

Press Conference Announcing the Results
for the First Six Months of the Fiscal Year Ending March 31, 2010
(Minutes)

Date: October 30, 2009 (Friday), 15:00-16:00

[Comments by Ryuji Yamada, President and CEO]

FY2009/1H (1Q+2Q cumulative) Financial Results

For the first six months of the fiscal year ending March 31, 2010 (FY2009/1H), the Company recorded a decline in both operating revenues and operating income over the prior fiscal year. Operating revenues and operating income were ¥2,145.8 billion (a year-on-year decrease of 5.4%) and ¥485.2 billion (a year-on-year decrease of 15.9%), respectively. The progress of FY2009/1H operating income vis-à-vis our full-year forecast of ¥830 billion was in line with our expectations at 58.8%. This compares to 69.5% for the same period of the prior fiscal year which was higher because a large amount of income was generated in the first half of the prior fiscal year due to the income boosting effects of (a) the introduction of a new handset sales method in the previous fiscal year, (b) the accelerated depreciation of mova-related assets, and (c) other factors.

FY2009/1H (1Q+2Q cumulative) Results Highlights

The three key factors that affected our financial results were the “Value Plan”, “Pake-hodai” flat-rate subscriptions and total handset sales.

“Value Plan”

The subscription count of “Value Plan” increased from 12.96 million as of September 30, 2008 to 27.03 million, or 49% of our total cellular subscriptions, as of September 30, 2009. The expansion of “Value Plan” subscriptions on one hand contributes to reducing our churn rate, but on the other hand it leads to a decline in voice ARPU and voice revenues as it offers a 50% discount of basic monthly fees.

“Pake-hodai”

The staff at docomo Shops and other retailers say they find it easier to recommend customers to join “Pake-hodai double” two-tier flat-rate package following the downward revision of its minimum rate to ¥390/month. A large number of customers have already joined the flat-rate package, and its subscription rate rose to 47% of total FOMA i-mode subscriptions. This subscription rate of 47% was originally our target set for the full year, but we have already achieved it in the first half. The expansion of flat-rate subscriptions resulted in a growth in packet revenues.

Total handset sales

The total number of handsets sold in FY2009/1H decreased by approximately 1.46 million units year-on-year to 8.81 million units. Accordingly, we revised our full-year handset sales forecast, which I will explain later in the presentation.

Meanwhile, the total subscription count of “Fami-wari MAX 50” and other new discount services increased to over 34.50 million, or 63% of our total subscriptions. In addition, subscribers using our service in excess of 10 years of continuous use are given a 50% discount on basic monthly charges if they also subscribe to the “Family Discount” package together with the “New Ichinen Discount” plan (which offers incremental discount rates in proportion to their length of subscription). Currently, there are some 7 million subscribers who fall under this category. This means a total of 34.5 million + 7 million subscribers, or 76% of our total subscribers, are already receiving a 50% discount on their monthly charges. When this is taken into consideration, we believe the pace of decline in voice ARPU will slow in the future.

ARPU trends

Our aggregate ARPU for FY2009/1H was ¥5,430, down ¥440 compared to the same period of the prior fiscal year. Voice ARPU posted a year-on-year decline of ¥520. To provide a rough breakdown of the ¥520 drop, the introduction of “Value Plan” accounted for approximately ¥200, the decline in MOU approximately ¥200, and other factors approximately ¥100. Packet ARPU, on the other hand, grew by ¥80, or 3.4% year-on-year, from ¥2,360 for FY2008/1H to ¥2,440 for FY2009/1H. In view of this situation, we revised our full-year forecasts. Our full-year voice ARPU forecast was revised downwards by ¥20 from previously ¥2,860 to ¥2,840. On the other hand, packet ARPU forecast was raised to ¥2,460 from the previous forecast of ¥2,420. As a consequence, our full-year aggregate ARPU forecast was revised upwards from previously ¥5,280 to ¥5,300.

Churn rate

Our churn rate for FY2009/1H was 0.45%. We successfully maintained our churn rate low for two straight quarters from FY2009/1Q. There were some opinions expecting an increase in the number of churns in September because some 6 million subscribers to a new discount service they joined 2 years ago were coming up for renewal, but as it turned out, the number of subscribers who actually cancelled their contracts was limited to 1% of the 6 million. The churn rate for the second quarter of FY2009 was 0.46%.

