(TRANSLATION)

Annual Securities Report

(The 29th Business Term)
From April 1, 2020 to March 31, 2021

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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【Fiscal Year】	29th business term (from April 1, 2020 to March 31, 2021)
【Company Name in English】	Internet Initiative Japan Inc.
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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	29th business term ended March 31, 2021
Revenues	(thousands of yen)	—	176,233,321	192,430,185	204,473,515	213,001,880
Operating profit	(thousands of yen)	—	6,769,617	6,022,987	8,225,172	14,247,723
Profit before tax	(thousands of yen)	—	6,872,196	5,842,984	7,158,987	14,034,719
Profit attributable to owners of the parent	(thousands of yen)	—	4,422,923	3,520,566	4,006,773	9,711,559
Comprehensive income, attributable to owners of the parent	(thousands of yen)	—	7,648,143	2,902,764	3,997,565	12,274,666
Equity attributable to owners of the parent	(thousands of yen)	68,036,472	74,528,732	76,271,438	79,075,589	89,956,379
Total assets	(thousands of yen)	137,957,682	155,162,729	167,289,196	206,524,260	220,777,269
Owners' equity per share	(yen)	754.95	826.94	846.14	876.99	997.24
Basic earnings per share	(yen)	—	49.08	39.06	44.44	107.67
Diluted earnings per share	(yen)	—	48.91	38.90	44.24	107.14
Ratio of owners' equity to gross assets	(%)	49.3	48.0	45.6	38.3	40.7
Rate of return on equity	(%)	—	6.2	4.7	5.2	11.5
Price-earnings ratio	(times)	—	22.0	28.7	39.9	24.1
Cash flows from operating activities	(thousands of yen)	—	14,663,819	25,152,346	33,393,751	40,544,167
Cash flows from investing activities	(thousands of yen)	—	(14,296,789)	(8,687,589)	(7,264,834)	(13,215,842)
Cash flows from financing activities	(thousands of yen)	—	(717,512)	(5,889,750)	(19,354,021)	(23,617,730)
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	42,466,933
Number of employees (average number of temporary employees, excluded above)	(Persons)	3,212 (49)	3,203 (49)	3,353 (49)	3,583 (53)	3,805 (44)

(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 ratio is 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. IIJ conducted a two-for-one stock split of its common stock with an effective date of January 1, 2021. The figures for Owners' equity per share, Basic earnings per share and Diluted earnings per share for each fiscal year have been adjusted to reflect the impact of this stock split.

		U.S. GAAP		
Fiscal year		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)	157,789,059	176,050,649	192,332,340
Operating income	(thousands of yen)	5,134,307	6,762,202	6,208,392
Income before income tax expense and equity in net income of equity method investees	(thousands of yen)	5,427,160	7,840,123	4,912,611
Net income attributable to IIJ	(thousands of yen)	3,166,510	5,108,949	2,715,179
Comprehensive income	(thousands of yen)	4,635,102	7,854,112	2,431,055
IIJ shareholders' equity	(thousands of yen)	66,741,871	73,270,057	75,404,315
Total assets	(thousands of yen)	137,395,149	153,448,819	166,851,638
IIJ shareholders' equity per share	(yen)	740.58	812.98	836.52
Basic net income attributable to IIJ shareholders per share	(yen)	34.68	56.69	30.12
Diluted net income attributable to IIJ shareholders per share	(yen)	34.59	56.50	30.00
Shareholders’ equity ratio	(%)	48.6	47.7	45.2
Return on equity	(%)	4.8	7.3	3.7
Price-earnings ratio	(times)	29.0	19.0	37.2
Net cash provided by operating activities	(thousands of yen)	7,367,692	13,261,764	23,444,691
Net cash used in investing activities	(thousands of yen)	(7,375,821)	(13,037,325)	(6,869,247)
Net cash provided by (used in) financing activities	(thousands of yen)	2,492,099	(748,178)	(5,898,641)
Cash and cash equivalents at end of fiscal year	(thousands of yen)	21,958,591	21,402,892	32,076,232
Number of employees	(persons)	3,104	3,203	3,353
(average number of temporary employees, excluded above)		(49)	(49)	(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 is 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. IIJ conducted a two-for-one stock split of its common stock with an effective date of January 1, 2021. The figures for IIJ shareholders' equity per share, Basic net income attributable to IIJ shareholders per share and Diluted net income attributable to IIJ shareholders per share for each fiscal year have been adjusted to reflect the impact of this stock split.

(2) Non-consolidated financial data, etc.

Fiscal year		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	28th business term ended March 31, 2021
Revenues	(thousands of yen)	123,685,435	139,436,288	156,674,395	171,844,242	185,323,219
Ordinary income	(thousands of yen)	3,181,105	3,573,516	3,709,481	4,825,333	13,380,825
Net income	(thousands of yen)	2,520,398	3,516,760	2,627,881	4,833,751	9,961,907
Common stock	(thousands of yen)	22,970,278	22,972,583	22,979,490	22,991,399	22,991,399
Number of shares issued	(shares)	46,711,400	46,713,800	46,721,400	46,734,600	93,469,200
Net assets	(thousands of yen)	61,333,007	66,090,481	66,551,925	68,548,367	79,261,844
Total assets	(thousands of yen)	121,163,429	137,068,258	146,677,926	152,680,583	166,784,916
Net assets per share	(yen)	677.67	729.84	734.36	755.91	873.64
Dividends per share	(yen)	27.00	27.00	27.00	27.00	29.75
(Interim dividend per share included above)	(yen)	(13.50)	(13.50)	(13.50)	(13.50)	(10.25)
Net income per share	(yen)	27.60	39.02	29.15	53.61	110.45
Diluted net income per share	(yen)	27.53	38.90	29.04	53.37	109.89
Capital to asset ratio	(%)	50.6	48.0	45.1	44.6	47.3
Return on equity	(%)	4.1	5.5	4.0	7.2	13.5
Price-earnings ratio	(times)	36.4	27.6	38.4	33.1	23.5
Dividend payout ratio	(%)	48.9	34.6	46.3	25.2	26.9
Number of employees (average number of temporary employees, excluded above)	(persons)	1,865 (29)	1,904 (30)	1,955 (28)	2,068 (32)	2,214 (25)
Gross shareholders' profit ratio	(%)	88.0	95.6	100.3	157.9	231.9
(Comparative indicator : TOPIX including dividend)	(%)	(114.7)	(132.9)	(126.2)	(114.2)	(162.3)
Highest stock price	(yen)	2,464	2,620	2,880	3,650	2,675 (5,320)
Lowest stock price	(yen)	1,514	1,881	1,996	1,953	1,989 (3,145)

(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 ratio is 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. IIJ conducted a two-for-one stock split of its common stock with an effective date of January 1, 2021. The figures for Net assets per share, Net income per share and Diluted net income per share for each fiscal year have been adjusted to reflect the impact of this stock split.
5. Dividend per share and interim dividend per share for the fiscal year ended March 31, 2021 are calculated based on the assumption that the two-for-one stock split of common stock, effective January 1, 2021, was conducted at the beginning of the fiscal year.
6. Highest and lowest stock prices are of our common stock on the Tokyo Stock Exchange (the first section). The stock prices for the fiscal year ended March 31, 2021 are the highest and lowest prices after the stock split, and the highest and lowest stock prices before the stock split are shown in parentheses.

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. (“IIJ-Global”) 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 , 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, 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, 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., formerly 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.
April	2021	Acquired all the shares of PTC SYSTEM (S) LTD (our consolidated subsidiary)., which is mainly engaged in system integration business in Singapore

(*) 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, 2021, we have 16 consolidated subsidiaries and eight equity method investees and develop our business in cooperation with these affiliated companies.

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

i) 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

ii) 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, including mobile 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 mobile data communications services and sells mobile phones for consumers. For WAN services which are mainly provided by IIJ-Global, which is our consolidated subsidiary, and IIJ, we offer closed network services to our customers, mainly corporate and governmental organizations, to connect remote bases such as connecting headquarters and branch offices, and branch offices by using data communication services such as dedicated lines, wide-area Ethernet (*) services, IP (*)-VPN (*) services and Internet VPN. For outsourcing services which are mainly provided by IIJ 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.

iii) 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; 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, 2020 and 2021.

Service category	IFRS					
	Fiscal year ended March 31, 2020			Fiscal year ended March 31, 2021		
	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	121,998,722	59.7	19,906,657	126,826,927	59.5	27,170,695
Systems integration	78,393,435	38.3	10,809,294	83,283,912	39.1	12,087,008
ATM operation business	4,081,358	2.0	1,877,474	2,891,041	1.4	1,024,252
Total	204,473,515	100.0	32,593,425	213,001,880	100.0	40,281,955

(Notes) 1. Revenues do 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 a part of network services. Regarding mobile services for enterprises, we provide our mobile network infrastructure and peripheral systems to other MVNOs through MVNE (*) scheme, and accumulate enterprise demands such as IoT (*) by promoting full-MVNO through which we can connect various devices and provide embedded chip SIM (*). Regarding mobile services for consumers, as the market for inexpensive data communications and voice services through SIM cards (*) has been expanding, we are expanding our sales channels, updating our service specifications, and expanding our service line-up.

As of March 31, 2021, 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

i) 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)

ii) 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.

iii) 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 13,000 clients as of March 31, 2021.

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

i) 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 devices 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,	
			2020	2021
Internet connectivity services (enterprise)			2,038,687	2,303,717
	IP service (greater than or equal to 1Gbps)*2		769	791
	IP service (less than 1Gbps)*2		1,245	1,200
	IIJ Mobile Services		1,949,927	2,209,836
		Enterprise mobile service (IoT usage, etc.)	842,811	1,110,415
		IIJ Mobile MVNO Platform Service	1,107,116	1,099,421
	Others		86,746	91,890
Internet connectivity services (consumer)			1,410,006	1,379,277
	IIJmio Mobile Service		1,075,083	1,034,148
	Others		334,923	345,129

	As of March 31	
	2020	2021
Total contracted bandwidth (Gbps)*3	5,115.9	6,624.1

(Notes)

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

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

*3) Total contracted bandwidth is calculated by multiplying number of contracts under "Internet connectivity services (enterprise)", excluding "IIJ mobile services" and the contracted bandwidths of the services respectively.

[WAN services]

IIJ and 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, configuring, 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.

ii) 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 devices, such as smartphones and tablets, along with providing mobile data communications services.

iii) ATM operation business

Trust Networks Inc. ("Trust Networks"), 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

i) 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, by increasing the capacity through use of multiple communication carriers' lines, 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, 2021. 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.

ii) Data Centers

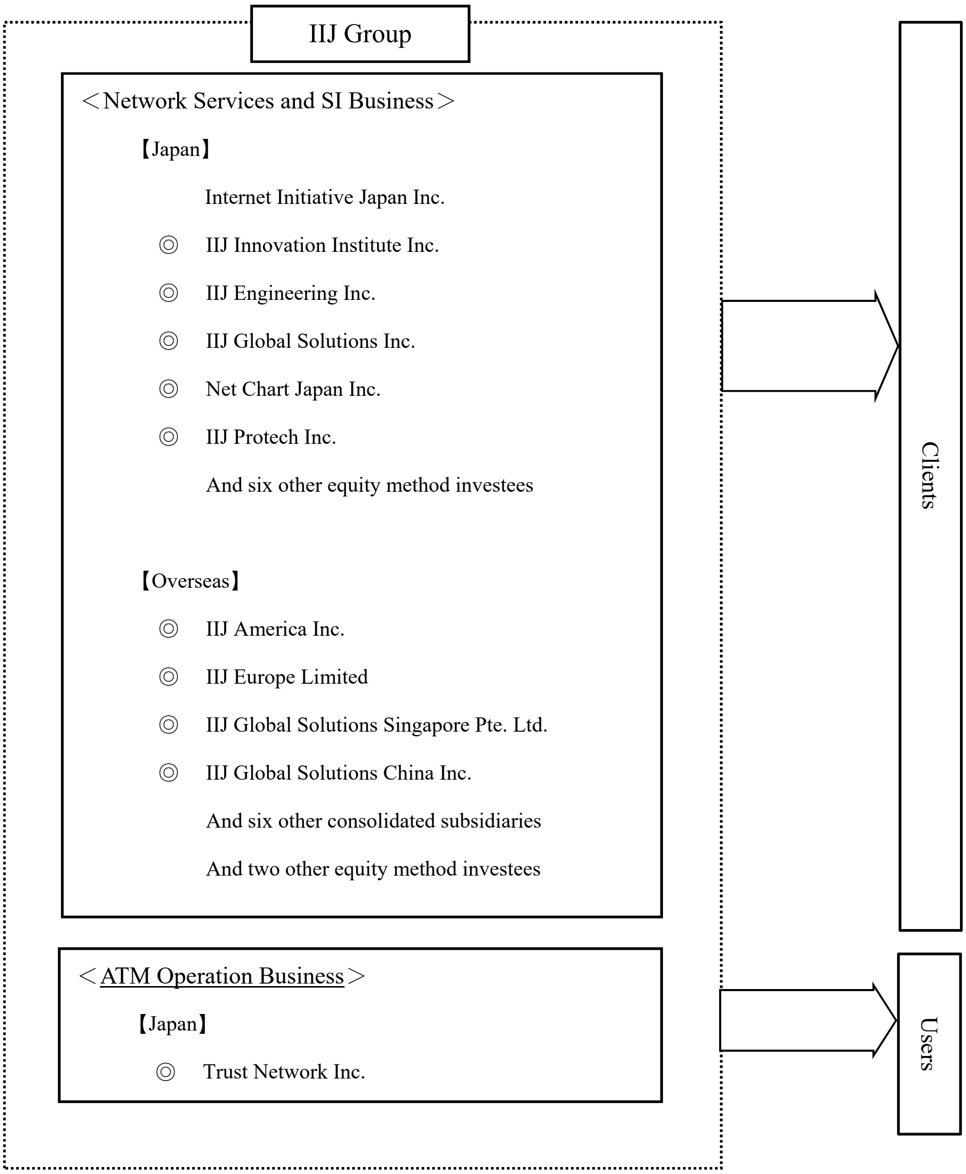
As of March 31, 2021, we operate Internet data centers in Tokyo, Osaka, Yokohama, Sapporo, Shiroi, Nagoya, Kyoto, Matsue and Fukuoka in Japan and in the United States, United Kingdom and Singapore.

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 and company auditors: 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, lender of 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, lender of 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, subcontractor of IIJ
IIJ America Inc.	California, the United States	USD2,180 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
IJ 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 (Note 3)					

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	6,131	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; 2 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)	

(Notes)

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, 2020 to March 31, 2021 (millions of yen)

(1) Revenues	24,003
(2) Ordinary income	692
(3) Net profit	385
(4) Net assets	9,172
(5) Total assets	15,245

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. Two other equity method investees are PT.BIZNET GIO NUSANTARA, and Leap Solutions Asia Co., Ltd.
5. NTT files an Annual Securities Report.
6. On April 1, 2021, we acquired all the shares of PTC SYSTEM (S) LTD, which is mainly engaged in system integration business in Singapore, for 44 million Singaporean Dollar, equivalent to JPY3,632 million, and made it our consolidated subsidiary. Please refer to "Notes to consolidated financial statements, 37.   SUBSEQUENT EVENTS."

5 Employees

(1) Consolidated basis

The number of employees by segment is as follows.

As of March 31, 2021

Name of segment	Number of Employees
Engineering	2,706 (21)
Sales	631 (-)
Administration	468 (23)
Total	3,805 (44)

(Notes)

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	4 (－)
Administration	1 (－)
Total	10 (－)

(2) IIJ (non-consolidated basis)

As of March 31, 2021

Number of Employees	Average Age	Average Years of Service	Average Yearly Salary (Thousands of Yen)
2,214 (25)	37.4	8.8	7,186

(Notes)

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) 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, 2021.

(1) Business Philosophy

IIJ Group's business philosophy (raison d'etre or purpose) is as follows:

As the company name “Internet Initiative Japan Inc." suggests, we are committed to the ongoing pursuit of initiatives in the field of Internet technology, which is one of those technological innovations that might occur once in a century, and contributing to the development of the networked society by providing groundbreaking services and platforms that propose new uses for the network.

・To develop network infrastructure through technological innovation

We are committed to the ongoing pursuit of initiatives in the field of Internet technology to open up the future of the digital society through new value created by ever faster networks and computing.

・To provide solutions (IT services) that supports a networked society

We continuously develop and introduce highly reliable and value-added IT services that anticipate changes taking place around the world, to support the use of networks by society and individuals.

・To provide meaningful opportunities for growth to our employees (a place where human resources with diversified talents and values can play an active role)

We aim to offer meaningful working opportunities for growth through business, in which our staff can take a proactive approach to technical innovation and social contribution, and actively demonstrate their abilities with pride and a sense of satisfaction. We aspire to be a company where employees are never satisfied with the status quo, and are always thinking about the future world, contributing to social development, and achieving personal growth through work that has value for society.

By operating our business according to this 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) Mid-term Plan

(i) Review of the previous Mid-term Plan

For the previous five-year (FY2016-FY2020) Mid-term Plan ("Previous Mid-term Plan"), we set quantitative targets of total revenue of JPY220 billion and operating profit of over JPY10 billion. The actual results in financial performance are as follows.

Quantitative targets, etc. (consolidated)	FY2015 (US GAAP)	FY2020 (IFRS) (Last fiscal year of the Previous Mid-term Plan period)
Total revenue	JPY140,648 million	JPY213,002 million
Operating profit	JPY6,140 million	JPY14,248 million
Operating profit margin	4.4%	6.7%
Number of employees	2,980	3,805

While the total revenue fell short of the target mainly due to factors such as changes in the competitive environment of consumer mobile services, etc., operating profit significantly exceeded the target by mainly enjoying scale-merit of monthly recurring revenue accumulation of enterprise network services.

In addition to the financial results, we achieved the following major business progresses during the Previous Med-term Plan period.

- Enhancement of functions and services line-up through continuous development of enterprise network services such as Omnibus (*) and security, and improved appeal to customers.
- Establishment of a competitive advantage by implementing full-MVNO functions and development of services that utilize them, and also captured initial demand for enterprise IoT.
- Continuous enhancement of network infrastructure and expansion into global network operation including Asia.
- A prospect to secure server rack space to be needed in the future, with the sequential construction of the Shiroi data center.
- Continuous improvement of systems integration gross margin through SE (*) operation management, and provision of service integration that combines systems integration and various network services.
- Efforts to establish a future social infrastructure to exchange and settle digital currency and asset value through our equity method investee, DeCurret Inc. as a new business field, and to diversify business areas.

(ii) New Mid-term Plan (FY2021-FY2023)

(Financial targets)

	Target (consolidated)	FY2023
Business expansion	Total revenue	JPY270 billion
Profitability	Operating profit margin	Over 9%

(Positioning of New Mid-term Plan)

We understand that the utilization of IT services by Japanese enterprises has just begun, and the market is expected to continue expanding over the mid-to-long term. We recognize that our business is in growing phase and we have to play an important role to support and take initiatives in the utilization of IT services by operating and strengthening the Internet and related systems as a social infrastructure, and continuously developing highly reliable and value-added network services.

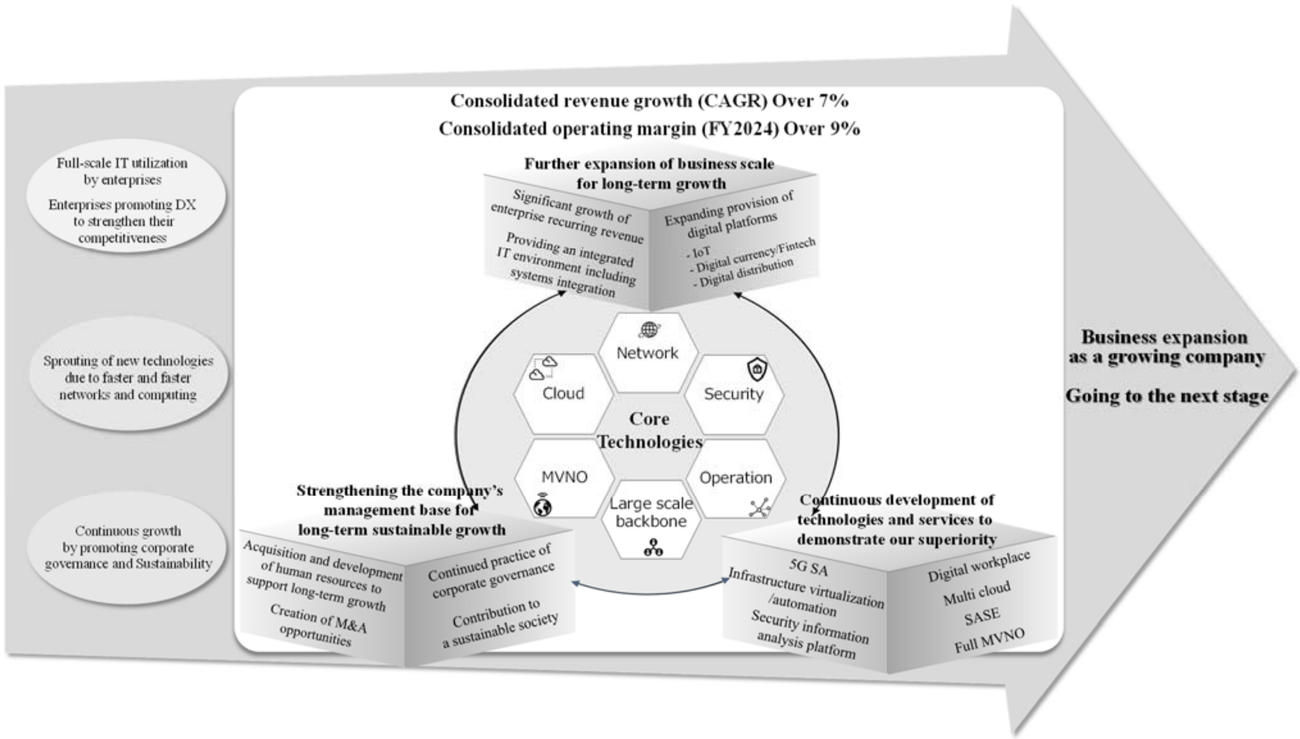
Under such recognition, we position this New Mid-term Plan as a step period (the second stage of the hop, step and jump) toward large-scale business expansion over the long term. While our operating profit margin formerly remained at a low level due to in-front-cost burden of preceding business and service development, etc., it gradually improved in line with the increasing trend of enterprise recurring revenue accumulation in FY2019 and FY2020. During the New Mid-term Plan period, we shall continue to pursue revenue growth and improve operating margin furthermore by continuously carrying out and strengthening our conventional strategy, platform deployment.

By realizing these, we expect that our market value would be largely increased, and based on this, we understand that we should be able to carry out significant business expansion over the long term, including further business investment and acquisition of M&A opportunities, and achieve sustainable fulfillment of our business philosophy.

(New Mid-term Plan)

Our basic policy is to continuously grow our business by advancing further technological innovation and providing new technology models and best practices as IT services, based on the core technologies of network, security and cloud, and the technical skills to operate them with high quality. Specifically, as follows.

- Under the increasing trend of Zero Trust (*), SASE (*)' Digital Workplace (*) and etc., to continuously develop services and solutions such as network, security, and cloud, for enterprise cloud market (Demand for IT environment needed by enterprises), business cloud market (Demand for further IT utilization, including IoT, DX (*), AI, etc., needed by enterprises where digitalization is the core of their business) and industry-specific cloud market (Demand for network systems and solutions needed by fintech, central and local governments, xSP (*) including contents distribution, etc.) respectively, to further improve service operation and control, and together with these to increase enterprise recurring revenue significantly and enjoy profit increase by realizing scale-merit furthermore.
- In MVNO business, to improve gross margin by continuously strengthening the mobile infrastructure and gathering various mobile traffic of enterprise and consumer to achieve higher utilization of the infrastructure, with completely capturing rising enterprise IoT market by continuing full MVNO differentiation and developing competitive service and solutions with 5G SA (*) and increasing market share by differentiating our consumer services which are suitable to MVNO customers.
- To pursue crypto asset exchange business of our equity method investee, DeCurret Inc., becoming profitable early, and to realize implementation for social infrastructure of digital currency settlement business in line with various policy trends and partner actions. Including those, to challenge and establish new areas of digital platform business that we can demonstrate our competitive advantages.
- To focus on acquiring and developing human resources, strengthening organizational power, and improving business operation efficiency more than ever to support our long-term growth.
- To continuously practice appropriate corporate governance that supports our sustainable growth, and to play our role and contribute to realize a sustainable society by fulfilling our business philosophy.



(4) Issues that IIJ Group Faces

We recognize there are various issues related to our business growth including the followings. 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 these. To support our business growth, it is important to hire talented human resources as well as develop their skills continuously. Also, we should continue to strengthen our business operation management 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, 2021, 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.

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 unit price of interconnectivity charges and purchasing cost of voice communication from mobile carriers for our mobile infrastructure do not decrease as much as expected and thus creates a gap between our estimates and the actual results, 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. As regards to our pricing for consumer mobile services, we had been proving new plans since April 1, 2021 by considering factors such as overall competitive landscape and interconnectivity charge and voice communication costs.

