

NTT DOCOMO FY2022/2Q Results: Analyst Meeting Q&A

Opening

MC: From now, we would like to start the briefing session of NTT DOCOMO FY2022 second quarter financial results. My name is Akaishi from the IR Office. I will be serving as the facilitator today. This briefing session is streamed live as well as streamed on our website later. We seek your understanding beforehand. Moreover, regarding today's materials, please refer to the presentation materials posted on our company's IR website.

Now I would like to introduce our attending members; Representative Member of the Board of Directors, President and CEO, Ii. Representative Member of the Board, President and CEO, NTT Communications, Maruoka; NTT DOCOMO Representative Member of Board, Senior Executive Vice President, Kuriyama; NTT DOCOMO Executive Vice President, General Manager of Corporate Strategy and Planning Department, Yamazaki; NTT DOCOMO Senior Vice President General Manager of Accounts and Finance Department, Kobayashi. A total of five members are attending.

Next, I would like to explain about the schedule for today. First, the President CEO, Ii, will be giving an outline explanation of the financial results followed by Q&A from the floor. We are planning to end this meeting at 5:45 p.m. Japan time. The outline of the financial results will be explained. Mr. Ii please go ahead.

Presentation

Mr.Ii: Thank you for joining us today for this presentation. My name is Ii, the President and CEO of NTT DOCOMO. I would like to start and present the second quarter of Fiscal Year 2022 financial results.

[#: indicates slide number]

#2

Let me start with the highlights. Operating revenues increased 19.1 billion yen up to 2,899.8 billion yen. As for operating profit, this increased by 0.5 billion yen and reached 576.5 billion yen. We had an increase of both operating revenues and operating profit.

#3

As far as the segment numbers are concerned, the enterprise and Smart Life segments, which we have been talking about as growth areas, continued to enjoy increase both in operating revenues and operating income. The consumer communications segment went down because of the price reduction, but we were able to contain the decrease at this level.

As far as enterprise and Smart Life business are concerned, if you combine the two, they will account for roughly more than 50% of the total sales. That is the target for the

mid-term target, and we are getting close to that target as we speak.

#4

Let me now talk about the key factors behind changes in operating profit. We had increase of 0.5 billion yen in operating income. The two growth businesses had a very positive contribution. They were able to offset more than exceed in the drop in consumer services.

In case of enterprise, solutions revenue is very strong. In particular, Integrated solutions, which we see as a growth area, is growing. This is the sum of the traditional solutions of Communications, plus DOCOMO's mobile, 5G, IoT, and other applications, and other growth areas in the future. Solutions and Integrated solutions are increasing. Also, with regard to voice communications, it is on a downward trend. Toll-free service is included in this. The usage is going down. Having said that, overall, we were able to have these solutions to reach performance in the total solutions.

As for Smart Life, marketing solution and finance and payment is the driver. We also need to make investment for the future growth. That is also the cost involved. Overall, the segment enjoyed growth in operating income.

As for consumer communications, there was a downward trend due to the customer return program. We will talk about it later on. The requirements for meeting to the large data size programs increased. And also, our Mobile Number Portability performance increased. We were able to reduce the impact of the mobile communications services revenues to 50 billion yen. And we were able to contain the overall down to 23.7 billion yen overall as a result of cost efficiencies and other measures.

#5

Let me talk about the left-side of the slide. Going forward, we believe that we need to have integrated solutions that respond to social and customer's needs. This is going to be the growth driver for our business, so that is being the case. If you take a look at the numbers inclusive of the previous year as well, on the year-on-year basis, as you see on the light-hand side, we are seeing growth in this sector. This is how I will be disclosing the numbers from now on.

#6

Then, what are some of the integrated solutions? In particular, I would like to show you the programs on the left-hand side. There have been network disruptions. Therefore, in relation to the IoT requirements, it is important that we cover multiple mobile carriers. We need network redundancy. That will be provided from December this year. If there is a breakdown in one of the networks rather, the other carrier's network will be available for usage. That is the solution which we are going to be delivering.

The right-hand side shows you the program for the enterprise businesses. Not only

our company's network and our devices, customers will use devices by other players. We want to offer centralized management for those multiple requirements also. We are offering a new program called "Anshin Manager NEXT" in order to offer security for the customers.

#7

As for the Smart Life Business, finance and payment transactions are driving the growth. d payment transaction volume has increased by 1.5 fold on a year-on-year basis. Although not mentioned here, the so-called active users have doubled in number. d payment growth has been quite significant, and also d card growth is also very significant.

