

## Financial Results of FY2018

Internet Initiative Japan Inc. (IIJ)'s financial results for the fiscal year ended March 31, 2019 is presented below.

(YoY = Year over year change)

<b>Revenue</b>	<b>JPY192,332 million</b>	<b>Up 9.2% YoY</b>
<b>Operating income</b>	<b>JPY6,208 million</b>	<b>Down 8.2% YoY</b>
<b>Adjusted income before income tax expense (※1)</b>	<b>JPY6,023 million</b>	<b>Down 7.4% YoY</b>
<b>Adjusted net income attributable to IIJ (※1)</b>	<b>JPY3,476 million</b>	<b>Down 17.1% YoY</b>

(※1) Adjusted incomes are calculated by excluding gains/losses of equity securities and funds, to which accounting policies were changed due to revision of U.S. GAAP (※2).

(※2) Following the revision of U.S. GAAP, from 1Q18, gains/losses of holding marketable equity securities and funds due to fluctuations of fair value are recognized as "other income (expenses)" every quarter. For details, please refer to page 6 of our earnings release titled "IIJ Announces Full Year and Fourth Quarter Financial Results for the Fiscal Year Ended March 31, 2019" published today, May 14, 2019.



Internet Initiative Japan

**For Immediate Release**

**Internet Initiative Japan Inc.**

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**IIJ Announces Full Year and Fourth Quarter Financial Results  
for the Fiscal Year Ended March 31, 2019**

**Tokyo, May 14, 2019** - Internet Initiative Japan Inc. ("IIJ", TSE:3774) today announced its full year ("FY2018") and fourth quarter ("4Q18") consolidated financial results for the fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019).<sup>1</sup>

**Highlights of Financial Results for FY2018 (U.S. GAAP)**

Revenues	JPY192.3 billion (up 9.2% YoY <sup>2</sup> )
Gross Margin	JPY29.0 billion (up 2.7% YoY)
Operating Income	JPY6.2 billion (down 8.2% YoY)
Adjusted Income before Income Tax Expense <sup>3</sup>	JPY6.0 billion (down 7.4% YoY)
Adjusted Net Income attributable to IIJ <sup>3</sup>	JPY3.5 billion (down 17.1% YoY)

**Financial Targets for FY2019 (IFRS)**

Revenues	JPY204.0 billion (up 6.1% YoY)
Operating Income	JPY7.0 billion (up 12.8% YoY)
Annual Cash Dividend	JPY27.00 per common share

**Overview of FY2018 Financial Results and Business Outlook**

"As a prominent Internet related network services provider as well as a system solutions integrator in Japan, we focused on enhancing our enterprise network services line-ups throughout FY2018 by adding various value-added functions to continuously capture enterprises' demands and to have further revenue and income accumulation from our already invested business assets. As a result, enterprise recurring revenues<sup>4</sup> successfully increased by 9.1% YoY, which exceeded our initial expectation. Actions we took in FY2018 resulted in enhancement of our enterprises' business foundation and should contribute to accelerate our recurring business hereafter," said Eijiro Katsu, COO and President of IIJ.

"Security services have been one of the strongest drivers for our revenue growth. In FY2018, we upgraded virtual desktop services to handle a large number of concurrent user connections, introduced new Security Operation Center (SOC) line-up to widen our target customer base to small and medium-sized enterprises from the current blue-chip client base, and added endpoint security services. Security recurring revenue increased by 16.9% YoY to JPY14.1 billion and the total security related revenue (sum of recurring and related SI) was JPY16.8 billion. As for mobile, we focused to enhance our full-MVNO service offerings starting with SIM life cycle management, chipSIM, and small data volume-bundled services targeting IoT usage. Our full-MVNO services revenues grew to JPY0.7 billion, exceeded our initial target, along with strong demands for surveillance cameras and pre-paid SIMs for tourists to Japan. Total mobile revenues increased by 18.8% to JPY42.0 billion and total mobile subscription at the end of FY2018 was 2.75 million. As for IoT, by leveraging our advantages of having comprehensive business elements for IoT such as network, mobile, security, cloud and SI, we proceeded many IoT related projects such as transportation, agriculture, manufacturing, factory and smart home. Systems integration revenue grew by 6.6% YoY with favorable IT demands. Cloud recurring revenue, JPY20.1 billion (up 12.2% YoY), was in line with our target

<sup>1</sup> Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with U.S. GAAP, unaudited and consolidated.

<sup>2</sup> YoY is an abbreviation for year over year change.

<sup>3</sup> "Adjusted income before income tax expense" and "adjusted net income attributable to IIJ" exclude gains/losses on equity securities and funds to which accounting policies were changed due to revision of U.S. GAAP.

<sup>4</sup> Enterprise recurring revenue is calculated by subtracting Internet connectivity services for consumers and IIJ Mobile MVNO Platform Service (MVNE) revenues from recurring revenue, which is the sum of network services and systems operation and maintenance revenues.

as our cloud migration and multi-cloud solutions have met with middle-to-large enterprises' needs successfully. Our flagship "IIJ Omnibus Services" were upgraded by applying SD-LAN to capture enterprises' network replacement demands. As for DeCurret, our equity method investee engaged in fintech business, they became a registered virtual currency exchange service provider with the Financial Service Agency this March and have launched exchange services this April. They're preparing to launch settlement services as their 2<sup>nd</sup> phase by utilizing partnerships with their prominent shareholders and business partners," said Katsu.

"As for profitability, stronger than expected enterprise recurring revenue as well as improvement in system integration margin with high utilization of system engineers should have resulted in healthy continuous margin improvement. However, due to much smaller than expected NTT Docomo's unit price revision for mobile data communication<sup>5</sup> with regards to our mobile services offering costs, we had a large margin decrease impact in our network services. As a result, our total operating income decreased YoY. We should recover mobile services profitability as soon as possible and continuously pursue stronger recurring revenue accumulation for FY2019 and hereafter. In our mobile services, we're seeing many IoT related full-MVNO transactions which should contribute to gather enterprises' mobile traffic more and more. By having better mixture of enterprises and consumer mobile traffic, our mobile network utilization should improve and that should result in our mobile services profitability improvement," continued Katsu.

"IIJ's fundamental business strategy to provide highly reliable and value-added services to Japanese enterprises remain unchanged. Although Japan is said to be behind on adopting IT, it's inevitable for Japanese companies to utilize IT for their business operation in the long run to improve their efficiency. By leveraging our accumulated business and technology assets, we continuously seek to enhance our corporate value," concluded Koichi Suzuki, Founder, CEO and Chairman of IIJ.

## FY2018 Financial Results Summary

### Operating Results Summary

	FY2017	FY2018	YoY Change
	JPY millions	JPY millions	%
<b>Total revenues</b>	176,051	<b>192,332</b>	9.2
<b>Network services</b>	108,119	<b>118,533</b>	9.6
<b>Systems integration (SI)</b>	60,431	<b>64,432</b>	6.6
<b>Equipment sales</b>	3,470	<b>5,216</b>	50.3
<b>ATM operation business</b>	4,031	<b>4,151</b>	3.0
<b>Total costs</b>	147,818	<b>163,334</b>	10.5
<b>Network services</b>	88,698	<b>101,206</b>	14.1
<b>Systems integration (SI)</b>	53,612	<b>55,227</b>	3.0
<b>Equipment sales</b>	3,142	<b>4,575</b>	45.6
<b>ATM operation business</b>	2,366	<b>2,326</b>	(1.7)
<b>Total gross margin</b>	28,233	<b>28,998</b>	2.7
<b>Network services</b>	19,421	<b>17,327</b>	(10.8)
<b>Systems integration (SI)</b>	6,819	<b>9,205</b>	35.0
<b>Equipment sales</b>	328	<b>641</b>	95.4
<b>ATM operation business</b>	1,665	<b>1,825</b>	9.6
<b>SG&amp;A expenses and R&amp;D</b>	21,471	<b>22,790</b>	6.1
<b>Operating income</b>	6,762	<b>6,208</b>	(8.2)
<b>Income before income tax expense</b>	7,840	<b>4,913</b>	(37.3)
<b>Net income attributable to IIJ</b>	5,109	<b>2,715</b>	(46.9)

