

IIJ Announces its First Six Months Financial Results
for the Fiscal Year Ending March 31, 2020

Tokyo, November 8, 2019 - Internet Initiative Japan Inc. (“IIJ”, TSE:3774) today announced its first six months consolidated financial results for the fiscal year ending March 31, 2020 (“1H19”, from April 1, 2019 to September 30, 2019) under International Financial Reporting Standards (IFRS).¹

Highlights of Financial Results for 1H19

	Results		Target
Total revenues	JPY99.2 billion	up 8.8% YoY ²	JPY97.7 billion
Gross profit	JPY15.2 billion	up 6.7% YoY*	JPY14.2 billion
Operating profit	JPY3.4 billion	up 2.0% YoY*	JPY2.2 billion
Net Profit ³	JPY1.8 billion	down 16.2% YoY*	JPY0.6 billion

* Considering normalized cost,⁴ actual year over year growth of gross profit is up 14.6%, operating profit is up 45.7% and profit for the period attributable to owners of the parent is up 23.6%.

Financial Targets for FY2019 (revised on November 8, 2019)⁵

	New Target		Original Target
Total revenues	JPY204.0 billion	up 6.0% YoY	JPY204.0 billion
Operating profit	JPY7.6 billion	up 26.2% YoY	JPY7.0 billion
Net Profit	JPY3.8 billion	up 7.9% YoY	JPY3.5 billion

* Interim and year-end cash dividend target remain unchanged. (Interim: JPY13.50 per dividend, Annual: JPY27.00 per dividend)

Overview of 1H19 Financial Results and Business Outlook

“Under favorable business environment, we effectively executed business strategies and continuously focused on capturing Japanese enterprises’ IT needs and we believe such efforts were translated to strong 1H19 financial results: total revenue and operating profit exceeded our target. Enterprise recurring revenue⁶ strongly grew by 10.2% year over year by accumulating orders of various network services, such as security and mobile, as well as systems operation and maintenance. As for systems integration (SI), demands continued to be strong and gross margin continued to expand, up 13.3% from 1H18. Strong revenue and gross margin growth of both network services and SI absorbed total cost increase and led to operating profit growth. As a result of this good business cycle, we revised our full-year financial targets upwards based on our assumption that favorable IT demands to continue,” said Koichi Suzuki, Founder, Chairman and CEO of IIJ.

¹ Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with International Financial Reporting Standards (IFRS), unaudited and consolidated.

² YoY is an abbreviation for year over year change.

³ Net Profit is “Profit for the period attributable to owners of the parent.”

⁴ Normalized profit is calculated by allocating JPY2.05 billion of additional cost recorded in 4Q18, as a result of the difference between our estimate (14% decrease) and the actual revision (5% decrease) of NTT Docomo’s mobile interconnectivity unit charge to the attributable each quarter of FY2018. Please refer page 5 of our presentation material for 1H19 earnings which explains this year over year operating profit in details.

⁵ For details on our upward revision for FY2019 financial target, please refer to our press release titled “Notice Regarding Differences between Financial Targets and Actual Results for the First Half of the Fiscal Year Ending March 2020 and Revision of the Full-Year Financial Targets” which was announced on November 8, 2019.

⁶ The enterprise recurring revenue described here is the sum of Internet connectivity for enterprises (excluding MVNE), outsourcing, and systems operation and maintenance. It does not include WAN revenues, which decreased year over year due to existing large clients’ migration transaction from WAN to mobile.

“Following FY2018, we continued to enhance our comprehensive network service line-ups ranging from Internet, mobile, security, and cloud throughout 1H19. For mobile, we introduced new services such as eSIM by leveraging our full-MVNO infrastructure. To strengthen our IoT business foundation, we have made business alliances with several device manufactures including Advantech, one of the top global industrial computer manufactures. We continuously prepare ourselves for advanced IoT usages and stronger demands which should rise in the middle term from Japanese enterprises. As for DeCurret and JOCDN, our newly established affiliated companies, they both raised capital by inviting new enterprise shareholders and have been executing their business strategy on schedule,” said Eijiro Katsu, President and COO of IJ.

Regarding the retroactively adjusted 1H19 financial results

As an MVNO, we purchase mobile infrastructure mainly from NTT Docomo Inc. The unit price for mobile interconnectivity charge is revised every year and has been decreasing. Because the unit price is fixed at the end of our fiscal year, we apply our own estimate of unit price decrease rate to calculate mobile infrastructure cost throughout a fiscal year. Difference amount between our estimate and revised charge is recorded as a one-time cost or reduction in cost in 4Q.

In FY2018, the difference between our estimate and the revised was large and we recorded JPY2.05 billion of cost in 4Q18. Essentially this one-time additional cost should have been allocated to attributable each quarter of FY2018. Adjusted figures by the result of such allocation (“Adjusted”) are as follows:

	1Q18	2Q18	3Q18	4Q18
	JPY billion	JPY billion	JPY billion	JPY billion
Accounting period	—	—	—	2.05
Cost allocated to attributable service period	0.48	0.50	0.52	0.55

Adjusted 1H18 results and Adjusted YoY changes are as follows:

Operating Results

	Adjusted 1H18	1H19	Adjusted YoY change
	JPY millions	JPY millions	(%)
Cost of Network services revenue	(49,485)	(51,153)	3.4
Gross profit of Network services	8,673	10,051	15.9
Total gross profit	13,262	15,200	14.6
Operating profit	2,300	3,352	45.7
Profit before tax	2,445	3,043	24.5
Profit for the period	1,506	1,858	23.4
Profit for the period attributable to owners of the parent	1,420	1,756	23.6
Comprehensive income for the period	1,715	2,562	49.4

Segment Results

	Adjusted 1H18	1H19	Adjusted YoY change
	JPY millions	JPY millions	(%)
Operating profit (consolidated)	2,300	3,352	45.7
Network service and SI business	1,607	2,557	59.1

1H19 Financial Results Summary

We have adopted IFRS 16 “Leases” (hereinafter “IFRS 16”) from 1Q19. As for the details, please refer to “Changes in Accounting Policies” written in the page 18 of this document.

