

# Shaping a Smart Life

NTT DOCOMO is in a period of tremendous change.

Competition is increasingly fierce in the mobile communications industry, and the structure of the industry itself is undergoing substantial change as the competition extends beyond the carriers. In mobile devices, the focus is shifting from feature phones to smartphones. Accompanying this shift, we are also seeing significant changes in the expectations and priorities of our customers. In fact, the mobile communications business model in the smartphone era is far more than just an extension of the feature phone business model.

In this new operating environment, DOCOMO is striving to serve customers as a Smart Life Partner. To that end, we are taking on the challenges of advancing innovation in our traditional core business while aggressively developing businesses in new fields.

**Kaoru Kato**  
President and  
Chief Executive Officer



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## Mobile Services as a Companion Providing Support

Before I discuss DOCOMO's results and activities in fiscal 2012 and our forecasts for the future, I would like to explain how we view our current business environment.

Many consumers keep their mobile devices nearby throughout the entire day. That is because mobile services are not simply a means of communication. They are tools that play an integral role in each moment of our lives — including work, education, and leisure activities.

In addition, due to the deployment of communications infrastructure that supports higher speeds and to the uptake of devices with higher-resolution, larger screens, customers can now use services that were not possible with mobile phones even just a few years ago. And we can provide those services in a format that is comfortable for

customers. Consequently, I believe that mobile communications services are more than just a routine part of consumer lifestyles. They also function like a compass in the Age of Discovery, guiding the actions of users and helping them to discover exciting new worlds. Mobile communications services have the ability to dramatically expand the potential of consumers' lives and to make those lives more fulfilling.

I am excited about how the timing of this change presents great opportunities for DOCOMO. Of course, I do not underestimate the challenges posed by our operating environment and by the need to stay on top of the fast-moving trends in mobile communications. Nonetheless, I believe that this type of dramatically changing environment is what enables us to create new value.

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## DOCOMO's Medium-Term Vision: Become a Smart Life Partner

How can we offer mobile communications services that are truly useful to our customers? Amid the ongoing change in mobile communications, we need to maintain an inquisitive, questioning approach to our business. In other words, we need to ask ourselves how we can provide services that make the lives of our customers more convenient and comfortable, and how we can provide services that will enable our customers to experience new worlds.

At this point, we have reached two key conclusions. First, we must continue to make communications smoother and more secure by increasing quality in mobile communications services, our traditional core business. Second, on that foundation, we need to create services that support the activities of our customers. In these ways, we will help to make customers' lives more convenient and enjoyable. We will become a Smart Life Partner.

For DOCOMO, "Smart Life" refers to a life in which mobile devices enable all customers to discover happiness and joy

in accordance with their own individual tastes. It is a life in which mobile devices make daily activities more convenient and fulfilling in a reassuring, appropriate security environment. As a Smart Life Partner, we believe that our role is to help our customers to navigate the vast quantities of data on the Web, to deliver information that makes their lifestyles more convenient and comfortable, and to develop services that create new value. In addition, we will make all of this available in a format that is easy for anyone to use.



## Fiscal 2012: Moving Ahead in an Exceptionally Challenging Operating Environment

Next, I will review our performance in fiscal 2012, in which we began working to realize the medium-term vision that I introduced earlier.

Operating revenues rose 5.4% year on year, to ¥4,470.1 billion, while operating income was down 4.3%, to ¥837.2 billion. In addition, net income rose 6.8%, to ¥495.6 billion.

To put this performance in perspective, I believe that fiscal 2012 was the most challenging operating environment that DOCOMO has ever faced. Sales of Apple's iPhone by other domestic telecommunications operators drew the interest of consumers and the attention of society. These carriers also took other steps, such as offering discount packages combining mobile and fixed-line services. In this difficult environment, we were unable to stem the MNP\* outflow and our churn rate increased. Consequently, net additions remained sluggish even though our new subscriptions rose. Moreover, to support the implementation of aggressive measures targeting net additions, we budgeted

