

## CEO's Message: To Our Shareholders



**Masao Nakamura** President and Chief Executive Officer

- Amid increasingly intense competition, DoCoMo achieved record earnings in fiscal 2003 through increased promotion of data communications services that are attuned to customer needs, and through efficient business management.
- Previously, DoCoMo's goal has been to grow through market creation. Going forward, we will not only promote increased use of data communications services, but also open up a new era in which mobile phones play an ever-more useful role in everyday life and in business.

### Looking Back at Fiscal 2003

---

#### Operating Environment: Competition among Providers Intensifies

Looking at the Japanese economy in fiscal 2003, ended March 31, 2004, a gradual recovery emerged toward the end of the year. Although the employment situation in Japan remained unfavorable, the global economy began to recover, and there was a rise in exports (particularly to Asia). With a recovery trend in corporate earnings in Japan in sight, capital investment among Japanese companies increased. In the Japanese mobile communications market, the number of mobile phone subscribers increased 7.7% year-on-year overall. Competition among service providers intensified, however, with each providing handsets of ever-greater functionality as well as new rate plans and services.

## DoCoMo Earnings: Record Earnings Through Increased Sales of Data Communications Services and Efficient Business Management

Despite the increasingly challenging market, DoCoMo recorded consolidated operating revenues of ¥5,048.1 billion, up 5.0% year-on-year, operating income of ¥1,102.9 billion, up 4.4%, and net income of ¥650.0 billion, up 205.9%. The operating income and net income figures were record highs for DoCoMo. In the area of revenues, our efforts to diversify our billing plans and lower charges depressed operating revenues. Such efforts included the introduction of services in which FOMA and mova subscribers can carry over their unused allowances (free minutes and packets) included in their base monthly charges for two months. We also reduced our charges on calls from landline to mobile phones. However, we also worked to increase our subscribers' use of data communications services by bolstering handset functionality and data services through Macromedia Flash, i-appli DX, Deco-mail, and Chaku-motion. As a result, overall operating revenues increased. In the area of costs, we worked to operate our business efficiently. Although sales agent commissions and other revenue-linked variable expenses rose 13.0% year-on-year as a result of the migration to FOMA, the introduction of economical small-sized base stations and similar developments made capital investment more efficient, and we were able to maintain operating expenses other than revenue-linked variable expenses at fiscal 2002 levels. In this manner, we were able to overcome the changes in the operating environment brought about by intensified competition through the increased use of data communications services by our subscribers and efficient business management. We believe this is what led to increases in both revenues and income in fiscal 2003.

\*Macromedia Flash is a trademark or registered trademark of Macromedia, Inc., in the U.S. and other countries.

## Transition to 3G Mobile Communications Services: DoCoMo Greatly Exceeds Its FOMA Subscriber Target

DoCoMo viewed fiscal 2003 as the year for expanding the market penetration of our FOMA 3G communications service, and to that end we worked to increase the basic functionality of this service by expanding the service area (approximately 99% coverage of the nationwide population as of the end of March 2004), reducing handset size and weight, and improving handset standby time. At the same time, we marketed FOMA aggressively based on the comparatively lower prices of our FOMA packet communications. In addition, in February we launched the FOMA 900i series of handsets equipped with new functions specialized for 3G mobile communications services. This series has sold well, and as of the end of March subscribers had reached 3.05 million, vastly exceeding our target for the fiscal year.

