

## Press Conference Announcing the Results for the Fiscal Year Ended March 31, 2009

### (Minutes)

Date: April 28, 2009 (Tuesday), 15:00-16:15

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#### **[Comments by Ryuji Yamada, President and CEO]**

##### **FY2008 Results Highlights and FY2009 Forecasts**

For the fiscal year ended March 31, 2009 (FY2008), the Company recorded a decline in revenues but an increase in income over the prior fiscal year: Operating revenues and operating income were ¥4,448 billion (down 5.6% year-on-year) and ¥831 billion (up 2.8% year-on-year), respectively.

For the fiscal year ending March 31, 2010 (FY2009), while operating revenues are expected to decrease 1.5% year-on-year to ¥4,382 billion, operating income, while hard to predict due to harsh economic conditions, is projected to be ¥830 billion, a level similar to the previous fiscal year. Free cash flows as of March 31, 2010 are forecasted to increase significantly to ¥380 billion yen, due mainly to progress in the collection of installment claims receivable.

##### **FY2008 Financial Results Summary and Key Factors**

In FY2008, we announced our medium-term vision, “Change and Challenge”, and took actions toward achieving the goals therein. These efforts have delivered fair results and we believe our operational performance was on the whole favorable. As a consequence, our operating income grew by ¥22.6 billion from the previous fiscal year to ¥831 billion, exceeding our full-year target of ¥830 billion.

Cellular services revenues, despite the positive factors of growth in packet ARPU and reduced churn rate, decreased by ¥357.7 billion year-on-year due primarily to a reduction in voice ARPU resulting from the expanded uptake of new discount services and our “Value Plan.”

Equipment sales revenues, on the other hand, increased by ¥60.3 billion despite a reduction in the total number of handsets sold, mainly because, as a result of the expanded adoption of the new handset purchase methods, the impact of EITF accounting rules, which require handset sales commissions to be deducted from revenues, became smaller.

Depreciation increased by ¥27.7 billion due to the accelerated depreciation of mova-related assets amounting to ¥75.7 billion. Had it not been for the accelerated depreciation, total depreciation for FY2008 would have declined by ¥48 billion from the previous fiscal year, as we have decreased our capital expenditures.

As a result of the aforementioned factors, operating income for FY2008 posted an increase of ¥22.6 billion over the previous fiscal year.

Non-operating loss for FY2008 increased to ¥50.5 billion, including the ¥37.4 billion loss recognized in FY2008/3Q which resulted from a decline in the values of the securities we own.

The largest factor behind this was the impairment loss recognized as a result of the swap of the shares representing our 10% in KTF, which we acquired for over ¥60 billion, for the shares of its parent KT, following the merger of the two companies. Most of this was attributable to the foreign exchange loss between the Japanese and Korean currencies rather than a decline in the value of the shares per se.

In terms of accounting, the valuation of a stock swap has to follow the same procedures used in the valuation of a sale of stock, and as such, we were required to report the value of our equity holding in Japanese yen. The value of Korean won had depreciated against the Japanese yen by more than 40%, which resulted in a non-operating loss of ¥26.3 billion. We regret that we recorded a year-on-year decrease in net income.

### **New Business Model**

The combined subscription count of the new discount services reached over 32.72 million, or approximately 60% of our total cellular subscription, as of March 31, 2009. As for the new handset purchase methods, the proportion of customers selecting our “Value Course” has remained at over 95%, and the total number of “Value Plan” subscriptions grew to 21 million.

### **Cellular (FOMA+mova) ARPU**

Our aggregate cellular ARPU for FY2008 dropped 10.2% year-on-year to ¥5,710. Aggregate cellular ARPU for the single quarter of FY2008/4Q was ¥5,390, down 10.9% compared to ¥6,050 for the same period of last fiscal year.

The primary reason for the decline in aggregate ARPU was a decrease in voice ARPU of ¥830 year-on-year. To provide a breakdown of this ¥830 decline, the impact of “Value Plan”, “Fami-wari MAX” and other new discounts accounted for slightly below 50%, decline in MOU also accounted for slightly less than 50%, and the remainder was due to optimization of billing plans and increased discount rates offered in proportion to the length of subscription. Aggregate ARPU for FY2009 is forecast to decrease 7.5% year-on-year to ¥5,280.