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 3,583 and 3,805 employees as of March 31, 2020 and 2021, respectively. The number of employees increased by 230 and 222 in the fiscal years ended March 31, 2020 and 2021 respectively. Capital expenditures, including assets acquired by finance leases, for the fiscal years ended March 31, 2020 and 2021 were JPY15,150 million and JPY15,151 million, respectively. Depreciation and amortization for property and equipment (capital expenditure related depreciation and amortization) for the fiscal years ended March 2020 and 2021 were JPY14,422 million and JPY14,457 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, 2020 and 2021 were JPY23.6 billion and JPY26.2 billion, respectively. Capital expenditures related to domestic cloud computing services were JPY2.6 billion and JPY2.8 billion for the fiscal years ended March 31, 2020 and 2021, 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 facilities were JPY2.0 billion and JPY1.5 billion for the fiscal years ended March 31, 2020 and 2021, 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, 2020 and 2021 were JPY46.1 billion and JPY47.5 billion respectively. The total number of mobile service subscription was approximately 3.03 million and 3.25 million as of March 31, 2020 and 2021, 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.

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 11 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. Overseas business revenues for the fiscal years ended March 31, 2020 and 2021 were JPY8.5 billion and JPY8.3 billion, respectively. As for income, operating profit was JPY0.3 billion and JPY0.4 billion for the fiscal years ended March 31, 2020 and 2021, respectively. IIJ and IIJ-Global together had injected capital of JPY4,526 million into our overseas consolidated subsidiaries and equity method investees by the fiscal year ended March 31, 2021. Also, as of March 31, 2021, IIJ and IIJ-Global together had lent a total of JPY268 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. In April 2021, in order to strengthen our Singaporean business which is a core of the ASEAN business, we purchased a prominent Singaporean system integrator PTC SYSTEM (S) PTE LTD for 44 million Singaporean Dollar, equivalent to JPY3,632 million, and made it our consolidated subsidiary. 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.”

(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, 2021, 47.3% 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, 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 due to factors including the shortage in supply of semiconductor, 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 data communication 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 mobile unit charge (*) of data communication service cost is revised annually and has been decreasing. For our usage during the fiscal year ended March 31, 2021, we recognized the cost based on the predicted mobile unit charge presented by mobile carriers which was calculated based on the future cost method and we plan to recognize difference between the predicated and fixed unit charge, which is scheduled to be fixed and announced around January 2022. 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 mobile unit charge of data communication service cost or purchase cost of voice communication service 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. Going forward, competition, including with new competitors entering the market and pressure to lower pricing, 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 climate change

Following the Paris Agreement which went effective in 2016, measures to reduce greenhouse gas emissions have been accelerating globally. We recognize the importance of taking measures to respond to climate change risks and taking steps to transit to low carbon society. Risks regarding climate change include the possibility of physical damage caused by the increase in natural disaster and extreme weather and the possibility of changing our politics, regulations, economy, market and everyday life as we move toward low carbon society. For example, an increase in power consumption due to servers, network equipment, data center and office space along with business expansion, or an increase in cost due to emission trading and an increase in electricity charges, or a risk if we fail to adequately procure emission allowance or renewable energy, or a reputational risk if we fail to take measures to realize decarbonization. If we fail to appropriately respond to such risks, our results of operations and our financial condition could be adversely impacted.

(6) 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 17 consolidated subsidiaries and eight equity method investees. Profit and loss of each consolidated subsidiary's financial results are consolidated into our group consolidated financial statements, and each equity method investee's financial results are recorded as share of profit (loss) of investments accounted for using the equity method. Due to each company's business situation, the investment value of subsidiaries and associates held by us can fluctuate. If profit and loss of our subsidiaries and associates is unfavorable, or volume of loss is significant, our results of operations and our financial condition may be adversely impacted.

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

We bought IIJ Global, which mainly provides WAN services, from AT&T Japan LLC for JPY9,170 million and made it our consolidated subsidiary in October 2010. For the fiscal years ended March 31, 2020 and 2021, IIJ Global had JPY26,103 million and JPY24,554 million in revenues, respectively, and JPY1,020 million and JPY1,119 million in operating profit, respectively. Intangible assets as of March 31, 2021 related to IIJ Global were JPY3,131 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, 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 JPY4,081 million and JPY2,891 million and operating profit was JPY1,645 million and JPY826 million for the fiscal years ended Mach 31, 2020 and 2021 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. As of this document's filing date, we have invested a total of JPY7,082 million (IIJ ownership: 38.2%). 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, 2021. 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 12 directors, including four outside directors. Shinobu Umino who was one of our outside directors as of March 31, 2021 and retired in June 2021 worked for NTT. Mr. Umino was 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, 2021, the aggregated amount paid for these services was JPY33,827 million.

We have lease transactions with lease companies to procure facilities and as of March 31, 2021, we had JPY2,348 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, 2020 and 2021. 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, 2021, 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 JPY1,633 million. On our consolidated balance sheets as of March 31, 2021, intangible assets in relation to IIJ-Global and IIJ Technology Inc., a former subsidiary of IIJ which was merged in April 2010, were JPY843 million and JPY790 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. In April 2021, we purchased a prominent Singaporean system integrator PTC SYSTEM (S) PTE LTD for 44 million Singaporean Dollar, equivalent to JPY3,632 million, and made it our consolidated subsidiary.

(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, 2021 was JPY8,310 million of available-for-sale securities, JPY1,470 million of nonmarketable equity securities, and JPY2,941 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, depending on the speed of consumer customer increase, we recognize the possibility of becoming designated is high. 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, various regulations such as for when offering mobile phones have been implemented in recent years. 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. Further legislation or self-imposed rules of the industry could be made or requiring telecommunications operators to impose counter measures. Depending on such requirement, a large amount of cost or facility investment could be necessary to comply.

In the area of IoT, which is one way of using the Internet, it is difficult to predict what kind of laws and regulations will be enacted in the future because the multiple industries and regulatory authorities are involved. If laws and regulations are enacted that restrict our business, or if the interpretation of laws and regulations is unclear, it may have an impact on our ability to acquire customers.

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 or the National Defence Authorization Act of the United States and GDPR of EU, we could be faced to restrict our business activity or 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 the secrecy of communications and 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, 2021, our cash and cash equivalents were JPY42,467 million, increased by JPY3,795 million from the previous fiscal year end. Our bank borrowings as of March 31, 2021 were JPY25,560 million, decreased by JPY2,190 million from the previous fiscal year end. Our finance lease obligation including current portion as of March 31, 2021 was JPY18,229 million, increased by JPY166 million. As of March 31, 2021, the balance of other financial liabilities related to operating lease recognized along with the adoption of IFRS 16 was JPY34,432 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 9,400 thousand new shares (post-stock-split-base) of common stock by way of a public offering in July 2013 and 1,400 thousand new shares (post-stock-split-base) 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.

IIJ has introduced stock compensation-type stock options for 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."

IIJ has introduced restricted stocks compensation for directors and executive directors of IIJ (excluding part-time and outside directors) as a substation for a part of bonus. 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) Compensation for directors and company auditors, etc., ⅳ) Contents of performance-linked remuneration."

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, 2021

The Japanese economy has been in a severe situation throughout the fiscal year ended March 31, 2021 ("FY2020"), impacted by the COVID-19 pandemic; however, there have been some signs of a recovery in the second half. With respect to future prospects, the economy is expected to move forward from this severe situation, supported by the effects of various policies and improvement of overseas economies, while the socio-economic activities will be resumed gradually. However, we must keep an eye on the trend of domestic and overseas infections and the effects of fluctuations in the financial and capital markets.

In such an economic trend, for the ICT (*) related market where we belong to, as seen in continuous increase of Internet traffic (*) due to advancement of IT services utilization by enterprises and government agencies, growing importance on security related services against threats on the Internet, widespread of cloud computing (*) related services adoption, progress of practical use of IoT (*) using comprehensively those services, etc., we expect demands for highly reliable network services to continually increase.

Under these market circumstances, revenue growth of IP services (*) strongly continued from the beginning of FY2020mainly due to the increase of contracted bandwidth from existing customers. In mobile related services, as for enterprise mobile services, customer demands for network camera connection projects for equipment monitoring or marketing, etc. continued by leveraging our full-MVNO (*) function, and some advanced IoT usage such as connecting various devices on factory production lines has also been made into projects. As for consumer mobile services, which is a more competitive environment, we announced the launch of a new consumer service "Giga Plans (*)" to meet the MVNO customer demand. Mobile unit charge and voice fee are expected to decrease. We expect to promote the acquisition of consumer mobile service customers with the new plan and improve the mobile infrastructure facility to achieve higher utilization by efficiently accommodating enterprise and consumer mobile traffic as a whole, thereby we expect to maintain mobile services gross profit for the time being and increase it in the future. In outsourcing services, security-related services revenue continued to increase. We shall keep responding to the growing demand for security along with network enhancement by strengthening service functions and expanding our services lineup. Revenue of other outsourcing services such as "IIJ Flex Mobility Service (*)", meeting the demand for telework infrastructure, and "Cloud Exchange Service (*)" also increased strongly. In system integration, network construction projects for both private and public sector were strong. As for cloud computing related services, most of which are recognized as systems operation and maintenance, we responded to enterprises' diversifying demand for cloud computing by providing private cloud (*) and multi-cloud (*) related solutions compositely, and its revenue continued to grow. In terms of infrastructure enhancement, we expanded the facilities of the Shiroi Data Center Park and prepared to secure server rack space (*) that would be needed as demand increases. As for overseas businesses, in order to strengthen the Singapore business, which is the core of the ASEAN business, we acquired PTC SYSTEM (S) PTE LTD, a leading local systems integrator and made it a wholly owned subsidiary in April 2021. In new business development, aiming to become the platform system for future digital currency transaction, DeCurret Inc., our equity method investee, promoted the Digital Currency Forums (*) and demonstration experiments and/or proof-of-concept with various leading companies. JOCDN Inc., our equity method investee and a joint venture with Japanese commercial broadcasters, became profitable and established its business foundation by revenue growth of CDN (*) services along with the growing demand for contents distribution services. As for healthcare businesses, the introduction of "IIJ Electronic contact/communication Note Service (*)" has spread to 70 local governments in seven prefectures. We added new functions such as vaccination records to the service, and continuously supported the strengthening of information collaboration between medical professionals and local governments and the improvement of work efficiency. Regarding the strengthening of human resources necessary for our future business growth, we continued to focus on hiring and training of new graduates, and the number of consolidated employees as of the end of FY2020 was 3,805 (up 222 year over year "YoY"), including 210 new graduates and mid-carrier recruitments.

As for the consolidated financial results for FY2020 are as follows. Total revenue was JPY213,002 million, mainly led by the revenue growth of enterprise monthly recurring revenues (*) such as Internet connectivity services for enterprises, outsourcing services and systems operation and maintenance. Although enterprise monthly recurring revenues increased significantly, the year over year growth rate of total revenue was considerably low, mainly impacted by the revenue decrease of WAN services by large enterprises clients' migration to mobile services and of ATM operation business affected by the COVID-19 pandemic, etc. Total cost of revenues was JPY172,720 million, up 0.5% YoY (JPY171,880 million for FY2019) and total gross profit was JPY40,282 million, up 23.6% YoY (JPY32,594 million for FY2019). Selling, general and administrative expenses, which include research and development expenses, other operating income and expenses, totaled JPY26,034 million, up 6.8% YoY (JPY24,369 million for FY2019). Therefore, operating profit for FY2020 was JPY14,248 million, up 73.2% year over year (JPY8,225 million for FY2019). Profit before tax was JPY14,035 million, up 96.0% YoY (JPY7,159 million for FY2019). Profit for the year attributable to owners of the parent was JPY9,712 million, up 142.4% YoY (JPY4,007 million for FY2019).

(2) Financial Position

As of March 31, 2021, the balance of total assets was JPY220,777 million, increased by JPY14,253 million from the balance as of March 31, 2020 of JPY206,524 million.

As of March 31, 2021, the balance of current assets was JPY93,405 million, increased by JPY6,814 million from the balance as of March 31, 2020 of JPY86,590 million, mainly due to increases in cash and cash equivalents, trade receivables and prepaid expenses. As of March 31, 2021, the balance of non-current assets was JPY127,373 million, increased by JPY7,439 million from the balance as of March 31, 2020 of JPY119,934 million, mainly due to an additional investment in DeCurret, which is an equity method investee, an increase in prepaid expenses related to prepayment of maintenance costs and an increase in other investments by fluctuation of fair value of our holding marketable equity securities.

As of March 31, 2021, the balance of current liabilities was JPY73,259 million, increased by JPY7,572 million from the balance as of March 31, 2020 of JPY65,687 million, mainly due to borrowings transferred from non-current liabilities and increases in trade and other payables, contract liabilities and other current liabilities. As of March 31, 2021, the balance of non-current liabilities was JPY56,547 million, decreased by JPY4,234 million from the balance as of March 31, 2020 of JPY60,780 million, mainly due to a transfer of long-term borrowings to current portion.

As of March 31, 2021, the balance of total equity attributable to owners of the parent was JPY89,956 million, increased by JPY10,881 million from the balance as of March 31, 2020 of JPY79,076 million. Ratio of owners' equity to total assets was 40.7% as of March 31, 2021.

(3) Cash Flows

Cash and cash equivalents as of March 31, 2021 were JPY42,467 million.

Cash Flows from Operating Activities

Net cash provided by operating activities for FY2020 was JPY40,544 million (net cash provided by operating activities of JPY33,394 million for FY2019). There was profit before tax of JPY14,035 million, depreciation and amortization of JPY27,974 million, including JPY11,668 million of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY3,912 million. Regarding changes in working capital, there was net cash in of JPY1,513 million, which included increases in trade receivables, prepaid expenses, contract liabilities and other liabilities.

Cash Flows from Investing Activities

Net cash used in investing activities for FY2020 was JPY13,216 million (net cash used in investing activities of JPY7,265 million for FY2019), mainly due to payments for purchases of tangible assets of JPY6,391 million, investments in an equity method investee of JPY4,754 million, payments for purchases of intangible assets, such as software, of JPY4,617 million and proceeds from sales of tangible assets, which include sale and leaseback, of JPY2,499 million.

Cash Flows from Financing Activities

Net cash used in financing activities for FY2020 was JPY23,618 million (net cash used in financing activities of JPY19,354 million for FY2019), mainly due to payments of other financial liabilities of JPY20,168 million, which includes payments under operating lease contracts such as office rent and finance lease contracts such as network equipment, repayments of bank borrowings of JPY2,190 million and dividends paid of JPY1,533 million.

(Production, Orders Received and Sales)

(1) Production

Production results for the year ended March 31, 2021 were as follows:

Type of Services	Fiscal year ended March 31, 2021	
	Production (thousands of yen)	Year over year comparison (%)
Systems Integration, including Equipment Sales	71,130,750	6.7
Total	71,130,750	6.7

(Notes)
1. Amounts do not include consumption taxes.
2. Percentages of year over year comparison indicate year over year rate of change.
3. Since the Company does not engage in 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, 2021 and order backlog as of March 31, 2021 were as follows:

Type of Services	Fiscal year ended March 31, 2021			
	Orders Received (thousands of yen)	Year over Year comparison (%)	Order Backlog (thousands of yen)	Year over Year comparison (%)
Systems Construction and Equipment Sales	32,590,360	3.0	8,329,873	11.0
Systems Operation and Maintenance	57,723,713	12.1	54,563,955	12.8
Total	90,314,073	8.6	62,893,828	12.6

(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, 2021 were as follows:

Type of services		Fiscal year ended March 31, 2021	
		Revenue (thousands of yen)	Year over year comparison (%)
Network services		126,826,927	4.0
	Internet connectivity services (enterprise)	40,346,808	10.1
	Internet connectivity services (consumer)	25,722,376	(1.3)
	WAN services	25,048,098	(7.1)
	Outsourcing services	35,709,645	10.4
Systems integration		83,283,912	6.2
	Systems construction and equipment sales	31,767,278	(0.7)
	Systems operation and maintenance	51,516,634	11.0
ATM operation business		2,891,041	(29.2)
Total revenues		213,001,880	4.2

(Notes)
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, 2021

(i) Summary of Consolidated Results of Operations

Summary of Consolidated Results of Operations

	Fiscal Year ended March 31, 2020	Fiscal Year ended March 31, 2021	Year over Year change
	millions of yen	millions of yen	%
Total revenues	204,474	213,002	4.2
Network services	121,999	126,827	4.0
Systems integration, including equipment sales	78,394	83,284	6.2
ATM operation business	4,081	2,891	(29.2)
Total costs	(171,880)	(172,720)	0.5
Network services	(102,092)	(99,656)	(2.4)
Systems integration, including equipment sales	(67,584)	(71,197)	5.3
ATM operation business	(2,204)	(1,867)	(15.3)
Total gross margin	32,594	40,282	23.6
Network services	19,907	27,171	36.5
Systems integration, including equipment sales	10,810	12,087	11.8
ATM operation business	1,877	1,024	(45.4)
SG&A, R&D, and other operating income(expenses)	(24,369)	(26,034)	6.8
Operating profit	8,225	14,248	73.2
Profit before tax	7,159	14,035	96.0
Profit attributable to owners of the parent	4,007	9,712	142.4

Segment Information

	Fiscal Year ended March 31, 2020	Fiscal Year ended March 31, 2021
	millions of yen	millions of yen
Total revenues	204,474	213,002
Network services and SI business	200,679	210,278
ATM operation business	4,081	2,891
Elimination	(286)	(167)
Operating profit	8,225	14,248
Network service and SI business	6,729	13,541
ATM operation business	1,645	826
Elimination	(149)	(119)

(ii) Overview

Total revenue was JPY213,002 million, up 4.2% year over year, mainly led by the revenue growth of enterprise recurring revenues (*) such as Internet connectivity services for enterprises, outsourcing services and systems operation and maintenance. Although enterprise monthly recurring revenues increased significantly, the year over year growth rate of total revenue was not so large, mainly because of decrease in WAN services revenue which was due to certain large enterprises clients' migration to mobile services and decrease in ATM operation business revenue which was due to the COVID-19 pandemic, etc.

Operating profit was JPY14,248 million, up 73.2% year over year. The increase enterprise recurring revenues increased more than our expectation and a decrease in mobile data interconnectivity cost by the annual revision of mobile unit charges based on FY2019. Profit before tax was JPY14,035 million, up 96.0% year over year. Profit attributable to owners of the parent was JPY9,712 million, up 142.4% year over year.

In business segments results, revenues for network services and systems integration business segment were JPY210,278 million, up 4.8% year over year and operating profit was JPY13,541 million, up 101.2% year over year. As for ATM operation business, revenues were JPY2,891 million, down 29.2% year over year and operating profit was JPY826 million, down 49.8% year over year.

(iii) 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 JPY213,002 million, up 4.2% YoY (JPY204,474 million for FY2019).

[Network services]

Network services revenue was JPY126,827 million, up 4.0% YoY (JPY121,999 million for FY2019).

Revenues for Internet connectivity services for enterprise were JPY40,347 million, up 10.1% YoY from JPY36,635 million for FY2019, mainly due to an increase in IP services revenues and mobile-related services revenues along with an increase of telecommunication demands.

Revenues for Internet connectivity services for consumers were JPY25,722 million, down 1.3% YoY from JPY26,055 million for FY2019, mainly due to competition in consumer mobile services.

Revenues for WAN services were JPY25,048 million, down 7.1% YoY from JPY26,972 million for FY2019. The decrease was mainly because of the year over year impact by large enterprises clients' migration to mobile which mostly ended in 3Q19.

Revenues for Outsourcing services were JPY35,710 million, up 10.4% YoY from JPY32,337 million for FY2019, 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

	FY2019	**FY2020**	YoY Change
	JPY millions	**JPY millions**	**%**
Total network services	121,999	**126,827**	4.0
Internet connectivity services (enterprise)	36,635	**40,347**	10.1
IP services (including data center connectivity services)	10,701	**12,171**	13.7
IIJ Mobile Services	22,598	**24,525**	8.5
Enterprise mobile service (IoT usages etc.)	6,024	**7,807**	29.6
IIJ Mobile MVNO Platform service (MVNE)	16,574	**16,718**	0.9
Others	3,336	**3,651**	9.4
Internet connectivity services (consumer)	26,055	**25,722**	(1.3)
IIJmio Mobile Services	23,487	**22,997**	(2.1)
Others	2,568	**2,725**	6.1
WAN services	26,972	**25,048**	(7.1)
Outsourcing services	32,337	**35,710**	10.4

Number of Contracts and Subscription for Connectivity Services

	As of March 31, 2020	**As of March 31, 2021**	YoY Change
Internet connectivity services (enterprise)	2,038,687	**2,303,717**	265,030
IP service (greater than or equal to 1Gbps)	769	**791**	22
IP service (less than 1Gbps)	1,245	**1,200**	(45)
IIJ Mobile Services	1,949,927	**2,209,836**	259,909
Enterprise mobile service (IoT usages etc.)	842,811	**1,110,415**	267,604
IIJ Mobile MVNO Platform service (MVNE)	1,107,116	**1,099,421**	(7,695)
Others	86,746	**91,890**	5,144
Internet connectivity services (consumer)	1,410,006	**1,379,277**	(30,729)
IIJmio Mobile Services	1,075,083	**1,034,148**	(40,935)
Others	334,923	**345,129**	10,206
Total contracted bandwidth (Gbps)	5,115.9	**6,624.1**	1,508.2

(Notes)

1. Numbers in the table above show number of contracts except for "IIJ Mobile Services (enterprise)" and "IIJmio Mobile Services" which show number of subscriptions.
2. The numbers of IP service contracts include the numbers of IIJ data center connectivity service contracts.
3. Total contracted bandwidth is calculated by multiplying number of contracts under "Internet connectivity services (enterprise)" except for "IIJ Mobile Services" and the contracted bandwidths of the services respectively.

[Systems integration]

SI revenues, including equipment sales, were JPY83,284 million, up 6.2% YoY (JPY78,394 million for FY2019).

Systems construction and equipment sales, a one-time revenue, was JPY31,767 million, down 0.7% YoY (JPY31,976 million for FY2019). Systems operation and maintenance revenue, a recurring revenue, was JPY51,517 million, up 11.0% YoY (JPY46,418 million for FY2019), mainly due to an increase in private cloud services' revenues.

Orders received for SI, including equipment sales, totaled JPY90,314 million, up 8.6% YoY (JPY83,143 million for FY2019); orders received for systems construction and equipment sales were JPY32,590 million, up 3.0% YoY (JPY31,643 million for FY2019), and orders received for systems operation and maintenance were JPY57,724 million, up 12.1% YoY (JPY51,500 million for FY2019).

Order backlog for SI, including equipment sales, as of March 31, 2021 amounted to JPY62,894 million, up 12.6% YoY (JPY55,864 million as of March 31, 2020); order backlog for systems construction and equipment sales was JPY8,330 million, up 11.0% YoY (JPY7,507 million as of March 31, 2020) and order backlog for systems operation and maintenance was JPY54,564 million, up 12.8% YoY (JPY48,357 million as of March 31, 2020).

[ATM operation business]

ATM operation business revenues were JPY2,891 million, down 29.2% YoY (JPY4,081 million for FY2019), mainly due to the decrease in the number of ATM usage and ATMs in operation along with store closure and stay-at-home by the COVID-19.

ii) Cost of sales

Total cost of sales was JPY172,720 million, up 0.5% YoY (JPY171,880 million for FY2019).

[Network services]

Cost of network services revenue was JPY99,656 million, down 2.4% YoY (JPY102,092 million for FY2019). There was a decrease in cost due to mobile unit charge revised by Mobile Network Operators (MNOs) based on their actual results of FY2019 (JPY1.09 billion) and a decrease in circuit-related costs along with WAN services revenue decrease. Gross profit was JPY27,171 million, up 36.5% YoY (JPY19,907 million for FY2019), and gross profit ratio was 21.4% (16.3% for FY2019).

[Systems integration]

Cost of SI revenues, including equipment sales was JPY71,197 million, up 5.3% YoY (JPY67,584 million for FY2019). There was an increase in license fees along with an increase in cloud-related revenues. Gross profit was JPY12,087 million, up 11.8% YoY (JPY10,810 million for FY2019) and gross profit ratio was 14.5% (13.8% for FY2019).

[ATM operation business]

Cost of ATM operation business revenues was JPY1,867 million, down 15.3% YoY (JPY2,204 million for FY2019). Gross profit was JPY1,024 million (JPY1,877 million for FY2019) and gross profit ratio was 35.4% (46.0% for FY2019).

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

Selling, general and administrative expenses, which include research and development expenses, totaled JPY25,491 million, up 5.9% YoY (JPY24,076 million for FY2019). There was an increase in personnel-related expenses and decreases in sales commission expenses and traveling expenses.

Other operating income was JPY149 million (JPY223 million for FY2019). Other operating expenses was JPY692 million (JPY516 million for FY2019), mainly due to disposal loss on fixed assets.

iv) Operating profit

Operating profit was JPY14,248 million (JPY8,225 million for FY2019), up 73.2% YoY.

