

Changes in the Business Environment

Details of Changes

Intensifying competition in the domestic market

The mobile phone market is approaching saturation, and in Japan the three top mobile telecommunications operators account for more than 95% of mobile phone subscriptions. These companies have competed fiercely in all areas, including services, coverage areas, billing plans, and devices and the competition continues to intensify due to advances in the number of smart-phone users and the adoption of LTE. Against the background of this intense competition, DOCOMO's share of domestic subscriptions has steadily declined since it peaked at 59.2% in fiscal 2000.

Change in DOCOMO's revenue structure

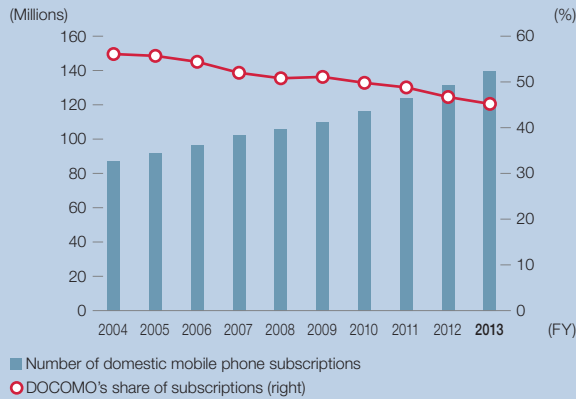
Due to the adoption of smartphones, the growth in the use of high-speed communications networks, and the spread of social media and other forms of communication, the use of mobile devices is shifting from voice to data communications. Accompanying this change, the percentage of ARPU contributed by voice revenues has declined, falling from 49.9% in fiscal 2010 to 30.4% in fiscal 2013. Packet communications revenues and other operating revenues have now become a major driver of DOCOMO's revenues.

Change in the industry structure

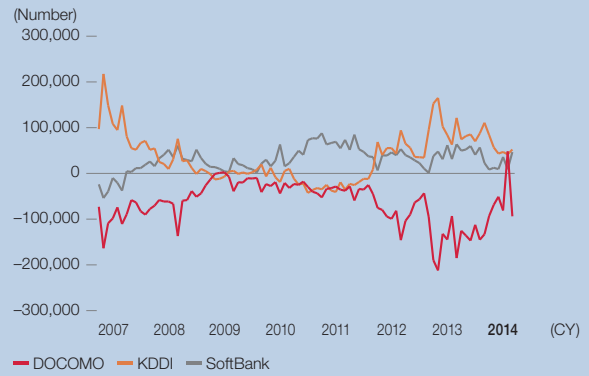
Over the past 10 years, DOCOMO and other mobile telecommunications operators have improved their high-speed mobile communications infrastructure. At the same time, the smartphone market has expanded, and the mobile operating systems developed by Google and Apple have earned high shares of the global market. In addition, new services have been launched one after another by social networking service companies, such as Facebook, Twitter, and LINE, and by IT companies, such as Amazon. In these ways, the structure of the industry is undergoing dramatic change.

Market Data / Industry View

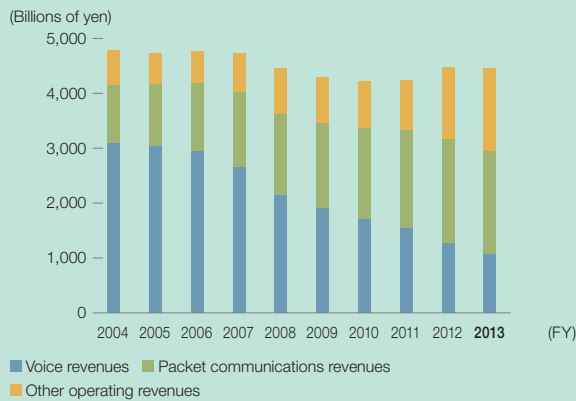
Number of mobile phone subscriptions /
DOCOMO's share of subscriptions among
domestic telecommunications operators



