

*** About this document**

As announced, IIJ adopted International Financial Reporting Standards (IFRS) from the filing of its annual securities report for the fiscal year ended March 31, 2019, which we submitted to the Director-General, Kanto Local Finance Bureau on June 28, 2019. This document is a voluntary disclosure that provides selected financial information prepared under IFRS for the fiscal year ended March 31, 2019. Please note that IIJ had disclosed consolidated financial results for the fiscal year ended March 31, 2019 under the U.S. GAAP, which is IIJ's previous adopted accounting principles, on May 14, 2019.

Earnings release for the Fiscal Year Ended March 31, 2019 [Under IFRS]

June 28, 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

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(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)

	Revenues		Operating profit		Profit (loss) before tax		Profit (loss) for the year		Profit (loss) for the year attributable to owners of the parent		Other comprehensive income for the year	
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%
Fiscal year ended March 31, 2019	192,430	9.2	6,023	(11.0)	5,843	(15.0)	3,699	(19.5)	3,521	(20.4)	3,081	(60.6)
Fiscal year ended March 31, 2018	176,233	—	6,770	—	6,872	—	4,593	—	4,423	—	7,818	—

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ratio of profit before taxes to total assets	Ratio of operating profit to revenues
	JPY	JPY	%	%	%
Fiscal year ended March 31, 2019	78.11	77.80	4.7	3.6	3.1
Fiscal year ended March 31, 2018	98.15	97.82	6.2	4.7	3.8

(Reference) Equity in net income (loss) of equity method investees

Fiscal year ended March 31, 2019: JPY(318) million

Fiscal year ended March 31, 2018: JPY135 million

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of owners' equity to gross assets	Owners' equity per share
	JPY millions	JPY millions	JPY millions	%	JPY
As of March 31, 2019	167,289	77,120	76,271	45.6	1,692.27
As of March 31, 2018	155,163	75,247	74,529	48.0	1,653.88

(3) Consolidated Cash Flow

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents (end of the period)
	JPY millions	JPY millions	JPY millions	JPY millions
Fiscal year ended March 31, 2019	25,152	(8,688)	(5,890)	31,958
Fiscal year ended March 31, 2018	14,664	(14,297)	(718)	21,320

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			
Fiscal Year Ended March 31, 2018	JPY —	JPY 13.50	JPY —	JPY 13.50	JPY 27.00	JPY millions 1,217	% 27.5	% 1.7
Fiscal Year Ended March 31, 2019	—	13.50	—	13.50	27.00	1,217	34.6	1.6
Fiscal Year Ending March 31, 2020 (forecast)	—	13.50	—	13.50	27.00		34.8	

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
Interim Period Ending September 30, 2019	97,700	7.1	2,200	(33.0)	1,500	(56.3)	550	(73.7)	12.20
Fiscal Year Ending March 31, 2020	204,000	6.0	7,000	16.2	6,300	7.8	3,500	(0.6)	77.66

(Note 1) The above “Targets of Consolidated Financial Results for the Fiscal Year Ending March 31, 2020” are the same we disclosed on May 14, 2019 in our “Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 [Under accounting principles generally accepted in the United States].” Year over year change (%) have been re-calculated based on IFRS.

(Note 2) As for the details about our financial targets for the fiscal year ending March 31, 2020, please refer to page 9 of our “Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 [Under accounting principles generally accepted in the United States]” which was disclosed on May 14, 2019.

* Status of Audit Procedures

This document is not subject to audit procedures by certified public accountant or independent auditor. At the time of release of this document, audit procedures for consolidated financial statements under the Financial Instruments and Exchange Law have been completed.

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

Forward-looking statements disclosed in this document are based on IIJ Group’s expectation, estimates, and projections based on information available to IIJ Group as of May 14, 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

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2. IFRS Transition Disclosure

1. Consolidated financial statements

(1) Consolidated statements of financial position

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
	Thousands of yen	Thousands of yen	Thousands of yen
Assets			
Current Assets			
Cash and cash equivalents	21,747,209	21,320,004	31,957,789
Trade receivables	27,258,636	31,569,389	33,375,808
Inventories	2,706,825	1,544,869	3,403,192
Prepaid expenses	6,979,191	7,595,216	8,522,554
Other financial assets	2,554,960	3,758,636	1,581,212
Other current assets	96,508	55,074	130,900
Total Current Assets	61,343,329	65,843,188	78,971,455
Non-current Assets			
Tangible assets	28,666,071	33,524,196	33,136,059
Goodwill	6,169,609	6,082,472	6,082,472
Intangible assets	15,891,361	17,762,896	18,818,707
Investments accounted for using the equity method	3,150,175	5,246,313	4,837,867
Prepaid expenses	6,464,325	7,687,980	8,037,298
Other investments	9,522,757	12,884,390	11,402,365
Other financial assets	4,875,944	4,857,197	5,293,547
Other non-current assets	1,664,322	1,112,520	532,839
Deferred tax assets	209,789	161,577	176,587
Total non-current assets	76,614,353	89,319,541	88,317,741
Total assets	137,957,682	155,162,729	167,289,196

