

(TRANSLATION)

Quarterly Securities Report

(The Second Quarter of the 29th Business Term)
From July 1, 2020 to September 30, 2020

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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【Cover】

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PART 1 Information on the Company

Item 1. Overview of the Company

1 Selected Financial Data

Fiscal year	IFRS		
	Six months ended September 30, 2019	Six months ended September 30, 2020	28th business term ended March 31, 2020
Revenues (Three months ended September 30)	(thousands of yen) 99,219,535 (49,390,691)	101,664,990 (51,286,485)	204,473,515
Operating profit	(thousands of yen) 3,351,950	5,239,049	8,225,172
Profit before tax	(thousands of yen) 3,043,288	4,465,861	7,158,987
Profit attributable to owners of the parent (Three months ended September 30)	(thousands of yen) 1,756,102 (979,589)	2,769,928 (1,653,615)	4,006,773
Comprehensive income, attributable to owners of the parent	(thousands of yen) 2,459,500	4,276,926	3,997,565
Comprehensive income	(thousands of yen) 2,561,751	4,316,591	4,184,326
Equity attributable to owners of the parent	(thousands of yen) 78,117,387	82,849,790	79,075,589
Total assets	(thousands of yen) 201,972,107	206,455,156	206,524,260
Basic earnings per share (Three months ended September 30)	(yen) 38.96 (21.73)	61.43 (36.66)	88.88
Diluted earnings per share	(yen) 38.79	61.43	88.49
Ratio of owners' equity to gross assets	(%) 38.7	40.1	38.3
Cash flows from operating activities	(thousands of yen) 13,393,901	21,498,137	33,393,751
Cash flows from investing activities	(thousands of yen) (4,087,434)	(6,546,711)	(7,264,834)
Cash flows from financing activities	(thousands of yen) (7,138,625)	(11,969,247)	(19,354,021)
Cash and cash equivalents, at the end of period	(thousands of yen) 34,036,458	41,602,490	38,671,734

(Notes)

- 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.
- Revenues do not include consumption taxes.
- 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").

2 Description of Business

There were no material changes to the business of the Company or its equity method investees during the six months ended September 30, 2020 ("1H20").

There were no material changes with respect to the associated companies during the 1H20.

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, 2020.

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 November 16, 2020.

(1) Analysis of Results of Operations

(i) Overview of consolidated business results for 1H20

The Japanese economy has been in a severe situation during the second quarter of the fiscal year ending March 31, 2021 ("2Q20") due to the COVID-19; however, there have been some signs of a recovery recently. With respect to future prospects, the economy is expected to move forward picking up from this severe situation, supported by the effects of various policies and improvement of overseas economies, while the socio-economic activities will be resumed gradually. However, we must keep an eye on the trend of domestic and overseas infections and the effects of fluctuations in the financial and capital markets.

In such an economic trend, as for the ICT (*1) related market where we belong to, enterprises' utilization of safe and secure ICT services is progressing, as seen in demand for network services and IT systems related to telework (*2) environment triggered by the COVID-19 pandemic, stable growth of Internet connectivity services, widespread of cloud computing (*3) service adoption, along with an increase of IoT (*4) related projects using those services comprehensively.

Under these market circumstances, business overview for 1H20 are as follows. Both total revenues and operating profit for 1H20 exceeded our initial expectation at the beginning of the fiscal year ending March 31, 2021 ("FY20"). Total revenues were JPY101,665 million, led by the enterprise recurring revenue (*5) growth which increased by up 11.9% year over year ("YoY") and operating profit for 1H20 increased largely, up 56.3% YoY, to JPY5,239 million. Assuming that these trends shall continue in the six months ending March 31, 2021 ("2H20"), we have revised our FY20 full-year financial targets upward, and decided to further increase the interim dividend and the year-end dividend forecast from the original amount disclosed at the beginning of FY20, which was already an increase compared to the previous fiscal years' interim and year-end dividend. As for network services, we were able to meet customer demands to renew and enhance enterprises' internal networks, connectivity services for multi-cloud (*6) connection, video conference systems, connectivity services for application use such as Microsoft 365 (*7), by wide range of our in-house developed service line-ups; not only basic internet connectivity services but also closed network connectivity services using SD-WAN (*8) functions, cloud exchange services (*9), VPN related services (*10) including mobile connectivity services, various security-related services, etc. As for IoT business, the number of IoT projects continuously increased and utilization of IoT by enterprises has been progressing. In addition to existing IoT demands to connect various devices such as surveillance cameras, cameras for store marketing, mobile connections to grasp location information or operating status, more advanced IoT projects such as factory IoT system for Toyota Motor Hokkaido's factory line. As for systems integration, although the environment of orders received for systems construction in the first quarter of FY20 ("1Q20") was relatively weak compared to normal years due to slowdown of enterprises' business activity affected by the COVID-19 pandemic, it recovered in 2Q20 and we accumulated projects related to network integration (*11) and construction projects of network environment for government offices, etc.

Consolidated financial results for 1H20 were as follows. Total revenues were JPY101,665 million, compared to JPY99,220 million for the six months ended September 30, 2019 ("1H19"), up 2.5% YoY. Although enterprise recurring revenue grew steadily, there were WAN services revenue decrease due to YoY impact of the certain large clients' migration to mobile services which ended in the previous fiscal year and ATM operation business revenue decrease due to the effect of the COVID-19, and consequently the YoY growth rate of total revenues was at low level. Cost of sales was JPY84,210 million (JPY84,020 million for 1H19), up 0.2% YoY and gross profit was JPY17,445 million (JPY15,200 million for 1H19), up 14.8% YoY. The breakdown by services is as follows. Network services revenue was JPY62,104 million (JPY61,204 million for 1H19), up 1.5%

YoY and gross profit for network services revenue was JPY12,208 million (JPY10,051 million for 1H19), up 21.5% YoY. SI revenues, including equipment sales, were JPY38,167 million (JPY35,916 million for 1H19), up 6.3% YoY and gross profit for SI was JPY4,777 million (JPY4,174 million for 1H19), up 14.5% YoY. ATM operation business revenue was JPY1,394 million (JPY2,100 million for 1H19), down 33.6% YoY and gross profit of ATM operation business was JPY470 million (JPY975 million for 1H19), down 51.8% YoY, mainly due to temporary closure of stores to which we had placed ATMs and decrease in the number of withdrawals caused by the COVID-19 pandemic. Net amount of selling, general and administrative expenses, other operating income and other operating expenses was JPY12,216 million (JPY11,848 million for 1H19), up 3.1% YoY. Operating profit for 1H20 was JPY5,239 million (JPY3,352 million for 1H19), up 56.3% YoY. Profit before tax for 1H20 was JPY4,466 million (JPY3,043 million for 1H19), up 46.7% YoY. Profit attributable to owners of the parent for 1H20 was JPY2,770 million (JPY1,756 million for 1H19), up 57.7% YoY.

In business segments results, revenues for network services and systems integration business segment for 1H20 were JPY100,360 million (JPY97,265 million for 1H19), up 3.2% YoY, and operating profit for 1H20 was JPY4,923 million (JPY2,557 million for 1H19), up 92.5% YoY. As for ATM operation business, revenues for 1H20 were JPY1,394 million (JPY2,100 million for 1H19), down 33.6% YoY, and operating profit for 1H20 was JPY378 million (JPY869 million for 1H19).

