

(TRANSLATION)

Quarterly Securities Report

(The First Quarter of the 31st Business Term)
From April 1, 2022 to June 30, 2022

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.

TABLE OF CONTENTS

Quarterly Securities Report (Translation)	
【COVER】	1
PART 1 Information on the Company	2
Item 1. Overview of the Company	2
1 Selected Financial Data	2
2 Description of Business	2
Item 2. Business Overview	3
1 Risk Factors	3
2 Management’s Analysis of Consolidated Financial Position, Results of Operations and Cash Flows	3
3 Material Contracts, etc.	11
Item 3. Information on IIJ	12
1 Information on IIJ’s Shares	12
2 Changes in Directors and Company Auditors	13
Item 4. Financial Information	14
PART 2 Information about Guarantors of the Company	34
Independent Auditor’s Report on Review of Condensed Quarterly Consolidated Financial Statements (Translation)	35

【Cover】

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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, 2021	Three months ended June 30, 2022	30th business term ended March 31, 2022
Revenues (millions of yen)	52,975	58,190	226,335
Operating profit (millions of yen)	4,360	5,026	23,547
Profit before tax (millions of yen)	5,350	6,623	24,162
Profit attributable to owners of the parent (millions of yen)	3,507	4,391	15,672
Comprehensive income, attributable to owners of the parent (millions of yen)	4,349	4,156	17,223
Comprehensive income (millions of yen)	4,385	4,252	17,352
Equity attributable to owners of the parent (millions of yen)	92,580	105,480	103,528
Total assets (millions of yen)	217,263	225,730	231,805
Basic earnings per share (yen)	38.86	48.62	173.56
Diluted earnings per share (yen)	38.67	48.38	172.74
Ratio of owners' equity to gross assets (%)	42.6	46.7	44.7
Cash flows from operating activities (millions of yen)	7,654	4,855	43,573
Cash flows from investing activities (millions of yen)	(6,414)	(2,366)	(11,838)
Cash flows from financing activities (millions of yen)	(8,875)	(7,875)	(27,296)
Cash and cash equivalents, at the end of period (millions of yen)	34,831	42,557	47,391

(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. 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”).
3. 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 and the first quarter of the previous consolidated fiscal year are also presented in millions of yen.

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 31st business term (“1Q22”).

There were no material changes with respect to the associated companies during the 1Q22.

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, 2022.

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 15, 2022.

(1) Analysis of Results of Operations

(i) Overview of consolidated business results for 1Q22

The Japanese economy showed signs of recovery during the first quarter of the fiscal year ending March 31, 2023 (1Q22) along with the normalization of economic activities. With regard to future prospects, while the economic recovery is expected to continue supported by the effect of various policies, we must pay close attention to the impacts of the spread of the COVID-19 pandemic, fluctuations in interest rates and foreign exchange, a rise in raw material prices, and others.

Under such an economic trend, in the ICT (*1) related market where we belong to, we expect demands for adopting safe and secure network systems from enterprises to steadily increase as we have seen the continuous growth of Internet traffic (*2) supported by the increased IT service adoption among private and public sector, the growing importance of security-related services as countermeasures against threats on Internet, the widespread of Cloud computing (*3) related services, and the progress of practical application of IoT (*4) that comprehensively uses these services.

Our business overview for 1Q22 progressed as planned. Network service revenues excluding mobile-related services (*5) were up 9.4% year over year (YoY). In addition to a continued accumulation of IP services (*6), security-related services and WAN services (*7), there has been an increase in projects such as network renewal that comprehensively adopt these services. We continued to expand our service lineup by launching a new Cloud connectivity service "IIJ Private Backbone Service/Smart HUB (*8)" which responds to growing Cloud connection traffics triggered by Multi-Cloud (*9). As for mobile-related services, IoT related mobile services for enterprises, both subscription and revenue increased primarily due to continuous acquisition of IoT related projects. As for IIJmio Mobile Service for consumers, revenues slightly decreased compared to the first quarter of the fiscal year ended March 31, 2022 (1Q21) mainly due to a decrease in average revenue per user along with continued migration of former plan's customers to "GigaPlans (*10)," which was launched at the beginning of the previous fiscal year, although the acquisition pace of "Giga Plans" rose because of changes in competitive environment, which led to the number of subscription increased by 36 thousand compared to the end of previous quarter. As for system integration (SI), revenue and order received for systems construction, which includes equipment sales, were up 11.7% and up 23.1% YoY, respectively, due to strong demands for systems construction among private and public sectors. Systems operation and maintenance revenues were up 19.1% YoY. As for the new business areas, a subsidiary of DeCurret Holdings, Inc. (*11), which is IIJ's equity method investee, was granted a patent for the "Two-tiered Digital Currency Platform (*12)," and the subsidiary has been conducting various proofs of concept toward launching full-scale services during the fourth quarter of the fiscal year ending March 31, 2024.

