

Internet Initiative Japan Inc.

May 22, 2001

Page 1



Internet Initiative Japan



FOR IMMEDIATE RELEASE

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 Results for 4Q of Fiscal Year 2000 Ended March 31, 2001

- Foreseeing Japan's Strong Upsurge on IT Investment in the fiscal 2001 -

Tokyo and New York, May 22, 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 fourth quarter and fiscal year ended March 31, 2001. On May 23 at 9:00am (EDT), the Company will host a conference call, which will be simultaneously webcasted at www.vcall.com. Replay will also be available at the same URL.

The 4th Quarter of FY2000 Results Summary

- Total revenues for 4Q00 were JPY9.2 billion, an increase of 21.2% from 4Q99, and 25.6% from 3Q00. Through the successful execution of its total solutions strategy, IIJ was able to achieve its revenue target for the quarter that was outlined in the third quarter press release.
- The operating loss ratio was (-)4.3%, a 2.6 percentage point improvement from 4Q99, and a 6.3 percentage point improvement from 3Q00. EBITDA^(*), which was JPY295 million, returned to positive territory as forecasted as well.
- For the full fiscal 2000, revenues increased 26.0% to JPY 31.9 billion.
- For fiscal 2001 ending March 31, 2002, IIJ anticipates a strong upsurge in information technology (“IT”) investment in Japan that is expected to be triggered by large corporations moving ahead with new network system projects for core parts of their business, in areas such as the manufacturing process. IIJ expects to continue to grow from the increasing demand for comprehensive solutions for new network systems within the corporate sector.
- In 1Q01, IIJ expects total revenues to be in the range of JPY8.0 to JPY8.5 billion due to the anticipated seasonality^(**) in the Systems Integration (SI) business. Also IIJ expects the operating loss ratio to be in the range of JPY(-)0.48 – (-)0.3 billion. EBITDA is expected to remain positive for 1Q01.

^(*) EBITDA represents operating income (loss) plus depreciation and amortization.

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

Internet Initiative Japan Inc.

May 22, 2001

Page 2

Overview and Business Outlook

Overview of the 4Q Results

“We are pleased with our strong performance in the 4th quarter,” said Koichi Suzuki, President and CEO of IIJ. “Despite the sluggish economy in Japan, we achieved solid revenue growth, which demonstrates that our technological expertise and first class customer service continues to be recognized within the market place, and that the so-called dot.com churn is not affecting our business. These factors keep contributing to our ability to capture demand for comprehensive solutions for new network systems and businesses in the corporate sector, where we have a strong customer base comprised of over 6,000 high-end enterprise users.”

“Growth in the 4th quarter was mainly attributed to increased revenue contributions from the Systems Integration (SI) business,” said Yasuhiro Nishi, CFO of IIJ. “With this strong growth under our total solutions strategy, we successfully achieved our operating targets including positive EBITDA and an improved operating margin.”

As a result, the fiscal year 2000 results showed strong growth in total revenues of JPY31.9 billion, a 26.0% increase from JPY25.3 billion in FY1999. Operating loss ratio in the full fiscal 2000 deteriorated slightly to 8.4% from 8.2% in fiscal 1999. This was mainly due to a shift in the service mix and the declining profit ratio of the SI caused by pre-expenditures to enhance the service components for iBPS, its easy-to-order systems integration package service, although IIJ started benefiting from scale merit and improved its profitability in the 4th quarter.

Outlook for Fiscal Year 2001 Ending March 31, 2002

For fiscal year 2001, which ends March 31, 2002, IIJ expects to continue growing as a result of the increasing demand for new network systems within Japan’s corporate sector.

“I see Japan’s corporate sector starting to introduce IT into their industrial life lines, in areas such as the manufacturing process,” said Suzuki. “In addition to government initiatives in the field, the corporate sector has unveiled plans for double-digit percentage-increases in network systems and business investment, according to a survey conducted by the Development Bank of Japan held in March 2001. Our position as an Internet traffic aggregator and as a premier network solutions provider to first class customers in the market, will help us leverage our SI and data center business going forward.”

