

(TRANSLATION)

Quarterly Securities Report

(The First Quarter of the 32nd Business Term)
From April 1, 2023 to June 30, 2023

Internet Initiative Japan Inc.

Note for readers of this English translation

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

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

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PART 1 Information on the Company

Item 1. Overview of the Company

1 Selected Financial Data

| Reporting period | IFRS | | |
|--|-------------------------------------|-------------------------------------|--|
| | Three months ended June 30, 2022 | Three months ended June 30, 2023 | 31st business term ended March 31, 2023 |
| Revenues (millions of yen) | 58,190 | 61,420 | 252,708 |
| Operating profit (millions of yen) | 5,026 | 5,003 | 27,221 |
| Profit before tax (millions of yen) | 6,623 | 5,481 | 27,309 |
| Profit attributable to owners of the parent (millions of yen) | 4,391 | 3,583 | 18,852 |
| Comprehensive income, attributable to owners of the parent (millions of yen) | 4,156 | 5,722 | 19,264 |
| Comprehensive income (millions of yen) | 4,252 | 5,796 | 19,405 |
| Equity attributable to owners of the parent (millions of yen) | 105,591 | 109,968 | 118,242 |
| Total assets (millions of yen) | 225,741 | 247,888 | 246,318 |
| Basic earnings per share (yen) | 24.31 | 20.01 | 104.34 |
| Diluted earnings per share (yen) | 24.19 | 19.91 | 103.82 |
| Ratio of owners' equity to gross assets (%) | 46.8 | 44.4 | 48.0 |
| Cash flows from operating activities (millions of yen) | 4,855 | 5,016 | 38,529 |
| Cash flows from investing activities (millions of yen) | (2,366) | (6,366) | (18,386) |
| Cash flows from financing activities (millions of yen) | (7,875) | (4,535) | (25,731) |
| Cash and cash equivalents, at the end of period (millions of yen) | 42,557 | 37,266 | 42,472 |

(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. 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").
3. IJ conducted a two-for-one stock split of its common stock with an effective date of October 1, 2022. The figures for Basic earnings per share and Diluted earnings per share for each period have been adjusted to reflect the impact of this stock split.
4. Effective from the first quarter of the 32nd fiscal year, the Company has adopted International Accounting Standard No. 12, "Income Taxes" (revised May 2021, hereinafter referred to as "IAS 12, Income Taxes"). As a result, the figures for the three months ended June 30, 2022 and the 31st business term ended March 31, 2023 are based on the retrospective application of IAS 12 "Income Taxes." For details of the changes in accounting policies, please refer to "4. Financial Information Notes to Condensed Consolidated Financial Statements 3. MATERIAL ACCOUNTING POLICIES."

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 32nd business term ("1Q23").

There were no material changes with respect to the associated companies during the 1Q23.

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, 2023.

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, 2023.

(1) Analysis of Results of Operations

(i) Overview of consolidated business results for 1Q23

The Japanese economy gradually recovered during the first quarter of the fiscal year ending March 31, 2024 (1Q23). With regard to future prospects, while the economic recovery is expected to continue supported by the effect of various policies, we must pay close attention to the impacts of the inflation, restrictions on supply chain of energy resources and others, fluctuations in interest rates and foreign exchange by global monetary tightening and others.

Under such an economic trend, in the ICT(*1) related market for enterprises where we belong to, we expect the penetration of new technologies such as cloud services and AI(*2), in corporate activities, continuous growth in Internet traffic(*3) due to various factors including them, an increase in the importance of cybersecurity measures and others. Business domains of enterprise networks and systems are gradually shifting from traditional internal networks to complex and diversified ones by utilizing internet technologies. We expect to increase the importance of reliable networks and stable systems operations.

Regarding our business overview for 1Q23, while the revenues continued to increase due to continuous strong IT demands by both private and public sectors, operating profit was the same level as that for 1Q22. This is because the first quarter is the season when the volume of revenues is the smallest throughout the year while some of our costs such as personnel-related costs and expenses increase from the beginning of the fiscal year, and in particular in 1Q23 systems construction revenues did not grow year over year (YoY). Our group has been focusing on the enhancement of human capital for the further business growth in the future backed by the market expansion and an increase in demands. Based on the policy of strengthening recruitment and training of new graduates as main resources, in April 2023, 246 new graduates, which is approximately 1.4 times of the previous fiscal year, joined our group. As for revenue trends, monthly recurring revenues for network services for enterprises which exclude mobile-related services(*4) steadily increased by 11.1% YoY due to the continuous accumulation of IP services(*5), security-related services, WAN services(*6) and others. Mobile-related services revenues increased by 5.5% YoY because there were a strong revenue growth in mobile services for enterprises such as IoT(*7) usage and an increase in IJ Mobile MVNO Platform Services revenue, which absorbed a decrease in IJmio Mobile Services revenue due to a decrease in the sales scale of mobile devices. In systems integration, systems construction revenues decreased by 5.1% YoY due to the structural change in projects which are becoming larger and more complex, requiring longer lead time to be recognized as revenues. Systems operation and maintenance revenues increased by 2.8% YoY. Systems integration orders received and order backlog were up 31.0% and up 32.5% YoY, respectively. Systems operation and maintenance orders received and order backlog were down 14.7%, which was due to a reactionary drop from 1Q22 orders received which included large-scale projects fixed multi-year contracts, and up 7.1% YoY, respectively. Under this favorable order situation, there were ongoing mid-to-large scale network renewal projects including major financial institutions' one. In addition, the overseas data center project's revenue of approximately JPY3 billion is planned to be recognized in 2Q23. As for facilities, we built the second site of "Shiroi Data Center Campus" to respond strong demands for network services and started its operation in July 2023. As for the status of shareholders, where was the change in our major shareholders and NTT group(*8) and KDDI CORPORATION became our largest shareholders with the same shareholding percentage. We also executed the share buyback of JPY11.4 billion and cancelled treasury shares with the transaction of change in major shareholders.

