



Internet Initiative Japan



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***IIJ Announces the Result of 3<sup>rd</sup> Quarter 2001***

***-- Reports 35.7% YOY Revenue Growth and Improved Profitability --***

**Tokyo, February 12, 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 3<sup>rd</sup> quarter ended December 31, 2001. On February 13 at 9:00am (EST), 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 3<sup>rd</sup> Quarter of FY2001 Results Summary**

- Total revenues were JPY9.9 billion, an increase of 35.7% from 3Q00 and of 4.3% from 2Q01, which were slightly below the expected range of JPY10.0 billion to JPY10.5 billion due to the deferral of a Systems Integration (SI) project, which is expected to be realized in 4Q01.
- International backbone costs, the Company’s largest cost reduction target, further declined by 62.4% from 3Q00 and by 14.0% from 2Q01, through the Company’s continuous focus on cost reduction initiatives to improve profitability.
- Gross margin continued to improve, reaching 14.7% as compared to 6.7% in 3Q00 and 14.1% in 2Q01.
- The Company improved its operating income to JPY151 million, versus a loss of JPY779 million in 3Q00 and a profit of JPY16 million in 2Q01. EBITDA also continued to improve, reaching JPY904 million, from a negative of JPY126 million in 3Q00 and a positive of JPY712 million in 2Q01. The results of Operating income and EBITDA are within ranges of the Company’s targets for the 3<sup>rd</sup> quarter.
- Income before income tax expense turned positive to JPY38 million from a loss of JPY285 million in 3Q00 and a loss of JPY414 million in 2Q01.
- For 4Q01, IIJ expects total revenues to be between JPY10.5 billion and JPY11.0 billion, representing approximately 14.1%-19.6% growth from 4Q00 and approximately 5.7%-10.7% from 3Q01. Operating income is expected to be between JPY150 million and JPY300 million, and EBITDA between JPY900 million and JPY1,050 million.
- For fiscal 2001, IIJ expects revenues to amount to between JPY38.3 billion and 38.8 billion, representing 20.1-21.7% growth from fiscal 2000. Operating income is expected to be between JPY18 million to JPY168 million, and EBITDA between JPY2,893 and JPY3,043 million.

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

## Overview and Business Outlook

### *Overview of the 3Q Results and Business Outlook*

“Our results in this quarter continue to prove our commitment to further growth and improved profitability,” said Koichi Suzuki, President and CEO of IJ. “Due to a deferred SI project during the quarter that is now expected to be realized in 4Q01, revenues in 3Q01 were slightly less than anticipated. Despite this rescheduling, coupled with the prolonged economic recession in Japan and the typical seasonal weakness of the SI business in the 3<sup>rd</sup> quarter in Japan, we still grew our revenues by 35.7% year-over-year and further improved our profitability.”

“We continued to improve our cost structure, as expected,” said Yasuhiro Nishi, CFO of IJ. “International backbone costs declined by 62.4% from 3Q00 and 14.0% from 2Q01. Domestic backbone costs have begun to level off, as we realize the benefits of competition-driven price reductions in the domestic bandwidth procurement market. For full fiscal 2001, we remain confident of our previous projections: a decline of approximately 50% in international backbone costs and total cost of connectivity services lower for the last fiscal year. With profitability steadily improving, we reaffirm our expectation of positive operating income for the full fiscal 2001 year, the first time since our IPO.”

### **Anticipated Financial Performance for the 4<sup>th</sup> Quarter** (JPY in millions)

	<b>4<sup>th</sup> Quarter of Fiscal 2001</b>	<b>Full Fiscal 2001</b>
Revenues	10,500 to 11,000	38,295 to 38,795
Operating Income (Loss)	150 to 300	18 to 168
EBITDA	900 to 1,050	2,893 to 3,043

### *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 1.5 million at the end of December 2001, a significant increase from 9,723 ADSL subscribers at December 2000 year-end. The ADSL figure surpassed the number of CATV Internet users, which was 1.3 million at the end of December 2001.

In the corporate market in Japan, demand for network restructuring remains strong. Companies have experienced a rapid increase in data traffic and, as a result, have had to constantly upgrade their network bandwidth. As upgrading networks can be costly, companies are taking advantage of various new types of access lines, such as ADSL and Ethernet-interfaced-lines, which are more cost-effective means to upgrading network bandwidth than conventional telecommunications lines.

