

Convocation Notice of the 28th
Ordinary General Meeting of Shareholders

of

Internet Initiative Japan Inc.

This document is an English translation of the “Convocation notice of the 28th ordinary general meeting of shareholders” (“*Dai ni-ju-hachikai teiji kabunushi sokai shoshu gotsuchi*”) of Internet Initiative Japan Inc. (“IIJ” or “the Company”) to be held on June 24, 2020.

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 28th Ordinary General Meeting of Shareholders, at the Company's following web site:(<https://www.iij.ad.jp/en/ir/library/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 28th 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, 2020

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 28TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

We are pleased to announce the 28th ordinary general meeting of shareholders of Internet Initiative Japan Inc. ("IIJ" or "the Company"), which is to be held as stated below.

From the perspective of prevention of COVID-19, please exercise your voting rights via the Internet or the enclosed voting instruction card, and refrain from attending the meeting on the day of the meeting.

After carefully considering the current situation surrounding COVID-19, we decided to hold this meeting by taking appropriate counter infection measures. In order to prevent the spread of COVID-19, we ask our shareholders to exercise their voting rights in advance by using the specified form or Internet as much as possible and refrain from attending this meeting, regardless of their physical conditions.

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 Internet by 5:30 pm on Tuesday, June 23, 2020.

1. **Date and Time:** 10:00 A.M., Wednesday, June 24, 2020
*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

(Note 1) This venue may be changed if it is not appropriate to be used for the meeting due to COVID-19 etc. We will immediately post information about such change on our website (<https://www.iij.ad.jp/en/ir/library/meeting/>). Please be sure to check our website on the day of the meeting.

(Note 2) Please note that there will be fewer seats at the venue compared to normal years as we will be arranging chairs to ensure there is enough intervals in order to prevent the spread of COVID-19.

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 28th term (from April 1, 2019 to March 31, 2020)
2. Non-consolidated financial statements for the 28th term (from April 1, 2019 to March 31, 2020)

Subjects to be Resolved:

- Item 1: Appropriation of Retained Earnings
- Item 2: Election of Five (5) Directors
- Item 3: Election of Three (3) Auditors
- Item 4: Implementation of Restricted Stock Remuneration

Notes to those shareholders who plan to attend:

- The action taken is subject to change depending on factors including the status of COVID-19 spread as well as announcements made by the government until the day of the meeting. Please check our website <https://www.iiij.ad.jp/ir/library/meeting/> for most up to date information.
- The meeting's agenda are to be proceeded effectively in a short period of time. Staffs at the meeting will be wearing face masks.
- Please note that we may check bodily temperatures of attending shareholders who are identified as having fever, appear to be in poor health, and/or have not returned from overseas less than 14 days ago and we may refuse to grant admission to attending shareholders. Attending shareholders who returned from overseas less than 14 days ago are required to notify the receptionists about it.
- There will be hand sanitizers for attending shareholder near the reception desk.
- Attending shareholders are asked to wear a face mask.
- No gifts will be offered to shareholders participating in the meeting

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.iiij.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 and future business investment, 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, 2020 will be JPY (Japanese yen) 27.0 per share, including the interim dividend paid in the amount of JPY 13.5 per share in December 2019.

1. Type of dividend property
Cash
2. Proposed appropriation of dividend assets to shareholders and total amount of dividend payment
JPY 13.5 per share of common stock of the Company
Total amount of dividend payment: JPY 608,629,275
3. Effective date of dividend payment
June 25, 2020

Item 2: Election of five (5) Directors

As the term of office of five (5) incumbent Directors, Takeshi Kikuchi, Akihisa Watai, Yasurou Tanahashi, Shingo Oda and Shinobu Umino will expire at the conclusion of this Ordinary General Meeting of Shareholders, it is proposed that four (4) Directors be reappointed and one (1) new Director be elected. Three (3) Directors, i.e., Shingo Oda, Shinobu Umino and Kazuo Tsukuda are candidates for Outside Directors.

The candidates for positions as Directors are as follows:

			< Number of Shares Owned >
1	Takeshi Kikuchi	(April 27, 1959) <Reelection>	60,100

< Career & current positions in and outside the Company >

April 1983	Joined Itochu Corporation
April 1986	Temporarily transferred to the Company
July 1999	Joined IJ Technology Inc.
October 2005	President and Representative Director of the same
June 2010	Senior Managing Director of the Company (current position)
April 2016	Business Unit Director of the Company (current position)

< Reasons for selection as candidate >

Mr. Takeshi Kikuchi, a candidate for Director, is presently Business Unit Director of the Company. The Company proposes to appoint him as a candidate for Director in order to utilize his abundant business experience in sales for the sales strategy of the Company.

			< Number of Shares Owned >
2	Akihisa Watai	(September 30, 1965) <Reelection>	13,300

< Career & current positions in and outside the Company >

April 1989	Joined Sumitomo Bank, Ltd. (currently, Sumitomo Mitsui Banking Corporation)
August 1996	Temporarily transferred to the Company
February 2000	Joined the Company
June 2004	Director and Chief Financial Officer of the Company
April 2010	Managing Director and Chief Financial Officer of the Company (current position)
April 2015	Division Director of Financial Division of the Company (current position)

< Reasons for selection as candidate >

Mr. Akihisa Watai, a candidate for Director, is presently the CFO and Division Director of the Finance Division of the Company. The Company proposes to appoint him as a candidate for Director in order to utilize his abundant business experience in finance for the financial strategy of the management of the Company.

