

(TRANSLATION)

Quarterly Securities Report

(The Third Quarter of the 30th Business Term)
From October 1, 2021 to December 31, 2021 (“3Q21”)

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, 2020	Nine months ended December 31, 2021	29th business term ended March 31, 2021
Revenues (Three months ended December 31)	(thousands of yen) 156,070,113 (54,405,123)	165,599,721 (56,545,834)	213,001,880
Operating profit	(thousands of yen) 10,127,496	16,298,408	14,247,723
Profit before tax	(thousands of yen) 9,226,988	17,596,669	14,034,719
Profit attributable to owners of the parent (Three months ended December 31)	(thousands of yen) 5,876,784 (3,106,856)	11,521,612 (4,629,856)	9,711,559
Comprehensive income, attributable to owners of the parent	(thousands of yen) 7,512,739	13,672,522	12,274,666
Comprehensive income	(thousands of yen) 7,581,611	13,773,725	12,364,242
Equity attributable to owners of the parent	(thousands of yen) 85,177,724	99,926,164	89,956,379
Total assets	(thousands of yen) 210,108,110	224,598,657	220,777,269
Basic earnings per share (Three months ended December 31)	(yen) 65.16 (34.44)	127.61 (51.26)	107.67
Diluted earnings per share	(yen) 64.84	127.00	107.14
Ratio of owners' equity to gross assets	(%) 40.5	44.5	40.7
Cash flows from operating activities	(thousands of yen) 31,399,102	30,370,131	40,544,167
Cash flows from investing activities	(thousands of yen) (8,917,905)	(9,832,361)	(13,215,842)
Cash flows from financing activities	(thousands of yen) (19,031,118)	(22,239,624)	(23,617,730)
Cash and cash equivalents, at the end of period	(thousands of yen) 41,970,420	40,960,126	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 nine months ended December 31, 2021, of the 30th business term ("1Q-3Q21"). Changes in major subsidiaries and affiliates during 1Q-3Q21 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 December 31, 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 February 14, 2022.

(1) Analysis of Results of Operations

(i) Overview of consolidated business results for 1Q-3Q21

The Japanese economy showed signs of recovery during the third quarter of the fiscal year ending March 31, 2022 as the severe situation caused by the COVID-19 pandemic was gradually eased. The economic recovery is expected to continue along with the normalization of economic and social activities, supported by the effect of various policies and improvement of overseas economies. However, we must pay close attention to the effect of supply chain constraints, new COVID-19 variants on the domestic and overseas economies and the impact of fluctuations in financial and capital markets and others.

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

In these market circumstances, our business overview for 1Q-3Q21 was as follows. As for network services, a strong revenue increase in network services for enterprises such as IP services (*5), security-related services, and mobile services for enterprises, largely contributed to a rise in operating profit along with the progress of IT utilization among enterprises which triggered by the COVID-19 pandemic. As for mobile services for consumers, the net increase of consumers' subscription continued on quarter basis while the revenues of mobile services for consumers, such as our new consumer plan, "GigaPlans (*6)" launched in April 2021, decreased continuously due to a decline in an average unit selling price in response to dropping of mobile related costs. As for systems integration (SI), there has been a high demand for network integration. Revenue and orders received for systems construction were up 12.6% and up 10.7% YoY, respectively. Systems operation and maintenance revenue was up 15.1% YoY, mainly because of growth of cloud computing related service revenues driven by demands for multi-clouds (*7) in addition to the continuous accumulation of orders received for systems operation and maintenance.

Consolidated financial results for 1Q-3Q21 were as follows. Total revenues were JPY165,600 million, up 6.1% YoY, compared to JPY156,070 million for the nine months ended December 31, 2021 (1Q-3Q21). Total cost of sales was JPY128,816 million (JPY127,273 million for 1Q-3Q20), up 1.2% YoY and gross profit was JPY36,784 million (JPY28,797 million for 1Q-3Q20), up 27.7% YoY. The breakdown by services is as follows. Network services revenue was JPY95,097 million (JPY93,983 million for 1Q-3Q20), up 1.2% YoY and gross profit for network services was JPY26,444 million (JPY19,782 million for 1Q-3Q20), up 33.7% YoY. SI revenues, including equipment sales, were JPY68,413 million (JPY59,927 million for 1Q-3Q20), up 14.2% YoY and gross profit for SI was JPY9,544 million (JPY8,255 million for 1Q-3Q20), up 15.6% YoY. Of these, SI revenues and gross profit of PTC, which we acquired and made a wholly-owned subsidiary in April, 2021, were JPY5,301 million and JPY588 million, respectively. ATM operation business revenue was JPY2,090 million (JPY2,160 million for 1Q-3Q20), down 3.2% YoY and gross profit of ATM operation business was JPY796 million (JPY760 million for 1Q-3Q20), up 4.8% YoY. Net amount of selling, general and administrative expenses, other operating income and other operating expenses was JPY20,486 million (JPY18,670 million for 1Q-3Q20), up 9.7% YoY. Operating profit for 1Q-3Q20 was JPY16,298 million (JPY10,127 million for 1Q-3Q20), up 60.9% YoY. Profit before tax for 1Q-3Q21 was JPY17,597 million (JPY9,227 million for 1Q-3Q20), up 90.7% YoY. Although there was an increase in an equity method loss related to DeCurret Holdings, Inc. (*8) because of a divestment of its crypto asset exchange business, an increase in valuation gains on fund investments absorbed the losses. Profit attributable to owners of the parent for 1Q-3Q21 was JPY11,522 million

(JPY5,877 million for 1Q-3Q20), up 96.1% YoY.

