

**IIJ Announces its Nine Months Results
 for the Fiscal Year Ending March 31, 2023**

Tokyo, February 8, 2023 - Internet Initiative Japan Inc. (“IIJ”, TSE Prime: 3774) today announced its consolidated financial results for the nine months for the fiscal year ending March 31, 2023 (“1Q-3Q22”, from April 1, 2022 to December 31, 2022) under International Financial Reporting Standards (IFRS).¹

Highlights of Financial Results for 1Q-3Q22				FY22 Targets			
Total revenues	JPY 185.3 billion	up 11.9%	YoY ²	JPY 250.0 billion	up 10.5%	YoY	
Operating profit	JPY 18.8 billion	up 15.3%	YoY	JPY 27.2 billion	up 15.5%	YoY	
Profit before tax	JPY 19.0 billion	up 8.1%	YoY	JPY 26.3 billion	up 8.8%	YoY	
Net profit ³	JPY 12.9 billion	up 11.6%	YoY	JPY 17.5 billion	up 11.7%	YoY	

Overview of 1Q-3Q22 Financial Results and Business Outlook

“In this nine-month period, we have seen strong revenue growth of 11.9% year over year with consistent penetration of IT utilization among Japanese enterprises and governmental organizations. Continuous accumulation of our network services’ monthly recurring revenues and system integration projects brought this favorable result, and also several large network-replacement transactions we acquired around the last fiscal year-end began to contribute to the revenue from this third quarter. At the same time, we have continuously developed new network services such as “IIJ Cloud Data Platform Service⁴,” “IIJ Private Backbone Service/Smart HUB⁵,” “IIJ Secure Access Service⁶” and “IIJ Mobile Service/TypeD for IIJmio Biz⁷” to further enhance our recurring revenue business model. In addition, we have recently acquired large scale projects such as several information systems replacement projects from a broadcasting company, a core system construction project for a financial group, a network replacement project with a multi-year contract and a data center construction project in overseas. Those would accelerate our revenue growth further in the next fiscal year and onward,” said Eijiro Katsu, President of IIJ.

“Our outstanding competitive advantage is to provide reliable network and services operation, realized by our robust Internet infrastructure and technology expertise that we have accumulated since our inception. Network would become faster and faster as well as CPU, storage capacity would be tremendously large, and AI would be widely adopted, which may change some current business players’ competitiveness in near future. Even in such a dynamic transition, we believe that our stable and secure network operation capabilities would continue to be required and also become more prominent advantage. Overlooking today’s overall market landscape in Japan, I am very excited that our roles towards future network-society in Japan would become significant more than ever,” 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 attributable to owners of the parent.”

⁴ For details, please refer to our press release titled “IIJ Launches IIJ Cloud Data Platform Service to Facilitate On-Premise and Multi-Cloud Data Integration” (<https://www.ij.ad.jp/en/news/pressrelease/2022/1212.html>).

⁵ For details, please refer to our press release titled “Launch IIJ Private Backbone Service/Smart HUB, A New Flexible Cloud Connection Service with High Performance Broadband Over 10Gbps” (<https://www.ij.ad.jp/en/news/pressrelease/2022/0615-2.html>).

⁶ For details, please refer to our press release titled “IIJ to Start Providing New SASE Service, IIJ Secure Access Service” (<https://www.ij.ad.jp/en/news/pressrelease/2022/0830.html>).

⁷ For details, please refer to our website (<https://www.ij.ad.jp/news/pressrelease/2023/0117.html>) (Japanese text only).

1Q-3Q22 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-3Q21	1Q-3Q22	YoY Change
	JPY millions	JPY millions	%
Total revenues	165,600	185,339	11.9
Network services	95,097	102,744	8.0
Systems integration (SI)	68,413	80,477	17.6
ATM operation business	2,090	2,118	1.3
Total costs	(128,816)	(143,683)	11.5
Network services	(68,653)	(74,627)	8.7
Systems integration (SI)	(58,869)	(67,835)	15.2
ATM operation business	(1,294)	(1,221)	(5.6)
Total gross profit	36,784	41,656	13.2
Network services	26,444	28,117	6.3
Systems integration (SI)	9,544	12,642	32.5
ATM operation business	796	897	12.7
SG&A, R&D, and other operating income (expenses)	(20,486)	(22,866)	11.6
Operating profit	16,298	18,790	15.3
Profit before tax	17,597	19,018	8.1
Profit for the period attributable to owners of the parent	11,522	12,854	11.6

(Note) Systems integration includes equipment sales.

