

# Risk Management and Internal Controls

## Policy

### Basic Policy for Constructing an Internal Control System

Based on the provisions of Article 362, Paragraph 5 of the Companies Act, KDDI passed the Basic Policy for Constructing an Internal Control System at a meeting of the Board of Directors and issued a public announcement. KDDI aims to ensure fair, transparent and efficient execution of its corporate duties and to maintain an effective system for internal controls.

The contents of the Basic Policy for Constructing an Internal Control System are provided below.

#### 1 Corporate Governance

##### (1) The Board of Directors

The Board of Directors is composed of both internal and external Directors, who determine important legal matters as stipulated by laws and ordinances based on the Board's regulations and Agenda standards. In addition, the Board oversees the competent execution of business duties by the Directors themselves.

Information pertaining to the execution of business duties by the Directors must be stored and managed appropriately in accordance with internal regulations.

##### (2) System for executing business duties

[1] The Executive Officers' System aims to clarify both the delegation of authority and responsibility system, as well as ensure that tasks are executed effectively and efficiently.

[2] The Corporate Management Committee, which is composed of Directors and Executive Officers, shall discuss and determine important matters pertaining to the execution of tasks, as well as discussing and determining the Board's Agenda items, based

on the Corporate Management Committee regulations.

##### (3) System for ensuring the effective execution of business duties by Auditors

[1] Auditors shall attend the Meetings of the Board of Directors and, additionally, steps shall be taken to allow them to attend the principle internal meetings of the company.

[2] The Board of Directors, Directors of subsidiaries, and Internal Auditing Division aim to collaborate by providing timely, appropriate information necessary for executing the business duties of the Auditors, as well as by exchanging opinions and ideas.

[3] The Auditing Office was established to support the business duties of the Auditors; in order to ensure appropriate staffing levels due consideration shall be given to aptitude, the number of personnel required, etc., and the opinion of the Auditors.

[4] Steps shall be taken to ensure that a person who has reported to the Auditors shall not suffer any consequences on account of having made such report.

[5] The Auditors shall be assured of the costs required by them to carry out their duties effectively.

#### 2 Compliance

(1) All executives and employees should continuously maintain high ethical standards in accordance with the basic principles set forth in the 'KDDI Action Guideline,' which should be complied with, and aim to execute their business duties properly.

(2) Firm measures should be taken against antisocial forces, and efforts should be made to sever all such relationships.

(3) Each KDDI Group company shall make efforts to promptly identify and resolve any serious violation of laws and ordinances or other compliance-related matters or incidents, at KDDI Group company meetings pertaining to business ethics.

(4) KDDI shall aim to appropriately operate a compliance-related

internal reporting system established both internally and externally to the company.

(5) KDDI shall strive to improve the understanding and awareness of compliance through both internal and external training and enhancement activities.

#### 3 Risk management for achieving business goals fairly and efficiently

(1) KDDI shall conduct business risk analyses, stringently prioritize business activities and formulate appropriate business strategies and business plans at meetings participated in by Directors concerning business strategy, with the objective of continuous growth for the KDDI Group. To achieve this, business risk should be monitored monthly at meetings pertaining to performance management, and this performance should be managed thoroughly.

(2) In each Division a person shall be appointed as the person responsible for internal control, and this person shall autonomously promote the following initiatives so that business objectives may be achieved fairly and efficiently.

[1] All Divisions and their Directors shall work in cooperation with the Risk Management Division, which regularly identifies and uniformly manages risk information. The KDDI Group's risks shall be managed appropriately and in accordance with internal regulations, and efforts shall be made to achieve business objectives fairly and efficiently.

[2] KDDI shall examine measures for minimizing the risk of business interruptions as much as possible in order to respond to events which could have serious and long-term effects on corporate business.

[3] In accordance with the internal control reporting system based on the Financial Instruments and Exchange Act, KDDI shall implement documentation, assessment and improvement of the state of company-wide internal control and of important

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business processes on a consolidated basis, with the aim of further improving the reliability of financial reporting.

