

(TRANSLATION)

Quarterly Securities Report

(The Third Quarter of the 28th Business Term)
From October 1, 2019 to December 31, 2019

Internet Initiative Japan Inc.

Note for readers of this English translation

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

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

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【Cover】

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PART 1 Information on the Company

Item 1. Overview of the Company

1 Selected Financial Data

Fiscal year	IFRS		
	Nine months ended December 31, 2018	Nine months ended December 31, 2019	27th business term ended March 31, 2019
Revenues (Three months ended December 31)	(thousands of yen) 139,627,781 (48,403,880)	150,688,324 (51,468,789)	192,430,185
Operating profit	(thousands of yen) 5,508,516	6,060,070	6,022,987
Profit before tax	(thousands of yen) 5,564,035	5,609,507	5,842,984
Profit attributable to owners of the parent (Three months ended December 31)	(thousands of yen) 3,467,672 (1,372,581)	3,353,994 (1,597,892)	3,520,566
Comprehensive income, attributable to owners of the parent	(thousands of yen) 1,495,288	5,424,250	2,902,764
Comprehensive income	(thousands of yen) 1,626,546	5,572,508	3,080,986
Equity attributable to owners of the parent	(thousands of yen) 74,849,798	80,487,957	76,271,438
Total assets	(thousands of yen) 164,052,599	204,933,874	167,289,196
Basic earnings per share (Three months ended December 31)	(yen) 76.94 (30.45)	74.40 (35.44)	78.11
Diluted earnings per share	(yen) 76.64	74.08	77.80
Ratio of owners' equity to gross assets	(%) 45.6	39.3	45.6
Cash flows from (used in) operating activities	(thousands of yen) 18,554,849	25,051,219	25,152,346
Cash flows from (used in) investing activities	(thousands of yen) (6,842,670)	(6,460,854)	(8,687,589)
Cash flows from (used in) financing activities	(thousands of yen) (4,365,326)	(14,153,691)	(5,889,750)
Cash and cash equivalents, at the end of period	(thousands of yen) 28,719,788	36,350,802	31,957,789

(Notes)

1. As IJ and its subsidiaries (collectively "the Company") prepare quarterly condensed consolidated financial statements reports, changes in non-consolidated financial data, among others, are not provided.
2. Revenues do not include consumption taxes.
3. All figures presented above are based on the condensed consolidated quarterly financial statements or the consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

2 Description of Business

There were no material changes to the business of the Company or its equity method investees during the first nine months of the 28th business term ("1Q-3Q19").

There were no material changes with respect to the associated companies during the 1Q-3Q19.

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 28, 2019.

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

Overview of Business Results

We have adopted IFRS 16 "Leases" (hereinafter "IFRS 16") from the first quarter of the fiscal year ending March 31, 2020. As for the details, please refer to "Notes to Condensed Consolidated Financial Statements, 3. SIGNIFICANT ACCOUNTING POLICIES"

(1) Results of Operations

(i) Overview of consolidated business results for 1Q-3Q19

For the ICT (*1) related market where we belong to, changes of corporate information system as seen in widespread of cloud computing adoption, advancement of ICT use such as IoT (*2) in corporate business activities, growing demand for security related services against information leakage and others, we expect demands for highly reliable network and systems to continuously increase.

1Q-3Q19 financial results were steady, as enterprise recurring revenues (*3), such as from Internet connectivity services including mobile related services, outsourcing services including security related services and cloud computing services, were accumulated and grew steadily. As for mobile related services, revenues from enterprises and consumers continued to increase, respectively. Among them, 1Q-3Q19 full-MVNO (*4) related revenues grew to JPY1.12 billion, as planned. We expanded full-MVNO solution line-ups such as SoftSIM (*5), and continuously enhanced our full-MVNO functions, preparing for increasing demands of IoT usage in future. Looking at the environment where demand for Local 5G (*6) related business is emerging, we have established a new equity method investee, GRAPE ONE LTD., with Sumitomo Corporation and cable TV companies, aiming to provide core network systems functions needed for Local 5G to cable TV operators and others. As for security related businesses, in order to strengthen our capability to capture enterprises' growing demands, we continuously developed and enhanced our services line-ups in a multi-layered way and promoted our security operation center (SOC) (*7), utilizing threat information analyzed by ourselves. As a result, our 1Q-3Q19 security related recurring revenue increased by 17.4% year over year ("YoY"). As for systems integration, enterprises' demands for reliable networks and systems construction continually increased, revenue and orders received for systems construction (including equipment sales) were up 25.5% YoY and up 7.8% YoY, respectively. As for cloud computing related services, a part of which were recognized in systems operation and maintenance revenue, we promoted multi-cloud strategy, making our customers available to use other cloud providers' services together with ours. As a result, our 1Q-3Q19 cloud related revenue (recurring) increased to JPY17.3 billion, as planned. In terms of profits, as gross profit of both network services and systems integration continually and steadily increased, which absorbed an increase of SG&A, the profit growth trend continued.

Consolidated financial results for 1Q-3Q19 are as follows. Total revenues were JPY150,688 million (JPY139,628 million for 1Q-3Q18), up 7.9% YoY. Cost of sales was JPY126,994 million (JPY117,487 million for 1Q-3Q18 and JPY118,991 million as Adjusted (*8)), up 8.1% YoY (up 6.7% YoY as Adjusted). Gross profit was JPY23,694 million (JPY22,141 million for 1Q-3Q18 and JPY20,637 million as Adjusted), up 7.0% YoY (up 14.8% YoY as Adjusted). As for breakdown, network services revenue was JPY91,525 million (JPY88,134 million for 1Q-3Q18), up 3.8% YoY and gross profit for network services revenue was JPY15,314 million (JPY14,359 million for 1Q-3Q18 and JPY12,854 million as Adjusted), up 6.7% YoY (up 19.1% YoY as Adjusted). SI revenues, including equipment sales were JPY56,062 million (JPY48,402 million for 1Q-3Q18), up 15.8% YoY and gross profit for SI was JPY6,951 million (JPY6,429 million for 1Q-3Q18), up 8.1% YoY. ATM operation business revenue was JPY3,101 million (JPY3,092 million for 1Q-3Q18), up 0.3% YoY and gross profit of ATM operation business was JPY1,429 million (JPY1,353 million for 1Q-3Q18), up 5.6% YoY. Net amount of selling, general and administrative expenses, other operating income and other operating expenses was JPY17,634 million (JPY16,632 million for 1Q-3Q8), up 6.0% YoY.

Our operating profit for 1Q-3Q19 was JPY6,060 million (JPY5,509 million for 1Q-3Q8 and JPY4,004 million as Adjusted), up 10.0% YoY (up 51.4% as Adjusted). Profit before tax for 1Q-3Q9 was JPY5,610 million (JPY5,564 million for 1Q-3Q18 and JPY4,059 million as Adjusted), up 0.8% YoY (up 38.2% as Adjusted). Profit attributable to owners of the parent for 1Q-3Q19 was JPY3,354 million (JPY3,468 million for 1Q-3Q18 and JPY2,437 million as Adjusted), down 3.3% YoY (up 37.6% YoY as Adjusted).

In business segments results, revenues for network services and systems integration business segment for 1Q-3Q19 were JPY147,805 million (JPY136,812 million for 1Q-3Q18), up 8.0% YoY, and operating profit for 1Q-3Q19 was JPY4,901 million (JPY4,456 million for 1Q-3Q18, and JPY 2,951 million as Adjusted), up 10.0% YoY (up 66.1% as Adjusted). As for ATM operation business, revenues for 1Q-3Q19 were JPY3,101 million (JPY3,092 million for 1Q-3Q18), up 0.3% YoY, and operating profit for 1Q-3Q19 was JPY1,271 million (JPY1,210 million for 1Q-3Q18).

