

(TRANSLATION)

Quarterly Securities Report

(The Third Quarter of the 29th Business Term)
From October 1, 2020 to December 31, 2020

Internet Initiative Japan Inc.

Note for readers of this English translation

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

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

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【Cover】

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PART 1 Information on the Company

Item 1. Overview of the Company

1 Selected Financial Data

Fiscal year	IFRS		
	Nine months ended December 31, 2019	Nine months ended December 31, 2020	28th business term ended March 31, 2020
Revenues (Three months ended September 30)	(thousands of yen) 150,688,324 (51,468,789)	156,070,113 (54,405,123)	204,473,515
Operating profit	(thousands of yen) 6,060,070	10,127,496	8,225,172
Profit before tax	(thousands of yen) 5,609,507	9,226,988	7,158,987
Profit attributable to owners of the parent (Three months ended December 31)	(thousands of yen) 3,353,994 (1,597,892)	5,876,784 (3,106,856)	4,006,773
Comprehensive income, attributable to owners of the parent	(thousands of yen) 5,424,250	7,512,739	3,997,565
Comprehensive income	(thousands of yen) 5,572,508	7,581,611	4,184,326
Equity attributable to owners of the parent	(thousands of yen) 80,487,957	85,177,724	79,075,589
Total assets	(thousands of yen) 204,933,874	210,108,110	206,524,260
Basic earnings per share (Three months ended December 31)	(yen) 37.20 (17.72)	65.16 (34.44)	44.44
Diluted earnings per share	(yen) 37.04	64.84	44.24
Ratio of owners' equity to gross assets	(%) 39.3	40.5	38.3
Cash flows from operating activities	(thousands of yen) 25,051,219	31,399,102	33,393,751
Cash flows from investing activities	(thousands of yen) (6,460,854)	(8,917,905)	(7,264,834)
Cash flows from financing activities	(thousands of yen) (14,153,691)	(19,031,118)	(19,354,021)
Cash and cash equivalents, at the end of period	(thousands of yen) 36,350,802	41,970,420	38,671,734

(Notes)

- As IJ and its subsidiaries (collectively "the Company") prepare quarterly condensed consolidated financial statements reports, changes in non-consolidated financial data, among others, are not provided.
- Revenues do not include consumption taxes.
- All figures presented above are based on the condensed consolidated quarterly financial statements or the consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

2 Description of Business

There were no material changes to the business of the Company or its equity method investees during the nine months ended December 31, 2020 ("1Q-3Q20") for the fiscal year ending March 31, 2021.

There were no material changes with respect to the associated companies during the 1Q-3Q20.

Item 2. Business Overview

1 Risk Factors

There were no newly identified matters, relating to the business description or consolidated financial results described in this quarterly securities report, which could have a material effect on the decisions of investors, and there were no material changes in the risk factors described in our Annual Securities Report for the previous fiscal year filed on June 30, 2020.

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

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

(1) Analysis of Results of Operations

(i) Overview of consolidated business results for 1Q-3Q20

The Japanese economy continued to be in a severe situation during the third quarter of the fiscal year ending March 31, 2021 due to the COVID-19 pandemic; however, there have been some signs of a recovery recently. With respect to future prospects, the economy is expected to move toward, picking up from the current severe situation, supported by the effects of various policies and improvement of overseas economies. However, we must pay attention to the risk that the impact of the COVID-19 pandemic on socio-economic activities will cause the domestic and foreign economies to decline, and also keep an eye on fluctuations in the financial and capital markets.

In such an economic trend, as for the ICT (*1) related market where we belong to, as seen in the stable growth of Internet connectivity services, continued demand for security-related services, widespread of cloud computing (*2) service adoption, increase of IoT (*3) related projects that comprehensively use these services, etc., together with advancement of ICT utilization including the introduction of telework (*4) related services by enterprises and government agencies triggered by the COVID-19 pandemic, we expect that enterprises' demands for utilization of safe and secure network ICT services and systems should continue to increase in the future.

Under these market circumstances, business overview for 1Q-3Q20 are as follows. As for network services, IP services (*5) revenues increased steadily due to an increase of enterprises' Internet traffic (*6). We were able to respond to customer demands for enterprises' system migration or network replacement projects with services such as in-house developed cloud exchange (*7), SD-WAN (*8), remote access (*9) and others, and these services also contributed to network services revenue growth. As for security-related services, we added new services and enhanced the functions of existing services. Security-related services revenue for 1Q-3Q20 increased by 12.4% year over year ("YoY"). As for enterprise mobile services, demands for IoT-related projects such as network camera connection (*10) for marketing, equipment monitoring, etc. have been increasing. We developed eSIM (*11) conforming to 5G SA (*12) system and completed technical verification for the future. As for systems integration, we accumulated network environment construction projects for enterprises and government agencies, and cloud computing related services revenues, a part of which are recognized in systems operation and maintenance revenue, continued to steadily increase.

Consolidated financial results for 1Q-3Q20 were as follows. Total revenues were JPY156,070 million, led by increase of enterprise monthly recurring revenue, such as internet connectivity services for enterprises, outsourcing services and systems operation and maintenance. Although enterprise recurring revenue largely grew, significant revenue decrease of WAN services, which was due to YoY impact of the certain large clients' migration to mobile services which ended during the previous fiscal year, and ATM operation business, which was due to the effect of the COVID-19 pandemic, made total revenue YoY growth rate low level. Cost of sales was JPY127,273 million (JPY126,994 million for 1Q-3Q19), up 0.2% YoY and gross profit was JPY28,797 million (JPY23,694 million for 1Q-3Q19), up 21.5% YoY. The breakdown by services is as follows. Network services revenue was JPY93,983 million (JPY91,525 million for 1Q-3Q19), up 2.7% YoY and gross profit for network services revenue was JPY19,782 million (JPY15,314 million for 1Q-3Q19), up 29.2% YoY, mainly due to more than expected revenue accumulation of enterprise recurring revenue, cost reduction of mobile interconnectivity charge (mobile unit charge (*13)) due to the MNOs' annual confirmation of unit price based on their 2019 financial results and etc. SI revenues, including equipment sales, were JPY59,927 million (JPY56,062 million for 1Q-3Q19), up 6.9% YoY and gross profit for SI was JPY8,255 million

(JPY6,951 million for 1Q-3Q19), up 18.8% YoY. ATM operation business revenue was JPY2,160 million (JPY3,101 million for 1Q-3Q19), down 30.4% YoY and gross profit of ATM operation business was JPY760 million (JPY1,429 million for 1Q-3Q19), down 30.4% YoY, mainly due to decrease in the number of withdrawals and ATMs in operation, resulting from temporary closure of stores and stay-at-home request caused by the COVID-19 pandemic. Net amount of selling, general and administrative expenses, other operating income and other operating expenses was JPY18,670 million (JPY17,634 million for 1Q-3Q19), up 5.9% YoY. Operating profit for 1Q-3Q20 was JPY10,127 million (JPY6,060 million for 1Q-3Q19), up 67.1% YoY. Profit before tax for 1Q-3Q20 was JPY9,227 million (JPY5,610 million for 1Q-3Q19), up 64.5% YoY. Profit attributable to owners of the parent for 1Q-3Q20 was JPY5,877 million (JPY3,354 million for 1Q-3Q19), up 75.2% YoY.

