

IIJ Announces its First Three Months Financial Results
for the Fiscal Year Ending March 31, 2021

Tokyo, August 7, 2020 - Internet Initiative Japan Inc. (“IIJ”, TSE1: 3774) today announced its consolidated financial results for the first three months for the fiscal year ending March 31, 2021 (“1Q20”, from April 1, 2020 to June 30, 2020) under International Financial Reporting Standards (IFRS).¹

Highlights of Financial Results for 1Q20

Total revenues	JPY50.4 billion	up	1.1%	YoY ²
Gross profit	JPY8.1 billion	up	9.9%	YoY
Operating profit	JPY2.0 billion	up	48.2%	YoY
Net profit ³	JPY1.1 billion	up	43.8%	YoY

Overview of 1Q20 Financial Results and Business Outlook

“We started FY2020 with well-accomplished first quarter: accumulation of enterprise network services as well as profit improvement significantly exceeded our expectation. Amid the abnormal circumstance caused by the COVID-19, we were able to continuously and structurally improve operating profit by following FY2019 trend of solid accumulation of enterprise network services, which are all monthly recurring revenues. The COVID-19 has absolutely stimulated slow-moving Japanese enterprises to increase their dependency on network services and other IT means and we firmly believe this trend should last for middle-to-long term. For IIJ, this mainstream adoption of network and IT by Japanese enterprises is very positive as such shift should translate into network services’ continuous revenue growth for our business as well as profit growth contribution. Regarding Systems Integration (SI), 1Q system construction revenue and gross profit were mostly in line with our expectation, based on 4Q19-end order backlog. Although favorable demand remained, 1Q20 order-received was relatively small compared to normal years due to slowdown of Japanese enterprises’ business activity, which we expect to gradually recover. As for ATM operation business, most hard-hit business of ours by the pandemic and we expect its revenue and profit to decrease year over year, delivered better than expected results,” said Eihiro Katsu, COO and President of IIJ.

“As for other noticeable business developments, we are the provider of Smart Factory for Toyota Motor’s subsidiary.⁴ We are excited about executing this kind of full-scale and advanced IoT adoption as such projects contribute to accelerate many of our existing revenue categories such as mobile, security, cloud and SI. We continuously aim to acquire flagship IoT projects by leveraging our competitive advantage of having both various network services and SI expertise. DeCurret, our affiliated company engaged in fintech, has been co-working with its enterprise shareholders on settlement-related PoC experiments such as issuing digital currencies,⁵ P2P electricity trading⁶ and executing smart contracts.⁷ They have also been playing an active role in discussing about the future of digital currency settlement in Japan with mega banks and other major players,⁸” continued Katsu.

“What we saw in 1Q about Japanese enterprises requiring network services and other IT means might be a small change, yet this could eventually become a profound catalyst in pushing them to rely much more on them to bring greater business productivity and continuity. IIJ shall continue to operate exceptionally reliable network and system infrastructures as well as develop highly valuable network services toward our current client base, mostly comprised by medium-to-large Japanese enterprises. IIJ shall strive to expand its corporate value by sustaining Japanese enterprises’ network systems that are surely becoming critical social infrastructure,” concluded Koichi Suzuki, Founder, CEO, and Chairman of IIJ.

¹ Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with IFRS, unaudited and consolidated.

² YoY is an abbreviation for year over year change.

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

⁴ For details, please refer to our press release announced on August 3, 2020 titled “IIJ builds IoT system for new production line at Toyota Motor Hokkaido” which could be found here <https://www.iij.ad.jp/en/news/pressrelease/2020/0803.html>

⁵ For details, please refer to DeCurret’s press release announced on May 13, 2020 titled “Testing of Business Process Automation for Insurance Policies Using Blockchain” which could be found here https://www.decurret.com/assets/news/2020/05/pr_20200513_poc_release_en.pdf

⁶ For details, please refer to DeCurret’s press release announced on August 5, 2020 titled “Proof of Concept Study for Automated Settlement of P2P Electricity Trading Using Blockchain Technology” which could be found here https://www.decurret.com/assets/news/2020/08/pr_20200805_kanden_poc_en.pdf

⁷ For details, please refer to DeCurret’s press release announced on July 7, 2020 titled “Daido Life and DeCurret Started Digital Currency Issuance Testing” which could be found here https://www.decurret.com/assets/news/2020/07/pr_20200707_daido_poc_en.pdf

