(TRANSLATION)

Annual Securities Report

(The 27th Business Term)
From April 1, 2018 to March 31, 2019

Internet Initiative Japan Inc.

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【Company Name in English】	Internet Initiative Japan Inc.
【Title and name of representative】	Eijiro Katsu President and Representative Director
【Address of Head Office】	2-10-2 Fujimi, Chiyoda-ku, Tokyo
【Phone No.】	+81-3-5205-6500
【Contact Person】	Akihisa Watai, Managing Director and Chief Financial Officer
【Contact Address】	2-10-2 Fujimi, Chiyoda-ku, Tokyo
【Phone No.】	+81-3-5205-6500
【Contact Person】	Akihisa Watai, Managing Director and Chief Financial Officer
【Place Where Available for Public Inspection】	Internet Initiative Japan Inc. Kansai Branch (4-7-28 Kitahama, Chuo-ku, Osaka-shi, Osaka) Internet Initiative Japan Inc. Nagoya Branch (1-24-30 Meieki-minami, Nakamura-ku, Nagoya-shi, Aichi) Internet Initiative Japan Inc. Yokohama Branch (2-15-10 Shin-Yokohama, Kohoku-ku, Yokohama-shi, Kanagawa) Tokyo Stock Exchange, Inc. (2-1 Nihombashi Kabuto-cho, Chuo-ku, Tokyo)

PART 1 Information on the Company

Item 1. Overview of the Company

1 Selected Financial Data

(1) Consolidated financial data, etc.

Fiscal year		IFRS		
		Date of transition to IFRS (April 1, 2017)	26th business term ended March 31, 2018	27th business term ended March 31, 2019
Revenues	(thousands of yen)	—	176,233,321	192,430,185
Operating profit	(thousands of yen)	—	6,769,617	6,022,987
Profit before tax	(thousands of yen)	—	6,872,196	5,842,984
Profit attributable to owners of parent	(thousands of yen)	—	4,422,923	3,520,566
Comprehensive income, attributable to owners of parent	(thousands of yen)	—	7,648,143	2,902,764
Equity attributable to owners of parent	(thousands of yen)	68,036,472	74,528,732	76,271,438
Total assets	(thousands of yen)	137,957,682	155,162,729	167,289,196
Owners' equity per share	(yen)	1,509.89	1,653.88	1,692.27
Basic earnings per share	(yen)	—	98.15	78.11
Diluted earnings per share	(yen)	—	97.82	77.80
Ratio of owners' equity to gross assets	(%)	49.3	48.0	45.6
Rate of return on equity	(%)	—	6.2	4.7
Price-earnings ratio	(times)	—	22.0	28.7
Cash flows from (used in) operating activities	(thousands of yen)	—	14,663,819	25,152,346
Cash flows from (used in) investing activities	(thousands of yen)	—	(14,296,789)	(8,687,589)
Cash flows from (used in) financing activities	(thousands of yen)	—	(717,512)	(5,889,750)
Cash and cash equivalents, at the end of fiscal year	(thousands of yen)	21,747,209	21,320,004	31,957,789
Number of employees (excluded average number of temporary employees)	(Persons)	3,212 (49)	3,203 (49)	3,353 (49)

(Notes) 1. IIJ and its subsidiaries (collectively “the Company”) have been prepared in accordance with International Financial Reporting Standards (IFRS) since the 27th business term.
2. Revenues do not include consumption taxes.
3. Price earnings ratios are calculated based on closing prices of IIJ’s common stock on the Tokyo Stock Exchange (the first section) on the final day of trading for the fiscal year.

		U.S. GAAP				
Fiscal year		23rd business term ended March 31, 2015	24th business term ended March 31, 2016	25th business term ended March 31, 2017	26th business term ended March 31, 2018	27th business term ended March 31, 2019
Revenues	(thousands of yen)	123,050,115	140,648,008	157,789,059	176,050,649	192,332,340
Operating income	(thousands of yen)	5,075,238	6,140,354	5,134,307	6,762,202	6,208,392
Income before income tax expense and equity in net income of equity method investees	(thousands of yen)	5,138,992	6,193,334	5,427,160	7,840,123	4,912,611
Net income attributable to IIJ	(thousands of yen)	3,322,081	4,038,282	3,166,510	5,108,949	2,715,179
Comprehensive income	(thousands of yen)	3,618,881	3,452,000	4,635,102	7,854,112	2,431,055
IIJ shareholders' equity	(thousands of yen)	62,504,402	64,845,207	66,741,871	73,270,057	75,404,315
Total assets	(thousands of yen)	108,705,315	117,834,904	137,395,149	153,448,819	166,851,638
IIJ shareholders' equity per share	(yen)	1,360.50	1,411.13	1,481.16	1,625.95	1,673.03
Basic net income attributable to IIJ shareholders per share	(yen)	72.31	87.88	69.36	113.37	60.24
Diluted net income attributable to IIJ shareholders per share	(yen)	72.20	87.71	69.18	112.99	60.00
Shareholders' equity ratio	(%)	57.5	55.0	48.6	47.7	45.2
Return on equity	(%)	5.4	6.3	4.8	7.3	3.7
Price earnings ratio	(times)	27.5	26.3	29.0	19.0	37.2
Net cash provided by operating activities	(thousands of yen)	12,912,373	12,051,588	7,367,692	13,261,764	23,444,691
Net cash used in investing activities	(thousands of yen)	(8,072,744)	(8,376,828)	(7,375,821)	(13,037,325)	(6,869,247)
Net cash provided by (used in) financing activities	(thousands of yen)	(6,283,499)	(5,201,357)	2,492,099	(748,178)	(5,898,641)
Cash and cash equivalents at end of fiscal year	(thousands of yen)	21,093,633	19,569,095	21,958,591	21,402,892	32,076,232
Number of employees (excluded average number of temporary employees)	(persons)	2,835 (30)	2,980 (48)	3,104 (49)	3,203 (49)	3,353 (49)

(Notes) 1. Figures for the 27th business term are not audited under Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.
2. Revenues do not include consumption taxes.
3. Price earnings ratio are calculated based on closing prices of IIJ’s common stock on the Tokyo Stock Exchange (the first section) on the final day of trading for the fiscal year.

(2) Non-consolidated financial data, etc.

Fiscal year		23rd business term ended March 31, 2015	24th business term ended March 31, 2016	25th business term ended March 31, 2017	26th business term ended March 31, 2018	27th business term ended March 31, 2019
Revenues	(thousands of yen)	90,687,076	105,176,238	123,685,435	139,436,288	156,674,395
Ordinary income	(thousands of yen)	4,573,063	4,342,534	3,181,105	3,573,516	3,709,481
Net income	(thousands of yen)	3,217,785	2,884,071	2,520,398	3,516,760	2,627,881
Common stock	(thousands of yen)	22,960,636	22,970,278	22,970,278	22,972,583	22,979,490
Number of shares issued	(shares)	46,701,000	46,711,400	46,711,400	46,713,800	46,721,400
Net assets	(thousands of yen)	58,498,789	60,190,592	61,333,007	66,090,481	66,551,925
Total assets	(thousands of yen)	92,685,173	101,961,936	121,163,429	137,068,258	146,677,926
Net assets per share	(yen)	1,269.69	1,305.43	1,355.35	1,459.68	1,468.72
Dividends per share	(yen)	22.00	22.00	27.00	27.00	27.0
(Interim dividend per share included above)	(yen)	(11.00)	(11.00)	(13.50)	(13.50)	(13.50)
Net income per share	(yen)	70.04	62.77	55.21	78.04	58.31
Diluted net income per share	(yen)	69.93	62.63	55.06	77.80	58.07
Capital to asset ratio	(%)	63.1	59.0	50.6	48.0	45.1
Return on equity	(%)	5.6	4.9	4.1	5.5	4.0
Price earnings ratio	(times)	28.4	36.9	36.4	27.6	38.4
Dividend payout ratio	(%)	31.4	35.1	48.9	34.6	46.3
Number of employees	(persons)	1,673	1,751	1,865	1,904	1,955
(excluded average number of temporary employees)		(25)	(24)	(29)	(30)	(28)
Gross shareholders' profit ratio	(%)	80.8	94.6	83.5	90.5	94.9
(Comparative indicator : TOPIX including dividend)	(%)	(130.7)	(116.5)	(133.7)	(154.9)	(147.1)
Highest stock price (*4)	(yen)	2,700	2,554	2,464	2,620	2,880
Lowest stock price (*4)	(yen)	1,802	1,910	1,514	1,881	1,996

(Notes) 1. Revenues do not include consumption taxes.
2. Return on equity is calculated based on the average net assets during the fiscal year.
3. Price earnings ratios are calculated based on closing prices of IIJ's common stock on the Tokyo Stock Exchange (the first section) on the final day of trading for the fiscal year.
4. Highest and lowest stock prices are of our common stock on the Tokyo Stock Exchange (the first section).

2 Corporate History

Date		History
December	1992	For the commercialization of the Internet in Japan, Internet Initiative Planning Inc. was established in Nagata-cho, Chiyoda-ku, Tokyo, with the registered capital of JPY18 million.
May	1993	Changed company name from Internet Initiative Planning Inc. to Internet Initiative Japan Inc
July	1993	Launched “Internet connectivity service”
February	1994	Authorized and resistered by the Ministry of Posts and Telecommunications (currently Ministry of Internal Affairs and Communications) as a Special Type 2 telecommunications carrier (currently Telecommunications operators (*))
October	1994	Moved company headquarters to Sanban-cho, Chiyoda-ku, Tokyo
January	1995	Established IIJ Media Communications Inc. (formerly our consolidated subsidiary) to provide various services such as video-audio contents (*) distribution, homepage content development and contents server (*) construction
November	1995	Established Asia Internet Holdings Inc. (former our equity method investee) to build and operate Internet backbone networks in the Asia Pacific Region, and provide Internet connectivity services in the region.
March	1996	Established IIJ America Inc. (our consolidated subsidiary) to operate Internet backbone networks in the United States of America and provide Internet connectivity services in the United States of America.
November	1996	Established IIJ Technology Inc. (formerly our consolidated subsidiary) to provide systems integration services.
May	1997	Moved company headquarters to Kanda-nishiki-cho, Chiyoda-ku, Tokyo
September	1997	IIJ and NIPPON TELEGRAPH AND TELEPHONE CORPORATION (currently NTT Communications Corporation) Group established a joint venture company, INTERNET MULTIFEED CO. (our equity method investee) to operate Internet Exchange Points (*) and offer Internet Exchange services.
February	1998	Merged five regional affiliated companies (former our consolidated subsidiaries, established sequentially from October 1994 to August 1995) in order to strengthen domestic sales base and improve management efficiency. The registered capital of IIJ increased to JPY 842 million.
February	1998	Established Net Care, Inc. (our consolidated subsidiary, currently IIJ Engineering Inc.) to provide a broad array of support services such as monitoring of network systems, customer service support and call centers.
April	1998	Established IIJ Research Laboratory, as an internal organization in the Company, to promote research and development of the Internet-related technology.
October	1998	Established a Type 1 telecommunications carrier (*), Crosswave Communications Inc. (former our equity method investee)
August	1999	American Depositary Receipts (ADRs) (*) of IIJ were registered and listed on the NASDAQ exchange. The registered capital of IIJ increased to JPY 7,082 million.
August	1999	Launched IPv6 (*) Internet connectivity services.
March	2003	Moved company headquarters to Kanda-Jinbo-cho, Chiyoda-ku, Tokyo
August	2003	Crosswave Communications Inc. (formerly our equity method investee) filed voluntary petitions for commencement of corporate reorganization proceedings.
September	2003	Raised capital of JPY 12,000 million by third party allotment of new shares, and the registered capital of IIJ increased to JPY 13,765 million. IIJ became an equity method investee of NIPPON TELEGRAPH AND TELEPHONE CORPORATION.
December	2003	Crosswave Communications Inc. concluded business transfer agreement with NTT Communications Corporation.
October	2004	IIJ Financial Systems Inc. (former our consolidated subsidiary), established in September 2004 as a wholly owned subsidiary of IIJ Technology Inc., launched its business which was transferred from Yamatane Corporation.
October	2005	IIJ Media Communications Inc. merged into IIJ. (Prior to this merger, IIJ Media Communications Inc. transferred a part of its business to IIJ Technology Inc. by an absorption-type company split.)
October	2005	Asia Internet Holdings Inc. merged into IIJ.
December	2005	Listed its common shares on Mothers market of Tokyo Stock Exchange. The registered capital of IIJ increased to JPY16,834 million.
February	2006	IIJ and Konami Corporation established a joint venture company, Internet Revolution Inc. (our equity method investee), to operate comprehensive Internet portal sites.
August	2006	Reduced additional paid-in capital and common stock and made up for the accumulated deficit carried forward in IIJ’s non-consolidated financial statements.
October	2006	Net Chart Japan Inc. (our consolidated subsidiary), established in August 2006, took over the business of ex-Net Chart Japan Inc. and launched its business.
December	2006	Transferred from Mothers market to the First Section of the Tokyo Stock Exchange.
May	2007	Made IIJ Technology Inc. and Net Care, Inc. wholly owned via simplified share exchange. Due to these corporate actions, IIJ Financial Systems Inc. and IIJ America Inc. became our wholly owned subsidiaries, considering indirect ownership.
June	2007	Acquired all the stocks of hi-ho Inc. (formerly our consolidated subsidiary) from Panasonic Network Services Inc. and made hi-ho Inc. wholly owned. Prior to this transaction, hi-ho Inc., providing Internet provider services and solution services for corporations, was incorporated by company split from Panasonic Network Services Inc.
July	2007	Invested in Taihei Computers, Co., Ltd. (currently Trinity Inc., our equity method investee) and started to carry on its business as a joint venture company with Hirata Corporation. (Taihei Computers’ parent company) Taihei Computers, Co., Ltd. provides reward point management systems and services.
July	2007	Established Trust Networks Inc. (our consolidated subsidiary from October 2007) to provide ATM (*) operation business.
January	2008	Launched mobile data communication services for corporate use as a mobile virtual network operator (MVNO (*)) with provision of wholesale telecommunication services by NTT DOCOMO, INC.

Date		History
June	2008	Established IIJ Innovation Institute Inc. (our consolidated subsidiary) to research and develop new technologies for the next-generation network systems including the Internet, and began to receive contracts for such research.
December	2009	Launched cloud computing service (*) “IIJ GIO”.
April	2010	IIJ Technology Inc. merged into IIJ. Prior to this merger, IIJ Financial Systems Inc. was merged into IIJ Technology Inc. on the same date.
September	2010	Acquired all the stocks of a newly established company, succeeding AT&T’s network outsourcing services such as WAN(*) services in Japan, from AT&T Japan LLC. The newly established company, as our wholly owned subsidiary, changed its company name to IIJ Global Solutions Inc. and started to carry on its business.
April	2011	Established a container-based modular data center (*) using free cooling in Matsue-city, Shimane Prefecture.
January	2012	Our consolidated subsidiary, IIJ Global Solutions Inc., established IIJ Global Solutions China Inc. (our consolidated subsidiary) to provide network services and systems integration services in China.
February	2012	Launched consumer mobile services which offer LTE (*)-compatible inexpensive high-speed data communication services with SIM cards.
April	2012	Acquired Exlayer Global Inc. (our consolidated subsidiary), with held five overseas subsidiaries providing systems integration. Exlayer Global Inc. changed its company name to IIJ Exlayer Inc. and started to carry on its business.
July	2012	Our consolidated subsidiary, IIJ Global Solutions Inc., established IIJ Global Solutions (Thailand) Co., Ltd. (our consolidated subsidiary) to provide systems integration services in Thailand.
July	2013	The registered capital of IIJ increased to JPY21,835 million by public offering of new shares.
August	2013	The registered capital of IIJ increased to JPY22, 958 million by third party allotment (secondary offering by way of over-allotment), relating to the public offering of new shares in July 2013.
January	2014	IIJ Exlayer Inc. merged into IIJ.
July	2014	Moved company headquarters to Fujimi, Chiyoda-ku, Tokyo
December	2014	Acquired all the stocks of RYUKOSHA NETWARE Inc. (our consolidated subsidiary) and made RYUKOSHA NETWARE Inc. wholly owned. RYUKOSHA NETWARE Inc. provides human resources outsourcing services for fields such as systems development, operation and service support.
January	2015	Established a joint venture company, PT. Biznet Gio Nusantara (our equity method investee), with a leading Indonesian IT service provider, Biznet Networks (Formal company name: PT. Supra Primetime Nusantara) to provide cloud computing services in Indonesia. Simultaneously, established PT.IIJ Global Solutions Indonesia (our consolidated subsidiary) together with our consolidated subsidiary, IIJ Global Solutions Inc., to provide operation and maintenance for cloud- related services in Indonesia.
November	2015	Launched cloud computing service (*) “IIJ GIO Infrastructure P2.”
February	2016	Established a joint venture company, Leap Solutions Asia Co., Ltd. (our equity method investee), with a leading Thai IT service provider, T.C.C. Technology Co., Ltd. to provide cloud computing services in Thailand.
November	2016	Established IIJ Global Solutions Vietnam Company Limited (our consolidated subsidiary) in order to jointly promote a cloud computing business in Vietnam with a leading Vietnamese IT provider, FPT Telecom Joint Stock Company. IIJ Global Solutions Vietnam Company Limited provides operation and maintenance for cloud-related services in Vietnam.
December	2016	Established a joint venture company, JOCDN Inc. (our equity method investee), with Nippon Television Network Corporation to provide a content delivery network service in Japan and construct and operate network systems for broadcasting. In April 2017, 14 commercial broadcasting companies including major commercial broadcasters headquartered in Tokyo participated in JOCDN Inc. as shareholders.
December	2017	Dispose of all shares held of hi-ho Inc., a wholly owned subsidiary providing mainly Internet connectivity services for home use.
January	2018	Established DeCurret Inc. (our equity method investee) with Japanese leading companies from various industries such as major financial institutions, to launch a financial services business for cryptocurrencies exchange and settlement.
March	2018	Launched “IIJ mobile service Type I” (*) as the first full MVNO in Japan.
April	2019	Established the Shiroi Data Center Campus incorporating a system module-based construction method (*) in Shiroi-city, Chiba Prefecture.
April	2019	Effectiveness of voluntary delisting of IIJ ADRs from the NASDAQ Exchange

(*) Please refer to the Glossary in the back of this document for terms marked with asterisks throughout this document.

3 Description of Business

(1) Overview of our business

IIJ was incorporated in December 1992 as one of the first commercial Internet service providers ("ISP") in Japan to offer Internet connectivity services for both enterprises and consumers. Since then, IIJ has developed Internet-related businesses along with the expansion of the Internet-related market in Japan.

IIJ and its consolidated subsidiaries ("the Group") have been accumulating Internet-related technology as their fundamental strength and providing highly reliable and value-added network services (Internet connectivity services, WAN services, and outsourcing services) and various Internet-related services such as systems integration and equipment sales as total network solutions to mainly Japanese corporate clients and governmental organizations. Trust Networks Inc., our consolidated subsidiary which conducts an ATM operation business, operates bank ATMs and network systems for ATMs and receives a commission for each bank withdrawal transaction when a customer uses its serviced ATMs.

IIJ is a telecommunications carrier based on the Telecommunications Business Law.

As of March 31, 2019, we have 16 consolidated subsidiaries and eight equity method investees and develop our business in cooperation with these affiliated companies.

Our business segments, overview of our services and an overview of IIJ and IIJ's consolidated subsidiaries' businesses are as follows.

① Contents of our business segments and services

We have two business segments: a network services and systems integration business segment and an ATM operation business segment. The network services and systems integration business segment, as the main business, is comprised of Internet connectivity services, WAN services, outsourcing services, systems integration and equipment sales. The ATM operation business segment is conducted by Trust Networks Inc., which is our consolidated subsidiary.

Business segment	Contents of services in each of the business segments
Network services and systems integration business	Internet connectivity services, WAN services, outsourcing services, systems integration and equipment sales for enterprises and consumers
ATM operation business	Construction and operation of bank ATMs and network systems

② Overview of our services

Service category	Overview of the each services
Network services	For Internet connectivity services for enterprises which are mainly provided by IIJ, we offer various Internet connectivity services to our customers, mainly corporate and governmental organizations, which use networks for their business. In addition, for Internet connectivity services for consumers, IIJ offers various Internet connectivity services such as high-speed mobile data communications services for consumers. For WAN services which are mainly provided by IIJ-Global, which is our consolidated subsidiary, and IIJ, we offer closed network services to our customers, mainly corporate and governmental organizations, to connect remote bases such as connecting headquarters and branch offices, and branch offices by using data communication services such as dedicated lines, wide-area Ethernet services, IP (*)-VPN (*) services and Internet VPN. For outsourcing services which are mainly provided by IIJ, we offer security-related (*), network-related, server-related and data center-related outsourcing services, as well as cloud computing services.
Systems integration (including equipment sales)	For systems construction which is mainly provided by IIJ, we offer network systems design (*), consultation, development of network systems, and sales of equipment and software purchased from third parties. For equipment sales which are mainly provided by IIJ, we mainly sell equipment such as communications equipment, which is purchased from third parties, to our customers. We also sell mobile devices and service adapters to our customers (*) such as our in-house developed router, the "SEIL Series." (*) For systems operation and maintenance which is mainly provided by IIJ, we offer operation and maintenance of the customer systems which we construct; our server equipment which our customers use as cloud computing services and so on.
ATM operation business	Trust Networks Inc., which is our consolidated subsidiary, operates bank ATMs and network systems for ATMs, and receives a commission for each bank withdrawal transaction when a customer uses its serviced ATMs.

③ Overview of IIJ and IIJ's consolidated subsidiaries' businesses

Name	Overview of business
Internet Initiative Japan Inc.	Internet Initiative Japan Inc. mainly provides Internet connectivity services; high-speed mobile data communications services; security-related services; network services such as VPN, server, cloud computing services, data center-related outsourcing services, and network and system design; consultation; development; construction; sales of equipment and software purchased from third parties and operation and maintenance for constructing networks and systems. Its services are recorded as network services and systems integration (network services and systems integration business segment) on our consolidated financial statements.

Major subsidiaries	
Name	Overview of business
IIJ Innovation Institute Inc.	IIJ Innovation Institute Inc. mainly engages in research and development of new network-related technology, including Internet, and relevant commissioned research. Its services are recorded as systems integration (network services and systems integration business segment) on our consolidated financial statements.
IIJ Engineering Inc.	IIJ Engineering Inc. mainly provides outsourcing services such as monitoring network operations, customer support and call centers. Its services are recorded as network services and systems integration (network services and systems integration business segment) on our consolidated financial statements.
IIJ Global Solutions Inc.	IIJ Global Solutions Inc. provides domestic network outsourcing services, such as WAN services, international network-related services and systems integration. Its services are recorded as network services and systems integration (network services and systems integration business segment) on our consolidated financial statements.
Trust Networks Inc.	Trust Networks Inc. operates ATMs and related network systems. Its services are recorded as ATM operation business (ATM operation business segment) on our consolidated financial statements.
Net Chart Japan Inc.	Net Chart Japan Inc. provides network construction services that are mainly related to Local Area Networks, such as installation and configuration of equipment, wiring following network installation and installation and operation support for applications. Its services are mainly recorded as systems integration (network services and systems integration business segment) on our consolidated financial statements.
RYUKOSHA NETWARE Inc.	RYUKOSHA NETWARE Inc. engages in human resources outsourcing for enterprises, including systems development, systems operation and service support. Its services are mainly recorded as systems integration (network services and systems integration business segment) on our consolidated financial statements.
IIJ America Inc.	IIJ America Inc., as our U.S. network base, provides construction and operation of U.S. Internet backbone, Internet connectivity services in the U.S., systems construction, systems operation and maintenance, cloud computing services and so on. Its services are recorded as network services and systems integration (network services and systems integration business segment) on our consolidated financial statements.
IIJ Europe Limited	IIJ Europe Limited provides Internet connectivity services, construction, operation and maintenance of networks and systems, and cloud computing services in Europe. Its services are recorded as network services and systems integration (network services and systems integration business segment) on our consolidated financial statements.
IIJ Global Solutions Singapore Pte. Ltd.	IIJ Global Solutions Singapore Pte. Ltd. provides Internet connectivity services, construction, operation and maintenance of networks and systems, and cloud computing services in Singapore. Its services are recorded as network services and systems integration (network services and systems integration business segment) on our consolidated financial statements.
IIJ Global Solutions China Inc.	IIJ Global Solutions China Inc. provides Internet connectivity services, construction, operation and maintenance of networks and systems, and cloud computing services in China. Its services are recorded as network services and systems integration (network services and systems integration business segment) on our consolidated financial statements.

Major equity method investees	
Name	Overview of business
INTERNET MULTIFEED CO.	INTERNET MULTIFEED CO. which was established as a joint venture with NIPPON TELEGRAPH AND TELEPHONE CORPORATION Group, mainly operates interconnection points and provides IPv6 Internet connection for telecommunications carriers.
Internet Revolution Inc.	Internet Revolution Inc., which is Konami Corporation's consolidated subsidiary, provides business operation for gaming platform.
Trinity Inc.	Trinity Inc., which is Hirata Corporation's consolidated subsidiary, provides development, construction, selling and outsourcing of customer loyalty reward program systems and others.
JOCDN Inc.	JOCDN Inc., a joint venture with companies such as private broadcast companies, provides a content distribution platform services within Japan
DeCurret Inc.	DeCurret Inc., a joint venture with leading Japanese companies from various industries including major financial institutions, provides exchange and settlement services for cryptocurrencies.

The following table provides a breakdown of the total revenues, percentage of the total revenues and the total gross margin by service for the fiscal years ended March 31, 2018 and 2019.

Service category	IFRS					
	Fiscal year ended March 31, 2018			Fiscal year ended March 31, 2019		
	Revenues (thousands of yen)	Percentage of the total revenues (%)	Gross margin (thousands of yen)	Revenues (thousands of yen)	Percentage of the total revenues (%)	Gross margin (thousands of yen)
Network services	108,083,658	61.3	19,526,174	118,626,271	61.6	17,368,817
Systems integration	64,118,979	36.4	7,177,290	69,652,389	36.2	9,780,489
ATM operation business	4,030,684	2.3	1,665,281	4,151,525	2.2	1,825,392
Total	176,233,321	100.0	28,368,745	192,430,185	100.0	28,974,698

(Note) 1. Revenues does not include consumption taxes.

2. Systems integration includes equipment sales.

We provide services related to network and systems integration, as mentioned above, as total solutions in the domestic market. For example, we connect clients' multiple branches by providing Internet connectivity services or WAN services including VPN services, house clients' servers by providing data center services, operate and manage clients' network equipment, such as routers (*), and clients' email systems are outsourced to us to operate, oversee clients' security systems by providing security-related services, and design, construct and operate network systems by offering systems integration.

We focus on providing cloud computing services as part of network services and systems integration business. From the fiscal year ended March 31, 2010, we began providing our cloud computing services and continue in our efforts to expand service line-up, enhance server and network facilities and others, enhance our data center facilities, and strengthen marketing, promotion and others.

We focus on providing mobile data communications services for enterprises and consumers as part of network services. As the market for inexpensive data communications and voice services through SIM cards (*) has been expanding, we are promoting projects such as MVNE (*) projects which provide mobile network infrastructure and peripheral systems to MVNO and create new corporate demand by promoting full MVNO in mobile services for enterprises, and expanding our sales channels, revising our service specifications, and expanding our service line-up of mobile services for consumers.

We have 10 overseas subsidiaries in the United States, Europe and Asia, primarily to fulfill the broad range of IT network related needs of our Japanese customers, who are headed abroad to expand their overseas business, and strengthen our business base to provide network services and system integrations overseas. We provide Internet connectivity services in the United States and the United Kingdom, WAN services to connect overseas bases, overseas systems integration, cloud computing services in the United States, Europe, China, Singapore, Indonesia, Thailand and Vietnam, and others.

In addition, we conduct our ATM operation business through our consolidated subsidiary, Trust Networks, which operates bank ATMs and network systems for ATMs and receives a commission for each bank withdrawal transaction when a customer uses its serviced ATMs.

(2) The features of our business

① The history of our business

Based on the aspiration to spread Internet throughout Japan as a new means of communication, IIJ was incorporated mainly by Internet-related engineers in December 1992, when Internet had not yet widespread, as one of the first commercial ISPs in Japan. At the establishment of IIJ, as there were a few Internet-related engineers in Japan, “WIDE project” (*), which was conducted through industry-university joint research and development, was influential in developing and gathering Internet-related techniques. IIJ was established mainly by the engineers involved in such research and development. IIJ, who has accumulated Internet-related technological strengths as its business base, seeks to provide highly reliable and value-added network services, contributes to the spread of Internet today and leads the market.

At the start of IIJ’s business, as there were a few ISPs serving consumers and no tough competition, IIJ quickly expanded its customer base. Initially, the needs of its customers mainly encompassed Internet connectivity services. As Internet became more widespread; however, these needs shifted to multiple and diversified solutions such as Internet-related network systems construction, operation and maintenance. The spread of Internet and the diversification of customers' needs rapidly expanded, and therefore IIJ established its affiliates and expanded the scope of business as IIJ Group to grasp the market.

The name “IIJ” is well known in the Internet-related market. IIJ’s technology is acknowledged in the market due to its business history and it shall strive to continue to be more widely recognized.

IIJ, together with its consolidated companies and others in the Group, provides total network solutions to its customers. In addition, IIJ aims to expand business in the middle- to long-term, and therefore promotes business field expansion through new business development, M&As and others, and business collaboration with business partners. (Please refer to “PART 1. Information on the Company, Item 1, Overview of the Company, 2. Corporate History” and “PART 1. Information on the Company, Item 1, Overview of the Company, 4. Information on Affiliates” for details)

② Accumulation of technological strength

We recognize our strength is the accumulation of a wide range of technological know-how in Internet field. We recognize Internet-related technological strengths encompasses designing, constructing and operating networks and servers, operating network equipment such as routers, implementing security, adapting new technologies, and developing and disseminating knowledge through consultation, experience, know-how and ability to implement new network services and solutions.

We provide services based on our technological strength, which enables us to combine Internet-related technologies, design and construction, stably operate wide bandwidth and extensive network systems, stably handle large volume of network traffic (*), develop and provide highly reliable services that incorporate necessary measures to maintain security and to prevent troubles, and develop and provide services and solutions to meet the needs of customers.

③ Customer base

Since our establishment, with technical strength as our selling point, we have engaged in business activities mainly for enterprises and governmental organizations who prioritize the reliability of network systems. The number of our corporate customers including governmental organizations was approximately 11,000 clients as of March 31, 2018 and approximately 12,000 clients as of March 31, 2019, respectively. The increase in the fiscal year ended March 31, 2019 was mainly caused by the increase of corporate customers for mobile data communications services.

(3) Contents of IIJ and IIJ's consolidated subsidiaries' businesses

① Network services

＜Internet connectivity services＞

We provide Internet connectivity services and receive continuous communication fees from our customers. Internet connectivity services are provided by connecting customers' LAN and computer terminals to our group networks through access lines (*) or networks provided by telecommunications carriers. As described in the next item "(4) Our networks," we construct high-capacity networks and operate them through our operation technologies accumulated since our establishment, which enable us to provide stable and high-speed Internet connectivity services. We were the first ISP in Japan to introduce Service Level Agreements (SLA) (*) for Internet connectivity services. In addition, we started to commercially provide Internet connectivity services by IPv6, the next-generation Internet Protocol (*), for the first time in Japan. We have service line-ups for Internet connectivity services by separating specifications such as bandwidth, access lines, allocation of IP addresses (*), operation of DNS servers (*), operation of routers, and price.

a) Internet connectivity services for enterprises

We provide various Internet connectivity services to enterprises such as "IP Service," "IIJ Data Center Connectivity Service," "IIJ Mobile Service" and "IIJ Mobile MVNO Platform Service."

"IP Service" and "IIJ Data Center Connectivity Service," in which customers can choose broad bandwidth, are high-unit-price and full-spec, and offer no restriction on the number of allocation of IP addresses to provide broadband service exceeding Gbps (*) and others, and used mainly by large corporate and governmental organizations and others. "IIJ Data Center Connectivity Service" provides Internet connectivity services when customers house their facilities in our data centers. IIJ mobile service provides mobile data communications services to enterprises by purchasing mobile network infrastructure mainly from NTT DoCoMo Inc. ("NTT Docomo") as an MVNO. "IIJ Mobile MVNO Platform Service" provides mobile network infrastructure and peripheral systems to MVNOs.

b) Internet connectivity services for consumers

We provide various Internet connectivity services to consumers such as "IIJmio Service," which is provided under IIJ brands and "OEM" (*). "IIJmio Service" is a customized service which enable customers to combine various functions. We provide mobile data communication and voice services with LTE SIM cards and fixed-line services such as B Felt's.

OEM provides operation of networks and services, and others, when telecommunications carriers and other suppliers provide Internet connectivity services for consumers and others.

The following table shows the number of our Internet connectivity service contracts and total contracted bandwidth as of the dates indicated

	As of March 31,	
	2018	2019
Internet connectivity services (Enterprise)	1,414,809	1,757,761
IP service (greater than or equal to 1Gbps)*2	709	743
IP service (less than 1Gbps)*2	1,299	1,265
IIJ Mobile Services	1,339,586	1,675,123
IIJ Mobile MVNO Platform Service	824,731	1,047,856
Others	73,215	80,630
Internet connectivity services (consumer)	1,363,531	1,400,928
IIJ	1,363,531	1,400,928
IIJmio Mobile Service	1,005,092	1,062,921

	As of March 31	
	2018	2019
Total contracted bandwidth (Gbps)*3	3,120.2	3,897.2

*1) Numbers in the table above show number of contracts except for “IIJ Mobile Services (enterprise)” and “IIJ” 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), excluding mobile services” and the contracted bandwidths of the services respectively.
*4) The Company have adopted IFRS from the filing of this document and reporting period of foreign consolidated subsidiaries are different from period under U.S. GAAP. As a result, the number of our Internet connectivity service contracts and total contracted bandwidth described above was restated.

＜WAN services＞

IIJ and IIJ Global Solutions Inc. (“IIJ-Global”), which is our consolidated subsidiary, are the Group’s main providers of WAN services. WAN services construct and provide a wide-area network to connect customers’ bases by purchasing corporate communication services such as dedicated lines, wide-area Ethernet, IP-VPN and Internet VPN provided mainly by telecommunications carriers, and we provide operation and monitoring of the wide-area network and others together, by customers’ request.

We provide WAN services to meet customer needs because we are independent from any specific telecommunications carrier or communication equipment manufacturer and effectively combine the services and equipment of each company according to our customers’ needs.

＜**Outsourcing services**＞

We provide outsourcing services along with Internet connectivity services and WAN services. Outsourcing services aim to make more effective use of network systems, including operation and management of customers' network systems. Outsourcing services mainly consist of security-related, network outsourcing-related, server outsourcing-related, data center-related, packaged-type cloud computing services such as "IIJ GIO/Hosting Package" and others. The following table shows an overview of these services.

We recognize the importance of Internet utilization and the needs of reliable network system in the business operation of corporates, governmental organizations and others are increasing. We are able to meet these increasing needs, show advantages based on our technologies, and will show our advantages.

Category	Overview of each services
Security-related	Providing security systems and operating and monitoring such systems to implement counter measures for unauthorized access, attack and others, 24 hours a day/365 days a year by security operation center (*), providing application service and solution for spam mail (*), evaluating vulnerability, supporting establishment of security policy (*), and supporting security such as internal training
Network outsourcing-related	Providing VPN service, configurating, operating and maintenance of network equipment, providing total solution of these services and others.
Server outsourcing-related	Providing functions of e-mail server, web server, contents distribution server and others, operating and managing e-mail and others.
Data center-related	Housing customers' server and others in our data center and providing functions of equipment management and operational monitoring.
Packaged-type cloud computing service	Providing packaged-type cloud hosting service such as IIJ GIO/Hosting Package. (*)
Others	Providing outsourcing services such as customer support and call centers, and others.

② Systems integration (including equipment sales)

We, as systems integration, provide consultation, design, systems development, systems construction, outsourcing, such as systems operations and others for Internet, Intranet (*) and network systems, such as WAN for enterprises, governmental organizations and others. We have a wide range of target systems, such as for design and construction of network systems connecting internal companies and bases, electronic transaction systems such as online securities, systems development and operation for application service providers (ASP) (*), operation of customers' systems that we construct and our server equipment which our customers use for cloud computing services.

We sell equipment when we need to provide network equipment and others to customers along with our services. We sell customers' service adapters such as our in-house developed SEIL Series router, as well as equipment purchased from third parties. In addition, we sell mobile terminal devices, such as smartphones and tablets, along with providing mobile data communications services.

③ ATM operation business

Trust Networks Inc., which is our consolidated subsidiary, conducts an ATM operation business. The business model of the ATM operation business is based on the construction and operation of network for ATMs, with Trust Networks receiving a commission for each bank withdrawal transaction when a customer uses its serviced ATMs.

(4) Our networks

① **Networks**

We operate backbone network by leasing backbone lines from telecommunications carriers and connecting data centers in which network equipment and others are laced. Our backbone network is a foundation for stably and continuously providing reliable, value-added and various network-related services. Therefore we design and operate our backbone network by considering performance and fault tolerance.

As our general principle, each domestic connection point (NOC (*) and data center) is connected by two other connection points and different backbone routers which go through multiple high-speed digital communication lines. In addition, the capacity of each backbone line has sufficient bandwidth even under peak traffic conditions. Thus, our Internet backbone network is designed to continuously operate without quality deterioration as far as possible, even if failure arises in a single communication line, backbone router, telecommunications carriers' communications facility, or our connection point.

Based on this design, we operate a high-capacity Internet backbone network which connects domestic points including our major points in Tokyo and Osaka as of March 31, 2019. In terms of interconnection, we have the WIDE project, which has hosted an Internet exchange point called dix-ie (Distributed IX in EDO) (*) since its project establishment and interconnect. In addition, we connect high-capacity lines from our multiple points in Tokyo and Osaka to JPNAP (*), which is an Internet exchange operated by INTERNET MULTIFEED CO., our equity method investee, and also establish peer to peer (*) (interconnection) with major domestic ISPs. Our Internet backbone network in the United States is designed, constructed and operated by IIJ America Inc., our consolidated subsidiary, based on a similar approach that used in Japan. The network is connected to multiple major Internet exchanges in the United States and peer with major ISPs in the United States and other countries. The Internet backbone network between Japan and the United States is connected by international backbone lines provided by several different international telecommunications carriers to multiple points in Japan and the United States and we operate fault-tolerant networks between Japan and the United States.

The Internet backbone network for Europe is designed and constructed by directly connecting Japan and the United Kingdom, via Russia to reduce data transmission delays and to continuously operate without quality deterioration, as far as possible. With this design, we are able to use two routes, keeping one open even when there is a connection failure in the other.

The Internet backbone network for Asia is designed and constructed by connecting three countries, Japan, Singapore and Hong Kong, to operate without quality deterioration as far as possible. With this design, we are able to use two routes, keeping one open even when there is a connection failure in the other. These overseas backbone networks are connected to multiple major Internet exhanges in the United Kingdom, Singapore and Hong Kong, respectively.

We provide mobile data communications services for enterprises and consumers through an MVNO scheme. With regards to mobile communications networks required to provide mobile data communications services, we lease mobile network infrastructure from telecommunications carriers such as NTT Docomo. We lease the required bandwidth mainly from NTT Docomo based on the number of contract lines, traffic and other factors, and operate it.

② **Data Centers**

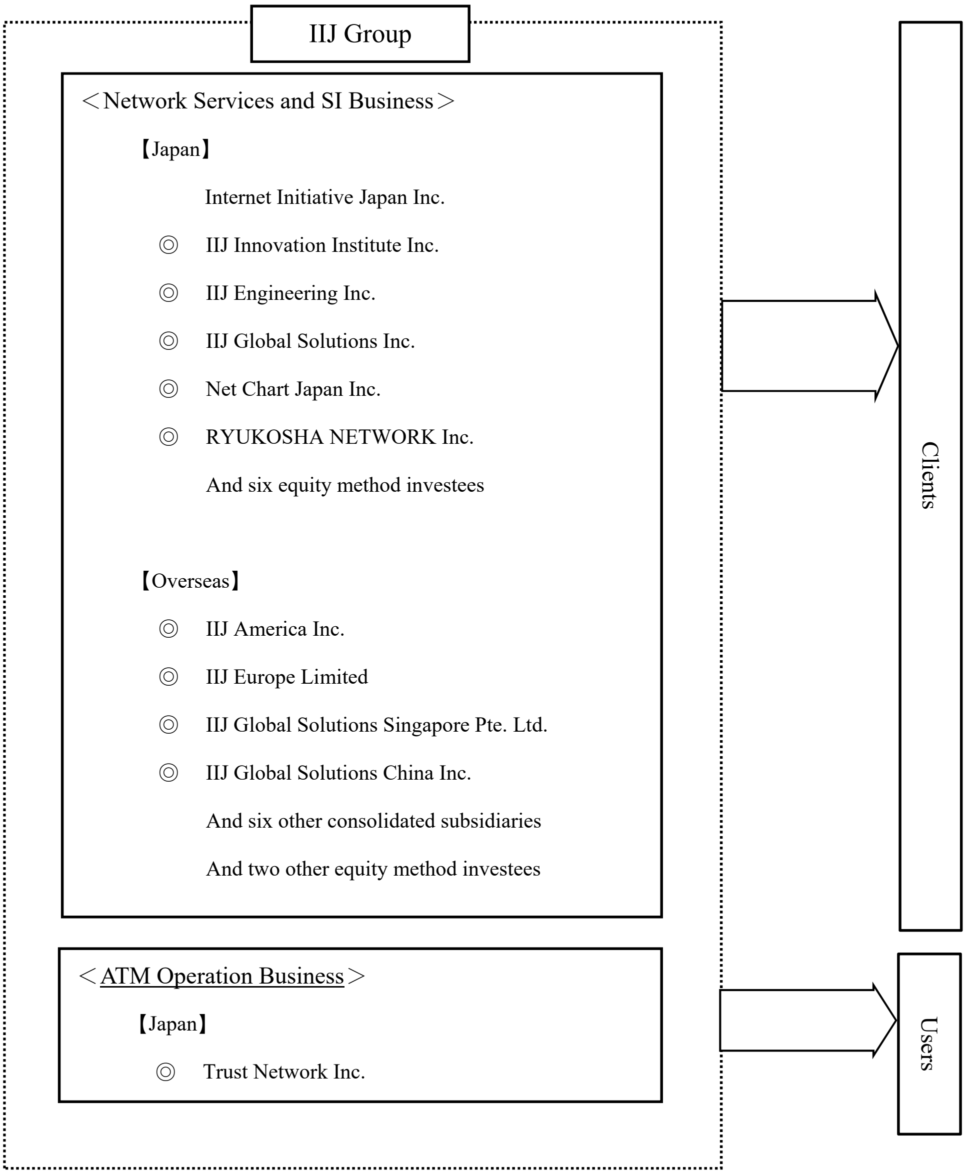
As of March 31, 2019, we operate a total of 26 Internet data centers: 21 in Japan and six abroad. We operate seven in Tokyo, three in Osaka, two each in Yokohama, Nagoya, and Fukuoka, and one each in Saitama, Sapporo, Sendai, Kyoto, Matsue, New York, San Jose, Los Angeles, London and Singapore. Excluding Matsue, 25 Internet data centers are leased from third parties.

For our own Internet data centers, we operate a container-based module type data center (*) in Matsue, Shimane Prefecture which is specifically designed for the use of our cloud computing. In addition, we built a system module type new data center in Shiroi City, Chiba Prefecture, and have started operation the center since May, 2019.

We, as a general principle, enhance fault tolerance by connecting high-capacity backbone lines between each data center, which enables backup upon failure and load distribution in each data center. In addition, we have features in our data center, such as line redundancy, power to house large-scale systems, earthquake resistance or base isolation structure, security management and others. We provide Internet connectivity services, operate and monitor network equipment servers and others, provide systems integration and others, and have establish the system to house and take charge of operation and management of customers' systems in our data centers.

(5) Business overview chart

The following shows an overview of our business as a chart.



(Note) ◎ denotes our consolidated subsidiaries.

In addition to the above mentioned companies, Nippon Telegraph and Telephone Corporation, a listed company, is another affiliated company.

