

Main Q&A (Analyst Meeting after the Results for FY2020/2Q)

Questioner No. 1	
Q1	I would like to ask some details about the revenues and profit from Smart life business and Other businesses. During your recent results presentation, you explained that there was an impact from the accounting treatment of “d POINTS”. When this impact is excluded, it seems you have not achieved any increase in profit. Can you elaborate on the revenue and profit trends, citing the finance/payment business as an example?
A1	The profit growth was partly affected by the accounting treatment of points, but we have also achieved an organic growth even without this impact. The revenue contribution of finance/payment services to the overall performance of Smart life business and Other businesses has grown considerably, which accounted for approximately 100 billion yen for FY2020/1H marking an increase of over 20% compared to the same period of the previous fiscal year. The profit from this business also recorded a year-on-year increase of over 30%. Content/lifestyle services also account for a large portion of Smart life-related revenues, but its pace of growth was not as fast as that of finance/payment. Although certain services such as “d anime store” and “Disney+” recorded a huge revenue increase due to the stay-at-home demand caused by the COVID-19 outbreak, some services have lost momentum. While making up for these negative factors, we have successfully achieved an overall expansion. Revenues from subsidiaries have also grown to a considerable size, driven mainly by Oak Lawn Marketing, which has enjoyed brisk demand from stay-at-home consumers. Tower Records, on the other hand, has suffered a decline in revenues due to a decrease in shop traffic caused by COVID-19. These elements are mutually offsetting, so if you consider that the revenue growth caused by the integration of NTT Plala is still continuing, that will give you a good indication of our performance.
Q2	When I compare the three-month period of FY2020/2Q with the same period of the prior year, the profit growth of Smart life business was short of 20 billion yen. According to your explanation, the impact from “d POINT” accounting treatment was slightly less than 20 billion yen, which implies you have effectively recorded a decrease in profit if the point impact is excluded from the calculation. Wasn't there a decrease in profit from finance/payment services? Is this trend projected to continue in FY2020/2H?
A2	As you rightly pointed out, if we single out FY2020/2Q, we recorded a drop in profit. The revenues from finance/payment business has been expanding at a remarkable pace. However, because this business is now in an expansion phase, we have been making outlays from FY2020/2Q to propel its future growth. As we believe now is the time to go on the offensive, we plan to continue these initiatives in FY2020/2H to secure our future profits.
Q3	Please share with us your philosophy for future rate plans. Your two major competitors announced to introduce a new 20GB plan priced approximately 4,500 yen from their sub-brands. What are your thoughts about the 20GB rate plan? Please also let us know your views concerning the launch of a sub-brand. I would like to know the current status of your studies. During the press conference in October, President Yoshizawa indicated that dual pricing for the same service was not considered favorable. Does this remain intact?
A3	To comment on the rate level for 20GB, in the Ministry of Internal Affairs and Communications' (MIC) international price discrepancy survey, large-capacity data plans in Japan were pointed out to be more expensive compared to overseas average. Because the benchmark used in the survey was 20GB, we believe we must also present the rate level we can offer for 20GB. We intend to perform a review taking into consideration that we will continue to be compared based on 20GB in the future. We are moving ahead with the studies exploring many different initiatives, including the possibility of rolling out a second brand as one of the potential options.
Q4	I understand that you cannot make an announcement about a new rate plan at the moment because the TOB is currently in progress, but once it is complete, do you plan to make an

	announcement immediately? Or, would you rather not rush and wait until the early next year to announce your new rate plan, if it is planned for launch in the spring of next year?
A4	We cannot clearly comment on the timing of announcement either, as it is still under review. It does not make sense to create a second brand for the sake of setting dual prices for the same service. If we are to create a new brand, we must clearly present the difference. Based on this philosophy, we are performing studies from various angles.
Questioner No. 2	
Q1	Regarding Smart life business and Other businesses, please indicate how the incremental profit of 20 billion yen attributable to the point program impacted each business category (e.g., finance/payment, or content/lifestyle)? Is it correct to assume that this profit impact will disappear in the next fiscal year?
