

## **Press Conference Announcing the Results for the Fiscal Year Ended Mar. 31, 2006**

### **(Minutes)**

Date: April 28, 2006 (Friday), 3:00 p.m.-4:00 p.m.

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#### **[Presentation by Mr. Nakamura, President & CEO]**

For the Fiscal Year ended March 31, 2006, the Company achieved 4,765.9 billion yen in operating revenues, and 832.6 billion yen in operating income, which was almost in line with our earlier forecast. Net income, including the proceeds from the sale of Hutchison 3G UK shares, was 610.5 billion yen. Net income posted a reduction from the previous fiscal year because the proceeds from the sale of AT&T Wireless shares were incurred in Fiscal 2004. Adjusted free cash flows for the year ended March 31, 2006 were approximately 510 billion yen, because the increase in cash position resulting from the reduction in corporate tax payments due to the losses from the AT&T Wireless transaction was offset by the strategic investments made during the fiscal year.

Operating revenues decreased by 78.7 billion yen year-on-year, which is primarily due to the reduction in the number of handsets sold. Cellular services revenues posted an increase of 11.2 billion yen year-on-year because of the firm ARPU performance, reversing the downtrend for the last few fiscal years. Operating income increased by 48.5 billion yen from the previous fiscal year to 832.6 billion yen. Operating expenses decreased sharply by 127.2 billion yen year-on-year, which is mainly attributable to the reduction in equipment sales-related expenses resulting from reduced handset sales, and the impact of incurring 60.4 billion yen in impairment losses from the PHS business in Fiscal 2004.

As for the guidance for this fiscal year ending March 31, 2007, operating revenues are expected to reach 4,838 billion yen, up 72 billion yen year-on-year. Among the revenue items, cellular services revenues are projected to grow by 18 billion yen, and equipment sales revenues by 57 billion yen compared to the previous fiscal year. Despite the negative impact from past rate reductions, cellular services revenues are expected to increase because of the projected growth in the number of subscribers.

Operating income is estimated at 810 billion yen, down 23 billion yen from the previous fiscal year. Operating expenses are projected to grow by 95 billion yen to 4,028 billion yen. Principal factors behind the increase are the growth in equipment sales-related expenses resulting from the increase in the number of handsets sold, and a 16 billion yen increase in depreciation and amortization resulting from the enhancement of FOMA coverage.

Adjusted free cash flows are expected to decrease to 280 billion yen. Were it not for extraordinary factors, we may be able to achieve approximately 400 billion yen in free cash flows. However, because there will be an impact from the deferred tax payment, some investment projects which have already been decided, and required expenses for the operation of "DCMX" mobile credit payment business, we are projecting a decrease in adjusted free cash flows for this fiscal year.

I will explain our operational performance in the previous fiscal year. Our churn rate for the fourth quarter of Fiscal 2005 was 0.75%, far below the 1% mark. The full-year churn rate was 0.77%, posting an improvement of 0.24% year-on-year, which we believe proves that our retention measures are widely accepted by our customers.

As for the share of net addition, we surpassed KDDI Group and acquired the largest market share of 48.4% on a full-year basis in a fiercely competitive market.

The migration of subscribers to FOMA has been making steadfast progress, and the number of FOMA subscribers accounted for approximately 46% of the total as of March 31, 2006. The number is expected to reach nearly 66% by the end of March 2007. Fiscal years 2005 and 2006 are expected to be the peak of the migration.

The downtrend in MOU continues, but the pace of decline has continued to slow constantly. MOU posted a year-on-year decline of 5% in Fiscal 2004, but only 1.3% in Fiscal 2005. The MOU for the fourth quarter of Fiscal 2005, in particular, was 146 minutes, almost unchanged compared to 145 minutes in the same quarter of the previous year.

The year-on-year decline in ARPU has also narrowed reflecting the firm MOU performance. The packet ARPU, in particular, posted a year-on-year increase in two straight quarters following the third quarter of Fiscal 2005. This is mainly due to the successful retention of existing high usage customers and acquisition of high usage subscribers from the competition, and also because the users bill began to increase after their migration from mova to FOMA.