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- *1 ICT: Information and Communication Technology (ICT) is a general technological term for hardware, software, systems and data communication tools used for information communication by computers.
 - *2 IoT: Internet of Things (IoT) enables not only physical objects but also “things” connected to a network to exchange information automatically.
 - *3 Recurring revenue: Revenues, that business can count on receiving every single month, by continuously provision of services to customers.
 - *4 Full-MVNO: Compared to conventional MVNO (light MVNO), which is highly dependent upon MNO equipments or facilities, full MVNO services are operated using an in-house HLR/HSS (databases for managing SIM cards), thereby making it possible for such providers to procure and issue their own SIM cards and design their services with more freedom. For example, in the IoT field, where future developments are expected, III expects to be able to offer embedded SIMs as well as develop services that it can freely control in terms of the management of charges and activation, thereby creating a new MVNO business model.
 - *5 SoftSIM: An entirely software-based SIM with no hardware, which can be updated remotely.
 - *6 Local 5G: Local 5G means the fifth generation mobile communication network systems (5G) that can be used individually in specified regions and locations according to various needs of the regions and industries. In order to use Local 5G, investment on infrastructure such as wireless networks and mobile base stations for 5G is needed.
 - *7 Security Operation Center (SOC): Security Operation Center is an organization in charge of monitoring networks, devices or equipments to detect and analyze network attacks and suspicious activities and implement counter attacks.
 - *8 Adjusted figures: For details, please refer to the next section, “(ii) Regarding the retroactively adjusted 1Q-3Q18 financial results”.

(ii) Regarding the retroactively adjusted 1Q-3Q18 financial results

As an MVNO, we purchase mobile infrastructure mainly from NTT Docomo Inc. The unit price for mobile interconnectivity charge is revised every year and has been decreasing. Because the unit price is fixed at the end of our fiscal year, we apply our own estimate of unit price decrease rate to calculate mobile infrastructure cost throughout a fiscal year. Difference amount between our estimate and revised charge is recorded as a one-time cost or reduction in cost in 4Q.

In FY2018, the difference between our estimate and the revised was large and we recorded JPY2.05 billion of cost in 4Q18. Essentially this one-time additional cost should have been allocated to attributable each quarter of FY2018. Adjusted figures by the result of such allocation (“Adjusted”) are as follows:

	1Q18	2Q18	3Q18	4Q18
	JPY billion	JPY billion	JPY billion	JPY billion
Accounting period	–	–	–	2.05
Cost allocated to attributable service period	0.48	0.50	0.52	0.55

Adjusted 1Q-3Q18 results and Adjusted YoY changes are as follows:

	Adjusted 1Q-3Q18	1Q-3Q19	Adjusted YoY change
	JPY millions	JPY millions	(%)
Cost of Network services revenue	(75,280)	(76,211)	1.2
Gross profit of Network services	12,854	15,314	19.1
Total gross profit	20,637	23,694	14.8
Operating profit	4,004	6,060	51.4
Profit before tax	4,059	5,610	38.2
Profit for the period	2,568	3,502	36.4
Profit for the period attributable to owners of the parent	2,437	3,354	37.6
Comprehensive income for the period	596	5,573	835.1

1Q-3Q18 Adjusted Network service and SI business segment operating profit and Adjusted YoY changes are as follows:

	Adjusted 1Q-3Q18	1Q-3Q19	Adjusted YoY change
	JPY millions	JPY millions	(%)
Operating profit (consolidated)	4,004	6,060	51.4
Network service and SI business	2,951	4,901	66.1

(iii) Analysis of Consolidated Results of Operations for the first nine months of the 28th business term.

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

Operating Results Summary

	1Q-3Q18	1Q-3Q19	YoY Change
	JPY millions	JPY millions	%
Total revenues	139,628	150,688	7.9
Network services	88,134	91,525	3.8
Systems integration (SI)	48,402	56,062	15.8
ATM operation business	3,092	3,101	0.3
Total costs	(117,487)	(126,994)	8.1
Network services	(73,776)	(76,211)	3.3
Systems integration (SI)	(41,973)	(49,111)	17.0
ATM operation business	(1,738)	(1,672)	(3.8)
Total gross profit	22,141	23,694	7.0
Network services	14,359	15,314	6.7
Systems integration (SI)	6,429	6,951	8.1
ATM operation business	1,353	1,429	5.6
SG&A, R&D, and other operating income (expenses)	(16,632)	(17,634)	6.0
Operating profit	5,509	6,060	10.0
Profit before tax	5,564	5,610	0.8
Profit for the period attributable to owners of the parent	3,468	3,354	(3.3)

(Notes)

1. We have adopted IFRS from the filing of our FY2018 annual report "Yuka-shoken-houkokusho." The reporting periods of foreign consolidated subsidiaries are different from the period under the Generally Accepted Accounting Principles in the United States (U.S. GAAP). Along with the change, the figures for 1Q-3Q18 are different from 1Q-3Q18 results disclosed in the past.
2. Systems integration includes equipment sales.

Segment Results Summary

	1Q-3Q18	1Q-3Q19
	JPY millions	JPY millions
Total revenues	139,628	150,688
Network services and SI business	136,812	147,805
ATM operation business	3,092	3,101
Elimination	(276)	(218)
Operating profit	5,509	6,060
Network service and SI business	4,456	4,901
ATM operation business	1,210	1,271
Elimination	(157)	(112)

i) Revenues

Total revenues were JPY150,688 million, up 7.9% YoY (JPY139,628 million for 1Q-3Q18).

Network services revenue was JPY91,525 million, up 3.8% YoY (JPY88,134 million for 1Q-3Q18).

Revenues for Internet connectivity services for enterprise were JPY27,258 million, up 11.5% YoY from JPY24,440 million for 1Q-3Q18, mainly due to an increase in mobile-related services revenues such as MVNE and IoT type revenues by leveraging our full-MVNO infrastructure.

Revenues for Internet connectivity services for consumers were JPY19,530 million, up 3.3% YoY from JPY18,904 million for 1Q-3Q18. The revenue growth was mainly due to “IIJmio Mobile Service,” consumer mobile services.

Revenues for WAN services were JPY20,796 million, down 10.5% YoY from JPY23,241 million for 1Q-3Q18, mainly because of the planned migration projects of large enterprises clients who are moving away from dedicated line to mobile to connect their multiple locations.

Revenues for Outsourcing services were JPY23,941 million, up 11.1% YoY from JPY21,549 million for 1Q-3Q18, mainly due to an increase in security-related services revenues.

Network Services Revenues Breakdown

	1Q-3Q18	1Q-3Q19	YoY Change
	JPY millions	JPY millions	%
Total network services	88,134	91,525	3.8
Internet connectivity services (enterprise)	24,440	27,258	11.5
IP services (including data center connectivity services)	7,924	7,992	0.9
IIJ Mobile services	14,129	16,780	18.8
IIJ Mobile MVNO Platform Service	10,651	12,430	16.7
Others	2,387	2,486	4.1
Internet connectivity services (consumer)	18,904	19,530	3.3
IIJmio Mobile Service	16,862	17,605	4.4
Others	2,042	1,925	(5.7)
WAN services	23,241	20,796	(10.5)
Outsourcing services	21,549	23,941	11.1

Number of Contracts and Subscription for Connectivity Services

	As of December 31, 2018	As of December 31, 2019	YoY Change
Internet connectivity services (enterprise)	1,664,513	1,902,586	238,073
IP service (greater than or equal to 1Gbps)	748	757	9
IP service (less than 1Gbps)	1,294	1,259	(35)
IIJ Mobile Services	1,583,905	1,815,268	231,363
IIJ Mobile MVNO Platform Service	998,892	1,104,664	105,772
Others	78,566	85,302	6,736
Internet connectivity services (consumer)	1,391,322	1,405,848	14,526
IIJmio Mobile Service	1,048,855	1,072,576	23,721
Others	342,467	333,272	(9,195)
Total contracted bandwidth (Gbps)	3,621.0	4,745.7	1,124.7

(Notes)

- Numbers in the table above show number of contracts except for “IIJ Mobile Services (enterprise)” and “IIJmio Mobile Service” which show number of subscriptions.
- The numbers of IP service contracts includes 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.
- Along with our change in accounting principle from the U.S. GAAP to IFRS from the filing of our FY2018 annual report “Yuka-shoken-houkokusho,” the reporting period of foreign consolidated subsidiaries are different. As a result, the number of our Internet connectivity service contracts and total contracted bandwidth described above are different from the past disclosure.

SI revenues, including equipment sales, were JPY56,062 million, up 15.8% YoY (JPY48,402 million for 1Q-3Q18).

