

[Translation of the Corporate Governance Report filed with the Tokyo Stock Exchange on June 29, 2017]

*This document is a translation of the Japanese language original prepared solely for convenience of reference. In the event of any discrepancy between this translated document and the Japanese language original, the Japanese language original shall prevail.*

## Corporate Governance Report

Last Update: June 29, 2017

**Internet Initiative Japan Inc.**

Company representative: Eijiro Katsu, President and Representative Director

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Securities Code: 3774

<http://www.ij.ad.jp/en/>

**The corporate governance of Internet Initiative Japan Inc. (the “Company”) is described below.**

### **I. Basic Policy on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information**

#### **1. Basic Policy**

The Company recognizes the importance of enhancing corporate governance to achieve its mission of supporting and operating Internet which has become necessary social infrastructure and to consistently enhance our corporate value. The Company has social responsibilities towards a wide range of stakeholders including shareholders, customers, employees and the entire Internet users. Considering the importance of the Company's influence on society, the Company thinks it's necessary to strive to obtain understandings of various stakeholders.

The Company's Board of Directors consists of 13 directors, including 5 outside directors and the Company's Board of Company Auditors consists of 4 company auditors, including 3 outside company auditors. Further, the Company has an Internal Auditing Office consisting of 3 members, including a general manager. The Company adopted the executive officer system with an aim to further enhance its corporate governance by separating its decision making and supervisory function from business execution function and to realize its rapid and efficient business execution. Oversight and supervision of business execution is carried by means of ordinary (monthly) and extraordinary meetings of the Board of Directors as well as management meetings which consist of directors and executive officers etc. Furthermore, oversight on business management and business audit are carried by means of ordinary (monthly) and extraordinary meetings of the Board of Company Auditors. Business activities by directors and employees of the Company and its subsidiaries are governed by the Code of Ethics, the Basic Rules for Internal Control and etc.

Since the Company's American Depositary Shares are listed on the NASDAQ market in the United States, the Company is subject to the Sarbanes-Oxley Act. In accordance with the Sarbanes-Oxley Act, the Company has personal declarations by CEO and CFO for the appropriateness of English annual report which includes English consolidated financial statements, prior approvals by the Board of Company Auditors for services rendered by our accounting auditor, an operation of the whistle-blower system, grant of a right to secure a budget to the Board of Company Auditors, an assignment of financial experts in the Board of Company Auditors and prohibitions of loans to directors and company auditors of the Company and its subsidiaries, etc.

#### **[Reason for Non-compliance with each Principle of the Corporate Governance Code]**

The Company implements each principle of the Corporate Governance Code.

## **[Disclosure each Principle of the Corporate Governance Code]**

### **【Principle 1.4】**

(1) Policies on acquiring and holding shares of other listed companies

Considering our business strategies and relationships with some of our important customers and business partners thoroughly, the Company might or will acquire and hold shares of such customers and business partners as strategic shareholdings. The Company maintains its strategic shareholdings if the Company believes such shareholdings enhance our corporate value in the medium- to long-term and brings profit to every shareholders and investors of ours. Business relationships, business situations, trading performances and the status of these strategic shareholdings are annually reported and verified by the Board of Directors.

(2) Standards to ensure appropriate exercise of voting rights for strategic shareholdings

Regarding the exercise of voting rights for strategic shareholdings, the Company comprehensively reviews management policies and business situations as well as the contents of proposed subjects which to be resolved at general meetings of those companies. The Company exercises voting rights from the viewpoint that our voting leads to an improvement of those companies' corporate value in the medium- to long-term.

### **【Principle 1.7】**

Regarding conflict-of-interest transactions with directors, the Company requires an approval from the Board of Directors in compliance with the Corporation Law of Japan. Transactions with related parties are annually reported to the Board of Directors.

### **【Principle 3.1】**

- (1) The Company's business philosophy, business strategies and business plans are disclosed on the Company's website. (<http://www.ijj.ad.jp/en/ir/policy/philosophy/index.html>)
- (2) Regarding the Company's basic policy and guideline on corporate governance, please see "I.1. Basic Policy" of this report.
- (3) Regarding the Company's policies and procedures for the Board of Directors to determine compensations for directors and executive officers, please see "II.1. [Director Compensation]" of this report.
- (4) Regarding the Company's policies and procedures for elections of management executive officers and Nomination of candidates for directors and company auditors, please see "II.2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of the Current Corporate Governance System)" of this report.
- (5) The reasons for the election of candidates for directors and company auditors are described on the Convocation Notice of the 25<sup>th</sup> Ordinary General Meeting of Shareholders.

### **【Principle 4.1.1】**

In accordance with the Code of Board of Directors and the Guidelines for the resolution matters by the Board of Directors, matters to be resolved at the Board of Directors and required significant judgment on business management are determined by the Board of Directors in compliance with the Corporation Law of Japan and other laws. In addition, management meeting, which includes President, directors and executive officers who are appointed by President, implements smooth, rapid decision-making and supervision on business operations. In order to accelerate decision-making, the Board of Directors elects executive officers who commit on business execution, and delegates an authority to them in accordance with the Code of Administrative Authority

### **【Principle 4.8】**

The Company has 13 directors which include 3 independent outside directors.

#### 【Principle 4.9】

In addition to the requirement of outside directors as set forth by the Corporation Law of Japan and the standards established by Tokyo Stock Exchange, Inc., the Company sets the ‘Standards on the Independence of Outside Directors and Outside Company Auditors’ which includes condition on sufficient independence. The Company selects independent outside directors and outside company auditors based on these criteria which are as follows.

