

IIIJ Announces its Financial Results for the Fiscal Year Ended March 31, 2020

Tokyo, May 14, 2020 - Internet Initiative Japan Inc. (“IIIJ”, TSE: 3774) today announced its consolidated financial results for the fiscal year ended March 31, 2020 (“FY2019”, from April 1, 2019 to March 31, 2020) under International Financial Reporting Standards (IFRS).¹

Highlights of Financial Results for FY2019

Total revenues	JPY204.5 billion	up 6.3% YoY ²
Operating profit	JPY8.2 billion	up 36.6% YoY
Net profit ³	JPY4.0 billion	up 13.8% YoY
Annual cash dividend	JPY27.00	per share of common stock

Highlights of Financial Targets for FY2020

Total revenues	JPY210.0 billion	up 2.7% YoY
Operating profit	JPY8.7 billion	up 5.8% YoY
Net profit	JPY5.0 billion	up 24.8% YoY
Annual cash dividend	JPY34.00	per share of common stock

Overview of FY2019 Financial Results and Business Outlook

“Amid the unprecedented fear and uncertainty coming from COVID-19, together with all of our employees, we continue to manage stable Internet network nationwide and provide reliable Internet connectivity and necessary network-related services to all of our clients so that they can continue their business activities. We believe our position of being able to offer comprehensive network services together with system integration (SI) should become even more critical in sustaining Japanese network society and economy,” said Koichi Suzuki, Founder, CEO and Chairman of IIIJ.

“As for FY2019 business, we executed our strategy as planned. We enhanced our full-MVNO service line-ups by launching official consumer eSIM services and adding chipSIM and SoftSIM functions, targeting many of corporates’ IoT usages. We also focused on local-5G projects, such as joint venture with SUMITOMO CORPORATION⁴ by leveraging our existing network-systems and expertise related to full-MVNO. Security continues to be a strong revenue driver as growing demands to implement and/or upgrade security measures in addition to revenue accumulation of our conventional gateway type services for emails and web as well as SOC⁵ services, DDoS protection services and other newer services. Cloud migration of Japanese blue chips’ internal systems has been constantly taking place and our multi-cloud service line-ups, which were expanded throughout FY2019, work to advance this shift continuously. In last May, we opened our second system module-based data center near Tokyo to integrate our server racks currently located in leased data centers and to reserve rooms to absorb future demands. Our existing service facilities have been migrated gradually. As for new businesses, JOCDN, our equity method investee with Japanese major broadcasting companies, enhanced their CDN service infrastructure in order to handle growing network traffic and invited new shareholders: NHK, sole public broadcaster in Japan, and WOWOW, prominent satellite broadcaster. DeCurret, our equity method investee engaged in FinTech business with 29 prominent Japanese large-cap shareholders, has started its cryptocurrency trading business as their 1st phase and preparing 2nd phase to handle digital currency, programmable money, security tokens and so on to exchange/deliver various value products through blockchain. They have been executing PoC projects with their shareholders,” said Eijiro Katsu, COO and

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 year attributable to owners of the parent.”

⁴ Please refer to our press release “Pursuing the Wireless Platform Business Using Local 5G” <https://www.ij.ad.jp/en/news/pressrelease/2019/1224.html>

⁵ SOC (Security Operation Center) engages in providing security monitoring and threat analysis of security logs collected from our dedicated security platform.

President of IJ.

“As for financial results, we achieved steady and continuous revenue growth in which security, enterprise mobile, and cloud significantly grew. Gross profit for both network services and SI also expanded with overall recurring revenue accumulation, full-MVNO profitability improvement along with its revenue accumulation, which service launch in March 2018 started with heavy fixed cost, and adequate performance of systems engineers with no unprofitable SI projects, through quality control measures. Operating profit strongly increased as SG&A stayed within our budget while we achieved gross profit expansion in both network services and SI,” continued Katsu.

“For FY2020, COVID-19 shall impose great uncertainty on global economy outlook and we may suffer from a decrease in system construction (one-time revenue) demands due to changes in Japanese companies’ investment appetite, decrease in consumer mobile acquisition due to sales partners’ shops temporary closure, and decrease in ATM transaction-related revenue due to shops temporary closure. However, we’re not too concerned about our recurring revenues, which amounted to 82.4% of FY2019 total revenues. In general, having experienced worldwide economic crisis of the past, IT and network oriented services usage shall become more and more indispensable and ultimately Internet traffic should grow. Our earnings growth pace may slowdown in FY2020, however we believe demands in the middle term will remain strong and we will pursue our continuous growth strategy going forward. Lastly, we plan to increase our FY2020 dividend forecast to JPY34.00 per common share of from JPY27.00 per common share in FY2019,” concluded Suzuki.

FY2019 Financial Results Summary

We have adopted IFRS 16 “Leases” (hereinafter “IFRS 16”) from 1Q19. As for the details, please refer to “Changes in Accounting Policies” written in the page 17 of this document.

