Highlights of fourth quarter FY2003 results

- ▶ **Revenues: JPY 11,617 million (\$ 111.5 million*), 20.6% increase QoQ. A 10.9% decrease YoY.**
- ▶ **Operating income: JPY 350 million (\$ 3.4 million), 48.3% increase QoQ. A turnaround from an operating loss of JPY 446 million in 4Q02.**
 - **Operating income continued to improve due to Systems Integration (“SI”) revenue increase.**
 - **Gross margin expansion throughout the second half of FY2003.**
 - **Connectivity and Value Added Services (“VAS”) gross margin expansion due to more revenue from high margin VAS and reduction of backbone costs.**
 - **SI gross margin maintained at high level due to successfully securing profitable SI contracts.**
- ▶ **Adjusted EBITDA: JPY 1,358 million (\$ 13.0 million), an increase of 11.5% QoQ and 195.5% YoY.**
- ▶ **Net income: JPY 669 million (\$ 6.4 million), a decrease from JPY 1,979 million in 3Q03, a substantial improvement from the net loss of JPY 9,290 million in 4Q02. 3Q03 amount included a one-time gain of JPY 1,572 million generated by the sale of an equity investment.**

* Conversion rate solely given for the convenience of readers outside of Japan and have been made at the rate of JPY104.18 = US\$1.00, the approximate exchange rate on March 31, 2004.

Highlights of full FY2003 results

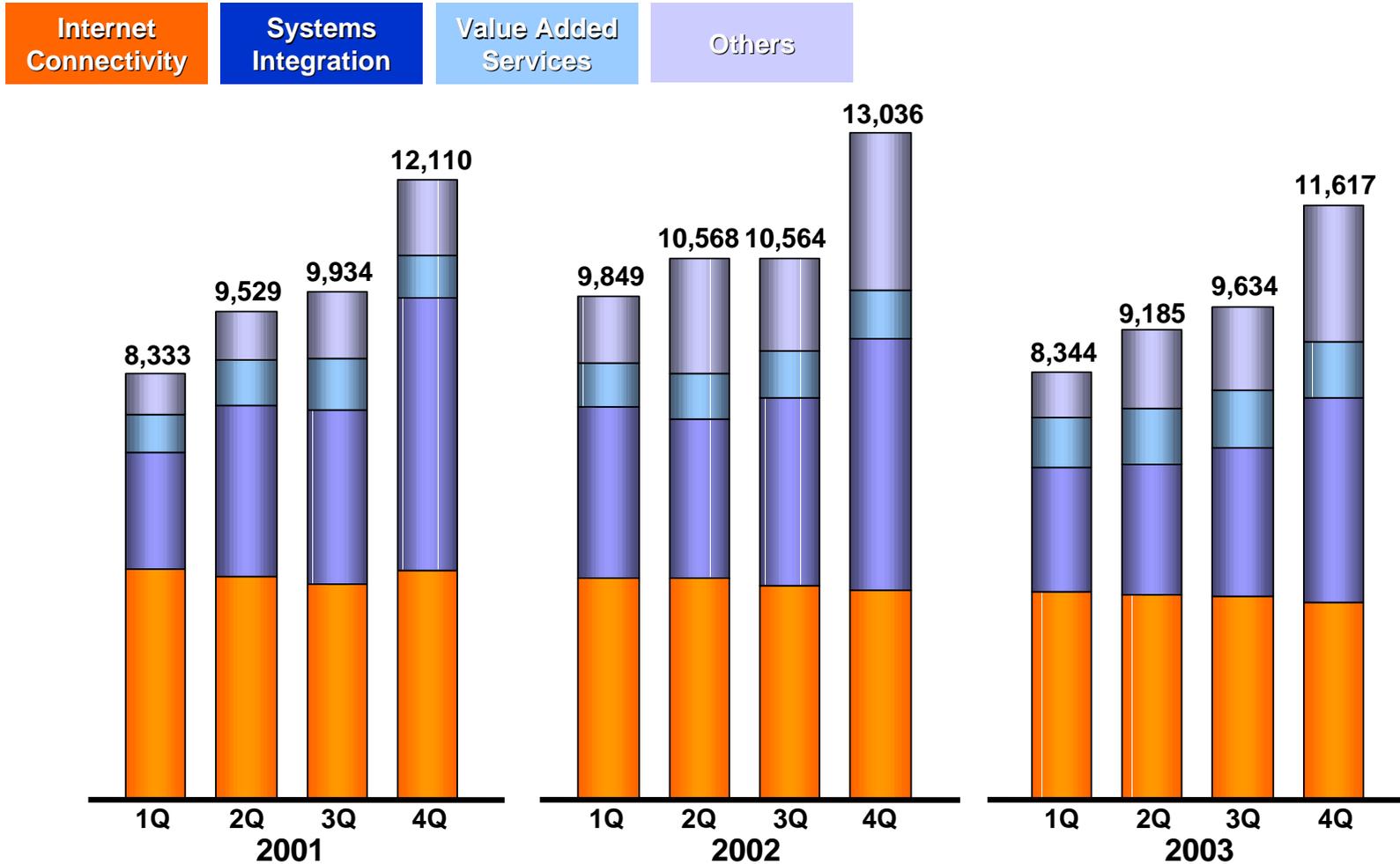
- ▶ **Revenues: JPY 39 billion (\$ 372.2 million), 11.9% decrease YoY.**
 - The decrease largely reflects the first half of FY2003 decline in SI service and equipment sales revenues. These were adversely affected by weak Japanese corporate investment.
- ▶ **Operating loss: JPY 1.4 billion (\$ 13.9 million)**
 - Achieved positive operating income in 3Q03 and 4Q03 due to strategic focus on high margin SI and VAS such as Internet security services and virtual private networks. Significant backbone cost reduction of JPY 516 million during second half.
 - Significant improvement from an operating loss of JPY 1.7 million in FY2002.
- ▶ **Net loss: JPY 105 million (\$ 1.0 million)**
 - A significant improvement from JPY 16,477 million loss in FY2002 when results were negatively impacted by losses associated with our investment in Crosswave Communications (“Crosswave”).
 - Other factors affecting the improvement from FY2002 include positive operating income for the second half of FY2003, a special gain from the sale of an equity investment and income tax benefits associated with increased unrealized gains from certain available-for-sales securities.

