

IIJ Announces its Nine Months Financial Results
for the Fiscal Year Ending March 31, 2020

Tokyo, February 7, 2020 - Internet Initiative Japan Inc. (“IIJ”, TSE: 3774) today announced its nine months consolidated financial results for the fiscal year ending March 31, 2020 (“1Q-3Q19”, from April 1, 2019 to December 31, 2019) under International Financial Reporting Standards (IFRS).¹

Highlights of Financial Results for 1Q-3Q19

Total revenues	JPY150.7 billion	up 7.9% YoY ²
Gross profit	JPY23.7 billion	up 7.0% YoY*
Operating profit	JPY6.1 billion	up 10.0% YoY*
Net profit ³	JPY3.4 billion	down 3.3% YoY*

* Considering normalized cost,⁴ actual year over year growth of gross profit is up 14.8%, operating profit is up 51.4% and profit for the period attributable to owners of the parent is up 37.6%.

Financial Targets for FY2019⁵

Total revenues	JPY204.0 billion	up 6.0% YoY
Operating profit	JPY7.6 billion	up 26.2% YoY
Net profit	JPY3.8 billion	up 7.9% YoY

Overview of 1Q-3Q19 Financial Results and Business Outlook

“We continued to achieve stronger than expected enterprise revenue and profit growth, supported by overall favorable Japanese enterprises’ IT demands and our growth strategy of cross-selling various network services, combined with systems integration. In this nine-month period, enterprise recurring revenues⁶ grew by 10.0% YoY in which enterprise mobile, security, and cloud especially strongly grew by 25.1%, 17.4% and 16.2% respectively. Operating profit also increased by 51.4% YoY, based on normalized costs⁴, as strong revenue growth led to both network services and systems integration gross profit expansion,” said Eijiro Katsu, President and COO of IIJ.

“In general, Japanese enterprises are said to be behind American and European enterprises when it comes to IT services adoption such as cloud and security. However, they seem to become more willing to use them. As a result, demands for network services and systems are gradually growing and I believe this trend should be sustainable for the middle-to-long term. Security services revenue growth was particularly strong as Japanese enterprises start to see them as “critical element” for their business continuity. Also, multi-cloud adoption for enterprises systems has also been growing and making visible revenue contribution. Enterprise mobile revenue has been continuously expanding by leveraging full-MVNO infrastructure and along with increasing IoT demands among our existing customer base. Along with the start of local 5G spectrum allocation in Japan, we’re seeing growing demands to build and/or outsource mobile infrastructure, as seen in our local 5G joint venture project with Sumitomo Corporation and Japanese cable TV operators,⁷” said Koichi Suzuki, Founder, Chairman and CEO of IIJ.

“Ever since our inception, we have devoted ourselves to develop Internet infrastructure in Japan. After

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

² YoY is an abbreviation for year over year change.

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

⁴ Normalized profits are 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 1Q-3Q19 earnings which explains this year over year operating profit in details.

⁵ We revised our full-year financial targets on November 8, 2019.

⁶ Enterprise recurring revenue described here is the sum of Internet connectivity services for enterprise (excluding MVNE), outsourcing, and systems operation and maintenance. It does not include WAN revenues, which decreased YoY due to existing large clients’ migration from WAN to mobile.

⁷ Please refer to our press release “Pursuing the Wireless Platform Business Using Local 5G” published on December 24, 2019 which can be found here <https://www.ij.ad.jp/en/news/pressrelease/2019/1224.html>

building them as the first commercial ISP, we have diversified and enhanced our business portfolio to cover various network and system needs. We believe we should be able to achieve sustainable revenue and profit growth by pursuing reliable and high-valued network services developments while also contributing to society by offering stable life-lined network and system platforms which could ultimately improve efficiency and quality of human life and the environment,” concluded Suzuki.

Regarding the retroactively adjusted 1Q-3Q18 financial results

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

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

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

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

Operating Results

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

Segment Results

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

1Q-3Q19 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 18 of this document.

Operating Results Summary

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

(Notes)

1. We have adopted IFRS from the filing of our FY2018 annual report “Yuka-shoken-houkokusho.” The reporting 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 1Q-3Q18 are different from 1Q-3Q18 results disclosed in the past.
2. Systems integration includes equipment sales.

