

(TRANSLATION)

Quarterly Securities Report

(The Second Quarter of the 31st Business Term)
From July 1, 2022 to September 30, 2022 (“2Q22”)

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

| Fiscal year | IFRS | | |
|--|--|--|--|
| | Six months ended September 30, 2021 | Six months ended September 30, 2022 | 30th business term ended March 31, 2022 |
| Revenues (Three months ended September 30) | (millions of yen) 109,054 (56,079) | 121,962 (63,772) | 226,335 |
| Operating profit | (millions of yen) 9,304 | 11,173 | 23,547 |
| Profit before tax | (millions of yen) 10,432 | 12,858 | 24,162 |
| Profit attributable to owners of the parent (Three months ended September 30) | (millions of yen) 6,892 (3,385) | 8,638 (4,248) | 15,672 |
| Comprehensive income, attributable to owners of the parent | (millions of yen) 8,931 | 8,972 | 17,223 |
| Comprehensive income | (millions of yen) 8,997 | 9,074 | 17,352 |
| Equity attributable to owners of the parent | (millions of yen) 97,215 | 110,359 | 103,528 |
| Total assets | (millions of yen) 222,729 | 235,160 | 231,805 |
| Basic earnings per share (Three months ended September 30) | (yen) 38.17 (18.74) | 47.81 (23.51) | 86.78 |
| Diluted earnings per share | (yen) 37.99 | 47.58 | 86.37 |
| Ratio of owners' equity to gross assets | (%) 43.6 | 46.9 | 44.7 |
| Cash flows from operating activities | (millions of yen) 18,865 | 13,457 | 43,573 |
| Cash flows from investing activities | (millions of yen) (8,185) | (7,219) | (11,838) |
| Cash flows from financing activities | (millions of yen) (13,402) | (12,601) | (27,296) |
| Cash and cash equivalents, at the end of period | (millions of yen) 39,795 | 42,068 | 47,391 |

(Notes)

1. As IJJ 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. IJJ 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 31st business term, IJJ has changed the unit of presentation for monetary amounts from thousands of yen to millions of yen. In order to facilitate comparison, the figures for past periods (the 30th business term, six months ended September 30, 2021 and three months ended September 30, 2021) are also presented in millions of yen.

2 Description of Business

There were no material changes to the business of the Company or its equity method investees during the six months ended September 30, 2022 ("1H22").

There were no material changes with respect to the associated companies during the 1H22.

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, 2022.

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 November 14, 2022.

(1) Analysis of Results of Operations

(i) Overview of consolidated business results for 1H22

The Japanese economy gradually recovered during the second quarter of the fiscal year ending March 31, 2023 ("2Q22"). 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, fluctuations in interest rates and foreign exchange by global monetary tightening and others.

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

With regard to our business overview for 1H22, we exceeded the disclosed 1H22 financial targets because network services steadily increased and system integration (SI) largely grew by strong demands for network construction and others. Network service revenues excluding mobile-related services (*5) were up 10.1% year over year (YoY) due to the continued accumulation of IP services (*6), security-related services and WAN services (*7). We also continued to expand our service lineup by launching an in-house developed SASE (*8) service "IIJ Secure Access Service." In mobile-related services, as for IIJmio Mobile Service for consumers, there was a negative impact on revenues due to a decrease in average revenue per user along with continued migration of old plan's customers to our new plan "GigaPlans (*9)," which was launched at the beginning of the previous fiscal year although the number of subscription increased strongly. Revenues for IoT-related mobile services for enterprises increased due to the acquisition of new projects and additions of subscription from existing projects. As a result, revenues for mobile-related services were down 0.1% YoY. As for SI, the revenue growth trend became much stronger because of high demands for mainly network-related systems construction and systems operation and maintenance. As for systems construction, there was an increase in the projects that required providing network services with SI. As for systems operation and maintenance, in addition to the accumulation of these projects, which followed by the completion of systems construction, cloud computing related services revenue continued to increase due to an increase in demand for multi-cloud (*10) and others.

Consolidated financial results for 1H22 were as follows. Total revenues were JPY121,962 million (JPY109,054 million for 1H21), up 11.8% YoY. Total cost of sales was JPY95,471 million (JPY85,969 million for 1H21), up 11.1% YoY and gross profit was JPY26,491 million (JPY23,085 million for 1H21), up 14.8% YoY. The breakdown by services was as follows. Network service revenues were JPY67,707 million (JPY63,436 million for 1H21), up 6.7% YoY and gross profit for network services was JPY17,905 million (JPY16,682 million for 1H21), up 7.3% YoY. SI revenues, including equipment sales, were JPY52,846 million (JPY44,209 million for 1H21), up 19.5% YoY and gross profit for SI was JPY7,989 million (JPY5,869 million for 1H21), up 36.1% YoY. ATM operation business revenues were JPY1,409 million (JPY1,409 million for 1H21) and gross profit for ATM operation business was JPY597 million (JPY534 million for 1H21), up 11.8% YoY. Net amount of selling, general and administrative expenses, other operating income and other operating expenses were JPY15,318 million (JPY13,781 million for 1H21), up 11.2% YoY. Operating profit was JPY11,173 million (JPY9,304 million for 1H21), up 20.1% YoY. Profit before tax was JPY12,858 million (JPY10,432 million for 1H21), up 23.3% YoY. There were gains on financial instruments, related to funds, of JPY1,196 million (JPY1,692 million for 1H21), foreign exchange gain of JPY761 million (JPY3 million for

1H21) and share of loss of investments accounted for using equity method of JPY78 million (loss of JPY372 million for 1H21).

Profit attributable to owners of the parent for 1H22 was JPY8,638 million (JPY6,892 million for 1H21), up 25.3% YoY.

Glossary:

- *1. ICT: Information and Communication Technology (ICT) is a general term of technologies in relation to hardware, software, system and data communication used for information communication by computers.
- *2. Internet traffic: The quantity or flow of data transferred across Internet.
- *3. Cloud Computing: Cloud computing is the on-demand delivery of computer or storage device functions and processing ability, software, data and others through Internet.
- *4. IoT: Internet of Things (IoT) enables not only physical objects but also any “things” connected to network to exchange information automatically.
- *5. Mobile-related services: Mobile-related services refer to IJ Mobile Services, which are enterprise IoT usages, IJ Mobile MVNO Platform Services, and IJmio Mobile Services.
- *6. IP Services: IJ’s dedicated-type Internet connectivity services, mainly used by corporate users.
- *7. WAN services: WAN is an abbreviation of Wide Area Network. They are services which connect LANs that are geographically separated from each other, such as between head offices and branches, and exchange data using dedicated data communication lines or other network services.
- *8. SASE: SASE (Secure Access Service Edge) is a concept to shift controls of network and security on the route to Cloud services to enable secure access from any points, instead of the conventional centralized management through headquarters or data centers
- *9. GigaPlans: GigaPlans is IJ’s new consumer mobile service plans launched on April 1, 2021.
- *10. Multi-cloud: Multi-cloud means using multiple cloud services from multiple different cloud service providers, such as Amazon Web Services, Microsoft Azure and others.

(ii) Analysis of Consolidated Results of Operations for the first six months of the 31st 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

| | 1H21 | 1H22 | YoY Change |
|---|--------------|--------------|------------|
| | JPY millions | JPY millions | % |
| Total revenues | 109,054 | 121,962 | 11.8 |
| Network services | 63,436 | 67,707 | 6.7 |
| Systems integration (SI) | 44,209 | 52,846 | 19.5 |
| ATM operation business | 1,409 | 1,409 | 0.0 |
| Total costs | (85,969) | (95,471) | 11.1 |
| Network services | (46,754) | (49,802) | 6.5 |
| Systems integration (SI) | (38,340) | (44,857) | 17.0 |
| ATM operation business | (875) | (812) | (7.2) |
| Total gross profit | 23,085 | 26,491 | 14.8 |
| Network services | 16,682 | 17,905 | 7.3 |
| Systems integration (SI) | 5,869 | 7,989 | 36.1 |
| ATM operation business | 534 | 597 | 11.8 |
| SG&A, R&D, and other operating income (expenses) | (13,781) | (15,318) | 11.2 |
| Operating profit | 9,304 | 11,173 | 20.1 |
| Profit before tax | 10,432 | 12,858 | 23.3 |
| Profit for the period attributable to owners of the parent | 6,892 | 8,638 | 25.3 |

(Note) Systems integration revenue includes equipment sales revenue.

Segment Results Summary

| | 1H21 | 1H22 |
|---|--------------|--------------|
| | JPY millions | JPY millions |
| Total revenues | 109,054 | 121,962 |
| Network services and SI business | 107,712 | 120,608 |
| ATM operation business | 1,408 | 1,409 |
| Elimination | (66) | (55) |
| Operating profit | 9,304 | 11,173 |
| Network services and SI business | 8,933 | 10,725 |
| ATM operation business | 417 | 468 |
| Elimination | (46) | (20) |

i) Revenues

Total revenues were JPY121,962 million, up 11.8% YoY (JPY109,054 million for 1H21).

Network services revenue was JPY67,707 million, up 6.7% YoY (JPY63,436 million for 1H21).