4 Information on Affiliates

Name	Location	Common Stock (millions of yen)	Primary Business	Percentage of Voting Rights or Ownership (%) (Note 1)	Relationship
Consolidated Subsidiaries					
IIJ Innovation Institute Inc. (Note 5)	Chiyoda-ku, Tokyo	75	R&D for Internet-related technology (Network and SI business segment)	100.0	Concurrent position of directors: 2 officers, staff seconded from IIJ, purchaser of IIJ services, subcontractor of IIJ
IIJ Engineering Inc. (Note 5)	Chiyoda-ku, Tokyo	400	Operation and monitoring of network systems, customer service support and call centers (Network and SI business segment)	100.0	Concurrent position of directors and auditors: 2 officers, staff seconded from IIJ, purchaser of IIJ services, subcontractor of IIJ, supplier of IIJ, subcontractor of IIJ, send staffs to IIJ
IIJ Global Solutions Inc. (Note 2, 5)	Chiyoda-ku, Tokyo	490	Provision of network services and systems integration (Network and SI business segment)	100.0	Concurrent position of directors and auditors: 4 officers, staff seconded from IIJ, purchaser of IIJ services, subcontractor of IIJ, supplier of IIJ, sends staff to IIJ
Trust Networks Inc.	Chiyoda-ku, Tokyo	100	Operation of bank ATMs and ATM networks (ATM Operation Business segment)	80.6	Concurrent position of directors and auditors: 2 officers, staff seconded from IIJ, purchaser of IIJ services, lender of IIJ
Net Chart Japan, Inc.	Yokohama-shi, Kanagawa	55	Development and construction of networks, operation and maintenance of networks and sales of network-related equipment (Network and SI business segment)	100.0	Concurrent position of director and auditors: 2 officers, purchaser of IIJ services, lender of IIJ, subcontractor of IIJ
RYUKOSHA NETWARE Inc.	Chiyoda-ku, Tokyo	10	Provision of human resources and outsourcing services for systems operation and services support (Network and SI business segment)	100.0	Concurrent position of directors and auditors: 3 officers, staff seconded from IIJ, lender of IIJ
IIJ America Inc. (Note 5)	California, the United States	8,460,000 USD	Provision of network services, systems integration and other related services in the U.S. (Network and SI business segment)	100.0	Concurrent position of director: 1 officer, staff seconded from IIJ, purchaser of IIJ services, provider of services to IIJ, subcontractor of IIJ
IIJ Europe Limited	London, the United Kingdom	143,000 GBP	Provision of network services, systems integration and other related services in Europe (Network and SI business segment)	100.0	Staff seconded from IIJ, purchaser of IIJ services, borrower of IIJ, Provider of services to IIJ, subcontractor of IIJ
IIJ Global Solutions Singapore Pte. Ltd.	Singapore	5,345,000 SGD	Provision of network services, systems integration and other related services in Singapore (Network and SI business segment)	100.0 (49.6)	Staff seconded from IIJ, purchaser of IIJ services, borrower of IIJ, provider of services to IIJ, subcontractor of IIJ

Name	Location	Common Stock (millions of yen)	Principal Business	Percentage of Voting Rights or Ownership (%) (Note 1)	Relationship
IIJ Global Solutions China Inc.	Shanghai, China	10,630,000 USD	Provision of network services, systems integration and other related services in China (Network and SI business	100.0 (100.0)	Our suppliers
Others; 6 companies (Note3)					
Equity Method Investees					
DeCurret Inc. (Note 5)	Chiyoda-ku, Tokyo	2,615	Provision of cryptocurrency exchange and settlement services	35.0	Concurrent position of directors and auditors: 4 officers, purchaser of IIJ service
INTERNET MULTIFEED CO. (Note 5)	Chiyoda-ku, Tokyo	490	Provision of high-speed Internet eXchange services, IPv6 Internet connectivity to carriers	34.0	Concurrent position of directors and auditors: 3 officers, staffs seconded from IIJ, purchaser of IIJ services, provider of services to IIJ
Trinity Inc. (Note 5)	Chiyoda-ku, Tokyo	380	Development, construction and provision of customer loyalty reward program services	33.8	Concurrent position of directors and auditors: 3 officers, purchaser of IIJ services, provider of services to IIJ
Internet Revolution Inc.	Minato-ku, Tokyo	100	Provision of gaming platform	30.0	Concurrent position of directors: 1 officer, staffs seconded from IIJ, purchaser of IIJ services
JOCDN Inc. (Note 5)	Minato-ku, Tokyo	99	Content delivery network services specialized for video distribution within Japan	20.0	Concurrent position of directors and auditors: 2 officers, staff seconded from IIJ, purchaser IIJ services
Others; 3 companies (Note 4)					
(Other companies)					
NIPPON TELEGRAPH AND TELEPHONE CORPORATION (Note 6)	Chiyoda-ku, Tokyo	937,950	Holding company of NTT Group	26.9 (4.5)	

(Note)

1. Percentage of voting rights includes indirect ownership. Numbers listed in parentheses indicate the percentage of voting rights held indirectly.
2. IIJ Global Solutions's ratio of net revenue (excluding revenue among consolidated subsidiaries) to total consolidated revenue is greater than 10%.

< Key Information on Profit and Loss > (J-GAAP, unconsolidated)＞
From April 1, 2018 to March 31, 2019s (millions of yen)

(1) Revenue	30,719
(2) Recurring Profit	668
(3) Net loss	48
(4) Net Assets	8,996
(5) Total Assets	15,922

3. Six other consolidated subsidiaries are IIJ Deutschland GmbH, IIJ Global Solutions (Thailand) Co., Ltd., IIJ (Thailand) Co., Ltd., IIJ Global Solutions Hong Kong Ltd., IIJ Global Solutions Vietnam Company Limited and PT.IIJ Global Solutions Indonesia.
4. Three other equity method investees are KIS, Inc., PT.BIZNET GIO NUSANTARA and Leap Solutions Asia Co., Ltd.
5. As of this document's filing date, concurrent position of Koichi Suzuki, IIJ's Chairman and Representative Director, among IIJ's consolidated subsidiaries include the followings: Chairman and Representative Director of IIJ Engineering Inc., Chairman of IIJ America Inc., Director of IIJ Innovation Institute, and Director of IIJ Global Solutions. His concurrent position among IIJ's equity method investees include the followings: Chairman and Representative Director of JOCDN Inc., President and Representative Director of Internet Multifeed Co. as well as Trinity Inc. and part-time Director of DeCurret Inc.
6. NIPPON TELEGRAPH AND TELEPHONE CORPORATION files an Annual Securities Report.

5 Employees

(1) Consolidated basis

The number of employees by segment is as follows.

As of March 31, 2019

Name of segment	Number of Employees
Engineering	2,383 (22)
Sales	559 (2)
Administration	411 (25)
Total	3,353 (49)

* The number of employees indicates the total number of full-time and contract workers. It does not include third-party employees working at IIJ. The average number of part-time employees for the full fiscal year is shown in brackets.

** The Company has two business segments: a “network services and systems integration business segment” and an “ATM operation business segment.” The number of employees engaged in the “ATM operation business segment” are as shown in the below table. The remaining employees are engaged in the “Network services and systems integration business segment.”

＜Breakdown of employees engaged in ATM operation business segment＞

Name of segment	Number of Employees
Engineering	4 (－)
Sales	5 (－)
Administration	2 (－)
Total	11 (－)

(2) IIJ (non-consolidated basis)

As of March 31, 2019

Number of Employees	Average Age	Average Years of Service	Average Yearly Salary (Thousands of Yen)
1,995 (28)	37.6	8.5	6,698.4

* The number of employees indicates the total number of full-time and contract workers. It does not include third-party employees working at IIJ. The average number of part-time employees for the full fiscal year is shown in brackets.

** The average yearly salary is calculated for full-time and contract workers and includes bonuses and non-standard wages.

*** One of IIJ’s employees has been assigned to Trust Networks Inc. (“Trust Networks”) and engages in the “ATM operation business segment.” Other employees are engaged in the “Network services and systems integration business segment.”

(3) Labor Union

There has not been a labor union established at IIJ Group. IIJ Group has never experienced any labor disputes and considers labor relations to be on good terms.

Item 2. Business Overview

1. Management Policy, Business Environment and Challenges

This annual securities report contains forward-looking statements that are based on our expectations, assumptions, estimates and projections as of March 31, 2019.

(1) Business Philosophy

IIJ Group business philosophy is as follows:

1. We commit ourselves to continuously taking initiatives in the field of Internet technology to open up unlimited possibility of a network society
2. We commit ourselves to providing IT services that support a network society by striving to develop and introduce highly reliable and value-added IT services
3. We commit ourselves to providing a work environment that promotes diversity of talents and value so that our staff can enthusiastically strive for technological innovations and social contribution in a way that brings them pride and fulfilment

By operating our business according to these business philosophy, we are working continuously to expand our corporate value, as well as fulfill our corporate social responsibility.

(2) Business Indicators

We operate our business by paying attention to revenue composition, profitability and financial solvency. We strive to improve profitability by managing revenue growth, cost of revenue, SG&A and capex, as well as by controlling each business and service profitability with monitoring indicators such as annual revenue growth rate, gross margin ratio, operating margin, return on equity and others .

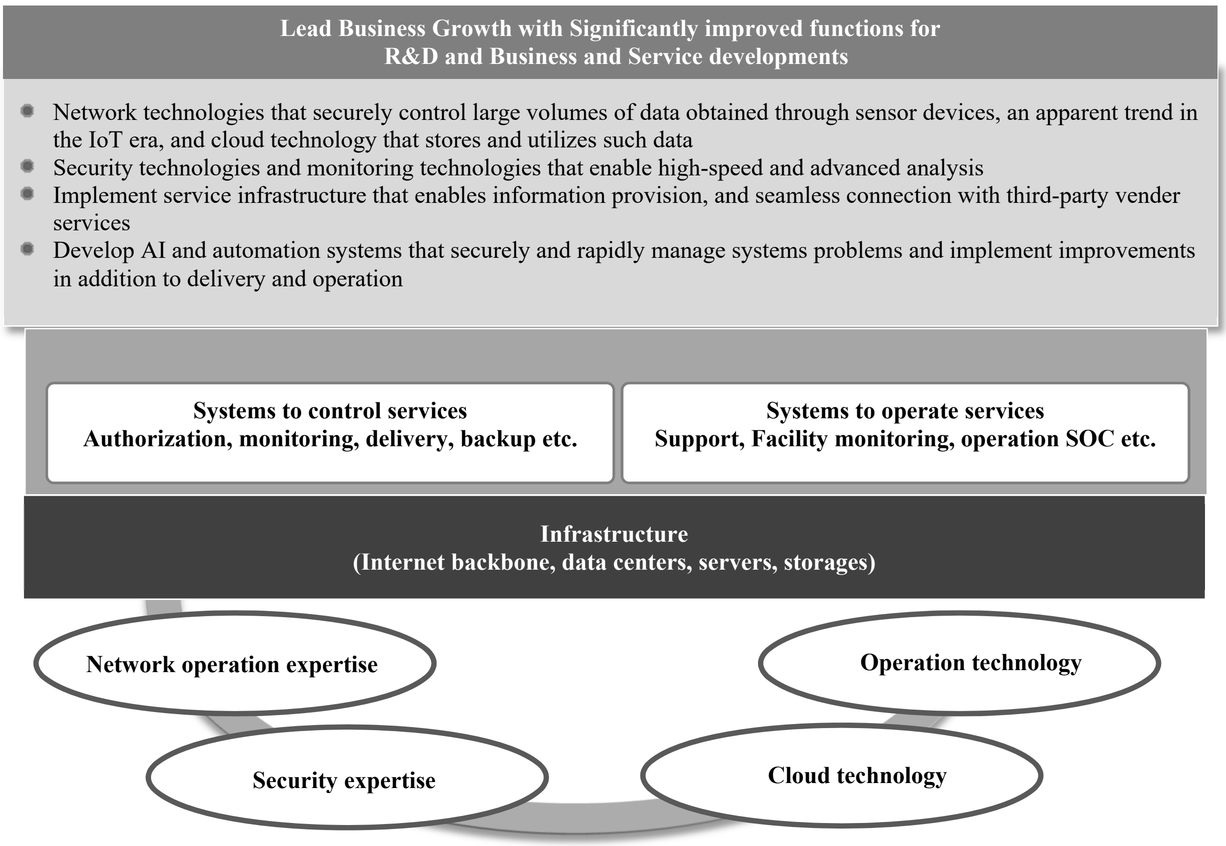
(3) Medium Term Plan

IIJ Group is involved in the ICT(*)-related market, which has a competitive landscape that is expected to intensify, yet also brings very large market opportunities in the midium to long term. The market is expected to experience changes in enterprise information systems, including the spread of cloud computing, the expansion of ICT usage in business activities as represented by BigData and IoT (*), increasing demand for security-related services as a result of information leakage, as well as expansion of the consumer MVNO market.

Under such an environment, we have established the medium term plan (from the fiscal year ended March 31, 2017 to the fiscal year ending March 31, 2021) to achieve significant business growth. Following is a summary of the plan.

< Business Vision >

- Operate one of the largest networks and server infrastructures in Japan, through which we offer highly reliable and value-added services to provide the comprehensive IT environments required for the acitivities of enterprises.
- Exert our competitive advantage continuously with aggressive technology developments and advanced operating skills.
- Challenge new business areas by leveraging long and rich experience of developing Internet related technology.
- Achieve sustainable business growth over the long term through above activities.



< Business Performance Targets >

- Aim to achieve approximately JPY220 billion of total revenue in FY2020
- Aim to exceed JPY10 billion of operating profit and continuously maintain double-digit annual operating profit growth rate by expanding gross margin along with revenue growth.

<Business Strategies>

- Provide our core services, "network cloud services" and "system cloud services", comprehensively as total solutions for enterprise customers, adding systems integration functions. Then, capture the trends indicating a shift from conventional transactions, such as on-premise systems, to IT services and outsourcing. Focus on indirect sales, in addition to the current direct sales, in order to expand sales force.
- Continue to focus on our advantageous businesses, such as MVNO and security.
  - MVNO business: along with market expansion, aim to increase subscriptions and enjoy economies of scale by taking advantage of new demand for M2M and IoT by enterprises, enhancing direct and indirect sales channels for consumers and significantly expanding the MVNE business.
  - Security business for enterprise customers: establish Security Operation Center (SOC) business in addition to our security services line-ups. Pursue security service opportunities that meet the needs of each industry, as well as the home.
- Focus on new areas, such as the content distribution business for 4K transmission, the M2M/IoT related business, further new development of overseas businesses and the health care business, in order to achieve sustainable growth.

(4) Issues that IIJ Group Faces

We recognize that there are various issues related to our business growth, including the following. For our growth, it is important to continuously develop services and businesses, as well as to expand our ICT service line-ups, in a timely and appropriate manner that meets the demands of enterprises. Stronger cooperation between engineering and sales divisions is indispensable to realize this. To support our business growth, it is important to hire talented human resources, as well as develop their skills continuously. We shall also continue to effectively manage business investment to improve our margin, as well as revenue growth.

We recognize that our profit level reflects our business model tendency of having upfront cost as we continuously make business investments in pursuit of business growth, and new services generally require some time to achieve adequate revenue volume. As for the fiscal year ended March 31, 2019, we had an increase of fixed costs in relation to the launch of full-MVNO services at the end of the fiscal year ended March 31, 2018. During the fiscal year ended March 31, 2019, strong network services revenue accumulation and systems integration gross margin ratio improvement contributed to stronger than expected income growth; however, due to NTT Docomo's unit price revision being much smaller than the past results, which is usually fixed in March every year for mobile data communications, regrettably, income for the fiscal year ended March 31, 2019 decreased.

As for the fiscal year ending March 31, 2020, we aim to improve income through a mobile income rebound effect from full-MVNO services' revenue accumulation, as well as continuous expansion of gross margin from systems integration. In the medium to-long term, along with IoT penetration, we are aiming for revenue growth and income expansion by differentiating ourselves with comprehensive mobile service offerings for enterprises, cloud computing services, security-related services, systems integration and other network services. As for mobile-related services' profitability, we aim to accumulate more mobile traffic from enterprises, as well as revenue, and improve the network utilization rate by achieving more balanced traffic mixture between enterprises and consumers, whose traffic patterns differ.

2 Risk Factors

Below are the main factors that could impact IIJ Group's results of operations and financial condition as well as investors' decision making. Unless otherwise stated, the forward-looking statements described below are based on our expectations, assumptions, estimates and projections as of this document's filing date. As the statements include uncertainties, actual results may differ from those contained or suggested herein.

We have adopted IFRS from the filing of this document. Please refer to "PART 1. Information on the Company, Item 2. Business Overview, 2. Risk Factors, 8. Other risks, (2) Consolidated financial statements in accordance with IFRS" for details about our IFRS adoption.

1. Risks regarding IIJ Group Business Developments

(1) Risks regarding business developments

Our business is principally conducted in Japan and most of our revenues are from customers operating in Japan. For the fiscal year ended March 31, 2019, approximately 96% of our total revenues were from customers operating in Japan. If the Japanese economy deteriorates and that results in lower levels of network and systems related investment and expenditures, customers may respond to such conditions by prioritizing low prices over quality. We may experience severe price reduction pressure and/or cancellation of large accounts. Systems integration in particular tends to be very sensitive to the economic situation in Japan as well as demands for IT investments. We may not be able to maintain our current level of revenues and income and/or achieve our expected levels of revenues and income and so be unable to pay target cash dividends if customers' demand does not expand as expected due, for example, to the economic situation or decreases in investment appetite, or if we fail to differentiate ourselves over service quality, or fail to keep up with rapidly changing market trends which could lead to price competition and cancellation of contracts.

Our basic strategy is to provide reliable and value-added enterprise network services and systems integration together to mainly enterprises and central government agencies that use networks for their business by leveraging our technology related to Internet. We may not be able to exercise our business strategies according to plan if we fail to maintain our competitive technological advantage or develop and provide network services or systems integration that differentiates us from competitors.

Costs of enterprise network services mostly consist of circuit costs, depreciation costs, personnel costs, outsourcing costs, and office rent costs, which are not directly linked to revenue fluctuations. These costs tend to increase gradually along with new service development, facility expansion, or employee increase. We may not be able to cover an increase in network costs if we experience cancellations (whole or partial) or severe pricing pressure for our enterprise network services as well as systems operation and maintenance, which are recurring services, by clients, especially large clients, or if revenue does not increase as planned.

Costs of cloud computing services of which is recognized as systems operation and maintenance is mostly consisted of depreciation costs, license costs, personnel costs, outsourcing costs, and office rent costs. These upfront costs tend to increase due to expansions of service facilities, new service developments, and increases in personnel. We may not be able to cover an increase in costs if we fail to accumulate cloud computing service revenues as planned or if we experience cancellations (whole or partial) or severe pricing pressure.

As for consumer network services, compared to enterprise network services, its market trends rapidly change and revenue and income volatility tends to be large. Due to our limited brand recognition among consumers, we leverage indirect sales channels such as sales partners and MVNE through which we provide our services to other MVNOs to grow consumer mobile services. We may not be able to maintain or expand our revenue and operating profit according to plan if the MVNO market does not expand as much as expected, if expansion takes time, if we fail to acquire customers according to our plan, if we are forced to lower our prices due to competition, if the number of our sales partners and MVNE clients as well as their business transactions do not increase but decrease, if our creditability is damaged due to service problems, if we are faced with greater than expected amount of communication service costs such as interconnectivity charge and data communication charges and depreciation costs in order to maintain service quality, or if the unit price of interconnectivity charges by mobile carriers for mobile infrastructure does not decrease as much as expected and thus creates a gap between our estimates and the actual results.

As for SG&A expenses, depending on the business situation, personnel-related expenses, office rent expenses, sales commission expenses, advertising expenses and others could increase more than expected.

(2) Risks regarding business investments

We have been aggressively investing in new businesses, services and solution developments to further grow our business over the medium to long term. Such investments include an increase in human resources, acquisition of network equipment and capital expenditures including software development. As for the number of employees, we had 3,203 and 3,353 employees as of March 31, 2018 and 2019 respectively. The number of employees increased by 99 and 150 in the fiscal years ended March 31, 2018 and 2019 respectively. Capital expenditures, including assets acquired by finance leases, for the fiscal years ended March 31, 2018 and 2019 were JPY20,744 million and JPY15,083 million respectively. Depreciation and amortization for property and equipment for the fiscal years ended March 2018 and 2019 were JPY13,412 million and JPY15,629 million respectively.

We started providing cloud services from December 2009 and have been continuously investing in data centers, servers, storage, network equipment, and software in order to meet customers' demand, as well as to continuously enhance service functions. Along with our investment, costs such as depreciation and amortization have been increasing as uprfront costs. Revenues for our cloud computing services for the fiscal years ended March 31, 2018 and 2019 were JPY17.9 billion and JPY20.1 billion, respectively. Capital expenditures related to domestic cloud computing services were JPY7.9 billion and JPY2.2 billion for the fiscal years ended March 31, 2018 and 2019 respectively.

In order to meet housing needs, including cloud computing service facilities that are expected to grow along with business expansion, as well as to integrate service facilities currently spread out across eastern Japan, we constructed our own system module type data center in Shiroi City, Chiba Prefecture and started operating its first phase data center facility from May 2019. Capital expenditures related to this data center were JPY1.2 billion and JPY2.1 billion for the fiscal years ended March 31, 2018 and 2019, respectively.

We have been providing mobile services to both enterprises and consumers from January 2008 by purchasing mobile network infrastructure mainly from NTT Docomo, as an MVNO. The total (sum of enterprise and consumer) mobile services revenues for the fiscal years ended March 31, 2018 and 2019 were JPY35.3 billion and JPY42.0 billion respectively. The total number of mobile service subscription was approximately 2.35 million and 2.75 million as of March 31, 2018 and March 31, 2019 respectively. Along with mobile services revenue growth and subscription growth, we need to increase the contracted mobile bandwidth we purchase from NTT Docomo and others. Also, our sales commissions for sales partners and advertising expenses have increased. Along with our service launch of full MVNO services in March 2018, fixed cost for our network services increased by approximately JPY0.1 billion per month, consisting mainly of depreciation costs for our Home Location Register (HLR) and Home Subscriber Server (HSS) systems, and the accumulation of monthly payments to NTT Docomo for network remodeling. Full MVNO service revenues for the fiscal year ended March 31, 2019 were JPY0.66 billion and revenue has been accumulating. However, cost accumulation is greater than revenue accumulation.

We have been enhancing our overseas business developments such as network services including cloud services and systems integration to meet mainly network and systems demands of Japanese companies heading overseas to seek business opportunities. As of the filing of this document, we have 10 overseas consolidated subsidiaries and two overseas equity method investees. In addition to the existing subsidiaries in Singapore, Thailand, China, Hong Kong, Indonesia and Vietnam, we may obtain more subsidiaries by establishing new companies and/or by co-working with local companies to seek greater business opportunities, as the need for IT is stronger in these regions compared to the United States and Europe. Our overseas business is smaller than our domestic business. Overseas business revenues for the fiscal years ended March 31, 2018 and 2019 were JPY6.2 billion and JPY7.7 billion, respectively. As for income, operating profit was JPY0.04 billion and JPY0.09 billion for the fiscal years ended March 31, 2018 and 2019, respectively. IIJ and IIJ-Global together had injected capital of JPY4,498 million into our overseas consolidated subsidiaries and equity method investees by the fiscal year ended March 31, 2019. Also, as of March 31, 2019, IIJ and IIJ-Global together had lent a total of JPY315 million to five of our overseas consolidated subsidiaries. We may establish overseas subsidiaries in other regions and add overseas offices by working together with local companies. The overseas business, compared to the domestic business, is exposed to various uncertainties including regulatory, economic, religious, cultural, geopolitical, and diplomatic risks. Although we strive to comply with the necessary regulations, failure to comply with foreign regulations such as the U.S. FCPA or failure to appropriately comply with local regulations due to inadequate internal control could impose a negative impact on our business.

Our consolidated subsidiary, Trust Networks Inc., is in charge of ATM operation business, which operates bank ATMs and the related network systems and receives a commission for each bank withdrawal transaction. Along with ATM placement, we continuously acquire ATMs as written in “PART 1. Information on the Company, Item 2. Business Overview, 2. Risk Factors, 3.Risk regarding our group operation (2) Risks regarding group management.”

(3) Risks regarding dependency on third-party vendors for telecommunications, network equipment and service facilities

We rely on telecommunications carriers such as NTT Communications and KDDI for our network backbone, NTT East, NTT West, and KDDI for local access lines for customers; and NTT Docomo and KDDI for mobile connectivity as an MVNO. We procure a significant portion of our network backbone and data center facilities pursuant to operating lease agreements with NTT Group, our largest provider of network infrastructure. For the fiscal year ended March 31, 2019, 49.5% of our domestic backbone cost was through NTT Communications and most of our mobile connectivity was through NTT Docomo.

We depend on third-party suppliers for the purchase of our network equipment, such as routers to be used for our network, mainly from certain U.S. companies. While we do not currently have any significant business concerns over the equipment we procure from third-party vendors, if there arises any concernes such as security-related issue which make us difficult to use them, we may need to procure substitute equipment.

We lease most of our service facilities, such as data centers and office facilities, from third-party vendors. If costs of electricity suddenly increase and we are unable to renegotiate price increases with data center owners, if we fail to pass such price increases on to our customers, or if the supply of electricity becomes unstable or inadequate, we may be forced to pay additional costs to acquire electricity.

Although no such incident has occured, if suppliers of telecommunication lines, network equipment, and service facilities for which we depend on third-party vendors are faced with supply difficulties or fail to deliver within an appropriate period of time, we may experience service interruptions for long hours, or we may not be able to provide services. In such a case, our results of operations and our financial condition could be negatively impacted.

(4) Risks regarding service reliability

① Risks regarding maintaining service quality and execution of appropriate operation

In order to maintain and improve the quality of our service offerings, we may need to increase investment in servers, network equipment, and software, or increase leasing volume of data communications, as well as infrastructure, beyond expectations. Although we believe we have been appropriately managing our service facilities, if we fail to appropriately manage our service facilities, leading to deterioration of service quality, or fail to differentiate our services from competitors, or if we need to make greater facility investment than expected or if we invest excessively, our results of operations and our financial condition may be adversely impacted.

② Risks regarding service interruption

Interruptions, errors, or delays with respect to our backbone network or service facilitates may be caused by natural factors such as fires and earthquakes, power shortages, power losses or interruptions, errors or delays with carriers’ service facilities, or terrorism, which are beyond our control. Although we implement necessary measures to avoid serious security incidents, we may be prevented from providing our services due to cyber-attacks, computer viruses, human error, or unintentional or intentional interruption by Internet users. Our backbone and service facilities are designed with fault tolerance; however, if we damage our creditability or business opportunities due to failure to continuously provide services, our results of operations or financial condition may be adversely impacted.

③ Risks regarding management of confidential customer information

We store and manage confidential information related to mobile services and trade secrets obtained from customers in Japan and abroad. We pay attention to protecting the confidentiality of such information and take steps to ensure the security of our network, in accordance with the guidelines regulated by the Ministry of Internal Affairs and Communications as well as the Ministry of Economy, Trade, and Industry. If unauthorized access, human operation error, leakage, loss, alteration, or unauthorized utilization of customer information take place and if we fail to appropriately respond to such issues which would lead to a deterioration in our creditability or compensation for damages, our results of operations and our financial condition could be adversely impacted. There is a new regulation governing data protection in the European Union called the General Data Protection Regulation (GDPR) which became effective in the European Union on May 25, 2018. Our consolidated subsidiary, IIJ Europe Limited, submitted its Biding Corporate Rules, internal rules defining the global policy regarding personal data protection within the IIJ Group, to the office of the UK's Information Commissioner and has been working to receive approval. If we fail to comply with the GDPR unintentionally and are asked to pay a penalty, then this could ultimately result in an adverse effect on our business, financial condition and results of operations.

(5) Risks regarding technological innovations

The telecommunications market, including the Internet, is characterized by rapidly changing technology, industry standards, customer needs, and competitive landscape regarding the frequent introduction of new products and new services. Under such conditions, our existing services may become less appealing. Although we focus on technology research and development to keep a competitive technological advantage, if we fail to obtain access to new or important technologies or to develop and introduce new services and enhancements that are compatible with changing industry technologies, standards, and customer requirements, or if more time and expenses are needed for research and development activities, our financial condition and results of operations could be negatively impacted.

2. Risks regarding market condition

(1) Risks regarding price competitions

Pricing competition for network services, as well as systems integration, is severe. Thus, competitors enhance service development and marketing. If price competition becomes more extreme, revenue for network services and systems integration may not increase according to plan, profitability could deteriorate, or we may incur large costs or expenses. In such a case, our results of operations as well as financial condition could be adversely impacted.

(2) Risks regarding network-related costs, etc.

Network-related costs mostly consist of fixed type costs, such as circuit-related costs of backbone, network equipment-related costs, network operation costs for network operation centers, and personnel-related costs to conduct network operation. Volatility of these costs may impact our financial situation and results of operations negatively. If we experience rapid expansion of Internet traffic, if circuit-related costs increase due to an increase in unit price for backbone network, if we are required to procure a greater than expected volume of network capacity, if we fail to procure the necessary network capacity, or if we contract more network capacity than we actually require to service our customers, our financials and results of operations may be adversely impacted. Payment for international circuit and network equipment is made with foreign currency and Japanese yen-based payment is based on foreign currency.

In order to provide mobile services, we lease mobile infrastructure from mobile carriers such as NTT Docomo. We pay them interconnectivity fees, a wholesale telecommunication service charge, calculated based on the "Telecommunications Business Law" and the "Interconnection Rules for Category II Designated Telecommunications Facilities," which are both administrated by the Ministry of Internal Affairs and Communications, multiplied by our leasing mobile bandwidth. The unit price of wholesale telecommunication service charge is revised annually. The unit price used for the fiscal years ended March 31, 2018 and 2019, decreased by 5.0% year over year based on NTT Docomo's mobile data communication infrastructure volume and related costs for the fiscal year ended March 31, 2018, and was fixed in March 2019 (the unit price revised in March 2018 was a decrease of 18.2% year over year). Due to the procedure described above, we need to apply our own estimated charge based on past results and others until the charge is finalized, generally in March. If there is a gap between our estimated charge decrease rate and actual revised charge decrease rate, we will record such gap as cost fluctuation. How much we pay to mobile carriers is continuously increasing along with increases in subscriptions and mobile traffic. Our results of operations could be impacted if the unit price increases or does not decrease as much as expected or if we are required to lease greater than expected mobile bandwidth.

(3) Risks regarding outsourcing resources

We use outsourced personnel. If the unit price of outsourced personnel increases, if we fail to appropriately manage outsourcing resources, if we fail to accumulate adequate revenue volumes to meet outsourcing costs, or if we fail to procure the necessary volume of outsourcing resources, our financial situation and results of operations may be negatively impacted.

(4) Risks regarding competition

The major competitors of our network services are major telecommunications carriers such as NTT Communications, KDDI Corporation and their affiliates. The major competitors of our systems integration business are system integrators such as NEC Corporation, Fujitsu Limited, NTT Data Corporation and their affiliates. Our competitors have advantages over us, including, but not limited to, substantially greater financial resources, larger pools of technology human resources, higher brand recognition, and larger customer bases. Our competitors may be better able to sustain downward pricing pressure, provide services that IIJ does not offer, and pursue competitive M&A transactions. The sales strategy and pricing strategy of our competitors may impact the market our group belongs to, and if we fail to effectively differentiate ourselves from competitors and fail to execute our business strategy as planned, our financial results and financial condition may be negatively impacted.

The major competitors of our cloud computing services are the companies listed above as well as global players such as Amazon Web Services, Inc. and MICROSOFT CORPORATION. These competitors may put additional business resources into cloud services and outsourcing related businesses. If we fail to successfully differentiate our services and solutions from those of our competitors, we may not be able to achieve expected future revenue and income, or we may not recoup our investment in cloud computing services, which may adversely affect our financial condition and results of operations.

The major competitors of our mobile services including MVNE and the consumer mobile business, are mobile carriers such as NTT Docomo, KDDI, Softbank Group Corp., their affiliates as well as MVNOs. Many of these competitors have higher brand recognition among consumers and greater financial resources, which enables them to implement more extensive and well-developed marketing and low-price strategies. Competition, including with new competitors entering the market, may become tougher. Under such circumstances, a failure to differentiate our services from those of competitors could impact our results of operations and our financial condition negatively.

Our group competitive landscape with NTT Group is discussed in later sections of this document under "PART 1. Information on the Company, Item 2. Business Overview, 2. Risk Factors, 4. Risks regarding relationships with NTT Group, (4) Competition against NTT Group."

3. Risk regarding our group operation

(1) Risks regarding acquiring human resources

The expertise of each group company's management including Mr. Koichi Suzuki, who is Chairman, Chief Executive Officer, and representative director of IIJ, and Mr. Eijiro Katsu, who is President, Chief Operating Officer, and representative director of IIJ, is very important in executing business. Also, reliable service offering depends on the continuous contributions of our engineers and other staff. The number of employees and personnel-related expenses have been increasing along with our business expansion. We need to procure the appropriate number of engineering, sales and business planning and administrative personnel at the appropriate timing. If we fail to acquire or retain the members of management or staff needed for business, if we fail to appropriately control personnel-related expenses due, for example, to greater than necessary recruitment, or personnel-related expenses increase more than expected due to the labor market climate, as well as regulation changes, our results of operations and financial condition may adversely impacted.

(2) Risks regarding group management

We aim to operate by bringing consolidated subsidiaries as well as equity method investees closer to create group synergy. In order to create close business relationships, our group directors and employees take concurrent positions as group company directors, and we also send employees to our group companies. As of this document's filing date, we have 16 consolidated subsidiaries and eight equity method investees. Profit and loss of each consolidated subsidiary's financial results are consolidated into our group consolidated financial statements, and each equity method investee's financial results are recorded as share of profit (loss) of investments accounted for using the equity method. Due to each company's business situation, the investment value of subsidiaries and associates held by us can fluctuate. If profit and loss of our subsidiaries and associates is unfavorable, or volume of loss is significant, our results of operations and our financial condition may be adversely impacted.

IIJ's substantial investment in Crosswave, IIJ's former equity method investee, became worthless due to Crosswave's commencement of corporate reorganization proceedings in August 2003. As a result of this, we recorded losses on, equity in net loss of Crosswave, investment, restraint deposit and loan, of JPY12,667 million and JPY1,720 million for the fiscal years ended March 31, 2003 and 2004, respectively.

We bought IIJ Global, which mainly provides WAN services, from AT&T Japan LLC for JPY9,170 million and made it our consolidated subsidiary in October 2010. For the fiscal years ended March 31, 2018 and 2019, IIJ Global had JPY28,985 million and JPY30,073 million in revenues, respectively, and JPY472 million and JPY713 million in operating profit, respectively. Intangible assets as of March 31, 2019 related to IIJ Global were JPY3,545 million. If IIJ Global fails to accumulate expected future revenue and profit and is concluded to be lacking in value compared to its goodwill and intangible assets, we may incur an impairment loss on such assets.

Trust Networks Inc., our consolidated subsidiary established in July 2007, operates bank ATMs and related network systems and receives a commission for each bank withdrawal transaction. As of the filing date of this document, we have invested a total of JPY2,575 million (ownership 79.5%). ATM operation business segment revenue was JPY4,031 million and JPY4,151 million and operating profit was JPY1,510 million and JPY1,622 million for the fiscal years ended Mach 31, 2018 and 2019 respectively. Business operation might be difficult for Trust Network if the number of ATMs or users decreases, if the number of ATM transactions decreases, mainly due to a decrease in user appetite, or if it fails to maintain favorable relationships with related parties.

In December 2016, we established JOCDN Inc., which provides CDN services as a joint venture, by investing JPY99 million (IIJ ownership 50%).

In January 2018, we established DeCurret Inc., which provides cryptocurrency exchange and settlement services as a joint venture, by investing JPY1,830 million (IIJ ownership 35%).

In order to continuously maintain or enhance group synergy, we may increase our ownership of group companies, provide financial support, give guarantees, or reorganize group structure. We may seek to establish new group companies or execute capital participation to launch new businesses. We may seek out capital transactions, including M&As, in order to expand our scale of business, customer base, and service line-ups. We may need to engage in capital funding or issue ordinary shares to execute capital strategies.

As for equity method investees over which we do not have total control, if their business strategies becomes different from ours and our consolidated subsidiaries, our business interests may differ from theirs. Thus, we may not be able to pursue group synergy.

4. Risks regarding relationships with NTT Group

(1) History behind NTT and NTT Communications capital injection

Our capital transactions with NTT and NTT Communications include NTT participation in rights offerings to enhance our capital structure in January 1996, establishment of Internet Multifeed with NTT in September 1997 (later, the shareholder became NTT Communications due to reorganization of NTT Group), and third-party allotment, mainly NTT and NTT Communications, in September 2003 in order to offset the commencement of corporate reorganization proceedings of Crosswave, our former equity method investee. NTT is our “other related company” and as of March 31, 2019. NTT and NTT Communications together own 26.9% of our voting rights.

(2) Human relationship with NTT Group

As of this document’s filing date, our board of directors consists of 13 directors, including five outside directors, among whom Shinobu Umino worked for NTT. Mr. Umino is responsible for monitoring our business execution as our outside director, and there is no arrangement or business interest such as capital or business transactions, for him to work as our outside director.

(3) Business relationship with NTT Group

We use services provided by NTT East and West for a significant portion of access circuits, services provided by NTT Communications for a significant portion of IIJ’s domestic and international backbone circuits, and services provided by NTT Docomo for a significant portion of mobile communication lines and facilities to provide Internet connectivity services and other services to our customers. For the fiscal year ended March 31, 2019, the aggregated amount paid for these services was JPY34,082 million.

We have lease transactions with lease companies to procure facilities and as of March 31, 2019, we had JPY3,026 million of lease obligations with NTT Finance Inc.

The business relationship with NTT Group is within the ordinary course of business. There is no special arrangement due to NTT ownership of us.

(4) Competition against NTT Group

Within NTT Group, there are NTT Communications, NTT Docomo, NTT Data, NTT Security, NTT PC Communications and NTT plala, which provide network services as well as system integration services similar to ours.

While we recognize that our business may compete against these NTT Group companies for some projects, we operate our business independently from NTT Group, and there is no negotiation of any kind when it comes to competition against NTT Group.

5. Risks regarding results of operations

(1) Volatility of operating results

Volume and timing of revenue and operating profit recognition depend on the economic situation in Japan; Japanese companies' appetite for IT; the revenue accumulation status of network services revenue, which is recurring revenue; the number of systems integration projects and their profitability; profitability of cloud computing services and mobile services; overseas business developments; trends in the network-related costs for network services; differences between the actual and estimated rate of decrease in regard to unit price for mobile interconnectivity charges; trends in depreciation and amortization; absence and/or volume of impairment on tangible assets, goodwill, and intangible assets; and impact from capital transactions including M&As. Volume and timing of profit before tax and recognition of profit attributable to owners of the parent are related to the volume of finance income and finance costs, fluctuations in share of profit (loss) of investment accounted for using the equity method related to equity method investees, recognition of income tax expense including tax effect, and profit (loss) attributable to non-controlling interests, in addition to fluctuations in operating profit. Therefore, our annual, semi-annual, and quarterly financial results may not work as guidelines for future earnings outlook.

Our financial results may differ from disclosed financial targets not only due to risk factors but also other factors. In fact, we timely revised and announced our disclosed financial targets downward for the fiscal years ended March 31, 2014, 2015, and 2017. Investments and increases in cost for development of new services and businesses could impose volatility on results of operations as the corresponding revenue volume and timing are difficult to predict and easy to change.

We disclosed our medium-term plan for the period from the fiscal year ended March 31, 2017 to the fiscal year ending March 31, 2021 in our earnings results for the fiscal year ended March 31, 2016. The financial targets of the medium-term plan were made, not based on accumulating each revenue line or operating cost item, but rather based on our expectation at the time of plan creation. Therefore, we may not be able to realize the plan due, for example, to changes in markets and economic or competitive situations. On February 7, 2019, we made partial amendments to the plan, which were disclosed in our nine months earnings release for the fiscal year ended March 31, 2019.

(2) Systems integration

Revenue for systems integration is comprised of one-time revenue for systems construction, which includes equipment sales, and recurring revenue for systems operation and maintenance. Generally speaking, transactions regarding systems integration and equipment sales are heavily concentrated at the end of March, which is a fiscal year-end month for many Japanese companies. Fluctuations in our quarterly revenue and profit heavily relate to systems integration, and the volume of revenue and profit tend to be the largest in the fourth quarter. Our results of operations, financial condition, and fluctuations of these may be impacted by our ability and the timing of when we recognize revenue and profit of systems integration, especially for the revenue recognition timing and profitability of large systems integration projects.

While we can expect to record recurring revenue for systems operation and maintenance, revenue and profitability of systems integration could fluctuate due, for example, to the number of new construction projects, as well as the terms and conditions of systems operation and maintenance contracts when renewed. The hardware portion of systems construction revenue may be replaced with cloud computing service along with the general trend of migration to cloud computing service-based systems from on-premise systems, which could cause our revenue volume to fluctuate. Large systems construction projects tend to require a longer time to completion, which is when revenue is recognized, and require more precise project management. Also, large construction projects tend to have lower profitability as competitive pricing is required to receive orders. Projects could become unprofitable if we fail to appropriately execute project management due, for example, to system problems, changes in system requirements, or unexpected utilization of engineers. We use outsourced personnel for systems integration. If the unit price for outsourced personnel increases, if we fail to manage outsourced resources, or if we fail to recognize adequate revenue to meet outsourcing costs, this could lead to failure to achieve appropriate profit levels and/or projects could become unprofitable. In these cases our results of operations and financial condition could be adversely affected. If we fail to appropriately procure the engineers or personnel, including outsourced resources assigned for software development, needed to complete systems integration projects, the revenue recognition timing may be delayed or orders may be cancelled. Also, if we fail to appropriately manage clients' data, we may be sued.

(3) Recognition of impairment loss on tangible assets, goodwill, and intangible assets

We own network equipment; severs; construction, such as data centers; and assets such as software related to business mainly for network services and systems integration as well as back office systems and office facilities. We conduct impairment testing on these tangible and intangible assets if significant changes in business circumstances indicate that these may be recorded as impairment losses.

We may record intangible assets such as goodwill and assets related to customer relationships on our consolidated balance sheets through capital transactions such as M&As. As of March 31, 2019, the total balance of our goodwill on our consolidated balance sheets was JPY6,082 million. The intangible assets that are subject to amortization such as customer relationships was JPY2,316 million. On our consolidated balance sheets as of March 31, 2019, intangible assets in relation to IIJ-Global and IIJ Technology Inc. ("IIJ-Tech"), a former subsidiary of IIJ which was merged in April 2010, were JPY1,257 million and JPY1,058 million, respectively. We conduct impairment testing on goodwill and intangible assets if significant changes in business circumstances indicate that they may be impaired.

(4) M&As

We recognize that it is important for us to have more resources such as but not limited to, human resources, customers, application layer technology, and overseas business foundations, as well as to create synergistic effects to increase the scale of our business. The mergers and acquisitions transactions may not always be on good terms and conditions, bear the results we expect, or have synergistic effects. We may incur a large loss of goodwill and exhaust time and our resources through mergers and acquisitions.

(5) Fluctuations of value on holding investment securities

We invest in non-affiliated companies in order to further enhance our business relationships, in available-for-sale equity securities for fund management, and in funds which invest mainly in unlisted stocks. The breakdown of our investment securities held recorded on our consolidated balance sheets as of March 31, 2019 was JPY7,619 million of available-for-sale securities, JPY1,379 million of nonmarketable equity securities, and JPY2,199 million of investments in funds. We may continue to acquire new investment securities. The value of our investment securities held fluctuates due, for example, to market value, as well as business situation. The fluctuation of such fair value is recognized as either comprehensive income (loss) or profit (loss). As for available-for-sale-equities held, their fair values are measured as equity instruments through other comprehensive income, unrealized profit (loss) of holding available-for-sale-equities due to fluctuation of fair value or realized profit (loss) (post-tax effect) due to a sale that will not be recognized as profit (loss) on the consolidated statement of profit and loss. It is not certain that we will be able to sell our investment securities held on favorable terms. Our results of operations and financial condition may be adversely impacted by the price of such investment securities sold, as well as the timing

6. Risks regarding regulations

(1) The Telecommunications Business Act

IIJ, as well as some IIJ Group companies, completed of telecommunication business notifications to the Ministry of Internal Affairs and Communications (MIC) and operates in accordance with the Telecommunications Business Act. If we are said to have failed to protect the privacy of communications within our business operation or to have improper business operation procedures, that could cause the Minister for Internal Affairs and Communications to order us to improve such business operation procedures.

As IIJ is a notified telecommunication business operator, compared to those operators who need to register with the MIC, supervision is relatively lax. However, the Telecommunications Business Act specofies that an operator that is designated by the Minister for Internal Affairs and Communications that provides reliable services to citizens may be given similar regulations to those required of registered telecommunications carriers. As of now, IIJ is not designated; however, the possibility of becoming designated in the near future has been increasing. After being designated, stronger supervision by regulators is expected, and if we fail to appropriately execute business matters, we could be ordered to improve our methods.

Additionally, user protection measures have been enhanced by the Telecommunications Business Act. For example, stricter accountability for business operators and their sales partners, telecommunications carriers and their sales partners, and elecommunications persons, subject to such enhancement includes enhancement of accountability, introduction of an initial cancellation system, and introduction of the obligation for to observe sales partners' operation. If we or our sales partners are said to have improper business operations, we may be asked to take measures to improve them.

(2) Regulations related to businesses

A number of regulations related to Internet already exist. However, arguments on the need for stricter regulations, including enhancement of measures against illegal and harmful information trading over Internet, stricter user identification, and protection of youth, have continuously been made. A regulation could be made requiring telecommunications operators to impose counter measures. Depending on such requirement, a large amount of cost or facility investment could be necessary to comply.

As Internet usage becomes diversified and related players become more complex, there have been cases where interpretation of privacy of communications, which is based on the existing regulations of copyrights, imposes difficulties when trying to prevent infringement of the rights of third-party vendors. We may fail to appropriately implement counter measures related to these issues and damage our creditability, or clients could stop making new investments as our understanding of regulations is unclear.

Along with an increase in number of subscribers for our consumer services, our business areas required to meet consumer protection-related regulations are increasing. If we or sales partners fail to comply, our results of operations and financial condition could be adversely impacted because of fines from regulators, demands for legal responsibility, or damage to corporate image. Moreover, if regulations related to our business are newly enacted or enforced more strongly, flexibility and promptness in our business execution may be weakened.

(3) Foreign regulations

We have affiliated companies both in Japan and overseas. Although we strive to comply with each foreign country's regulations, there are cases in which such compliance requirements are not limited within such country's domain, but rather apply to the entire entity. For example, if we fail to comply with the U.S. Foreign Corrupt Practices Act ("FCPA") and GDPR of EU, we could be ordered to pay fines as a penalty. For more on this matter, please also refer to "PART 1. Information on the Company, Item 2. Business Overview, 2. Risk Factors, 1. Risks regarding IIJ Group Business Developments, (2) Risks regarding business investments" as well as "PART 1. Information on the Company, Item 2. Business Overview, 2. Risk Factors, 1. Risks regarding IIJ Group Business Developments, (4) Risks regarding our services' reliability, ③ Risks regarding management of confidential customer information."

(4) Intellectual property

Although we strive not to infringe on thid-party patents and other intellectual property, should we fail in those efforts, we may be faced with damage claims. Also, if a crucial part of our fundamental technology is understood to have a third-party patent, or in the future a third-party is given the patene to such technology, we may be required to pay license fees to the third-party with patent in order to execute our business.

