(TRANSLATION)

Annual Securities Report

(The 28th Business Term)
From April 1, 2019 to March 31, 2020

Internet Initiative Japan Inc.

Note for readers of this English translation

This is an English translation of the Annual Securities Report (*Yuka-shoken-houkokusho*) of Internet Initiative Japan Inc. ("IIJ") filed with the Director-General of the Kanto Local Finance Bureau in Japan through EDINET (Electronic Disclosure for Investors' NETwork). This translation includes an English translation of the audit report of KPMG AZSA LLC, IIJ's accounting auditor, of the financial statements included in the Japanese original Annual Securities Report. KPMG AZSA LLC has not audited and makes no warranty as to the accuracy or otherwise of the translation of the financial statements of other financial information included in this English translation of the Annual Securities Report.

This document has been translated from the Japanese original for reference purpose only. In the event of any discrepancy between this English translation and the Japanese original, the Japanese original shall prevail.

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【Cover】

【Document Filed】	Annual Securities Report
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【Filed With】	Director-General, Kanto Local Finance Bureau
【Filing Date】	June 30, 2020
【Fiscal Year】	28th business term (from April 1, 2019 to March 31, 2020)
【Company Name in English】	Internet Initiative Japan Inc.
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	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	28th business term ended March 31, 2020
Revenues	(thousands of yen)	—	176,233,321	192,430,185	204,473,515
Operating profit	(thousands of yen)	—	6,769,617	6,022,987	8,225,172
Profit before tax	(thousands of yen)	—	6,872,196	5,842,984	7,158,987
Profit attributable to owners of the parent	(thousands of yen)	—	4,422,923	3,520,566	4,006,773
Comprehensive income, attributable to owners of the parent	(thousands of yen)	—	7,648,143	2,902,764	3,997,565
Equity attributable to owners of the parent	(thousands of yen)	68,036,472	74,528,732	76,271,438	79,075,589
Total assets	(thousands of yen)	137,957,682	155,162,729	167,289,196	206,524,260
Owners' equity per share	(yen)	1,509.89	1,653.88	1,692.27	1,753.97
Basic earnings per share	(yen)	—	98.15	78.11	88.88
Diluted earnings per share	(yen)	—	97.82	77.80	88.49
Ratio of owners' equity to gross assets	(%)	49.3	48.0	45.6	38.3
Rate of return on equity	(%)	—	6.2	4.7	5.2
Price-earnings ratio	(times)	—	22.0	28.7	39.9
Cash flows from (used in) operating activities	(thousands of yen)	—	14,663,819	25,152,346	33,393,751
Cash flows from (used in) investing activities	(thousands of yen)	—	(14,296,789)	(8,687,589)	(7,264,834)
Cash flows from (used in) financing activities	(thousands of yen)	—	(717,512)	(5,889,750)	(19,354,021)
Cash and cash equivalents, at the end of fiscal year	(thousands of yen)	21,747,209	21,320,004	31,957,789	38,671,734
Number of employees (excluded average number of temporary employees)	(Persons)	3,212 (49)	3,203 (49)	3,353 (49)	3,583 (53)

(Notes)

1. IIJ and its consolidated 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.

Fiscal year		U.S. GAAP			
		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)	140,648,008	157,789,059	176,050,649	192,332,340
Operating income	(thousands of yen)	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)	6,193,334	5,427,160	7,840,123	4,912,611
Net income attributable to IIJ	(thousands of yen)	4,038,282	3,166,510	5,108,949	2,715,179
Comprehensive income	(thousands of yen)	3,452,000	4,635,102	7,854,112	2,431,055
IIJ shareholders' equity	(thousands of yen)	64,845,207	66,741,871	73,270,057	75,404,315
Total assets	(thousands of yen)	117,834,904	137,395,149	153,448,819	166,851,638
IIJ shareholders' equity per share	(yen)	1,411.13	1,481.16	1,625.95	1,673.03
Basic net income attributable to IIJ shareholders per share	(yen)	87.88	69.36	113.37	60.24
Diluted net income attributable to IIJ shareholders per share	(yen)	87.71	69.18	112.99	60.00
Shareholders’ equity ratio	(%)	55.0	48.6	47.7	45.2
Return on equity	(%)	6.3	4.8	7.3	3.7
Price earnings ratio	(times)	26.3	29.0	19.0	37.2
Net cash provided by operating activities	(thousands of yen)	12,051,588	7,367,692	13,261,764	23,444,691
Net cash used in investing activities	(thousands of yen)	(8,376,828)	(7,375,821)	(13,037,325)	(6,869,247)
Net cash provided by (used in) financing activities	(thousands of yen)	(5,201,357)	2,492,099	(748,178)	(5,898,641)
Cash and cash equivalents at end of fiscal year	(thousands of yen)	19,569,095	21,958,591	21,402,892	32,076,232
Number of employees (excluded average number of temporary employees)	(persons)	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		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	28th business term ended March 31, 2020
Revenues	(thousands of yen)	105,176,238	123,685,435	139,436,288	156,674,395	171,844,242
Ordinary income	(thousands of yen)	4,342,534	3,181,105	3,573,516	3,709,481	4,825,333
Net income	(thousands of yen)	2,884,071	2,520,398	3,516,760	2,627,881	4,833,751
Common stock	(thousands of yen)	22,970,278	22,970,278	22,972,583	22,979,490	22,991,399
Number of shares issued	(shares)	46,711,400	46,711,400	46,713,800	46,721,400	46,734,600
Net assets	(thousands of yen)	60,190,592	61,333,007	66,090,481	66,551,925	68,548,367
Total assets	(thousands of yen)	101,961,936	121,163,429	137,068,258	146,677,926	152,680,583
Net assets per share	(yen)	1,305.43	1,355.35	1,459.68	1,468.72	1,511.83
Dividends per share	(yen)	22.00	27.00	27.00	27.00	27.00
(Interim dividend per share included above)	(yen)	(11.00)	(13.50)	(13.50)	(13.50)	(13.50)
Net income per share	(yen)	62.77	55.21	78.04	58.31	107.23
Diluted net income per share	(yen)	62.63	55.06	77.80	58.07	106.74
Capital to asset ratio	(%)	59.0	50.6	48.0	45.1	44.6
Return on equity	(%)	4.9	4.1	5.5	4.0	7.2
Price earnings ratio	(times)	36.9	36.4	27.6	38.4	33.1
Dividend payout ratio	(%)	35.1	48.9	34.6	46.3	25.2
Number of employees (excluded average number of temporary employees)	(persons)	1,751 (24)	1,865 (29)	1,904 (30)	1,955 (28)	2,068 (32)
Gross shareholders' profit ratio (Comparative indicator : TOPIX including dividend)	(%)	117.3 (89.2)	103.4 (102.3)	112.2 (118.5)	117.6 (112.5)	184.6 (101.8)
Highest stock price (Note 4)	(yen)	2,554	2,464	2,620	2,880	3,650
Lowest stock price (Note 4)	(yen)	1,910	1,514	1,881	1,996	1,953

(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 services”
February	1994	Authorized and registered by the Ministry of Posts and Telecommunications (currently the 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. (formerly 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 (formerly 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 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. (formerly 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. (currently IIJ Engineering 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 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. (formerly our consolidated subsidiary), withheld 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, currently IIJ Protech Inc.), which 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., formely our 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 digital currencies (*) exchange and settlement.
March	2018	Launched “IIJ mobile service Type I” (*) as the first full MVNO (*) in Japan.
April	2019	Effectiveness of voluntary delisting of IIJ ADRs from the NASDAQ Exchange
May	2019	Established the Shiroi Data Center Campus incorporating a system module-based construction method (*) in Shiroi-city, Chiba Prefecture.
July	2019	Launched the first eSIM (*) Service in Japan
December	2019	Established Grape One Co., Ltd. (our equity method investee) as a joint venture with Sumitomo Corporation and several cable TV companies to provide local 5G (*) service provision platforms.

(*) 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.

The Company 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, 2020, we have 16 consolidated subsidiaries and nine 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 and sells mobile phones for consumers. For WAN services which are mainly provided by IIJ Global Solutions Inc., 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 to our customers, mainly corporate and governmental organizations, we offer security-related (*), network-related, server-related and data center-related outsourcing services, as well as public 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 private 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.
IIJ Protech Inc.	IIJ Protech 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.
Trust Networks Inc.	Trust Networks Inc. operates bank 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 ("LAN") (*), 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.
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., Konami Corporation's consolidated subsidiary, provides business operation for gaming platform.
Grape One Co., Ltd.	Grape One Co., Ltd., Sumitomo Corporation's consolidated subsidiary, provides local 5G (*) wireless service platforms to cable TV companies.
JOCDN Inc.	JOCDN Inc., a joint venture with companies such as Japanese 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 digital currencies.
Trinity Inc.	Trinity Inc., Hirata Corporation's consolidated subsidiary, provides development, construction, selling and outsourcing of customer loyalty reward program systems and others.

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, 2019 and 2020.

Service category	IFRS					
	Fiscal year ended March 31, 2019			Fiscal year ended March 31, 2020		
	Revenues (thousands of yen)	Percentage of the total revenues (%)	Gross profit (thousands of yen)	Revenues (thousands of yen)	Percentage of the total revenues (%)	Gross profit (thousands of yen)
Network services	118,626,271	61.6	17,368,817	121,998,722	59.7	19,906,657
Systems integration	69,652,389	36.2	9,780,489	78,393,435	38.3	10,809,294
ATM operation business	4,151,525	2.2	1,825,392	4,081,358	2.0	1,877,474
Total	192,430,185	100.0	28,974,698	204,473,515	100.0	32,593,425

(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 by providing IoT (*) connectivity with various devices and embedded chip SIM(*), 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 technologies. 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 Company, 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 12,000 clients as of March 31, 2020.

(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 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 through LTE SIM cards and fixed-line services such as B Flet'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,	
			2019	2020
Internet connectivity services (Enterprise)			1,757,761	2,038,687
	IP service (greater than or equal to 1Gbps)*2		743	769
	IP service (less than 1Gbps)*2		1,265	1,245
	IIJ Mobile Services		1,675,123	1,949,927
		IIJ Mobile MVNO Platform Service	1,047,856	1,107,116
	Others		80,630	86,746
Internet connectivity services (consumer)			1,400,928	1,410,006
	IIJmio Mobile Service		1,062,921	1,075,083
	Others		338,007	334,923

	As of March 31	
	2019	2020
Total contracted bandwidth (Gbps)*3	3,897.2	5,115.9

(Notes)

*1) Numbers in the table above show number of contracts except for “IIJ Mobile Services (enterprise)” and “IIJmio Mobile Service 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 our annual report “Yuka-shoken-houkokusho” for the year ended March 31, 2019, 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 Company’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 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	Provide 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	Provide VPN service, configurating, operating and maintenance of network equipment, providing total solution of these services, remote access (*) environment and others.
Server outsourcing-related	Provide functions of e-mail server, web server, contents distribution server and others, operating and managing e-mail and others.
Data center-related	House customers' server and others in our data center and providing functions of equipment management and operational monitoring.
Packaged-type cloud computing service	Provide packaged-type cloud hosting service (*).
Others	Provide 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 systems of on-line securities trading company (*), 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 bank 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, 2020. 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 peering (*) 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 exchanges 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 mobile 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

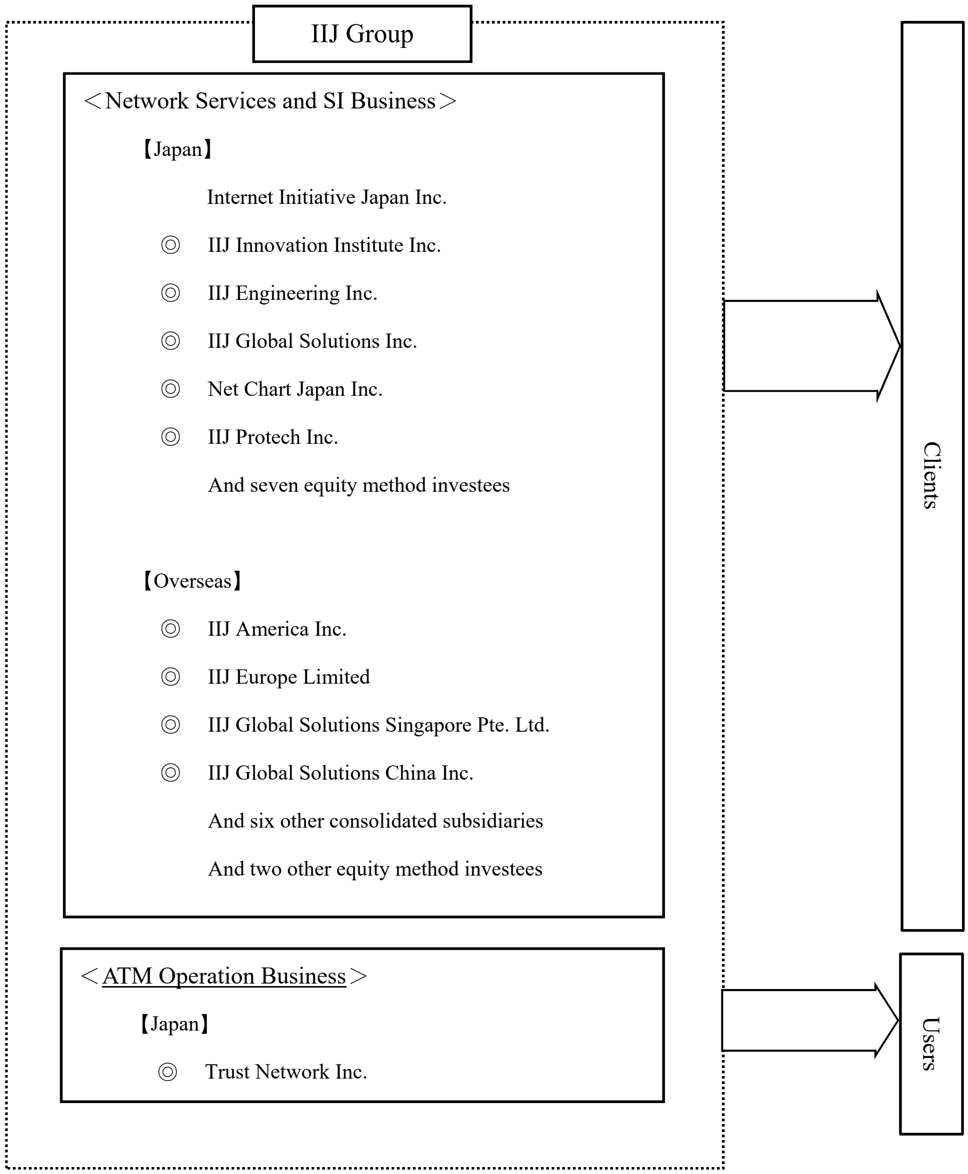
As of March 31, 2020, we operate Internet data centers in Tokyo, Osaka, Yokohama, Sapporo, Shiroi, Nagoya, Kyoto, Matsue and Fukuoka in Japan and in the United States, United Kingdom and Singapore.

For our own Internet data centers, we operate a container-based module type data center (*) using outside air for cooling in Matsue City, 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. Other data centers are operated by using the data center facilities and equipment of other companies.

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 (“NTT”), 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.	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.	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)	Chiyoda-ku, Tokyo	490	Provision of network services and systems integration (Network and SI business segment)	100.0	Concurrent position of directors and auditors: 3 officers, staff seconded from IIJ, purchaser of IIJ services, subcontractor of IIJ, supplier of IIJ, sends staff to IIJ
IIJ Protech 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
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.	Kohoku-ku, 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 directors and auditors: 2 officers, purchaser of IIJ services, borrower of IIJ, subcontractor of IIJ
IIJ America Inc.	California, the United States	USD8,460 thousand	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	GBP143 thousand	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, lender of IIJ, Provider of services to IIJ, subcontractor of IIJ
IIJ Global Solutions Singapore Pte. Ltd.	Singapore	SGD5,525 thousand	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	USD10,630 thousand	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					
INTERNET MULTIFEED CO.	Chiyoda-ku, Tokyo	490	Provision of high-speed Internet eXchange services, IPv6 Internet connectivity to carriers	36.5	Concurrent position of directors and auditors: 3 officers, staffs seconded from IIJ, purchaser of IIJ services, provider of services to IIJ
Internet Revolution Inc.	Chuo-ku, Tokyo	100	Provision of gaming platform	30.0	Concurrent position of director: 1 officer, staffs seconded from IIJ, purchaser of IIJ services
Grape One Co., Ltd.	Chiyoda-ku, Tokyo	100	Provision of provide local 5G service provision platforms to cable TV companies.	20.0	Concurrent position of director:1 officer, staffs seconded from IIJ, purchaser of IIJ services
JOCDN Inc.	Minato-ku, Tokyo	99	Content delivery network services specialized for video distribution within Japan	16.8	Concurrent position of directors and auditors: 3 officers, staff seconded from IIJ, purchaser IIJ services
DeCurret Inc.	Chiyoda-ku, Tokyo	4,314	Provision of digital currency exchange and settlement services	30.0	Concurrent position of directors and auditors: 4 officers, purchaser of IIJ service
Trinity Inc.	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
Others; 3 companies (Note 4)					

(Other companies)					
NIPPON TELEGRAPH AND TELEPHONE CORPORATION (Note 5)	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’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, 2019 to March 31, 2020 (millions of yen)

(1) Revenue	25,970
(2) Ordinary income	947
(3) Net profit	440
(4) Net assets	9,227
(5) Total assets	14,081

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. NTT files an Annual Securities Report.

5 Employees

(1) Consolidated basis

The number of employees by segment is as follows.

As of March 31, 2020

Name of segment	Number of Employees
Engineering	2,558 (26)
Sales	590 (1)
Administration	435 (26)
Total	3,583 (53)

(Note)

1. 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.
2. 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	5 (－)
Sales	5 (－)
Administration	2 (－)
Total	12 (－)

(2) IIJ (non-consolidated basis)

As of March 31, 2020

Number of Employees	Average Age	Average Years of Service	Average Yearly Salary (Thousands of Yen)
2,068 (32)	36.9	8.1	6,983.5

(Note)

1. 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.
2. The average yearly salary is calculated for full-time and contract workers and includes bonuses and non-standard wages.
3. One of IIJ’s employees has been seconded 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, 2020.

(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 .