<sup>5</sup> We estimate a unit price charge every year on our own based on the past revision results (FY17: 18%, FY16: 14%, FY15: 17%) as well as NTT Docomo's provisional payment by which our FY2018 monthly bills were 15% deducted. The unit price decreased by 5% this time in March 2019. For detail, please refer to our press release "Regarding the Unit Price Revision for Mobile Interconnectivity Charge by NTT Docomo" published on March 25, 2019

## Segment Results Summary

	FY2017	FY2018
	JPY millions	JPY millions
<b>Total revenues</b>	176,051	<b>192,332</b>
<b>Network services and SI business</b>	172,370	<b>188,536</b>
<b>ATM operation business</b>	4,031	<b>4,151</b>
<b>Elimination</b>	(350)	<b>(355)</b>
<b>Operating income</b>	6,762	<b>6,208</b>
<b>Network service and SI business</b>	5,430	<b>4,785</b>
<b>ATM operation business</b>	1,510	<b>1,622</b>
<b>Elimination</b>	(178)	<b>(199)</b>

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

### FY2018 Revenues and Income

#### Revenues

Total revenues were JPY192,332 million, up 9.2% YoY (JPY176,051 million for FY2017).

*Network services revenue* was JPY118,533 million, up 9.6% YoY (JPY108,119 million for FY2017).

Revenues for Internet connectivity services for enterprise were JPY33,172 million, up 18.7% YoY from JPY27,944 million for FY2017, mainly due to an increase in mobile-related services revenues along with an expansion of MVNE business clients' transactions.

Revenues for Internet connectivity services for consumers were JPY25,234 million, up 1.9% YoY from JPY24,761 million for FY2017. The revenue growth was mainly due to "IIJmio Mobile Service," consumer mobile services which offer inexpensive data communication and voice services with SIMs, offset revenue decrease due to divestiture of a former subsidiary, hi-ho in December 2017.

Revenues for WAN services were JPY30,990 million, up 5.8% YoY compared to JPY29,295 million for FY2017, mainly due to the revenue growth along with order accumulation.

Revenues for Outsourcing services were JPY29,137 million, up 11.6% YoY from JPY26,119 million for FY2017, mainly due to an increase in security-related services revenues.

#### Network Services Revenues Breakdown (\*)

	FY2017	FY2018	YoY Change
	JPY millions	JPY millions	%
<b>Total network services</b>	108,119	<b>118,533</b>	<b>9.6</b>
<b>Internet connectivity services (enterprise)</b>	27,944	<b>33,172</b>	<b>18.7</b>
<b>IP services (including data center connectivity services)</b>	10,105	<b>10,558</b>	<b>4.5</b>
<b>IIJ Mobile services</b>	14,619	<b>19,420</b>	<b>32.8</b>
IIJ Mobile MVNO Platform Service	10,866	<b>14,555</b>	<b>33.9</b>
<b>Others</b>	3,220	<b>3,194</b>	<b>(0.8)</b>
<b>Internet connectivity services (consumer)</b>	24,761	<b>25,234</b>	<b>1.9</b>
<b>IIJ</b>	23,448	<b>25,234</b>	<b>7.6</b>
IIJmio Mobile Service	20,710	<b>22,538</b>	<b>8.8</b>
<b>hi-ho</b>	1,313	-	-
<b>WAN services</b>	29,295	<b>30,990</b>	<b>5.8</b>
<b>Outsourcing services</b>	26,119	<b>29,137</b>	<b>11.6</b>

(\*) From 1Q18, "IIJ FiberAccess/F and IIJ DSL/F" which was formerly classified under "Internet connectivity services (enterprise)" is now added to "Others."

## Number of Contracts and Subscription for Connectivity Services\*1,\*2

	as of Mar. 31, 2018	as of Mar. 31, 2019	YoY Change
<b>Internet connectivity services (enterprise)</b>	1,414,782	1,757,772	342,990
<b>IP service (greater than or equal to 1Gbps, including data center connectivity)</b>	709	743	34
<b>IP service (less than 1Gbps)</b>	1,272	1,276	4
<b>IIJ Mobile Services</b>	1,339,586	1,675,123	335,537
<b>IIJ Mobile MVNO Platform Service</b>	824,731	1,047,856	223,125
<b>Others</b>	73,215	80,630	7,415
<b>Internet connectivity services (consumer)</b>	1,363,531	1,400,928	37,397
<b>IIJ</b>	1,363,531	1,400,928	37,397
<b>IIJmio Mobile Service</b>	1,005,092	1,062,921	57,829
<b>Total contracted bandwidth (Gbps)*3</b>	3,117.7	3,896.7	779.0

\*1) Numbers in the table above show number of contracts except for "IIJ Mobile Services (enterprise)," "IIJ" and "hi-ho" which show number of subscriptions.

\*2) From 1Q18, following changes are made to the breakdown of "Internet connectivity services (enterprise)."

- i. "Data center connectivity services" is added to "IP services (1Gbps-)" and labeled it as "IP services (greater than or equal to 1Gbps, including data center connectivity services)."
- ii. "IP services (100Mbps-999Mbps)" and "IP services (-99Mbps)" are now combined and labeled as "IP services (less than 1Gbps)."
- iii. "IIJ FiberAccess/F and IIJ DSL/F" is added to "Others."

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

SI revenues were JPY64,432 million, up 6.6% YoY (JPY60,431 million for FY2017).

Systems construction revenue, a one-time revenue, was JPY22,759 million, up 1.0% YoY (JPY22,528 million for FY2017). Systems operation and maintenance revenue, a recurring revenue, was JPY41,673 million, up 9.9% YoY (JPY37,903 million for FY2017), 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 JPY74,304 million, up 7.7% YoY (JPY68,988 million for FY2017); orders received for systems construction and equipment sales were JPY 28,957 million, up 12.2% YoY (JPY25,810 million for FY2017) and orders received for systems operation and maintenance were JPY45,347 million, up 5.0% YoY (JPY43,178 million for FY2017).

Order backlog for SI and equipment sales as of March 31, 2019 amounted to JPY51,117 million, up 9.7% YoY (JPY46,588 million as of March 31, 2018); order backlog for systems construction and equipment sales was JPY7,846 million, up 12.2% YoY (JPY6,991 million as of March 31, 2018) and order backlog for systems operation and maintenance was JPY43,271 million, up 9.3% YoY (JPY39,597 million as of March 31, 2018).

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

ATM operation business revenues were JPY4,151 million, up 3.0% YoY (JPY4,031 million for FY2017). As of March 31, 2019, 1,138 ATMs have been placed.

### **Cost and expense**

Total cost of revenues was JPY163,334 million, up 10.5% YoY (JPY147,818 million for FY2017).

Cost of network services revenue was JPY101,206 million, up 14.1% YoY (JPY88,698 million for FY2017). There were an increase in outsourcing-related costs along with our mobile-related revenue increase as well as full-MVNO related fixed costs along with the service launch, an increase in network operation-related costs, and an increase in circuit-related costs along with our WAN services revenue increase. Regarding NTT Docomo's interconnectivity charge (unit charge) for MVNO-related services, it was revised in March 2019 and it decreased by 5.0% year over year. The rate of decrease was small compared to the past several years. Gross margin was JPY17,327 million, down 10.8% YoY (JPY19,421 million for FY2017) and gross margin ratio was 14.6%.

Cost of SI revenues was JPY55,227 million, up 3.0% YoY (JPY53,612 million for FY2017). There were an increase in license fees and network operation-related costs along with increase in cloud-related revenues, and a decrease in outsourcing-related costs due to the effective reorganization of system engineers unit and stricter management on system engineers' utilization. Gross margin was JPY9,205 million, up 35.0% YoY (JPY6,819 million for FY2017) and gross margin ratio was 14.3%.

Cost of equipment sales revenues was JPY4,575 million, up 45.6% YoY (JPY3,142 million for FY2017). There was an increase in purchasing costs of mobile devices. Gross margin was JPY641 million, up 95.4% YoY (JPY328 million for FY2017) and gross margin ratio was 12.3%.