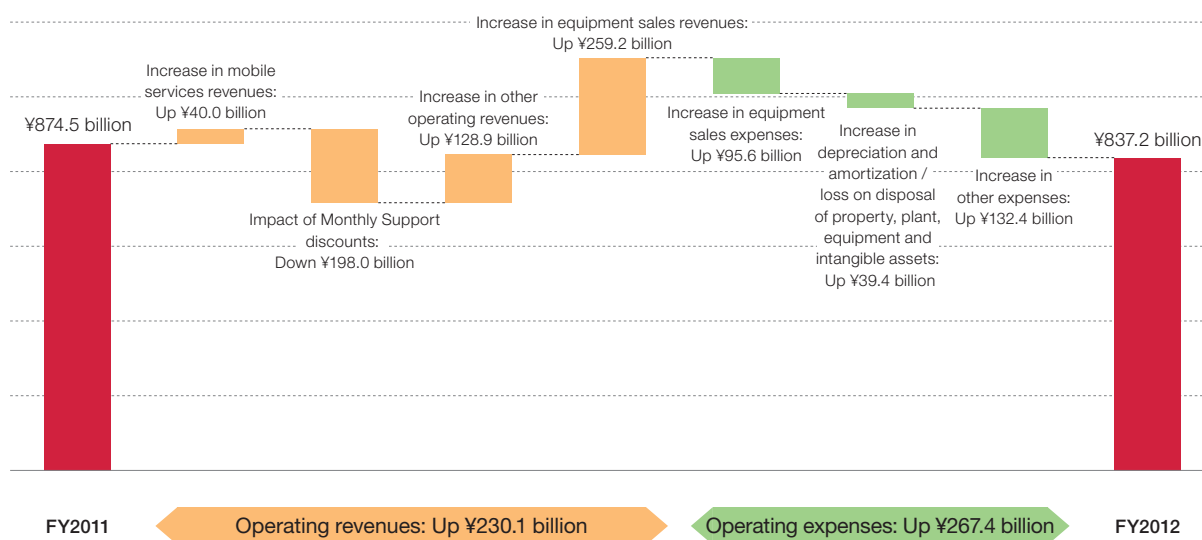
an additional ¥80.0 billion in operating expenses in the second half of the fiscal year. As a result, we reduced our target for operating income, from the initial plan of ¥900.0 billion to a revised figure of ¥820.0 billion.

On the other hand, we continued to record solid growth in smartphone sales and LTE Xi subscriptions, and we also offered handsets that recorded strong sales and took steps to enhance our services. In addition, we began to see solid results from the initiatives that we have implemented. Looking solely at our financial performance and operating data in fiscal 2012, we cannot say that we are satisfied. However, considering milestones toward the goals of our medium-term management plans, I believe that fiscal 2012 was a year in which we achieved steady progress that will drive our growth in the years ahead.

Taking those results into consideration, I will introduce the initiatives that we plan to implement in fiscal 2013, in line with three major themes.

\* MNP: Mobile number portability. See page 22.

### Key Factors behind YOY Change in Operating Income



## Initiatives in Fiscal 2013

### 1. Strengthening Competitiveness in Mobile Communications

To make the most of the potential of mobile communications services, we need to enhance the basic elements of the communications business and fully leverage our mobile communications strengths. We are not satisfied with our operating

data in fiscal 2012, and in response we have launched the Customer Satisfaction Improvement Project. Throughout the Company, we are rededicating ourselves to strengthening our competitiveness in mobile communications.

#### Strengthening Our Networks

It goes without saying that our mission is “connecting” people, and it is our networks that make those connections possible. Our networks are an extremely important asset. Also, we understand that communications quality is the highest priority of our customers. To maintain communications quality, we are working to strengthen our networks, centered on the LTE Xi network. These efforts are undergirded by our renewed recognition of the importance of our social mission as a provider of telecommunications infrastructure.