Glossary:

- *1 ICT: ICT (Information and Communication Technology) is a general technological term for hardware, software, systems and data communication tools used for information communication by computers.
- *2 Cloud computing: Cloud computing is the on-demand delivery of computer system functions and processing ability, software, data and etc. through the Internet.
- *3 IoT: IoT (Internet of Things) enables not only physical objects but also “things” connected to a network to exchange information automatically.
- *4 Telework: By using ICT, engaging in business activity remotely from home or remote location, not from offices.
- *5 IP Services : Dedicated-type Internet connectivity services, mainly used by corporate users, which IJ provides.
- *6 Internet Traffic: The quantity or flow of data transferred across the Internet.
- *7 Cloud exchange: A data center function providing multiple cloud services, multiple network services, and multiple IT services in an interconnected manner.
- *8 SD-WAN: SD-WAN (Software defined wide area network) is technologies or services that realize flexible network configurations and traffic control for inter-site or multi-cloud connection, by building a virtual network on a physical network built with hardware such as servers and routers and centrally managing with software.
- *9 Remote access: By using Internet and others, accessing corporate intranet and/or computers from outside of offices, remotely.
- *10 Network camera connection: A service providing network connection to cameras, which can be connected to networks, via our IoT platform.
- *11 eSIM: Built-in SIM (Subscriber Identity Module) of which users can remotely update its profile, contract information etc.
- *12 5G SA system: 5G (fifth generation mobile communication system) Stand Alone system. A communication system in which the core network, data communication function, control function, etc. are all constructed using 5G technology.
- *13 Mobile unit charge: Mobile interconnectivity telecommunications charge between NTT DoCoMo, etc. and our company, unit price per Mbps.

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

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

Operating Results Summary

	1Q-3Q19	1Q-3Q20	YoY Change
	JPY millions	JPY millions	%
Total revenues	150,688	156,070	3.6
Network services	91,525	93,983	2.7
Systems integration (SI)	56,062	59,927	6.9
ATM operation business	3,101	2,160	(30.4)
Total costs	(126,994)	(127,273)	0.2
Network services	(76,211)	(74,201)	(2.6)
Systems integration (SI)	(49,111)	(51,672)	5.2
ATM operation business	(1,672)	(1,400)	(16.3)
Total gross profit	23,694	28,797	21.5
Network services	15,314	19,782	29.2
Systems integration (SI)	6,951	8,255	18.8
ATM operation business	1,429	760	(46.8)
SG&A, R&D, and other operating income (expenses)	(17,634)	(18,670)	5.9
Operating profit	6,060	10,127	67.1
Profit before tax	5,610	9,227	64.5
Profit for the period attributable to owners of the parent	3,354	5,877	75.2

(Note) Systems integration revenue includes equipment sales revenue.

Segment Results Summary

	1Q-3Q19	1Q-3Q20
	JPY millions	JPY millions
Total revenues	150,688	156,070
Network services and SI business	147,805	154,039
ATM operation business	3,101	2,160
Elimination	(218)	(129)
Operating profit	6,060	10,127
Network service and SI business	4,901	9,603
ATM operation business	1,271	616
Elimination	(112)	(92)

i) Revenues

Total revenues were JPY156,070 million, up 3.6% YoY (JPY150,688 million for 1Q-3Q19).

Revenues for Internet connectivity services for enterprise were JPY29,699 million, up 9.0% YoY from JPY27,258 million for 1Q-3Q19, mainly due to an increase in IP services revenues and mobile-related services revenues along with an increase of telecommunication demands.

Revenues for Internet connectivity services for consumers were JPY19,390 million, down 0.7% YoY from JPY19,530 million for 1Q-3Q19, mainly due to competition and a decrease in “IIJmio Mobile Service,” consumer mobile services revenues, along with sluggish sales of retailers under the COVID-19 pandemic.

Revenues for WAN services were JPY18,605 million, down 10.5% YoY from JPY20,796 million for 1Q-3Q19. The decrease was mainly because of the year over year impact by large enterprises clients’ migration to mobile which mostly ended in 3Q19.

Revenues for Outsourcing services were JPY26,289 million, up 9.8% YoY from JPY23,941 million for 1Q-3Q19, mainly due to an increase in security-related services revenues .

Network Services Revenues Breakdown

	1Q-3Q19	1Q-3Q20	YoY Change
	JPY millions	JPY millions	%
Total network services	91,525	93,983	2.7
Internet connectivity services (enterprise)	27,258	29,699	9.0
IP services (including data center connectivity services)	7,992	8,988	12.5
IIJ Mobile services	16,780	18,034	7.5
Enterprise mobile service (IoT usages etc.)	4,350	5,513	26.7
IIJ Mobile MVNO Platform Service (MVNE)	12,430	12,521	0.7
Others	2,486	2,677	7.7
Internet connectivity services (consumer)	19,530	19,390	(0.7)
IIJmio Mobile Service	17,605	17,363	(1.4)
Others	1,925	2,027	5.3
WAN services	20,796	18,605	(10.5)
Outsourcing services	23,941	26,289	9.8

Number of Contracts and Subscription for Connectivity Services

	As of December 31, 2019	As of December 31, 2020	YoY Change
Internet connectivity services (enterprise)	1,902,586	2,258,371	355,785
IP service (greater than or equal to 1Gbps)	757	782	25
IP service (less than 1Gbps)	1,259	1,225	(34)
IIJ Mobile Services	1,815,268	2,165,723	350,455
Enterprise mobile service (IoT usages etc.)	710,604	1,046,470	335,866
IIJ Mobile MVNO Platform Service (MVNE)	1,104,664	1,119,253	14,589
Others	85,302	90,641	5,339
Internet connectivity services (consumer)	1,405,848	1,380,594	(25,254)
IIJmio Mobile Service	1,072,576	1,037,227	(35,349)
Others	333,272	343,367	10,095
Total contracted bandwidth (Gbps)	4,745.7	6,021.9	1,276.2

(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 JPY59,927 million, up 6.9% YoY (JPY56,062 million for 1Q-3Q19).

Systems construction and equipment sales, a one-time revenue, was JPY21,687 million, down 1.8% YoY (JPY22,081 million for 1Q-3Q19). Systems operation and maintenance revenue, a recurring revenue, was JPY38,240 million, up 12.5% YoY (JPY33,981 million for 1Q-3Q19), mainly due to an increase in private cloud services' revenues.

