Analyst Meeting Q&A (Earnings Release for the Nine Months Ended December 31, 2018)

<Opening comments>

Before going into the Q&A session, I would like to spend a few more minutes to comment on some of the questions that we have received during the 3Q.

First, I would like to touch upon the objectives and timing of the "customer return measures of up to 400 billion yen." On January 17, the Ministry of Internal Affairs and Communications finalized and presented a new regulatory framework known as the "urgent proposal for rationalizing mobile services, etc." The proposal has two pillars. As you are aware, one is the realization of "rate plans that are simple and easy to understand" and the other is "ensuring appropriateness in the business operations of sales agents".

Media reports are generally written from the perspective of consumers, focusing on the "ban of bundling service charges with handset prices" and the "contraction of handset market as a result of soaring handset prices." However, when we look at this regulatory change from a competitive policy perspective, the "complete separation of telecommunications service charges from handset prices" (1-(1) of Urgent Proposal) and "ban on excessive time-binding contracts" (1-(2) of Urgent Proposal) can be construed as measures aimed at prohibiting or restricting the retention measures promoted by the carriers hitherto. It is thus obvious that the regulatory authority's primary aim is to ensure equal footing with MVNOs and new entrants or to promote competition in the market.

Now that smartphones are widely used among the population, we have received complaints and criticism against our rate structure due to its complexity, incomprehensiveness, lack of fairness and relatively expensive rates. Amid this environment, we are about to experience a major change in the regulatory framework and the entry of the fourth player in the mobile market. When we look at precedents in Europe or the United States, markets with four mobile players have seen a significant reduction in mobile rates and a huge volatility in market share distribution. We therefore considered that the impact of the new entrant must not be underestimated. By announcing a large-scale customer return program ahead of the competition in light of these changes in environment, we intend to clearly present our position as a "market leader" to win greater confidence and understanding from our customers, so we can take an initiative in the competition ahead.

Second, I would like to talk about the "path to profit recovery after introducing the new rate structure." We have received complaints for "too limited information disclosure" and we feel very sorry about that. But at this juncture, it is too early for us to give you any indication on the "P/L impact of the new rate structure" and the "path to profit recovery". Accordingly, we would like to ask you to wait until the FY2018 full-year results announcement because we plan to present the guidance for FY2019 on that occasion. Having said that, however, I would like to add one comment, which is about the role of "telecommunications business" in our profit recovery. Under the new regulatory framework, the effects of the "retention measures" of each carrier is expected to become weaker, which will likely result in higher user liquidity. DOCOMO will not only take the lead in reducing our rates but also evolving our customer touchpoints (e.g., shortening wait time/attendance time) and proactively use micromarketing to further enhance customer loyalty, thereby defending our telecommunications customer base.

Also, as we still have a large number of feature phone users on our network, we will focus on revenue growth and upsell activities by strongly promoting their migration to smartphones, leveraging the upcoming rate revision. Furthermore, given the projected decline in business revenues, we cannot spend costs the same way we did in the past. We will pursue a drastic operational reform both in our sales and network-related units to achieve cost reduction.

By driving growth with the" two wheels" of telecommunications and non-telecommunications (e.g., Smart life, corporate and 5G, etc.) businesses to deliver profit improvement, we will strive to recover our operating profit to 990 billion-yen as early as possible.

Questioner No. 1	
Q1	Please explain the mechanism or the factors behind the rate reduction of up to 400 billion yen. I believe the expenses for campaigns and promotions are included in this 400 billion- yen estimate, so there must be a positive impact from the elimination of such expenses. I also believe the profit recovery after the rate revision is predicated upon the positive impacts from eliminating the Monthly Support discounts, users' migration to larger data plans, and upsides from feature phone users' switch to smartphones. Can you elaborate how these elements are factored in your revenue and profit projections, and how you plan to roll out these measures?
A1	We have explained that the impact of the customer return measures is estimated to be 400 billion yen at maximum. The effects from users' transition to larger-capacity plans or switch to smartphones are not included in this number. The actual profit level resulting from the customer return measures will be determined by the various revenue-boosting measures and cost efficiency initiatives that we implement. We are currently in the middle of developing the business plan for the next fiscal year and the details will be worked out as part of this process. We would appreciate it if you could wait until the FY2018 full-year results presentation.
Q2	Is it correct to understand that the "maximum 400 billion yen" rate reduction includes campaign or promotion-related expenses as well as the impact from the temporary discounts for users who have completed their handset installment payments and ready to switch plans, and these discounts will not be provided on a permanent basis?
A2	The 400 billion yen impact represents only the impact on revenues from the rate revisions that are planned to be implemented in the first quarter of the next fiscal year. Once executed, it will result in a decrease in revenues. On the other hand, we also intend to stop providing Monthly Support discounts adhering to the guidance under the "Urgent Proposal," which will have a positive impact on revenues. The net impact of these two factors will change over time, and we project its size to be 400 billion in a given year when the impact reaches its peak. Accordingly, campaign and promotion spend, or any other items that are recorded on the expenses side are not included in the estimate.
Q3	You mentioned that you will aim to grow the size of video/imagery business to 300 billion yen, but NTT Plala's scale is not that significant. I understand that "dTV" and your other offerings are generating steady sales revenues, but can you share with us the concrete components included in your plan to deliver 300 billion yen?
A3	The size of video/imagery business does not only represent the sales of NTT Plala. We will aim to achieve a business scale totaling 300 billion yen including the contributions from DOCOMO's businesses. At present, the sales of our various video-related offerings (including "Hikari TV for docomo," "Hikari TV" and "dTV") amounts to slightly less than 100 billion yen. We are not acquiring NTT Plala just for the sake of buying an asset. Our intent is to combine NTT Plala's content sourcing and production capabilities, and their network with various relevant partners with DOCOMO's video distribution business to realize synergies and expand our business into various directions. The breakdown of 300 billion yen includes further reinforcement of existing distribution businesses and character sales capitalizing on the post-production intellectual properties. Furthermore, we also plan to expand the video-related commodity sales and e-commerce—domains already addressed by NTT Plala. As we endeavor to enlarge several of these integrated businesses, DOCOMO's customer base and the approach to customers through marketing will play a significant role. By expanding various video/imagery-related businesses including 5G services leveraging our customer base through marketing, we will aim to grow the total business size to 300 billion yen.
Q4	Growing revenue from 100 billion to 300 billion yen sounds like a major leap. Listening to your