Segment Results Summary

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

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

1Q-3Q19 Revenues and Income

Revenues

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

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

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

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

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

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

Network Services Revenues Breakdown

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

Number of Contracts and Subscription for Connectivity Services

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

(Notes)

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

SI revenues, including equipment sales, were JPY56,062 million, up 15.8% YoY (JPY48,402 million for 1Q-3Q18). Systems construction and equipment sales revenue, a one-time revenue, was JPY22,081 million, up 25.5% YoY (JPY17,601 million for 1Q-3Q18). In addition to an increase in usual revenue of completed project, we recognized JPY1.76 billion of revenue along with construction progresses (There was no revenue recognized based on percentage of completion in FY2018). Systems operation and maintenance revenue, a recurring revenue, was JPY33,981 million, up 10.3% YoY (JPY30,801 million for 1Q-3Q18), mainly due to continued accumulation of systems operation orders as well as an increase in private cloud services' revenues.

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

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

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

Cost of sales

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

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

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

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

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

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

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

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

Operating profit

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

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

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

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

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

Profit before tax

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

Profit for the period

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

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

Financial Position as of December 31, 2019

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

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

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

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

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

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

1Q-3Q19 Cash Flows

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

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

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

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

Future Prospects including FY2019 Financial Targets

Due to seasonal factors, our financial results tend to be large in fourth quarter every fiscal year. Although 1Q-3Q19 total revenue and operating profit exceeded our expectation, because our fourth quarter contribution to the full year results is large, our FY2019 financial targets announced on November 8, 2019 remain unchanged.

Please note the followings when comparing year over year. Regarding mobile services costs, we disclose Adjusted Year of Year changes as supplemental information because we recorded one-time additional cost in 4Q18, which should have been allocated to attributable each quarter of FY2018. (For details of this matter, please refer to “Regarding the retroactively adjusted 1Q-3Q18 financial results” which is written on page 2 of this document.) Regarding systems integration, 1Q-3Q19 revenue (JPY1.76 billion) and its profit were recognized based on percentage of completion, which are scheduled to be accepted at or after 4Q19. (There was no revenue recognized based on percentage of completion in FY2018.)

Presentation

Presentation materials will be posted on our web site (<https://www.ij.ad.jp/en/ir/>) on February 7, 2020.

About Internet Initiative Japan Inc.

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

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Disclaimer:

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Condensed Consolidated Statements of Financial Position (Unaudited)

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

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

Condensed Consolidated Statements of Profit or Loss (Unaudited)

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

Condensed Consolidated Statements of Profit or Loss (Unaudited)

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

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

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

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

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

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

Nine months ended December 31, 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								
Profit (loss)	-	-	3,467,672	-	-	3,467,672	131,258	3,598,930
Other comprehensive income	-	-	-	(1,972,384)	-	(1,972,384)	-	(1,972,384)
Total comprehensive income	-	-	3,467,672	(1,972,384)	-	1,495,288	131,258	1,626,546
Transactions with owners								
Issuance of common stock	6,908	(6,395)	-	-	-	513	-	513
Purchase of treasury stock	-	-	-	-	(4)	(4)	-	(4)
Dividends paid	-	-	(1,216,801)	-	-	(1,216,801)	(48,550)	(1,265,351)
Stock-based compensation	-	42,070	-	-	-	42,070	-	42,070
Transfer from other components of equity to retained earnings	-	-	27,982	(27,982)	-	-	-	-
Total transactions with owners	6,908	35,675	(1,188,819)	(27,982)	(4)	(1,174,222)	(48,550)	(1,222,772)
Balance, December 31, 2018	25,518,712	36,211,611	11,957,674	3,058,589	(1,896,788)	74,849,798	801,208	75,651,006

