

IIJ Announces its First Six Months Financial Results
for the Fiscal Year Ending March 31, 2021

Tokyo, November 9, 2020 - Internet Initiative Japan Inc. (“IIJ”, TSE1: 3774) today announced its consolidated financial results for the first six months for the fiscal year ending March 31, 2021 (“1H20”, from April 1, 2020 to September 30, 2020) under International Financial Reporting Standards (IFRS).¹

Highlights of Financial Results for 1H20

Total revenues	JPY101.7 billion	up	2.5%	YoY ²
Gross profit	JPY17.5 billion	up	14.8%	YoY
Operating profit	JPY5.2 billion	up	56.3%	YoY
Profit before tax	JPY4.5 billion	up	46.7%	YoY
Net profit ³	JPY2.8 billion	up	57.7%	YoY

New Financial Targets for FY2020 (Revised on November 9, 2020)

					Original Target
Total revenues	JPY212.0 billion	up	3.7%	YoY	JPY210.0 billion
Operating profit	JPY11.3 billion	up	37.4%	YoY	JPY8.7 billion
Profit before tax	JPY10.0 billion	up	39.7%	YoY	JPY8.0 billion
Net profit	JPY6.1 billion	up	52.2%	YoY	JPY5.0 billion
Annual Cash Dividend ⁴ (per share of common stock)	JPY41.00				JPY34.00

Overview of 1H20 Financial Results and Business Outlook

“Under the continuation of the COVID-19 pandemic, both public and private sectors of Japanese society were certainly pressured to accelerate their adoption of IT and network resources. The ongoing transition shall go beyond just relying on emergency remote-work measures and to become profound changes for large Japanese enterprises’ attitude toward IT, which is quite behind in general. We have been pursuing our basic business strategies to develop reliable and value-added network services by ourselves to offer comprehensive solutions to our blue-chip clients base by leveraging our Internet-related technology expertise and robust Internet backbone. The current business climate would enhance our business growth more than ever,” said Koichi Suzuki, Founder, CEO and Chairman of IIJ.

“We had strong 1H20 financial results under the above mentioned business circumstance. We continued to acquire demands for variety of network services such as SD-WAN services, private connectivity services with other cloud vendors, mobile VPN services. Demands for systems integration seemed to be recovered gradually which were slow in 1Q20 due to the slowdown in enterprise business activity. The network services’ revenue growth largely contributed to a significant increase in the gross profit and translated into stronger than expected operating profit. We are well-positioned in the coming Japan’s shift toward much more network-based society, and by considering the financial results, we have revised our full-year financial targets upward.⁵ Along with the profit growth, we increased both interim and year-end cash dividend forecast⁶ and also announced the 2-for-1 stock split,⁷” concluded Eijiro Katsu, COO and President of IIJ.

¹ Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with IFRS, unaudited and consolidated.

² YoY is an abbreviation for year over year change.

³ Net profit is “profit for the period attributable to owners of the parent.”

⁴ IIJ plans a stock split at a ratio of two-for-one, effective from January 1, 2021. The written annual cash dividends are pre-split amounts.

⁵ For details about the forecast revision, please refer to our press release titled “Notice Regarding the Differences between Financial Results for the Six Months ended September 30, 2020 and September 30, 2019, and Upward Revision of the Full-Year Financial Targets for the Fiscal Year ending March 31, 2021.”

⁶ For details about the cash dividend forecast, please refer to our press release titled “Notice regarding the Distribution of Retained Earnings (Interim Dividend, Increase) and Revision of Dividend Forecast for the fiscal year ending March 31, 2021.”

⁷ For details about the stock split, please refer to our press release titled “Notice Regarding Stock Split and Partial Amendments to the Articles of Incorporation.”

1H20 Financial Results Summary

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

Operating Results Summary

	1H19	1H20	YoY Change
	JPY millions	JPY millions	%
Total revenues	99,220	101,665	2.5
Network services	61,204	62,104	1.5
Systems integration (SI)	35,916	38,167	6.3
ATM operation business	2,100	1,394	(33.6)
Total costs	(84,020)	(84,210)	0.2
Network services	(51,153)	(49,896)	(2.5)
Systems integration (SI)	(31,742)	(33,390)	5.2
ATM operation business	(1,125)	(924)	(17.8)
Total gross profit	15,200	17,455	14.8
Network services	10,051	12,208	21.5
Systems integration (SI)	4,174	4,777	14.5
ATM operation business	975	470	(51.8)
SG&A, R&D, and other operating income (expenses)	(11,848)	(12,216)	3.1
Operating profit	3,352	5,239	56.3
Profit before tax	3,043	4,466	46.7
Profit for the period attributable to owners of the parent	1,756	2,770	57.7

(Note) Systems integration includes equipment sales.