Glossary:

- *1 ICT: ICT (Information and Communication Technology) is a general technological term for hardware, software, systems and data communication tools used for information communication by computers.
- *2 Telework: By using ICT, engaging in business activity remotely from home or remote location, not from offices.
- *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: IoT (Internet of Things) enables not only physical objects but also “things” connected to a network to exchange information automatically.
- *5 Enterprise recurring revenue: Enterprise recurring revenue is recurring revenue which excludes Internet connectivity services revenue for consumer and MVNE revenue. Recurring revenue is revenue that businesses can count on receiving every single month through continuous provision of services to customers.
- *6 Multi-cloud: Multi-cloud is a type of usage that users use multiple cloud services from different operators such as Amazon Web Services and Microsoft Azure.
- *7 Microsoft 365: Microsoft Office 365 is a subscription-type (monthly or annual payment) Office licenses provided by Microsoft Corporation.
- *8 SD-WAN: SD-WAN (Software defined wide area network) is technologies or services that realize flexible network configurations and traffic control for inter-site or multi-cloud connection, by building a virtual network on a physical network built with hardware such as servers and routers and centrally managing with software.
- *9 Cloud exchange: Cloud exchange is one of the data center functions, which interconnects multiple cloud services, multiple network services, and multiple IT services.
- *10 VPN related services: Services providing VPN (Virtual Private Network) functions and others. VPN is a technology to provide a virtually closed network, for example, a corporate intranet over the open network such as Internet with encryption technology and other security measures.
- *11 Network integration: Network integration is a service that a vendor comprehensively undertakes design, construction, operation and maintenance of communication networks of a corporate customers.

(ii) Analysis of Consolidated Results of Operations for the first six months of the 29th 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

	1H19	1H20	YoY Change
	JPY millions	JPY millions	%
Total revenues	99,220	101,665	2.5
Network services	61,204	62,104	1.5
Systems integration (SI)	35,916	38,167	6.3
ATM operation business	2,100	1,394	(33.6)
Total costs	(84,020)	(84,210)	0.2
Network services	(51,153)	(49,896)	(2.5)
Systems integration (SI)	(31,742)	(33,390)	5.2
ATM operation business	(1,125)	(924)	(17.8)
Total gross profit	15,200	17,455	14.8
Network services	10,051	12,208	21.5
Systems integration (SI)	4,174	4,777	14.5
ATM operation business	975	470	(51.8)
SG&A, R&D, and other operating income (expenses)	(11,848)	(12,216)	3.1
Operating profit	3,352	5,239	56.3
Profit before tax	3,043	4,466	46.7
Profit for the period attributable to owners of the parent	1,756	2,770	57.7

(Note) Systems integration revenue includes equipment sales revenue.

Segment Results Summary

	1H19	1H20
	JPY millions	JPY millions
Total revenues	99,220	101,665
Network services and SI business	97,265	100,360
ATM operation business	2,100	1,394
Elimination	(145)	(89)
Operating profit	3,352	5,239
Network service and SI business	2,557	4,923
ATM operation business	869	378
Elimination	(74)	(62)

i) Revenues

Total revenues were JPY101,665 million, up 2.5% YoY (JPY99,220 million for 1H19).

Network services revenue was JPY62,104 million, up 1.5% YoY (JPY61,204 million for 1H19).

Revenues for Internet connectivity services for enterprise were JPY19,650 million, up 8.7% YoY from JPY18,075 million for 1H19, mainly due to an increase in IP services revenues and mobile-related services revenues along with an increase of telecommunication demands.

Revenues for Internet connectivity services for consumers were JPY12,885 million, down 0.9% YoY from JPY12,997 million for 1H19, mainly due to competition and a decrease in “IIJmio Mobile Service,” consumer mobile services revenues, along with sluggish sales of retailers under the COVID-19 pandemic.

Revenues for WAN services were JPY12,336 million, down 14.0% YoY from JPY14,342 million for 1H19. The decrease was mainly because of the year over year impact by large enterprises clients’ migration to mobile which mostly ended in 3Q19.

Revenues for Outsourcing services were JPY17,233 million, up 9.1% YoY from JPY15,790 million for 1H19, mainly due to an increase in security-related services revenues.

Network Services Revenues Breakdown

	1H19	1H20	YoY Change
	JPY millions	JPY millions	%
Total network services	61,204	62,104	1.5
Internet connectivity services (enterprise)	18,075	19,650	8.7
IP services (including data center connectivity services)	5,314	5,849	10.1
IIJ Mobile services	11,133	12,035	8.1
IIJ Mobile MVNO Platform Service (MVNE)	8,234	8,551	3.9
Others	2,899	3,484	20.2
Others	1,628	1,766	8.4
Internet connectivity services (consumer)	12,997	12,885	(0.9)
IIJmio Mobile Service	11,710	11,549	(1.4)
Others	1,287	1,336	3.9
WAN services	14,342	12,336	(14.0)
Outsourcing services	15,790	17,233	9.1

Number of Contracts and Subscription for Connectivity Services

	As of September 30, 2019	As of September 30, 2020	YoY Change
Internet connectivity services (enterprise)	1,827,220	2,180,704	353,484
IP service (greater than or equal to 1Gbps)	743	778	35
IP service (less than 1Gbps)	1,240	1,239	(1)
IIJ Mobile Services	1,741,824	2,090,428	348,604
IIJ Mobile MVNO Platform Service (MVNE)	1,090,569	1,122,880	32,311
Others	651,255	967,548	316,293
Others	83,413	88,259	4,846
Internet connectivity services (consumer)	1,408,665	1,384,933	(23,732)
IIJmio Mobile Service	1,075,758	1,044,681	(31,077)
Others	332,907	340,252	7,345
Total contracted bandwidth (Gbps)	4,454.0	5,869.0	1,415.0

(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 JPY38,167 million, up 6.3% YoY (JPY35,916 million for 1H19).

Systems construction and equipment sales, a one-time revenue, was JPY13,020 million, down 5.3% YoY (JPY13,754 million for 1H19), mainly due to stagnation of business activities during April and May caused by the COVID-19 pandemic. Systems operation and maintenance revenue, a recurring revenue, was JPY25,147 million, up 13.5% YoY (JPY22,162 million for 1H19), mainly due to an increase in private cloud services' revenues.

Orders received for SI, including equipment sales, totaled JPY43,291 million, up 19.1% YoY (JPY36,351 million for 1H19); orders received for systems construction and equipment sales were JPY15,159 million, up 3.8% YoY (JPY14,610 million for 1H19), and orders received for systems operation and maintenance were JPY28,131 million, up 29.4% YoY (JPY21,741 million for 1H19).

Order backlog for SI, equipment sales, as of September 30, 2020 amounted to JPY60,988 million, up 18.3% YoY (JPY51,550 million as of September 30, 2019); order backlog for systems construction and equipment sales was JPY9,646 million, up 10.9% YoY (JPY8,696 million as of September 30, 2019) and order backlog for systems operation and maintenance was JPY51,341 million, up 19.8% YoY (JPY42,853 million as of September 30, 2019).

ATM operation business revenues were JPY1,394 million, down 33.6% YoY (JPY2,100 million for 1H19), mainly due to temporary closure of stores, to which we had placed ATMs, caused by the COVID-19 pandemic.

ii) Cost of sales

Total cost of sales was JPY84,210 million, up 0.2% YoY (JPY84,020 million for 1H19).

Cost of network services revenue was JPY49,896 million, down 2.5% YoY (JPY51,153 million for 1H19). There was a decrease in circuit-related costs along with WAN services revenue decrease. Gross profit was JPY12,208 million, up 21.5% YoY (JPY10,051 million for 1H19), and gross profit ratio was 19.7% (16.4% for 1H19).

