

## NTT DOCOMO, INC.

### FY2024/3Q Results : Analyst Meeting Q&A

#### Opening

**MC :** From now, we would like to start the briefing session on NTT DOCOMO's FY2024 Q3 financial results. I am Makaino from the IR office and will be serving as the moderator today.

The audio of today's briefing is streamed live. We are planning to have this streamed on our website at a later date so we seek your understanding. As for today's materials, please refer to the presentation materials on our company IR website.

First, I would like to introduce today's attending members: NTT DOCOMO Kobayashi, Senior Executive Vice President, Representing Member of the Board; Tsuboya, Executive Vice President, General Manager of Corporate Strategy and Planning Department; Fujiki, Executive Vice President, General Manager of Accounting and Finance Department.

Next, I would like to share the schedule for today. First, Mr. Kobayashi, will be explaining the overview of the financial results, followed by Q&A. We are planning to end this section at 5:35 PM Japan time.

Now, we would like to explain the outline of the financial results. Mr. Kobayashi, please.

#### Presentation

[# : indicates slide number]

##### #1

**Mr. Kobayashi :** My name is Kobayashi. Thank you for joining us today.

##### #2

To begin with the overview of the results, please turn to page two. This shows you the comparison with the previous year. Operating revenue increased, but the numbers are straightforward. I'd like to give you detailed explanation in the following chart.

##### #3

Please turn to page three, showing results by segment. I would like to mention that in the Consumer Business, Smart Life Business showed a strong growth. However, Consumer Communications Business showed decline in revenue. With regard to Enterprise Business, they are now showing decline in revenue.

##### #4

Please turn to the follow page. This shows the results by segment. I'd like to show you the details in the following chart so please take a look at page five.

##### #5

Key factors behind changes in operating revenues, please take a look at that chart. As I mentioned earlier, Consumer Communications Business showed a decline in revenue. With regards to Smart Life Business, finance/payment growth is very strong. At the same time, we acquired three major companies in the previous year, and these companies had contributed to

the growth. The increase due to this factor accounts for approximately two-thirds of the total increase in revenue of approximately 130 billion yen. With regard to Consumer Communications Business. There has been a decrease in mobile communication service revenue, which has dropped by 53.3 billion compared to the previous year. This is a major challenge, I believe. We are aware of that. Later on, we'll talk about how we intend to address this. And hopefully, we will deepen your understanding during the Q&A. On the other hand, due to the increase in equipment revenue, the total Consumer Business revenue has increased by 62.1 billion yen. With regard to Enterprise Business, revenue declined and it did not meet our expectations. There's the impact from PSTN migration that is reflected. Also, we try to offset that with organic growth. However, the growth was not sufficient to cover the negative impact from PSTN migration. In addition to this, we had anticipated various factors including inorganic growth, so overall, they were not able to meet the target.

## #6

This shows key factors behind changes in operating profit. Let's start with the Consumer Business. In terms of profit, they are in a very strong position. Smart Life Business increased JPY36 billion YoY. Excluding special factors, actual growth was more than 50 billion yen. I talked about this earlier, three companies that we acquired in the previous year had contributed to 2/3 in the growth of the revenue. In terms of the profit, 20% was due to acquisition and the remaining 80% was actually showing organic growth despite a very harsh environment for the Consumer Communication Business. 80% was due to the contribution of growth through organic growth. Now, turning to Consumer Communications Business, decrease in mobile communication service revenue was JPY53.3 billion. But on top of that, we also have been increasing sales force reinforcement costs as well. As was mentioned during the NTT analyst meeting held by the Company earlier, we had to reinforce sales promotion because we need to safeguard our market share. With regard to network, it's important that we improve our quality because unless we improve the quality, this, of course, will lead to a decline in the customer base. However, in the Consumer Communications Business, there's actually cost reduction measures in advance. As a result, on a net basis, the negative was JPY38.1 billion in the Consumer Communications Business. Turning to Enterprise Business. We talked about operating revenue. Operating revenue was declining in the Enterprise Business. There's the impact from PSTN migration. This is a very high profit margin, and the negative effects from the PSTN transition could not be covered by organic growth.

