

Analyst Meeting Q&A (Earnings Release for the Three Months Ended June 30, 2019)

<Opening comments>	
	<p>Before going into the Q&A session, I would like to add a few comments to explain the reasons behind the 13.8 billion-yen year-on-year increase in operating expenses in FY2019/1Q. Because some of you may have concerns about our ability “to properly control costs” as we recorded this rise in operating expenses when the full-fledged impact from the new “Gigaho” and “Gigalight” rate plans is about to become apparent in the periods ahead, I would like to make a few comments to address those concerns.</p> <p>A year-on-year comparison of only the three-month period of the first quarter tends to show large volatility depending on the prevailing business conditions of the time. In FY2019/1Q, we incurred expenses that did not exist in the same quarter of the previous fiscal year due to the following reasons:</p> <p>(1) Aggressive promotion of new rate plans, “Gigaho” and “Gigalight”; (2) Impact from cashless payment promotion campaigns, and the one-off irregular factor of point expiry in FY2018/1Q; and (3) Acceleration of technical and service development to prepare for the scheduled launch of 5G pre-commercial service in September.</p> <p>However, these factors were already anticipated when we developed our business plan for this fiscal year. Therefore, as I mentioned during my presentation, we factored these impacts in our plan and the progress of operating expense generation in FY2019/1Q was in line with our projections. Further, while the 20 billion-yen cost efficiency improvement achieved in FY2019/1Q was smaller than the amount delivered in the same period of last fiscal year, this year’s cost efficiency improvement program assumes a larger amount of cost reduction in the second half of the year, and we made progress as planned in FY2019/1Q toward the attainment of our full-year guidance of 130 billion yen. In any event, we will properly control our expenses throughout the year through meticulous management of various initiatives and solid delivery of our cost efficiency improvement target.</p>

Questioner No. 1	
Q1	You successfully lowered your handset churn rate for the April-June quarter to 0.45%, a significant improvement compared to the same period of the previous fiscal year. I believe many things happened in this period, including the transition from the conventional handset sales method in April and May to the new sales method from June in conjunction with the launch of the new rate plans. Despite these changes, you successfully managed to keep your churn rate at low levels. How do you analyze the reasons behind this?
A1	As you rightly pointed out, we achieved a significant improvement in handset churn rate. The key factor that led to this improved performance was the launch of the new rate plans. Because we made announcements concerning the new rate plans from early on, we believe the early announcement played a key role for churn rate improvement. Another factor that turned out effective was the evolution of customer touchpoints through increased focus on web channel instead of the physical shops. The enrichment of our services and point program was also instrumental in motivating customers to continue using DOCOMO. We analyze that we were able to prevent customer outflows to other carriers as a result of comprehensively promoting these undertakings.
Q2	From customers’ perspective, your handsets started to carry different prices from June onwards. Didn’t this have any impact on your churns in the period after June? The number of subscription applications for the new rate plans increased from 2.75 million as of June 30 to 3.75 million as of July 23. Have you seen any changes in the pace of adoption? Please give us some updates on these points.
A2	It is difficult to make a fair year-on-year comparison based on the sales volume for the month of June alone, because the performance in May was affected by the last-minute demand before the

