D. Risk Factors

You should carefully consider the following information, together with the other information contained in this annual report on Form 20-F, including our consolidated financial statements and the related notes, before making an investment decision. Any risks described below could result in a material adverse effect on our business, financial condition or results of operations.

We may not maintain our current level of revenues and profits or achieve our expected revenues and profits in the future.

Our business is principally conducted in Japan and most of our revenues are from customers operating in Japan. For the fiscal year ended March 31, 2018, approximately 97% of our total revenues were from customers operating in Japan. If the Japanese economy deteriorates and that results in significantly lower levels of network and systems related investment and expenditures, customers may respond to such conditions by prioritizing low prices over quality, or we may experience severe price reduction pressure and/or cancellation of large accounts. Such conditions may also make it difficult to maintain our current level of revenues and income, or achieve our expected revenues and income, or payout our target dividends.

In addition to factors related to general economic conditions in Japan, we may not be able to maintain our current level of revenues and income or achieve our expected levels of revenues and income. In fact, we revised our disclosed financial targets downward for the fiscal years ended March 31, 2014, 2015, and 2017 due to several factors unrelated to general economic conditions in Japan. Operating income for the fiscal year ended March 31, 2017 decreased from that of fiscal year ended March 31, 2016. Factors that may prevent us from maintaining our current level of revenues and income or achieving our expected levels of revenues and income include but are not limited to the following:

· a decrease or weaker than expected growth in our network services revenues which include Internet connectivity services for enterprise, Internet connectivity services for consumers, Wide Area Network (“WAN”) services, and outsourcing services if, for example, we fail to develop and offer competitive services and solutions in a timely manner, if our service line-ups become obsolete, if we fail to keep up with rapidly changing market trends, especially for the consumer market, if service prices fall dramatically due, for example, to tough competition regarding customer acquisition, especially for our mobile services for consumers which are provided through direct sales, sales partnerships, and Mobile Virtual Network Enabler (“MVNE”) strategy, or if we experience cancellations or usage reductions, especially in large accounts, due, for example, to corporate customers’ demand to cut costs or a decrease in customers’ needs for network usage for enterprise services,

· a decrease or weaker than expected growth in our systems construction revenues and lower margins if, for example, we fail to successfully differentiate our technical skills from those of our competitors, if corporate customers put off placing orders with us, if we fail to hire adequate employees or acquire outsourcing resources to complete systems projects appropriately, if we fail to effectively manage and assign outsourcing resources, if we have serious troubles or problems in certain projects which may become unprofitable or incur losses, especially for large-scale projects, or if we pursue unprofitable construction projects in order to, for example, gain greater business opportunities and to acquire continuous systems operation and maintenance profit in the future. Our systems construction revenues may decrease due to the continuing trend of cloud computing services replacing conventional on-site hardware,

· a decrease or weaker than expected growth in our systems operation and maintenance revenues and lower margins if, for example, the number and the size of systems construction projects which contain continuous systems operation and maintenance decrease or do not significantly increase, if our cloud computing services revenues do not grow as anticipated, or if we fail to effectively manage and assign outsourcing resources, or if we have serious troubles or problems in certain projects which may become unprofitable or incur losses. Also, we may have cancellations or reductions in current systems operation and maintenance revenues due, for example, to severe price reduction requirements, especially for large-scale projects, or due to customers’ intention to reduce or eliminate their systems,

- an inability to achieve anticipated revenue and income growth for our cloud computing services, in which we have been continuously investing in facilities such as some portion of our data centers, servers, storages, software and other equipment as well as service developments if, for example, the cloud computing market in Japan does not expand as large as we expect or takes a longer time to expand than we expect, if we fail to successfully differentiate our services from those of our increasing number of competitors, including global players, if we have serious system troubles and interruptions with our cloud computing services that damage our credibility or cause customers to question the reliability of our services, if market prices for the services fall dramatically, if we experience cancellations of large contracts or reduction of usage, or if Japanese companies strongly maintain their current systems and fail to adopt cloud computing services to the extent currently anticipated. We decided to build our own data center in order to meet the future data center capacity demand as well as integrate our data center racks that are currently widely dispersed among Eastern Japan area's data centers. We plan to place module-based data center, rather than a traditional building-based data center. For more discussion on the risks related to our cloud computing services, please refer to other parts of "Risk Factors" including "*Our investment in our new business and service developments may not produce the returns we expect or may affect our results of operations and financial condition adversely.*"

- an inability to achieve anticipated revenue and income growth for our mobile services for both enterprise and consumer, in which we have been expanding our service infrastructure by increasing the purchasing volume of mobile bandwidth mainly from NTT DoCoMo Inc. ("NTT Docomo"), enhancing marketing activities, including increasing related advertisement expenses, if, for example, the Japanese inexpensive LTE Subscriber Identity Module ("SIM") card market does not expand as we expect or takes a longer time to expand than we expect, if we experience severe customer acquisition and/or price competition, if Mobile Network Operators ("MNOs") and their affiliated companies which currently dominate the Japanese consumer mobile market further implement low price strategies, if we fail to successfully differentiate our services from those of an increasing number of competitors, if we fail to carry out our marketing strategy and are left with significant increases in selling, general and administrative ("SG&A") expenses, if we fail to maintain appropriate relationships with our sales partners, if we face troubles in providing services which damage our credibility, if we are faced with heavy concentrations of mobile traffic at certain hours which requires us to purchase greater than our expected volume of bandwidth thus resulting in cost increases, or if we experience an unexpected level of wholesale telecommunication services charge changes by MNOs, such as NTT Docomo. We launched full-Mobile Virtual Network Operator ("MVNO") services in March 2018 and plan to expand our service line-up. In light of the service launch, our network services' fixed type cost is expected to increase by approximately ¥0.1 billion per month, consisting mainly of depreciation cost for HLR (Home Location Register) and HSS (Home Subscriber Server) systems constructed by us, and the accumulation of monthly payments to NTT Docomo for its network remodeling which will not be recognized as our capital expenditures but will be included in our monthly payments to NTT Docomo. For more discussion on the risks related to our mobile business, please refer to other parts of "Risk Factors" including "*Our investment in our new business and service developments may not produce the returns we expect or may affect our results of operations and financial condition adversely.*"

- an inability to achieve anticipated revenue and income growth for our overseas business, in which we have been investing in overseas subsidiaries, facilities and increasing staff, if, for example, we fail to offer competitive services and solutions, if our domestic customers reduce their overseas business and/or refrain from operating overseas business, if we fail to develop a customer base overseas, if we fail to attract and attain qualified personnel overseas, if we fail to provide our services as reliably as we provide them in the domestic market, if we fail to successfully work with business partners abroad, or if we fail to adequately control overseas subsidiaries and comply with necessary regulations. We may expand our presence overseas by, for example, increasing overseas subsidiaries or participating in more joint ventures with local companies. For more discussion on the risks related to our overseas business, please refer to other parts of "Risk Factors" including "*Our investment in our new business and service developments may not produce the returns we expect or may affect our results of operations and financial condition adversely.*"