## #7

Please turn to page seven. I have intentionally included points on Consumer Business performance. I won't read everything one by one, but I would like to talk a little about the way of thinking behind it. First, we need to focus on customer base reinforcement. This is the top priority. we need to improve the communication quality. This is going to be very important if we want to reinforce the customer base. The communication quality was on a downward trend so we need to improve that. Now, what about the customer base reinforcement? In Q3, we plus when it comes to mobile MNP so I think we are now competitive. I feel that I have somewhat acquired the means to fight in a way that does not allow for further reduction. On the other hand, what about the ARPU growth? As was covered by the NTT analyst meeting earlier, the level of ARPU growth was not as high as we had initially expected. But we focus on Q3 though, we are beginning to see the growth being flat now. Why are we focused on this? First, again, we need to have a strong customer base. Also, that the ARPU does not decline. If we can achieve that, then we'll be able to have a base for growth going forward. This will lead to increased corporate value and shareholder value. We will grow our smart life business while securing revenue from mobile communication services.

## **#8**

Next, we will go into the details of various projects, but since I would like to take your questions soon, I will keep it brief.

## **#9**

First, Smart Life Business.

## **#10**

Let's start with the operating revenue for Smart Life Business. Operating revenue for Smart Life Business is very strong at this moment. But then, it's just a straightforward increase. I think we need to see the positioning of different factors that contribute to Smart Life Business.

## **#11**

Let's start with finance/payment. Regarding this, there is certainly an aspect of being a source of growth that firmly increases revenue and profits even within SL. As you can see, the transaction volume and such are steadily increasing. Over the medium term, though, this is going to help to really cut back on increasing churn. This will help to contain churn. The impact has already been seen. It's important that we expand user base so that we can expand the finance/payment transaction. It's important that we maintain and expand customer base, increase the base for usage of finance/payment services. Then down the road, this will help us to control the churn rate. We will no longer have to compete just based on introduction of higher marketing costs. Finance/payment, this is the source of our growth. This is also very important to defend our future business prospects as well.

## **#12**

Please turn to page 12. This relates to marketing solutions. We talked about how we want to maintain market share of 35%. Also, we want to expand our finance/payment business and create a situation where customers will be willing to stay in the finance/payment and not churn out. We see very strong growth in finance. But eventually, there is a possibility of slowing down the road. What are other areas that we can expand? I think marketing solutions is one area that we can expand further in the future. DOCOMO Group, as a whole, we've been tackling this at an early phase. In terms of revenues, we see increase in marketing solutions revenue. As the chart indicates, we're now seeing revenue of JPY121.4 billion. If you want to detail, we're more than happy to cover that during Q&A. Now let me turn to entertainment.

## **#13**

Now, let me turn to entertainment. With regard to entertainment, content and venue, I think we are very competitive. I mentioned that we want to secure user base. If we can have customer base point. On top of that, if we can offer additive content venue on top of that, then this will be very helpful because this will also generate growth as well. This is a point that can be added on down the road.

## **#14**

Next is Consumer Communications Business.

## **#15**

For the operating revenue, I already explained so let's talk about page 16, customer base.

## **#16**

The MNP positive in Q3, and that is the key point. But more than that, our biggest concern is that we're going to see an increase in churn within the service -- that is, subscribers who are jumping around, or, I know, signing up in a fraudulent way, and then dropping out. That's not

good. Looking at the fourth quarter of last year or the first quarter of this year, it seems that we are currently able to control things with a slight decrease. MNP, we're turning into positive and sales and marketing activities, and we're able to have control of the churn rate.

