

IIJ Announces its Nine Months Results for the Fiscal Year Ending March 31, 2022

Tokyo, February 8, 2022 - Internet Initiative Japan Inc. (“IIJ”, TSE1: 3774) today announced its consolidated financial results for the nine months for the fiscal year ending March 31, 2022 (“1Q-3Q21”, from April 1, 2021 to December 31, 2021) under International Financial Reporting Standards (IFRS)¹

Highlights of Financial Results for 1Q-3Q21

Total revenues	JPY 165.6 billion	up	6.1%	YoY ²
Gross profit	JPY 36.8 billion	up	27.7%	YoY
Operating profit	JPY 16.3 billion	up	60.9%	YoY
Profit before tax	JPY 17.6 billion	up	90.7%	YoY
Net profit ³	JPY 11.5 billion	up	96.1%	YoY

Financial Targets for FY2021 (Revised upward on November 5, 2021)

Total revenues	JPY228.5 billion	up	7.3%	YoY
Operating profit	JPY22.0 billion	up	54.4%	YoY
Profit before tax	JPY21.5 billion	up	53.2%	YoY
Net profit	JPY13.7 billion	up	41.1%	YoY

Overview of 1Q-3Q21 Financial Results and Business Outlook

“Along with a further shift toward IT utilization by Japanese enterprises, we believe our business status has entered into a profit margin expansion phase since the last fiscal year. This has been achieved mainly by steady growth of recurring revenues: our enterprise recurring revenues⁴ grew by 13.3% year over year, mostly due to 18.7% year over year growth from security services, 12.0% from IP services⁵, 36.3% from enterprise mobile and 15.1% from systems operation and maintenance. These led our operating profit to increase by 60.9% year over year and operating profit margin to reach 9.8% in this nine-month period for FY2021. As we continued to see strong demands from various industries for both network services and systems integration, we expect this trend to continue. Then, we decided to construct the second site of our Shiroi data center, which is to absorb growing demands for server racks by around FY2027,” said Eiji Katsu, President of IIJ.

“For the past two consecutive fiscal years, we are seeing visible improvement in our financials, which has come from our long-term and consistent business strategy and investments in Internet-related technology for almost thirty years. Ever since our inception in 1992, the spread of Internet has been transforming business activities gradually and consistently, and that should continue to bring us further business opportunities. By leveraging our competitive assets such as reliable network infrastructure, various services developed in-house, blue-chip client base and skilled engineers, we believe our business scale and domain should largely expand to the next stage in the middle to long term,” concluded Koichi Suzuki, Founder and Chairman of IIJ.

¹ Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with IFRS, unaudited and consolidated.

² YoY is an abbreviation for year over year change.

³ Net profit is “profit for the year/period attributable to owners of the parent.”

⁴ Enterprise recurring revenues represent Internet connectivity services for enterprise excluding MVNE, Outsourcing services, WAN Services, and Systems operation and maintenance revenues.

⁵ IP services are IIJ’s dedicated-type Internet connectivity services, mainly used by corporate users.

1Q-3Q21 Financial Results Summary

We have omitted segment analysis because most of our revenues are dominated by network services and systems integration (SI) business.

Operating Results Summary

	1Q-3Q20	1Q-3Q21	YoY Change
	JPY millions	JPY millions	%
Total revenues	156,070	165,600	6.1
Network services	93,983	95,097	1.2
Systems integration (SI)	59,927	68,413	14.2
ATM operation business	2,160	2,090	(3.2)
Total costs	(127,273)	(128,816)	1.2
Network services	(74,201)	(68,653)	(7.5)
Systems integration (SI)	(51,672)	(58,869)	13.9
ATM operation business	(1,400)	(1,294)	(7.6)
Total gross profit	28,797	36,784	27.7
Network services	19,782	26,444	33.7
Systems integration (SI)	8,255	9,544	15.6
ATM operation business	760	796	4.8
SG&A, R&D, and other operating income (expenses)	(18,670)	(20,486)	9.7
Operating profit	10,127	16,298	60.9
Profit before tax	9,227	17,597	90.7
Profit for the period attributable to owners of the parent	5,877	11,522	96.1

(Note) Systems integration includes equipment sales.

Segment Results Summary

	1Q-3Q20	1Q-3Q21
	JPY millions	JPY millions
Total revenues	156,070	165,600
Network services and SI business	154,039	163,606
ATM operation business	2,160	2,090
Elimination	(129)	(96)
Operating profit	10,127	16,298
Network services and SI business	9,603	15,747
ATM operation business	616	617
Elimination	(92)	(66)

1Q-3Q21 Revenues and Profit

Revenues

Total revenues were JPY165,600 million, up 6.1% YoY (JPY156,070 million for 1Q-3Q20).

Network services revenue was JPY95,097 million, up 1.2% YoY (JPY93,983 million for 1Q-3Q20).

Revenues for Internet connectivity services for enterprises were JPY28,082 million, down 5.4% YoY from JPY29,699 million for 1Q-3Q20. The decrease was due to the decrease in IIJ Mobile MVNO Platform service (MVNE) revenue, which was mainly in the response to the reduction in procurement cost, while revenues of IP services and enterprise mobile services increased.