⁸ For details, please refer to DeCurret’s press release announced on June 3, 2020 titled “DeCurret to Hold a Study Group on Digital Currency Settlement Infrastructure in Japan” which could be found here https://www.decurret.com/assets/news/2020/06/pr_20200603_studygroup_release_en.pdf

1Q20 Financial Results Summary

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

Operating Results Summary

	1Q19	1Q20	YoY Change
	JPY millions	JPY millions	%
Total revenues	49,829	50,379	1.1
Network services	30,680	30,934	0.8
Systems integration (SI)	18,109	18,875	4.2
ATM operation business	1,040	570	(45.2)
Total costs	(42,447)	(42,266)	(0.4)
Network services	(25,661)	(24,944)	(2.8)
Systems integration (SI)	(16,219)	(16,884)	4.1
ATM operation business	(567)	(438)	(22.7)
Total gross profit	7,382	8,113	9.9
Network services	5,019	5,990	19.4
Systems integration (SI)	1,890	1,991	5.4
ATM operation business	473	132	(72.2)
SG&A, R&D, and other operating income (expenses)	(6,001)	(6,066)	1.1
Operating profit	1,381	2,047	48.2
Profit before tax	1,369	1,694	23.8
Profit for the year attributable to owners of the parent	777	1,116	43.8

(Note) Systems integration includes equipment sales.

Segment Results Summary

	1Q19	1Q20
	JPY millions	JPY millions
Total revenues	49,829	50,379
Network services and SI business	48,862	49,858
ATM operation business	1,040	570
Elimination	(73)	(49)
Operating profit	1,381	2,047
Network service and SI business	999	1,991
ATM operation business	419	89
Elimination	(37)	(33)

1Q20 Revenues and Income

Revenues

Total revenues were JPY50,379 million, up 1.1% YoY (JPY49,829 million for 1Q19).

Network services revenue was JPY30,934 million, up 0.8% YoY (JPY30,680 million for 1Q19).

Revenues for Internet connectivity services for enterprise were JPY9,809 million, up 9.9% YoY from JPY8,926 million for 1Q19, mainly due to an increase in IP services revenues and mobile-related services revenues along with an increase of telecommunication demands.

Revenues for Internet connectivity services for consumers were JPY6,454 million, down 0.7% YoY from JPY6,500 million for 1Q19, mainly due to a decrease in “IIJmio Mobile Service,” consumer mobile services revenues along with sluggish sales of retailers under the COVID-19 pandemic.

Revenues for WAN services were JPY6,175 million, down 16.8% YoY from JPY7,424 million for 1Q19. The decrease was mainly because of the year over year impact by large enterprises clients’ migration to mobile which mostly ended in 3Q19.

Revenues for Outsourcing services were JPY8,496 million, up 8.5% YoY from JPY7,830 million for 1Q19, mainly due to an increase in security-related services revenues.

Network Services Revenues Breakdown

	1Q19	1Q20	YoY Change
	JPY millions	JPY millions	%
Total network services	30,680	30,934	0.8
Internet connectivity services (enterprise)	8,926	9,809	9.9
IP services (including data center connectivity services)	2,634	2,881	9.4
IIJ Mobile services	5,484	6,047	10.2
IIJ Mobile MVNO Platform Service (MVNE)	4,069	4,374	7.5
Others	1,415	1,673	18.2
Others	808	881	9.1
Internet connectivity services (consumer)	6,500	6,454	(0.7)
IIJmio Mobile Service	5,855	5,796	(1.0)
Others	645	658	2.0
WAN services	7,424	6,175	(16.8)
Outsourcing services	7,830	8,496	8.5

Number of Contracts and Subscription for Connectivity Services

	As of June 30, 2019	As of June 30, 2020	YoY Change
Internet connectivity services (enterprise)	1,792,638	2,135,482	342,844
IP service (greater than or equal to 1Gbps)	736	778	42
IP service (less than 1Gbps)	1,251	1,246	(5)
IIJ Mobile Services	1,709,359	2,046,836	337,477
IIJ Mobile MVNO Platform Service (MVNE)	1,072,190	1,124,017	51,827
Others	637,169	922,819	285,650
Others	81,292	86,622	5,330
Internet connectivity services (consumer)	1,407,024	1,402,062	(4,962)
IIJmio Mobile Service	1,073,763	1,063,165	(10,598)
Others	333,261	338,897	5,636
Total contracted bandwidth (Gbps)	4,272.0	5,288.7	1,016.7