(Standards on the Independence of Outside Directors and Outside Company Auditors)

The company deems that outside directors and outside company auditors do not fall under any one of the categories below

- (1) Major shareholders holding voting rights equivalent to 10% or more of the total voting rights of the Company, or in the case of a corporation or organization, an executive of that corporation or organization
- (2) An executive of a major client of the Company or its subsidiaries, or executive of a corporation or organization that deals with the Company or its subsidiaries as a major business partner (\*1)
- (3) An executive of a financial institution to which the Company owes significant borrowings (\*2)
- (4) A person who receives significant amounts of compensation or other economic benefit (other than their remuneration as a director or company auditor) as a consultant, accountant, or lawyer for the Company or its subsidiaries, or where a corporation or organization, a person belonging thereto (\*3)
- (5) An executive of a corporation or organization that receive significant donations from the Company or its subsidiaries (\*4)
- (6) A person who served a corporation or organization falling under any of the categories (1) to (5) above as an executive within the past 5 years
- (7) A spouse or relative within two degrees of kinship of a person falling under any of the categories below
  - A person falling under any of the categories (1) to (5) above
  - A person who is a director or executive of a subsidiary of the Company
- (8) Other than above, a person who is deemed to have a lack of independence by comprehensive consideration of the company

Even if a person fails under any of the conditions from (1) through (8) as stipulated above, any reason for judging that such person still has independence is required to be explained and disclosed when such person is appointed as an independent director or company auditor.

\*1 Classification into the category of ‘major client of the Company or its subsidiaries’ is judged according to the annual sales that the Company or its subsidiaries had with the client in any fiscal year out of the most recent three fiscal years: whether or not they exceed 2% of the annual sales of the Company or its subsidiaries.

Classification into the category of a ‘corporation or organization that deals with the Company or its subsidiaries as a major business partner’ is judged according to the annual sales that the corporation or organization had with the Company or its subsidiaries in any fiscal year out of the most recent three fiscal years: whether or not they exceed 2% of the annual sales of the corporation or organization.

\*2 Classification into the category of ‘significant borrowings’ is judged according to the amount of those borrowings: whether or not they exceed 2% of the gross assets of the Company in any fiscal year out of the most recent three fiscal years.

\*3 Classification into the category of ‘significant amounts of compensation or other economic benefit’ is judged according to the benefit that the person has received from the Company or its subsidiaries (other than their remuneration as a director or company auditor) in any fiscal year out of the most recent three fiscal years: whether or not the person has received remuneration or other economic benefit of ¥10 million or more; or where the person belongs to a corporation or organization, whether or not that corporation or organization has received from the Company or its subsidiaries remuneration or other economic benefit that exceeds 2% of the annual sales of the corporation or organization in any fiscal year out of the most recent three fiscal years or ¥10 million, whichever is higher.

\*4 Classification into the category of ‘significant donations’ is judged according to the amount of

donations in any fiscal year out of the most recent three fiscal years that have been received from the Company or its subsidiaries: whether or not they exceed ¥10 million a year or 2% of the annual total costs of the corporation or organization, whichever is higher.

**【Principle 4.11.1】**

Based on the "Candidate Appointment Criteria for directors and company auditors", the Company selects a person who fulfills duties and responsibilities for a candidate for a director by considering business capability, business areas in charge and its business scale.

**【Principle 4.11.2】**

Directors and company auditors who serve concurrently for other listed companies remain in a reasonable range, and their services are noted each year in the Notice of Convocation of General Shareholders' Meeting.

**【Principle 4.11.3】**

With regard to the effectiveness of the Board of Directors, the Company annually conducts a survey on evaluation of the effectiveness of the Board of Directors to all directors and company auditors, organizes and analyzes the results of the survey, and then reports it to the Board of Directors from FY2015. Based on the results of the survey, the Company operates to improve the effectiveness of the Board of Directors as necessary. Regarding the operation of the Board of Directors in FY2016, the system of the Board of Directors including independent directors is established, the information needed for discussion and judgment in the Board of Directors is sufficiently offered, each of the directors states from the various aspects, the operations of the Board of the Directors such as frequency and the operation on the day is appropriately set, and therefore the company recognizes that the effectiveness of the Board of Directors validly functions as a self-evaluation.

**【Principle 4.14.2】**

The Company conducts training programs for new elected directors and company auditors about their duties and responsibilities. The Company provides sufficient opportunities to show their ability in the business areas in charge and supports them to obtain business knowledge at a sufficient level.

**【Principle 5.1】**

The Company has established policies and organizations to promote constructive dialogues with shareholders which should contribute to our sustainable growth and corporate value improvement in the medium- to long-term as follows:

- (1) Designation of a director in charge of the dialogue with shareholders  
In order to promote the constructive dialogue with shareholders and investors, the Company designates CFO as a director responsible to IR activities.
- (2) Measures to create organic cooperation among the Company's internal departments  
The company has established the "Disclosure Committee" which is mainly consisted of directors, company auditors and executive officers. The "Disclosure Committee" verifies and approves the contents of disclosure documents. In addition, the Company has established the "Disclosure Consideration Preparation Working Group" to which CFO is responsible for and consisting of internal departments of IR, budget, finance, accounting and legal to control information disclosure process. By having the "Disclosure Committee" and "Disclosure Consideration Preparation Working Group," the Company discloses important information in properly, timely and fairly manner.
- (3) Efforts to enhance dialogue - means other than face-to-face individual interview  
The Company holds several opportunities for analysts and institutional investors such as quarterly results briefings, participation in investor conferences and briefings on non-financial issues including technology theme. The Company also holds opportunities for individual investors such as briefings about the Company from time to time. The Company intends to continue these activities.

- (4) Measures to share shareholders' opinions and concerns to the management executives  
Shareholders' and investors' comments and concerns which the Company learns from dialogues are reported to the Company's management executives in a timely manner through various means including periodic internal meetings.
- (5) Measures related to manage insider information  
The Company takes great care of insider trading prevention, including the establishment of the "Insider Trading Prevention Provisions" that apply to all directors and employees of the Company and its subsidiaries. Regarding dialogues with shareholders and investors, the Company has established the "Disclosure Policy" in accordance with compliance, and engages in appropriate disclosures and provision of information.