3	Shingo Oda	(November 8, 1944)	<Reelection> <Outside> <Independent>	< Number of Shares Owned > 0
< Career & current positions in and outside the Company >				
April 1970	Joined Yokokawa Hewlett-Packard Company (currently, Hewlett-Packard Japan, Ltd)			
May 2005	President and Representative Director of the Hewlett-Packard Japan, Ltd			
June 2008	Director of the Company (current position)			
< Reasons for selection as candidate >				
Since Mr. Shingo Oda has established a prominent career as a corporate manager and has abundant experience and profound knowledge of management, the Company proposes to reappoint him as a candidate for Outside Director to enhance the supervisory functions of management.				
He is presently an Outside Director of the Company, and his total term of office as an Outside Director will be twelve (12) years at the close of this Ordinary General Meeting of Shareholders.				
4	Shinobu Umino	(August 4, 1952)	<Reelection> <Outside>	< Number of Shares Owned > 300
< Career & current positions in and outside the Company >				
April 1975	Joined Nippon Telegraph and Telephone Public Corporation			
June 2008	Senior Executive Vice President of NTT Communications Corporation			
June 2012	President and Representative Director of NTT COMWARE Corporation			
June 2018	Adviser of the same (current position)			
June 2018	Director of the Company (current position)			
<Reasons for selection as candidate>				
Since Mr. Shinobu Umino has established a prominent career as a corporate manager of telecommunication business companies 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.				
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.				
5	Kazuo Tsukuda	(September 1, 1943)	<New election> <Outside> <Independent>	< Number of Shares Owned > 0
< Career & current positions in and outside the Company >				
April 1968	Joined Mitsubishi Heavy Industries, Ltd			
June 1999	Director of the same			
April 2002	Managing Director of the same			
June 2003	President and Representative Director of the same			
April 2008	Chairman of the Board, Representative Director of the same			
April 2013	Chief Executive Adviser of the same			
June 2019	Special Advisor of the same (current position)			
< Reasons for selection as candidate >				
Mr. Kazuo Tsukuda 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.				

(Notes)

- (a) There is no special interest between the candidates and the Company.
- (b) 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. Shingo Oda and Mr. Shinobu Umino which limits the liability provided for in Article 423, Paragraph 1 of the Companies Act to the higher of either 10 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. If Mr. Kazuo Tsukuda is elected as an Outside Director, the Company plans to newly enter into a Liability Limitation Agreement with the same content.
- (c) The Company appoints Mr. Shingo Oda, as an Independent Director required to be secured by the Tokyo Stock Exchange. If he is appointed as a Director, the Company will continue to appoint him as an Independent Director. If Mr. Kazuo Tsukuda is appointed as a Director, the Company will appoint him as an Independent Director.

Item 3: Election of Three (3) Company Auditors

As the term of office of three (3) incumbent Company Auditors, Kazuhiro Ohira, Yasuhiro Akatsuka and Takashi Michishita will expire at the close of this Ordinary General Meeting of Shareholders, it is proposed that two (2) Company Auditors be reappointed and one (1) new Company Auditor be elected.

The candidates for the positions of Company Auditors are as follows:

Prior to the submission of this proposed item, the Company has already obtained the consent of the Board of Company Auditors.

			<Reelection>	< Number of Shares Owned >
1	Kazuhiro Ohira	(December 26, 1957)	<Outside>	
			<Independent>	0

< Career and current positions in and outside the Company >

April 1980	Joined The Dai-ichi Mutual Life Insurance Company (Currently, The Dai-ichi Life Insurance Company, Ltd.)
April 2008	General Manager of International Corporate Relations Department of the same
June 2010	Fulltime Company Auditor of the Company (Current position)

< Reasons for selection as candidate >

Although Mr. Kazuhiro Ohira has not been engaged in the management of a company other than being an Outside Company Auditor in the past, he has sufficient experience as a Company Auditor of the Company and, pursuant to his work experience, he is demonstrating his ability with respect to business management and internal control, and therefore the Company proposes to appoint him as a candidate for Outside Company Auditor.

He is presently an Outside Company Auditor of the Company, and his total term of office as an Outside Company Auditor will be ten (10) years at the close of this Ordinary General Meeting of Shareholders.

			<Reelection>	< Number of Shares Owned >
2	Takashi Michishita	(February 1, 1969)	<Outside>	
			<Independent>	0

< Career and current positions in and outside the Company >

April 1994	Admitted, Tokyo Bar Association, joined Asahi Law Office
July 2002	Partner of the same
July 2007	Partner of Nishimura & Asahi
August 2012	Partner of Nishimura & Asahi LPC
June 2016	Company Auditor of the Company (current position)
April 2019	Partner of Nishimura & Asahi (current position)

< Important concurrent posts >

Partner of Nishimura & Asahi

< Reasons for selection as candidate >

Mr. Takashi Michishita is believed to execute the duties of an Outside Company Auditor properly with his professional career as a lawyer and profound knowledge of legal matters, and therefore the Company proposes to appoint him as a candidate for Outside Company Auditor.

He is presently an Outside Company Auditor of the Company, and his total term of office as an Outside Company Auditor will be four (4) years from the close of this Ordinary General Meeting of Shareholders.

			<New election>	< Number of Shares Owned >
			<Outside>	
3	Koichi Uchiyama	(April 29,1960)	<Independent>	0

< Careers and current positions in and outside the Company >

October 1984 Admitted, Tohmatsu Awoki & Co. (currently, Deloitte Touche Tohmatsu LLC)
October 2017 President of Aisan ・ Advisory LLC (current position)

< Important concurrent posts >

President of Aisan ・ Advisory LLC

< Reasons for selection as candidate >

Although Mr. Koichi Uchiyama has no experience of managing a company in the past, he is believed to execute the duties of an Outside Company Auditor properly with his experience as a Certified Public Accountant over many years and his professional knowledge of finance, and therefore the Company proposes to appoint him as a candidate for Outside Company Auditor.

(Notes)

- (a) There is no special interest between the candidates and the Company.
- (b) 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. Takashi Michishita which limits the liability provided for in Article 423, Paragraph 1 of the Companies Act to the higher of either 10 million yen or the amount prescribed in Article 427, Paragraph 1 of the Companies Act, provided that he is 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 Company Auditor, a new Liability Limitation Agreement providing the same is scheduled to be entered into after his assumption of the office of Outside Company Auditor. If Mr. Koichi Uchiyama is elected as an Outside Company Auditor, the Company plans to newly enter into a Liability Limitation Agreement with the same content. ■
- (c) The Company appoints Mr. Kazuhiro Ohira and Mr. Takashi Michishita as Independent Auditors required to be secured by the Tokyo Stock Exchange. If they are appointed as the Company's Company Auditors, the Company will continue to appoint them as Independent Auditor. If Mr. Koichi Uchiyama is appointed as the Company's Company Auditor, the Company will appoint him as an Independent Auditor.

