

Main Q&A (Analyst Meeting after the Results for FY2018/2Q)

Questioner No. 1	
Q1	Your goals as a company are not clear to me. KDDI and SoftBank explicitly stated that they will seek gains in profit. If the 400 billion-yen customer returns are positioned as a necessary measure for you to boost your profit, that logic is understandable, but what are your goals for FY2023 and beyond after you recover to the FY2017 profit level?
A1	The raison d'être of a company is to continue providing new value to customers and shareholders. As one of the values to be provided through the execution of "Declaration beyond," we would like to deliver a rate service in which customers can find great benefits and simplicity. We plan to maintain and expand our customer base by having customers truly appreciate the good value that we offer and thereby garnering their long-term use of DOCOMO brand, which will consequently allow us to secure profit. The customer return measure that we announced this time around is expected to result in a temporary decline of profit, but I hope you understand that this is a necessary step for our next phase of growth.
Q2	Value is something difficult to set as a target. Have you set any goals other than financial performance indicators, such as the size of customer base, etc.?
A2	We will aim to reinforce our customer base through customer returns with the goal of raising the total "d POINT CLUB" membership to 78 million accounts within FY2021 and to over 100 million at the earliest possible date thereafter. By expanding to 100 million accounts and rolling out various services on top of this foundation, we will aim to garner the usage of a large number of customers.
Questioner No. 2	
Q1	I thought Rakuten had been primarily negotiating with DOCOMO for a roaming arrangement. Can you explain the reasons that resulted in the suspension of talks?
A1	We would like to reserve our comments because we are not privy to the developments behind Rakuten's roaming partnership with KDDI.
Questioner No. 3	
Q1	You mentioned during the Q&A session in your recent results presentation meeting that you "expect stable free cash flow generation despite a decrease in profit." Can you explain the rationale behind that comment?
A1	The impact from the change of depreciation method into straight line method is diminishing, which has resulted in an increase in the amount of depreciation. As we plan to maintain the annual capital expenditures at the current level of 570 billion yen, if the profit level remains unchanged, an increase in depreciation will have an effect to expand our cash flow. Further, when there is a decline in profit, the amount of tax and public dues we need to pay will come down accordingly. When the effective tax rate is taken into consideration, approximately 1/3 of the impact from decreased profit will likely be mitigated. Because there is a timing difference between operating profit generation and tax payment, we cannot clearly predict when our free cash flow will hit bottom. However, when we compare the projected curve of operating profit recovery after a period of decline and the trajectory of free cash flow generation, the latter is expected to be steeper representing a rapid recovery. This is because during the phase of recovery, the amount of tax and public dues is forecasted to be smaller while profit starts rising again. In addition, if we sell our shares in Sumitomo Mitsui Credit Card as a result of the dissolution of our partnership on book value, we expect some 230 billion yen in cash. There are many things we can address to improve our balance sheet. We also have a plethora of assets that can be converted into cash. We plan to execute shareholder returns by managing our balance sheet during the period before our profit returns to growth track.
Questioner No. 4	
Q1	Could there be a change in shareholder return policy if you decide to make up for the decline in profit through investment or M&A?
A1	We currently do not plan to finance our shareholder returns through debt, but we do not mind borrowing money to finance M&A deals. We will try not to cause any impact on our shareholder returns unless there is a significantly large investment deal.
Questioner No. 5	
Q1	Why did you accept the government's request this time around? I got the impression that your position has significantly changed compared to before. Can similar things happen again in the future? When a similar argument arose in 2015, I think you made your own assertions and negotiated with the government. This time, however, it looks like you accepted a reduction in profits and announced this new billing concept without showing the reasons behind the decision. Please let us know who, and for what reasons, gave the final approval to your medium-term management plan which projects a decline in profit.
