

Main Q&A (Analyst Meeting concerning Medium-Term Management Strategy)

<b>Questioner No. 1</b>	
Q1	If KDDI and SoftBank follow suit and lower their rates, you may end up only making an announcement on your rate reduction ahead of other companies. How do you view this?
A1	As this is happening at the timing of a change in regulatory framework, we anticipate the competition will also come up with some measures. However, this time around, we are not competing among the three incumbents; we rather perceive this as a competition against the new entrant. Hypothetically, if all three incumbents execute a significant rate reduction and the new entrant fails to acquire a sufficient number of customers, we will probably be able to achieve the intended results. However, things are not that simple in reality. Naturally, the target segments of the three incumbents are different from one another, and the competition for such target customers may not change significantly from what we have seen so far in the competitive landscape.
Q2	Pressure from the government is often rumored among investors. What concerns me is that this is developing into a pressure in the context of regulation on rates. If you come under the pressure of rate regulation in the future, will you be able to present strong grounds that support the argument that you can't get a stocking off a bare foot?
A2	We have stated in public that mobile phone rates, at present, are basically not subject to any regulation, and that this should remain intact going forward. We object to regulation against rate levels. However, the recent urgent proposal by the Ministry of Internal Affairs and Communications (MIC), in our understanding, addresses the necessity of applying regulation against the lack of transparency of mobile rates and not the level of the rates itself. We fully endorse the proposal to clearly separate the handset cost from service charges.
<b>Questioner No. 2</b>	
Q1	The regulator only asked operators to enhance the transparency of rates, so you did not necessarily have to cut down on your rates. What were the factors that lead to your decision on a 400 billion-yen rate cut? Can you also share with us your vision as to the level of rates you are targeting and the position you wish to secure as a result of competition?
A1	As a basic premise, please be advised that the rate revisions we are discussing here is the average value, so it does not mean that all customers will be able to enjoy a reduction across the board. We believe the execution of a rate cut of 20-40% will likely allow us to nearly match with the rates to be offered by Rakuten when they enter the market. We believe this is the adequate level after comprehensively analyzing the gap between the "rates that customers consider worth paying" indicated in various survey results and "the current rate."
Q2	The various services you offer in the finance/payment category such as asset management and insurances, etc., have developed into good services that allow you to generate additional revenues from your existing mobile subscriber base, but they may not be compelling enough to attract new mobile subscriptions. What kind of measures can you contemplate to improve the attractiveness and competitiveness of each service? For example, what is the strength of your lending service compared to similar services offered by other players?
A2	It is important that we listen humbly to the opinions of customers and continually brush up each service. In terms of the service quality of our lending service, for example, we believe the reliability of the scoring data that we offer is relatively high. Upon the launch of services, we try to offer them as their best condition after performing verification trials with our partners. Adoption by a large number of customers is also important to further improve the quality of the services we offer, and in this regard, we believe we are in an advantageous position in the domestic market.
<b>Questioner 3</b>	
Q1	This is about the "revenue creation from +d" on slide no. 6.

	We can roughly calculate the "revenues from members" by multiplying the total amount in circulation with the take rate, but what does the "length of use" indicator represent? Also, how much revenue do you envisage to generate from platform service? Please also let me know if there are any similar cases of other companies.
A1	The "revenues from members" are based on a very simple calculation of multiplying the ARPU with the number of subscriptions. The "length of use" is similar to the notion of Life Time Value (LTV). As we are providing various services to customers who do not have a mobile subscription contract with us, we know that it is better to present the amounts paid by such customer for each service category, but at this point it is difficult for us to share with you such detailed level data. So please consider slide no. 6 as a conceptual diagram. For platform revenues, because we operate various different platforms, we hope you address them separately. The most typical examples of such platforms in the area of finance/payment business would be "d CARD" and "d Payment."
