

Mid-term Strategy of the New DOCOMO Group: Analyst Meeting Q&A

Mr. Kikuchi: Regarding the new formation, I believe Communications will have major, big changes. Personnel will come in from DOCOMO, and further you will be selling the new brand DOCOMO Business, so mentally and organizationally you'll have major changes.

Meanwhile the DOCOMO side looks like they will have only minor impact with a few corporate sales people leaving, so I am a little concerned. Particularly when you don't know how much less of telecom revenue one can expect for March 2026, what kind of design are you thinking about? The reason why you don't have targets for business result at this time is that you don't know the sense of direction of the telecommunications revenue which accounts for most of the profit. How much decrease are you anticipating by March 2026, or do you feel it is OK to have the decrease and on that basis you have cost reduction plan or network investment plan? Please tell us also what you expect the mobile revenue, and final performance of DOCOMO alone would be.

This time you have three things - will DOCOMO change and if so what are the changes, and further how much decrease in telecommunications revenue are you expecting, and what is the final profit of DOCOMO on a stand-alone basis are you targeting?

li: What DOCOMO on a stand-alone basis will take on is telecommunications and smart life businesses, and the global business we will newly be launching.

The main part is the first two: The telecommunications revenue we believe would have, as I mentioned, a lingering impact from the rate reduction. Of course if there is further reduction in rates it will have corresponding decrease. That means we have to have a tight control on cost, and what eventually we can do is to decrease expenses.

There is the network expenses but rather we incur cost on sales, for example DOCOMO Shops and there are other work done manually – after launching ahamo the ratio of online processing reached around 40%, but we are still commissioning sales which is labor intensive, and this part we can reduce still. Replacing sales procedures with digital processing is a major cost reduction target.

We are doing this gradually every year, with a cushion for sudden changes, but even if we have decreased revenue from tariff reduction we will maintain profit as much as

possible. Put in another way, we want to maintain the status quo profit level as this fiscal year.

Then where do we have the growth? The picture is that, we double the smart life revenue, though the profit rate is not very high, we still make profit there.

Additionally, digital transformation we have mentioned, and with the work style change we replace what is being done manually with digital, or reduce the various costs that are incurred, we will definitely do this as an additional reduction.

Global business will not turn a large profit immediately, so we will take time nurturing it, and as we have mentioned, we try to cover the decrease in revenue due to competition and turn it into a profit. If you have anything to add, please...

Hiroi: Regarding revenue and profit structure, it is as stated by Mr. Ii. What mobile telecommunications revenue will be and what trend we are looking at now is rather difficult to say.

That doesn't really give you a clue, so if we can break down a little bit - so-called user base, by launching ahamo this year we are basically converting trends, and we are stopping decrease – we want to maintain this trend.

Then this become an issue with ARPU; ARPU is affected by the competition policies and strategic price setting, but we cannot be too optimistic, so within that calculation and multiplication, we keep a certain range and watch the mobile revenue trends. That is all we can say at this stage.

In terms of maintaining the profit, though it is repeating what Mr. Ii said, but we created the mid-term plan so that, while controlling the capex cost with Capex to Sales we mentioned today, and sales channel will have digitalization and efficient sales method, and all in all even if the telecommunications revenue shows a downward trend we can still make a profit, and the upside will of course make an increased profit and we can maintain it.

Mr. Kikuchi: Thank you. The reason why DOCOMO and Communications don't merge is to clearly define the revenue responsibilities you mentioned – is this the only reason? In order to make DOCOMO really strong, I would think that one more time you should make the organization bigger, together with Communications and find new values or do something drastic like that.

li: You are quite right in saying there are different ways to approach the formation. Merger of course was one of the options, but Communications has had mainly large corporations as clients and has various solutions know-how, etc. DOCOMO says it's corporate business but it is still individual subscription basis. On mobile handsets we put application, and of course there is some IoT services, but I think their capability to present and sell solutions is still weak. So we will shift to Communications who is strong in corporate business and make the whole organization robust. That way they'll have clear responsibilities and can move quickly – that is the way we have chosen this time. We are not saying we won't merge forever, but I think we will have more solid start of enterprise business this way.

