

(TRANSLATION)

Quarterly Securities Report

(The Third Quarter of the 31st Business Term)
From October 1, 2022 to December 31, 2022 (“3Q22”)

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, 2021	Nine months ended December 31, 2022	30th business term ended March 31, 2022
Revenues (Three months ended December 31)	(millions of yen) 165,600 (56,546)	185,339 (63,377)	226,335
Operating profit	(millions of yen) 16,298	18,790	23,547
Profit before tax	(millions of yen) 17,597	19,018	24,162
Profit attributable to owners of the parent (Three months ended December 31)	(millions of yen) 11,522 (4,630)	12,854 (4,215)	15,672
Comprehensive income, attributable to owners of the parent	(millions of yen) 13,673	13,200	17,223
Comprehensive income	(millions of yen) 13,774	13,315	17,352
Equity attributable to owners of the parent	(millions of yen) 99,927	112,006	103,528
Total assets	(millions of yen) 224,599	234,858	231,805
Basic earnings per share (Three months ended December 31)	(yen) 63.81 (25.63)	71.14 (23.33)	86.78
Diluted earnings per share	(yen) 63.50	70.79	86.37
Ratio of owners' equity to gross assets	(%) 44.5	47.7	44.7
Cash flows from operating activities	(millions of yen) 30,370	27,314	43,573
Cash flows from investing activities	(millions of yen) (9,832)	(13,160)	(11,838)
Cash flows from financing activities	(millions of yen) (22,240)	(20,766)	(27,296)
Cash and cash equivalents, at the end of period	(millions of yen) 40,960	41,327	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 calculated as if the stock split had been conducted at the beginning of the previous consolidated fiscal year.
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, nine months ended December 31, 2021 and three months ended December 31, 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 nine months ended December 31, 2022 ("1Q-3Q22").

There were no material changes with respect to the associated companies during the 1Q-3Q22.

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 February 14, 2023.

(1) Analysis of Results of Operations

(i) Overview of consolidated business results for 1Q-3Q22

The Japanese economy gradually recovered during the fiscal year ending March 31, 2023 ("FY2022"). 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, the impact of the COVID-19 pandemic in Japan and foreign countries 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 1Q-3Q22, our group has continued to execute our business strategy which is to develop high value-added network services and to provide customers with safe and stable operations. We newly developed network services such as "IIJ Private Backbone Service/Smart HUB" which responds to growing cloud connection traffics mainly due to the adoption of Multi-cloud ^{(*)5}, "IIJ Secure Access Service," an in-house developed SASE ^{(*)6} service, "IIJ Cloud Data Platform Service" which enables data integration easily between on-premise ^{(*)7} and cloud, "IIJ Mobile Service/type D for IIJmio Biz" mobile service for enterprise and others to promote cross-selling to existing customers and acquisition of new customers. Revenues and profits increased as expected due to strong demand backed by the progress of IT utilization among private and public sectors. In 3Q22, large-scale network replacement projects acquired at the end of FY2021 and at the beginning of FY2022 which require a combination of network services and system integration began to contribute to monthly recurring revenues as expected. In addition, we have recently acquired large scale projects such as several information systems replacement projects from a broadcasting company, a core system construction project for a financial group, a network replacement project with a multi-year contract and a data center construction project in overseas. Those would accelerate our revenues growth further in the next fiscal year and onward. We celebrated our 30th anniversary in December 2022. As a commemorative initiative, we plan to open "IIJ Academy" in which we train engineers to become who shall lead network society in the future. We would like to contribute to the development of Japan's network society by providing our group's knowledge of Internet-related technologies.

Consolidated financial results for 1Q-3Q22 were as follows. Total revenues were JPY185,339 million (JPY165,600 million for 1Q-3Q21), up 11.9% YoY. Total cost of sales was JPY143,683 million (JPY128,816 million for 1Q-3Q21), up 11.5% YoY and gross profit was JPY41,656 million (JPY36,784 million for 1Q-3Q21), up 13.2% YoY. The breakdown by services was as follows. Network service revenues were JPY102,744 million (JPY95,097 million for 1Q-3Q21), up 8.0% YoY and gross profit for network services was JPY28,117 million (JPY26,444 million for 1Q-3Q21), up 6.3% YoY. As for the cost of Network services, there was onetime cost reimbursement, which was related to a mobile unit charge ^{(*)8} by NTT DOCOMO, INC., of over JPY0.5 billion in 3Q22 (a similar impact of approximately JPY1.8 billion in 3Q21) as FY2021 mobile unit charge was fixed based on its actual results for the corresponding period. SI revenues, including equipment sales, were JPY80,477 million (JPY68,413 million for 1Q-3Q21), up 17.6% YoY and gross profit for SI was JPY12,642 million (JPY9,544 million for 1Q-3Q21), up 32.5% YoY. ATM operation business revenues were JPY2,118 million (JPY2,090 million for 1Q-3Q21), up 1.3%