Cost of SI revenues, including equipment sales was JPY33,390 million, up 5.2% YoY (JPY31,742 million for 1H19). There was an increase in license fees along with an increase in cloud-related revenues. Gross profit was JPY4,777 million, up 14.5% YoY (JPY4,174 million for 1H19) and gross profit ratio was 12.5% (11.6% for 1H19).

Cost of ATM operation business revenues was JPY924 million, down 17.8% YoY (JPY1,125 million for 1H19). Gross profit was JPY470 million (JPY975 million for 1H19) and gross profit ratio was 33.7% (46.4% for 1H19).

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

Selling, general and administrative expenses, which include research and development expenses, totaled JPY12,124 million, up 1.9% YoY (JPY11,901 million for 1H19). There were an increase in personnel-related expenses and decreases in sales commission expenses and traveling expenses.

Other operating income was JPY80 million (JPY159 million for 1H19).

Other operating expenses was JPY172 million (JPY106 million for 1H19), mainly due to disposal loss on fixed assets.

iv) Operating profit

Operating profit was JPY5,239 million (JPY3,352 million for 1H19), up 56.3% YoY.

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

Finance income was JPY109 million, compared to JPY119 million for 1H19. It included dividend income of JPY75 million (JPY61 million for 1H19).

Finance expense was JPY469 million, compared to JPY295 million for 1H19. It included interest expenses of JPY296 million (JPY279 million for 1H19) and loss on funds of JPY141 million mainly due to foreign exchange loss.

Share of loss of investments accounted for using equity method was JPY413 million (compared to loss of JPY133 million for 1H19), mainly due to our share of loss of in DeCurret of JPY578 million.

vii) Profit before tax

Profit before tax was JPY4,466 million (JPY3,043 million for 1H19), up 46.7% YoY.

viii) Profit for the period

Income tax expense was JPY1,656 million (JPY1,185 million for 1H19). As a result, profit for the period was JPY2,810 million (JPY1,858 million for 1H19), up 51.2% YoY.

Profit for the period attributable to non-controlling interests was JPY40 million (JPY102 million for 1H19) mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of parent was JPY2,770 million (JPY1,756 million for 1H19), up 57.7% YoY.

(2) Financial Position

As of September 30, 2020, the balance of total assets was JPY206,455 million, decreased by JPY69 million from the balance as of March 31, 2020 of JPY206,524 million.

As of September 30, 2020, the balance of current assets was JPY87,202 million, increased by JPY611 million from the balance as of March 31, 2020 of JPY86,590 million. The major breakdown of fluctuation and balance of current assets was: an increase in cash and cash equivalents by JPY2,931 million to JPY41,602 million, a decrease in trade receivables by JPY4,403 million to JPY28,182 million and an increase in prepaid expenses by JPY1,221 million to JPY10,918 million.

As of September 30, 2020, the balance of non-current assets was JPY119,253 million, decreased by JPY681 million from the balance as of March 31, 2020 of JPY119,934 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 JPY2,416 million to JPY48,144 million, mainly due to depreciation. The balance of investments accounted for using the equity method was JPY7,032 million, increased by JPY2,205 million, mainly due to an additional investment in DeCurret. The amount of other investments was JPY11,030 million, increased by JPY1,843 million mainly due to fluctuation of fair value of our holding marketable equity securities.

As of September 30, 2020, the balance of current liabilities was JPY65,581 million, decreased by JPY106 million from the balance as of March 31, 2020 of JPY65,687 million. Trade and other payables decreased by JPY2,643 million to JPY15,645 million. Borrowings increased by JPY3,170 million to JPY18,750 million. The breakdown of increase in the borrowings was: a decrease by JPY915 million due to payment of long-term borrowings, and an increase by JPY4,085 million due to a transfer from non-current liabilities. Contract liabilities increased by JPY1,532 million to JPY7,430 million, mainly due to prepayment received in operating transactions. Other financial liabilities decreased by JPY1,934 million to JPY15,911 million, mainly due to lease payments.

As of September 30, 2020, the balance of non-current liabilities was JPY57,059 million, decreased by JPY3,722 million from the balance as of March 31, 2020 of JPY60,780 million. Long-term borrowings decreased by JPY4,085 million to JPY8,085 million due to a transfer to current portion. Other financial liabilities decreased by JPY1,195 million to JPY35,111 million, mainly due to a transfer to current portion.

As of September 30, 2020, the balance of total equity attributable to owners of the parent was JPY82,850 million, increased by JPY3,774 million from the balance as of March 31, 2020 of JPY79,076 million. Ratio of owners' equity to total assets was 40.1% as of September 30, 2020.

(3) Cash Flows

Cash and cash equivalents as of September 30, 2020 were JPY41,602 million (JPY34,036 million as of September 30, 2019).

Cash Flows provided by Operating Activities

Net cash provided by operating activities for 1H20 was JPY21,498 million (net cash provided by operating activities of JPY13,394 million for 1H19). There was profit before tax of JPY4,466 million, depreciation and amortization of JPY14,156 million, including JPY5,984 million of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY2,045 million. Regarding changes in operating assets and liabilities, there was net cash in of JPY4,022 million compared to net cash out of JPY2,947 million for 1H19, mainly due to increases in proceeds related to decrease in trade receivable and increase in contract liabilities, which included prepayment of revenue, increased in comparison with 1H19. As for trade and other payables, which was temporarily increased at the beginning of the fiscal year ended March 31, 2020, the cash out for 1H20 decreased compared to 1H19.

Cash Flows used in Investing Activities

Net cash used in investing activities for 1H20 was JPY6,547 million (net cash used in investing activities of JPY4,087 million for 1H19), mainly due to payments for purchase of tangible assets of JPY2,754 million (JPY4,788 million for 1H19), payments for purchase of intangible assets, such as software, of JPY2,772 million (JPY2,422 million for 1H19), proceeds from sales of tangible assets, which include sale and leaseback, of JPY1,448 million (JPY818 million for 1H19) and an investment in an equity method investee of JPY2,754 million.

Cash Flows used in Financing Activities

Net cash used in financing activities for 1H20 was JPY11,969 million (net cash used in financing activities of JPY7,139 million for 1H19), mainly due to repayments of long-term borrowings of JPY915 million, payments of other financial liabilities of JPY10,390 million, including JPY5,933 million of payment of operating lease under IFRS 16, and dividends paid of JPY609 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 1H20.

(5) Research and developments

For 1H20, research and development expenses, which were in relation to network services and systems integration business segment, were JPY221 million, increased by 11.3% compared to JPY199 million for 1H19.

(6) Number of employees

There were no material changes in the number of employees of the Company during 1H20.

(i) Consolidated basis

As of September 30, 2020

Number of Employees	3,780 (49)
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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 full fiscal year is shown in brackets.

(ii) IJ (non-consolidated basis)

As of September 30, 2020

Number of Employees	2,191 (27)
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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 full fiscal year is shown in brackets.