	Date of transition April 1, 2017	March 31, 2018	March 31, 2019
Liabilities and Equity	Thousands of yen	Thousands of yen	Thousands of yen
Liabilities			
Current liabilities			
Trade and other payables	17,096,434	16,530,712	21,962,239
Borrowings	9,250,000	9,250,000	12,750,000
Deferred income	3,731,048	4,155,957	5,461,813
Other financial liabilities	4,985,663	5,965,285	7,031,690
Income taxes payable	868,420	1,792,834	1,139,460
Other current liabilities	3,906,106	4,442,485	4,559,005
Total current liabilities	39,837,671	42,137,273	52,904,207
Non-current liabilities			
Borrowings	8,500,000	15,500,000	14,000,000
Other financial liabilities	11,858,443	11,828,565	12,151,346
Retirement benefit liabilities	3,532,965	3,724,634	3,488,501
Provisions	659,243	710,680	731,257
Deferred income	3,445,948	3,748,701	5,518,492
Other non-current liabilities	865,124	914,637	954,387
Deferred tax liabilities	583,487	1,351,007	421,396
Total non-current liabilities	29,445,210	37,778,224	37,265,379
Total liabilities	69,282,881	79,915,497	90,169,586
Equity			
Share capital	25,509,499	25,511,804	25,518,712
Share premium	36,117,510	36,175,936	36,225,775
Retained earnings	5,745,897	9,678,821	12,335,035
Other components of equity	2,560,350	5,058,955	4,088,704
Treasury shares	(1,896,784)	(1,896,784)	(1,896,788)
Total equity attributable to owners of the parent	68,036,472	74,528,732	76,271,438
Non-controlling interests	638,329	718,500	848,172
Total equity	68,674,801	75,247,232	77,119,610
Total liabilities and equity	137,957,682	155,162,729	167,289,196

(2) Consolidated statements of profit or loss and Consolidated statements of comprehensive income
(Consolidated statements of profit or loss)

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Revenues		
Network services	108,083,658	118,626,271
System integration	64,118,979	69,652,389
ATM operation business	4,030,684	4,151,525
Total revenues	176,233,321	192,430,185
Cost of sales		
Cost of network services	(88,557,484)	(101,257,454)
Cost of systems integration	(56,941,689)	(59,871,900)
Cost of ATM operation business	(2,365,403)	(2,326,133)
Total cost of sales	(147,864,576)	(163,455,487)
Gross Profit	28,368,745	28,974,698
Selling, general and administrative expense	(21,473,500)	(22,652,036)
Other operating income	61,385	47,008
Other operating expenses	(187,013)	(346,683)
Operating Profit	6,769,617	6,022,987
Finance income	407,258	570,004
Finance expenses	(439,335)	(431,763)
Share of profit (loss) of investments accounted for using equity method	134,656	(318,244)
Profit (loss) before tax	6,872,196	5,842,984
Income tax expense	(2,279,282)	(2,144,196)
Profit (loss) for the year	4,592,914	3,698,788
Profit (loss) for the year attributable to:		
Owners of the parent	4,422,923	3,520,566
Non-controlling interests	169,991	178,222
Total	4,592,914	3,698,788
Earnings per share		
Basic earnings per share (yen)	98.15	78.11
Diluted earnings per share (yen)	97.82	77.80

(Consolidated statements of comprehensive income)

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Profit (loss) for the year	4,592,914	3,698,788
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	3,203,237	(1,001,192)
Remeasurement of defined benefit plans	80,428	350,139
Total items that will not be reclassified to profit or loss	3,283,665	(651,053)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(65,856)	47,377
Financial assets measured at fair value through other comprehensive income	918	1,260
Share of other comprehensive income of investments accounted for using equity method	6,493	(15,386)
Total of items that may be reclassified to profit or loss	(58,445)	33,251
Total other comprehensive income, net of tax	3,225,220	(617,802)
Other comprehensive income for the year	7,818,134	3,080,986
Other comprehensive income for the year attributable to:		
Owners of the parent	7,684,143	2,902,764
Non-controlling interest	169,991	178,222
Other comprehensive income for the year	7,818,134	3,080,986

(3) Consolidated statements of changes in shareholders' equity
For the year ended March 31, 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	Thousands of yen	Thousands of yen
Balance, April 1, 2017	25,509,499	36,117,510	5,745,897	2,560,350	(1,896,784)	68,036,472	638,329	68,674,801
Comprehensive income								
Profit for the year	—	—	4,422,923	—	—	4,422,923	169,991	4,592,914
Other comprehensive income	—	—	—	3,225,220	—	3,225,220	—	3,225,220
Total comprehensive income	—	—	4,422,923	3,225,220	—	7,648,143	169,991	7,818,134
Transactions with owners								
Issuance of common stock	2,305	(2,303)	—	—	—	2	—	2
Dividends paid	—	—	(1,216,666)	—	—	(1,216,666)	(46,800)	(1,263,466)
Stock-based compensation	—	57,321	—	—	—	57,321	—	57,321
Transfer from other components of equity to retained earnings	—	—	726,615	(726,615)	—	—	—	—
Other changes	—	—	52	—	—	52	—	52
Total transactions with owners	2,305	55,018	(489,999)	(726,615)	—	(1,159,291)	(46,800)	(1,206,091)
Changes in the interests of subsidiaries								
Equity transactions with non-controlling interests	—	3,408	—	—	—	3,408	(43,020)	(39,612)
Total changes in the interests of subsidiaries	—	3,408	—	—	—	3,408	(43,020)	(39,612)
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