Operating Results Summary

	1H18	1H19	YoY Change
	JPY millions	JPY millions	%
Total revenues	91,224	99,220	8.8
Network services	58,158	61,204	5.2
Systems integration (SI)	30,995	35,916	15.9
ATM operation business	2,071	2,100	1.4
Total costs	(76,977)	(84,020)	9.1
Network services	(48,500)	(51,153)	5.5
Systems integration (SI)	(27,310)	(31,742)	16.2
ATM operation business	(1,167)	(1,125)	(3.6)
Total gross profit	14,247	15,200	6.7
Network services	9,658	10,051	4.1
Systems integration (SI)	3,685	4,174	13.3
ATM operation business	904	975	7.9
SG&A, R&D, and other operating income (expenses)	(10,962)	(11,848)	8.1
Operating profit	3,285	3,352	2.0
Profit before tax	3,430	3,043	(11.3)
Profit for the period attributable to owners of the parent	2,095	1,756	(16.2)

(Notes)

- We have adopted IFRS from the filing of our FY2018 annual report “Yuka-shoken-houkokusho.” The reporting period of foreign consolidated subsidiaries are different from the period under the Generally Accepted Accounting Principles in the United States (U.S. GAAP). Along with the change, the figures for 1H18 are different from 1H18 results disclosed in the past.
- Systems integration includes equipment sales.

Segment Results Summary

	1H18	1H19
	JPY millions	JPY millions
Total revenues	91,224	99,220
Network services and SI business	89,349	97,265
ATM operation business	2,071	2,100
Elimination	(196)	(145)
Operating profit	3,285	3,352
Network service and SI business	2,592	2,557
ATM operation business	807	869
Elimination	(114)	(74)

We have omitted segment analysis because most of our revenues are dominated by network services and systems integration (SI) business.

1H19 Revenues and Income

Revenues

Total revenues were JPY99,220 million, up 8.8% YoY (JPY91,224 million for 1H18).

Network services revenue was JPY61,204 million, up 5.2% YoY (JPY58,158 million for 1H18).

Revenues for Internet connectivity services for enterprise were JPY18,075 million, up 13.3% YoY from JPY15,955 million for 1H18, mainly due to an increase in mobile-related services revenues such as MVNE and M2M/IoT type revenues by leveraging our full-MVNO infrastructure.

Revenues for Internet connectivity services for consumers were JPY12,997 million, up 3.3% YoY from JPY12,585 million for 1H18. The revenue growth was mainly due to “IIJmio Mobile Service,” consumer mobile services.

Revenues for WAN services were JPY14,342 million, down 7.3% YoY from JPY15,473 million for 1H18, mainly

because of the planned migration projects of large enterprises clients who are moving away from dedicated line to mobile to connect their multiple locations.

Revenues for Outsourcing services were JPY15,790 million, up 11.6% YoY from JPY14,145 million for 1H18, mainly due to an increase in security-related services revenues.

Network Services Revenues Breakdown

	1H18	1H19	YoY Change
	JPY millions	JPY millions	%
Total network services	58,158	61,204	5.2
Internet connectivity services (enterprise)	15,955	18,075	13.3
IP services (including data center connectivity services)	5,212	5,314	1.9
IIJ Mobile services	9,162	11,133	21.5
IIJ Mobile MVNO Platform Service	6,927	8,234	18.9
Others	1,581	1,628	3.0
Internet connectivity services (consumer)	12,585	12,997	3.3
IIJmio Mobile Service	11,216	11,710	4.4
Others	1,369	1,287	(6.0)
WAN services	15,473	14,342	(7.3)
Outsourcing services	14,145	15,790	11.6

Number of Contracts and Subscription for Connectivity Services

	As of September 30, 2018	As of September 30, 2019	YoY Change
Internet connectivity services (enterprise)	1,561,978	1,827,220	265,242
IP service (greater than or equal to 1Gbps)	735	743	8
IP service (less than 1Gbps)	1,303	1,240	(63)
IIJ Mobile Services	1,483,479	1,741,824	258,345
IIJ Mobile MVNO Platform Service	936,067	1,090,569	154,502
Others	76,461	83,413	6,952
Internet connectivity services (consumer)	1,395,648	1,408,665	13,017
IIJmio Mobile Service	1,048,136	1,075,758	27,622
Others	347,512	332,907	(14,605)
Total contracted bandwidth (Gbps)	3,548.0	4,454.0	906.0

(Notes)

1. Numbers in the table above show number of contracts except for "IIJ Mobile Services (enterprise)" and "IIJmio Mobile Service" which show number of subscriptions.
2. The numbers of IP service contracts includes the numbers of IIJ data center connectivity service contracts.
3. Total contracted bandwidth is calculated by multiplying number of contracts under "Internet connectivity services (enterprise)" except for "IIJ Mobile Services" and the contracted bandwidths of the services respectively.
4. Along with our change in accounting principle from the U.S. GAAP to IFRS from the filing of our FY2018 annual report "Yuka-shoken-houkokusho," the reporting period of foreign consolidated subsidiaries are different. As a result, the number of our Internet connectivity service contracts and total contracted bandwidth described above are different from the past disclosure.