Outlook for FY2004

- ▶ **We expect yearly operating income and net income to turn positive in FY2004**
 - **We believe that our strategy in the second half of FY2003 has successfully countered the negative impact of Crosswave's commencement of corporate reorganization.**
 - **We believe we are now firmly positioned for sustained and profitable growth.**
 - **We will continue to develop new high margin services for Japan's increasingly complicated, and critical, networked economy.**

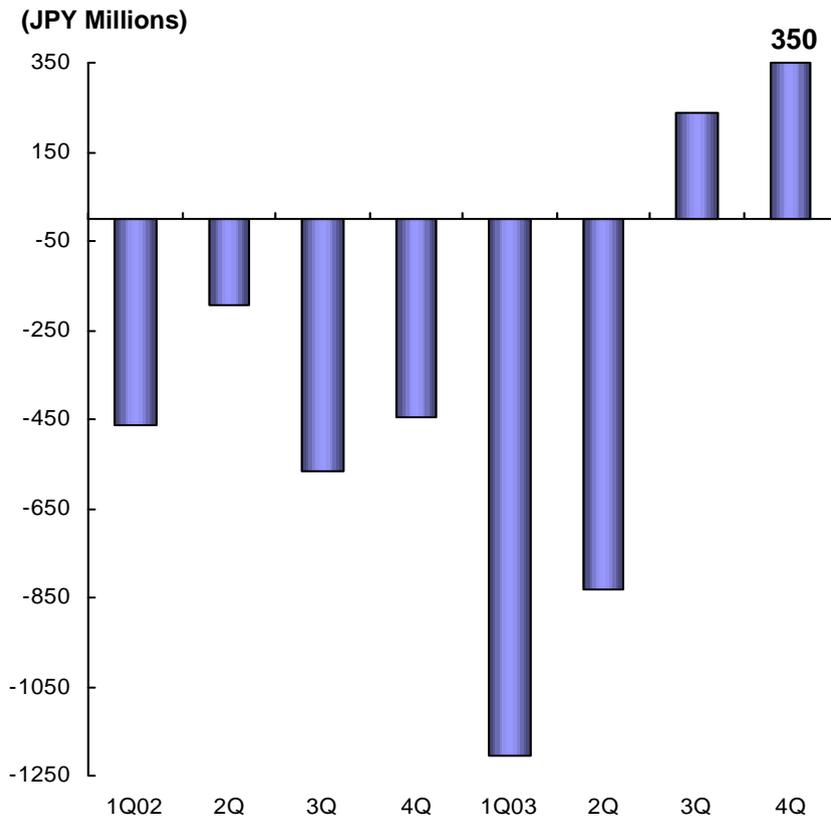
Revenue Growth (Quarterly)

(JPY Millions)