Consolidated financial results for 1Q22 were as follows. Total revenues were JPY58,190 million (JPY52,975 million for 1Q21), up 9.8% YoY. Total cost of sales was JPY45,490 million (JPY41,548 million for 1Q21), up 9.5% YoY and gross profit was JPY12,700 million (JPY11,427 million for 1Q21), up 11.1% YoY. The breakdown by services was as follows. Network service revenues were JPY33,234 million (JPY31,475 million for 1Q21), up 5.6% YoY and gross profit for network services was JPY8,803 million (JPY8,330 million for 1Q21), up 5.7% YoY. SI revenues, including equipment sales, were JPY24,269 million (JPY20,807 million for 1Q21), up 16.6% YoY and gross profit for SI was JPY3,610 million (JPY2,848 million for 1Q21), up 26.8% YoY. ATM operation business revenues were JPY687 million (JPY693 million for 1Q21), down 0.9% YoY and gross profit for ATM operation business was JPY287 million (JPY249 million for 1Q21), up 15.3% YoY. Net amount of selling, general and administrative expenses, other operating income and other operating expenses were JPY7,674 million

(JPY7,067 million for 1Q21), up 8.6% YoY. Operating profit was JPY5,026 million (JPY4,360 million for 1Q21), up 15.3% YoY. Profit before tax was JPY6,623 million (JPY5,350 million for 1Q21), up 23.8% YoY. There were gains on financial instruments, related to funds, of JPY1,200 million (JPY1,296 million for 1Q21), foreign exchange gain of JPY474 million (loss of JPY17 million for 1Q21) and share of loss of investments accounted for using equity method of JPY14 million (loss of JPY217 million for 1Q21). Profit attributable to owners of the parent for 1Q22 was JPY4,391 million (JPY3,507 million for 1Q21), up 25.2% 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 Internet.
- *3. Cloud Computing: Cloud computing is the on-demand delivery of computer or storage device functions and processing ability, software, data and etc. through Internet.
- *4. IoT: Internet of Things (IoT) enables not only physical objects but also any “things” connected to network to exchange information automatically.
- *5. Mobile-related services: Mobile-related services refer to IJ Mobile Services, which are enterprise IoT usages, IJ Mobile MVNO Platform Services, and IJmio Mobile Services.
- *6. IP Services: IJ’s dedicated-type Internet connectivity services, mainly used by corporate users.
- *7. WAN services: WAN is an abbreviation of Wide Area Network. Wide Area Network services are services which connect LANs 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.
- *8. IJ Private Backbone Service/Smart HUB: Highly scalable interconnectivity services between cloud services and on-premises with high bandwidth.
- *9. Multi-Cloud: Multi-Cloud means using multiple cloud services from multiple different cloud service providers, such as Amazon Web Services, Microsoft Azure and others.
- *10. GigaPlans: GigaPlans is a new consumer mobile service plans, which IJ has started providing from April 1, 2021.
- *11. DeCurret Holdings, Inc.: DeCurret Holdings, Inc. is a holding company established through a share transfer by DeCurret, Inc. on December 27, 2021, and an equity method investee of IJ.
- *12. Two-tiered Digital Currency Platform: The Platform consists of the Common Area and the Business Process Area, which are linked each other, and issues, transfer, and burn digital currency.
- *13. Interconnectivity charge: Cost of connection with other network operators. As for mobile services, interconnectivity charge refers to the unit charge for interconnectivity data communications charge between mobile carriers such as NTT DoCoMo and MVNO such as IJ. The unit price is per Mbps.

(ii) Analysis of Consolidated Results of Operations for the first three months of the 31st 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

	1Q21	1Q22	YoY Change
	JPY millions	JPY millions	%
Total revenues	52,975	58,190	9.8
Network services	31,475	33,234	5.6
Systems integration (SI)	20,807	24,269	16.6
ATM operation business	693	687	(0.9)
Total costs	(41,548)	(45,490)	9.5
Network services	(23,145)	(24,431)	5.6
Systems integration (SI)	(17,959)	(20,659)	15.0
ATM operation business	(444)	(400)	(9.9)
Total gross profit	11,427	12,700	11.1
Network services	8,330	8,803	5.7
Systems integration (SI)	2,848	3,610	26.8
ATM operation business	249	287	15.3
SG&A, R&D, and other operating income (expenses)	(7,067)	(7,674)	8.6
Operating profit	4,360	5,026	15.3
Profit before tax	5,350	6,623	23.8
Profit for the period attributable to owners of the parent	3,507	4,391	25.2

(Note) Systems integration revenue includes equipment sales revenue.

Segment Results Summary

	1Q21	1Q22
	JPY millions	JPY millions
Total revenues	52,975	58,190
Network services and SI business	52,316	57,531
ATM operation business	693	687
Elimination	(34)	(28)
Operating profit	4,360	5,026
Network service and SI business	4,189	4,809
ATM operation business	195	237
Elimination	(24)	(20)

i) Revenues

Total revenues JPY58,190 million, up 9.8% YoY (JPY52,975 million for 1Q21).

Network services revenue was JPY33,234 million, up 5.6% YoY (JPY31,475 million for 1Q21).

Revenues for Internet connectivity services for enterprise were JPY9,516 million, up 1.1% YoY from JPY9,410 million for 1Q21. The increase was due to an increase in revenues of IP services and enterprise mobile services, which absorbed a decrease in MVNO Platform service (MVNE) revenue owing to reflecting the annual revision of mobile data interconnectivity charge(*13) in selling prices.

Revenues for Internet connectivity services for consumers were JPY6,099 million, down 0.1% YoY from JPY6,108 million for 1Q21, mainly due to a decrease in average revenue per user along with continued migration of former plan's customers to "GigaPlans", which launched at the beginning of the previous fiscal year.

