

Interview with Management

Tomorrow, Together

In addition to realizing “the integration of telecommunications and life design,” we endeavor to provide solutions to social issues and help achieve a truly connected society.

Question 01

Please tell us, in a frank manner, your thoughts about the past year or so, since being appointed president of KDDI.

Answer 01

Looking back, I think it was a very fulfilling year. In my first year as president, I devoted my energy to formulating the new medium-term management plan (April 2019 to March 2022), which was unveiled in May 2019.

During this process, however, two major changes occurred, requiring us to make last-minute revisions to the management plan. After this arduous process, I am confident the final version of the management plan is able to firmly address the issue of creating a path toward sustained growth while keeping costs in check.

Page 06  The Medium-Term Management Plan

Question 02

What specifically were these two major changes you mentioned?

Answer 02

The first was a revision to the Telecommunications Business Law, which reflected the “urgent proposal to fix mobile services” announced by the Ministry of Internal Affairs and Communications in November 2018.

The revision fostered speculation on the stock market that the entire telecommunications sector, including KDDI, would stop growing, and KDDI’s share price fell sharply. To be honest, this event was quite a shock for me.

However, KDDI had already taken steps to separate charges for communications and handsets with the rollout of the “au Pitatto Plan” and the “au Flat Plan” in July 2017, returning value to customers. We estimate that the additional negative impact on revenue from revising our rate plans in view of the new rate plans of competitors will total almost ¥100 billion over the next three years.

The second major change was the entrance of a new competitor into the telecommunications field. This will probably heat up competition in the domestic mobile communications market.

Even considering the additional measures to address these major changes, we still aim for sustained growth under the new medium-term management plan, a major accomplishment in my opinion.



Makoto Takahashi
President, KDDI CORPORATION

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**More than ever before,
we will use our ingenuity to “innovate,”
while fortifying our “defenses” in the form
of highly trusted networks.
As we go on the “offensive,”
we will effect a transformation of KDDI.**

Question 03

How will KDDI take on the new competitor in the telecommunications field?

Answer 03

With the emergence of a potential rival, KDDI is at risk of losing market share, so we are readying ourselves ahead of the new player's launch of services in October 2019.

The new rival has strengths in the e-commerce field, etc. an area where KDDI does not presently hold the advantage. For this reason, we intend to use our ingenuity to “innovate” areas of weakness while fortifying our “defenses” in trusted, highly reliable communications networks, KDDI's area of strength.

At the same time, we will go on the “offensive” by taking on challenges with a sense of urgency, including innovative initiatives such as the network function virtualization (NFV) technology being adopted by the new rival. Although the competition will be fierce, KDDI will flexibly and appropriately respond to various changes.

Question 04

In addition to the reliability of existing communications networks, what else can KDDI take pride in? Where is KDDI's wellspring of value?

Answer 04

KDDI has consistently grown profits for 18 consecutive fiscal years. Being able to sustain growth in a rapidly changing business environment is a testament to our ability to take on new challenges and maintain downward pressure on costs even in the face of hardship. This achievement has also fostered confidence among all our employees and will be instrumental in carrying on with the fight against the competition.

We have been innovators during past transitions to new communications standards. For example, KDDI was the first to introduce flat-rate data plans during the 3G era and to offer affordable rate plans for smartphones that bundled mobile and fixed-line services during the 4G era. We have constantly produced excitement for our customers by creating new added value through collaboration with our partners, as evidenced in our financial performance.

As we head into the 5G era, we must fix our attention on the latest trends around the world while pursuing the digital transformation of KDDI. In order to continue providing ever-better services, I believe we must reduce operating costs further through network virtualization and the deployment of AI, and fully demonstrate the ability of our corporate culture, employee motivation, and behavioral patterns to endure changes in the business environment.



Question 05

What concepts have been incorporated into the new medium-term management plan?

Answer 05

The new medium-term management plan has five layers comprising the KDDI Group Mission Statement, our brand message, the company vision, business strategy/ financial objectives, and stronger management infrastructure.

With the KDDI Group Mission Statement providing an important foundational component of this framework, we have refreshed our brand message. For the KDDI corporate brand slogan and as the brand for our businesses serving corporate customers, we decided on “Tomorrow, Together.” And for consumer-facing businesses, we chose the au brand slogan “Explore the Extraordinary.” This decision was the result of intense discussions by employees who will lead KDDI into the future, a group now mainly in their 40s.

Also, we have added a third vision: to be “a company that contributes to the sustained growth of society.” It joins the two visions, announced last year, of what KDDI will become going forward: to be “the company the customer can feel closest to” and “a company that continues to produce excitement.”

We intend to instill this frame of mind throughout the Company so that all of our employees can move in the same direction toward achieving the objectives of the new medium-term management plan.

Question 06

What is unique about KDDI’s sustained growth?

