

(TRANSLATION)

# Quarterly Securities Report

(The First Quarter of the 29<sup>th</sup> Business Term)  
From April 1, 2020 to June 30, 2020

## Internet Initiative Japan Inc.

**Note for readers of this English translation**

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

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

# TABLE OF CONTENTS

Quarterly Securities Report (Translation)	
<b>【COVER】</b> .....	1
<b>PART 1 Information on the Company</b> .....	2
Item 1. Overview of the Company .....	2
1 Selected Financial Data .....	2
2 Description of Business .....	2
Item 2. Business Overview .....	3
1 Risk Factors .....	3
2 Management’s Analysis of Consolidated Financial Position, Results of Operations and Cash Flows .....	3
3 Material Contracts, etc. ....	11
Item 3. Information on IIJ .....	12
1 Information on IIJ’s Shares .....	12
2 Changes in Directors and Company Auditors .....	13
Item 4. Financial Information .....	14
<b>PART 2 Information about Guarantors of the Company</b> .....	30
Independent Auditor’s Report on Review of Condensed Quarterly Consolidated Financial Statements (Translation) .....	31

**【Cover】**

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## PART 1 Information on the Company

### Item 1. Overview of the Company

#### 1 Selected Financial Data

Fiscal year	IFRS		
	Three months ended June 30, 2019	Three months ended June 30, 2020	28th business term ended March 31, 2020
Revenues (thousands of yen)	49,828,844	50,378,505	204,473,515
Operating profit (thousands of yen)	1,380,959	2,047,229	8,225,172
Profit before tax (thousands of yen)	1,368,679	1,694,231	7,158,987
Profit attributable to owners of the parent (thousands of yen)	776,513	1,116,313	4,006,773
Comprehensive income, attributable to owners of the parent (thousands of yen)	1,335,775	2,255,427	3,997,565
Comprehensive income (thousands of yen)	1,385,016	2,261,153	4,184,326
Equity attributable to owners of the parent (thousands of yen)	76,979,198	80,736,837	79,075,589
Total assets (thousands of yen)	204,390,369	205,348,880	206,524,260
Basic earnings per share (yen)	17.23	24.76	88.88
Diluted earnings per share (yen)	17.15	24.64	88.49
Ratio of owners' equity to gross assets (%)	37.7	39.3	38.3
Cash flows from (used in) operating activities (thousands of yen)	5,249,663	11,635,067	33,393,751
Cash flows from (used in) investing activities (thousands of yen)	(2,141,406)	(4,592,482)	(7,264,834)
Cash flows from (used in) financing activities (thousands of yen)	(2,096,880)	(6,802,040)	(19,354,021)
Cash and cash equivalents, at the end of period (thousands of yen)	32,892,657	38,892,573	38,671,734

(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").

#### 2 Description of Business

There were no material changes to the business of the Company or its equity method investees during the first three months of the 29th business term ("1Q20").

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

## Item 2. Business Overview

### 1 Risk Factors

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

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

This quarterly securities report contains forward-looking statements that are based on our expectations, assumptions, estimates and projections as of August 14, 2020.

#### (1) Analysis of Results of Operations

##### (i) Overview of consolidated business results for 1Q20

The Japanese economy has been in an extremely severe situation during the first three months of the fiscal year ending March 31, 2021 (1Q20) due to the COVID-19. With respect to future prospects, the economy is expected to move toward picking up from this extremely severe situation, supported by the effects of the policies while the socio-economic activities will be resumed gradually. However, we must keep an eye on the trend of domestic and overseas infections and the effects of fluctuations in the financial and capital markets.

In such an economic trend, as for the ICT (\*1) related market where we belong to, enterprises' utilization of safe and secure ICT services is progressing, as seen in stable growth of Internet connectivity services that continues from the past, increased use of mobile services for IoT (\*2) by enterprises, growing demands for security-related services, widespread of cloud computing adoption, demand surge for remote access (\*3) and virtual desktop (\*4) services in order to implement telework (\*5) environment, etc.

Under these market circumstances, business overview for 1Q20 are as follows. Total revenues for 1Q20 were up 1.1% year over year ("YoY"), mainly led by network services revenue increase. Of which, enterprise recurring revenue (\*6) excluding WAN services revenue increased steadily from the beginning of this fiscal year, and were up 11.5% YoY. As for Internet connectivity services for enterprises, IP services (\*7) revenue was up 9.4% YoY along with an increase of enterprises' internet traffic (\*8). Revenue of mobile services for enterprises was up 10.2% YoY, mainly due to increasing demands for IoT and additional demands for telework usage. Revenue of outsourcing services was also up 8.5% YoY, mainly due to an increase of VPN related services (\*9) revenue in relation to remote access as well as an increase of security-related services revenue. As for systems integration, we delivered systems construction projects in 1Q20 mainly based on 4Q19-end order backlog, therefore systems construction revenue for 1Q20 was almost on plan. 1Q20 order received was relatively small compared to normal years due to slowdown of enterprises' business activity during April and May. We are to strongly promote our sales activity to accumulate systems integration orders for the second half of this fiscal year. Systems operation and maintenance revenue was up 13.5% YoY along with continuous increase in cloud computing related revenue. As for ATM operation business, its revenue and profit were down YoY by the COVID-19 pandemic; however, the negative impact was smaller than we had expected at the beginning of this fiscal year, and we saw some signs of recovery in June. In regard to our new business, our equity method investee, DeCurret Inc. ("DeCurret"), has been co-working with enterprises in various industries on digital currency settlement-related PoC experiments, such as executing P2P electricity trading (\*10) with Kansai Electric Power Co., Inc., and issuing digital currencies with DAIDO LIFE INSURANCE COMPANY, etc. Share of loss of investments accounted for using equity method in DeCurret for 1Q20 was JPY3.1 billion.