### *IJ Strategies*

IJ continues to benefit from the growth in Japan’s broadband era by leveraging its large network scale and network-engineering capabilities. In particular, the new generation network infrastructure and services of its 37.9% affiliate Crosswave Communications (Crosswave) have started to become integrated into the IJ group’s total network solutions as key network components. The synergies realized with Crosswave have resulted in a clear differentiation at the points of cost, scale and extensibility in the IJ group total network solutions, especially when compared to that of conventional telecommunication carriers. Although equity accounting for Crosswave’s net loss has largely attributed to IJ’s net loss, IJ believes that synergies with Crosswave are a critical factor in effectively competing against telecommunications carriers in Japan and IJ continues to actively realize synergies with Crosswave through joint marketing and service development. In addition to the key functions of data centers as network hubs for the IJ group’s various network solutions, the launch of the Omnibus service and the development of new IJ CDN networks (both of which are discussed below) demonstrate these synergies with Crosswave.

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### Strategies for capturing Japan's broadband traffic

In February 2002, IIJ announced the launch of new CDN (Content Distribution Network) businesses in Japan, the IIJ CDN Platform as of April 2002. Through the new CDN business, IIJ aims to provide integrated content transmission platform services while enhancing its network infrastructures optimized for new broadband age. At the initial stage, IIJ will build a full-mesh tera-bit backbone network centered around the nine IIJ Internet data centers throughout Japan, setting in place the infrastructure for full-scale broadband content transmission. To expand the scope of the reach of its network, IIJ plans on extending its broadband network to NTT East's and West's ADSL networks, together with the 30 CATV stations currently participating in IIJ's HSMN (High Speed Media Network) broadband platform. IIJ expect to reach one million households by the end of April 2002, and six million households by the end of December 2002 through 100 CATV stations nationwide at HSMN and various broadband access networks. IIJ will strive to leverage the scalability of IIJ group's network infrastructure and its operational know-how in large-scale networking, data centers and systems integration business to capture a greater share of Japan's growing broadband traffic. IIJ also plans to use the enhanced network platform to develop its network businesses.

### Strategies for integrating customers' networks through IIJ total network solutions approach

In February 2002, IIJ launched its new network management solutions "Omnibus" service, which was developed specifically to enable corporate customers to integrate their various network systems, such as Internet, Intranet and VPNs, by interconnecting them at IIJ Internet data centers. The Omnibus service also integrates customers' security systems, including firewalls and intrusion detective systems. IIJ expects Omnibus to increase the usage of its various network services, such as Wide-area Ethernet Platform Service offered by Crosswave, the A-Bone VPN Service provided by its 26.7% affiliate Asia Internet Holding, as well as to deepen its customer relations by managing such networks seamlessly. IIJ expects to include Internet application services as part of the Omnibus solutions in the future.

### Strategies for enhancing relations with corporate customers

As announced in December 2001, IIJ was awarded the title "the best service provider of year 2001" in all three qualifying categories, namely dedicated access, dialup access and data center services through a major annual survey conducted by Nikkei Communications, a leading telecom industry trade magazine in Japan. This award underscores users' appreciation of IIJ's high service quality and performance. Based on its corporate philosophy of consistently ensuring high quality services that earn the trust of customers, IIJ will continue to leverage its advanced IP technology expertise, and to strengthen its position in the marketplace as a provider of comprehensive network solutions.

### 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.ij.ad.jp](http://www.ij.ad.jp)) but may discontinue this practice at any time. IIJ intends to publish its next Overview and Business Outlook in its 4Q01 earnings release, presently scheduled for May 21, 2002. In conjunction with the 3Q01 earnings announcement, IIJ will hold a webcasted conference made available to the public for listening over the Company's website.

## **The 3<sup>rd</sup> Quarter of FY2001 Operating Highlights**

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

In 3Q01, as part of its "Total Network Solutions Approach," IIJ launched five new services, introduced a new equipment series, and introduced two service upgrades providing new variations to existing lineups. In terms of new Internet connectivity services, IIJ commenced "IIJ Ethernet Standard Service," a 10Mbps dedicated-line connectivity service over Ethernet-interfaced access lines for

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corporations. IJ also introduced new connectivity services for individuals, namely "IJmio DSL/De Service," a 8Mbps ADSL Internet service, and "IJmio DSL/SF," another 8Mbps ADSL Internet service which includes one fixed IP address per contract. Amongst IJ's new Value-added services, IJ launched the trial of "IJ Download Site Service," a new hosting service for corporations for high-volume Internet content downloads. IJ also commenced its "IJmio Safety Mail Service," a new email service with an anti-virus function for individual users. In terms of new equipment series, IJ launched a new high-performance router, the "SEIL/neu" Series, designed specifically for new generation networks including Ethernet-based wide-area networks, VPNs (Virtual Private Network) and IPv6 (Internet Protocol Version 6) networks.

### ***Two New Lineups for IPv6-Capable Services***

As the first commercial service in the world employing dual stack technology, a key component in promoting IPv6 connectivity, IJ launched IPv6/IPv4 Dual Stack Service in November 2001. The service allows users to send and/or receive both IPv6 (next generation Internet Protocol Version 6) and IPv4 (current Internet Protocol Version 4) packets over a single connectivity line, without a separate network environment dedicated to IPv6 transmission. Also in this quarter, in addition to corporate users, IJ extended IPv6 service availability to individual users.

