

Convocation Notice of the 14th
Ordinary General Meeting of Shareholders
of
Internet Initiative Japan Inc.

This document is the English translation of the “Convocation notice of the 14th ordinary general meeting of shareholders”(“*Dai ju-yonkai teiji kabunushi sokai shoshu gotsuchi*”) of Internet Initiative Japan Inc. (“IIJ” or “the Company”) to be held on June 28, 2006.

CAUTIONARY NOTES

- Note 1: This document contains forward-looking statements (within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934) about our future plans that involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties, and other factors include, in particular, the factors set forth in "Item 3.D: Risk Factors" of our Annual Report on Form 20-F dated August 3, 2005 which has been filed with the U.S. Securities and Exchange Commission. Such risks, uncertainties and other factors may cause our actual results, performance, achievements or financial position to be materially different from any future results, performance, achievement or financial position expressed or implied by these forward-looking statements.
- Note 2: This document has been prepared pursuant to the requirements of the Corporation Law of Japan. Financial Statements have been prepared in accordance with generally accepted accounting principles in Japan, which differ in certain respects from generally accepted accounting principles in the United States. Also, Financial Statements included in this document are non-consolidated base which differ from consolidated ones which IIJ should file with the U.S. Securities and Exchange Commission as Form 20-F.
- Note 3: The ADRs holders shall instruct The Bank of New York to exercise its voting right represented by the shares underlying their ADRs but they may only provide their instructions to The Bank of New York. Otherwise, they are not entitled to exercise any voting right unless they cancel their ADRs and withdraw the shares. This means they may not be able to exercise any voting right for IIJ and attend the ordinary general meeting of shareholders of IIJ.

June 12, 2006

TO OUR SHAREHOLDERS:

Koichi Suzuki
Representative Director
Internet Initiative Japan Inc.
1-105, Kanda Jinbo-cho, Chiyoda-ku,
Tokyo, Japan

**CONVOCATION NOTICE OF
THE 14TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

You are hereby requested to attend the 14th ordinary general meeting of shareholders of Internet Initiative Japan Inc. ("IIJ" or "the Company",) which is to be held as stated below.

In the event you are unable to attend the meeting, after reviewing the referential documents below, you may exercise your voting rights by indicating approval or disapproval on the voting form attached hereto and sending it or by accessing the voting web site (Japanese only) containing the voting form. The voting form through the Internet must be received by 5:30 p.m., Tuesday, June 27, 2006 at the latest.

1. **Date and time:** 10:30 a.m., June 28, 2006 (Wednesday)
2. **Place:** KKR Hotel Tokyo
11th floor, Room Kujaku
1-4-1, Otemachi, Chiyoda-ku, Tokyo, Japan
3. **Agenda of the meeting:**

Subjects to be reported:

Reports on the business report, balance sheet and income statement of the 14th fiscal year (from April 1, 2005 to March 31, 2006)

Subjects to be resolved:

- Item 1: Approval of the proposal for appropriation of loss for the 14th fiscal year
- Item 2: Reduction of additional paid-in capital
- Item 3: Reduction of common stock
- Item 4: Amendments to the Articles of Incorporation
- Item 5: Election of six directors
- Item 6: Election of a statutory auditor
- Item 7: Granting of retirement allowance to a retiring statutory auditor

4. Notice to Shareholders

With regard to the documents attached hereto, if there are any changes to be notified to the shareholders up to the day prior to the ordinary general meeting of shareholders, you may be notified by mail or IIJ's web site at <http://www.iij.ad.jp/IR/> .(Japanese only)

(Attachment)

Business Report for the 14th Fiscal Year

(For April 1, 2005 to March 31, 2006)

(Non-consolidated, Japan GAAP)

1. Summary of Business

(1) Progress and Results of Business

General Business Environment

During the fiscal year ended March 31, 2006, Japan's economy saw improved corporate earnings with increased capital investment, and a gentle rise in consumer spending, and while we must be cautious of the effects of rising crude oil prices, the economic recovery is generally continuing in Japan.

In the data communications markets in which the IIJ group operates, network usage increases dramatically as broadband networks continued to spread. Bolstered by these trends and the improving economy, companies are utilizing effectively network systems including the Internet in their mission critical business network systems, therefore, our understanding is that the demand for reliable network services is continuing to grow. IP technology seems to be becoming one of the important elements in the social infrastructure of the future, and while telecommunications and broadcasting are expected to convert to IP-based technology in the near future, it has also expose many new challenges inherent to the Internet, such as how to maintain security and deal with the increased traffic.

Business Conditions

In 1992, the Company was established as a pioneer in the Internet service provider industry in Japan, and ever since, it has been using its advanced Internet-related technological expertise to develop and provide reliable network services and products. We provide services to approximately 6,500 medium- and large-size companies, and we are gaining market recognition as one of leading Internet providers as our business evolves. As network systems become more diverse, the needs for both outsourcing and systems integration are growing amongst our customers, and during this fiscal year, backed by a good economic environment, we have begun actively providing high value-added network services and products, starting with network solutions and systems integration services. The network solutions lineup including many new services such as IIJ Quarantine Network Solution, IIJ DDoS Solution Service, and IIJ Internet-LAN Service, responds comprehensively customers' demands for a high reliability.

Business Results for IIJ and the IIJ Group

During the fiscal year ended March 31, 2006, the Company continued to focus sales efforts in outsourcing and systems integration services from the previous year. The Company also developed Internet-based VPN services for companies with multiple locations, using the IIJ-developed router "SEIL" and the SEIL Management Framework (SMF)—a centralized management platform that automatically configures SEIL routers—to provide total network systems design, construction, and operations. The Company began providing SMF as an OEM service to multiple telecommunications carriers, and a patent was obtained for this proprietary technology. In addition, the number of large-scale network systems construction and operation projects increased, as did the number of consulting projects.

On the costs and expenses, percentage of costs remained the same level as the previous year, with the cost of revenues increasing due to the increased cost of systems integration services, and SG&A increasing due to the increased personnel expenses and advertising expenses.

As a result of these activities, IIJ's non-consolidated operating results for the fiscal year ended March 31, 2006, amounted to total revenues of 37,457,565 thousand yen (11.1% increase YoY), operating income of 845,581 thousand yen (32.5% increase YoY), and ordinary income of 737,161 thousand yen (72.4% increase YoY), the Company increased both in sales and profit. There was net income of 4,231,131 thousand yen (57.0% increase YoY) due in part to gain on sales of investments in securities.

The IIJ group's consolidated operating results for the fiscal year ended March 31, 2006, revenues of 49,812,584 thousand yen (19.4% increase YoY), operating income of 2,411,144 thousand yen (93.3% increase YoY) and income before income taxes and net income amounted to 5,378,559 thousand yen (70.8% increase YoY) and 4,753,570 thousand yen (63.6% increase YoY), respectively.

The IIJ Group Reorganization

The Company is offering total network solution services to our customers as a unified

group. In order to strengthen its capacity to provide solutions and streamline group management, the Company acquired IIJ Media Communications Inc. ("IIJ-MC") (part of IIJ-MC's business was acquired by IIJ's subsidiary, IIJ Technology Inc. ("IIJ-Tech") in October 2005. The Company also acquired equity-method affiliate Asia Internet Holding Co., Ltd.

In addition, the Company and Konami Corporation("Konami") established a joint venture company in February 2006, Internet Revolution Inc. to manage a comprehensive portal site, which includes online games, and made it an equity-method affiliate company of IIJ (Konami's subsidiary).

Corporate Governance

The Company is aware of the importance of strengthening and enhancing substantial corporate governance to continue maximizing corporate value and to fulfill our mission to support and operate the Internet as a vital element of social infrastructure. The Company's ADRs have been listed on the NASDAQ National Market, and as such the Company must comply with the Sarbanes-Oxley Act ("SOX Act") of 2002. The Company has appointed outside directors and auditors, and has strengthened management oversight function by strengthening the authority of the board of statutory auditors. Also based on requirements of the SOX Act, CEO and CFO of the Company to submit certifications as to the accuracy of the annual report on the Form 20-F to the US SEC, including financial statements in US GAAP, the Company has appointed a financial expert to the board of statutory auditors; it has the board of statutory auditors oversee the appointment of the auditors, it adopted a code of ethics; and it operates an internal reporting system by the board of statutory auditors. The Company is preparing for establishment of a new internal control system to be audited from the fiscal year ending March 2007.

(2) Capital Investment

The Company's capital investment is mainly for purchases of network equipment for operating highly reliable network systems. The Company's general strategy is to lease non-current assets rather than own them. In this fiscal year, the Company signed new lease agreements for 2,317 million yen worth of capital equipment, primarily routers, servers, and other networking equipment. Capital spending also included cost for the development of back-office systems. The total capital investment during this fiscal year was 687 million yen.