- a decline in the profitability of network services if, for example, we invest in and contract more network capacity, including service facilities, than we actually require to serve our customers, if we experience unexpected increases or smaller-than-expected decreases in prices such as for electricity, leasing lines for our Internet backbone and interconnectivity bandwidth for MVNO infrastructure. These unexpected price fluctuations could be due, for example, to a shortage in electricity, an increase in Internet traffic volume and general demand for the infrastructure. There may also be price increases for international leasing lines and network equipment for service facilities, including cloud computing services, due, for example, to the weaker Japanese yen,

- slower and/or weaker than expected revenues growth against significant investments in business such as back-office systems, research and development, and other similar expenses and investments which we may be forced to make in the future in order to remain competitive or support business growth, and an unexpected level of increase in depreciation and amortization, loss on disposal, or loss due to obsolescence. We may continuously reinforce our back-office operations by making necessary investments to support revenue growth,

- an unexpected level of increase in personnel and outsourcing costs as well as related operating costs and expenses including office rent expenses if, for example, we fail to manage personnel and outsourcing resources effectively, if we experience a shortage of human resources in the market, or if we face pressure to raise individual salaries by a large amount due, for example, to Japanese labor market situation. As for our overall personnel costs, they continuously increase year over year as we acquire new employees in addition to the regular annual pay raise for existing employees. We may fail to raise enough revenue to cover the increase in these costs and expenses.

- an unexpected level of increase in SG&A expenses, such as personnel-related expenses, office rent-related expenses, sales commission expenses, and advertising expenses,

- the recording of an impairment loss on current and future intangible assets, which are recognized in relation to any mergers and acquisitions, that are subject to amortization, such as customer relationships, and/or are not subject to amortization, such as goodwill, as a result of an impairment test,

- the recording of an impairment loss and/or a retirement on tangible assets, software, network, service facilities and others if they fail to generate future cash flow as expected,

- the recording of impairment losses on nonmarketable equity securities and funds,

- the recording of unrealized gains and/or losses in other income (expenses) due to fluctuation of share prices for our available-for-sale equity securities following the revision of U.S. GAAP. Unrealized gains or losses on holding available-for-sale equity securities as recorded on our consolidated balance sheet as of March 31, 2018 were measured based on closing prices of March 30, 2018, the final day of trading in the fiscal year ended March 31, 2018 and were reclassed from accumulated other comprehensive income to retained earnings at the beginning of the fiscal year ending March 31, 2019. For future periods, fluctuations of unrealized gains or losses due to fluctuation of stock prices will be recognized in other income (expenses) in every quarter under the U.S. GAAP.

  We are considering to voluntarily adopt International Financial Reporting Standards (“IFRS”) from the filing of our annual report for the fiscal year ending March 31, 2019. Until then, we plan to continue preparing our consolidated financial statements disclosed in earnings press release as well as in the Convocation Notice for the 27th Ordinary General Meeting for Shareholders under U.S. GAAP. Because of different accounting principles, especially on different processing on unrealized gains or losses on holdings available-for-sale equity securities, our consolidated financial statements disclosed in the annual report, which might be prepared under IFRS, might differ from our consolidated financial statements disclosed in earnings press release as well as in the Convocation Notice for the 27th Ordinary General Meeting for Shareholders, which will be prepared under the U.S. GAAP.

- the recording of foreign exchange gain and/or loss such as for our U.S. dollars and British pounds denominated bank deposits, other overseas assets, and liabilities related to our overseas business,

- the decline in the value and trading volume of our holding of available-for-sale securities from which we expect gains on sale,

- a negative effect on our revenues and profits if our consolidated subsidiaries and/or equity method investees including newly established ones, such as DeCurret Inc. (“DeCurret”) which is to provide cryptocurrency exchange and settlement business as well as JOCDN Inc. (“JOCDN”) which provides contents distribution network (“CDN”) services, cannot achieve our expected levels of revenues or manage costs and expenses in a timely and adequate manner,

- a negative effect on our credibility, corporate image, or revenues and profits if we are unable to provide our services without interruption to customers due, for example, to power supply shortage, and

- a negative effect on our revenues and profits if new business areas to which we are to emphasize business investment such as content distribution, Machine to Machine (“M2M”), Internet of Things (“IoT”), health care and further development of overseas business cannot achieve our expected level of revenues or manage costs and expenses in a timely and adequate manner.

We disclosed our middle term plan for the period from the fiscal year ended March 31, 2017 to the fiscal year ending March 31, 2021 in our earnings results for the fiscal year ended March 31, 2016, which was filed as Form 6-K on May 13, 2016. The middle term plan was made based on our current expectation about, for example, the related markets and economic situations. The plan, especially regarding our target for the fiscal year ending March 31, 2021, is not made by accumulating each revenue line or operating cost item. We are not certain that we will be able to achieve our middle term plan due to such risks as weaker or slower than expected market expansion or a failure to execute growth strategies effectively. Please see Item 5, “Operating and Financial Review and Prospects” for more detailed information concerning our operations and other results.

We may not be able to compete effectively, especially against competitors with greater financial, marketing and other resources.

The major competitors of our network services are major telecommunications carriers such as NTT Communications Corporation (“NTT Communications”) and KDDI Corporation (“KDDI”). Price competition for Internet connectivity services, outsourcing services, and WAN services has been severe. This competition may adversely affect our revenues and profitability and may make it difficult for us to retain existing customers or attract new customers. The major competitors of our systems integration business are systems integrators, such as NEC Corporation, Fujitsu Limited, NTT Data Corporation and their affiliates. Our major competitors have the financial resources to reduce prices in an effort to gain market share. There is strong competition among systems integrators that may adversely affect our revenues and profitability. Even though the NTT Group, which is comprised of companies such as Nippon Telegraph and Telephone Corporation (“NTT”) and NTT Communications, is IIJ's largest shareholder, we plan to continue to operate the Company separately and independently from the NTT Group, and will therefore continue to compete with the NTT Group.

We anticipate that cloud computing services for enterprise should become widely used in Japan in the middle-to long-term. In addition to the competitors listed above, global players such as Amazon Web Services, Inc. and MICROSOFT CORPORATION have been aggressively expanding their business and may put additional business resources into the cloud computing business which may lead to strong competition, including price competition, in Japan. If we fail to successfully differentiate our services and solutions from these competitors, we may not be able to achieve expected future revenues and income, or we may not recoup our investments in cloud computing services, which may adversely affect our financial condition and results of operations.

