

NTT DOCOMO FY2022/1Q Results: Analyst Meeting Q&A

MC: Thank you for taking time out of your busy schedule to attend today's meeting. I am Akaishi, Head of IR Office, NTT DOCOMO, and I will serve as the MC for this meeting. Please be advised that this session is currently live-streamed on NTT DOCOMO's IR information site, and its recorded audio will be posted on the same site for on-demand distribution later.

Before we begin our explanation, I would like to inform you of three points. First, let me introduce today's three participants from NTT DOCOMO; Mr. Kuriyama (Senior Executive Vice President), Mr. Yamazaki (Executive Vice President and General Manager of Corporate Strategy and Planning Department) and Mr. Kobayashi (Senior Vice President and General Manager of Accounts and Finance Department). Next, regarding today's schedule, Senior Executive Vice President Kuriyama will provide an overview of financial results using the presentation slides, after which we will take questions. We expect to finish the meeting at around 17:45 Japan standard time. Finally, I would like to confirm the materials for today's meeting. The presentation slides and other related documents are posted on NTT DOCOMO's IR information site. Please refer to them as adequate. We will now begin the presentation, Mr. Kuriyama, the floor is yours.

[Results Overview]

Mr. Kuriyama: Good afternoon, I would like to provide you with a brief overview of our financial performance for the first three months of the year ending March 31, 2023 (FY2022/1Q).

I will begin with the results highlights. As shown on the slide, operating revenues dropped by ¥13.7 billion year-on-year to ¥1,421.8 billion. Operating profit grew by ¥0.9 billion year-on-year to ¥283.7 billion. We thus recorded a decrease in revenues but an increase in profit.

We secured year-on-year profit growth, which was primarily driven by the steadfast expansion of our growth areas, i.e., enterprise business and Smart life business. We believe we got off to a good start as planned, achieving results just in line with our full-year forecast.

Net profit attributable to shareholders of NTT DOCOMO, INC. was ¥205.1 billion, up ¥6.8 billion year-on-year, and the results by segments were as shown on the table.

Next, I will explain the key factors behind the changes in operating profit. In the enterprise segment, we recorded a significant increase in solutions revenues as a result of winning large-scale projects and other factors, while delivering profit growth of ¥9.0 billion through cost reduction achieved through operational efficiency improvement. With respect to Smart life business, although there was an increase in expenses required to step up some advanced initiatives, we were able to boost profit by ¥8.3 billion by the steadfast expansion of marketing solutions and finance/payment services. As for consumer communications business, mobile communications services revenues recorded a year-on-year decrease as projected due to the impact of customer returns, but we managed to limit the decline in overall consumer communications profit to ¥16.3 billion by improving cost efficiency through structural reform of our sales channel and network. We aim to deliver a year-on-year profit increase by further expanding the

revenues from Smart life business and enterprise solutions. As a result of the foregoing, operating profit for FY2022/1Q was ¥283.7 billion, up ¥0.9 billion compared to the same period of the last fiscal year.

Let me give you some more color on the performance of each business segment. In enterprise business, in addition to the revenues from the large-scale projects that I mentioned earlier, the investment appetite among corporate clients for Digital Transformation (DX) has remained very strong, and also due to the need to respond to hybrid workstyles amid the lingering impacts from COVID-19, our solutions revenues increased by ¥8.6 billion year-on-year to ¥117.3 billion. Going forward, we will aim for further revenue expansion by reinforcing our sales structure through the business integration of former three companies (DOCOMO, Communications, Comware). To give you an example of our concrete contribution to the DX of society/industries through B2B2X—an initiative that we have been promoting for some time now, we launched in May 2022 a new service (tradename: SmartPRO), which enhances the evaluation accuracy of clinical trials carried out by pharmaceutical companies and research institutes. Through this service, we will strive to realize “smart healthcare” in a broad sense that can contribute to the advancement of medical care leveraging digital technologies.

