

(TRANSLATION)

Quarterly Securities Report

(The First Quarter of the 30th Business Term)
From April 1, 2021 to June 30, 2021

Internet Initiative Japan Inc.

Note for readers of this English translation

This is an English translation of the Quarterly Securities Report (*Shihanki-houkokusho*) of Internet Initiative Japan Inc. ("IIJ") filed with the Director-General of the Kanto Local Finance Bureau in Japan through EDINET (Electronic Disclosure for Investors' NETwork). This translation includes an English translation of the Independent Auditor's Report on Quarterly Review by KPMG AZSA LLC IIJ's accounting auditor, of the condensed consolidated financial statements included in the Japanese original Quarterly Securities Report. KPMG AZSA LLC has not audited and makes no warranty as to the accuracy or otherwise of the translation of the condensed consolidated financial statements of other financial information included in this English translation of the Quarterly Securities Report.

This document has been translated from the Japanese original for reference purpose only. In the event of any discrepancy between this English translation and the Japanese original, the Japanese original shall prevail.

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(From April 1, 2021 to June 30, 2021)

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PART 1 Information on the Company

Item 1. Overview of the Company

1 Selected Financial Data

Reporting period	IFRS		
	Three months ended June 30, 2020	Three months ended June 30, 2021	29th business term ended March 31, 2021
Revenues (thousands of yen)	50,378,505	52,974,949	213,001,880
Operating profit (thousands of yen)	2,047,229	4,359,811	14,247,723
Profit before tax (thousands of yen)	1,694,231	5,350,402	14,034,719
Profit attributable to owners of the parent (thousands of yen)	1,116,313	3,506,873	9,711,559
Comprehensive income, attributable to owners of the parent (thousands of yen)	2,255,427	4,348,639	12,274,666
Comprehensive income (thousands of yen)	2,261,153	4,384,911	12,364,242
Equity attributable to owners of the parent (thousands of yen)	80,736,837	92,580,385	89,956,379
Total assets (thousands of yen)	205,348,880	217,262,651	220,777,269
Basic earnings per share (yen)	12.38	38.86	107.67
Diluted earnings per share (yen)	12.32	38.67	107.14
Ratio of owners' equity to gross assets (%)	39.3	42.6	40.7
Cash flows from operating activities (thousands of yen)	11,635,067	7,653,642	40,544,167
Cash flows from investing activities (thousands of yen)	(4,592,482)	(6,414,065)	(13,215,842)
Cash flows from financing activities (thousands of yen)	(6,802,040)	(8,875,385)	(23,617,730)
Cash and cash equivalents, at the end of period (thousands of yen)	38,892,573	34,831,385	42,466,933

(Notes)

1. As IJ and its subsidiaries (collectively "the Company") prepare quarterly condensed consolidated financial statements reports, changes in non-consolidated financial data, among others, are not provided.
2. Revenues do not include consumption taxes.
3. All figures presented above are based on the condensed consolidated quarterly financial statements or the consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").
4. IJ conducted a two-for-one stock split of its common stock with an effective date of January 1, 2021. The figures for Basic earnings per share and Diluted earnings per share for each period have been adjusted to reflect the impact of this stock split.

2 Description of Business

There were no material changes to the business of the Company or its equity method investees during the first three months of the 30th business term ("1Q21"). Changes in major subsidiaries and affiliates during 1Q21 are as follows.

[Network service and systems integration business]

On April 1, 2021, IJ acquired all shares of PTC SYSTEM (S) PTE LTD ("PTC"), which is mainly engaged in the system integration business in Singapore, and made it a consolidated subsidiary.

As a result, IJ had 17 consolidated subsidiaries and 8 equity method investees as of June 30, 2021.

Item 2. Business Overview

1 Risk Factors

There were no newly identified matters, relating to the business description or consolidated financial results described in this quarterly securities report, which could have a material effect on the decisions of investors, and there were no material changes in the risk factors described in our Annual Securities Report for the previous fiscal year filed on June 30, 2021.

2. Management's Analysis of Consolidated Financial Position, Results of Operations and Cash Flows

This quarterly securities report contains forward-looking statements that are based on our expectations, assumptions, estimates and projections as of August 16, 2021.

(1) Analysis of Results of Operations

(i) Overview of consolidated business results for 1Q21

The Japanese economy has been still in a severe situation during the first quarter of the fiscal year ending March 31, 2022 (1Q21) due to the COVID-19 pandemic; however, there have been some signs of a recovery. With respect to future prospects, economic recovery is expected to continue, supported by measures to prevent the spread of the COVID-19, the effects of various policies and improvement of overseas economies. However, we must pay attention to the impact of the COVID-19 pandemic on the domestic and foreign economies, and also keep an eye on fluctuations in the financial and capital markets.

In such an economic trend, as for the ICT (*1) related market where we belong to, as seen in the continuous increase of Internet traffic (*2) along with the progress of IT services utilization by enterprises and government agencies, growing importance of security-related services to counter threats on the Internet, widespread of cloud computing (*3) related services adoption and the progress of practical application of IoT (*4) that comprehensively uses these services, we expect that enterprises' demands to utilize safe and secure network systems should continue to increase in the future.

Under these market circumstances, business overview for 1Q21 were favorable. Demands for network services for enterprises (*5) continued to be strong and orders for systems construction projects were also steady. As for network services, revenues of Internet connectivity services for enterprises such as IP services (*6), outsourcing services (*7) such as security-related services and WAN services (*8) were strong from the beginning of this fiscal year and drove an increase in total revenue. As for mobile related services, business progress was as follows: for consumers, acquisition of subscriptions progressed with our new consumer plan, "GigaPlans (*9)", which we launched in April, 2021, for enterprises, demand for IoT related usages continued to be strong. However, total mobile services revenue decreased year over year ("YoY") due to the impact of lower unit prices for consumers. As for systems integration, though systems construction revenue in the first quarter is small every year due to seasonal fluctuations, 1Q21 orders received and 1Q21-end order backlog for systems construction were up 30.5% and up 44.7% YoY, respectively.

Consolidated financial results for 1Q21 were as follows. Total revenues were JPY52,975 million (JPY50,379 million for 1Q20), up 5.2% YoY. Although revenues of Internet connectivity services for enterprises, outsourcing services, WAN services and systems operation and maintenance, etc. increased, revenues of mobile-related services decreased. Therefore, total revenues growth was at a low level. Cost of sales was JPY41,548 million (JPY42,266 million for 1Q20), down 1.7% YoY and gross profit was JPY11,427 million (JPY8,113 million for 1Q20), up 40.8% YoY. The breakdown by services is as follows. Network services revenue was JPY31,475 million (JPY30,934 million for 1Q20), up 1.7% YoY and gross profit for network services revenue was JPY8,330 million (JPY5,990 million for 1Q20), up 39.1% YoY. SI revenues, including equipment sales, were JPY20,807 million (JPY18,875 million for 1Q20), up 10.2% YoY and gross profit for SI was JPY2,848 million (JPY1,991 million for 1Q20), up 43.0% YoY. Of these, SI revenues and gross profit of PTC, which we acquired and made a wholly-owned subsidiary in April, 2021, were JPY1,313 million and JPY150 million, respectively. ATM operation business revenue was JPY693 million (JPY570 million for 1Q20), up 21.7% YoY and gross profit of ATM operation business was JPY249 million (JPY132 million for 1Q20), up 90.2% YoY. Net amount of selling, general and administrative expenses, other operating income and other operating expenses was JPY7,067 million (JPY6,066 million for 1Q20), up 16.5% YoY. Operating profit for 1Q21 was JPY4,360 million (JPY2,047 million for 1Q20), up 113.0% YoY. Profit before tax for 1Q21 was JPY5,350 million (JPY1,694 million for 1Q20), up 215.8% YoY. Profit attributable to owners of the parent for 1Q21 was JPY3,507 million

(JPY1,116 million for 1Q20), up 214.1% YoY.