As for our consumer business, especially our mobile services for consumers, in which we offer inexpensive LTE SIM cards through an MVNO scheme, we may not be able to achieve expected future revenues and income due, for example, to severe competition for pricing and customer acquisition, as a growing number of competitors and companies with greater financial resources enter the market, a failure to differentiate our services from competitors, our limited brand recognition among consumers and a lack of experience in providing services to consumers. Moreover, we may increase marketing expenses in order to improve our limited brand recognition among consumers. The major competitors of consumer mobile services business are NTT Docomo, KDDI, SoftBank Group Corp. (“SoftBank”), their affiliated companies, and MVNOs including NTT Communications Furthermore, additional new competitors may emerge and the competitive landscape may change.

We are enhancing our indirect sales channels with partnership programs, although currently our sales channels with respect to small and medium enterprises and the consumer market are not as strong as those of our established and well recognized larger competitors.

Our competitors have advantages over us, including, but not limited to:

· substantially greater financial resources, more extensive and well-developed marketing and sales networks,
· a larger pool of technology human resources including application development engineers,
· higher brand recognition among consumers and corporate customers,
· larger customer bases, and
· more diversified operations which allow profits from some operations to support operations with lower profitability.

With these advantages, our competitors may be better able to:

· sustain downward pricing pressure, including pressure on low-price Internet connectivity services offered to corporate customers, which are our target customers,
· develop, market and sell their services,
· adapt quickly to new and changing technologies,
· obtain new customers, and
· aggressively pursue mergers and acquisitions to enlarge their customer base and market share.

Our investment in our new business and service developments may not produce the returns we expect or may adversely affect our results of operations and financial condition.

We have been investing in new business, service and solution developments to further grow our business. Such investments include, for example, an increase in human resources and capital expenditures. As for the number of our employees, we had 2,980, 3,104 and 3,203 employees as of March 31, 2016, 2017, and 2018 respectively. Capital expenditures, including capitalized leases, depreciation and amortization expenses for property and equipment, and working capital are increasing along with our business expansion efforts. Capital expenditures, including capitalized leases, for the fiscal years ended March 31, 2016, 2017, and 2018 were ¥14.8 billion, ¥16.5 billion and ¥20.8 billion, respectively. Capital expenditure in the fiscal year ended March 31, 2018 include approximately ¥1.2 billion for the acquisition of land for our own new data center of as well as approximately ¥3 billion of capital expenditures for cloud service facility in Western Japan for usage from the fiscal year ending March 31, 2019. Depreciation and amortization expenses for property and equipment for the fiscal years ended March 31, 2016, 2017, and 2018 were ¥9.5 billion, ¥10.5 billion and ¥12.0 billion respectively. If our investment returns are not realized in the future, our investments may become obsolete, which may adversely affect our financial condition and results of operations. Our recent enhanced business investments could lead to a greater uncertainty in our financial outlook.

We are investing heavily in our cloud computing services and infrastructure as the cloud computing services market in Japan is anticipated to grow over the middle term. Revenues for our cloud computing services for the fiscal years ended March 31, 2016, 2017, and 2018 were ¥14.1 billion, ¥15.7 billion and ¥17.9 billion, respectively. The capital expenditures, including capitalized leases, related to our domestic cloud computing services for the fiscal years ended March 31, 2016, 2017, and 2018 were ¥4.4 billion, ¥3.6 billion and ¥7.9 billion, respectively. Capital expenditures during the fiscal year ended March 31, 2018 include approximately ¥3 billion of capital expenditures for a cloud service facility in Western Japan for usage from the fiscal year ending March 31, 2019. As we expand our cloud computing services capabilities in order to meet the increasing demand, we will need to acquire more servers, network equipment and data center facilities, as well as human resources. Along with our business investments for cloud computing services, related costs such as depreciation and amortization are increasing significantly compared to cloud-related revenue. We anticipate that we can leverage our strong customer base and our engineering skills to further expand our cloud computing related services; however, if the expansion of the cloud computing market does not proceed at its expected pace or takes longer than expected, if we face troubles in providing cloud computing services which damage our credibility or lead customers to question the reliability of our services, if we fail in our marketing strategy and fail to introduce cloud service line-ups that are superior to our competitors and promote business enterprises’ cloud usage, if we invest more than customers demand, if severe price competition occurs, or if we should need more human resources and incur unexpected additional costs, we may not be able to achieve the returns or benefits we expect or we may need to increase the amount of our investments.