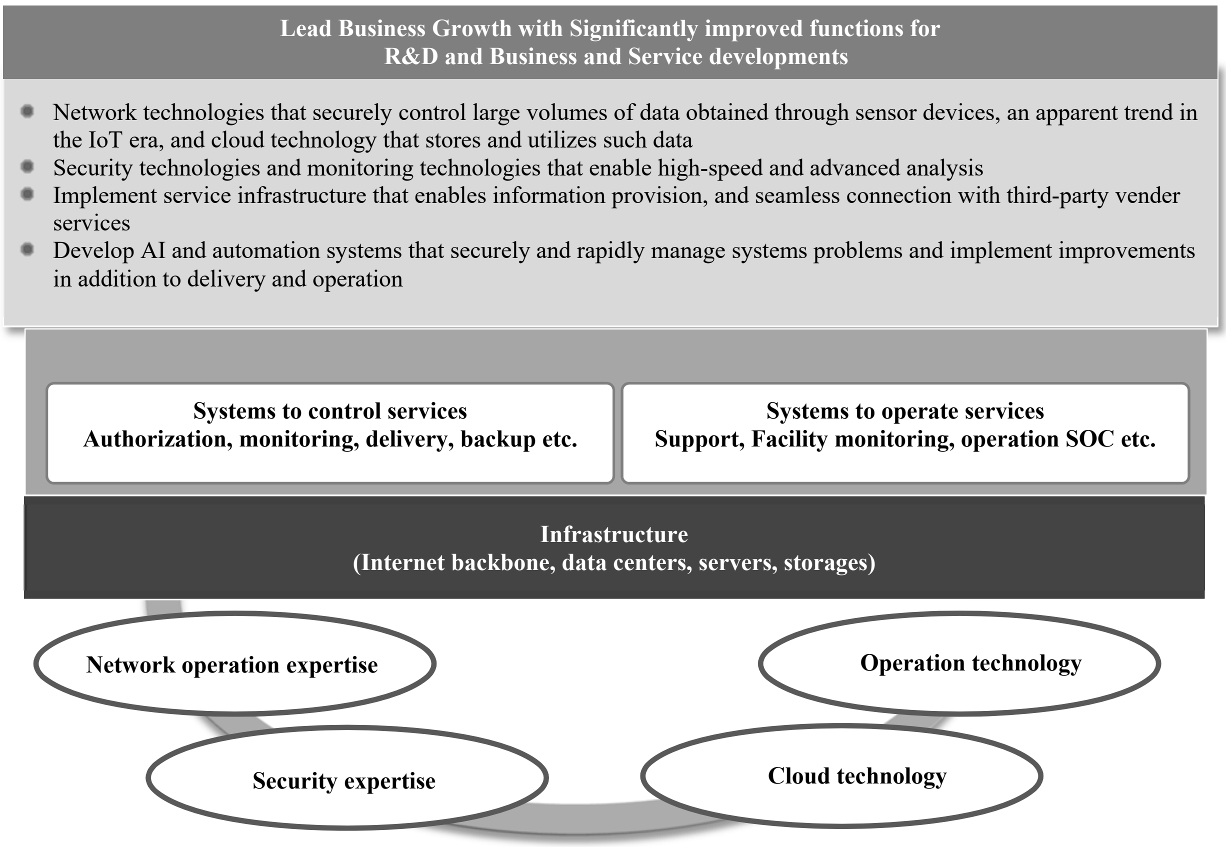
(3) Medium Term Plan

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 medium 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 activities 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 the fiscal year ending March 31, 2021.
- Aim to exceed JPY10 billion of operating profit and continuously maintain double-digit annual operating profit growth rate by expanding gross profit 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. It is important for our growth to develop services and businesses continuously as well as to expand our ICT service line-ups, in a timely and appropriate manner, that meet 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. Also, we need to effectively manage business investment to improve our profit as well as revenue growth.

In the short term, we assume the following business of ours would particularly be impacted by COVID-19: 1) ATM operation business revenue decrease due to out of operation of placed bank ATMs along with stores temporary closure, 2) Systems construction (one-time revenue) and related revenue, due to decrease in enterprises investment appetite, 3) Acquisition of consumer mobile subscribers due to large shopping malls and other stores temporary closure. On the other hand, we expect enterprise recurring revenue, such as network services, should continue to increase to some degree amid economic downturn. In the medium term, we expect that the amount of Internet usage will further increase, corporate network system will change, including cloud computing and remote access functions, and the security demand for safe network usage will further increase. IIJ Group recognizes that we shall contribute to realize network society in the future, by continuously operating highly reliable internet infrastructure, which now becomes indispensable social infrastructure, developing and providing highly value-added network services to improve our profit as well as revenue growth.

2 Risk Factors

Below are the main factors that could impact IIJ Group's results of operations, financial condition, and cash flow 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.

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, 2020, 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. Our results of operations and financial condition could be significantly impacted and 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 the current network costs and/or an increase in such costs, which could result in profit decrease, if, for example, 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. For the fiscal year ended March 31, 2020, WAN service revenue decreased JPY4.0 billion from the previous fiscal year as certain large clients connecting multiple sites through private connectivity switched to mobile services.

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 the current cloud computing services' costs and/or an increase in such costs, which could result in profit decrease, if we fail to accumulate cloud computing service revenues as planned, due, for example, to weak demand and/or slow migration to cloud, 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, in addition to direct sales, 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, for example, 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.

Regarding IIJ Group's SG&A expenses, personnel-related expenses, office rent expenses, sales commission expenses, commission expenses, advertising expenses and others have been increasing every year along with business developments. They could increase more than expected. Also, if gross profit of network services, systems integration, and ATM operation business do not increase or rather decrease, we may be faced with profit deterioration as increasing SG&A expenses cannot be absorbed.

(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 3,353 and 3,583 employees as of March 31, 2019 and 2020 respectively. The number of employees increased by 150 and 230 in the fiscal years ended March 31, 2019 and 2020 respectively. Capital expenditures, including assets acquired by finance leases, for the fiscal years ended March 31, 2019 and 2020 were JPY15,083 million and JPY15,150 million respectively. Depreciation and amortization for property and equipment (capital expenditure related depreciation and amortization) for the fiscal years ended March 2019 and 2020 were JPY13,867 million and JPY14,422 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. Revenues for our cloud computing services for the fiscal years ended March 31, 2019 and 2020 were JPY20.1 billion and JPY23.6 billion, respectively. Capital expenditures related to domestic cloud computing services were JPY1.9 billion and JPY2.6 billion for the fiscal years ended March 31, 2019 and 2020 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 facitilies were JPY2.1 billion and JPY2.0 billion for the fiscal years ended March 31, 2019 and 2020, respectively and the capital expenditures are expected to increase along with placement of system modules.

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, 2019 and 2020 were JPY42.0 billion and JPY46.1 billion respectively. The total number of mobile service subscription was approximately 2.74 million and 3.03 million as of March 31, 2019 and March 31, 2020 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. Along with our service launch of full MVNO services in March 2018, we had additional fixed cost for our network services, 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 and 2020 were JPY0.7 billion and JPY1.4 billion. The revenue growth has been absorbing such fixed cost increase.

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, 2019 and 2020 were JPY7.7 billion and JPY8.5 billion, respectively. As for income, operating profit was JPY0.1 billion and JPY0.3 billion for the fiscal years ended March 31, 2019 and 2020, respectively. IIJ and IIJ-Global together had injected capital of JPY4,512 million into our overseas consolidated subsidiaries and equity method investees by the fiscal year ended March 31, 2020. Also, as of March 31, 2020, IIJ and IIJ-Global together had lent a total of JPY222 million to four 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. Foreign Corrupt Practices Act ("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 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." As for the fiscal year ending March 31, 2021, ATM operation business revenue and profit is expected to decrease because the number of placed ATMs to decrease due to certain clients' matter and the number of ATM withdrawal transaction is expected to decrease year over year due to COVID-19 related store closure as well as request to refrain from going outside unless necessary.

(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, NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION ("NTT East"), NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION ("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, 2020, 48.6% 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 concerns over the equipment we procure from third-party vendors, if there arises any concerns 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 occurred, if suppliers of telecommunication lines, network equipment, and service facilities for which we depend on third-party vendors are not provided, 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 significantly 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. Although no such incident has occurred and our backbone and service facilities are designed with fault tolerance, if we damage our creditability or business opportunities due to failure to continuously provide services, our results of operations or financial condition may be significantly 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. Foreign countries have been enhancing their regulations regarding data protection of personal information including the General Data Protection Regulation (GDPR) in the European Union. Regarding GDPR, our consolidated subsidiary, IIJ Europe Limited, submitted its Binding 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. Although no such incidents has occurred, if we fail to comply with these foreign countries' regulations 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 significantly 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. Such probability is always present, 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 and has been decreasing. Until the fiscal year ended March 31, 2020, the unit price used for the fiscal years ended March 31, 2019 and 2020 was fixed in March 2020 and we recognize difference between our estimated and actual figures as cost fluctuation when the unit price is fixed. Beginning from the fiscal year ending March 31, 2021, under the future cost method applied, we recognize interconnectivity fee based on mobile carriers’ predicted figures and when the unit charge is fixed, we may recognize difference between such predicted and actual figures. How much we pay to mobile carriers is to increase 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 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."

(5) Risks regarding force majeure

Force majeure such as natural disaster, blackout, terrorism, and pandemic infectious diseases may make it difficult for us to provide services reliably, may require us to recognize cost and/or investment more than expected, and may make it difficult to execute group strategy as planned. In such a case, our results of operation and financial condition could be significantly adversely impacted.

3. Risk regarding our group operation

(1) Risks regarding acquiring human resources

The expertise of IIJ's as well as each group company's management 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 nine 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, 2019 and 2020, IIJ Global had JPY30,073 million and JPY26,103 million in revenues, respectively, and JPY713 million and JPY1,020 million in operating profit, respectively. Intangible assets as of March 31, 2020 related to IIJ Global were JPY3,336 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 (IIJ ownership 79.5%). ATM operation business segment revenue was JPY4,152 million and JPY4,081 million and operating profit was JPY1,623 million and JPY1,645 million for the fiscal years ended Mach 31, 2019 and 2020 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, for example, to a decrease in user appetite and store closure, 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. Japan Broadcasting Corporation (NHK) and WOWOW Inc. became JOCDN's shareholders through the third-party allotment in the fiscal year ended March 31, 2020. As of this document's filing date, we have invested a total of JPY142 million (IIJ ownership: 16.8%).

In January 2018, we established DeCurret Inc., ("DeCurret ") which provides digital currency exchange and settlement services as a joint venture. In March 2019, DeCurret became a licensed crypto-asset exchange service provider, launched crypto-asset exchange services from April 2019 and leverage trading services from August. As of this document's filing date, we have invested a total of JPY5,082 million (IIJ ownership: 41.6%). DeCurret is still in start-up phase and if their business does not expand as planned, their enterprise value may be damaged, record more than expected equity method investment loss, they may need additional capital injection and others. In such a case, IIJ Group's results of operation and financial condition may be adversely impacted.

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. Also if IIJ Group's business operation is constrained due to certain regulations particular to the subsidiaries and/or affiliated companies, IIJ group's results of operation and financial condition may be adversely impacted.

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 CO. 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, 2020. 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 NTT 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, 2020, the aggregated amount paid for these services was JPY36,228 million.

We have lease transactions with lease companies to procure facilities and as of March 31, 2020, we had JPY2,535 million of finance 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 Corporation, NTT Security, NTT PC Communications and NTT Plala Inc., 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 for the fiscal years ended March 31, 2014, 2015, 2017, and 2020. 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.

(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 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, 2020, 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 JPY1,969 million. On our consolidated balance sheets as of March 31, 2020, 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 JPY1,048 million and JPY922 million, respectively. Although we have never recorded impairment loss on goodwill and customer relationships, if significant changes in business circumstances indicate that they may be impaired, we may conduct impairment testing and record loss as a result.

(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. Although no such incident has occurred, 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 other investments as of March 31, 2020 was JPY5,163 million of available-for-sale securities, JPY1,488 million of nonmarketable equity securities, and JPY2,348 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 specifies 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 this document's filing date, 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, in order to protect users, telecommunication business operators and their sales partners (brokers and other outsourcing resources) are subject to carry, for example, the obligation to explain important matters, the system to cancel initial contracts, and the obligation to observe sales partners' operation, which are set forth by the Telecommunications Business Act. In addition to these, in order to create fare competition for mobile service market, there have been various regulations in placed in 2019 when offering mobile phones. If we or our sales partners are said to have improper business operations, we may be asked to disclose our names to the public and take measures to improve them.

If we are asked to take measures to improve our practices, our results of operation and financial condition could be adversely impacted because of costs needed to take such actions and/or damage on corporate image.

(2) Regulations related to businesses

A number of regulations related to the usage of 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, imposes difficulties when trying to prevent infringement of the rights of third-party vendors. Although no such incident has occurred, 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.

Regarding our consumer business, which comprise certain portion of our total business, in addition to the above mentioned Telecommunication Business Act, the business is subject to consumer protection related laws such as the Act against Unjustifiable Premiums and Misleading Representations. If we or sales partners fail to comply, our results of operations and financial condition could be adversely impacted because of fines from regulators, other than the MIC, 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 or our service offerings may be constrained due to our clients' usage of our offered services.

(3) Foreign regulations

We have affiliated companies both in Japan and overseas. Although we strive to comply with each foreign country's regulations, depending on counties, interpretation and operation of such regulations could be unclear, thus we may unintentionally fail to comply and be pointed out about it. In such a case, our results of operations and financial condition may be adversely impacted.

Also, among 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 FCPA and GDPR of EU, we could be ordered to pay fines as a penalty.

(4) Intellectual property

Although we strive not to infringe on third-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 patent 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 unclarity 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; delays in completion or contractual nonconformity 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, 2020, our cash and cash equivalents were JPY38,672 million, increased by JPY6,714 million from the previous fiscal year end. Our bank borrowings as of March 31, 2020 were JPY27,750 million, increased by JPY1,000 million from the previous fiscal year end. Our finance lease obligation including current portion as of March 31, 2020 was JPY18,063 million, increased by JPY29 million. As of March 31, 2020, the balance of other financial liabilities related to operating lease recognized along with the adoption of IFRS 16 was JPY34,591 million.

Our investment in facilities has been increasing. We plan to continuously allocate 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. Risks regarding 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 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.”

In June 2020, IIJ allocated restricted stocks compensation to directors and executive directors of IIJ (excluding part-time and outside directors) as a substation for a part of bonus. IIJ may allocated restricted stocks compensation in the future depending on earnings results. As for the details of this scheme, please refer to “PART 1 Information on the Company, Item 4 Information on IIJ, 4. Corporate Governance, (4) Remuneration for directors and company auditors, etc., ①Policy on determining directors and company auditors’ remuneration amounts and calculation methods”

3. Management's Analysis of Financial Position, Results of Operations and Cash Flows
(Overview of Business Results)

(1) Results of Operations

Overview of Consolidated Results of Operations for the fiscal year ended March 31, 2020

The Japanese economy has been moderately recovered throughout the fiscal year ended March 31, 2020 ("FY2019"); however, it was severely impacted by COVID-19 in March 2020. With respect to future prospects, under the circumstances that global community and economy would still be affected by COVID-19, we recognize that we must keep an eye on uncertainties such as domestic and overseas economy 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 utilization of ICT such as IoT in corporate business activities, growing demand for security services against information leakage and remote access services in association with work style reform, etc., we expect demands for highly reliable network services to continually increase. On the other hand, demands for systems construction could be somewhat impacted in short term by decrease of corporate investment appetite due to economic situation.

Under these market circumstances, we continuously promoted our existing strategy to incorporate outsourcing demands related to enterprises' information and network systems by developing and offering highly reliable and value-added services, which are based on our Internet related technical skills and blue-chip customer base. Total revenues for FY2019 were JPY202,474 million, up 6.3% year over year (JPY192,430 million for the fiscal year ended March 31, 2019 ("FY2018")), mainly because recurring revenues (*), such as revenues of internet connectivity services, outsourcing services including security related services, cloud computing services, steadily increased respectively. Operating profit was JPY8,225 million, up 36.6% year over year (JPY6,023 million for FY2018). Expansion of each network services and systems integration gross profit absorbed the increase of selling, general and administrative expenses.

Business overview for FY2019 are as follows. In network services area, revenues of Internet connectivity services for enterprise steadily increased, along with expansion of network infrastructure and absorbing increasing traffic. As for mobile-related services, enterprise demands for surveillance cameras and sensor connections were strong, and total mobile-related services revenues for FY2019 increased to JPY46.1 billion from JPY42.0 billion for FY2018. Other than the above, we have been executing MVNE strategy to gather consumer mobile subscription. Total number of mobile subscription as of March 31, 2020 was 3.03 million, increased by 0.3 million from as of March 31, 2019. Within mobile-related services revenues, full-MVNO services revenues for FY2019 increased to JPY 1.4 billion from JPY0.7 billion for FY2018, along with progress of IoT usage for various devices at public facilities or factories, together with new service provision of embedded chipSIM. Throughout the year, business inquiries for IoT have been strong, and we accumulated numbers of IoT projects, such as remote monitoring or remote maintenance for manufacturing industry and agriculture. As for security-related services, existing services such as gateway type security services (*) and SOC services (*) drove security-related revenue growth. We also developed and added new services such as "IIJ Managed WAF services (*)". Security-related recurring revenues for FY2019 were JPY16.4 billion (JPY14.1 billion for FY2018) and total security-related revenues for FY2019, including security-related systems construction revenues, were JPY19.2 billion (JPY16.8 billion for FY2018). In systems integration area, enterprises' demands for systems construction have generally been strong. Systems construction revenue was up 14.7% year over year and systems operation and maintenance revenue was up 11.1% year over year, respectively. As for cloud computing services, a part of which revenue is recognized as systems operation and maintenance, we promoted multi cloud strategy, linking multi cloud services, in order to meet enterprises' growing demands for cloud migration. Total cloud related revenues for FY2019 increased to JPY23.6 billion from JPY20.1 billion for FY2018. As for infrastructure development, we started operation of a system module type data center, "Shiroi Data Center Campus (Shiroi DCC)", at the beginning of this fiscal year and gradually expanded our server racks. We intend to sequentially integrate data centers and service infrastructure in eastern Japan area into this Shiroi DCC. As for overseas business, the US and European subsidiaries drove profits and each Asian subsidiaries made business progress. Total revenue of overseas business for FY2019 was JPY8.6 billion and operating profit was JPY0.3 billion (JPY7.7 billion and JPY0.1 billion for FY2018, respectively). New business developments in FY2019 were as follows. Our equity method investee, DeCurret, who is engaged in digital currency business, has launched exchange services in April 2019 and leverage trading services in August 2019. As for contents delivery business, our equity method investee, JOCDN Inc., which is a joint-venture with Japanese prominent commercial broadcasting companies, strengthened its business foundation by raising new capital from WOWOW Inc. and Japan Broadcasting Corporation (NHK) through a third-party allotment. In the healthcare business, "IIJ Electronic contact/communication Note Service (*)", a multidisciplinary cooperative platform that allows for coordinating comprehensive community care with local medical practitioners, had been introduced to 61 local governments, mainly in Aichi Prefecture, and we promote to expand this service nationwide.