YoY and gross profit for ATM operation business was JPY897 million (JPY796 million for 1Q-3Q21), up 12.7% YoY. Net amount of selling, general and administrative expenses, other operating income and other operating expenses were JPY22,866 million (JPY20,486 million for 1Q-3Q21), up 11.6% YoY. Operating profit was JPY18,790 million (JPY16,298 million for 1Q-3Q21), up 15.3% YoY. Profit before tax was JPY19,018 million (JPY17,597 million for 1Q-3Q21), up 8.1% YoY. There were gains on financial instruments, related to funds, of JPY376 million (JPY2,560 million for 1Q-3Q21), foreign exchange gain of JPY323 million (JPY98 million for 1Q-3Q21) and share of loss of investments accounted for using equity method of JPY161 million (loss of JPY1,056 million for 1Q-3Q21). Profit attributable to owners of the parent for 3Q22 was JPY12,854 million (JPY11,522 million for 1Q-3Q21), up 11.6% 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. Multi-cloud: Multi-cloud means using multiple cloud services from multiple different cloud service providers, such as Amazon Web Services, Microsoft Azure and others.
- *6. 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.
- *7. On-premise: It is a way of managing IT assets such as servers and software by locating them within enterprises facilities and operating them.
- *8. Mobile unit charge: Cost of connection with other network operators. As for mobile services, interconnectivity charge refers to the unit charge for interconnectivity data communications charge between mobile carriers such as NTT DOCOMO and MVNOs such as IJ. The unit price is per Mbps.
- *9. GigaPlans: GigaPlans is IJ’s new consumer mobile service plans launched on April 1, 2021.

(ii) Analysis of Consolidated Results of Operations for nine 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

	1Q-3Q21	1Q-3Q22	YoY Change
	JPY millions	JPY millions	%
Total revenues	165,600	185,339	11.9
Network services	95,097	102,744	8.0
Systems integration (SI)	68,413	80,477	17.6
ATM operation business	2,090	2,118	1.3
Total costs	(128,816)	(143,683)	11.5
Network services	(68,653)	(74,627)	8.7
Systems integration (SI)	(58,869)	(67,835)	15.2
ATM operation business	(1,294)	(1,221)	(5.6)
Total gross profit	36,784	41,656	13.2
Network services	26,444	28,117	6.3
Systems integration (SI)	9,544	12,642	32.5
ATM operation business	796	897	12.7
SG&A, R&D, and other operating income (expenses)	(20,486)	(22,866)	11.6
Operating profit	16,298	18,790	15.3
Profit before tax	17,597	19,018	8.1
Profit for the period attributable to owners of the parent	11,522	12,854	11.6

(Note) Systems integration revenue includes equipment sales revenue.

Segment Results Summary

	1Q-3Q21	1Q-3Q22
	JPY millions	JPY millions
Total revenues	165,600	185,339
Network services and SI business	163,606	183,300
ATM operation business	2,090	2,118
Elimination	(96)	(79)
Operating profit	16,298	18,790
Network services and SI business	15,747	18,117
ATM operation business	617	693
Elimination	(66)	(20)

i) Revenues

Total revenues were JPY185,339 million, up 11.9% YoY (JPY165,600 million for 1Q-3Q21).

Network services revenues were JPY102,744 million, up 8.0% YoY (JPY95,097 million for 1Q-3Q21).

Revenues for Internet connectivity services for enterprise were JPY29,504 million, up 5.1% YoY from JPY28,082 million for 1Q-3Q21, mainly 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 JPY18,335 million, up 3.1% YoY from JPY17,780 million for 1Q-3Q21, 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 JPY34,359 million, up 15.2% YoY from JPY29,831 million for 1Q-3Q21, mainly due to an increase in security-related services revenues.

Revenues for WAN services were JPY20,546 million, up 5.9% YoY from JPY19,404 million for 1Q-3Q21.

Network Services Revenues Breakdown

	1Q-3Q21	1Q-3Q22	YoY Change
	JPY millions	JPY millions	%
Total network services	95,097	102,744	8.0
Internet connectivity services (enterprise)	28,082	29,504	5.1
IP services (including data center connectivity services)	10,069	10,862	7.9
IIJ Mobile services	15,132	15,548	2.7
Enterprise mobile service (IoT usages etc.)	7,516	8,149	8.4
IIJ Mobile MVNO Platform Service (MVNE)	7,616	7,399	(2.8)
Others	2,881	3,094	7.4
Internet connectivity services (consumer)	17,780	18,335	3.1
IIJmio Mobile Service	15,555	15,941	2.5
Others	2,225	2,394	7.6
Outsourcing services	29,831	34,359	15.2
WAN services	19,404	20,546	5.9

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

	As of December 31, 2021	As of December 31, 2022	YoY Change
Internet connectivity services (enterprise)	2,394,237	2,867,238	473,001
IP service (greater than or equal to 1Gbps) (Note 2)	751	1,341	590
IP service (less than 1Gbps) (Note 2)	1,206	1,334	128
IIJ Mobile Services	2,302,538	2,771,263	468,725
Enterprise mobile service (IoT usages etc.)	1,319,918	1,685,333	365,415
IIJ Mobile MVNO Platform Service (MVNE)	982,620	1,085,930	103,310
Others	89,742	93,300	3,558
Internet connectivity services (consumer)	1,419,277	1,538,622	119,345
IIJmio Mobile Service	1,072,920	1,196,683	123,763
Others	346,357	341,939	(4,418)
Total contracted bandwidth (Gbps) (Note 3)	7,346.5	8,727.3	1,380.8

(Notes)

- Numbers in the table above show number of contracts except for "IIJ Mobile Services (enterprise)" and "IIJmio Mobile Services" which show number of subscriptions.
- The numbers of IP service contracts include the numbers of IIJ data center connectivity service contracts. The number of IP services (greater than or equal to 1Gbps) contracts as of December 31, 2022 increased mainly due to Tokyo public high school project in 3Q22.
- Total contracted bandwidth is calculated by multiplying number of contracts under "Internet connectivity services (enterprise)" except for "IIJ Mobile Services" and the contracted bandwidths of the services respectively. Total contracted bandwidth as of December 31, 2022 increased mainly due to Tokyo public high school project in 3Q22.