Mr. Kikuchi: Understood. Thank you, that is all.

Mr. Masuno: I also have two points: One is again telecommunications business, but if I may reiterate the first part of presentation, about half of additional ¥200 billion cost reduction on consolidated basis of NTT Holding is DOCOMO. And about half of the profit of synergy of DOCOMO and Communications, or with COMWARE, ¥100 billion is cost. If I break it down, it is probably cost reduction on the telecommunications business, so ¥100 billion and ¥50 billion, about ¥150 billion is basically in preparation for the decrease of revenue scenario mentioned earlier, while controlling expenses. That's my understanding, but is this logic correct?

Second is about increase in revenues. You mentioned it is Communications and its corporate business. This fiscal year other telecom operators and corporate business shows this kind of profit, but the profit plan of Communications shows in this fiscal operating profit remain at about the same level. I would like to get your view on whether this momentum will really change.

Also, with the smart life business, half of the synergy profit ¥50 billion, according to the explanation by Holding we heard earlier, is the growth of smart life business with the synergy element. So it is not pure DOCOMO business, but rather smart life business will grow as a synergy, and if so how will it be reflected in the sales? If that is the case how will the sales grow? I would like to ask these two points.

Hiroi: I would like to address the cost reduction. It is ¥200 billion cost reduction in

the whole group, but major part of, rather, about half of that comes from DOCOMO.

Regarding cost reduction, the breakdown is as explained in IR of Holding, so it is the amount including the equipment cost and sale cost and other expenses, and what is the ratio of that – it is also roughly speaking about the same level. In that sense, equipment cost, and sales cost also, the reduction is centered around the telecommunications business, and its framework is to maintain and expand profit, and we have explained it in the cost reduction scheme, it is not too far from the whole picture.

Maruoka: OK, from Communications. I think the question was on trends – whether it remains around the same level or momentum would change. With the current situation, there will be customers and an improvement in their demands for DX, and when we talk to the customers their desire to invest in DX has not waned, looking towards the next worlds, it is rather active. It is important to capture these needs.

In that sense, integration with DOCOMO this time will add a huge value of mobile, as opposed to us approaching customers' DX centered around the fixed line, and we can present options which includes mobile, and we want to capture these opportunities.

Another point is that we want to expand to local communities. That is provided mainly by DOCOMO in prefectural areas, but basically still on basis. The point is we can increase the value of customers, and whether they choose us – that is the major point, and we want to create a growth trend for enterprise business from those two directions.

li: Regarding the smart life, question was whether it was DOCOMO alone, we believe in terms of consumers many well be the area DOCOMO has to work hard. However, most of the basic service is realized through software, so software development capability or data analysis will be central to these services. So integration with COMWARE provides a very reliable partner.

Of course it is DOCOMO's management decision on M&A or other methods. So far we have covered existing areas like finance and payment, or video/entertainment. They are presented on page 12 where we skipped the explanation, but we think the main arena of competition will be XR or medical.

We have just started medical, so the amount is still small, but it not only includes diagnosis or health care, but also so-called online sale of drugs, which includes not only

prescription drugs but over-the-counter medicine, so honestly it moves huge amounts since it is sale of goods, so we have just announced on the October 22nd, that we would make an investment in a company that is proceeding with this. We would like to increase revenue sources in this area early, but the key is its DX – it is software capability for connecting with DOCOMO's membership base, so it is how we combine software. That is all.

Mr. Masuno: Just to double check, on the cost reduction you mentioned in the outset, it looks like half the cost of synergy with Communications, namely ¥50 billion out of ¥100 billion, would basically contribute towards decrease of cost in telecommunications business. Is this the right understanding?

Hiroi: I'm sorry Mr. Masuno, I don't understand the question.

Mr. Masuno: About half of ¥100 billion synergy with Communications is cost, and about half is topline, but when I look at cost reduction, network or efficiency accounts for a large part, thus so-called telecommunications business cost will decrease – is this correct?

Hiroi: I'm sorry, I think it was explained at that time, but this cost reduction is not pure contribution amount, it does not correspond to the profit on one-on-one basis. So that's one thing you should understand. However, the cost reduction in telecommunications business does affect quite a bit – that is a correct qualitative understanding.

