

## **opening doors**

# **Change and Challenge**

In Japan's increasingly mature mobile phone market, DOCOMO has made a major change in its strategy for achieving sustained growth.

Following the introduction of a new business model in 2007, DOCOMO has made the customer's perspective the starting point for all of its business operations.

In this annual report, DOCOMO explains the range of initiatives it has implemented and outlines the direction that the Company will take in the years ahead.





# Financial Structure at a Glance

## Operating Revenues

### Wireless Services

#### Cellular Services Revenues

Cellular services revenues, which account for the majority of wireless services revenues, include voice revenues and packet communications revenues. DOCOMO's cellular services revenues can be approximated by multiplying the average monthly revenue per unit (ARPU) by the number of active subscriptions.

**ARPU >** ARPU comprises voice ARPU and packet ARPU.

Voice ARPU is on a declining trend due to such factors as the growing acceptance of new discount services and *Value Plan*, an exclusive billing plan for *Value Course*, a new handset purchase method, and declines in MOU. **Voice ARPU > pages:** 9, 11, 12, 14, 20, 28, 29

Packet ARPU is increasing due to such factors as expanded usage of packet communications.

**Packet ARPU > pages:** 9, 12, 14, 20, 21, 28, 29, 31

**Number of active subscriptions / Churn rate >** To secure growth in active subscriptions, DOCOMO is working to reduce the churn rate.

**Churn rate > pages:** 8, 11, 29

#### Other Revenues

Other revenues include external sales of subsidiaries, replacement handset delivery service revenues, revenues from the collection of *i-mode* information charges on behalf of information service providers, and others.

### Equipment Sales

Equipment sales revenues comprise revenues from sales of handsets and other equipment to distributors. In accordance with U.S. GAAP, a portion of the distributor commissions are deemed to be discounts on the handset sales prices, and are subtracted from equipment sales revenues. **Equipment sales revenues > page:** 28

## Operating Expenses

### Cost of Services

Cost of services comprises costs incurred for the purpose of providing wireless services to customers. Included in cost of services are communication network charges as well as personnel expenses and other non-personnel expenses related to network maintenance and operation. Communication network charges account for the largest share of cost of services. Communication network charges principally include the cost for usage of other mobile phone operators' networks. The sum of communication network charges and depreciation and amortization is referred to as network-related costs. **Communication network charges > page:** 29 **Network-related costs > pages:** 14, 26

### Cost of Equipment Sold

Cost of equipment sold (handset procurement cost) is the procurement cost of handsets procured by DOCOMO for the purpose of sales to customers. It is dependent on the number of handsets sold and the procurement cost per unit. Handset sales include sales to new customers and to existing customers who upgrade their handsets. **Number of handsets sold > pages:** 9, 11, 14, 28, 32 **Handset procurement cost > pages:** 12, 26, 28, 33

### Depreciation and Amortization

DOCOMO expenses the acquisition cost of fixed assets, such as telecommunications equipment, and such intangible assets as software, over their estimated useful life as depreciation and amortization. Depreciation and amortization is principally dependent on capital expenditures. Most of DOCOMO's capital expenditures are for investment in expansion of area coverage and quality improvement. **Depreciation and amortization > page:** 28 **Capital expenditures > pages:** 4, 5, 14, 26, 34

### Selling, General and Administrative Expenses

A large portion of selling, general and administrative expenses is distributor commissions. In accordance with U.S. GAAP, a portion of the distributor commissions are deemed to be discounts on the handset sales prices, and are subtracted from equipment sales revenues instead of being included in selling, general and administrative expenses. **Distributor commissions > pages:** 11, 12, 14, 28, 32

## Other

**DOCOMO in the Mobile Communications Industry** With the total number of cellular phone and PHS subscriptions in Japan having surpassed 100 million, the mobile phone market is mature. Accompanying changes in the market environment, DOCOMO has shifted to a business model suited to a mature market.

**Changes in the competitive environment and shift in management strategy > pages:** 6, 7, 12, 19

**Services (New Services)** DOCOMO is working to propose new methods of using cellular phones and to provide services targeting increased convenience and expanded usage of packet communications.

**Services / Content > pages:** 20, 21, 23, 30

**Handsets (Reorganizing Lineup)** As one facet of initiatives for reviewing all aspects of our business operations from the customer's perspective in accordance with the New DOCOMO Commitments, we changed our approach to handset lineups, shifting the focus from functionality to customers' lifestyles and values.

**Handsets > pages:** 32, 33

**Investment / Alliances** Aiming for new growth, DOCOMO is investing in and forming alliances with other companies.

**Investment / Alliances > pages:** 21, 24, 36, 37