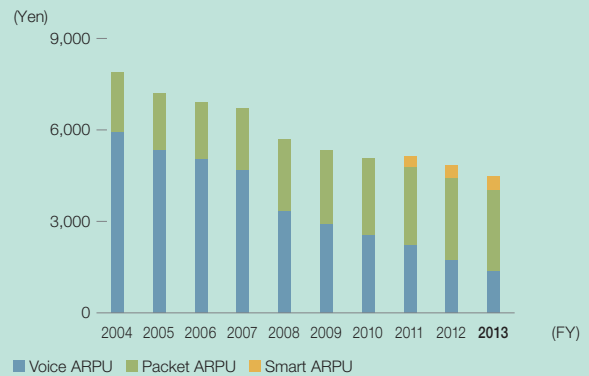
Port-ins and port-outs among Japan's three large
mobile telecommunications operators through the
MNP system (since the introduction of MNP)



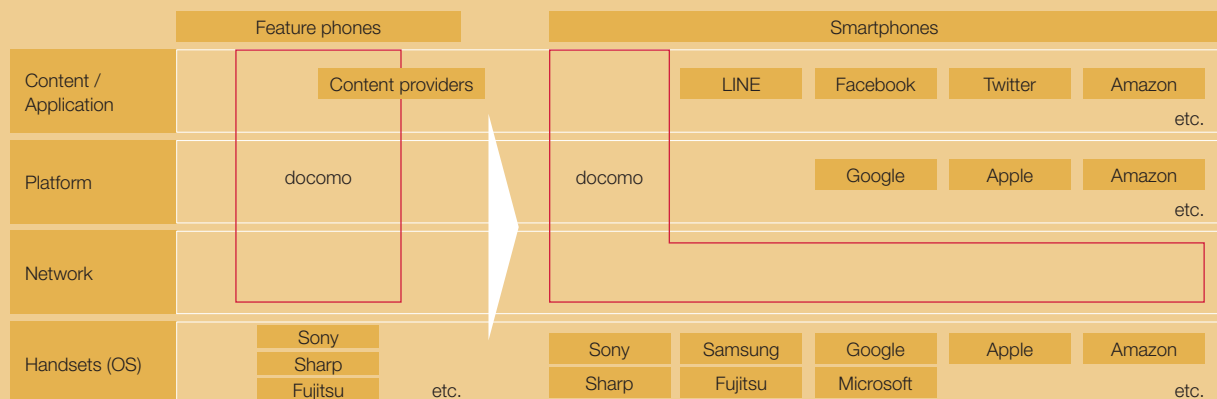
Change in DOCOMO's revenue structure



Transition of Aggregate ARPU



Change in the industry structure



DOCOMO's Management Issues and Strategies

Management Issues

Declining market share

An important issue for DOCOMO is to maintain a strong share of the number of mobile phone subscriptions in Japan. That market share will enable us to protect our revenue base in the short term as well as to ensure future management efficiency and the availability of resources for the creation of diverse services.

Decreasing ARPU

The uptake of smartphones has led to expanded use of data communications, but that use has not been enough to offset the decline in the use of voice services. Urgent tasks for the Company include stopping the decline in Voice ARPU and discovering and nurturing new sources of revenues.

Commoditization of communication

This issue involves the situation in which a telecommunications operator competes only on the basis of the prices of basic communications services and does not provide high-value-added services and content.