Cost of ATM operation business revenues was JPY2,326 million, down 1.7% YoY (JPY2,366 million for FY2017). Gross margin was JPY1,825 million, up 9.6% YoY (JPY1,665 million for FY2017) and gross margin ratio was 44.0%.

### **SG&A and R&D expenses**

SG&A and R&D expenses in total were JPY22,790 million, up 6.1% YoY (JPY21,471 million for FY2017).

Sales and marketing expenses were JPY13,184 million, up 3.9% YoY (JPY12,688 million for FY2017) mainly due to increases in sales commission expenses and personnel-related expenses.

General and administrative expenses were JPY9,160 million, up 10.4% YoY (JPY8,296 million for FY2017) mainly due to increases in personnel-related expenses.

Research and development expenses were JPY446 million, down 8.4% YoY (JPY487 million for FY2017).

### **Operating income**

Operating income was JPY6,208 million, down 8.2% YoY (JPY6,762 million for FY2017).

### **Other income (expenses)**

Other income (expenses) was an expense of JPY1,295 million (an income of JPY1,078 million for FY2017). It includes realized and unrealized loss on other investments of JPY1,110 million, to which accounting policies were changed under the revised U.S. GAAP effective from April 1, 2018, compared to realized gain of JPY1,338 million for FY2017, miscellaneous income of JPY96 million (miscellaneous expenses of JPY33 million for FY2017), dividend income of JPY87 million (JPY243 million for FY2017), and interest expense of JPY402 million (JPY375 million for FY2017).

### **Income before income tax expense**

Income before income tax expense was JPY4,913 million, down 37.3% YoY (JPY7,840 million for FY2017). When excludes realized and unrealized loss on other investments of JPY1,110 million, to which accounting policies were changed under the revised U.S. GAAP effective from April 1, 2018, compared to realized gain of JPY1,338 million for FY2017, adjusted income before income tax expense was JPY6,023 million, down 7.4% YoY (JPY6,502 million for FY2017).

### **Net income**

Income tax expense was JPY1,700 million (JPY2,696 million for FY2017).

Equity in net loss of equity method investees was JPY318 million (an income of JPY135 million for FY2017) mainly due to equity in net loss of JPY503 million in DeCurret Inc.

As a result of the above, net income was JPY2,893 million, down 45.2% YoY (JPY5,279 million for FY2017). When excludes net of tax amount of realized and unrealized loss on other investments of JPY761 million, to which accounting policies were changed under the revised U.S. GAAP effective from April 1, 2018, compared to net of tax amount of realized gain of JPY914 million for FY2017, adjusted net income was JPY3,654 million, down 16.3% YoY (JPY4,365 million for FY2017).

### **Net income attributable to IIJ**

Net income attributable to non-controlling interests was JPY178 million (JPY170 million for FY2017) related to net income of Trust Networks Inc.

Net income attributable to IIJ was JPY2,715 million, down 46.9% YoY (JPY5,109 million for FY2017). When excludes net of tax amount of realized and unrealized loss on other investments of JPY761 million, to which accounting policies were changed under the revised U.S. GAAP effective from April 1, 2018, compared to net of tax amount of realized gain of JPY914 million for FY2017, adjusted net income attributable to IIJ was JPY3,476 million, down 17.1% YoY (JPY4,195 million for FY2017).

### **Regarding the change in accounting methods on other investments**

Following the revision of U.S. GAAP, from 1Q18, gains/losses on other investments due to fluctuations of fair value of holding marketable equity securities and funds are recorded as “realized and unrealized gain (loss) on other investments, net” in “other income (expenses)” on our consolidated statements of income (“P/L”).

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

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

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

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

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

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

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

- As of March 31, 2018, value of such funds was recorded as assets in “other investments” under cost method. Its unrealized gain of JPY963 million was not recognized.
- On B/S at the beginning of this fiscal year, “other investments” was increased by JPY963 million and “retained earnings” was increased by JPY660 million which is the net of tax amount of the above mentioned unrealized gain. The gain was never recognized as profit of P/L.
- From 1Q18, fluctuation of fair values of such funds are recognized as “realized and unrealized gain (loss) on other investments, net” in “other income (expenses)” in every quarter.

## Balance Sheets as of March 31, 2019

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### Balance sheets

As of March 31, 2019, the balance of total assets was JPY166,852 million, increased by JPY13,403 million from the balance as of March 31, 2018 of JPY153,449 million.

As of March 31, 2019, the balance of current assets was JPY80,721 million, increased by JPY13,536 million from the balance as of March 31, 2018 of JPY67,185 million. The major breakdown of current assets was: an increase in cash and cash equivalents by JPY10,673 million to JPY32,076 million, an increase in accounts receivables by JPY1,751 million to JPY33,582 million, an increase in inventories by JPY2,092 million to JPY3,807 million, an increase in prepaid expenses by JPY1,120 million to JPY9,563 million and. As of March 31, 2019, the balance of noncurrent assets was JPY86,131 million, decreased by JPY133 million from the balance as of March 31, 2018 of JPY86,264 million. The major breakdown of noncurrent assets was: a decrease in other investment by JPY567 million to JPY10,808 million, and an increase in property and equipment by JPY519 million to JPY46,933 million. The major breakdown of fluctuation in other investments was: (1) an increase by JPY963 million, unrealized gains on funds that were recognized due to revision of U.S. GAAP at the beginning of FY2018, (2) a decrease in fair value of marketable equity securities and funds by JPY1,211 million, and (3) a decrease by JPY505 million due to benefit distribution from funds. As of March 31, 2019, the major breakdown of non-amortized intangible assets was JPY6,082 million in goodwill. The balance of amortized intangible assets, which was customer relationships, was JPY2,316 million, decreased by JPY355 million from the balance as of March 31, 2018 of JPY2,671 million.

As of March 31, 2019, the balance of current liabilities was JPY52,658 million, increased by JPY10,513 million from the balance as of March 31, 2018 of JPY42,145 million. The major breakdown of current liabilities was: an increase in accounts payable (trade and other) by JPY5,528 million to JPY21,927 million, an increase in short-term borrowings by JPY2,000 million to JPY11,250 million, an increase in long-term borrowings—current portion by JPY1,500 million, which was reclassified from noncurrent, to JPY1,500 million, an increase in deferred income—current by JPY1,174 million to JPY5,411 million and an increase in capital lease obligations-current portion by JPY863 million to JPY6,519 million. As of March 31, 2019, the balance of noncurrent liabilities was JPY37,941 million, increased by JPY626 million from the balance as of March 31, 2018 of JPY37,315 million. The major breakdown of noncurrent liabilities was: a decrease in long-term borrowings by JPY1,500 million, which was the amount reclassified to current liabilities, to JPY14,000 million, an increase in capital lease obligations-noncurrent by JPY595 million to JPY11,515 million and an increase in deferred income—noncurrent by JPY1,543 million to JPY5,496 million.

As of March 31, 2019, the major breakdown of IJ shareholders' equity was as follows. Accumulated other comprehensive income (loss) was a loss of JPY467 million as it decreased by JPY5,542 million (an income of JPY5,075 million as of March 31, 2018) mainly because of reclassification at the beginning of FY2018 to retained earnings by JPY5,079 million by revision of U.S. GAAP related to marketable equity securities; retained earnings was JPY16,023 million, increased by JPY7,619 million from March 31, 2018, mainly due to an increase by net income attributable to IJ of JPY2,715 million, a decrease by dividend paid of JPY1,217 million and an increase at the beginning of FY2018 by JPY6,121 million due to revision of U.S. GAAP related to revenue recognition and other investments. As a result, the balance of total IJ shareholders' equity as of March 31, 2019 was JPY75,404 million, increased by JPY2,134 million from the balance as of March 31, 2018 of JPY73,270 million and IJ shareholders' equity ratio (total IJ shareholders' equity divided by total assets) as of March 31, 2019 was 45.2%.

## FY2018 Cash Flows

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### **Cash flows**

Cash and cash equivalents as of March 31, 2019 were JPY32,076 million (JPY21,403 million as of March 31, 2018).