Orders received for SI, including equipment sales, totaled JPY65,821 million, up 9.3% YoY (JPY60,231 million for 1Q-3Q19); orders received for systems construction and equipment sales were JPY23,943 million, up 2.7% YoY (JPY23,305 million for 1Q-3Q19), and orders received for systems operation and maintenance were JPY41,878 million, up 13.4% YoY (JPY36,926 million for 1Q-3Q19).

Order backlog for SI, equipment sales, as of December 31, 2020 amounted to JPY61,758 million, up 11.7% YoY (JPY55,284 million as of December 31, 2019); order backlog for systems construction and equipment sales was JPY9,763 million, up 7.7% YoY (JPY9,064 million as of December 31, 2019) and order backlog for systems operation and maintenance was JPY51,995 million, up 12.5% YoY (JPY46,220 million as of December 31, 2019).

ATM operation business revenues were JPY2,160 million, down 30.4% YoY (JPY3,101 million for 1Q-3Q19), mainly due to the decrease in the number of ATM usage and ATMs in operation along with store closure and stay-at-home by the COVID-19.

ii) Cost of sales

Total cost of sales was JPY127,273 million, up 0.2% YoY (JPY126,994 million for 1Q-3Q19).

Cost of network services revenue was JPY74,201 million, down 2.6% YoY (JPY76,211 million for 1Q-3Q19). There was a decrease in circuit-related costs along with WAN services revenue decrease. There was also a decrease in cost due to mobile unit charge revised by Mobile Network Operators (MNOs) based on their actual results of FY2019. Gross profit was JPY19,782 million, up 29.2% YoY (JPY15,314 million for 1Q-3Q19), and gross profit ratio was 21.0% (16.7% for 1Q-3Q19).

Cost of SI revenues, including equipment sales was JPY51,672 million, up 5.2% YoY (JPY49,111 million for 1Q-3Q19). There was an increase in license fees along with an increase in cloud-related revenues. Gross profit was JPY8,255 million, up 18.8% YoY (JPY6,951 million for 1Q-3Q19) and gross profit ratio was 13.8% (12.4% for 1Q-3Q19).

Cost of ATM operation business revenues was JPY1,400 million, down 16.3% YoY (JPY1,672 million for 1Q-3Q19). Gross profit was JPY760 million (JPY1,429 million for 1Q-3Q19) and gross profit ratio was 35.2% (46.1% for 1Q-3Q19).

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

Selling, general and administrative expenses, which include research and development expenses, totaled JPY18,328 million, up 3.7% YoY (JPY17,680 million for 1Q-3Q19). There were an increase in personnel-related expenses and decreases in sales commission expenses and traveling expenses.

Other operating income was JPY113 million (JPY187 million for 1Q-3Q19).

Other operating expenses was JPY455 million (JPY141 million for 1Q-3Q19), mainly due to disposal loss on fixed assets.

iv) Operating profit

Operating profit was JPY10,127 million (JPY6,060 million for 1Q-3Q19), up 67.1% YoY.

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

Finance income was JPY317 million, compared to JPY349 million for 1Q-3Q19. It included dividend income of JPY83 million (JPY75 million for 1Q-3Q19) and gains on financial instruments of JPY192 million (JPY192 million for 1Q-3Q19).

Finance expense was JPY490 million, compared to JPY432 million for 1Q-3Q19. It included interest expenses of JPY440 million (JPY432 million for 1Q-3Q19).

Share of loss of investments accounted for using equity method was JPY727 million (compared to loss of JPY367 million for 1Q-3Q19), mainly due to loss of DeCurret of JPY785 million.

vii) Profit before tax

Profit before tax was JPY9,227 million (JPY5,610 million for 1Q-3Q19), up 64.5% YoY.

viii) Profit for the period

Income tax expense was JPY3,281 million (JPY2,108 million for 1Q-3Q19). As a result, profit for the period was JPY5,946 million (JPY3,502 million for 1Q-3Q19), up 69.8% YoY.

Profit for the period attributable to non-controlling interests was JPY69 million (JPY148 million for 1Q-3Q19) mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of parent was JPY5,877 million (JPY3,354 million for 1Q-3Q19), up 75.2% YoY.

(2) Financial Position

As of December 31, 2020, the balance of total assets was JPY210,108 million, increased by JPY3,584 million from the balance as of March 31, 2020 of JPY206,524 million.

As of December 31, 2020, the balance of current assets was JPY91,901 million, increased by JPY5,311 million from the balance as of March 31, 2020 of JPY86,590 million. The major breakdown of fluctuation and balance of current assets was: an increase in cash and cash equivalents by JPY3,299 million to JPY41,970 million, a decrease in trade receivables by JPY2,763 million to JPY29,822 million, an increase in prepaid expenses by JPY1,377 million to JPY11,074 million and an increase in contract assets by JPY2,822 million to JPY3,261 million.

As of December 31, 2020, the balance of non-current assets was JPY118,207 million, decreased by JPY1,727 million from the balance as of March 31, 2020 of JPY119,934 million. As for the major breakdown of fluctuation and balance of non-current assets, tangible assets, right-of-use assets and intangible assets decreased mainly due to depreciation. Tangible assets decreased by JPY847 million to JPY16,553 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 JPY4,140 million to JPY46,420 million. Intangible assets decreased by JPY1,009 million to JPY17,272 million. The balance of investments accounted for using the equity method was JPY6,708 million, increased by JPY1,881 million, mainly due to an additional investment in DeCurret. The amount of other investments was JPY11,592 million, increased by JPY2,406 million mainly due to fluctuation of fair value of our holding marketable equity securities.

As of December 31, 2020, the balance of current liabilities was JPY69,391 million, increased by JPY3,705 million from the balance as of March 31, 2020 of JPY65,687 million. Trade and other payables increased by JPY1,984 million to JPY20,271 million. Borrowings increased by JPY2,980 million to JPY18,560 million, due to an increase by JPY5,170 million from a transfer from non-current liabilities and a decrease by JPY2,190 from repayment. Other financial liabilities decreased by JPY2,198 million to JPY15,647 million, mainly due to lease payments.

As of December 31, 2020, the balance of non-current liabilities was JPY54,544 million, decreased by JPY6,236 million from the balance as of March 31, 2020 of JPY60,780 million. Long-term borrowings decreased by JPY5,170 million to JPY7,000 million due to a transfer to current portion. Other financial liabilities decreased by JPY2,077 million to JPY34,228 million, mainly due to a transfer to current portion.

As of December 31, 2020, the balance of total equity attributable to owners of the parent was JPY85,178 million, increased by JPY6,102 million from the balance as of March 31, 2020 of JPY79,076 million. Ratio of owners' equity to total assets was 40.5% as of December 31, 2020.

(3) Cash Flows

Cash and cash equivalents as of December 31, 2020 were JPY41,970 million (JPY36,351 million as of December 31, 2019).

