

## **Press Conference Announcing the Results of the Fiscal Year Ended March 31, 2010**

### **(Minutes)**

Date: April 28, 2010 (Wednesday), 15:00-16:15

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

##### **FY2009 results highlights and FY2010 forecasts**

For the fiscal year ended March 31, 2010 (FY2009), the Company recorded a decline in operating revenues but an increase in operating income over the prior fiscal year. Operating revenues and operating income were ¥4,284.4 billion (a year-on-year decrease of 3.7%) and ¥834.2 billion (a year-on-year increase 0.4%), respectively. Adjusted free cash flow recovered to ¥416.9 billion because the impact of handset installment claims payable to distributors became smaller in size. With respect to the prospects for the fiscal year ending March 31, 2011 (FY2010), operating revenues are expected to decline 1.5% year-on-year to ¥4,222.0 billion, while operating income is projected to grow to ¥840.0 billion yen. Adjusted free cash flow is estimated to be ¥470.0 billion.

##### **FY2009 results highlights**

The two major points to be highlighted in our FY2009 results are the improvement of customer satisfaction and the growth in packet revenues. Packet revenues increased owing to the brisk sales of PC data cards and other devices and the expansion of packet flat-rate billing plan subscriptions.

The percentage of packet ARPU to aggregate ARPU increased from 42% for FY2008 to 46% for FY2009, and we will strive to raise packet ARPU to a level higher than voice ARPU within FY2010.

##### **FY2009 action results**

Our company-wide endeavors aimed at improving customer satisfaction have produced various tangible results including our acquisition of the No. 1 market share of net additions for the full year of FY2009. On a monthly basis, we had the largest market share of net additions in the months of July 2009 and February and March 2010, which we believe demonstrates that we have properly gained the acceptance of customers.

We believe customers who appreciate our services will stay with us for a long period of time, but those who are dissatisfied with our services for some reason will cancel their subscription. Churn rate indicates the number of such cancelations, and for this reason we attach great importance to churn rate. We successfully reduced our churn rate from 0.50% for FY2008 to 0.46% for FY2009,

which we believe is a very low level by global comparison.

As for our service offerings, the subscription rate of flat-rate billing plans exceeded 50%, and the number of “i-concier” mobile concierge service and “BeeTV” mobile video contents service subscriptions topped 4.00 million and 1.00 million, respectively.

We achieved the No. 1 ranking in J. D. Power’s customer satisfaction survey on enterprise users, and we also received the highest customer satisfaction score in Nikkei BP Consulting’s survey on PC data service users. However, we are only midway through our customer loyalty programs, and we are committed to continuing these endeavors in FY2010.

### **FY2009 results highlights (key factors behind YOY changes in operating income)**

The key factors behind the increase in operating income from ¥831.0 billion for FY2008 to ¥834.2 billion for FY2009 are as follows. Voice revenues declined by ¥239.1 billion due mainly to the expanded uptake of “Value Plan” and a decrease in billable MOU. In terms of ARPU, voice ARPU dropped by a total of ¥430 year-on-year, of which increased “Value Plan” subscriptions accounted for ¥200 and the decline in billable MOU ¥150. On the other hand, packet revenues increased by ¥77.3 billion from the prior fiscal year, which resulted in a ¥70 growth in packet ARPU. Network-related costs declined by ¥160.5 billion year-on-year owing to improved efficiency of capital expenditures and the impact of the accelerated depreciation of mova-related assets in FY2008, which was reflected as a decline of depreciation in FY2009.

### **New business model (“MAX Discount” services and “Value Course”)**

The growth in the number of “MAX Discount” subscriptions began to level off after a constant increase since their introduction in FY2007. As of March 31, 2010, the combined number of “MAX Discount” subscriptions reached 35 million, or 63% of our total subscriptions. When the number of users subscribing to our service for over 10 years is added to this 63%, the percentage of subscribers who already receive monthly charge discounts comparable to those of “MAX Discount” services reaches approximately 80%, which makes us believe that the negative revenue impact from the “MAX Discount” service has almost subsided. On the other hand, the number of “Value Plan” subscriptions is still growing after topping 33.00 million, so its negative impact on ARPU is projected to remain.