As a result of these, consolidated financial results for FY2019 are as follows. Network services revenues were JPY121,999 million, up 2.8% year over year (JPY118,626 million for FY2018), systems integration revenues, including equipment sales, were JPY78,394 million, up 12.5% year over year (JPY69,652 million for FY2018), and ATM operation business revenues were JPY4,081 million, down 1.7% year over year (JPY4,152 million for FY2018). Total cost of revenues was JPY171,880 million, up 5.2% year over year (JPY163,455 million for FY2018). Cost of network services revenue was JPY102,092 million, up 0.8% year over year (JPY101,257 million for FY2018), cost of SI revenue, including equipment sales, was JPY67,584 million, up 12.9% year over year (JPY59,872 million for FY2018), and cost of ATM operation business revenue was JPY2,204 million, down 5.3% year over year (JPY2,326 million for FY2018). As for gross profit, network service revenue gross profit was JPY19,907 million, up 14.6% year over year (JPY17,369 million for FY2018), systems integration revenue, including equipment sales, gross profit was JPY10,810 million, up 10.5% year over year (JPY9,780 million for FY2018) and ATM operation business revenue gross profit was JPY1,877 million, up 2.9% year over year (JPY1,825 million for FY2018). Total gross profit was JPY32,594 million, up 12.5% year over year (JPY28,974 million for FY2018) and gross profit ratio was 15.9% (15.1% for FY2018). Selling, general and administrative expenses, which include research and development expenses, other operating income and expenses, totaled JPY24,369 million, up 6.2% year over year (JPY22,952 million for FY2018). Therefore, operating profit for FY2019 was JPY8,225 million, up 36.6% year over year (JPY6,023 million for FY2018). Profit before tax was JPY7,159 million, up 22.5% year over year (JPY5,843 million for FY2018). Profit for the year attributable to owners of the parent was JPY4,007 million, up 13.8% year over year (JPY3,521 million for FY2018).

In business segments results, revenues for network services and systems integration business segment were JPY200,679 million, up 6.4% year over year (JPY188,634 million for the fiscal year ended March 31, 2019) and operating profit was JPY6,729 million, up 46.3% year over year (JPY4,599 million for the fiscal year ended March 31, 2019). As for ATM operation business, revenues were JPY4,081 million, down 1.7% year over year (JPY4,152 million for the fiscal year ended March 31, 2019) and operating profit was JPY1,645 million, up 1.4% year over year (JPY1,623 million for the fiscal year ended March 31, 2019).

(2) Financial Position

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

As of March 31, 2020, the balance of current assets was JPY86,590 million, increased by JPY7,619 million compared to the balance as of March 31, 2019, mainly due to increases in cash and cash equivalents, prepaid expenses and other financial assets, and decrease in trade receivables and inventories. As of March 31, 2020, the balance of non-current assets was JPY119,934 million, increased by JPY31,616 million from the balance as of March 31, 2019, mainly due to increase in right-of-use assets along with the adoption of IFRS 16 from the fiscal year ended March 31, 2020, while other investments decreased mainly due to sale of marketable equity securities.

As of March 31, 2020, the balance of current liabilities was JPY65,687 million, increased by JPY12,782 million from the balance as of March 31, 2019, mainly due to increases in other financial liabilities related to operating lease recognized along with the adoption of IFRS 16, borrowings and income taxes payable, and a decrease in trade and other payables. As of March 31, 2020, the balance of non-current liabilities was JPY60,780 million, increased by JPY23,515 million from the balance as of March 31, 2019, mainly as a result of increase in other financial liabilities related to operating lease recognized along with the adoption of IFRS 16 and decrease in long-term borrowings due to a transfer to current portion.

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

(3) Cash Flows

The balance of cash and cash equivalents as of March 31, 2020 was JPY38,672 million.

Cash Flows from Operating Activities

Net cash provided by operating activities for the fiscal year ended March 31, 2020 was JPY33,394 million, compared to net cash provided by operating activities of JPY25,152 million for the fiscal year ended March 31, 2019. There were profit before tax of JPY7,159 million, depreciation and amortization of JPY28,520 million, including JPY12,207 million of depreciation of right-of-use operating lease assets newly recognized by the adoption of IFRS 16, and income taxes paid of JPY2,611 million. Regarding changes in operating assets and liabilities, it was net cash out of JPY909 million mainly due to cash out by trade and other payables that had been recognized in FY2018 and were paid in FY2019, while there were cash in by collecting trade receivables and deferred revenue.

Cash Flows from Investing Activities

Net cash used in investing activities for the fiscal year ended March 31, 2020 was JPY7,265 million, compared to net cash used in investing activities of JPY8,688 million for the fiscal year ended March 31, 2019, mainly due to payments for purchase of property and equipment of JPY7,197 million, purchase of intangible assets, including software, of JPY4,642 million, and proceeds from sales of other investments of JPY2,750 million.

Cash Flows from Financing Activities

Net cash used in financing activities for the fiscal year ended March 31, 2020 was JPY19,354 million, compared to net cash used in financing activities of JPY5,890 million for the fiscal year ended March 31, 2019, mainly due to proceeds from short-term borrowings of JPY2,500 million, payments of other financial liabilities of JPY20,556 million, including JPY12,141 million of payment of operating lease obligations newly recognized by the adoption of IFRS 16.

(Production, Orders Received and Sales)

(1) Production

Production results for the year ended March 31, 2020 were as follows:

Type of Services	Fiscal year ended March 31, 2020	
	Production (thousands of yen)	Year over year comparison (%)
Systems Integration, including Equipment Sales	66,655,408	9.3
Total	66,655,408	9.3

(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, 2020 and order backlog as of March 31, 2020 were as follows:

Type of Services	Fiscal year ended March 31, 2020			
	Orders Received (thousands of yen)	Year over Year comparison (%)	Order Backlog (thousands of yen)	Year over Year comparison (%)
Systems Construction and Equipment Sales	31,642,859	9.3	7,506,791	(4.2)
Systems Operation and Maintenance	51,499,691	13.6	48,356,876	11.7
Total	83,142,550	11.9	55,863,667	9.3

(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, 2020 were as follows:

Type of services		Fiscal year ended March 31, 2020	
		Revenue (thousands of yen)	Year over year comparison (%)
Network services		121,998,722	2.8
	Internet connectivity services (enterprise)	36,634,972	10.4
	Internet connectivity services (consumer)	26,054,986	3.3
	WAN services	26,971,521	(13.0)
	Outsourcing services	32,337,243	10.7
Systems integration		78,393,435	12.5
	Systems construction and equipment sales	31,975,911	14.7
	Systems operation and maintenance	46,417,524	11.1
ATM operation business		4,081,358	(1.7)
Total revenues		204,473,515	6.3

(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, 2020

① **Summary of Consolidated Results of Operations**

Summary of Consolidated Results of Operations

	Fiscal Year ended March 31, 2019	Fiscal Year ended March 31, 2020	Year over Year change
	millions of yen	millions of yen	%
Total revenues	192,430	204,474	6.3
Network services	118,626	121,999	2.8
Systems integration, including equipment sales	69,652	78,394	12.5
ATM operation business	4,152	4,081	(1.7)
Total costs	(163,455)	(171,880)	5.2
Network services	(101,257)	(102,092)	0.8
Systems integration, including equipment sales	(59,872)	(67,584)	12.9
ATM operation business	(2,326)	(2,204)	(5.3)
Total gross margin	28,974	32,594	12.5
Network services	17,369	19,907	14.6
Systems integration, including equipment sales	9,780	10,810	10.5
ATM operation business	1,825	1,877	2.9
SG&A, R&D, and other operating income(expenses)	(22,952)	(24,369)	6.2
Operating profit	6,023	8,225	36.6
Profit before tax	5,843	7,159	22.5
Profit attributable to owners of the parent	3,521	4,007	13.8

Segment Information

	Fiscal Year ended March 31, 2019	Fiscal Year ended March 31, 2020
	millions of yen	millions of yen
Total revenues	192,430	204,474
Network services and SI business	188,634	200,679
ATM operation business	4,152	4,081
Elimination	(356)	(286)
Operating profit	6,023	8,225
Network service and SI business	4,599	6,729
ATM operation business	1,623	1,645
Elimination	(199)	(149)

② **Overview**

Total revenues were JPY204,474 million, up 6.3% year over year (JPY192,430 million for the fiscal year ended March 31, 2019) with enterprise recurring revenue accumulation, mobile-related revenue growth with an expansion of MVNE business clients' transactions and continuous revenue growth in systems integration.

Operating profit was JPY8,225 million, up 36.6% year over year (JPY6,023 million for the fiscal year ended March 31, 2019), mainly as a result of increases in gross margin of revenues, which offset increases in selling, general and administrative expenses. Profit before tax was JPY7,159 million, up 22.5% year over year (JPY5,843 million for the fiscal year ended March 31, 2019). Profit attributable to owners of the parent was JPY4,007 million, up 13.8% year over year (JPY 3,521million for the fiscal year ended March 31, 2019).

In business segments results, revenues for network services and systems integration business segment were JPY200,679 million, up 6.4% year over year (JPY188,634 million for the fiscal year ended March 31, 2019) and operating profit was JPY6,729 million, up 46.3% year over year (JPY4,599 million for the fiscal year ended March 31, 2019). As for ATM operation business, revenues were JPY4,081 million, down 1.7% year over year (JPY4,152 million for the fiscal year ended March 31, 2019) and operating profit was JPY1,645 million, up 1.4% year over year (JPY1,623 million for the fiscal year ended March 31, 2019).

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 JPY204,474 million, up 6.3% year over year, compared to JPY192,430 million for FY2018.

[Network services]

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

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

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

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

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

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, 2019	For the fiscal year ended March 31, 2020	Year over year Change
	JPY millions	JPY millions	%
Total network services	118,626	121,999	2.8
Internet connectivity services (enterprise)	33,186	36,635	10.4
IP services (including data center connectivity services)	10,572	10,701	1.2
IIJ Mobile services	19,420	22,598	16.4
IIJ Mobile MVNO Platform Service	14,555	16,574	13.9
Others	3,194	3,336	4.5
Internet connectivity services (consumer)	25,234	26,055	3.3
IIJmio Mobile Service	22,538	23,487	4.2
Others	2,696	2,568	(4.8)
WAN services	30,991	26,972	(13.0)
Outsourcing services	29,215	32,337	10.7

Number of Contracts and Subscription for Connectivity Services (Note 2)

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

(Notes)

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]

SI revenues, including equipment sales, were JPY78,394 million, up 12.5% YoY (JPY 69,652 million for FY2018).

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

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

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

[ATM operation business]

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

ii) Cost of sales

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

[Network services]

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

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

[Systems integration]

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

[ATM operation business]

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

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

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

Other operating income was JPY223 million (JPY47 million for FY2018).
Other operating expenses was JPY516 million (JPY347 million for FY2018), mainly due to disposal loss on fixed assets.

iv) Operating profit

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

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

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

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

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

vi) Profit before tax

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

vii) Profit for the year

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

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

(3) Financial Position as of March 31, 2020

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

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

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

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

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

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

(4) Analysis of Liquidity and Capital Resources for the fiscal year ended March 31, 2020

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

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

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

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

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

③ Borrowings

Our primary banking relationships are with MUFG Bank, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited.

As of March 31, 2020, our short-term borrowings consisting of bank overdrafts were JPY13,750 million. Our unused balance under our bank overdraft agreements, uncommitted, was JPY7,900 million in short-term borrowings as of March 31, 2020. As of March 31, 2020, 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 finance lease liabilities amounted to JPY18,063 million at March 31, 2020.

(5) Correspondence to COVID-19

For the year ended March 31, 2020, COVID-19 did not have a material impact on the Company's results of operations, financial positions, and cash flows. In the short term, we assume the business of ours would particularly be impacted by COVID-19. For more detailed information, please refer to please refer to “PART 1. Information on the Company, Item 2, Business Overview, 1.Management Policy, Business Environment and Challenges, (4) Issues that IIJ Group Faces.”

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 basic technology, we have conducted extensive research mainly on Internet traffic survey, measurement and analysis, Internet infrastructure technology and security. As for Internet traffic survey, measurement and analysis, we have been continuously cocooperating with the MIC and other ISPs from 2004 on evaluating domestic Internet traffic vocume as well as its trend. Recent works includes a report on how COVID-19 impacted Internet traffic which has received favorable reviews. This kind of research is not only valuable to us in constructing network architecture, but also valuable world wide as a rare research output which we believe is a great contribution to ICT. 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, 2020, 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 eSIM and SoftSIM(*), 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, 2020, research and development expenses, which were in relation to network services and systems integration business segment, were JPY438 million, decreased by 1.9% 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, 2020 were JPY15,150 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 JPY10,452 million and investments in software such as service and back office system-related software was JPY4,698 million.

The capital expenditures described above include the following: purchase of assets of JPY7,749 million which were paid with cash on hand, and acquisition of assets made by entering into finance leases of JPY7,401 million.

For the fiscal year ended March 31, 2020, 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, 2020 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)	5,748,480	1,337,453	3,407,068	15,514,650	15,214,824	43,277,574	2,068

(Notes)
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 and Shiroi data center. IIJ didn't own land or building which were material for the purpose of business. For the fiscal year ended March 31, 2020, total rent expenses including for our headquarters amounted JPY6,057,618 thousand.
3. Figures of carrying amount are based on Japan GAAP.

(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 GlobalSolutions Inc. (Chiyoda-ku, Tokyo)	Network services and SI business	Office equipment and communication equipment etc.	21,688	595,846	132,050	158,526	908,110	444
Trust Networks Inc. (Chiyoda-ku, Tokyo)	ATM operation Business	Office equipment and communication equipment etc.	―	157,559	110,092	498,540	766,191	11
IIJ Engineering Inc. (Chiyoda-ku, Tokyo)	Network services and SI business	Office equipment and communication equipment etc.	122,463	338,934	69,400	2,366	533,163	475

(Notes)
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. Figures of carrying amount are based on Japan GAAP.

(3) Overseas Subsidiaries

Company Name (Location)	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	Total	
IIJ America Inc. (New York, U.S.A)	Network services and SI business	Office equipment and Communication equipment etc.	82,335	371,921	3,562	457,818	46
IIJ Europe Limited (London, the United Kingdom)	Network services and SI business	Office equipment and Communication equipment etc.	279,964	31,179	875	312,018	42

(Notes)
1. The amount includes the right-of-use assets.Consumption tax is not included
2. The number of employees indicates the total number of full-time and contract workers.
3. Figures of carrying amount are based on IFRS.

3 Planned Capital Investments and Disposals of Property

IJJ 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 disposals of major property and equipment as of March 31, 2020 were as follows.

(1) New construction of major property and equipment

Company Name (Location)	Segment	Details of facilities and equipment	Total planned investment		Supposed capital resource	Start and Completion date etc.	
			Total (thousands of yen)	Amount already paid (thousands of yen)		Start	Completion
Data Center etc. (Shiroi-shi, Chiba, etc.)	Network services and SI business	Communication equipment, Sever and System development etc.	6,000,000	—	Cash	April 2020	March 2021
Data Center etc. (Shiroi-shi, Chiba, etc.)	Network services and SI business	Communication equipment, Sever and System development etc.	7,500,000	—	Lease	April 2020	March 2021
Data Center (Shiroi-shi, Chiba.)	Network services and SI business	Addition in Data center Modules, etc.	2,800,000	—	Cash and Lease	April 2020	March 2021

(2) Disposals 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, 2020)	Number of shares issued as of the filing date (shares) (June 30, 2020)	Stock exchange on which IIJ is listed or authorized financial instruments firms association	Description
Common stock	46,734,600	46,734,600	Tokyo Stock Exchange (the first section)	The number of shares constituting a unit is 100.
Total	46,734,600	46,734,600	—	—

(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)*	88 [88] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share)	Common stock 17,600 [17,600]　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 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 :JPY1,297.72 Amount of capitalization :JPY648.86 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)*	88 [88] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share)*	Common stock, 17,600 [17,600] 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 : JPY1,593.81 Amount of capitalization : JPY796.905 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)*	70 [70] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share)*	Common stock, 14,000 [14,000] 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 : JPY3,236 Amount of capitalization : JPY1,618
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)*	101 [101] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share)*	Common stock, 20,200 [20,200] 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 : JPY2,114 Amount of capitalization : JPY1,057
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) *	134 [134] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share) *	Common stock 26,800 [26,800] 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 : JPY1,847 Amount of capitalization : JPY923.5
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) *	144 [144] Note 1
Type of stock and number of shares subject to stock acquisition rights (Share) *	Common stock, 28,800 [28,800] 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 : JPY1,801 Amount of capitalization : JPY900.5
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) *	155 [155] Note 1
Type of stock and number of shares subject to stock acquisition rights (Share) *	Common stock, 31,000 [31,000] 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 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 : JPY1,687 Amount of capitalization : JPY843.5
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) *	155 [155] Note 1
Type of stock and number of shares subject to stock acquisition rights (Share) *	Common stock, 31,000 [31,000] 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 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 : JPY1,739 Amount of capitalization : JPY869.5
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) *	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 13, 2019 to July 12, 2049
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares (JPY)	Price of issuing shares : JPY1,774 Amount of capitalization : JPY887
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

#10 Stock Acquisition Rights

Date of resolution	June 24, 2020
Class and number of person for subscription rights to shares	7 Full-time Directors and 14 Executive Officers
Number of stock acquisition rights outstanding (Number)	138 Notes 1 and 5
Type of stock and number of shares subject to stock acquisition rights (Share)	Common stock 27,600 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 11, 2020 to July 10, 2050
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 FY2019 (March 31, 2020). For the items changed during the period from March 31, 2020 to May 31, 2020, the contents described in [ ] are as of the end of the month previous to the filing. No other contents changed from March 31, 2020.

(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).

$$\text{Number of Shares Granted after adjustment} = \text{Number of Shares Granted before adjustment} \times \text{Ratio of share split or share consolidation}$$

   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 filing date of this document, 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)
July 1, 2015 (Note)	10,400	46,711,400	9,642	22,970,278	9,641	9,690,961
April 3, 2017 (Note)	2,400	46,713,800	2,305	22,972,583	2,305	9,693,266
April 2, 2018 (Note)	7,600	46,721,400	6,907	22,979,490	6,909	9,700,175
July 1, 2019 (Note)	13,200	46,734,600	11,909	22,991,399	11,908	9,712,083

(Note) Increased by exercise of stock acquisition rights

(5) Composition of Shareholders

As of March 31, 2020

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		Individual and others (Note)	Total	
					Non-individuals	Individuals			
Number of shareholders (persons)	—	35	26	63	183	5	4,448	4,760	—
Number of shares held (units)	—	104,855	1,456	178,429	117,592	18	64,896	467,246	10,000
Percentage of shares held (%)	—	22.44	0.31	38.19	25.17	0.00	13.89	100.00	—

(Note) Of 1,650,950 shares of treasury stock, 16,509 units (equivalent to 1,650,900 shares) are included in “Individual and others,” and 50 shares are included in “Number of shares less than one unit.”