Consolidated financial results for 1Q20 were as follows. Total revenues were JPY50,379 million (JPY49,829 million for 1Q19), up 1.1% YoY. Although enterprise recurring revenue grew steadily, there were WAN services revenue decrease due to YoY impact of the certain large clients' migration to mobile services which ended in 3Q19 and ATM operation business revenue decrease due to the effect of the COVID-19, and consequently the YoY growth rate of total revenues was at low level. Cost of sales was JPY42,266 million (JPY42,447 million for 1Q19), down 0.4% YoY and gross profit was JPY8,113 million (JPY7,382 million for 1Q19), up 9.9% YoY. The breakdown is as follows. Network services revenue was JPY30,934 million (JPY30,680 million for 1Q19), up 0.8% YoY and gross profit for network services revenue was JPY5,990 million (JPY5,019

million for 1Q19), up 19.4% YoY. SI revenues, including equipment sales, were JPY18,875 million (JPY18,109 million for 1Q19), up 4.2% YoY and gross profit for SI was JPY1,991 million (JPY1,890 million for 1Q19), up 5.4% YoY. ATM operation business revenue was JPY570 million (JPY1,040 million for 1Q19), down 45.2% YoY and gross profit of ATM operation business was JPY132 million (JPY473 million for 1Q19), down 72.2% YoY. Net amount of selling, general and administrative expenses, other operating income and other operating expenses was JPY6,066 million (JPY6,001 million for 1Q19), up 1.1% YoY. Operating profit for 1Q20 was JPY2,047 million (JPY1,381 million for 1Q19), up 48.2% YoY. Profit before tax for 1Q20 was JPY1,694 million (JPY1,369 million for 1Q19), up 23.8% YoY. Profit attributable to owners of the parent for 1Q20 was JPY1,116 million (JPY777 million for 1Q19), up 43.8% YoY.

In business segments results, revenues for network services and systems integration business segment for 1Q20 were JPY49,858 million (JPY48,862 million for 1Q19), up 2.0% YoY, and operating profit for 1Q20 was JPY1,991 million (JPY999 million for 1Q19), up 99.2% YoY. As for ATM operation business, revenues for 1Q20 were JPY570 million (JPY1,040 million for 1Q19), down 45.2% YoY, and operating profit for 1Q20 was JPY89 million (JPY419 million for 1Q19).

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Glossary:

- \*1 ICT: ICT (Information and Communication Technology) is a general technological term for hardware, software, systems and data communication tools used for information communication by computers.
- \*2 IoT: IoT (Internet of Things) enables not only physical objects but also “things” connected to a network to exchange information automatically.
- \*3 Remote access: By using Internet and others, accessing corporate intranet and/or computers from outside of offices, remotely.
- \*4 Virtual desktop: Service providing virtualized instances of computer desktops and applications in the cloud computing environment. Virtual desktop service allows users to work anywhere and on any device just as if they were in the office.
- \*5 Telework: By using ICT, engaging in business remotely from home or remote location, not from offices.
- \*6 Enterprise recurring revenue: Enterprise recurring revenue is recurring revenue which excludes Internet connectivity services revenue for consumer and MVNE revenue. Recurring revenue is revenue that businesses can count on receiving every single month through continuous provision of services to customers.
- \*7 IP Services: Dedicated-type Internet connectivity services, mainly used by corporate users, which IJ provides.
- \*8 Internet Traffic: The quantity or flow of data transferred across the Internet.
- \*9 VPN related services: Services providing VPN (Virtual Private Network) functions and others. VPN is a technology to provide a virtually closed network, for example, a corporate intranet over the open network such as Internet with encryption technology and other security measures.
- \*10 P2P electricity trading: A type of direct trading, an electricity provider, etc. and a consumer directly trade electricity via a P2P transaction platform. P2P (peer-to-peer) is a networking technology which computers directly communicate mutually without connecting a central server.

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

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

**Operating Results Summary**

	1Q19	1Q20	YoY Change
	JPY millions	JPY millions	%
<b>Total revenues</b>	49,829	50,379	1.1
<b>Network services</b>	30,680	30,934	0.8
<b>Systems integration (SI)</b>	18,109	18,875	4.2
<b>ATM operation business</b>	1,040	570	(45.2)
<b>Total costs</b>	(42,447)	(42,266)	(0.4)
<b>Network services</b>	(25,661)	(24,944)	(2.8)
<b>Systems integration (SI)</b>	(16,219)	(16,884)	4.1
<b>ATM operation business</b>	(567)	(438)	(22.7)
<b>Total gross profit</b>	7,382	8,113	9.9
<b>Network services</b>	5,019	5,990	19.4
<b>Systems integration (SI)</b>	1,890	1,991	5.4
<b>ATM operation business</b>	473	132	(72.2)
<b>SG&amp;A, R&amp;D, and other operating income (expenses)</b>	(6,001)	(6,066)	1.1
<b>Operating profit</b>	1,381	2,047	48.2
<b>Profit before tax</b>	1,369	1,694	23.8
<b>Profit for the period attributable to owners of the parent</b>	777	1,116	43.8

(Note) Systems integration revenue includes equipment sales revenue.

**Segment Results Summary**

	1Q19	1Q20
	JPY millions	JPY millions
<b>Total revenues</b>	49,829	50,379
<b>Network services and SI business</b>	48,862	49,858
<b>ATM operation business</b>	1,040	570
<b>Elimination</b>	(73)	(49)
<b>Operating profit</b>	1,381	2,047
<b>Network service and SI business</b>	999	1,991
<b>ATM operation business</b>	419	89
<b>Elimination</b>	(37)	(33)

i) Revenues

Total revenues were JPY50,379 million, up 1.1% YoY (JPY49,829 million for 1Q19).

Network services revenue was JPY30,934 million, up 0.8% YoY (JPY30,680 million for 1Q19).

Revenues for Internet connectivity services for enterprise were JPY9,809 million, up 9.9% YoY from JPY8,926 million for 1Q19, mainly due to an increase in IP services revenues and mobile-related services revenues along with an increase of telecommunication demands.