Net cash provided by operating activities for FY2018 was JPY23,445 million (net cash provided by operating activities of JPY13,262 million for FY2017). There were net income of JPY2,893 million, depreciation and amortization of JPY14,211 million, adjustment of realized and unrealized loss on other investments, net of JPY1,110 million, which was mainly due to fluctuations in holding marketable equity securities, and adjustment of deferred income benefit, net of JPY1,112 million. Regarding changes in operating assets and liabilities, it was net cash in of JPY5,404 million (net cash out of JPY3,526 million for FY2017) mainly due to an increase in accounts payable and an increase in deferred revenue (current and noncurrent), while the cash out increased due to an increase in inventories along with an increase in systems construction projects, and accounts receivable increased.

Net cash used in investing activities for FY2018 was JPY6,869 million (net cash used in investing activities of JPY13,037 million for FY2017), mainly due to payments for purchase of property and equipment of JPY10,670 million (JPY15,771 million for FY2017), proceeds from sales of property and equipment, which include sales and leaseback transactions, of JPY3,079 million (JPY3,306 million for FY2017) and proceeds from sales of other investments, such as funds and equity securities, of JPY565 million (JPY1,364 million for FY2017).

Net cash used in financing activities for FY2018 was JPY5,899 million (net cash used in financing activities of JPY748 million for FY2017), mainly due to net increase in short-term borrowings of JPY2,000 million, principal payments under capital leases of JPY6,524 million (JPY5,724 million for FY2017), FY2017 year-end and FY2018 interim dividends payments of JPY1,217 million (JPY1,217 million for FY2017) and payments of long-term accounts payable of JPY807 million (JPY571 million for FY2017).

### **Future Prospects including FY2019 Financial Targets**

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As Japanese economy continues to improve slowly, Japanese enterprises' IT-related investment as well as spending should continue to grow during FY2019. We target total revenue of JPY204.0 billion (up 6.1% YoY) as enterprise recurring revenue and systems integration revenue should continue to grow. As for operating income, we target JPY7.0 billion (up 12.8% YoY) as both network services and systems integration gross margin should expand. As for income before income tax expense, we target JPY6.3 billion, by considering equity in net income/loss of equity method investees and others. As for net income attributable for IJ, we target JPY3.5 billion, by considering income tax expenses.

As for mobile services, we seek to improve profitability by accumulating full-MVNO services revenues which fixed cost had been added from FY2018 along with the service launch. We expect stronger accumulation of enterprise traffic and enterprise mobile revenue by leveraging our competitive enterprise IoT solutions as well as our capability of incorporating mobile to offer comprehensive solutions and execution of MVNE strategy to gather consumer mobile and we aim to improve our mobile infrastructure utilization rate by achieving more balanced traffic mixture between enterprise and consumer whose traffic patterns differ.

We are scheduled to adopt International Financial Reporting Standards (IFRS) from the filing of our FY2018 annual report "Yuka-shoken-houkokusho" and the above mentioned FY2019 financial targets are in accordance with IFRS. Regarding revenue and operating income, we expect there are not significant difference between U.S. GAAP, currently adopted accounting principles, and IFRS. Regarding income before income tax expense and net income attributable to IJ, we expect following differences: (1) realized and unrealized gains/losses on marketable equity securities which were recognized on P/L under U.S. GAAP are to be recognized as "accumulated other comprehensive income" and "retained earnings" on B/S, (2) reclassification of equity in net income/loss of equity method investees, which is to be included in income before income tax expense in P/L under IFRS while under U.S.GAAP, it is included in net income.

<Reference> Planned schedule for IFRS adoption:

- ◆ May 28, 2019:  
FY2018 consolidated financial statements disclosed in the Convocation Notice for the 27<sup>th</sup> Ordinary General Meeting for Shareholders (U.S.GAAP)
- ◆ June 28, 2019:  
FY2018 consolidated financial statements disclosed in annual report “Yuka-shoken-houkokusho” (IFRS) and FY2018 earnings press release (IFRS)

## FY2018 Reconciliation of Non-GAAP Financial Measures

The following table summarizes the reconciliation of adjusted EBITDA to net income attributable to IIJ in our consolidated statements of income that are prepared in accordance with U.S. GAAP.

### Adjusted EBITDA

	FY2017	FY2018
	JPY millions	JPY millions
<b>Adjusted EBITDA</b>	19,127	<b>20,419</b>
<b>Depreciation and Amortization</b>	(12,365)	<b>(14,211)</b>
<b>Operating Income</b>	6,762	<b>6,208</b>
<b>Other Income (expenses)</b>	1,078	<b>(1,295)</b>
<b>Income Tax Expense</b>	2,696	<b>1,700</b>
<b>Equity in Net Income (loss) of Equity Method Investees</b>	135	<b>(318)</b>
<b>Net income</b>	5,279	<b>2,893</b>
<b>Less: Net income attributable to noncontrolling interests</b>	(170)	<b>(178)</b>
<b>Net Income attributable to IIJ</b>	5,109	<b>2,715</b>

### CAPEX

	FY2017	FY2018
	JPY millions	JPY millions
<b>CAPEX, including capital leases</b>	20,828	<b>14,989</b>
<b>Acquisition of Assets by Entering into Capital Leases</b>	7,109	<b>7,175</b>
<b>Purchase of Property and Equipment</b>	13,719	<b>7,814</b>

## Presentation

Presentation materials will be posted on our web site (<https://www.iij.ad.jp/en/ir/>) on May 14, 2019.

## About Internet Initiative Japan Inc.

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

## For inquiries, contact:

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## Disclaimer:

Statements made in this press release regarding IIJ's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ'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 IIJ's actual results to differ materially from those contained in any forward-looking statement.

**Internet Initiative Japan Inc.**  
**Consolidated Balance Sheets (Unaudited)**  
**(As of March 31, 2018 and March 31, 2019)**

	As of March 31, 2018	As of March 31, 2019
	Thousands of JPY	Thousands of JPY
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	21,402,892	32,076,232
Accounts receivable, net of allowance for doubtful accounts of JPY 123,453 thousand and JPY 116,031 thousand at March 31, 2018 and March 31, 2019, respectively	31,830,882	33,581,935
Inventories	1,714,547	3,806,563
Prepaid expenses—current	8,442,981	9,562,556
Other current assets, net of allowance for doubtful accounts of JPY 720 thousand and JPY 719 thousand at March 31, 2018 and March 31, 2019, respectively	3,793,449	1,693,655
Total current assets	67,184,751	80,720,941
<b>INVESTMENTS IN EQUITY METHOD INVESTEES</b>	5,246,313	4,837,867
<b>OTHER INVESTMENTS</b>	11,374,442	10,807,626
<b>PROPERTY AND EQUIPMENT</b> , net of accumulated depreciation and amortization of JPY 55,470,955 thousand and JPY 63,506,648 thousand at March 31, 2018 and March 31, 2019, respectively	46,414,250	46,932,770
<b>GOODWILL</b>	6,082,472	6,082,472
<b>OTHER INTANGIBLE ASSETS—Net</b>	2,704,668	2,340,437
<b>GUARANTEE DEPOSITS</b>	3,422,443	3,380,728
<b>DEFERRED TAX ASSETS</b>	183,808	486,310
<b>NET INVESTMENT IN SALES-TYPE LEASES—Noncurrent</b>	1,545,293	2,080,564
Prepaid expenses—Noncurrent	7,965,889	8,472,664
<b>OTHER ASSETS</b> , net of allowance for doubtful accounts of JPY 60,929 thousand and JPY 58,071 thousand at March 31, 2018 and March 31, 2019, respectively	1,324,490	709,259
<b>TOTAL</b>	153,448,819	166,851,638