A1	We are aware of the moves of the government, etc., but we did not make the decision based on such moves. We have hitherto lowered our rates in response to customers' actual usage behavior. When we transitioned to the current billing structure in June 2014, we experienced a negative revenue impact of over 100 billion yen. It is true that our rate structure has become complicated and difficult to understand for customers as a result of adding various new services,

	<p>such as "Simple Plan," etc., one after another.</p> <p>We also hear voices from customers that they cannot perceive so much benefits and value in our rate plans. Therefore, in developing our medium-term management strategy, customer returns and improvement of wait time at shops were positioned as a major pillar of the new strategy. When we considered what would be perceived as simple services that offer good value, we came to a conclusion to create services that can satisfy our customers through the value it offers, like "docomo with". We do not intend to just simply cut down our rates with this round of customer returns. Through this measure, we hope to become a provider of customer's choice so and thereby expand our customer base, and lead it to expanded use of services.</p>
Q2	In which area can we expect positive impacts against the customer return measures of up to 400 billion yen?
A2	The Smart life business and Other businesses will play the biggest role in uplifting our financial performance. We will also seek expansion of both revenue and profit in our "docomo Hikari" optical-fiber broadband service. In the meantime, we will also address cost efficiency improvement. Those are the three main drivers, and we would like to present more details in our FY2019 annual business plan.
Q3	Is it correct to understand that you will give us some more concrete indications when you announce the results for FY2019/1Q? Although your competitors have declared not to reduce profits, DOCOMO claims a decline in profit is unavoidable. Please give us a reasonable explanation concerning the factors that will positively and negatively affect your profit as well as the different views between you and your competition.
A3	We plan to present our FY2019 business plan when we announce the full-year results for FY2018. At this point, it is difficult for us to provide any projections for FY2020 and subsequent years. Please allow us some time for a more detailed explanation.
Questioner No. 6	
Q1	A 400 billion-yen drop in profit is a major decision, but this could also be perceived simply as retention cost. Is this something that was caused by a change of views on the competitive landscape? Can you share with us your perspective as to how the competitive environment will change with or without the injection of the 400 billion-yen customer returns?
A1	We must pursue ease of understanding and appeal the benefits and value of our rate plans to entice customers to DOCOMO brand. We made this decision to take a preemptive measure toward expanding our customer base in view of the market entry by the fourth player next year. By presenting our basic philosophy this time around, we believe we can secure DOCOMO's competitive advantage.
Q2	Do you think it is better to change your existing rate structure to enhance your future competitiveness?
A2	Definitely. This also manifests our intent to make a transition to a business/revenue/profit structure pivoted on membership base. While mobile is still our primary profit driver today, we explicitly presented our resolve to change this going forward.
Questioner No. 7	
Q1	You have hitherto ruled out the possibility of establishing a subbrand. What are your current thoughts now that you hammered out a new pricing strategy? I believe it makes sense for you to roll out your own MVNO or a subbrand also from the perspective of expanding your "d POINT" membership, but what do you think?
A1	We do not have any plans to create a subbrand or launch a MVNO service through an affiliate. We will focus on our single DOCOMO brand.
Q2	Isn't it just about dividing into different brands and managing them separately? Aren't there any concerns that the fact that you have only one brand prohibits you from making your rate structure simple?
A2	We would like to achieve simplification within the single "DOCOMO" brand and roll out rate plans that can properly accommodate the needs of customers. If we own two brands, there is a concern that we might not be able to treat MVNOs fairly.
Questioner No. 8	
Q1	Please share with us your profit target, membership target and the projected timing of recording a 400 billion yen decrease in profit. It seems that you are deliberately controlling your profit target below the 1 trillion-yen mark. Can you elaborate how you decided this?
A1	We won't face any problem if our operating profit exceeds 1 trillion yen. Our goal is to achieve 990 billion yen or more in operating profit.
Q2	You alluded to the need of changing your revenue structure, but there is also an ongoing debate on network neutrality. While you explained your ambition to expand enterprise solutions, etc., is network neutrality factored in your plan?
A2	Although we cannot make a clear statement at this point of time, we believe there is a need to discuss network neutrality in the future. According to our current traffic analysis, video content accounts for a huge bulk of the traffic on our network. We need to discuss whether it is appropriate to treat all traffic equally, and about the right way of handling traffic. While this topic was not covered in the medium-term management strategy that we unveiled this time around, we would like to present our thoughts at study groups, etc., going forward.
Q3	Are you suggesting that you will switch the focus to content billing going forward because telecommunication charges are drawing too much attention?