We aggressively apply open source software when developing and operating services; however, terms and conditions for open source software impose some issues, such as uncertainty surrounding licenses, which could cause unexpected restriction on application.

While we impose appropriate measures to protect our intellectual property and will do so continuously, it is difficult to completely remove risks of a third-party infringing on our intellectual property rights. In such a case, our results of operations and financial condition may be adversely impacted.

(5) Law suits

As of this document's filing date, there are no cases pending which would have a significant financial impact on us; however, we cannot be certain that we will not be named as a defendant in a future lawsuit including damage claims due, for example, to service interruption; defects or delays in completion for systems integration; infringement of a third-party's rights to intellectual property; leaks or defects of clients' data, including personal information; improper attitudes towards clients; or improper treatment of employees or stocks. If any judgment should be made against us in such a lawsuit, or should our creditability be damaged, our results of operations or financial condition could be adversely impacted.

7. Risks regarding future funding needs

As of March 31, 2019, our cash and cash equivalents were JPY31,958 million which is an increase of JPY10,638 million from the previous fiscal year end. Our bank borrowings as of March 31, 2019 were JPY26,750 million, which is an increase of JPY2,000 million from the previous fiscal year end. Our financial lease obligation including current portion as of March 31, 2019 was JPY18,034 million, which is an increase of JPY1,469 million.

Our investment in facilities has been increasing. We may continue to need more capital in the future for network facilities, cloud computing services-related facilities, investments and expenses needed for maintenance, updates and expansion of back office-related facilities, investments and expenses needed for service development as well as operation and business development, investments and expenses related to our own data center construction, expansion of office space along with human resources expansion, increases in operating capital along with business expansion, capital injections and/or loans for business expansion as a group, funds for M&A transactions, etc. We mainly use lease transactions when purchasing network equipment. Due to changes in the business climate, we may be faced with greater than expected funding needs for fund raising, including future lease transactions for our business operation. There is no guarantee that we can execute such transactions on favorable terms and conditions which could impose restrictions on our business development.

8. Others

(1) Dilution of equity

IIJ issued 4,700,000 new shares of common stock by way of a public offering in July 2013 and 700,000 new shares by way of a third-party allotment in connection with a secondary offering of shares by way of an over-allotment in August 2013. For future strategic mergers and acquisitions transactions and/or large-scale business investments, we may choose to raise additional funds from the issuance of equity shares of IIJ's common stock or securities convertible into IIJ's common stock, in which case existing shareholders may incur substantial dilution.

Stock compensation-type stock options are allocated to our directors and executive directors of IIJ (excluding part-time and outside directors) as a substitution for the planned retirement allowance. As for the details of this plan, please refer to "PART 1 Information on the Company, Item 4 Information on IIJ, 1. Information on IIJ's shares, (2) Information on Stock Acquisition Rights."

(2) Consolidated financial statements in accordance with IFRS

From the filing of this document, we have adopted IFRS. Because consolidated financial statements included in earnings releases for the fiscal year ended Mach 31, 2019, as well as under the Companies Act for the fiscal year ended March 31, 2019, which will be included in Convocation Notice of the 27th Ordinary General Meeting of Shareholders of IIJ are in accordance with U.S. GAAP, they differ from the consolidated financial statements included in this document, which is in accordance with IFRS. For details, please refer to the Note to consolidated financial statements "38. FIRST-TIME ADOPTION."

3. Management’s Analysis of Financial Position, Results of Operations and Cash Flows

Overview of Business Results

(1) Results of Operations

During the fiscal year ended March 31, 2019 (“FY2018”), although there were some weakness in exports and enterprise production, the Japanese economy has been moderately recovered, as we saw recovery in consumer spending, an increase in corporate capital investment and an improvement in corporate employment situation. With respect to future prospects, under the circumstances that employment and income situation show an improving trend, the Japanese economy is expected to moderately recover continuously. However, we must keep an eye on uncertainties such as overseas economy, geopolitics as well as fluctuation of financial and capital markets.

For the ICT related market where we belong to, changes of corporate information system as seen in widespread of cloud computing adoption, advancement of ICT such as IoT in corporate business activities, growing demand for security services against information leakage and others, we expect demands for highly reliable network and systems to continually increase.

Under these market circumstances, we continuously promoted our existing strategy to incorporate outsourcing demands related to enterprises’ information network systems by offering highly reliable and value-added services, which are based on our Internet related technical skills and blue-chip customer base. Especially, in order to differentiate ourselves, we focused on enhancing our service line-ups for enterprises by adding various functions, and we have steadily accumulated enterprise recurring revenues (*).

More specifically in network services areas, the revenue for Internet connectivity services for enterprises continued to increase steadily mainly due to the increase of enterprises’ contracted bandwidth while we continued to expand our network infrastructure. We also continued to provide security related services, cloud computing related services and others for comprehensive solutions. Regarding mobile-related services, we focused to develop and promote full-MVNO (*) services, and expanded our service offerings to include “IoT Support Pack (*),” “IIJmio IoT Service (*),” “chip SIM (*)” and more. We started offerings full-MVNO services from the end of FY2017 and our full-MVNO services revenues grew to JPY0.7 billion, exceeded our initial revenue target mainly with strong enterprises’ demands for surveillance cameras in public facilities and factories as well as consumers’ demands for pre-paid SIM services for tourists to Japan. Other than the above, we have been executing MVNE strategy to gather consumer mobile subscription. Total mobile services revenues increased to JPY42.0 billion for the fiscal year ended March 31, 2019 from JPY35.3 billion for the fiscal year ended March 31, 2018. Total mobile subscription as of March 31, 2019 was 2.75 million, increased by 0.4 million from March 31, 2018. Our cloud-type network service “IIJ Omnibus Service (*),” which allows customers to add new functions easily, captured network renewal demands from enterprises with SD-LAN (*) function enhancement, and its revenues increased by 83.2% year over year. As for security-related services, we added new services and/or enhanced new functions such as “IIJ C-SOC services (*)”, “IIJ Secure Endpoint Service (*)”, “IIJ Virtual Desktop (*) Service”, and security-related recurring revenues were JPY14.1 billion and total security-related revenues, including security-related systems construction revenues, were JPY16.8 billion. In IoT-related area, by leveraging our advantages of having comprehensive business elements for IoT such as full-MVNO services, cloud computing services, security services and network construction expertise, we proceeded many IoT-related projects such as housing, transportation, factory and agriculture increased. Network systems-related demands from enterprises in other outsourcing services and WAN services were also strong, and each of revenues steadily increased. We established and started operation of the “Shiroi Data Center Campus (Shiroi DC)”, incorporating a system module-based construction method, in May 2019 as planned. We plan to utilize Shiroi DC to integrate our data centers spread out in eastern Japan area and service facilities, in order to realize cost effectiveness, while absorbing growing data demand along with the spread of crowd computing and IoT.

In systems integration area, enterprises’ demands for systems construction have generally been strong. We received various orders such as network platform systems, information platform systems, security related systems, virtual desktop projects and cloud related systems. Systems construction revenues including equipment sales increased by 6.4% year over year, and systems operation and maintenance revenues, recurring revenue, increased by 10.2% year over year along with systems construction revenue growth. As for cloud computing services, a part of which revenue is recognized as systems operation and maintenance, we enhanced and added new value-added functions such as “IIJ GIO Migration Solution (*)”, “IIJ Managed Database Service (*)” and “IIJ UOM Service (*)” in order to meet enterprises’ growing demands for cloud migration. Total cloud related revenues for the fiscal year ended March 31, 2019 increased to JPY20.1 billion from JPY17.9 billion for the fiscal year ended March 31, 2018.

As for overseas business, Asian subsidiaries as a whole turned positive along with business progress, and total revenues of overseas business for the fiscal year ended March 31, 2019 were JPY7.7 billion and operating profit was JPY0.1 billion.

New business developments in the fiscal year ended March 31, 2019 were as follows. Our equity method investee, DeCurret Inc., who is engaged in cryptocurrency business, was registered with the Financial Services Agency as the first and new licensed provider after the registration process was enacted. DeCurret Inc. has launched exchange services to investors in April 2019. DeCurret Inc. plans to enhance its exchange services as well as to launch settlement platform services by collaborating with its enterprise shareholders. As for contents delivery business, our equity method investee, JOCDN Inc. which is a joint-venture with Japanese prominent commercial broadcasting companies, provides CDN (*) services for broadcasting operators and large contents distributers. JOCDN Inc. provides more bandwidth than before along with increasing demands for contents distribution, and prepares for live video distribution and IP (*) conversion of video transmission in the future.

Consolidated financial results for the fiscal year ended March 31, 2019 are as follows. Total revenues were JPY192,430 million, up 9.2% year over year (JPY176,233 million for the fiscal year ended March 31, 2018) with enterprise recurring revenue accumulation, mobile-related revenue growth with an expansion of MVNE business clients' transactions and continuous revenue growth in systems integration. Within that, network services revenues were JPY118,626 million, up 9.8% year over year (JPY 108,084 million for the fiscal year ended March 31, 2018), Systems Integration revenues including equipment sales were JPY69,652 million, up 8.6% year over year (JPY64,119 million for the fiscal year ended March 31, 2018), and ATM operation business revenues were JPY4,152 million, up 3.0% year over year (JPY 4,031 million for the fiscal year ended March 31, 2018).

As for the cost of revenues, cost of network services revenue was JPY101,257 million, up 14.3% year over yaer (JPY88,557 million for the fiscal year ended March 31, 2018). Cost of SI revenues including equipment sales was JPY59,872 million, up 5.1% year over yaer (JPY56,942 million for the fiscal year ended March 31, 2018). Cost of ATM operation business revenues was JPY2,326 million, down 1.7% year over yaer (JPY2,365 million for the fiscal year ended March 31, 2018). As a result, total cost of revenues was JPY163,455 million, up 10.5% year over year (JPY147, 864 million for the fiscal year ended March 31, 2018).

Due to enterprise recurring revenue accumulation and improvement in system integration margin with high utilization of system engineers (*), the gross margin had been expanding stronger than we initially expected at the beginning of the fiscal year ended March 31, 2019. However, NTT Docomo's unit price revision for mobile data communication which comprises our mobile services offering costs was revised and fixed in March, 2019, and the unit price decreased by 5.0% compared to the previous fiscal year. The rate of decrease was smaller than the past, and that had a negative impact of JPY2.05 billion against the margin we expected at the beginning of the fiscal year ended March 31, 2019. This resulted in the decrease of our total network services revenue gross margin. Network service revenue gross margin was JPY17,369 million, down 11.0% year over year (JPY19,526 million for the fiscal year ended March 31, 2018), gross margin of systems integration revenue including equipment sales was JPY9,780 million, up 36.3% year over year (JPY7,177 million for the fiscal year ended March 31, 2018) and ATM operation business revenue gross margin was JPY1,825 million, up 9.6% year over year (JPY1,665 million for the fiscal year ended March 31, 2018). Total gross margin was JPY28,974 million, up 2.1% year over year (JPY28,368 million for the fiscal year ended March 31, 2018) and gross margin ratio was 15.1% (16.1% for the fiscal year ended March 31, 2018).

SG&A expenses was JPY22,952 million, up 6.3% year over year (JPY21,599 million for the fiscal year ended March 31, 2018) mainly due to an increase in advertising expenses, personnel-related expenses, sales commission expenses and loss on disposal of property and equipment.

As a result, our operating profit for the fiscal year ended March 31, 2019 was JPY6,023 million, down 11.0% year over year (JPY6,770 million for the fiscal year ended March 31, 2018). Profit before tax was JPY5,843 million, down 15.0% year over year (JPY6,872 million for the fiscal year ended March 31, 2018). Profit attributable to owners of parent was JPY3,521 million, down 20.4% year over year (JPY 4,423 million for the fiscal year ended March 31, 2018).

In business segments results, revenues for network services and systems integration business segment were JPY188,634 million, up 9.3% year over year (JPY172,553 million for the fiscal year ended March 31, 2018) and operating profit was JPY4,599 million, down 15.4% year over year (JPY5,438 million for the fiscal year ended March 31, 2018). As for ATM operation business, revenues were JPY4,152 million, up 3.0% year over year (JPY4,031 million for the fiscal year ended March 31, 2018) and operating profit was JPY1,623 million, up 7.4% year over year (JPY1,510 million for the fiscal year ended March 31, 2018).

(2) Financial Position

As of March 31, 2019, the balance of total assets was JPY167,289 million, increased by JPY12,126 million.

As of March 31, 2019, the balance of current assets was JPY78,971 million, increased by JPY13,128 million compared to the balance as of March 31, 2018, mainly due to increases in cash and cash equivalents, trade receivables, inventories and prepaid expenses, and decrease in other financial assets. As of March 31, 2019, the balance of noncurrent assets was JPY88,318 million, decreased by JPY1,002 million from the balance as of March 31, 2018, mainly due to decrease in other non-current assets and increase in intangible assets.

As of March 31, 2019, the balance of current liabilities was JPY52,904 million, increased by JPY10,767 million from the balance as of March 31, 2018, mainly due to increases in trade and other payables, borrowings, deferred income, and other financial liabilities. As of March 31, 2019, the balance of noncurrent liabilities was JPY37,265 million, decreased by JPY513 million from the balance as of March 31, 2018, mainly as a result of increase in deferred revenue and decrease in long-term borrowings by transfer to current liabilities and decrease in deferred tax liabilities.

As of March 31, 2019, the balance of equity attributable to owners of parent was JPY76,271 million, increased by JPY1,743 million from the balance as of March 31, 2018 of JPY74,529 million. Ratio of owners' equity to gross assets was 45.6% as of March 31, 2019.

(3) Cash Flows

Cash and cash equivalents as of March 31, 2019 were JPY31,958 million.

Cash Flows from Operating Activities

Net cash provided by operating activities for the fiscal year ended March 31, 2019 was JPY25,152 million, compared to net cash provided by operating activities of JPY14,664 million for the fiscal year ended March 31, 2018. There were profit before tax of JPY5,843 million, depreciation and amortization of JPY15,629 million, while changes in operating assets and liabilities was net cash in of JPY6,568 million, mainly due to increase in trade receivables and prepaid expenses, and income taxes paid amounted to JPY3,421 million.

Cash Flows from Investing Activities

Net cash used in investing activities for the fiscal year ended March 31, 2019 was JPY8,688 million, compared to net cash used in investing activities of JPY14,297 million for the fiscal year ended March 31, 2018, mainly due to payments for purchase of property and equipment of JPY7,080 million, purchase of intangible assets, including software, of JPY5,400 million, proceeds from sales of property and equipment, including sale and leaseback transactions, of JPY3,071 million, and proceeds from sales of other investments of JPY565 million.

Cash Flows from Financing Activities

Net cash used in financing activities for the fiscal year ended March 31, 2019 was JPY5,890 million, compared to net cash used in financing activities of JPY718 million for for the fiscal year ended March 31, 2018, mainly due to proceeds from short-term borrowings of JPY2,000 million, payments of other financial liabilities of JPY7,322 million, and the fiscal year ended March 31, 2018 year-end and the fiscal year ended March 31, 2019 interim dividends payments of JPY1,217 million.

Production, Orders Received and Sales

(1) Production

Production results for the year ended March 31, 2019 were as follows:

Type of Services	Fiscal year ended March 31, 2019	
	Production (thousands of yen)	Year over year comparison (%)
Systems Integration, including Equipment Sales	60,959,155	8.9
Total	60,959,155	8.9

(Notes) 1. Amounts do not include consumption taxes.
2. Percentages of year over year comparison indicate year over year rate of change.
3. Since the Company does not engage in production activities in network services and ATM operation business, we do not present production results for network services, equipment sales and ATM operation business. For more information about relations between services and business segments, please refer to "PART 1. Information on the Company, Item 1. Overview of the Company, 3 Description of Business."

(2) Orders Received

Orders received for the fiscal year ended March 31, 2019 and order backlog as of March 31, 2019 were as follows:

Type of Services	Fiscal year ended March 31, 2019			
	Orders Received (thousands of yen)	Year over Year comparison (%)	Order Backlog (thousands of yen)	Year over Year comparison (%)
Systems Construction and Equipment Sales	28,954,777	12.2	7,839,843	12.1
Systems Operation and Maintenance	45,347,299	5.0	43,274,709	9.3
Total	74,302,075	7.7	51,114,552	9.7

(Notes) 1. Amounts do not include consumption taxes.
2. Percentages of year over year comparison indicate year over year rate of change.
3. Since the Company does not engage in make-to-order production in network services and ATM operation business, we do not present orders received and order backlog for network services and ATM operation business. For more information about relations between services and business segments, please refer to "PART 1. Information on the Company, Item 1. Overview of the Company, 3 Description of Business."

(3) Sales

Consolidated revenues for the year ended March 31, 2019 were as follows:

Type of services		Fiscal year ended March 31, 2019	
		Revenue (thousands of yen)	Year over year comparison (%)
Network services		118,626,271	9.8
	Internet connectivity services (enterprise)	33,185,825	18.6
	Internet connectivity services (consumer)	25,234,295	1.9
	WAN services	30,990,637	5.8
	Outsourcing services	29,215,514	12.1
Systems integration		69,652,389	8.6
	Systems construction and equipment sales	27,882,017	6.4
	Systems operation and maintenance	41,770,372	10.2
ATM operation business		4,151,525	3.0
Total revenues		192,430,185	9.2

(Note) 1. Amounts do not include consumption taxes.
2. Percentages of year over year comparison indicate year over year rate of change.
3. For more information about relations between services and business segments, please see "PART I Information on the Company, Item 1. Overview of the Company, 3 Description of Business."

(Management’s Discussion and Analysis of Operating Results, etc.)

Forward-looking statements included herein are made as of the filing date of this annual securities report.

(1) Critical Accounting Policies and Estimates

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in accordance with Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, etc. (Ordinance of the Ministry of Finance of Japan No. 28 of 1976)

In preparing consolidated financial statements in accordance with IFRS, the Company uses judgments, accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, profit and loss.

These estimates and assumptions are based on the best judgment of management in consideration of past experience and available information, and various factors considered to be reasonable as of the end of the reporting period. .

However, due to their nature, figures based on these estimates and assumptions may differ from actual results. For details, please refer to the notes on consolidated financial statements below.

(2) Analysis of Result of Operation for the fiscal year ended March 31, 2019

① Summary of Consolidated Results of Operations

Summary of Consolidated Results of Operations

	Fiscal Year ended March 31, 2018	Fiscal Year ended March 31, 2019	Year over Year change
	millions of yen	millions of yen	%
Total revenues	176,233	192,430	9.2
Network services	108,083	118,626	9.8
Systems integration, including equipment sales	64,119	69,652	8.6
ATM operation business	4,031	4,152	3.0
Total costs	(147,864)	(163,455)	10.5
Network services	(88,557)	(101,257)	14.3
Systems integration, including equipment sales	(56,942)	(59,872)	5.1
ATM operation business	(2,365)	(2,326)	(1.7)
Total gross margin	28,368	28,974	2.1
Network services	19,526	17,369	(11.0)
Systems integration, including equipment sales	7,177	9,780	36.3
ATM operation business	1,665	1,825	9.6
SG&A, R&D, and other operating income(expenses)	(21,599)	(22,952)	6.3
Operating profit	6,770	6,023	(11.0)
Income before income tax expense	6,872	5,843	(15.0)
Net income attributable to IIJ	4,423	3,521	(20.4)

Segment Information

	Fiscal Year ended March 31, 2018	Fiscal Year ended March 31, 2019
	millions of yen	millions of yen
Total revenues	176,233	192,430
Network services and SI business	172,553	188,634
ATM operation business	4,031	4,152
Elimination	(351)	(356)
Operating profit	6,770	6,023
Network service and SI business	5,438	4,599
ATM operation business	1,510	1,623
Elimination	(178)	(199)

② **Overview**

Total revenues were JPY192,430 million, up 9.2% year over year (JPY176,233 million for the fiscal year ended March 31, 2018) with enterprise recurring revenue accumulation, mobile-related revenue growth with an expansion of MVNE business clients' transactions and continuous revenue growth in systems integration, which offset revenue decrease due to divesture of our former subsidiary, hi-ho Inc.

Due to enterprise recurring revenue accumulation and improvement in system integration margin with high utilization of system engineers, the gross margin had been expanding stronger than we initially expected at the beginning of the fiscal year ended March 31, 2019. However, NTT Docomo's unit price revision for mobile data communication which comprises our mobile services offering costs was revised and fixed in March, 2019, and the unit price decreased by 5.0% compared to the previous fiscal year. The rate of decrease was smaller than the past and we had a large margin decrease impact, JPY2.05 billion, against the margin we expected at the beginning of FY2018. This resulted in the decrease of our total network services revenue gross margin. As a result, gross margin was JPY28,974 million, up 2.1% year over year (JPY28,368 million for the fiscal year ended March 31, 2018)

Operating profit was JPY6,023 million, down 11.0% year over year (JPY6,770 million for the fiscal year ended March 31, 2018), mainly as a result of decreases in gross margin of network services and increases in sales marketing expenses and general and administrative expenses. Profit before tax was JPY5,843 million, down 15.0% year over year (JPY6,872 million for the fiscal year ended March 31, 2018). Profit attributable to owners of parent was JPY3,521 million, down 20.4% year over year (JPY 4,423 million for the fiscal year ended March 31, 2018).

In business segments results, revenues for network services and systems integration business segment were JPY188,634 million, up 9.3% year over year (JPY172,553 million for the fiscal year ended March 31, 2018) and operating profit was JPY4,599 million, down 15.4% year over year (JPY5,438 million for the fiscal year ended March 31, 2018). As for ATM operation business, revenues were JPY4,152 million, up 3.0% year over year (JPY4,031 million for the fiscal year ended March 31, 2018) and operating profit was JPY1,623 million, up 7.4% year over year (JPY1,510 million for the fiscal year ended March 31, 2018).

③ **Analysis of Result of Operation**

We present analysis by type of service, instead of segment analysis, because most of the Company's revenues are dominated by network services and systems integration (SI) business.

i) Revenues

Total revenues were JPY192,430 million, up 9.2% year over year (JPY176,233 million for the fiscal year ended March 31, 2018).

[Network services]

Revenues for Internet connectivity services for enterprise were JPY33,186 million, up 18.6% year over year from JPY27,982 million for the fiscal year ended March 31, 2018, 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 JPY25,234 million, up 1.9% year over year from JPY24,753 million for the fiscal year ended March 31, 2018. The revenue growth was mainly due to "IIJmio Mobile Service," consumer mobile services, offset revenue decrease due to divesture of a former subsidiary, hi-ho in December 2017.

Revenues for WAN services were JPY30,991 million, up 5.8% year over year compared to JPY29,295 million for the fiscal year ended March 31, 2018, mainly due to the revenue growth along with order accumulation.

Revenues for Outsourcing services were JPY29,215 million, up 12.1% year over year from JPY26,054 million for the fiscal year ended March 31, 2018, mainly due to an increase in security-related services revenues.

As a result, total network services revenue was JPY118,626 million, up 9.8% year over year (JPY108,083 million for the fiscal year ended March 31, 2018).

The following tables provide a breakdown of network services revenues and number of contracts and subscription for connectivity services.

Network Services Revenues Breakdown

	For the fiscal year ended March 31, 2018	For the fiscal year ended March 31, 2019	Year over year Change
	JPY millions	JPY millions	%
Total network services	108,083	118,626	9.8
Internet connectivity services (enterprise)	27,982	33,186	18.6
IP services*1	10,144	10,572	4.2
IIJ Mobile services	14,619	19,420	32.8
IIJ Mobile MVNO Platform Service	10,866	14,555	33.9
Others	3,219	3,194	(0.8)
Internet connectivity services (consumer)	24,753	25,234	1.9
IIJ	23,439	25,234	7.7
IIJmio Mobile Service	20,710	22,538	8.8
hi-ho	1,313	-	-
WAN services	29,295	30,991	5.8
Outsourcing services	26,054	29,215	12.1

Number of Contracts and Subscription for Connectivity Services*2

	as of Mar. 31, 2018	as of Mar. 31, 2019	Year over year Change
Internet connectivity services (enterprise)	1,414,809	1,757,761	342,952
IP service (greater than or equal to 1Gbps)*1	709	743	34
IP service (less than 1Gbps)*1	1,299	1,265	(34)
IIJ Mobile Services	1,339,586	1,675,123	335,537
IIJ Mobile MVNO Platform Service	824,731	1,047,856	223,125
Others	73,215	80,630	7,415
Internet connectivity services (consumer)	1,363,531	1,400,928	37,397
IIJ	1,363,531	1,400,928	37,397
IIJmio Mobile Service	1,005,092	1,062,921	57,829
Total contracted bandwidth (Gbps)*3	3,120.2	3,897.2	777.0

*1) Revenue of IP services and the numbers of IP service contracts include revenue of data center connectivity services and the numbers of data center connectivity service contracts, respectively.
*2) Numbers in the table above show number of contracts except for “IIJ Mobile Services (enterprise)” and “IIJ” which show number of subscriptions.
*3) Total contracted bandwidth is calculated by multiplying number of contracts under “Internet connectivity services (enterprise), excluding mobile services” and the contracted bandwidths of the services respectively.
*4) The Company have adopted IFRS from the filing of this document and reporting period of foreign consolidated subsidiaries are different from period under US-GAAP. As a result, the number of our Internet connectivity service contracts and total contracted bandwidth described above was restated.

[Systems integration]

Systems construction and equipment sales revenue, a one-time revenue, was JPY27,882 million, up 6.4% year over year (JPY26,212 million for the fiscal year ended March 31, 2018), mainly due to the increase in sales of mobile devices. Systems operation and maintenance revenue, a recurring revenue, was JPY41,770 million, up 10.2% year over year (JPY37,907 million for the fiscal year ended March 31, 2018), mainly due to continued accumulation of systems operation orders as well as an increase in private cloud services’ revenues. As a result, systems integration revenues, including equipment sales, were JPY69,652 million, up 8.6% year over year (JPY64,119 million for the fiscal year ended March 31, 2018).

Orders received for systems integration, including equipment sales, totaled JPY74,302 million, up 7.7% year over year (JPY68,996 million for the fiscal year ended March 31, 2018); orders received for systems construction and equipment sales were JPY28,955 million, up 12.2% year over year (JPY25,814 million for the fiscal year ended March 31, 2018) and orders received for systems operation and maintenance were JPY45,347 million, up 5.0% year over year (JPY43,182 million for the fiscal year ended March 31, 2018).

Order backlog for systems integration, including equipment sales, as of March 31, 2019 amounted to JPY51,115 million, up 9.7% year over year (JPY46,596 million as of March 31, 2018); order backlog for systems construction and equipment sales was JPY7,840 million, up 12.1% year over year (JPY6,995 million as of March 31, 2018) and order backlog for systems operation and maintenance was JPY43,275 million, up 9.3% year over year (JPY39,601 million as of March 31, 2018).

[ATM operation business]

ATM operation business revenues were JPY4,152 million, up 3.0% year over year (JPY4,031 million for the fiscal year ended March 31, 2018). As of March 31, 2019, 1,138 ATMs have been placed.

ii) Cost and expense

Total cost of revenues was JPY163,455 million, up 10.5% year over year (JPY147,864 million for the fiscal year ended March 31, 2018).

[Network services]

Cost of network services revenue was JPY101,257 million, up 14.3% year over year (JPY88,557 million for the fiscal year ended March 31, 2018). There were an increase in outsourcing-related costs along with our mobile-related revenue increase as well as full-MVNO related costs along with the service launch, an increase in network operation-related costs, and an increase in circuit-related costs along with our WAN services revenue increase. Regarding NTT Docomo’s interconnectivity charge (unit charge) for MVNO-related services, it was revised in March 2019 and it decreased by 5.0% year over year. The rate of decrease was small compared to the past several years. Gross margin was JPY17,369 million, down 11.0% year over year (JPY19,526 million for the fiscal year ended March 31, 2018) and gross margin ratio was 14.6%.

[Systems integration]

Cost of systems integration revenue, including equipment sales, was JPY59,872 million, up 5.1% year over year (JPY56,942 million for the fiscal year ended March 31, 2018). There were an increase in license fees and network operation-related costs along with increase in cloud-related revenues, increase in purchasing costs of mobile devices for sale, and a decrease in outsourcing-related costs due to the effective reorganization of system engineers’ organization and stricter management on system engineers’ utilization. Gross margin was JPY9,780 million, up 36.3% year over yaer (JPY7,177 million for the fiscal year ended March 31, 2018) and gross margin ratio was 14.0%

[ATM operation business]

Cost of ATM operation business revenues was JPY2,326 million, down 1.7% year over year (JPY2,365 million for the fiscal year ended March 31, 2018). Gross margin was JPY1,825 million, up 9.6% year over year (JPY1,665 million for the fiscal year ended March 31, 2018) and gross margin ratio was 44.0%.

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

Selling, general and administrative expenses, which include research and development expenses, totaled JPY22,652 million, up 5.5% year over year (JPY21,474 million for the fiscal year ended March 31, 2018), mainly due to increases in personnel-related expenses and sales commission expenses.

Other income was JPY47 million (JPY62 million for the fiscal year ended March 31, 2018). Other expenses was JPY347 million (JPY187 million for the fiscal year ended March 31, 2018), mainly due to disposal loss on fixed assets.

iv) Operating profit

Operating profit was JPY6,023 million, down 11.0% year over year (JPY6,770 million for the fiscal year ended March 31, 2018).

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

Finance income was JPY570 million, compared to JPY407 million for the fiscal year ended March 31, 2018, mainly due to profit from financial assets measured at FVTPL, such as funds, of JPY399 million (JPY24 million for the fiscal year ended March 31, 2018) and dividend income of JPY87 million (JPY243 million for the fiscal year ended March 31, 2018).

Finance expense was JPY432 million, compared to JPY439 million for the fiscal year ended March 31, 2018, mainly due to interest expenses of JPY430 million (JPY405 million for the fiscal year ended March 31, 2018), and foreign exchange loss of JPY31 million (JPY63 million for the fiscal year ended March 31, 2018).

Share of loss of investments accounted for using equity method was JPY318 million (compared to profit of JPY135 million for the fiscal year ended March 31, 2018) mainly due to equity in net loss of JPY503 million in DeCurret Inc.

vi) Profit before tax

Profit before tax was JPY5,843 million, down 15.0% year over year (JPY6,872 million for the fiscal year ended March 31, 2018).

vii) Net income

Income tax expense was JPY2,144 million (JPY2,279 million for the fiscal year ended March 31, 2018). As a result of the above, net income was JPY3,699 million, down 19.5% year over yaer (JPY4,593 million for the fiscal year ended March 31, 2018).

Net income attributable to non-controlling interests was JPY178 million (JPY170 million for the fiscal year ended March 31, 2018) mainly related to net income of Trust Networks Inc. As a result, profit attributable to owners of parent was JPY3,521 million, down 20.4% year over year (JPY 4,423 million for the fiscal year ended March 31, 2018).

(3) Financial Position as of March 31, 2019

As of March 31, 2019, the balance of total assets was JPY167,289 million, increased by JPY12,126 million from the balance as of March 31, 2018 of JPY155,163 million.

As of March 31, 2019, the balance of current assets was JPY78,971 million, increased by JPY13,128 million from the balance as of March 31, 2018 of JPY65,843 million. The major breakdown of fluctuation and balance of current assets was: an increase in cash and cash equivalents by JPY10,638 million to JPY 31,958 million, an increase in trade receivables by JPY1,806 million to JPY33,376 million, an increase in inventories by JPY1,858 million to JPY3,403 million, an increase in prepaid expenses by JPY927 million to JPY8,523 million and a decrease in other financial assets by JPY2,177 million to JPY1,581 million.

As of March 31, 2019, the balance of noncurrent assets was JPY88,318 million, decreased by JPY1,002 million from the balance as of March 31, 2018 of JPY89,320 million. The major breakdown of fluctuation and balance of noncurrent assets was: a decrease in other investments by JPY1,482 million to JPY11,402 million, mainly due to decrease in the fair value of available-for-sale securities and distribution from funds, an increase in intangible assets by JPY1,056 million to JPY18,819 million, and a decrease in property and equipment by JPY388 million to JPY33,136 million.

As of March 31, 2019, the balance of current liabilities was JPY10,767 million, increased by JPY52,904 million from the balance as of March 31, 2018 of JPY42,137 million. The major breakdown of fluctuation and balance of current liabilities was: an increase in trade and other payables by JPY5,432 million to JPY21,962 million, an increase in short-term borrowings by JPY2,000 million and an increase in current portion of long-term borrowings transferred from non-current liabilities by JPY1,500 million to the borrowing balance of JPY12,750 million, an increase in deferred income by JPY1,306 million to JPY5,462 million and an increase in other financial liabilities by JPY1,066 million to JPY7,032 million.

As of March 31, 2019, the balance of noncurrent liabilities was JPY37,265 million, decreased by JPY513 million from the balance as of March 31, 2018 of JPY37,778 million. The major breakdown of fluctuation and balance of noncurrent liabilities was: a decrease in long-term borrowings transferred to current portion by JPY1,500 million to the balance of JPY14,000 million, a decrease in deferred tax liabilities by JPY930 million to JPY421 million, and an increase in deferred income by JPY1,770 million to JPY5,518 million.

As of March 31, 2019, the balance of equity attributable to owners of parent was JPY76,271 million, increased by JPY1,743 million from the balance as of March 31, 2018 of JPY74,529 million. Ratio of owners' equity to gross assets was 45.6% as of March 31, 2019.

(4) Analysis of Liquidity and Capital Resources for the fiscal year ended March 31, 2019

① **Overview**

Our principal capital and liquidity needs in recent years have been for capital expenditures for the development and expansion of our network infrastructure, investments in our internal back-office systems, cloud service-related investments, leasing fees and investments in facilities such as data centers (including purchase of land), working capital increasing due to costs such as cost of network services and purchasing cost in systems integration services, investments in and loans to group companies, investments to develop international business, sales and marketing expenses and working capital.

We have traditionally met our capital and liquidity requirements through cash flows from operating activities, bank borrowings and finance leases.

② **Cash flows**

Cash and cash equivalents as of March 31, 2019 were JPY31,958 million (JPY21,320 million as of March 31, 2018).

Net cash provided by operating activities for the fiscal year ended March 31, 2019 was JPY25,152 million (net cash provided by operating activities of JPY14,664 million for the fiscal year ended March 31, 2018). There were profit before tax of JPY5,843 million, depreciation and amortization of JPY15,629 million and income taxes paid of JPY3,421 million. Regarding changes in operating assets and liabilities, it was net cash out of JPY6,568 million mainly due to an increase in trade receivables along with revenue growth and an increase in prepaid expenses in relation to upfront payment for software licenses and maintenance cost for service facilities.

Net cash used in investing activities for the fiscal year ended March 31, 2019 was JPY8,688 million (net cash used in investing activities of JPY14,297 million for the fiscal year ended March 31, 2018), mainly due to payments for purchase of property and equipment of JPY7,080 million (JPY11,092 million for the fiscal year ended March 31, 2018), payments for purchase of intangible assets, such as software, of JPY5,400 million (JPY6,121 million for the fiscal year ended March 31, 2018), proceeds from sales of property and equipment, which include sales and leaseback transactions, of JPY3,071 million (JPY3,271 million for the fiscal year ended March 31, 2018) and proceeds from sales of other investments, such as funds and available-for-sale securities, of JPY565 million (JPY1,364 million for the fiscal year ended March 31, 2018).

Net cash used in financing activities for the fiscal year ended March 31, 2019 was JPY5,890 million (net cash used in financing activities of JPY718 million for the fiscal year ended March 31, 2018), mainly due to proceeds from short-term borrowings of JPY2,000 million, payments of other financial liabilities of JPY7,322 million (JPY6,264 million for the fiscal year ended March 31, 2017), and the fiscal year ended March 31, 2018 year-end and the fiscal year ended March 31, 2019 interim dividends payments of JPY1,217 million (¥1,217 million for the fiscal year ended March 31, 2018).

③ **Borrowings**

Our primary banking relationships are with Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited.

As of March 31, 2019, our short-term borrowings consisting of bank overdrafts were JPY12,750 million. Our unused balance under our bank overdraft agreements, uncommitted, was JPY10,450 million in short-term borrowings as of March 31, 2019. As of March 31, 2019, the balance of our long-term borrowings was JPY14,000 million.

④ **Finance Leases**

The Company conducts its connectivity and other services by using data communications and other equipment leased under finance lease arrangements. The fair values of financial lease liabilities amounted to JPY18,034 million at March 31, 2019.

4 Material Contracts, etc.

Not applicable.

5 Research and development

Our research and development activities on basic technology relating the Internet are conducted mainly by IIJ Innovation Institute ("IIJ-II"), a consolidated subsidiary of IIJ, which cooperates with IIJ's relevant departments.

In regard to Internet-related technology, we have conducted extensive research mainly on network measurement and analysis, Internet infrastructure technology and security. As for network measurement and analysis, we conducted traffic trend analysis, quality of service inference and anomaly detection, by applying statistical analysis and machine learning techniques to a large volume of network data such as Internet traffic volume, flow and route. This research is not only useful for us when considering of our network design but also internationally recognized as valuable research results, and we are widely contributing to the information and telecommunications industry through this activity. As for Internet infrastructure technologies, in order to operate growing Internet infrastructure more efficiently, we participated in the standardization activities of protocols used in the Internet, and addressed research on operation and management automation technologies. In regard to security, taking advantage of a binary analysis (*) technology, we have been making efforts to research and develop technologies capturing any suspicious behavior that may lead to an attack on the network in advance.

For the fiscal year ended March 31, 2019, through our business activities, our business divisions engaged in the following research and development; development of new services, expansion of mobile services functions, development of full-MVNO services such as chipSIM and small data volume-bundled services targeting IoT usage, development of IoT related services through customers' various PoC (*) projects, development of security services or solutions and addition of new functions by evaluating security-related technologies, addition of new functions for cloud computing services, developments of software necessary for our business by evaluating such technology, evaluation network equipment whether to adopt, development of next generation system infrastructure, and evaluation, consideration and development of network operation technology.

We participate in various domestic and international organizations or groups in relation to Internet or telecommunications technology, such as ISOC (*) and IETF (*), which are standardization organizations of Internet technology, ITU-T (*), a telecommunications standardization department of the United Nations' specialized agency ITU (*), FIRST (*), an international organization on security, JANOG (*), a Japanese organization to discuss, review and introduce technical matters related to the Internet and related operations for the purpose of contributing to Internet technologists and users, ICT-ISAC Japan (*), an organization to secure security in the information and communication sector in Japan, and ASPIC (*), an organization to disseminate and develop cloud computing as an important social infrastructure. Through our engagement with these organizations, we are actively working on the development of network related technology.

The Internet has contributed to society by making communication protocols be public and standardized. In our research and development activities related to data communications including the Internet, we recognize it is more important to participate in standardization process of basic technology, collect, evaluate and acquire next generation technical information, apply and implement new technology to existing services, create and develop highly value-added services and products with existing technology, rather than newly developing our own technology by investing a large amount of budget individually, and this is how we engage in research and development activities.

Most of our research and development expenses are for personnel related expenses as described above. We basically recognize personnel expenses related to personal engaged in basic technology research as research and development expenses, and costs related to service development are recognized as cost of revenue. For the fiscal year ended March 31, 2019, research and development expenses, which were in relation to network services and systems integration business segment, were ¥446 million, decreased by 8.4% compared to the previous fiscal year.

Item 3. Property and Equipment

1 Overview of Capital Investments

In order to meet increasing demand for cloud computing services, increasing volume of traffic and others, we continuously invest in data centers, servers and network equipment. We also engage in system development to expand our service offerings as well as improve work efficiency.

Capital expenditures for the year ended March 31, 2019 were JPY15,083 million. They mainly represented purchases for the network services and SI business.

Among said expenditures, investment in tangible fixed assets such as data communication equipment, servers, data centers, purchased land and, facility construction amounted to JPY9,626 million and investments in software such as service and back office system-related software was JPY5,457 million.

The capital expenditures described above include the following: purchase of assets of JPY7,097 million which were paid with cash on hand, and acquisition of assets made by entering into capital leases of JPY7,986 million.

For the fiscal year ended March 31, 2019, we did not sell or dispose of any important assets.

(Note) Total amount of capital expenditure described above are the amounts of acquisition of tangible and intangible assets by cash and entering into finance leases for the fiscal year, excluding duplication due to sale and leaseback transactions and acquisition of assets that do not have the nature of investment, such as purchase of small-amount equipment.

2 Overview of Major Facilities

Major Facilities of the IIJ Group (IIJ and Subsidiaries) as of March 31, 2019 were as follows:

(1) IIJ

Office (Location)	Segment	Type of Equipment and Facilities	Carrying amount (in thousands of yen)							Number of Employees (person) Note 1
			Land (Area ㎡)	Buildings	Structures	Tools, furniture and fixtures	Software	Leased assets	Total	
Headquarter and Data center etc. (Chiyoda-ku, Tokyo)	Network services and SI business	Office equipment and communication equipment etc.	2,055,099 (43,311)	3,389,730	1,223,465	3,449,862	15,026,545	14,879,641	40,024,342	1,955

(Note)
1. The number of employees indicates the total number of full-time and contract worker.
2. IIJ rents almost all offices and network operation centers except for Matsue data center. IIJ didn’t own land or building which were material for the purpose of business. For the fiscal year ended March 31, 2019, total rent expenses including for our headquarters amounted ¥5,863,798 thousand.

(2) Domestic Subsidiaries

Company Name (Location) Note 1	Segment	Type of Equipment and Facilities	Carrying amount (in thousands of yen)					Number of Employees (person) Note 2
			Facilities attached to buildings	Tools, furniture and fixtures	Software	Leased assets	Total	
IIJ Global Solutions Inc. (Chiyoda-ku, Tokyo)	Network services and SI business	Office equipment and communication equipment etc.	24,195	808,559	155,838	169,410	1,158,002	398
Trust Networks Inc. (Chiyoda-ku, Tokyo)	ATM operation Business	Office equipment and communication equipment etc.	–	240,797	219,972	426,936	887,705	10
IIJ Engineering Inc. (Chiyoda-ku, Tokyo)	Network services and SI business	Office equipment and communication equipment etc.	133,310	382,886	100,270	3,311	619,777	444

(Note)
1. IIJ’s subsidiaries in Japan rent headquarters building from IIJ.
2. The number of employees indicates the total number of full-time and contract workers.

(3) Overseas Subsidiaries

Company Name (Location)	Segment	Type of Equipment and Facilities	Carrying amount (in thousands of yen)					Number of Employees (person) Note
			Facilities attached to buildings	Tools, furniture and fixtures	Software	Leased assets	Total	
IIJ America Inc. (New York, U.S.A)	Network services and SI business	Office equipment and Communication equipment etc.	6,351	537,139	981	—	544,471	43
IIJ Europe Limited (London, the United Kingdom)	Network services and SI business	Office equipment and Communication equipment etc.	25,459	35,025	5,047	—	65,531	50

(Note) The number of employees indicates the total number of full-time and contract workers.

3 Planned Capital Investments and Disposals of Property

IIJ and its subsidiaries decide capital investments plan based on comprehensive consideration by taking factors such as industry trends and investment efficiency into consideration.

Plans new construction and disposition of major property and equipment as of March 31, 2019 were as follows.

(1) New construction of major property and equipment

Company Name (Location)	Segment	Details of facilities and equipment	Total planned investment		Capital resource	Start and Completion date etc.	
			Total (thousands of yen)	Amount already paid (thousands of yen)		Start	Completion
Data Center etc. (Matsue-shy, Shimane, etc.)	Network services and SI business	Communication equipment, Sever and System development etc.	8,000,000	−	Cash	April 2019	March 2020
Data Center etc. (Matsue-shi, Shimane, etc.)	Network services and SI business	Communication equipment, Sever etc.	7,500,000	−	Lease	April 2019	March 2020
Trust Networks Inc. (Shiroi-shi, Chiba)	Network services and SI business	Data center construction.	3,000,000	1,500,000	Bank borrowings	July 2018	April 2019
Total			18,500,000	1,500,000			

(2) Disposition of major facilities, etc.

Not applicable.

Item 4. Information on IIJ

１ Information on IIJ's Shares

(1) Total Number of Shares

① 【Total Number of Shares】

Class	Total number of shares authorized to be issued (shares)
Common stock	75,520,000
Total	75,520,000

② 【Number of shares issued】

Class	Number of shares issued as of the end of the fiscal year (shares) (March 31, 2019)	Number of shares issued as of the filing date (shares) (June 28, 2019)	Stock exchange on which IIJ is listed or authorized financial instruments firms association	Description
Common stock	46,721,400	46,721,400	Tokyo Stock Exchange (the first section)	The number of shares constituting a unit is 100.
Total	46,721,400	46,721,400	—	—

(Note) On April 11, 2019, IIJ applied for delisting from the NASDAQ exchange and the delisting from NASDAQ exchange became effective on April 22, 2019.

(2) Information on Stock Acquisition Rights

① 【Description of Stock Option System】

Stock-Compensation-Type Stock Options (Stock Acquisition Rights)

Under this stock compensation-type stock option plan, IIJ's directors (excluding part-time directors and outside directors) and executive officers will receive stock acquisition rights as stock-based compensation stock options, which are issued and allocated in accordance with the Companies Act, as a substitution for the abolished retirement benefit plan for directors.