	As of March 31, 2018	As of March 31, 2019
	Thousands of JPY	Thousands of JPY
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term borrowings	9,250,000	11,250,000
Long-term borrowings—current portion	-	1,500,000
Capital lease obligations—current portion	5,655,875	6,519,181
Accounts payable—trade	14,950,920	20,631,835
Accounts payable—other	1,448,423	1,295,229
Income taxes payable	1,928,037	1,290,471
Accrued expenses	3,111,385	3,145,000
Deferred income—current	4,237,676	5,411,239
Other current liabilities	1,562,717	1,615,353
Total current liabilities	42,145,033	52,658,308
<b>LONG-TERM BORROWINGS</b>	15,500,000	14,000,000
<b>CAPITAL LEASE OBLIGATIONS—Noncurrent</b>	10,920,726	11,515,459
<b>ACCRUED RETIREMENT AND PENSION COSTS—Noncurrent</b>	3,724,634	4,423,252
<b>DEFERRED TAX LIABILITIES</b>	688,787	188,536
<b>DEFERRED INCOME—Noncurrent</b>	3,952,279	5,495,600
<b>OTHER NONCURRENT LIABILITIES</b>	2,528,803	2,317,996
Total Liabilities	79,460,262	90,599,151
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Common-stock—authorized, 75,520,000 shares; issued and outstanding, 46,713,800 and 46,721,400 shares at March 31, 2018 and March 31, 2019, respectively	25,511,804	25,518,712
Additional paid-in capital	36,175,937	36,225,776
Retained earnings	8,404,228	16,023,450
Accumulated other comprehensive income (loss)	5,074,872	(466,835)
Treasury stock—1,650,909 and 1,650,911 shares held by the company at March 31, 2018 and March 31, 2019, respectively	(1,896,784)	(1,896,788)
Total Internet Initiative Japan Inc. shareholders' equity	73,270,057	75,404,315
<b>NONCONTROLLING INTERESTS</b>	718,500	848,172
Total equity	73,988,557	76,252,487
<b>TOTAL</b>	153,448,819	166,851,638

**Internet Initiative Japan Inc.**  
**Consolidated Statements of Income and**  
**Consolidated Statements of Comprehensive Income (Unaudited)**  
**(For the fiscal year ended March 31, 2018 and March 31, 2019)**

	Fiscal Year Ended March 31, 2018	Fiscal Year Ended March 31, 2019
	Thousands of JPY	Thousands of JPY
<b>REVENUES:</b>		
Network services:		
Internet connectivity services (enterprise)	27,943,656	33,171,505
Internet connectivity services (consumer)	24,761,487	25,234,295
WAN services	29,295,097	30,989,645
Outsourcing services	26,118,657	29,137,247
Total	108,118,897	118,532,692
Systems integration:		
Systems construction	22,527,433	22,758,595
Systems operation and maintenance	37,903,235	41,673,471
Total	60,430,668	64,432,066
Equipment sales	3,470,400	5,216,057
ATM operation business	4,030,684	4,151,525
Total revenues	176,050,649	192,332,340
<b>COSTS AND EXPENSES:</b>		
Cost of network services	88,697,639	101,205,702
Cost of systems integration	53,612,063	55,226,943
Cost of equipment sales	3,142,262	4,574,945
Cost of ATM operation business	2,365,403	2,326,133
Total costs	147,817,367	163,333,723
Sales and marketing	12,688,046	13,183,732
General and administrative	8,295,583	9,160,210
Research and development	487,451	446,283
Total costs and expenses	169,288,447	186,123,948
<b>OPERATING INCOME</b>	<b>6,762,202</b>	<b>6,208,392</b>
<b>OTHER INCOME (EXPENSES):</b>		
Dividend income	242,576	86,596
Interest income	30,527	27,632
Interest expense	(375,202)	(401,668)
Foreign exchange gain (loss), net	(15,863)	5,774
Net gain on sales of other investments	1,068,303	-
Impairment of other investments	(109,840)	-
Realized and unrealized gain (loss) on other investments, net	-	(1,110,156)
Other —net	237,420	96,041
Other income (expenses) —net	1,077,921	(1,295,781)
<b>INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE AND EQUITY IN NET INCOME OF EQUITY METHOD INVESTEES</b>	<b>7,840,123</b>	<b>4,912,611</b>
<b>INCOME TAX EXPENSE</b>	<b>2,695,839</b>	<b>1,700,966</b>
<b>EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES</b>	<b>134,656</b>	<b>(318,244)</b>
<b>NET INCOME</b>	<b>5,278,940</b>	<b>2,893,401</b>
<b>LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>(169,991)</b>	<b>(178,222)</b>
<b>NET INCOME ATTRIBUTABLE TO INTERNET INITIATIVE JAPAN INC.</b>	<b>5,108,949</b>	<b>2,715,179</b>

	Fiscal Year Ended March 31, 2018	Fiscal Year Ended March 31, 2019
NET INCOME PER SHARE		
BASIC WEIGHTED-AVERAGE NUMBER OF SHARES (shares)	45,062,878	45,070,469
DILUTED WEIGHTED-AVERAGE NUMBER OF SHARES (shares)	45,215,686	45,249,384
BASIC WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS (ADSs)	90,125,756	90,140,938
DILUTED WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS (ADSs)	90,431,372	90,498,768
BASIC NET INCOME PER SHARE (JPY)	113.37	60.24
DILUTED NET INCOME PER SHARE (JPY)	112.99	60.00
BASIC NET INCOME PER ADS EQUIVALENT (JPY)	56.69	30.12
DILUTED NET INCOME PER ADS EQUIVALENT (JPY)	56.50	30.00

### Consolidated Statements of Comprehensive Income (Unaudited)

	Fiscal Year Ended March 31, 2018	Fiscal Year Ended March 31, 2019
	Thousands of JPY	Thousands of JPY
NET INCOME	5,278,940	2,893,401
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Foreign currency translation adjustments	(904)	(107,054)
Unrealized holding gain (loss) on securities	2,542,210	(3,464)
Defined benefit pension plans	33,866	(351,828)
TOTAL COMPREHENSIVE INCOME	7,854,112	2,431,055
LESS: COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(169,991)	(178,222)
COMPREHENSIVE INCOME ATTRIBUTABLE TO INTERNET INITIATIVE JAPAN INC.	7,684,121	2,252,833

**Internet Initiative Japan Inc.**

**Consolidated Statements of Shareholders' Equity (Unaudited)**

**(For the fiscal year ended March 31, 2018 and March 31, 2019)**

	Internet Initiative Japan Inc. shareholders' equity							NON CONTROLLING INTERESTS
	Total equity	Retained earnings (Accumulated deficit)	Accumulated other comprehensive income (loss)	Shares of common stock outstanding	Common stock	Treasury stock	Additional paid-in capital	
	Thousands of JPY	Thousands of JPY	Thousands of JPY	Shares	Thousands of JPY	Thousands of JPY	Thousands of JPY	
BALANCE, MARCH 31, 2017	67,380,200	4,511,945	2,499,700	46,711,400	25,509,499	(1,896,784)	36,117,511	638,329
Issuance of common stock upon exercise of stock options	2			2,400	2,305		(2,303)	
Dividends paid to noncontrolling interests	(46,800)							(46,800)
Stock-based compensation	57,321						57,321	
Net Income	5,278,940	5,108,949						169,991
Other Comprehensive income (loss), net of tax	2,575,172		2,575,172					
Dividends paid	(1,216,666)	(1,216,666)						
BALANCE, MARCH 31, 2018	73,988,557	8,404,228	5,074,872	46,713,800	25,511,804	(1,896,784)	36,175,937	718,500
Cumulative effects of accounting standard update—adoption of ASU 2014-09	381,678	381,678						
Cumulative effects of accounting standard update—adoption of ASU 2016-01	659,805	5,739,166	(5,079,361)					
Issuance of common stock upon exercise of stock options	7			7,600	6,908		(6,901)	
Dividends paid to noncontrolling interests	(48,550)							(48,550)
Stock-based compensation	56,740						56,740	
Net Income	2,893,401	2,715,179						178,222
Other Comprehensive income (loss), net of tax	(462,346)		(462,346)					
Dividends paid	(1,216,801)	(1,216,801)						
Payments for purchase of treasury stock	(4)					(4)		
BALANCE, MARCH 31, 2019	76,252,487	16,023,450	(466,835)	46,721,400	25,518,712	(1,896,788)	36,225,776	848,172

**Internet Initiative Japan Inc.**  
**Consolidated Statements of Cash Flows (Unaudited)**  
**(For the fiscal year ended March 31, 2018 and March 31, 2019)**