For the year ended March 31, 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	Thousands of yen	Thousands of yen
Balance, April 1, 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 for the year	—	—	3,520,566	—	—	3,520,566	178,222	3,698,788
Other comprehensive income	—	—	—	(617,802)	—	(617,802)	—	(617,802)
Total comprehensive income	—	—	3,520,566	(617,802)	—	2,902,764	178,222	3,080,986
Transactions with owners								
Issuance of common stock	6,908	(6,901)	—	—	—	7	—	7
Purchase of treasury stock	—	—	—	—	(4)	(4)	—	(4)
Dividends paid	—	—	(1,216,801)	—	—	(1,216,801)	(48,550)	(1,265,351)
Stock-based compensation	—	56,740	—	—	—	56,740	—	56,740
Transfer from other components of equity to retained earnings	—	—	352,449	(352,449)	—	—	—	—
Other changes	—	—	—	—	—	—	—	—
Total transactions with owners	6,908	49,839	(864,352)	(352,449)	(4)	(1,160,058)	(48,550)	(1,208,608)
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

(4) Consolidated statements of cash flows

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Cash flows from operating activities:		
Profit (loss) before tax	6,872,196	5,842,984
Adjustments		
Depreciation and amortization	13,412,489	15,628,567
Loss on sales of property and equipment	101,976	303,072
Shares of loss (profit) of investments accounted for using the equity method	(134,656)	318,244
Finance income	(262,596)	(569,387)
Finance expenses	405,132	430,176
Other	(37,687)	21,166
Changes in working capital		
Decrease (increase) in trade receivables	(4,612,748)	(1,758,343)
Decrease (increase) in inventories	1,158,554	(1,857,488)
Decrease (increase) in prepaid expenses	(1,852,635)	(1,275,117)
Decrease (increase) in other assets	654,322	557,337
Decrease (increase) in other financial assets	(1,027,394)	2,333,483
Increase (decrease) in trade and other payables	280,492	5,499,957
Increase (decrease) in deferred income	766,520	2,883,178
Increase (decrease) in other liabilities	584,951	156,096
Increase (decrease) in other financial liabilities	125,564	29,211
Increase (decrease) in retirement benefit liabilities	309,082	275,019
Sub total	16,743,562	28,818,155
Interest and dividends received	324,670	182,714
Interest paid	(402,031)	(427,199)
Income taxes paid	(2,002,382)	(3,420,784)
Cash flows from operating activities	14,663,819	25,152,346

	For the year ended March 31, 2018	For the year ended March 31, 2019
	Thousands of yen	Thousands of yen
Cash flows from investing activities		
Purchases of tangible assets	(11,092,490)	(7,080,371)
Proceeds from sales of tangible assets	3,271,032	3,070,798
Purchases of intangible assets	(6,120,793)	(5,400,380)
Proceeds from sales of intangible assets	36,406	1,579
Proceeds from sale of subsidiaries	726,081	—
Purchase of investments accounted for using equity method	(2,004,808)	—
Purchases of other investments	(104,940)	(44,013)
Proceeds from sales of other investments	1,364,411	565,477
Payments for leasehold deposits and guarantee deposits	(378,883)	(20,848)
Proceeds from collection of leasehold deposits and guarantee deposits	24,296	56,224
Proceeds from subsidies	48,976	230,000
Payments for refundable insurance policies	(56,362)	(56,355)
Other	(9,715)	(9,700)
Cash flows from investing activities	(14,296,789)	(8,687,589)
Cash flows from financing activities		
Proceeds from long-term borrowings	7,000,000	—
Net increase (decrease) in short-term borrowings	(150,000)	2,000,000
Proceeds from other financial liabilities	—	697,863
Payments of other financial liabilities	(6,264,436)	(7,322,252)
Dividends paid	(1,216,666)	(1,216,801)
Other	(86,410)	(48,560)
Cash flows from financing activities	(717,512)	(5,889,750)
Effect of exchange rate changes on cash and cash equivalents	(76,723)	62,778
Net increase (decrease) in cash and cash equivalents	(427,205)	10,637,785
Cash and cash equivalents, beginning of year	21,747,209	21,320,004
Cash and cash equivalents, end of year	21,320,004	31,957,789

(5) Notes to consolidated financial statements

Note 1. Business segments

Internet Initiative Japan Inc. (“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.”

Profit from each reporting segment is based on operating profit.

