

**Convocation Notice of the 27<sup>th</sup>**  
**Ordinary General Meeting of Shareholders**  
  
**of**  
  
**Internet Initiative Japan Inc.**

---

This document is an English translation of the “Convocation notice of the 27th ordinary general meeting of shareholders” (“*Dai ni-jyu-nanakai teiji kabunushi sokai shoshu gotsuchi*”) of Internet Initiative Japan Inc. (“IIJ” or “the Company”) to be held on June 27, 2019.

## **CAUTIONARY NOTES**

- Note 1: 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.
- Note 2: In accordance with the applicable laws and regulations of Japan, and the provisions of Article 15 of the Company's Articles of Incorporation, we have posted the notes to the consolidated and non-consolidated financial statements, which comprise the attachments to this Notice of Convocation of the 27th Ordinary General Meeting of Shareholders, at the Company's following web site:(<https://www.iij.ad.jp/en/ir/ir-event/meeting/>) instead of including them herein.
- Note3: Our consolidated and non-consolidated financial statements audited by the accounting auditor as well as company auditors are included in the attachments to the Notice of Convocation of the 27th Ordinary General Meeting of Shareholders as well as the notes to the consolidated and non-consolidated financial statements, which are posted on the Company's website.
- Note 4: The ADRs holders shall instruct The Bank of New York Mellon Corporation to exercise their voting rights represented by the shares underlying their ADRs but they may only provide their instructions to The Bank of New York Mellon Corporation. Otherwise, they are not entitled to exercise any voting right unless they cancel their ADRs and withdraw the shares of common stock. This means they may not be able to exercise any voting rights for IIJ and attend the ordinary general meeting of shareholders of IIJ.

## **TRANSLATION**

June 5, 2019

TO OUR SHAREHOLDERS:

Eijiro Katsu  
President and Representative Director  
Internet Initiative Japan Inc.  
2-10-2 Fujimi,  
Chiyoda-ku, Tokyo, Japan

### **CONVOCATION NOTICE OF THE 27TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

You are hereby requested to attend the 27th ordinary general meeting of shareholders of Internet Initiative Japan Inc. ("IIJ" or "the Company"), which is to be held as stated below.

In the event you are unable to attend the meeting, after reviewing the referential documents below, you may exercise your voting rights by indicating approval or disapproval on the voting form attached hereto and sending it or via the Internet. Please exercise your voting rights by no later than the end of business hours (5:30 PM) on Wednesday, June 26, 2019.

1. **Date and Time:** 10:00 A.M., Thursday, June 27, 2019  
\*The reception area opens at 9:00 A.M.
2. **Venue:** Bellesalle Kudan Event Hall  
3rd floor, Sumitomo Fudosan Kudan Bldg.  
1-8-10 Kudankita, Chiyoda-ku, Tokyo, Japan

3. **Agenda of the Meeting:**

**Subjects to be Reported:**

1. Business report, consolidated financial statements and a report on the audit results of consolidated financial statements by the accounting auditors and the board of company auditors for the 27th term (from April 1, 2018 to March 31, 2019)
2. Non-consolidated financial statements for the 27th term (from April 1, 2018 to March 31, 2019)

**Subjects to be Resolved:**

- Item 1: Appropriation of Retained Earnings
- Item 2: Election of Eight (8) Directors
- Item 3: Election of an Accounting Auditor

4. **Notice to Shareholders**

With regard to the documents attached hereto, if there are any changes to be notified to the shareholders up to the day prior to the ordinary general meeting of shareholders, you may be notified by mail or IIJ's web site at <https://www.iij.ad.jp/ir/library/meeting/> (Japanese only)

## Reference Documents for the Ordinary General Meeting of Shareholders

Agenda of the meeting and reference matters:

### **Item 1: Appropriation of Retained Earnings**

The Company endeavors to return profits to shareholders through the continuous and stable distribution of dividends while giving consideration to the employment of retained earnings for the enhancement of the Company's financial position, medium and long-term business expansion, future business investment and etc.

Based on the policy described above, considering this fiscal year's financial results, the Company proposes that the year-end dividend be distributed as follows.

When this Item 1 is approved and resolved as proposed, the annual amount of the dividends for this fiscal year ended March 31, 2019 will be JPY (Japanese Yen) 27.0 per share, including the interim dividend paid at the amount of JPY 13.5 per share in December 2018.

1. Type of dividend property  
Cash

2. Proposed Appropriation of Dividend Assets to Shareholders and Total Amount of Dividend Payment  
JPY13.5 per share of common stock of the Company  
Total amount of Dividend Payment: JPY 608,451,602

3. Effective date of dividend payment  
June 28, 2019

### **Item 2: Election of eight (8) Directors**

As the term of office of eight (8) incumbent Directors, Koichi Suzuki, Eijiro Katsu, Hideshi Hojo, Tadashi Kawashima, Junichi Shimagami, Toshinori Iwasawa, Tadashi Okamura and Takashi Tsukamoto will expire at the conclusion of this Ordinary General Meeting of Shareholders, it is proposed that seven (7) Directors be reappointed and one (1) new Director be elected. Two (2) Directors, i.e., Tadashi Okamura and Takashi Tsukamoto are candidates for Outside Directors.

The candidates for positions as Directors are as follows:

			< Number of Shares Owned >
1	Koichi Suzuki	(September 3, 1946) <Reelection>	1,830,400

#### < Careers & Current Positions in and Outside the Company >

December 1992 Director with the establishment of the Company  
April 1994 President, Representative Director and CEO of the Company  
June 2013 Chairman of the Board, Representative Director and CEO of the Company (Current position)

#### < Important concurrent posts >

Director of IJ Global Solutions Inc.  
President and Representative Director of IJ Engineering Inc.  
Chairman of the Board of IJ America Inc.  
President and Representative Director of INTERNET MULTIFEED Co.  
Representative Director and Chairman of JOCDN Inc.

#### < Reasons for selection as candidate >

Mr. Koichi Suzuki, a candidate for Director, is presently the CEO of the Company. The Company proposes to appoint him as a candidate for Director in order to utilize his abundant business experience for the chief executive officer of management of the Company.

			< Number of Shares Owned >
2	Eijiro Katsu	(June 19, 1950) <Reelection>	29,900

#### < Careers & Current Positions in and Outside the Company >

April 1975 Joined Ministry of Finance ("MOF")  
July 2007 Director-General of the Financial Bureau, MOF  
July 2008 Deputy Vice Minister, MOF  
July 2009 Director-General, Budget Bureau, MOF  
July 2010 Vice Minister of Finance  
August 2012 Retired from MOF  
November 2012 Joined the Company as Special Advisor  
June 2013 President, Representative Director and COO of the Company (Current position)

#### < Reasons for selection as candidate >

Mr. Eijiro Katsu, a candidate for Director, is presently the COO of the Company. The Company proposes to appoint him as a candidate for Director in order to utilize his abundant business experience for the chief operating officer of management of the Company.

			< Number of Shares Owned >
3	Tadashi Kawashima	(February 27, 1963) <Reelection>	2,000
< Careers & Current Positions in and Outside the Company >			
April 1987	Joined Nippon Telegraph and Telephone Corporation		
July 1988	Joined NTT DATA Communications Systems Corporation (Currently NTT DATA Corporation)		
	Head of Public Division 2, First Public		
June 2011	Administration Systems Sector of the same Senior Specialist of Public and Financial IT Service		
June 2013	Senior Specialist of Public and Financial IT Service Company of the same		
	President and Representative Director of NTT Data Tokai Corporation		
June 2015	Managing Director of the Company (Current position)		
April 2016	Deputy Unit Director of Business Unit of the Company (Current position)		
<Reasons for selection as candidate>			
Mr. Tadashi Kawashima, a candidate for Director, is presently the Deputy Unit Director of Business Unit of the Company. The Company proposes to appoint him as a candidate for Director in order to utilize his abundant business experience regarding sales for expansion of projects for public institutions and financial business of the Company.			
			< Number of Shares Owned >
4	Junichi Shimagami	(April 17, 1967) <Reelection>	9,500
< Careers & Current Positions in and Outside the Company >			
April 1990	Joined Nomura Research Institute, Ltd		
September 1996	Joined the Company		
June 2007	Director of the Company		
April 2010	Executive Managing Officer of the Company		
April 2015	Senior Executive Officer, Division Director of Network Division and CTO of the Company		
June 2015	Director and CTO of the Company (Current position)		
April 2016	Unit Director of Technology Unit of the Company (Current position)		
< Reasons for selection as candidate >			
Mr. Junichi Shimagami, a candidate for Director, is presently the CTO and the Unit Director of the Technology Unit of the Company. The Company proposes to appoint him as a candidate for Director in order to utilize his abundant business experience in the technical field for developing technological strategies of the Company.			
			< Number of Shares Owned >
5	Naoshi Yoneyama	(November 25, 1965) <New election >	20,000
< Careers & Current Positions in and Outside the Company >			
April 1990	Joined The Sumitomo Bank, Limited (Currently Sumitomo Mitsui Banking Corporation)		
October 1998	Joined the Company		
April 2012	Executive Officer and Division Director of Technology Management Division of the Company		
April 2015	Executive Managing Officer, Division Director of Technology Unit, and General Manager of Corporate Planning Department of the Company		
April 2016	Executive Managing Officer and Division Director of Corporate Planning Division of the Company		
April 2018	Senior Executive Officer and Division Director of Corporate Planning Division of the Company (Current position)		
<Reasons for selection as candidate>			
Mr. Naoshi Yoneyama, a candidate for Director, is presently the Division Director of Corporate Planning Division of the Company. The Company proposes to appoint him as a candidate for Director in order to utilize his abundant business experience regarding corporate planning for business strategy of the Company.			
			< Number of Shares Owned >
6	Toshinori Iwasawa	(May 8, 1962) <Reelection> <Part-time>	1,400
< Careers & Current Positions in and Outside the Company >			
April 1985	Joined IBM Japan Ltd.		
March 2000	Joined AT&T Global Network Service Japan LLC (Currently AT&T Japan LLC)		
March 2009	President and Representative Director of AT&T Japan Inc.		
September 2010	President and Representative Director of IJ Global Solutions Inc. (Current position)		
June 2013	Director of the Company (Current position)		
< Important concurrent posts >			
President and Representative Director of IJ Global Solutions Inc.			
< Reasons for selection as candidate >			
Mr. Toshinori Iwasawa, a candidate for Director, is presently the Representative Director of IJ Global Solutions Inc., which is an important subsidiary of the Company. The Company proposes to appoint him as a candidate for Director in order to utilize his abundant business experience for the management of the Company. If Mr. Toshinori Iwasawa is appointed as a Director, we will continue to appoint him as a part-time Director.			