### ***New Tie-up to Leverage Total Network Solutions***

IJ group established a tie-up with Japan Research Institute (JRI), a leading Japanese "think-tank," to develop a one-stop data center business to provide corporate reengineering solutions. In January 2002, the data center business was formally launched. The tie-up combines JRI's data center facility in Tokyo and their expertise in both strategic consulting and in construction of large-scale corporate administrative systems, with IJ's Internet network solutions and Crosswave's nationwide fiber-optic network services.

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

In terms of network infrastructure development, IJ upgraded its Japan-US backbone lines to 1.8Gbps from 1.65Gbps during 3Q01. Also, within Japan, IJ upgraded four of its major lines, as well as established a new link to JPNAP's Osaka Internet exchange point, which is operated by its 26.0% affiliate Internet Multifeed. Within Japan, IJ also increased the number of its dial-up access points to 77 from 75.

As for Internet data center development, IJ opened its ninth Internet data center in Japan by procuring facilities from Crosswave in Kyoto. "Ayalaport Makati," a joint venture company between the IJ group and the Ayala Group, one of the Philippines' largest conglomerates, launched a full-fledged data center services in the Philippines in October 2001. A number of companies, including one of the Philippines' largest financial institutions, have already contracted with the new data center.

### ***IJ Group Companies Developments***

#### **Crosswave Communications (Crosswave), 37.9% affiliate specializing in data communications**

Through a tie-up with IJ, Crosswave introduced the first one-stop combination of Wide-area Ethernet Platform service and Internet connectivity service offered in Japan. The combination of Wide-area Ethernet and Internet connectivity enables the seamless administration of private and public network segments. Also in the quarter, Crosswave began construction of its Yokohama data center, which will be one of Japan's largest data centers, with 40,000 square meters of floor space in total.

#### **Asia Internet Holding (AIH), 26.7% affiliate specializing Asian-wide Internet backbone services**

During the quarter, AIH tied up with China Unicom Corporation, one of China's leading telecom carriers, to launch A-Bone VPN (Asia-wide Virtual Private Network) service in China through approximately 300 access points located nationwide in China. Also in the quarter, AIH tied up with Indosat Mega Media, one of Indonesia's major multimedia service providers, to launch the A-Bone VPN service in Indonesia through 25 access points located throughout Indonesia. AIH currently

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provides A-Bone VPN Service to a total of eight countries, namely Japan, Singapore, Malaysia, Thailand, Philippines, Korea, China and Hong Kong, as well as to Indonesia.

### IIJ Media Communications (IIJ-MC), 50.1% subsidiary specializing in web-media content services

During the quarter, IIJ-MC began its new outsourcing service for email-magazine distribution called "Mail Operator Service", as well as upgraded its "Streaming On-Demand Channel Service", a broadband hosting service designed specifically for streaming content transmission.

## The 3<sup>rd</sup> Quarter of FY2001 Financial Results

### Revenues

Revenues in 3Q01 totaled JPY9,934 million, up 35.7% compared with 3Q00, and up 4.3% compared with 2Q01.

**Connectivity services and value-added services** revenues increased 10.9% from 3Q00 to JPY5,615 million in 3Q01, and grew by 1.1% from 2Q01.

Dedicated access services increased 1.4% from 3Q00 to JPY3,338 million in 3Q01, and decreased 2.7% from 2Q01. The decrease from 2Q01 was mainly due to a customer shift from primarily IP services to data center connectivity services. During the quarter, IIJ DSL/F service and IIJ FiberAccess/F services increased rapidly, which helped to offset a decline in the IIJ Economy service.

Dial up access service decreased 17.7% from 3Q00 to JPY884 million in 3Q01, and declined 5.2% from 2Q01. These declines were due to the decrease in conventional dial-up services revenues, and IIJ4U revenues, as IIJ4U's subscriber switched their dial up access lines to ADSL lines, in which case, IIJ offers IIJ4U services at a low fixed monthly price.

Value-added services increased 74.3% from 3Q00 to JPY1,014 million in 3Q01, and was up 14.5% from 2Q01. Data center services and security-related services were particularly strong.

