



Internet Initiative Japan

For Immediate Release

Internet Initiative Japan Inc.

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**IIJ Announces its First Three Months Financial Results
for the Fiscal Year Ending March 31, 2020**

Tokyo, August 7, 2019 - Internet Initiative Japan Inc. (“IIJ”, TSE:3774) today announced its first three months consolidated financial results for the fiscal year ending March 31, 2020 (“1Q19”, from April 1, 2019 to June 30, 2019) under International Financial Reporting Standards (IFRS).¹

Highlights of Financial Results for 1Q19

Total revenues	JPY49.8 billion	(up 11.1% YoY) ²
Gross profit	JPY7.4 billion	(up 8.1% YoY)*
Operating profit	JPY1.4 billion	(up 2.2% YoY)*
Profit for the period attributable to owners of the parent	JPY0.8 billion	(down 11.1% YoY)*

* Considering normalized cost,³ actual year over year growth of gross profit is up 16.3%, operating profit is up 58.8% and profit for the period attributable to owners of the parent is up 42.9%.

Financial Targets

	1H19	FY2019
Total revenues	JPY97.7 billion	JPY204.0 billion
Operating profit	JPY2.2 billion	JPY7.0 billion
Profit for the year attributable to owners of the parent	JPY0.6 billion	JPY3.5 billion

Overview of 1Q19 Financial Results and Business Outlook

“Favorable Japanese enterprises’ demands for IT continued and we achieved revenue growth of 11.1% year over year in 1Q19 which exceeded our plan. Strong demands for security and network in particular contributed to the growth of our recurring revenue, 83.4% of 1Q19 total revenues. As for operating profit, along with revenue accumulation as well as gross profit expansion for both network services and SI, it grew by 58.8% year over year to JPY1.4 billion from JPY0.9 billion, which is a normalized 1Q18 operating profit by allocating NTT Docomo’s mobile interconnectivity unit charge revision impact recorded in 4Q18 to attributable FY2018 quarters,³” said Eijiro Katsu, President and COO of IIJ.

“One of profit drivers for FY2019 would be our full-MVNO profitability improvement⁴ along with its revenue

¹ Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with International Financial Reporting Standards (IFRS), unaudited and consolidated.

² YoY is an abbreviation for year over year change.

³ Normalized profit is calculated by allocating JPY2.05 billion of additional cost recorded in 4Q18, as a result of the difference between our estimate (14% decrease) and the actual revision (5% decrease) of NTT Docomo’s mobile interconnectivity unit charge to the attributable each quarter of FY2018. Please refer page 5 of our presentation material for 1Q19 earnings which explains this year over year operating profit in details.

⁴ We launched full-MVNO services in March 2018. Our target revenue for FY2019 is JPY1.7 billion (FY2018 results JPY0.6 billion) and fixed cost of full-MVNO is approximately JPY1.3 billion per year, we should have a rebound effect of profitability by increasing full-MVNO revenue although we should have revenue-related variable costs.

accumulation outlook. As for full-MVNO service developments, we started to provide SoftSIM⁵ and consumer eSIM services, allowing easy transition between mobile carriers.⁶ We plan to launch eSIM services for enterprises targeting IoT usages as we believe eSIM would be a critical element in advancing IoT. We have many full-MVNO transactions for network/surveillance/dashboard cameras and start to see some prominent cases such as Motorola⁷ and WABCO Japan⁸ transactions,” continued Katsu.

“As for cloud, we enhanced our multi cloud service lineups to include Google Cloud Platform™ as a new connecting point, in addition to Amazon Web Service and Microsoft Azure.⁹ We expect the demands for secured and low-latency connection between multiple cloud services should increase as it becomes common among large Japanese enterprises,” said Katsu.

“As for DeCurret Inc., they raised capital by expanding its enterprise shareholders; KDDI, Konami, Sumitomo Life, Daido Life, Meiji Yasuda Life, Chubu Electric Power, Hankyu Hanshin Holdings, Matsui Securities, Energia Communications, ALSOK, and Toppan Printing became DeCurret’s new shareholders. IJ remains as the largest shareholder with 30% ownership. DeCurret should enhance their BtoB and BtoBtoC settlement business with their enterprise shareholders,” said Koichi Suzuki, Founder, Chairman and CEO of IJ.

