

**Q** ■ How does DoCoMo benchmark its performance in relation to other companies?

**A** ■ DoCoMo uses a variety of indicators to monitor performance. In respect of operating results, changes in revenues and EBITDA are used with regard to growth, while the ratios of income before income taxes and EBITDA to revenues are used to gauge profitability. Furthermore, the ratio of equity to total assets is a primary indicator of financial soundness, and returns on capital and assets are the chief means to evaluate how effectively DoCoMo is using assets.

**Q** ■ Please provide some cellular operating statistics.

**A** ■ Average monthly revenue per subscriber has been declining steadily for many years. In the past fiscal year, this figure was down ¥1,530 to ¥9,270. This trend is primarily the result of tariff reductions and the increase in subscribers who have low usage rates.

Average monthly minutes of use per subscriber (MOU) in the past fiscal year increased 9 minutes to 164 minutes, reversing a number of years of declines. Behind this growth was rising utilization of services by subscribers between the ages of 10 and 30 and an increase in early-morning and late-night calls. There appear to be two primary causes for these trends. One is the increasing diffusion of cellular phones. This is raising the share of calls made from one cellular phone to another and making subscribers more aware of the convenience of making calls at any time and from any location. The other cause is the rising use by young people, who tend to talk longer, probably because of reductions in handset prices and monthly plan and usage charges.

The average monthly churn rate was 1.75 percent compared with 1.97 percent in the previous fiscal year. However, this figure includes DoCoMo subscribers who cancel one service when they switch to another DoCoMo service that uses a new handset. If these cancellations are excluded, the effective

churn rate drops to approximately 1 percent, including subscribers who are terminated because of unpaid bills and for other reasons. DoCoMo closely follows the churn rate and is constantly working to lower this figure by offering customers services and support of the highest quality.

**Q** ■ What are the prospects for future growth in Japan's wireless telecommunications market?

**A** ■ Japan's total nationwide cellular penetration rate has grown from 1.7 percent in the year to March 1994 to an estimated 32.8 percent in the year to March 1999. It is important to note that this phenomenal growth occurred during a prolonged economic downturn, clearly indicating that macroeconomic factors do not have a material effect on demand. All indications point to continued expansion in this market. Japan's Ministry of Posts and Telecommunications (MPT) estimates that there will be more than 65 million cellular and PHS users in Japan by 2010. This would represent a penetration rate of about 50 percent. By comparison, the February 1999 penetration rates in Finland and Sweden were approximately 61 percent and 53 percent, respectively, according to the May 1999 issue of *European Mobile Communication*. However, the pace of growth will undoubtedly slow as the penetration rate climbs. This is a major reason for DoCoMo's concentration on new data transmission services, the mobile multimedia concept, as a means to stimulate demand and maintain a high growth rate.

**Q** ■ Would you explain the reasons behind the decision to integrate the NTT Personal Group's PHS business and its effect on DoCoMo's financial position?

**A** ■ NTT Central Personal Communications Network Inc. and its eight other regional operating companies, collectively the "NTT Personal Group," which were involved exclusively in the provision of PHS businesses, were plagued

by consistent losses caused by a steady decline in the number of subscribers and a large amount of debt. DoCoMo was the leading shareholder of the NTT Personal Group with ownership of 47 or 48 percent. After careful consideration, DoCoMo announced in May 1998 that the best solution for shareholders and subscribers was to integrate the PHS businesses and liquidate the NTT Personal Group. This action would create opportunities to generate synergies with its own wireless telecommunications services and allow DoCoMo to avoid the adverse effect on its results from further losses of the NTT Personal Group. Approval for the integration of the PHS businesses by DoCoMo was given at the general meeting of shareholders held in June 1998, and took place the following December.

In conjunction with this transfer, which occurred on December 1, 1998, DoCoMo paid the NTT Personal Group ¥160.7 billion. This payment represented ¥184.5 billion for the fair market value of assets that were transferred less ¥23.8 billion in accounts payable and other amounts due to DoCoMo. Furthermore, DoCoMo wrote off its remaining cash advances to the NTT Personal Group against an existing loan loss reserve in the amount of ¥165.9 billion. Additionally, during the period from the integration through March 31, 1999, the PHS businesses posted an operating loss of approximately ¥30 billion and DoCoMo posted a lump-sum amortization of approximately ¥30 billion, which is included in operating expenses, resulting from a revision in the method for amortizing entrance fees to cover links from PHS base stations to NTT switches to match DoCoMo's method for amortizing these fees.

company will conduct more exhaustive examinations to estimate the benefits of capital expenditures in relation to their costs and to allocate these expenditures among individual business units so as to maximize potential returns.

DoCoMo has largely completed the major investments needed to meet the rapid growth in demand for cellular services in recent years. Most investments in existing cellular technology from now on will target the more efficient use of frequencies and the addition of base stations in areas of large cities where networks are congested to improve the quality of services. In the PHS sector, investments will be made to realign service areas, improve the ratio of successfully completed calls and expand the 64 kbps data transmission service area. With regard to W-CDMA technology, DoCoMo expects to begin making substantial investments in 2000. DoCoMo's commercial W-CDMA service is now scheduled to begin in the spring of 2001. Depending on the scale of demand for this service, W-CDMA-related capital expenditures may climb to a substantial level over a short period of time at some point in the future. Capital expenditures for R&D mainly represent the purchase of equipment and facilities and software for communications networks and internal systems. To speed the development of new services, DoCoMo generally conducts all R&D activities internally, from handsets through networks. Due to the importance of this integrated R&D policy, the company will continue to place priority on funding the necessary capital expenditures. In the fiscal year ending March 31, 2000, DoCoMo will begin to expense some items that had previously been treated as capital expenditures due to a revision in its accounting policy.

**Q** ■ What is DoCoMo's policy with regard to capital expenditures?

**A** ■ In recent years, DoCoMo has been involved primarily in a single business, cellular services, and placed priority on making the investments needed to accommodate rapid growth in demand. As its businesses have become more diverse, the