

# Operating Results Overview by Business Segment

## Mobile Phone Business

### 1. Fiscal 2003 Overview

#### Overall Conditions

The mobile phone business generated operating revenues of ¥4,937.7 billion (up 5.3% year-on-year) and operating income of ¥1,138.9 billion (up 4.8% year-on-year) in fiscal 2003.

Both figures rose from the previous fiscal year as a result of our efforts to enhance the efficiency of capital expenditures and lower our cost base, despite increased sales commissions paid to agent resellers due to a rise in the number of subscribers acquiring replacements mova handsets and the migration of our subscribers to FOMA services. The aggregate average monthly revenue per unit (ARPU) of cellular services (FOMA+mova) fell 3.0% to ¥7,890, with packet ARPU (FOMA+mova) rising 12.6% to ¥1,970 but voice ARPU (FOMA+mova) falling 7.2% to ¥5,920. As part of our efforts to diversify our billing plans and lower charges, we introduced a new billing service in fiscal 2003 called Nikagetsu Kurikoshi, which allows FOMA and mova subscribers to carry over any unused allowances (free minutes and packets) included in their base monthly charges for two months. We also reduced charges on calls from landline phones to cellular phones.

#### Cellular (mova) Services

Revenues from cellular (mova) services (excluding equipment sales) fell 4.0% year-on-year to ¥3,156.5 billion (not including ¥1,020.7 billion in i-mode packet communication revenues). We introduced a number of new models to fill out the handset lineup, including the mova 505i series equipped with

Macromedia Flash and i-appli DX, the mova 505iS series featuring a standard megapixel camera and bar code reader, and the mova 252i series featuring high-speed i-mode transmission and compact size. Owing to the migration of subscribers to FOMA services, however, our number of cellular (mova) service subscribers fell 1.5% year-on-year to 42.88 million. Voice ARPU (mova) was ¥5,890 compared with ¥6,390 in fiscal 2002, i-mode ARPU (mova) was ¥1,940 compared with ¥1,750, and aggregate ARPU (mova) was ¥7,830 compared with ¥8,140.

#### Cellular (FOMA) Services

Revenues from cellular (FOMA) services (excluding equipment sales) soared 1,023.8% year-on-year to ¥153.0 billion (including ¥49.9 billion in packet revenues including i-mode services). Our number of cellular (FOMA) service subscribers topped one million at the end of September 2003 as a result of expanded service area (approximately 99% coverage of the nationwide population as of the end of March 2004, with increased coverage in buildings and underground), relatively low packet communication charges (one-fifteenth the price of mova services in some cases), and the release of the FOMA 2102V series of handsets with videophone capability and the FOMA N2701 series of dual-mode handsets compatible with both mova and FOMA services. Our number of subscribers rose further to 3.05 million (up 822.8% year-on-year) by the end of March 2004 following the release in February of the FOMA 900i series of handsets equipped with Deco-mail, Chara-den, Chaku-motion, and large-capacity

i-appli. FOMA service ARPU rose across the board, with voice ARPU (FOMA) rising to ¥6,900 compared with ¥5,050 in fiscal 2002, packet ARPU (FOMA) to ¥3,380 compared with ¥2,690, and aggregate ARPU (FOMA) to ¥10,280 compared with ¥7,740.

#### i-mode Services

Packet communication revenues increased 15.2% year-on-year to ¥1,020.7 billion (not including ¥49.9 billion in FOMA packet communication revenues). We implemented a number of measures to promote the use of i-mode services, such as equipping the mova 505i handsets with Macromedia Flash and i-appli DX to enable them to display rich animation featured on i-mode websites and to link data recorded in the handsets with i-appli content, and equipping the mova 505iS handsets with a bar code reader that enables subscribers to link with other platforms through i-mode services. Our efforts to increase the penetration of FOMA services, included equipping the FOMA 900i series of handsets with Deco-mail, which enables users to decorate their i-mode mail, Chaku-motion, which signals incoming calls with i-motion, and large-capacity i-appli, which increases i-appli content capacity. As a result of the above initiatives, our number of i-mode service subscribers rose 8.8% year-on-year to 41.08 million, comprising 38.08 million cellular service (mova) subscribers and 3.00 million cellular service (FOMA) subscribers.