Regarding the retroactively adjusted 1Q18 financial results

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

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

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

Adjusted 1Q18 results and Adjusted YoY changes are as follows:

	Adjusted 1Q18	1Q19	Adjusted YoY change
	JPY millions	JPY millions	(%)
Cost of Network services revenue	(24,307)	(25,661)	5.6
Gross profit of Network services	4,404	5,019	14.0
Total gross profit	6,349	7,382	16.3
Operating profit	870	1,381	58.8
Profit before tax	943	1,369	45.2
Profit for the period	584	826	41.4
Profit for the period attributable to owners of the parent	544	777	42.9
Comprehensive income for the period	30	1,385	4,566.0

⁵ For details, please refer to our press release “IJ to Offer SoftSIMs as a New Business Model in Its Full MVNO Service Lineup” which can be found here <https://www.ij.ad.jp/en/news/pressrelease/2019/0527.html>

⁶ For details, please refer to our press release “IJ to Launch the First eSIM Service in Japan” which can be found here <https://www.ij.ad.jp/en/news/pressrelease/2019/0704-2.html>

⁷ For details, please refer to our press release “IJ to Offer Its Full MVNO Services to Motorola Solutions' Broadband Wireless Service” which can be found here <https://www.ij.ad.jp/en/news/pressrelease/2019/0703-2.html>

⁸ For details, please refer to our press release “IJ to Offer SoftSIMs as a New Business Model in Its Full MVNO Service Lineup” which can be found here <https://www.ij.ad.jp/en/news/pressrelease/2019/0527.html>

⁹ For details, please refer to our press release “IJ to Launch a Private Connection Service to Google Cloud Platform™” which can be found here <https://www.ij.ad.jp/en/news/pressrelease/2019/0528.html>

1Q19 Financial Results Summary

We have adopted IFRS 16 “Leases” (hereinafter “IFRS 16”) from 1Q19. As for the details, please refer to “Notes to Condensed Consolidated Financial Statements” written in the page 16 of this document.

Operating Results Summary

	1Q18	1Q19	YoY Change
	JPY millions	JPY millions	%
Total revenues	44,838	49,829	11.1
Network services	28,711	30,680	6.9
Systems integration (SI)	15,132	18,109	19.7
ATM operation business	995	1,040	4.5
Total costs	(38,007)	(42,447)	11.7
Network services	(23,825)	(25,661)	7.7
Systems integration (SI)	(13,599)	(16,219)	19.3
ATM operation business	(583)	(567)	(2.7)
Total gross profit	6,831	7,382	8.1
Network services	4,886	5,019	2.7
Systems integration (SI)	1,533	1,890	23.3
ATM operation business	412	473	14.8
SG&A, R&D, and other operating income (expenses)	(5,479)	(6,001)	9.5
Operating profit	1,352	1,381	2.2
Profit before tax	1,425	1,369	(3.9)
Profit for the period attributable to owners of the parent	874	777	(11.1)

(Notes) 1. We have adopted IFRS from the filing of our FY2018 annual report “Yuka-shoken-houkokusho.” The reporting period of foreign consolidated subsidiaries are different from the period under the Generally Accepted Accounting Principles in the United States (U.S. GAAP). Along with the change, the figures for 1Q18 are different from 1Q18 results disclosed in the past.

2. Systems integration includes equipment sales.

Segment Results Summary

	1Q18	1Q19
	JPY millions	JPY millions
Total revenues	44,838	49,829
Network services and SI business	43,927	48,862
ATM operation business	995	1,040
Elimination	(84)	(73)
Operating profit	1,352	1,381
Network service and SI business	1,028	999
ATM operation business	365	419
Elimination	(41)	(37)

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

1Q19 Revenues and Income

Revenues

Total revenues were JPY49,829 million, up 11.1% YoY (JPY44,838 million for 1Q18).

Network services revenue was JPY30,680 million, up 6.9% YoY (JPY28,711 million for 1Q18).

Revenues for Internet connectivity services for enterprise were JPY8,926 million, up 14.0% YoY from JPY7,829 million for 1Q18, mainly due to an increase in mobile-related services revenues along with an expansion of MVNE business clients’ transactions.

Revenues for Internet connectivity services for consumers were JPY6,500 million, up 5.7% YoY from JPY6,150 million for 1Q18. The revenue growth was mainly due to “IIJmio Mobile Service,” consumer mobile services.

Revenues for WAN services were JPY7,424 million, down 3.9% YoY from JPY7,727 million for 1Q18, mainly due to large enterprise clients’ migration to mobile.

Revenues for Outsourcing services were JPY7,830 million, up 11.8% YoY from JPY7,005 million for 1Q18, mainly due to an increase in security-related services revenues.