Segment information for the Company is as follows:

For the year ended March 31, 2018

	Reportable segments		Adjustments (Note 1)	Consolidated Statements of Profit or Loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	172,202,637	4,030,684	—	176,233,321
Intersegment transactions	350,155	—	(350,155)	—
Total revenue	172,552,792	4,030,684	(350,155)	176,233,321
Segment operating profit	5,437,563	1,510,176	(178,122)	6,769,617
Finance income				407,258
Finance expense				(439,335)
Share of profit (loss) of investments accounted for using the equity method				134,656
Profit before taxes				6,827,196
Segment assets	151,943,508	5,219,221	(2,000,000)	155,162,729
Other				
Depreciation and amortization	12,948,110	464,379	—	13,412,489

For the year ended March 31, 2019

	Reportable segments		Adjustments (Note 1)	Consolidated Statements of Profit or Loss
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	188,278,660	4,151,525	—	192,430,185
Intersegment transactions	354,990	—	(354,990)	—
Total revenue	188,633,650	4,151,525	(354,990)	192,430,185
Segment operating profit	4,599,187	1,622,517	(198,717)	6,022,987
Finance income				570,004
Finance expense				(431,763)
Share of profit (loss) of investments accounted for using the equity method				(318,244)
Profit before tax				5,842,984
Segment assets	163,699,221	5,589,975	(2,000,000)	167,289,196
Other				
Depreciation and amortization	15,190,721	437,846	—	15,628,567

Intersegment transactions are based on market price. Segment operating profit is the amount of revenue less cost of sales and SG&A expenses plus other operating income and less other operating expenses.

Substantially all revenues are from customers operating in Japan. Geographic information for revenues is not presented due to immateriality of revenue attributable to international operations.

Substantially all non-current assets, excluding financial instruments and deferred tax assets, are located in Japan. Geographic information of non-current assets is not presented due to immateriality of non-current assets attributable to assets located outside Japan.

This information is not presented because no revenue from a single external customer accounts for 10% or more of total revenue of the Company.

Note 2. Earnings per share

Basic earnings per share attributable to owners of the parent and diluted earnings per share attributable to owners of the parent for the years ended March 31, 2018 and 2019 were as follows:

	For the year ended March 31, 2018	For the year ended March 31, 2019
Numerator :		
Basic earnings attributable to owners of the parent (thousands of yen)	4,422,923	3,520,566
Denominator :		
Weighted average number of shares — basic (shares)	45,062,878	45,070,469
Dilution arising from stock options (shares)	152,808	178,915
Weighted average number of shares — diluted (shares)	45,215,686	45,249,384
Earnings per share attributable to owners of the parent		
Basic (yen)	98.15	78.11
Diluted (yen)	97.82	77.80

Note 3. Significant subsequent events

Not applicable.

2. IFRS Transition Disclosure

The Company's consolidated financial statements are disclosed in accordance with IFRS from the year ended March 31, 2019. The most recent consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("USGAAP") are for the fiscal year ended March 31, 2018 and the date of transition to IFRS was April 1, 2017.

(1) Exemptions for first-time adoption based on IFRS 1

IFRS principally requires an entity that adopts IFRS for the first time to apply IFRS retrospectively. However, IFRS 1 provides exemptions that allow first-time adopters to voluntarily not to apply certain standards retrospectively. Major exemptions adopted by the Company are as follows:

Business combinations

A first-time adopter may choose not to apply IFRS 3, "Business Combinations" ("IFRS 3") retrospectively to business combinations occurring before the date of transition to IFRS. The Company has applied this exemption and chosen not to apply IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRS. As a result, the amounts of goodwill from business combinations before the date of transition were recorded at the carrying amount under USGAAP as of the date of transition. Impairment tests on goodwill, whether there is an indication of impairment or not, are conducted as of the date of transition.

Exchange differences on translation of foreign operations

The Company has chosen to deem the cumulative translation differences to be zero as of the date of transition to IFRS.

Specification of financial assets recognized before the date of transition

The Company determined the category of financial assets in accordance with IFRS 9 "Financial instruments," in considering facts and circumstances which existed at the date of transition.

(2) Reconciliation of USGAAP to IFRS

Reconciliation tables required in first-time adoption of IFRS are as follows. "Reclassification" represents adjustments which do not affect retained earnings and comprehensive income and "Recognition and measurement differences" includes adjustments which affect retained earnings and comprehensive income.

Reconciliation of equity as of April 1, 2017, the date of transition to IFRS

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Current assets						Current assets
Cash and cash equivalents	21,958,591	—	(211,382)	21,747,209		Cash and cash equivalents
Accounts receivable	27,383,692	(15,192)	(109,864)	27,258,636		Trade receivables
Inventories	2,798,054	32,845	(124,074)	2,706,825		Inventories
Prepaid expenses	7,610,925	(693,037)	61,303	6,979,191	6	Prepaid expenses
Deferred tax assets—current	1,298,469	(1,298,469)	—	—		
Other current assets	2,672,008	(2,521,149)	(54,351)	96,508		Other current assets
	—	2,536,341	18,619	2,554,960	10	Other financial assets
Total current assets	63,721,739	(1,958,661)	(419,749)	61,343,329		Total current assets
Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
Non-current assets						
Investments in equity method investees	3,150,175	—	—	3,150,175		Investments accounted for using the equity method
Other investment	7,924,914	97,646	1,500,197	9,522,757	1	Other investments
Property and equipment – net	39,775,444	(11,361,154)	251,781	28,666,071		Tangible assets
Goodwill	6,169,609	—	—	6,169,609		Goodwill
Other intangible assets- net	3,087,017	12,551,492	252,852	15,891,361	10	Intangible assets
Guarantee deposits	3,060,365	(3,060,365)	—	—		
Deferred tax assets	80,566	471,308	(342,085)	209,789	4	Deferred tax assets
Net investment in sales- type leases	2,047,682	(2,047,682)	—	—		Other non-current asset
Prepaid expense	6,607,437	(497,301)	354,189	6,464,325	6	Prepaid expenses
Other assets	1,770,201	(105,879)	—	1,664,322		Other non-current asset
	—	5,116,280	(240,336)	4,875,944	10	Other financial asset
Total non-current assets	73,673,410	1,164,345	1,776,598	76,614,353		Total non-current assets
Total assets	137,395,149	(794,316)	1,356,849	137,957,682		Total assets

