

## Interview with the CEO

>> AN INTERVIEW WITH RYUJI YAMADA, DOCOMO'S NEW PRESIDENT AND CEO, ABOUT THE COMPANY'S NEW STRATEGY

# Q&A



President and Chief Executive Officer  
Ryuji Yamada

### Change and Challenge –

DOCOMO is changing through its new business strategy. As the new president, my responsibility is to ensure the realization of the New DOCOMO Commitments, our vision for transformation, which spells out how we will ascertain the needs of each of our 53 million customers and precisely meet their expectations. Moreover, we will leverage DOCOMO's innovativeness and aggressively take on the challenge of creating new value.

### New DOCOMO Commitments – Our Vision for Transformation –

1. We will re-build our brand and strengthen our ties with our customers
2. We will seek and value the voice of our customers and become a company that exceeds their expectations
3. We will continue to drive innovations, and aspire to become a corporation that is admired by the world
4. We will enrich our organization with diverse and active talents who seek a common goal and dream

■ Management Policy

Q

DOCOMO has reviewed the business model that it followed since the Company's establishment. Last year, the Company introduced a new business model, and in April 2008 DOCOMO announced a new brand strategy. Would you explain the background and purpose of these initiatives?

A

We have changed from a business model appropriate to an expanding market, which emphasized the acquisition of new subscribers, to one more suited to a mature market, which places greater importance on deepening relationships with existing customers. We believe this change to be an essential step if we are to achieve sustained growth in the years ahead.

In the past, the growth of mobile phone operators was due in large part to gains in revenue that stemmed from the acquisition of new customers. Until recently, we have recorded expenses reaching hundreds of billions of yen a year in order to offer discounts on mobile phone handsets sold in stores. This strategy made sense during the market expansion phase.

Currently, however, in a mature market, growth achieved through the acquisition of new subscriptions has reached its limit. Also, the subscriptions that will be newly acquired in the future will be those who do not make very frequent use of their mobile phones. Accordingly, our previous approach of emphasizing the acquisition of new subscriptions is no longer appropriate for the current market environment.

Based on this analysis, DOCOMO has reviewed its marketing strategy from the ground up and redefined each of its business domains, target-customer segments, and market positioning. We thoroughly considered a number of questions. To achieve sustained growth, what kind of company do we have to be? Who are our most important customers? And what kind of value will we provide to them?

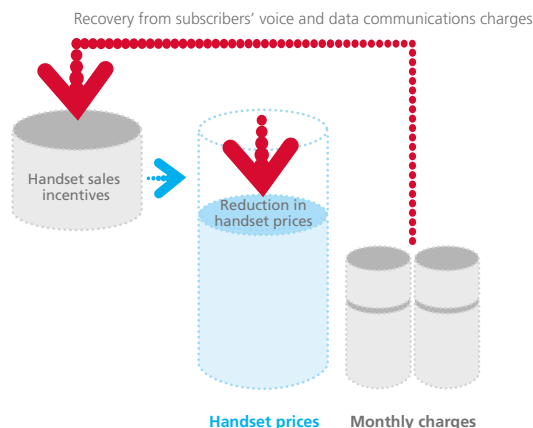
As a result, we determined that DOCOMO's path to growth lies in building long-term relationships with existing customers and strengthening our ties with their daily lives. We have shifted our strategic focus from acquiring new customers to bolstering our relationships with existing customers.

Specific steps taken to implement this strategy include the introduction of two new systems. One is new discount services that offer reduced basic charges in exchange for two-year commitments. This system will play a key

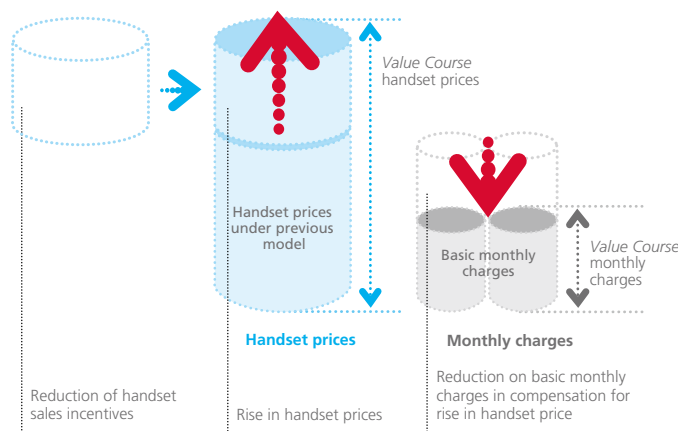
role in promoting longer relationships with customers. The second is a new handset sales model. This is a revision of the handset sales model that DOCOMO had followed since its establishment. Under the previous model, which emphasized the acquisition of new customers, DOCOMO was responsible for a portion of the handset cost.

