

Risk Management and Internal Controls

Fundamental Thinking

In the ever changing business environment, the risks that companies face are more diverse and complicated.

We define factors and events that negatively influence the achievement of our business goals as risks and consider enforcing risk management a material business challenge. In order to be sustainable and responsible to society, we promote risk management initiatives throughout the KDDI Group.

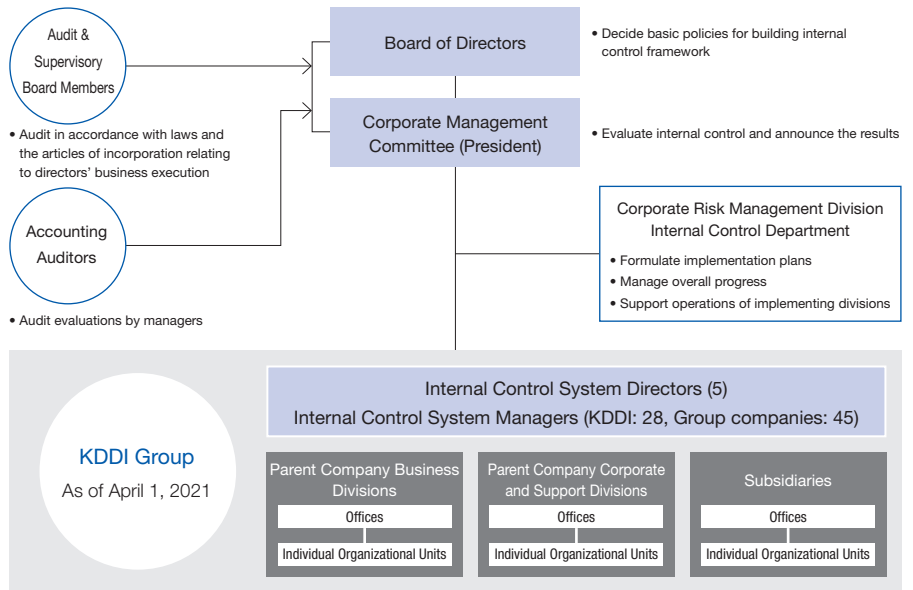
Our Risk Management and Internal Control

We have established a system to centralize the management of risks, which we define as factors that have the potential to block the achievement of our business goals, with the Corporate Risk Management Division at the core.

Furthermore, we are working to promote risk management throughout the KDDI Group, including subsidiaries, in order to realize continuous growth of the entire Group.

We have appointed 28 Internal Control System Managers within KDDI and 45 at Group companies, as well as 5 Internal Control System Directors to oversee their activities. Under their leadership, we introduce and run internal control systems, carrying out risk management activities, and run operational quality improvement activities to foster a company culture in which risks are less likely to arise.

Personnel in Charge of Internal Control



Risk Management Activity Cycle

In order to prevent critical events for the Company, we consider that it is important to recognize signs of danger and implement preventive measures before the situation worsens. Based on this idea, we follow the PDCA cycle for risk management. We also have an organizational framework for risk management in place to ensure any risks we find will be addressed promptly and appropriately.



Risk Identifying Process

We regularly examine information about risks to identify significant risks that seriously influence corporate business, and discuss measures to reduce such risks and their impacts as much as possible in case we face them. In order to ensure the achievement of our business goals, in the fiscal year ended March 31, 2021, we selected 29 significant risks based on issues that manifested in the past and changes in the business environment, and held internal audits based around risk prediction, reduction of significant risks, as well as risk approach. The selected significant risks include cyberattacks, which are becoming increasingly complex, global businesses and issues relating to new business fields we are entering such as e-commerce, finance and

settlement, and energy, which aim to make the integration of telecommunications and life design a reality. We have also identified risks arising from the expansion of the Group through M&A as significant risks and have implemented more robust measures against them.

In order to minimize information security risks, we have also established a common standard applicable group-wide to improve the level of information security across the Group including newly joined Group companies.

The status of these significant risks is also reflected on business risks that are revealed in the Securities Report* since it relates to finance as well.

*Japanese only



Basic Policy for Constructing an Internal Control System

Based on the provision of Article 362, Paragraph 5 of the Companies Act, we passed the Basic Policy for Constructing an Internal Control System at a meeting of the Board of Directors. In addition, we publicly announce resolutions and our operational status to ensure the fair,

transparent and efficient execution of our corporate duties and maintain an effective system for internal controls to raise the Company's quality level.

Reference

Basic Policy for Constructing an Internal Control System

Initiatives in Response to the Internal Control Reporting System (J-SOX)

In response to the internal control reporting system based on the Financial Instruments and Exchange Law implemented in fiscal 2008, we conducted evaluations of the internal controls at KDDI and 11 major group subsidiaries (totaling 12 companies) in and outside Japan to ensure reliability of our financial reporting. The results of these evaluations were

compiled in an internal control report, which was submitted to Japan's Prime Minister in June 2021, as well as disclosed to investors.

