Calendar year 2004	High	Low	Average[(1)]	Period-end
January	¥107.17	¥105.52	¥106.27	¥105.84
February	109.59	105.36	106.71	109.26
March	112.12	104.18	108.52	104.18
April	110.37	103.70	107.66	110.37
May	114.30	108.50	112.20	110.18
June	111.27	107.10	109.43	109.43
July (through July 19, 2004)	109.52	108.21	108.73	108.28

(1) For fiscal years, calculated from the average of the exchange rates on the last day of each month during the period. For calendar year months, calculated based on the average of daily exchange rates.

The noon buying rate on July 19, 2004 was ¥108.28 per $1.00.

B. Capitalization and Indebtedness.

Not required.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors

You should carefully consider the following information, together with the other information contained in this annual report on Form 20-F, including our financial statements and the related notes, before making an investment decision. Any risks described below could result in a material adverse effect on our business, financial condition or results of operations.

We have experienced operating and net losses in recent years and may be unable to achieve or sustain profitability in the near future.

We incurred an operating loss of ¥1.4 billion and a net loss of ¥0.1 billion for the fiscal year ended March 31, 2004. We have incurred operating losses and net losses in each of the past six fiscal years, with the exception of operating income turning slightly positive for the fiscal year ended March 31, 2002. In August 2003, Crosswave Communications Inc., our former equity method investee, filed a voluntary petition for the commencement of corporate reorganization proceedings in Japan, and as a result of our equity method net loss and an impairment loss taken in respect of our investment in Crosswave, our net loss for the fiscal year ended March 31, 2003 was ¥16.5 billion, the highest net loss that we have ever experienced. We also wrote off ¥2.1 billion of loans and accounts receivable outstanding from Crosswave for the fiscal year ended March 31, 2004. We had unaudited operating income of ¥0.2 billion and net income of ¥2.0 billion for the third quarter of the fiscal year ended March 31, 2004 and unaudited operating income of ¥0.3 billion and net income of ¥0.7 billion for the fourth quarter of the fiscal year ended March 31, 2004. Our accumulated deficit as of March 31, 2004 was ¥34.8 billion.

Operating and net losses may continue into the foreseeable future due to a number of factors, including, but not limited to:

- price reductions as a result of severe competition or failure to retain existing customers or attract new customers;
- deterioration of or a lack of improvement in the Japanese economy ,which could significantly curtail demand for our services in Japan;

- costly investments in network infrastructure, research and development and other similar investments which we may make in the future in order to remain competitive;
- our ability to efficiently manage our backbone capacity;
- increased expenses relating to the leasing of additional equipment;
- reduced revenues and margins from systems integration business and Internet data center business and;
- strong competition in the retail Internet Service Provider, or ISP, market.

Please see Item 5., “Operating and Financial Review and Prospects”, for more detailed information concerning our operations and net losses and other results.

We may not be able to compete effectively, especially against competitors with greater financial, marketing and other resources.

Our major competitors for the connectivity and value-added services business are major telecommunications carriers like NTT Communications, KDDI, Japan Telecom, PoweredCom and their affiliates. Recently, there has been a significant amount of consolidation in the telecommunications industry in Japan. For example, Softbank Group, an operator of Yahoo! BB, a low-price ADSL service for individual customers, announced that it is planning to buy Japan Telecom, which is one of the largest telecommunications carriers in Japan. This trend may result in increased pressure from corporate customers to reduce our prices, and our revenues in connectivity services may be adversely affected. For the Internet data center services business, our major competitors are the providers like NTT Communications, KDDI, PoweredCom and Japan Telecom. Once we lose customers for such services to another service provider, it is generally difficult to reacquire those customers in the future. For the systems integration business, our major competitors are large hardware vendors like IBM, NEC and Hitachi and systems integrators like NTT Data. Our major competitors have the financial resources to reduce prices in an effort to gain market share. Even though NTT and NTT Communications purchased shares in our company in September 2003, which resulted in the NTT Group becoming our largest shareholder, we plan to continue to operate our company separately and independently from the NTT Group, and will therefore continue to compete with the NTT Group. Our competitors have advantages over us, including, but not limited to:

- substantially greater financial resources;
- more extensive and well-developed marketing and sales networks;
- higher brand recognition among consumers;
- larger customer bases; and
- more diversified operations which allow profits from some operations to offset operations with lower profitability, such as the network services for which we are competitors.