Systems construction and equipment sales revenue, a one-time revenue, was JPY22,081 million, up 25.5% YoY (JPY17,601 million for 1Q-3Q18). In addition to an increase in usual revenue of completed project, we recognized JPY1.76 billion of revenue along with construction progresses (There was no revenue recognized based on percentage of completion in FY2018). Systems operation and maintenance revenue, a recurring revenue, was JPY33,981 million, up 10.3% YoY (JPY30,801 million for 1Q-3Q18), mainly due to continued accumulation of systems operation orders as well as an increase in private cloud services' revenues.

Orders received for SI, including equipment sales, totaled JPY60,231 million, up 12.4% YoY (JPY53,608 million for 1Q-3Q18); orders received for systems construction and equipment sales were JPY23,305 million, up 7.8% YoY (JPY21,609 million for 1Q-3Q18), and orders received for systems operation and maintenance were JPY36,926 million, up 15.4% YoY (JPY31,999 million for 1Q-3Q18).

Order backlog for SI, equipment sales, as of December 31, 2019 amounted to JPY55,284 million, up 6.7% YoY (JPY51,802 million as of December 31, 2018); order backlog for systems construction and equipment sales was JPY9,064 million, down 17.3% YoY, reflecting 1Q-3Q19 revenue recognition based on percentage of completion (JPY10,966 million as of December 31, 2018) and order backlog for systems operation and maintenance was JPY46,220 million, up 13.2% YoY (JPY40,836 million as of December 31, 2018).

ATM operation business revenues were JPY3,101 million, up 0.3% YoY (JPY3,092 million for 1Q-3Q18).

ii) Cost of sales

Total cost of sales was JPY126,994 million, up 8.1% YoY (JPY117,487 million for 1Q-3Q18 and JPY118,991 million as Adjusted) and Adjusted YoY change was up 6.7%.

Cost of network services revenue was JPY76,211 million, up 3.3% YoY (JPY73,776 million for 1Q-3Q18 and JPY75,280 million as Adjusted) and Adjusted YoY change in cost of network services revenue was up 1.2% YoY. There were an increase in outsourcing-related costs along with our mobile-related revenue increase and a decrease in circuit-related costs along with our WAN services revenue decrease. Gross profit was JPY15,314 million, up 6.7% YoY (JPY14,359 million for 1Q-3Q18 and JPY12,854 million as Adjusted), Adjusted YoY change in gross profit was up 19.1%, and gross profit ratio was 16.7% (16.3% for 1Q-3Q18 and 14.6% as Adjusted).

Cost of SI revenues, including equipment sales was JPY49,111 million, up 17.0% YoY (JPY41,973 million for 1Q-3Q18). There were an increase in purchasing costs along with increase in our systems construction revenue and an increase in network operation-related costs. Gross profit was JPY6,951 million, up 8.1% YoY (JPY6,429 million for 1Q-3Q18) and gross profit ratio was 12.4% (13.3% for 1Q-3Q18).

Cost of ATM operation business revenues was JPY1,672 million, down 3.8% YoY (JPY1,738 million for 1Q-3Q18). Gross profit was JPY1,429 million (JPY1,353 million for 1Q-3Q18) and gross profit ratio was 46.1% (43.8% for 1Q-3Q18).

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

Selling, general and administrative expenses, which include research and development expenses, totaled JPY17,680 million, up 6.5% YoY (JPY16,597 million for 1Q-3Q18), mainly due to increases in personnel-related expenses and outsourcing expenses.

Other operating income was JPY187 million (JPY104 million for 1Q-3Q18).

Other operating expenses was JPY141 million (JPY139 million for 1Q-3Q18), mainly due to disposal loss on fixed assets.

iv) Operating profit

Operating profit was JPY6,060 million (JPY5,509 million for 1Q-3Q18 and JPY4,004 million as Adjusted), up 10.0% YoY and Adjusted YoY change was up 51.4%.

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

Finance income was JPY349 million, compared to JPY479 million for 1Q-3Q18. It included gains on financial assets, such as fund, of JPY192 million (JPY99 million for 1Q-3Q18) and dividend income of JPY75 million (JPY96 million for 1Q-3Q18).

Finance expense was JPY432 million, compared to JPY357 million for 1Q-3Q18. It included interest expenses of JPY432 million (JPY321 million for 1Q-3Q18).

Share of loss of investments accounted for using equity method was JPY367 million (compared to loss of JPY67 million for 1Q-3Q18), mainly due to our share of loss of investments accounted for DeCurret Inc. of JPY602 million.

vi) Profit before tax

Profit before tax was JPY5,610 million (JPY5,564 million for 1Q-3Q18 and JPY4,059 million as Adjusted), up 0.8% YoY and Adjusted YoY change was up 38.2%.

vii) Profit for the period

Income tax expense was JPY2,108 million (JPY1,965 million for 1Q-3Q18). As a result, profit for the period was JPY3,502 million (JPY3,599 million for 1Q-3Q18 and JPY2,568 million as Adjusted), down 2.7% YoY and Adjusted YoY change was up 36.4%.

Profit for the period attributable to non-controlling interests was JPY148 million (JPY131 million for 1Q-3Q18) mainly related to net income of Trust Networks Inc. As a result, profit for the period attributable to owners of parent was JPY3,354 million (JPY3,468 million for 1Q-3Q18 and JPY2,437 million as Adjusted), down 3.3% YoY and Adjusted YoY change was up 37.6%.

(2) Financial Position

As of December 31, 2019, the balance of total assets was JPY204,934 million, increased by JPY37,645 million from the balance as of March 31, 2019 of JPY167,289 million.

As of December 31, 2019, the balance of current assets was JPY84,719 million, increased by JPY5,747 million from the balance as of March 31, 2019 of JPY78,971 million. The major breakdown of fluctuation and balance of current assets was: an increase in cash and cash equivalents by JPY4,393 million to JPY36,351 million, a decrease in trade receivables by JPY1,025 million to JPY32,350 million, a decrease in inventories by JPY1,177 million to JPY2,226 million, an increase in prepaid expenses by JPY1,717 million to JPY10,239 million and an increase in other financial assets by JPY1,837 million to JPY3,418 million.

As of December 31, 2019, the balance of non-current assets was JPY120,215 million, increased by JPY31,897 million from the balance as of March 31, 2019 of JPY88,318 million. Along with the adoption of IFRS 16 from the first quarter of the fiscal year ending March 31, 2020, right-of-use assets were newly accounted. The breakdown of right-of-use assets was: JPY31,183 million of assets under operating lease contracts which was newly recognized, mainly related to our office and data centers lease contracts, and JPY16,188 million of assets under finance lease contracts, most of which were transferred from tangible and intangible assets. Other investments was JPY12,060 million, increased by JPY658 million mainly due to increase in fair value of holding marketable equity securities.

As of December 31, 2019, the balance of current liabilities was JPY64,791 million, increased by JPY11,886 million from the balance as of March 31, 2019 of JPY52,904 million. Trade and other payables decreased by JPY2,273 million to JPY19,689 million. Borrowings increased by JPY2,830 million to JPY15,580 million. The breakdown of increase in the borrowings was: an increase by JPY2,500 million in short-term borrowings, a decrease by JPY1,500 million due to payment of long-term borrowings, and an increase by JPY1,830 million due to a transfer from non-current liabilities. Other financial liabilities increased by JPY10,019 million to JPY17,051 million. The increase included JPY8,767 million related to operating lease recognized along with the adoption of IFRS 16.

As of December 31, 2019, the balance of non-current liabilities was JPY58,712 million, increased by JPY21,447 million from the balance as of March 31, 2019 of JPY37,265 million. Long-term borrowings decreased by JPY1,830 million to JPY12,170 million due to a transfer to current portion. Other financial liabilities increased by JPY22,623 million to JPY34,774 million. The increase included JPY22,500 million related to operating lease recognized along with the adoption of IFRS 16.

As of December 31, 2019, the balance of equity attributable to owners of parent was JPY80,488 million, increased by JPY4,217 million from the balance as of March 31, 2019 of JPY76,271 million. Ratio of owners' equity to total assets was 39.3% as of December 31, 2019.

(3) Cash Flows

Cash and cash equivalents as of December 31, 2019 were JPY36,351 million (JPY28,720 million as of December 31, 2018).