Operating Results Summary

	FY2018	FY2019	YoY Change
	JPY millions	JPY millions	%
Total revenues	192,430	204,474	6.3
Network services	118,626	121,999	2.8
Systems integration (SI)	69,652	78,394	12.5
ATM operation business	4,152	4,081	(1.7)
Total costs	(163,455)	(171,880)	5.2
Network services	(101,257)	(102,092)	0.8
Systems integration (SI)	(59,872)	(67,584)	12.9
ATM operation business	(2,326)	(2,204)	(5.3)
Total gross profit	28,974	32,594	12.5
Network services	17,369	19,907	14.6
Systems integration (SI)	9,780	10,810	10.5
ATM operation business	1,825	1,877	2.9
SG&A, R&D, and other operating income (expenses)	(22,952)	(24,369)	6.2
Operating profit	6,023	8,225	36.6
Profit before tax	5,843	7,159	22.5
Profit for the year attributable to owners of the parent	3,521	4,007	13.8

(Notes)

Systems integration includes equipment sales.

Segment Results Summary

	FY2018	FY2019
	JPY millions	JPY millions
Total revenues	192,430	204,474
Network services and SI business	188,634	200,679
ATM operation business	4,152	4,081
Elimination	(356)	(286)
Operating profit	6,023	8,225
Network service and SI business	4,599	6,729
ATM operation business	1,623	1,645
Elimination	(199)	(149)

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

FY2019 Revenues and Income

Revenues

Total revenues were JPY202,474 million, up 6.3% YoY (JPY192,430 million for FY2018).

Network services revenue was JPY121,999 million, up 2.8% YoY (JPY118,626 million for FY2018).

Revenues for Internet connectivity services for enterprise were JPY36,635 million, up 10.4% YoY from JPY33,186 million for FY2018, mainly due to an increase in mobile-related services revenues such as MVNE and IoT type revenues by leveraging our full-MVNO infrastructure.

Revenues for Internet connectivity services for consumers were JPY26,055 million, up 3.3% YoY from JPY25,234 million for FY2018. The revenue growth was mainly due to “IIJmio Mobile Service,” consumer mobile services.

Revenues for WAN services were JPY26,972 million, down 13.0% YoY from JPY30,991 million for FY2018, mainly because of the planned migration projects of large enterprises clients who are moving away from dedicated line to mobile to connect their multiple locations.

Revenues for Outsourcing services were JPY32,337 million, up 10.7% YoY from JPY29,215 million for FY2018, mainly due to an increase in security-related services revenues.

Network Services Revenues Breakdown

	FY2018	FY2019	YoY Change
	JPY millions	JPY millions	%
Total network services	118,626	121,999	2.8
Internet connectivity services (enterprise)	33,186	36,635	10.4
IP services (including data center connectivity services)	10,572	10,701	1.2
IIJ Mobile services	19,420	22,598	16.4
IIJ Mobile MVNO Platform Service	14,555	16,574	13.9
Others	3,194	3,336	4.5
Internet connectivity services (consumer)	25,234	26,055	3.3
IIJmio Mobile Service	22,538	23,487	4.2
Others	2,696	2,568	(4.8)
WAN services	30,991	26,972	(13.0)
Outsourcing services	29,215	32,337	10.7

Number of Contracts and Subscription for Connectivity Services

	As of March 31, 2019	As of March 31, 2020	YoY Change
Internet connectivity services (enterprise)	1,757,761	2,038,687	280,926
IP service (greater than or equal to 1Gbps)	743	769	26
IP service (less than 1Gbps)	1,265	1,245	(20)
IIJ Mobile Services	1,675,123	1,949,927	274,804
IIJ Mobile MVNO Platform Service	1,047,856	1,107,116	59,260
Others	80,630	86,746	6,116
Internet connectivity services (consumer)	1,400,928	1,410,006	9,078
IIJmio Mobile Service	1,062,921	1,075,083	12,162
Others	338,007	334,923	(3,084)
Total contracted bandwidth (Gbps)	3,897.2	5,115.9	1,218.7

(Notes)

- Numbers in the table above show number of contracts except for “IIJ Mobile Services (enterprise)” and “IIJmio Mobile Service” which show number of subscriptions.
- The numbers of IP service contracts includes the numbers of IIJ data center connectivity service contracts.
- Total contracted bandwidth is calculated by multiplying number of contracts under “Internet connectivity services (enterprise)” except for “IIJ Mobile Services” and the contracted bandwidths of the services respectively.
- Along with our change in accounting principle from the U.S. GAAP to IFRS from the filing of our FY2018 annual report “Yuka-shoken-houkokusho,” the reporting period of foreign consolidated subsidiaries are different. As a result, the number of our Internet connectivity service contracts and total contracted bandwidth as of March 31, 2019, described above are different from the past disclosure.

SI revenues, including equipment sales, were JPY78,394 million, up 12.5% YoY (JPY 69,652 million for FY2018). Systems construction and equipment sales revenue, a one-time revenue, was JPY31,976 million, up 14.7% YoY (JPY 27,882 million for FY2018), mainly due to continuous acquisition of system construction projects. Systems operation and maintenance revenue, a recurring revenue, was JPY46,418 million, up 11.1% YoY (JPY 41,770 million for FY2018), mainly due to continued accumulation of systems operation orders as well as an increase in private cloud services' revenues.

Orders received for SI, including equipment sales, totaled JPY83,143 million, up 11.9% YoY (JPY74,302 million for FY2018); orders received for systems construction and equipment sales were JPY31,643 million, up 9.3% YoY (JPY28,955 million for FY2018), and orders received for systems operation and maintenance were JPY51,500 million, up 13.6% YoY (JPY45,347 million for FY2018).

