

Media & Digital Business Unit

What We Aim to Be and Growth Strategy

May 16, 2019

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Hello, everyone. I'm Nambu.

Thank you very much for your attendance today. In the next 30 minutes or so, I will explain the initiatives in our Business Unit, particularly our growth strategy, in the slides we have prepared.

1. Business Unit Overview

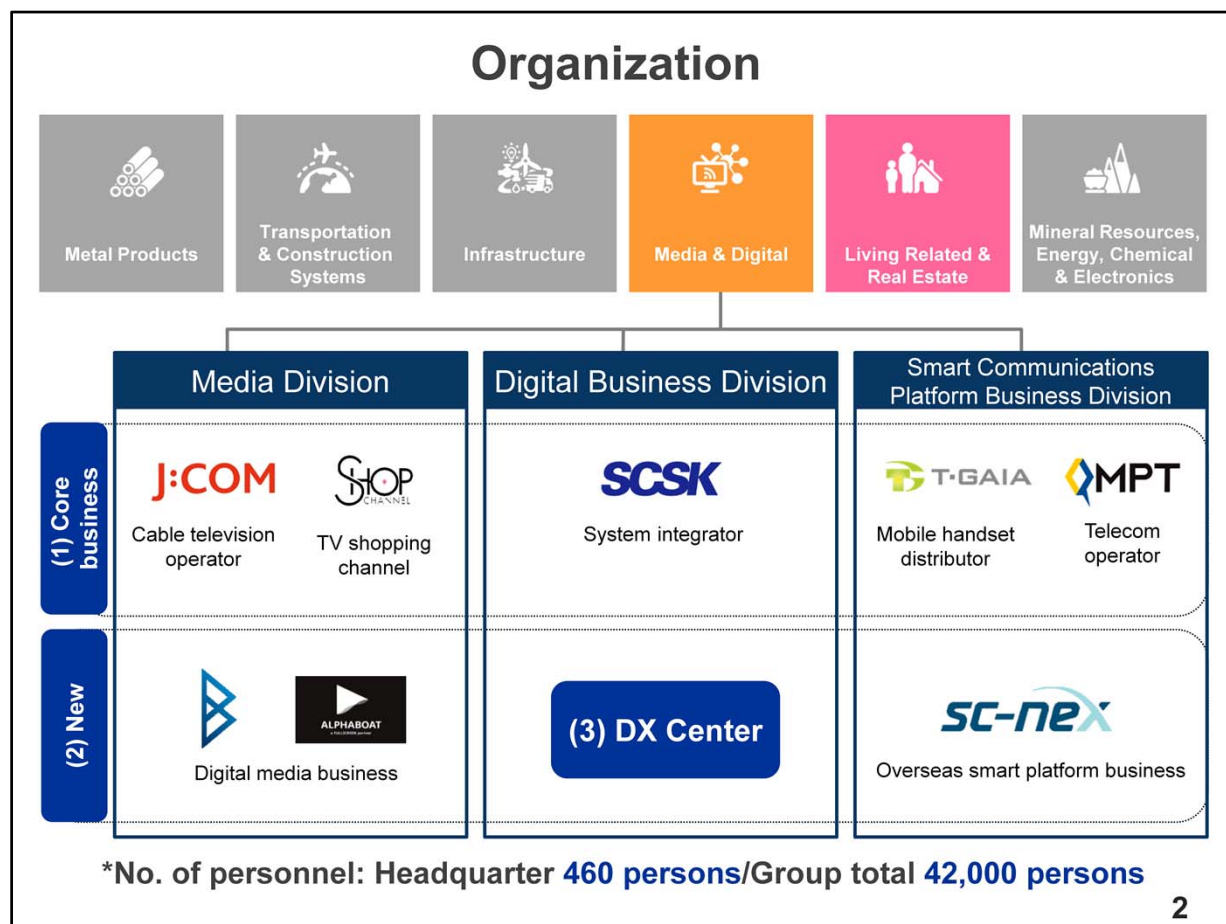
2. Business Unit Growth Strategy

3. DX Initiatives

4. Financial Target

1

First of all is the agenda. As shown here, I would like to explain four main points. First is the organizational outline. In April of last year, we divided our Media and Lifestyle Related Business Division into two divisions to ensure functionality and expertise: Media & Digital and Living & Real Estate. However, there are some similarities in terms of business closer to consumers. We are managing our operations in an integrated manner from a strategic perspective.



2

I oversee the Business Unit that includes the three divisions: media, digital, and smart platforms. We now have five core businesses. As for new businesses, we are focusing on digital media and overseas smart platform businesses.

In FY2018, we established the DX Center as an organization to drive forward digital transformation across the Company. The number of staff responsible for these businesses is 460 on headquarter basis. As a result, the total number of employees, including those accounted for by the equity method, reached approximately 42,000 for the Group as a whole.

Today, we will focus on these five core businesses, new businesses, and DX.

<Vision of the Business Unit>

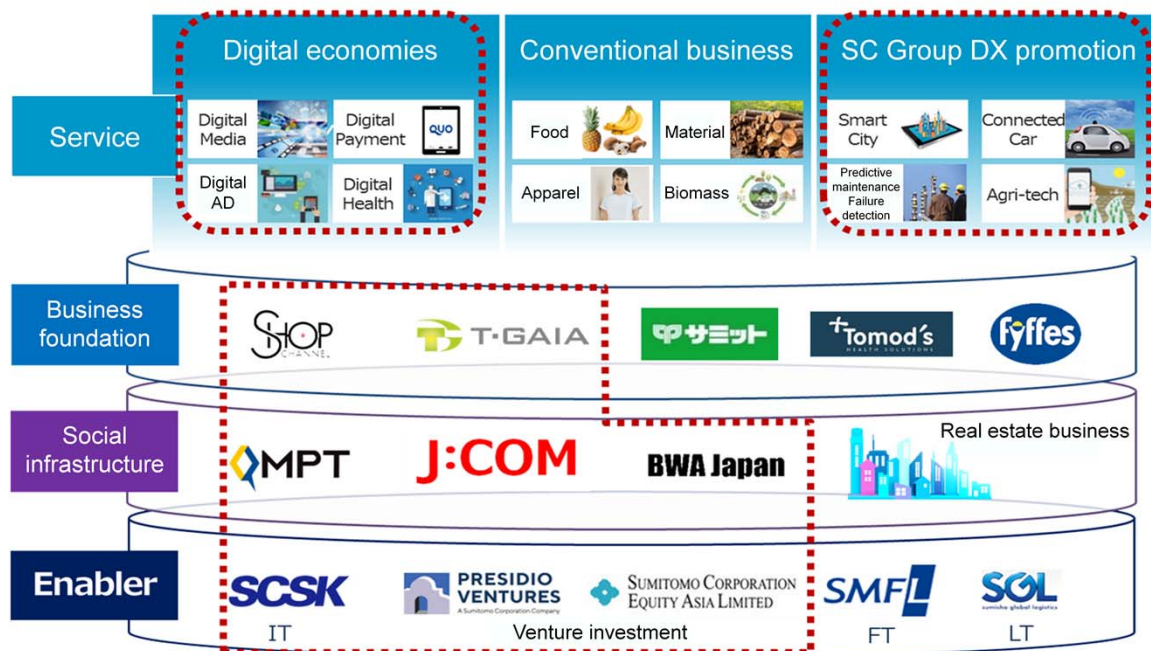
Contributing to the SC Group's digital transformation (DX) and building the platform of a smart society with enabler functions for innovation by leveraging advanced technologies and by developing human resources with digital expertise.

3

First, briefly about the vision: As stated here, the Business Unit aims to contribute to companywide digital transformation and building the platform of a smart society by utilizing advanced technologies and developing human resources as an enabler to accelerate innovation.

Image of Growth Strategy

Platform layers



4

Next, this slide shows the concept of our growth strategy. This diagram illustrates the platform layer, including company-wide collaboration. First, from the lower layer: the bottom is Enabler, which includes IT and corporate venture investment and finance functions. On top of this, we are developing social infrastructure, specifically the telecom operator business in Myanmar, or infrastructure such as J:COM, and are playing a role in delivering a variety of services on the foundation of such infrastructure. Our business foundation includes a wide range of sales channels and customer groups, such as shop channels and T-Gaia.

We will make full use of these three layers to build a digital economies, which is the image on the top, as we move forward digital transformation in collaboration with existing businesses.

1. Business Unit Overview

2. Business Unit Growth Strategy

2-1. Core Business Value Improvement

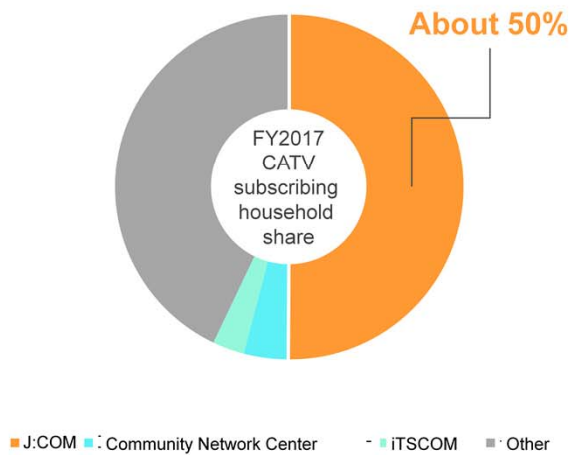
2-2. Entry into New Fields

3. DX Initiatives

4. Financial Target

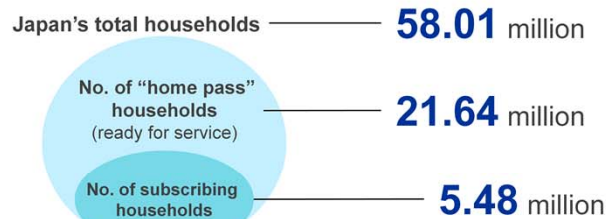
J:COM Business Overview

Market share

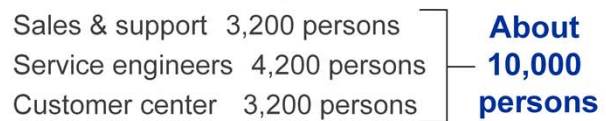


Business foundation

■ Size of subscribing households



■ Customer contact point



Sales of 756.5 billion yen, operating profit of 114.9 billion yen, net profit of 67.6 billion yen