In 2010, DOCOMO became the first company in Japan to introduce LTE, and we have introduced services a step ahead of our competitors. We continued to make solid progress in fiscal 2012. We aggressively expanded the LTE Xi

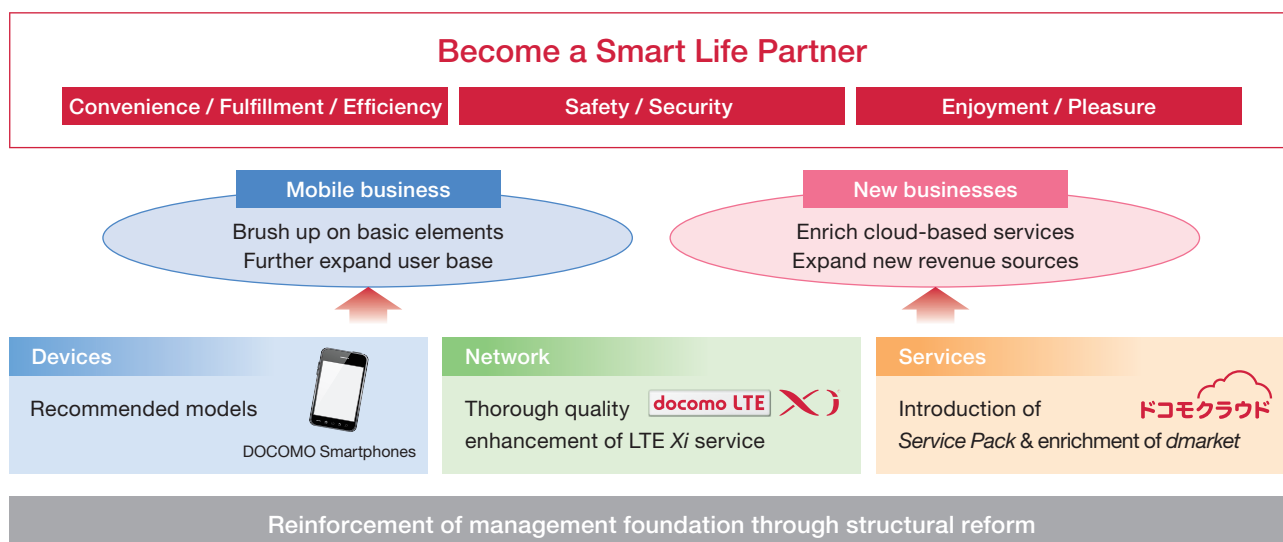
service area, and the number of LTE Xi subscriptions at year-end was 11.57 million, 5.2 times the level a year earlier.

Inside the Company, however, we began to develop a sense of impending crisis. We had expected LTE to retain its competitive superiority over the competition, but our lead had begun to shrink. I shared this sense of crisis, but I believed that we could use it as an opportunity to reinforce LTE's competitive edge, specifically by implementing rapid service development in fiscal 2013.

Accordingly, we have accelerated the schedule spelled out in the medium-term management plans. This schedule has two points of special focus — LTE Xi service area and throughput.\*

\* Data processing capacity per unit time

#### FY2013 Business Management Policies



**Handset Streamlining and Strategic Sales**

In addition, we are working to strengthen sales in line with the keyword “concentration.” In the past, DOCOMO’s policy was to launch large numbers of handsets throughout the year. We received feedback from customers, and we launched highly popular models in line with specific customer preferences, such as the *Osaifu-Keitai* mobile wallet and water-resistant models. In addition, we met a wide range of needs in such areas as handset color and design. On the other hand, we realized that many customers felt that there were too many models in our stores and that making a choice was difficult or required too much time. Meanwhile, handset features improved and it became possible to include a variety of features in a single handset.