Meanwhile, we also commenced a verification project for the “Okinawa Compass” tourism recommendation navigation service operated by Okinawa Tourism DX Promotion Consortium. NTT Communications aspires to contribute to the development of tourism business through the provision of “Compass”—a service that uncovers the charms of local communities through the use of data. We will make ongoing efforts to solve various challenges of society/industries and provide DX solutions, thereby propelling the growth of our business.

In our Smart life business, both finance/payment services and marketing solutions have made favorable progress, driving the growth of our year-to-date revenues. The total amount of transactions processed by our finance/payment services grew by 26% year-on-year to ¥2,510 billion as a result of cultivating new merchants and active promotions. We will continue to step up our efforts to acquire new users for both “d CARD” and “d Payment” and promote their everyday use. To introduce one of the initiatives we implemented in order to expand the second pillar of Smart life business, i.e., marketing solutions, in July 2022, we started joint marketing with Kao Corporation to realize data-driven CRM. We will strive to realize effective marketing by combining customers’ purchase data with the data owned by DOCOMO. We will continue to provide marketing support, implementing various measures jointly with manufacturers in market domains where we aim to realize online/offline convergence.

Lastly, about our consumer communications business. The total number of 5G subscriptions reached 13.78 million, growing at a favorable pace toward our target of 22.5 million subscriptions as of March 31, 2023. One of the recent topics is described on the right-hand side of the slide. In September, we plan to launch a new service, which allows customers to receive products purchased online either at a docomo Shop or their home at the earliest on the same day, and also have the initial set-up of the phone

completed at the same time. Previously, products purchased on online shop (in the case of handset upgrade) needed at least two days to be delivered to customers. With this new service, we will be able to respond to customers' request for same-day delivery. In this way, toward the evolution into a hybrid channel that converges physical and online experiences, we, at DOCOMO, intend to combine the convenience of online services that liberates customers from the need of visiting physical locations with the in-person support provided by the staffs of docomo Shops, with the aim of offering valuable customer experience.

The last page summarizes the key topics for FY2022/1Q.

In enterprise business, we worked on data utilization and strengthened our digital services. The first bullet point explains the joint initiative with Mitsui Fudosan Co., Ltd. at Hisaya-odori Park in downtown Nagoya. In this project, we combine our mobile data with shop data with the aim of increasing the number of visitors and inducing behavioral changes among the visitors. We plan to work together with various companies to assist their endeavors toward the advancement of digital marketing.

We also started "IoT Connect Mobile Type A," which can be used in 180 countries/regions around the world, selecting multiple carriers in a given country/region. We intend to provide total IoT solutions that can respond to the needs for hassle-free management by flexibly connecting massive number of IoT devices that are assumed to be mobility-enabled.

With respect to Smart life business, we have hitherto enriched our animations and other content offerings. Going forward, we plan to enrich our live content and strengthen our marketing solutions by reinforcing our partnerships with advertisement businesses.

To accelerate the initiatives toward business expansion in the area of XR, we entered into capital/business alliance with ANOMALY, INC., a company broadly engaged in dance-related businesses. Through this alliance, we intend to roll out various dance motion/content on metaverse to allow our customers to enjoy them.

In the area of advertising business, we agreed with CyberAgent, Inc. to establish a new company, Prism Partner, Inc. to jointly develop advertisement business. We will aim to provide advertisement products that leverage DOCOMO's membership base and CyberAgent's unparalleled track record in Japan concerning the know-how and assets in digital advertisement.

For consumer communications, we launched "ahamo Oomori" plan, and I believe many of you have already seen this new rate plan on commercial films or other media, or have even started using it. We introduced this new plan in response to customers' request for large-capacity data communications and it enjoys great reviews especially among users in their 30s or younger.

As for 6G, we came to an agreement with three major vendors in Japan and overseas (Fujitsu, NEC and Nokia) to collaborate in the verification trial for 6G. We will accelerate the research and development on 6G and contribute to the global standardization and practical implementation of 6G products.

Finally, as part of our ESG initiatives, we launched the "Caboneu Community website" in April 2022. We will endeavor to create a site that can put together various earth-friendly actions, and step up the initiatives that can contribute to the environment hand-in-hand with the society.

That's all from myself and we are now ready to entertain your questions.