Segment Results Summary

	1Q-3Q21	1Q-3Q22
	JPY millions	JPY millions
Total revenues	165,600	185,339
Network services and SI business	163,606	183,300
ATM operation business	2,090	2,118
Elimination	(96)	(79)
Operating profit	16,298	18,790
Network services and SI business	15,747	18,117
ATM operation business	617	693
Elimination	(66)	(20)

1Q-3Q22 Revenues and Income

Revenues

Total revenues were JPY185,339 million, up 11.9% YoY (JPY165,600 million for 1Q-3Q21).

Network services revenues were JPY102,744 million, up 8.0% YoY (JPY95,097 million for 1Q-3Q21).

Revenues for Internet connectivity services for enterprise were JPY29,504 million, up 5.1% YoY from JPY28,082 million for 1Q-3Q21, mainly due to an increase in revenues of IP services and enterprise mobile services, which absorbed a decrease in IIJ Mobile MVNO Platform service (MVNE) revenue in the response to the reduction in procurement cost.

Revenues for Internet connectivity services for consumers were JPY18,335 million, up 3.1% YoY from JPY17,780 million for 1Q-3Q21, mainly due to an increase in revenue of IIJmio Mobile services led by an increase in subscription, which absorbed a decrease in revenue resulted from a decrease in average revenue per user along with continued migration of old plan's customers to "GigaPlans", which launched at the beginning of the previous fiscal year.

Revenues for Outsourcing services were JPY34,359 million, up 15.2% YoY from JPY29,831 million for 1Q-3Q21, mainly due to an increase in security-related services revenues.

Revenues for WAN services were JPY20,546 million, up 5.9% YoY from JPY19,404 million for 1Q-3Q21.

Network Services Revenues Breakdown

	1Q-3Q21	1Q-3Q22	YoY Change
	JPY millions	JPY millions	%
Total network services	95,097	102,744	8.0
Internet connectivity services (enterprise)	28,082	29,504	5.1
IP services (including data center connectivity services)	10,069	10,862	7.9
IIJ Mobile Services	15,132	15,548	2.7
Enterprise mobile services (IoT usages etc.)	7,516	8,149	8.4
IIJ Mobile MVNO Platform Service (MVNE)	7,616	7,399	(2.8)
Others	2,881	3,094	7.4
Internet connectivity services (consumer)	17,780	18,335	3.1
IIJmio Mobile Services	15,555	15,941	2.5
Others	2,225	2,394	7.6
Outsourcing services	29,831	34,359	15.2
WAN services	19,404	20,546	5.9

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

	As of Dec. 31, 2021	As of Dec. 31, 2022	YoY Change
Internet connectivity services (enterprise)	2,394,237	2,867,238	473,001
IP service (greater than or equal to 1Gbps) (Note2)	751	1,341	590
IP service (less than 1Gbps) (Note2)	1,206	1,334	128
IIJ Mobile Services	2,302,538	2,771,263	468,725
Enterprise mobile services (IoT usages etc.)	1,319,918	1,685,333	365,415
IIJ Mobile MVNO Platform Service (MVNE)	982,620	1,085,930	103,310
Others	89,742	93,300	3,558
Internet connectivity services (consumer)	1,419,277	1,538,622	119,345
IIJmio Mobile Services	1,072,920	1,196,683	123,763
Others	346,357	341,939	(4,418)
Total contracted bandwidth (Gbps) (Note 3)	7,346.5	8,727.3	1,380.8

(Notes)

- Numbers in the table above show number of contracts except for "IIJ Mobile Services (enterprise)" and "IIJmio Mobile Services" which show number of
- The numbers of IP service contracts include the numbers of IIJ data center connectivity service contracts. The number of IP services (greater than or equal to 1Gbps) contracts as of December 31, 2022 increased mainly due to Tokyo public high school project in 3Q22.
- 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. Total contracted bandwidth as of December 31, 2022 increased mainly due to Tokyo public high school project in 3Q22.

SI revenues, including equipment sales, were JPY80,477 million, up 17.6% YoY (JPY68,413 million for 1Q-3Q21). Systems construction and equipment sales, a one-time revenue, was JPY29,936 million, up 22.6% YoY (JPY24,415 million for 1Q-3Q21). Systems operation and maintenance revenue, a recurring revenue, was JPY50,541 million, up 14.9% YoY (JPY43,998 million for 1Q-3Q21), mainly due to continued accumulation of systems operation orders as well as an increase in cloud-related services' revenues.