A3	We would like to perform studies including the point you mentioned.
Q4	Unless you change your profit structure, you may be subject to criticism again when your profit level approaches the 1 trillion-yen mark. If that happens, do you plan to use the explanation that your profit primarily comes from Smart life

	and enterprise solutions?
A4	We have stated that our revenue structure five years from now will look different due to the contributions from such growth areas. We would like to be able to make a clear presentation that our sources of revenues and profit have changed by then.
Questioner No.9	
Q1	Global investors all believe DOCOMO accepted the requests from the government, and no matter what you explain, that view won't change. Your communication to the equity market this time was extremely insincere. The only information you provided was a precursor, suggesting news that may impact DOCOMO's share price or enterprise value will come out in half years' time. Can you tell us how you plan to communicate with the equity market going forward?
A1	We plan to visit overseas investors shortly, during which we intend to provide a sincere explanation on this decision. As you rightly pointed out, communication is very important as there is some time before we become ready to disclose more details, and we are aware that our competitors are presenting their views. In the meantime, ongoing deliberations will take place, for example, at the Ministry of Internal Affairs and Communications' study group. In addition to our rate levels, we will immediately announce whatever we can through such meetings, such as the progress of discussions pertaining to consumer protection in the mobile market, etc.
Q2	Don't you think you should have waited another six months and announced the medium-term management strategy in April next year, instead of announcing it this way? I have doubts about the 400 billion yen estimate which came out all of the sudden, and there is a lack of transparency. You could have avoided this situation if you had coordinated with the holding company, NTT, and disclosed all information six months later. Do you recognize the huge confusion you caused?
A2	We are aware of the situation that is called "DOCOMO Shock." However, announcing this six months later was not included in our options. Upon the results announcement for the previous fiscal year (FY2017), we explained our intent to unveil our medium-term management strategy at the close of the first six months of FY2018. After weighing various factors, we came to this conclusion believing that it would be even more confusing if we did not mention anything about our customer return plans when we publish our medium-term management strategy.
Questioner No. 10	
Q1	In light of the negative revenue impact of 400 billion yen you announced this time, will it be correct to understand that you will further accelerate your Smart life domain—an area that you are projecting revenue growth in the future.
A1	We developed our projections assuming that the number of users of our finance/payment services will grow in line with the expansion and reinforcement of our membership base. In that regard, we admit that our forecast is somewhat bullish.
Q2	Regarding the way of communication, KDDI and SoftBank mentioned that they will aim for profit growth no matter what happens. As a result of your announcement this time, investors looking for growth shares have excluded DOCOMO from their list of options. I do understand that your results announcement draw the attention of a wide variety of people, but you should be more careful about who you are communicating with. Other operators are providing announcements in a way that allows us to at least find hope despite the prevailing circumstances, but you gave a message that sounded like you gave up. I hope you will be more mindful when you make the next announcement.
A2	Your point is duly noted. We appreciate your suggestion.
Questioner No. 11	
Q1	Is there a possibility that subscribers of your existing plans suffer a disadvantage, such as not being able to migrate to the new plan?
A1	It is up to how we design the new rate plan. At this stage when details are yet to be presented, most of the subscribers of existing plans have remaining contract periods (as well as balances of the "Monthly Support" program, etc.). Whether such users can also be applied with the new rate plan before expiry of the existing contract will depend on how we design the scheme from now.
Q2	As a telecommunications analyst, one of the frequent questions that I receive from people around me is which out of the three carriers in Japan is the best to subscribe to. Under the current circumstances, I would recommend them not to join DOCOMO immediately and that they should wait. I do not think your announcement this time was good for the users, because it gives an impression that subscribers joining now will suffer a loss, as a cheaper plan is due in six months. What do you think?
A2	It may be difficult to ask current 3G feature phone users who are considering switching to a smartphone to wait. We hope those users will switch to smartphones by taking advantage of "Welcome Sumaho Wari" or other discounts. We plan to enable such users to switch to the new plan afterwards. We are currently looking into the details as to how to treat customer who have just recently renewed their contract for another two years.