(6) Major Shareholders

As of March 31, 2020

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	22.39
NTT Communications Corporation	3-1 Otemach 2-chome, Chiyoda-ku, Tokyo	2,040,000	4.52
The Master Trust Bank of Japan, Ltd. (Trust account) (Note 2)	11-3 Hamamatsu-cho 2-chome, Minato-ku, Tokyo	1,957,400	4.34
ITOCHU Techno-Solutions Corporation	2-5 Kasumigaseki 3-chome, Chiyoda-ku, Tokyo	1,952,000	4.33
Koichi Suzuki	Chiyoda-ku, Tokyo	1,835,300	4.07
Japan Trustee Services Bank, Ltd (Trust account) (Note 2)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	1,669,500	3.70
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 account 9) (Note 2)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	993,900	2.20
GOLDMAN, SACHS & CO. REG (Standing proxy: Goldman Sachs Japan Co., Ltd.)	200 West Street New York, NY, USA (Roppongi Hills Mori Tower , 10-1 Roppongi 6-chome Minato-ku, Tokyo)	904,336	2.01
KS Holdings Inc. (Note 3)	5-3 Nishi-Kanda 3-chome, Chiyoda-ku, Tokyo	810,000	1.80
Total	—	23,530,436	52.18

(Notes)

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. KS Holdings Inc. is a wholly owned and controlled (indirect) by Mr. Koichi Suzuki.
4. Dalton Investments L.L.C. (“Dalton”) filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on May 22, 2019. According to the filing, Dalton owned 2,949,600 shares of common stock of IIJ as of May 17, 2019, representing 6.31% of the total at that point. Dalton also filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on April 30, 2020. According to the filing, Dalton owned 1,975,500 shares of common stock of IIJ as of April 24, 2020, representing 4.23% of the total at that point. Their holdings were not verified based on the shareholder record as of March 31, 2020, therefore, Dalton and their holdings are not included in the above list.
5. Global Alpha Capital Management Ltd. (“Global Alpha”) filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on March 15, 2019. According to the filing, Global Alpha owned 2,838,926 shares of common stock of IIJ as of March 12, 2019, representing 6.08% of the total at that point. Global Alpha also filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on June 11, 2020. According to the filing, Global Alpha owned 2,326,180 shares of common stock of IIJ as of June 9, 2020, representing 4.98% of the total at that point. Their holdings were not verified based on the shareholder record as of March 31, 2020, therefore, Global Alpha and their holdings are not included in the above list.
6. There were 1,650,950 shares of treasury stock, which were not included in the above table.

(7) Information on Voting Rights

① Issued shares

As of March 31, 2020

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)	45,073,700 shares of common stock	450,737	—
Shares Representing Less than One Unit	10,000 shares of common stock	—	—
Number of Issued Shares	46,734,600 shares of common stock	—	—
Total Number of Voting Rights	—	450,737	—

② Treasury Stock

As of March 31, 2020

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, 2020	39	133
Treasury stock acquired for the period from April 1, 2020 to June 29, 2020	—	—

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

Classification	Fiscal year ended March 31, 2020		Period from April 1, 2020 to June 29, 2020	
	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	1,650,950	—	1,650,950	—

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, 2020, IIJ paid total cash dividend of JPY27.00 per share of common stock, which consists of a cash dividend of JPY13.50 per share of common stock as an interim dividend and a cash dividend of JPY13.50 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, 2020.

Date of resolution	Total cash dividends (Thousands of yen)	Dividend per Shares (Yen)
The Meeting of the Board of Directors on November 8, 2019	608,630	13.50
The General Meeting of Shareholders on June 24, 2020	608,629	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 and five outside directors). IIJ's Representative Directors consists of 2 directors, Chairman and President. 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 five 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, Shingo Oda (outside director), Toshinori Iwasawa, Tadashi Okamura (outside director), Takashi Tsukamoto (outside director), Shinobu Umino (outside director) and Kazuo Tsukuda (outside director).

(2) Board of Company Auditors

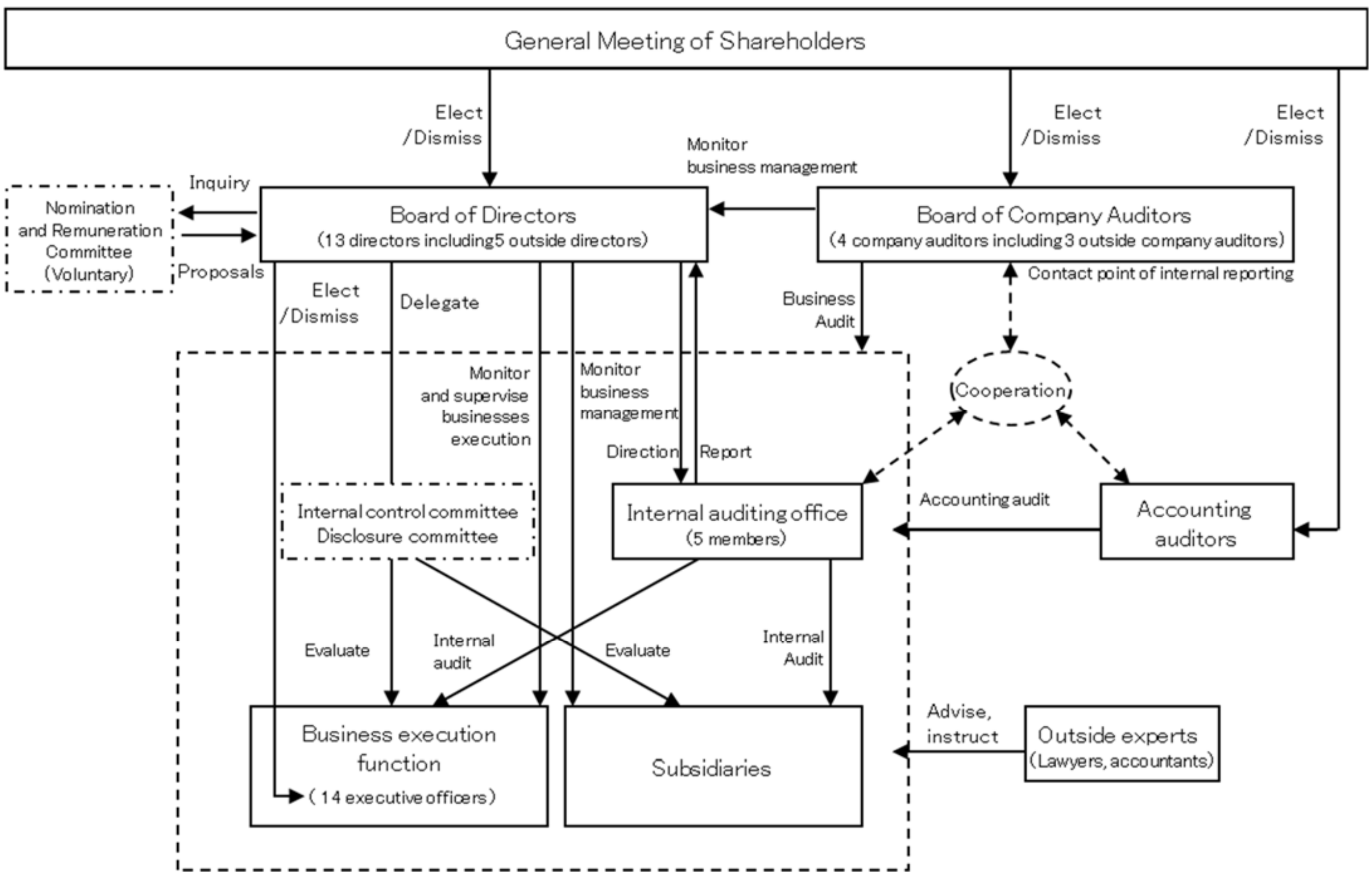
IIJ's board of company auditors holds ordinary meetings every month and extraordinary meetings when needed in order to supervise business executions by the directors. In addition, by associating with our Internal Auditing Office, IIJ's board of company auditors shares information necessary for the audits. As of the filing date of this document, IIJ's board of company auditors consists of four auditors: Kazuhiro Ohira (full-time, outside company auditor/chairman), Masako Tanaka, Takashi Michishita (outside company auditor) and Koichi Uchiyama (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 IIJ Board 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, Shingo Oda (outside director), Tadashi Okamura (outside director), Takashi Tsukamoto (outside director) and Shinobu Umino (outside director) and Kazuo Tsukuda (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 Sep. 1983 Dec. 1992 Apr. 1994 Mar. 1996 Nov. 1996 Sep. 1997 Feb. 1998 Apr. 2004 Aug. 2007 Jun. 2008 Sep. 2010 Jun. 2013 Dec. 2016 Jun. 2017 Jan. 2018 Jun. 2019	Joined Japan Management Association President and Representative Director of Applied Research Institute, Inc. Director at the establishment of IIJ President, Representative Director and Chief Executive Officer of IIJ IIJ America Inc. Chairman of the Board (Current position) President and Representative Director of IIJ Technology Inc. President and Representative Director of Internet Multifeed Co. (Current position) President and Representative Director of Netcare Inc. (Currently, IIJ Engineering Inc.) Chairman and Representative Director of IIJ Technology Inc. Director of Taihei Computer Co., Ltd. (Currently, Trinity Inc.) (Current position) Director of IIJ Innovation Institute Inc. (Current position) Director of IIJ Global Solutions Inc. (Current position) Chairman, Representative Director and Chief Executive Officer of IIJ (Current Position) Chairman and Representative Director of JOCDN Inc. (Current position) Chairman of Telecom Services Association (Current position) Director of DeCurret Inc. (Current position) Chairman and Representative Director of IIJ Engineering Inc. (Current position)	(Note 3)	1,836,126
Representative Director/ President	Chief Operating Officer	Eijiro Katsu	June 19, 1950	Apr. 1975 Jun. 1995 Jul. 1997 Jul. 2007 Jul. 2009 Jul. 2010 Aug. 2012 Nov. 2012 Jun. 2013 Jun. 2014 Jan. 2018	Joined Ministry of Finance (“MOF”) Director, Foreign Exchange and Money Market Department, International Finance Bureau, MOF Budget Examiner of Budget Bureau, MOF Director-General of the Financial Bureau, MOF Director-General, Budget Bureau, MOF Vice Minister of Finance Retired from MOF Joined IIJ as Special Advisor President, Representative Director and Chief Operating Officer of IIJ (Current position) Outside Auditor of The Yomiuri Shimbun (Current position) Director of DeCurret Inc. (Current position)	(Note 3)	35,626

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)	(Note 4)	60,124
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. (Currently, IIJ Protech Inc.) (Current position) Division Director of Financial Division (Current position) Director of DeCurret Inc. (Current position)	(Note 4)	13,341
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)	(Note 3)	2,482

Position	Responsibility	Name	Date of birth	Brief personal records		Current term expires	Number of shares owned
Managing Director	Chief Technology Officer	Junichi Shimagami	Apr. 17, 1967	Apr. 1990	Joined Nomura Research Institute, Ltd.	(Note 3)	9,841
				Sep. 1996	Joined IIJ		
				Aug. 2003	General Manager of Network Operation and Management Department, Network Management Division, of IIJ		
				Jun. 2005	Director of INTERNET Multifeed CO. (Current position)		
				Apr. 2006	General Manager of Service Operation Department, Network Service Division, of IIJ		
				Apr. 2007	Division Director of Network Service Division of IIJ		
				Jun. 2007	Director of IIJ		
				Apr. 2010	Executive Managing Officer and Division Director of Service of IIJ		
				Apr. 2015	Senior Executive Managing Officer, Division Director of Network Division and CTO of IIJ		
				Jun. 2015	Director and CTO of IIJ		
				Apr. 2016	Director, CTO and Division Director of Technology Unit of IIJ		
				Oct. 2019	Director of Grape One Co., Ltd. (Current position)		
				Jun. 2020	Managing Director, CTO and Division Director of Technology Unit of IIJ (Current position)		
Director	Chief Information Officer, Division Director of Corporate Planning Division	Naoshi Yoneyama	Nov. 25, 1965	Apr. 1990	Joined Sumitomo Bank, Ltd. (Currently, Sumitomo Mitsui Banking Corporation)	(Note 3)	20,000
				Oct. 1998	Joined IIJ		
				Apr. 2012	Executive Officer and Division Director of Technology Departmernts of IIJ		
				Dec. 2014	Director of Ryukosha Netware Inc. (Currently, IIJ Protech Inc.) (Current position)		
				Apr. 2015	Executive Managing Officer and Division Director of Technology, General Manager of Corporate Planning Department of IIJ		
				Apr. 2016	Executive Managing Officer and Division Director of Corporate Planning Division of IIJ		
				Dec. 2016	Director of JOCDN Inc.		
				Jun. 2018	Senior Executive Managing Officer, Division Director of Corporate Planning Division of IIJ		
				Jun.2019	Director, Division Director of Corporate Planning Division of IIJ (Current position)		
				Jun.2020	Director of JOCDN Inc. (Current position)		

Position	Responsibility	Name	Date of birth	Brief personal records		Current term expires	Number of shares owned
Director		Shingo Oda (Note 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)	(Note 4)	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)	(Note 3)	1,524
Director		Tadashi Okamura (Note 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)	(Note 3)	124

Position	Responsibility	Name	Date of birth	Brief personal records	Current term expires	Number of shares owned
Director		Takashi Tsukamoto (Note 1)	Aug. 2, 1950	Apr. 1974 Joined The Dai-Ichi Kangyo Bank, Ltd. (Currently, Mizuho Bank, Ltd.) 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)	(Note 3)	1,206
Director		Shinobu Umino (Note 1)	Aug. 4, 1952	Apr. 1975 Joined Nippon Telegraph and Telephone Public Corporation 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) Chief Executive Adviser of NTT COMWARE Corporation. (Current position)	(Note 4)	341
Director		Kazuo Tsukuda (Note 1)	Sep.1, 1943	Apr. 1968 Joined Mitsubishi Heavy Industries, Ltd Jun. 1999 Director of the same Apr. 2002 Managing Director of the same Jun 2003 President and Representative Director of the same Apr. 2008 Chairman of the Board, Representative Director of the same Apr. 2013 Chief Executive Adviser of the same Jun. 2019 Special Advisor of the same (current position) Jun. 2020 Director of IIJ (Current position)	(Note 4)	0

Position	Responsibility	Name	Date of birth	Brief personal records		Current term expires	Number of shares owned
Full-time Company Auditor		Kazuhiro Ohira (Note 2)	Dec. 26, 1957	Apr. 1980 Apr. 2008 Jun. 2010 Jun. 2010 Jun. 2010 Sep. 2010 Nov. 2011 Dec. 2014 Dec. 2016 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. (Currently, IIJ Protech Inc.) Company Auditor of JOCDN Inc. (Current position) Company Auditor of DeCurret Inc. (Current position)	(Note 6)	0
Full-time Company Auditor		Masako Tanaka	Apr. 4, 1958	Dec. 1992 May, 1993 Feb. 2002 Jun. 2003 Apr. 2014 Jun. 2018 Jun. 2020	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) Company Auditor of IIJ Protech Inc. (Current position)	(Note 5)	173,200
Company Auditor		Takashi Michishita (Note 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)	(Note 6)	0
Company Auditor		Koichi Uchiyama (Note 2)	Apr. 29, 1960	Oct. 1984 Oct. 2017 Jun. 2020	Admitted, Tohmatsu Awoki & Co. (currently, Deloitte Touche Tohmatsu LLC) President of Aisan・Advisory LLC (Current position) Company Auditor of IIJ (Current Position)	(Note 6)	0
Total							2,153,935

(Notes)
1. Shingo Oda, Tadashi Okamura, Takashi Tsukamoto, Shinobu Umino and Kazuo Tsukuda are outside directors.
2. Kazuhiro Ohira, Takashi Michishita and Koichi Uchiyama 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, 2019 and expires at the close of the Annual General Meeting of Shareholders for the year ending March 31, 2021.
4. The term of office of the Directors starts upon election at the Annual General Meeting of Shareholders for the year ended March 31, 2020 and expires at the close of the Annual General Meeting of Shareholders for the year ending March 31, 2022.
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, 2017 and expires at the close of the Annual General Meeting of Shareholders for the year ending March 31, 2021.
6. The term of office of the Director starts upon election at the Annual General Meeting of Shareholders for the year ended March 31, 2020 and expires at the close of the Annual General Meeting of Shareholders for the year ending March 31, 2024.

Executive Officers:

The following table provides information about our executive officers as of June 30, 2020.

Name	Position and Major Responsibility
Koichi Kitamura	Senior Executive Officer Deputy Director of Business Unit
Masayoshi Tobita	Managing Executive Officer Division Director of Administrative Division, Division Director of Business Unit Management Division
Kiyoshi Ishida	Managing Executive Officer Division Director of Product Division, Director in charge of Research Laboratory
Makoto Ajisaka	Managing Executive Officer Division Director of Enterprise Business Division 5, Division Director of Technology Unit Service Business Planning 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
Seiji Okita	Managing Executive Officer Division Director of Professional Services Division 1
Yasumitsu Iizuka	Executive Officer Deputy Division Director of Global Business Division President and CEO of IIJ America Inc.
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
Shigeo Yabuki	Executive Officer Division Director of MVNO Division

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 2020. 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.

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 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】

① Status of Company auditors' audit

IJ is a company with the Board of Company Auditors and such board is one of the important elements of our internal control system. The Board of Compnay Auditors is consisted of four company auditors. Of four, two are full-time Company Auditors and perform daily business audits, share and discuss such audits. All four Company Auditors attend the Board of Directors to audit directors' business execution status. For accounting audits, after agreeing on audit plan as well as exchange inquiry, 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 observe the construction as well as operating status of overall internal control through exercising their rights to authorize and operate a whistleblower hotline system for the reporting of improper behavior such as accounting fraud. Further, to conduct these activities effectively and appropriately, IIJ makes an effort to appoint financial and legal experts as Company auditors.

a. Number of the Board of Company Auditors held and status of attendance

During the fiscal year ended March 31, 2020, the board of company auditors was held 15 times and each auditor's attendance was as follows:

Position	Name	Number of attendance, etc.
Full-time, outside company auditor	Kazuhira Ohira	15 times
Full-time company auditor	Masako Tanaka	15 times
Part-time company auditor	Yasuhiro Akatsuka	15 times, Certified Public Accoutant
Part-time company auditor	Takashi Michishita	13 times, attorney at law

b. Main discussion topics at the board of company auditor

They include the followings: regulations related to the board of company auditor as well as company auditor, audit policy, audit plan, audit method, determination about each company auditor's duties, share of discussion about daily audit work, evaluation, selection, agreement on remuneration about the accounting auditor, preliminary reveiew on items reported to the Board of Directors.

c. Audit activity of full-time company auditors

Full-time company auditors understand business execution status through followings: conduct job audit based on annual audit plan as well as company auditor audit standards, attend important meetings such as the Board of Directors, interview directors as well as executive officers on regular and non-regular basis, and co-work with internal control office.