Revenues for Internet connectivity services for consumers were JPY6,454 million, down 0.7% YoY from JPY6,500 million for 1Q19, mainly due to a decrease in “IIJmio Mobile Service,” consumer mobile services revenues along with sluggish sales of retailers under the COVID-19 pandemic.

Revenues for WAN services were JPY6,175 million, down 16.8% YoY from JPY7,424 million for 1Q19. The decrease was mainly because of the year over year impact by large enterprises clients’ migration to mobile which mostly ended in 3Q19.

Revenues for Outsourcing services were JPY8,496 million, up 8.5% YoY from JPY7,830 million for 1Q19, mainly due to an increase in security-related services revenues.

**Network Services Revenues Breakdown**

	1Q19	1Q20	YoY Change
	JPY millions	JPY millions	%
<b>Total network services</b>	30,680	30,934	0.8
<b>Internet connectivity services (enterprise)</b>	8,926	9,809	9.9
<b>IP services (including data center connectivity services)</b>	2,634	2,881	9.4
<b>IIJ Mobile services</b>	5,484	6,047	10.2
<b>IIJ Mobile MVNO Platform Service (MVNE)</b>	4,069	4,374	7.5
<b>Others</b>	1,415	1,673	18.2
<b>Others</b>	808	881	9.1
<b>Internet connectivity services (consumer)</b>	6,500	6,454	(0.7)
<b>IIJmio Mobile Service</b>	5,855	5,796	(1.0)
<b>Others</b>	645	658	2.0
<b>WAN services</b>	7,424	6,175	(16.8)
<b>Outsourcing services</b>	7,830	8,496	8.5

**Number of Contracts and Subscription for Connectivity Services**

	As of June 30, 2019	As of June 30, 2020	YoY Change
<b>Internet connectivity services (enterprise)</b>	1,792,638	2,135,482	342,844
<b>IP service (greater than or equal to 1Gbps)</b>	736	778	42
<b>IP service (less than 1Gbps)</b>	1,251	1,246	(5)
<b>IIJ Mobile Services</b>	1,709,359	2,046,836	337,477
<b>IIJ Mobile MVNO Platform Service (MVNE)</b>	1,072,190	1,124,017	51,827
<b>Others</b>	637,169	922,819	285,650
<b>Others</b>	81,292	86,622	5,330
<b>Internet connectivity services (consumer)</b>	1,407,024	1,402,062	(4,962)
<b>IIJmio Mobile Service</b>	1,073,763	1,063,165	(10,598)
<b>Others</b>	333,261	338,897	5,636
<b>Total contracted bandwidth (Gbps)</b>	4,272.0	5,288.7	1,016.7

(Notes)

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

SI revenues, including equipment sales, were JPY18,875 million, up 4.2% YoY (JPY18,109 million for 1Q19).

Systems construction and equipment sales, a one-time revenue, was JPY6,550 million, down 9.6% YoY (JPY7,249 million for 1Q19), mainly due to stagnation of sales activities during April and May caused by the COVID-19 pandemic. Systems operation and maintenance revenue, a recurring revenue, was JPY12,325 million, up 13.5% YoY (JPY10,860 million for 1Q19), mainly due to an increase in private cloud services' revenues.

Orders received for SI, including equipment sales, totaled JPY20,643 million, down 7.1% YoY (JPY22,217 million for 1Q19); orders received for systems construction and equipment sales were JPY6,693 million, down 17.6% YoY (JPY8,118 million for 1Q19), and orders received for systems operation and maintenance were JPY13,949 million, down 1.1% YoY (JPY14,099 million for 1Q19). The decreases were mainly due to stagnation of sales activities as seen in revenue results.

Order backlog for SI, equipment sales, as of June 30, 2020 amounted to JPY57,631 million, up 4.4% YoY (JPY55,222 million as of June 30, 2019); order backlog for systems construction and equipment sales was JPY7,650 million, down 12.2% YoY (JPY8,709 million as of June 30, 2019) and order backlog for systems operation and maintenance was JPY49,981 million, up 7.5% YoY (JPY46,514 million as of June 30, 2019).

ATM operation business revenues were JPY570 million, down 45.2% YoY (JPY1,040 million for 1Q19), mainly due to temporary closure of stores to which we had placed ATMs caused by the COVID-19 pandemic during April and May, yet we saw some signs of recovery in June.

ii) Cost of sales

Total cost of sales was JPY42,266 million, down 0.4% YoY (JPY42,447 million for 1Q19).

Cost of network services revenue was JPY24,944 million, down 2.8% YoY (JPY25,661 million for 1Q19). There was a decrease in circuit-related costs along with WAN services revenue decrease. Gross profit was JPY5,990 million, up 19.4% YoY (JPY5,019 million for 1Q19), and gross profit ratio was 19.4% (16.4% for 1Q19).

Cost of SI revenues, including equipment sales was JPY16,884 million, up 4.1% YoY (JPY16,219 million for 1Q19). There was an increase in license fees along with an increase in cloud-related revenues. Gross profit was JPY1,991 million, up 5.4% YoY (JPY1,890 million for 1Q19) and gross profit ratio was 10.5% (10.4% for 1Q19).

Cost of ATM operation business revenues was JPY438 million, down 22.7% YoY (JPY567 million for 1Q19). Gross profit was JPY132 million (JPY473 million for 1Q19) and gross profit ratio was 23.1% (45.5% for 1Q19).

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

Selling, general and administrative expenses, which include research and development expenses, totaled JPY6,049 million, up 0.1% YoY (JPY6,042 million for 1Q19). There were an increase in personnel-related expenses and decreases in sales commission expenses, traveling expenses and advertising expenses.

Other operating income was JPY48 million (JPY113 million for 1Q19).

Other operating expenses was JPY65 million (JPY72 million for 1Q19), mainly due to disposal loss on fixed assets.

iv) Operating profit

Operating profit was JPY2,047 million (JPY1,381 million for 1Q19), up 48.2% YoY.