Orders received for SI, including equipment sales, totaled JPY91,971 million, up 31.6% YoY (JPY69,910 million for 1Q-3Q21); orders received for systems construction and equipment sales were JPY34,190 million, up 29.0% YoY (JPY26,501 million for 1Q-3Q21), and orders received for systems operation and maintenance were JPY57,781 million, up 33.1% YoY (JPY43,409 million for 1Q-3Q21).

Order backlog for SI, including equipment sales, as of December 31, 2022 amounted to JPY84,285 million, up 23.7% YoY (JPY68,151 million as of December 31, 2021); order backlog for systems construction and equipment sales was JPY16,705 million, up 48.4% YoY (JPY11,254 million as of December 31, 2021) and order backlog for systems operation and maintenance was JPY67,580 million, up 18.8% YoY (JPY56,897 million as of December 31, 2021).

ATM operation business revenues were JPY2,118 million, up 1.3% YoY (JPY2,090 million for 1Q-3Q21).

Cost of sales

Total cost of sales was JPY143,683 million, up 11.5% YoY (JPY128,816 million for 1Q-3Q21).

Cost of network services revenue was JPY74,627 million, up 8.7% YoY (JPY68,653 million for 1Q-3Q21). There were an increase in purchasing cost of mobile devices and one-time cost reimbursement, which was related to a mobile unit charge by NTT DOCOMO, INC., of over JPY0.5 billion in 3Q22 (a similar impact of approximately JPY1.08 billion in 3Q21) as FY2021 mobile unit charge was fixed based on its actual results for the corresponding period. Gross profit was JPY28,117 million, up 6.3% YoY (JPY26,444 million for 1Q-3Q21), and gross profit ratio was 27.4% (27.8% for 1Q-3Q21).

Cost of SI revenues, including equipment sales was JPY67,835 million, up 15.2% YoY (JPY58,869 million for 1Q-3Q21), mainly due to increases in purchasing costs and multi-cloud related services' license fees along with an increase in revenues. Gross profit was JPY12,642 million, up 32.5% YoY (JPY9,544 million for 1Q-3Q21) and gross profit ratio was 15.7% (13.9% for 1Q-3Q21).

Cost of ATM operation business revenues was JPY1,221 million, down 5.6% YoY (JPY1,294 million for 1Q-3Q21). Gross profit was JPY897 million (JPY796 million for 1Q-3Q21) and gross profit ratio was 42.4% (38.1% for 1Q-3Q21).

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

Selling, general and administrative expenses, including research and development expenses, totaled JPY23,064 million, up 12.5% YoY (JPY20,494 million for 1Q-3Q21), mainly due to increases in personnel-related expenses, advertising expenses and outsourcing expenses.

Other operating income was JPY246 million (JPY125 million for 1Q-3Q21).

Other operating expenses was JPY48 million (JPY117 million for 1Q-3Q21).

Operating profit

Operating profit was JPY18,790 million (JPY16,298 million for 1Q-3Q21), up 15.3% YoY.

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

Finance income was JPY802 million (JPY2,756 million for 1Q-3Q21). It included gains on financial instruments, mainly related to funds, of JPY376 million (JPY2,560 million for 1Q-3Q21) and foreign exchange gain of JPY323 million (JPY98 million for 1Q-3Q21).

Finance expense was JPY413 million (JPY401 million for 1Q-3Q21). It included interest expenses of JPY400 million (JPY401 million for 1Q-3Q21).

Share of loss of investments accounted for using equity method was JPY161 million (loss of JPY1,056 million for 1Q-3Q21). There was a loss of DeCurret Holdings, Inc. of JPY274 million (JPY1,332 million for 1Q-3Q21).

Profit before tax

Profit before tax was JPY19,018 million (JPY17,597 million for 1Q-3Q21), up 8.1% YoY.

Profit for the period

Income tax expense was JPY6,049 million (JPY5,974 million for 1Q-3Q21). As a result, profit for the period was JPY12,969 million (JPY11,623 million for 1Q-3Q21), up 11.6% YoY.

Profit for the period attributable to non-controlling interests was JPY115 million (JPY101 million for 1Q-3Q21), mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of the parent was JPY12,854 million (JPY11,522 million for 1Q-3Q21), up 11.6% YoY.