Consolidated financial results for 1Q23 were as follows. Total revenues were JPY61,420 million (JPY58,190 million for 1Q22), up 5.6% YoY. Total cost of sales was JPY47,620 million (JPY45,490 million for 1Q22), up 4.7% YoY and gross profit

was JPY13,800 million (JPY12,700 million for 1Q22), up 8.7% YoY. The breakdown by services was as follows. Network service revenues were JPY36,354 million (JPY33,234 million for 1Q22), up 9.4% YoY and gross profit for network services was JPY10,221 million (JPY8,803 million for 1Q22), up 16.1% YoY. SI revenues, including equipment sales, were JPY24,341 million (JPY24,269 million for 1Q22), up 0.3% YoY, of which systems construction revenue was JPY7,242 million (JPY7,628 million for 1Q22) and systems operation and maintenance revenue was JPY17,099 (JPY16,641 million for 1Q22), and gross profit for SI was JPY3,256 million (JPY3,610 million for 1Q22), down 9.8% YoY. ATM operation business revenues were JPY725 million (JPY687 million for 1Q22), up 5.5% YoY and gross profit for ATM operation business was JPY323 million (JPY287 million for 1Q22), up 12.5% YoY. Net amount of selling, general and administrative expenses, other operating income and expenses were JPY8,797 million (JPY7,674 million for 1Q22), up 14.6% YoY. Operating profit was JPY5,003 million (JPY5,026 million for 1Q22), down 0.5% YoY. Profit before tax was JPY5,481 million (JPY6,623 million for 1Q22), down 17.2% YoY due to a reactionary drop of valuation gain on funds (JPY310 million gains for 1Q23, JPY1,200 million gains for 1Q22). Profit attributable to owners of the parent for 1Q23 was JPY3,583 million (JPY4,391 million for 1Q22), down 18.4% YoY.

Glossary:

- *1. ICT: Information and Communication Technology (ICT) is a general term of technologies in relation to hardware, software, system and data communication used for information communication by computers.
- *2. AI: Artificial Intelligence is technology that allows computer systems and machines to imitate human intelligence, such as reasoning, judgment, and learning.
- *3. Internet traffic: The quantity or flow of data transferred across Internet.
- *4. Mobile-related services: The services refer to IJ Mobile services, which are enterprise IoT usages, IJ Mobile MVNO platform services, and IJmio Mobile services.
- *5. IP services: IJ's dedicated-type Internet connectivity services, mainly used by corporate users.
- *6. WAN services: Wide Area Network (WAN) is a telecommunications or computer network for data communications, with leased circuits or other types of network services, that extends over a large geographical distance. Compared to Local Area Network (LAN), WAN extends over a larger geographical distance.
- *7. IoT: Internet of Things (IoT) enables not only physical objects but also any "things" connected to network to exchange information automatically.
- *8. NTT group : Nippon Telegraph and Telephone Corporation and NTT Communications Corporation which own our shares.

(ii) Analysis of Consolidated Results of Operations for the first three months of the 32nd 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

| | 1Q22 | 1Q23 | YoY Change |
|---|--------------|--------------|------------|
| | JPY millions | JPY millions | % |
| Total revenues | 58,190 | 61,420 | 5.6 |
| Network services | 33,234 | 36,354 | 9.4 |
| Systems integration (SI) | 24,269 | 24,341 | 0.3 |
| ATM operation business | 687 | 725 | 5.5 |
| Total costs | (45,490) | (47,620) | 4.7 |
| Network services | (24,431) | (26,133) | 7.0 |
| Systems integration (SI) | (20,659) | (21,085) | 2.1 |
| ATM operation business | (400) | (402) | 0.5 |
| Total gross profit | 12,700 | 13,800 | 8.7 |
| Network services | 8,803 | 10,221 | 16.1 |
| Systems integration (SI) | 3,610 | 3,256 | (9.8) |
| ATM operation business | 287 | 323 | 12.5 |
| SG&A, R&D, and other operating income (expenses) | (7,674) | (8,797) | 14.6 |
| Operating profit | 5,026 | 5,003 | (0.5) |
| Profit before tax | 6,623 | 5,481 | (17.2) |
| Profit for the period attributable to owners of the parent | 4,391 | 3,583 | (18.4) |

(Note) Systems integration revenue includes equipment sales revenue.

Segment Results Summary

| | 1Q22 | 1Q23 |
|---|--------------|--------------|
| | JPY millions | JPY millions |
| Total revenues | 58,190 | 61,420 |
| Network services and SI business | 57,531 | 60,716 |
| ATM operation business | 687 | 725 |
| Elimination | (28) | (21) |
| Operating profit | 5,026 | 5,003 |
| Network service and SI business | 4,809 | 4,750 |
| ATM operation business | 237 | 253 |
| Elimination | (20) | - |

i) Revenues

Total revenues were JPY61,420 million, up 5.6% YoY (JPY58,190 million for 1Q22).

Network services revenue was JPY36,354 million, up 9.4% YoY (JPY33,234 million for 1Q22).

Revenues for Internet connectivity services for enterprise were JPY10,772 million, up 13.2% YoY from JPY9,516 million for 1Q22, mainly due to an increase in revenues of enterprise mobile services, IP services and IIJ Mobile MVNO Platform service.

Revenues for Internet connectivity services for consumers were JPY5,993 million, down 1.7% YoY from JPY6,099 million for 1Q22, mainly due to a decrease in the sales scale of mobile devices, while the number of subscription largely increased.

Revenues for Outsourcing services were JPY12,534 million, up 14.5% YoY from JPY10,944 million for 1Q22, mainly due to an increase in security-related services revenues.

Revenues for WAN services were JPY7,055 million, up 5.7% YoY from JPY6,675 million for 1Q22.

Network Services Revenues Breakdown

| | 1Q22 | 1Q23 | YoY Change |
|--|--------------|--------------|------------|
| | JPY millions | JPY millions | % |
| Total network services | 33,234 | 36,354 | 9.4 |
| Internet connectivity services (enterprise) | 9,516 | 10,772 | 13.2 |
| IP services (including data center connectivity services) | 3,446 | 3,908 | 13.4 |
| IIJ Mobile services | 5,060 | 5,773 | 14.1 |
| Enterprise mobile service (IoT usages etc.) | 2,634 | 3,147 | 19.5 |
| IIJ Mobile MVNO Platform Service (MVNE) | 2,426 | 2,626 | 8.2 |
| Others | 1,010 | 1,091 | 8.0 |
| Internet connectivity services (consumer) | 6,099 | 5,993 | (1.7) |
| IIJmio Mobile Service | 5,310 | 5,170 | (2.6) |
| Others | 789 | 823 | 4.3 |
| Outsourcing services | 10,944 | 12,534 | 14.5 |
| WAN services | 6,675 | 7,055 | 5.7 |

