

(TRANSLATION)

Quarterly Securities Report

(The Second Quarter of the 30th Business Term)
From July 1, 2021 to September 30, 2021 (“2Q21”)

Internet Initiative Japan Inc.

Note for readers of this English translation

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

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

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(From July 1, 2021 to September 30, 2021)

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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, 2020	Six months ended September 30, 2021	29th business term ended March 31, 2021
Revenues (Three months ended September 30)	(thousands of yen) 101,664,990 (51,286,485)	109,053,887 (56,078,938)	213,001,880
Operating profit	(thousands of yen) 5,239,049	9,304,292	14,247,723
Profit before tax	(thousands of yen) 4,465,861	10,431,847	14,034,719
Profit attributable to owners of the parent (Three months ended September 30)	(thousands of yen) 2,769,928 (1,653,615)	6,891,756 (3,384,883)	9,711,559
Comprehensive income, attributable to owners of the parent	(thousands of yen) 4,276,926	8,931,109	12,274,666
Comprehensive income	(thousands of yen) 4,316,591	8,997,003	12,364,242
Equity attributable to owners of the parent	(thousands of yen) 82,849,790	97,214,752	89,956,379
Total assets	(thousands of yen) 206,455,156	222,729,361	220,777,269
Basic earnings per share (Three months ended September 30)	(yen) 30.71 (18.33)	76.34 (37.48)	107.67
Diluted earnings per share	(yen) 30.56	75.97	107.14
Ratio of owners' equity to gross assets	(%) 40.1	43.6	40.7
Cash flows from operating activities	(thousands of yen) 21,498,137	18,865,173	40,544,167
Cash flows from investing activities	(thousands of yen) (6,546,711)	(8,185,436)	(13,215,842)
Cash flows from financing activities	(thousands of yen) (11,969,247)	(13,401,663)	(23,617,730)
Cash and cash equivalents, at the end of period	(thousands of yen) 41,602,490	39,795,023	42,466,933

(Notes)

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

2 Description of Business

There were no material changes to the business of the Company or its equity method investees during the first six months of the 30th business term ("1H21"). Changes in major subsidiaries and affiliates during 1H21 are as follows.

[Network service and systems integration business]

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

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

Item 2. Business Overview

1 Risk Factors

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

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

This quarterly securities report contains forward-looking statements that are based on our expectations, assumptions, estimates and projections as of November 15, 2021.

(1) Analysis of Results of Operations

(i) Overview of consolidated business results for 1H21

The Japanese economy has been still in a severe situation during 1H21 due to the COVID-19 pandemic; however, there have been some signs of a recovery recently. Under the circumstance that the COVID-19 restrictions or requests have been lifted gradually, economic recovery is expected to continue, supported by the effect of various policies and improvement of overseas economies. However, we must pay close attention to how the COVID-19 pandemic and fluctuations in financial and capital markets etc. would affect domestic and overseas economies.

Under such an economic trend, in the ICT (*1) related market where we belong to, we have seen the continuous growth of Internet traffic (*2) supported by the increased IT services utilization among Japanese enterprises and government agencies, 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. Therefore, we expect that Japanese enterprises' demands for adopting safe and secure network systems should continue to rise.

In these market circumstances, our business overview for 1H21 remained favorable. Both total revenues and operating profit for 1H21 exceeded our initial expectation driven by Japanese enterprise recurring revenues, and they were JPY109,054 million and JPY9,304 million, respectively. Operating profit, in particular, grew substantially, up 77.6% year over year (YoY). Considering the progress of our 1H21 total revenues and operating profit, we have revised our full-year financial targets for the fiscal year ending March 31, 2022 (FY21) upward, and decided to further increase the interim dividend and the year-end dividend forecast from the original amount disclosed in May 12, 2021. As for Network services, an increase in revenue was driven by IP services (*5), which is the foundation of other services, and a range of in-house developed services such as various security-related services. As for Mobile services, the number of consumers' subscription was back to net increase due to our new consumer plan, "GigaPlans (*6)" launched in April 2021, although its lower unit prices etc. led to the decrease in mobile services revenue which was expected. IoT-related enterprise mobile service revenue increased stably as a result of continued demand for IoT-related projects. As for systems integration (SI), order received for systems construction was strong. Revenue and order received for systems construction were up 18.8% and up 24.4% YoY, respectively. Systems operation and maintenance revenue was up 14.3% YoY, mainly because of continuous growth of Cloud computing related services revenues.

Consolidated financial results for 1H21 were as follows. Total revenues were JPY109,054 million, up 7.3% YoY, compared to JPY101,665 million for the six months ended September 31, 2021 (1H20). Although revenues of internet connectivity services for enterprises, outsourcing services (*7), WAN services (*8) and systems operation and maintenance, etc. increased, revenues of mobile-related services decreased in response to a decrease in associated mobile related cost. Therefore, total revenues growth was relatively at a low level. Total cost of sales was JPY85,969 million (JPY84,210 million for 1H20), up 2.1% YoY and gross profit was JPY23,085 million (JPY17,455 million for 1H20), up 32.3% YoY. The breakdown by services is as follows. Network services revenue was JPY63,436 million (JPY62,104 million for 1H20), up 2.1% YoY and gross profit for network services was JPY16,682 million (JPY12,208 million for 1H20), up 36.7% YoY. SI revenues, including equipment sales, were JPY44,209 million (JPY38,167 million for 1H20), up 15.8% YoY and gross profit for SI was JPY5,869 million (JPY4,777 million for 1H20), up 22.9% YoY. Of these, SI revenues and gross profit of PTC, which we acquired and made a wholly-owned subsidiary in April, 2021, were JPY3,641 million and JPY319 million, respectively. ATM operation business revenue was JPY1,409 million (JPY1,394 million for 1H20), up 1.0% YoY and gross profit of ATM operation business was

JPY534 million (JPY470 million for 1H20), up 13.5% YoY. Net amount of selling, general and administrative expenses, other operating income and other operating expenses was JPY13,781 million (JPY12,216 million for 1H20), up 12.8% YoY. Operating profit for 1H21 was JPY9,304 million (JPY5,239 million for 1H20), up 77.6% YoY. Profit before tax for 1H21 was JPY10,432 million (JPY4,466 million for 1H20), up 133.6% YoY partly due to valuation gain on funds. Profit attributable to owners of the parent for 1H21 was JPY6,892 million (JPY2,770 million for 1H20), up 148.8% YoY.