**Systems integration services** revenues increased 73.4% from 3Q00 to JPY3,391 million in 3Q01, and by 1.2% from 2Q00.

**Table 1. Number of Contracts**

<b>Internet Access Services</b>	<b>3Q01</b>	<b>2Q01</b>	<b>3Q00</b>
<i>IP Service</i> 64kbps – 128kbps	<b>176</b>	213	330
192kbps – 768kbps	<b>46</b>	49	90
1Mbps – 2Mbps	<b>269</b>	258	221
3Mbps – 1.2Gbps	<b>131</b>	123	102
<i>IIJ FiberAccess/F</i> <sup>(2)</sup>	<b>25</b>	2	n/a
<i>IIJ T1 Standard</i> 1.5Mbps	<b>681</b>	690	494
<b>Total IP Service</b>	<b>1,328</b>	1,335	1,237
<i>IIJ Economy</i> 64kbps – 128kbps	<b>1,060</b>	1,171	1,253
<i>IIJ DSL/F</i> <sup>(3)</sup> Maximum 1.5Mbps	<b>750</b>	286	n/a
<b>Total Dedicated Access Services Contracts</b>	<b>3,138</b>	2,792	2,490

<sup>(2)</sup> IIJ FiberAccess/F is a new service launched in August 2001.

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

<i>IIJ4U</i> (dialup service for individuals)	<b>91,924</b>	94,104	95,257
<b>Others</b>	<b>114,676</b>	86,123	64,854
<b>Total Dial-up Access Services Contracts</b>	<b>206,600</b>	180,227	160,111
<b>Total Data Center Services Contracts</b>	<b>127</b>	119	83

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

	3Q01	2Q01	3Q00
<b>Total IP Service</b> (IP Service, IIJ T1 Standard, and IIJ FiberAccess/F)	2,990	3,081	2,969
<b>IIJ Economy + IIJ DSL/F<sup>(*)</sup></b>	348	350	324

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

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

	3Q01	2Q01	3Q00
<b>Dedicated Access Services</b>	7.7	6.4	3.1

**Cost and expenses**

**Cost of total revenues** increased 24.0% from 3Q00 to JPY8,473 million in 3Q01, and by 3.6% from 2Q01.

International backbone costs decreased 62.4% from 3Q00 to JPY536 million in 3Q01, and by 14.0% from 2Q01. These decreases on both a year-over-year and sequential basis reflect IIJ's continuous effort in reducing the costs of the Japan-US backbone lines. The monthly unit backbone cost declined by approximately 70% in the year-over-year comparison, and by approximately 20% in the quarter-over-quarter comparison.

Domestic backbone costs increased 16.5% from 3Q00 to JPY 772 million and decreased 4.0% from 2Q01. The quarter-over-quarter decrease was due to revised downward pricing of the domestic backbone network. Other connectivity costs, INS line cost in particular, decreased 13.7% from 2Q01, consistent with the decrease in dial up access services.

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

	3Q01	2Q01	3Q00
<b>International Backbone Costs</b>	536	623	1,424
<b>Domestic Backbone Costs</b>	772	805	663

Sales and marketing expenses decreased 3.7% from 3Q00 to JPY 735 million in 3Q01, and were down 10.4% from 2Q01. This decrease was due to a decrease in advertising cost.

General and administrative expenses increased 14.4% from 3Q00 to JPY 493 million in 3Q01, and were up 15.6% from 2Q01, mainly as a result of an increase in recruiting cost.

As a result of IIJ's overall cost reduction effort, and in particular the reduction in international and domestic backbone cost, operating income increased to JPY 151 million in 3Q01, compared to loss of JPY 779 million in 3Q00, and to income of JPY 16 million in 2Q01. The operating income ratio against revenues for 3Q01 was 1.5%, compared to (-)10.6% in 3Q00, and to 0.2% in 2Q01.

**Other income (expenses)**

Other expenses for 3Q01 were JPY 114 million, compared to other income of JPY 495 million in 3Q00, and to other expenses of JPY 430 million in 2Q01. IIJ recorded a foreign exchange gain of JPY 379 million in 3Q01, compared to a gain of JPY 522 million in 3Q00 and to a loss of JPY 179 million in 2Q01. IIJ also incurred a JPY299 million impairment loss on a marketable equity security investment and net interest expense of JPY126 million, which more than offset this foreign exchange gain.

**Income tax expense (benefit)**

Income tax benefit for 3Q01 was JPY154 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 income tax expenses of JPY38 million in

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3Q00 and expenses of JPY1,266 million in 2Q01.

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

Equity in the net loss of affiliated companies was JPY1,218 million in 3Q01, compared to losses of JPY785 million in 3Q00, and JPY1,399 million in 2Q01, mainly resulting from the equity loss in Crosswave.

### *Net loss*

Net loss was JPY 1,030 million in 3Q01, compared to JPY 979 million in 3Q00 and JPY 3,085 million in 2Q01. Basic net loss per ADS equivalent was JPY(-)22.91 in 3Q01, compared to JPY(-)21.78 in 3Q00 and JPY(-)68.61 in 2Q01.

