

Where we are heading

Kaoru Kato
President and Chief Executive Officer

I will focus my efforts on the achievement of our medium-term targets. In addition, my responsibilities as the leader of DOCOMO also include sowing seeds for long-term growth.

In fiscal 2014, we recorded declines in revenues and profits, with operating revenues of ¥4,383.4 billion and operating income of ¥639.1 billion. We know that our shareholders and investors are not satisfied with this performance, and as DOCOMO's president and CEO, I take these results very seriously.

I would like to point out, however, that the overall atmosphere inside the Company is far from negative. This is because we are already seeing signs of improvement. Our results in the past fiscal year are a consequence of the popularity of our new billing plan, which was launched as a bold, aggressive initiative. We have since established a plan especially for heavy data users, and we are taking steps to encourage the transition to larger data plans. We are now seeing signs of growth in revenues, and consequently,

despite the aforementioned results, the atmosphere within the Company is optimistic. We have carefully analyzed the reasons for our substantial decline in profits, and we will apply the lessons learned as we move forward. Nonetheless, I believe that we should not be overly cautious about taking bold, strong measures due to concerns about the outcome. Moving forward, the Company, and I personally, will continue to boldly take on challenges without fearing change.

To clarify our commitment, in October 2014, we announced medium-term targets for the three-year period from fiscal 2015 to fiscal 2017, and we promised our stakeholders that we would achieve those targets. Over the next two and a half years, the achievement of these targets will be my most important management challenge. I and the other company leaders have committed ourselves to this task.

I Overview of Business Development Initiatives Since I Became President

Three years have passed since I became president in June 2012. Over that period, I regret to say that the Company's results have failed to meet the expectations of our stakeholders. The mobile communications business has undergone tremendous change, including the migration from feature phones to smartphones, the market domination of the iPhone, a lack of clear differentiation between the services of competing companies, and the resulting intensification of competition among those companies. However, we recognize that some people believe that, in general, the pace of change at DOCOMO itself has been too slow, and this is the reason behind the three consecutive years of lower profits. There is no doubt that we could have chosen better approaches in certain areas, such as the timing of our offering of the iPhone and the introduction of the new billing plan, which became the primary reason for the decline in profits during the year. Nonetheless, since I became president I have consistently emphasized a focus on speed, and moreover, within the Company our employees are embracing new opportunities. These are key points in understanding DOCOMO.

The starting point of our approach to change is a desire to break new ground in the competition in the mobile communications industry. In other words, we would like to change the competitive stage. We would like to put an end to the unsound use of cash-back incentives for smartphone sales and place priority on long-term users. We also would like customers to enjoy more comfortable mobile communications services with a billing plan that is easier to use. On that basis, we will strive to provide new services, help customers to realize a Smart Life, and achieve growth. These concepts are driving our initiatives.

To return to a growth path, over the past three years we have implemented three major initiatives. The addition of the iPhone in September 2013 brought our handset selection into line with those of our competitors. In June 2014, we moved ahead of other companies with the introduction of the new billing plan, which allows customers to use voice services for a flat rate and enables family members to share packet charges. And in March 2015, we launched the "docomo Hikari" optical-fiber broadband service, thereby establishing a system for the comprehensive provision of communications services. These three initiatives have substantially increased our competitiveness, and their success can be seen in the improvement in three key

operational indicators. Specifically, we have improved net additions, rapidly decreased MNP port-outs, and reduced the churn rate. [See page 38](#)

The new billing plan will significantly change the revenue structure in the mobile communications business, and we are proud that we have led that change. Voice calls had previously been billed on a pay-for-use system, but the new billing plan offers voice calls on a flat-rate basis. In addition, packet communications volume had previously been set for each handset, but with the new plan we introduced a system for sharing packet communications volume among family members and multiple handsets. This measure increased family-unit subscriptions and enhanced benefits from the use of multiple handsets. The use of voice communications is declining, while packet communications have become the central mode of mobile usage, and the new billing plan was an appropriate response to this situation, as demonstrated by the fact that other companies quickly launched similar plans.

Moreover, in line with the theme of becoming a Smart Life Partner, we are providing a broad lineup of services that support the daily activities of our customers, including not only communications but also entertainment, education, shopping, and health maintenance. For example, the "dmarket" platform, which provides content and products through smartphones and tablets, is recording favorable growth in usage. With DOCOMO as content provider, we offer a variety of services to customers through "dmarket," and those services are provided without regard to whether or not the customer has a DOCOMO communications subscription. "dmarket" includes a wide range of services. In digital content, customers can watch films and TV dramas through "dTV" and read magazines on "dmagazine," and in direct marketing services, "dfashion" offers fashion items and "dshopping" provides a variety of items, centered on daily goods. "dmarket" has grown to a scale where it is competitive with various other services, and it now has a solid market presence. [See page 41](#)

In these ways, we have implemented a range of measures that contribute to reinforced competitiveness and create new growth opportunities, and as a result I am confident that we have been able to lay the foundation for growth. In regard to our medium-term targets, we promise our stakeholders that we will stand on this strong foundation and reverse the trend in our performance.