Glossary:

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

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

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

Operating Results Summary

	1H20	1H21	YoY Change
	JPY millions	JPY millions	%
Total revenues	101,665	109,054	7.3
Network services	62,104	63,436	2.1
Systems integration (SI)	38,167	44,209	15.8
ATM operation business	1,394	1,409	1.0
Total costs	(84,210)	(85,969)	2.1
Network services	(49,896)	(46,754)	(6.3)
Systems integration (SI)	(33,390)	(38,340)	14.8
ATM operation business	(924)	(875)	(5.3)
Total gross profit	17,455	23,085	32.3
Network services	12,208	16,682	36.7
Systems integration (SI)	4,777	5,869	22.9
ATM operation business	470	534	13.5
SG&A, R&D, and other operating income (expenses)	(12,216)	(13,781)	12.8
Operating profit	5,239	9,304	77.6
Profit before tax	4,466	10,432	133.6
Profit for the period attributable to owners of the parent	2,770	6,892	148.8

(Note) Systems integration revenue includes equipment sales revenue.

Segment Results Summary

	1H20	1H21
	JPY millions	JPY millions
Total revenues	101,665	109,054
Network services and SI business	100,360	107,712
ATM operation business	1,394	1,408
Elimination	(89)	(66)
Operating profit	5,239	9,304
Network services and SI business	4,923	8,933
ATM operation business	378	417
Elimination	(62)	(46)

i) Revenues

Total revenues were JPY109,054 million, up 7.3% YoY (JPY101,665 million for 1H20).

Network services revenue was JPY63,436 million, up 2.1% YoY (JPY62,104 million for 1H20).

Revenues for Internet connectivity services for enterprises were JPY18,813 million, down 4.3% YoY from JPY19,650 million for 1H20. The decrease was mainly due to the decrease in IIJ Mobile Platform service revenue, which was in the response to the reduction in procurement cost, while revenues of IP services and Enterprise mobile services increased.

Revenues for Internet connectivity services for consumers were JPY12,196 million, down 5.4% YoY from JPY12,885 million for 1H20, mainly due to reduction in unit price of our consumer mobile services.

Revenues for WAN services were JPY12,881 million, up 4.4% YoY from JPY12,336 million for 1H20.

Revenues for Outsourcing services were JPY19,546 million, up 13.4% YoY from JPY17,233 million for 1H20, mainly due to an increase in security-related services revenues.

Network Services Revenues Breakdown

	1H20	1H21	YoY Change
	JPY millions	JPY millions	%
Total network services	62,104	63,436	2.1
Internet connectivity services (enterprise)	19,650	18,813	(4.3)
IP services (including data center connectivity services)	5,849	6,622	13.2
IIJ Mobile services	12,035	10,284	(14.5)
Enterprise mobile service (IoT usages etc.)	3,484	4,839	38.9
IIJ Mobile MVNO Platform Service (MVNE)	8,551	5,445	(36.3)
Others	1,766	1,907	8.0
Internet connectivity services (consumer)	12,885	12,196	(5.4)
IIJmio Mobile Service	11,549	10,741	(7.0)
Others	1,336	1,455	8.9
WAN services	12,336	12,881	4.4
Outsourcing services	17,233	19,546	13.4

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

	As of September 30, 2020	As of September 30, 2021	YoY Change
Internet connectivity services (enterprise)	2,180,704	2,301,380	120,676
IP service (greater than or equal to 1Gbps) (Note 2)	778	757	(21)
IP service (less than 1Gbps) (Note 2)	1,239	1,211	(28)
IIJ Mobile Services	2,090,428	2,210,095	119,667
Enterprise mobile service (IoT usages etc.)	967,548	1,218,375	250,827
IIJ Mobile MVNO Platform Service (MVNE)	1,122,880	991,720	(131,160)
Others	88,259	89,317	1,058
Internet connectivity services (consumer)	1,384,933	1,416,927	31,994
IIJmio Mobile Service	1,044,681	1,072,107	27,426
Others	340,252	344,820	4,568
Total contracted bandwidth (Gbps) (Note 3)	5,869.0	7,279.7	1,410.7

(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 JPY44,209 million, up 15.8% YoY (JPY38,167 million for 1H20).

Systems construction and equipment sales, a one-time revenue, was JPY15,472 million, up 18.8% YoY (JPY13,020 million for 1H20). Of this amount, revenue of PTC was JPY2,586 million.

Systems operation and maintenance revenue, a recurring revenue, was JPY28,737 million, up 14.3% YoY (JPY25,147 million for 1H20), mainly due to continued accumulation of systems operation orders as well as an increase in private cloud services' revenues. Of this amount, revenue of PTC was JPY1,055 million.

Orders received for SI, including equipment sales, totaled JPY46,503 million, up 7.4% YoY (JPY43,291 million for 1H20); orders received for systems construction and equipment sales were JPY18,865 million, up 24.4% YoY (JPY15,159 million for 1H20), and orders received for systems operation and maintenance were JPY27,638 million, down 1.8% YoY (JPY28,131 million for 1H20).

Order backlog for SI, including equipment sales, as of September 30, 2021 amounted to JPY68,949 million, up 13.1% YoY (JPY60,988 million as of September 30, 2020); order backlog for systems construction and equipment sales was JPY12,561 million, up 30.2% YoY (JPY9,646 million as of September 30, 2020) and order backlog for systems operation and maintenance was JPY56,388 million, up 9.8% YoY (JPY51,341 million as of September 30, 2020).

ATM operation business revenues were JPY1,409 million, up 1.0% YoY (JPY1,394 million for 1H20).

ii) Cost of sales

Total cost of sales was JPY85,969 million, up 2.1% YoY (JPY84,210 million for 1H20).

Cost of network services revenue was JPY46,754 million, down 6.3% YoY (JPY49,896 million for 1H20), mainly due to a decrease in outsourcing costs. Gross profit was JPY16,682 million, up 36.7% YoY (JPY12,208 million for 1H20), and gross profit ratio was 26.3% (19.7% for 1H20).