**Table 5. Other Financial Statistics**

(JPY in millions)

	3Q01	2Q01	3Q00
EBITDA	904	712	(-)126
CAPEX, including capitalized leases	804	931	749
Depreciation and amortization <sup>(4)</sup>	783	726	678

<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 Dec 31, 2001, Dec 31, 2000 and Sept 30, 2001

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

	Year-over-year Comparison						Sequential Comparison		
	Dec 31, 2001		% of Total Revenues	Dec 31, 2000		YOY Chg %	Sept 30, 2001		QOQ Chg %
	USD (1)	JPY		JPY	% of Total Revenues		JPY	% of Total Revenues	
<b>Revenues:</b>									
Connectivity and value-added services:									
Dedicated access services	25,476	3,338,370	33.6%	3,293,327	45.0%	1.4%	3,431,156	36.0%	(2.7%)
Dial-up access services	6,744	883,698	8.9	1,074,291	14.7	(17.7)	932,653	9.8	(5.2)
Value-added services:									
Internet datacenter services	4,478	586,816	5.9	341,914	4.6	71.6	506,775	5.3	15.8
Other value-added services	3,258	426,895	4.3	239,656	3.3	78.1	378,815	4.0	12.7
Total value-added services	7,736	1,013,711	10.2	581,570	7.9	74.3	885,590	9.3	14.5
Other	2,893	379,188	3.8	114,303	1.6	231.7	303,481	3.2	24.9
Total connectivity and value-added services	42,849	5,614,967	56.5	5,063,491	69.2	10.9	5,552,880	58.3	1.1
Systems integration revenues	25,879	3,391,122	34.2	1,955,499	26.7	73.4	3,352,363	35.2	1.2
Equipment sales	7,078	927,545	9.3	303,294	4.1	205.8	623,064	6.5	48.9
<b>Total revenues</b>	<b>75,806</b>	<b>9,933,634</b>	<b>100.0</b>	<b>7,322,284</b>	<b>100.0</b>	<b>35.7</b>	<b>9,528,307</b>	<b>100.0</b>	<b>4.3</b>
<b>Costs and expenses:</b>									
Cost of connectivity and value-added services	36,438	4,774,788	48.1	4,863,920	66.4	(1.8)	4,847,467	50.9	(1.5)
Cost of systems integration revenues	21,868	2,865,601	28.8	1,698,594	23.2	68.7	2,799,940	29.4	2.3
Cost of equipment sales	6,356	832,972	8.4	270,316	3.7	208.1	534,575	5.6	55.8
Total costs	64,662	8,473,361	85.3	6,832,830	93.3	24.0	8,181,982	85.9	3.6
Sales and marketing	5,606	734,623	7.4	763,189	10.4	(3.7)	819,799	8.6	(10.4)
General and administrative	3,765	493,327	5.0	431,143	5.9	14.4	426,792	4.5	15.6
Research and development	618	80,946	0.8	74,447	1.0	8.7	83,736	0.8	(3.3)
<b>Total costs and expenses</b>	<b>74,651</b>	<b>9,782,257</b>	<b>98.5</b>	<b>8,101,609</b>	<b>110.6</b>	<b>20.7</b>	<b>9,512,309</b>	<b>99.8</b>	<b>2.8</b>
<b>Operating income (loss)</b>	<b>1,155</b>	<b>151,377</b>	<b>1.5</b>	<b>(779,325)</b>	<b>(10.6)</b>	<b>(119.4)</b>	<b>15,998</b>	<b>0.2</b>	<b>846.2</b>
<b>Other income (expenses)</b>	<b>(868)</b>	<b>(113,705)</b>	<b>(1.1)</b>	<b>494,717</b>	<b>6.7</b>	<b>(123.0)</b>	<b>(430,259)</b>	<b>(4.5)</b>	<b>(73.6)</b>
<b>Income (Loss) before income tax expense (benefit)</b>	<b>287</b>	<b>37,672</b>	<b>0.4</b>	<b>(284,608)</b>	<b>(3.9)</b>	<b>(113.2)</b>	<b>(414,261)</b>	<b>(4.3)</b>	<b>(109.1)</b>
<b>Income tax expense (benefit)</b>	<b>(1,177)</b>	<b>(154,239)</b>	<b>(1.5)</b>	<b>37,972</b>	<b>0.5</b>	<b>(506.2)</b>	<b>1,266,458</b>	<b>13.3</b>	<b>(112.2)</b>
<b>Minority interests in consolidated subsidiaries</b>	<b>(30)</b>	<b>(3,985)</b>	<b>0.0</b>	<b>128,920</b>	<b>1.7</b>	<b>(103.1)</b>	<b>(5,533)</b>	<b>(0.1)</b>	<b>(28.0)</b>
<b>Equity in net loss of affiliated companies</b>	<b>(9,293)</b>	<b>(1,217,755)</b>	<b>(12.3)</b>	<b>(785,391)</b>	<b>(10.7)</b>	<b>55.1</b>	<b>(1,398,509)</b>	<b>(14.7)</b>	<b>(12.9)</b>
<b>Net loss</b>	<b>(7,859)</b>	<b>(1,029,829)</b>	<b>(10.4%)</b>	<b>(979,051)</b>	<b>(13.4%)</b>	<b>5.2%</b>	<b>(3,084,761)</b>	<b>(32.4%)</b>	<b>(66.6%)</b>
<b>Basic Net Loss Per Share</b>		(45,811)		(43,552)			(137,222)		
<b>Basic Net Loss Per ADS Equivalent</b>		(22.91)		(21.78)			(68.61)		
<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 Dec 31, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 131.04 = \$1, the approximate rate of exchange on Dec 31, 2001.