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

Finance income was JPY776 million, compared to JPY350 million for FY2019. It included gains on financial instruments of JPY479 million (JPY128 million for FY2019), foreign exchange gain of JPY138 million and dividend income of JPY98 million (JPY95 million for FY2019).

Finance expense was JPY581 million, compared to JPY610 million for FY2019. It included interest expenses of JPY580 million (JPY583 million for FY2019).

Share of loss of investments accounted for using equity method was JPY408 million (compared to loss of JPY806 million for FY2019), mainly due to loss of DeCurret of JPY629 million, which included gain on changes in equity of JPY349 million.

vi) Profit before tax

Profit before tax was JPY14,035 million (JPY7,159 million for FY2019), up 96.0% YoY.

vii) Profit for the year

Income tax expense was JPY4,234 million (JPY2,965 million for FY2019), which included tax reduction of JPY306 million related to employment promotion taxation (JPY237 million for FY2019) and deferred tax benefit of JPY384 million (JPY70 million for FY2019). As a result, profit for the year was JPY9,801 million (JPY4,194 million for FY2019), up 133.7% YoY.

Profit for the year attributable to non-controlling interests was JPY89 million (JPY187 million for FY2019), mainly related to net income of Trust Networks Inc.

Profit for the year attributable to owners of parent was JPY9,712 million (JPY4,007 million for FY2019), up 142.4% YoY.

(3) Financial Position as of March 31, 2021

As of March 31, 2021, the balance of total assets was JPY220,777 million, increased by JPY14,253 million from the balance as of March 31, 2020 of JPY206,524 million.

As of March 31, 2021, the balance of current assets was JPY93,405 million, increased by JPY6,814 million from the balance as of March 31, 2020 of JPY86,590 million. The major breakdown of balance and fluctuation of current assets was: an increase in cash and cash equivalents by JPY3,795 million to JPY42,467 million, an increase in trade receivables by JPY2,214 million to JPY34,799 million and an increase in prepaid expenses by JPY902 million to JPY10,598 million.

As of March 31, 2021, the balance of non-current assets was JPY127,373 million, increased by JPY7,439 million from the balance as of March 31, 2020 of JPY119,934 million. As for the major breakdown of balance and fluctuation of non-current assets, tangible assets decreased by JPY315 million to JPY17,084 million, mainly due to depreciation. Right-of-use assets, which include right to use leased assets under operating lease contracts such as office and data centers and assets under finance lease contracts such as data communication equipment, increased by JPY147 million to JPY50,708 million, mainly due to new lease contracts. Intangible assets decreased by JPY1,326 million to JPY16,954 million, mainly due to amortization. The balance of investments accounted for using the equity method was JPY9,027 million, increased by JPY4,200 million, mainly due to an additional investment in DeCurret. Prepaid expenses increased by JPY1,759 million to JPY9,537 million, mainly due to prepayment of maintenance costs. The amount of other investments was JPY12,912 million, increased by JPY3,726 million mainly due to fluctuation of fair value of our holding marketable equity securities.

As of March 31, 2021, the balance of current liabilities was JPY73,259 million, increased by JPY7,572 million from the balance as of March 31, 2020 of JPY65,687 million. As for the major breakdown of balance and fluctuation of current liabilities, trade and other payables increased by JPY956 million to JPY19,244 million. Borrowings increased by JPY2,980 million to JPY18,560 million, due to an increase by JPY5,170 million from a transfer from non-current liabilities and a decrease by JPY2,190 million from repayment. Contract liabilities increased by JPY1,204 million to JPY7,102 million. Other financial liabilities increased by JPY34 million to JPY17,879 million. Other current liabilities increased by JPY1,678 million to JPY7,382 million.

As of March 31, 2021, the balance of non-current liabilities was JPY56,547 million, decreased by JPY4,234 million from the balance as of March 31, 2020 of JPY60,780 million. As for the major breakdown of balance and fluctuation of current liabilities, long-term borrowings decreased by JPY5,170 million to JPY7,000 million due to a transfer to current portion. Contract liabilities increased by JPY1,253 million to JPY7,244 million. Other financial liabilities decreased by JPY658 million to JPY35,648 million, mainly due to a transfer to current portion.

As of March 31, 2021, the balance of total equity attributable to owners of the parent was JPY89,956 million, increased by JPY10,881 million from the balance as of March 31, 2020 of JPY79,076 million. Ratio of owners' equity to total assets was 40.7% as of March 31, 2021.

(4) Analysis of Liquidity and Capital Resources for the fiscal year ended March 31, 2021

(i) 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.

(ii) Cash flows

Cash and cash equivalents as of March 31, 2021 were JPY42,467 million (JPY38,672 million as of March 31, 2020).

Net cash provided by operating activities for FY2020 was JPY40,544 million (net cash provided by operating activities of JPY33,394 million for FY2019). There was profit before tax of JPY14,035 million, depreciation and amortization of JPY27,974 million, including JPY11,668 million of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY3,912 million. Regarding changes in working capital, there was net cash in of JPY1,513 million compared to net cash out of JPY909 million for FY2019. As for the major factors for the increase in net cash-inflow in comparison with FY2019, there were decreases in payment of current liabilities, such as trade payable. Cash-inflow also increased due to trade and other receivable and contract liabilities. The increase in net cash-inflow related to these factors exceeded the net increased amount of payment of prepaid expenses and contract assets.

Net cash used in investing activities for FY2020 was JPY13,216 million (net cash used in investing activities of JPY7,265 million for FY2019), mainly due to payments for purchases of tangible assets of JPY6,391 million (JPY7,197 million for FY2019), investments in an equity method investee of JPY4,754 million (JPY868 million for FY2019), payments for purchases of intangible assets, such as software, of JPY4,617 million (JPY4,642 million for FY2019) and proceeds from sales of tangible assets, which include sale and leaseback, of JPY2,499 million (JPY2,771 million for FY2019).

Net cash used in financing activities for FY2020 was JPY23,618 million (net cash used in financing activities of JPY19,354 million for FY2019), mainly due to payments of other financial liabilities of JPY20,168 million (JPY20,556 million for FY2019), which includes payments under operating lease contracts such as office rent and finance lease contracts such as network equipment, repayments of long-term bank borrowings of JPY1,830 million, dividends paid of JPY1,533 million (JPY1,217 million for FY2019) and repayments of short-term borrowings of JPY360 million.

(iii) 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, 2021, our short-term borrowings consisting of bank overdrafts were JPY13,390 million. Our unused balance under our bank overdraft agreements, uncommitted, was JPY12,460 million in short-term borrowings as of March 31, 2021. As of March 31, 2021, the balance of our long-term borrowings was JPY12,170 million.

(iv) Finance Leases

The Company conducts its connectivity and other services by using data communications and other equipment leased under finance lease arrangements. The balance of finance lease liabilities amounted to JPY18,229 million at March 31, 2021.

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 cooperating with the MIC and other ISPs from 2004 on evaluating domestic Internet traffic volume as well as its trend. As the use of the Internet is changing in response to the COVID-19 pandemic, our reports on Internet traffic continue to receive favorable reviews. This kind of research is not only valuable to us in constructing network architecture, but also valuable worldwide as a rare research output which we believe is a great contribution to the ICT industry. 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, such as dynamic information management by collecting and extracting network information, building automatic configuration systems for industrial and IoT devices, etc. In regard to security, we designed an early warning system using the logs accumulated by Security Operation Center (SOC), and researched technologies to prevent possible attacks based on machine learning and binary analysis technologies.

For the fiscal year ended March 31, 2021, 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, execution of customers' various PoC (*) projects for developments of IoT related services etc., 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, 2021, research and development expenses, which were in relation to network services and systems integration business segment, were JPY472 million, increased by 7.8% 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, 2021 were JPY15,151 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 JPY10,391 million and investments in software such as service and back office system-related software was JPY4,760 million.

The capital expenditures described above include the following: purchase of assets of JPY7,403 million which were paid with cash on hand, and acquisition of assets made by entering into finance leases of JPY7,748 million.

For the fiscal year ended March 31, 2021, 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, 2021 were as follows:

(1) IIJ

Office (Location)	Segment	Type of Equipment and Facilities	Carrying amount (thousands of yen)							Number of Employees (person) Note 1
			Land (Area m²)	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)	5,353,326	1,224,892	2,972,576	14,528,771	14,811,463	40,946,127	2,214

(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, 2021, total rent expenses including for our headquarters amounted JPY6,258,283 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 (thousands of yen)					Number of Employees (person) Note 2
			Facilities attached to buildings	Tools, furniture and fixtures	Software	Leased assets	Total	
IIJ Global Solutions Inc. (Chiyoda-ku, Tokyo)	Network services and SI business	Office equipment and communication equipment etc.	19,182	579,511	108,946	933,908	1,641,547	333
Trust Networks Inc. (Chiyoda-ku, Tokyo)	ATM operation Business	Office equipment and communication equipment etc.	－	76,062	57,627	621,729	755,418	10
IIJ Engineering Inc. (Chiyoda-ku, Tokyo)	Network services and SI business	Office equipment and communication equipment etc.	105,738	302,087	54,782	1,420	464,027	543

(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 (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.	518,062	334,362	2,282	854,706	50
IIJ Europe Limited (London, the United Kingdom)	Network services and SI business	Office equipment and Communication equipment etc.	215,764	37,470	—	253,234	41

(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

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

Plans of new construction and disposals of major property and equipment as of March 31, 2021 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.	9,950,000	—	Cash	April 2021	March 2022
Data Center etc. (Shiroi-shi, Chiba, etc.)	Network services and SI business	Communication equipment, Sever and System development etc.	6,320,000	—	Lease	April 2021	March 2022
Data Center (Shiroi-shi, Chiba.)	Network services and SI business	Addition in Data center Modules, etc.	1,180,000	—	Cash and Lease	April 2021	March 2022

(2) Disposals of major facilities, etc.

Not applicable.

Item 4. Information on IIJ

1 Information on IIJ's Shares

(1) Total Number of Shares

(i) Total Number of Shares

Class	Total number of shares authorized to be issued (shares)
Common stock	151,040,000
Total	151,040,000

(Note) By resolution of the Board of Directors on November 9, 2020, the Articles of Incorporation were amended to reflect a stock split effective January 1, 2021, and the total number of shares authorized to be issued increased by 75,520,000 shares to 151,040,000 shares.

(ii) Number of shares issued

Class	Number of shares issued as of the end of the fiscal year (shares) (March 31, 2021)	Number of shares issued as of the filing date (shares) (June 30, 2021)	Stock exchange on which IIJ is listed or authorized financial instruments firms association	Description
Common stock	93,469,200	93,502,400	Tokyo Stock Exchange (the first section)	The number of shares constituting a unit is 100.
Total	93,469,200	93,502,400	—	—

(Notes) 1. By resolution of the Board of Directors on November 9, IIJ conducted a two-for-one stock split of its common stock with an effective date of January 1, 2021. As a result, the number of shares issued increased by 46,734,600 shares to 93,469,200 shares.

2. The increase in number of shares issued during the period from April 1, 2021 to June 30, 2021 was due to the exercise of stock acquisition rights.

(2) Information on Stock Acquisition Rights

(i) 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 [77] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share)	Common stock 35,200 [30,800] 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 :JPY648.86 Amount of capitalization :JPY324.43 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 [79] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share)*	Common stock, 35,200 [31,600] 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 : JPY796.905 Amount of capitalization : JPY398.4525 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 [65] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share)*	Common stock, 28,000 [26,000] Note 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 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 : JPY1,618 Amount of capitalization : JPY809 Note 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

#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 [94] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share)*	Common stock, 40,400 [37,600] Note 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, 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 : JPY1,057 Amount of capitalization : JPY528.5 Note 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

#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 [125] Note 1
Type of stock and number of shares subject to stock acquisition rights(Share) *	Common stock 53,600 [50,000] Note 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 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 : JPY923.5 Amount of capitalization : JPY461.75 Note 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 [135] Note 1
Type of stock and number of shares subject to stock acquisition rights (Share) *	Common stock, 57,600 [54,000] Note 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 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 : JPY900.5 Amount of capitalization : JPY450.25 Note 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 [146] Note 1
Type of stock and number of shares subject to stock acquisition rights (Share) *	Common stock, 62,000 [58,400] Note 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 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 : JPY843.5 Amount of capitalization : JPY421.75 Note 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 [146] Note 1
Type of stock and number of shares subject to stock acquisition rights (Share) *	Common stock, 62,000 [58,400] Note 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 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 : JPY869.5 Amount of capitalization : JPY434.75 Note 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 [154] Note 1
Type of stock and number of shares subject to stock acquisition rights (Share) *	Common stock, 65,200 [61,600] Note 1 and 5
Amount to be paid in upon exercise of subscription rights to shares (JPY)	The value of assets to be contributed upon exercise of stock acquisition rights shall be determined by multiplying the price to be paid per share upon exercise of each stock acquisition right (the "exercise price") by the Number of Shares Granted, and the exercise price shall be one (1) yen.
Exercise period of subscription rights to shares	From July 13, 2019 to July 12, 2049
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares (JPY)	Price of issuing shares : JPY887 Amount of capitalization : JPY443.5 Note 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

#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)	104 [98] Note 1
Type of stock and number of shares subject to stock acquisition rights (Share)	Common stock, 41,600 [39,200] Note 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)	Price of issuing shares : JPY1,609.5 Amount of capitalization : JPY804.75 Note 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

#11 Stock Acquisition Rights

Date of resolution	June 29, 2021
Class and number of person for subscription rights to shares	8 Full-time Directors and 15 Executive Officers
Number of stock acquisition rights outstanding (Number)	105 Note 1 and 6
Type of stock and number of shares subject to stock acquisition rights (Share)	Common stock 42,000 Note 1 and 6
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 16, 2021 to July 15, 2051
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares (JPY)	Note 7
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 FY2020 (March 31, 2021). For the items changed during the period from March 31, 2021 to May 31, 2021, 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).

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

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

2. Terms and conditions of exercising stock acquisition rights

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

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

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

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

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

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

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

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

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

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

Common stock of the Restructured Company

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

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

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

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

5) Exercise period of stock acquisition rights

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

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

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

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

7) Restriction on acquisition of stock acquisition rights by transfer

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

8) Conditions for acquisition of stock acquisition right

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

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

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

9) Other terms and conditions of exercising stock acquisition rights

To be determined in accordance with Note 2 below.

4. By resolution of the Board of Directors on September 6, 2012, IIJ conducted a 1:200 stock split on October 1, 2012. Also, by resolution of the Board of Directors on November 9, 2020, a 1:2 stock split was conducted on January 1, 2021. As a result of these stock splits, the number of shares to be issued upon exercise of stock acquisition rights was adjusted from 1 share to 200 shares per stock acquisition right on and after October 1, 2012, and from 200 shares to 400 shares per stock acquisition right on and after January 1, 2021. In addition, 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 be 1/400th.
5. By resolution of the Board of Directors on November 9, 2020, IIJ conducted a 1:2 stock split on common stock with an effective date of January 1, 2021. In connection with the stock split, the number of shares to be issued upon exercise of stock acquisition rights has been adjusted from 200 shares to 400 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 be one half.
6. 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.
7. As of the filing date of this document, the price of issuing shares and the amount of capitalization are not determined.

(ii) Details of rights plan

Not applicable

(iii) Other share acquisition rights

Not applicable

(3) Information on Moving Strike Convertible Bonds

Not applicable.

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

Date	Changes in the total number of issued shares (shares)	Balance of the total number of issued shares (shares)	Changes in capital (thousands of yen)	Balance of capital (thousands of yen)	Changes in capital reserve (thousands of yen)	Balance of capital reserve (thousands of yen)
April 3, 2017 (Note 1)	2,400	46,713,800	2,305	22,972,583	2,305	9,693,266
April 2, 2018 (Note 1)	7,600	46,721,400	6,907	22,979,490	6,909	9,700,175
July 1, 2019 (Note 1)	13,200	46,734,600	11,909	22,991,399	11,908	9,712,083
January 1, 2021 (Note 2)	46,734,600	93,469,200	-	22,991,399	-	9,712,083

(Notes)
1. Increased by exercise of stock acquisition rights
2. By resolution of the Board of Directors on November 9, 2020, IIJ conducted a two-for-one stock split on common stock with an effective date of January 1, 2021. The above increase is due to the stock split.
3. As a result of the exercise of stock acquisition rights on April 5, 2021, the total number of issued shares, capital and capital reserve increased by 33,200 shares, JPY15,862 thousand and JPY15,862 thousand, respectively.

(5) Composition of Shareholders

As of March 31, 2021

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)	—	40	44	81	223	17	8,937	9,342	—
Number of shares held (units)	—	211,928	9,372	354,509	221,156	17	137,472	934,454	23,800
Percentage of shares held (%)	—	22.68	1.00	37.94	23.67	0.00	14.71	100.00	—

(Note) Of 3,263,532 shares of treasury stock, 32,635 units are included in "Individual and others," and 32 shares are included in "Number of shares less than one unit."

(6) Major Shareholders

As of March 31, 2021

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	20,190,000	22.38
The Master Trust Bank of Japan, Ltd. (Trust account) (Note 2)	11-3 Hamamatsu-cho 2-chome, Minato-ku, Tokyo	4,940,900	5.48
Custody Bank of Japan, Ltd. (Trust account)	8-12 Harumi 1-chome, Chuo-ku, Tokyo	4,117,000	4.56
NTT Communications Corporation	3-1 Otemach 2-chome, Chiyoda-ku, Tokyo	4,080,000	4.52
ITOCHU Techno-Solutions Corporation	2-5 Kasumigaseki 3-chome, Chiyoda-ku, Tokyo	3,904,000	4.33
Koichi Suzuki	Chiyoda-ku, Tokyo	3,682,134	4.08
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Custody Bank of Japan, Ltd.)	13-1 Yurakucho 1-chome, Chiyoda-ku, Tokyo (8-12 Harumi 1-chome, Chuo-ku, Tokyo)	2,546,000	2.82
KS Holdings Inc. (Note 3)	5-3 Nishi-Kanda 3-chome, Chiyoda-ku, Tokyo	1,620,000	1.80
MUFG Bank, Ltd.	7-1 Marunouchi 2-chome, Chiyoda-ku, Tokyo	1,372,000	1.52
Sompo Japan Insurance Inc.	26-1 Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo	1,300,000	1.44
Total	―	47,752,034	52.93

(Notes)

1. The percentage are rounded to two decimal places.
2. Numbers of shares held by Japan Trustee Services Bank, Ltd and Custody 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 April 30, 2020. According to the filing, Dalton owned 1,975,500 shares of common stock of the Company as of April 24, 2020, representing 4.2% of the total at that point. The number of shares mentioned above is the number of shares before the stock split, effective from January 1, 2021. Since then, we have not recognized any filings by Dalton. Their holdings were not verified based on the shareholder record as of March 31, 2021, 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 1, 2021. According to the filing, Global Alpha owned 4,680,460 shares of common stock of the Company as of February 24, 2021, representing 5.0% of the total at that point. Since then, we have not recognized any filings by Global Alpha. Their holdings were not verified based on the shareholder record as of March 31, 2021, therefore, Global Alpha and their holdings are not included in the above list
6. There were 3,263,532 shares of treasury stock, which were not included in the above table.

(7) Information on Voting Rights

(i) Issued shares

As of March 31, 2021

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: 3,263,500 shares of common stock	—	—
Shares with Full Voting Rights (others)	90,181,900 shares of common stock	901,819	—
Shares Representing Less than One Unit	23,800 shares of common stock	—	—
Number of Issued Shares	93,469,200 shares of common stock	—	—
Total Number of Voting Rights	—	901,819	—

(ii) Treasury Stock

As of March 31, 2021

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	3,263,500	—	3,263,500	3.49
Total	—	3,263,500	—	3,263,500	3.49

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, 2021	74	140
Treasury stock acquired for the period from April 1, 2021 to June 29, 2021	—	—

(Note) IIJ conducted a two-for-one stock split of its common stock with an effective date of January 1, 2021. The breakdown of treasury stock acquired for the year ended March 31, 2021 is 37 shares acquired before the stock split and 37 shares increased due to the stock split.

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

Classification	Fiscal year ended March 31, 2021		Period from April 1, 2021 to June 29, 2021	
	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 (Allotment of restricted stock) (Note)	19,221	74,866	41,865	121,157
Total number of treasury stock held	3,263,532	—	3,221,667	—

(Note) IIJ conducted a two-for-one stock split of its common stock with an effective date of January 1, 2021. The number of shares of "Other (Allotment of restricted stock)" of 19,221 shares in the fiscal year ended March 31, 2021 is the number of shares before the stock split.

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, 2021, IIJ paid total cash dividend of JPY40.00 per share of common stock, which consists of a cash dividend of JPY20.50 per share of common stock as an interim dividend and a cash dividend of JPY19.50 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, 2021.

Date of resolution	Total cash dividends (Thousands of yen)	Dividend per Shares (Yen)
The Meeting of the Board of Directors on November 9, 2020	924,608	20.50
The General Meeting of Shareholders on June 29, 2021	1,759,011	19.50

(Note) IIJ conducted a two-for-one stock split of its common stock with an effective date of January 1, 2021. As a result, the above annual dividend of JPY40.00 per share is the sum of the interim dividend per share before the stock split and the year-end dividend per share after the stock split. Regarding pre-split basis amount, the year-end dividend per share is equivalent to JPY39.00 and annual dividend per share is equivalent to JPY59.50.

4. Corporate Governance

(1) Overview of Corporate Governance

i) **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.

ii) 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 12 directors (including eight full-time directors and four 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 12 directors (Representative Director/Chairman Koichi Suzuki (chairman), Eijiro Katsu, Satoshi Murabayashi, Koichi Kitamura, Akihisa Watai, Tadashi Kawashima, Junichi Shimagami, Naoshi Yoneyama, Shingo Oda (outside director), Takashi Tsukamoto (outside director), Kazuo Tsukuda (outside director), and Yoichiro Iwama (outside director).

2) Board of Company Auditors

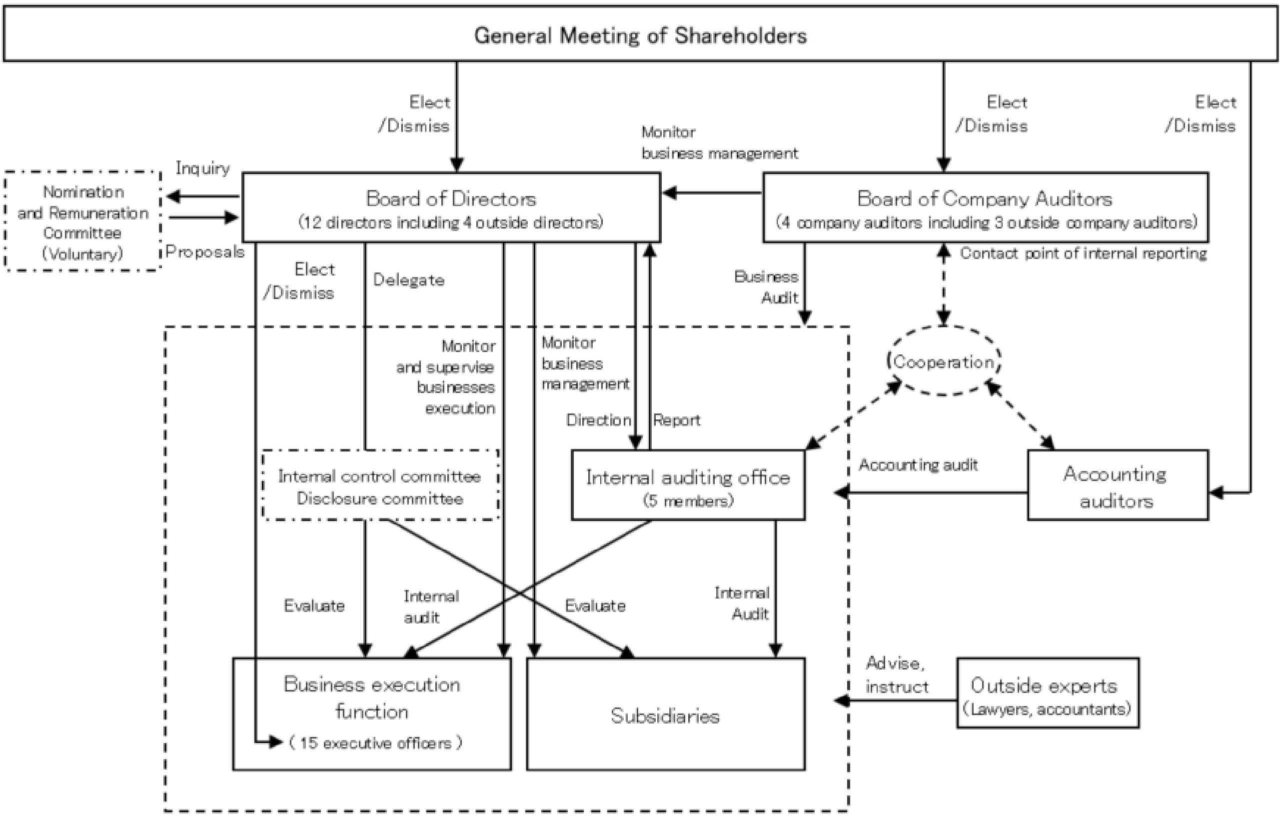
IIJ's board of company auditors holds ordinary meetings every month and extraordinary meetings when needed in order to supervise business executions by the directors. In addition, by associating with our Internal Auditing Office, IIJ's board of company auditors shares information necessary for the audits. 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 six directors: Representative Director/Chairman Koichi Suzuki (chairman), Eijiro Katsu, Shingo Oda (outside director), Takashi Tsukamoto (outside director), Kazuo Tsukuda (outside director), and Yoichiro Iwama (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 four 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.

iii) 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 liability insurance contracts**］

IIJ, with our directors, company auditors, executive officers and other important employees under the Corporation Law of Japan as insured persons, has entered into a directors and officers liability insurance policy, as provided for in Article 430-3, Paragraph 1 of the Corporation Law of Japan with an insurance company. The policy covers the losses due to the insured's actions based on his/her position, such as damages payable, litigation costs, etc. in damage suits. However, the scope of compensation does not cover the damages and litigation costs of the insured involved in an intentional illegal act or criminal act such as bribery, to ensure that the appropriateness of the performance of the insured's duties is not lost. As for the insurance premiums, the Company bears approximately 90% of the total and each insured bears the remaining balance within a maximum of 1.8% individually, depending on his/her position.