Order backlog for SI, equipment sales, as of March 31, 2020 amounted to JPY55,864 million, up 9.3% YoY (JPY51,115 million as of March 31, 2019); order backlog for systems construction and equipment sales was JPY7,507 million, down 4.2% YoY (JPY7,840 million as of March 31, 2019) and order backlog for systems operation and maintenance was JPY48,357 million, up 11.7% YoY (JPY43,275 million as of March 31, 2019).

ATM operation business revenues, which include commission revenue for each bank withdrawal transaction when a customer uses the ATM and monthly revenue per each installed ATMs, were JPY4,081 million, down 1.7% YoY (JPY4,152 million for FY2018), mainly due to a decrease in the number of withdrawal transactions.

Cost of sales

Total cost of sales was JPY171,880 million, up 5.2% YoY (JPY163,455 million for FY2018).

Cost of network services revenue was JPY102,092 million, up 0.8% YoY (JPY101,257 million for FY2018). There was an increase in outsourcing-related costs along with our mobile-related revenue increase and a decrease in circuit-related costs along with our WAN services revenue decrease. Regarding the usage charge of mobile infrastructures provided by NTT DOCOMO, INC. ("Docomo") and other mobile carriers, mobile interconnectivity telecommunications charges per bandwidth has been decreasing every year under the rules set by the Ministry of Internal Affairs and Communications. In March 2020, we were notified by Docomo about the revised new unit price for our usages during FY2018 and FY2019 and the unit price decreased by 6.0% from the previous year. Because the unit price is revised and notified at the end of our fiscal year, we had applied our own decrease rate, 8%, based on reasonable estimate in our quarterly earnings until the third quarter of FY2019. Mainly because there was a difference between our estimate, 8% decrease, and the actual, 6.0%, we recorded additional cost of JPY0.35 billion in 4Q19.

Gross profit was JPY19,907 million, up 14.6% YoY (JPY 17,369 million for FY2018), and gross profit ratio was 16.3% (14.6% for FY2018).

Cost of SI revenues, including equipment sales was JPY67,584 million, up 12.9% YoY (JPY59,872 million for FY2018). There were an increase in network operation-related costs and an increase in purchasing costs along with increase in our systems construction revenue. Gross profit was JPY10,810 million, up 10.5% YoY (JPY9,780 million for FY2018) and gross profit ratio was 13.8% (14.0% for FY2018).

Cost of ATM operation business revenues was JPY2,204 million, down 5.3% YoY (JPY2,326 million for FY2018). Gross profit was JPY1,877 million (JPY1,825 million for FY2018) and gross profit ratio was 46.0% (44.0% for FY2018).

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

Selling, general and administrative expenses, which include research and development expenses, totaled JPY24,076 million, up 6.3% YoY (JPY22,652 million for FY2018), mainly due to increases in personnel-related expenses and outsourcing expenses.

Other operating income was JPY223 million (JPY47 million for FY2018).

Other operating expenses was JPY516 million (JPY347 million for FY2018), mainly due to disposal loss on fixed assets.

Operating profit

Operating profit was JPY8,225 million (JPY6,023 million for FY2018), up 36.6% YoY.

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

Finance income was JPY350 million, compared to JPY570 million for FY2018. It included gains on financial assets, such as fund, of JPY128 million (JPY399 million for FY2018) and dividend income of JPY95 million (JPY87 million for FY2018).

Finance expense was JPY610 million, compared to JPY432 million for FY2018. It included interest expenses of JPY583 million (JPY430 million for FY2018).

Share of loss of investments accounted for using equity method was JPY806 million (compared to loss of JPY318 million for FY2018), mainly due to our share of loss of investments accounted for DeCurret Inc. of JPY1,005 million.

Profit before tax

Profit before tax was JPY7,159 million (JPY5,843 million for FY2018), up 22.5% YoY.

Profit for the year

Income tax expense was JPY2,965 million (JPY2,144 million for FY2018). As a result, profit for the year was JPY4,194 million (JPY3,699 million for FY2018), up 13.4% YoY.

Profit for the year attributable to non-controlling interests was JPY187 million (JPY178 million for FY2018) mainly related to net income of Trust Networks Inc. As a result, profit for the year attributable to owners of parent was JPY4,007 million (JPY3,521 million for FY2018), up 13.8% YoY.

Financial Position as of March 31, 2020

As of March 31, 2020, the balance of total assets was JPY206,524 million, increased by JPY39,235 million from the balance as of March 31, 2019 of JPY167,289 million.

As of March 31, 2020, the balance of current assets was JPY86,590 million, increased by JPY7,619 million from the balance as of March 31, 2019 of JPY78,971 million. The major breakdown of fluctuation and balance of current assets was: an increase in cash and cash equivalents by JPY6,714 million to JPY38,672 million, a decrease in trade receivables by JPY393 million to JPY32,982 million, a decrease in inventories by JPY927 million to JPY2,476 million, an increase in prepaid expenses by JPY1,174 million to JPY9,697 million and an increase in other financial assets by JPY1,090 million to JPY2,671 million.