SI revenues, including equipment sales were JPY35,916 million, up 15.9% YoY (JPY30,995 million for 1H18).

Systems construction and equipment sales revenue, a one-time revenue, was JPY13,754 million, up 27.5% YoY (JPY10,790 million for 1H18). In addition to an increase in usual revenue of completed project, we recognized JPY1.3 billion of revenue along with construction progresses. Systems operation and maintenance revenue, a recurring revenue, was JPY22,162 million, up 9.7% YoY (JPY20,205 million for 1H18), mainly due to continued accumulation of systems operation orders as well as an increase in private cloud services' revenues.

Orders received for SI and equipment sales totaled JPY36,351 million, up 4.1% YoY (JPY34,928 million for 1H18); orders received for systems construction and equipment sales were JPY14,610 million, almost the same as JPY14,694 million for 1H18, and orders received for systems operation and maintenance were JPY21,741 million, up 7.4% YoY (JPY20,234 million for 1H18).

Order backlog for SI and equipment sales as of September 30, 2019 amounted to JPY51,550 million, up 2.0% YoY (JPY50,529 million as of September 30, 2018); order backlog for systems construction and equipment sales was JPY8,696 million, down 20.7% YoY (JPY10,969 million as of September 30, 2018) and order backlog for systems operation and maintenance was JPY42,853 million, up 8.3% YoY (JPY39,559 million as of September 30, 2018).

ATM operation business revenues were JPY2,100 million, up 1.4% YoY (JPY2,071 million for 1H18).

Cost of sales

Total cost of sales was JPY84,020 million, up 9.1% YoY (JPY76,977 million for 1H18 and JPY77,962 million as Adjusted) and Adjusted YoY change was up 7.8%.

Cost of network services revenue was JPY51,153 million, up 5.5% YoY (JPY48,500 million for 1H18 and JPY49,485 million as Adjusted) and Adjusted YoY change in cost of network services revenue was up 3.4% YoY. 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. Gross profit was JPY10,051 million, up 4.1% YoY (JPY9,658 million for 1H18 and JPY8,673 million as Adjusted), Adjusted YoY change in gross profit was up 15.9%, and gross profit ratio was 16.4% (16.6% for 1H18 and 14.9% as Adjusted).

Cost of SI revenues, including equipment sales was JPY31,742 million, up 16.2% YoY (JPY27,310 million for 1H18). There were an increase in purchasing costs along with increase in our systems construction revenue and an increase in network operation-related costs. Gross profit was JPY4,174 million, up 13.3% YoY (JPY3,685 million for 1H18) and gross profit ratio was 11.6% (11.9% for 1H18).

Cost of ATM operation business revenues was JPY1,125 million, down 3.6% YoY (JPY1,167 million for 1H18). Gross profit was JPY975 million (JPY904 million for 1H18) and gross profit ratio was 46.4% (43.7% for 1H18).

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

Selling, general and administrative expenses, which include research and development expenses, totaled JPY11,901 million, up 8.3% YoY (JPY10,992 million for 1H18), mainly due to increases in personnel-related expenses and sales commission expenses.

Other operating income was JPY159 million (JPY79 million for 1H18).

Other operating expenses was JPY106 million (JPY49 million for 1H18), mainly due to disposal loss on fixed assets.

Operating profit

Operating profit was JPY3,352 million (JPY3,285 million for 1H18 and JPY2,300 million as Adjusted), up 2.0% YoY and Adjusted YoY change was up 45.7%.

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

Finance income was JPY119 million, compared to JPY390 million for 1H18. It included dividend income of JPY61 million (JPY75 million for 1H18).

Finance expense was JPY295 million, compared to JPY222 million for 1H18. It included interest expenses of JPY279 million (JPY214 million for 1H18).

Share of loss of investments accounted for using equity method was JPY133 million (compared to loss of JPY23 million for 1H18), mainly due to our share of loss in DeCurret Inc. of JPY685 million and gains on changes in equity of JPY376 million arisen from issuance of common stock of DeCurret Inc.

Profit before tax

Profit before tax was JPY3,043 million (JPY3,430 million for 1H18 and JPY2,445 million as Adjusted), down 11.3% YoY and Adjusted YoY change was up 24.5%.

Profit for the period

Income tax expense was JPY1,185 million (JPY1,249 million for 1H18). As a result, profit for the period was JPY1,858 million (JPY2,181 million for 1H18 and JPY1,506 million as Adjusted), down 14.8% YoY and Adjusted YoY change was up 23.4%.

Profit for the period attributable to non-controlling interests was JPY102 million (JPY86 million for 1H18) mainly related to net income of Trust Networks Inc. As a result, profit for the period attributable to owners of parent was JPY1,756 million (JPY2,095 million for 1H18 and JPY1,420 million as Adjusted), down 16.2% YoY and Adjusted YoY change was up 23.6%.