#1 Stock Acquisition Rights

Date of resolution	June 28, 2011
Class and number of person for subscription rights to shares	6 Full-time Directors and 8 Executive Officers
Number of stock acquisition rights outstanding (Number)*	100 [100] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share)	Common stock 20,000 [20,000] Notes 1 and 4
Amount to be paid in upon exercise of subscription rights to shares(JPY)	The value of assets to be contributed upon exercise of stock acquisition rights shall be determined by multiplying the price to be paid per share upon exercise of each stock acquisition right (the "exercise price") by the Number of Shares Granted, and the exercise price shall be one (1) yen.
Exercise period of subscription rights to shares	From July 15, 2011 to July 14, 2041
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares	Price of issuing shares :¥1,297.72 Amount of capitalization :¥648.86 Note 4
Condition for exercise of subscription rights to shares	Note 2
Matters regarding acquisition of subscription rights to shares through transfer	Acquisition of subscription rights to shares through transfer shall be subject to approval by resolution of the Board of Directors
Matters regarding the grant of subscription rights to shares to upon organizational restructuring	Note 3

#2 Stock Acquisition Rights

Date of resolution	June 27, 2012
Class and number of person for subscription rights to shares	6 Full-time Directors and 11 Executive Officers
Number of stock acquisition rights outstanding (Number)*	98 [98] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share)*	Common stock 19,600 [19,600] Notes 1 and 4
Amount to be paid in upon exercise of subscription rights to shares(JPY)	The value of assets to be contributed upon exercise of stock acquisition rights shall be determined by multiplying the price to be paid per share upon exercise of each stock acquisition right (the "exercise price") by the Number of Shares Granted, and the exercise price shall be one (1) yen.
Exercise period of subscription rights to shares	From July 14, 2012 to July 13, 2042
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares (JPY)	Price of issuing shares : ¥ 1,593.81 Amount of capitalization : ¥796.905 Note 4
Condition for exercise of subscription rights to shares	Note 2
Matters regarding acquisition of subscription rights to shares through transfer	Acquisition of subscription rights to shares through transfer shall be subject to approval by resolution of the Board of Directors
Matters regarding the grant of subscription rights to shares to upon organizational restructuring	Note 3

#3 Stock Acquisition Rights

Date of resolution	June 26, 2013
Class and number of person for subscription rights to shares	7 Full-time Directors and 10 Executive Officers
Number of stock acquisition rights outstanding (Number)*	75 [75] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share)*	Common stock 15,000 [15,000] Note 1
Amount to be paid in upon exercise of subscription rights to shares(JPY)	The value of assets to be contributed upon exercise of stock acquisition rights shall be determined by multiplying the price to be paid per share upon exercise of each stock acquisition right (the "exercise price") by the Number of Shares Granted, and the exercise price shall be one (1) yen.
Exercise period of subscription rights to shares	From July 12, 2013 to July 11, 2043
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares (JPY)	Price of issuing shares : ¥3,236 Amount of capitalization : ¥1,618
Condition for exercise of subscription rights to shares	Note 2
Matters regarding acquisition of subscription rights to shares through transfer	Acquisition of subscription rights to shares through transfer shall be subject to approval by resolution of the Board of Directors
Matters regarding the grant of subscription rights to shares to upon organizational restructuring	Note 3

#4 Stock Acquisition Rights

Date of resolution	June 25, 2014
Class and number of person for subscription rights to shares	7 Full-time Directors and 10 Executive Officers
Number of stock acquisition rights outstanding (Number)*	108 [108] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share)*	Common stock 21,600 [21,600] Note 1
Amount to be paid in upon exercise of subscription rights to shares(JPY)	The value of assets to be contributed upon exercise of stock acquisition rights shall be determined by multiplying the price to be paid per share upon exercise of each stock acquisition right (the "exercise price") by the Number of Shares Granted, and the exercise price shall be one (1) yen.
Exercise period of subscription rights to shares	From July 11, 2014 to July 10, 2044
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares (JPY)	Price of issuing shares : ¥2,114 Amount of capitalization : ¥1,057
Condition for exercise of subscription rights to shares	Note 2
Matters regarding acquisition of subscription rights to shares through transfer	Acquisition of subscription rights to shares through transfer shall be subject to approval by resolution of the Board of Directors
Matters regarding the grant of subscription rights to shares to upon organizational restructuring	Note 3

#5 Stock Acquisition Rights

Date of resolution	June 26, 2015
Class and number of person for subscription rights to shares	7 Full-time Directors and 11 Executive Officers
Number of stock acquisition rights outstanding (Number) *	142 [142] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share) *	Common stock 28,400 [28,400] Note 1
Amount to be paid in upon exercise of subscription rights to shares(JPY)	The value of assets to be contributed upon exercise of stock acquisition rights shall be determined by multiplying the price to be paid per share upon exercise of each stock acquisition right (the "exercise price") by the Number of Shares Granted, and the exercise price shall be one (1) yen.
Exercise period of subscription rights to shares	From July 14, 2015 to July 13, 2045
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares (JPY)	Price of issuing shares : ¥1,847 Amount of capitalization : ¥923.5
Condition for exercise of subscription rights to shares	Note 2
Matters regarding acquisition of subscription rights to shares through transfer	Acquisition of subscription rights to shares through transfer shall be subject to approval by resolution of the Board of Directors
Matters regarding the grant of subscription rights to shares to upon organizational restructuring	Note 3

#6 Stock Acquisition Rights

Date of resolution	June 24, 2016
Class and number of person for subscription rights to shares	7 Full-time Directors and 12 Executive Officers
Number of stock acquisition rights outstanding (Number) *	152 [152] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share) *	Common stock 30,400 [30,400] Note 1
Amount to be paid in upon exercise of subscription rights to shares(JPY)	The value of assets to be contributed upon exercise of stock acquisition rights shall be determined by multiplying the price to be paid per share upon exercise of each stock acquisition right (the "exercise price") by the Number of Shares Granted, and the exercise price shall be one (1) yen.
Exercise period of subscription rights to shares	From July 12, 2016 to July 11, 2046
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares (JPY)	Price of issuing shares : ¥1,801 Amount of capitalization : ¥900.5
Condition for exercise of subscription rights to shares	Note 2
Matters regarding acquisition of subscription rights to shares through transfer	Acquisition of subscription rights to shares through transfer shall be subject to approval by resolution of the Board of Directors
Matters regarding the grant of subscription rights to shares to upon organizational restructuring	Note 3

#7 Stock Acquisition Rights

Date of resolution	June 28, 2017
Class and number of person for subscription rights to shares	7 Full-time Directors and 11 Executive Officers
Number of stock acquisition rights outstanding (Number) *	163 [163] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share) *	Common stock 32,600 [32,600] Note 1
Amount to be paid in upon exercise of subscription rights to shares(JPY)	The value of assets to be contributed upon exercise of stock acquisition rights shall be determined by multiplying the price to be paid per share upon exercise of each stock acquisition right (the "exercise price") by the Number of Shares Granted, and the exercise price shall be one (1) yen.
Exercise period of subscription rights to shares	From July 15, 2017 to July 14, 2047
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares (JPY)	Price of issuing shares : ¥1,687 Amount of capitalization : ¥843.5
Condition for exercise of subscription rights to shares	Note 2
Matters regarding acquisition of subscription rights to shares through transfer	Acquisition of subscription rights to shares through transfer shall be subject to approval by resolution of the Board of Directors
Matters regarding the grant of subscription rights to shares to upon organizational restructuring	Note 3

#8 Stock Acquisition Rights

Date of resolution	June 28, 2018
Class and number of person for subscription rights to shares	7 Full-time Directors and 11 Executive Officers
Number of stock acquisition rights outstanding (Number) *	163 [163] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share) *	Common stock 32,600 [32,600] Note 1
Amount to be paid in upon exercise of subscription rights to shares(JPY)	The value of assets to be contributed upon exercise of stock acquisition rights shall be determined by multiplying the price to be paid per share upon exercise of each stock acquisition right (the "exercise price") by the Number of Shares Granted, and the exercise price shall be one (1) yen.
Exercise period of subscription rights to shares	From July 14, 2018 to July 13, 2048
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares (JPY)	Price of issuing shares : ¥1,739 Amount of capitalization : ¥869.5
Condition for exercise of subscription rights to shares	Note 2
Matters regarding acquisition of subscription rights to shares through transfer	Acquisition of subscription rights to shares through transfer shall be subject to approval by resolution of the Board of Directors
Matters regarding the grant of subscription rights to shares to upon organizational restructuring	Note 3

#9 Stock Acquisition Rights

Date of resolution	June 27, 2019
Class and number of person for subscription rights to shares	7 Full-time Directors and 12 Executive Officers
Number of stock acquisition rights outstanding (Number)	256 Notes 1 and 5
Type of stock and number of shares subject to stock acquisition rights(Share)	Common stock 51,200 Notes 1 and 5
Amount to be paid in upon exercise of subscription rights to shares(JPY)	The value of assets to be contributed upon exercise of stock acquisition rights shall be determined by multiplying the price to be paid per share upon exercise of each stock acquisition right (the "exercise price") by the Number of Shares Granted, and the exercise price shall be one (1) yen.
Exercise period of subscription rights to shares	From July 13, 2019 to July 12, 2049
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares (JPY)	Note 6
Condition for exercise of subscription rights to shares	Note 2
Matters regarding acquisition of subscription rights to shares through transfer	Acquisition of subscription rights to shares through transfer shall be subject to approval by resolution of the Board of Directors
Matters regarding the grant of subscription rights to shares to upon organizational restructuring	Note 3

*The contents are described as of the end of fiscal year 2019 (March 31, 2019). For the items which changed during the period from the end of the fiscal yaer ended March 31, 2019 (March 31, 2019) to the end of the month previous to the filing (May 31, 2019), the contents described in [ ] are as of the end of the month previous to the filing. No other contents changed from March 31, 2019.

(Notes)

1. Class and number of shares to be issued upon exercise of stock acquisition rights

The class of shares to be issued upon exercise of stock acquisition rights shall be common stock of IIJ. The number of shares to be issued upon exercise of each stock acquisition right (hereinafter referred as "Number of Shares Granted") shall be one (1).

Number of Shares Granted after adjustment	=	Number of Shares Granted before adjustment	×	Ratio of share split or share consolidation

In the case of a share split, the Number of Shares Granted after adjustment shall apply from the day after the record date of said share split. Whereas, in the case of a share consolidation, the Number of Shares Granted after adjustment shall apply from the day the share consolidation becomes effective. This is provided, however, that in cases where IIJ conducts a share split conditional on approval at a General Meeting of Shareholders of IIJ of a proposal to reduce surplus and increase capital stock and capital reserve, the record date for the share split shall be the day prior to the day on which said shareholders' meeting closes, the Number of Shares Granted after adjustment shall retroactively apply from the day after the day the applicable shareholders' meeting closes and the day following the applicable record date.

2. Terms and conditions of exercising stock acquisition rights

1) Partial execution of each stock acquisition right is not allowed.

2) A person granted the stock acquisition rights may exercise these rights only within ten (10) days from the day following the day the person loses his or her position as a Director or Executive Officer of IIJ, except for losing his or her position by passing away. However, this does not apply if his or her legal heir who inherits the stock acquisition rights as described in the following paragraph 3) exercises the rights.

3) If a person granted the stock acquisition rights passes away, only one of his or her legal heir is permitted to inherit the granted stock acquisition rights (hereinafter referred to as the "Grantee"), The Grantee can exercise the rights only within six (6) months after inheriting the new share acquisition rights. If the Grantee passes away, the stock acquisition rights cannot be passed on to the legal heir of the Grantee.

4) The Share Purchase Warrants shall not be transferred to third parties, offered for pledge or disposed of in any other way

5) Matters concerning other conditions for the exercise of stock acquisition rights, other than the items prescribed above, shall be determined at the meeting of the Board of Directors when the terms and conditions of offering of stock acquisition rights are determined.

3. Matters concerning the details of the issuance of stock acquisition rights undergoing Organizational Restructuring

In the event IIJ merges (limited to cases wherein IIJ becomes a dissolving company), performs an absorption-type demerger or an incorporation-type demerger (only if IIJ becomes the split company), or conducts a share exchange or a share transfer (only if IIJ becomes a wholly owned subsidiary) (hereinafter collectively referred to as "Organizational Restructuring"), stock acquisition rights of a corporation described in Article 236, Paragraph 1, Items 8.1 through 8.5 of the Corporation Law of Japan (hereinafter "Restructured Company") shall be granted to each Stock Acquisition Right Holder remaining unexercised (hereinafter "Remaining Stock Acquisition Rights") immediately before the date when Organizational Restructuring takes effect (refers to the date when the absorption-type merger takes effect, the date on which the company is incorporated through the incorporation-type merger, the date when the absorption-type demerger takes effect, the date on which the company incorporated through the incorporation-type demerger, the date when share exchange takes effect, or the date when the wholly owning parent company is established by share transfer). However, the foregoing shall apply only to cases in which the delivery of stock acquisition rights of the Restructured Company according to the following conditions is stipulated in the absorption-type merger agreement, the incorporation-type merger agreement, the absorption-type demerger agreement, the incorporation-type demerger plan, the share exchange agreement or the share transfer plan.

1) Number of stock acquisition rights of the Restructured Company to be delivered

IIJ shall deliver stock acquisition rights, the number of which shall equal the number of stock acquisition rights held by the holder of the Remaining Stock Acquisition Rights.

2) Class of shares of the Restructured Company to be issued upon exercise of stock acquisition rights

Common stock of the Restructured Company

3) Number of shares of the Restructured Company to be issued upon exercise of stock acquisition rights

To be decided according to Note 1 above after taking into consideration the conditions, etc., of the Organizational Restructuring.

4) Value of the assets to be contributed upon exercise of stock acquisition rights

The value of the assets to be contributed upon exercise of each stock acquisition right shall be the amount obtained by multiplying the amount to be paid after restructuring as stipulated below, and the number of shares of the Reorganized Company to be issued upon exercise of the stock acquisition rights as determined in accordance with 3) above. The amount to be paid after restructuring shall be one (1) yen per share of the Restructured Company that can be granted due to the exercise of each stock acquisition right to be granted.

5) Exercise period of stock acquisition rights

Starting from the later of either the commencement date of the exercise period of stock acquisition rights as stipulated above, or the date on which the Organizational Restructuring becomes effective, and ending on the expiration date for the exercise of stock acquisition rights as stipulated in above.

6) Matters concerning increase in capital stock and capital reserve to be increased by the issuance of shares upon exercise of stock acquisition rights

(a) Amount of increase in capital stock by issuing shares upon exercise of stock acquisition rights shall be half of the upper limit of capital increase as calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance for Corporate Accounting, with the resulting fractions of less than one (1) yen occurring upon such calculation being rounded up to the nearest yen.

(b) The amount of increase in capital reserve by issuing shares upon exercise of stock acquisition rights shall be the upper limit of capital increase as described in (a) above less the amount of increase in capital set out therein.

7) Restriction on acquisition of stock acquisition rights by transfer

Any acquisition of stock acquisition rights by transfer shall be subject to approval by resolution of the Board of Directors of the Restructured Company.

8) Conditions for acquisition of stock acquisition right

Should a resolution for the approval of any of the proposals (a) or (b) below be adopted at the General Meeting of Shareholders of IIJ (or at a meeting of the Board of Directors of IIJ if a resolution at a General Meeting of Shareholders is not required), IIJ may acquire the stock acquisition rights as at the date specifically determined by the Board of Directors of IIJ without contribution.

(a) Proposal for approval of a merger agreement under which IIJ shall be merged

(b) Proposal for approval of a share exchange agreement or share transfer plan under which IIJ shall be a wholly owned subsidiary

9) Other terms and conditions of exercising stock acquisition rights

To be determined in accordance with Note 2 below.

4. IIJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. In connection with the stock split, the number of shares to be issued upon exercise of stock acquisition rights has been adjusted from 1 share to 200 shares per stock acquisition right, and the issuance price and capitalization amount of shares in the case of issuing shares through the exercise of stock acquisition rights are each adjusted to 1: 200.
5. The maximum number as described above is the number of planned allotments. If the actual number of the stock acquisition rights to be allotted decreased for reasons such as not applying for subscription, then the number of the stock acquisition rights to be issued shall decrease to be equal to the actual number of the stock acquisition rights to be allotted.
6. As of the date of submission, the price of issuing shares and the amount of capitalization are not determined.

② 【Details of rights plan】

Not applicable

③ 【Other share acquisition rights】

Not applicable

(3) Information on Moving Strike Convertible Bonds

Not applicable.

(4) Changes in the Total Number of Issued Shares and Capital

Date	Changes in the total number of issued shares (shares)	Balance of the total number of issued shares (shares)	Changes in capital (thousands of yen)	Balance of capital (thousands of yen)	Changes in capital reserve (thousands of yen)	Balance of capital reserve (thousands of yen)
April 1, 2014	3,200	46,701,000	2,835	22,960,636	2,835	9,681,320
July 1, 2015	10,400	46,711,400	9,642	22,970,278	9,641	9,690,961
April 3, 2017	2,400	46,713,800	2,305	22,972,583	2,305	9,693,266
April 2, 2018	7,600	46,721,400	6,907	22,979,490	6,909	9,700,175

(Note) Increased by exercise of stock acquisition rights

(5) Composition of Shareholders

As of March 31, 2019

Classification	Status of shares (one unit = 100 shares)								Number of shares less than one unit (shares) (Note)
	National and local governments	Financial institutions	Financial instruments business operators	Other institutions	Foreign shareholders: Non-individuals	Foreign shareholders: Individuals	Individual and others (Note)	Total	
Number of shareholders (persons)	—	32	35	81	182	8	5,912	6,250	—
Number of shares held (units)	—	98,152	3,826	178,778	114,890	20	71,425	467,091	12,300
Percentage of shares held (%)	—	21.01	0.82	38.27	24.60	0.00	15.29	100.00	—

(Note) Of 1,650,911 shares of treasury stock, 16,509 units are included in “Individual and others,” and nine shares are included in “Number of shares less than one unit.”

(6) Major Shareholders

As of March 31, 2019

Name	Address	Number of shares held (shares)	Ownership percentage of the total number of issued shares other than treasury stock (%) (Note) 1
Nippon Telegraph and Telephone Corporation	5-1 Otemach 1-chome, Chiyoda-ku, Tokyo	10,095,000	22.40
NTT Communications Corporation	1-6 Uchisaiwai-cho 1-chome, Chiyoda-ku, Tokyo	2,040,000	4.53
ITOCHU Techno-Solutions Corporation	2-5 Kasumigaseki 3-chome, Chiyoda-ku, Tokyo	1,952,000	4.33
Koichi Suzuki	Chiyoda-ku, Tokyo	1,830,400	4.06
The Master Trust Bank of Japan, Ltd. (Trust account) (Note 2)	11-3 Hamamatsu-cho 2-chome, Chiyoda-ku, Tokyo	1,414,300	3.14
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Trust & Custody Services Bank, Ltd.)	13-1 Yurakucho 1-chome, Chiyoda-ku, Tokyo (Harumi Triton Square Office Tower Z, 8-12 Harumi 1-chome, Chuo-ku, Tokyo)	1,273,000	2.82
Japan Trustee Services Bank, Ltd (Trust account9) (Note 2)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	1,190,700	2.64
GOLDMAN, SACHS & CO. REG (Standing proxy: Goldman Sachs Japan Co., Ltd.)	200 West Street New York, NY, U.S.A. (Roppongi Hills Mori Tower , 10-1 Roppongi 6-chome Minato-ku, Tokyo)	1,079,700	2.40
Japan Trustee Services Bank, Ltd (Trust account 9) (Note 2)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	1,013,700	2.25
THE BANK OF NEW YORK MELLON AS DEPOSITARY BANK FOR DEPOSITARY RECEIPT HOLDERS(Note 3) (Standing proxy: Sumitomo Mitsui Banking Corporation)	ONE WALL STREET, NEW YORK, N.Y. 10286, U.S.A (3-2 Marunouchi 1-chome, Chiyoda-ku, Tokyo)	817,491	1.81
Total	—	22,706,291	50.38

(Note) 1. The percentage are rounded to two decimal places.
2. Numbers of shares held by Japan Trustee Services Bank, Ltd and The Master Trust Bank of Japan, Ltd are those related to trust business.
3. “THE BANK OF NEW YORK MELLON AS DEPOSITARY BANK FOR DEPOSITARY RECEIPT HOLDERS” is a depositary name which the depositary bank uses in relation to depositary of IIJ’s shares and issue of IIJ’s ADR. The number of shares the bank held was the number of depositary shares equivalent to IIJ’s ADR issued.
4. Koichi Suzuki, who is a representative director and chairman of IIJ, jointly owns IIJ stocks through his wholly owned private company called KS Holdings which holds 810,000 shares of IIJ's common stock, 1.80% of the total outstanding shares
5. According to the change report of the Report of Possession of Large Volume filed by Dalton Investments LLC on May 22, 2019, Dalton Investments LLC held 2,949,600 shares of common stock, 6.3% of the total outstanding shares as of May 17, 2019. We cannot recognize the number of shares held by Dalton Investments LLC as of March 31, 2019. Therefore, the table above does not include Dalton Investments LLC as a major shareholder.
6. According to the change report of the Report of Possession of Large Volume filed by Global Alpha Capital Management Ltd., on March 15, 2019, Global Alpha Capital Management Ltd. held 2,838,926 shares of common stock, 6.1% of the total outstanding shares as of March 12, 2019, Although we did not recognize change report filed after that day, we cannot recognize the number of shares held by Global Alpha Capital Management Ltd. as of March 31, 2019. Therefore, the table above does not include Global Alpha Capital Management Ltd. as a major shareholder.
7. There were 1,650,911 shares of treasury stock, which were not included in the above table.

(7) Information on Voting Rights

① Issued shares

As of March 31, 2019

Classification	Number of Shares (shares)	Number of Voting Rights	Description
Shares without Voting Rights	—	—	—
Shares with Restricted Voting Rights (treasury stock, etc.)	—	—	—
Shares with Restricted Voting Rights (others)	—	—	—
Shares with Full Voting Rights (treasury stock, etc.)	Treasury Stock: 1,650,900 shares of common stock	—	—
Shares with Full Voting Rights (others)	45,058,200 shares of common stock	450,582	—
Shares Representing Less than One Unit	12,300 shares of common stock	—	—
Number of Issued Shares	46,721,400 shares of common stock	—	—
Total Number of Voting Rights	—	450,582	—

② Treasury Stock

As of March 31, 2019

Name	Address	Number of shares held under own name (shares)	Number of shares held under the name of others (shares)	Total number of shares held (shares)	Ownership percentage of total number of shares outstanding (%)
(Treasury Stock) Internet Initiative Japan Inc.	2-10-2 Fujimi, Chiyoda-ku, Tokyo	1,650,900	—	1,650,900	3.53
Total	—	1,650,900	—	1,650,900	3.53

2 Information on Acquisitions of Treasury Stock

Class of shares Acquisition of common stocks under Article 155, Item 7 of the Companies Act

(1) Status of Acquisitions of Treasury Stock resolved at the General Meeting of Shareholders

Not applicable.

(2) Status of Acquisitions of Treasury Stock resolved at Meetings of the Board of Directors

Not applicable.

(3) Description of Acquisitions of Treasury Stock not Based on Resolutions at the General Meeting of Shareholders or Meetings of the Board of Directors

Classification	Number of shares	Amount(thousands of yen)
Treasury stock acquired for the year ended March 31, 2019	2	5
Treasury stock acquired for the period from April 1, 2019 to June 27, 2019	—	—

(4) Status of Dispositions and Holdings of Acquired Treasury Stock

Classification	Fiscal year ended March 31, 2019		Period from April 1, 2019 to June 27, 2019	
	Number of shares (shares)	Total disposition amount (thousands of yen)	Number of shares (shares)	Number of shares (shares)
Acquired treasury stock for which subscribers were solicited	—	—	—	—
Acquired treasury stock which was canceled	—	—	—	—
Acquired treasury stock which was transferred due to merger, share exchange or company split	—	—	—	—
Other（ — ）	—	—	—	—
Total number of treasury stock held	1,650,911	—	1,650,911	—

3 Dividend Policy

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

IIJ’s Articles of Incorporation stipulates that IIJ may pay interim dividends to shareholders. Basically, the frequency of dividend payments is twice each fiscal year, an interim dividend and a year-end dividend, and the interim dividend is decided by the meeting of the Board Directors and the year-end dividend is approved at the General Meeting of Shareholders.

Based on the policy above, for the fiscal year ended March 31, 2018, IIJ paid total cash dividend of ¥27.0 per share of common stock, which consists of a cash dividend of ¥13.5 per share of common stock as an interim dividend and a cash dividend of ¥13.5 per share of common stock.

Retained earnings shall be used mainly in investment and expenditure for continuously expanding our business, M&A for further achieving our medium- to long-term growth, and others, while considering the enhancement of financial position.

The following table shows dividends whose effective dates are in the fiscal year ended March 31, 2019.

Date of resolution	Total cash dividends (Thousands of yen)	Dividend per Shares (Yen)
The Meeting of the Board of Directors on November 6, 2018	608,452	13.50
The General Meeting of Shareholders on June 27, 2019	608,452	13.50

4 Corporate Governance

(1)【Overview of Corporate Governance】

① Basic Policy for the Corporate Governance

The Company recognizes the importance of enhancing corporate governance to achieve its mission of supporting and operating Internet which has become indispensable to social infrastructure and to consistently enhance our corporate value. The Company has social responsibilities for a wide range of stakeholders including shareholders, customers, vendors, employees and Internet users of all kinds. Therefore, considering the importance of the Company's influence on society, in addition to fulfilling our accountability to shareholders, the Company thinks it is necessary to strive to obtain understandings of various stakeholders.

② Overview of the corporate governance structure and reasons for adopting the structure

［Overview of our management organization and the corporate governance structure］

As of the filing date of this document, IIJ's Board of Directors consists of 13 directors (including seven full-time directors), including five outside directors and IIJ's board of company auditors consists of four company auditors (including two full-time company auditors), including three outside Company auditors. Further, IIJ has an Internal Auditing Office consisting of four members, including a manager. IIJ adopted the executive officer system with an aim to further enhance its corporate governance by separating its decision making and supervisory function from the business execution function and to realize rapid and efficient business execution.

Oversight and supervision of business execution is carried out by means of ordinary (monthly) and extraordinary meetings of the Board of Directors, management meetings consisting of directors, executive officers, etc., and monitoring and giving the necessary instructions to each of our businesses, project, subsidiaries, etc. Oversight of business management and business audits are carried out by means of ordinary (monthly) and extraordinary meetings of the board of company auditors, assigning of a financial expert and legal expert to the board of company auditors, conducting continuous auditing, including of our domestic subsidiaries as well as overseas companies by company auditors and our Internal Auditing Office, and operation of our whistleblowers hotline system. Business activities by directors and employees of the Company are governed by the Code of Ethics, the Basic Rules for Internal Control, etc.

［Basic information of our organization］

(1) Board of Directors

IIJ's Board of Directors holds ordinary meetings every month and extraordinary meetings when needed, in order to make decisions on items defined by laws and IIJ's articles of incorporation and other important business issues, where directors mutually supervise business execution. As of the filing date of this document, IIJ's Board of Directors consists of 13 directors (Representative Director/Chairman Koichi Suzuki (chairman), Eijiro Katsu, Takeshi Kikuchi, Akihisa Watai, Tadashi Kawashima, Junichi Shimagami, Naoshi Yoneyama, Yasurou Tanahashi (outside director), Shingo Oda (outside director), Toshinori Iwasawa, Tadashi Okamura (outside director), Takashi Tsukamoto (outside director) and Shinobu Umino (outside director).

(2) Board of Company Auditors

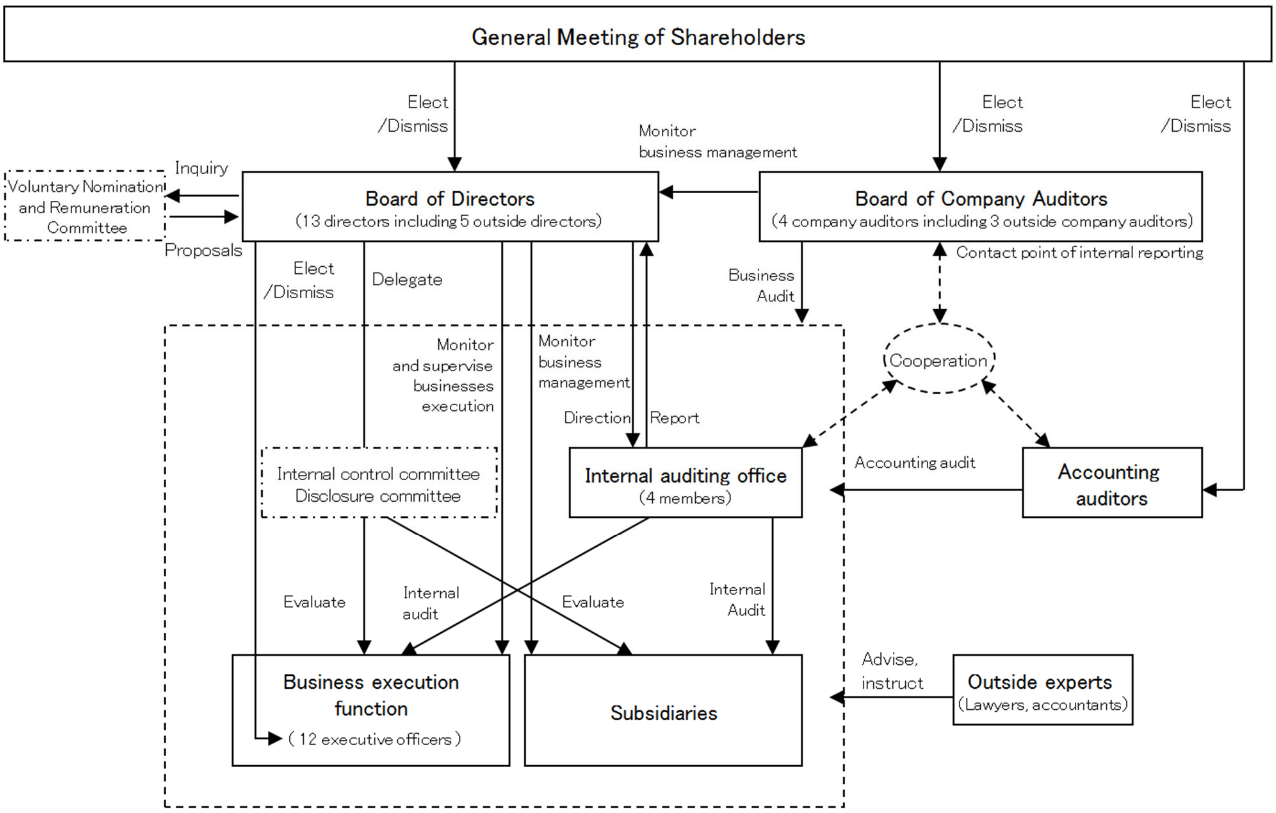
IIJ's board of company auditors holds ordinary meetings every month and extraordinary meetings when needed in order to supervise business executions by the directors. In addition, by associating with our Internal Auditing Office, IIJ's board of company auditors shares information necessary for the audits. As of the filing date of this document, IIJ's board of company auditors consists of four auditors (Kazuhiro Ohira (chairman, outside company auditor), Masako Tanaka, Yasuhiro Akatsuka (outside company auditor) and Takashi Michishita (outside company auditor)).

(3) Nomination and Remuneration Committee

IIJ has voluntarily established the Nomination and Remuneration Committee to maintain and improve fairness and transparency of decision making in directors' nomination and remuneration. In the process of determining appointment or dismissal of directors and remuneration amounts for directors, the Nomination and Remuneration Committee plays an advisory role to IIJBoard of Directors. As of the filing date of this document, the Nomination and Remuneration Committee consists of seven directors (Representative Director/Chairman Koichi Suzuki (chairman), Eijiro Katsu, Yasurou Tanahashi (outside director), Shingo Oda (outside director), Tadashi Okamura (outside director), Takashi Tsukamoto (outside director) and Shinobu Umino (outside director))

The following chart illustrates our corporate governance structure:

＜Outline Map of the Corporate Governance system＞



［**Reasons for adoption thereof**］

IIJ adopts the system of a company with a board of company auditors. We have strengthened corporate governance by having functions of oversight and supervision on business management based on the experience and knowledge of five outside directors and three outside company auditors. The reasons for adopting this system are as follows.

・IIJ has appointed qualified persons as a lawyer and a certified public accountant with extensive experience, broad knowledge and expertise for our company auditors, and there has not been any problem in the system thus far.

・From the viewpoint of audit continuity, unless dismissed at the General Meeting of Shareholders, an audit by a corporate auditor with a term of four years is expected to be more effective than an audit committee with a term of office of one year.

③ **Other matters regarding corporate governance**

［**Internal control system, risk management system, status of improvement of system to ensure the appropriateness of operations of subsidiaries, etc.**］

IIJ has stipulated a basic policy for the establishment of the internal control system, and maintained and operated the system based on the policy. The outline is as follows.

For ensuring the appropriateness of execution of duties by directors and employees in accordance with the law and IIJ's articles of incorporation, IIJ has established regulations requiring strict adherence to the laws, including the code of ethics and insider trading prevention provisions. In addition, IIJ has established a system for consulting with lawyers and other experts outside the Company. IIJ has established an internal reporting system for reporting any legal violations, and maintained an internal notification system. An office of internal audits has conducted internal audits on a regular basis. IIJ has established a Disclosure Committee that evaluates content for appropriateness and completeness.

For appropriate management of information related to the execution of duties by directors, IIJ has appointed an executive officer in charge of information security. In addition, IIJ has established basic information security regulations, which it properly operates it.

Regarding governing risk management, executive officers that oversee the operation of each division identify the risks defined by the governing regulations, evaluate these risks and develop measures to counter these risks, as well as review them on a regular basis. An evaluation committee will be established, when needed, to evaluate risk and to develop countermeasures.

Regarding ensuring the efficient execution of duties by directors, IIJ has taken measures such as goal management based on an annual plan, clarification of authority and responsibility etc.

IIJ has established a regulation on subsidiary management to ensure efficiency of the business of IIJ Group companies including subsidiaries, concluded agreements with subsidiaries, etc., and established a system whereby subsidiaries report and consult on necessary matters. IIJ has taken measures such as formulation of regulations governing the entire corporate group on important matters concerning internal control. IIJ also conducts internal audits of our subsidiaries.

Regarding measures for effective auditing by company auditors, the internal auditing office and the company auditors closely cooperate and hear opinions of company auditors on personnel located in the internal auditing office. Directors and employees periodically provide necessary reports and information to the board of company auditors regarding the internal reporting system with the board of company auditors as the contact point. It protects secrets of internal whistleblowers and prohibits disadvantageous treatment, regarding the expenses required for the duties of the board of company auditors, hears the opinions of the company auditors and set a reasonable budget, IIJ has taken measures to secure the external experts necessary for the performance of audit work.

［**Outline of limited liability contracts**］

In order for the directors and company auditors to execute their expected roles, IIJ's articles of incorporation stipulates that IIJ may, pursuant to the provision of Article 426 Paragraph 1 of the Companies Act of Japan, with a resolution of the Board of Directors, exempt outside director and company auditors (either incumbent or past) from their liabilities for damages under Article 423 Paragraph 1 of the Companies Act of Japan, establishing a limit to the amount for which directors and company auditors would have been liable for compensation, less the minimum amount of liability as prescribed by laws or regulations, if the requirements prescribed by laws or regulations are satisfied.

In addition, IIJ's articles of incorporation stipulates that IIJ may, pursuant to Article 427 Paragraph 1 of the Companies Act of Japan, conclude agreements with outside directors and company auditors to limit their liabilities for damages under Article 423, Paragraph 1, for the same purpose, if the requirements prescribed by laws or regulations are satisfied. In accordance with the provisions of its articles of incorporation, IIJ has concluded agreements with outside directors and company auditors (excluding full-time company auditor, Kazuhiro Ohira). The agreements stipulate that should outside directors and company auditors have acted in good faith and without gross negligence, the outside directors and company auditors' liability to IIJ shall be limited to JPY10 million or the minimum amount of liabilities stipulated under Article 427, Section 1 of the Companies Act of Japan, whichever is higher.

［**Matters regarding directors**］

a. Number of directors

IIJ set the maximum number of directors at 14 in its articles of incorporation.

b. Requirement for a resolutions to appoint directors

A resolution to appoint a director can be made by a majority of voting rights of the shareholders present at a meeting where shareholders representing one third (1/3) or more of the total number of the voting rights of all shareholders entitled to vote thereat are present; provided that cumulative voting shall not be adopted for such election by IIJ's articles of incorporation.

［**Matters regarding resolutions resolved at the General Meeting of Shareholders**］

a. Resolutions determined by the Board of Directors for approval at the General Meeting of Shareholders

ⅰ) Acquisition of Own Shares

In order to acquire our own shares in a flexible manner depending on business condition, status of assets and other circumstance, in accordance with Article 165, Paragraph 2 of the Companies Act of Japan, IIJ's articles of incorporation stipulates that IIJ may acquire its own shares through market transactions or other methods by resolution of the Board of Directors.

ⅱ) Interim dividends

In order to return profit to our shareholders in a flexible manner, IIJ's articles of incorporation stipulate that IIJ may, by resolution of the Board of Directors, pay interim dividends based on the record date of September 30 of each year.

ⅲ) Exemption of Liability for Directors

Please refer to "4 Corporate Governance, (1) Overview of Corporate Governance, ③Other matters regarding corporate governance［Outline of limited liability contracts］" of this document.

b. Requirement for special resolutions of a General Meeting of Shareholders

Special resolutions under Article 309 Paragraph 2 of the Companies Act of Japan shall be passed by two-thirds or more of the voting rights of the shareholders present, having one-third or more of the voting rights of all shareholders who are entitled to exercise voting rights by IIJ's articles of incorporation present.

The purpose of relaxing the quorum for special resolutions at the General Meeting of Shareholders is to ensure that meetings proceed smoothly.

(2)【Status of Directors and Company Auditors】

① Members of the Board of Directors and the board of company auditors

Consisting of 16 male directors and company auditors and one female company auditor (the ratio of female members is 5.9%)

Position	Responsibility	Name	Date of birth	Brief personal records		Current term expires	Number of shares owned
Representative Director/ Chairman	Chief Executive Officer	Koichi Suzuki	Sep. 3, 1946	Apr. 1972	Joined Japan Management Association	(*4)	1,831,765
				Sep. 1983	President and Representative Director of Applied Research Institute, Inc.		
				Dec. 1992	Director at the establishment of IIJ		
				Apr. 1994	President, Representative Director and Chief Executive Officer of IIJ (Current Position)		
				Mar. 1996	IIJ America Inc. Chairman of the Board (Current position)		
				Nov. 1996	President and Representative Director of IIJ Technology Inc.		
				Sep. 1997	President and Representative Director of Internet Multifeed Co. (Current position)		
				Feb. 1998	President and Representative Director of Netcare Inc. (Currently, IIJ Engineering Inc.)		
				Apr. 2004	Chairman and Representative Director of IIJ Technology Inc.		
				Aug. 2007	Director of Taihei Computer Co., Ltd. (Currently, Trinity Inc.) (Current position)		
				Jul. 2008	Director of IIJ Innovation Institute Inc. (Current position)		
				Sep. 2010	Director of IIJ Global Solutions Inc. (Current position)		
				Jun. 2013	Chairman, Representative Director and Chief Executive Officer of IIJ (Current Position)		
				Dec. 2016	Chairman and Representative Director of JOCDN Inc. (Current position)		
				Jun. 2017	Chairman of Telecom Services Association (Current position)		
				Jan. 2018	Director of DeCurret Inc. (Current position)		
				Jun. 2019	Chairman and Representative Director of IIJ Engineering Inc. (Current position)		
Representative Director/ President	Chief Operating Officer	Eijiro Katsu	June 19, 1950	Apr. 1975	Joined Ministry of Finance (“MOF”)	(*4)	31,265
				Jun. 1995	Director, Foreign Exchange and Money Market Department, International Finance Bureau, MOF		
				Jul. 1997	Budget Examiner of Budget Bureau, MOF		
				Jul. 2007	Director-General of the Financial Bureau, MOF		
				Jul. 2009	Director-General, Budget Bureau, MOF		
				Jul. 2010	Vice Minister of Finance		
				Aug. 2012	Retired from MOF		
				Nov. 2012	Joined IIJ as Special Advisor		
				Jun. 2013	President, Representative Director and Chief Operating Officer of IIJ (Current position)		
				Jun. 2014	Outside Auditor of The Yomiuri Shimbun (Current position)		
				Jan. 2018	Director of DeCurret Inc. (Current position)		

Position	Responsibility	Name	Date of birth	Brief personal records		Current term expires	Number of shares owned
Senior Managing Director	Unit Director of Business Unit	Takeshi Kikuchi	Apr. 27, 1959	Apr. 1983 Apr. 1996 Jul. 1999 Oct. 2005 Apr. 2010 Jun. 2010 Apr. 2015 Apr. 2016	Joined Itochu Corporation Temporarily transferred to IIJ Joined IIJ Technology Inc. President and Representative Director of the same Division director of Enterprise business Division 2 of IIJ Senior Managing Director of IIJ (Current Position) Unit Director of Business Unit of IIJ Unit Director of Business Unit of IIJ (Current Position)	(*3)	59,941
Managing Director	Chief Financial Officer	Akihisa Watai	Sep. 30, 1965	Apr. 1989 Aug. 1996 Feb. 2000 Apr. 2004 Jun. 2004 Feb. 2006 Aug. 2006 Jul. 2007 Jun. 2008 Apr. 2010 Sep. 2010 Apr. 2011 Nov. 2011 Apr. 2013 Dec 2014 Apr. 2015 Jan. 2018	Joined Sumitomo Bank, Ltd. (Currently, Sumitomo Mitsui Banking Corporation) Temporarily transferred to IIJ Joined IIJ General Manager of finance department, Administrative Division, of IIJ Director and Chief Financial Officer of IIJ Corporate Auditor of Internet Revolution, Inc. (Current position) Director of Net Chart Japan Inc. (Current position) Director of Trust Networks Inc. (Current position) Company Auditor of IIJ Innovation Institute Inc. (Current position) Managing Director and Chief Financial Officer of IIJ(Current position) Company Auditor of IIJ Global Solutions Inc. (Current position) Division Director of Corporate Planning Division of IIJ Director of Trinity Inc. (Current position) Division Director of Administrative Division of IIJ Director of Ryukosha Netware Inc. (Current position) Division Director of Financial Division (Current position) Director of DeCurret Inc. (Current position)	(*3)	13,168
Managing Director	Deputy Unit Director of Business Unit	Tadashi Kawashima	Feb. 27, 1963	Apr. 1986 Jul. 1988 Jun. 2011 Jun. 2013 Jun. 2015 Apr. 2016	Joined Nippon Telegraph and Telephone Corporation Joined NTT DATA Communications Systems Corporation (Currently, NTT DATA Corporation) Head of Public Division Department 2, First Public Administration Systems Sector of the same Senior Specialist of Public and Financial IT Business Department of the same President and Representative Director of NTT DATA Tokai Corporation Managing Director of IIJ (Current position) Deputy Unit Director of Business Unit of IIJ (Current position)	(*4)	2,136

Position	Responsibility	Name	Date of birth	Brief personal records		Current term expires	Number of shares owned
Director	CTO	Junichi Shimagami	Apr. 17, 1967	Apr. 1990 Sep. 1996 Aug. 2003 Apr. 2006 Jun. 2006 Apr. 2007 Jun. 2007 Apr. 2010 Apr. 2015 Jun. 2015 Apr. 2016	Joined Nomura Research Institute, Ltd. Joined IIJ General Manager of Network Operation and Management Department, Network Management Division, of IIJ General Manager of Service Operation Department, Network Service Division, of IIJ Director of Internet Multifeed Co. (Current position) Division Director of Network Service Division of IIJ Director of IIJ Executive Managing Officer and Division Director of Service of IIJ Senior Executive Managing Officer, Division Director of Network Division and CTO of IIJ Director and CTO of IIJ Director, CTO and Division Director of Technology Unit of IIJ (Current position)	(*4)	9,568
Director	Division Director of Corporate Planning Division	Naoshi Yoneyama	Nov. 25, 1965	Apr. 1990 Oct. 1998 Apr. 2012 Apr. 2015 Apr. 2016 Dec. 2016 Jun. 2018 Jun.2019	Joined Sumitomo Bank, Ltd. (Currently, Sumitomo Mitsui Banking Corporation) Joined IIJ Executive Officer and Division Director of Technology Departmernts of IIJ Executive Managing Officer and Division Director of Technology, General Manager of Corporate Planning Department of IIJ Executive Managing Officer and Division Director of Corporate Planning Division of IIJ Director of JOCDN Inc. (Current position) Senior Executive Managing Officer, Division Director of Corporate Planning Division of IIJ Director, Division Director of Corporate Planning Division of IIJ (Current position)	(*4)	20,000
Director		Yasuro Tanahashi (*1)	Jan. 4, 1941	Apr. 1963 Jun. 1993 Jun. 1995 Apr. 1997 Apr. 2000 Apr. 2001 Apr. 2003 Jun. 2004 May 2005 Jun. 2005 Jun. 2007 Jun. 2010	Joined Fuji Iron & Steel Co., Ltd. (Currently, Nippon Steel & Sumitomo Metal Corporation) General manager of equipment sales department of the same Director of EI Business of the same Managing Director of the same President and Representative Director of Nippon Steel Information & Communication Systems Inc. (Currently, NS Solutions Corporation) President and Representative Director of NS Solutions Corporation Chairman and Representative Director of the same Director of IIJ (Current Position) Chairman of Japan Information Techmology Services Industry Association Director of Murata Manufacturing Co., Ltd. Advisor of NS Solutions Corporation Director of Yokogawa Electric Corporation Director of San Holdings, Inc.	(*3)	0

Position	Responsibility	Name	Date of birth	Brief personal records		Current term expires	Number of shares owned
Director		Shingo Oda (*1)	Nov. 8, 1944	Apr. 1970 Feb. 2002 May 2005 Apr. 2008 Jun. 2008	Joined Yokokawa Hewlett-Packard Company (Currently, Hewlett-Packard Japan, Ltd) Executive Vice President and Representative Director of Hewlett-Packard Japan, Ltd President and Representative Director of the same Director of TIS Inc. Director of IIJ (Current Position)	(*3)	0
Director		Toshinori Iwasawa	May 8, 1962	Apr. 1985 Mar. 2000 Apr. 2008 Mar. 2009 Sep. 2010 Jun. 2013	Joined IBM Japan Ltd. Joined AT&T Global Network Service Japan LLC (Currently, AT&T Japan LLC) Director of AT&T Japan LLC President and Representative Director of AT&T Japan Inc. President and Representative Director of IIJ Global Solutions Inc. (Current position) Director of IIJ (Current position)	(*4)	1,441
Director		Tadashi Okamura (*1)	Jul. 26, 1938	Apr. 1962 Oct. 1993 Jun. 1994 Jun. 1996 Jun. 1998 Apr. 1999 Jun. 2000 Jun. 2003 Jun. 2005 Jun. 2009 Jun. 2010 Jun. 2015 Jun. 2016	Joined Tokyo Shibaura Electric Co., Ltd. (Currently, Toshiba Corporation) Division Director of Information Processing and Controlling Systems Business of the same Director of the same Managing Director of the same Director and Senior Vice President of the same Director, Senior Vice President and President of Information and Industrial Systems & Services Company of the same Director, President and Chief Executive Officer of the same Director, Representative Executive Officer, President and Chief Executive Officer of the same Director and Chairman of the Board of the same Advisor to the Board of the same Director of IHI Corporation Director of IIJ (Current position) Honorary Advisor to the Board of Toshiba Corporation (Current position)	(*4)	113

Position	Responsibility	Name	Date of birth	Brief personal records		Current term expires	Number of shares owned
Director		Takashi Tsukamoto (*1)	Aug. 2, 1950	Apr. 1974	Joined The Dai-Ichi Kangyo Bank, Ltd. (Currently, Mizuho Bank, Ltd.)	(*4)	336
				Apr. 2004	Managing Executive Officer (Head of EMEA) of Mizuho Corporate Bank, Ltd. (Currently, Mizuho Bank, Ltd.)		
				Apr. 2007	Deputy President of the same		
				Apr. 2008	Deputy President & CFO of Mizuho Financial Group, Inc.		
				Apr. 2009	President and CEO of the same		
				Jun. 2011	President and CEO of Mizuho Bank, Ltd.		
					Chairman of Mizuho Financial Group, Inc.		
				Jul. 2013	Chairman of Mizuho Bank, Ltd.		
				Apr. 2014	Senior Advisor of Mizuho Financial Group, Inc.		
				Jul. 2016	Director of Asahi Mutual Life Insurance Company (Current position)		
				Apr. 2017	Honorary Advisor of Mizuho Financial Group Inc. (Current position)		
				May 2017	Director of AEON CO., LTD. (Current position)		
				Jun. 2017	Director of IIJ (Current position)		
Director		Shinobu Umino (*1)	Aug. 4, 1952	Apr. 1975	Joined Nippon Telegraph and Telephone Public Corporation	(*3)	168
				Jun. 2003	Senior Vice President and Senior Executive Manager of the Corporate Planning Department of NTT Data Corporation		
				Jun. 2008	Senior Executive Vice President of NTT Communications Corporation		
				Jun. 2012	President and Representative Director of NTT COMWARE Corporation.		
				Jun. 2017	Chief Executive Adviser of the same (Current position)		
				Jun. 2018	Director of IIJ (Current position)		

Position	Responsibility	Name	Date of birth	Brief personal records		Current term expires	Number of shares owned
Full-time Company Auditor		Kazuhiro Ohira (*2)	Dec. 26, 1957	Apr. 1980 Apr. 2008 Jun. 2010 Jun. 2010 Jun. 2010 Sep. 2010 Nov. 2011 Dec. 2014 Jan. 2018	Joined The Dai-Ichi Mutual Life Insurance Company (Currently, The Dai-Ichi Life Insurance Company, Ltd.) General Manager of International Corporate Relations Department of the same Company Auditor of IIJ (Current position) Company Auditor of Trust Networks Inc. (Current position) Company Auditor of Net Chart Japan Inc. (Current position) Company Auditor of IIJ Global Solutions Inc. (Current position) Company Auditor of Trinity Inc. (Current position) Company Auditor of RYUKOSHA NETWARE Inc. (Current position) Company Auditor of DeCurret Inc. (Current position)	(*5)	0
Full-time Company Auditor		Masako Tanaka	Apr. 4, 1958	Dec. 1992 May, 1993 Feb. 2002 Jun. 2003 Apr. 2014 Jun. 2018	Joined IIJ General Manager of Administrative Department of IIJ General Manager of Human Resources Department of IIJ Company Auditor of Internet Multifeed Co. (Current position) General Manager of Human Resources, Administrative Division, of IIJ Company Auditor of IIJ (Current Position) Company Auditor of IIJ Engineering Inc. (Current position)	(*6)	173,200
Company Auditor		Yasuhiro Akatsuka (*2)	Feb. 10, 1947	Nov. 1972 Feb. 1982 Sep. 2011 Nov. 2012 Mar. 2013 Jun. 2016	Joined Deloitte Haskins & Sells (Currently, Deloitte Touche Tohmatsu LLC) Admitted, Certified Public Accountant Resigned from Deloitte Touche Tohmatsu LLC Joined The Japanese Institute of Certified Public Accountants (“JICPA”), senior technical staff of JICPA (Current Position) Company Auditor of ICJ, Inc. (Current Position) Company Auditor of IIJ (Current Position)	(*5)	0
Company Auditor		Takashi Michishita (*2)	Feb. 1, 1969	Apr. 1994 Jul. 2002 Jul. 2007 Aug. 2012 Jun. 2016 Apr. 2019	Admitted, Tokyo Bar Association, joined Asahi Law Office (Currently, Nishimura & Asahi.) Partner of the same Partner of Nishimura & Asahi Partner of Nishimura & Asahi LPC (Currently, Nishimura & Asahi.) Company Auditor of IIJ (Current Position) Partner of Nishimura & Asahi. (Current Position)	(*5)	0
Total							2,143,101

(Notes)

*1. Yasuro Tanahashi, Shingo Oda, Tadashi Okamura, Takashi Okamura and Shinobu Umino are outside directors.