Glossary:

- *1 ICT: Information and Communication Technology (ICT) is a general term of technologies in relation to hardware, software, system and data communication used for information communication by computers.
- *2 Internet traffic: The quantity or flow of data transferred across the Internet.
- *3 Cloud computing: Cloud computing is the on-demand delivery of computer system functions and processing ability, software, data and etc. through the Internet.
- *4 IoT: Internet of Things (IoT) enables not only physical objects but also any “things” connected to network to exchange information automatically.
- *5 Network services for enterprises: Network services for enterprises is the general term for monthly recurring type network services such as Internet connectivity services for enterprises, outsourcing services and WAN services.
- *6 IP Services: Dedicated-type and full specification Internet connectivity services, mainly used by corporate users, which IJ provides.
- *7 Outsourcing services: Outsourcing services is the general term for services that we accept the outsourcing for operation and management of customer’s network, server and etc., such as security-related services, data center services, public cloud services and others, which IJ provides.
- *8 WAN services: WAN is an abbreviation of Wide Area Network. Wide Area Network services are services which connect computers that are geographically separated from each other, such as between head offices and branches, and exchange data using dedicated data communication lines or other network services.
- *9 GigaPlans: GigaPlans are IJ’s new consumer mobile service plans, which IJ started providing from April 1, 2021.

(ii) Analysis of Consolidated Results of Operations for the first three months of the 30th business term.

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

Operating Results Summary

	1Q20	1Q21	YoY Change
	JPY millions	JPY millions	%
Total revenues	50,379	52,975	5.2
Network services	30,934	31,475	1.7
Systems integration (SI)	18,875	20,807	10.2
ATM operation business	570	693	21.7
Total costs	(42,266)	(41,548)	(1.7)
Network services	(24,944)	(23,145)	(7.2)
Systems integration (SI)	(16,884)	(17,959)	6.4
ATM operation business	(438)	(444)	1.2
Total gross profit	8,113	11,427	40.8
Network services	5,990	8,330	39.1
Systems integration (SI)	1,991	2,848	43.0
ATM operation business	132	249	90.2
SG&A, R&D, and other operating income (expenses)	(6,066)	(7,067)	16.5
Operating profit	2,047	4,360	113.0
Profit before tax	1,694	5,350	215.8
Profit for the period attributable to owners of the parent	1,116	3,507	214.1

(Note) Systems integration revenue includes equipment sales revenue.

Segment Results Summary

	1Q20	1Q21
	JPY millions	JPY millions
Total revenues	50,379	52,975
Network services and SI business	49,858	52,316
ATM operation business	570	693
Elimination	(49)	(34)
Operating profit	2,047	4,360
Network service and SI business	1,991	4,189
ATM operation business	89	195
Elimination	(33)	(24)

i) Revenues

Total revenues were JPY52,975 million, up 5.2% YoY (JPY50,379 million for 1Q20).

Network services revenue was JPY31,475 million, up 1.7% YoY (JPY30,934 million for 1Q20).

Revenues for Internet connectivity services for enterprises were JPY9,410 million, down 4.1% YoY from JPY9,809 million for 1Q20, mainly due to decrease in IIJ Mobile MVNO Platform service, while revenues of IP services and Enterprise mobile services increased.

Revenues for Internet connectivity services for consumers were JPY6,108 million, down 5.4% YoY from JPY6,454 million for 1Q20, mainly due to reduction in unit price of our consumer mobile services.

Revenues for WAN services were JPY6,447 million, up 4.4% YoY from JPY6,175 million for 1Q20.

Revenues for Outsourcing services were JPY9,510 million, up 11.9% YoY from JPY8,496 million for 1Q20, mainly due to an increase in security-related services revenues.

Network Services Revenues Breakdown

	1Q20	1Q21	YoY Change
	JPY millions	JPY millions	%
Total network services	30,934	31,475	1.7
Internet connectivity services (enterprise)	9,809	9,410	(4.1)
IP services (including data center connectivity services)	2,881	3,275	13.7
IIJ Mobile services	6,047	5,189	(14.2)
Enterprise mobile service (IoT usages etc.)	1,673	2,344	40.1
IIJ Mobile MVNO Platform Service (MVNE)	4,374	2,845	(35.0)
Others	881	946	7.4
Internet connectivity services (consumer)	6,454	6,108	(5.4)
IIJmio Mobile Service	5,796	5,392	(7.0)
Others	658	716	8.7
WAN services	6,175	6,447	4.4
Outsourcing services	8,496	9,510	11.9

Number of Contracts and Subscription for Connectivity Services

	As of June 30, 2020	As of June 30, 2021	YoY Change
Internet connectivity services (enterprise)	2,135,482	2,299,032	163,550
IP service (greater than or equal to 1Gbps)	778	764	(14)
IP service (less than 1Gbps)	1,246	1,202	(44)
IIJ Mobile Services	2,046,836	2,205,759	158,923
Enterprise mobile service (IoT usages etc.)	922,819	1,163,312	240,493
IIJ Mobile MVNO Platform Service (MVNE)	1,124,017	1,042,447	(81,570)
Others	86,622	91,307	4,685
Internet connectivity services (consumer)	1,402,062	1,396,386	(5,676)
IIJmio Mobile Service	1,063,165	1,053,173	(9,992)
Others	338,897	343,213	4,316
Total contracted bandwidth (Gbps)	5,288.7	7,108.2	1,819.5

(Notes)

1. Numbers in the table above show number of contracts except for "IIJ Mobile Services (enterprise)" and "IIJmio Mobile Service" 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 JPY20,807 million, up 10.2% YoY (JPY18,875 million for 1Q20).

Systems construction and equipment sales, a one-time revenue, was JPY6,832 million, up 4.3% YoY (JPY6,550 million for 1Q20). Of this amount, revenue of PTC was JPY840 million.

Systems operation and maintenance revenue, a recurring revenue, was JPY13,974 million, up 13.4% YoY (JPY12,325 million for 1Q20), 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 JPY473 million.

Orders received for SI, including equipment sales, totaled JPY21,649 million, up 4.9% YoY (JPY20,643 million for 1Q20); orders received for systems construction and equipment sales were JPY8,737 million, up 30.5% YoY (JPY6,693 million for 1Q20), and orders received for systems operation and maintenance were JPY12,911 million, down 7.4% YoY (JPY13,949 million for 1Q20)

Order backlog for SI, including equipment sales, as of June 30, 2021 amounted to JPY67,496 million, up 17.1% YoY (JPY57,631 million as of June 30, 2020); order backlog for systems construction and equipment sales was JPY11,073 million, up 44.7% YoY (JPY7,650 million as of June 30, 2020) and order backlog for systems operation and maintenance was JPY56,424 million, up 12.9% YoY (JPY49,981 million as of June 30, 2020).

ATM operation business revenues were JPY693 million, up 21.7% YoY (JPY570 million for 1Q20).

ii) Cost of sales

Total cost of sales was JPY41,548 million, down 1.7% YoY (JPY42,266 million for 1Q20).