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Current liabilities						Current liabilities
Short-term borrowings	9,250,000	—	—	9,250,000		Borrowings
Capital lease obligations	4,818,723	(4,818,723)	—	—		
Accounts payable—trade	14,653,065	2,338,210	105,159	17,096,434		Trade and other payables
Accounts payable—other	2,308,790	(2,308,790)	—	—		
Income tax payable	1,075,745	(204,396)	(2,929)	868,420		Income taxes payable
Accrued expenses	2,755,581	(2,755,581)	—	—		
Deferred income	3,750,542	140,620	(160,114)	3,731,048	5	Deferred income
Other current liabilities	1,370,661	2,514,774	20,671	3,909,106		Other current liabilities
	—	5,017,737	(32,074)	4,985,663	10	Other financial liabilities
Total current liabilities	39,983,107	(76,149)	(69,287)	39,837,671		Total current liabilities
Non-current liabilities						Non-current liabilities
Long-term borrowings	8,500,000	—	—	8,500,000		Borrowings
Capital lease obligation — non-current	10,384,643	(10,384,643)	—	—		
Accrued retirement and pension costs	3,532,965	—	—	3,532,965	2	Retirement benefit liabilities
Deferred tax liabilities—non-current	963,845	(718,167)	337,809	583,487	4	Deferred tax liabilities
Deferred income—non- current	3,656,612	—	(210,664)	3,445,948	5	Deferred income
Other non-current liabilities	2,993,777	(2,154,098)	25,445	865,124		Other non-current liabilities
	—	11,918,902	(60,459)	11,858,443	10	Other financial liabilities
	—	619,839	39,404	659,243		Provisions
Total non-current liabilities	30,031,842	(718,167)	131,535	29,445,210		Total non-current liabilities
Total liabilities	70,014,949	(794,316)	62,248	69,282,881		Total liabilities
Equity						Equity
Common stock	25,509,499	—	—	25,509,499		Share capital
Additional paid-in capital	36,117,511	—	(1)	36,117,510		Share premium
Retained earnings	4,511,945	—	1,233,952	5,745,897	9	Retained earnings
Accumulated other comprehensive income	2,499,700	—	60,650	2,560,350	7,8	Other component of equity
Treasury stock	(1,896,784)	—	—	(1,896,784)		Treasury shares
Noncontrolling interest	638,329	—	—	638,329		Non-controlling interest
Total equity	67,380,200	—	1,294,601	68,674,801		Total equity
Total liabilities and equity	137,395,149	(794,316)	1,356,849	137,957,682		Total liabilities and equity

Notes to reconciliation of equity as of April 1, 2017, the date of transition to IFRS

Major adjustments as of the date of transition are as follows:

1) Fair value measurement of financial assets

Under the USGAAP, nonmarketable equity securities and certain financial assets are measured based on cost and impairment losses and are recognized when an issuer's financial position deteriorates. Under IFRS, these investments are measured at FVTOCI or FVTPL.

2) Post-employment benefits

Under the USGAAP, a part of the incurred amount of actuarial gain or loss and past service costs arising from defined benefit plans and unfunded severance benefit plans that are not recognized as periodic pension costs during the year is recognized as accumulated other comprehensive income (loss), net of tax. The amount recognized in accumulated other comprehensive income (loss) will be transferred to a component of pension costs in profit or loss over a certain future period.

Under IFRS, actuarial gains and losses are recognized in other comprehensive income on a net-of-tax basis, and past service cost is recognized in net income or loss when incurred. Actuarial gain or loss is directly transferred from other components of equity to retained earnings immediately, and is not recognized as profit or loss.

3) Levies

Under the USGAAP, domestic property taxes are accounted over the fiscal year of payment. Under IFRS, liabilities and expenses are immediately recognized at the point of the event when the liabilities are incurred.

4) Deferred tax assets and liabilities

In relation to changes in temporary differences arising from adjustments of accounts in transition to IFRS, the Company recognized changes in related deferred tax assets or liabilities.

5) Revenues from the contract with the customers

Initial setup fee received from the network services were deferred over the estimated periods of use under USGAAP. According to the adaption of IFRS, the initial setup fee, which does not give the material right related to the decision as to whether the service should be continued over the initial contract period or not to the customers, are deferred over the minimum periods of use.

6) Capitalization of contract costs

The Company's existing approach is to recognize sales commissions to agents of mobile telecommunications services contracts as expenses when incurred. As a result of applying IFRS 15, the Company will capitalize the sales commissions that would not have been incurred if the mobile telecommunications service contract had not been obtained and that are expected to be recovered, as the costs to obtain a contract.