Medium-Term Targets Based on Changes in the Business Environment

Before I discuss the details of the medium-term targets and our initiatives for achieving those targets, I would like to discuss my view of DOCOMO's current operating environment.

As mentioned, we are implementing initiatives to achieve a recovery in our competitiveness. We took the lead with the introduction of the new billing plan, and competitors subsequently followed. As a result, Japan's three mobile telecommunications operators now provide services that are basically equivalent, with all three companies offering packages of handsets, network environments, mobile communications services, and optical-fiber broadband services. See page 9 DOCOMO's share of domestic mobile telecommunications subscriptions is currently more than 40%, and to sustain and increase this share we must create value that can only be provided by DOCOMO.

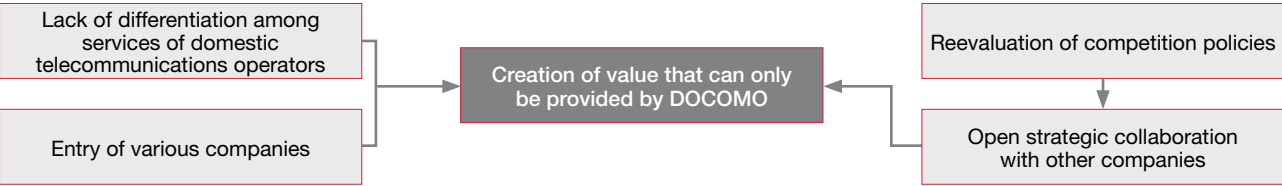
Other companies are now competing with mobile phone companies in the mobile communications industry, and the market presence of these new entrants is increasing. For example, Mobile Virtual Network Operators (MVNOs)* are recording growth in the number of subscriptions, and they have reached a certain operational scale as players in the mobile communications industry. See page 9 DOCOMO is approaching MVNOs from the perspectives of both competition and collaboration. There is no doubt that we must

enhance the originality of our services while maintaining a focus on future trends.

In addition, the reevaluation of the Ministry of Internal Affairs and Communications (MIC)'s competition policy for the mobile communications industry will substantially change DOCOMO's operating environment. DOCOMO's market share in terms of profits is high, and as a result we operate under regulations that prohibit us from taking certain actions. This means that we are constrained by a variety of restrictions that do not apply to our competitors. To provide a simple example, in regard to the MVNOs discussed above, under the current system, DOCOMO has an obligation to provide every MVNO with service under impartial, identical conditions. However, the market composition by share of subscriptions is changing due to intensifying competition among mobile telecommunications operators, and in this setting MIC has been reevaluating the competition policy since 2014. Due to this reevaluation, the system preventing the Company from taking certain actions is expected to be significantly eased. As a result, DOCOMO will be able to engage in strategic collaboration with other companies in other industries, including MVNOs.

* Operators that lease certain communications facilities from operators that have installed their own mobile phone network, including DOCOMO, and use the leased facilities to provide mobile phone services.

Responding to changes in the business environment



Path Toward Achievement of Medium-Term Targets

My mission over the next three years will be to reverse the trend in the Company's performance as we pursue two themes fostered by the changes in the business environment—"DOCOMO's originality" and "strategic alliances with other companies." In particular, the entire Company—including myself, other senior leaders, and all employees—is committed to ensuring that we do not disappoint our shareholders, investors, and other stakeholders a second time. I consider our medium-term quantitative targets, including

operating income of more than ¥820.0 billion, to be the minimum level of results that we must achieve.

To achieve these targets, we will implement initiatives in two areas: increasing telecommunications services revenues and creating value through co-creation in the Smart life business and Other businesses segments. For the latter, we will aim to be a "value co-creation company" that realizes growth by creating value through collaboration with partner companies.

Medium-term targets for income recovery

Item	Target
Operating income	¥820 billion or higher in FY2017
Smart life business and Other businesses segments	Operating income Over ¥100 billion in FY2017
Cost efficiency improvement	-¥400 billion or more compared with FY2013
Capital expenditures	FY2015-2017 ¥650 billion per annum or less
Shareholder returns	Enhance shareholder returns through dividend hike and share repurchase

Increasing Telecommunications Services Revenues

To increase telecommunications services revenues, we made efforts to change the competitive stage, which had produced results by the end of fiscal 2014. In addition, we will further increase our cost competitiveness by investing the resources generated by continued cost efficiency initiatives. At the same time, the new billing plan and "docomo Hikari" will serve as drivers as we strive to maintain and expand our customer base.