(7) Production, Orders Received and Sales

(i) Production

Production results for the six months ended September 30, 2020 were as follows :

Type of Services	Six months ended September 30, 2020	
	Production (thousands of yen)	Year over year comparison (%)
Systems Integration, including Equipment Sales	33,601,886	9.2
Total	33,601,886	9.2

(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 six months ended September 30, 2020 and order backlog as of September 30, 2020 were as follows:

Type of Services	Six months ended September 30, 2020			
	Orders Received (thousands of yen)	Year over Year comparison (%)	Order Backlog (thousands of yen)	Year over Year comparison (%)
Systems Construction and Equipment Sales	15,159,380	3.8	9,646,381	10.9
Systems Operation and Maintenance	28,131,230	29.4	51,341,222	19.8
Total	43,290,610	19.1	60,987,603	18.3

(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 six months ended September 30, 2020 were as follows:

Type of services	Six months ended September 30, 2020	
	Revenue (thousands of yen)	Year over year comparison (%)
Network services	62,104,244	1.5
Internet connectivity services (enterprise)	19,649,880	8.7
Internet connectivity services (consumer)	12,885,541	(0.9)
WAN services	12,335,545	(14.0)
Outsourcing services	17,233,278	9.1
Systems integration	38,166,674	6.3
Systems construction and equipment sales	13,019,790	(5.3)
Systems operation and maintenance	25,146,884	13.5
ATM operation business	1,394,072	(33.6)
Total revenues	101,664,990	2.5

(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 six months ended September 30, 2020.

3 Material Contracts, etc.

Not applicable.

Item 3. Information on IIJ

1 Information on IIJ's Shares

(1) Total Number of Shares

(i) 【Total Number of Shares】

Class	Total number of shares authorized to be issued (shares)
Common stock	75,520,000
Total	75,520,000

(ii) 【Number of shares issued】

Class	Number of shares issued as of the end of period (shares) (September 30, 2020)	Number of shares issued as of the filing date (shares) (November 16, 2020)	Stock exchange on which IIJ is listed or authorized financial instruments firms association	Description
Common stock	46,734,600	46,734,600	Tokyo Stock Exchange (the first section)	The number of shares constituting a unit is 100.
Total	46,734,600	46,734,600	—	—

(2) Information on Stock Acquisition Rights

(i) Description of Stock Option System

Stock-Compensation-Type Stock Options (Stock Acquisition Rights)

Under this stock compensation-type stock option plan, IIJ's directors (excluding part-time directors and outside directors) and executive officers will receive stock acquisition rights as stock-based compensation stock options, which are issued and allocated in accordance with the Companies Act, as a substitution for the abolished retirement benefit plan for directors.

Stock acquisition rights issued during the three month ended September 30, 2020 are as follows.

Date of resolution	June 24, 2020
Class and number of person for subscription rights to shares	7 Full-time Directors and 14 Executive Officers
Number of stock acquisition rights outstanding (Number) *	104 (Note 1)
Type of stock and number of shares subject to stock acquisition rights (Share) *	Common stock, 20,800 (Note 1)
Amount to be paid in upon exercise of subscription rights to shares (JPY)	The value of assets to be contributed upon exercise of stock acquisition rights shall be determined by multiplying the price to be paid per share upon exercise of each stock acquisition right (the "exercise price") by the Number of Shares Granted, and the exercise price shall be one (1) yen.
Exercise period of subscription rights to shares	From July 11, 2020 to July 10, 2050
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares (JPY)	Price of issuing shares : JPY3,218 Amount of capitalization : JPY1,609
Condition for exercise of subscription rights to shares	(Note 2)
Matters regarding acquisition of subscription rights to shares through transfer	Acquisition of subscription rights to shares through transfer shall be subject to approval by resolution of the Board of Directors
Matters regarding the grant of subscription rights to shares to upon organizational restructuring	(Note 3)

* The contents are described as of July 10, 2020, when the stock acquisition rights were issued.

(Notes)

1. Class and number of shares to be issued upon exercise of stock acquisition rights

The class of shares to be issued upon exercise of stock acquisition rights shall be common stock of IJJ. The number of shares to be issued upon exercise of each stock acquisition right (hereinafter referred as “Number of Shares Granted”) shall be one (1).

$$\begin{array}{ccccccc} \text{Number of Shares} & & & & & & \\ \text{Granted after} & = & \text{Number of Shares} & \times & \text{Ratio of share split} & & \\ \text{adjustment} & & \text{Granted before} & & \text{or share consolidation} & & \\ & & \text{adjustment} & & & & \end{array}$$

In the case of a share split, the Number of Shares Granted after adjustment shall apply from the day after the record date of said share split. Whereas, in the case of a share consolidation, the Number of Shares Granted after adjustment shall apply from the day the share consolidation becomes effective. This is provided, however, that in cases where IJJ conducts a share split conditional on approval at a General Meeting of Shareholders of IJJ of a proposal to reduce surplus and increase capital stock and capital reserve, the record date for the share split shall be the day prior to the day on which said shareholders’ meeting closes, the Number of Shares Granted after adjustment shall retroactively apply from the day after the day the applicable shareholders’ meeting closes and the day following the applicable record date.

2. Terms and conditions of exercising stock acquisition rights

- 1) Partial execution of each stock acquisition right is not allowed.
- 2) A person granted the stock acquisition rights may exercise these rights only within ten (10) days from the day following the day the person loses his or her position as a Director or Executive Officer of IJJ, except for losing his or her position by passing away. However, this does not apply if his or her legal heir who inherits the stock acquisition rights as described in the following paragraph 3) exercises the rights.
- 3) If a person granted the stock acquisition rights passes away, only one of his or her legal heir is permitted to inherit the granted stock acquisition rights (hereinafter referred to as the “Grantee”), The Grantee can exercise the rights only within six (6) months after inheriting the new share acquisition rights. If the Grantee passes away, the stock acquisition rights cannot be passed on to the legal heir of the Grantee.
- 4) The Share Purchase Warrants shall not be transferred to third parties, offered for pledge or disposed of in any other way
- 5) Matters concerning other conditions for the exercise of stock acquisition rights, other than the items prescribed above, shall be determined at the meeting of the Board of Directors when the terms and conditions of offering of stock acquisition rights are determined.

3. Matters concerning the details of the issuance of stock acquisition rights undergoing Organizational Restructuring

In the event IJJ merges (limited to cases wherein IJJ becomes a dissolving company), performs an absorption-type demerger or an incorporation-type demerger (only if IJJ becomes the split company), or conducts a share exchange or a share transfer (only if IJJ becomes a wholly owned subsidiary) (hereinafter collectively referred to as “Organizational Restructuring”), stock acquisition rights of a corporation described in Article 236, Paragraph 1, Items 8.1 through 8.5 of the Corporation Law of Japan (hereinafter “Restructured Company”) shall be granted to each Stock Acquisition Right Holder remaining unexercised (hereinafter “Remaining Stock Acquisition Rights”) immediately before the date when Organizational Restructuring takes effect (refers to the date when the absorption-type merger takes effect, the date on which the company is incorporated through the incorporation-type merger, the date when the absorption-type demerger takes effect, the date on which the company incorporated through the incorporation-type demerger, the date when share exchange takes effect, or the date when the wholly owning parent company is established by share transfer). However, the foregoing shall apply only to cases in which the delivery of stock acquisition rights of the Restructured Company according to the following conditions is stipulated in the absorption-type merger agreement, the incorporation-type merger agreement, the absorption-type demerger agreement, the incorporation-type demerger plan, the share exchange agreement or the share transfer plan.