### **Churn Rate**

Our churn rate for FY2008/4Q grew slightly from the previous quarter due to active subscriber movement in the peak sales month of March, but the churn rate for FY2008 as a whole dropped to 0.50%, the lowest level in our corporate history. As for our acquisition performance of Mobile Number Portability (MNP) subscribers, the number of inflows outnumbered outflows in two straight months in December 2008 and January 2009, which we believe proves that our efforts to facilitate the adoption of our new business model and enhance customer satisfaction have steadily delivered results.

### **Total Handset Sales**

Due to the impact of new handset purchase methods and a general downturn in consumer spending, the total number of handsets sold during FY2008 decreased to 20.13 million units, down 21.8% compared to 25.74 million units for FY2007. Total handset sales for FY2009 are projected to decrease 2-3% year-on-year to approximately 19.7 million units.

### **Subscriber Migration to FOMA**

The migration of subscribers from mova to FOMA is an important issue. Toward the goal of raising FOMA subscriptions to 95% of the total by March 31, 2010, we will step up our efforts to migrate subscribers while gaining their understanding.

## **FY2009 Results Forecasts Highlights**

Operating income for FY2009 is estimated to be ¥830 billion, about the same level as FY2008. Voice revenues are expected to decline significantly by ¥265 billion from the previous fiscal year due to a projected increase in the uptake of “Value Plan” and other new discount services. Of this ¥265 billion decline in voice revenues, the projected reduction in basic monthly charge revenues accounts for ¥184 billion. We will endeavor to make up for the decline in voice revenues by growing packet revenues, which are expected to increase ¥52 billion, cutting distributor commissions by ¥66 billion and achieving savings on network-related costs and other general expenses, and ultimately secure an operating income of ¥830 billion. We generated ¥831 billion in operating income for the fiscal year ended March 31, 2009, and will strive to achieve a higher number for FY2009.

## **Principal Actions Planned for FY2009**

### **FY2009 Business Operation Policies**

We position FY2009 as a year to take steadfast steps toward achieving our medium-term vision, while working to further improve customer satisfaction.

During this fiscal year, we will reinforce our customer-loyalty programs to express our gratitude to our valued customers. We will also “build the foundation” for future growth, implementing various initiatives toward our goals of “No. 1 rating in customer satisfaction within FY2010” and “over ¥900 billion in operating income in FY2012.” The following are specific actions we plan to implement in FY2009 to further enhance customer satisfaction, boost customers’ usage, create new revenues sources and improve our cost efficiency. An explanation on important Corporate Social Responsibility (CSR) programs is also provided.

### **Improvement of Customer Satisfaction**

To reinforce our after-sales support, we plan to launch “Mobile Phone Checking Service” to provide free basic after-care, including checkups, minor repairs and consulting by professional staff at docomo Shops. Furthermore, docomo Premier Club will offer members the option of receiving a free portable charger, which can be used as an auxiliary battery after charging power from power supply, in addition to the ongoing battery-pack giveaway option.

As part of our customer satisfaction enhancement initiatives, we decided to revise our billing plans—not just to cut prices, but to have our customers use our services more comfortably, free of worries about their monthly payment. The minimum monthly rate of “Pake-hodai double” will be reduced to ¥490 from the previous minimum of ¥1,029, while maintaining the maximum at ¥4,410, so that a broader range of customers can enjoy our data services without anxieties about their monthly bills. Similarly, the minimum rate of flat-rate data plan for smartphones, “Biz-hodai double,” will also be reduced. With respect to “Flat-rate Data Standard” for users of data card for PC access via mobile networks, we will introduce two tiers of flat-rate data plans.