(Notes)

- Numbers in the table above show number of contracts except for “IIJ Mobile Services (enterprise)” and “IIJmio Mobile Service” which show number of subscriptions.
- The numbers of IP service contracts include the numbers of IIJ data center connectivity service contracts.
- Total contracted bandwidth is calculated by multiplying number of contracts under “Internet connectivity services (enterprise)” except for “IIJ Mobile Services” and the contracted bandwidths of the services respectively.

SI revenues, including equipment sales, were JPY18,875 million, up 4.2% YoY (JPY18,109 million for 1Q19). Systems construction and equipment sales, a one-time revenue, was JPY6,550 million, down 9.6% YoY (JPY7,249 million for 1Q19), mainly due to stagnation of sales activities during April and May caused by the COVID-19 pandemic. Systems operation and maintenance revenue, a recurring revenue, was JPY12,325 million, up 13.5% YoY (JPY10,860 million for 1Q19), mainly due to an increase in private cloud services' revenues.

Orders received for SI, including equipment sales, totaled JPY20,643 million, down 7.1% YoY (JPY22,217 million for 1Q19); orders received for systems construction and equipment sales were JPY6,693 million, down 17.6% YoY (JPY8,118 million for 1Q19), and orders received for systems operation and maintenance were JPY13,949 million, down 1.1% YoY (JPY14,099 million for 1Q19). The decreases were mainly due to stagnation of sales activities as seen in revenue results.

Order backlog for SI, equipment sales, as of June 30, 2020 amounted to JPY57,631 million, up 4.4% YoY (JPY55,222 million as of June 30, 2019); order backlog for systems construction and equipment sales was JPY7,650 million, down 12.2% YoY (JPY8,709 million as of June 30, 2019) and order backlog for systems operation and maintenance was JPY49,981 million, up 7.5% YoY (JPY46,514 million as of June 30, 2019).

ATM operation business revenues were JPY570 million, down 45.2% YoY (JPY1,040 million for 1Q19), mainly due to temporary closure of stores to which we had placed ATMs caused by the COVID-19 pandemic during April and May, yet we saw some signs of recovery in June.

Cost of sales

Total cost of sales was JPY42,266 million, down 0.4% YoY (JPY42,447 million for 1Q19).

Cost of network services revenue was JPY24,944 million, down 2.8% YoY (JPY25,661 million for 1Q19). There was a decrease in circuit-related costs along with WAN services revenue decrease. Gross profit was JPY5,990 million, up 19.4% YoY (JPY5,019 million for 1Q19), and gross profit ratio was 19.4% (16.4% for 1Q19).

Cost of SI revenues, including equipment sales was JPY16,884 million, up 4.1% YoY (JPY16,219 million for 1Q19). There was an increase in license fees along with an increase in cloud-related revenues. Gross profit was JPY1,991 million, up 5.4% YoY (JPY1,890 million for 1Q19) and gross profit ratio was 10.5% (10.4% for 1Q19).

Cost of ATM operation business revenues was JPY438 million, down 22.7% YoY (JPY567 million for 1Q19). Gross profit was JPY132 million (JPY473 million for 1Q19) and gross profit ratio was 23.1% (45.5% for 1Q19).

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

Selling, general and administrative expenses, which include research and development expenses, totaled JPY6,049 million, up 0.1% YoY (JPY6,042 million for 1Q19). There were an increase in personnel-related expenses and decreases in sales commission expenses, traveling expenses and advertising expenses.

Other operating income was JPY48 million (JPY113 million for 1Q19).

Other operating expenses was JPY65 million (JPY72 million for 1Q19), mainly due to disposal loss on fixed assets.

Operating profit

Operating profit was JPY2,047 million (JPY1,381 million for 1Q19), up 48.2% YoY.

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

Finance income was JPY80 million, compared to JPY90 million for 1Q19. It included dividend income of JPY56 million (JPY61 million for 1Q19).

Finance expense was JPY154 million, compared to JPY215 million for 1Q19. It included interest expenses of JPY151 million (JPY126 million for 1Q19).