We have been providing mobile services from January 2008 by purchasing NTT Docomo’s mobile network infrastructure as an MVNO. The total (sum of enterprise and consumer) mobile services revenues were ¥15.6 billion, ¥26.7 billion and ¥35.3 billion for the fiscal years ended March 31, 2016, 2017, and 2018, respectively. The total number of our mobile services subscriptions was approximately 1,228 thousand, 1,856 thousand and 2,345 thousand as of March 31, 2016,2017, and 2018, respectively. This increase is mainly due to growth in mobile services for consumers in which we offer inexpensive LTE SIM cards through MVNE scheme. Currently, most Japanese mobile phone consumers are contracted with mobile network carriers such as NTT Docomo, KDDI, and Softbank. We anticipate that the inexpensive LTE SIM card market in Japan should expand in the middle term because a small portion of Japanese mobile phone users are contracted with inexpensive LTE SIM card services. We may not be able to achieve our anticipated level of business growth if, for example, the market does not expand as currently anticipated, if MNOs and their affiliated companies implement strategies in order to maintain their customer base by dramatically lowering their pricing or offering comprehensive bundled services to make it harder for consumers to switch contracts to other providers, if price competition becomes severe, if we fail to differentiate our services from our competitors, if changes in regulation adversely affect our business, if we significantly damage our reputation or decrease customer trust by failing to offer reliable connectivity or cause serious systems or network troubles or if we fail to maintain or develop appropriate relationships with sales partners, if we face unfavorable changes in business conditions with these sales partners, including sales commission terms, or if we mismanage our marketing expenses, we may not be able to achieve our expected levels of business growth and could negatively impact our profit level. In fact, the affiliated companies of KDDI and Softbank in particular are aggressively promoting their consumer mobile services. Because business enterprise has been our main customer domain, IIJ is not well known among consumers. Therefore, we rely on our partnerships for sales channels, including prominent consumer retailers who have nationwide stores in order to have face-to-face sales counters, as well as MVNE strategy, through which we provide our MVNO infrastructure to corporate customers so that they can incorporate it into their own services, in order to generate subscriptions. The cost structure of mobile services imposes uncertainty on our financial outlook. Our mobile infrastructure purchasing volume from NTT Docomo has been increasing along with the growing subscriptions of our mobile services for consumers. We pay NTT Docomo a wholesale telecommunication service charge, which is a flat-rate charge per Mbps and the same charge currently has been applied to all of NTT Docomo’s MVNOs. The charge is calculated annually and it is mainly based on NTT Docomo’s mobile data communication infrastructure volume and its related costs, in accordance with the law and the guidelines administrated by the Ministry of Internal Affairs and Communications (“MIC”). The charge that was applied to our purchasing volume from NTT Docomo during the fiscal year ended March 31, 2018 was based on NTT Docomo’s mobile data communication infrastructure volume and related costs for the fiscal year ended March 31, 2017. The charge was fixed and notified to MVNOs purchasing volume from NTT Docomo, including us, in March 2018. The charge has been applied to not only our purchasing volume during the fiscal year ended March 31, 2018, but also during the fiscal year ended March 31, 2017. NTT Docomo’s unit price of wholesale telecommunication volume was revised in March 2018 for a decrease of 18.2% year over year, compared to 14.1% decrease in the previous year. This relatively large decrease seems to be mainly due to NTT Docomo’s cost decrease related to their change in depreciation method from declining-balance to straight line method from their fiscal year ended March 31, 2017. We need to apply our own estimated charge from the beginning of a fiscal year and calculate quarterly financial results based on our own estimated charge until the charge is finalized, generally in March. If there is a gap between our estimated charge decrease rate and the actual revised charge decrease rate, we will record increased costs if the actual revised charge decrease is smaller than our estimated charge decrease rate and will record decreased costs if the actual revised charge decrease is larger than our estimated charge decrease rate. As the volume we purchase from NTT Docomo increases, the uncertainty regarding our financial outlook, especially income, could also increase. We may make large-scale investments to enhance our mobile service line-ups in the future. For more discussion on mobile services’ structure, please refer to Item 5.D “Trend Information.”

We anticipate to increase our investment in the bank automated teller machine (“ATM”) operation business by increasing the number of ATMs we place. If our ATM operation business does not proceed as planned, we may lose all or part of our investment in this business which may adversely affect our financial condition and results of operations. For more detailed risks pertaining to our ATM operation business, please refer to the risk described in *“Our investments in our subsidiaries and equity method investees may not produce the returns we expect or may affect our results of operations and financial condition adversely.”*

The size of Japanese domestic economy is expected to be limited, though its IT investment should continue to increase, over the long run mainly due to the declining Japanese population and along with that many Japanese companies heading overseas to seek opportunities. Under such circumstances, we have been enhancing our overseas business developments mainly to expand our customer base and to meet the range of Information Technology ("IT") network needs of our Japanese customers operating abroad since the fiscal year ended March 31, 2012. Revenues from our overseas business for the fiscal years ended March 31, 2016, 2017, and 2018 were ¥5.3 billion, ¥6.4 billion and ¥6.1 billion, respectively. Although our overseas revenue is still relatively small, if, for example, we fail to offer competitive services and solutions, if we fail to develop customer base for our overseas business, if we fail to acquire enough qualified personnel, or if we invest and contract more network capacity and service facilities than we actually need to serve our customers, due, for example, to our lack of experience in operating overseas business, our limited brand recognition overseas, and change in our domestic customers' overseas business expansion strategy and refrain from operating overseas business, we may not be able to achieve our expected levels of revenues and profits. Overseas business expansion may impact our domestic business if, for example, we assign many engineers and other resources for our overseas business that our domestic business is left with insufficient resources to complete projects. Overseas business operating expenses and costs may increase due, for example, to commencement of cloud computing services, opening of new overseas subsidiaries, increasing employees, and investing in network facilities. Additionally, we may encounter difficulties in planning and managing operations due to unfavorable political or economic factors, such as geopolitical, cultural and religious conflicts, non-compliance with expected business conduct, local regulations and taxation laws, and a lack of adequate infrastructure. Moreover, changes in local regulations, policies, taxation laws, local regulations, business or investment permit approval requirements, foreign exchange controls, or the nationalization of assets or restrictions on the repatriation of returns from foreign investments in major markets and regions may affect our operating results. Also, a failure to maintain adequate controls to comply with regulations such as the U.S. Foreign Corrupt Practices Act ("FCPA") may harm our reputation and adversely affect our financial results and business operation.

Along with our business expansion, our capital expenditures, our working capital and our interest-bearing liabilities are also increasing. Our bank borrowings (total of short- and long- term borrowings) were ¥9.3 billion, ¥17.8 billion and ¥24.8 billion as of March 31, 2016, 2017, and 2018, respectively. Our capital lease obligations (current and noncurrent) were ¥11.7 billion, ¥15.2 billion and ¥16.6 billion as of March 31, 2016, 2017, and 2018, respectively. Cash and cash equivalents were ¥19.6 billion, ¥22.0 billion and ¥21.4 billion as of March 31, 2016, 2017, and 2018, respectively.

Other than the above, we will continue to invest in the development of new businesses and services to enhance our current businesses and services such as IoT-related business, the content distribution business, the health care business and other businesses. However, there is no assurance that we can achieve the returns or benefits from the development of those businesses and services and this may adversely affect our financial condition and results of operations.

Our investments in our subsidiaries and equity method investees may not produce the returns we expect or may adversely affect our results of operations and financial condition.

In the past, we have invested in our group companies to expand our businesses and generate new businesses. As of June 29, 2018, we have sixteen consolidated subsidiaries and eight equity method investees. The financial performance of our consolidated subsidiaries directly affects our financial condition and results of operations and the financial performance of our equity method investees affects our financial condition and results of operations through our pro rata interest in our equity method investments. There can be no assurance that we will be able to maintain or enhance the value or the performance of such companies in which we have invested in or may invest in the future, or that we will achieve the returns or benefits from these investments. We may consider further reorganization of our group companies and there is no guarantee that we will be able to achieve the benefits that we expect from such reorganization. We may provide additional financial support in the form of loans, additional equity investments, guarantees, or leases in such companies. We may lose all or part of our investment relating to such companies if their value decreases as a result of their financial performance or if they go bankrupt, as in the case of our former equity-method investee, Crosswave Communications Inc. ("Crosswave") in 2003. If our interests differ from those of other investors in entities over which we do not exercise control, we may not be able to realize synergies with the investees and it may adversely affect our financial condition and results of operations.