## 2. Capital Structure

|                            |                           |
|----------------------------|---------------------------|
| Foreign Shareholding Ratio | From 20% to less than 30% |
|----------------------------|---------------------------|

### [Status of Major Shareholders]

| Name / Company Name   | Number of Shares Owned | Percentage (%) |
|---|------------------------|----------------|
| Nippon Telegraph and Telephone Corporation                                    | 10,095,000             | 21.61%         |
| NTT Communications Corporation  | 2,040,000              | 4.37%          |
| ITOCHU Techno-Solutions Corporation   | 1,952,000              | 4.18%          |
| Koichi Suzuki   | 1,819,900              | 3.90%          |
| GOLDMAN, SACHS & CO. REG  | 1,358,200              | 2.91%          |
| The Dai-ichi Life Insurance Company, Limited                                  | 1,273,000              | 2.73%          |
| THE BANK OF NEW YORK MELLON AS DEPOSITARY BANK FOR DEPOSITARY RECEIPT HOLDERS | 911,667                | 1.95%          |
| Japan Trustee Services Bank, Ltd. (Trust account)                             | 891,900                | 1.91%          |
| STATE STREET BANK AND TRUST COMPANY   | 874,800                | 1.87%          |
| The Master Trust Bank of Japan, Ltd. (Trust Account)                          | 828,200                | 1.77%          |

|   |      |
|---|------|
| Controlling Shareholder (except for Parent Company) | —    |
| Parent Company                                      | None |

### Supplementary Information

- As of March 31, 2017, the company held 1,650,909 shares of the company as treasury stock.
- Joho Capital, L.L.C. ("Joho") filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on July 27, 2016. According to the filing, Joho Capital, L.L.C. owned 1,934,400 shares of common stock of IIJ as of July 22, 2016, representing 4.1% of the total at that point. Their holdings were not verified based on the shareholder record as of March 31, 17, therefore, Joho and their holdings are not included in the above list.
- Dalton Investments, L.L.C. ("Dalton") filed a report of substantial shareholding with the Director General of the Kanto Bureau of the Ministry of Finance on January 26, 2017. According to the filing, Dalton owned 2,939,400 shares of common stock of IIJ as of January 23, 2017, representing 6.3% of the total at that point. Their holdings were not verified based on the shareholder record as of March 31, 2017, therefore, Dalton and their holdings are not included in the above list.

### 3. Corporate Attributes

|   |  |
|---|--|
| Stock Exchange and Market Section   | Tokyo Stock Exchange First Section         |
| Fiscal Year-End   | End of March                               |
| Type of Business  | Information & Communication                |
| Number of Employees (consolidated) as of the End of the Previous Fiscal Year  | More than 1000                             |
| Revenues (consolidated) as of the End of the Previous Fiscal Year             | From ¥100 billion to less than ¥1 trillion |
| Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year | From 10 to less than 50                    |

### 4. Policy on Measures to Protect Minority Shareholders in the event of Transactions with Controlling Shareholder

|   |
|---|
| - |
|---|

### 5. Other Particular Conditions which may have Material Impact on Corporate Governance

|   |
|---|
| - |
|---|

## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business and Oversight in Management

### 1. Organizational Composition and Operation

|                     |  |
|---------------------|--|
| Organizational Form | Company with the Board of Company Auditors |
|---------------------|--|

#### [Directors]

|   |   |
|---|---|
| Maximum Number of Directors Stipulated in Articles of Incorporation | 14 persons  |
| Term of Office Stipulated in Articles of Incorporation              | 2 years   |
| Chairperson of the Board  | Chairman (except for concurrently serving as President) |
| Number of Directors   | 13 persons  |
| Election of Outside Directors                                       | Elected   |
| Number of Outside Directors   | 5 persons   |
| Number of Independent Directors within the Outside Directors        | 3 persons   |

## Outside Directors' Relationship with the Company (1)

| Name              | Attribute          | Relationship with the Company* |   |   |   |   |   |   |   |   |   |   |
|-------------------|--------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|
|                   |                    | a                              | b | c | d | e | f | g | h | i | j | k |
| Yasurou Tanahashi | From other company |                                |   |   |   |   |   |   |   |   |   |   |
| Shingo Oda        | From other company |                                |   |   |   |   |   |   | △ |   |   |   |
| Tadashi Okamura   | From other company |                                |   |   |   |   |   |   | △ |   |   |   |
| Hiroki Watanabe   | From other company |                                |   |   |   |   |   |   |   |   |   |   |
| Takashi Tsukamoto | From other company |                                |   |   |   |   |   |   |   |   |   |   |

\* Selected the relevant "Relationship with the Company"

\*"○" indicated the relevant item that the person presently falls or has recently fallen under the category;

"△" indicated the relevant item that the person fell under the category in the past

\*"●" indicated the relevant item that the person's close family member presently falls or has recently fallen under the category;

"▲" indicated the relevant item that the person's close family member fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Executive or Non-executive director of a parent company of the Company

c. Executive of fellow subsidiaries of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. A consultant, accounting expert or legal expert who receives significant remuneration or other assets from the Company other than remuneration as a director/company auditor

g. Major shareholder of the Company (an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier of the Company (does not fall under any of d, e, or f) (the director himself/herself only)

i. Executive of a company whose outside directors/ company auditors assume the post on a reciprocal basis with the Company appointed (the director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Other