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

Finance income was JPY80 million, compared to JPY90 million for 1Q19. It included dividend income of JPY56 million (JPY61 million for 1Q19).

Finance expense was JPY154 million, compared to JPY215 million for 1Q19. It included interest expenses of JPY151 million (JPY126 million for 1Q19).

Share of loss of investments accounted for using equity method was JPY279 million (compared to profit of JPY112 million for 1Q19), mainly due to our share of loss of in DeCurret of JPY306 million.

vi) Profit before tax

Profit before tax was JPY1,694 million (JPY1,369 million for 1Q19), up 23.8% YoY.

vii) Profit for the period

Income tax expense was JPY572 million (JPY543 million for 1Q19). As a result, profit for the period was JPY1,122 million (JPY826 million for 1Q19), up 35.9% YoY.

Profit for the period attributable to non-controlling interests was JPY6 million (JPY49 million for 1Q19) mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of parent was JPY1,116 million (JPY777 million for 1Q19), up 43.8% YoY.

## (2) Financial Position

As of June 30, 2020, the balance of total assets was JPY205,349 million, decreased by JPY1,175 million from the balance as of March 31, 2020 of JPY206,524 million.

As of June 30, 2020, the balance of current assets was JPY85,167 million, decreased by JPY1,423 million from the balance as of March 31, 2020 of JPY86,590 million. The major breakdown of fluctuation and balance of current assets was: an increase in cash and cash equivalents by JPY221 million to JPY38,893 million, a decrease in trade receivables by JPY4,086 million to JPY28,499 million and an increase in prepaid expenses by JPY3,017 million to JPY12,714 million.

As of June 30, 2020, the balance of non-current assets was JPY120,182 million, increased by JPY248 million from the balance as of March 31, 2020 of JPY119,934 million. Right-of-use assets decreased by JPY1,954 million to JPY48,607 million, mainly due to depreciation. The balance of investments accounted for using the equity method was JPY7,179 million, increased by JPY2,352 million, mainly due to an additional investment in DeCurret. The amount of other investments was JPY10,611 million, increased by JPY1,424 million mainly due to fluctuation of fair value of our holding marketable equity securities.

As of June 30, 2020, the balance of current liabilities was JPY66,995 million, increased by JPY1,309 million from the balance as of March 31, 2020 of JPY65,687 million. Trade and other payables decreased by JPY2,226 million to JPY16,061 million. Borrowings increased by JPY3,170 million to JPY18,750 million. The major breakdown of increase in the borrowings was: a decrease by JPY915 million due to payment of long-term borrowings, and an increase by JPY4,085 million due to a transfer from non-current liabilities. Income taxes payable decreased by JPY1,482 million to JPY801 million. Contract liabilities increased by JPY2,385 million to JPY8,283 million, mainly due to prepayment received in operating transactions.

As of June 30, 2020, the balance of non-current liabilities was JPY56,685 million, decreased by JPY4,095 million from the balance as of March 31, 2020 of JPY60,780 million. Long-term borrowings decreased by JPY4,085 million to JPY8,085 million due to a transfer to current portion. Other financial liabilities decreased by JPY1,313 million to JPY34,993 million, mainly due to lease payments

As of June 30, 2020, the balance of total equity attributable to owners of the parent was JPY80,737 million, increased by JPY1,661 million from the balance as of March 31, 2020 of JPY79,076 million. Ratio of owners' equity to total assets was 39.3% as of June 30, 2020.

### **(3) Cash Flows**

Cash and cash equivalents as of June 30, 2020 were JPY38,893 million (JPY32,893 million as of June 30, 2019).

#### **Cash Flows provided by Operating Activities**

Net cash provided by operating activities for 1Q20 was JPY11,635 million (net cash provided by operating activities of JPY5,250 million for 1Q19). There was profit before tax of JPY1,694 million, depreciation and amortization of JPY7,095 million, including JPY3,009 million of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY2,177 million. Regarding changes in operating assets and liabilities, there was net cash in of JPY4,576 million compared to net cash out of JPY2,057 million for 1Q19. As a result of an increase in proceeds from revenues, cash in related to decrease in trade receivable and increase in contract liabilities, which included prepayment of revenue, increased in comparison with 1Q19. As for trade and other payables, which was temporarily increased at the beginning of 1Q19, the cash out for 1Q20 decreased compared to 1Q19.

#### **Cash Flows used in Investing Activities**

Net cash used in investing activities for 1Q20 was JPY4,592 million (net cash used in investing activities of JPY2,141 million for 1Q19), mainly due to payments for purchase of tangible assets of JPY1,407 million (JPY2,947 million for 1Q19), payments for purchase of intangible assets, such as software, of JPY1,805 million (JPY1,650 million for 1Q19), proceeds from sales of tangible assets, which include sale and leaseback, of JPY1,017 million (JPY348 million for 1Q19) and an investment in an equity method investee of JPY2,754 million.

#### **Cash Flows used in Financing Activities**

Net cash used in financing activities for 1Q20 was JPY6,802 million (net cash used in financing activities of JPY2,097 million for 1Q19), mainly due to repayments of long-term borrowings of JPY915 million, payments of other financial liabilities of JPY5,223 million, including JPY2,980 million of payment of operating lease under IFRS 16, and dividends paid of JPY609 million.

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

There were no material changes or newly identified matters, relating to the management policy, management environment and issues to be addressed, etc., during 1Q20.

**(5) Research and developments**

For 1Q20, research and development expenses, which were in relation to network services and systems integration business segment, were JPY111 million, increased by 7.6% compared to JPY103 million for 1Q19.

**(6) Number of employees**

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

**(i) Consolidated basis**

As of June 30, 2020

Number of Employees	3,795 (50)
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(Note) The number of employees indicates the total number of full-time and contract workers. It does not include third-party employees working at the Group. The average number of part-time employees for the full fiscal year is shown in brackets.