There are such as marketing solutions. In the case of manufacturers, they are not able to see the actual sales number directly. Therefore, by offering virtual customer base management services, we have a customer base. The purchasing trend of our customer base can be the basis for such data.

Then, they were able to offer timely information to enable for point programs for sales or advertising business. That is done in conjunction with the manufacturers. And this will be another revenue source for the company. On year-on-year basis, this segment also increased by 20% in terms of revenue. And we want to further increase the revenue from this sector.

#8

As the Smart Life Business, there is a new service we have started, which is "d Sumaho loan". This is a personal loan service. Other than this, moving forward, we would like to add the loan and insurance as well. The left bottom as you see here, the smartphone protection, this is when the smartphone breaks, we actually protect it and cover for the damage, but that is not enough. Protecting the other home devices or we are making it a package of protection against fraudulent payment using smartphones, etcetera, are now in the package and started the services.

On the right-hand side, as you know, this is XR related initiatives. On October 1st, we have launched the NTT QONOQ. Towards the consumer and the enterprise, the metaverse and digital twin businesses will be launched as well as the devices will be provided from now onwards.

#9

Regarding consumer communications business, it was a decline in revenue and profit. However, looking at the subscribers, users, the 5G subscribers has increased up to 16 million, which is more than two-fold year-on-year. Regarding the mid- and-large data plan, ahamo Oomori or Gigaho, they are highly received. Therefore, looking at the overall number, it is a 30% increase and topped 10 million in terms of subscriptions. And this is the area that is boosting up the ARPU.

#10

There are several initiatives in the channels to increase the convenience of the customers. What is bought online, it could be received at a Docomo shop or the customers do not have to come to the Docomo shop, but they can go to a shopping mall and visit our Docomo satellite shops. We have quite of detailed responses to the customer needs. Also, on the right-hand side, for the devices, not just the new devices, but we will take it in, and we will reuse these devices and create the circular economy situation.

#11

For ESG, the sustainable models, we are using recycled material of 67%, and we have longer battery life products. We would like to launch such a sustainable model around the next February. Electricity price is increasing quite a bit. During the nighttime, at the base stations, we are going to do a sleep function so that it will not use that much electricity. We have the energy saving initiatives.

For each one of our employees, we have implemented this "Green Program" for employees as an application so that the employees will know visibly how much their actions are contributing to the reduction of CO₂ emissions every day.

#12

Lastly, this is a new topic for us. We would like to start the Web3 business because we consider this as an investment to the next growth business area segment wise. It is wallet, and the crypto asset exchange, token issuance and the most important part is the security technology. Each one of them, there are businesses that conduct each one of these functions. For us, these three or four functions, we would like to provide it in a comprehensive way. The function of that, we would like to provide that to the people who use the Web3. We would like to become the Web3 enabler, and we will start the business.

At the end of October, we have announced a collaboration with Astar Network. Today, we made an announcement and reached an agreement with Accenture to collaborate. These three companies will be the driver of these initiatives. And, of course, we would like to seek a collaboration from various industries.

It is Web3. We will be using the decentralized autonomous organization (DAO) approach. Of course, we are assuming a global roll out for this from the beginning. By next year, we would like to establish our company. Within 5 to 6 years, we would like to invest between 500 billion yen and 600 billion yen.

Especially at the initial stage, the necessary technology platform or infrastructure, and if we are going to establish a company, there may be an M&A. At the end, this is going to be a financial business. We need to have our own equity capital as well. Therefore, in this size, we are showing a determination that we will be conducting this in full scale. That is why we are showing this investment amount. We will be thoroughly working on this.

That is all from my side. Thank you.

Q&A

MC:Thank you very much Mr. Ii. We would now like to take questions. We will take questions. We will take questions from the members who are here on site. We will also take questions from people who are with us on a remote basis and who have already connected to the phone conference system beforehand.

Also, in order to take as many questions as possible from a very large number of people, we ask you to limit yourselves to two questions at a time so that we will be able to take questions from a very large number of people. We would appreciate your kind understanding. We will take questions from the members who are here with us onsite. Our staff will bring the microphone to you. Please state your name and affiliation. Who has a question? Shall we start with the gentleman in the second row? We will start with you sir.

Mr.Kikuchi: Thank you very much. SMBC Nikko Securities, Kikuchi is my name. Thank you so much for this opportunity. I would like to ask two questions about enterprise business.