## Outside Directors' Relationship with the Company (2)

| Name              | Designation as Independent Director | Supplementary Information of the Relationship | Reasons for Election   |
|-------------------|-------------------------------------|---|--|
| Yasurou Tanahashi | ○                                   | -   | Based on his abundant experience and profound knowledge of management, Mr. Tanahashi has been elected as an outside director. The Company believes that he will enhance the supervisory functions of appropriate management execution with his objective and neutral perspective. Since he satisfies independence criteria, not meeting to any of the requirements stipulated in "the Enforcement Rules for Securities Listing Regulations Article 211, Clause 4.5" or the like, the Company believes that he is qualified as an independent director who is free from the possibility of conflicts of interest with general shareholders. |
| Shingo Oda        | ○                                   | The company's current                         | Based on his abundant experience and   |

|                   |   |  |  |
|-------------------|---|--|--|
|                   |   | outside member of the Board of Directors, Mr. Oda, formerly served as an executive of Hewlett-Packard Japan, Ltd. A summary of the business transactions between the Company and Hewlett-Packard Japan, Ltd. has been omitted, since the Company has evaluated that the size and nature of the business transactions should not influence the judgment of shareholders and investors.            | profound knowledge of management, Mr. Oda has been elected as an outside director. The company believes that he will enhance the supervisory functions of appropriate management execution with his objective and neutral perspective. Since he satisfies independence criteria, not meeting to any of the requirements stipulated in “the Enforcement Rules for Securities Listing Regulations Article 211, Clause 4.5” or the like, the Company believes that he is qualified as an independent director who is free from the possibility of conflicts of interest with general shareholders.  |
| Tadashi Okamura   | ○ | The company’s current outside member of the Board of Directors, Mr. Okamura, formerly served as an executive of Toshiba Corporation. A summary of the business transactions between the Company and Toshiba Corporation has been omitted, since the Company has evaluated that the size and nature of the business transactions should not influence the judgment of shareholders and investors. | Based on his abundant experience and profound knowledge of management, Mr. Okamura has been elected as an outside director. The Company believes that he will enhance the supervisory functions of appropriate management execution with his objective and neutral perspective. Since he satisfies independence criteria, not meeting to any of the requirements stipulated in “the Enforcement Rules for Securities Listing Regulations Article 211, Clause 4.5” or the like, the Company believes that he is qualified as an independent director who is free from the possibility of conflicts of interest with general shareholders. |
| Hiroki Watanabe   |   | -  | Based on his abundant experience of management in telecommunication business, Mr. Watanabe has been elected as an outside director. The Company believes that he will enhance the supervisory functions of appropriate management execution with his high level of expertise.  |
| Takashi Tsukamoto |   | -  | Based on his abundant experience and profound knowledge of management in banking business, Mr. Tsukamoto has been elected as an outside director. The Company believes that he will enhance the supervisory functions of appropriate management execution with his high level of expertise.  |

Voluntarily Established of Committee(s) Corresponding to Nomination Committee or Remuneration Committee

Not Established



**[Company Auditors]**

|   |   |
|---|---|
| Establishment of Board of Company Auditors  | Established   |
| Maximum Number of Board of Company Auditors Stipulated in Articles of Incorporation | The Company doesn't set a ceiling on the number of company auditors |
| Number of Board of Company Auditors   | 4 persons   |

**Cooperation among Company Auditors, Accounting Auditors and Internal Audit Departments**

According to the Sarbanes-Oxley Act, the Board of Company Auditors previously approves provision of auditing activities and auditing-related activities to the Company and its subsidiaries by accounting auditor. Regarding annual audit plans, yearly and quarterly reviews on financial results and annual audit result and etc., the Board of Company Auditors periodically cooperates with accounting auditor through interviews.

|   |           |
|---|-----------|
| Election of Outside company auditor                                       | Elected   |
| Number of Outside company auditor   | 3 persons |
| Number of Independent company auditor within the Outside Company Auditors | 3 persons |

**Outside Company Auditor's Relationship with the Company (1)**

| Name               | Attribute          | Relationship with the Company* |   |   |   |   |   |   |   |   |   |   |   |   |
|--------------------|--------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|---|---|
|                    |                    | a                              | b | c | d | e | f | g | h | i | j | k | l | m |
| Kazuhiro Ohira     | From other company |                                |   |   |   |   |   |   |   |   | △ |   |   |   |
| Yasuhiro Akatsuka  | CPA                |                                |   |   |   |   |   |   |   |   | △ |   |   |   |
| Takashi Michishita | Lawyer             |                                |   |   |   |   |   |   |   |   |   |   |   |   |

\* Selected the relevant "Relationship with the Company"

\*"○" indicated the relevant item that the person presently falls or has recently fallen under the category;

"△" indicated the relevant item that the person fell under the category in the past

\*"●" indicated the relevant item that the person's close family member presently falls or has recently fallen under the category;

"▲" indicated the relevant item that the person's close family member fell under the category in the past

a. Executive of the Company or its subsidiary

b. Non-executive director or accounting advisor of the Company or its subsidiaries

c. Executive or executive non-executive director of a parent company of the Company

d. Company Auditor of a parent company of the Company

e. Executive of fellow subsidiaries of the Company

f. A party whose major client or supplier is the Company or an executive thereof

g. Major client or supplier of the Company or an executive thereof

h. A consultant, accounting expert or legal expert who receives significant remuneration or other assets from the Company other than remuneration as a director/company auditor

i. Major shareholder of the Company (an executive of the said major shareholder if the shareholder is a legal entity)

j. Executive of a client or supplier of the Company (does not fall under any of f, g, or h) (the company auditor himself/herself only)

k. Executive of a company whose outside directors/company auditors assume the post on a reciprocal basis with the Company appointed (the company auditor himself/herself only)

l. Executive of a company or organization that receives a donation from the Company (the company auditor himself/herself only)

m. Other

Outside Company Auditor's Relationship with the Company (2)