Financial Position as of September 30, 2019

As of September 30, 2019, the balance of total assets was JPY201,972 million, increased by JPY34,683 million from the balance as of March 31, 2019 of JPY167,289 million.

As of September 30, 2019, the balance of current assets was JPY79,574 million, increased by JPY602 million from the balance as of March 31, 2019 of JPY78,791 million. The major breakdown of fluctuation and balance of current assets was: an increase in cash and cash equivalents by JPY2,079 million to JPY34,036 million, a decrease in trade receivables by JPY3,164 million to JPY30,212 million, a decrease in inventories by JPY1,360 million to JPY2,044 million and an increase in prepaid expenses by JPY1,720 million to JPY10,242 million.

As of September 30, 2019, the balance of non-current assets was JPY122,398 million, increased by JPY34,081 million from the balance as of March 31, 2019 of JPY88,318 million. Along with the adoption of IFRS 16 from the first quarter of the fiscal year ending March 31, 2020, right-of-use assets were newly accounted. The breakdown of right-of-use assets was: JPY33,942 million of assets under operating lease contracts which was newly recognized, mainly related to our office and data centers lease contracts, and JPY15,827 million of assets under finance lease contracts, most of which were transferred from tangible and intangible assets. Other investments was JPY10,019 million, decreased by JPY1,384 million mainly due to sales of our portion of holding equity securities.

As of September 30, 2019, the balance of current liabilities was JPY62,708 million, increased by JPY9,804 million from the balance as of March 31, 2019 of JPY52,904 million. Trade and other payables decreased by JPY4,916 million to JPY17,046 million. Borrowings increased by JPY3,195 million to JPY15,945 million. The breakdown of increase in the borrowings was: an increase by JPY3,030 million in short-term borrowings, a decrease by JPY750 million due to payment of long-term borrowings, and an increase by JPY915 million due to a transfer from non-current liabilities. Other financial liabilities increased by JPY10,791 million to JPY17,822 million. The increase included JPY10,254 million related to operating lease recognized along with the adoption of IFRS 16.

As of September 30, 2019, the balance of non-current liabilities was JPY60,249 million, increased by JPY22,984 million from the balance as of March 31, 2019 of JPY37,265 million. Long-term borrowings decreased by JPY915 million to JPY13,085 million due to a transfer to current portion. Other financial liabilities increased by JPY23,982 million to JPY36,133 million. The increase included JPY23,749 million related to operating lease recognized along with the adoption of IFRS 16.

As of September 30, 2019, the balance of equity attributable to owners of parent was JPY78,117 million, increased by JPY1,846 million from the balance as of March 31, 2019 of JPY76,271 million. Ratio of owners' equity to total assets was 38.7% as of September 30, 2019.

1H19 Cash Flows

Cash and cash equivalents as of September 30, 2019 were JPY34,036 million (JPY27,885 million as of September 30, 2018).

Net cash provided by operating activities for 1H19 was JPY13,394 million (net cash provided by operating activities of JPY13,871 million for 1H18). There were profit before tax of JPY3,043 million, depreciation and amortization of JPY14,300 million, including JPY6,160 million of depreciation of right-of-use operating lease assets newly recognized by the adoption of IFRS 16, and income taxes paid of JPY1,330 million. Regarding changes in operating assets and liabilities, it was net cash out of JPY2,947 million mainly due to payment of trade and other payables and prepaid expenses in relation to upfront payment for software licenses and maintenance cost for service facilities, while there were cash in by collecting trade receivables and by selling inventories.

Net cash used in investing activities for 1H19 was JPY4,087 million (net cash used in investing activities of JPY3,507 million for 1H18), mainly due to payments for purchase of tangible assets of JPY4,788 million (JPY3,111 million for 1H18), payments for purchase of intangible assets, such as software, of JPY2,422 million (JPY2,510 million for 1H18), and proceeds from sales of other investments, such as equity securities, of JPY2,673 million.

Net cash used in financing activities for 1H19 was JPY7,139 million (net cash used in financing activities of JPY3,902 million for 1H18), mainly due to proceeds from short-term borrowings of JPY3,030 million, payments of other financial liabilities of JPY10,230 million (JPY3,502 million for 1H18), including JPY6,149 million of payment of operating lease obligations newly recognized by the adoption of IFRS 16.

Future Prospects including FY2019 Financial Targets

Financial targets for FY2019 disclosed on May 14, 2019 have been revised. For details, please refer to our press release “Notice Regarding Differences between Financial Targets and Actual Results for the First Half of the Fiscal Year Ending March 2020 and Revision of the Full-Year Financial Targets” which was announced today, November 8, 2019.

Presentation

Presentation materials will be posted on our web site (<https://www.ij.ad.jp/en/ir/>) on November 8, 2019.

About Internet Initiative Japan Inc.

Founded in 1992, IJ is one of Japan's leading Internet-access and comprehensive network solutions providers. IJ and its group companies provide total network solutions that mainly cater to high-end corporate customers. IJ's services include high-quality Internet connectivity services, mobile services, security services, cloud computing services, and systems integration. Moreover, IJ operates one of the largest Internet backbone networks in Japan that is connected to the United States, the United Kingdom and Asia. IJ listed on the First Section of the Tokyo Stock Exchange in 2006.

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Disclaimer:

Statements made in this press release regarding IJ's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding revenues and operating and net profitability, are subject to various risks, uncertainties and other factors that could cause IJ's actual results to differ materially from those contained in any forward-looking statement.