Network Services Revenues Breakdown

	1Q18	1Q19	YoY Change
	JPY millions	JPY millions	%
Total network services	28,711	30,680	6.9
Internet connectivity services (enterprise)	7,829	8,926	14.0
IP services (including data center connectivity services)	2,578	2,634	2.2
IIJ Mobile services	4,468	5,484	22.8
IIJ Mobile MVNO Platform Service	3,383	4,069	20.3
Others	783	808	3.2
Internet connectivity services (consumer)	6,150	6,500	5.7
IIJmio Mobile Service	5,463	5,855	7.2
Others	687	645	(6.1)
WAN services	7,727	7,424	(3.9)
Outsourcing services	7,005	7,830	11.8

Number of Contracts and Subscription for Connectivity Services

	As of June 30, 2018	As of June 30, 2019	YoY Change
Internet connectivity services (enterprise)	1,483,729	1,792,638	308,909
IP service (greater than or equal to 1Gbps)	721	736	15
IP service (less than 1Gbps)	1,289	1,251	(38)
IIJ Mobile Services	1,407,806	1,709,359	301,553
IIJ Mobile MVNO Platform Service	887,026	1,072,190	185,164
Others	73,913	81,292	7,379
Internet connectivity services (consumer)	1,387,825	1,407,024	19,199
IIJmio Mobile Service	1,035,728	1,073,763	38,035
Others	352,097	333,261	(18,836)
Total contracted bandwidth (Gbps)	3,373.2	4,272.0	898.8

(Notes) 1. Numbers in the table above show number of contracts except for “IIJ Mobile Services (enterprise)” and “IIJmio Mobile Service” which show number of subscriptions.

2. The numbers of IP service contracts includes the numbers of IIJ data center connectivity service contracts.

3. 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.

4. Along with our change in accounting principle from the U.S. GAAP to IFRS from the filing of our FY2018 annual report “Yuka-shoken-houkokusho,” the reporting period of foreign consolidated subsidiaries are different. As a result, the number of our Internet connectivity service contracts and total contracted bandwidth described above are different from the past disclosure.

SI revenues, including equipment sales were JPY18,109 million, up 19.7% YoY (JPY15,132 million for 1Q18).

Systems construction and equipment sales revenue, a one-time revenue, was JPY7,249 million, up 46.2% YoY (JPY4,959 million for 1Q18). In addition to an increase in usual revenue of completed project, we recognized JPY1.34 billion of revenue along with construction progresses. Systems operation and maintenance revenue, a recurring revenue, was JPY10,860 million, up 6.8% YoY (JPY10,173 million for 1Q18), mainly due to continued accumulation of systems operation orders as well as an increase in private cloud services’ revenues.

Orders received for SI and equipment sales totaled JPY22,217 million, up 16.7% YoY (JPY19,035 million for 1Q18); orders received for systems construction and equipment sales were JPY8,118 million, up 7.1% YoY (JPY7,578 million for 1Q18) and orders received for systems operation and maintenance were JPY14,099 million, up 23.1% YoY (JPY11,457 million for 1Q18).

Order backlog for SI and equipment sales as of June 30, 2019 amounted to JPY55,222 million, up 9.4% YoY (JPY50,499 million as of June 30, 2018); order backlog for systems construction and equipment sales was

JPY8,709 million, down 9.8% YoY (JPY9,657 million as of June 30, 2018) and order backlog for systems operation and maintenance was JPY46,514 million, up 13.9% YoY (JPY40,841 million as of June 30, 2018). ATM operation business revenues were JPY1,040 million, up 4.5% YoY (JPY995 million for 1Q18).

Cost of sales

Total cost of sales was JPY42,447 million, up 11.7% YoY (JPY38,007 million for 1Q18 and JPY38,490 million as Adjusted) and Adjusted YoY change was up 10.3%.

Cost of network services revenue was JPY25,661 million, up 7.7% YoY (JPY23,825 million for 1Q18 and JPY24,307 million as Adjusted) and Adjusted YoY change in cost of network services revenue was up 5.6% YoY. There were an increase in outsourcing-related costs along with our mobile-related revenue increase. Gross profit was JPY5,019 million, up 2.7% YoY (JPY4,886 million for 1Q18 and JPY4,404 million as Adjusted), Adjusted YoY change in gross profit was up 14.0%, and gross profit ratio was 16.4% (17.0% for 1Q18 and 15.3% as Adjusted).

Cost of SI revenues, including equipment sales was JPY16,219 million, up 19.3% YoY (JPY13,599 million for 1Q18). There were an increase in purchasing costs along with increase in our systems construction revenue and an increase in network operation-related costs. Gross profit was JPY1,890 million, up 23.3% YoY (JPY1,533 million for 1Q18) and gross profit ratio was 10.4% (10.1% for 1Q18).