Glossary:

- *1. ICT: Information and Communication Technology (ICT) is a general term of technologies in relation to hardware, software, system and data communication used for information communication by computers.
- *2. Internet traffic: The quantity or flow of data transferred across the Internet.
- *3. Cloud computing: Cloud computing is the on-demand delivery of computer system functions and processing ability, software, data and etc. through the Internet.
- *4. IoT: Internet of Things (IoT) enables not only physical objects but also any “things” connected to network to exchange information automatically.
- *5. 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. Multi-clouds : The use of multiple cloud services from different providers, such as Amazon Web Services, Microsoft Azure and etc.
- *8. DeCurret Holdings, Inc.: DeCurret Holdings, Inc. is a holding company established through a share transfer by DeCurret, Inc. on December 27, 2021, and an equity method investee of IJ.

(ii) Analysis of Consolidated Results of Operations for the nine 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

	1Q-3Q20	1Q-3Q21	YoY Change
	JPY millions	JPY millions	%
Total revenues	156,070	165,600	6.1
Network services	93,983	95,097	1.2
Systems integration (SI)	59,927	68,413	14.2
ATM operation business	2,160	2,090	(3.2)
Total costs	(127,273)	(128,816)	1.2
Network services	(74,201)	(68,653)	(7.5)
Systems integration (SI)	(51,672)	(58,869)	13.9
ATM operation business	(1,400)	(1,294)	(7.6)
Total gross profit	28,797	36,784	27.7
Network services	19,782	26,444	33.7
Systems integration (SI)	8,255	9,544	15.6
ATM operation business	760	796	4.8
SG&A, R&D, and other operating income (expenses)	(18,670)	(20,486)	9.7
Operating profit	10,127	16,298	60.9
Profit before tax	9,227	17,597	90.7
Profit for the period attributable to owners of the parent	5,877	11,522	96.1

(Note) Systems integration includes equipment sales.

Segment Results Summary

	1Q-3Q20	1Q-3Q21
	JPY millions	JPY millions
Total revenues	156,070	165,600
Network services and SI business	154,039	163,606
ATM operation business	2,160	2,090
Elimination	(129)	(96)
Operating profit	10,127	16,298
Network services and SI business	9,603	15,747
ATM operation business	616	617
Elimination	(92)	(66)

i) Revenues

Total revenues were JPY165,600 million, up 6.1% YoY (JPY156,070 million for 1Q-3Q20).

Network services revenue was JPY95,097 million, up 1.2% YoY (JPY93,983 million for 1Q-3Q20).

Revenues for Internet connectivity services for enterprises were JPY28,082 million, down 5.4% YoY from JPY29,699 million for 1Q-3Q20. The decrease was due to the decrease in IIJ Mobile MVNO Platform service (MVNE) revenue, which was mainly 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 JPY17,780 million, down 8.3% YoY from JPY19,390 million for 1Q-3Q20, mainly due to a decrease in average revenue per user of new plan for our consumer mobile services.

Revenues for Outsourcing services were JPY29,831 million, up 13.5% YoY from JPY26,289 million for 1Q-3Q20, mainly due to an increase in security-related services revenues.

Revenues for WAN services were JPY19,404 million, up 4.3% YoY from JPY18,605 million for 1Q-3Q20.

Network Services Revenues Breakdown

	1Q-3Q20	1Q-3Q21	YoY Change
	JPY millions	JPY millions	%
Total network services	93,983	95,097	1.2
Internet connectivity services (enterprise)	29,699	28,082	(5.4)
IP services (including data center connectivity services)	8,988	10,069	12.0
IIJ Mobile services	18,034	15,132	(16.1)
Enterprise mobile service (IoT usages etc.)	5,513	7,516	36.3
IIJ Mobile MVNO Platform Service (MVNE)	12,521	7,616	(39.2)
Others	2,677	2,881	7.6
Internet connectivity services (consumer)	19,390	17,780	(8.3)
IIJmio Mobile Service	17,363	15,555	(10.4)
Others	2,027	2,225	9.8
Outsourcing services	26,289	29,831	13.5
WAN services	18,605	19,404	4.3

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

	As of December 31, 2020	As of December 31, 2021	YoY Change
Internet connectivity services (enterprise)	2,258,371	2,394,237	135,866
IP service (greater than or equal to 1Gbps) (Note 2)	782	751	(31)
IP service (less than 1Gbps) (Note 2)	1,225	1,206	(19)
IIJ Mobile Services	2,165,723	2,302,538	136,815
Enterprise mobile service (IoT usages etc.)	1,046,470	1,319,918	273,448
IIJ Mobile MVNO Platform Service (MVNE)	1,119,253	982,620	(136,633)
Others	90,641	89,742	(899)
Internet connectivity services (consumer)	1,380,594	1,419,277	38,683
IIJmio Mobile Service	1,037,227	1,072,920	35,693
Others	343,367	346,357	2,990
Total contracted bandwidth (Gbps) (Note 3)	6,021.9	7,346.5	1,324.6

(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 JPY68,413 million, up 14.2% YoY (JPY59,927 million for 1Q-3Q20).