Condensed Consolidated Statements of Financial Position (Unaudited)

	March 31, 2019	September 30, 2019
	Thousands of yen	Thousands of yen
Assets		
Current Assets		
Cash and cash equivalents	31,957,789	34,036,458
Trade receivables	33,375,808	30,211,635
Inventories	3,403,192	2,043,569
Prepaid expenses	8,522,554	10,242,295
Other financial assets	1,581,212	2,892,338
Other current assets	130,900	147,530
Total Current Assets	<u>78,971,455</u>	<u>79,573,825</u>
Non-current Assets		
Tangible assets	33,136,059	19,189,686
Right-of-use Assets	—	49,768,939
Goodwill	6,082,472	6,082,472
Intangible assets	18,818,707	18,333,822
Investments accounted for using the equity method	4,837,867	5,121,984
Prepaid expenses	8,037,298	8,287,852
Other investments	11,402,365	10,018,633
Deferred tax assets	176,587	329,188
Other financial assets	5,293,547	4,925,548
Other non-current assets	532,839	340,158
Total non-current assets	<u>88,317,741</u>	<u>122,398,282</u>
Total assets	<u><u>167,289,196</u></u>	<u><u>201,972,107</u></u>

	March 31, 2019	September 30, 2019
	Thousands of yen	Thousands of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade and other payables	21,962,239	17,045,749
Borrowings	12,750,000	15,945,000
Income taxes payable	1,139,460	1,747,197
Deferred income	5,461,813	5,799,841
Other financial liabilities	7,031,690	17,822,375
Other current liabilities	4,559,005	4,348,225
Total current liabilities	<u>52,904,207</u>	<u>62,708,387</u>
Non-current liabilities		
Borrowings	14,000,000	13,085,000
Retirement benefit liabilities	3,488,501	3,612,935
Provisions	731,257	732,723
Deferred income	5,518,492	5,614,081
Deferred tax liabilities	421,396	192,934
Other financial liabilities	12,151,346	36,133,307
Other non-current liabilities	954,387	878,335
Total non-current liabilities	<u>37,265,379</u>	<u>60,249,315</u>
Total liabilities	<u>90,169,586</u>	<u>122,957,702</u>
Equity		
Share capital	25,518,712	25,530,621
Share premium	36,225,775	36,242,495
Retained earnings	12,335,035	14,992,750
Other components of equity	4,088,704	3,248,309
Treasury shares	(1,896,788)	(1,896,788)
Total equity attributable to owners of the parent	<u>76,271,438</u>	<u>78,117,387</u>
Non-controlling interests	848,172	897,018
Total equity	<u>77,119,610</u>	<u>79,014,405</u>
Total liabilities and equity	<u>167,289,196</u>	<u>201,972,107</u>

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Six Months Ended September 30, 2018	Six Months Ended September 30, 2019
	Thousands of yen	Thousands of yen
Revenues		
Network services	58,158,157	61,203,901
System integration	30,994,454	35,915,608
ATM operation business	2,071,290	2,100,026
Total revenues	<u>91,223,901</u>	<u>99,219,535</u>
Cost of sales		
Cost of network services	(48,500,372)	(51,153,590)
Cost of systems integration	(27,309,569)	(31,741,986)
Cost of ATM operation business	(1,167,007)	(1,124,746)
Total cost of sales	<u>(76,976,948)</u>	<u>(84,020,322)</u>
Gross Profit	14,246,953	15,199,213
Selling, general and administrative expense	(10,992,414)	(11,900,630)
Other operating income	79,015	159,068
Other operating expenses	(48,740)	(105,701)
Operating Profit	<u>3,284,814</u>	<u>3,351,950</u>
Finance income	389,654	118,609
Finance expenses	(221,334)	(294,150)
Share of profit (loss) of investments accounted for using equity method	(23,234)	(133,121)
Profit (loss) before tax	<u>3,429,900</u>	<u>3,043,288</u>
Income tax expense	(1,248,852)	(1,184,935)
Profit (loss) for the year	<u><u>2,181,048</u></u>	<u><u>1,858,353</u></u>
Profit (loss) for the year attributable to:		
Owners of the parent	2,095,091	1,756,102
Non-controlling interests	85,957	102,251
Total	<u><u>2,181,048</u></u>	<u><u>1,858,353</u></u>
Earnings per share		
Basic earnings per share (yen)	46.48	38.96
Diluted earnings per share (yen)	46.31	38.79

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2019
	Thousands of yen	Thousands of yen
Revenues		
Network services	29,447,133	30,524,316
System integration	15,862,233	17,806,404
ATM operation business	1,076,090	1,059,971
Total revenues	<u>46,385,456</u>	<u>49,390,691</u>
Cost of sales		
Cost of network services	(24,675,282)	(25,492,608)
Cost of systems integration	(13,709,911)	(15,522,606)
Cost of ATM operation business	(584,102)	(557,828)
Total cost of sales	<u>(38,969,295)</u>	<u>(41,573,042)</u>
Gross Profit	7,416,161	7,817,649
Selling, general and administrative expense	(5,470,662)	(5,858,938)
Other operating income	19,439	46,409
Other operating expenses	(31,797)	(34,129)
Operating Profit	<u>1,933,141</u>	<u>1,970,991</u>
Finance income	241,797	97,173
Finance expenses	(176,412)	(148,227)
Share of profit (loss) of investments accounted for using equity method	6,456	(245,328)
Profit (loss) before tax	<u>2,004,982</u>	<u>1,674,609</u>
Income tax expense	(738,238)	(642,010)
Profit (loss) for the year	<u><u>1,266,744</u></u>	<u><u>1,032,599</u></u>
Profit (loss) for the year attributable to:		
Owners of the parent	1,221,348	979,589
Non-controlling interests	45,396	53,010
Total	<u><u>1,266,744</u></u>	<u><u>1,032,599</u></u>
Earnings per share		
Basic earnings per share (yen)	27.10	21.73
Diluted earnings per share (yen)	26.99	21.63