Management Strategies

Boosting competitiveness in the mobile field

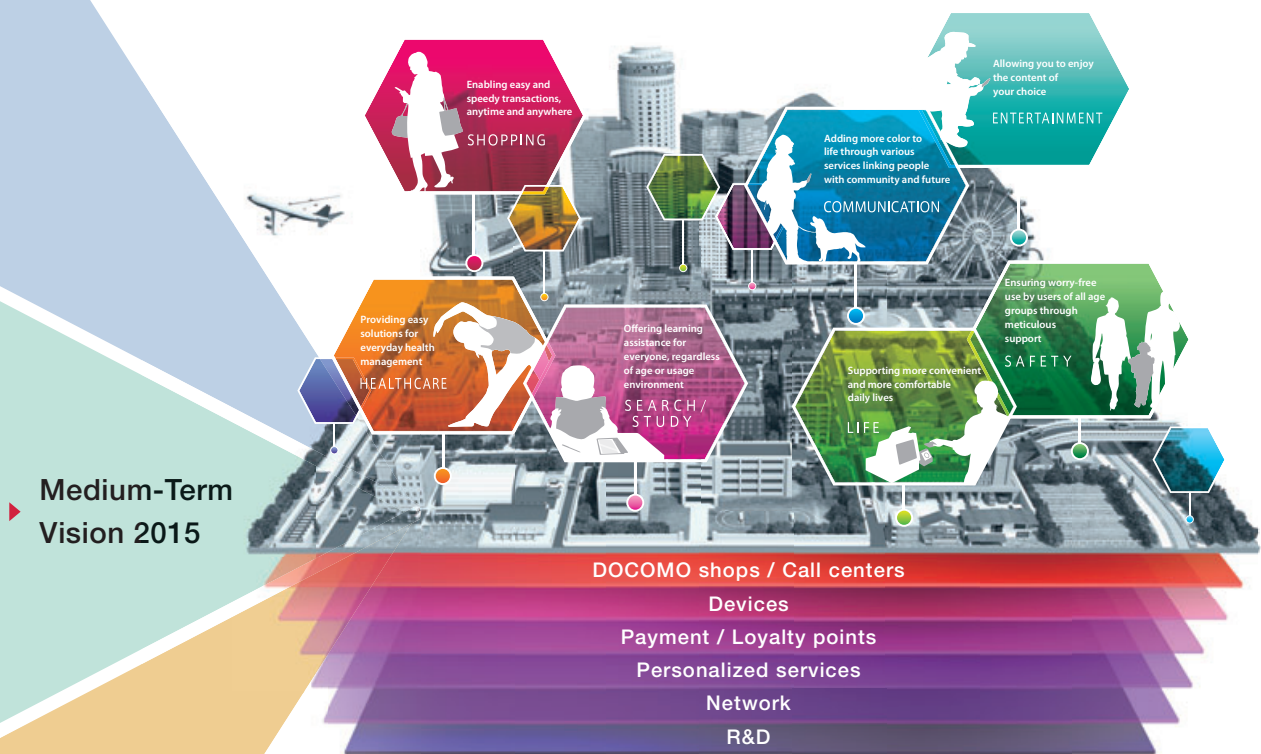
DOCOMO is bolstering its competitiveness through initiatives targeting the basic elements of mobile communications services—increasing communications quality and the appeal of handsets, expanding services, introducing new billing plans, and enhancing customer service.

Expanding operations in new areas

Aiming to achieve growth in service fields, DOCOMO has identified eight new fields of business that are closely related to communications, such as media / content, commerce, and finance / payment. In these fields, we are leveraging the advantages of mobile communications. Specifically, we are drawing on our ability to provide information that meets the needs of individual customers in real time. In this way, we are providing new services that extend beyond conventional mobile communications services, such as enabling comfortable lifestyles and recommending goods and services in line with individual tastes and preferences. By promoting usage of these services, we are aiming not only to secure revenues from new business areas but also to expand mobile communications revenues.

Become a Smart Life Partner

As a Smart Life Partner, we will help customers and their families find greater happiness in their lives and society.



DOCOMO aims to support the activities and lifestyles of individual customers by helping them to navigate the vast amount of information on the Internet. Through the smart-phones and other mobile devices that are integral parts of their lifestyles, we will strive to deliver information that could be essential for customers' daily lives at the appropriate time. As we move forward, we will pursue the full potential of mobile communications services as a Smart Life Partner. We will work steadfastly to support more fulfilling customer lifestyles that are characterized by the values of convenience, peace of mind, and enjoyment.