7	Tadashi Okamura	(July 26, 1938)	<Reelection> <Outside> <Independent>	< Number of Shares Owned >
				0
< Careers & Current Positions in and Outside the Company >				
April 1962	Joined Toshiba Corporation			
June 2000	Director, President and Chief Executive Officer of the same			
June 2003	Director, Representative Executive Officer, President and Chief Executive Officer of the same			
June 2005	Director, Chairman of the Board of the same			
June 2009	Advisor to the Board of the same			
June 2015	Director of the Company (Current position)			
<Reasons for selection as candidate for Outside Director>				
<ul style="list-style-type: none"><li>- Since Mr. Tadashi Okamura has established a prominent career as a corporate manager and has abundant experience and profound knowledge of management, the Company proposes to appoint him as a candidate for Outside Director to enhance the supervisory functions of management.</li><li>- He is presently an Outside Director of the Company, and his total term of office as an Outside Director will be four (4) years at the close of this Ordinary General Meeting of Shareholders.</li></ul>				
8	Takashi Tsukamoto	(August 2, 1950)	<Reelection> <Outside> <Independent>	< Number of Shares Owned >
				200
< Careers & Current Positions in and Outside the Company >				
April 1974	Joined The Dai-Ichi Kangyo Bank, Ltd.(Currently Mizuho Bank, Ltd.)			
April 2004	Managing Executive Officer (Head of EMEA) of Mizuho Corporate Bank, Ltd.			
April 2009	President and CEO of Mizuho Financial Group, Inc.			
June 2011	President and CEO of Mizuho Bank, Ltd. Chairman of Mizuho Financial Group, Inc.			
July 2013	Chairman of Mizuho Bank, Ltd.			
April 2014	Senior Advisor of Mizuho Financial Group, Inc.			
April 2017	Honorary Advisor of Mizuho Financial Group, Inc. (Current position)			
June 2017	Director of the Company (Current position)			
< Reasons for selection as candidate for Outside Director >				
<ul style="list-style-type: none"><li>- Since Mr. Takashi Tsukamoto has established a prominent career as a corporate banking manager and has abundant experience and profound knowledge of management, the Company proposes to appoint him as a candidate for Outside Director to enhance the supervisory functions of management.</li><li>- He is presently an Outside Director of the Company, and his total term of office as an Outside Director will be two (2) years at the close of this Ordinary General Meeting of Shareholders.</li></ul>				

(Notes)

- (1) There is no special interest between the candidates and the Company.
- (2) The Company, pursuant to the Articles of Incorporation of the Company, entered into a Liability Limitation Agreement (Article 427, Paragraph 1 of the Companies Act) with Mr. Tadashi Okamura and Mr. Takashi Tsukamoto which limits the liability provided for in Article 423, Paragraph 1 of the Companies Act to the higher of either JPY10 million yen or the amount prescribed in Article 427, Paragraph 1 of the Companies Act, provided that they are bona fide and without gross negligence in performing their duties. As the said Liability Limitation Agreement will terminate upon the expiration of their current term of office as Outside Directors, a new Liability Limitation Agreement providing the same is scheduled to be entered into after their assumption of the office of Outside Director.
- (3) The Company appoints Mr. Tadashi Okamura and Mr. Takashi Tsukamoto as independent Directors required to be secured by the Tokyo Stock Exchange. If they are appointed as our Directors, we will continue to appoint them as independent Directors.
- (4) At the Shoko Chukin Bank, Ltd., which Mr. Tadashi Okamura had been in charge of as an Outside Director from June 2011 to June 2017, the existence of misconduct in crisis response operations was discovered in Oct. 2016. An independent committee was established to investigate the facts and in Apr. 2017, the company made a report to the supervising authority. In May 2017, the company received an administrative order based on Article 59 of the Shoko Chukin Bank Limited Act and Article 24 of the Japan Finance Corporation Act. Although Mr. Okamura had been previously unaware of the facts, after he took office as an Outside Director of the company, he made recommendations on the improvement of internal controls at Board of Directors meetings and after discovering the facts, he also supervised, through Board of Directors meetings, an exhaustive investigation into the facts, information disclosures promptly and discovery of the cause and measures to prevent similar incidents.

**Item 3: Election of an Accounting Auditor**

As the term of office of the Accounting Auditor of the Company, Deloitte Touche Tohmatsu LLC, will expire at the conclusion of this Ordinary General Meeting of Shareholders, it is proposed that a new Accounting Auditor be elected in place of Deloitte Touche Tohmatsu LLC. This proposed item has been submitted based on a resolution by the Board of Company Auditors.

The Board of Company Auditors has nominated KPMG AZSA LLC as a candidate for Accounting Auditor, with the expectation that it will conduct audits from a new perspective, considering the number of years the current Accounting Auditor has continued to conduct the Company's audits. In addition, as a result of comprehensive consideration of the independence, quality control system and global auditing system of KPMG AZSA LLC, the candidate was judged as appropriate for the role.

The name, address, history, etc. of the candidate for Accounting Auditor are as follows:

As of March 31, 2019

Name	KPMG AZSA LLC		
Address	1-2 Tsukudo-cho, Shinjuku-ku, Tokyo		
History	July 1985	Asahi Shinwa & Co. was founded	
	October 1993	Merged with Inoue Saito Eiwa Audit Corporation and changed corporate name to Asahi & Co.	
	January 2004	Merged with KPMG AZSA & Co. and changed corporate name to KPMG AZSA & Co.	
	July 2010	Became a limited liability audit corporation and changed corporate name to KPMG AZSA LLC	
Overview	Capital:	JPY 3,000 million	
	Staff:	Number of Certified Public Accountant	3,236
		Number of other audit personnel	2,116
		Number of Other employees	726
		Total	6,078
	Number of clients (Audit certification business clients):		3,640

The candidate has received remuneration for guidance and advice on accounting from the Company in the past two years, and may receive remuneration from the Company, its subsidiaries and/or its affiliated companies in the future.

END

## **Business Report for the 27th Fiscal Year**

### **1. Matters Regarding the Current Status of the IIJ Group**

#### **(1) Progress and Results of the Business**

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

For the ICT (\*1) related market where we belong to, changes of corporate information system as seen in widespread of cloud computing adoption, advancement of ICT such as IoT (\*2) in corporate business activities, growing demand for security services against information leakage and others, we expect demands for highly reliable network and systems to continually increase.

Under these market circumstances, we continuously promoted our existing strategy to incorporate outsourcing demands related to enterprises' information network systems by offering highly reliable and value-added services, which are based on our Internet related technical skills and blue-chip customer base. Especially, in order to differentiate ourselves, we focused on enhancing our service line-ups for enterprises by adding various functions, and we have steadily accumulated enterprise recurring revenues (\*3).

More specifically in network services areas, the revenue for Internet connectivity services for enterprises continued to increase steadily mainly due to the increase of enterprises' contracted bandwidth while we continued to expand our network infrastructure. We also continued to provide security related services, cloud computing related services and others for comprehensive solutions. Regarding mobile-related services, we focused to develop and promote full-MVNO (\*4) services, and expanded our service offerings to include "IoT Support Pack (\*5)," "IIJmio IoT Service (\*6)," "chip SIM (\*7)" and more. We started offerings full-MVNO services from the end of FY2017 and our full-MVNO services revenues grew to JPY0.7 billion, exceeded our initial revenue target mainly with strong enterprises' demands for surveillance cameras in public facilities and factories as well as consumers' demands for pre-paid SIM services for tourists to Japan. Other than the above, we have been executing MVNE (\*8) strategy to gather consumer mobile subscription. Total mobile services revenues increased to JPY42.0 billion for FY2018 from JPY35.3 billion for FY2017. Total mobile subscription at the end of FY2018 was 2.75 million, increased by 0.4 million from the end of FY2017. Our cloud-type network service "IIJ Omnibus Service (\*9)," which allows customers to add new functions easily, captured network renewal demands from enterprises with SD-LAN (\*10) function enhancement, and its revenues increased by 83.2% year over year. As for security-related services, we added new services and/or enhanced new functions such as "IIJ C-SOC services (\*11)," "IIJ Secure Endpoint Service (\*12)," "IIJ Virtual Desktop Service (\*13)," and security-related recurring revenues were JPY14.1 billion and total security-related revenues, including security-related systems construction revenues, were JPY16.8 billion. In IoT-related area, by leveraging our advantages of having comprehensive business elements for IoT such as full-MVNO services, cloud computing services, security services and network construction expertise, we proceeded many IoT-related projects such as housing, transportation, factory and agriculture increased. Network systems-related demands from enterprises in other outsourcing services and WAN services were also strong, and each of revenues steadily increased. We established and started operation of the "Shiroy Data Center Campus (Shiroy DC)", incorporating a system module-based (\*14) construction method, in May 2019 as planned. We plan to utilize Shiroy DC to integrate our data centers spread out in eastern Japan area and service facilities, in order to realize cost effectiveness, while absorbing growing data demand along with the spread of crowd computing and IoT.

In systems integration area, enterprises' demands for systems construction have generally been strong. We received various orders such as network platform systems, information platform systems, security related systems, virtual desktop projects and cloud related systems. Systems construction revenues increased by 1.0% year over year, and systems operation and maintenance revenues, recurring revenue, increased by 9.9% year over year along with systems construction revenue growth. As for cloud computing services, a part of which revenue is recognized as systems operation and maintenance, we enhanced and added new value-added functions such as "IIJ GIO Migration Solution (\*15)," "IIJ Managed Database Service (\*16)" and "IIJ UOM Service (\*17)" in order to meet enterprises' growing demands for cloud migration. Total cloud related revenues for FY2018 increased to JPY20.1 billion from JPY17.9 billion for FY2017.

As for overseas business, Asian subsidiaries as a whole turned positive along with business progress, and total revenues of overseas business for FY2018 were JPY7.6 billion and operating income was JPY0.13 billion.

New business developments in FY2018 were as follows. Our equity method investee, DeCurret Inc., who is engaged in cryptocurrency business, was registered with the Financial Services Agency as the first and new licensed provider after the registration process was enacted. DeCurret Inc. has launched exchange services to investors in April 2019. DeCurret Inc. plans to enhance its exchange services as well as to launch settlement platform services by collaborating with its enterprise shareholders. As for contents delivery business, our equity method investee, JOCDN Inc. which is a joint-venture with Japanese prominent commercial broadcasting companies, provides CDN (\*18) services for broadcasting operators and large contents distributors. JOCDN Inc. provides more bandwidth than before along with increasing demands for contents distribution, and prepares for live video distribution and IP (\*19) conversion of video transmission in the future.

---

As for the numbered words, such as ICT (\*1), please refer to the Glossary at page 22 in this document.