Number of Contracts and Subscription for Connectivity Services

| | As of June 30, 2022 | As of June 30, 2023 | YoY Change |
|--|---------------------|---------------------|------------|
| Internet connectivity services (enterprise) | 2,582,448 | 3,163,457 | 581,009 |
| IP service (greater than or equal to 1Gbps) | 787 | 1,369 | 582 |
| IP service (less than 1Gbps) | 1,247 | 1,390 | 143 |
| IIJ Mobile Services | 2,489,768 | 3,066,250 | 576,482 |
| Enterprise mobile service (IoT usages etc.) | 1,457,464 | 1,951,122 | 493,658 |
| IIJ Mobile MVNO Platform Service (MVNE) | 1,032,304 | 1,115,128 | 82,824 |
| Others | 90,646 | 94,448 | 3,802 |
| Internet connectivity services (consumer) | 1,464,327 | 1,541,272 | 76,945 |
| IIJmio Mobile Service | 1,125,756 | 1,203,323 | 77,567 |
| Others | 338,571 | 337,949 | (622) |
| Total contracted bandwidth (Gbps) | 7,600.9 | 9,375.7 | 1,774.8 |

(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. The number of IP services (greater than or equal to 1Gbps) contracts as of June 30, 2023 included an increase of approximately 500 line openings related to Tokyo public high school project in 3Q22.
- 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. Total contracted bandwidth as of June 30, 2023 included an increase of approximately 500Gbps related to Tokyo public high school project in 3Q22.

SI revenues, including equipment sales, were JPY24,341 million, up 0.3% YoY (JPY24,269 million for 1Q22).

Systems construction and equipment sales, a one-time revenue, was JPY7,242 million, down 5.1% YoY (JPY7,628 million for 1Q22) mainly because projects tended to require longer lead time until our revenue recognition due to projects getting larger and more complex. Systems operation and maintenance revenue, a recurring revenue, was JPY17,099 million, up 2.8% YoY (JPY16,641 million for 1Q22), mainly due to continued accumulation of systems operation orders.

Orders received for SI, including equipment sales, totaled JPY33,830 million, down 0.2% YoY (JPY33,889 million for 1Q22); orders received for systems construction and equipment sales were JPY14,087 million, up 31.0% YoY (JPY10,756 million for 1Q22), and orders received for systems operation and maintenance were JPY19,743 million, down 14.7% YoY (JPY23,133 million for 1Q22), mainly due to a reactionary drop by the lump-sum recognition of large scale projects with fixed multi-year contracts in 1Q22.

Order backlog for SI, including equipment sales, as of June 30, 2023 amounted to JPY92,246 million, up 11.9% YoY (JPY82,411 million as of June 30, 2022); order backlog for systems construction and equipment sales was JPY20,644 million, up 32.5% YoY (JPY15,579 million as of June 30, 2022) and order backlog for systems operation and maintenance was JPY71,602 million, up 7.1% YoY (JPY66,832 million as of June 30, 2022).

ATM operation business revenues were JPY725 million, up 5.5% YoY (JPY687 million for 1Q22).

ii) Cost of sales

Total cost of sales was JPY47,620 million, up 4.7% YoY (JPY45,490 million for 1Q22).

Cost of network services revenue was JPY26,133 million, up 7.0% YoY (JPY24,431 million for 1Q22), mainly due to increases in network operation-related costs and circuit-related costs. Gross profit was JPY10,221 million, up 16.1% YoY (JPY8,803 million for 1Q22), and gross profit ratio was 28.1% (26.5% for 1Q22).

Cost of SI revenues, including equipment sales was JPY21,085 million, up 2.1% YoY (JPY20,659 million for 1Q22), mainly due to increases in outsourcing-related costs and personnel-related costs. Gross profit was JPY3,256 million, down 9.8% YoY (JPY3,610 million for 1Q22) and gross profit ratio was 13.4% (14.9% for 1Q22).

Cost of ATM operation business revenues was JPY402 million, up 0.5% YoY (JPY400 million for 1Q22). Gross profit was JPY323 million (JPY287 million for 1Q22) and gross profit ratio was 44.6% (41.8% for 1Q22).

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

Selling, general and administrative expenses, including research and development expenses, totaled JPY8,795 million, up 11.9% YoY (JPY7,858 million for 1Q22), mainly due to an increase in personnel-related expenses resulted from the recruitment of approximately 1.4 times more new graduates than the previous year and the revision of salary table.

Other operating income was JPY30 million (JPY194 million for 1Q22, including one-time gain on sale of asset).

Other operating expenses was JPY32 million (JPY10 million for 1Q22).

iv) Operating profit

Operating profit was JPY5,003 million (JPY5,026 million for 1Q22), down 0.5% YoY.

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

Finance income was JPY802 million, compared to JPY1,747 million for 1Q22. It included gains on financial instruments, mainly related to funds, of JPY310 million (JPY1,200 million for 1Q22) and foreign exchange gain of JPY401 million (gain of JPY474 million for 1Q22).

Finance expense was JPY170 million, compared to JPY136 million for 1Q22. It included interest expenses of JPY143 million (JPY133 million for 1Q22).

Share of loss of investments accounted for using equity method was JPY154 million (loss of JPY14 million for 1Q22), mainly due to loss of DeCurret Holdings, Inc. of JPY125 million (loss of JPY78 million for 1Q22).

vi) Profit before tax

Profit before tax was JPY5,481 million (JPY6,623 million for 1Q22), down 17.2% YoY.

vii) Profit for the period

Profit for the period attributable to non-controlling interests was JPY74 million (JPY96 million for 1Q22), mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of parent was JPY3,583 million (JPY4,391 million for 1Q22), down 18.4% YoY.

(2) Financial Position

Figures for the fiscal year ended March 31, 2023 are based on the retrospective application of IAS 12 “Income Taxes.”

As of June 30, 2023, the balance of total assets was JPY247,888 million, increased by JPY1,570 million from the balance as of March 31, 2023 of JPY246,318 million.

As of June 30, 2023, the balance of current assets was JPY102,240 million, decreased by JPY4,438 million from the balance as of March 31, 2023 of JPY106,678 million. As for the major breakdown of balance and fluctuation of current assets, cash and cash equivalents decreased by JPY5,206 million to JPY37,266 million, trade receivables decreased by JPY6,701 million to JPY34,639 million, inventories increased by JPY2,059 million to JPY5,247 million and prepaid expenses increased by JPY5,842 million to JPY21,183 million.

As of June 30, 2023, the balance of non-current assets was JPY145,648 million, increased by JPY6,008 million from the balance as of March 31, 2023 of JPY139,640 million. As for the major breakdown of balance and fluctuation of non-current assets, tangible assets increased by JPY2,724 million to JPY26,045 million mainly due to purchases related to Shiroi Data Center Campus construction, 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 JPY3,151 million to JPY43,524 million mainly due to depreciation, intangible assets increased by JPY932 million to JPY17,548 million, prepaid expenses increased by JPY2,935 million to JPY15,514 million and other investments increased by JPY2,658 million to JPY21,808 million.