Item 4: Implementation of Restricted Stock Remuneration

It was approved at the 16th Ordinary General Meeting of Shareholders held on June 27, 2008 that the total amount of remuneration of the Members of the Board of Directors will be within 500 million yen per year. In addition, it was approved at the 19th Ordinary General Meeting of Shareholders held on June 28, 2011 to issue stock-compensation-type stock options to Members of the Board of Directors (excluding Part-time and Outside directors) within the said limit on the amount of remuneration of the Members of the Board of Directors.

The Company proposes to introduce the payment of remuneration for the granting of shares with a transfer restriction (hereinafter referred to as "Restricted Stock") to Members of the Board of Directors of the Company (excluding Part-time Directors and Outside Directors; hereinafter referred to as the "Eligible Directors". The current number of Members of the Board of Directors is thirteen (13) (of which five (5) are Outside Directors). Should Item 2 "Election of five (5) Directors" of the proposed resolutions be approved as originally proposed, the number of Members of the Board of Directors will remain thirteen (13) (of which five (5) will be Outside Directors).) in place of a part of the monetary compensation for the purpose of incentivizing them to achieve the sustainable enhancement of the Company's corporate value and facilitating the further sharing of value with shareholders.

The Company proposes to maintain the limit on the amount of remuneration paid to the Members of the Board of Directors at 500 million yen per year (excluding the amount of employee salaries payable to Members of the Board of directors who are also employees), and make it possible to provide Restricted Stock remuneration in addition to the base remuneration, bonuses and stock-compensation-type stock options for Members of the Board of Directors within the said limit on the amount of remuneration.

[Overview of the Restricted Stock remuneration to be implemented]

(1) Total number of shares with transfer restriction

The remuneration to be paid for the granting of Restricted Stock to the Eligible Directors based on the proposal will be regarded as monetary receivables (hereinafter referred to as the "Monetary Remuneration Receivables") and the specific timing of the provision and allocation to each Eligible Director will be determined by the Board of Directors.

Based on the resolution of the Board of Directors, the Eligible Directors will make in-kind contributions of all Monetary Remuneration Receivables to be provided and will, in return, receive shares of the Company's common stock that will be issued or disposed of by the Company. The total number of shares of the Company's common stock to be issued or disposed of in this way will not exceed 40,000 shares per year (however, in the event that a stock split of the Company's common stock (including gratis allotment of shares of the Company's common stock) or a reverse stock split is conducted, where the effective date is on or after the date of approval and passing of this proposed resolution, or in the event that any other circumstance that requires the adjustment of the total number of shares of the Company's common stock to be issued or disposed of as Restricted Stock arises, the said total number of shares will be reasonably adjusted).

(2) Amount to be paid in and Restricted Stock allotment agreement

The amount to be paid in per share will be the amount determined by the Board of Directors within a range that is not particularly advantageous to the Eligible Directors who will receive such share of the Company's common stock, based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately preceding the date of each resolution of the Board of Directors (or the closing price on the transaction day immediately prior thereto if no transaction is made on such business day).

For the purpose of such issuance or disposal of shares of the Company's common stock, a Restricted Stock allotment agreement including the following contents (hereinafter referred to as the "Allotment Agreement") will be concluded between the Company and each Eligible Director.

(a) Transfer restriction period

The Eligible Directors will not transfer, create any security interest over, or otherwise dispose of the shares of the Company's common stock allotted under the Allotment Agreement (hereinafter referred to as the "Allotted Shares") during the period from the payment date to the point in time when he or she resigns from the position specified in advance by the Company's Board of Directors (hereinafter referred to as the "Transfer Restriction Period") (hereinafter collectively referred to as the "Transfer Restriction").

(b) Removal of Transfer Restriction

The Company will remove the Transfer Restriction with respect to the Allotted Shares in whole upon the expiry of the Transfer Restriction Period, provided that the Eligible Director continuously served in the position specified in (a) above during the Transfer Restriction Period. If certain grounds prescribed in the Allotment Agreement, such as if an Eligible Director retires from the position specified in advance by the Company's Board of Directors during the Restriction Period or upon the expiration of the Restriction Period for any reason other than those deemed justifiable by the Company, the Company will naturally acquire the Allotted Shares for no consideration.

(c) Treatment in the event of organizational restructuring, etc.

Notwithstanding the provision in (a) above, if a matter concerning the organizational restructuring, etc. of the Company, such as a merger agreement whereby the Company will be the non-surviving party to the merger, or a share exchange agreement or share transfer plan whereby the Company will become a wholly-owned subsidiary of another entity, is approved at the Company's General Meeting of Shareholders (or by the Company's Board of Directors if such organizational restructuring, etc. does not require approval at a Company's General Meeting of Shareholders) during the Transfer Restriction Period, the Company will remove, based on a resolution of the Company's Board of Directors, the Transfer Restriction on the Allotted Shares on a date prior to the effective date of such organizational restructuring, etc.

(d) Other matters

Other matters concerning the Allotment Agreement will be determined by the Company's Board of Directors.

END

Business Report for the 28th Fiscal Year

1. Matters Regarding the Current Status of the IIJ Group

(1) Progress and Results of the Business (International Financial Reporting Standards)

The Japanese economy has been moderately recovered throughout the fiscal year ended March 31, 2020 ("FY2019"); however, it was severely impacted by COVID-19 in March 2020. With respect to future prospects, under the circumstances that global community and economy would still be affected by COVID-19, we recognize that we must keep an eye on uncertainties such as domestic and overseas economy as well as fluctuation of financial and capital markets.

For the ICT (*1) related market where we belong to, changes of corporate information system as seen in widespread of cloud computing (*2) adoption, advancement of utilization of ICT such as IoT (*3) in corporate business activities, growing demand for security services against information leakage and remote access (*4) services in association with work style reform, etc., we expect demands for highly reliable network services to continually increase. On the other hand, demands for systems construction could be somewhat impacted in short term by decrease of corporate investment appetite due to economic situation.

Under these market circumstances, we continuously promoted our existing strategy to incorporate outsourcing demands related to enterprises' information and network systems by developing and offering highly reliable and value-added services, which are based on our Internet related technical skills and blue-chip customer base. Total revenues for FY2019 were JPY202,474 million, up 6.3% year over year (JPY192,430 million for FY2018), mainly because recurring revenues (*5), such as revenues of internet connectivity services, outsourcing services including security related services, cloud computing services, steadily increased respectively. Operating profit was JPY8,225 million, up 36.6% year over year (JPY6,023 million for FY2018). Expansion of each network services and systems integration gross profit absorbed the increase of selling, general and administrative expenses.