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Six Months Ended September 30, 2018	Six Months Ended September 30, 2019
	Thousands of yen	Thousands of yen
Profit (loss)	2,181,048	1,858,353
Other comprehensive income, net of tax		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	124,285	817,704
Total items that will not be reclassified to profit or loss	124,285	817,704
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	103,333	(117,773)
Financial assets measured at fair value through other comprehensive income	(1,315)	974
Share of other comprehensive income of investments accounted for using equity method	(17,837)	2,493
Total of items that may be reclassified to profit or loss	84,181	(114,306)
Total other comprehensive income, net of tax	208,466	703,398
Other comprehensive income	2,389,514	2,561,751
Other comprehensive income attributable to:		
Owners of the parent	2,303,557	2,459,500
Non-controlling interest	85,957	102,251
Other comprehensive income	2,389,514	2,561,751

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2019
	Thousands of yen	Thousands of yen
Profit (loss)	1,266,744	1,032,599
Other comprehensive income, net of tax		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	713,579	165,547
Total items that will not be reclassified to profit or loss	713,579	165,547
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	54,693	(20,231)
Financial assets measured at fair value through other comprehensive income	(1,294)	289
Share of other comprehensive income of investments accounted for using equity method	(4,121)	(1,469)
Total of items that may be reclassified to profit or loss	49,278	(21,411)
Total other comprehensive income, net of tax	762,857	144,136
Other comprehensive income	2,029,601	1,176,735
Other comprehensive income attributable to:		
Owners of the parent	1,984,205	1,123,725
Non-controlling interest	45,396	53,010
Other comprehensive income	2,029,601	1,176,735

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Six months ended September 30, 2018

	Owners of the parent's shareholders' equity						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares	Total		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Balance, March 31, 2018	25,511,804	36,175,936	9,678,821	5,058,955	(1,896,784)	74,528,732	718,500	75,247,232
Comprehensive income								
Profit (loss)	-	-	2,095,091	-	-	2,095,091	85,957	2,181,048
Other comprehensive income	-	-	-	208,466	-	208,466	-	208,466
Total comprehensive income	-	-	2,095,091	208,466	-	2,303,557	85,957	2,389,514
Transactions with owners								
Issuance of common stock	6,908	(6,395)	-	-	-	513	-	513
Dividends paid	-	-	(608,349)	-	-	(608,349)	(48,550)	(656,899)
Stock-based compensation	-	27,905	-	-	-	27,905	-	27,905
Transfer from other components of equity to retained earnings	-	-	27,982	(27,982)	-	-	-	-
Total transactions with owners	6,908	21,510	(580,367)	(27,982)	-	(579,931)	(48,550)	(628,481)
Balance, September 30, 2018	25,518,712	36,197,446	11,193,545	5,239,439	(1,896,784)	76,252,358	755,907	77,008,265

Six months ended September 30, 2019

	Owners of the parent's shareholders' equity						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares	Total		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Balance, March 31, 2019	25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610
Cumulative impact of adopting IFRS 16 (Note)	-	-	(33,728)	-	-	(33,728)	-	(33,728)
Comprehensive income								
Profit (loss)	-	-	1,756,102	-	-	1,756,102	102,251	1,858,353
Other comprehensive income	-	-	-	703,398	-	703,398	-	703,398
Total comprehensive income	-	-	1,756,102	703,398	-	2,459,500	102,251	2,561,751
Transactions with owners								
Issuance of common stock	11,909	(11,895)	-	-	-	14	-	14
Dividends paid	-	-	(608,452)	-	-	(608,452)	(53,405)	(661,857)
Stock-based compensation	-	28,615	-	-	-	28,615	-	28,615
Transfer from other components of equity to retained earnings	-	-	1,543,793	(1,543,793)	-	-	-	-
Total transactions with owners	11,909	16,720	935,341	(1,543,793)	-	(579,823)	(53,405)	(633,228)
Balance, September 30, 2019	25,530,621	36,242,495	14,992,750	3,248,309	(1,896,788)	78,117,387	897,018	79,014,405