Systems construction and equipment sales, a one-time revenue, was JPY24,415 million, up 12.6% YoY (JPY21,687 million for 1Q-3Q20). Of this amount, revenue of PTC was JPY3,714 million.

Systems operation and maintenance revenue, a recurring revenue, was JPY43,998 million, up 15.1% YoY (JPY38,240 million for 1Q-3Q20), 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 JPY1,587 million.

Orders received for SI, including equipment sales, totaled JPY69,910 million, up 6.2% YoY (JPY65,821 million for 1Q-3Q20); orders received for systems construction and equipment sales were JPY26,501 million, up 10.7% YoY (JPY23,943 million for 1Q-3Q20), and orders received for systems operation and maintenance were JPY43,409 million, up 3.7% YoY (JPY41,878 million for 1Q-3Q20).

Order backlog for SI, including equipment sales, as of December 31, 2021 amounted to JPY68,151 million, up 10.4% YoY (JPY61,758 million as of December 31, 2020); order backlog for systems construction and equipment sales was JPY11,254 million, up 15.3% YoY (JPY9,763 million as of December 31, 2020) and order backlog for systems operation and maintenance was JPY56,897 million, up 9.4% YoY (JPY51,995 million as of December 31, 2020).

ATM operation business revenues were JPY2,090 million, down 3.2% YoY (JPY2,160 million for 1Q-3Q20) .

ii) Cost of sales

Total cost of sales was JPY128,816 million, up 1.2% YoY (JPY127,273 million for 1Q-3Q20).

Cost of network services revenue was JPY68,653 million, down 7.5% YoY (JPY74,201 million for 1Q-3Q20). Costs of mobile services were decreased due to reduction of purchase price in voice services from the beginning of FY2021 and one-time cost reimbursement of mobile unit charge by NTT DOCOMO, INC. in 3Q21 as FY2020 mobile unit charge was fixed based on its actual results for the corresponding period. Gross profit was JPY26,444 million, up 33.7% YoY (JPY19,782 million for 1Q-3Q20), and gross profit ratio was 27.8% (21.0% for 1Q-3Q20).

Cost of SI revenues, including equipment sales was JPY58,869 million, up 13.9% YoY (JPY51,672 million for 1Q-3Q20), mainly due to increases in outsourcing and purchasing costs. Of this amount, PTC's cost was JPY4,713 million. Gross profit was JPY9,544 million, up 15.6% YoY (JPY8,255 million for 1Q-3Q20) and gross profit ratio was 13.9% (13.8% for 1Q-3Q20).

Cost of ATM operation business revenues was JPY1,294 million, down 7.6% YoY (JPY1,400 million for 1Q-3Q20). Gross profit was JPY796 million (JPY760 million for 1Q-3Q20) and gross profit ratio was 38.1% (35.2% for 1Q-3Q20).

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

Selling, general and administrative expenses, including research and development expenses, totaled JPY20,494 million, up 11.8% YoY (JPY18,328 million for 1Q-3Q20), mainly due to increases in personnel-related expenses, advertising expenses and sales commission expenses. Of this amount, PTC's expenses was JPY329 million.

Other operating income was JPY125 million (JPY113 million for 1Q-3Q20).

Other operating expenses was JPY117 million (JPY455 million for 1Q-3Q20), mainly due to disposal loss on fixed assets.

iv) Operating profit

Operating profit was JPY16,298 million (JPY10,127 million for 1Q-3Q20), up 60.9% YoY.

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

Finance income was JPY2,756 million, compared to JPY317 million for 1Q-3Q20. It included valuation gains on financial instruments of JPY2,560 million which mainly came from fund investments (gains of JPY192 million for 1Q-3Q20).

Finance expense was JPY401 million, compared to JPY490 million for 1Q-3Q20. It included interest expenses of JPY401 million (JPY440 million for 1Q-3Q20).

Share of loss of investments accounted for using equity method was JPY1,056 million (compared to loss of JPY727 million for 1Q-3Q20). There was an equity method loss of JPY1,332 million related to DeCurret Holdings, Inc., including temporary losses of JPY484 million related to a divestment of its crypto asset business on February 1, 2022.

vi) Profit before tax

Profit before tax was JPY17,597 million (JPY9,227 million for 1Q-3Q20), up 90.7% YoY.

vii) Profit for the period

Income tax expense was JPY5,974 million (JPY3,281 million for 1Q-3Q20). As a result, profit for the period was JPY11,623 million (JPY5,946 million for 1Q-3Q20), up 95.5% YoY.

Profit for the period attributable to non-controlling interests was JPY101 million (JPY69 million for 1Q-3Q20), mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of parent was JPY11,522 million (JPY5,877 million for 1Q-3Q20), up 96.1% YoY.

(2) Financial Position

As of December 31, 2021, the balance of total assets was JPY224,599 million, increased by JPY3,821 million from the balance as of March 31, 2021 of JPY220,777 million.

