

IIJ Announces its First Six Months Results
for the Fiscal Year Ending March 31, 2022

Tokyo, November 5, 2021 - Internet Initiative Japan Inc. ("IIJ", TSE1: 3774) today announced its consolidated financial results for the first six months for the fiscal year ending March 31, 2022 ("1H21", from April 1, 2021 to September 30, 2021) under International Financial Reporting Standards (IFRS)¹

Highlights of Financial Results for 1H21

Total revenues	JPY109.1 billion	up	7.3%	YoY ²
Gross profit	JPY23.1 billion	up	32.3%	YoY
Operating profit	JPY9.3 billion	up	77.6%	YoY
Profit before tax	JPY10.4 billion	up	133.6%	YoY
Net profit ³	JPY6.9 billion	up	148.8%	YoY

New Financial Targets for FY2021 (Revised on November 5, 2021)

					Original Target
Total revenues	JPY228.5 billion	up	7.3%	YoY	JPY226.0 billion
Operating profit	JPY22.0 billion	up	54.4%	YoY	JPY17.5 billion
Profit before tax	JPY21.5 billion	up	53.2%	YoY	JPY17.3 billion
Net profit	JPY13.7 billion	up	41.1%	YoY	JPY11.7 billion
Annual Cash Dividend	JPY46.00	per share of common stock			JPY39.00

Overview of 1H21 Financial Results and Business Outlook

“Along with our profit growth, we revised our FY2021 full-year financial targets upward as well as increased both interim and year-end cash dividend forecast. Accordingly, we updated our FY2023 operating margin target in our mid-term plan, which was disclosed on May 12, 2021, upward from over 9% to over 10%. Under the ongoing expansion of IT utilization by Japanese enterprises, our operating profit has been structurally increasing. This has been achieved mainly by the accumulation of various enterprise network services line-ups that we have been continuously developing for almost 30 years. As a pioneer in building Internet in Japan in the early 1990s, we have maintained our innovative corporate culture which continuously encourages us to proactively take on new initiatives. We believe that this advantage allows us to have further business opportunities in our future,” said Koichi Suzuki, Founder and Chairman of IIJ.

“As for 1H21 financials, we achieved year over year operating profit growth of 77.6%, which exceeded our initial forecast under the continuous demands from various industries in Japan for both network services and systems integration. We continuously accumulated monthly recurring revenues, 84.5% of 1H21 total revenue, brought by the revenues growth in network services, such as IP services⁴ and outsourcing services. With regard to systems integration which includes our new subsidiary PTC⁵ in Singapore, we strongly accumulated order-received for systems construction which increased by 24.4% year over year,” said Eijiro Katsu, President of IIJ.

“We will be listed in the ‘Prime Market’ under the new market segments of the Tokyo Stock Exchange⁶ next April. We are going to advance our long-term business strategy, and also continue to have strong focus on corporate governance to achieve sustainable growth. Our mission is always to contribute to the development of a networked society in Japan by technology innovation. Through our business expansion, we would like to continue to respond sincerely to the trust and expectations of our stakeholders,” concluded Katsu.

¹ Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with IFRS, unaudited and consolidated.

² YoY is an abbreviation for year over year change.

³ Net profit is “profit for the year/period attributable to owners of the parent.”

⁴ IP services are IIJ’s dedicated-type Internet connectivity services, mainly used by corporate users.

⁵ For details, please refer to our press release titled “Notice Regarding Acquisition of Shares in PTC SYSTEM (S) PTE LTD (as a New Subsidiary)”

https://www.ij.ad.jp/en/news/pressrelease/2021/pdf/PTC%20SYSTEM_E.pdf

⁶ Tokyo Stock Exchange will restructure the current four market divisions into three market segments, the "Prime Market", "Standard Market", and "Growth Market", on April 4, 2022.

1H21 Financial Results Summary

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

Operating Results Summary

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

(Note) Systems integration includes equipment sales.

Segment Results Summary

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

1H21 Revenues and Profit

Revenues

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

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

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

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

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

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

Network Services Revenues Breakdown

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

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

	As of Sep. 30, 2020	As of Sep. 30, 2021	YoY Change
Internet connectivity services (enterprise)	2,180,704	2,301,380	120,676
IP service (greater than or equal to 1Gbps) (Note2)	778	757	(21)
IP service (less than 1Gbps) (Note2)	1,239	1,211	(28)
IIJ Mobile Services	2,090,428	2,210,095	119,667
Enterprise mobile service (IoT usages etc.)	967,548	1,218,375	250,827
IIJ Mobile MVNO Platform service (MVNE)	1,122,880	991,720	(131,160)
Others	88,259	89,317	1,058
Internet connectivity services (consumer)	1,384,933	1,416,927	31,994
IIJmio Mobile Services	1,044,681	1,072,107	27,426
Others	340,252	344,820	4,568
Total contracted bandwidth (Gbps) (Note 3)	5,869.0	7,279.7	1,410.7

(Notes)

- Numbers in the table above show number of contracts except for "IIJ Mobile Services (enterprise)" and "IIJmio Mobile Services" which show number of subscriptions.
- The numbers of IP service contracts include the numbers of IIJ data center connectivity service contracts.
- Total contracted bandwidth is calculated by multiplying number of contracts under "Internet connectivity services (enterprise)" except for "IIJ Mobile Services" and the contracted bandwidths of the services respectively.