[Q&A]

Mr. Kikuchi: I have two questions. The first is about cost reduction. This time around, both Smart life business and enterprise business recorded an increase in profit, which I believe was secured by cost reduction, despite the decrease in mobile communications services revenues of ¥29.3 billion. Can you give us a breakdown of the cost items that you successfully reduced? Please also comment on the cost outlook for FY2022/2Q and beyond. Because the downtrend in communications revenues including mobile communications services revenues will likely continue in FY2022/2Q and subsequent periods, can you elaborate how you plan to absorb the impact with cost reduction? The point that I am concerned about is subscriber acquisition cost, because you secured net additions (even when modules are excluded from the calculation) amid a rise in churn rate. I am concerned that the acquisition cost may partly offset the positive impact of cost reduction, so can you comment on this point as well? That's my first question.

Mr. Kuriyama: Thank you, Mr. Kikuchi. I guess your biggest concern is whether we have spent too much on subscriber acquisition and if we are properly controlling this cost. In that context, we must admit that it is difficult to expect a huge growth for consumer communications business now that Japan's demographic trend made a transition from a period of expansion to a phase of decline. The question is how we can manage our current revenues and prolong the lifespan of this "cash cow" business. On top of that, we hope to reverse the decline of communications revenues, capitalizing on the combination of our solid customer base and stable ARPU, whose downtrend is coming to a halt.

As for subscriber acquisition cost, we plan to put in place a proper control so we can make the necessary outlays to maintain our customer base and reverse the revenue downtrend.

With respect to our overall cost reduction efforts, there are no changes from what we have explained in the past. We have been making untiring efforts for cost reduction of total value chain including our sales channel and networks, and we believe these initiatives will continue to produce results as we move forward.

Our ideal is to make up for the decline in consumer communications revenues with cost reduction, and boost our profits by expanding the revenues from enterprise and Smart life businesses.

Mr. Kikuchi: Your depreciation/amortization costs for FY2022/1Q did not show any decrease compared to the same period of last fiscal year. I would like to confirm if your profit growth was driven by the reduction of sales-related costs, and there was no decrease in network costs.

Mr. Kuriyama: Thank you. Because we are making active investments for 5G, we did not record any decrease in the amount of depreciation, which is the result of capital expenditures in the past, but we have been constantly reviewing our operations costs. At the same time, as we just explained, we are also properly controlling the costs associated with our sales channel.

Mr. Kikuchi: Thank you. Moving on to my second question, I would like to ask the details about the large-scale project of your enterprise business. The profit from enterprise business recorded a year-on-year increase in FY2022/1Q. And in the future, I believe the synergies, especially from the consolidation of NTT Communications and Comware, will be visible primarily in the enterprise business. The synergies (not only limited to enterprise segment, but overall) are projected to be ¥100 billion for next fiscal year and ¥200 billion for March 2026, but can we expect some synergistic effects that can be reaped within the current fiscal year? Or, do you foresee there will be no effects for this year and then a sudden increase to ¥100 billion next year? So, my second question is about the projected pattern of synergy generation and the impact of the large-scale project that you materialized in FY2022/1Q.

Mr. Kuriyama: Thank you. Regarding your first point, the large-scale project, as this relates to our client, we cannot comment on anything specific.

However, because we have successfully enhanced the capabilities of “docomo business” and NTT Communications to win large-scale projects in various sectors, we expect to see more of these outcomes in the coming quarters.

As for the synergies for the future, we believe we are currently on track toward our ¥100 billion forecast, and we will continue our efforts as we head toward next fiscal year.

As to how these synergies will manifest themselves, “docomo business” covers both large enterprises and SMEs. First, with respect to large accounts, while we of course have had access to certain number of customers and sales routes from before, effective July 1, 2022, we launched a new structure comprising 5,000 members from eight Regional Offices across Japan, integrating all the customers/sales routes under “docomo business.”

As for products, starting this fiscal year, we have been offering a wide array of mobile and fixed-line products as well as solutions combining fixed and mobile, which are garnering great reviews. With all these pieces coming together, we were able to deliver steady growth in solutions revenues from large enterprises in FY2022/1Q.