*2. Kazuhiro Ohira, Yasuhiro Akatsuka and Takashi Michishita are outside Company auditors.

*3. The term of office of the Directors starts upon election at the Annual General Meeting of Shareholders for the year ended March 31, 2018 and expires at the close of the Annual General Meeting of Shareholders for the year ending March 31, 2020.

*4. The term of office of the Directors starts upon election at the Annual General Meeting of Shareholders for the year ended March 31, 2019 and expires at the close of the Annual General Meeting of Shareholders for the year ending March 31, 2021.

*5. The term of office of the Company Auditors starts upon election at the Annual General Meeting of Shareholders for the year ended March 31, 2016 and expires at the close of the Annual General Meeting of Shareholders for the year ending March 31, 2020.

*6. The term of office of the Director starts upon election at the Annual General Meeting of Shareholders for the year ended March 31, 2017 and expires at the close of the Annual General Meeting of Shareholders for the year ending March 31, 2021.

Executive Officers:

The following table provides information about our executive officers as of June 28, 2019.

Name	Position and Major Responsibility
Masayoshi Tobita	Managing Executive Officer Division Director of Administrative Division, Division Director of Business Unit Management Division, Director in charge of IT Strategic Planning Office
Kiyoshi Ishida	Managing Executive Officer Division Director of Product Division, Director in charge of Research Laboratory
Makoto Ajisaka	Managing Executive Officer Division Director of Service Product Business Division
Yoshikazu Yamai	Managing Executive Officer Division Director of Infrastructure Engineering Division
Koichi Maruyama	Managing Executive Officer Division Director of Global Business Division
Masakazu Tachikui	Managing Executive Officer Deputy Unit Director of Technology Unit
Yasumitsu Iizuka	Executive Officer Deputy Division Director of Global Business Division President and CEO of IIJ America Inc.
Seiji Okita	Executive Officer Division Director of Professional Services Division 1
Masami Kawamata	Executive Officer General Manager of Accounting Department
Akira Sumiya	Executive Officer General Manager of Compliance Department
Takenori Onishi	Executive Officer Division Director of Enterprise Business Division 1
Takahiro Ide	Executive Officer Division Director of Enterprise Business Division 2

② Status outside directors and Company auditors

［Number of outside directors and Company auditors］

IIJ has five outside directors and three outside Company auditors.

［Personal, capital, business or any other relationship of interest between outside directors or outside company auditors and the company］

Mr. Shinobu Umino, our outside director, is from NTT which is another affiliated company of IIJ owning 26.9% (including indirect ownership) of IIJ's voting shares as of the end of March 2019. The Company enters into a number of different kinds of transactions with NTT and its subsidiaries including purchases of telecommunication circuits in the ordinary course of business, and there are no special arrangements, etc. due to this capital relationship.

Mr. Takashi Tsukamoto, our outside director, is from Mizuho Bank, Ltd. which is one of our major banks. He is concurrently serving as an honorary advisor to Mizuho Financial Group. IIJ has borrowings from and enters into other bank transactions with Mizuho Bank, Ltd. in the ordinary course of business, and there are no special arrangements, etc. due to this bank relationship.

Mr. Kazuhiro Ohira, our outside Company auditor, is from Dai-ichi Life Insurance Co., Ltd. which is a shareholder (owning 2.8% of IIJ’s voting shares) of IIJ, but there are no special arrangements, etc. between IIJ and Dai-ichi Life Insurance Co., Ltd. in relation to human, business or other relationship of interest.

Mr. Yasuhiro Akatsuka, our outside Company auditor, is from Deloitte Touche Tohmatsu LLC which had been our accounting auditor until the end of our 27th ordinary General Meeting of Shareholders held on June 27, 2019. A considerable period of time had passed since his retirement from Deloitte Touche Tohmatsu LLC, and there are no special arrangements, etc. between Mr. Akatsuka and Deloitte Touche Tohmatsu LLC in relation to human, capital, business or other relationship of interest. Further, Deloitte Touche Tohmatsu LLC. withdrew as our accounting auditor at the conclusion of the 27th ordinary General Meeting of Shareholders held on May 27, 2019, with the expiration of the term of engagement.

Other than the above, there is no personal, capital, business or any other relationship of interest between outside directors or outside Company auditors and IIJ.

［Roles of outside directors and outside Company auditors in corporate governance］

By having oversight and supervisory functions over business management based on the experience and knowledge of outside directors and Company auditors, the Company believes that accountability of directors is fulfilled, which contributes to appropriate management decisions and increased management transparency.

［Standards for independence of outside directors and outside Company auditors, and the mindset regarding election］

In addition to the requirement of outside directors as set forth by the Companies Act of Japan and the standards established by Tokyo Stock Exchange, Inc., IIJ has set its "Standards on the Independence of Outside Directors and Outside Company Auditors," which includes conditions on adequate independence. IIJ selects independent outside directors and outside Company auditors based on these criteria which are as follows:

(Standards on the Independence of Outside Directors and Outside Company Auditors)

Outside directors and outside Company auditors should not fall under any one of the categories below:

(1) Major shareholders holding voting rights equivalent to 10% or more of the total voting rights of IIJ, or in the case of a corporation or organization, an executive of that corporation or organization.
(2) An executive of a major client of the Company, or executive of a corporation or organization that deals with the Company as a major business partner. (*1)
(3) An executive of a financial institution to which IIJ owes significant borrowings. (*2)
(4) A person who receives significant amounts of compensation or other economic benefit (other than their remuneration as a director or company auditor) as a consultant, accountant, or lawyer for the Company, or where a corporation or organization, a person belonging thereto. (*3)
(5) An executive of a corporation or organization that receives significant donations from the Company. (*4)
(6) A person who served a corporation or organization falling under any of the categories in (1) to (5) above as an executive within the past 3 years.
(7) A spouse or relative within two degrees of kinship of a person falling under any of the categories below:
 ・A person falling under any of the categories in (1) to (5) above
 ・A person who is a director or executive of a subsidiary of IIJ
(8) In addition to the stipulations above, a person who is deemed to have a lack of independence by comprehensive consideration of IIJ.

If a person falls under any of the conditions from (1) through (8) as stipulated above, a reason for judging that such person still has independence is required to be explained and disclosed when such a person is appointed as an independent director or Company auditor.

(*1) Classification as a "major client of the Company" is judged by the annual sales that the Company made to the client in any fiscal year out of the most recent three fiscal years. The threshold is 2% of the annual sales of the Company.
Classification as a "corporation or organization that deals with the Company as a major business partner" is judged by the annual sales between the corporation or organization and the Company in any fiscal year out of the most recent three fiscal years. The threshold is 2% of the annual sales of the corporation or organization.
(*2) Classification as "significant borrowings" is judged by the amount of borrowings. The threshold is 2% of the gross assets of IIJ in any fiscal year out of the most recent three fiscal years.
(*3) Classification as "significant amounts of compensation or other economic benefit" is judged by the benefit that the person has received from the Company (other than their remuneration as a director or company auditor) in any fiscal year out of the most recent three fiscal years. The threshold is remuneration or other economic benefit of ¥10 million or more; or where the person belongs to a corporation or organization, whether or not that corporation or organization has received from the Company remuneration or other economic benefit that exceeds 2% of the annual sales of the corporation or organization in any fiscal year out of the most recent three fiscal years or ¥10 million, whichever is higher.
(*4) Classification as "significant donations" is judged by the amount of donations in any fiscal year out of the most recent three fiscal years that have been received from the Company. The threshold is ¥10 million a year or 2% of the annual total costs of the corporation or organization, whichever is higher.

［**Limited Liability contracts with outside directors and outside company auditors**］

Please refer to “4 Corporate Governance, (1) Overview of Corporate Governance, ③Other matters regarding corporate governance,［Outline of limited liability contracts］”of this document.

③ Supervision, audit or internal audit conducted by outside directors or outside company Company auditors, mutual cooperation with Company auditors’ in their audits and accounting audit and relationships with the internal auditing office

Please refer to “4 Corporate Governance, (1) Overview of Corporate Governance, ②Overviews of corporate governance structure and reasons for adopting the structure, ［Overview of our management organization and the corporate governance structure］and ［Reasons for adoption thereof］”, and also refer to “4 Corporate Governance, (3) Status of Audits” of this document.

(3)【Status of Audits】

①Status of Company auditors' audit

The board of company auditors is one of the important elements of our internal control system. The audits by the Company auditors are performed mainly through daily business audits by full-time Company auditors, attendance at the Board of Directors meetings and the holding of regular board of company auditors' meetings, etc., based on the Companies Act of Japan. For accounting audits, the board of company auditors cooperates with the accounting auditors by receiving detailed reports on quarterly consolidated financial results, etc. In addition, the board of company auditors has authorized and operates a whistleblower hotline system for the reporting of improper behavior regarding internal control or accounting audits. Further, to conduct these activities effectively and appropriately, IIJ makes an effort to appoint financial and legal experts as Company auditors.

③ Status of Internal audit

IIJ has an internal auditing office consisting of four members, including a manager. The internal auditing office conducts internal audits on a regular basis, identifies areas for improvement in regard to compliance in each business execution department and monitors for improvements. The internal auditing office cooperates with the board of company auditors and conducts efficient internal audits.

④ Status of Accounting auditors' audit

［Accounting auditors, etc. of IIJ］

a. Name of the accounting auditor, etc.

For accounting audits based on the Companies Act of Japan and the Financial Instruments and Exchange Act of Japan, the Company has been audited by the Deloitte Touche Tohmatsu LLC as the accounting auditor.

For the fiscal year ended March 31, 2019, the names of the certified public accountants who executed the engagement and the composition of assistants in relation to the audit engagement were as follows:

Names of the certified public accountants who executed the engagement

Designated unlimited liability partner, engagement partner: Kumiko Aso

Designated unlimited liability partner, engagement partner: Norihiro Watanabe

Composition of assistants in relation to the audit engagement:

Certified public accountant: 11 persons

Associate members of the Japanese Institute of Certified Public Accountants: 2 persons

Others: 36 persons

b. Reasons for the election of the accounting auditor

IIJ elected the accounting auditor, and continuously evaluates said auditor, by considering whether proper and adequate auditing has been ensured and that the auditor possesses the expertise and independence required for our accounting audits.

In addition, the IIJ has established "Policy for Dismissal or Refusal to Rehire an Accounting Auditor", which is as follows:

The Accounting auditor should be decided by comprehensively considering various factors, including ability, the organization and team (including the auditing team), the performance of duties, the quality of audits and independence. If the board of company auditors determines that the Accounting Auditor doesn't meet the above-stated requirements, or it is otherwise necessary, the board of company auditors will consider submitting a proposal for dismissal or non-election of the accounting auditor to the General Meeting of Shareholders. Also, If the board of company auditors determines that the accounting auditor falls under any Item of Paragraph 1, Article 340 of the Companies Act of Japan or violates provisions in the Companies Act of Japan, the Certified Public Accountants Act or other related laws or acts, or makes the Company lose a relationship of mutual trust, the board of company auditors will consider dismissing the accounting auditor.

c. Evaluation of accounting auditor by Company auditors and the board of company auditors

Company auditors of the company and the board of company auditors have established seven major Evaluation Category including "quality control for accounting auditor," "auditing team," "remuneration for accounting auditor," "communication with Company auditors," "relationship with management," "group auditing" and "fraud risk" and several sub-items to each major item, and conduct an evaluation of the accounting auditor every year.

④Remuneration for the accounting auditor, etc.

a. Remuneration for the accounting auditor of the Company

Category	For FY2017		For FY2018	
	Remuneration for audit services (Millions of yen)	Remuneration for non-audit services (Millions of yen)	Remuneration for audit services (*) (Millions of yen)	Remuneration for non-audit services (Millions of yen)
IIJ	113	0	104	23
Consolidated subsidiaries	16	—	16	—
Total	129	0	120	23

［Details of non-audit services］

FY2017:

IIJ paid the accounting auditor for training services on accounting practices.

FY2018:

IIJ paid the accounting auditor for IFRS advisory services on accounting practices.

b. Remuneration for the accounting auditor's network (the accounting auditor's group companies other than the accounting auditor)

Category	For FY2017		For FY2018	
	Remuneration for audit services (Millions of yen)	Remuneration for non-audit services (Millions of yen)	Remuneration for audit services (Millions of yen)	Remuneration for non-audit services (Millions of yen)
IIJ	—	—	—	—
Consolidated subsidiaries	—	2	—	1
Total	—	2	—	1

［Details of remuneration］

FY2017:

IIJ's consolidated subsidiary paid JPY 2 million to Tohmatsu Innovation Co., Ltd. for training services.

FY2018:

IIJ's consolidated subsidiary paid JPY 1 million to Tohmatsu Innovation Co., Ltd. for training services.

c. Other material items based on the audit contract

Not applicable.

d. Policy on deciding remuneration for the accounting auditor

Considering our business scale, characteristics, audit results for the past fiscal years, etc., with an estimate of reasonable remuneration for the accounting audit, the Company discusses the amount of audit remuneration with the accounting auditors. By obtaining the prior approval of the board of company auditors, the Company makes a final decision on the audit remuneration.

e. Reason that the board of company auditors approved the remuneration for the accounting auditor

The reason that the board of company auditors approved the remuneration for the accounting auditor based on Article 399, Section 1 of the Companies Act of Japan, is that the board of company auditors evaluated the accounting auditor's audit performed after considering the services rendered by the accounting auditor, time spent on auditing and communication with our business execution departments and confirmed its appropriateness.

(4)【Remuneration for directors and company auditors, etc.】

① **Policy on determining directors and company auditors' remuneration amounts and calculation methods**

The maximum aggregate amount of remuneration for directors is 500 million yen (including bonuses and stock compensation-type stock options) per year and the maximum aggregate amount of remuneration for Company auditors is 100 million yen (including bonuses) per year. This was determined by resolution at IIJ's 16th ordinary General Meeting of Shareholders held on June 27, 2008 (the number of applicable directors and Company auditors at the time of the resolutions was 14 directors, including four outside directors, and four Company auditors, including three outside company auditors). For directors' remuneration, representative directors (Koichi Suzuki and Eijiro Katsu) submit remuneration proposals to the Nomination and Remuneration committee, which discusses the proposal, and the final decision will be made after these processes. For Company auditors' remuneration, the board of company auditors determines the amount of remuneration.

In addition, stock compensation-type stock option, which is a stock acquisition right entitling its holder to acquire shares upon the exercise of a stock acquisition right at an exercise price of one yen (1 yen) per share, are allocated to directors (except for part-time and outside directors) and executive officers as a substitution for the retirement benefits planned for them and in order to further motivate and incentivize them to enhance IIJ's medium- to long-term business performance and corporate value. The board of directors resolves the number of each allotment in consideration of their responsibilities and contributions to our financial results.

② **Breakdown of aggregate remuneration by director and Company auditor category, remuneration type, and number of applicable directors and company auditors**

Category	Total Remuneration	Breakdown of Remuneration (Millions of yen)				Number of Persons
		Fixed Salary	Stock Option	Retirement Benefit	Others	
Directors *	305	268	37	-	1	7
Company Auditor **	11	11	-	-	-	2
Outside Directors and Outside Company Auditors	37	37	-	-	1	8

(*) Excluding outside directors' remuneration
(**) Excluding outside company auditors' remuneration.
(***)In addition to the above, IIJ paid the company auditors' accrued retirement benefits of JPY4,000 thousand for the year ended March 31, 2019, which were recognized over past years related to the retirement benefit plan abolished on the resolution at the ordinary General Meeting of Shareholders of IIJ on June 24, 2016.

③ **Aggregate consolidated remuneration by director for submitting companies**

No single person was awarded consolidated remuneration equal to or in excess of JPY100 million, therefore nobody is listed.

(5)【Status of Shareholding】

①Standard and policy on classifying shareholdings for the purpose of net investment or for purposes other than net investment

The Company classifies shareholdings in order to enjoy investment return and dividends as shareholdings for the purpose of net investment and in order to enhance our corporate value and earn profit through strategic shareholdings as shareholdings for purposes other than net investment.

②Methods to verify our policy and rationality of our shareholdings for purposes other than net investment (listed shares)

After thoroughly considering our business strategies, relationships with our business partners and our cost of capital, the Company might hold shares for purposes other than net investment if the Company believes such shareholdings will enhance our corporate value and bring profit to all our shareholders. IIJ evaluates the rationality of each shareholding through the Board of Directors, etc., based on investment returns and business contribution against our cost of capital.

③Shares for purposes other than net investment

	Number of stocks (Number)	Balance sheet value (Millions of Yen)
Unlisted shares	11	382
Shares other than unlisted shares	4	7,617

(Decrease of shares in FY2018)

	Number of stocks (Number)	Total selling amount of stock sale (Millions of Yen)
Unlisted shares	2	45
Shares other than unlisted shares	—	—

④Classification, issuer's name, number of shares, balance sheet value, purpose and qualitative contribution of shareholding regarding shares for purposes other than net investment

Issuer's name	As of March 31, 2019 Number of shares (Shares) Balance sheet value (Millions of Yen)	As of March 31, 2018 Number of shares (Shares) Balance sheet value (Millions of Yen)	Purpose and quantitative contribution of shareholding (*)	Issuer's holdings of IIJ shares
Recruit Holdings Co., Ltd.	1,500,000 4,742	1,500,000 3,967	The Company has continuous transactions with Recruit Holdings Co., Ltd. Considering the business relationship, the Company continues to hold shares of this company.	Not holding
SIGMAXYZ Inc.	1,980,000 2,057	1,980,000 4,231	The Company has continuous transactions with SIGMAXYZ Inc. Considering the business relationship, the Company continues to hold shares of this company.	Not holding
PIA Corporation	150,000 689	150,000 818	The Company has continuous transactions with PIA Corporation. Considering the business relationship, the Company continues to hold shares of this company.	Not holding
Future Innovation Group Inc.	400,000 130	400,000 142	The Company has continuous transactions with FIG, Inc. Considering the business relationship, the Company continues to hold shares of this company.	Not holding

(*) It is difficult to describe the quantitative contribution of each shareholding. IIJ evaluates the rationality of each shareholding through the Board of Directors, etc., based on investment returns and business contribution against our cost of capital.

⑤Shares for the purpose of net investment

	As of March 31, 2018 (Millions of Yen)		As of March 31, 2019 or for FY2018 (Millions of Yen)				
	Number of stock (Number)	Balance sheet value (Millions of Yen)	Number of stock (Number)	Balance sheet value (Millions of Yen)	Total dividends received (Millions of Yen)	Total net gain or loss on sale (Millions of Yen)	Total net gain or loss on valuation (Millions of Yen)
Unlisted shares	—	—	—	—	—	—	—
Shares other than unlisted shares	3	18	2	2	0	1	(1)

Item 5. Consolidated Financial Statements

① 【Consolidated Statements of Financial Position】

	Notes	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
		Thousands of yen	Thousands of yen	Thousands of yen
Assets				
Current Assets				
Cash and cash equivalents	6	21,747,209	21,320,004	31,957,789
Trade receivables	7,31, 34	27,258,636	31,569,389	33,375,808
Inventories	8	2,706,825	1,544,869	3,403,192
Prepaid expenses		6,979,191	7,595,216	8,522,554
Other financial assets	10,31, 34	2,554,960	3,758,636	1,581,212
Other current assets		96,508	55,074	130,900
Total Current Assets		61,343,329	65,843,188	78,971,455
Non-current Assets				
Tangible assets	11	28,666,071	33,524,196	33,136,059
Goodwill	12	6,169,609	6,082,472	6,082,472
Intangible assets	12	15,891,361	17,762,896	18,818,707
Investments accounted for using the equity method	33	3,150,175	5,246,313	4,837,867
Prepaid expenses		6,464,325	7,687,980	8,037,298
Other investments	9	9,522,757	12,884,390	11,402,365
Other financial assets	10,31, 34	4,875,944	4,857,197	5,293,547
Other non-current assets		1,664,322	1,112,520	532,839
Deferred tax assets	13	209,789	161,577	176,587
Total non-current assets		76,614,353	89,319,541	88,317,741
Total assets		137,957,682	155,162,729	167,289,196

	Notes	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
Liabilities and Equity		Thousands of yen	Thousands of yen	Thousands of yen
Liabilities				
Current liabilities				
Trade and other payables	14, 31, 34	17,096,434	16,530,712	21,962,239
Borrowings	15, 31	9,250,000	9,250,000	12,750,000
Deferred income		3,731,048	4,155,957	5,461,813
Other financial liabilities	15, 16, 31, 34	4,985,663	5,965,285	7,031,690
Income taxes payable		868,420	1,792,834	1,139,460
Other current liabilities	19	3,906,106	4,442,485	4,559,005
Total current liabilities		39,837,671	42,137,273	52,904,207
Non-current liabilities				
Borrowings	15, 31	8,500,000	15,500,000	14,000,000
Other financial liabilities	15, 16, 31, 34	11,858,443	11,828,565	12,151,346
Retirement benefit liabilities	17	3,532,965	3,724,634	3,488,501
Provisions	18	659,243	710,680	731,257
Deferred income		3,445,948	3,748,701	5,518,492
Other non-current liabilities	19	865,124	914,637	954,387
Deferred tax liabilities	13	583,487	1,351,007	421,396
Total non-current liabilities		29,445,210	37,778,224	37,265,379
Total liabilities		69,282,881	79,915,497	90,169,586
Equity	20			
Share capital		25,509,499	25,511,804	25,518,712
Share premium		36,117,510	36,175,936	36,225,775
Retained earnings	22	5,745,897	9,678,821	12,335,035
Other components of equity	21, 29	2,560,350	5,058,955	4,088,704
Treasury shares		(1,896,784)	(1,896,784)	(1,896,788)
Total equity attributable to owners of the parent		68,036,472	74,528,732	76,271,438
Non-controlling interests		638,329	718,500	848,172
Total equity		68,674,801	75,247,232	77,119,610
Total liabilities and equity		137,957,682	155,162,729	167,289,196

② 【Consolidated Statements of Profit or Loss】

	Notes	For the year ended March 31, 2018	For the year ended March 31, 2019
		Thousands of yen	Thousands of yen
Revenues			
Network services		108,083,658	118,626,271
System integration		64,118,979	69,652,389
ATM operation business		4,030,684	4,151,525
Total revenues	5,23,34	176,233,321	192,430,185
Cost of sales			
Cost of network services		(88,557,484)	(101,257,454)
Cost of systems integration		(56,941,689)	(59,871,900)
Cost of ATM operation business		(2,365,403)	(2,326,133)
Total cost of sales	24,34	(147,864,576)	(163,455,487)
Gross Profit		28,368,745	28,974,698
Selling, general and administrative expense	24,34	(21,473,500)	(22,652,036)
Other operating income	25	61,385	47,008
Other operating expenses	26	(187,013)	(346,683)
Operating Profit		6,769,617	6,022,987
Finance income	27	407,258	570,004
Finance expenses	27	(439,335)	(431,763)
Share of profit (loss) of investments accounted for using equity method	33	134,656	(318,244)
Profit (loss) before tax		6,872,196	5,842,984
Income tax expense	13	(2,279,282)	(2,144,196)
Profit (loss) for the year		4,592,914	3,698,788
Profit (loss) for the year attributable to:			
Owners of the parent		4,422,923	3,520,566
Non-controlling interests		169,991	178,222
Total		4,592,914	3,698,788
Earnings per share			
Basic earnings per share (yen)	28	98.15	78.11
Diluted earnings per share (yen)	28	97.82	77.80

③ 【Consolidated Statements of Comprehensive Income】

	Notes	For the year ended March 31, 2018	For the year ended March 31, 2019
		Thousands of yen	Thousands of yen
Profit (loss) for the year		4,592,914	3,698,788
Other comprehensive income, net of tax	29		
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		3,203,237	(1,001,192)
Remeasurement of defined benefit plans		80,428	350,139
Total items that will not be reclassified to profit or loss		3,283,665	(651,053)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(65,856)	47,377
Financial assets measured at fair value through other comprehensive income		918	1,260
Share of other comprehensive income of investments accounted for using equity method		6,493	(15,386)
Total of items that may be reclassified to profit or loss		(58,445)	33,251
Total other comprehensive income, net of tax		3,225,220	(617,802)
Other comprehensive income for the year		7,818,134	3,080,986
Other comprehensive income for the year attributable to:			
Owners of the parent		7,684,143	2,902,764
Non-controlling interest		169,991	178,222
Other comprehensive income for the year		7,818,134	3,080,986

Note. Income tax related to the components of other comprehensive income refers to Note 29. OTHER COMPREHENSIVE INCOME.

④ 【Consolidated Statements of Changes in Shareholders' Equity】

For the year ended March 31, 2018

	Notes	Owners of the parent's shareholders' equity: Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares	Total	Non-controlling interests	Total equity
		Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Balance, April 1, 2017		25,509,499	36,117,510	5,745,897	2,560,350	(1,896,784)	68,036,472	638,329	68,674,801
Comprehensive income									
Profit for the year		—	—	4,422,923	—	—	4,422,923	169,991	4,592,914
Other comprehensive income	21	—	—	—	3,225,220	—	3,225,220	—	3,225,220
Total comprehensive income		—	—	4,422,923	3,225,220	—	7,648,143	169,991	7,818,134
Transactions with owners									
Issuance of common stock		2,305	(2,303)	—	—	—	2	—	2
Dividends paid	22	—	—	(1,216,666)	—	—	(1,216,666)	(46,800)	(1,263,466)
Stock-based compensation	30	—	57,321	—	—	—	57,321	—	57,321
Transfer from other components of equity to retained earnings	21	—	—	726,615	(726,615)	—	—	—	—
Other changes		—	—	52	—	—	52	—	52
Total transactions with owners		2,305	55,018	(489,999)	(726,615)	—	(1,159,291)	(46,800)	(1,206,091)
Changes in the interests of subsidiaries									
Equity transactions with non-controlling interests		—	3,408	—	—	—	3,408	(43,020)	(39,612)
Total changes in the interests of subsidiaries		—	3,408	—	—	—	3,408	(43,020)	(39,612)
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

For the year ended March 31, 2019

	Notes	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	Thousands of yen	Thousands of yen
Balance, April 1, 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 for the year		—	—	3,520,566	—	—	3,520,566	178,222	3,698,788
Other comprehensive income	21	—	—	—	(617,802)	—	(617,802)	—	(617,802)
Total comprehensive income		—	—	3,520,566	(617,802)	—	2,902,764	178,222	3,080,986
Transactions with owners									
Issuance of common stock		6,908	(6,901)	—	—	—	7	—	7
Purchase of treasury stock	20	—	—	—	—	(4)	(4)	—	(4)
Dividends paid	22	—	—	(1,216,801)	—	—	(1,216,801)	(48,550)	(1,265,351)
Stock-based compensation	30	—	56,740	—	—	—	56,740	—	56,740
Transfer from other components of equity to retained earnings	21	—	—	352,449	(352,449)	—	—	—	—
Other changes		—	—	—	—	—	—	—	—
Total transactions with owners		6,908	49,839	(864,352)	(352,449)	(4)	(1,160,058)	(48,550)	(1,208,608)
Balance, March 31, 2019		25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610

⑤ 【Consolidated Statements of Cash Flows】

	Notes	For the year ended March 31, 2018	For the year ended March 31, 2019
		Thousands of yen	Thousands of yen
Cash flows from operating activities:			
Profit (loss) before tax		6,872,196	5,842,984
Adjustments			
Depreciation and amortization		13,412,489	15,628,567
Loss on sales of property and equipment		101,976	303,072
Shares of loss (profit) of investments accounted for using the equity method		(134,656)	318,244
Finance income		(262,596)	(569,387)
Finance expenses		405,132	430,176
Other		(37,687)	21,166
Changes in working capital			
Decrease (increase) in trade receivables		(4,612,748)	(1,758,343)
Decrease (increase) in inventories		1,158,554	(1,857,488)
Decrease (increase) in prepaid expenses		(1,852,635)	(1,275,117)
Decrease (increase) in other assets		654,322	557,337
Decrease (increase) in other financial assets		(1,027,394)	2,333,483
Increase (decrease) in trade and other payables		280,492	5,499,957
Increase (decrease) in deferred income		766,520	2,883,178
Increase (decrease) in other liabilities		584,951	156,096
Increase (decrease) in other financial liabilities		125,564	29,211
Increase (decrease) in retirement benefit liabilities		309,082	275,019
Sub total		16,743,562	28,818,155
Interest and dividends received		324,670	182,714
Interest paid		(402,031)	(427,199)
Income taxes paid		(2,002,382)	(3,420,784)
Cash flows from operating activities		14,663,819	25,152,346

	Notes	For the year ended March 31, 2018	For the year ended March 31, 2019
		Thousands of yen	Thousands of yen
Cash flows from investing activities			
Purchases of tangible assets		(11,092,490)	(7,080,371)
Proceeds from sales of tangible assets		3,271,032	3,070,798
Purchases of intangible assets		(6,120,793)	(5,400,380)
Proceeds from sales of intangible assets		36,406	1,579
Proceeds from sale of subsidiaries		726,081	—
Purchase of investments accounted for using equity method		(2,004,808)	—
Purchases of other investments		(104,940)	(44,013)
Proceeds from sales of other investments		1,364,411	565,477
Payments for leasehold deposits and guarantee deposits		(378,883)	(20,848)
Proceeds from collection of leasehold deposits and guarantee deposits		24,296	56,224
Proceeds from subsidies		48,976	230,000
Payments for refundable insurance policies		(56,362)	(56,355)
Other		(9,715)	(9,700)
Cash flows from investing activities		(14,296,789)	(8,687,589)
Cash flows from financing activities			
Proceeds from long-term borrowings	35	7,000,000	—
Net increase (decrease) in short-term borrowings	35	(150,000)	2,000,000
Proceeds from other financial liabilities	35	—	697,863
Payments of other financial liabilities	35	(6,264,436)	(7,322,252)
Dividends paid		(1,216,666)	(1,216,801)
Other		(86,410)	(48,560)
Cash flows from financing activities		(717,512)	(5,889,750)
Effect of exchange rate changes on cash and cash equivalents		(76,723)	62,778
Net increase (decrease) in cash and cash equivalents		(427,205)	10,637,785
Cash and cash equivalents, beginning of year		21,747,209	21,320,004
Cash and cash equivalents, end of year		21,320,004	31,957,789

Notes to consolidated financial statements

1. REPORTING ENTITY

Internet Initiative Japan Inc. ("IIJ") is a company incorporated in Japan. The registered addresses of its headquarters and primary business offices are disclosed on IIJ's website—URL https://www.iij.ad.jp/—. The consolidated financial statements of IIJ have an annual closing date as of March 31 and comprise the financial statements of IIJ and its subsidiaries (collectively "the Company"), and the interests in associated companies.

The details of principal businesses and activities of the Company are stated in Note 5. SEGMENT INFORMATION.

2. BASIS OF PREPARATION

(1) The consolidated financial statements of the Company have been prepared in accordance with IFRS pursuant to the provision of Article 93 of Regulations for Consolidated Financial Statements, as the Company meets the criteria of a "Designated IFRS Specified Company" defined under Article 1-2 of the regulations.

The Company adopted IFRS for the first time this fiscal year (from April 1, 2018 to March 31, 2019), and the date of transition to IFRS is April 1, 2017.

In transitioning to IFRS, the Company applied IFRS 1, "First-time Adoption of International Financial Reporting Standards" (hereinafter, "IFRS 1"). The effect on the Company's financial position, results of operations and cash flows caused by the transition to IFRS are provided in Note 38. FIRST-TIME ADOPTION. Except for the exemptions noted above related to the adoption of IFRS, the Company's accounting policies are in accordance with IFRS effective the fiscal year ended March 31, 2019. Exemptions applied are stated in Note 38. FIRST-TIME ADOPTION.

(2) Basis of Measurement

As stated in Note 3 Summary of significant accounting policies, the Company's consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value

(3) Functional Currency and Presentation Currency

The Company's consolidated financial statements are presented in Japanese yen, which is also IIJ's functional currency, and figures are rounded to the nearest thousand yen. Also, each company that comprises the Company determines its functional currency reflecting the economic environment in which the company operates its business and measures its transactions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of Consolidation

① Subsidiaries

Subsidiaries are entities that are controlled by the Company. The Company is deemed to control an investee when it has the power (the ability to affect the investee's activities) and it is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. The Company comprehensively determines whether or not to control, based on the status of voting rights or similar rights and contracts on investees.

All significant balances of inter-company receivables and payables and transactions between consolidated companies are eliminated during the preparation of the consolidated financial statements.

Financial statements of subsidiaries are included in the Company's consolidated financial statements from the date on which control commences until the date on which control is lost.

Any change in ownership interests in subsidiaries that does not result in a loss of control is accounted for as an equity transaction. When control on a subsidiary is lost, the Company measures retained interest at fair value at the time of loss of control and gains and losses arising from the loss of control are recognized in profit or loss.

There are consolidated subsidiaries for which it is impracticable to unify their fiscal year-ends with that of IIJ due to certain requirement of local laws and regulations. These subsidiaries have different fiscal year-ends from IIJ. The Company uses additional financial information for these subsidiaries prepared as of the same date as the Company's annual closing date for the consolidated financial statements.

② Investments in associates and joint ventures

Associates are entities over which the Company has significant influence, but not control, in terms of financial and operating policies. The Company is deemed to have significant influence over another entity when the Company own 20% or more but less than 50% of voting interests in the entity.

Joint ventures are entities over which multiple ventures or parties including the Company share control under contractual arrangement and which require unanimous consent of the parties sharing control in making decisions regarding related activities.

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the Company recognizes investment at cost, and after that, the Company changes the amount of the investment according to the portion of the Company and subsidiaries' interests in profit or loss and other comprehensive income which the equity method investees earned or recognized.

If the Company's share of losses of the equity method investees exceeds the amount of the investment, the Company decreases the carrying amount of the investment and other long-term investments to zero. Incremental losses are not recognized except when the Company bears or pays for the investee's liabilities.

Unrealized gains from transactions with equity method investees are deducted from the investment up to the portion that corresponds to the percentage interests that the Company has in the investees. Unrealized losses are deducted in the same way as unrealized gains as long as no evidence of impairment exists.

The Company's consolidated financial statements include the financial statements of associates and joint ventures with fiscal year-ends that differ from IIJ's annual closing date. The Company makes necessary adjustments related to the effects of significant transactions and events occurring between IIJ's annual closing date and those of associates or joint ventures.

③ Business combinations

Business combinations are accounted for using the acquisition method

Non-controlling interests that represent ownership interests in the acquiree and entitle holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at fair value or proportionate share of recognized amounts of identifiable net assets of the acquiree.

Costs related to acquisition are recognized as expenses in the period in which they are incurred.

If the initial accounting for a business combination cannot be determined by the end of the first reporting period, the business combination is accounted for using provisional amounts and the provisional amounts are adjusted during measurement periods that are one year or less from the date of acquisition.

(2) Foreign currency translation

① Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the spot exchange rate on the date of transaction or a reasonable approximation.

Foreign currency monetary items are translated into the functional currency using the closing rate on the last day of each reporting period. Foreign currency non-monetary items measured at historical cost are translated into the functional currency using the rate at the date of transaction. Foreign currency non-monetary items measured at fair value in foreign currencies are translated into the functional currency using the exchange rates on the date when the fair value was measured. Exchange differences arising from the translation or settlement are generally recognized in profit or loss. Exchange differences arising from the translation of equity financial assets measured through other comprehensive income are recognized as other comprehensive income.

② Foreign operations

The assets and liabilities of foreign operations are translated at exchange rates as of the end of the reporting period. Income and expenses are translated at the average exchange rates for the reporting period, when exchange rates during the reporting period do not include abnormal fluctuations. Exchange rate differences on translation of financial statements of foreign operations are recognized as other comprehensive income. When foreign operations are divested, cumulative translation differences of the foreign operations are transferred to profit or loss for the period of the divestiture.

The Company has applied the exemption allowed under IFRS 1 and chosen to deem the cumulative translation differences to be zero as of the date of transition to IFRS (April 1, 2017) and are transferred to retained earnings.

(3) Financial instruments

① Financial assets

(a) Initial recognition and measurement

The Company recognizes trade and other receivables initially at the date of incurrence and other financial assets are recognized at the transaction date when the Company becomes a party to the contract of the financial assets.

At initial recognition, all financial assets are measured at fair value. If the assets are not categorized as financial assets measured at fair value through profit or loss ("FVTPL"), the assets are measured at the amount of its fair value and transaction costs related to acquisition or issuance of the financial assets. Transaction costs of financial assets measured at FVTPL are recognized in profit or loss.

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 FVTPL.

(ⅰ) 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 that are solely payments of principal and interest on the principal amount outstanding

(ⅱ) 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

(ⅲ) Equity-based financial assets measured at FVTOCI

There are some equity-based financial assets for which the Company irrevocably elected 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 an irrevocable election on each investment.

(ⅳ) 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.

(b) Subsequent measurement

Subsequent measurements of financial assets by category after initial recognition are as follows:

(ⅰ) Financial assets measured at amortized cost

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

(ⅱ) Debt-based financial assets measured at FVTOCI

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

(ⅲ) Equity-based financial assets measured at FVTOCI

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.

(ⅳ) Financial assets measured at FVTPL

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.

(c) Impairment 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 expected credit 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.

(d) Derecognition of financial assets

Derecognition of financial assets is made only when contractual rights to receive the cash flows from financial assets are extinguished or when almost all risks and economic value are transferred to other entities through transfer of the financial assets.

② Financial liabilities

(a) Initial recognition and measurement

Financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument and on initial recognition they are classified as either of the following two classes.

All financial liabilities are measured at fair value. However, amounts of financial liabilities measured at amortized cost are deducted by the amount less costs directly attributable to the transaction.

(ⅰ) Financial liabilities measured at FVTPL

Financial liabilities held for trading and financial liabilities designated by the entity as measured at FVTPL

(ⅱ) Financial liabilities measured at amortized cost

Financial liabilities other than financial liabilities measured at FVTPL

(b) Subsequent measurement

(ⅰ) Financial liabilities measured at FVTPL

Financial liabilities measured at FVTPL are measured at fair value and gain or loss derived from remeasurement is recognized as profit or loss.

(ⅱ) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost calculated using the effective interest method. Interests are measured using the effective interest method.

(c) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the financial liabilities are extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires. In derecognition of a financial liability, the difference between the carrying amount and consideration paid or planned to be paid is recognized in profit or loss.

③ Presentation for financial assets and liabilities

Financial assets and financial liabilities are presented net on our consolidated statements of financial position when and only when the Company has the legal right to set off and the intention to settle them simultaneously.

(4) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term (within 3 months), highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value.

(5) 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.

(6) 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 structures 4 to 20 years
- Machinery, tools, furniture and fixtures 2 to 20 years

Estimated useful lives, residual value and method of depreciation are reviewed at each annual closing date and any changes are prospectively applied as changes in accounting estimates.

(7) Goodwill and intangible assets

① 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

② Other intangible assets

Intangible assets acquired separately are measured at acquisition cost at initial recognition.

Intangible assets with finite useful lives, consisting of customer relationships, are amortized using a non-straight-line basis based on the pattern of expected future economic benefit 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

Estimated useful lives, residual value and method of amortization are reviewed at each annual closing date and any changes are prospectively applied as changes in an accounting estimate.

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

③ Research and development expenses

Research expenses for the acquisition of new scientific or technical knowledge are expensed as incurred.

Development expense is capitalized as an intangible asset only when it can be reliably measured, when it is technically and commercially feasible, when it is probable that it will bring future economic benefits, and when the Company has the ability to complete the development and has the intent and ability to use or sell it.

(8) Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards to the Company. Other leases are classified as operating leases.

Finance leases are initially recorded as assets and a liabilities at the lower of the fair value of the asset and the present value of the minimum lease payment at commencement of the lease term.

Lease assets are depreciated over the shorter of the lease term or the estimated useful life of the asset. Lease payments are allocated to finance expenses and repayment of lease obligations by using the interest method.

Lease payments for operating leases are recognized as an expense over the lease term on a straight-line basis.

(9) 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 fair value less costs to sell. 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.

(10) Employee benefits

① Post-retirement benefits

For post-retirement benefits, the Company has defined benefits plans (noncontributory defined benefit pensions and unfunded severance benefits) and defined contribution plans.

(a) Defined benefit plans

For defined benefits plan, present value of defined benefit obligations and related net periodic pension costs and past service costs of each plan are calculated by using the projected unit credit method.