As of December 31, 2021, the balance of current assets was JPY94,571 million, increased by JPY1,166 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 JPY1,507 million, including payment of the acquisition of PTC, to JPY40,960 million, a decrease in trade receivables by JPY3,049 million to JPY31,750 million and an increase in prepaid expenses by JPY3,157 million, of which JPY1,369 million is related to the acquisition of PTC, to JPY13,755 million.

As of December 31, 2021, the balance of non-current assets was JPY130,028 million, increased by JPY2,655 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 JPY525 million to JPY17,609 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 JPY6,298 million to JPY44,410 million, mainly due to depreciation. Goodwill increased by JPY3,153 million to JPY9,236 million, due to the acquisition of PTC. Investments accounted for using the equity method decreased by JPY1,127 million, mainly due to loss of DeCurret Holdings, Inc., to JPY7,900 million, which included JPY1,181 million of corresponding amount of goodwill related to DeCurret Holdings, Inc. Prepaid expenses increased by JPY1,270 million to JPY10,807 million, including an increase of JPY1,075 million related to the acquisition of PTC. The amount of other investments was JPY18,608 million, increased by JPY5,695 million mainly due to fluctuation of fair value of our holding marketable equity securities and funds.

As of December 31, 2021, the balance of current liabilities was JPY72,021 million, decreased by JPY1,238 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 increased by JPY223 million to JPY19,467 million. Borrowings decreased by JPY2,190 million to JPY16,370 million, due to an increase of JPY1,480 million in short-term borrowings, a decrease by JPY5,170 million from repayment of long-term borrowings and an increase of JPY1,500 million due to a transfer from non-current liabilities. Contract liabilities increased by JPY1,904 million to JPY9,006 million, including an increase of JPY1,571 million related to the acquisition of PTC. Other financial liabilities decreased by JPY1,057 million to JPY16,822 million.

As of December 31, 2021, the balance of non-current liabilities was JPY51,586 million, decreased by JPY4,961 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 JPY1,500 million to JPY5,500 million due to a transfer to current portion. Contract liabilities increased by JPY209 million to JPY7,453 million, of which JPY1,215 million was an increase related to the acquisition of PTC. Other financial liabilities decreased by JPY4,934 million to JPY30,714 million, mainly due to a transfer to current portion.

As of December 31, 2021, the balance of total equity attributable to owners of the parent was JPY99,926 million, increased by JPY9,970 million from the balance as of March 31, 2021 of JPY89,956 million. Ratio of owners' equity to total assets was 44.5% as of December 31, 2021.

(3) Cash Flows

Cash and cash equivalents as of December 31, 2021 were JPY40,960 million (JPY41,970 million as of December 31, 2020).

Cash Flows provided by Operating Activities

Net cash provided by operating activities for 1Q-3Q21 was JPY30,370 million (net cash provided by operating activities of JPY31,399 million for 1Q-3Q20). There were profit before tax of JPY17,597 million, depreciation and amortization of JPY21,088 million, including JPY8,643 million of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY5,680 million, compared to JPY3,928 million for 1Q-3Q20. Regarding changes in working capital, there was net cash-out of JPY1,298 million compared to net cash-in of JPY3,526 million for 1Q-3Q20. As for the major factors in comparison with 1Q-3Q20, 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 receivable.

Cash Flows used in Investing Activities

Net cash used in investing activities for 1Q-3Q21 was JPY9,832 million (net cash used in investing activities of JPY8,918 million for 1Q-3Q20), mainly due to payments for purchases of tangible assets of JPY4,893 million (JPY4,555 million for 1Q-3Q20), payments for purchases of intangible assets, such as software, of JPY3,627 million (JPY3,722 million for 1Q-3Q20), 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 JPY1,776 million (JPY1,859 million for 1Q-3Q20).

Cash Flows used in Financing Activities

Net cash used in financing activities for 1Q-3Q21 was JPY22,240 million (net cash used in financing activities of JPY19,031 million for 1Q-3Q20), mainly due to payments of other financial liabilities of JPY14,665 million (JPY15,252 million for 1Q-3Q20), 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 JPY5,170 million (JPY1,830 million for 1Q-3Q20), dividends paid of JPY3,836 million (JPY1,533 million for 1Q-3Q20) and net increase in short-term borrowings of JPY1,480 million (net decrease of 360 million for 1Q-3Q20).

(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-3Q21.

(5) Research and developments

For 1Q-3Q21, research and development expenses, which were in relation to network services and systems integration business segment, were JPY380 million, increased by 13.9% compared to JPY333 million for 1Q-3Q20.

(6) Number of employees

There were no material changes in the number of employees of the Company or IJ during 1Q-3Q21.

(i) Consolidated basis

As of December 31, 2021

Number of Employees	4,095 (46)
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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 December 31, 2021

Number of Employees	2,334 (27)
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(Note) The number of employees indicates the total number of full-time and contract workers. It does not include third-party employees working at IJ. The average number of part-time employees for the reporting period is shown in brackets.