<b>Questioner No. 4</b>	
Q1	Regarding the graph describing the "revenue impact from launch of new rate structure" on the bottom right of P27, "Customer Returns," is it correct to understand that this envisages a recovery of revenues after the negative impact from the introduction of the new rate structure runs its course? Please elaborate why the curve indicates an upswing. Is it attributable to growth in traffic caused by increased data consumption, or an expansion of user base resulting from an increase in your market share?
A1	We are projecting an increase of revenues after the negative revenue impact has run its course. The principal factors behind the increase include the expansion of data consumption by customers who previously had limited data usage after they migrate to the new billing plan. We also took into consideration the revenue-boosting effect from accelerating the migration of feature phone users seizing the opportunity of the launch of the new rate structure. Given the maturity of the market, how to expand our customer base is an issue that requires further study. We would like to properly investigate the size of demand for a second or third mobile device owned by a single user.
Q2	You explained that you will introduce micromarketing for cost efficiency improvement, but what are your views concerning the roles of docomo Shops and your store network in the future? Is it necessary to maintain the current store network as the proportion of online sales goes up in the future? Or, will you maintain the current store network for the purpose of optimizing customers' wait time?
A2	While we are not sure whether the expression "maintaining the current store network" is adequate or not, our view is closer to the latter. As many customers still require face-to-face attendance, physical channels will continue to be necessary, though we cannot predict how our store format will look like further down the road. However, after the introduction of the new rate structure, we expect a larger number of users will apply for subscription through the web channel if they have no problem using the web service. Through these initiatives, we aim to improve our overall efficiency and shorten customers' wait time at stores.
<b>Questioner No. 5</b>	
Q1	With respect to cost efficiency improvement, NTT stated that they expect DOCOMO to deliver half of the 800 billion-yen cost efficiency improvement envisaged in their medium-term plan, but I am not sure if you can carry out a cost reduction of 400 billion yen. On the other hand, you gave a guidance of a cost efficiency improvement totaling 120 billion-yen for this fiscal year. If I multiply this amount by five (years), I can arrive at a cost efficiency improvement of some 600 billion yen. How much potential do you really have for further cost reduction?
A1	Regarding the numbers, we are on the same page with NTT, and we believe the 400 billion-yen cost efficiency improvement target for the medium term includes the 120 billion yen cost reduction planned for FY2018. Therefore, we will deliver half of the 800 billion yen cost reduction, and a portion of that has already been materialized. For the remaining portion, you will be able to get an idea if you divide the balance by the remaining years.
Q2	I thought the 400 billion-yen efficiency improvement did not include DOCOMO's 120 billion

	planned cost reduction for FY2018. Is this correct?
A2	The planned cost efficiency improvement for FY2018 is included in NTT's target, as it is based on the comparison with FY2017 level.
Q3	Then, the remaining amount that you need to achieve would be 280 billion yen. Am I correct?
A3	We will look into how to design our future cost reduction program including that point.
Questioner No. 6	
Q1	Once you shift to a "separation model," you can naturally make savings in your marketing spend, such as the commissions you pay to sales agencies for handset upgrade and handset subsidies. Is it correct to assume that you have good visibility in achieving cost efficiency improvement at an early stage because of this?
A1	As we mentioned during the discussion on regulatory trends, currently in the deliberations on the definition of separation of handset cost from service charges, we hear wide-ranging opinions. Some advocate a total unbundling that completely prohibits any handset subsidies, while others propose to permit handset subsidies of up to around 50,000 yen per unit. As we sell more than 10 million units of handsets per year, the total amount that we are able to spend on subsidies, which can be calculated by simple multiplication, becomes significant. While we cannot foresee the direction of regulations, we will respond properly whatever the conclusion may be. Having said that, however, we do not think handset subsidies will be completely eliminated. Selling a 100,000 yen handset at a price of 100,000 yen, in our view, is a little extreme. We would like to conduct studies on the proper level of subsidy going forward.