As of March 31, 2020, the balance of non-current assets was JPY119,934 million, increased by JPY31,616 million from the balance as of March 31, 2019 of JPY88,318 million. Along with the adoption of IFRS 16 from the first quarter of the fiscal year ended March 31, 2020, right-of-use assets were newly accounted. The breakdown of right-of-use assets was: JPY34,477 million of assets under operating lease contracts which was newly recognized, mainly related to our office and data centers lease contracts, and JPY16,084 million of assets under finance lease contracts, most of which were transferred from tangible and intangible assets. Other investments was JPY9,187 million, decreased by JPY2,216 million mainly due to sale of marketable equity securities.

As of March 31, 2020, the balance of current liabilities was JPY65,687 million, increased by JPY12,782 million from the balance as of March 31, 2019 of JPY52,904 million. Trade and other payables decreased by JPY3,675 million to JPY18,288 million. Borrowings increased by JPY2,830 million to JPY15,580 million. The breakdown of increase in the borrowings was: an increase by JPY2,500 million in short-term borrowings, a decrease by JPY1,500 million due to payment of long-term borrowings, and an increase by JPY1,830 million due to a transfer from non-current liabilities. Other financial liabilities increased by JPY10,814 million to JPY17,845 million. The increase included JPY10,008 million related to operating lease recognized along with the adoption of IFRS 16.

As of March 31, 2020, the balance of non-current liabilities was JPY60,780 million, increased by JPY23,515 million from the balance as of March 31, 2019 of JPY37,265 million. Long-term borrowings decreased by JPY1,830 million to JPY12,170 million due to a transfer to current portion. Other financial liabilities increased by JPY24,154 million to JPY36,306 million. The increase included JPY24,584 million related to operating lease recognized along with the adoption of IFRS 16.

As of March 31, 2020, the balance of equity attributable to owners of parent was JPY79,076 million, increased by JPY2,804 million from the balance as of March 31, 2019 of JPY76,271 million. Ratio of owners' equity to total assets was 38.3% as of March 31, 2020.

FY2019 Cash Flows

Cash and cash equivalents as of March 31, 2020 were JPY38,672 million (JPY31,958 million as of March 31, 2019).

Net cash provided by operating activities for FY2019 was JPY33,394 million (net cash provided by operating activities of JPY 25,152 million for FY2018). There was profit before tax of JPY7,159 million, depreciation and amortization of JPY28,520 million, including JPY12,207 million of depreciation of right-of-use operating lease assets newly recognized by the adoption of IFRS 16, and income taxes paid of JPY2,611 million. Regarding changes in operating assets and liabilities, it was net cash out of JPY909 million mainly due to cash out by trade and other payables that had been recognized in FY2018 and were paid in FY2019, and prepaid expenses in relation to upfront payment for software licenses and maintenance cost for service facilities, while there were cash in by collecting trade receivables and deferred revenue.

Net cash provided by operating activities for FY2019 increased by JPY8,241 million compared to FY2018. By the adoption of IFRS16, there were reclassification of cash out related to operating leases of JPY12,141 million from operating activities to financing activities, while there were increase in cash out related to operating assets and liabilities of JPY7,752 million, mainly due to trade and other payables, and increase in cash flows related to profit or loss.

Net cash used in investing activities for FY2019 was JPY7,265 million (net cash used in investing activities of JPY8,688 million for FY2018), mainly due to payments for purchase of tangible assets of JPY7,197 million (JPY7,080 million for FY2018), payments for purchase of intangible assets, such as software, of JPY4,642 million (JPY5,400 million for FY2018), and proceeds from sales of other investments, such as equity securities, of JPY2,750 million.

Net cash used in financing activities for FY2019 was JPY19,354 million (net cash used in financing activities of JPY5,890 million for FY2018), mainly due to proceeds from short-term borrowings of JPY2,500 million, payments of other financial liabilities of JPY20,556 million (JPY 7,322 million for FY2018), including JPY12,141 million of payment of operating lease obligations newly recognized by the adoption of IFRS 16.

Considered Factors for FY2020 Financial Targets

We assume the following business of ours would particularly be impacted by COVID-19: 1) ATM operation business revenue decrease due to out of operation of placed bank ATMs along with stores temporary closure, 2) Systems construction (one-time revenue) and related revenue, due to decrease in enterprises investment appetite, 3) Acquisition of consumer mobile subscribers due to large shopping malls and other stores temporary closure.

We assume impacts from these, especially ATM operation business revenue and operating profit, should particularly be apparent for the first half of FY2020 and we assume our first half operating profit to decrease YoY. On the other hand, we expect enterprise recurring revenue, such as network services, should continue to increase to some degree amid economic downturn. Please note that our FY2020 financial targets announced today are based on our expectation as of today and they include uncertainty. While we are well aware of possibility that the pandemic could further spread and/or take longer to end, we assume our FY2020 consolidated financial outlook based on our current expectation as written above.

Correspondence to COVID-19

In order to reduce the risk of COVID-19 infection, we have been working remotely from home, except for cases where it is impossible to continuously operate social infrastructure including Internet as well as to deliver necessary corporate operation. As of the end of April 2020, our ratio of working from home was approximately 80%. In case working at office is the only option, we take measures such as working different hours (showing up early/late) and/or allocating more space for seating. We will continue to take appropriate measures in timely manners in light of the changing circumstances.