Revenues for Internet connectivity services for consumers were JPY17,780 million, down 8.3% YoY from JPY19,390 million for 1Q-3Q20, mainly due to a decrease in average revenue per user of new plan for our consumer mobile services.

Revenues for Outsourcing services were JPY29,831 million, up 13.5% YoY from JPY26,289 million for 1Q-3Q20, mainly due to an increase in security-related services revenues.

Revenues for WAN services were JPY19,404 million, up 4.3% YoY from JPY18,605 million for 1Q-3Q20.

Network Services Revenues Breakdown

	1Q-3Q20	1Q-3Q21	YoY Change
	JPY millions	JPY millions	%
Total network services	93,983	95,097	1.2
Internet connectivity services (enterprise)	29,699	28,082	(5.4)
IP services (including data center connectivity services)	8,988	10,069	12.0
IIJ Mobile Services	18,034	15,132	(16.1)
Enterprise mobile service (IoT usages etc.)	5,513	7,516	36.3
IIJ Mobile MVNO Platform service (MVNE)	12,521	7,616	(39.2)
Others	2,677	2,881	7.6
Internet connectivity services (consumer)	19,390	17,780	(8.3)
IIJmio Mobile Services	17,363	15,555	(10.4)
Others	2,027	2,225	9.8
Outsourcing services	26,289	29,831	13.5
WAN services	18,605	19,404	4.3

Number of Contracts and Subscription for Connectivity Services (Note 1)

	As of Dec. 31, 2020	As of Dec. 31, 2021	YoY Change
Internet connectivity services (enterprise)	2,258,371	2,394,237	135,866
IP service (greater than or equal to 1Gbps) (Note2)	782	751	(31)
IP service (less than 1Gbps) (Note2)	1,225	1,206	(19)
IIJ Mobile Services	2,165,723	2,302,538	136,815
Enterprise mobile service (IoT usages etc.)	1,046,470	1,319,918	273,448
IIJ Mobile MVNO Platform service (MVNE)	1,119,253	982,620	(136,633)
Others	90,641	89,742	(899)
Internet connectivity services (consumer)	1,380,594	1,419,277	38,683
IIJmio Mobile Services	1,037,227	1,072,920	35,693
Others	343,367	346,357	2,990
Total contracted bandwidth (Gbps) (Note 3)	6,021.9	7,346.5	1,324.6

(Notes)

1. Numbers in the table above show number of contracts except for “IIJ Mobile Services (enterprise)” and “IIJmio Mobile Services” which show number of subscriptions.
2. The numbers of IP service contracts include the numbers of IIJ data center connectivity service contracts.
3. Total contracted bandwidth is calculated by multiplying number of contracts under “Internet connectivity services (enterprise)” except for “IIJ Mobile Services” and the contracted bandwidths of the services respectively.

SI revenues, including equipment sales, were JPY68,413 million, up 14.2% YoY (JPY59,927 million for 1Q-3Q20). Systems construction and equipment sales, a one-time revenue, was JPY24,415 million, up 12.6% YoY (JPY21,687 million for 1Q-3Q20). Of this amount, revenue of PTC SYSTEM (S) PTE LTD⁶ (“PTC”) was JPY3,714 million. Systems operation and maintenance revenue, a recurring revenue, was JPY43,998 million, up 15.1% YoY (JPY38,240 million for 1Q-3Q20), mainly due to continued accumulation of systems operation orders as well as an increase in private cloud services’ revenues. Of this amount, revenue of PTC was JPY1,587 million.

Orders received for SI, including equipment sales, totaled JPY69,910 million, up 6.2% YoY (JPY65,821 million for 1Q-3Q20); orders received for systems construction and equipment sales were JPY26,501 million, up 10.7% YoY (JPY23,943 million for 1Q-3Q20), and orders received for systems operation and maintenance were JPY43,409 million, up 3.7% YoY (JPY41,878 million for 1Q-3Q20).

Order backlog for SI, including equipment sales, as of December 31, 2021 amounted to JPY68,151 million, up 10.4% YoY (JPY61,758 million as of December 31, 2020); order backlog for systems construction and equipment sales was JPY11,254 million, up 15.3% YoY (JPY9,763 million as of December 31, 2020) and order backlog for systems operation and maintenance was JPY56,897 million, up 9.4% YoY (JPY51,995 million as of December 31, 2020).

ATM operation business revenues were JPY2,090 million, down 3.2% YoY (JPY2,160 million for 1Q-3Q20) .

Cost of sales

Total cost of sales was JPY128,816 million, up 1.2% YoY (JPY127,273 million for 1Q-3Q20).

Cost of network services revenue was JPY68,653 million, down 7.5% YoY (JPY74,201 million for 1Q-3Q20). Costs of mobile services were decreased due to reduction of purchase price in voice services from the beginning of FY2021 and one-time cost reimbursement of mobile unit charge by NTT DOCOMO, INC. in 3Q21 as FY2020 mobile unit charge was fixed based on its actual results for the corresponding period. Gross profit was JPY26,444 million, up 33.7% YoY (JPY19,782 million for 1Q-3Q20), and gross profit ratio was 27.8% (21.0% for 1Q-3Q20).