(7) Production, Orders Received and Sales

(i) Production

Type of Services	1Q-3Q21 (Nine months ended December 31, 2021)	
	Production (thousands of yen)	Year-over-year comparison (%)
Systems Integration, including Equipment Sales	58,885,466	13.6
Total	58,885,466	13.6

(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

Type of Services	1Q-3Q21 (Nine months ended December 31, 2021)			
	Orders Received (thousands of yen)	Year-over-year comparison (%)	Order Backlog (thousands of yen)	Year-over-year comparison (%)
Systems Construction and Equipment Sales	26,500,910	10.7	11,254,029	15.3
Systems Operation and Maintenance	43,408,629	3.7	56,897,325	9.4
Total	69,909,539	6.2	68,151,354	10.4

(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	1Q-3Q21 (Nine months ended December 31 2021)	
	Revenue (thousands of yen)	Year-over-year comparison (%)
Network services	95,097,043	1.2
Internet connectivity services (enterprise)	28,082,597	(5.4)
Internet connectivity services (consumer)	17,779,852	(8.3)
Outsourcing services	29,831,085	13.5
WAN services	19,403,509	4.3
Systems integration	68,412,716	14.2
Systems construction and equipment sales	24,414,686	12.6
Systems operation and maintenance	43,998,030	15.1
ATM operation business	2,089,962	(3.2)
Total revenues	165,599,721	6.1

(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 1Q-3Q21.

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) (December 31, 2021)	Number of shares issued as of the filing date (shares) (February 14, 2022)	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

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, 2021 to December 31, 2021	—	93,534,800	—	23,022,616	—	9,743,300

(5) Major Shareholders

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

(6) Information on Voting Rights

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

(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 December 31, 2021 (the last day of 3Q21).

Item 4. Financial Information

1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Financial Position

	Note	March 31, 2021	December 31, 2021
		Thousands of yen	Thousands of yen
Assets			
Current assets			
Cash and cash equivalents		42,466,933	40,960,126
Trade receivables		34,799,075	31,749,868
Inventories		2,171,046	2,381,308
Prepaid expenses		10,598,441	13,755,260
Contract assets		1,281,918	2,696,819
Other financial assets	7,12	1,975,910	2,714,757
Other current assets		111,334	312,834
Total current assets		93,404,657	94,570,972
Non-current assets			
Tangible assets		17,084,401	17,609,118
Right-of-use assets		50,707,726	44,410,026
Goodwill		6,082,472	9,235,576
Intangible assets		16,954,274	16,523,124
Investments accounted for using the equity method		9,026,980	7,900,167
Prepaid expenses		9,537,160	10,806,811
Contract assets		46,638	73,609
Other investments	12	12,912,483	18,607,957
Deferred tax assets		143,337	201,472
Other financial assets	7,12	4,442,704	4,170,129
Other non-current assets		434,437	489,696
Total non-current assets		127,372,612	130,027,685
Total assets		220,777,269	224,598,657

	Note	March 31, 2021	December 31, 2021
		Thousands of yen	Thousands of yen
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		19,243,800	19,466,839
Borrowings	12	18,560,000	16,370,000
Income taxes payable		3,012,415	3,473,642
Contract liabilities		7,101,821	9,005,816
Deferred income		79,914	66,587
Other financial liabilities	8,12	17,879,331	16,822,261
Other current liabilities		7,381,746	6,816,151
Total current liabilities		73,259,027	72,021,296
Non-current liabilities			
Borrowings	12	7,000,000	5,500,000
Retirement benefit liabilities		4,168,575	4,500,468
Provisions		756,405	785,521
Contract liabilities		7,244,411	7,453,367
Deferred income		405,579	355,843
Deferred tax liabilities		225,469	1,091,934
Other financial liabilities	8,12	35,647,899	30,713,989
Other non-current liabilities		1,098,253	1,184,482
Total non-current liabilities		56,546,591	51,585,604
Total liabilities		129,805,618	123,606,900
Equity			
Share capital		25,530,621	25,561,838
Share premium		36,388,811	36,467,018
Retained earnings		25,046,813	32,732,212
Other components of equity		4,865,110	7,016,020
Treasury shares		(1,874,976)	(1,850,924)
Total equity attributable to owners of the parent		89,956,379	99,926,164
Non-controlling interests		1,015,272	1,065,593
Total equity		90,971,651	100,991,757
Total liabilities and equity		220,777,269	224,598,657

Condensed Consolidated Statements of Profit or Loss

	Note	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2021
		Thousands of yen	Thousands of yen
Revenues			
Network services		93,983,677	95,097,043
System integration		59,926,698	68,412,716
ATM operation business		2,159,738	2,089,962
Total revenues	5,10	156,070,113	165,599,721
Cost of sales			
Cost of network services		(74,201,460)	(68,652,357)
Cost of systems integration		(51,671,863)	(58,869,195)
Cost of ATM operation business		(1,400,165)	(1,294,143)
Total cost of sales		(127,273,488)	(128,815,695)
Gross Profit		28,796,625	36,784,026
Selling, general and administrative expense		(18,327,863)	(20,493,325)
Other operating income		113,091	124,732
Other operating expenses		(454,357)	(117,025)
Operating Profit		10,127,496	16,298,408
Finance income	12	317,146	2,755,446
Finance expenses	12	(490,797)	(400,686)
Share of profit (loss) of investments accounted for using equity method		(726,857)	(1,056,499)
Profit (loss) before tax		9,226,988	17,596,669
Income tax expense		(3,281,332)	(5,973,854)
Profit (loss) for the period		5,945,656	11,622,815
Profit (loss) for the period attributable to:			
Owners of the parent		5,876,784	11,521,612
Non-controlling interests		68,872	101,203
Total		5,945,656	11,622,815
Earnings per share			
Basic earnings per share (yen)	11	65.16	127.61
Diluted earnings per share (yen)		64.84	127.00