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

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended September 30, 2018	Six Months Ended September 30, 2019
	Thousands of yen	Thousands of yen
Cash flows from operating activities:		
Profit (loss) before tax	3,429,900	3,043,288
Adjustments		
Depreciation and amortization	7,412,392	14,299,860
Loss on sales of property and equipment	28,118	82,881
Shares of loss (profit) of investments accounted for using the equity method	23,234	133,121
Financial income	(261,831)	(107,725)
Financial expenses	213,571	296,483
Other	(96,044)	39,524
Changes in working capital		
Decrease (increase) in trade receivables	1,879,792	3,126,603
Decrease (increase) in inventories	(1,729,183)	1,353,994
Decrease (increase) in prepaid expenses	(2,111,073)	(1,982,541)
Decrease (increase) in other assets	(67,244)	190,111
Decrease (increase) in other financial assets	1,068,095	(621,923)
Increase (decrease) in trade and other payables	3,715,212	(5,221,511)
Increase (decrease) in deferred income	2,327,831	470,327
Increase (decrease) in other liabilities	(52,305)	(285,697)
Increase (decrease) in other financial liabilities	14,326	(101,021)
Increase (decrease) in retirement benefit liabilities	126,247	124,434
Sub total	15,921,038	14,840,208
Interest and dividends received	157,683	162,887
Interest paid	(211,014)	(279,359)
Income taxes paid	(1,996,679)	(1,329,835)
Cash flows from operating activities	13,871,028	13,393,901

	Six Months Ended September 30, 2018	Six Months Ended September 30, 2019
	Thousands of yen	Thousands of yen
Cash flows from investing activities		
Purchases of tangible assets	(3,110,912)	(4,788,074)
Proceeds from sales of tangible assets	1,757,616	817,601
Purchases of intangible assets	(2,510,077)	(2,422,464)
Proceeds from sales of intangible assets	1,579	260,264
Purchase of investments accounted for using equity method	-	(498,000)
Purchases of other investments	-	(42,740)
Proceeds from sales of other investments	358,251	2,673,101
Payments for leasehold deposits and guarantee deposits	(7,946)	(85,874)
Proceeds from collection of leasehold deposits and guarantee deposits	42,113	12,089
Payments for refundable insurance policies	(28,181)	(28,170)
Other	(9,698)	14,833
Cash flows from investing activities	(3,507,255)	(4,087,434)
Cash flows from financing activities		
Repayment of long-term borrowings	-	(750,000)
Net increase (decrease) in short-term borrowings	-	3,030,000
Proceeds from other financial liabilities	256,608	1,473,000
Payments of other financial liabilities	(3,501,569)	(10,229,755)
Dividends paid	(608,349)	(608,452)
Other	(48,556)	(53,418)
Cash flows from financing activities	(3,901,866)	(7,138,625)
Effect of exchange rate changes on cash and cash equivalents	102,774	(89,173)
Net increase (decrease) in cash and cash equivalents	6,564,681	2,078,669
Cash and cash equivalents, beginning of year	21,320,004	31,957,789
Cash and cash equivalents at beginning of period	27,884,685	34,036,458

Notes to Condensed Consolidated Financial Statements (UNAUDITED)

Going Concern Assumption (Unaudited)

Nothing to be reported.

Material Changes In Shareholders' Equity (Unaudited)

Nothing to be reported.

Segment Information (Unaudited)

IIJ and its subsidiaries (collectively “the Company”) primarily operates its network service and system integration business, which provides a comprehensive range of network solutions to meet its customers’ needs by cross-selling a variety of services, including Internet connectivity services, WAN services, outsourcing services, systems integration and sales of network-related equipment, and the ATM operation business. Therefore, the Company defined two reportable segments: “Network service and systems integration business” and “ATM operation business.”

Intersegment transactions are based on market price.

Segment information for the Company is as follows:

Six months ended September 30, 2018

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen		
Revenue				
Customers	89,152,611	2,071,290	—	91,223,901
Intersegment transactions	196,199	—	(196,199)	—
Total revenue	89,348,810	2,071,290	(196,199)	91,223,901
Segment operating profit	2,592,434	806,493	(114,113)	3,284,814
Finance income				389,654
Finance expense				(221,334)
Share of profit (loss) of investments accounted for using the equity method				(23,234)
Profit before tax				3,429,900

Six months ended September 30, 2019

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen		
Revenue				
Customers	97,119,509	2,100,026	—	99,219,535
Intersegment transactions	145,707	—	(145,707)	—
Total revenue	97,265,216	2,100,026	(145,707)	99,219,535
Segment operating profit	2,556,755	868,951	(73,756)	3,351,950
Finance income				118,609
Finance expense				(294,150)
Share of profit (loss) of investments accounted for using the equity method				(133,121)
Profit before tax				3,043,288

Subsequent Events (Unaudited)

Nothing to be reported.

Changes in Accounting Policies (Unaudited)

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

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

The Company adopted IFRS 16 “Leases” (issued in January 2016) from the first quarter of the fiscal year ending March 31, 2020.

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

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

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

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

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

As a result of the adoption of IFRS 16, the Company recorded right-of-use assets of JPY38,988,207 thousand and other financial liabilities of JPY39,037,445 thousand at April 1, 2019. In addition, retained earnings decreased by JPY33,728 thousand primarily due to having adopted the method where the cumulative effect of applying this standard is recognized at the date of initial application.

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

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

The balances of other financial liabilities related to leases are as follows:

	<u>As of March 31, 2019</u>	<u>As of September 30, 2019</u>
	Thousands of yen	Thousands of yen
Classification under IAS 17		
Finance leases	18,033,862	17,939,761
Operating leases	—	34,002,528

Note: The following information is provided to disclose Internet Initiative Japan Inc. (“IIJ”) financial results (unaudited) for the three months ended September 30, 2019 (“1H19”) in the form defined by the Tokyo Stock Exchange.

Consolidated Financial Results for the Six Months ended September 30, 2019 [Under IFRS]

November 8, 2019

Company name: Internet Initiative Japan Inc.