Cost of SI revenues, including equipment sales was JPY58,869 million, up 13.9% YoY (JPY51,672 million for 1Q-3Q20), mainly due to increases in outsourcing and purchasing costs. Of this amount, PTC’s cost was JPY4,713 million. Gross profit was JPY9,544 million, up 15.6% YoY (JPY8,255 million for 1Q-3Q20) and gross profit ratio was 13.9% (13.8% for 1Q-3Q20).

Cost of ATM operation business revenues was JPY1,294 million, down 7.6% YoY (JPY1,400 million for 1Q-3Q20). Gross profit was JPY796 million (JPY760 million for 1Q-3Q20) and gross profit ratio was 38.1% (35.2% for 1Q-3Q20).

Selling, general and administrative expenses and other operating income and expenses

Selling, general and administrative expenses, including research and development expenses, totaled JPY20,494 million, up 11.8% YoY (JPY18,328 million for 1Q-3Q20), mainly due to increases in personnel-related expenses, advertising expenses and sales commission expenses. Of this amount, PTC’s expenses was JPY329 million.

Other operating income was JPY125 million (JPY113 million for 1Q-3Q20).

Other operating expenses was JPY117 million (JPY455 million for 1Q-3Q20), mainly due to disposal loss on fixed assets.

Operating profit

Operating profit was JPY16,298 million (JPY10,127 million for 1Q-3Q20), up 60.9% YoY.

Finance income and expenses, and share of profit (loss) of investments accounted for using equity method

Finance income was JPY2,756 million, compared to JPY317 million for 1Q-3Q20. It included valuation gains on financial instruments of JPY2,560 million which mainly came from fund investments (gains of JPY192 million for 1Q-3Q20).

Finance expense was JPY401 million, compared to JPY490 million for 1Q-3Q20. It included interest expenses of JPY401 million (JPY440 million for 1Q-3Q20).

⁶ For details, please refer to our press release titled “Notice Regarding Acquisition of Shares in PTC SYSTEM (S) PTE LTD (as a New Subsidiary)”
https://www.ijj.ad.jp/en/news/pressrelease/2021/pdf/PTC%20SYSTEM_E.pdf

Share of loss of investments accounted for using equity method was JPY1,056 million (compared to loss of JPY727 million for 1Q-3Q20). There was an equity method loss of JPY1,332 million related to DeCurret Holdings, Inc., including temporary losses of JPY484 million related to a divestment of its crypto asset business on February 1, 2022.

Profit before tax

Profit before tax was JPY17,597 million (JPY9,227 million for 1Q-3Q20), up 90.7% YoY.

Profit for the period

Income tax expense was JPY5,974 million (JPY3,281 million for 1Q-3Q20). As a result, profit for the period was JPY11,623 million (JPY5,946 million for 1Q-3Q20), up 95.5% YoY.

Profit for the period attributable to non-controlling interests was JPY101 million (JPY69 million for 1Q-3Q20), mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of parent was JPY11,522 million (JPY5,877 million for 1Q-3Q20), up 96.1% YoY.

Financial Position as of December 31, 2021

As of December 31, 2021, the balance of total assets was JPY224,599 million, increased by JPY3,821 million from the balance as of March 31, 2021 of JPY220,777 million.

As of December 31, 2021, the balance of current assets was JPY94,571 million, increased by JPY1,166 million from the balance as of March 31, 2021 of JPY93,405 million. The major breakdown of balance and fluctuation of current assets was: a decrease in cash and cash equivalents by JPY1,507 million, including payment of the acquisition of PTC, to JPY40,960 million, a decrease in trade receivables by JPY3,049 million to JPY31,750 million and an increase in prepaid expenses by JPY3,157 million, of which JPY1,369 million is related to the acquisition of PTC, to JPY13,755 million.

As of December 31, 2021, the balance of non-current assets was JPY130,028 million, increased by JPY2,655 million from the balance as of March 31, 2021 of JPY127,373 million. As for the major breakdown of balance and fluctuation of non-current assets, tangible assets increased by JPY525 million to JPY17,609 million. Right-of-use assets, which include right to use leased assets under operating lease contracts such as office and data centers and assets under finance lease contracts such as data communication equipment, decreased by JPY6,298 million to JPY44,410 million, mainly due to depreciation. Goodwill increased by JPY3,153 million to JPY9,236 million, due to the acquisition of PTC. Investments accounted for using the equity method decreased by JPY1,127 million, mainly due to loss of DeCurret Holdings, Inc., to JPY7,900 million, which included JPY1,181 million of corresponding amount of goodwill related to DeCurret Holdings, Inc. Prepaid expenses increased by JPY1,270 million to JPY10,807 million, including an increase of JPY1,075 million related to the acquisition of PTC. The amount of other investments was JPY18,608 million, increased by JPY5,695 million mainly due to fluctuation of fair value of our holding marketable equity securities and funds.