IIJ’s substantial investment in Crosswave, IIJ’s former equity method investee, became worthless due to Crosswave’s commencement of corporate reorganization proceedings. In August 2003, Crosswave filed a voluntary petition for the commencement of corporate reorganization proceedings in Japan, and as a result of IIJ’s equity method net loss and an impairment loss taken in respect of IIJ’s investment in Crosswave, our net loss for the fiscal year ended March 31, 2003 was ¥15.6 billion, the highest net loss that we have ever experienced.

We established a joint venture, DeCurret, in January 2018 with eighteen Japanese companies. DeCurret plans to launch cryptocurrency exchange and settlement services. DeCurret is our equity method investee based on our 35% ownership into which we have injected a total of ¥1.8 billion in capital as of June 29, 2018. DeCurret’s planned cryptocurrency operations are subject to a significant amount of risk, including but not limited, to the followings:

- uncertainty about the legal and regulatory status of blockchain technology in general and cryptocurrencies in particular, including the application of money-laundering of financial crimes laws to cryptocurrency exchanges and settlement providers;
- uncertainty about the security of blockchain and cryptocurrency exchange and settlement services from hacking, cyberattacks, or bad actors;
- fluctuation in cryptocurrency markets, including potential market manipulation by participants in cryptocurrency markets;
- the ability to appropriately respond in a timely manner to changes in technology;
- uncertainty about the competitive landscape as well as the success in our marketing strategy as increasing number of cryptocurrency exchange service providers emerge;
- the extent to which blockchain technology and cryptocurrencies as a form of payment will maintain or achieve widespread adoption, and which cryptocurrencies will achieve such adoption; and
- changes in regulation or restriction with regards to registration for cryptocurrency exchange and settlement business by the Japanese government. In Japan, in order to operate cryptocurrency related business such as exchange, registration by Japan’s Financial Service Agency is required, and DeCurret has neither received nor fixed timing of such registration as of June 29, 2018.

Adverse consequences arising from any of these risks could harm DeCurret’s brand name and reputation, cause significant decreases in demand for cryptocurrency-related services, or require DeCurret to make large, unexpected expenditures for technological infrastructure or equipment or incur legal fees or pay damages, fees or penalties arising from lawsuits, and regulatory administrative proceedings and/or we may incur unexpected level of equity in net loss if DeCurret fails to achieve anticipated business performance. We may inject additional capital into and/or lend money to DeCurret. These could, in turn, harm our investment in DeCurret and/or harm our brand name and reputation.

We established a joint venture, JOCDN, in December 2016 with fifteen major Japanese broadcasting companies to provide CDN services. JOCDN is our equity method investee based on our 20% ownership into which we have injected a total of ¥0.1 billion in capital as of June 29, 2018. If JOCDN cannot achieve our expected levels of revenues and profits, manage costs and expenses in a timely and adequate manner or incur unexpected expenses, it may adversely affect our financial condition and results of operations.

IIJ Global Solutions Inc. (“IIJ-Global”), which became our 100% owned consolidated subsidiary on September 1, 2010 after acquiring its stock from AT&T Japan LLC (“AT&T Japan”) for ¥9.2 billion, mainly provides WAN services. For the fiscal years ended March 31, 2017 and 2018, IIJ-Global had ¥28.0 billion and ¥29.0 billion in revenues, respectively, and ¥0.6 billion and ¥0.5 billion in operating income, respectively. If IIJ-Global cannot achieve our expected levels of revenues and profits, manage costs and expenses in a timely and adequate manner or incurs unexpected expenses, it may adversely affect our financial condition and results of operations. Intangible assets as of March 31, 2018 related to IIJ-Global were ¥3.8 billion, and if our network service division and/or IIJ-Global cannot achieve its future expected revenue and profit, we may incur a substantial impairment loss on its intangible assets, which may adversely affect our financial condition and results of operations. Related to the acquisition of IIJ-Global, IIJ-Global entered into a Solutions Engagement Agreement with IBM Japan Ltd. (“IBM Japan”), IIJ-Global’s largest sales partner. This agreement, which establishes the basis for a procurement relationship between IIJ-Global and IBM Japan, contains an indemnification for IIJ-Global to perform services, functions, responsibilities and other actions in the same way as when the company was a part of AT&T Japan. Failure to perform in this manner may adversely affect our financial condition and results of operations. Furthermore, IIJ-Global and the Company may damage their relationship with IBM Japan, which may indirectly have an adverse impact on our financial condition and results of operations.

Trust Networks Inc. (“Trust Networks”), IIJ's consolidated subsidiary which was established in July 2007, is in charge of the ATM operation business. Trust Networks operates ATMs and the related network systems and receives a commission for each bank withdrawal transaction when a customer uses its serviced ATMs. As of March 31, 2018, 1,096 ATMs were placed in locations such as Japanese pinball shops (“pachinko parlors”). As of March 31, 2018, IIJ has invested a total of ¥2.6 billion in Trust Networks (79.5% share ownership). For the fiscal years ended March 31, 2017 and 2018, the ATM operation business had ¥4.1 billion and ¥4.0 billion in revenues, respectively, and ¥1.4 billion and ¥1.5 billion in operating income, respectively. If Trust Networks is not able to introduce ATMs in accordance with its plan due, for example, to a longer than expected negotiation period with interested parties including banks, if it does not record ATM withdrawal transactions as anticipated due, for example, to a decrease in the number of pinball players as a result of a declining Japanese population or a decrease in consumer demand prompted by an increase in the Japanese consumption tax rate, if it incurs unexpected additional costs, or if we face unfavorable regulation and/or business condition changes, it may not be able to achieve its future expected revenue and profit, which may adversely affect our financial condition and results of operations. If the number of serviced ATMs increases, our capital expenditures including capitalized leases may increase due to the leasing or purchasing of ATMs.

As of June 29, 2018, we have ten overseas subsidiaries including IIJ America Inc. (“IIJ-America”) and IIJ Europe Limited (“IIJ-Europe”). During the fiscal year ended March 31, 2017, we established subsidiaries in Vietnam, IIJ Global Solutions Vietnam Company Limited (“IIJ-Global Vietnam”), and in Thailand, IIJ (Thailand) Co., Ltd. (“IIJ-Thailand”), which cooperates with Leap Solutions Asia Co., Ltd. in Thailand. In addition to the existing subsidiaries in China, Singapore, Thailand, Indonesia, Vietnam, and Hong Kong, we may establish more subsidiaries in Asia to seek greater business opportunities as the need for IT increases in the region compared to the United States and Europe, where IT-related markets are already established. However, there is no assurance that we will be able to receive the returns we expect from investing due, for example, to our lack of experience in operating businesses in emerging countries, a failure in offering services that meet local needs, shrinking IT needs and changes in the political and diplomatic situation. During the period from the fiscal year ended March 31, 2016 to the fiscal year ended March 31, 2018, IIJ and IIJ-GS together injected capital of ¥1.0 billion in the aggregate to six of our ten overseas subsidiaries. As of March 31, 2018, IIJ and IIJ-GS together lent a total of ¥0.3 billion to four of our overseas subsidiaries. As for our overseas equity method investees, during the period from the fiscal year ended March 31, 2016 to the fiscal year ended March 31, 2018, we injected capital of ¥0.4 billion to our equity method investees. We may continue to inject additional capital into and/or lend money to the existing and/or new affiliated companies.