As of June 30, 2023, the balance of current liabilities was JPY88,201 million, increased by JPY10,337 million from the balance as of March 31, 2023 of JPY77,864 million. As for the major breakdown of balance and fluctuation of current liabilities, trade and other payables decreased by JPY2,733 million to JPY19,580 million, borrowings increased by JPY12,752 million to JPY29,580 million due to an increase of JPY12,000 million of short-term borrowings, a decrease of JPY1,015 million from repayment of long-term borrowings and an increase of JPY1,762 million owing to a transfer from non-current liabilities, income taxes payable decreased by JPY2,469 million to JPY1,565 million, contract liabilities increased by JPY1,613 million to JPY11,782 million and other financial liabilities increased by JPY1,472 million to JPY19,577 million.

As of June 30, 2023, the balance of non-current liabilities was JPY48,509 million, decreased by JPY518 million from the balance as of March 31, 2023 of JPY49,027 million. As for the major breakdown of balance and fluctuation of non-current liabilities, long-term borrowings decreased by JPY1,762 million to JPY1,840 million due to a transfer to current portion, contract liabilities increased by JPY713 million to JPY8,124 million and other financial liabilities increased by JPY43 million to JPY30,738 million.

As of June 30, 2023, the balance of total equity attributable to owners of the parent was JPY109,968 million, decreased by JPY8,274 million from the balance as of March 31, 2023 of JPY118,242 million, mainly due to a decrease by acquisition of treasury shares. Ratio of owners' equity to total assets was 44.4% as of June 30, 2023.

(3) Cash Flows

Cash and cash equivalents as of June 30, 2023 were JPY37,266 million (JPY42,557 million as of June 30, 2022).

Cash Flows provided by Operating Activities

Net cash provided by operating activities for 1Q23 was JPY5,016 million (net cash provided by operating activities of JPY4,855 million for 1Q22). There were profit before tax of JPY5,481 million (JPY6,623 million for 1Q22), depreciation and amortization of JPY7,285 million (JPY7,055 million for 1Q22), including JPY2,961 million (JPY2,808 million for 1Q22) of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY4,299 million (JPY6,091 million for 1Q22). Regarding changes in working capital, there was net cash out of JPY3,113 million compared to net cash out of JPY1,063 million for 1Q22. As for the major factors for the increase in net cash outflow in comparison with 1Q22, there was an increase in payments of prepaid expenses, trade and other liabilities and others, which exceeded an increase in proceeds mainly from trade receivables and contract liabilities.

Cash Flows used in Investing Activities

Net cash used in investing activities for 1Q23 was JPY6,366 million (net cash used in investing activities of JPY2,366 million for 1Q22), mainly due to payments for purchases of tangible assets, such as Shiroi Data Center Campus construction-related, of JPY3,670 million (JPY1,839 million for 1Q22) and purchases of intangible assets, such as software, of JPY2,689 million (JPY1,149 million for 1Q22).

Cash Flows used in Financing Activities

Net cash used in financing activities for 1Q23 was JPY4,535 million (net cash used in financing activities of JPY7,875 million for 1Q22), mainly due to proceeds from short-term borrowings of JPY12,000 million, payments for acquisition of treasury shares of JPY11,405 million, payments of other financial liabilities of JPY5,010 million (JPY4,819 million for 1Q22), which included payments under operating lease contracts such as office rent and finance lease contracts such as network equipment, proceeds from other financial liabilities of JPY3,582 million, dividends paid of JPY2,644 million (JPY2,258 million for 1Q22) and repayments of long-term bank borrowings of JPY1,015 million (JPY750 million for 1Q22).

(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 1Q23.

(5) Research and developments

For 1Q23, research and development expenses, which were in relation to network services and systems integration business segment, were JPY148 million, increased by 18.4% compared to JPY125 million for 1Q23.

(6) Number of employees

There were no material changes in the number of employees of the Company during 1Q23.

(i) Consolidated basis

As of June 30, 2023

| | |
|---------------------|------------|
| Number of Employees | 4,747 (54) |
|---------------------|------------|

(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 reporting period year is shown in brackets.

(ii) IJ (non-consolidated basis)

As of June 30, 2023

| | |
|---------------------|------------|
| Number of Employees | 2,655 (28) |
|---------------------|------------|

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

(7) Production, Orders Received and Sales

(i) Production

Production results for the three months ended June 30, 2023 were as follows :

| Type of Services | Three months ended June 30, 2023 | |
|--|----------------------------------|-------------------------------|
| | Production (millions of yen) | Year over year comparison (%) |
| Systems Integration, including Equipment Sales | 21,295 | 0.5 |
| Total | 21,295 | 0.5 |

(Notes)

1. Percentages of year over year comparison indicate year over year rate of change.
2. 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, 2023 and order backlog as of June 30, 2023 were as follows:

| Type of Services | Three months ended June 30, 2023 | | | |
|--|-----------------------------------|-------------------------------|---------------------------------|-------------------------------|
| | Orders Received (millions of yen) | Year over Year comparison (%) | Order Backlog (millions of yen) | Year over Year comparison (%) |
| Systems Construction and Equipment Sales | 14,087 | 31.0 | 20,644 | 32.5 |
| Systems Operation and Maintenance | 19,743 | (14.7) | 71,602 | 7.1 |
| Total | 33,830 | (0.2) | 92,246 | 11.9 |

(Notes)

1. Percentages of year over year comparison indicate year over year rate of change.
2. 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, 2023 were as follows:

| Type of services | Three months ended June 30, 2023 | |
|---|----------------------------------|-------------------------------|
| | Revenue (millions of yen) | Year over year comparison (%) |
| Network services | 36,354 | 9.4 |
| Internet connectivity services (enterprise) | 10,772 | 13.2 |
| Internet connectivity services (consumer) | 5,993 | (1.7) |
| Outsourcing services | 12,534 | 14.5 |
| WAN services | 7,055 | 5.7 |
| Systems integration | 24,341 | 0.3 |
| Systems construction and equipment sales | 7,242 | (5.1) |
| Systems operation and maintenance | 17,099 | 2.8 |
| ATM operation business | 725 | 5.5 |
| Total revenues | 61,420 | 5.6 |

(Note) 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, 2023.