Questioner No. 12	
Q1	When you launch the new rate plan, can we expect that it is designed on a specification that could lead to an increase of subscribers? Are you also contemplating a rate plan that could have a positive impact on Smart life domain?
A1	We have not developed a clear forecast on subscriber growth, but the new rate plan must be attractive enough to at least prevent customer outflows to the competition. As we mentioned on a number of occasions, it would be best to have customers sign up for our connectivity, but even without a mobile contract, we would be happy if they use our point program or video or other content services. However, we are performing studies towards the direction of

	enlarging our customer base capitalizing on the launch of the new rate plan.
Q2	Does that mean the new rate plan contains some elements that will lead to the expansion of Smart life domain?
A2	We cannot comment on that level of detail, but the new rate plan will primarily focus on the mobile charges. As we mentioned before, we wish to develop a plan that could pave the way to 5G services, etc.
Questioner No. 13	
Q1	Regarding the new rate plan you announced this time, is it correct to understand that you are expecting a negative revenue impact of a total of 400 billion yen after including the positive effect from the elimination of "Monthly Support" discounts? Also, in addition to the abolishment of "Monthly Support" program, I assume there is sizable chunk of cost reduction opportunities in the order of hundreds of billions of yen coming out of "Direct Wari" and other handset subsidies as well as the reward points to customers. Are such opportunities included in the calculation?
A1	Your understanding on the calculation behind 400 billion yen is correct. However, how to handle "Direct Wari" and other handset subsidies is for future study. Without limiting to those that you have mentioned, we will seek a considerable amount of cost reduction on various fronts in parallel. The details will be clarified when we announce our business plan for the next fiscal year, so allow me to refrain from making further comments at this juncture.
Q2	Although I cannot predict how things will fare in the future, I believe you are currently spending around 200 billion yen in cash-based handset subsidies. Is my understanding correct?
A2	We will perform studies including those points. There are various other costs than those relating to handsets. We do not believe we will be able to completely eliminate all subsidies provided upon the purchase of handsets. When considering the "separation model," how to design handset sales will hold key. Currently, we basically assume a model that eliminates "Monthly Support" discounts. In the past, when we introduced the "Value Plan" in 2007, we introduced a plan based on a "separation model" which allowed us to secure profits first because we did not offer "Monthly Support" discounts back then. In the subsequent four years, however, our revenues were decreased by 100 billion yen each year. This time around, because of the availability of "Monthly Support," in our comparison between the negative revenue impact caused by the rate reduction and the profit-boosting effect from abolishing "Monthly Support," we expect the negative impact to kick in first and the positive effect to become apparent later. From a financial perspective, postponing profit is considered healthier. This time, we will make sure not to get into an unsound financial position.
Q3	Is it correct to understand that you foresee a net revenue decline of 400 billion yen, after factoring in the positive effects from the elimination of "Monthly Support" discounts, in five years from now based on the assumption that the new rate plan achieves broad adoption by then? Also, when you take into consideration the positive impact from abolishing "Monthly Support," will the net impact be neutral after canceling out the rate reductions offered by the new plan?
A3	In the year of the largest impact, we are estimating a maximum negative revenue drop of 400 billion yen per annum. This outweighs the positive impact from abolishing the "Monthly Support" program, so the net impact will not be neutral. While we have been able to sustain our mobile communications services revenues for the moment, we cannot avoid a decline in baseline revenues in the future. Factoring all these elements, we declared our commitment to recover our operating profit to 990 billion yen in five years' time.
Q4	What is the projected size of mobile communications services revenues in five years' time after netting out the revenue drop caused by rate reductions and revenue growth from suspending "Monthly Support" discounts?
A4	The size of mobile communications service revenues is expected to be smaller than today. And the telecommunications services profits have also been coming down. We are currently examining the projected size of these numbers.
Q5	Does 400 billion yen represent the genuine size of rate reductions? Or are you suggesting that the rate reduction is expected to be larger than the incremental revenues to be produced from abolishing "Monthly Support," and therefore 400 billion yen represents the maximum amount of the net negative effect per year?
A5	The impact from the rate reduction is expected to be much larger.
Q6	You said you will simplify your rate structure to make it easier to understand for customers. Are you envisaging an easy-to-understand blended voice and data package, like the ones marketed in the United States?