Total handset sales

The total number of handsets sold in FY2009/1H was 8.81 million units. In view of the continual decline in handset sales, we decided to make a downward revision to our full-year sales forecast from the initial projection of 19.7 million units to 18.2 million units, which equals a 10% drop from the annual sales recorded in the previous fiscal year. Despite the 14% year-on-year decline in the first half, on a full-year basis, we are projecting a decline of only 10%. This is because we expect many of those customers who purchased a handset in the winter-spring of 2007-2008—when our sales peaked following the release of the 905i and 705i series handsets—will replace their handsets during the second half of this fiscal year, which we believe will stabilize our sales.

Market share of net additions

Our market share of net additions for FY2009/1H was 27.3%. In the month of September, there was a temporary rise in the number of outflows due to the churn-out of subscribers who decided not to roll over their new discount service contracts, but both the number of MNP outflows and churns stabilized in October.

Subscriber migration to FOMA

The number of subscribers who migrated to FOMA reached 590,000 in the second quarter and 1.4 million for the first half of FY2009. We made a steadfast progress toward the target to grow the number of FOMA subscriptions to 95% of our total cellular subscriptions by March 31, 2010, and we have achieved 60% of this full-year target as of September 30, 2009.

Revised FY2009 full-year forecasts

While we made no changes to our operating income forecast of ¥830 billion, due to the projected reduction in equipment sales revenues and expenses resulting from the revision to our handset sales forecast and other factors, we made a downward revision to operating revenues and operating expenses forecasts. Adjusted free cash flow forecast was also revised downwards by ¥200 billion.

Progress of medium-term vision and future initiatives

Improvement of customer satisfaction

In FY2009/1H, as part of our field staff dispatch program, in which we dispatch our field staff in

principle within 48 hours after setting up an appointment, our staff made 29,000 visits to customers. This program is well received by customers, and 42,000 visits have been made on a cumulative basis following its launch in 2008. Some 80% of these cases resulted in an immediate improvement of area quality. We set a target to receive the No. 1 rating in customer satisfaction survey in FY2010, and we were already awarded this rating for the enterprise sector as early as in September 2009.

Expansion of packet usage

We are seeking to make progress in promoting the use of packet services, with the aim of establishing a reputation for outstanding video services. The total subscription count of “BeeTV” service topped 800,000 on October 12, 2009, following its launch in May 2009. We encourage customers to join the flat-rate packet access service when we recommend video services to customers. Initially, we set a target to grow the flat-rate subscription rate to 47% by March 31, 2010, but since we already achieved this in September 2009, we revised our full-year target to 55%, and we are committed to making further efforts to achieve this new goal.

Service personalization

As of September 30, 2009, the total number of “i-concier” subscriptions reached over 2.3 million, showing a steadfast progress toward our full-year target of 3.9 million. Our aim is to grow its subscription count to 12 million by March 31, 2013. The number of content compatible with “i-concier” exceeded 400, and we plan to add a GPS-linkage function from the winter of this year.

Social support

We plan to install atmospheric data sensors to some 360 base stations in FY2009 to deliver pollen and other environmental information. This service will be deployed in full scale from FY2010.

Converged services

We are considering starting a service that uses our Femtocell BTS equipment from November 2009. By installing a Femtocell BTS in a user’s home, a stable communications environment can be realized because users can have a dedicated base station for their own home. In addition, it enables the provision of a presence detection service that is linked to a user’s presence data that is detected by the Femtocell BTS. In addition, convergence with various home appliances can also be realized.

New handset lineup

The cumulative sales of the four new handset series, DOCOMO “STYLE”, “PRIME”, “SMART” and “PRO” series, reached over 10 million. Of the four series, the “STYLE” series account for the largest proportion in the total sales.

PC data communication devices

We reviewed the rates of our flat-rate billing plans for PC-based data access in July 2009, and lowered the minimum rate. Through the use of our docomo Shops and sales channels, the sales of our data communication devices have been growing favorably.