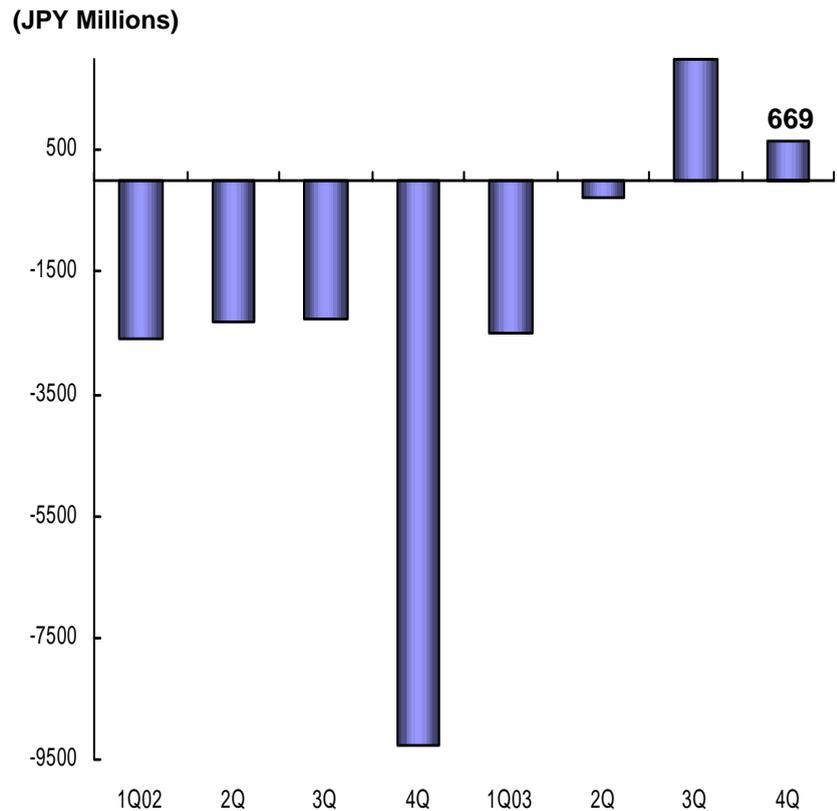


Operating and Net Income (Loss)

Operating Income (Loss)

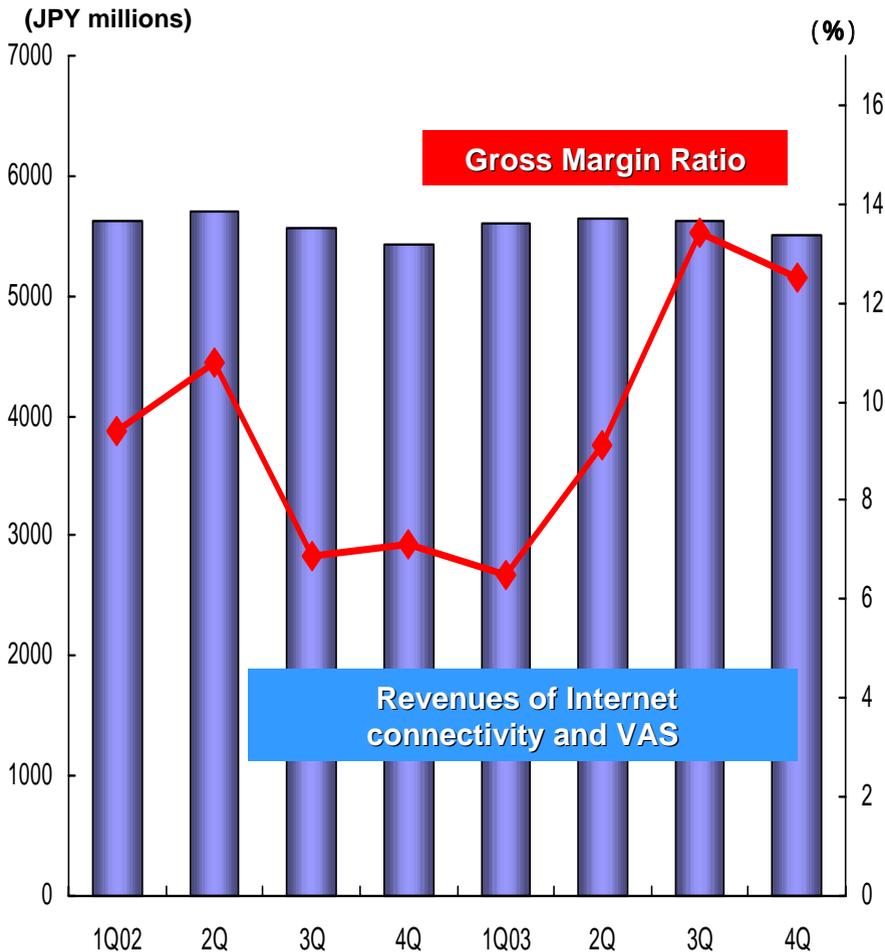


Net Income (Loss)