- 1) Number of stock acquisition rights of the Restructured Company to be delivered
IJJ shall deliver stock acquisition rights, the number of which shall equal the number of stock acquisition rights held by the holder of the Remaining Stock Acquisition Rights.
- 2) Class of shares of the Restructured Company to be issued upon exercise of stock acquisition rights
Common stock of the Restructured Company
- 3) Number of shares of the Restructured Company to be issued upon exercise of stock acquisition rights
To be decided according to Note 1 above after taking into consideration the conditions, etc., of the Organizational Restructuring.
- 4) Value of the assets to be contributed upon exercise of stock acquisition rights
The value of the assets to be contributed upon exercise of each stock acquisition right shall be the amount obtained by multiplying the amount to be paid after restructuring as stipulated below, and the number of shares of the Reorganized Company to be issued upon exercise of the stock acquisition rights as determined in accordance with 3) above. The amount to be paid after restructuring shall be one (1) yen per share of the Restructured Company that can be granted due to the exercise of each stock acquisition right to be granted.
- 5) Exercise period of stock acquisition rights
Starting from the later of either the commencement date of the exercise period of stock acquisition rights as stipulated above, or the date on which the Organizational Restructuring becomes effective, and ending on the expiration date for the exercise of stock acquisition rights as stipulated in above.
- 6) Matters concerning increase in capital stock and capital reserve to be increased by the issuance of shares upon exercise of stock acquisition rights
 - (a) Amount of increase in capital stock by issuing shares upon exercise of stock acquisition rights shall be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance for Corporate Accounting, with the resulting fractions of less than one (1) yen occurring upon such calculation being rounded up to the nearest yen.
 - (b) The amount of increase in capital reserve by issuing shares upon exercise of stock acquisition rights shall be the upper limit of capital increase as described in (a) above less the amount of increase in capital set out therein.
- 7) Restriction on acquisition of stock acquisition rights by transfer
Any acquisition of stock acquisition rights by transfer shall be subject to approval by resolution of the Board of Directors of the Restructured Company.
- 8) Conditions for acquisition of stock acquisition right
Should a resolution for the approval of any of the proposals (a) or (b) below be adopted at the General Meeting of Shareholders of IJJ (or at a meeting of the Board of Directors of IJJ if a resolution at a General Meeting of Shareholders is not required), IJJ may acquire the stock acquisition rights as at the date specifically determined by the Board of Directors of IJJ without contribution.
 - (a) Proposal for approval of a merger agreement under which IJJ shall be merged

- (b) Proposal for approval of a share exchange agreement or share transfer plan under which IJJ shall be a wholly owned subsidiary
- 9) Other terms and conditions of exercising stock acquisition rights
To be determined in accordance with Note 2 below.

(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 July 1, 2020 to September 30, 2020	—	46,734,600	—	22,991,399	—	9,712,083

(5) Major Shareholders

As of September 30, 2020

Name	Address	Number of shares held (shares)	Ownership percentage of the total number of issued shares other than treasury stock (%) (Note) 1
NIPPON TELEGRAPH AND TELEPHONE CORPORATION	5-1 Otemach 1-chome, Chiyoda-ku, Tokyo	10,095,000	22.38
The Master Trust Bank of Japan, Ltd. (Trust account) (Note 2)	11-3 Hamamatsu-cho 2-chome, Minato-ku, Tokyo	2,593,100	5.75
Custody Bank of Japan, Ltd. (Trust account) (Note 2)	8-12 Harumi 1-chome, Chuo-ku, Tokyo	2,153,600	4.77
NTT Communications Corporation	3-1 Otemach 2-chome, Chiyoda-ku, Tokyo	2,040,000	4.52
ITOCHU Techno-Solutions Corporation	2-5 Kasumigaseki 3-chome, Chiyoda-ku, Tokyo	1,952,000	4.33
Koichi Suzuki	Chiyoda-ku, Tokyo	1,839,767	4.08
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Trust & Custody Services Bank, Ltd.)	13-1 Yurakucho 1-chome, Chiyoda-ku, Tokyo (8-12 Harumi 1-chome, Chuo-ku, Tokyo)	1,273,000	2.82
KS Holdings Inc. (Note 3)	5-3 Nishi-Kanda 3-chome, Chiyoda-ku, Tokyo	810,000	1.80
MUFG Bank, Ltd.	7-1 Marunouchi 2-chome, Chiyoda-ku, Tokyo	686,000	1.52
Sompo Japan Insurance Inc.	26-1 Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo	650,000	1.44
Total	—	24,092,467	53.42

(Notes)

1. The percentage are rounded to two decimal places.
2. Numbers of shares held by The Master Trust Bank of Japan, Ltd. and Custody Bank of Japan, Ltd. are those related to trust business.
3. KS Holdings Inc. is a wholly owned and controlled (indirect) by Mr. Koichi Suzuki.
4. Dalton Investments L.L.C. (“Dalton”) filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on May 22, 2019. According to the filing, Dalton owned 2,949,600 shares of common stock of IJ as of May 17, 2019, representing 6.31% of the total at that point. Dalton also filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on April 30, 2020. According to the filing, Dalton owned 1,975,500 shares of common stock of IJ as of April 24, 2020, representing 4.23% of the total at that point. Their holdings were not verified based on the shareholder record as of September 30, 2020, therefore, Dalton and their holdings are not included in the above list.
5. Global Alpha Capital Management Ltd. (“Global Alpha”) filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on March 15, 2019. According to the filing, Global Alpha owned 2,838,926 shares of common stock of IJ as of March 12, 2019, representing 6.08% of the total at that point. Global Alpha also filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on June 11, 2020. According to the filing, Global Alpha owned 2,326,180 shares of common stock of IJ as of June 9, 2020, representing 4.98% of the total at that point. Their holdings were not verified based on the shareholder record as of September 30, 2020, therefore, Global Alpha and their holdings are not included in the above list.
6. There were 1,631,766 shares of treasury stock, which were not included in the above table.

(6) Information on Voting Rights

(i) Issued shares

As of September 30, 2020

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: 1,631,700 shares of common stock	—	—
Shares with Full Voting Rights (others)	45,085,700 shares of common stock	450,857	—
Shares Representing Less than One Unit	17,200 shares of common stock	—	—
Number of Issued Shares	46,734,600 shares of common stock	—	—
Total Number of Voting Rights	—	450,857	—

(Note) 66 shares of treasury stock are included in “Shares Representing Less than One Unit.”

(ii) Treasury Stock

As of September 30, 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	1,631,700	—	1,631,700	3.49
Total	—	1,631,700	—	1,631,700	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, 2020 (filed on June 30, 2020) to September 30, 2020 (the last day of 1H20).

Item 4. Financial Information

1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Financial Position

	Note	March 31, 2020	September 30, 2020
		Thousands of yen	Thousands of yen
Assets			
Current Assets			
Cash and cash equivalents		38,671,734	41,602,490
Trade receivables		32,585,326	28,182,295
Inventories		2,476,477	2,547,154
Prepaid expenses		9,696,856	10,918,322
Contract assets		438,675	1,573,282
Other financial assets	6,12	2,629,332	1,849,014
Other current assets		92,027	529,285
Total Current Assets		86,590,427	87,201,842
Non-current Assets			
Tangible assets		17,399,863	16,205,648
Right-of-use Assets		50,560,361	48,144,151
Goodwill		6,082,472	6,082,472
Intangible assets		18,280,247	17,700,998
Investments accounted for using the equity method		4,827,287	7,032,083
Prepaid expenses		7,777,997	8,178,016
Contract assets		60,362	37,180
Other investments	12	9,186,646	11,029,766
Deferred tax assets		742,857	151,546
Other financial assets	6,12	4,645,959	4,292,266
Other non-current assets		369,782	399,188
Total non-current assets		119,933,833	119,253,314
Total assets		206,524,260	206,455,156