Let us take a look at slide number four, page number four in the slide. This picture, let us see, can you actually show the slide?

Enterprise, 17.1 billion yen positive increased. We are not sure about the breakdown. It is too broad I think. Growth areas account for 24.1 billion yen, right? There is increase in revenues from growth areas. I think margin probably is not that high, I suppose.

With regard to voice revenue, if it is only voice revenue per se on the turnover basis, the margin should be quite high for voice revenue. We are not sure why the revenue for enterprise business grew by 17.1 billion yen. Can you talk about the breakdown behind the 17.1 billion yen increase in enterprise? You talk about increase in revenues from growth areas on Page 4.

The former NTT Communications part, system integration and solutions business is probably part of that, right? Also NTT DOCOMO's involvement in mobile services is probably included in this. Why the increase in revenues from growth areas?

What about the synergy part? What is the contribution of the synergy? The integration took place in July, right? What is the percentage of contribution from the synergies in the increase in revenues from the growth areas?

Also, for the second quarter per se, enterprise showed a very strong increase in operating income. However, again, this chart alone does not explain the increase in operating profit for enterprise business. That is my first question.

Mr.Ii:Thank you for your question. With regard to enterprise business, let me respond.

You asked about the impact or the contribution of synergy. It is very difficult to show this. The total impact is roughly as you see in Page 5. This is translated into increase in Integrated Solutions revenues.

Customer requirements are for DX. There is strong demand for digital transformation among the customers. For those types of customers, NTT Communications has been offering solutions. On top of that, we are now able to add on Docomo's new solutions as well. Also, we are able to offer IoT, FMC. We are able to offer these solutions in an integrated manner, and that is now pushing up for the top line.

As far as the customers are concerned, these services expansion embraced not just fixed time, but they also want mobile functions as well. They want totality in their solutions. That being the case, the customers have shown very positive response to our service delivery. That has contributed to the increase in top line.

With regard to operating income, as you pointed out on Page 4, it is too detailed. It is not straightforward. There are various factors. First factor is embracing these numbers. That is why it does not seem to be straightforward for you. In principle, with regard to increase in revenue and increase in operating income solutions are part of that and also existed network services is also another part of that. For example, in recent, the overall because of the revitalization of the economy, the existing network operating income and profitability is increasing. There are positive factors. On the other hand, with regard to voice, there is decline in PSTN that has had an impact. They are now offsetting one another. Overall, in totality, we see overall increase in enterprise revenue by as much as 17.1 billion.

Mr.Kobayashi:Let me add some from the finance and accounting prospective. I think it means that even though integrated solutions are growing so much, the increase in revenue is only 11.1 billion yen. Integrated solutions are increasing, but previously, we had the Olympics and the Paralympics special demands. There was a special factor. It is a reaction to that. Comware is now part of the segment. The sales for system to the group by Comware are declining. That is another part. At the end of the day, we have 11.1 billion yen increase in enterprise.

Now why the increase of revenues from growth area is 24.1 billion yen? Yes, these are growth drivers. If we disaggregate system integration, Smart World and these growth areas are making contribution. That is roughly 50% of the 24.1 billion yen. The remaining would be Cloud Foundation and voice solutions. Voice over IP and Cloud Foundation related businesses, this is done as a result of combination between NTT Communications and Docomo. That is the synergy.

I think increasing the synergy, there might be questions but actually as a result of integration, we are able to show increasing integrated solution. Yes, I think all the positive impact comes from the synergy.

Mr.Kikuchi: I see. Thank you. Thank you for that response. I am not very clear yet. I guess that there are a lot of factors behind this. May I take that this trend will continue along through the second half and the next fiscal year as well? You talked about synergy of 100 billion yen. The enterprise businesses will continue to grow, and you will be able to reach 100 billion yen in synergy. You are making very strong progress against the plan. That is how we should understand, right?

Mr.Kuriyama: If I may, let me add. We talked about integrated solutions. This is value provided to our customers. Also, our remote work and process, integrated solutions are being used to improve our own business performance as well. This has a lot of impact. Also, in comparison with the previous year, not only remote work but also remote operations had to be pursued. We made advanced investment for that. The cost is now decreasing for this fiscal year. We are able to offset the positive and the negative. That is shown in these numbers. That is how you should understand these numbers.

Mr.Kikuchi: Okay, point taken. Now if I could ask, in the past, you gave a more detailed breakdown. For example, for NTT Communications, we had a more detailed breakdown of NTT Communications sales. I would appreciate such numbers because this will facilitate greater understanding. I would appreciate more details.