Segment Results Summary

	1H19	1H20
	JPY millions	JPY millions
Total revenues	99,220	101,665
Network services and SI business	97,265	100,360
ATM operation business	2,100	1,394
Elimination	(145)	(89)
Operating profit	3,352	5,239
Network service and SI business	2,557	4,923
ATM operation business	869	378
Elimination	(74)	(62)

1H20 Revenues and Income

Revenues

Total revenues were JPY101,665 million, up 2.5% YoY (JPY99,220 million for 1H19).

Network services revenue was JPY62,104 million, up 1.5% YoY (JPY61,204 million for 1H19).

Revenues for Internet connectivity services for enterprise were JPY19,650 million, up 8.7% YoY from JPY18,075 million for 1H19, mainly due to an increase in IP services revenues and mobile-related services revenues along with an increase of telecommunication demands.

Revenues for Internet connectivity services for consumers were JPY12,885 million, down 0.9% YoY from JPY12,997 million for 1H19, mainly due to competition and a decrease in “IIJmio Mobile Service,” consumer mobile services revenues, along with sluggish sales of retailers under the COVID-19 pandemic.

Revenues for WAN services were JPY12,336 million, down 14.0% YoY from JPY14,342 million for 1H19. The decrease was mainly because of the year over year impact by large enterprises clients’ migration to mobile which mostly ended in 3Q19.

Revenues for Outsourcing services were JPY17,233 million, up 9.1% YoY from JPY15,790 million for 1H19, mainly due to an increase in security-related services revenues.

Network Services Revenues Breakdown

	1H19	1H20	YoY Change
	JPY millions	JPY millions	%
Total network services	61,204	62,104	1.5
Internet connectivity services (enterprise)	18,075	19,650	8.7
IP services (including data center connectivity services)	5,314	5,849	10.1
IIJ Mobile services	11,133	12,035	8.1
IIJ Mobile MVNO Platform Service (MVNE)	8,234	8,551	3.9
Others	2,899	3,484	20.2
Others	1,628	1,766	8.4
Internet connectivity services (consumer)	12,997	12,885	(0.9)
IIJmio Mobile Service	11,710	11,549	(1.4)
Others	1,287	1,336	3.9
WAN services	14,342	12,336	(14.0)
Outsourcing services	15,790	17,233	9.1

Number of Contracts and Subscription for Connectivity Services

	As of Sep. 30, 2019	As of Sep. 30, 2020	YoY Change
Internet connectivity services (enterprise)	1,827,220	2,180,704	353,484
IP service (greater than or equal to 1Gbps)	743	778	35
IP service (less than 1Gbps)	1,240	1,239	(1)
IIJ Mobile Services	1,741,824	2,090,428	348,604
IIJ Mobile MVNO Platform Service (MVNE)	1,090,569	1,122,880	32,311
Others	651,255	967,548	316,293
Others	83,413	88,259	4,846
Internet connectivity services (consumer)	1,408,665	1,384,933	(23,732)
IIJmio Mobile Service	1,075,758	1,044,681	(31,077)
Others	332,907	340,252	7,345
Total contracted bandwidth (Gbps)	4,454.0	5,869.0	1,415.0

(Notes)

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

SI revenues, including equipment sales, were JPY38,167 million, up 6.3% YoY (JPY35,916 million for 1H19). Systems construction and equipment sales, a one-time revenue, was JPY13,020 million, down 5.3% YoY (JPY13,754 million for 1H19), mainly due to stagnation of business activities during April and May caused by the COVID-19 pandemic. Systems operation and maintenance revenue, a recurring revenue, was JPY25,147 million, up 13.5% YoY (JPY22,162 million for 1H19), mainly due to an increase in private cloud services' revenues.

Orders received for SI, including equipment sales, totaled JPY43,291 million, up 19.1% YoY (JPY36,351 million for 1H19); orders received for systems construction and equipment sales were JPY15,159 million, up 3.8% YoY (JPY14,610 million for 1H19), and orders received for systems operation and maintenance were JPY28,131 million, up 29.4% YoY (JPY21,741 million for 1H19).

Order backlog for SI, equipment sales, as of September 30, 2020 amounted to JPY60,988 million, up 18.3% YoY (JPY51,550 million as of September 30, 2019); order backlog for systems construction and equipment sales was JPY9,646 million, up 10.9% YoY (JPY8,696 million as of September 30, 2019) and order backlog for systems operation and maintenance was JPY51,341 million, up 19.8% YoY (JPY42,853 million as of September 30, 2019).

ATM operation business revenues were JPY1,394 million, down 33.6% YoY (JPY2,100 million for 1H19), mainly due to temporary closure of stores, to which we had placed ATMs, caused by the COVID-19 pandemic.

Cost of sales

Total cost of sales was JPY84,210 million, up 0.2% YoY (JPY84,020 million for 1H19).

Cost of network services revenue was JPY49,896 million, down 2.5% YoY (JPY51,153 million for 1H19). There was a decrease in circuit-related costs along with WAN services revenue decrease. Gross profit was JPY12,208 million, up 21.5% YoY (JPY10,051 million for 1H19), and gross profit ratio was 19.7% (16.4% for 1H19).