We launched the "docomo Hikari" optical-fiber broadband service in March 2015. For DOCOMO, this service will play a key role in expanding our points of customer

contact from the field of mobile communications services, which are principally used outside the home, to a more-comprehensive range of communications services, including those used in the home. In mobile communications services, we have taken steps to address the needs of users at the family level, such as promoting discount plans for families. In the first three months after the launch of the "docomo Hikari" service, we have already seen results in attracting new customers and enhancing customer retention. See page 40 We expect the contribution from "docomo Hikari" to increase in the future.

Growth in the Smart Life Business and Other Businesses Segments

In the Smart life business and Other businesses segments, in accordance with the concept of being a "value co-creation company," we will shift our focus from revenue growth to the generation of profits, and we will aim for operating income of more than ¥100.0 billion in fiscal 2017. We will utilize "+d," which refers to the utilization of DOCOMO's original business assets through collaboration with partners. This will be a key driver of growth in profits.

In regard to the utilization of our business assets, we have formed a companywide project team and conducted intensive discussions, starting with the identification of our hidden strengths not typically considered to be assets. One example is our customer base of over 65 million subscriptions. A number of factors work to further increase the value of our customer base. These include a detailed

database of customer information; our billing and payment platforms, which are directly connected to customers; and a widely used loyalty points program.

To date, we have utilized this foundation to support the introduction of services developed originally by DOCOMO, such as "dmarket." In the future, however, our approach will be to create new value by working in collaboration with partners to leverage assets that are helpful to our partners and their customers. We have already started concrete initiatives with partners targeting the "co-creation of added value." For example, in May 2015, we announced a partnership with Lawson, Inc., a leading convenience store company that has about 11,000 stores in Japan, and in June 2015, we announced the joint development of a product with TOMY Company, Ltd., a major toy manufacturer. See pages 28-29

Organizational Management Reforms

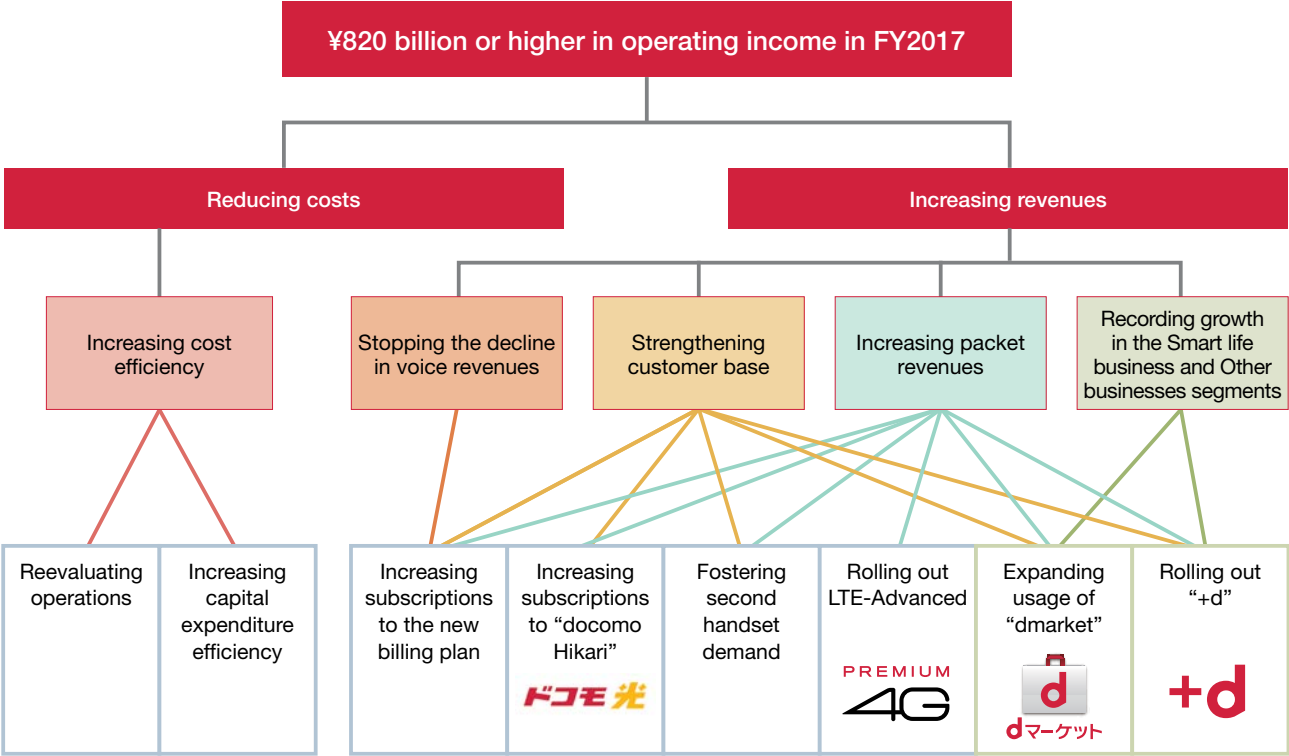
In conjunction with our business policies of targeting growth in telecommunications services revenues and fostering growth in the Smart life business and Other businesses segments, we have implemented two organizational reforms. First, from fiscal 2014 we have reorganized our business segments into the Telecommunications business segment, the Smart life business and the Other businesses segments, thereby clarifying management responsibility, especially for revenues and profits. In addition, on July 1, 2015, we implemented a reorganizing initiative that integrated our management and organizational system. [See page 72](#)