Thank you. My second question is about consumer communication. This is our positive trend. In the first half, 50 billion yen decline. Compared to the previous year, the quarterly mobile communication revenue is now flat, which means the second half, you should not have any negative impact from this.

On the other hand, cost reduction efforts, cost efficiency improvement, in the first half had 26.3 billion yen positive impact. What type of cost was reduced? Can you give us a breakdown? If cost efficiency were to continue through the second half and the consumer communications were actually to show increase in revenue, then the 50 billion negative on Page 4 will probably be offset at the end of the year. Cost efficiency improvement contribution will translate into increased revenue for consumer communications. Is that how we should see the second half?

Also, when we talk about cost efficiency improvement for consumer communications, can you talk about the details? Does it relate to the point program? The amortization and depreciation has not changed much, right? If you could please give us an update on consumer communications please.

Mr.Kobayashi: Yes, thank you. With regard to consumer communications, yes we see significant improvement. Yes, we are very confident about that. That is true. As about the full year guidance discussion, we will not change the full year guidance for consumer communications because we believe that the reduction will be 21 billion yen. Therefore, in the second half, which is improvement on year-on-year basis. That is the plan for

consumer communications.

With regard to mobile communication service revenues, I do not think we can continue on with the flat trend right now. If we take a look at the ARPU for the first half and the second half, voice communication has impact on the second quarter, and roaming is beginning to make a recovery. Will this continue at the same level for the third quarter and fourth quarter? That is not our assumption. I think there will continue to be some impact from price reduction.

In particular, Gigalight import impact will probably be felt. But, yes, decrease in mobile communications services revenues will be not as much as 50 billion yen as we had in the first half. In terms of cost structure, we have been holding down network costs considerably. As you mentioned, we believe that about half of the 20 billion yen scale will be effective in both the first and second half of the year.

Distributor commissions and distributor expenses, we want to co-exist with the distributors, which means going forward we want to shift to online procedures. That is now a feasible project. With that we want to work together with the Docomo shops. We want to be able to reduce the cost. I think this will be felt during the second half.

With regard to equipment sales, the profitability is also improving. We have been able to improve our marketing activities. On the other hand though, the competition is also making efforts as far as sales and marketing is concerned. Among the distributor commission, I think there is some increase. In addition, there is also the impact of rising electricity rates, so we are not sure what will happen in the second half of the fiscal year in relation to these factors, but since we are engaged in a competitive process, I believe that we will be able to maintain the initial plan for now.

Mr.Kikuchi: What about the network? 50% from network efficiency improvement, right? Amortization is not declining as much. Network part, network related cost reduction is there, you are saying. As far as distributors are concerned, distributor cost is declining, is my understanding correct?

Mr.Kobayashi: The distributor cost, in the original cost reduction program, the channel expenses for the distributors are coming down. But then on the other hand, we have to compete in Mobile Number Portability. There are some costs related MNP competition. Distributor commissions will be increasing on the other hand. We are not overly optimistic about the second half. I do not think distributor commission will be coming down as much because the sales season is coming.

Mr.Kikuchi: Okay, thank you. That is all.

Mr.Kobayashi: As for network, I believe that there is impact from efficiency improvement. Some parts relate to the transition from 4G to 5G. I think the effects and the benefits will

be felt going forward.

Mr.Ii: If I could add. With regard to CAPEX, the numbers are not shown here. The second half capital investment is usually larger. That is because there is also transition to 5G based on 4G. That is more skewed to the second half. That number will be much larger in the second half. In the case of pure 5G, it would be new. Overlaying on 4G that is done. If we overlay 5G on top of 4G, then it will be less costly for so much increasing. The capital investment is more skewed toward the second half. That is one feature of this year's plan.

As for marketing costs, yes, we need marketing costs for the second half as well. We want to maintain the positive territory in Mobile Number Portability, which makes the marketing expenses necessary. We have to spend for what is necessary. But we will also pursue cost efficiency on the other hand as well.

MC: Is that okay? Then, we would like to move on to the next question. The center, third row from the front on the right hand side, please go ahead.

Mr.Ando: This is Ando from Daiwa Securities. Regarding this fiscal year's mobile situation, I am having a visibility to a certain degree. I would like to know about the way of thinking for the next fiscal year meaning that the ARPU is going to stabilize. I believe that that is going to continue. On the cost side, for example, the network or the sales agency distributors, I am sure you have been implementing initiatives. Next fiscal year's cost related measures, how should we think of it is what I would like to know. That is my first question.