Dividend Policy

Our basic dividend policy is that we pay dividends to our shareholders continuously and in a stable manner while considering the need to have retained earnings for the enhancement of financial position, medium-to long-term business expansion, future business investment and other goals.

Based on the Articles of Incorporation of IJ, the frequency of dividend payments is twice each fiscal year, an interim dividend and a year-end dividend. The interim dividend is decided by the meeting of the board directors of IJ and the year-end dividend is approved at IJ's general meeting of shareholders.

Based on the policy above, for FY2019, IJ had paid the interim cash dividend of JPY13.50 per share of common stock and plans the year-end dividend to be JPY13.50 per share. Total dividend per share for FY2019 will be JPY27.00 per share of common stock.

As for FY2020, while we expect 1H20 operating profit to decrease YoY, we expect full FY2020 revenue and operating profit to increase YoY mainly because network services are expected to increase. Therefore, according with our basic dividend policy of continuous payment in a stable manner, our interim dividend forecast is JPY17.00 and our year-end dividend forecast is JPY17.00, which in total is an increase of JPY7.00 per share of common stock from the previous fiscal year.

Presentation

Presentation materials will be posted on our web site (<https://www.ij.ad.jp/en/ir/>) on May 14, 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.

For inquiries, contact:

IJ Investor Relations Tel: +81-3-5205-6500 E-mail: ir@ij.ad.jp URL: <https://www.ij.ad.jp/en/ir>

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, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Assets		
Current Assets		
Cash and cash equivalents	31,957,789	38,671,734
Trade receivables	33,375,808	32,982,448
Inventories	3,403,192	2,476,477
Prepaid expenses	8,522,554	9,696,856
Other financial assets	1,581,212	2,670,885
Other current assets	130,900	92,027
Total Current Assets	78,971,455	86,590,427
Non-current Assets		
Tangible assets	33,136,059	17,399,863
Right-of-use Assets	—	50,560,361
Goodwill	6,082,472	6,082,472
Intangible assets	18,818,707	18,280,247
Investments accounted for using the equity method	4,837,867	4,827,287
Prepaid expenses	8,037,298	7,777,997
Other investments	11,402,365	9,186,646
Deferred tax assets	176,587	742,857
Other financial assets	5,293,547	4,706,321
Other non-current assets	532,839	369,782
Total non-current assets	88,317,741	119,933,833
Total assets	167,289,196	206,524,260

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade and other payables	21,962,239	18,287,546
Borrowings	12,750,000	15,580,000
Income taxes payable	1,139,460	2,283,707
Contract liabilities	5,368,075	5,897,674
Deferred income	93,738	88,901
Other financial liabilities	7,031,690	17,845,194
Other current liabilities	4,559,005	5,703,623
Total current liabilities	52,904,207	65,686,645
Non-current liabilities		
Borrowings	14,000,000	12,170,000
Retirement benefit liabilities	3,488,501	3,984,880
Provisions	731,257	753,518
Contract liabilities	5,002,147	5,991,807
Deferred income	516,345	479,097
Deferred tax liabilities	421,396	136,536
Other financial liabilities	12,151,346	36,305,781
Other non-current liabilities	954,387	958,879
Total non-current liabilities	37,265,379	60,780,498
Total liabilities	90,169,586	126,467,143
Equity		
Share capital	25,518,712	25,530,621
Share premium	36,225,775	36,271,395
Retained earnings	12,335,035	16,500,993
Other components of equity	4,088,704	2,669,501
Treasury shares	(1,896,788)	(1,896,921)
Total equity attributable to owners of the parent	76,271,438	79,075,589
Non-controlling interests	848,172	981,528
Total equity	77,119,610	80,057,117
Total liabilities and equity	167,289,196	206,524,260

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Revenues		
Network services	118,626,271	121,998,722
System integration	69,652,389	78,393,435
ATM operation business	4,151,525	4,081,358
Total revenues	192,430,185	204,473,515
Cost of sales		
Cost of network services	(101,257,454)	(102,092,065)
Cost of systems integration	(59,871,900)	(67,584,141)
Cost of ATM operation business	(2,326,133)	(2,203,884)
Total cost of sales	(163,455,487)	(171,880,090)
Gross Profit	28,974,698	32,593,425
Selling, general and administrative expense	(22,652,036)	(24,075,759)
Other operating income	47,008	223,215
Other operating expenses	(346,683)	(515,709)
Operating Profit	6,022,987	8,225,172
Finance income	570,004	349,965
Finance expenses	(431,763)	(610,370)
Share of profit (loss) of investments accounted for using equity method	(318,244)	(805,780)
Profit (loss) before tax	5,842,984	7,158,987
Income tax expense	(2,144,196)	(2,965,453)
Profit (loss) for the year	3,698,788	4,193,534
Profit (loss) for the year attributable to:		
Owners of the parent	3,520,566	4,006,773
Non-controlling interests	178,222	186,761
Total	3,698,788	4,193,534
Earnings per share		
Basic earnings per share (yen)	78.11	88.88
Diluted earnings per share (yen)	77.80	88.49