※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 December 31, 2020	Three Months Ended December 31, 2021
		Thousands of yen	Thousands of yen
Revenues			
Network services		31,879,433	31,660,876
System integration		21,760,024	24,203,456
ATM operation business		765,666	681,502
Total revenues	5,10	<u>54,405,123</u>	<u>56,545,834</u>
Cost of sales			
Cost of network services		(24,305,137)	(21,898,824)
Cost of systems integration		(18,281,933)	(20,529,193)
Cost of ATM operation business		(476,046)	(419,132)
Total cost of sales		<u>(43,063,116)</u>	<u>(42,847,149)</u>
Gross Profit		11,342,007	13,698,685
Selling, general and administrative expense		(6,203,679)	(6,703,629)
Other operating income		32,677	32,254
Other operating expenses		(282,558)	(33,194)
Operating Profit		<u>4,888,447</u>	<u>6,994,116</u>
Finance income	12	349,379	983,034
Finance expenses	12	(163,377)	(128,374)
Share of profit (loss) of investments accounted for using equity method		(313,322)	(683,954)
Profit (loss) before tax		<u>4,761,127</u>	<u>7,164,822</u>
Income tax expense		(1,625,064)	(2,499,657)
Profit (loss) for the period		<u><u>3,136,063</u></u>	<u><u>4,665,165</u></u>
Profit (loss) for the period attributable to:			
Owners of the parent		3,106,856	4,629,856
Non-controlling interests		29,207	35,309
Total		<u><u>3,136,063</u></u>	<u><u>4,665,165</u></u>
Earnings per share			
	11		
Basic earnings per share (yen)		34.44	51.26
Diluted earnings per share (yen)		34.27	51.02

※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	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2021
		Thousands of yen	Thousands of yen
Profit (loss)		5,945,656	11,622,815
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		1,737,941	1,886,924
Total items that will not be reclassified to profit or loss		1,737,941	1,886,924
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(80,184)	245,087
Financial assets measured at fair value through other comprehensive income		236	(212)
Share of other comprehensive income of investments accounted for using equity method		(22,038)	19,111
Total of items that may be reclassified to profit or loss		(101,986)	263,986
Total other comprehensive income, net of tax		1,635,955	2,150,910
Other comprehensive income		7,581,611	13,773,725
Other comprehensive income attributable to:			
Owners of the parent		7,512,739	13,672,522
Non-controlling interest		68,872	101,203
Other comprehensive income		7,581,611	13,773,725

Condensed Consolidated Statements of Comprehensive Income

	Note	Three Months Ended December 31, 2020	Three Months Ended December 31, 2021
		Thousands of yen	Thousands of yen
Profit (loss)		3,136,063	4,665,165
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		177,294	(121,254)
Total items that will not be reclassified to profit or loss		177,294	(121,254)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(37,415)	227,177
Financial assets measured at fair value through other comprehensive income		17	(335)
Share of other comprehensive income of investments accounted for using equity method		(10,939)	5,969
Total of items that may be reclassified to profit or loss		(48,337)	232,811
Total other comprehensive income, net of tax		128,957	111,557
Other comprehensive income		3,265,020	4,776,722
Other comprehensive income attributable to:			
Owners of the parent		3,235,813	4,741,413
Non-controlling interest		29,207	35,309
Other comprehensive income		3,265,020	4,776,722

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

Nine months ended December 31, 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	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)	-	-	11,521,612	-	-	11,521,612	101,203	11,622,815
Other comprehensive income	-	-	-	2,150,910	-	2,150,910	-	2,150,910
Total comprehensive income	-	-	11,521,612	2,150,910	-	13,672,522	101,203	13,773,725
Transactions with owners								
Issuance of common stock	31,217	(31,152)	-	-	-	65	-	65
Disposal of treasury shares	-	53,252	-	-	24,052	77,304	-	77,304
Dividends paid	9	-	(3,836,213)	-	-	(3,836,213)	(48,550)	(3,884,763)
Stock-based compensation	-	60,772	-	-	-	60,772	-	60,772
Other	-	(4,665)	-	-	-	(4,665)	(2,332)	(6,997)
Total transactions with owners	31,217	78,207	(3,836,213)	-	24,052	(3,702,737)	(50,882)	(3,753,619)
Balance, December 31, 2021	25,561,838	36,467,018	32,732,212	7,016,020	(1,850,924)	99,926,164	1,065,593	100,991,757