Cash Flows provided by Operating Activities

Net cash provided by operating activities for 1Q-3Q19 was JPY25,051 million (net cash provided by operating activities of JPY18,555 million for 1Q-3Q18). There were profit before tax of JPY5,610 million, depreciation and amortization of JPY21,356 million, including JPY9,179 million of depreciation of right-of-use operating lease assets newly recognized by the adoption of IFRS 16, and income taxes paid of JPY2,603 million. Regarding changes in operating assets and liabilities, it was net cash in of JPY314 million mainly due to cash in by collecting trade receivables and deferred revenue and by selling inventories, while there were payment of trade and other payables and prepaid expenses in relation to upfront payment for software licenses and maintenance cost for service facilities.

Cash Flows used in Investing Activities

Net cash used in investing activities for 1Q-3Q19 was JPY6,461 million (net cash used in investing activities of JPY6,843 million for 1Q-3Q18), mainly due to payments for purchase of tangible assets of JPY6,222 million (JPY5,358 million for 1Q-3Q18), payments for purchase of intangible assets, such as software, of JPY4,017 million (JPY4,401 million for 1Q-3Q18), and proceeds from sales of other investments, such as equity securities, of JPY2,750 million.

Cash Flows used in Financing Activities

Net cash used in financing activities for 1Q-3Q19 was JPY14,154 million (net cash used in financing activities of JPY4,365 million for 1Q-3Q18), mainly due to proceeds from short-term borrowings of JPY2,500 million, payments of other financial liabilities of JPY15,356 million (JPY5,357 million for 1Q-3Q18), including JPY9,144 million of payment of operating lease obligations newly recognized by the adoption of IFRS 16.

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

There were no material changes or newly identified matters, relating to the management policy, management environment and issues to be addressed, etc., during 1Q-3Q19.

(5) Research and developments

For 1Q-3Q19, research and development expenses, which were in relation to network services and systems integration business segment, were JPY312 million, decreased by 11.7% compared to JPY354 million for 1Q-3Q18.

(6) Number of employees

There were no material changes in the number of employees of the Company during 1Q-3Q19.

(i) Consolidated basis

As of December 31, 2019

Number of Employees	3,585 (49)
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(Note) The number of employees indicates the total number of full-time and contract workers. It does not include third-party employees working at the Group. The average number of part-time employees for the full fiscal year is shown in brackets.

(ii) IJ (non-consolidated basis)

As of December 31, 2019

Number of Employees	2,069 (30)
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(Note) The number of employees indicates the total number of full-time and contract workers. It does not include third-party employees working at IJ. The average number of part-time employees for the full fiscal year is shown in brackets.

(7) Production, Orders Received and Sales

(i) Production

Production results for the nine months ended December 31, 2019 were as follows :

Type of Services	Nine months ended December 31, 2019	
	Production (thousands of yen)	Year over year comparison (%)
Systems Integration, including Equipment Sales	48,171,517	9.3
Total	48,171,517	9.3

(Notes)

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

(ii) Orders Received

Orders received for the nine months ended December 31, 2019 and order backlog as of December 31, 2019 were as follows:

Type of Services	Nine months ended December 31, 2019			
	Orders Received (thousands of yen)	Year over Year comparison (%)	Order Backlog (thousands of yen)	Year over Year comparison (%)
Systems Construction and Equipment Sales	23,305,267	7.8	9,064,123	(17.3)
Systems Operation and Maintenance	36,926,106	15.4	46,219,597	13.2
Total	60,231,373	12.4	55,283,720	6.7

(Notes)

1. Amounts do not include consumption taxes.
2. Percentages of year over year comparison indicate year over year rate of change.
3. Since the Company does not engage in make-to-order production in network services and ATM operation business, we do not present orders received and order backlog for network services and ATM operation business.

(iii) Sales

Quarterly consolidated revenues for the nine months ended December 31, 2019 were as follows:

Type of services	Nine months ended December 31, 2019	
	Revenue (thousands of yen)	Year over year comparison (%)
Network services	91,524,644	3.8
Internet connectivity services (enterprise)	27,258,169	11.5
Internet connectivity services (consumer)	19,530,267	3.3
WAN services	20,795,184	(10.5)
Outsourcing services	23,941,024	11.1
Systems integration	56,062,205	15.8
Systems construction and equipment sales	22,080,987	25.5
Systems operation and maintenance	33,981,218	10.3
ATM operation business	3,101,475	0.3
Total revenues	150,688,324	7.9

(Notes)

1. Amounts do not include consumption taxes.
2. Percentages of year over year comparison indicate year over year rate of change.

(8) Major property and equipment

There were no material changes in major property and equipment or in our plan in relation to property and equipment during the nine months ended December 31, 2019.

3 Material Contracts, etc.

Not applicable.

Item 3. Information on IJJ

1 Information on IJJ's Shares

(1) Total Number of Shares

(i) 【Total Number of Shares】

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

(ii) 【Number of shares issued】

Class	Number of shares issued as of the end of period (shares) (December 31, 2019)	Number of shares issued as of the filing date (shares) (February 14, 2020)	Stock exchange on which IJJ is listed or authorized financial instruments firms association	Description
Common stock	46,734,600	46,734,600	Tokyo Stock Exchange (the first section)	The number of shares constituting a unit is 100.
Total	46,734,600	46,734,600	—	—

(2) Information on Stock Acquisition Rights

(i) Description of Stock Option System

Not applicable.

(ii) Other Stock Acquisition Rights

Not applicable

(3) Information on Moving Strike Convertible Bonds

Not applicable.

(4) Changes in the Total Number of Issued Shares and Capital

Date	Changes in the total number of issued shares (shares)	Balance of the total number of issued shares (shares)	Changes in capital (thousands of yen)	Balance of capital (thousands of yen)	Changes in capital reserve (thousands of yen)	Balance of capital reserve (thousands of yen)
From October 1, 2019 to December 31, 2019	—	46,734,600	—	22,991,399	—	9,712,083

(Note) Increased by exercise of stock acquisition rights

(5) Major Shareholders

Not applicable for the third quarter of the 28th business term.

(6) Information on Voting Rights

All details provided in this section “(6) Information of Voting Rights” are based on the register of shareholders as of September 30, 2019, the preceding reference date, as the register of shareholders as of December 31, 2019 cannot be confirmed.

(i) Issued shares

As of September 30, 2019

Classification	Number of Shares (shares)	Number of Voting Rights	Description
Shares without Voting Rights	—	—	—
Shares with Restricted Voting Rights (treasury stock, etc.)	—	—	—
Shares with Restricted Voting Rights (others)	—	—	—
Shares with Full Voting Rights (treasury stock, etc.)	Treasury Stock: 1,650,900 shares of common stock	—	—
Shares with Full Voting Rights (others)	45,071,900 shares of common stock	450,719	—
Shares Representing Less than One Unit	11,800 shares of common stock	—	—
Number of Issued Shares	46,734,600 shares of common stock	—	—
Total Number of Voting Rights	—	450,719	—

(Note) Shares Representing Less than One Unit includes 11 shares of treasury stock held by the Company.

(ii) Treasury Stock

As of September 30, 2019

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

2 Changes in Directors and Company Auditors

There were no changes in directors and company auditors during the period from the filing date of the Annual Securities Report for the fiscal year ended March 31, 2019 (June 28, 2019) to December 31, 2019.