SI revenues, including equipment sales, were JPY80,477 million, up 17.6% YoY (JPY68,413 million for 1Q-3Q21).

Systems construction and equipment sales, a one-time revenue, was JPY29,936 million, up 22.6% YoY (JPY24,415 million for 1Q-3Q21). Systems operation and maintenance revenue, a recurring revenue, was JPY50,541 million, up 14.9% YoY (JPY43,998 million for 1Q-3Q21), 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 JPY91,971 million, up 31.6% YoY (JPY69,910 million for 1Q-3Q21); orders received for systems construction and equipment sales were JPY34,190 million, up 29.0% YoY (JPY26,501 million for 1Q-3Q21), and orders received for systems operation and maintenance were JPY57,781 million, up 33.1% YoY (JPY43,409 million for 1Q-3Q21).

Order backlog for SI, including equipment sales, as of December 31, 2022 amounted to JPY84,285 million, up 23.7% YoY (JPY68,151 million as of December 31, 2021); order backlog for systems construction and equipment sales was JPY16,705 million, up 48.4% YoY (JPY11,254 million as of December 31, 2021) and order backlog for systems operation and maintenance was JPY67,580 million, up 18.8% YoY (JPY56,897 million as of December 31, 2021).

ATM operation business revenues were JPY2,118 million, up 1.3% YoY (JPY2,090 million for 1Q-3Q21).

ii) Cost of sales

Total cost of sales was JPY143,683 million, up 11.5% YoY (JPY128,816 million for 1Q-3Q21).

Cost of network services revenue was JPY74,627 million, up 8.7% YoY (JPY68,653 million for 1Q-3Q21). There were an increase in purchasing cost of mobile devices and one-time cost reimbursement, which was related to a mobile unit charge by NTT DOCOMO, INC., of over JPY0.5 billion in 3Q22 (a similar impact of approximately JPY1.08 billion in 3Q21) as FY2021 mobile unit charge was fixed based on its actual results for the corresponding period. Gross profit was JPY28,117 million, up 6.3% YoY (JPY26,444 million for 1Q-3Q21), and gross profit ratio was 27.4% (27.8% for 1Q-3Q21).

Cost of SI revenues, including equipment sales was JPY67,835 million, up 15.2% YoY (JPY58,869 million for 1Q-3Q21), mainly due to increases in purchasing costs and multi-cloud related services' license fees along with an increase in revenues. Gross profit was JPY12,642 million, up 32.5% YoY (JPY9,544 million for 1Q-3Q21) and gross profit ratio was 15.7% (13.9% for 1Q-3Q21).

Cost of ATM operation business revenues was JPY1,221 million, down 5.6% YoY (JPY1,294 million for 1Q-3Q21). Gross profit was JPY897 million (JPY796 million for 1Q-3Q21) and gross profit ratio was 42.4% (38.1% for 1Q-3Q21).

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

Selling, general and administrative expenses, including research and development expenses, totaled JPY23,064 million, up 12.5% YoY (JPY20,494 million for 1Q-3Q21), mainly due to increases in personnel-related expenses, advertising expenses and outsourcing expenses.

Other operating income was JPY246 million (JPY125 million for 1Q-3Q21).

Other operating expenses was JPY48 million (JPY117 million for 1Q-3Q21).

iv) Operating profit

Operating profit was JPY18,790 million (JPY16,298 million for 1Q-3Q21), up 15.3% YoY.

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

Finance income was JPY802 million (JPY2,756 million for 1Q-3Q21). It included gains on financial instruments, mainly related to funds, of JPY376 million (JPY2,560 million for 1Q-3Q21) and foreign exchange gain of JPY323 million (JPY98 million for 1Q-3Q21).

Finance expense was JPY413 million (JPY401 million for 1Q-3Q21). It included interest expenses of JPY400 million (JPY401 million for 1Q-3Q21).

Share of loss of investments accounted for using equity method was JPY161 million (loss of JPY1,056 million for 1Q-3Q21). There was a loss of DeCurret Holdings, Inc. of JPY274 million (JPY1,332 million for 1Q-3Q21).

vi) Profit before tax

Profit before tax was JPY19,018 million (JPY17,597 million for 1Q-3Q21), up 8.1% YoY.

vii) Profit for the period

Income tax expense was JPY6,049 million (JPY5,974 million for 1Q-3Q21). As a result, profit for the period was JPY12,969 million (JPY11,623 million for 1Q-3Q21), up 11.6% YoY.

Profit for the period attributable to non-controlling interests was JPY115 million (JPY101 million for 1Q-3Q21), mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of the parent was JPY12,854 million (JPY11,522 million for 1Q-3Q21), up 11.6% YoY.