Focused Strategies in Fiscal Year 2001 Ending March 31, 2002

To effectively compete in the market while increasing profitability, IIJ is focusing on two fields in fiscal year 2001: capturing high-end customers through data center services and gathering broadband traffic through its broadband network platform.

IIJ successfully completed the establishment of its multi-site data centers in fiscal year 2000, and the data centers now function as one of the key infrastructure elements that enable the Company to provide its comprehensive network solutions to customers. IIJ is on track to increase SI capabilities by re-engineering its service offering systems, as well as increasing the lineup of data center services, such as systems monitoring and management.

Internet Initiative Japan Inc.

May 22, 2001

Page 3

In conjunction with the data center strategy, IIJ aims to continue aggregating traffic from various network operators through its HSMN (High Speed Media Network) broadband network platform and through CDN Japan for content providers, an alliance for content delivery systems.

Furthermore, IIJ sees Japan's unique direction in broadband access and network terminals as offering great potential in aggregating traffic. IIJ plans to continue to introduce new connectivity services that will accommodate the emerging broadband access market, thereby expanding its customer base and capitalizing on its customers' diversifying demands. Also, IIJ believes that the June 2001 launch of "L-Mode," the regional NTTs' new data service through fixed telephone terminals, will contribute to IIJ's dialup revenues as the company serves as a backbone provider to NTT East and NTT West.

Clear Path to Profitability

IIJ is on track to achieve profitability on an operating basis. The Company continues to make significant progress in generating value from its total solutions, including various connectivity and value-added services, data centers and SI services, as well as improvements in its cost structure.

"In fiscal 2000, our international backbone costs, the largest cost item, started declining in total terms, even though we have nearly doubled bandwidth of the Japan-US lines since fiscal 1999. In fiscal 2001, we expect additional significant decreases in total terms of International backbone costs, as unit cost for the lines are expected to decline by around two-thirds at the end of fiscal 2001 from that of fiscal 2000," said Nishi.

For the 1st quarter of fiscal 2001 ending June 30, 2001, IIJ expects total revenues to be in the range between JPY8.0 and JPY8.5 billion due to the anticipated seasonality in the Systems Integration (SI) business. IIJ also expects the operating loss ratio to be in the range of JPY(-)0.48 – (-)0.3 billion.

Anticipated Financial Performance for the 1st quarter

(JPY in billions)

	1st Quarter of the fiscal 2001
Revenues	8.0 – 8.5
Operating Loss	(-)0.48 – (-)0.3

Status of Overview and Business Outlook

IIJ will keep this press release publicly available on its Web site (www.ij.ad.jp). The public can continue to rely on the Overview and Business Outlook announced in this 4Q00 press release as being IIJ's current expectations on matters covered, unless IIJ publishes an update press release stating otherwise.

IIJ intends to publish its next Overview and Business Outlook in its 1Q01 earnings release, presently scheduled for August 14, 2001. In conjunction with the 1Q01 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 July 31, 2001 until publication of the 1Q01 earnings release. During the quiet period, readers are referred to the documents filed by IIJ with the SEC, 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.

May 22, 2001

Page 4

The 4th Quarter of FY2000 Operating Highlights

Deployment of Internet Data Centers

During 4Q00, IIJ completed its fiscal 2000 plan for Internet data center deployment by expanding floor space in Tokyo, as well as setting up four new stations at Nagoya, Sapporo, Sendai and Fukuoka. IIJ now has eight stations throughout Japan for its Internet data center services. Furthermore, its ninth data center is expected to open in Kyoto in October 2001, and two other large scale Internet data centers in the Tokyo metropolitan area, in Yokohama and in the Saitama Kawaguchi Intelligent Park complex, are expected to be operational by the end of fiscal 2003.