Mr. Masuno: Thank you, that's all I have.

Mr. Ando: I would like to ask about enterprise business – sales target is over ¥2 trillion, but does this include network services? If it does, in the growth part, what is the difference in overall growth according to the network and upper layer parts?

From a different angle, angle of large corporations and SME's, which one is expected to have growth, and what mechanism do you plan to launch businesses? Perhaps you can start from there.

Maruoka: Growth part does include the network. In terms of network and upper layers, we want to have about half of that growth will be B2B2X or smart-world type.

Remaining half is what you stated, new network service. We want to offer converged services, which include fixed from Communications and mobile from DOCOMO. That and what we mentioned earlier, we want to expand the customer base, so including that element,

accounts for roughly half – that is an overall image.

Also, growth of large corporations and SME's – actually B2B2X includes SME's that has transaction with large corporations, but overall larger corporations account for big part. So large corporations has higher expectations, but SME's or the communities has a potential with various campaign like Decentralized Society or Regional Revitalization, or they can enjoy the benefit of government DX will permeate the community, so we would like to expand customer base of the local communities.

Mr. Ando: That means you have the understanding your enterprise business can expect greater revenue, including expansion of the customer base in the network part.

Maruoka: Yes, that's what we aim for.

Mr. Ando: Thank you.

li: Let me add a little. It may be from a different point of view, but we are proceeding with what we call Business d Account. Basically we are recommending Business d Account to all SME's that have subscription – it is a form of ID. Business d Account is allocated to all employees that work for the company. It is a basis for system requiring for DX such as single sign-on, so it is different from consumers, in that the market of the employees of a company is big for us to be involved in the future.

Large companies can do that but smaller SME's get, the more difficult it is, so that has become our target. If you can do that, we can approach them with ID, lowering marketing cost, and by having growth there it goes beyond subscription, and the venue for competition becomes how we can bring value added services. Insurance service for the employees for instance. Lots of different ideas, and we can link it with smart life business. It is our plan, so we cannot talk about it very much.

Mr. Ando: Thank you very much. Second question is also regarding enterprise business. It is preaching to the choir but there is period for making investment and recouping that investment, and you position that aim for fiscal 2025 as definitely a recouping time. Making investment is long in itself, several years perhaps, and question of what type of investment you need. Not only CAPEX, also human resources or many other types of investment – if we divide between reinforcing the organization and making revenues, in those 2 phases, what image should we have of your vision?

Maruoka: As you point out, we are going to be making various investments as the New DOCOMO Group. Here there is actual work in preparation for installation such as 5G and 6G, and IOWN, so we need that kind of investment.

Also, as you pointed out, another is employees, human resources. Here, as you know, the market is very tight, including engineers – it is difficult to hire, but this time COMWARE will be linked with DOCOMO and Communications, as we explained to you. We are increasing our personnel - we aim for 5,000 employees each for agile development and data analysis is a sign of that.

On the other hand we will have to hire more and more mid-career employees we need. We will have to make an investment in training, and it will take certain time to recoup such investment, so that is an important factor for the future and for now as well. It will take time to recoup investment, so human resources training is emphasized. There are things to do in long-term basis, and there are things we need to do immediately in a rush.

Mr. Ando: So we would like to have an image of profit – in short term emphasis is cost reduction and ensuring the profit, and in long term emphasis shifted to – is this about right?

Maruoka: Yes, you mentioned making the network more efficient, we also need that done in a parallel basis. Also regarding the profit, there was a question earlier asked of Holding, currently our profit ratio is 11 to 12% for Communications, and we want to ensure the level of profit margin, and making efforts on ensuring profit.

Mr. Ando: Thank you.

Mr. Tsuruo: Two questions.

First is regarding the exchange with Mr. Sawada. You're aiming for telecom Capex to Sales of 16.5% or lower, which is currently 17%, but what figures are denominator and numerator? The CAPEX will decrease (or you could calculate it so that it won't decrease), how shall we think about this? Also, when you have to expand coverage for 5G, how much do the base stations and transmission route weigh in?