(2) Financial Position

As of December 31, 2022, the balance of total assets was JPY234,858 million, increased by JPY3,053 million from the balance as of March 31, 2022 of JPY231,805 million.

As of December 31, 2022, the balance of current assets was JPY103,148 million, decreased by JPY1,337 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 JPY6,064 million to JPY41,327 million, trade receivables decreased by JPY1,570 million to JPY36,079 million, inventories increased by JPY1,682 million to JPY4,290 million, prepaid expenses increased by JPY2,354 million to JPY15,907 million, and contract assets increased by JPY1,448 million to JPY3,318 million.

As of December 31, 2022, the balance of non-current assets was JPY131,710 million, increased by JPY4,390 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 JPY5,056 million to JPY22,902 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 JPY2,376 million to JPY42,498 million mainly due to depreciation, intangible assets decreased by JPY224 million to JPY16,200 million mainly due to amortization of software, and prepaid expenses increased by JPY1,398 million to JPY11,850 million, mainly due to operation and maintenance costs.

As of December 31, 2022, the balance of current liabilities was JPY74,102 million, decreased by JPY2,675 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 JPY3,077 million to JPY23,819 million, borrowings increased by JPY400 million to JPY16,770 million mainly due to a decrease of JPY1,500 million from repayment of long-term borrowings and an increase of JPY2,000 million owing to a transfer from non-current liabilities, income taxes payable decreased by JPY3,817 million to JPY1,978 million, contract liabilities increased by JPY187 million to JPY9,758 million and other financial liabilities decreased by JPY1,260 million to JPY15,775 million.

As of December 31, 2022, the balance of non-current liabilities was JPY47,591 million, decreased by JPY2,816 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 JPY1,829 million to JPY3,671 million mainly due to a transfer to current portion, contract liabilities decreased by JPY503 million to JPY6,926 million and other financial liabilities decreased by JPY472 million to JPY29,674 million.

As of December 31, 2022, the balance of total equity attributable to owners of the parent was JPY112,006 million, increased by JPY8,478 million from the balance as of March 31, 2022 of JPY103,528 million. Ratio of owners' equity to total assets was 47.7% as of December 31, 2022.

(3) Cash Flows

Cash and cash equivalents as of December 31, 2022 were JPY41,327 million (JPY40,960 million as of December 31, 2021).

Cash Flows provided by Operating Activities

Net cash provided by operating activities for 1Q-3Q22 was JPY27,314 million (net cash provided by operating activities of JPY30,370 million for 1Q-3Q21). There were profit before tax of JPY19,018 million (JPY17,597 million for 1Q-3Q21), depreciation and amortization of JPY21,254 million (JPY21,088 million for 1Q-3Q21), including JPY8,460 million (JPY8,643 million for 1Q-3Q21) of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY9,871 million (JPY5,680 million for 1Q-3Q21). Regarding changes in working capital, there was net cash out of JPY2,991 million (net cash out of JPY1,298 million for 1Q-3Q21). As for the major factors for the increase in net cash out in comparison with 1Q-3Q21, 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 1Q-3Q22 was JPY13,160 million (net cash used in investing activities of JPY9,832 million for 1Q-3Q21), mainly due to payments for purchases of tangible assets, such as Shiroi Data Center Campus construction-related, of JPY9,760 million (JPY4,893 million for 1Q-3Q21), payments for purchases of intangible assets, such as software, of JPY4,150 million (JPY3,627 million for 1Q-3Q21), and proceeds from sales of tangible assets of JPY1,216 million (JPY1,776 million for 1Q-3Q21).

Cash Flows used in Financing Activities

Net cash used in financing activities for 1Q-3Q22 was JPY20,766 million (net cash used in financing activities of JPY22,240 million for 1Q-3Q21), mainly due to payments of other financial liabilities of JPY14,396 million (JPY14,665 million for 1Q-3Q21), 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 JPY1,500 million (JPY5,170 million for 1Q-3Q21) and dividends paid of JPY4,901 million (JPY3,836 million for 1Q-3Q21).

(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-3Q22.

(5) Research and developments

For 1Q-3Q22, research and development expenses, which were in relation to network services and systems integration business segment, were JPY373 million (JPY380 million for 1Q-3Q21), down 1.8% YoY.

(6) Number of employees

There were no material changes in the number of employees of the Company or IJJ during 1Q-3Q22.

(i) Consolidated basis

As of December 31, 2022

Number of Employees	4,392 (54)
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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 Company. The average number of part-time employees for the reporting period is shown in brackets.