Business overview for FY2019 are as follows. In network services area, revenues of Internet connectivity services for enterprise steadily increased, along with expansion of network infrastructure and absorbing increasing traffic. As for mobile-related services, enterprise demands for surveillance cameras and sensor connections were strong, and total mobile-related services revenues for FY2019 increased to JPY46.1 billion from JPY42.0 billion for FY2018. Other than the above, we have been executing MVNE (*6) strategy to gather consumer mobile subscription. Total number of mobile subscription as of March 31, 2020 was 3.03 million, increased by 0.3 million from as of March 31, 2019. Within mobile-related services revenues, full-MVNO (*7) services revenues for FY2019 increased to JPY 1.4 billion from JPY0.7 billion for FY2018, along with progress of IoT usage for various devices at public facilities or factories, together with new service provision of embedded chipSIM (*8). Throughout the year, business inquiries for IoT have been strong, and we accumulated numbers of IoT projects, such as remote monitoring or remote maintenance (*9) for manufacturing industry and agriculture. As for security-related services, existing services such as gateway type (*10) security services and SOC services (*11) drove security-related revenue growth. We also developed and added new services such as "IIJ Managed WAF services (*12)". Security-related recurring revenues for FY2019 were JPY16.4 billion (JPY14.1 billion for FY2018) and total security-related revenues for FY2019, including security-related systems construction revenues, were JPY19.2 billion (JPY16.8 billion for FY2018). In systems integration area, enterprises' demands for systems construction have generally been strong. Systems construction revenue was up 14.7% year over year and systems operation and maintenance revenue was up 11.1% year over year, respectively. As for cloud computing services, a part of which revenue is recognized as systems operation and maintenance, we promoted multi cloud (*13) strategy, linking multi cloud services, in order to meet enterprises' growing demands for cloud migration. Total cloud related revenues for FY2019 increased to JPY23.4 billion from JPY20.1 billion for FY2018. As for infrastructure development, we started operation of a system module type (*14) data center, "Shiroi Data Center Campus (Shiroi DCC)", at the beginning of this fiscal year and gradually expanded our server racks. We intend to sequentially integrate data centers and service infrastructure in eastern Japan area into this Shiroi DCC. As for overseas business, the US and European subsidiaries drove profits and each Asian subsidiaries made business progress. Total revenue of overseas business for FY2019 was JPY8.6 billion and operating profit was JPY0.3 billion (JPY7.7 billion and JPY0.1 billion for FY2018, respectively). New business developments in FY2019 were as follows. Our equity method investee, DeCurret Inc., who is engaged in digital currency business, has launched exchange services in April 2019 and leverage trading services in August 2019. As for contents delivery business, our equity method investee, JOCDN Inc., which is a joint-venture with Japanese prominent commercial broadcasting companies, strengthened its business foundation by raising new capital from WOWOW Inc. and Japan Broadcasting Corporation (NHK) through a third-party allotment. In the healthcare business, "IIJ Electronic contact/communication Note Service (*15)", a multidisciplinary cooperative platform that allows for coordinating comprehensive community care with local medical practitioners, had been introduced to 61 local governments, mainly in Aichi Prefecture, and we promote to expand this service nationwide.

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

As for the numbered words, such as ICT (*1), please refer to the Glossary at page 24 in this document.

Network services

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

Of network services revenue, revenues for Internet connectivity services for enterprise were JPY36,635 million, up 10.4% YoY from JPY33,186 million for FY2018, mainly due to an increase in mobile-related services revenues such as MVNE and IoT type revenues by leveraging our full-MVNO infrastructure. Revenues for Internet connectivity services for consumers were JPY26,055 million, up 3.3% YoY from JPY25,234 million for FY2018. The revenue growth was mainly due to "IIJmio Mobile Service," consumer mobile services. Revenues for WAN services were JPY26,972 million, down 13.0% YoY from JPY30,991 million for FY2018, mainly because of the planned migration projects of large enterprise clients who are moving away from dedicated line to mobile to connect their multiple locations. Revenues for Outsourcing services were JPY32,337 million, up 10.7% YoY from JPY29,215 million for FY2018, mainly due to an increase in security-related services revenues.

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

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

Systems integration

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

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

Cost of SI revenues, including equipment sales was JPY67,584 million, up 12.9% YoY (JPY59,872 million for FY2018). There were an increase in network operation-related costs and an increase in purchasing costs along with increase in our systems construction revenue.

Gross profit was JPY10,810 million, up 10.5% YoY (JPY9,780 million for FY2018) and gross profit ratio was 13.8% (14.0% for FY2018).

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

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

(*) Private cloud refers to a model of cloud computing where IT resources such as storage and services are provisioned over private IT infrastructure for the dedicated use of a single organization.

ATM operation business

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

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

Business segments

In business segments results, revenues for network services and systems integration business segment were JPY200,679 million, up 6.4% year over year (JPY188,634 million for FY2018) and operating profit was JPY6,729 million, up 46.3% year over year (JPY4,599 million for FY2018). As for ATM operation business, revenues were JPY4,081 million, down 1.7% year over year (JPY4,152 million for FY2018) and operating profit was JPY1,645 million, up 1.4% year over year (JPY1,623 million for FY2018).

(2) Capital Expenditures

Capital expenditures (including capital leases) for FY2019 were JPY15,150 million (JPY15,083 million for FY2018). 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 JPY2,500 million in short-term borrowings from Japanese banks in FY2019.

(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 profit as well as revenue growth.

In the short term, we assume the following business of ours would particularly be impacted by COVID-19: 1) ATM operation business revenue decrease due to out of operation of placed bank ATMs along with stores temporary closure, 2) Systems construction (one-time revenue) and related revenue, due to decrease in enterprises investment appetite, 3) Acquisition of consumer mobile subscribers due to large shopping malls and other stores temporary closure. On the other hand, we expect enterprise recurring revenue, such as network services, should continue to increase to some degree amid economic downturn. In the medium and long term, we expect that adoption of network services, cloud computing services, etc. by enterprises would be more advanced among the changes in lifestyle due to the effect of COVID-19. We, IJ Group, will contribute to realize network society in the future, by continuously operating highly reliable internet infrastructure, which now becomes indispensable social infrastructure, developing and providing highly value-added network services.