Item 4. Financial Information

1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Financial Position

	Notes	March 31, 2019	December 31, 2019
		Thousands of yen	Thousands of yen
Assets			
Current Assets			
Cash and cash equivalents		31,957,789	36,350,802
Trade receivables		33,375,808	32,350,438
Inventories		3,403,192	2,225,977
Prepaid expenses		8,522,554	10,239,431
Other financial assets	6,12	1,581,212	3,417,957
Other current assets		130,900	134,180
Total Current Assets		78,971,455	84,718,785
Non-current Assets			
Tangible assets		33,136,059	18,240,995
Right-of-use Assets		—	47,370,008
Goodwill		6,082,472	6,082,472
Intangible assets		18,818,707	17,858,133
Investments accounted for using the equity method		4,837,867	5,106,068
Prepaid expenses		8,037,298	8,117,468
Other investments	12	11,402,365	12,059,884
Deferred tax assets		176,587	153,562
Other financial assets	6,12	5,293,547	4,871,438
Other non-current assets		532,839	355,061
Total non-current assets		88,317,741	120,215,089
Total assets		167,289,196	204,933,874

	Notes	March 31, 2019	December 31, 2019
		Thousands of yen	Thousands of yen
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		21,962,239	19,689,375
Borrowings	12	12,750,000	15,580,000
Income taxes payable		1,139,460	1,397,352
Deferred income		5,461,813	6,021,124
Other financial liabilities	7,12	7,031,690	17,050,793
Other current liabilities		4,559,005	5,051,860
Total current liabilities		52,904,207	64,790,504
Non-current liabilities			
Borrowings	12	14,000,000	12,170,000
Retirement benefit liabilities		3,488,501	3,696,583
Provisions		731,257	733,455
Deferred income		5,518,492	5,767,131
Deferred tax liabilities		421,396	613,610
Other financial liabilities	7,12	12,151,346	34,774,460
Other non-current liabilities		954,387	957,149
Total non-current liabilities		37,265,379	58,712,388
Total liabilities		90,169,586	123,502,892
Equity			
Share capital		25,518,712	25,530,621
Share premium		36,225,775	36,256,945
Retained earnings		12,335,035	15,982,012
Other components of equity		4,088,704	4,615,167
Treasury shares		(1,896,788)	(1,896,788)
Total equity attributable to owners of the parent		76,271,438	80,487,957
Non-controlling interests		848,172	943,025
Total equity		77,119,610	81,430,982
Total liabilities and equity		167,289,196	204,933,874

Condensed Consolidated Statements of Profit or Loss for Nine-Month Periods

	Notes	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2019
		Thousands of yen	Thousands of yen
Revenues			
Network services		88,134,315	91,524,644
System integration		48,401,638	56,062,205
ATM operation business		3,091,828	3,101,475
Total revenues	5,9	<u>139,627,781</u>	<u>150,688,324</u>
Cost of sales			
Cost of network services		(73,775,750)	(76,210,678)
Cost of systems integration		(41,972,405)	(49,111,625)
Cost of ATM operation business		(1,738,376)	(1,672,487)
Total cost of sales		<u>(117,486,531)</u>	<u>(126,994,790)</u>
Gross Profit		22,141,250	23,693,534
Selling, general and administrative expense		(16,597,147)	(17,680,244)
Other operating income		104,249	187,214
Other operating expenses		(139,836)	(140,434)
Operating Profit		<u>5,508,516</u>	<u>6,060,070</u>
Finance income	12	478,665	349,156
Finance expenses	12	(356,511)	(432,586)
Share of profit (loss) of investments accounted for using equity method	10	(66,635)	(367,133)
Profit (loss) before tax		<u>5,564,035</u>	<u>5,609,507</u>
Income tax expense		(1,965,105)	(2,107,255)
Profit (loss) for the year		<u><u>3,598,930</u></u>	<u><u>3,502,252</u></u>
Profit (loss) for the year attributable to:			
Owners of the parent		3,467,672	3,353,994
Non-controlling interests		131,258	148,258
Total		<u><u>3,598,930</u></u>	<u><u>3,502,252</u></u>
Earnings per share			
Basic earnings per share (yen)	11	76.94	74.40
Diluted earnings per share (yen)		76.64	74.08

Condensed Consolidated Statements of Profit or Loss for Three-Month Periods

	Notes	Three Months Ended December 31, 2018	Three Months Ended December 31, 2019
		Thousands of yen	Thousands of yen
Revenues			
Network services		29,976,158	30,320,743
System integration		17,407,184	20,146,597
ATM operation business		1,020,538	1,001,449
Total revenues	5,9	<u>48,403,880</u>	<u>51,468,789</u>
Cost of sales			
Cost of network services		(25,275,378)	(25,057,088)
Cost of systems integration		(14,662,836)	(17,369,639)
Cost of ATM operation business		(571,369)	(547,741)
Total cost of sales		<u>(40,509,583)</u>	<u>(42,974,468)</u>
Gross Profit		7,894,297	8,494,321
Selling, general and administrative expense		(5,604,733)	(5,779,614)
Other operating income		25,242	28,146
Other operating expenses		(91,104)	(34,733)
Operating Profit		<u>2,223,702</u>	<u>2,708,120</u>
Finance income	12	106,063	245,051
Finance expenses	12	(152,229)	(152,940)
Share of profit (loss) of investments accounted for using equity method	10	(43,401)	(234,012)
Profit (loss) before tax		<u>2,134,135</u>	<u>2,566,219</u>
Income tax expense		(716,253)	(922,320)
Profit (loss) for the year		<u><u>1,417,882</u></u>	<u><u>1,643,899</u></u>
Profit (loss) for the year attributable to:			
Owners of the parent		1,372,581	1,597,892
Non-controlling interests		45,301	46,007
Total		<u><u>1,417,882</u></u>	<u><u>1,643,899</u></u>
Earnings per share			
Basic earnings per share (yen)	11	30.45	35.44
Diluted earnings per share (yen)		30.33	35.28

Condensed Consolidated Statements of Comprehensive Income for Nine-Month Periods

	Notes	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2019
		Thousands of yen	Thousands of yen
Profit (loss)		3,598,930	3,502,252
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		(1,980,473)	2,115,344
Total items that will not be reclassified to profit or loss		(1,980,473)	2,115,344
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		27,900	(45,806)
Financial assets measured at fair value through other comprehensive income		14	(471)
Share of other comprehensive income of investments accounted for using equity method		(19,825)	1,189
Total of items that may be reclassified to profit or loss		8,089	(45,088)
Total other comprehensive income, net of tax		(1,972,384)	2,070,256
Other comprehensive income		1,626,546	5,572,508
Other comprehensive income attributable to:			
Owners of the parent		1,495,288	5,424,250
Non-controlling interest		131,258	148,258
Other comprehensive income		1,626,546	5,572,508

Condensed Consolidated Statements of Comprehensive Income for Three-Month Periods

	Notes	Three Months Ended December 31, 2018	Three Months Ended December 31, 2019
		Thousands of yen	Thousands of yen
Profit (loss)		1,417,882	1,643,899
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		(2,104,758)	1,297,640
Total items that will not be reclassified to profit or loss		(2,104,758)	1,297,640
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(75,433)	71,967
Financial assets measured at fair value through other comprehensive income		1,329	(1,445)
Share of other comprehensive income of investments accounted for using equity method		(1,988)	(1,304)
Total of items that may be reclassified to profit or loss		(76,092)	69,218
Total other comprehensive income, net of tax		(2,180,850)	1,366,858
Other comprehensive income		(762,968)	3,010,757
Other comprehensive income attributable to:			
Owners of the parent		(808,269)	2,964,750
Non-controlling interest		45,301	46,007
Other comprehensive income		(762,968)	3,010,757

Condensed Consolidated Statements of Changes in Shareholders' Equity

Nine months ended December 31, 2018

Notes	Owners of the parent's shareholders' equity						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares	Total		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Balance, March 31, 2018	25,511,804	36,175,936	9,678,821	5,058,955	(1,896,784)	74,528,732	718,500	75,247,232
Comprehensive income								
Profit (loss)	-	-	3,467,672	-	-	3,467,672	131,258	3,598,930
Other comprehensive income	-	-	-	(1,972,384)	-	(1,972,384)	-	(1,972,384)
Total comprehensive income	-	-	3,467,672	(1,972,384)	-	1,495,288	131,258	1,626,546
Transactions with owners								
Issuance of common stock	6,908	(6,395)	-	-	-	513	-	513
Purchase of treasury stock	-	-	-	-	(4)	(4)	-	(4)
Dividends paid	-	-	(1,216,801)	-	-	(1,216,801)	(48,550)	(1,265,351)
Stock-based compensation	-	42,070	-	-	-	42,070	-	42,070
Transfer from other components of equity to retained earnings	-	-	27,982	(27,982)	-	-	-	-
Total transactions with owners	6,908	35,675	(1,188,819)	(27,982)	(4)	(1,174,222)	(48,550)	(1,222,772)
Balance, December 31, 2018	25,518,712	36,211,611	11,957,674	3,058,589	(1,896,788)	74,849,798	801,208	75,651,006

Nine months ended December 31, 2019

Notes	Owners of the parent's shareholders' equity						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares	Total		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Balance, March 31, 2019	25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610
Cumulative impact of adopting IFRS 16 (Note)	-	-	(33,728)	-	-	(33,728)	-	(33,728)
Comprehensive income								
Profit (loss)	-	-	3,353,994	-	-	3,353,994	148,258	3,502,252
Other comprehensive income	-	-	-	2,070,256	-	2,070,256	-	2,070,256
Total comprehensive income	-	-	3,353,994	2,070,256	-	5,424,250	148,258	5,572,508
Transactions with owners								
Issuance of common stock	11,909	(11,895)	-	-	-	14	-	14
Dividends paid	-	-	(1,217,082)	-	-	(1,217,082)	(53,405)	(1,270,487)
Stock-based compensation	-	43,065	-	-	-	43,065	-	43,065
Transfer from other components of equity to retained earnings	-	-	1,543,793	(1,543,793)	-	-	-	-
Total transactions with owners	11,909	31,170	326,711	(1,543,793)	-	(1,174,003)	(53,405)	(1,227,408)
Balance, December 31, 2019	25,530,621	36,256,945	15,982,012	4,615,167	(1,896,788)	80,487,957	943,025	81,430,982

(Note) This line shows impact from adopting IFRS 16 "Leases."