Cost of ATM operation business revenues was JPY567 million, down 2.7% YoY (JPY583 million for 1Q18). Gross profit was JPY473 million (JPY412 million for 1Q18) and gross profit ratio was 45.5% (41.4% for 1Q18).

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

Selling, general and administrative expenses, which include research and development expenses, totaled JPY6,042 million, up 9.4% YoY (JPY5,522 million for 1Q18), mainly due to increases in personnel-related expenses and sales commission expenses.

Other operating income was JPY113 million (JPY60 million for 1Q18).

Other operating expenses was JPY72 million (JPY17 million for 1Q18), mainly due to disposal loss on fixed assets.

Operating profit

Operating profit was JPY1,381 million (JPY1,352 million for 1Q18 and JPY870 million as Adjusted), up 2.2% YoY and Adjusted YoY change was up 58.8%.

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

Finance income was JPY90 million, compared to JPY211 million for 1Q18. It included dividend income of JPY61 million (JPY52 million for 1Q18).

Finance expense was JPY215 million, compared to JPY108 million for 1Q18. It included interest expenses of JPY126 million (JPY104 million for 1Q18).

Share of profit of investments accounted for using equity method was JPY112 million (compared to loss of JPY30 million for 1Q18), mainly due to our share of loss in DeCurret Inc. of JPY337 million and gains on changes in equity of JPY374 million arisen from issuance of common stock of DeCurret Inc.

Profit before tax

Profit before tax was JPY1,369 million (JPY1,425 million for 1Q18 and JPY943 million as Adjusted), down 3.9% YoY and Adjusted YoY change was up 45.2%.

Profit for the period

Income tax expense was JPY543 million (JPY511 million for 1Q18). As a result, profit for the period was JPY826 million (JPY914 million for 1Q18 and JPY584 million as Adjusted), down 9.7% YoY and Adjusted YoY change was up 41.4%.

Profit for the period attributable to non-controlling interests was JPY49 million (JPY40 million for 1Q18) mainly related to net income of Trust Networks Inc. As a result, profit for the period attributable to owners of parent was JPY777 million (JPY874 million for 1Q18 and JPY544 million as Adjusted), down 11.1% YoY and Adjusted YoY change was up 42.9%.

Financial Position as of June 30, 2019

As of June 30, 2019, the balance of total assets was JPY204,390 million, increased by JPY37,101 million from the balance as of March 31, 2019 of JPY167,289 million.

As of June 30, 2019, the balance of current assets was JPY79,943 million, increased by JPY971 million from the balance as of March 31, 2019 of JPY78,791 million. The major breakdown of fluctuation and balance of current assets was: an increase in cash and cash equivalents by JPY935 million to JPY32,893 million, a decrease in trade receivables by JPY2,112 million to JPY31,264 million, a decrease in inventories by JPY1,568 million to JPY1,836 million and an increase in prepaid expenses by JPY3,046 million to JPY11,568 million.

As of June 30, 2019, the balance of non-current assets was JPY124,448 million, increased by JPY36,130 million from the balance as of March 31, 2019 of JPY88,318 million. Along with the adoption of IFRS 16, right-of-use assets were newly accounted. The breakdown of right-of-use assets was: JPY36,589 million of assets under operating lease contracts which was newly recognized, mainly related to our office and data centers lease contracts, and JPY15,291 million of assets under finance lease contracts, which were transferred from tangible and intangible assets. Other investments was JPY9,691 million, decreased by JPY1,711 million mainly due to sales of our portion of holding equity securities.

As of June 30, 2019, the balance of current liabilities was JPY59,145 million, increased by JPY6,241 million from the balance as of March 31, 2019 of JPY52,904 million. Trade and other payables decreased by JPY4,431 million to JPY17,531 million. Borrowings increased by JPY3,165 million to JPY15,915 million. The breakdown of increase in the borrowings was: an increase by JPY3,000 million in short-term borrowings, a decrease by JPY750 million due to payment of long-term borrowings, and an increase by JPY915 million due to a transfer from non-current liabilities. Other financial liabilities increased by JPY6,775 million to JPY13,807 million. The increase included JPY5,553 million related to operating lease recognized along with the adoption of IFRS 16.

As of June 30, 2019, the balance of non-current liabilities was JPY67,422 million, increased by JPY30,157 million from the balance as of March 31, 2019 of JPY37,265 million. Long-term borrowings decreased by JPY915 million to JPY13,085 million due to a transfer to current portion. Other financial liabilities increased by JPY31,374 million to JPY43,525 million. The increase included JPY31,071 million related to operating lease recognized along with the adoption of IFRS 16.