#### **#17**

Next page, mobile communications ARPU. Compared to the previous quarter, Q2 of 2024, it has improved by JPY10, and the degree of the decline is becoming smaller compared to the previous year. The growth base, which is the user base, we cannot bring them in a way that the ARPU will continue to go down. We believe that we have control to a certain point to promote the sales and marketing. The key point there is within the subscribers in and out through MNP, the price difference is low. We would like to strengthen the sales and marketing activities. As mentioned before, we're utilizing "ahamo" and "irumo" type of plans more than what we have expected. The degree of the increase is weaker than what we thought. But if we're able to have a solid user base, we can expect further growth in the future. I think we have come to that page.

#### **#18**

On page 18, various actions for ARPU growth are written here. Having the subscribers become sticky and the churn rate goes down and to collaborate link that with point linkage or payment linkage, well, other competitors are doing that as well, but we are kind of pioneers in this area. We'd like to continue to do that.

#### **#19**

Next is Enterprise Business.

#### **#20**

As for the revenues mentioned before, the organic growth, there is -that cannot overcome the decline of PSTN migration. If I may add here, we have the order pipeline, and we look at that and conduct quite a bit of analysis. But Q4, revenue-wise, YoY basis, we are expecting it to grow. More than the negative factor of PSTN migration, the organic growth is going to be higher, and we need to do that. In the medium term, we are going to utilize various offers and have further growth. It's a challenge. We still need to work on it.

#### **#21**

Next, page 21, solution rollout. We need to grow the solution or else it will not link to the growth of Enterprise Business. Of course, we do have these types of solutions. But before that, the economic maintain, a 35% share and have finance/payment on top of that. This is actually quite useful for conducting B2B2X business with corporations. I believe that we need to include the increase in sales from those areas as well, otherwise we won't be able to achieve solid corporate growth, so we want to maintain the base of 35% for that reason.

#### **#22**

Next, network.

#### **#23**

This is going to be the foundation of everything, which is step zero, and we are working on it in that way. As written there, the customer satisfaction level is showing signs of improvement. We are looking at the complaints regarding the network quality. Recently, it is going down. We'd like to continue our efforts.

#### **#24**

Lastly, the disaster recovery support is mentioned here.

## #25

You may wonder why I am discussing this in the context of reduced profits, but the foundation of the growth strategy I have explained so far is these kinds of initiatives. Contributing to the community and similar efforts are also important, and that is why they are included. This is important as well. In November, Ishikawa Prefecture had the Noto Peninsula earthquake and the torrential rain in Oku Noto, and so we have been going into a comprehensive collaboration agreement and working on these efforts as well. That is all. Thank you.

## Q&A

**Mr. Kikuchi :** Thank you. My name is Kikuchi. I have two questions. The first question is with regard to improvement of the network quality and the cost involved. You mentioned the cost involved in improvement of network quality. Can you give us the amount if possible? Also, you talked about reinforcement of customer base. Can you talk about how much costs it took? Of course, calculation might be somewhat difficult, but if you can give us a concrete number, we would appreciate that. They will be able to follow that in the future so we would appreciate the basis for such a discussion down the line. If you have any concrete numbers, we would really appreciate that. Thank you very much.

**Mr. Kobayashi :** Thank you. I'd like to respond to your question one by one. With regard to network, what is happening right now is that we're trying to replace the base station equipment, which was poor quality when 5G was first introduced. This is what's happening this year. We're now replacing the old base station equipment with a new one. Costs were incurred in disposing of this old base station equipment. On top of that, naturally, the number of sites, we're increasing the number of base stations such as sub-6. The depreciation expense for this will be more significant in the following fiscal year. The portion that will take effect this fiscal year is somewhat smaller; that is the structure of it. As for concrete numbers, I'm afraid we're not able to share that. But on a full-year basis, I think the impact will be in the range of tens of billions of yen on an annual basis. To be more specific, it was actually a few years ago, around 3 or 4 years back, so if you imagine going back to that base, we have significantly improved our efficiency over the past few years. When we look back, we actually analyze that we are on par with other companies. However, what is somewhat unexpected is that this is precisely what is happening in the third quarter; we have finally established our system in the third quarter, and various places, such as mass retailers, have started using promotions, but of course, other companies are also competing. In that regard, compared to the level I was observing about three or four years ago, it seems we have to increase it by a little over 10%. This is the view I have. Therefore, regarding that part, the increase of about 10% is something that is not in our plans. I hope you can understand that it is such a structure.