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Profit (loss) for the year	3,698,788	4,193,534
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	(1,001,192)	234,772
Remeasurement of defined benefit plans	350,139	(157,541)
Total items that will not be reclassified to profit or loss	(651,053)	77,231
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	47,377	(92,375)
Financial assets measured at fair value through other comprehensive income	1,260	(1,735)
Share of other comprehensive income of investments accounted for using equity method	(15,386)	7,671
Total of items that may be reclassified to profit or loss	33,251	(86,439)
Total other comprehensive income, net of tax	(617,802)	(9,208)
Other comprehensive income for the year	3,080,986	4,184,326
Other comprehensive income for the year attributable to:		
Owners of the parent	2,902,764	3,997,565
Non-controlling interest	178,222	186,761
Other comprehensive income for the year	3,080,986	4,184,326

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
For the year ended March 31, 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, March 31, 2018								
Profit for the year	-	-	3,520,566	-	-	3,520,566	178,222	3,698,788
Other comprehensive income	-	-	-	(617,802)	-	(617,802)	-	(617,802)
Total comprehensive income	-	-	3,520,566	(617,802)	-	2,902,764	178,222	3,080,986
Transactions with owners								
Issuance of common stock	6,908	(6,901)	-	-	-	7	-	7
Purchase of treasury stock	-	-	-	-	(4)	(4)	-	(4)
Dividends paid	-	-	(1,216,801)	-	-	(1,216,801)	(48,550)	(1,265,351)
Stock-based compensation	-	56,740	-	-	-	56,740	-	56,740
Transfer from other components of equity to retained earnings	-	-	352,449	(352,449)	-	-	-	-
Total transactions with owners	6,908	49,839	(864,352)	(352,449)	(4)	(1,160,058)	(48,550)	(1,208,608)
Balance, March 31, 2019	25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610

For the year ended March 31, 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, March 31, 2019	25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610
Cumulative impact of adopting IFRS 16 (Note)	-	-	(33,728)	-	-	(33,728)	-	(33,728)
Comprehensive income								
Profit for the year	-	-	4,006,773	-	-	4,006,773	186,761	4,193,534
Other comprehensive income	-	-	-	(9,208)	-	(9,208)	-	(9,208)
Total comprehensive income	-	-	4,006,773	(9,208)	-	3,997,565	186,761	4,184,326
Transactions with owners								
Issuance of common stock	11,909	(11,895)	-	-	-	14	-	14
Purchase of treasury stock	-	-	-	-	(133)	(133)	-	(133)
Dividends paid	-	-	(1,217,082)	-	-	(1,217,082)	(53,405)	(1,270,487)
Stock-based compensation	-	57,515	-	-	-	57,515	-	57,515
Transfer from other components of equity to retained earnings	-	-	1,409,995	(1,409,995)	-	-	-	-
Total transactions with owners	11,909	45,620	192,913	(1,409,995)	(133)	(1,159,686)	(53,405)	(1,213,091)
Balance, March 31, 2020	25,530,621	36,271,395	16,500,993	2,669,501	(1,896,921)	79,075,589	981,528	80,057,117

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

Condensed Consolidated Statements of Cash Flows (Unaudited)

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Cash flows from operating activities:		
Profit (loss) before tax	5,842,984	7,158,987
Adjustments		
Depreciation and amortization	15,628,567	28,520,131
Loss on sales of property and equipment	303,072	470,789
Shares of loss (profit) of investments accounted for using the equity method	318,244	805,780
Finance income	(569,387)	(259,463)
Finance expenses	430,176	592,186
Other	21,166	(8,075)
Changes in working capital		
Decrease (increase) in trade receivables	(1,758,343)	344,940
Decrease (increase) in inventories	(1,857,488)	919,349
Decrease (increase) in prepaid expenses	(1,275,117)	(929,537)
Decrease (increase) in other assets	557,337	245,625
Decrease (increase) in other financial assets	2,333,483	(322,857)
Increase (decrease) in trade and other payables	5,499,957	(4,052,514)
Increase (decrease) in contract liabilities	2,725,069	1,590,073
Increase (decrease) in deferred income	158,109	(42,085)
Increase (decrease) in other liabilities	156,096	1,150,317
Increase (decrease) in other financial liabilities	29,211	(83,898)
Increase (decrease) in retirement benefit liabilities	275,019	271,746
Sub total	28,818,155	36,371,494
Interest and dividends received	182,174	211,312
Interest paid	(427,199)	(578,252)
Income taxes paid	(3,420,784)	(2,610,803)
Cash flows from operating activities	25,152,346	33,393,751