As of June 30, 2019, the balance of equity attributable to owners of parent was JPY76,979 million, increased by JPY708 million from the balance as of March 31, 2019 of JPY76,271 million. Ratio of owners' equity to total assets was 37.7% as of June 30, 2019.

1Q19 Cash Flows

Cash and cash equivalents as of June 30, 2019 were JPY32,893 million (JPY22,857 million as of June 30, 2018).

Net cash provided by operating activities for 1Q19 was JPY5,250 million (net cash provided by operating activities of JPY6,623 million for 1Q18). There were profit before tax of JPY1,369 million, depreciation and amortization of JPY7,164 million, including JPY3,127 million of depreciation of right-of-use operating lease assets newly recognized by the adoption of IFRS 16, and income taxes paid of JPY1,304 million. Regarding changes in operating assets and liabilities, it was net cash out of JPY2,057 million mainly due to payment of trade and other payables 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 by selling inventories.

Net cash used in investing activities for 1Q19 was JPY2,141 million (net cash used in investing activities of JPY2,787 million for 1Q18), mainly due to payments for purchase of tangible assets of JPY2,947 million (JPY1,571 million for 1Q18), payments for purchase of intangible assets, such as software, of JPY1,650 million (JPY1,564 million for 1Q18) and proceeds from sales of other investments, such as equity securities, of JPY2,650 million.

Net cash used in financing activities for 1Q19 was JPY2,097 million (net cash used in financing activities of JPY2,354 million for 1Q18), mainly due to proceeds from short-term borrowings of JPY3,000 million, payments of other financial liabilities of JPY5,158 million (JPY1,697 million for 1Q18), including JPY3,142 million of payment of operating lease obligations newly recognized by the adoption of IFRS 16.

Future Prospects including FY2019 Financial Targets

Due to seasonal factors, our financial results tend to be small in first quarter and large in fourth quarter every fiscal year. While 1Q19 financial results slightly exceeded our plan, our financial targets for the fiscal year ending March 31, 2020 (FY2019) announced on May 14, 2019 remain unchanged.

Presentation

Presentation materials will be posted on our web site (<https://www.iij.ad.jp/en/ir/>) on August 7, 2019.

About Internet Initiative Japan Inc.

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

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Disclaimer:

Statements made in this press release regarding IIJ's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ'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 operating and net profitability, are subject to various risks, uncertainties and other factors that could cause IIJ's actual results to differ materially from those contained in any forward-looking statement.

Condensed Consolidated Statements of Financial Position (Unaudited)

	March 31, 2019	June 30, 2019
	Thousands of yen	Thousands of yen
Assets		
Current Assets		
Cash and cash equivalents	31,957,789	32,892,657
Trade receivables	33,375,808	31,264,241
Inventories	3,403,192	1,835,596
Prepaid expenses	8,522,554	11,568,243
Other financial assets	1,581,212	2,140,921
Other current assets	130,900	241,084
Total Current Assets	<u>78,971,455</u>	<u>79,942,742</u>
Non-current Assets		
Tangible assets	33,136,059	18,854,593
Right-of-use Assets	—	51,879,594
Goodwill	6,082,472	6,082,472
Intangible assets	18,818,707	17,944,188
Investments accounted for using the equity method	4,837,867	5,331,456
Prepaid expenses	8,037,298	8,661,814
Other investments	11,402,365	9,691,082
Deferred tax assets	176,587	403,899
Other financial assets	5,293,547	5,132,034
Other non-current assets	532,839	466,495
Total non-current assets	<u>88,317,741</u>	<u>124,447,627</u>
Total assets	<u><u>167,289,196</u></u>	<u><u>204,390,369</u></u>