Consolidated financial results for FY2018 are as follows. Total revenues were JPY192,332 million, up 9.2% year over year (JPY176,051 million for FY2017) with enterprise recurring revenue accumulation, mobile-related revenue growth with an expansion of MVNE business clients' transactions and continuous revenue growth in systems integration. Within that, network services revenues were JPY118,533 million, up 9.6% year over year (JPY108,119 million for FY2017), Systems Integration revenues were JPY64,432 million, up 6.6% year over year (JPY60,431 million for FY2017), equipment sales revenues were JPY5,216 million, up 50.3% year over year (JPY3,470 million for FY2017), mainly due to the increase in sales of mobile devices, and ATM operation business revenues were JPY4,151 million, up 3.0% year over year (JPY4,031 million for FY2017).

Total cost of revenues was JPY163,334 million, up 10.5% year over year (JPY147,818 million for FY2017). Due to enterprise recurring revenue accumulation and improvement in system integration margin with high utilization of system engineers (\*20), the gross margin had been expanding stronger than we initially expected at the beginning of FY2018. However, NTT Docomo's unit price revision for mobile data communication which comprises our mobile services offering costs was revised and fixed in March, 2019, and the unit price decreased by 5.0% compared to the previous fiscal year. The rate of decrease was smaller than the past and we had a large margin decrease impact, JPY2.05 billion, against the margin we expected at the beginning of FY2018. This resulted in the decrease of our total network services revenue gross margin. Network service revenue gross margin was JPY17,327 million, down 10.8% year over year (JPY19,421 million for FY2017), systems integration revenue gross margin was JPY9,205 million, up 35.0% year over year (JPY6,819 million for FY2017), equipment sales revenue gross margin was JPY641 million, up 95.4% year over year (JPY328 million for FY2017) and ATM operation business revenue gross margin was JPY1,825 million, up 9.6% year over year (JPY1,665 million for FY2017). Total gross margin was JPY28,998 million, up 2.7% year over year (JPY 28,233 million for FY2017) and gross margin ratio was 15.1%. SG&A expenses was JPY22,790 million, up 6.1% year over year (JPY21,471 million for FY2017) mainly due to an increase in advertising expenses, personnel-related expenses and sales commission expenses.

As a result, our FY2018 operating income was JPY6,208 million, down 8.2% year over year (JPY6,762 million for FY2017). Income before income tax expense was JPY4,913 million, down 37.3% year over year (JPY7,840 million for FY2017). When excludes realized and unrealized loss on other investments of JPY1,110 million, to which accounting policies were changed under the revised U.S. GAAP effective from April 1, 2018, compared to net realized gain of JPY1,338 million for FY2017, adjusted income before income tax expense was JPY6,023 million, down 7.4% year over year (JPY 6,502 million for FY2017). Net income attributable to IIJ was JPY2,715 million, down 46.9% year over year (JPY 5,109 million for FY2017). When excludes net of tax amount of realized and unrealized loss on other investments of JPY 761 million, to which accounting policies were changed under the revised U.S.GAAP effective from April 1, 2018, compared to net of tax amount of net realized gain of JPY914 million for FY2017, adjusted net income attributable to IIJ was JPY3,476 million, down 17.1% year over year (JPY4,195 million for FY2017).

As for the change in accounting policies on other investments, please refer to "Regarding the change in accounting methods on other investments" in page 10 of this document.

---

As for the numbered words, such as ICT (\*1), please refer to the Glossary at page 22 in this document.

---

## Network services

Network services revenue were JPY118,533 million, up 9.6% year over year (JPY108,119 million for FY2017).

Revenues for Internet connectivity services for enterprise were JPY33,172 million, up 18.7% year over year (JPY27,944 million for FY2017), mainly due to an increase in mobile-related services revenues along with an expansion of MVNE business clients' transactions. Revenues for Internet connectivity services for consumers were JPY25,234 million, up 1.9% year over year (JPY24,761 million for FY2017). The revenue growth was mainly due to "IIJmio Mobile Service," consumer mobile services which offer inexpensive data communication and voice services with SIMs, offset revenue decrease due to divestiture of our former subsidiary, hi-ho Inc. in December 2017. Revenues for WAN services were JPY30,990 million, up 5.8% year over year (JPY29,295 million for FY2017), mainly due to the revenue growth along with order accumulation. Revenues for Outsourcing services were JPY29,137 million, up 11.6% year over year (JPY26,119 million for FY2017), mainly due to an increase in security-related services revenues.

Cost of network services revenue was JPY101,206 million, up 14.1% year over year (JPY88,698 million for FY2017). There were an increase in outsourcing-related costs along with our mobile-related revenue increase as well as full-MVNO related fixed costs along with the service launch, an increase in network operation-related costs, and an increase in circuit-related costs along with our WAN services revenue increase.

Gross margin was JPY17,327 million, down 10.8% year over year (JPY19,421 million for FY2017). Regarding NTT Docomo's interconnectivity charge (unit charge) for MVNO-related services which was revised in March 2019, it decreased by 5.0% year over year, which rate of decrease was small compared to the past several years. Gross margin ratio was 14.6%.

---

## Systems integration

Systems integration revenues were JPY64,432 million, up 6.6% year over year (JPY60,431 million for FY2017).

Systems construction revenue, a one-time revenue, was JPY22,759 million, up 1.0% year over year (JPY22,528 million for FY2017). Systems operation and maintenance revenue, a recurring revenue, was JPY41,673 million, up 9.9% year over year (JPY37,903 million for FY2017), mainly due to continued accumulation of systems operation orders as well as an increase in private cloud services' revenues.

Cost of systems integration revenues was JPY55,227 million, up 3.0% year over year (JPY53,612 million for FY2017). There were an increase in license fees and network operation-related costs along with increase in cloud computing service revenues, and a decrease in outsourcing-related costs due to the stricter management on system engineers' utilization.

Gross margin was JPY9,205 million, up 35.0% year over year (JPY6,819 million for FY2017) and gross margin ratio was 14.3%.

Orders received for systems integration and equipment sales totaled JPY74,304 million, up 7.7% year over year (JPY68,988 million for FY2017); orders received for systems construction and equipment sales were JPY 28,957 million, up 12.2% year over year (JPY25,810 million for FY2017) and orders received for systems operation and maintenance were JPY45,347 million, up 5.0% year over year (JPY43,178 million for FY2017). Order backlog for systems integration and equipment sales as of March 31, 2019 amounted to JPY51,117 million, up 9.7% year over year (JPY46,588 million as of March 31, 2018); order backlog for systems construction and equipment sales was JPY7,846 million, up 12.2% year over year (JPY6,991 million as of March 31, 2018) and order backlog for systems operation and maintenance was JPY43,271 million, up 9.3% year over year (JPY39,597 million as of March 31, 2018).

---

## Equipment sales

Equipment sales revenues were JPY5,216 million, up 50.3% year over year (JPY3,470 million for FY2017) mainly due to the increase in sales of mobile devices.

Cost of equipment sales revenues was JPY4,575 million, up 45.6% year over year (JPY3,142 million for FY2017). There was an increase in purchasing costs of mobile devices.

Gross margin was JPY641 million, up 95.4% year over year (JPY328 million for FY2017) and gross margin ratio was 12.3%.

---

## ATM operation business

ATM operation business revenues were JPY4,151 million, up 3.0% year over year (JPY4,031 million for FY2017).

Cost of ATM operation business revenues was JPY2,326 million, down 1.7% year over year (JPY2,366 million for FY2017).

Gross margin was JPY1,825 million, up 9.6% year over year (JPY1,665 million for FY2017) and gross margin ratio was 44.0%.

---

## Business segments

In business segments results, revenues for network services and systems integration business segment were JPY188,536 million, up 9.4% year over year (JPY172,370 million for FY2017) and operating income was JPY4,785 million, down 11.9% year over year (JPY5,430 million for FY2017). As for ATM operation business, revenues were JPY4,151 million, up 3.0% year over year (JPY4,031 million for FY2017) and operating income was JPY1,622 million, up 7.4% year over year (JPY1,510 million for FY2017).

“Regarding the change in accounting methods on other investments”

Following the revision of U.S. GAAP, from the beginning of FY2018, gains/losses on other investments due to fluctuations of fair value of holding marketable equity securities and funds are recorded as “realized and unrealized gain (loss) on other investments, net” in “other income (expenses)” on our consolidated statements of income (“P/L”).

For FY2018, we recorded JPY1,110 million of “realized and unrealized loss on other investments, net,” of which unrealized loss on our holding marketable equity securities was JPY1,542 million.

Fair value of holding marketable equity securities as of March 31, 2018	JPY9,175 million
Decrease due to the sale of marketable equity securities in FY2018	JPY14 million
Fair value of holding marketable equity securities as of March 31, 2019	JPY7,619 million
Difference: FY2018 unrealized loss on P/L	JPY1,542 million

  

Acquisition cost of holding marketable equity securities	JPY1,636 million
Fair value of holding marketable equity securities as of March 31, 2019	JPY7,619 million
Difference: Unrealized gain included in “other investments” on B/S as of March 31, 2019	JPY5,983 million

Please see below for detailed explanation on revision of U.S. GAAP related to holding marketable equity securities.

- As of March 31, 2018, we had balance of accumulated unrealized gains on holding marketable equity securities of JPY7,525 million. The net of tax amount of the unrealized gains, JPY5,079 million, was recorded as “accumulated other comprehensive income” on our consolidated balance sheet (“B/S”) as of March 31, 2018. Until the previous fiscal year, unrealized gains/losses of holding marketable equity securities had been recorded as the fluctuation of “accumulated other comprehensive income” on B/S without being recognized as profit on P/L.
- On B/S at the beginning of this fiscal year, the net of tax amount of the unrealized gains of JPY5,079 million as of March 31, 2018 was reclassified to “retained earnings.” The gains were never recognized as profit on P/L.
- After the above mentioned reclassification, gains/losses due to fluctuations of stock prices are recognized as “realized and unrealized gain (loss) on other investments, net” in “other income (expenses)” from the beginning of FY2018.

For FY2018, we recorded JPY432 million of realized and unrealized gain on investments other than marketable equity securities, such as funds that were available to be measured at fair value.

Please see below for detailed explanation on revision of U.S. GAAP related to funds that are available to be measured at fair value.

- As of March 31, 2018, value of such funds was recorded as assets in “other investments” under cost method. Its unrealized gain of JPY963 million was not recognized.
- On B/S at the beginning of this fiscal year, “other investments” was increased by JPY963 million and “retained earnings” was increased by JPY660 million which is the net of tax amount of the above mentioned unrealized gain. The gain was never recognized as profit of P/L.
- From the beginning of FY2018, fluctuation of fair values of such funds are recognized as “realized and unrealized gain (loss) on other investments, net” in “other income (expenses)” in every quarter.

(2) Capital Expenditures

Capital expenditures (including capital leases) for FY2018 were JPY14,989 million (JPY20,828 million for FY2017). There were purchases for equipment and investment in system development for network service-related and cloud computing service-related, and investment in Shiroi data center facilities.