Cash Flows provided by Operating Activities

Net cash provided by operating activities for 1Q-3Q20 was JPY31,399 million (net cash provided by operating activities of JPY25,051 million for 1Q-3Q19). There was profit before tax of JPY9,227 million, depreciation and amortization of JPY21,094 million, including JPY8,841 million of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY3,928 million. Regarding changes in working capital, there was net cash in of JPY3,526 million compared to net cash in of JPY314 million for 1Q-3Q19. The major factors for the increase in net cash-inflow were: net cash in from decrease in trade receivable and increase in contract liabilities increased in comparison with 1Q-3Q19 and net payment of trade payable, which temporarily increased at the beginning of FY2019, decreased in comparison with 1Q-3Q19. The increase in net cash-inflow related to these factors exceeded the net increased amount of payment of prepaid expenses and contract assets.

Cash Flows used in Investing Activities

Net cash used in investing activities for 1Q-3Q20 was JPY8,918 million (net cash used in investing activities of JPY6,461 million for 1Q-3Q19), mainly due to payments for purchases of tangible assets of JPY4,555 million (JPY6,222 million for 1Q-3Q19), payments for purchases of intangible assets, such as software, of JPY3,722 million (JPY4,017 million for 1Q-3Q19), proceeds from sales of tangible assets, which include sale and leaseback, of JPY1,859 million (JPY1,774 million for 1Q-3Q19) and an investment in an equity method investee of JPY2,754 million.

Cash Flows used in Financing Activities

Net cash used in financing activities for 1Q-3Q20 was JPY19,031 million (net cash used in financing activities of JPY14,154 million for 1Q-3Q19), mainly due to repayments of bank borrowings of JPY2,190 million, payments of other financial liabilities of JPY15,252 million, including JPY8,771 million of payment of operating lease under IFRS 16, and dividends paid of JPY1,533 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 1Q-3Q20.

(5) Research and developments

For 1Q-3Q20, research and development expenses, which were in relation to network services and systems integration business segment, were JPY333 million, increased by 6.7% compared to JPY312 million for 1Q-3Q19.

(6) Number of employees

There were no material changes in the number of employees of the Company during 1Q-3Q20.

(i) Consolidated basis

As of December 31, 2020

Number of Employees	3,804 (49)
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(Note) The number of employees indicates the total number of full-time and contract workers. It does not include third-party employees working at the Group. The average number of part-time employees for the full fiscal year is shown in brackets.

(ii) IJ (non-consolidated basis)

As of December 31, 2020

Number of Employees	2,206 (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 full fiscal year is shown in brackets.

(7) Production, Orders Received and Sales

(i) Production

Production results for the nine months ended December 31, 2020 were as follows :

Type of Services	Nine months ended December 31, 2020	
	Production (thousands of yen)	Year over year comparison (%)
Systems Integration, including Equipment Sales	51,836,454	7.6
Total	51,836,454	7.6

(Notes)

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

(ii) Orders Received

Orders received for the nine months ended December 31, 2020 and order backlog as of December 31, 2020 were as follows:

Type of Services	Nine months ended December 31, 2020			
	Orders Received (thousands of yen)	Year over Year comparison (%)	Order Backlog (thousands of yen)	Year over Year comparison (%)
Systems Construction and Equipment Sales	23,943,182	2.7	9,763,125	7.7
Systems Operation and Maintenance	41,224,196	11.6	51,341,222	11.1
Total	65,167,378	8.2	61,104,347	10.5

(Notes)

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

(iii) Sales

Quarterly consolidated revenues for the nine months ended December 31, 2020 were as follows:

Type of services	Nine months ended December 31, 2020	
	Revenue (thousands of yen)	Year over year comparison (%)
Network services	93,983,677	2.7
Internet connectivity services (enterprise)	29,698,893	9.0
Internet connectivity services (consumer)	19,389,971	(0.7)
WAN services	18,605,484	(10.5)
Outsourcing services	26,289,329	9.8
Systems integration	59,926,698	6.9
Systems construction and equipment sales	21,686,848	(1.8)
Systems operation and maintenance	38,239,850	12.5
ATM operation business	2,159,738	(30.4)
Total revenues	156,070,113	3.6

(Notes)

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

(8) Major property and equipment

There were no material changes in major property and equipment or in our plan in relation to property and equipment during the nine months ended December 31, 2020.

3 Material Contracts, etc.

Not applicable.

Item 3. Information on IIJ

1 Information on IIJ's Shares

(1) Total Number of Shares

(i) 【Total Number of Shares】

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

(Note) In accordance with a resolution authorized at a meeting of IIJ's board of directors on November 9, 2020, IIJ conducted a two-for-one stock split of its common stock, with an effective date of January 1, 2021. As a result of the stock split, the total number of shares outstanding increased by 75,520,000 shares to 151,040,000 shares.

(ii) 【Number of shares issued】

Class	Number of shares issued as of the end of period (shares) (December 31, 2020)	Number of shares issued as of the filing date (shares) (February 15, 2021)	Stock exchange on which IIJ is listed or authorized financial instruments firms association	Description
Common stock	46,734,600	93,469,200	Tokyo Stock Exchange (the first section)	The number of shares constituting a unit is 100.
Total	46,734,600	93,469,200	—	—

(Note) In accordance with a resolution authorized at a meeting of IIJ's board of directors on November 9, 2020, IIJ conducted a two-for-one stock split of its common stock, with an effective date of January 1, 2021. As a result of the stock split, the total number of shares issued increased by 46,734,600 shares to 93,469,200 shares.

(2) Information on Stock Acquisition Rights

(i) Description of Stock Option System

Not applicable.

(ii) Other Stock Acquisition Rights

Not applicable

(3) Information on Moving Strike Convertible Bonds

Not applicable.

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

Date	Changes in the total number of issued shares (shares)	Balance of the total number of issued shares (shares)	Changes in capital (thousands of yen)	Balance of capital (thousands of yen)	Changes in capital reserve (thousands of yen)	Balance of capital reserve (thousands of yen)
From October 1, 2020 to December 31, 2020	—	46,734,600	—	22,991,399	—	9,712,083

(Note) Although IIJe 2021, the figures presented above represent information from prior to the stock split.

(5) Major Shareholders

Not applicable for the third quarter of the 29th business term.

(6) Information on Voting Rights

(i) Issued shares

As of December 31, 2020

Classification	Number of Shares (shares)	Number of Voting Rights	Description
Shares without Voting Rights	—	—	—
Shares with Restricted Voting Rights (treasury stock, etc.)	—	—	—
Shares with Restricted Voting Rights (others)	—	—	—
Shares with Full Voting Rights (treasury stock, etc.)	Treasury Stock: 1,631,700 shares of common stock	—	—
Shares with Full Voting Rights (others)	45,085,500 shares of common stock	450,855	—
Shares Representing Less than One Unit (Note 1)	17,400 shares of common stock	—	—
Number of Issued Shares	46,734,600 shares of common stock	—	—
Total Number of Voting Rights	—	450,855	—

(Notes)

1. 66 shares of treasury stock are included in “Shares Representing Less than One Unit.”
2. Although IJ conducted a two-for-one stock split of its common stock with an effective date of January 1, 2021, the figures presented above represent information from prior to the stock split.