| Name               | Designation as Independent Company Auditor | Supplementary Information of the Relationship   | Reasons for Election   |
|--------------------|--|---|--|
| Kazuhiro Ohira     | ○  | The company's current outside member of the Board of Company Auditors, Mr. Ohira, formerly served as an executive of Dai-Ichi Life Insurance Company, Ltd. A summary of the business transactions between the Company and Dai-Ichi Life Insurance Company, Ltd has been omitted, since the Company has evaluated that the size and nature of the business transactions should not influence the judgment of shareholders and investors. | Based on his profound knowledge of business administration and internal control, Mr. Ohira has been elected as an outside company auditor. The company believes that he will supervise executions of directors' duty with his high level of expertise. Since he satisfies independence criteria, not meeting to any of the requirements stipulated in "the Enforcement Rules for Securities Listing Regulations Article 211, Clause 4.5" or the like, the Company believes that he is qualified as an independent company auditor who is free from the possibility of conflicts of interest with general shareholders.   |
| Yasuhiro Akatsuka  | ○  | The company's current outside member of the Board of Company Auditors, Mr. Akatsuka, formerly served as an executive of Deloitte Touche Tohmatsu LLC. A summary of the business transactions between the Company and Deloitte Touche Tohmatsu LLC has been omitted, since the Company has evaluated that the size and nature of the business transactions should not influence the judgment of shareholders and investors.              | Based on his long experienced professional career and financial expertise as a certified public accountant, Mr. Akatsuka has been elected as an outside company auditor. The Company believes that he will supervise executions of directors' duty with his high level of expertise and objective and neutral perspective. Since he satisfies independence criteria, not meeting to any of the requirements stipulated in "the Enforcement Rules for Securities Listing Regulations Article 211, Clause 4.5" or the like, the Company believes that he is qualified as an independent company auditor who is free from the possibility of conflicts of interest with general shareholders. |
| Takashi Michishita | ○  | -   | Based on his long experienced professional career and knowledge as a lawyer, Mr. Michishita has been elected as an outside company auditor. The Company believes that he will supervise executions of directors' duty with his high level of expertise and objective and neutral perspective. Since he satisfies independence criteria,  |

|  |  |  |   |
|--|--|--|---|
|  |  |  | not meeting to any of the requirements stipulated in “the Enforcement Rules for Securities Listing Regulations Article 211, Clause 4.5” or the like, the Company believes that he is qualified as an independent company auditor who is free from the possibility of conflicts of interest with general shareholders. |
|--|--|--|---|

#### [Independent Directors/Company Auditors]

|  |           |
|--|-----------|
| Number of Independent Directors/Company Auditors | 6 persons |
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Other Matters relating to Independent Directors/Company Auditors

All outside directors/company auditors that are qualified as independent directors/company auditors have been designated as independent directors/company auditors.

#### [Incentives]

|   |               |
|---|---------------|
| Implementation of Measures on Incentive Allotment for Directors | Stock Options |
|---|---------------|

Supplementary Information

Stock compensation-type stock option, which is a stock acquisition right entitling its holder to acquire shares upon the exercise of a stock acquisition right at an exercise price of one yen (¥1) per share, are allocated to directors and executive officers (except for part-time and outside directors) as a substitution for the retirement allowance planned for them and to further motivate and incentivize them to enhance the Company's medium- to long-term business performance and corporate value.

|                                   |                            |
|-----------------------------------|----------------------------|
| Person eligible for Stock Options | Directors (Inside) / Other |
|-----------------------------------|----------------------------|

Supplementary Information

According to the purpose of the above-mentioned stock compensation-type stock option, directors and executive officers (except for part-time and outside directors) are qualified. The Board of Directors resolves the number of each allotment in consideration of their responsibilities and contributions to financial results.

#### [Director Compensation]

|  |                          |
|--|--------------------------|
| Disclosure of Individual Directors' Compensation | No Individual Disclosure |
|--|--------------------------|

Supplementary Information

The total amount of compensation for directors (inside) and outside directors is disclosed separately but each person's compensation is not disclosed since there was no director or company auditor who received an annual amount of ¥100 million or more.

For FY2016, the total amount of 12 directors' compensation was JPY314,444 thousand (including JPY18,400 thousand paid to five outside directors), and the total amount of six company auditors' compensations was JPY33,411 thousand (including JPY15,890 thousand paid to five outside company auditors) which includes JPY490 thousand for the accrued company auditors' retirement benefits. In addition, the amount of directors' compensation includes JPY35,769 thousand as stock compensation-type stock options granted to directors (except for part-time and outside directors) for executions of their duties during FY2016.

|  |             |
|--|-------------|
| Policy on Determining Compensation Amounts and Calculation Methods | Established |
|--|-------------|

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|--|
| Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods |
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|  |
|--|
| <p>Upper limits on compensation for directors and company auditors are approved at the General Meeting of Shareholders of the Company respectively. Within the limit approved by the General Meeting of Shareholders of the Company, representative directors who are delegated by the Board of Directors determine the amount of compensation for each director. Within the limit approved by the General Meeting of Shareholders of the Company, the Board of Company Auditors determines the amount of compensation for each company auditor.</p> |
|--|

**[Supporting System for Outside Directors and/or Company Auditors]**

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|---|
| <p>Full-time directors and company auditors in charge make a contact, etc. to outside directors and outside company auditors. Prior to a meeting of the Board of Directors, the materials for the meeting are dispatched to outside directors and outside company auditors.</p> |
|---|

**2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Compensation Decisions (Overview of the Current Corporate Governance System)**

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| <p>[Overviews of business execution system, auditing and supervision system and reasons for adopting the systems]</p> |
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Based on the business annual plan, which is formulated according to the corporate philosophy and annually approved by the Board of Directors, executive directors, executive officers and business execution organizations prompt the business to achieve the goals. As for business execution, oversight and supervision on the business execution are carried by means of ordinary (monthly) and extraordinary meetings of the Board of Directors, and management meetings which consist of directors and executive officers etc. Further, oversight on management and business audit are carried by means of ordinary (monthly) and extraordinary meetings of the Board of Company Auditors.

The Company has outside directors and outside company auditors with the aim of ensuring appropriateness and transparency of business executions and enhancing the supervisory functions of management. The Company's Board of Directors consists of 13 directors, including 5 outside directors and the Company's the Board of Company Auditors consists of 4 company auditors, including 3 outside company auditors. With emphasis on high degree of independence, abundant experience and profound knowledge of management or telecommunication industry, outside directors are elected. With emphasis on high degree of expertise and independence, outside company auditors are elected, including an attorney from a Japanese law firm and a certified public accountant. Further, the Company has an Internal Auditing Office consisting of 3 members.