(3) Financing

The Company listed its shares on the TSE Mothers market in December 2005, issued of 12,500 shares anew by public offering and raised 6,137 million yen (The issue price per share was 490,955 yen).

(4) Issues Facing the Company

Though the Company is in a favorable market environment and its management results are improving, with further market opportunities in the network development by taking advantage of increasing network utilized by corporations and government and other public offices, the Company is aware that it is important to bolster the business foundation of the Company and the IIJ group affiliates by continuing to provide highly reliable and competitive services. In the coming fiscal year, the Company aims to continue to increase revenues and improve earnings by actively focusing on R&D, providing new services, expanding business tie-ups through strategic investments, and strengthening corporate governance.

The Company is also aware of the necessity to acquire and train competent engineers and sales persons to support this continuous growth, and to this end the Company is focusing on the employment and training of new college graduates. For new graduates, the Company hired 29 graduates during this fiscal year, and there are 49 new graduates joining the Company in April 2006.

We sincerely hope that we can count on further support and encouragement from our shareholders.

(5) Operating results and changes in properties

(Thousand Yen)

	11th Fiscal Year	12th Fiscal Year	13th Fiscal Year	14th Fiscal Year
	FY 2002	FY 2003	FY 2004	FY 2005
Total revenues	34,188,460	31,198,882	33,711,448	37,457,565
Ordinary income (loss)	(2,272,580)	(1,160,249)	427,534	737,161

Net income (loss)	(13,765,686)	(11,119,956)	2,695,582	4,231,131
Net income (loss) per share	(612,352.62) yen	(350,136.34) yen	70,270.65 yen	21,597.37 yen
Total assets	29,930,475	33,487,342	27,421,362	36,293,548
Total shareholders' equity	(452,748)	4,922,498	9,141,147	18,222,867
Total shareholders' equity per share	(20,140.05) yen	128,323.72 yen	238,298.93 yen	89,196.61 yen

(Notes)

- (a) Total shareholders' equity per share are calculated based on the number of shares outstanding as of the balance sheet dates. Net income (loss) per share is calculated based on the average number of shares outstanding during the fiscal year.
- (b) The significant amount of net losses in the 11th fiscal year and 12th fiscal year stemmed mainly from impairment losses on investment in and deposits for, and loans to Crosswave Communications Inc. (11th fiscal year: 11,171,154 thousand yen, 12th fiscal year: 10,907,677 thousand yen), which is formerly an equity-method investee of IIJ.
- (c) During the 14th fiscal year, a 1 to 5 stock split for common stock has been made on October 11, 2005. As for the calculation of the average number of outstanding shares, per share data is calculated by deeming that the stock split was conducted at the beginning of the fiscal year ended March 31, 2006, and the past per share data of the previous financial years are not adjusted retroactively.
- (d) The detailed descriptions of the business for the 14th fiscal year are as set forth in "(1) Progress and Results of Business" and "(3) Financing".

2. Summary of the Company (as of March 31, 2006)

(1) Main businesses

To provide Internet connectivity services, outsourcing services related to network solutions, systems integration and equipment sales.

(2) Shares

1. Number of total shares authorized to be issued: 377,600 shares
2. Number of total shares outstanding: 204,300 shares

(Notes)

- (a) A 1 to 5 stock split for common stock was made on October 11, 2005 which resulted in the increase of the number of the total shares outstanding by 153,440.
- (b) Issuance of new shares by public offering was made on the paymanet date set on December 1, 2005 which resulted in the increase of the number of the total shares outstanding by 12,500.

3. Number of shareholders at the end of this fiscal year: 5,458

4. Major shareholders:

Shareholder name	Investment in the Company		Investment by the Company in each shareholder	
	Number of shares held	Share holding ratio	Number of shares held	Share holding ratio
Nippon Telegraph and Telephone Corporation	50,475 shares	24.71%	-	-
Hero and Company(note)	40,786 shares	19.96%	-	-
Koichi Suzuki	12,515 shares	6.13%	-	-
Itochu Corporation	10,430 shares	5.11%	-	-
NTT Communications Corporation	10,200 shares	4.99%	-	-
Sumitomo Corporation	8,559 shares	4.19%	-	-
The Dai-ichi Mutual Life Insurance Company	6,365 shares	3.12%	-	-
Mizuho Corporate Bank, Ltd.	3,560 shares	1.74%	-	-
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,430 shares	1.68%	-	-
Sumitomo Mitsui Banking Corporation	3,030 shares	1.48%	-	-

(Note) Hero and Company is the nominee of The Bank of New York, which is the depository of IIJ's ADRs, and the number of shares held by Hero and Company is equivalent to the number of ADRs outstanding.

(3) Stock Acquisition Rights

Stock options which we have issued pursuant to Article 280-19, Paragraph 1 of the former Commercial Code are described in notes to the balance sheet.

(4) Employees

Category	Number of employees	Average age	Average years of service
Male	404	33.4	5.0
Female	109	32.8	4.6

Total or average	513	33.3	4.9
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(Note) The above figures include employees and contracted employees, do not include staff members on loan from other companies.

(5) Business combination

(a) Significant subsidiaries

Name of company	Capital (thousand yen)	Share holding ratio	Primary business
IIJ Technology Inc.	2,261,750	72.1%	Design, development, construction and operation and maintenance of systems
IIJ America Inc.	USD2,530,000.00	97.6%	Build of backbone networks and Internet connectivity services in the U.S.
Net Care, Inc.	1,000,000	57.0%	Network operation, customer service support and call center
IIJ Financial Systems Inc.	50,000	72.1%	Systems integration and outsourcing service to securities firms

(Note) The shareholding ratio in IIJ America Inc. includes indirectly owned shares. The shareholding ratio in IIJ Financial systems Inc. entirely consists of indirectly owed shares.

(b) History of business combination

In October 2005, IIJ Media Communications Inc. ("IIJ-MC"), IIJ's former significant subsidiary, was merged into IIJ after a portion of IIJ-MC's systems integration business was transferred to IIJ Technology Inc. ("IIJ-Tech"). IIJ-Tech issued 1,235 shares of common stock to IIJ-MC as consideration for IIJ-MC's business and IIJ purchased those shares in this merger. As a result of these transactions, IIJ's shareholding ratio in IIJ-Tech increased to 72.1% from 69.0%. Due to this increase, IIJ's shareholding ratio in IIJ America Inc. (including indirectly owned shares) increased to 97.6% from 97.3%. IIJ's shareholding ratio in Net Care Inc. ("Net Care") increased to 57.0% from 52.5% due to the transfer shares from an existing shareholder of Net Care in August 2005.

(c) Results of business combination

For the fiscal year ended March 31, 2006, the number of consolidated subsidiaries was four and the number of equity-method investees was four. According to the consolidated financial statements recorded in accordance with generally accepted accounting principles in the United States total revenue was 49,812,584 thousand yen, an increase of 19.4% from the previous year; operating income 2,411,144 thousand yen, an increase of 93.3% from the previous year; income before income tax expense 5,378,559 thousand yen, an increase of 70.8% from the previous year; and net income 4,753,570 thousand yen, an increase of 63.6% from the previous year.

(d) Other significant results of business combination

Since Nippon Telegraph and Telephone Corporation ("NTT") owns 29.7% of our voting rights (including those owned indirectly), we are an equity-method investee of NTT.

(6) Main sources of borrowings

Source	Outstanding borrowings (Thousands of Yen)	Number of the company's shares and equity stakes held by sources	
		Number of shares held	Share holding ratio
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,350,000	3,430 shares	1.68%
Mizuho Corporate Bank, Ltd.	1,700,000	3,560 shares	1.74%
Sumitomo Mitsui Banking Corporation	1,110,000	3,030 shares	1.48%
Mitsubishi UFJ Trust and Banking Corporation	495,000	45 shares	0.02%

(7) Main offices

Name	Address	Functions
Head office	Chiyoda-ku, Tokyo	Head office functions, supervision of Kanto region
Kansai Branch Office	Osaka-shi, Osaka-fu	Supervision of Kansai region
Nagoya Branch Office	Nagoya-shi, Aichi Prefecture	Supervision of Tokai region
Sapporo Branch	Sapporo-shi, Hokkaido	Supervision of Hokkaido region
Tohoku Branch	Sendai-shi, Miyagi Prefecture	Supervision of Chugoku and Shikoku region
Hokuriku Branch	Toyama-shi, Toyama Prefecture	Supervision of Hokuriku region
Chushikoku Branch	Hiroshima-shi, Hiroshima Prefecture	Supervision of Chugoku and Shikoku region
Kyushu Branch	Fukuoka-shi, Fukuoka Prefecture	Supervision of Kyushu region
Toyota Branch	Toyota-shi, Aichi Prefecture	Sales Office of Toyota region
Okinawa Branch	Naha-shi, Okinawa Prefecture	Sales Office of Okinawa region

(8) Directors and statutory auditors

Position in the company	Name	Assignment or main occupation
President	Koichi Suzuki	CEO
Executive Vice President	Toshiya Asaba	Division Director of Solution Department
Executive Vice President	Fukuzo Inoue	Division Director of Administrative Department
Managing Director	Hideshi Hojo	Division Director of Sales Department
Director	Takamichi Miyoshi	General Manager of Strategy Planning Division
Director	Akihisa Watai	CFO and Division Director of Finance Division
Director	Hiroyuki Hisashima	Division Director of Technology Department
Director	Kazuhiro Tokita	Deputy Division Director of Sales Department
Director	Yasurou Tanahashi	Chairman and Representative Director of NS Solutions Corporation
Director	Takashi Hiroi	Senior Manager of Corporate Management Strategy Division of Nippon Telegraph and Telephone Corporation
Director	Yoshifumi Nishikawa	President of Japan Post Corporation
Director	Junnosuke Furukawa	Senior Adviser of The Furukawa Electric Co., LTD
Standing Statutory Auditor	Hideki Matsushita	
Statutory Auditor	Masaki Okada	Attorney at law
Statutory Auditor	Masaaki Koizumi	Japanese Certified Public Accountant
Statutory Auditor	Hirofumi Takahashi	Standing statutory auditor of IIJ Technology Inc.