If our systems integration revenues fluctuate or if we fail to execute our systems construction projects in a timely or satisfactory manner, our results of operations and financial condition may be adversely affected.

Systems construction revenues, a one-time revenue that is a part of systems integration revenues, have a tendency to fluctuate from time to time compared to monthly recurring revenues of network services and systems operation and maintenance due to the budget systems in Japan, of which many end in March. If corporate investments decrease, or if we fail to meet customer demands due to a lack of a sufficient number of qualified engineers to execute the projects in a professional manner, corporate customers may put off or stop placing orders with us and we may not be able to record systems construction revenues and operating profit as expected. If we fail to effectively manage and assign our resources such as outsourcing resources, or to execute the projects as contracted, our recognition of revenues may be delayed or lost altogether, we could be held liable for damages or we could be sued, which could have an adverse impact on our reputation, results of operations and financial condition.

Generally, gross margin of systems construction is low compared to that of systems operation and maintenance, and gross margin for large scale systems construction projects may become even lower due, for example, to price competition in acquiring such construction projects. It is more difficult to effectively control systems construction projects as they become larger in scale, and we have seen an increase in the number of large scale systems construction projects in recent years. Our results of operations and financial condition related to systems integration may be adversely affected if, for example, we fail to control costs such as personnel and outsourcing costs or retain adequate personnel for projects, or if we fail to calculate the necessary timeframe or the manpower to complete a project and the costs exceed the payments received from our customers.

We may have an impairment loss as a result of an impairment test on the intangible assets that are recorded related to mergers and acquisitions.

As of March 31, 2018, the total balance of our intangible assets was approximately ¥8.8 billion, of which ¥6.1 billion was intangible assets not subject to amortization such as goodwill and ¥2.7 billion was intangible assets subject to amortization such as customer relationships. Intangible assets in relation to IIJ-Global and IIJ Technology Inc. (“IIJ-Tech”), former subsidiaries of IIJ, were ¥3.8 billion and ¥3.9 billion, respectively, as of March 31, 2018. The amount of our intangible assets may increase if we conduct mergers, acquisitions or investments in affiliates in the future. We conduct impairment testing of goodwill and indefinite-lived intangible assets annually on March 31 or more frequently if events or changes in circumstances indicate that an asset might be impaired. We conduct impairment testing of definite-lived intangible assets whenever events or changes in circumstances indicate that the assets might be impaired. If the business operations are adversely affected by factors such as significant adverse changes in their business climate and others, we may have an impairment loss as a result of an impairment test on intangible assets. The recognition of any impairment losses on intangible assets may result in material adverse effects on our financial condition and results of operations.

If we fail to attract and retain qualified personnel, we may not be able to achieve our expected business growth.

Our network, services, products and technologies are complex, and as a result, we depend heavily on the continued service of our engineering, research and development, and other personnel, and, as our business grows, we need to hire more of such employees. In particular, in order to continue to increase our revenues from outsourcing services and systems integration, we require more sales and engineering personnel. We are not sure whether we will be able to retain or attract such personnel and control human resources costs adequately. Competition for hiring qualified engineering, research and development personnel is intense in the IT service industry in Japan, and there is a limited number of personnel with the necessary knowledge and experience we require. None of our employees are bound by any employment or noncompetition agreements. The realization of any or all of these risks may result in a failure to achieve our expected business growth.

Our business may be adversely affected if our network suffers interruptions, errors or delays.

Interruptions, errors or delays with respect to our backbone network or service facilities may be caused by human errors, interruptions, errors or delays with carriers' service facility, or natural factors, many of which are beyond our control, including, but not limited to, damage from fire, earthquakes or other natural disasters, power loss, sabotage, computer hackers, cyber-attack, human error, computer viruses, and other similar events.

Much of our computer, networking equipment, and the lines that make up our backbone network are concentrated in a few locations that are in earthquake-prone areas. Any disruption, outages, delays, or other difficulties experienced by any of our technological and information systems and networks could result in a decrease in new or existing accounts, loss or exposure of confidential information, reduction in revenues and profits, costly repairs or upgrades, reputational damage, and decreased consumer and corporate customer trust in our business, any or all of which could have a material adverse effect on our business, financial condition, and results of operations.

Should we experience further unforeseeable incidents such as the disruption of social infrastructure or power shortages and other impacts due to inoperable or damaged nuclear power plants, our backbone network and service facilities could fail and, as a result, we may suffer direct and indirect damages, which may adversely affect our financial condition and results of operations.

We rely heavily on the security of our internal IT systems. Moreover, as a comprehensive network service provider, we offer services and/or construct systems to protect some portion of the IT systems of our clients from cyberattacks, information leaks and other unfavorable incidents. We are required to continuously evaluate and enhance our security measures, including systems designed to block unauthorized access, and have made expenditures for these purposes in recent years. We have not had significant cybersecurity incidents, but if we fail to protect our service facilities and our clients, the credibility of our network and customer satisfaction could decrease significantly, although we are continuously enhancing security measures including systems to block unauthorized access.

If we fail to keep and manage our confidential customer information, we could be subject to lawsuits, incur expenses associated with our security systems, or suffer damage to our reputation.

We keep and manage confidential information and trade secrets obtained from our customers. We exercise much care in protecting the confidentiality of such obtained information and take steps to ensure the security of our network, in accordance with the Personalized Information Protection Law protecting personal information that came into effect in April 2005 and the requirements set by the MIC, and the Ministry of Economy, Trade and Industry. In October 2016, IIJ-Europe submitted its Binding Corporate Rules (BCR) to the UK's Information Commissioner's Office (which has yet to complete its examination of the BCR) and in preparation for a new regulation governing data protection, the General Data Protection Regulation ("GDPR"), which became effective in the European Union ("EU") on May 25, 2018. The submitted internal rules define the global policy regarding personal data protection within the IIJ Group. These rules confirm that the IIJ Group complies with the applicable and prospective EU data protection rules. If we fail to comply with the GDPR unintentionally and are asked to pay a penalty, then this could ultimately result in an adverse effect on our business, financial condition, and results of operations. Our network, like all IT systems, is vulnerable to external attack from computer viruses, hackers, cyber-attack, or other such sources. In addition, despite internal controls, misconduct by an employee could result in the improper use or disclosure of confidential information. If any material leak of such information were to occur, we could be subject to lawsuits for damages from our customers, incur expenses associated with repairing or upgrading our security systems, and suffer damages to our reputation that could result in a severe decline in new customers as well as an increase in service cancellations. As our consumer mobile business grows, we are dealing with an increasing number of consumers. Our corporate image and credibility could be negatively impacted, if, for example, we or our sales partners fail to comply with related laws such as consumer-protection laws, or if we fail to securely protect our consumers' individual information. Such failure could ultimately result in an adverse effect on our business, financial condition and results of operations.