Mr.Kobayashi: Regarding next fiscal year's numbers, we do not have it all mapped out in the plan yet. Regarding the decline of the mobile communications revenue whether we can maintain it or is it going to be mild in terms of the declining degree, but we will continue cost reduction moving forward. And for our cost, what we are trying to do is that, for example, the indirect sales divisions. We do have in each branch a division to support the Docomo shops, but we are discussing if we could optimize those department functions.

For the consumer communications business, we would like to be able to increase the profit. But at this point, we do not know whether it is going to increase or decrease.

Mr.Ii: Please understand we cannot disclose by business. The 2,300 shops, within five years, we are going to bring it down to about 700, and this year, we believe, we can reduce it by 100. Next year, we would like to reduce it more than this year. That is the plan. With that the cost of sales agent side, we would like to reduce that.

docomo Denki, we put on the brakes for that. The sales agents, we need to increase where they can make money as well. Therefore, we will come up with measures and

initiatives for them. We call it the online shop. The docomo shop's staff will do the online services as well. The shop people will be connected to the service centers online. Meaning that the customers do not have to visit the physical shop and will be able to make enquiries, and the answers will be provided to them online.

Next year, around next March we will start the service. If that goes well, then the operation cost on their side will also go down. And we expect the transactions to go up as well. Not just cutting them out but rather improve the efficiency of how they operate is where we are going to accelerate in terms of measures.

Mr.Ando: My second question is what you mentioned today the Web3. You are aiming to become a global de facto or you are taking on this challenge to roll this out globally is what you have explained. This part, what kind of a path or journey is you thinking and saying that you are going to aim for a global roll out? In the past, you have taken up challenges for a global roll out. This time you want to become an enabler and that is good is what I think. But how should we look at the global aspect of this initiative?

Mr.li: This is something that we need to think more in details moving forward. But what we are thinking at this point is that regarding the crypto asset exchange that can be done in Japan. But when it comes to the token issuance, with the current Japanese tax system, it is difficult. This is done overseas right now. For the blockchain wallet development, the development resources may be not sufficient within just Japan. We probably need to leverage the overseas talent as well.

The company structure to enable all this, we cannot just establish that in Japan. Maybe, the holding company can exist in Japan. But the actual operating company, they need to have a global roll out to begin with. The applications need to be used by the global users as well. That in sense is why we are calling this a global roll out.

Mr.Ando: Thank you.

MC: Next question please.

Mr.Masuno: Masuno from Nomura Securities. I would like to ask two questions. My first question relates to ARPU. I think the mobile ARPU has shown its best record. Mr. li you mentioned that you want to bottom out the 4,000 yen. I think this is now a possibility. I would like to ask about the background behind this.

In the case of ahamo, the ARPU is about 3,000 yen. OCN Mobile is probably less than that. The fact that you were able to improve the ARPU, why this was possible? I think the reason ARPU is improving so much is because of roaming and voice, as you mentioned earlier, but whether this unlimited plan is increasing to that extent and whether it will continue to do so is very significant. I think this is a significant factor because this also

supports the enterprise business. Can you give us the outlook if you will on this matter? I would appreciate your elaboration.

Mr.Ii: Thank you. Yes, I will take the floor first. In the case of ahamo, you are right, the ARPU is not that large, but then we provided this large bucket. That is being able to use about 100 giga with a monthly charge of 1,980 yen. People are now shifting to large buckets. Because the Gigalight, it is a tiered plan. Some are now transitioning to ahamo.

Gigaho has been very strong. Gigaho users are now increasing in number. We want this to continue. But is this controllable? Can we control this? Can we take the leadership? I think the requirement in the society is there. That is the reason.

Therefore, I think the major contents are probably YouTube, for example. All sorts of economic activities are taking place on the YouTube. It is not just video; it is not just entertainment. Companies are also now active in providing contents to YouTube. Also, this type of forum, this type of meeting is now being distributed live. So, viewing YouTube is no longer a privilege for the young people. Even senior citizens are observing YouTube. They want to see this but not just at home. That is why people are now shifting to higher priced data packets. Of course, hopefully, if we can say that our contents that are available for a fee is increasing, that will be better. I think we see very robust growth in overall contents. As long as this does not crumble, then I believe the requirements for meeting to large data plans will continue. With that as an assumption, I think ARPU of 4,000 yen is a possibility. I believe it is a possibility very much so.