7) Exchange differences on translation of foreign operations

Under IFRS 1, as described in (1), a first-time adopter may choose to deem the cumulative translation differences of foreign operations to be zero as of the date of transition to IFRS. The Company has chosen to deem the cumulative translation differences to be zero as of the date of transition to IFRS.

8) Adjustment to unify reporting period

Under the USGAAP, even where the reporting periods of the subsidiaries are different from the Company's reporting period, IJ used the financial statements of the subsidiaries for consolidation purposes.

Under IFRS, the Company uses financial statements subsidiaries prepare on the unified reporting date or , for subsidiaries that have different fiscal year-ends, the Company uses additional financial information as of the same reporting date as IJ's, unless it is not practicable to do so after making every reasonable effort. As a result, amounts of each account on the consolidated statements of financial position under IFRS are different from those under the USGAAP.

9) Retained earnings

	Date of transition April 1, 2017
	Thousands of yen
Fair value measurement of financial assets	1,518,486
Post-employment benefits	(612,518)
Levies	(117,586)
Deferred tax assets and liabilities	(68,980)
Revenues from the contacts with customers	414,174
Capitalized contract costs	228,879
Exchange differences on translation of foreign operations	352,826
Adjustments to unify reporting periods	(305,675)
Other	306,661
Sub total	1,716,267
Adjustments for tax effect	(482,315)
Total	1,233,952

10) Reclassification

To comply with IFRS, we reclassified some accounts on consolidated statements of financial position. Major reclassifications of consolidated statements of financial position are as follows:

- (a) Based on the presentation requirements of IFRS, we separately disclose financial assets and financial liabilities.
- (b) While we had disclosed software included in fixed tangible assets on the consolidated balance sheets in accordance with USGAAP, we disclosed all software included in intangible assets on the consolidated statements of financial position in accordance with IFRS.

Reconciliation of equity for the year ended March 31, 2018

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Current assets						Current assets
Cash and cash equivalents	21,402,892	—	(82,888)	21,320,004		Cash and cash equivalents
Accounts receivable	31,830,882	(720)	(260,773)	31,569,389		Trade receivables
Inventories	1,714,547	61,324	(231,002)	1,544,869		Inventories
Prepaid expenses	8,442,981	(878,017)	30,252	7,595,216	6	Prepaid expenses
Deferred tax assets—current	—	—	—	—		
Other current assets	3,793,449	(3,749,061)	10,686	55,074		Other current assets
	—	3,749,781	8,855	3,758,636	10	Other financial assets
Total current assets	67,184,751	(816,693)	(524,870)	65,843,188		Total current assets

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Non-current assets						
Investments in equity method investees	5,246,313	—	—	5,246,313		Investments accounted for using the equity method
Other investments	11,374,442	103,748	1,406,200	12,884,390	1	Other investments
Property and equipment net—net	46,414,250	(13,267,761)	377,707	33,524,196		Tangible assets
Goodwill	6,082,472	—	—	6,082,472		Goodwill
Other intangible assets—net	2,704,668	14,747,613	310,615	17,762,896	10	Intangible assets
Guarantee deposits	3,422,443	(3,422,443)	—	—		
Deferred tax assets	183,808	334,308	(356,539)	161,577	4	Deferred tax assets
Net investment in sales- type leases	1,545,293	(1,545,293)	—	—		Other non-current asset
Prepaid expense	7,965,889	(601,835)	323,926	7,687,980	6	Prepaid expenses
Other assets	1,324,490	(211,970)	—	1,112,520		Other non-current asset
	—	5,075,958	(218,761)	4,857,197	10	Other financial asset
Total non-current assets	86,264,068	1,212,325	1,843,148	89,319,541		Total non-current assets
Total assets	153,448,819	395,632	1,318,278	155,162,729		Total assets

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Current liabilities						Current liabilities
Short-term borrowings	9,250,000	—	—	9,250,000		Borrowings
Capital lease obligations	5,655,875	(5,655,875)	—	—		
Accounts payable-trade	14,950,920	1,479,377	100,415	16,530,712		Trade and other payable
Accounts payable- other	1,448,423	(1,448,423)	—	—		
Income tax payable	1,928,037	(151,230)	16,027	1,792,834		Income tax payable
Accrued expenses	3,111,385	(3,111,385)	—	—		
Deferred income	4,237,676	61,324	(143,043)	4,155,957	5	Deferred income
Other current liabilities	1,562,717	2,876,808	2,960	4,442,485		Other current liabilities
	—	6,010,728	(45,443)	5,965,285	10	Other financial liabilities
Total current liabilities	42,145,033	61,324	(69,084)	42,137,273		Total current liabilities
Non-current liabilities						Non-current liabilities
Long-term borrowings	15,500,000	—	—	15,500,00		Borrowings
Capital lease obligation—non- current	10,920,726	(10,920,726)	—	—		
Accrued retirement and pension costs	3,724,634	—	—	3,724,634	2	Retirement benefit liabilities
Deferred tax liabilities—noncurre nt	688,787	334,308	327,912	1,351,007	4	Deferred tax liabilities
Deferred income—non- current	3,952,279	—	(203,578)	3,748,701	5	Deferred income
Other non-current liabilities	2,528,803	(1,628,198)	14,032	914,637		Other non-current liabilities
	—	11,874,953	(46,388)	11,828,565	10	Other financial liabilities
	—	673,971	36,709	710,680		Provisions
Total non-current liabilities	37,315,229	334,308	128,687	37,778,224		Total non-current liabilities
Total liabilities	79,460,262	395,632	59,603	79,915,497		Total liabilities

