

Personal Services Segment:

# The Integration of Telecommunications and



## Advancing “the Integration of Telecommunications and Life Design”

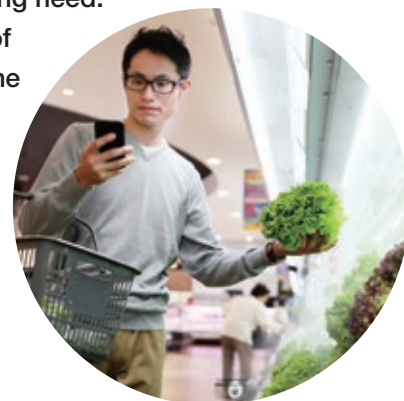
The competitive landscape for the domestic mobile telecommunications business is changing dramatically with the proliferation of discount smartphones, the entry of a new telecommunications carrier in autumn 2019, and revisions to telecommunications-related laws. We believe it would be more difficult to sustain growth at KDDI if we were to rely solely on the mobile telecommunications business.

Establishing new growth domains is a pressing need.

KDDI is pushing forward with “the integration of telecommunications and life design,” placing the telecommunications business and its customer base—sources of competitiveness—at the core of the consumer business, surrounded by concentric rings of commerce, finance, energy, entertainment, and education in the life design business.

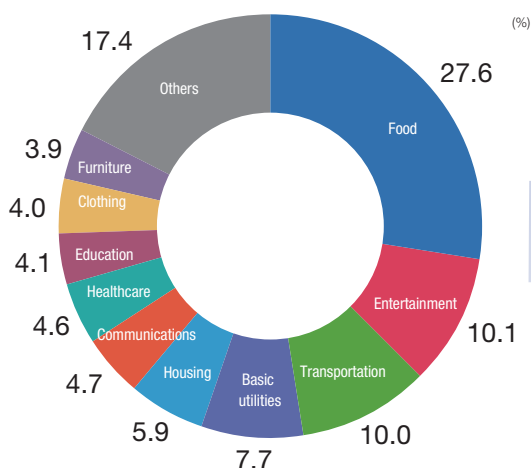
KDDI invested a total of ¥500 billion in growth over the three-year period of the previous medium-term management plan (the fiscal year ended March 31, 2017 to the fiscal year ended March 31, 2019) in order to bring together the parts necessary to push forward with “the integration of telecommunications and life design.”

Over the course of the new medium-term management plan, we aim to significantly grow these products and services as the life design domain. By providing comprehensive life design services for each life stage of its customers, KDDI will come closer to realizing its aims to be “the company the customer can feel closest to” and “a company that continues to produce excitement,” thus remaining the preferred choice of its customers.

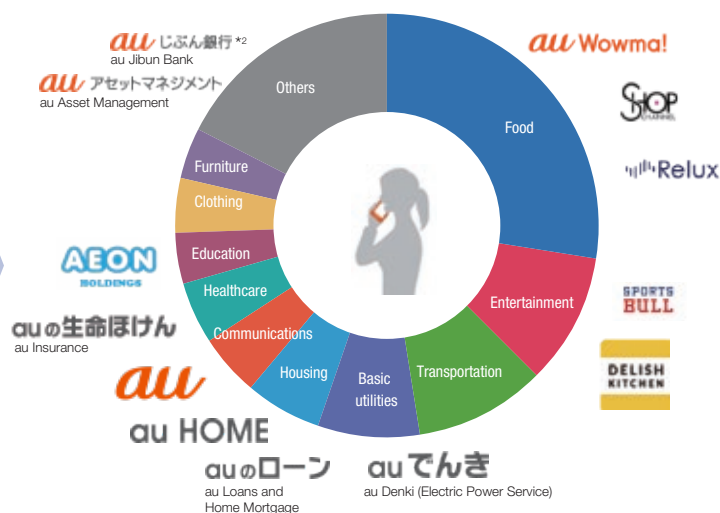


## Provision of comprehensive life design services for every customer life stage

Breakdown of household expenditures\*1 (households with two or more people)



KDDI's Life Design Domain



\*1 Source: KDDI, based on data from Ministry of Internal Affairs and Communications' Family Income and Expenditure Survey (2018)

\*2 The planned change in the company name of Jibun Bank is contingent upon receiving approval at the general meeting of shareholders for a revision of the articles of incorporation, as well as approval from the relevant authorities.