Next, I will explain our business strategies for this fiscal year ending March 2007. Our main focus areas for this fiscal year are "strengthening core business", "creation of new revenue sources" and "cost reduction".

To further reinforce our core business, we removed the subscription restrictions and enabled all subscribers of FOMA's new billing plans to subscribe the "pake-houdai" flat-rate package from March 1, 2006. The subscriber base of "pake-houdai" grew steadily as a consequence, and reached 5.59 million as of March 31, 2006, and there were some 400,000 additional applications for this service. In November 2005, we started the new billing plans, and some 37% of our total users have already shifted to these new plans. We intend to further strengthen our competitiveness leveraging our diversified billing plans, so that we can retain existing customers and even acquire fresh subscribers from the competition.

We have also been working to improve our products and after-sales support to strengthen our core business. As part of FOMA's standard lineup, we newly released the SIMPURE series featuring simple functionality, in addition to the 902i and 702i series handsets. With these different models, we plan to respond to diversified user needs, and cut the handset procurement costs by optimizing our product mix. We have also released some concept models offering special features, including the one-segment broadcast-enabled phones, environment-friendly model and the "Kids' PHONE" designed for child's use and safety protection. Among the users of "Kids' PHONE", fresh subscribers account for approximately 90% of the total, which demonstrates that this model contributed to generating new demands.

In the area of after-sales support, we have been providing free battery packs, and the cumulative number of battery packs shipped reached 1.4 million as of March 31, 2006 since the start of this service in February 2005. In addition, some 400,000 users have used the free handset warranty service, and we believe these services have contributed to reduce the handset replacement rate.

Enhancement of network quality is another area we have been working on to strengthen our core business. Network quality is a priority in view of the scheduled introduction of Mobile Number Portability. We therefore plan to increase our capital expenditures by 18 billion yen year-on-year to 905 billion yen this fiscal year, which will mostly be appropriated for the construction of base stations. With this, we believe we will be able to construct a sufficiently competitive network by the middle of this fiscal year, in time for Number Portability. The network construction will not finish this fiscal year, but our 3G network will nearly be completed with the expansions to be carried out during this fiscal year.

In the summer of this year, we plan to launch the HSDPA service, which will enhance FOMA's maximum

transmission speed by approximately ten-fold to 3.6Mbps. HSDPA service will first be launched in the 23 wards of Tokyo, and our goal is to cover 70% of the populated areas in Japan by the end of March 2007. We plan to offer HSDPA services under the same rate plans as the existing FOMA service, so that customers can access richer contents at faster speeds. We believe the service will offer great benefits to "pake-houdai" users.

To explain our mid-term directions for the creation of new revenue sources, since last year we have made investments and formed alliances in the five business areas of "payment and commerce", "broadcast", "content and Internet", "global" and "mobile-related peripheral" businesses.

I will first explain our credit payment business. Japan's credit payment market has expanded steadily over the past several years, but the percentage of credit card payments to total consumer spending is still low at only 9%, compared to 24% in the United States. If the use of credit cards grows to a level comparable to the United States, the market will expand by another 45 trillion yen, offering us plenty of room for further expansion.

The user base of i-mode FeliCa-enabled handsets reached 11.8 million as of March 31, 2006, and our goal is to increase it to 18 million by March 31, 2007. We also plan to complete the installation of 150,000 "iD"-enabled reader/writer machines by March 31, 2007.

Under these circumstances, we will offer our credit payment services, and our near-term goal is to acquire a total of 10 million users in our "DCMX" and "DCMX mini" services, while working in parallel to increase the installations of reader/writer machines. We believe the credit payment business will make great contributions to our core cellular business because of the increased attractiveness offered by the credit payment capability and other synergies such as cost reduction achieved through prolonging the handset replacement cycle.

In order to enrich our international roaming service, we have implemented various measures; for example, we added the handset variety, expanded the roaming destinations and increased the rental counters to provide greater convenience to Japanese travelers who wish to use our roaming service abroad. In April, with the goal to collaborate in the field of international roaming and corporate services, we established a forum tentatively called the Asia Pacific Mobile Alliance. Leveraging this alliance, we intend to enhance the convenience of users primarily in the Asia region. These measures resulted in a steadfast increase in international services revenues, which are projected to reach over 40 billion yen in FY2006 from 25 billion yen in Fiscal 2005.