Cost of SI revenues, including equipment sales was JPY38,340 million, up 14.8% YoY (JPY33,390 million for 1H20), mainly due to increases in outsourcing and purchasing costs. The amount included PTC's cost of JPY3,321 million. Gross profit was JPY5,869 million, up 22.9% YoY (JPY4,777 million for 1H20) and gross profit ratio was 13.3% (12.5% for 1H20).

Cost of ATM operation business revenues was JPY875 million, down 5.3% YoY (JPY924 million for 1H20). Gross profit was JPY534 million (JPY470 million for 1H20) and gross profit ratio was 37.9% (33.7% for 1H20).

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

Selling, general and administrative expenses, including research and development expenses, totaled JPY13,790 million, up 13.7% YoY (JPY12,124 million for 1H20), mainly due to increases in personnel-related expenses, advertising expenses and sales commission expenses. Of this amount, PTC's expenses was JPY207 million.

Other operating income was JPY93 million (JPY80 million for 1H20).

Other operating expenses was JPY84 million (JPY172 million for 1H20), mainly due to disposal loss on fixed assets.

iv) Operating profit

Operating profit was JPY9,304 million (JPY5,239 million for 1H20), up 77.6% YoY.

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

Finance income was JPY1,772 million, compared to JPY109 million for 1H20. It included valuation gains on financial instruments, mainly related to funds, of JPY1,692 million (loss of JPY141 million for 1H20).

Finance expense was JPY272 million, compared to JPY469 million for 1H20. It included interest expenses of JPY272 million (JPY296 million for 1H20).

Share of loss of investments accounted for using equity method was JPY372 million (compared to loss of JPY413 million for 1H20), mainly due to loss of DeCurret Inc. of JPY552 million.

vi) Profit before tax

Profit before tax was JPY10,432 million (JPY4,466 million for 1H20), up 133.6% YoY.

vii) Profit for the period

Income tax expense was JPY3,474 million (JPY1,656 million for 1H20). As a result, profit for the period was JPY6,958 million (JPY2,810 million for 1H20), up 147.6% YoY.

Profit for the period attributable to non-controlling interests was JPY66 million (JPY40 million for 1H20), mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of parent was JPY6,892 million (JPY2,770 million for 1H20), up 148.8% YoY.

(2) Financial Position

As of September 30, 2021, the balance of total assets was JPY222,729 million, increased by JPY1,952 million from the balance as of March 31, 2021 of JPY220,777 million.

As of September 30, 2021, the balance of current assets was JPY89,322 million, decreased by JPY4,082 million from the balance as of March 31, 2021 of JPY93,405 million. The major breakdown of balance and fluctuation of current assets was: a decrease in cash and cash equivalents by JPY2,672 million, including payment of the acquisition of PTC, to JPY39,795 million, a decrease in trade receivables by JPY3,978 million to JPY30,821 million and an increase in prepaid expenses by JPY2,566 million, of which JPY1,266 million is related to the acquisition of PTC, to JPY13,165 million.

As of September 30, 2021, the balance of non-current assets was JPY133,407 million, increased by JPY6,034 million from the balance as of March 31, 2021 of JPY127,373 million. As for the major breakdown of balance and fluctuation of non-current assets, tangible assets increased by JPY745 million to JPY17,829 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 JPY2,974 million to JPY47,734 million, mainly due to depreciation. Goodwill increased by JPY3,182 million to JPY9,264 million, due to the acquisition of PTC. Prepaid expenses increased by JPY1,145 million to JPY10,682 million, including an increase of JPY1,055 million related to the acquisition of PTC. The amount of other investments was JPY17,731 million, increased by JPY4,819 million mainly due to fluctuation of fair value of our holding marketable equity securities and funds.

As of September 30, 2021, the balance of current liabilities was JPY70,031 million, decreased by JPY3,228 million from the balance as of March 31, 2021 of JPY73,259 million. As for the major breakdown of balance and fluctuation of current liabilities, trade and other payables decreased by JPY2,502 million to JPY16,742 million. Borrowings decreased by JPY1,855 million to JPY16,705 million, due to an increase of JPY1,480 million in short-term borrowings, a decrease by JPY4,085 million from repayment of long-term borrowings and an increase of JPY750 million due to a transfer from non-current liabilities. Contract liabilities increased by JPY2,055 million to JPY9,157 million, including an increase of JPY1,456 million related to the acquisition of PTC. Other financial liabilities decreased by JPY522 million to JPY17,357 million.

As of September 30, 2021, the balance of non-current liabilities was JPY54,451 million, decreased by JPY2,095 million from the balance as of March 31, 2021 of JPY56,547 million. As for the major breakdown of balance and fluctuation of non-current liabilities, long-term borrowings decreased by JPY750 million to JPY6,250 million due to a transfer to current portion. Contract liabilities increased by JPY293 million to JPY7,537 million, of which JPY1,192 million was an increase related to the acquisition of PTC. Other financial liabilities decreased by JPY2,830 million to JPY32,818 million, mainly due to a transfer to current portion.

As of September 30, 2021, the balance of total equity attributable to owners of the parent was JPY97,215 million, increased by JPY7,258 million from the balance as of March 31, 2021 of JPY89,956 million. Ratio of owners' equity to total assets was 43.6% as of September 30, 2021.

(3) Cash Flows

Cash and cash equivalents as of September 30, 2021 were JPY39,795 million (JPY41,602 million as of September 30, 2020).

Cash Flows provided by Operating Activities

Net cash provided by operating activities for 1H21 was JPY18,865 million (net cash provided by operating activities of JPY21,498 million for 1H20). There was profit before tax of JPY10,432 million, depreciation and amortization of JPY13,266 million, including JPY5,035 million of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY3,352 million, compared to JPY2,045 million for 1H20. Regarding changes in working capital, there was net cash out of JPY399 million compared to net cash in of JPY4,022 million for 1H20. As for the major factors in comparison with 1H20, there were increases in payment of current liabilities, such as trade payable and other liabilities. The increase in net cash-outflow related to these factors exceeded the increase in cash-inflow due to a decrease in trade and other receivable and an increase in contract liabilities.

Cash Flows used in Investing Activities

Net cash used in investing activities for 1H21 was JPY8,185 million (net cash used in investing activities of JPY6,547 million for 1H20), mainly due to payments for purchases of tangible assets of JPY4,164 million (JPY2,754 million for 1H20), payments for purchases of intangible assets, such as software, of JPY2,167 million (JPY2,772 million for 1H20), payments for the acquisition of PTC (net of its cash) of JPY2,612 million and proceeds from sales of tangible assets, which include sale and leaseback, of JPY1,011 million (JPY1,448 million for 1H20).