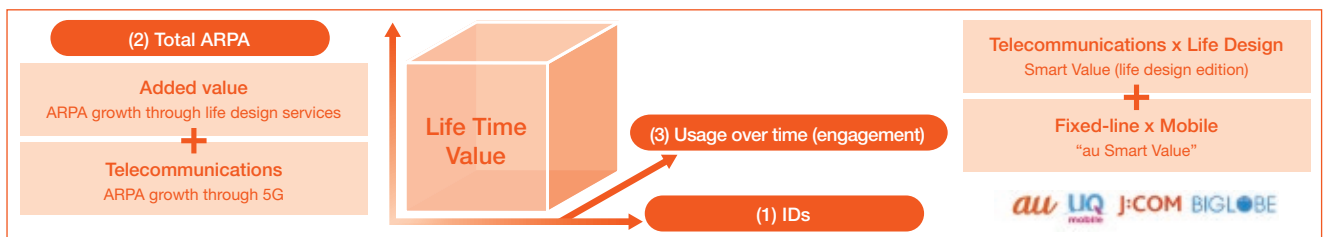
# Life Design

## Maximizing Life Time Value

To sustain growth, KDDI has expanded “total ARPA”, the combination of telecommunications and added value, by providing new experience value through the life design services it has created to date while leveraging its ID base, which has increased throughout the Group.

KDDI aims to deepen engagement with customers through the vigorous promotion of “au Smart Value,” a service that

bundles fixed-line and mobile telecommunications, and “Smart Value (life design edition),” a combination of telecommunications and life design services. We are keen to maximize Life Time Value as a concept of value generated as the product of (1) the number of customers (IDs) across the Group companies, (2) total ARPA, and (3) length of usage (engagement).

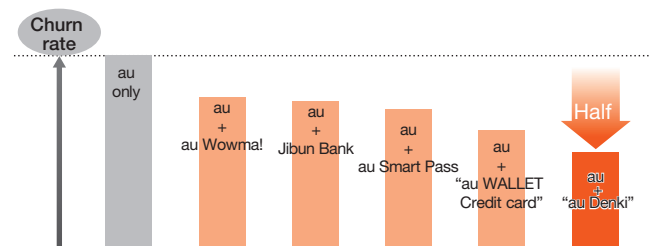


## Benefits from Deeper Engagement

The churn rate for customers who have signed up for contracts that bundle au with “au Denki” or au with the “au WALLET Credit card” is much lower than that for customers who have only stand-alone contracts with au.

KDDI intends to deepen engagement with customers further by bundling services that customers use for longer periods of time than au Smartphone, such as financial products.

Significantly reduce churn rate using bundles with “au Denki” and credit cards



## Growth Domains and M&A

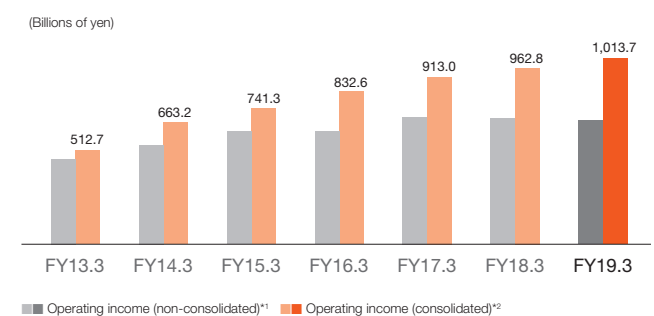
KDDI approaches M&A from the standpoint of generating synergies with its existing operations. KDDI positions the following four areas as growth domains:

- (1) Maximize Group IDs, the basis for “the integration of telecommunications and life design”
- (2) Maximize Life Time Value by expanding operating revenue and increasing engagement
- (3) Provide new value by acquiring capabilities towards the 5G and IoT era
- (4) Expand global business

KDDI supports the companies it has invested in as much as possible, prioritizing their growth as Group companies by granting them access to its assets.