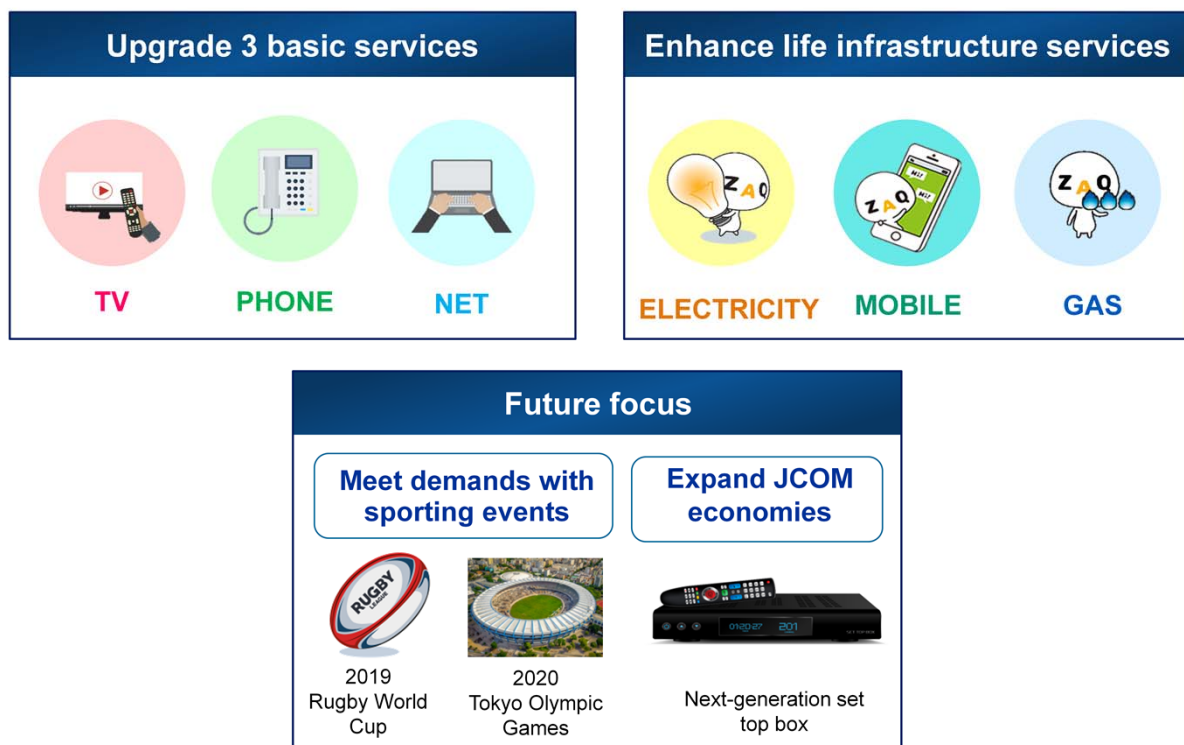
(as of March 2019)

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Next, I will explain the value-up initiatives of the five core business companies. First, J:COM. As you can see from the chart on the left, it is the outstandingly largest cable TV company in the industry. Its strength as a business foundation is the 5.48 million subscribing households. This figure accounts for about 10% of the total number of households in Japan.

In addition, J:COM's distinctive strength lies in customer contact: 10,000 staff members can visit customers' homes and offer services closely tailored to the needs of their local communities.

J:COM Growth Strategy



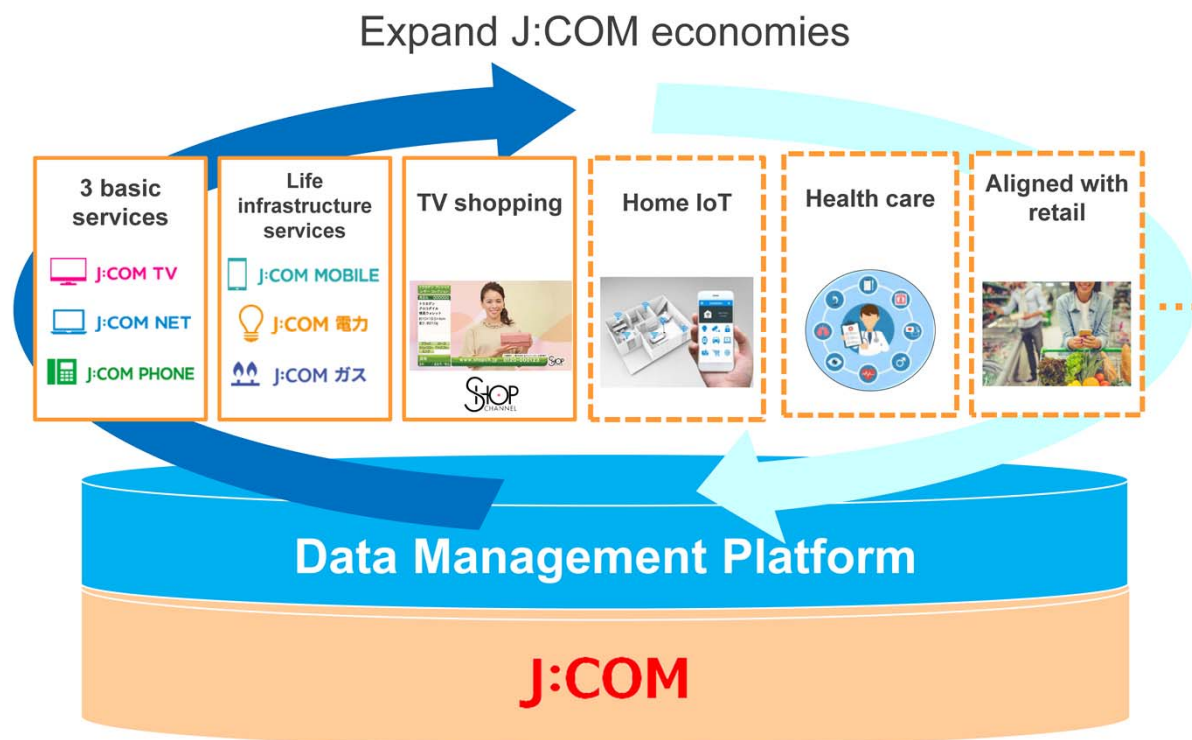
7

Regarding J:COM's future growth strategy: In addition to the increasingly upgraded services of television, telephone and the Internet, we are expanding sales of electric power, low-cost smartphones and gas, which are our lifestyle infrastructure services.

In terms of our priority measures, we are implementing measures to capture demand in 4K and 8K in preparation for the World Cup of Rugby in September this year, and the Olympic and Paralympic Games in Tokyo next year.

In addition, the next-generation set-top boxes scheduled for introduction this autumn will be added in cooperation with content providers to expand services. I will discuss the details later.

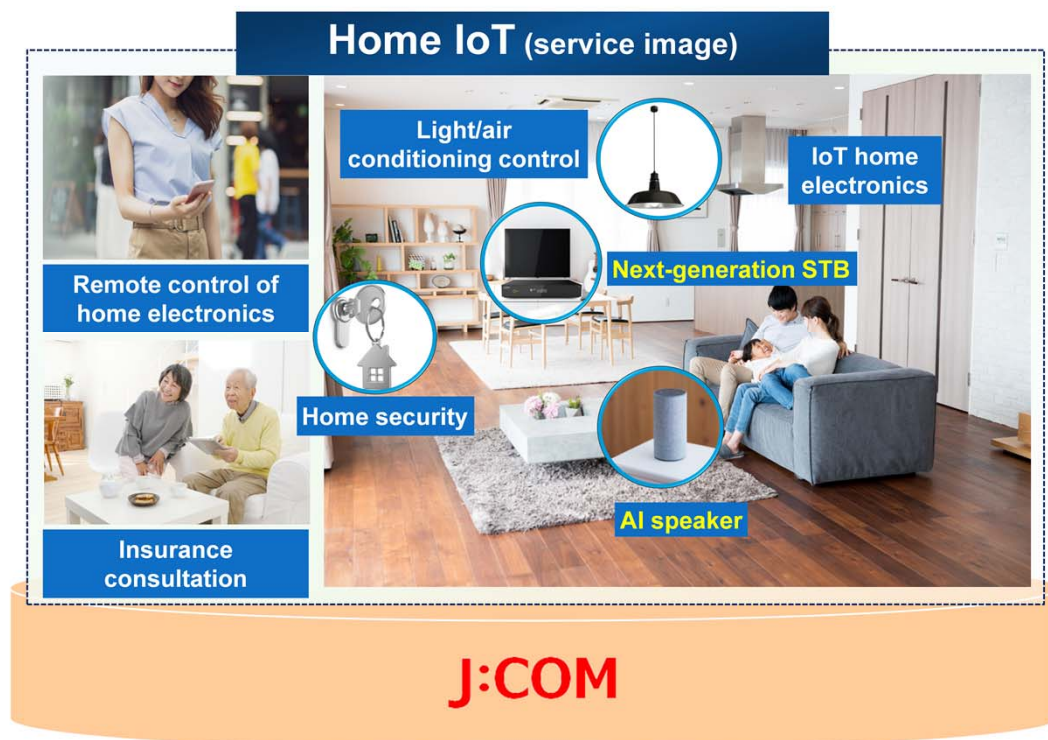
J:COM Expand businesses on J:COM platform



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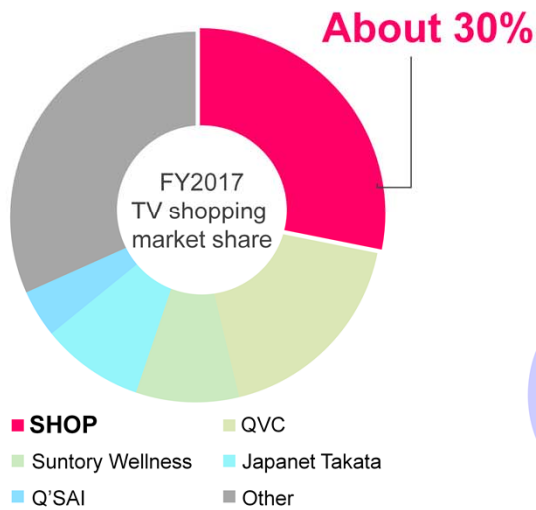
Next is the expansion businesses on J:COM's platform. With a customer base of 5.48 million, we will expand our economies by offering a variety of services. Looking ahead, we will collaborate with the Home IoT, Healthcare, and Retail businesses, which are surrounded by three dotted lines on the right. We are considering new services in this area.

