To Shareholders

Internet Disclosure of the Convocation Notice of the 28th Ordinary General Meeting of Shareholders

Contents

In accordance with the applicable laws and regulations of Japan, and the provisions of Article 15 of the Company's Articles of Incorporation, the aforesaid information is deemed to have been provided to the shareholders by being available at the Company's following website: (https://www.iij.ad.jp/en/ir/ir-event/meeting/).

June 5, 2020

Internet Initiatiave Japan Inc.

1. Notes to Consolidated Financial Statements

1. Notes to Basic Significant Matters Regarding Presentation of Consolidated Financial Statements

1-1. Matters regarding scope of consolidation

Number of consolidated subsidiaries and names of consolidated subsidiaries
Number of consolidated subsidiaries: 16
Names of major consolidated subsidiaries: IIJ Innovation Institute Inc., IIJ Engineering Inc. ("IIJ-EG"), IIJ Global Solutions Inc., Trust Networks Inc. ("Trust Networks"), Net Chart Japan, Inc., IIJ Protech Inc., IIJ America Inc., IIJ Europe Limited, IIJ Global Solutions Singapore Pte. Ltd. and IIJ Global Solutions China Inc.

1-2. Matters regarding applying equity method

Number and names of equity method investees
Number of equity method investees: 9
Names of major equity method investees: INTERNET MULTIFEED CO., Internet Revolution Inc., DeCurret Inc. and Trinity Inc.

1-3. Significant accounting policies

(1) Basis of presentation

The consolidated financial statements are prepared in accordance with IFRS pursuant to the provisions of Article 120-1 of Company Accounting Regulations. However, certain disclosures required under IFRS are omitted pursuant to the provisions of the second sentence of Article 120-1.

(2) Valuation method and policy of assets

1) Financial assets

Financial assets held are categorized as (a) financial assets measured at amortized cost, (b)debt-based financial assets measured at fair value through other comprehensive income ("FVTOCI"),(c) equity-based financial assets measured at FVTOCI or (d) financial assets measured at fair value through profit or loss ("FVTPL").

(a) Financial assets measured at amortized cost

Financial asset are measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows thatare solely payments of principal and interest on the principal amount outstanding

After initial recognition, financial assets measured at amortized cost are accounted for using the effective interest method deducting impairment losses. Amortization under theeffective interest method and gain or loss in derecognition are included in profit or loss duringthe period.

(b) Debt-based financial assets measured at FVTOCI

Financial asset are measured at FVTOCI if both of the following conditions are met:

- the asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, debt-based financial assets measured at FVTOCI are measured at fairvalue and changes in fair value are recognized as other comprehensive income.

(c) Equity-based financial assets measured at FVTOCI

There are some equity-based financial assets for which the Company irrevocably elected at initial recognition that subsequent changes in fair value of the assets are included in other comprehensive income. These assets are recognized as equity-based financial assets measured at FVTOCI. The Company makes anirrevocable election on each investment.

After initial recognition, equity-based financial assets measured at FVTOCI are measured at fair value and changes in fair value are recognized as other comprehensive income. When the Company disposes of investments or when the fair values of investments significantly decrease, cumulative gain or loss recognized through other comprehensive income are transferred from other components of equity to retained earnings.

Dividend income from equity-based financial assets measured at FVTOCI is recognized as profit in finance income.

(d) Financial assets measured at FVTPL

Financial assets other than the abovementioned financial assets measured at amortized cost, debt-based financial assets measured at FVTOCI and equity-based financial assets measured at FVTOCI are categorized to financial assets measured at FVTPL. There are no financial assets for which the Company has irrevocably elected that the assets be accounted for at FVTPL on initial recognition.

After initial recognition, equity-based financial assets measured at FVTPL are measured at fair value and changes in fair value are recognized as profit or loss. Gain or loss related to financial assets measured at FVTPL is recognized as profit or loss.

(e) Imparement loss on financial assets

For impairment loss on financial assets measured at amortized cost, the Company recognizes allowance for credit losses based on the expected credit losses on the financial assets.

The Company evaluates whether the credit risks of financial instruments have increased significantly since initial recognition on each annual closing date. For financial instruments that have not had a significant increase in credit risk since initial recognition, allowance for credit losses on the instrument is measured at the amount equal to that of the 12-month expected credit losses. If the credit risk of financial instruments has significantly increased since initial recognition, allowance for credit losses on the instruments are measured at amount equal to the lifetime expectedcredit losses.

When contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly. In evaluating whether credit risk has increased significantly or not, the Company considers reasonable and supportable information, in addition to past-due information. When financial assets have low risk at the reporting date, the Company assumes that there has not been a significant increase in credit risk since initial recognition.

However, in evaluating financial assets that do not have a significant financing component such as a trade receivables, allowance for credit losses is measured at an amount equal to the lifetime expected credit losses, regardless of whether credit risk has increased significantly since initial recognition.

Expected credit losses on financial assets are estimated by reflecting the following factors:

- An unbiased and probability-weighted amount determined by evaluating a range of possible outcomes
- Time value of money
- Reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions at the reporting date

The provision and reversal of allowance for credit losses on financial assets are included in profit or loss.

2) Inventories

The Company's inventories mainly consist of network equipment and mobile devices held for resale and work in progress related to systems construction. Inventories are measured at the lower of historical cost or net realizable value. Amounts for network equipment and mobile devices held for sale are calculated using the moving average method and amounts for work in progress related to systems integration are measured at actual manufacturing cost including indirect manufacturing costs. Net realizable value is calculated at the estimated selling price during the normal course of business less the estimated costs to completion and estimated expenses to make a sale.

(3) Depreciation and amortization of property and equipment

1) Tangible assets

Tangible assets are measured at acquisition cost less accumulated depreciation and accumulated impairment losses. Acquisition costs include costs directly attributable to acquisition of the assets and dismantling and removing costs. Depreciation of tangible assets excluding land and construction in progress, is calculated using straight-line method over the estimated useful lives. Estimated useful lives by major asset class are as follows:

Buildings and Construction other than buildings	4 to 50 Years
Machinery, tools, furniture and fixtures	2 to 20 Years

2) Goodwill

The Company recognizes goodwill at the amount of fair value, including recognized noncontrolling interests on the acquiree, measured at the acquisition date, less the net recognized amount of assets acquired and liabilities assumed that are recognizable at the date of acquisition, which is normally fair value.

Goodwill is included in our consolidated statements of financial position at the carrying amount which is the acquisition costs less the accumulated impairment losses.

3) Intangible assets

Intangible assets acquired separately are measured at acquisition cost at initial recognition. Intangible assets with finite useful lives consist of software and customer relationships. Software is amortized using straight-line method over the estimated useful lives, costomer relationships are amortized using the sum-of-the-years-digits method over the estimated useful lives.

Estimated useful lives of major intangible assets are as follows:

Software	5 to 7 Years
Customer relationships	15 to 19 Years

Intangible assets deemed to have indefinite useful lives are not amortized and are recorded at their carrying amount, which is the acquisition cost less accumulated impairment losses.

(4) Leases

In accordance with IFRS 16, has determined whether a contract is, or contains a lease, at the inception of the contract. A contract is determined to be a lease or contain a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

When a contract is determined to be a lease or contain a lease, the Company initially recognizes a right-of-use asset and a lease liability at the commencement date of the contract.

Lease liabilities are initially measured at the present value of lease payments not paid at the commencement date, discounted by calculated interest rate of the lease or, if the calculated interest rate cannot be determined easily, the Company's incremental borrowing rate. In general, the Company uses the incremental borrowing rate as a discount rate. Lease liabilities are subsequently measured by increasing the carrying amount to reflect the interest on the lease liability and reducing the carrying amount to reflect the lease payments. In our consolidated statement of financial position, lease liabilities are included in other financial liabilities. In measuring the lease liability, lease fee in each contract is allocated to the lease components and non-lease components based on the ratio of their independent prices. However, for data centers where the Company is a lessee, lease components and non-lease components related to them are not separated and are recognized as a single lease component. When the condition of the leases are changed, the Company remeasures the lease liability.

The right-of-use asset is initially measured at cost, which comprises the initial measurement of lease liability, any initial direct cost incurred and prepaid lease payments. A cost model is used for subsequent measurement after initial recognition. Right-of-use assets are depreciated using the straight-line method. The depreciation period is the estimated useful life of the underlying asset if ownership of the underlying asset is transferred to the lessee by the end of the lease term or if the exercise of the purchase option by the lessee is reasonably certain. Otherwise, the depreciation period is the shorter of the useful life of the right-of-use asset or the lease term. The Company does not recognize right-of-use assets and lease liabilities for leases with a lease term of 12 months or less or when the underlying assets are of low value, and recognizes lease payments as an expense on a straight-line basis over the lease term.