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 | 302,080,000 |
| Total | 302,080,000 |

(ii) 【Number of shares issued】

| Class | Number of shares issued as of the end of period (shares) (June 30, 2023) | Number of shares issued as of the filing date (shares) (August 14, 2023) | Stock exchange on which IJJ is listed or authorized financial instruments firms association | Description |
|--------------|--|--|---|--|
| Common stock | 183,141,100 | 183,141,100 | Tokyo Stock Exchange (the Prime market) | The number of shares constituting a unit is 100. |
| Total | 183,141,100 | 183,141,100 | — | — |

(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 (millions of yen) | Balance of capital (millions of yen) | Changes in capital reserve (millions of yen) | Balance of capital reserve (millions of yen) |
|---------------------|---|---|--------------------------------------|--------------------------------------|--|--|
| May 22, 2023 (Note) | (3,928,500) | 183,141,100 | — | 23,023 | — | 9,743 |

(Note) The decrease was due to cancellation of treasury shares.

(5) Major Shareholders

Not applicable for the first quarter of the 32nd 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, 2023, the preceding reference date, as the register of shareholders as of June 30, 2023 cannot be confirmed.

(i) Issued shares

As of March 31, 2023

| 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: 6,371,700 shares of common stock | — | — |
| Shares with Full Voting Rights (others) | 180,670,100 shares of common stock | 1,806,701 | — |
| Shares Representing Less than One Unit | 27,800 shares of common stock | — | — |
| Number of Issued Shares | 187,069,600 shares of common stock | — | — |
| Total Number of Voting Rights | — | 1,806,701 | — |

(Note) 32 shares of treasury stock are included in “Shares Representing Less than One Unit.”

(ii) Treasury Stock

As of March 31, 2023

| 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 | 6,371,700 | — | 6,371,700 | 3.41 |
| Total | — | 6,371,700 | — | 6,371,700 | 3.41 |

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, 2023 (filed on June 30, 2023) to June 30, 2023.

Item 4. Financial Information
Condensed Consolidated Statements of Financial Position (Unaudited)

| | Note | March 31, 2023 | June 30, 2023 |
|---|------|-----------------|-----------------|
| | | Millions of yen | Millions of yen |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 42,472 | 37,266 |
| Trade receivables | | 41,340 | 34,639 |
| Inventories | | 3,188 | 5,247 |
| Prepaid expenses | | 15,341 | 21,183 |
| Contract assets | | 2,178 | 2,075 |
| Other financial assets | 6,11 | 1,918 | 1,592 |
| Other current assets | | 241 | 238 |
| Total current assets | | 106,678 | 102,240 |
| Non-current assets | | | |
| Tangible assets | | 23,321 | 26,045 |
| Right-of-use assets | | 46,675 | 43,524 |
| Goodwill | | 9,859 | 10,097 |
| Intangible assets | | 16,616 | 17,548 |
| Investments accounted for using equity method | | 5,785 | 5,471 |
| Prepaid expenses | | 12,579 | 15,514 |
| Contract assets | | 106 | 93 |
| Other investments | 11 | 19,150 | 21,808 |
| Deferred tax assets | | 325 | 204 |
| Other financial assets | 6,11 | 4,637 | 4,738 |
| Other non-current assets | | 587 | 606 |
| Total non-current assets | | 139,640 | 145,648 |
| Total assets | | 246,318 | 247,888 |

| | Note | March 31, 2023 | June 30, 2023 |
|--|------|-----------------|-----------------|
| | | Millions of yen | Millions of yen |
| Liabilities and Equity | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | 22,313 | 19,580 |
| Borrowings | 11 | 16,828 | 29,580 |
| Income taxes payable | | 4,034 | 1,565 |
| Contract liabilities | | 10,169 | 11,782 |
| Deferred income | | 79 | 63 |
| Other financial liabilities | 7,11 | 18,105 | 19,577 |
| Other current liabilities | | 6,336 | 6,054 |
| Total current liabilities | | 77,864 | 88,201 |
| Non-current liabilities | | | |
| Borrowings | 11 | 3,602 | 1,840 |
| Retirement benefit liabilities | | 4,513 | 4,631 |
| Provisions | | 794 | 795 |
| Contract liabilities | | 7,411 | 8,124 |
| Deferred income | | 319 | 281 |
| Deferred tax liabilities | | 610 | 1,088 |
| Other financial liabilities | 7,11 | 30,695 | 30,738 |
| Other non-current liabilities | | 1,083 | 1,012 |
| Total non-current liabilities | | 49,027 | 48,509 |
| Total liabilities | | 126,891 | 136,710 |
| Equity | | | |
| Share capital | | 25,562 | 25,562 |
| Share premium | | 36,738 | 35,582 |
| Retained earnings | | 51,202 | 52,281 |
| Other components of equity | | 6,571 | 8,570 |
| Treasury shares | | (1,831) | (12,027) |
| Total equity attributable to owners of the parent | | 118,242 | 109,968 |
| Non-controlling interests | | 1,185 | 1,210 |
| Total equity | | 119,427 | 111,178 |
| Total liabilities and equity | | 246,318 | 247,888 |

Condensed Consolidated Statements of Profit or Loss (Unaudited)

| | Note | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2023 |
|--|------|-------------------------------------|-------------------------------------|
| | | Millions of yen | Millions of yen |
| Revenues | | | |
| Network services | | 33,234 | 36,354 |
| Systems integration | | 24,269 | 24,341 |
| ATM operation business | | 687 | 725 |
| Total revenues | 5,9 | 58,190 | 61,420 |
| Cost of sales | | | |
| Cost of network services | | (24,431) | (26,133) |
| Cost of systems integration | | (20,659) | (21,085) |
| Cost of ATM operation business | | (400) | (402) |
| Total cost of sales | | (45,490) | (47,620) |
| Gross Profit | | 12,700 | 13,800 |
| Selling, general and administrative expenses | | (7,858) | (8,795) |
| Other operating income | | 194 | 30 |
| Other operating expenses | | (10) | (32) |
| Operating Profit | | 5,026 | 5,003 |
| Finance income | 11 | 1,747 | 802 |
| Finance expenses | 11 | (136) | (170) |
| Share of profit (loss) of investments accounted for using equity method | | (14) | (154) |
| Profit (loss) before tax | | 6,623 | 5,481 |
| Income tax expense | | (2,136) | (1,824) |
| Profit (loss) for the period | | 4,487 | 3,657 |
| Profit (loss) for the period attributable to: | | | |
| Owners of the parent | | 4,391 | 3,583 |
| Non-controlling interests | | 96 | 74 |
| Total | | 4,487 | 3,657 |
| Earnings per share | 10 | | |
| Basic earnings per share (yen) | | 24.31 | 20.01 |
| Diluted earnings per share (yen) | | 24.19 | 19.91 |

※IIJ conducted a stock split at a ratio of two-for-one with an effective date of October 1, 2022.