Through these services, we hope to develop a variety of services, by collecting and utilizing data on customer viewing histories and lifestyles.



The next page is an image of J:COM's new home IoT business, which is scheduled to be fully introduced around autumn this year. As I mentioned earlier, the next generation of set-top boxes will be linked to AI speakers and will incorporate remote control of home appliances, lighting, and automatic control services for air conditioning to create a platform that supports the entire lifestyles of customers. Our concept is to become a lifestyle concierge.

Market share



Business foundation



Sales of 159.3 billion yen, operating profit of 24.8 billion yen, net profit of 17.8 billion yen

(as of March 2019)

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The next is Shop Channel, which is the largest specialist TV shopping channel in Japan. The strengths of the business foundation are shown on the right: live broadcasting is done 24 hours a day, 365 days a year. In addition, the retail service can be viewed by 30 million households nationwide. Then, we launch about 500 unique products that can only be purchased here every week. This can be called merchandising strength.

- Increase the customer base
- Enhance sales channels → TV + E-commerce + SNS, etc.
- Sophisticate data marketing
- Develop variety of new products

Big sellers at the shop



Fashion



Jewelry



Cosmetics

11

This slide shows Shop Channel's growth strategy. First of all, we are expanding our customer base. We have long-standing customers of the Shop Channel over many years, the majority of which are women in the higher age range. Going forward, we want to expand the range of customers, targeting female baby-boomer juniors in their 40s.

To this end, we are increasing our efforts in e-commerce linked to TV, as well as social media services such as Facebook and LINE. In addition, we will leverage customer purchasing histories in data marketing, which will become increasingly sophisticated. By doing so, we intend to develop variety of new products.

Smartphone application renewal

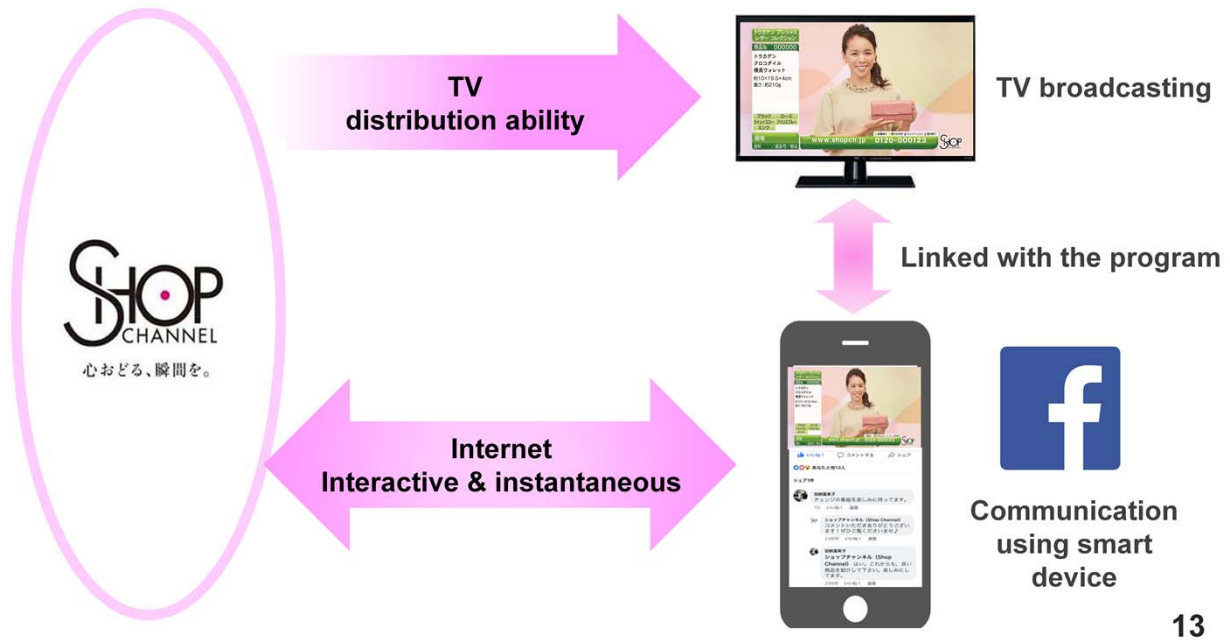


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This is a new initiative. We have been renewing the smartphone app to improve usability. In addition, by leveraging the strengths of live broadcasting, we will be able to link the online service with on-air programs. We aim to expand sales via smartphones by activating the dissemination of online information.

TV & SNS Hybrid live commerce

At 0:00 / 12:00 in June 2019, live simulcast starts for limited-time offers



In addition, we will work on live commerce that links TV and social media. We are planning simultaneous live distribution on TV and Facebook from June at midnight and noon. We will leverage the strengths of interactive communication, like smart devices, to create a new customer base. The target audience is the baby-boomer junior generation I mentioned earlier.

Developing variety of new products

- (1) Introducing premium brands
⇒ Improve brand value

BMW i3



- (2) From tangible to intangible goods consumption

⇒ Propose high-quality extraordinary travel



Utilizing data

Demand forecast using AI



Explore big sellers



Improve accuracy of sales plan



Formulate marketing measures



Internal & external data integration, real-time use



Sales plan



Data on viewing



Logistics



Customer inquiry



EC

The next page shows the development of variety of new products, which we consider to be essential. Some of you might have seen it, but this includes efforts to enhance the brand value of Shop Channel through the introducing of premium brands, such as BMW. We will also offer high-quality travel products in response to the trend of consumption shifting from goods to experiences. We also intend to utilize these data.

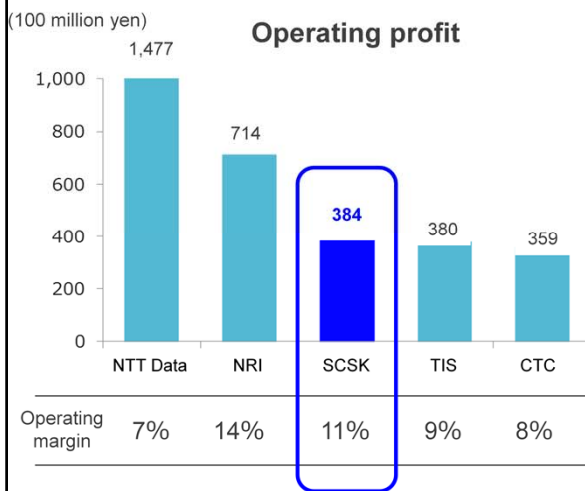
With the introduction of a new system in the second half of this fiscal year, we will be able to acquire considerable amounts of viewer data, customer information, product information, etc., and we will utilize AI to predict demand and enhance our sales strategies.

Enhance One-to-One Marketing

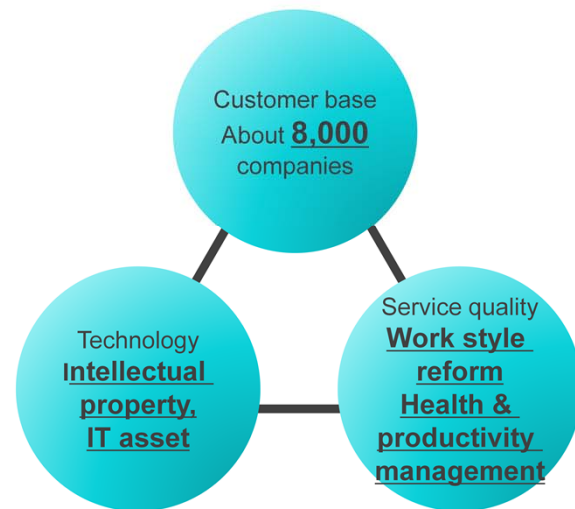


We would like to use this data to strengthen the One to One Marketing of products that are tailored to each customer's preferences or recommended by the program, for example, as shown on this page.

Position in the industry



Business foundation



**Sales of 358.7 billion yen, operating profit of 38.4 billion yen,
net profit of 27.9 billion yen**

(as of March 2019)

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I will switch topics to SCSK. As you know, SCSK is a system integrator listed on the First Section of the Tokyo Stock Exchange. Our industry position is the third largest, as shown in the graph on the left. However, the operating income margin is high at 11%. This is the core company responsible for the digitization of our group.

In terms of the business base, approximately 8,000 companies are customers. In addition to our technological foundation of more than 10,000 people, our strengths lie in the quality of services provided by our employees, who have boosted productivity through our work style reforms and healthy management initiatives.

Service provider business

Enhance services for distribution, financial, and media industries

**Promote strategic business**

- In-vehicle system business
- Promotion of business using AI
- DX initiatives

**Upgrade global operation**

- More than 200 cases of system introduction in 38 countries, primarily led by sites in U.S.A., U.K., China, and Singapore
- Partnership with the largest IT company in Vietnam, FPT Corporation

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This is SCSK's growth strategy. First of all, we will shift to a service-oriented approach. Traditional systems integrators are primarily consigned development businesses. As you can see, we will focus on providing unique services developed in-house. In our strategic businesses, we intend to move ahead with the so-called in-vehicle systems business, AI business, and DX initiatives as the Sumitomo Corporation Group.

In addition, we will step up our global development efforts. This is explained in a separate slide.