(3) Financing

To cover capital expenditures and increasing working capital along with business expansion, we borrowed JPY2,000 million in short-term borrowings from Japanese banks in FY2018.

(4) Transfers of Business, Split-offs or Spin-offs

There is nothing to report on this subject.

(5) Acquisition of Business from Other Companies

There is nothing to report on this subject.

(6) Succession to the Rights and Responsibilities of Other Companies through Mergers and Acquisitions

There is nothing to report on this subject.

(7) Acquisition or Disposal of Shares or Other Equities or Warrants of Other Companies

There is nothing to report on this subject.

(8) Issues that the 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 this. To support our business growth, it is important to hire talented human resources as well as develop their skills continuously. Also, we shall continue to effectively manage business investment to improve our margin as well as revenue growth.

We recognize that our profit level reflects our business model tendency of having upfront cost as we make business investments continuously for business growth and new services generally require some time to achieve adequate revenue volume. As for FY2018, we had fixed cost increase due to the launch of full-MVNO services at the end of FY2017. During FY2018, strong network services revenue accumulation and systems integration gross margin ratio improvement contributed to stronger than expected income growth; however, due to small NTT Docomo's unit price revision which is usually fixed in March every year for mobile data communication, regrettably, FY2018 income decreased.

As for FY2019, we aim to improve income with mobile income rebound effect with full-MVNO services' revenue accumulation as well as systems integration gross margin continuous expansion. As for middle-to-long term, along with IoT penetration, we aim for revenue growth and income expansion by differentiating ourselves with comprehensive offerings of enterprise mobile services, cloud computing services, security-related services, systems integration and other network services. As for mobile related services profitability, we aim to accumulate enterprise mobile traffic as well as revenue more strongly and improve network utilization rate by achieving more balanced traffic mixture between enterprise and consumer whose traffic patterns differ.

Continued support from our shareholders would be very much appreciated.

(9) Historical Data of Assets and Income

(JPY thousands except per share data)

	24th fiscal Year	25th fiscal Year	26th fiscal Year	27th fiscal Year
	FY2015	FY2016	FY2017	FY2018
Revenues	140,648,008	157,789,059	176,050,649	192,332,340
Operating income	6,140,354	5,134,307	6,762,202	6,208,392
Net income attributable to IIJ	4,038,282	3,166,510	5,108,949	2,715,179
Basic net income attributable to IIJ per share	JPY87.88	JPY69.36	JPY113.37	JPY60.24
Total assets	117,834,904	137,395,149	153,448,819	166,851,638
Total IIJ shareholders' equity	64,845,207	66,741,871	73,270,057	75,404,315
IIJ shareholders' equity per share	JPY1,411.13	JPY1,481.16	JPY1,625.95	JPY1,673.03

(Notes)

1. IIJ's consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP).
2. Basic net income attributable to IIJ per share is calculated based on the weighted-average number of common shares outstanding during each fiscal year.
3. IIJ shareholders' equity per share is calculated based on the total number of common shares (excluding treasury stock) outstanding at the end of each fiscal year.
4. IIJ repurchased 892,200 shares of its own shares pursuant to the resolution adopted at the meeting of IIJ's Board of Directors held on November 4, 2016.

(10) Items of the Principal Parent Companies and Subsidiaries

(i) Major Subsidiaries

Name of company	Common stock (Unit : thousands)	Ownership	Primary business
IIJ Innovation Institute Inc. ("IIJ-II")	JPY75,000	100.0%	R&D for the Internet-related technology
IIJ Engineering Inc. ("IIJ-EG")	JPY400,000	100.0%	Operation and monitoring of network systems, customer service support and call centers
IIJ Global Solutions Inc. ("IIJ-GS")	JPY490,000	100.0%	Provision of network services and systems integration
Trust Networks Inc. ("Trust Networks")	JPY100,000	79.5%	Operation of ATMs and ATMs networks
Net Chart Japan, Inc. ("Net Chart")	JPY55,000	100.0%	Development and construction of networks, operation and maintenance of networks and sales of network-related equipment
RYUKOSHA NETWARE Inc. ("RYUKOSHA")	JPY10,000	100.0%	Provision of human resources and outsourcing services for systems operation and service support
IIJ America Inc. ("IIJ-A")	USD8,460	100.0%	Provision of network services, systems integration and other related services in the U.S.
IIJ Europe Limited ("IIJ-Europe")	GBP143	100.0%	Provision of network services, systems integration and other related service in Europe
IIJ Global Solutions Singapore Pte. Ltd. ("IIJ-GS SGP")	SGD5,345	(49.6%) 100.0%	Provision of network services, systems integration and other related service in Singapore
IIJ Global Solutions China Inc. ("IIJ-GS China")	USD10,630	(100.0%) 100.0%	Provision of network services, systems integration and other related service in China

(Note) Ownership percentage in brackets above represents indirect ownership.

As of March 31, 2019, the number of consolidated subsidiaries was 16 and the number of equity-method investees was eight (8).

(ii) Wholly-owned Specified Subsidiaries

There is nothing to report on this subject.

(11) Major Business Lines

Our major business lines are to provide network services, systems integration, equipment sales and ATM operation business.

## (12) Major Offices

Name	Functions	Address
IIJ	Headquarters	Chiyoda-ku, Tokyo
	Branches and sales offices	Osaka-shi, Nagoya-shi, Fukuoka-shi, Sapporo-shi, Sendai-shi, Toyama-shi, Hiroshima-shi, Yokohama-shi, Niigata-shi, Toyota-shi and Naha-shi
IIJ-II	Headquarters	Chiyoda-ku, Tokyo
IIJ-EG	Headquarters	Chiyoda-ku, Tokyo
IIJ-GS	Headquarters	Chiyoda-ku, Tokyo
	Branches	Osaka-shi, Sapporo-shi, Nagoya-shi and Fukuoka-shi
Trust Networks	Headquarters	Chiyoda-ku, Tokyo
Net Chart	Headquarters	Yokohama-shi
RYUKOSHA	Headquarters	Chiyoda-ku, Tokyo
IIJ-A	Headquarters	California, the United States
IIJ-Europe	Headquarters	London, the United Kingdom
IIJ-GS SGP	Headquarters	Singapore
IIJ-GS China	Headquarters	Shanghai, China

## (13) Employees

Number of employees as of the end of FY2018	Change from the end of FY2017
3,353	+150

(Note) The above figures include employees and contracted employees, and exclude employees seconded from other companies.

## (14) Major Borrowings

Source	Balance (JPY thousands)
MUFG Bank, Ltd.	9,400,000
Mizuho Bank, Ltd.	8,300,000
Sumitomo Mitsui Banking Corporation	8,300,000
SUMITOMO MITSUI TRUST BANK, LIMITED	550,000

## **2. Matters Regarding Shares of the Company**

(1) Number of shares authorized: 75,520,000 shares

(2) Number of shares issued and outstanding: 46,721,400 shares (Including treasury stock: 1,650,911 shares)

(3) Number of shareholders at the end of FY2018: 7,285

(4) Major shareholders (Top 10):

Name of shareholders	Number of shares held (shares)	Shareholding Ratio
Nippon Telegraph and Telephone Corporation	10,095,000	22.4%
NTT Communications Corporation	2,040,000	4.5%
ITOCHU Techno-Solutions Corporation	1,952,000	4.3%
Koichi Suzuki	1,830,400	4.1%
The Master Trust Bank of Japan, Ltd. (Trust account)	1,414,300	3.1%
The Dai-ichi Life Insurance Company, Limited	1,273,000	2.8%
Japan Trustee Services Bank, Ltd (Trust account 9)	1,190,700	2.6%
GOLDMAN, SACHS & CO. REG	1,079,700	2.4%
Japan Trustee Services Bank, Ltd (Trust account)	1,013,700	2.2%
THE BANK OF NEW YORK MELLON AS DEPOSITARY BANK FOR DEPOSITARY RECEIPT HOLDERS	817,491	1.8%

(Notes)

1. Shareholding ratio is calculated by deducting number of treasury stock from total number of shares issued.
2. THE BANK OF NEW YORK MELLON AS DEPOSITARY BANK FOR DEPOSITARY RECEIPT HOLDERS is the nominee of The Bank of New York Mellon, which is the depositary of IIJ's ADRs, and the number of shares held by The Bank of New York Mellon as Depositary Bank for Depositary Receipt Holders is equivalent to the number of ADRs outstanding.
3. Kabushiki Kaisha KS Holdings, a wholly owned and controlled (indirect) by Mr. Koichi Suzuki, is a joint holder of Mr. Koichi Suzuki and the company owned 810,000 shares of common stock of IIJ, representing 1.8% of the total, as of March 31, 2019.
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 August 31, 2018. According to the filing, Dalton owned 3,421,700 shares of common stock of IIJ as of August 28, 2018, representing 7.3% of the total at that point. Since then, we have not recognized any filings by Dalton. Their holdings were not verified based on the shareholder record as of March 31, 2019, therefore, Dalton and their holdings are not included in the above list.
5. Global Alpha Capital Management Ltd. ("Global Alpha") filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on March 15, 2019. According to the filing, Global Alpha owned 2,838,926 shares of common stock of IIJ as of March 12, 2019, representing 6.1% 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, 2019, therefore, Global Alpha and their holdings are not included in the above list.

(5) Other important matters regarding shares  
There is nothing to report on this subject.