As part of our efforts to create new revenue sources, we will also strive to grow the ARPU by boosting the usage of customer, for example, by the provision of PUSH information delivery services such as "i-channel" and "Tokudane News-bin". The "i-channel" service, in particular, has been well received by the customers, with its user base topping 2 million in just seven month after the service launch, and more than 40% of compatible handset owners subscribing to the service. Our goal is to increase its user base to over 5 million within this fiscal year by further enriching its content portfolio and adding more compatible handset models. "i-channel" is expected to become a great revenue contributor in the future, because the service generates incremental revenue of 400 yen per user per month from its subscription charge and communication charge.

In the area of cost reduction, we will first try to lower FOMA's handset costs. To this end, we plan to develop single-chip CPUs and common platform through the collaboration with vendors, and introduce the handsets produced by foreign manufacturers, so that we can offer low-priced handsets that can be accepted by our customers.

We will also try to bring down the overall procurement costs of FOMA handsets by optimizing the product mix comprising the 90X, 70X and SIMPURE series phones.

Meanwhile, we aim to lower FOMA's base station equipment costs in order to improve the efficiency of our

access network. The reduction of equipment costs is expected to have a great impact on our overall costs, as we are planning to install a huge number of base stations during this fiscal year. At the same time, we plan to convert our core network into an IP-based one to enhance the network efficiency. The unit cost of construction has fallen steadily in the past, as a result of improved investment efficiency achieved through the integration and capacity expansion of some network equipment.

As for our future network enhancement plans, we just recently applied for the WiMAX experiment license. Going forward, we plan to pursue the major trends such as Super 3G and 4G, while seeking various possibilities of wireless access technologies in view of the diversification of wireless broadband data services in the future. Last but not least, I will discuss the return to shareholders. Because we consider this an important item in our corporate agenda, we spent approximately 178 billion yen in dividend payments, and approximately 300 billion yen for the repurchase of our own shares in the fiscal year ended March 31, 2006, spending more than 400 billion yen every year for shareholder returns for the last three years. This fiscal year, we plan to maintain the annual dividend at 4,000 yen a share, after doubling it last fiscal year, and carry out share buy-back taking into account our free cash flow conditions. We plan to propose a resolution to authorize us to repurchase up to 1.4 million shares at an aggregate price of up to 250 billion yen at the upcoming general meeting of shareholders.

#### [Questions and Answers]

Q: The churn rate for FY2005 was very low. Isn't this because you increased your inventory intentionally without selling the handsets to customers in order to prevent an increase in churn, as opposed to customers' reluctance to purchase new handsets?

A: We never held back our sales intentionally, but the lack of a major change in hardware, as was the case when camera-enabled or clam shell phones first appeared in the market, might have been a factor leading to reduced churn rate.

We also believe the "extended free handset warranty period", "free-of-charge battery pack service" and other measures contributed to the reduction in churn rate.

Q: What is your forecast on your share of net additions for FY2006 ?

A: Basically, we intend to maintain the same level as FY2005, i.e., within a range between 40-50%.

Q: How many handsets do you plan to sell this fiscal year?

A: We sold 25 million units in FY2005, and we believe the number will increase by 600,000 this fiscal year.

Q: What is your projection on the percentage of 70X and 90X series handsets to be sold in FY2006?

A: In FY2005, the breakdown between 90X and 70X series was 65% and 35%, respectively, but we believe it will be 60% and 40%, respectively in FY2006.

Q: In your analysis, what are the main factors leading to the better-than-expected ARPU performance in FY2005?

A: One of the major factors was the firm packet ARPU performance. The bill of customers who have migrated from mova to FOMA began to increase, and, although we have not been able to precisely understand the reason, data usage of existing customers is rising, which makes us believe the packet usage of customers have begun to change in various ways.

Q: You mentioned you plan to maintain your capital expenditures at a high level this fiscal year. When do you think your depreciation and amortization will reach its peak?