With these advantages, our competitors may be better able to:

- sustain downward pricing pressure, including pressure on low-price Internet-access services offered to corporate customers, which are our target customers;

- develop, market and sell their services;
- adapt quickly to new and changing technologies;
- obtain new customers; and
- aggressively pursue mergers and acquisitions to enlarge their customer base and market share.

We may not be able to sufficiently maintain existing customers or acquire new customers to sustain or increase our systems integration revenues in the face of fierce competition.

A significant portion of our expected future revenue depends on our ability to maintain our existing customers and acquire new customers for our systems integration business. Our existing systems integration customer base may not be large enough to provide us with a desirable level of dependable revenues, as the addition or cancellation of a single project can result in significant fluctuations in our revenues. Margins with respect to the systems integration business also tend to be more favorable for the provision of additional services to existing customers than for the initial provision of services to new customers. Competition in the systems integration business in Japan has greatly intensified, with competitors expanding their sales forces and offering more attractive products. We may not be able to attract as many new customers as we need to maintain profitable systems integration operations due to factors such as increased competition and weak corporate investments in technology in Japan despite some recent signs of improvement in the Japanese economy. Price competition may also hurt our profitability. If we are unable to maintain our current systems integration customer base and acquire new systems integration customers and contracts or if price competition becomes more severe, our revenues may decline, and the profitability of our systems integration business and our results of operations and financial condition could be materially and adversely affected.

NTT, our largest shareholder, could exercise influence over us.

NTT and its affiliates currently own 31.6% of our outstanding shares. In September 2003, we entered into a subscription agreement with NTT in which we granted to NTT pre-emptive rights to subscribe to its pro rata portion of any future issuances of shares by us in order to maintain its shareholding percentage. In addition, under this subscription agreement, we have agreed to allow NTT to nominate up to three persons as either directors or statutory auditors, subject to approval by our shareholders at our general shareholders' meeting. At our general shareholders' meeting on June 24, 2004, two directors nominated from NTT Group were appointed, one of which was nominated as an executive vice president. As a result, NTT may be able to exercise substantial influence over us. In addition, as part of this subscription agreement, we have agreed to collaborate with NTT in various businesses. While we intend to conduct our day-to-day operations independently of NTT and its group companies and believe that NTT also plans for us to operate independently, NTT may decide to exercise substantial influence over us in a manner which could impair our ability to operate independently. Furthermore, NTT may take actions that are in its best interests, which may not be in the interests of us or our other shareholders.

We have indebtedness and any difficulties we may have in dealing with financial institutions may have a negative impact on our financial condition.

At March 31, 2004, we had indebtedness of ¥27.5 billion, including ¥11.8 billion of 1.75% convertible notes due in March 2005, and we had ¥12.3 billion in cash and cash equivalent and ¥6.6 billion in available-for-sale securities. We repurchased and cancelled ¥0.7 billion of 1.75% convertible notes in June 2004, and we plan to redeem or may repurchase the remaining ¥11.1 billion of 1.75% convertible notes using our cash and cash equivalent as well as available-for-sale securities. A declining fluctuation in the stock price of such available-for-sale securities may have a negative impact on our ability to repurchase or redeem the notes.

The continued operation of our business is dependent on our ability to obtain continuous financing from banks in Japan. Although we currently have good relationships with our banks, due to increasing pressure from the Japanese government and Japanese bank regulatory institutions to improve the quality of their loan portfolios, Japanese banks, including those with which we have traditionally had good relations, may become reluctant to lend us money, or may only do so on less favorable terms. We provided banks with collateral for outstanding loans by means of establishing a second priority pledge against the refundable guarantee of ¥1.7 billion at March 31, 2004.We may be required to offer additional collateral to secure our borrowings. Any reluctance on the part of banks to provide needed financing may have a negative impact on our financial condition.

To offer Internet-access services and network solutions to our customers, we typically lease important components such as routers, servers, network machines, high-capacity and high-speed digital transmission lines, software and other items needed to perform our operations. Although we currently have good relationships with our leasing companies, if we are unable to lease necessary components, or are only able to do so on less favorable terms, we may be required to purchase the components ourselves, which could negatively impact on our cash flow.

We depend on our ability to attract and retain qualified personnel.

Our network, services, products and technologies are complex, and as a result, we depend heavily on the continued service of our engineering, research and development, and other personnel and, as our business grows, we may need to hire additional engineers, research and development and other personnel. Competition for qualified engineers, research and development personnel and employees in the telecommunications service industry in Japan is intense, and there is a limited number of persons with the necessary knowledge and experience. The realization of any or all of these risks may result in material adverse effects on our business, financial condition and result of operations.