For SMEs, because the new structure was just established in July 2022, we will accelerate our initiatives in products, sales channel and structure in full throttle from now onwards, so we can deliver synergies this year and the next fiscal year.

Mr. Kikuchi: Does that mean your synergy forecast of ¥100 billion for the next fiscal year remains unchanged and you are projecting profits of a few tens of billions of yen for the current fiscal year?

Mr. Kuriyama: We would like to reserve our comments on that point as we only finished the first three months of the year. In any event, we have not yet been able to make sufficient approaches to SME customers. Our ability to further expand our touchpoints and adequately fit our offers to customers’ requirements will determine the outcome. But I can assure you that we have made all the necessary preparations to address this market.

Mr. Kikuchi: Understood. Do you think you were able to win the large-scale project in FY2022/1Q because of the synergies?

Mr. Kuriyama: It depends on how you define synergies. At least, in the context that the client evaluated our capabilities realized by the combination of fixed-line and mobile, it can be considered “synergy”.

Mr. Kikuchi: Thank you. I have no more questions.

Mr. Masuno: I also have two questions. First, regarding cost reduction, I believe there were two types of cost reduction; on-going initiatives (other than synergies) targeting only consumer communications and cost reduction delivered by synergies. I believe the cost efficiency improvement of ¥12.8 billion you reported this time refers to standalone cost reduction efforts that are not synergies. Can you clarify what level of progress have you achieved with ¥12.8 billion in FY2022/1Q out of the total amount planned for the full year? Also, do you think it would be difficult to deliver any synergistic cost reduction during this fiscal year? On the other hand, if you pursue too much efficiency in sales-related costs, it could cause a negative impact on your subscriber acquisition. I would appreciate if you could give us your views on these cost-related aspects.

Mr. Kuriyama: Thank you Mr. Masuno. First of all, synergies can be divided into those relating to facilities and sales, and sales-related synergies can be further subdivided into those relating to consumers, enterprise business and Smart life. The facilities-related synergies are showing progress as planned.

In relation to consumers, I believe you were concerned about the risk of excessive reduction of subscriber acquisition costs. As I answered earlier, we attach significant importance on acquiring lifetime value through the expansion of our customer base, so we intend to spend an appropriate amount of acquisition cost so long as this is perceived to be feasible.

To this end, we plan to solidify our customer base through cross-selling, providing a wide array of products such as “home 5G” and “docomo Denki”, etc., so we can garner customers’ long-term usage for a variety of our offerings. And this policy remains unchanged from before.

With respect to enterprise and Smart life businesses, because these segments are still in the growth phase, we established a new structure this time, introducing a company system for Smart life business to ensure that various areas of Smart life can be viewed transversely, and we intend to spend an appropriate amount for relevant operating expenses.

Mr. Masuno: Is it correct to understand that the cost reduction amount of ¥12.8 billion in consumer communications business presented in the slide represents the result of standalone initiatives rather than synergies, and what is the level of progress vis-à-vis your full-year plan? Or, if this amount also includes synergies, please give us an explanation.

Mr. Kuriyama: Certainly, most of the cost reduction amount for consumer communications are the result of standalone measures. However, when we estimated the overall synergies, we included the impact of overall business integration among DOCOMO, NTT Communications and Comware in the ¥100 billion projection. While it is

difficult to provide you with more details at this point, please be advised that such amount is also included.

Mr. Kobayashi: As it was just explained by Mr. Kuriyama, as for the concrete items of cost reduction, because the number of customers visiting our shops has been declining, we are proportionally reducing the amount of shop operations expenses that we pay as part of the commissions payable to agent resellers, which accounts for the largest portion among the various cost items.

As for network-related expenses, although the reduction is yet to be reflected in depreciation amount, as we employed creative measures in the past in order to cut down on the loss on disposal of property, plan and equipment and intangible assets and other cost items, these numbers have already shown a decline. The progress is just on track, i.e., we achieved nearly 1/4 of the budgeted amount for the full year. Did we answer your question?