Financial Position as of December 31, 2022

As of December 31, 2022, the balance of total assets was JPY234,858 million, increased by JPY3,053 million from the balance as of March 31, 2022 of JPY231,805 million.

As of December 31, 2022, the balance of current assets was JPY103,148 million, decreased by JPY1,337 million from the balance as of March 31, 2022 of JPY104,485 million. As for the major breakdown of balance and fluctuation of current assets, cash and cash equivalents decreased by JPY6,064 million to JPY41,327 million, trade receivables decreased by JPY1,570 million to JPY36,079 million, inventories increased by JPY1,682 million to JPY4,290 million, prepaid expenses increased by JPY2,354 million to JPY15,907 million, and contract assets increased by JPY1,448 million to JPY3,318 million.

As of December 31, 2022, the balance of non-current assets was JPY131,710 million, increased by JPY4,390 million from the balance as of March 31, 2022 of JPY127,320 million. As for the major breakdown of balance and fluctuation of non-current assets, tangible assets increased by JPY5,056 million to JPY22,902 million mainly due to purchases related to Shiroy Data Center Campus construction, 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 JPY2,376 million to JPY42,498 million mainly due to depreciation, intangible assets decreased by JPY224 million to JPY16,200 million mainly due to amortization of software, and prepaid expenses increased by JPY1,398 million to JPY11,850 million, mainly due to operation and maintenance costs.

As of December 31, 2022, the balance of current liabilities was JPY74,102 million, decreased by JPY2,675 million from the balance as of March 31, 2022 of JPY76,777 million. As for the major breakdown of balance and fluctuation of current liabilities, trade and other payables increased by JPY3,077 million to JPY23,819 million, borrowings increased by JPY400 million to JPY16,770 million mainly due to a decrease of JPY1,500 million from repayment of long-term borrowings and an increase of JPY2,000 million owing to a transfer from non-current liabilities, income taxes payable decreased by JPY3,817 million to JPY1,978 million, contract liabilities increased by JPY187 million to JPY9,758 million and other financial liabilities decreased by JPY1,260 million to JPY15,775 million.

As of December 31, 2022, the balance of non-current liabilities was JPY47,591 million, decreased by JPY2,816 million from the balance as of March 31, 2022 of JPY50,407 million. As for the major breakdown of balance and fluctuation of non-current liabilities, long-term borrowings decreased by JPY1,829 million to JPY3,671 million mainly due to a transfer to current portion, contract liabilities decreased by JPY503 million to JPY6,926 million and other financial liabilities decreased by JPY472 million to JPY29,674 million.

As of December 31, 2022, the balance of total equity attributable to owners of the parent was JPY112,006 million, increased by JPY8,478 million from the balance as of March 31, 2022 of JPY103,528 million. Ratio of owners' equity to total assets was 47.7% as of December 31, 2022.

1Q-3Q22 Cash Flows

Cash and cash equivalents as of December 31, 2022 were JPY41,327 million (JPY40,960 million as of December 31, 2021).

Net cash provided by operating activities for 1Q-3Q22 was JPY27,314 million (net cash provided by operating activities of JPY30,370 million for 1Q-3Q21). There were profit before tax of JPY19,018 million (JPY17,597 million for 1Q-3Q21), depreciation and amortization of JPY21,254 million (JPY21,088 million for 1Q-3Q21), including JPY8,460 million (JPY8,643 million for 1Q-3Q21) of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY9,871 million (JPY5,680 million for 1Q-3Q21). Regarding changes in working capital, there was net cash out of JPY2,991 million (net cash out of JPY1,298 million for 1Q-3Q21). As for the major factors for the increase in net cash out in comparison with 1Q-3Q21, there were a decrease in proceeds from trade receivables and increases in payments of prepaid expenses and inventories, which exceeded a decrease in payments of trade and other payables.

Net cash used in investing activities for 1Q-3Q22 was JPY13,160 million (net cash used in investing activities of JPY9,832 million for 1Q-3Q21), mainly due to payments for purchases of tangible assets, such as Shiroy Data Center Campus construction-related, of JPY9,760 million (JPY4,893 million for 1Q-3Q21), payments for purchases of intangible assets, such as software, of JPY4,150 million (JPY3,627 million for 1Q-3Q21), and proceeds from sales of tangible assets of JPY1,216 million (JPY1,776 million for 1Q-3Q21).

