



Internet Initiative Japan

For Immediate Release

Internet Initiative Japan Inc.

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**IIJ Announces Fourth Quarter and Full Fiscal Year Results
for the Year Ended March 31, 2005**

- Company records highest annual and quarterly incomes since NASDAQ listing in 1999 -

Tokyo and New York, May 13, 2005 - Internet Initiative Japan Inc. (Nasdaq: IIJI) ("IIJ"), one of Japan's leading Internet-access and comprehensive network solutions providers, today announced its financial results for the fourth quarter and the full fiscal year ended March 31, 2005 ("FY2004").¹

Highlights of Fourth Quarter FY2004 Results

- Revenue totaled JPY 12,254 million (\$114.3 million), an increase of 5.5% from JPY 11,617 million in 4Q03 and an increase of 19.4% from JPY 10,261 million in 3Q04.
- Operating income was JPY 656 million (\$6.1 million), an increase of 87.5% from JPY 350 million in 4Q03 and an increase of 59.9% from JPY 410 million in 3Q04.
- Net income was JPY 2,256 million (\$21.0 million), compared to a net loss of JPY 236 million in 4Q03 and JPY 660 million of net income in 3Q04.

Highlights of Full FY2004 Results

- Revenue totaled JPY 41.7 billion (\$388.9 million), an increase of 7.5% from JPY 38.8 billion in FY2003.
- Operating income was JPY 1.2 billion (\$11.6 million), compared to an operating loss of JPY 1.4 billion in FY2003.
- Net income was JPY 2.9 billion (\$27.1 million), compared to a loss of JPY 2.3 billion in FY2003.

Outlook for FY2005²

- We expect revenue growth of approximately 10%, an increase in an operating income of approximately 85% and an increase in a net income of approximately 25% for the full fiscal year ending March 31, 2006 ("FY2005").

Overview of 4th Quarter and Full FY2004 Financial Results and Business Outlook²

"We are pleased to announce that IIJ achieved the highest annual and quarterly operating and net income since our NASDAQ listing," said Koichi Suzuki, President and CEO of IIJ. "We are capitalizing on three main changes in the corporate market and we believe the trends will continue to affect our business favorably. First, broadband expansion is spurring demand for operational outsourcing services since customers are required to resolve security and other operational issues. Second, as usage of networks become more integrated with its business systems, demand for upgrades and replacement of

¹ Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with U.S. GAAP. All financial figures are unaudited and consolidated. For all 4Q04 and Full FY2004 results, translations of Japanese yen amounts into US dollars are solely for the convenience of readers outside of Japan and have been made at the rate of JPY 107.22 = US\$1.00, the approximate exchange rate on March 31, 2005. Historical quarterly and annual figures have been restated to reflect the change in income tax expense (benefit) previously discussed by IIJ in its press release dated April 11, 2005.

² This Overview and Business Outlook contains forward-looking statements and projections such as statements regarding FY2005 revenues and operating and net profitability 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 and 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), but may discontinue this practice at any time. IIJ intends to publish its next Overview and Business Outlook in its 1Q05 earnings release, presently scheduled for August 2005.

legacy network systems is growing and the scale and scope of Systems Integration ("SI") projects such as consulting, network and system design, project management, implementation and operation is increasing. Lastly, an increase in Internet traffic among corporate customers is spurring demand for higher speed contracts for high-end Internet connectivity services and advanced broadband services for multi-site connectivity. In addition to leveraging our technological expertise to meet the needs of our customers created by the trends, we continue to develop new technologies such as our SEIL Management Framework ("SMF") and RFID technology in an effort to continually search for new avenues of growth."

"Our financial condition has improved substantially in FY2004," said Akihisa Watai, CFO of IJ. "We succeeded in expanding our outsourced operational services which have relatively higher-margins and recurring monthly revenues, and we also showed significant progress in decreasing our backbone costs while stringently managing our SG&A expenses. We believe that we have crossed the threshold and moved into a harvesting period."

4th Quarter FY2004 Financial Results

Operating Result Summary

(JPY in millions)

	4Q04	4Q03	YoY % change	3Q04	QoQ % change
Total Revenues	12,254	11,617	5.5%	10,261	19.4%
Total Costs	10,012	9,915	1.0%	8,486	18.0%
SG&A Expenses and R&D	1,586	1,353	17.3%	1,365	16.2%
Operating Income	656	350	87.5%	410	59.9%
Net Income (Loss)	2,256	(236)	(1,057.7%)	660	242.0%

Revenues

Revenues in 4Q04 totaled JPY 12,254 million, an increase of 5.5% from JPY 11,617 million in 4Q03 and 19.4% from JPY 10,261 million in 3Q04.