Cost of network services revenue was JPY23,145 million, down 7.2% YoY (JPY24,944 million for 1Q20), mainly due to a decrease in outsourcing costs. Gross profit was JPY8,330 million, up 39.1% YoY (JPY5,990 million for 1Q20), and gross profit ratio was 26.5% (19.4% for 1Q20).

Cost of SI revenues, including equipment sales was JPY17,959 million, up 6.4% YoY (JPY16,884 million for 1Q20), mainly due to increases in outsourcing and personnel costs. The amount included PTC's cost of JPY1,164 million. Gross profit was JPY2,848 million, up 43.0% YoY (JPY1,991 million for 1Q20) and gross profit ratio was 13.7% (10.5% for 1Q20).

Cost of ATM operation business revenues was JPY444 million, up 1.2% YoY (JPY438 million for 1Q20). Gross profit was JPY249 million (JPY132 million for 1Q20) and gross profit ratio was 36.0% (23.1% for 1Q20).

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

Selling, general and administrative expenses, including research and development expenses, totaled JPY7,083 million, up 17.1% YoY (JPY6,049 million for 1Q20), mainly due to increases in personnel-related expenses and advertising expenses. Of this amount, PTC's expenses was JPY96 million.

Other operating income was JPY52 million (JPY48 million for 1Q20).

Other operating expenses was JPY36 million (JPY65 million for 1Q20), mainly due to disposal loss on fixed assets.

iv) Operating profit

Operating profit was JPY4,360 million (JPY2,047 million for 1Q20), up 113.0% YoY.

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

Finance income was JPY1,361 million, compared to JPY80 million for 1Q20. It included gains on financial instruments, mainly related to funds, of JPY1,296 million (loss of JPY3 million for 1Q20).

Finance expense was JPY154 million, compared to JPY154 million for 1Q20. It included interest expenses of JPY137 million (JPY151 million for 1Q20).

Share of loss of investments accounted for using equity method was JPY217 million (compared to loss of JPY279 million for 1Q20), mainly due to loss of DeCurret Inc. of JPY296 million.

vi) Profit before tax

Profit before tax was JPY5,350 million (JPY1,694 million for 1Q20), up 215.8% YoY.

vii) Profit for the period

Income tax expense was JPY1,807 million (JPY572 million for 1Q20). As a result, profit for the period was JPY3,543 million (JPY1,122 million for 1Q20), up 215.8% YoY.

Profit for the period attributable to non-controlling interests was JPY36 million (JPY6 million for 1Q20), mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of parent was JPY3,507 million (JPY1,116 million for 1Q20), up 214.1% YoY.

(2) Financial Position

As of June 30, 2021, the balance of total assets was JPY217,263 million, decreased by JPY3,515 million from the balance as of March 31, 2021 of JPY220,777 million.

As of June 30, 2021, the balance of current assets was JPY84,717 million, decreased by JPY8,688 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 JPY7,636 million, mainly due to the acquisition of PTC, to JPY34,831 million, a decrease in trade receivables by JPY6,879 million to JPY27,920 million and an increase in prepaid expenses by JPY4,486 million, of which JPY1,162 million is related to the acquisition of PTC, to JPY15,084 million.

As of June 30, 2021, the balance of non-current assets was JPY132,546 million, increased by JPY5,173 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 JPY696 million to JPY17,780 million, mainly due to an expansion of Shiroi Data Center Campus. 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 JPY1,992 million to JPY48,715 million, mainly due to depreciation. Goodwill increased by JPY3,181 million to JPY9,264 million, due to the acquisition of PTC. Prepaid expenses increased by JPY1,131 million to JPY10,668 million, including an increase of JPY951 million related to the acquisition of PTC. The amount of other investments was JPY15,702 million, increased by JPY2,789 million mainly due to fluctuation of fair value of our holding marketable equity securities and funds.

As of June 30, 2021, the balance of current liabilities was JPY68,535 million, decreased by JPY4,724 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 decreased by JPY3,760 million to JPY15,484 million. Borrowings decreased by JPY1,855 million to JPY16,705 million, due to an increase of JPY1,480 million in short-term borrowings, an increase of JPY750 million due to a transfer from non-current liabilities and a decrease by JPY4,085 million from repayment of long-term borrowings. Income taxes payable decreased by JPY1,441 million to JPY1,571 million. Contract liabilities increased by JPY2,483 million to JPY9,585 million, including an increase of JPY1,336 million related to the acquisition of PTC. Other financial liabilities increased by JPY732 million to JPY18,611 million. Other current liabilities decreased by JPY873 million to JPY6,509 million.

As of June 30, 2021, the balance of non-current liabilities was JPY55,144 million, decreased by JPY1,402 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 JPY750 million to JPY6,250 million due to a transfer to current portion. Contract liabilities increased by JPY706 million to JPY7,951 million, of which JPY1,086 million was an increase related to the acquisition of PTC. Other financial liabilities decreased by JPY1,800 million to JPY33,848 million, mainly due to a transfer to current portion.

As of June 30, 2021, the balance of total equity attributable to owners of the parent was JPY92,580 million, increased by JPY2,624 million from the balance as of March 31, 2021 of JPY89,956 million. Ratio of owners' equity to total assets was 42.6% as of June 30, 2021.

(3) Cash Flows

Cash and cash equivalents as of June 30, 2021 were JPY34,831 million (JPY38,893 million as of June 30, 2020).

Cash Flows provided by Operating Activities

Net cash provided by operating activities for 1Q21 was JPY7,654 million (net cash provided by operating activities of JPY11,635 million for 1Q20). There was profit before tax of JPY5,350 million, depreciation and amortization of JPY6,606 million, including JPY2,500 million of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY3,334 million, compared to JPY2,177 million for 1Q20. Regarding changes in working capital, there was net cash out of JPY70 million compared to net cash in of JPY4,576 million for 1Q20. As for the major factors in comparison with 1Q20, 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 and other receivable and an increase in contract liabilities.

Cash Flows used in Investing Activities

Net cash used in investing activities for 1Q21 was JPY6,414 million (net cash used in investing activities of JPY4,592 million for 1Q20), mainly due to payments for purchases of tangible assets of JPY2,839 million (JPY1,407 million for 1Q20), payments for purchases of intangible assets, such as software, of JPY1,325 million (JPY1,805 million for 1Q20), 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 JPY584 million (JPY1,017 million for 1Q20).

Cash Flows used in Financing Activities

Net cash used in financing activities for 1Q21 was JPY8,875 million (net cash used in financing activities of JPY6,802 million for 1Q20), mainly due to payments of other financial liabilities of JPY4,463 million (JPY5,223 million for 1Q20), 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 JPY4,085 million (JPY915million for 1Q20), dividends paid of JPY1,759 million (JPY609 million for 1Q20) and net increase in short-term borrowings of JPY1,480 million.

(4) Management policy, management environment and issues to be addressed, etc.

There were no material changes or newly identified matters, relating to the management policy, management environment and issues to be addressed, etc., during 1Q21.

(5) Research and developments

For 1Q21, research and development expenses, which were in relation to network services and systems integration business segment, were JPY125 million, increased by 12.9% compared to JPY111 million for 1Q20.

(6) Number of employees

There were no material changes in the number of employees of the Company during 1Q21.

(i) Consolidated basis

As of June 30, 2021

Number of Employees	4,069 (48)
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(Note) The number of employees indicates the total number of full-time and contract workers. It does not include third-party employees working at the Group. The average number of part-time employees for the reporting period year is shown in brackets.

