

# Tariff Regulations on User Charges

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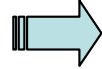
Tariff Division

**Ministry of Internal Affairs and Communications**

# Current System Related to User Charges in the Telecommunications Field

Current regulations concerning tariffs and contractual terms are divided into the following service areas.

Foundational telecommunications services

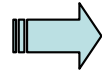


Create contractual terms and notify the MIC Minister

Concept: Telecommunications services that should be provided to all citizens throughout Japan as they are essential for everyday life.

For example, this would include NCC subscriber telephones and type 1 public telephones (local telephones, special calls for remote islands and emergency communications etc.)

Designated telecommunications services

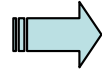


Create contractual terms and notify the MIC Minister

Concept: Services provided when carriers install bottleneck equipment and use this equipment. These are telecommunications services that can not adequately be provided by other telecommunications providers.

For example, the main targets are NTT East and West subscriber telephones, ISDN, public telephones, leased lines, B-FLET'S and FLET'S ISDN.

Specified telecommunications services



Targets of price-capping regulations

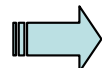
Concept: Designated telecommunications services that have a major impact on benefit for users.

For example, NTT East/West subscriber telephones, ISDN, public telephones and leased lines.

In regard to "leased services" and "voice transmission services" (telephone, ISDN), which are the main services of NTT East/West, a relative index (standard charge index) was determined as of April 1st 2000 for the overall charge standard cap for each division (basket) and it became possible to freely set individual tariffs just by notification if they were within this capped value.

However, in the case of setting tariffs that exceed this standard charge index, approval of the minister is required.

Services other than the above



No regulations on charges or other conditions of provision

In regard to telecommunications services (NCC long-distance calls, ADSL, mobile phone, IP telephony etc.) other than those mentioned above, term regulations have not currently been applied.

# Overview of Price Cap System (1)

## 1. Overview

This is a method applicable to the "voice transmission services" (telephone, integrated digital communication service (ISDN)) and "dedicated services" which are the primary services of NTT East and NTT West. With this method, an upper limit (price cap) on the overall rate level for each category (basket) is established as an index (standard charge index), and individual rates can be freely set by notification, provided the upper limit is not exceeded.

When the X value is set at a 3 year uniform rate, and carriers work to reduce expenses or increase income above that rate, the price cap system provides an incentive to improve management by leaving it to the carrier's discretion whether to devote effort to lowering additional charges, providing new services or increasing profits.

[ Categories (baskets) for establishing a standard charge index ]

Category (Basket)	Primary specific charges
Voice transmission services (Telephone, ISDN)	<ul style="list-style-type: none"><li>•Calling charges</li><li>•Directory assistance charges</li></ul>
[Sub-basket] Items relating to subscriber lines	<ul style="list-style-type: none"><li>•Basic charges</li><li>•Facility installation charges</li></ul>
Dedicated services	Dedicated charges

# Overview of Price Cap System (2)

## 2. Method of calculating standard charge index

Standard charge index = Standard charge index for previous period x (1 + Change in the consumer price index for previous period - Expected productivity improvement (X value) + Exogenous factors)

Note 1: The applicable period for the standard charge index shall be one year, starting on October 1.

Note 2: The expected productivity improvement (X value) shall be calculated every three years from the future cost based on current productivity, and the future cost based on forecast future improvements in productivity.

[Transition of standard charge index (2001.4 = 100)]

Basket		2000.10 ~ 2001.9	2001.10 ~ 2002.9	2002.10 ~ 2003.9	2003.10 ~ 2004.9	2004.10 ~ 2005.9	2005.10 ~ 2006.9
Voice transmission services	NTT East	97.8	95.5	92.7	92.7	92.7	92.7
	NTT West						
[Sub-basket] Items relating to subscriber lines		100	100	100	100	100	100
Dedicated services	NTT East	97.6	95.1	92.2	90.4	89.3	88.3
	NTT West				90.8	90.1	89.5