Regarding statutory disclosure and timely disclosure, the Company has established the Disclosure Committee, which consists of directors, company auditors and executive officers. The Company discloses information after the appropriateness and completeness of the information is verified by the Disclosure Committee.

Regarding risk assessment, the Company establishes the committee organizations for each risk area as needed, and identifies the risk, assesses the identified risk and takes measures against the risk.

[Appointment and determination of compensation, etc.]

Regarding appointment of directors and company auditors, according to the internal criteria for selecting candidates, our President and representative director selects candidates. Thereafter the selection is approved by the Board of Directors, and then submitted to the General Meeting of Shareholders of the Company.

Upper limits on an aggregate amount of compensation for directors and company auditors are approved at the General Meeting of Shareholders of the Company respectively. Within the limit approved by the General Meeting of Shareholders of the Company, representative directors who are delegated by the Board of Directors determine the amount of compensation for each director. Within the limit approved by the General Meeting of Shareholders of the Company, the Board of Company Auditors determines the amount of compensation for each company auditor.

### **3. Reasons for Adoption of the Current Corporate Governance System**

The Company is a company with the Board of Company Auditors and elects outside directors. Outside directors elected have abundant experience and profound knowledge, and therefore the company's supervisory function on management execution has been enhanced. Within the Board of Company Auditors members, an attorney and a certified public accountant have been elected, therefore the company's supervisory functions on execution of duties by directors has been enhanced.

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

|  | Supplementary Information  |
|--|--|
| Early Distribution of General Shareholder Meeting      | In connection with the Ordinary General Meeting of Shareholders held on June 28, 2017, the Convocation notice was disclosed on the Company's website on May 30, 2017 and sent on June 6, 2017. |
| Allowing Exercise of Voting Rights by electronic means | Since the Ordinary General Meeting of Shareholders held on June, 2006, the Company has allowed shareholders to exercise voting rights on the Internet.   |
| Providing Convocation Notice in English                | The Company provides the Convocation notice in English simultaneously with the Japanese document.  |
| Other  | The Convocation notice is disclosed on the Company's website.  |

#### 2. IR Activities

|   | Supplementary Information   | Explanation by representative |
|---|---|-------------------------------|
| Preparation and Publication of Disclosure Policy                    | The Disclosure Policy has been established and disclosed.   | -                             |
| Regular Investor Briefings for Individual Investors                 | The Company holds IR meetings several times for individual investors in a year.   | Yes                           |
| Regular Investor Briefings for Analysts and Institutional Investors | The Company holds investor briefings for analysts and institutional investors after announcement of its financial results each quarter. Also, the Company participates in IR conferences several times a year which is held by securities companies.  | Yes                           |
| Regular Investor Briefings for Foreign Investors                    | The Company holds investor briefings (IR Roadshow) for foreign institutional investors several times a year. Also, the Company participates in IR conferences several times a year which is held by foreign securities companies.   | Yes                           |
| Disclosing of IR Materials on Website                               | Quarterly financial results, annual report ( <i>yuka-shoken-houkokuho</i> ), filing for the United States' Security and Exchange Commission including Form 20-F, newsletters to shareholders' ( <i>Kabunushi Tsushin</i> ), IR schedule such as earnings announcement, news release, management message and company information are disclosed on the Company's website ( <a href="http://www.iij.ad.jp/en/">http://www.iij.ad.jp/en/</a> ). | -                             |
| Department and Manager in Charge of IR                              | The department in charge of IR activities is Financial Division which under Finance Department. The officer in charge of IR activities is the Managing Director and CFO Akihisa Watai.  | -                             |

### 3. Measures to Ensure Due Respect for Stakeholders

|   | Supplementary Information   |
|---|---|
| Stipulation of Internal Rules for Respecting the Position of Stakeholders | The Code of Ethics defines that officers and employees to recognize their social responsibility towards wide range of stakeholders. Officers and employees are required to make great effort to obtain understanding of stakeholders. |
| Development of Policies on Information Provision to Stakeholders          | The Company establishes its disclosure policies which are disclosed.  |

## IV. Matters Related to the Internal Control System

### 1. Basic Policy on Internal Control System and the Progress of System Development

The Company's basic policy on its internal control system is as follows and the Company prepares its internal control based on the following.

#### 1) Basic policy

The Company builds the internal control system in accordance with COSO framework (The Framework was advocated the Committee of Sponsoring Organizations of the Treadway Commission for internal control) for (1) execution of efficient operations, (2) reliability of reporting, and (3) adherence to laws and regulations.

Based on COSO framework, the Company defines the main elements to build the internal control system as follows.

- (1) Control Environment
- (2) Risk Assessment
- (3) Control Activities
- (4) Information and Communication
- (5) Monitoring Activities

Based on COSO framework, the Company executes various measures to create internal control system and seeks to improve the system continuously.

#### 2) Matters under the Corporation Law of Japan

The basic policy, to ensure the propriety of business operations within the corporate group consisting of the Company and its subsidiaries, is established in accordance with Article 362 paragraph 5 of the Corporation Law of Japan, and is a part of internal control based on the COSO framework. The details are followed.

1. Systems for ensuring the compliance of directors and employees with the law and articles of incorporation in the execution of their duties.

- (1) The Company will establish a code of ethics that sets for a standard of conduct and requires strict adherence to the law. In addition, the Company will establish regulations for applying the laws regarding the prevention of insider trading, the protection of personal information, and among others. The company will disseminate those regulations to officers and employees, and conduct periodic education.
- (2) The Company will establish a system for appointing the necessary personnel to ensure compliance with the law, and for consulting with lawyers and other experts outside the Company.
- (3) The Company will establish an internal reporting system for reporting any legal violations, and will maintain an internal notification system that enables people to contact the Board of Company Auditors while protecting the person reporting.
- (4) An Office of Internal Audits under the direct control of the President will conduct internal audits on a regular basis, indicating where each division could improve compliance with the law, and overseeing the improvements.
- (5) For legally required reports, ad hoc reports, and other types of releases, the Company will establish a

Disclosure Committee whose members consist of directors, outside directors, executive officers and company auditors, who will evaluate the content for appropriateness and completeness, and approve any material to be released.