［**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, iii) Other 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

i) Members of the Board of Directors and the board of company auditors

Consisting of 15 male directors and company auditors and one female company auditor (the ratio of female members is 6.3%)

Position	Responsibility	Name	Date of birth	Brief personal records		Current term expires	Number of shares owned
Representative Director/ Chairman	Co-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 Apr. 2021	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 (Current position) Chairman, Representative Director and Chief Executive Officer of IIJ Chairman and Representative Director of JOCDN Inc. (Current position) Chairman of Telecom Services Association (Current position) Director of DeCurret Inc. Chairman and Representative Director of IIJ Engineering Inc. (Current position) Chairman, Representative Director and Co-Chief Executive Officer of IIJ (Current position)	(Note 3)	3,689,042
Representative Director/ President	Co-Chief Executive Officer and 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 Apr. 2021	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 Outside Auditor of The Yomiuri Shimbun (Current position) Director of DeCurret Inc. (Current position) President, Representative Director, Co-Chief Executive Officer and Chief Operating Officer of IIJ (Current position)	(Note 3)	91,068

<table>
<tr><th>Position</th><th>Responsibility</th><th>Name</th><th>Date of birth</th><th colspan="2">Brief personal records</th><th>Current term expires</th><th>Number of shares owned</th></tr>
<tr><td>Senior Managing Director/ Vice President</td><td></td><td>Satoshi Murabayashi</td><td>Nov. 8, 1958</td><td>Apr. 1981
Jun. 2007
Jun. 2013
May 2015
Jun. 2015
Jun. 2017
Apr. 2020
Jun. 2021</td><td>Joined The Sanwa Bank, Ltd. (currently MUFG Bank, Ltd.)
Executive Officer of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (currently MUFG Bank, Ltd.)
Managing Director of The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Senior Managing Director of The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Senior Managing Corporate Executive of Mitsubishi UFJ Financial Group, Inc.
President and Representative Director of Mitsubishi UFJ Research and Consulting Co., Ltd.
Outside Director of DeCurret Inc.
Vice President and Director of IIJ (Current position)
Chairman and Representative Director of DeCurret Inc.(Current position)</td><td>(Note 3)</td><td>-</td></tr>
<tr><td>Senior Managing Director/</td><td>Business Unit Director</td><td>Koichi Kitamura</td><td>May 12, 1954</td><td>Apr. 1978
Jun. 2004
Apr. 2009
Apr. 2012
Jun. 2016
Apr. 2020
Apr. 2021
Jun. 2021</td><td>Joined Nippon Steel Corporation
Director of NS Solutions Corporation
Executive Director of NS Solutions Corporation
Managing Executive Director of NS Solutions Corporation
Director & Vive-president Operating Officer of the same
Senior Managing Executive Officer and Deputy Unit Director of Business Unit of IIJ
Senior Managing Executive Officer and Business Unit Director of IIJ
Senior Managing Director and Business Unit Director of IIJ (Current position)</td><td>(Note 3)</td><td>2,585</td></tr>
<tr><td>Senior Managing Director</td><td>Chief Financial Officer</td><td>Akihisa Watai</td><td>Sep. 30, 1965</td><td>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
Apr. 2021</td><td>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
Company Auditor of IIJ-Global (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)
Senior Managing Director and Chief Financial Officer of IIJ(Current position)</td><td>(Note 3)</td><td>31,201</td></tr>
</table>

Position	Responsibility	Name	Date of birth	Brief personal records		Current term expires	Number of shares owned
Managing Director	Deputy Unit Director of Business Unit	Tadashi Kawashima	Feb. 27, 1963	Apr. 1987	Joined NIPPON TELEGRAPH AND TELEPHONE CORPORATION	(Note 3)	8,933
				Jul. 1988	Joined NTT DATA Communications Systems Corporation (Currently, NTT DATA Corporation)		
				Jun. 2011	Head of Public Division Department 2, First Public Administration Systems Sector of NTT DATA Corporation		
				Jun. 2013	Senior Specialist of Public and Financial IT Business Department of NTT DATA Corporation President and Representative Director of NTT DATA Tokai Corporation		
				Jun. 2015	Managing Director of IIJ (Current position)		
				Apr. 2016	Deputy Unit Director of Business Unit of IIJ (Current position)		
				Apr. 2021	Division Director of Central Nippon Business Division of IIJ (Current position)		
Managing Director	Chief Technology Officer	Junichi Shimagami	Apr. 17, 1967	Apr. 1990	Joined Nomura Research Institute, Ltd.	(Note 3)	23,592
				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)		
Managing 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)	43,755
				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.		
				Apr. 2018	Senior Executive Managing Officer, Division Director of Corporate Planning Division of IIJ		
				Jun.2019	Director, Division Director of Corporate Planning Division of IIJ		
				Jun.2020	Director of JOCDN Inc. (Current position)		
				Apr. 2021	Managing Director, CIO, and Division Director of Corporate Planning Division (Current position)		
				Jun. 2021	Director of Net Chart Japan 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 3)	-
Director		Takashi Tsukamoto (Note 1)	Aug. 2, 1950	Apr. 1974 Apr. 2004 Apr. 2007 Apr. 2008 Apr. 2009 Jun. 2011 Jul. 2013 Apr. 2014 Jul. 2016 Apr. 2017 May 2017 Jun. 2017	Joined The Dai-Ichi Kangyo Bank, Ltd. (Currently, Mizuho Bank, Ltd.) Managing Executive Officer (Head of EMEA) of Mizuho Corporate Bank, Ltd. (Currently, Mizuho Bank, Ltd.) Deputy President of the same Deputy President & CFO of Mizuho Financial Group, Inc. President and CEO of the same President and CEO of Mizuho Bank, Ltd. Chairman of Mizuho Financial Group, Inc. Chairman of Mizuho Bank, Ltd. Senior Advisor of Mizuho Financial Group, Inc. Director of Asahi Mutual Life Insurance Company (Current position) Honorary Advisor of Mizuho Financial Group Inc. (Current position) Director of AEON CO., LTD. (Current position) Director of IIJ (Current position)	(Note 3)	4,036
Director		Kazuo Tsukuda (Note 1)	Sep.1, 1943	Apr. 1968 Jun. 1999 Apr. 2002 Jun 2003 Apr. 2008 Apr. 2013 Jun. 2019 Jun. 2020	Joined Mitsubishi Heavy Industries, Ltd Director of the same Managing Director of the same President and Representative Director of the same Chairman of the Board, Representative Director of the same Chief Executive Adviser of the same Special Advisor of the same (current position) Director of IIJ (Current position)	(Note 3)	-
Director		Yoichiro Iwama (Note 1)	Sep. 15, 1943	Apr. 1967 Jun. 1996 Apr. 2005 Jun. 2005 Jun. 2010 May 2018 Jun. 2021	Joined Tokio Marine and Fire Insurance Co., Ltd (currently Tokio Marine and Nichido Fire Insurance Co., Ltd.) Director of the same Senior Managing Director of the same President and Representative Director of Tokio Marine Asset Management Co., Ltd. Chairman of Japan Securities Investment Advisers Association (currently Japan Investment Advisers Association) Outside Director and Chairman of the Board of Nikko Asset Management Co., Ltd. (current position) Director of IIJ (Current Position)	(Note 3)	-

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 (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 4)	-
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)	346, 400
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 4)	-
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 4)	-
Total							4,240,612

(Notes)
1. Shingo Oda, Takashi Tsukamoto, Kazuo Tsukuda and Yoichiro Iwama 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, 2021 and expires at the close of the Annual General Meeting of Shareholders for the year ending March 31, 2022.
4. The term of office of the Company Auditors 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.
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, 2021 and expires at the close of the Annual General Meeting of Shareholders for the year ending March 31, 2025.

Executive Officers:

The following table provides information about our executive officers as of June 30, 2021.

Name	Position and Major Responsibility
Masayoshi Tobita	Managing Executive Officer Division Director of Administrative Division, Division Director of Business Unit Management Division
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
Tadaharu Esaka	Managing Executive Officer Deputy Director of Business Unit
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
Ken Araki	Executive Officer Division Director of Financial Systems Business Division
Naoshi Someya	Executive Officer Division Director of Cloud Division
Hajime Shironouchi	Executive Officer Division Director of Network Division

ii) Status outside directors and Company auditors

［Number of outside directors and Company auditors］

IIJ has four 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. 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, iii) Other matters regarding corporate governance,［Outline of limited liability contracts］”of this document.

iii) 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, ii) Overviews 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

i) Status of Company auditors' audit

IJJ 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 Company 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, 2021, the board of company auditors was held 13 times and each auditor's attendance was as follows:

Position	Name	Number of attendance, etc.
Full-time, outside company auditor	Kazuhira Ohira	12 times
Full-time company auditor	Masako Tanaka	13 times
Part-time company auditor	Takashi Michishita	13 times, attorney at law
Part-time company auditor	Yasuhiro Akatsuka (Note 1)	3 times, Certified Public Accountant
Part-time company auditor	Koichi Uchiyama (Note 2)	10 times, Certified Public Accountant

(Notes) 1. Retired on June 24, 2020.
2. Appointed on June 24, 2020.

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 review 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.

ii) 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.

iii) Status of Accounting auditors' audit

［Accounting auditors, etc. of IIJ］

a. Name of the accounting auditor

KPMG AZSA LLC

b. Years of audit continuity

Two years

c. Names of the certified public accountants 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: 7 persons

Members who passed the exams for Certified Public Accountants: 3 persons

Others: 21 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 accounting 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 accounting 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 considering 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 accounting auditor as the Board concluded 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.

iv) Remuneration for the accounting auditor, etc.

a. Remuneration for the accounting auditor

Category	For FY2019		For FY2020	
	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	65	3	68	—
Consolidated subsidiaries	10	—	10	—
Total	75	3	78	—

［Details of non-audit services］

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 FY2019		For FY2020	
	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	—	8
Consolidated subsidiaries	—	1	—	5
Total	—	3	—	13

［Details of non-audit services］

The amount for FY2019 and FY2020 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) Compensation for directors and company auditors, etc.

i) Policy for determining content of compensation for individual directors

a) Method for deciding on the policy for such determination

After consulting with the nomination and compensation committee on the draft of the determination policy regarding the content of compensation for individual directors, the determination policy was resolved at the board of directors meeting held on February 4, 2021.

b) Outline of content of determination policy

As for the compensation of our full-time directors, when determining the compensation of individual directors, our basic policy is to set an appropriate level of compensation according to each directors' position and responsibility, with promoting directors' motivation and morale to further improve and contribute to continuous business growth and corporate value over a mid- to long -term. The compensation of our full-time executive directors is comprised of fixed monthly remuneration (cash), performance-linked remuneration (restricted stock) and non-monetary remuneration (stock compensation-type stock options).

As for the compensation of part-time directors or outside directors who have supervisory functions, the compensation is only comprised of fixed monthly remuneration (cash), based on their roles and responsibilities.

c) Reason why the board of directors has determined that content of compensation for individual directors for FY2020 complies with the determination policy

When deciding the content of compensation for individual directors, the nomination and compensation committee conducted a multifaceted examination of the draft, including consistency with the determination policy, therefore the board of directors recognize that it is in line with the policy.

ii) Matters concerning the resolutions of ordinary general meeting of shareholders regarding compensation of directors and company auditors

- At the 16th ordinary general meeting of shareholders held on June 27, 2008, it was approved that the upper limits of the maximum aggregate amount of compensation for directors and company auditors were at JPY500 million or less per year and JPY100 million or less per year respectively. The number of directors and company auditors were 14 and four at the shareholders' meeting resolution, respectively.
- At the 19th ordinary general meeting of shareholders held on June 28, 2011, the implementation of stock compensation-type stock options to directors (except for part-time and outside directors) within the said limit, as a substitution for the retirement allowance, was approved. The number of directors was 12 at the shareholders' meeting resolution.
- At the 28th ordinary general meeting of shareholders held on June 24, 2020, the implementation of restricted stock remuneration to directors (except for part-time and outside directors) within the said limit was approved. The number of directors was 13 at the shareholders' meeting resolution.
- At the 29th ordinary general meeting of shareholders held on June 29, 2021, it was resolved that the maximum amount of compensation for Directors shall be JPY600 million or less per year, including the maximum aggregate amount of JPY50 million or less per year for Outside Directors. The number of directors was 12 at the shareholders' meeting resolution.

iii) Delegation of authority to determine compensation for individual directors

Regarding the amount of remuneration for each individual director, the representative directors (the chairman and representative director, Koichi Suzuki and the president and representative director, Eijiro Katsu) shall be delegated the specific content based on the resolution of the board of directors, and the delegated power is the determination of the amount of basic monthly remuneration and distribution of performance-linked remuneration of each individual director. In order to ensure that this authority is properly exercised by the representative directors, the representative directors, who drafted the remuneration plan, consults the nomination and compensation committee with the draft of the plan, therefore the board of directors recognize that it is in line with the determination policy. The reason for delegating to the representative directors is that the representative directors are the most suitable to evaluate the responsibility and performance of each director while taking a bird's eye view of the overall performance of the Company.

iv) Contents of performance-linked remuneration

As a performance-linked remuneration, the amount of restricted stock remuneration to be allocated is based on the evaluation methodology using year over year growth rate and target achievement rate of the consolidated revenue and operating income, which are linked with our business growth and improvement of corporate value, and is determined equivalent to between zero and four times as much as each directors' monthly fixed cash remuneration. Each director receives the determined amount of monetary compensation claims as a cash investment asset for the payment of restricted stock.

Targets and results of indicators for performance-linked compensation

	FY2019		FY2020	
	Initial targets	Results	Initial targets	Results
Consolidated revenue Compared to the previous year	JPY204.00 billion	JPY204.47 billion 106.3%	JPY210.00 billion	JPY213.00 billion 104.2%
Consolidated operating profits Compared to the previous year	JPY7.00 billion	JPY8.23 billion 136.6%	JPY8.70 billion	JPY14.23 billion 173.2%

・Total number of shares allotted as performance-linked bonus to directors and company auditors

	Performance-linked bonus for FY2019, resolved at the meeting of the Board of Directors held on June 24, 2020	Performance-linked bonus for FY2020, resolved at the meeting of the Board of Directors held on May 26, 2021
Directors (other than outside directors)	22,324 shares (Note) for seven directors	22,687 shares for seven directors
Outside Directors	—	—
Company Auditors	—	—

(Note) IIJ conducted a two-for-one stock split of its common stock with an effective date of January 1, 2021. The numbers of shares above have been adjusted to reflect the impact of this stock split.

[Overview of the restricted stock remuneration]

・ Timing of payment and allocation: The payment details of each director is determined in or after the last month of each fiscal year, and the determined amount be allotted.
・ Number of shares to be allotted per year: Up to 80,000 shares (post-split basis) or less.
・ Amount to be paid in per share: The amount to be paid in per share will be determined, based on the closing price of the Company’s common stock on the Tokyo Stock Exchange on the business day immediately preceding the date of the board of directors resolution (the closing price on the most recent day on which trading has taken place if there is no trading on that day), and will be an amount that does not provide the eligible directors who receive the common stock with a particularly advantageous price.
・ Transfer restrictions: From the disposal date of the Company’s common stocks to be allotted under the allotment agreement (the “allotted shares”) to the point in time when an eligible director resigns from the position predetermined by the board of directors (the “transfer restriction period”), it is prohibited to transfer, collateralize, or otherwise dispose the allotted shares during the transfer restriction period.
・ Removing transfer restrictions: The Company shall remove the transfer restrictions with respect to the allotted shares in whole upon the expiry of the transfer restriction period, provided that an eligible director continuously served as the position predetermined by the board of directors during the transfer restriction period. If certain grounds prescribed in the allotment agreement, such as if an eligible director retires from the position during the restriction period or upon the expiration of the restriction period for any reason other than those deemed justifiable by the Company, the Company will naturally acquire the allotted shares for no consideration.
・ Treatment in the event of organizational restructuring, etc.: Regardless of the above, if a matter concerning the organizational

restructuring, etc. of the Company, such as a merger agreement whereby the Company will be the non-surviving party to the merger, or a share exchange agreement or share transfer plan whereby the Company will become a wholly-owned subsidiary of another entity, is approved at the Company's ordinary general meeting of shareholders (or by the Company's board of directors if such organizational restructuring, etc. does not require approval at a Company's ordinary general meeting of shareholders) during the transfer restriction period, the Company will remove, based on a resolution of the Company's board of directors, the transfer restriction on the allotted shares on a date prior to the effective date of such organizational restructuring, etc.

・ Other matters: Other matters related to the restricted stock shall be determined by the board of directors.

v) Contents of non-monetary remuneration

As a substitute for the abolition of retirement benefits for directors, IIJ allocates stock acquisition rights as stock-linked compensation-type stock options that are generally equivalent to one to two months of basic monthly remuneration for each director.

The details of such non-monetary remuneration and the status of allocation are as shown in "Item 4, Information on IIJ, 1 Information on IIJ's shares, (2) Information on Stock Acquisition Rights."

The outline and delivery status of the restricted stock compensation are as described in iv) above. The remuneration is included in the performance-linked remuneration.

vi) 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	Performance-linked remuneration	Non-monetary remuneration	Others	
Directors (Excluding outside directors)	329	264	30	35	—	8
Company Auditor (Excluding outside company auditors)	15	15	—	—	—	1
Outside Directors and Outside Company Auditors	42	42	—	—	—	10

(Note) The amount of performance-linked remuneration in the above table is the amount of restricted stock allotted as performance-linked bonuses for FY2020 and represents the amount of expenses recorded in the current fiscal year.

vii) 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 JPY120 million (fixed salary of JPY85 million, stock options of JPY14 million, and restricted stock as performance-linked bonuses for FY2020 of JPY21 million). Within these, the payment of restricted stock was resolved at the meeting of the Board of Directors held on May 26, 2021. The amount recorded as expenses for FY2020 for the restricted stock granted prior to FY2020 to the same director was JPY11 million.

(5) **Status of Shareholding**

i) 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.

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

a. Policy of shareholdings, methods to verify rationality of holdings, and details on verification by the Board of Directors regarding the rationality of holding individual issues

[Policy of shareholdings]

After thoroughly considering our business strategies, relationships with our business partners and our cost of capital, the Company might hold stocks of other companies 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. Regarding the stock which is totally judged that its holdings is not reasonable, the Company reconsider the scale of its holdings appropriately.

[**Methods to verify rationality of holdings**]

The Company verifies, for each individual stock, whether the margins generated from ongoing transactions and dividends received exceed the Company's cost of capital on an annual basis.

[Details on verification by the Board of Directors regarding the rationality of holding individual issues]

The Company verifies the rationality of its holdings at the Board of Directors' meeting every year in May. At the Board of Directors' meeting held in May 2021, four stocks were targeted as of March 31, 2021, and the Company intends to continue to hold these stocks after verification.

b. Number of stocks and balance sheet value

	Number of stocks	Balance sheet value (Millions of Yen)
Unlisted shares	7	374
Shares other than unlisted shares	4	8,307

(Increase of shares in FY2020)

Not applicable.

(Decrease of shares in FY2020)

Not applicable.

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, 2021 Number of shares (Shares) Balance sheet value (Millions of Yen)	As of March 31, 2020 Number of shares (Shares) Balance sheet value (Millions of Yen)	Purpose and quantitative contribution of shareholding	Whether the issuer holds IIJ's shares
Recruit Holdings Co., Ltd.	750,000	750,000	The issuer is our major customer. The Company has continuous transactions with the issuer and expects to continue to increase our business in the future. The Company verifies by the methods described above and continues to hold shares of this company.	No
	4,051	2,097		
SIGMAXYZ Inc.	1,980,000	1,980,000	The issuer is our important business partner on our system integration. The Company has continuous transactions with the issuer and expects to continue to increase our business in the future. The Company verifies by the methods described above and continues to hold shares of this company.	No
	3,687	2,461		
PIA Corporation	150,000	150,000	The issuer is our major customer. The Company has continuous transactions with the issuer and expects to continue to increase our business in the future. The Company verifies by the methods described above and continues to hold shares of this company.	No
	460	335		
Future Innovation Group Inc.	400,000	400,000	The issuer is our important business partner on our mobile services. The Company has continuous transactions with the issuer and expects to continue to increase our business in the future. The Company verifies by the methods described above and continues to hold shares of this company.	No
	110	92		

(Note) Although methods to verify rationality of holdings are described above "a. Policy of shareholdings, methods to verify rationality of holdings, and details on verification by the Board of Directors regarding the rationality of holding individual issues", the quantitative information such as transaction detail and volume with each issuer is difficult to report due to duty of confidentiality.

iii) Shares solely for the purpose of investment

	As of March 31, 2020 (Millions of Yen)		As of March 31, 2020 or for FY2021 (Millions of Yen)				
	Number of stock (Number)	Balance sheet value (Millions of Yen)	Number of stock (Number)	Balance sheet value (Millions of Yen)	Total dividends received (Millions of Yen)	Total net gain or loss on sale (Millions of Yen)	Total net gain or loss on valuation (Millions of Yen)
Unlisted shares	—	—	—	—	—	—	—
Shares other than unlisted shares	3	179	2	3	0	215	2

iv) Shares reclassified to held for purposes other than solely for investment in FY2020

Not applicable.

v) Shares reclassified from held for purposes other than solely for investment to held solely for the purpose of investment in FY2020

Not applicable.

Item 5. Consolidated and Non-consolidated Financial Statements

1. Basis of Preparation of the Consolidated Financial Statements and Non-Consolidated Financial Statements
(1) The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), pursuant to the provision of Article 93 of the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance of Japan No. 28 of 1976, the "Regulations for Consolidated Financial Statements").

(2) IIJ's non-consolidated financial statements have been prepared pursuant to Article 127 of the "Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements, etc." (Ordinance of the Ministry of Finance No. 59 of 1963, the "Ordinance on Financial Statements, etc.").
IIJ falls under a special company submitting financial statements and prepares the non-consolidated financial statements pursuant to Article 127 of the Ordinance on Financial Statements, etc.

2. Audit Certificate
The Company's consolidated financial statements for the consolidated fiscal year (April 1, 2020 to March 31, 2021) and financial statements for the business year (April 1, 2020 to March 31, 2021) have been audited by KPMG AZSA LLC pursuant to the provisions set forth in Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Special Efforts to Ensure the Appropriateness of Consolidated Financial Statements, etc. and the Establishment of a System to Ensure the Appropriate Preparation of Consolidated Financial Statements, etc. in Accordance with IFRS
The Company has taken special efforts to ensure the appropriateness of its consolidated financial statements, etc. and to develop a system for proper preparation of consolidated financial statements, etc. in accordance with IFRS. The details are as follows:

(1) In order to understand the content of accounting standards, etc., and to develop a system that enables us to respond appropriately to changes in accounting standards, etc., IIJ joined the Financial Accounting Standards Foundation and are working to accumulate expertise within the Company, including participation in seminars, etc.

(2) In order to prepare appropriate consolidated financial statements in accordance with IFRS, the Company prepares Group accounting policies in accordance with IFRS and performs accounting procedures in accordance with these policies. The Group's accounting policies are updated in a timely manner by obtaining press releases and standards issued by the International Accounting Standards Board (IASB) as needed to understand the latest standards and consider their impact on the Company.