**Mr. Kikuchi :** Thank you for your response. You talked about the increase in marketing costs. In fact, you mentioned that of course you have to match the competition. I take note of that. When we get into the next fiscal year, will the trend continue? Could costs further increase during Q4 and the next fiscal year?

**Mr. Kobayashi :** Well, that's a very difficult question. Also in the course of Q3, we were considering the ability to reduce the cost. But then, unfortunately, that was not possible because if we did that, our market share would be falling. That was quite visible. Now, February, March, and April are the biggest season, so if the cost trend continues, then the situation that took place in Q3 could be sustained on a longer-term basis. But then if we compare with the situation three

or four years ago, the increase in cost should not exceed 10%. It's true that this year, we're seeing decline in operating revenue because we just had to go back to what we were doing three or four years ago. In particular, for the second half of fiscal 2025, we do not believe there will be a negative impact on operating profit at that point. Actually, we'll be capturing customers with low churn rate. If we are able to successfully capture customers with lower churn rates, then other competition is still the same. But I think the current type of competition will not be prolonged. Of course, we need to reduce cost, but we are focused on capturing the user base at this moment. As a result, costs may increase slightly in the next fiscal year, but the amount for the next accounting year should not be significantly larger than this year's. Thank you.

**Mr. Kikuchi :** Thank you for that. I have to turn to my second question. It's about telecommunication service revenue. In September last year, at NTT IR Day, Mr. Maeda, the President, talked about he does not expect the telecommunication service revenue to increase next fiscal year. That was his comment. Even if ARPU increases, it is due to the impact of "poikatsu". He mentioned his forecast is that the telecommunication service revenue will not increase next fiscal year. If that's the case, it's difficult to expect increase in operating profit if the revenue is not increasing. We see organic growth in Smart Life Business, but the profit from the organic growth in Smart Life Business is not that large. Telecommunication service revenue is to bottom out. When is that, do you think? The competition, it might be difficult, but is there a timeline where you expect that the telecommunication service will bottom out? Is it next fiscal year or is it two years from now? What are your prospects? Also, every quarter, I ask this question. Your competition, at the end of the day, we find that UQ is going to be the major pillar for KDDI. In the case of SoftBank, similar situation is going to be applied. Again, that being the case, I think you need to revisit what to do about your "irumo" product, transition to "irumo". The migration to "irumo" will continue over a very long time. If that's the case, then the data usage and Smart Life Business promotion will not be possible if people continue to make migration to "irumo". Do you think you need to review "irumo"? Are you going to change your branding strategy down the road? I'd appreciate your thoughts. Thank you. That's my second question.

**Mr. Kobayashi :** Thank you. With regard to the trend of the mobile service revenue, you're right in pointing that out. We are making considerable efforts to understand how ARPU will change, but the current situation is that it is quite difficult to say whether it will start to rise. According to the numbers we are looking at, this is still at a higher level compared to other companies, at least in terms of consumers. As I mentioned last time, I want to avoid lowering this too much and stabilize it, but I do feel that the extent of the decline has significantly decreased.

As you are concerned about "irumo," and while it is indeed a cheap plan, looking at the overall movement of "eximo," "ahamo," and "irumo," from older plans like "Gigalight" and the old "Kakehodai & pake-aeru", it becomes clear that the revenue per user has actually increased. This is evident even when looking at all the movements in the third quarter. On the other hand, So, I would like to say that the situation is not very bad with "irumo". On the other hand, I personally have a strong awareness of the issue of whether it's acceptable to leave "irumo" as it is, so I think I share this concern with Mr. Kikuchi. Regarding that, while I can't do it alone, I would like to aim for a strategy that, if possible, increases ARPU while maintaining customer satisfaction. "eximo", "ahamo", and "irumo", this is a tiered plan. We're trying to move people up to higher data bucket plans. Of course, there are cases where there's downward pressure where people are tempted to downgrade their plans. The one major challenge we see is that new customers are tending to choose "irumo". If we can address that issue, then at least we'll be able to prevent further decline in ARPU, include the impact from "poikatsu". As far as the timeline is concerned, hopefully, sometime during next fiscal year. We have to work so that we'll be able to do that. But we don't have the details about the next fiscal year. Once we have the details, we hope that we'll be able to communicate that to you.