(5) Impairment of non-financial assets

The Company reviews carrying amounts of non-financial assets, except for inventories and deferred tax assets, on each reporting date to assess whether impairment indicators exist. If such indicators exist, the Company then estimates the recoverable amount of the asset. For goodwill and intangible assets deemed to have indefinite useful lives, the Company performs impairment tests on each annual closing date whenever there is an indication that an asset may be impaired.

Cash-generating units are groups that represent the minimum of assets for which continuous use generates cash inflows that are largely independent from other assets or groups of assets. Goodwill arising from business combinations is allocated to cash-generating units or groups of cash-generating units which are expected to benefit from synergies resulting from the business combination.

The recoverable amount of an asset or a cash-generating unit is calculated at the higher of the value in use or the fairvalue less costs of disosal. Value in use is calculated at the present value of estimated future cash flows, which are discounted using a pre-tax discount rate that reflects the time value of money and risks specific to the asset or cash-generating unit.

If the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the Company recognizes an impairment loss in profit or loss. Recognized impairment loss is allocated first to goodwill in the cash-generating unit to be deducted from its carrying amount, and then carrying amounts of other assets in the cash-generating unit are deducted on a pro rata basis.

The Company reverses impairment losses when there is any indication of reversal of the impairment loss recognized in past years and the estimated recoverable amount exceeds the carrying amount. The amount of reversal is limited to the carrying amount if no impairment loss had been recognized and depreciation or amortization had been continued. Impairment losses recognized for goodwill are not reversed.

(6) Recognition of significant provisions

The Company recognize a provision only when a present obligation (legal or constructive) has arisen as the result of a past event, payment is probable, settlement is expected to result in an outflow of resources, and the amount of obligation can be estimated reliably.

Provisions are measured at the best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation as of the annual closing date, and reflect the present value of expenditures required to settle the obligation where the time value of money is material.

(7) Revenue recognition

The Company recognizes revenue based on the following five-step model.

Step 1: Identify the contract with a customer
Step 2: Identify all the individual performance obligations within the contract
Step 3: Determine the transaction price
Step 4: Allocate the price to the performance obligations
Step 5: Recognize revenue as the performance obligations are fulfilled

Network service represents services wherein our performance obligation is carried out over the term of the contract, and revenues are recognized monthly on a straight-line basis over the contract peroid. System integration revenues consist of the system construction service and the system operating and maintenance service. The performance obligations of the system construction services are fullfilled over a certain period, the revenues are recongized based on the progress of the fullfillment of the performance obligations measured at the end of the reporting period. The progress is measured by the input method (cost to cost method) based on the incurred cost to reflect the progress of the construction properly. System operating and maintenance service revenues are recognized on a straight line basis over the period when the performance obligations are fulfilled. ATM commissions are collected when the customers use the ATM services. The revenues are recognized when they are collected because the customers obtain the benefit at the time of use.

(8) Income tax

Income tax expenses are comprised of current and deferred taxes and recognized in profit or loss, except for those arising from other comprehensive income, those recognized directly in equity or those arising from business combinations.

Current taxes are measured at the amount expected to be paid to or recovered from the tax authority. Tax rates and tax laws applied to calculation of tax amounts are enacted or substantively enacted by the annual closing date.

Deferred taxes are recognized for temporary differences between carrying amounts of assets and liabilities as of the reporting date based on tax laws and carrying amounts under IFRS and amounts based on tax accounting, tax loss carryforwards and tax credit carryforwards.

Deferred tax assets and liabilities are not recognized for the following temporary differences:

- Temporary differences arising from the initial recognition of assets and liabilities from transactions, except for business combinations, that do not affect either accounting profit or taxable income (loss).
- Deductible temporary differences related to investments in subsidiaries and associates, and interests in joint arrangements, for which it is probable that the reversal will not occur in the foreseeable future or that taxable profit will not be available against which the temporary difference will be utilized.
- Taxable temporary differences related to investments in subsidiaries and associates, and interests in joint arrangements, for which the Company is able to control the timing of the reversal of the differences and it is probable that the reversal will not occur in the foreseeable future.