We depend on our executive officers, and if we lose the service of our executive officers, our business and relationship with customers, our major shareholders and those of other IIJ Group companies and employees could suffer.

Our future success depends on the continued service of our executive officers, particularly Mr. Koichi Suzuki, who is our president, chief executive officer and representative director, as well as the president and chief executive officer and representative director of most of the other IIJ Group companies. Mr. Suzuki was also president and representative director of Crosswave. We rely on his expertise in the operation of our businesses and on his relationships with our shareholders, the shareholders of the IIJ Group companies, our business partners and employees. None of our officers or employees, including Mr. Suzuki, is bound by an employment or noncompetition agreement.

Our business may be adversely affected if our network suffers interruptions, errors or delays.

Interruptions, errors or delays with respect to our network may be caused by a number of factors, many of which are beyond our control, including, but not limited to, damage from fire, earthquakes or other natural disasters, power loss, sabotage, computer hackers, human error, computer viruses and other similar events. Much of our computer and networking equipment and the lines that make up our network backbones are concentrated in a few locations that are in earthquake-prone areas. Any disruption, outages, or delays or other difficulties experienced by any of our technological and information systems and networks could result in a decrease in new accounts, loss or exposure of confidential information, reduction in revenues, delay in repayment of outstanding borrowings, costly repairs or upgrades, reputational damage and decreased consumer confidence in our business, any or all of which could have a material adverse effect on our business, financial condition and results of operations.

The confidential customer information that we keep and manage may be leaked.

We keep and manage confidential information and trade secrets obtained from our customers. We exercise care in protection the confidentiality of such information and take steps to ensure the security of our network, however, our network, like all Information Technology systems, is vulnerable to external attack from computer viruses, hackers or other such sources. In addition, despite internal controls, misconduct by an employee could result in the improper use or disclosure of confidential information. If any material leak of such information were to occur, we could be subject to lawsuits for damages from our customers, incur expenses associated with repairing or upgrading our security systems and suffer damages to our reputation that could result in a severe decline in new customers as well as an increase in service cancellations. The realization of these or similar risks may have a material adverse effect on our business, financial condition and result of operations.

We rely greatly on other telecommunications providers and other suppliers, and could be affected by disruptions in service or delays in the delivery of their products and services.

We rely on telecommunications carriers such as NTT Communications, KDDI and Japan Telecom for a significant portion of our network backbone and regional NTT companies and electric power companies and their affiliates for local access lines for our customers. Prior to Crosswave filing a voluntary petition for the commencement of corporate reorganization proceedings in Japan in August 2003, we procured significant portions of our network backbone and data centers from Crosswave under operating lease arrangements. Most of Crosswave’s business operation were transferred to NTT Communications in December 2003. Currently, NTT Communications is our largest provider of network infrastructure. We are subject to potential disruptions in these telecommunications services and, in the event of such disruption, we may have no means of replacing these services, on a timely basis or at all.

In the Asia-Pacific region, we depend on telecommunications carriers in various countries including less-developed countries whose quality of service may not be stable or who are more susceptible to economic or political instability.

We also depend on third-party suppliers of hardware components like routers that are used in our network. We acquire certain components from limited sources, typically from Cisco Systems. A failure by one of our suppliers to deliver quality products on a timely basis, or the inability to develop alternative sources if and as required, may delay our ability to expand the capacity and scope of our network.

Any problems experienced by our telecommunications carriers and other suppliers could have a material adverse effect on our business, financial condition and results of operations.

If we fail to keep up with the rapid technological changes in our industry, our services may become obsolete and we may lose customers.

Our markets are characterized by:

- rapid technological change,
- frequent new product and service introductions,
- changes in customer requirements, and
- evolving industry standards.

The introduction of services using new technologies, such as the transition from version four of Internet Protocol, or IP, to version six, and the emergence of new industry standards could render our existing services obsolete.

If we fail to obtain access to new or important technologies or to develop and introduce new services and enhancements that are compatible with changing industry technologies and standards and customer requirements, we may lose customers.

Our pursuit of necessary technological advances may require substantial time and expense. Many of our competitors have greater financial and other resources than we do and, therefore, may be better able to meet the time and expense demands of achieving technological advances. Additionally, this may allow our competitors to respond more quickly to new and emerging technologies and standards or invest more heavily in upgrading or replacing equipment to take advantage of new technologies and standards.

Rapid growth and a rapidly changing operating environment may strain our limited resources.