A1	Please be advised that in terms of accounting treatment, the point impact is reflected in our overall results. We do not expect to see this impact in the next fiscal year and beyond. And please note that this profit impact appears only in the books and will have no impact on our cash position.
Q2	The expansion of finance/payment transactions seems to be driven by the strong performance of “d CARD” and “d Payment” services, but I also believe your direct carrier billing service, a proxy bill collection service, is also expanding. Can you explain the growth rate of each service comprising your finance/payment offerings?
A2	“d CARD” service continues to enjoy growth both in terms of number of members and usage, and we would like to maintain the current pace of growth in the next fiscal year and beyond. For “d Payment”, this fiscal year, we have been working to expand our merchant network and boost everyday usage through various campaigns. Our goal is to catch up with the market leader in terms of the number of merchants within this fiscal year. We also aspire to boost the usage to a comparable level, if possible, in the same timeframe, and we plan to implement actions in FY2020/2H to this end. Revenues are expected to grow in line with the expansion of total transactions, but the profit from “d Payment” service in FY2020 will be impacted by the upfront costs that we plan to spend for the development of merchant network. While we plan to continue the cultivation of new merchants in the next fiscal year as well, if we are successful in expanding our merchant network to a level on par with the leading operator, the pace of new acquisitions will likely be moderated, which will allow us to significantly reduce the cost of merchant acquisition. We also intend to improve the profit margin of “d Payment” so it can make greater profit contributions by enhancing the “d Payment” app UI and enriching its mini app portfolio. All services offered under the finance/payment category, including direct carrier billing, have achieved an increase in total transaction amount.
Q3	This is a question about your rate plan. In the MIC’s international price discrepancy survey, the rates for 2GB and 5GB were also indicated as more expensive. What are your thoughts on this point?
A3	Among the three data buckets of 2GB, 5GB and 20GB, at present the 20GB plan is drawing the highest attention. With the new rate plans that we introduced last year, we already made a huge challenge to address the rate reduction for low-usage customers choosing 2GB and 5GB. We will continue to review our rate plans from time to time so we can properly respond to the needs of customers.
Q4	Will it be correct to assume that you believe the current circumstances are different from late March, 2020, when the survey was carried out?
A4	That is correct.
Questioner 3	
Q1	I would like to hear about your assessment of your price competitiveness vis-à-vis the sub-brands of other carriers. Do you believe you can sufficiently compete against the rate levels of the sub-brands with your “Gigalight” service and your campaigns and other initiatives that you offer? Or do you think you need to employ additional measures to beef up your offerings?

A1	Because a new rate is planned for launch by our competitors in December and February, respectively, we are currently discussing what is needed to counter them.
Q2	As far as the low-end (e.g., 2GB, 5GB) and middle-range price points are concerned, according to your previous comment, I construed that while the 20GB package is currently drawing more attention, you do not see the need to immediately bolster your offerings. Is my understanding correct?
A2	We did not say we are not conducting any reviews on our low-end and middle-range rate plans. We are performing studies on both. Because pricing strategy is the most sensitive factor in the value proposition to customers, we constantly review our offerings in view of the competitive landscape and needs of customers. And we will continue this exercise going forward.
Q3	Will there be a significant change in DOCOMO from users' perspective, after you become a wholly-owned subsidiary of NTT? Please let us know if there are any points you want to alter dramatically from users' viewpoint.
A3	In the current market environment, we recognize that we must adequately respond to the needs of users, which have become increasingly diverse, complex and sophisticated ever since we launched 5G. Users' requirements are not confined to the mobile domain but encompasses broad areas including fixed-line and other layers of services. We would like to establish a structure that can accommodate such needs.
Q4	You have hitherto undertaken various initiatives to respond to user requirements. Should I consider that the addition of fixed-line and other services to your lineup would be the most significant change compared to the past?
A4	We hope to expand the breadth of our offerings and also roll out new services swiftly through co-creation with partners inside and outside the NTT group.