**Mr. Kikuchi :** Thank you. I would appreciate that. That's all for my question. Thank you very much.

**Mr. Masuno :** This is Masuno from Nomura Securities. I have two or maybe three questions. The first question is that regarding disclosure, in the full-year, JPY26 billion of operating increase, and the numbers differ by JPY100 billion. With the Company year side, having this difference is JPY100 billion and not revising the numbers, I've never seen such a thing. Why are you not revising these numbers? Many things are moving and how the Company responses are changing is what I think. Can you comment?

**Mr. Kobayashi :** Well, first of all, sorry that I caused you worries. However, in our case, compared to the conventional years, how do we do things has changed. The largest item we are managing in the final control is the promotional expenses. Additionally, there are parts that can be controlled to some extent, such as the network removal process. But these two, well, what the other competitors are doing, we are going to respond to them. Also, regarding the network quality, if we can build up a network quickly, we'd like to do that thoroughly as well. Instead of coming up with the guidance at the profit level, the revenue and MNP level guidance is something that we are providing you first, and what we're going to do from there. What is troubling us is the marketing expenses towards March. We have to look at the competitors' actions. This is the part that's difficult to give out guidance. Other than this, cost reduction measures and asset sales, we have to do various things that we can. At this point, being able to have a solid visibility like the conventional years, and this is going to be this and that, giving you a thorough explanation is difficult. But this 35% and strengthening the customer base, thoroughly doing that, that is going to lead us to securing the shareholders' value in the future, and we are focusing on these measures.

**Mr. Masuno :** Understood. But it's 60% of profit of a listed company. Of course, I know you have a relationship with the exchange. But anyway, the second question is on consolidated basis, DOCOMO and Communications, once the two are integrated. At the start, saying that synergy in two years was JPY100 billion and four years was JPY200 billion in terms of profit. We had high expectations toward the integration. Right now, the profit is declining. Your business scope is probably the same as SoftBank and KDDI. I think it needs to be further unified or integrated is how I feel. I did mention this before. The two companies probably need to fully merge. I think you need to merge that far and unify that far. What do you think about this?

**Mr. Kobayashi :** I would like to answer from the latter part of your question. Have an integration and do things, I personally think so. But whether merge with NTT, let's put aside. What we're doing right now is going to continue to be done, and we would like to focus on working as one. As explained before, the Enterprise part, IoT, 5G, there are these keywords. We're saying that it was good that we were integrated and the solution is increasing. And B2B2X, NTT Group is working on this. The data and other elements that can be used in marketing, utilizing the data instead of exploiting the customers, we will have visibility into the customers' behaviors, and that can be used in our marketing activities. From the front line of businesses, they're saying, oh, let's work together, and let's look at the data together. We need to look at this point and look at the organization as well. But in that sense, working together, we can generate the synergy. But on the Enterprise side, the Smart Life part, because we had the PSTN negative factor, it seems that it's not increasing, but we are experiencing an increase in Enterprise Business. If we were alone as DOCOMO, we were not able to increase it this far. That is the same for Communications as well. There are many areas that we can work together to grasp new business opportunities. However, above all, the Consumer Communication Business, the part that forms

the base of the Smart Life Business and Enterprise Business moving on track, has experienced erosion, and the pace at which users are being lost has been too fast; this assessment was not made, and this is the biggest management challenge and reflection, and how to address that. I believe it is related to the network that was the foundation. Therefore, rather than saying that DOCOMO-Communications-Comware (“DCC”) collaborations is not doing well, we recognize that there is currently a crisis in the foundational part. I will repeat once more, we will absolutely increase the synergy of DCC and promote integration, but I hope you understand that certain effects are being achieved.