Elsewhere in Asia, the “i-Heart” joint venture with Samsung Corp is successfully in operation in Korea. “AyalaPort Makati,” IIJ’s other Internet data center venture in the Philippines with the Ayala Group is preparing for its service launch by September 2001 with a floor space of over 1,900 square meters.

Network Infrastructure Expansion (International and Domestic)

During 4Q00, IIJ upgraded its Palo Alto – San Jose lines to 90Mbps from 45Mbps.

As for the domestic network infrastructure in Japan, IIJ inaugurated its 24th Network Operation Center (NOC), at Okinawa, in January 2001. This is the company’s first NOC in the southwest islands area of Japan. Also during the quarter, IIJ increased the number of its domestic dial-up access points to 74 from 68 mainly by utilizing Crosswave’s facilities.

Initiatives in Broadband Solutions through HSMN and CDN JAPAN

In February 2001, IIJ tied up with @Home Japan, a venture between U.S. based Excite@Home and one of Japan's largest CATV broadband networks, to connect IIJ’s broadband backbones. IIJ’s broadband network, called HSMN (High Speed Media Network) now ties up 30 CATV operators nationwide that represent 5.6 million homes passed and a 35% share of the Internet CATV market.

In March, 2001, IIJ formed an alliance, named "CDN JAPAN," with Oracle Corp Japan and Cisco Systems to develop a content delivery platform over the HSMN, optimized for delivery of rich content to end-users in Japan. The alliance aims to provide a range of capabilities such as authentication, billing, settlement and copyright management. The transmission of broadband content over CDN has begun with a number of entertainment and e-learning programs.

New Services offered as part of the IIJ Total Solutions Strategy

In line with its total solutions strategy, IIJ launched three new services in the value-added service category during 4Q00 to meet the diverse needs of the network solution market. They are as follows:

- JP-Type Domain Administration Service: A service that enables users to have domain names with Japanese-letters including *Kanji*, in a shorter format (i.e., name.jp).
- IIJ Security Standard: A new VPN option service added to IIJ’s managed firewall service, which allows secure site-to-site closed connections.
- IIJ Web Standard: A second-tier web hosting service targeting SOHO (“small office / home office”) and corporate users.

Internet Initiative Japan Inc.

May 22, 2001

Page 5

Expansion of IPv6-capable Services

In March 2001, IJ announced that it would expand its IPv6 (IP version 6, the next-generation Internet Protocol) capable services, including the IPv6 data center services, effective from April, 2001. Although IPv6 applications or content is still at early-development stage, IJ is providing IPv6 data center services to some of the most advanced IPv6 content projects in Japan, such as Nikkei BP's IPv6 portal site (v6start.net).

Also in March 2001, IJ unveiled a plan to launch its "IPv6 Dual Stack Service", the first of its kind in the world, around the fall of 2001. The service will enable an environment in which both IPv4 (IP version 4, the current Internet Protocol-based packets) and IPv6-based packets may be sent and received on the same network, thus enabling users to introduce IPv6-capable networks seamlessly.

IPv6 technology addresses a number of the shortfalls of IPv4, such as limited IP address availability and development of ubiquitous networking. IJ is the first commercial ISP in Japan to offer IPv6 service and has successfully established operating expertise in the field.

Subsidiary Company - IJ America Launched a New e-mail Service in the USA

In March 2001, IJ America, the company's 88.2% owned subsidiary, launched a new e-mail account management service through a partnership with USA.NET, mainly targeting US-based Japanese corporations that are looking to outsource their e-mail functions.

Affiliate Company - Crosswave Extended its Service Scope

In March 2001, Crosswave Communications ("Crosswave", Nasdaq: CWCI), IJ's 37.9% affiliate, announced that it had acquired the rights to set local access charges from regional NTTs, which allows Crosswave to offer end-to-end services at very attractive rates. Crosswave's new pricing and service lineup for its Wide-area Ethernet Platform Service became effective April 2001.