③ Status of Internal audit

IIJ has an internal auditing office consisting of five 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

KPMG AZSA LLC

b. Years of audit continuity

One year

c. Names of the certified public accoutants who executed the engagement

Designated unlimited liability partner, engagement partner: Hiroto Kaneko

Designated unlimited liability partner, engagement partner: Yusuke Matsumoto

d. Composition of assistants in relation to the audit engagement:

Certified public accountant: 10 persons

Members who passed the exams for Certified Public Accountants: 5 persons

Others: 14 persons

e. 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.

f. 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.

g. Change of accounting auditor

IIJ's accounting auditor has been changed as below.

27th business term (consolidated and non-consolidated): Deloitte Touche Tohmatsu LLC

28th business term (consolidated and non-consolidated): KPMG AZSA LLC

Below items are from the Extraordinary report.

(1) Names of accounding auditors related to the change

① Name of the incoming accounting auditor: KPMG AZSA LLC

② Name of the outgoing accounting auditor: Deloitte Touche Tohmatsu LLC

(2) Date of change

June 27, 2019 (date of the 27th Ordinary General Meeting of Shareholders)

(3) Latest appointment date of the outgoing accounding auditor

June 28, 2018

(4) Opinions in the audit reports prepared by the outgoing accounting auditor in the latest three years

Not applicable

(5) Reasons for background of the decision to changes

The term of engagement with Deloitte Touche Tohmatsu LLC was expired at the conclusion of the 27th Ordinary General Meeting of Shareholders which was held on June 27, 2019. The Board of Auditors judged it is an appropriate timing to select a new accounting auditor by considerin appropriately 23 years of auditing period with Deloitte Touche Tohmatsu LLC as well as the timing of planned voluntary adoption of IFRS. The Board of Auditors selected KPMG AZSA LLC as a candidate for a new accouting auditor as the Board conluded that KPMG AZSA LLC is qualified for the role based on comprehensive reviews such as their auditing policy including their audit implementation, the assessment system in preparation IFRS opinions and the quality control system including assurance of independence.

(6) Opinions of the outgoing accounting auditor, etc. concerning the statements in audit reports and other documents regarding the reasons and background of the decision described in (5)

IIJ received a reply stating that there is no particular opinion.

④ Remuneration for the accounting auditor, etc.

a. Remuneration for the accounting auditor

Category	For FY2018		For FY2019	
	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	104	23	65	3
Consolidated subsidiaries	16	—	10	—
Total	120	23	75	3

［Details of non-audit services］

The amounts for FY2018 were paid to Deloitte Touche Tohmatsu LLC and the non-audit services were related to advisory services for IFRS implementation.

The amounts for FY2019 were paid to KPMG AZSA LLC and the non-audit services were related to advisory services for IFRS 16 "Leases" adaption.

b. Remuneration for the accounting auditor's network

(Excluding "a. Remuneration for the accounting auditor of the Company")

Category	For FY2018		For FY2019	
	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	—	—	—	12
Consolidated subsidiaries	—	1	—	1
Total	—	1	—	13

［Details of non-audit services］

The amount for FY2018 that IIJ's consolidated subsidiary paid to the accounting auditor's network (Deloitte Touche Tohmatsu) were related to training services.

The amount for FY2019 that IIJ paid to the accounting auditor's network (KPMG) were mainly related to tax advisory services and the amount that IIJ's consolidated subsidiary paid to the network were mainly related to transfer pricing taxation 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

Based on the resolution at the General Meeting of Shareholders, the Company sets upper limits on compensation for company directors and company auditors. The maximum aggregate amount of compensation for company directors and company auditors were approved at JPY500 million and JPY100 million per year respectively at the Ordinary General Meeting of Shareholders held on June 27, 2008 (the number of company directors and company auditors were 14 including four outside directors, and four including three outside company auditors respectively at the Shareholders' Meeting resolution). At the date of this filling, within the maximum aggregate amount of compensation, company directors' compensation is comprised of fixed cash remuneration, performance-linked remuneration (provision as a restricted stock, excluding outside directors) and stock compensation-type stock options (excluding outside directors), and the number of company directors is 13 including five outside directors. Company auditors' compensation is comprised of fixed cash remuneration, and the number of company auditors is four including three outside auditors.

Processes of determining compensation is as follows. As for company directors' compensation, representative directors who are delegated by the Board of Directors submit compensation proposals to the Nomination and Remuneration Committee, consisting of two representative directors, four independent outside directors and one outside director. The committee discusses the proposal, and the amount, etc. of company directors' compensation is determined. As for company auditors' compensation, full-time company auditors submit compensation proposals to the Board of Company Auditors, and the Board of Company Auditors determines the amount of remuneration.

The Company has allocated stock compensation-type stock options, as a substitution for the retirement allowance, to company directors (except for part-time and outside directors) and executive officers from June 2011, for the purpose of providing a mid- to long-term incentives to them and further promoting sharing of value with shareholders. The amount of stock compensation-type stock options to be allocated is calculated based on their respective positions, which is equivalent to one to two times as much as their respective monthly fixed cash remuneration.

The Company has implemented to provide restricted stock remuneration to company directors (except for part-time and outside directors) and executive officers as performance-linked bonuses from June 2020, for the purpose of providing a mid- to long-term incentives to them and further promoting sharing of value with shareholders. The total number of shares of common stock issued or disposed of by the Company shall be 40,000 shares or less per year and transfer restriction period shall be from the disposal date to the point in time when the company directors or the executive officers resigns from their positions both a director and an executive officer of the Company. The amount of restricted stock remuneration to be allocated is calculated based on the evaluation methodology using the consolidated financial results and targets; revenues and operating profit, and is determined equivalent to between zero and four times as much as their respective monthly fixed cash remuneration. As for FY2019, the Company decided to provide the restricted stock remuneration, which is equivalent to 2 times as much as their respective monthly fixed cash remuneration, in consideration of the consolidated financial results; revenues of JPY204.5 billion and operating profit of JPY8.2 billion, compared to the consolidated financial targets; revenues of JPY204.0 billion and operating profit of JPY7.0 billion.

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 Options	Retirement Benefit	Others	
Directors (Excluding outside directors)	301	266	35	-	-	8
Company Auditor (Excluding outside company auditors)	15	15	-	-	-	1
Outside Directors and Outside Company Auditors	38	38	-	-	-	8

(Note) As for restricted stock remuneration, restricted stock of JPY43 million is to be allotted in July 2020 as performance-linked bonuses for FY2019 financial results. The amount was not included in the above renumeration amount since its introduction was approved at the Ordinary General Meeting of Shareholders held on June 24, 2020.

③ **Directors who received an annual compensation of JPY100 million or more**

The director who received an annual compensation of JPY100 million or more was Eijiro Katsu, and the total annual amount of his compensation was JPY113 million (fixed salary of JPY85 million, stock options of JPY14 million, and restricted stock remuneration as performance-linked bonuses for FY2019 of JPY14 million). Within these, the amount of restricted stock remuneration was not included in the above table in “② Breakdown of aggregate remuneration by director and Company auditor category, remuneration type, and number of applicable directors and company auditors” since its introduction was approved at the Ordinary General Meeting of Shareholders held on June 24, 2020.

(5)【Status of Shareholding】

① Standard and policy on classification of shareholdings

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

② Shareholdings for purposes other than solely for investment (listed shares)

a. Methods to verify our policy and rationality and details of verification by the Board of Directors regarding the suitability of holding individual issues

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 solely for 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.

b. Number of stocks and balance sheet value

	Number of stocks (Number)	Balance sheet value (Millions of Yen)
Unlisted shares	7	374
Shares other than unlisted shares	4	4,985

(Increase of shares in FY2019)

Not applicable.

(Decrease of shares in FY2019)

	Number of stocks (Number)	Total amount of stocks sold (Millions of Yen)
Unlisted shares	3	14
Shares other than unlisted shares	1	2,622

c. Number of shares, balance sheet value and other information of specified equity securities and deemed holdings of equity securities by each issuer.

Issuer's name	As of March 31, 2020 Number of shares (Shares) Balance sheet value (Millions of Yen)	As of March 31, 2019 Number of shares (Shares) Balance sheet value (Millions of Yen)	Purpose and quantitative contribution of shareholding	Whether the issuer holds IIJ's shares
SIGMAXYZ Inc.	1,980,000 2,461	1,980,000 2,057	The Company has continuous transactions with the issuer. Considering the business relationship, the Company continues to hold shares of this company. (*1)	No
Recruit Holdings Co., Ltd.	750,000 2,097	1,500,000 4,742	The Company has continuous transactions with the issuer and the Company continues to hold shares of this company. (*2)	No
PIA Corporation	150,000 335	150,000 689	The Company has continuous transactions with the issuer and the Company continues to hold shares of this company. (*2)	No
Future Innovation Group Inc.	400,000 92	400,000 130	The Company has continuous transactions with the issuer and the Company continues to hold shares of this company. (*2)	No

(Notes)
1. Profit from dividends and ongoing business transactions did not exceed our cost of capital.
2. Profit from dividends and ongoing business transactions exceeded our cost of capital.

④ **Shares solely for the purpose of investment**

	As of March 31, 2019 (Millions of Yen)		As of March 31, 2020 or for FY2019 (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	2	2	3	179	0	—	170

⑤ **Shares reclassified to held for purposes other than solely for investment in FY2019**

Not applicable.

⑥ **Shares reclassified from held for purposes other than solely for investment to held solely for the purpose of investment in FY2019**

Issuer's name	Number of stocks (Number)	Balance sheet value (Millions of Yen)
NexTone Inc.	70,000	177

Item 5. Consolidated Financial Statements

① 【Consolidated Statements of Financial Position】

	Notes	March 31, 2019	March 31, 2020
		Thousands of yen	Thousands of yen
Assets			
Current Assets			
Cash and cash equivalents	6	31,957,789	38,671,734
Trade receivables	7,23,31,34	33,375,808	32,982,448
Inventories	8	3,403,192	2,476,477
Prepaid expenses	23	8,522,554	9,696,856
Other financial assets	10,16,23,31,34	1,581,212	2,670,885
Other current assets		130,900	92,027
Total Current Assets		78,971,455	86,590,427
Non-current Assets			
Tangible assets	11	33,136,059	17,399,863
Right-of-use assets	16	—	50,560,361
Goodwill	12	6,082,472	6,082,472
Intangible assets	12	18,818,707	18,280,247
Investments accounted for using the equity method	33	4,837,867	4,827,287
Prepaid expenses	23	8,037,298	7,777,997
Other investments	9,31	11,402,365	9,186,646
Deferred tax assets	13	176,587	742,857
Other financial assets	10,16,23,31,34	5,293,547	4,706,321
Other non-current assets		532,839	369,782
Total non-current assets		88,317,741	119,933,833
Total assets		167,289,196	206,524,260

	Notes	March 31, 2019	March 31, 2020
Liabilities and Equity		Thousands of yen	Thousands of yen
Liabilities			
Current liabilities			
Trade and other payables	14,31, 34	21,962,239	18,287,546
Borrowings	15,31	12,750,000	15,580,000
Income taxes payable		1,139,460	2,283,707
Contract liabilities	23	5,368,075	5,897,674
Deferred income		93,738	88,901
Other financial liabilities	15,16, 31,34	7,031,690	17,845,194
Other current liabilities	19	4,559,005	5,703,623
Total current liabilities		52,904,207	65,686,645
Non-current liabilities			
Borrowings	15,31	14,000,000	12,170,000
Retirement benefit liabilities	17	3,488,501	3,984,880
Provisions	18	731,257	753,518
Contract liabilities	23	5,002,147	5,991,807
Deferred income		516,345	479,097
Deferred tax liabilities	13	421,396	136,536
Other financial liabilities	15,16, 31,34	12,151,346	36,305,781
Other non-current liabilities	19	954,387	958,879
Total non-current liabilities		37,265,379	60,780,498
Total liabilities		90,169,586	126,467,143
Equity	20		
Share capital		25,518,712	25,530,621
Share premium		36,225,775	36,271,395
Retained earnings	22	12,335,035	16,500,993
Other components of equity	21,29	4,088,704	2,669,501
Treasury shares		(1,896,788)	(1,896,921)
Total equity attributable to owners of the parent		76,271,438	79,075,589
Non-controlling interests		848,172	981,528
Total equity		77,119,610	80,057,117
Total liabilities and equity		167,289,196	206,524,260

② 【Consolidated Statements of Profit or Loss】

	Notes	For the year ended March 31, 2019	For the year ended March 31, 2020
		Thousands of yen	Thousands of yen
Revenues			
Network services		118,626,271	121,998,722
System integration		69,652,389	78,393,435
ATM operation business		4,151,525	4,081,358
Total revenues	5,23,34	192,430,185	204,473,515
Cost of sales			
Cost of network services		(101,257,454)	(102,092,065)
Cost of systems integration		(59,871,900)	(67,584,141)
Cost of ATM operation business		(2,326,133)	(2,203,884)
Total cost of sales	24,34	(163,455,487)	(171,880,090)
Gross Profit		28,974,698	32,593,425
Selling, general and administrative expense	24,34	(22,652,036)	(24,075,759)
Other operating income	25	47,008	223,215
Other operating expenses	26	(346,683)	(515,709)
Operating Profit		6,022,987	8,225,172
Finance income	27	570,004	349,965
Finance expenses	27,34	(431,763)	(610,370)
Share of profit (loss) of investments accounted for using equity method	33	(318,244)	(805,780)
Profit (loss) before tax		5,842,984	7,158,987
Income tax expense	13	(2,144,196)	(2,965,453)
Profit (loss) for the year		3,698,788	4,193,534
Profit (loss) for the year attributable to:			
Owners of the parent		3,520,566	4,006,773
Non-controlling interests		178,222	186,761
Total		3,698,788	4,193,534
Earnings per share			
Basic earnings per share (yen)	28	78.11	88,88
Diluted earnings per share (yen)	28	77.80	88,49

③ 【Consolidated Statements of Comprehensive Income】

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

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, 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)	—	—	—	—
Total transactions with owners		6,908	49,839	(864,352)	(352,449)	(4)	(1,160,058)	(48,550)	(1,208,608)
Balance, March 31, 2019		25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610

For the year ended March 31, 2020

	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, 2019		25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610
Cumulative impact of adopting IFRS 16 (Note)	3	—	—	(33,728)	—	—	(33,728)	—	(33,728)
Comprehensive income									
Profit for the year		—	—	4,006,773	—	—	4,006,773	186,761	4,193,534
Other comprehensive income	21	—	—	—	(9,208)	—	(9,208)	—	(9,208)
Total comprehensive income		—	—	4,006,773	(9,208)	—	3,997,565	186,761	4,184,326
Transactions with owners									
Issuance of common stock		11,909	(11,895)	—	—	—	14	—	14
Purchase of treasury stock	20	—	—	—	—	(133)	(133)	—	(133)
Dividends paid	22	—	—	(1,217,082)	—	—	(1,217,082)	(53,405)	(1,270,487)
Stock-based compensation	30	—	57,515	—	—	—	57,515	—	57,515
Transfer from other components of equity to retained earnings	21	—	—	1,409,995	(1,409,995)	—	—	—	—
Total transactions with owners		11,909	45,620	192,913	(1,409,995)	(133)	(1,159,686)	(53,405)	(1,213,091)
Balance, March 31, 2020		25,530,621	36,271,395	16,500,993	2,669,501	(1,896,921)	79,075,589	981,528	80,057,117

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

⑤ 【Consolidated Statements of Cash Flows】

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

	Notes	For the year ended March 31, 2019	For the year ended March 31, 2020
		Thousands of yen	Thousands of yen
Cash flows from investing activities			
Purchases of tangible assets		(7,080,371)	(7,196,952)
Proceeds from sales of tangible assets		3,070,798	2,771,031
Purchases of intangible assets		(5,400,380)	(4,641,964)
Proceeds from sales of intangible assets		1,579	273,773
Purchase of investments accounted for using equity method		—	(867,842)
Purchases of other investments		(44,013)	(136,429)
Proceeds from sales of other investments		565,477	2,750,245
Payments for leasehold deposits and guarantee deposits		(20,848)	(196,716)
Proceeds from collection of leasehold deposits and guarantee deposits		56,224	21,527
Payments for refundable insurance policies		(56,355)	(56,340)
Proceeds from subsidies		230,000	—
Other		(9,700)	14,833
Cash flows from investing activities		(8,687,589)	(7,264,834)
Cash flows from financing activities			
Proceeds from long-term borrowings	35	—	(1,500,000)
Net increase (decrease) in short-term borrowings	35	2,000,000	2,500,000
Proceeds from other financial liabilities	35	697,863	1,473,000
Payments of other financial liabilities	35	(7,322,252)	(20,556,388)
Dividends paid		(1,216,801)	(1,217,082)
Other		(48,560)	(53,551)
Cash flows from financing activities		(5,889,750)	(19,354,021)
Effect of exchange rate changes on cash and cash equivalents		62,778	(60,951)
Net increase (decrease) in cash and cash equivalents		10,637,785	6,713,945
Cash and cash equivalents, beginning of year	6	21,320,004	31,957,789
Cash and cash equivalents, end of year	6	31,957,789	38,671,734

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 and joint ventures.

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

2. BASIS OF PREPARATION

(1) Compliance with IFRS

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.

(2) Basis of Measurement

As stated in Note 3 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. 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 owns 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 consolidated financial statements include investments accounted for using the equity method with different reporting dates, as it is impractical to set them on the same date as the Company’s reporting date due to relationships with other shareholders and other factors. Most of the reporting dates of the companies to which the equity method is applied are December 31. Adjustments have been made to the impact of significant transactions or events that occurred between the Company’s reporting date and the reporting dates of the companies to which the equity method is applied.

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, if it is not classified as a financial assets measuered at fair value throught profit or loss(“FVTPL”), it is measured at the fair value add transaction costs directly arrtibutable to the acquisition of financial assets. Transaciton costs of financial assets measured at fair value through profit or loss are recognized in profit or loss.

Financial assets held are categorized as (ⅰ) financial assets measured at amortized cost, (ⅱ) debt-based financial assets measured at fair value through other comprehensive income (“FVTOCI”), (ⅲ) equity-based financial assets measured at FVTOCI or (ⅳ) 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

At initial recognition, 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.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.Gain or loss on disposal of investments, foreign exchange gain or loss, and impairment losses are recognized in profit or loss during the period

(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, unless it is clear that it is refund on investment.

(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, allowance for credit losses of the trade receivables is measured at an amount equal to the lifetime expected credit losses, regardless of whether credit risk has increased significantly since initial recognition. The allowance for the past due trade receivables is calculated based on the estimation of the individual expected lifetime credit losses of the financial instrument based on such as past bad debt records and future recoverable amount. For the non-past due trade receivables, they are grouped as they consist of many customers, the expected credit losses are measured collectively based on such as past bad debt records.

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 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.The company continues to control the transferred financial assets, it recognized the assets and related liabilities to the extent that it has a continuing involvement.

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 they are classified financial liabilities measured at amortized cost.At initial recognition, all financial liabilities are measured at fair value, but are deducted from directly attributable transaction costs.

(b) Subsequent measurement

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.

(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 50 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 consist of software and customer relationships. Software is amortized using straight-line method over the estimated useful lives, costomer relationships are amortized using the sum-of-the-years-digits method over the estimated useful lives.