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)

| | Note | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2023 |
|--|------|-------------------------------------|-------------------------------------|
| | | Millions of yen | Millions of yen |
| Profit (loss) | | 4,487 | 3,657 |
| 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 | | (952) | 1,441 |
| Total items that will not be reclassified to profit or loss | | (952) | 1,441 |
| Items that may be reclassified to profit or loss | | | |
| Exchange differences on translation of foreign operations | | 702 | 686 |
| Financial assets measured at fair value through other comprehensive income | | (1) | — |
| Share of other comprehensive income of investments accounted for using equity method | | 16 | 12 |
| Total of items that may be reclassified to profit or loss | | 717 | 698 |
| Total other comprehensive income, net of tax | | (235) | 2,139 |
| Other comprehensive income | | 4,252 | 5,796 |
| Other comprehensive income attributable to: | | | |
| Owners of the parent | | 4,156 | 5,722 |
| Non-controlling interest | | 96 | 74 |
| Other comprehensive income | | 4,252 | 5,796 |

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
Three months ended June 30, 2022

| | 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 |
| | | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | |
| Balance, April 1, 2022 | | 25,562 | 36,518 | 37,024 | 6,275 | (1,851) | 103,528 | 1,093 | 104,621 |
| Cumulative impact of adopting IAS12 | 3 | - | - | 111 | - | - | 111 | - | 111 |
| Restated balance at April 1, 2022 | | 25,562 | 36,518 | 37,135 | 6,275 | (1,851) | 103,639 | 1,093 | 104,732 |
| Comprehensive income | | | | | | | | | |
| Profit (loss) | | - | - | 4,391 | - | - | 4,391 | 96 | 4,487 |
| Other comprehensive income | | - | - | - | (235) | - | (235) | - | (235) |
| Total comprehensive income | | - | - | 4,391 | (235) | - | 4,156 | 96 | 4,252 |
| Transactions with owners | | | | | | | | | |
| Disposal of treasury shares | | - | 12 | - | - | 20 | 32 | - | 32 |
| Dividends paid | 8 | - | - | (2,258) | - | - | (2,258) | (49) | (2,307) |
| Stock-based compensation | | - | 22 | - | - | - | 22 | - | 22 |
| Total transactions with owners | | - | 34 | (2,258) | - | 20 | (2,204) | (49) | (2,253) |
| Balance, June 30, 2022 | | 25,562 | 36,552 | 39,268 | 6,040 | (1,831) | 105,591 | 1,140 | 106,731 |

Three months ended June 30, 2023

| | 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 |
| | | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | |
| Balance, April 1, 2023 | | 25,562 | 36,738 | 51,202 | 6,571 | (1,831) | 118,242 | 1,185 | 119,427 |
| Comprehensive income | | | | | | | | | |
| Profit (loss) | | - | - | 3,583 | - | - | 3,583 | 74 | 3,657 |
| Other comprehensive income | | - | - | - | 2,139 | - | 2,139 | - | 2,139 |
| Total comprehensive income | | - | - | 3,583 | 2,139 | - | 5,722 | 74 | 5,796 |
| Transactions with owners | | | | | | | | | |
| Purchase of treasury shares | | - | - | - | - | (11,405) | (11,405) | - | (11,405) |
| Disposal of treasury shares | | - | (53) | - | - | 87 | 34 | - | 34 |
| Cancellation of treasury shares | | - | (1,122) | - | - | 1,122 | - | - | - |
| Dividends paid | 8 | - | - | (2,644) | - | - | (2,644) | (49) | (2,693) |
| Stock-based compensation | | - | 19 | - | - | - | 19 | - | 19 |
| Transfer from other components of equity to retained earnings | | - | - | 140 | (140) | - | - | - | - |
| Total transactions with owners | | - | (1,156) | (2,504) | (140) | (10,196) | (13,996) | (49) | (14,045) |
| Balance, June 30, 2023 | | 25,562 | 35,582 | 52,281 | 8,570 | (12,027) | 109,968 | 1,210 | 111,178 |

Condensed Consolidated Statements of Cash Flows (Unaudited)

| | Note | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2023 |
|---|------|-------------------------------------|-------------------------------------|
| | | Millions of yen | Millions of yen |
| Cash flows from operating activities | | | |
| Profit (loss) before tax | | 6,623 | 5,481 |
| Adjustments | | | |
| Depreciation and amortization | | 7,055 | 7,285 |
| Loss (gain) on sales/disposals of property and equipment | | (162) | 21 |
| Shares of loss (profit) of investments accounted for using equity method | | 14 | 154 |
| Finance income | | (1,747) | (802) |
| Finance expenses | | 136 | 170 |
| Other | | 41 | 78 |
| Changes in working capital | | | |
| Decrease (increase) in trade receivables | | 3,568 | 6,907 |
| Decrease (increase) in inventories | | (674) | (2,008) |
| Decrease (increase) in prepaid expenses | | (3,289) | (8,488) |
| Decrease (increase) in contract assets | | (558) | 117 |
| Decrease (increase) in other assets | | (3) | 18 |
| Decrease (increase) in other financial assets | | (117) | 125 |
| Increase (decrease) in trade and other payables | | (832) | (2,819) |
| Increase (decrease) in contract liabilities | | 554 | 2,021 |
| Increase (decrease) in deferred income | | (1) | 0 |
| Increase (decrease) in other liabilities | | (943) | (408) |
| Increase (decrease) in other financial liabilities | | 1,255 | 1,303 |
| Increase (decrease) in retirement benefit liabilities | | (23) | 119 |
| Subtotal | | 10,897 | 9,274 |
| Interest and dividends received | | 182 | 191 |
| Interest paid | | (133) | (150) |
| Income taxes paid | | (6,091) | (4,299) |
| Cash flows from operating activities | | 4,855 | 5,016 |

| | Note | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2023 |
|--|------|-------------------------------------|-------------------------------------|
| | | Millions of yen | Millions of yen |
| Cash flows from investing activities | | | |
| Purchases of tangible assets | | (1,839) | (3,670) |
| Proceeds from sales of tangible assets | | 791 | 250 |
| Purchases of intangible assets | | (1,149) | (2,689) |
| Purchases of other investments | | (161) | (245) |
| Proceeds from sales of other investments | | 9 | 231 |
| Payments for leasehold deposits and guarantee deposits | | (9) | (285) |
| Proceeds from collection of leasehold deposits and guarantee deposits | | 10 | 65 |
| Payments for refundable insurance policies | | (19) | (19) |
| Other | | 1 | (4) |
| Cash flows from investing activities | | (2,366) | (6,366) |
| Cash flows from financing activities | | | |
| Repayment of long-term borrowings | | (750) | (1,015) |
| Net increase (decrease) in short-term borrowings | | - | 12,000 |
| Purchase of treasury shares | | - | (11,405) |
| Proceeds from other financial liabilities | | - | 3,582 |
| Payments of other financial liabilities | | (4,819) | (5,010) |
| Dividends paid | | (2,258) | (2,644) |
| Other | | (48) | (43) |
| Cash flows from financing activities | | (7,875) | (4,535) |
| Effect of exchange rate changes on cash and cash equivalents | | 552 | 679 |
| Net increase (decrease) in cash and cash equivalents | | (4,834) | (5,206) |
| Cash and cash equivalents, beginning of the period | | 47,391 | 42,472 |
| Cash and cash equivalents, end of the period | | 42,557 | 37,266 |