(ii) Treasury Stock

As of December 31, 2020

Name	Address	Number of shares held under own name (shares)	Number of shares held under the name of others (shares)	Total number of shares held (shares)	Ownership percentage of total number of shares outstanding (%)
(Treasury Stock) Internet Initiative Japan Inc.	2-10-2 Fujimi, Chiyoda-ku, Tokyo	1,631,700	—	1,631,700	3.49
Total	—	1,631,700	—	1,631,700	3.49

(Note) Although IJ conducted a two-for-one stock split of its common stock with an effective date of January 1, 2021, the figures presented above represent information from prior to the stock split.

2 Changes in Directors and Company Auditors

There were no changes in directors and company auditors during the period from the filing date of the Annual Securities Report for the fiscal year ended March 31, 2020 (filed on June 30, 2020) to December 31, 2020 (the last day of 1Q-3Q20).

Item 4. Financial Information

1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Financial Position (Unaudited)

	Note	March 31, 2020	December 31, 2020
		Thousands of yen	Thousands of yen
Assets			
Current Assets			
Cash and cash equivalents		38,671,734	41,970,420
Trade receivables		32,585,326	29,822,130
Inventories		2,476,477	2,345,596
Prepaid expenses		9,696,856	11,073,659
Contract assets		438,675	3,260,968
Other financial assets	6,12	2,629,332	3,185,141
Other current assets		92,027	243,044
Total Current Assets		86,590,427	91,900,958
Non-current Assets			
Tangible assets		17,399,863	16,552,561
Right-of-use Assets		50,560,361	46,420,207
Goodwill		6,082,472	6,082,472
Intangible assets		18,280,247	17,271,611
Investments accounted for using the equity method		4,827,287	6,707,822
Prepaid expenses		7,777,997	8,352,479
Contract assets		60,362	33,774
Other investments	12	9,186,646	11,592,406
Deferred tax assets		742,857	151,545
Other financial assets	6,12	4,645,959	4,626,162
Other non-current assets		369,782	416,113
Total non-current assets		119,933,833	118,207,152
Total assets		206,524,260	210,108,110

	Note	March 31, 2020	December 31, 2020
		Thousands of yen	Thousands of yen
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		18,287,546	20,271,191
Borrowings	12	15,580,000	18,560,000
Income taxes payable		2,283,707	1,698,338
Contract liabilities		5,897,674	6,770,021
Deferred income		88,901	83,410
Other financial liabilities	7,12	17,845,194	15,647,406
Other current liabilities		5,703,623	6,360,988
Total current liabilities		65,686,645	69,391,354
Non-current liabilities			
Borrowings	12	12,170,000	7,000,000
Retirement benefit liabilities		3,984,880	4,250,999
Provisions		753,518	755,681
Contract liabilities		5,991,807	6,576,503
Deferred income		479,097	422,429
Deferred tax liabilities		136,536	276,857
Other financial liabilities	7,12	36,305,781	34,228,425
Other non-current liabilities		958,879	1,033,570
Total non-current liabilities		60,780,498	54,544,464
Total liabilities		126,467,143	123,935,818
Equity			
Share capital		25,530,621	25,530,621
Share premium		36,271,395	36,372,219
Retained earnings		16,500,993	21,096,389
Other components of equity		2,669,501	4,053,607
Treasury shares		(1,896,921)	(1,875,112)
Total equity attributable to owners of the parent		79,075,589	85,177,724
Non-controlling interests		981,528	994,568
Total equity		80,057,117	86,172,292
Total liabilities and equity		206,524,260	210,108,110

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Note	Nine Months Ended December 31, 2019	Nine Months Ended December 31, 2020
		Thousands of yen	Thousands of yen
Revenues			
Network services		91,524,644	93,983,677
System integration		56,062,205	59,926,698
ATM operation business		3,101,475	2,159,738
Total revenues	5,9	150,688,324	156,070,113
Cost of sales			
Cost of network services		(76,210,678)	(74,201,460)
Cost of systems integration		(49,111,625)	(51,671,863)
Cost of ATM operation business		(1,672,487)	(1,400,165)
Total cost of sales		(126,994,790)	(127,273,488)
Gross Profit		23,693,534	28,796,625
Selling, general and administrative expense		(17,680,244)	(18,327,863)
Other operating income		187,214	113,091
Other operating expenses		(140,434)	(454,357)
Operating Profit		6,060,070	10,127,496
Finance income	12	349,156	317,146
Finance expenses	12	(432,586)	(490,797)
Share of profit (loss) of investments accounted for using equity method	10	(367,133)	(726,857)
Profit (loss) before tax		5,609,507	9,226,988
Income tax expense		(2,107,255)	(3,281,332)
Profit (loss) for the period		3,502,252	5,945,656
Profit (loss) for the period attributable to:			
Owners of the parent		3,353,994	5,876,784
Non-controlling interests		148,258	68,872
Total		3,502,252	5,945,656
Earnings per share			
Basic earnings per share (yen)	11	37.20	65.16
Diluted earnings per share (yen)		37.04	64.84

(*Earnings per share for nine-month periods ended December 31, 2019 and 2020 are based on figures adjusted for the effect of two-for-one stock split. For details, please refer to "Note 11. EARNINGS PER SHARE."

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Note	Three Months Ended December 31, 2019	Three Months Ended December 31, 2020
		Thousands of yen	Thousands of yen
Revenues			
Network services		30,320,743	31,879,433
System integration		20,146,597	21,760,024
ATM operation business		1,001,449	765,666
Total revenues	5,9	51,468,789	54,405,123
Cost of sales			
Cost of network services		(25,057,088)	(24,305,137)
Cost of systems integration		(17,369,639)	(18,281,933)
Cost of ATM operation business		(547,741)	(476,046)
Total cost of sales		(42,974,468)	(43,063,116)
Gross Profit		8,494,321	11,342,007
Selling, general and administrative expense		(5,779,614)	(6,203,679)
Other operating income		28,146	32,677
Other operating expenses		(34,733)	(282,558)
Operating Profit		2,708,120	4,888,447
Finance income	12	245,051	349,379
Finance expenses	12	(152,940)	(163,377)
Share of profit (loss) of investments accounted for using equity method	10	(234,012)	(313,322)
Profit (loss) before tax		2,566,219	4,761,127
Income tax expense		(922,320)	(1,625,064)
Profit (loss) for the period		1,643,899	3,136,063
Profit (loss) for the period attributable to:			
Owners of the parent		1,597,892	3,106,856
Non-controlling interests		46,007	29,207
Total		1,643,899	3,136,063
Earnings per share			
Basic earnings per share (yen)	11	17.72	34.44
Diluted earnings per share (yen)		17.64	34.27

(*)Earnings per share for three-month periods ended December 31, 2019 and 2020 are based on figures adjusted for the effect of two-for-one stock split. For details, please refer to "Note 11. EARNINGS PER SHARE."