Revenues for Internet connectivity services for enterprise were JPY19,269 million, up 2.4% YoY from JPY18,813 million for 1H21. The increase was due to an increase in revenues of IP services and enterprise mobile services, which absorbed a decrease in IIJ Mobile MVNO Platform service (MVNE) revenue in the response to the reduction in procurement cost.

Revenues for Internet connectivity services for consumers were JPY12,453 million, up 2.1% YoY from JPY12,196 million for 1H21, mainly due to an increase in revenue of IIJmio Mobile services led by an increase in subscription, which absorbed a decrease in revenue resulted from a decrease in average revenue per user along with continued migration of old plan's customers to "GigaPlans", which launched at the beginning of the previous fiscal year.

Revenues for Outsourcing services were JPY22,469 million, up 15.0% YoY from JPY19,546 million for 1H21, mainly due to an increase in security-related services revenues.

Revenues for WAN services were JPY13,516 million, up 4.9% YoY from JPY12,881 million for 1H21.

Network Services Revenues Breakdown

| | 1H21 | 1H22 | YoY Change |
|--|--------------|--------------|------------|
| | JPY millions | JPY millions | % |
| Total network services | 63,436 | 67,707 | 6.7 |
| Internet connectivity services (enterprise) | 18,813 | 19,269 | 2.4 |
| IP services (including data center connectivity services) | 6,622 | 7,090 | 7.1 |
| IIJ Mobile services | 10,284 | 10,137 | (1.4) |
| Enterprise mobile service (IoT usages etc.) | 4,839 | 5,302 | 9.6 |
| IIJ Mobile MVNO Platform Service (MVNE) | 5,445 | 4,835 | (11.2) |
| Others | 1,907 | 2,042 | 7.1 |
| Internet connectivity services (consumer) | 12,196 | 12,453 | 2.1 |
| IIJmio Mobile Service | 10,741 | 10,866 | 1.2 |
| Others | 1,455 | 1,587 | 9.1 |
| Outsourcing services | 19,546 | 22,469 | 15.0 |
| WAN services | 12,881 | 13,516 | 4.9 |

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

| | As of September 30, 2021 | As of September 30, 2022 | YoY Change |
|---|--------------------------|--------------------------|------------|
| Internet connectivity services (enterprise) | 2,301,380 | 2,627,001 | 325,621 |
| IP service (greater than or equal to 1Gbps) (Note 2) | 757 | 818 | 61 |
| IP service (less than 1Gbps) (Note 2) | 1,211 | 1,307 | 96 |
| IIJ Mobile Services | 2,210,095 | 2,532,815 | 322,720 |
| Enterprise mobile service (IoT usages etc.) | 1,218,375 | 1,493,805 | 275,430 |
| IIJ Mobile MVNO Platform Service (MVNE) | 991,720 | 1,039,010 | 47,290 |
| Others | 89,317 | 92,061 | 2,744 |
| Internet connectivity services (consumer) | 1,416,927 | 1,518,130 | 101,203 |
| IIJmio Mobile Service | 1,072,107 | 1,178,269 | 106,162 |
| Others | 344,820 | 339,861 | (4,959) |
| Total contracted bandwidth (Gbps) (Note 3) | 7,279.7 | 7,729.1 | 449.4 |

(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 JPY52,846 million, up 19.5% YoY (JPY44,209 million for 1H21).

Systems construction and equipment sales, a one-time revenue, was JPY19,549 million, up 26.4% YoY (JPY15,472 million for 1H21). Systems operation and maintenance revenue, a recurring revenue, was JPY33,297 million, up 15.9% YoY (JPY28,737 million for 1H21), mainly due to continued accumulation of systems operation orders as well as an increase in cloud-related services' revenues.

Orders received for SI, including equipment sales, totaled JPY60,992 million, up 31.2% YoY (JPY46,503 million for 1H21); orders received for systems construction and equipment sales were JPY21,670 million, up 14.9% YoY (JPY18,865 million for 1H21), and orders received for systems operation and maintenance were JPY39,322 million, up 42.3% YoY (JPY27,638 million for 1H21).

Order backlog for SI, including equipment sales, as of September 30, 2022 amounted to JPY80,937 million, up 17.4% YoY (JPY68,949 million as of September 30, 2021); order backlog for systems construction and equipment sales was JPY14,572 million, up 16.0% YoY (JPY12,561 million as of September 30, 2021) and order backlog for systems operation and maintenance was JPY66,365 million, up 17.7% YoY (JPY56,388 million as of September 30, 2021).

ATM operation business revenues were JPY1,409 million, almost same revenue as JPY1,409 million for 1H21.

ii) Cost of sales

Total cost of sales was JPY95,471 million, up 11.1% YoY (JPY85,969 million for 1H21).

Cost of network services revenue was JPY49,802 million, up 6.5% YoY (JPY46,754 million for 1H21), mainly due to an increase in purchasing cost of mobile device. Gross profit was JPY17,905 million, up 7.3% YoY (JPY16,682 million for 1H21), and gross profit ratio was 26.4% (26.3% for 1H21).

Cost of SI revenues, including equipment sales was JPY44,857 million, up 17.0% YoY (JPY38,340 million for 1H21), mainly due to increases in license fees along with an increase in multi-cloud related services' revenues and purchasing costs. Gross profit was JPY7,989 million, up 36.1% YoY (JPY5,869 million for 1H21) and gross profit ratio was 15.1% (13.3% for 1H21).

Cost of ATM operation business revenues was JPY812 million, down 7.2% YoY (JPY875 million for 1H21). Gross profit was JPY597 million (JPY534 million for 1H21) and gross profit ratio was 42.4% (37.9% for 1H21).

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

Selling, general and administrative expenses, including research and development expenses, totaled JPY15,508 million, up 12.5% YoY (JPY13,790 million for 1H21), mainly due to increases in personnel-related expenses, advertising expenses and outsourcing expenses.

Other operating income was JPY221 million (JPY93 million for 1H21).

Other operating expenses was JPY31 million (JPY84 million for 1H21).

iv) Operating profit

Operating profit was JPY11,173 million (JPY9,304 million for 1H21), up 20.1% YoY.

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

Finance income was JPY2,042 million, compared to JPY1,772 million for 1H21. It included gains on financial instruments, mainly related to funds, of JPY1,196 million (JPY1,692 million for 1H21) and foreign exchange gain of JPY761 million (JPY3 million for 1H21).

Finance expense was JPY279 million, compared to JPY272 million for 1H21. It included interest expenses of JPY266 million (JPY272 million for 1H21).

Share of loss of investments accounted for using equity method was JPY78 million (loss of JPY372 million for 1H21). There was a loss of DeCurret Holdings, Inc. of JPY180 million.

vi) Profit before tax

Profit before tax was JPY12,858 million (JPY10,432 million for 1H21), up 23.3% YoY.

vii) Profit for the period

Income tax expense was JPY4,118 million (JPY3,474 million for 1H21). As a result, profit for the period was JPY8,740 million (JPY6,958 million for 1H21), up 25.6% YoY.

Profit for the period attributable to non-controlling interests was JPY102 million (JPY66 million for 1H21), mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of the parent was JPY8,638 million (JPY6,892 million for 1H21), up 25.3% YoY.

(2) Financial Position

As of September 30, 2022, the balance of total assets was JPY235,160 million, increased by JPY3,355 million from the balance as of March 31, 2022 of JPY231,805 million.

As of September 30, 2022, the balance of current assets was JPY103,947 million, decreased by JPY538 million from the balance as of March 31, 2022 of JPY104,485 million. As for the major breakdown of balance and fluctuation of current assets, cash and cash equivalents decreased by JPY5,323 million to JPY42,068 million, trade receivables decreased by JPY103 million to JPY37,546 million, inventories increased by JPY1,279 million to JPY3,887 million, prepaid expenses increased by JPY2,097 million to JPY15,650 million, mainly due to operation and maintenance costs, and contract assets increased by JPY1,575 million to JPY3,445 million.

As of September 30, 2022, the balance of non-current assets was JPY131,213 million, increased by JPY3,893 million from the balance as of March 31, 2022 of JPY127,320 million. As for the major breakdown of balance and fluctuation of non-current assets, tangible assets increased by JPY2,838 million to JPY20,684 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 JPY214 million to JPY44,660 million mainly due to depreciation, intangible assets decreased by JPY746 million to JPY15,678 million mainly due to amortization of software, and prepaid expenses increased by JPY1,512 million to JPY11,964 million, mainly due to operation and maintenance costs.

As of September 30, 2022, the balance of current liabilities was JPY74,501 million, decreased by JPY2,276 million from the balance as of March 31, 2022 of JPY76,777 million. As for the major breakdown of balance and fluctuation of current liabilities, trade and other payables increased by JPY1,031 million to JPY21,773 million, borrowings increased by JPY250 million to JPY16,620 million due to a decrease of JPY750 million from repayment of long-term borrowings and an increase of JPY1,000 million owing to a transfer from non-current liabilities, income taxes payable decreased by JPY1,907 million to JPY3,888 million, contract liabilities increased by JPY435 million to JPY10,006 million and other financial liabilities decreased by JPY1,305 million to JPY15,730 million.

As of September 30, 2022, the balance of non-current liabilities was JPY49,154 million, decreased by JPY1,253 million from the balance as of March 31, 2022 of JPY50,407 million. As for the major breakdown of balance and fluctuation of non-current liabilities, long-term borrowings decreased by JPY1,000 million to JPY4,500 million due to a transfer to current portion, contract liabilities decreased by JPY921 million to JPY6,508 million and other financial liabilities increased by JPY911 million to JPY31,057 million.