Affiliate Company - MFEED Launched New IX Service named JPNAP

Internet Multifeed, IJ's 26.0% owned affiliate, launched its new IX Service, named JPNAP, on a trial basis in January 2001. The JPNAP service is capable of switching gigabit-scale traffic amongst a variety of network operators located at Otemachi, Tokyo, a hub for telecom facilities in Japan. Commercial service of JPNAP began in April 2001.

The 4th Quarter of FY2000 Financial Results

Revenues

Revenues in 4Q00 totaled JPY9,200 million, up 21.2% compared with 4Q99, and up 25.6% compared with 3Q00.

Connectivity services and value-added services revenues increased 24.2% to JPY5,347 million in 4Q00 from 4Q99, and by 5.6% from 3Q00. The increase in YoY revenues was due to the steady revenue growth of Dedicated Access Service, in particular the T1 Standard Service. The QoQ increase was mainly the result of strong growth from Value-added Services that include Data Center service revenues.

Systems integration services revenues increased to JPY3,125 million by 59.8% from 3Q00 and 1.1% from 4Q99. Strong QoQ growth reflected an upsurge in corporate IT investments in Japan, as well as solid demand for IJ's solutions services.

Internet Initiative Japan Inc.

May 22, 2001

Page 6

Table 1. Number of Contracts

Internet Access Services	4Q00	3Q00	4Q99
<i>IP Service</i> 64kbps – 128kbps	295	330	484
192kbps – 768kbps	80	90	155
1Mbps – 2Mbps	240	221	140
3Mbps – 150Mbps	111	102	71
<i>IIJ T1 Standard</i>	575	494	146
Total IP Service	1,301	1,237	996
<i>IIJ Economy</i> 64kbps – 128kbps	1,295	1,253	1,008
Total Dedicated Access Services Contracts	2,596	2,490	2,004
<i>IIJ4U</i>	95,273	95,257	75,170
Others	66,857	64,854	54,970
Total Dial-up Access Services Contracts	162,130	160,111	130,140
Total Data Center Services Contracts	113	83	42

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

	4Q00	3Q00	4Q99
Total IP Service (<i>IP Service and IIJ T1 Standard</i>)	3,020	2,969	2,426
<i>IIJ Economy</i>	333	324	254

Table 3. Contracted Bandwidth (Unit: Mbps)

	4Q00	3Q00	4Q99
Dedicated Access Services	3,499	3,080	1,540

Cost and expenses

Cost of total revenues increased 21.4% to JPY 8,399 million from 4Q99, and by 22.9% from 3Q00, reflecting an increase in domestic backbone costs.

Domestic backbone costs increased 77.4% to JPY 714 million from 4Q99, and by 7.6% from 3Q00. The dramatic increase in the YoY period reflects a substantial upgrade of IIJ's domestic backbone lines mainly in order to install large-capacity backbones for its multi-site data centers deployment.

International backbone costs decreased 3.1% to JPY1,409 million in 4Q00 from 4Q99, and declined by 1.1% from 3Q00, while IIJ nearly doubled its Japan-US backbone capacity since 4Q99. Monthly unit backbone cost declined by approximately 48% since 4Q99.

Cost percentage of SI revenues improved to 83.5% from 85.2% in 4Q99, and from 86.9% in 3Q00. This was mainly attributed from the increase of iBPS contracts, starting benefiting from scale merit after pre-expenditures in enhancing systems components.

General and administrative (“G&A”) expenses increased 21.1% to JPY369 million from 4Q99, but decreased 14.4% from 3Q00. While G&A expenses increased on a YoY basis due to an increase in personnel expenses, the QoQ decline in expenses reflected an overall reduction in general expenses.

Internet Initiative Japan Inc.