Revenues

(JPY in millions)

	4Q04	4Q03	YoY % change	3Q04	QoQ % change
Total Revenues	12,254	11,617	5.5%	10,261	19.4%
Connectivity & VAS	5,860	5,499	6.6%	5,666	3.4%
SI	5,352	4,001	33.7%	3,970	34.8%
Equipment Sales	1,042	2,117	(50.8%)	625	66.8%

Connectivity and Value-added

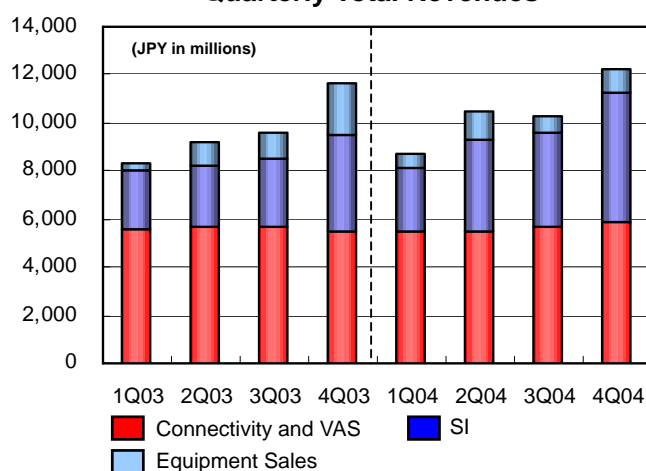
Services ("VAS") revenues were JPY 5,860 million in 4Q04, an increase of 6.6% from JPY 5,499 million in 4Q03 and 3.4% from JPY 5,666 million in 3Q04.

Dedicated access service revenues were JPY 2,841 million in 4Q04, a decrease of 8.4% compared to 4Q03 and an increase of 2.2% compared to 3Q04. The decrease compared to 4Q03 was mainly due to shift from T1 Standard or IJ Economy to lower-priced broadband services. Revenues increased from 3Q04, however, due to an increase in revenues from IP service and broadband services.

Dial-up access service revenues were JPY 718 million in 4Q04, a decrease of 5.2% compared to 4Q03 and a decrease of 1.2% compared to 3Q04 mainly due to the decrease in revenues from IJ4U.

VAS revenues were JPY 1,322 million in 4Q04, an increase of 19.8% compared to 4Q03 and an increase of 3.6% compared to 3Q04. The increase compared to 4Q03 and 3Q04 is mainly due to an increase in revenues from various types of packaged outsource services, such as managed security,

Quarterly Total Revenues



hosting and network services.

Other revenues were JPY 979 million in 4Q04, an increase of 82.4% compared to 4Q03 and an increase of 10.9% compared to 3Q04, mainly due to an increase in revenues from Wide-area Ethernet Services.

SI revenues increased 33.7% to JPY 5,352 million in 4Q04 from JPY 4,001 million in 4Q03 and increased 34.8% from JPY 3,970 million in 3Q04. The increase from 4Q03 is mainly due to additional revenues from the purchase of the security system business operations of Yamatane Co. Ltd. in October 2004, and the increase from 3Q04 is mainly due to the increase in systems integration contracts.

Equipment sales revenues were JPY 1,042 million in 4Q04, a decrease of 50.8% compared to 4Q03 and an increase of 66.8% compared to 3Q04.

Cost and expense

Cost of revenues was JPY 10,012 million in 4Q04, an increase of 1.0% compared to 4Q03 and an increase of 18.0% compared to 3Q04.

Cost of Connectivity and VAS revenues was JPY 5,018 million, an increase of 4.3% compared to 4Q03 and an increase of 3.0% compared to 3Q04. The gross-margin ratio for Connectivity and VAS in 4Q04 was 14.4%, compared to 12.5% in 4Q03 and 14.0% in 3Q04 mainly due to a decrease in backbone costs.

Cost of SI revenues was JPY 4,030 million in 4Q04, an increase of 32.0% compared to 4Q03 and an increase of 33.0% compared to 3Q04. The gross margin ratio for SI in 4Q04 was 24.7%, compared to 23.7% in 4Q03 and 23.7% in 3Q04. The improvement in margin compared to 3Q04 was mainly due to the increase in higher-margin systems integration projects.

Sales and marketing expenses were JPY 736 million in 4Q04, a decrease of 2.6% compared to 4Q03 and an increase of 7.7% compared to 3Q04.

General and administrative expenses were JPY 800 million in 4Q04, an increase of 54.5% compared to 4Q03 and an increase of 26.4% compared to 3Q04. The increase is mainly due to an increase in write down of software licenses and personnel expenses.

Operating income

Operating income was JPY 656 million in 4Q04, compared to JPY 350 million in 4Q03 and JPY 410 million in 3Q04 mainly due to improved gross-margins in Connectivity, VAS and SI.

Other income (expenses) in 4Q04 was JPY 1,729 million, compared to other expenses of JPY 226 million in 4Q03 and other income of JPY 333 million in 3Q04. The increase is mainly due to gain on the sale of available-for-sale securities which amounted to JPY 1,890 million.

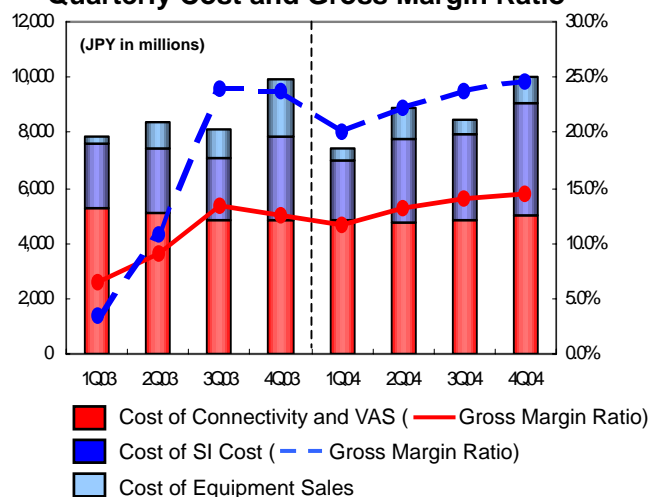
Income tax expense for 4Q04 was JPY 30 million, compared to JPY 13 million in 4Q03 and JPY 39

