



[English Translation]

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Notice Regarding the Introduction of New Stock Remuneration System

TOKYO - May 24, 2024 - Internet Initiative Japan Inc. (“IIJ”, the “Company”, TSE Prime Market: 3774) announced that IIJ’s board of directors decided to introduce a new stock remuneration system to directors (excluding part-time and outside directors) and executive officers as a substitute for an existing stock remuneration system. A proposal regarding the new stock remuneration system is to be submitted to the 32nd Ordinary General Meeting of Shareholders scheduled on June 27, 2024 (hereinafter referred to as the “Shareholders’ Meeting”), as follows.

1. Purpose of introducing of the new stock remuneration system, etc.

(1) Purpose of the introduction

The purpose of the new stock remuneration system is to enhance the incentive of directors (limited to executive directors, hereinafter referred to as “Eligible Directors”) of IIJ to work towards the sustainable enhancement of IIJ’s corporate value and to further promote shared value with shareholders.

(2) Conditions for introduction

The condition for the introduction of the new stock remuneration system is to obtain an approval from IIJ’s shareholders at the Shareholders’ Meeting, as it involves providing monetary remuneration receivables as remuneration for the grant of restricted stock to Eligible Directors. As the existing stock remuneration system it was approved at the 19th Ordinary General Meeting of Shareholders held on June 28, 2011 to issue, as an alternative to the previous payment of retirement allowance for members of the board of directors, stock-compensation-type stock options to members of the board of directors (excluding part-time and outside directors) within the relevant limit on the amount of remuneration of the members of the board of directors, and it was approved at the 28th Ordinary General Meeting of Shareholders held on June 24, 2020 to pay, as an alternative to the previous payment of a single-year performance bonus, remuneration for the granting of shares of stock with a transfer restriction, to the members of the board of directors (excluding part-time and outside directors) within the relevant limit on the amount of remuneration of the members of the board of directors.

At the Shareholders’ Meeting, in order to optimally incentivize the increase of IIJ’s corporate value over the medium to long term pursuant to the achievement of the goals set forth in the new medium-term plan announced on May 10, 2024 (such new medium-term plan and subsequent medium-term plans to be formulated after the end of the period of the said plan are hereinafter collectively referred to as the “Medium-term Plan”), and to further facilitate the sharing of value with shareholders, IIJ will introduce a medium- to long-term incentive plan (hereinafter referred to as “LTI”) which is linked to the degree of achievement of the Medium-term Plan for Eligible Directors, executive officers, and directors of IIJ’s subsidiaries. In connection with the introduction of the LTI, IIJ plans to request that shareholders approve the introduction of the new stock remuneration system for the Eligible Directors, including the abolishment of the existing stock-compensation-type stock options for directors and executive officers and replacing them with restricted stock remuneration with the same level of content, while continuing the existing restricted stock remuneration as a single-year performance bonus with the same level of content. The board of directors, which will be held after the Shareholders’ Meeting, shall determine the specific payment

timing and allocation.

2. Overview of the new stock remuneration system

The new stock remuneration system consists of the following: (i) a restricted stock remuneration system that is conditional on tenure, under which IJJ grants to an Eligible Director, depending on the position held by the director, restricted stock, in relation to which the transfer restriction will be removed on the condition that the Eligible Director has served in a position such as a director of IJJ for a certain period of time (hereinafter referred to as “System I”); (ii) a performance-based restricted stock remuneration system, under which IJJ grants to an Eligible Director restricted stock after the end of a certain period of time (in principle, one (1) fiscal year) in accordance with the degree of achievement of performance targets and improvement in performance over such period (hereinafter referred to as “System II”); and (iii) a performance-based restricted stock remuneration system under which IJJ grants such number of shares of restricted stock as determined in accordance with the degree of achievement of performance targets and improvement in performance in each fiscal year during the relevant period, the length of such period being the same as that of the Medium-term Plan (hereinafter referred to as the “Fiscal Year Subject to Evaluation”) after the end of the Fiscal Year Subject to Evaluation (hereinafter referred to as “System III”) (System I, System II and System III are hereinafter collectively referred to as the “Systems”).

(1) Method of issuance or disposal of restricted stock

All issuances and disposals of restricted stock under System I, System II and System III will be conducted in a manner whereby monetary remuneration receivables will be provided to the Eligible Directors, and the Eligible Directors will furnish all of such monetary remuneration receivables as assets contributed in-kind and will, in return, receive shares of IJJ’s common stock that will be issued or disposed of by IJJ. The amount of monetary remuneration receivables to be provided to each Eligible Director will be calculated by multiplying the number of shares to be delivered by the closing price of IJJ’s shares of common stock on the Tokyo Stock Exchange on the business day immediately preceding the date of resolution of the board of directors regarding the relevant issuance or disposal (or the closing price on the transaction day immediately prior thereto if no transaction is made on such business day; hereinafter referred to as the “Market Price at the Time of Delivery”). For the purpose of such issuance or disposal of shares of IJJ’s common stock, a restricted stock allotment agreement (hereinafter referred to as “Allotment Agreement”) that contains provisions regarding the following matters and the specific matters prescribed with respect to each type of System will be concluded between IJJ and each Eligible Director. If an Eligible Director retires from his/her position during the period for any reason that is not attributable to IJJ, IJJ might not grant the monetary remuneration receivables and deliver the shares, taking into account the content of the report of the nomination and remuneration committee of IJJ (hereinafter referred to as “Nomination and Remuneration Committee”).