May 22, 2001

Page 7

As a result, the operating loss declined to JPY394 million, compared to JPY521 million in 4Q99, and to JPY 779 million in 3Q00. Operating loss ratio against revenues for 4Q00 improved (-)4.3%, compared to (-)6.9% in 4Q99, and to (-)10.6% in 3Q00.

Other income

Other income decreased to JPY127 million, compared to JPY595 million in 4Q99, and to JPY495 million in 3Q00. Due to the depreciation of the Japanese Yen against the U.S. Dollar, IIJ recorded a foreign exchange gain of JPY412 million on dollar denominated monetary assets in 4Q00. However, this foreign exchange gain was offset by a JPY398 million impairment loss of certain security investments.

Equity in net loss of affiliated companies

Equity in net loss of affiliated companies increased to JPY1,179 million, compared to JPY957 million in 4Q99, and from JPY785 million in 3Q00, mainly resulting from the equity loss in Crosswave.

Net loss

Net loss increased to JPY1,353 million, compared to JPY407 million in 4Q99, and to JPY979 million in 3Q00. Basic net loss per ADS equivalent was JPY(-)30.09, compared to JPY(-)9.06 in 4Q99, and to JPY(-)21.78 in 3Q00.

Table 4. Other Financial Statistics

(JPY in millions)

	4Q00	3Q00	4Q99
EBITDA	295	(-)126	74
CAPEX, including capitalized leases	1,115	749	1,319
Depreciation and amortization	714	678	594

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 Mar 31, 2001, Mar 31, 2000 and Dec 31, 2000

(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, 2001			Mar 31, 2000			Dec 31, 2000		
	USD (1)	JPY	% of Total Revenues	JPY	% of Total Revenues	YOY Chg %	JPY	% of Total Revenues	QOQ Chg %
Revenues:									
Connectivity and value-added services									
Dedicated access services	26,710	3,353,198	36.5%	2,680,299	35.3%	25.1%	3,293,327	45.0%	1.8%
Dial-up access services	8,229	1,033,029	11.2	1,156,739	15.3	(10.7)	1,074,291	14.7	(3.8)
Value-added services	5,571	699,389	7.6	242,416	3.2	188.5	581,570	7.9	20.3
Other	2,078	260,885	2.8	224,926	3.0	16.0	114,303	1.6	128.2
Total connectivity and value-added services	42,588	5,346,501	58.1	4,304,380	56.8	24.2	5,063,491	69.2	5.6
Systems integration revenues	24,892	3,124,909	34.0	3,090,229	40.7	1.1	1,955,499	26.7	59.8
Other equipment sales	5,800	728,165	7.9	193,291	2.5	276.7	303,294	4.1	140.1
Total revenues	73,280	9,199,575	100.0	7,587,900	100.0	21.2	7,322,284	100.0	25.6
Costs and expenses:									
Cost of connectivity and value-added services	40,417	5,073,952	55.1	4,110,460	54.2	23.4	4,863,920	66.4	4.3
Cost of systems integration revenues	20,789	2,609,855	28.4	2,633,606	34.7	(0.9)	1,698,594	23.2	53.6
Cost of other equipment sales	5,695	714,916	7.8	172,957	2.3	313.3	270,316	3.7	164.5
Total costs	66,901	8,398,723	91.3	6,917,023	91.2	21.4	6,832,830	93.3	22.9
Sales and marketing	6,051	759,660	8.3	732,491	9.7	3.7	763,189	10.4	(0.5)
General and administrative	2,940	369,039	4.0	304,812	4.0	21.1	431,143	5.9	(14.4)
Research and development	527	66,205	0.7	154,477	2.0	(57.1)	74,447	1.0	(11.1)
Total costs and expenses	76,419	9,593,627	104.3	8,108,803	106.9	18.3	8,101,609	110.6	18.4
Operating loss	(3,139)	(394,052)	(4.3)	(520,903)	(6.9)	(24.4)	(779,325)	(10.6)	(49.4)
Other income	1,009	126,677	1.4	595,450	7.9	(78.7)	494,717	6.7	(74.4)
Income (loss) before income tax	(2,130)	(267,375)	(2.9)	74,547	1.0	(458.7)	(284,608)	(3.9)	(6.1)
Income tax (benefit)	(765)	(96,070)	(1.0)	(523,149)	(6.9)	(81.6)	37,972	0.5	(353.0)
Minority interests in consolidated subsidiaries	(20)	(2,550)	-	(47,444)	(0.7)	(94.6)	128,920	1.7	(102.0)
Equity in net loss of affiliated companies	(9,392)	(1,179,050)	(12.8)	(957,497)	(12.6)	23.1	(785,391)	(10.7)	50.1
Net loss	(10,777)	(1,352,905)	(14.7%)	(407,245)	(5.4%)	232.2%	(979,051)	(13.4%)	38.2%
Basic Net Loss Per Share		(60,183)		(18,116)			(43,552)		
Basic Net Loss Per ADS Equivalent		(30.09)		(9.06)			(21.78)		
Weighted Average Number of Shares		22,480		22,480			22,480		
Weighted Average Number of ADS Equivalents		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, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 125.54 = \$1, the approximate rate of exchange on Mar 30, 2001.