Mr.Masuno: Thank you very much for that. As a matter of fact, you talked about this as uncontrollable, but this is social trend. Actually, we are very happy that that is the case.

My second question is not in relation to the financial presentation. You talked about the platinum band reallocation during the press conference. I think the discussion there was not very accurate. The transition period for the platinum band if it is reasonable, they could exceed five years. That was the recommendation. I think DOCOMO is talking about seven years; KDDI is talking about eight years; Softbank is talking about ten years. I think if it is reasonable, it should be beyond five years. As far as the cost is concerned, in the case of repeaters, as long as measures are concerned, new operators should be able to take the cost burden or in the case of filters, that would be borne by existing customers.

The period and the fee, I think, the recommendation tried to come up with the solution that was midway between the two extreme positions. Can you talk about the outlook? Because the filter it is about 50 billion yen, but over eight-year-period, the annual fee related to filter would be very small, maybe, 7 billion per annum. Can you share with us your thoughts about this matter please?

Mr.Yamazaki: Thank you. Then, let me respond to your question. The so-called taskforce, I know that this has been discussed at the aforementioned taskforce. We

mentioned that it will take 10 years, 100 billion yen will be the cost. MIC has shown the cost, I believe, in the discussion today. Having said that, I want to mention that public comment will probably be pursued. We intend to submit our comment in the context of the public comment. I hope that that opportunity will be available to us.

In that context, we hope that we will be able to characterize our argument. We would like to present our views as Docomo when the public comment begins. The introduction of the filter, for example, that is going to be regarded, and also we have to change repeater. Unless we change the repeaters, we would not be able to increase the spectrum for the new operators. That would actually lead to interference between the spectrums. I think this would lead to declining quality of the communication services for both sides. It is important the filter be introduced.

Also, we talked about licensing for five years, extension of the license in five-year period. I think you are writing an explanation. When the five-year period is over or before the five-year period is over, I think we need to think if appropriate measures be taken. Then the cost burden discussion will probably change.

We will look at the percentage materials sent for MIC very briefly. They want to show directionality for solutions where conclusion can be drawn between the private parties. Then this service is a very challenging issue. We are talking about 100 billion yen in cost.

On a year by year basis, the amount might be not that significant, but we want to emphasize our investment in 5G. We want to be able to spend cost for 5G investment. It is important that we strike the balance. We hope that there will be an opportunity for us to present our views. We want to take communications with experts as well as with the MIC, listen to the discussion.

Mr.Masuno: The Q&A session was only 10 minutes or 20 minutes. I do not think we are able to have sufficient discussion at the MIC forum. Hopefully, you will be able to monitor the public comment procedure as well. Thank you for that information. Thank you.

MC: Now we would like to receive the questions from the people who are participating online. After the asterisk press 1 if you have a question. If you want to withdraw your question after the star press number 2. SBI Securities, Mr. Moriyuki please go ahead by unmuting.

Mr. Moriyuki : This is Moriyuki from SBI Securities. The ARPU is performing very well, so I want to ask. You are saying the mid and large data plan subscribers are increasing the material. What kind of subscriber group is actually moving up? Because for you company you said that you have quite a large low-end users. I think this trend is good. Can you actually explain in combination with that?

Mr.Kobayashi: This is Kobayashi. I would like to explain the content of this. For us, the original guidance was that the ARPU is going to go down by 210 yen annually. And from

that we have deviated quite largely. For the mid and large data plan users are increasing, the content from Gigaho to ahamo Oomori, ahamo Oomori is the lower price. We thought that there will be quite a number of people that would downgrade to that plan. However, we believe it is mainly the younger subscribers. Those who actually enjoy video, they have a strong need towards Gigaho also as well as ahamo Oomori. Even younger people go to ahamo Oomori.

Also, the content of the MNP, conventionally the younger users or the elderly users, we were told they were not that strong in that. But those are the people who we are able to obtain. For those who are leaving are the ones that are not using much of our services. And that is also impacting positively to the ARPU. From the overall perspective, the Gigalight subscribers, there are steps in Gigalight. There is a trend that the people are going to the higher steps. And to begin with from the old plan to the Gigalight, the gap is not that large. So, 120 yen year-on-year drop is the second quarter. We believe that the degree of the decline will be milder than that. We are hoping that we can maintain the 4,000 yen that Mr. Ii mentioned previously.