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

Appendix 2

For the Nine Months Ended Dec 31, 2001 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					
	Dec 31, 2001			Dec 31, 2000		
	USD (1)	JPY	% of Total Revenues	JPY	% of Total Revenues	YoY Chg %
<b>Revenues:</b>						
Connectivity and value-added services:						
Dedicated access services	77,506	10,156,438	36.5%	9,426,086	41.6%	7.7%
Dial-up access services	21,366	2,799,812	10.1	3,389,855	14.9	(17.4)
Value-added services:						
Internet datacenter services	12,080	1,582,976	5.7	804,884	3.5	96.7
Other value-added services	9,138	1,197,441	4.3	631,247	2.8	89.7
Total value-added services	21,218	2,780,417	10.0	1,436,131	6.3	93.6
Other	8,660	1,134,795	4.1	330,934	1.5	242.9
Total connectivity and value-added services	128,750	16,871,462	60.7	14,583,006	64.3	15.7
Systems integration revenues	68,859	9,023,339	32.5	7,430,766	32.8	21.4
Equipment sales	14,500	1,900,038	6.8	662,242	2.9	186.9
<b>Total revenues</b>	<b>212,109</b>	<b>27,794,839</b>	<b>100.0</b>	<b>22,676,014</b>	<b>100.0</b>	<b>22.6</b>
<b>Costs and expenses:</b>						
Cost of connectivity and value-added services	112,097	14,689,111	52.9	13,909,353	61.3	5.6
Cost of systems integration revenues	57,843	7,579,795	27.3	6,507,555	28.7	16.5
Cost of other equipment sales	12,780	1,674,735	6.0	573,614	2.5	192.0
Total costs	182,720	23,943,641	86.2	20,990,522	92.5	14.1
Sales and marketing	18,110	2,373,208	8.5	2,492,240	11.0	(4.8)
General and administrative	10,372	1,359,149	4.9	1,248,945	5.5	8.8
Research and development	1,918	251,280	0.9	220,645	1.0	13.9
<b>Total costs and expenses</b>	<b>213,120</b>	<b>27,927,278</b>	<b>100.5</b>	<b>24,952,352</b>	<b>110.0</b>	<b>11.9</b>
<b>Operating loss</b>	<b>(1,011)</b>	<b>(132,439)</b>	<b>(0.5)</b>	<b>(2,276,338)</b>	<b>(10.0)</b>	<b>(94.2)</b>
<b>Other income (expenses)</b>	<b>(4,620)</b>	<b>(605,448)</b>	<b>(2.2)</b>	<b>772,643</b>	<b>3.4</b>	<b>(178.4)</b>
<b>Loss before income tax expense (benefit)</b>	<b>(5,631)</b>	<b>(737,887)</b>	<b>(2.7)</b>	<b>(1,503,695)</b>	<b>(6.6)</b>	<b>(50.9)</b>
<b>Income tax expense (benefit)</b>	<b>9,458</b>	<b>1,239,416</b>	<b>4.4</b>	<b>(829,608)</b>	<b>(3.6)</b>	<b>(249.4)</b>
<b>Minority interests in consolidated subsidiaries</b>	<b>254</b>	<b>33,316</b>	<b>0.1</b>	<b>162,400</b>	<b>0.7</b>	<b>(79.5)</b>
<b>Equity in net loss of affiliated companies</b>	<b>(29,270)</b>	<b>(3,835,479)</b>	<b>(13.8)</b>	<b>(2,835,630)</b>	<b>(12.5)</b>	<b>35.3</b>
<b>Net loss</b>	<b>(44,105)</b>	<b>(5,779,466)</b>	<b>(20.8%)</b>	<b>(3,347,317)</b>	<b>(14.8%)</b>	<b>72.7%</b>
<b>Basic Net Loss Per Share</b>		(257,094)		(148,902)		
<b>Basic Net Loss Per ADS Equivalent</b>		(128.55)		(74.45)		
<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 Dec 31, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 131.04 = \$1, the approximate rate of exchange on Dec 31, 2001.