The discount rate is calculated based on the market yield of high quality corporate bonds etc., as of the end of the fiscal year of the discount period, which is determined based on the period up to the anticipated payment date for each future fiscal year.

Defined benefit liabilities and assets are measured at the present value of the defined benefit obligation less fair value of plan assets. However, if plan assets exceed obligations, net defined benefit assets are recognized up to the ceiling of present value of economic benefits that can be obtained by refund from the plan or reduction of future contribution to the plan. Net interests of net defined benefit liabilities (assets) are recognized as finance expenses (income) included in profit or loss.

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.

(b) Defined contribution plans

For defined contribution plans, contribution from the Company is recognized as expenses in the period in which the employee renders services to the Company.

② Other employee benefits

For short-term employee benefits, expenses are recognized for the period during which employee services are rendered, without discount calculation.

The Company recognizes the expected payment amount of bonuses as a liability when it currently has a legal or constructive obligation to make such payments and has a reliable estimate.

The Company recognizes the expected payment amount of compensated absences as a liability when it has a legal or constructive obligation related to accumulating compensated absences and has a reliable estimate.

(11) Share-based payments

IIJ has a stock option plan for equity-settled share-based payments.

Stock options are measured at fair value at the date of grant, considering the number of stock options expected to be exercised, and recognized over the vesting period as expenses in consolidated statements of profit or loss. The same amounts are recognized as increases in equity in the consolidated statements of financial position. The fair values of options granted are calculated using the Black-Scholes option-pricing model, considering conditions of the option.

The number of stock options expected to be exercised are periodically reviewed, with estimations being updated as required.

(12) 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.

(13) Revenue

The Company adopted IFRS 15 from the year ended March 31, 2019 and recognized 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 revenues are recognized monthly on a straight-line basis over the contract period, as the performance obligations are fulfilled over the period. System construction service revenues are recognized when the related performance obligations are fulfilled. System construction services are generally completed over a period from three to nine months, but when certain conditions are met, revenues and costs are recognized over a certain period as construction progresses.

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.

(14) Income taxes

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 taxation 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 taxing authority on the same entity or different entities that intend to realize the asset and settle the liability at the same time.

(15) Earnings per share

Basic earnings per common share attributable to owners of the parent is computed by dividing basic earnings attributable to owners of the parent by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share attributable to owners of the parent reflect the potential dilutive effect of stock options.

(16) Capital and other equity components

① Common stock

Common stocks are recognized at the amount of proceeds on issuance into share capital and share premium. Stock issuance costs are deducted from proceeds.

② Treasury shares

Treasury shares are measured at historical costs and deducted from equity. The Company recognizes no gain or loss in purchase, sale or extinguishment of IIJ’s treasury shares. Differences between carrying amounts and proceeds from sale of treasury shares are recognized as share premium.

(17) Dividends

Year-end dividends to IIJ’s shareholders are recognized as a liability at the date of resolution of IIJ’ General Meeting of Shareholders. Interim dividends are recognized as a liability at the date of resolution of the Board of Directors.

(18) Fair value measurement

Certain assets or liabilities are required to be measured at fair value. Fair value of these assets and liabilities are determined based on market information such as quoted prices in markets and calculation methods such as the market approach, income approach or cost approach.

Inputs used in measurement of fair value are classified in the following three levels:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Fair value calculated by using, either directly or indirectly, observable prices for asset or liabilities other than Level 1 inputs
- Level 3: Fair value calculated by using valuation techniques including unobservable inputs for the asset or liability

(19) Accounting standards and interpretations issued but not adopted

The table below states the major new or revised accounting standard and interpretation that was issued by the date of approval of the consolidated financial statements, but whose adoption is not required for the year ended on or before March 31, 2019. As such, the Company has not early adopted it.

The Company is currently evaluating the impact of adopting IFRS 16. Adoption of other standards has no material effect.

IFRS		Year of enforcement	Year of the Company's first-time adoption	Outline of the new/revised standards
IFRS 16	Leases	For years beginning after January 1, 2019	For the year ending March 31, 2020	Revision of accounting method and enhancement of presentations related to leases

IFRS 16. "Leases" amends the IAS 17 "Leases." This amendment requires a lessee to present the right-of-use asset, which represent the right to use the original assets, and the lease liability, on the consolidate statements of financial position, under a single model. After the recognition of the right-of-use asset and the lease liability, depreciation costs related to the right-of-use asset and interest costs related to the lease liability are recorded on the consolidated statements of profit or loss. The Company evaluates that the right-of-use assets and the lease liabilities increase almost by ¥39,000 million respectively on the consolidated statements of financial position on this adaption of this amendment. The Company also evaluates that the effect on the consolidated statements of profit or loss are not material.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing consolidated financial statements under IFRS, the Company makes judgements, accounting estimates and assumptions which affect the adoption of accounting policies and reported amounts of assets, liabilities, profits and losses.

The estimates and assumptions are based on the best judgement by management considering factors deemed to be reasonable as of the end date of the reporting period according to experience regarding available past and collected information, etc.

However, amounts based on the estimates and assumptions may, due to the nature, differ from actual results.

Estimates and assumptions on which estimates are based are reviewed on an ongoing basis. The effects arising from revision of estimates are recognized during the period when the estimates are revised and in future periods.

Estimates and judgements with significant effects on the financial statements for the year ended March 31, 2018 and 2019 are as follows:

- Estimated useful lives of tangible and intangible assets (Note 3. Summary of significant accounting policies)
- Impairment of non-financial assets (Note 12. Goodwill and intangible assets)
- Measurement of fair value of financial instruments (Note 31. Financial instruments)
- Classification of financial instruments (Note 31. Financial instruments)
- Valuation allowance for deferred tax asset (Note 3. Summary of significant accounting policies)
- Provision (Note 18. Provisions)
- Measurement of defined benefit plans (Note 17. Employee benefits」)
- Impairment of financial assets measured at accumulated cost (Note 3. Summary of significant accounting policies)
- Timing of the fulfillment of performance obligations (Note 23. Revenues)

5. BUSINESS SEGMENTS

(1) Overview of reportable segments

The reportable segments of the Company are defined as the Company's constituent units for which separated financial information is available and which are regularly reviewed by the representative director, president and COO of IIJ, who is the chief decision-maker regarding business operations in order to determine the allocation of resources and evaluate performance. The representative director, president and COO of IIJ evaluates the performance of each segment, with operating revenue and operating income as the primary indicator.

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."

(2) Revenue and results of reportable segments

Accounting policies of reportable segment are the same as the Company's policies presented in Note 3. Summary of significant accounting policies.

Profit from each reporting segment is based on operating profit.

Segment information for the Company is as follows:

For the year ended March 31, 2018

	Reportable segments		Adjustments (Note 1)	Consolidated Statements of Profit or Loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	172,202,637	4,030,684	—	176,233,321
Intersegment transactions	350,155	—	(350,155)	—
Total revenue	172,552,792	4,030,684	(350,155)	176,233,321
Segment operating profit	5,437,563	1,510,176	(178,122)	6,769,617
Finance income				407,258
Finance expense				(439,335)
Share of profit (loss) of investments accounted for using the equity method				134,656
Profit before taxes				6,827,196
Segment assets	151,943,508	5,219,221	(2,000,000)	155,162,729
Other				
Depreciation and amortization	12,948,110	464,379	—	13,412,489

(Note 1) 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.

For the year ended March 31, 2019

	Reportable segments		Adjustments (Note 1)	Consolidated Statements of Profit or Loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	188,278,660	4,151,525	—	192,430,185
Intersegment transactions	354,990	—	(354,990)	—
Total revenue	188,633,650	4,151,525	(354,990)	192,430,185
Segment operating profit	4,599,187	1,622,517	(198,717)	6,022,987
Finance income				570,004
Finance expense				(431,763)
Share of profit (loss) of investments accounted for using the equity method				(318,244)
Profit before tax				5,842,984
Segment assets	163,699,221	5,589,975	(2,000,000)	167,289,196
Other				
Depreciation and amortization	15,190,721	437,846	—	15,628,567

(Note 1) 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.

(3) Geographic information

Substantially all revenues are from customers operating in Japan. Geographic information for revenues is not presented due to immateriality of revenue attributable to international operations.

Substantially all non-current assets, excluding financial instruments and deferred tax assets, are located in Japan. Geographic information of non-current assets is not presented due to immateriality of non-current assets attributable to assets located outside Japan.

(4) Major customers information

This information is not presented because no revenue from a single external customer accounts for 10% or more of total revenue of the Company.

6. CASH AND CASH EQUIVALENTS

Cash and deposits include time deposits of 3 months or less. Cash and cash equivalents in the Consolidated Statements of Financial Position is the same as Cash and cash equivalents in the Consolidated Statements of Cash Flows. No deposits are offered as collateral, or restricted.

7. TRADE RECEIVABLES

The components of trade and other receivables are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Trade receivables	27,435,882	31,736,209	33,608,815
Less, allowance for credit losses	(177,246)	(166,820)	(233,007)
total	27,258,636	31,569,389	33,375,808

"Trade receivables" are categorized as financial assets measured at amortized cost.

8. INVENTORIES

The components of inventories are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Merchandise	851,345	785,334	1,457,735
Work in progress	1,855,480	759,535	1,945,457
Total	2,706,825	1,544,869	3,403,192

Inventories sold and recorded as cost of sales were ¥83,513,689 thousand and ¥95,839,614 thousand as of March 31, 2018 and 2019, respectively

Write-down of inventories recorded as cost of sales for the years ended March 31, 2018 and 2019 were ¥35,593 thousand and ¥9,684 thousand, respectively.

9. OTHER INVESTMENTS

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Debt-based financial assets measured at FVTOCI			
Debt securities	110,830	112,171	114,010
Equity-based financial assets measured at FVTOCI			
Equity securities	6,948,987	10,420,261	8,998,398
Financial assets measured at FVTPL			
Investment trust and other securities	2,383,723	2,264,379	2,199,303
Other	79,217	87,579	90,654
Total	9,522,757	12,884,390	11,402,365

10. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost			
Other receivable	1,536,667	2,848,493	555,221
Guarantee deposit	2,774,594	3,155,216	3,140,672
Loans receivable	43,571	45,652	52,788
Lease receivable	2,872,318	2,342,591	2,998,914
Other	265,631	284,810	185,954
Allowance for credit losses	(61,877)	(60,929)	(58,790)
Total	7,430,904	8,615,833	6,874,759
Current assets	2,554,960	3,758,636	1,581,212
Non-current assets	4,875,944	4,857,197	5,293,547
Total	7,430,904	8,615,833	6,874,759

11. TANGIBLE ASSETS

(1) Changes

Changes in carrying amounts of tangible assets are as follows:

Acquisition costs

	Land	Buildings and structures	Machinery	Tools, furniture and fixtures	Construction in progress	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
April 1, 2017	537,889	5,755,174	38,254,877	2,059,814	2,441,042	49,048,796
Acquisitions	1,500,837	650,364	10,109,878	559,323	4,417,705	17,238,107
Sales and disposal	―	(94,541)	(4,190,812)	(325,843)	(2,932,171)	(7,543,367)
Exchange differences on translation of foreign operations	―	1,729	(105,363)	(27,932)	58	(131,508)
Other	―	56,602	2	434	(4,594)	52,444
March 31, 2018	2,038,726	6,369,328	44,068,582	2,265,796	3,922,040	58,664,472
Acquisitions	21,265	640,859	9,815,002	572,093	2,735,517	13,784,736
Sales and disposal	―	(49,053)	(6,275,680)	(135,792)	(2,952,643)	(9,413,168)
Exchange differences on translation of foreign operations	―	(16)	80,655	21,682	(161)	102,160
Other	―	26,400	(93,236)	1	(15,008)	(81,843)
March 31, 2019	2,059,991	6,987,518	47,595,323	2,723,780	3,689,745	63,056,357

(Note) "Sales and disposal" of the construction in progress includes the amount recorded as transfer to leased assets through sale and leaseback transactions. The transfer amount is included in the "Acquisitions" of machinery.

Accumulated depreciation and accumulated impairment losses

	Land	Buildings and structures	Machinery	Tools, furniture and fixtures	Construction in progress	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
April 1, 2017	—	(1,546,142)	(17,428,998)	(1,407,585)	—	(20,382,725)
Depreciation	—	(346,379)	(8,630,941)	(341,559)	—	(9,318,879)
Sales and disposal	—	43,072	4,169,786	284,285	—	4,497,143
Exchange differences on translation of foreign operations	—	(69)	79,200	25,470	—	104,601
Other	—	(40,414)	427	(429)	—	(40,416)
March 31, 2018	—	(1,889,932)	(21,810,526)	(1,439,818)	—	(25,140,276)
Depreciation	—	(355,270)	(10,194,939)	(463,538)	—	(11,013,747)
Sales and disposal	—	30,622	6,057,873	178,938	—	6,267,433
Exchange differences on translation of foreign operations	—	(296)	(62,385)	(20,119)	—	(82,800)
Other	—	(44,144)	93,236	—	—	49,092
March 31, 2019	—	(2,259,020)	(25,916,741)	(1,744,537)	—	(29,920,298)

(Note) Depreciation of tangible assets is included in "cost of sales" and "selling, general and administrative expenses" in the consolidated statement of profit or loss.

Carrying amount

	Land	Buildings and structures	Machinery	Tools, furniture and fixtures	Construction in progress	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
April 1, 2017	537,889	4,209,032	20,825,879	652,229	2,441,042	28,666,071
March 31, 2018	2,038,726	4,479,396	22,258,056	825,978	3,922,040	33,524,196
March 31, 2019	2,059,991	4,728,498	21,678,582	979,243	3,689,745	33,136,059

(2) Leased assets

Carrying amounts of leased assets under finance leases included in tangible and intangible assets are as follows:

	Machinery	Software
	Thousands of yen	Thousands of yen
April 1, 2017	13,331,464	98,869
March 31, 2018	14,797,038	194,683
March 31, 2019	15,289,092	504,846

12. GOODWILL AND INTANGIBLE ASSETS

(1) Changes

Changes in carrying amounts of goodwill and intangible assets are as follows:

Acquisition costs

	Goodwill	Intangible assets			
		Software	Customer relationship	Other	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
April 1, 2017	6,289,891	33,345,023	6,424,471	522,366	40,291,860
Acquisitions	—	6,190,959	—	89,704	6,280,663
Sales and disposal	(87,137)	(2,816,394)	(249,278)	(192,000)	(3,257,672)
Exchange differences on translation of foreign operations	—	3,282	—	—	3,282
Other	—	2	—	—	2
March 31, 2018	6,202,754	36,722,872	6,175,193	420,070	43,318,135
Acquisitions	—	5,569,981	—	170,650	5,740,631
Sales and disposal	—	(1,433,710)	—	—	(1,433,710)
Exchange differences on translation of foreign operations	—	(1,216)	—	—	(1,216)
Other	—	(5,121)	—	—	(5,121)
March 31, 2019	6,202,754	40,852,806	6,175,193	590,720	47,618,719

Accumulated amortization and accumulated impairment losses

	Goodwill	Intangible assets			
		Software	Customer relationship	Other	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
April 1, 2017	(120,282)	(20,835,328)	(3,388,053)	(177,118)	(24,400,499)
Amortization	—	(3,687,664)	(365,459)	(68)	(4,053,191)
Sales and disposal	—	2,473,521	249,278	177,000	2,899,799
Exchange differences on translation of foreign operations	—	(1,351)	—	—	(1,351)
Other	—	3	—	—	3
March 31, 2018	(120,282)	(22,050,819)	(3,504,234)	(186)	(25,555,239)
Amortization	—	(4,215,201)	(355,411)	(67)	(4,570,679)
Sales and disposal	—	1,325,179	—	—	1,325,179
Exchange differences on translation of foreign operations	—	727	—	—	727
Other	—	—	—	—	—
March 31, 2019	(120,282)	(24,940,114)	(3,859,645)	(253)	(28,800,012)

Note. Amortization of intangible assets are included in "cost of sales" and "selling, general and administrative expenses "in consolidated statements of profit or loss.

Carrying amount

	Goodwill	Intangible assets			
		Software	Customer Relationship	Other	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
April 1, 2017	6,169,609	12,509,695	3,036,418	345,248	15,891,361
March 31, 2018	6,082,472	14,672,053	2,670,959	419,884	17,762,896
March 31, 2019	6,082,472	15,912,692	2,315,548	590,467	18,818,707

Software is mainly internally generated intangible assets.

Most of the intangible assets listed above are customer relationships acquired as part of the business combinations of IIJ Technology and IIJ Global Solutions. The customer relationships of IIJ Technology amounted to ¥1,198,959 thousand and ¥1,058,299 thousand as of March 31, 2018 and 2019, respectively. Those of IIJ Global Solutions amounted to ¥1,472,000 thousand and ¥1,257,249 thousand as of March 31, 2018 and 2019, respectively. The remaining amortization periods for customer relationships are from 7 to 10 years.

(2) Impairment test for goodwill and intangible assets deemed to have indefinite useful lives

Goodwill arising from business combinations and intangible assets deemed to have indefinite useful lives are allocated to specified cash-generating units.

Intangible assets deemed to have indefinite useful lives are mainly IP addresses, which are assets that maintain their value with the passage of time, unless they are sold or disposed of. Therefore the Company classifies them as intangible assets deemed to have indefinite useful lives.

Goodwill and intangible assets deemed to have indefinite useful lives allocated to cash-generating units are as follows:

Reporting segment	Cash-generating unit	Transition date April 1, 2017		March 31, 2018	
		Thousands of yen		Thousands of yen	
		Goodwill	Intangible assets	Goodwill	Intangible assets
Network service and systems integration business	Network and SI CGU	5,934,058	344,700	5,846,921	419,404
ATM operating business	Trust CGU	235,551	-	235,551	—
Total		6,169,609	344,700	6,082,472	419,404

Reporting segment	Cash-generating unit	March 31, 2019	
		Thousands of yen	
		Goodwill	Intangible assets
Network service and systems integration business	Network and SI CGU	5,846,921	590,054
ATM operating business	Trust CGU	235,551	-
Total		6,082,472	590,054

Recoverable amount for each cash-generating unit are calculated by value in use.

Value in use is measured, based on past experience and external information, at the present value of estimated future cash flows for three years based on business plans authorized by the Company’s management and discounted using pre-tax weight average costs of the cash-generating unit (transition date 7.9%, last fiscal year 7.0%, this fiscal year 7.8%). In estimating cash flows, Cash flows after three years at the transition date, the end of last fiscal year and the end of this fiscal year are calculated based on the growth rate of 1.0%, 1.5% and 1.0%, respectively, applied to cash flows for the third year.

If the assumptions used in the impairment test change, there is a risk of impairment. However there are sufficient headrooms between the value in use and the carrying amount. As such, the Company has determined that it is unlikely that the value in use will be lower the carrying amount due to changes in the assumptions change within a reasonably estimated range.

13. INCOME TAXES

(1) Deferred taxes

① Changes in deferred tax assets and deferred tax liabilities

Changes in components of deferred tax assets and deferred tax liabilities are as follows.

For the year ended March 31, 2018

	March 31, 2017	Recognized through profit or loss	Recognized through other comprehensive income	Other	March 31, 2018
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Deferred tax assets					
Finance leases	50,404	(1,254)	—	—	49,150
Accrued expenses	857,770	37,198	—	—	894,968
Retirement and pension cost	1,107,117	98,658	(36,985)	—	1,168,790
Allowance for credit losses	85,767	(3,326)	—	—	82,441
Depreciation	291,589	194,930	—	—	486,519
Loss carryforward	88,532	(59,929)	—	—	28,603
Impairment loss on telephone rights	68,405	227	—	—	68,632
Accrued enterprise tax	139,050	50,410	—	—	189,460
Asset retirement obligation	11,785	873	—	—	12,658
Deferred revenue	245,476	(67,745)	—	—	177,731
Other	331,590	44,117	—	—	375,707
total	3,277,485	294,159	(36,985)	—	3,534,659
Deferred tax liability					
Financial assets measured at fair value through other comprehensive income	1,233,289	—	1,473,319	(337,790)	2,368,818
Customer relationship	957,202	(115,851)	—	—	841,351
Tax deduction of goodwill	805,738	(45,457)	—	—	760,281
Trademark	4,725	(4,725)	—	—	—
Investments in equity method investee	331,676	90,877	2,986	—	425,539
Financial assets measured at fair value through net income	240,631	(51,948)	—	—	188,683
Other	77,922	61,495	—	—	139,417
total	3,651,183	(65,609)	1,476,305	(337,790)	4,724,089

For the year ended March 31, 2019

	March 31, 2018	recognized through profit or loss	recognized through other comprehensive income	Other	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Deferred tax assets					
Finance leases	49,150	(4,156)	—	—	44,994
Accrued expenses	894,968	(41,551)	—	—	853,417
Retirement and pension cost	1,168,790	86,835	(161,013)	—	1,094,612
Allowance for credit losses	82,411	15,014	—	—	97,455
Depreciation	486,519	241,205	—	—	727,724
Loss carryforward	28,603	(21,993)	—	—	6,610
Impairment loss on telephone rights	68,632	7,708	—	—	76,340
Accrued enterprise tax	189,460	(22,771)	—	—	166,689
Asset retirement obligation	12,658	68	—	—	12,726
Deferred revenue	177,731	152,243	—	—	329,974
Other	375,707	53,817	—	—	429,524
total	3,534,659	466,419	(161,013)	—	3,840,065
Deferred tax liabilities					
Financial assets measured at fair value through other comprehensive income	2,368,818	—	(459,699)	1,470	1,910,589
Customer relationships	841,351	(111,953)	—	—	729,398
Tax deduction of goodwill	760,281	—	—	—	760,281
Investments in equity method investee	425,539	(117,526)	(7,075)	—	300,938
Financial assets measured at fair value through net income	188,683	8,091	—	—	196,774
Other	139,417	47,477	—	—	186,894
total	4,724,089	(173,911)	(466,774)	1,470	4,084,874

② Deductible temporary differences and tax loss carryforwards for which deferred tax assets are not recognized

Deductible temporary differences and tax loss carryforwards for which deferred tax assets are not recognized are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	thousands of yen	thousands of yen	thousands of yen
Deductible temporary differences	26,797	7,798	—
Tax loss carryforwards	1,403,798	1,180,227	934,621
Total	1,430,595	1,188,025	934,621

Deferred tax assets in the table above are not recognized because it is not probable that taxable income in the future will be available for which the temporary difference will be utilized. Under the current tax laws, deductible temporary differences will not expire. Tax loss carryforwards of certain subsidiaries will expire in the following periods:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	thousands of yen	thousands of yen	thousands of yen
Tax loss carryforwards			
1st year	63,146	185,264	221,357
2nd year	176,562	228,487	172,873
3rd year	219,888	175,979	179,065
4th year	169,310	182,593	95,375
5th year	175,696	137,470	19,788
6th year and after	599,196	270,434	246,163
total	1,403,798	1,180,227	934,621

③ Taxable temporary differences related to the interest of subsidiary companies for which deferred tax liabilities are not recognized.

Total taxable temporary differences related to the retained earnings of subsidiary companies for which deferred tax liabilities are not recognized are ¥4,933,412 thousand, ¥6,104,439 thousand and ¥7,615,617 thousand as of the transition date, March 31, 2018 and 2019, respectively. Deferred tax liabilities are not recognized for the temporary differences above because the Company can control the timing of resolving the temporary differences and it is not likely that the temporary differences will be resolved in predictable timeframes.

(2) Income tax expenses

IIJ and domestic subsidiaries adopted the consolidated tax declaration since the fiscal year ended March 31, 2009. Overseas subsidiaries are subject to corporate income taxes in the countries in which they are located.

Income tax expenses for the year ended March 31, 2018 and 2019 were as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Income tax expenses		
Current taxes	2,639,050	2,767,053
Deferred taxes	(359,768)	(622,857)
Total	2,279,282	2,144,196

(3) Reconciliation of effective tax rates

IIJ and domestic subsidiaries are subject to corporate, inhabitant and enterprise taxes on their taxable income. The normal Japanese statutory tax rate calculated based on these tax rates were 31.7% and 31.5% for the years ended March 31, 2018 and 2019, respectively.

A reconciliation between the amount of reported income taxes and the amount of income taxes computed using the normal statutory rate for each of the two years in the period ended March 31, 2019 is as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Amount computed by using normal Japanese statutory tax rate	2,178,486	1,840,540
(Adjustment)		
Expenses not deductible for tax purpose	111,002	107,147
Changes in deductible temporary differences and tax loss carryforwards for which deferred tax assets are not recognized	(51,578)	2,469
Enterprise tax-not based on income	257,441	347,778
Tax rate change	(18,886)	—
Tax credit	(164,525)	(90,265)
Other	(32,658)	(63,473)
Income tax expense as reported	2,279,282	2,144,196

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was enacted in the United States of America. As a result, the federal corporate income tax rate was reduced from 35% to 21% from the fiscal year beginning January 1, 2018. This resulted in the tax rate on the balance of deferred tax assets and liabilities was a decrease in income tax expense of ¥18,886 thousand for the year ended March 31, 2018.

14. TRADE AND OTHER PAYABLES

The components of trade and other payables are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Trade payable	6,380,177	5,423,750	7,809,736
Other payable	10,716,257	11,106,962	14,152,231
Other	—	—	272
Total	17,096,434	16,530,712	21,962,239

Trade payables and other payables are classified as financial liabilities measured at amortized cost.

15. BORROWINGS AND OTHER FINANCIAL LIABILITIES

The components of borrowings and other financial liabilities are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019	Average rate	Repayment due
	Thousands of yen	Thousands of yen	Thousands of yen	%	
Financial liabilities measured at amortized cost					
Short-term borrowings	9,250,000	9,250,000	12,750,000	0.42	
Long-term borrowings	8,500,000	15,500,000	14,000,000	0.49	2019～2024
Lease obligations―current	4,787,102	5,646,210	6,519,332	―	
Lease obligations―non-current	10,374,931	10,918,786	11,514,530	―	2019～2024
Account payable―non-current	1,468,183	896,810	623,420	0.55	2019～2024
Deposit payable	190,250	318,180	344,510	―	
Other	23,640	13,864	181,244	―	
Total	34,594,106	42,543,850	45,993,036	―	
Current liabilities	14,235,663	15,215,285	19,781,690	―	
Non-current liabilities	20,358,443	27,328,565	26,151,346	―	
Total	34,594,106	42,543,850	45,933,036	―	

(Note 1) The average rate is the weighted average interest rate for the balance as of March 31, 2019.

(Note 2) Repayment due indicates the balance on March 31, 2019.

(Note 3) Total lease obligations as of April 1, 2017, March 31, 2018 and 2019 are ¥15,162,033 thousand, ¥16,564,996 thousand and ¥18,033,862 thousand, respectively. The breakdown of lease obligations by repayment due are presented in Note 16. Leases.

16. LEASES

The Company enters into, in the normal course of business, various leases for office premises, network operation centers and data communications and other equipment.

(1) Lease transactions as lessee

① Finance leases

The Company conducts connectivity and other services by using data communications and other equipment leased under finance lease arrangements.

Total minimum lease payments in the future and present value of total minimum lease payments under finance lease contracts as lessee are as follows:

	Total minimum lease payments			Present value of Total minimum lease payments		
	Date of transition (April 1, 2017)	March 31, 2018	March 31, 2019	Date of transition (April 1, 2017)	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Within 1 year	5,011,793	5,874,817	6,750,855	4,787,102	5,646,210	6,519,332
2 to 5 years	10,643,216	11,168,535	11,749,832	10,367,123	10,918,786	11,514,530
More than 5 years	7,833	—	—	7,808	—	—
Total	15,662,842	17,043,352	18,500,687	15,162,033	16,564,996	18,033,862
Future finance expenses (equivalent to interest)	(500,809)	(478,358)	(466,825)	—	—	—
Present value of lease obligations	15,162,033	16,564,996	18,033,862	15,162,033	16,564,996	18,033,862

② Operating leases

The Company leases its office premises, for which refundable lease deposits are capitalized as guarantee deposits, and the Company leases certain office equipment and its network operation centers under non-cancelable operating leases which expire on various dates through 2023.

Total future minimum lease payments under non-cancelable operating leases are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Within 1 year	10,880,186	11,045,619	9,380,433
2 to 5 years	5,679,761	3,213,859	1,895,717
More than 5 years	137,549	77,614	28,969
total	16,697,496	14,337,092	11,305,119

Total future minimum proceeds from non-cancellable sublease contracts as of April 1, 2017, March 31, 2018 and March 31, 2019 are ¥223,848 thousand, ¥192,007 thousand and ¥159,772 thousand, respectively. These future proceeds are not deducted from minimum payments above.

Operating lease payments recognized as expenses for the years ended March 31, 2018 and 2019 are as follows;

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Total minimum lease payments	13,088,225	14,082,525

The Company has subleased a part of its office premises. Sublease revenues for the years ended March 31, 2018 and 2019 are ¥ 54,900 thousand and ¥99,521 thousand, respectively.

(2) Lease transactions as lessor

A part of the Company's sales result from multi-year lease agreements under which the Company leased some network equipment to customers. For the leases, the Company recognizes gain on sale at the commencement of lease transactions and finance income over the contractual period.

Uncollected gross investment in leases and present value of minimum lease payments receivable under finance lease transactions as lessor and amount of related adjustment are as follows:

	Uncollected gross investment in lease			Present value of minimum lease payments receivable		
	Date of transition April 1, 2017	March 31, 2018	March 31, 2019	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Within 1 year	863,259	818,208	952,204	824,636	797,298	918,350
2 to 5 years	2,075,993	1,570,535	2,099,986	2,047,682	1,545,293	2,080,564
Total	2,939,252	2,388,743	3,052,190	2,872,318	2,342,591	2,998,914
Unearned finance income (Correspond to interest)	(66,934)	(46,152)	(53,276)	—	—	—
Present value of investment in lease	2,872,318	2,342,591	2,998,914	2,872,318	2,342,591	2,998,914

17. EMPLOYEE BENEFITS

(1) Post-employment benefits

IIJ and certain subsidiaries have unfunded severance benefits, noncontributory defined benefit pensions and defined contribution plans which together cover substantially all of their employees who are not directors. The defined benefit pension plan is operated under the Defined Benefit Corporate Pension Law.

The following information regarding net periodic pension cost and accrued pension cost also includes the unfunded severance benefit plans. Under the severance and defined benefit pension plans, all of IIJ and IIJ-Global's employees are entitled, upon retirement with 20 years or more of service, to a 10-year period of annuity payments from age 60 (or lump-sum severance indemnities) based on the rate of pay at the time of retirement, length of service and certain other factors. IIJ and IIJ-Global's employees who do not meet these conditions are entitled to lump-sum severance indemnities.

In accordance with laws and regulations, the defined benefit plan is managed by a pension fund. The organization that manages the fund is legally separated from the Company. The pension fund is managed by a board of directors selected by the employer that is subscribed to the fund and a board of directors consisting of directors representing the subscribers. Management of pension assets is carried out by pension investment management institutions according to investment policy stipulated by the board of directors of the pension fund. The pension fund's board of directors and pension investment management institutions are required by laws to act with the interests of subscribers to the plan as their top priority and are responsible for the operation of plan assets.

Defined benefit plans are exposed to actuarial risks and fair value fluctuation risks of plan assets. Actuarial risk is primarily interest rate risk. Interest rate risk is the risk that drops in the discount rate may cause an increase in liabilities because the present value of the defined benefit obligation is calculated by the discount rate determined based on the market yield of high quality corporate bonds, etc.

The risk of fluctuation in fair value of plan assets is the risk that the funded status of the plan may deteriorate if it falls below the rate of return expected under the plan asset management policy.

① Defined benefit obligations recognized in consolidated statements of financial position

Relations between net amount of defined benefit liabilities and assets recognized in consolidated statements of financial position, defined benefit obligations and plan assets are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Present value of defined benefit obligations funded in plan assets	4,157,242	4,574,649	4,635,563
Fair value of plan assets	(3,635,159)	(4,128,768)	(4,470,683)
Total	522,083	445,881	164,880
Present value of unfunded defined benefit obligations	3,010,882	3,278,753	3,323,621
Net amount	3,532,965	3,724,634	3,488,501

② Defined benefit obligations

Changes in present value of defined benefit obligations are as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Opening balance	7,168,124	7,853,402
Service cost (Note 1)	741,830	761,641
Interest expense (Note 2)	59,946	57,394
Remeasurement		
Actuarial gains or losses arising from changes in demographic assumptions	—	(604,162)
Actuarial gains or losses arising from changes in financial assumptions	9,954	225,203
Actuarial gains or losses arising from adjustment of results	(24,091)	(132,130)
Benefit paid (Note 3)	(134,014)	(209,772)
Other	31,653	7,608
Closing balance	7,853,402	7,959,184

(Note 1) Service cost during the period are recognized as profit or loss. The costs are included in cost of sales, selling, general and administrative expenses and other operating expenses in our consolidated statements of profit or loss.

(Note 2) Interest expenses or income related to net amount of the present value of defined benefit obligations and fair value of plan assets are recognized as profit or loss and are included in finance expenses and finance income in the consolidated statements of profit or loss.

(Note 3) Weighted average duration of the Company's defined benefit obligations were 16 years and 14 years for the years ended March 31, 2018 and 2019, respectively.

③ Plan assets

Changes in fair value of plan assets are as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Fair value of plan assets at the beginning of year	3,635,159	4,128,768
Interest income	32,716	32,183
Changes in remeasurement		
Return on plan assets (excluding interest gain)	103,178	64
Contribution from the Company	432,460	436,416
Benefit paid	(74,745)	(126,748)
Fair value of plan assets at the end of the year	4,128,768	4,470,683

(Note) The Company and the pension fund regularly conduct analyses of financial position and recalculate contribution amount in order to maintain pension finance equilibrium in the event of allocation for future benefits or insufficient funds pursuant to laws and regulations

The Company plans to contribute ¥432,460 thousand to the defined benefit plan in the year ending March 31, 2020.

④ Major components of plan assets

Changes in fair value of plan assets are as follows:

	Date of transition April 1, 2017			March 31, 2018			March 31, 2019		
	Quoted prices in active markets		Total	Quoted prices in active markets		Total	Quoted prices in active markets		Total
	Exists	N/A		Exists	N/A		Exists	N/A	
	Thousands of yen								
Equity instruments									
Japanese equity	528,083	—	528,083	606,612	—	606,612	621,688	—	621,688
U.S. equity	159,618	—	159,618	185,164	—	185,164	193,797	—	193,797
Other equity—developed countries	91,087	—	91,087	102,448	—	102,448	101,341	—	101,341
Subtotal	778,788	—	778,788	894,224	—	894,224	916,826	—	916,826
Debt instruments									
Japanese government and municipal bonds	—	632,216	632,216	—	786,055	786,055	—	814,531	814,531
Japanese corporate bonds—investment grade	—	290,360	290,360	—	287,216	287,216	—	321,516	321,516
U.S. government bonds	—	127,659	127,659	—	150,444	150,444	—	172,886	172,886
Other government bonds—developed countries	—	173,598	173,598	—	208,011	208,011	—	199,256	199,256
Residential mortgage-backed	—	26,749	26,749	—	34,192	34,192	—	27,078	27,078
subtotal	—	1,250,582	1,250,582	—	1,465,918	1,465,918	—	1,535,267	1,535,267
Other (*)	—	1,464,874	1,464,874	—	1,678,236	1,678,236	—	1,876,050	1,876,050
Cash and cash equivalents	140,915	—	140,915	90,390	—	90,390	142,540	—	142,540
Total	919,703	2,715,456	3,635,159	984,614	3,144,154	4,128,768	1,059,366	3,411,317	4,470,683

(*) Other financial instruments are life insurance pooled investment portfolios.

Asset management policies of the Company' s major plans are as follows.

The Company's funding policies with respect to the noncontributory plan are generally to contribute amounts considered tax deductible under applicable income tax regulations. Plan assets, including life insurance pooled investment portfolios, consist of Japanese and U.S. government bonds, other debt securities and marketable equity securities. Life insurance pooled investment portfolios are managed by an insurance company and guarantee a minimum rate of return.

The Company' s investment strategy for the plan assets is to manage the assets in order to pay retirement benefits to plan participants from the Company over the life of the plans. This is accomplished by identifying and managing the exposure to various market risks, and diversifying investments in various asset classes based on a portfolio determined by the insurance company in order to maximize long-term rate of return, while considering the liquidity needs of the plans.

The plan is permitted to use derivative instruments only for the purpose of hedging. Both margin trading and real estate investments are prohibited in principle.

The Company mitigates the credit risk of investments by establishing guidelines with the insurance company. These guidelines are monitored periodically by the Company for compliance.

The projected allocation of the plan assets managed by the insurance company is developed in consideration of the expected long-term investment returns for each category of the plan assets. Approximately 63.0%, 35.0%, and 2.0% of the plan assets excluding pooled investment portfolios will be allocated to debt securities, equity securities and other financial instruments, respectively, to moderate the level of volatility in pension plan asset returns and reduce risks. Half of the employer' s contribution to the plan during the year ended March 31, 2019 was allocated to life insurance pooled investment portfolios and the other 50% was allocated to the aforementioned investments.

⑤ Significant actuarial assumptions and sensitivity analyses

Significant actuarial assumptions are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	%	%	%
Discount rate	0.9	0.8	0.6

(Note) This table shows the discount rate used in actuarial calculations for IIJ and its major domestic subsidiaries.

Sensitivity analyses of effects on present value of defined benefit obligations of IIJ and its major subsidiaries in the case of changes in discount rate, which is a significant actuarial assumption, are as follows:

	Change	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
		Thousands of yen	Thousands of yen	Thousands of yen
Discount rate	Increase by 0.5 points	(493,035)	(535,483)	(475,851)
	Decrease by 0.5% points	542,557	581,211	511,342

(Note) In this sensitivity analyses, the effects on defined benefit obligations are calculated only by changes in discount rate, with other assumptions fixed.

⑥ Defined contribution plan

Expenses related to the defined contribution plan recognized as profit or loss for the years ended March 31, 2018 and 2019 were ¥ 154,681 thousand and ¥157,868 thousand, respectively. The expenses are included in cost of sales, selling, general and administrative expenses and other operating expenses in the consolidated statements of profit or loss.

⑦ Multi-employer pension plan

IIJ and one subsidiary also participate in a contributory multi-employer pension plan, the Japan Computer Information Service Employee's Pension Fund (the "Multi-Employer Plan"), which covers substantially all of their employees.

As stipulated by the Japanese Welfare Pension Insurance Law, the Multi-Employer Plan is composed of a substitutional portion of Japanese Pension Insurance and a multi-employers' portion of a contributory defined benefit pension plan. The benefits for the substitutional portion are based on a standard remuneration schedule under the Welfare Pension Insurance Law and the length of participation. The multi-employer portion of the benefits is based on the employee's length of service.

Differences between multi-employer plans and single-employer plans are as follows:

(ⅰ) Assets contributed by an employer to multi-employer plan may be used for the benefits of employees of other employers under the plan.

(ⅱ) If an employer suspends contributions, there is a possibility that other employers participating in the plan may be required to make additional contributions in order to cover unfunded obligations.

(ⅲ) When an employer exits from the multiple-employer plan, the employer may be required to contribute amounts corresponding to unfunded obligations.

Although the Multi-Employer Plan is a multi-employer defined benefit plan operated under the above-mentioned agreement, its distributions are not consistent because the impacts of events affecting participating employers affect the allocation of plan assets and expenses of other participating employers. Therefore, expenses related to the Multi-Employer Plan are accounted for as the expenses of defined contribution plans, because information sufficient for accounting as a defined benefit plan is not available. The net pension cost related to the plan is recognized on the due date of the contribution.

Contributions due and paid for the years ended March 31, 2018 and 2019 are as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Contribution	124,442	116,582

Expected contributions for the year ended March 31, 2019 amounted to ¥116,005 thousand.

Financial positions of the Multi-Employer Plan based on the most recent available information are as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Plan assets	748,654,556	248,188,774
Pension liabilities(Policy reserve and unamortized past service liabilities)	732,391,260	203,695,726
Net amount	16,263,296	44,493,048
Ratio of contribution of the Company and its subsidiaries to the total contribution to the plan	1.49%	1,79%

The plan is not subject to a funding improvement and was more than 80% funded as of March 31, 2018.

The above contribution ratio is calculated by dividing the Company's contribution by the total contribution to the fund, and is not consistent with the actual charged ratio of the Company.

(2) Other employee benefits

Other employee benefits included in cost of sales, selling, general and administrative expenses and other operating expenses in the consolidated statements of profit or loss for the years ended March 31, 2018 and 2019 were ¥17,009 thousand and ¥15,476 thousand, respectively.

18. PROVISIONS

Changes in the balance and components of provisions are as follows:

	Asset retirement obligations
	Thousands of yen
March 31, 2018	710,680
Increase	26,400
Periodic interest expenses in discount calculation	2,914
Decrease (intended use)	(8,737)
March 31, 2019	731,257

Asset retirement obligations

For future retirement of the tangible fixed assets and leased assets that the Company uses, the Company recognizes legal obligations required by laws or agreements and other related obligations at reasonably estimated amounts based on actual amounts incurred in the past and other information. Payment of these obligations are expected to be made after one year or more, but will be affected by future business plans.

19. OTHER LIABILITIES

The components of other current liabilities and other non-current liabilities are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Compensated absence	1,582,489	1,627,693	1,698,810
Accrued bonus	408,737	438,100	480,441
Consumption taxes payable	1,384,007	1,482,921	1,554,119
Accrued expenses	787,038	1,031,574	990,542
Other	608,959	776,834	789,480
Total	4,771,230	5,357,122	5,513,392
Current liabilities	3,906,106	4,442,485	4,559,005
Non-current liabilities	865,124	914,637	954,387
Total	4,771,230	5,357,122	5,513,392

20. SHARE CAPITAL AND OTHER EQUITY

(1) Capital and share premium

Changes in number of authorized shares of common stock, number of shares of common stock outstanding and balance of share capital and share premium are as follows:

	Authorized shares (No par value common stock)	Shares outstanding (No par value common stock)	Share capital	Share Premium
	Number (shares)	Number (shares)	Thousands of yen	Thousands of yen
April 1, 2017	75,520,000	46,711,400	25,509,499	36,117,510
Changes in the year	—	2,400	2,305	58,426
March 31, 2018	75,520,000	46,713,800	25,511,804	36,175,936
Changes in the year	—	7,600	6,908	49,839
March 31, 2019	75,520,000	46,721,400	25,518,712	36,225,775

(2) Treasury shares

Changes in number and carrying amount of treasury shares are as follows:

	Number of shares	Amount
	Shares	Thousands of yen
April 1, 2017	1,650,909	(1,896,784)
Changes	—	—
March 31, 2018	1,650,909	(1,896,784)
Changes	2	(4)
March 31, 2019	1,650,911	(1,896,788)

(Note) The Company adopts a stock option plan, issues stock acquisition rights under the Corporation Law of Japan and appropriate treasury shares for the allocation of shares accompanied with the exercise of the option. The contract terms and amounts, etc., are stated in Note 30. "Stock-based compensation."

(3) Share premium

Under the Corporation Law of Japan (the "Corporation Law"), over half of proceeds or benefits from issuance of common stocks must be appropriated as share capital and the rest appropriated as capital reserve (included in share premium). The Corporation Law permits transfer from capital reserve to share capital upon resolution of the shareholders.

(4) Retained earnings

The Corporation Law requires that an amount equal to 10% of dividends must be appropriated as capital reserve or legal reserve(included in retained earnings)until the total aggregated amount of capital reserve and legal reserve equals 25% of share capital Aggregated legal reserve can be set off against deficits. Reversal of legal reserve upon resolution of the shareholders' is also permitted.

(5) Components and purpose of other components of equity

① Financial assets measured at FVTOCI

Changes in fair value of financial assets measured at FVTOCI.

② Remeasurement of net defined benefit plan

Changes in actuarial gain or loss on defined benefit obligations, gain or loss on plan assets, excluding those included in interest income, and the effect of asset ceilings, excluding those included in interest income.

These are recognized as other comprehensive income as incurred and immediately transferred from other components of equity to retained earnings.

③ Exchange differences on translation of foreign operations

Exchange differences on translation of financial statements of foreign operations prepared in foreign currencies.

21. OTHER COMPONENTS OF EQUITY

Changes in other components of equity are as follows

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Financial assets measured at fair value thorough other comprehensive income		
Balance, beginning of the year	2,560,350	5,118,318
Changes	3,204,155	(999,932)
Transfer to the retained earnings	(646,187)	(2,310)
Balance, end of the year	5,118,318	4,116,076
Remeasurements of net defined benefit pension plans		
Balance, beginning of the year	―	―
Changes	80,428	350,139
Transfer to the retained earnings	(80,428)	(350,139)
Balance, end of the year	―	―
Exchange differences on translation of foreign operations		
Balance, beginning of the year	―	(65,856)
Changes	(65,856)	47,377
Balance, end of the year	(65,856)	(18,479)
Share of other comprehensive income in equity method investees		
Balance, beginning of the year	―	6,493
Changes	6,493	(15,386)
Balance, end of the year	6,493	(8,893)
Total other component of equity	5,058,955	4,088,704

22. DIVIDENDS PAID

Cash dividends paid for the year ended March 31, 2018 and 2019 are as follows:

For the year ended March 31, 2018

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 28, 2017 Ordinary General Meeting of Shareholders	608,317	13.50	March 31, 2017	June 29, 2017
November 7, 2017 Board of Directors	608,349	13.50	September 30, 2017	December 8, 2017

For the year ended March 31, 2019

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 28, 2018 Ordinary General Meeting of Shareholders	608,349	13.50	March 31, 2018	June 29, 2018
November 6, 2018 Board of Directors	608,452	13.50	September 30, 2018	December 7, 2018

Cash dividends effective in the following fiscal year are as follows:

For the year ended March 31, 2019

Resolution date	Total dividends	Dividends per share	Record date	Effective date
June 27, 2019 Ordinary General Meeting of Shareholders	608,452	13.50	March 31, 2019	June 28, 2019

23. REVENUE

(1) The components of revenues recognized in the contracts with customers are as follows.