	explanation, I thought it would be difficult to achieve that number unless you succeed in enlarging your membership base. Is it right to assume that your basic strategy is to expand the membership base?
A4	Not all of the 300 billion-yen revenue will come from the image delivery business; it also includes the contributions from video-related e-commerce, content production and character businesses. This means we will be addressing different revenue sources from our existing video distribution business. We aim to grow our sales by also addressing the diversification of our video delivery offerings.
Questioner No. 2	
Q1	The numbers of handset upgrades and contract changes did not increase in FY2018/3Q compared to the same quarter of the previous fiscal year. In the case of DOCOMO, how fast you can migrate subscribers to smartphones, I believe, is a very important factor in your business. Are there any impediments for users' migration to smartphones? Also, I have an impression that handset discounts are getting overheated at the retailers, so can you tell us how such discounts have contributed to handset upgrades?
A1	The number of handset upgrades has fared higher compared to the previous fiscal year during the first half of FY2018. The pace somewhat slackened in the third quarter, as there was an impact from the change of release timing of some new iPhone models compared to last year. However, the overall number has not declined significantly from last year. Recently, given the rise in the smartphone stock base, we have seen a gradual increase in the number of handset upgrades. But the defect rate of handsets has also come down over the years, which has resulted in a slight decrease in the pace of handset replacement compared to before. Most recently, the price hike of high-end models is also believed to have impacted the sales of devices, but we do not have an impression that it showed a significant drop over the previous fiscal year. As to your concern of steep discounts provided on handsets, we have seen mass retailers competing via limited discount offers on weekends around November every year when the winter sales season kicked off, so we do not think there was an attempt on the part of the retailers to sell off the inventory to capitalize on last-minute demand. Our docomo Shops are not engaged in such kind of price discount practices. If we dare try to point out what is unique about this year, the only thing different this time around is that the timing of winter sales season coincided with the student discount promotions.
Q2	Is it right to conclude that the decrease in handset upgrades in FY2018/3Q was largely attributable to the less-than-expected popularity of certain handset models?
A2	We have not commented on any specific handset model. You may have developed such an impression because the pattern of handset sales was slightly different compared to FY2017/3Q, but there were no significant changes in the overall number of handsets sold.
Q3	I am surprised to see the continual improvement of the profit margin of Other businesses within the Smart life domain every quarter. The profit of this segment has been improving despite the slow revenue growth. You previously explained your cost reduction efforts in the Mobile Device Protection Service, but can you share with us once again the elements driving the profitability improvement? Please also comment on the prospects for further profit expansion in this business segment.
A3	Mobile Device Protection Service has been the biggest contributor for the improved profitability of Other businesses. Revenues from this service have been growing but the number of insurance claims has been declining. We have also strived to improve cost efficiency cutting down on the reinsurance premium through negotiation. Corporate solutions are also classified under Other businesses, and we have successfully secured a reasonable level of profit margin by providing highly value-added services in a very competitive market.
Q4	Is it correct to assume that at present Mobile Device Protection Service is making a larger contribution to the profitability improvement?
A4	The profitability contribution from Mobile Device Protection Service is overwhelmingly larger compared to corporate solutions.