Further, in April 2008, we announced the New DOCOMO Commitments. These commitments embody our strong resolve to changes under our new strategy. In order to be a company that is the continual, preferred choice of its customers and is loved by its customers, we believe that we must steadily take the steps needed to fulfill each of the promises described in the commitments. The renewal of our brand image is not simply a change of our logo. Rather, it reflects our commitment to fundamentally reevaluating our business methods, from the ground up, in response to changes in our market environment. I am doing my utmost based on the conviction that the future of DOCOMO will be determined by the success or failure of our new business strategy.

Former Handset Sales Model



Value Course – New Handset Sales Model



**Q**

Would you discuss the progress made after the introduction of the new business model? Looking at the net increase in subscriptions, it would seem that the results might not be satisfactory. What are your thoughts on this situation?

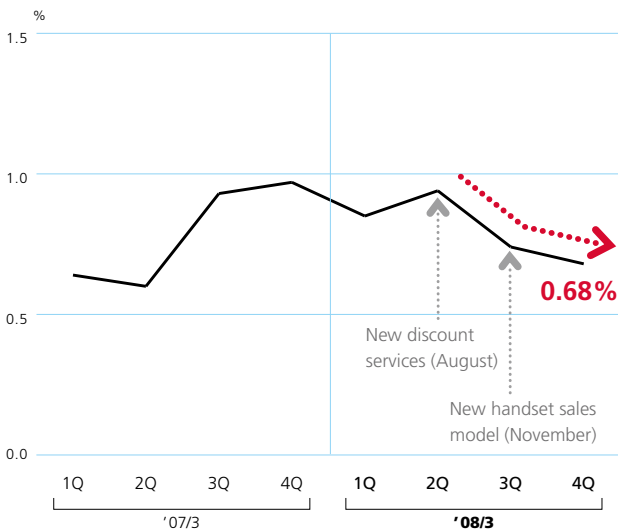
**A**

We are steadily starting to see the positive effects of the introduction of the new business model in the form of a lower churn rate.

First, one thing that I would like to make clear is that in the current, mature market environment, the influence on the Company's business of the net additions in subscriptions is less than it used to be. As I mentioned, there is a limit to the scale of new markets that we can open up. In addition, we believe that the mobile phone usage frequency of newly acquired subscribers will be comparatively low, and as a result the influence on the Company's business of new subscriber acquisition will not be that large. Consequently, in the current market environment, churn rate is more meaningful than net additions in subscriptions. This is because churn rate indicates the extent to which we have satisfied our existing customers and established good relationships with them.

**Churn Rate Has Declined Dramatically since the Introduction of the New Business Model**

Years ended March 31



Since the introduction of the new business model, the churn rate of DOCOMO subscribers has steadily declined. In the fourth quarter of fiscal 2007, from January to March 2008, the churn rate fell to 0.68%, and it has declined further since April 2008. The new business model is steadily showing results. More than anything else, I want people to understand that the primary purpose of the new business model is to extend the length of time that DOCOMO's 53 million existing customers use our services.

Maximizing customer satisfaction and inducing customers to use our services longer and more frequently will increase the value of our brand over the medium to long term. And that, I believe, will help us to acquire new customers who are not currently using DOCOMO. Accordingly, we first have to do our utmost to ensure that we are loved deeply by our existing customers.

Q

**What impact do you think the introduction of the new business model will have on DOCOMO's profitability?**

A

**The new handset sales model will have the effect of temporarily increasing profits. We expect that effect to peak in fiscal 2008. The adverse effect of the new discount services, meanwhile, will grow as the cumulative number of subscriptions increases, but the rate of that growth will gradually decline.**

First, I will explain the effects of the new handset sales model, one of the two pillars of the new business model. *Value Course*, the new handset sales model, includes two elements that will have an impact on profit levels, and these two elements will offset each other in terms of DOCOMO's profits. First, profit will be increased by a reduction in the handset sales incentives that we previously paid to sales agents when handsets were sold. When a customer shifts from the previous handset sales model to the new handset sales model, we will not pay the handset sales incentive to the sales agent, so there will be a temporary increase in operating income during the period in which the customer purchases the handset. Second, profit will be decreased by the application of the *Value Plan*, under which customers who purchase the handset at the proper price pay lower basic charges.