Under the new system, the newly established Sales and Marketing Division will be responsible for revenues and expenses in the mobile telecommunications business. The main responsibilities of the Sales and Marketing Division will be the formulation and advancement of strategies in the mobile telecommunications business, as well as initiatives targeting individual customers. In addition, the Broadband

Business Department was newly established as the organization that will implement overall promotion of the “docomo Hikari” business, including services and equipment. Furthermore, we expanded the role and capability of the Corporate Sales and Marketing Division, which will reinforce the generation of corporate business. The Smart-life Business Division, which was established in July 2013, will continue to plan and develop businesses that help customers to realize a Smart Life and will focus on achieving the target of operating income of ¥100.0 billion in fiscal 2017, which we consider to be the level of performance that we must achieve.

We have set clear targets and formulated business policies to achieve those targets. We have also created a new organization suitable for implementing those initiatives. Now, the only thing left to do is to take bold actions and achieve our targets.

Initiatives toward delivery of medium-term targets



Fiscal 2015 Targets and Initiatives

In fiscal 2015, the first year of initiatives directed at the medium-term targets, we announced that we will focus on achieving operating income of ¥680.0 billion. In telecommunications services, we will step up promotion of the new billing plan and “docomo Hikari,” and we will promote the transition to larger data plans for packet communications. In these ways, we will strive to realize gains in ARPU. In the Smart life business and Other businesses segments, we will work to expand our earnings base by fostering the uptake of “dmarket” and other services, accelerating the household use of original DOCOMO services through “docomo Hikari,” and reinforcing our corporate business. Furthermore, with our alliances with Lawson and TOMY as a starting point, we plan to achieve concrete results with “+d” initiatives targeting the “co-creation of added value.”

Cost efficiencies are the key to the achievement of the medium-term targets, and accordingly, we will strive to achieve a reduction in costs of ¥210.0 billion in comparison with fiscal 2014. However, cost efficiencies are not simply a means of generating profits. Rather, we are aiming to change our corporate culture so that everyone at DOCOMO is continually focused on profits, and to establish a corporate constitution that can generate profits no matter how competitive the environment. In fiscal 2013 and fiscal 2014, our internal cost awareness changed significantly. As we move forward, we need to question everything from the ground up, asking not only if certain operational procedures are necessary but also if the operation itself is necessary. We are determined to rigorously promote cost efficiencies until this type of questioning becomes a habitual practice throughout the Company.

Targeting Long-Term Growth in Corporate Value

With “+d,” we are also planning a range of initiatives aimed at resolving social issues, and we have already commenced services in the fields of agriculture, education, health & medicine, and retail. These initiatives have just gotten under way, and we are taking a long-term perspective on their contribution to revenues. In the past, DOCOMO has principally targeted individual customers. However, to foster long-term growth and gains in corporate value we think it is important to sow seeds for the future by taking a broader approach to our businesses and identifying new business opportunities in potential markets.

The provision of services that resolve social issues is also meaningful from the perspective of employees. Those employees engaged in these services can directly experience the results of their own efforts, and these services foster further pride in being an employee of DOCOMO. These initiatives also open up future business opportunities, and at the same time they contribute to developing employees who hold high levels of awareness, have broad viewpoints, and are not limited by past business practices. In this sense, I believe that these activities transcend the scope of conventional CSR activities.

In Closing

Moving forward, we will continue to focus on increasing corporate value over the long-term. In addition, I vow to keep our promises to our stakeholders over the short and medium term and achieve results that meet expectations. Through “+d,” we will pursue growth and strive to resolve social issues, and at the same time expand the potential of our businesses and ensure that we achieve a reversal of the trends in our revenues and profits. It is my belief that only when we achieve these goals will we be able to say, for the first time, that we are a public institution.

Over the next three years, I will do my utmost to ensure DOCOMO achieves its medium-term targets. I would like to ask for your support as we take steps to reverse the current trend and go on the offensive.

August 2015

Kaoru Kato

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President and Chief Executive Officer