Cost of SI revenues, including equipment sales was JPY33,390 million, up 5.2% YoY (JPY31,742 million for 1H19). There was an increase in license fees along with an increase in cloud-related revenues. Gross profit was JPY4,777 million, up 14.5% YoY (JPY4,174 million for 1H19) and gross profit ratio was 12.5% (11.6% for 1H19).

Cost of ATM operation business revenues was JPY924 million, down 17.8% YoY (JPY1,125 million for 1H19). Gross profit was JPY470 million (JPY975 million for 1H19) and gross profit ratio was 33.7% (46.4% for 1H19).

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

Selling, general and administrative expenses, which include research and development expenses, totaled JPY12,124 million, up 1.9% YoY (JPY11,901 million for 1H19). There were an increase in personnel-related expenses and decreases in sales commission expenses and traveling expenses.

Other operating income was JPY80 million (JPY159 million for 1H19).

Other operating expenses was JPY172 million (JPY106 million for 1H19), mainly due to disposal loss on fixed assets.

Operating profit

Operating profit was JPY5,239 million (JPY3,352 million for 1H19), up 56.3% YoY.

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

Finance income was JPY109 million, compared to JPY119 million for 1H19. It included dividend income of JPY75 million (JPY61 million for 1H19).

Finance expense was JPY469 million, compared to JPY295 million for 1H19. It included interest expenses of JPY296 million (JPY279 million for 1H19) and loss on funds of JPY141 million mainly due to foreign exchange loss.

Share of loss of investments accounted for using equity method was JPY413 million (compared to loss of JPY133 million for 1H19), mainly due to our share of loss of in DeCurret of JPY578 million.

Profit before tax

Profit before tax was JPY4,466 million (JPY3,043 million for 1H19), up 46.7% YoY.

Profit for the period

Income tax expense was JPY1,656 million (JPY1,185 million for 1H19). As a result, profit for the period was JPY2,810 million (JPY1,858 million for 1H19), up 51.2% YoY.

Profit for the period attributable to non-controlling interests was JPY40 million (JPY102 million for 1H19) mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of parent was JPY2,770 million (JPY1,756 million for 1H19), up 57.7% YoY.

Financial Position as of September 30, 2020

As of September 30, 2020, the balance of total assets was JPY206,455 million, decreased by JPY69 million from the balance as of March 31, 2020 of JPY206,524 million.

As of September 30, 2020, the balance of current assets was JPY87,202 million, increased by JPY611 million from the balance as of March 31, 2020 of JPY86,590 million. The major breakdown of fluctuation and balance of current assets was: an increase in cash and cash equivalents by JPY2,931 million to JPY41,602 million, a decrease in trade receivables by JPY4,403 million to JPY28,182 million and an increase in prepaid expenses by JPY1,221 million to JPY10,918 million.

As of September 30, 2020, the balance of non-current assets was JPY119,253 million, decreased by JPY681 million from the balance as of March 31, 2020 of JPY119,934 million. 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 JPY2,416 million to JPY48,144 million, mainly due to depreciation. The balance of investments accounted for using the equity method was JPY7,032 million, increased by JPY2,205 million, mainly due to an additional investment in DeCurret. The amount of other investments was JPY11,030 million, increased by JPY1,843 million mainly due to fluctuation of fair value of our holding marketable equity securities.

As of September 30, 2020, the balance of current liabilities was JPY65,581 million, decreased by JPY106 million from the balance as of March 31, 2020 of JPY65,687 million. Trade and other payables decreased by JPY2,643 million to JPY15,645 million. Borrowings increased by JPY3,170 million to JPY18,750 million. The breakdown of increase in the borrowings was: a decrease by JPY915 million due to payment of long-term borrowings, and an increase by JPY4,085 million due to a transfer from non-current liabilities. Contract liabilities increased by JPY1,532 million to JPY7,430 million, mainly due to prepayment received in operating transactions. Other financial liabilities decreased by JPY1,934 million to JPY15,911 million, mainly due to lease payments.

As of September 30, 2020, the balance of non-current liabilities was JPY57,059 million, decreased by JPY3,722 million from the balance as of March 31, 2020 of JPY60,780 million. Long-term borrowings decreased by JPY4,085 million to JPY8,085 million due to a transfer to current portion. Other financial liabilities decreased by JPY1,195 million to JPY35,111 million, mainly due to a transfer to current portion.

As of September 30, 2020, the balance of total equity attributable to owners of the parent was JPY82,850 million, increased by JPY3,774 million from the balance as of March 31, 2020 of JPY79,076 million. Ratio of owners' equity to total assets was 40.1% as of September 30, 2020.

1H20 Cash Flows

Cash and cash equivalents as of September 30, 2020 were JPY41,602 million (JPY34,036 million as of September 30, 2019).