### 2. Fiscal 2004 Forecast

We expect the aggregate number of subscribers to rise to 47.70 million by the end of fiscal

2004, an increase of 3.9% year-on-year (including 10.60 million subscribers to FOMA services, an increase of 3.5 times year-on-year). However, we expect both operating revenues and operating income to decline in fiscal 2004. This is partly because we have lowered our service charges to strengthen our competitiveness and stimulate further growth. For example, we increased the size of discounts under our Family Discount package (from April 1, 2004), revised our flat-rate charges for the Packet Pack package (from May 1, 2004), and introduced a flat-rate i-mode packet service called pake-hodai (on June 1, 2004). In addition, we expect revenue-linked expenses to rise as we start to focus on encouraging subscribers to migrate to FOMA services.

Given these conditions, we plan to increase the penetration of FOMA services while expanding our business domain around the three key concepts of multimedia, ubiquity, and globalization. Furthermore, we intend to enhance the utility of mobile phones in peoples' lives and businesses by leveraging their external interfacing capabilities, such as infrared transmission, bar codes (QR codes), and contactless IC cards.

## PHS Business

We launched the @Freed flat-rate data communications service, compatible handsets, and multi-line discounts for @Freed subscribers, but operating revenues in the PHS business fell 11.0% year-on-year to ¥75.7 billion in fiscal 2003, largely because of the shrinkage of the overall PHS market. This caused the operating loss in the PHS business to grow to ¥35.5 billion, compared with a loss of ¥28.3 billion in fiscal 2002. Faced with the shrinking PHS market, we plan to improve profitability mainly by promoting the use of flat-rate data communication services, while also reducing costs further through more efficient operations.

## Quickcast Business

We continued to reduce costs in response to the shrinking market. As a result, the operating loss in the Quickcast business fell sharply to ¥1.9 billion in fiscal 2003, compared with a loss of ¥6.5 billion in fiscal 2002, despite the fact that operating revenues fell 26.1% year-on-year to ¥6.0 billion. However, we will stop

accepting new applications for this service in July 2004 and study the prospects of halting Quickcast services altogether based on subscriber usage data.

## Miscellaneous Businesses (International Services, Wireless LAN Business)

Miscellaneous businesses generated operating revenues of ¥28.7 billion (up 12.5% year-on-year) and operating income of ¥1.4 billion (down 67.1% year-on-year) in fiscal 2003. We launched WORLD WING international roaming services for FOMA subscribers in June 2003, and also started international videophone services for FOMA handset users in Hong Kong (a follow-up to similar services offered in the United Kingdom).

We increased our number of service areas for the Mzone public wireless LAN service to 254 in fiscal 2003, and also launched a daily plan that allows unlimited usage for 24 hours for a flat fee (this plan complements the existing monthly plan).

In fiscal 2004 we plan to strengthen our international communications and roaming services further and expand the geographical scope of AV communications by enhancing i-mode and FOMA services overseas. In addition, we plan to offer FOMA/GSM dual-mode handsets that can be used both in Japan and overseas.

### Operating Revenue and Operating Income (Loss) by Segment

	Fiscal year	(Billions of yen)		
		2001	2002	2003
Cellular (FOMA+mova)	Operating revenue	4,524.0	4,690.4	4,937.7
	Operating income (loss)	1,066.4	1,087.2	1,138.9
PHS	Operating revenue	100.2	85.0	75.7
	Operating income (loss)	-59.8	-28.3	-35.5
Quickcast	Operating revenue	11.1	8.1	6.0
	Operating income (loss)	-6.2	-6.5	-1.9
Miscellaneous businesses	Operating revenue	23.9	25.5	28.7
	Operating income (loss)	0.4	4.3	1.4