SCSK Expand New Business with DX Initiatives

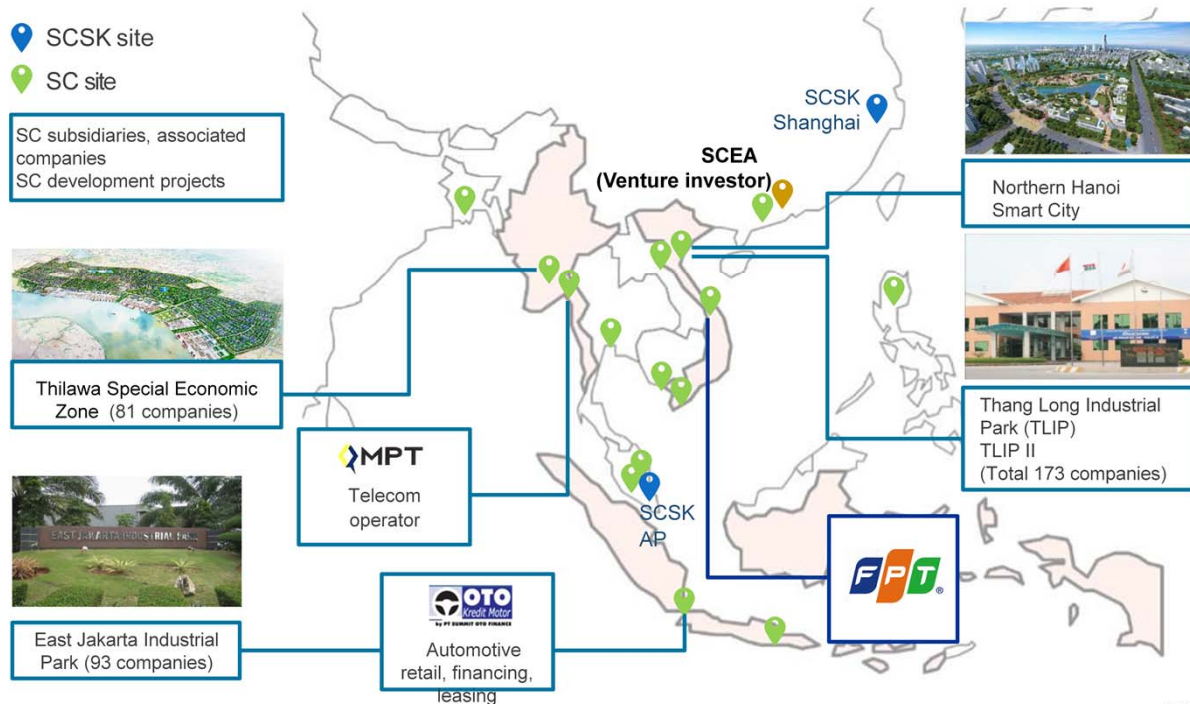
**Integrate real business and advanced IT
to co-create the future of customers,
by taking advantage of integrated corporate strength**



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This is the DX promotion initiative in SCSK. As a partner to our customers, we aim to develop new businesses and create value from the perspective of co-creation, while utilizing our wide-ranging business domains, the knowledge gained from our overseas networks, and the technological capabilities backed by SCSK's 50 years of experience.

Build a foothold for global business in Southeast Asia

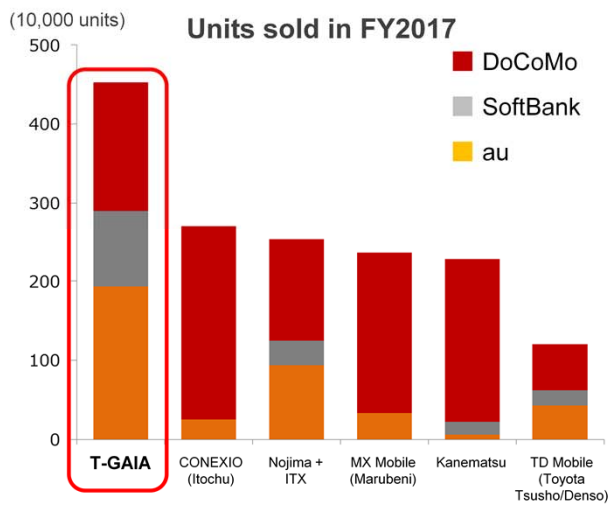


19

Next is SCSK's global expansion and business development. SCSK is expanding its business base, particularly in southeast Asia, where the businesses of our operating companies and Japanese companies are particularly active. There is FPT, the largest IT company in Vietnam, on the lower right. We have formed a comprehensive alliance with this company for businesses in the major markets of the Asia-Pacific region last year. We will jointly provide IT and services, and proceed with business development.

Market share

Business foundation



Sales of 526.9 billion yen, operating profit of 15.5 billion yen,
net profit of 10.8 billion yen

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This is T-Gaia, a mobile phone retailer listed on the First Section of the Tokyo Stock Exchange. As shown in the graph, the Company handles products from the three major telecommunications carriers in a well-balanced manner. This is shown in the bar chart on the left. Its business base is 2,000 mobile phone retailers and 8,000 corporate customers. Furthermore, our strength lies in our network of payment-related services with 60,000 convenience stores.

Strengthen and reform business foundation

Measures taking advantage of No. 1 share in mobile phone sales

- Strategic partnership with telecommunication carriers
- Reform for a comprehensive ICT provider
- Create new business using store network

Strengthen mobile solutions

Introduce IoT and smart devices

Enhance settlement business

Digitize QUO card

User recognition: 92.3%
The "QUO Card" is now available as a convenient digital gift.

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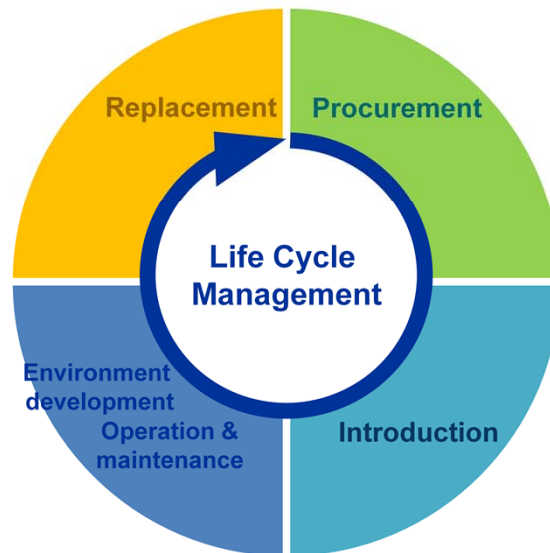
I will explain T-Gaia's growth strategy. First of all, we will strengthen and reform our business foundation. As you know, the Ministry of Internal Affairs and Communications' policy to separate businesses of telecommunications and devices has an impact on the telecommunications and mobile communications industry itself, but it has also had an impact on the industry leader T-Gaia. We see this as an opportunity for revenue restructuring. We are currently considering a variety of measures, as described above.

We are strengthening our Mobile solutions, as shown on the right, and expanding our payment business in the lower row. The following pages provide specific explanations.

One-stop support, from procurement to replacement



Terminal change



Security solution



Tablet solution

First of all, the expansion of our solutions business is the pillar of our growth. As shown in the middle diagram, the cycle starts from purchasing smart devices and goes clockwise from the upper right. Next, we introduce various systems. We have a company called “movino star” which operates device and maintenance services. Then there is replacement. We will expand our solutions platform to provide a one-stop solution for this full cycle.



Easy, convenient, 3-step digital gift



1

Send the URL of QUO Card Pay to a smartphone.

You can easily and speedily send it anytime, using email, SNS, or any other tool that can send a URL.



2

Just open the URL to receive QUO Card Pay.

When the recipient opens the URL and the amount appears on the screen, the delivery process is complete. A dedicated application that facilitates the use is also available.



3

Show it at a store.
No signature or ID is required.

Settlement at a store only requires barcode reading. The recipient can repeatedly use the QUO Card Pay as long as the balance is available, and can use it with cash.

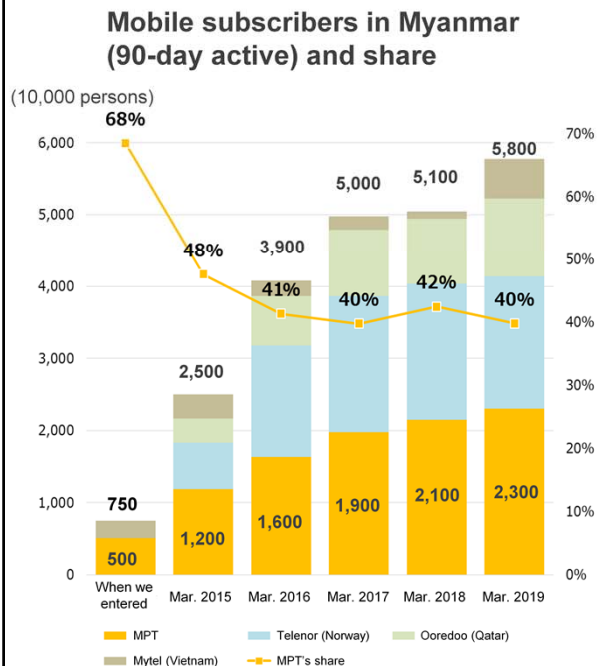
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Next is the payment service. I think you know about QUO card. QUO card launched a digital version called QUO Card Pay in March this year. You can complete delivery by opening a URL within an e-mail or text message, and you can just show it at the store to use the service. This is a simple and convenient digital gift service.

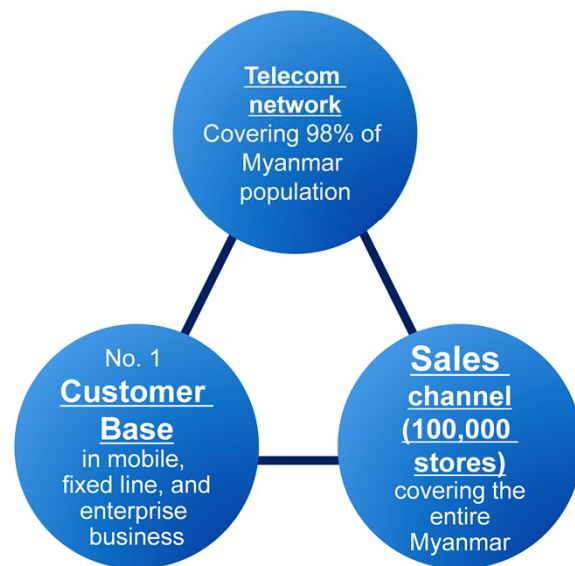
The traditional QUO card, in the form of PET plastic cards, had an annual issuance amount of approximately 70 billion yen. Based on the digital version, we intend to increase this figure to 100 billion yen in the near future.

By the way, we have distributed this QUO Card Pay to you, hoping that you will try using it. I will explain how to use it later.

Market share



Business foundation



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Next, I would like to talk about the telecommunications business in Myanmar. We launched it in 2014 as a joint project of the Myanmar government-related MPT and KDDI. As shown in the line chart on the left, we are firmly maintaining our top market share at 40%. As shown in the yellow section of the bar chart, the number of subscribers has more than quadrupled since our entry, from 5 million subscribers to 23 million.

Our business base is the telecommunications network, covering 98% of the total population. We have the number-one customer base and a sales channel network covering 100,000 retail outlets as our strengths.