**Mr. Masuno :** Thank you. Regarding the rates, it's been 10 years since “Y!mobile” came into the market. Within that, you're still discussing what you're going to do with your rates. “irumo”, “eximo”, what are you going to do about that, I'm sure there's some complex setup there. But “ahamo” rate setting, I think it is too low. Even “Y!mobile” or “UQ mobile”, they have higher rates. I think you need to increase the price or the rate for “ahamo”. What do you think about that?

**Mr. Kobayashi :** Thank you very much for pointing that out. If we can increase it, we want to from the CFO's perspective. But the way we look at this is that, as mentioned before, we have the challenge of the user base. As “ahamo”'s competitiveness, if it's there and if it's low price, then we can increase it.

This fiscal year, mobile communication revenue has decreased by 53.3 billion yen. About half of this decrease is due to the reduction in users. Therefore, if we take that part into consideration, rather than just raising the unit price, we should not reduce the number of users. As I mentioned earlier, this is about the significant revenue increase of Smart Life Business and Enterprise Business escaping the shackles of PSTN and growing steadily. Half of the JPY50 billion, the net decline declining, we have to stop that. Within this situation, “ahamo” exists. What you pointed about “ahamo”, maybe you are having in mind increasing from 20 GB to 30 GB. Other companies also offer a 30 GB plan. Additionally, after a few years, “ahamo” users are simply experiencing an increase in traffic. Therefore, while we are looking at such a market, we believe that it is not simply a matter of lowering prices. We are operating in a situation where “ahamo” has started to be undermined. As Mr. Kikuchi mentioned earlier, we are considering how MNP, including “irumo”, is perceived by customers. Naturally, we want to raise prices for things that are too cheap. Therefore, we have received your opinions on this matter. I think it might be okay to make some changes to “irumo”.

**Mr. Masuno :** I think you just need to match it with the “Komi-Komi Plan+” of “UQ mobile”, then since it's 2,980 yen, I think you can raise the price. I don't think you need to fall below UQ's “Komi-Komi Plan+” at all.

**Mr. Kobayashi :** As for your feedback, I do understand what you're saying. But as I said, if we look at the daily trend, we are thinking what we do about existing users of “ahamo”. That's where we have started, not just a simple price decline. Therefore, we implemented “poikatsu”, which ended up being the same as the other competitors. But we are trying to maintain and attract the users through this. We have received your feedback seriously so we would like to review that internally. Thank you.

**Mr. Masuno :** That's all. Thank you very much.



**Mr. Tokunaga :** Thank you. My name is Tokunaga from Daiwa Securities. I have two questions. The first question, this relates to what was asked by Mr. Kikuchi in his follow-up question. Right now, the acquisition cost is quite high. You want to lock in customers with potentially lower churn rates. After acquiring users with a low churn rate, it was explained that there would be no further reduction in profits due to acquisition costs compared to now. On the other hand, if the penetration of “poikatsu” are to increase, then point return is going to actually to make an increase in marketing cost. That's my concern. Can you talk about the impact on your performance with regard to the poikatsu? Should we be concerned? Also, do you need to be concerned about your intention to further spend marketing costs? That is my first question. Thank you.

**Mr. Kobayashi :** Thank you. As you pointed out, the point program is going to be the key here. That is true. In managing the economic zone you mentioned earlier, I believe that rather, the decrease in short-term promotional expenses may be significant. When we design things like “poikatsu”, it naturally increases the mobile communication ARPU. In addition, we are awarding points, so it will depend on what the difference will be. The nature of marketing costs is whether customers use them as intended. I believe what I say will also be conveyed to the customers, so I don't want to go into too much detail, but there are certain amounts visible to some customers, and there is a certain expectation of expirations. Additionally, when customers utilize more services and the transaction volume increases, it actually leads to an increase in that transaction volume. We are calculating that there is a significant positive impact on the transaction volume. “poikatsu” has already exceeded 500,000. What has become clear among those is that various transaction volumes of our customers are actually increasing. We can see such trends, and furthermore, we are planning to introduce a “d PLATINUM CARD”, as well as a junior version of the gold card called “d GOLD U”, so we are envisioning a solid recovery through these initiatives. So, we have been able to control that well so far. We will continue to be mindful of this in the medium term, and I would like to keep working on it diligently.