Mr. Masuno: I am a little confused. You explained that the ¥100 billion synergies on operating profit represent the cumulative impact as of FY2023, and there will be almost no synergies that can be reaped within the current fiscal year. Is this correct? You also mentioned that half will come from cost reduction and the remaining half from revenue growth, or synergies. Can you confirm if these points are correct or not? According what you just explained, it sounds as though both effects can be derived during the current fiscal year, so let me confirm on that point.

Mr. Kobayashi: To give you a recap, we certainly expect to deliver synergies on the cost side as well as from revenue expansion. Very simply put, these two elements account for roughly half each (although we use slightly different numbers for our internal management purpose).

As our response to the question whether we can deliver any synergies within the current fiscal year, we replied that we cannot expect to immediately realize half of the projected amount of ¥100 billion. However, we shared with you our ambitions concerning the synergies for this year, by giving you indications about the profit growth that we plan to achieve in the enterprise and Smart life business segments this fiscal year.

This implies that we are projecting a size of roughly ¥30 billion for this fiscal year. As we have been making approaches to large enterprise accounts jointly with NTT Communications for some time now, these endeavors are beginning to bear fruit and delivering tangible outcome in the form of increased solutions revenues for FY2022/1Q. Whether we can continue to grow our enterprise business going forward will be determined by our future actions. We intend to maintain the current momentum we enjoy among the large enterprises while at the same time properly developing and offering easy-to-sell packaged solutions through “docomo business solutions” and our eight Regional Offices. Our sales reps have already started approaching customers and we believe these initiatives can deliver additional synergies. In this regard, the incremental revenues projected from the enterprise segment truly represent synergies. Meanwhile, we will also address cost reduction. To give you an example, we have been constructing our backbone network jointly with NTT Communications. Instead of building separate networks as in the past, NTT Communications have taken the lead to

build their network based on DOCOMO's specifications, but it will take time for these efforts to translate into reduced depreciation.

As new NTT Communications, the two organizations are currently making joint efforts to cut down on various costs, reviewing our overall expenditures and reshuffling our personnel and unwinding redundant systems. We believe we have done a fairly good job as we have more or less offset the decline in revenues through these cost-cutting measures, but the size of reduction is not yet large enough to cause a significant boost on our FY2022/1Q profit. I just wanted to give you a follow-up explanation, but did I rather confuse you?

Mr. Masuno: It's okay. You are projecting about ¥30 billion in synergy profit for this fiscal year. Does this ¥30 billion represent operating income?

Mr. Kobayashi: Without synergies, we would not be able to generate this kind of profit, so I hope that you will understand it in that way.

Mr. Masuno: I understood. Finally, regarding Smart life business, you have successfully expanded the amount of transactions handled by your finance/payment services, which had a positive impact on your profit. As for the future, various players in the market have begun to accelerate their moves toward market consolidation as they fiercely compete over economic spheres. In the case of DOCOMO, I believe "d Payment" and "d CARD" are currently the centerpiece of your offerings and you are providing these services in partnership with banks, etc. Do you plan to keep it this way, with "d CARD" and "d Payment" remaining as the primary service, or do you have any plans to roll out something larger?

Mr. Kuriyama: We will not rule out that possibility and that is probably needed. "d CARD" and "d Payment" services that you mentioned were added to our finance/payment offerings to serve very fundamental needs.

To further accelerate the development, we would like to step into areas that are little closer to the finance side of the business, for example, through the creation of digital account services jointly with MUFG or the recently launched unsecured loan business.

Mr. Masuno: I have read about these initiatives in news articles, but will they grow into a sizable scale in terms of revenues and profit? I am sure they will be instrumental for service level enhancement, but this is where I believe there is a significant difference compared to "d CARD" service, which already established a large scale and generates actual profit. What are your views concerning the rollout of service that can have a profit impact?