Cost of Revenues

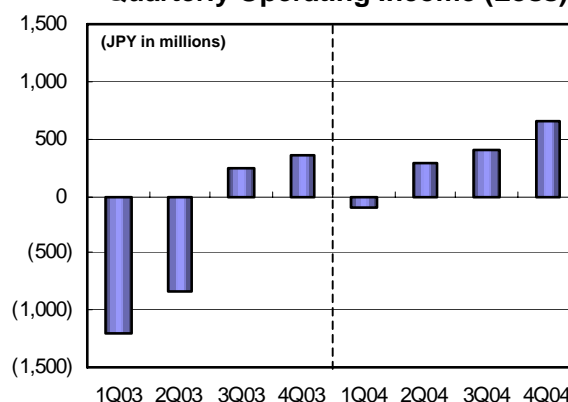
(JPY in millions)

	4Q04	4Q03	YoY % change	3Q04	QoQ % change
Total Costs:	10,012	9,915	1.0%	8,486	18.0%
Connectivity & VAS	5,018	4,810	4.3%	4,874	3.0%
SI	4,030	3,054	32.0%	3,031	33.0%
Equipment Sales	964	2,051	(53.0%)	581	65.7%

Quarterly Cost and Gross Margin Ratio



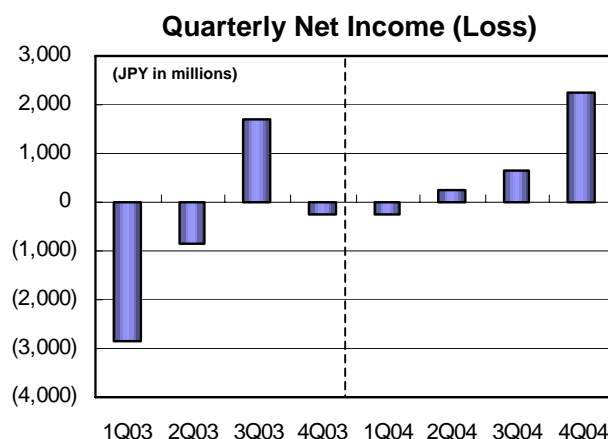
Quarterly Operating Income (Loss)



million in 3Q04.

Equity in net loss of equity method investees amounted to JPY 37 million in 4Q04, compared to a net loss of JPY 189 million in 4Q03 and JPY 1 million in 3Q04.

Net income (loss) was net income of JPY 2,256 million in 4Q04, compared to a net loss of JPY 236 million in 4Q03 and net income of JPY 660 million in 3Q04. The increase was mainly due to the improvement in operating income and gain on sale of available-for-sale securities.



4th Quarter FY2004 Business Review

Analysis by Service

Connectivity and Value-added Services

Number of Contracts for Connectivity Services

	4Q04	4Q03	3Q04
Dedicated Access Service Contracts	11,243	7,226	9,427
IP Service (Low Bandwidth: 64kbps-768kbps) ³	89	93	67
IP Service (Medium Bandwidth: 1Mbps-99Mbps) ³	660	565	609
IP Service (High Bandwidth: 100Mbps-)	114	80	103
IIJ T1 Standard and IIJ Economy ⁴	276	504	313
IIJ Data Center Connectivity Service	231	196	228
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	9,873	5,788	8,107
Dial-up Access Service Contracts	693,976	695,867	708,517
Dial-up Access Services, under IIJ Brand	68,068	75,136	69,260
Dial-up Access Services, OEM ⁵	625,908	620,731	639,257
Total Contracted Bandwidth	121.2Gbps	80.1Gbps	109.5Gbps

The total number of contracts for dedicated access services continued to show a steady increase in 4Q04. In IP Services, the number of contracts for our high-end Internet connectivity services, such as for corporate headquarters and other critical usage, increased, especially for medium and high bandwidth connectivity. The number of contacts over 1Gbps also increased to 24. Additionally, the number of contracts for broadband services continued to increase for multi-site connectivity with Internet VPN, as we are exploring new markets and services that were previously provided by telecommunication carriers.

Connectivity and VAS Revenue Breakdown and Cost

(JPY in millions)

	4Q04	4Q03	YoY % Change	3Q04	QoQ % change
Connectivity Service Revenues	3,559	3,858	(7.8%)	3,508	1.5%
Dedicated Access Service Revenues	2,841	3,100	(8.4%)	2,781	2.2%
IP Service⁶	2,235	2,423	(7.8%)	2,186	2.3%
IIJ T1 Standard and IIJ Economy	171	331	(48.5%)	195	(12.3%)
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	435	346	25.8%	400	8.6%

³ Including IPv6 Services.

⁴ Referred to as "Limited Functionality Services" in 1Q04 for the services with local access not shared, limited on several functionality compared to IP service such as number of IP address allocated and fixed speed of 64kbps, 128kbps and 1.5Mbps.

⁵ OEM stands for Original Equipment Manufacturer.

⁶ IP Service revenues includes revenues from Data Center Connectivity Service.