**Mr. Tokunaga :** Thank you. The acquisition cost, as mentioned earlier, is expected to become much easier once the current acquisition is completed.

**Mr. Kobayashi :** There is a question of how and by when that can be achieved. Additionally, especially for mass retailers, I believe that the promotional expenses there depend on other companies. Honestly, I don't think I can simply provide guidance on lowering them at this point, but I do think that each company is moving with such intentions in mind.

**Mr. Tokunaga :** Thank you very much for that. Let me ask my second question. It's a similar topic. Looking at KDDI's recent financial results, I believe the materials indicated that the MNP has significantly improved heading into October to December. Conversely, how is your company doing? Also, we see big March sales season. I think you must spend more marketing cost in order to reinforce your situation. This is because if your company has a positive MNP, there are companies with a negative MNP, which means other companies may further strengthen their sales promotions. Can you give us more detailed numbers? What are your thoughts about the competition in the marketplace?

**Mr. Kobayashi :** On a monthly basis, again, we cannot show you all the cards because we don't want to provoke other competition. In the case of MNP, we began to do a lot more starting from October such as revision of “ahamo”. In October, when we also organized ourselves to start the second half of the year, our initial momentum was quite good. In November, it reaches cruising speed, and since December is actually the peak sales period, the numbers obtained through MNP are quite high in December compared to the third quarter. Therefore, from November, the

increase in December's MNP was observed, and that is the situation. With regard to any particular competition, again, we cannot give you further details, but that is the situation.

**Mr. Tokunaga :** Thank you. That's all for myself.

**Mr. Tsuruo :** Thank you very much for the opportunity to ask a question.

The first question, in the material, page six. It is JPY38.1 billion marketing and reinforcement cost, a negative number. Cost reduction, how you were able to recover some of it, if you can vaguely share that with you, I would like to know. With the conversation I had with NTT before, your company structural reform that you are working on right now or going to work on, I won't ask for the exact amount, but by then what are you trying to do. Can you explain, please?

**Mr. Kobayashi :** If I go into detail about the breakdown of the 38.1 billion yen, it would reveal how much we are spending on marketing expenses, so I would like to ask for your understanding to keep it at the level of 10 billion yen. For the cost reform, as the holding company said, the key is to utilize technology such as AI, and this is preaching the choir. The biggest costs in the Consumer Communications Business are network and promotional expenses. Excluding that, the operations side, the channels, operation cost, or call center costs, those will become the main ones. These are the areas that we can implement AI. Therefore, the areas that we can implement AI, we'll work on it, and for the areas that we can increase the sales, we have the strategy to improve it. But expenses-wise, the operation part, utilizing AI is going to be quite effective is how we look at it. Once the efficiency improves on the operations side, as Mr. Hiroi explained before, then there will be some room to maybe consolidate such operation part. We don't have it in details of the next fiscal year's guidance, but we're hoping that we can thoroughly work on this. Sorry, it is a kind of an ambiguous way of an answer.

**Mr. Tsuruo :** The operating expenses, you're going to reset it and bring it to the conventional one, then the operating profit, it seems it's not going to recover that much. If that is the case, is AI utilization enough? I think that much more of a fundamental structural reform is required. If you are already thinking about it, that's fine. Can you share what you're planning to do?