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Note	Nine Months Ended December 31, 2019	Nine Months Ended December 31, 2020
		Thousands of yen	Thousands of yen
Profit (loss)		3,502,252	5,945,656
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		2,115,344	1,737,941
Total items that will not be reclassified to profit or loss		2,115,344	1,737,941
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(45,806)	(80,184)
Financial assets measured at fair value through other comprehensive income		(471)	236
Share of other comprehensive income of investments accounted for using equity method		1,189	(22,038)
Total of items that may be reclassified to profit or loss		(45,088)	(101,986)
Total other comprehensive income, net of tax		2,070,256	1,635,955
Other comprehensive income		5,572,508	7,581,611
Other comprehensive income attributable to:			
Owners of the parent		5,424,250	7,512,739
Non-controlling interest		148,258	68,872
Other comprehensive income		5,572,508	7,581,611

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Note	Three Months Ended December 31, 2019	Three Months Ended December 31, 2020
		Thousands of yen	Thousands of yen
Profit (loss)		1,643,899	3,136,063
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		1,297,640	177,294
Total items that will not be reclassified to profit or loss		1,297,640	177,294
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		71,967	(37,415)
Financial assets measured at fair value through other comprehensive income		(1,445)	17
Share of other comprehensive income of investments accounted for using equity method		(1,304)	(10,939)
Total of items that may be reclassified to profit or loss		69,218	(48,337)
Total other comprehensive income, net of tax		1,366,858	128,957
Other comprehensive income		3,010,757	3,265,020
Other comprehensive income attributable to:			
Owners of the parent		2,964,750	3,235,813
Non-controlling interest		46,007	29,207
Other comprehensive income		3,010,757	3,265,020

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
 Nine months ended December 31, 2019

	Note	Owners of the parent's shareholders' equity					Non-controlling interests	Total equity	
		Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares			Total
		Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen			Thousands of yen
Balance, April 1, 2019		25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610
Cumulative impact of adopting IFRS 16		-	-	(33,728)	-	-	(33,728)	-	(33,728)
Comprehensive income									
Profit (loss)		-	-	3,353,994	-	-	3,353,994	148,258	3,502,252
Other comprehensive income		-	-	-	2,070,256	-	2,070,256	-	2,070,256
Total comprehensive income		-	-	3,353,994	2,070,256	-	5,424,250	148,258	5,572,508
Transactions with owners									
Issuance of common stock		11,909	(11,895)	-	-	-	14	-	14
Dividends paid	8	-	-	(1,217,082)	-	-	(1,217,082)	(53,405)	(1,270,487)
Stock-based compensation		-	43,065	-	-	-	43,065	-	43,065
Transfer from other components of equity to retained earnings		-	-	1,543,793	(1,543,793)	-	-	-	-
Total transactions with owners		11,909	31,170	326,711	(1,543,793)	-	(1,174,003)	(53,405)	(1,227,408)
Balance, December 31, 2019		25,530,621	36,256,945	15,982,012	4,615,167	(1,896,788)	80,487,957	943,025	81,430,982

Nine months ended December 31, 2020

	Note	Owners of the parent's shareholders' equity					Non-controlling interests	Total equity	
		Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares			Total
		Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen			Thousands of yen
Balance, April 1, 2020		25,530,621	36,271,395	16,500,993	2,669,501	(1,896,921)	79,075,589	981,528	80,057,117
Comprehensive income									
Profit (loss)		-	-	5,876,784	-	-	5,876,784	68,872	5,945,656
Other comprehensive income		-	-	-	1,635,955	-	1,635,955	-	1,635,955
Total comprehensive income		-	-	5,876,784	1,635,955	-	7,512,739	68,872	7,581,611
Transactions with owners									
Purchase of treasury stock		-	-	-	-	(140)	(140)	-	(140)
Disposal of treasury shares		-	52,917	-	-	21,949	74,866	-	74,866
Dividends paid	8	-	-	(1,533,237)	-	-	(1,533,237)	(55,832)	(1,589,069)
Stock-based compensation		-	47,907	-	-	-	47,907	-	47,907
Transfer from other components of equity to retained earnings		-	-	251,849	(251,849)	-	-	-	-
Total transactions with owners		-	100,824	(1,281,388)	(251,849)	21,809	(1,410,604)	(55,832)	(1,466,436)
Balance, December 31, 2020		25,530,621	36,372,219	21,096,389	4,053,607	(1,875,112)	85,177,724	994,568	86,172,292

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Note	Nine Months Ended December 31, 2019	Nine Months Ended December 31, 2020
		Thousands of yen	Thousands of yen
Cash flows from operating activities:			
Profit (loss) before tax		5,609,507	9,226,988
Adjustments			
Depreciation and amortization		21,355,819	21,093,793
Loss (gain) on sales/disposals of property and equipment		114,310	432,101
Shares of loss (profit) of investments accounted for using the equity method		367,133	726,857
Finance income		(305,089)	(283,369)
Finance expenses		437,618	538,117
Other		6,904	332,913
Changes in working capital			
Decrease (increase) in trade receivables		(421,001)	2,753,953
Decrease (increase) in inventories		1,176,389	132,323
Decrease (increase) in prepaid expenses		(1,800,779)	(1,977,177)
Decrease (increase) in contract assets		1,425,857	(2,795,705)
Decrease (increase) in other assets		215,219	(151,013)
Decrease (increase) in other financial assets		(1,076,142)	(100,592)
Increase (decrease) in trade and other payables		(1,215,472)	2,820,693
Increase (decrease) in contract liabilities		873,982	1,501,364
Increase (decrease) in deferred income		(17,544)	(62,159)
Increase (decrease) in other liabilities		496,485	666,159
Increase (decrease) in other financial liabilities		449,121	472,422
Increase (decrease) in retirement benefit liabilities		208,082	266,119
Subtotal		27,900,399	35,593,787
Interest and dividends received		184,017	172,300
Interest paid		(430,602)	(438,861)
Income taxes paid		(2,602,595)	(3,928,124)
Cash flows from operating activities		25,051,219	31,399,102