A: Capital expenditures will peak in FY2006, and we believe we can reduce the capital expenditures by approximately 150-200 billion yen in FY2007. We therefore think our depreciation and amortization will peak

in FY2007.

Q: Give us the actual amount of revenue-linked expenses spent in FY2005, and the projection for FY2006.

A: Revenue-linked expenses for FY2005, including cost of equipment, distributor commissions and DoCoMo Point service allowances, were 1,758.5 billion yen. The projected revenue-linked expenses for this fiscal year totaling these three items are estimated at 1,830 billion yen.

Q: Which particular items in the revenue-linked expenses are expected to increase in FY2006?

A: DoCoMo Point service allowance is projected to grow by approximately 10 billion yen. Cost of equipment is also expected to increase by approximately 70 billion yen due to an increase in the number of handsets sold.

Q: When you decided on the budget for repurchase of your own shares, what did you take into consideration, e.g., changes in financing needs, your approach to appropriation of retained earnings?

A: We decide on the budget for repurchase of our own shares looking into various factors, including our free cash flow conditions. As far as FY2006 is concerned, the budget for repurchase of our own shares may seem large vis-à-vis the projected free cash flow of 280 billion yen. We finally arrived at 250 billion yen after comprehensively studying various factors, such as the fact that we had more than 1 trillion in cash at the beginning of this fiscal year, our free cash flow projections, dividend payments and debts that will become due during this fiscal year.

Q: Please explain your investment strategies for this term.

A: There are no changes in our basic approach toward investment, i.e., we plan to make investments in areas where we can expect synergies to our core cellular phone business. In other words, we will study making investments if further strengthening is needed in the areas we have invested in FY2005.

One is the credit business. Last fiscal year was our first year in the "iD" business, and we actively expanded this service mainly in convenience stores. The number of shops where the service is available has grown in number as a consequence. The investment needed for this area during this fiscal year therefore will not be as large as last fiscal year.

In the area of Internet, we are currently studying the details concerning the auction business together with our partner, Rakuten. We believe there are many more business opportunities that we can tackle in the area of mobile Internet in the future. The amount of investment required for this business field is not likely to be significant, and we would like to proactively address this business domain.

Also, we will study making investments in mobile-related peripheral technologies, if necessary, to prevent the disturbance of a stable and perpetual supply of required technologies, as a result of merger or acquisition of companies owning essential licenses for i-mode or other technologies by third parties.

In the area of global business, we will study the possibility to make investments for the purpose of expanding the footprint of W-CDMA or i-mode alliances. Going forward, as we consider how to let Asian operators join the i-mode group, we will study the required approach on a case-by-case basis, e.g., whether a technical alliance is sufficient as was the case with our Singapore partner, or some amount of investment is needed.

The recent investments made in Guam and Korea are based on slightly different considerations. When we look at the 3G coverage by the three mobile operators in Korea, the area covered by W-CDMA technology is currently very limited, and the majority is covered by CDMA2000. Given the huge number of Japanese travelers to Korea, we wanted to avoid a situation in which DoCoMo phones cannot be connected. We therefore decided to invest in KTF on the condition that W-CDMA network will be constructed. Also, some 1.3 million Japanese people visit Guam and Saipan every year, but the current GSM network in these islands

has quality problems, and many roaming users have voiced their requests for improvement. With respect to 3G, CDMA2000 is currently available in these islands, but no operators hitherto have provided W-CDMA services, and there will be a hole in the W-CDMA coverage if things were left as is.

In view of the above circumstances, we invested in the operators in Korea and Guam for slightly different purposes. But we do not think there are many cellular service areas left without W-CDMA coverage now, thus these types of investments are not likely to happen in the future. If we are to make overseas investments in the future, those will be targeted at the expansion of W-CDMA coverage and i-mode alliance, and we do not plan to change this policy at this point. Our challenge for this fiscal year is how to strengthen this area of business.

Q: This fiscal year, you are forecasting a reduction in operating income, but how do you foresee the trend over the middle to longer term? And how significant will be the contribution from non-traffic service revenues in the future?