Questioner No. 7	
Q1	Do you think DOCOMO's current service charges (when "Monthly Support" discounts are applied) are more or less expensive when compared among the three Mobile Network Operators (MNOs)? When you divide the rates between those for high-end and low-end users, do you think your rates are higher or lower compared to the two other MNOs? Please give us your assessment based on the final rates after reflecting the handset costs, network charges and various discounts.
A1	At least, the current level of rates offered by the three MNOs is almost on par with one another. This is proven by the even distribution among the three players in terms of the number of customers switching carriers using the Mobile Number Portability (MNP) system, which indicates that the competitiveness regarding the rates of three carriers is also more or less even. Therefore, the focus of competition going forward is how much further each carrier will be able to reduce their rates from the current level.
Q2	Are you suggesting that with the rate reduction you announced this time around, you will lower the rates from the currently even level to make them more compelling over the competition?
A2	Exactly.
Q3	I got an impression that your medium-term management strategy is meticulously well developed from the perspective of different customer segments, attaching a focus on solutions for enterprise clients and rate reduction for consumers. On the other hand, where in your company should shareholders and investors find attractiveness? If you only cite the recovery of profit in five years from now, that does not sound sufficiently compelling.
A3	Regarding our valued shareholders, we hope to gain their understanding by making utmost efforts to realize profit recovery as early as possible and to improve our shareholder returns. All we can say is that the life span of our business is not limited to three to five years; beyond that, a bright future awaits us with a potential for further growth.
Questioner No. 8	
Q1	You have a track record of losing market share in an environment where all three MNOs offer similar rates. I believe the key reason for that is the difference of appeal to potential and existing users. Your new rounds of rate revisions may lead to gaining recognition that your rates are inexpensive, but what kind of measures will you employ to improve the appeal of your brand?
A1	If we are inferior in our appeal, we must take actions for improvement. Frankly speaking, we believe there are times when we are inferior and times when we are superior. As a long-term

	trend, our market share has come down relative to the competition, but there have been little movements when we look at the yearly changes. In fact, our market share has fared quite stably over the last two to three years. When the outflows to MVNOs are excluded from the calculation, the split among the three MNOs has been even, so our recognition may differ from yours.
<b>Questioner No. 9</b>	
Q1	You mentioned that you made this decision also "in view of countering the new entrant, Rakuten Mobile." Was this comment made from a rather defensive context, because you still have a large base of feature phone users who may find attractiveness in Rakuten's lower prices? On the other hand, when NTT explained their medium-term plan, they clearly mentioned that you will aim to expand your market share. Therefore, I sensed a little difference in perspectives between NTT and DOCOMO. What are your views?
A1	We believe we have had sufficient discussion with NTT on this matter. We, of course, believe we shall be able to acquire a larger market share if other operators take no action. As we mentioned in our reply to one of the previous questions, whenever an operator executes a rate reduction, other carriers always followed suit. This was repeated in the history of our industry. Therefore, it is too optimistic to expect that we will be the only operator to provide a rate cut, and that we will be able to significantly increase our market share as a result of price cut. Please understand that our statements pertaining to the future outlook are based on our past experience.
<b>Questioner No. 10</b>	
Q1	Regarding 5G, we often hear about the IoT solutions for enterprises and its low latency property. Can you give us an indication on the size of traffic and revenue growth driven by the high-speed, large-capacity transmission capability, high-resolution images, AR and other property components relating to 5G?
A1	The volume of traffic has shown a constant increase. The performances of network equipment and handsets have continued to improve from the days of the first-generation network, which resulted in an increase in traffic almost tracking the Moore's law. The volume of traffic on our network has been growing at a rate to approx. 15-20% per annum, and we expect this trend to continue going forward. The processing speed enhancement of handsets used by customers will definitely cause an increase of traffic, but AR may not produce additional traffic in itself. As we have seen a constant increase over the years, we do not expect it will come to a sudden halt.
Q2	Which segment will drive the revenue growth from 5G? Will it be the consumer services or enterprise solutions?