2. Systems for preserving and managing information related to the execution of duties by directors.

- (1) Basic policy and procedures regarding the handling of information assets will be set and followed in the handling of information and documents related to the execution of duties by directors (“performance information”), these policies and procedures will detail who is responsible for managing the information, how long the information is to be stored, how it is to be stored, measures for countering loss or leakage of the information, and proper management of the information. The management of this information will be reviewed on a regular basis.
- (2) The Company will create a system that ensures the proper filing of performance information (committing it to electronic storage when necessary), and that enables the quick verification of the existence, condition, and content of these documents. In addition, the system will allow people with the proper authority to view documents related to the company auditors and others without delay.
- (3) The duties related to the above fall under the jurisdiction of a director or an executive officer in charge of information security and a director or an executive officer in charge of document management of the Company.

3. Regulations governing risk management and other systems.

- (1) The director (or executive officers) that oversee the operation of each division will identify the risks defined by the governing regulations, evaluate these risks, and develop measures to counter these risks, as well as review them on a regular basis.
- (2) For certain risk categories, an Evaluation Committee will be established to evaluate the risk and to develop countermeasures.
- (3) A Business Continuity Plan will be developed to address potential emergency situations.
- (4) An Internal Auditing Office under the direct control of the President will conduct internal audits on a regular basis, indicating where each division could improve operations, including risk management, and overseeing the improvements.

4. Systems for ensuring the efficient execution of duties by directors.

- (1) A business plan for each fiscal year will be formulated in line with management objectives, and each business organization will actively seek to achieve the goals put forth in the plan. In addition, regular progress reports will be submitted and reviewed to monitor progress on each target.
- (2) As for management of operations, all issues that should be decided by the Board of Directors in accordance with the Regulations of the Board of Directors will be strictly decided by the Board, and as a basic rule of the decision-making process, sufficient documentation on the issue to be decided will be distributed to all Board members in advance.
- (3) In the execution of daily duties, authority will be delegated based on the scope of authority regulations and division of duties regulations, and managers at each level will execute their duties while complying with the rules of the decision making process.
- (4) To reinforce the Board of Directors’ authority, a certain number of people with notable management acumen will be appointed as outside directors.

5. Systems for ensuring the proper operation of corporate groups consisting of the Company and its Subsidiaries.

- (1) Subsidiaries will be managed based on the subsidiary management regulations, which are the basic policy of subsidiary management, and an agreement will be made with the parent company regarding the management of the subsidiary.
- (2) Subsidiaries will report on required items, and a system for consultation will be established.
- (3) To impose internal control on important items, regulations governing the entire corporate group will be established, and subsidiaries will be required to comply with them.
- (4) The Company’s Internal Auditing Office will perform internal audits of subsidiaries.

6. Providing employee to assist company auditors, securing those employees’ independence from directors and effectiveness of company auditors’ instruction to those employees.

- (1) The Company establishes Internal Auditing Office under direct control of President and assigns to the Office as the full-time basis. These employees work closely with the company auditors to reflect



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| <p>their opinions on the Company's internal audit plan.</p> <p>(2) The selection, appointment, and transfer of employee assigned to the Internal Auditing Office should be conducted with full consideration of the opinions from the Board of Company Auditors.</p> <p>(3) Other than above, it will be consulted and decided with the Board of Company Auditors as for assignment of employees who assist the company auditors and arrangement to ensure effectiveness of the company auditors' instruction to these employees.</p> <p>7. Systems that directors and employees of the Company and its subsidiaries make a report to the company auditors, and systems preventing the person who makes report to the company auditor from being disadvantageously treated due to such report.</p> <p>(1) In accordance with the provisions of the Board of Company Auditors, Directors and employees will report and provide information upon or periodically upon the company auditor's request.</p> <p>(2) Company auditors will be a member of panel such as Disclosure Committee that makes the important decision-making.</p> <p>(3) The Board of Company Auditors is a liaison for the Whistle-blower System of the Company and the Whistle-blower System is applied for the Company and its subsidiaries. Whistle-blower will be safely protected and kept secret, and it is prohibited that the Company disadvantageously treats that person whether the whistleblowing is anonymous or not.</p> <p>8. Policies on prepaid expenses for the execution of the duties of the company auditors, on expenses for procedures for repayment and execution of other relevant duties, or on debt processing.</p> <p>The Company will establish budget for the Board of Company Auditors for the execution of their duties every year, and will listen to Company auditors' opinion.</p> <p>9. Other systems for ensuring effective company auditors' audits</p> <p>(1) In order to ensure that the Board of Company Auditors can properly execute their duties, the necessary external experts will be retained.</p> <p>(2) To preserve the independence of the accounting auditors, the Company and its subsidiaries are not allowed to receive specific non-auditing services from the accounting auditors (including the person related the accounting auditors). When the Company and its subsidiaries receive auditing or auditing related services, it should be needed to have pre-approval from the Board of Company Auditors.</p> <p>(3) One or more financial expert will be appointed to member of the Board of Company Auditors.</p> |
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## 2. Basic Views on Eliminating Anti-Social Forces

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| <p>Towards the elimination of Anti-Social Forces, the Company has followings as basic policies, provisions to that effect to the Code of Ethics and disseminates that.</p> <p>(1) Do not respond to undue claims.</p> <p>(2) Do legal responses of civil and criminal in the event of emergencies.</p> <p>(3) Do not provide any funds and information to Anti-Social Forces.</p> <p>The Company's Compliance Division is a corresponding department to oversee anti-social forces and cooperates with external organizations such as law enforcement and the Company's attorney.</p> |
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## V. Other

### 1. Adoption of Anti-Takeover Measures

|                                    |             |
|------------------------------------|-------------|
| Adoption of Anti-Takeover Measures | Not Adopted |
| Supplementary Information          |             |
| -                                  |             |

### 2. Other Matters Concerning to Corporate Governance System

Since FY2008, according to the Sarbanes-Oxley Act Section 404, the Company and its subsidiaries have received the internal control audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) by the accounting auditor, regarding a construction and an evaluation of the internal control related to making of the consolidated financial statements.