Cash Flows used in Financing Activities

Net cash used in financing activities for 1H21 was JPY13,402 million (net cash used in financing activities of JPY11,969 million for 1H20), mainly due to payments of other financial liabilities of JPY8,989 million (JPY10,390 million for 1H20), which included payments under operating lease contracts such as office rent and finance lease contracts such as network equipment, repayments of long-term bank borrowings of JPY4,085 million (JPY915 million for 1H20), dividends paid of JPY1,759 million (JPY609 million for 1H20) and net increase in short-term borrowings of JPY1,480 million.

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

There were no material changes or newly identified matters, relating to the management policy, management environment and issues to be addressed, etc., during 1H21.

(5) Research and developments

For 1H21, research and development expenses, which were in relation to network services and systems integration business segment, were JPY249 million, increased by 12.6% compared to JPY221 million for 1H21.

(6) Number of employees

There were no material changes in the number of employees of the Company or IJ during 1H21.

(i) Consolidated basis

As of September 30, 2021

Number of Employees	4,079 (47)
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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 Company. The average number of part-time employees for the reporting period is shown in brackets.

(ii) IJ (non-consolidated basis)

As of September 30, 2021

Number of Employees	2,331 (28)
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(Note) The number of employees indicates the total number of full-time and contract workers. It does not include third-party employees working at IJ. The average number of part-time employees for the reporting period is shown in brackets.

(7) Production, Orders Received and Sales

(i) Production

Type of Services	1H21 (Six months ended September 30, 2021)	
	Production (thousands of yen)	Year-over-year comparison (%)
Systems Integration, including Equipment Sales	38,343,926	14.1
Total	38,343,926	14.1

(Notes)

1. Amounts do not include consumption taxes.
2. Percentages of year-over-year comparison indicate year-over-year rate of change.
3. Since the Company does not engage in 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

Type of Services	1H21 (Six months ended September 30, 2021)			
	Orders Received (thousands of yen)	Year-over-year comparison (%)	Order Backlog (thousands of yen)	Year-over-year comparison (%)
Systems Construction and Equipment Sales	18,864,893	24.4	12,560,937	30.2
Systems Operation and Maintenance	27,638,394	(1.8)	56,387,621	9.8
Total	46,503,287	7.4	68,948,558	13.1

(Notes)

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

(iii) Sales

Type of services	1H21 (Six months ended September 30, 2021)	
	Revenue (thousands of yen)	Year-over-year comparison (%)
Network services	63,436,167	2.1
Internet connectivity services (enterprise)	18,813,026	(4.3)
Internet connectivity services (consumer)	12,196,101	(5.4)
WAN services	12,880,990	4.4
Outsourcing services	19,546,050	13.4
Systems integration	44,209,260	15.8
Systems construction and equipment sales	15,471,761	18.8
Systems operation and maintenance	28,737,499	14.3
ATM operation business	1,408,460	1.0
Total revenues	109,053,887	7.3

(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 1H21.

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	151,040,000
Total	151,040,000

(ii) 【Number of shares issued】

Class	Number of shares issued as of the end of period (shares) (September 30, 2021)	Number of shares issued as of the filing date (shares) (November 15, 2021)	Stock exchange on which IIJ is listed or authorized financial instruments firms association	Description
Common stock	93,534,800	93,534,800	Tokyo Stock Exchange (the first section)	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 Plan

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-compensation-type 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 2Q21 are as follows.

Date of resolution	June 29, 2021
Class and number of person for stock acquisition rights	Eight full-time directors and 15 executive officers
Number of stock acquisition rights outstanding (Number) *	70 (Note 1)
Type of stock and number of shares subject to stock acquisition rights (Share) *	Common stock, 28,000 (Note 1)
Amount to be paid in upon exercise of stock acquisition rights (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 stock acquisition rights	From July 16, 2021 to July 15, 2051
Price of issuing shares and amount of capitalization upon exercise of stock acquisition rights (JPY)	Price of issuing shares : JPY3,147 Amount of capitalization : JPY1,573.5
Condition for exercise of stock acquisition rights	(Note 2)
Matters regarding acquisition of stock acquisition rights through transfer	Acquisition of stock acquisition rights through transfer shall be subject to approval by resolution of the board of directors
Matters regarding the grant of stock acquisition rights to upon organizational restructuring	(Note 3)

* The contents are described as of July 15, 2021, 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 to as “Number of Shares Granted”) shall be 400. In the event of a share split or reverse share split of IJJ's common stock, the Number of Shares Granted shall be adjusted in accordance with the following formula, and any fraction of a share resulting from the adjustment shall be rounded down.

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

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.

In addition, if, after the allotment date of stock acquisition rights, IJJ conducts a merger, corporate split, or gratis allotment of shares, or if IJJ needs to adjust the Number of Shares Granted in accordance with these cases, IJJ may appropriately adjust the Number of Shares Granted to a reasonable extent.

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 an executive officer of IJJ. 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”). Notwithstanding 2) above, 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) Transfer, pledge, or any other disposition of the stock acquisition rights to a third party are not allowed.
- 5) Other conditions for the exercise of stock acquisition rights shall be as set forth in the stock acquisition rights subscription agreement concluded between IJJ and the subject persons based on a resolution of the board of directors meeting.

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

In the event a merger (limited to cases wherein IJJ is dissolved due to a merger), absorption-type demerger, incorporation-type demerger, share exchange or share transfer (collectively, the “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 holder of IJJ's unexercised stock acquisition rights (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
The number of stock acquisition rights to be delivered shall be the same as the number of 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 assets to be contributed upon exercise of each stock acquisition right to be granted shall be the amount obtained by multiplying the post-reorganization exercise price set forth below by the number of shares of the Restructured Company to be issued upon exercise of the stock acquisition rights determined in accordance with 3) above. The post-reorganization exercise price shall be one (1) yen per share of the Restructured Company that can be delivered by exercising each stock acquisition right to be delivered.
- 5) Exercise period of stock acquisition rights
Starting from the later of either the commencement date of the exercise period of stock acquisition rights or the effective date of the Organizational Restructuring, and ending on the expiration date for the exercise of stock acquisition rights.
- 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 a resolution of the board of directors of the Restructured Company (or a general meeting of shareholders if the Restructured Company is not a company with a board of directors).
- 8) Conditions for acquisition of stock acquisition right
In the event that any of the proposals (a) or (b) below are resolved 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 IJ shall be merged
 - (b) Proposal for approval of a share exchange agreement or share transfer plan under which IJ shall be a wholly owned subsidiary
- 9) Other terms and conditions of exercising stock acquisition rights
To be determined in accordance with Note 2 above.