	March 31, 2019	June 30, 2019
Liabilities and Equity	Thousands of yen	Thousands of yen
Liabilities		
Current liabilities		
Trade and other payables	21,962,239	17,531,049
Borrowings	12,750,000	15,915,000
Income taxes payable	1,139,460	1,129,949
Deferred income	5,461,813	6,195,367
Other financial liabilities	7,031,690	13,806,657
Other current liabilities	4,559,005	4,567,007
Total current liabilities	<u>52,904,207</u>	<u>59,145,029</u>
Non-current liabilities		
Borrowings	14,000,000	13,085,000
Retirement benefit liabilities	3,488,501	3,532,257
Provisions	731,257	700,471
Deferred income	5,518,492	5,520,296
Deferred tax liabilities	421,396	191,950
Other financial liabilities	12,151,346	43,524,966
Other non-current liabilities	954,387	867,194
Total non-current liabilities	<u>37,265,379</u>	<u>67,422,134</u>
Total liabilities	<u>90,169,586</u>	<u>126,567,163</u>
Equity		
Share capital	25,518,712	25,518,712
Share premium	36,225,775	36,239,940
Retained earnings	12,335,035	14,074,789
Other components of equity	4,088,704	3,042,545
Treasury shares	(1,896,788)	(1,896,788)
Total equity attributable to owners of the parent	<u>76,271,438</u>	<u>76,979,198</u>
Non-controlling interests	848,172	844,008
Total equity	<u>77,119,610</u>	<u>77,823,206</u>
Total liabilities and equity	<u>167,289,196</u>	<u>204,390,369</u>

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2019
	Thousands of yen	Thousands of yen
Revenues		
Network services	28,711,024	30,679,585
System integration	15,132,221	18,109,204
ATM operation business	995,200	1,040,055
Total revenues	<u>44,838,445</u>	<u>49,828,844</u>
Cost of sales		
Cost of network services	(23,825,090)	(25,660,982)
Cost of systems integration	(13,599,658)	(16,219,380)
Cost of ATM operation business	(582,905)	(566,918)
Total cost of sales	<u>(38,007,653)</u>	<u>(42,447,280)</u>
Gross Profit	6,830,792	7,381,564
Selling, general and administrative expense	(5,521,752)	(6,041,692)
Other operating income	59,587	112,659
Other operating expenses	(16,954)	(71,572)
Operating Profit	<u>1,351,673</u>	<u>1,380,959</u>
Finance income	211,404	90,126
Finance expenses	(108,469)	(214,613)
Share of profit (loss) of investments accounted for using equity method	(29,690)	112,207
Profit (loss) before tax	<u>1,424,918</u>	<u>1,368,679</u>
Income tax expense	(510,614)	(542,925)
Profit (loss) for the year	<u><u>914,304</u></u>	<u><u>825,754</u></u>
Profit (loss) for the year attributable to:		
Owners of the parent	873,743	776,513
Non-controlling interests	40,561	49,241
Total	<u><u>914,304</u></u>	<u><u>825,754</u></u>
Earnings per share		
Basic earnings per share (yen)	19.39	17.23
Diluted earnings per share (yen)	19.32	17.15

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2019
	Thousands of yen	Thousands of yen
Profit (loss)	914,304	825,754
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	(589,294)	652,157
Total items that will not be reclassified to profit or loss	(589,294)	652,157
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	48,640	(97,542)
Financial assets measured at fair value through other comprehensive income	(21)	685
Share of other comprehensive income of investments accounted for using equity method	(13,716)	3,962
Total of items that may be reclassified to profit or loss	34,903	(92,895)
Total other comprehensive income, net of tax	(554,391)	559,262
Other comprehensive income	359,913	1,385,016
Other comprehensive income attributable to:		
Owners of the parent	319,352	1,335,775
Non-controlling interest	40,561	49,241
Other comprehensive income	359,913	1,385,016

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Three months ended June 30, 2018

	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	25,511,804	36,175,936	9,678,821	5,058,955	(1,896,784)	74,528,732	718,500	75,247,232
Comprehensive income								
Profit (loss)	-	-	873,743	-	-	873,743	40,561	914,304
Other comprehensive income	-	-	-	(554,391)	-	(554,391)	-	(554,391)
Total comprehensive income	-	-	873,743	(554,391)	-	319,352	40,561	359,913
Transactions with owners								
Issuance of common stock	6,908	(6,395)	-	-	-	513	-	513
Dividends paid	-	-	(608,349)	-	-	(608,349)	(48,550)	(656,899)
Stock-based compensation	-	13,740	-	-	-	13,740	-	13,740
Total transactions with owners	6,908	7,345	(608,349)	-	-	(594,096)	(48,550)	(642,646)
Balance, June 30, 2018	25,518,712	36,183,281	9,944,215	4,504,564	(1,896,784)	74,253,988	710,511	74,964,499