(a) Transfer restriction period

The Eligible Directors will not transfer, create any security interest over, or otherwise dispose of the shares of IJJ’s common stock allotted under the Allotment Agreement (hereinafter referred to as the “Allotted Shares”) during the period from the date of the payment for the Allotted Shares to the point in time when he or she resigns from the position specified in advance by IJJ’s board of directors (hereinafter referred to as the “Transfer Restriction Period”) (hereinafter collectively referred to as the “Transfer Restriction”).

(b) Removal of Transfer Restriction

IJJ will remove the Transfer Restriction with respect to the Allotted Shares in whole upon the expiry of the Transfer Restriction Period, provided that the Eligible Director continuously served in the position specified in (a) above during the Transfer Restriction Period.

(c) Misconduct or illegal acts, etc.

If certain events prescribed in the Allotment Agreement occur, such as the retirement of an Eligible Director from his/her

position during the Restriction Period or upon the expiration of the Restriction Period for any reason other than those deemed justifiable by IIJ, or the commitment by an Eligible Director of certain misconduct or illegal acts, IIJ may acquire all of the Allotted Shares for no consideration. In addition, if a similar event occurs with respect to an Eligible Director during the relevant period, IIJ might not grant monetary remuneration receivables or deliver shares to the Eligible Director.

(d) Treatment in the event of organizational restructuring, etc.

Notwithstanding the provision in (a) above, if a matter concerning the organizational restructuring, etc. of IIJ, such as a merger agreement whereby IIJ will be the non-surviving party under the merger, or a share exchange agreement or share transfer plan whereby IIJ will become a wholly-owned subsidiary of another entity, is approved at IIJ's General Meeting of Shareholders (or by IIJ's board of directors if such organizational restructuring, etc. does not require approval at an IIJ's General Meeting of Shareholders) during the Transfer Restriction Period, IIJ will remove, by way of a resolution of IIJ's board of directors, the Transfer Restriction on the Allotted Shares prior to the effective date of such organizational restructuring, etc.

(e) Other matters

Other matters concerning the Allotment Agreement will be determined by IIJ's board of directors.

(2) Maximum amount and maximum number of restricted stock

The total amount of monetary remuneration receivables to be provided to the Eligible Directors for the purpose of granting restricted stock pursuant to this proposal must not exceed JPY 700 million per year for all of System I, System II and System III, which amount is considered to be reasonable in light of the above-mentioned purpose. The total number of IIJ's common stock to be issued or disposed of as restricted stock must not exceed 140,000 shares per year for all of System I, System II and System III. The details of the allocation to each Eligible Director will be determined by the board of directors.

In the event that a stock split of IIJ's common stock (including any gratis allotment of shares of IIJ's common stock) or a reverse stock split is conducted on or after the date on which this proposed resolution is approved and resolved, the said maximum number of shares will be adjusted based on the stock split ratio or the reverse stock split ratio.

(3) System I

System I is a system under which IIJ grants to an Eligible Director, depending on the position held by the director, restricted stock, in relation to which the transfer restriction will be removed on the condition that the Eligible Director has served in a position such as a director of IIJ for a certain period of time. The value of the restricted stock to be granted will be equal to approximately one (1) to two (2) months' fixed monthly remuneration. Upon the granting of restricted stock under System I, a restricted stock allotment agreement that contains provisions regarding the matters prescribed in (1)(a) through (d) above (hereinafter referred to as "Allotment Agreement I") will be concluded.

(4) System II

System II is a performance-based restricted stock remuneration system, under which IIJ grants to an Eligible Director restricted stock after the end of a certain period of time (in principle, one (1) fiscal year) in accordance with the degree of achievement of performance targets and improvement in performance over such period. The details are as described below, and upon the granting of restricted stock under System II, a restricted stock allotment agreement that contains provisions regarding the matters prescribed in 1(a) through (d) above and the following matters (hereinafter referred to as "Allotment Agreement II") will be concluded.

(i) Number of shares to be delivered

The number of shares to be delivered to each Eligible Director will be the number of shares calculated using the calculation method described below (however, the number of shares to be delivered may be reasonably adjusted depending on the tenure

of the relevant Eligible Director during the relevant period).

<Calculation method for number of shares to be delivered>

Base remuneration (*1) × payment rate (*2) / base stock price (*3)

(*1) The base remuneration will be determined separately by the board of directors after consultation with the Nomination and Remuneration Committee and will be approximately equivalent to four (4) months' fixed monthly remuneration.

(*2) The payment rate will vary between 0% and 100%, taking into account factors such as the achievement of performance targets and year-on-year growth during the relevant period.