Net cash provided by operating activities for 1H20 was JPY21,498 million (net cash provided by operating activities of JPY13,394 million for 1H19). There was profit before tax of JPY4,466 million, depreciation and amortization of JPY14,156 million, including JPY5,984 million of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY2,045 million. Regarding changes in operating assets and liabilities, there was net cash in of JPY4,022 million compared to net cash out of JPY2,947 million for 1H19, mainly due to increases in proceeds related to decrease in trade receivable and increase in contract liabilities, which included prepayment of revenue, increased in comparison with 1H19. As for trade and other payables, which was temporarily increased at the beginning of FY2019, the cash out for 1H20 decreased compared to 1H19.

Net cash used in investing activities for 1H20 was JPY6,547 million (net cash used in investing activities of JPY4,087 million for 1H19), mainly due to payments for purchase of tangible assets of JPY2,754 million (JPY4,788 million for 1H19), payments for purchase of intangible assets, such as software, of JPY2,772 million (JPY2,422 million for 1H19), proceeds from sales of tangible assets, which include sale and leaseback, of JPY1,448 million (JPY818 million for 1H19) and an investment in an equity method investee of JPY2,754 million.

Net cash used in financing activities for 1H20 was JPY11,969 million (net cash used in financing activities of JPY7,139 million for 1H19), mainly due to repayments of long-term borrowings of JPY915 million, payments of other financial liabilities of JPY10,390 million, including JPY5,933 million of payment of operating lease under IFRS 16, and dividends paid of JPY609 million.

Considered Factors for FY2020 Financial Targets

We have revised our FY2020 financial targets and dividend forecast announced on May 14, 2020. For details, please refer to our press release titled “Notice Regarding the Differences between Financial Results for the Six Months ended September 30, 2020 and September 30, 2019, and Upward Revision of the Full-Year Financial Targets for the Fiscal Year ending March 31, 2021” and “Notice Regarding the Distribution of Retained Earnings (Interim Dividend, Increase) and Revision of Dividend Forecast for the fiscal year ending March 31, 2021” both of which were announced today, November 9, 2020.

Presentation

Presentation materials will be posted on our web site (<https://www.ij.ad.jp/en/ir/>) on November 9, 2020.

About Internet Initiative Japan Inc.

Founded in 1992, IJ is one of Japan's leading Internet-access and comprehensive network solutions providers. IJ and its group companies provide total network solutions that mainly cater to high-end corporate customers. IJ's services include high-quality Internet connectivity services, mobile services, security services, cloud computing services, and systems integration. Moreover, IJ operates one of the largest Internet backbone networks in Japan that is connected to the United States, the United Kingdom and Asia. IJ listed on the First Section of the Tokyo Stock Exchange in 2006.

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Disclaimer:

Statements made in this press release regarding IJ's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding revenues and profits, are subject to various risks, uncertainties and other factors that could cause IJ's actual results to differ materially from those contained in any forward-looking statement.

Condensed Consolidated Statements of Financial Position (Unaudited)

	March 31, 2020	September 30, 2020
	Thousands of yen	Thousands of yen
Assets		
Current Assets		
Cash and cash equivalents	38,671,734	41,602,490
Trade receivables	32,585,326	28,182,295
Inventories	2,476,477	2,547,154
Prepaid expenses	9,696,856	10,918,322
Contract assets	438,675	1,573,282
Other financial assets	2,629,332	1,849,014
Other current assets	92,027	529,285
Total Current Assets	86,590,427	87,201,842
Non-current Assets		
Tangible assets	17,399,863	16,205,648
Right-of-use Assets	50,560,361	48,144,151
Goodwill	6,082,472	6,082,472
Intangible assets	18,280,247	17,700,998
Investments accounted for using the equity method	4,827,287	7,032,083
Prepaid expenses	7,777,997	8,178,016
Contract assets	60,362	37,180
Other investments	9,186,646	11,029,766
Deferred tax assets	742,857	151,546
Other financial assets	4,645,959	4,292,266
Other non-current assets	369,782	399,188
Total non-current assets	119,933,833	119,253,314
Total assets	206,524,260	206,455,156

	March 31, 2020	September 30, 2020
	Thousands of yen	Thousands of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade and other payables	18,287,546	15,644,741
Borrowings	15,580,000	18,750,000
Income taxes payable	2,283,707	1,810,593
Contract liabilities	5,897,674	7,429,837
Deferred income	88,901	86,319
Other financial liabilities	17,845,194	15,911,013
Other current liabilities	5,703,623	5,948,540
Total current liabilities	65,686,645	65,581,043
Non-current liabilities		
Borrowings	12,170,000	8,085,000
Retirement benefit liabilities	3,984,880	4,154,275
Provisions	753,518	754,960
Contract liabilities	5,991,807	7,302,220
Deferred income	479,097	440,016
Deferred tax liabilities	136,536	195,876
Other financial liabilities	36,305,781	35,111,020
Other non-current liabilities	958,879	1,015,595
Total non-current liabilities	60,780,498	57,058,962
Total liabilities	126,467,143	122,640,005
Equity		
Share capital	25,530,621	25,530,621
Share premium	36,271,395	36,355,490
Retained earnings	16,500,993	18,914,141
Other components of equity	2,669,501	3,924,650
Treasury shares	(1,896,921)	(1,875,112)
Total equity attributable to owners of the parent	79,075,589	82,849,790
Non-controlling interests	981,528	965,361
Total equity	80,057,117	83,815,151
Total liabilities and equity	206,524,260	206,455,156