Hiroi: This time we use the telecom Capex to Sales, so what DOCOMO defines as revenue is the telecommunications revenue as the main revenue, and going forward Communications revenue side has basically data network revenue and voice related

revenue. The investment we will need in order to realize these revenues will be Capex to Sales going forward. Within this range we'll cover the 5G rollout as well.

Mr. Tsuruo: OK.

Second question is that when you expand smart life business, you said you would start the loan business. What is the planned revenue and profit in these five years, or two, two and a half years? Whatever you could share.

li: I think this falls within M&A and investment, so I'm sorry I won't be able to give you straight answers, but there are several ongoing projects. We don't have many large-scale ones, but for example in the medical field we talked about we cannot do it unless we loan out or invest what we do not have, so acquiring them is the way we are going to do it.

Mr. Tsuruo: Thank you, that's all.

Mr. Kinoshita: I want to ask about enterprise business. First question is that profit is envisioned to be 11 to 12% for Communications - can we assume enterprise business of the New DOCOMO Group as a whole has similar profit margin? Also, from what you said, you are maintaining a certain level, so the profit growth for a while will be the same as sales? The competition have two-digit growth target, so I want to double-check.

Maruoka: Regarding the profit envisioned, how we can contribute to ¥370 for the Holding or the whole group mentioned earlier will be a main point. As to the enterprise business as a whole, the growth topline is ¥1.6 to ¥2 trillion, with its CAGR 4.6%, which is not bad for growth. On the other hand there is an impact of decreased revenue for existing businesses, and even with that covered it is still 4.6%. You can understand this as an expression of our will that we want to have at least this much growth.

Mr. Kinoshita: How about profit? With the understanding that other companies say it is difficult for them to achieve a double-digit growth of sales, but they still want to have a double-digit growth for profit. Can we say the profit growth for you is around 5% as the target for a while?

Maruoka: We will have growth of topline, and profit margin will be maintained somehow, so we anticipate that much growth will continue.

Mr. Kinoshita: OK.

Second question is regarding the sales organization for SME's. Earlier you

mentioned you would be using DOCOMO's offices in various prefectures, but if you use those offices, will you have enough personnel to provide solutions from Communications? Will it be a challenge for proactively hiring and increasing manpower?

Maruoka: I think it has to do with the relationship between the real sales personnel, and solution provider staff, but we see the level of solutions in SME's and larger corporation have major differences. SME customers, while they have fairly simple sales activities, we have several patterns of mini-solution models, which we roll out efficiently. So in terms of the number, there are more sales personnel, but we want to use major offices for supporting these activities, or to pursue DX by making solutions like we mentioned simpler.

Mr. Kinoshita: So the organization is already intact to a certain degree, rather than making it from now.

Maruoka: DOCOMO has their organization, and we have ours, so we are going to try to make a best mixture going toward the second step.

Mr. Kinoshita: Thank you.

Mr. Moriyuki: I want to confirm the execution schedule, and you mentioned you had done a lot of preparation work before making the announcement for the New DOCOMO Group. Specifically, what kind of preparatory work are you doing at this stage? For example, meeting of department personnel, and how far have you progressed, what should be done in step 2 going forward?

li: As mentioned by Sawada earlier, there was the dining issue and study meeting of fair competition, so we have not involved regular level employees and have not had detailed explanation about reorganization. In the management-class personnel, and also with limited level, we have proceeded with the preparation work, so going forward the second step becomes the most important. We'll have to determine how we design the new organization, its governance and the issue of location for instance. That kind of details are going to be firmly worked out step by step in the remaining time.

Overall framework and what pillars of business we are going to have, the details will have to be worked out - whether they will be shifted to Communication following the method we have mentioned.

Mr. Moriyuki: The large picture of shifting to Communications.

li: Yes that is correct.

Mr. Moriyuki: The details will be determined going forward – I got it.

Second question is that, when they have a new form, the product development capability is going to be extremely important. COMWARE will be important, but just putting the two together will only mean one plus one becomes two. Do you have any specific ideas as to the new way of thinking or approach to mission, or how you plan to control, what kind of new framework you are going to create and how you are going to adjust to this new thinking?

li: You are quite right – I think there are difficult parts when you reorganize, but as I mentioned earlier, DOCOMO will become the new parent company and COMWARE will be the subsidiary, so direction and how to allocate personnel, that kind of things will be unified as management policy, so the interaction will be completely different from having commissioned work. We will be able to talk about strategy of what kind of service we want from the upstream process – we will be able to have thicker ‘blood’ interaction.