(ii) IJ (non-consolidated basis)

As of June 30, 2021

Number of Employees	2,329 (28)
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(Note) The number of employees indicates the total number of full-time and contract workers. It does not include third-party employees working at IJ. The average number of part-time employees for the reporting period is shown in brackets.

(7) Production, Orders Received and Sales

(i) Production

Production results for the three months ended June 30, 2021 were as follows :

Type of Services	Three months ended June 30, 2021	
	Production (thousands of yen)	Year over year comparison (%)
Systems Integration, including Equipment Sales	17,862,841	7.2
Total	17,862,841	7.2

(Notes)

1. Amounts do not include consumption taxes.
2. Percentages of year over year comparison indicate year over year rate of change.
3. Since the Company does not engage in production activities in network services and ATM operation business, we do not present production results for network services and ATM operation business.

(ii) Orders Received

Orders received for the three months ended June 30, 2010 and order backlog as of June 30, 2021 were as follows:

Type of Services	Three months ended June 30, 2021			
	Orders Received (thousands of yen)	Year over Year comparison (%)	Order Backlog (thousands of yen)	Year over Year comparison (%)
Systems Construction and Equipment Sales	8,737,376	30.5	11,072,897	44.7
Systems Operation and Maintenance	12,911,141	(7.4)	56,423,515	12.9
Total	21,648,517	4.9	67,496,412	17.1

(Notes)

1. Amounts do not include consumption taxes.
2. Percentages of year over year comparison indicate year over year rate of change.
3. Since the Company does not engage in make-to-order production in network services and ATM operation business, we do not present orders received and order backlog for network services and ATM operation business.

(iii) Sales

Quarterly consolidated revenues for the three months ended June 30, 2021 were as follows:

Type of services	Three months ended June 30, 2021	
	Revenue (thousands of yen)	Year over year comparison (%)
Network services	31,474,981	1.7
Internet connectivity services (enterprise)	9,410,432	(4.1)
Internet connectivity services (consumer)	6,107,784	(5.4)
WAN services	6,446,688	4.4
Outsourcing services	9,510,077	11.9
Systems integration	20,806,636	10.2
Systems construction and equipment sales	6,832,284	4.3
Systems operation and maintenance	13,974,352	13.4
ATM operation business	693,332	21.7
Total revenues	52,974,949	5.2

(Notes)

1. Amounts do not include consumption taxes.
2. Percentages of year over year comparison indicate year over year rate of change.

(8) Major property and equipment

There were no material changes in major property and equipment or in our plan in relation to property and equipment during the three months ended June 30, 2021.

3 Material Contracts, etc.

Not applicable.

Item 3. Information on IJ

1 Information on IJ's Shares

(1) Total Number of Shares

(i) 【Total Number of Shares】

Class	Total number of shares authorized to be issued (shares)
Common stock	151,040,000
Total	151,040,000

(ii) 【Number of shares issued】

Class	Number of shares issued as of the end of period (shares) (June 30, 2021)	Number of shares issued as of the filing date (shares) (August 16, 2021)	Stock exchange on which IJ is listed or authorized financial instruments firms association	Description
Common stock	93,502,400	93,534,800	Tokyo Stock Exchange (the first section)	The number of shares constituting a unit is 100.
Total	93,502,400	93,534,800	—	—

(2) Information on Stock Acquisition Rights

(i) Description of Stock Option System

Not applicable.

(ii) Other Stock Acquisition Rights

Not applicable.

(3) Information on Moving Strike Convertible Bonds

Not applicable.

(4) Changes in the Total Number of Issued Shares and Capital

Date	Changes in the total number of issued shares (shares)	Balance of the total number of issued shares (shares)	Changes in capital (thousands of yen)	Balance of capital (thousands of yen)	Changes in capital reserve (thousands of yen)	Balance of capital reserve (thousands of yen)
From April 1, 2021 to June 30, 2021	33,200	93,502,400	15,862	23,007,261	15,862	9,727,945

(Note) Increased by exercise of stock acquisition rights.

(5) Major Shareholders

Not applicable for the first quarter of the 30th business term.

(6) Information on Voting Rights

All details provided in this section “(6) Information of Voting Rights” are based on the register of shareholders as of March 31, 2021, the preceding reference date, as the register of shareholders as of June 30, 2021 cannot be confirmed.

(i) Issued shares

As of March 31, 2021

Classification	Number of Shares (shares)	Number of Voting Rights	Description
Shares without Voting Rights	—	—	—
Shares with Restricted Voting Rights (treasury stock, etc.)	—	—	—
Shares with Restricted Voting Rights (others)	—	—	—
Shares with Full Voting Rights (treasury stock, etc.)	Treasury Stock: 3,263,500 shares of common stock	—	—
Shares with Full Voting Rights (others)	90,181,900 shares of common stock	901,819	—
Shares Representing Less than One Unit	23,800 shares of common stock	—	—
Number of Issued Shares	93,469,200 shares of common stock	—	—
Total Number of Voting Rights	—	901,819	—

(ii) Treasury Stock

As of March 31, 2020

Name	Address	Number of shares held under own name (shares)	Number of shares held under the name of others (shares)	Total number of shares held (shares)	Ownership percentage of total number of shares outstanding (%)
(Treasury Stock) Internet Initiative Japan Inc.	2-10-2 Fujimi, Chiyoda-ku, Tokyo	3,263,500	—	3,263,500	3.49
Total	—	3,263,500	—	3,263,500	3.49

2 Changes in Directors and Company Auditors

There were no changes in directors and company auditors during the period from the filing date of the Annual Securities Report for the fiscal year ended March 31, 2021 (filed on June 30, 2021) to June 30, 2021 (the last day of 1Q21).

Item 4. Financial Information

1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Financial Position

	Note	March 31, 2021	June 30, 2021
		Thousands of yen	Thousands of yen
Assets			
Current Assets			
Cash and cash equivalents		42,466,933	34,831,385
Trade receivables		34,799,075	27,919,905
Inventories		2,171,046	2,357,113
Prepaid expenses		10,598,441	15,084,098
Contract assets		1,281,918	1,780,186
Other financial assets	7,12	1,975,910	2,503,951
Other current assets		111,334	240,343
Total Current Assets		93,404,657	84,716,981
Non-current Assets			
Tangible assets		17,084,401	17,780,389
Right-of-use Assets		50,707,726	48,715,478
Goodwill		6,082,472	9,263,655
Intangible assets		16,954,274	16,767,426
Investments accounted for using the equity method		9,026,980	8,733,682
Prepaid expenses		9,537,160	10,668,161
Contract assets		46,638	75,171
Other investments	12	12,912,483	15,701,659
Deferred tax assets		143,337	202,258
Other financial assets	7,12	4,442,704	4,184,997
Other non-current assets		434,437	452,794
Total non-current assets		127,372,612	132,545,670
Total assets		220,777,269	217,262,651