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Six Months Ended September 30, 2019	Six Months Ended September 30, 2020
	Thousands of yen	Thousands of yen
Revenues		
Network services	61,203,901	62,104,244
System integration	35,915,608	38,166,674
ATM operation business	2,100,026	1,394,072
Total revenues	<u>99,219,535</u>	<u>101,664,990</u>
Cost of sales		
Cost of network services	(51,153,590)	(49,896,323)
Cost of systems integration	(31,741,986)	(33,389,930)
Cost of ATM operation business	(1,124,746)	(924,119)
Total cost of sales	<u>(84,020,322)</u>	<u>(84,210,372)</u>
Gross Profit	15,199,213	17,454,618
Selling, general and administrative expense	(11,900,630)	(12,124,184)
Other operating income	159,068	80,433
Other operating expenses	(105,701)	(171,818)
Operating Profit	<u>3,351,950</u>	<u>5,239,049</u>
Finance income	118,609	109,178
Finance expenses	(294,150)	(468,831)
Share of profit (loss) of investments accounted for using equity method	(133,121)	(413,535)
Profit (loss) before tax	<u>3,043,288</u>	<u>4,465,861</u>
Income tax expense	(1,184,935)	(1,656,268)
Profit (loss) for the period	<u><u>1,858,353</u></u>	<u><u>2,809,593</u></u>
Profit (loss) for the period attributable to:		
Owners of the parent	1,756,102	2,769,928
Non-controlling interests	102,251	39,665
Total	<u><u>1,858,353</u></u>	<u><u>2,809,593</u></u>
Earnings per share		
Basic earnings per share (yen)	38.96	61.43
Diluted earnings per share (yen)	38.79	61.13

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2020
	Thousands of yen	Thousands of yen
Revenues		
Network services	30,524,316	31,170,310
System integration	17,806,404	19,291,714
ATM operation business	1,059,971	824,461
Total revenues	<u>49,390,691</u>	<u>51,286,485</u>
Cost of sales		
Cost of network services	(25,492,608)	(24,952,979)
Cost of systems integration	(15,522,606)	(16,506,123)
Cost of ATM operation business	(557,828)	(485,822)
Total cost of sales	<u>(41,573,042)</u>	<u>(41,944,924)</u>
Gross Profit	7,817,649	9,341,561
Selling, general and administrative expense	(5,858,938)	(6,075,336)
Other operating income	46,409	32,282
Other operating expenses	(34,129)	(106,687)
Operating Profit	<u>1,970,991</u>	<u>3,191,820</u>
Finance income	97,173	40,502
Finance expenses	(148,227)	(326,064)
Share of profit (loss) of investments accounted for using equity method	(245,328)	(134,628)
Profit (loss) before tax	<u>1,674,609</u>	<u>2,771,630</u>
Income tax expense	(642,010)	(1,084,076)
Profit (loss) for the period	<u><u>1,032,599</u></u>	<u><u>1,687,554</u></u>
Profit (loss) for the period attributable to:		
Owners of the parent	979,589	1,653,615
Non-controlling interests	53,010	33,939
Total	<u><u>1,032,599</u></u>	<u><u>1,687,554</u></u>
Earnings per share		
Basic earnings per share (yen)	21.73	36.66
Diluted earnings per share (yen)	21.63	36.48

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Six Months Ended September 30, 2019	Six Months Ended September 30, 2020
	Thousands of yen	Thousands of yen
Profit (loss)	1,858,353	2,809,593
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	817,704	1,560,647
Total items that will not be reclassified to profit or loss	817,704	1,560,647
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(117,773)	(42,769)
Financial assets measured at fair value through other comprehensive income	974	219
Share of other comprehensive income of investments accounted for using equity method	2,493	(11,099)
Total of items that may be reclassified to profit or loss	(114,306)	(53,649)
Total other comprehensive income, net of tax	703,398	1,506,998
Other comprehensive income	2,561,751	4,316,591
Other comprehensive income attributable to:		
Owners of the parent	2,459,500	4,276,926
Non-controlling interest	102,251	39,665
Other comprehensive income	2,561,751	4,316,591