INTERNET INITIATIVE JAPAN INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

Appendix 2

For the Years Ended Mar 31, 2001 and Mar 31, 2000

(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, 2001			Mar 31, 2000		
	USD (1)	JPY	% of Total Revenues	JPY	% of Total Revenues	YoY Chg %
Revenues:						
Connectivity and value-added services						
Dedicated access services	101,794	12,779,284	40.1%	9,998,533	39.5%	27.8%
Dial-up access services	35,231	4,422,884	13.9	4,496,159	17.8	(1.6)
Value-added services	17,011	2,135,520	6.7	884,465	3.5	141.4
Other	4,714	591,819	1.8	407,912	1.6	45.1
Total connectivity and value-added services	<u>158,750</u>	<u>19,929,507</u>	<u>62.5</u>	<u>15,787,069</u>	<u>62.4</u>	<u>26.2</u>
Systems integration revenues	84,082	10,555,675	33.1	7,640,360	30.2	38.2
Other equipment sales	11,076	1,390,407	4.4	1,874,503	7.4	(25.8)
Total revenues	<u>253,908</u>	<u>31,875,589</u>	<u>100.0</u>	<u>25,301,932</u>	<u>100.0</u>	<u>26.0</u>
Costs and expenses:						
Cost of connectivity and value-added services	151,213	18,983,305	59.6	15,090,991	59.7	25.8
Cost of systems integration revenues	72,626	9,117,410	28.6	6,272,322	24.8	45.4
Cost of other equipment sales	10,264	1,288,530	4.0	1,806,974	7.1	(28.7)
Total costs	<u>234,103</u>	<u>29,389,245</u>	<u>92.2</u>	<u>23,170,287</u>	<u>91.6</u>	<u>26.8</u>
Sales and marketing	25,903	3,251,900	10.2	2,603,462	10.3	24.9
General and administrative	12,888	1,617,984	5.1	1,234,189	4.9	31.1
Research and development	2,285	286,850	0.9	363,546	1.4	(21.1)
Total costs and expenses	<u>275,179</u>	<u>34,545,979</u>	<u>108.4</u>	<u>27,371,484</u>	<u>108.2</u>	<u>26.2</u>
Operating loss	<u>(21,271)</u>	<u>(2,670,390)</u>	<u>(8.4)</u>	<u>(2,069,552)</u>	<u>(8.2)</u>	<u>29.0</u>
Other income (expenses)	7,163	899,320	2.8	(745,119)	(2.9)	(220.7)
loss before income tax	<u>(14,108)</u>	<u>(1,771,070)</u>	<u>(5.6)</u>	<u>(2,814,671)</u>	<u>(11.1)</u>	<u>(37.1)</u>
Income tax benefit	(7,374)	(925,678)	(2.9)	(1,280,123)	(5.1)	(27.7)
Minority interests in consolidated subsidiaries	1,273	159,850	0.5	(70,484)	(0.3)	(326.8)
Equity in net loss of affiliated companies	(31,979)	(4,014,680)	(12.6)	(3,179,469)	(12.6)	26.3
Net loss	<u>(37,440)</u>	<u>(4,700,222)</u>	<u>(14.8%)</u>	<u>(4,784,501)</u>	<u>(18.9%)</u>	<u>(1.8%)</u>
Basic Net Loss Per Share		(209,085)		(225,791)		
Basic Net Loss Per ADS Equivalent		(104.54)		(112.89)		
Weighted Average Number of Shares		22,480		21,190		
Weighted Average Number of ADS Equivalents		44,960,000		42,380,273		