Revenues for Outsourcing services were JPY10,944 million, up 15.1% YoY from JPY9,510 million for 1Q21, mainly due to an increase in security-related services revenues.

Revenues for WAN services were JPY6,675 million, up 3.5% YoY from JPY6,447 million for 1Q21.

Network Services Revenues Breakdown

	1Q21	1Q22	YoY Change
	JPY millions	JPY millions	%
Total network services	31,475	33,234	5.6
Internet connectivity services (enterprise)	9,410	9,516	1.1
IP services (including data center connectivity services)	3,275	3,446	5.2
IIJ Mobile services	5,189	5,060	(2.5)
Enterprise mobile service (IoT usages etc.)	2,344	2,634	12.4
IIJ Mobile MVNO Platform Service (MVNE)	2,845	2,426	(14.7)
Others	946	1,010	6.8
Internet connectivity services (consumer)	6,108	6,099	(0.1)
IIJmio Mobile Service	5,392	5,310	(1.5)
Others	716	789	10.2
Outsourcing services	9,510	10,944	15.1
WAN services	6,447	6,675	3.5

Number of Contracts and Subscription for Connectivity Services

	As of June 30, 2021	As of June 30, 2022	YoY Change
Internet connectivity services (enterprise)	2,299,032	2,582,448	283,416
IP service (greater than or equal to 1Gbps)	764	787	23
IP service (less than 1Gbps)	1,202	1,247	45
IIJ Mobile Services	2,205,759	2,489,768	284,009
Enterprise mobile service (IoT usages etc.)	1,163,312	1,457,464	294,152
IIJ Mobile MVNO Platform Service (MVNE)	1,042,447	1,032,304	(10,143)
Others	91,307	90,646	(661)
Internet connectivity services (consumer)	1,396,386	1,464,327	67,941
IIJmio Mobile Service	1,053,173	1,464,327	72,583
Others	343,213	338,571	(4,642)
Total contracted bandwidth (Gbps)	7,108.2	7,600.9	492.7

(Notes)

- Numbers in the table above show number of contracts except for "IIJ Mobile Services (enterprise)" and "IIJmio Mobile Service" which show number of subscriptions.
- The numbers of IP service contracts include the numbers of IIJ data center connectivity service contracts.
- 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 JPY24,269 million, up 16.6% YoY (JPY20,807 million for 1Q21).

Systems construction and equipment sales, a one-time revenue, was JPY7,628 million, up 11.7% YoY (JPY6,832 million for 1Q21).

Systems operation and maintenance revenue, a recurring revenue, was JPY16,641 million, up 19.1% YoY (JPY13,975 million for 1Q21), 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 JPY33,889 million, up 56.5% YoY (JPY 21,649 million for 1Q21); orders received for systems construction and equipment sales were JPY10,756 million, up 23.1% YoY (JPY8,737 million for 1Q21), and orders received for systems operation and maintenance were JPY23,133 million, up 79.2% YoY (JPY12,911 million for 1Q21).

Order backlog for SI, including equipment sales, as of June 30, 2022 amounted to JPY82,411 million, up 22.1% YoY (JPY67,496 million as of June 30, 2021); order backlog for systems construction and equipment sales was JPY15,579 million, up 40.7% YoY (JPY11,073 million as of June 30, 2021) and order backlog for systems operation and maintenance was JPY66,832 million, up 18.4% YoY (JPY56,424 million as of June 30, 2021).

ATM operation business revenues were JPY687 million, down 0.9% YoY (JPY693 million for 1Q21).

ii) Cost of sales

Total cost of sales was JPY45,490 million, up 9.5% YoY (JPY41,548 million for 1Q21).

Cost of network services revenue was JPY24,431 million, up 5.6% YoY (JPY23,145 million for 1Q21), mainly due to an increase in purchasing cost of mobile device. Gross profit was JPY8,803 million, up 5.7% YoY (JPY8,330 million for 1Q21), and gross profit ratio was 26.5% (26.5% for 1Q21).

Cost of SI revenues, including equipment sales was JPY20,659 million, up 15.0% YoY (JPY17,959 million for 1Q21), mainly due to increases in license fees along with an increase in multi-cloud related services' revenues and purchasing costs. Gross profit was JPY3,610 million, up 26.8% YoY (JPY2,848 million for 1Q21) and gross profit ratio was 14.9% (13.7% for 1Q21).

Cost of ATM operation business revenues was JPY400 million, down 9.9% YoY (JPY444 million for 1Q21). Gross profit was JPY287 million (JPY249 million for 1Q21) and gross profit ratio was 41.8% (36.0% for 1Q21).

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

Selling, general and administrative expenses, including research and development expenses, totaled JPY7,858 million, up 10.9% YoY (JPY7,083 million for 1Q21), mainly due to increases in advertising expenses, personnel-related expenses and outsourcing expenses.

Other operating income was JPY194 million (JPY52 million for 1Q21).

Other operating expenses was JPY10 million (JPY36 million for 1Q21).

iv) Operating profit

Operating profit was JPY5,026 million (JPY4,360 million for 1Q21), up 15.3% YoY.