	Fiscal Year Ended March 31, 2018	Fiscal Year Ended March 31, 2019
	Thousands of JPY	Thousands of JPY
<b>OPERATING ACTIVITIES:</b>		
Net income	5,278,940	2,893,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,364,873	14,211,083
Provision for retirement and pension costs, less payments	241,868	185,006
Provision for allowance for doubtful accounts	94,839	58,835
Loss (gain) on sales of property and equipment	(12,376)	1,981
Loss on disposal of property and equipment	112,329	300,429
Net gain on sales of other investments	(1,068,303)	-
Impairment of other investments	109,840	-
Realized and unrealized loss (gain) on other investments, net	-	1,110,156
Foreign exchange loss (gain), net	32,514	(37,080)
Equity in net loss (gain) of equity method investees, less dividends received	(83,465)	385,986
Deferred income tax expense	(312,933)	(1,112,355)
Other	29,466	43,624
Changes in operating assets and liabilities:		
Increase in accounts receivable	(4,823,584)	(1,851,492)
Decrease (increase) in net investment in sales-type lease — noncurrent	502,389	(535,271)
Decrease (increase) in inventories	1,085,649	(2,095,902)
Increase in prepaid expenses	(842,521)	(1,022,211)
Decrease (increase) in other current and noncurrent assets	(2,194,591)	3,020,684
Increase in accounts payable	358,299	5,691,488
Increase (decrease) in income taxes payable	861,899	(636,428)
Increase in accrued expenses	351,710	37,405
Increase in deferred income—current	487,931	1,286,783
Increase in deferred income—noncurrent	332,765	1,579,582
Increase (decrease) in other current and noncurrent liabilities	354,226	(71,013)
Net cash provided by operating activities	13,261,764	23,444,691
<b>INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(15,770,587)	(10,669,513)
Proceeds from sales of property and equipment	3,305,813	3,079,006
Purchase of other investments	(286,695)	(44,012)
Investment in equity method investees	(2,004,808)	-
Proceeds from sales of available-for-sale securities	1,206,516	-
Proceeds from sales of other investments	157,341	565,378
Payments of guarantee deposits	(380,343)	(20,933)
Refund of guarantee deposits	26,458	57,095
Payments for refundable insurance policies	(56,362)	(56,355)
Proceeds from sale of stock of a subsidiary, net of cash divested	726,081	-
Proceeds from subsidies	48,976	230,000
Other	(9,715)	(9,913)
Net cash used in investing activities	(13,037,325)	(6,869,247)

	Fiscal Year Ended March 31, 2018	Fiscal Year Ended March 31, 2019
	Thousands of JPY	Thousands of JPY
<b>FINANCING ACTIVITIES:</b>		
Proceeds from short-term borrowings with initial maturities over three months and long-term borrowings	9,550,000	50,000
Net increase (decrease) in short-term borrowings with initial maturities less than three months	(150,000)	2,000,000
Repayments of short-term borrowings with initial maturities over three months	(2,550,000)	(50,000)
Principal payments under capital leases	(5,723,729)	(6,524,104)
Proceeds from long-term accounts payable	-	697,863
Payments of long-term accounts payable	(571,373)	(807,039)
Dividends paid	(1,216,666)	(1,216,801)
Other	(86,410)	(48,560)
Net cash used in financing activities	(748,178)	(5,898,641)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(31,960)	(3,463)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(555,699)	10,673,340
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	21,958,591	21,402,892
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	21,402,892	32,076,232
<b>ADDITIONAL CASH FLOW INFORMATION:</b>		
Interest paid	368,413	396,473
Income taxes paid	2,063,530	3,445,485
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Acquisition of assets by entering into capital leases	7,108,629	7,985,782
Facilities purchase liabilities	1,448,423	1,295,229
Asset retirement obligation	49,609	24,385

### **Fourth Quarter FY2018 Consolidated Financial Results (3 months)**

The following tables are highlight data of 4th Quarter FY2018 (3 months) consolidated financial results (unaudited, for the three months ended March 31, 2019).

#### **Operating Results Summary**

	4Q17	4Q18	YoY Change
	JPY millions	JPY millions	%
<b>Total Revenues:</b>	48,439	<b>52,951</b>	9.3
<b>Network Services</b>	28,119	<b>30,489</b>	8.4
<b>Systems Integration (SI)</b>	18,130	<b>19,671</b>	8.5
<b>Equipment Sales</b>	1,195	<b>1,731</b>	44.9
<b>ATM Operation Business</b>	995	<b>1,060</b>	6.5
<b>Cost of Revenues:</b>	39,961	<b>45,967</b>	15.0
<b>Network Services</b>	22,588	<b>27,434</b>	21.5
<b>Systems Integration (SI)</b>	15,715	<b>16,427</b>	4.5
<b>Equipment Sales</b>	1,089	<b>1,518</b>	39.5
<b>ATM Operation Business</b>	569	<b>588</b>	3.2
<b>SG&amp;A Expenses and R&amp;D</b>	5,491	<b>5,912</b>	7.7
<b>Operating Income</b>	2,987	<b>1,072</b>	(64.1)
<b>Income before Income Tax Expense</b>	3,512	<b>2,453</b>	(30.2)
<b>Net Income attributable to IIJ</b>	2,421	<b>1,416</b>	(41.5)

#### **Network Service Revenue Breakdown**

	4Q17	4Q18	YoY Change
	JPY millions	JPY millions	%
<b>Internet Connectivity Service (Enterprise)</b>	7,526	<b>8,766</b>	16.5
<b>IP Service*1</b>	2,552	<b>2,668</b>	4.5
<b>IIJ Mobile Service</b>	4,183	<b>5,291</b>	26.5
<b>IIJ Mobile MVNO Platform Service</b>	3,125	<b>3,904</b>	24.9
<b>Others*2</b>	791	<b>807</b>	1.9
<b>Internet Connectivity Service (Consumer)</b>	6,054	<b>6,330</b>	4.6
<b>IIJ</b>	6,054	<b>6,330</b>	4.6
<b>IIJmio Mobile Service</b>	5,367	<b>5,676</b>	5.7
<b>hi-ho*3</b>	-	-	-
<b>WAN Services</b>	7,619	<b>7,750</b>	1.7
<b>Outsourcing Services</b>	6,920	<b>7,643</b>	10.4
<b>Total Network Services Revenues</b>	28,119	<b>30,489</b>	8.4

\*1 IP service revenues include revenues from the data center connectivity service.

\*2 From 1Q18, "IIJ FiberAccess/F and IIJ DSL/F" which was formerly classified under "Internet connectivity services (enterprise)" is now added to "Others."

\*3 On December 31, 2017, IIJ sold all the shares of common stock of hi-ho which was IIJ's wholly owned subsidiary. Accordingly, hi-ho's revenue for "Internet connectivity services (Consumer)" decreased to zero from 4Q17.

**Reconciliation of Non-GAAP Financial Measures (4th Quarter FY2018 (3 months))**

The following table summarizes the reconciliation of adjusted EBITDA to net income in our consolidated statements of income that are prepared in accordance with U.S. GAAP.

**Adjusted EBITDA**

	4Q17	4Q18
	JPY millions	JPY millions
<b>Adjusted EBITDA</b>	6,196	<b>4,995</b>
<b>Depreciation and Amortization</b>	(3,209)	<b>(3,923)</b>
<b>Operating Income</b>	2,987	<b>1,072</b>
<b>Other Income (Expense)</b>	525	<b>1,381</b>
<b>Income Tax Expense (Benefit)</b>	1,082	<b>739</b>
<b>Equity in Net Income (loss) of Equity Method Investees</b>	33	<b>(249)</b>
<b>Net income (loss)</b>	2,463	<b>1,463</b>
<b>Less: Net income attributable to noncontrolling interests</b>	(42)	<b>(47)</b>
<b>Net Income (loss) attributable to IIJ</b>	2,421	<b>1,416</b>

The following table summarizes the reconciliation of capital expenditures to the purchase of property and equipment in our consolidated statements of cash flows that are prepared and presented in accordance with U.S. GAAP.