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

The full-year aggregate ARPU for FY2009 was ¥5,350, down ¥360 compared to the prior fiscal year. Voice ARPU fell by ¥430 year-on-year. The primary reasons for the decrease include the expansion of “Value Plan” subscriptions (which accounted for ¥200), and the decline in billable MOU (which accounted for ¥150). As I said earlier, the impact of “MAX Discount” service has

almost completely diminished. Packet ARPU, on the other hand, grew to ¥2,450, posting an increase of ¥70 from ¥2,380 for FY2008. As for the outlook for FY2010, aggregate ARPU is estimated to be ¥5,110, and packet ARPU is expected to overtake voice ARPU. Packet ARPU is expected to increase by ¥110 year-on-year. We will strive to raise packet ARPU toward the goal of achieving a reversal of packet and voice ARPU.

### **Total handset sales**

We sold a total of 18.04 million units of handsets during FY2009, which was almost in line with the revised forecast of 18.20 million units we provided at the time of FY2009/1H results announcement. The pace of decline in total handset sales eased to 10% in FY2009, compared to 20% in FY2008. Particularly, the year-on-year decline in the fourth quarter of FY2009 was limited to 6%, as we sold 5.03 million units of handsets in FY2009/4Q compared to 5.35 million units in FY2008/4Q, which makes us believe that the decrease of handset sales is beginning to stabilize. For FY2010, we expect to sell 18.20 million units, up slightly from the previous fiscal year, in view of the replacement demand of customers who had waited for the release of new models and projected increase of smartphone sales.

### **Subscriber migration to FOMA**

During FY2009, a total of 2.27 million mova subscribers switched to FOMA. As of March 31, 2010, FOMA subscribers accounted for 94.9% of our total subscribers. We intend to raise this number to 98% by March 31, 2011, at which point we will have 1 year left before the scheduled termination of mova services.

### **FY2010 results forecasts highlights**

We aim to achieve ¥840.0 billion in operating income for FY2010. Voice revenues are expected to be negatively affected by the projected increase of “Value Plan” subscriptions and decline in billable MOU. The negative impact of these two factors, though smaller in scale compared to FY2009, is estimated to be ¥200.0 billion. On the other hand, we aim to achieve a significant increase in packet revenues of ¥110.0 billion by further enriching our video and various other content services and stimulating the packet usage of medium- and light-users. And, factoring in the projected decrease in distributor commissions, network-related costs and other expenses, we forecast to achieve ¥840.0 billion in operating income for FY2010.

### **Principal actions planned for FY2010**

#### **FY2010 business operation policies**

The centerpiece of our business operation policies for FY2010 is the continuation of “Change

and Challenge” action plan. As far as the “Change” initiatives are concerned, we will devote ourselves to further enhancing customer satisfaction toward our important shared goal of achieving the No. 1 ranking in customer satisfaction score. Concerning the “Challenge” programs, we position FY2010 as the year to start the execution of each “Challenge” item.

### **Improvement of customer satisfaction**

To further enhance customer satisfaction, we plan to appropriate a budget of ¥40.0 billion for customer loyalty programs, which we plan to secure by working diligently on the improvement of cost efficiency and putting a ceiling on general expenses.

As part of our customer loyalty programs aimed for resolving area quality-related inquiries, we offer a field-staff dispatch program within 48 hours after setting up an appointment with customer. During FY2009, our staff made visits to 55,000 customers, of which some 80% resulted in an improvement of area quality. While we failed to achieve an improvement in the remaining 20% of cases, 97% of customers who used this service responded that they were satisfied with the program, which indicates that this service is well received by our customers.

In the area of after-sales support, we offer “Mobile Phone Checking Service” and “Battery Pack *Anshin* Support” service. The number of users who used the “Mobile Phone Checking Service” during FY2009 reached 2.52 million, and we aim to raise the number to 6.00 million in FY2010. The “Battery Pack *Anshin* Support” service enjoys an extremely good reputation among our users. A total of 7.2 million users used this service during FY2009, and we aim to increase the number to approximately 10 million in FY2010.