(Notes)

(a) Directors and statutory auditors who assumed or left offices during the year under review are as follows:

Assumption of office: June 29, 2005

Director Hiroyuki Hisashima
 Director Kazuhiro Tokita
 Director Yoshifumi Nishikawa
 Director Junnosuke Furukawa
 Statutory Auditor Hirofumi Takahashi

Retirement of Office: June 29, 2005

Director Kazumasa Utashiro

(b) Yasurou Tanahashi, Takashi Hiroi, Yoshifumi Nishikawa, and Junnosuke Furukawa are outside directors pursuant to Article 188, Paragraph 2, Item 7-2 of Commercial Code.

(c) Masaki Okada and Masaaki Koizumi are outside statutory auditors pursuant to Article 18, Paragraph 1 of the Law for Special Exceptions to Commercial Code concerning Audit, Etc. of Kabushiki Kaisha.

(9) The compensation and other fees paid for services performed to directors and statutory auditors are as follows:

Classification	Directors		Statutory auditors		Total	
	Number	Amount	Number	Amount	Number	Amount
Compensation based on the Articles of Incorporation or the resolution of the general meeting of shareholders	12	164,117 thousand yen	4	18,460 thousand yen	16	182,577 thousand yen

(Notes)

(a) The limit on compensation to directors as approved by shareholders at the ordinary general meeting of shareholders on June 15, 1999 is 300,000 thousand yen a year in total.

(b) The limit on compensation to statutory auditors as approved by shareholders at the ordinary general meeting of shareholders on June 16, 1995 is 100,000 thousand yen a year in total.

3. Significant Event, Which Occurred after the Company's Balance Sheet Date, regarding the Conditions of the Company (Subsequent Event)

On April 27, 2006, the board of directors of the Company adopted a resolution to purchase 450 shares of Net Care, Inc., our subsidiary, from existing shareholders and completed the payment on April 28, 2006. As a result of this transaction, the percentage of voting rights increased 59.3% from 57.0%. The price per share was 27,559 thousand yen.

The aforementioned unit figures are rounded

Balance Sheet
As of March 31, 2006

Assets		Liabilities	
Item	Amount	Item	Amount
	Thousand yen		Thousand yen
[Current assets]	[20,648,836]	[Current liabilities]	[14,865,330]
Cash and bank deposits	9,216,637	Accounts payable	5,841,913
Accounts receivable	10,155,602	Short-term borrowings	3,655,000
Products	116,158	Long-term borrowings -current portion	1,750,000
Work in process	320,435	Accounts payable - other	1,887,470
Store	50,958	Accrued income taxes	86,659
Prepaid expenses	326,026	Accrued consumption tax	21,762
Accounts receivable - other	19,236	Advance received	389,666
Short-term loans receivable	86,723	Deposits received	1,048,137
Deferred income taxes	419,840	Advance received profit	132,802
Other current assets	3,331	Other current liabilities	51,921
Allowance for doubtful accounts	-66,110	[Long-term liabilities]	[3,205,351]
		Long-term borrowings	250,000
[Non-current assets]	[15,573,464]	Long-term advance received profit	201,349
[Tangible non-current assets]	(569,117)	Reserve employees' retirement benefits	55,020
Leasehold improvements	680,531	Reserve for statutory auditors' retirement benefits	2,870
Data communication equipment and office equipment	588,532	Deferred tax liabilities	2,696,112
Accumulated depreciation	-699,946	Total Liabilities	18,070,681
(Intangible non-current assets)	(1,508,192)	Shareholders' equity	
Telephone rights	9,245		
Software	1,498,947	[Common stock]	[16,833,847]
(Investments and other assets)	(13,496,155)	[Capital surplus]	[21,980,395]
Investment securities	8,545,153	Additional paid-in capital	21,980,395
Equity investment in subsidiaries	3,373,908	[Earned surplus]	[-24,519,617]
Long-term prepaid expenses	179,985	Undisposed accumulated deficit for the current period	-24,519,617
Guarantee deposits	1,333,488	[Accumulated other comprehensive income]	[3,928,242]
Other investments	104,601	Unrealized gain on available- for-sale securities	3,928,242
Allowance for doubtful accounts	-40,980		
		Total shareholders' equity	18,222,867
[Deferred asset]	[71,248]		
New share issuing costs	71,248		
Total assets	36,293,548	Total liabilities and shareholders' equity	36,293,548

STATEMENT OF INCOME
(From April 1, 2005 to March 31, 2006)

Item	Amount	
	Thousand yen	
(Ordinary Items)		
(Operating income and loss)		
[Total revenues]		37,457,565
[Total costs]		32,595,150
Total cost of revenues		4,862,415
[Total costs and expenses]		4,016,834
Operating income		845,581
(Non-operating Items)		
[Non-operating income]		
Interest and dividends income	41,035	
Commissions received	83,726	
Other non-operating income	10,445	135,206
[Non-operating expenses]		
Interest expense	132,976	
Amortization of new share issuing costs	73,545	
Other non-operating expenses	37,105	243,626
Ordinary income		737,161
(Extraordinary Items)		
[Extraordinary income]		
Gain on sales of investments in securities	3,222,397	
Other extraordinary income	48,625	3,271,022
[Extraordinary loss]		
Loss on sales of non-current assets	69,224	
Loss on sales of investments in securities	303	
Loss on sales of investments in affiliated companies	112,085	181,612
Income(loss) before income taxes(benefit)		3,826,571
Corporation, inhabitant, and enterprise taxes		15,280
Deferred tax expense(benefits)		-419,840
Net income		4,231,131
Accumulated deficit brought forward		-28,750,748
Accumulated deficit for the current period		-24,519,617

1. Significant accounting policies

- (1) Valuation standards and methods for securities
Shares of subsidiaries and affiliates: stated at cost based on the moving average method.
Other securities:
Securities whose market prices are quoted: market value method based on the market price, etc. as of the end of the fiscal term (all of the changes resulting from the valuation are directly incorporated into capital, while the cost of the securities at the time of their sale is calculated using the moving average method.)
Securities whose market prices are not quoted: stated at cost based on the moving average method.
Investments in limited liability investment partnerships and similar partnerships (those deemed as securities under Article 2, Paragraph 2 of the Securities and Exchange Law) are accounted for by including the Company's net equity in these investments based on the most recent statement of accounts available according to the report on financial accounts stipulated in investment partnership agreements.
- (2) Valuation standards and methods for derivatives and others: market value method, in principle.
- (3) Valuation standards and methods for inventories
Products and store: stated at cost based on the moving average method.
Work in process: specific-order cost method.
- (4) Depreciation methods for non-current assets
Tangible non-current assets: declining balance method.
The depreciable asset whose acquisition value is 100,000 yen or more but less than 200,000 yen is depreciated in equal installments over three years.
The numbers of useful years of main depreciable assets are as specified below:
Plant and buildings facilities annexed: 8-15 years
Tools, machines, instruments and equipments: 3-15 years
Intangible non-current assets: straight line method.
The software used by the Company is depreciated over the number of useful years for internal use, i.e., five years.
- (5) Accounting for lease transactions
Financing lease transactions, other than those in which ownership of the leased assets is deemed to transfer to the lessee, are recorded based on the same accounting method as is used for normal rental transactions.
- (6) Treatment of deferred assets
New shares issuing costs are amortized in equal installments over three years.
- (7) Standards for recording of allowances
Allowance for doubtful accounts: To prepare for possible losses resulting from non-payments of account receivables for trade and loans and others, an allowance is provided based on the percentage of actual credit losses incurred in the case of general receivables. In the case of credits for which the relevant debtors are likely to default and other certain credits, such allowance is based on the anticipated uncollectible amount after assessment of likelihood of non-payment of individual credit.
Reserve for employees' retirement benefits: To prepare for payments of retirement benefits to employees, a reserve is provided based on the projected retirement benefits obligations and pension assets as of the end of the current fiscal term.
The difference arising from actuarial computations is amortized and expensed in the subsequent fiscal terms using the straight-line method over a certain number of years not exceeding the average number of remaining service years of the employees at the time of accrual of such payment (14 years).
- (8) Accounting for important hedging transactions
The Company uses interest swaps in order to hedge the risk of changes in the interest rate on borrowing, pursuant to the internal rules prescribing limitations and maximum transaction volumes, etc. concerning derivative transactions.
Since interest swaps are accounted for according to special tax treatment, a validity assessment

is omitted.