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

Finance income was JPY1,747 million, compared to JPY1,361 million for 1Q21. It included gains on financial instruments, mainly related to funds, of JPY1,200 million (JPY1,296 million for 1Q21) and foreign exchange gain of JPY474 million (loss of JPY17 million for 1Q21).

Finance expense was JPY136 million, compared to JPY154 million for 1Q21. It included interest expenses of JPY133 million (JPY137 million for 1Q21).

Share of loss of investments accounted for using equity method was JPY14 million (compared to loss of JPY217 million for 1Q21), mainly due to loss of DeCurret Holdings, Inc. of JPY78 million.

vi) Profit before tax

Profit before tax was JPY6,623 million (JPY5,350 million for 1Q21), up 23.8% YoY.

vii) Profit for the period

Income tax expense was JPY2,136 million (JPY1,807 million for 1Q21). As a result, profit for the period was JPY4,487 million (JPY3,543 million for 1Q21), up 26.6% YoY.

Profit for the period attributable to non-controlling interests was JPY96 million (JPY36 million for 1Q21), mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of parent was JPY4,391 million (JPY3,507 million for 1Q21), up 25.2% YoY.

(2) Financial Position

As of June 30, 2022, the balance of total assets was JPY225,730 million, decreased by JPY6,075 million from the balance as of March 31, 2022 of JPY231,805 million.

As of June 30, 2022, the balance of current assets was JPY101,186 million, decreased by JPY3,299 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 JPY4,834 million to JPY42,557 million, trade receivables decreased by JPY3,214 million to JPY34,435 million and prepaid expenses increased by JPY3,340 million to JPY16,893 million.

As of June 30, 2022, the balance of non-current assets was JPY124,544 million, decreased by JPY2,776 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 decreased by JPY225 million to JPY17,621 million, right-of-use assets, which include right to use leased assets under operating lease contracts such as office and data centers and assets under finance lease contracts such as data communication equipment, decreased by JPY2,449 million to JPY42,425 million mainly due to depreciation, intangible assets decreased by JPY299 million to JPY16,125 million mainly due to amortization of software, and other investments decreased by JPY56 million to JPY17,354 million.

As of June 30, 2022, the balance of current liabilities was JPY72,110 million, decreased by JPY4,667 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 decreased by JPY1,349 million to JPY19,393 million, borrowings increased by JPY250 million to JPY16,620 million due to a decrease of JPY750 million from repayment of long-term borrowings and an increase of JPY1,000 million owing to a transfer from non-current liabilities, income taxes payable decreased by JPY3,942 million to JPY1,853 million, contract liabilities increased by JPY1,128 million to JPY10,699 million and other financial liabilities increased by JPY132 million to JPY17,167 million.

As of June 30, 2022, the balance of non-current liabilities was JPY47,000 million, decreased by JPY3,407 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 JPY1,000 million to JPY4,500 million due to a transfer to current portion, contract liabilities decreased by JPY412 million to JPY7,017 million and other financial liabilities decreased by JPY1,467 million to JPY28,679 million mainly due to a transfer to current portion.

As of June 30, 2022, the balance of total equity attributable to owners of the parent was JPY105,480 million, increased by JPY1,952 million from the balance as of March 31, 2022 of JPY103,528 million. Ratio of owners' equity to total assets was 46.7% as of June 30, 2022.

(3) Cash Flows

Cash and cash equivalents as of June 30, 2022 were JPY42,557 million (JPY34,831 million as of June 30, 2021).

Cash Flows provided by Operating Activities

Net cash provided by operating activities for 1Q22 was JPY4,855 million (net cash provided by operating activities of JPY7,654 million for 1Q21). There were profit before tax of JPY6,623 million (JPY5,350 million for 1Q21), depreciation and amortization of JPY7,055 million (JPY6,606 million for 1Q21), including JPY2,808 million (JPY2,500 million for 1Q21) of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY6,091 million (JPY3,334 million for 1Q21). Regarding changes in working capital, there was net cash out of JPY1,063 million compared to net cash-out of JPY71 million for 1Q21. As for the major factors for the increase in net cash outflow in comparison with 1Q21, there was a decrease in proceeds from trade receivables, which exceeded decreases in payments of current liabilities, such as trade payable and other liabilities.

Cash Flows used in Investing Activities

for FY1Q22 was JPY2,366 million (net cash used in investing activities of JPY6,414 million for 1Q21), mainly due to payments for purchases of tangible assets of JPY1,839 million (JPY2,839 million for 1Q21), payments for purchases of intangible assets, such as software, of JPY1,149 million (JPY1,325 million for 1Q21), and proceeds from sales of tangible assets of JPY791 million (JPY584 million for 1Q21).

Cash Flows used in Financing Activities

Net cash used in financing activities for 1Q22 was JPY7,875 million (net cash used in financing activities of JPY8,875 million for 1Q21), mainly due to payments of other financial liabilities of JPY4,819 million (JPY4,463 million for 1Q21), which included payments under operating lease contracts such as office rent and finance lease contracts such as network equipment, dividends paid of JPY2,258 million (JPY1,759 million for 1Q21) and repayments of long-term bank borrowings of JPY750 million (JPY4,085 million for 1Q21).

(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 1Q22.

(5) Research and developments

For 1Q22, research and development expenses, which were in relation to network services and systems integration business segment, were JPY125 million, the same level as in 1Q21.