[4] KDDI shall aim to maintain and enhance the systems necessary to improve the quality of business duties of the KDDI Group, including enhancement of the effectiveness and efficiency of business duties and appropriate acquisition, safekeeping and disposal of assets.

(3) In its role as a telecommunications carrier, KDDI shall pursue the following initiatives.

[1] Protecting the privacy of communications

Protecting the privacy of communications is at the very root of the KDDI Group's corporate management, and the Group will abide by this.

[2] Information Security

KDDI aims to manage the company's total information assets, including preventing leaks of customer information and cyber-terrorism of networks for telecommunications services, by formulating measures at meetings pertaining to information security to ensure this security in cooperation with the Directors.

[3] Recovering networks and services in times of disaster

In order to minimize as much as possible the risk of a termination or interruption to telecommunications services in the event that a major accident, obstruction or large-scale disaster occurs, a Business Continuity Plan (BCP) shall be formulated and measures shall be implemented to improve network reliability and prevent the halting of services. In order to facilitate a prompt recovery in times of emergency or disaster, a Disaster Response Headquarters shall be established as expeditiously as possible.

### 4 Initiatives relating to working together with stakeholders

(1) The whole company shall make efforts to gain support and trust for all KDDI Group activities, improve customer satisfaction, and

strengthen and expand the company's customer base.

[1] By regarding all stakeholders as customers, and through the prompt and appropriate response to customer needs and complaints, all executives and employees shall engage in TCS (Total Customer Satisfaction) activities that aim to improve the level of customer satisfaction. To promote these activities, efforts shall also be made at meetings pertaining to TCS to evaluate and improve TCS activities.

[2] In addition to providing customers with safe, secure, high-quality products and services in compliance with the pertinent laws and regulations, information about products and services should be provided in an easy-to-understand format and indicated appropriately, so that customers can select and use the most appropriate product and/or service.

(2) In order to gain the understanding and trust of all stakeholders, transparency of KDDI Group management shall be ensured, and efforts shall be made to further enhance the PR and IR activities of the KDDI Group.

(3) The KDDI Group's business risk shall be fairly identified and disclosed in a timely and appropriate manner at meetings pertaining to information disclosure. In addition, Integrated Report (Detailed ESG Version) shall be created and disclosed, centering on those departments promoting CSR, for matters pertaining to the KDDI Group's social responsibilities, including its environmental efforts and contributions to society.

### 5 Systems for ensuring business suitability of corporate groups

(1) Each member company of the KDDI Group shall appoint a person responsible for internal control in order to ensure appropriate business operations across the entire KDDI Group.

(2) On the basis of the management regulations for subsidiaries, collaboration with subsidiaries shall be maintained through the

establishment of a system through which subsidiaries submit appropriate, timely reports.

(3) Risk management shall be handled appropriately in the subsidiaries so as to achieve business goals fairly and efficiently.

(4) In addition to working, through KDDI Group company meetings pertaining to the business ethics, to promptly identify and resolve any serious violation of laws and ordinances by a subsidiary or any other compliance-related matter or incident, all subsidiary personnel shall at all times maintain high ethical standards in accordance with the KDDI Action Guideline, and ensure a system is in place whereby business duties are carried out appropriately.

### 6 Internal Audits

Internal audits are conducted for all aspects of business of the KDDI Group, and the suitability and effectiveness of the Internal Control system is verified regularly. The results of internal audits are reported to the President with added suggestions for points that can be improved or revised, and a report is also made to the Auditor.

#### Activity and Results

### Initiatives in Response to the Internal Control Reporting System

In response to the Internal control reporting system based on the Financial Instruments and Exchange Law implemented in FY2008, KDDI established internal control systems at the Company and major Group subsidiaries in Japan and overseas, and conducted evaluations of its internal controls to ensure reliability in its financial reporting. The results of these evaluations were compiled in an internal controls report, which was submitted to the Japanese Prime Minister in June 2016, as well as disclosed to investors.