- (9) Consumption tax, etc.
Consumption tax is separately recorded.

2. Changes in accounting method

- (1) Accounting standard for impairment of non-current assets
Effective from the fiscal year ended March 31, 2006, the Company adopted the "Accounting Standards for Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standards for Impairment of Fixed Assets" (The Business Accounting Council, August 9, 2002)), and the "Guideline for Application of Accounting Standard for Impairment of Fixed Asset" (Accounting Standard for Impairment of Fixed Asset, The Business Accounting Standards, No. 6, October 31, 2003)). This change has not had effect on profit and loss for this fiscal year.
- (2) Reserve for statutory auditors' retirement benefits
With respect to retirement benefit to a retiring standing statutory auditor, which were previously recognized as a cost at the time of payment, the Company changed its method of accounting, to record a reserve for the benefits to the amount necessary for payment as of the end of the fiscal year based on the internal regulation "Regulation for statutory auditors' retirement benefits".
This change is made due to establishment of "Regulation for statutory auditors' retirement benefits" in March 2006 and is intended to allocate periodic cost appropriately and to promote sound financial condition of the Company.
In accordance with this change, 2,070 thousand yen, which accrued in the previous fiscal year, and 800 thousand yen, which accrued in this fiscal year are recorded as selling expense and general and administrative expense. As a result thereof, operating income, ordinary income and income before income taxes were 2,870 thousand yen less than those as would have been accounted for under the previous method.
This reserve is an allowance stipulated in Article 43 of the Ordinance for Enforcement Commercial Code.

3. Notes to balance sheet

- (1) Monetary claims and liabilities to subsidiaries
Short-term monetary claims: 129,699 thousand yen
Short-term monetary liabilities: 1,886,048 thousand yen
- (2) Financial assets received as collateral of which the company has the right to dispose
The company received securities from i-Heart, Inc. in connection with the loan to it which amount is 51,246 thousand yen. The market value of such securities received as of the end of the fiscal year is 34,545 thousand yen.
- (3) In addition to the non-current assets recorded on the balance sheet, electronic office equipment, modems, routers, terminal adapters and others are used under lease contracts.
- (4) Asset provided as security
Deposit in an amount of 1,146,039 thousand yen
- (5) Securities lending agreements
Of the investment securities, 1,554,000 thousand yen are on loan. 999,600 thousand yen, which were provided as collateral for 1,230,000 thousand yen from among the aforesaid amount of loan, are recorded as deposit.
- (6) Stock Options under Article 280-19, Paragraph 1 of the former Commercial Code

Date of resolution of the general meeting of shareholders	April 7, 2000	June 27, 2001
Class of shares to be issued	Common stock	Common stock
Stock Options outstanding	2,109,333 thousand yen	560,200 thousand yen
Issue price	2,163,418 yen	334,448 yen

- (7) The increase in net assets, based on market value calculated in accordance with Article 124, Item 3 of the Ordinance for Enforcement of Commercial Code
3,928,242 thousand yen.
- (8) Amount of accumulated deficit
24,519,617 thousand yen

4. Notes to income statement

- (1) Net income per share
21,597.37 yen

(note) Net income per share is calculated based on the stated below.

Net income	4,231,131 thousand yen
Amount not available to common shareholders	-
Net income related to common stock	4,231,131 thousand yen
Average number of outstanding shares of common stock	195,910 shares

(2) Transactions with subsidiaries	
Revenues: 952,566 thousand yen	
Purchases: 11,519,603 thousand yen	
Turnover from non-operating transactions: 42,752 thousand yen	

5. Retirement Benefits

(a) Outline of the current retirement benefit plan

The Company employs, as a defined retirement benefit plan, a lump-sum retirement allowance plan and a tax-qualified retirement pension plan funded by accumulated internal contribution pursuant to the Regulations for Retirement Benefits. The proportion of the retirement benefits funded under the tax-qualified retirement pension plan has reached 70 percent.

The Company is a member of *Zenkoku Joho Service Sangyo Kosei Nenkin Kikin* (the Japan Information Service Industry Welfare Pension Fund), a pension plan that adopts such irregular treatment method as provided for in Paragraph 33 of the Guidelines for Retirement Benefit Accounting Practices. The balance of the Company's pension assets as of the end of the current term calculated on the basis of its premium payments in proportion to the balance of the aggregate pension assets of the aforementioned Pension Fund stands at 1,593,463 thousand yen, while the premiums paid by the Company for the current fiscal year are 75,569 thousand yen.

(b) Matters concerning retirement benefit obligations (as of March 31, 2006)

(thousand yen)

Retirement benefit obligations:	1,049,652
Plan assets:	997,856
Unfunded retirement benefit obligations:	51,796
Unrecognized actuarial loss (gain):	3,224
Retirement benefit allowance:	<u>55,020</u>

(c) Matters concerning retirement benefit costs (from April 1, 2005 to March 31, 2006)

(thousand yen)

Service cost:	159,300
Interest cost:	16,891
Expected return on plan assets:	-16,736
Unrecognized actuarial loss (gain):	<u>1,808</u>
Retirement benefit costs:	<u>161,263</u>

(Note: The above figures do not include the amount of the premiums paid to the welfare pension fund.)

(d) Matters concerning the bases for the retirement benefit accounting.

Allocation method of expected retirement benefit per period: Fixed amount per period

Discount rate: 2.0%

Expected rate of return on plan assets: 2.7%

Number of years used for amortization of unrecognized actuarial loss(gain): 14 years (Differences are amortized and expensed in the subsequent fiscal terms using the straight line method, for which a certain number of years not exceeding the employees' average remaining service years at the time of the accrual are used.)

6. Deferred Tax Accounting

(a) Significant components of deferred tax assets and liabilities:

Deferred tax assets	
Operating Loss carried-forward for income tax purposes:	9,100,340 thousand yen
Impairment loss on subsidiaries' securities:	412,164
Loss on sale of non-current assets:	63,148
Impairment loss of non-current assets	20,536
Allowance for retirement benefits:	23,561
Accrued enterprise taxes	29,225
Others:	25,310
Subtotal of deferred tax assets:	9,674,284
Valuation allowance:	-9,254,444
Total of deferred tax assets:	<u>419,840</u>
Deferred tax liabilities	
Unrealized gain on other securities:	<u>2,696,112</u>
Total of deferred tax liabilities:	<u>2,696,112</u>
Net amount of deferred tax liabilities:	<u>2,276,272</u> thousand yen

(b) Reconciliation of the difference between the statutory effective tax rate and the effective tax rate

Statutory effective tax rate:	40.7%
(Adjustments):	
Entertainment expenses:	0.9
Inhabitants' tax:	0.4
Effect of merger	-1.2
Reduction in valuation allowance:	-50.1
Expiration of operating loss carried-forward:	3.9
Use of operating loss carried-forward:	-5.3
Others:	<u>0.1</u>
Effective tax rate:	<u>-10.6%</u>

The Proposal for Appropriation of Loss

(Unit: Yen)

Description	Amount
Undisposed accumulated deficit for the current period	24,519,617,274
The amount above will be appropriated as below	
Accumulated deficit carried forward to the next period	24,519,617,274

May 22, 2006

To the Board of Directors of Internet Initiative Japan Inc.:

Deloitte Touche Tohmatsu

Designated Partner,
Engagement Partner,
Certified Public Accountant:
Shuko Shimoe (seal)

Designated Partner,
Engagement Partner,
Certified Public Accountant:
Takashi Yamaguchi (seal)

Pursuant to the first clause of Article 2 of the "Law Concerning Special Measures under the Commercial Code with respect to Audit, etc. of Corporations (Kabushiki-Kaisha)" of Japan, we have audited the balance sheet, the statement of operations, the business report (with respect to accounting matters only), the proposed disposition of accumulated deficits and the supplementary schedules (with respect to accounting matters only) of Internet Initiative Japan Inc. ("the Company") for the 14th fiscal year from April 1, 2005 to March 31, 2006. The accounting matters included in the business report and supplementary schedules referred to above are based on the Company's books of account. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. Our audit includes auditing procedures applied to subsidiaries as considered necessary.