(6) Number of employees

There were no material changes in the number of employees of the Company during 1Q22.

(i) Consolidated basis

As of June 30, 2022

Number of Employees	4,331 (54)
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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, 2022

Number of Employees	2,443 (30)
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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, 2022 were as follows :

Type of Services	Three months ended June 30, 2022	
	Production (millions of yen)	Year over year comparison (%)
Systems Integration, including Equipment Sales	21,187	18.6
Total	21,187	18.6

(Notes)

1. Percentages of year over year comparison indicate year over year rate of change.
2. 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, 2022 and order backlog as of June 30, 2022 were as follows:

Type of Services	Three months ended June 30, 2022			
	Orders Received (millions of yen)	Year over Year comparison (%)	Order Backlog (millions of yen)	Year over Year comparison (%)
Systems Construction and Equipment Sales	10,756	23.1	15,579	40.7
Systems Operation and Maintenance	23,133	79.2	66,832	18.4
Total	33,889	56.5	82,411	22.1

(Notes)

1. Percentages of year over year comparison indicate year over year rate of change.
2. 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, 2022 were as follows:

Type of services	Three months ended June 30, 2022	
	Revenue (millions of yen)	Year over year comparison (%)
Network services	33,234	5.6
Internet connectivity services (enterprise)	9,516	1.1
Internet connectivity services (consumer)	6,099	(0.1)
Outsourcing services	10,944	15.1
WAN services	6,675	3.5
Systems integration	24,269	16.6
Systems construction and equipment sales	7,628	11.7
Systems operation and maintenance	16,641	19.1
ATM operation business	687	(0.9)
Total revenues	58,190	9.8

(Note) 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, 2022.

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, 2022)	Number of shares issued as of the filing date (shares) (August 15, 2022)	Stock exchange on which IJ is listed or authorized financial instruments firms association	Description
Common stock	93,534,800	93,534,800	Tokyo Stock Exchange (the Prime market)	The number of shares constituting a unit is 100.
Total	93,534,800	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 (millions of yen)	Balance of capital (millions of yen)	Changes in capital reserve (millions of yen)	Balance of capital reserve (millions of yen)
From April 1, 2022 to June 30, 2022	—	93,534,800	—	23,023	—	9,743

(5) Major Shareholders

Not applicable for the first quarter of the 31st 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, 2022, the preceding reference date, as the register of shareholders as of June 30, 2022 cannot be confirmed.

(i) Issued shares

As of March 31, 2022

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: 3,221,600 shares of common stock	—	—
Shares with Full Voting Rights (others)	90,292,400 shares of common stock	902,924	—
Shares Representing Less than One Unit	20,800 shares of common stock	—	—
Number of Issued Shares	93,534,800 shares of common stock	—	—
Total Number of Voting Rights	—	902,924	—

(Note) 67 shares of treasury stock are included in “Shares Representing Less than One Unit.”

(ii) Treasury Stock

As of March 31, 2022

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	3,221,600	—	3,221,600	3.44
Total	—	3,221,600	—	3,221,600	3.44

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, 2022 (filed on June 30, 2022) to June 30, 2022 (the last day of 1Q22).

Item 4. Financial Information

1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Financial Position

	Note	March 31, 2022	June 30, 2022
		Millions of yen	Millions of yen
Assets			
Current Assets			
Cash and cash equivalents		47,391	42,557
Trade receivables		37,649	34,435
Inventories		2,608	3,304
Prepaid expenses		13,553	16,893
Contract assets		1,870	2,429
Other financial assets	7,12	1,295	1,446
Other current assets		119	122
Total Current Assets		104,485	101,186
Non-current Assets			
Tangible assets		17,846	17,621
Right-of-use Assets		44,874	42,425
Goodwill		9,479	9,765
Intangible assets		16,424	16,125
Investments accounted for using the equity method		5,830	5,717
Prepaid expenses		10,452	10,575
Contract assets		69	68
Other investments	12	17,410	17,354
Deferred tax assets		183	187
Other financial assets	7,12	4,245	4,178
Other non-current assets		508	529
Total non-current assets		127,320	124,544
Total assets		231,805	225,730

	Note	March 31, 2022	June 30, 2022
		Millons of yen	Millons of yen
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		20,742	19,393
Borrowings	12	16,370	16,620
Income taxes payable		5,795	1,853
Contract liabilities		9,571	10,699
Deferred income		65	69
Other financial liabilities	8,12	17,035	17,167
Other current liabilities		7,199	6,309
Total current liabilities		<u>76,777</u>	<u>72,110</u>
Non-current liabilities			
Borrowings	12	5,500	4,500
Retirement benefit liabilities		4,395	4,371
Provisions		786	787
Contract liabilities		7,429	7,017
Deferred income		340	326
Deferred tax liabilities		641	210
Other financial liabilities	8,12	30,146	28,679
Other non-current liabilities		1,170	1,110
Total non-current liabilities		<u>50,407</u>	<u>47,000</u>
Total liabilities		<u>127,184</u>	<u>119,110</u>
Equity			
Share capital		25,562	25,562
Share premium		36,518	36,552
Retained earnings		37,024	39,157
Other components of equity		6,275	6,040
Treasury shares		(1,851)	(1,831)
Total equity attributable to owners of the parent		<u>103,528</u>	<u>105,480</u>
Non-controlling interests		1,093	1,140
Total equity		<u>104,621</u>	<u>106,620</u>
Total liabilities and equity		<u>231,805</u>	<u>225,730</u>