As for the billing plans, we previously offered separate flat-rate billing plans for i-mode (“Pake-hodai double”) and smartphones (“Biz-hodai double”), but we integrated them effective April 1, 2010. Also, with the launch of “ISP set discount” service, users who previously had to pay two separate monthly charges for ISP service now have to pay only a single charge.

### **Principal “Challenge” items**

Until March 2010, we were basically in the phase of “sowing the seeds” toward the realization of our “Challenge” programs, but from FY2010, we will enter the “execution phase” to bring these efforts to fruition.

#### **[Challenge 1] Packet ARPU growth**

The No. 1 priority in our business execution is to achieve a growth in packet ARPU. Our aggregate ARPU has been in a constant decline as we have not been able to completely offset the decline in voice ARPU by the increase of packet ARPU. By accelerating the growth in packet ARPU, we intend to achieve a rebound of aggregate ARPU. In view of the slowdown in the pace of decrease of voice ARPU, we set a target to achieve ¥2,550 in voice ARPU and ¥2,560 in packet ARPU,

thereby reversing the levels of voice and packet ARPU in FY2010. This will not be an easy challenge because we need to raise the packet ARPU by ¥110 over the previous fiscal year. Our biggest target is to achieve a rebound in aggregate ARPU, for which we believe it is necessary to raise the packet flat-rate subscription rate to 70% and have half of these flat-rate users consume packets up to the monthly upper limit of the two-tier plan.

**[Challenge 1] i-mode packet usage expansion**

In order to raise packet ARPU, we will employ measures to stimulate i-mode usage of medium- and light-users. Specifically, we will work to expand the subscriber base of “Pake-hodai double”, encourage the use of “deco-mail”, picture attachments and other rich mail, and enrich the variety of content relevant to our users’ everyday lives. We will also introduce various down-to-earth measures, including, among other things, holding mobile phone classes at our shops and assisting the initial setup configuration of “i-concier” at shop counters. To expand the user base of smartphones, we plan to create an environment where both IT-literate and non-IT-literate users can use smartphones. We will also aim to expand the uptake of PC data communications, strongly appealing our superior network coverage and quality. Furthermore, we intend to aggressively tackle the new device market, such as electronic books and tablet PCs.

**[Challenge 1] Expansion of packet flat-rate subscriptions**

The subscription rate of packet flat-rate plans reached 53% as of March 31, 2010. We plan to raise it to 63% by March 31, 2011, at which point the total number of packet flat-rate users is expected to reach 31.70 million.

**[Challenge 1] Smartphones**

We sold 100,000 units of Xperia™ smartphones in less than 20 days following its release on April 1, 2010. This new product has recorded the highest sales of any smartphones we have handled so far, and we are very pleased with these brisk sales. We plan to upgrade its operating system to Android 2.1 in the fall of this year to enable the use of i-mode mail on this device. In the area of content, we launched our proprietary web portal for smartphones “docomo market” on April 1, 2010. We plan to increase the number of content titles handled by “docomo market” to 700 by March 31, 2011. In other words, we will prepare 700 different content titles attuned to the preferences of Japanese users in addition to the vast number of content available in the general Android market.

**[Challenge 1] PC data communications**

We intend to reinforce the sales of PC data cards perceiving it as a growth opportunity. Leveraging our superior network quality, transmission speeds and broad area coverage, we will aim to expand our share in this market. We sold 580,000 units of PC data communication devices in FY2009, up approximately 220% compared to 260,000 units for FY2008.

**[Challenge 2] Measures against growing packet traffic**

The traffic on our network has nearly doubled from the previous fiscal year due to the

expanded use of video and growth of packet flat-rate plan subscriptions. Going forward, we need to construct a network that can provide users with stress-free access. With the launch of LTE later this year, we intend to improve the efficiency of our network and maintain the No. 1 customer satisfaction ranking in network quality.