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2020
	Thousands of yen	Thousands of yen
Profit (loss)	1,032,599	1,687,554
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	165,547	364,811
Total items that will not be reclassified to profit or loss	165,547	364,811
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(20,231)	(17,304)
Financial assets measured at fair value through other comprehensive income	289	82
Share of other comprehensive income of investments accounted for using equity method	(1,469)	20,295
Total of items that may be reclassified to profit or loss	(21,411)	3,073
Total other comprehensive income, net of tax	144,136	367,884
Other comprehensive income	1,176,735	2,055,438
Other comprehensive income attributable to:		
Owners of the parent	1,123,725	2,021,499
Non-controlling interest	53,010	33,939
Other comprehensive income	1,176,735	2,055,438

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
Six months ended September 30, 2019

	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		
Balance, April 1, 2019	25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610
Cumulative impact of adopting IFRS 16	-	-	(33,728)	-	-	(33,728)	-	(33,728)
Comprehensive income								
Profit (loss)	-	-	1,756,102	-	-	1,756,102	102,251	1,858,353
Other comprehensive income	-	-	-	703,398	-	703,398	-	703,398
Total comprehensive income	-	-	1,756,102	703,398	-	2,459,500	102,251	2,561,751
Transactions with owners								
Issuance of common stock	11,909	(11,895)	-	-	-	14	-	14
Dividends paid	-	-	(608,452)	-	-	(608,452)	(53,405)	(661,857)
Stock-based compensation	-	28,615	-	-	-	28,615	-	28,615
Transfer from other components of equity to retained earnings	-	-	1,543,793	(1,543,793)	-	-	-	-
Total transactions with owners	11,909	16,720	935,341	(1,543,793)	-	(579,823)	(53,405)	(633,228)
Balance, September 30, 2019	25,530,621	36,242,495	14,992,750	3,248,309	(1,896,788)	78,117,387	897,018	79,014,405

Six months ended September 30, 2020

	Owners of the parent's shareholders' equity						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares	Total		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Balance, April 1, 2020	25,530,621	36,271,395	16,500,993	2,669,501	(1,896,921)	79,075,589	981,528	80,057,117
Comprehensive income								
Profit (loss)	-	-	2,769,928	-	-	2,769,928	39,665	2,809,593
Other comprehensive income	-	-	-	1,506,998	-	1,506,998	-	1,506,998
Total comprehensive income	-	-	2,769,928	1,506,998	-	4,276,926	39,665	4,316,591
Transactions with owners								
Purchase of treasury stock	-	-	-	-	(140)	(140)	-	(140)
Disposal of treasury shares	-	52,917	-	-	21,949	74,866	-	74,866
Dividends paid	-	-	(608,629)	-	-	(608,629)	(55,832)	(664,461)
Stock-based compensation	-	31,178	-	-	-	31,178	-	31,178
Transfer from other components of equity to retained earnings	-	-	251,849	(251,849)	-	-	-	-
Total transactions with owners	-	84,095	(356,780)	(251,849)	21,809	(502,725)	(55,832)	(558,557)
Balance, September 30, 2020	25,530,621	36,355,490	18,914,141	3,924,650	(1,875,112)	82,849,790	965,361	83,815,151

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended September 30, 2019	Six Months Ended September 30, 2020
	Thousands of yen	Thousands of yen
Cash flows from operating activities:		
Profit (loss) before tax	3,043,288	4,465,861
Adjustments		
Depreciation and amortization	14,299,860	14,155,824
Loss (gain) on sales/disposals of property and equipment	82,881	146,543
Shares of loss (profit) of investments accounted for using the equity method	133,121	413,535
Finance income	(107,725)	(106,976)
Finance expenses	296,483	485,895
Other	39,524	99,910
Changes in working capital		
Decrease (increase) in trade receivables	4,054,551	4,394,275
Decrease (increase) in inventories	1,353,994	(70,127)
Decrease (increase) in prepaid expenses	(1,982,541)	(1,648,603)
Decrease (increase) in contract assets	(927,948)	(1,111,425)
Decrease (increase) in other assets	190,111	(437,263)
Decrease (increase) in other financial assets	(621,923)	1,421,035
Increase (decrease) in trade and other payables	(5,221,511)	(1,573,038)
Increase (decrease) in contract liabilities	532,782	2,872,875
Increase (decrease) in deferred income	(62,455)	(41,663)
Increase (decrease) in other liabilities	(285,697)	90,580
Increase (decrease) in other financial liabilities	(101,021)	(44,324)
Increase (decrease) in retirement benefit liabilities	124,434	169,395
Subtotal	14,840,208	23,682,309
Interest and dividends received	162,887	159,256
Interest paid	(279,359)	(298,015)
Income taxes paid	(1,329,835)	(2,045,413)
Cash flows from operating activities	13,393,901	21,498,137