Condensed Consolidated Statements of Cash Flows

	Note	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2021
		Thousands of yen	Thousands of yen
Cash flows from operating activities:			
Profit (loss) before tax		9,226,988	17,596,669
Adjustments			
Depreciation and amortization		21,093,793	21,088,271
Loss (gain) on sales/disposals of property and equipment		432,101	98,131
Shares of loss (profit) of investments accounted for using the equity method		726,857	1,056,499
Finance income		(283,369)	(2,775,941)
Finance expenses		538,117	400,558
Other		332,913	112,260
Changes in working capital			
Decrease (increase) in trade receivables		2,753,953	4,276,673
Decrease (increase) in inventories		132,323	(207,824)
Decrease (increase) in prepaid expenses		(1,977,177)	(2,114,135)
Decrease (increase) in contract assets		(2,795,705)	(1,441,872)
Decrease (increase) in other assets		(151,013)	(102,481)
Decrease (increase) in other financial assets		(100,592)	(563,027)
Increase (decrease) in trade and other payables		2,820,693	(606,165)
Increase (decrease) in contract liabilities		1,501,364	(562,142)
Increase (decrease) in deferred income		(62,159)	(7,976)
Increase (decrease) in other liabilities		666,159	(1,152,042)
Increase (decrease) in other financial liabilities		472,422	851,200
Increase (decrease) in retirement benefit liabilities		266,119	331,893
Subtotal		35,593,787	36,278,549
Interest and dividends received		172,300	170,291
Interest paid		(438,861)	(398,439)
Income taxes paid		(3,928,124)	(5,680,270)
Cash flows from operating activities		31,399,102	30,370,131

	Note	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2021
		Thousands of yen	Thousands of yen
Cash flows from investing activities			
Purchases of tangible assets		(4,555,236)	(4,893,366)
Proceeds from sales of tangible assets		1,859,157	1,776,241
Purchases of intangible assets		(3,722,346)	(3,626,997)
Proceeds from sales of intangible assets		44,085	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		(113,076)	(573,680)
Proceeds from sales of other investments		462,547	103,618
Payments for leasehold deposits and guarantee deposits		(180,311)	(91,284)
Proceeds from collection of leasehold deposits and guarantee deposits		25,986	140,825
Payments for refundable insurance policies		(50,043)	(56,172)
Other		4,695	273
Cash flows from investing activities		(8,917,905)	(9,832,361)
Cash flows from financing activities			
Repayment of long-term borrowings		(1,830,000)	(5,170,000)
Net increase (decrease) in short-term borrowings		(360,000)	1,480,000
Payments of other financial liabilities		(15,252,049)	(14,664,925)
Dividends paid		(1,533,237)	(3,836,213)
Other		(55,832)	(48,486)
Cash flows from financing activities		(19,031,118)	(22,239,624)
Effect of exchange rate changes on cash and cash equivalents		(151,393)	195,047
Net increase (decrease) in cash and cash equivalents		3,298,686	(1,506,807)
Cash and cash equivalents, beginning of the period		38,671,734	42,466,933
Cash and cash equivalents, end of the period		41,970,420	40,960,126

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 December 31, 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 nine months ended December 31, 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 nine months ended December 31, 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 nine months ended December 31, 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 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	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 nine months ended December 31, 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	163,509,759	2,089,962	—	165,599,721
Intersegment transactions	96,200	—	(96,200)	—
Total revenue	163,605,959	2,089,962	(96,200)	165,599,721
Segment operating profit	15,746,675	617,266	(65,533)	16,298,408
Finance income				2,755,446
Finance expense				(400,686)
Share of profit (loss) of investments accounted for using the equity method				(1,056,499)
Profit before tax				17,596,669

(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		
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.

For the three months ended December 31, 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	55,864,332	681,502	—	56,545,834
Intersegment transactions	29,743	—	(29,743)	—
Total revenue	55,894,075	681,502	(29,743)	56,545,834
Segment operating profit	6,813,681	199,965	(19,530)	6,994,116
Finance income				983,034
Finance expense				(128,374)
Share of profit (loss) of investments accounted for using the equity method				(683,954)
Profit before tax				7,164,822

(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	247,620
Other assets	292,401
Trade payables	(944,439)
Contract liabilities	(2,614,917)
Other liabilities	(902,169)
Total	575,268
Goodwill (Note 2,3)	3,056,492

Notes

1. Within the acquired trade receivables, there is no contractual cashflow which is estimated to be nonrecoverable. The fair value of the acquired trade receivables and the contractual receivable amount are mostly the same.
2. Goodwill mainly contains of synergies with existing businesses which are expected to arise from the acquisition and excess earnings strength. There is no amount which is expected to be deducted for tax purpose.
3. As of September 30, 2021, the acquisition cost was allocated provisionally since the calculation of the fair value of the identifiable asset and liabilities on the acquisition date was not completed. The calculation has been completed during the

accounting period ended December 31, 2021 and goodwill on the acquisition date has decreased by ¥247,620 thousand as a result of the allocation.

(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 nine months ended December 31, 2021 includes revenues and net profit generated by PTC after the acquisition date of ¥5,300,725 thousand and ¥220,705 thousand, respectively.

7. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

	<u>March 31, 2021</u>	<u>December 31, 2021</u>
	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost		
Other receivable	797,100	1,804,705
Guarantee deposit	3,579,838	3,554,459
Loans receivable	43,429	26,911
Other	83,729	184,960
Lease receivable	1,914,518	1,313,851
Total	<u>6,418,614</u>	<u>6,884,886</u>
Current assets	1,975,910	2,714,757
Non-current assets	4,442,704	4,170,129
Total	<u>6,418,614</u>	<u>6,884,886</u>

8. OTHER FINANCIAL LIABILITIES

The components of other financial liabilities are as follows:

	<u>March 31, 2021</u>	<u>December 31, 2021</u>
	Thousands of yen	Thousands of yen
Financial liabilities measured at amortized cost		
Account payable—non-current (including current portion)	638,161	452,053
Deposit payable	212,225	1,065,818
Others	16,061	21,803
Lease obligations	52,660,783	45,996,576
Total	<u>53,527,230</u>	<u>47,536,250</u>
Current liabilities	17,879,331	16,822,261
Non-current liabilities	35,647,899	30,713,989
Total	<u>53,527,230</u>	<u>47,536,250</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>December 31, 2021</u>
	Thousands of yen	Thousands of yen
Financial leases	18,229,120	18,079,618
Other leases	34,431,663	27,916,958

9. DIVIDENDS PAID

Cash dividends paid are as follows:

For the nine months ended December 31, 2020

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 24, 2020 Ordinary General Meeting of Shareholders	608,629	13.50	March 31, 2020	June 25, 2020
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, IIJ conducted a two-for-one stock split of its common stock, with an effective date of January 1, 2021. The dividends per share is before the stock split.

For the nine months ended December 31, 2021

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 29, 2021 Ordinary General Meeting of Shareholders	1,759,011	19.50	March 31, 2021	June 30, 2021
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 nine months ended	For the nine months ended
	December 31, 2020	December 31, 2021
	Thousands of yen	Thousands of yen
Network services	93,983,677	95,097,043
Internet connectivity services (enterprise)	29,698,893	28,082,597
WAN services	18,605,484	19,403,509
Outsourcing services	26,289,329	29,831,085
Internet connectivity services (consumer)	19,389,971	17,779,852
Systems integration	59,926,698	68,412,716
Systems construction	21,686,848	24,414,686
Systems operation and maintenance	38,239,850	43,998,030
ATM operation business	2,159,738	2,089,962
Total	156,070,113	165,599,721

	For the three months	For the three months
	ended December 31, 2020	ended December 31, 2021
	Thousands of yen	Thousands of yen
Network services	31,879,433	31,660,876
Internet connectivity services (enterprise)	10,049,013	9,269,571
WAN services	6,269,939	6,522,519
Outsourcing services	9,056,051	10,285,035
Internet connectivity services (consumer)	6,504,430	5,583,751
Systems integration	21,760,024	24,203,456
Systems construction	8,667,058	8,942,925
Systems operation and maintenance	13,092,966	15,260,531
ATM operation business	765,666	681,502
Total	54,405,123	56,545,834

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 nine months ended December 31, 2020	For the nine months ended December 31, 2021
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	5,876,784	11,521,612
Earnings adjustment (thousands of yen)	—	—
Earnings used to calculate earnings per share — diluted (thousands of yen)	5,876,784	11,521,612
Denominator :		
Weighted average number of shares — basic (shares)	90,191,724	90,290,511
Dilution arising from stock options (shares)	448,208	431,615
Weighted average number of shares — diluted (shares)	90,639,932	90,722,126
Earnings per share attributable to owners of the parent		
Basic (yen)	65.16	127.61
Diluted (yen)	64.84	127.00
	For the three months ended December 31, 2020	For the three months ended December 31, 2021
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	3,106,856	4,629,856
Earnings adjustment (thousands of yen)	—	—
Earnings used to calculate earnings per share — diluted (thousands of yen)	3,106,856	4,629,856
Denominator :		
Weighted average number of shares — basic (shares)	90,205,668	90,313,133
Dilution arising from stock options (shares)	458,836	427,843
Weighted average number of shares — diluted (shares)	90,664,504	90,740,976
Earnings per share attributable to owners of the parent		
Basic (yen)	34.44	51.26
Diluted (yen)	34.27	51.02

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 nine months ended December 31, 2020 and for the three months ended December 31, 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

December 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	—	110,530	—	110,530
Equity-based financial assets measured at FVTOCI				
Equity securities	11,057,625	—	1,577,242	12,634,867
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	5,767,026	5,767,026
Other financial assets	—	95,534	—	95,534

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 nine-month periods ended December 31, 2020 and 2021 were as follows:

	For the nine months ended December 31, 2020	For the nine months ended December 31, 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)	(29,662)	7,216
Sale	—	100,000
Balance at the end of period	1,458,699	1,577,242
Investment trust and other securities		
Balance at the beginning of the period	2,348,265	2,941,240
Profit or loss (Note 2)	159,393	2,458,424
Purchase	113,076	470,980
Sale	(70,182)	(103,618)
Balance at the end of period	2,550,552	5,767,026

(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

December 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)	7,000,000	-	7,018,358	-	7,018,358

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 December 31, 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 February 14, 2022.

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

February 14, 2022

To the Board of Directors of Internet Initiative Japan Inc.

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

Yusuke Matsumoto
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Conclusion

We have reviewed the accompanying condensed quarterly consolidated financial statements of Internet Initiative Japan Inc. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") provided in the "Financial Information" section in the Company's Quarterly Securities Report, which comprise the condensed quarterly consolidated statement of financial position as at December 31, 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 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, 2021, 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.