Condensed Consolidated Statements of Cash Flows

Notes	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2019
	Thousands of yen	Thousands of yen
Cash flows from operating activities:		
Profit (loss) before tax	5,564,035	5,609,507
Adjustments		
Depreciation and amortization	11,277,942	21,355,819
Loss on sales of property and equipment	116,177	114,310
Shares of loss (profit) of investments accounted for using the equity method	66,635	367,133
Finance income	(188,019)	(305,089)
Finance expenses	321,187	437,618
Other	25,337	6,904
Changes in working capital		
Decrease (increase) in trade receivables	1,159,432	1,016,605
Decrease (increase) in inventories	(2,848,362)	1,176,389
Decrease (increase) in prepaid expenses	(2,083,655)	(1,800,779)
Decrease (increase) in other assets	34,081	203,470
Decrease (increase) in other financial assets	(60,448)	(1,076,142)
Increase (decrease) in trade and other payables	5,573,504	(1,215,472)
Increase (decrease) in deferred income	2,613,424	856,438
Increase (decrease) in other liabilities	(140,104)	496,485
Increase (decrease) in other financial liabilities	419,940	449,121
Increase (decrease) in retirement benefit liabilities	201,250	208,082
Sub total	22,052,356	27,900,399
Interest and dividends received	183,624	184,017
Interest paid	(319,661)	(430,602)
Income taxes paid	(3,361,470)	(2,602,595)
Cash flows from operating activities	18,554,849	25,051,219

	Notes	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2019
		Thousands of yen	Thousands of yen
Cash flows from investing activities			
Purchases of tangible assets		(5,357,675)	(6,222,176)
Proceeds from sales of tangible assets		2,578,572	1,774,021
Purchases of intangible assets		(4,401,484)	(4,017,051)
Proceeds from sales of intangible assets		1,579	273,773
Purchase of investments accounted for using equity method		-	(718,000)
Purchases of other investments		(25,374)	(100,313)
Proceeds from sales of other investments		377,155	2,749,885
Payments for leasehold deposits and guarantee deposits		(12,384)	(188,062)
Proceeds from collection of leasehold deposits and guarantee deposits		48,919	14,491
Payments for refundable insurance policies		(42,270)	(42,255)
Other		(9,708)	14,833
Cash flows from investing activities		(6,842,670)	(6,460,854)
Cash flows from financing activities			
Repayment of long-term borrowings		-	(1,500,000)
Net increase (decrease) in short-term borrowings		2,000,000	2,500,000
Proceeds from other financial liabilities		256,608	1,473,000
Payments of other financial liabilities		(5,356,573)	(15,356,191)
Dividends paid		(1,216,801)	(1,217,082)
Other		(48,560)	(53,418)
Cash flows from financing activities		(4,365,326)	(14,153,691)
Effect of exchange rate changes on cash and cash equivalents		52,931	(43,661)
Net increase (decrease) in cash and cash equivalents		7,399,784	4,393,012
Cash and cash equivalents, beginning of year		21,320,004	31,957,789
Cash and cash equivalents at beginning of period		28,719,788	36,350,802

Notes to Condensed Consolidated Financial Statements

1. REPORTING ENTITY

Internet Initiative Japan Inc. (“IIJ”) is a company incorporated in Japan. The registered addresses of its headquarters and primary business offices are disclosed on IIJ’s website—URL <https://www.iij.ad.jp/>—. The condensed consolidated financial statements of IIJ for the nine months ended December 31, 2019 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. BUSINESS SEGMENTS.

2. BASIS OF PREPARATION

(1) Compliance with IFRS

The consolidated financial statements of the Company have been prepared in accordance with IAS 34 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, 2019.

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied to the condensed consolidated financial statements for the nine months ended September 30, 2019 are the same as those applied to the consolidated financial statements for the fiscal year ended March 31, 2019 except below. Meanwhile, income taxes for the nine months ended September 30, 2019 are calculated based on the estimated annual effective tax rate.

The Company applied the following standard starting from the first quarter of the fiscal year ended March 31, 2020.

IFRS		Outline of a new standard and amendments
IFRS 16	Leases	Amendment concerning accounting treatment for leases

From the fiscal year ending March 31, 2020, the Company, in accordance with IFRS 16, has determined whether a contract is, or contains a lease, at the inception of the contract. A contract is determined to be a lease or contain a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

When a contract is determined to be a lease or contain a lease, the Company initially recognizes a right-of-use asset and a lease liability at the commencement date of the contract.

Lease liabilities are initially measured at the present value of lease payments not paid at the commencement date, discounted by calculated interest rate of the lease or, if the calculated interest rate cannot be determined easily, the Company’s incremental borrowing rate. In general, the Company uses the incremental borrowing rate as a discount rate. Lease liabilities are subsequently measured by increasing the carrying amount to reflect the interest on the lease liability and reducing the carrying amount to reflect the lease payments. In our consolidated statement of financial position, lease liabilities are included in other financial liabilities. In measuring the lease liability, lease fee in each contract is allocated to the lease components and non-lease components based on the ratio of their independent prices. However, for data centers where the Company is a lessee, lease components and non-lease components related to them are not separated and are recognized as a single lease component. When the condition of the leases are changed, the Company remeasures the lease liability.

The right-of-use asset is initially measured at cost, which comprises the initial measurement of lease liability, any initial direct cost incurred and prepaid lease payments. A cost model is used for subsequent measurement after initial recognition. Right-of-use assets are depreciated using the straight-line method. The depreciation period is the estimated useful life of the underlying asset if ownership of the underlying asset is transferred to the lessee by the end of the lease term or if the exercise of the purchase option by

the lessee is reasonably certain. Otherwise, the depreciation period is the shorter of the useful life of the right-of-use asset or the lease term. The Company does not recognize right-of-use assets and lease liabilities for leases with a lease term of 12 months or less or when the underlying assets are of low value, and recognizes lease payments as an expense on a straight-line basis over the lease term.

Lessor accounting is substantially the same as in accordance with IAS 17.

During the year ended March 31, 2019, the Company classified lease arrangements as finance leases when the lessor transfers substantially all the risks and rewards incidental to ownership of an asset to the Company. Leased assets are initially recognized at the lower of the fair value of the asset and the present value of the minimum lease payments. After initial recognition, the leased assets are depreciated using the straight-line method for the estimated useful life if the transfer of ownership is reasonably certain by the end of the lease term, or for the shorter of the lease term and the estimated useful life of the leased asset if it is reasonably uncertain. Lease arrangements other than finance leases are classified as operating leases and are not reported in the Company's consolidated statements of financial position. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

According to the transition approach, the Company has adopted IFRS 16 retrospectively and the cumulative effect of applying this standard was recognized as adjustment of retained earnings at the beginning date of the first quarter of the fiscal year ended March 31, 2020. In applying IFRS 16, the Company chooses the practical expedient in IFRS 16 paragraph C3 and assesses whether contracts contain leases in accordance with IAS 17 "Leases" (hereinafter, "IAS 17") and IFRIC 4 "Determining whether an Arrangement contains a lease."

The Company recognized right-of-use assets and other financial liabilities related to leases previously classified as operating leases under the principles of IAS 17 were recognized at the date of initial application of IFRS 16. These liabilities are measured at present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application. Right-of-use assets are measured retrospectively as if IFRS 16 had been applied from the inception date. Right-of-use assets are depreciated using the straight-line method.