	Six Months Ended September 30, 2019	Six Months Ended September 30, 2020
	Thousands of yen	Thousands of yen
Cash flows from investing activities		
Purchases of tangible assets	(4,788,074)	(2,753,663)
Proceeds from sales of tangible assets	817,601	1,447,635
Purchases of intangible assets	(2,422,464)	(2,772,180)
Proceeds from sales of intangible assets	260,264	137
Purchase of investments accounted for using equity method	(498,000)	(2,754,000)
Proceeds from sale of investments accounted for using equity method	-	60,637
Purchases of other investments	(42,740)	(57,500)
Proceeds from sales of other investments	2,673,101	392,365
Payments for leasehold deposits and guarantee deposits	(85,874)	(90,868)
Proceeds from collection of leasehold deposits and guarantee deposits	12,089	8,896
Payments for refundable insurance policies	(28,170)	(28,170)
Other	14,833	-
Cash flows from investing activities	(4,087,434)	(6,546,711)
Cash flows from financing activities		
Repayment of long-term borrowings	(750,000)	(915,000)
Net increase (decrease) in short-term borrowings	3,030,000	-
Proceeds from other financial liabilities	1,473,000	-
Payments of other financial liabilities	(10,229,755)	(10,389,786)
Dividends paid	(608,452)	(608,629)
Other	(53,418)	(55,832)
Cash flows from financing activities	(7,138,625)	(11,969,247)
Effect of exchange rate changes on cash and cash equivalents	(89,173)	(51,423)
Net increase (decrease) in cash and cash equivalents	2,078,669	2,930,756
Cash and cash equivalents, beginning of the period	31,957,789	38,671,734
Cash and cash equivalents, end of the period	34,036,458	41,602,490

Notes to Condensed Consolidated Financial Statements (UNAUDITED)

Going Concern Assumption

Nothing to be reported.

Material Changes In Shareholders' Equity

Nothing to be reported.

Segment Information

IJJ and its subsidiaries (collectively “the Company”) primarily operate their network service and system integration business, which provides a comprehensive range of network solutions to meet their 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.”

Segment information for the Company is as follows:

Six months ended September 30, 2019

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen		
Revenue				
Customers	97,119,509	2,100,026	—	99,219,535
Intersegment transactions	145,707	—	(145,707)	—
Total revenue	97,265,216	2,100,026	(145,707)	99,219,535
Segment operating profit	2,556,755	868,951	(73,756)	3,351,950
Finance income				118,609
Finance expense				(294,150)
Share of profit (loss) of investments accounted for using the equity method				(133,121)
Profit before tax				3,043,288

Six months ended September 30, 2020

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen		
Revenue				
Customers	100,270,918	1,394,072	—	101,664,990
Intersegment transactions	89,384	—	(89,384)	—
Total revenue	100,360,302	1,394,072	(89,384)	101,664,990
Segment operating profit	4,922,707	378,434	(62,092)	5,239,049
Finance income				109,178
Finance expense				(468,831)
Share of profit (loss) of investments accounted for using the equity method				(413,535)
Profit before tax				4,465,861

Intersegment transactions are based on market price.

Subsequent Events (Unaudited)

Nothing to be reported.

Changes in Accounting Policies (Unaudited)

On November 9, 2020, IIJ's board of directors resolved a stock split of its common stock, as indicated below.

1. Purpose of stock split

The objective of the stock split is to enhance the liquidity of IIJ's common stock and expand its investor base by reducing the trading price per share of IIJ's common stock. As a result of the stock split, the investment unit amount of IIJ's common stock will be one half (1/2) of the previous amount.

2. Summary of stock split

(1) Method of stock split

The stock split shall have a record date of Thursday, December 31, 2020 and shall involve the splitting of common shares held by shareholders whose names appear or are recorded in the latest Registry of Shareholders on the record date at a ratio of 1:2.

(2) Increase in number of shares as a result of stock split

1) Total number of shares issued before the stock split:	46,734,600	shares
2) Number of additional shares as a result of the stock split:	46,734,600	shares
3) Total number of shares issued after the stock split:	93,469,200	shares
4) Total number of authorized shares after the stock split:	151,040,000	shares

(Note) Total number of shares issued stated in the above could be increased as a result of exercise of stock acquisition rights.

(3) Schedule of stock split

1) Public notice date of the record date:	Tuesday, December 15, 2020
2) Record date:	Thursday, December 31, 2020
3) Effective date:	Friday, January 1, 2021

(Note) For all practical purposes, the record date in substance is Wednesday, December 30, 2020.

3. Effect on per share information

There will be no substantive changes to dividend amounts as a result of the stock split. Assuming the stock split had been conducted at the beginning of the fiscal year ended March 31, 2020, basic earnings per share attributable to IIJ would have been as follows

	Six months ended September 30, 2019	Six months ended September 30, 2020
Basic earnings per share	19.48 yen	30.71 yen

Note: The following information is provided to disclose Internet Initiative Japan Inc. (“IIJ”) financial results (unaudited) for the first six months ended September 30, 2020 (“1H20”) in the form defined by the Tokyo Stock Exchange.