As of September 30, 2022, the balance of total equity attributable to owners of the parent was JPY110,359 million, increased by JPY6,831 million from the balance as of March 31, 2022 of JPY103,528 million. Ratio of owners' equity to total assets was 46.9% as of September 30, 2022.

(3) Cash Flows

Cash and cash equivalents as of September 30, 2022 were JPY42,068 million (JPY39,795 million as of September 30, 2021).

Cash Flows provided by Operating Activities

Net cash provided by operating activities for 1H22 was JPY13,457 million (net cash provided by operating activities of JPY18,865 million for 1H21). There were profit before tax of JPY12,858 million (JPY10,432 million for 1H21), depreciation and amortization of JPY14,145 million (JPY13,266 million for 1H21), including JPY5,629 million (JPY5,035 million for 1H21) of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY6,035 million (JPY3,352 million for 1H21). Regarding changes in working capital, there was net cash out of JPY5,992 million compared to net cash-out of JPY399 million for 1H21. As for the major factors for the increase in net cash outflow in comparison with 1H21, there were a decrease in proceeds from trade receivables and increases in payments of prepaid expenses and inventories, which exceeded a decrease in payments of trade and other payables.

Cash Flows used in Investing Activities

Net cash used in investing activities for 1H22 was JPY7,219 million (net cash used in investing activities of JPY8,185 million for 1H21), mainly due to payments for purchases of tangible assets of JPY5,704 million (JPY4,164 million for 1H21), payments for purchases of intangible assets, such as software, of JPY2,137 million (JPY2,167 million for 1H21), and proceeds from sales of tangible assets of JPY947 million (JPY1,011 million for 1H21).

Cash Flows used in Financing Activities

Net cash used in financing activities for 1H22 was JPY12,601 million (net cash used in financing activities of JPY13,402 million for 1H21), mainly due to payments of other financial liabilities of JPY9,544 million (JPY8,989 million for 1H21), which included payments under operating lease contracts such as office rent and finance lease contracts such as network equipment, repayments of long-term bank borrowings of JPY750 million (JPY4,085 million for 1H21) and dividends paid of JPY2,258 million (JPY1,759 million for 1H21).

(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 1H22.

(5) Research and developments

For 1H22, research and development expenses, which were in relation to network services and systems integration business segment, were JPY253 million, increased by 1.6% compared to JPY249 million for 1H21.

(6) Number of employees

There were no material changes in the number of employees of the Company or IJJ during 1H21.

(i) Consolidated basis

As of September 30, 2022

| | |
|---------------------|------------|
| Number of Employees | 4,355 (53) |
|---------------------|------------|

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

(ii) IJJ (non-consolidated basis)

As of September 30, 2022

| | |
|---------------------|------------|
| Number of Employees | 2,461 (30) |
|---------------------|------------|

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

(7) Production, Orders Received and Sales

(i) Production

| Type of Services | 1H22 (Six months ended September 30, 2022) | |
|--|--|-------------------------------|
| | Production (millions of yen) | Year-over-year comparison (%) |
| Systems Integration, including Equipment Sales | 45,762 | 19.3 |
| Total | 45,762 | 19.3 |

(Notes) Since the Company does not engage in production activities in network services and ATM operation business, we do not present production results for network services and ATM operation business.

(ii) Orders Received

| Type of Services | 1H22 (Six months ended September 30, 2022) | | | |
|--|--|-------------------------------|---------------------------------|-------------------------------|
| | Orders Received (millions of yen) | Year-over-year comparison (%) | Order Backlog (millions of yen) | Year-over-year comparison (%) |
| Systems Construction and Equipment Sales | 21,670 | 14.9 | 14,572 | 16.0 |
| Systems Operation and Maintenance | 39,322 | 42.3 | 66,365 | 17.7 |
| Total | 60,992 | 31.2 | 80,937 | 17.4 |

(Note) Since the Company does not engage in make-to-order production in network services and ATM operation business, we do not present orders received and order backlog for network services and ATM operation business.

(iii) Sales

| Type of services | 1H22 (Six months ended September 30, 2022) | |
|---|--|-------------------------------|
| | Revenue (millions of yen) | Year-over-year comparison (%) |
| Network services | 67,707 | 6.7 |
| Internet connectivity services (enterprise) | 19,269 | 2.4 |
| Internet connectivity services (consumer) | 12,453 | 2.1 |
| Outsourcing services | 22,469 | 15.0 |
| WAN services | 13,516 | 4.9 |
| Systems integration | 52,846 | 19.5 |
| Systems construction and equipment sales | 19,549 | 26.4 |
| Systems operation and maintenance | 33,297 | 15.9 |
| ATM operation business | 1,409 | 0.0 |
| Total revenues | 121,962 | 11.8 |

(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 1H22.

3 Material Contracts, etc.

Not applicable.

Item 3. Information on IIJ

1 Information on IIJ's Shares

(1) Total Number of Shares

(i) 【Total Number of Shares】

| Class | Total number of shares authorized to be issued (shares) |
|--------------|---|
| Common stock | 151,040,000 |
| Total | 151,040,000 |

(Note) In accordance with a resolution authorized at a meeting of IIJ's board of directors on August 5, 2022, IIJ conducted a two-for-one stock split of its common stock, with an effective date of October 1, 2022. As a result of the stock split, the total number of shares outstanding increased by 151,040,000 shares to 302,080,000 shares.

(ii) 【Number of shares issued】

| Class | Number of shares issued as of the end of period (shares) (September 30, 2022) | Number of shares issued as of the filing date (shares) (November 14, 2022) | Stock exchange on which IIJ is listed or authorized financial instruments firms association | Description |
|--------------|---|--|---|--|
| Common stock | 93,534,800 | 187,069,600 | Tokyo Stock Exchange (the Prime market) | The number of shares constituting a unit is 100. |
| Total | 93,534,800 | 187,069,600 | — | — |

(Note) In accordance with a resolution authorized at a meeting of IIJ's board of directors on August 5, 2022, IIJ conducted a two-for-one stock split of its common stock, with an effective date of October 1, 2022. As a result of the stock split, the total number of shares issued increased by 93,534,800 shares to 187,069,600 shares.

(2) Information on Stock Acquisition Rights

(i) Description of Stock Option Plan

Stock-Compensation-Type Stock Options (Stock Acquisition Rights)

Under this stock compensation-type stock option plan, IIJ's directors (excluding part-time directors and outside directors) and executive officers will receive stock acquisition rights as stock-based compensation stock options, approximately one to two months' worth of base monthly remuneration for each person, depending on his or her position. These stock options are issued and allocated in accordance with the Companies Act, as a substitution for the abolished retirement benefit plan for directors.

Stock acquisition rights issued during the 2Q22 are as follows.

| | |
|--|--|
| Date of resolution | June 28, 2022 |
| Class and number of person for stock acquisition rights | Nine full-time directors and 17 executive officers |
| Number of stock acquisition rights outstanding (Number) * | 17,497 (Note 1) |
| Type of stock and number of shares subject to stock acquisition rights (Share) * | Common stock, 17,497 (Note 1) |
| Amount to be paid in upon exercise of stock acquisition rights (JPY) | The value of assets to be contributed upon exercise of stock acquisition rights shall be determined by multiplying the price to be paid per share upon exercise of each stock acquisition right (the "exercise price") by the Number of Shares Granted, and the exercise price shall be one (1) yen. |
| Exercise period of stock acquisition rights | From July 15, 2022 to July 14, 2052 |
| Price of issuing shares and amount of capitalization upon exercise of stock acquisition rights (JPY) | Price of issuing shares : JPY4,362 Amount of capitalization : JPY2,181 |
| Condition for exercise of stock acquisition rights | (Note 2) |
| Matters regarding acquisition of stock acquisition rights through transfer | Acquisition of subscription rights to shares through transfer shall be subject to approval by resolution of the Board of Directors |
| Matters regarding the grant of stock acquisition rights to upon organizational restructuring | (Note 3) |

* The contents are described as of July 14, 2022, when the stock acquisition rights were issued.

(Notes)

1. Class and number of shares to be issued upon exercise of stock acquisition rights

The class of shares to be issued upon exercise of stock acquisition rights shall be common stock of IJJ. The number of shares to be issued upon exercise of each stock acquisition right (hereinafter referred as "Number of Shares Granted") shall be one (1). However, if IJJ conducts a stock split or share consolidation of its common stock after the allotment date of stock acquisition rights (hereinafter referred to as the "Allotment Date"), the Number of Granted Shares shall be adjusted according to the following formula, and any fraction less than one (1) share resulting from the adjustment shall be rounded down.

$$\begin{array}{ccccccc} \text{Number of Shares} & & & \text{Number of Shares} & & & \text{Ratio of share split} \\ \text{Granted after} & = & & \text{Granted before} & \times & & \text{or share consolidation} \\ \text{adjustment} & & & \text{adjustment} & & & \end{array}$$

In the case of a share split, the Number of Shares Granted after adjustment shall apply from the day after the record date of said share split. Whereas, in the case of a share consolidation, the Number of Shares Granted after adjustment shall apply from the day the share consolidation becomes effective. This is provided, however, that in cases where IJJ conducts a share split conditional on approval at a General Meeting of Shareholders of IJJ of a proposal to increase capital stock or capital reserve by reducing surplus, and the record date for the share split shall be the day prior to the day on which said shareholders' meeting closes, the Number of Shares Granted after adjustment shall be applied retroactively from the day after the day the applicable shareholders' meeting closes and the day following the applicable record date.