Net cash used in financing activities for 1Q-3Q22 was JPY20,766 million (net cash used in financing activities of JPY22,240 million for 1Q-3Q21), mainly due to payments of other financial liabilities of JPY14,396 million (JPY14,665 million for 1Q-3Q21), 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 JPY1,500 million (JPY5,170 million for 1Q-3Q21) and dividends paid of JPY4,901 million (JPY3,836 million for 1Q-3Q21).

Future Prospects including FY2022 Financial Targets

1Q-3Q22 financial results were in line with our plan with continued revenue growth. Therefore, FY2022 financial targets remain unchanged.

Presentation

Presentation materials will be posted on our web site (<https://www.ij.ad.jp/en/ir/>) on February 8, 2023.

About Internet Initiative Japan Inc.

Founded in 1992, IJ is one of Japan's leading Internet-access and comprehensive network solutions providers. IJ and its group companies provide total network solutions that mainly cater to high-end corporate customers. IJ's services include high-quality Internet connectivity services, mobile services, security services, cloud computing services, and systems integration. Moreover, IJ operates one of the largest Internet backbone networks in Japan that is connected to the United States, the United Kingdom and Asia. IJ listed on the First Section of the Tokyo Stock Exchange ("TSE") in 2006 and transitioned to the Prime Market of TSE from April 2022.

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Condensed Consolidated Statements of Financial Position (Unaudited)

	March 31, 2022	December 31, 2022
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	47,391	41,327
Trade receivables	37,649	36,079
Inventories	2,608	4,290
Prepaid expenses	13,553	15,907
Contract assets	1,870	3,318
Other financial assets	1,295	1,926
Other current assets	119	301
Total current assets	104,485	103,148
Non-current assets		
Tangible assets	17,846	22,902
Right-of-use assets	44,874	42,498
Goodwill	9,479	9,790
Intangible assets	16,424	16,200
Investments accounted for using equity method	5,830	5,598
Prepaid expenses	10,452	11,850
Contract assets	69	47
Other investments	17,410	17,689
Deferred tax assets	183	193
Other financial assets	4,245	4,375
Other non-current assets	508	568
Total non-current assets	127,320	131,710
Total assets	231,805	234,858

	March 31, 2022	December 31, 2022
	Millions of yen	Millions of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade and other payables	20,742	23,819
Borrowings	16,370	16,770
Income taxes payable	5,795	1,978
Contract liabilities	9,571	9,758
Deferred income	65	102
Other financial liabilities	17,035	15,775
Other current liabilities	7,199	5,900
Total current liabilities	<u>76,777</u>	<u>74,102</u>
Non-current liabilities		
Borrowings	5,500	3,671
Retirement benefit liabilities	4,395	4,578
Provisions	786	789
Contract liabilities	7,429	6,926
Deferred income	340	297
Deferred tax liabilities	641	515
Other financial liabilities	30,146	29,674
Other non-current liabilities	1,170	1,141
Total non-current liabilities	<u>50,407</u>	<u>47,591</u>
Total liabilities	<u>127,184</u>	<u>121,693</u>
Equity		
Share capital	25,562	25,562
Share premium	36,518	36,677
Retained earnings	37,024	44,977
Other components of equity	6,275	6,621
Treasury shares	(1,851)	(1,831)
Total equity attributable to owners of the parent	<u>103,528</u>	<u>112,006</u>
Non-controlling interests	1,093	1,159
Total equity	<u>104,621</u>	<u>113,165</u>
Total liabilities and equity	<u><u>231,805</u></u>	<u><u>234,858</u></u>

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Nine Months Ended December 31, 2021	Nine Months Ended December 31, 2022
	Millions of yen	Millions of yen
Revenues		
Network services	95,097	102,744
System integration	68,413	80,477
ATM operation business	2,090	2,118
Total revenues	<u>165,600</u>	<u>185,339</u>
Cost of sales		
Cost of network services	(68,653)	(74,627)
Cost of systems integration	(58,869)	(67,835)
Cost of ATM operation business	(1,294)	(1,221)
Total cost of sales	<u>(128,816)</u>	<u>(143,683)</u>
Gross Profit	36,784	41,656
Selling, general and administrative expenses	(20,494)	(23,064)
Other operating income	125	246
Other operating expenses	(117)	(48)
Operating Profit	<u>16,298</u>	<u>18,790</u>
Finance income	2,756	802
Finance expenses	(401)	(413)
Share of profit (loss) of investments accounted for using equity method	(1,056)	(161)
Profit (loss) before tax	<u>17,597</u>	<u>19,018</u>
Income tax expense	(5,974)	(6,049)
Profit (loss) for the period	<u>11,623</u>	<u>12,969</u>
Profit (loss) for the period attributable to:		
Owners of the parent	11,522	12,854
Non-controlling interests	101	115
Total	<u>11,623</u>	<u>12,969</u>
Earnings per share		
Basic earnings per share (yen)	63.81	71.14
Diluted earnings per share (yen)	63.50	70.79

※IIJ conducted a stock split at a ratio of two-for-one with an effective date of October 1, 2022.