	Note	March 31, 2021	June 30, 2021
		Thousands of yen	Thousands of yen
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		19,243,800	15,483,814
Borrowings	12	18,560,000	16,705,000
Income taxes payable		3,012,415	1,570,924
Contract liabilities		7,101,821	9,584,999
Deferred income		79,914	70,577
Other financial liabilities	8,12	17,879,331	18,611,045
Other current liabilities		7,381,746	6,508,589
Total current liabilities		73,259,027	68,534,948
Non-current liabilities			
Borrowings	12	7,000,000	6,250,000
Retirement benefit liabilities		4,168,575	4,267,159
Provisions		756,405	757,130
Contract liabilities		7,244,411	7,950,543
Deferred income		405,579	388,895
Deferred tax liabilities		225,469	605,854
Other financial liabilities	8,12	35,647,899	33,847,982
Other non-current liabilities		1,098,253	1,076,761
Total non-current liabilities		56,546,591	55,144,324
Total liabilities		129,805,618	123,679,272
Equity			
Share capital		25,530,621	25,546,483
Share premium		36,388,811	36,383,275
Retained earnings		25,046,813	26,794,675
Other components of equity		4,865,110	5,706,876
Treasury shares		(1,874,976)	(1,850,924)
Total equity attributable to owners of the parent		89,956,379	92,580,385
Non-controlling interests		1,015,272	1,002,994
Total equity		90,971,651	93,583,379
Total liabilities and equity		220,777,269	217,262,651

Condensed Consolidated Statements of Profit or Loss

	Note	Three Months Ended June 30, 2020	Three Months Ended June 30, 2021
		Thousands of yen	Thousands of yen
Revenues			
Network services		30,933,934	31,474,981
System integration		18,874,960	20,806,636
ATM operation business		569,611	693,332
Total revenues	5,10	50,378,505	52,974,949
Cost of sales			
Cost of network services		(24,943,344)	(23,144,645)
Cost of systems integration		(16,883,807)	(17,959,887)
Cost of ATM operation business		(438,297)	(443,541)
Total cost of sales		(42,265,448)	(41,548,073)
Gross Profit		8,113,057	11,426,876
Selling, general and administrative expense		(6,048,848)	(7,082,989)
Other operating income		48,167	52,114
Other operating expenses		(65,147)	(36,190)
Operating Profit		2,047,229	4,359,811
Finance income	12	79,776	1,361,809
Finance expenses	12	(153,867)	(154,108)
Share of profit (loss) of investments accounted for using equity method		(278,907)	(217,110)
Profit (loss) before tax		1,694,231	5,350,402
Income tax expense		(572,192)	(1,807,257)
Profit (loss) for the period		1,122,039	3,543,145
Profit (loss) for the period attributable to:			
Owners of the parent		1,116,313	3,506,873
Non-controlling interests		5,726	36,272
Total		1,122,039	3,543,145
Earnings per share			
Earnings per share	11		
Basic earnings per share (yen)		12.38	38.86
Diluted earnings per share (yen)		12.32	38.67

Condensed Consolidated Statements of Comprehensive Income

	Note	Three Months Ended June 30, 2020	Three Months Ended June 30, 2021
		Thousands of yen	Thousands of yen
Profit (loss)		1,122,039	3,543,145
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		1,195,836	834,198
Total items that will not be reclassified to profit or loss		1,195,836	834,198
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(25,465)	(5,950)
Financial assets measured at fair value through other comprehensive income		137	281
Share of other comprehensive income of investments accounted for using equity method		(31,394)	13,237
Total of items that may be reclassified to profit or loss		(56,722)	7,568
Total other comprehensive income, net of tax		1,139,114	841,766
Other comprehensive income		2,261,153	4,384,911
Other comprehensive income attributable to:			
Owners of the parent		2,255,427	4,348,639
Non-controlling interest		5,726	36,272
Other comprehensive income		2,261,153	4,384,911

Condensed Consolidated Statements of Changes in Shareholders' Equity
Three months ended June 30, 2020

Note	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, March 31, 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)	-	-	1,116,313	-	-	1,116,313	5,726	1,122,039
Other comprehensive income	-	-	-	1,139,114	-	1,139,114	-	1,139,114
Total comprehensive income	-	-	1,116,313	1,139,114	-	2,255,427	5,726	2,261,153
Transactions with owners								
Dividends paid	9	-	(608,629)	-	-	(608,629)	(55,832)	(664,461)
Stock-based compensation	-	14,450	-	-	-	14,450	-	14,450
Transfer from other components of equity to retained earnings	-	-	251,849	(251,849)	-	-	-	-
Total transactions with owners	-	14,450	(356,780)	(251,849)	-	(594,179)	(55,832)	(650,011)
Balance, June 30, 2020	25,530,621	36,285,845	17,260,526	3,556,766	(1,896,921)	80,736,837	931,422	81,668,259

Three months ended June 30, 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, March 31, 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)	-	-	3,506,873	-	-	3,506,873	36,272	3,543,145
Other comprehensive income	-	-	-	841,766	-	841,766	-	841,766
Total comprehensive income	-	-	3,506,873	841,766	-	4,348,639	36,272	4,384,911
Transactions with owners								
Issuance of common stock	15,862	(15,829)	-	-	-	33	-	33
Disposal of treasury shares	-	(6,436)	-	-	24,052	17,616	-	17,616
Dividends paid	9	-	(1,759,011)	-	-	(1,759,011)	(48,550)	(1,807,561)
Stock-based compensation	-	16,729	-	-	-	16,729	-	16,729
Total transactions with owners	15,862	(5,536)	(1,759,011)	-	24,052	(1,724,633)	(48,550)	(1,773,183)
Balance, June 30, 2021	25,546,483	36,383,275	26,794,675	5,706,876	(1,850,924)	92,580,385	1,002,994	93,583,379

Condensed Consolidated Statements of Cash Flows

Note	Three Months Ended June 30, 2020	Three Months Ended June 30, 2021
	Thousands of yen	Thousands of yen
Cash flows from operating activities:		
Profit (loss) before tax	1,694,231	5,350,402
Adjustments		
Depreciation and amortization	7,095,188	6,605,997
Loss on sales of property and equipment	48,047	29,912
Shares of loss (profit) of investments accounted for using the equity method	278,907	217,110
Finance income	(69,788)	(1,326,192)
Finance expenses	162,138	142,278
Other	19,621	25,411
Changes in working capital		
Decrease (increase) in trade receivables	4,090,221	8,034,205
Decrease (increase) in inventories	345,075	(186,786)
Decrease (increase) in prepaid expenses	(3,124,377)	(3,364,746)
Decrease (increase) in contract assets	(305,046)	(526,801)
Decrease (increase) in other assets	(132,247)	(29,964)
Decrease (increase) in other financial assets	880,031	(351,983)
Increase (decrease) in trade and other payables	(1,288,730)	(3,774,483)
Increase (decrease) in contract liabilities	3,646,014	578,433
Increase (decrease) in deferred income	(20,751)	(2,764)
Increase (decrease) in other liabilities	(455,904)	(1,646,725)
Increase (decrease) in other financial liabilities	867,424	1,103,038
Increase (decrease) in retirement benefit liabilities	74,088	98,584
Sub total	13,804,142	10,974,926
Interest and dividends received	153,699	150,016
Interest paid	(145,288)	(136,847)
Income taxes paid	(2,177,486)	(3,334,453)
Cash flows from operating activities	11,635,067	7,653,642