### 3. Matters Regarding the Company's Stock Acquisition Rights

	Allotment date	Number of stock acquisition rights outstanding	Type of stock and number of shares subject to stock acquisition rights	Issue price (per stock acquisition right)	Exercise of stock acquisition rights (per share)	Exercise period
#1 Stock Acquisition Rights	July 14, 2011	100	Common Stock 20,000 shares	JPY259,344	JPY1	From July 15, 2011 to July 14, 2041
#2 Stock Acquisition Rights	July 13, 2012	98	Common Stock 19,600 shares	JPY318,562	JPY1	From July 14, 2012 to July 13, 2042
#3 Stock Acquisition Rights	July 11, 2013	75	Common Stock 15,000 shares	JPY647,000	JPY1	From July 12, 2013 to July 11, 2043
#4 Stock Acquisition Rights	July 10, 2014	108	Common Stock 21,600 shares	JPY422,600	JPY1	From July 11, 2014 to July 10, 2044
#5 Stock Acquisition Rights	July 13, 2015	142	Common Stock 28,400 shares	JPY369,200	JPY1	From July 14, 2015 to July 13, 2045
#6 Stock Acquisition Rights	July 11, 2016	152	Common Stock 30,400 shares	JPY360,000	JPY1	From July 12, 2016 to July 11, 2046
#7 Stock Acquisition Rights	July 14, 2017	163	Common Stock 32,600 shares	JPY337,200	JPY1	From July 15, 2017 to July 14, 2047
#8 Stock Acquisition Rights	July 13, 2018	163	Common Stock 32,600 shares	JPY347,600	JPY1	From July 14, 2018 to July 13, 2048

(Notes)

1. A person granted the stock acquisition rights may exercise his or her rights only within ten days from the day immediately following the day on which the person loses his or her position as neither a Director nor an Executive Officer of ILJ.
2. ILJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. In connection with the stock split, as for #1 and #2 Stock Acquisition Rights, number of shares to be issued per stock acquisition right upon exercise of stock acquisition rights were adjusted as follows after the record date.  
Before adjustment: 1 share per stock acquisition right  
After adjustment: 200 shares per stock acquisition right

#### (1) ILJ's Stock Acquisition Rights Granted to and Held by ILJ's Directors or as of the End of FY2018

	Number of stock acquisition rights	Type of stock and number of shares subject to stock acquisition rights	Number of holders Number of stock acquisition rights
#1 Stock Acquisition Rights	71	Common Stock 14,200 shares	4 Directors 71
#2 Stock Acquisition Rights	59	Common Stock 11,800 shares	4 Directors 59
#3 Stock Acquisition Rights	52	Common Stock 10,400 shares	5 Directors 52
#4 Stock Acquisition Rights	77	Common Stock 15,400 shares	5 Directors 77
#5 Stock Acquisition Rights	100	Common Stock 20,000 shares	7 Directors 100
#6 Stock Acquisition Rights	105	Common Stock 21,000 shares	7 Directors 105
#7 Stock Acquisition Rights	114	Common Stock 22,800 shares	7 Directors 114
#8 Stock Acquisition Rights	112	Common Stock 22,400 shares	7 Directors 112

(Notes)

1. In place of the retirement allowance plan for Directors which was abolished, the Stock Acquisition Rights mentioned in the above were issued in consideration of their execution of duties.
2. There are no stock acquisition rights granted to and held by ILJ's part-time Directors, outside Directors or Company Auditors at the end of FY2018.
3. ILJ conducted a 1:200 stock split on common stock with an effective date of October 1, 2012. In connection with the stock split, as for #1 and #2 Stock Acquisition Rights, number of shares to be issued per stock acquisition right upon exercise of stock acquisition rights were adjusted as follows after the record date.  
Before adjustment: 1 share per stock acquisition right  
After adjustment: 200 shares per stock acquisition right

#### (2) ILJ's Stock Acquisition Rights Granted to Employees or Others during FY2018

	Number of stock acquisition rights	Type of stock and number of shares subject to stock acquisition rights	Number of holders Number of stock acquisition rights
#8 Stock Acquisition Rights	51	Common Stock 10,200 shares	11 Executive Officers 51



#### 4. Matters Regarding Directors, Company Auditors and Executive Officers of the Company

##### (1) Directors and Company Auditors

Position in the Company	Name	Business in charge or important concurrent posts
Chairman and Representative Director	Koichi Suzuki	CEO [Important concurrent posts] Director of IIJ Global Solutions Inc. President and Representative Director of IIJ Engineering Inc. Chairman of the Board, IIJ America Inc. President and Representative Director of Internet Multifeed Co. Chairman and Representative Director of JOCDN Inc.
President and Representative Director	Eijiro Katsu	COO
Senior Managing Director	Hideshi Hojo	Director in charge of Asian Business Development
Senior Managing Director	Takeshi Kikuchi	Unit Director of Business Unit
Managing Director	Akihisa Watai	CFO Division Director of Finance Division
Managing Director	Tadashi Kawashima	Deputy Unit Director of Business Unit
Director	Junichi Shimagami	CTO Unit Director of Technology Unit
Director	Yasuro Tanahashi	
Director	Shingo Oda	
Director	Toshinori Iwasawa	President and Representative Director of IIJ Global Solutions Inc.
Director	Tadashi Okamura	
Director	Takashi Tsukamoto	
Director	Shinobu Umino	
Full-time Company Auditor	Kazuhiro Ohira	
Full-time Company Auditor	Masako Tanaka	
Company Auditor	Yasuhiro Akatsuka	Outside Company Auditor of ICJ, Inc.
Company Auditor	Takashi Michishita	Attorney at law, Partner of Nishimura & Asahi LPC

(Notes)

- Business in charge or important concurrent posts are stated as of March 31, 2019
- Director and Company Auditor who assumed or left office during the fiscal year ended March 31, 2019, as follows:  
Assumption of office: On June 28, 2018  
Director : Shinobu Umino  
Company Auditor : Masako Tanaka  
Retirement of office : On June 28, 2018  
Company Auditor : Chiaki Furuya
- Yasuro Tanahashi, Shingo Oda, Tadashi Okamura, Takashi Tsukamoto and Shinobu Umino are outside directors, defined in Item 15, Article 2 of the Corporation Law of Japan.
- Kazuhiro Ohira, Yasuhiro Akatsuka and Takashi Michishita are outside Company Auditors, defined in Item 16, Article 2 of the Corporation Law of Japan.
- Outside directors, Yasuro Tanahashi, Shingo Oda, Tadashi Okamura and Takashi Tsukamoto, and outside Company Auditors, Kazuhiro Ohira, Yasuhiro Akatsuka and Takashi Michishita are Independent Directors as specified by the Tokyo Stock Exchange.
- Yasuhiro Akatsuka, a company auditor, is a Japanese Certified Public Accountant and has extensive expertise in finance and accounting
- Relationship between IIJ and those companies that our Directors hold important concurrent posts.  
There is no special relationship between IIJ and the companies where our outside directors and corporate auditors hold concurrent positions.

## (2) Executive Officers (As of April 1, 2019)

Name	Title	Principal position
Naoshi Yoneyama	Senior Executive Officer	Division Director of Corporate Planning Division
Masayoshi Tobita	Managing Executive Officer	Division Director of Administrative Division
Kiyoshi Ishida	Managing Executive Officer	Division Director of Product Division
Makoto Ajisaka	Managing Executive Officer	Division Director of Service Product Business Division
Yoshikazu Yamai	Managing Executive Officer	Division Director of Infrastructure Engineering Division
Koichi Maruyama	Managing Executive Officer	Division Director of Global Business Division
Masakazu Tachikui	Managing Executive Officer	Deputy Unit Director of Technology Unit
Yasumitsu Iizuka	Executive Officer	Deputy Division Director of Global Business Division President and CEO of IJ-A
Seiji Okita	Executive Officer	Division Director of Professional Services Division 1
Masami Kawamata	Executive Officer	General Manager of Accounting Department
Akira Sumiya	Executive Officer	General Manager of Compliance Department
Takenori Onishi	Executive Officer	Division Director of Enterprise Business Division 1
Takahiro Ide	Executive Officer	Division Director of Enterprise Business Division 2

(Note)

Takenori Onishi and Takahiro Ide were newly appointed as Executive Officers of the Company on April 1, 2019.

## (3) Total Remuneration to Directors and Company Auditors

12 Directors: JPY324,850 thousand (including JPY20,100 thousand for 5 Outside Directors)

5 Company Auditors: JPY31,666 thousand (including JPY16,765 thousand for 3 Outside Company Auditors)

(Notes)

1. The amounts of the above remunerations include JPY4,000 thousand for the reserve of accrued company auditors' retirement benefits, which was relating to the term of his office prior to the abolition of the retirement benefit plan and based on the resolution at the ordinary general meeting of shareholders of the Company held on June 24, 2016.
2. The amounts of the above remunerations include JPY36,999 thousand as compensation-type stock options granted to full-time Directors (not including part-time and outside directors) for duties performed during FY2018.
3. It was resolved that the yearly amount of remuneration, etc. (including bonus) for Directors was to be JPY500 million or less (including bonus and stock-compensation-type stock options) and JPY100 million (including bonus) or less for Company Auditors at the 16th ordinary general meeting of shareholders of the Company held on June 27, 2008.

(4) Outside Directors and Company Auditors

(i) Important concurrent offices of executive director and outside director at other companies

This is as described in the list of (1) Directors and Company auditors above.

(ii) Main activities during the current fiscal year

Position	Name	Principal Activities
Director	Yasurou Tanahashi	Attended 11 of the 12 board of directors meetings held during the fiscal year and made necessary remarks in deliberations.
Director	Shingo Oda	Attended all of the 12 board of directors meetings held during the fiscal year and made necessary remarks in deliberations.
Director	Tadashi Okamura	Attended all of the 12 board of directors meetings held during the fiscal year and made necessary remarks in deliberations.
Director	Takashi Tsukamoto	Attended all of the 12 board of directors meetings held during the fiscal year and made necessary remarks in deliberations.
Director	Shinobu Umino	After assumption of his office in June 2018, attended all of the 10 board of directors meetings held during the fiscal year and made necessary remarks in deliberations.
Company Auditor	Kazuhiro Ohira	Attended all of the 12 board of directors meetings held during the fiscal year and made comments from time to time to clarify the doubt point, and attended all of the 16 board of company auditors meetings held during the fiscal year. At these meetings, he exchanged opinions about audit results and conferred about important matters concerned audit.
Company Auditor	Yasuhiro Akatsuka	Attended all of the 12 board of directors meetings held during the fiscal year and made comments from time to time to clarify the doubt point, and attended all of the 16 board of company auditors meetings held during the fiscal year. At these meetings, he exchanged opinions about audit results and conferred about important matters concerned audit.
Company Auditor	Takashi Michishita	Attended 11 of the 12 board of directors meetings held during the fiscal year and made comments from time to time to clarify the doubt point, and attended all of the 16 board of company auditors meetings held during the fiscal year. At these meetings, he exchanged opinions about audit results and conferred about important matters concerned audit.

(iii) Outline of liability limitation contracts

The Company has concluded agreements with outside directors and company auditors (excluding Full-time company auditor, Kazuhiro Ohira) to indemnify them for personal liability as provided in Article 427, Paragraph 1 of the Corporation Law of Japan. The agreements stipulates that in the event outside directors and company auditors have acted in good faith and without gross negligence, the outside directors and company auditors liability to the Company shall be limited to JPY10 million or the minimum amount of liability stipulated under Article 427, Section 1 of the Corporation Law, whichever is higher.

(iv) Total amount of compensations received from the subsidiaries

There is nothing to report on this subject.