	<p>change of handset sales method. The churn rate, however, for the months of June and July remained almost unchanged from the same month of the previous fiscal year, maintaining a very favorable level.</p> <p>The daily number of applications for the new rate plans began to slow gradually from July, but concerning the subscriber migration to the new “Gigaho” and “Gigalight” rate plans, unlike the time when we introduced the “Kake-hodai & Pake-aeru” scheme, we have a large number of users who still have a remaining period in which they are entitled to receive handset subsidies such as Monthly Support discounts. Through our “Detailed Rate Simulation” service, we recommend customers to switch to the new rate plan after receiving all Monthly Discounts they are entitled to. At present, users who had finished the Monthly Support program have begun to join our new rate plans. We expect that once customers complete receiving all Monthly Support discounts, the migration to the new rate plans will gain further momentum, and this view is confirmed by the track record achieved so far. Going forward, we expect to see an increase in the number of new rate plan applications as the Monthly Support program runs its course.</p>
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Questioner No. 2	
Q1	You explained your handset sales grew by 2% year-on-year to 5.92 million. I believe the competitive environment for handset sales and campaigns have changed around the timing of your launch of “Sumaho Okaeshi Program.” Please share with us your views on the current market conditions. Also, you mentioned that there was a last-minute demand in May. To the extent possible, can you explain the sales performance by month, and changes, if any, in the market after July as well as your views on the future outlook?
A1	The total number of smartphones and tablets sold in FY2019/1Q increased by 100,000 units compared to the same period of the previous fiscal year. This year, there was a significant drop in tablet sales but the number of smartphones sold recorded a growth of 210,000 units. Although we are projecting a year-on-year decrease in the number of smartphones sold for the full year, we recorded an increase in the first quarter. The impact of the last-minute demand in May was approximately 200,000 units. For June, while we had anticipated a slowdown in the pace of handset replacement due to the change of handset sales method, thanks to our attractive new handset collection that enjoys very good reviews from customers, the number of handsets sold was sustained at a level almost comparable to the number for June 2018.
Q2	With respect to the competitive landscape, can you give us a comment on the campaigns promoted by your competitors?
A2	As for our performance in the Mobile Number Portability (MNP) market, the number of port-ins and port-outs for FY2019/1Q remained completely unchanged from the same period of last fiscal year. While some distributors of other carriers continued to offer huge amount of cash rebates, we have been successful in defending our customer base. In light of these trends, we do not think there was a remarkable change in the competitive environment.
Q3	Concerning your ARPU, I believe both your gross ARPU and ARPU including the impact of discounts were slightly affected by the new rate plans. Can you explain the factors that negatively affected your gross ARPU, and the factors that caused discounts to increase?
A3	Because it has been only one month since we introduced “Gigaho” and “Gigalight,” the impact of these new rate plans on the ARPU is still insignificant. Other elements that affected the ARPU include the expanded impact from “Basic Pack” and “Basic Share Pack” launched during the last fiscal year, but this was limited to only about 10 or 20 yen. There was no single factor that affected the ARPU by more than 30 yen.

Questioner No. 3	
Q1	Regarding the 3.75 million subscription applications for the new rate plans, you mentioned that the application rate of “Minna DOCOMO Wari” was 85% when only 70% of your subscribers are eligible for this discount program. I construed that this implies a larger-than-expected number of customers who benefit from switching to the new rate plan have joined the service. Of the three-month period in the first quarter, I understand that the new rate plans had an impact only for one

	<p>month. However, can you share with us your projections on how the new rate plans will negatively affect your mobile communications services revenues from FY2019/2Q onwards taking into consideration the current pace of adoption?</p>
A1	<p>“Minna DOCOMO Wari” discount has been adopted by 85% of the new rate plan subscribers, which was in line with our projections. The 70% figure you indicated in your question represents the percentage of users who have formed a family group with three or more people. When this is added with the proportion of those who have formed a family group of two people, the total percentage adds up to 85%.</p> <p>Taking reference from the pace of migration after the introduction of the “Kake-hodai & Pake-aeru” scheme, we estimated that some 17 million users will have migrated to the new rate plans by the end of this fiscal year. At that level, the negative revenue impact from the new rate plans is estimated to be approximately 250 billion yen. At this point, we have not made any revisions to our initial estimates because only one month has passed from the launch of the new rate plans. We will keep a close eye on future developments.</p>
Q2	<p>Is it correct to understand that the pace of migration to the new rate plans has been slower than your expectations?</p>
A2	<p>The number of subscription applications came in slightly lower than expected, but the number of 3.75 million is not small at all in absolute terms, which gives us confidence about its acceptance. There are customers who are waiting for the completion of Monthly Support discounts or the timing of their next handset replacement, and we expect that these customers will gradually switch to the new rate plans going forward.</p>
Q3	<p>I would like to ask you to elaborate on slide no. 3 of the results presentation, “key factors behind changes in operating profit.” I interpreted that the decrease in mobile communications services revenues was driven by the expanded impact of discounts caused by the larger-than-expected adoption of “docomo with” discount program. But I am not so concerned about this impact because this will likely shrink going forward.</p> <p>I want you to clarify the details of the operating expenses for which you provided us with supplementary explanation at the outset. Specifically, can you comment on the size of impact from each of the three items, “the promotion of new rate plans,” “the award of points and impact from point expiry in the previous fiscal year” and “preparations for the launch of 5G pre-commercial service?” Also, is it right to assume that we do not have to expect any increase in expenses from these factors in FY2019/2Q and beyond?</p>
A3	<p>Of the factors that caused an increase in operating expenses, the impact of “d POINT” program accounted for slightly less than 9 billion yen. Besides this, no other factors brought an expense increase of over 2 billion yen. However, there were increases in expenses linked to revenue growth such as those associated with “docomo Hikari” optical-fiber broadband service, “finance/payment” solutions and “system integration business outsourced from enterprise clients.” Advertisement expenses also recorded a growth due to the launch of the new rate plans, but the magnitude of this impact was limited to less than 2 billion yen.</p> <p>We believe we can properly control our operating expenses within our full-year budget, and the progress in FY2019/1Q was lower than our projections.</p> <p>For cost efficiency improvement, we plan to deliver a larger amount of savings in the second half of the year. While it may appear that our cost efficiency program did not produce significant results in FY2019/1Q, this was also in line with our expectations, so we feel that you do not need to be concerned about this.</p>
Q4	<p>I believe the impact from the point program of 9 billion yen includes the impacts from “customer returns,” “d Payment promotion campaigns” and “point expiry in the previous fiscal year.” Can you give us a breakdown of the size of impact from each of these elements?</p> <p>Furthermore, if you do not foresee a significant decrease in the points you award to customers as part of your “customer return measures” or “d Payment promotion campaigns” in FY2019/2Q and subsequent periods, do you think the point program will continue to cause an increase in operating expenses like it did in FY2019/1Q?</p>
A4	<p>The impact of point program is reflected as “a decrease in revenues” or “an increase in expenses.”</p>