1 Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

① 【Consolidated Statements of Financial Position】

	Notes	March 31, 2020	March 31, 2021
		Thousands of yen	Thousands of yen
Assets			
Current Assets			
Cash and cash equivalents	6	38,671,734	42,466,933
Trade receivables	7,23,31,34	322,585,326	34,799,075
Inventories	8	2,476,477	2,171,046
Prepaid expenses	23	9,696,856	10,598,441
Contract assets	23	438,675	1,281,918
Other financial assets	10,31,34	2,629,332	1,975,910
Other current assets		92,027	111,334
Total Current Assets		86,590,427	93,404,657
Non-current Assets			
Tangible assets	11	17,399,863	17,084,401
Right-of-use assets	16	50,560,361	50,707,726
Goodwill	12	6,082,472	6,082,472
Intangible assets	12	18,280,247	16,954,274
Investments accounted for using the equity method	33	4,827,287	9,026,980
Prepaid expenses	23	7,777,997	9,537,160
Contract assets	23	60,362	46,638
Other investments	9,31	9,186,646	12,912,483
Deferred tax assets	13	742,857	143,337
Other financial assets	10,31,34	4,645,959	4,442,704
Other non-current assets		369,782	434,437
Total non-current assets		119,933,833	127,372,612
Total assets		206,524,260	220,777,269

	Notes	March 31, 2020	March 31, 2021
Liabilities and Equity		Thousands of yen	Thousands of yen
Liabilities			
Current liabilities			
Trade and other payables	14, 31, 34	18, 287, 546	19, 243, 800
Borrowings	15, 31	15, 580, 000	18, 560, 000
Income taxes payable		2, 283, 707	3, 012, 415
Contract liabilities	23	5, 897, 674	7, 101, 821
Deferred income		88, 901	79, 914
Other financial liabilities	15, 16, 31, 34	17, 845, 194	17, 879, 331
Other current liabilities	19	5, 703, 623	7, 381, 746
Total current liabilities		65, 686, 645	73, 259, 027
Non-current liabilities			
Borrowings	15, 31	12, 170, 000	7, 000, 000
Retirement benefit liabilities	17	3, 984, 880	4, 168, 575
Provisions	18	753, 518	756, 405
Contract liabilities	23	5, 991, 807	7, 244, 411
Deferred income		479, 097	405, 579
Deferred tax liabilities	13	136, 536	225, 469
Other financial liabilities	15, 16, 31, 34	36, 305, 781	35, 647, 899
Other non-current liabilities	19	958, 879	1, 098, 253
Total non-current liabilities		60, 780, 498	56, 546, 591
Total liabilities		126, 467, 143	129, 805, 618
Equity	20		
Share capital		25, 530, 621	25, 530, 621
Share premium		36, 271, 395	36, 388, 811
Retained earnings	22	16, 500, 993	25, 046, 813
Other components of equity	21, 29	2, 669, 501	4, 865, 110
Treasury shares		(1, 896, 921)	(1, 874, 976)
Total equity attributable to owners of the parent		79, 075, 589	89, 956, 379
Non-controlling interests		981, 528	1, 015, 272
Total equity		80, 057, 117	90, 971, 651
Total liabilities and equity		206, 524, 260	220, 777, 269

② 【Consolidated Statements of Profit or Loss】

	Notes	For the year ended March 31, 2020	For the year ended March 31, 2021
		Thousands of yen	Thousands of yen
Revenues			
Network services		121,998,722	126,826,927
System integration		78,393,435	83,283,912
ATM operation business		4,081,358	2,891,041
Total revenues	5,23,34	204,473,515	213,001,880
Cost of sales			
Cost of network services		(102,092,065)	(99,656,232)
Cost of systems integration		(67,584,141)	(71,196,904)
Cost of ATM operation business		(2,203,884)	(1,866,789)
Total cost of sales	24,34	(171,880,090)	(172,719,925)
Gross Profit		32,593,425	40,281,955
Selling, general and administrative expense	24,34	(24,075,759)	(25,490,666)
Other operating income	25	223,215	148,500
Other operating expenses	26	(515,709)	(692,066)
Operating Profit		8,225,172	14,247,723
Finance income	27	349,965	776,298
Finance expenses	27,34	(610,370)	(581,486)
Share of profit (loss) of investments accounted for using equity method	33	(805,780)	(407,816)
Profit (loss) before tax		7,158,987	14,034,719
Income tax expense	13	(2,965,453)	(4,233,584)
Profit (loss) for the year		4,193,534	9,801,135
Profit (loss) for the year attributable to:			
Owners of the parent		4,006,773	9,711,559
Non-controlling interests		186,761	89,576
Total		4,193,534	9,801,135
Earnings per share	28		
Basic earnings per share (yen)		44.44	107.67
Diluted earnings per share (yen)		44.24	107.14

(*)Earnings per share for the fiscal year ended March 31, 2020 and 2021 are based on figures adjusted for the effect of two-for-one stock split. For details, please refer to "Note 28. EARNINGS PER SHARE."

③ 【Consolidated Statements of Comprehensive Income】

	Notes	For the year ended March 31, 2020	For the year ended March 31, 2021
		Thousands of yen	Thousands of yen
Profit (loss) for the year		4,193,534	9,801,135
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		234,772	2,371,133
Remeasurement of defined benefit plans		(157,541)	115,649
Total items that will not be reclassified to profit or loss		77,231	2,486,782
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(92,375)	98,938
Financial assets measured at fair value through other comprehensive income		(1,735)	(692)
Share of other comprehensive income of investments accounted for using equity method		7,671	(21,921)
Total of items that may be reclassified to profit or loss		(86,439)	76,325
Total other comprehensive income, net of tax		(9,208)	2,563,107
Other comprehensive income for the year		4,184,326	12,364,242
Other comprehensive income for the year attributable to:			
Owners of the parent		3,997,565	12,274,666
Non-controlling interest		186,761	89,576
Other comprehensive income for the year		4,184,326	12,364,242

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, 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, net of tax		—	—	(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

For the year ended March 31, 2021

	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, 2020		25,530,621	36,271,395	16,500,993	2,669,501	(1,896,921)	79,075,589	981,528	80,057,117
Comprehensive income									
Profit for the year		—	—	9,711,559	—	—	9,711,559	89,576	9,801,135
Other comprehensive income	21	—	—	—	2,563,107	—	2,563,107	—	2,563,107
Total comprehensive income		—	—	9,711,559	2,563,107	—	12,274,666	89,576	12,364,242
Transactions with owners									
Purchase of treasury stock	20	—	—	—	—	(140)	(140)	—	(140)
Disposal of treasury stock	20	—	52,781	—	—	22,085	74,866	—	74,866
Dividends paid	22	—	—	(1,533,237)	—	—	(1,533,237)	(55,832)	(1,589,069)
Stock-based compensation	30	—	64,635	—	—	—	64,635	—	64,635
Transfer from other components of equity to retained earnings	21	—	—	367,498	(367,498)	—	—	—	—
Total transactions with owners		—	117,416	(1,165,739)	(367,498)	21,945	(1,393,876)	(55,832)	(1,449,708)
Balance, March 31, 2021		25,530,621	36,388,811	25,046,813	4,865,110	(1,874,976)	89,956,379	1,015,272	90,971,651

⑤ 【Consolidated Statements of Cash Flows】

	Notes	For the year ended March 31, 2020	For the year ended March 31, 2021
		Thousands of yen	Thousands of yen
Cash flows from operating activities:			
Profit (loss) before tax		7,158,987	14,034,719
Adjustments			
Depreciation and amortization		28,520,131	27,973,729
Loss on sales/disposals of property and equipment		470,789	634,271
Shares of loss (profit) of investments accounted for using the equity method		805,780	407,816
Finance income		(259,463)	(639,262)
Finance expenses		592,186	579,741
Other		(8,075)	338,666
Changes in working capital			
Decrease (increase) in trade receivables		344,940	(2,151,565)
Decrease (increase) in inventories		919,349	312,484
Decrease (increase) in prepaid expenses		(538,864)	(2,671,608)
Decrease (increase) in contract assets		(390,673)	(829,519)
Decrease (increase) in other assets		245,625	15,818
Decrease (increase) in other financial assets		(322,857)	1,504,966
Increase (decrease) in trade and other payables		(4,052,514)	1,071,330
Increase (decrease) in contract liabilities		1,590,073	2,505,263
Increase (decrease) in deferred income		(42,085)	(82,505)
Increase (decrease) in other liabilities		1,150,317	1,677,036
Increase (decrease) in other financial liabilities		(83,898)	(185,457)
Increase (decrease) in retirement benefit liabilities		271,746	347,171
Subtotal		36,371,494	44,843,094
Interest and dividends received		211,312	192,760
Interest paid		(578,252)	(580,053)
Income taxes paid		(2,610,803)	(3,911,634)
Cash flows from operating activities		33,393,751	40,544,167

	Notes	For the year ended March 31, 2020	For the year ended March 31, 2021
		Thousands of yen	Thousands of yen
Cash flows from investing activities			
Purchases of tangible assets		(7,196,952)	(6,390,700)
Proceeds from sales of tangible assets		2,771,031	2,499,494
Purchases of intangible assets		(4,641,964)	(4,616,636)
Proceeds from sales of intangible assets		273,773	44,085
Purchase of investments accounted for using equity method		(867,842)	(4,754,000)
Proceeds from sales of investments accounted for using equity method		—	60,637
Purchases of other investments		(136,429)	(241,307)
Proceeds from sales of other investments		2,750,245	462,547
Payments for leasehold deposits and guarantee deposits		(196,716)	(280,742)
Proceeds from collection of leasehold deposits and guarantee deposits		21,527	64,852
Payments for refundable insurance policies		(56,340)	(68,767)
Other		14,833	4,695
Cash flows from investing activities		(7,264,834)	(13,215,842)
Cash flows from financing activities			
Proceeds from long-term borrowings	35	(1,500,000)	(1,830,000)
Net increase (decrease) in short-term borrowings	35	2,500,000	(360,000)
Proceeds from other financial liabilities	35	1,473,000	329,566
Payments of other financial liabilities	35	(20,556,388)	(20,168,227)
Dividends paid		(1,217,082)	(1,533,237)
Other		(53,551)	(55,832)
Cash flows from financing activities		(19,354,021)	(23,617,730)
Effect of exchange rate changes on cash and cash equivalents		(60,951)	84,604
Net increase (decrease) in cash and cash equivalents		6,713,945	3,795,199
Cash and cash equivalents, beginning of year	6	31,957,789	38,671,734
Cash and cash equivalents, end of year	6	38,671,734	42,466,933

【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.

② 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.

(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 measured at fair value through profit or loss("FVTPL"), it is measured at the fair value add transaction costs directly attributable to the acquisition of financial assets. Transaction 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, the Company 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.

(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 and 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 weighted average cost of capital of each 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 compensation plan for equity-settled share-based.

① Stock option

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.

② Restricted stock remuneration

The consideration for the services received is measured at the fair value of the IIJ's shares on the date of grant and is included in the consolidated income statement from the date of grant to the vesting period, IIJ recognize it as an expense and recognize the same amount as an increase in capital in the consolidated statement of financial position.

(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

We have determined that our performance obligations related to network service are normally satisfied over time because network services make various networks accessible during the contract period. Therefore, revenues from network service are recognized monthly on a straight-line basis over the contract period. System integration revenues consist of the system construction service and the system operating and maintenance service. Our performance obligations related to system construction service are satisfied over time, because our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date. Therefore, revenues from system construction service are recognized based on the progress of the fulfillment of the performance obligations measured at the end of the reporting period. The progress is measured by the input method based on the incurred cost (cost to cost method) to reflect the progress of the construction properly because we understand that cost is incurred as progress of system construction. Revenues from system operating and maintenance service are recognized on a straight line basis over the period when the performance obligations are fulfilled because our performance obligations maintain various systems available to use during the contract period. ATM commissions are collected when the customers use the ATM services. The revenues are recognized when they are collected because the customers obtain the benefit at the time of use.

(14) Income taxes

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

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

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

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

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

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

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

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

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

(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' s General Meeting of Shareholders. Interim dividends are recognized as a liability at the date of resolution of the Board of Directors.

(18) 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

(19) Changes in Presentation

Certain reclassifications have been made to the prior period to conform to the current fiscal year presentations. "Contract assets", which had been previously included in "Trade receivables" and "Other financial assets", is separately disclosed to increase clarity of the disclosure. To reflect this change of presentation, the consolidated financial statements of the prior period is reclassed.

As the result, ¥397,122 thousand and ¥41,553 thousand included in "Trade receivables" and "Other financial assets" of current assets respectively is reclassed into "Contract assets" of current assets. ¥60,362 thousand included in "Other financial assets" of non-current assets is reclassed into "Contract assets" of non-current assets.

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, 2021 are as follows:

(Impairment test for goodwill and intangible asset with an indefinite useful life)

Measurement of recoverable amount requires us to make various judgements and assumptions including the future cash flows, the discount rate and the growth rate. These assumptions may be impacted significantly by future changes in uncertain economic conditions, which could result in a recognition of impairment loss on our consolidated financial statements in the future.

Please refer to "Note 12. GOODWILL AND INTANGIBLE ASSETS" for related disclosures.

(Measurement of defined benefit obligations)

The present value of defined benefit obligations are calculated based on actuarial assumptions. These actuarial assumptions require estimates and judgments on variables, such as discount rates. We obtain advice from external pension actuaries with respect to the appropriateness of these actuarial assumptions including these variables. There is the possibility that these assumptions may be affected by changes in uncertain future economic conditions, or by the amendment or the publication of related laws, which may have a material impact on the consolidated financial statements in future periods.

Please refer to "Note 17. EMPLOYEE BENEFITS" for related disclosures.

(Measurement of the progress towards complete satisfaction of the performance obligation of the system construction service)

We have determined the performance obligations of the system construction service are satisfied over time and the appropriate method of measuring progress towards complete satisfaction is input method, i.e. costs incurred relative to the total expected costs to the satisfaction of those performance obligations (cost to cost method). For applying the cost to cost method, the calculation of the total expected cost to the satisfaction of the performance obligations requires us to make various judgement and assumptions. There is the possibility that these assumptions may be affected by changes in uncertain future conditions regarding

to the system construction service, such as the increasing production costs incurred to additional requirements from the customer, which may have a material impact on the consolidated financial statements in future periods.
Please refer to "Note 23. REVENUES" for related disclosures.

(Additional information)
We expected the impacts of COVID-19 would be limited to only a small portion of our business, therefore, it is immaterial for our consolidated financial statements.

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, 2020

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

For the year ended March 31, 2021

	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	210,110,839	2,891,041	—	213,001,880
Intersegment transactions	167,160	—	(167,160)	—
Total revenue	210,277,999	2,891,041	(167,160)	213,001,880
Segment operating profit	13,541,072	826,004	(119,353)	14,247,723
Finance income				776,298
Finance expense				(581,486)
Share of profit (loss) of investments accounted for using the equity method				(407,816)
Profit before tax				14,034,719
Segment assets	216,406,004	6,371,265	(2,000,000)	220,777,269
Other				
Depreciation and amortization	27,658,412	315,317	—	27,973,729

(Note) 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.

(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 receivables are as follows:

	March 31, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Trade notes receivables	218,643	—
Trade receivables	32,366,683	34,799,075
total	32,585,326	34,799,075

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, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Merchandise	1,538,262	1,312,436
Work in progress	938,215	858,610
Total	2,476,477	2,171,046

Inventories sold and recorded as cost of sales were ¥103,720,213 thousand and ¥106,072,194 thousand as of March 31, 2020 and 2021, respectively

Write-down of inventories recorded as cost of sales for the years ended March 31, 2020 and 2021 were ¥3,886 thousand and ¥107,568 thousand, respectively.

9. OTHER INVESTMENTS

The components of other investments are as follows:

	March 31, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Debt-based financial assets measured at FVTOCI		
Debt securities	111,510	110,840
Equity-based financial assets measured at FVTOCI		
Equity securities	6,651,687	9,780,060
Financial assets measured at FVTPL		
Investment trust and other securities	2,348,265	2,941,240
Other	75,184	80,343
Total	9,186,646	12,912,483

10. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

	March 31, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost		
Other receivable	1,665,198	797,100
Guarantee deposit	3,331,561	3,579,838
Loans receivable	35,068	43,429
Other	17,864	83,729
Lease receivable	2,225,600	1,914,518
Total	7,275,291	6,418,614
Current assets	2,629,332	1,975,910
Non-current assets	4,645,959	4,442,704
Total	7,275,291	6,418,614

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
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
Acquisitions	—	95,814	1,781,652	220,225	4,672,523	6,770,214
Transfer	—	199,538	483,268	206,541	(889,347)	—
Sales and disposal	—	(403,918)	(2,896,213)	(420,149)	(2,809,739)	(6,530,019)
Exchange differences on translation of foreign operations	—	8,853	76,803	75,432	1,115	162,203
Other	—	—	796	(1,084)	(135,174)	(135,462)
March 31, 2021	2,059,991	9,848,059	17,224,039	3,088,501	2,215,267	34,435,857

(Note1) "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.

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
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)
Depreciation	—	(642,717)	(2,700,778)	(582,174)	—	(3,874,645)
Sales and disposal	—	208,876	2,860,676	398,089	—	3,467,641
Exchange differences on translation of foreign operations	—	(5,923)	(71,422)	(54,499)	—	(131,844)
Other	—	2	6,923	549	—	(43,550)
March 31, 2021	—	(3,195,124)	(11,890,955)	(2,265,377)	—	(17,351,456)

(Note1) 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, 2020	2,059,991	7,192,410	5,791,379	980,194	1,375,889	17,399,863
March 31, 2021	2,059,991	6,652,935	5,333,084	823,124	2,215,267	17,084,401

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
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
Acquisitions	—	3,985,164	—	88,474	4,073,638
Sales and disposal	—	(4,434,238)	—	—	(4,434,238)
Exchange differences on translation of foreign operations	—	5,468	—	—	5,468
Other	—	(31,188)	—	—	(31,188)
March 31, 2021	6,202,754	43,011,434	6,175,193	679,194	49,865,821

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
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)
Amortization	—	(4,718,084)	(336,788)	(67)	(5,054,939)
Sales and disposal	—	4,096,626	—	—	4,096,626
Exchange differences on translation of foreign operations	—	(5,342)	—	—	(5,342)
Other	—	24,002	—	—	24,002
March 31, 2021	(120,282)	(28,368,503)	(4,542,655)	(389)	(32,911,547)

(Note1) 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, 2020	6,082,472	15,720,523	1,969,326	590,398	18,280,247
March 31, 2021	6,082,472	14,642,931	1,632,538	678,805	16,954,274

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 Inc. and IIJ Global Solutions Inc. ("IIJ-Global"). The customer relationships of IIJ Technology Inc. amounted to ¥921,826 thousand and ¥789,538 thousand as of March 31, 2020 and 2021, respectively. Those of IIJ-Global amounted to ¥1,047,500 thousand and ¥843,000 thousand as of March 31, 2020 and 2021, respectively. The remaining amortization periods for customer relationships are from 5 to 8 years.

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

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

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

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

Reporting segment	Cash-generating unit	March 31, 2020		March 31, 2021	
		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	678,528
ATM operating business	Trust CGU	235,551	—	235,551	—
Total		6,082,472	590,054	6,082,472	678,528

Recoverable amount for each cash-generating unit are calculated by value in use. Most of our goodwill is related to Network and SI CGU.

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, 2020 and 2021 were 8.2% and 8.5%, respectively. The discount rate of Trust CGU for the fiscal year ended March 31, 2020 and 2021 were 10.2% and 10.3%, respectively. In estimating cash flows, cash flows after three years for the fiscal year ended March 31, 2021 are calculated based on the growth rate of 1.0% for Network and SI CGU and 0.0% for Trust CGU, applied to cash flows for the third year.

Although there is a risk of impairment if the assumptions used in the impairment test change, there are sufficient headrooms between the value in use and the carrying amount.

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, 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 at FVTPL	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

For the year ended March 31, 2021

	March 31, 2020	recognized through profit or loss	recognized through other comprehensive income	Other	March 31, 2021
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Deferred tax assets					
Leases	126,361	15,740	—	—	142,101
Accrued expenses	933,482	267,942	—	—	1,201,424
Retirement and pension cost	1,213,224	143,891	(47,827)	—	1,309,288
Allowance for credit losses	63,835	3,770	—	—	67,605
Depreciation	793,626	(1,505)	—	—	792,121
Loss carryforward	7,014	(1,714)	—	—	5,300
Impairment loss on telephone rights	69,017	1,844	—	—	70,861
Accrued enterprise tax	222,592	24,314	—	—	246,906
Asset retirement obligation	14,021	536	—	—	14,557
Contract liabilities	267,092	(1,233)	—	—	265,859
Other	458,321	25,209	—	—	483,530
total	4,168,585	478,794	(47,827)	—	4,599,552
Deferred tax liabilities					
Equity instruments at FVTOCI	1,241,489		1,145,116	(121,016)	2,265,589
Debt instruments at FVTOCI	4,268	—	(318)	—	3,950
Customer relationships	602,613	(88,364)	—	—	514,249
Tax deduction of goodwill	738,558	21,723	—	—	760,281
Investments in equity method investee	624,869	81,068	—	—	705,937
Financial assets at FVTPL	127,452	30,151	—	—	157,603
Other	223,015	49,944	—	1,116	274,075
total	3,562,264	94,522	1,144,798	(119,900)	4,681,684

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, 2020	March 31, 2021
	thousands of yen	thousands of yen
Deductible temporary differences	2,099,997	2,847,694
Tax loss carryforwards	717,839	465,599
Total	2,817,836	3,313,293

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, 2020	March 31, 2021
	thousands of yen	thousands of yen
Tax loss carryforwards		
1st year	161,533	161,707
2nd year	167,159	35,379
3rd year	60,925	—
4th year	9,771	15,918
5th year	3,995	11,082
6th year and after	314,456	241,513
total	717,839	465,599

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 ¥9,701,898 thousand and ¥10,736,247 thousand as of March 31, 2020 and 2021, 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, 2020 and 2021 were as follows:

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Income tax expenses		
Current taxes	3,069,572	4,617,856
Deferred taxes	(104,119)	(384,272)
Total	2,965,453	4,233,584

(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, 2020 and 2021, 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, 2021 is as follows:

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Amount computed by using normal Japanese statutory tax rate	2,255,081	4,420,937
(Adjustment)		
Expenses not deductible for tax purpose	131,818	78,756
Exclusion from gross profit of dividends received	(34,125)	(41,136)
Changes in deductible temporary differences and tax loss carryforwards for which deferred tax assets are not recognized	510,209	216,420
Enterprise tax-not based on income	334,221	—
Tax credit	(237,157)	(306,025)
Other	5,406	(135,368)
Income tax expense as reported	2,965,453	4,233,584

14. TRADE AND OTHER PAYABLES

The components of trade and other payables are as follows:

	March 31, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Trade payable	5,978,444	6,385,741
Other payable	12,309,000	12,855,063
Other	102	2,996
Total	18,287,546	19,243,800

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, 2020	March 31, 2021	Average rate	Repayment due
	Thousands of yen	Thousands of yen	%	
Financial liabilities measured at amortized cost				
Short-term borrowings	13,750,000	13,390,000	0.42	
Current portion of long-term borrowings	1,830,000	5,170,000	0.45	
Long-term borrowings	12,170,000	7,000,000	0.55	2022～2024
Account payable—non-current (including current portion)	1,218,709	638,161	0.85	2022～2025
Deposit payable	203,212	212,225	—	
Other	74,566	16,061	—	
Lease obligations	52,654,488	52,660,783	—	
Total	81,900,975	79,087,230	—	
Current liabilities	33,425,194	36,439,331	—	
Non-current liabilities	48,475,781	42,647,899	—	
Total	81,900,975	79,087,230	—	

(Note 1) The average rate is the weighted average interest rate for the balance as of March 31, 2021.

(Note 2) Repayment due indicates the balance on March 31, 2021.

(Note 3) Based on the criteria established by the Company, leases that transfer substantially all of the risks and benefits associated with ownership of the asset are classified as "finance leases," and the respective balances of finance leases and other leases are as follows:

	March 31, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Finance leases	18,062,638	18,229,120
Other leases	34,591,850	34,431,663

(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.

Lease transactions as lessee

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	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Depreciation by type of right-of-use asset		
Buildings and structures	12,175,716	11,653,323
Machinery	6,974,105	7,172,098
Software	164,899	165,900
Total Depreciation	19,314,720	18,991,321
Interest expense on lease obligations	418,880	418,394
Expense on short term and small asset leases	1,595,854	1,471,801
Sublease revenues	(195,119)	(200,695)
Total lease expense (Net amount)	21,134,335	20,680,821
Total cash outflow on lease	21,529,198	21,279,501

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
March 31, 2021	34,153,027	16,185,964	368,735	50,707,726

The amount of increase in the right-of-use asset for the years ended March 31, 2020 and 2021 were ¥15,593,687 thousand, ¥20,015,689 thousand, respectively.

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.

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, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Present value of defined benefit obligations funded in plan assets	5,076,709	5,549,829
Fair value of plan assets	(4,663,108)	(5,270,387)
Total	413,601	279,442
Present value of unfunded defined benefit obligations	3,571,279	3,889,133
Net amount	3,984,880	4,168,575

② Defined benefit obligations

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

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Opening balance	7,959,184	8,647,988
Service cost (Note 1)	757,247	813,062
Interest expense (Note 2)	43,802	56,106
Remeasurement		
Actuarial gains or losses arising from changes in demographic assumptions	7,186	6,085
Actuarial gains or losses arising from changes in financial assumptions	(7,914)	—
Actuarial gains or losses arising from adjustment of results	127,302	113,269
Benefit paid (Note 3)	(238,819)	(197,548)
Closing balance	8,647,988	9,438,962

(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 13 years for the years ended March 31, 2020 and 2021, respectively.