Enhance business foundation

- Enhance 4th-generation mobile network
- Increase income from data

Expand the customer base

- Enhance mobile sales agent network
- Increase enterprise transactions (including fixed line)

Build MPT economies

- Expand content business (e-book, music, video, game)
- Provide value as life platforms (e.g., finance, off-grid power, healthcare)

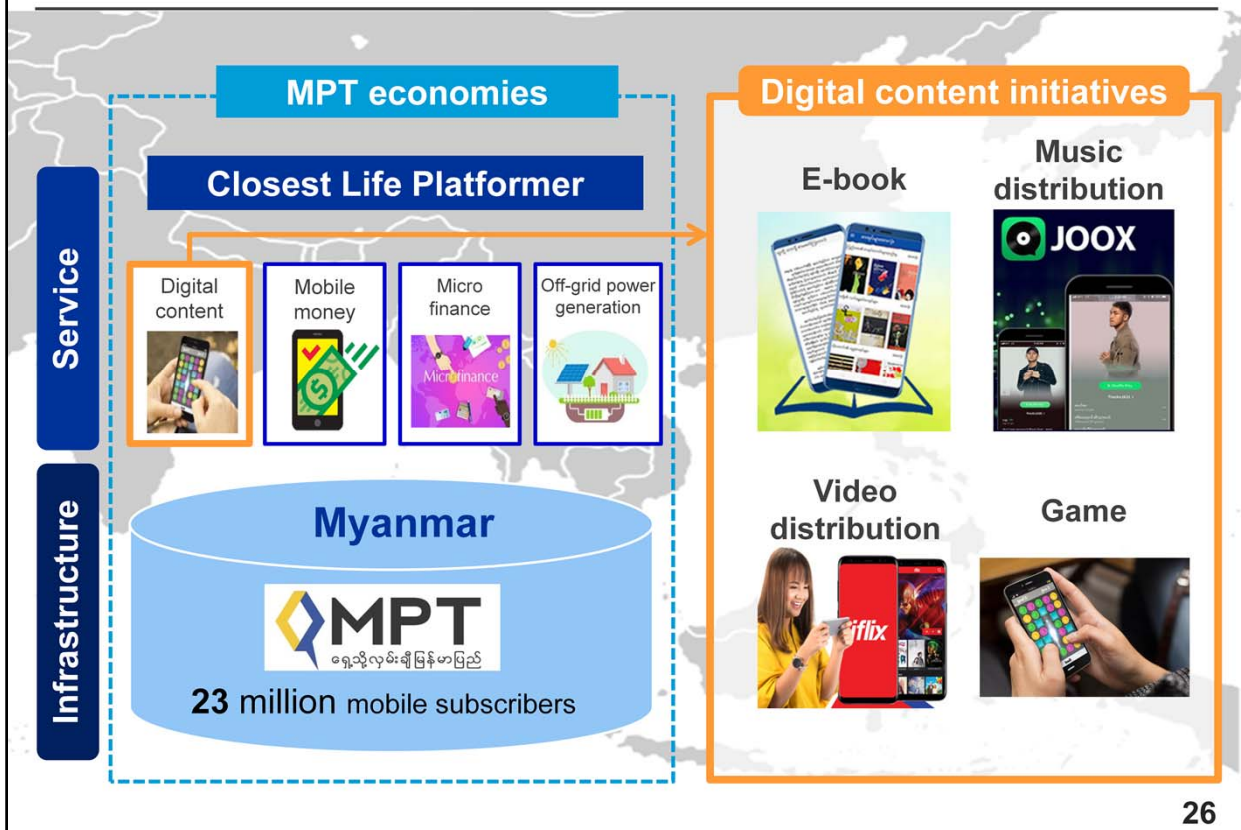


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This is the growth strategy for the telecom operator business in Myanmar. To expand our business foundation, we will expand our fourth-generation LTE and data revenue.

On the right is the customer base. We will expand our sales agent network further and expand our business with corporate customers, including fixed-line customers.

In addition, as shown in the column below, we intend to focus on building the commercial scope of MPT for medium-to long-term growth.



In this telecommunications business in Myanmar, we are working to build an economic zone under the slogan "Closest Life Platformer," based on the concept of contributing to the prosperity of the people of Myanmar and industrial development.

As I mentioned earlier, we will leverage our 23 million customer base to offer a variety of value-added services.

Specifically, we are expanding a variety of digital content, including e-books, videos and games, for which demand is rapidly expanding in Myanmar, where there is a shortage of entertainment. Since bank accounts are not popular, we are offering mobile money instead of bank accounts, or microfinance via mobile phones. In addition, we plan to develop a variety of services, such as off-grid power generation, which is an alternative to the power grid.

MPT Contribute to Development of Myanmar

Co-create the future of Myanmar



Financial support for Myanmar
National League
Youth development



Support for Japan-Myanmar student
exchange program

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Our telecommunications business in Myanmar is also committed to social contributions. As you can see, we provide financial support for a professional soccer league and sponsor exchange student programs with Japan.

1. Business Unit Overview

2. Business Unit Growth Strategy

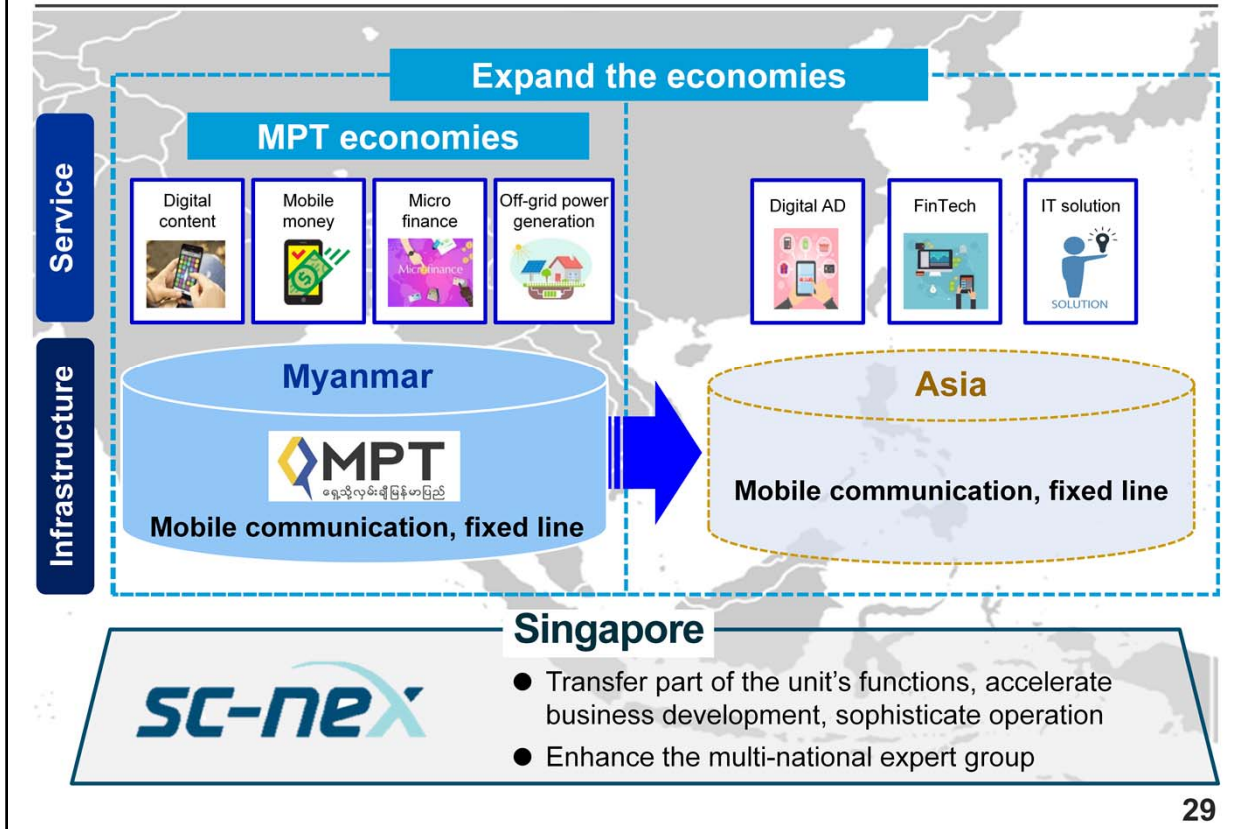
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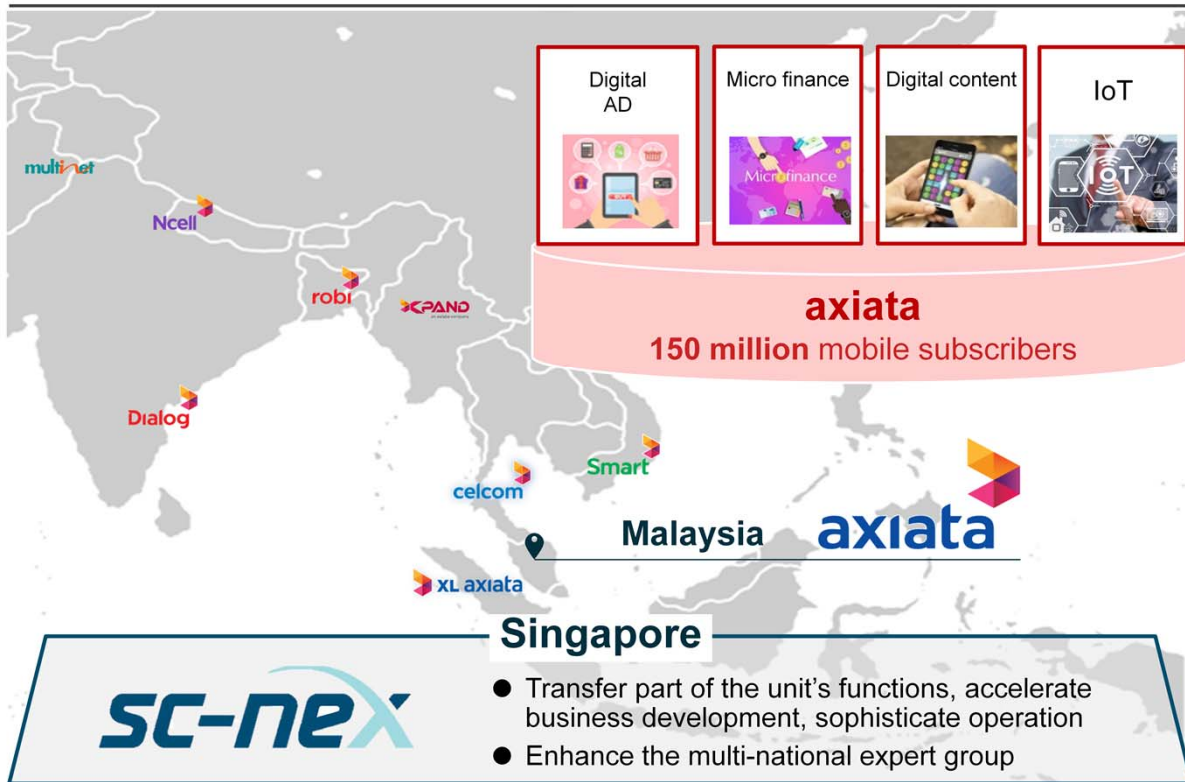
Smart Platform Strategy in Asia (1)



I would like to explain two points about our efforts to expand into new areas. First of all, our overseas smart platform strategy. In the high-growth Asian market, we would like to develop the successful Myanmar model in neighboring countries. The key to horizontal deployment is the construction of telecommunications infrastructure and the deployment of services on that infrastructure.