	Note	March 31, 2020	September 30, 2020
		Thousands of yen	Thousands of yen
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		18,287,546	15,644,741
Borrowings	12	15,580,000	18,750,000
Income taxes payable		2,283,707	1,810,593
Contract liabilities		5,897,674	7,429,837
Deferred income		88,901	86,319
Other financial liabilities	7,12	17,845,194	15,911,013
Other current liabilities		5,703,623	5,948,540
Total current liabilities		65,686,645	65,581,043
Non-current liabilities			
Borrowings	12	12,170,000	8,085,000
Retirement benefit liabilities		3,984,880	4,154,275
Provisions		753,518	754,960
Contract liabilities		5,991,807	7,302,220
Deferred income		479,097	440,016
Deferred tax liabilities		136,536	195,876
Other financial liabilities	7,12	36,305,781	35,111,020
Other non-current liabilities		958,879	1,015,595
Total non-current liabilities		60,780,498	57,058,962
Total liabilities		126,467,143	122,640,005
Equity			
Share capital		25,530,621	25,530,621
Share premium		36,271,395	36,355,490
Retained earnings		16,500,993	18,914,141
Other components of equity		2,669,501	3,924,650
Treasury shares		(1,896,921)	(1,875,112)
Total equity attributable to owners of the parent		79,075,589	82,849,790
Non-controlling interests		981,528	965,361
Total equity		80,057,117	83,815,151
Total liabilities and equity		206,524,260	206,455,156

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Note	Six Months Ended September 30, 2019	Six Months Ended September 30, 2020
		Thousands of yen	Thousands of yen
Revenues			
Network services		61,203,901	62,104,244
System integration		35,915,608	38,166,674
ATM operation business		2,100,026	1,394,072
Total revenues	5,9	99,219,535	101,664,990
Cost of sales			
Cost of network services		(51,153,590)	(49,896,323)
Cost of systems integration		(31,741,986)	(33,389,930)
Cost of ATM operation business		(1,124,746)	(924,119)
Total cost of sales		(84,020,322)	(84,210,372)
Gross Profit		15,199,213	17,454,618
Selling, general and administrative expense		(11,900,630)	(12,124,184)
Other operating income		159,068	80,433
Other operating expenses		(105,701)	(171,818)
Operating Profit		3,351,950	5,239,049
Finance income	12	118,609	109,178
Finance expenses	12	(294,150)	(468,831)
Share of profit (loss) of investments accounted for using equity method	10	(133,121)	(413,535)
Profit (loss) before tax		3,043,288	4,465,861
Income tax expense		(1,184,935)	(1,656,268)
Profit (loss) for the period		1,858,353	2,809,593
Profit (loss) for the period attributable to:			
Owners of the parent		1,756,102	2,769,928
Non-controlling interests		102,251	39,665
Total		1,858,353	2,809,593
Earnings per share			
	11		
Basic earnings per share (yen)		38.96	61.43
Diluted earnings per share (yen)		38.79	61.13

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Note	Three Months Ended September 30, 2019	Three Months Ended September 30, 2020
		Thousands of yen	Thousands of yen
Revenues			
Network services		30,524,316	31,170,310
System integration		17,806,404	19,291,714
ATM operation business		1,059,971	824,461
Total revenues	5,9	49,390,691	51,286,485
Cost of sales			
Cost of network services		(25,492,608)	(24,952,979)
Cost of systems integration		(15,522,606)	(16,506,123)
Cost of ATM operation business		(557,828)	(485,822)
Total cost of sales		(41,573,042)	(41,944,924)
Gross Profit		7,817,649	9,341,561
Selling, general and administrative expense		(5,858,938)	(6,075,336)
Other operating income		46,409	32,282
Other operating expenses		(34,129)	(106,687)
Operating Profit		1,970,991	3,191,820
Finance income	12	97,173	40,502
Finance expenses	12	(148,227)	(326,064)
Share of profit (loss) of investments accounted for using equity method	10	(245,328)	(134,628)
Profit (loss) before tax		1,674,609	2,771,630
Income tax expense		(642,010)	(1,084,076)
Profit (loss) for the period		1,032,599	1,687,554
Profit (loss) for the period attributable to:			
Owners of the parent		979,589	1,653,615
Non-controlling interests		53,010	33,939
Total		1,032,599	1,687,554
Earnings per share			
Basic earnings per share (yen)	11	21.73	36.66
Diluted earnings per share (yen)		21.63	36.48

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Six Months Ended September 30, 2019	Six Months Ended September 30, 2020
	Thousands of yen	Thousands of yen
Profit (loss)	1,858,353	2,809,593
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	817,704	1,560,647
Total items that will not be reclassified to profit or loss	817,704	1,560,647
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(117,773)	(42,769)
Financial assets measured at fair value through other comprehensive income	974	219
Share of other comprehensive income of investments accounted for using equity method	2,493	(11,099)
Total of items that may be reclassified to profit or loss	(114,306)	(53,649)
Total other comprehensive income, net of tax	703,398	1,506,998
Other comprehensive income	2,561,751	4,316,591
Other comprehensive income attributable to:		
Owners of the parent	2,459,500	4,276,926
Non-controlling interest	102,251	39,665
Other comprehensive income	2,561,751	4,316,591

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2020
	Thousands of yen	Thousands of yen
Profit (loss)	1,032,599	1,687,554
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	165,547	364,811
Total items that will not be reclassified to profit or loss	165,547	364,811
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(20,231)	(17,304)
Financial assets measured at fair value through other comprehensive income	289	82
Share of other comprehensive income of investments accounted for using equity method	(1,469)	20,295
Total of items that may be reclassified to profit or loss	(21,411)	3,073
Total other comprehensive income, net of tax	144,136	367,884
Other comprehensive income	1,176,735	2,055,438
Other comprehensive income attributable to:		
Owners of the parent	1,123,725	2,021,499
Non-controlling interest	53,010	33,939
Other comprehensive income	1,176,735	2,055,438

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
Six months ended September 30, 2019

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		
Balance, April 1, 2019	25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610
Cumulative impact of adopting IFRS 16	-	-	(33,728)	-	-	(33,728)	-	(33,728)
Comprehensive income								
Profit (loss)	-	-	1,756,102	-	-	1,756,102	102,251	1,858,353
Other comprehensive income	-	-	-	703,398	-	703,398	-	703,398
Total comprehensive income	-	-	1,756,102	703,398	-	2,459,500	102,251	2,561,751
Transactions with owners								
Issuance of common stock	11,909	(11,895)	-	-	-	14	-	14
Dividends paid	8	-	(608,452)	-	-	(608,452)	(53,405)	(661,857)
Stock-based compensation	-	28,615	-	-	-	28,615	-	28,615
Transfer from other components of equity to retained earnings	-	-	1,543,793	(1,543,793)	-	-	-	-
Total transactions with owners	11,909	16,720	935,341	(1,543,793)	-	(579,823)	(53,405)	(633,228)
Balance, September 30, 2019	25,530,621	36,242,495	14,992,750	3,248,309	(1,896,788)	78,117,387	897,018	79,014,405