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Cash flows from investing activities		
Purchases of tangible assets	(7,080,371)	(7,196,952)
Proceeds from sales of tangible assets	3,070,798	2,771,031
Purchases of intangible assets	(5,400,380)	(4,641,964)
Proceeds from sales of intangible assets	1,579	273,773
Purchase of investments accounted for using equity method	-	(867,842)
Purchases of other investments	(44,013)	(136,429)
Proceeds from sales of other investments	565,477	2,750,245
Payments for leasehold deposits and guarantee deposits	(20,848)	(196,716)
Proceeds from collection of leasehold deposits and guarantee deposits	56,224	21,527
Payments for refundable insurance policies	(56,355)	(56,340)
Proceeds from subsidies	230,000	-
Other	(9,700)	14,833
Cash flows from investing activities	(8,687,589)	(7,264,834)
Cash flows from financing activities		
Repayment of long-term borrowings	-	(1,500,000)
Net increase (decrease) in short-term borrowings	2,000,000	2,500,000
Proceeds from other financial liabilities	697,863	1,473,000
Payments of other financial liabilities	(7,322,252)	(20,556,388)
Dividends paid	(1,216,801)	(1,217,082)
Other	(48,560)	(53,551)
Cash flows from financing activities	(5,889,750)	(19,354,021)
Effect of exchange rate changes on cash and cash equivalents	62,778	(60,951)
Net increase (decrease) in cash and cash equivalents	10,637,785	6,713,945
Cash and cash equivalents, beginning of year	21,320,004	31,957,789
Cash and cash equivalents, end of year	31,957,789	38,671,734

Notes to Condensed Consolidated Financial Statements (UNAUDITED)

Going Concern Assumption (Unaudited)

Nothing to be reported.

Changes in Accounting Policies (Unaudited)

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

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

The Company adopted IFRS 16 “Leases” (issued in January 2016) from the first quarter of the fiscal year ended March 31, 2020.

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

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

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

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

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

As a result of the adoption of IFRS 16, the Company recorded right-of-use assets of JPY38,988,207 thousand and other financial liabilities of JPY39,037,445 thousand at April 1, 2019. In addition, retained earnings decreased by JPY33,728 thousand primarily due to having adopted the method where the cumulative effect of applying this standard is recognized at the date of initial application.

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

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

The balances of other financial liabilities related to leases are as follows:

Classification under IAS 17	As of March 31, 2019	As of March 31, 2020
	Thousands of yen	Thousands of yen
Finance leases	18,033,862	18,062,638
Operating leases	—	34,591,850

Segment Information (Unaudited)

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

Intersegment transactions are based on market price.

Segment information for the Company is as follows:

Fiscal year ended March 31, 2019

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen		
Revenue				
Customers	188,278,660	4,151,525	—	192,430,185
Intersegment transactions	354,990	—	(354,990)	—
Total revenue	188,633,650	4,151,525	(354,990)	192,430,185
Segment operating profit	4,599,187	1,622,517	(198,717)	6,022,987
Finance income				570,004
Finance expense				(431,763)
Share of profit (loss) of investments accounted for using the equity method				(318,244)
Profit before tax				5,842,984

Fiscal year ended March 31, 2020

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen		
Revenue				
Customers	200,392,157	4,081,358	—	204,473,515
Intersegment transactions	287,262	—	(287,262)	—
Total revenue	200,679,419	4,081,358	(287,262)	204,473,515
Segment operating profit	6,728,906	1,644,629	(148,363)	8,225,172
Finance income				349,965
Finance expense				(610,370)
Share of profit (loss) of investments accounted for using the equity method				(805,780)
Profit before tax				7,158,987

Earnings per share (Unaudited)

Basic earnings per share attributable to owners of the parent and diluted earnings per share attributable to owners of the parent for the years ended March 31, 2019 and 2020 were as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	3,520,566	4,006,773
Denominator :		
Weighted average number of shares — basic (shares)	45,070,469	45,080,402
Dilution arising from stock options (shares)	178,915	200,666
Weighted average number of shares — diluted (shares)	45,249,384	45,281,068
Earnings per share attributable to owners of the parent		
Basic (yen)	78.11	88.88
Diluted (yen)	77.80	88.49

Subsequent Events (Unaudited)

Nothing to be reported.

Note: The following information is provided to disclose Internet Initiative Japan Inc. ("IIJ") financial results (unaudited) for the fiscal year ended March 31, 2020 ("FY2019") in the form defined by the Tokyo Stock Exchange.

Consolidated Financial Results for the Fiscal Year ended March 31, 2020 [Under IFRS]

May 14, 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: (03) 5205-6500

Scheduled date for annual general shareholders' meeting: June 24, 2020

Scheduled date for dividend payment: June 25, 2020

Scheduled date for filing of annual securities report (*Yuka-shoken -houkokusho*) to Japan's regulatory organization: June 30, 2020

Supplemental material on annual results: Yes

Presentation on annual results: No

(Amounts of less than JPY one million are rounded)

1. Consolidated Financial Results for the Fiscal Year ended March 31, 2020

(April 1, 2019 to March 31, 2020)

(1) Consolidated Results of Operations

(% shown is YoY change)

	Revenues		Operating profit		Profit (loss) before tax		Profit (loss) for the year		Profit (loss) attributable to owners of the parent		Other comprehensive income	
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%
Fiscal Year ended March 31, 2020	204,474	6.3	8,225	36.6	7,159	22.5	4,194	13.4	4,007	13.8	4,184	35.8
Fiscal Year ended March 31, 2019	192,430	9.2	6,023	(11.0)	5,843	(15.0)	3,699	(19.5)	3,521	(20.4)	3,081	(60.6)

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ratio of profit before taxes to total assets	Ratio of operating profit to revenues
	JPY	JPY	%	%	%
Fiscal Year ended March 31, 2020	88.88	88.49	5.2	3.8	4.0
Fiscal Year ended March 31, 2019	78.11	77.80	4.7	3.6	3.1