	Note	Three Months Ended June 30, 2020	Three Months Ended June 30, 2021
		Thousands of yen	Thousands of yen
Cash flows from investing activities			
Purchases of tangible assets		(1,407,413)	(2,838,570)
Proceeds from sales of tangible assets		1,016,997	584,142
Purchases of intangible assets		(1,804,916)	(1,325,053)
Purchase of a subsidiary		-	(2,612,008)
Purchase of investments accounted for using equity method		(2,754,000)	-
Purchases of other investments		(22,500)	(345,680)
Proceeds from sales of other investments		392,353	35,371
Payments for leasehold deposits and guarantee deposits		(2,410)	(11,260)
Proceeds from collection of leasehold deposits and guarantee deposits		3,492	117,674
Payments for refundable insurance policies		(14,085)	(18,724)
Other		-	43
Cash flows from investing activities		(4,592,482)	(6,414,065)
Cash flows from financing activities			
Repayment of long-term borrowings		(915,000)	(4,085,000)
Net increase (decrease) in short-term borrowings		-	1,480,000
Payments of other financial liabilities		(5,222,579)	(4,462,858)
Dividends paid		(608,629)	(1,759,011)
Other		(55,832)	(48,516)
Cash flows from financing activities		(6,802,040)	(8,875,385)
Effect of exchange rate changes on cash and cash equivalents		(19,706)	260
Net increase (decrease) in cash and cash equivalents		220,839	(7,635,548)
Cash and cash equivalents, beginning of the period		38,671,734	42,466,933
Cash and cash equivalents at end of the period		38,892,573	34,831,385

Notes to Condensed Consolidated Financial Statements

1. REPORTING ENTITY

Internet Initiative Japan Inc. (“IIJ”) is a company incorporated in Japan. The registered addresses of its headquarters and primary business offices are disclosed on IIJ’s website—URL <https://www.ij.ad.jp/en/>—. The condensed consolidated financial statements of IIJ for the three months ended June 30, 2021 comprise the financial statements of IIJ and its subsidiaries (collectively “the Company”), and the interests in associated companies.

The details of principal businesses and activities of the Company are stated in Note 5. SEGMENTS.

2. BASIS OF PREPARATION

(1) Compliance with IFRS

The consolidated financial statements of the Company have been prepared in accordance with IFRS pursuant to the provision of Article 93 of Regulations for Consolidated Financial Statements, as the Company meets the criteria of a “Designated IFRS Specified Company” defined under Article 1-2 of the regulations.

The condensed interim consolidated financial statements, which do not contain all the information required in annual consolidated financial statements, should be read in conjunction with the annual consolidated financial statements for the previous fiscal year ended March 31, 2021.

(2) Basis of Measurement

The Company’s consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value.

(3) Functional Currency and Presentation Currency

The Company’s consolidated financial statements are presented in Japanese yen, which is also IIJ’s functional currency, and figures are rounded to the nearest thousand yen.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied to the condensed consolidated financial statements for the three months ended June 30, 2021 are the same as those applied to the consolidated financial statements for the fiscal year ended March 31, 2021. Meanwhile, income taxes for the three months ended June 30, 2021 are calculated based on the estimated annual effective tax rate.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS INVOLVING ESTIMATES

The Company’s condensed consolidated financial statements includes management’s estimates and assumptions, which should affect the measurements of revenues and expenses, assets and liabilities and the disclosure of contingent assets and liabilities at the end of the reporting period.

The estimates and assumptions are based on the best judgement by management considering factors deemed to be reasonable as of the end date of the reporting period according to factors regarding available past and present information, etc. However, amounts based on the estimates and assumptions may, due to the nature, differ from actual results.

Estimates and assumptions on which estimates are based are reviewed on an ongoing basis. The effects arising from revision of estimates are recognized during the period when the estimates are revised and in future periods.

Estimates and judgements with significant effects on the condensed consolidated financial statements for the three months ended June 30, 2021 including the effects of COVID-19 are same as those on the consolidated financial statements for the year ended March 31, 2021.

5. SEGMENTS

(1) Overview of reportable segments

The reportable segments of the Company are defined as the Company's constituent units for which separated financial information is available and which are regularly reviewed by the representative director, president and COO of IJJ, who is the chief decision-maker regarding business operations in order to determine the allocation of resources and evaluate performance. The representative director, president and COO of IJJ evaluates the performance of each segment, with operating revenue and operating income as the primary indicator.

The Company defined two reportable segments: "Network service and systems integration business" and "ATM operation business." Network service and systems integration business is provided comprehensively with Network services, which is composed of Internet connectivity services, WAN services, outsourcing services, and systems integration service. ATM operation business constructs and operates ATMs and network systems for them, and receives a commission for each bank withdrawal transaction when a customer uses its serviced ATMs.

(2) Revenue and results of reportable segments

Segment information for the Company is as follows:

For the three months ended June 30, 2020

	Reportable segments		Adjustments	Condensed quarterly consolidated statements of profit or loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	49,808,894	569,611	—	50,378,505
Intersegment transactions	48,949	—	(48,949)	—
Total revenue	49,857,843	569,611	(48,949)	50,378,505
Segment operating profit	1,990,537	88,603	(31,911)	2,047,229
Finance income				79,776
Finance expense				(153,867)
Share of profit (loss) of investments accounted for using the equity method				(278,907)
Profit before tax				1,694,231

(Note) Intersegment transactions are based on market price. Operating income is used as segment operating profit.

For the three months ended June 30, 2021

	Reportable segments		Adjustments	Condensed quarterly consolidated statements of profit or loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	52,281,617	693,332	—	52,974,949
Intersegment transactions	34,186	—	(34,186)	—
Total revenue	<u>52,315,803</u>	<u>693,332</u>	<u>(34,186)</u>	<u>52,974,949</u>
Segment operating profit	<u>4,189,092</u>	<u>194,664</u>	<u>(23,945)</u>	<u>4,359,811</u>
Finance income				1,361,809
Finance expense				(154,108)
Share of profit (loss) of investments accounted for using the equity method				(217,110)
Profit before tax				<u>5,350,402</u>

(Note) Intersegment transactions are based on market price. Operating income is used as segment operating profit.

6. BUSINESS MERGERS AND ACQUISITIONS

(PTC SYSTEM(S) PTE LTD ("PTC"))

IJJ acquired all the shares of PTC, which mainly operates systems integration business in Singapore, on April 1, 2021.

(1) Outline of the business mergers and acquisitions

(i) Name of the acquired company and nature of its businesses

- | | | |
|-----|------------------------------|------------------------|
| i) | Name of the acquired company | PTC SYSTEM (S) PTE LTD |
| ii) | Nature of its businesses | Systems integration |

(ii) Date of acquisition

April 1, 2021

(iii) Percentage of voting rights to be acquired

100%

(iv) Acquisition method

Acquisition of shares by cash

(v) Primary reason for the business combination

PTC has strong relationships with blue-chip customers and leading IT partners and provides high quality solutions such as storage and server-related system integration in Singapore. By acquiring all the shares of PTC to be a wholly owned subsidiary, IJJ expects to strengthen its Singapore business which leads the IT field in the ASEAN region and significantly expand its business and strengthen its capabilities in providing services and solutions in the ASEAN region.

(2) Consideration for acquisition

Cash SGD44 million (¥3,631,760 thousand)

(3) Cost related to acquisition

As the cost related to the business mergers and acquisitions of the company, selling and general administrative expenses of ¥8,454 thousand were recorded.

(4) Recognized fair value of acquired assets and liabilities succeeded on the date of the business mergers and acquisitions

(Unit: Thousands of yen)

Consideration for acquisition	
Cash	3,631,760
Assets acquired and liabilities assumed	
Cash and cash equivalents	1,019,752
Trade receivables (Note 1)	1,161,778
Prepaid expenses	2,260,605
Tangible assets	1,878
Right-of-use assets	52,759
Intangible assets	104,164
Other assets	291,412
Trade payables	(944,439)
Contract liabilities	(2,614,917)
Other liabilities	(896,352)
Total	436,640
Goodwill (Provisional) (Note 2,3)	3,195,120

Notes

1. Within the acquired trade receivables, there is no contractual cashflow which is estimated to be nonrecoverable.
2. Goodwill mainly contains of synergies with existing businesses which are expected to arise from the acquisition and excess earnings strength. There is no amount which is expected to be deducted for tax purpose.