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, 2021	Three Months Ended December 31, 2022
	Millions of yen	Millions of yen
Revenues		
Network services	31,661	35,038
System integration	24,204	27,629
ATM operation business	681	710
Total revenues	<u>56,546</u>	<u>63,377</u>
Cost of sales		
Cost of network services	(21,899)	(24,825)
Cost of systems integration	(20,529)	(22,978)
Cost of ATM operation business	(419)	(409)
Total cost of sales	<u>(42,847)</u>	<u>(48,212)</u>
Gross Profit	13,699	15,165
Selling, general and administrative expenses	(6,704)	(7,556)
Other operating income	32	25
Other operating expenses	(33)	(17)
Operating Profit	<u>6,994</u>	<u>7,617</u>
Finance income	983	19
Finance expenses	(128)	(1,393)
Share of profit (loss) of investments accounted for using equity method	(684)	(83)
Profit (loss) before tax	<u>7,165</u>	<u>6,160</u>
Income tax expense	(2,500)	(1,931)
Profit (loss) for the period	<u><u>4,665</u></u>	<u><u>4,229</u></u>
Profit (loss) for the period attributable to:		
Owners of the parent	4,630	4,215
Non-controlling interests	35	14
Total	<u><u>4,665</u></u>	<u><u>4,229</u></u>
Earnings per share		
Basic earnings per share (yen)	25.63	23.33
Diluted earnings per share (yen)	25.51	23.21

※IIJ conducted a stock split at a ratio of two-for-one with an effective date of October 1, 2022.

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, 2021	Nine Months Ended December 31, 2022
	Millions of yen	Millions of yen
Profit (loss)	11,623	12,969
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	1,887	(274)
Total of items that will not be reclassified to profit or loss	1,887	(274)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	245	579
Financial assets measured at fair value through other comprehensive income	(0)	(3)
Share of other comprehensive income of investments accounted for using equity method	19	44
Total of items that may be reclassified to profit or loss	264	620
Total other comprehensive income, net of tax	2,151	346
Other comprehensive income	13,774	13,315
Other comprehensive income attributable to:		
Owners of the parent	13,673	13,200
Non-controlling interest	101	115
Other comprehensive income	13,774	13,315

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended December 31, 2021	Three Months Ended December 31, 2022
	Millions of yen	Millions of yen
Profit (loss)	4,665	4,229
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	(121)	437
Total of items that will not be reclassified to profit or loss	(121)	437
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	227	(433)
Financial assets measured at fair value through other comprehensive income	(0)	(2)
Share of other comprehensive income of investments accounted for using equity method	6	10
Total of items that may be reclassified to profit or loss	233	(425)
Total other comprehensive income, net of tax	112	12
Other comprehensive income	4,777	4,241
Other comprehensive income attributable to:		
Owners of the parent	4,742	4,227
Non-controlling interest	35	14
Other comprehensive income	4,777	4,241

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

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		
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance, April 1, 2021	25,531	36,389	25,047	4,865	(1,875)	89,957	1,015	90,972
Comprehensive income								
Profit (loss)	-	-	11,522	-	-	11,522	101	11,623
Other comprehensive income	-	-	-	2,151	-	2,151	-	2,151
Total comprehensive income	-	-	11,522	2,151	-	13,673	101	13,774
Transactions with owners								
Issuance of common stock	31	(31)	-	-	-	0	-	0
Disposal of treasury shares	-	53	-	-	24	77	-	77
Dividends paid	-	-	(3,836)	-	-	(3,836)	(49)	(3,885)
Stock-based compensation	-	61	-	-	-	61	-	61
Other	-	(5)	-	-	-	(5)	(2)	(7)
Total transactions with owners	31	78	(3,836)	-	24	(3,703)	(51)	(3,754)
Balance, December 31, 2021	25,562	36,467	32,733	7,016	(1,851)	99,927	1,065	100,992