Mr. Kuriyama: I totally agree with you. Industries and services that continue to be viable are generating profit, and that makes it possible for industries to achieve sustainable growth. The examples that I mentioned are opportunities where the overall industry itself has not grown to the fullest yet. We thus expect to generate profit in line with the expansion of industry and market. Besides what I just shared with you, we are looking into other immediate opportunities that will likely allow us to secure a certain amount

of profit, but I cannot comment on any further details at this point.

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

Mr. Ando: Let me to ask two questions. The first is about your mobile ARPU for FY2022/1Q, which recorded a decline of ¥170 year-on-year, and you are projecting a drop of ¥210 for the full year. Because the first quarter number came in lower than your forecast, I would like to know if you have seen any signs that could lead to an improvement of full-year ARPU compared to your initial projections. If you are not seeing any good signs, a deterioration in ARPU will naturally be anticipated for the second half of the year. Please comment if we should be prepared for such development.

Mr. Kuriyama: Thank you for the question, Mr. Ando. The ARPU for FY2022/1Q came in at ¥4,030. I believe we are the only carrier that has successfully maintained the ARPU above the 4,000-yen mark. You asked about the pace of decline. We believe the downtrend has begun to halt, and we hope to manage the ARPU in this direction. To give you an explanation on the factors behind this trend, if you look at the recent usage behavior of "ahamo" and "Gigaho" subscribers, we are seeing a faster-than-expected transition to large- and middle-sized data plans. How far we can maintain this trend will have an impact on the rise of full-year ARPU. We believe there are still room for us to make more sales efforts for large- and middle-size data plans looking at the market sensitivity, and there are some age groups that we have not been able to fully cultivate. We would like to strengthen our approaches to these segments.

Mr. Kobayashi: To give you just a little follow-up, in our full-year plan, the year-on-year decline in ARPU for FY2022/1Q was estimated to be smaller compared to the drop projected for the full year, because the number for the same quarter of last fiscal year was still impacted by the remaining "Monthly Support" discount (FY2021/1Q was the last quarter affected by "Monthly Support"). For this structural reason, the FY2022/2Q ARPU will likely record the largest year-on-year decrease in the four quarters of the year. Accordingly, as Mr. Kuriyama mentioned, we will make every effort to boost the ARPU, and we will continue such endeavors in FY2022/3Q and beyond. Regarding the performance for FY2022/1Q, as explained by Mr. Kuriyama, the number came in more or less in line with, or slightly higher than our internal plan, due mainly to larger-than-expected adoption of mid- and large-size data plans. If this trend continues from some more time, we believe the annual decline in ARPU will be smaller than ¥210. We will keep a close eye on how this unfolds in the future.

Mr. Ando: Thank you. You may already be tired of being asked this question, but my second point is about your plan to reduce the number of docomo Shops, which has been reported heavily by the media. According to the comments made by the CEO, you are not just reducing the number of shops but also trying to transfer the services and operations to the online shop. I just wanted to reconfirm if this is the direction you intend to pursue. Please also share with us the progress you achieved so far in the transition to a new business format, and

the outlook for the future.

Mr. Kuriyama: The question you just raised is about the direction of our sale channel, docomo Shops. As Mr. Kobayashi touched upon just a while ago, an analysis of shop traffic revealed a 30% reduction in the number of visitors compared to the previous fiscal year. Although this does not mean the roles fulfilled by the brick-and-mortar stores as an in-person touchpoint with customers have completely disappeared, reallocation of stores will be needed to adjust for the decline in the number of customers.

Meanwhile, the benefits on online services offered primarily through “ahamo” of being accessible anytime and anywhere, are appreciated by an increasing number of customers especially in the younger age groups, and the utilization of these services has steadily expanded. We therefore would like to achieve the best mix, which in turn is expected to improve the efficiency of our sales channel and lead to more effective cost efficiency enhancement.

Mr. Ando: I understood your strategy very well. Can you elaborate if the transition process has already achieved good progress and if you have any plans to powerfully accelerate this change in the second half of this year or the next fiscal year?

Mr. Kuriyama: We would like to push forward this initiative after having proper discussions with the shop managers and the local communities, and we believe we are gaining their understanding. I therefore believe we are well positioned to move ahead according to our plans.

Mr. Ando: Thank you.