(ii) IJJ (non-consolidated basis)

As of December 31, 2022

Number of Employees	2,461 (29)
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(Note) The number of employees indicates the total number of full-time and contract workers. It does not include third-party employees working at 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	1Q-3Q22 (Nine months ended December 31, 2022)	
	Production (millions of yen)	Year-over-year comparison (%)
Systems Integration, including Equipment Sales	68,473	16.3
Total	68,473	16.3

(Note)

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

(ii) Orders Received

Type of Services	1Q-3Q22 (Nine months ended December 31, 2022)			
	Orders Received (millions of yen)	Year-over-year comparison (%)	Order Backlog (millions of yen)	Year-over-year comparison (%)
Systems Construction and Equipment Sales	34,190	29.0	16,705	48.4
Systems Operation and Maintenance	57,781	33.1	67,580	18.8
Total	91,971	31.6	84,285	23.7

(Note)

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

(iii) Sales

Type of services	1Q-3Q22 (Nine months ended December 31, 2022)	
	Revenue (millions of yen)	Year-over-year comparison (%)
Network services	102,744	8.0
Internet connectivity services (enterprise)	29,504	5.1
Internet connectivity services (consumer)	18,335	3.1
Outsourcing services	34,359	15.2
WAN services	20,546	5.9
Systems integration	80,477	17.6
Systems construction and equipment sales	29,936	22.6
Systems operation and maintenance	50,541	14.9
ATM operation business	2,118	1.3
Total revenues	185,339	11.9

(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 1Q-3Q22.

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	302,080,000
Total	302,080,000

(ii) 【Number of shares issued】

Class	Number of shares issued as of the end of period (shares) (December 31, 2022)	Number of shares issued as of the filing date (shares) (November 14, 2023)	Stock exchange on which IIJ is listed or authorized financial instruments firms association	Description
Common stock	187,069,600	187,069,600	Tokyo Stock Exchange (the Prime market)	The number of shares constituting a unit is 100.
Total	187,069,600	187,069,600	—	—

(2) Information on Stock Acquisition Rights

(i) Description of Stock Option Plan

Not applicable.

(ii) Other Stock Acquisition Rights

Not applicable.

(3) Information on Moving Strike Convertible Bonds

Not applicable.

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

Date	Changes in the total number of issued shares (shares)	Balance of the total number of issued shares (shares)	Changes in capital (millions of yen)	Balance of capital (millions of yen)	Changes in capital reserve (millions of yen)	Balance of capital reserve (millions of yen)
From October 1, 2022 to December 31, 2022(Note)	93,534,800	187,069,600	—	23,023	—	9,743

(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.

(5) Major Shareholders

Not applicable for the third quarter of the 31st 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, 2022, the preceding reference date, as the register of shareholders as of December 31, 2022 cannot be confirmed.

(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 December 31, 2022 (the end of 3Q22).

Item 4. Financial Information

1. Condensed Quarterly Consolidated Financial Statements

(1) Condensed Consolidated Statements of Financial Position

	Note	March 31, 2022	December 31, 2022
		Millions of yen	Millions of yen
Assets			
Current assets			
Cash and cash equivalents		47,391	41,327
Trade receivables		37,649	36,079
Inventories		2,608	4,290
Prepaid expenses		13,553	15,907
Contract assets		1,870	3,318
Other financial assets	7,12	1,295	1,926
Other current assets		119	301
Total current assets		104,485	103,148
Non-current assets			
Tangible assets		17,846	22,902
Right-of-use assets		44,874	42,498
Goodwill		9,479	9,790
Intangible assets		16,424	16,200
Investments accounted for using equity method		5,830	5,598
Prepaid expenses		10,452	11,850
Contract assets		69	47
Other investments	12	17,410	17,689
Deferred tax assets		183	193
Other financial assets	7,12	4,245	4,375
Other non-current assets		508	568
Total non-current assets		127,320	131,710
Total assets		231,805	234,858

	Note	March 31, 2022	December 31, 2022
		Millions of yen	Millions of yen
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables		20,742	23,819
Borrowings	12	16,370	16,770
Income taxes payable		5,795	1,978
Contract liabilities		9,571	9,758
Deferred income		65	102
Other financial liabilities	8,12	17,035	15,775
Other current liabilities		7,199	5,900
Total current liabilities		76,777	74,102
Non-current liabilities			
Borrowings	12	5,500	3,671
Retirement benefit liabilities		4,395	4,578
Provisions		786	789
Contract liabilities		7,429	6,926
Deferred income		340	297
Deferred tax liabilities		641	515
Other financial liabilities	8,12	30,146	29,674
Other non-current liabilities		1,170	1,141
Total non-current liabilities		50,407	47,591
Total liabilities		127,184	121,693
Equity			
Share capital		25,562	25,562
Share premium		36,518	36,677
Retained earnings		37,024	44,977
Other components of equity		6,275	6,621
Treasury shares		(1,851)	(1,831)
Total equity attributable to owners of the parent		103,528	112,006
Non-controlling interests		1,093	1,159
Total equity		104,621	113,165
Total liabilities and equity		231,805	234,858

(2) Condensed Consolidated Statements of Profit or Loss

	Note	Nine Months Ended December 31, 2021	Nine Months Ended December 31, 2022
		Millions of yen	Millions of yen
Revenues			
Network services		95,097	102,744
System integration		68,413	80,477
ATM operation business		2,090	2,118
Total revenues	5,10	165,600	185,339
Cost of sales			
Cost of network services		(68,653)	(74,627)
Cost of systems integration		(58,869)	(67,835)
Cost of ATM operation business		(1,294)	(1,221)
Total cost of sales		(128,816)	(143,683)
Gross Profit		36,784	41,656
Selling, general and administrative expenses		(20,494)	(23,064)
Other operating income		125	246
Other operating expenses		(117)	(48)
Operating Profit		16,298	18,790
Finance income	12	2,756	802
Finance expenses	12	(401)	(413)
Share of profit (loss) of investments accounted for using equity method		(1,056)	(161)
Profit (loss) before tax		17,597	19,018
Income tax expense		(5,974)	(6,049)
Profit (loss) for the period		11,623	12,969
Profit (loss) for the period attributable to:			
Owners of the parent		11,522	12,854
Non-controlling interests		101	115
Total		11,623	12,969
Earnings per share	11		
Basic earnings per share (yen)		63.81	71.14
Diluted earnings per share (yen)		63.50	70.79