Key Performance Indicators and Expected Results

KPIs and Expected Results



Number of subscriptions

Build customer base
through further growth in
number of subscribers



ARPU

Expand Packet ARPU
Nurture Smart ARPU



New business areas

Increase revenues from areas
other than mobile communications
services through the creation
of new services



Customer
Base

Handsets

Sales Chann

Number of
subscription

Networks

Corporate
Customers

Overseas
Business

M2M

Education

Reputation
and Brand

Human
Resources

DOCOMO's Growth Strategy Initiatives



The revenue base for mobile communications services is determined by multiplying the number of subscriptions by the ARPU. We will go back to the basics and focus relentlessly on enhancing quality and raising customer satisfaction in the basic elements of our business—networks, devices, billing plans, and sales channels—thereby reinforcing our customer base. In addition, we will take steps to stop the decline in Voice ARPU through the provision of new billing plans. Aiming to raise Aggregate ARPU, we will also implement a variety of measures to increase the use of smartphones. Furthermore, we will expand our business fields to include new areas that transcend conventional mobile communications, such as healthcare and education. In these ways, we will strive to diversify our revenue sources and record growth.

Each of these initiatives is expected to make an independent contribution to our revenues. In addition, they will generate synergies through close interaction, such as one initiative being a precondition for another or one initiative driving the progress of another. Through this type of organic interaction, we will enhance our ability to propel our business strategies overall, realize our vision of becoming a Smart Life Partner, and enhance corporate value over the medium-to-long term.

Q&A

Q1	When will the growth strategy take effect? Also, what level of results does DOCOMO anticipate in the period until the strategy takes effect?
A	<p>We consider the number of subscriptions and the maintenance and expansion of Aggregate ARPU to be the foundation of our results, with operations in new business areas serving as our growth driver. Overall, our operations in new areas are already profitable, and in these new businesses we expect to see an operating income margin of 5% to 10% in the future. The operating environment will remain challenging, but in the short term we will focus on securing net additions, advancing the transition to smartphones, and steadily taking steps to position ourselves for profit growth over the medium term.</p>

New business areas will be the drivers of our growth. *dmarket*, which is one of those new businesses, had 7.69 million subscribers as of March 2014, and we are aiming for revenues of about ¥100.0 billion for *dmarket* overall in fiscal 2015. Services in new business areas are recording favorable growth, and in line with increases in the scale of these businesses we are looking for an operating income margin of 5% to 10% in the future.

In addition, we introduced the *docomo ID* in fiscal 2013, and we have established a system that enables the use of a *docomo ID* even by customers who do not have a DOCOMO communications subscription. Moving forward, we will provide pay services to a wider range of customers and accelerate the generation of profits in new business fields.

As for our results in the short term, we are focusing on increasing subscriptions, which strengthen our customer base, and on maintaining and expanding Aggregate ARPU through the promotion of packet communications use. We implemented a number of related initiatives in fiscal 2012 and 2013, such as expanding the LTE *Xi* network and adding the iPhone to our handset lineup. At the same time, we continued to implement Company-wide structural reforms. Compared with fiscal 2011, we have achieved cumulative cost reductions of ¥225.0 billion over the past two years. We expect our results to reflect these initiatives going forward.