Share of loss of investments accounted for using equity method was JPY279 million (compared to profit of JPY112 million for 1Q19), mainly due to our share of loss of in DeCurret of JPY306 million.

Profit before tax

Profit before tax was JPY1,694 million (JPY1,369 million for 1Q19), up 23.8% YoY.

Profit for the period

Income tax expense was JPY572 million (JPY543 million for 1Q19). As a result, profit for the period was JPY1,122 million (JPY826 million for 1Q19), up 35.9% YoY.

Profit for the period attributable to non-controlling interests was JPY6 million (JPY49 million for 1Q19) mainly related to net income of Trust Networks Inc.

Profit for the period attributable to owners of parent was JPY1,116 million (JPY777 million for 1Q19), up 43.8% YoY.

Financial Position as of June 30, 2020

As of June 30, 2020, the balance of total assets was JPY205,349 million, decreased by JPY1,175 million from the balance as of March 31, 2020 of JPY206,524 million.

As of June 30, 2020, the balance of current assets was JPY85,167 million, decreased by JPY1,423 million from the balance as of March 31, 2020 of JPY86,590 million. The major breakdown of fluctuation and balance of current assets was: an increase in cash and cash equivalents by JPY221 million to JPY38,893 million, a decrease in trade receivables by JPY4,086 million to JPY28,499 million and an increase in prepaid expenses by JPY3,017 million to JPY12,714 million.

As of June 30, 2020, the balance of non-current assets was JPY120,182 million, increased by JPY248 million from the balance as of March 31, 2020 of JPY119,934 million. Right-of-use assets decreased by JPY1,954 million to JPY48,607 million, mainly due to depreciation. The balance of investments accounted for using the equity method was JPY7,179 million, increased by JPY2,352 million, mainly due to an additional investment in DeCurret. The amount of other investments was JPY10,611 million, increased by JPY1,424 million mainly due to fluctuation of fair value of our holding marketable equity securities.

As of June 30, 2020, the balance of current liabilities was JPY66,995 million, increased by JPY1,309 million from the balance as of March 31, 2020 of JPY65,687 million. Trade and other payables decreased by JPY2,226 million to JPY16,061 million. Borrowings increased by JPY3,170 million to JPY18,750 million. The major breakdown of increase in the borrowings was: a decrease by JPY915 million due to payment of long-term borrowings, and an increase by JPY4,085 million due to a transfer from non-current liabilities. Income taxes payable decreased by JPY1,482 million to JPY801 million. Contract liabilities increased by JPY2,385 million to JPY8,283 million, mainly due to prepayment received in operating transactions.

As of June 30, 2020, the balance of non-current liabilities was JPY56,685 million, decreased by JPY4,095 million from the balance as of March 31, 2020 of JPY60,780 million. Long-term borrowings decreased by JPY4,085 million to JPY8,085 million due to a transfer to current portion. Other financial liabilities decreased by JPY1,313 million to JPY34,993 million, mainly due to lease payments

As of June 30, 2020, the balance of total equity attributable to owners of the parent was JPY80,737 million, increased by JPY1,661 million from the balance as of March 31, 2020 of JPY79,076 million. Ratio of owners' equity to total assets was 39.3% as of June 30, 2020.

1Q20 Cash Flows

Cash and cash equivalents as of June 30, 2020 were JPY38,893 million (JPY32,893 million as of June 30, 2019).

Net cash provided by operating activities for 1Q20 was JPY11,635 million (net cash provided by operating activities of JPY5,250 million for 1Q19). There was profit before tax of JPY1,694 million, depreciation and amortization of JPY7,095 million, including JPY3,009 million of depreciation of right-of-use operating lease assets under IFRS 16, and income taxes paid of JPY2,177 million. Regarding changes in operating assets and liabilities, there was net cash in of JPY4,576 million compared to net cash out of JPY2,057 million for 1Q19. As a result of an increase in proceeds from revenues, cash in related to decrease in trade receivable and increase in contract liabilities, which included prepayment of revenue, increased in comparison with 1Q19. As for trade and other payables, which was temporarily increased at the beginning of 1Q19, the cash out for 1Q20 decreased compared to 1Q19.