Notes to Condensed Consolidated Financial Statements

1. REPORTING ENTITY

Internet Initiative Japan Inc. (“IIJ”) is a company incorporated in Japan. The registered addresses of its headquarters and primary business offices are disclosed on IIJ’s website—URL <https://www.iij.ad.jp/en/>—. The condensed consolidated financial statements of IIJ for the three months ended June 30, 2023 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, 2023.

(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 million yen.

3. MATERIAL ACCOUNTING POLICIES

The material accounting policies applied to the condensed consolidated financial statements for the three months ended June 30, 2023 are the same as those applied to the consolidated financial statements for the fiscal year ended March 31, 2022 except as described below. Meanwhile, income taxes for the three months ended June 30, 2023 are calculated based on the estimated annual effective tax rate.

IIJ accordance IAS 12 “Income Taxes”(revised May 2021) during the accounting period ended June 30.

| IFRS | | The Overview of New Establishment and Revisions |
|--------|--------------|--|
| IAS 12 | Income Taxes | Clarify of initial recognition about deferred tax assets and liabilities from same transaction |

As a result of the accordance of this standard, the initial recognition that give rise to equal taxable temporary difference and deductible temporary difference at the time of the transaction is clarified. Consequently, deferred tax liabilities and deferred tax assets related to such taxable and deductible temporary differences will be recognized in the Consolidated Statement of Financial Position.

The accordance of this standard also require retrospective adjustments to the Consolidated Financial Statements of the previous fiscal year. As a result, the consolidated statement of financial position of the previous fiscal year for, "Deferred tax assets" increased by JPY125 million, and "Retained earnings" increased by JPY125 million.

Furthermore, the cumulative effect of the accordance of this standard has been reflected the Consolidated Statement of Changes in Shareholder's Equity of previous first quarter cumulative period. As a result, "Retained earnings" increased by JPY111 million.

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, 2023 including the effects of COVID-19 are same as those on the consolidated financial statements for the year ended March 31, 2023.

5. SEGMENTS

(1) Overview of reportable segments

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

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

(2) Revenue and results of reportable segments

Segment information for the Company is as follows:

For the three months ended June 30, 2022

| | Reportable segments | | Adjustments | Consolidated |
|---|--|------------------------|-------------|--------------|
| | Network service and systems integration business | ATM operation business | | |
| | JPY millions | JPY millions | | |
| Revenue | | | | |
| Customers | 57,503 | 687 | — | 58,190 |
| Intersegment transactions | 28 | — | (28) | — |
| Total revenue | 57,531 | 687 | (28) | 58,190 |
| Segment operating profit | 4,809 | 237 | (20) | 5,026 |
| Finance income | | | | 1,747 |
| Finance expense | | | | (136) |
| Share of profit (loss) of investments accounted for using the equity method | | | | (14) |
| Profit before tax | | | | 6,623 |

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

For the three months ended June 30, 2023

| | Reportable segments | | | Consolidated |
|--|--|---------------------------|--------------|--------------|
| | Network service and systems integration business | ATM operation business | Adjustments | |
| | JPY millions | JPY millions | JPY millions | |
| Revenue | | | | |
| Customers | 60,695 | 725 | — | 61,420 |
| Intersegment transactions | 21 | — | (21) | — |
| Total revenue | 60,716 | 725 | (21) | 61,420 |
| Segment operating profit | 4,750 | 253 | — | 5,003 |
| Finance income | | | | 802 |
| Finance expense | | | | (170) |
| Share of profit (loss) of investments accounted for using the equity method | | | | (154) |
| Profit before tax | | | | 5,481 |

(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, 2023 | June 30, 2023 |
|---|-----------------|-----------------|
| | Millions of yen | Millions of yen |
| Financial assets measured at amortized cost | | |
| Other receivable | 753 | 665 |
| Guarantee deposit | 3,574 | 3,801 |
| Loans receivable | 22 | 23 |
| Other | 455 | 412 |
| Financial instruments measured at fair value through other comprehensive income | | |
| Stock | 196 | — |
| Lease receivable | 1,555 | 1,429 |
| Total | <u>6,555</u> | <u>6,330</u> |
| Current assets | 1,918 | 1,592 |
| Non-current assets | 4,637 | 4,738 |
| Total | <u>6,555</u> | <u>6,330</u> |

7. OTHER FINANCIAL LIABILITIES

The components of other financial liabilities are as follows:

| | March 31, 2023 | June 30, 2023 |
|---|-----------------|-----------------|
| | Millions of yen | Millions of yen |
| Financial liabilities measured at amortized cost | | |
| Account payable—non-current (including current portion) | 449 | 3,891 |
| Deposit payable | 245 | 1,543 |
| Others | 49 | 55 |
| Lease obligations | 48,057 | 44,826 |
| Total | <u>48,800</u> | <u>50,315</u> |
| Current liabilities | 18,105 | 19,577 |
| Non-current liabilities | 30,695 | 30,738 |
| Total | <u>48,800</u> | <u>50,315</u> |

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

| | March 31, 2023 | June 30, 2023 |
|------------------|-----------------|-----------------|
| | Millions of yen | Millions of yen |
| Financial leases | 16,447 | 15,367 |
| Other leases | 31,610 | 29,459 |

8. DIVIDENDS PAID

Cash dividends paid are as follows:

For the three months ended June 30, 2022

| Resolution date | Total dividends | Dividends per share | Record date | Effective date |
|--|-----------------|---------------------|----------------|----------------|
| | Millions of yen | Yen | | |
| June 28, 2022 | | | | |
| Ordinary General Meeting of Shareholders | 2,258 | 25.00 | March 31, 2022 | June 29, 2022 |

(Note) In accordance with a resolution authorized at a meeting of board of directors on August 5, 2022, IJ conducted a two-for-one stock split of its common stock, with an effective date of October 1, 2022. The dividends per share is before the stock split.