Smartphones

Because we believe that making a large array of applications available to users is important to expand the uptake of smartphones, we decided to create an applications distribution platform for open OS devices within this fiscal year. We also plan to start free distribution of “Windows Mobile 6.5” update software for “docomo PRO series T-01A” handsets in December 2009.

LTE

We are making steadfast progress toward the launch of LTE scheduled for December 2010, and started the development of a communications platform for terminal devices.

Global expansion

Our Indian investee partner, TTSL, acquired the largest market share of net additions in August 2009, posting 3.42 million net additional subscribers in one month. Currently, TTSL offers GSM service in 10 circles out of India's total 22 circles. With respect to industrialized markets, we intend to pursue platform businesses by leveraging our know-how. We launched a TOB for net mobile AG, a company engaged in the platform business in Germany.

Progress of medium-term vision

The biggest challenge for our future business management is the growth of packet ARPU. Unfortunately, the downtrend in voice ARPU is likely to continue. However, we are striving to boost the packet ARPU to halt the decline in aggregate ARPU and return it to the growth track in FY2011. Specifically, we intend to achieve this by further growing the subscriber base of our flat-rate packet access service. We believe we can reverse the downtrend in aggregate ARPU by growing the subscription rate of "Pake-hodai double" and other flat-rate packages to 70% of our total subscriptions, and have over 50% of the total flat-rate users consume packets up to the monthly upper limit of the two-tier flat-rate plan. Our target is to raise the flat-rate subscription rate from 36% as of March 31, 2009, to 55% as of March 31, 2010, and even to 70% by March 31, 2013.

Cost reduction

We plan to reduce our costs by ¥130 billion in FY2009, and ¥200 billion in FY2012 compared to the level in FY2007.

I am very pleased that all employees share the importance of improving customer satisfaction, and our various loyalty-building initiatives have begun to be appreciated by our customers, which has led to the reduction of our churn rate. We are now sowing the seeds toward the realization of our "Challenge" items in our medium-term vision in FY2012. Some services like "i-concier" are beginning to sprout, while others have already grown to a young tree. However, we are only halfway through our journey, and we are committed to continuing our endeavors toward the achievement of our goals.

[Questions and Answers]

Q: You revised your full-year adjusted free cash flow forecast. Please give us a breakdown.

A: We made a downward revision to our adjusted free cash flow forecast as of March 31, 2010 from initially ¥380 billion to ¥360 billion, because, while our income level remains unchanged on the whole, we factored in some overseas investments which had not been included in the initial plan. For example, we invested approximately ¥5 billion in PacketVideo Corporation, and we also reflected in the new forecast the ongoing TOB for a German company, which is also estimated to cost a few billion yen.

Q: According to your explanation on the outlook for the full-year operating income, you said you will appropriate some ¥19 billion yen to strengthen your sales activities. Do you plan to use this amount to finance the discounts on your products?

A: The ¥19 billion increase in operating expenses is the total of various factors, including, among other things, additional distributor commissions, which may end up being used to finance discounts, other expenses required in our various transactions with the distributors, and the expenses to reinforce our service centers to increase the sales of smartphones.

Q: Your total handset sales have decreased significantly over the last three years. What are your views on the medium-term outlook from the next fiscal year?

A: We believe the state of the economy has somewhat affected our total handset sales. It dropped by approximately 20% in FY2008 compared to FY2007, and by approximately 10% in FY2009 compared to FY2008. The general downtrend is expected to continue in FY2010, but we believe the decrease will be smaller.

Q: How do you assess the importance of handset sales for the achievement of your medium-term vision?

A: For the provision of new services, a new handset will be required. The drop in handset sales is therefore not a desirable development for us, and we would like to minimize the decline by offering attractive products.

Q: What are your views on the possibility of customers “porting out” your service and joining other carriers, due to the impact of the “Fami-wari MAX 50” and other new discount service contracts coming up for renewal, or the completion of installment payments of handsets purchased under the new scheme introduced in conjunction with the release of 905i and 705i series? Please also comment on the outlook of churn rate.