In fiscal 2008, we expect the greatest shift from the previous handset sales model to the new handset sales model, and consequently the new handset sales model's contribution to increased profits will also peak in that fiscal year. From fiscal 2009, accompanying the penetration of the new handset sales model, the number of customers switching from the previous handset sales model to the new handset sales model will decline, and as a result the temporary profit increase stemming from the reduction in handset sales incentives is expected to weaken.

Next, I will explain the effects of the new discount services. We believe that the new discount services, such as *Fami-wari MAX 50*, launched in August 2008, will have a substantial impact on our profit level in fiscal 2008. Then, in fiscal 2009 and thereafter, the cumulative number of subscriptions to the new discount services will increase, but due to the penetration of those services, the rate of that increase will decline. In addition, due to an increase in the number of subscriptions for contracts of 10 years or more, who receive a 50% discount on basic charges even if they do not opt for a new discount service, the rate of growth in the influence of the new discount services is expected to gradually decline.



Q

**Moving on to the Company's management structure, could you please explain in more detail the purpose of integrating the eight regional subsidiaries into NTT DOCOMO, INC.?**

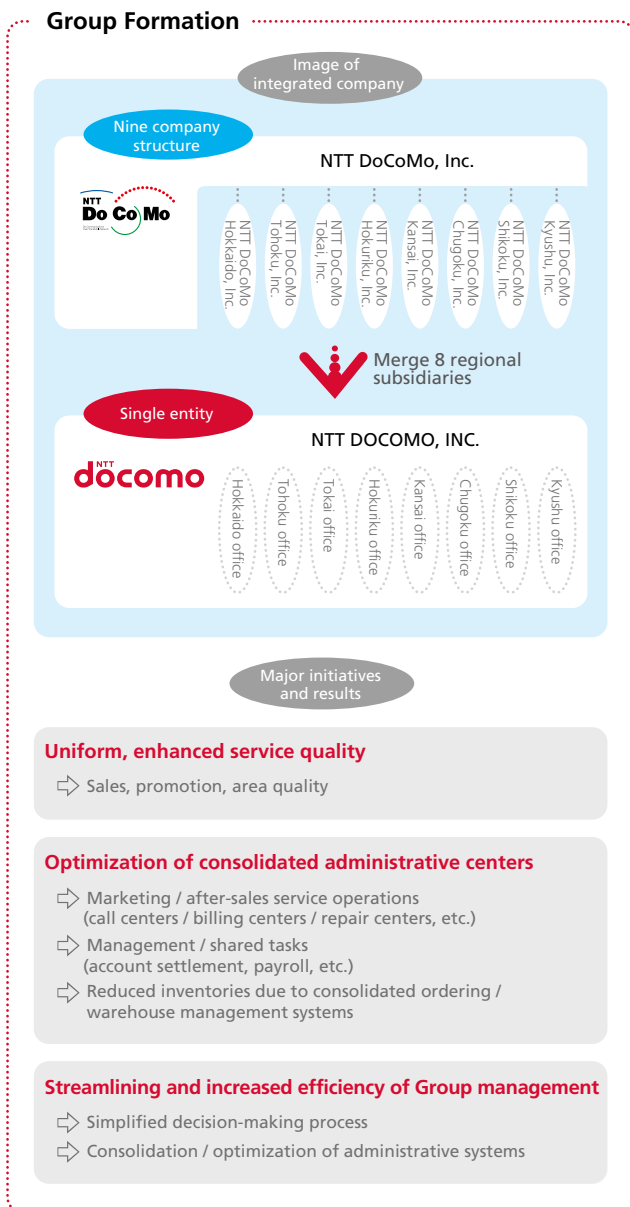
A

**Our goals are to enhance customer service and increase management efficiency.**

When Japan's mobile phone market was rapidly expanding, we maintained a business structure of nine companies because that structure was suitable for implementing sales initiatives and developing service areas in accordance with the situation in each region. However, as the market has matured, the competitive environment has changed. In this setting, to meet the expectations of customers and shareholders, it became necessary to enrich customer service, implement faster decision-making, and increase management efficiency. Accordingly, in July 2008 we integrated the eight regional companies into NTT DOCOMO, Inc.