Nine months ended December 31, 2022

	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		
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance, April 1, 2022	25,562	36,518	37,024	6,275	(1,851)	103,528	1,093	104,621
Comprehensive income								
Profit (loss)	-	-	12,854	-	-	12,854	115	12,969
Other comprehensive income	-	-	-	346	-	346	-	346
Total comprehensive income	-	-	12,854	346	-	13,200	115	13,315
Transactions with owners								
Purchase of treasury stock	-	-	-	-	0	0	-	0
Disposal of treasury shares	-	99	-	-	20	119	-	119
Dividends paid	-	-	(4,901)	-	-	(4,901)	(49)	(4,950)
Stock-based compensation	-	60	-	-	-	60	-	60
Total transactions with owners	-	159	(4,901)	-	20	(4,722)	(49)	(4,771)
Balance, December 31, 2022	25,562	36,677	44,977	6,621	(1,831)	112,006	1,159	113,165

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended December 31, 2021	Nine Months Ended December 31, 2022
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit (loss) before tax	17,597	19,018
Adjustments		
Depreciation and amortization	21,088	21,254
Loss (gain) on sales/disposals of property and equipment	98	(143)
Shares of loss (profit) of investments accounted for using equity method	1,056	161
Finance income	(2,776)	(802)
Finance expenses	401	413
Other	112	475
Changes in working capital		
Decrease (increase) in trade receivables	4,277	1,784
Decrease (increase) in inventories	(208)	(1,669)
Decrease (increase) in prepaid expenses	(2,114)	(3,440)
Decrease (increase) in contract assets	(1,442)	(1,426)
Decrease (increase) in other assets	(102)	(183)
Decrease (increase) in other financial assets	(563)	(745)
Increase (decrease) in trade and other payables	(606)	3,516
Increase (decrease) in contract liabilities	(562)	(577)
Increase (decrease) in deferred income	(8)	(1)
Increase (decrease) in other liabilities	(1,152)	(1,402)
Increase (decrease) in other financial liabilities	851	969
Increase (decrease) in retirement benefit liabilities	332	183
Subtotal	36,279	37,385
Interest and dividends received	170	201
Interest paid	(398)	(401)
Income taxes paid	(5,680)	(9,871)
Cash flows from operating activities	30,370	27,314

	Nine Months Ended December 31, 2021	Nine Months Ended December 31, 2022
	Millions of yen	Millions of yen
Cash flows from investing activities		
Purchases of tangible assets	(4,893)	(9,760)
Proceeds from sales of tangible assets	1,776	1,216
Purchases of intangible assets	(3,627)	(4,150)
Proceeds from sales of intangible assets	0	-
Purchase of a subsidiary	(2,612)	-
Purchases of other investments	(574)	(397)
Proceeds from sales of other investments	104	19
Payments for leasehold deposits and guarantee deposits	(91)	(49)
Proceeds from collection of leasehold deposits and guarantee deposits	141	16
Payments for refundable insurance policies	(56)	(56)
Other	0	1
Cash flows from investing activities	<u>(9,832)</u>	<u>(13,160)</u>
Cash flows from financing activities		
Proceeds from long-term borrowings	-	179
Repayment of long-term borrowings	(5,170)	(1,500)
Net increase (decrease) in short-term borrowings	1,480	(100)
Payments of other financial liabilities	(14,665)	(14,396)
Dividends paid	(3,836)	(4,901)
Other	(48)	(48)
Cash flows from financing activities	<u>(22,240)</u>	<u>(20,766)</u>
Effect of exchange rate changes on cash and cash equivalents	195	548
Net increase (decrease) in cash and cash equivalents	(1,507)	(6,064)
Cash and cash equivalents, beginning of the period	42,467	47,391
Cash and cash equivalents, end of the period	<u><u>40,960</u></u>	<u><u>41,327</u></u>

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

IJJ and its subsidiaries (collectively “the Company”) primarily operates its network service and system integration business, which provides a comprehensive range of network solutions to meet its 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, 2021

	Reportable segments			Consolidated
	Network service and systems integration business	ATM operation business	Adjustments	
	Millions of yen	Millions of yen	Millions of yen	
Revenue				
Customers	163,510	2,090	—	165,600
Intersegment transactions	96	—	(96)	—
Total revenue	163,606	2,090	(96)	165,600
Segment operating profit	15,747	617	(66)	16,298
Finance income				2,756
Finance expense				(401)
Share of profit (loss) of investments accounted for using the equity method				(1,056)
Profit before tax				17,597