**(ii) IJ (non-consolidated basis)**

As of June 30, 2020

Number of Employees	2,191 (29)
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(Note) The number of employees indicates the total number of full-time and contract workers. It does not include third-party employees working at IJ. The average number of part-time employees for the full fiscal year is shown in brackets.

## (7) Production, Orders Received and Sales

### (i) Production

Production results for the three months ended June 30, 2020 were as follows :

Type of Services	Three months ended June 30, 2020	
	Production (thousands of yen)	Year over year comparison (%)
Systems Integration, including Equipment Sales	16,667,573	12.8
Total	16,667,573	12.8

(Notes)

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

### (ii) Orders Received

Orders received for the three months ended June 30, 2020 and order backlog as of June 30, 2020 were as follows:

Type of Services	Three months ended June 30, 2020			
	Orders Received (thousands of yen)	Year over Year comparison (%)	Order Backlog (thousands of yen)	Year over Year comparison (%)
Systems Construction and Equipment Sales	6,693,157	(17.6)	7,650,242	(12.2)
Systems Operation and Maintenance	13,949,391	(1.1)	49,981,013	7.5
Total	20,642,548	(7.1)	57,631,255	4.4

(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

Quarterly consolidated revenues for the three months ended June 30, 2020 were as follows:

Type of services	Three months ended June 30, 2020	
	Revenue (thousands of yen)	Year over year comparison (%)
Network services	30,933,934	0.8
Internet connectivity services (enterprise)	9,808,656	9.9
Internet connectivity services (consumer)	6,453,843	(0.7)
WAN services	6,174,790	(16.8)
Outsourcing services	8,496,645	8.5
Systems integration	18,874,960	4.2
Systems construction and equipment sales	6,549,706	(9.6)
Systems operation and maintenance	12,325,254	13.5
ATM operation business	569,611	(45.2)
Total revenues	50,378,505	1.1

(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 the three months ended June 30, 2020.

## 3 Material Contracts, etc.

Not applicable.

### Item 3. Information on IJJ

#### 1 Information on IJJ's Shares

##### (1) Total Number of Shares

###### (i) 【Total Number of Shares】

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

###### (ii) 【Number of shares issued】

Class	Number of shares issued as of the end of period (shares) (June 30, 2020)	Number of shares issued as of the filing date (shares) (August 14, 2020)	Stock exchange on which IJJ is listed or authorized financial instruments firms association	Description
Common stock	46,734,600	46,734,600	Tokyo Stock Exchange (the first section)	The number of shares constituting a unit is 100.
Total	46,734,600	46,734,600	—	—

##### (2) Information on Stock Acquisition Rights

###### (i) Description of Stock Option System

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 April 1, 2020 to June 30, 2020	—	46,734,600	—	22,991,399	—	9,712,083

##### (5) Major Shareholders

Not applicable for the first quarter of the 29th 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 March 31, 2020, the preceding reference date, as the register of shareholders as of June 30, 2020 cannot be confirmed.

### (i) Issued shares

As of March 31, 2020

Classification	Number of Shares (shares)	Number of Voting Rights	Description
Shares without Voting Rights	—	—	—
Shares with Restricted Voting Rights (treasury stock, etc.)	—	—	—
Shares with Restricted Voting Rights (others)	—	—	—
Shares with Full Voting Rights (treasury stock, etc.)	Treasury Stock: 1,650,900 shares of common stock	—	—
Shares with Full Voting Rights (others)	45,073,700 shares of common stock	450,737	—
Shares Representing Less than One Unit	10,000 shares of common stock	—	—
Number of Issued Shares	46,734,600 shares of common stock	—	—
Total Number of Voting Rights	—	450,737	—

### (ii) Treasury Stock

As of March 31, 2020

Name	Address	Number of shares held under own name (shares)	Number of shares held under the name of others (shares)	Total number of shares held (shares)	Ownership percentage of total number of shares outstanding (%)
(Treasury Stock) Internet Initiative Japan Inc.	2-10-2 Fujimi, Chiyoda-ku, Tokyo	1,650,900	—	1,650,900	3.53
Total	—	1,650,900	—	1,650,900	3.53

## 2 Changes in Directors and Company Auditors

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

## Item 4. Financial Information

### 1. Condensed Consolidated Financial Statements

#### Condensed Consolidated Statements of Financial Position

	Note	March 31, 2020	June 30, 2020
		Thousands of yen	Thousands of yen
Assets			
Current Assets			
Cash and cash equivalents		38,671,734	38,892,573
Trade receivables		32,585,326	28,498,975
Inventories		2,476,477	2,131,647
Prepaid expenses		9,696,856	12,714,203
Contract assets		438,675	753,257
Other financial assets	6,12	2,629,332	1,952,189
Other current assets		92,027	224,271
Total Current Assets		86,590,427	85,167,115
Non-current Assets			
Tangible assets		17,399,863	16,638,613
Right-of-use Assets		50,560,361	48,606,798
Goodwill		6,082,472	6,082,472
Intangible assets		18,280,247	18,046,983
Investments accounted for using the equity method		4,827,287	7,179,466
Prepaid expenses		7,777,997	7,886,858
Contract assets		60,362	50,826
Other investments	12	9,186,646	10,610,953
Deferred tax assets		742,857	273,211
Other financial assets	6,12	4,645,959	4,421,100
Other non-current assets		369,782	384,485
Total non-current assets		119,933,833	120,181,765
Total assets		206,524,260	205,348,880