Deferred tax liabilities are, in principle, recognized for all taxable temporary differences, and deferred tax assets are for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the temporary difference will be utilized.

Carrying amounts of deferred tax assets are reviewed at the end of each reporting period, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction is subsequently reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset only if the Company has the legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same tax authority on the same entity or different entities that intend to realize the asset and settle the liability at the same time.

(9) Other significant accounting policies

1. Retirement and pension plans

Remeasurement of net defined benefit plan liabilities (assets) are recognized as other comprehensive income as incurred and immediately transferred from other components of equity to retained earnings.

Past service costs are recognized as a profit or loss in the period in which they are incurred.

2. Consumption tax

Consumption tax is separately recorded.

3. Application of consolidated tax declaration

The Company applied the consolidated tax declaration.

4. Presentation of the amount

The figures are rounded to the nearest thousand yen.

2. Note to Change in Accounting Policies

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

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

For leases that were previously classified as finance leases as a lessee under the principles of IAS17, 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-cancelable 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.

(Unit: JPY thousands)

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 weighted average of incremental borrowing rates which is applied on the other financial liabilities at the date of initial application is 0.45%.

Also, the cash flows from operating activities increased by JPY12,141,420 thousand and the cash flows from the financing activities decreased by the same amount.

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.

3. Changes in Presentation

Certain reclassifications have been made to the prior period to conform to the current fiscal year presentations. “Contract liabilities,” which had been previously included in “Deferred income”, is separately disclosed to increase clarity of the disclosure. “Contract liabilities” included in the current liabilities and the non-current liabilities as of the end of the previous fiscal year is JPY5,368,075 thousand and JPY5,002,147 thousand.

4. Notes to Consolidated Balance Sheet

(Unit: JPY thousands)

(1) Amount equivalent to accumulated depreciation and amortization of property and equipment:	16,769,058
(2) Allowance for doubtful accounts directly deducted from the assets	
Current assets	
Trade receivables	218,460
Other financial assets	720
Non-current assets	
Other financial assets	25,352

5. Notes to Consolidated Statements of Shareholders' Equity

(1) Number of shares issued and outstanding, as of March 31, 2020

(Unit: shares)

Class of stock	Balance at the beginning of current period	Increase	Decrease	Balance at the ending of current period
Common stock	46,721,400	13,200	—	46,734,600

(2) Dividends from surplus

(i) Amount of dividends paid

Resolution	Classes of stock	Total amount of dividends	Dividends per share	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 27, 2019	Common stock	JPY 608,452 thousand	JPY13.50	March 31, 2019	June 28, 2019
Board of Directors' meeting held on November 8, 2019	Common stock	JPY 608,630 thousand	JPY13.50	September 30, 2019	December 6, 2019

(ii) Dividends declared during the year ended March 31, 2020 and to be paid during the next fiscal year

Resolution	Classes of stock	Source of dividends	Total amount of dividends	Dividends per share	Record date	Effective date
Ordinary General Meeting of Shareholders to be held on June 24, 2020	Common stock	Retained Earnings	JPY 608,629 thousand	JPY13.50	March 31, 2020	June 25, 2019

(3) Class and number of common stock to be acquired by exercising stock acquisition rights outstanding as of March 31, 2020

	#1 Stock acquisition rights issued on July 14, 2011	#2 Stock acquisition rights issued on July 13, 2012	#3 Stock acquisition rights issued on July 11, 2013
Class and number of common stock to be acquired	Common stock 17,600 shares	Common stock 17,600 shares	Common stock 14,000 shares
	#4 Stock acquisition rights issued on July 10, 2014	#5 Stock acquisition rights issued on July 13, 2015	#6 Stock acquisition rights issued on July 11, 2016
Class and number of common stock to be acquired	Common stock 20,200 shares	Common stock 26,800 shares	Common stock 28,800 shares
	#7 Stock acquisition rights issued on July 14, 2017	#8 Stock acquisition rights issued on July 13, 2018	#9 Stock acquisition rights issued on July 12, 2019
Class and number of common stock to be acquired	Common stock 31,000 shares	Common stock 31,000 shares	Common stock 32,600 shares

(4) Other components of equity

Other components of equity includes translation adjustments resulting from the translation of financial statements of foreign subsidiaries, unrealized gains or losses on available-for-sale securities, gains or losses on cash flow hedging derivative instruments and pension liability adjustments.