## **5. Accounting Auditor**

(1) Name of Accounting Auditor:  
Deloitte Touche Tohmatsu LLC

(2) Accounting Auditor Remuneration for FY2018

(i) Remuneration for accounting auditor for FY2018	JPY104,000 thousand
(ii) Total cash or proceeds from other assets that should be paid by the Company or its subsidiaries	JPY143,000 thousand

(Note)

1. The audit contract between the Company and the Accounting Auditor does not distinguish between remuneration paid for audits and quarterly reviews, therefore, the above (i) are total amounts. Remuneration for audits includes, audit performed for the financial statement for the Corporation Law of Japan, audit and quarterly reviews for the Financial Products Exchange Law in Japan, and audit for internal control in accordance with the Financial Products Exchange Law in Japan.
2. The Board of Company Auditors evaluated the audit plan, the status of performance of duties and basis for the calculation of the estimated amount of remuneration as well as the validity of those matters prepared by the Accounting Auditor, using the "Practical Guidelines for Cooperation with Accounting Auditors" released by Japan Corporate Auditors Association as a guide and expressed agreement that specified in Article 399, Paragraphs 1 of the Corporation Law.
3. Of our overseas subsidiaries, some have certified public accountants or auditing firms other than the Accounting Auditor audit their financial statements.

(3) Non-audited operations

The Company paid compensation to the Accounting Auditor for International Financial Reporting Standards advisory services on accounting practices that are not included in the services provided in Article 2, Paragraph 1 of the Certified Public Accountants Act of Japan.

(4) Policy for Dismissal or Refusal to Rehire an Accounting Auditor

The Accounting auditor should be decided comprehensively by considering various factors, including the ability, the organization and team (including the auditing team), the performance of duties, the quality of audits and the independency. If the Board of Company Auditors evaluates that the Accounting Auditor doesn't meet the above-stated various factors or it is needed, 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 evaluates that the Accounting Auditor falls under any Item of Paragraph 1, Article 340 of the Corporation Law, violates acts against the Corporation Law, Certified Public Accountant Law and 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.

## **6. Basic Systems and Policies of the Company**

### **(1) Systems for securing the appropriateness of business**

The details of the resolution by the Board of Directors of the Company are as follows:

1. Systems for ensuring the compliance of Directors and employees with the law and articles of incorporation in the execution of their duties
  - (1) The company will establish a code of ethics that sets for a standard of conduct and requires strict adherence to the law. In addition, the Company will establish regulations for applying the laws regarding the prevention of insider trading, the protection of personal information, among others. The company will disseminate those regulations to officers and employees, and conduct periodic education.
  - (2) The company will establish a system for appointing the necessary personnel to ensure compliance with the law, and for consulting with lawyers and other experts outside the Company.
  - (3) The company will establish an internal reporting system for reporting any legal violations, and will maintain an internal notification system that enables people to contact the Board of Company Auditors while protecting the person reporting.
  - (4) An Office of Internal Audits under the direct control of the President will conduct internal audits on a regular basis, indicating where each division could improve compliance with the law, and overseeing the improvements.
  - (5) For legally required reports, ad hoc reports, and other types of releases, the Company will establish a Disclosure Committee whose members consist of Directors, Outside Directors, Executive Officers and Auditors, whom will evaluate the content for appropriateness and completeness, and approve any material to be released.
2. Systems for preserving and managing information related to the execution of duties by Directors
  - (1) Basic policy and procedures regarding the handling of information assets will be set and followed in the handling of information and documents related to the execution of duties by Directors ("performance information"), these policies and procedures will detail who is responsible for managing the information, how long the information is to be stored, how it is to be stored, measures for countering loss or leakage of the information, and proper management of the information. The management of this information will be reviewed on a regular basis.
  - (2) The company will create a system that ensures the proper filing of performance information (committing it to electronic storage when necessary), and that enables the quick verification of the existence, condition, and content of these documents. In addition, the system will allow people with the proper authority to view documents related to the Company Auditors and others without delay.
  - (3) The duties related to the above fall under the jurisdiction of a director or an executive officer in charge of information security and a director or an executive officer in charge of document management of the Company.
3. Regulations governing risk management and other systems
  - (1) The Director that oversees the operation of each division will 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.
  - (2) For certain risk categories, an Evaluation Committee will be established to evaluate the risk and to develop countermeasures.
  - (3) A Business Continuity Plan will be developed to address potential emergency situations.
  - (4) An Internal Auditor Office under the direct control of the President will conduct internal audits on a regular basis, indicating where each division could improve operations, including risk management, and overseeing the improvements.
4. Systems for ensuring the efficient execution of duties by Directors
  - (1) A business plan for each fiscal year will be formulated in line with management objectives, and each business organization will actively seek to achieve the goals put forth in the plan. In addition, regular progress reports will be submitted and reviewed to monitor progress on each target.
  - (2) As for management, all issues that should be decided by the Board of Directors in accordance with the Regulations of the Board of Directors will be strictly decided by the Board, and as a basic rule of the decision-making process, sufficient documentation on the issue to be decided will be distributed to all Board members in advance.
  - (3) In the execution of daily duties, authority will be delegated based on the scope of authority regulations and division of duties regulations, and managers at each level will execute their duties while complying with the rules of the decision making process.
  - (4) To reinforce the Board of Directors' authority, a certain number of people with notable management acumen will be appointed as Outside Directors.

5. Systems for ensuring the proper operation of corporate groups consisting of the Company and its Subsidiaries
    - (1) Subsidiaries will be managed based on the subsidiary management regulations, which are the basic policy of subsidiary management, and an agreement will be made with the parent company regarding the management of the subsidiary.
    - (2) Subsidiaries will report on required items, and a system for consultation will be established.
    - (3) To impose internal control on important items, regulations governing the entire corporate group will be established, and subsidiaries will be required to comply with them.
    - (4) The Company's Internal Audit Office will perform internal audits of subsidiaries.
  6. Providing employee to assist Company Auditors, securing those employees' independence from directors and effectiveness of company auditors' instruction to those employees
    - (1) The Company establishes Internal Auditing Office under direct control of President and assigns to the Office as the full-time basis. These employees work closely with the Company Auditors to reflect their opinions on the Company's internal audit plan.
    - (2) The selection, appointment, and transfer of employee assigned to the Internal Auditing Office should be conducted with full consideration of the opinions from the Board of Company Auditors.
    - (3) Other than above, it will be consulted and decided with the Board of Company Auditors as for assignment of employees who assist the Company Auditors and arrangement to ensure effectiveness of the Company Auditors' instruction to these employees.
  7. Systems that directors and employees of the Company and its subsidiaries make a report to the Company Auditors, and systems preventing the person who makes report to the Company Auditor from being disadvantageously treated due to such report
    - (1) In accordance with the provisions of the Board of Company Auditors, Directors and employees will report and provide information upon or periodically the Company Auditor's request.
    - (2) Company Auditors will be a member of panel such as Disclosure Committee that makes the important decision-making.
    - (3) The Board of Company Auditors is a liaison for the Whistle-blower System of the Company and the Whistle-blower System is applied for the Company and its subsidiaries. Whistle-blower will be safely protected and kept secret, and it is prohibited that the Company disadvantageously treats that person whether the whistleblowing is anonymous or not
  8. Policies on prepaid expenses for the execution of the duties of the Company Auditors, on expenses for procedures for repayment and execution of other relevant duties, or on debt processing
 

The Company will establish budget for the Board of Company Auditors for the execution of their duties every year, and will listen to Company Auditors' opinion.
  9. Other systems for ensuring effective Company Auditors' audits
    - (1) In order to ensure that the Board of Company Auditors can properly execute their duties, the necessary external experts will be retained.
    - (2) To preserve the independence of the Accounting Auditors, the Company and its subsidiaries are not allowed to receive the accounting auditors' services which could possibly harm their independence (including the person related the Accounting Auditors) as well as takes appropriate measures to obtain consent to the accounting auditors remuneration and others by the Board of Company Auditors in an appropriate manner.
    - (3) The Company makes an effort to appoint a financial expert and legal expert for Company Auditors.
- (2) Status of systems for ensuring the appropriateness of business activities
- Business activities by directors and employees of the Company and its subsidiaries are governed by the Code of Ethics, the Basic Rules for Internal Control and etc. which regulate the entire corporate groups. The Board of Directors of the Company consists of 13 directors, including 5 outside directors and daily oversight and supervision on the business execution are carried by means of ordinary (monthly) and extraordinary meetings of the Board of Directors, management meetings and etc. Subsidiaries are properly managed through necessity reports and discussion based on the subsidiary management regulations, which are the basic policy of subsidiary management.
- As for risk management, such as information security and business continuity risks, evaluation committees are established to evaluate those risks and to develop countermeasures for certain risk categories.
- The Board of Company Auditors consists of 4 company auditors, including 3 outside company auditors. Oversight on business execution are carried by means of daily business audits by Full-time Company Auditor, ordinary (monthly) and extraordinary meetings of the Board of Company Auditors and etc. Furthermore, the Board of Company Auditors is in charge of overseeing conflict-of-interest transactions with accounting auditors, decision of reappointment or dismissal of the Accounting Auditor and operating the Whistle-blower System over financial reporting for the entire corporate groups. We have placed an Internal Auditing Office which consists of 4 members including a manager. They plan and perform audits to the Company and its subsidiaries based on internal audit plan. Results for the audit are periodically reported to the Board of Company Auditors and close cooperation is made with the Company Auditors.
- Other than above, in order to maintain adequate disclosure, the Company has established the Disclosure Committee which consists of directors, executive officers and company auditors based on the Code of Information Disclosure and verifies appropriate and sufficient disclosure.
- (3) Basic Policy on Control of the Company.
- There is nothing to report on this subject.

(Reference) Glossary

1. 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.
2. IoT: Internet of Things (IoT) enables not only physical objects but also any "things" connected to network to exchange information automatically.
3. Recurring revenues: Revenues, that business can count on receiving every single month, by continuously provision of services to customers.
4. 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.
5. IoT Support Pack: IoT Support Pack is a small data communication volume-bundled service targeting IoT or M2M usage, which is one of the service lineup of our full MVNO service for corporate, "IIJ Mobile Service/Type I".
6. IIJmio IoT Service: IIJmio IoT service is a data communication service for consumer's IoT demands. IIJmio IoT service offers "uplink high-speed plan (high-speed data communication only in the upward direction)" that is suitable for surveillance camera, etc.
7. 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.
8. MVNE: Mobile Virtual Network Enabler (MVNE) is a company that provides MVNOs for mobile infrastructure and related services to enable their MVNO businesses.
9. IIJ Omnibus Service: IIJ Omnibus Service is a platform type network service, utilizing SDN (Software Defined Network) and NFV (Network Function Virtualization) technologies, which provides enterprise customers wide-range and various functions.
10. SD-LAN: Software Defined LAN (SD-LAN) is a type network using SDN technology. SD-LAN function enables setting and configuration management of network devices in a LAN through the cloud platform.
11. IIJ C-SOC Service: IIJ C-SOC Service is a service that our Security Operation Center (SOC) provides security monitoring and threat analysis of security logs collected from our dedicated security platform 24 hours per day, 365 days per year to help client's network secure.
12. IIJ Secure Endpoint Service: IIJ Secure Endpoint Service is a cloud-based service that defends against external threats and prevents internal information leaks by utilizing a number of antivirus and IT asset management features.
13. IIJ Virtual Desktop Service: IIJ Virtual Desktop Services provide virtualized instances of Windows desktops and applications in the cloud. Virtual desktop solutions allow users to work anywhere and on any device just as if they were in the office.
14. System Module 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.
15. IIJ GIO Migration Solution: IIJ GIO Migration Solution is a packaged solution that provides replication tool and the migration work with the cloud infrastructure.
16. IIJ Managed Database Service: IIJ Managed Database Service is a cloud-based service that provides high-performance and easily used databases with full functionality.
17. IIJ UOM Service: IIJ Unified Operation Management (UOM) Service provides comprehensive monitoring and operation functions to customer's all IT systems.
18. CDN: Content Delivery Network (CDN) is an optimized network for delivering content over the Internet.
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 became one of the most popular protocols as the Internet spread.
20. SE: Systems Engineer (SE) is , generally, a person mainly engaged in design and construction of network systems.