Six months ended September 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		
Balance, April 1, 2020	25,530,621	36,271,395	16,500,993	2,669,501	(1,896,921)	79,075,589	981,528	80,057,117
Comprehensive income								
Profit (loss)	-	-	2,769,928	-	-	2,769,928	39,665	2,809,593
Other comprehensive income	-	-	-	1,506,998	-	1,506,998	-	1,506,998
Total comprehensive income	-	-	2,769,928	1,506,998	-	4,276,926	39,665	4,316,591
Transactions with owners								
Purchase of treasury stock	-	-	-	-	(140)	(140)	-	(140)
Disposal of treasury shares	-	52,917	-	-	21,949	74,866	-	74,866
Dividends paid	8	-	(608,629)	-	-	(608,629)	(55,832)	(664,461)
Stock-based compensation	-	31,178	-	-	-	31,178	-	31,178
Transfer from other components of equity to retained earnings	-	-	251,849	(251,849)	-	-	-	-
Total transactions with owners	-	84,095	(356,780)	(251,849)	21,809	(502,725)	(55,832)	(558,557)
Balance, September 30, 2020	25,530,621	36,355,490	18,914,141	3,924,650	(1,875,112)	82,849,790	965,361	83,815,151

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended September 30, 2019	Six Months Ended September 30, 2020
	Thousands of yen	Thousands of yen
Cash flows from operating activities:		
Profit (loss) before tax	3,043,288	4,465,861
Adjustments		
Depreciation and amortization	14,299,860	14,155,824
Loss (gain) on sales/disposals of property and equipment	82,881	146,543
Shares of loss (profit) of investments accounted for using the equity method	133,121	413,535
Finance income	(107,725)	(106,976)
Finance expenses	296,483	485,895
Other	39,524	99,910
Changes in working capital		
Decrease (increase) in trade receivables	4,054,551	4,394,275
Decrease (increase) in inventories	1,353,994	(70,127)
Decrease (increase) in prepaid expenses	(1,982,541)	(1,648,603)
Decrease (increase) in contract assets	(927,948)	(1,111,425)
Decrease (increase) in other assets	190,111	(437,263)
Decrease (increase) in other financial assets	(621,923)	1,421,035
Increase (decrease) in trade and other payables	(5,221,511)	(1,573,038)
Increase (decrease) in contract liabilities	532,782	2,872,875
Increase (decrease) in deferred income	(62,455)	(41,663)
Increase (decrease) in other liabilities	(285,697)	90,580
Increase (decrease) in other financial liabilities	(101,021)	(44,324)
Increase (decrease) in retirement benefit liabilities	124,434	169,395
Subtotal	14,840,208	23,682,309
Interest and dividends received	162,887	159,256
Interest paid	(279,359)	(298,015)
Income taxes paid	(1,329,835)	(2,045,413)
Cash flows from operating activities	13,393,901	21,498,137

	Six Months Ended September 30, 2019	Six Months Ended September 30, 2020
	Thousands of yen	Thousands of yen
Cash flows from investing activities		
Purchases of tangible assets	(4,788,074)	(2,753,663)
Proceeds from sales of tangible assets	817,601	1,447,635
Purchases of intangible assets	(2,422,464)	(2,772,180)
Proceeds from sales of intangible assets	260,264	137
Purchase of investments accounted for using equity method	(498,000)	(2,754,000)
Proceeds from sale of investments accounted for using equity method	-	60,637
Purchases of other investments	(42,740)	(57,500)
Proceeds from sales of other investments	2,673,101	392,365
Payments for leasehold deposits and guarantee deposits	(85,874)	(90,868)
Proceeds from collection of leasehold deposits and guarantee deposits	12,089	8,896
Payments for refundable insurance policies	(28,170)	(28,170)
Other	14,833	-
Cash flows from investing activities	(4,087,434)	(6,546,711)
Cash flows from financing activities		
Repayment of long-term borrowings	(750,000)	(915,000)
Net increase (decrease) in short-term borrowings	3,030,000	-
Proceeds from other financial liabilities	1,473,000	-
Payments of other financial liabilities	(10,229,755)	(10,389,786)
Dividends paid	(608,452)	(608,629)
Other	(53,418)	(55,832)
Cash flows from financing activities	(7,138,625)	(11,969,247)
Effect of exchange rate changes on cash and cash equivalents	(89,173)	(51,423)
Net increase (decrease) in cash and cash equivalents	2,078,669	2,930,756
Cash and cash equivalents, beginning of the period	31,957,789	38,671,734
Cash and cash equivalents, end of the period	34,036,458	41,602,490

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/>—. The condensed consolidated financial statements of IIJ for the period ended September 30, 2020 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, 2020.

(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.

(4) Changes in Presentation

(Condensed Consolidated Statements of Financial Position)

Certain reclassifications have been made to the prior period to conform to the current fiscal year presentations. “Contract assets,” which had been previously included in “Trade receivables” and “Other financial assets”, is separately disclosed to increase clarity of the disclosure. To reflect this change of presentation, the consolidated financial statements of the prior period is reclassified.

As the result, in the statements of financial position as of March 31, 2020, ¥397,122 thousand in the “Trade receivables” and ¥41,553 thousand in the “Other financial assets” in the current assets is reclassified into “Contract assets” in the current assets. Also, ¥60,362 thousand in the “Other financial assets” in the non-current assets is reclassified into “Contract assets” in the non-current assets.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied to the condensed consolidated financial statements for the six months ended September 30, 2020 are the same as those applied to the consolidated financial statements for the fiscal year ended March 31, 2020. Meanwhile, income taxes for the six months ended September 30, 2020 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 six months ended September 30, 2020 including the effects of COVID-19 are same as those on the consolidated financial statements for the year ended March 31, 2020.

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 IJ, 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 IJ 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 six months ended September 30, 2019

	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	97,119,509	2,100,026	—	99,219,535
Intersegment transactions	145,707	—	(145,707)	—
Total revenue	97,265,216	2,100,026	(145,707)	99,219,535
Segment operating profit	2,556,755	868,951	(73,756)	3,351,950
Finance income				118,609
Finance expense				(294,150)
Share of profit (loss) of investments accounted for using the equity method				(133,121)
Profit before taxes				3,043,288

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

For the six months ended September 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		
Revenue				
Customers	100,270,918	1,394,072	—	101,664,990
Intersegment transactions	89,384	—	(89,384)	—
Total revenue	100,360,302	1,394,072	(89,384)	101,664,990
Segment operating profit	4,922,707	378,434	(62,092)	5,239,049
Finance income				109,178
Finance expense				(468,831)
Share of profit (loss) of investments accounted for using the equity method				(413,535)
Profit before tax				4,465,861

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

For the three months ended September 30, 2019

	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		
Revenue				
Customers	48,330,720	1,059,971	—	49,390,691
Intersegment transactions	72,191	—	(72,191)	—
Total revenue	48,402,911	1,059,971	(72,191)	49,390,691
Segment operating profit	1,557,358	450,228	(36,595)	1,970,991
Finance income				97,173
Finance expense				(148,227)
Share of profit (loss) of investments accounted for using the equity method				(245,328)
Profit before taxes				1,674,609

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

For the three months ended September 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	50,462,024	824,461	—	51,286,485
Intersegment transactions	40,435	—	(40,435)	—
Total revenue	50,502,459	824,461	(40,435)	51,286,485
Segment operating profit	2,932,170	289,831	(30,181)	3,191,820
Finance income				40,502
Finance expense				(326,064)
Share of profit (loss) of investments accounted for using the equity method				(134,628)
Profit before taxes				2,771,630

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

6. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

	March 31, 2020	September 30, 2020
	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost		
Other receivable	1,665,198	836,857
Guarantee deposit	3,331,561	3,425,592
Loans receivable	35,068	36,201
Other	17,864	75,888
Lease receivable	2,225,600	1,766,742
Total	7,275,291	6,141,280
Current assets	2,629,332	1,849,014
Non-current assets	4,645,959	4,292,266
Total	7,275,291	6,141,280

7. OTHER FINANCIAL LIABILITIES

The components of other financial liabilities are as follows:

	<u>March 31, 2020</u>	<u>September 30, 2020</u>
	Thousands of yen	Thousands of yen
Financial liabilities measured at amortized cost		
Account payable—non-current	661,154	247,040
Deposit payable	203,212	217,836
Others	632,121	435,245
Lease obligations	52,654,488	50,121,912
Total	<u>54,150,975</u>	<u>51,022,033</u>
Current liabilities	17,845,194	15,911,013
Non-current liabilities	36,305,781	35,111,020
Total	<u>54,150,975</u>	<u>51,022,033</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, 2020</u>	<u>September 30, 2020</u>
	Thousands of yen	Thousands of yen
Financial leases	18,062,638	17,983,800
Other leases	34,591,850	32,138,112

8. DIVIDENDS PAID

For the six months ended September 30, 2019

(1) Cash dividends paid.