③ Plan assets

Changes in fair value of plan assets are as follows:

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Fair value of plan assets at the beginning of year	4,470,683	4,663,108
Interest income	26,364	32,166
Changes in remeasurement		
Return on plan assets (excluding interest gain)	(98,061)	282,829
Contribution from the Company	380,174	408,950
Benefit paid	(116,052)	(116,666)
Fair value of plan assets at the end of the year	4,663,108	5,270,387

(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 ¥408,950 thousand to the defined benefit plan in the year ending March 31, 2022.

④ Major components of plan assets
Changes in fair value of plan assets are as follows:

	March 31, 2020			March 31, 2021		
	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	700,390	—	700,390	322,420	—	322,420
Foreign equity	316,122	—	316,122	1,176,978	—	1,176,978
Subtotal	1,016,512	—	1,016,512	1,499,398	—	1,499,398
Debt instruments						
Japanese bonds	—	1,157,148	1,157,148	—	77,401	77,401
Other government bonds	—	379,426	379,426	—	2,500,054	2,500,054
subtotal	—	1,536,574	1,536,574	—	2,577,455	2,577,455
REIT	—	—	—	—	178,022	178,022
Life insurance pooled investment portfolios.	—	2,052,955	2,052,955	—	922,630	922,630
Other	—	57,067	57,067	—	92,882	92,882
Total	1,016,512	3,646,596	4,663,108	1,499,398	3,770,989	3,770,989

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 other 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. We changed investment product of plan assets managed by the insurance company during the year ended March 31, 2021, because ensure consistency with designed yield of noncontributory defined benefit pensions and prospective yield of actual investment product. New investment product is a risk-reducing balance fund that allocate equity securities and debt securities automatically, we do not instruct assets allocation for insurance company. All of the employer’ s contribution to the plan during the year ending March 31, 2022 will be allocated to this fund.

We changed classification of “④Major components of plan assets “, in conformity to changing investment product. We reclass component of previous year, purpose of reflect this reclassification.

⑤ Significant actuarial assumptions and sensitivity analyses

Significant actuarial assumptions are as follows:

	March 31, 2020	March 31, 2021
	%	%
Discount rate	0.7	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, 2020	March 31, 2021
		Thousands of yen	Thousands of yen
Discount rate	Increase by 0.5 points	(513,651)	(551,214)
	Decrease by 0.5 points	551,399	591,013

(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, 2020 and 2021 were ¥ 168,643 thousand and ¥178,421 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, 2020 and 2021 are as follows:

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Contribution	123,827	137,564

Expected contributions for the year ended March 31, 2022 amounted to ¥138,999 thousand.

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

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Plan assets	245,472,358	245,064,681
Pension liabilities(Policy reserve and unamortized past service liabilities)	200,586,962	202,774,961
Net amount	44,885,396	42,289,720
Ratio of contribution of the Company and its subsidiaries to the total contribution to the plan	1.88%	1.98%

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, 2020 and 2021 were ¥19,780 thousand and ¥25,831 thousand, respectively.

18. PROVISIONS

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

	Asset retirement obligations
	Thousands of yen
March 31, 2020	753,518
Periodic interest expenses in discount calculation	2,887
March 31, 2021	756,405

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, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Compensated absence	1,832,547	1,976,118
Accrued bonus	507,944	570,066
Consumption taxes payable	2,403,988	3,099,539
Accrued expenses	1,110,275	1,441,180
Other	807,748	1,393,096
Total	6,662,502	8,479,999
Current liabilities	5,703,623	7,381,746
Non-current liabilities	958,879	1,098,253
Total	6,662,502	8,479,999

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, 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
Changes in the year	75,520,000	46,734,600	—	117,416
March 31, 2021	151,040,000	93,469,200	25,530,621	36,388,811

(Note) IIJ conducted a two-for-one stock split of its common stock, with an effective date of January 1, 2021. As a result of the stock split, Authorized shares and shares outstanding increased by 75,520,000 and 46,734,600 shares.

(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, 2019	1,650,911	(1,896,788)
Changes	39	(133)
March 31, 2020	1,650,950	(1,896,921)
Changes	1,612,582	21,945
March 31, 2021	3,263,532	(1,874,976)

(Note 1) IIJ 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. “SHARE-BASED PAYMENTS.″

(Note 2) IIJ adopts a restricted stock remuneration system, treasury stock is used to grant shares. The contract terms and amounts, etc., are stated in Note 30. “SHARE-BASED PAYMENTS.″

(Note 3) IIJ conducted a two-for-one stock split of its common stock, with an effective date of January 1, 2021. As a result of the stock split, Treasury shares increased by 1,650,950 shares.

(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, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Financial assets measured at fair value thorough other comprehensive income		
Balance, beginning of the year	4,116,076	2,781,577
Changes	233,037	2,370,441
Transfer to the retained earnings	(1,567,536)	(251,849)
Balance, end of the year	2,781,577	4,900,169
Remeasurements of net defined benefit pension plans		
Balance, beginning of the year	—	—
Changes	(157,541)	115,649
Transfer to the retained earnings	157,541	(115,649)
Balance, end of the year	—	—
Exchange differences on translation of foreign operations		
Balance, beginning of the year	(18,479)	(110,854)
Changes	(92,375)	98,938
Balance, end of the year	(110,854)	(11,916)
Share of other comprehensive income in equity method investees		
Balance, beginning of the year	(8,893)	(1,222)
Changes	7,671	(21,921)
Balance, end of the year	(1,222)	(23,143)
Total other component of equity	2,669,501	4,865,110

22. DIVIDENDS PAID

Cash dividends paid for the year ended March 31, 2020 and 2021 are as follows:

For the year ended March 31, 2020

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 27, 2019 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

For the year ended March 31, 2021

Resolution date	Total dividends	Dividends per share	Record date	Effective date
	Thousands of yen	Yen		
June 24, 2020 Ordinary General Meeting of Shareholders	608,629	13.50	March 31, 2020	June 25, 2020
November 9, 2020 Board of Directors	924.608	20.50	September 30, 2020	December 4, 2020

(Note) In accordance with a resolution authorized at a meeting of board of directors on November 9, 2020, IIJ conducted a two-for-one stock split of its common stock, with an effective date of January 1, 2021. The dividends per share is before the stock split.

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

For the year ended March 31, 2021

Resolution date	Total dividends	Dividends per share	Record date	Effective date
June 29, 2021 Ordinary General Meeting of Shareholders	1,759,011	19.50	March 31, 2021	June 30, 2021

23. REVENUE

(1) The components of revenues recognized in the contracts with customers are as follows. The revenue provided to the customers based on the lease contract is included below due to the immateriality.

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
(1) Network services	121,998,722	126,826,927
Internet connectivity services (enterprise)	36,634,972	40,346,808
WAN services	26,971,521	25,048,098
Outsourcing services	32,337,243	35,709,645
Internet connectivity services (consumer)	26,054,986	25,722,376
(2) Systems integration	78,393,435	83,283,912
Systems construction	31,975,911	31,767,278
Systems operation and maintenance	46,417,524	51,516,634
(3) ATM operation business	4,081,358	2,891,041
Total	204,473,515	213,001,880

(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. Payments are generally made by the end of following month of receiving our services and there is no significant financing components. 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. Payments are generally made by the end of following month of the customer acceptance and there is no significant financing components.

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. Payments are generally made by the end of following month of receiving our services and there is no significant financing components.

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 based on the incurred cost (cost to cost method) because we understand that cost is incurred as progress of system construction.
  For the year ended March 31, 2021, the amount of revenue from system construction service recognized by the cost to cost method was 25,913,193 thousand yen.
- 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, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Contract assets	499,037	1,328,556
Contract liabilities	11,889,481	14,436,232

Contract assets represent the rights at the end of the reporting period to receive considerations, excluding receivables, in exchange for the fulfillment of performance obligations, mainly in system construction services including software installation and/or hardware configuration and installation. Contract assets are reclassified to receivables when all conditions other than the passage of time are resolved upon completion of the system construction service.

Contract liabilities represent the excess of the consideration received by the customers over the amount for which revenue is already recognized, mainly in monitoring and operating services and/or hardware and software maintenance services. Revenues from contract liabilities are recognized as we transfer those services to a customer and satisfy those performance obligations.

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.
Among the revenue recorded for the year ended March 31, 2021, ¥6,673,024 thousand were recognized from the balance of contract liabilities as of March 31, 2020.

(4) Transaction price allocated to remaining performance obligations

Transaction prices allocated to remaining performance obligations as of March 31, 2020 and 2021 were ¥28,677,205 thousand and ¥32,221,307 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 ¥20,346,590 thousand of revenue related to remaining performance obligations will be recognized within one year and ¥11,874,717 thousand after one year but within 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, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Assets arising from costs of obtaining contracts	239,911	196,666
Assets arising from costs of fulfilling contracts	1,083,656	831,688
Total	1,323,567	1,028,354

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, 2020 and 2021 were ¥436,823 thousand and ¥481,279 thousand, respectively.

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

The components of costs of sales for the years ended March 31, 2020 and 2021 were as follows:

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Employee benefits	(16,371,428)	(17,736,063)
Depreciation and amortization	(25,664,251)	(25,135,179)
Outsourcing costs	(51,330,562)	(50,058,203)
Telecommunication expenses	(27,540,092)	(25,890,518)
Other	(50,973,757)	(53,899,962)
Total	(171,880,090)	(172,719,925)

The components of selling, general and administrative expenses for the years ended March 31, 2020 and 2021 were as follows:

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Employee benefits	(9,978,825)	(10,841,545)
Depreciation and amortization	(2,839,998)	(2,838,397)
Research and development	(437,686)	(471,867)
Commission	(3,761,736)	(3,726,367)
Other	(7,057,514)	(7,612,490)
Total	(24,075,759)	(25,490,666)

25. OTHER OPERATING INCOME

The components of other operating income for the years ended March 31, 2020 and 2021 were as follows:

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Gain on disposal of tangible assets	2,551	1,175
Commissions received	14,271	16,185
Rental income	45,496	84,794
Compensation income	77,000	—
Other	83,897	46,346
Total	223,215	148,500

26. OTHER OPERATING EXPENSES

The components of other operating expenses for the years ended March 31, 2020 and 2021 were as follows:

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Loss on disposal of tangible and intangible assets	(470,275)	(635,079)
Other	(45,434)	(56,987)
Total	(515,709)	(692,066)

27. FINANCE INCOME AND FINANCE EXPENSES

The components of finance income and finance expenses for the years ended March 31, 2020 and 2021 were as follows:

(1) Finance income

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Interest income		
Financial assets measured at amortized cost	52,641	43,621
Debt-based financial assets measured at FVTOCI	1,100	1,100
Dividend income		
Equity-based financial assets measured at FVTOCI	95,118	98,462
Foreign exchange gain	—	138,278
Other finance income		
Financial assets measured at FVTPL	185,349	479,118
Other	15,757	15,719
Total	349,965	776,298

(2) Finance expenses

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Interest expenses		
Financial liabilities measured at amortized cost	(146,469)	(137,408)
Lease obligations	(418,880)	(418,394)
Foreign exchange loss	(26,041)	—
Other finance expenses	(18,980)	(25,684)
Total	(610,370)	(581,486)

(3) Impairment loss on financial assets

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Financial assets measured at amortized cost	(90,002)	(114,381)

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, 2020 and 2021 were as follows:

	For the year ended March 31, 2020	For the year ended March 31, 2021
Numerator：		
Basic earnings attributable to owners of the parent (thousands of yen)	4,006,773	9,711,559
Earnings adjustment (thousands of yen)	―	―
Earnings used to calculate earnings per share ― diluted (thousands of yen)	4,006,773	9,711,559
Denominator：		
Weighted average number of shares ― basic (shares)	90,160,805	90,195,162
Dilution arising from stock options (shares)	401,332	451,642
Weighted average number of shares ― diluted (shares)	90,562,137	90,646,804
Earnings per share attributable to owners of the parent		
Basic (yen)	44.44	107.67
Diluted (yen)	44.24	107.14

Stock split

Based on the resolution of the IIJ's board of directors held on November 9, 2020, IIJ conducted at a ratio of 1:2 stock split of shares held by shareholders as of December 31, 2020, the record date, effective January 1, 2021.

In connection with the stock split, the information per share for the years ended March 31, 2020 and 2021 presented in the consolidated financial statements is shown after adjusting for the stock split.

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, 2020 and 2021 were as follows:

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 values 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)

For the year ended March 31, 2021

	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	3,516,249	—	3,516,249	(1,145,116)	2,371,133
Remeasurements of defined benefit pension plans	163,476	—	163,476	(47,827)	115,649
Subtotal	3,679,725	—	3,679,725	(1,192,943)	2,486,782
Items that may be reclassified to profit or loss:					
Exchange differences on translation of foreign operations	98,938	—	98,938	—	98,938
Net changes in fair value of financial assets measured through other comprehensive income	(1,010)	—	(1,010)	318	(692)
Share of other comprehensive income in equity method investees	(21,921)	—	(21,921)	—	(21,921)
Subtotal	76,007	—	76,007	318	76,325
Total	3,755,732	—	3,755,732	(1,192,625)	2,563,107

30. SHARE-BASED PAYMENTS

(1) Stock option

① Description of stock option

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 option plans as equity-settled stock-based compensation, 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, 400 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, 2021 is 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	88 (35,200)	259,344	July 15, 2011 —July 14, 2041
2nd series (Board of Directors resolved on June 27, 2012)	July 13, 2012	88 (35,200)	318,562	July 14, 2012 —July 13, 2042
3rd series (Board of Directors resolved on June 26, 2013)	July 11, 2013	70 (28,000)	647,000	July 12, 2013 —July 11, 2043
4th series (Board of Directors resolved on June 25, 2014)	July 10, 2014	101 (40,400)	422,600	July 11, 2014 —July 10, 2044
5th series (Board of Directors resolved on June 26, 2015)	July 13, 2015	134 (53,600)	369,200	July 14, 2015 —July 13, 2045
6th series (Board of Directors resolved on June 24, 2016)	July 11, 2016	144 (57,600)	360,000	July 12, 2016 —July 11, 2046
7th series (Board of Directors resolved on June 28, 2017)	July 14, 2017	155 (62,000)	337,200	July 15, 2017 —July 14, 2047
8th series (Board of Directors resolved on June 28, 2018)	July 13, 2018	155 (62,000)	347,600	July 14, 2018 —July 13, 2048
9th series (Board of Directors resolved on June 27, 2019)	July 12, 2019	163 (65,200)	354,600	July 13, 2019 —July 12, 2049
10th series (Board of Directors resolved on June 24, 2020)	July 10, 2020	104 (41,600)	643,400	July 11, 2020 —July 10, 2050

② Number and weighted average exercise price of stock options

	For the year ended March 31, 2020		For the year ended March 31, 2021	
	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	400,400	1	439,200	1
Granted	65,200	1	41,600	1
Lapse/Expiration	—	—	—	—
Exercised	(26,400)	1	—	—
Unexercised options outstanding at the end of the year	439,200	1	480,800	1
Exercisable options at the end of the year	374,000	1	439,200	1

(Note 1) The weighted average price of common stock at the date of exercise of the option during the year ended March 31, 2020 was ¥2,020. No stock options were exercised during the year ended March 31, 2021.

(Note 2) 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. As of March 31, 2021, the exercise price of unexercised stock options was ¥1 and the weighted average remaining contractual period was 25.33 years.

(Note 3) IIJ conducted a two-for-one stock split of its common stock, with an effective date of January 1, 2021. The number of shares for each consolidated fiscal year is the figures adjusted for the stock split.

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:

	9th series stock acquisition right (Resolved by the Board of Directors on June 27, 2019)	10th series stock acquisition right (Resolved by the Board of Directors on June 24, 2020)
Fair value at the date of grant	1,773 yen	3,217 yen
Share price at the date of grant	2,141 yen	3,600 yen
Exercise price	1 yen	1 yen
Expected volatility	48.258%	45.576%
Expected remaining life	15 years	15 years
Expected dividend yield	1.261%	0.750%
Risk-free rate	0.060%	0.240%

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

(2) Restricted stock remuneration

① Description of restricted stock remuneration

IIJ shares the benefits and risks of stock price fluctuations with IIJ's shareholders to directors and executive officers, and aims to enhance its contribution to the sustainable improvement of medium to long term business performance and corporate value, IIJ has stock remuneration system of equity-settled.

Description of restricted stock remuneration is as follows:

	For the year ended March 31, 2020	For the year ended March 31, 2021
Date granted	—	July 10, 2020
Number of grants (shares)	—	19,221
Fair value (yen)	—	3,895

(Note) IIJ conducted a two-for-one stock split of its common stock, with an effective date of January 1, 2021. As a result of the stock split, the number of shares granted is 38,442 shares.

[Overview of the restricted stock remuneration]

- Timing of payment and allocation: The payment details of each director is determined in or after the last month of each fiscal year, and the determined amount be allotted.
- Number of shares to be allotted per year: Up to 80,000 shares (post-split basis) or less.
- Method of measuring the fair value: The method of measuring the fair value will be determined, based on the closing price of IIJ's common stock on the Tokyo Stock Exchange on the business day immediately preceding the date of the board of directors resolution (the closing price on the most recent day on which trading has taken place if there is no trading on that day), and will be an amount that does not provide the eligible directors who receive the common stock with a particularly advantageous price.
- Transfer restrictions: From the disposal date of IIJ's common stocks to be allotted under the allotment agreement (the "allotted shares") to the point in time when an eligible director resigns from the position predetermined by the board of directors (the "transfer restriction period"), it is prohibited to transfer, collateralize, or otherwise dispose the allotted shares during the transfer restriction period.
- Removing transfer restrictions: IIJ shall remove the transfer restrictions with respect to the allotted shares in whole upon the expiry of the transfer restriction period, provided that an eligible director continuously served as the position predetermined by the board of directors during the transfer restriction period. If certain grounds prescribed in the allotment agreement, such as if an eligible director retires from the position during the restriction period or upon the expiration of the restriction period for any reason other than those deemed justifiable by IIJ, IIJ will naturally acquire the allotted shares for no consideration.
- Treatment in the event of organizational restructuring, etc.: Regardless of the above, if a matter concerning the organizational restructuring, etc. of IIJ, such as a merger agreement whereby IIJ will be the non-surviving party to the merger, or a share exchange agreement or share transfer plan whereby IIJ will become a wholly-owned subsidiary of another entity, is approved at IIJ's ordinary general meeting of shareholders (or by IIJ's board of directors if such organizational restructuring, etc. does not require approval at IIJ's ordinary general meeting of shareholders) during the transfer restriction period, IIJ will remove, based on a resolution of IIJ's board of directors, the transfer restriction on the allotted shares on a date prior to the effective date of such organizational restructuring, etc.
- Other matters: Other matters related to the restricted stock shall be determined by the board of directors.

(3) 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, 2020 and 2021 were ¥57,515 thousand and ¥118,523 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, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Borrowings	27,750,000	25,560,000
Lease obligations	52,654,488	52,660,783
Cash and cash equivalents	38,671,734	42,466,933
Net liabilities	41,732,754	35,753,850
Equity	80,057,117	90,971,651

(Note) The balance of lease obligations of the end of the previous fiscal year comprised ¥18,062,638 thousand on finance leases and ¥34,591,850 thousand on other leases. And those of the end of this fiscal year comprised ¥18,229,120 thousand on finance leases and ¥34,431,663 thousand 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, 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	18,287,546
Borrowings	15,580,000
Other financial liabilities	826,622
Non-current liabilities	
Borrowings	12,170,000
Other financial liabilities	669,865
	47,534,033

March 31, 2021

	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	34,799,075	—	—	—	34,799,075
Other financial assets	912,706	—	—	—	912,706
Non-current assets					
Other investments	—	110,840	9,780,060	3,021,583	12,912,483
Other financial assets	3,591,390	—	—	—	3,591,390
	39,303,171	110,840	9,780,060	3,021,583	52,215,654

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	19,243,800
Borrowings	18,560,000
Other financial liabilities	421,415
Non-current liabilities	
Borrowings	7,000,000
Other financial liabilities	445,032
	45,670,247

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, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Marketable	5,163,326	8,310,034
Nonmarketable	1,488,361	1,470,026
	6,651,687	9,780,060

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

	March 31, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Recruit holdings Co.,Ltd	2,097,000	4,050,750
Sygmaxyz Inc	2,461,140	3,686,760
E-net Co.,Ltd	476,621	467,899
PIA corporation	334,500	459,750
Japan registry services Co.,Ltd	371,746	398,665
Transaction media networks Inc.	230,525	230,222
Future Innovation Group Inc.	92,000	109,600
Other	588,155	376,414
	6,651,687	9,780,060

(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, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Fair value at the time of derecognition	2,636,690	392,353
Accumulated gain or loss on disposal	2,288,190	374,853

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, 2020 and 2021 were ¥1,567,536 thousand and ¥251,849 thousand, respectively.

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.

Of dividend income from equity-based financial instruments classified as to be measured at FVTOCI during the year ended March 31, 2021, the amount of dividend from the equity-based financial instruments that the Company held at the end date of the reporting period was ¥79,356 thousand and there is no dividend from the equity-based financial instruments that the Company derecognized for the year ended March 31, 2021.

(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 customer fell into default when the possibility is low that the customer 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, 2020	33,066,348	134,560	33,200,908
March 31, 2021	34,950,608	128,229	35,078,837

(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, 2020	7,383,118	—	20,160	7,403,278
March 31, 2021	6,410,898	—	33,509	6,444,407

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, 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

For the year ended March 31, 2021

(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, 2020	88,333	130,127	218,460
Increases	13,506	99,655	113,161
Decreases(credits charged off)	(2,227)	(49,718)	(51,945)
Other	(68,573)	68,659	86
March 31, 2021	31,039	248,723	279,762

(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, 2020	—	—	26,072	26,072
Increases	—	—	1,919	1,919
Decreases(Credits charged off)	—	—	(2,174)	(2,174)
Other	—	—	(24)	(24)
March 31, 2021	—	—	25,793	25,793

(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, 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 (including 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.

March 31, 2021

	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	19,243,800	19,243,800	19,243,800	—	—	—	—	—
Other financial liabilities	866,447	877,232	424,392	146,225	146,225	97,205	63,185	—
Short-term borrowings	13,390,000	13,403,265	13,403,265	—	—	—	—	—
Long-term borrowings (including current portion)	12,170,000	12,285,171	5,216,530	1,534,288	2,024,726	3,509,627	—	—
Lease obligations (including current portion)	52,660,783	53,820,639	17,906,357	11,886,265	6,928,593	5,338,475	3,155,293	8,605,656
Off-balance transactions								
Unused balance of capital call	—	1,683,163	—	—	—	—	—	—
Total	98,331,030	101,313,270	56,194,344	13,566,778	9,099,544	8,945,307	3,218,478	8,605,656

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, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Foreign currency denominated monetary financial instruments		
U.S. dollars	2,982,396	4,425,392

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, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Potential effect on profit before tax		
U.S. dollars	(298,240)	(442,539)

(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, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Effect of increase (decrease) on other comprehensive income before income tax expenses	(516,333)	(831,003)

(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, 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

March 31, 2021

	Level 1	Level 2	Level 3	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Assets：				
Debt-based financial assets measured at FVTOCI				
Debt securities	－	110,840	－	110,840
Equity-based financial assets measured at FVTOCI				
Equity securities	8,310,034	－	1,470,026	9,780,060
Financial assets measured at FVTPL				
Investment trust and other securities	－	－	2,941,240	2,941,240
Other financial assets	－	80,343	－	80,343

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, 2020 and 2021 were as follows:

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Equity securities		
Balance at the beginning of the year	1,379,302	1,488,361
Other comprehensive income (Note 1)	300,829	(18,335)
Sale	(14,390)	—
Transfer from Level3 (Note 2)	(177,380)	—
Balance at the end of year	1,488,361	1,470,026

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Investment trust and other securities		
Balance at the beginning of the year	2,199,303	2,348,265
Profit or loss (Note 3)	126,074	421,850
Purchase	136,429	241,307
Sale	(113,541)	(70,182)
Balance at the end of year	2,348,265	2,941,240

(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.

④ 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.

Since financial assets and financial liabilities classified as current items are settled in a short period of time, the carrying amount is a reasonable approximation of fair value. Regarding non-current items, the fair value of financial assets and financial liabilities other than above is close to their carrying amount.

The following tables present the Company' s financial instruments not measured at fair value consistent with the fair value hierarchy.