In addition, if, after the Allotment Date, IJJ conducts a merger, a corporate split or a gratis allotment of shares, or if the Number of Shares Granted needs to be adjusted in accordance with these cases, IJJ may appropriately adjust the Number of Shares Granted to a reasonable extent.

2. Terms and conditions of exercising stock acquisition rights

- 1) Partial execution of each stock acquisition right is not allowed.
- 2) A person granted the stock acquisition rights may exercise these rights only within ten (10) days from the day following the day the person loses his or her position as a Director or Executive Officer of IJJ, except for losing his or her position by passing away. However, this does not apply if his or her legal heir who inherits the stock acquisition rights as described in the following paragraph 3) exercises the rights
- 3) If a person granted the stock acquisition rights passes away, only one of his or her legal heir is permitted to inherit the granted stock acquisition rights (hereinafter referred to as the "Grantee"). The Grantee can exercise the rights only within six (6) months after inheriting the new share acquisition rights. If the Grantee passes away, the stock acquisition rights cannot be passed on to the legal heir of the Grantee.
- 4) The Share Purchase Warrants shall not be transferred to third parties, offered for pledge or disposed of in any other way.
- 5) Matters concerning other conditions for the exercise of stock acquisition rights, other than the items prescribed above, shall be determined at the meeting of the Board of Directors when the terms and conditions of offering of stock acquisition rights are determined.

3. Matters concerning the details of the issuance of stock acquisition rights undergoing Organizational Restructuring

In the event IJJ is merged as a dissolving company, performs an absorption-type demerger or an incorporation-type demerger (only if IJJ becomes the split company), or conducts a share exchange or a share transfer (only if IJJ becomes a wholly owned subsidiary) (hereinafter collectively referred to as "Organizational Restructuring"), stock acquisition rights of a corporation described in Article 236, Paragraph 1, Items 8.1 through 8.5 of the Corporation Law of Japan (hereinafter "Restructured Company") shall be granted to each Stock Acquisition Right Holder remaining unexercised (hereinafter "Remaining Stock Acquisition Rights") immediately before the date when Organizational Restructuring takes effect (refers to the date when the absorption-type merger takes effect, the date on which the company is incorporated through the incorporation-type merger, the date when the absorption-type demerger takes effect, the date on which the company incorporated through the incorporation-type demerger, the date when share exchange takes effect, or the date when the wholly owning parent company is established by share transfer). However, the foregoing shall apply only to cases in which the delivery of stock acquisition rights of the Restructured Company according to the following conditions is stipulated in the absorption-type merger agreement, the incorporation-type merger agreement, the absorption-type demerger agreement, the incorporation-type demerger plan, the share exchange agreement or the share transfer plan.

- 1) Number of stock acquisition rights of the Restructured Company to be delivered
IJJ shall deliver stock acquisition rights, the number of which shall equal the number of stock acquisition rights held by the holder of the Remaining Stock Acquisition Rights.
- 2) Class of shares of the Restructured Company to be issued upon exercise of stock acquisition rights
Common stock of the Restructured Company
- 3) Number of shares of the Restructured Company to be issued upon exercise of stock acquisition rights
To be decided according to Note 1 above after taking into consideration the conditions, etc., of the Organizational Restructuring.
- 4) Value of the assets to be contributed upon exercise of stock acquisition rights
The value of the assets to be contributed upon exercise of each stock acquisition right shall be the amount obtained by multiplying the amount to be paid after restructuring as stipulated below, and the number of shares of the Reorganized Company to be issued upon exercise of the stock acquisition rights as determined in accordance with 3) above. The amount to be paid after restructuring shall be one (1) yen per share of the Restructured Company that can be granted due to the exercise of each stock acquisition right to be granted.
- 5) Exercise period of stock acquisition rights
Starting from the later of either the commencement date of the exercise period of stock acquisition rights as stipulated above, or the date on which the Organizational Restructuring becomes effective, and ending on the expiration date for the exercise of stock acquisition rights as stipulated in above.
- 6) Matters concerning increase in capital stock and capital reserve to be increased by the issuance of shares upon exercise of stock acquisition rights
 - (a) Amount of increase in capital stock by issuing shares upon exercise of stock acquisition rights shall be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance for Corporate Accounting, with the resulting fractions of less than one (1) yen occurring upon such calculation being rounded up to the nearest yen.
 - (b) The amount of increase in capital reserve by issuing shares upon exercise of stock acquisition rights shall be the upper limit of capital increase as described in (a) above less the amount of increase in capital set out therein.
- 7) Restriction on acquisition of stock acquisition rights by transfer
Any acquisition of stock acquisition rights by transfer shall be subject to approval by resolution of the Board of Directors of the Restructured Company (or the general meeting of shareholders if the Restructured Company is not a company with a Board of Directors).
- 8) Conditions for acquisition of stock acquisition right
Should a resolution for the approval of any of the proposals (a) or (b) below be adopted at the General Meeting of Shareholders of IJJ (or at a meeting of the Board of Directors of IJJ if a resolution at a General Meeting of Shareholders is not required), IJJ may acquire the stock acquisition rights as at the date specifically determined by the Board of Directors of IJJ without contribution..

- (a) Proposal for approval of a merger agreement under which IJ shall be merged as a dissolving company
 - (b) Proposal for approval of a share exchange agreement or share transfer plan under which IJ shall be a wholly owned subsidiary
- 9) Other terms and conditions of exercising stock acquisition rights
To be determined in accordance with Note 2 above.

(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) |
|---|---|---|--------------------------------------|--------------------------------------|--|--|
| From July 1, 2022 to September 30, 2022(Note) | — | 93,534,800 | — | 23,023 | — | 9,743 |

(Note) IJ conducted a two-for-one stock split of shares of common stock, effective October 1, 2022, but the balance of the total number of shares issued and outstanding shown above is the figure before the stock split.

(5) Major Shareholders

As of September 30, 2022

| Name | Address | Number of shares held (shares) | Ownership percentage of the total number of issued shares other than treasury stock (%) (Note 1) |
|--|---|--------------------------------|--|
| NIPPON TELEGRAPH AND TELEPHONE CORPORATION | 5-1 Otemach 1-chome, Chiyoda-ku, Tokyo | 20,190,000 | 22.35 |
| The Master Trust Bank of Japan, Ltd. (Trust account) (Note 2) | 11-3 Hamamatsu-cho 2-chome, Minato-ku, Tokyo | 9,285,600 | 10.28 |
| Custody Bank of Japan, Ltd. (Trust account) (Note 2) | 8-12 Harumi 1-chome, Chuo-ku, Tokyo | 5,612,400 | 6.21 |
| NTT Communications Corporation | 3-1 Otemach 2-chome, Chiyoda-ku, Tokyo | 4,080,000 | 4.52 |
| ITOCHU Techno-Solutions Corporation | 1-1 Toranomom 4-chome, Minato-ku, Tokyo | 3,904,000 | 4.32 |
| Koichi Suzuki | Chiyoda-ku, Tokyo | 3,696,361 | 4.09 |
| The Dai-ichi Life Insurance Company, Limited (Standing proxy: Custody Bank of Japan, Ltd.) | 13-1 Yurakucho 1-chome, Chiyoda-ku, Tokyo (8-12 Harumi 1-chome, Chuo-ku, Tokyo) | 2,546,000 | 2.82 |
| KS Holdings Inc. (Note 3) | 5-3 Nishi-Kanda 3-chome, Chiyoda-ku, Tokyo | 1,620,000 | 1.79 |
| MUFG Bank, Ltd. | 7-1 Marunouchi 2-chome, Chiyoda-ku, Tokyo | 1,372,000 | 1.52 |
| Sompo Japan Insurance Inc. | 26-1 Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo | 1,300,000 | 1.44 |
| Total | — | 53,606,361 | 59.33 |

(Notes)

1. The percentages are rounded to two decimal places.
2. Numbers of shares held by The Master Trust Bank of Japan, Ltd. and Custody Bank of Japan, Ltd. are those related to trust business.
3. KS Holdings Inc. is a wholly owned and controlled (indirect) by Mr. Koichi Suzuki, President of IIJ.
4. There were 3,185,828 shares of treasury stock (3.41% of the total number of issued shares), which were not included in the above list.
5. IIJ conducted a two-for-one stock split of shares of common stock, effective October 1, 2022, but the balance of the total number of shares issued and outstanding shown above is the figure before the stock split.

(6) Information on Voting Rights

(i) Issued shares

As of September 30, 2022

| Classification | Number of Shares (shares) | Number of Voting Rights | Description |
|---|---|-------------------------|-------------|
| Shares without Voting Rights | — | — | — |
| Shares with Restricted Voting Rights (treasury stock, etc.) | — | — | — |
| Shares with Restricted Voting Rights (others) | — | — | — |
| Shares with Full Voting Rights (treasury stock, etc.) | Treasury Stock: 3,185,800 shares of common stock | — | — |
| Shares with Full Voting Rights (others) | 90,327,600 shares of common stock | 903,276 | — |
| Shares Representing Less than One Unit | 21,400 shares of common stock | — | — |
| Number of Issued Shares | 93,534,800 shares of common stock | — | — |
| Total Number of Voting Rights | — | 903,276 | — |

(Notes)

1. 28 shares of treasury stock are included in “Shares Representing Less than One Unit.”