As for other customer-loyalty enhancement programs, we will expand the free mail communication service between members of “Fami-wari” and “Office-wari” group discount plans, to allow customers to send video and other large-capacity mail attachments free of charge (previously large attachments were not

included in the free mail service between group members). We will also continue our program to dispatch field staff within 48 hours after setting up an appointment to respond to customers' requests for area quality (reception) improvement. During FY2008, we conducted approximately 13,000 field checks under this program. To further improve indoor area quality, we are planning to introduce new repeater equipment compatible with FOMA Plus areas.

To offer better convenience to overseas travelers and Japanese living abroad, we plan to open new service counters in London and New York during this fiscal year.

The total budget to be allocated for the above customer satisfaction enhancement initiatives is roughly ¥40 billion.

### **Actions to Expand Usage**

We believe expansion of data usage is indispensable for us to achieve the goals presented in our medium-term vision. To this end, advancement of handset functionality and enrichment of content plays an important role. We therefore plan to install "Inline FLASH" technology in some of our summer model handsets to enhance their expressiveness. In the area of content, we would like to expand the adoption of video, which has so far been used primarily for entertainment applications, to other fields, such as tourism, navigation or medical services. In the field of entertainment, we intend to promote BeeTV service, which is provided through the collaboration with AVEX, and other new services.

To expand usage, we believe data communication market via smartphones or PC access offers the potential for growth, and would like to expand our product lineup in this area.

### **Personalization**

The total number of "i-concier" subscriptions topped 1 million on April 11, 2009, and we aim to grow the number to over 3.8 million by March 31, 2010. While working to enrich the content portfolio of "i-concier" by adding more regional information, we plan to enhance its capabilities by linking allowing for contents to be transmitted based on location. This functional upgrade is planned to be incorporated in some models to be released in the winter of 2009 and subsequent models.

### **Social Support**

We aim to facilitate the development of social support services, defining health care/medical service, environment/ecology and finance/payment businesses as our primary near-term target. Our goal is to launch some of these new businesses within FY2009.

### **Converged Services**

We are planning to start a number of new services using Femto cells in the second half of FY2009 and beyond. While this requires some additional functions to be embedded in handsets, we will work to steadily expand the adoption of converged services.

### **Investment/Alliances**

We would like to explore opportunities for investment and alliances in fields other than social support businesses where mobile communications can make great contributions. Our recently announced alliance

with Oak Lawn Marketing, Inc. was formed with the aim of delivering synergies between TV shopping service and mobile communications. We have also established a joint venture with AEON Group, which will engage in mobile commerce and mobile CRM business. Going forward, we will continually work to expand our business fields leveraging investment and alliances.

### **International Businesses**

The revenue from our international business, comprising international dialing and roaming revenues, dividend income and revenue contribution from overseas affiliates, is expected to grow to ¥100 billion in FY2009. However, the pace of growth of international roaming revenues has slightly slowed recently due to the economic downturn.

### **Corporate Sales**

We will further reinforce our efforts to capture the growth in the enterprise market by strengthening our organizational structure and other measures. Our target is to grow the number of our corporate subscriptions to 7 million by March 31, 2010.

### **Credit**

The number of DCMX subscriptions reached 8.98 million and the number of iD payment terminals installed grew to over 410,000 units as of March 31, 2009. In FY2009, we plan to strengthen our promotional activities to boost the usage of mobile credit subscribers by increasing the number of merchants that offer higher point accumulation rate. Through these initiatives, we aim to expand the size of our total shopping transactions for FY2009 to approximately ¥800 billion.

### **Improvement of Cost Efficiency**

We will work unceasingly to improve our cost efficiency. Particularly, we will aim to finance our planned customer satisfaction enhancement initiatives by improving our cost efficiency.

As for network-related costs, depreciation for FY2008 increased temporarily as a result of the accelerated depreciation of mova-related assets. Without this, our total depreciation would have posted a year-on-year reduction. For FY2009, we aim to achieve a reduction of ¥101.5 billion in network-related costs (adjusted for accelerated-depreciation) by cutting base station construction costs, streamlining our network configuration and reducing communication network charges.

Meanwhile, we will also seek to cut our general expenses by ¥40 billion in FY2009 compared to the prior fiscal year, by reviewing our business processes and improving our operational efficiency through the integration of former regional subsidiaries. In addition, to achieve an optimal allocation of human resources, we plan to streamline the staff organization at both the headquarters and regional offices and place employees in positions in direct contact with customers and other growth areas.