Questioner 4	
Q1	Regarding Smart life business and Other businesses, you mentioned that you plan to spend costs for marketing in FY2020, but you foresee a moderation in the projected amount of expenditures from FY2021 onwards. Will you aim to achieve an operating profit margin from Smart life business and Other businesses comparable to FY2020/1Q of approximately 24% in FY2021? Or, will you aim for a higher level, e.g., over 30%?
A1	The concrete numerical target will be estimated in the future, but we basically intend to increase our profit margin over the medium-to-long term.
Q2	Can I expect a level higher than that of FY2020/1Q at least?
A2	We will seek profit expansion every year, as opposed to every quarter, but it is difficult to commit to a specific profit margin. Intense competition in the market is expected to continue in FY2021 and beyond. Once the market matures and enters the phase of recouping investments, we may be able to aim for a considerably high profit margin that exceed the level of FY2020/1Q. Because the growth of profit margin is dependent on the competitive environment and our business strategy, we do not think we can deliver a profit margin comparable to FY2020/1Q immediately in FY2021.
Q3	What about the absolute amount of Smart life-related operating profit in FY2021? Can we expect a level higher than your FY2020 full-year target of 160 billion yen?
A3	For the absolute amount of operating profit, we will aim to achieve an increase over the previous fiscal year.
Q4	The performance of telecommunications business in FY2020/2Q was almost on par with the same period of the previous fiscal year. The year-on-year decrease in mobile communications services revenues was slower compared to FY2020/1Q, but the revenue growth from the expansion of optical-fiber broadband services and equipment sales came in smaller compared to FY2020/1Q. Can you comment on the factors behind the improved performance, taking these three points into consideration?
A4	Basically, pace of decline in mobile communications services revenues has stabilized. If you look at the ARPU trend, you will notice the improvement. The impact of cost efficiency improvement also played an important part.

Q5	Other than those associated with equipment sales business, what other cost items have you been able to reduce in FY2020/2Q over the previous quarter?
A5	There was no major change in the trend of cost reduction from FY2020/1Q.
Questioner No. 5	
Q1	You pointed out that the 20GB plan is the focal point in the new rate structure. However, if you want to fit it to your existing pricing regime comprising “Gigaho” and “Gigalight” plans, I believe it will require a very delicate price setting. Can you clarify what could possibly happen, if you newly create a plan offering 20GB at a price lower than the “Gigaho” rate, in terms of the number of people downgrading to the new plan and acquisition of fresh subscribers from the competition?
A1	Those are the key elements that we are studying most extensively. I understand you are interested in the status of our study on the checkpoint, 20GB. We are currently making an overall examination, including the number of subscribers using more or less than 20GB per month, the potential impact on business, and the number of users who are likely to switch to a new plan.
Q2	Does that mean you are focusing on 20GB as a baseline?
A2	The 20GB bucket has been used as a benchmark in the international price discrepancy survey every year. We must exercise our ingenuity in how to properly express this.
Q3	In your medium-term strategy, you presented an operating profit target of 990 billion yen. Will this target remain unchanged even after you become a wholly-owned subsidiary of NTT? I would also like to reconfirm if you anticipate to achieve profit growth every year in the roadmap to get there.
A3	At this juncture, we do not have any plans to change the roadmap of our medium-term strategy. Of course, following the integration into a wholly-owned subsidiary, we may modify our strategy, if necessary, after conducting studies on formational changes and synergy creation. At this point, however, no changes are planned to our existing strategy; we will aim to grow our profit to a level comparable to FY2017 by FY2023.
Q4	During the earnings call for FY2020/1Q, you mentioned that you are on track toward the delivery of the 990 billion-yen operating profit target. Should we understand your statement basically remains intact despite the comments from Prime Minister Suga?
A4	It remains unchanged. As we have stated from before, we constantly review our rates and other elements in view of customer needs and status of competition. In addition, we do not deny that we sometimes receive requests, etc., from the government, but we do not intend to dramatically change our strategy because of such requests.
Questioner No. 6	
Q1	I believe you had a negative view for DSS (Dynamic Spectrum Sharing), but has there been any changes to your position? I understand your basic plan is to first expand coverage using the new spectrum allocated for 5G, but can you give us an update on your plans for the use of existing bands for which you were granted a license before the start of 4G?