(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, 2021 to September 30, 2021	32,400	93,534,800	15,355	23,022,616	15,355	9,743,300

(Note) Increased by exercise of stock acquisition rights.

(5) Major Shareholders

As of September 30, 2021

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	20,190,000	22.36
The Master Trust Bank of Japan, Ltd. (Trust account) (Note 2)	11-3 Hamamatsu-cho 2-chome, Minato-ku, Tokyo	7,547,200	8.36
Custody Bank of Japan, Ltd. (Trust account) (Note 2)	8-12 Harumi 1-chome, Chuo-ku, Tokyo	4,997,200	5.53
NTT Communications Corporation	3-1 Otemach 2-chome, Chiyoda-ku, Tokyo	4,080,000	4.52
ITOCHU Techno-Solutions Corporation	1-1 Toranomom 4-chome, Minato-ku, Tokyo	3,904,000	4.32
Koichi Suzuki (Note 3)	Chiyoda-ku, Tokyo	3,689,922	4.09
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Custody Bank of Japan, Ltd.)	13-1 Yurakucho 1-chome, Chiyoda-ku, Tokyo (8-12 Harumi 1-chome, Chuo-ku, Tokyo)	2,546,000	2.82
KS Holdings Inc. (Note 3)	5-3 Nishi-Kanda 3-chome, Chiyoda-ku, Tokyo	1,620,000	1.79
MUFG Bank, Ltd.	7-1 Marunouchi 2-chome, Chiyoda-ku, Tokyo	1,372,000	1.52
Sompo Japan Insurance Inc.	26-1 Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo	1,300,000	1.44
Total	—	51,246,322	56.74

(Notes)

1. The percentages 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, President of IIJ.
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 April 30, 2020. According to the filing, as of April 24, 2020, Dalton owned 1,975,500 shares of common stock of IIJ, representing 4.2% of the total number of issued shares. The number of shares mentioned above is the number of shares before the stock split, effective from January 1, 2021. Since then, we have not recognized any filings by Dalton. Their holdings were not verified based on the shareholder record as of September 30, 2021, 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 1, 2021. According to the filing, as of February 24, 2021, Global Alpha owned 4,680,460 shares of common stock of IIJ, representing 5.0% of the total number of issued shares. Since then, we have not recognized any filings by Global Alpha. Their holdings were not verified based on the shareholder record as of September 30, 2021, therefore, Global Alpha and their holdings are not included in the above list.
6. There were 3,221,667 shares of treasury stock (3.44% of the total number of issued shares), which were not included in the above list.

(6) Information on Voting Rights

(i) Issued shares

As of September 30, 2021

Classification	Number of Shares (shares)	Number of Voting Rights	Description
Shares without Voting Rights	—	—	—
Shares with Restricted Voting Rights (treasury stock, etc.)	—	—	—
Shares with Restricted Voting Rights (others)	—	—	—
Shares with Full Voting Rights (treasury stock, etc.)	Treasury Stock: 3,221,600 shares of common stock	—	—
Shares with Full Voting Rights (others)	90,292,600 shares of common stock	902,926	—
Shares Representing Less than One Unit	20,600 shares of common stock	—	—
Number of Issued Shares	93,534,800 shares of common stock	—	—
Total Number of Voting Rights	—	902,926	—

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

(ii) Treasury Stock

As of September 30, 2021

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, 2021 (filed on June 30, 2021) to September 30, 2021 (the last day of 2Q21).

Item 4. Financial Information

1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Financial Position

	Note	March 31, 2021	September 30, 2021
		Thousands of yen	Thousands of yen
Assets			
Current assets			
Cash and cash equivalents		42,466,933	39,795,023
Trade receivables		34,799,075	30,820,775
Inventories		2,171,046	2,090,996
Prepaid expenses		10,598,441	13,164,900
Contract assets		1,281,918	1,846,011
Other financial assets	7,12	1,975,910	1,364,724
Other current assets		111,334	240,027
Total current assets		93,404,657	89,322,456
Non-current assets			
Tangible assets		17,084,401	17,829,112
Right-of-use assets		50,707,726	47,733,602
Goodwill		6,082,472	9,264,427
Intangible assets		16,954,274	16,706,806
Investments accounted for using the equity method		9,026,980	8,578,152
Prepaid expenses		9,537,160	10,682,395
Contract assets		46,638	67,895
Other investments	12	12,912,483	17,731,165
Deferred tax assets		143,337	202,288
Other financial assets	7,12	4,442,704	4,139,914
Other non-current assets		434,437	471,149
Total non-current assets		127,372,612	133,406,905
Total assets		220,777,269	222,729,361

	Note	March 31, 2021	September 30, 2021
		Thousands of yen	Thousands of yen
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		19,243,800	16,741,727
Borrowings	12	18,560,000	16,705,000
Income taxes payable		3,012,415	3,148,954
Contract liabilities		7,101,821	9,156,549
Deferred income		79,914	67,709
Other financial liabilities	8,12	17,879,331	17,357,189
Other current liabilities		7,381,746	6,853,457
Total current liabilities		73,259,027	70,030,585
Non-current liabilities			
Borrowings	12	7,000,000	6,250,000
Retirement benefit liabilities		4,168,575	4,385,743
Provisions		756,405	784,872
Contract liabilities		7,244,411	7,537,104
Deferred income		405,579	372,308
Deferred tax liabilities		225,469	1,146,534
Other financial liabilities	8,12	35,647,899	32,818,398
Other non-current liabilities		1,098,253	1,156,449
Total non-current liabilities		56,546,591	54,451,408
Total liabilities		129,805,618	124,481,993
Equity			
Share capital		25,530,621	25,561,838
Share premium		36,388,811	36,419,817
Retained earnings		25,046,813	30,179,558
Other components of equity		4,865,110	6,904,463
Treasury shares		(1,874,976)	(1,850,924)
Total equity attributable to owners of the parent		89,956,379	97,214,752
Non-controlling interests		1,015,272	1,032,616
Total equity		90,971,651	98,247,368
Total liabilities and equity		220,777,269	222,729,361