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Equity						Equity
Common stock	25,511,804	—	—	25,511,804		Share capital
Additional paid-in capital	36,175,937	—	(1)	36,175,936		Share premium
Retained earnings	8,404,228	—	1,274,593	9,678,821	9	Retained earnings
Accumulated other comprehensive income	5,074,872	—	(15,917)	5,058,955	7,8	Other components of equity
Treasury stock	(1,896,784)	—	—	(1,896,784)		Treasury shares
Noncontrolling interest	718,500	—	—	718,500		Non-controlling interest
Total equity	73,988,557	—	1,258,675	75,247,232		Total equity
Total liabilities and equity	153,448,819	—	1,318,278	155,162,729		Total liabilities and equity

Notes to reconciliation of equity for the year ended March 31, 2018

Major adjustments as of the date of transition are as follows:

1) Fair value measurement of financial assets

Under USGAAP, nonmarketable equity securities and certain financial assets are measured based on cost and impairment losses are recognized when issuers' financial positions deteriorate. Under IFRS, these investments are measured at FVTOCI or FVTPL.

2) Post-employment benefits

Under the USGAAP, a part of the incurred amount of actuarial gain or loss and past service costs arising from defined benefit plans and unfunded severance benefit plans that are not recognized as periodic pension costs during the year is recognized as accumulated other comprehensive income (loss), net of tax. The amount recognized in accumulated other comprehensive income (loss) will be transferred to a component of pension costs in profit or loss over a certain future period.

Under IFRS, actuarial gains and losses are recognized in other comprehensive income on a net-of-tax basis, and past service cost is recognized in net income or loss when incurred. Actuarial gain or loss is directly transferred from other components of equity to retained earnings immediately and is not recognized as profit or loss.

3) Levies

Under the USGAAP, domestic property taxes are accounted for the fiscal year of payment. Under IFRS, liabilities and expenses are immediately recognized at the point of the event when the liabilities are incurred.

4) Deferred tax assets and liabilities

In relation to changes in temporary differences arising from adjustments of accounts in transition to IFRS, the Company recognized changes related to deferred tax assets or liabilities.

5) Revenues from the contracts with the customers

Initial setup fee received from the network services were deferred over the estimated periods of use under USGAAP. According to the adaption of IFRS, the initial setup fee, which does not give the material right related to the decision as to whether the service should be continued over the initial contract period or not to the customers, are deferred over the minimum periods of use.

6) Capitalization of contract costs

The Company's existing approach is to recognize sales commissions to agents for mobile telecommunications services contracts as expenses when incurred. As a result of applying IFRS 15, the Company will capitalize the sales commissions that would not have been incurred if the mobile telecommunications service contract had not been obtained and that are expected to be recovered, as the costs to obtain a contract.

7) Exchange differences on translation of foreign operations

Under IFRS 1, as described in (1), a first-time adopter may choose to deem the cumulative translation differences of foreign operations to be zero as of the date of transition to IFRS. The Company has chosen to deem the cumulative translation differences to be zero as of the date of transition to IFRS.

8) Adjustment to unify reporting period

Under the USGAAP, even where the reporting periods of the subsidiaries are different from the Company's reporting period, IIJ used the financial statements of the subsidiaries for consolidation purposes.

Under IFRS, the Company uses financial statements subsidiaries prepare on the unified reporting date or, for subsidiaries that have different fiscal year-ends, the Company uses additional financial information as of the same reporting date as IIJ's, unless it is not practicable to do so after making every reasonable effort. As a result, amounts of each account on the consolidated statements of financial position under IFRS are different from those under the USGAAP.

9) Retained earnings

	March 31, 2018
	Thousands of yen
Fair value measurement of financial assets	1,464,636
Post-employment benefits	(563,080)
Levies	(122,346)
Deferred tax assets and liabilities	(116,493)
Revenues from the contracts with the customers	410,238
Capitalized contract costs	196,705
Exchange differences on translation of foreign operations	363,259
Adjustments to unify reporting periods	(273,478)
Other	374,936
Sub total	1,734,377
Adjustment for tax effect	(459,784)
Total	1,274,593

10) Reclassification

To comply with IFRS, we reclassified some accounts on the consolidated statements of financial position. Major reclassifications on the consolidated statements of financial position are as follows:

(a) Based on the presentation requirements of IFRS, we separately disclose financial assets and financial liabilities.

(b) While we had disclosed software included in fixed tangible assets on the consolidated balance sheets in accordance with USGAAP, we disclosed all software included in intangible assets on the consolidated statements of financial position in accordance with IFRS.