Condensed Consolidated Statements of Profit or Loss

	Note	Three Months Ended June 30, 2021	Three Months Ended June 30, 2022
		Millions of yen	Millions of yen
Revenues			
Network services		31,475	33,234
System integration		20,807	24,269
ATM operation business		693	687
Total revenues	5,10	52,975	58,190
Cost of sales			
Cost of network services		(23,145)	(24,431)
Cost of systems integration		(17,959)	(20,659)
Cost of ATM operation business		(444)	(400)
Total cost of sales		(41,548)	(45,490)
Gross Profit		11,427	12,700
Selling, general and administrative expense		(7,083)	(7,858)
Other operating income		52	194
Other operating expenses		(36)	(10)
Operating Profit		4,360	5,026
Finance income	12	1,361	1,747
Finance expenses	12	(154)	(136)
Share of profit (loss) of investments accounted for using equity method		(217)	(14)
Profit (loss) before tax		5,350	6,623
Income tax expense		(1,807)	(2,136)
Profit (loss) for the period		3,543	4,487
Profit (loss) for the period attributable to:			
Owners of the parent		3,507	4,391
Non-controlling interests		36	96
Total		3,543	4,487
Earnings per share			
Earnings per share	11		
Basic earnings per share (yen)		38.86	48.62
Diluted earnings per share (yen)		38.67	48.38

Condensed Consolidated Statements of Comprehensive Income

	Note	Three Months Ended June 30, 2021	Three Months Ended June 30, 2022
		Millions of yen	Millions of yen
Profit (loss)		3,543	4,487
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		834	(952)
Total items that will not be reclassified to profit or loss		834	(952)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(5)	702
Financial assets measured at fair value through other comprehensive income		0	(1)
Share of other comprehensive income of investments accounted for using equity method		13	16
Total of items that may be reclassified to profit or loss		8	717
Total other comprehensive income, net of tax		842	(235)
Other comprehensive income		4,385	4,252
Other comprehensive income attributable to:			
Owners of the parent		4,349	4,156
Non-controlling interest		36	96
Other comprehensive income		4,385	4,252

Condensed Consolidated Statements of Changes in Shareholders' Equity
Three months ended June 30, 2021

	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
		Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	
Balance, March 31, 2021		25,531	36,389	25,047	4,865	(1,875)	89,957	1,015	90,972
Comprehensive income									
Profit (loss)		-	-	3,507	-	-	3,507	36	3,543
Other comprehensive income		-	-	-	842	-	842	-	842
Total comprehensive income		-	-	3,507	842	-	4,349	36	4,385
Transactions with owners									
Issuance of common stock		16	(16)	-	-	-	0	-	0
Disposal of treasury shares		-	(6)	-	-	23	17	-	17
Dividends paid	9	-	-	(1,759)	-	-	(1,759)	(48)	(1,807)
Stock-based compensation		-	16	-	-	-	16	-	16
Total transactions with owners		16	(6)	(1,759)	-	23	(1,726)	(48)	(1,774)
Balance, June 30, 2021		25,547	36,383	26,795	5,707	(1,852)	92,580	1,003	93,583

Three months ended June 30, 2022

	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
		Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	
Balance, March 31, 2022		25,562	36,518	37,024	6,275	(1,851)	103,528	1,093	104,621
Comprehensive income									
Profit (loss)		-	-	4,391	-	-	4,391	96	4,487
Other comprehensive income		-	-	-	(235)	-	(235)	-	(235)
Total comprehensive income		-	-	4,391	(235)	-	4,156	96	4,252
Transactions with owners									
Disposal of treasury shares		-	12	-	-	20	32	-	32
Dividends paid	9	-	-	(2,258)	-	-	(2,258)	(49)	(2,307)
Stock-based compensation		-	22	-	-	-	22	-	22
Total transactions with owners		-	34	(2,258)	-	20	(2,204)	(49)	(2,253)
Balance, June 30, 2022		25,562	36,552	39,157	6,040	(1,831)	105,480	1,140	106,620

Condensed Consolidated Statements of Cash Flows

	Note	Three Months Ended June 30, 2021	Three Months Ended June 30, 2022
		Millions of yen	Millions of yen
Cash flows from operating activities:			
Profit (loss) before tax		5,350	6,623
Adjustments			
Depreciation and amortization		6,606	7,055
Loss (gain) on sales/disposal of property and equipment		30	(162)
Shares of loss (profit) of investments accounted for using the equity method		217	14
Finance income		(1,326)	(1,747)
Finance expenses		142	136
Other		27	41
Changes in working capital			
Decrease (increase) in trade receivables		8,034	3,568
Decrease (increase) in inventories		(187)	(674)
Decrease (increase) in prepaid expenses		(3,365)	(3,289)
Decrease (increase) in contract assets		(527)	(558)
Decrease (increase) in other assets		(30)	(3)
Decrease (increase) in other financial assets		(352)	(117)
Increase (decrease) in trade and other payables		(3,774)	(832)
Increase (decrease) in contract liabilities		578	554
Increase (decrease) in deferred income		(3)	(1)
Increase (decrease) in other liabilities		(1,647)	(943)
Increase (decrease) in other financial liabilities		1,103	1,255
Increase (decrease) in retirement benefit liabilities		99	(23)
Subtotal		10,975	10,897
Interest and dividends received		150	182
Interest paid		(137)	(133)
Income taxes paid		(3,334)	(6,091)
Cash flows from operating activities		7,654	4,855