From the viewpoint of increased management efficiency, we can reduce costs and implement faster decision-making through such measures as consolidation of service centers, such as call centers, and administrative departments, which had previously been handled separately by each company, and streamline the decision-making process, which had become complicated.

The integration also has considerable significance from the viewpoint of the branding strategy that I mentioned. The new, integrated DOCOMO, through such measures as optimizing workforce allocation, can bolster all of its customer contact points. At the same time, by reevaluating such elements as sales, promotions, area expansion, and after-sales services, which were previously handled at the regional level, we can now ensure uniform service quality. The brand is DOCOMO's identity as well as a promise of the value and quality that we will deliver to customers. We believe that integrating into a single company and working to standardize service quality throughout the country will be a vital part of our new strategy.



**Q**

**In a mature market the prospects for DOCOMO's revenue growth are unclear, so the relative importance of reducing costs has increased. What is DOCOMO doing to cut costs?**

**A**

**We intend to increase profitability by pushing forward with thorough cost management, such as reducing costs related to communications network construction and reducing handset sales incentives paid to sales agents.**

Depreciation and amortization in fiscal 2007 was ¥776.4 billion, about 20% of our total operating expenses. This demonstrates the significant share of our operating expenses that are related to network maintenance and construction. Accordingly, we intend to reduce costs related to communications networks through steady, continued implementation of such initiatives as shifting to IP networks, bringing base station circuits in-house, reducing procurement costs, and streamlining design and construction. Further, by fiscal 2006 we were able to predominantly complete the geographical expansion of FOMA area coverage. As a result, we anticipate that we will be able to maintain the recent declining trend in capital expenditures. Capital expenditures in fiscal 2007 totaled ¥758.7 billion, a decline of ¥175.7 billion from the previous fiscal year's total of ¥934.4 billion, and we are forecasting a further decrease to ¥719.0 billion in fiscal 2008. When I was Senior Executive Vice President, I was the leader of a project to reduce network costs, and for fiscal 2007 we were able to reduce circuit costs per base station by 25% year-on-year. We will continue to focus our energies on reducing costs in this area because it has a major impact on DOCOMO's profitability.

The expense of offering discounts on handset retail prices, which will reach hundreds of billions of yen, also constitutes a major element of DOCOMO's total operating expenses. As I mentioned, through the introduction of the new handset sales model we have revised the previous system under which we were responsible for a portion of the cost of handsets purchased by customers. As a result, in the future, we expect the customer handset-upgrade cycle to lengthen and the number of handsets sold to decline. Accordingly, we believe that expenses associated with discounts on handset retail prices will decline. There was a concern that a sudden rise in handset prices when the new handset sales model was introduced could cause turmoil in the market. Consequently, we continue to subsidize customer handset purchases to a certain extent in the form of the *Direct-wari* discount, although we are considering the discontinuation of this discount in the future. We believe that these initiatives will make a major contribution to profitability in the years ahead.

Q

What are DOCOMO's strengths that will support its growth in the future?

A

**Our competitive advantage in networks will play an important role in future business development. High-quality networks are a prerequisite for the provision of services to customers and are the foundation for our growth-oriented initiatives. The construction of these networks requires substantial amounts of time and money, so we believe that they will be a source of competitive advantage over the medium to long term.**

I would like to stress that our fundamental policy is to increase customer satisfaction by precisely meeting customer needs. The construction of high-quality networks is not, itself, a business goal; rather, I think that it is a necessary condition for meeting subscriber needs. For example, customers increasingly want to enjoy video content in the mobile environment. To meet this customer demand we need to have network facilities that can handle explosive growth in traffic. In conjunction with the introduction of the *FOMA 906i* series handsets, we began developing services targeting the full-scale penetration of video content, and our strength in networks is already starting to be manifested in the services that we provide.