Answer 06

Maximizing revenues, minimizing expenses is a central tenet of the KDDI Group Philosophy, and our employees have been instilled with a mindset focused on increasing the top line through business growth while continuing to expand profits by responsibly reducing costs. Our aim for sustained growth also relates to the core of the KDDI Group Mission Statement, which is to value and care about the material and emotional well-being of all our employees, and to achieve a truly connected society.

Question 07

What is the purpose of changing segment classifications at the start of the new medium-term management plan?

Answer 07

To further “the integration of telecommunications and life design,” KDDI rearranged its four segments into the Personal Services Segment for consumer-facing businesses, and the Business Services Segment for our businesses serving corporate customers. In addition, global businesses are now positioned as an extension of domestic businesses, as integrating both into the same segment will allow for global businesses to take advantage of business expertise and management resources accumulated in Japan.

In the Personal Services Segment, the telecommunications business has driven growth to date, but in the future, KDDI aims to expand earnings on a total ARPA basis that integrates telecommunications and life design services.

Moreover, KDDI is keen to expand operations in Southeast Asia. In particular, it is duplicating its “integration of telecommunications and life design” business model

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overseas, with the ultimate aim of creating an “au Economic Zone” like that in Japan.

In the Business Services Segment, KDDI targets steady overall profit growth for its core business, including existing fixed-line services, the global ICT business, and Group companies, while stepping up efforts in new growth fields centered on the IoT business.

Question 08

In the Personal Services Segment, KDDI is aiming for top-line growth by expanding operating revenue in the life design domain. How exactly will this growth be accomplished?

Answer 08

In the life design domain, the Company targets growth in operating revenue from ¥946.0 billion in the fiscal year ended March 31, 2019 to ¥1.5 trillion by the fiscal year ending March 31, 2022. Specifically, we aim for top-line growth across the board, including entertainment and education operations, with growth being driven by commerce, energy, and financial businesses.

In the financial services field, KDDI announced in February 2019 the establishment of intermediate financial holding company au Financial Holdings Corporation. Related financial companies were then placed under the new holding company’s umbrella as of April 1, 2019.

In the energy field, “au Denki” (electricity) has already signed up over two million accounts. This market share places us in the top tier of retail electric power providers.

In the commerce business, although we have lined up merchandise, we still have much to learn from other companies, and this is an area we must reinforce. While growing existing business, KDDI will consider M&A activities if the need arises while closely scrutinizing potential deals.

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Special Feature 1: The Integration of Telecommunications and Life Design

Question 09

KDDI targets ¥1 trillion in operating revenue from the new Business Services segment as one more growth area, but how will this target be attained?

Answer 09

In the Business Services Segment, KDDI is building out platforms for providing services to various industries, based on the KDDI IoT World Architecture it has developed and adopted for the Global Communications Platform being promoted by Toyota Motor Corporation (Toyota). KDDI is building a strong cooperative relationship with Toyota, with KDDI communications modules embedded in connected cars the automaker sells in Japan. Responding to the need to develop this business model globally, KDDI has entered into a partnership with AT&T in the United States. KDDI will expand the service area for this platform by forging partnerships with other carriers around the world, including in China.

Moreover, we will take the know-how gained through our collaboration with Toyota and apply it to KDDI’s IoT World Architecture, which will support our global partners, including Hitachi, Ltd. and Toshiba Corporation, as well as the operations of our customers who are keen to develop business globally.

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Special Feature 3: Business Expansion through Collaboration with Partners

**In the 5G era,
telecommunications will be prevalent
everywhere with IoT connecting
a multiplicity of things to the Internet.**

Question 10

What is KDDI's budget for capital investment in 5G from the current fiscal year?

Answer 10

In April 2019, 5G frequencies were allocated by the government in Japan. Based on the plan KDDI submitted to the Ministry of Internal Affairs and Communications, KDDI was allocated 600MHz in total bandwidth that included frequencies likely to be used by other 5G networks around the world, a reflection of its ambitious plan in terms of 5G area coverage and 5G-specific base station installations. We anticipate improvements in cost efficiency in terms of network development outlays and terminal procurement costs.

Our plan to roll out 5G entails ¥466.7 billion in capital investments over the next five years. We intend to increase efficiency further by jointly using base station assets with other companies.

Starting in the current fiscal year, KDDI will invest in both 4G and 5G networks, but 4G-related investment has already peaked. For the current fiscal year, KDDI plans capital investments in the amount of ¥610 billion, roughly the same level as last year. During the new medium-term management plan, we intend to keep capital investments a little over ¥600 billion level.

Question 11

When do you think 5G services will take off?

Answer 11

KDDI plans to commence trial services this autumn and then launch commercial services in March 2020. To follow this schedule, KDDI will operate on a non-standalone basis to offer 5G services in conjunction with 4G networks. KDDI will initially develop a "hybrid network" with brilliant 4G service covering 99.9% of the population, combined with special 5G services. Over the medium term, KDDI intends to operate a separate 5G network on a standalone basis.