This policy has driven growth in KDDI’s own services, such as “au Smart Pass” and carrier billing, in the life design domain. In addition to the stable growth of KDDI’s own services, Group companies have also contributed to KDDI’s consolidated performance, creating a virtuous cycle.

### A New Growth Stage for KDDI Group



\*1 Operating income (non-consolidated) on a Japanese GAAP basis

\*2 Operating income (consolidated) on a Japanese GAAP basis until the fiscal year ended March 31, 2015, and then on an IFRS basis from the fiscal year ended March 31, 2016.

Personal Services Segment:

# Sustained Growth in the Life Design Domain

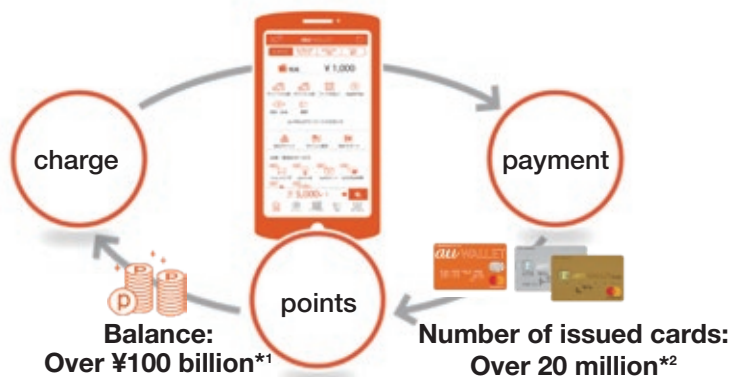
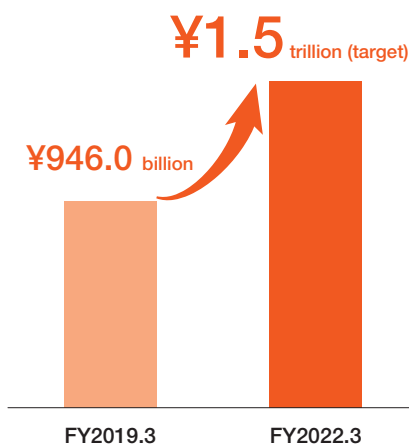
Under the new medium-term management plan unveiled in May 2019, KDDI aims to expand operating revenue from the life design domain to ¥1.5 trillion by the fiscal year ending March 31, 2022, the last year of the medium-term management plan. To achieve this goal, we are focusing on

- 1) expansion of commerce gross merchandise value,
- 2) growth in “au Denki” subscriptions, and
- 3) growth in the transaction volume of settlement and loan.

Furthermore, KDDI seeks to continue increasing operating income in the life design domain while maintaining current operating margins.



Life design domain: Operating revenue



\*1 Total of point and prepaid card balances  
 \*2 Total of active credit cards and prepaid cards issued

## 01: Expansion of Commerce Gross Merchandise Value

Commerce	Gross merchandise value	Fiscal year ended March 31, 2019	¥250.0 billion	Fiscal year ending March 31, 2022	¥400.0 billion
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The KDDI Group’s commerce operations, including the “au Wowma!” online shopping site and the “Shop Channel,” a TV shopping service, generate annual gross merchandise value (GMV) of around ¥250 billion, as of the fiscal year ended March 31, 2019. Plans call for expanding GMV to about ¥400 billion by the fiscal year ending March 31, 2022.

To achieve this target, we are improving the lineup of life design merchandise to align more closely with the lifestyles of customers and strengthening collaborative efforts related to the au WALLET point program.

The au WALLET point program awards points to customers in a variety of ways, such as when they pay au

smartphone or other telecommunications charges; on a monthly basis under the “au STAR” benefits program, which encourages the long-term use of au services; when they settle “au Denki,” gas or other utility bills; or when they pay for financial products. Accumulated points (¥1 per point) can be used to pay for au services or daily shopping.