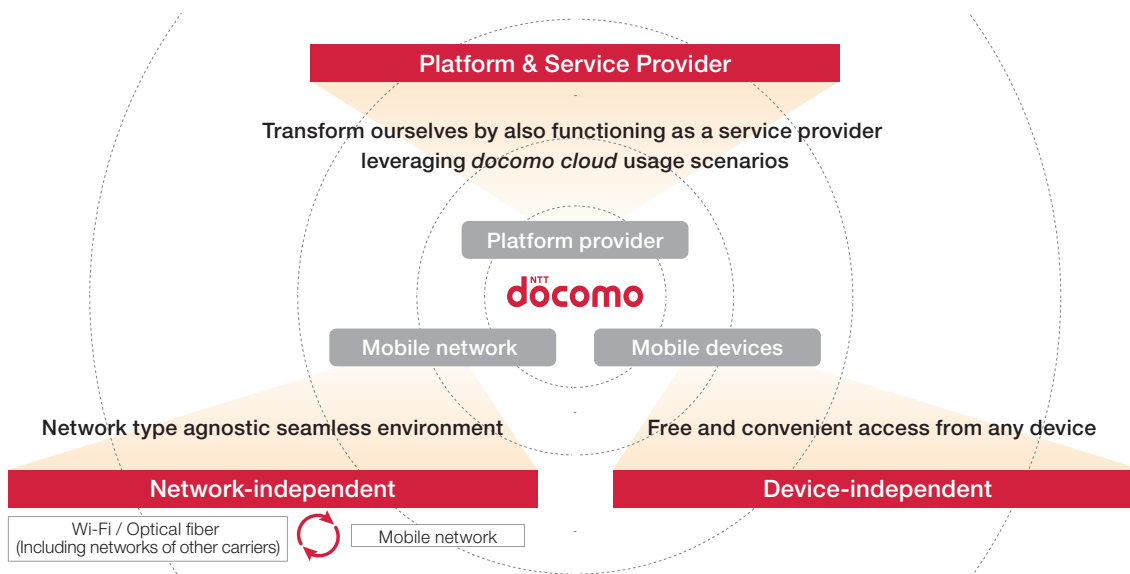
In response, we introduced a new policy for the spring 2013 models, which were announced in January. We decided to concentrate our resources on the development and sale of strategic models, and we chose the Sony *Xperia™ Z* as our recommended smartphone. We continued this policy for the summer models, which were launched in May 2013. At that time, we positioned the Samsung *Galaxy S4* and the Sony *Xperia™ A* as our Top Two models. By changing the direction of our sales strategy, we are aiming to present the key models and their special features in an effective and focused manner. Also, by streamlining our lineup, we are striving to foster enhanced competition among handset manufacturers and to reduce procurement costs.

**2. Expanding New Business Areas**

In the development of new business areas, centered on *dmarket*, we saw steady results in fiscal 2012 with our efforts to rapidly enhance our lineup. We have a growing sense of confidence about the progress of our strategies and our future growth potential. DOCOMO does not stop at the provision of platforms. Rather, we are working to maximize the value provided to customers by becoming a

service provider that creates and offers services. To enable customers to experience the greatest value in a range of usage environments, we are implementing initiatives based on the concepts of “network free” and “device free.” Overall, in fiscal 2015 we are aiming for revenues of ¥1 trillion in new business areas and Smart ARPU of about two times the level in fiscal 2011.

**Evolution That Allows Users to Enjoy Maximum Value**



#### Expanding the *dmarket* Lineup and Increasing the Number of *dmarket* Users

*dmarket* was launched in November 2011 and we took steps to establish a strong lineup of *dmarket* stores, including *dvideo*, *danime*, and *dshopping*. The steady growth in the *dmarket* customer base, which reflected DOCOMO's distinctive strengths and capabilities, was highly evaluated. In addition, our employees believe in the growth potential of these new services, and they have leveraged the resources of a wide range of partners, including those outside the DOCOMO Group, to start up new operations. I have also been inspired by their energy and motivation. In the future, we will continue to rely on the contributions

of these employees, and we will take an active, flexible approach to the use of these types of new ideas.

In fiscal 2012, we decided not only to enhance our service lineup but also to target growth in the number of users of these services. To pursue business development as a service provider, we will offer services to customers who do not have a DOCOMO communications subscription, rather than limiting our target customer group to our own subscribers. The DOCOMO ID will play a key role in increasing the number of users of these services in the years ahead.

#### Initiatives in Healthcare

In addition, as we move forward, we will focus on services that use mobile technologies to support health, which is the foundation of a Smart Life and is, of course, a matter of great concern to customers. In April 2013, we launched a new mobile healthcare platform that receives health-related data from customers and offers advice and proposals for healthy living. Mobile phones, which customers keep nearby throughout the day, are the perfect tool for the

provision of support for healthy lifestyles in a variety of settings. We will fully leverage these characteristics as we continue to expand our service lineup. Other initiatives in the health field will include sales of food and health / sports equipment, and we will also proceed with alliances in the fields of insurance and medical care. In these ways, we will strive to build a framework that provides total support for the health of customers.