As a result of our audit, in our opinion,

- (1) The balance sheet and the statement of operations present fairly the financial position and the results of operations of the Company in conformity with the applicable laws and regulations of Japan and the Articles of Incorporation,
- (2) The business report (with respect to accounting matters only) presents fairly the Company's affairs in conformity with the applicable laws and regulations of Japan and the Articles of Incorporation,
- (3) The proposed disposition of accumulated deficits are in conformity with the applicable laws and regulations of Japan and the Articles of Incorporation, and
- (4) The supplementary schedules (with respect to accounting matters only) present fairly the information required to be set forth therein under the Commercial Code of Japan.

The subsequent events regarding purchase of shares of the Company's subsidiary is described in the business report.

Our firm and the engagement partners do not have any financial interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Law.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

AUDIT REPORT

The Board of Statutory Auditors of the Company received reports from each of the Statutory Auditors regarding the methods and results of the audit of the performance by the Directors of their duties during the Company's 14th fiscal year, which began on April 1, 2005 and ended on March 31, 2006. Based on our review of and discussions regarding such reports, we have prepared this Audit Report and hereby report the following:

1. Summary of Auditing Methods Used by Statutory Auditors

In addition to attending meetings of the Board of Directors and other important meetings pursuant to the audit policies and division of duties set forth by the Board of Statutory Auditors, each of the Statutory Auditors made inquiries to the Directors, etc., with regard to the results of operation, reviewed important documents, etc., stating decisions and approvals, investigated the state of the operations and financial position at the head office and main branch offices of the Company, and, as necessary, asked the Company's subsidiaries to provide reports on the state of their businesses. Also, we received reports and explanations from the accounting auditors and examined financial documents and schedules thereto.

As for transactions made by the Directors which were in competition with the business of the Company, transactions between the Directors and the Company which were in conflict with the interests of the Company, benefits given without consideration by the Company, unusual transactions with subsidiaries or shareholders, and the Company's acquisition and disposition of its treasury stocks, we not only applied the above mentioned auditing methods, but also obtained relevant reports from the Directors, etc., and conducted detailed examinations.

2. Results of Audit

- (1) We acknowledge that the methods and results of the audit as reported by the accounting auditors, Deloitte Touche Tohmatsu, are appropriate.
- (2) We acknowledge that the business report present fairly the state of the Company in accordance with the relevant laws, regulations and its Articles of Incorporation.
- (3) We did not find anything that should be specified with respect to the proposal on the disposition of losses in light of the conditions of the assets and liabilities and other circumstances of the Company.
- (4) We acknowledge that the schedules to the financial documents correctly state matters that should be stated therein, and did not discover anything that should be specified in connection therewith.
- (5) As for the performance by the Directors of their duties, including their duties with respect to subsidiaries, we did not discover any significant facts indicating any unlawful conduct or breach of the relevant laws, regulations or the Company's Articles of Incorporation.

In addition, we did not discover any breach of duties by the Directors in light of the transactions made by any of the Directors which were in competition with the business of the Company, transactions between any of the Directors and the Company that were in conflict with the interests of the Company, benefits given without consideration by the Company, unusual transactions with subsidiaries or shareholders, or the Company's acquisition and disposition of its treasury stocks.

May 25, 2006

Board of Statutory Auditors
Internet Initiative Japan Inc.

Standing Statutory Auditor:	Hideki Matsushita	(Seal)
Statutory Auditor:	Masaki Okada	(Seal)
Statutory Auditor:	Masaaki Koizumi	(Seal)
Statutory Auditor:	Hirofumi Takahashi	(Seal)

Note: Two of the Statutory Auditors, Masaki Okada and Masaaki Koizumi, are outside auditors as set forth in Article 18, Paragraph 1 of the Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha.

Reference Documents for the Ordinary General Meeting of Shareholders

Agenda of the meeting and referential matters:

Item 1: Approval of the proposal for appropriation of loss for the 14th fiscal year
The content of this item is as shown on page 14 of the above Appendix.

Item 2: Reduction of additional paid-in capital

Pursuant to Article 448 Paragraph 1 of the Corporation Law, the Company proposes to reduce the additional paid-in capital in order to make up for the accumulated deficit carried forward.

1. Amount of additional paid-in capital to be reduced:

The Company proposes to reduce 21,980,395,078 yen which is the full amount of the current additional paid-in capital.

2. Effective date of reduction of additional paid-in capital:
August 4, 2006

Item 3: Reduction of Common stock

Pursuant to Article 447 Paragraph 1 of the Corporation Law, the Company proposes to reduce the common stock in order to make up for the accumulated deficit carried forward.

1. Amount of common stock to be reduced:

The Company proposes to reduce its current common stock of 16,833,847,250 yen by 2,539,222,196 yen to 14,294,625,054 yen.

2. Effective date of reduction of common stock:
August 4, 2006

Item 4: Amendments to the Articles of Incorporation

Approval is asked that parts of the present Articles of Incorporation be amended as follows.

1. Reason for the amendment

- (1) In Accordance with the enforcement of the "Corporation Law" (Law No.86, 2005) as of May 1, 2006,
 1. To add Article 4 (Establishment of Organs) in order to provide for organs to be established in the Company pursuant to Article 326.2 of the Corporation Law.
 2. To add Article 7 (Issuance of Share Certificates) in order to provide for the issuance of share certificates pursuant to Article 214 of the Corporation Law.
 3. To add Article 12 (Disclosure via Internet and Deemed Provision of Reference Materials, etc. for a Shareholders Meeting) in order to enable the Company to omit provision of written materials by disclosing via Internet a part of description of business reports and reference materials for shareholders meetings and notes and all consolidated financial statements pursuant to Articles 94 and 133. 3 of the Enforcement Regulations of the Corporation Law, and Articles 161.4 and 162.4 of the Corporate Accounting Rules.
 4. To add Article 22 (Omission of Resolutions of a Board of Directors Meeting) to enable the Company to make a resolution by the board of directors meeting in writing or by electromagnetic means agilely whenever necessary, pursuant to Article 370 of the Corporation Law.
 5. To add Article 31.2 in order to enable outside statutory auditors to fully perform functions expected of them, pursuant to Article 427.1 of the Corporation Law.
 6. To amend clauses quoted in the Articles of Incorporation to match the equivalent clauses of the Corporation Law.
 7. To amend the terms used in the former Commercial Code to the terms used in the Corporation Law, and to modify some of the wordings and amend phrases.
 8. To renumber the provisions as required by the above amendments.

(2) In order to further strengthen our management, it is proposed that the maximum number of the directors be increased (Article 16 of the proposed amendments).

2. Contents of amendments:

Contents of amendments are as follows:

(The underlined parts are the parts subject to amendment.)

Present Articles	Proposed Amendments
<p>CHAPTER I. GENERAL PROVISIONS</p> <p>(Corporate Name) Article 1. The Company shall be called Kabushiki Kaisha Internet Initiative, which shall be expressed in English as Internet Initiative Japan Inc.</p> <p>(Objects) Article 2. The objects of the Company shall be to engage in the following categories of business: (1) Telecommunications business under the Telecommunications Business Law; (2) Processing, mediation and provision of information and contents by using telecommunications networks; (3) Agency for the management business such as the management of networks and the management of information and telecommunications systems; (4) Planning, consulting service, development, operation and maintenance of or for information and telecommunications systems; (5) Development, sales, lease and maintenance of computer software; (6) Development, sales, lease and maintenance of telecommunications' machinery and equipment; (7) Telecommunications construction business; (8) Agency for non-life insurance business; (9) Research, study, education and training related to the foregoing; and (10) Any and all businesses incidental or related to the foregoing.</p> <p>(Location of Head Office) Article 3. The Company shall have its head office in Chiyoda-ku, Tokyo.</p> <p>[New provision]</p> <p>(Method of Public Notice) Article 4. Public notices of the Company shall be given by electronic public notice; provided that in case it is impossible to place electronic public notice due to accident or any other unavoidable events, they shall be given in the Nihon Keizai Shinbun.</p> <p>CHAPTER II. SHARES</p> <p>(Total Number of Shares Authorized to be Issued) Article 5. The total number of shares authorized to be issued by the Company shall be three hundred seventy seven thousand and six hundred (377,600) shares; <u>provided that in case of retirement of any shares, the number of shares</u></p>	<p>CHAPTER I. GENERAL PROVISIONS</p> <p>(Corporate Name) Article 1. The Company shall be called Kabushiki Kaisha Internet Initiative, which shall be expressed in English as Internet Initiative Japan Inc.</p> <p>(Objects) Article 2. The objects of the Company shall be to engage in the following categories of business: (1) Telecommunications business under the Telecommunications Business Law; (2) Processing, mediation and provision of information and contents by using telecommunications networks; (3) Agency for the management business such as the management of networks and the management of information and telecommunications systems; (4) Planning, consulting service, development, operation and maintenance of or for information and telecommunications systems; (5) Development, sales, lease and maintenance of computer software; (6) Development, sales, lease and maintenance of telecommunications' machinery and equipment; (7) Telecommunications construction business; (8) Agency for non-life insurance business; (9) Research, study, education and training related to the foregoing; and (10) Any and all businesses incidental or related to the foregoing.</p> <p>(Location of Head Office) Article 3. The Company shall have its head office in Chiyoda-ku, Tokyo.</p> <p><u>(Establishment of Organs)</u> <u>Article 4.</u> <u>The Company shall have shareholders meeting, directors and the following organization:</u> <u>(1) Board of directors</u> <u>(2) Statutory auditors</u> <u>(3) Board of statutory auditors</u> <u>(4) Accounting auditors.</u></p> <p>(Method of Public Notice) <u>Article 5.</u> Public notices of the Company shall be given by electronic public notice; provided that in case it is impossible to place electronic public notice due to accident or any other unavoidable events, they shall be given in the Nihon Keizai Shinbun.</p> <p>CHAPTER II. SHARES</p> <p>(Total Number of Shares Authorized to be Issued) <u>Article 6.</u> The total number of shares authorized to be issued by the Company shall be three hundred seventy seven thousand and six hundred (377,600) shares.</p>