	<p>What we just explained was about the “increase in expenses” resulting from the award of points through campaigns, etc., and these expenses have no revenues to deduct from. Also, when we take into consideration the impact of points expired in the previous fiscal year, the genuine increase would not be as significant as 9 billion yen.</p> <p>We aim to control the combined annual impact from the “decrease in revenues” and “increase in expenses” within approximately 140 billion yen, which represents an increase of 10 billion yen from the previous fiscal year.</p> <p>Depending on the circumstances, we may have to implement additional campaigns for the promotion of “d Payment” and other services, but we will execute such measures only when we can expect appropriate revenues from their execution.</p>
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Questioner No. 4	
Q1	When I look at your Smart life business and Other businesses, the Smart life business posted a slight decline in profit compared to the same period of the previous fiscal year, while Other businesses recorded a remarkable increase. Can you elaborate on the reasons behind this?
A1	The profit from Smart life business was affected by the cost of points that were awarded under the “d Payment” campaign as well as the upfront costs required for the aggressive promotions we implemented with the aim of expanding the subscriber base of our content services, such as “Disney DELUXE” and “DAZN for docomo.” On the other hand, due to the steady expansion of finance/payment businesses, we incurred additional costs in association with the expansion of revenues, which had already been factored in our business plan. Due to these reasons, the profit from Smart life business dropped by 0.4 billion yen from the same period of the previous fiscal year. The profit growth of Other businesses was primarily driven by the slight increase in the subscription count of support services for customers’ peace of mind, e.g., the Mobile Device Protection Service.
Q2	Have you seen tangible results, such as increased subscriptions, as a result of your stepped up marketing for content services like “Disney DELUXE” and “DAZN for docomo?”
A2	“Disney DELUXE” is still new, just launched this year, so we will strive to expand its adoption from now onwards. “DAZN for docomo,” on the other hand, has been available for some time now, but we have identified seasonality in the contents viewed and its subscriptions generally decreases in winter due to several reasons such as professional baseball entering offseason. We stepped up our promotion from spring, aligning with the timing when the interest in professional baseball and other sports begins to pick up.
Q3	I remember hearing from you that the subscriber growth of Mobile Device Protection Service began to level off and that you cannot expect a significant increase going forward. Are you still recording an increase in the number of subscriptions? Is it correct to assume the profitability of this service has improved in tandem with the expansion of subscribers? Can you comment on the current pace and future prospects of profit growth?
A3	Because the stock base of Mobile Device Protection subscribers has grown to a considerable size, the pace of growth has moderated. On the other hand, the handset failure rate has shown improvement and we also achieved gains in the efficiency of repair costs by using recycled products in coordination with the manufacturers. Furthermore, we have improved efficiency by revising the insurance premium, etc. The profit from the Mobile Device Protection service, therefore, continued to expand at a steady pace. The service made a significant contribution to the growth of profits from Other businesses.
Q4	After Rakuten unveils their rate plans, I believe you will counter them by further lowering your rates if it is deemed necessary. In principle, do you plan to apply the newly lowered rates to subscribers who have already joined your “Gigaho” and “Gigalight” rate plans? Or, will they be provided only to those who joined the service after the next revision?
A4	It is very difficult to answer to your question because it is contingent upon many detailed conditions. We decided to launch “Gigaho” and “Gigalight” ahead of other carriers after performing a thorough study on the future competitive landscape. What Rakuten offers with their rate plans is of course very important, and we will consider our actions using the “Gigaho” and “Gigalight” plans as the basis, however, a different approach may be needed depending on what Rakuten decides to offer.