As of December 31, 2021, the balance of current liabilities was JPY72,021 million, decreased by JPY1,238 million from the balance as of March 31, 2021 of JPY73,259 million. As for the major breakdown of balance and fluctuation of current liabilities, trade and other payables increased by JPY223 million to JPY19,467 million. Borrowings decreased by JPY2,190 million to JPY16,370 million, due to an increase of JPY1,480 million in short-term borrowings, a decrease by JPY5,170 million from repayment of long-term borrowings and an increase of JPY1,500 million due to a transfer from non-current liabilities. Contract liabilities increased by JPY1,904 million to JPY9,006 million, including an increase of JPY1,571 million related to the acquisition of PTC. Other financial liabilities decreased by JPY1,057 million to JPY16,822 million.

As of December 31, 2021, the balance of non-current liabilities was JPY51,586 million, decreased by JPY4,961 million from the balance as of March 31, 2021 of JPY56,547 million. As for the major breakdown of balance and fluctuation of non-current liabilities, long-term borrowings decreased by JPY1,500 million to JPY5,500 million due to a transfer to current portion. Contract liabilities increased by JPY209 million to JPY7,453 million, of which JPY1,215 million was an increase related to the acquisition of PTC. Other financial liabilities decreased by JPY4,934 million to JPY30,714 million, mainly due to a transfer to current portion.

As of December 31, 2021, the balance of total equity attributable to owners of the parent was JPY99,926 million, increased by JPY9,970 million from the balance as of March 31, 2021 of JPY89,956 million. Ratio of owners' equity to total assets was 44.5% as of December 31, 2021.

1Q-3Q21 Cash Flows

Cash and cash equivalents as of December 31, 2021 were JPY40,960 million (JPY41,970 million as of December 31, 2020).

Net cash provided by operating activities for 1Q-3Q21 was JPY30,370 million (net cash provided by operating activities of JPY31,399 million for 1Q-3Q20). There were profit before tax of JPY17,597 million, depreciation and amortization of JPY21,088 million, including JPY8,643 million of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY5,680 million, compared to JPY3,928 million for 1Q-3Q20. Regarding changes in working capital, there was net cash-out of JPY1,298 million compared to net cash-in of JPY3,526 million for 1Q-3Q20. As for the major factors in comparison with 1Q-3Q20, there were increases in payment of current liabilities, such as trade payable and other liabilities. The increase in net cash-outflow related to these factors exceeded the increase in cash-inflow due to a decrease in trade receivable.

Net cash used in investing activities for 1Q-3Q21 was JPY9,832 million (net cash used in investing activities of JPY8,918 million for 1Q-3Q20), mainly due to payments for purchases of tangible assets of JPY4,893 million (JPY4,555 million for 1Q-3Q20), payments for purchases of intangible assets, such as software, of JPY3,627 million (JPY3,722 million for 1Q-3Q20), payments for the acquisition of PTC (net of its cash) of JPY2,612 million and proceeds from sales of tangible assets, which include sale and leaseback, of JPY1,776 million (JPY1,859 million for 1Q-3Q20).

Net cash used in financing activities for 1Q-3Q21 was JPY22,240 million (net cash used in financing activities of JPY19,031 million for 1Q-3Q20), mainly due to payments of other financial liabilities of JPY14,665 million (JPY15,252 million for 1Q-3Q20), which included payments under operating lease contracts such as office rent and finance lease contracts such as network equipment, repayments of long-term bank borrowings of JPY5,170 million (JPY1,830 million for 1Q-3Q20), dividends paid of JPY3,836 million (JPY1,533 million for 1Q-3Q20) and net increase in short-term borrowings of JPY1,480 million (net decrease of 360 million for 1Q-3Q20).

FY2021 Financial Targets

Although our profits for 1Q-3Q21 exceeded our expectation, our FY2021 financial targets which were revised upward on November 5, 2021, remain unchanged because our 4Q financial results, which tend to be strong due to seasonal factors, affect the full year financial results considerably.

Presentation

Presentation materials will be posted on our web site (<https://www.iij.ad.jp/en/ir/>) on February 8, 2022.

About Internet Initiative Japan Inc.

Founded in 1992, IIJ is one of Japan's leading Internet-access and comprehensive network solutions providers. IIJ and its group companies provide total network solutions that mainly cater to high-end corporate customers. IIJ's services include high-quality Internet connectivity services, mobile services, security services, cloud computing services, and systems integration. Moreover, IIJ operates one of the largest Internet backbone networks in Japan that is connected to the United States, the United Kingdom and Asia. IIJ listed on the First Section of the Tokyo Stock Exchange in 2006.

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Disclaimer:

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 revenues and profits, 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.