For more information

- ▶ about *dmarket* see page 26
- ▶ about *docomo ID* see page 30
- ▶ about networks see page 20
- ▶ about handset lineups see page 22
- ▶ about cost reductions see page 57

Q2	Do customers actually want DOCOMO to be their Smart Life Partner? Also, how will DOCOMO be competitive in the content and commerce businesses?
A	<p>Our efforts to become a Smart Life Partner involve leveraging our strengths in mobile communications to help customers to enjoy more comfortable lifestyles and meet their daily needs. We believe that this concept applies to a wide range of people, including those who are already using smartphones and those who will start to use them in the future. We offer one-stop provision of everything from voice and data communications to platforms and content in an environment that also provides peace of mind. We also enable customers to settle accounts with a single payment. This ability to provide convenience and ease of use, which is the greatest point of difference between DOCOMO and competitors that specialize in content or commerce, is one of our most important advantages.</p>
	<p>The Internet has become an integral part of people's lives, not only as a means of communication but also as an indispensable source of information that supports people's daily activities, including moving from place to place, studying, working, and shopping. However, it cannot be said that everyone has mastered the use of the Internet. In particular, there is a surprising shortage of simple, convenient ways to meet needs that often arise in daily life, such as to learn, act, or communicate.</p>

Finding exactly what you want from among the vast amounts of information and goods available on the Internet. Registering on multiple specialized sites and then managing all of your passwords. Having no choice but to provide such information as your credit card number and home address. From the customer's point of view, these factors are often difficult, troublesome, and a cause of anxiety.

Our ability to eliminate these negative experiences is a key competitive edge for DOCOMO. For example, payment for services and purchases of goods can be made in conjunction with payment for DOCOMO usage charges, with no need to input credit card numbers or personal information. In this way, we can provide levels of convenience that cannot be matched by specialized content and commerce companies. Through mobile communications, DOCOMO has a vast range of touchpoints with its customers, and those touchpoints are one of the Company's strengths.

Q3

Does DOCOMO's growth strategy possibly overemphasize securing net additions and expanding market share among individual customers in Japan?

A

Individual customers in Japan are certainly the core of DOCOMO's customer base, but we are not in any way limiting our efforts to the consumer market. We are also focusing aggressively on the needs of corporate customers. Further, we are working to expand our global platform business through our relationships with overseas platform companies. Those relationships include both investments and alliances.

DOCOMO may have a strong image as a provider of services to individual customers, but its number of corporate subscriptions continues to grow and was up 18.6% year on year at the end of fiscal 2013. DOCOMO has been rated number one for five consecutive years in a survey of business customer satisfaction with mobile phone / PHS services* conducted by J.D. Power Asia Pacific. In particular, we have been highly evaluated for

our sales capabilities, centered on the provision of solutions to customers, and for our after-sales service, including problem resolution. In September 2013, we began to provide *Business Plus*, a package of cloud-based services for corporate customers, and, in January 2014, we released a smartphone for businesses. In July 2014, we increased the workforce in our corporate marketing departments by about 500 people through organizational reforms.

In corporate customer development, our ability to support overseas business initiatives plays a key role. Through alliances with overseas companies, we have established a system that makes it possible for customers to use the networks of telecommunications operators in 60 countries around the world. We are offering solutions to the management issues faced by our customers by achieving reductions in communications costs and facilitating the use of M2M through collaboration with local carriers.

In our overseas business development initiatives, we are expanding operational synergies through investments in and alliances with local communications carriers. We are also expanding our portfolio to the upper layer with the provision of high-value-added services. Through the billing platform for carriers offered by net mobile AG, of Germany, which we acquired in November 2009; the mobile content distribution platform of Buongiorno S.p.A., of Italy, which we acquired in July 2012; and the payment services platform of fine trade gmbh, of Austria, which we acquired in August 2013, we are taking steps to advance digital content distribution and finance / payment platform operations in Europe.

* 2013 Japan Business Mobile Phone Service Satisfaction StudySM, J.D. Power Asia Pacific 2009–2013. Based on a 2013 survey regarding providers of mobile phone / PHS services, which had a total of 3,129 responses from 2,465 companies throughout Japan with 100 or more employees (up to two responses from one company about firms who provide mobile phone / PHS services).

For more information

- ▶ about corporate customer development initiatives **see page 34**
- ▶ about M2M **see page 35**
- ▶ about overseas businesses **see page 33**