Estimated useful lives of major intangible assets are as follows:

- Software 5 to 7 years
- Customer relationships 15 to 19 years

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

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

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

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

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

Lessor accounting is substantially the same as in accordance with IAS 17.

During the year ended March31, 2019, the Company classified lease arrangements as finance leases when the lessor transfers substantially all the risks and rewards incidental to ownership of an asset to the Company. Leased assets are initially recognized at the lower of the fair value of the asset and the present value of the minimum lease payments. After initial recognition, the leased assets are depreciated using the straight-line method for the estimetaed useful life if the transfer of ownership is reasonably certain by the end of the lease term, or for the shorter of the lease term and the estimated useful life of the leased asset if it is reasonably uncertain. Lease arrangements other than finance leases are classified as operating leases and are not reported in the Company’s consolidated statements of financial position. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

(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 of disposal. 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 adopts IFRS 15 and recognizes revenue based on the following five-step model:

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

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

(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 d. Tax rates and tax laws applied to calculation of tax amounts are enacted or substantively enacted by the annual closing date.

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

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

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

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

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

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

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

(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) Changes in significant accounting policies

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

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

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

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

For leases that were previously classified as finance leases as a lessee under the principles of IAS17, the carrying amount of right-of-use assets and other financial liabilities as of the date of initial application has been measured based on the carrying amount of right-of-use assets and other financial liabilities, respectively, under IAS 17 as of the day immediately before that date.

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

(Thousands of yen)

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

As a result of the adoption of IFRS 16, the Company recorded right-of-use assets of ¥38,988,207 thousand and other financial liabilities of ¥39,037,445 thousand at April 1, 2019. In addition, retained earnings decreased by ¥33,728 thousand primarily due to having adopted the method where the cumulative effect of applying this standard is recognized at the date of initial application.

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

Also, the cash flows from operating activities increased by ¥12,141,420 thousand and the cash flows from the financing activities decreased by the same amount.

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

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

(19) Accounting standards and interpretations issued but not adopted

The new standards and interpretations that have been newly issued or changed by the date of the approval of the consolidated financial statements don’t have significant effects on the Company’s consolidated financial statements

(20) Changes in Presentation

Certain reclassifications have been made to the prior period to conform to the current fiscal year presentations. “Contract liabilities,” which had been previously included in “Deferred income”, is separately disclosed to increase clarity of the disclosure. To reflect this change of presentation, the consolidated financial statements of the prior period is relassed.

As the result, “Deferred income” ¥5,461,813 thousand in the current liabilities of the statements of financial position as of March 31, 2019 is reclassed into “Contract liabilities” ¥5,368,075 thousant and “Deferred income” ¥93,738 thousand. “Deferred income” ¥5,518,492 thousand in the non-current liabilities of the statements of financial position as of March 31, 2019 is reclassed into “Contract liabilities” ¥5,002,147 thousand and “Deferred income” ¥516,345 thousand

Also, “Increase (decrease) in deferred income” ¥2,883,178 thousand in the cash flows from operating activities of the consolidated statements of cash flows for the year ended March 31, 2019 is reclassed into “Increase (decrease) in contract liabilities” ¥2,725,069 thousand and “Increase (decrease) in deferred income” ¥158,109 thousand.

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, 2019 and 2020 are as follows:

・Estimated useful lives of tangible and intangible assets (Note 3. Significant accounting policies)
・Impairment of non-financial assets (Note 12. Goodwill and intangible assets)
・Valuation allowance for deferred tax asset (Note 3. 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. Significant accounting policies)
・Timing of the fulfillment of performance obligations (Note 23. Revenues)

(Additional information)

Due to the request from govments for self-restraints cavsed, by COVID-19. We assumed that ATM-revenues decrease by the pause of ATM’s operations located in amusement facilities and the acquisition of contracts of mobile services do not increase as expected by the temporary closure of large commercial complexes. In addition, system construction revenies(one-time revenues) may be lower as we plan.

On the other hand, we expect the recurring revenues for enterprises, such as network services, should continue to increase to a certain level despite of the economic douwnturn. We established a plan considering a decline in sales caused by COVID-19 in the first half of next consolidated year, and a gradual recovery from second half of next year, and in preparing the financial statements, we examined the valuation allowances for deferred tax assets and the impairments of non-financial assets based on the plan.

It is difficult to include all the impacts into the plan at present, and in case the assumed plan change depending on when COVID-19 disaster ends, the decision of valuation allowance for deferred tax assets and impairments of non-financial asset may be affected and our financial position and operating results for next consolidated fiscal year may also be affected.

5. 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 defined two reportable segments: "Network service and systems integration business" and "ATM operation business." Network service and systems integration business is provided comprehensively with Network services, which is composed of Internet connectivity services, WAN services, outsourcing services, and systems integration service. ATM operation business constructs and operates ATMs and network systems for them, and receives a commission for each bank withdrawal transaction when a customer uses its serviced ATMs.

(2) Revenue and results of reportable segments

Segment information for the Company is as follows:

For the year ended March 31, 2019

	Reportable segments			
	Network service and systems integration business	ATM operation business	Adjustments (Note 1)	Consolidated Statements of Profit or Loss
	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 taxes				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. Operating income is used as segment operating profit.

For the year ended March 31, 2020

	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	200,392,157	4,081,358	—	204,473,515
Intersegment transactions	287,262	—	(287,262)	—
Total revenue	200,679,419	4,081,358	(287,262)	204,473,515
Segment operating profit	6,728,906	1,644,629	(148,363)	8,225,172
Finance income				349,965
Finance expense				(610,370)
Share of profit (loss) of investments accounted for using the equity method				(805,780)
Profit before tax				7,158,987
Segment assets	202,169,680	6,354,580	(2,000,000)	206,524,260
Other				
Depreciation and amortization	28,169,534	350,597	—	28,520,131

(Note 1) Intersegment transactions are based on market price. Operating income is used as segment operating profit.

(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:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Trade notes receivables	—	218,643
Trade receivables	33,375,808	32,366,683
Contract assets	—	397,122
total	33,375,808	32,982,448

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

8. INVENTORIES

The components of inventories are as follows:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Merchandise	1,457,735	1,538,262
Work in progress	1,945,457	938,215
Total	3,403,192	2,476,477

Inventories sold and recorded as cost of sales were ¥95,839,614 thousand and ¥103,720,213 thousand as of March 31, 2019 and 2020, respectively

Write-down of inventories recorded as cost of sales for the years ended March 31, 2019 and 2020 were ¥9,684 thousand and ¥3,886 thousand, respectively.

9. OTHER INVESTMENTS

The components of other investments are as follows:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Debt-based financial assets measured at FVTOCI		
Debt securities	114,010	111,510
Equity-based financial assets measured at FVTOCI		
Equity securities	8,998,398	6,651,687
Financial assets measured at FVTPL		
Investment trust and other securities	2,199,303	2,348,265
Other	90,654	75,184
Total	11,402,365	9,186,646

10. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost		
Other receivable	555,221	1,665,198
Guarantee deposit	3,140,672	3,331,561
Loans receivable	37,117	35,068
Other	34,469	17,864
Lease receivable	2,998,914	2,225,600
Contract assets	108,366	101,915
Total	6,874,759	7,377,206
Current assets	1,581,212	2,670,885
Non-current assets	5,293,547	4,706,321
Total	6,874,759	7,377,206

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, 2018	2,038,726	6,369,328	44,068,582	2,265,796	3,922,040	58,664,472
Acquisitions	21,265	640,859	9,028,887	388,117	2,735,517	13,784,736
Transfer	—	—	786,115	183,976	(970,091)	—
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
Impact of adopting IFRS 16	—	—	(29,516,742)	—	—	(29,516,742)
April 1, 2019	2,059,991	6,987,518	18,078,581	2,723,780	3,689,745	33,539,615
Acquisitions	—	175,715	1,709,276	321,612	5,038,255	7,244,858
Transfer	—	2,980,882	1,000,788	263,762	(4,245,432)	—
Sales and disposal	—	(209,443)	(2,923,781)	(290,954)	(3,079,364)	(6,503,542)
Exchange differences on translation of foreign operations	—	(6,236)	(63,493)	(60,028)	(3,326)	(133,083)
Other	—	19,336	(23,638)	49,364	(23,989)	21,073
March 31, 2020	2,059,991	9,947,772	17,777,733	3,007,536	1,375,889	34,168,921

(Note1) The Company adopts IFRS 16 "Leases" since this fiscal year. The leased assets included for the year ended March 31, 2019 are trasnsferred to right-of-use assets from the year ended March 31, 2020.

(Note2) "Sales and disposal" of the construction in progress includes the amount recorded as transfer to leased assets or right-of-use assets through sale and leaseback transactions. The transfered amount for the year ended March 31, 2019 is included in the "Acquisitions" of machinery, the amount for the year ended March 31, 2020 is transferred to the right-of-use assets.

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, 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)
Impact of adopting IFRS 16	—	—	14,227,650	—	—	14,227,650
April 1, 2019		(2,259,020)	(11,689,091)	(1,744,537)	—	(15,692,648)
Depreciation	—	(580,873)	(3,214,214)	(578,818)	—	(4,373,905)
Sales and disposal	—	125,936	2,885,471	269,207	—	3,280,614
Exchange differences on translation of foreign operations	—	3,613	53,173	40,480	—	97,266
Other	—	(45,018)	(21,693)	(13,674)	—	(80,385)
March 31, 2020	—	(2,755,362)	(11,986,354)	(2,027,342)	—	(16,769,058)

(Note1) The Company adopts IFRS 16 "Leases" since this fiscal year. The leased assets included for the year ended March 31, 2019 are trasnsferred to right-of-use assets from the year ended March 31, 2020.
(Note2) 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
March 31, 2019	2,059,991	4,728,498	21,678,582	979,243	3,689,745	33,136,059
March 31, 2020	2,059,991	7,192,410	5,791,379	980,194	1,375,889	17,399,863

(2) Leased assets

Carrying amounts of leased assets under finance leases included in tangible assets is as follows:

	Machinery
	Thousands of yen
March 31, 2019	15,289,092

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, 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
Impact of adopting IFRS 16	—	(644,921)	—	—	(644,921)
April 1, 2019	6,202,754	40,207,885	6,175,193	590,720	46,973,798
Acquisitions	—	4,989,865	—	—	4,989,865
Sales and disposal	—	(1,696,795)	—	—	(1,696,795)
Exchange differences on translation of foreign operations	—	(5,486)	—	—	(5,486)
Other	—	(9,241)	—	—	(9,241)
March 31, 2020	6,202,754	43,486,228	6,175,193	590,720	50,252,141

(Note) The Company adopts IFRS 16 "Leases" since this fiscal year. The leased assets included for the year ended March 31, 2019 are trasnsferred to right-of-use assets from the year ended March 31, 2020.

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, 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)
Impact of adopting IFRS 16	—	140,075	—	—	140,075
April 1, 2019	(120,282)	(24,800,039)	(3,859,645)	(253)	(28,659,937)
Amortization	—	(4,434,925)	(346,222)	(69)	(4,781,216)
Sales and disposal	—	1,454,856	—	—	1,454,856
Exchange differences on translation of foreign operations	—	5,162	—	—	5,162
Other	—	9,241	—	—	9,241
March 31, 2020	(120,282)	(27,765,705)	(4,205,867)	(322)	(31,971,894)

(Note1) The Company adopts IFRS 16 "Leases" since this fiscal year. The leased assets included for the year ended March 31, 2019 are trasnsferred to right-of-use assets from the year ended March 31, 2020.

(Note2) 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
March 31, 2019	6,082,472	15,912,692	2,315,548	590,467	18,818,707
March 31, 2020	6,082,472	15,720,523	1,969,326	590,398	18,280,247

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 ¥1,058,299 thousand and ¥921,826 thousand as of March 31, 2019 and 2020, respectively. Those of IIJ Global Solutions amounted to ¥1,257,249 thousand and ¥1,047,500 thousand as of March 31, 2019 and 2020, respectively. The remaining amortization periods for customer relationships are from 7 to 10 years.

(2) Leased assets

Carrying amounts of leased assets under finance leases included in intangible assets is as follows:

	Software
	Thousands of yen
March 31, 2019	504,846

(3) 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	March 31, 2019		March 31, 2020	
		Thousands of yen		Thousands of yen	
		Goodwill	Intangible assets	Goodwill	Intangible assets
Network service and systems integration business	Network and SI CGU	5,846,921	590,054	5,846,921	590,054
ATM operating business	Trust CGU	235,551	-	235,551	—
Total		6,082,472	590,054	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 weighted average cost of capital of each cash-generating unit. The discount rate of Network and SI CGU for the fiscal year ended March 31, 2019 and 2020 were 7.8% and 8.2%, respectively. The discount rate of Trust CGU for the fiscal year ended March 31, 2019 and 2020 were 12.3% and 10.2%, respectively. In estimating cash flows, cash flows after three years for the fiscal year ended March 31, 2020 are calculated based on the growth rate of 0.0%(Tsust CGU) and 1.0%(Network and SI CGU), 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, 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					
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	82,441	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
Contract liabilities	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 liability					
Equity instruments at FVTOCI	2,371,441	—	(460,279)	(573)	1,910,589
Debt instruments at FVTOCI	4,453	—	580	—	5,033
Customer relationship	841,351	(111,953)	—	—	729,398
Tax deduction of goodwill	760,281	—	—	—	760,281
Trademark	425,539	(117,526)	(7,075)	—	300,938
Investments in equity method investee	181,607	10,714	—	(580)	191,741
Financial assets measured at fair value through net income	139,417	47,477	—	—	186,894
Other	4,724,089	(171,288)	(466,774)	(1,153)	4,084,874
total	2,371,441	—	(460,279)	(573)	1,910,589

For the year ended March 31, 2020

	March 31, 2019	recognized through profit or loss	recognized through other comprehensive income	Other	March 31, 2020
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Deferred tax assets					
Leases	44,994	65,857	—	15,510	126,361
Accrued expenses	853,417	80,065	—	—	933,482
Retirement and pension cost	1,094,612	51,520	67,092	—	1,213,224
Allowance for credit losses	97,455	(33,620)	—	—	63,835
Depreciation	727,724	65,902	—	—	793,626
Loss carryforward	6,610	404	—	—	7,014
Impairment loss on telephone rights	76,340	(7,323)	—	—	69,017
Accrued enterprise tax	166,689	55,903	—	—	222,592
Asset retirement obligation	12,726	1,295	—	—	14,021
Contract liabilities	329,974	(62,882)	—	—	267,092
Other	429,524	28,797	—	—	458,321
total	3,840,065	245,918	67,092	15,510	4,168,585
Deferred tax liabilities					
Equity instruments at FVTOCI	1,910,589	—	55,211	(724,311)	1,241,489
Debt instruments at FVTOCI	5,033	—	(765)	—	4,268
Customer relationships	729,398	(126,785)	—	—	602,613
Tax deduction of goodwill	760,281	(21,723)	—	—	738,558
Investments in equity method investee	300,938	319,842	4,089	—	624,869
Financial assets measured at fair value through net income	191,741	(64,289)	—	—	127,452
Other	186,894	34,754	—	1,367	223,015
total	4,084,874	141,799	58,535	(722,944)	3,562,264

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:

	March 31, 2019	March 31, 2020
	thousands of yen	thousands of yen
Deductible temporary differences	—	2,099,997
Tax loss carryforwards	934,621	717,839
Total	934,621	2,817,836

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:

	March 31, 2019	March 31, 2020
	thousands of yen	thousands of yen
Tax loss carryforwards		
1st year	221,357	161,533
2nd year	172,873	167,159
3rd year	179,065	60,925
4th year	95,375	9,771
5th year	19,788	3,995
6th year and after	246,163	314,456
total	934,621	717,839

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 ¥7,615,617 thousand and ¥9,701,898 thousand as of March 31, 2019 and 2020, 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, 2019 and 2020 were as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Income tax expenses		
Current taxes	2,767,053	3,069,572
Deferred taxes	(622,857)	(104,119)
Total	2,144,196	2,965,453

(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 31.5% for the years ended March 31, 2019 and 2020, 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, 2020 is as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Amount computed by using normal Japanese statutory tax rate	1,840,540	2,255,081
(Adjustment)		
Expenses not deductible for tax purpose	107,147	131,818
Changes in deductible temporary differences and tax loss carryforwards for which deferred tax assets are not recognized	2,469	510,209
Enterprise tax-not based on income	347,778	334,221
Tax credit	(90,265)	(237,157)
Other	(63,473)	(28,719)
Income tax expense as reported	2,144,196	2,965,453

14. TRADE AND OTHER PAYABLES

The components of trade and other payables are as follows:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Trade payable	7,809,736	5,978,444
Other payable	14,152,231	12,309,000
Other	272	102
Total	21,962,239	18,287,546

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:

	March 31, 2019	March 31, 2020	Average rate	Repayment due
	Thousands of yen	Thousands of yen	%	
Financial liabilities measured at amortized cost				
Short-term borrowings	11,250,000	13,750,000	0.41	
Current portion of long-term borrowings	1,500,000	1,830,000	0.43	
Long-term borrowings	14,000,000	12,170,000	0.50	20121～2024
Account payable—non-current	623,420	661,154	0.66	2021～2024
Deposit payable	344,510	203,212	—	
Other	181,244	632,121	—	
Lease obligations	18,033,862	52,654,488	—	
Total	45,993,036	81,900,975		
Current liabilities	19,781,690	33,425,194		
Non-current liabilities	26,151,346	48,475,781		
Total	45,933,036	81,900,975		

(Note 1) The average rate is the weighted average interest rate for the balance as of March 31, 2020.

(Note 2) Repayment due indicates the balance on March 31, 2020.

(Note 3) During the year ended March31, 2019, the Company classified lease arrangements as financial leases when the lessor transfers substantially all the risks and rewards incidental to ownership of an asset to the Company. In this case, the breakdown of lease obligations are as follows:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Financial leases	18,033,862	18,062,638
Other leases	—	34,591,850

(Note 4) 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 centers and other equipment.

(1) Lease transactions as lessee

(For the year ended March 31, 2019)

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
	March 31, 2019	March 31, 2019
	Thousands of yen	Thousands of yen
Within 1 year	6,750,855	6,519,332
2 to 5 years	11,749,832	11,514,530
More than 5 years	—	—
Total	18,500,687	18,033,862
Future finance expenses (equivalent to interest)	(466,825)	—
Present value of lease obligations	18,033,862	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:

	March 31, 2019
	Thousands of yen
Within 1 year	9,380,433
2 to 5 years	1,895,717
More than 5 years	28,969
total	11,305,119

Total future minimum proceeds from non-cancellable sublease contracts as of March 31, 2019 are ¥159,772 thousand. These future proceeds are not deducted from minimum payments above.

