

Third-Party Opinion

KDDI Corporation Integrated Report 2016 (Detailed ESG Version) Third-Party Opinion



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Kawamura earned his master's degree from the Kyushu University Faculty of Engineering in 1976, and joined Mitsui Ocean Development & Engineering Co., Ltd. (MODEC). In 1988, he entered NLI Research Institute. His areas of expertise are environmental management, CSR management, environmental business, and integrated reporting. He has served at various organizations, including the Sustainable Management Forum of Japan (Vice Chairman), BEREC (Fellow), and alterna (CSR Staff Education Manager), and his published works include "Perfect Guide to CSR Management (*CSR Keiei Paafekuto Gaido*)" (sole author), "New Trends in Integrated Reporting" (*Tougou Houkoku no Shin-chouryuu*) (co-author), and "Carbon Disclosure" (co-editor).

This opinion is intended to provide an evaluation and discussion of issues and expectations based on the information published in the KDDI Corporation Integrated Report 2016 (Detailed ESG Version), particularly with respect to the disclosure of CSR management information, as well as to the approach to CSR management and the details and results of initiatives.

1. Disclosure of CSR Management Information

My initial assessment of the Integrated Report (Detailed ESG Version), which is published as a complement to the normal Integrated Report, is that it provides details from the PDCA perspective in a concise manner that is easy to read. In particular, each description of the four material issues begins with a "KDDI's Approach" section, in which "Recognition of social issue", "KDDI's risk and opportunity", "KDDI's management", "Key performance indicators (KPI)", "Highlights of FY2015 activities", and "Future issues" are all included together on a single page. The individual topics are divided into subsections with titles such as "Policy", "System", and "Activity and Results", which make it easy for evaluators to use the report.

As for the scope of the report (the report boundaries), it focuses mainly on KDDI due to the low ratio of consolidated sales to unconsolidated sales. However, in response to KDDI's active deployment of business around the globe, which is described as a medium-term management objective starting this year, ESG information will be required in the future for international operations that include supply chains. To a considerable extent, Japanese companies already recognize human rights and labor problems as

unforeseen CSR risks. As noted in the stakeholder dialogue section, CSR procurement is regarded as a management issue, and KDDI is requested to disclose a summary of the questionnaire results and formulate measures according to the risk level of each supplier.

In terms of disclosing CSR management information such as employment data and environmental data, KDDI can position itself as a front runner among companies in Japan. The section on the material issue of conserving the global environment includes detailed CO₂ emissions data for KDDI and the products and services, as well as details about Scope 1, 2, and 3 emissions. However, the overall picture is difficult to understand and it leaves a rather cumbersome impression, so I recommend that you first clearly define the scope of disclosure. On top of that, I would like to see KDDI greatly reduce CO₂ emissions through efforts such as introducing renewable energy over the medium- to long-term period.

2. Details of CSR Management

As a basic approach to CSR management, The KDDI Group Philosophy shows that KDDI understands social issues as a telecommunications company, and recognizes its social mission and social responsibilities. More specifically, the "Value Chain and CSR" (page 7) diagram clearly shows the "Impact of business activities on society", which is the original definition of CSR. The diagram also clearly indicates the objectives of "Development of sustainable society" and "Development of operations" through the "Provision of stable telecommunication services". These ideas are also expressed in the message from the President.

There were many new initiatives in the previous fiscal year, such

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as the human rights policy, digital inclusion efforts, the guidelines for CSR in the supply chain, and tax compliance efforts. Even though most of these initiatives involved the establishment of concepts and policies and the improvement of systems, there was some visible progress in terms of performance. In particular, the proactive hardware and software support for social issues that are unique to the mobile phone business can be evaluated positively. The diversity efforts can also be evaluated positively, particularly the achievement of the target to promote 90 females to line managers (7% share of total) that contribute to decision-making processes, as well as the newly established target of having 200 female line managers by FY2020. Also, I think this is well understood, but care needs to be taken so as not to equate the diversity problem with the gender problem.

In terms of the relationship with governance, the Human Rights Panel and Environmental Panel were newly established as subsidiary groups under the CSR Committee. However, to prevent damage to the corporate value and to improve the power of the KDDI brand, it is not enough to simply provide reports in the management meetings. There also needs to be proactive discussions in those meetings. ESG investors might also request those reports to help in their decision-making processes.

As stated in the message from the President, the growth strategy aims to transform KDDI from a telecommunications company into a "Life Design Company". As a long-term vision, this is not something that can be achieved within the context of a 3-year medium-term management objective. With 2015 being recognized as the first year of sustainability for the global environment and society, megatrends in the business environment are undergoing radical changes that will render conventional business models unsuitable. It is essential

to have a medium- to long-term strategy that can contribute to the new communication society that will emerge by the year 2050. In conjunction with that, I propose that you establish an approximately 5-year CSR medium-term plan that reintegrates the four material issues. As one of Japan's key telecommunications companies, there are expectations for KDDI's practical capabilities.

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Our Response to the Third-Party Opinion



Akira Dobashi

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I would like to express my deep appreciation for the valuable opinion about the Integrated Report 2016 (Detailed ESG Version).

This year's report was expanded to include more ESG information required by investors than the report for the previous fiscal year, and we made proactive, exhaustive efforts to disclose the information. In terms of CSR management, we implemented new initiatives from the previous fiscal year, such as the establishment of the human rights policy and the CSR Committee, which have strengthened the foundation for CSR management.

We are pleased to receive positive evaluations for the two points above. With respect to information disclosure, it was noted that the report that is easy to use for evaluators. For CSR management, it was noted that there has been visible progress in terms of performance, due to hardware and software support for social issues that are unique to the mobile phone business, as well as due to the promotion of diversity.

At the same time, it was pointed out that our disclosure of environmental data has positioned KDDI as a potential front runner (in terms of the amount of information that is disclosed), but that the overall picture is difficult to understand. In addition, we recognize that there are still many issues for us to address in terms of CSR management with respect to strengthening the governance, as noted in the suggestions for proactive discussions in management meetings and the establishment of an approximately 5-year CSR medium-term plan as a medium-to-long term strategy.

In addition to making the information required by stakeholders easier to understand and devising ways to ensure more exhaustive disclosure, I believe we should aim to establish the next (medium-to-long term) Environmental Conservation Plan as a medium-to-long term strategy to improve the power of the KDDI brand and to prevent damage to the corporate value, and to entrench our CSR that is unique to KDDI.

Moving forward, KDDI will step up the efforts to promote co-creation and produce more new social value, as well as our efforts toward the development of sustainable society, by continuing to listen to the views of stakeholders and furthering the advancement of CSR management.