Present Articles	Proposed Amendments
<p>subject to retirement shall be reduced from the total number of shares authorized to be issued.</p> <p>[New provision]</p> <p>(Handling of Shares and Fractional Shares) Article 6. <u>Kinds of share certificates to be issued by the Company, and matters concerning registration of transfer of shares, registration of pledges, indication of trust property, purchase of fractional shares, reissue of share certificates and other procedures concerning shares and handling charges thereof shall be governed by the Share Handling Regulations to be prescribed by the Board of Directors.</u></p> <p>(Transfer Agent) Article 7. <u>The Company shall appoint a transfer agent for the handling of its shares and fractional shares.</u> 2.<u>The transfer agent and its place of business shall be designated by a resolution of the Board of Directors.</u> 3.<u>The register of shareholders, the original register of fractional shares of the Company and the register of lost share certificates shall be kept by the transfer agent at its place of business, and matters concerning registration of transfer of shares, registration of pledges, indication of trust property, delivery of share certificates, acceptance of reports by shareholders, listing or recording into the original register of fractional shares and the register of lost share certificates and other matters concerning shares and fractional shares shall be handled by the transfer agent, and the Company shall not handle any such matters.</u></p> <p>(Record Date) Article 8. <u>The shareholders entitled to exercise voting rights at the ordinary general meeting of shareholders of the Company relevant to each fiscal year shall be those shareholders with voting rights who are listed or recorded in the last register of shareholders as of March 31 of the fiscal year.</u> 2.<u>In addition to the preceding paragraph, whenever necessary, the Company may provisionally fix a record date after giving a public notice according to a resolution of the Board of Directors and may deem the shareholders or pledgees who are listed or recorded in the last register of shareholders as of the record date, or holders of fractional shares who are listed or recorded in the last original register of fractional shares as of the record date, as the shareholders, registered pledgees or holders of fractional shares entitled to exercise the relevant rights.</u></p> <p>CHAPTER III. GENERAL MEETING OF SHAREHOLDERS</p> <p>(Convocation) Article 9.</p>	<p>(Issuance of Share Certificates) Article 7. <u>The Company shall issue share certificates representing its shares.</u></p> <p>(Share Handling Regulations) Article 8. <u>The procedures concerning shares and handling charges thereof shall be governed by the Share Handling Regulations to be prescribed by the Board of Directors.</u></p> <p>(Shareholder Register Agent) Article 9. <u>The Company shall appoint a shareholder register agent.</u> 2.<u>The shareholder register agent and its place of business shall be designated by a resolution of the Board of Directors.</u> 3.<u>The register of shareholders (hereinafter including the register of beneficial shareholders), the original register of stock acquisition rights and the register of lost share certificates shall be kept by the shareholder register agent at its place of business, and the listing or recording of entries into the register of shareholders, the original register of stock acquisition rights and the register of lost share certificates and other matters concerning shares and stock acquisition rights shall be handled by the shareholder register agent, and the Company shall not handle any such matters.</u></p> <p>(Record Date) Article 10. <u>The record date for the voting rights to be exercised at the ordinary general meeting of shareholders of the Company shall be March 31 of each year.</u></p> <p>[Deleted]</p> <p>CHAPTER III. GENERAL MEETING OF SHAREHOLDERS</p> <p>(Convocation) Article 11.</p>

Present Articles	Proposed Amendments
<p>An ordinary general meeting of shareholders of the Company shall be held within three (3) months from the day immediately following the settlement of accounts of each fiscal year and an extraordinary general meeting of shareholders may be held from time to time whenever necessary.</p> <p style="text-align: center;">[New provision]</p> <p>(Chairman) Article 10. The President shall chair a general meeting of shareholders. Should the President be unable to so act, another director shall act in his/her place in the order predetermined by the Board of Directors.</p> <p>(Voting by Proxy) Article 11. A shareholder may exercise his/her voting right through another shareholder having voting rights acting as a proxy in a general meeting of shareholders. 2. In the case of the preceding paragraph, the shareholder or his/her proxy shall submit to the Company an instrument evidencing his/her power as proxy for each general meeting of shareholders.</p> <p>(Method of Resolution) Article 12. Unless otherwise provided for by law or these Articles of Incorporation, resolutions of a general meeting of shareholders shall be adopted by a majority vote of shareholders present at the meeting. 2. Special resolutions under <u>Article 343 of the Commercial Code of Japan and other resolutions to which the method of resolution of aforementioned Article is applied mutatis mutandis by laws or regulations</u> shall be passed by two-thirds or more of the voting rights of the shareholders present having one-third or more of the voting rights of all shareholders.</p> <p>(Minutes) Article 13. <u>The summary of proceedings at a general meeting of shareholders and the results thereof shall be recorded in the minutes of the meeting, which shall bear the signatures, printed names and seal impressions, or digital signatures of the chairman of the meeting and the directors who were present at the meeting.</u></p> <p>CHAPTER IV. DIRECTORS AND THE BOARD OF DIRECTORS</p>	<p>An ordinary general meeting of shareholders of the Company shall be held within three (3) months from the last day of each business year and an extraordinary general meeting of shareholders may be held from time to time whenever necessary.</p> <p><u>(Disclosure Internet and Deemed Provision of Reference Materials for a Shareholders Meeting)</u> Article 12. <u>For the purpose of convocation of a general meeting of shareholders, the Company may deem that it has duly provided its shareholders with the information to be listed or indicated in the reference materials for a general meeting of shareholders, the business report, financial statements and consolidated financial statements by disclosing the information via the Internet as provided for by the Ministry of Justice Ordinance.</u></p> <p>(Chairman) Article 13. The President and Director shall chair a general meeting of shareholders. Should the President and Director be unable to so act, another director shall act in his/her place in the order predetermined by the Board of Directors.</p> <p>(Voting by Proxy) Article 14. A shareholder may exercise his/her voting right through another <u>one(1)</u> shareholder having voting rights acting as a proxy in a general meeting of shareholders. 2. In the case of the preceding paragraph, the shareholder or his/her proxy shall submit to the Company an instrument evidencing his/her power as proxy for each general meeting of shareholders.</p> <p>(Method of Resolution) Article 15. Unless otherwise provided for by law or these Articles of Incorporation, resolutions of a general meeting of shareholders shall be adopted by a majority vote of shareholders <u>who are present and entitled to exercise voting rights</u> at the meeting. 2. <u>Special resolutions under Article 309 Paragraph 2 of the Corporation Law of Japan</u> shall be passed by two-thirds or more of the voting rights of the shareholders present having one-third or more of the voting rights of all shareholders who are entitled to exercise voting rights.</p> <p style="text-align: center;">[Deleted]</p> <p>CHAPTER IV. DIRECTORS AND THE BOARD OF DIRECTORS</p>