Dial-up Access Service Revenues	718	758	(5.2%)	727	(1.2%)
Under IIJ Brand	472	522	(9.6%)	478	(1.4%)
OEM	247	236	4.5%	249	(0.8%)
VAS Revenues	1,322	1,104	19.8%	1,276	3.6%
Other Revenues	979	537	82.4%	882	10.9%
Total Connectivity and VAS Revenues	5,860	5,499	6.6%	5,666	3.4%
Cost of Connectivity and VAS	5,018	4,810	4.3%	4,874	3.0%
Backbone Cost (included in the cost of Connectivity and VAS)	831	1,067	(22.1%)	858	(3.2%)
Connectivity and VAS Gross Margin Ratio	14.4%	12.5%		14.0%	

The speed requirements in the high-end connectivity in broadband expansion and additional revenues from broadband services off-set the decline in revenues from IIJ T1 Standard and IIJ Economy in 4Q04.

VAS revenues increased reflecting our provision of managed services and data centers with our reliable connectivity services to customers lacking skills or resources to handle security and other operational issues which are emerging as a result of the broadband expansion among corporate customers.

Other revenues also increased steadily mainly due to an increase in revenue from Wide-area Ethernet services.

Backbone costs declined continuously in 4Q04 by 22.1% compared to 4Q03 and by 3.2% compared to 3Q04, as a result of our continued efforts to improve cost efficiency.

The cross-selling ratio between Connectivity and VAS, representing the percentage of the largest 1,000 Connectivity service customers that use VAS was 88.2%.

The cross-selling ratio between Connectivity and SI, representing the percentage of SI customers that use Connectivity services among the largest 100 SI customers was 78.0%.

Cross-selling Ratios

	4Q04
VAS Cross-selling Ratio	88.2%
SI Cross-selling Ratio	78.0%

Systems Integration

Systems Integration Revenue Breakdown and Cost

(JPY in millions)

	4Q04	4Q03	YoY % change	3Q04	QoQ % change
Systems Integration Revenues	5,352	4,001	33.7%	3,970	34.8%
Systems Integration	2,786	2,573	8.3%	1,672	66.7%
Outsourced Operation	2,566	1,428	79.6%	2,298	11.7%
Cost of Systems Integration	4,030	3,054	32.0%	3,031	33.0%
Systems Integration Gross Margin Ratio	24.7%	23.7%		23.7%	

Our SI projects are becoming bigger in scale by including the whole stream of consulting, design, project management, implementation and operation. SI revenues in 4Q04 increased largely due to the seasonal increase in systems integration toward year end. In addition to the increase from 4Q03 reflected of additional revenues from the purchase of the security system business operations of Yamatane Co. Ltd. ("Yamatane") for the comparison to 4Q03. An increase in outsourced operation revenues is having the effect of stabilizing the fluctuation in revenues since these services are billed monthly.

Equipment Sales

Equipment Sales Revenue and Cost

(JPY in millions)

	4Q04	4Q03	YoY % change	3Q04	QoQ % change
Equipment Sales Revenues	1,042	2,117	(50.8%)	625	66.8%
Cost of Equipment Sales	964	2,051	(53.0%)	581	65.7%
Equipment Sales Gross Margin Ratio	7.6%	3.1%		7.0%	

Other Financial Statistics

Other Financial Statistics

(JPY in millions)

	4Q04	4Q03	YoY % change	3Q04	QoQ % change
Adjusted EBITDA ⁷	1,698	1,358	24.6%	1,508	12.2%
CAPEX, including capital leases ⁸	724	1,014	(28.7%)	2,017	(64.1%)
Depreciation and amortization ⁹	1,061	1,030	3.0%	1,116	(5.0%)

Key Service Developments

Toyota to use IJ NetLightning Service:

In April 2005, IJ announced that it was selected by Toyota Motor Corporation to provide IJ NetLightning, the Web access application acceleration service. IJ NetLightning provides sub-second access from overseas to Supply Chain Management, Customer Relationship Management, and other Web applications through U.S.-based Netli Inc's Applications Delivery Network. Even when accessing servers in Japan from overseas, the service provides response times that are comparable to local access, with no long-distance network delays.

Development of new SMF technologies and provision to third parties:

In 4Q04, IJ continued to develop new SMF technologies. IJ's SMF is a suite of management tools that allow customers to easily and centrally control initialization, reconfiguration, and other operations involving communications equipment at multiple sites. In February 2005, IJ developed SEIL Engine, a new router software that also interfaces with SMF. In March 2005, IJ released SMF-LAN, which is SMF technology that can be used on closed networks such as wide-area Ethernet. In 4Q04, IJ also developed partnerships with third parties to license its SEIL Engine. It will be included in the equipment of Century Systems, Inc. and a new mobile router jointly developed by IJ, ROOT, Inc., and Novatec Corporation. The SMF-LAN system will be incorporated into KVH Co., Ltd.'s managed Ethernet service to simplify the service installation process.

Continuous efforts against e-mail abuse:

In March 2005, IJ announced that it participated in establishment of the Japan E-mail Anti-Abuse Group. The Group is comprised of approximately thirty Internet Service Providers and telecommunication carriers in Japan and focuses on examining and implementing technological countermeasures against E-mail abuse. Additionally, IJ announced that it will introduce sender authentication, a new technology that blocks spam e-mail, for its internal use by the end of March 2005, and then install it in its mail services.