A1	It is not that we are denying the use of DSS. It is approved as a technical standard, and we intend to use DSS for 5G once the subscribers of LTE or other services served with the existing spectrum band reduces in number, including the possibility of using it for carrier aggregation. We are currently making preparations to start using existing bands from around FY2021/2H. However, the intrinsic benefits of 5G are the high-speed and large-capacity transmission and low latency, and we were awarded the Sub-6 and millimeter waves as new 5G spectrum to deliver these properties. We therefore believe it is most essential to make the most use of these resources to provide value to customers. Thus, we will continue to build out 5G coverage using the Sub-6 band this year and next year at an accelerated pace compared to our initial schedule. Then, once the number of users accommodated in certain bands decreases as a result of subscriber migration from LTE to 5G, we will reuse the emptied bands for 5G. Even if we start sharing the spectrum with 5G when there are still many customers remaining on the LTE network, we will not be able to deliver high-speed communications, the most important benefit of 5G. We, at DOCOMO, intend to clearly distinguish and properly present the areas covered by the new 5G spectrum, LTE areas, and 5G areas served with LTE spectrum, to avoid misleading customers.
Q2	Do you have any plans to use the spectrum originally allocated for 4G services, not for DSS but for 5G, by converting the 3.5GHz band into 5G NR? Because I believe the the number of users served

	with the 3.5GHz band is not so significant, this is something you can tackle immediately, but what do you think?
A2	The spectrum bands allocated for services before 4G can be used for 5G NR and other purposes once the customers of existing systems are relocated, and we are performing studies on this issue. The 3.5GHz band is a major candidate, and we believe other operators are also contemplating the use of this band.
Q3	I heard that NTT has an ambition to integrate DOCOMO with NTT Communications after making DOCOMO a wholly-owned subsidiary. Do you have any plans to absorb OCN, the MVNO service operated by NTT Communications and offer it as a sub-brand of DOCOMO? Also, is it taking long time for you to launch a second brand because you are studying the use of OCN asset in the future? Please let us know your thoughts on this matter.
A3	The scenario you mentioned could be a possible option, but it is not that this has become an obstacle hindering the progress of our study. The consolidation of NTT Plala, that was executed last year, is now delivering tangible benefits. We would like to push forward joint business operations with the NTT group companies leveraging our past experience.
Questioner No. 7	
Q1	It seems that you are carefully controlling 5G capital expenditures without bringing forward your spending plans. What is the reason for this? I partly understand your rationale, given the difficulty of monetizing the new 5G business immediately, and the general business climate forcing you to lower the tariff for the former Type I Telecommunications Business. However, back in the age of 1G and 2G, DOCOMO achieved a tremendous success by making active network investments. Thereafter, with 3G, KDDI regained ground because you suppressed investments for W-CDMA. After 4G, all carriers kept pace with one another in network investment, but it seems that you are overwhelmed by the competition on the pricing front. Do you have any plans to make active capital expenditures in the future? Or would you pursue profit generation through cost control in your telecommunications business? Please present us your medium-to-long term perspective.
A1	It is not that we are reluctant to make investments for 5G coverage expansion. Our basic stance to continue active capital expenditures remain intact. To give you an example, we are now making preparations to bring forward our investment plan taking into consideration the tax benefits. While you talked about the market circumstances in the age of 3G, the 5G subscribers are also provided with network access through LTE in areas that are not covered by 5G, and we need to properly communicate this point. We have so far attached priority to population coverage, but in the age of 5G, we have also expanded the solutions that can cater to the needs of enterprise clients. Thus, we will advance the area coverage with this two-pronged approach. If we deem that 5G can make contributions to DX (digital transformation), we will deploy 5G in locations where it is needed. Rather than simply pursuing population coverage, we will construct the 5G network in various areas across Japan where there is demand, with a focus on the “development rate of 5G infrastructure maintenance”. The 5G-related capital expenditures for this fiscal year is estimated to be 130 billion yen, and we have communicated on various occasions that we plan to spend at least a cumulative 1 trillion yen for 5G service in the five years from FY2019 through FY2023. We believe we are making active efforts.