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

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

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

(For the year ended March 31, 2020)

① Amount recorded in the consolidated statements of profit or loss and cash flows

Amount recorded in the consolidated statements of profit or loss and cash flows are as follows:

	For the year ended March 31, 2020
	Thousands of yen
Depreciation by type of right-of-use asset	
Buildings and structures	12,175,716
Machinery	6,974,105
Software	164,899
Total Depreciation	19,314,720
Interest expense on lease obligations	418,880
Expense on short term and small aseet leases	1,595,854
Sublease revenues	(195,119)
Total lease expense (Net amount)	21,134,335
Total cash outflow on lease	21,529,198

Gains or losses from sale and leaseback transactions are not significant.

② Right-of-use assets

Carrying amounts and increases of right-of-use assets are as follows:

	Buildings and structures	Machinery	Software	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
March 31, 2020	34,440,946	15,728,415	391,000	50,560,361

The amount of increase in the right-of-use asset for the years ended March 31, 2020 is ¥15,593,687 thousand.

③ Lease obligations

The balance by date of lease obligations is presented in Note 31. FINANCIAL INSTRUMENTS (5) Liquidity risk management.

④ Nature of leasing activities

The Company, as lessee, mainly leases office premises, network operation centers and data centers. A lease contract is entered into for a term from 1 year to 10 years, and it may include options for extension which are mostly for one year or for the term equivalent to the original contract. Most of the lease contracts, as lessee, include the repeated option for extension and the option for early cancellation if the lessee notifies lessor within six months prior to the end of the lease term, but in the measurement of the lease obligations only the lease payments for the period when it is reasonably certain that the option will be exercised are included. The Company exercises these options when it is necessary to utilize the buildings for business.

(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	
	March 31, 2019	March 31, 2020	March 31, 2019	March 31, 2020
	千円	千円	千円	千円
Within 1 year	952,204	936,542	925,674	918,063
1 to 2 years	903,063	901,801	885,882	892,762
2 to 3 years	868,322	359,492	860,284	357,275
3 to 4 years	326,013	36,060	324,487	35,680
4 to 5 years	2,588	21,909	2,587	21,820
Total	3,052,190	2,255,804	2,998,914	2,225,600
Unearned finance income (Correspond to interest)	(53,276)	(30,204)	—	—
Present value of investment in lease	2,998,914	2,225,600	2,998,914	2,225,600

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.

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:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Present value of defined benefit obligations funded in plan assets	4,635,563	5,076,709

Fair value of plan assets	(4,470,683)	(4,663,108)
Total	164,880	413,601
Present value of unfunded defined benefit obligations	3,323,621	3,571,279
Net amount	3,488,501	3,984,880

② Defined benefit obligations

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

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Opening balance	7,853,402	7,959,184
Service cost (Note 1)	761,641	757,247
Interest expense (Note 2)	57,394	43,802
Remeasurement		
Actuarial gains or losses arising from changes in demographic assumptions	(604,162)	7,186
Actuarial gains or losses arising from changes in financial assumptions	225,203	(7,914)
Actuarial gains or losses arising from adjustment of results	(132,130)	127,302
Benefit paid (Note 3)	(209,772)	(238,819)
Other	7,608	—
Closing balance	7,959,184	8,647,988

(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 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 14 years and 14 years for the years ended March 31, 2019 and 2020, respectively.

③ Plan assets

Changes in fair value of plan assets are as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Fair value of plan assets at the beginning of year	4,128,768	4,470,683
Interest income	32,183	26,364
Changes in remeasurement		
Return on plan assets (excluding interest gain)	64	(98,061)
Contribution from the Company	436,416	380,174
Benefit paid	(126,748)	(116,052)
Fair value of plan assets at the end of the year	4,470,683	4,663,108

(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 ¥375,655 thousand to the defined benefit plan in the year ending March 31, 2021.

④ Major components of plan assets

Changes in fair value of plan assets are as follows:

	March 31, 2019			March 31, 2020		
	Quoted prices in active markets		Total	Quoted prices in active markets		Total
	Exists	N/A		Exists	N/A	
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Equity instruments						
Japanese equity	621,688	—	621,688	623,525	—	623,525
U.S. equity	193,797	—	193,797	205,880	—	205,880
Other equity—developed countries	101,341	—	101,341	99,027	—	99,027
Subtotal	916,826	—	916,826	928,432	—	928,432
Debt instruments						
Japanese government and municipal bonds	—	814,531	814,531	—	826,902	826,902
Japanese corporate bonds—investment grade	—	321,516	321,516	—	273,687	273,687
U.S. government bonds	—	172,886	172,886	—	186,772	186,772
Other government bonds—developed countries	—	199,256	199,256	—	185,142	185,142
Residential mortgage-backed	—	27,078	27,078	—	24,243	24,243
subtotal	—	1,535,267	1,535,267	—	1,496,746	1,496,746
Other (*)	—	1,876,050	1,876,050	—	2,052,955	2,052,955
Cash and cash equivalents	142,540	—	142,540	184,975	—	184,975
Total	1,059,366	3,411,317	4,470,683	1,113,407	3,549,701	4,663,108

(*) 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, 2021 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:

	March 31, 2019	March 31, 2020
	%	%
Discount rate	0.6	0.7

(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	March 31, 2019	March 31, 2020
		Thousands of yen	Thousands of yen
Discount rate	Increase by 0.5 points	(475,851)	(513,651)
	Decrease by 0.5 points	511,342	551,399

(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, 2019 and 2020 were ¥ 157,868 thousand and ¥168,643 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, 2019 and 2020 are as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Contribution	116,582	123,827

Expected contributions for the year ended March 31, 2021 amounted to ¥124,388 thousand.

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

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Plan assets	248,188,774	245,472,358
Pension liabilities(Policy reserve and unamortized past service liabilities)	203,695,726	200,586,962
Net amount	44,493,048	44,885,396
Ratio of contribution of the Company and its subsidiaries to the total contribution to the plan	1.79%	1.88%

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, 2019 and 2020 were ¥15,476 thousand and ¥19,780 thousand, respectively.

18. PROVISIONS

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

	Asset retirement obligations
	Thousands of yen
March 31, 2019	731,257
Increase	19,336
Periodic interest expenses in discount calculation	2,925
March 31, 2020	753,518

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:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Compensated absence	1,698,810	1,832,547
Accrued bonus	480,441	507,944
Consumption taxes payable	1,554,119	2,403,988
Accrued expenses	990,542	1,110,275
Other	789,480	807,748
Total	5,513,392	6,662,502
Current liabilities	4,559,005	5,703,623
Non-current liabilities	954,387	958,879
Total	5,513,392	6,662,502

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, 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
Changes in the year	—	13,200	11,909	45,620
March 31, 2020	75,520,000	46,734,600	25,530,621	36,271,395

(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, 2018	1,650,909	(1,896,784)
Changes	2	(4)
March 31, 2019	1,650,911	(1,896,788)
Changes	39	(133)
March 31, 2020	1,650,950	(1,896,921)

(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, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Financial assets measured at fair value thorough other comprehensive income		
Balance, beginning of the year	5,118,318	4,116,076
Changes	(999,932)	233,037
Transfer to the retained earnings	(2,310)	(1,567,536)
Balance, end of the year	4,116,076	2,781,577
Remeasurements of net defined benefit pension plans		
Balance, beginning of the year	—	—
Changes	350,139	(157,541)
Transfer to the retained earnings	(350,139)	157,541
Balance, end of the year	—	—
Exchange differences on translation of foreign operations		
Balance, beginning of the year	(65,856)	(18,479)
Changes	47,377	(92,375)
Balance, end of the year	(18,479)	(110,854)
Share of other comprehensive income in equity method investees		
Balance, beginning of the year	6,493	(8,893)
Changes	(15,386)	7,671
Balance, end of the year	(8,893)	(1,222)
Total other component of equity	4,088,704	2,669,501

22. DIVIDENDS PAID

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

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

For the year ended March 31, 2020

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 27, 2018 Ordinary General Meeting of Shareholders	608,452	13.50	March 31, 2019	June 28, 2019
November 8, 2019 Board of Directors	608,630	13.50	September 30, 2019	December 6, 2019

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

For the year ended March 31, 2020

Resolution date	Total dividends	Dividends per share	Record date	Effective date
June 24, 2020 Ordinary General Meeting of Shareholders	608,629	13.50	March 31, 2020	June 25, 2020

23. REVENUE

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

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
(1) Network services	118,626,271	121,998,722
Internet connectivity services (enterprise)	33,185,825	36,634,972
Wan services	30,990,637	26,971,521
Outsourcing services	29,215,514	32,337,243
Internet connectivity services (consumer)	25,234,295	26,054,986
(2) Systems integration	69,652,389	78,393,435
Systems construction	27,882,017	31,975,911
Systems operation and maintenance	41,770,372	46,417,524
(3) ATM operation business	4,151,525	4,081,358
Total	192,430,185	204,473,515

(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 the performance obligations of system construction services and hardware and software are recognized over the periods during which the performance obligations are fulfilled. The progress is measured by the input method (cost to cost method) based on the incurred cost.
- 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.

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 reportable segment is stated in Note 5. SEGMENTS.

(3) Contract assets and contract liabilities

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

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Contract assets	108,366	499,037
Contract liabilities	10,370,222	11,889,481

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 trade receivables and other financial Assets.

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.

Among the revenue recorded for the year ended March 31, 2020, ¥4,952,731 thousand were recognized from the balance of contract liabilities as of March 31, 2019.

(4) Transaction price allocated to remaining performance obligations

Transaction prices allocated to remaining performance obligations as of March 31, 2019 and 2020 were ¥27,158,173 thousand and ¥28,677,205 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:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Assets arising from costs of obtaining contracts	235,696	239,911
Assets arising from costs of fulfilling contracts	1,059,069	1,083,656
Total	1,294,765	1,323,567

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 of the current assets and non-current assets 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, 2019 and 2020 were ¥358,286 thousand and ¥436,823 thousand, respectively.

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

The components of costs of sales for the years ended March 31, 2019 and 2020 were as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Employee benefits	(14,791,928)	(16,371,428)
Depreciation and amortization	(14,327,998)	(25,664,251)
Outsourcing costs	(52,782,685)	(51,330,562)
Telecommunication expenses	(32,330,168)	(27,540,092)
Other	(49,222,708)	(50,973,757)
Total	(163,455,487)	(171,880,090)

The components of selling, general and administrative expenses for the years ended March 31, 2019 and 2020 were as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Employee benefits	(9,138,665)	(9,978,825)
Depreciation and amortization	(1,279,400)	(2,839,998)
Research and development	(446,283)	(437,686)
Commission	(3,580,925)	(3,761,736)
Other	(8,206,763)	(7,057,514)
Total	(22,652,036)	(24,075,759)

25. OTHER OPERATING INCOME

The components of other operating income for the years ended March 31, 2019 and 2020 were as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Gain on disposal of tangible assets	3,258	3,258
Commissions received	15,353	15,353
Rental income	—	45,496
Compensation income	—	77,000
Other	28,397	83,897
Total	47,008	223,215

26. OTHER OPERATING EXPENSES

The components of other operating expenses for the years ended March 31, 2019 and 2020 were as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Loss on disposal of tangible and intangible assets	(306,519)	(470,275)
Other	(40,164)	(45,434)
Total	(346,683)	(515,709)

27. FINANCE INCOME AND FINANCE EXPENSES

The components of finance income and finance expenses for the years ended March 31, 2019 and 2020 were as follows:

(1) Finance income

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Interest income		
Financial assets measured at amortized cost	48,888	52,641
Debt-based financial assets measured at FVTOCI	1,100	1,100
Dividend income		
Equity-based financial assets measured at FVTOCI	86,596	95,118
Foreign exchange gain	3,368	—
Other finance income		
Financial assets measured at FVTPL	398,636	185,349
Other	31,416	15,757
Total	570,004	349,965

(2) Finance expenses

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Interest expenses		
Financial liabilities measured at amortized cost	(123,389)	(146,469)
Lease obligations	(281,575)	(418,880)
Foreign exchange loss	—	(26,041)
Other finance expenses	(26,799)	(18,980)
Total	(431,763)	(610,370)

(3) Impairment loss on financial assets

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost	(153,420)	(90,002)

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, 2019 and 2020 were as follows:

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

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, 2019 and 2020 were as follows:

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 values 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)

For the year ended March 31, 2020

	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	289,983	—	289,983	55,211	234,772
Remeasurements of defined benefit pension plans	(224,633)	—	(224,633)	(67,092)	(157,541)
Subtotal	65,350	—	65,350	(11,881)	77,231
Items that may be reclassified to profit or loss:					
Exchange differences on translation of foreign operations	(92,375)	—	(92,375)	—	(92,375)
Net changes in fair value of financial assets measured through other comprehensive income	(2,500)	—	(2,500)	(765)	(1,735)
Share of other comprehensive income in equity method investees	11,760	—	11,760	4,089	7,671
Subtotal	(83,115)	—	(83,115)	3,324	(86,439)
Total	(17,765)	—	(17,765)	(8,557)	(9,208)

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, 2019 and 2020 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)	259,344	July 15, 2011 —July 14, 2041
2nd series (Board of Directors resolved on June 27, 2012)	July 13, 2012	104 (20,800)	318,562	July 14, 2012 —July 13, 2042
3rd series (Board of Directors resolved on June 26, 2013)	July 11, 2013	78 (15,600)	647,000	July 12, 2013 —July 11, 2043
4th series (Board of Directors resolved on June 25, 2014)	July 10, 2014	113 (22,600)	422,600	July 11, 2014 —July 10, 2044
5th series (Board of Directors resolved on June 26, 2015)	July 13, 2015	147 (29,400)	369,200	July 14, 2015 —July 13, 2045
6th series (Board of Directors resolved on June 24, 2016)	July 11, 2016	158 (31,600)	360,000	July 12, 2016 —July 11, 2046
7th series (Board of Directors resolved on June 28, 2017)	July 14, 2017	169 (33,800)	337,200	July 15, 2017 —July 14, 2047
8th series (Board of Directors resolved on June 28, 2018)	July 13, 2018	163 (32,600)	347,600	July 14, 2018 —July 13, 2048
9th series (Board of Directors resolved on June 27, 2019)	July 12, 2019	163 (32,600)	354,600	July 13, 2019 —July 12, 2049

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

	For the year ended March 31, 2019		For the year ended March 31, 2020	
	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	175,200	1	200,200	1
Granted	32,600	1	32,600	1
Lapse/Expiration	—	—	—	—
Exercised	(7,600)	1	(13,200)	1
Unexercised options outstanding at the end of the year	200,200	1	219,600	1
Exercisable options at the end of the year	167,600	1	187,000	1

(Note 1) The weighted average price of common stock at the date of exercise of the option during the years ended March 31, 2019 and 2020 was ¥2,120 and ¥2,020, respectively.

(Note 2) 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. As of March 31, 2020, the exercise price of unexercised stock options was ¥1 and the weighted average remaining contractual period was 25.95 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:

	8th series stock acquisition right (Resolved by the Board of Directors on June 28, 2018)	9th series stock acquisition right (Resolved by the Board of Directors on June 27, 2019)
Fair value at the date of grant	1,738 yen	1,773 yen
Share price at the date of grant	2,105 yen	2,141 yen
Exercise price	1 yen	1 yen
Expected volatility	49.193%	48.258%
Expected remaining life	15 years	15 years
Expected dividend yield	1.283%	1.261%
Risk-free rate	0.263%	0.060%

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, 2019 and 2020 were ¥56,740 thousand and ¥57,515 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:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Borrowings	26,750,000	27,750,000
Lease obligations	18,033,862	52,654,488
Cash and cash equivalents	31,957,789	38,671,734
Net liabilities	12,826,073	41,732,754
Equity	77,119,610	80,057,117

(Note) The Company adopted IFRS 16 "Leases" from fiscal year ending March 31, 2020. As a result the balance of lease obligations of the end of this fiscal year comprised ¥18,062,638 thousand (¥18,033,862 thousand for the previous fiscal year) on financial leases and ¥34,591,850 thousand (¥0 for the previous fiscal year) on other leases.

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:

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	624,525	—	—	—	624,525
Non-current assets					
Other investments	—	114,010	8,998,398	2,289,957	11,402,365
Other financial assets	3,142,954	—	—	—	3,142,954
	37,143,287	114,010	8,998,398	2,289,957	48,545,652

The table above does not include contract assets and lease receivables.

	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, 2020

	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	32,585,326	—	—	—	32,585,356
Other financial assets	1,711,265	—	—	—	1,711,265
Non-current assets					
Other investments	—	111,510	6,651,687	2,423,449	9,186,646
Other financial assets	3,338,426	—	—	—	3,338,426
	37,635,017	111,510	6,651,687	2,423,449	46,821,663

The table above does not include contract assets and lease receivables.

	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:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Marketable	7,619,096	5,163,326
Nonmarketable	1,379,302	1,488,361
	8,998,398	6,651,687

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

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Sygmaxyz Inc	2,057,220	2,461,140
Recruit holdings Co.,Ltd	4,741,500	2,097,000
E-net Co.,Ltd	420,296	476,621
Japan registry services Co.,Ltd	353,247	371,746
PIA corporation	688,500	334,500
Transaction media networks Inc.	193,953	230,525
NExTone Inc.	33,062	177,380
Other	510,620	502,775
	8,998,398	6,651,687

(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, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Fair value at the time of derecognition	60,668	2,636,690
Accumulated gain or loss on disposal	3,372	2,288,190

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, 2019 and 2020 were ¥2,310 thousand and ¥1,567,536 thousand, respectively.

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.

Of dividend income from equity-based financial instruments classified as to be measured at FVTOCI during the year ended March 31, 2020, the amount of dividend from the equity-based financial instruments that the Company held at the end date of the reporting period was ¥84,243 thousand and the amount from the equity-based financial instruments that the Company derecognized for the year ended March 31, 2020 was ¥10,875 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 considers the contomer fell into default when the possibility is low that the contomer repays all debts.

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

Allowance for credit losses on other financial assets are measured equally to the 12-month expected credit losses. Based on the same criteria as the trade receivables, if one or more events that adversely affect the estimated future cash flows of trade receivables have occurred, the trade receivable is deemed to be credit-impaired expected credit losses are measured for each individual receivable.

Also, the credit-impaired financial assets are directly amortized in case the whole or part of the asset proved to be non-recoverable as the result of credit investigation and decided to be directly amortized.