	Note	Three Months Ended June 30, 2021	Three Months Ended June 30, 2022
		Millions of yen	Millions of yen
Cash flows from investing activities			
Purchases of tangible assets		(2,839)	(1,839)
Proceeds from sales of tangible assets		584	791
Purchases of intangible assets		(1,325)	(1,149)
Purchase of a subsidiary		(2,612)	-
Purchases of other investments		(346)	(161)
Proceeds from sales of other investments		35	9
Payments for leasehold deposits and guarantee deposits		(11)	(9)
Proceeds from collection of leasehold deposits and guarantee deposits		118	10
Payments for refundable insurance policies		(19)	(19)
Other		1	1
Cash flows from investing activities		(6,414)	(2,366)
Cash flows from financing activities			
Repayment of long-term borrowings		(4,085)	(750)
Net increase (decrease) in short-term borrowings		1,480	-
Payments of other financial liabilities		(4,463)	(4,819)
Dividends paid		(1,759)	(2,258)
Other		(48)	(48)
Cash flows from financing activities		(8,875)	(7,875)
Effect of exchange rate changes on cash and cash equivalents		(1)	552
Net increase (decrease) in cash and cash equivalents		(7,636)	(4,834)
Cash and cash equivalents, at beginning of the period		42,467	47,391
Cash and cash equivalents at end of the period		34,831	42,557

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, 2022 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, 2022.

(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 million yen.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied to the condensed consolidated financial statements for the three months ended June 30, 2022 are the same as those applied to the consolidated financial statements for the fiscal year ended March 31, 2022. Meanwhile, income taxes for the three months ended June 30, 2022 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, 2022 including the effects of COVID-19 are same as those on the consolidated financial statements for the year ended March 31, 2022.

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 President and Representative Director 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, 2021

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Millions of yen	Millions of yen		
Revenue				
Customers	52,282	693	—	52,975
Intersegment transactions	34	—	(34)	—
Total revenue	52,316	693	(34)	52,975
Segment operating profit	4,189	195	(24)	4,360
Finance income				1,361
Finance expense				(154)
Share of profit (loss) of investments accounted for using the equity method				(217)
Profit before tax				5,350

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

For the three months ended June 30, 2022

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Millions of yen	Millions of yen		
Revenue				
Customers	57,503	687	—	58,190
Intersegment transactions	28	—	(28)	—
Total revenue	57,531	687	(28)	58,190
Segment operating profit	4,809	237	(20)	5,026
Finance income				1,747
Finance expense				(136)
Share of profit (loss) of investments accounted for using the equity method				(14)
Profit before tax				6,623

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

6. BUSINESS MERGERS AND ACQUISITIONS

For the three months ended June 30, 2021

(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 (¥3,632 million)

(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 million were recorded.

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

(Unit: Millions of yen)

Consideration for acquisition	
Cash	3,632
Assets acquired and liabilities assumed	
Cash and cash equivalents	1,020
Trade receivables (Note 1)	1,162
Prepaid expenses	2,261
Tangible assets	2
Right-of-use assets	53
Intangible assets	248
Other assets	250
Trade payables	(944)
Contract liabilities	(2,615)
Other liabilities	(904)
Total	533
Goodwill (Provisional) (Note 2,3)	3,099

Notes

1. Within the acquired trade receivables, there is no contractual cashflow which is estimated to be nonrecoverable. The fair value of the acquired trade receivables and the contractual receivable amount are mostly the same.
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. As of June 30, 2021, the acquisition cost was allocated provisionally since the calculation of the fair value of the identifiable asset and liabilities on the acquisition date was not completed. The calculation has been completed during the accounting period ended December 31, 2021 and goodwill on the acquisition date has decreased by ¥248 million as the result of the allocation.

(5) Cash flow for business merger and acquisitions

(Unit: Millions of yen)

	Amount
Consideration for acquisition by cash	(3,632)
Remaining value of cash and cash equivalent acquired through business merger and acquisitions	1,020
Cash use for acquisition of subsidiaries	(2,612)

(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 million and ¥48 million, respectively.

For the three months ended June 30, 2022

There is no important business mergers and acquisitions.

7. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

	March 31, 2022	June 30, 2022
	Millions of yen	Millions of yen
Financial assets measured at amortized cost		
Other receivable	465	720
Guarantee deposit	3,567	3,580
Loans receivable	25	26
Other	204	209
Lease receivable	1,279	1,089
Total	<u>5,540</u>	<u>5,624</u>
Current assets	1,295	1,446
Non-current assets	4,245	4,178
Total	<u>5,540</u>	<u>5,624</u>

8. OTHER FINANCIAL LIABILITIES

The components of other financial liabilities are as follows:

	March 31, 2022	June 30, 2022
	Millions of yen	Millions of yen
Financial liabilities measured at amortized cost		
Account payable—non-current (including current portion)	679	637
Deposit payable	243	1,494
Others	33	41
Lease obligations	46,226	43,674
Total	<u>47,181</u>	<u>45,846</u>
Current liabilities	17,035	17,167
Non-current liabilities	30,146	28,679
Total	<u>47,181</u>	<u>45,846</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:

