

Supplementary Explanation

[Proposal No.1 Disposition of Surplus Funds]

Q1. Have any changes been made in the company's dividend policy since last year ?

A1. Until last year, our dividend policy was included in the Financial Statement (“Kessan Tanshin”). The dividend policy is as follows: “In the future, the company will allocate net profits to its shareholders in keeping with its emphasis on the payout ratio. The company is aiming for a payout ratio of 20 % on consolidated results for the fiscal year ending March 31, 2008”. Besides amending the “Dividend Policy” as follows, we have also indicated this clearly in Proposal No. 1 “Disposition of Surplus Funds” in the material distributed along with the notice of the 20th Annual Shareholders’ Meeting.

“ Aiming to increase shareholder value by improving corporate value, we will preserve capital stock for solidifying the foundation for business operations to maintain and to further expand our business scale. At the same time we will continue to return stable profit to our shareholders over the long term in keeping with our company results.”

We are proposing to our shareholders a consolidated payout ratio of at least 20 % of profit. For this period, we are proposing a term-end dividend of ¥ 750 per share in addition to an interim dividend of ¥ 750 (total dividend of ¥ 1,500) as indicated in Proposal No.1. The consolidated payout ratio (which includes the interim dividend) will be **28.6 %**.

We will be targeting a consolidated payout ratio of **30 %** for the period ending March 31, 2011. This will overlap with the period corresponding to projects proposed by the Japanese government such as the “Ubiquitous-Japan Policy” and full commercial use of the “Next Generation Network” by the Japanese service providers.

[Proposal No. 2 - 4 Partial Amendment to the Articles of Incorporation]

Q2. In what way does the proposition for Partial Amendment to the Articles of Incorporation last year differ from the proposition made for this year ?

A2. The main differences are as follows.

- 1) We have deleted the following since we could not obtain support from our shareholders: “by the decision of the Board of Directors, an independent auditor shall be exempted from liability for compensation for damages to the extent permitted by the laws”; and “items set forth in Article 459, Section 1, all Items, of the Corporate Law relating to allotment of dividends shall be determined by the decision of the Board of Directors and not at the general meeting of shareholders”.
- 2) As a result, the allotment of surplus funds shall be decided by the general meeting of shareholders in accordance with the provisions of Article 454, Paragraph 1 of the Corporate Law. (This year, we are conferring on the allotment of surplus funds as

“ Proposal No.1, Disposition of Surplus Funds”. Next year we will be consulting with all of the shareholders on the “Disposition of Surplus Funds” just as we did this year.)

- 3) Regarding acquisition of treasury stock in the open market and elsewhere as set forth in Article 459, Section 1, Item 1 of the Corporate Law, we are again conferring on an amendment to the Articles of Incorporation as Proposal No. 4 such that these can be determined by the decision of the Board of Directors in accordance with the provisions of Article 165, Section 2 of the Corporate Law.
- Q3. In new Article 8 in “Proposal No.2, Partial Amendment to the Articles of Incorporation”, it is described that the “ **exercise of shareholder’s right** shall be governed by statute, the Articles of Incorporation and the Share Handling Regulations established by board of directors”.
What specifically is stipulated here ?
- A3. Regarding the shareholder’s rights proposal and others, while the old Commercial Code stipulated that proposals had to be made “in writing”, the new Commercial Code does not contain this requirement. When shareholders make requests and otherwise communicate with the company subject to the Corporate Law, we ask that they include these in writing and have them stamped with a forwarding seal for documentation purposes. This is stipulated in the Share Handling Regulations.
- Q4. Why is it necessary to make changes to the total number of shares which can be issued (scope of authorization) covered in Proposal No. 3 ?
- A4. Although a total of **800,000 shares** can be issued currently, the total number of shares outstanding is **551,900 shares** (approximately **70 %** of the total number of shares which can be issued). Beside the fact that the amount of unissued share is small, the ability to raise funds through stock issuance has decreased due to the lower stock price. Therefore the amount of unissued stock should be increased sufficiently so that our future business development & reorganization can be carried out effectively using new shares themselves or funds raised by new shares. Therefore, we are proposing that the number of shares which can be issued be increased to **1,100,000 shares**.
- Q5. We would like to know why the total number of shares which can be issued as indicated in Proposal No. 3 could not have been increased to four (4) times the total number of shares outstanding, as recognized in Article 113, Section 3 of the Corporate Law.
- A5. An amount corresponding to four times the total number of shares outstanding is rather enormous even when converting at the current stock price. Since we do not anticipate needing funds on that order in the near future, we have set this at **1,100,000 shares** which is close to twice the current total number of shares outstanding.
- Q6. Why was a proposal made that the Board of Directors decide to acquire treasury stock in the open market in Proposal No. 4 ?
- A6. Originally we thought of successfully carrying out an interim business plan and an annual business plan and linking these to improving corporate value (share value) by achieving

the business results which the shareholders expected. However, we also thought that acquiring treasury stock as a means to improve stock value in the short term would be an effective means of achieving this. Therefore, we are proposing that this be decided not at the general meeting of shareholders but rather by the Board of Directors in order to be most effective and not necessarily be limited to fiscal 2007.

(Note 1) When a decision is made at the general meeting of shareholders, the number of shares acquired, details of the stock acquisitions and money delivered for exchange, the total amount and the period during which the stock can be acquired (within one year) must be decided according to Article 156, Section 1 of the Corporate Law. These decisions (or the absence of these decisions) can prevent acquisition of “the required amount of treasury stock” “when so required”. Needless to say, although the result can be achieved by convening a special shareholders’ meeting, we believe that this is lacking in efficiency and effectiveness when both time and expenses are considered.

(Note 2) One proxy advisor points out their concern for the matter indicating that generally, allocating funds for acquisition of treasury stock depletes funds earmarked primarily for investing, while liquidity in the stock is adversely affected by the acquisition of treasury stock, and that specific shareholders can take control of the company as a result of the acquisition of treasury stock. However, the company has determined that there is no cause for concern on any of these matters given the current balance of cash and deposits, the floating stock ratio and the makeup of the shareholders.