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 - not credit-impaired	Financial assets credit-impaired - credit-impaired	Total
	Thousands of yen	Thousands of yen	Thousands of yen
March 31, 2019	33,432,707	176,108	33,608,815
March 31, 2020	33,066,348	134,560	33,200,908

(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
March 31, 2019	6,874,453	—	59,096	6,933,549
March 31, 2019	7,383,118	—	20,160	7,403,278

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, 2019

(ⅰ) Trade receivables

Allowance for credit losses	Financial assets for which allowance for credit losses is constantly measured at lifetime expected credit losses - not credit-impaired	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
March 31, 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

For the year ended March 31, 2020

(ⅰ) Trade receivables

Allowance for credit losses	Financial assets for which allowance for credit losses is constantly measured at lifetime expected credit losses- not credit-impaired	Financial assets credit-impaired	Total
	Thousands of yen	Thousands of yen	Thousands of yen
March 31, 2019	61,332	171,675	233,007
Increases	72,380	—	72,380
Decreases(credits charged off)	(13,366)	(14,393)	(27,759)
Decreases(reversal)	(28,956)	(27,155)	(56,111)
Other	(3,057)	—	(3,057)
March 31, 2020	88,333	130,127	218,460

(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
March 31, 2019	—	—	58,790	58,790
Increases	—	—	376	376
Decreases(Credits charged off)	—	—	(23,693)	(23,693)
Other	—	—	(9,401)	(9,401)
March 31, 2020	—	—	26,072	26,072

(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:

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	1,159,283	645,345	167,633	146,182	83,040	83,040	34,043
Short-term borrowings	11,250,000	11,261,236	11,261,236	—	—	—	—	—
Long-term borrowings (including current portion)	15,500,000	15,752,739	1,572,395	1,895,260	5,216,444	1,534,288	2,024,725	3,509,627
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	69,945,905	42,192,070	7,648,975	9,218,757	3,370,259	2,662,453	3,543,670

Unused balance of capital call is an item payable on demand and is related to Investment trust and other securities.

March 31, 2020

	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	18,287,546	18,287,546	18,287,546	—	—	—	—	—
Other financial liabilities	1,496,487	1,506,708	833,001	478,156	83,040	83,040	20,760	8,711
Short-term borrowings	13,750,000	13,763,546	13,763,546	—	—	—	—	—
Long-term borrowings (ingluding current portion)	14,000,000	14,180,344	1,895,260	5,216,444	1,534,288	2,024,725	3,509,627	—
Lease obligations (including current portion)	52,654,488	53,814,113	17,374,624	9,709,776	7,056,468	5,137,645	3,960,453	10,575,147
Off-balance transactions								
Unused balance of capital call	—	2,077,984	—	—	—	—	—	—
Total	100,188,521	103,630,241	52,153,977	15,404,376	8,673,796	7,245,410	7,490,840	10,583,858

Unused balance of capital call is an item payable on demand and is related to Investment trust and other securities.

(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:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Foreign currency denominated monetary financial instruments		
U.S. dollars	2,287,433	2,982,396

Mainly Cash and cash equivalents.

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, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Potential effect on profit before tax		
U.S. dollars	(228,743)	(298,240)

(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. The breakdown of equity-based financial assets is as described in " (2) ②(ⅰ)Breakdown and principal names of equity-based financial instruments specified as to be measured at fair value through other comprehensive income".:

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Effect of increase (decrease) on other comprehensive income before income tax expenses	(761,910)	(516,333)

(9) Fair value of financial instruments

①Classification of fair value hierarchy by level

IFRS regulates the three levels of fair value hierarchy and inputs used for the fair value measurement are prioritized according to the observable availability. The contents of each inputs are as follows:

Level 1: quoted prices in active markets

Level 2: inputs other than quoted prices included in Level 1 that are observable either directly or indirectly

Level 3: unobservable inputs

②Financial instruments measured at fair value

The following table presents the Company's assets that are measured at fair value consistent with the fair value hierarchy.

Equity securities

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 equity interest in net asset which is added appropriated adjustments based on recent available information, and these financial assets are classified as Level 3.

Debt securities

Financial instruments which do not have quoted market price, assets measured using observable market data are classified as Level 2.

Investment trust and other securities

Financial instruments which do not have observable market data, the Company evaluates fair value by using equity interest in net asset which is added appropriated adjustments based on recent available information, and these financial assets are classified as Level 3.

The following table presents the Company's assets that are measured at fair value consistent with the fair value hierarchy

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

March 31, 2020

	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	―	111,510	―	111,510
Equity-based financial assets measured at FVTOCI				
Equity securities	5,163,326	―	1,488,361	6,651,687
Financial assets measured at FVTPL				
Investment trust and other securities	―	―	2,348,265	2,348,265
Other financial assets	―	75,184	―	75,184

Financial instruments classified as Level 3 are mainly composed of non-marketable securities and investment trusts. The valuations of these financial instruments are measured using valuation method with appropriate adjustment to our equity in net assets. The result of the valuations are reviewed and authorized by the appropriate authorized person.

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 existence or non-existence of the important transfers between the levels of fair value hierarchy are recognized, assuming that the transfers occurred at the end of each reporting periods.

③ Changes in financial assets classified as Level 3

Changes in financial assets classified as Level 3 during the years ended March 31, 2019 and 2020 were as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Equity securities		
Balance at the beginning of the year	1,245,232	1,379,302
Other comprehensive income (Note 1)	79,270	300,829
Purchase	100,000	－
Sale	(45,200)	(14,390)
Transfer from Level3 (Note 2)	－	(177,380)
Balance at the end of year	1,379,302	1,488,361

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Investment trust and other securities		
Balance at the beginning of the year	2,264,380	2,199,303
Profit or loss (Note 3)	395,719	126,074
Purchase	44,013	136,429
Sale	(504,809)	(113,541)
Balance at the end of year	2,199,303	2,348,265

(Note 1) 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."

(Note 2) Transfers from Level 3 are due to the listing on the stock exchange of an investee.

(Note 3) 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. Gain or loss included in profit or loss are due to changes in unrealized gain or loss on financial assets held at end of each reporting period.

③ Financial instruments not measured at fair value

Primary methods of measuring financial instruments not measured at fair value are as follows:

(i) Long-term borrowings and long-term lease obligations

Fair values of long-term borrowings and long-term lease obligations 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 not measured at fair value consistent with the fair value hierarchy.

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
Liabilities :					
Long-term borrowings (including current portion)	15,500,000	—	15,503,003	—	15,503,003
Long-term lease obligations	11,514,530	—	11,337,448	—	11,337,448

March 31, 2020

	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
Liabilities :					
Long-term borrowings (including current portion)	14,000,000	—	14,011,819	—	14,011,819

32. INVOLVEMENT IN SUBSIDIARIES

(1) Composition of the Group

Major subsidiaries as of March 31, 2020 are as follows:

Name	Location	Common stock (Thousands of yen)	Primary Business	Percentage of voting rights	
				March 31,2019	March 31,2020
IIJ Innovation Institute Inc.	Chiyoda-ku, Tokyo	75,000	R&D for Internet-related technology (Network and SI business segment)	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
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
Trust Networks Inc.	Chiyoda-ku, Tokyo	100,000	Operation of bank ATMs and ATMs networks (ATMs Operation Business segment)	80.6	80.6
Net Chart Japan, Inc.	Kouhoku-ku, 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
IIJ Protech 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
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
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
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
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

(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

There is no gain due to loss of control of subsidiary.

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

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Investments in associates	1,358,911	927,361
Investments in joint ventures	3,478,956	3,899,926
Total	4,837,867	4,827,287

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, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Associates		
Profit or loss	(501,603)	(1,019,976)
Other comprehensive income	—	—
Total comprehensive income	(501,603)	(1,019,976)
Joint ventures	—	—
Profit or loss	183,359	214,196
Other comprehensive income	—	—
Total comprehensive income	183,359	214,196
Total		
Profit or loss	(318,244)	(805,780)
Other comprehensive income	—	—
Total comprehensive income	(318,244)	(805,780)

(4) Share of profit of investments accounted for using equity method

March 31, 2020, share of profit of investments accounted for using equity method included gains on changes in equity of ¥375,530 thousand from issuance of common stock of DeCurret Inc., which is accounted for equity method.

34. RELATED PARTIES

(1) Related party transactions

Transactions and balances of receivables and payables of the Company with related parties are as follows:

Transactions with related parties are conducted on general terms and conditions similar to arm's length 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, 2020. 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 March 31, 2019 and 2020 and transactions of the Company with NTT and its subsidiaries for each of the two years in the period ended March 31, 2019 and 2020, are summarized as follows:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Trade receivable	355,116	364,854
Other financial assets	62,720	1,143,174
Trade and other payable	7,780,537	4,524,178
Other financial liabilities	3,025,857	2,535,382

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Revenue	3,242,857	3,629,227
Cost of sales and selling, general and administrative expenses	42,733,242	44,239,747
Financial cost	61,686	53,362

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 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"), financial services for digital currency exchange and settlement (DeCurret Inc., "DeCurret,") and local 5G platform services (Grape One Co., Ltd., "Grape One").

The aggregate amounts of balances and transactions of the Company with these equity method investees as of March 31, 2019 and 2020, and for each of the two years in the period ended March 31, 2020 are summarized as follows:

Associates:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Trade receivable and other financial assets	66,292	322,419
Trade and other payables	—	332

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Revenue	576,009	1,936,733
Cost of sales and selling, general and administrative expenses	—	5,752

Joint Ventures:

	March 31, 2019	March 31, 2020
	Thousands of yen	Thousands of yen
Trade receivable and other financial assets	163,136	175,224
Trade and other payables	82,429	94,029

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Revenue	902,995	1,044,020
Cost of sales and selling, general and administrative expenses	856,920	1,008,668

Dividends from the equity method investees for the years ended March 31, 2019 and 2020 were ¥67,742 thousand, ¥84,403 thousand, respectively.

(2) Key management executives' compensation

The Company's key management executives' compensation is as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Basic remuneration and bonuses	315,517	319,402
Share-based payment	36,999	35,095
Total	352,516	354,497

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, 2019

	March 31, 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	—	—	—	11,750,000
Long-term borrowings (including current portion of long-term borrowings)	15,500,000	—	—	—	—	15,500,000
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

For the year ended March 31, 2020

	April 1, 2019	Changes with cash flow	Changes without cash flows			March 31, 2020
			Leases newly contracted	Exchange differences on translation of foreign operations	Other	
Short-term borrowings	11,750,000	2,500,000	—	—	—	13,750,000
Long-term borrowings (including current portion of long-term borrowings)	15,500,000	(1,500,000)	—	—	—	14,000,000
Other financial liabilities	58,187,975	(19,083,388)	15,605,482	(1,953)	(557,141)	54,150,975
Total liabilities from financing activities	84,937,975	(18,083,388)	15,605,482	(1,953)	(557,141)	81,900,975

(Note)In transitioning to IFRS 16, the Company recorded ¥39,004,939 thousand as other financial liabilities at the beginning of the period.

(2) Non-cash transactions

	For the year ended March 31, 2019	For the year ended March 31, 2020
	Thousands of yen	Thousands of yen
Facility purchase liabilities	1,565,381	2,083,720
Asset retirement obligation	26,400	19,336

Acquisition of assets by entering into finance lease was ¥7,985,782 thousands of yen, in previous year. Increase of Right-of-use-Assets was stated in "16 Lease" by the adaption of IFRS16, in current fiscal year.

(3) Proceeds from sale of a subsidiary

Fiscal year ended March 31, 2019

Not applicable.

Fiscal year ended March 31, 2020

Not applicable.

36. CONTINGENCY

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, 2020.

37. SUBSEQUENT EVENTS

On June 24, 2020, IIJ's shareholders approved the payment of a cash dividend to shareholders of record at March 31, 2020 of ¥13.5 per share of in the aggregate amount of ¥608,629 thousand.

38. 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 29, 2020.

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	(Special account) 4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation Securities Agency Division
Transfer Agent	(Special account) 4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation
Forwarding Address	—
Purchase Fees	—
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, 2019) and the date of the filing of this Annual Securities Report (June 30, 2020).

(1) Annual Securities Report, Including Attachments and Confirmation Letter

Fiscal Year (27th Business Term) (from April 1, 2018 to March 31, 2019)
Filed with the Director of the Kanto Local Finance Bureau on June 28, 2019

(2) Internal Control Report, Including Attachments

Filed with the Director of the Kanto Local Finance Bureau on June 28, 2019

(3) Quarterly Reports and Confirmation Letters

First Quarter, 28th Business Term (from April 1, 2019 to June 30, 2019)
Filed with the Director of the Kanto Local Finance Bureau on August 14, 2019

Second Quarter, 28th Business Term (from July 1, 2019 to September 30, 2019)
Filed with the Director of the Kanto Local Finance Bureau on November 14, 2019

Third Quarter, 28th Business Term (from October 1, 2019 to December 31, 2019)
Filed with the Director of the Kanto Local Finance Bureau on February 14, 2020

(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 25, 2020

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. eSIM	SIM of which users can remotely update its mobile carrier profile
9. 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.
10. 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.
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. 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.
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. IIJ Electronic contact/communication Note Service	A multidisciplinary cooperative platform that allows for coordinating comprehensive community care with local medical practitioners such as doctors, nurses, care managers, and local government staff.
16. IIJ Managed WAF Service	Cloud-based security services that protect companies’ web sites against attacks targeting web applications exploits.
17. 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.
18. IoT	Internet of Things (IoT) enables not only physical objects but also “things” connected to a network to exchange information automatically.
19. 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.
20. 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.
21. 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.

22. 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.
23. ITU	International Telecommunication Union (ITU) is a specialized agency of the United Nations that is responsible for issues that concern information and communication technologies.
24. ITU-T	ITU-T is an ITU organization and organizes major events for the world's information and communication technologies community.
25. 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.
26. 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.
27. 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).
28. LTE	Long Term Evolution (LTE) is a standard for wireless broadband communication for mobile devices.
29. MVNO	Mobile Virtual Network Operator (MVNO) is a company that provides mobile phone services by using other companies' mobile infrastructure.
30. MVNE	Mobile Virtual Network Enabler (MVNE) is a company that provides MVNOs for mobile infrastructure and related services to enable their MVNO businesses.
31. NOC	Network Operation Center (NOC) is a center used for operating and monitoring networks. Network operation center may also mean Point of Presence (POP).
32. 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.
33. 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.
34. 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.
35. SIM Card	Subscriber Identity Module (SIM) Card is an integrated circuit card to identify subscribers on mobile telephony devices.
36. 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.
37. SOC service	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.
38. SoftSIM	SIM which is remotely rewritable through software. SoftSIM is not a hardware SIM and does not have any physical form.
39. 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.
40. 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.
41. 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.
42. Access Circuit	Access circuit is a telecommunications circuit to connect between facilities of telecommunications carriers and subscribers.
43. Application Service Provider	Application Service Provider (ASP) is a company or a service that provides business applications to customers over Internet.
44. Internet Service Provider	Internet Service Provider (ISP) is a company that provides Internet connectivity, web hosting and other services.
45. 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.

46. 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.
47. 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.
48. Inexpensive data communication and voice services through SIM cards	Inexpensive data communication and voice services through 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.
49. 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.
50. Cyber-attacks	Cyber-attacks 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.
51. Gateway type security services	Network security services that provide necessary security functions for mail and web as gateway.
52. Wide-area Ethernet	Wide-area Ethernet is a technology or service to deliver WAN service using Ethernet connectivity.
53. Container-based module type data center	Container-based module 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.
54. Content	Content stands for information that is found on the web, such as text, music and videos.
55. Server	Server is a computer system or program to provide services, such as email and web services to other computers and their users.
56. 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.
57. 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.
58. Systems Integration	Systems Integration (SI) is to meet customer needs by designing, constructing and operating information systems suitable to customer needs.
59. Systems Integrator	Systems Integrator is a company that provides systems integration to end customers.
60. 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.
61. Recurring revenues	Revenues that businesses can count on receiving every single month through continuous provision of services to customers.
62. 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.
63. 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.
64. 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.
65. 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.
66. 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.
67. Telecommunications Carrier	A telecommunications carrier is a company that provides telecommunications services by installing telecommunications equipment such as access circuits and telephone switch boards.
68. Digital currency	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.
69. 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.

70. 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.
71. Traffic	Traffic is a flow of data transmitted over a network. Traffic may also relate to the amount of data transmitted.
72. 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.
73. 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.
74. 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.
75. 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.
76. BigData	BigData refers to data sets that are too large for traditional data-processing application software to adequately deal with.
77. 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.
78. 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.
79. Broadband	Broadband is a service realized by expansion of high-speed access networks. Broadband also provides full-time connectivity.
80. Protocol	Protocol is to define procedures and form data required for communication in advance.
81. Hosting Services	Hosting services are services that provide a server environment for corporations and individuals who use the Internet.
82. 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.
83. Portal Site	Portal site is a site that the owner positions as an entrance to other sites on Internet.
84. 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.
85. Remote access	By using Internet and others, access corporate intranet and/or computers from outside of office, remotely.
86. Router	A router is a physical networking device or virtual networking appliance that forwards data between two or more packet-switched computer networks.
87. Local 5G	5G network which can be used privately for specific areas and/or location, accordingly to needs of areas or industry. Local 5G requires infrastructure such as wireless network or base station.
88. 4K	4K is a technology to display video with high-resolution. It has nearly four times the resolution of full-high vision technology.

[English Translation of the Independent Auditor's Report Originally Issued in Japanese Language.]

Independent Auditor's Report on the Conslidated Financial Statements and Internal Control Over Financial Reporting

June 30, 2020

To the Board of Directors of Internet Initiative Japan Inc.:

KPMG AZSA LLC
Tokyo Office

Hiroto Kaneko (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Yusuke Matsumoto (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Financial Statement Audit

Opinion

We have audited the accompanying consolidated financial statements of Internet Initiative Japan Inc. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") provided in the "Financial Information" section in the Company's Annual Securities Report, which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") perscribed in Article 93 of "the Regulation on Terminology, Forms, and Presentation Methods of Consolidated Financial Statements".

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Empasis of Matter

As discussed in Note 3. Significant accounting policies, the Company has adopted IFRS 16 "Leases" from the beginning of the current consolidated fiscal year (April 1, 2019). Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements for the year ended March 31, 2019, in accordance with IFRS were audited by a predecessor auditor. The predecessor auditor expressed an unmodified opinion on those statements on June 27, 2019.

Responsibilities of Management, Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors’ performance of their duties including the design, implementation and maintenance of the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Internal Control Audit

Opinion

We also have audited the accompanying internal control report of Internet Initiative Japan Inc. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group") as at March 31, 2020, in accordance with Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as at March 31, 2020, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of the internal control report in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Internal Control Report* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the internal control report in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the internal control report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Corporate auditors and the board of corporate auditors are responsible for overseeing and examining the design and operation of internal control over financial reporting.

Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor’s Responsibilities for the Audit of the Internal Control Report

Our objectives are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of the internal control report and to issue an auditor’s report that includes our opinion.

As part of our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the audit of the internal control report are selected and performed, depending on the auditor’s judgment, based on significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope,

procedures and results of the assessments that management presents.

- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of our audit of the internal control report, the results thereof, material weaknesses in internal control identified during our audit of internal control report, and those that were remediated.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report on the consolidated financial statements and internal control over financial reporting as required by the Financial Instruments and Exchange Act of Japan.

The original copies issued in Japanese are kept separately by the Company and KPMG AZSA LLC.

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, 2020, 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" and "inventories" 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, 2020.

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 28th business term (from April 1, 2019 to March 31, 2020) were adequate in all material respects under the Financial Instruments and Exchange Act and related laws and regulations..

2. Special Notes

Not applicable.