Exchange listed: Tokyo Stock Exchange First Section

Stock code number: 3774

URL: <https://www.iij.ad.jp/>

Representative: Eijiro Katsu, President and Representative Director

Contact: Akihisa Watai, Managing Director and CFO

TEL: (03) 5205-6500

Scheduled date for filing of quarterly report (*Shihanki-houkokusho*) to Japan’s regulatory organization: November 14, 2019

Scheduled date for dividend payment: December 6, 2019

Supplemental material on annual results: Yes

Presentation on quarterly report: Yes (for institutional investors and analysts)

(Amounts of less than JPY one million are rounded)

1. Consolidated Financial Results for the Six Months ended September 30, 2019 (April 1, 2019 to September 30, 2019)

(1) Consolidated Results of Operations

(% shown is YoY change)

	Revenues		Operating profit		Profit (loss) before tax		Profit (loss) for the period		Profit (loss) attributable to owners of the parent		Other comprehensive income	
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%
Six Months ended September 30, 2019	99,220	8.8	3,352	2.0	3,043	(11.3)	1,858	(14.8)	1,756	(16.2)	2,562	7.2
Six Months ended September 30, 2018	91,224	-	3,285	-	3,430	-	2,181	-	2,095	-	2,390	-

(Reference) Regarding year over year (YoY) change of profit, one-time cost in relation to mobile services recorded in 4Q18 should essentially have been allocated to attributable each quarter of FY2018 to disclose our actual profit situation. Considering such allocation, YoY change would be as follows: Operating profit up 45.7%, Profit (loss) before tax up 24.5%, Profit (loss) for the period up 23.4%, Profit (loss) attributable to owners of the parent up 23.6%, and Other comprehensive income up 49.4%. For details, please refer to “Regarding the retroactively adjusted 1H18 financial results” which is written on page 2 of this earnings release.

	Basic earnings per share	Diluted earnings per share
	JPY	JPY
Six Months ended September 30, 2019	38.96	38.79
Six Months ended September 30, 2018	46.48	46.31

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of owners' equity to total assets
	JPY millions	JPY millions	JPY millions	%
As of September 30, 2019	201,972	79,014	78,117	38.7
As of March 31, 2019	167,289	77,120	76,271	45.6

2. Dividends

	Dividend per Shares				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal Year Ended March 31, 2019	JPY —	JPY 13.50	JPY —	JPY 13.50	JPY 27.00
Fiscal Year Ending March 31, 2020	—	13.50			
Fiscal Year Ending March 31, 2020 (forecast)			—	13.50	27.00

(Note) Changes from the latest forecasts disclosed: No

3. Targets of Consolidated Financial Results for the Fiscal Year Ending March 31, 2020 (April 1, 2019 through March 31, 2020)

(% shown is YoY change)

	Revenues		Operating profit		Profit (loss) before tax		Profit (loss) for the year attributable to owners of the parent		Basic earnings per share
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY
Fiscal Year Ending March 31, 2020	204,000	6.0	7,600	26.2	6,800	16.4	3,800	7.9	84.29

(Note 1) Changes from the latest forecasts disclosed: Yes

(Note 2) As for the details about our financial targets for the fiscal year ending March 31, 2020, please refer to our press release “Notice Regarding Differences between Financial Targets and Actual Results for the First Half of the Fiscal Year Ending March 2020 and Revision of the Full-Year Financial Targets” which was announced today, November 8, 2019.

* Notes:

(1) Changes in significant subsidiaries: None

(2) Changes in accounting policies and estimate

i. Changes in accounting policies required by IFRS: Yes

ii. Other changes in accounting policies: None

iii. Changes in accounting estimates: None

(As for the details of the above (2)-i, please refer to the page 18 of this document)

(3) Number of shares issued (common stock)

i. Number of shares issued (inclusive of treasury stock):

As of September 30, 2019: 46,734,600 shares

As of March 31, 2019: 46,721,400 shares

ii. Number of treasury stock:

As of September 30, 2019: 1,650,911 shares

As of March 31, 2019: 1,650,911 shares

iii. Number of weighted average common shares outstanding:

For the six months ended September 30, 2019: 45,077,125 shares

For the six months ended September 30, 2018: 45,070,449 shares

* Status of Audit Procedures

This document is not subject to the quarterly review by certified public accountant or independent auditor.

* Explanation on the Appropriate Use of Future Outlook and other special instructions

i) Forward-looking statements

Forward-looking statements disclosed in this document are based on IJ Group’s expectation, estimates, and projections based on information available to IJ Group as of November 8, 2019. As these forward-looking statements are subject to known and unknown risks and uncertainties, actual results may differ from those disclosed due, for example, to but not limited to changes in business climate and/or market trends. As for our latest forecast of our financial targets for the fiscal year ending March 31, 2020, please refer to the page 7 of this document.

ii) Adoption of IFRS

We have adopted IFRS from the Annual Securities Report (Yuka-shoken houkokusho) for the fiscal year ended March 31, 2019. As for the disclosure of our quarterly consolidated financial results, we have adopted IFRS from the first quarter of the fiscal year ending March 31, 2020. Financial information for the fiscal year ended March 31, 2019 are also prepared in accordance with IFRS.

iii) Others

Presentation material will be disclosed on TDnet as well as posted on our website on Friday, November 8, 2019.