A: The number of new discount service subscriptions grew by slightly less than 6 million per month in August and September 2007 immediately after its service launch, but the pace of growth slowed to 2-3 million per month in October and November 2007. Therefore, even in the event that we continue to record churns at the same percentage out of the subscribers who fall under the above category in the subsequent months, the absolute number of churns is expected to decline over time. Furthermore, the actual number of churn-outs among those who needed to roll over their discount service contract in September 2009 was limited to approximately 1%, which in our view was not so significant.

We cannot rule out the possibility of the impact of handset installment payments coming to completion, but its impact is expected to be smaller relative to that of the new discount service contracts coming up for renewal, because there are a number of different payment methods available under which new handset models can be purchased, such as, splitting payment over 24 months, 12 months, or to by paying in one lump-sum payment.

Q: Do you have plans to compete against KDDI’s “Call Designation Flat Rate” plan (which offers unlimited voice calls to up to three destinations for a flat monthly rate)?

A: Because we have a large market share, the absolute number of calls that can be covered under the free voice call service between family members offered as part of our “Family Discount” plan is quite large. We are currently assessing the impact of such “Call Designation Flat Rate” in view of competition with other carriers, but at the moment, we do not intend to follow through with a similar service at the present time.

Q: Concerning the projected rebound in ARPU, at which level do you think your ARPU will rebound and start rising again? Please also give us the breakdown of voice and packet at that point.

A: We expect our aggregate ARPU will cease to decline at around ¥5,000 in FY2011, at which point we believe packet ARPU will account for a larger proportion than voice.

Q: The acquisition of new subscriptions in the enterprise market seems to have slowed. Toward the second half of FY2009, how do you plan to reinvigorate the enterprise market, and what are your views on the outlook of new subscriber acquisition?

A: We would like to strengthen the acquisition of subscribers not only among large companies but also among small- and medium-sized businesses. At present, enterprise contracts account for only about 10% of our total subscriptions, but we intend to raise it to nearly 20% by around 2012.

Q: Please explain the progress achieved in the DCMX business and its contribution to revenues. How do you position this business in your future plans?

A: The total number of DCMX subscribers topped 10 million, but this business is still generating losses. In our earlier forecast, we had expected the business would break even when its subscriber count reached 10 million, but in view of the current circumstances, we believe it may require some 15 million subscriptions to become profitable. Hitherto, we attached a stronger

focus on “DCMX mini” and this service had a significantly larger subscriber base, but we recently shifted our marketing emphasis to the “DCMX” service, and the proportion to DCMX subscribers to total credit subscribers have begun to increase. We believe we can improve the overall financial performance of our credit business in the future by increasing the membership of “DCMX”.

Q: Please elaborate on the usage trends of the “mobile remittance” service launched in July 2009.

A: The usage is still limited because we have not really advertised this service, but it enjoys a good reputation among those who actually tried the service.

Q: The organizational structure of NTT group is expected to be included in the themes to be discussed by the ICT task force established by the Ministry of Internal Affairs and Communications (MIC). Please elaborate if you have any requests concerning the way they proceed with the discussions.

A: We believe the MIC’s task force will deal with various issues in their deliberations. We hope they will move ahead with the discussions taking into account how to improve the convenience of customers, and how to respond to the diversifying needs of customers in the IT market where technical innovations are made at a rapid pace. Discussions aimed at strengthening the industry’s international competitiveness should also be considered an important topic.

Q: The convergence or integration of fixed-line and mobile carriers is occurring in many markets outside Japan, such as Europe, USA, China and Korea. How do you view this trend as a member of the NTT group?

A: We have not been completely unable to offer fixed-mobile convergence services even under the current structure. For instance, in the field of corporate marketing, we are proposing solutions to customers teaming up with NTT Communications. However, if we face a situation where we cannot properly respond to the actual needs of customers due to our organizational structure, we will seek due consideration to the situation. We believe that the views of what kind of services are truly demanded by customers, and how can we respond to their needs are important.

Q: What are your views on the economic trends toward the second half of this fiscal year, and how do you think it will affect the mobile phone market?

A: We sincerely look forward to an early economic recovery. We understand that the new administration has adopted a policy to expand domestic demand. We hope that the Government will move ahead with its domestic demand expansion programs that will lead to a growth in handset sales and usage.