2. IIJ conducted a two-for-one stock split of shares of common stock, effective October 1, 2022, but the balance of the total number of shares issued and outstanding shown above is the figure before the stock split.

(ii) Treasury Stock

As of September 30, 2022

| Name | Address | Number of shares held under own name (shares) | Number of shares held under the name of others (shares) | Total number of shares held (shares) | Ownership percentage of total number of shares outstanding (%) |
|--|-------------------------------------|---|---|--------------------------------------|--|
| (Treasury Stock) Internet Initiative Japan Inc. | 2-10-2 Fujimi, Chiyoda-ku, Tokyo | 3,185,800 | — | 3,185,800 | 3.41 |
| Total | — | 3,185,800 | — | 3,185,800 | 3.41 |

(Note) Although IIJ conducted a two-for-one stock split of its common stock with an effective date of October 1, 2022, the figures presented above represent information from prior to the stock split.

2 Changes in Directors and Company Auditors

There were no changes in directors and company auditors during the period from the filing date of the Annual Securities Report for the fiscal year ended March 31, 2022 (filed on June 30, 2022) to September 30, 2022 (the last day of 2Q22).

Item 4. Financial Information

1. Condensed Quarterly Consolidated Financial Statements

(1) Condensed Consolidated Statements of Financial Position

| | Note | March 31, 2022 | September 30, 2022 |
|---|------|-----------------|--------------------|
| | | Millions of yen | Millions of yen |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 47,391 | 42,068 |
| Trade receivables | | 37,649 | 37,546 |
| Inventories | | 2,608 | 3,887 |
| Prepaid expenses | | 13,553 | 15,650 |
| Contract assets | | 1,870 | 3,445 |
| Other financial assets | 7,12 | 1,295 | 1,112 |
| Other current assets | | 119 | 239 |
| Total current assets | | 104,485 | 103,947 |
| Non-current assets | | | |
| Tangible assets | | 17,846 | 20,684 |
| Right-of-use assets | | 44,874 | 44,660 |
| Goodwill | | 9,479 | 9,877 |
| Intangible assets | | 16,424 | 15,678 |
| Investments accounted for using equity method | | 5,830 | 5,672 |
| Prepaid expenses | | 10,452 | 11,964 |
| Contract assets | | 69 | 53 |
| Other investments | 12 | 17,410 | 17,780 |
| Deferred tax assets | | 183 | 196 |
| Other financial assets | 7,12 | 4,245 | 4,101 |
| Other non-current assets | | 508 | 548 |
| Total non-current assets | | 127,320 | 131,213 |
| Total assets | | 231,805 | 235,160 |

| | Note | March 31, 2022 | September 30, 2022 |
|--|------|-----------------|--------------------|
| | | Millions of yen | Millions of yen |
| Liabilities and Equity | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | 20,742 | 21,773 |
| Borrowings | 12 | 16,370 | 16,620 |
| Income taxes payable | | 5,795 | 3,888 |
| Contract liabilities | | 9,571 | 10,006 |
| Deferred income | | 65 | 77 |
| Other financial liabilities | 8,12 | 17,035 | 15,730 |
| Other current liabilities | | 7,199 | 6,407 |
| Total current liabilities | | 76,777 | 74,501 |
| Non-current liabilities | | | |
| Borrowings | 12 | 5,500 | 4,500 |
| Retirement benefit liabilities | | 4,395 | 4,478 |
| Provisions | | 786 | 788 |
| Contract liabilities | | 7,429 | 6,508 |
| Deferred income | | 340 | 311 |
| Deferred tax liabilities | | 641 | 322 |
| Other financial liabilities | 8,12 | 30,146 | 31,057 |
| Other non-current liabilities | | 1,170 | 1,190 |
| Total non-current liabilities | | 50,407 | 49,154 |
| Total liabilities | | 127,184 | 123,655 |
| Equity | | | |
| Share capital | | 25,562 | 25,562 |
| Share premium | | 36,518 | 36,615 |
| Retained earnings | | 37,024 | 43,404 |
| Other components of equity | | 6,275 | 6,609 |
| Treasury shares | | (1,851) | (1,831) |
| Total equity attributable to owners of the parent | | 103,528 | 110,359 |
| Non-controlling interests | | 1,093 | 1,146 |
| Total equity | | 104,621 | 111,505 |
| Total liabilities and equity | | 231,805 | 235,160 |

(2) Condensed Consolidated Statements of Profit or Loss

| | Note | Six Months Ended September 30, 2021 | Six Months Ended September 30, 2022 |
|---|------|--|--|
| | | Millions of yen | Millions of yen |
| Revenues | | | |
| Network services | | 63,436 | 67,707 |
| System integration | | 44,209 | 52,846 |
| ATM operation business | | 1,409 | 1,409 |
| Total revenues | 5,10 | 109,054 | 121,962 |
| Cost of sales | | | |
| Cost of network services | | (46,754) | (49,802) |
| Cost of systems integration | | (38,340) | (44,857) |
| Cost of ATM operation business | | (875) | (812) |
| Total cost of sales | | (85,969) | (95,471) |
| Gross Profit | | 23,085 | 26,491 |
| Selling, general and administrative expenses | | (13,790) | (15,508) |
| Other operating income | | 93 | 221 |
| Other operating expenses | | (84) | (31) |
| Operating Profit | | 9,304 | 11,173 |
| Finance income | 12 | 1,772 | 2,042 |
| Finance expenses | 12 | (272) | (279) |
| Share of profit (loss) of investments accounted for using equity method | | (372) | (78) |
| Profit (loss) before tax | | 10,432 | 12,858 |
| Income tax expense | | (3,474) | (4,118) |
| Profit (loss) for the period | | 6,958 | 8,740 |
| Profit (loss) for the period attributable to: | | | |
| Owners of the parent | | 6,892 | 8,638 |
| Non-controlling interests | | 66 | 102 |
| Total | | 6,958 | 8,740 |
| Earnings per share | | | |
| | 11 | | |
| Basic earnings per share (yen) | | 38.17 | 47.81 |
| Diluted earnings per share (yen) | | 37.99 | 47.58 |

※IIIJ 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 Profit or Loss

| | Note | Three Months Ended September 30, 2021 | Three Months Ended September 30, 2022 |
|---|------|--|--|
| | | Millions of yen | Millions of yen |
| Revenues | | | |
| Network services | | 31,961 | 34,473 |
| System integration | | 23,403 | 28,578 |
| ATM operation business | | 715 | 721 |
| Total revenues | 5,10 | 56,079 | 63,772 |
| Cost of sales | | | |
| Cost of network services | | (23,609) | (25,371) |
| Cost of systems integration | | (20,380) | (24,197) |
| Cost of ATM operation business | | (431) | (412) |
| Total cost of sales | | (44,420) | (49,980) |
| Gross Profit | | 11,659 | 13,792 |
| Selling, general and administrative expenses | | (6,707) | (7,652) |
| Other operating income | | 40 | 28 |
| Other operating expenses | | (48) | (21) |
| Operating Profit | | 4,944 | 6,147 |
| Finance income | 12 | 427 | 300 |
| Finance expenses | 12 | (135) | (148) |
| Share of profit (loss) of investments accounted for using equity method | | (155) | (64) |
| Profit (loss) before tax | | 5,081 | 6,235 |
| Income tax expense | | (1,666) | (1,982) |
| Profit (loss) for the period | | 3,415 | 4,253 |
| Profit (loss) for the period attributable to: | | | |
| Owners of the parent | | 3,385 | 4,248 |
| Non-controlling interests | | 30 | 5 |
| Total | | 3,415 | 4,253 |
| Earnings per share | 11 | | |
| Basic earnings per share (yen) | | 18.74 | 23.51 |
| Diluted earnings per share (yen) | | 18.65 | 23.39 |

※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.