Present Articles	Proposed Amendments
<p>(Number of Directors) <u>Article 14.</u> The number of directors of the Company shall be <u>between three (3) and twelve (12).</u></p>	<p>(Number of Directors) <u>Article 16.</u> The number of directors of the Company shall be <u>thirteen (13) at maximum.</u></p>
<p>(Election) <u>Article 15.</u> A resolution for election of directors shall be made by a majority of voting rights of the shareholders present at the meeting where the shareholders representing one third (1/3) or more of the total number of the voting rights of all shareholders are present; provided that cumulative voting shall not be adopted for such election.</p>	<p>(Election) <u>Article 17.</u> A resolution for election of directors shall be made by a majority of voting rights of the shareholders present at the meeting where the shareholders representing one third (1/3) or more of the total number of the voting rights of all shareholders <u>entitled to vote thereat</u> are present; provided that cumulative voting shall not be adopted for such election.</p>
<p>(Term of Office of Directors) <u>Article 16.</u> The term of office of directors shall expire at the close of the ordinary general meeting of shareholders held in relation to the last settlement of accounts within two (2) years <u>following their assumption of office.</u></p>	<p>(Term of Office of Directors) <u>Article 18.</u> The term of office of directors shall expire at the close of the ordinary general meeting of shareholders held in relation to the last business year ending within two (2) years <u>following their election to office.</u></p>
<p>(Convocation of Meetings of the Board of Directors) <u>Article 17.</u> Unless otherwise provided for by law, a meeting of the Board of Directors shall be convened and chaired by the President. 2.The notice of convocation of a meeting of the Board of Directors shall be given to each director and statutory auditor at least three (3) days prior to the day set for such meeting; provided, however, that this period may be further shortened under pressing circumstances. 3. Matters concerning operation of meetings of the Board of Directors, etc. shall be governed by the Regulations of Board of Directors to be prescribed by the Board of Directors.</p>	<p>(Convocation of Meetings of the Board of Directors) <u>Article 19.</u> Unless otherwise provided for by law, a meeting of the Board of Directors shall be convened and chaired by the <u>President and Director.</u> 2.The notice of convocation of a meeting of the Board of Directors shall be given to each director and statutory auditor at least three (3) days prior to the day set for such meeting; provided, however, that this period may be further shortened under pressing circumstances. 3. Matters concerning operation of meetings of the Board of Directors, etc. shall be governed by <u>laws and regulations, the Articles of Incorporation and the Regulations of Board of Directors</u> to be prescribed by the Board of Directors.</p>
<p>(Representative Director and Directors with Specific Titles) <u>Article 18.</u> Representative Directors shall be elected among directors by the resolution of the Board of Directors. Each Representative Director shall severally represent the Company. 2.The Board of Directors may, by its resolution, select from among its members one chairman of the Board of Directors, one President, several Vice Presidents, several Senior Managing Directors, several Managing Directors.</p>	<p>(Representative Director and Directors with Specific Titles) <u>Article 20.</u> Representative Directors shall be elected among directors by the resolution of the Board of Directors. Each Representative Director shall severally represent the Company. 2.The Board of Directors may, by its resolution, select from among its members one Chairman and Director, one President and Director, several Vice Presidents and Directors, several Senior Managing Directors and several Managing Directors.</p>
<p>(Method of Resolution of the Meeting of the Board of Directors) <u>Article 19.</u> A resolution of the Board of Directors shall be adopted by a majority vote of the directors present at the meeting at which a majority of the directors are present.</p>	<p>(Method of Resolution of the Meeting of the Board of Directors) <u>Article 21.</u> A resolution of the Board of Directors shall be adopted by a majority vote of the directors present at the meeting at which a majority of the directors <u>authorized to vote thereat</u> are present.</p>
<p>[New provision]</p>	<p><u>(Omission of Resolutions of a Board of Directors Meeting)</u> <u>Article 22.</u></p>

Present Articles	Proposed Amendments
<p>(Remuneration and Retirement Allowances) Article 20. The remuneration and retirement allowances for directors shall be determined in a general meeting of shareholders.</p>	<p>The Company shall deem that a proposal for a resolution at a meeting of the Board of Directors has been approved if all directors consent to the proposal in writing or by electronic means; provided, however that this shall not apply to the case where any of the statutory auditors raises an objection.</p> <p>(Remuneration and other compensation) Article 23. The remuneration, bonus and other profit be paid to directors as consideration for the execution of duties(hereinafter referred to as 'Remuneration and other compensation') shall be determined by a general meeting of shareholders.</p>
<p>(Exemption of Liability for Directors) Article 20.2 The Company may, pursuant to the provision of Article 266 paragraph 12 of the Commercial Code of Japan, with a resolution of the Board of Directors, exempt a director (either incumbent or past) from liabilities in respect of the acts mentioned in Article 266 paragraph 1 item 5 of the Commercial Code of Japan only to the extent permitted by laws or regulations. 2.The Company may, pursuant to Article 266 paragraph 19 of the Commercial Code of Japan, enter into an agreement with an outside director under which liability of such director against the Company for the damages resulting from acts mentioned in Article 266 paragraph 1 item (5) shall be limited; provided, however, that the limited amount of such damages pursuant to the agreement shall be the larger of the amount not less than 10 million yen which has been determined in advance or the amount provided by laws or regulations.</p>	<p>(Exemption of Liability for Directors) Article 24. The Company may, pursuant to the provision of Article 426 Paragraph 1 of the Corporation Law of Japan, with a resolution of the Board of Directors, exempt a director (either incumbent or past) from liabilities for damages under Article 423 Paragraph 1 of the Corporation Law of Japan with the limit of the amount for which the director would have been liable to compensate, less the minimum amount of liability as prescribed by laws or regulations, if the requirements prescribed by laws or regulations are satisfied. 2. The Company may, pursuant to Article 427 Paragraph 1 of the Corporation Law of Japan, enter into an agreement with an outside director under which liability of such director against the Company for the damages under Article 423 Paragraph 1 of the Corporation Law of Japan shall be limited if the requirements prescribed by laws or regulations are satisfied; provided, however, that the limited amount of such damages pursuant to the agreement shall be the larger of the amount not less than 10 million yen which has been determined in advance or the minimum amount of liability provided by laws or regulations.</p>
<p>CHAPTER V. STATUTORY AUDITORS AND THE BOARD OF STATUTORY AUDITORS</p>	<p>CHAPTER V. STATUTORY AUDITORS AND THE BOARD OF STATUTORY AUDITORS</p>
<p>(Number of Statutory Auditors) Article 21. The Company shall have three (3) or more statutory auditors.</p>	<p>(Number of Statutory Auditors) Article 25. The Company shall have three (3) or more statutory auditors.</p>
<p>(Election) Article 22. A resolution for election of statutory auditors shall be made by a majority of voting rights of the shareholders present at the meeting where the shareholders representing one third (1/3) or more of the total number of the voting rights of all shareholders are present.</p>	<p>(Election) Article 26. A resolution for election of statutory auditors shall be made by a majority of voting rights of the shareholders present at the general meeting of shareholders where the shareholders representing one third (1/3) or more of the total number of the voting rights of all shareholders entitled to vote thereat are present.</p>
<p>(Term of Office of Statutory Auditors) Article 23. The term of office of statutory auditors shall expire at the close of the ordinary general meeting of shareholders in relation to the last settlement of accounts within four (4)</p>	<p>(Term of Office of Statutory Auditors) Article 27. The term of office of statutory auditors shall expire at the close of the ordinary general meeting of shareholders in relation to the last business year ending within four (4)</p>

Present Articles	Proposed Amendments
<p>years following their assumption of office. 2.The term of office of a statutory auditor elected to fill a vacancy shall expire at such time as the term of office of his/her predecessor would otherwise expire.</p>	<p>years following their election to office. 2.The term of office of a statutory auditor elected to fill a vacancy of his/her predecessor who retired or resigned prior to the expiration of term shall expire at such time as the term of office of his/her predecessor would otherwise expire.</p>
<p>(Full-time Statutory Auditors) Article 24. The statutory auditors shall appoint a full-time statutory auditor(s) from among themselves. A standing statutory auditor(s) may be appointed from among full-time statutory auditors through mutual consultation among statutory auditors.</p>	<p>(Full-time Statutory Auditors) Article 28. The Board of Statutory Auditors shall appoint a full-time statutory auditor(s) by a resolution thereof. A standing statutory auditor(s) shall be appointed from among full-time statutory auditors through mutual consultation among statutory auditors.</p>
<p>(Procedures for Convocation of the Meeting of the Board of Statutory Auditors) Article 25. A notice of the convocation of a meeting of the Board of Statutory Auditors shall be given to each statutory auditor at least three (3) days prior to the date set for such meeting; provided, however, that such period may be shortened under pressing circumstances. 2. Matters concerning operation of meetings of the Board of Statutory Auditors, etc. shall be governed by the Regulations of Board of Statutory Auditors to be prescribed by the Board of Statutory Auditors.</p>	<p>(Procedures for Convocation of the Meeting of the Board of Statutory Auditors) Article 29. A notice of the convocation of a meeting of the Board of Statutory Auditors shall be given to each statutory auditor at least three (3) days prior to the date set for such meeting; provided, however, that such period may be shortened under pressing circumstances. 2. Matters concerning operation of meetings of the Board of Statutory Auditors, etc. shall be governed by laws and regulations, the Articles of Incorporation and the Regulations of Board of Statutory Auditors to be prescribed by the Board of Statutory Auditors.</p>
<p>(Remuneration and Retirement Allowances for Statutory Auditors) Article 26. The remuneration and retirement allowances for statutory auditors shall be determined in a general meeting of shareholders.</p>	<p>(Remuneration) Article 30. The Remuneration and other compensation for statutory auditors shall be determined by a general meeting of shareholders.</p>
<p>(Exemption of Liability for Statutory Auditors) Article 26.2 The Company may, pursuant to the provision of Article 280 paragraph 1 of the Commercial Code of Japan, with a resolution of the Board of Directors, exempt a statutory auditor (either incumbent or past) from liabilities only to the extent permitted by laws or regulations.</p>	<p>(Exemption of Liability for Statutory Auditors) Article 31 .The Company may, pursuant to the provision of Article 426 Paragraph 1 of the Corporation Law of Japan, with a resolution of the Board of Directors, exempt a statutory auditor (either incumbent or past) from liabilities for damages under Article 423 Paragraph 1 of the Corporation Law of Japan with the limit of the amount for which the statutory auditor would have been liable to compensate, less the minimum amount of liability as prescribed by laws or regulations, if the requirements prescribed by laws or regulations are satisfied. 2.The Company may, pursuant to Article 427 Paragraph 1 of the Corporation Law of Japan, enter into an agreement with an outside statutory auditor under which liability of such statutory auditor against the Company for the damages under Article 423 Paragraph 1 of the Corporation Law of Japan shall be limited if the requirements prescribed by laws or regulations are satisfied; provided, however, that the limited amount of such damages pursuant to the agreement shall be the larger of the amount not less than 10 million yen which has been determined in advance or the minimum amount of liability provided by laws or regulations.</p>
<p>[New provision]</p>	