Mr. Tanaka: I have two questions. The first is about your net additions. I believe the number of net additions, excluding communication modules, for FY2022/1Q was about 200,000, but if you take out the contribution of “home 5G”, the actual net additions would be around 100,000. If that was the case, I personally have an impression that your performance was not that strong, but how do you evaluate this level of net additions? Please also give us your full-year outlook. How do you evaluate the track record for FY2022/1Q, including “home 5G” subscriptions?

Mr. Kobayashi: We evaluate our performance as favorable. As for the baseline number, because the net additions for the same quarter of last fiscal year included quite a large number of fresh subscribers who joined immediately after the launch of “ahamo” service, we had anticipated a slowdown compared to last year, and the actual performance in FY2022/1Q turned out to be in line with this projection. The adoption of “home 5G” has also been trending as planned. What is most important for us is the Mobile Number Portability (MNP) subscriptions. While we do not disclose this data, our performance has shown an improvement over the same period of last fiscal year, so we believe our FY2022/1Q performance was favorable overall. We heard voices of concern about spending too much on sales promotion. In fact, promotion expenses came in slightly higher than our plan, cancelling out the positive effects of the ARPU performance we explained earlier.

Mr. Tanaka: Thank you. What is your target for “home 5G” subscriptions for the future?

Mr. Kobayashi: We do not publicly disclose that information. But we can fairly say the subscriptions are expanding at a favorable pace.

Mr. Tanaka: Okay. The current pace of growth is favorable, and you wish to maintain that momentum, will that be correct?

Mr. Kobayashi: Yes, exactly.

Mr. Tanaka: Thank you. My next question is about your Smart life business. Previously, you provided us with explanations based on several themes (e.g., content business, finance/payment, etc.). As you have established a new structure, if you have created any categories that will allow us to analyze the trends of Smart life business, please share with us the size of revenues and operating profit of each category together with their year-on-year comparison data.

Mr. Kobayashi: Among the various elements of Smart life businesses, the former “enterprise solutions” have already been reclassified to the enterprise business segment, so I would like to give you a breakdown excluding this. The different categories are; (i) content/lifestyle, which remains unchanged from before, accounting for 35% of total revenues; (ii) finance/payment 25%; (iii) support services for customers’ peace of mind 30%; and (iv) marketing solutions and others, which is a new category replacing the former enterprise solutions, accounting for 10% of revenues.

I will now explain their contribution in terms of operating profit, following the same order: (i) content/lifestyle 15%; (ii) finance/payment 35%; (iii) support services for customers’ peace of mind 45%; and (iv) marketing solutions and others 5%.

Mr. Tanaka: Understood. Do you have the same data for the last fiscal year?

Mr. Kobayashi: The revenue contribution of each category for the last fiscal year is completely the same, but there were some changes on the profit side. For the previous fiscal year, the contribution from content/lifestyle was slightly higher at 20%. Finance/payment accounted for 30%. The contributions from support services for customers’ peace of mind and marketing solutions and others were no different, at 45% and 5%, respectively.

Mr. Tanaka: Got it.

Mr. Kobayashi: The proportion of finance/payment services has increased.

Mr. Tanaka: Understood. Let me ask one more question. You mentioned that you aspire to grow marketing solutions into a second pillar to drive business growth. Does that mean the size of this business is still limited at this point of time, but you want us to look forward to their future expansion?

Mr. Kobayashi: Yes, that is exactly the message. Earlier, we introduced our joint effort with Kao Corporation. As we intend to horizontally deploy similar initiatives in other sectors in the second half of the year, we anticipate a significant growth in FY2022/2H.

Mr. Tanaka: I understood. Thank you.

Mr. Kinoshita: Let me to ask two questions. I am sorry about my inquiry into very detailed numbers, but my first question is about the waterfall chart on Page 3. It is described here that, as a factor behind the growth of operating profit of enterprise segment, the increase in solutions revenues accounted for ¥8.6 billion. Then on the following Page 4, there is a description that the growth of solutions revenues was exactly ¥8.6 billion. This can be interpreted that the year-on-year profit growth was completely identical to the amount of revenue growth from solutions. Can you explain this point?