(3) Condensed Consolidated Statements of Comprehensive Income

| | Note | Six Months Ended September 30, 2021 | Six Months Ended September 30, 2022 |
|--|------|--|--|
| | | Millions of yen | Millions of yen |
| Profit (loss) | | 6,958 | 8,740 |
| Other comprehensive income, net of tax | | | |
| Items that will not be reclassified to profit or loss | | | |
| Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income | | 2,008 | (711) |
| Total of items that will not be reclassified to profit or loss | | 2,008 | (711) |
| Items that may be reclassified to profit or loss | | | |
| Exchange differences on translation of foreign operations | | 18 | 1,011 |
| Financial assets measured at fair value through other comprehensive income | | 0 | (1) |
| Share of other comprehensive income of investments accounted for using equity method | | 13 | 35 |
| Total of items that may be reclassified to profit or loss | | 31 | 1,045 |
| Total other comprehensive income, net of tax | | 2,039 | 334 |
| Other comprehensive income | | 8,997 | 9,074 |
| Other comprehensive income attributable to: | | | |
| Owners of the parent | | 8,931 | 8,972 |
| Non-controlling interest | | 66 | 102 |
| Other comprehensive income | | 8,997 | 9,074 |

Condensed Consolidated Statements of Comprehensive Income

| | Note | Three Months Ended September 30, 2021 | Three Months Ended September 30, 2022 |
|--|------|--|--|
| | | Millions of yen | Millions of yen |
| Profit (loss) | | 3,415 | 4,253 |
| Other comprehensive income, net of tax | | | |
| Items that will not be reclassified to profit or loss | | | |
| Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income | | 1,174 | 241 |
| Total items that will not be reclassified to profit or loss | | 1,174 | 241 |
| Items that may be reclassified to profit or loss | | | |
| Exchange differences on translation of foreign operations | | 23 | 309 |
| Financial assets measured at fair value through other comprehensive income | | (0) | 0 |
| Share of other comprehensive income of investments accounted for using equity method | | (0) | 19 |
| Total of items that may be reclassified to profit or loss | | 23 | 328 |
| Total other comprehensive income, net of tax | | 1,197 | 569 |
| Other comprehensive income | | 4,612 | 4,822 |
| Other comprehensive income attributable to: | | | |
| Owners of the parent | | 4,582 | 4,817 |
| Non-controlling interest | | 30 | 5 |
| Other comprehensive income | | 4,612 | 4,822 |

(4) Condensed Consolidated Statements of Changes in Shareholders' Equity
Six months ended September 30, 2021

| Note | Owners of the parent's shareholders' equity | | | | | | Non-controlling interests | Total equity |
|--------------------------------|---|-----------------|-------------------|----------------------------|-----------------|-----------------|---------------------------|-----------------|
| | Share capital | Share premium | Retained earnings | Other components of equity | Treasury shares | Total | | |
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Balance, April 1, 2021 | 25,531 | 36,389 | 25,047 | 4,865 | (1,875) | 89,957 | 1,015 | 90,972 |
| Comprehensive income | | | | | | | | |
| Profit (loss) | - | - | 6,892 | - | - | 6,892 | 66 | 6,958 |
| Other comprehensive income | - | - | - | 2,039 | - | 2,039 | - | 2,039 |
| Total comprehensive income | - | - | 6,892 | 2,039 | - | 8,931 | 66 | 8,997 |
| Transactions with owners | | | | | | | | |
| Issuance of common stock | 31 | (31) | - | - | - | 0 | - | 0 |
| Disposal of treasury shares | - | 23 | - | - | 24 | 47 | - | 47 |
| Dividends paid | 9 | - | (1,759) | - | - | (1,759) | (49) | (1,808) |
| Stock-based compensation | - | 39 | - | - | - | 39 | - | 39 |
| Total transactions with owners | 31 | 31 | (1,759) | - | 24 | (1,673) | (49) | (1,722) |
| Balance, September 30, 2021 | 25,562 | 36,420 | 30,180 | 6,904 | (1,851) | 97,215 | 1,032 | 98,247 |

Six months ended September 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 | Millions of yen |
| Balance, April 1, 2022 | 25,562 | 36,518 | 37,024 | 6,275 | (1,851) | 103,528 | 1,093 | 104,621 |
| Comprehensive income | | | | | | | | |
| Profit (loss) | - | - | 8,638 | - | - | 8,638 | 102 | 8,740 |
| Other comprehensive income | - | - | - | 334 | - | 334 | - | 334 |
| Total comprehensive income | - | - | 8,638 | 334 | - | 8,972 | 102 | 9,074 |
| Transactions with owners | | | | | | | | |
| Disposal of treasury shares | - | 56 | - | - | 20 | 76 | - | 76 |
| Dividends paid | 9 | - | (2,258) | - | - | (2,258) | (49) | (2,307) |
| Stock-based compensation | - | 41 | - | - | - | 41 | - | 41 |
| Total transactions with owners | - | 97 | (2,258) | - | 20 | (2,141) | (49) | (2,190) |
| Balance, September 30, 2022 | 25,562 | 36,615 | 43,404 | 6,609 | (1,831) | 110,359 | 1,146 | 111,505 |

(5) Condensed Consolidated Statements of Cash Flows

| | Note | Six Months Ended September 30, 2021 | Six Months Ended September 30, 2022 |
|---|------|--|--|
| | | Millions of yen | Millions of yen |
| Cash flows from operating activities | | | |
| Profit (loss) before tax | | 10,432 | 12,858 |
| Adjustments | | | |
| Depreciation and amortization | | 13,266 | 14,145 |
| Loss (gain) on sales/disposals of property and equipment | | 69 | (151) |
| Shares of loss (profit) of investments accounted for using equity method | | 373 | 78 |
| Finance income | | (1,742) | (2,042) |
| Finance expenses | | 272 | 279 |
| Other | | 63 | 389 |
| Changes in working capital | | | |
| Decrease (increase) in trade receivables | | 5,133 | 534 |
| Decrease (increase) in inventories | | 79 | (1,242) |
| Decrease (increase) in prepaid expenses | | (1,464) | (3,351) |
| Decrease (increase) in contract assets | | (585) | (1,559) |
| Decrease (increase) in other assets | | (30) | (120) |
| Decrease (increase) in other financial assets | | 685 | 372 |
| Increase (decrease) in trade and other payables | | (2,877) | 766 |
| Increase (decrease) in contract liabilities | | (259) | (700) |
| Increase (decrease) in deferred income | | (5) | (1) |
| Increase (decrease) in other liabilities | | (1,293) | (772) |
| Increase (decrease) in other financial liabilities | | 0 | (2) |
| Increase (decrease) in retirement benefit liabilities | | 217 | 83 |
| Subtotal | | 22,334 | 19,564 |
| Interest and dividends received | | 154 | 189 |
| Interest paid | | (271) | (261) |
| Income taxes paid | | (3,352) | (6,035) |
| Cash flows from operating activities | | 18,865 | 13,457 |

| | Note | Six Months Ended September 30, 2021 | Six Months Ended September 30, 2022 |
|--|------|--|--|
| | | Millions of yen | Millions of yen |
| Cash flows from investing activities | | | |
| Purchases of tangible assets | | (4,164) | (5,704) |
| Proceeds from sales of tangible assets | | 1,011 | 947 |
| Purchases of intangible assets | | (2,167) | (2,137) |
| Purchase of a subsidiary | | (2,612) | - |
| Purchases of other investments | | (348) | (280) |
| Proceeds from sales of other investments | | 95 | 9 |
| Payments for leasehold deposits and guarantee deposits | | (84) | (30) |
| Proceeds from collection of leasehold deposits and guarantee deposits | | 121 | 14 |
| Payments for refundable insurance policies | | (37) | (37) |
| Other | | 0 | (1) |
| Cash flows from investing activities | | (8,185) | (7,219) |
| Cash flows from financing activities | | | |
| Repayment of long-term borrowings | | (4,085) | (750) |
| Net increase (decrease) in short-term borrowings | | 1,480 | - |
| Payments of other financial liabilities | | (8,989) | (9,544) |
| Dividends paid | | (1,759) | (2,258) |
| Other | | (49) | (49) |
| Cash flows from financing activities | | (13,402) | (12,601) |
| Effect of exchange rate changes on cash and cash equivalents | | 50 | 1,040 |
| Net increase (decrease) in cash and cash equivalents | | (2,672) | (5,323) |
| Cash and cash equivalents, beginning of the period | | 42,467 | 47,391 |
| Cash and cash equivalents, end of the period | | 39,795 | 42,068 |

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/en/>—. The condensed consolidated financial statements of IIJ for the period ended September 30, 2022 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, 2022.

(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. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied to the condensed consolidated financial statements for the six months ended September 30, 2022 are the same as those applied to the consolidated financial statements for the fiscal year ended March 31, 2022. Meanwhile, income taxes for the six months ended September 30, 2022 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 six months ended September 30, 2022 including the effects of COVID-19 are same as those on the consolidated financial statements for the year ended March 31, 2022.

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 IIJ, 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 IIJ 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 six months ended September 30, 2021

| | Reportable segments | | Adjustments | Consolidated |
|---|--|------------------------|-----------------|-----------------|
| | Network service and systems integration business | ATM operation business | | |
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Revenue | | | | |
| Customers | 107,646 | 1,408 | — | 109,054 |
| Intersegment transactions | 66 | — | (66) | — |
| Total revenue | 107,712 | 1,408 | (66) | 109,054 |
| Segment operating profit | 8,933 | 417 | (46) | 9,304 |
| Finance income | | | | 1,772 |
| Finance expense | | | | (272) |
| Share of profit (loss) of investments accounted for using the equity method | | | | (372) |
| Profit before tax | | | | 10,432 |

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

For the six months ended September 30, 2022

| | Reportable segments | | | Consolidated |
|---|--|------------------------|-----------------|--------------|
| | Network service and systems integration business | ATM operation business | Adjustments | |
| | Millions of yen | Millions of yen | Millions of yen | |
| Revenue | | | | |
| Customers | 120,553 | 1,409 | — | 121,962 |
| Intersegment transactions | 55 | — | (55) | — |
| Total revenue | 120,608 | 1,409 | (55) | 121,962 |
| Segment operating profit | 10,725 | 468 | (20) | 11,173 |
| Finance income | | | | 2,042 |
| Finance expense | | | | (279) |
| Share of profit (loss) of investments accounted for using the equity method | | | | (78) |
| Profit before tax | | | | 12,858 |