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Network services	108,083,658	118,626,271
Internet connectivity services (enterprise)	27,982,214	33,185,825
Wan services	29,295,097	30,990,637
Outsourcing services	26,053,714	29,215,514
Internet connectivity services (consumer)	24,752,633	25,234,295
Systems integration	64,118,979	69,652,389
Systems construction	26,212,468	27,882,017
Systems operation and maintenance	37,906,511	41,770,372
ATM operation business	4,030,684	4,151,525
Total	176,233,321	192,430,185

(2) Revenue recognition

Network service revenue, for which the Company's performance obligations are satisfied over the contractual period, are recognized monthly as profit on a straight-line basis over the period during which the performance obligations are satisfied. Initial setup fees received in connection with network services are deferred and the Company performs an assessment to determine whether it in turn, provides a material right for the customer to continue services contracts after the initial contract period. If a contract gives material rights to customers, initial setup fee revenues for the contract are recognized over the estimated average period of the subscription for each service. On the other hand, if the contract does not contain a material right, revenue are recognized over the minimum usage period of the subscription for each service.

Systems integration revenue involves one or more of the following deliverables:

・Systems construction services—such services include all or some of the following elements depending on the arrangements to meet each of our customers' requirements: consulting, project planning, system design and the development of network systems. These services also include software installation, as well as hardware configuration and installation.

・Software—we resell third-party software such as Oracle and Windows to our customers, which are installed by us during the system development process.

・Hardware—we also resell third-party hardware, primarily servers, switches and routers, which we install during the system development process. Hardware sold is generic hardware that is often sold by third-party manufacturers and resellers.

・Monitoring and operating services—we monitor our customers' network activity and internet connectivity to detect and report problems. We also provide live data backup services.

・Hardware and software maintenance services—we repair or replace malfunctioned hardware parts. We also troubleshoot software and provide suitable solutions to customers.

System construction services are generally delivered over a period from three to nine months. All hardware and software are delivered and installed during this period. Customers are required to pay a fixed fee that is not payable until after the system construction has been completed and accepted by our customers.

Monitoring, operating, and hardware and software maintenance services generally commence once our customers have accepted the systems, and contract periods are generally from one to five years. Our contracts include a stated annual fee for these services.

For arrangements with multiple performance obligations, including system construction services, hardware, software and undelivered services (e.g., monitoring, operating and hardware and software maintenances services), the Company allocates revenue to all performance obligations based on standalone selling prices. Revenue allocations are performed based on certain key judgements. Standalone selling prices are estimated based on all the reasonably available information including market status, the Company's own factors, and other observable inputs, and using a range of prices properly defined for the purpose of allocation.

Accounting methods for each performance obligation identified and the period for recognition of each performance obligation are as follows:

- Revenue allocated to system construction services and hardware and software are recognized when related performance obligations are satisfied, but under some conditions, revenues and related costs are recognized over the periods during which the performance obligations are fulfilled. If the conditions are not met, revenues are recognized when the systems are accepted by the customers.
- Revenue related to hardware and software which are deemed essential to the hardware product's functionality is not recognized until customer acceptance is received because titles to the hardware and software do not transfer to our customers until formal acceptance is received.
- Revenue related to monitoring, operating and hardware and software maintenance services is recognized on a straight-line basis over the contract period because the Company's performance obligations for these services are satisfied over the contractual periods. The same applies for network services revenue.

Equipment sales revenues are recognized when equipment is delivered and accepted by the customer, because control of equipment is not transferred to customers until the customer accepts it. Equipment sales revenues are included in System integration revenue.

The Company evaluates whether it is appropriate to record the gross amount of revenues and related costs or the net amount earned in reporting system construction services and equipment sales, depending on whether the Company functions as the principal or agent.

ATM operation business revenues consist primarily of commissions for ATM withdrawal transactions. The ATM commissions collected at each withdrawal are recognized as ATM operation revenues because customers receive benefits at the time of use.

Revenue is recognized at the amount excluding consumption taxes which the Company collects from the customers and pays to authorities later.

Revenue by business segment is stated in Note 8. Business segments.

(3) Contract assets and contract liabilities

The balance of assets and liabilities arising from contracts with customers are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Contract assets	69,712	72,345	108,366
Contract liabilities	6,634,186	7,452,684	10,370,222

Contract assets represent the rights to receive considerations, excluding receivables, to be received in exchange for the fulfillment of performance obligations in system construction services including those with multiple performance obligations.

Contract liabilities represent the excess of the consideration received by the customers over the amount for which performance obligation is satisfied and thus revenue is recognized in system construction services, including those with multiple performance obligations.

In the consolidated statements of financial position, contract assets are included in other financial assets and contract liabilities are included in deferred revenue-current and deferred revenue.

Among the revenue recorded for the year ended March 31, 2018, ¥2,399,021 thousand were recognized from the balance of contract liabilities as of April 1, 2017.

Among the revenue recorded for the year ended March 31, 2019, ¥3,200,118 thousand were recognized from the balance of contract liabilities as of March 31, 2018

(4) Transaction price allocated to remaining performance obligations

Transaction prices allocated to remaining performance obligations as of March 31, 2018 and 2019 were ¥26,481,687 thousand and ¥27,158,173 thousand, respectively, which are related to the following services:

- System construction services
- Monitoring, operating and maintenance of hardware and software
- Network services with contracts that give material rights that affect customers' decisions regarding continuing services.

The Company estimates that revenue related to remaining performance obligations will be recognized in six years. Contractual periods of services other than those described above are generally less than one year, and information on remaining performance obligations related to these services is not presented due to immateriality.

(5) Assets arising from costs of obtaining costs and fulfilling contracts

Assets arising from costs of obtaining and fulfilling contracts with customers are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Assets arising from costs of obtaining contracts	229,313	196,706	235,696
Assets arising from costs of fulfilling contracts	513,903	663,036	1,059,069
Total	743,216	859,742	1,294,765

Incremental costs of obtaining contracts with customers and costs incurred to fulfill the contracts are recognized as assets ("assets recognized from the contract costs"), if they are recoverable, and presented in prepaid expenses on the consolidated statements of financial position. Incremental costs of obtaining a contract are those incurred in obtaining a specific contract with a customer which otherwise would not have been incurred.

Incremental costs of obtaining a contract that the Company recognizes as assets are mainly sales commission expenses paid due to the number of contracts obtained by agents in mobile services for consumers. Costs incurred to fulfill the contract are mainly personnel expenses of the Company related to service registration and the communication-line arrangements initially required. These assets are amortized on a straight line basis for periods from two to five years which reflects the estimated period of use by the customers.

Amortization expenses from assets recognized from contract costs for the year ended March 31, 2018 and 2019 were ¥354,029 thousand and ¥358,286 thousand, respectively.

24. COSTS OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The components of costs of sales for the years ended March 31, 2018 and 2019 were as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Employee benefits	(14,101,281)	(14,791,928)
Depreciation and amortization	(12,145,361)	(14,327,998)
Outsourcing costs	(44,560,333)	(52,782,685)
Telecommunication expenses	(31,969,004)	(32,330,168)
Other	(45,088,597)	(49,222,708)
Total	(147,864,576)	(163,455,487)

The components of selling, general and administrative expenses for the years ended March 31, 2018 and 2019 were as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Employee benefits	(8,853,672)	(9,138,665)
Depreciation and amortization	(1,251,209)	(1,279,400)
Research and development	(487,451)	(446,283)
Commission	(3,153,540)	(3,580,925)
Other	(7,727,628)	(8,206,763)
Total	(21,473,500)	(22,652,036)

25. OTHER OPERATING INCOME

The components of other operating income for the years ended March 31, 2018 and 2019 were as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Gain on disposal of tangible assets	16,062	3,258
Commissions received	11,204	15,353
Other	34,119	28,397
Total	61,385	47,008

26. OTHER OPERATING EXPENSES

The components of other operating expenses for the years ended March 31, 2018 and 2019 were as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Loss on disposal of tangible and intangible assets	(108,929)	(306,519)
Other	(78,084)	(40,164)
Total	(187,013)	(346,683)

27. FINANCE INCOME AND FINANCE EXPENSES

The components of finance income and finance expenses for the years ended March 31, 2018 and 2019 were as follows:

(1) Finance income

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Interest income		
Financial assets measured at amortized cost	51,434	48,888
Debt-based financial assets measured at FVTOCI	1,100	1,100
Dividend income		
Equity-based financial assets measured at FVTOCI	242,576	86,596
Foreign exchange gain	—	3,368
Other finance income		
Financial assets measured at FVTPL	23,630	398,636
Other	88,518	31,416
Total	407,258	570,004

(2) Finance expenses

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Interest expenses		
Financial liabilities measured at amortized cost		
Borrowings	(120,710)	(148,601)
Lease obligations	(284,422)	(281,575)
Foreign exchange loss	(18,274)	—
Other finance expenses	(15,929)	(1,587)
Total	(439,335)	(431,763)

(3) Impairment loss on financial assets

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost	(88,024)	(153,420)

In the Company’s consolidated statements of profit or loss, impairment loss on financial assets measured at amortized cost is included in selling, general and administrative expenses.

28. EARNINGS PER SHARE

Basic earnings per share attributable to owners of the parent and diluted earnings per share attributable to owners of the parent for the years ended March 31, 2018 and 2019 were as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	4,422,923	3,520,566
Denominator :		
Weighted average number of shares — basic (shares)	45,062,878	45,070,469
Dilution arising from stock options (shares)	152,808	178,915
Weighted average number of shares — diluted (shares)	45,215,686	45,249,384
Earnings per share attributable to owners of the parent		
Basic (yen)	98.15	78.11
Diluted (yen)	97.82	77.80

29. OTHER COMPREHENSIVE INCOME

Incurred amount, reclassification to profit or loss and income tax effect of each component included in other comprehensive income for the years ended March 31, 2018 and 2019 were as follows:

For the year ended March 31, 2018

	Incurred amount	Reclassifi-cation	Pre-tax amount	Tax effect	Net-of-tax amount
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Items that will not be reclassified to profit or loss:					
Net changes in fair values of financial assets measured through other comprehensive income	4,676,134	—	4,676,134	1,472,897	3,203,237
Remeasurements of defined benefit pension plans	117,413	—	117,413	36,985	80,428
Subtotal	4,793,547	—	4,793,547	1,509,882	3,283,665
Items that may be reclassified to profit or loss:					
Exchange differences on translation of foreign operations	(65,856)	—	(65,856)	—	(65,856)
Net changes in fair value of financial assets measured through other comprehensive income	1,340	—	1,340	422	918
Share of other comprehensive income in equity method investees	9,479	—	9,479	2,986	6,493
Subtotal	(55,037)	—	(55,037)	3,408	(58,445)
Total	4,738,510	—	4,738,510	1,513,290	3,225,220

For the year ended March 31, 2019

	Incurred amount	Reclassification	Pre-tax amount	Tax effect	Net-of-tax amount
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Items that will not be reclassified to profit or loss:					
Net changes in fair value of financial assets measured through other comprehensive income	(1,461,471)	—	(1,461,471)	(460,279)	(1,001,192)
Remeasurements of defined benefit pension plans	511,152	—	511,152	161,013	350,139
Subtotal	(950,319)	—	(950,319)	(299,266)	(651,053)
Items that may be reclassified to profit or loss:					
Exchange differences on translation of foreign operations	47,377	—	47,377	—	47,377
Net changes in fair value of financial assets measured through other comprehensive income	1,840	—	1,840	580	1,260
Share of other comprehensive income in equity method investees	(22,461)	—	(22,461)	(7,075)	(15,386)
Subtotal	26,756	—	26,756	(6,495)	33,251
Total	(923,563)	—	(923,563)	(305,761)	(617,802)

30. SHARE-BASED PAYMENTS

(1) Description of share-based payments

For the purpose of sharing benefits and risks with IIJ's shareholders and to further contribute to the continuous enhancement of business performance and corporate value over the medium to long term, IIJ has stock compensation-type stock option plans, wherein stock acquisition rights are allocated to directors and executive officers as a substitute for the retirement allowance plan.

The stock acquisition rights become exercisable after a service period of one year and are exercisable up to 29 years from the date of vesting. The stock acquisition rights may be exercised only within 10 days from the day immediately following the day on which the person loses his or her position as either a director or an executive officer. The exercise price of stock acquisition rights is ¥1.

In the event of exercising the stock acquisition rights, in principle, 200 shares of common stock of the Company will be granted per one stock acquisition right. However, in cases where the Company conducts a stock split (including allotment without contribution of shares of the Company's common stock) or reverse split of shares of the Company's common stock, the number of granted shares is adjusted based on a certain formula.

The exercise period is defined in the allotment agreement, and if not exercised within that period, the stock acquisition rights will expire.

IIJ's stock options outstanding at March 31, 2018 and 2019 are as follows:

	Date granted	Number of options (shares)	Fair value per option at the date of grant(yen)	Exercisable period
1st series (Board of Directors resolved on June 28, 2011)	July 14, 2011	107 (21,400)	¥1,296.72	July 15, 2011 —July 14, 2041
2nd series (Board of Directors resolved on June 27, 2012)	July 13, 2012	104 (20,800)	1,592.81	July 14, 2012 —July 13, 2042
3rd series (Board of Directors resolved on June 26, 2013)	July 11, 2013	78 (15,600)	3,235	July 12, 2013 —July 11, 2043
4th series (Board of Directors resolved on June 25, 2014)	July 10, 2014	113 (22,600)	2,113	July 11, 2014 —July 10, 2044
5th series (Board of Directors resolved on June 26, 2015)	July 13, 2015	147 (29,400)	1,846	July 14, 2015 —July 13, 2045
6th series (Board of Directors resolved on June 24, 2016)	July 11, 2016	158 (31,600)	1,800	July 12, 2016 —July 11, 2046
7th series (Board of Directors resolved on June 28, 2017)	July 14, 2017	169 (33,800)	1,686	July 15, 2017 —July 14, 2047
8th series (Board of Directors resolved on June 28, 2018)	July 13, 2018	163 (32,600)	1,738	July 14, 2018 —July 13, 2048

(2) Number and weighted average exercise price of stock options

	For the year ended March 31, 2018		For the year ended March 31, 2019	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
	shares	yen	shares	yen
Unexercised options outstanding at the beginning of the year	143,800	1	175,200	1
Granted	33,800	1	32,600	1
Exercised	(2,400)	1	(7,600)	1
Unexercised options outstanding at the end of the year	175,200	1	200,200	1
Exercisable options at the end of the year	141,400	1	167,600	1

(Note 1) The weighted average price of common stock at the date of exercise of the option during the years ended March 31, 2018 and 2019 was ¥2,082 and ¥2,120, respectively.

(Note 2) As of March 31, 2018, the exercise price of unexercised stock options was ¥1 and the weighted average remaining contractual period was 26.72 years. As of March 31, 2019, the exercise price of unexercised stock options was ¥1 and the weighted average remaining contractual period was 26.32 years.

(3) Fair value of stock options granted during the period and assumptions

The weighted average fair value of stock options granted during the period was evaluated using the Black-Scholes model based on the following assumptions.

Major basic figures and estimation methods used in the Black-Scholes model are as follows:

	7th series stock acquisition right (Resolved by the Board of Directors on June 28, 2017)	8th series stock acquisition right (Resolved by the Board of Directors on June 28, 2018)
Fair value at the date of grant	1,686 yen	1,738 yen
Share price at the date of grant	2,052 yen	2,105 yen
Exercise price	1 yen	1 yen
Expected volatility	50.582%	49.193%
Expected remaining life	15 years	15 years
Expected dividend yield	1.316%	1.283%
Risk-free rate	0.327%	0.263%

Expected volatility is calculated based on the latest actual share price corresponding to the expected remaining period.

(4) Expenses of share-based payment

Expenses of share-based payment recognized in the consolidated statements of profit or loss for the years ended March 31, 2018 and 2019 were ¥57,321 thousand and ¥56,740 thousand, respectively.

31. FINANCIAL INSTRUMENTS

(1) Capital management

The Company manages its capital to maximize corporate value through continuous growth.

Net liabilities compared to equity of the Company are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Borrowings	17,750,000	24,750,000	26,750,000
Lease obligation	15,162,033	16,564,996	18,033,862
Cash and cash equivalents	21,747,209	21,320,004	31,957,789
Net liabilities	11,164,824	19,994,992	12,826,073
Equity	68,674,801	75,247,232	77,119,610

There is no significant capital restriction externally applicable to the Company.

(2) Categories of financial instruments

① Categories of financial assets and financial liabilities

The components by category of financial instruments, excluding cash and cash equivalents, are as follows:

April 1, 2017

	Financial assets measured at amortized cost	Debt-based financial assets measured at fair value through other comprehensive income	Equity-based financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Current assets					
Trade and other receivable	27,258,636	—	—	—	27,258,636
Other financial assets	2,554,960	—	—	—	2,554,960
Non-current assets					
Other investments	—	110,830	6,948,987	2,462,940	9,522,757
Other financial assets	4,857,944	—	—	—	4,875,944
	34,689,540	110,830	6,948,987	2,462,940	44,212,297

	Financial liabilities measured at amortized cost
	Thousands of yen
Current liabilities	
Trade and other payable	17,096,434
Borrowings	9,250,000
Other financial liabilities	198,561
Noncurrent liabilities	
Borrowings	8,500,000
Other financial liabilities	1,483,512
	36,528,507

March 31, 2018

	Financial assets measured at amortized cost	Debt-based financial assets measured at fair value through other comprehensive income	Equity-based financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Current assets					
Trade and other receivable	31,569,389	-	-	-	31,569,389
Other financial assets	3,758,636	-	-	-	3,758,636
Non-current assets					
Other investments	—	112,171	10,420,261	2,351,958	12,884,390
Other financial assets	4,857,197	—	—	—	4,857,197
	40,185,222	112,171	10,420,261	2,351,958	53,069,612

	Financial liabilities measured at amortized cost
	Thousands of yen
Current liabilities	
Trade and other payable	16,530,712
Borrowings	9,250,000
Other financial liabilities	319,075
Non-current liabilities	
Borrowings	15,500,000
Other financial liabilities	909,779
	42,509,566

March 31, 2019

	Financial assets measured at amortized cost	Debt-based financial assets measured at fair value through other comprehensive income	Equity-based financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Current assets					
Trade and other receivable	33,375,808	—	—	—	33,375,808
Other financial assets	1,581,212	—	—	—	1,581,212
Non-current assets					
Other investments	—	114,010	8,998,398	2,289,957	11,402,365
Other financial assets	5,293,547	—	—	—	5,293,547
	40,250,567	114,010	8,998,398	2,289,957	51,652,932

	Financial liabilities measured at amortized cost
	Thousands of yen
Current liabilities	
Trade and other payable	21,962,239
Borrowings	12,750,000
Other financial liabilities	512,358
Non-current liabilities	
Borrowings	14,000,000
Other financial liabilities	636,816
	49,861,413

② Investments in equity-based financial instruments classified as to be measured at fair value through other comprehensive income

(ⅰ) Breakdown and principal names of equity-based financial instruments specified as to be measured at fair value through other comprehensive income

Stock securities which are equity-based financial instruments are specified to be measured at fair value through other comprehensive income.

These equity-based financial instruments specified as such are held for the purpose of strengthening business relationships and not for the purpose of short-term trading to earn profits

Therefore, the Company determined that it is more appropriate to record changes in value as other comprehensive income than as net profit or loss, and determined the specification.

The fair value of the securities for which the specification was made and the principal breakdown are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Marketable	5,668,502	9,175,028	7,619,096
Nonmarketable	1,280,485	1,245,233	1,379,302
	6,948,987	10,420,261	8,998,398

Of the above, the breakdown of fair values by issuer is mainly as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Recruit holdings Co.,Ltd	2,840,000	3,996,750	4,741,500
Sygmaxyz Inc	1,310,760	4,231,260	2,057,220
PIA corporation	440,250	817,500	688,500
E-net Co.,Ltd	510,277	403,365	420,296
Japan registry services Co.,Ltd	324,430	340,041	353,247
Transaction media networks Inc.	154,096	186,476	193,953
Mobile create Co.,Ltd	150,400	142,000	130,000

(ⅱ) Derecognition of equity-based financial instruments measured at fair value through other comprehensive income

For derecognition of equity-based financial instruments measured at fair value through other comprehensive income, fair values at the time of derecognition and accumulated gain or loss on disposal is as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Fair value at the time of derecognition	1,206,516	60,668
Accumulated gain or loss on disposal	943,338	3,372

These equity-based financial instruments are disposed for reasons such as reviews of business relationships.

Accumulated gain or loss (net-of-tax basis) related to equity-based financial assets measured at FVTOCI are transferred from other components of equity to retained earnings when it is derecognized. The amounts of such transfers for the years ended March 31, 2018 and 2019 were ¥646,187 thousand and ¥2,310 thousand, respectively.

1

Of dividend income from equity-based financial instruments classified as to be measured at FVTOCI during the year ended March 31, 2018, the amount of dividend from the equity-based financial instruments that the Company held at the end date of the reporting period was ¥215,356 thousand and the amount from the equity-based financial instruments that the Company derecognized for the year ended March 31, 2019 was ¥24,681 thousand.

Of dividend income from equity-based financial instruments classified as to be measured at FVTOCI during the year ended March 31, 2019, the amount of dividend from the equity-based financial instruments that the Company held at the end date of the reporting period was ¥85,888 thousand and the amount from the equity-based financial instruments that the Company derecognized for the year ended March 31, 2019 was ¥437 thousand.

(3) Financial risk management

The Company is exposed to financial risks (credit risks, liquidity risks, currency risks, interest rate risks and market price fluctuation risks) in the process of business operations and manages risks in order to reduce these financial risks.

(4) Credit risk management

Credit risk is the risk of customers' defaulting on contractual obligations and causing financial losses for the Company.

The Company sets and manages the credit limit for each customer based on our credit management regulations etc. Accounts receivable of the Company are for a number of entities spread throughout a wide range of industries and regions.

The Company does not have a credit risk that is excessively concentrated in a single party or a group to which the party belongs.

Carrying amount, less impairment loss, of financial assets on the consolidate financial statements is the maximum exposure to credit risk of the Company's financial assets that does not reflect the evaluated value of the collateral acquired

The Company records allowance for credit losses on trade receivables and other financial assets, by measuring the future expected credit losses considering factors such as the recoverability and whether there is a significant increase in credit risk. Whether the credit risk has increased significantly or not is evaluated based on the change in the risk of default. To judge such risk, the Company uses information such as financial position of the counterparty, past record of credit loss, historical data of overdue accounts receivable, etc.

Allowance for credit losses on trade receivables are always measured equally to the lifetime expected credit loss, and depending on the transaction details and scale, lifetime expected credit loss is measured individually or collectively. If one or more of the following events that adversely affect the estimated future cash flows of trade receivables have occurred, the trade receivable is deemed to be credit-impaired and expected credit losses are measured for each individual receivable.

・Significant financial difficulty of debtors
・A breach of contract, such as a default or past-due event
・Increased probability that the debtor will enter bankruptcy or other financial reorganization

① Carrying amount of trade receivables and other financial assets

(ⅰ) Trade receivables

Carrying amount	Financial assets for which allowance for credit losses is constantly measured at lifetime expected credit losses	Financial assets credit-impaired	Total
	Thousands of yen	Thousands of yen	Thousands of yen
April 1, 2017	27,277,417	158,465	27,435,882
March 31, 2018	31,603,394	132,815	31,736,209
March 31, 2019	33,432,707	176,108	33,608,815

(ⅱ) Other financial assets

Carrying amount	Financial assets for which allowance for credit losses is measured at equal to the expected credit loss for next 12 months	Financial assets for which allowance for credit losses is constantly measured at lifetime expected credit losses		Total
		Financial assets which increased its credit risk significantly since it was initially recognized	Financial assets credit-impaired	
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
April 1, 2017	7,428,054	—	64,727	7,492,781
March 31, 2018	8,612,588	—	64,174	8,676,762
March 31, 2019	6,874,453	—	59,096	6,933,549

② Changes in allowance for credit losses

Impaired assets are accounted for in allowance for credit loss and are not directly deducted from the carrying amount of the assets. Changes in allowance for credit losses are as follows:

For the year ended March 31, 2018

(ⅰ) Trade receivables

Allowance for credit losses	Financial assets for which allowance for credit losses is constantly measured at lifetime expected credit losses	Financial assets credit-impaired	Total
	Thousands of yen	Thousands of yen	Thousands of yen
April 1, 2017	23,214	154,032	177,246
Increases	32,425	44,374	76,799
Decreases(credits charged off)	(17,231)	(70,024)	(87,255)
Other	30	—	30
March 31, 2018	38,438	128,382	166,820

(ⅱ) Other financial assets

Allowance for credit losses	Financial assets for which allowance for credit losses is measured at equal to the expected credit loss for next 12 months	Financial assets for which allowance for credit losses is constantly measured at lifetime expected credit losses		Total
		Financial assets which increased its credit risk significantly since it was initially recognized	Financial assets credit-impaired	
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
April 1, 2017	—	—	61,877	61,877
Increases	—	—	6,323	6,323
Decreases(Credits charged off)	—	—	(2,681)	(2,681)
Other	—	—	(4,590)	(4,590)
March 31, 2018	—	—	60,929	60,929

For the year ended March 31, 2019

(ⅰ) Trade receivables

Allowance for credit losses	Financial assets for which allowance for credit losses is constantly measured at lifetime expected credit losses	Financial assets credit-impaired	Total
	Thousands of yen	Thousands of yen	Thousands of yen
March 31, 2018	38,438	128,382	166,820
Increases	32,140	100,111	132,251
Decreases(credits charged off)	(9,128)	(56,098)	(65,226)
Other	(118)	(720)	(838)
March 31, 2019	61,332	171,675	233,007

(ⅱ) Other financial assets

Allowance for credit losses	Financial assets for which allowance for credit losses is measured at equal to the expected credit loss for next 12 months	Financial assets for which allowance for credit losses is constantly measured at lifetime expected credit losses		Total
		Financial assets which increased its credit risk significantly since it was initially recognized	Financial assets credit-impaired	
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
April 1, 2018	—	—	60,929	60,929
Increases	—	—	991	991
Decreases(Credits charged off)	—	—	(13,233)	(13,233)
Other	—	—	10,103	10,103
March 31, 2019	—	—	58,790	58,790

(5) Liquidity risk management

Liquidity risk is the risk that, the Company is unable to execute payment on the due dates of financial liabilities to fulfill the payment obligations which become due.

The Company manages liquidity risk by preparing appropriate repayment funds, securing credit lines from financial institutions that can be used at any time, and continuously monitoring cash flow plans and actual results.

The balance of financial liabilities by due date is as follows:

April 1, 2017

	Carrying amount	Contractual Amount	Within 1 year	More than 1 year to 2 years	More than 2 to 3 years	More than 3 to 4 Years	More than 4 to 5 Years	More than 5 years
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Financial liabilities								
Trade payable and other payable	17,096,434	17,096,434	17,096,434	—	—	—	—	—
Other financial liabilities	1,682,073	1,682,073	785,263	767,842	128,968	—	—	—
Short-term borrowings	9,250,000	9,250,000	9,250,000	—	—	—	—	—
Long-term borrowings	8,500,000	8,500,000	—	—	1,500,000	1,830,000	5,170,000	—
Lease obligations (including current portion)	15,162,033	15,662,842	5,011,793	4,230,860	3,282,762	2,147,827	981,767	7,833
Off-balance transactions								
Unused balance of capital call	—	570,256	—	—	—	—	—	—
Total	51,690,540	52,761,605	32,143,490	4,998,702	4,911,730	3,977,827	6,151,767	7,833

Unused balance of capital call is an item payable on demand and is related to funds recorded in other investment.

March 31, 2018

	Carrying amount	Contractual amount	Within 1 year	More than 1 to 2 years	More than 2 to 3 years	More than 3 to 4 years	More than 4 to 5 years	More than 5 years
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Financial liabilities								
Trade payable and other payable	16,530,712	16,530,712	16,530,712	―	―	―	―	―
Other financial liabilities	1,228,854	1,228,854	1,086,917	128,968	―	―	―	12,969
Short-term borrowings	9,250,000	9,250,000	9,250,000	―	―	―	―	―
Long-term borrowings	15,500,000	15,500,000	―	1,500,000	1,830,000	5,170,000	1,500,000	5,500,000
Lease obligations (including current portion)	16,564,996	17,043,352	5,874,817	4,886,961	3,742,675	2,035,364	503,535	―
Off-balance transactions								
Unused balance of capital call	―	387,016	―	―	―	―	―	―
Total	59,074,562	59,939,934	32,742,446	6,515,929	5,572,675	7,205,364	2,003,535	5,512,969

Unused balance of capital call is an item payable on demand and is related to funds recorded in other investment.

March 31, 2019

	Carrying amount	Contractual Amount	Within 1 year	More than 1 to 2 years	More than 2 to 3 years	More than 3 to 4 years	More than 4 to 5 years	More than 5 years
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Financial liabilities								
Trade payable and other payable	21,962,239	21,962,239	21,962,239	—	—	—	—	—
Other financial liabilities	1,149,174	1,149,174	641,439	164,795	144,381	81,974	82,567	34,018
Short-term borrowings	12,750,000	12,750,000	12,750,000	—	—	—	—	—
Long-term borrowings	14,000,000	14,000,000	—	1,830,000	5,170,000	1,500,000	2,000,000	3,500,000
Lease obligations (including current portion)	18,033,862	18,500,687	6,750,855	5,586,082	3,856,131	1,752,931	554,688	—
Off-balance transactions								
Unused balance of capital call	—	1,309,721	—	—	—	—	—	—
Total	67,895,275	69,671,821	42,104,533	7,580,877	9,170,512	3,334,905	2,637,255	3,534,018

Unused balance of capital call is an item payable on demand and is related to funds recorded in other investment.

(6) Currency risk management

The Company operates internationally and is exposed to risks arising from fluctuations in foreign exchange rates mainly related to trade receivables and payables denominated in foreign currencies.

The Company continually monitors currency markets to manage these risks.

The Company's major currency risk exposures are as follows:

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	U.S. dollars	U.S. dollars	U.S. dollars
	Thousands of yen	Thousands of yen	Thousands of yen
Foreign currency denominated monetary financial instruments			
Assets	1,344,099	1,693,721	2,287,433

Sensitivity analysis for currency risks

For financial instruments held by the Company as of the end of each fiscal year, the potential effects on profit before tax in the consolidated statements of profit or loss resulting from a 10% appreciation of the Japanese yen against foreign currencies is as follows.

This sensitivity analysis does not include the effects of financial instruments denominated in the functional currency or the effects of translation of assets, liabilities, profits and losses of foreign operations. This analysis assumes that currencies other than the analyzed currency have not changed.

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Potential effect on profit before tax		
U.S. dollars	(169,372)	(228,743)

(7) Interest rate risks

The Company's borrowings are at fixed interest rates and the Company believes that interest rate risk is not material. Therefore, the Company does not conduct sensitivity analyses for interest rates.

(8) Market price fluctuation risks

The Company is exposed to the risk of market prices fluctuation of equity-based financial instruments (stock).

Equity-based financial instruments held by the Company are for strategic holdings, not for short-term trading purposes. These financial instruments include marketable and nonmarketable equity securities and the Company periodically reviews the holding status considering the market prices and financial conditions of the issuers.

For securities traded in active markets, the potential effect on other comprehensive income (loss) before income tax expenses resulting from a 10% adverse change in equity prices, assuming that all the other parameters are fixed would be as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Effect of increase (decrease) on other comprehensive income before income tax expenses	(917,503)	(761,910)

(9) Fair value of financial instruments

① Financial instruments measured at fair value

Measurement methods for major financial instruments measured at fair value are as follows:

Equity securities, debt securities, investment trust and other securities

For financial assets measured at fair value, fair values of marketable financial instruments are evaluated at quoted market prices and these instruments are classified as Level 1. If market prices do not exist, the Company evaluates fair value by using recent prices of independent third-party transactions, comparable peer company analysis, equity interest in net assets based on recent available information, discounted future cash flow method, etc., and these financial assets are classified as Level 2 or 3 according to the contents of the evaluation.

For financial instruments which do not have quoted market price, assets measured using observable market data are classified as Level 2, and those measured using unobservable inputs and primarily at the amount calculated by net asset value of investee are classified as Level 3.

For financial instruments classified as Level 3, significant changes in fair value are not expected if the Company changes the unobservable input to an alternative assumption that can reasonably be considered.

The following table presents the Company' s assets that are measured at fair value consistent with the fair value hierarchy.

Date of transition (April 1, 2017)

	Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets：				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	110,830	—	110,830
Equity-based financial assets measured at FVTOCI				
Equity securities	5,668,502	—	1,280,485	6,948,987
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	2,383,723	2,383,723
Other financial assets	—	79,217	—	79,217

March 31, 2018

	Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets：				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	112,171	—	112,171
Equity-based financial assets measured at FVTOCI				
Equity securities	9,175,028	—	1,245,233	10,420,261
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	2,264,379	2,264,379
Other financial assets	—	87,579	—	87,579

March 31, 2019

	Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets :				
Debt-based financial assets measured at FVTOCI				
Debt securities	—	114,010	—	114,010
Equity-based financial assets measured at FVTOCI				
Equity securities	7,619,096	—	1,379,302	8,998,398
Financial assets measured at FVTPL				
Investment trust and other securities	—	—	2,199,303	2,199,303
Other financial assets	—	90,654	—	90,654

② Changes in financial assets classified as Level 3

Changes in financial assets classified as Level 3 during the years ended March 31, 2018 and 2019 were as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Balance at the beginning of the year	3,664,208	3,509,612
Total gain or loss	(3,281)	474,989
Profit or loss (Note 1)	33,878	395,722
Other comprehensive income (Note 2)	(37,159)	79,267
Purchase	4,940	144,013
Sale	(156,255)	(550,009)
Balance at the end of year	3,509,612	3,578,605

(Note 1) Gain or loss included in profit or loss are related to financial assets that are measured at FVTPL as of the end date of the year. This gain or loss is included in finance income or finance expenses.

(Note 2) Gain or loss included in other comprehensive income is related to investments held at the end date of the year such as non-marketable equity securities. This gain or loss is included in "Changes in fair value of financial assets measured at FVTOCI."

③ Financial instruments measured at amortized cost

Primary methods of measuring financial instruments at amortized cost are as follows:

(i) Guarantee deposits

Fair values of guarantee deposits are classified by a certain period and calculated by present value discounted by such rates as the risk-free rate.

(ii) Long-term borrowings

Fair values of long-term borrowings and long-term accounts payable are calculated by present value discounted by the expected rates if the Company made borrowings on equal terms for the remaining period.

The following tables present the Company' s financial instruments measured at amortized cost consistent with the fair value hierarchy.

Date of transition, April 1, 2017

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets :					
Financial assets measured at amortized cost					
Guarantee deposits	2,774,594	—	—	2,774,594	2,774,594
Liabilities :					
Financial liabilities measured at amortized cost					
Long-term borrowings (including current portion)	8,500,000	—	8,485,311	—	8,485,311
Long-term accounts payable	1,468,183	—	1,466,952	—	1,466,952

March 31, 2018

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets :					
Financial assets measured at amortized cost					
Guarantee deposits	3,155,216	-	-	3,155,216	3,155,216
Liabilities :					
Financial liabilities measured at amortized cost					
Long-term borrowings (including current portion)	15,500,000	-	15,437,103	-	15,437,103
Long-term accounts payable	896,810	-	895,770	-	895,770

March 31, 2019

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets：					
Financial assets measured at amortized cost					
Guarantee deposits	3,140,672	—	—	3,140,672	3,140,672
Liabilities：					
Financial liabilities measured at amortized cost					
Long-term borrowings (including current portion)	15,500,000	-	15,503,003	-	15,503,003
Long-term accounts payable	623,420	-	623,479	-	623,479

32. INVOLVEMENT IN SUBSIDIARIES

(1) Composition of the Group

Major subsidiaries as of March 31, 2019 are as follows:

Name	Location	Common stock (Thousands of yen)	Primary Business	Percentage of voting rights		
				April 1, 2017	March 31, 2018	March 31, 2019
IIJ Innovation Institute Inc.	Chiyoda-ku, Tokyo	75,000	R&D for Internet-related technology (Network and SI business segment)	100.0	100.0	100.0
IIJ Engineering Inc.	Chiyoda-ku, Tokyo	400,000	Operation and monitoring of network systems, customer service support and call centers (Network and SI business segment)	100.0	100.0	100.0
IIJ Global Solutions Inc.	Chiyoda-ku, Tokyo	490,000	Provision of network services and system integration (Network and SI business segment)	100.0	100.0	100.0
Trust Networks Inc.	Chiyoda-ku, Tokyo	100,000	Operation of bank ATMs and ATMs networks (ATMs Operation Business segment)	79.5	80.6	80.6
Net Chart Japan, Inc.	Yokohama-shi, Kanagawa	55,000	Development and construction of networks, operation and maintenance of networks and sales of network-related equipment (Network and SI business segment)	100.0	100.0	100.0
RYUKOSHA NETWARE Inc.	Chiyoda-ku, Tokyo	10,000	Provision of human resources and outsourcing services for system operation and services support (Network and SI business segment)	100.0	100.0	100.0
IIJ America Inc.	California, the United States	8,460,000 USD	Provision of network services, system integration and other related services in the U.S. (Network and SI business segment)	100.0	100.0	100.0
IIJ Europe Limited	London, the United Kingdom	143,000 GBP	Provision of network services, system integration and other related services in Europe (Network and SI business segment)	100.0	100.0	100.0
IIJ Global Solutions Singapore Pte. Ltd.	Singapore	5,345,000 SGD	Provision of network services, system integration and other related services in Singapore (Network and SI business segment)	100.0	100.0	100.0
IIJ Global Solutions China Inc.	Shanghai, China	10,630,000 USD	Provision of network services, system integration and other related services in China (Network and SI business segment)	100.0	100.0	100.0
hi-ho Inc	Chiyoda-ku, Tokyo	240,000	Internet connectivity service for consumers (Network and SI business segment)	100.0	—	—

(2) Subsidiaries with material non-controlling interests

There is no subsidiary that has material non-controlling interests.

(3) Gain on the loss of control over a subsidiary

December 31, 2017, the Company sold all shares in hi-ho Inc. which operated internet connectivity services for consumers and recorded a gain of ¥44,877 thousand for the year ended March 31, 2018 and the gain was recorded in selling, general and administrative expenses.

33. EQUITY METHOD INVESTEES

(1) Significant associates

The Company has no significant associates.

(2) Significant joint ventures

The Company has no significant joint ventures.

(3) Individually immaterial associates and individually immaterial joint ventures

Carrying amounts for the Company' s interest on individually immaterial associates and individually immaterial joint ventures

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Investments in associates	55,627	1,861,616	1,358,911
Investments in joint ventures	3,094,548	3,384,697	3,478,956
Total	3,150,175	5,246,313	4,837,867

Financial information of individually immaterial associates and individually immaterial joint ventures for which ownership percentage is considered are as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Associates		
Profit or loss	(22,800)	(501,603)
Other comprehensive income	—	—
Total comprehensive income	(22,800)	(501,603)
Joint ventures		—
Profit or loss	157,456	183,359
Other comprehensive income	—	—
Total comprehensive income	157,456	183,359
Total		
Profit or loss	134,656	(318,244)
Other comprehensive income	—	—
Total comprehensive income	134,656	(318,244)

34. RELATED PARTIES

(1) Related party transactions

① Transactions between the Company and NTT

NTT and its subsidiaries own 26.0% of IIJ's outstanding common shares and 26.9% of IIJ's voting shares as of March 31, 2019. The Company entered into a number of different types of transactions with NTT and its subsidiaries, including purchases of wireline telecommunication services for the Company' s offices and finance lease arrangements. For the Company' s connectivity and outsourcing services, the Company purchases international and domestic backbone services, local access lines and rental rack space in data centers and mobile data communication services from NTT and its subsidiaries. The Company sells its services, system integration services and monitoring services for their data centers to NTT and its subsidiaries.

The balances as of April 1, 2017, March 31, 2018 and 2019 and transactions of the Company with NTT and its subsidiaries for each of the three years in the period ended March 31, 2018 and 2019, are summarized as follows:

	April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Trade receivable	275,671	287,812	355,116
Other financial assets	889,061	2,253,882	62,720
Trade and other payable	3,970,794	4,103,560	7,780,537
Other financial liabilities	2,771,532	3,088,795	3,025,857

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Revenue	3,902,856	3,242,857
Cost of sales and selling, general and administrative expenses	36,729,517	42,733,242
Financial cost	64,795	61,686

② Transactions between IIJ and equity method investees

IIJ established and operates internet related businesses using various corporations. Businesses operated by its equity method investees include Internet exchange service operations (Internet Multifeed Co., "Multifeed"), infrastructure operations for online games (Internet Revolution Inc., "i-revo"), point management systems operations (Trinity Inc., "Trinity"), cloud-based systems that undergird smartphone applications (Appiaries Corporation, "Appiaries"), cloud computing services in Indonesia (PT.BIZNET GIO NUSANTARA, "BIZNET"), system development and consulting for medical and healthcare businesses (KIS Inc., "KIS"), cloud computing services in Thailand (Leap Solutions Asia Co., Ltd., "Leap Solutions"), content delivery network services (JOCDN Inc., "JOCDN") and financial services for cryptocurrency exchange and settlement (DeCurret Inc., "DeCurret," which started its operations on April 2019).

The aggregate amounts of balances and transactions of the Company with these equity method investees as of April 1, 2017, March 31, 2018 and 2019, and for each of the three years in the period ended March 31, 2019 are summarized as follows:

Associates:

	April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Trade receivable and other financial assets	1,872	61,465	66,292

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Revenue	25,672	576,009

Joint Ventures:

	April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Trade receivable and other financial assets	152,079	116,071	1163,136
Trade and other payables	57,215	94,296	82,249

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Revenue	923,503	902,995
Cost of sales and selling, general and administrative expenses	1,105,661	856,920

Dividends from the equity method investees for the years ended March 31, 2018 and 2019 were ¥51,191 thousand, ¥67,742 thousand, respectively.

(2) Key management executives' compensation

The Company's key management executives' compensation is as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Basic remuneration and bonuses	300,647	315,517
Share-based payment	36,313	36,999
Total	336,960	352,516

(Note) In addition to the above, IIJ paid the company auditors' accrued retirement benefits of ¥4,000 thousand for the year ended March 31, 2019, which were recognized over past years related to the retirement benefit plan abolished on the resolution at the ordinary General Meeting of Shareholders of IIJ on June 24, 2016.

35. CASH FLOWS

(1) Reconciliation of liabilities from financing activities

Reconciliation of liabilities from financing activities is as follows:

For the year ended March 31, 2018

	Date of transition April 1, 2017	Changes with cash flow	Changes without cash flows			March 31, 2018
			Leases newly contracted	Exchange differences on translation of foreign operations	Other	
Short-term borrowings	9,250,000	(150,000)	—	—	150,000	9,250,000
Long-term borrowings	8,500,000	7,000,000	—	—	—	15,500,000
Other financial liabilities	16,844,106	(6,264,436)	7,108,390	(5,171)	110,961	17,793,850
Total liabilities from financing activities	34,594,106	585,564	7,108,390	(5,171)	260,961	42,543,850

For the year ended March 31, 2019

	April 1, 2018	Changes with cash flow	Changes without cash flows			March 31, 2019
			Leases newly contracted	Exchange differences on translation of foreign operations	Other	
Short-term borrowings	9,250,000	2,000,000	—	—	1,500,000	12,750,000
Long-term borrowings	15,500,000	—	—	—	(1,500,000)	14,000,000
Other financial liabilities	17,793,850	(6,624,389)	7,985,782	107	27,686	19,183,036
Total liabilities from financing activities	42,543,850	(4,624,389)	7,985,782	107	27,686	45,933,036

(2) Non-cash transactions

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Acquisition of assets by entering into finance leases	7,108,390	7,985,782
Facility purchase liabilities	1,641,973	1,565,381
Asset retirement obligation	56,603	26,400

(3) Proceeds from sale of a subsidiary

Fiscal year ended March 31, 2018

As described in Note 32 “Involvement in subsidiaries”, the breakdown of assets and liabilities from the former subsidiary, hi-ho, at the time of deconsolidation and reconciliation of proceeds from sale of stocks of a subsidiary are as follows:

	For the year ended March 31, 2018
	Thousands of yen
Current assets	(455,795)
Non-current assets	(297,841)
Goodwill	(87,137)
Current liabilities	158,977
Non-current liabilities	602
Shareholder’s equity of a subsidiary, including cash and cash equivalent	681,194
Total receipts from sale of stock of a subsidiary	1,100,160
Less, cash and cash equivalent held by a subsidiary at sales	(374,079)
Cash and cash equivalent receipts from sale of stock of a subsidiary	726,081

Fiscal year ended March 31, 2019

Not applicable.

36. CONTINGENT LIABILITIES

The Company is involved in litigation and claims arising in the ordinary course of business. In evaluating matters on an ongoing basis, the Company takes into account estimated amounts accrued on the consolidated balance sheet. The Company believes that exposure to loss does not exist in excess of the amount accrued and the negative adverse outcome of such litigation and claims would not have a significant impact on the consolidated financial position or results of operations. On September 1, 2010, IIJ-Global entered into a Solutions Engagement Agreement with IBM Japan Ltd., IIJ-Global’s largest sales partner. This agreement, which establishes the basis for a procurement relationship between IIJ-Global and IBM Japan, contains indemnification for IIJ-Global to perform services, functions, responsibilities and others that were being performed by AT&T Japan. This agreement renews automatically every year. IIJ-Global had no obligation for the indemnification as of March 31, 2019.

37. SUBSEQUENT EVENTS

On June 27, 2019, IIJ’s shareholders approved the payment of a cash dividend to shareholders of record at March 31, 2019 of ¥13.5 per share of in the aggregate amount of ¥608,452 thousand.

38. FIRST-TIME ADOPTION

The Company's consolidated financial statements are disclosed in accordance with IFRS from the year ended March 31, 2019. The most recent consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("USGAAP") are for the fiscal year ended March 31, 2018 and the date of transition to IFRS was April 1, 2017.