Q5	If you are to provide something to counter Rakuten's rates, I would assume that you will develop plans that are even more affordable compared to what you offer now. Accordingly, if the newly lowered rates are to be applied across the board including the customers who have already joined the "Gigaho" and "Gigalight" rate plans, it will cause a negative impact on your revenues at least for the short term. But from a longer-term perspective, if you automatically apply the newly lowered rates also to those who have already switched to the "Gigaho" and "Gigalight" rate plans, it will likely boost customer loyalty and may lead to enhanced subscriber retention. Please let us know your thoughts on how you plan to apply the lowered rates.
A5	There is nothing that we can comment on at this juncture, because we need to make a decision after a comprehensive study on the rate plans of the new entrant and the countermeasures to be employed by the incumbent operators, etc.

Questioner No. 5	
Q1	It seems that you are planning to achieve a larger amount of cost reduction in the second half of the year. Can you comment on the specific measures planned for implementation in FY2019/2H?
A1	Marketing costs, which primarily comprise the commissions we pay to agent resellers to finance discounts, are expected to be the largest driver of cost efficiency improvement for this fiscal year. Without waiting for the enforcement of the revised Telecommunications Business Act in autumn, we started decreasing the amount of commissions from early on. The effect of this cut is projected to become larger in the second half of the year. For the network, we have employed construction process controls and integration of equipment, which are expected to deliver significant amount of cost efficiency improvement effects in the fourth quarter. In contrast to last year's front-loaded program, this fiscal year we are planning to achieve a large amount of cost efficiency improvement in the final quarter.
Q2	With respect to the competition against Rakuten, how do you analyze Rakuten's overall resources including their rate plans, network and customer attributes? Can you once again share with us your views as to where you think will become the main battle field?
A2	We are not in a position to comment on the status of other companies' network.
Q3	What kind of competition do you foresee in overall marketing, not just the rate plans?
A3	The key areas of competition are expected to be the rate plans, network quality and breadth of network coverage, but we do not have knowledge on their status for any of these items. If your question is about our overall marketing approach, we will first develop a foundation that will allow our customers to continue using our service leveraging our new rate plans. In FY2019/1Q, we recognized that "d POINT" has developed into one of the largest common point programs in Japan that enjoys great acceptance from customers. Centered on the "d POINT" program and working on value co-creation with "+d" partners, we will strive to develop new services and ecosystem so that customers can fully take advantage of our point program, credit card, payment and other services. As for our telecommunications business, we believe we have superiority in the rate plans, handset lineup, after-sales support and network quality. We are also taking on the challenge to cultivate new domains, so we will compete with our comprehensive strengths.

Questioner No. 6	
Q1	I would like to know the attributes of the 3.75 million subscribers who applied for the new rate plans. Can you give us details concerning the general trend of the applicants, e.g., a high percentage of applicants are those using the same handset for over three years, or have finished receiving Monthly Support discounts, etc.?
A1	At this point, we have not been able to complete a detailed analysis on the handset usage period of the applicants. However, users who have finished the Monthly Support program are applying for the new rate plans at an early timing. Particularly, a large percentage of users who had previously been members of a "Share Pack" group (where all the group members have finished receiving Monthly Support discounts) have already switched to the new rate plans. On the contrary, if there is a member or two in the "Share Pack" group still receiving Monthly Support