Mr. Moriyuki: But you have ongoing projects right now, so that kind of things takes time until they are reflected in actual services, perhaps one, or two years?

li: We don’t think that way. We want to start right away an arrangement that this much of COMWARE’s resources shall be allocated to our new service, or DX, DX of the group.

Mr. Moriyuki: Thank you.

Mr. Takahashi: Overall sense of direction was very clearly communicated, but what I want to ask is transfer of MVNO to Resonant and have them continue as a separate company. You also mentioned in the media briefing that it was the best direction for DOCOMO. But when you see you have Customer First as your motto, and see the immediate competitive environment, I think there is a view that it is better to have it as DOCOMO’s sub-brand. What is your thinking on this point?

li: Of course there are many ways to approach this, but Resonant is providing a solid service in this field as OCN Mobile ONE now. What they can’t do alone may come under DOCOMO, such as linking with dPoint or recommendation at DOCOMO Shops. We can complement the activities within the healthy competition in MVNO world.

If we need a sub-brand, we can create it independent of this, and ahamo is not sub-brand, rather we built it as mid-range rate plan of the main brand. We are not rejecting that direction, but OCN Mobile One brand has its own customers, and we want to value them.

Mr. Takahashi: Got it. Second question is regarding synergy. ¥200 billion in fiscal 2025 means if I average it out it's an increase of ¥50 billion per year. If I break it down, the impact of revenue increase accounts for about half, effect of cost reduction is half - you still have an increase of ¥25 billion every year, which seems smaller than I thought. What do you think?

Hiroi: You say it is smaller than you thought, but we have done our maximum internal reviews, stretched the profit to the max, that figure further contributes to the consolidated profit as a whole, achieving the current target EPS, AND in fiscal 2025 it goes beyond that and increasing trend of EPS – we believe we have included the maximum impact in this plan.

Mr. Takahashi: OK, got it.

Mr. Eguchi: In the final analysis, by integration of the three companies, I believe you are now seriously entering in the competition with system integrators. Regarding ¥400 billion margin of growth, which will be mainly DX projects, I think it would be difficult unless you reinforce the upstream process. By integration this time, can we assume you are covering what you didn't used to have in the upstream process – sales capability of business and top management and reinforcing them? Could you talk a little bit about your approach to the competition with system integrators?

Maruoka: First of all, in how we compete in the enterprise business, DX is the key word, and we'll be able to sell in combination with mobile, which Communications did not have is a big point.

Regarding response to customers, now other system integrators are doing the same, but we believe how we can get in LOB in the form of 'IT Aide' will be the next major point. So far Communications has done the IT type of business, but things are different in present days; now we have to firmly get into OT. Or, unless we collaborate with customers in LOB, we cannot drive the customers' DX - so we want to take the approach of how we can solve the issue at hand with the customers with that kind of viewpoint, and training the staff who

could do that type of consultation is also important.

We used to have a company named Com Solutions, and they had different roles. Now we consolidate them under Communications, and we are reallocating different resources in the group. From this point of view, we are making efforts so that we can compete with system integrators.

Mr. Eguchi: Thank you.

Mr. Okumura: About the mid-term management target for F/Y 2025, I'd like to know the reason why you didn't list it on operating profit basis. Telecommunications business everyone is concerned about, but your explanation earlier was that you would be able to maintain the current level, so it is simply not announced at this time? Original DOCOMO announcement was ¥990 billion operating profit in F/Y 2023, so please give us the background.

Hiroi: TOB is completed, and we are a 100% subsidiary of NTT Group. Now except for Data, NTT Holding is the only publicly listed company. We are unlisted, and we have the target EPS as Holding, and within that big framework, we all contribute toward achieving that EPS. EPS is composed of many elements, not only operating profit, so we thought within the similar framework this time.

Mr. Okumura: Got it.