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the year ended Mar 31, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 125.54 = \$1, the approximate rate of exchange on Mar 30, 2001.

INTERNET INITIATIVE JAPAN INC.
CONSOLIDATED BALANCE SHEETS

Appendix 3

As of Mar 31, 2001, Mar 31, 2000 and Dec 31, 2000

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

	Mar 31, 2001			Mar 31, 2000		Dec 31, 2000	
	USD (1)	JPY	%	JPY	%	JPY	%
ASSETS							
Current Assets:							
Cash	108,099	13,570,707	26.8%	16,158,439	41.4%	14,602,816	26.7%
Short-term investments	0	0	0.0	791,275	2.0	3,154,110	5.8
Accounts receivable-net	43,153	5,417,456	10.7	4,499,685	11.5	3,958,597	7.2
Inventories	1,956	245,520	0.5	214,001	0.6	198,618	0.4
Prepaid expenses	2,020	253,648	0.5	226,213	0.6	417,912	0.8
Other current assets	2,769	347,600	0.7	1,007,274	2.6	324,340	0.6
Total current assets	157,997	19,834,931	39.2	22,896,887	58.7	22,656,393	41.5
Investments in and Advances to Affiliated Companies	110,687	13,895,654	27.4	5,301,608	13.6	15,074,638	27.6
Other Investments	67,356	8,455,840	16.7	4,278,915	11.0	8,856,642	16.2
Property and Equipment	55,182	6,927,575	13.7	5,542,863	14.2	6,477,689	11.9
Guarantee Deposits	6,668	837,115	1.6	701,891	1.8	826,847	1.5
Other Assets	5,494	689,687	1.4	278,580	0.7	714,993	1.3
Total	403,384	50,640,802	100.0%	39,000,744	100.0%	54,607,202	100.0%
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current Liabilities:							
Short-term borrowings	44,767	5,620,000	11.1%	13,690,376	35.1%	6,110,000	11.2%
Accounts payable	34,362	4,313,811	8.5	3,559,334	9.1	6,294,412	11.5
Accrued expenses	1,683	211,302	0.4	309,387	0.8	265,374	0.5
Other current liabilities	3,626	455,212	0.9	930,608	2.4	308,386	0.5
Long-term borrowings-current portion	0	0	0.0	690,000	1.8	90,000	0.2
Capital lease obligations-current portion	13,098	1,644,354	3.3	1,564,922	4.0	1,590,709	2.9
Total current liabilities	97,536	12,244,679	24.2	20,744,627	53.2	14,658,881	26.8
Long-term Borrowings	22,304	2,800,000	5.5	200,000	0.5	2,400,000	4.4
Convertible Notes	119,484	15,000,000	29.6	0	0.0	15,000,000	27.5
Capital Lease Obligations-Noncurrent	21,341	2,679,224	5.3	2,099,571	5.4	2,613,916	4.8
Accrued Retirement and Pension Costs	993	124,640	0.2	114,226	0.3	142,455	0.2
Deferred Tax Liabilities-Noncurrent	1,501	188,413	0.4	3,109	-	525,620	1.0
Total liabilities	263,159	33,036,956	65.2	23,161,533	59.4	35,340,872	64.7
Minority Interest	5,386	676,096	1.3	838,071	2.1	673,546	1.2
Shareholders' Equity:							
Common stock	56,415	7,082,336	14.0	7,082,336	18.2	7,082,336	13.0
Additional paid-in capital(2)	135,959	17,068,353	33.7	12,028,557	30.8	17,068,353	31.3
Accumulated deficit	(85,728)	(10,762,334)	(21.2)	(6,062,112)	(15.5)	(9,409,429)	(17.2)
Accumulated other comprehensive income	28,193	3,539,395	7.0	1,952,359	5.0	3,851,524	7.0
Total shareholders' equity	134,839	16,927,750	33.5	15,001,140	38.5	18,592,784	34.1
Total	403,384	50,640,802	100.0%	39,000,744	100.0%	54,607,202	100.0%