#### **[Challenge 2] LTE roll-out**

The total capital expenditures required for the roll-out of LTE in FY2010 are estimated to be ¥35.0 billion. During FY2010, we plan to install approximately 1,000 LTE base stations to start services from high-demand areas such as Tokyo, Nagoya and Osaka. Initially, we plan to offer downlink speeds of up to 37.5Mbps, but in some limited areas where we can use a carrier bandwidth of 10MHz, we plan to offer a higher maximum downlink speed of 75Mbps.

#### **[Challenge 2] Capital Expenditures**

The annual capital expenditures for FY2010 are estimated to come down to ¥675.0 billion as we will facilitate efficient use of investments. These expenditures will be appropriated for further enhancement of our communications quality, advancement of IP conversion of our network, and roll-out and expansion of LTE services, etc.

#### **[Challenge 3] Service personalization**

The total number of “i-concier” subscriptions topped 4.20 million as of March 31, 2010. Our aim is to expand its user base to 7.90 million by the end of March 2011.

#### **[Challenge 4] Social-support services**

We introduced a new mobile phone-based insurance service, “docomo one-time insurance”, and two new medical information delivery services, “Medical Brain” and “MD+”. “docomo one-time insurance” offers convenient services leveraging the unique features of mobile phones, enabling, for example, a user to make an on-the-spot application to “golfer’s insurance” at a golf course using a mobile phone.

#### **[Challenge 5] Converged services**

In the area of fixed-mobile convergence, we already launched “MyArea” wireless home coverage using Femtocell BTS equipment, and we plan to continually promote this service going forward. Our “*Otayori Photo*” photograph transmission service is a service combining mobile communications with information appliances, and we are currently promoting this service as a gift for Mother’s Day and Father’s Day. We will also strive to achieve the convergence with automobiles and industrial equipment.

#### **[Challenge 6] Further advancement of handsets**

One of our goals for the future is to increase the adoption of smartphones. We have recently been receiving strong requests from our customers to incorporate various i-mode functions in smartphones, and we would like to realize this as soon as possible. As a first step, we plan to enable the use of i-mode mail on smartphones around the middle of this fiscal year. We also intend to build

the “*Osaiifu Keita*” electronic wallet capabilities in some models. Furthermore, we would like to add content billing capability to our “docomo market” web portal. We are also studying ways to enable the use of “i-channel” and “i-concier” services on smartphones, although these may not be realized within FY2010.

#### **[Challenge 7] Global expansion**

To expand application and platform businesses, we acquired a Germany-based company, net mobile AG. We believe we can seek further upside in packet ARPU in many European markets given the availability of extensive network coverage, so we plan to deploy various measures aimed at increasing packet ARPU by addressing opportunities in applications and platform businesses.

Our investee in India, TTSL, operates GSM service under the brand name of TATA DOCOMO. TTSL grew to be the 5<sup>th</sup> largest operator in India with a subscriber base of 65.94 million, representing a subscriber market share of 11.3%, as of March 31, 2010. It acquired the largest market share of net additions for six straight months from August 2009 to January 2010, posting 3-4 million net additional subscribers every month. TTSL also launched mobile comic delivery and “i-channel” services as part of their value-added service offerings.

To share the best practices among our partners in emerging markets, we founded what is called “DOCOMO Global Club”. Under this arrangement, the four companies of TTSL, PLDT, axiata and DOCOMO share the best practices and study opportunities for joint procurement of handsets and equipment, and horizontal deployment of value-added services.

#### **[Challenge 8] Investments and alliances**

Because we do not think we can deploy social-support services or converged services only by ourselves, we need to make investments in or form alliances with external partners. In FY2009, we invested in Oak Lawn Marketing, a very good company for us to realize the synergies between TV shopping services and mobile phones.

#### **Cost efficiency improvement**

Toward the achievement of our medium-term plan, we have steadily moved ahead with our efficiency improvement program, cutting general expenses and network costs, and consolidating the former regional subsidiaries. In FY2010, we will continue these cost-cutting initiatives, with the aim of reducing our costs by ¥200 billion in FY2012 compared to the level of FY2007.