In October last year, we established SC-NEX, an operating company in Singapore, to proactively develop and manage our business. SC-NEX will have some department functions transferred and develop a multinational group of experts to develop regional businesses.

Smart Platform Strategy in Asia (2)

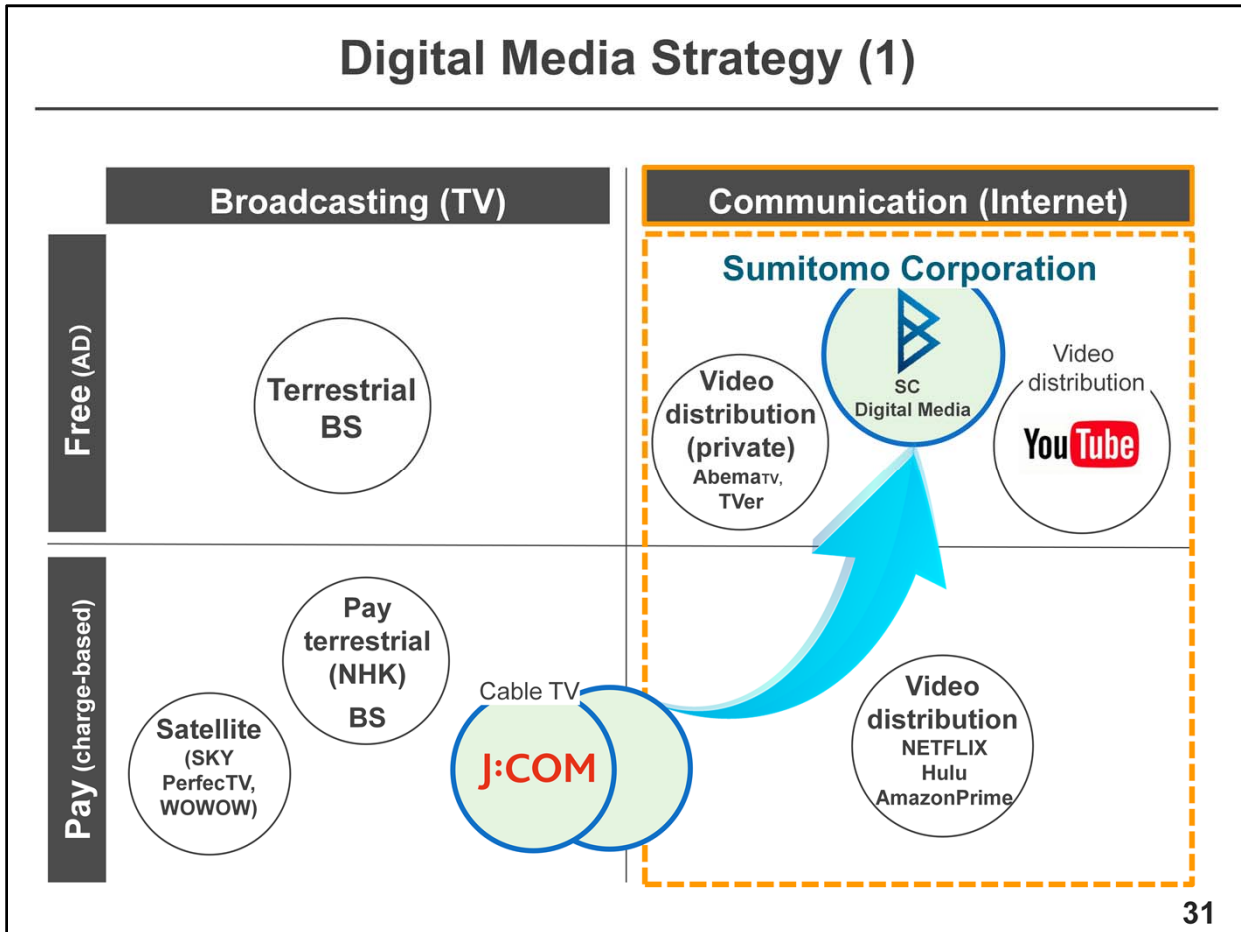


30

I would like to explain our collaboration with the Axiata Group as an actual case. As you know, the Axiata Group is based in Malaysia and operates a mobile communications business in eight southeast Asian countries. Their total number of subscribers is now 150 million. Last July, we called Axiata Digital Advertising, or ADA, which operates a digital advertising business utilizing the vast amount of customer data of the Axiata Group. We have made an investment in this company, and we are currently considering a variety of new businesses using the data shown here.

Last week, the Axiata Group reported that it was considering integration with Telenor Asia in Norway. We will closely monitor the overall picture of the merger and the new company and move forward dynamically as we utilize our larger customer base and data.

Digital Media Strategy (1)



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Finally, this is our digital media strategy. As you may be aware, our digital media business employs an advertising revenue business model based on online videos such as YouTube. First, trends in the media industry are shown by broadcasting and communications. Then there are the free or paid categories each on the upper and lower half. I would like to explain about these four categories.

On the upper left, there are free broadcasting of terrestrial waves and broadcast satellite by broadcasters. The lower left part is paid broadcasting such as cable TV. On the lower right is paid online subscription, such as Netflix, which has been growing recently. Above that is free distribution, including YouTube, which gain revenue through advertisements.

In recent years, there has been a sharp increase in the use of video distribution websites and social media, mainly among young people, and the value of the Internet as a media is rapidly expanding due to changes in viewer styles.

At J:COM, we are working to expand our business in growing markets by engaging in the on-demand business. Last year, we established a business company, called SC Digital Media, to capture the growth potential of online digital media.

Digital Media Strategy (2)

Partner



Advertiser

LION

TAKARA
TOMY

Red Bull

BANDAI
NAMCO

UNIVERSAL

第一興商

The Pokémon Company



Platform



Creator



KIDSLINE



Toshi



soel / FCL

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In the digital media business, we launched ALPHABOAT, under SC Digital Media, in April last year. We partner with FULLSCREEN, one of the largest creator networks in the United States under AT&T, as well as Toho, which has strong content production capabilities, while strengthening collaboration with YouTube and other platforms.

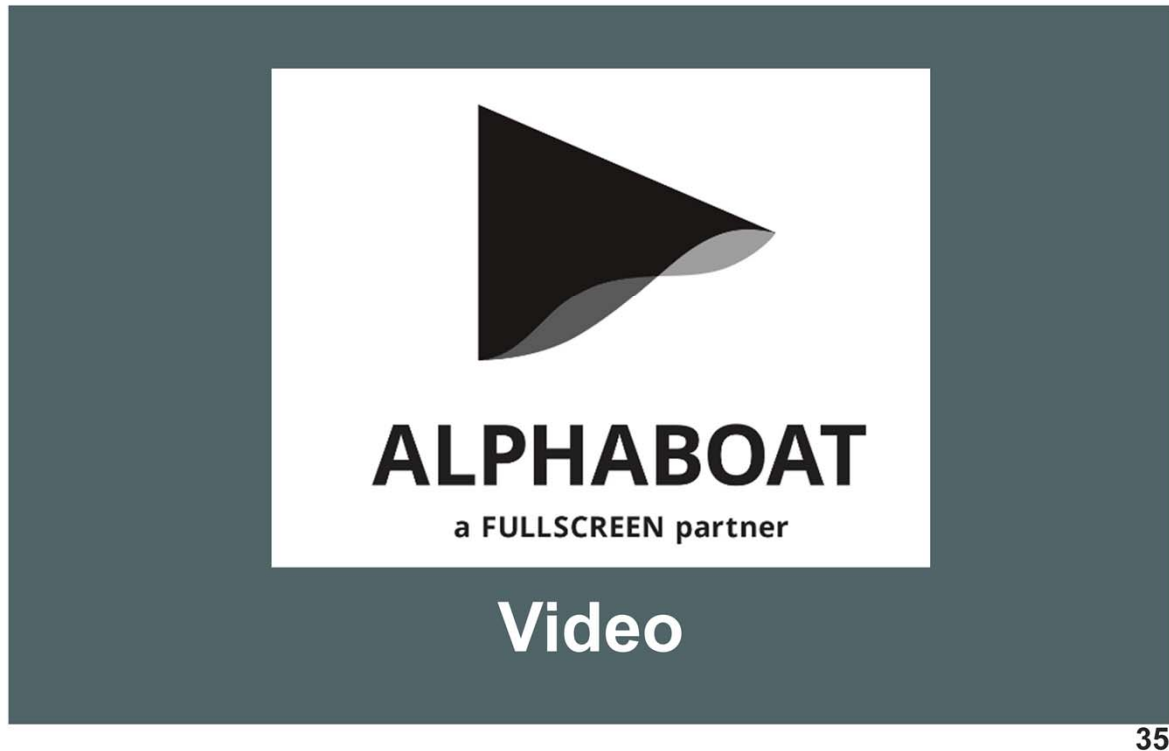
Alliances with creators and the development of creators are also important, and in addition to video production in collaboration with emerging creators, we create videos that enhance the brand image of the major advertisers listed on the upper right.

Digital Media Strategy (3)



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Here you can see the video shooting of creators in ALPHABOAT and their office.