Business growth and a rapidly changing operating environment may strain our limited resources.

We have limited operational, administrative and financial resources which could be inadequate to sustain the growth we want to achieve. As the number of our customers and their Internet usage increases, as traffic patterns change, as the volume of information transferred increases, and as the need for our cloud computing-related service increases, we will need to increase expenditures for our network and other facilities, including data center facilities in the future, in order to adapt our services and to maintain and improve the quality of our services. If we are unable to manage our growth and expansion adequately, the quality of our services could deteriorate and our business may suffer. If data center facilities do not meet our expectations, the quality of our service could deteriorate and our business may suffer. We may also need to increase office rent expenditures along with our business expansion. If we are unable to prepare our network and other facilities in a timely manner to meet our customers' demand or our business expansion, we may miss growth opportunities or may be obliged to bear higher costs to prepare our network and other facilities.

If we fail to keep up with the rapid technological changes in our industry, our services may become obsolete and we may lose customers.

Our markets are characterized by, but not limited to:

- rapid technological changes, including the shift to new technology-based networks such as IPv6, cloud computing, Software Defined Network ("SDN"), Network Functions Virtualization ("NFV"), IoT, and Big Data,
- frequent new product and service introductions,
- continually changing customer requirements, and
- evolving industry standards.

If we fail to obtain access to new or important technologies or to develop and introduce new services and enhancements that are compatible with changing industry technologies and standards and customer requirements, we may lose customers.

Our pursuit of necessary technological advances may require substantial time and expense. Many of our competitors have greater financial and other resources than we do and, therefore, may be more equipped to meet the time and expense demands of achieving technological advances. Additionally, this may allow our competitors to respond more quickly to new and emerging technologies and standards or invest more heavily in upgrading or replacing equipment to take advantage of new technologies and standards.

We depend on our executive officers, and if we lose the service of our executive officers, our business and our relationships with our customers, major shareholders of IIJ and other IIJ Group companies and our employees could suffer.

Our future success depends on the continued service of our executive officers, particularly Mr. Koichi Suzuki, who is a founder, Chairman, Chief Executive Officer and representative director of IIJ and Mr. Eijiro Katsu, who is President, Chief Operating Officer and representative director. We rely in particular on their expertise in the operation of our businesses and on their relationships with the shareholders of IIJ, our customers, our business partners, and our employees. None of our executive officers, including Mr. Suzuki and Mr. Katsu, are bound by an employment or noncompetition agreement.

We may continuously pursue mergers and acquisitions transactions which may not be effective.

We recognize that it is important for us to have more business resources such as, but not limited to, human resources, customer base, application layer technology, and others, in the middle term. We may continuously pursue mergers and acquisitions transactions to scale up our business. The mergers and acquisitions transactions may not always be on good terms and conditions, bear the results we expect, or have synergistic effect, and we may incur a large loss of goodwill. We may also exhaust time and our resources through mergers and acquisitions.

As a result, those transactions may strain our financial resources and may adversely affect our financial condition and results of operations or we will not be able to have enough business resources to scale up due to a failure to engage in adequate mergers and acquisitions transactions.

Fluctuations in the stock prices of companies or losses on companies in which we have invested may adversely affect our financial condition.

We have invested in non-affiliated companies in order to further expand our business relationships with those companies. We have also invested in available-for-sale equity securities and in funds which invest mainly in unlisted stocks. The carrying amount of available-for-sale securities was ¥9.3 billion, nonmarketable equity securities was ¥1.0 billion, and investments in funds was ¥1.1 billion as of March 31, 2018. Until the end of the fiscal year ended March 31, 2018, available-for sale equity securities were tested for other-than temporary impairment under U.S. GAAP, with impairment losses of ¥31 million recorded for the fiscal year ended March 31, 2017. Unrealized gains on holding available-for-sale equity securities of ¥7.5 billion were measured based on closing prices of March 30, 2018, the final day of trading in the fiscal year ended March 31, 2018. Due to the revision to U.S. GAAP relating to available-for-sale equity securities, the net of tax amount of unrealized gains of ¥5.1 billion were reclassified to retained earnings at the beginning of the fiscal year ending March 31, 2019. Changes in unrealized gains or losses due to fluctuations of stock prices will be recognized in other income (expenses) in every quarter, beginning with our consolidated statements of income from the first quarter of the fiscal year ending March 31, 2019. Therefore, fluctuations of stock prices may impact our consolidated statements of income. In addition, should we choose to sell all or a portion of these securities or funds, it is not certain that we will be able to do so on favorable terms.

NTT, IIJ's largest shareholder, could exercise substantial influence over us in a manner which may not necessarily be in our interest or that of our other shareholders.

NTT and its affiliates owned 26.9% of IIJ's outstanding voting shares as of March 31, 2018. As IIJ's largest shareholder, NTT may be able to exercise substantial influence over us. As of June 29, 2018, IIJ has 13 directors including five outside directors among whom Shinobu Umino worked for NTT until 2002. While we intend to conduct our day-to-day operations independently from NTT and its affiliate companies and believe that NTT also plans for us to operate independently, NTT may decide to exercise substantial influence over us in a manner which could impair our ability to operate independently. Furthermore, NTT may take actions that are in its best interest, which may not be in our interest or that of our other shareholders.

We rely greatly on other telecommunications carriers and other suppliers, and could be affected by disruptions in service or delays in the delivery of their products and services.

We rely on telecommunications carriers such as NTT Communications and KDDI for a significant portion of our network backbone, Nippon Telegraph and Telephone East Corporation (“NTT East”), Nippon Telegraph Telephone West Corporation (“NTT West”), and KDDI for local access lines for our customers, and NTT Docomo and KDDI for mobile connectivity as an MVNO. We procure significant portions of our network backbone and data center facilities pursuant to operating lease agreements with NTT Group, our largest provider of network infrastructure. For the fiscal year ended March 31, 2018, we have spent ¥35.2 billion in the aggregate for international and domestic backbone, local access lines, mobile connectivity, and lines for WAN services to NTT Group. Also, as of March 31, 2018, we had ¥3.1 billion of lease obligations with NTT FINANCE CORPORATION (“NTT FINANCE”). We are subject to potential disruptions in these telecommunications services and, in the event of such disruption, we may have no means of replacing these services, on a timely basis or at all.