Consolidated Financial Results for the Six Months ended September 30, 2020 [Under IFRS]

November 9, 2020

Company name: Internet Initiative Japan Inc.

Exchange listed: Tokyo Stock Exchange First Section

Stock code number: 3774

URL: <https://www.ij.ad.jp/>

Representative: Eijiro Katsu, President and Representative Director

Contact: Akihisa Watai, Managing Director and CFO

TEL: +81-3-5205-6500

Scheduled date for filing of quarterly report (*Shihanki-houkokusho*) to Japan’s regulatory organization: November 16, 2020

Scheduled date for dividend payment: December 4, 2020

Supplemental material on annual results: Yes

Presentation on quarterly report: Yes (for institutional investors and analysts)

(Amounts of less than JPY one million are rounded)

1. Consolidated Financial Results for the Six Months ended September 30, 2020 (April 1, 2020 to September 30, 2020)

(1) Consolidated Results of Operations

(Millions of yen, except per share amounts. % shown is YoY change)

	Revenues		Operating profit		Profit (loss) before tax		Profit (loss) for the period		Profit (loss) attributable to owners of the parent		Other comprehensive income	
	Amount	% change	Amount	% change	Amount	% change	Amount	% change	Amount	% change	Amount	% change
Six Months ended September 30, 2020	101,665	2.5%	5,239	56.3%	4,466	46.7%	2,810	51.2%	2,770	57.7%	4,317	68.5%
Six Months ended September 30, 2019	99,220	8.8%	3,352	2.0%	3,043	(11.3)%	1,858	(14.8)%	1,756	(16.2)%	2,562	7.2%

	Basic earnings per share	Diluted earnings per share
	JPY	JPY
Six Months ended September 30, 2020	61.43	61.13
Six Months ended September 30, 2019	38.96	38.79

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of owners' equity to total assets
	JPY millions	JPY millions	JPY millions	%
As of September 30, 2020	206,455	83,815	82,850	40.1
As of March 31, 2020	206,524	80,057	79,076	38.3

2. Dividends

	Dividend per Shares				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal Year Ended March 31, 2020	JPY —	JPY 13.50	JPY —	JPY 13.50	JPY 27.00
Fiscal Year Ending March 31, 2021	—	20.50			
Fiscal Year Ending March 31, 2021 (forecast)			—	10.25	30.75

(Notes)

- Changes from the latest forecasts disclosed: Yes
- IIJ plans stock split at a ratio of two-for-one effective from January 1, 2021. The forecast of year-end dividend per share is the amount after the stock split. Regarding the pre-split amount, revised forecast of year-end and annual dividend per share are JPY20.50 and JPY41.00, respectively.

3. Targets of Consolidated Financial Results for the Fiscal Year Ending March 31, 2021

(% shown is YoY change)

	Revenues		Operating profit		Profit (loss) before tax		Profit (loss) for the year attributable to owners of the parent		Basic earnings per share
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY
Fiscal Year Ending March 31, 2021	212,000	3.7	11,300	37.4	10,000	39.7	6,100	52.2	67.63

(Notes)

- Changes from the latest forecasts disclosed: Yes
- IIJ plans stock split at a ratio of two-for-one effective from January 1, 2021. The target of basic earnings per share is the amount after the stock split.
- As for the details about our financial targets for the fiscal year ending March 31, 2021, please refer to "Considered Factors for FY2020 Financial Targets" which is disclosed on page 8 of this earnings release.

* Notes:

(1) Changes in significant subsidiaries: None

(2) Changes in accounting policies and estimate

- Changes in accounting policies required by IFRS: None
- Other changes in accounting policies: None
- Changes in accounting estimates: None

(3) Number of shares issued (common stock)

i. Number of shares issued (inclusive of treasury stock):

As of September 30, 2020: 46,734,600 shares

As of March 31, 2020: 46,734,600 shares

ii. Number of treasury stock:

As of September 30, 2020: 1,631,766 shares

As of March 31, 2020: 1,650,950 shares

iii. Number of weighted average common shares outstanding:

For the six months ended September 30, 2020: 45,092,357 shares

For the six months ended September 30, 2019: 45,077,125 shares

* Status of Audit Procedures

This document is not subject to the quarterly review by certified public accountant or independent auditor.

* Explanation on the Appropriate Use of Future Outlook and other special instructions

i) Forward-looking statements

Forward-looking statements disclosed in this document are based on IIJ Group's expectation, estimates, and projections based on information available to IIJ Group as of November 9, 2020. As these forward-looking statements are subject to known and unknown risks and uncertainties, actual results may differ from those disclosed due, for example, to but not limited to changes in business climate and/or market trends. As for our latest forecast of our financial targets for the fiscal year ending March 31, 2021, please refer to the page 8 of this document.

ii) Others

Presentation material will be disclosed on TDnet as well as posted on our website on Monday, November 9, 2020.