Nine months ended December 31, 2022

	Reportable segments			Consolidated
	Network service and systems integration business	ATM operation business	Adjustments	
	Millions of yen	Millions of yen	Millions of yen	
Revenue				
Customers	183,221	2,118	—	185,339
Intersegment transactions	79	—	(79)	—
Total revenue	183,300	2,118	(79)	185,339
Segment operating profit	18,117	693	(20)	18,790
Finance income				802
Finance expense				(413)
Share of profit (loss) of investments accounted for using the equity method				(161)
Profit before tax				19,018

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, 2022 (“1Q-3Q22”) in the form defined by the Tokyo Stock Exchange.

Consolidated Financial Results for the Nine Months ended December 31, 2022 [Under IFRS]

February 8, 2023

Company name: Internet Initiative Japan Inc.

Exchange listed: Tokyo Stock Exchange

Ticker symbol: 3774

URL: <https://www.ij.ad.jp/>

Representative: Eijiro 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, 2023

Scheduled date for dividend payment: -

Supplemental material on quarterly results: Yes

Presentation on quarterly results: 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, 2022 (April 1, 2022 to December 31, 2022)

(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, 2022	185,339	11.9	18,790	15.3	19,018	8.1	12,969	11.6	12,854	11.6	13,315	(3.3)
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

	Basic earnings per share		Diluted earnings per share	
	JPY		JPY	
Nine Months ended December 31, 2022	71.14		70.79	
Nine Months ended December 31, 2021	63.81		63.50	

(Note) IIJ conducted a stock split at a ratio of two-for-one with an effective date of October 1, 2022. Accordingly, basic earnings per share and diluted earnings per share have been 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, 2022	234,858	113,165	112,006	47.7
As of March 31, 2022	231,805	104,621	103,528	44.7

2. Dividends

	Annual Dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	JPY	JPY	JPY	JPY	JPY
Fiscal Year Ended March 31, 2022	—	23.00	—	25.00	48.00
Fiscal Year Ending March 31, 2023	—	29.25	—		
Fiscal Year Ending March 31, 2023 (forecast)				14.63	—

(Notes)

1. Changes from the latest forecasts disclosed: None

2. IIJ conducted a stock split at a ratio of two-for-one effective as of October 1, 2022. The forecast of year-end dividend per share is the amount after the stock split. Regarding the amount on a pre-split basis, the forecast of year-end and annual dividend per share are JPY29.26 and JPY58.51, respectively.

3. Targets of Consolidated Financial Results for the Fiscal Year ending March 31, 2023 (April 1, 2022 through March 31, 2023)

(% 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, 2023	250,000	10.5	27,200	15.5	26,300	8.8	17,500	11.7	96.89

(Notes)

1. Changes from the latest forecasts disclosed: None

2. IJ conducted a stock split at a ratio of two-for-one with an effective date of October 1, 2022. The target of basic earnings per share is the amount after the stock split.

3. As for the details about our financial targets for the fiscal year ending March 31, 2023, please refer to "Future Prospects including FY2022 Financial Targets" which is disclosed on page 8 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, 2022: 187,069,600 shares

As of March 31, 2022: 187,069,600 shares

ii. Number of treasury stock:

As of December 31, 2022: 6,371,696 shares

As of March 31, 2022: 6,443,334 shares

iii. Number of weighted average common shares outstanding:

For the nine months ended December 31, 2022: 180,678,380 shares

For the nine months ended December 31, 2021: 180,581,022 shares

* IJ conducted a stock split at a ratio of two-for-one with an effective date of October 1, 2022. Accordingly, number of shares issued, number of treasury stock and number of weighted average common shares outstanding above have been 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 audit procedures 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 IJ Group's expectation, estimates, and projections based on information available to IJ Group as of February 8, 2023. 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, please refer to "Future Prospects including FY2022 Financial Targets" written on page 8 of this document.

ii) Change in the unit of presentation for monetary amounts

Amounts of accounts and other items presented in our condensed quarterly consolidated financial statements were previously stated in thousands of yen, but effective from the first quarter ended June 30, 2022, IJ has changed to present such amounts in millions of yen. In order to facilitate comparison, the amounts for the previous consolidated fiscal year are also presented in millions of yen.

iii) Others

Presentation material will be disclosed on TDnet as well as posted on our website on February 8, 2023.