(Reference) Equity in net income (loss) of equity method investees

Fiscal year ended March 31, 2020: JPY(806) million, Fiscal year ended March 31, 2019: JPY(318) million

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of owners' equity to total assets	Owners' equity per share
	JPY millions	JPY millions	JPY millions	%	JPY
As of March 31, 2020	206,524	80,057	79,076	38.3	1,753.97
As of March 31, 2019	167,289	77,120	76,271	45.6	1,692.27

(3) Consolidated Cash Flow

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents (end of the period)
	JPY millions	JPY millions	JPY millions	JPY millions
Fiscal year ended March 31, 2020	33,394	(7,265)	(19,354)	38,672
Fiscal year ended March 31, 2019	25,152	(8,688)	(5,890)	31,958

2. Dividends

	Dividend per Shares					Total cash dividends for the year	Payout Ratio (consolidated)	Ratio of Dividends to Shareholder's Equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	JPY	JPY	JPY	JPY	JPY	JPY millions	%	%
Fiscal Year Ended March 31, 2019	—	13.50	—	13.50	27.00	1,217	34.6	1.6
Fiscal Year Ended March 31, 2020	—	13.50	—	13.50	27.00	1,217	30.4	1.6
Fiscal Year Ending March 31, 2021 (forecast)	—	17.00	—	17.00	34.00		30.7	

3. Targets of Consolidated Financial Results for the Fiscal Year ending March 31, 2021 (April 1, 2020 through 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	210,000	2.7	8,700	5.8	8,000	11.7	5,000	24.8	110.90

(Note) Because it is difficult to reasonably predict when COVID-19 pandemic will be stamped out, we only disclose full-year financial target. FY2020 financial targets announced today are based on assumption that state of emergency related to COVID-19 will be lifted by September 2020 and along with that economic activities should gradually resume and be back to normal. Please note that our financial targets are subject to change if COVID-19 pandemic situation changes.

* Notes:

(1) Changes in significant subsidiaries: None

(2) Changes in accounting policies and estimate

i. Changes in accounting policies required by IFRS: Yes

ii. Other changes in accounting policies: None

iii. Changes in accounting estimates: None

(As for the details of the above (2)-i, please refer to the page 17 of this document)

(3) Number of shares issued (common stock)

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

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

As of March 31, 2019: 46,721,400 shares

ii. Number of treasury stock:

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

As of March 31, 2019: 1,650,911 shares

iii. Number of weighted average common shares outstanding:

For the fiscal year ended March 31, 2020: 45,080,402 shares

For the fiscal year ended March 31, 2019: 45,070,469 shares

* Status of Audit Procedures

This document is not subject to the audit procedures 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 IJ Group's expectation, estimates, and projections based on information available to IJ Group as of May 14, 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, please refer to "Considered Factors for FY2020 Financial Targets" written on page 9 of this document.

ii) Adoption of IFRS

We have adopted IFRS from the Annual Securities Report (Yuka-shoken houkokusho) for the fiscal year ended March 31, 2019.

iii) Others

We will not hold a presentation on FY2019 results in order to prevent COVID-19 further spread as well as to secure safety. FY2019 presentation material will be disclosed on TDnet as well as posted on our website on Thursday, May 14, 2020. We plan to post frequently asked questions received from analysts and institutional investors about our earnings on our website.

May 14, 2020

Company name: Internet Initiative Japan Inc.

Company representative: Ejjiro Katsu, President and Representative Director
(Stock Code Number: 3774, The First Section of the Tokyo Stock Exchange)

Contact: Akihisa Watai, Managing Director and CFO
TEL: 81-3-5205-6500

Information Pertaining to Our Largest Shareholder

1. About Our Largest Shareholder (As of March 31, 2020)

Name	Relationship	Its Ownership Percentage (%)			Securities Exchanges where its Shares are Listed
		Direct ownership	Indirect ownership	Total	
Nippon Telegraph and Telephone Corporation (“NTT”)	IIJ is NTT's affiliate company	22.4	4.5	26.9	Tokyo Stock Exchange (First Section)

2. Position of the Listed Company (IIJ) within NTT Group and other relationships

The ownership percentage by NTT, which is IIJ's largest shareholder, was 26.9% as of March 31, 2020, including its indirect ownership. However, IIJ's business activities are not affected by NTT's ownership in IIJ and IIJ is maintaining its management independence.

3. Business Relationship with NTT Group

IIJ uses services provided by Nippon Telegraph and Telephone East Corporation and Nippon Telegraph and Telephone West Corporation for a significant portion of IIJ's access circuits, services provided by NTT Communications Corporation for a significant portion of IIJ's domestic and international backbone circuits, and services provided by NTT DOCOMO, INC for a significant portion of IIJ's mobile infrastructure, to provide Internet connectivity and other services to IIJ's customers. IIJ also leases a part of Internet data center facilities from NTT Group companies to provide Internet data center services. The aggregate amount paid to for these services was JPY36,228 million for the fiscal year ended March 31, 2020.

4. Policy Concerning Measures to Protect Minority Shareholders in Transactions with NTT Group

Business transactions with the NTT Group are within the scope of normal business practices and there is no special contract made in relation to the investment by NTT Group.

End