※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 December 31, 2021	Three Months Ended December 31, 2022
		Millions of yen	Millions of yen
Revenues			
Network services		31,661	35,038
System integration		24,204	27,629
ATM operation business		681	710
Total revenues	5,10	56,546	63,377
Cost of sales			
Cost of network services		(21,899)	(24,825)
Cost of systems integration		(20,529)	(22,978)
Cost of ATM operation business		(419)	(409)
Total cost of sales		(42,847)	(48,212)
Gross Profit		13,699	15,165
Selling, general and administrative expenses		(6,704)	(7,556)
Other operating income		32	25
Other operating expenses		(33)	(17)
Operating Profit		6,994	7,617
Finance income	12	983	19
Finance expenses	12	(128)	(1,393)
Share of profit (loss) of investments accounted for using equity method		(684)	(83)
Profit (loss) before tax		7,165	6,160
Income tax expense		(2,500)	(1,931)
Profit (loss) for the period		4,665	4,229
Profit (loss) for the period attributable to:			
Owners of the parent		4,630	4,215
Non-controlling interests		35	14
Total		4,665	4,229
Earnings per share	11		
Basic earnings per share (yen)		25.63	23.33
Diluted earnings per share (yen)		25.51	23.21

※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	Nine Months Ended December 31, 2021	Nine Months Ended December 31, 2022
		Millions of yen	Millions of yen
Profit (loss)		11,623	12,969
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		1,887	(274)
Total of items that will not be reclassified to profit or loss		1,887	(274)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		245	579
Financial assets measured at fair value through other comprehensive income		(0)	(3)
Share of other comprehensive income of investments accounted for using equity method		19	44
Total of items that may be reclassified to profit or loss		264	620
Total other comprehensive income, net of tax		2,151	346
Other comprehensive income		13,774	13,315
Other comprehensive income attributable to:			
Owners of the parent		13,673	13,200
Non-controlling interest		101	115
Other comprehensive income		13,774	13,315

Condensed Consolidated Statements of Comprehensive Income

	Note	Three Months Ended December 31, 2021	Three Months Ended December 31, 2022
		Millions of yen	Millions of yen
Profit (loss)		4,665	4,229
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		(121)	437
Total of items that will not be reclassified to profit or loss		(121)	437
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		227	(433)
Financial assets measured at fair value through other comprehensive income		(0)	(2)
Share of other comprehensive income of investments accounted for using equity method		6	10
Total of items that may be reclassified to profit or loss		233	(425)
Total other comprehensive income, net of tax		112	12
Other comprehensive income		4,777	4,241
Other comprehensive income attributable to:			
Owners of the parent		4,742	4,227
Non-controlling interest		35	14
Other comprehensive income		4,777	4,241

(4) Condensed Consolidated Statements of Changes in Shareholders' Equity
 Nine months ended December 31, 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)	-	-	11,522	-	-	11,522	101	11,623
Other comprehensive income	-	-	-	2,151	-	2,151	-	2,151
Total comprehensive income	-	-	11,522	2,151	-	13,673	101	13,774
Transactions with owners								
Issuance of common stock	31	(31)	-	-	-	0	-	0
Disposal of treasury shares	-	53	-	-	24	77	-	77
Dividends paid	9	-	(3,836)	-	-	(3,836)	(49)	(3,885)
Stock-based compensation	-	61	-	-	-	61	-	61
Other	-	(5)	-	-	-	(5)	(2)	(7)
Total transactions with owners	31	78	(3,836)	-	24	(3,703)	(51)	(3,754)
Balance, December 31, 2021	25,562	36,467	32,733	7,016	(1,851)	99,927	1,065	100,992

Nine months ended December 31, 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)	-	-	12,854	-	-	12,854	115	12,969
Other comprehensive income	-	-	-	346	-	346	-	346
Total comprehensive income	-	-	12,854	346	-	13,200	115	13,315
Transactions with owners								
Purchase of treasury stock	-	-	-	-	0	0	-	0
Disposal of treasury shares	-	99	-	-	20	119	-	119
Dividends paid	9	-	(4,901)	-	-	(4,901)	(49)	(4,950)
Stock-based compensation	-	60	-	-	-	60	-	60
Total transactions with owners	-	159	(4,901)	-	20	(4,722)	(49)	(4,771)
Balance, December 31, 2022	25,562	36,677	44,977	6,621	(1,831)	112,006	1,159	113,165