Nine months ended December 31, 2019

	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)	-	-	3,353,994	-	-	3,353,994	148,258	3,502,252
Other comprehensive income	-	-	-	2,070,256	-	2,070,256	-	2,070,256
Total comprehensive income	-	-	3,353,994	2,070,256	-	5,424,250	148,258	5,572,508
Transactions with owners								
Issuance of common stock	11,909	(11,895)	-	-	-	14	-	14
Dividends paid	-	-	(1,217,082)	-	-	(1,217,082)	(53,405)	(1,270,487)
Stock-based compensation	-	43,065	-	-	-	43,065	-	43,065
Transfer from other components of equity to retained earnings	-	-	1,543,793	(1,543,793)	-	-	-	-
Total transactions with owners	11,909	31,170	326,711	(1,543,793)	-	(1,174,003)	(53,405)	(1,227,408)
Balance, December 31, 2019	25,530,621	36,256,945	15,982,012	4,615,167	(1,896,788)	80,487,957	943,025	81,430,982

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

Condensed Consolidated Statements of Cash Flows (Unaudited)

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

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

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:

Nine months ended December 31, 2018

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen		
Revenue				
Customers	136,535,953	3,091,828	—	139,627,781
Intersegment transactions	276,270	—	(276,270)	—
Total revenue	136,812,223	3,091,828	(276,270)	139,627,781
Segment operating profit	4,456,057	1,209,530	(157,071)	5,508,516
Finance income				478,665
Finance expense				(356,511)
Share of profit (loss) of investments accounted for using the equity method				(66,635)
Profit before tax				5,564,035

Nine months ended December 31, 2019

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

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 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:

	<u>As of March 31, 2019</u>	<u>As of December 31, 2019</u>
	Thousands of yen	Thousands of yen
Classification under IAS 17		
Finance leases	18,033,862	18,255,855
Operating leases	—	31,267,543

Note: The following information is provided to disclose Internet Initiative Japan Inc. (“IIJ”) financial results (unaudited) for the nine months ended December 31, 2019 (“1Q-3Q19”) in the form defined by the Tokyo Stock Exchange.

Consolidated Financial Results for the Nine Months ended December 31, 2019 [Under IFRS]

February 7, 2020

Company name: Internet Initiative Japan Inc.

Exchange listed: Tokyo Stock Exchange First Section

Stock code number: 3774

URL: <https://www.iij.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: February 14, 2020

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 Nine Months ended December 31, 2019 (April 1, 2019 to December 31, 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 millions	%	JPY millions	%	JPY millions	%
Nine Months ended December 31, 2019	150,688	7.9	6,060	10.0	5,610	0.8	3,502	(2.7)	3,354	(3.3)	5,573	242.6
Nine Months ended December 31, 2018	139,628	-	5,509	-	5,564	-	3,599	-	3,468	-	1,627	-

(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 51.4%, Profit (loss) before tax up 38.2%, Profit (loss) for the period up 36.4%, Profit (loss) attributable to owners of the parent up 37.6%, and Other comprehensive income up 835.1%. For details, please refer to “Regarding the retroactively adjusted 1Q-3Q18 financial results” which is written on page 2 of this earnings release.

	Basic earnings per share	Diluted earnings per share
	JPY	JPY
Nine Months ended December 31, 2019	74.40	74.08
Nine Months ended December 31, 2018	76.94	76.64

(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 December 31, 2019	204,934	81,431	80,488	39.3
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	—	13.50	—		
Fiscal Year Ending March 31, 2020 (forecast)				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
Fiscal Year Ending March 31, 2020	204,000	6.0	7,600	26.2	6,800	16.4	3,800	7.9	84.29

(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 “Future Prospects including FY2019 Financial targets” which is written on page 7 of this press 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 18 of this document)

(3) Number of shares issued (common stock)

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

As of December 31, 2019: 46,734,600 shares

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

ii. Number of treasury stock:

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

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

iii. Number of weighted average common shares outstanding:

For the nine months ended December 31, 2019: 45,079,321 shares

For the nine months ended December 31, 2018: 45,070,463 shares

* Status of Audit Procedures

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

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

i) Forward-looking statements

Forward-looking statements disclosed in this document are based on IIJ Group’s expectation, estimates, and projections based on information available to IIJ Group as of February 7, 2020. As these forward-looking statements are subject to known and unknown risks and uncertainties, actual results may differ from those disclosed due, for example, to but not limited to changes in business climate and/or market trends. As for our latest forecast of our financial targets for the fiscal year ending March 31, 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 information for 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 Friday, February 7, 2020.