Continued support from our shareholders would be very much appreciated.

(9) Historical Data of Assets and Income

(JPY thousands except per share data)

(U.S. GAAP)

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

(IFRS)

	Date of transition to IFRS (April 1, 2017)	26th fiscal Year	27th fiscal Year	28th fiscal Year
		FY2017	FY2018	FY2019
Revenues	-	176,233,321	192,430,185	204,473,515
Operating profit	-	6,769,617	6,022,987	8,225,172
Profit attributable to owners of the parent	-	4,422,923	3,520,566	4,006,773
Basic earnings per share	-	JPY98.15	JPY78.11	JPY88.88
Total assets	137,957,682	155,162,729	167,289,196	206,524,260
Equity attributable to owners of the parent	68,036,472	74,528,732	76,271,438	79,075,589
IIJ shareholders' equity per share	JPY1,509.89	JPY1,653.88	JPY1,692.27	JPY1,753.97

(Notes)

1. IIJ's consolidated financial statements for FY2019 in this Business Report are prepared in accordance with International Financial Reporting Standards ("IFRS").
2. IIJ's consolidated financial statements for FY2016, FY2017 and FY2018 in respective IIJ Business Reports are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").
3. Basic net income attributable to IIJ per share or basic earnings per share are calculated based on the weighted-average number of common shares outstanding during each fiscal year.
4. 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.
5. IIJ repurchased 892,200 shares of its own shares in the fiscal year ended March 31, 2017, 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. ("IJ-II")	JPY75,000	100.0%	R&D for the Internet-related technology
IIJ Engineering Inc. ("IJ-EG")	JPY400,000	100.0%	Operation and monitoring of network systems, customer service support and call centers
IIJ Global Solutions Inc. ("IJ-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
IIJ Protech Inc. ("IJ-PRO")	JPY10,000	100.0%	Provision of human resources and outsourcing services for systems operation and service support
IIJ America Inc. ("IJ-A")	USD8,460	100.0%	Provision of network services, systems integration and other related services in the U.S.
IIJ Europe Limited ("IJ-Europe")	GBP143	100.0%	Provision of network services, systems integration and other related service in Europe
IIJ Global Solutions Singapore Pte. Ltd. ("IJ-GS SGP")	SGD5,525	(49.6%) 100.0%	Provision of network services, systems integration and other related service in Singapore
IIJ Global Solutions China Inc. ("IJ-GS China")	USD10,630	(100.0%) 100.0%	Provision of network services, systems integration and other related service in China

(Notes)

1. Ownership percentage in brackets above represents indirect ownership.

2. IJ-PRO has changed its company's name from RYOKOSHA Inc. in January 1, 2020.

As of March 31, 2020, the number of consolidated subsidiaries was 16 and the number of equity-method investees was nine (9).

(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 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
IIJ-PRO	Headquarters	Chiyoda-ku, Tokyo
Trust Networks	Headquarters	Chiyoda-ku, Tokyo
Net Chart	Headquarters	Yokohama-shi
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 FY2019	Change from the end of FY2018
3,583	+230

(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.	8,950,000
Mizuho Bank, Ltd.	8,950,000
Sumitomo Mitsui Banking Corporation	8,950,000
SUMITOMO MITSUI TRUST BANK, LIMITED	700,000

2. Matters Regarding Shares of the Company

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

(2) Number of shares issued and outstanding: 46,734,600 shares (Including treasury stock: 1,650,950 shares)

(3) Number of shareholders at the end of FY2019: 5,782

(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%
The Master Trust Bank of Japan, Ltd. (Trust account)	1,957,400	4.3%
ITOCHU Techno-Solutions Corporation	1,952,000	4.3%
Koichi Suzuki	1,835,300	4.1%
Japan Trustee Services Bank, Ltd (Trust account)	1,669,500	3.7%
The Dai-ichi Life Insurance Company, Limited	1,273,000	2.8%
Japan Trustee Services Bank, Ltd (Trust account 9)	993,900	2.2%
GOLDMAN, SACHS & CO. REG	904,336	2.0%
KS Holdings Inc.	810,000	1.8%

(Notes)

1. Shareholding ratio is calculated by deducting number of treasury stock from total number of shares issued.

2. KS Holdings Inc. is a wholly owned and controlled (indirect) by Mr. Koichi Suzuki.

3. Dalton Investments L.L.C. ("Dalton") filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on May 22, 2019. According to the filing, Dalton owned 2,946,600 shares of common stock of IIJ as of May 17, 2019, representing 6.3% of the total at that point. Dalton also filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on April 30, 2020. According to the filing, Dalton owned 1,975,500 shares of common stock of IIJ as of April 24, 2020, representing 4.2% 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, 2020, therefore, Dalton and their holdings are not included in the above list.

4. 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	88	Common Stock 20,000 shares	JPY259,344	JPY1	From July 15, 2011 to July 14, 2041
#2 Stock Acquisition Rights	July 13, 2012	88	Common Stock 19,600 shares	JPY318,562	JPY1	From July 14, 2012 to July 13, 2042
#3 Stock Acquisition Rights	July 11, 2013	70	Common Stock 15,000 shares	JPY647,000	JPY1	From July 12, 2013 to July 11, 2043
#4 Stock Acquisition Rights	July 10, 2014	101	Common Stock 21,600 shares	JPY422,600	JPY1	From July 11, 2014 to July 10, 2044
#5 Stock Acquisition Rights	July 13, 2015	134	Common Stock 28,400 shares	JPY369,200	JPY1	From July 14, 2015 to July 13, 2045
#6 Stock Acquisition Rights	July 11, 2016	144	Common Stock 30,400 shares	JPY360,000	JPY1	From July 12, 2016 to July 11, 2046
#7 Stock Acquisition Rights	July 14, 2017	155	Common Stock 32,600 shares	JPY337,200	JPY1	From July 15, 2017 to July 14, 2047
#8 Stock Acquisition Rights	July 13, 2018	155	Common Stock 32,600 shares	JPY347,600	JPY1	From July 14, 2018 to July 13, 2048
#9 Stock Acquisition Rights	July 12, 2019	163	Common Stock 32,600 shares	JPY354,600	JPY1	From July 13, 2019 to July 12, 2049