Mobile phones will continue to advance. In addition to advances in mobile phones themselves, through innovation, the wide-ranging integration of mobile phones and a variety of other stuff such as electronic devices will drive the introduction of new services, making people's lives more convenient and comfortable. DOCOMO is working to realize further growth by pushing mobile phones beyond the limits of "phones," and providing new value and convenience to meet the needs of customers. To that end, it is essential that we achieve further gains in the speed and capabilities of our networks.



In next-generation mobile phones, Super 3G (LTE), which incorporates enhancements to the W-CDMA protocol that DOCOMO uses in 3G, is becoming mainstream technology around the world. DOCOMO is making strong progress toward the completion of Super 3G (LTE) development in 2009. Because DOCOMO played a leading role in deciding Super 3G international standard specifications, we have cultivated a high degree of expertise in Super 3G and are proud to be a global leader in this new technology. In service business development, while carefully tracking demand trends, we will be able to share a portion of existing W-CDMA facilities when we build Super 3G networks. As a result, we will be able to hold down capital expenditures. Also, because we can respond flexibly, using Super 3G in areas with high levels of demand for high-speed communications and W-CDMA in other areas, we can build cost-effective networks.

Building a competitive advantage in networks will require substantial amounts of time and money. With an eye to the future, DOCOMO is continuing to implement initiatives targeting the ongoing construction of high-quality networks. I believe that we can secure a competitive advantage that will be difficult for competitors to duplicate, and, over the medium to long term, maintain our competitive superiority through such means as differentiation of our services.

■ Shareholder Return

Q

Please explain DOCOMO's policy on shareholder return.

A

**Our fundamental policy for shareholder return is to maintain stable dividend payments while flexibly repurchasing shares.**

We believe that returning profits to shareholders is one of our most important management issues. We intend to continue to pay a stable dividend, taking into account consolidated results and the consolidated dividend payout ratio, and at the same time, strengthening our work on financial position and maintaining adequate internal reserves. We will also maintain a flexible share repurchase policy that takes into account our operating environment and market conditions. DOCOMO intends to hold the repurchased shares as treasury stock and, in principle, to limit the amount of treasury stock to approximately 5% of total issued shares. We plan to continue the policy under which holdings in excess of this level will be retired at the end of the fiscal year.

**Shareholder Return**

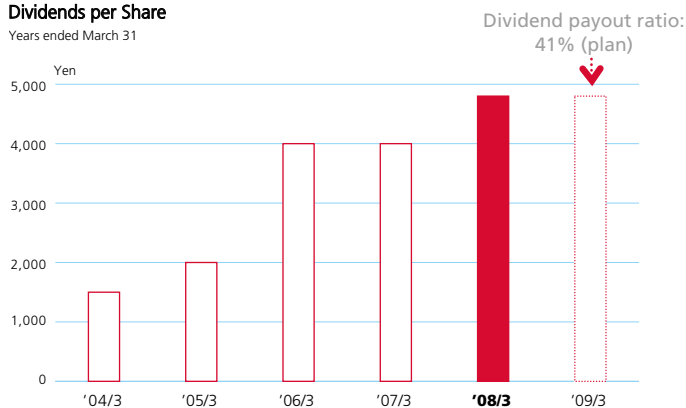
Fiscal 2008 (plan)

Per-share cash dividends: ¥4,800

Acquisition of treasury stock: Framework approved at the General Meeting of Shareholders: up to 900,000 shares, up to ¥150.0 billion

**Dividends per Share**

Years ended March 31



In fiscal 2007, in accordance with a resolution of the General Meeting of Shareholders, the Company repurchased 965,666 shares of its own common stock at a total cost of ¥173.0 billion. At the end of March 2008, we retired the treasury stock that exceeded 5% of total issued shares, or 1,010,000 shares representing 2.2% of the total number of outstanding shares prior to the retirement.

In fiscal 2007, we paid dividends of ¥4,800 per share, for a consolidated dividend payout ratio of 42.1%. We are planning to maintain dividend payments of ¥4,800 per share in the current fiscal year. At the general meeting of shareholders held in June 2008, DOCOMO's shareholders approved the acquisition of an aggregate total of up to 900,000 shares at an aggregate cost of up to ¥150.0 billion.

In the future, we will continue to provide a return to shareholders in accordance with our consolidated results, our financial position, and market trends, as well as the opinions of our shareholders and other factors, while considering the balance between dividends and share repurchases.