	<p>discounts, the migration to the new rate plan usually happens after all members complete Monthly Support discounts.</p> <p>As we mentioned earlier, "Gigaho" has been chosen by slightly less than 30% of the total new rate plan subscribers. As this plan offers data allowance of 30GB, users who previously had restricted their data usage were delighted by this plan, and a larger percentage than the proportion of conventional large data bucket users have adopted this plan.</p>
Q2	How sizable was the impact of the new rate plans to your FY2019/1Q results?
A2	We would like to reserve our comments on the specific amount, but it was insignificant, only in the order of a few billions of yen.
Q3	Let me ask a question about the net additions for FY2019/1Q. I believe most of the net additions you acquired in FY2019/1Q were attributable to communication modules. If I assume you recorded a net increase in MVNO subscriptions and tablets, it implies that your handset net additions performance was lackluster. If you struggled in securing handset net additions amid improved churns, I assume you faced difficulty in gaining new subscriptions, is this correct?
A3	Modules accounted for 430,000 of the total 440,000 net additions recorded in FY2019/1Q. I believe your question points to whether we have seen a decline in the number of DOCOMO brand subscriptions. The handset net additions in fact improved considerably compared to the same quarter of the previous fiscal year owing mainly to the successful reduction of churns, as we explained earlier. On the other hand, the number of data plan subscriptions posted a net loss due mainly to a slowdown in the demand for a second mobile device owned by an individual user. In addition, new data plan sales decreased because under the new rate plans, unless a user has a primary subscription with either "Gigaho" or "Gigalight," the less expensive "Data Plus" service cannot be applied to the second line. This issue, however, will be solved over time as the number of "Gigaho" and "Gigalight" subscriptions expands. For your information, we have seen a drop in the number of MVNO net additions compared to the same period of last fiscal year. For handsets, as you can notice from the handset churn rate performance, we maintained the improvement trend in FY2019/1Q.
Q4	Will it be correct to understand that you recorded a net increase for handsets?
A4	We achieved an improvement.

Questioner No. 7	
Q1	Hypothetically, if Rakuten introduces disruptive rate plans, or if competition intensifies and results in a reduction of mobile communications services revenues, to what extent do you think you can sustain your profit through cost reduction?
A1	That is a difficult question to answer. To achieve cost reduction, the area we can maneuver to address short-term changes will be limited to cost of equipment sold and services and other expenses. The total amount of this cost item for the entire company is quite sizable, so there is reasonable room for further reduction. On the other hand, we also need to make various preparations if we are to achieve cost control and efficiency improvement to respond to stepped up competition in the future. For example, encouraging customers to use our web channel to complete various procedures or purchase a handset, or responding to customer inquiries with machines instead of human attendants using AI in our call centers will require system investments and other preparations. While we are currently moving forward with these preparations, it will be difficult to immediately achieve cost efficiency improvement if the competition becomes harsher in the near term. We must employ separate measures for short and medium-term cost reduction and efficiency improvement. We are pursuing medium-term cost reduction without leaving any sanctuary so we can further reinforce our competitiveness.
Q2	The Ministry of Internal Affairs and Communications is expected to set a 1,000-yen ceiling on the cancellation fee to establish a new competitive framework to increase the liquidity of subscribers. How do you think this will impact the industry and how do you plan to respond?

A2	<p>With the cancellation fee coming down to 1,000 yen from previously 9,500 yen, we will no longer be able to expect any retention effect from cancellation fees. We will also be prohibited from offering handset discounts on condition of continuing the telecommunications service subscription. Even if the discount is not contingent on the continuation of telecommunication service contract, the maximum permissible amount of handset discount (including those provided by carriers and agent resellers) is expected to be set at 20,000 yen. Although we have been providing a three-month window that allows contract termination without any cancellation fee, there were always a certain number of customers who terminated the subscription at the cost of the cancellation fee. This was because they were induced to do so by the discounts on handsets. If the ban on handset discount takes root as a common rule for the industry, we may not necessarily see frequent carrier hopping in the way that occurred in the past. In any event, the main purpose of the new regulatory arrangement is to separate handset costs from communication charges. To continue to be chosen from customers under the new rules, we will offer attractive rate plans as well as a compelling product lineup comprising not only high-end models but also standard products.</p>
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