	March 31, 2022	June 30, 2022
	Millions of yen	Millions of yen
Financial leases	18,069	16,932
Other leases	28,157	26,742

9. DIVIDENDS PAID

Cash dividends paid are as follows:

For the three months ended June 30, 2021

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

For the three months ended June 30, 2022

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Millions of yen	Yen		
June 28, 2021 Ordinary General Meeting of Shareholders	2,258	25.00	March 31, 2022	June 29, 2022

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, 2021	For the three months ended June 30, 2022
	Millions of yen	Millions of yen
Network services	31,475	33,234
Internet connectivity services (enterprise)	9,410	9,516
Wan services	6,447	6,675
Outsourcing services	9,510	10,944
Internet connectivity services (consumer)	6,108	6,099
Systems integration	20,807	24,269
Systems construction	6,832	7,628
Systems operation and maintenance	13,795	16,641
ATM operation business	693	687
Total	52,975	58,190

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, 2021 and 2022 were as follows:

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Numerator :		
Basic earnings attributable to owners of the parent (millions of yen)	3,507	4,391
Earnings adjustment (millions of yen)	—	—
<hr/> Earnings used to calculate earnings per share — diluted (millions of yen)	<hr/> 3,507	<hr/> 4,391
Denominator :		
Weighted average number of shares — basic (shares)	90,244,770	90,319,431
Dilution arising from stock options (shares)	445,577	439,837
<hr/> Weighted average number of shares — diluted (shares)	<hr/> 90,690,347	<hr/> 90,759,268
Earnings per share attributable to owners of the parent		
Basic (yen)	38.86	48.62
Diluted (yen)	38.67	48.38

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, 2022

	Level 1	Level 2	Level 3	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Assets :				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	109	—	109
Equity-based financial assets measured at FVTOCI				
Equity securities	9,244	—	1,645	10,889
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	6,288	6,288
Other financial assets	—	124	—	124

June 30, 2022

	Level 1	Level 2	Level 3	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Assets :				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	108	—	108
Equity-based financial assets measured at FVTOCI				
Equity securities	7,928	—	1,571	9,499
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	7,617	7,617
Other financial assets	—	130	—	130

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, 2021 and 2022 were as follows:

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
	Millions of yen	Millions of yen
Equity securities		
Balance at the beginning of the period	1,470	1,645
Other comprehensive income (Note 1)	108	(74)
Sale	100	—
Balance at the end of period	1,678	1,571
Investment trust and other securities		
Balance at the beginning of the period	2,941	6,288
Profit or loss (Note 2)	1,256	1,177
Purchase	246	161
Sale	(35)	(9)
Balance at the end of period	4,408	7,617

(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, 2022

	Carrying amount Millions of yen	Fair value			
		Level 1	Level 2	Level 3	Total
		Millions of yen	Millions of yen	Millions of yen	Millions of yen
Liabilities :					
Long-term borrowings (including current portion)	7,000	-	7,006	-	7,006

June 30, 2022

	Carrying amount Millions of yen	Fair value			
		Level 1	Level 2	Level 3	Total
		Millions of yen	Millions of yen	Millions of yen	Millions of yen
Liabilities :					
Long-term borrowings (including current portion)	6,250	-	6,255	-	6,255

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, 2022. Through the split-up of IBM Japan Ltd. on September 1, 2021, the part of the agreement has been succeeded by Kyndryl Japan KK.

14. SUBSEQUENT EVENTS

On August 5, 2022, IIJ's board of directors resolved a stock split of its common stock, as indicated below.

1. Purpose of stock split

The objective of the stock split is to enhance the liquidity of IIJ's common stock and expand its investor base by reducing the trading price per share of IIJ's common stock. As a result of the stock split, the investment unit amount of IIJ's common stock will be one half (1/2) of the previous amount.

2. Summary of stock split

(1) Method of stock split

The stock split shall have a record date of Friday, September 30, 2022 and shall involve the splitting of common shares held by shareholders whose names appear or are recorded in the latest Registry of Shareholders on the record date at a ratio of 1:2.

(2) Increase in number of shares as a result of stock split

1) Total number of shares issued before the stock split:	93,534,800	shares
2) Number of additional shares as a result of the stock split:	93,534,800	shares
3) Total number of shares issued after the stock split:	187,069,600	shares
4) Total number of authorized shares after the stock split:	302,080,000	shares

(Note) Total number of shares issued stated in the above could be increased as a result of exercise of stock acquisition rights.

(3) Schedule of stock split

1) Public notice date of the record date:	Thursday, September 15, 2022 (Planned)
2) Record date:	Friday, September 30, 2022
3) Effective date:	Saturday, October 1, 2022

3. Effect on per share information

Assuming the stock split had been conducted at the beginning of the fiscal year ended March 31, 2022, basic earnings per share attributable to IIJ would have been as follows

	Three months ended June 30, 2021	Three months ended June 30, 2022
Basic earnings per share	19.43 yen	24.31 yen

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 15, 2022.

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 15, 2022

To the Board of Directors of Internet Initiative Japan Inc.

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

Yusuke Matsumoto
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, 2022, 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, 2022, 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 that 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.