Net cash used in investing activities for 1Q20 was JPY4,592 million (net cash used in investing activities of JPY2,141 million for 1Q19), mainly due to payments for purchase of tangible assets of JPY1,407 million (JPY2,947 million for 1Q19), payments for purchase of intangible assets, such as software, of JPY1,805 million (JPY1,650 million for 1Q19), proceeds from sales of tangible assets, which include sale and leaseback, of JPY1,017 million (JPY348 million for 1Q19) and an investment in an equity method investee of JPY2,754 million.

Net cash used in financing activities for 1Q20 was JPY6,802 million (net cash used in financing activities of JPY2,097 million for 1Q19), mainly due to repayments of long-term borrowings of JPY915 million, payments of other financial liabilities of JPY5,223 million, including JPY2,980 million of payment of operating lease under IFRS 16, and dividends paid of JPY609 million.

Considered Factors for FY2020 Financial Targets

Due to seasonal factors, our financial results tend to be small in first quarter and large in fourth quarter every fiscal year. While 1Q20 financial results, profit in particular, exceeded our plan, because it continues to be difficult to meticulously estimate how much the COVID-19 impacts our earnings, as of today, our financial targets for the fiscal year ending March 31, 2021 (FY2020) announced on May 14, 2020 remain unchanged.

Presentation

Presentation materials will be posted on our web site (<https://www.ij.ad.jp/en/ir/>) on August 7, 2020.

About Internet Initiative Japan Inc.

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

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Condensed Consolidated Statements of Financial Position (Unaudited)

	March 31, 2020	June 30, 2020
	Thousands of yen	Thousands of yen
Assets		
Current Assets		
Cash and cash equivalents	38,671,734	38,892,573
Trade receivables	32,585,326	28,498,975
Inventories	2,476,477	2,131,647
Prepaid expenses	9,696,856	12,714,203
Contract assets	438,675	753,257
Other financial assets	2,629,332	1,952,189
Other current assets	92,027	224,271
Total Current Assets	86,590,427	85,167,115
Non-current Assets		
Tangible assets	17,399,863	16,638,613
Right-of-use Assets	50,560,361	48,606,798
Goodwill	6,082,472	6,082,472
Intangible assets	18,280,247	18,046,983
Investments accounted for using the equity method	4,827,287	7,179,466
Prepaid expenses	7,777,997	7,886,858
Contract assets	60,362	50,826
Other investments	9,186,646	10,610,953
Deferred tax assets	742,857	273,211
Other financial assets	4,645,959	4,421,100
Other non-current assets	369,782	384,485
Total non-current assets	119,933,833	120,181,765
Total assets	206,524,260	205,348,880

	March 31, 2020	June 30, 2020
	Thousands of yen	Thousands of yen
Liabilities and Equity		
Liabilities		
Current liabilities		
Trade and other payables	18,287,546	16,061,078
Borrowings	15,580,000	18,750,000
Income taxes payable	2,283,707	801,375
Contract liabilities	5,897,674	8,283,167
Deferred income	88,901	87,851
Other financial liabilities	17,845,194	17,751,236
Other current liabilities	5,703,623	5,260,603
Total current liabilities	65,686,645	66,995,310
Non-current liabilities		
Borrowings	12,170,000	8,085,000
Retirement benefit liabilities	3,984,880	4,058,968
Provisions	753,518	754,239
Contract liabilities	5,991,807	7,238,689
Deferred income	479,097	459,396
Deferred tax liabilities	136,536	150,249
Other financial liabilities	36,305,781	34,992,524
Other non-current liabilities	958,879	946,246
Total non-current liabilities	60,780,498	56,685,311
Total liabilities	126,467,143	123,680,621
Equity		
Share capital	25,530,621	25,530,621
Share premium	36,271,395	36,285,845
Retained earnings	16,500,993	17,260,526
Other components of equity	2,669,501	3,556,766
Treasury shares	(1,896,921)	(1,896,921)
Total equity attributable to owners of the parent	79,075,589	80,736,837
Non-controlling interests	981,528	931,422
Total equity	80,057,117	81,668,259
Total liabilities and equity	206,524,260	205,348,880