(*3) The base stock price will be the closing price of IIIJ's shares of common stock on the Tokyo Stock Exchange on the business day immediately preceding the first day of the relevant period (or the closing price on the transaction day immediately prior thereto if no transaction is made on such business day). However, if the Market Price at the Time of Delivery is an amount which is more than twice the base stock price, the number of shares to be delivered will be the number of shares calculated using the above formula, and then multiplied by twice the base stock price and divided by the Market Price at the Time of Delivery.

(5) System III

System III is a performance-based restricted stock remuneration system, under which IIIJ grants to an Eligible Director such number of shares of IIIJ's restricted stock after the end of each Fiscal Year Subject to Evaluation as determined in accordance with the degree of achievement of performance targets and improvement in performance over the Fiscal Year Subject to Evaluation, where the relevant period is the same as that of the Medium-term Plan. The details are as described below, and upon the granting of restricted stock under System III, a restricted stock allotment agreement containing provisions regarding the matters prescribed in 1(a) through (d) above and the following matters (hereinafter referred to as "Allotment Agreement III") will be concluded.

(i) Number of shares to be delivered

The number of shares to be delivered to each Eligible Director for each Fiscal Year Subject to Evaluation will be the number of shares calculated using the calculation method described below (however, the number of shares to be delivered may be reasonably adjusted based on the tenure of the relevant Eligible Director during the relevant period).

<Calculation method for number of shares to be delivered>

Base remuneration (*1) × payment rate (*2) / base stock price (*3)

(*1) The base remuneration will be determined separately by the board of directors after consulting with the Nomination and Remuneration Committee, and will be approximately equivalent to four (4) months' monthly base remuneration.

(*2) Although the details of the evaluation indicators and evaluation weights used to determine the payment rate will be determined by the board of directors after consulting with the Nomination and Remuneration Committee, those used for the first payment rate (the new Medium-term Plan to be launched in 2024) will be as follows:

<Fiscal Years Subject to Evaluation excluding final fiscal year>

The consolidated revenue (30%), consolidated operating profit (30%), engagement index (15%), and performance contribution regarding responsible business (25%).

The value of the evaluation weight that is determined for each indicator represents the percentage of evaluation points allocated according to the degree of achievement of the indicators, and the payment rate will be calculated based on the sum of those evaluation points.

<Final fiscal year>

The consolidated revenue (30%), consolidated operating profit (30%), engagement index (15%), and performance contribution regarding responsible business (25%), as well as ROE (a requirement for maximizing the payment rate), market value (a requirement for maximizing the payment rate), and ESG management index (a requirement for maximizing the payment rate).

<Payment rate>

Based on the aforementioned evaluation indicators, the payment rate will vary between 0% and 100% (for the final fiscal year, between 0% and 125%).

For the first payment rate, the main management indexes that are required to be met in order to achieve the maximum payment rate in the final fiscal year are as follows:

Consolidated revenue: JPY 388.2 billion

Consolidated operating profit: JPY 46.6 billion

ROE: 19%

Market value: JPY 1 trillion

(*3) The base stock price will be the closing price of IIJ's shares of common stock on the Tokyo Stock Exchange on the business day immediately preceding the first day of the target period (or the closing price on the transaction day immediately prior thereto if no transaction is made on such business day). However, if the Market Price at the Time of Delivery is an amount which is more than twice the base stock price, the number of shares to be delivered will be the number of shares calculated using the above formula, and then multiplied by twice the base stock price and divided by the Market Price at the Time of Delivery.

(ii) Acquisition for nil consideration (clawback) and additional grants based on status of achievement of targets

If, in the final fiscal year of the Medium-term Plan, the status of achievement of the various targets for the first and second years and the corresponding payment rates decline significantly, IIJ shall, based on the report of the Nomination and Remuneration Committee, acquire part of the restricted shares already delivered under System III for nil consideration (clawback). In addition, if, in the final fiscal year of the Medium-term Plan, the status of achievement of the various targets for the first and second years and the corresponding payment rates are significantly elevated, IIJ may, based on the report of the Nomination and Remuneration Committee, make certain additional grants with respect to the number of shares to be granted that is calculated in the final year based on System III.

(Reference) Subject to the shareholders' approval of the System at the Shareholders' Meeting, a restricted stock remuneration system that is similar to the System will be introduced for executive officers (excluding executive officers who are also directors), as well as for directors, executive officers and other core personnel of IIJ's subsidiaries, to the extent determined by the board of directors of IIJ.

< About Internet Initiative Japan Inc. >

Founded in 1992, IIJ is one of Japan's leading Internet-access and comprehensive network solutions providers. IIJ and its group companies provide total network solutions that mainly cater to high-end corporate customers. IIJ's services include high-quality Internet connectivity services, mobile services, security services, cloud computing services, and systems integration. Moreover, IIJ operates one of the largest Internet backbone networks in Japan that is connected to the United States, the United Kingdom and Asia. IIJ listed on the First Section of the Tokyo Stock Exchange ("TSE") in 2006 and transitioned to the Prime Market of TSE from April 2022.

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