Condensed Consolidated Statements of Profit or Loss

	Note	Six Months Ended September 30, 2020	Six Months Ended September 30, 2021
		Thousands of yen	Thousands of yen
Revenues			
Network services		62,104,244	63,436,167
System integration		38,166,674	44,209,260
ATM operation business		1,394,072	1,408,460
Total revenues	5,10	101,664,990	109,053,887
Cost of sales			
Cost of network services		(49,896,323)	(46,753,533)
Cost of systems integration		(33,389,930)	(38,340,002)
Cost of ATM operation business		(924,119)	(875,011)
Total cost of sales		(84,210,372)	(85,968,546)
Gross Profit		17,454,618	23,085,341
Selling, general and administrative expense		(12,124,184)	(13,789,696)
Other operating income		80,433	92,478
Other operating expenses		(171,818)	(83,831)
Operating Profit		5,239,049	9,304,292
Finance income	12	109,178	1,772,412
Finance expenses	12	(468,831)	(272,312)
Share of profit (loss) of investments accounted for using equity method		(413,535)	(372,545)
Profit (loss) before tax		4,465,861	10,431,847
Income tax expense		(1,656,268)	(3,474,197)
Profit (loss) for the period		2,809,593	6,957,650
Profit (loss) for the period attributable to:			
Owners of the parent		2,769,928	6,891,756
Non-controlling interests		39,665	65,894
Total		2,809,593	6,957,650
Earnings per share	11		
Basic earnings per share (yen)		30.71	76.34
Diluted earnings per share (yen)		30.56	75.97

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

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

Condensed Consolidated Statements of Profit or Loss

	Note	Three Months Ended September 30, 2020	Three Months Ended September 30, 2021
		Thousands of yen	Thousands of yen
Revenues			
Network services		31,170,310	31,961,186
System integration		19,291,714	23,402,624
ATM operation business		824,461	715,128
Total revenues	5,10	51,286,485	56,078,938
Cost of sales			
Cost of network services		(24,952,979)	(23,608,888)
Cost of systems integration		(16,506,123)	(20,380,115)
Cost of ATM operation business		(485,822)	(431,470)
Total cost of sales		(41,944,924)	(44,420,473)
Gross Profit		9,341,561	11,658,465
Selling, general and administrative expense		(6,075,336)	(6,706,707)
Other operating income		32,282	40,391
Other operating expenses		(106,687)	(47,668)
Operating Profit		3,191,820	4,944,481
Finance income	12	40,502	427,418
Finance expenses	12	(326,064)	(135,019)
Share of profit (loss) of investments accounted for using equity method		(134,628)	(155,435)
Profit (loss) before tax		2,771,630	5,081,445
Income tax expense		(1,084,076)	(1,666,940)
Profit (loss) for the period		1,687,554	3,414,505
Profit (loss) for the period attributable to:			
Owners of the parent		1,653,615	3,384,883
Non-controlling interests		33,939	29,622
Total		1,687,554	3,414,505
Earnings per share			
	11		
Basic earnings per share (yen)		18.33	37.48
Diluted earnings per share (yen)		18.24	37.31

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

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

Condensed Consolidated Statements of Comprehensive Income

	Note	Six Months Ended September 30, 2020	Six Months Ended September 30, 2021
		Thousands of yen	Thousands of yen
Profit (loss)		2,809,593	6,957,650
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income		1,560,647	2,008,178
Total items that will not be reclassified to profit or loss		1,560,647	2,008,178
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(42,769)	17,910
Financial assets measured at fair value through other comprehensive income		219	123
Share of other comprehensive income of investments accounted for using equity method		(11,099)	13,142
Total of items that may be reclassified to profit or loss		(53,649)	31,175
Total other comprehensive income, net of tax		1,506,998	2,039,353
Other comprehensive income		4,316,591	8,997,003
Other comprehensive income attributable to:			
Owners of the parent		4,276,926	8,931,109
Non-controlling interest		39,665	65,894
Other comprehensive income		4,316,591	8,997,003

Condensed Consolidated Statements of Comprehensive Income

	Note	Three Months Ended September 30, 2020	Three Months Ended September 30, 2021
		Thousands of yen	Thousands of yen
Profit (loss)		1,687,554	3,414,505
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		364,811	1,173,980
Total items that will not be reclassified to profit or loss		364,811	1,173,980
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(17,304)	23,860
Financial assets measured at fair value through other comprehensive income		82	(158)
Share of other comprehensive income of investments accounted for using equity method		20,295	(95)
Total of items that may be reclassified to profit or loss		3,073	23,607
Total other comprehensive income, net of tax		367,884	1,197,587
Other comprehensive income		2,055,438	4,612,092
Other comprehensive income attributable to:			
Owners of the parent		2,021,499	4,582,470
Non-controlling interest		33,939	29,622
Other comprehensive income		2,055,438	4,612,092

Condensed Consolidated Statements of Changes in Shareholders' Equity
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	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	9	-	-	(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

Six months ended September 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
		Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	
Balance, April 1, 2021		25,530,621	36,388,811	25,046,813	4,865,110	(1,874,976)	89,956,379	1,015,272	90,971,651
Comprehensive income									
Profit (loss)		-	-	6,891,756	-	-	6,891,756	65,894	6,957,650
Other comprehensive income		-	-	-	2,039,353	-	2,039,353	-	2,039,353
Total comprehensive income		-	-	6,891,756	2,039,353	-	8,931,109	65,894	8,997,003
Transactions with owners									
Issuance of common stock		31,217	(31,152)	-	-	-	65	-	65
Disposal of treasury shares		-	23,408	-	-	24,052	47,460	-	47,460
Dividends paid	9	-	-	(1,759,011)	-	-	(1,759,011)	(48,550)	(1,807,561)
Stock-based compensation		-	38,750	-	-	-	38,750	-	38,750
Total transactions with owners		31,217	31,006	(1,759,011)	-	24,052	(1,672,736)	(48,550)	(1,721,286)
Balance, September 30, 2021		25,561,838	36,419,817	30,179,558	6,904,463	(1,850,924)	97,214,752	1,032,616	98,247,368