# **Consolidated Balance Sheet**

As of March 31, 2019

(Unit: JPY thousands)

<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	32,076,232
Accounts receivable, net of allowance for doubtful accounts of JPY 116,031 thousand	33,581,935
Inventories	3,806,563
Prepaid expenses	9,562,556
Other current assets, net of allowance for doubtful accounts of JPY 719 thousand	1,693,655
<b>Total current assets</b>	<b>80,720,941</b>
<b>INVESTMENTS IN EQUITY METHOD INVESTEEs</b>	<b>4,837,867</b>
<b>OTHER INVESTMENTS</b>	<b>10,807,626</b>
<b>PROPERTY AND EQUIPMENT – Net</b>	<b>46,932,770</b>
<b>GOODWILL</b>	<b>6,082,472</b>
<b>OTHER INTANGIBLE ASSETS – Net</b>	<b>2,340,437</b>
<b>GUARANTEE DEPOSITS</b>	<b>3,380,728</b>
<b>DEFERRED TAX ASSETS</b>	<b>486,310</b>
<b>NET INVESTMENT IN SALES-TYPE LEASES – Noncurrent</b>	<b>2,080,564</b>
<b>PREPAID EXPENSES – Noncurrent</b>	<b>8,472,664</b>
<b>OTHER ASSETS, net of allowance for doubtful accounts of JPY 58,071 thousand</b>	<b>709,259</b>
<b>TOTAL</b>	<b>166,851,638</b>
<b>CURRENT LIABILITIES:</b>	
Short-term borrowings	11,250,000
Long-term borrowings – Current portion	1,500,000
Capital lease obligations – current	6,519,181
Accounts payable – trade	20,631,835
Accounts payable – other	1,295,229
Income taxes payable	1,290,471
Accrued expenses	3,145,000
Deferred income – current	5,411,239
Other current liabilities	1,615,353
<b>Total current liabilities</b>	<b>52,658,308</b>
<b>LONG-TERM BORROWINGS</b>	<b>14,000,000</b>
<b>CAPITAL LEASE OBLIGATIONS – Noncurrent</b>	<b>11,515,459</b>
<b>ACCRUED RETIREMENT AND PENSION COSTS</b>	<b>4,423,252</b>
<b>DEFERRED TAX LIABILITIES</b>	<b>188,536</b>
<b>DEFERRED INCOME – Noncurrent</b>	<b>5,495,600</b>
<b>OTHER NONCURRENT LIABILITIES</b>	<b>2,317,996</b>
<b>Total liabilities</b>	<b>90,599,151</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	
<b>SHAREHOLDERS' EQUITY:</b>	
<b>IIJ shareholders' equity:</b>	
Common stock – authorized, 75,520,000 shares; issued and outstanding, 46,721,400 shares at March 31, 2019	25,518,712
Additional paid-in capital	36,225,776
Retained earnings	16,023,450
Accumulated other comprehensive loss	(466,835)
Treasury stock – 1,650,911 shares held by the Company at March 31, 2019	(1,896,788)
<b>Total IIJ shareholders' equity</b>	<b>75,404,315</b>
<b>NONCONTROLLING INTERESTS</b>	<b>848,172</b>
<b>Total equity</b>	<b>76,252,487</b>
<b>TOTAL</b>	<b>166,851,638</b>



## **Consolidated Statement of Income**

From April 1, 2018 through March 31, 2019

(Unit: JPY thousands)

REVENUES:	
Network services:	
Internet connectivity services (enterprise)	33,171,505
Internet connectivity services (consumer)	25,234,295
WAN Services	30,989,645
Outsourcing services	29,137,247
Total	118,532,692
Systems integration:	
Systems construction	22,758,595
Systems operation and maintenance	41,673,471
Total	64,432,066
Equipment sales	5,216,057
ATM operation business	4,151,525
Total revenues	192,332,340
COSTS AND EXPENSES:	
Cost of network services	101,205,702
Cost of systems integration	55,226,943
Cost of equipment sales	4,574,945
Cost of ATM operation business	2,326,133
Total costs	163,333,723
Sales and marketing	13,183,732
General and administrative	9,160,210
Research and development	446,283
Total costs and expenses	186,123,948
OPERATING INCOME	6,208,392
OTHER INCOME (EXPENSE):	
Dividend income	86,596
Interest income	27,632
Interest expense	(401,668)
Foreign exchange gain, net	5,774
Net realized and unrealized gain (loss) on other investments	(1,110,156)
Other – net	96,041
Other income – net	(1,295,781)
INCOME BEFORE INCOME TAX EXPENSE AND EQUITY IN NET INCOME OF EQUITY METHOD INVESTEEs	4,912,611
INCOME TAX EXPENSE	1,700,966
EQUITY IN NET INCOME OF EQUITY METHOD INVESTEEs	(318,244)
NET INCOME	2,893,401
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(178,222)
NET INCOME ATTRIBUTABLE TO IIJ	2,715,179

## **Consolidated Statement of Shareholders' Equity**

From April 1, 2018 through March 31, 2019

(Unit: JPY thousands)

	Total Equity	IIJ Shareholders' Equity		
		Retained Earnings	Accumulated Other Comprehensive Income (loss)	Common Stock
BALANCE, MARCH 31, 2018	73,988,557	8,404,228	5,074,872	25,511,804
Cumulative effects of Accounting Standard Update — Adoption of ASU No.2014-09	381,678	381,678		
Cumulative effects of Accounting Standard Update — Adoption of ASU No. 2016-01	659,805	5,739,166	(5,079,361)	
Dividends to noncontrolling Interests	(48,550)			
Issuance of common stock upon exercise of stock options	7			6,908
Stock-based compensation	56,740			
Net income	2,893,401	2,715,179		
Other comprehensive loss, net of tax	(462,346)		(462,346)	
Payment of dividends	(1,216,801)	(1,216,801)		
Purchase of treasury stock	(4)			
BALANCE, MARCH 31, 2019	76,252,487	16,023,450	(466,835)	25,518,712

	IIJ Shareholders' equity		Noncontrolling Interests
	Treasury Stock	Additional Paid-in Capital	
BALANCE, MARCH 31, 2018	(1,896,784)	36,175,937	718,500
Cumulative effects of Accounting Standard Update — Adoption of ASU No.2014-09			
Cumulative effects of Accounting Standard Update — Adoption of ASU No. 2016-01			
Dividends to noncontrolling interests			(48,550)
Issuance of common stock upon exercise of stock options		(6,901)	
Stock-based compensation		56,740	
Net income			178,222
Other comprehensive loss, net of tax			
Payment of dividends			
Purchase of treasury stock	(4)		
BALANCE, MARCH 31, 2019	(1,896,788)	36,225,776	848,172

# Non-Consolidated Balance Sheet

As of March 31, 2019

(Unit: JPY thousands)

Assets		Liabilities and Shareholders' equity	
Item	Amount	Item	Amount
<b>[Current assets]</b>	<b>63,086,338</b>	<b>[Current liabilities]</b>	<b>45,332,831</b>
Cash and bank deposits	22,387,444	Accounts payable	2,390,942
Accounts receivable	25,322,647	Short-term borrowings	11,250,000
Investment in leases	2,550,724	Short-term borrowings from affiliated companies	2,850,000
Merchandise	82,158	Long-term borrowings – Current portion	1,500,000
Work in process	1,253,349	Accounts payable – other	13,145,323
Supplies	1,715,843	Capital lease obligations – current	6,773,108
Prepaid expenses	8,684,635	Accrued expense	453,365
Accounts receivable – other	925,370	Accounts payable – fixed assets	1,243,759
Short-term loans to affiliated companies	124,302	Income taxes payable	784,524
Other current assets	185,158	Consumption taxes payable	328,576
Allowance for doubtful accounts	(145,292)	Deposits received	213,626
		Advances received	495,993
		Deferred income	3,785,679
		Other current liabilities	117,936
<b>[Fixed assets]</b>	<b>83,591,588</b>	<b>[Long-term liabilities]</b>	<b>34,793,170</b>
<b>&lt;Property and equipment&gt;</b>	<b>27,954,247</b>	Long-term borrowings	14,000,000
Land	2,055,099	Deferred income – noncurrent	3,794,300
Buildings	511,806	Accounts payable – noncurrent	623,420
Leasehold improvements	4,636,953	Capital lease obligations – noncurrent	12,002,642
Construction other than buildings	1,653,607	Asset retirement obligations	670,271
Data communication equipment and office equipment	10,327,886	Long-term borrowings from affiliated companies	33,175
Assets under capital leases	36,863,763	Accrued pension and severance cost	2,944,453
Construction in progress	3,461,295	Accrued directors' and company auditors' retirement benefits	234,900
Accumulated depreciation	(31,556,162)	Deferred tax liabilities – noncurrent	490,009
<b>&lt;Intangible assets&gt;</b>	<b>17,585,922</b>	<b>Total liabilities</b>	<b>80,126,001</b>
Goodwill	1,112,548	<b>[Shareholders' equity]</b>	<b>61,683,576</b>
Customer relationships	939,743	<b>&lt;Capital stock&gt;</b>	<b>22,979,490</b>
Telephone rights	2,241	<b>&lt;Capital surplus&gt;</b>	<b>9,723,439</b>
Software	15,026,545	Legal capital surplus	9,700,175
Assets under capital leases	504,845	Other capital surplus	23,264
<b>&lt;Investments and other assets&gt;</b>	<b>38,051,419</b>	<b>&lt;Earned surplus&gt;</b>	<b>30,865,775</b>
Investments in securities	8,227,286	Legal retained earnings	502,473
Money held in trust	1,817,463	Other retained earnings	30,363,302
Investments in affiliated companies	16,835,275	Reserve for advanced depreciation of fixed assets	401,846
Guarantee deposits	3,002,853	Retained earnings brought forward	29,961,456
Long-term advances	206,746	<b>&lt;Treasury stock&gt;</b>	<b>(1,885,128)</b>
Long-term prepaid expenses	7,502,809	<b>[Valuation and translation adjustment]</b>	<b>4,512,426</b>
Claims against insolvencies	29,350	Net unrealized gains on securities	4,512,426
Long-term loans to affiliated companies	63,807	<b>[Subscription rights to shares]</b>	<b>355,923</b>
Other investments	412,389	Stock acquisition rights	355,923
Allowance for doubtful accounts	(46,559)	<b>Total Shareholders' equity</b>	<b>66,551,925</b>
<b>Total assets</b>	<b>146,677,926</b>	<b>Total liabilities and shareholders' equity</b>	<b>146,677,926</b>