6. Notes to Financial Instruments

(1) Conditions of financial instruments

(i) The Company's policy for financial instruments

We primarily lease our network equipment under capital lease arrangements. Our fund management strategy is that we invest in highly safe and short-term financial instrument within our cash on hand.

(ii) Nature and risks of financial instruments

- Account receivables are exposed to credit risks of customers.
- Financial assets measured at fair value are exposed to market volatility risks.
- Accounts payable are mostly due within one year.

(iii) Risk management for financial instruments

- The Company controls credit risk in accordance with its credit risk guidelines.
- The Company reviews the fair value of financial assets measured at fair value on a regular basis.
- The Company controls liquidity risk by adequately forecasting and managing liquidity needs.

(2) Fair value of financial instruments

Book value, fair value and the differences between them as of March 31, 2020 are as follows. Financial instruments with fair values that are extremely difficult to evaluate their fair value are not included in the table below:

(Unit: JPY thousands)

	Amount Recognized in Consolidated Statements of Financial Position	Fair Value	Differences
Non-current liabilities			
Borrowings	14,000,000	14,011,819	(11,819)

(Note)

Borrowings

Fair value is calculated by discounting to net present value the total amount of principal and interest using expected interest rates when newly borrowing or undertaking the same transaction.

The fair value of long-term borrowings includes the amount of long-term borrowings – current portion.

7. Notes to per Share Information

(1) Total shareholders’ equity per share: JPY1,753.97

(2) Basic net income attributable to IIJ per share: JPY88.88

8. Subsequent Events

There is nothing to report on this subject.

2. Notes to Non-Consolidated Financial Statements

1. Notes to Significant Matters Regarding Accounting Policies of Non-Consolidated Financial Statements

1-1. Basis for valuation and recording of assets

(1) Valuation and methods for securities

Shares of subsidiaries and affiliates: Stated at cost based on the moving-average method.

Other securities:

Marketable Securities:

Market value method based on the market price as of the end of the fiscal year (all of the changes in the fair value are directly reported in valuation and translation adjustment in shareholders' equity, while the cost of the securities at the time of their sale is calculated using the moving- average method).

Non-Marketable Securities:

Stated at cost based on the moving-average method.

Investments in limited liability investment partnerships and similar partnerships are accounted for by including the Company's net equity in these investments based on the most recent statement of accounts available according to the report on financial accounts stipulated in the investment partnership agreements.

(2) Valuation and methods for inventories

Inventories are stated at cost (the balance is adjusted to reflect declines in profitability).

Merchandise and supplies: moving-average method

Work in process: specific identification method

1-2. Depreciation methods for assets

(1) Property, Plant and Equipment (excluding assets under capital lease)

Straight-line method

Depreciable assets whose acquisition values are JPY100 thousand or more but less than JPY200 thousand are depreciated in equal installments over three years.

The useful lives of major depreciable assets are as specified below:

Buildings:	20 to 50 years
Plant and buildings facilities annexed:	4 to 20 years
Construction other than buildings:	4 to 45 years
Tools, machines, instruments and equipment:	2 to 20 years

(2) Intangible fixed assets (excluding assets under capital lease)

Straight-line method

Internal-use software is amortized over the estimated useful lives (5 to 7 years).

Goodwill is amortized over 20 years and customer relationships are amortized over 19 years, which reflects the pattern of economic benefit over their estimated useful lives.

(3) Assets under capital lease

Capital leases other than those deemed to transfer ownership of properties to lessees are amortized over the term of leases on a straight-line basis and the residual values equal zero.

1-3. Basis for recording allowances

(1) Allowance for doubtful accounts

To prepare for possible losses resulting from non-payments of account receivables for trade and loans and others, an allowance is provided from past history in the case of general receivables. In the case of credits for which the relevant debtors are likely to default and other certain credits, such allowance is based on the anticipated uncollectible amount after assessment of likelihood of non-payment of individual customers.

(2) Accrued pension cost

To prepare for payments of retirement benefits to employees, a reserve is provided based on the projected retirement benefits obligations and pension assets as of the end of the current fiscal term. Accounting methods used are as follows:

1) Method of attributing the estimated benefit obligation to periods

Upon calculating the retirement benefit obligation, the estimated benefit obligation is attributed to periods up until the fiscal year under review on a benefit formula basis.