### **Network Evolution**

We plan to introduce LTE in 2010. With respect to the plans for FY2009, we plan to commence the roll-out of HSPA from some limited areas around Tokyo in June, and will strive to further enhance our area quality.

## **Capital Expenditures**

Our capital expenditures for the fiscal year ended March 31, 2009 declined to ¥737.6 billion compared to ¥934.4 billion for the fiscal year ended March 31, 2007. CAPEX for the current fiscal year ending March 31, 2010 is estimated to be ¥690 billion. The principal expenditure items include the expansion of FOMA HIGH-SPEED area coverage aimed at enhanced customer satisfaction, and other investments for improved quality and area coverage.

## **Corporate Social Responsibility (CSR) Activities**

As part of our efforts to further strengthen CSR initiatives, we plan to respond to the growing requests for our “Mobile Phone Safety Class” seminars held at elementary and junior high schools, especially following the introduction of filtering (access restriction) function for children. During FY2009, we plan to hold seminars at approximately 6,000 schools, out of a total of some 33,000 elementary and junior high schools across Japan, and will provide a DVD containing safe usage tips (production of which is expected to be completed in June 2009) to those schools where we cannot hold seminars within this fiscal year.

As for our “DOCOMO Woods” forestation campaign, we plan to complete its expansion to all prefectures of Japan within this fiscal year.

We established an energy-saving technology verification center in Tachikawa, Tokyo, which conducts technical verifications on reduced power consumption and other benefits achieved through the use of efficient air conditioning equipment and direct-current servers. By reinforcing the activities of this verification center, we will continually work to reduce our power consumption.

## **Actions for Safety and Security**

We believe that the safety and security of our service in the event of an emergency is considered an important element that affects customer’s satisfaction. To address this issue, we have deployed mobile base stations and mobile power supply vehicles across Japan. This fiscal year, we are planning to add 5 more units of mobile base station vehicles equipped with a satellite entrance, and will have a total of 9 units across Japan.

As part of our safety/security initiatives, we have started offering filtering service to all users aged below 18 as a default. We are also planning on some functional enhancements for the filtering service.

## **Return to Shareholders**

With the continued instability in stock markets following the global financial crisis, requests for dividend hikes have been mounting as a direct way to return profits to shareholders. Providing adequate returns to shareholders has always been considered one of the most important aims of our business. Taking into consideration our prospects of securing a stable operating income of ¥830 billion and the requests from shareholders, we plan to increase our dividends for the fiscal year ending March 31, 2010 by ¥400, to ¥5,200 per share from the current level of ¥4,800 per share. This is expected to raise our dividend payout ratio to 44%. Going forward, we intend to maintain the highest level of payout ratio among the large-scale companies in Japan. With respect to share repurchases, after a comprehensive consideration of the limitation in the number of shares in the market and other factors, we have decided not to continue the buy-back

program at the same level as before based on an authorization by a resolution at the general meeting of shareholders, but instead to carry out share repurchases more flexibly through a resolution by the Board of Directors.

In FY2009, we will work to enhance customer satisfaction while expressing our gratitude to the 54 million subscribers who use our services. At the same time, we will also “load the pipeline” for various new services in growth areas toward achieving our goals set forth in our medium-term vision.

#### **[Questions and Answers]**

Q: Please explain the background how you arrived at the FY2009 operating income target of ¥830 billion.

A: We are planning to spend a total of some ¥40 billion for customer satisfaction enhancement initiatives. Without these initiatives, our FY2009 income forecast would have been higher than the FY2008 results. Furthermore, FY2009 is the year in which we need to “build the foundation” toward the goals of our medium-term vision and we plan to allocate a budget of ¥20-30 billion for these measures. We set our full-year operating income target for FY2009 at ¥830 billion in view of these impacts.

Q: According to the results for FY2008/4Q, you recorded a year-on-year decline of 54% in operating income and 70% in net income. Please explain the reasons behind this drop.