A6	We are now working on its design. We want to simplify the current rate structure as it is very difficult to understand, comprising of various components including the basic monthly charges, "Packet Pack", ISP fee, "Share option", and long-term discounts, etc. We also need to think about how to approach families as they constitute one unit. Although our "Share Pack" enjoys great reviews, we also hear voices that the rate per person is not easily visible, so we would like to make things easier to understand.
Questioner No. 14	
Q1	I believe the rate reduction you announced this time around is one of your strategies to counter Rakuten's market entry. What kind of strategies are you taking overall to prepare for Rakuten's entry?
A1	We have of course taken Rakuten's move into consideration in developing our rate plans. We are performing various studies, not only in relation to the tariff but more broadly including how to counter Rakuten's alliance with KDDI. During the last three to four years, we have attached a significant focus on finance/payment business, and we are committed to further growing this business going forward. We are therefore making a foray from our core mobile business into a domain where Rakuten is known to be strong, whereas Rakuten is expanding into telecommunications from their foundation of e-commerce, etc. So the approaches of the two companies are opposite to each other. However, in our case, it is not that we are developing our membership base or finance/payment solutions from scratch;

	we have rather already achieved a good progress. We intend to become one of the largest players in Japan in these areas as soon as possible. We would like to exert greater influence in the field of payment and content services, and we will work together with a wide range of partners to this end. In that sense, we are a direct competitor to Rakuten overall, and we will employ proper measures to compete favorably against them.
Q2	Can you share with us how you arrived at the 1 trillion yen budget for cumulative 5G investments? You mentioned that you will not raise your annual capital expenditures, so how do you plan to control your investments?
A2	5G will be rolled out where necessary in view of the actual demand, so we will not follow the traditional practice of establishing a nationwide coverage by rolling out the system from the largest cities first. Although it is difficult to precisely predict the demand for enterprise solutions, we have to some extent shortlisted the areas where there is demand for coverage, e.g., airports and stadiums, etc. We also began interviewing to grasp the needs of our partners participating in the 5G Open Partner Program, which is now joined by nearly 2,000 companies and organizations. We already have a basic blueprint for the roll-out for up to three years ahead, but beyond that, we cannot foresee the details. In such cases, we make decisions based on the experience of LTE construction, etc. Of the five years through FY2023, we believe the amount of 5G-related investment will see a peak in FY2023, when it is expected to grow to a size comparable to our current annual LTE investment.
Q3	You mentioned that you will commence 5G pre-commercial service in FY2019. Do you plan to employ fixed wireless solutions in stadiums?
A3	No, we will introduce a mobile wireless solution. Devices and tablets will be provided.
Q4	Do you plan to commercially release those devices in the market?
A4	We do not plan to market them as this is a pre-commercial service. The number of devices will also be limited.
Q5	Are the venues all rugby stadiums?
A5	Not necessarily.
Questioner No. 15	
Q1	With respect to your balance sheet, you mentioned that you will look into the possibility of borrowings so long as it will not impact your credit rating, but do you also plan to continually increase dividends? Will it be correct to understand that the balance between dividend payments and share repurchases will change going forward?
A1	We intend to attach a greater weight on share repurchase in terms of volume. The total amount of our dividend payment is estimated to be approximately 400 billion yen, so even if we doubled the amount it would only cost us another 400 billion yen. In contrast, we have appropriated 600 billion yen for share repurchase this time around.
Q2	I understand the plan you announced this time. What are your thoughts for the future?
A2	The acceleration of shareholder returns will be executed primarily through share repurchase. Because this will result in a decrease in total outstanding shares, even if we increase our dividend by 10 yen, we shall be able to absorb the incremental cost. We believe it is possible to maintain our credit ratings while improving our shareholder returns at the same time.
Q3	The 400 billion-yen rate reduction does not add up to 20-40% discount on charges. Are you planning to cut down the rates only for specific user segments as opposed to an across-the-board rate cut?
A3	We cannot comment on the specifics but the idea is to allow customers to enjoy savings of 20-40% on their monthly bill if they switch to a plan under the new scheme. It does not imply a universal rate cut of 20-30% to all users across the board.