2) Amortization method of actuarial calculation differences

The difference arising from actuarial computations is amortized and expensed in the subsequent fiscal term using the straight-line method over a certain number of years not exceeding the average number of remaining service years of the employees at the time of accrual of such payment (12 years).

(3) Accrued directors' and company auditors' retirement benefits

To prepare for payment of retirement benefits to Standing Directors and Company Auditors, IIJ calculates the required amount based on regulation of Directors' and Company Auditors' retirement benefits.

On May 26, 2011, IIJ's Board of Directors resolved to abolish the retirement allowance plan for Standing Directors. In connection with this decision, IIJ proposed to grant a retirement allowance to incumbent Directors in line with the abolished Directors' retirement allowance plan, in order to reward the aforementioned persons for their services during their respective terms of office up to the closing of the Ordinary General Meeting of Shareholders on June 28, 2011 and it was resolved accordingly at the Ordinary General Meeting of Shareholders on June 28, 2011. The payment of each of the retirement allowances will be made for a reasonable amount in accordance with the Company's established rules at the time of retirement of each Director. Accordingly, the allowance for retirement payment was included in "Accrued directors' and company auditors' retirement benefits".

On May 25, 2016, IIJ's Board of Directors resolved to abolish the retirement allowance plan for Standing Company Auditors. In connection with this decision, IIJ proposed to grant a retirement allowance to incumbent Company Auditors in line with the abolished Auditors' retirement allowance plan in order to reward the aforementioned persons for their services during their respective terms of office up to the closing of the Ordinary General Meeting of Shareholders on June 24, 2016 and it was resolved accordingly at the Ordinary General Meeting of Shareholders on June 24, 2016. The payment of each of the retirement allowances will be made for a reasonable amount in accordance with the Company's established rules at the time of retirement of each Company Auditor. Accordingly, the allowance for retirement payment was included in "Accrued directors' and company auditors' retirement benefits."

1-4. Basis for recording sales and costs

(1) Basis for recording sales and costs for financial lease transactions

Revenue and costs are recognized when lease receivable are received.

(2) Basis for recording sales and costs for systems construction

1) Construction that commenced during the fiscal year ended March 31, 2020, provided that the outcome of the construction activity is deemed certain percentage-of-completion method (estimation of percentage-of-completion is cost proportional method.)

2) Other construction

Completed-contract method

1-5. Other significant accounting policies

(1) Consumption tax

Consumption tax is separately recorded.

(2) Application of consolidated tax declaration

The Company applied the consolidated tax declaration.

(3) Application of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System

Pursuant to the treatment in Paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39; March 31, 2020), the Company has not applied the provisions of Paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28; February 16, 2018) with respect to the transition to group tax sharing system established in the "Act for Partial Amendment to the Income Tax Act, etc." (Act No. 8 of 2020) as well as items for which the non-consolidated taxation system was revised in line with the transition to group tax sharing system. Accordingly, the amounts of deferred tax assets and deferred tax liabilities are presented pursuant to the provisions in the Income Tax Act before the amendment.

(4) Presentation of the amount

The figures are rounded to the nearest thousand yen.

2. Notes to Non-Consolidated Balance Sheet

Monetary claims and liabilities to affiliated companies (excluding monetary claims or liabilities presented separately)

Short-term monetary claims:	JPY	1,462,163	thousand
Short-term monetary liabilities:	JPY	2,252,505	thousand

3. Notes to Non-Consolidated Statement of Income

Transactions with affiliated companies (other than accounts separately presented in financial statements)

Revenues:	JPY	7,196,368	thousand
Purchases:	JPY	21,030,508	thousand
Turnover from non-operating transactions:	JPY	62,004	thousand

4. Notes to Non-Consolidated Statement of Shareholders' Equity

Number of treasury stock as of March 31, 2020

Common stock:	1,650,950	shares

5. Asset Retirement Obligations

(1) The Company recorded asset retirement obligations for restoration expenses of office premises and land for company offices or data centers in order to comply with the lease agreements.