Condensed Consolidated Statements of Profit or Loss (Unaudited)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2020
	Thousands of yen	Thousands of yen
Revenues		
Network services	30,679,585	30,933,934
System integration	18,109,204	18,874,960
ATM operation business	1,040,055	569,611
Total revenues	49,828,844	50,378,505
Cost of sales		
Cost of network services	(25,660,982)	(24,943,344)
Cost of systems integration	(16,219,380)	(16,883,807)
Cost of ATM operation business	(566,918)	(438,297)
Total cost of sales	(42,447,280)	(42,265,448)
Gross Profit	7,381,564	8,113,057
Selling, general and administrative expense	(6,041,692)	(6,048,848)
Other operating income	112,659	48,167
Other operating expenses	(71,572)	(65,147)
Operating Profit	1,380,959	2,047,229
Finance income	90,126	79,776
Finance expenses	(214,613)	(153,867)
Share of profit (loss) of investments accounted for using equity method	112,207	(278,907)
Profit (loss) before tax	1,368,679	1,694,231
Income tax expense	(542,925)	(572,192)
Profit (loss) for the period	825,754	1,122,039
Profit (loss) for the period attributable to:		
Owners of the parent	776,513	1,116,313
Non-controlling interests	49,241	5,726
Total	825,754	1,122,039
Earnings per share		
Basic earnings per share (yen)	17.23	24.76
Diluted earnings per share (yen)	17.15	24.64

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2020
	Thousands of yen	Thousands of yen
Profit (loss)	825,754	1,122,039
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	652,157	1,195,836
Total items that will not be reclassified to profit or loss	652,157	1,195,836
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(97,542)	(25,465)
Financial assets measured at fair value through other comprehensive income	685	137
Share of other comprehensive income of investments accounted for using equity method	3,962	(31,394)
Total of items that may be reclassified to profit or loss	(92,895)	(56,722)
Total other comprehensive income, net of tax	559,262	1,139,114
Other comprehensive income	1,385,016	2,261,153
Other comprehensive income attributable to:		
Owners of the parent	1,335,775	2,255,427
Non-controlling interest	49,241	5,726
Other comprehensive income	1,385,016	2,261,153

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
Three months ended June 30, 2019

	Owners of the parent's shareholders' equity						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Other components of equity	Treasury shares	Total		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Balance, March 31, 2019	25,518,712	36,225,775	12,335,035	4,088,704	(1,896,788)	76,271,438	848,172	77,119,610
Cumulative impact of adopting IFRS 16	-	-	(33,728)	-	-	(33,728)	-	(33,728)
Comprehensive income								
Profit (loss)	-	-	776,513	-	-	776,513	49,241	825,754
Other comprehensive income	-	-	-	559,262	-	559,262	-	559,262
Total comprehensive income	-	-	776,513	559,262	-	1,335,775	49,241	1,385,016
Transactions with owners								
Dividends paid	-	-	(608,452)	-	-	(608,452)	(53,405)	(661,857)
Stock-based compensation	-	14,165	-	-	-	14,165	-	14,165
Transfer from other components of equity to retained earnings	-	-	1,605,421	(1,605,421)	-	-	-	-
Total transactions with owners	-	14,165	996,969	(1,605,421)	-	(594,287)	(53,405)	(647,692)
Balance, June 30, 2019	25,518,712	36,239,940	14,074,789	3,042,545	(1,896,788)	76,979,198	844,008	77,823,206

Three months ended June 30, 2020

	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, March 31, 2020	25,530,621	36,271,395	16,500,993	2,669,501	(1,896,921)	79,075,589	981,528	80,057,117
Comprehensive income								
Profit (loss)	-	-	1,116,313	-	-	1,116,313	5,726	1,122,039
Other comprehensive income	-	-	-	1,139,114	-	1,139,114	-	1,139,114
Total comprehensive income	-	-	1,116,313	1,139,114	-	2,255,427	5,726	2,261,153
Transactions with owners								
Dividends paid	-	-	(608,629)	-	-	(608,629)	(55,832)	(664,461)
Stock-based compensation	-	14,450	-	-	-	14,450	-	14,450
Transfer from other components of equity to retained earnings	-	-	251,849	(251,849)	-	-	-	-
Total transactions with owners	-	14,450	(356,780)	(251,849)	-	(594,179)	(55,832)	(650,011)
Balance, June 30, 2020	25,530,621	36,285,845	17,260,526	3,556,766	(1,896,921)	80,736,837	931,422	81,668,259