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

As of Dec 31, 2001, Dec 31, 2000 and Sept 30, 2001

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

	Dec 31, 2001			Dec 31, 2000		Sept 30, 2001	
	USD (1)	JPY	%	JPY	%	JPY	%
<b>ASSETS</b>							
<b>Current Assets:</b>							
Cash	85,211	11,166,077	25.9%	14,602,816	26.7%	11,411,967	25.5%
Short-term investments	0	0	0.0	3,154,110	5.8	0	0.0
Accounts receivable, net	44,496	5,830,688	13.5	3,958,597	7.2	5,939,468	13.3
Inventories	1,740	228,063	0.5	198,618	0.4	1,012,403	2.3
Prepaid expenses	6,155	806,515	1.9	417,912	0.8	403,982	0.9
Other current assets	3,246	425,411	1.0	324,340	0.6	390,966	0.9
<b>Total current assets</b>	<b>140,848</b>	<b>18,456,754</b>	<b>42.8</b>	<b>22,656,393</b>	<b>41.5</b>	<b>19,158,786</b>	<b>42.9</b>
<b>Investments in and Advances to Affiliated Companies</b>	<b>79,266</b>	<b>10,386,964</b>	<b>24.1</b>	<b>15,074,638</b>	<b>27.6</b>	<b>11,608,736</b>	<b>26.0</b>
<b>Other Investments</b>	<b>36,738</b>	<b>4,814,114</b>	<b>11.1</b>	<b>8,856,642</b>	<b>16.2</b>	<b>4,727,410</b>	<b>10.6</b>
<b>Property and Equipment, net</b>	<b>58,068</b>	<b>7,609,238</b>	<b>17.6</b>	<b>6,477,689</b>	<b>11.9</b>	<b>7,585,480</b>	<b>17.0</b>
<b>Guarantee Deposits</b>	<b>9,644</b>	<b>1,263,819</b>	<b>2.9</b>	<b>826,847</b>	<b>1.5</b>	<b>890,444</b>	<b>2.0</b>
<b>Other Assets</b>	<b>4,874</b>	<b>638,652</b>	<b>1.5</b>	<b>714,993</b>	<b>1.3</b>	<b>664,675</b>	<b>1.5</b>
<b>Total assets</b>	<b>329,438</b>	<b>43,169,541</b>	<b>100.0%</b>	<b>54,607,202</b>	<b>100.0%</b>	<b>44,635,531</b>	<b>100.0%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
<b>Current Liabilities:</b>							
Short-term borrowings	28,237	3,700,214	8.6%	6,110,000	11.2%	3,770,445	8.5%
Accounts payable	26,161	3,428,098	7.9	6,294,412	11.5	4,526,061	10.1
Accrued expenses	2,236	292,996	0.7	265,374	0.5	222,003	0.5
Other current liabilities	5,317	696,682	1.6	308,386	0.5	365,625	0.8
Long-term borrowings-current portion	9,157	1,200,000	2.8	90,000	0.2	1,000,000	2.2
Capital lease obligations-current portion	14,717	1,928,505	4.5	1,590,709	2.9	1,853,146	4.2
<b>Total current liabilities</b>	<b>85,825</b>	<b>11,246,495</b>	<b>26.1</b>	<b>14,658,881</b>	<b>26.8</b>	<b>11,737,280</b>	<b>26.3</b>
<b>Long-term Borrowings</b>	<b>27,473</b>	<b>3,600,000</b>	<b>8.3</b>	<b>2,400,000</b>	<b>4.4</b>	<b>3,800,000</b>	<b>8.5</b>
<b>Convertible Notes</b>	<b>114,469</b>	<b>15,000,000</b>	<b>34.7</b>	<b>15,000,000</b>	<b>27.5</b>	<b>15,000,000</b>	<b>33.6</b>
<b>Capital Lease Obligations-Noncurrent</b>	<b>22,659</b>	<b>2,969,253</b>	<b>6.9</b>	<b>2,613,916</b>	<b>4.8</b>	<b>2,939,079</b>	<b>6.6</b>
<b>Accrued Retirement and Pension Costs</b>	<b>962</b>	<b>126,085</b>	<b>0.3</b>	<b>142,455</b>	<b>0.2</b>	<b>125,099</b>	<b>0.2</b>
<b>Other Noncurrent Liabilities</b>	<b>261</b>	<b>34,238</b>	<b>0.1</b>	<b>525,620</b>	<b>1.0</b>	<b>26,306</b>	<b>0.1</b>
<b>Total liabilities</b>	<b>251,649</b>	<b>32,976,071</b>	<b>76.4</b>	<b>35,340,872</b>	<b>64.7</b>	<b>33,627,764</b>	<b>75.3</b>
<b>Minority Interest</b>	<b>7,814</b>	<b>1,023,897</b>	<b>2.4</b>	<b>673,546</b>	<b>1.2</b>	<b>1,019,912</b>	<b>2.3</b>
<b>Shareholders' Equity:</b>							
<b>Common stock</b>	<b>54,047</b>	<b>7,082,336</b>	<b>16.4</b>	<b>7,082,336</b>	<b>13.0</b>	<b>7,082,336</b>	<b>15.9</b>
<b>Additional paid-in capital</b>	<b>130,253</b>	<b>17,068,353</b>	<b>39.5</b>	<b>17,068,353</b>	<b>31.3</b>	<b>17,068,353</b>	<b>38.2</b>
<b>Accumulated deficit</b>	<b>(126,235)</b>	<b>(16,541,800)</b>	<b>(38.3)</b>	<b>(9,409,429)</b>	<b>(17.2)</b>	<b>(15,511,971)</b>	<b>(34.7)</b>
<b>Accumulated other comprehensive income</b>	<b>11,910</b>	<b>1,560,684</b>	<b>3.6</b>	<b>3,851,524</b>	<b>7.0</b>	<b>1,349,137</b>	<b>3.0</b>
<b>Total shareholders' equity</b>	<b>69,975</b>	<b>9,169,573</b>	<b>21.2</b>	<b>18,592,784</b>	<b>34.1</b>	<b>9,987,855</b>	<b>22.4</b>
<b>Total liabilities and shareholders' equity</b>	<b>329,438</b>	<b>43,169,541</b>	<b>100.0%</b>	<b>54,607,202</b>	<b>100.0%</b>	<b>44,635,531</b>	<b>100.0%</b>