(5) Condensed Consolidated Statements of Cash Flows

	Note	Nine Months Ended December 31, 2021	Nine Months Ended December 31, 2022
		Millions of yen	Millions of yen
Cash flows from operating activities			
Profit (loss) before tax		17,597	19,018
Adjustments			
Depreciation and amortization		21,088	21,254
Loss (gain) on sales/disposals of property and equipment		98	(143)
Shares of loss (profit) of investments accounted for using equity method		1,056	161
Finance income		(2,776)	(802)
Finance expenses		401	413
Other		112	475
Changes in working capital			
Decrease (increase) in trade receivables		4,277	1,784
Decrease (increase) in inventories		(208)	(1,669)
Decrease (increase) in prepaid expenses		(2,114)	(3,440)
Decrease (increase) in contract assets		(1,442)	(1,426)
Decrease (increase) in other assets		(102)	(183)
Decrease (increase) in other financial assets		(563)	(745)
Increase (decrease) in trade and other payables		(606)	3,516
Increase (decrease) in contract liabilities		(562)	(577)
Increase (decrease) in deferred income		(8)	(1)
Increase (decrease) in other liabilities		(1,152)	(1,402)
Increase (decrease) in other financial liabilities		851	969
Increase (decrease) in retirement benefit liabilities		332	183
Subtotal		36,279	37,385
Interest and dividends received		170	201
Interest paid		(398)	(401)
Income taxes paid		(5,680)	(9,871)
Cash flows from operating activities		30,370	27,314

	Note	Nine Months Ended December 31, 2021	Nine Months Ended December 31, 2022
		Millions of yen	Millions of yen
Cash flows from investing activities			
Purchases of tangible assets		(4,893)	(9,760)
Proceeds from sales of tangible assets		1,776	1,216
Purchases of intangible assets		(3,627)	(4,150)
Proceeds from sales of intangible assets		0	-
Purchase of a subsidiary		(2,612)	-
Purchases of other investments		(574)	(397)
Proceeds from sales of other investments		104	19
Payments for leasehold deposits and guarantee deposits		(91)	(49)
Proceeds from collection of leasehold deposits and guarantee deposits		141	16
Payments for refundable insurance policies		(56)	(56)
Other		0	1
Cash flows from investing activities		(9,832)	(13,160)
Cash flows from financing activities			
Proceeds from long-term borrowings		-	179
Repayment of long-term borrowings		(5,170)	(1,500)
Net increase (decrease) in short-term borrowings		1,480	(100)
Payments of other financial liabilities		(14,665)	(14,396)
Dividends paid		(3,836)	(4,901)
Other		(48)	(48)
Cash flows from financing activities		(22,240)	(20,766)
Effect of exchange rate changes on cash and cash equivalents		195	548
Net increase (decrease) in cash and cash equivalents		(1,507)	(6,064)
Cash and cash equivalents, beginning of the period		42,467	47,391
Cash and cash equivalents, end of the period		40,960	41,327

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 December 31, 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 nine months ended December 31, 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 nine months ended December 31, 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 nine months ended December 31, 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 IJJ, who is the chief decision-maker regarding business operations in order to determine the allocation of resources and evaluate performance. The President and Representative Director of IJJ evaluates the performance of each segment, with operating revenue and operating income as the primary indicator.

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

(2) Revenue and results of reportable segments

Segment information for the Company is as follows:

For the nine months ended December 31, 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	163,510	2,090	—	165,600
Intersegment transactions	96	—	(96)	—
Total revenue	163,606	2,090	(96)	165,600
Segment operating profit	15,747	617	(66)	16,298
Finance income				2,756
Finance expense				(401)
Share of profit (loss) of investments accounted for using the equity method				(1,056)
Profit before tax				17,597

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

For the nine months ended December 31, 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	183,221	2,118	—	185,339
Intersegment transactions	79	—	(79)	—
Total revenue	183,300	2,118	(79)	185,339
Segment operating profit	18,117	693	(20)	18,790
Finance income				802
Finance expense				(413)
Share of profit (loss) of investments accounted for using the equity method				(161)
Profit before tax				19,018

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

For the three months ended December 31, 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	55,865	681	—	56,546
Intersegment transactions	30	—	(30)	—
Total revenue	55,895	681	(30)	56,546
Segment operating profit	6,814	200	(20)	6,994
Finance income				983
Finance expense				(128)
Share of profit (loss) of investments accounted for using the equity method				(684)
Profit before tax				7,165

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

For the three months ended December 31, 2022

	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	62,667	710	—	63,377
Intersegment transactions	24	—	(24)	—
Total revenue	62,691	710	(24)	63,377
Segment operating profit	7,392	225	—	7,617
Finance income				19
Finance expense				(1,393)
Share of profit (loss) of investments accounted for using the equity method				(83)
Profit before tax				6,160

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

6. BUSINESS MERGERS AND ACQUISITIONS

For the nine months ended December 31, 2021

(PTC SYSTEM(S) PTE LTD ("PTC"))

IJJ 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, IJJ 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 (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 nine months ended December 31, 2021 includes revenues and net income generated by PTC after the acquisition date of ¥5,301 million and ¥221 million, respectively.