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2020
	Thousands of yen	Thousands of yen
Cash flows from operating activities:		
Profit (loss) before tax	1,368,679	1,694,231
Adjustments		
Depreciation and amortization	7,163,708	7,095,188
Loss on sales of property and equipment	63,854	48,047
Shares of loss (profit) of investments accounted for using the equity method	(112,207)	278,907
Finance income	(75,430)	(69,788)
Finance expenses	216,748	162,138
Other	(43,228)	19,621
Changes in working capital		
Decrease (increase) in trade receivables	3,118,954	4,090,221
Decrease (increase) in inventories	1,561,660	345,075
Decrease (increase) in prepaid expenses	(3,680,025)	(3,124,377)
Decrease (increase) in contract assets	(1,022,054)	(305,046)
Decrease (increase) in other assets	(29,414)	(132,247)
Decrease (increase) in other financial assets	(299,831)	880,031
Increase (decrease) in trade and other payables	(3,293,040)	(1,288,730)
Increase (decrease) in contract liabilities	817,703	3,646,014
Increase (decrease) in deferred income	(46,761)	(20,751)
Increase (decrease) in other liabilities	(78,047)	(455,904)
Increase (decrease) in other financial liabilities	849,928	867,424
Increase (decrease) in retirement benefit liabilities	43,756	74,088
Sub total	6,524,953	13,804,142
Interest and dividends received	154,876	153,699
Interest paid	(126,602)	(145,288)
Income taxes paid	(1,303,564)	(2,177,486)
Cash flows from operating activities	5,249,663	11,635,067

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2020
	Thousands of yen	Thousands of yen
Cash flows from investing activities		
Purchases of tangible assets	(2,947,407)	(1,407,413)
Proceeds from sales of tangible assets	348,306	1,016,997
Purchases of intangible assets	(1,650,369)	(1,804,916)
Proceeds from sales of intangible assets	6,831	-
Purchase of investments accounted for using equity method	(460,000)	(2,754,000)
Purchases of other investments	(8,740)	(22,500)
Proceeds from sales of other investments	2,649,631	392,353
Payments for leasehold deposits and guarantee deposits	(70,882)	(2,410)
Proceeds from collection of leasehold deposits and guarantee deposits	5,309	3,492
Payments for refundable insurance policies	(14,085)	(14,085)
Cash flows from investing activities	(2,141,406)	(4,592,482)
Cash flows from financing activities		
Repayment of long-term borrowings	(750,000)	(915,000)
Net increase (decrease) in short-term borrowings	3,000,000	-
Proceeds from other financial liabilities	1,473,000	-
Payments of other financial liabilities	(5,158,023)	(5,222,579)
Dividends paid	(608,452)	(608,629)
Other	(53,405)	(55,832)
Cash flows from financing activities	(2,096,880)	(6,802,040)
Effect of exchange rate changes on cash and cash equivalents	(76,509)	(19,706)
Net increase (decrease) in cash and cash equivalents	934,868	220,839
Cash and cash equivalents, beginning of the period	31,957,789	38,671,734
Cash and cash equivalents at beginning of the period	32,892,657	38,892,573

Notes to Condensed Consolidated Financial Statements (UNAUDITED)

Going Concern Assumption

Nothing to be reported.

Material Changes In Shareholders' Equity

Nothing to be reported.

Segment Information

IIJ and its subsidiaries (collectively “the Company”) primarily operate their network service and system integration business, which provides a comprehensive range of network solutions to meet their 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.”

Segment information for the Company is as follows:

Three months ended June 30, 2019

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	48,788,789	1,040,055	—	49,828,844
Intersegment transactions	73,516	—	(73,516)	—
Total revenue	48,862,305	1,040,055	(73,516)	49,828,844
Segment operating profit	999,397	418,723	(37,161)	1,380,959
Finance income				90,126
Finance expense				(214,613)
Share of profit (loss) of investments accounted for using the equity method				112,207
Profit before tax				1,368,679

Three months ended June 30, 2020

	Reportable segments		Adjustments	Consolidated
	Network service and systems integration business	ATM operation business		
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Revenue				
Customers	49,808,894	569,611	—	50,378,505
Intersegment transactions	48,949	—	(48,949)	—
Total revenue	49,857,843	569,611	(48,949)	50,378,505
Segment operating profit	1,990,537	88,603	(31,911)	2,047,229
Finance income				79,776
Finance expense				(153,867)
Share of profit (loss) of investments accounted for using the equity method				(278,907)
Profit before tax				1,694,231

Intersegment transactions are based on market price.