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to Dec 31, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 131.04 = \$1, the approximate rate of exchange on Dec 31, 2001.

**INTERNET INITIATIVE JAPAN INC.**

Appendix 4

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Three Months Ended Dec 31, 2001, Dec 31, 2000 and Sept 30, 2001

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

	Dec 31, 2001		Dec 31, 2000	Sept 30, 2001
	USD (1)	JPY	JPY	JPY
<b>Operating Activities:</b>				
Net loss	(7,859)	(1,029,829)	(979,051)	(3,084,761)
Depreciation and amortization	5,977	783,194	678,247	726,278
Equity in net loss of affiliated companies	9,293	1,217,755	785,391	1,398,509
Minority interests in consolidated subsidiaries	30	3,985	(128,920)	5,533
Foreign exchange losses (gains)	(2,895)	(379,315)	(521,644)	178,577
Write down of other investment	2,285	299,428	-	28,824
Decrease (increase) in accounts receivable	1,338	175,291	676,871	(566,601)
Increase (decrease) in accounts payable	(8,419)	(1,103,244)	1,419,009	513,802
Decrease (increase) in inventories	5,986	784,340	117,133	(748,850)
Deferred income tax	(1,218)	(159,611)	33,831	1,264,707
Other	(62)	(8,113)	(190,254)	388
<b>Net cash provided by (used in) operating activities</b>	<b>4,456</b>	<b>583,881</b>	<b>1,890,613</b>	<b>(283,594)</b>
<b>Investing Activities:</b>				
Purchase of property and equipment	(1,243)	(162,852)	(193,373)	(393,770)
Investments in and advances to affiliated companies	(133)	(17,497)	(2,897,700)	(321,094)
Purchase of short-term investments	-	-	(5,297,122)	-
Purchase of other investments	-	-	(311,500)	(100)
Proceeds from redemption of short-term investments	-	-	8,366,650	-
(Payment) refund of guarantee deposits-net	(2,850)	(373,471)	21,279	(2,794)
Other	(59)	(7,718)	(107,242)	(20,141)
<b>Net cash used in investing activities</b>	<b>(4,285)</b>	<b>(561,538)</b>	<b>(419,008)</b>	<b>(737,899)</b>
<b>Financing Activities:</b>				
Proceeds from long-term borrowings	-	-	1,200,000	1,400,000
Repayments of long-term borrowings	-	-	(200,000)	-
Principal payments under capital leases	(4,048)	(530,423)	(475,647)	(494,991)
Net decrease in short-term borrowings	(536)	(70,231)	(900,000)	(1,249,555)
Proceeds from issuance of common stock of a subsidiary	-	-	-	375,000
<b>Net cash provided by (used in) financing activities</b>	<b>(4,584)</b>	<b>(600,654)</b>	<b>(375,647)</b>	<b>30,454</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>2,536</b>	<b>332,421</b>	<b>318,649</b>	<b>(171,738)</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(1,877)</b>	<b>(245,890)</b>	<b>1,414,607</b>	<b>(1,162,777)</b>
<b>Cash, Beginning of Period</b>	<b>87,088</b>	<b>11,411,967</b>	<b>12,970,293</b>	<b>12,574,744</b>
<b>Cash, End of Period</b>	<b>85,211</b>	<b>11,166,077</b>	<b>14,384,900</b>	<b>11,411,967</b>

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Dec 31, 2001 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY131.04 = \$1, the approximate rate of exchange on Dec 31, 2001.