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 27, 2019 Ordinary General Meeting of Shareholders	608,452	13.50	March 31, 2019	June 28, 2019

(2) Cash dividends of which effective date belongs to next quarter.

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
November 8, 2019 Board of directors meeting	608,630	13.50	September 30, 2019	December 6, 2019

For the six months ended September 30, 2020

(1) Cash dividends paid.

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

(2) Cash dividends of which effective date belongs to next quarter.

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
November 9, 2020 Board of directors meeting	924,608	20.50	September 30, 2020	December 4, 2020

9. 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 six months ended	For the six months ended
	September 30, 2019	September 30, 2020
	Thousands of yen	Thousands of yen
Network services	61,203,901	62,104,244
Internet connectivity services (enterprise)	18,074,951	19,649,880
Wan services	14,342,498	12,335,545
Outsourcing services	15,789,561	17,233,278
Internet connectivity services (consumer)	12,996,891	12,885,541
Systems integration	35,915,608	38,166,674
Systems construction	13,753,234	13,019,790
Systems operation and maintenance	22,162,374	25,146,884
ATM operation business	2,100,026	1,394,072
Total	99,219,535	101,664,990

	For the three months	For the three months
	ended September 30, 2019	ended September 30, 2020
	Thousands of yen	Thousands of yen
Network services	30,524,316	31,170,310
Internet connectivity services (enterprise)	9,148,830	9,841,224
Wan services	6,918,484	6,160,755
Outsourcing services	7,959,745	8,736,633
Internet connectivity services (consumer)	6,497,257	6,431,698
Systems integration	17,806,404	19,291,714
Systems construction	6,504,025	6,470,084
Systems operation and maintenance	11,302,379	12,821,630
ATM operation business	1,059,971	824,461
Total	49,390,691	51,286,485

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.

10. SHARE OF PROFIT OF INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Share of profit of investments accounted for using equity method included gains on changes in equity of ¥375,530 thousand from issuance of common stock of DeCurret Inc., which is accounted for equity method for the six months ended September 30 2019.

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 were as follows:

	For the six months ended September 30, 2019	For the six months ended September 30, 2020
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	1,756,102	2,769,928
Earnings adjustment (thousands of yen)	—	—
Earnings used to calculate earnings per share — diluted (thousands of yen)	1,756,102	2,769,928
Denominator :		
Weighted average number of shares — basic (shares)	45,077,125	45,092,357
Dilution arising from stock options (shares)	196,243	221,433
Weighted average number of shares — diluted (shares)	45,273,368	45,313,790
Earnings per share attributable to owners of the parent		
Basic (yen)	38.96	61.43
Diluted (yen)	38.79	61.13
	For the three months ended September 30, 2019	For the three months ended September 30, 2020
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	979,589	1,653,615
Earnings adjustment (thousands of yen)	—	—
Earnings used to calculate earnings per share — diluted (thousands of yen)	979,589	1,653,615
Denominator :		
Weighted average number of shares — basic (shares)	45,083,689	45,100,969
Dilution arising from stock options (shares)	196,519	225,639
Weighted average number of shares — diluted (shares)	45,280,208	45,326,608
Earnings per share attributable to owners of the parent		
Basic (yen)	21.73	36.66
Diluted (yen)	21.63	36.48

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, 2020

	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	—	111,510	—	111,510
Equity-based financial assets measured at FVTOCI				
Equity securities	5,163,326	—	1,488,361	6,651,687
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	2,348,265	2,348,265
Other financial assets	—	75,184	—	75,184

September 30, 2020

	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	—	111,830	—	111,830
Equity-based financial assets measured at FVTOCI				
Equity securities	7,132,892	—	1,464,329	8,597,221
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	2,247,176	2,247,176
Other financial assets	—	73,539	—	73,539

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 six month periods ended September 30, 2019 and 2020 were as follows:

	For the six months ended September 30, 2019	For the six months ended September 30, 2020
	Thousands of yen	Thousands of yen
Equity securities		
Balance at the beginning of the period	1,379,302	1,488,361
Other comprehensive income (Note 1)	68,414	(24,032)
Sale	(14,030)	—
Balance at the end of period	1,433,686	1,464,329
Investment trust and other securities		
Balance at the beginning of the period	2,199,303	2,348,265
Profit or loss (Note 2)	18,581	(158,589)
Purchase	42,740	57,500
Sale	(36,757)	—
Balance at the end of period	2,223,867	2,247,176

(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 date of the year. 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 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, 2020

	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)	14,000,000	-	14,011,819	-	14,011,819

September 30, 2020

	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)	13,085,000	-	13,095,794	-	13,095,794

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, IJ Global Solutions Inc. ("IJ-Global") entered into a Solutions Engagement Agreement with IBM Japan Ltd., IJ-Global's largest sales partner. This agreement, which establishes the basis for a procurement relationship between IJ-Global and IBM Japan, contains indemnification for IJ-Global to perform services, functions, responsibilities and others that were being performed by AT&T Japan. This agreement renews automatically every year. IJ-Global had no obligation for the indemnification as of September 30, 2020.

14. SUBSEQUENT EVENTS

On November 9, 2020, 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 Thursday, December 31, 2020 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:	46,734,600	shares
2) Number of additional shares as a result of the stock split:	46,734,600	shares
3) Total number of shares issued after the stock split:	93,469,200	shares
4) Total number of authorized shares after the stock split:	151,040,000	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:	Tuesday, December 15, 2020
2) Record date:	Thursday, December 31, 2020
3) Effective date:	Friday, January 1, 2021

(Note) For all practical purposes, the record date in substance is Wednesday, December 30, 2020.

3. Effect on per share information

There will be no substantive changes to dividend amounts as a result of the stock split. Assuming the stock split had been conducted at the beginning of the fiscal year ended March 31, 2020, basic earnings per share attributable to IIJ would have been as follows

	Six months ended September 30, 2019	Six months ended September 30, 2020
Basic earnings per share	19.48 yen	30.71 yen

15. AUTHORIZATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized by Eijiro Katsu, Representative Director and President, and Akihisa Watai, Managing Director, CFO on November 16, 2020.

2. Other Information

At the Board of Directors meeting on November 9, 2020, an interim dividend of 20.50 yen per share with a record date of September 30, 2020 was resolved. (Total interim dividend is ¥924,608 thousand. Scheduled date for interim dividend payment: December 4, 2020)

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

November 16, 2020

To the Board of Directors of Internet Initiative Japan Inc.

KPMG AZSA LLC
Tokyo Office, Japan
Hiroto Kaneko (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 September 30, 2020, 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 and six month periods 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 September 30, 2020, and its financial performance and cash flows for the three and six month periods 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.