	Note	Nine Months Ended December 31, 2019	Nine Months Ended December 31, 2020
		Thousands of yen	Thousands of yen
Cash flows from investing activities			
Purchases of tangible assets		(6,222,176)	(4,555,236)
Proceeds from sales of tangible assets		1,774,021	1,859,157
Purchases of intangible assets		(4,017,051)	(3,722,346)
Proceeds from sales of intangible assets		273,773	44,085
Purchase of investments accounted for using equity method		(718,000)	(2,754,000)
Proceeds from sale of investments accounted for using equity method		-	60,637
Purchases of other investments		(100,313)	(113,076)
Proceeds from sales of other investments		2,749,885	462,547
Payments for leasehold deposits and guarantee deposits		(188,062)	(180,311)
Proceeds from collection of leasehold deposits and guarantee deposits		14,491	25,986
Payments for refundable insurance policies		(42,255)	(50,043)
Other		14,833	4,695
Cash flows from investing activities		(6,460,854)	(8,917,905)
Cash flows from financing activities			
Repayment of long-term borrowings		(1,500,000)	(1,830,000)
Net increase (decrease) in short-term borrowings		2,500,000	(360,000)
Proceeds from other financial liabilities		1,473,000	-
Payments of other financial liabilities		(15,356,191)	(15,252,049)
Dividends paid		(1,217,082)	(1,533,237)
Other		(53,418)	(55,832)
Cash flows from financing activities		(14,153,691)	(19,031,118)
Effect of exchange rate changes on cash and cash equivalents		(43,661)	(151,393)
Net increase (decrease) in cash and cash equivalents		4,393,012	3,298,686
Cash and cash equivalents, beginning of the period		31,957,789	38,671,734
Cash and cash equivalents, end of the period		36,350,802	41,970,420

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/>—. The condensed consolidated financial statements of IIJ for the period ended December 31, 2020 comprise the financial statements of IIJ and its subsidiaries (collectively “the Company”), and the interests in associated companies.

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

2. BASIS OF PREPARATION

(1) Compliance with IFRS

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

The condensed interim consolidated financial statements, which do not contain all the information required in annual consolidated financial statements, should be read in conjunction with the annual consolidated financial statements for the previous fiscal year ended March 31, 2020.

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

(4) Changes in Presentation

(Condensed Consolidated Statements of Financial Position)

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied to the condensed consolidated financial statements for the nine months ended December 31, 2020 are the same as those applied to the consolidated financial statements for the fiscal year ended March 31, 2020. Meanwhile, income taxes for the nine months ended December 31, 2020 are calculated based on the estimated annual effective tax rate.

4. Significant accounting estimates and judgements involving estimates

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

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

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

Estimates and judgements with significant effects on the condensed consolidated financial statements for the nine months ended December 31, 2020 including the effects of COVID-19 are same as those on the consolidated financial statements for the year ended March 31, 2020.

5. SEGMENTS

(1) Overview of reportable segments

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

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

(2) Revenue and results of reportable segments

Segment information for the Company is as follows:

For the nine months ended December 31, 2019

	Reportable segments		Adjustments	Condensed quarterly consolidated statements of profit or loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	147,586,849	3,101,475	—	150,688,324
Intersegment transactions	217,943	—	(217,943)	—
Total revenue	147,804,792	3,101,475	(217,943)	150,688,324
Segment operating profit	4,901,631	1,270,909	(112,470)	6,060,070
Finance income				349,156
Finance expense				(432,586)
Share of profit (loss) of investments accounted for using the equity method				(367,133)
Profit before taxes				5,609,507

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

For the nine months ended December 31, 2020

	Reportable segments		Adjustments	Condensed quarterly consolidated statements of profit or loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen		
Revenue				
Customers	153,910,375	2,159,738	—	156,070,113
Intersegment transactions	128,904	—	(128,904)	—
Total revenue	154,039,279	2,159,738	(128,904)	156,070,113
Segment operating profit	9,603,150	615,697	(91,351)	10,127,496
Finance income				317,146
Finance expense				(490,797)
Share of profit (loss) of investments accounted for using the equity method				(726,857)
Profit before tax				9,226,988

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

For the three months ended December 31, 2019

	Reportable segments		Adjustments	Condensed quarterly consolidated statements of profit or loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen		
Revenue				
Customers	50,467,340	1,001,449	—	51,468,789
Intersegment transactions	72,236	—	(72,236)	—
Total revenue	50,539,576	1,001,449	(72,236)	51,468,789
Segment operating profit	2,344,876	401,958	(38,714)	2,708,120
Finance income				245,051
Finance expense				(152,940)
Share of profit (loss) of investments accounted for using the equity method				(234,012)
Profit before taxes				2,566,219

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

For the three months ended December 31, 2020

	Reportable segments		Adjustments	Condensed quarterly consolidated statements of profit or loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	53,639,457	765,666	—	54,405,123
Intersegment transactions	39,520	—	(39,520)	—
Total revenue	53,678,977	765,666	(39,520)	54,405,123
Segment operating profit	4,680,443	237,263	(29,259)	4,888,447
Finance income				349,379
Finance expense				(163,377)
Share of profit (loss) of investments accounted for using the equity method				(313,322)
Profit before taxes				4,761,127

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

6. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

	March 31, 2020	December 31, 2020
	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost		
Other receivable	1,665,198	2,022,631
Guarantee deposit	3,331,561	3,504,972
Loans receivable	35,068	39,419
Other	17,864	84,229
Lease receivable	2,225,600	2,160,052
Total	7,275,291	7,811,303
Current assets	2,629,332	3,185,141
Non-current assets	4,645,959	4,626,162
Total	7,275,291	7,811,303

7. OTHER FINANCIAL LIABILITIES

The components of other financial liabilities are as follows:

	March 31, 2020	December 31, 2020
	<u>Thousands of yen</u>	<u>Thousands of yen</u>
Financial liabilities measured at amortized cost		
Account payable—non-current	661,154	205,677
Deposit payable	203,212	869,956
Others	632,121	207,562
Lease obligations	52,654,488	48,592,636
Total	<u>54,150,975</u>	<u>49,875,831</u>
Current liabilities	17,845,194	15,647,406
Non-current liabilities	36,305,781	34,228,425
Total	<u>54,150,975</u>	<u>49,875,831</u>

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

	March 31, 2020	December 31, 2020
	<u>Thousands of yen</u>	<u>Thousands of yen</u>
Financial leases	18,062,638	17,941,988
Other leases	34,591,850	30,650,648

8. DIVIDENDS PAID

For the nine months ended December 31, 2019

(1) Cash dividends paid.

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 27, 2019 Ordinary General Meeting of Shareholders	608,452	13.50	March 31, 2019	June 28, 2019
November 8, 2019 Board of directors meeting	608,630	13.50	September 30, 2019	December 6, 2019

For the nine months ended December 31, 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
November 9, 2020 Board of directors meeting	924,608	20.50	September 30, 2020	December 4, 2020

9. REVENUE

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

	For the nine months ended	For the nine months ended
	December 31, 2019	December 31, 2020
	Thousands of yen	Thousands of yen
Network services	91,524,644	93,983,677
Internet connectivity services (enterprise)	27,258,169	29,698,893
Wan services	20,795,184	18,605,484
Outsourcing services	23,941,024	26,289,329
Internet connectivity services (consumer)	19,530,267	19,389,971
Systems integration	56,062,205	59,926,698
Systems construction	22,080,987	21,686,848
Systems operation and maintenance	33,981,218	38,239,850
ATM operation business	3,101,475	2,159,738
Total	150,688,324	156,070,113

	For the three months	For the three months
	ended December 31, 2019	ended December 31, 2020
	Thousands of yen	Thousands of yen
Network services	30,320,743	31,879,433
Internet connectivity services (enterprise)	9,183,218	10,049,013
Wan services	6,452,686	6,269,939
Outsourcing services	8,151,463	9,056,051
Internet connectivity services (consumer)	6,533,376	6,504,430
Systems integration	20,146,597	21,760,024
Systems construction	8,327,753	8,667,058
Systems operation and maintenance	11,818,844	13,092,966
ATM operation business	1,001,449	765,666
Total	51,468,789	54,405,123

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

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

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

Share of profit of investments accounted for using equity method included gains on changes in equity of ¥375,530 thousand from issuance of common stock of DeCurret Inc., which is accounted for equity method for the nine months ended December 31 2019.