**Mr. Kobayashi :** The radical fundamental reform, yes, we think the same way, and we believe so regarding the operation part that I've explained just now. Is it going to be a four-digit billion yen? The Consumer Communications Business, majority of expenses and network, and sales promotion. But the other areas, of course, we want to fundamentally do the reform and change it. But not just those areas, but bringing back the marketing expenses to what it used to be. Whether we can further lower it or not is something we need to think, and that is going to be the medium-term challenge we need to work on. The network, too, in order to expand the user base, we need that.

We are working on to build up the network at a lower cost than the competitors, and we are setting benchmarks. That's how we are building up the medium-term plan. This part has quite a large effect so we would like to thoroughly work on it. However, because the competition exists in terms of the marketing expenses, we cannot simply say that we're going to lower it. However, in the medium-term perspective, of course, we would like to work on it fundamentally and also increase the revenue. Smart Life Business and Enterprise Businesses, especially the new areas in Enterprise, we would like to be able to explain that in the medium-term. Thank you.

**Mr. Tsuruo :** Shifting over to “eximo”, the migration is 61%. The previous quarter was 60%. Next quarter, you're going to aim for over 60%. Even though you enforced “poikatsu” and others, it seems that it's not generating that much effect or it seems like it is running at a breath or slowing down. The purpose of this question is that you are implementing various sales promotions. From the perspective of improving ARPU, how is it effective or not effective is how you're looking at it?

**Mr. Kobayashi :** It is individual number movements, if I may explain. Shifting rate to “eximo”, we would like to increase it more. It's quite of an aggressive plan that we had. That's what NTT said also. The outflow regarding MNP, we reinforced to stop that. “irumo” coming from the outside, that ratio went up. From “ahamo” to “eximo”. That movement has slowed down. “ahamo” became an attractive place to shift over. But what we are prioritizing is to not decrease the users, and with that, we would like to maintain the ARPU flat or increase it. In that sense, the speed of ARPU going up has gone down. But on the other hand, MNP has turned positive in our understanding. I think the order of doing things is that way. But the good news for us is that the rate of people selecting “eximo” has increased, and that is the positive effect of “poikatsu”. The net adds of “eximo” recently, it's not that there is a large amount every month. Compared to the “poikatsu” number, the “poikatsu” is working positively to a certain extent. If we didn't have that, it would have become a horror story, and more subscribers would have been to “ahamo” and “irumo”. So how much can we utilize this? Recently, the “d PLATINUM CARD” offer is being effective. The gold economics sphere, we're used to it. We create it. “GOLD U” also is going to be effective is how we think. Through this, we would like to increase the “eximo” ratio thoroughly.

**Mr. Tsuruo :** Okay. Understood. My last question, sorry for many questions. My third question is regarding the network quality. Page 23 in the material, it was very easy to understand the situation, and it's very helpful. Right now, up to what point has the network improvement progressed? And how much more do you need to do? Looking at the customer satisfaction, it seems like there's still more improvement that needs to be done. If it needs to be improved, taking time, and the progress situation of the investments that you're making and also the outcome of that is what I'd like to know.

**Mr. Kobayashi :** This part is the part that deviated from what I expected. We wanted to improve the network quicker than this. But we need to find a location to have the network device there and make negotiations and then construct it. Since the new organization, or before that, we are controlling the process. But in order to increase the number the number, it's going to take a long time. But in the areas that we have the most complaints from the customers, we are able to respond to that, or where is the area that has the clearer connection, we are being able to provide that. But we thought that we could move quicker, and the network complaint and the satisfaction level of the customer is reflecting what we have achieved. Regarding this network quality improvement, at this point, I cannot give you the detailed numbers. We need to improve more, but it is moving forward in terms of improvement.

**Mr. Tsuruo :** How many quarters are you behind than what you have expected in terms of constructing base station improvement?

**Mr. Kobayashi :** Well, the base stations, creating new base stations, there is quite a hardship that I explained, but it's not several quarters. It's about a quarter delay. But this is an urgent challenge for us. Maybe the way I said it was exaggerated, but that's about the delay that we're experiencing.

**Mr. Tsuruo :** Thank you.