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

March 31, 2021

	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)	12,170,000	―	12,195,051	―	12,195,051

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 31,2020	March 31,2021
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	2,180,000 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	5,525,000 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, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Investments in associates	927,361	5,019,419
Investments in joint ventures	3,899,926	4,007,561
Total	4,827,287	9,026,980

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, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Associates		
Profit or loss	(1,019,976)	(627,790)
Other comprehensive income	—	—
Total comprehensive income	(1,019,976)	(627,790)
Joint ventures		
Profit or loss	214,196	219,974
Other comprehensive income	—	—
Total comprehensive income	214,196	219,974
Total		
Profit or loss	(805,780)	(407,816)
Other comprehensive income	—	—
Total comprehensive income	(805,780)	(407,816)

(Note) The Company considers JOCDN Inc. ("JOCDN"), of which the Company holds 16.8% of the voting rights, to be an associate. The Company has determined that the Company has significant influence over JOCDN, due to the fact that more than 20% of the directors of JOCDN are from the Company and that JOCDN is highly dependent on the Company for its business operations and technology.

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

For the year ended March 31, 2020 and 2021, share of profit of investments accounted for using equity method included gains on changes in equity of ¥375,530 thousand, ¥348,797 thousand respectively, 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, 2021. 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, 2020 and 2021 and transactions of the Company with NTT and its subsidiaries for each of the two years in the period ended March 31, 2020 and 2021, are summarized as follows:

	March 31, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Trade receivable	364,854	620,215
Other financial assets	1,143,174	17,827
Trade and other payable	4,524,178	4,397,551
Other financial liabilities	2,535,382	2,347,693

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Revenue	3,629,227	4,811,569
Cost of sales and selling, general and administrative expenses	44,239,747	40,795,299
Financial cost	53,362	46,599

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), 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, 2020 and 2021, and for each of the two years in the period ended March 31, 2021 are summarized as follows:

Associates:

	March 31, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Trade receivable and other financial assets	322,419	132,964
Trade and other payables	332	4,070

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Revenue	1,936,733	1,835,536
Cost of sales and selling, general and administrative expenses	5,752	32,174

Joint Ventures:

	March 31, 2020	March 31, 2021
	Thousands of yen	Thousands of yen
Trade receivable and other financial assets	175,224	293,724
Trade and other payables	94,029	124,043

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Revenue	1,044,020	1,079,219
Cost of sales and selling, general and administrative expenses	1,008,668	1,159,055

Dividends from the equity method investees for the years ended March 31, 2020 and 2021 were ¥84,403 thousand, ¥110,627 thousand, respectively.

(2) Key management executives' compensation

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

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Basic remuneration	319,402	321,445
Share-based payment	35,095	64,281
Total	354,497	385,726

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, 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	11,250,000	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						
Lease liabilities	57,038,801	(19,514,463)	15,605,482	(1,953)	(473,379)	52,654,488
Account payable―non-current (including current portion)	787,634	431,075	―	―	―	1,218,709
Total liabilities from financing activities	84,576,435	(18,083,388)	15,605,482	(1,953)	(473,379)	81,623,197

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

For the year ended March 31, 2021

	April 1, 2020	Changes with cash flow	Changes without cash flows			March 31, 2021
			Leases newly contracted	Exchange differences on translation of foreign operations	Other	
Short-term borrowings	13,750,000	(360,000)	―	―	―	13,390,000
Long-term borrowings (including current portion of long-term borrowings)	14,000,000	(1,830,000)	―	―	―	12,170,000
Other financial liabilities						
Lease liabilities	52,654,488	(19,393,656)	19,990,185	1,815	(592,049)	52,660,783
Account payable―non-current (including current portion)	1,218,709	(580,548)	―	―	―	638,161
Total liabilities from financing activities	81,623,197	(22,164,204)	19,990,185	1,815	(592,049)	78,858,944

(2) Non-cash transactions

	For the year ended March 31, 2020	For the year ended March 31, 2021
	Thousands of yen	Thousands of yen
Facility purchase liabilities	2,083,720	1,911,053
Asset retirement obligation	19,336	—

Increase of Right-of-use-Assets by the adaption of IFRS16 was stated in "16 LEASES."

(3) Proceeds from sale of a subsidiary

Fiscal year ended March 31, 2020
Not applicable.

Fiscal year ended March 31, 2021
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, 2021.

37. SUBSEQUENT EVENTS

(1) Payment of dividends

On June 29, 2021, IIJ's shareholders approved the payment of a cash dividend to shareholders of record at March 31, 2021 of ¥19.50 per share of in the aggregate amount of ¥1,759,011 thousand.

(2) Acquisition of Shares in PTC SYSTEM (S) PTE LTD ("PTC")

IIJ acquired all the shares of PTC, which mainly operates systems integration business in Singapore, on April 1, 2021.

(i) Reasons for acquisition of shares

PTC has strong relationships with blue-chip customers and leading IT partners and provides high quality solutions such as storage and server-related system integration in Singapore.

By acquiring all the shares of PTC to be a wholly owned subsidiary, IIJ expects to strengthen its Singapore business which leads the IT field in the ASEAN region and significantly expand its business and strengthen its capabilities in providing services and solutions in the ASEAN region.

(ⅱ) Profile of the subsidiary subject to the change

1)	Name	PTC SYSTEM (S) PTE LTD
2)	Main Business	Systems integration
3)	Capital stock	SGD2 million (Singapore dollar: "SGD")

(ⅲ) Number of shares to be acquired and the acquisition price

1)	Number of shares to be acquired	2,000,000 shares (Number of voting rights: 2,000,000, Shareholding ratio: 100%)
2)	Acquisition price	SGD44 million (JPY3,632 million), decided based on due diligence conducted and third-party valuation report.

(ⅳ) Goodwill, recognizable assets acquired and liabilities assumed

Yet to be determined as the fair value of assets acquired and liabilities assumed as of the acquisiton date is under calculation.

38. AUTHORIZATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized by Eijiro Katsu, Representative Director and President, and Akihisa Watai, Senior Managing Director, CFO on June 29, 2021.

(2) Others

Quarterly information, etc. for the current consolidated fiscal year

(cumulative period)		For the three months ended June 30, 2020	For the six months ended September 30, 2020	For the nine months ended December 31, 2020	For the year ended March 31, 2021
Revenues	(Thousands of yen)	50,378,505	101,664,990	156,070,113	213,001,880
Operating profit	(Thousands of yen)	2,047,229	5,239,049	10,127,496	14,247,723
Profit before tax	(Thousands of yen)	1,694,231	4,465,861	9,226,988	14,034,719
Profit attributable to owners of the parent	(Thousands of yen)	1,116,313	2,769,928	5,876,784	9,711,559
Basic earnings per share	(Thousands of yen)	12.38	30.71	65.16	107.67

(three-month period)		For the three months ended June 30, 2020	For the three months ended September 30, 2020	For the three months ended December 31, 2020	For the three months ended March 31, 2021
Basic earnings per share	(yen)	12.38	18.33	34.44	42.51

(Note) IIJ conducted a two-for-one stock split of its common stock with an effective date of January 1, 2021. The figures for Basic earnings per share for each period have been adjusted to reflect the impact of this stock split.

2 Non-Consolidated Financial Statements, etc.

(1) Non-consolidated financial statements

① Non-consolidated balance sheet

(Unit: JPY thousands)

	Year ended March 31, 2020 (As of March 31, 2020)	Year ended March 31, 2021 (As of March 31, 2021)
Assets		
Current assets		
Cash and bank deposits	24,785,230	30,133,018
Accounts receivable	※1 28,698,998	※1 31,322,866
Investment in leases	1,913,632	1,575,563
Merchandise	265,204	83,053
Work in process	711,559	652,318
Supplies	1,435,957	1,425,153
Prepaid expenses	※1 10,012,209	※1 10,724,541
Accounts receivable-other	※1 1,954,939	※1 818,071
Short-term loans to affiliated companies	115,071	33,306
Other current assets	※3 102,183	※3 141,908
Allowance for doubtful accounts	(185,050)	(183,249)
Total current assets	69,809,932	76,726,548
Fixed assets		
Property and equipment		
Land	2,055,099	2,055,099
Buildings	1,388,509	1,388,509
Leasehold improvements	6,530,122	6,602,866
Construction other than buildings	1,837,207	1,673,105
Data communication equipment and office equipment	10,853,107	10,219,520
Assets under finance leases	41,514,145	41,837,537
Construction in process	1,296,836	2,127,725
Accumulated depreciation	(36,806,265)	(37,724,417)
Total property and equipment	28,668,760	28,179,944
Intangible assets		
Goodwill	968,412	824,277
Customer relationship	817,244	698,754
Telephone rights	2,241	2,241
Software	15,514,650	14,528,771
Assets under finance leases	391,000	365,137
Total intangible assets	17,693,547	16,419,180

(Unit: JPY thousands)

	Year ended March 31, 2020 (As of March 31, 2020)	Year ended March 31, 2021 (As of March 31, 2021)
Investments and other assets		
Investments in securities	5,749,695	8,881,612
Money held in trust	1,896,616	2,165,447
Investments in affiliated companies	17,403,620	21,685,704
Guarantee deposits	3,157,878	3,292,684
Long-term prepaid expenses	※1 7,251,897	※1 8,814,278
Claims against insolvencies	4,696	4,460
Long-term loans to affiliated companies	44,212	118,336
Deferred tax assets	571,466	—
Other investments	451,338	519,568
Allowance for doubtful accounts	(23,074)	(22,845)
Total investments and other assets	36,508,344	45,459,244
Total fixed assets	82,870,651	90,058,368
Total assets	152,680,583	166,784,916
Liabilities		
Current liabilities		
Accounts payable	※1 2,897,308	※1 2,991,172
Short-term borrowings	※2 13,750,000	※2 13,390,000
Short-term borrowings from affiliated Companies	3,450,000	4,000,000
Long-term borrowings-current portion	1,830,000	5,170,000
Accounts payable-other	※1 11,177,683	※1 11,899,034
Finance lease obligations-current	7,380,557	7,205,593
Accrued expense	497,183	774,710
Accounts payable-fixed assets	1,867,963	1,655,351
Income taxes payable	1,964,847	3,124,228
Consumption taxes payable	1,058,964	1,782,831
Deposits received	104,640	111,033
Advances received	206,653	301,716
Deferred income	※1 4,677,180	※1 5,746,738
Other current liabilities	80,251	301,327
Total current liabilities	50,943,229	58,453,733
Long-term liabilities		
Long-term borrowings	12,170,000	7,000,000
Deferred income-noncurrent	※1 4,773,528	※1 6,184,782
Accounts payable-noncurrent	661,154	431,652
Finance lease obligations	11,449,649	10,932,928
Asset retirement obligations	701,375	713,696
Long-term borrowings from affiliated Companies	30,990	34,534
Accrued pension and severance cost	3,200,531	3,474,288
Accrued directors' and company auditors' retirement benefit	201,760	201,760
Deferred tax liabilities	—	95,699
Total long-term liabilities	33,188,987	29,069,339
Total liabilities	84,132,216	87,523,072

(Unit: JPY thousands)

	Year ended March 31, 2020 (As of March 31, 2020)	Year ended March 31, 2021 (As of March 31, 2021)
Net Assets		
Shareholders' equity		
Capital stock	22,991,399	22,991,399
Capital surplus		
Legal capital surplus	9,712,083	9,712,083
Other capital surplus	23,264	76,181
Total capital surplus	9,735,347	9,788,264
Earned surplus		
Legal retained earnings	502,473	502,473
Other retained earnings		
Reserve for advanced depreciation of fixed assets	358,343	315,005
Retained earnings brought forward	33,621,628	42,093,636
Total earned surplus	34,482,444	42,911,114
Treasury stock	(1,885,261)	(1,863,452)
Total shareholders' equity	65,323,929	73,827,325
Valuation and translation adjustment		
Net unrealized gains on securities	2,834,803	4,980,249
Total valuation and translation adjustment	2,834,803	4,980,249
Subscription rights to shares	389,635	454,270
Total net assets	68,548,367	79,261,844
Total liabilities and net assets	152,680,583	166,784,916

② Non-consolidated statement of income

(Unit: JPY thousands)

	Year ended March 31, 2020 (April 1, 2019 to March 31, 2020)	Year ended March 31, 2021 (April 1, 2020 to March 31, 2021)
Total revenues	171,844,242	185,323,219
Total costs of revenues	※1 148,329,890	※1 152,363,167
Gross margin	23,514,352	32,960,052
Total sales, general and administrative expense	※2 20,019,587	※2 21,374,570
Operating income	3,494,765	11,585,482
Non-operating income		
Interest income	4,879	6,937
Dividend income	※1 1,128,138	※1 1,556,582
Commissions received	※1 45,959	※1 46,314
Royalty charges received	※1 3,211	※1 3,159
Gains on investments on silent partnership	468,443	418,526
Foreign exchange gain	—	159,754
Reversal of allowance for doubtful accounts	—	8,090
Other non-operating income	156,368	34,657
Total non-operating income	1,806,998	2,234,019
Non-operating expense		
Interest expense	411,325	387,307
Foreign exchange loss	34,073	—
Provision of allowance for doubtful accounts	7,411	—
Other non-operating expense	23,621	51,369
Total non-operating expense	476,430	438,676
Ordinary income	4,825,333	13,380,825
Extraordinary income		
Gains on sales of investment in securities	2,398,780	385,480
Gains on sales of shares of affiliated companies	—	266,874
Gains on sales of fixed assets	※3 2,387	※3 377
Total extraordinary income	2,401,167	652,731
Extraordinary loss		
Losses on disposal of fixed assets	※4 346,204	※4 586,246
Losses on valuation of investment securities	—	1,618
Losses on valuation of shares of affiliated companies	306,661	64,905
Other extraordinary loss	1,750	350
Total extraordinary loss	654,615	653,119
Income before income taxes	6,571,885	13,380,437
Income taxes-current	2,055,239	3,702,009
Income taxes-deferred	(317,105)	(283,479)
Total income taxes	1,738,134	3,418,530
Net income	4,833,751	9,961,907

【Cost of Sales Statements】

Category	Note No.	Year ended March 31, 2020 (April 1, 2019 to March 31, 2020) (Unit: JPY thousands)		Composition (%)	Year ended March 31, 2021 (April 1, 2020 to March 31, 2021) (Unit: JPY thousands)		Composition (%)
I Equipment purchasing costs			11,950,482	8.0		12,416,379	8.1
II Labor costs			25,757,428	17.3		27,874,351	18.2
III Outsourcing costs			60,057,901	40.2		59,961,163	39.2
IV Expenses							
1 Interconnection fees		15,582,984			15,829,965		
2 Depreciation and amortization		12,250,667			12,424,053		
3 Rent expenses		239,452			261,511		
4 Rent expenses on real estate		4,784,228			4,114,768		
5 Maintenance expenses		4,919,820			4,986,735		
6 Others		12,428,184	50,205,335	33.6	14,252,850	51,869,882	33.9
Subtotal			147,971,146	99.1		152,121,775	99.4
Work in process at the beginning of the period			1,253,349	0.8		711,559	0.5
Merchandise at the beginning of the period			82,158	0.1		265,204	0.2
Total purchases for the period			149,306,653	100.0		153,098,538	100.0
Work in process at the end of the period			711,559			652,318	
Merchandise at the end of the period			265,204			83,053	
Total cost for the period			148,329,890			152,363,167	

(*) Cost accounting method: Actual job-order costing

③ Non-consolidated statement of changes in net assets

Year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

(Unit: JPY thousands)

	Shareholders' equity							
	Capital stock	Capital surplus			Earned surplus			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal surplus	Other earned surplus: Reserve for advanced depreciation of fixed assets	Other earned surplus: Retained earnings brought forward	Total earned surplus
Balance, March 31, 2019	22,979,490	9,700,175	23,264	9,723,439	502,473	401,846	29,961,456	30,865,775
Changes								
Issuance of common stock upon exercise of stock options	11,909	11,908		11,908				
Payment of dividends							(1,217,082)	(1,217,082)
Reversal of reserve for advanced depreciation of fixed assets						(43,503)	43,503	—
Net income							4,833,751	4,833,751
Purchase of treasury stock								
Net changes other than shareholders' equity								
Total changes	11,909	11,908		11,908		(43,503)	3,660,172	3,616,669
Balance, March 31, 2020	22,991,399	9,712,083	23,264	9,735,347	502,473	358,343	33,621,628	34,482,444

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders' equity	Net unrealized gains on securities	Total valuation and translation adjustment		
Balance, March 31, 2019	(1,885,128)	61,683,576	4,512,426	4,512,426	355,923	66,551,925
Changes						
Issuance of common stock upon exercise of stock options		23,817				23,817
Payment of dividends		(1,217,082)				(1,217,082)
Reversal of reserve for advanced depreciation of fixed assets		—				—
Net income		4,833,751				4,833,751
Purchase of treasury stock	(133)	(133)				(133)
Net changes other than shareholders' equity			(1,677,623)	(1,677,623)	33,712	(1,643,911)
Total changes	(133)	3,640,353	(1,677,623)	(1,677,623)	33,712	1,996,442
Balance, March 31, 2020	(1,885,261)	65,323,929	2,834,803	2,834,803	389,635	68,548,367

Year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

(Unit: JPY thousands)

	Shareholders' equity							
	Capital stock	Capital surplus			Earned surplus			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal surplus	Other earned surplus		Total earned surplus
						Reserve for advanced depreciation of fixed assets	Reserve for advanced depreciation of fixed assets	
Balance, March 31, 2020	22,991,399	9,712,083	23,264	9,735,347	502,473	358,343	33,621,628	34,482,444
Changes								
Payment of dividends							(1,533,237)	(1,533,237)
Reversal of reserve for advanced depreciation of fixed assets						(43,338)	43,338	—
Net income							9,961,907	9,961,907
Purchase of treasury stock								
Disposal of treasury stock			52,917	52,917				
Net changes other than shareholders' equity								
Total changes			52,917	52,917		(43,338)	8,472,008	8,428,670
Balance, March 31, 2021	22,991,399	9,712,083	76,181	9,788,264	502,473	315,005	42,093,636	42,911,114

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders' equity	Net unrealized gains on securities	Total valuation and translation adjustment		
Balance, March 31, 2020	(1,885,261)	65,323,929	2,834,803	2,834,803	389,635	68,548,367
Changes						
Payment of dividends		(1,533,237)				(1,533,237)
Reversal of reserve for advanced depreciation of fixed assets		—				—
Net income		9,961,907				9,961,907
Purchase of treasury stock	(140)	(140)				(140)
Disposal of treasury stock	21,949	74,866				74,866
Net changes other than shareholders' equity			2,145,446	2,145,446	64,635	2,210,081
Total changes	21,809	8,503,396	2,145,446	2,145,446	64,635	10,713,477
Balance, March 31, 2021	(1,863,452)	73,827,325	4,980,249	4,980,249	454,270	79,261,844

Notes to Non-Consolidated Financial Statements

(Significant accounting policies)

1. Valuation and methods for securities

(1) Shares of subsidiaries and affiliates

Stated at cost based on the moving-average method.

(2) Other securities

Marketable securities:

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

Non-marketable securities:

Stated at cost based on the moving-average method.

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

2. Valuation and methods for inventories

Inventories held for normal sales purpose

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

(1) Merchandise and supplies:

Moving-average method.

(2) Work in process:

Specific identification method.

3. Depreciation methods for fixed assets

(1) Property, plant and equipment (excluding assets under finance lease)

Straight-line method.

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

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

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

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

Straight-line method.

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

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

(3) Assets under finance lease

Finance leases other than those deemed to transfer ownership of properties to lessees

Amortized over the term of leases on a straight-line basis and the residual values equal zero.

4. Basis for recording allowances

(1) Allowance for doubtful accounts

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

(2) Accrued pension cost

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

1) Method of attributing the estimated benefit obligation to periods

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

2) Amortization method of actuarial calculation differences

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

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

To prepare for payment of retirement benefits to standing directors and company auditors, IIJ calculates the required amount based on regulation of directors' and company auditors' retirement benefits.

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

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

5. Basis for recording sales and costs

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

Revenue and costs are recognized when lease receivable are received.

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

1) Construction that commenced during the fiscal year ended March 31, 2021, provided that the outcome of the construction activity is deemed certain

Percentage-of-completion method (estimation of percentage-of-completion is cost to cost method.)

2) Other construction

Completed-contract method

6. Other significant accounting policies

(1) Consumption tax

Consumption tax is separately recorded.

(2) Application of consolidated tax declaration

IIJ applied the consolidated tax declaration.

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

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

(4) Presentation of the amount

The figures are rounded to the nearest thousand yen.

(5) Notes to Changes in Presentation

Non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, statement of property, plant and equipment and statement of provisions of IIJ are prepared in accordance with the format stipulated in Article 127, Paragraph 1 of the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements of Japan. As for the each note listed in Article 127, Paragraph 2 of the said regulation, each has been changed to the note based on the Regulation on Corporate Accounting of Japan.

(Adoption of "Accounting Standard for Disclosure of Accounting Estimates")

IIJ has adopted "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31 issued on March 31, 2020) from the fiscal year ended March 31, 2021. Accordingly, IIJ has disclosed "Notes to Accounting estimates and judgements" in the non-consolidated financial statements. However, in the notes, the contents related to the previous fiscal year (the year ended March 31, 2020) are not described in accordance with the transitional treatment stipulated in the provision of paragraph 11 of the said accounting standard.

(6) Additional information

We expected the impacts of the COVID-19 pandemic would be limited to only a small portion of our business, therefore, it is immaterial for our financial statements.

(Notes to Accounting Estimates and Judgements)

1. Measurement of retirement benefit obligations

(1) The amount recorded as of March 31, 2021

Retirement benefit obligations: 8,584,649 thousand yen

(2) Information about the content of the identified material accounting estimates

The present value of retirement benefit obligations are calculated based on actuarial assumptions. These actuarial assumptions require estimates and judgments on variables, such as discount rates. We obtain advice from external pension actuaries with respect to the appropriateness of these actuarial assumptions including these variables. There is the possibility that these assumptions may be affected by changes in uncertain future economic conditions, or by the publication or the amendment of related laws, which may have a material impact on the financial statements in future periods.

2. Measurement of the progress towards completion of system construction

(1) The amount recorded as of March 31, 2021

Revenue from system construction service recognized by the cost to cost method: 21,185,980 thousand yen

(2) Information about the content of the identified material accounting estimates

We estimate the progress towards completion of system construction by the cost to cost method. For applying the cost to cost method, we need to calculate the total expected cost to the completion of system construction, which requires us to make various judgement and assumptions. There is the possibility that these assumptions may be affected by changes in uncertain future conditions regarding to the system construction service, such as the increasing production costs incurred to additional requirements from the customer, which may have a material impact on the financial statements in future periods.

3. Subsequent measurement of investment in affiliated companies

(1) The amount recorded as of March 31, 2021

The amount of investment to DeCurret Inc.: 7,082,000 thousand yen

(2) Information about the content of the identified material accounting estimates

For subsequent measurement of non-Marketable Securities, we recognize the impairment loss on the securities if their substantial value declines lower than half of its acquisition values, unless the entity has reasonable expectations of recovering its value within 5 years. Although we measured the substantial value of investment to DeCurret Inc. (hereinafter, “DeCurret”) considering to its excess earning power, the measurement of the substantial value requires us to make various judgements and assumptions such as the future cash flows based on the business plan of DeCurret and the discount rate used to calculate the substantial value. Especially, this business plan assumed a sales increase by potential expansion of the cryptocurrency and digital currency markets, as well as of DeCurret’s market share in these markets. These assumptions may be impacted significantly by future changes in uncertain economic conditions, which could result in a recognition of impairment loss on the securities in the future.

(Notes to Non-Consolidated Balance Sheet)

1. Assets and liabilities to affiliated companies.

Monetary claims and liabilities to affiliated companies (excluding monetary claims or liabilities presented separately), as follows.

	Year ended March 31, 2020 (As of March 31, 2020) (Unit: JPY thousands)	Year ended March 31, 2021 (As of March 31, 2021) (Unit: JPY thousands)
Short-term monetary claims:	1,462,163	1,055,722
Short-term monetary liabilities:	2,252,505	2,466,027

2. IIJ entered into bank overdraft agreements with 8 Japanese banks in order to efficiently procure working capital, etc.

The unused balance outstanding, as follows.

	Year ended March 31, 2020 (As of March 31, 2020) (Unit: JPY thousands)	Year ended March 31, 2021 (As of March 31, 2021) (Unit: JPY thousands)
Maximum limit of bank overdraft	21,500,000	26,000,000
Used balance	13,700,000	13,340,000
Unused balance	7,800,000	12,660,000

(Notes to Non-Consolidated Statement of Income)

1. Transactions with affiliated companies (other than accounts separately presented in financial statements), as follows.