#### **Returns to shareholders**

The dividend for FY2010 is planned to be maintained at ¥5,200 per share. We plan to carry out share repurchases flexibly in view of the prevailing circumstances. While it goes without saying, we believe returning profits to shareholders is one of the most important issues in our corporate management. We will also continue to review the returns to shareholders with a positive view,

taking into account the progress of achievement of our medium-term target to achieve ¥900.0 billion in operating income. Our payout ratio is expected to reach 44% in FY2010, which I believe is one of the highest levels among Japanese enterprises, and we intend to maintain this level going forward.

In summary, during FY2009 we implemented various measures aimed at enhancing customer satisfaction and they have steadily delivered results. However, we are still only halfway through our endeavors, and we will therefore continually commit ourselves to maximizing customer satisfaction. FY2010 is positioned as a year to embark on the execution of our “Challenge” programs. In previous years we have planted the seeds, and some of these endeavors have sprouted and grown into a young tree. However, as far as the social-support services are concerned, many of them are still only in the sowing phase, so we must now move ahead with their execution. Of all the “Challenge” initiatives, we believe the growth of packet ARPU will hold the key to our business management. Our industry is currently undergoing a major change in terms of service and technical innovation. Perceiving this as a tailwind, we will devote ourselves to the development of new services and technologies.

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

- Q: Can you give us an estimate as to the contribution of smartphones to the ¥110.0 billion year-on-year increase in packet revenues projected for FY2010? Also, various surveys indicate that “iPhone” accounts for more than 70% of the smartphones currently used in Japan. How confident are you about gaining a larger share of the smartphone market in the future?
- A: Of the ¥110 projected increase in packet ARPU, smartphones are expected to account for ¥20-30, although it is difficult to give an accurate forecast as the actual amount will be affected by our future sales and other factors. Because we sold 100,000 units of Xperia™ in less than 20 days after its release on April 1, 2010, we believe smartphones offer a great potential for growth for the future. The total number of smartphones to be sold in Japan in FY2010 is estimated to be 3.00 million units, and we target to sell approximately 1.00 million units of smartphones in this market.
- Q: In the single quarter of FY2009/4Q, your operating income grew 56% and net income more than doubled compared to the same period of the prior fiscal year. Please explain the reasons behind this remarkable growth.
- A: Our FY2008/4Q operating income was reduced significantly due to the accelerated depreciation of mova-related assets toward the end of the fiscal year and incurrence of other expenses resulting from forward-spending of costs, etc. The strong gains achieved in FY2009/4Q are



attributable to these differences in expenses.

Q: What kind of approaches do you plan to take for the enterprise market in FY2010?

A: This fiscal year, we will focus not only on large corporations but also small- and medium-sized businesses. We plan to utilize the resources of docomo Shops in our sales activities to small-sized enterprises. It seems that the staff at docomo Shops are beginning to sense good response from potential customers to their aggressive sales activities, so we plan to address the enterprise market joining forces of our entire distribution channel including ourselves and docomo Shops distributors. Furthermore, we also plan make system proposals to large- and medium-size enterprises, and any solutions that turn out to be effective will be proposed to other companies so that they can be deployed horizontally across different regions in Japan.

Q: What percentages do PC data cards and digital photo frames account for to your total new subscriptions? How much growth do you expect for the PC data communications market in FY2010?

A: In FY2009, we acquired 1.48 million net additional subscriptions, of which communication modules, such as PC data communications devices and digital photo frames, accounted for 30-40%. Of the 1.37 million total net additions projected for FY2010, the contribution of PC data communications devices and other modules is expected to become larger than last fiscal year, but is not likely to reach 50% of the total.

Q: It seems that the percentage of PRIME series handsets to your total handset sales has been declining, causing an increase of inventory in the distribution channel for some models. How do you plan to optimize the handset inventories in the distribution channel and reduce their costs?