We have limited operational, administrative and financial resources, which could be inadequate to sustain the growth we want to achieve. As the number of our customers and their Internet use increases, as traffic patterns change and as the volume of information transferred increases, we will need to increase expenditures for our network and other facilities in order to adapt our services and to maintain and improve the quality of our services. If we are unable to manage our growth and expansion, the quality of our services could deteriorate and our business may suffer.

If we fail to execute our systems integration projects in a timely or satisfactory manner or if we fail to manage customer data in a professional manner, we could be sued and our reputation could suffer.

A significant portion of our future revenue depends on systems integration projects which we, in cooperation with IIJ Technology, Net Care and IIJ Media Communications, have been contracted to perform. We may not be able to perform our responsibilities under these contracts to the satisfaction of our customers, or at all, if we lack a sufficient number of qualified engineers, lack sufficient task-management capabilities for software-development vendors or fail to manage customer data adequately. If we do not execute these services/projects as contracted or fail to manage customer data in a professional manner, our receipt of revenues may be delayed or lost altogether and we could be sued by our counterparties, which could in turn have an adverse impact on our reputation, results of operation and financial condition.

Regulatory matters and new legislation could impact our ability to conduct our business.

The licensing, construction and operation of telecommunications systems and services in Japan are subject to regulation and supervision by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, or MPHPT. We operate pursuant to licenses and approvals that have been granted by the MPHPT.

Our licenses have an unlimited duration. They are however, subject to revocation by the MPHPT if we violate any telecommunications laws and regulations in a manner that is deemed to harm the public interest, if we or any of our directors are sentenced to a fine or any more severe penalty under the telecommunications laws, if we employ a director who was previously sentenced to a fine or more severe penalty thereunder or if we have had a license revoked in the past. We believe our licenses and approvals are in good standing and we expect to be able to continue to fulfill the terms of our licenses and approvals to the satisfaction of the MPHPT. However, there can be no assurance that we will be able to do so.

Existing and future governmental regulation may substantially affect the way in which we conduct business. These regulations may increase the cost of doing business or may restrict the way in which we offer products and services. As a result of the amendment in April 2004 of the Telecommunication Business Law and deregulation including elimination of the regulatory distinction between carriers providing telecommunications services through networks owned by other telecommunication carriers and carriers which own or have long-term leases for the networks through which they offer telecommunication services, competition may increase. Furthermore, we cannot predict future regulatory changes which may affect our business. Any changes in laws, such as those described above, or regulations or MPHPT policy affecting our business activities and those of our competitors could adversely affect our financial condition or results of operations. For more information, see Item 4., “Business Overview — Regulation of the Telecommunications Industry in Japan”.

There are risks associated with our international business.

By operating our network internationally, we expose ourselves to the risks of international markets and to other risks that do not exist or are less significant in Japan. One of the components of our strategy is to continue to expand our network reach through our network between the United States and Japan to maintain our network quality. In addition, we have invested in data center businesses in South Korea and the Philippines. Our international business operations continue to require management attention and financial resources, both of which are in limited supply. We face significant exposure to risks in connection with our international operations, including:

- the impact of economic conditions outside Japan,
- unexpected changes in or delays resulting from regulatory requirements,
- the rate of the development of the Internet industry in countries in Asia,
- political and economic instability, and
- potential unsatisfactory financial returns from our investments in Asia, including the data center businesses in which we have invested in South Korea and the Philippines.

These factors could adversely affect our future international expansion and, consequently, our business, financial condition and results of operations.

Our investments in affiliated companies may not produce the returns we expect and may require additional funding.

As part of our business strategy and for the purpose of maintaining various strategic business relations, we have, in the past, invested in a number of companies, including Crosswave. There can be no assurance that we will be able to maintain or enhance the value or performance of such companies in which we have invested or may invest in the future, or that we will achieve the returns or benefits sought from these investments. Our substantial investment in Crosswave, for example, became worthless due to Crosswave’s financial condition and commencement of corporate reorganization proceedings. We also had an impairment loss relating to our investment in Asia Internet Holding for the fiscal year ended March 2004. In addition, telecommunications companies and other technology companies have experienced a variety of negative developments in recent years, including increased competition and significant volatility in share prices, and have experienced financial difficulties. To the extent that these investments are accounted for by the equity-method and to the extent that the investee companies have net losses, our financial results will be adversely affected to the extent of our pro rata portion of these losses. Furthermore, we may lose all or part of our investment in these companies if their value decreases as a result of their financial performance or if these companies go bankrupt.