	Year ended March 31, 2020 (April 1, 2019 to March 31, 2020) (Unit: JPY thousands)	Year ended March 31, 2021 (April 1, 2020 to March 31, 2021) (Unit: JPY thousands)
Amount of sales	7,196,368	7,293,800
Amount of purchase	21,030,508	22,049,695
Amount of transactions other than business transactions	62,004	66,749

2. Major components and those amount of sales, general and administrative expense, as follows.

	Year ended March 31, 2020 (April 1, 2019 to March 31, 2020) (Unit: JPY thousands)	Year ended March 31, 2021 (April 1, 2020 to March 31, 2021) (Unit: JPY thousands)
Advertising expense	1,289,721	1,696,519
Sales commission expenses	2,386,191	2,367,026
Salaries for employees	3,642,929	4,098,653
Bonuses for employees	1,195,307	1,469,188
Retirement benefit expenses	299,626	341,837
Welfare expenses	759,886	871,805
Outsourcing expenses	2,311,113	2,381,011
Rent expenses	1,273,390	1,321,724
Depreciation and amortization	907,574	1,016,803
Provision of allowance for doubtful accounts	53,879	58,574
Research and development expenses	549,539	608,266
Other	5,350,432	5,143,164
Total	20,019,587	21,374,570
Approximate percentage		
Sales expenses	56.82%	57.38%
General and administrative expenses	43.18%	42.62%

3. Major components of gains on sales of fixed assets, as follows.

	Year ended March 31, 2020 (April 1, 2019 to March 31, 2020) (Unit: JPY thousands)	Year ended March 31, 2021 (April 1, 2020 to March 31, 2021) (Unit: JPY thousands)
Gains on sales of data communication equipment and office equipment	2,387	377
Total	2,387	377

4. Major components of losses on disposal of fixed assets, as follows.

	Year ended March 31, 2020 (April 1, 2019 to March 31, 2020) (Unit: JPY thousands)	Year ended March 31, 2021 (April 1, 2020 to March 31, 2021) (Unit: JPY thousands)
Losses on disposal of leasehold improvements	47,585	39,430
Losses on disposal of construction other than buildings	35,499	150,595
Losses on disposal of data communication equipment and office equipment	14,705	13,756
Losses on disposal of assets under finance leases	9,616	51,695
Losses on disposal of construction in process	65,261	139
Losses on disposal of software	168,818	330,631
Losses on disposal of software under finance leases	4,720	—
Total	346,204	586,246

(Notes to Securities)

Year ended March 31, 2020 (As of March 31, 2020):

As for the investment in affiliated company's securities (JPY 13,528,329 thousand as of March 31, 2020) and equity-method investees' securities (JPY 3,865,291 thousand as of March 31, 2020), there are no market prices of those securities and it is considered extremely difficult to know those fair values based on the market prices, thus, those are omitted.

Year ended March 31, 2021 (As of March 31, 2021):

As for the investment in affiliated company's securities (JPY 13,171,292 thousand as of March 31, 2021) and equity-method investees' securities (JPY 8,514,412 thousand as of March 31, 2021), there are no market prices of those securities and it is considered extremely difficult to know those fair values based on the market prices, thus, those are omitted.

(Notes to Deferred Tax Accounting)

1．Major components of deferred tax assets and liabilities

	Year ended March 31, 2020 (As of March 31, 2020) (Unit: JPY thousands)	Year ended March 31, 2021 (As of March 31, 2021) (Unit: JPY thousands)
(Deferred tax assets)		
Impairment loss on investment securities	110,006	100,599
Impairment loss on investments in affiliated companies	1,092,620	1,007,568
Loss on disposal of telephone rights	47,477	47,477
Impairment loss of telephone rights	19,094	19,094
Accrued directors' and company auditors' retirement benefits	61,739	61,738
Accrued pension and severance cost	979,362	1,063,132
Allowance for doubtful accounts	63,686	63,065
Accrued enterprise taxes	156,478	208,043
Deferred revenue	40,160	47,084
Research and development cost denial	546	190
Asset retirement obligations	214,621	218,391
Over depreciation	625,316	639,245
Stock-based compensation	119,228	139,006
Accrued rent payable	1,829	—
Others	510,032	571,284
Subtotal: Deferred tax assets	4,042,194	4,185,916
Valuation allowance	(1,691,289)	(1,620,416)
Total: Deferred tax assets	2,350,905	2,565,500
(Deferred tax liabilities)		
Unrealized gain on other securities	(1,245,347)	(2,195,991)
Asset retirement cost	(126,014)	(112,496)
Customer relationships	(250,077)	(213,819)
Reserve for advanced depreciations of fixed assets	(158,002)	(138,893)
Total: Deferred tax liabilities	(1,779,440)	(2,661,199)
Net amount of deferred tax assets (liabilities)	571,466	(95,699)

2. Major components in relation to the difference between the statutory effective tax rate and the actual effective tax rate after the application of tax effect accounting

	Year ended March 31, 2020 (As of March 31, 2020) (Unit: JPY thousands)	Year ended March 31, 2021 (As of March 31, 2021) (Unit: JPY thousands)
Statutory effective tax rate	30.6%	30.6%
(Adjustments)		
Entertainment expenses	1.1	0.3
Amortization of goodwill	0.7	0.3
Exclusion of dividend received from gross revenue	(4.8)	(3.4)
Inhabitant tax-per capita	0.5	0.2
Change in valuation allowance	1.0	(0.5)
Tax credits for acceleration of wage increases	(2.8)	(1.7)
Other	0.2	(0.3)
Actual effective tax rate after adoption of tax effect accounting	26.5%	25.5%

(Subsequent Events)

(Acquisition of Shares in PTC SYSTEM (S) PTE LTD ("PTC"))

IIJ acquired all the shares of PTC, which mainly operates systems integration business in Singapore, on April 1, 2021. For detail, please refer to the "37. Subsequent Events" of the notes to consolidated financial statements in this report.

④【Supplemental schedules】(As of March 31, 2021)

【Statement of property, plant and equipment, etc.】

Asset type	Balance at the beginning of the year (JPY thousands)	Increase during the year (*1) (JPY thousands)	Decrease during the year (*2) (JPY thousands)	Depreciation and amortization during the year (JPY thousands)	Balance at the end of the year (JPY thousands)	Accumulated depreciation and amortization at the end of the year (JPY thousands)	Acquisition cost of fixed assets at the end of the year (JPY thousands)
Property and equipment							
Land	2,055,099	—	—	—	2,055,099	—	2,055,099
Buildings	1,186,234	—	—	43,072	1,143,162	245,347	1,388,509
Leasehold improvements	4,562,246	173,403	39,430	486,055	4,210,164	2,392,702	6,602,866
Construction other than buildings	1,337,454	129,485	150,595	91,452	1,224,892	448,213	1,673,105
Data communication equipment and office equipment	3,407,066	904,103	27,709	1,310,884	2,972,576	7,246,944	10,219,520
Assets under finance leases	14,823,825	6,435,767	51,695	6,761,571	14,446,326	27,391,211	41,837,537
Construction in process	1,296,836	2,056,365	1,225,476	—	2,127,725	—	2,127,725
Total property and equipment	28,668,760	9,699,123	1,494,905	8,693,034	28,179,944	37,724,417	65,904,361
Intangible assets							
Goodwill	968,412	—	—	144,135	824,277		
Customer relationship	817,244	—	—	118,490	698,754		
Telephone rights	2,241	—	—	—	2,241		
Software	15,514,650	3,967,468	335,511	4,617,836	14,528,771		
Assets under finance leases	391,000	138,942	—	164,805	365,137		
Total intangible assets	17,693,547	4,106,410	335,511	5,045,266	16,419,180		

(*1) The major breakdown of the increase during the year is as follows.

		(JPY thousands)
Leasehold improvements	For data centers	135,127
Construction other than buildings	For data centers	123,113
Data communication equipment and office equipment	For mobile services	157,735
	For cloud services	135,411
	For specific customers	134,422
	For data centers	101,701
Assets under finance leases (fixed assets)	For cloud services	1,753,737
	For server-related infrastructure	1,196,299
	For mobile services	776,313
Software	For cloud services	753,880
	For mobile service back office systems	728,510
	For back office or operation systems	566,363

(*2) The major breakdown of the decrease during the year is as follows.

		(JPY thousands)
Construction other than buildings	For data centers	268,353
Data communication equipment and office equipment	For cloud services	934,710
	For specific customers	553,092
Assets under finance leases (intangible assets)	For cloud services	3,616,682
	For a specific services	450,975
Software	For a specific services	2,433,119
	For back office or operation systems	649,658

【Statement of provisions】

Category	Balance at the beginning of the year (JPY thousands)	Increase during the year (JPY thousands)	Decrease during the year (JPY thousands)	Balance at the end of the year (JPY thousands)
Allowance for doubtful accounts	208,124	58,598	60,628	206,094
Provision for directors’ and company auditors’ retirement benefit (*)	201,760	—	—	201,760

(*) As for the reasons for recording provisions and calculation standard, please refer “PART 1 Information on the Company, Item5 Financial Status, 2 Non-Consolidated Financial Statements, etc., Notes to Non-Consolidated Financial Statements, 4. Basis for recording allowances, (3) Accrued directors’ and company auditors’ retirement benefits” in this report.

(2) 【Details of major assets and liabilities】(As of March 31, 2021)

Consolidated financial statements have been prepared, thus details of major assets and liabilities are omitted here.

(3) 【Others】

There is nothing to report on this subject.

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, 2020) and the date of the filing of this Annual Securities Report (June 30, 2021).

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

Fiscal Year (28th Business Term) (from April 1, 2019 to March 31, 2020)
Filed with the Director of the Kanto Local Finance Bureau on June 30, 2020

(2) Internal Control Report, Including Attachments

Filed with the Director of the Kanto Local Finance Bureau on June 30, 2020

(3) Quarterly Reports and Confirmation Letters

First Quarter, 29th Business Term (from April 1, 2020 to June 30, 2020)
Filed with the Director of the Kanto Local Finance Bureau on August 14, 2020

Second Quarter, 29th Business Term (from July 1, 2020 to September 30, 2020)
Filed with the Director of the Kanto Local Finance Bureau on November 16, 2020

Third Quarter, 29th Business Term (from October 1, 2020 to December 31, 2020)
Filed with the Director of the Kanto Local Finance Bureau on February 15, 2021

(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 30, 2021

(5) Securities Registration Statement, Including Attachments

Securities Registration Statement (disposal of treasury stock for restricted stock compensation), including attachments.
Filed with the Director of the Kanto Local Finance Bureau on May 26, 2021.

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 over the 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	DX	DX (Digital Transformation) is the adoption of digital technology to transform products, services or business models, etc., through replacing incumbent processes with digital processes, in response to drastic changes in the business environment.
9	eSIM	SIM of which users can remotely update its mobile carrier profile
10	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.
11	ICT	Information and Communication Technology (ICT) is a general term of technologies in relation to hardware, software, system and data communication used for information communication by computers.
12	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.
13	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.
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 service, which the Company provides, that allows for coordinating comprehensive community care with local medical practitioners such as doctors, nurses, care managers, and local government staff.
16	IIJ Flex Mobility Service	A service that enables secure and high-speed VPN communication, which the Company provides.
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 any "things" connected to 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	IP Service	Dedicated-type Internet connectivity services, mainly used by corporate users, which IIJ provides.
23	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.
24	ITU	International Telecommunication Union (ITU) is a specialized agency of the United Nations that is responsible for issues that concern information and communication technologies.
25	ITU-T	ITU-T is an ITU organization and organizes major events for the world's information and communication technologies community.
26	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.
27	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.
28	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).
29	LTE	Long Term Evolution (LTE) is a standard for wireless broadband communication for mobile devices.
30	MVNO	Mobile Virtual Network Operator (MVNO) is a company that provides mobile phone services by using other companies' mobile infrastructure.
31	MVNE	Mobile Virtual Network Enabler (MVNE) is a company that provides MVNOs for mobile infrastructure and related services to enable their MVNO businesses.
32	NOC	Network Operation Center (NOC) is a center used for operating and monitoring networks. Network operation center may also mean Point of Presence (POP).

33	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.
34	Omnibus	A service which IIJ provides. Omnibus, utilizing SDN (Software Defined Network) and NFV (Network Function Virtualization) technologies, is a cloud-based network service, which provides enterprise customers wide-range and various functions.
35	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.
36	SASE	SASE (Secure Access Service Edge) is a concept, providing comprehensive service by combining network functions and network security functions on the cloud.
37	SE	Systems Engineer (SE) is, generally, a person mainly engaged in design and construction of network systems.
38	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.
39	SIM Card	Subscriber Identity Module (SIM) Card is an integrated circuit card to identify subscribers on mobile telephony devices.
40	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.
41	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.
42	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.
43	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.
44	xSP	xSP is a general term for various service providers that provide services via networks, such as ASP (Application Service Provider), ISP (Internet Service Provider), MSP (Managed Service Provider), etc.
45	Access Circuit	Access circuit is a telecommunications circuit to connect between facilities of telecommunications carriers and subscribers.
46	Application Service Provider	Application Service Provider (ASP) is a company or a service that provides business applications to customers over Internet.
47	Internet Service Provider	Internet Service Provider (ISP) is a company that provides Internet connectivity, web hosting and other services.
48	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.
49	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.
50	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.
51	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.
52	GigaPlans	GigaPlans is a new consumer mobile service plans, which the Company has started providing from April 1, 2021.
53	Cloud Exchange Service	A data center function providing multiple cloud services, multiple network services, and multiple IT services in an interconnected manner, which the Company provides.
54	Cloud Computing	Cloud computing is the on-demand delivery of computer system functions and processing ability, software, data and etc. through the Internet.
55	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.
56	Wide-area Ethernet	Wide-area Ethernet is a technology or service to deliver WAN service using Ethernet connectivity.
57	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.
58	Content	Content stands for information that is found on the web, such as text, music and videos.
59	Server	Server is a computer system or program to provide services, such as email and web services to other computers and their users.
60	Server rack space	Server rack space means a space for installing shelf-type fixtures which is used to store servers in data centers, etc.
61	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.
62	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.
63	Systems Integration	Systems Integration (SI) is to meet customer needs by designing, constructing and operating information systems suitable to customer needs.
64	Systems Integrator	Systems Integrator is a company that provides systems integration to end customers.
65	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.
66	Recurring revenues	Revenues that businesses can count on receiving every single month through continuous provision of services to customers. Of recurring revenue, "enterprise recurring revenue" represents the following monthly recurring-type revenues of us; Internet connectivity services (Enterprise) revenue, outsourcing services revenue and systems operation and maintenance revenue. The enterprise recurring revenue exclude Internet connectivity services (Consumer) revenue, MVNE revenue, and WAN services revenue which was negatively impacted by an individual factor.

67	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.
68	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.
69	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.
70	Zero Trust	Zero Trust is a concept of network security that never trusts all communication traffic and always verifies it.
71	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.
72	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.
73	Telecommunications Carrier	A telecommunications carrier is a company that provides telecommunications services by installing telecommunications equipment such as access circuits and telephone switch boards.
74	Mobile unit charge	Mobile unit charge refers to the unit charge for interconnectivity data communications charge between mobile carriers such as NTT DoCoMo and MVNO such as IIJ. The unit price is per Mbps.
75	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.
76	Digital Currency Forum	A forum to study the practicality of digital currency in Japan, which DeCurret Inc. serves as the secretariat of the forum.
77	Digital Workplace	A comfortable and productive digital work space that is realized by using digital tools, etc.
78	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.
79	Telework	By using ICT (Information and Communication Technology), engaging in business activity remotely from home or remote location, not from offices.
80	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.
81	Traffic	Traffic is a flow of data transmitted over a network, or the amount of data transmitted.
82	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.
83	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.
84	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.
85	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.
86	Private Cloud	Private cloud means a cloud environment built exclusively for specific users.
87	Full-MVNO	Unlike conventional MVNO (Mobile Virtual Network Operator), full-MVNO operates 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 the high degree of freedom. For example, in the IoT field, where future developments are expected, Full-MVNO providers expect to be able to offer embedded SIMs as well as develop services that they can freely control in terms of the management of charges and activation.
88	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.
89	Broadband	Broadband is a service realized by expansion of high-speed access networks. Broadband also provides full-time connectivity.
90	Protocol	Protocol is to define procedures and form data required for communication in advance.
91	Hosting Services	Hosting services are services that provide a server environment for corporations and individuals who use the Internet.
92	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.
93	Portal Site	Portal site is a site that the owner positions as an entrance to other sites on Internet.
94	Multi-cloud	Multi-cloud means using multiple cloud services from multiple different cloud service providers, such as Amazon Web Services, Microsoft Azure and etc.
95	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.
96	Remote access	By using Internet and others, access corporate intranet and/or computers from outside of office, remotely.
97	Router	A router is a physical networking device or virtual networking appliance that forwards data between two or more packet-switched computer networks.
98	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.
99	5G SA	5G (fifth generation mobile communication system) Stand Alone system. A communication system in which the core network, data communication function, control function, etc. are all constructed using 5G technology.

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

Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

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") , which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of the estimated total cost related to revenue recognition for systems construction services	
The key audit matter	**How the matter was addressed in our audit**
As described in Notes to consolidated financial statements 3. SIGNIFICANT ACCOUNTING POLICIES (13) Revenue of Internet Initiative Japan Inc. (hereinafter, the "Company") and its consolidated subsidiaries, revenue from systems integration services was recognized based on the progress toward satisfaction of performance obligations as the performance obligations of these services are satisfied over a certain period of time. Of revenues recognized for the current fiscal year, revenue from systems integration services recognized based on the progress amounted to	The primary procedures we performed to assess the reasonableness of the estimated total cost related to the revenue from the systems integration services recognized based on the progress included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to estimating the total cost of systems integration services, with a particular focus on the following: ● controls to ensure the reasonableness of the

¥25,913,193 thousand, representing approximately 12.2% of total revenues in the consolidated financial statements. The progress of the systems integration services is measured using the input method (the cost-to-cost method), and the estimated total cost that underlies the input method includes the estimates of equipment purchase, outsourcing expenses, and work hours. In the systems integration services, design and development of a network system and consultation are provided upon customers' demand. Therefore, each service is highly unique, and unexpected work hours may be required due to system malfunction and specification changes. Accordingly, the estimate of work hours included in the estimated total cost that underlies the input method particularly involves a high degree of uncertainty, and management's judgment thereon has a significant effect on the amount of revenue from the systems integration services recognized based on the progress using the percentage-of-completion method. We, therefore, determined that our assessment of the reasonableness of the Company's estimate of total cost related to revenue recognition of the systems integration services based on the progress was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	estimate of work hours; and ● controls designed to reflect the effect from system malfunction and specification changes in the estimated total cost in a timely and appropriate manner. **(2) Assessment of the reasonableness of the estimated total cost** The primary procedures we performed to assess whether the Company's estimate of the work hours included in the total cost of systems integration services was reasonable included the following: ● assessed the accuracy of the estimate of work hours for the systems integration services completed in the current fiscal year by comparing the estimated total work hours as at the end of the previous fiscal year with the actual work hours; ● for the systems integration services selected in view of the amount of orders received and the progress toward completion, inquired of the personnel responsible for projects about the basis for the estimate of work hours, and evaluated the consistency between the percentage of the actual work hours through the end of the current fiscal year against the estimated total work hours and the progress indicated in work process charts; and ● for the systems integration services whose estimated work hours by the end of the current year deviated from the actual work hours for a certain degree, inquired of the personnel responsible for projects about causes of the deviation. Then we assessed whether the effect from the deviation was appropriately reflected in the estimate of the work hours for the subsequent fiscal years by inspecting the most recent documents on accumulated costs.

Responsibilities of Management and 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 with regard to 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. 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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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.

From the matters communicated with corporate auditors and the board of corporate auditors , we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Internal Control Report

Opinion

We also have audited the accompanying internal control report of ABC Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") as at March 31, 2021.

In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as at March 31, 2021, 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.

Hiroto Kaneko
Designated Engagement Partner
Certified Public Accountant

Yusuke Matsumoto
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 30, 2021

Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of Internet Initiative Japan Inc. ("the Company"), which comprise the balance sheet, the statement of income, the statement of changes in net assets for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of the estimated total construction cost related to revenue recognition for systems integration services	
The key audit matter	**How the matter was addressed in our audit**
As described in Notes to Non-Consolidated Financial Statements (Significant accounting policies) 5. Basis for recording sales and costs of Internet Initiative Japan Inc. (hereinafter, the "Company"), revenue from systems integration services was recognized using the percentage-of-completion method. Of revenues recognized for the current fiscal year, revenue from systems integration services recognized using the percentage-of-completion method amounted to ¥21,185,980 thousand, representing approximately 11.4% of total revenues. The percentage-of-completion method is applied to construction contracts for which the realization of the completed portion is assured. The progress toward completion of construction is measured using the cost-to-cost method, and the estimated	In our auditor's report on the consolidated financial statements, we have described our audit responses to the key audit matter, "Reasonableness of the estimated total cost related to revenue recognition for systems integration services." Since our audit responses in the audit of the non-consolidated financial statements of the Company were substantially the same as those in our audit of the consolidated financial statements, no further description is provided in this section.

total construction cost that underlies the cost-to-cost method includes the estimates of equipment purchase, outsourcing expenses, and work hours. In the systems integration services, design and development of a network system and consultation are provided upon customers' demand. Therefore, each service is highly unique, and unexpected work hours may be required due to system malfunction and specification changes. Accordingly, the estimate of work hours included in the estimated total construction cost that underlies the cost-to-cost method particularly involves a high degree of uncertainty, and management's judgment thereon has a significant effect on the amount of revenue from the systems integration services recognized based on the percentage-of-completion method. We, therefore, determined that our assessment of the reasonableness of the Company's estimate of total construction costs related to revenue from systems integration services recognized based on the percentage-of-completion method was one of the most significant matters in our audit of the non-consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	

Reasonableness of the value in substance in the valuation of investments in affiliated companies

The key audit matter	How the matter was addressed in our audit
In the non-consolidated balance sheet of Internet Initiative Japan Inc. (hereinafter, the "Company") as of March 31, 2021, investments in affiliated companies of ¥21,685,704 thousand were recognized. Of this amount, the investments in DeCurret Inc. (hereinafter, "DeCurret") were ¥7,082,000 thousand, representing approximately 4.2% of total assets. Shares of DeCurret (for which there is no readily available market information) are measured at acquisition cost. However, if the value in substance of these shares has declined by approximately 50% or more compared to the acquisition cost, the carrying amount of these shares should be reduced accordingly and the valuation difference should be recognized as a loss in the current fiscal year. In evaluating the shares of DeCurret, the Company measured the value in substance at the value that reflected its excess earnings potential. The value in substance that reflected the excess earnings potential was calculated by taking the net present value of the discounted future cash flows based on the business plan of DeCurret. While this	The primary procedures we performed to assess whether the value in substance of the shares of DeCurret was reasonable included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to calculating the value in substance of the investments in affiliated companies. In this assessment, for the business plan prepared by the management of DeCurret that assumed the growth of DeCurret's market share through expansion of the cryptocurrency and digital currency markets, we focused our testing on controls designed to assess the reliability of the business plan and estimate the discount rate by referring to applicable market data published by external organizations and historical business results of DeCurret. **(2) Assessment of the reasonableness of the value in substance** In order to assess the reasonableness of key assumptions adopted in preparing the business plan of DeCurret, which was used as the basis for

business plan assumed a sales increase by potential expansion of the cryptocurrency and digital currency markets, as well as of DeCurret's market share in these markets, forecasts of market expansion and associated market share growth involved a high degree of uncertainty and the Company management's judgment thereon had a significant effect on the calculation of the value in substance. In addition, selecting appropriate models and input data for estimating the discount rate used to calculate the value in substance requires a high degree of expertise in valuation. We, therefore, determined that our assessment of the reasonableness of the value in substance of the shares of DeCurret was one of the most significant matters in our audit of the non-consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	calculating the value in substance of the shares of DeCurret, we inquired of management regarding the basis on which those assumptions were developed. In addition, we: ● compared the market growth rate of the cryptocurrency and digital currency markets with applicable market data published by external organizations; ● analyzed the causes of any variances between the planned figures and actual results for each key business by inspecting sales data of DeCurret for the current fiscal year, and evaluated the effects on key assumptions for its future business plans; and ● evaluated the potential effect on the judgment as to whether an impairment loss on the shares of DeCurret should be recognized by independently estimating the value in substance in the case where specific uncertainty was incorporated into the business plan. Furthermore, we engaged a valuation specialist within our domestic network firms to assist our assessment of the appropriateness of the model used to estimate the discount rate, and evaluated the effects on the calculation of the value in substance of the shares of DeCurret by independently estimating input data.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. 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 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 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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

Hiroto Kaneko
Designated Engagement Partner
Certified Public Accountant

Yusuke Matsumoto
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 30, 2021

Notes to the Reader of Translated Independent Auditor’s Report:

The Independent Auditor’s Reports herein are the English translation of the Independent Auditor’s Reports on the consolidated financial statements and internal control over financial reporting and on the non-consolidated financial statements 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, Senior 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, 2021, 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, Eijiro Katsu, President and Representative Director, and Akihisa Watai, Senior Managing Director and Chief Financial Officer concluded that our internal control over financial reporting was effective as of March 31, 2021.

4. Supplementary Matters

Not applicable.

5. Special Information

Not applicable.

Confirmation Letter (Translation)

1. Matters Related to Adequacy of Statements Contained in the Annual Securities Report

Eijiro Katsu, President and Representative Director, and Akihisa Watai, Senior Managing Director and Chief Financial Officer, are confirmed that statements contained in the Annual Securities Report for the 29th business term (from April 1, 2020 to March 31, 2021) were adequate in all material respects under the Financial Instruments and Exchange Act and related laws and regulations..

2. Special Notes

Not applicable.