Questioner No. 3	
Q1	Regarding the trend of mobile communications services revenues, I got the impression that the drop in revenues in FY2018/2H caused by the rate revision was moderate. Can you share your views on the status of revenues?
A1	As you rightly pointed out, mobile communications services revenues remain stable. However, it was even more robust in the first half of the year, with the first quarter showing the strongest performance. Thereafter, the impact from the Basic Pack is becoming larger every quarter. When we compare the second quarter and the third quarter, it seems the year-on-year decline in revenues have improved in the third quarter over the previous quarter. However, please be noted that the revenues for FY2017/2Q is inflated because we reversed the provisions for the projected expiry of the unused FOMA "Zutto Kurikoshi" (carry-over) allowances by approximately 5 billion yen. When this point is taken into consideration, the impacts from the rate reductions that we introduced in the past is becoming larger quarter after quarter.
Q2	How do you foresee the expenses in the fourth quarter?
A2	In the fourth quarter, we would like to focus on the initiatives that will contribute to our growth in the future as depicted in "Declaration beyond." As for expenses that have an impact on our P/L, we have earmarked out of our full-year budget some 80 billion yen as expenses relating to "Declaration beyond," of which we have already spent approximately 50 billion in the first three quarters. We plan to spend the remaining 30 billion in the fourth quarter for growth initiatives in the areas of 5G, FinTech and video services, as well as measures for customer satisfaction improvement such as smartphone classes and reinforcement of omni-channel capability and disaster restoration. Because of these initiatives, the expenses in FY2018/4Q are projected to be larger compared to the previous quarters.
Q3	Aren't there any one-off expenses included in FY2018/4Q that will not likely be required in the next fiscal year?
A3	We are projecting a year-on-year increase in the amount of loss on disposal of property, plant and equipment and intangible assets by 20 billion yen in FY2018/4Q, but we do not anticipate any increases in other general expenses.
Questioner No. 4	
Q1	Regarding the strategic positioning of your new rate structure, according to my calculation, if customers purchase handsets in lump sum, your rates will be lower compared to the competitions' in most cases. When you design your rates, what kind of objectives do you set in your competitive strategy? Now that you have better visibility on the rates to be provided by the competition, please share with us your philosophy concerning rate setting, if any.
A1	We are currently in the middle of developing the new rate structure, thus as I said at the outset, we cannot comment on anything specific. Given the changes in the regulatory framework, with all Mobile Network Operators (MNOs) looking into various scenarios, we, at DOCOMO, aspire to gain the confidence from customers and make them feel convinced and satisfied. On top of that, we would like to further expand our customer base. We are currently making a transition to the "membership base" concept. The core of these members is sustained by our mobile customer base. We will therefore endeavor to maintain and further expand our mobile customer base.
Q2	Does it mean that you will break away from the conventional sales approach bundling handset prices with service charges and secure revenues individually from telecommunications services and equipment sales? Previously, when you had dead stock, I believe you had an option to provide discounts on handsets on the presumption of recovering such discounts with the communication service charges. If you are to handle products like mobile phones for which freshness is important as a hardware offering, I believe you have to anticipate additional business risks such as inventory risks. Is my understanding correct?
A2	The general directions of separating communication services from handset sales have been set out i.e., practices like discounts on service charges contingent upon purchase of handset,

	handsets discounts contingent upon the use of communication service over a certain period of time, and sales practices providing customers with a waiver of outstanding installment payments will all be reformed. However, we need to keep a close eye on the details as to how these are implemented in actual laws and regulations as well as government/ministerial ordinances and guidelines that will follow the legislation. On the other hand, if we consider the deliberations at the recent panel of experts, there is still ambiguity as to whether handset subsidies will be completely banned or not. For example, we cannot tell if we are allowed to execute any measures to eliminate inventory when there is a buildup of dead stocks, or measures to promote user's migration from feature phones to smartphones. We would like to respond appropriately going forward, confirming the details of the regulations.
Questioner No. 5	
Q1	Was there any impact on your recent business performance, such as acquisition of new subscribers or handset sales, after you announced the upcoming large-scale rate reduction?
A1	Although we have witnessed a general trend of declining defect rates of devices and an extension in the handset replacement cycle, we have not noticed any slowdown of handset sales after the announcement of the rate reduction.
Q2	You explained that the progress of operating profit is in line with your plan despite the favorable pace of profit generation from Smart life and Other businesses, which is already approaching your full-year guidance level, owing mainly to the weak sales of handsets. Can you elaborate on the factors that are behind vis-a-vis your full-year plan, and the measures you plan to implement in FY2018/4Q?
A2	Although we did not revise our full-year operating profit guidance on the occasion of our FY2018/2Q results presentation, we did perform a review on each revenue and expense item, so there are no significant deviations from the plan at this juncture. Handset sales has been faring slightly lower than expected, but this is offset by reduced cost of equipment, so the profit from this business is almost in line with our plan. Mobile communications services revenues remain firm, but we have estimated the FY2018/4Q revenues conservatively as there is a risk of the impact from the customer return measures becoming steeper. The Smart life and Other businesses is also progressing smoothly, exceeding its forecasts. On the expenses side, as I explained earlier, we have factored in the plan the loss on disposal of property, plant and equipment and intangible assets as well as the "Declaration beyond"-related expenses to propel our future growth. Consequently, we are confident that our operating profit will come in higher than 990 billion yen, but the upside will not likely be so significant that it requires a revision of guidance.
Q3	The profit from Smart life and Other businesses is approaching your full-year guidance. Do you have any plans to spend additional expenses?
A3	Expenses for future growth mostly come from the expenses in Smart life and Other businesses, which are already included in the business plan.