Reconciliation of Non-GAAP Financial Measures

The following table summarizes the reconciliation of adjusted EBITDA to net income according to the consolidated statements of operations that are prepared in accordance with accounting principles generally accepted in the U.S. and presented in Appendix 1:

Adjusted EBITDA

(JPY in millions)

	4Q04	4Q03	3Q04
Adjusted EBITDA	1,698	1,358	1,508
Depreciation and Amortization ¹⁰	(1,042)	(1,008)	(1,098)
Operating Income	656	350	410
Other Income (Expenses)	1,729	(226)	333
Income Tax Expense	30	13	39
Minority Interests in Consolidated Subsidiaries	(62)	(158)	(43)

⁷ Please refer to the Reconciliation of Non-GAAP Financial Measures below.

⁸ Please refer to the Reconciliation of Non-GAAP Financial Measures on the next page.

⁹ Depreciation and amortization includes amortization of issuance cost of convertible notes and intangible assets.

¹⁰ Depreciation and amortization excludes amortization of issuance cost of convertible notes that was included in other expenses.

Equity in Net Loss of Equity Method Investees	(37)	(189)	(1)
Net Income (Loss)	2,256	(236)	660

The following table summarizes the reconciliation of capital expenditures to the purchase of property and equipment according to the consolidated statements of cash flows that are prepared and presented in accordance with accounting principles generally accepted in the U.S. in Appendix 4:

CAPEX		(JPY in millions)		
	4Q04	4Q03	3Q04	
Capital Expenditures	724	1,014	2,017	
Acquisition of Assets by Entering into Capital Leases	627	778	1,911	
Purchase of Property and Equipment	97	236	106	

Management Message/Webcast

On May 14, IIJ will present its management message and the Company's results and outlook by webcast. For details, please access the following URL: <http://www.ij.ad.jp/en/IR/>

About Internet Initiative Japan Inc.

Founded in 1992, Internet Initiative Japan Inc. (IIJ, NASDAQ: IJJI) is one of Japan's leading Internet-access and comprehensive network solutions providers. The company 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 network solutions that mainly cater to high-end corporate customers. The company's services include high-quality systems integration and security services, Internet access, hosting/housing, and content design.

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Statements made in this press release regarding 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, such as statements regarding FY2005 revenues and operating and net profitability, 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 maintain and increase revenues from higher margin services such as system integration and value-added services; the possibility that revenues from connectivity services may decline substantially as a result of competition and other factors; the ability to compete in a rapidly evolving and competitive marketplace; the impact on IIJ's profits of fluctuations in costs such as backbone costs and subcontractor costs; the impact on IIJ's profits of fluctuations in the price of available-for-sale securities; the impact of technological changes in its industry; IIJ's ability to raise additional capital to cover its indebtedness; the possibility that NTT, IIJ's largest shareholder, may decide to exercise substantial influence over IIJ; and other risks referred to from time to time in IIJ's filings on Form 20-F of its annual report and other filings with the United States Securities and Exchange Commission.

Tables to follow

INTERNET INITIATIVE JAPAN INC.

Appendix 1

CONSOLIDATED STATEMENTS OF OPERATIONS(UNAUDITED)

For the Three Months Ended Mar 31, 2005, Mar 31, 2004 and Dec 31, 2004

(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, 2005			Mar 31, 2004			Dec 31, 2004		
	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	26,496	2,840,903	23.2%	3,100,452	26.7%	(8.4%)	2,780,955	27.1%	2.2%
Dial-up access services	6,699	718,285	5.8	757,947	6.5	(5.2)	726,798	7.1	(1.2)
Value-added services	12,328	1,321,816	10.8	1,103,558	9.5	19.8	1,275,958	12.4	3.6
Other	9,130	978,940	8.0	536,590	4.6	82.4	882,466	8.6	10.9
Total connectivity and value-added services	54,653	5,859,944	47.8	5,498,547	47.3	6.6	5,666,177	55.2	3.4
Systems integration revenues	49,915	5,351,865	43.7	4,001,449	34.5	33.7	3,969,610	38.7	34.8
Equipment sales	9,723	1,042,540	8.5	2,117,006	18.2	(50.8)	625,196	6.1	66.8
Total revenues	114,291	12,254,349	100.0	11,617,002	100.0	5.5	10,260,983	100.0	19.4
Costs and expenses:									
Cost of connectivity and value-added services	46,806	5,018,522	40.9	4,809,831	41.4	4.3	4,873,759	47.5	3.0
Cost of systems integration revenues	37,589	4,030,274	32.9	3,053,962	26.3	32.0	3,030,666	29.5	33.0
Cost of equipment sales	8,987	963,665	7.9	2,050,923	17.6	(53.0)	581,368	5.7	65.7
Total costs	93,382	10,012,461	81.7	9,914,716	85.3	1.0	8,485,793	82.7	18.0
Sales and marketing	6,866	736,219	6.0	755,928	6.5	(2.6)	683,731	6.6	7.7
General and administrative	7,461	799,929	6.5	517,884	4.5	54.5	632,874	6.2	26.4
Research and development	466	49,968	0.4	78,786	0.7	(36.6)	48,406	0.5	3.2
Total costs and expenses	108,175	11,598,577	94.6	11,267,314	97.0	2.9	9,850,804	96.0	17.7
Operating income	6,116	655,772	5.4	349,688	3.0	87.5	410,179	4.0	59.9
Other income (expenses)	16,127	1,729,122	14.1	(226,045)	(1.9)	(864.9)	332,623	3.2	419.8
Income before income tax expense, minority interests and equity in net loss of equity method investees	22,243	2,384,894	19.5	123,643	1.1	1,828.9	742,802	7.2	221.1
Income tax expense	278	29,839	0.3	13,293	0.1	124.5	39,436	0.4	(24.3)
Minority interests in consolidated subsidiaries	(583)	(62,468)	(0.5)	(157,295)	(1.4)	(60.3)	(43,040)	(0.4)	45.1
Equity in net loss of equity method investees	(345)	(36,966)	(0.3)	(188,577)	(1.6)	(80.4)	(795)	0.0	4,549.8
Net income (loss)	21,037	2,255,621	18.4%	(235,522)	(2.0%)	(1,057.7%)	659,531	6.4%	242.0%
Basic And Diluted Net Income (Loss) Per Share		58,875		(6,147)			17,215		
Basic And Diluted Net Income (Loss) Per ADS Equivalent		29.44		(3.07)			8.61		
Weighted Average Number of Shares		38,312		38,312			38,312		
Weighted Average Number of ADS Equivalents		76,623,702		76,623,702			76,623,702		