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### 3. Reforming and Rebuilding Our Operational Structure

We are working to boost our competitiveness in mobile communications services and also working to discover new business areas that have high growth potential. To advance these two initiatives at the same time, we will

need a system that can facilitate rapid, flexible operational administration, and consequently we are taking steps to reform and rebuild our operational structure.

#### Establishing the Smart-life Business Division

As one facet of initiatives to reform and rebuild our operational structure, on July 1, 2013, we established the Smart-life Business Division. This new division has been tasked with accelerating the creation of services targeting the shaping of a Smart Life in new business areas.

The businesses overseen by the division have been reorganized into units that will drive our progress in new business areas. These units include media / content, commerce, finance / payment, environment / ecology, medical / healthcare, and safety / security. The division

will strive to leverage the synergies among the individual businesses in each of these fields.

Also, by transferring authority to the new division we will not only work to speed up service provision but also pursue overall optimization of our service portfolio, which is becoming increasingly diverse. Furthermore, we will take steps to use our management resources efficiently. Through the Smart-life Business Division, we will accelerate alliances with other companies for the purpose of aggressively incorporating new ideas and creativity.

#### Cost Structure Reform

Targeting the reinforcement of our management foundation, we are rapidly advancing wide-ranging organizational reforms, and we made solid progress in fiscal 2012, reducing costs by ¥50.0 billion in comparison with fiscal 2011. We are now working to achieve further cost reductions. In comparison with fiscal 2011, we are determined to reduce our costs by ¥160.0 billion in fiscal 2013 and by ¥250.0 billion in fiscal 2015.

As I mentioned, I believe that achieving growth in mobile communications in the years ahead will require concepts that are entirely different from those of previous business models. I stress to our employees that our organizational reforms are supported not only by cost reductions but also by the attitude of everyone at DOCOMO, and that we need to repeatedly challenge our own understanding of our business. I am excited about this excellent opportunity for us to thoroughly revise the way we work.

## Returns to Shareholders

DOCOMO has consistently stated that providing adequate returns to shareholders is one of the most important issues in corporate management. In fiscal 2012, we increased dividends by ¥400 year on year, for an annual dividend of ¥6,000 per share and a dividend payout ratio of 50.2%. We plan to keep dividends at the same level in fiscal 2013. We aim to maintain one of the top payout ratios among Japanese companies, and moving forward, we plan to continue to make stable dividend payments

while striving to strengthen our financial position and secure internal reserves. Regarding share repurchases, we will continue to study opportunities to flexibly implement them as deemed appropriate through resolution of the Board of Directors. We intend to keep the repurchased shares as treasury stock, and the amount of treasury stock will be limited to approximately 5% of our total issued shares. Treasury stock in excess of this limit will be retired in a single block at the end of the fiscal year.

## Targeting Sustainable Gains in Corporate Value

Our corporate philosophy states that we will strive to create a new culture of communications, fully utilize individual potential, and realize more-personal communications that truly satisfy customers. The foundation of this corporate philosophy is the belief that our ultimate objective is to contribute to the realization of lifestyles that offer people peace of mind and that are safe, convenient, and comfortable.

In a challenging operating environment marked by intense competition, we need to pay attention to short-term operating data. However, as a leader I always keep in mind that we also need to maintain our focus on the longer-term goal of creating new value that contributes to fulfilling lifestyles for each customer. The focus on the longer-term goal is not only important for society but also

necessary for the achievement of growth and profits. DOCOMO's "mission" is to earn the trust of customers with regard to mobile communications by enhancing the basic elements of mobile communications, and our "aspiration" is to create new value as a Smart Life Partner. By pursuing these objectives, we will strive to achieve sustainable gains in corporate value in the years ahead.

July 2013



**Kaoru Kato**  
President and Chief Executive Officer