We also depend on third-party suppliers of hardware components such as routers, servers, and software that are used in our network. We purchase certain components from limited sources, typically from Cisco Systems, Inc. (“Cisco”), Juniper Networks, Inc. (“Juniper”), Hewlett-Packard Company, IBM Japan, NEC, Fujitsu and VMware Inc. A failure by one of our suppliers to deliver quality products on a timely basis, or the inability to develop alternative sources if and as required, may delay our ability to expand the capacity and scope of our network.

Any problems experienced by our telecommunications carriers and other suppliers could have a material adverse effect on our business, financial condition, and results of operations.

Regulatory matters and new legislation could impact our ability to conduct our business.

The licensing, construction, and operation of telecommunications systems and services in Japan are subject to regulation and supervision by the MIC. We operate pursuant to licenses and approvals that have been granted by the MIC.

Our licenses have an unlimited duration, but are subject to revocation by the MIC if we violate any telecommunications laws and regulations in a manner that is deemed to harm the public interest, if we or any of our directors are sentenced to a fine or any more severe penalty under the telecommunications laws, if we employ a director who was previously sentenced to a fine or more severe penalty thereunder, or if we have had a license revoked in the past.

Existing and future governmental regulation may substantially affect the way in which we conduct our business. These regulations may increase the cost of doing business or may restrict the way in which we offer products and services. We cannot predict future regulatory changes which may affect our business. Any changes in laws, such as those described above, or regulations or MIC policy affecting our business activities and those of our competitors could adversely affect our financial condition or results of operations. For more information, see Item 4. “Business Overview — Regulation of the Telecommunications Industry in Japan.”

We may be named as defendants in litigation, which could have an adverse impact on our business, financial condition, and results of operations.

We are involved in normal claims and other legal proceedings in the ordinary course of our business. We believe that there are no cases currently pending which would have a significant financial impact on us, but we cannot be certain that we will not be named as a defendant in a future lawsuit. Any judgment against us in such a lawsuit, or in any future legal proceeding, could have an adverse effect on our business, financial condition, and results of operations.

In the event that we need to raise capital, we may issue additional shares of IIJ's common stock or securities convertible into IIJ's common stock, which may cause shareholders to incur substantial dilution.

IIJ issued 4,700,000 new shares of common stock by way of a public offering in July 2013 and 700,000 new shares by way of a third-party allotment in connection with a secondary offering of shares by way of an over-allotment in August 2013. For future strategic mergers and acquisitions transactions and/or large scale business investments, we may choose to raise additional funds from the issuance of equity shares of IIJ’s common stock or securities convertible into IIJ’s common stock, in which case existing shareholders may incur substantial dilution.

Prior to the above public offering, IIJ issued 2,500,000 new shares of IIJ's common stock along with IIJ's listing on the Mothers market of the Tokyo Stock Exchange (“TSE”) in December 2005. On May 11, 2007, IIJ issued 435,600 shares of common stock to make IIJ's two consolidated subsidiaries wholly-owned through share exchanges. The above figures are retroactively adjusted to reflect the 1:5 stock split in October 2005 and the 1:200 stock split in October 2012.

Item 4. Information on the Company

A. History and Development of the Company

IIJ is incorporated under the Corporation Law of Japan as a joint stock corporation under the name Internet Initiative Japan Inc. IIJ was incorporated in December 1992 and operates under the laws of Japan.

IIJ began its operations in July 1993 as one of the first commercial Internet service providers (“ISP”) in Japan to offer Internet connectivity services for both enterprises and consumers. With the emergence of many other commercial ISPs, price competition for Internet connectivity services became severe. Rather than falling into price competition, we strategically shifted our business model towards providing value-added total network solutions to enterprise businesses that tend to choose quality and reliability over price, by fully leveraging our engineering skills to differentiate ourselves from our competitors. Currently, our main business focuses on providing Internet connectivity services, WAN services, outsourcing services, systems integration, and equipment sales as total network solutions to mainly Japanese corporate clients and governmental organizations. The Group works closely together as a group in providing total network solutions directly to its customers. With our expertise in Internet related technology, our revenues have been expanding along with our customers’ needs for broader bandwidth for Internet connectivity services and for professional IT support for their network systems.

For descriptions and the history of the Group, see “Our Group Companies” in Item 4.B.

IIJ became a public company in August 1999 with IIJ's initial public offering of ADSs on the NASDAQ National Market. On December 2, 2005, IIJ listed on the Mothers market of the TSE. On December 14, 2006, IIJ moved to the First Section of the TSE for IIJ's listing in Japan. On October 1, 2012, IIJ conducted a 1 to 200 split of IIJ's shares of common stock and the total number of IIJ's issued shares of common stock increased to 41,295,600. IIJ issued 4,700,000 new shares of IIJ’s common stock by way of a public offering in July 2013 and 700,000 new shares by way of a third-party allotment in connection with a secondary offering of shares by way of an over-allotment in August 2013.

As for major business combinations, on May 11, 2007, IIJ made IIJ-Tech and Net Care, Inc. (“Netcare”) our 100% owned consolidated subsidiaries through share exchanges. Netcare renamed itself to IIJ Engineering Inc. (“IIJ-EG”) in October 2014. We merged IIJ-Tech on April 1, 2010. On September 1, 2010, IIJ made IIJ-Global its 100% owned consolidated subsidiary by acquiring the stock of IIJ-Global from AT&T Japan for ¥9.2 billion by our own cash and bank borrowings.

Please also see Note 2 “Business Combination and Transfer” to our consolidated financial statements included in this annual report on Form-20F.

IIJ's head office is located at Iidabashi Grand Bloom, 2-10-2 Fujimi, Chiyoda-ku, Tokyo 102-0071, Japan, and IIJ's telephone number at that location is +81-3-5205-6500. IIJ's agent in the United States is IIJ-America, located at 55 East 59th Street, Suite 18C New York, NY 10022 and the telephone number at that location is (212) 440-8080. IIJ has a website that you may access at http://www.iij.ad.jp/en/. Information contained on IIJ's website does not constitute part of this annual report on Form 20-F.

For a discussion of capital expenditures and divestitures currently in progress and those for the past three years, see “Capital Expenditures” in Item 4.B.