	Note	March 31, 2020	June 30, 2020
		Thousands of yen	Thousands of yen
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		18,287,546	16,061,078
Borrowings	12	15,580,000	18,750,000
Income taxes payable		2,283,707	801,375
Contract liabilities		5,897,674	8,283,167
Deferred income		88,901	87,851
Other financial liabilities	7,12	17,845,194	17,751,236
Other current liabilities		5,703,623	5,260,603
Total current liabilities		<u>65,686,645</u>	<u>66,995,310</u>
<b>Non-current liabilities</b>			
Borrowings	12	12,170,000	8,085,000
Retirement benefit liabilities		3,984,880	4,058,968
Provisions		753,518	754,239
Contract liabilities		5,991,807	7,238,689
Deferred income		479,097	459,396
Deferred tax liabilities		136,536	150,249
Other financial liabilities	7,12	36,305,781	34,992,524
Other non-current liabilities		958,879	946,246
Total non-current liabilities		<u>60,780,498</u>	<u>56,685,311</u>
Total liabilities		<u>126,467,143</u>	<u>123,680,621</u>
<b>Equity</b>			
Share capital		25,530,621	25,530,621
Share premium		36,271,395	36,285,845
Retained earnings		16,500,993	17,260,526
Other components of equity		2,669,501	3,556,766
Treasury shares		(1,896,921)	(1,896,921)
Total equity attributable to owners of the parent		<u>79,075,589</u>	<u>80,736,837</u>
Non-controlling interests		981,528	931,422
Total equity		<u>80,057,117</u>	<u>81,668,259</u>
Total liabilities and equity		<u>206,524,260</u>	<u>205,348,880</u>

## Condensed Consolidated Statements of Profit or Loss

	Note	Three Months Ended June 30, 2019	Three Months Ended June 30, 2020
		Thousands of yen	Thousands of yen
<b>Revenues</b>			
Network services		30,679,585	30,933,934
System integration		18,109,204	18,874,960
ATM operation business		1,040,055	569,611
Total revenues	5,9	49,828,844	50,378,505
<b>Cost of sales</b>			
Cost of network services		(25,660,982)	(24,943,344)
Cost of systems integration		(16,219,380)	(16,883,807)
Cost of ATM operation business		(566,918)	(438,297)
Total cost of sales		(42,447,280)	(42,265,448)
Gross Profit		7,381,564	8,113,057
Selling, general and administrative expense		(6,041,692)	(6,048,848)
Other operating income		112,659	48,167
Other operating expenses		(71,572)	(65,147)
Operating Profit		1,380,959	2,047,229
Finance income	12	90,126	79,776
Finance expenses	12	(214,613)	(153,867)
Share of profit (loss) of investments accounted for using equity method	10	112,207	(278,907)
Profit (loss) before tax		1,368,679	1,694,231
Income tax expense		(542,925)	(572,192)
Profit (loss) for the period		825,754	1,122,039
<b>Profit (loss) for the period attributable to:</b>			
Owners of the parent		776,513	1,116,313
Non-controlling interests		49,241	5,726
Total		825,754	1,122,039
<b>Earnings per share</b>			
Earnings per share	11		
Basic earnings per share (yen)		17.23	24.76
Diluted earnings per share (yen)		17.15	24.64

## Condensed Consolidated Statements of Comprehensive Income

	Note	Three Months Ended June 30, 2019	Three Months Ended June 30, 2020
		Thousands of yen	Thousands of yen
Profit (loss)		825,754	1,122,039
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		652,157	1,195,836
Total items that will not be reclassified to profit or loss		652,157	1,195,836
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(97,542)	(25,465)
Financial assets measured at fair value through other comprehensive income		685	137
Share of other comprehensive income of investments accounted for using equity method		3,962	(31,394)
Total of items that may be reclassified to profit or loss		(92,895)	(56,722)
Total other comprehensive income, net of tax		559,262	1,139,114
Other comprehensive income		1,385,016	2,261,153
Other comprehensive income attributable to:			
Owners of the parent		1,335,775	2,255,427
Non-controlling interest		49,241	5,726
Other comprehensive income		1,385,016	2,261,153

Condensed Consolidated Statements of Changes in Shareholders' Equity  
Three months ended June 30, 2019

Note	Owners of the parent's shareholders' equity						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares	Total		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Balance, March 31, 2019	25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610
Cumulative impact of adopting IFRS 16	-	-	(33,728)	-	-	(33,728)	-	(33,728)
Comprehensive income								
Profit (loss)	-	-	776,513	-	-	776,513	49,241	825,754
Other comprehensive income	-	-	-	559,262	-	559,262	-	559,262
Total comprehensive income	-	-	776,513	559,262	-	1,335,775	49,241	1,385,016
Transactions with owners								
Dividends paid	8	-	(608,452)	-	-	(608,452)	(53,405)	(661,857)
Stock-based compensation		-	14,165	-	-	14,165	-	14,165
Transfer from other components of equity to retained earnings		-	-	1,605,421	(1,605,421)	-	-	-
Total transactions with owners		-	14,165	996,969	(1,605,421)	(594,287)	(53,405)	(647,692)
Balance, June 30, 2019	25,518,712	36,239,940	14,074,789	3,042,545	(1,896,788)	76,979,198	844,008	77,823,206

Three months ended June 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	Thousands of yen	Thousands of yen
Balance, March 31, 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)	-	-	1,116,313	-	-	1,116,313	5,726	1,122,039
Other comprehensive income	-	-	-	1,139,114	-	1,139,114	-	1,139,114
Total comprehensive income	-	-	1,116,313	1,139,114	-	2,255,427	5,726	2,261,153
Transactions with owners								
Dividends paid	8	-	-	(608,629)	-	(608,629)	(55,832)	(664,461)
Stock-based compensation	-	14,450	-	-	-	14,450	-	14,450
Transfer from other components of equity to retained earnings	-	-	251,849	(251,849)	-	-	-	-
Total transactions with owners	-	14,450	(356,780)	(251,849)	-	(594,179)	(55,832)	(650,011)
Balance, June 30, 2020	25,530,621	36,285,845	17,260,526	3,556,766	(1,896,921)	80,736,837	931,422	81,668,259