Present Articles	Proposed Amendments
<p>(Substitute Statutory Auditor)</p> <p><u>Article 27.</u> The Company may, in preparation for the case where the Company has a vacancy in the number of its statutory auditors provided by laws or regulations, elect a substitute statutory auditor at a general meeting of shareholders in advance.</p> <p><u>2.A resolution for election of a substitute statutory auditor shall be made by a majority of voting rights of the shareholders present at the meeting where the shareholders representing one third (1/3) or more of the total number of the voting rights of all shareholders are present.</u></p> <p><u>3.A resolution for election of a substitute statutory auditor shall remain effective until the holding of the immediate subsequent ordinary general meeting of shareholders.</u></p> <p><u>4.In case a substitute statutory auditor assumes the office of a statutory auditor, the term of office of such statutory auditor shall expire at such time as the term of office of his/her predecessor would otherwise expire.</u></p>	<p>[Deleted]</p>
<p>CHAPTER VI. ACCOUNTING</p> <p>(Fiscal Year)</p> <p><u>Article 28.</u> The <u>fiscal year</u> of the Company shall commence on April 1 of each year and end on March 31 of the following year.</p> <p>(Fixing of Shareholders for Payment of Dividends)</p> <p><u>Article 29.</u> Dividends shall be paid to the shareholders or pledgees who are listed on recorded in the last register of shareholders as of March 31 of each year, or the holders of fractional shares who are listed on recorded in the last original register of fractional shares as of the same date or who deposited their fractional share certificates with the Company as of such date.</p> <p>(Interim Dividends)</p> <p><u>Article 30.</u> The Company may, by resolution of the Board of Directors, pay interim dividends to shareholders or pledgees listed or recorded in the last register of shareholders as of September 30 in each year <u>or the holders of fractional shares listed or recorded in the last original register of fractional shares as of the same day.</u></p> <p>(Prescription Period of Dividends)</p> <p><u>Article 31.</u> In case dividends or interim dividends remain unclaimed for three (3) full years after the first date of payment, the Company shall be relieved from the obligation to make payment thereof.</p> <p>2.No interest shall accrue on the outstanding dividends provided for in the preceding paragraph.</p>	<p>CHAPTER VI. ACCOUNTING</p> <p>(Business Year)</p> <p><u>Article 32.</u> The <u>business year</u> of the Company shall commence on April 1 of each year and end on March 31 of the following year.</p> <p>(Record Date for Surplus Distribution)</p> <p><u>Article 33.</u> The <u>record date for year-end dividend distribution</u> shall be March 31 of each year.</p> <p>2.The Company may, by resolution of the Board of Directors, pay interim dividends <u>by fixing</u> September 30 of each year <u>as the record date.</u></p> <p>(Prescription Period of Dividends)</p> <p><u>Article 34.</u> In case <u>any monetary dividends</u> remain unclaimed for three (3) full years after the first date of payment, the Company shall be relieved from the obligation to make payment thereof.</p> <p>2.No interest shall accrue on the outstanding dividends provided for in the preceding paragraph.</p>

*(Translation Note: The amendment which is made in the original Japanese is a lexical one, and thus, such change is not reflected in the above translation.)

Item 5: Election of six directors

Since the terms of office of five (5) incumbent directors. Fukuzo Inoue, Takamichi Miyoshi, Akihisa Watai, Yasuro Tanahashi, and Takashi Hiroi will expire at the closing of this ordinary general meeting of shareholders, the election of six (6) directors is proposed.
The candidates for the directors are as follows:

Name Date of birth	Careers & current positions in and outside of the Company	Number of shares owned
Takamichi Miyoshi May 5, 1963	Apr. 1993 Joined the Company Jun. 2002 Director of the same Apr. 2004 Director, and General Manager, Strategy Planning Division, of the same Jun. 2004 Director, and General Manager, of Strategy Planning Division, and Information Security Management Officer, of the same (Current position)	385
Akihisa Watai September 30, 1965	Apr. 1989 Joined The Sumitomo Bank, Limited (Current Sumitomo Mitsui Banking Corporation) Aug. 1996 Temporarily transferred to the Company Feb. 2000 Joined the Company Apr. 2004 General Manager, Finance Division, of the same (Current position) Jun. 2004 Director and Chief Financial Officer (Current position)	0
Yoshiaki Hisamoto December 14, 1954	Apr. 1978 Joined Nippon Telegraph and Telephone Public Corporation Jul. 1999 Senior Manager, Global Business Department and Corporate Planning Department of NTT Communications Corporation Jun. 2005 Senior Manager, Accounts and Finance Department of the same (Current position)	0
Yasuro Tanahashi January 4, 1941	Apr. 1963 Joined Fuji Iron & Steel Co., Ltd. Apr. 2000 Representative Director & President of Nippon Steel Information & Communication Systems Inc. Apr. 2001 Representative Director & President of NS Solutions Corporation Apr. 2003 Chairman, Representative Director & Chairman, NS Solutions Corporation (Current position) Jun. 2004 Director of the Company (Current position) May. 2005 Chairman of Japan Information Technology Services Industry Association (JISA) (Current position)	0
Takashi Hiroi February 13, 1963	Apr. 1986 Joined Nippon Telegraph and Telephone Corporation Apr. 2002 Senior Manager, Department 4, of the same Jul. 2002 Senior Manager, Department 1, of the same Jun. 2004 Director of the Company (Current position) May. 2005 Senior Manager, Midterm Corporate Management Strategy Division, Nippon Telegraph and Telephone Corporation (Current position)	0
Senji Yamamoto April 14, 1946	Apr. 1970 Joined Sony Corporation Jan. 1998 President of Sony Communication Network Corporation Jun. 2000 President and CEO of the same Oct. 2005 Director of IIJ Technology Inc. (Current position) Apr. 2006 Director of IIJ Financial Systems Corporation (Current position)	0

(Notes)

- (a) There is no special interest between the above candidates above and the Company.
(b) Mr. Yasuro Tanahashi and Mr. Takashi Hiroi are candidates for outside director.

Item 6: Election of a statutory auditor

The election of a statutory auditor is proposed as a replacement of one of the incumbent statutory auditors, Mr. Hideki Matsushita, who is to resign as statutory auditor at the closing of this ordinary general meeting of shareholders. Pursuant to the provisions of the Articles of Incorporation, the term of office of such statutory auditor as a replacement shall expire at such time as the term of office of Mr. Hideki Matsushita is to expire. Consent of the Board of statutory Auditors has been obtained for submission of this item of business.

The candidate for the statutory auditor is as follow:

Name Date of birth	Career & current position in and outside of the company	Number of shares owned
Junichi Tate November 6, 1949	Apr. 1974 Joined The Dai-ichi Mutual Life Insurance Company Apr. 2002 General Manager of International Corporate Relations Dept. of the same Apr. 2006 Staff General Manager of Corporate Planning Dept. No.2 (Current position)	0

(Notes)

- (a) There is no special interest between the above candidate and the Company.
- (b) Mr. Junichi Tate is a candidate for outside statutory auditor.

Item 7: Granting of retirement allowance to a retiring statutory auditor

Payment of retirement allowances is proposed, to such reasonable extent as is based on the rules of the Company, to Mr. Hideki Matsushita, a statutory auditor who is to retire from the position at the closing of this ordinary general meeting of shareholders, in order to reward his efforts during his term. Shareholders are requested to entrust statutory auditors with the determination of the amount, time and manner of payment of such retirement allowances.

A brief summary of the career of the retiring statutory auditor is as follows:

Name	Resume
Hideki Matsushita	Jun. 1998 Appointed to Standing Statutory Auditor of the Company (Current position)