SI revenues, including equipment sales, were JPY44,209 million, up 15.8% YoY (JPY38,167 million for 1H20). Systems construction and equipment sales, a one-time revenue, was JPY15,472 million, up 18.8% YoY (JPY13,020 million for 1H20). Of this amount, revenue of PTC was JPY2,586 million.

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

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

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

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

Cost of sales

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

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

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

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

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

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

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

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

Operating profit

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

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

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

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

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

Profit before tax

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

Profit for the period

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

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

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

Financial Position as of September 30, 2021

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

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

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

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

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

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

1H21 Cash Flows

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

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

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

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

Upward revision of FY2021 Financial Targets

We have revised our FY2021 financial targets and dividend forecast announced on May 12, 2021. For details, please refer to our press release titled “Notice regarding Differences between Financial Targets and Results for the Six Months ended September 30, 2021, and Upward Revision of the Full-Year Financial Targets for the Fiscal Year ending March 31, 2022” and “Notice regarding the Distribution of Retained Earnings (Interim Dividend, Increase) and Revision of Dividend Forecast for the Fiscal Year ending March 31, 2022” both of which were announced today, November 5, 2021.

Updates on "IIJ Group Mid-term Plan (FY2021-FY2023)"

We updated our operating margin target for FY2023 from over 9% to over 10% by considering our current business progress and an increase in demand for IT services by both private and public sectors. The target was originally disclosed in “IIJ Group Mid-term Plan (FY2021 – FY2023) which we announced on May 12, 2021.

Presentation

Presentation materials will be posted on our web site (<https://www.ij.ad.jp/en/ir/>) on November 5, 2021.

About Internet Initiative Japan Inc.

Founded in 1992, IIJ is one of Japan's leading Internet-access and comprehensive network solutions providers. IIJ and its group companies provide total network solutions that mainly cater to high-end corporate customers. IIJ's services include high-quality Internet connectivity services, mobile services, security services, cloud computing services, and systems integration. Moreover, IIJ operates one of the largest Internet backbone networks in Japan that is connected to the United States, the United Kingdom and Asia. IIJ listed on the First Section of the Tokyo Stock Exchange in 2006.

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Disclaimer:

Statements made in this press release regarding IIJ's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding revenues and profits, are subject to various risks, uncertainties and other factors that could cause IIJ's actual results to differ materially from those contained in any forward-looking statement.

Condensed Consolidated Statements of Financial Position (Unaudited)

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

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

Condensed Consolidated Statements of Profit or Loss (Unaudited)

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

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

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

Condensed Consolidated Statements of Profit or Loss (Unaudited)

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

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

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

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

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

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

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

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
Six months ended September 30, 2020

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

Six months ended September 30, 2021

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

Condensed Consolidated Statements of Cash Flows (Unaudited)

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

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

Notes to Condensed Consolidated Financial Statements (UNAUDITED)

Going Concern Assumption

Nothing to be reported.

Material Changes In Shareholders' Equity

Nothing to be reported.

Segment Information

IJJ and its subsidiaries (collectively “the Company”) primarily operate their network service and system integration business, which provides a comprehensive range of network solutions to meet their customers’ needs by cross-selling a variety of services, including Internet connectivity services, WAN services, outsourcing services, systems integration and sales of network-related equipment, and the ATM operation business. Therefore, the Company defined two reportable segments: “Network service and systems integration business” and “ATM operation business.”

Segment information for the Company is as follows:

Six months ended September 30, 2020

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen		
Revenue				
Customers	100,270,918	1,394,072	—	101,664,990
Intersegment transactions	89,384	—	(89,384)	—
Total revenue	100,360,302	1,394,072	(89,384)	101,664,990
Segment operating profit	4,922,707	378,434	(62,092)	5,239,049
Finance income				109,178
Finance expense				(468,831)
Share of profit (loss) of investments accounted for using the equity method				(413,535)
Profit before tax				4,465,861

Six months ended September 30, 2021

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

Intersegment transactions are based on market price.

Subsequent Events

Nothing to be reported.

Note: The following information is provided to disclose Internet Initiative Japan Inc. (“IIJ”) financial results (unaudited) for the first six months ended September 30, 2021 (“1H21”) in the form defined by the Tokyo Stock Exchange.

Consolidated Financial Results for the Six Months ended September 30, 2021 [Under IFRS]

November 5, 2021

Company name: Internet Initiative Japan Inc.