For leases that were previously classified as finance leases as a lessee under the principles of IAS 17, the carrying amount of right-of-use assets and other financial liabilities as of the date of initial application has been measured based on the carrying amount of right-of-use assets and other financial liabilities, respectively, under IAS 17 as of the day immediately before that date.

The following is the reconciliation of non-cancelable operating lease contracts disclosed applying IAS 17 as of March 31, 2019 and other financial liabilities related to leases recognized in the consolidated statement of financial position at the date of initial application.

	(Thousands of yen)
Non-cancelable operating lease contracts disclosed as of March 31, 2019	11,305,119
Non-cancelable operating lease contracts discounted using the incremental borrowing rate as of April 1, 2019	11,292,343
Finance lease contracts as of March 31, 2019	18,033,862
Cancellable operating lease contracts, etc.	27,745,102
Other financial liabilities related to leases as of April 1, 2019	57,071,307

As a result of the adoption of IFRS 16, the Company recorded right-of-use assets of ¥38,988,207 thousand and other financial liabilities of ¥39,037,445 thousand at April 1, 2019. In addition, retained earnings decreased by ¥33,728 thousand primarily due to having adopted the method where the cumulative effect of applying this standard is recognized at the date of initial application.

The weighted average of incremental borrowing rates which is applied on the other financial liabilities at the date of initial application is 0.45%.

Also, the cash flows from operating activities increased by ¥9,143,689 thousand and the cash flows from the financing activities decreased by the same amount.

The following practical expedients are used in the adoption of IFRS 16.

- A single discount rate is applied to portfolios of leases with reasonably similar characteristics.
- Leases for which the lease term ends within 12 months of the date of initial application are accounted for in the same way as short-term leases.
- Initial direct costs are excluded from the measurement of the right-of-use asset at the date of initial application.
- The Company uses hindsight to calculate the lease term for lease contracts including options to extend or terminate the lease.

4. Significant accounting estimates and judgements involving estimates

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

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

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

Estimates and judgements with significant effects on the condensed consolidated financial statements for the nine months ended September 30, 2019 are same as those on the consolidated financial statements for the year ended March 31, 2019, except the judgement related to IFRS 16.

5. BUSINESS SEGMENTS

(1) Overview of reportable segments

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

The Company primarily operates its network service and system integration business, which provides a comprehensive range of network solutions to meet its customers' needs by cross-selling a variety of services, including Internet connectivity services, WAN services, outsourcing services, systems integration and sales of network-related equipment, and the ATM operation business. Therefore, the Company defined two reportable segments: "Network service and systems integration business" and "ATM operation business."

(2) Revenue and results of reportable segments

Segment information for the Company is as follows:

For the nine months ended December 31, 2018

	Reportable segments		Adjustments (Note)	Condensed quarterly consolidated statements of profit or loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	136,535,953	3,091,828	—	139,627,781
Intersegment transactions	276,270	—	(276,270)	—
Total revenue	136,812,223	3,091,828	(276,270)	139,627,781
Segment operating profit	4,456,057	1,209,530	(157,071)	5,508,516
Finance income				478,665
Finance expense				(365,511)
Share of profit (loss) of investments accounted for using the equity method				(66,635)
Profit before taxes				5,564,035

(Note) Intersegment transactions are based on market price. Segment operating profit is the amount of revenue less cost of sales and SG&A expenses plus other operating income and less other operating expenses.

For the nine months ended December 31, 2019

	Reportable segments		Adjustments (Note)	Condensed quarterly consolidated statements of profit or loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	147,586,849	3,101,475	—	150,688,324
Intersegment transactions	217,943	—	(217,943)	—
Total revenue	147,804,792	3,101,475	(217,943)	150,688,324
Segment operating profit	4,901,631	1,270,909	(112,470)	6,060,070
Finance income				349,156
Finance expense				(432,586)
Share of profit (loss) of investments accounted for using the equity method				(367,133)
Profit before tax				5,609,507

(Note) Intersegment transactions are based on market price. Segment operating profit is the amount of revenue less cost of sales and SG&A expenses plus other operating income and less other operating expenses.

For the three months ended December 31, 2018

	Reportable segments		Adjustments (Note)	Condensed quarterly consolidated statements of profit or loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	47,383,342	1,020,538	—	48,403,880
Intersegment transactions	80,071	—	(80,071)	—
Total revenue	47,463,413	1,020,538	(80,071)	48,403,880
Segment operating profit	1,863,623	403,037	(42,958)	2,223,702
Finance income				106,063
Finance expense				(152,229)
Share of profit (loss) of investments accounted for using the equity method				(43,401)
Profit before taxes				2,134,135

(Note) Intersegment transactions are based on market price. Segment operating profit is the amount of revenue less cost of sales and SG&A expenses plus other operating income and less other operating expenses.

For the three months ended December 31, 2019

	Reportable segments		Adjustments (Note)	Condensed quarterly consolidated statements of profit or loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	50,467,340	1,001,449	—	51,468,789
Intersegment transactions	72,236	—	(72,236)	—
Total revenue	50,539,576	1,001,449	(72,236)	51,468,789
Segment operating profit	2,344,876	401,958	(38,714)	2,708,120
Finance income				245,051
Finance expense				(152,940)
Share of profit (loss) of investments accounted for using the equity method				(234,012)
Profit before tax				2,566,219

(Note) Intersegment transactions are based on market price. Segment operating profit is the amount of revenue less cost of sales and SG&A expenses plus other operating income and less other operating expenses.

(3) Material changes in segment assets

As a result of the adoption of IFRS 16, segment assets of the network service and systems integration business segment increased by ¥36,960,763 thousand and amounted to ¥200,659,984 thousand for the nine months ended December 31, 2019.

6. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

	March 31, 2019	December 31, 2019
	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost		
Other receivable	555,221	2,400,528
Guarantee deposit	3,140,672	3,330,495
Loans receivable	52,788	51,962
Other	185,954	149,954
Allowance for credit losses	(58,790)	(26,024)
Lease receivable	2,998,914	2,382,480
Total	6,874,759	8,289,395
Current assets	1,581,212	3,417,957
Non-current assets	5,293,547	4,871,438
Total	6,874,759	8,289,395

7. OTHER FINANCIAL LIABILITIES

The components of other financial liabilities are as follows:

	March 31, 2019	December 31, 2019
	Thousands of yen	Thousands of yen
Financial liabilities measured at amortized cost		
Lease obligations		
Lease contracts based on financing form	18,033,862	18,255,855
Lease contracts other than based on financing form	—	31,267,543
Total	18,033,862	49,523,398
Account payable—non-current	623,420	934,167
Deposit payable	344,510	775,433
Others	181,244	592,255
Total	19,183,036	51,825,253
Current liabilities	7,031,690	17,050,793
Non-current liabilities	12,151,346	34,774,460
Total	19,183,036	51,825,253

8. DIVIDENDS PAID

For the nine months ended December 31, 2018

(1) Cash dividends paid.

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 28, 2018				
Ordinary General Meeting of Shareholders	608,349	13.50	March 31, 2018	June 29, 2018
November 6, 2018				
Board of directors meeting	608,452	13.50	September 30, 2018	December 7, 2018

For the nine months ended December 31, 2019

(1) Cash dividends paid

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 27, 2019				
Ordinary General Meeting of Shareholders	608,452	13.50	March 31, 2019	June 28, 2019
November 8, 2019				
Board of directors meeting	608,630	13.50	September 30, 2019	December 6, 2019

9. REVENUE

The Company classifies the revenues into “Network services,” “Systems integration” and “ATM operation” and breaks them down according to the contents of each services. The components of revenues recognized in the contracts with customers are as follows.