The balance of au WALLET points and the balance on au WALLET prepaid cards currently totals over ¥100 billion. We aim to expand the “au Economic Zone” by creating a self-reinforcing cycle within the “au Economic Zone” by, for example, encouraging customers to spend their points at “au Wowma!”

## 02: Growth in “au Denki” subscriptions

**Energy** “au Denki” subscriptions Fiscal year ended March 31, 2019 Over 2.0 million → Fiscal year ending March 31, 2022 3.4 million (target)

KDDI began offering “au Denki” in tandem with the deregulation of the retail electric power sector in April 2016.

Up to 5% of monthly charges for “au Denki” are converted into points for au WALLEET. This simple and rewarding rate plan has been a success, as shown by the number of “au Denki” subscribers rising above 2 million as of March 31, 2019. KDDI aims to further expand revenue by increasing the number of subscribers to 3.4 million by March 31, 2022.

Moreover, we are concentrating our efforts on increasing bundled sales with “au WALLEET Credit card” while expanding the customer base for “au Denki.”

As a latecomer to the credit card industry, KDDI needs to find a way to improve the stature of “au WALLEET Credit card.” In this context, KDDI is focusing on enhancing

collaboration with the au WALLEET point program and aggressively promoting bundled sales at retail stores, in the hope that customers who use the “au WALLEET Credit card” as their main card to pay for utilities essential in their daily lives, such as telecommunications, electricity and gas bills, will begin to use it as their main credit card for payments for other items.

As a result of these initiatives, the ratio of “au Denki” subscribers that use “au WALLEET Credit card” as their means of payment has steadily increased. Compared with customers who do not subscribe to “au Denki,” these customers tend to charge more on their credit cards every month, and this has the side effect of expanding credit card transaction volume.

### Example of monthly usage



- 1 The first example features a customer who has been an au subscriber for less than four years and who has signed up for “au STAR.” The total includes 40 points for a flat-rate plan costing ¥4,980 (tax not included) and 52 points for a ¥5,378 (tax included) payment for au services using the “au WALLEET Credit Card.”
- 2 The second example uses bonus point stores, where every ¥200 spent earns 3 points.

## 03: Growth in the Transaction Volume of Settlement and Loan

**Finance** Transaction Volume of Settlement and loan Fiscal year ended March 31, 2019 ¥4.4 trillion → Fiscal year ending March 31, 2022 ¥6.0 trillion (target)

KDDI is focusing efforts on the settlement and financial business as a profit growth driver for the life design domain. In the fiscal year ended March 31, 2019, the transaction volume of settlement and loan reached ¥4.4 trillion, and we aim to expand this to ¥6.0 trillion by the fiscal year ending March 31, 2022.

As the first step toward attaining this target, au Financial Holdings Corporation started business in April 2019, putting into place a structure for accelerating decision making in the financial services business and strengthening ties with Group companies in financial services.

Under this new structure, we will comprehensively provide a “smartphone-centric” settlement and financial services experience, where customers’ smartphones become a gateway for various financial services, such as savings, payments, investments, loans, and insurance.

Moreover, KDDI is promoting collaboration between banks and securities firms through capital participation in kabu.com Securities Co., Ltd. and Jibun Bank Corporation in June 2019. In the domestic consumer finance market, instead of traditional financial institutions, financial groups are more likely to see strong growth if they aim to expand business using Fintech, owing to the proliferation of smartphone-based services and a generational change in the customer base. We

believe KDDI has a substantial advantage entering this domain, thanks to its large base of more than 20 million smartphone customers.

KDDI aims to expand overall profits in the settlement and financial services business by latching its diverse settlement operations, including high-margin carrier billing, as well as au WALLEET and au PAY services, onto growth in these new domains.

### Provision of “smartphone-centric” settlements and financial services



\*1 The planned change in the company name of Jibun Bank is contingent upon receiving approval at the general meeting of shareholders for a revision of the articles of incorporation, as well as approval from the relevant authorities.

\*2 We will steadily change the names of each company to match our au brand, subject to obtaining approval from the relevant authorities. Logos of au Insurance Company and kabu.com Securities are currently under discussion, and have not been determined.