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Mar 31, 2005 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 107.22 = \$1, the approximate rate of exchange on Mar 31, 2005.

INTERNET INITIATIVE JAPAN INC.
CONSOLIDATED STATEMENTS OF OPERATIONS(UNAUDITED)

Appendix 2

For the Years Ended Mar 31, 2005 and Mar 31, 2004
in Japanese Yen (JPY) and U.S. Dollars (USD) Except for Per Share and ADS Data (1)

	Year-over-year Comparison					
	Mar 31, 2005			Mar 31, 2004		
	USD (1)	JPY	% of Total Revenues	JPY	% of Total Revenues	YOY Chg %
Revenues:						
Connectivity and value-added services:						
Dedicated access services	106,069	11,372,701	27.3%	12,862,132	33.2%	(11.6%)
Dial-up access services	27,392	2,936,973	7.0	3,088,498	8.0	(4.9)
Value-added services	46,677	5,004,730	12.0	4,296,228	11.1	16.5
Other	29,560	3,169,413	7.6	2,117,794	5.4	49.7
Total connectivity and value-added services	<u>209,698</u>	<u>22,483,817</u>	<u>53.9</u>	<u>22,364,652</u>	<u>57.7</u>	<u>0.5</u>
Systems integration revenues	147,863	15,853,824	38.0	11,847,687	30.5	33.8
Equipment sales	31,383	3,364,926	8.1	4,567,123	11.8	(26.3)
Total revenues	<u>388,944</u>	<u>41,702,567</u>	<u>100.0</u>	<u>38,779,462</u>	<u>100.0</u>	<u>7.5</u>
Costs and expenses:						
Cost of connectivity and value-added services	181,719	19,483,890	46.7	20,047,438	51.7	(2.8)
Cost of systems integration revenues	113,786	12,200,137	29.2	9,851,726	25.4	23.8
Cost of equipment sales	29,018	3,111,369	7.5	4,346,243	11.2	(28.4)
Total costs	<u>324,523</u>	<u>34,795,396</u>	<u>83.4</u>	<u>34,245,407</u>	<u>88.3</u>	<u>1.6</u>
Sales and marketing	26,064	2,794,561	6.7	3,527,490	9.1	(20.8)
General and administrative	24,865	2,665,980	6.4	2,098,481	5.4	27.0
Research and development	1,856	198,979	0.5	357,968	0.9	(44.4)
Total costs and expenses	<u>377,308</u>	<u>40,454,916</u>	<u>97.0</u>	<u>40,229,346</u>	<u>103.7</u>	<u>0.6</u>
Operating income (loss)	<u>11,636</u>	<u>1,247,651</u>	<u>3.0</u>	<u>(1,449,884)</u>	<u>(3.7)</u>	<u>(186.1)</u>
Other income, net	17,729	1,900,857	4.5	982,220	2.5	93.5
Income (loss) before income tax expense, minority interests and equity in net loss of equity method investees	<u>29,365</u>	<u>3,148,508</u>	<u>7.5</u>	<u>(467,664)</u>	<u>(1.2)</u>	<u>(773.2)</u>
Income tax expense	931	99,870	0.2	32,536	0.1	207.0
Minority interests in consolidated subsidiaries	(1,018)	(109,161)	(0.2)	235,812	0.6	(146.3)
Equity in net loss of equity method investees:						
Equity method net loss	(310)	(33,208)	(0.1)	(286,317)	(0.8)	(88.4)
Impairment loss on advances to Crosswave	-	-	-	(1,719,981)	(4.4)	
Net income (loss)	<u>27,106</u>	<u>2,906,269</u>	<u>7.0%</u>	<u>(2,270,686)</u>	<u>(5.9%)</u>	<u>(228.0)</u>
Basic And Diluted Net Income (Loss) Per Share		75,858		(71,606)		
Basic And Diluted Net Income (Loss) Per ADS Equivalent		37.93		(35.80)		
Weighted Average Number of Shares		38,312		31,711		
Weighted Average Number of ADS Equivalents		76,623,702		63,421,571		

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the year ended Mar 31, 2005 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY107.22 = \$1, the approximate rate of exchange on Mar 31, 2005.