## Condensed Consolidated Statements of Cash Flows

Note	Three Months Ended June 30, 2019	Three Months Ended June 30, 2020
	Thousands of yen	Thousands of yen
Cash flows from operating activities:		
Profit (loss) before tax	1,368,679	1,694,231
Adjustments		
Depreciation and amortization	7,163,708	7,095,188
Loss on sales of property and equipment	63,854	48,047
Shares of loss (profit) of investments accounted for using the equity method	(112,207)	278,907
Finance income	(75,430)	(69,788)
Finance expenses	216,748	162,138
Other	(43,228)	19,621
Changes in working capital		
Decrease (increase) in trade receivables	3,118,954	4,090,221
Decrease (increase) in inventories	1,561,660	345,075
Decrease (increase) in prepaid expenses	(3,680,025)	(3,124,377)
Decrease (increase) in contract assets	(1,022,054)	(305,046)
Decrease (increase) in other assets	(29,414)	(132,247)
Decrease (increase) in other financial assets	(299,831)	880,031
Increase (decrease) in trade and other payables	(3,293,040)	(1,288,730)
Increase (decrease) in contract liabilities	817,703	3,646,014
Increase (decrease) in deferred income	(46,761)	(20,751)
Increase (decrease) in other liabilities	(78,047)	(455,904)
Increase (decrease) in other financial liabilities	849,928	867,424
Increase (decrease) in retirement benefit liabilities	43,756	74,088
Sub total	6,524,953	13,804,142
Interest and dividends received	154,876	153,699
Interest paid	(126,602)	(145,288)
Income taxes paid	(1,303,564)	(2,177,486)
Cash flows from operating activities	5,249,663	11,635,067

	Note	Three Months Ended June 30, 2019	Three Months Ended June 30, 2020
		Thousands of yen	Thousands of yen
Cash flows from investing activities			
Purchases of tangible assets		(2,947,407)	(1,407,413)
Proceeds from sales of tangible assets		348,306	1,016,997
Purchases of intangible assets		(1,650,369)	(1,804,916)
Proceeds from sales of intangible assets		6,831	-
Purchase of investments accounted for using equity method		(460,000)	(2,754,000)
Purchases of other investments		(8,740)	(22,500)
Proceeds from sales of other investments		2,649,631	392,353
Payments for leasehold deposits and guarantee deposits		(70,882)	(2,410)
Proceeds from collection of leasehold deposits and guarantee deposits		5,309	3,492
Payments for refundable insurance policies		(14,085)	(14,085)
Cash flows from investing activities		(2,141,406)	(4,592,482)
Cash flows from financing activities			
Repayment of long-term borrowings		(750,000)	(915,000)
Net increase (decrease) in short-term borrowings		3,000,000	-
Proceeds from other financial liabilities		1,473,000	-
Payments of other financial liabilities		(5,158,023)	(5,222,579)
Dividends paid		(608,452)	(608,629)
Other		(53,405)	(55,832)
Cash flows from financing activities		(2,096,880)	(6,802,040)
Effect of exchange rate changes on cash and cash equivalents		(76,509)	(19,706)
Net increase (decrease) in cash and cash equivalents		934,868	220,839
Cash and cash equivalents, beginning of the period		31,957,789	38,671,734
Cash and cash equivalents at end of the period		32,892,657	38,892,573

## Notes to Condensed Consolidated Financial Statements

### 1. REPORTING ENTITY

Internet Initiative Japan Inc. (“IIJ”) is a company incorporated in Japan. The registered addresses of its headquarters and primary business offices are disclosed on IIJ’s website—URL <https://www.ij.ad.jp/>—. The condensed consolidated financial statements of IIJ for the three months ended June 30, 2020 comprise the financial statements of IIJ and its subsidiaries (collectively “the Company”), and the interests in associated companies.

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

### 2. BASIS OF PREPARATION

#### (1) Compliance with IFRS

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

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

#### (2) Basis of Measurement

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

#### (3) Functional Currency and Presentation Currency

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

#### (4) Changes in Presentation

(Condensed Consolidated Statements of Financial Position)

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied to the condensed consolidated financial statements for the three months ended June 30, 2020 are the same as those applied to the consolidated financial statements for the fiscal year ended March 31, 2020. Meanwhile, income taxes for the three months ended June 30, 2020 are calculated based on the estimated annual effective tax rate.

### 4. Significant accounting estimates and judgements involving estimates

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

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

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

Estimates and judgements with significant effects on the condensed consolidated financial statements for the three months ended June 30, 2020 including the effects of COVID-19 are same as those on the consolidated financial statements for the year ended March 31, 2020.

## 5. SEGMENTS

### (1) Overview of reportable segments

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

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

### (2) Revenue and results of reportable segments

Segment information for the Company is as follows:

For the three months ended June 30, 2019

	Reportable segments		Adjustments	Condensed quarterly consolidated statements of profit or loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	48,788,789	1,040,055	—	49,828,844
Intersegment transactions	73,516	—	(73,516)	—
Total revenue	48,862,305	1,040,055	(73,516)	49,828,844
Segment operating profit	999,397	418,723	(37,161)	1,380,959
Finance income				90,126
Finance expense				(214,613)
Share of profit (loss) of investments accounted for using the equity method				112,207
Profit before taxes				1,368,679

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

For the three months ended June 30, 2020

	Reportable segments		Adjustments	Condensed quarterly consolidated statements of profit or loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	49,808,894	569,611	—	50,378,505
Intersegment transactions	48,949	—	(48,949)	—
Total revenue	49,857,843	569,611	(48,949)	50,378,505
Segment operating profit	1,990,537	88,603	(31,911)	2,047,229
Finance income				79,776
Finance expense				(153,867)
Share of profit (loss) of investments accounted for using the equity method				(278,907)
Profit before tax				1,694,231

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

#### 6. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

	March 31, 2020	June 30, 2020
	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost		
Other receivable	1,665,198	942,119
Guarantee deposit	3,331,561	3,337,800
Loans receivable	35,068	36,304
Other	17,864	61,621
Lease receivable	2,225,600	1,995,445
Total	7,275,291	6,373,289
Current assets	2,629,332	1,952,189
Non-current assets	4,645,959	4,421,100
Total	7,275,291	6,373,289