Condensed Consolidated Statements of Financial Position (Unaudited)

	March 31, 2021	December 31, 2021
	Thousands of yen	Thousands of yen
Assets		
Current assets		
Cash and cash equivalents	42,466,933	40,960,126
Trade receivables	34,799,075	31,749,868
Inventories	2,171,046	2,381,308
Prepaid expenses	10,598,441	13,755,260
Contract assets	1,281,918	2,696,819
Other financial assets	1,975,910	2,714,757
Other current assets	111,334	312,834
Total current assets	93,404,657	94,570,972
Non-current assets		
Tangible assets	17,084,401	17,609,118
Right-of-use assets	50,707,726	44,410,026
Goodwill	6,082,472	9,235,576
Intangible assets	16,954,274	16,523,124
Investments accounted for using the equity method	9,026,980	7,900,167
Prepaid expenses	9,537,160	10,806,811
Contract assets	46,638	73,609
Other investments	12,912,483	18,607,957
Deferred tax assets	143,337	201,472
Other financial assets	4,442,704	4,170,129
Other non-current assets	434,437	489,696
Total non-current assets	127,372,612	130,027,685
Total assets	220,777,269	224,598,657

	March 31, 2021	December 31, 2021
	Thousands of yen	Thousands of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade and other payables	19,243,800	19,466,839
Borrowings	18,560,000	16,370,000
Income taxes payable	3,012,415	3,473,642
Contract liabilities	7,101,821	9,005,816
Deferred income	79,914	66,587
Other financial liabilities	17,879,331	16,822,261
Other current liabilities	7,381,746	6,816,151
Total current liabilities	73,259,027	72,021,296
Non-current liabilities		
Borrowings	7,000,000	5,500,000
Retirement benefit liabilities	4,168,575	4,500,468
Provisions	756,405	785,521
Contract liabilities	7,244,411	7,453,367
Deferred income	405,579	355,843
Deferred tax liabilities	225,469	1,091,934
Other financial liabilities	35,647,899	30,713,989
Other non-current liabilities	1,098,253	1,184,482
Total non-current liabilities	56,546,591	51,585,604
Total liabilities	129,805,618	123,606,900
Equity		
Share capital	25,530,621	25,561,838
Share premium	36,388,811	36,467,018
Retained earnings	25,046,813	32,732,212
Other components of equity	4,865,110	7,016,020
Treasury shares	(1,874,976)	(1,850,924)
Total equity attributable to owners of the parent	89,956,379	99,926,164
Non-controlling interests	1,015,272	1,065,593
Total equity	90,971,651	100,991,757
Total liabilities and equity	220,777,269	224,598,657

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2021
	Thousands of yen	Thousands of yen
Revenues		
Network services	93,983,677	95,097,043
System integration	59,926,698	68,412,716
ATM operation business	2,159,738	2,089,962
Total revenues	156,070,113	165,599,721
 Cost of sales		
Cost of network services	(74,201,460)	(68,652,357)
Cost of systems integration	(51,671,863)	(58,869,195)
Cost of ATM operation business	(1,400,165)	(1,294,143)
Total cost of sales	(127,273,488)	(128,815,695)
Gross Profit	28,796,625	36,784,026
 Selling, general and administrative expense		
	(18,327,863)	(20,493,325)
Other operating income	113,091	124,732
Other operating expenses	(454,357)	(117,025)
Operating Profit	10,127,496	16,298,408
 Finance income	317,146	2,755,446
Finance expenses	(490,797)	(400,686)
Share of profit (loss) of investments accounted for using equity method	(726,857)	(1,056,499)
Profit (loss) before tax	9,226,988	17,596,669
Income tax expense	(3,281,332)	(5,973,854)
Profit (loss) for the period	5,945,656	11,622,815
 Profit (loss) for the period attributable to:		
Owners of the parent	5,876,784	11,521,612
Non-controlling interests	68,872	101,203
Total	5,945,656	11,622,815
 Earnings per share		
Basic earnings per share (yen)	65.16	127.61
Diluted earnings per share (yen)	64.84	127.00

※IIJ conducted stock a split at a ratio of two-for-one with an effective date of January 1, 2021.

Basic earnings per share and diluted earnings per share are calculated as if the stock split had been conducted at the beginning of the previous fiscal year.

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2021
	Thousands of yen	Thousands of yen
Revenues		
Network services	31,879,433	31,660,876
System integration	21,760,024	24,203,456
ATM operation business	765,666	681,502
Total revenues	54,405,123	56,545,834
Cost of sales		
Cost of network services	(24,305,137)	(21,898,824)
Cost of systems integration	(18,281,933)	(20,529,193)
Cost of ATM operation business	(476,046)	(419,132)
Total cost of sales	(43,063,116)	(42,847,149)
Gross Profit	11,342,007	13,698,685
Selling, general and administrative expense	(6,203,679)	(6,703,629)
Other operating income	32,677	32,254
Other operating expenses	(282,558)	(33,194)
Operating Profit	4,888,447	6,994,116
Finance income	349,379	983,034
Finance expenses	(163,377)	(128,374)
Share of profit (loss) of investments accounted for using equity method	(313,322)	(683,954)
Profit (loss) before tax	4,761,127	7,164,822
Income tax expense	(1,625,064)	(2,499,657)
Profit (loss) for the period	3,136,063	4,665,165
Profit (loss) for the period attributable to:		
Owners of the parent	3,106,856	4,629,856
Non-controlling interests	29,207	35,309
Total	3,136,063	4,665,165
Earnings per share		
Basic earnings per share (yen)	34.44	51.26
Diluted earnings per share (yen)	34.27	51.02

※IIJ conducted stock a split at a ratio of two-for-one with an effective date of January 1, 2021.