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

For the three months ended September 30, 2021

| | Reportable segments | | | Consolidated |
|---|--|------------------------|-----------------|--------------|
| | Network service and systems integration business | ATM operation business | Adjustments | |
| | Millions of yen | Millions of yen | Millions of yen | |
| Revenue | | | | |
| Customers | 50,364 | 715 | — | 56,079 |
| Intersegment transactions | 32 | — | (32) | — |
| Total revenue | 55,396 | 715 | (32) | 56,079 |
| Segment operating profit | 4,744 | 223 | (23) | 4,944 |
| Finance income | | | | 427 |
| Finance expense | | | | (135) |
| Share of profit (loss) of investments accounted for using the equity method | | | | (155) |
| Profit before tax | | | | 5,081 |

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

For the three months ended September 30, 2022

| | Reportable segments | | | Consolidated |
|---|--|---------------------------|-----------------|--------------|
| | Network service and systems integration business | ATM operation business | Adjustments | |
| | Millions of yen | Millions of yen | Millions of yen | |
| Revenue | | | | |
| Customers | 63,051 | 721 | — | 63,772 |
| Intersegment transactions | 27 | — | (27) | — |
| Total revenue | 63,078 | 721 | (27) | 63,772 |
| Segment operating profit | 5,916 | 231 | — | 6,147 |
| Finance income | | | | 300 |
| Finance expense | | | | (148) |
| Share of profit (loss) of investments accounted for using the equity method | | | | (64) |
| Profit before tax | | | | 6,235 |

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

6. BUSINESS MERGERS AND ACQUISITIONS

For the six months ended September 30, 2021(PTC SYSTEM(S) PTE LTD ("PTC"))

IIJ acquired all the shares of PTC, which mainly operates systems integration business in Singapore, on April 1, 2021.

(1) Outline of the business mergers and acquisitions

(i) Name of the acquired company and nature of its businesses

- i) Name of the acquired company PTC SYSTEM (S) PTE LTD
- ii) Nature of its businesses Systems integration

(ii) Date of acquisition

April 1, 2021

(iii) Percentage of voting rights to be acquired

100%

(iv) Acquisition method

Acquisition of shares by cash

(v) Primary reason for the business combination

PTC has strong relationships with blue-chip customers and leading IT partners and provides high quality solutions such as storage and server-related system integration in Singapore. By acquiring all the shares of PTC to be a wholly owned subsidiary, IIJ expects to strengthen its Singapore business which leads the IT field in the ASEAN region and significantly expand its business and strengthen its capabilities in providing services and solutions in the ASEAN region.

(2) Consideration for acquisition

Cash SGD44 million (¥3,632 million)

(3) Cost related to acquisition

As the cost related to the business mergers and acquisitions of the company, selling and general administrative expenses of ¥8 million were recorded.

(4) Recognized fair value of acquired assets and liabilities succeeded on the date of the business mergers and acquisitions

(Unit: Millions of yen)

| | |
|---|---------|
| Consideration for acquisition | |
| Cash | 3,632 |
| Assets acquired and liabilities assumed | |
| Cash and cash equivalents | 1,020 |
| Trade receivables (Note 1) | 1,162 |
| Prepaid expenses | 2,261 |
| Tangible assets | 2 |
| Right-of-use assets | 53 |
| Intangible assets | 248 |
| Other assets | 250 |
| Trade payables | (944) |
| Contract liabilities | (2,615) |
| Other liabilities | (904) |
| Total | 533 |
| Goodwill (Provisional) (Note 2,3) | 3,099 |

Notes

1. Within the acquired trade receivables, there is no contractual cashflow which is estimated to be nonrecoverable. The fair value of the acquired trade receivables and the contractual receivable amount are mostly the same.
2. Goodwill mainly contains of synergies with existing businesses which are expected to arise from the acquisition and excess earnings strength. There is no amount which is expected to be deducted for tax purpose.
3. As of September 30, 2021, the acquisition cost was allocated provisionally since the calculation of the fair value of the identifiable asset and liabilities on the acquisition date was not completed. The calculation has been completed during the accounting period ended December 31, 2021 and goodwill on the acquisition date has decreased by ¥248 million as the result of the allocation.

(5) Cash flow for business merger and acquisitions

(Unit: Millions of yen)

| | Amount |
|---|---------|
| Consideration for acquisition by cash | (3,632) |
| Remaining value of cash and cash equivalent acquired through business merger and acquisitions | 1,020 |
| Cash use for acquisition of subsidiaries | (2,612) |

(6) Impact on performance

The consolidated statement of income and loss for the six months ended September 30, 2021 includes revenues and net income generated by PTC after the acquisition date of ¥3,641 million and ¥95 million, respectively.

For the six months ended September 30, 2022

There is no important business mergers and acquisitions.

7. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

| | <u>March 31, 2022</u> | <u>September 30, 2022</u> |
|---|-----------------------|---------------------------|
| | Millions of yen | Millions of yen |
| Financial assets measured at amortized cost | | |
| Other receivable | 465 | 443 |
| Guarantee deposit | 3,567 | 3,534 |
| Loans receivable | 25 | 26 |
| Other | 204 | 215 |
| Lease receivable | 1,279 | 995 |
| Total | <u>5,540</u> | <u>5,213</u> |
| | | |
| Current assets | 1,295 | 1,112 |
| Non-current assets | 4,245 | 4,101 |
| Total | <u>5,540</u> | <u>5,213</u> |

8. OTHER FINANCIAL LIABILITIES

The components of other financial liabilities are as follows:

| | <u>March 31, 2022</u> | <u>September 30, 2022</u> |
|--|-----------------------|---------------------------|
| | Millions of yen | Millions of yen |
| Financial liabilities measured at amortized cost | | |
| Account payable—non-current (including current portion) | 679 | 534 |
| Deposit payable | 243 | 236 |
| Others | 33 | 47 |
| Lease obligations | 46,226 | 45,970 |
| Total | <u>47,181</u> | <u>46,787</u> |
| | | |
| Current liabilities | 17,035 | 15,730 |
| Non-current liabilities | 30,146 | 31,057 |
| Total | <u>47,181</u> | <u>46,787</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, 2022</u> | <u>September 30, 2022</u> |
|------------------|-----------------------|---------------------------|
| | Millions of yen | Millions of yen |
| Financial leases | 18,069 | 17,649 |
| Other leases | 28,157 | 28,321 |

9. DIVIDENDS PAID

Cash dividends paid are as follows:

For the six months ended September 30, 2021

(1) Cash dividends paid.

| Resolution date | Total dividends | Dividends per share | Record date | Effective date |
|---|-----------------|---------------------|----------------|----------------|
| | Millions of yen | Yen | | |
| June 29, 2021 Ordinary General Meeting of Shareholders | 1,759 | 19.50 | March 31, 2021 | June 30, 2021 |

(2) Cash dividends of which effective date belongs to next quarter.

| Resolution date | Total dividends | Dividends per share | Record date | Effective date |
|--|-----------------|---------------------|--------------------|------------------|
| | Millions of yen | Yen | | |
| November 5, 2021 Board of Directors meeting | 2,077 | 23.00 | September 30, 2021 | December 3, 2021 |

For the six months ended September 30, 2022

(1) Cash dividends paid.

| 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 |

(2) Cash dividends of which effective date belongs to next quarter.

| Resolution date | Total dividends | Dividends per share | Record date | Effective date |
|--|-----------------|---------------------|--------------------|------------------|
| | Millions of yen | Yen | | |
| November 7, 2022 Board of Directors meeting | 2,643 | 29.25 | September 30, 2022 | December 2, 2022 |

10. REVENUE

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

| | For the six months ended | For the six months ended |
|---|--------------------------|--------------------------|
| | September 30, 2021 | September 30, 2022 |
| | Millions of yen | Millions of yen |
| Network services | 63,436 | 67,707 |
| Internet connectivity services (enterprise) | 18,813 | 19,269 |
| Wan services | 12,881 | 13,516 |
| Outsourcing services | 19,546 | 22,469 |
| Internet connectivity services (consumer) | 12,196 | 12,453 |
| Systems integration | 44,209 | 52,846 |
| Systems construction | 15,472 | 19,549 |
| Systems operation and maintenance | 28,737 | 33,297 |
| ATM operation business | 1,409 | 1,409 |
| Total | 109,054 | 121,962 |

| | For the three months | For the three months |
|---|--------------------------|--------------------------|
| | ended September 30, 2020 | ended September 30, 2021 |
| | Millions of yen | Millions of yen |
| Network services | 31,961 | 34,473 |
| Internet connectivity services (enterprise) | 9,403 | 9,753 |
| Wan services | 6,434 | 6,841 |
| Outsourcing services | 10,036 | 11,525 |
| Internet connectivity services (consumer) | 6,088 | 6,354 |
| Systems integration | 23,403 | 28,578 |
| Systems construction | 8,640 | 11,922 |
| Systems operation and maintenance | 14,763 | 16,656 |
| ATM operation business | 715 | 721 |
| Total | 56,079 | 63,772 |