**CAPEX**

	4Q17	4Q18
	JPY millions	JPY millions
<b>CAPEX, including capital leases</b>	5,072	<b>2,989</b>
<b>Acquisition of Assets by Entering into Capital Leases</b>	1,484	<b>1,057</b>
<b>Purchase of Property and Equipment</b>	3,588	<b>1,932</b>

**Internet Initiative Japan Inc.**  
**Quarterly Consolidated Statements of Income and**  
**Quarterly Consolidated Statements of Comprehensive Income (Unaudited)**  
**(Three Months ended March 31, 2018 and March 31, 2019)**

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2019
	Thousands of JPY	Thousands of JPY
<b>REVENUES:</b>		
Network services:		
Internet connectivity services (enterprise)	7,525,693	8,765,507
Internet connectivity services (consumer)	6,054,155	6,330,006
WAN services	7,619,194	7,750,328
Outsourcing services	6,920,258	7,643,269
Total	28,119,300	30,489,110
Systems integration:		
Systems construction	7,996,955	8,733,563
Systems operation and maintenance	10,132,656	10,937,111
Total	18,129,611	19,670,674
Equipment sales	1,195,037	1,731,172
ATM operation business	994,727	1,059,697
Total revenues	48,438,675	52,950,653
<b>COST AND EXPENSES:</b>		
Cost of network services	22,588,521	27,433,817
Cost of systems integration	15,714,175	16,426,358
Cost of equipment sales	1,088,830	1,518,427
Cost of ATM operation business	569,491	587,757
Total costs	39,961,017	45,966,359
Sales and marketing	3,137,162	3,376,052
General and administrative	2,225,575	2,443,385
Research and development	128,326	92,766
Total costs and expenses	45,452,080	51,878,562
<b>OPERATING INCOME</b>	<b>2,986,595</b>	<b>1,072,091</b>
<b>OTHER INCOME (EXPENSE):</b>		
Dividend income	11,792	(8,993)
Interest income	7,397	9,618
Interest expense	(98,828)	(103,359)
Foreign exchange loss, net	(44,394)	(1,866)
Net gain on sales of other investments	694,804	-
Impairment of other investments	(109,840)	-
Realized and unrealized gain (loss) on other investments, net	-	1,531,807
Other—net	64,024	(46,696)
Other income —net	524,955	1,380,511
<b>INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAX EXPENSE AND EQUITY IN NET INCOME OF EQUITY METHOD INVESTEES</b>	<b>3,511,550</b>	<b>2,452,602</b>
<b>INCOME TAX EXPENSE (BENEFIT)</b>	<b>1,081,884</b>	<b>740,286</b>
<b>EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES</b>	<b>33,487</b>	<b>(249,406)</b>
<b>NET INCOME (LOSS)</b>	<b>2,463,153</b>	<b>1,462,910</b>
<b>LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>(42,100)</b>	<b>(46,964)</b>
<b>NET INCOME (LOSS) ATTRIBUTABLE TO INTERNET INITIATIVE JAPAN INC.</b>	<b>2,421,053</b>	<b>1,415,946</b>

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2019
NET INCOME (LOSS) PER SHARE		
BASIC WEIGHTED-AVERAGE NUMBER OF SHARES (shares)	45,062,891	45,070,489
DILUTED WEIGHTED-AVERAGE NUMBER OF SHARES (shares)	45,227,668	45,261,253
BASIC WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS (ADSs)	90,125,782	90,140,978
DILUTED WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS (ADSs)	90,455,336	90,522,506
BASIC NET INCOME (LOSS) PER SHARE (JPY)	53.73	31.42
DILUTED NET INCOME PER SHARE (JPY)	53.53	31.28
BASIC NET INCOME (LOSS) PER ADS EQUIVALENT (JPY)	26.86	15.71
DILUTED NET INCOME PER ADS EQUIVALENT (JPY)	26.77	15.64

**Quarterly Consolidated Statements of Comprehensive Income (Unaudited)**

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2019
	Thousands of JPY	Thousands of JPY
NET INCOME (LOSS)	2,463,153	1,462,910
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Foreign currency translation adjustments	12,497	(76,113)
Unrealized holding gain (loss) on securities	410,023	968
Defined benefit pension plans	31,369	(350,562)
TOTAL COMPREHENSIVE INCOME (LOSS)	2,917,042	1,037,203
LESS: COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(42,100)	(46,964)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO INTERNET INITIATIVE JAPAN INC.	2,874,942	990,239

**Internet Initiative Japan Inc.**  
**Consolidated Statements of Cash Flows (Unaudited)**  
**(Three Months ended March 31, 2018 and March 31, 2019)**

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2019
	Thousands of JPY	Thousands of JPY
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	2,463,153	1,462,910
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,209,013	3,923,168
Provision for retirement and pension costs, less payments	45,669	2,063
Provision for allowance for doubtful accounts	26,908	7,399
Loss (gain) on sales of property and equipment	1,260	(1,585)
Loss on disposal of property and equipment	49,938	178,640
Net gain on sales of other investments	(694,804)	-
Impairment of other investments	109,840	-
Realized and unrealized gain (loss) on other investments, net	-	(1,531,807)
Foreign exchange loss (gain), net	43,525	(41,199)
Equity in net loss (income) of equity method investees, less dividends received	(33,487)	249,406
Deferred income tax expense (benefit)	(289,924)	26,194
Other	74,775	6,965
Changes in operating assets and liabilities net of effects from divestitures of a company :		
Increase in accounts receivable	(4,233,708)	(2,996,176)
Decrease (increase) in net investment in sales-type lease — noncurrent	130,941	(754,195)
Decrease in inventories	2,614,446	938,440
Decrease in prepaid expenses	512,885	1,188,917
Decrease (increase) in other current and noncurrent assets	(202,209)	3,258,922
Decrease in accounts payable	(540,684)	(194,599)
Increase in income taxes payable	1,397,103	696,134
Increase in accrued expenses	110,343	130,266
Increase (decrease) in deferred income—current	67,994	(545,770)
Increase in deferred income—noncurrent	96,280	760,439
Increase (decrease) in other current and noncurrent liabilities	6,504	(434,000)
Net cash provided by operating activities	4,965,761	6,330,532
<b>INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(3,985,425)	(2,314,492)
Proceeds from sales of property and equipment	549,094	490,616
Purchase of other investments	(155,577)	(18,638)
Investment in an equity method investee	(1,830,000)	-
Proceeds from sales of available-for-sale securities	746,499	-
Proceeds from sales of other investments	1,075	51,380
Payments of guarantee deposits	(82,198)	(9,147)
Refund of guarantee deposits	5,625	10,543
Payments for refundable insurance policies	(14,090)	(14,085)
Proceeds from subsidies	-	230,000
Other	(5)	(215)
Net cash used in investing activities	(4,765,002)	(1,574,038)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2019
	Thousands of JPY	Thousands of JPY
<b>FINANCING ACTIVITIES:</b>		
Net increase in short-term borrowings with initial maturities less than three months	(150,000)	-
Principal payments under capital leases	(1,493,754)	(1,729,296)
Proceeds from long-term accounts payable	-	441,255
Payments of long-term accounts payable	(165,122)	(236,389)
Other	11,250	-
Net cash used in financing activities	(1,797,626)	(1,524,430)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(44,389)	(34,088)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,641,256)	3,197,976
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	23,044,148	28,878,256
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	21,402,892	32,076,232

Note: The following information is provided to disclose Internet Initiative Japan Inc. ("IIJ") financial results (unaudited) for the fiscal year ended March 31, 2019 ("FY2018") in the form defined by the Tokyo Stock Exchange.