3. Since the fair value of the identifiable assets and liabilities on the date of the business mergers and acquisitions has not been calculated and the acquisition costs have not been allocated, goodwill has been provisionally calculated based on reasonable information available as of June 30, 2021.

(5) Cash flow for business merger and acquisitions

(Unit: Thousands of yen)

	Amount
Consideration for acquisition by cash	(3,631,760)
Remaining value of cash and cash equivalent acquired through business merger and acquisitions	1,019,752
Cash use for acquisition of subsidiaries	(2,612,008)

(6) Impact on performance

The consolidated statement of income and loss for the three months ended June 30, 2021 includes revenues and net income generated by PTC after the acquisition date of ¥1,313,487 thousand and ¥47,975 thousand, respectively.

7. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

	March 31, 2021	June 30, 2021
	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost		
Other receivable	797,100	1,363,501
Guarantee deposit	3,579,838	3,484,078
Loans receivable	43,429	42,840
Other	83,729	176,996
Lease receivable	1,914,518	1,621,533
Total	<u>6,418,614</u>	<u>6,688,948</u>
Current assets	1,975,910	2,503,951
Non-current assets	4,442,704	4,184,997
Total	<u>6,418,614</u>	<u>6,688,948</u>

8. OTHER FINANCIAL LIABILITIES

The components of other financial liabilities are as follows:

	<u>March 31, 2021</u>	<u>June 30, 2021</u>
	Thousands of yen	Thousands of yen
Financial liabilities measured at amortized cost		
Account payable—non-current (including current portion)	638,161	596,871
Deposit payable	212,225	1,315,768
Others	16,061	15,754
Lease obligations	<u>52,660,783</u>	<u>50,530,634</u>
Total	<u>53,527,230</u>	<u>52,459,027</u>
Current liabilities	17,879,331	18,611,045
Non-current liabilities	<u>35,647,899</u>	<u>33,847,982</u>
Total	<u>53,527,230</u>	<u>52,459,027</u>

(Note) The Company classified lease arrangements as financial leases when the lessor transfers substantially all the risks and rewards incidental to ownership of an asset to the Company. In this case, the breakdown of lease obligations are as follows:

	<u>March 31, 2021</u>	<u>June 30, 2021</u>
	Thousands of yen	Thousands of yen
Financial leases	18,229,120	17,735,512
Other leases	34,431,663	32,795,122

9. DIVIDENDS PAID

Cash dividends paid are as follows:

For the three months ended June 30, 2020

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 24, 2020 Ordinary General Meeting of Shareholders	608,629	13.50	March 31, 2020	June 25, 2020

(Note) In accordance with a resolution authorized at a meeting of board of directors on November 9, 2020, IIJ conducted a two-for-one stock split of its common stock, with an effective date of January 1, 2021. The dividends per share is before the stock split.

For the three months ended June 30, 2021

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 29, 2021 Ordinary General Meeting of Shareholders	1,759,011	19.50	March 31, 2021	June 30, 2021

10. REVENUE

The Company classifies the revenues into “Network services,” “Systems integration” and “ATM operation” and breaks them down according to the contents of each services. The components of revenues recognized in the contracts with customers are as follows. The revenue provided to the customers based on the lease contract is included below due to the immateriality.

	For the three months ended June 30, 2020	For the three months ended June 30, 2021
	Thousands of yen	Thousands of yen
Network services	30,933,934	31,474,981
Internet connectivity services (enterprise)	9,808,656	9,410,432
Wan services	6,174,790	6,446,688
Outsourcing services	8,496,645	9,510,077
Internet connectivity services (consumer)	6,453,843	6,107,784
Systems integration	18,874,960	20,806,636
Systems construction	6,549,706	6,832,284
Systems operation and maintenance	12,325,254	13,974,352
ATM operation business	569,611	693,332
Total	50,378,505	52,974,949

On the reportable segment, Network services and Systems integration are included in “Network service and Systems integration service” and ATM operation business is included in “ATM operation business.”

Revenues by reportable segment is stated in Note 5. SEGMENT.

11. EARNINGS PER SHARE

Basic earnings per share attributable to owners of the parent and diluted earnings per share attributable to owners of the parent for the three-month periods ended June 30, 2020 and 2021 were as follows:

	For the three months ended June 30, 2020	For the three months ended June 30, 2021
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	1,116,313	3,506,873
Earnings adjustment (thousands of yen)	—	—
Earnings used to calculate earnings per share — diluted (thousands of yen)	1,116,313	3,506,873
Denominator :		
Weighted average number of shares — basic (shares)	90,167,300	90,244,770
Dilution arising from stock options (shares)	434,360	445,577
Weighted average number of shares — diluted (shares)	90,601,660	90,690,347
Earnings per share attributable to owners of the parent		
Basic (yen)	12.38	38.86
Diluted (yen)	12.32	38.67

Stock split

In accordance with a resolution authorized at a meeting of board of directors on November 9, 2020, IJ conducted a two-for-one stock split of its common stock, with an effective date of January 1, 2021.

In connection with the stock split, the information per share for the three months ended June 30, 2020 presented in the consolidated financial statements is shown after adjusting for the stock split.

12. FINANCIAL INSTRUMENTS

Fair value of financial instruments

(1) Classification of fair value hierarchy by level

IFRS regulates the three levels of fair value hierarchy and inputs used for the fair value measurement are prioritized according to the observable availability. The contents of each inputs are as follows:

- Level 1: quoted prices in active markets
- Level 2: inputs other than quoted prices included in Level 1 that are observable either directly or indirectly
- Level 3: unobservable inputs

(2) Financial instruments measured at fair value

Measurement methods for major financial instruments measured at fair value are as follows:

Equity securities

Fair values of marketable financial instruments are evaluated at quoted market prices and these instruments are classified as Level 1. If market prices do not exist, the Company evaluates fair value by using equity interest in net asset which is added appropriated adjustments based on recent available information, and these financial assets are classified as Level 3.

Debt securities

Financial instruments which do not have quoted market price, assets measured using observable market data are classified as Level 2.

Investment trust and other securities

Financial instruments which do not have observable market data, the Company evaluates fair value by using equity interest in net asset which is added appropriated adjustments based on recent available information, and these financial assets are classified as Level 3.

The following table presents the Company's assets that are measured at fair value consistent with the fair value hierarchy.

March 31, 2021

	Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets :				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	110,840	—	110,840
Equity-based financial assets measured at FVTOCI				
Equity securities	8,310,034	—	1,470,026	9,780,060
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	2,941,240	2,941,240
Other financial assets	—	80,343	—	80,343

June 30, 2021

	Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets :				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	111,250	—	111,250
Equity-based financial assets measured at FVTOCI				
Equity securities	9,420,100	—	1,677,935	11,098,035
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	4,408,435	4,408,435
Other financial assets	—	83,939	—	83,939

Financial instruments classified as Level 3 are mainly composed of non-marketable securities and investment trusts. The valuations of these financial instruments are measured using valuation method with appropriate adjustment to our equity in net assets. The result of the valuations are reviewed and authorized by the appropriate authorized person.