Further, since FY2009, according to the Sarbanes-Oxley Act Section 404 and the Financial Instruments and Exchange Law of Japan, the Company and its subsidiaries have received the internal control audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) by the accounting auditor, regarding the construction and the evaluation of the internal control related to making of the consolidated financial statements.

[The Company's structure regarding timely disclosure of the Company's information]

The Company has established the Code of Information Disclosure and the Disclosure Committee on the basis of that code in order to disclose in properly, timely and fairly manner. The Disclosure Committee consists of Chairman, President, CFO, directors, executive officers and company auditors. The Disclosure Committee has verified the appropriateness and completeness of the disclosure contents, and approved the disclosure. Further, the Disclosure Committee has received reports of disclosure system and guidelines, etc. from the information disclosure officer, and performed the control evaluation.

Disclosure procedure is as follows.

(1) Collection of information and decision of disclosure

The information from the decision-making organization, executive divisions and subsidiaries, etc., is aggregated in Finance Division. Finance Department under Finance Division confirms whether the information is required to disclose, collects the information and submits the collected information to the information disclosure officer. The information disclosure officer decides whether to disclose.

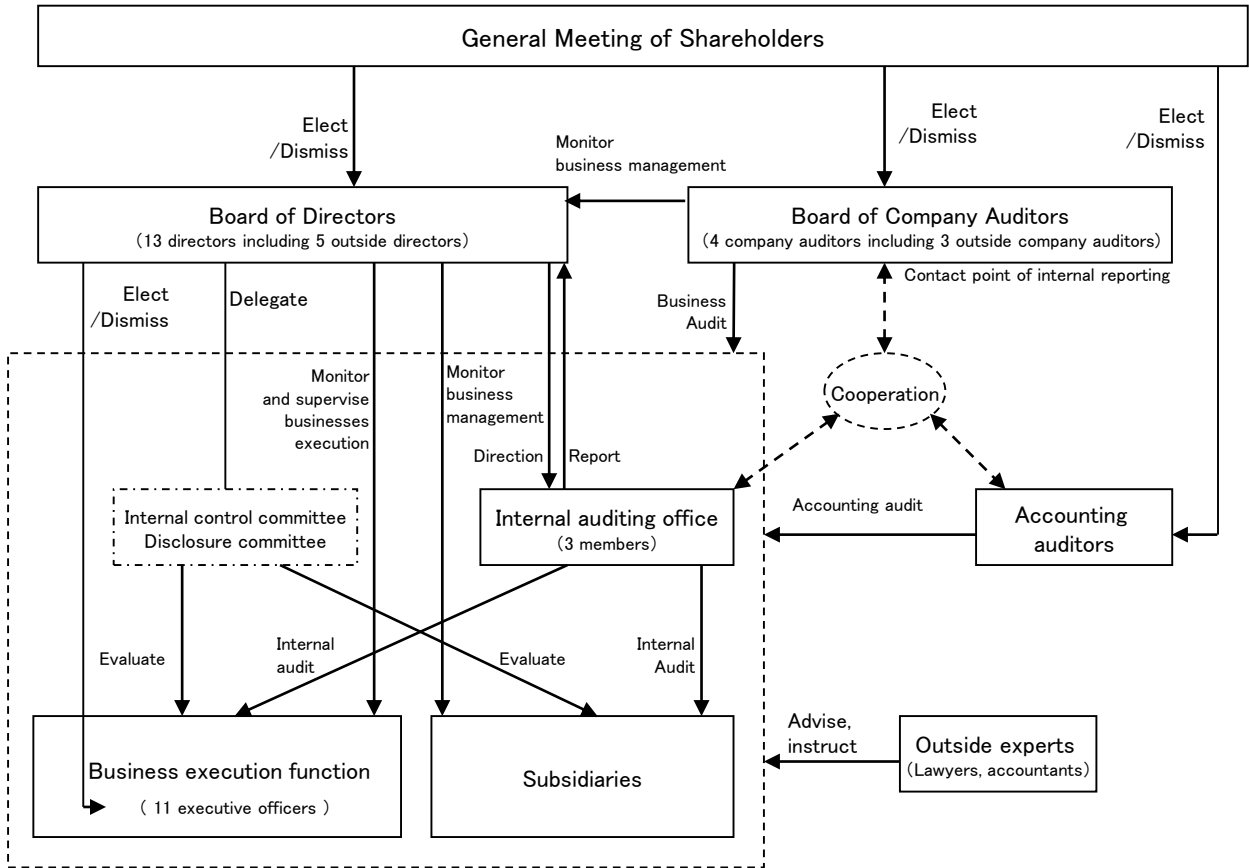
(2) Creating disclosure wordings and submitting to the Disclosure Committee

The Company appoints the information disclosure officer as the operating officer of the Disclosure Committee. Finance Department under Finance Division creates disclosure wordings promptly. The disclosure wordings are submitted to the Disclosure Committee who verifies the appropriateness and completeness of the disclosure contents. Further, the Disclosure Committee verifies whether that the disclosure has been made comprehensively.

(3) Disclosure guidelines

The information is disclosed by the "Timely Disclosure network (TDnet)" on the Tokyo Stock Exchange, the press and the Company's website. Also the information is disclosed in the US market that the Company is listed on the NASDAQ market.

# <Outline Map of the Corporate Governance system>



<Outline of Timely Disclosure System (diagram) >