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

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

11. EARNINGS PER SHARE

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

| | For the six months ended September 30, 2021 | For the six months ended September 30, 2022 |
|---|---|---|
| Numerator : | | |
| Basic earnings attributable to owners of the parent (millions of yen) | 6,892 | 8,638 |
| Earnings adjustment (millions of yen) | — | — |
| Earnings used to calculate earnings per share — diluted (millions of yen) | 6,892 | 8,638 |
| Denominator : | | |
| Weighted average number of shares — basic (shares) | 180,558,276 | 180,668,564 |
| Dilution arising from stock options (shares) | 867,022 | 886,308 |
| Weighted average number of shares — diluted (shares) | 181,425,298 | 181,554,872 |
| Earnings per share attributable to owners of the parent | | |
| Basic (yen) | 38.17 | 47.81 |
| Diluted (yen) | 37.99 | 47.58 |

| | For the three months ended September 30, 2021 | For the three months ended September 30, 2022 |
|---|---|---|
| Numerator : | | |
| Basic earnings attributable to owners of the parent (millions of yen) | 3,385 | 4,248 |
| Earnings adjustment (millions of yen) | — | — |
| Earnings used to calculate earnings per share — diluted (millions of yen) | 3,385 | 4,248 |
| Denominator : | | |
| Weighted average number of shares — basic (shares) | 180,626,266 | 180,697,944 |
| Dilution arising from stock options (shares) | 843,154 | 892,869 |
| Weighted average number of shares — diluted (shares) | 181,469,420 | 181,590,813 |
| Earnings per share attributable to owners of the parent | | |
| Basic (yen) | 18.74 | 23.51 |
| Diluted (yen) | 18.65 | 23.39 |

Stock split

In accordance with a resolution authorized at a meeting of board of directors on August 5, 2022, IIJ conducted a two-for-one stock split of its common stock, with an effective date of October 1, 2022.

In connection with the stock split, the information per share for the six months ended September 30, 2021, for the six months ended September 30, 2022, for the three months ended September 30, 2021, and for the three months ended September 30, 2022 presented in the consolidated financial statements are shown after adjusting for the stock split.

12. FINANCIAL INSTRUMENTS

Fair value of financial instruments

(1) Classification of fair value hierarchy by level

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

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

(2) Financial instruments measured at fair value

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

Equity securities

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

Debt securities

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

Investment trust and other securities

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

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

March 31, 2022

| | Level 1 | Level 2 | Level 3 | Total |
|--|-----------------|-----------------|-----------------|-----------------|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Assets : | | | | |
| Debt-based financial assets measured at FVTOCI | | | | |
| Debt securities | — | 109 | — | 109 |
| Equity-based financial assets measured at FVTOCI | | | | |
| Equity securities | 9,244 | — | 1,645 | 10,889 |
| Financial assets measured at FVTPL | | | | |
| Investment trust and other securities | — | — | 6,288 | 6,288 |
| Other financial assets | — | 124 | — | 124 |

September 30, 2022

| | Level 1 | Level 2 | Level 3 | Total |
|--|-----------------|-----------------|-----------------|-----------------|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Assets : | | | | |
| Debt-based financial assets measured at FVTOCI | | | | |
| Debt securities | — | 108 | — | 108 |
| Equity-based financial assets measured at FVTOCI | | | | |
| Equity securities | 8,255 | — | 1,596 | 9,851 |
| Financial assets measured at FVTPL | | | | |
| Investment trust and other securities | — | — | 7,656 | 7,656 |
| Other financial assets | — | 165 | — | 165 |

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 six month periods ended September 30, 2021 and 2022 were as follows:

| | For the six months ended September 30, 2021 | For the six months ended September 30, 2022 |
|--|--|--|
| | Millions of yen | Millions of yen |
| Equity securities | | |
| Balance at the beginning of the period | 1,470 | 1,645 |
| Other comprehensive income (Note 1) | (3) | (49) |
| Sale | 100 | — |
| Balance at the end of period | 1,567 | 1,596 |
| Investment trust and other securities | | |
| Balance at the beginning of the period | 2,941 | 6,288 |
| Profit or loss (Note 2) | 1,625 | 1,131 |
| Purchase | 246 | 246 |
| Sale | (95) | (9) |
| Balance at the end of period | 4,717 | 7,656 |

(Note 1) Gain or loss included in other comprehensive income is related to financial assets that are measured at FVTOCI.

This gain or loss is included in “Changes in fair value of financial assets measured at FVTOCI.”

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

(4) Financial instruments not measured at fair value

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

(i) Long-term borrowings

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

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

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

March 31, 2022

| | Carrying amount | Fair value | | | Total |
|---|--------------------|-----------------|--------------------|-----------------|-----------------|
| | | Level 1 | Level 2 | Level 3 | |
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Liabilities : | | | | | |
| Long-term borrowings (including current portion) | 7,000 | - | 7,006 | - | 7,006 |

September 30, 2022

| | Carrying amount | Fair value | | | Total |
|---|--------------------|--------------------|-----------------|-----------------|--------------------|
| | | Level 1 | Level 2 | Level 3 | |
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Liabilities : | | | | | |
| Long-term borrowings (including current portion) | 6,250 | - | 6,255 | - | 6,255 |

13. CONTINGENT LIABILITIES

The Company is involved in litigation and claims arising in the ordinary course of business. In evaluating matters on an ongoing basis, the Company takes into account estimated amounts accrued on the consolidated balance sheet. The Company believes that exposure to loss does not exist in excess of the amount accrued and the negative adverse outcome of such litigation and claims would not have a significant impact on the consolidated financial position or results of operations. On September 1, 2010, IJ Global Solutions Inc. ("IJ-Global") entered into a Solutions Engagement Agreement with IBM Japan Ltd., IJ-Global's largest sales partner. This agreement, which establishes the basis for a procurement relationship between IJ-Global and IBM Japan, contains indemnification for IJ-Global to perform services, functions, responsibilities and others that were being performed by AT&T Japan. This agreement renews automatically every year. IJ-Global had no obligation for the indemnification as of September 30, 2022. Through the split-up of IBM Japan Ltd. on September 1, 2021, the part of the agreement has been succeeded by Kyndryl Japan KK.

14. SUBSEQUENT EVENTS

Stock Split

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

15. AUTHORIZATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized by Ejiro Katsu, Representative Director and President, and Akihisa Watai, Senior Mnaging Director, CFO on November 14, 2022.

2. Other Information

At the Board of Directors meeting on November 7, 2022, an interim dividend of 29.25 yen per share with a record date of September 30, 2022 was resolved. (Total interim dividend is ¥2,643 million. Scheduled date for interim dividend payment: December 2, 2022)

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

November 14, 2022

To the Board of Directors of Internet Initiative Japan Inc.

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

Yusuke Matsumoto
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Conclusion

We have reviewed the accompanying condensed quarterly consolidated financial statements of Internet Initiative Japan Inc. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”) provided in the “Financial Information” section in the Company’s Quarterly Securities Report, which comprise the condensed quarterly consolidated statement of financial position as at September 30, 2022, the condensed quarterly consolidated statement of profit or loss, the condensed quarterly consolidated statement of comprehensive income, the condensed quarterly consolidated statement of changes in equity, the condensed quarterly consolidated statement of cash flows for the three and six month periods then ended, and notes to the condensed quarterly consolidated financial statements, in accordance with Article 193-2(1) of the the Financial Instruments and Exchange Act of Japan.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed quarterly consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at September 30, 2022, and its financial performance and cash flows for the three and six month periods then ended, in accordance with IAS 34 “Interim Financial Reporting” pursuant to the Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements.

Basis for Conclusion

We conducted our review in accordance with quarterly review standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Review of the Condensed Quarterly Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our review of the condensed quarterly consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide

a basis for our conclusion.

Responsibilities of Management, Corporate Auditors and the Board of Corporate Auditors for the Condensed Quarterly Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the condensed quarterly consolidated financial statements in accordance with IAS 34 “Interim Financial Reporting”, and for such internal control as management determines is necessary to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed quarterly consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with paragraph 4 of IAS 1 “Presentation of Financial Statements” and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors’ performance of their duties including the design, implementation and maintenance of the Group’s financial reporting process.

Auditor’s Responsibilities for the Review of the Condensed Quarterly Consolidated Financial Statements

Our responsibility is to express a conclusion on these condensed quarterly consolidated financial statements based on our review in our report on review of condensed quarterly consolidated financial statements. As part of our review in accordance with quarterly review standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the review. We also:

- Make inquiries, primarily of management and persons responsible for financial and accounting matters, and apply analytical and other review procedures. A quarterly review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.
- Conclude, based on the evidence obtained, whether nothing has come to our attention that causes us to believe that the condensed quarterly consolidated financial statements do not present fairly in accordance with paragraph 4 of IAS 1 “Presentation of Financial Statements”, if a material uncertainty relating to events or conditions comes to our attention that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report on review of condensed quarterly consolidated financial statements to the related disclosures in the condensed quarterly consolidated financial statements or, if such disclosures are inadequate, to express a qualified conclusion or an adverse conclusion. Our conclusions are based on the evidence obtained up to the date of our report on review of condensed quarterly consolidated financial statements. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether nothing has come to our attention that causes us to believe that the presentation and disclosures in the condensed quarterly consolidated financial statements are not in accordance with IAS 34 “Interim Financial Reporting”, the overall presentation, structure and content of the condensed quarterly consolidated financial statements, including the disclosures, and 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, 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.