Subsequent Events (Unaudited)

Nothing to be reported.

Changes in Accounting Policies (Unaudited)

Nothing to be reported.

Note: The following information is provided to disclose Internet Initiative Japan Inc. ("IIJ") financial results (unaudited) for the first three months ended June 30, 2020 ("1Q20") in the form defined by the Tokyo Stock Exchange.

Consolidated Financial Results for the Three Months ended June 30, 2020 [Under IFRS]

August 7, 2020

Company name: Internet Initiative Japan Inc.

Exchange listed: Tokyo Stock Exchange First Section

Stock code number: 3774

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

Representative: Eijiro Katsu, President and Representative Director

Contact: Akihisa Watai, Managing Director and CFO

TEL: +81-3-5205-6500

Scheduled date for filing of quarterly report (*Shihanki-houkokusho*) to Japan's regulatory organization: August 14, 2020

Scheduled date for dividend payment: -

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 Three Months ended June 30, 2020 (April 1, 2020 to June 30, 2020)

(1) Consolidated Results of Operations

(% shown is YoY change)

	Revenues		Operating profit		Profit (loss) before tax		Profit (loss) for the period		Profit (loss) attributable to owners of the parent		Other comprehensive income	
	JPY millions	%	JPY millions	%	JPY millions	%	JPY million	%	JPY millions	%	JPY millions	%
Three Months ended June 30, 2020	50,379	1.1	2,047	48.2	1,694	23.8	1,122	35.9	1,116	43.8	2,261	63.3
Three Months ended June 30, 2019	49,829	11.1	1,381	2.2	1,369	(3.9)	826	(9.7)	777	(11.1)	1,385	284.8

	Basic earnings per share	Diluted earnings per share
	JPY	JPY
Three Months ended June 30, 2020	24.76	24.64
Three Months ended June 30, 2019	17.23	17.15

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of owners' equity to total assets
	JPY millions	JPY millions	JPY millions	%
As of June 30, 2020	205,349	81,668	80,737	39.3
As of March 31, 2020	206,524	80,057	79,076	38.3

2. Dividends

	Dividend per Shares				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal Year Ended March 31, 2020	JPY —	JPY 13.50	JPY —	JPY 13.50	JPY 27.00
Fiscal Year Ending March 31, 2021	—				
Fiscal Year Ending March 31, 2021 (forecast)		17.00	—	17.00	34.00

(Note) Changes from the latest forecasts disclosed: No

3. Targets of Consolidated Financial Results for the Fiscal Year Ending March 31, 2021

(% shown is YoY change)

	Revenues		Operating profit		Profit (loss) before tax		Profit (loss) for the year attributable to owners of the parent		Basic earnings per share
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY
Fiscal Year Ending March 31, 2021	210,000	2.7	8,700	5.8	8,000	11.7	5,000	24.8	110.90

(Notes)

1. Changes from the latest forecasts disclosed: No

2. As for the details about our financial targets for the fiscal year ending March 31, 2021, please refer to “Considered Factors for FY2020 Financial Targets” which is disclosed on page 8 of this earnings release.

* Notes:

(1) Changes in significant subsidiaries: None

(2) Changes in accounting policies and estimate

i.Changes in accounting policies required by IFRS: None

ii.Other changes in accounting policies: None

iii.Changes in accounting estimates: None

(3) Number of shares issued (common stock)

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

As of June 30, 2020: 46,734,600 shares

As of March 31, 2020: 46,734,600 shares

ii. Number of treasury stock:

As of June 30, 2020: 1,650,950 shares

As of March 31, 2020: 1,650,950 shares

iii. Number of weighted average common shares outstanding:

For the three months ended June 30, 2020: 45,083,650 shares

For the three months ended June 30, 2019: 45,070,489 shares

* Status of Audit Procedures

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

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

i) Forward-looking statements

Forward-looking statements disclosed in this document are based on IIJ Group's expectation, estimates, and projections based on information available to IIJ Group as of August 7, 2020. As these forward-looking statements are subject to known and unknown risks and uncertainties, actual results may differ from those disclosed due, for example, to but not limited to changes in business climate and/or market trends. As for our latest forecast of our financial targets for the fiscal year ending March 31, 2021, please refer to the page 8 of this document.

ii) Others

Presentation material will be disclosed on TDnet as well as posted on our website on Friday, August 7, 2020.