A: Due to the recent popularity of STYLE series handsets, our average handset procurement cost has declined by ¥2,000+ per unit. This does not mean that we were able to reduce the procurement cost of every model. Rather, the average procurement cost decreased due to the increase in the sales of relatively inexpensive models. We are procuring handsets taking into consideration the demand for each model, and we do not think there is a disparity in the level of channel inventory by model when we look at the situation from long-term perspective. This fiscal year, we plan to reduce our procurement cost by ¥2,000-3,000 per unit, thereby bringing down our total procurement costs. While the future direction for PRIME series phones is something we need to sort out going forward, we intend to reduce the cost of PRIME series as well.

Q: When do you plan to install “*Osaiifu Keitai*” electronic wallet capabilities in smartphones?

A: We plan to release some models of smartphones equipped with FeliCa capabilities within this fiscal year.

Q: Are you positively studying the possibility of handling “iPad”?

A: When Apple unveiled “iPad” on January 27, 2010, they said it would be a SIM lock-free device. Based on the premise that it will be offered as a SIM lock-free device, we intend to provide connections to those customers who wish to use our services, and we are making necessary preparations to this end.

Q: Can you give us a more detailed explanation regarding the growth of other revenues and the decrease of network-related costs recorded for FY2009?

A: Other revenues grew by ¥100.0 billion over the prior fiscal year due mainly to two factors: One is the expansion of the subscriber base of “Mobile Phone Protection and Delivery” service, which grew 50% year-on-year to approximately 26.00 million as of March 31, 2010. This service, which is offered for a monthly fee of ¥300, has generated incremental revenues of approximately ¥50.0 billion yen, although it also caused an increase in expenses. The other factor is the acquisition of a 51% stake in Oak Lawn Marketing Inc. (OLM) in April 2009. This company has annual revenues of slightly less than ¥50.0 billion yen, which were included in other revenues due to the inclusion of OLM in our consolidated accounts from FY2009. Our network costs decreased by approximately ¥160.0 billion yen in FY2009 from the previous fiscal year primarily for three reasons: One is the ¥103.0 billion year-on-year decrease in the amount of depreciation, of which approximately ¥80.0 billion was the difference resulting from the accelerated depreciation of mova-related assets in the prior fiscal year, and the remaining amount of approximately ¥30.0 billion was the genuine reduction of depreciation achieved in FY2009. The second reason is the ¥20.0+ billion decrease in loss on disposal of network-related fixed assets resulting from the gradual reduction of capital expenditures in the past. And the third factor is the reduced communication network charges of approximately ¥35.0 billion compared to the previous fiscal year, owing to cost reduction achieved through conversion of backbone trunks into own circuits and reduced access charges payable to other carriers. As a result of the foregoing, our network costs decreased by approximately ¥160.0 compared to the prior fiscal year.

Q: What are your views concerning the removal of SIM lock discussed by the Ministry of Internal Affairs and Communications?

A: Regarding the removal of SIM lock, we have commented that “we intend to remove SIM lock if that is the request of our customers”. However, even if SIM lock is removed, the

communication systems, services and spectrum used by each carrier varies, so there might be limitations in the services and features that can be used by inserting SIM of other networks, and it is important that customers understand these limitations.

Q: Concerning LTE services, you mentioned that you plan to offer a maximum downlink speed of 75Mbps in limited locations where possible. Does that mean you will offer speeds of up to 75Mbps in as many locations as possible where you can use two carrier frequencies? Or does it mean you plan to offer 75Mbps in some areas on a trial basis?

A: Upon the initial launch of LTE, the maximum speed in outdoor areas will be 37.5Mbps because we can only use a carrier bandwidth of 5MHz. On the other hand, in indoor areas like some railway stations in Tokyo or Haneda Airport, we believe we can offer downlink speeds of up to 75Mbps because we can use carrier bandwidth of 10MHz.

Q: What are the benefits of the recently announced application platform in terms of your overseas business deployment?

A: Traditionally, Japanese manufacturers procured application chips independently. The recently announced joint development scheme will allow them to develop applications, software and other things at lower costs. The adoption of a common chip is also expected to enhance their competitiveness when they enter overseas markets.