For the three months ended June 30, 2023

| Resolution date | Total dividends | Dividends per share | Record date | Effective date |
|--|-----------------|---------------------|----------------|----------------|
| | Millions of yen | Yen | | |
| June 28, 2023 | | | | |
| Ordinary General Meeting of Shareholders | 2,644 | 14.63 | March 31, 2023 | June 29, 2023 |

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, 2022 | For the three months ended June 30, 2023 |
|---|--|--|
| | Millions of yen | Millions of yen |
| Network services | 33,234 | 36,354 |
| Internet connectivity services (enterprise) | 9,516 | 10,772 |
| Wan services | 6,675 | 7,055 |
| Outsourcing services | 10,944 | 12,534 |
| Internet connectivity services (consumer) | 6,099 | 5,993 |
| Systems integration | 24,269 | 24,341 |
| Systems construction | 7,628 | 7,242 |
| Systems operation and maintenance | 16,641 | 17,099 |
| ATM operation business | 687 | 725 |
| Total | 58,190 | 61,420 |

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. 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, 2022 and 2023 were as follows:

| | For the three months ended June 30, 2022 | For the three months ended June 30, 2023 |
|---|---|---|
| Numerator : | | |
| Basic earnings attributable to owners of the parent (millions of yen) | 4,391 | 3,583 |
| Earnings adjustment (millions of yen) | — | — |
| <hr/> Earnings used to calculate earnings per share — diluted (millions of yen) | <hr/> 4,391 | <hr/> 3,583 |
| Denominator : | | |
| Weighted average number of shares — basic (shares) | 180,638,862 | 179,022,096 |
| Dilution arising from stock options (shares) | 879,674 | 916,665 |
| <hr/> Weighted average number of shares — diluted (shares) | <hr/> 181,518,536 | <hr/> 179,938,761 |
| Earnings per share attributable to owners of the parent | | |
| Basic (yen) | 24.31 | 20.01 |
| Diluted (yen) | 24.19 | 19.91 |

Stock split

Based on the resolution of the IIJ's board of directors held on August 5, 2022, IIJ conducted a two-for-one stock split of its outstanding shares with a record date of September 30, 2022 and an effective date of October 1, 2022.

In connection with the stock split, the information of per share for the three months ended June 30, 2022, and for the three months ended June 30, 2023 presented in the consolidated financial statements are shown after adjusting for the stock split.

11. 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 financial instruments traded in active markets are evaluated at quoted market prices and these instruments are classified as Level 1. Some equity securities are evaluated based on observable market data, and they are classified as Level 2. If market prices or observable market data 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.

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 Company's assets measured at fair value consistent with the fair value hierarchy were as follows:

March 31, 2023

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Assets : | | | | |
| Equity-based financial assets measured at FVTOCI | | | | |
| Equity securities | 7,839 | 930 | 1,458 | 10,227 |
| Financial assets measured at FVTPL | | | | |
| Investment trust and other securities | — | — | 6,946 | 6,946 |
| Other financial assets | — | 173 | — | 173 |

June 30, 2023

| | Level 1 | Level 2 | Level 3 | Total |
|--|-----------------|-----------------|-----------------|-----------------|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Assets : | | | | |
| Equity-based financial assets measured at FVTOCI | | | | |
| Equity securities | 10,696 | — | 1,467 | 12,163 |
| Financial assets measured at FVTPL | | | | |
| Investment trust and other securities | — | — | 7,472 | 7,472 |
| Other financial assets | — | 173 | — | 173 |

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, 2022 and 2023 were as follows:

| | For the three months ended June 30, 2022 | For the three months ended June 30, 2023 |
|--|---|---|
| | Millions of yen | Millions of yen |
| Equity securities | | |
| Balance at the beginning of the period | 1,645 | 1,458 |
| Other comprehensive income (Note 1) | (74) | (54) |
| Reclassification (Note 2) | — | 63 |
| Balance at the end of period | 1,571 | 1,467 |
| Investment trust and other securities | | |
| Balance at the beginning of the period | 6,288 | 6,946 |
| Profit or loss (Note 3) | 1,177 | 281 |
| Purchase | 161 | 245 |
| Sale | (9) | — |
| Balance at the end of period | 7,617 | 7,472 |

(Notes)

- 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."
- It was the transfer from investments accounted for using the equity method to Equity-based financial assets measured at FVTOCI due to the decreasing the ratio of voting rights held by the Company.
- Gain or loss included in profit or loss are related to financial assets that are measured at FVTPL as of the end of each reporting period. This gain or loss is included in finance income or finance expenses. Gain or loss included in profit or loss are due to changes in unrealized gain or loss on financial assets held at the end of each reporting period.

(4) Financial instruments not measured at fair value

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

(i) Debt securities and Long-term borrowings

Fair values of debt securities and 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, 2023

| | Carrying amount | Fair value | | | |
|---|--------------------|-----------------|-----------------|-----------------|-----------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| | | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Assets : | | | | | |
| Other financial assets | | | | | |
| Financial assets measured at amortized cost | | | | | |
| Debt securities | 2,000 | — | 1,969 | — | 1,969 |
| Liabilities : | | | | | |
| Long-term borrowings (including current portion) | 5,660 | — | 5,664 | — | 5,664 |

June 30, 2023

| | Carrying amount | Fair value | | | |
|---|--------------------|-----------------|-----------------|-----------------|-----------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| | | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Assets : | | | | | |
| Other financial assets | | | | | |
| Financial assets measured at amortized cost | | | | | |
| Debt securities | 2,000 | — | 1,966 | — | 1,966 |
| Liabilities : | | | | | |
| Long-term borrowings (including current portion) | 4,650 | — | 4,653 | — | 4,653 |

12. 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, 2023. Through the split-up of IBM Japan Ltd. on September 1, 2021, the part of the agreement has been succeeded by Kyndryl Japan KK.

13. SUBSEQUENT EVENTS

Not applicable.

14. AUTHORIZATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized by Eijiro Katsu, Representative Director and President, and Akihisa Watai, Senior Managing Director, CFO on August 14, 2023.

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, 2023

To the Board of Directors of Internet Initiative Japan Inc.

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

Yusuke Matsumoto
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Conclusion

We have reviewed the accompanying condensed quarterly consolidated financial statements of Internet Initiative Japan Inc. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”) provided in the “Financial Information” section in the Company’s Quarterly Securities Report, which comprise the condensed quarterly consolidated statement of financial position as at June 30, 2023, 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, 2023, 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 the condensed quarterly 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 that 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, actions taken to eliminate threats or safeguards applied.

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.