## 7. OTHER FINANCIAL LIABILITIES

The components of other financial liabilities are as follows:

	<u>March 31, 2020</u>	<u>June 30, 2020</u>
	Thousands of yen	Thousands of yen
Financial liabilities measured at amortized cost		
Account payable—non-current	661,154	384,854
Deposit payable	203,212	1,129,983
Others	632,121	577,711
Lease obligations	52,654,488	50,651,212
Total	<u>54,150,975</u>	<u>52,743,760</u>
Current liabilities	17,845,194	17,751,236
Non-current liabilities	36,305,781	34,992,524
Total	<u>54,150,975</u>	<u>52,743,760</u>

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

	<u>March 31, 2020</u>	<u>June 30, 2020</u>
	Thousands of yen	Thousands of yen
Financial leases	18,062,638	17,471,190
Other leases	34,591,850	33,180,022

## 8. DIVIDENDS PAID

Cash dividends paid are as follows:

For the three months ended June 30, 2019

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

For the three months ended June 30, 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

## 9. REVENUE

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

	For the three months ended June 30, 2019	For the three months ended June 30, 2020
	Thousands of yen	Thousands of yen
Network services	30,679,585	30,933,934
Internet connectivity services (enterprise)	8,926,121	9,808,656
Wan services	7,424,014	6,174,790
Outsourcing services	7,829,816	8,496,645
Internet connectivity services (consumer)	6,499,634	6,453,843
Systems integration	18,109,204	18,874,960
Systems construction	7,249,209	6,549,706
Systems operation and maintenance	10,859,995	12,325,254
ATM operation business	1,040,055	569,611
Total	49,828,844	50,378,505

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

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

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

Share of profit of investments accounted for using equity method included gains on changes in equity of ¥373,661 thousand from issuance of common stock of DeCurret Inc., which is accounted for equity method for 1Q19.

## 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 for the three-month periods ended June 30, 2019 and 2020 were as follows:

	For the three months ended June 30, 2019	For the three months ended June 30, 2020
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen )	776,513	1,116,313
Earnings adjustment (thousands of yen )	—	—
Earnings used to calculate earnings per share — diluted (thousands of yen )	776,513	1,116,313
Denominator :		
Weighted average number of shares — basic (shares)	45,070,489	45,083,650
Dilution arising from stock options (shares)	195,963	217,180
Weighted average number of shares — diluted (shares)	45,266,452	45,300,830
Earnings per share attributable to owners of the parent		
Basic (yen)	17.23	24.76
Diluted (yen)	17.15	24.64

## 12. FINANCIAL INSTRUMENTS

### Fair value of financial instruments

#### (1) Classification of fair value hierarchy by level

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

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

#### (2) Financial instruments measured at fair value

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

##### Equity securities

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

##### Debt securities

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

##### Investment trust and other securities

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

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

March 31, 2020

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

June 30, 2020

	Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets :				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	111,710	—	111,710
Equity-based financial assets measured at FVTOCI				
Equity securities	6,616,073	—	1,448,576	8,064,649
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	2,361,066	2,361,066
Other financial assets	—	73,524	—	73,524

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 three-month periods ended June 30, 2019 and 2020 were as follows:

	For the three months ended June 30, 2019	For the three months ended June 30, 2020
	Thousands of yen	Thousands of yen
Equity securities		
Balance at the beginning of the period	1,379,302	1,488,361
Other comprehensive income (Note 1)	25,806	(39,785)
Sale	(14,000)	—
Balance at the end of period	1,391,108	1,448,576
Investment trust and other securities		
Balance at the beginning of the period	2,199,303	2,348,265
Profit or loss (Note 2)	(67,611)	(9,699)
Purchase	8,740	22,500
Sale	(13,331)	—
Balance at the end of period	2,127,101	2,361,066

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

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

(4) Financial instruments not measured at fair value

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

(i) Long-term borrowings

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

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

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

March 31, 2020

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
		Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Liabilities :					
Long-term borrowings (including current portion)	14,400,000	-	14,011,819	-	14,011,819

June 30, 2020

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
		Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Liabilities :					
Long-term borrowings (including current portion)	13,085,000	-	13,096,293	-	13,096,293

13. CONTINGENT LIABILITIES

The Company is involved in litigation and claims arising in the ordinary course of business. In evaluating matters on an ongoing basis, the Company takes into account estimated amounts accrued on the consolidated balance sheet. The Company believes that exposure to loss does not exist in excess of the amount accrued and the negative adverse outcome of such litigation and claims would not have a significant impact on the consolidated financial position or results of operations. On September 1, 2010, IJJ-Global entered into a Solutions Engagement Agreement with IBM Japan Ltd., IJJ-Global's largest sales partner. This agreement, which establishes the basis for a procurement relationship between IJJ-Global and IBM Japan, contains indemnification for IJJ-Global to perform services, functions, responsibilities and others that were being performed by AT&T Japan. This agreement renews automatically every year. IJJ-Global had no obligation for the indemnification as of June 30, 2020.

14. SUBSEQUENT EVENTS

There are no applicable items.

15. AUTHORIZATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized by Eijiro Katsu, Representative Director and President, and Akihisa Watai, Managing Director, CFO on August 14, 2020.

2. Other Information

Not applicable.

**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**

August 14, 2020

To the Board of Directors of Internet Initiative Japan Inc.

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

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

**Conclusion**

We have reviewed the accompanying condensed quarterly consolidated financial statements of Internet Initiative Japan Inc. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") provided in the "Financial Information" section in the Company's Quarterly Securities Report, which comprise the condensed quarterly consolidated statement of financial position as at June 30, 2020, the condensed quarterly consolidated statement of profit or loss, the condensed quarterly consolidated statement of comprehensive income, the condensed quarterly consolidated statement of changes in equity, the condensed quarterly consolidated statement of cash flows for the three-month period 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 June 30, 2020, and its financial performance and cash flows for the three-month period 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.