## **Non-Consolidated Statement of Income**

(From April 1, 2018 through March 31, 2019)

(Unit: JPY thousands)

Item	Amount	Total
<b>[Total revenues]</b>		156,674,395
<b>[Total costs of revenues]</b>		135,710,588
<b>Gross margin</b>		20,963,807
<b>[Total sales and administrative expense]</b>		18,701,076
<b>Operating income</b>		2,262,731
<b>[Non-operating income]</b>		
Interest income	5,365	
Dividend income	1,138,625	
Commissions received	43,287	
Royalty charges received	3,717	
Foreign exchange gains	28,743	
Gains on investments on silent partnership	246,948	
Subsidy Income	230,000	
Other non-operating income	170,304	1,866,989
<b>[Non-operating expenses]</b>		
Interest expense	389,783	
Provision of allowance for doubtful accounts	517	
Other non-operating expenses	29,939	420,239
<b>Ordinary income</b>		3,709,481
<b>[Extraordinary income]</b>		
Gains on sales of investments in securities	41,505	
Gains on sales of fixed assets	1,519	43,024
<b>[Extraordinary loss]</b>		
Losses on disposal of fixed assets	258,532	
Loss on valuation of investment securities	1,539	260,071
<b>Income before income taxes</b>		3,492,434
<b>Income taxes – current</b>		1,034,276
<b>Income taxes – deferred</b>		(169,723)
<b>Net income</b>		2,627,881

## Non-Consolidated Statement of changes in net Assets

(From April 1, 2018 through March 31, 2019)

(Unit: JPY thousands)

	Shareholders' Equity							
	Common Stock	Capital Surplus			Legal Surplus	Earned Surplus		
		Legal Capital Surplus	Other Capital Surplus	Total Capital Surplus		Other Earned Surplus	Total Earned Surplus	
						Reserve for Advanced Depreciation of Fixed Assets	Earned Surplus Brought Forward	
Balance, March 31, 2018	22,972,583	9,693,266	23,264	9,716,530	502,473	267,725	28,684,497	29,454,695
Changes								
Issuance of common stock upon exercise of stock options	6,907	6,909	-	6,909	-	-	-	-
Payment of dividends	-	-	-	-	-	-	(1,216,801)	(1,216,801)
Provision of reserve for advanced depreciation of fixed assets	-	-	-	-	-	159,620	(159,620)	-
Reversal of reserve for advanced depreciation of fixed assets	-	-	-	-	-	(25,499)	25,499	-
Net income	-	-	-	-	-	-	2,627,881	2,627,881
Purchase of treasury stock	-	-	-	-	-	-	-	-
Net changes other than shareholders' equity	-	-	-	-	-	-	-	-
Total changes	6,907	6,909	-	6,909	-	134,121	1,276,959	1,411,080
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

	Shareholders' Equity		Valuation and Translation Adjustments	Subscription Rights to Shares	Total Shareholders' Equity
	Treasury Stock	Total Shareholders' Equity	Net Unrealized Holding Gains(losses) on Securities		
Balance, March 31, 2018	(1,885,125)	60,258,683	5,518,805	312,993	66,090,481
Changes					
Issuance of common stock upon exercise of stock options	-	13,816	-	-	13,816
Payment of dividends	-	(1,216,801)	-	-	(1,216,801)
Provision of reserve for advanced depreciation of fixed assets	-	-	-	-	-
Reversal of reserve for advanced depreciation of fixed assets	-	-	-	-	-
Net income	-	2,627,881	-	-	2,627,881
Purchase of treasury stock	(3)	(3)	-	-	(3)
Net changes other than shareholders' equity	-	-	(1,006,379)	42,930	(963,449)
Total changes	(3)	1,424,893	(1,006,379)	42,930	461,444
Balance, March 31, 2019	(1,885,128)	61,683,576	4,512,426	355,923	66,551,925

## INDEPENDENT AUDITOR'S REPORT

May 21, 2019

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Kumiko Aso

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Norihiro Watanabe

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2019 of Internet Initiative Japan Inc. (the "Company") and its consolidated subsidiaries, and the consolidated statement of income, statement of shareholders' equity for the fiscal year from April 1, 2018 to March 31, 2019, and the related notes.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting which is applied mutatis mutandis pursuant to the third paragraph of Article 120-3 of the Ordinance on Company Accounting which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Audit Opinion

In our opinion, the consolidated financial statements referred to above, prepared with the omission of a part of the disclosures required under accounting principles generally accepted in the United States of America pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting which is applied mutatis mutandis pursuant to the third paragraph of Article 120-3 of the Ordinance on Company Accounting, present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of March 31, 2019, and the results of their operations for the year then ended.

### Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

## INDEPENDENT AUDITOR'S REPORT

May 21, 2019

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Kumiko Aso

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Norihiro Watanabe

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the nonconsolidated financial statements, namely, the nonconsolidated balance sheet as of March 31, 2019 of Internet Initiative Japan Inc. (the "Company"), and the nonconsolidated related statements of income and changes in net assets for the 27th fiscal year from April 1, 2018 to March 31, 2019, and the related notes and the accompanying supplemental schedules.

### Management's Responsibility for the Nonconsolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these nonconsolidated financial statements and the accompanying supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the nonconsolidated financial statements and the accompanying supplemental schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the nonconsolidated financial statements and the accompanying supplemental schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the nonconsolidated financial statements and the accompanying supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the nonconsolidated financial statements and the accompanying supplemental schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the nonconsolidated financial statements and the accompanying supplemental schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Audit Opinion

In our opinion, the nonconsolidated financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2019, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

### Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.

## Audit Report

Based on audit reports from each Company Auditor, and following due discussion at meetings, the Board of Company Auditors has prepared this audit report regarding the execution of the duties of Directors of the Company during the 27th fiscal year from April 1, 2018 to March 31, 2019. The Board of Company Auditors hereby reports as follows.

### 1. Auditing Methodology Employed by Company Auditors and the Board of Company Auditors and Details Thereof

- (1) The Board of Company Auditors established auditing policy, auditing plan, the assignment of the duties of each Company Auditor and etc., and received reports from each Company Auditor on the status of the implementation of audits and the results thereof, as well as reports from Directors and etc., and also the Independent Auditor regarding the status of their duties, and sought explanations as necessary.
- (2) In compliance with the auditing standards for Company Auditors established by the Board of Company Auditors and based on the auditing policy and the assignment of duties, etc., each Company Auditor had taken steps to facilitate communication with Directors of the Company and the Internal Audit Department as well as others, has endeavored to gather information and create an improved environment for auditing and conducted auditing with the following methods.
  - i) Each Company Auditor attended meetings of the Board of Directors and other important meetings, received reports from Directors, employees and others on the performance of their duties and sought explanations regarding such reports as necessary. In addition, each Company Auditor inspected important authorized documents and associated information, and examined the business and financial position of the Company at the head office and main branch offices. As for the subsidiaries of the Company, each Company Auditor had taken steps to facilitate communication with the directors, company auditors and others of the subsidiaries and to share information among them and received reports from the subsidiaries regarding their businesses as necessary.
  - ii) Each Company Auditor periodically received reports from Directors, employees and others, sought explanations as necessary, and expressed opinions, regarding the resolution of the Board of Directors on the establishment of following systems (Internal Control System) and the status of operation of the organized system based on such resolution, both of which are described in the Business Report that the system for ensuring that the performance of duties by the Directors conforms to the applicable laws and regulations and Articles of Incorporation, and the system stipulated in Article 100-1 and 100-3 of the Enforcement Regulation of the Corporation Law, which are necessary for ensuring the properness of operations of the enterprises consisting of the Company and its subsidiaries.
  - iii) Each Company Auditor monitored and verified whether the Independent Auditor maintained their independence and implemented appropriate audits, and received reports regarding the performance of their duties and sought explanations as necessary. In addition, the Company Auditors received notice from the Independent Auditor that "System to Ensure Appropriate Execution of the Duties of the Independent Auditor" (as enumerated in each item of Article 131 of the Ordinance on the Company Accounting) is organized in accordance with the "Quality Control Standards Relating to Auditing" (adopted by the Business Accounting Deliberation Council on October 28, 2005) etc., and sought explanations as necessary.

Based on the above methodology, the Company Auditors reviewed the financial statements for this fiscal year (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of shareholders' equity and notes to the non-consolidated financial statements) and the supplementary schedules thereto, and also the consolidated financial statements for this fiscal year (consolidated balance sheet, consolidated statement of income, consolidated statement of shareholder's equity and notes to the consolidated financial statements).

### 2. Audit Results

#### (1) Audit Results on the Business Report, etc.

- i) In our opinion, the Business Report and the supplementary schedules fairly represent the Company's condition in conformity with the applicable laws and regulations of Japan as well as the Articles of Incorporation of the Company.
- ii) With respect to the execution of duties by the Directors, we have found no evidence of misconduct or material facts in violation of the applicable laws and regulations of Japan or the Articles of Incorporation of the Company in the course of the execution of duties of the Directors.
- iii) In our opinion, the content of the resolutions made by the Board of Directors of the Company regarding the internal control systems is appropriate, and furthermore, we have not found anything to be pointed out on the performance of duties of the Directors concerning the internal control systems.

#### (2) Results of Audit of the Financial Statements and Supplementary Schedules

In our opinion, the methodology and results of the audit employed and rendered by Deloitte Touche Tohmatsu LLC, the Independent Auditor, are fair and reasonable.

#### (3) Results of Audit of the Consolidated Financial Statements

In our opinion, the methodology and results of the audit employed and rendered by Deloitte Touche Tohmatsu LLC, the Independent Auditor, are appropriate.

May 23, 2019

Board of Company Auditors  
Internet Initiative Japan Inc

Full-time Company Auditor	Kazuhiro Ohira	(seal)
Full-time Company Auditor	Masako Tanaka	(seal)
Company Auditor	Yasuhiro Akatsuka	(seal)
Company Auditor	Takashi Michishita	(seal)

Note: Full-time Company Auditor, Kazuhiro Ohira and two Company Auditors, Yasuhiro Akatsuka and Takashi Michishita, are outside company auditors as provided in Article 2-16 and Article 335-3 of the Corporation Law.