11. EARNINGS PER SHARE

Basic earnings per share attributable to owners of the parent and diluted earnings per share attributable to owners of the parent were as follows:

	For the nine months ended December 31, 2019	For the nine months ended December 31, 2020
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	3,353,994	5,876,784
Earnings adjustment (thousands of yen)	—	—
<u>Earnings used to calculate earnings per share — diluted (thousands of yen)</u>	<u>3,353,994</u>	<u>5,876,784</u>
Denominator :		
Weighted average number of shares — basic (shares)	90,158,642	90,191,724
Dilution arising from stock options (shares)	396,702	448,208
<u>Weighted average number of shares — diluted (shares)</u>	<u>90,555,344</u>	<u>90,639,932</u>
Earnings per share attributable to owners of the parent		
Basic (yen)	37.20	65.16
Diluted (yen)	37.04	64.84

	For the three months ended December 31, 2019	For the three months ended December 31, 2020
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	1,597,892	3,106,856
Earnings adjustment (thousands of yen)	—	—
<u>Earnings used to calculate earnings per share — diluted (thousands of yen)</u>	<u>1,597,892</u>	<u>3,106,856</u>
Denominator :		
Weighted average number of shares — basic (shares)	90,167,378	90,205,668
Dilution arising from stock options (shares)	405,090	458,836
<u>Weighted average number of shares — diluted (shares)</u>	<u>90,572,468</u>	<u>90,664,504</u>
Earnings per share attributable to owners of the parent		
Basic (yen)	17.72	34.44
Diluted (yen)	17.64	34.27

Stock split

Based on the resolution of the IJJ's board of directors held on November 9, 2020, the Company conducted at a ratio of 1:2 stock split of shares held by shareholders as of December 31, 2020, the record date, effective January 1, 2021.

In connection with the stock split, the information per share for the nine months ended December 31, 2019, for the three months ended December 31, 2019, for the nine months ended December 31, 2020 and for the three months ended December 31, 2020, presented in the consolidated financial statements is shown after adjusting for the stock split.

12. FINANCIAL INSTRUMENTS

Fair value of financial instruments

(1) Classification of fair value hierarchy by level

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

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

(2) Financial instruments measured at fair value

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

Equity securities

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

Debt securities

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

Investment trust and other securities

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

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

March 31, 2020

	Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets :				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	111,510	—	111,510
Equity-based financial assets measured at FVTOCI				
Equity securities	5,163,326	—	1,488,361	6,651,687
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	2,348,265	2,348,265
Other financial assets	—	75,184	—	75,184

December 31, 2020

	Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets :				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	111,850	—	111,850
Equity-based financial assets measured at FVTOCI				
Equity securities	7,397,345	—	1,458,699	8,856,044
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	2,550,552	2,550,552
Other financial assets	—	73,959	—	73,959

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 period.

(3) Changes in financial assets classified as Level 3

Changes in financial assets classified as Level 3 during the nine month periods ended December 31, 2019 and 2020 were as follows:

	For the nine months ended December 31, 2019	For the nine months ended December 31, 2020
	Thousands of yen	Thousands of yen
Equity securities		
Balance at the beginning of the period	1,379,302	1,488,361
Other comprehensive income (Note 1)	120,990	(29,662)
Sale	(14,030)	—
Balance at the end of period	1,486,262	1,458,699
Investment trust and other securities		
Balance at the beginning of the period	2,199,303	2,348,265
Profit or loss (Note 2)	189,295	159,393
Purchase	100,313	113,076
Sale	(113,541)	(70,182)
Balance at the end of period	2,375,370	2,550,552

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

(Note 2) Gain or loss included in profit or loss are related to financial assets that are measured at FVTPL as of the end date of 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 end of each reporting period.

(4) Financial instruments not measured at fair value

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

(i) Long-term borrowings

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

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

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

March 31, 2020

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
		Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Liabilities :					
Long-term borrowings (including current portion)	14,000,000	-	14,011,819	-	14,011,819

December 31, 2020

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
		Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Liabilities :					
Long-term borrowings (including current portion)	12,170,000	-	12,180,559	-	12,180,559

13. CONTINGENT LIABILITIES

The Company is involved in litigation and claims arising in the ordinary course of business. In evaluating matters on an ongoing basis, the Company takes into account estimated amounts accrued on the consolidated balance sheet. The Company believes that exposure to loss does not exist in excess of the amount accrued and the negative adverse outcome of such litigation and claims would not have a significant impact on the consolidated financial position or results of operations. On September 1, 2010, IJJ Global Solutions Inc. ("IJJ-Global") entered into a Solutions Engagement Agreement with IBM Japan Ltd., IJJ-Global's largest sales partner. This agreement, which establishes the basis for a procurement relationship between IJJ-Global and IBM Japan, contains indemnification for IJJ-Global to perform services, functions, responsibilities and others that were being performed by AT&T Japan. This agreement renews automatically every year. IJJ-Global had no obligation for the indemnification as of December 31, 2020.

14. SUBSEQUENT EVENTS

Stock Split

The stock split conducted by the Company is described in “11. EARNINGS PER SHARE.”

15. AUTHORIZATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

2. Other Information

An interim dividend of 20.5 yen per share with a record date of September 30, 2020 was resolved at the Board of Directors meeting on November 9, 2020 and paid as scheduled. (Total interim dividend is ¥924,608 thousand. The scheduled date for interim dividend payment: December 4, 2020)

PART 2 Information about Guarantors of the Company

Not applicable.

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

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

February 15, 2021

To the Board of Directors of Internet Initiative Japan Inc.

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

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

Conclusion

We have reviewed the accompanying condensed quarterly consolidated financial statements of Internet Initiative Japan Inc. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") provided in the "Financial Information" section in the Company's Quarterly Securities Report, which comprise the condensed quarterly consolidated statement of financial position as at December 31, 2020, the condensed quarterly consolidated statement of profit or loss, the condensed quarterly consolidated statement of comprehensive income, the condensed quarterly consolidated statement of changes in equity, the condensed quarterly consolidated statement of cash flows for the three and nine 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 December 31, 2020, and its financial performance and cash flows for the three and nine 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.