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to Mar 31, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY125.54 = \$1, the approximate rate of exchange on Mar 30, 2001.

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

INTERNET INITIATIVE JAPAN INC.

Appendix 4

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended Mar 31, 2001, Mar 31, 2000 and Dec 31, 2000

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

	Mar 31, 2001		Mar 31, 2000	Dec 31, 2000
	USD (1)	JPY	JPY	JPY
Operating Activities:				
Net loss	(10,777)	(1,352,905)	(407,245)	(979,051)
Depreciation and amortization	5,688	714,130	594,481	678,247
Equity in net loss of affiliated companies	9,392	1,179,050	957,497	785,391
Minority interest in net loss of consolidated subsidiaries	20	2,550	47,444	(128,920)
Foreign exchange gain	(3,281)	(411,981)	(435,191)	(521,644)
Decrease (increase) in accounts receivable	(11,542)	(1,449,025)	(905,870)	676,871
Increase (decrease) in accounts payable	(16,151)	(2,027,616)	1,154,459	1,419,009
Deferred income tax (benefits)	(904)	(113,444)	(534,328)	33,831
Other	4,888	613,635	243,094	144,795
Net cash provided by (used in) operating activities	(22,667)	(2,845,606)	714,341	2,108,529
Investing Activities:				
Purchase of property and equipment	(3,997)	(501,808)	(562,385)	(193,373)
Investments in and advances to affiliated companies	-	-	-	(2,897,700)
Purchase of short-term investments	-	-	-	(5,297,122)
Purchase of other investments	(3,812)	(478,500)	(402,500)	(311,500)
Proceeds from redemption of short-term investments	24,982	3,136,244	6,434,223	8,366,650
Payment of insurance policies-net	(27)	(3,422)	(1,898)	(3,316)
Payment of guarantee deposits-net	(81)	(10,145)	(5,194)	21,279
Other	(827)	(103,925)	(52,623)	(103,926)
Net cash used in investing activities	16,238	2,038,444	609,623	(419,008)
Financing Activities:				
Proceeds from long-term borrowings	3,186	400,000	200,000	1,200,000
Repayments of long-term borrowings	(717)	(90,000)	(224,000)	(200,000)
Principal payments under capital leases	(3,984)	(500,144)	(511,168)	(475,647)
Net increase (decrease) in short-term borrowings	(3,898)	(489,436)	4,719,119	(900,000)
Net cash used in financing activities	(5,413)	(679,580)	4,183,951	(375,647)
Effect of Exchange Rate Changes on Cash	3,621	454,633	228,524	318,649
Net Increase (Decrease) in Cash	(8,221)	(1,032,109)	5,736,439	1,632,523
Cash, Beginning of Period	116,320	14,602,816	10,422,000	12,970,293
Cash, End of Period	108,099	13,570,707	16,158,439	14,602,816

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Mar 31, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY125.54 = \$1, the approximate rate of exchange on Mar 30, 2001.