A: The primary reason for the decrease in income in FY2008/4Q was because we spent a considerable amount of expenses in the peak sales months of February and March 2009 and to facilitate the migration of subscribers from mova to FOMA. Our distributor commissions decreased significantly in the first three quarters of FY2008, mainly because the results were based on different handset sales methods. However, in a comparison between the FY2008/4Q and FY2007/4Q (which allows an “apple-to-apple comparison” based on the same handset sales methods), our expenses for FY2008/4Q were in line with the same period of last fiscal year. Another factor affecting the increase was the accelerated depreciation of mova-related assets. A considerable amount was recorded for the accelerated depreciation of PDC-assets in FY2008/3Q, but we have recognized additional expenses for the write-down of asset retirement obligations related to the retirement of PDC facilities

Q: You mentioned that impairment of KTF shares accounted for ¥26.3 billion out of the total non-operating loss of ¥50.5 billion. Please explain the remaining loss.

A: We reported non-operating loss totaling ¥37.4 billion in our FY2008/3Q results. Although we cannot disclose the individual names of the companies, the loss resulted from impairment of values in the securities we own, including some media companies, software and middleware companies and handset software manufacturers. The ¥37.4 billion non-operating loss we reported as at the end of FY2008/3Q included ¥14 billion in foreign exchange loss between the Japanese and Indian currencies. Due to our decision to invest in India’s Tata Group back in November 2008, we had purchased Indian rupees worth ¥250 billion for this transaction. The value of Indian rupee dropped temporarily toward the end of December 2008, which resulted in the foreign exchange loss of some ¥14 billion yen reported in our FY2008/3Q results.

However, when we finally made the payment in March 2009, the value of Indian rupee had already recovered to the previous level, and therefore, there was almost no impact on a full-year basis. In

summary, although there were fluctuations after reporting a ¥37 billion loss for FY2008/3Q, the primary factors that resulted in the ¥50.5 billion full-year non-operating loss were the ¥20+ billion loss relating to the KTF transaction and the impairment of other securities we own.

Q: How long do you think the profit-boosting effect owing to the change in handset sales method and the resulting savings on distributor commissions will last?

A: Theoretically, we believe the profit-boosting effect resulting from the reduced distributor commission payments will continue for another 1-1.5 years. However, the reduction in distributor commission is affected both by the decrease in the total number of handsets sold and the expanded adoption of the new handset sales methods, and we cannot give you a clear indication as to the impact on reduced distributor commission attributable to each of these factors separately. On the other hand, our “Value Plan” provides subscribers with discounts on basic monthly charges. As its total subscriptions grow from 20 million to 30 million, its negative revenue impact is likely to outsize the profit-boosting effect in FY2009.

Q: Please explain your LTE roll-out plans and the outlook of capital expenditures for the next 2-3 years.

A: We are currently planning to introduce LTE from FY2010 through overlaying, as we did with our W-CDMA network. Using an overlay approach, we would like to expand the coverage to the major cities across Japan over the next 4-5 years. The total CAPEX required for the 5-year period to cover all major cities is estimated to be around ¥300 billion. We do not intend to increase our annual CAPEX from the current level. As we make a transition in investment from HSPA to LTE, we will aim to maintain our total CAPEX per annum at a level below ¥700 billion.

Q: Please comment on your financing plans for FY2009.

A: Our adjusted free cash flows as at March 31, 2010 are estimated to be ¥380 billion. Based on the presumption that we achieve a steady progress in the collection of installment claims receivable, we believe we can expect free cash flow generation in the range of ¥400-500 billion in the subsequent years. Therefore, we do not foresee any sizable financing needs for the time being. This could vary, however, depending on the opportunities of large-scale foreign investments or other investments for future growth. With respect to specific financing plans, refinancing in view of the scheduled redemption of 10-year corporate bonds worth ¥100 billion in 2011 and 2012 is planned.

Q: Please explain how you arrived at the decision for a ¥400 increase in dividends and your share buy-back policies for FY2010.