Basic earnings per share and diluted earnings per share are calculated as if the stock split had been conducted at the beginning of the previous fiscal year.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2021
	Thousands of yen	Thousands of yen
Profit (loss)	5,945,656	11,622,815
Other comprehensive income, net of tax		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	1,737,941	1,886,924
Total items that will not be reclassified to profit or loss	1,737,941	1,886,924
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(80,184)	245,087
Financial assets measured at fair value through other comprehensive income	236	(212)
Share of other comprehensive income of investments accounted for using equity method	(22,038)	19,111
Total of items that may be reclassified to profit or loss	(101,986)	263,986
Total other comprehensive income, net of tax	1,635,955	2,150,910
Other comprehensive income	<u>7,581,611</u>	<u>13,773,725</u>
Other comprehensive income attributable to:		
Owners of the parent	7,512,739	13,672,522
Non-controlling interest	68,872	101,203
Other comprehensive income	<u>7,581,611</u>	<u>13,773,725</u>

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2021
	Thousands of yen	Thousands of yen
Profit (loss)	3,136,063	4,665,165
Other comprehensive income, net of tax		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	177,294	(121,254)
Total items that will not be reclassified to profit or loss	177,294	(121,254)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(37,415)	227,177
Financial assets measured at fair value through other comprehensive income	17	(335)
Share of other comprehensive income of investments accounted for using equity method	(10,939)	5,969
Total of items that may be reclassified to profit or loss	(48,337)	232,811
Total other comprehensive income, net of tax	128,957	111,557
Other comprehensive income	<u>3,265,020</u>	<u>4,776,722</u>
Other comprehensive income attributable to:		
Owners of the parent	3,235,813	4,741,413
Non-controlling interest	29,207	35,309
Other comprehensive income	<u>3,265,020</u>	<u>4,776,722</u>

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Nine months ended December 31, 2020

	Owners of the parent's shareholders' equity						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares	Total		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Balance, April 1, 2020	25,530,621	36,271,395	16,500,993	2,669,501	(1,896,921)	79,075,589	981,528	80,057,117
Comprehensive income								
Profit (loss)	-	-	5,876,784	-	-	5,876,784	68,872	5,945,656
Other comprehensive income	-	-	-	1,635,955	-	1,635,955	-	1,635,955
Total comprehensive income	-	-	5,876,784	1,635,955	-	7,512,739	68,872	7,581,611
Transactions with owners								
Purchase of treasury stock	-	-	-	-	(140)	(140)	-	(140)
Disposal of treasury shares	-	52,917	-	-	21,949	74,866	-	74,866
Dividends paid	-	-	(1,533,237)	-	-	(1,533,237)	(55,832)	(1,589,069)
Stock-based compensation	-	47,907	-	-	-	47,907	-	47,907
Transfer from other components of equity to retained earnings	-	-	251,849	(251,849)	-	-	-	-
Total transactions with owners	-	100,824	(1,281,388)	(251,849)	21,809	(1,410,604)	(55,832)	(1,466,436)
Balance, December 31, 2020	25,530,621	36,372,219	21,096,389	4,053,607	(1,875,112)	85,177,724	994,568	86,172,292

Nine months ended December 31, 2021

	Owners of the parent's shareholders' equity						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares	Total		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Balance, April 1, 2021	25,530,621	36,388,811	25,046,813	4,865,110	(1,874,976)	89,956,379	1,015,272	90,971,651
Comprehensive income								
Profit (loss)	-	-	11,521,612	-	-	11,521,612	101,203	11,622,815
Other comprehensive income	-	-	-	2,150,910	-	2,150,910	-	2,150,910
Total comprehensive income	-	-	11,521,612	2,150,910	-	13,672,522	101,203	13,773,725
Transactions with owners								
Issuance of common stock	31,217	(31,152)	-	-	-	65	-	65
Disposal of treasury shares	-	53,252	-	-	24,052	77,304	-	77,304
Dividends paid	-	-	(3,836,213)	-	-	(3,836,213)	(48,550)	(3,884,763)
Stock-based compensation	-	60,772	-	-	-	60,772	-	60,772
Other	-	(4,665)	-	-	-	(4,665)	(2,332)	(6,997)
Total transactions with owners	31,217	78,207	(3,836,213)	-	24,052	(3,702,737)	(50,882)	(3,753,619)
Balance, December 31, 2021	25,561,838	36,467,018	32,732,212	7,016,020	(1,850,924)	99,926,164	1,065,593	100,991,757