INTERNET INITIATIVE JAPAN INC.
CONSOLIDATED BALANCE SHEETS(UNAUDITED)

Appendix 3

As of Mar 31, 2005, Mar 31, 2004 and Dec 31, 2004
(Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD)) (1)

	Mar 31, 2005			Mar 31, 2004		Dec 31, 2004	
	USD (1)	JPY	%	JPY	%	JPY	%
ASSETS							
Current Assets:							
Cash and cash equivalents	49,305	5,286,477	14.2%	12,284,239	28.7%	12,158,790	26.9%
Accounts receivable, net	69,086	7,407,439	20.0	8,994,156	21.1	6,231,361	13.8
Inventories	1,307	140,096	0.4	438,435	1.0	372,144	0.8
Prepaid expenses	5,642	604,935	1.6	557,703	1.3	989,003	2.2
Other current assets	1,009	108,228	0.3	325,422	0.8	334,169	0.7
Total current assets	126,349	13,547,175	36.5	22,599,955	52.9	20,085,467	44.4
Investments in and Advances to Equity Method Investees	6,656	713,607	1.9	778,152	1.8	759,585	1.7
Other Investments	92,620	9,930,781	26.8	7,931,893	18.6	11,072,053	24.4
Property and Equipment, net	90,677	9,722,366	26.2	8,601,905	20.1	10,003,936	22.1
Guarantee Deposits	19,126	2,050,665	5.5	2,075,123	4.9	2,050,305	4.5
Other Assets	10,743	1,151,877	3.1	749,897	1.7	1,288,024	2.9
Total assets	346,171	37,116,471	100.0%	42,736,925	100.0%	45,259,370	100.0%
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current Liabilities:							
Short-term borrowings	44,065	4,724,633	12.7%	6,564,093	15.4%	4,825,844	10.7%
Payable under securities loan agreement	16,130	1,729,520	4.7			722,800	1.6
Accounts payable	45,334	4,860,733	13.1	7,187,976	16.8	3,566,158	7.9
Accrued expenses	5,047	541,118	1.4	454,366	1.1	665,821	1.5
Other current liabilities	7,625	817,517	2.2	483,925	1.1	780,267	1.7
Long-term borrowings-current portion	25,518	2,736,056	7.4	1,548,246	3.6	2,185,094	4.8
Convertible notes				11,832,000	27.7	11,088,000	24.5
Capital lease obligations-current portion	25,881	2,774,974	7.5	2,387,754	5.6	2,784,469	6.1
Total current liabilities	169,600	18,184,551	49.0	30,458,360	71.3	26,618,453	58.8
Long-term Borrowings	14,269	1,529,963	4.1	2,308,019	5.4	2,389,339	5.3
Capital Lease Obligations-Noncurrent	40,469	4,339,028	11.7	2,880,298	6.7	4,459,352	9.8
Accrued Retirement and Pension Costs	1,337	143,346	0.4	72,687	0.2	120,732	0.3
Other Noncurrent Liabilities	2,570	275,533	0.7	161,122	0.4	320,393	0.7
Total liabilities	228,245	24,472,421	65.9	35,880,486	84.0	33,908,269	74.9
Minority Interest	9,597	1,028,977	2.8	642,311	1.5	988,964	2.2
Shareholders' Equity:							
Common stock	128,384	13,765,372	37.1	13,765,372	32.2	13,765,372	30.4
Additional paid-in capital	220,459	23,637,628	63.7	23,637,628	55.3	23,637,628	52.2
Accumulated deficit	(321,153)	(34,434,052)	(92.8)	(37,340,321)	(87.4)	(36,689,673)	(81.0)
Accumulated other comprehensive income	81,049	8,690,125	23.4	6,195,449	14.5	9,692,810	21.4
Treasury stock	(410)	(44,000)	(0.1)	(44,000)	(0.1)	(44,000)	(0.1)
Total shareholders' equity	108,329	11,615,073	31.3	6,214,128	14.5	10,362,137	22.9
Total liabilities and shareholders' equity	346,171	37,116,471	100.0%	42,736,925	100.0%	45,259,370	100.0%

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to Mar 31, 2005 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 107.22 = \$1, the approximate rate of exchange on Mar 31, 2005.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Three Months Ended Mar 31, 2005, Mar 31, 2004 and Dec 31, 2004