I would like to play just a bit of the videos created in ALPHABOAT.

Thank you very much. I think you saw the words “social good”. We are hoping to provide video contents that have a positive social impact, including brand safety.

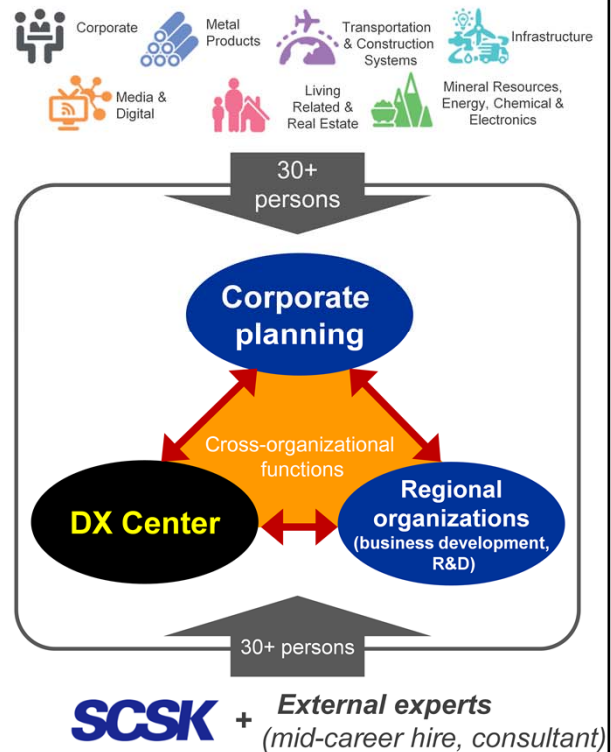
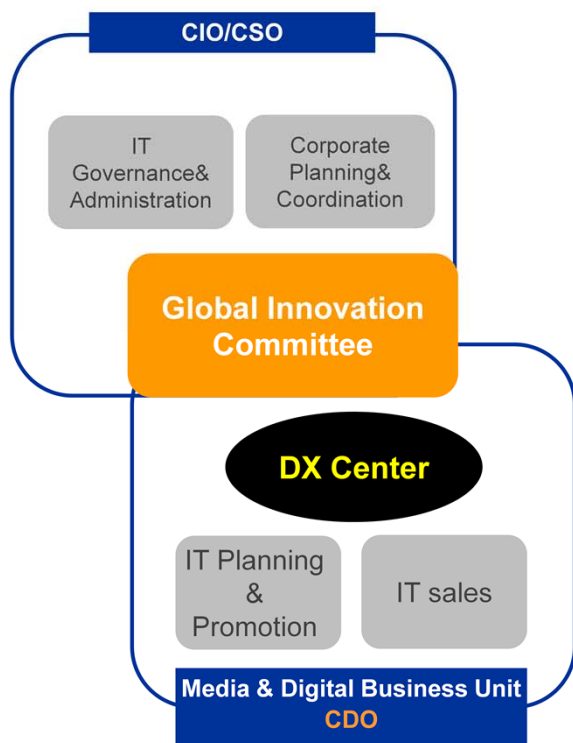
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The Organization



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Next, I would like to explain our DX initiatives. This system leads our efforts of digital transformation.

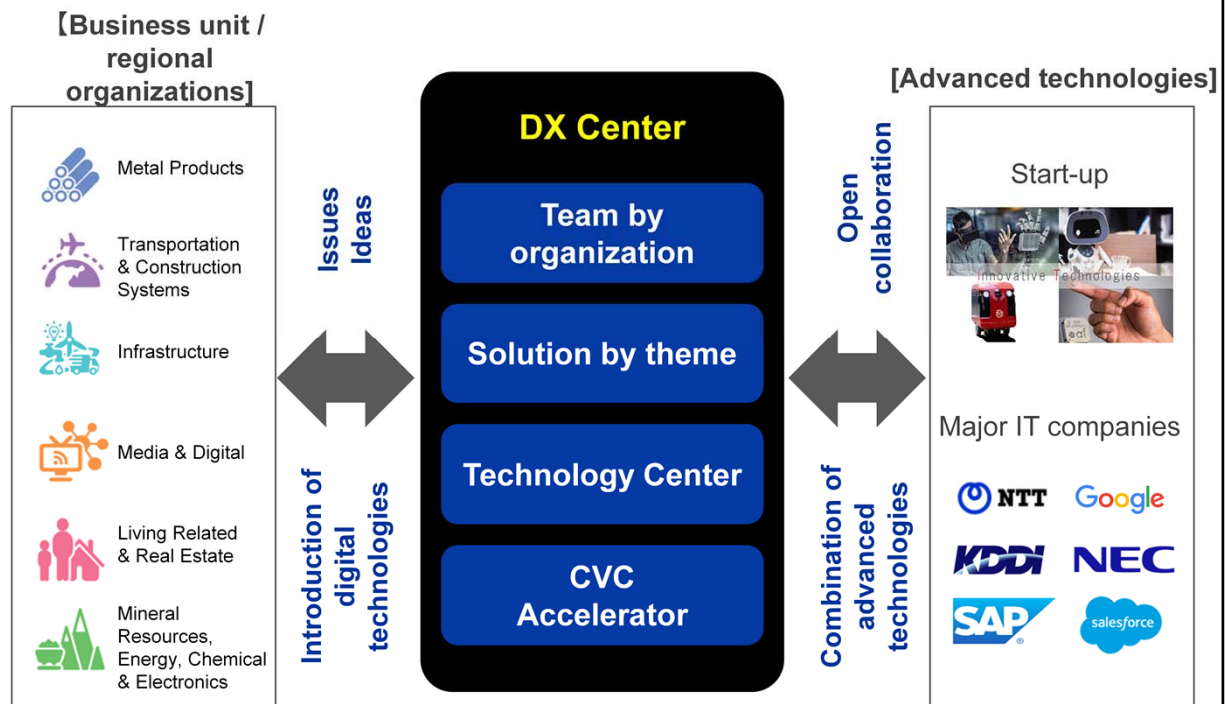
First is the organization. Please see the figure on the left. In April last year, we transferred the Information Systems Unit from the Corporate Department and integrated the IT-related organizations into our departments. We have established the DX Center, which is the cornerstone of our company-wide DX initiatives. In April of this year, we appointed a Chief Digital Officer to accelerate the promotion of a company-wide digital strategy.

The Global Innovation Committee, which is co-chaired by the CSO and the CDO, serves as an advisory body to the Company-wide Executive Committee. This committee discusses and offers recommendations for promoting company-wide DX and new business development.

See the figure on the right. In promoting DX, we have created a cross-organizational framework that brings together more than 30 people with business experience from all over the Company, in addition to conventional IT-related members.

SCSK, our group's IT technology company, has invited technical experts to join together to promote DX, with a total of 100 employees.

Strengthen DX Center

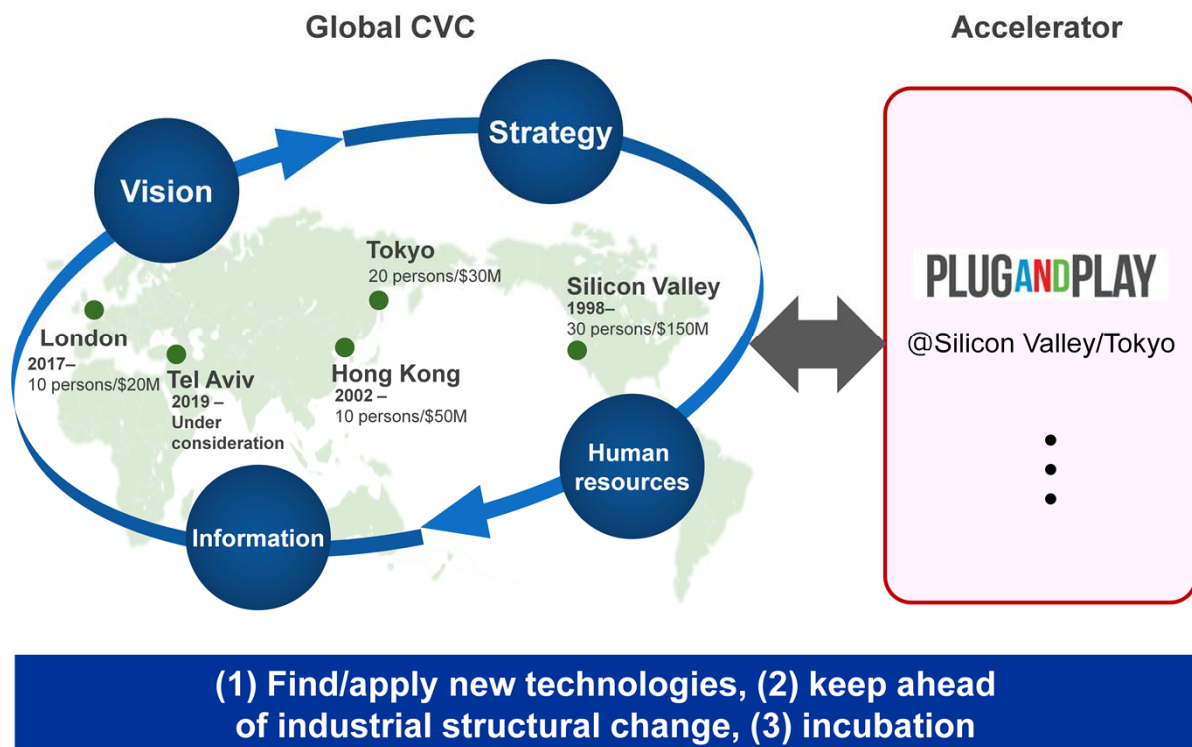


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Next, I would like to touch upon the strengthening of the DX Center organization. As shown on the left, as a general trading company, we have contact points with various industrial sectors. We have 100,000 customer accounts. These are a treasure trove of possibilities in the context of digital reform, and as a trading company that does not possess highly specialized R&D skills, we believe that these contact points are the treasure of our company.

The DX Center will identify challenges at each site, create ideas together, and open collaboration will incorporate the advanced technologies of startup companies and large IT companies as described on the right side. By combining on-site capabilities with digital technologies, DX Center will strive to transform revenue structures and develop business models.