Three months ended June 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, March 31, 2019	25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610
Cumulative impact of adopting IFRS 16 (Note)	-	-	(33,728)	-	-	(33,728)	-	(33,728)
Comprehensive income								
Profit (loss)	-	-	776,513	-	-	776,513	49,241	825,754
Other comprehensive income	-	-	-	559,262	-	559,262	-	559,262
Total comprehensive income	-	-	776,513	559,262	-	1,335,775	49,241	1,385,016
Transactions with owners								
Dividends paid	-	-	(608,452)	-	-	(608,452)	(53,405)	(661,857)
Stock-based compensation	-	14,165	-	-	-	14,165	-	14,165
Transfer from other components of equity to retained earnings	-	-	1,605,421	(1,605,421)	-	-	-	-
Total transactions with owners	-	14,165	996,969	(1,605,421)	-	(594,287)	(53,405)	(647,692)
Balance, June 30, 2019	25,518,712	36,239,940	14,074,789	3,042,545	(1,896,788)	76,979,198	844,008	77,823,206

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

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2019
	Thousands of yen	Thousands of yen
Cash flows from operating activities:		
Profit (loss) before tax	1,424,918	1,368,679
Adjustments		
Depreciation and amortization	3,608,903	7,163,708
Loss on sales of property and equipment	13,548	63,854
Shares of loss (profit) of investments accounted for using the equity method	29,690	(112,207)
Financial income	(207,085)	(75,430)
Financial expenses	104,381	216,748
Other	(33,751)	(43,228)
Changes in working capital		
Decrease (increase) in trade receivables	3,443,262	2,085,868
Decrease (increase) in inventories	(1,046,853)	1,561,660
Decrease (increase) in prepaid expenses	(3,236,927)	(3,680,025)
Decrease (increase) in other assets	(16,309)	(29,414)
Decrease (increase) in other financial assets	1,566,522	(288,799)
Increase (decrease) in trade and other payables	39,350	(3,293,040)
Increase (decrease) in deferred income	1,896,048	770,942
Increase (decrease) in other liabilities	72,773	(78,047)
Increase (decrease) in other financial liabilities	804,088	849,928
Increase (decrease) in retirement benefit liabilities	66,734	43,756
Sub total	8,529,292	6,524,953
Interest and dividends received	130,101	154,876
Interest paid	(106,956)	(126,602)
Income taxes paid	(1,929,154)	(1,303,564)
Cash flows from operating activities	6,623,283	5,249,663

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2019
	Thousands of yen	Thousands of yen
Cash flows from investing activities		
Purchases of tangible assets	(1,570,948)	(2,947,407)
Proceeds from sales of tangible assets	340,667	348,306
Purchases of intangible assets	(1,563,770)	(1,650,369)
Proceeds from sales of intangible assets	-	6,831
Purchase of investments accounted for using equity method	-	(460,000)
Purchases of other investments	-	(8,740)
Proceeds from sales of other investments	-	2,649,631
Payments for leasehold deposits and guarantee deposits	(8,044)	(70,882)
Proceeds from collection of leasehold deposits and guarantee deposits	38,706	5,309
Payments for refundable insurance policies	(14,091)	(14,085)
Other	(9,699)	-
Cash flows from investing activities	<u>(2,787,179)</u>	<u>(2,141,406)</u>
Cash flows from financing activities		
Repayment of long-term borrowings	-	(750,000)
Net increase (decrease) in short-term borrowings	-	3,000,000
Proceeds from other financial liabilities	-	1,473,000
Payments of other financial liabilities	(1,696,834)	(5,158,023)
Dividends paid	(608,349)	(608,452)
Other	(48,557)	(53,405)
Cash flows from financing activities	<u>(2,353,740)</u>	<u>(2,096,880)</u>
Effect of exchange rate changes on cash and cash equivalents	54,924	(76,509)
Net increase (decrease) in cash and cash equivalents	1,537,288	934,868
Cash and cash equivalents, beginning of year	<u>21,320,004</u>	<u>31,957,789</u>
Cash and cash equivalents at beginning of period	<u><u>22,857,292</u></u>	<u><u>32,892,657</u></u>

Notes to Condensed Consolidated Financial Statements (UNAUDITED)

Going Concern Assumption (Unaudited)

Nothing to be reported.

Material Changes In Shareholders' Equity (Unaudited)

Nothing to be reported.

Segment Information (Unaudited)

IJJ 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.”

Profit from each reporting segment is based on operating profit.