(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 IIJ.
2. IIJ 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) IIJ's Stock Acquisition Rights Granted to and Held by IIJ's Directors or as of the End of FY2019

	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	65	Common Stock 13,000 shares	4 Directors 65
#2 Stock Acquisition Rights	59	Common Stock 11,800 shares	5 Directors 59
#3 Stock Acquisition Rights	53	Common Stock 10,600 shares	6 Directors 53
#4 Stock Acquisition Rights	78	Common Stock 15,600 shares	6 Directors 78
#5 Stock Acquisition Rights	97	Common Stock 19,400 shares	7 Directors 97
#6 Stock Acquisition Rights	102	Common Stock 20,400 shares	7 Directors 102
#7 Stock Acquisition Rights	112	Common Stock 22,400 shares	7 Directors 112
#8 Stock Acquisition Rights	109	Common Stock 21,800 shares	7 Directors 109
#9 Stock Acquisition Rights	108	Common Stock 21,600 shares	7 Directors 108

(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 IIJ's part-time Directors, outside Directors or Company Auditors at the end of FY2018.
3. IIJ 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) IIJ's Stock Acquisition Rights Granted to Employees or Others during FY2019

	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
#9 Stock Acquisition Rights	55	Common Stock 11,000 shares	12 Executive Officers 55

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	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	Naoshi Yoneyama	Division Director of Corporate Planning Division
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, 2020
- Director and Company Auditor who assumed or left office during the fiscal year ended March 31, 2020, as follows:
Assumption of office: On June 27, 2019
Director: Naoshi Yoneyama
Retirement of office: On June 27, 2019
Director: Hideshi Hojo
- 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, 2020)

Name	Title	Principal position
Koichi Kitamura	Senior Executive Officer	Deputy Director of Business Unit
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 Enterprise Business Division 5
Yoshikazu Yamai	Managing Executive Officer	Division Director of Infrastructure Engineering Division
Koichi Maruyama	Managing Executive Officer	Division Director of Global Business Division
Masakazu Tachikui	Managing Executive Officer	Deputy Unit Director of Technology Unit
Seiji Okita	Managing Executive Officer	Division Director of Professional Services Division 1
Yasumitsu Iizuka	Executive Officer	Deputy Division Director of Global Business Division President and CEO of IJ-A
Masami Kawamata	Executive Officer	General Manager of Accounting Department
Akira Sumiya	Executive Officer	General Manager of Compliance Department
Takenori Onishi	Executive Officer	Division Director of Enterprise Business Division 1
Takahiro Ide	Executive Officer	Division Director of Enterprise Business Division 2
Shigeo Yabuki	Executive Officer	Division Director of MVNO Division

(Note)

Koichi Kitamura and Shigeo Yabuki were newly appointed as Executive Officers of the Company on April 1, 2020.

(3) Total Remuneration to Directors and Company Auditors

12 Directors: JPY288,339 thousand (including JPY20,400 thousand for 5 Outside Directors)

4 Company Auditors: JPY33,018 thousand (including JPY17,609 thousand for 3 Outside Company Auditors)

(Notes)

1. The amounts of the above remunerations include JPY35,095 thousand as compensation-type stock options granted to full-time Directors (not including part-time and outside directors) for duties performed during FY2019.
2. 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 all 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 11 of the 12 board of directors meetings held during the fiscal year and made necessary remarks in deliberations.
Director	Shinobu Umino	Attended all of the 12 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 15 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 15 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 10 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 13 of the 15 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:
KPMG AZSA LLC

(Note) Deloitte Touche Tohmatsu LLC, which was the former our Accounting Auditor, retired from the position due to the expiration of its term of office at the end of our 27th ordinary General Meeting of Shareholders held on June 27, 2019.

- (2) Accounting Auditor Remuneration for FY2019

(i) Remuneration for accounting auditor for FY2019	JPY65,000 thousand
(ii) Total cash or proceeds from other assets that should be paid by the Company or its subsidiaries	JPY75,000 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 advisory services on new lease accounting 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 5 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. **Cloud computing**
Cloud computing is a type of service that enables customers to use computing resources over the Internet rather than having local servers or personal devices to handle applications.
3. **IoT**
Internet of Things (IoT) enables not only physical objects but also any “things” connected to network to exchange information automatically.
4. **Remote access**
By using Internet and others, access corporate intranet and/or computers from outside of office, remotely.
5. **Recurring revenues**
Revenues, that business can count on receiving every single month, by continuously provision of services to customers.
6. **MVNE**
Mobile Virtual Network Enabler (MVNE) is a company that provides MVNOs for mobile infrastructure and related services to enable their MVNO businesses.
7. **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.
8. **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.
9. **Remote maintenance**
Through network such as Internet, manage and operate systems remotely.
10. **Gateway type security services**
Network security services that provide necessary security functions for mail and web as gateway.
11. **SOC Service**
SOC Service is a service that our Security Operation Center (SOC) provides; security monitoring and threat analysis of security logs collected from our dedicated security platform 24 hours per day, 365 days per year to help client's network secure.
12. **IIJ Managed WAF Service**
Cloud-based security services that protect companies' web sites against attacks targeting web applications exploits.
13. **Multi cloud**
Cloud systems created by combining different vendors' cloud services.
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 Electronic contact/communication Note Service**
A multidisciplinary cooperative platform that allows for coordinating comprehensive community care with local medical practitioners such as doctors, nurses, care managers, and local government staff.