Mr. Moriyuki: Thank you very much.

Mr.Ii: Sales wise digital marketing classed the people who feel the Gigalight is not enough. We are promoting that if you upgrade to an upper plan that you have a lot of benefits. That is being effective. So, looking out at what kind of demand exists is the key. Mainly, it is the younger generation subscribers. Instead of recommending it at the shop, the digital approach has a higher success rate.

Mr. Moriyuki: About the senior or elderly subscribers, them moving, is that going to take time? You have smartphone classes, but I think you have been putting your efforts in that for quite a long time. If that group moves, it will have a good impact too.

Mr.Ii: The video contents that the senior subscribers enjoy or digital content that they can enjoy, then they will probably shift over to the medium data plan. Before that, we are saying please use a smartphone or please use the cashless services towards the senior age subscriber group. There are other services that we would like them to take up. When we say what is the age of the senior age subscribers, well, I may become one. We still do not have something that will actually majorly trigger that shift because the senior age subscribers are quite severe when it comes to using their own money.

Mr. Moriyuki: Thank you. My second question is that the Smart Life Business is performing quite strongly. Even against the plan, it is performing quite well. This business in the second half, you still have to spend some marketing costs? Or because it is strongly performing, and it is having an upside, is that upside is going to remain quite a

bit?

Mr.Kobayashi: At the beginning of the fiscal year, we said that we need advanced investment for further growth. We said about 35 billion yen in the explanation. The content is like the XR initiatives or electricity. The major part is the establishment of a financial system, using customer data for various financial settlements in order to increase our future income. We believe that we are going to spend about 20 billion yen on increase. That is going to be impacted in the second half. The strong performance in line with the plan was slightly above it. In the annual basis, Oak Lawn Marketing, which is in a weak situation, and also absorbing the impact of the sale of DOCOMO Digital. We believe that in the second half, we will be in line with the plan.

Mr. Moriyuki: Thank you.

MC: Thank you very much for that. We would like to go on to the next question. Kinoshita-san please unmute your microphone.

Mr.Kinoshita: Thank you. I would like to ask the questions. Kinoshita from BofA. I know that we will continue to ask about ARPU. You mentioned 4,000 yen as an ARPU. However, for the second quarter, are there seasonal elements that we saw in the previous years? For example, the voice service in the second half, there will be an upside on a quarter to quarter basis. For the third quarter from October to December, during the third quarter, can we take it that in comparison with the 4,080 yen, there is going to be a possibility of downward trend in the approval for the third quarter? Now in comparison with the April to June, the number should be higher, I suppose. That is my impression. Is that the case?

You mentioned ARPU for 4,000 yen, how confident are you about the ARPU in the third quarter? I know that this is a very detailed question, but I will appreciate your take on this and on the directionality of the ARPU for the third quarter.

Mr.Kobayashi: As you pointed out, there are seasonal factors. That is true. Also, there is an impact from the voice calls. As Mr. Ii mentioned, yes, we hopefully will be able to maintain the 4,000 yen level as we head toward the fourth quarter. However, I suppose until the fourth quarter, it will be coming down. We are not sure about that. I will look for the next year because when I had made the business plan, we made effort to improve the situation. That is all I can say at this juncture.

Mr.Kinoshita: Okay, point taken, but still, let me confirm. You mentioned that bottoming out will take place next fiscal year, but there is a possibility that you will be able to bottom out during this fiscal year. You begin to get that sense, right? Is my understanding

correct?

Mr.Kobayashi: Yes, your understanding is correct.

Mr.Kinoshita: Okay, thank you very much. Next question, it is about the online shop and also the satellite shop. The relation between the two, that is what I would like to ask. Now in the case of your Docomo shop, you are also talking about setting up a satellite shop as well. It has been several months since these satellite shops were introduced. I think you are very agile, if you will, in this endeavor.

However, as far as the customers are concerned, they found that there is no Docomo shop after one year. I think this could be an issue with the passage of time, but your initiative at this moment, these issues could be solved online by the existing shops. Is my understanding correct? Is that your philosophy behind the operation of your satellite shop?

Mr.Ii: Okay, thank you for the question. Actually, the satellite shops in the small locations, we want to be able to ensure on a full year basis. We want to be able to secure that on a full year basis. We just need a very small space. Hopefully, we will be able to have a full year shop. It does not have to be a very large scale. We just needed a very small space, have staff attend the desk. Hopefully, we will be able to complete the customer requirements through this measure because we want to capture customer requirements, type of customers who are not able to use online services.