Segment information for the Company is as follows:

Three months ended June 30, 2018

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	43,843,245	995,200	—	44,838,445
Intersegment transactions	84,143	—	(84,143)	—
Total revenue	43,927,388	995,200	(84,143)	44,838,445
Segment operating profit	1,028,168	365,340	(41,835)	1,351,673
Finance income				211,404
Finance expense				(108,469)
Share of profit (loss) of investments accounted for using the equity method				(29,690)
Profit before tax				1,424,918

Three months ended June 30, 2019

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	48,788,789	1,040,055	—	49,828,844
Intersegment transactions	73,516	—	(73,516)	—
Total revenue	48,862,305	1,040,055	(73,516)	49,828,844
Segment operating profit	999,397	418,723	(37,161)	1,380,959
Finance income				90,126
Finance expense				(214,613)
Share of profit (loss) of investments accounted for using the equity method				112,207
Profit before tax				1,368,679

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

Subsequent Events (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 ending 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 ending 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 ending 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 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)
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:

	As of March 31, 2019	As of June 30, 2019
	Thousands of yen	Thousands of yen
Classification under IAS 17		
Finance leases	18,033,862	17,456,569
Operating leases	—	36,623,297

Note: The following information is provided to disclose Internet Initiative Japan Inc. (“IIJ”) financial results (unaudited) for the three months ended June 30, 2019 (“1Q19”) in the form defined by the Tokyo Stock Exchange.

Consolidated Financial Results for the Three Months ended June 30, 2019 [Under IFRS]

August 7, 2019

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 filing of quarterly report (*Shihanki-houkokusho*) to Japan’s regulatory organization: August 14, 2019

Scheduled date for dividend payment: -

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 Three Months ended June 30, 2019 (April 1, 2019 to June 30, 2019)

(1) Consolidated Results of Operations

(% 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	
	JPY millions	%	JPY millions	%	JPY millions	%	JPY million	%	JPY millions	%	JPY millions	%
Three Months ended June 30, 2019	49,829	11.1	1,381	2.2	1,369	(3.9)	826	(9.7)	777	(11.1)	1,385	284.8
Three Months ended June 30, 2018	44,838	-	1,352	-	1,425	-	914	-	874	-	360	-

(Reference) Regarding year over year (YoY) change of profit, one-time cost in relation to mobile services recorded in 4Q18 should essentially have been allocated to attributable each quarter of FY2018 to disclose our actual profit situation. Considering such allocation, YoY change would be as follows: Operating profit up 58.8%, Profit (loss) before tax up 45.2%, Profit (loss) for the period up 41.4%, Profit (loss) attributable to owners of the parent up 42.9%, and Other comprehensive income up 4,566.0%. For details, please refer to “Regarding the retroactively adjusted 1Q18 financial results” which is written on page 2 of this earnings release.

	Basic earnings per share	Diluted earnings per share
	JPY	JPY
Three Months ended June 30, 2019	17.23	17.15
Three Months ended June 30, 2018	19.39	19.32

(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 June 30, 2019	204,390	77,823	76,979	37.7
As of March 31, 2019	167,289	77,120	76,271	45.6

2. Dividends

	Dividend per Shares				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal Year Ended March 31, 2019	JPY —	JPY 13.50	JPY —	JPY 13.50	JPY 27.00
Fiscal Year Ending March 31, 2020	—				
Fiscal Year Ending March 31, 2020 (forecast)		13.50	—	13.50	27.00

(Note) Changes from the latest forecasts disclosed: No

3. Targets of Consolidated Financial Results for the Fiscal Year Ending March 31, 2020

(April 1, 2019 through March 31, 2020)

(% 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
Interim Period Ending September 30, 2019	97,700	7.1	2,200	(33.0)	1,500	(56.3)	550	(73.7)	12.20
Fiscal Year Ending March 31, 2020	204,000	6.0	7,000	16.2	6,300	7.8	3,500	(0.6)	77.66

(Note 1) Changes from the latest forecasts disclosed: No

(Note 2) As for the details about our financial targets for the fiscal year ending March 31, 2020, please refer to “Future Prospects including FY2019 Financial Targets” which is disclosed on page 7 of this earnings release.

* 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 16 of this document)

(3) Number of shares issued (common stock)

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

As of June 30, 2019: 46,721,400 shares

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

ii. Number of treasury stock:

As of June 30, 2019: 1,650,911 shares

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

iii. Number of weighted average common shares outstanding:

For the three months ended June 30, 2019: 45,070,489 shares

For the three months ended June 30, 2018: 45,070,407 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 IJ Group's expectation, estimates, and projections based on information available to IJ Group as of August 7, 2019. 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, 2020, please refer to the page 7 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. As for the disclosure of our quarterly consolidated financial results, we have adopted IFRS from the first quarter of the fiscal year ending March 31, 2020. Financial results of the fiscal year ended March 31, 2019 are also prepared in accordance with IFRS.

iii) Others

Presentation material will be disclosed on TDnet as well as posted on our website on Wednesday, August 7, 2019