(1) Exemptions for first-time adoption based on IFRS 1

IFRS principally requires an entity that adopts IFRS for the first time to apply IFRS retrospectively. However, IFRS 1 provides exemptions that allow first-time adopters to voluntarily not to apply certain standards retrospectively. Major exemptions adopted by the Company are as follows:

Business combinations

A first-time adopter may choose not to apply IFRS 3, "Business Combinations" ("IFRS 3") retrospectively to business combinations occurring before the date of transition to IFRS. The Company has applied this exemption and chosen not to apply IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRS. As a result, the amounts of goodwill from business combinations before the date of transition were recorded at the carrying amount under USGAAP as of the date of transition. Impairment tests on goodwill, whether there is an indication of impairment or not, are conducted as of the date of transition.

Exchange differences on translation of foreign operations

The Company has chosen to deem the cumulative translation differences to be zero as of the date of transition to IFRS.

Specification of financial assets recognized before the date of transition

The Company determined the category of financial assets in accordance with IFRS 9 "Financial instruments," in considering facts and circumstances which existed at the date of transition.

(2) Reconciliation of USGAAP to IFRS

Reconciliation tables required in first-time adoption of IFRS are as follows. "Reclassification" represents adjustments which do not affect retained earnings and comprehensive income and "Recognition and measurement differences" includes adjustments which affect retained earnings and comprehensive income.

Reconciliation of equity as of April 1, 2017, the date of transition to IFRS

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Current assets						Current assets
Cash and cash equivalents	21,958,591	—	(211,382)	21,747,209		Cash and cash equivalents
Accounts receivable	27,383,692	(15,192)	(109,864)	27,258,636		Trade receivables
Inventories	2,798,054	32,845	(124,074)	2,706,825		Inventories
Prepaid expenses	7,610,925	(693,037)	61,303	6,979,191	6	Prepaid expenses
Deferred tax assets —current	1,298,469	(1,298,469)	—	—		
Other current assets	2,672,008	(2,521,149)	(54,351)	96,508		Other current assets
	—	2,536,341	18,619	2,554,960	10	Other financial assets
Total current assets	63,721,739	(1,958,661)	(419,749)	61,343,329		Total current assets

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
Non-current assets						
Investments in equity method investees	3,150,175	—	—	3,150,175		Investments accounted for using the equity method
Other investment	7,924,914	97,646	1,500,197	9,522,757	1	Other investments
Property and equipment -net	39,775,444	(11,361,154)	251,781	28,666,071		Tangible assets
Goodwill	6,169,609	—	—	6,169,609		Goodwill
Other intangible assets-net	3,087,017	12,551,492	252,852	15,891,361	10	Intangible assets
Guarantee deposits	3,060,365	(3,060,365)	—	—		
Deferred tax assets	80,566	471,308	(342,085)	209,789	4	Deferred tax assets
Net investment in sales-type leases	2,047,682	(2,047,682)	—	—		Other non-current asset
Prepaid expense	6,607,437	(497,301)	354,189	6,464,325	6	Prepaid expenses
Other assets	1,770,201	(105,879)	—	1,664,322		Other non-current asset
	—	5,116,280	(240,336)	4,875,944	10	Other financial asset
Total non-current assets	73,673,410	1,164,345	1,776,598	76,614,353		Total non-current assets
Total assets	137,395,149	(794,316)	1,356,849	137,957,682		Total assets

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Current liabilities						Current liabilities
Short-term borrowings	9,250,000	—	—	9,250,000		Borrowings
Capital lease obligations	4,818,723	(4,818,723)	—	—		
Accounts payable—trade	14,653,065	2,338,210	105,159	17,096,434		Trade and other payables
Accounts payable—other	2,308,790	(2,308,790)	—	—		
Income tax payable	1,075,745	(204,396)	(2,929)	868,420		Income taxes payable
Accrued expenses	2,755,581	(2,755,581)	—	—		
Deferred income	3,750,542	140,620	(160,114)	3,731,048	5	Deferred income
Other current liabilities	1,370,661	2,514,774	20,671	3,909,106		Other current liabilities
	—	5,017,737	(32,074)	4,985,663	10	Other financial liabilities
Total current liabilities	39,983,107	(76,149)	(69,287)	39,837,671		Total current liabilities
Non-current liabilities						Non-current liabilities
Long-term borrowings	8,500,000	—	—	8,500,000		Borrowings
Capital lease obligation — non-current	10,384,643	(10,384,643)	—	—		
Accrued retirement and pension costs	3,532,965	—	—	3,532,965	2	Retirement benefit liabilities
Deferred tax liabilities—non-current	963,845	(718,167)	337,809	583,487	4	Deferred tax liabilities
Deferred income—non-current	3,656,612	—	(210,664)	3,445,948	5	Deferred income
Other non-current liabilities	2,993,777	(2,154,098)	25,445	865,124		Other non-current liabilities
	—	11,918,902	(60,459)	11,858,443	10	Other financial liabilities
	—	619,839	39,404	659,243		Provisions
Total non-current liabilities	30,031,842	(718,167)	131,535	29,445,210		Total non-current liabilities
Total liabilities	70,014,949	(794,316)	62,248	69,282,881		Total liabilities

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Equity						Equity
Common stock	25,509,499	—	—	25,509,499		Share capital
Additional paid-in capital	36,117,511	—	(1)	36,117,510		Share premium
Retained earnings	4,511,945	—	1,233,952	5,745,897	9	Retained earnings
Accumulated other comprehensive income	2,499,700	—	60,650	2,560,350	7, 8	Other component of equity
Treasury stock	(1,896,784)	—	—	(1,896,784)		Treasury shares
Noncontrolling interest	638,329	—	—	638,329		Non-controlling interest
Total equity	67,380,200	—	1,294,601	68,674,801		Total equity
Total liabilities and equity	137,395,149	(794,316)	1,356,849	137,957,682		Total liabilities and equity

Notes to reconciliation of equity as of April 1, 2017, the date of transition to IFRS

Major adjustments as of the date of transition are as follows:

① Fair value measurement of financial assets

Under the USGAAP, nonmarketable equity securities and certain financial assets are measured based on cost and impairment losses and are recognized when an issuer' s financial position deteriorates. Under IFRS, these investments are measured at FVTOCI or FVTPL.

② Post-employment benefits

Under the USGAAP, a part of the incurred amount of actuarial gain or loss and past service costs arising from defined benefit plans and unfunded severance benefit plans that are not recognized as periodic pension costs during the year is recognized as accumulated other comprehensive income (loss), net of tax. The amount recognized in accumulated other comprehensive income (loss) will be transferred to a component of pension costs in profit or loss over a certain future period.

Under IFRS, actuarial gains and losses are recognized in other comprehensive income on a net-of-tax basis, and past service cost is recognized in net income or loss when incurred. Actuarial gain or loss is directly transferred from other components of equity to retained earnings immediately, and is not recognized as profit or loss.

③ Levies

Under the USGAAP, domestic property taxes are accounted over the fiscal year of payment. Under IFRS, liabilities and expenses are immediately recognized at the point of the event when the liabilities are incurred.

④ Deferred tax assets and liabilities

In relation to changes in temporary differences arising from adjustments of accounts in transition to IFRS, the Company recognized changes in related deferred tax assets or liabilities.

⑤ Revenues from the contract with the customers

Initial setup fee received from the network services were deferred over the estimated periods of use under USGAAP. According to the adaption of IFRS, the initial setup fee, which does not give the material right related to the decision as to whether the service should be continued over the initial contract period or not to the customers, are deferred over the minimum periods of use.

⑥ Capitalization of contract costs

The Company' s existing approach is to recognize sales commissions to agents of mobile telecommunications services contracts as expenses when incurred. As a result of applying IFRS 15, the Company will capitalize the sales commissions that would not have been incurred if the mobile telecommunications service contract had not been obtained and that are expected to be recovered, as the costs to obtain a contract.

⑦ Exchange differences on translation of foreign operations

Under IFRS 1, as described in (1), a first-time adopter may choose to deem the cumulative translation differences of foreign operations to be zero as of the date of transition to IFRS. The Company has chosen to deem the cumulative translation differences to be zero as of the date of transition to IFRS.

⑧ Adjustment to unify reporting period

Under the USGAAP, even where the reporting periods of the subsidiaries are different from the Company' s reporting period, IIJ used the financial statements of the subsidiaries for consolidation purposes.

Under IFRS, the Company uses financial statements subsidiaries prepare on the unified reporting date or , for subsidiaries that have different fiscal year-ends, the Company uses additional financial information as of the same reporting date as IIJ' s, unless it is not practicable to do so after making every reasonable effort. As a result, amounts of each account on the consolidated statements of financial position under IFRS are different from those under the USGAAP.

⑨ Retained earnings

	Date of transition April 1, 2017
	Thousands of yen
Fair value measurement of financial assets	1,518,486
Post-employment benefits	(612,518)
Levies	(117,586)
Deferred tax assets and liabilities	(68,980)
Revenues from the contacts with customers	414,174
Capitalized contract costs	228,879
Exchange differences on translation of foreign operations	352,826
Adjustments to unify reporting periods	(305,675)
Other	306,661
Sub total	1,716,267
Adjustments for tax effect	(482,315)
Total	1,233,952

⑩ Reclassification

To comply with IFRS, we reclassified some accounts on consolidated statements of financial position. Major reclassifications of consolidated statements of financial position are as follows:

(a) Based on the presentation requirements of IFRS, we separately disclose financial assets and financial liabilities.

(b) While we had disclosed software included in fixed tangible assets on the consolidated balance sheets in accordance with USGAAP, we disclosed all software included in intangible assets on the consolidated statements of financial position in accordance with IFRS.

Reconciliation of equity for the year ended March 31, 2018

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Current assets						Current assets
Cash and cash equivalents	21,402,892	—	(82,888)	21,320,004		Cash and cash equivalents
Accounts receivable	31,830,882	(720)	(260,773)	31,569,389		Trade receivables
Inventories	1,714,547	61,324	(231,002)	1,544,869		Inventories
Prepaid expenses	8,442,981	(878,017)	30,252	7,595,216	6	Prepaid expenses
Deferred tax assets—current	—	—	—	—		
Other current assets	3,793,449	(3,749,061)	10,686	55,074		Other current assets
	—	3,749,781	8,855	3,758,636	10	Other financial assets
Total current assets	67,184,751	(816,693)	(524,870)	65,843,188		Total current assets

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
Non-current assets						
Investments in equity method investees	5,246,313	—	—	5,246,313		Investments accounted for using the equity method
Other investments	11,374,442	103,748	1,406,200	12,884,390	1	Other investments
Property and equipment net—net	46,414,250	(13,267,761)	377,707	33,524,196		Tangible assets
Goodwill	6,082,472	—	—	6,082,472		Goodwill
Other intangible assets—net	2,704,668	14,747,613	310,615	17,762,896	10	Intangible assets
Guarantee deposits	3,422,443	(3,422,443)	—	—		
Deferred tax assets	183,808	334,308	(356,539)	161,577	4	Deferred tax assets
Net investment in sales-type leases	1,545,293	(1,545,293)	—	—		Other non-current asset
Prepaid expense	7,965,889	(601,835)	323,926	7,687,980	6	Prepaid expenses
Other assets	1,324,490	(211,970)	—	1,112,520		Other non-current asset
		5,075,958	(218,761)	4,857,197	10	Other financial asset
Total non-current assets	86,264,068	1,212,325	1,843,148	89,319,541		Total non-current assets
Total assets	153,448,819	395,632	1,318,278	155,162,729		Total assets

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Current liabilities						Current liabilities
Short-term borrowings	9,250,000	—	—	9,250,000		Borrowings
Capital lease obligations	5,655,875	(5,655,875)	—	—		
Accounts payable-trade	14,950,920	1,479,377	100,415	16,530,712		Trade and other payable
Accounts payable-other	1,448,423	(1,448,423)	—	—		
Income tax payable	1,928,037	(151,230)	16,027	1,792,834		Income tax payable
Accrued expenses	3,111,385	(3,111,385)	—	—		
Deferred income	4,237,676	61,324	(143,043)	4,155,957	5	Deferred income
Other current liabilities	1,562,717	2,876,808	2,960	4,442,485		Other current liabilities
	—	6,010,728	(45,443)	5,965,285	10	Other financial liabilities
Total current liabilities	42,145,033	61,324	(69,084)	42,137,273		Total current liabilities
Non-current liabilities						Non-current liabilities
Long-term borrowings	15,500,000	—	—	15,500,00		Borrowings
Capital lease obligation—non-current	10,920,726	(10,920,726)	—	—		
Accrued retirement and pension costs	3,724,634	—	—	3,724,634	2	Retirement benefit liabilities
Deferred tax liabilities—noncurrent	688,787	334,308	327,912	1,351,007	4	Deferred tax liabilities
Deferred income—non-current	3,952,279	—	(203,578)	3,748,701	5	Deferred income
Other non-current liabilities	2,528,803	(1,628,198)	14,032	914,637		Other non-current liabilities
	—	11,874,953	(46,388)	11,828,565	10	Other financial liabilities
	—	673,971	36,709	710,680		Provisions
Total non-current liabilities	37,315,229	334,308	128,687	37,778,224		Total non-current liabilities
Total liabilities	79,460,262	395,632	59,603	79,915,497		Total liabilities

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Equity						Equity
Common stock	25,511,804	—	—	25,511,804		Share capital
Additional paid-in capital	36,175,937	—	(1)	36,175,936		Share premium
Retained earnings	8,404,228	—	1,274,593	9,678,821	9	Retained earnings
Accumulated other comprehensive income	5,074,872	—	(15,917)	5,058,955	7,8	Other components of equity
Treasury stock	(1,896,784)	—	—	(1,896,784)		Treasury shares
Noncontrolling interest	718,500	—	—	718,500		Non-controlling interest
Total equity	73,988,557	—	1,258,675	75,247,232		Total equity
Total liabilities and equity	153,448,819	—	1,318,278	155,162,729		Total liabilities and equity

Notes to reconciliation of equity for the year ended March 31, 2018

Major adjustments as of the date of transition are as follows:

① Fair value measurement of financial assets

Under USGAAP, nonmarketable equity securities and certain financial assets are measured based on cost and impairment losses are recognized when issuers' financial positions deteriorate. Under IFRS, these investments are measured at FVTOCI or FVTPL.

② Post-employment benefits

Under the USGAAP, a part of the incurred amount of actuarial gain or loss and past service costs arising from defined benefit plans and unfunded severance benefit plans that are not recognized as periodic pension costs during the year is recognized as accumulated other comprehensive income (loss), net of tax. The amount recognized in accumulated other comprehensive income (loss) will be transferred to a component of pension costs in profit or loss over a certain future period.

Under IFRS, actuarial gains and losses are recognized in other comprehensive income on a net-of-tax basis, and past service cost is recognized in net income or loss when incurred. Actuarial gain or loss is directly transferred from other components of equity to retained earnings immediately and is not recognized as profit or loss.

③ Levies

Under the USGAAP, domestic property taxes are accounted for the fiscal year of payment. Under IFRS, liabilities and expenses are immediately recognized at the point of the event when the liabilities are incurred.

④ Deferred tax assets and liabilities

In relation to changes in temporary differences arising from adjustments of accounts in transition to IFRS, the Company recognized changes related to deferred tax assets or liabilities.

⑤ Revenues from the contracts with the customers

Initial setup fee received from the network services were deferred over the estimated periods of use under USGAAP. According to the adaption of IFRS, the initial setup fee, which does not give the material right related to the decision as to whether the service should be continued over the initial contract period or not to the customers, are deferred over the minimum periods of use.

⑥ Capitalization of contract costs

The Company's existing approach is to recognize sales commissions to agents for mobile telecommunications services contracts as expenses when incurred. As a result of applying IFRS 15, the Company will capitalize the sales commissions that would not have been incurred if the mobile telecommunications service contract had not been obtained and that are expected to be recovered, as the costs to obtain a contract.

⑦ Exchange differences on translation of foreign operations

Under IFRS 1, as described in (1), a first-time adopter may choose to deem the cumulative translation differences of foreign operations to be zero as of the date of transition to IFRS. The Company has chosen to deem the cumulative translation differences to be zero as of the date of transition to IFRS.

⑧ Adjustment to unify reporting period

Under the USGAAP, even where the reporting periods of the subsidiaries are different from the Company's reporting period, IIJ used the financial statements of the subsidiaries for consolidation purposes.

Under IFRS, the Company uses financial statements subsidiaries prepare on the unified reporting date or , for subsidiaries that have different fiscal year-ends, the Company uses additional financial information as of the same reporting date as IIJ's, unless it is not practicable to do so after making every reasonable effort. As a result, amounts of each account on the consolidated statements of financial position under IFRS are different from those under the USGAAP.

⑨ Retained earnings

	March 31, 2018
	Thousands of yen
Fair value measurement of financial assets	1,464,636
Post-employment benefits	(563,080)
Levies	(122,346)
Deferred tax assets and liabilities	(116,493)
Revenues from the contracts with the customers	410,238
Capitalized contract costs	196,705
Exchange differences on translation of foreign operations	363,259
Adjustments to unify reporting periods	(273,478)
Other	374,936
Sub total	1,734,377
Adjustment for tax effect	(459,784)
Total	1,274,593

⑩ Reclassification

To comply with IFRS, we reclassified some accounts on the consolidated statements of financial position. Major reclassifications on the consolidated statements of financial position are as follows:

(a) Based on the presentation requirements of IFRS, we separately disclose financial assets and financial liabilities.

(b) While we had disclosed software included in fixed tangible assets on the consolidated balance sheets in accordance with USGAAP, we disclosed all software included in intangible assets on the consolidated statements of financial position in accordance with IFRS.

Reconciliation of profit or loss, and other comprehensive income for the year ended March 31, 2018

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Revenues:						
Network services:						
Internet connectivity service (enterprise)	27,943,656	(27,943,656)	―	―		
Internet connectivity service (consumer)	24,761,487	(24,761,487)	―	―		
WAN services	29,295,097	(29,295,097)	―	―		
Outsourcing services	26,118,657	(26,118,657)	―	―		
	―	108,118,897	(35,239)	108,083,658		Network services
System integration:						
System construction	22,527,433	(22,527,433)	―	―		
System operation and maintenance	37,903,235	(37,903,235)	―	―		
	―	63,901,068	217,911	64,118,979		System integration
Equipment sales	3,470,400	(3,470,400)	―	―		
ATM operation business	4,030,684	―	―	4,030,684		ATM operation business
Total revenues	176,050,649	―	182,672	176,233,321	1	Revenues
Cost and expenses:						Cost of sales
Cost of network services	(88,697,639)	―	140,155	(88,557,484)		Cost of network services
Cost of system integration	(53,612,063)	(3,142,262)	(187,364)	(56,941,689)		Cost of system integration
Cost of equipment sales	(3,142,262)	3,142,262	―	-		
Cost of ATM operation business	(2,365,403)	―	―	(2,365,403)		Cost of ATM operation business
Total costs	(147,817,367)	―	(47,209)	(147,864,576)	1	Total cost of sales
	―	―	―	28,368,745		Gross profit
Sales and marketing	(12,688,046)	12,688,046	―	―		
General and administrative	(8,295,583)	8,295,583	―	―		
Research and development	(487,451)	487,451	―	―		
Total costs and expenses	(169,288,447)	―	―	―		
	―	(21,413,121)	(60,379)	(21,473,500)		Selling, general and administrative expense
	―	53,427	7,958	61,385		Other operating income
	―	(184,448)	(2,565)	(187,013)		Other operating expenses
Operating income	6,762,202	(73,062)	80,477	6,769,617		Operating profit

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Other income (expenses)						
Dividend income	242,576	(242,576)	—	—		
Interest income	30,527	(30,527)	—	—		
Interest expense	(375,202)	375,202	—	—		
Foreign exchange gain (loss),net	(15,863)	15,863	—	—		
Net gain on sales of other investments	1,068,303	—	(1,068,303)	—		
Net gain on other investments	(109,840)	—	109,840	—		
Other-net	237,420	(237,420)	—	—		
Other income-net	1,077,921	—	—	—		
	—	714,821	(307,563)	407,258	2	Finance income
	—	(559,984)	120,649	(439,335)	2	Finance expenses
	—	134,656	—	134,656		Share of profit of investments accounted for using the equity method
Income from operations before income tax expense and equity in net income of equity method investees	7,840,123	96,973	(1,064,900)	6,872,196		Profit before tax
Income tax expense	(2,695,839)	37,683	378,874	(2,279,282)		Income tax expense
Equity in net income of equity method investees	134,656	(134,656)	—	—		
Net income	5,278,940	—	(686,026)	4,592,914		Profit for the year
Less: Net income attributable to noncontrolling interests	(169,991)	—	—	(169,991)		Profit for the year attributable to non-controlling interest
Net income attributable to Internet Initiative Japan Inc.	5,108,949	—	(686,026)	4,422,923		Profit for the year attributable to owners of the parent

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Net income	5,278,940	―	(686,026)	4,592,914		Profit for the year
Other comprehensive income, net of tax						Other comprehensive income, net of tax
						Items that will not be reclassified to profit or loss
Unrealized holding gain on securities	2,542,210	(918)	661,945	3,203,237		Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income
Defined benefit pension plans	33,866	―	46,562	80,428		Remeasurement of defined benefit plans
	2,576,076	(918)	708,507	3,283,665		Total items that will not be reclassified to profit or loss
						Items that may be reclassified to profit or loss
Foreign currency translation adjustments	(904)	(6,493)	(58,459)	(65,856)		Exchange differences on translation of foreign operations
	―	918	―	918		Financial assets measured at fair value through other comprehensive income
	―	6,493	―	6,493		Share of other comprehensive income of investments accounted for using equity method
	(904)	918	(58,459)	(58,445)		Total items that may be reclassified to profit or loss
	2,575,172	―	650,048	3,225,220		Total other comprehensive income-net of tax
Total comprehensive income	7,854,112	―	(35,978)	7,818,134		Comprehensive income for the year
Less: Comprehensive income attributable to noncontrolling interests	(169,991)	―	―	(169,991)		Non-controlling interest
Comprehensive income attributable to Internet Initiative Japan Inc.	7,684,121	―	(35,978)	7,648,143		Comprehensive income attributable to owner of the parent

Notes to reconciliation of profit or loss, and other comprehensive income for the year ended March 31, 2018

Major adjustments as are as follows:

① Reclassification of revenue and cost of sales

Under US GAAP, equipment sales revenue of ¥3,470,400 thousand and costs of equipment sales of ¥3,142,262 thousand were shown separately. Under IFRS, they are included in system integration revenues and cost of system integration sales, respectively.

② Fair value measurement of financial assets

Under USGAAP, nonmarketable equity securities are measured based on cost and impairment losses are recognized when issuers' financial positions deteriorate. Under IFRS, these investments are measured at FVTOCI.

Under US GAAP, ¥1,068,303 thousand, which is recorded as gain or loss on sales of other investments, is transferred to retained earnings through other comprehensive income.

39. AUTHORIZATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized by Eijiro Katsu, Representative Director and President, and Akihisa Watai, Managing Director, CFO on June 27, 2019.

Item 6. Stock-Related Administration for the Company

Fiscal Year	From April 1 to March 31
Annual General Meeting of Shareholders	During June
Record Date	March 31
Record Date for Distributions of Surplus	September 30 (Semi-Annual Dividend) March 31 (Annual Dividend)
Number of Shares Constituting One Unit	100 shares
Purchases of Less-than-one-Unit Shares Handling Office Transfer Agent Forwarding Address Purchase Fees	 (Special account) 4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation Securities Agency Division (Special account) 4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation — —
Method of Public Notice	IIJ’s method of public notice is through electronic disclosure. However, if IIJ cannot use electronic disclosure due to unforeseen circumstances, IIJ will provide public notice through Nihon Keizai Shimbun. IIJ's URL for public notice is https://www.iij.ad.jp/
Special Benefits to Shareholders	Not applicable.

Note: Pursuant to IIJ’s Articles of Incorporation, shareholders of IIJ may not exercise rights with respect to shares representing less than one unit other than the following rights:

(1) The rights set forth in Article 189, Paragraph 2 of the Companies Act

(2) The right of request pursuant to the stipulations of Article 166, Paragraph 1 of the Companies Act

(3) The right to receive allocations of offered shares and offered stock acquisition rights in accordance with the number of shares owned by the Shareholder

(4) Shareholders holding shares amounting to less than one unit have the right to request that the Company sell shares in the amount necessary to achieve one unit

Item 7. Reference Information on the Company

1. Information about the Parent Company of the Company

IIJ has no "parent company" as such term is defined in Article 24, Paragraph 7-1 of the Financial Instruments and Exchange Act of Japan.

2. Other Reference Information

IIJ filed the following materials between the beginning date of this fiscal year (April 1, 2018) and the date of the filing of this Annual Securities Report (June 28, 2019).

(1) Annual Securities Report, Including Attachments and Confirmation Letter

Fiscal Year (26th Business Term) (from April 1, 2017 to March 31, 2018)
Filed with the Director of the Kanto Local Finance Bureau on June 29, 2018

(2) Internal Control Report, Including Attachments

Filed with the Director of the Kanto Local Finance Bureau on June 28, 2018

(3) Quarterly Reports and Confirmation Letters

First Quarter, 27th Business Term (from April 1, 2018 to June 30, 2018)
Filed with the Director of the Kanto Local Finance Bureau on August 14, 2018

Second Quarter, 27th Business Term (from July 1, 2018 to September 30, 2018)
Filed with the Director of the Kanto Local Finance Bureau on November 14, 2018

Third Quarter, 27th Business Term (from October 1, 2018 to December 31, 2018)
Filed with the Director of the Kanto Local Finance Bureau on February 14, 2019

(4) Extraordinary Reports

Extraordinary Report Pursuant to Article 19, Paragraph 2, Item 9-2 (resolutions of matters resolved at the General Meeting of Shareholders), of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc.
Filed with the Director of the Kanto Local Finance Bureau on June 29, 2018

Extraordinary Report Pursuant to Article 19, Paragraph 2, Item 9-4 (Changes in Accounting Auditor), of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc.
Filed with the Director of the Kanto Local Finance Bureau on March 27, 2019

Extraordinary Report Pursuant to Article 19, Paragraph 2, Item 9-2 (resolutions of matters resolved at the General Meeting of Shareholders), of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc.
Filed with the Director of the Kanto Local Finance Bureau on June 28, 2019

PART 2 Information about Guarantors of the Company

Not applicable.

Glossary

1. ASPIC	ASP-SaaS-IoT Cloud Consortium (ASPIC) is a specified nonprofit corporation that provides, publishes and shares information and supports business and drawing up policy and regulation, operates a consignment consulting business, etc.
2. ATM	Automated Teller Machine (ATM) enables the customers of a financial institution to perform financial transactions, particularly cash withdrawal, without the need for a human cashier, clerk or bank teller.
3. Bps	Bps stands for "bit per second" and is a basic unit of data communications. Bps is the number of bits (amount of data) that can be transmitted per second. Other than bps, units such as kbps (1kbps = 1,000bps), Mbps (1Mbps = 1,000 kbps), Gbps (1Gbps = 1,000 Mbps) and Tbps (1Tbps = 1,000Gbps) are often used.
4. B Felt's	B Felt's is a type of Felt's (*) access service providing Internet connectivity over optical fibers
5. CDN	Content Distribution Network (CDN) is an optimized network to distribute contents such as videos over Internet.
6. dix-ie	dix-ie is an abbreviation of Distributed IX in EDO. dix-ie is an Internet exchange point or related project operated by WIDE project. dix-ie is one of the major Internet exchange point in Japan. There are two sites: in Tokyo and Osaka.
7. DNS Server	A Domain Name System (DNS) server is a computer that functions as hierarchical database over Internet. DNS is currently used to match an IP address that points to a location on the network and a domain name that is mainly used for an email address.
8. FIRST	FIRST is an abbreviation of Forum of Incident Response and Security Team. FIRST is an international confederation of computer incident response teams around the world who cooperatively handle computer security incidents and promote incident prevention programs. FIRST enables its members to more effectively respond to security incidents by providing access to best practices, tools, etc.
9. ICT	Information and Communication Technology (ICT) is a general technological term for hardware, software, systems and data communication tools used for information communication by computers.
10. IETF	Internet Engineering Task Force (IETF) is an organization formed to settle on standardization of technologies used on Internet. The standard specifications settled on are published as Request For Comment (RFC) and others. A subordinate organization of ISOC.
11. ICT-ISAC Japan	ITC-ISAC Japan is an abbreviation of ICT Information Sharing And Analysis Center Japan. ITC-ISAC Japan is a general incorporated association that shares and analyzes information regarding cyber security in the fields of information and communication.
12. IIJ C-SOC Service	IIJ C-SOC Service is a service that our Security Operation Center (SOC) provides security monitoring and threat analysis of security logs collected from our dedicated security platform 24 hours per day, 365 days per year to help client's network secure.
13. IIJ GIO Migration Solution	IIJ GIO Migration Solution is a packaged solution that provides replication tool and the migration work with the cloud infrastructure.
14. IIJ GIO Infrastructure P2	IIJ GIO Infrastructure P2 is a next-generation cloud service which is provided as a new service platform. Conventional cloud services offer a public cloud for a large number of non-specific users and a separate private cloud for specific users. IIJ GIO Infrastructure P2 offers a public cloud with high processing performance and a reliable private cloud, which enables users to select the optimal combination.
15. IIJmio IoT Service	IIJmio IoT service is a data communication service for consumer's IoT demands. IIJmio IoT service offers "uplink high-speed plan (high-speed data communication only in the upward direction)" that is suitable for surveillance camera, etc.
16. IIJ Omnibus Service	IIJ Omnibus Service, utilizing Software Defined Network (SDN) and Network Function Virtualization (NFV) technologies, is a cloud-based network service, which provides enterprise customers a wide-range of services and various functions.
17. IIJ Secure Endpoint Service	IIJ Secure Endpoint Service is a cloud-based service that defends against external threats and prevents internal information leaks by utilizing a number of antivirus and IT asset management features.
18. IIJ Unified Operation Management Service	IIJ Unified Operation Management (UOM) Service provides comprehensive monitoring and operation functions to customer's all IT systems.
19. IIJ Management Database Service	IIJ Managed Database Service is a cloud-based service that provides high-performance and easily used databases with full functionality.
20. IIJ Mobile Access Service Type I	The first full MVNO service utilizing 3G/LTE network in Japan. This service will both provide a variety of plans that fit different types of usage for corporate customers and achieve more efficient communications costs for specific IoT applications.
21. IoT	Internet of Things (IoT) enables not only physical objects but also “things” connected to a network to exchange information automatically.

22. IoT Supporting Pack	IoT Support Pack is a small data communication volume-bundled service targeting IoT or M2M usage, which is one of the service lineup of our full MVNO service for corporate, "IIJ Mobile Service/Type I".
23. IP	Internet Protocol (IP) is the protocol that is used on the Internet. IP is a type of packet switching that transmits telecommunications data by a unit called “a packet” and an IP address is allocated to equipment to point to a location. IP became one of the most popular protocols as the Internet spread.
24. IPv6	Internet Protocol version 6 (IPv6) was planned as a new protocol to take the place of Internet Protocol version 4 (IPv4) because the Internet's rapid growth led to an IP address shortage. IPv6 was planned as a new protocol to deal with the problem of a shortage in IP addresses was raised as Internet rapidly spreads, while Internet Protocol version 4 (IPv4) is currently used on the Internet. IPv6 has vast address fields, enhanced security, increased speeds and advanced functions.
25. IP Address	An IP Address is a number allocated to recognize individual equipment on an IP network. An IP address is used as a source and destination when data communication is made. The length of an IP address becomes 128 bit for IPv6, which is 4 times greater than the 32 bits for IPv4.
26. ISOC	ISOC is an abbreviation for Internet Society. ISOC was established as an international nonprofit organization to provide leadership in Internet-related standards, education, policy and etc.
27. ITU	International Telecommunication Union (ITU) is a specialized agency of the United Nations that is responsible for issues that concern information and communication technologies.
28. ITU-T	ITU-T is an ITU organization and organizes major events for the world's information and communication technologies community.
29. JANOG	JApan Network Operators' Group (JANOG) is a non-profit voluntary network operators group for network engineers in Japan. It's an operational and technical community to discuss technologies and operational practices around the Internet.
30. JPNAP	Japan Network Access Point (JPNAP) is an Internet Exchange (IX) operated by Internet Multifeed Co., and is one of the major IXs in Japan. JPNAP is located in Tokyo and Osaka.
31. LAN	Local Area Network (LAN) is a network connecting computers and other equipment in a relatively narrow area, such as the same fields and the same building. A broader network is called Wide Area Network (WAN).
32. LTE	Long Term Evolution (LTE) is a standard for wireless broadband communication for mobile devices.
33. NOC	Network Operation Center (NOC) is a center used for operating and monitoring networks. Network operation center may also mean Point of Presence (POP).
34. MVNO	Mobile Virtual Network Operator (MVNO) is a company that provides mobile phone services by using other companies' mobile infrastructure.
35. MVNE	Mobile Virtual Network Enabler (MVNE) is a company that provides MVNOs for mobile infrastructure and related services to enable their MVNO businesses.
36. OEM	Original Equipment Manufacturing (OEM) refers to companies that manufacture products under the brand of other companies and is also used as one of the service provisioning methods.
37. PoC	Proof of Concept (PoC) is a demonstration for the purpose of verifying that certain concepts or theories have the potential for real-world application.
38. SD-LAN	Software Defined LAN (SD-LAN) is a type network using SDN technology. SD-LAN function enables setting and configuration management of network devices in a LAN through the cloud platform.
39. SE	Systems Engineer (SE) is, generally, a person mainly engaged in design and construction of network systems.
40. SEIL	SEIL Management Framework (SMF)* is a framework to centrally manage network connections and other functions and a service to provide the functions on SEIL, IIJ's originally developed routers and other network equipment. SMF enables connections to the Internet by simply connecting routers to telecommunications lines without complicated configurations.
41. SIM Card	Subscriber Identity Module (SIM) Card is an integrated circuit card to identify subscribers on mobile telephony devices.
42. SMF	SEIL Management Framework (SMF) is a framework to centrally manage network connections and other functions and a service to provide the functions on SEIL, IIJ's originally developed routers and other network equipment. SMF enables connections to the Internet by simply connecting routers to telecommunications lines without complicated configurations.
43. VPN	Virtual Private Network (VPN) is a technology to provide a virtually closed network, such as a corporate intranet over the open network Internet with encryption technology and other security measures.
44. WIDE project	The WIDE (Widely Integrated Distributed Environment) project is an Internet project in Japan, founded in 1988. The WIDE project aims to integrate academia and industry in a single group that overcomes lines between organizations as an autonomous force utilizing new technologies for a better society.

45. WAN	Wide Area Network (WAN) is a telecommunications or computer network for data communications, with leased circuits or other types of network services, that extends over a large geographical distance. Compared to Local Area Network (LAN), WAN extends over a larger geographical distance.
46. Access Circuit	Access circuit is a telecommunications circuit to connect between facilities of telecommunications carriers and subscribers.
47. Application Service Provider	Application Service Provider (ASP) is a company or a service that provides business applications to customers over Internet.
48. Internet Service Provider	Internet Service Provider (ISP) is a company that provides Internet connectivity, web hosting and other services.
49. Intranet	Intranet is a network built within an organization with Internet technology. Intranet is widely used in enterprises and governmental organizations, because it can be used in the same way as Internet and it can be built for a relatively low price with popular technology.
50. Open Source	Open source is one of various means of licensing software. Open source is defined by an organization named Open Source Initiative (OSI), an organization that promotes open source, and is defined as source code for computer programs that is public and is freely allowed to be re-distributed without worry of copyright or patent infringement.
51. On-line Securities Trading Company	An on-line securities trading company is a company that conducts securities trading over Internet. There are companies that conduct securities trading businesses solely over Internet.
52. Inexpensive data communication and voice services with SIM cards	Inexpensive data communication and voice services with SIM cards are mainly provided by MVNO. Normally, charge for use of the service is lower than major carriers' charge as there are some restrictions such as upper limits of communication traffic usage.
53. Virtual desktop	Virtual desktop enables a user to work as s/he is working in an office by providing virtualized desktop environment and applications of Windows through cloud computing
54. Cloud Computing	Cloud Computing is a type of service that enables customers to use computing resources over Internet rather than having local servers or personal devices by their selves to handle applications.
55. Cracking	Cracking is the practice of engaging in ill-intentioned activities such as gaining unauthorized access to computer systems using security holes, and stealing and altering data and computer programs.
56. Wide-area Ethernet	Wide-area Ethernet is a technology or service to deliver WAN service using Ethernet connectivity.
57. Container-type data center	Container-type data center is a data center utilizing container-modules with outside-air conditioning systems. There are advantages such as reduction in construction period, cost, scalability, dispersion of risk and space and energy savings compared to incumbent building-type data centers.
58. Content	Content stands for information that is found on the web, such as text, music and videos.
59. Server	Server is a computer system or program to provide services, such as email and web services to other computers and their users.
60. Service Adapter	Service Adapter is a generic term for network equipment with SMF, which enables connections to the Internet by simply connecting routers to telecommunications lines without complicated configurations.
61. Service Level Agreement	Service Level Agreement (SLA) is an agreement to show objective figures to evaluate service quality and to reimburse service charges when the level of service is under the defined service quality. IIJ adapts Service Level Agreements to Internet connectivity services and sets objective figures for availability, network latency and others.
62. Systems Integration	Systems Integration (SI) is to meet customer needs by designing, constructing and operating information systems suitable to customer needs.
63. System Integrator	Systems Integrator is a company that provides systems integration to end customers.
64. System modules-based construction method	Construction method systematizing the overall building production by standardizing the components used in the buildings' construction. This allows shorter construction times, cost saving, and flexible scalability while maintaining quality.
65. Recurring revenues	Revenues that businesses can count on receiving every single month through continuous provision of services to customers.
66. Security	Security stands for measures that are taken to keep networks, computers, and other such items safe. On a network, this could include installing firewalls to protect internal information systems from broader Internet users.
67. Security Operation Center	Security Operation Center (SOC) is an organization in charge of monitoring network and equipment to detect and analyze network attacks and suspicious activities and implement counter attacks.
68. Security policy	Security policy is generally made to summarize policies related to information security. Security policy usually entails rules for important policies related to information security, including management policy on information assets such as personal information and management policy on risks such as troubles, and rules detailing procedures for maintaining security. Security policy is the most basic document related to information security measures.
69. Internet eXchange	Internet eXchange (IX) is a point at which ISPs exchange Internet traffic. IX was started to be used as a place for ISPs to connect to each other easily, as many ISPs appeared along with the expansion of Internet and interconnectivity among ISPs became complicated.

70. Chip SIM	Chip SIM is a small-sized SIM card with the features of corresponding to a wide range of temperature environments, vibration resistance, corrosion resistance etc.
71. Telecommunications Carrier	A telecommunications carrier is a company that provides telecommunications services by installing telecommunications equipment such as access circuits and telephone switch boards.
72. Cryptocurrency	The general term for a variety of virtual currencies such as bitcoin and digital currency pegged to the Japanese yen which some banks are considering to issue.
73. Data Center	A data center is a facility built to house computer systems. Data centers usually have facilities for computer systems, such as racks, electric facilities and air conditioning facilities, facilities that help recover from disasters such as earthquakes and power outages, and security facilities such as access control. There are Internet Data Centers (dice) to provide Internet connectivity in data centers.
74. Telecommunications operator	A telecommunications operator is a company, such as a telecommunications carrier or ISP, that provides telecommunications services defined in the Telecommunications Business Act in Japan.
75. Traffic	Traffic is a flow of data transmitted over a network. Traffic may also relate to the amount of data transmitted.
76. Network System	Network systems are computer systems connected by networks, consisting of routers, telecommunications circuits, servers and others. It is common that network systems provide functions to use applications over an intranet and Internet.
77. Binary analysis technology	A technological method to compare the behavior of the new suspicious executable data program files to the behaviors of viruses observed before, which enables us to find new variants of known viruses.
78. Backbone	Backbone is the primary part of the network. For ISPs, the backbone is the main network connecting NOC, POP and access points over high-speed circuits.
79. Backbone router	A backbone router is a router installed at POP to construct a backbone. A backbone router is capable of connecting high-speed telecommunications circuits such as several Gbps as the circuits are used for backbone.
80. Peering	Point Of Presence (POP) is a place prepared by an ISP to connect its users to the Internet. In POP, backbone routers to be connected to the Internet backbone and routers to accommodate connectivity from users are installed.
81. BigData	BigData refers to data sets that are too large for traditional data-processing application software to adequately deal with.
82. Full-MVNO	Compared to conventional MVNO (light MVNO), which is highly dependent upon MNO equipment, full MVNO services are operated using an in-house HLR/HSS (databases for managing SIM cards), thereby making it possible for such providers to procure and issue their own SIM cards and design their services with more freedom. For example, in the IoT field, where future developments are expected, IIJ expects to be able to offer embedded SIMs as well as develop services that it can freely control in terms of the management of charges and activation, thereby creating a new MVNO business model.
83. Flet’s	Flet’s is the name used for various services using telecommunications circuits such as optical fibers and ADSL, provided by Nippon Telegraph and Telephone East and West Corporation. Flet’s includes access services to provide Internet connectivity tying up ISPs and application services such as content distribution and VPN services.
84. Broadband	Broadband is a service realized by expansion of high-speed access networks. Broadband also provides full-time connectivity.
85. Protocol	Protocol is to define procedures and form data required for communication in advance.
86. Housing Services	Housing services are services that provide locations for computer systems in a data center
87. American Depositary Receipt (ADR)	American Depositary Receipt (ADR) is a negotiable security that represents securities of a foreign company that trades in the U.S. financial markets.
88. Portal Site	Portal site is a site that the owner positions as an entrance to other sites on Internet.
89. Spam mail	Spam is unsolicited email. Users typically do not want to receive spam, such as advertisement emails sent without permission and emails sent for fraud.
90. Router	A router is a physical networking device or virtual networking appliance that forwards data between two or more packet-switched computer networks.
91. 4K	4K is a technology to display video with high-resolution. It has nearly four times the resolution of full-high vision technology.

INDEPENDENT AUDITOR'S REPORT

June 27, 2019

To the Board of Directors of
Internet Initiative Japan Inc.

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Kumiko Aso

Designated Unlimited Liability Partner
Engagement Partner,
Certified Public Accountant:

Norihiro Watanabe

[Audit of Financial Statements]

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated statement of financial position as of March 31, 2019 of Internet Initiative Japan Inc. (the "Company") and its consolidated subsidiaries, and the consolidated statements of comprehensive income, changes in equity and cash flows for the fiscal year from April 1, 2018 to March 31, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Internet Initiative Japan Inc. and its consolidated subsidiaries as of March 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Audit of Internal Control]

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Internet Initiative Japan Inc. as of March 31, 2019.

Management's Responsibility for the Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on management's report on internal control based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting. An internal control audit includes examining representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of Internet Initiative Japan Inc. as of March 31, 2019 is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

Management's Report on Internal Control over Financial Reporting (Translation)

1. **Matters Relating to the Basic Framework for Internal Control over Financial Reporting**

Eijiro Katsu, President and Representative Director, and Akihisa Watai, Managing Director and Chief Financial Officer, are responsible for designing and operating effective internal control over financial reporting of Internet Initiative Japan Inc. and its subsidiaries (collectively, the "Company"), and have designed and operated internal control over financial reporting of the consolidated financial statements in accordance with the basic framework for internal control set forth in "The Standards and Practice Standards for Management Assessment and Audit of Internal Control Over Financial Reporting" published by the Business Accounting Council. The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

2. **Matters Relating to Scope of Assessment, the Assessment Date, and Assessment Procedures**

The assessment of internal control over financial reporting was performed as of March 31, 2019, which is the end of this fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. In making this assessment, we evaluated internal controls which may have a material effect on the entire financial reporting on a consolidation basis ("company-level controls") and based on the result of this assessment, we appropriately selected business processes to be tested. We analyzed these selected business processes, identified key controls that may have a material impact on the reliability of the Company's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of our internal control.

We determined the required scope of assessment of internal control over financial reporting for Internet Initiative Japan Inc., as well as its subsidiaries and equity-method investees, from the perspective of materiality that may affect the reliability of our financial reporting. This materiality that may affect the reliability of financial reporting is determined taking into account the materiality of quantitative and qualitative impacts. We confirmed that we had reasonably determined the scope of assessment of internal controls over business processes in light of the results of assessment of company-level controls conducted for Internet Initiative Japan Inc., as well as its subsidiaries and equity-method investees. We did not include those subsidiaries and equity-method investees which do not have any quantitatively or qualitatively material impact on the consolidated financial statements in the scope of assessment of company-level controls.

Regarding the scope of assessment of internal control over business processes, we selected business units to be tested, and the business units whose combined revenues reached approximately two-thirds of total consolidated revenues were selected as significant business units.

At the selected significant business units, we included, in the scope of assessment, those business processes leading to "revenue", "trade receivables", "cost of sales", "trade and other payables", "inventories" and "plant, "property, plant and equipment" as significant accounts that may have a material impact on the business objectives of the Company.

Further, we added certain business processes included in business units other than the significant business units to our scope of assessment, as the business processes have greater materiality considering their impact on the financial reporting, those business processes relating to a greater likelihood of material misstatements and significant accounts involving estimates and management's judgment, and those business processes relating to businesses or operations dealing with high-risk transactions.

3. **Matters Related to the Results of the Assessment**

As a result of the assessment above, we concluded that our internal control over financial reporting was effective as of March 31, 2019.

4. **Supplementary Matters**

Not applicable.

5. **Special Information**

Not applicable.

Confirmation Letter

1. Matters Related to Adequacy of Statements Contained in the Annual Securities Report

Eijiro Katsu, President and Representative Director, and Akihisa Watai, Managing Director and Chief Financial Officer, are confirmed that statements contained in the Annual Securities Report for the 27th business term (from April 1, 2018 to March 31, 2019) were adequate in all material respects under the Financial Instruments and Exchange Act and related laws and regulations..

2. Special Notes

Not applicable.