Of course, if the online procedure were to spread, then you could do everything through your smartphones. Hopefully that will spread. However, until such time, we cannot wait for people to come to Docomo shops. Therefore, it is important that we proactively set up small scale satellite shops for large amount of traffic.

What is at the backdrop? Up until now on-the-go sales, we did these at shopping malls. We would actually set up a temporary shop in the shopping mall on a time limited basis. There would be very large traffic.

In the case of tenant owners, the owners of the tenant, they are very negative when it comes to large traffic coming to their shops. They do not want people passing by because we will be calling upon customers who are walking by to come into the shop.

Therefore, this type of mobile shops is not actually supported and is not welcome by the tenants. We have to be outgoing in order to capture customers. Maybe, we can go to existing shopping districts, go to spaces that are possible, make a permanent space, even if a small space in commercial districts, the satellite shop.

Mr.Kinoshita: Okay, thank you. Let me confirm. The number of shops right now is 2,300, and you want to reduce this to 700 in five years' time, right? What about the satellite shops? The satellite shops will not be a part of this number, right?

Mr.Ii: We have not yet set a target, but satellite shops we already have 100 right now. We do not have any plans as far as the numbers are concerned.

Mr.Kinoshita: Okay, 2,300, you want to go down to 1,600, so how many satellite shops? This will be on top of the Docomo shops, right?

Mr.Ii: That is right. That is true. Management cost would not be necessary for the satellite shops.

Mr.Kinoshita: Okay, thank you very much.

MC: Thank you very much. I am very sorry, but we have exceeded the scheduled finishing time. We would like to make the next question the last question. On the left-hand side, the third row from the front, please go ahead.

Mr.Tsuruo: Thank you very much. Tsuruo from Citigroup Global Markets Japan. First, it is regarding the net gains and outlook. Recently MNP is performing strongly. The strong numbers are being shown excluding modules. I believe that you are aiming for 1.2 million annually. Against that what is the progress? For the second half, there is Rakuten, and there is the network failure issue that occurred. Do you believe that you will be able to maintain the current momentum? That is my first question.

Mr.Kobayashi: Regarding the net increase, we cannot tell you about the detail regarding MNPs. However, we believe that strong numbers are coming out continuously. For the annual basis, we can achieve the plan. The number of i-mode and sp-mode subscriptions, the only information disclosed, increased by 0.24million subscriptions in the first half. The number of sp-mode subscriptions is closer to the smartphone user base, which increased by 0.79million subscriptions. I believe that this is a satisfactory level. Regarding IoT, now we are together with Communications, and we will be able to thoroughly sell that. We believe that we are moving as planned.

Mr.Tsuruo: Thank you very much. My second question is d payment. Various numbers are being announced from the PayPay side. I would like to know your competitive strategy including the numbers. Currently for the first half, it is 925 billion GTP. PayPay is 3.5 trillion yen. The number of users is not different that much. The frequency of the usage and the active users are the differences, I believe.

Two questions; the active users became two-fold. How much is the active user percentage? If you can disclose, I would like to know. The increase by two-fold, so what is the strength behind that? Another question is the active user ratio, in order to increase it further or in order to increase the frequency of usage, what kind of promotions or strategy

do you have?

Mr.Kobayashi: Regarding the active users ratio we are not disclosing that so please understand. You mentioned about our competitors. Towards the competitors, our number is quite lower. Of course, we are trying to catch up, but the d card transaction and the d card ID, we are still seeing an increasing trend. When we look at this from a comprehensive perspective, we can compete with them in the same playing field. The number of active d payment, we need to increase. The trajectory is good on the increase, but we still need to implement some measure is what we believe.

By the way, the number of users, first half, d payment is 47.67 million, so we have created entire user base. The areas that it can be used are 4.28 million locations. That is also increasing as well.

Mr.Ii: The number of usage of per user, PayPay has a larger number, and I think that is very clear in terms of numbers. The key question is why the users are using it that frequently? The number of users or the locations that the d payment can be used, the number of transaction is totally different, and that is the issues that we need to tackle. Of course, we cannot disclose our plan that much, but this is the place we need to focus on in terms of efforts, and that is because this is the point that we are losing against the competitors.

Mr.Tsuruo: Okay, thank you very much.

MC: Is that okay? With this, we would like to conclude the FY2022 second quarter financial results briefing session. Thank you very much for your participation today. Thank you.