	For the nine months ended	For the nine months ended
	December 31, 2018	December 31, 2019
	Thousands of yen	Thousands of yen
Network services	88,134,315	91,524,644
Internet connectivity services (enterprise)	24,439,911	27,258,169
Wan services	23,241,270	20,795,184
Outsourcing services	21,548,846	23,941,024
Internet connectivity services (consumer)	18,904,288	19,530,267
Systems integration	48,401,638	56,062,205
Systems construction	17,601,269	22,080,987
Systems operation and maintenance	30,800,369	33,981,218
ATM operation business	3,091,828	3,101,475
Total	139,627,781	150,688,324

	For the three months	For the three months
	ended December 31, 2018	ended December 31, 2019
	Thousands of yen	Thousands of yen
Network services	29,976,158	30,320,743
Internet connectivity services (enterprise)	8,485,317	9,183,218
Wan services	7,768,241	6,452,686
Outsourcing services	7,403,501	8,151,463
Internet connectivity services (consumer)	6,319,099	6,533,376
Systems integration	17,407,184	20,146,597
Systems construction	6,811,408	8,327,753
Systems operation and maintenance	10,595,776	11,818,844
ATM operation business	1,020,538	1,001,449
Total	48,403,880	51,468,789

On the business 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 segments are stated in Note 5. SEGMENT INFORMATION.

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

For the nine months ended December 31, 2019, share of profit of investments accounted for using equity method included gains on changes in equity of ¥375,530 thousand from issuance of common stock of DeCurret Inc., which is accounted for equity method.

11. EARNINGS PER SHARE

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

	For the nine months ended December 31, 2018	For the nine months ended December 31, 2019
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	3,467,672	3,353,994
Denominator :		
Weighted average number of shares — basic (shares)	45,070,463	45,079,321
Dilution arising from stock options (shares)	175,037	198,351
Weighted average number of shares — diluted (shares)	45,245,500	45,277,672
Earnings per share attributable to owners of the parent		
Basic (yen)	76.94	74.40
Diluted (yen)	76.64	74.08
	For the three months ended December 31, 2018	For the three months ended December 31, 2019
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	1,372,581	1,597,892
Denominator :		
Weighted average number of shares — basic (shares)	45,070,489	45,083,689
Dilution arising from stock options (shares)	184,401	202,545
Weighted average number of shares — diluted (shares)	45,254,890	45,286,234
Earnings per share attributable to owners of the parent		
Basic (yen)	30.45	35.44
Diluted (yen)	30.33	35.28

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.

Others

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

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

March 31, 2019

	Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets :				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	114,010	—	114,010
Equity-based financial assets measured at FVTOCI				
Equity securities	7,619,096	—	1,379,302	8,998,398
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	2,199,303	2,199,303
Other financial assets	—	90,654	—	90,654
Total	<u>7,619,096</u>	<u>204,664</u>	<u>3,578,605</u>	<u>11,402,365</u>

December 31, 2019

	Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets :				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	113,320	—	113,320
Equity-based financial assets measured at FVTOCI				
Equity securities	8,008,016	—	1,486,262	9,494,278
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	2,375,370	2,375,370
Other financial assets	—	76,916	—	76,916
Total	<u>8,008,016</u>	<u>190,236</u>	<u>3,861,632</u>	<u>12,059,884</u>

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 transfers between the levels of fair value hierarchy are recognized, assuming that the transfers occurred at the end of each quarterly periods. There are no transfers during the fiscal year ended March 31 and nine months ended December 31, 2019.

(3) Changes in financial assets classified as Level 3

Changes in financial assets classified as Level 3 during the nine-month periods ended December 31, 2018 and 2019 were as follows:

	For the nine months ended December 31, 2018	For the nine months ended December 31, 2019
	Thousands of yen	Thousands of yen
Balance at the beginning of the period	3,509,612	3,578,605
Total gain or loss	331,500	310,285
Profit or loss (Note 1)	271,763	189,295
Other comprehensive income (Note 2)	59,737	120,990
Purchase	125,374	100,313
Sale	(513,997)	(127,571)
Balance at the end of period	<u>3,452,489</u>	<u>3,861,632</u>

(Note 1) Gain or loss included in profit or loss are related to financial assets that are measured at FVTPL. This gain or loss is included in finance income or finance expenses. Gains and losses recognized in profit or loss are due to changes in unrealized gains and losses on financial assets held at the end of each reporting period.

(Note 2) 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.”

(4) Financial instruments measured at amortized cost

Primary methods of measuring financial instruments at amortized cost 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.

The carrying amounts of financial assets and liabilities classified by current assets or liabilities approximate the fair values because they are settled in short term. The carrying amounts of financial assets and liabilities classified by non-current assets or liabilities approximate the fair values except aforementioned item.

The following tables present the Company's financial instruments measured at amortized cost consistent with the fair value hierarchy.

March 31, 2019

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Liabilities :					
Long-term borrowings (including current portion)	15,500,000	-	15,503,003	-	15,503,003

December 31, 2019

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Liabilities :					
Long-term borrowings (including current portion)	14,000,000	-	14,003,654	-	14,003,654

13. CONTINGENT LIABILITIES

The Company is involved in litigation and claims arising in the ordinary course of business. In evaluating matters on an ongoing basis, the Company takes into account estimated amounts accrued on the consolidated balance sheet. The Company believes that exposure to loss does not exist in excess of the amount accrued and the negative adverse outcome of such litigation and claims would not have a significant impact on the consolidated financial position or results of operations. On September 1, 2010, IJJ-Global entered into a Solutions Engagement Agreement with IBM Japan Ltd., IJJ-Global's largest sales partner. This agreement, which establishes the basis for a procurement relationship between IJJ-Global and IBM Japan, contains indemnification for IJJ-Global to perform services, functions, responsibilities and others that were being performed by AT&T Japan. This agreement renews automatically every year. IJJ-Global had no obligation for the indemnification as of December 31, 2019.

14. SUBSEQUENT EVENTS

There are no applicable items.

15. AUTHORIZATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

2. Other Information

An interim dividend of 13.5 yen per share with a record date of September 30, 2019 was resolved at the Board of Directors meeting on November 8, 2019 and paid as scheduled. (Total interim dividend is ¥608,630 thousand. The scheduled date for interim dividend payment: December 6, 2019)

PART 2 Information about Guarantors of the Company

Not applicable.

[English Translation of the Independent Auditor's Report Originally Issued in Japanese Language]

Independent Auditor's Report on Review of Condensed Quarterly Consolidated Financial Statements

February 14, 2020

To the Board of Directors of Internet Initiative Japan Inc.

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

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

We have reviewed the accompanying condensed quarterly consolidated financial statements of Internet Initiative Japan Inc. and its consolidated subsidiaries provided in the "Financial Information" section in the Company's Quarterly Securities Report, which comprise the condensed consolidated statement of financial position as at December 31, 2019, the condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows for the three and nine month periods then ended, and notes to the condensed consolidated financial statements, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

Management's Responsibility for the Condensed Quarterly Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these condensed quarterly consolidated financial statements 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", 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.

Auditor's Responsibility

Our responsibility is to independently express a conclusion on these condensed quarterly consolidated financial statements based on our review. We conducted our review in accordance with quarterly review standards generally accepted in Japan.

A review of the condensed quarterly financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally

accepted in Japan and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

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 Internet Initiative Japan Inc. and its consolidated subsidiaries as at December 31, 2019, and their financial performance and cash flows for the three and nine month periods then ended, in accordance with IAS 34 “Interim Financial Reporting”.

Emphasis of Matter

As discussed in Note 3. Significant accounting policies to the condensed quarterly consolidated financial statements, the Company has adopted IFRS 16 “Lease” from the beginning of the first quarter ended June 30, 2019 (April 1, 2019). Our conclusion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of Internet Initiative Japan Inc. and its consolidated subsidiaries for the year ended March 31, 2019, in accordance with International Financial Reporting Standards were audited by a predecessor auditor. The predecessor auditor expressed an audit opinion on those statements on June 27, 2019.

However, the condensed quarterly consolidated financial statements prepared as comparative information in accordance with IAS 34 “Interim Financial Reporting” for the three and nine month periods ended December 31, 2018, are not subject to quarterly review by the predecessor auditor.

Meanwhile, the quarterly consolidated financial statements of Internet Initiative Japan Inc. and its consolidated subsidiaries for the three and nine month periods ended December 31, 2018, pursuant to the Article 95 of the “Ordinance on Terminology, Forms and Preparation Methods for Quarterly Consolidated Financial Statements”, prepared in accordance with accounting principles generally accepted in the United States of America were reviewed by a predecessor auditor. The predecessor auditor expressed a review conclusion on those statements on February 14, 2019.

Interest in the Company

We have no interest in the Company which should 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.