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

	Mar 31, 2005		Mar 31, 2004	Dec 31, 2004
	USD (1)	JPY	JPY	JPY
Operating Activities:				
Net income (loss)	21,037	2,255,621	(235,522)	659,531
Depreciation and amortization	9,895	1,060,944	1,030,162	1,116,447
Provision for (reversal of) doubtful accounts	338	36,204	27,587	(18,455)
Equity in net loss of equity method investees	345	36,966	188,577	795
Minority interests in consolidated subsidiaries	583	62,468	157,295	43,040
Foreign exchange losses (gains)	(81)	(8,641)	(13,682)	14,912
Net losses (gains) on other investments	(16,943)	(1,816,676)	42,352	(527,300)
Decrease (increase) in accounts receivable	(11,249)	(1,206,074)	(2,483,404)	582,873
Increase (decrease) in accounts payable	11,245	1,205,665	2,392,795	(985,459)
Decrease (increase) in inventories	2,069	221,788	(245,201)	(109,964)
Deferred income taxes	(109)	(11,656)	-	633
Other	6,570	704,443	395,710	(146,465)
Net cash provided by operating activities	23,700	2,541,052	1,256,669	630,588
Investing Activities:				
Purchase of property and equipment	(900)	(96,542)	(236,028)	(105,946)
Purchase of subsidiary stock	(466)	(50,000)	-	(11,680)
Proceeds from sales of other investments	18,734	2,008,650	66,387	750,800
Purchase of other investments	(22)	(2,339)	(2,138)	(4,854)
Refund (payment) of guarantee deposits-net	(31)	(3,330)	(576)	31,162
Acquisition of business	-	-	-	(371,011)
Other	(89)	(9,495)	(3,778)	(1,029)
Net cash provided by (used in) investing activities	17,226	1,846,944	(176,133)	287,442
Financing Activities:				
Proceeds from long-term borrowings	-	-	400,000	1,250,000
Repayments of long-term borrowings	(2,876)	(308,414)	(436,477)	(58,179)
Proceeds from securities loan agreement	16,130	1,729,520	-	-
Repayments of securities loan agreement	(6,741)	(722,800)	-	(94,000)
Redemption of convertible notes	(103,414)	(11,088,000)	-	-
Principal payments under capital leases	(7,025)	(753,177)	(692,467)	(756,982)
Net decrease in short-term borrowings	(944)	(101,211)	(200,316)	(906,360)
Net cash used in financing activities	(104,870)	(11,244,082)	(929,260)	(565,521)
Effect of Exchange Rate Changes on Cash	(151)	(16,227)	(7,632)	(7,564)
Net Increase (decrease) in Cash and Cash Equivalents	(64,095)	(6,872,313)	143,644	344,945
Cash and Cash Equivalents, Beginning of Period	113,400	12,158,790	12,140,595	11,802,165
Cash and Cash Equivalents, End of Period	49,305	5,286,477	12,284,239	12,147,110

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Mar 31, 2005 are include solely for the convenience of readers outside Japan and have been made at the rate of JPY107.22 = \$1, the approximate rate of exchange on Mar 31, 2005.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Year Ended March 31, 2005, March 31, 2004

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

	March 31, 2005		March 31, 2004
	USD (1)	JPY	JPY
Operating Activities:			
Net income (loss)	27,106	2,906,269	(2,270,686)
Depreciation and amortization	39,107	4,193,093	4,008,324
Provision for doubtful accounts	231	24,781	450,505
Equity method net loss	310	33,208	286,317
Impairment loss on advance to Crosswave	-	-	1,719,981
Minority interests in consolidated subsidiaries	1,018	109,161	(235,812)
Foreign exchange (gains) losses	(144)	(15,466)	5,124
Loss (gain) on retirement of convertible notes	48	5,195	(88,975)
Net gains on other investments	(22,751)	(2,439,330)	(1,412,858)
Decrease in accounts receivable	14,994	1,607,692	783,387
Decrease in accounts payable	(21,523)	(2,307,729)	(1,132,209)
Decrease (increase) in inventories	2,674	286,751	(30,813)
Deferred income taxes	(103)	(11,023)	1,976
Other	7,890	845,895	(160,895)
Net cash provided by operating activities	48,857	5,238,497	1,923,366
Investing Activities:			
Purchase of property and equipment	(5,382)	(577,133)	(1,657,302)
Purchase of subsidiary stock	(575)	(61,680)	-
Advances to Crosswave	-	-	(1,719,981)
Proceeds from sales of other investments	27,756	2,976,017	2,170,584
Purchase of other investments	(117)	(12,566)	(325,665)
Refund of guarantee deposits-net	216	23,167	674,018
Acquisition of business	(3,499)	(375,123)	-
Other	12	1,321	5,883
Net cash provided by (used in) investing activities	18,411	1,974,003	(852,463)
Financing Activities:			
Proceeds from long-term borrowings	20,985	2,250,000	400,000
Repayments of long-term borrowings	(17,163)	(1,840,246)	(1,943,735)
Proceeds from securities loan agreement	23,749	2,546,320	-
Repayments of securities loan agreement	(7,618)	(816,800)	-
Repurchase of convertible notes	(6,953)	(745,488)	(3,047,460)
Redemption of convertible notes	(103,413)	(11,088,000)	-
Principal payments under capital leases	(26,745)	(2,867,624)	(2,733,012)
Net increase (decrease) in short-term borrowings	(17,156)	(1,839,461)	1,740,495
Proceeds from issuance of common stock of a subsidiary	1,759	188,632	-
Proceeds from issuance of common stock	-	-	13,252,311
Net cash provided by (used in) financing activities	(132,555)	(14,212,667)	7,668,599
Effect of Exchange Rate Changes on Cash	22	2,405	(43,615)
Net Increase (decrease) in Cash	(65,265)	(6,997,762)	8,695,887
Cash, Beginning of Period	114,570	12,284,239	3,588,352
Cash, End of Period	49,305	5,286,477	12,284,239

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the year ended Mar 31, 2005 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY107.22 = \$1, the approximate rate of exchange on Mar 31, 2005.