## Fiscal 2004 Outlook and Strategy Going Forward

---

### Fiscal 2004 Outlook: Further Progress for FOMA

In fiscal 2004, we plan to expand the penetration of FOMA still further, and we aim to increase our number of FOMA subscribers to 10.6 million by the end of the fiscal year. Based on the concept that mobile phones should play a useful role in everyday life and in business, we will work to make the mobile phone a part of the infrastructure of everyday life. To achieve this, we think it is necessary to alter our rate structure in such a way

that customers will be able to use their mobile phones without worrying about the charges. Steps in this regard already undertaken in fiscal 2004 include increasing the size of discounts under our Family Discount package in April, lowering FOMA Packet Pack rates in May and introducing a flat-rate FOMA i-mode service in June. We expect that operating revenues and operating income will both decrease in fiscal 2004, due to our steps to reduce rates across the board aimed at increasing competitiveness and stimulating further growth, as well as to higher revenue-linked variable expenses stemming from full-fledged efforts to promote the migration of our subscribers to our FOMA services. However, we believe our earnings could start recovering in fiscal 2005 with the following efforts.

### Growth Strategy Going Forward: Efforts to Ensure Earnings Recovery in Fiscal 2005 and Beyond

Although the growth of the domestic mobile phone market is slowing, we intend to spark a recovery in earnings over the medium term by fulfilling customers' latent needs. To achieve this, we must address three issues—creating services that are useful in everyday life and in business, establishing a new business model, and conducting a comprehensive review of our business processes. With the goal of creating new value to enable our future growth, we are strengthening our efforts in five specific areas.

First, we are working to create a new visual communications culture and expand audiovisual data traffic by bolstering the videophone functionality characteristic of W-CDMA handsets and by increasing their range of applications as remote monitoring systems.

Second, we are working to leverage the external interface functions of mobile phones, using such technologies as infrared data transmissions, bar code (QR code\*), and contactless IC cards, and to create alliances with bricks-and-mortar business partners to enable the use of mobile multimedia services in various commercial transactions, such as electronic settlement and e-commerce. By doing so, we intend to enable the use of mobile phones as a replacement for credit cards, ID cards and the like, sparking an evolution in mobile phone technology from IT infrastructure and communications tools to lifestyle infrastructure devices useful in everyday life and business.

Third, to make mobile phones a closer part of everyday life for a wide range of customers, we are working to increase data traffic by providing services for customers who have to date not used such services very much, and to create new opportunities for use.

Fourth, to promote the use of international calling and international roaming services, we are rolling out i-mode in overseas markets and strengthening our global operations (we will discuss the latter in more detail later).

Fifth, we are working on an ongoing basis to reduce costs. We aim to streamline and reduce FOMA handset procurement and sales agent commission costs. At the same time, we are lowering network costs by economically expanding the FOMA service area using the 800MHz band and converting core networks to IP, and reducing operating expenses by streamlining business management still further.

We believe these efforts will enable a recovery in earnings, and we will continue working to achieve our targets of an EBITDA margin of more than 35% and ROCE of greater than 20%. We remain committed to maximizing our enterprise value.

\*QR code is a registered trademark of Denso Wave Incorporated.

## Promoting Global Operations

Globalization is a key element of our growth strategy, and we believe we have entered a new stage in this regard. The format that we have promoted thus far, W-CDMA, has enabled us to develop 3G mobile communications systems and mobile multimedia services in overseas markets.

The worldwide expansion of i-mode is proceeding smoothly. Our number of overseas i-mode subscribers exceeded 3 million as of the end of June 2004, and in Australia, DoCoMo and Telstra have concluded an i-mode licensing contract. We are now working to make it possible for our Japanese customers to use those i-mode services in Japan also in overseas. W-CDMA-based 3G services are now entering a period of more rapid adoption, and in Europe, its full-scale launch of services is beginning. By the end of May 2004, we had rolled out such services in more than 100 countries and regions around the world that had agreed to an international roaming contract. In the second half of fiscal 2004, we will work to promote the sales and use of dual-use FOMA-GSM handsets in Japan. Moreover, we will work to expand the region that can be connected via FOMA international videophone by increasing the number of countries in which this technology can be used. In these and other ways, we are striving to realize our goal of providing Global Mobility Support enabling communicating “anytime, anywhere, with anyone” on a global scale. To that end, we will pursue not only relationships with conventional mobile communications service providers but also cooperative efforts with a wide range of mobile communications-related companies. Through these efforts, we intend to create new earnings opportunities in overseas markets, and to continue steadily developing our overseas operations.