Reconciliation of profit or loss, and other comprehensive income for the year ended March 31, 2018

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Revenues:						
Network services:						
Internet connectivity service (enterprise)	27,943,656	(27,943,656)	—	—		
Internet connectivity service (consumer)	24,761,487	(24,761,487)	—	—		
WAN services	29,295,097	(29,295,097)	—	—		
Outsourcing services	26,118,657	(26,118,657)	—	—		
	—	108,118,897	(35,239)	108,083,658		Network services
System integration:						
System construction	22,527,433	(22,527,433)	—	—		
System operation and maintenance	37,903,235	(37,903,235)	—	—		
	—	63,901,068	217,911	64,118,979		System integration
Equipment sales	3,470,400	(3,470,400)	—	—		
ATM operation business	4,030,684	—	—	4,030,684		ATM operation business
Total revenues	176,050,649	—	182,672	176,233,321	1	Revenues
Cost and expenses:						
Cost of network services	(88,697,639)	—	140,155	(88,557,484)		Cost of sales
Cost of system integration	(53,612,063)	(3,142,262)	(187,364)	(56,941,689)		Cost of network services
Cost of equipment sales	(3,142,262)	3,142,262	—	-		Cost of system integration
Cost of ATM operation business	(2,365,403)	—	—	(2,365,403)		Cost of ATM operation business
Total costs	(147,817,367)	—	(47,209)	(147,864,576)	1	Total cost of sales
	—	—	—	28,368,745		Gross profit
Sales and marketing	(12,688,046)	12,688,046	—	—		
General and administrative	(8,295,583)	8,295,583	—	—		
Research and development	(487,451)	487,451	—	—		
Total costs and expenses	(169,288,447)	—	—	—		
	—	(21,413,121)	(60,379)	(21,473,500)		Selling, general and administrative expense
	—	53,427	7,958	61,385		Other operating income
	—	(184,448)	(2,565)	(187,013)		Other operating expenses
Operating income	6,762,202	(73,062)	80,477	6,769,617		Operating profit

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Other income (expenses)						
Dividend income	242,576	(242,576)	—	—		
Interest income	30,527	(30,527)	—	—		
Interest expense	(375,202)	375,202	—	—		
Foreign exchange gain (loss),net	(15,863)	15,863	—	—		
Net gain on sales of other investments	1,068,303	—	(1,068,303)	—		
Net gain on other investments	(109,840)	—	109,840	—		
Other-net	237,420	(237,420)	—	—		
Other income-net	1,077,921	—	—	—		
	—	714,821	(307,563)	407,258	2	Finance income
	—	(559,984)	120,649	(439,335)	2	Finance expenses
	—	134,656	—	134,656		Share of profit of investments accounted for using the equity method
Income from operations before income tax expense and equity in net income of equity method investees	7,840,123	96,973	(1,064,900)	6,872,196		Profit before tax
Income tax expense	(2,695,839)	37,683	378,874	(2,279,282)		Income tax expense
Equity in net income of equity method investees	134,656	(134,656)	—	—		
Net income	5,278,940	—	(686,026)	4,592,914		Profit for the year
Less: Net income attributable to noncontrolling interests	(169,991)	—	—	(169,991)		Profit for the year attributable to non- controlling interest
Net income attributable to Internet Initiative Japan Inc.	5,108,949	—	(686,026)	4,422,923		Profit for the year attributable to owners of the parent

Presentation under USGAAP	USGAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Presentations under IFRS
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen		
Net income	5,278,940	—	(686,026)	4,592,914		Profit for the year
Other comprehensive income, net of tax						Other comprehensive income, net of tax
						Items that will not be reclassified to profit or loss
Unrealized holding gain on securities	2,542,210	(918)	661,945	3,203,237		Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income
Defined benefit pension plans	33,866	—	46,562	80,428		Remeasurement of defined benefit plans
	2,576,076	(918)	708,507	3,283,665		Total items that will not be reclassified to profit or loss
						Items that may be reclassified subsequently to profit or loss
Foreign currency translation adjustments	(904)	(6,493)	(58,459)	(65,856)		Exchange differences on translation of foreign operations
	—	918	—	918		Financial assets measured at fair value through other comprehensive income
	—	6,493	—	6,493		Share of other comprehensive income of investments accounted for using equity method
	(904)	918	(58,459)	(58,445)		Total items that may be reclassified subsequently to profit or loss
	2,575,172	—	650,048	3,225,220		Total other comprehensive income-net of tax
Total comprehensive income	7,854,112	—	(35,978)	7,818,134		Comprehensive income for the year
Less: Comprehensive income attributable to noncontrolling interests	(169,991)	—	—	(169,991)		Non-controlling interest
Comprehensive income attributable to Internet Initiative Japan Inc.	7,684,121	—	(35,978)	7,648,143		Comprehensive income attributable to owner of the parent

Notes to reconciliation of profit or loss, and other comprehensive income for the year ended March 31, 2018

Major adjustments as are as follows:

i) Reclassification of revenue and cost of sales

Under US GAAP, equipment sales revenue of ¥3,470,400 thousand and costs of equipment sales of ¥3,142,262 thousand were shown separately. Under IFRS, they are included in system integration revenues and cost of system integration sales, respectively.

ii) Fair value measurement of financial assets

Under USGAAP, nonmarketable equity securities are measured based on cost and impairment losses are recognized when issuers' financial positions deteriorate. Under IFRS, these investments are measured at FVTOCI.

Under US GAAP, ¥1,068,303 thousand, which is recorded as gain or loss on sales of other investments, is transferred to retained earnings through other comprehensive income.