Mr. Kobayashi: We are sorry if our explanation was not easy to follow. Because the growth of solutions is one of the most important KPIs for our business today, we have provided the revenue figures in the slides.

As you can see on the chart describing the profit impacts, the increased revenues caused an effect to push up our profits. But, of course, there are costs associated with the solutions, and they are included as “others” under “etc.”

The “others” under “etc.” include reduced voice revenues and incremental costs associated with business integration that we explained earlier, as well as other cost-reduction initiatives to eliminate such incremental costs. Please understand that all these are blended in “other (etc.)”.

Mr. Kinoshita: Okay. I construed that you provided the revenues on an “as is” basis, and while you recorded a cost increase associated with the growth of revenues, you endeavored to offset them by reducing other costs and the net result was ¥0.4 billion (although the exact breakdown may look somewhat different). I just wanted to confirm because it sounded as if you were able to replace with something very profitable, but thank you anyway.

My second question is about your economy MVNO service. Can you explain the recent trends and your evaluation on the performance of this service? Thanks to Rakuten’s moves, your competitors’ second and third brands have recorded brisk sales in the first quarter and the momentum is still maintained in the current quarter.

From your viewpoint, which was more heavily impacted, “ahamo” or the economy MVNO? Please give us your views together with some observations on the recent trends.

Mr. Kuriyama: Thank you. In terms of the impact on ARPU, “ahamo” was more heavily impacted, with the adoption of large-capacity plans has been trending higher than our initial assumptions. In terms of the impact on volume and MNP, the economy MVNO service had a larger effect. Because our services enjoy great reviews among the users for its quality and other aspects, combined with the increased recognition due to CM and other campaigns, we have seen a positive impact.

Mr. Kinoshita: Will it be correct to understand that economy MVNO services are beginning to contribute to acquiring subscribers, although it took a little time to take off?

Mr. Kuriyama: Your assessment is correct. It is beginning to make contributions, and we hope these services will underpin our customer base over the long term.

Mr. Kinoshita: Understood. Can you comment on your moves to counter Rakuten?

Mr. Kobayashi: We are sorry but we do not disclose information concerning our actions vis-à-vis a concrete player in the market.

Mr. Kinoshita: Okay, that's fine. Thank you.

Mr. Tanaka: I just wanted to confirm one point, about DOCOMO Group's approaches to capital expenditures for telecommunications services.

The amount of investment made for telecommunications facilities in FY2022/1Q showed a much steeper drop compared to the decline planned for the full year. Can you explain whether this was just a quarterly fluctuation and you foresee no changes to your full-year guidance, or if this was a result of a significant efficiency improvement?

In addition, I would also like to know if this year's telecommunications CAPEX will be more heavily skewed to the second half of the year compared to last year, because I believe you will not be able to change the full-year plan from now, so you will have to increase the amount in one or more of the remaining quarters.

Mr. Yamazaki: Thank you for the question. With respect to the CAPEX allocation in FY2021 and the progress of investments after the start of this fiscal year, last year, we appropriated a large amount of CAPEX in the first half because we needed to deliver on our 5G base station rollout plan.

For this fiscal year, as a result of the investments made during the last fiscal year, the population coverage of "Lightning Speed 5G" has reached over 50%, and the total amount of CAPEX for FY2022 is estimated to be almost comparable to the level of last year.

However, with the coverage of "Lightning Speed 5G" already exceeding 50%, customer now have access to this service in most of the heavily populated areas across Japan and are beginning to appreciate the faster speeds offered by this service.

Toward the second half of the year, we will change how we spend the budget, as we work to raise the population coverage to over 90% by the end of next fiscal year to provide more breadth. However, the total amount of investment will remain nearly unchanged.

Mr. Tanaka: Will it be current to understand that the full-year projections will not change, but since you appropriated a larger amount in the first half last year, the amount for the second half of this year will appear to be higher, and that is in line with your plan?

Mr. Yamazaki: That is correct.

Mr. Tanaka: I got it. Thank you.