**Consolidated Financial Results for the Fiscal Year Ended March 31, 2019**  
**[Under accounting principles generally accepted in the United States ("U.S. GAAP")]**

May 14, 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 annual general shareholder's meeting: June 27, 2019  
Scheduled date for dividend payment: June 28, 2019  
Scheduled date for filing of annual report (*Yuka-shoken-houkokusho*) to Japan's regulatory organization: June 28, 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 Fiscal Year Ended March 31, 2019 (April 1, 2018 to March 31, 2019)**

(1) Consolidated Results of Operations (% shown is YoY change)

	Total revenues		Operating income		Income before income tax expense*3		Net income attributable to IIJ*3	
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%
Fiscal year ended March 31, 2019	192,332	9.2	6,208	(8.2)	4,913	(37.3)	2,715	(46.9)
Fiscal year ended March 31, 2018	176,051	11.6	6,762	31.7	7,840	44.5	5,109	61.3

(Note 1) Total comprehensive income attributable to IIJ

For the fiscal year ended March 31, 2019: JPY2,253 million (down 70.7% YoY)

For the fiscal year ended March 31, 2018: JPY7,684 million (up 71.9% YoY)

(Note 2) Income before income tax expense represents income from operations before income tax expense and equity in net income in equity method investees, respectively, in IIJ's consolidated financial statements.

(Note 3) Following the revision of U.S. GAAP, from 1Q18, accounting policies related to gains/losses on equity securities and funds were changed. When excludes gains/losses on equity securities and funds to which accounting policies were changed, our FY2018 income before income tax expense was JPY6,023 million (down 7.4%) and net income attributable to IIJ was JPY3,476 million (down 17.1%).

	Basic net income attributable to IIJ per share*	Diluted net income attributable to IIJ per share*	Net income attributable to IIJ to total shareholders' equity	Income before income tax expense to total assets	Total revenues
	JPY	JPY	%	%	%
Fiscal year ended March 31, 2019	60.24	60.00	3.7	3.1	3.2
Fiscal year ended March 31, 2018	113.37	112.99	7.3	5.4	3.8

(Note) Following the revision of U.S. GAAP, from 1Q18, accounting policies related to gains/losses on equity securities and funds were changed. When excludes gains/losses on equity securities and funds to which accounting policies were changed, our FY2018 basic net income attributable to IIJ per share was JPY77.12 and diluted net income attributable to IIJ per share was JPY76.81.

## (2) Consolidated Financial Position

	Total assets	Total equity	Total IJ shareholders' equity	Total IJ shareholders' equity to total assets	Total IJ shareholders' equity per share
	JPY millions	JPY millions	JPY millions	%	JPY
As of March 31, 2019	166,852	76,252	75,404	45.2	1,673.03
As of March 31, 2018	153,449	73,989	73,270	47.7	1,625.95

## (3) Consolidated Cash Flow

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents (end of the period)
	JPY millions	JPY millions	JPY millions	%
Fiscal year ended March 31, 2019	23,445	(6,869)	(5,899)	32,076
Fiscal year ended March 31, 2018	13,262	(13,037)	(748)	21,403

## 2. Dividends

	Dividend per Shares					Total cash dividends for the year	Payout Ratio (consolidated)	Ratio of Dividends to Shareholder's Equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	JPY	JPY	JPY	JPY	JPY	JPY millions	%	%
Fiscal Year Ended March 31, 2018	-	13.50	-	13.50	27.00	1,217	23.8	1.7
Fiscal Year Ended March 31, 2019	-	13.50	-	13.50	27.00	1,217	44.8	1.6
Fiscal Year Ending March 31, 2020 (forecast)	-	13.50	-	13.50	27.00		34.8	

(Note 1) Change from the latest released dividend forecasts: No

(Note 2) As IJ will adopt International Financial Reporting Standards (IFRS) beginning with the filing of annual report (Yuka-shoken-houkokusho) for the fiscal year ended March 31, 2019, the payout ratio (consolidated) for the fiscal year ending March 31, 2020 (forecast) has been calculated in accordance with IFRS.

## 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)

	Total Revenues		Operating Income		Income before Income Tax Expense		Net Income attributable to IJ		Basic Net Income Attributable to IJ per Share
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY
Interim Period Ending September 30, 2019	97,700	7.4	2,200	(24.5)	1,500	-	550	-	12.20
Fiscal Year Ending March 31, 2020	204,000	6.1	7,000	12.8	6,300	-	3,500	-	77.66

(Note) As IJ will adopt IFRS beginning with the filing of annual report (Yuka-shoken-houkokusho) for the fiscal year ended March 31, 2019, the targets of consolidated financial results for the fiscal year ending March 31, 2020 has been prepared in accordance with IFRS. YoY changes shown in percentage for total revenue and operating income are calculated in comparison with FY2018 results under U.S. GAAP. As for income before income tax expense and net income attributable to IJ, such YoY changes are not disclosed because of significant difference between U.S. GAAP and IFRS. For details about the targets, please refer to "Future Prospects including FY2019 Financial Targets" written on page 8 of this earnings release.

**\* Notes**

(1) Changes in significant subsidiaries for the fiscal year ended March 31, 2019  
(Changes in significant subsidiaries for the fiscal year ended March 31, 2019 which resulted in changes in scope of consolidation): None

(2) Changes in significant accounting and reporting policies for the consolidated financial statements

1) Changes due to the revision of accounting standards: Yes

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." IIJ adopted this ASU in the first quarter beginning April 1, 2018, using the "modified retrospective method" and recognized in beginning retained earnings an adjustment for the cumulative effect of the change. The adoption of this ASU resulted in the increase in beginning retained earnings of JPY381,678 thousand. The adoption of this ASU did not have a material impact on IIJ's consolidated financial position or consolidated results of operations.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Changes to the guidance primarily affected the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. This ASU requires equity investments (except those that are in consolidated subsidiaries or in equity method investees) to be measured principally at fair value and with changes in fair value recognized in net income. IIJ adopted this ASU in the first quarter beginning April 1, 2018 and recognized in beginning retained earnings an adjustment for the cumulative effect of the change. The adoption of this ASU resulted in the increase in beginning retained earnings of JPY5,739,166 thousand, net of tax amount of unrealized gains on holding investments.

2) Others: No

(3) Number of shares outstanding (shares of common stock)

1) The number of shares outstanding (inclusive of treasury stock):

As of March 31, 2019:	46,721,400 shares
As of March 31, 2018:	46,713,800 shares

2) The number of treasury stock:

As of March 31, 2019:	1,650,911 shares
As of March 31, 2018:	1,650,909 shares

3) The weighted average number of shares outstanding:

For the fiscal year ended March 31, 2019:	45,070,469 shares
For the fiscal year ended March 31, 2018:	45,062,878 shares

May 14, 2019

Company name: Internet Initiative Japan Inc.

Company representative: Eijiro Katsu, President and Representative Director  
(Stock Code Number: 3774, The First Section of the Tokyo Stock Exchange)

Contact: Akihisa Watai, Managing Director and CFO  
TEL: 81-3-5205-6500

### **Information Pertaining to Our Largest Shareholder**

#### 1. About Our Largest Shareholder (As of March 31, 2019)

Name	Relationship	Its Ownership Percentage (%)			Securities Exchanges where its Shares are Listed
		Direct ownership	Indirect ownership	Total	
Nippon Telegraph and Telephone Corporation ("NTT")	IJJ is NTT's affiliate company	22.4	4.5	26.9	Tokyo Stock Exchange (First Section)

#### 2. Position of the Listed Company (IJJ) within NTT Group and other relationships

The ownership percentage by NTT, which is IJJ's largest shareholder, was 26.9% as of March 31, 2019, including its indirect ownership. However, IJJ's business activities are not affected by NTT's ownership in IJJ and IJJ is maintaining its management independence.

#### 3. Business Relationship with NTT Group

IJJ uses services provided by Nippon Telegraph and Telephone East Corporation and Nippon Telegraph and Telephone West Corporation for a significant portion of IJJ's access circuits, services provided by NTT Communications Corporation for a significant portion of IJJ's domestic and international backbone circuits, and services provided by NTT DOCOMO, INC for a significant portion of IJJ's mobile infrastructure, to provide Internet connectivity and other services to IJJ's customers. IJJ also leases a part of Internet data center facilities from NTT Group companies to provide Internet data center services. The aggregate amount paid to for these services was JPY34,082 million for the fiscal year ended March 31, 2019.

#### 4. Policy Concerning Measures to Protect Minority Shareholders in Transactions with NTT Group

Business transactions with the NTT Group are within the scope of normal business practices and there is no special contract made in relation to the investment by NTT Group.

End