A2	We cannot give you a precise answer at this point as we are still in the middle of developing the estimates. 5G will be used as a means for accommodating traffic for consumers, and on top of that foundation, we will offer new services primarily for enterprise clients, so we can earn revenues from both traffic and services. We believe we can recoup our investments with the traffic portion from customers alone, and the added value offered through the new services will provide us with additional revenues.
<b>Questioner No.11</b>	
Q1	How much cost is required for the operation of 3G network per year?
A1	We cannot comment on the actual numbers. As you can easily imagine, operating three totally different networks is quite cumbersome. In addition, we continue to offer the same 3G rate plans developed years ago, which are different from our prevailing rate structure, and our staff at shop counters and call centers need to respond to inquiries relating to 3G rates as well. This implies that termination of 3G services will contribute to improving not only equipment costs but also all sort of operational costs.
Q2	Can you give us a ballpark amount of potential savings?
A2	We cannot comment on the amount of operational costs. For your information, the amount of capital expenditures spent for new 3G equipment account for less than 1% of our total CAPEX.
<b>Questioner No. 12</b>	
Q1	When do you plan to terminate 3G service?

A1	The target is in the mid-2020s.
Q2	Can't you stop the service earlier?
A2	We still have a total of 24.55 million FOMA users, including a feature phone user base that far exceeds 10 million, and several million communication modules. With slightly less than 25 million still remaining, our experience tells us that it will be extremely difficult to terminate the service in 2-3 years. When it comes to the customers using communication modules, because they are embedded inside various machines and equipment, the timing of switch to a new module depends on the timing of upgrade of the equipment.
Questioner No. 13	
Q1	If you successfully migrate all FOMA users to LTE, you will be able to terminate 3G and achieve cost savings, but that will take another 7-8 years. Rakuten has clearly declared to make a foray into the market with low prices. To simultaneously handle these two issues, you will introduce a simple rate plan and thereby lock in your existing customers. On the other hand, I believe you will also need to come up with measures to address the high-end segment. Do you think it is sufficient to introduce just one simple rate plan? Or, do you plan to offer a separate plan for the high-end market as well?
A1	That is still under study. As you rightly pointed out, if we divide the market into different segments and prepare a separate plan for each segment, that will allow us to properly respond to different needs. But the more we increase the rate options, the more complicated the structure becomes. We are currently discussing the right balance between the ease of understanding from customers' perspective and the ease of selling from the viewpoint of our sales staff.
Q2	You described in your medium-term management strategy that you will aim to expand your membership base capitalizing on the introduction of a new rate structure. The target number of members of 78 million, however, does not give me an impression of a significant expansion. This seems to be a target that can be achieved in the ordinary course of business just by defending your market share leveraging the launch of new rate plans. What do you think?
A2	We applied an assumption that the number of our mobile phone subscriptions will not change significantly as the competition is likely to follow with similar rate reductions. Our membership base accounts for "d POINT" members and "d ACCOUNT" holders in addition to the mobile phone subscribers. We currently have approx. 65 million "d POINT CLUB" members, and we aim to expand the number to 78 million in three years, i.e., by the end of FY2021 and eventually to 100 million with the ambition of having all residents of Japan signing up as our member. If we are successful in the acquisition of members, we can recommend them to subscribe to our mobile service as well as the services of our partners.
Q3	I tried QR code payment at a chain restaurant recently; however, PayPay, Rakuten Pay and LINE Pay offered cash rebates of 20%, 10% and 5%, respectively. No matter how much rebate is provided to customers, customers only make one payment on the spot. Don't you think the QR code payment market is a red ocean?
A3	We do not think so. The ratio of cash payment in Japan in comparison with overseas markets is overwhelmingly high, which means there is a significant growth potential remaining for us. Even if other companies provide a 20% cash rebate, because almost every player has started the business from scratch, we believe there is plenty of opportunity to address. Once the retailer participates in the "d Payment" program, we can offer sufficient support for their businesses.