Co-create with Start-ups



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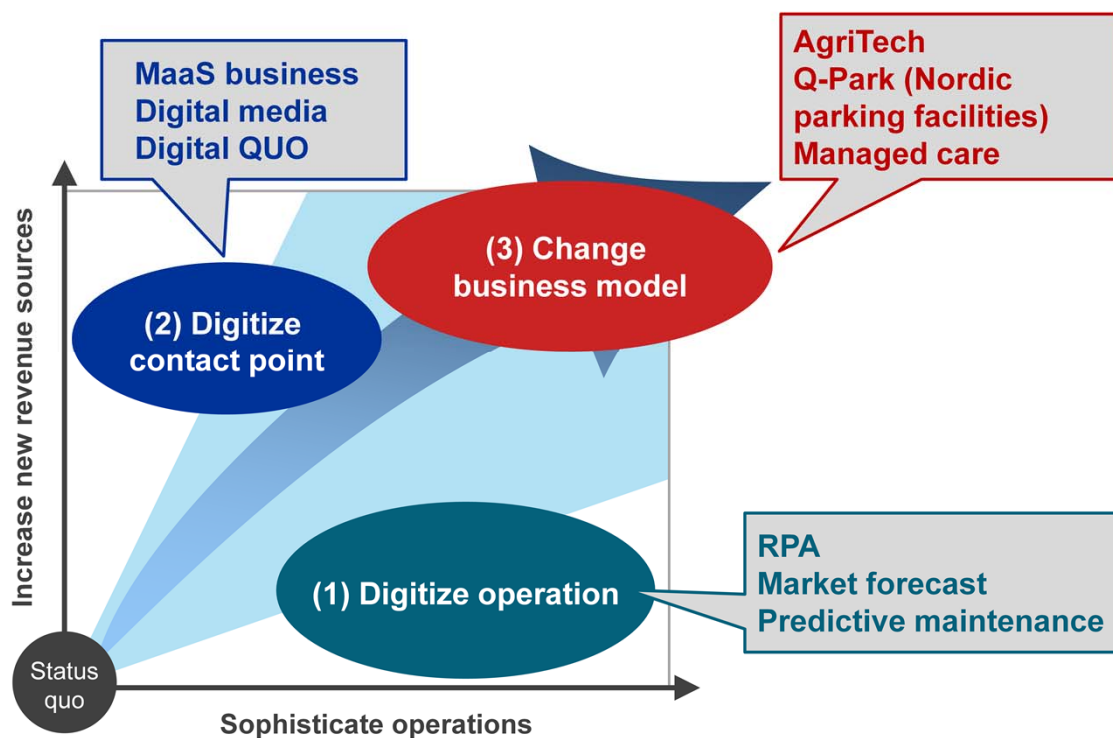
Please turn to the next page. As digital technologies evolve, we believe that collaboration with startup companies will become even more important. We have over 20 years of experience in corporate venture capital (CVC) in Silicon Valley. In addition, we are also active in Hong Kong and London.

We plan to launch a CVC in Israel this year. By linking issues globally and sharing visions, strategies, information, and human resources, we will be able to comprehensively identify the frontline issues I mentioned earlier and build a unique global CVC network.

As shown on the right-hand side of this report, in addition to Plug and Play, which is an accelerator that develops and supports start-ups, we intend to move forward with the development of accelerators in Japan and around the world with a company we are negotiating with for an alliance in the near future. As a unique mechanism, we hope to provide opportunities for leading companies in various industries and startup companies to jointly create value.

The purpose of co-creation with startup companies is described at the bottom. In addition to discovering and applying new technologies and anticipating changes in industrial structures, we are also looking into business incubation.

Direction in DX Initiatives



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Next, I will explain the direction of DX initiatives. As shown in this figure, we have been working on three patterns: the digitization of operations shown in green, digitization of contacts in blue, and transformation of the business model shown in red.

Regarding digitalization of operations, we are making use of forecasts of market conditions for chemicals and shipping charter fees, as well as forecasts for Fyffes, such as melon production.

In the digitalization of contacts, the automotive leasing company SMAS is advancing its mobility services, and Summit Energy's BtoC customer base is expanding. We are also moving ahead with initiatives such as the digital QUO described earlier.

In addition to the agritech business, which aims to build advanced agricultural platforms through packaged drones and various centers, in the case of M&A projects, we intend to build a social infrastructure through the Q-Park business in three Northern European countries. We plan to use DX in our managed care business for health insurance in Malaysia.

DX case



DX case video

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Here is a video of some of the examples.

Thank you very much. I will never end if I start talking about them one by one, so I will move on.

Management Reform by Sumitomo Corporation DX

Environmental changes

Integration of industries with social digitization, rapid changes in the market, diversifying needs

	Issues	Reforms
Organization, human resources	<ul style="list-style-type: none"> ● Vertically divided organization ● Fixed staffing, uneven distribution of knowledge ● Difficulty in creating business beyond industrial borders 	<ul style="list-style-type: none"> ● Build cross-organizational system ● “Business x Digital thinking” human resources ● Diversity & Inclusion (Appoint external experts, build partnership)
Corporate culture	<ul style="list-style-type: none"> ● PL-oriented yearly management ● Manufacturer/product-oriented ● Appreciation of unflinching excellence ● Bottom-up 	<ul style="list-style-type: none"> ● Value creation management from the mid- to long term perspective ● Design thinking (customer perspective-oriented) ● Start small, fail fast ● Top-down

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I would like to explain just a little about our management reforms and issues that we are addressing now through our DX initiatives.

As described on this screen, there are major challenges facing society, as a result of digitalization. The first challenge is organizational and human resources. We have traditionally been a vertically structured organization, based on product-specific business divisions. While this fosters expertise, there is a tendency for staff to become fixed, and there is a bias in the knowledge of each business. With digitalization, we are facing the question of how to create value that transcends industry boundaries and barriers between vertical organizations.

In response to this, we intend to establish a cross-divisional system, which I explained earlier, to promote company-wide innovation while at the same time incorporating digital literacy into the experienced personnel at each business site, and to dynamically review the essence of our business, based on design thinking.

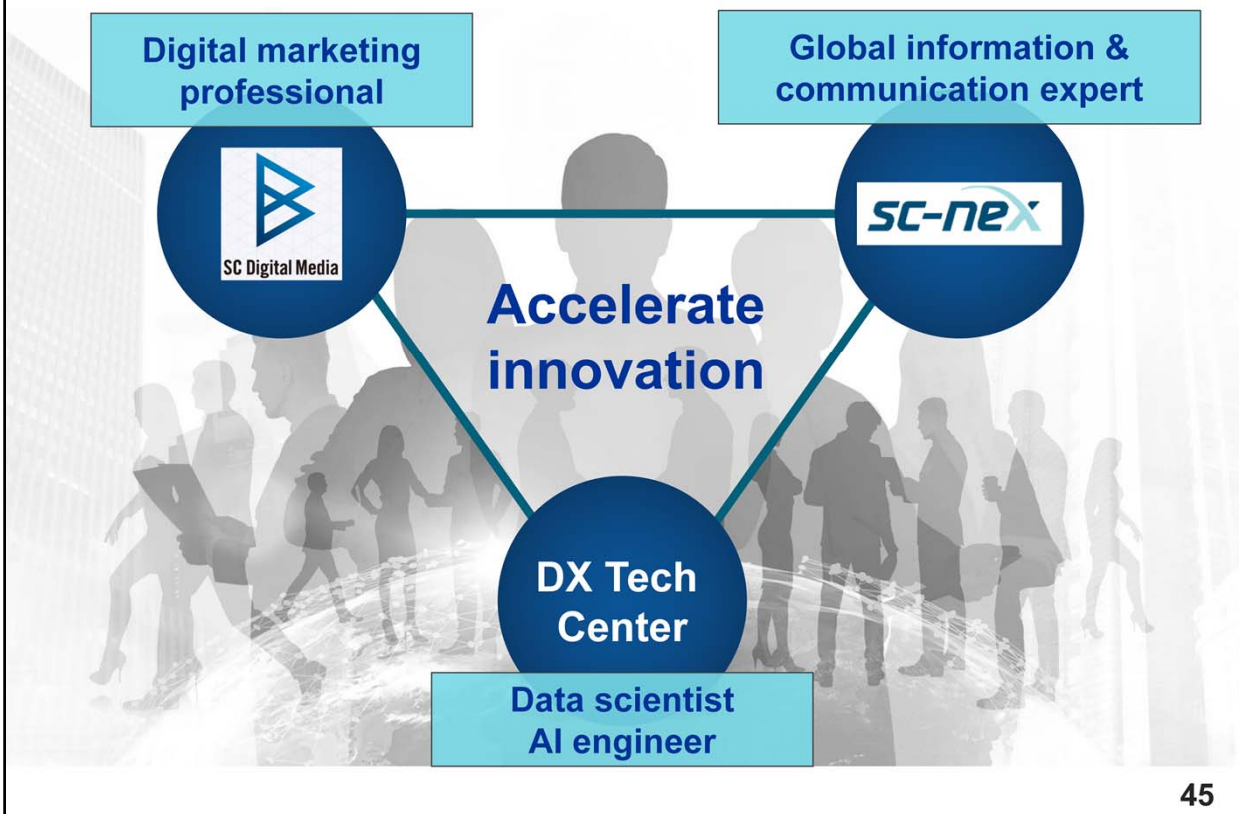
In addition, in order to respond to the wave of major changes, we will promote the appointment of a diverse range of external experts as a part of Diversity & Inclusion initiatives, as well as collaboration with partner companies with advanced technologies.

The second is the issue of corporate culture. I believe that the emphasis on short-term product liability is a common issue for Japanese companies. In addition to short-term objectives, we intend to foster a culture of mid-to long-term value creation through DX.

Traditionally, the focus was on manufacturers and product-oriented businesses, but in the future, we intend to shift our emphasis to an approach that emphasizes the customer's perspective based on design thinking.

In the past, we focused on risk management, i.e. the capability to avoid failure. However, we would like to rebuild our culture into an agile organization that allows for small failures to pursue optimal solutions.

Promote Diversity & Inclusion



Next, I'm running out of time, but I will explain the division's promotion of Diversity & Inclusion. In driving new businesses, we will actively recruit professional personnel globally to increase mobility at SC Digital Media, the Tech Center, which is part of the DX Center, and SC-NEX I mentioned earlier. We plan to have nearly 200 members worldwide.

1. Business Unit Overview

2. Business Unit Growth Strategy

3. DX Initiatives

4. Financial Target