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2021
	Thousands of yen	Thousands of yen
Cash flows from operating activities:		
Profit (loss) before tax	9,226,988	17,596,669
Adjustments		
Depreciation and amortization	21,093,793	21,088,271
Loss (gain) on sales/disposals of property and equipment	432,101	98,131
Shares of loss (profit) of investments accounted for using the equity method	726,857	1,056,499
Finance income	(283,369)	(2,775,941)
Finance expenses	538,117	400,558
Other	332,913	112,260
Changes in working capital		
Decrease (increase) in trade receivables	2,753,953	4,276,673
Decrease (increase) in inventories	132,323	(207,824)
Decrease (increase) in prepaid expenses	(1,977,177)	(2,114,135)
Decrease (increase) in contract assets	(2,795,705)	(1,441,872)
Decrease (increase) in other assets	(151,013)	(102,481)
Decrease (increase) in other financial assets	(100,592)	(563,027)
Increase (decrease) in trade and other payables	2,820,693	(606,165)
Increase (decrease) in contract liabilities	1,501,364	(562,142)
Increase (decrease) in deferred income	(62,159)	(7,976)
Increase (decrease) in other liabilities	666,159	(1,152,042)
Increase (decrease) in other financial liabilities	472,422	851,200
Increase (decrease) in retirement benefit liabilities	266,119	331,893
Subtotal	<hr/> 35,593,787	<hr/> 36,278,549
Interest and dividends received	172,300	170,291
Interest paid	(438,861)	(398,439)
Income taxes paid	<hr/> (3,928,124)	<hr/> (5,680,270)
Cash flows from operating activities	31,399,102	30,370,131

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2021
	Thousands of yen	Thousands of yen
Cash flows from investing activities		
Purchases of tangible assets	(4,555,236)	(4,893,366)
Proceeds from sales of tangible assets	1,859,157	1,776,241
Purchases of intangible assets	(3,722,346)	(3,626,997)
Proceeds from sales of intangible assets	44,085	189
Purchase of a subsidiary	-	(2,612,008)
Purchase of investments accounted for using equity method	(2,754,000)	-
Proceeds from sale of investments accounted for using equity method	60,637	-
Purchases of other investments	(113,076)	(573,680)
Proceeds from sales of other investments	462,547	103,618
Payments for leasehold deposits and guarantee deposits	(180,311)	(91,284)
Proceeds from collection of leasehold deposits and guarantee deposits	25,986	140,825
Payments for refundable insurance policies	(50,043)	(56,172)
Other	4,695	273
Cash flows from investing activities	<hr/> (8,917,905)	<hr/> (9,832,361)
Cash flows from financing activities		
Repayment of long-term borrowings	(1,830,000)	(5,170,000)
Net increase (decrease) in short-term borrowings	(360,000)	1,480,000
Payments of other financial liabilities	(15,252,049)	(14,664,925)
Dividends paid	(1,533,237)	(3,836,213)
Other	(55,832)	(48,486)
Cash flows from financing activities	<hr/> (19,031,118)	<hr/> (22,239,624)
Effect of exchange rate changes on cash and cash equivalents	(151,393)	195,047
Net increase (decrease) in cash and cash equivalents	3,298,686	(1,506,807)
Cash and cash equivalents, beginning of the period	38,671,734	42,466,933
Cash and cash equivalents, end of the period	<hr/> 41,970,420	<hr/> 40,960,126

Notes to Condensed Consolidated Financial Statements (UNAUDITED)

Going Concern Assumption

Nothing to be reported.

Material Changes In Shareholders' Equity

Nothing to be reported.

Segment Information

IIJ and its subsidiaries (collectively “the Company”) primarily operate their network service and system integration business, which provides a comprehensive range of network solutions to meet their customers’ needs by cross-selling a variety of services, including Internet connectivity services, WAN services, outsourcing services, systems integration and sales of network-related equipment, and the ATM operation business. Therefore, the Company defined two reportable segments: “Network service and systems integration business” and “ATM operation business.”

Segment information for the Company is as follows:

Nine months ended December 31, 2020

	Reportable segments			
	Network service and systems integration business	ATM operation business	Adjustments	Consolidated
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	153,910,375	2,159,738	—	156,070,113
Intersegment transactions	128,904	—	(128,904)	—
Total revenue	154,039,279	2,159,738	(128,904)	156,070,113
Segment operating profit	9,603,150	615,697	(91,351)	10,127,496
Finance income				317,146
Finance expense				(490,797)
Share of profit (loss) of investments accounted for using the equity method				(726,857)
Profit before tax				9,226,988

Nine months ended December 31, 2021

	Reportable segments			
	Network service and systems integration business	ATM operation business	Adjustments	Consolidated
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	163,509,759	2,089,962	—	165,599,721
Intersegment transactions	96,200	—	(96,200)	—
Total revenue	163,605,959	2,089,962	(96,200)	165,599,721
Segment operating profit	15,746,675	617,266	(65,533)	16,298,408
Finance income				2,755,446
Finance expense				(400,686)
Share of profit (loss) of investments accounted for using the equity method				(1,056,499)
Profit before tax				17,596,669

Intersegment transactions are based on market price.

Subsequent Events

Nothing to be reported.

Note: The following information is provided to disclose Internet Initiative Japan Inc. ("IIJ") financial results (unaudited) for the nine months ended December 31, 2021 ("1Q-3Q21") in the form defined by the Tokyo Stock Exchange.

Consolidated Financial Results for the Nine Months ended December 31, 2021 [Under IFRS]

February 8, 2022

Company name: Internet Initiative Japan Inc.