A: Our basic policy is to continue stable dividend payments. While it is difficult to comment whether we can decide on another dividend hike in the near term, we will look into the possibility to further raise our dividends over the medium term, keeping an eye on the progress of achievement of our operating income targets presented in our medium-term vision. The ¥400 dividend increase for this fiscal year was decided as a transit point toward this goal.

As for share buy-back, we have repurchased shares worth over ¥100 billion per year over the last few years. Going forward, however, we do not think we will continue the program in a size exceeding ¥100



billion. We will decide on the details in the future.

Q: Do you believe your churn rate will drop even further?

A: Our goal is to lower our churn rate to around 0.4% from the current level of 0.5%. Because forced churns (0.1%) and natural cancellations (expiration of contracts) (0.2%) account for 0.3%, the number of real churns if we successfully reduce the churn rate to 0.4% would be only slightly over 0.1%. We will implement various initiatives aimed at enhanced customer satisfaction to lower our churn rate even further.

Q: Your total handset sales dropped significantly by 21.8% year-on-year. What do you think of this?

A: Until the third quarter of FY2008, we had anticipated a decline of more than 25% year-on-year in total handset sales, but it recovered considerably in FY2008/4Q.

We believe customers who had refrained from purchasing a new handset at last made a move in the spring. In view of this trend, only a slight decline is expected in our FY2009 handset sales forecast. Although we anticipate some reluctance against purchasing a new handset among some consumers due to uncertainties over the economic outlook, we will endeavor to minimize the decline and secure a satisfactory level of sales by offering attractive products.

Q: Manufacturers will continue to face difficulty if the number of handsets sold decreases even further. Are you planning to take any countermeasures, such as extending the period of development or reducing the variety of models?

A: So far, we have released new models at intervals of six months. In the future, however, we plan to extend the development period of some models to 1-1.5 years, except for the PRO series, PRIME series and other advanced models, which will continue to be released in a 6-month cycle. Therefore, number of lineups that will adhere to the 6-month release cycle is expected to decrease in the future. Our 2009 summer new model presentation is scheduled on May 19, 2009, and the number of models to be unveiled on that occasion will be slightly less than before. We are also working together with manufacturers for the adoption of common components, improvement of software development efficiency, and enhancement of handset competitiveness through the use of Operator Pack.

Q: I heard handsets equipped with Operator Pack will become available from the 2009 winter models. Please comment on the progress of development.

A: Development of Operator Pack is achieving favorable progress, and we will begin its installation from the winter models of FY2009.

Q: What are your views concerning the trend of adopting open applications, such as i-Phone, Windows Mobile and Android?

A: The adoption of open application has become a major global trend.. We would like to actively incorporate open applications through the development of smartphones mainly, but also Android- and Microsoft-compatible handsets. Although we have i-mode OS, we do not think we need to limit ourselves to only one or the other, and believe i-mode and open applications can coexist to serve

different needs, depending on the usage style of each customer.

Q: How do you view the issue of open platforms? Has there been any progress in this discussion?

A: With respect to the issue of open platforms, a study group under the Ministry of Internal Affairs and Communications is discussing the possibility for credit card companies to provide the proxy bill collection function similar to that of i-mode. We in principle do not see any problems in adopting open platforms so long as security is guaranteed, but so far we have not reached any decisions regarding concrete business plans. Because the development of system entails costs, we believe various players are currently performing studies concerning the potential number of customers and viability of such business.

Q: Please elaborate on DOCOMO's views regarding the rules for setting the interconnection charges currently discussed in the Telecommunications Council and other forums.

A: Interconnection charges are set to settle the expenses between telecommunications carriers. DOCOMO and au are designated as Type II telecommunications carriers and report the calculation methods of our interconnection charges to the Ministry of Internal Affairs and Communications. Other carriers are not obliged to disclose their calculation methods. Interconnection charges are calculated by adding up various costs, but the rates vary by each carrier. We have been requesting to standardize the basic calculation principles to ensure transparency. If a transparent standardized calculation method were applied, then even if there were a slight gap in the rates, such gap would be a result of differences in the costs of network and other circumstances of each carrier, which would be fine with us.