Consolidated Statements of Financial Position

(As of March 31, 2020)

(Unit: JPY thousands)

Item	Amount	Item	Amount
Assets		Liabilities and Equity	
Current Assets		Liabilities	
Cash and cash equivalents	38,671,734	Current liabilities	
Trade receivables	32,982,448	Trade and other payables	18,287,546
Inventories	2,476,477	Borrowings	15,580,000
Prepaid expenses	9,696,856	Income taxes payable	2,283,707
Other financial assets	2,670,885	Contract liabilities	5,897,674
Other current assets	92,027	Deferred income	88,901
		Other financial liabilities	17,845,194
		Other current liabilities	5,703,623
		Total current liabilities	65,686,645
		Non-current liabilities	
		Borrowings	12,170,000
		Retirement benefit liabilities	3,984,880
		Provisions	753,518
		Contract liabilities	5,991,807
		Deferred income	479,097
		Deferred tax liabilities	136,536
		Other financial liabilities	36,305,781
		Other non-current liabilities	958,879
		Total non-current liabilities	60,780,498
		Total liabilities	126,467,143
		Equity	
		Share capital	25,530,621
		Share premium	36,271,395
		Retained earnings	16,500,993
		Other components of equity	2,669,501
		Treasury shares	△1,896,921
		Total equity attributable to owners of the parent	79,075,589
		Non-controlling interests	981,528
		Total equity	80,057,117
		Total liabilities and equity	206,524,260
Total Current Assets	86,590,427		
Non-current Assets			
Tangible assets	17,399,863		
Right-of-use Assets	50,560,361		
Goodwill	6,082,472		
Intangible assets	18,280,247		
Investments accounted for using the equity method	4,827,287		
Prepaid expenses	7,777,997		
Other investments	9,186,646		
Deferred tax assets	742,857		
Other financial assets	4,706,321		
Other non-current assets	369,782		
Total non-current assets	119,933,833		
Total assets	206,524,260		

Consolidated Statements of Profit or Loss

(From April 1, 2019 through March 31, 2020)

(Unit: JPY thousands)

Item	Amount
Revenues	
Network services	121,998,722
System integration	78,393,435
ATM operation business	4,081,358
Total revenues	204,473,515
Cost of sales	
Cost of network services	(102,092,065)
Cost of systems integration	(67,584,141)
Cost of ATM operation business	(2,203,884)
Total cost of sales	(171,880,090)
Gross Profit	32,593,425
Selling, general and administrative expense	(24,075,759)
Other operating income	223,215
Other operating expenses	(515,709)
Operating Profit	8,225,172
Finance income	349,965
Finance expenses	(610,370)
Share of profit (loss) of investments accounted for using equity method	(805,780)
Profit (loss) before tax	7,158,987
Income tax expense	(2,965,453)
Profit (loss) for the year	4,193,534
Profit (loss) for the year attributable to:	
Owners of the parent	4,006,773
Non-controlling interests	186,761
Total	4,193,534

Consolidated Statements of Changes in Shareholders' Equity

(From April 1, 2019 through March 31, 2020)

(Unit: JPY thousands)

	Owners of the parent's shareholders' equity			
	Share capital	Share premium	Retained earnings	Other components of equity
Balance, March 31, 2019	25,518,712	36,225,775	12,335,035	4,088,704
Cumulative impact of adopting IFRS 16	-	-	(33,728)	-
Comprehensive income				
Profit (loss)	-	-	4,006,773	-
Other comprehensive income	-	-	-	(9,208)
Total comprehensive income	-	-	4,006,773	(9,208)
Transactions with owners				
Issuance of common stock	11,909	(11,895)	-	-
Purchase of treasury stock	-	-	-	-
Dividends paid	-	-	(1,217,082)	-
Stock-based compensation	-	57,515	-	-
Transfer from other components of equity to retained earnings	-	-	1,409,995	(1,409,995)
Total transactions with owners	11,909	45,620	192,913	(1,409,995)
Balance, March 31, 2020	25,530,621	36,271,395	16,500,993	2,669,501

(Unit: JPY thousands)

	Owners of the parent's shareholders' equity		Non-controlling interests	Total equity
	Treasury shares	Total		
Balance, March 31, 2019	(1,896,788)	76,271,438	848,172	77,119,610
Cumulative impact of adopting IFRS 16	-	(33,728)	-	(33,728)
Comprehensive income				
Profit (loss)	-	4,006,773	186,761	4,193,534
Other comprehensive income	-	(9,208)	-	(9,208)
Total comprehensive income	-	3,997,565	186,761	4,184,326
Transactions with owners				
Issuance of common stock	-	14	-	14
Purchase of treasury stock	(133)	(133)	-	(133)
Dividends paid	-	(1,217,082)	(53,405)	(1,270,487)
Stock-based compensation	-	57,515	-	57,515
Transfer from other components of equity to retained earnings	-	-	-	-
Total transactions with owners	(133)	(1,159,686)	(53,405)	(1,213,091)
Balance, March 31, 2020	(1,896,921)	79,075,589	981,528	80,057,117

Non-Consolidated Balance Sheet

As of March 31, 2020

(Unit: JPY thousands)

Assets		Liabilities and Shareholders' equity	
Item	Amount	Item	Amount
[Current assets]	69,809,932	[Current liabilities]	50,943,229
Cash and bank deposits	24,785,230	Accounts payable	2,897,308
Accounts receivable	28,698,998	Short-term borrowings	13,750,000
Investment in leases	1,913,632	Short-term borrowings from affiliated Companies	3,450,000
Merchandise	265,204	Long-term borrowings – Current portion	1,830,000
Work in process	711,559	Accounts payable – other	11,177,683
Supplies	1,435,957	Capital lease obligations – current	7,380,557
Prepaid expenses	10,012,209	Accrued expense	497,183
Accounts receivable – other	1,954,939	Accounts payable – fixed assets	1,867,963
Short-term loans to affiliated Companies	115,071	Income taxes payable	1,964,847
Other current assets	102,183	Consumption taxes payable	1,058,964
Allowance for doubtful accounts	(185,050)	Deposits received	104,640
		Advances received	206,653
		Deferred income	4,677,180
		Other current liabilities	80,251
[Fixed assets]	82,870,651	[Long-term liabilities]	33,188,987
<Property and equipment>	28,668,760	Long-term borrowings	12,170,000
Land	2,055,099	Deferred income – noncurrent	4,773,528
Buildings	1,388,509	Accounts payable – noncurrent	661,154
Leasehold improvements	6,530,122	Capital lease obligations – noncurrent	11,449,649
Construction other than buildings	1,837,207	Asset retirement obligations	701,375
Data communication equipment and office equipment	10,853,107	Long-term borrowings from affiliated Companies	30,990
Assets under capital leases	41,514,145	Accrued pension and severance cost	3,200,531
Construction in progress	1,296,836	Accrued directors' and company auditors' retirement benefits	201,760
Accumulated depreciation	(36,806,265)		
<Intangible assets>	17,693,547	Total liabilities	84,132,216
Goodwill	968,412	[Shareholders' equity]	65,323,929
Customer relationships	817,244	<Capital stock>	22,991,399
Telephone rights	2,241	<Capital surplus>	9,735,347
Software	15,514,650	Legal capital surplus	9,712,083
Assets under capital leases	391,000	Other capital surplus	23,264
<Investments and other assets>	36,508,344	<Earned surplus>	34,482,444
Investments in securities	5,749,695	Legal retained earnings	502,473
Money held in trust	1,896,616	Other retained earnings	33,979,971
Investments in affiliated companies	17,403,620	Reserve for advanced depreciation of fixed assets	358,343
Guarantee deposits	3,157,878	Retained earnings brought forward	33,621,628
Long-term prepaid expenses	7,251,897	<Treasury stock>	(1,885,261)
Claims against insolvencies	4,696	[Valuation and translation adjustment]	2,834,803
Long-term loans to affiliated companies	44,212	Net unrealized gains on securities	2,834,803
Deferred tax assets	571,466	[Subscription rights to shares]	389,635
Other investments	451,338	Stock acquisition rights	389,635
Allowance for doubtful accounts	(23,074)	Total Shareholders' equity	68,548,367
Total assets	152,680,583	Total liabilities and shareholders' equity	152,680,583