For the nine months ended December 31, 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>December 31, 2022</u>
	Millions of yen	Millions of yen
Financial assets measured at amortized cost		
Other receivable	465	1,141
Guarantee deposit	3,567	3,550
Loans receivable	25	23
Other	204	310
Lease receivable	1,279	1,277
Total	<u>5,540</u>	<u>6,301</u>
Current assets	1,295	1,926
Non-current assets	4,245	4,375
Total	<u>5,540</u>	<u>6,301</u>

8. OTHER FINANCIAL LIABILITIES

The components of other financial liabilities are as follows:

	<u>March 31, 2022</u>	<u>December 31, 2022</u>
	Millions of yen	Millions of yen
Financial liabilities measured at amortized cost		
Account payable—non-current (including current portion)	679	491
Deposit payable	243	1,206
Others	33	37
Lease obligations	46,226	43,715
Total	<u>47,181</u>	<u>45,449</u>
Current liabilities	17,035	15,775
Non-current liabilities	30,146	29,674
Total	<u>47,181</u>	<u>45,449</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>December 31, 2022</u>
	Millions of yen	Millions of yen
Financial leases	18,069	16,733
Other leases	28,157	26,982

9. DIVIDENDS PAID

Cash dividends paid are as follows:

For the nine months ended December 31, 2021

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
November 5, 2021 Board of Directors meeting	2,077	23.00	September 30, 2021	December 3, 2021

For the nine months ended December 31, 2022

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Millions of yen	Yen		
June 28, 2022 Ordinary General Meeting of Shareholders	2,258	25.00	March 31, 2022	June 29, 2022
November 7, 2022 Board of Directors meeting	2,643	29.25	September 30, 2022	December 2, 2022

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

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 nine months ended	For the nine months ended
	December 31, 2021	December 31, 2022
	Millions of yen	Millions of yen
Network services	95,097	102,744
Internet connectivity services (enterprise)	28,082	29,504
Wan services	19,404	20,546
Outsourcing services	29,831	34,359
Internet connectivity services (consumer)	17,780	18,335
Systems integration	68,413	80,477
Systems construction	24,415	29,936
Systems operation and maintenance	43,998	50,541
ATM operation business	2,090	2,118
Total	165,600	185,339

	For the three months	For the three months
	ended December 31, 2021	ended December 31, 2022
	Millions of yen	Millions of yen
Network services	31,661	35,038
Internet connectivity services (enterprise)	9,269	10,236
Wan services	6,523	7,030
Outsourcing services	10,285	11,890
Internet connectivity services (consumer)	5,584	5,882
Systems integration	24,204	27,629
Systems construction	8,943	10,385
Systems operation and maintenance	15,261	17,244
ATM operation business	681	710
Total	56,546	63,377

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 nine months ended December 31, 2021	For the nine months ended December 31, 2022
Numerator :		
Basic earnings attributable to owners of the parent (millions of yen)	11,522	12,854
Earnings adjustment (millions of yen)	—	—
Earnings used to calculate earnings per share — diluted (millions of yen)	11,522	12,854
Denominator :		
Weighted average number of shares — basic (shares)	180,581,022	180,678,380
Dilution arising from stock options (shares)	863,230	889,731
Weighted average number of shares — diluted (shares)	181,444,252	181,568,111
Earnings per share attributable to owners of the parent		
Basic (yen)	63.81	71.14
Diluted (yen)	63.50	70.79

	For the three months ended December 31, 2021	For the three months ended December 31, 2022
Numerator :		
Basic earnings attributable to owners of the parent (millions of yen)	4,630	4,215
Earnings adjustment (millions of yen)	—	—
Earnings used to calculate earnings per share — diluted (millions of yen)	4,630	4,215
Denominator :		
Weighted average number of shares — basic (shares)	180,626,266	180,697,907
Dilution arising from stock options (shares)	855,686	896,540
Weighted average number of shares — diluted (shares)	181,481,952	181,594,447
Earnings per share attributable to owners of the parent		
Basic (yen)	25.63	23.33
Diluted (yen)	25.51	23.21

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 of per share for the nine months ended December 31, 2021, for the nine months ended December 31, 2022, for the three months ended December 31, 2021, and for the three months ended December 31, 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

December 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	—	105	—	105
Equity-based financial assets measured at FVTOCI				
Equity securities	8,892	—	1,587	10,479
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	6,936	6,936
Other financial assets	—	169	—	169

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 nine months periods ended December 31, 2021 and 2022 were as follows:

	For the nine months ended December 31, 2021	For the nine months ended December 31, 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)	7	(48)
Purchase	100	—
Sale	—	(10)
Balance at the end of period	1,577	1,587
Investment trust and other securities		
Balance at the beginning of the period	2,941	6,288
Profit or loss (Note 2)	2,459	294
Purchase	471	363
Sale	(104)	(9)
Balance at the end of period	5,767	6,936

(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

December 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)	5,500	-	5,504	-	5,504

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 December 31, 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

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, Senior Managing Director, CFO on February 14, 2023.

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

February 14, 2023

To the Board of Directors of Internet Initiative Japan Inc.

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

Yusuke Matsumoto
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Conclusion

We have reviewed the accompanying condensed quarterly consolidated financial statements of Internet Initiative Japan Inc. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”) provided in the “Financial Information” section in the Company’s Quarterly Securities Report, which comprise the condensed quarterly consolidated statement of financial position as at December 31, 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 nine 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 December 31, 2022, and its financial performance and cash flows for the three and nine 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 the condensed quarterly consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

activities within the Group to express a conclusion on the condensed quarterly consolidated financial statements. We are responsible for the direction, supervision and performance of the group review. We remain solely responsible for our review conclusion.

We communicate with corporate auditors and the board of corporate auditors regarding, the planned scope and timing of the review, significant review findings that we identify during our review.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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.