Reference

Securities Report / Internal Control Report (Japanese only)

▼ Main Operational Risks

Risk	Risk background
Competitors, rival technologies and rapid market shifts	<ul style="list-style-type: none"> • The need to provide user support for product defects problems attributable to the rapid expansion of the commerce business • Inability to acquire needed bandwidth • Increased competition due to new high-speed wire-less data technology • Possible rise in connection fees with other telecommunications operators • Intensifying competition as a result of changes in the business landscape due to partnerships with other industries, sales packages that include other products (such as telecommunications + power), the emergence of MNOs and MVNOs in the market and other companies expanding their business fields
Protection of confidentiality of communications and customer privacy	<ul style="list-style-type: none"> • Internal privacy breaches • Unauthorized access from external networks
System failures due to natural disasters and other unforeseen events	<ul style="list-style-type: none"> • Natural disasters, such as earthquakes, tsunamis, typhoons, or floods, as well as secondary damage from the spread of toxic substances caused by natural disasters • Worldwide spread of an infectious disease (pandemic) • War, terrorism, accidents, or other unforeseen events • Power brownouts or blackouts • Computer viruses or other forms of cyber-attack and hacking • Operation system hardware or software failures • Flaws in communication equipment and services
Laws, regulations, and government policies relating to the telecommunications sector	<ul style="list-style-type: none"> • Revisions to the calculation formula for inter-operator connection fees and / or accounting methods • Revisions to designated telecommunications facilities system and / or the regulations on prohibited activities • Revisions to the universal service systems • The emergence of MNOs and MVNOs in the mobile communication market • Revisions to the frequency allocation system and / or spectrum user fee system • Rules regarding electricity retail and financial business • Rules regarding the usage of personal data
Acquisition of human resources, training and personnel management	<ul style="list-style-type: none"> • Rise in human resources investment costs in the future

Note: For details, please see the Business Risks section of the Securities Report for the year ended March 31, 2021.

Reference

Securities Report for the year ended March 31, 2021 (Japanese only)

Activities to Enhance Operational Quality

In conjunction with the internal control reporting system, we established an Internal Control Department that promotes initiatives for improving the overall operational quality of the whole company, and Internal Control System Managers in each department facilitate initiatives that enhance the efficiency and standardization of operations to do so.

Initiatives that are successful at improving business operations are added to a database, enabling all employees to put them into practice in their own departments.

Furthermore, to further raise each employee's awareness and motivation regarding the improvement of operations, we have introduced the Operational Quality Improvement Prize to recognize excellent and

ambitious initiatives. In addition, we have started working on the introduction of robotic process automation (RPA) across the Company as a way of improving operational quality, productivity, and efficiency at the same time, starting with the preparation of the RPA system environment and education programs.

Activities to Enhance Operational Quality

- e-learning training
- Sharing messages from executive officers and good examples of initiatives in e-mail newsletters and internal magazines
- Implementation of Operational Quality Improvement Prize (Once a year)

Potential impact on KDDI	KDDI's response
<ul style="list-style-type: none"> • Negative impacts on the financial position and operations of the KDDI Group 	<ul style="list-style-type: none"> • The creation of new value and the achievement of sustainable growth in the 5G / IoT era domestically and globally with a business strategy that focuses on the "integration of telecommunications and life design," which centers on telecommunications and expands peripheral businesses
<ul style="list-style-type: none"> • Could seriously damage the brand image of the KDDI Group. In addition to a possible loss of customer trust, we could also be forced to pay substantial compensation or fines • In the future, we may face higher costs to develop the framework necessary to protect the confidentiality of communications and customer privacy • Could have a negative impact on the financial position and / or earnings performance of the KDDI Group 	<ul style="list-style-type: none"> • Establishment of the KDDI Code of Business Conduct, KDDI Security Policy, and KDDI Privacy Policy • Establishment of the Business Ethics Committee • Reinforcement of various technical, organizational and human safety management measures • Educating all employees on the protection of confidentiality of communications and customer privacy • Working with our external partners, particularly with our retail network of au Shops, to strengthen management through the improvement of shop operations, monitoring and training • Establishing Information Security Committee • Acquiring external authentication (ISMS) in the whole company • 24 / 7 monitoring of external attacks by specialists
<ul style="list-style-type: none"> • Service outages or interruptions as a result of large-scale natural disasters or accidents caused by climate change, etc. • Loss of opportunities to offer products and services due to service outages as a result of failures in network systems or communication equipment, substantial billing errors, closing of distributors, or suspension of distribution could damage the brand image of the KDDI Group and lead to loss of customer trust and decreased customer satisfaction, which could have a negative impact on the earnings performance • The Company's future business activities and earnings performance could be affected by loss of customer usage opportunities due to shortened hours at au Shops, reduced mobile data usage due to increased WiFi usage for remote work, and the various influences on our life design business and solution services for corporate customers 	<ul style="list-style-type: none"> • Initiatives to improve reliability of our network and prevent service outages by implementing Business Continuity Planning • Establishing a disaster response headquarters as early as possible in the event of an emergency or disaster • Procedures can be completed 24 hours a day online • Initiatives to ensure the safety of customers and employees
<ul style="list-style-type: none"> • The KDDI Group's earnings performance could be negatively impacted by the revision or abolishment of laws and regulations or formulation of government policies relating to telecommunications and finance business • KDDI's earnings performance could be negatively impacted if the Company's competitive advantage is relatively diminished as a result of competition policies 	<ul style="list-style-type: none"> • Taking appropriate actions based on laws, regulations and government policies • Advocating measures for fair competition with other telecommunications operators through various deliberation councils and study sessions as well as the public comment system of the Japan's Ministry of Internal Affairs and Communications
<ul style="list-style-type: none"> • If we are unable to handle matters appropriately in the future, the KDDI Group's brand image could be damaged, leading to loss of customer trust and a negative impact on our earnings performance 	<ul style="list-style-type: none"> • Working together across the entire company to support personnel training and career development to keep up with technological innovations • Appropriate personnel management and the promotion of work style reforms based on the law