Exchange listed: Tokyo Stock Exchange First Section

Stock code number: 3774

URL: <https://www.ijj.ad.jp/en/>

Representative: Eijiyo Katsu, President and Representative Director

Contact: Akihisa Watai, Senior Managing Director and CFO

TEL: +81-3-5205-6500

Scheduled date for filing of quarterly report (*Shihanki-houkokusho*) to Japan's regulatory organization: February 14, 2022

Scheduled date for dividend payment: -

Supplemental material on financial results: Yes

Presentation on quarterly report: Yes (for institutional investors and analysts)

(Amounts of less than JPY one million are rounded)

1. Consolidated Financial Results for the Nine Months ended December 31, 2021

(April 1, 2021 to December 31, 2021)

(1) Consolidated Results of Operations

(% shown is YoY change)

	Revenues		Operating profit		Profit (loss) before tax		Profit (loss) for the period		Profit (loss) attributable to owners of the parent		Other comprehensive income	
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%
Nine Months ended December 31, 2021	165,600	6.1	16,298	60.9	17,597	90.7	11,623	95.5	11,522	96.1	13,774	81.7
Nine Months ended December 31, 2020	156,070	3.6	10,127	67.1	9,227	64.5	5,946	69.8	5,877	75.2	7,582	36.1

	Basic earnings per share		Diluted earnings per share	
	JPY		JPY	
Nine Months ended December 31, 2021		127.61		127.00
Nine Months ended December 31, 2020		65.16		64.84

(Note) IIJ conducted a stock split at a ratio of two-for-one with an effective date of January 1, 2021. Accordingly, basic earnings per share and diluted earnings per share are calculated as if the stock split had been conducted at the beginning of the previous consolidated fiscal year.

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of owners' equity to total assets
	JPY millions	JPY millions	JPY millions	%
As of December 31, 2021	224,599	100,992	99,926	44.5
As of March 31, 2021	220,777	90,972	89,956	40.7

2. Dividends

	Dividend per Shares				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal Year Ended March 31, 2021	JPY —	JPY 20.50	JPY —	JPY 19.50	JPY —
Fiscal Year Ending March 31, 2022	JPY —	JPY 23.00	JPY —	JPY —	JPY —
Fiscal Year Ending March 31, 2022 (forecast)	JPY —	JPY —	JPY —	JPY 23.00	JPY 46.00

(Notes)

1. Changes from the latest forecasts disclosed: None
2. IIJ conducted a stock split at a ratio of two-for-one with an effective date of January 1, 2021. The 2Q-end dividend per share for the fiscal year ended March 31, 2021 is the amount before the stock split. Regarding the post-split basis amount for the fiscal year ended March 31, 2021, 2Q-end and annual dividend per share are JPY10.25 and JPY29.75, respectively.

3. Targets of Consolidated Financial Results for the Fiscal Year Ending March 31, 2022

(% shown is YoY change)

	Revenues		Operating profit		Profit (loss) before tax		Profit (loss) for the year attributable to owners of the parent		Basic earnings per share
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY
Fiscal Year Ending March 31, 2022	228,500	7.3	22,000	54.4	21,500	53.2	13,700	41.1	151.72

(Notes)

1. Changes from the latest forecasts disclosed: None
2. As for the details about our financial targets for the fiscal year ending March 31, 2022, please refer to “FY2021 Financial Targets” which is disclosed on page 7 of this earnings release.

* Notes:

- (1) Changes in significant subsidiaries: None
- (2) Changes in accounting policies and estimate
 - i.Changes in accounting policies required by IFRS: None
 - ii.Other changes in accounting policies: None
 - iii.Changes in accounting estimates: None

- (3) Number of shares issued (common stock)
 - i. Number of shares issued (inclusive of treasury stock):

As of December 31, 2021: 93,534,800 shares

As of March 31, 2021: 93,469,200 shares

- ii. Number of treasury stock:

As of December 31, 2021: 3,221,667 shares

As of March 31, 2021: 3,263,532 shares
- iii. Number of weighted average common shares outstanding:

For the Nine months ended December 31, 2021: 90,290,511 shares

For the Nine months ended December 31, 2020: 90,191,724 shares

* IIJ conducted a stock split at a ratio of two-for-one with an effective date of January 1, 2021. Accordingly, number of shares issued, number of treasury stock and number of weighted average common shares outstanding above are calculated as if the stock split had been conducted at the beginning of the previous consolidated fiscal year, respectively.

* Status of Audit Procedures

This document is not subject to the quarterly review by certified public accountant or independent auditor.

* Explanation on the Appropriate Use of Future Outlook and other special instructions

i) Forward-looking statements

Forward-looking statements disclosed in this document are based on IIJ Group’s expectation, estimates, and projections based on information available to IIJ Group as of February 8, 2022. As these forward-looking statements are subject to known and unknown risks and uncertainties, actual results may differ from those disclosed due, for example, to but not limited to changes in business climate and/or market trends. As for our latest forecast of our financial targets for the fiscal year ending March 31, 2022, please refer to the page 7 of this document.

ii) Others

Presentation material will be disclosed on TDnet as well as posted on our website on February 8, 2022.