Exchange listed: Tokyo Stock Exchange First Section

Stock code number: 3774

URL: <https://www.ij.ad.jp/en/>

Representative: Eijiro Katsu, President and Representative Director

Contact: Akihisa Watai, Senior Managing Director and CFO

TEL: +81-3-5205-6500

Scheduled date for filing of quarterly report (*Shihanki-houkokusho*) to Japan’s regulatory organization: November 15, 2021

Scheduled date for dividend payment: December 3, 2021

Supplemental material on financial results: Yes

Presentation on quarterly report: Yes (for institutional investors and analysts)

(Amounts of less than JPY one million are rounded)

1. Consolidated Financial Results for the Six Months ended September 30, 2021

(April 1, 2021 to September 30, 2021)

(1) Consolidated Results of Operations

(% shown is YoY change)

	Revenues		Operating profit		Profit (loss) before tax		Profit (loss) for the period		Profit (loss) attributable to owners of the parent		Other comprehensive income	
	JPY millions	%	JPY millions	%	JPY million	%	JPY million	%	JPY millions	%	JPY millions	%
Six Months ended September 30, 2021	109,054	7.3	9,304	77.6	10,432	133.6	6,958	147.6	6,892	148.8	8,997	108.4
Six Months ended September 30, 2020	101,665	2.5	5,239	56.3	4,466	46.7	2,810	51.2	2,770	57.7	4,317	68.5

	Basic earnings per share		Diluted earnings per share	
	JPY		JPY	
Six Months ended September 30, 2021	76.34		75.97	
Six Months ended September 30, 2020	30.71		30.56	

(Note) IIJ conducted a stock split at a ratio of two-for-one with an effective date of January 1, 2021. Accordingly, 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 consolidated fiscal year.

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of owners' equity to total assets
	JPY millions	JPY millions	JPY millions	%
As of September 30, 2021	222,729	98,247	97,215	43.6
As of March 31, 2021	220,777	90,972	89,956	40.7

2. Dividends

	Dividend per Shares				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	JPY	JPY	JPY	JPY	JPY
Fiscal Year Ended March 31, 2021	—	20.50	—	19.50	—
Fiscal Year Ending March 31, 2022	—	23.00			
Fiscal Year Ending March 31, 2022 (forecast)			—	23.00	46.00

(Notes)

- Changes from the latest forecasts disclosed: Yes
- IIJ conducted a stock split at a ratio of two-for-one with an effective date of January 1, 2021. The 2Q-end dividend per share for the fiscal year ended March 31, 2021 is the amount before the stock split. Regarding the post-split basis amount for the fiscal year ended March 31, 2021, 2Q-end and annual dividend per share are JPY10.25 and JPY29.75, respectively.

3. Targets of Consolidated Financial Results for the Fiscal Year Ending March 31, 2022

(% shown is YoY change)

	Revenues		Operating profit		Profit (loss) before tax		Profit (loss) for the year attributable to owners of the parent		Basic earnings per share
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY
Fiscal Year Ending March 31, 2022	228,500	7.3	22,000	54.4	21,500	53.2	13,700	41.1	151.72

(Notes)

- Changes from the latest forecasts disclosed: Yes
- As for the details about our financial targets for the fiscal year ending March 31, 2022, please refer to “Considered Factors for FY2021 Financial Targets” which is disclosed on page 7 of this earnings release.

* Notes:

(1) Changes in significant subsidiaries: None

(2) Changes in accounting policies and estimate

- Changes in accounting policies required by IFRS: None
- Other changes in accounting policies: None
- Changes in accounting estimates: None

(3) Number of shares issued (common stock)

i. Number of shares issued (inclusive of treasury stock):

As of September 30, 2021: 93,534,800 shares
As of March 31, 2021: 93,469,200 shares

ii. Number of treasury stock:

As of September 30, 2021: 3,221,667 shares
As of March 31, 2021: 3,263,532 shares

iii. Number of weighted average common shares outstanding:

For the Six months ended September 30, 2021: 90,279,138 shares
For the Six months ended September 30, 2020: 90,184,713 shares

* IIJ conducted a stock split at a ratio of two-for-one with an effective date of January 1, 2021. Accordingly, number of shares issued, number of treasury stock and number of weighted average common shares outstanding above are calculated as if the stock split had been conducted at the beginning of the previous consolidated fiscal year, respectively.

* Status of Audit Procedures

This document is not subject to the quarterly review by certified public accountant or independent auditor.

* Explanation on the Appropriate Use of Future Outlook and other special instructions

i) Forward-looking statements

Forward-looking statements disclosed in this document are based on IIJ Group’s expectation, estimates, and projections based on information available to IIJ Group as of November 5, 2021. As these forward-looking statements are subject to known and unknown risks and uncertainties, actual results may differ from those disclosed due, for example, to but not limited to changes in business climate and/or market trends. As for our latest forecast of our financial targets for the fiscal year ending March 31, 2022, please refer to the page 7 of this document.

ii) Others

Presentation material will be disclosed on TDnet as well as posted on our website on November 5, 2021.