Q2	In your overall capital expenditures, is it correct to understand that there are areas where you make active investments, and other areas where you control your outlays to a certain percentage of your revenues? After becoming a wholly-owned subsidiary of NTT, do you plan to vary your investments based on projects? Or, will you attach a stronger focus on cost control to defend profits? I would appreciate your comment on this.
A2	We will make active investment when necessary, which does not necessarily mean that we will always control the amount of CAPEX to a certain ratio of our revenues. In the past, there were periods where our CAPEX spiked, or stabilized on the other hand. We will of course continue cost control and explore various options after we become a wholly-owned subsidiary of NTT. For example, there are cases in which multiple entities in the NTT group build networks that have similar configurations redundantly. We believe these should be integrated. The same applies for effective utilization of buildings and power. While we believe there are opportunities for cost reduction in such areas, we will continue active network investments.

Questioner No. 8	
Q1	Have you seen any changes in the number of customer outflows to Rakuten MNO service between the FY2020/1Q and 2Q? Please also share with if there has been any changes in the attributes of customers switching to Rakuten. As far as I understand, price-sensitive light-usage customers have so far accounted for the bulk of users moving out from DOCOMO to MVNOs. Have you witnessed any changes of late, such as outflows of heavy users?
A1	There has not been any notable changes in the trend of customers moving out to Rakuten, which has been in line with our expectations. Because Rakuten has stepped up their promotions in August and September, we saw a slight increase in the number of outflows to Rakuten, but the overall trend remains in line with our projections. Customers switching to Rakuten are not skewed to a particular segment in terms of age or volume of data consumption. We believe they represent fairly general customers of DOCOMO.
Questioner No. 9	
Q1	This is a question relating to your rate plan. Your competitors nurtured their customers into large data users from early on, and had them migrate to more expensive rate plans. This suggests that, even if they introduce a new rate plan for 20GB, those super-large data users are not likely to downgrade, and they will still be able to aim for upselling users of 10GB, etc., to higher plans. In this context, because you set the minimum size of “Gigaho” at 30GB, you face the risk of downgrade by customers. You commented earlier that eventually the rate discussions will likely extend to the 2GB and 5GB plans. Do you think when you execute your rate revision this time around, you will need to take this point into consideration?
A1	Looking back at the history of a number of rate revisions conducted in the past, the first mover was not necessarily guaranteed an advantage. The operator that moved first was always caught up by the competition eventually. Even if we take action as a laggard like this time, we will make sure to set our rates at a proper level and adequately communicate them to customers.
Questioner No.10	
Q1	This is a question for President Yoshizawa. How do you think you changed DOCOMO during your tenure? And what are the capabilities that DOCOMO needs to develop newly in the future, including the challenges that the Company needs to address?
A1	I feel grateful that I was able to have many dialogues with all of you. At the past earning calls, I presented my thoughts and future directions of the Company. The four years and a half years of my term as CEO coincided with the timing that the mobile business made a drastic transition to smartphones. Against this backdrop, I pondered upon the key question of what value can we offer to customers. In launching new services and solutions, we must first clearly define the value proposition to customers and decide on our rates, services and network accordingly. After assuming the role of CEO in 2016, we unveiled our medium-term strategy “Declaration beyond,” in which we defined those values envisaging 2020. In this context, I believe we achieved a considerable progress in the execution of measures and provision of services toward the delivery of “Declaration beyond.” While network services such as LTE and 5G account for a large portion, our business is not confined only to them. We have endeavored to offer total value through the new services and solutions delivered via our networks. Today’s IT and ICT solutions are not made up only of the mobile communications. Mobile service, of course, has always been a major entry point to our offerings, which encompass various other technologies and networks. Without limiting our realms of business to mobile communications, by taking a broader perspective into AI, cloud, IoT as well as fixed-line, platforms, applications and software, we can further expand the services and solutions offered on our networks. In the years ahead, we need to further broaden our perspective and we must start pushing forward these actions from now onwards. Not everything that I have done in the last four and a half years turned out successful, but I believe we were able to deliver certain results.