(2) Calculation method for asset retirement obligations

The asset retirement obligations were calculated using the estimated use period for leasehold of 20 years based on the contract period, headquarter office space of 15 years and branch offices of 20 years based on the current office plan and with the discount rate estimated to be from 0.2% to 3.0%, calculated based on the distribution yield of Japanese government bonds for the corresponding period.

(3) Increase and decrease of asset retirement obligations as of March 31, 2020

Balance at beginning of the fiscal year:	JPY	670,271	thousand
Increase in relation to the acquisition of assets:	JPY	19,064	thousand
Other increases:	JPY	12,040	thousand
Balance at end of the fiscal year:	JPY	701,375	thousand

7. Deferred Tax Accounting

Major components of deferred tax assets and liabilities:

	(Unit: JPY thousands)
Deferred tax assets	
Impairment loss on investment securities	110,006
Accrued directors' and company auditors' retirement benefits	61,739
Accrued pension and severance cost	979,362
Allowance for doubtful accounts	63,686
Impairment loss on investments in affiliated companies	1,092,620
Loss on disposal of telephone rights	47,477
Impairment loss of telephone rights	19,094
Accrued enterprise taxes	156,478
Deferred revenue	40,160
Research and development cost denial	546
Asset retirement obligations	214,621
Over depreciation	625,316
Stock-based compensation	119,228
Accrued rent payable	1,829
Others	510,032
Subtotal of deferred tax assets	4,042,194
Valuation allowance	(1,691,289)
Total of deferred tax assets	2,350,905
Deferred tax liabilities	
Unrealized gain on other securities	1,245,347
Customer relationships	250,076
Reserve for advanced depreciations of fixed assets	158,002
Asset retirement cost	126,014
Total of deferred tax liabilities	1,779,439
Net amount of deferred tax assets	571,466

8. Notes Regarding Related Party Transactions

(1) Transactions with subsidiaries

Type of related company	Name	Business	Ownership	Relation with related parties: Collateral offices of directors	Relation with related parties: Business Relation	Nature of transaction	Amount of transaction (JPY thousands)	Account	Balance as of March 31, 2020 (JPY thousands)
Subsidiary	Trust Networks	ATM operation Business	80.6% (Direct owning)	Yes	Customer	Borrowings of funds	2,000,000 (Note 2-1)	Short-term borrowings from affiliated companies	2,000,000
Subsidiary	IIJ-EG	Operation and monitoring of network systems, customer service support, and call centers	100.0% (Direct owning)	Yes	Customer and supplier	Purchase related to construction work for network systems, operation, and maintenance	9,405,212 (Note 2-2)	Accounts payable Accounts payable - other	60,891 1,185,586
						Borrowings of funds	400,000 (Note 2-1)	Short-term borrowings from affiliated companies	400,000

(2) Transactions with other related companies' subsidiaries

Type of related company	Name	Business	Ownership	Relation with related parties: Collateral offices of directors	Relation with related parties: Business Relation	Nature of transaction	Amount of transaction (JPY thousands)	Account	Balance as of March 31, 2020 (JPY thousands)
Other related company's subsidiary	NTT DOCOMO,INC	Telecommu-nications services	No	No	Customer and supplier	Mobile infra-structure service, operation, and maintenance related to mobile services	30,051,005 (Note 2-3)	Accounts payable Accounts payable - other	228 2,938,494
Other related company's subsidiary	NTT FINANCE CORPOTATION	Leasing services	No	No	Customer and lease equipment seller	Purchase of lease equipment	542,240 (Note 2-4)	Capital lease obligations Accounts payable - other	2,535,382 447

(Notes)

1. Consumption tax is excluded from the amounts of transaction and included in the amounts of balance as of March 31, 2020.
2. Terms and conditions of the above transactions:
   1) Short-term borrowings with Trust Networks are based on the policy to use group finance efficiently. The interest is based on the external financing.
   2) The purchase price is determined based on an estimate obtained for each project, taking into consideration the market price.
   3) Data connection charge is calculated and determined based on the cost and communication bandwidth under the "Telecommunications Business Law" and the "Interconnection Charges Rules for Category II Designated Telecommunications Facilities".
   4) The purchase price is determined based on an estimate obtained for each transaction, taking into consideration the market price.

9. Notes to Per Share Information

(1) Shareholders' equity per share: JPY 1,511.83

(2) Net income per share: JPY 107.23

10. Subsequent Events

There is nothing to report on this subject.