Connectivity and VAS

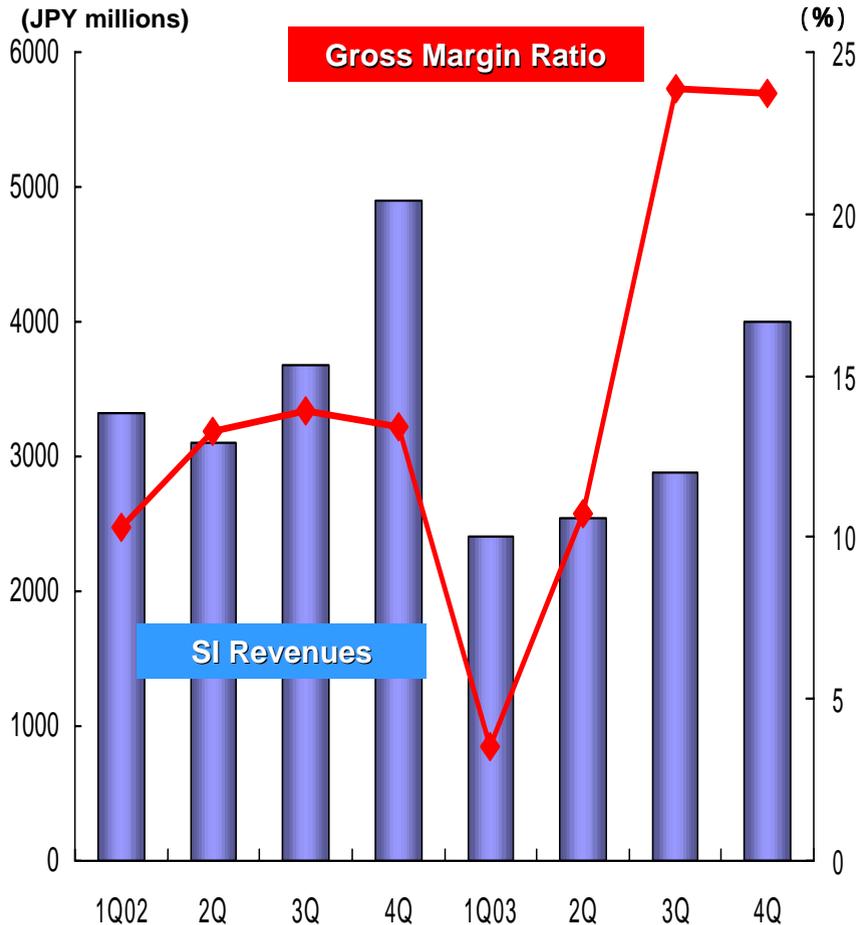
Revenues and Gross Margin



High gross margin maintained due to increased revenue from VAS and reduction of Internet backbone costs

- 4Q03 revenues increased by 1.5% YoY due to increased revenue from VAS. Slight decrease of 2.4% QoQ.
- The number of high bandwidth connectivity contracts are steadily increasing – from 381 in 3Q03 to 427 in 4Q03 (3Mbps - 1.2Gbps).
- Number of contracts for broadband services using NTT Flet’s substantially increased due to securing new contracts, such as Internet VPN
- Revenues from VAS, such as firewall and mail-server services with virus-check functions, increased steadily. 4Q04 YoY revenue increase of 18.5%
- Gross margin was 12.5%. Maintained at high level due to the continuous reduction of Internet backbone costs (a decrease of JPY 28 Million QoQ)

Revenues and Gross Margin



Gross margins have been maintained at high levels

- 4Q03 SI revenues increased 38.5% QoQ. SI revenue is steadily improving along with Japanese corporate IT investment, however it did not reach the same level of FY2002.
- As a result of securing profitable network-related business, the gross margin of our SI business was maintained at a high level, and contributed to the overall increase in operating income

Financial Results (Unaudited)

(JPY Millions)

Statements of Operation	1Q03	2Q03	3Q03	4Q03	FY2003
Total revenues	8,344	9,185	9,633	11,617	38,779
Total costs	7,868	8,337	8,125	9,915	34,245
Sales and marketing	973	1,100	699	756	3,527
General and administrative	612	482	486	518	2,098
Research and development	96	96	87	79	358
Operating income (loss)	(1,206)	(830)	236	350	(1,450)
Income (loss) before income tax expense (benefit)	(1,410)	(987)	1,806	124	(468)
Equity in net loss of equity method investees	(1,709)	(50)	(58)	(189)	(2,006)
Net income (loss)	(2,475)	(278)	1,979	669	(105)
Balance Sheet					
Total assets	27,587	38,434	38,465	42,737	
Total liabilities	37,474	36,040	33,675	35,880	
Total shareholders' equity (capital deficiency)	(10,512)	1,957	4,303	6,214	