Condensed Consolidated Statements of Cash Flows

	Note	Six Months Ended September 30, 2020	Six Months Ended September 30, 2021
		Thousands of yen	Thousands of yen
Cash flows from operating activities:			
Profit (loss) before tax		4,465,861	10,431,847
Adjustments			
Depreciation and amortization		14,155,824	13,266,486
Loss (gain) on sales/disposals of property and equipment		146,543	69,026
Shares of loss (profit) of investments accounted for using the equity method		413,535	372,545
Finance income		(106,976)	(1,741,881)
Finance expenses		485,895	272,251
Other		99,910	62,598
Changes in working capital			
Decrease (increase) in trade receivables		4,394,275	5,132,848
Decrease (increase) in inventories		(70,127)	79,318
Decrease (increase) in prepaid expenses		(1,648,603)	(1,463,773)
Decrease (increase) in contract assets		(1,111,425)	(585,350)
Decrease (increase) in other assets		(437,263)	(29,674)
Decrease (increase) in other financial assets		1,421,035	685,380
Increase (decrease) in trade and other payables		(1,573,038)	(2,877,333)
Increase (decrease) in contract liabilities		2,872,875	(258,874)
Increase (decrease) in deferred income		(41,663)	(5,431)
Increase (decrease) in other liabilities		90,580	(1,293,234)
Increase (decrease) in other financial liabilities		(44,324)	311
Increase (decrease) in retirement benefit liabilities		169,395	217,168
Subtotal		23,682,309	22,334,228
Interest and dividends received		159,256	154,178
Interest paid		(298,015)	(271,275)
Income taxes paid		(2,045,413)	(3,351,958)
Cash flows from operating activities		21,498,137	18,865,173

	Note	Six Months Ended September 30, 2020	Six Months Ended September 30, 2021
		Thousands of yen	Thousands of yen
Cash flows from investing activities			
Purchases of tangible assets		(2,753,663)	(4,164,485)
Proceeds from sales of tangible assets		1,447,635	1,010,704
Purchases of intangible assets		(2,772,180)	(2,166,892)
Proceeds from sales of intangible assets		137	189
Purchase of a subsidiary		-	(2,612,008)
Purchase of investments accounted for using equity method		(2,754,000)	-
Proceeds from sale of investments accounted for using equity method		60,637	-
Purchases of other investments		(57,500)	(348,380)
Proceeds from sales of other investments		392,365	95,371
Payments for leasehold deposits and guarantee deposits		(90,868)	(83,804)
Proceeds from collection of leasehold deposits and guarantee deposits		8,896	121,064
Payments for refundable insurance policies		(28,170)	(37,448)
Other		-	253
Cash flows from investing activities		(6,546,711)	(8,185,436)
Cash flows from financing activities			
Repayment of long-term borrowings		(915,000)	(4,085,000)
Net increase (decrease) in short-term borrowings		-	1,480,000
Payments of other financial liabilities		(10,389,786)	(8,989,166)
Dividends paid		(608,629)	(1,759,011)
Other		(55,832)	(48,486)
Cash flows from financing activities		(11,969,247)	(13,401,663)
Effect of exchange rate changes on cash and cash equivalents		(51,423)	50,016
Net increase (decrease) in cash and cash equivalents		2,930,756	(2,671,910)
Cash and cash equivalents, beginning of the period		38,671,734	42,466,933
Cash and cash equivalents, end of the period		41,602,490	39,795,023

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.iij.ad.jp/en/>—. The condensed consolidated financial statements of IIJ for the period ended September 30, 2021 comprise the financial statements of IIJ and its subsidiaries (collectively “the Company”), and the interests in associated companies.

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

2. BASIS OF PREPARATION

(1) Compliance with IFRS

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

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

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS INVOLVING ESTIMATES

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

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

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

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

5. SEGMENTS

(1) Overview of reportable segments

The reportable segments of the Company are defined as the Company's constituent units for which separated financial information is available and which are regularly reviewed by the President and Representative Director 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 six months ended September 30, 2020

	Reportable segments		Adjustments (Note)	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	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 six months ended September 30, 2021

	Reportable segments		Adjustments (Note)	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	107,645,427	1,408,460	—	109,053,887
Intersegment transactions	66,457	—	(66,457)	—
Total revenue	107,711,884	1,408,460	(66,457)	109,053,887
Segment operating profit	8,932,994	417,301	(46,003)	9,304,292
Finance income				1,772,412
Finance expense				(272,312)
Share of profit (loss) of investments accounted for using the equity method				(372,545)
Profit before tax				10,431,847

(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 (Note)	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	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 tax				2,771,630

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

For the three months ended September 30, 2021

	Reportable segments		Adjustments (Note)	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	55,363,810	715,128	—	56,078,938
Intersegment transactions	32,271	—	(32,271)	—
Total revenue	55,396,081	715,128	(32,271)	56,078,938
Segment operating profit	4,743,902	222,637	(22,058)	4,944,481
Finance income				427,418
Finance expense				(135,019)
Share of profit (loss) of investments accounted for using the equity method				(155,435)
Profit before tax				5,081,445

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

6. BUSINESS MERGERS AND ACQUISITIONS

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

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

(1) Outline of the business mergers and acquisitions

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

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

(ii) Date of acquisition

April 1, 2021

(iii) Percentage of voting rights to be acquired

100%

(iv) Acquisition method

Acquisition of shares by cash

(v) Primary reason for the business combination

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

(2) Consideration for acquisition

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

(3) Cost related to acquisition

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

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

(Unit: Thousands of yen)

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

Notes

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

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

(5) Cash flow for business merger and acquisitions

(Unit: Thousands of yen)

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

(6) Impact on performance

The consolidated statement of income and loss for the six months ended September 30, 2021 includes revenues and net income generated by PTC after the acquisition date of ¥3,640,774 thousand and ¥94,852 thousand, respectively.

7. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

	<u>March 31, 2021</u>	<u>September 30, 2021</u>
	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost		
Other receivable	797,100	373,652
Guarantee deposit	3,579,838	3,557,650
Loans receivable	43,429	41,880
Other	83,729	176,884
Lease receivable	1,914,518	1,354,572
Total	<u>6,418,614</u>	<u>5,504,638</u>
Current assets	1,975,910	1,364,724
Non-current assets	4,442,704	4,139,914
Total	<u>6,418,614</u>	<u>5,504,638</u>

8. OTHER FINANCIAL LIABILITIES

The components of other financial liabilities are as follows:

	<u>March 31, 2021</u>	<u>September 30, 2021</u>
	Thousands of yen	Thousands of yen
Financial liabilities measured at amortized cost		
Account payable—non-current (including current portion)	638,161	493,417
Deposit payable	212,225	211,584
Others	16,061	16,533
Lease obligations	52,660,783	49,454,053
Total	<u>53,527,230</u>	<u>50,175,587</u>
Current liabilities	17,879,331	17,357,189
Non-current liabilities	35,647,899	32,818,398
Total	<u>53,527,230</u>	<u>50,175,587</u>

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

	<u>March 31, 2021</u>	<u>September 30, 2021</u>
	Thousands of yen	Thousands of yen
Financial leases	18,229,120	18,136,483
Other leases	34,431,663	31,317,570

9. DIVIDENDS PAID

Cash dividends paid are as follows:

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

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

For the six months ended September 30, 2021

(1) Cash dividends paid.

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

(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 5, 2021 Board of Directors meeting	2,077,202	23.00	September 30, 2021	December 3, 2021

10. REVENUE

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

	For the six months ended	For the six months ended
	September 30, 2020	September 30, 2021
	Thousands of yen	Thousands of yen
Network services	62,104,244	63,436,167
Internet connectivity services (enterprise)	19,649,880	18,813,026
Wan services	12,335,545	12,880,990
Outsourcing services	17,233,278	19,546,050
Internet connectivity services (consumer)	12,885,541	12,196,101
Systems integration	38,166,674	44,209,260
Systems construction	13,019,790	15,471,761
Systems operation and maintenance	25,146,884	28,737,499
ATM operation business	1,394,072	1,408,460
Total	101,664,990	109,053,887

	For the three months	For the three months
	ended September 30, 2020	ended September 30, 2021
	Thousands of yen	Thousands of yen
Network services	31,170,310	31,961,186
Internet connectivity services (enterprise)	9,841,224	9,402,594
Wan services	6,160,755	6,434,302
Outsourcing services	8,736,633	10,035,973
Internet connectivity services (consumer)	6,431,698	6,088,317
Systems integration	19,291,714	23,402,624
Systems construction	6,470,084	8,639,477
Systems operation and maintenance	12,821,630	14,763,147
ATM operation business	824,461	715,128
Total	51,286,485	56,078,938

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. SEGMENTS.

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, 2020	For the six months ended September 30, 2021
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	2,769,928	6,891,756
Earnings adjustment (thousands of yen)	—	—
<u>Earnings used to calculate earnings per share — diluted (thousands of yen)</u>	<u>2,769,928</u>	<u>6,891,756</u>
Denominator :		
Weighted average number of shares — basic (shares)	90,184,713	90,279,138
Dilution arising from stock options (shares)	442,866	433,511
<u>Weighted average number of shares — diluted (shares)</u>	<u>90,627,579</u>	<u>90,712,649</u>
Earnings per share attributable to owners of the parent		
Basic (yen)	30.71	76.34
Diluted (yen)	30.56	75.97

	For the three months ended September 30, 2020	For the three months ended September 30, 2021
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	1,653,615	3,384,883
Earnings adjustment (thousands of yen)	—	—
<u>Earnings used to calculate earnings per share — diluted (thousands of yen)</u>	<u>1,653,615</u>	<u>3,384,883</u>
Denominator :		
Weighted average number of shares — basic (shares)	90,201,937	90,313,133
Dilution arising from stock options (shares)	451,278	421,577
<u>Weighted average number of shares — diluted (shares)</u>	<u>90,653,215</u>	<u>90,734,710</u>
Earnings per share attributable to owners of the parent		
Basic (yen)	18.33	37.48
Diluted (yen)	18.24	37.31

Stock split

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

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

12. FINANCIAL INSTRUMENTS

Fair value of financial instruments

(1) Classification of fair value hierarchy by level

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

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

(2) Financial instruments measured at fair value

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

Equity securities

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

Debt securities

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

Investment trust and other securities

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

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

March 31, 2021

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

September 30, 2021

	Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets :				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	111,021	—	111,021
Equity-based financial assets measured at FVTOCI				
Equity securities	11,244,753	—	1,567,122	12,811,875
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	4,716,595	4,716,595
Other financial assets	—	91,674	—	91,674

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, 2020 and 2021 were as follows:

	For the six months ended September 30, 2020	For the six months ended September 30, 2021
	Thousands of yen	Thousands of yen
Equity securities		
Balance at the beginning of the period	1,488,361	1,470,026
Other comprehensive income (Note 1)	(24,032)	(2,904)
Sale	—	100,000
Balance at the end of period	1,464,329	1,567,122
Investment trust and other securities		
Balance at the beginning of the period	2,348,265	2,941,240
Profit or loss (Note 2)	(158,589)	1,625,046
Purchase	57,500	245,680
Sale	—	(95,371)
Balance at the end of period	2,247,176	4,716,595

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

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

(4) Financial instruments not measured at fair value

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

(i) Long-term borrowings

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

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

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

March 31, 2021

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

September 30, 2021

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
		Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Liabilities :					
Long-term borrowings (including current portion)	8,085,000	-	8,105,591	-	8,105,591

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

14. SUBSEQUENT EVENTS

There are no applicable items.

15. AUTHORIZATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized by Ejiro Katsu, Representative Director and President, and Akihisa Watai, Senior Managing Director, CFO on November 15, 2021.

2. Other Information

At the Board of Directors meeting on November 5, 2021, an interim dividend of 23.00 yen per share with a record date of September 30, 2021 was resolved. (Total interim dividend is ¥2,077,202 thousand. Scheduled date for interim dividend payment: December 3, 2021)

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 15, 2021

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 September 30, 2021, the condensed quarterly consolidated statement of profit or loss, the condensed quarterly consolidated statement of comprehensive income, the condensed quarterly consolidated statement of changes in equity, the condensed quarterly consolidated statement of cash flows for the three 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, 2021, 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.