A: How to analyze the trends in core business becomes important in developing the projections for the mid-to-long term. In other words, this relates to the number of subscribers and ARPU. As for the number of subscribers, the overall demand in the market for this fiscal year is projected to be limited to approximately 80% of last fiscal year. New demand is expected to decline year by year, but we still have room for expansion, especially among the very low and senior age groups where the penetration is still low, and also for business use by corporate clients.

With respect to ARPU, the ARPU continued to fall so far in line with the increase of low-usage customers. However, the pace of decline is expected to slow as new demand decreases, and therefore the trend will turn in a favorable direction. Although there are some uncertainties such as number portability, we basically believe our core business is headed to a positive direction.

In addition, while many of the high packet usage customers have already switched to the flat-rate plan, there is a considerable number of users using data service only for mail. We would like to appeal our "i-channel" and other PUSH information delivery services to boost the ARPU of these customers. Because "i-channel" alone can generate an incremental revenue of tens of billions of yen a year, we need to work even harder to come up with services that encourage users to increase their usage.

On the cost side, the amount of depreciation and amortization, which is a big element in our cost structure, is expected to decrease after hitting its peak in FY2006. We therefore are not pessimistic about the profits generated from the core business.

Our near-term challenge, in areas outside the core business, is how to expand the credit payment business. Our goal for the time being is to increase its user base to 10 million within 3-5 years.

Q: Do you think the mobile net bank to be jointly established by KDDI and Tokyo Mitsubishi UFJ will compete with your "iD" service? What is your view on banking business?

A: Our "iD" service is based on an open business model, thus it is not considered to compete with any bank. But it will not be convenient from the customers' perspective, if there are multiple mobile credit services that are incompatible with one another. We therefore think there will be a need to discuss with related parties as to what we can do for the benefit of customers. We currently have no plans with respect to banking business, because the success of our credit payment business is our top priority for the time being. Having said that, however, because there is a great affinity between banking business and our wallet phone service, the type of alliance like the one we entered with Mizuho Bank recently can be an option for consideration.

Q: How large do you plan to expand your 800MHz FOMA coverage to during this fiscal year? Please also

explain your views on FOMA's billing structure following the introduction of HSDPA.

A: We are currently reorganizing the 800MHz band in accordance with the plans set forth by the Government, with a goal to complete the rearrangement within 2012. While coordinating with KDDI, we plan to start using the spectrum from areas wherever the spectrum becomes available, but out of the 15MHz of bandwidth allocated for FOMA, 10MHz will be difficult to use anytime before 2012. With respect to the remaining 5MHz of bandwidth, the areas where this band can be used may increase depending on the coordination with KDDI, but I do not think we can practically do anything for the next 2-3 years. Currently, we are using the 800MHz band spectrum in rural areas, to avoid interference with other systems.

Currently, we do not plan to change FOMA's billing plans in association with the introduction of HSDPA.

Q: How much did you invest in your credit card business during last fiscal year? And how much do you plan to invest this fiscal year?

A: With respect to "iD" service, we invested approximately 98 billion yen in Sumitomo Mitsui Card, approximately 1 billion yen in UC Card in relation to our alliance with Mizuho Bank, and approximately 12.8 billion yen in Tower Records. This fiscal year, we plan to invest 9 billion yen in Lawson, but the cash has not been transferred at this point yet. The capital expenditures relating to the credit business per se will not that sizable; it will be in the order of several hundreds of millions of yen.

Q: Give us your guidance on the projected number of HSDPA users and its impact on ARPU for this fiscal year?

A: We plan to release a handset shaped device and a card type device for the HSDPA service, but because the service areas will be limited at the launch of service, and the transmission speed will differ when customers are inside (3.6Mbps) and outside (same as conventional FOMA speeds) the HSDPA area, it is very difficult to quantify the impact. We have not developed any forecast on its user count, which will be affected by the sales of handsets.

Q: Give us your revenue target from "DCMX" service in its first year of business.

A: As of April 3, 2006, some 320,000 "iD" reader/writer machines were decided for installation, and we plan to complete the installation of another 100,000 units by the end of December 2006, and 150,000 by the end of March 2007. Our long-term goal is to grow the user base of "DCMX" to 10 million in the next 3-5 years, but we have not made any specific target for the first year alone.