Non-Consolidated Statement of Income

(From April 1, 2019 through March 31, 2020)

(Unit: JPY thousands)

Item	Amount	Total
[Total revenues]		171,844,242
[Total costs of revenues]		148,329,890
Gross margin		23,514,352
[Total sales and administrative expense]		20,019,587
Operating income		3,494,765
[Non-operating income]		
Interest income	4,879	
Dividend income	1,128,138	
Commissions received	45,959	
Royalty charges received	3,211	
Gains on investments on silent partnership	468,443	
Other non-operating income	156,368	1,806,998
[Non-operating expenses]		
Interest expense	411,325	
Foreign exchange loss	34,073	
Provision of allowance for doubtful accounts	7,411	
Other non-operating expenses	23,621	476,430
Ordinary income		4,825,333
[Extraordinary income]		
Gains on sales of investments in securities	2,398,780	
Gains on sales of fixed assets	2,387	2,401,167
[Extraordinary loss]		
Losses on disposal of fixed assets	346,204	
Loss on valuation of investment securities	306,661	
Other extraordinary loss	1,750	654,615
Income before income taxes		6,571,885
Income taxes – current		2,055,239
Income taxes – deferred		(317,105)
Net income		4,833,751

Non-Consolidated Statement of changes in Shareholders' Equity

(From April 1, 2019 through March 31, 2020)

(Unit: JPY thousands)

(Unit: \$'s thousands)

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

	Shareholders' Equity		Valuation and Translation Adjustments	Subscription Rights to Shares	Total Shareholders' Equity
	Treasury Stock	Total Shareholders' Equity	Net Unrealized Holding Gains(losses) on Securities		
Balance, March 31, 2018	(1,885,128)	61,683,576	4,512,426	355,923	66,551,925
Changes					
Issuance of common stock upon exercise of stock options	-	23,817	-	-	23,817
Payment of dividends	-	(1,217,082)	-	-	(1,217,082)
Provision of reserve for advanced depreciation of fixed assets	-	-	-	-	-
Reversal of reserve for advanced depreciation of fixed assets	-	-	-	-	-
Net income	-	4,833,751	-	-	4,833,751
Purchase of treasury stock	(133)	(133)	-	-	(133)
Net changes other than shareholders' equity	-	-	(1,677,623)	33,712	(1,649,911)
Total changes	(133)	3,640,353	(1,677,623)	33,712	1,996,442
Balance, March 31, 2019	(1,885,261)	65,323,929	2,834,803	389,635	68,548,367

Independent Auditor's Report

May 22, 2020

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

KPMG AZSA LLC
Tokyo Office

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

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

Opinion

We have audited the consolidated financial statements, which comprise the consolidated statements of financial position, the consolidated statements of profit or loss, the consolidated statements of changes in shareholders' equity and the related notes ("the Consolidated Financial Statements") of Internet Initiative Japan Inc. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), as at March 31, 2020 and for the year from April 1, 2019 to March 31, 2020 in accordance with Article 444-4 of the Companies Act.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position and the results of operations of the Group for the period, for which the consolidated financial statements were prepared, in accordance with the second sentence of Article 120-1 of the Ordinance of Companies Accounting that permits the Company to prepare consolidated financial statements with the omission of a part of the disclosures required under International Financial Reporting Standards.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 2. Change of Significant accounting policies, the Company has adopted IFRS 16 "Leases" from the beginning of the period (April 1, 2019). Our opinion is not modified in respect of this matter.

Responsibilities of Management, Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the second sentence of Article 120-1 of the Ordinance of Companies Accounting that permits the Company to prepare consolidated financial statements with the omission of a part of the disclosures required under International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with the second sentence of Article 120-1 of the Ordinance of Companies Accounting that permits the Company to prepare consolidated financial statements with the omission of a part of the disclosures required under International Financial Reporting Standards.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with the second sentence of Article 120-1 of the Ordinance of Companies Accounting that permits the Company to prepare consolidated financial statements with the omission of a part of the disclosures required under International Financial Reporting Standards, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report on the consolidated financial statements as required by the Companies Act.

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

Independent Auditor's Report

May 22, 2020

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

KPMG AZSA LLC
Tokyo Office

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

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

Opinion

We have audited the financial statements, which comprise the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in shareholders' equity and the related notes, and the supplementary schedules ("the Financial Statements and Others") of Internet Initiative Japan Inc. ("the Company") as at March 31, 2020 and for the year from April 1, 2019 to March 31, 2020 in accordance with Article 436-2-1 of the Companies Act.

In our opinion, the financial statements and others referred to above present fairly, in all material respects, the financial position and the results of operations of the Company for the period, for which the financial statements and others were prepared, in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements and Others

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

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

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

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

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

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

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

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report on the financial statements and others as required by the Companies Act.

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

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 28th fiscal year from April 1, 2019 to March 31, 2020. 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 statements of financial position, consolidated statements of profit or loss, consolidated statements of changes in shareholders' 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 KPMG AZSA 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 KPMG AZSA LLC, the Independent Auditor, are appropriate.

May 25, 2020

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.