For financial instruments classified as Level 3, significant changes in fair value are not expected if the Company changes the unobservable input to an alternative assumption that can reasonably be considered.

The existence or non-existence of the important transfer between the levels of fair value hierarchy are recognized, assuming that the transfers occurred at the end of each reporting periods.

(3) Changes in financial assets classified as Level 3

Changes in financial assets classified as Level 3 during the three-month periods ended June 30, 2020 and 2021 were as follows:

	For the three months ended June 30, 2020	For the three months ended June 30, 2021
	Thousands of yen	Thousands of yen
Equity securities		
Balance at the beginning of the period	1,488,361	1,470,026
Other comprehensive income (Note 1)	(39,785)	107,909
Sale	—	100,000
Balance at the end of period	1,448,576	1,677,935
Investment trust and other securities		
Balance at the beginning of the period	2,348,265	2,941,240
Profit or loss (Note 2)	(9,699)	1,256,886
Purchase	22,500	245,680
Sale	—	(35,371)
Balance at the end of period	2,361,066	4,408,435

(Note 1) Gain or loss included in other comprehensive income is related to financial assets that are measured at FVTOCI. This gain or loss is included in “Changes in fair value of financial assets measured at FVTOCI.”

(Note 2) Gain or loss included in profit or loss are related to financial assets that are measured at FVTPL as of the end of each reporting period. This gain or loss is included in finance income or finance expenses. Gain or loss included in profit or loss are due to changes in unrealized gain or loss on financial assets held at the end of each reporting period.

(4) Financial instruments not measured at fair value

Primary methods of measuring financial instruments not measured at fair value are as follows:

(i) Long-term borrowings

Fair values of long-term borrowings are calculated by present value discounted by the expected rates if the Company made borrowings on equal terms for the remaining period.

Since financial assets and financial liabilities classified as current items are settled in a short period of time, the carrying amount is a reasonable approximation of fair value. Regarding non-current items, the fair value of financial assets and financial liabilities other than above is close to their carrying amount.

The following tables present the Company's financial instruments not measured at fair value consistent with the fair value hierarchy.

March 31, 2021

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
		Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Liabilities :					
Long-term borrowings (including current portion)	12,170,000	-	12,195,051	-	12,195,051

June 30, 2021

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
		Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Liabilities :					
Long-term borrowings (including current portion)	8,085,000	-	8,107,823	-	8,107,823

13. CONTINGENT LIABILITIES

The Company is involved in litigation and claims arising in the ordinary course of business. In evaluating matters on an ongoing basis, the Company takes into account estimated amounts accrued on the consolidated balance sheet. The Company believes that exposure to loss does not exist in excess of the amount accrued and the negative adverse outcome of such litigation and claims would not have a significant impact on the consolidated financial position or results of operations. On September 1, 2010, IJJ-Global entered into a Solutions Engagement Agreement with IBM Japan Ltd., IJJ-Global's largest sales partner. This agreement, which establishes the basis for a procurement relationship between IJJ-Global and IBM Japan, contains indemnification for IJJ-Global to perform services, functions, responsibilities and others that were being performed by AT&T Japan. This agreement renews automatically every year. IJJ-Global had no obligation for the indemnification as of June 30, 2021.

14. SUBSEQUENT EVENTS

There are no applicable items.

15. AUTHORIZATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized by Eijiro Katsu, Representative Director and President, and Akihisa Watai, Senior Managing Director, CFO on August 16, 2021.

2. Other Information

Not applicable.

PART 2 Information about Guarantors of the Company

Not applicable.

[English Translation of Independent Auditor's Report on Review of Condensed Quarterly Consolidated Financial Statements Originally Issued in Japanese Language]

Independent Auditor's Report on Review of Condensed Quarterly Consolidated Financial Statements

August 16, 2021

To the Board of Directors of Internet Initiative Japan Inc.

KPMG AZSA LLC
Tokyo Office, Japan
Hidetoshi Fukuda (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Yusuke Matsumoto (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Conclusion

We have reviewed the accompanying condensed quarterly consolidated financial statements of Internet Initiative Japan Inc. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") provided in the "Financial Information" section in the Company's Quarterly Securities Report, which comprise the condensed quarterly consolidated statement of financial position as at June 30, 2021, the condensed quarterly consolidated statement of profit or loss, the condensed quarterly consolidated statement of comprehensive income, the condensed quarterly consolidated statement of changes in equity, the condensed quarterly consolidated statement of cash flows for the three-month period then ended, and notes to the condensed quarterly consolidated financial statements, in accordance with Article 193-2(1) of the the Financial Instruments and Exchange Act of Japan.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed quarterly consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at June 30, 2021, and its financial performance and cash flows for the three-month period then ended, in accordance with IAS 34 "Interim Financial Reporting" pursuant to the Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements.

Basis for Conclusion

We conducted our review in accordance with quarterly review standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Review of the Condensed Quarterly Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our review of the condensed quarterly consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide

a basis for our conclusion.

Responsibilities of Management, Corporate Auditors and the Board of Corporate Auditors for the Condensed Quarterly Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the condensed quarterly consolidated financial statements in accordance with IAS 34 “Interim Financial Reporting”, and for such internal control as management determines is necessary to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed quarterly consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with paragraph 4 of IAS 1 “Presentation of Financial Statements” and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors’ performance of their duties including the design, implementation and maintenance of the Group’s financial reporting process.

Auditor’s Responsibilities for the Review of the Condensed Quarterly Consolidated Financial Statements

Our responsibility is to express a conclusion on these condensed quarterly consolidated financial statements based on our review in our report on review of condensed quarterly consolidated financial statements. As part of our review in accordance with quarterly review standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the review. We also:

- Make inquiries, primarily of management and persons responsible for financial and accounting matters, and apply analytical and other review procedures. A quarterly review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.
- Conclude, based on the evidence obtained, whether nothing has come to our attention that causes us to believe that the condensed quarterly consolidated financial statements do not present fairly in accordance with paragraph 4 of IAS 1 “Presentation of Financial Statements”, if a material uncertainty relating to events or conditions comes to our attention that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report on review of condensed quarterly consolidated financial statements to the related disclosures in the condensed quarterly consolidated financial statements or, if such disclosures are inadequate, to express a qualified conclusion or an adverse conclusion. Our conclusions are based on the evidence obtained up to the date of our report on review of condensed quarterly consolidated financial statements. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether nothing has come to our attention that causes us to believe that the presentation and disclosures in the condensed quarterly consolidated financial statements are not in accordance with IAS 34 “Interim Financial Reporting”, the overall presentation, structure and content of the condensed quarterly consolidated financial statements, including the disclosures, and whether nothing has come to our attention that causes us to believe that the condensed quarterly consolidated financial statements do not represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate evidence regarding the financial information of the entities or business

activities within the Group to express a conclusion on the condensed quarterly consolidated financial statements. We are responsible for the direction, supervision and performance of the group review. We remain solely responsible for our review conclusion.

We communicate with corporate auditors and the board of corporate auditors regarding, the planned scope and timing of the review, significant review findings that we identify during our review.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Reader of Independent Auditor's Report on Review of Condensed Quarterly Consolidated Financial Statements:

The Independent Auditor's Report on Review of Condensed Quarterly Consolidated Financial Statements herein is the English translation of the Independent Auditor's Report on Review of Condensed Quarterly Consolidated Financial Statements as required by the Financial Instruments and Exchange Act of Japan.