Question 12

What kind of changes will 5G services bring?

Answer 12

In the 5G era, video streaming will probably become commonplace. In addition to video on demand and digital signage, I believe all forms of expression could feasibly turn to video, such as videos embedded in recipe sites or videos exchanged instead of text on social networking services. As a pioneering move in the 5G era, KDDI was the first MNO* in Japan to start offering an unlimited monthly data plan called the "au Data MAX Plan."

With these potential changes on the horizon, KDDI aims to expand business by considering partnerships with over-the-top (OTT) streaming media players.

Moreover, in April, 2019, we began using 5G to promote regional revitalization, such as through the establishment of the KDDI Regional Initiatives Fund.

* Mobile Network Operator.

Page 24 Special Feature 2: New Growth Opportunities and Solutions for Social Issues with 5G

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In an era where communications functions are embedded in everything, KDDI is confident in its ability to help solve various social issues through its telecommunications services.

Question 13

The new medium-term management plan also covers sustainability initiatives, such as SDGs, within the context of engagement with all stakeholders. What are the objectives of KDDI's sustainability initiatives? How do its business activities translate into progress toward the SDGs?

Answer 13

In the 5G era, everything will be connected to the Internet via IoT, and communications functions will be embedded in all devices.

With this changeover in eras in mind, we have set forth KDDI's target SDGs in line with its clarified vision to be "a company that contributes to the sustained growth of society" in the new medium-term management plan.

The Company is taking two approaches to addressing these SDGs, as "social issues to be solved through business" and "social issues to be solved through corporate activities." For the former, KDDI has set medium- and long-term targets that are tied to business strategies, encompassing telecommunications, global business, regional revitalization, education, and finance, and for the latter, it has targets tied to corporate activities that include developing human resources, supporting women's advancement in the workplace, respecting human rights, promoting diversity and inclusion, and conserving the environment.

In an era where communications functions are embedded in everything, KDDI is confident in its ability to help solve various social issues through its telecommunications services, and will spread this mindset throughout the Company.

Page 30  KDDI's Target SDGs

Question 14

In the new medium-term management plan, one of the new targets is to achieve EPS growth in tandem with profit growth. Can you explain how this target will be reached?

Answer 14

As with the previous medium-term management plan, KDDI is keen to expand profits, having set and achieved goals for double-digit growth in operating income every year from the fiscal year ended March 31, 2014 to the fiscal year ended March 31, 2016, and for a CAGR of 7% in operating income from the fiscal year ended March 31, 2017 to the fiscal year ended March 31, 2019. Under the new medium-term management plan, owing in part to major changes in markets, we have for the first time set EPS as a KPI instead of operating income.

While continuing to prioritize profit growth, we wanted to convey the message that KDDI will achieve these lofty targets no matter what it takes, including the repurchase of the Company's own shares, as a means of making up for shortfalls from targets. In addition to business growth, I believe this expresses our determination as a company to return value to shareholders, with management clearly focused on the interests of shareholders.



Question 15

What are your thoughts on shareholder returns in the future?

Answer 15

In allocating free cash flow, we are prioritizing investments in growth to ensure continued increases in profits, followed by dividends and then share buybacks when appropriate. While maintaining a sound financial position, the Company's basic policy is to pay a stable dividend.

In the fiscal year ended March 31, 2019, operating income crossed the ¥1 trillion threshold for the first time ever. To express our appreciation to our shareholders, KDDI distributed a dividend of ¥105 per share, which is ¥15 per share higher than last year, for a dividend payout ratio of 40.5%. We plan to increase dividends by ¥5, to ¥110 per share for the current fiscal year, and have announced a ¥150 billion share buyback program by December 23, 2019. For now, the Company will steadily execute these plans.

Under the new medium-term management plan, we have made a commitment to a dividend payout ratio of 40% or higher, and take a flexible approach to share buybacks while retiring all treasury stock*. We have therefore taken a more proactive stance on shareholder returns than under the previous medium-term management plan.

* Excluding treasury stock held in the executive compensation BIP trust account and the stock-granting ESOP trust account.

Question 16

In conclusion, do you have a final message for all stakeholders?

Answer 16

KDDI would like to impress upon its stakeholders the fact that it has stayed true to its basic aim of sustaining growth. Overcoming hardships since its founding in 2000, KDDI has achieved 18 consecutive fiscal years of profit growth. The view that the telecommunications industry is unlikely to grow much more, even on a global basis, is becoming more widespread. Yet, at KDDI, we are rallying our ingenuity to meet the challenge of sustaining growth. By helping create a truly connected society, KDDI aims to be a company that wins the support of all its stakeholders, including shareholders and investors.

We ask for your continued support and guidance in the future.

Makoto Takahashi
President, KDDI CORPORATION