## Our Stance on Corporate Governance, Compliance and Corporate Social Responsibility

---

We are aware that bolstering corporate governance is a key element of maximizing enterprise value, and through our director/auditor system, we strive to manage our business in a manner that emphasizes efficiency and transparency. Our board of directors engages in spirited discussions, and this approach enables precise and rapid decision-making. We increased the number of our corporate auditors from four to five in 2003, and further strengthened the auditing capabilities of our corporate auditors by bolstering the staff of our corporate auditor's office. Our corporate auditors are also communicating actively with the corporate auditors of our subsidiaries. In addition, we have established an advisory board in Japan and a similar advisory board in the United States as a means of obtaining objective opinions from experts both in Japan and abroad regarding management issues, which we reflects in our business operations.

Compliance is the foundation upon which we carry out our business operations, and various management decisions are made by collecting a sufficient amount of information, and based upon this, conducting thorough deliberations. We have established a Compliance Promotion Committee that reports directly to the president, as well as a compliance helpline. We have also appointed risk compliance leaders in all head office departments and branches. Through these initiatives, we are putting into place an organization that supports our commitment to the law and corporate ethics. Moreover, in fiscal 2003 we introduced at all group com-

panies Compliance Administration Regulations, which clarify the standard rules governing compliance management. This resulted in an even fairer and more robust approach to managing compliance issues.

We believe corporate social responsibility means conducting business activities in a way that takes into consideration social fairness and the environment. We believe the specific actions a company must undertake in this regard differ depending on the nature of a company's business, as well as the country, region, and era in which it is doing business. We think it is important for us to participate in society as a good corporate citizen, contribute to the sustainable growth of a healthy and dynamic society, and meet the ethical requirements and expectations of society through corporate social responsibility. Based on this philosophy, we are taking various steps, with related divisions cooperating each other in such area as compliance, corporate governance, the environment, social contribution, human rights, addressing customers' needs, and employment. Going forward, we will redouble our efforts in corporate social responsibility.

## To Our Shareholders and Investors

---

We intend to respond to the support we have received from our shareholders by aggressively providing shareholder rewards. With respect to fiscal 2003, in addition to the ¥1,000 per share dividend we initially planned, we will pay a commemorative dividend of ¥500 per share to mark the 40 millionth i-mode subscription for a total annual dividend of ¥1,500. We plan to pay a ¥2,000 per share dividend for fiscal 2004, including a ¥1,000 interim dividend. We also think share buybacks are an important form of shareholder return, and in fiscal 2003 we repurchased 1,576,216 common shares for a total of ¥394.9 billion. Our shareholders return ratio, which is calculated by dividing the sum of the total amount of dividends paid and the amount used to repurchase our own shares by net income, shows that we returned 72% of net income to shareholders in fiscal 2003.

To date, we have strived to respond to our customers' desires, and in the process our sphere of operations has expanded. However, we are aware that our response has not been sufficient in some respects. As part of the process of achieving growth going forward by creating new value, we will work to strengthen, in a comprehensive manner, our rates, services, handsets, network quality and marketing capabilities, and we aim to increase customer satisfaction. Moreover, we intend to remake ourselves as a company in close touch with its customers and with which customers feel an affinity.

DoCoMo started operations in 1992 with around 1 million mobile phone subscribers, a figure that had risen to roughly 46.4 million as of the end of June 2004, and our number of i-mode subscribers has increased from zero in 1999 to approximately 41.7 million at present. DoCoMo has consistently overcome challenges over its 12-year history. Maintaining this challenger's spirit on a constant basis, and I am pushing forward with new initiatives. We ask for your continued support of our efforts to manage DoCoMo from a long-term perspective.

Masao Nakamura  
President and Chief Executive Officer

