

Universal Service Policy in Japan

Development

December 2000

Telecommunications Council Report
“First Report on Desirable Pro-Competitive
policy in the Telecommunications Business
Field for Promoting IT Revolution”

June 2001

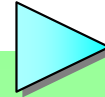
Promulgation of the revised
Telecommunications Business Law

June 2002

Enforcement of the revised
Telecommunications Business Law

October 2005

Telecommunications Council Report on
“Universal Service Fund System”
- Adoption of the benchmark method
- Contribution based on the number of
telecommunications numbers



Enforcement

December 2005

Designated the universal telecommunications
service support institution

March 2006

Designated the eligible telecommunications
carriers (NTT East and West)

August 2006

Announced the balance in the universal service
provided by NTT East and West
- NTT East and West as a whole posted a deficit
of 51.8 billion yen in FY 2005
 (NTT East: 29.4 billion yen deficit
 NTT West: 22.4 billion yen deficit)

November 2006

Approval of compensation and contribution
- Approx. 15.2 billion yen in compensation for
NTT East and West

April 2007

**Started collecting contribution and granting
compensation**

Basic Elements of Universal Service

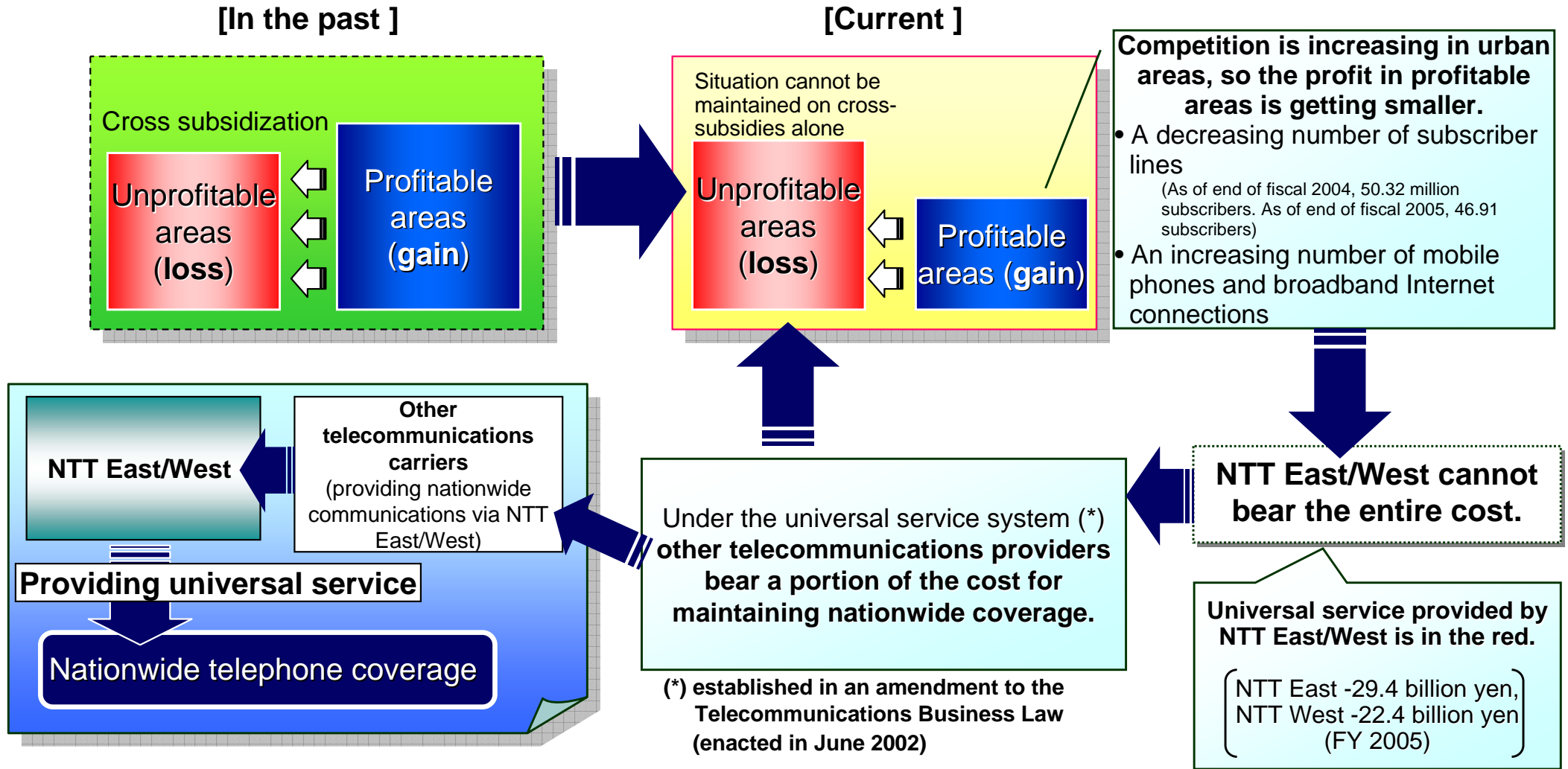
1. It is **essential to the life of every person** (essentiality)
2. It must be **affordable for everyone** (affordability)
3. It must be **available everywhere without differences between regions** (availability)

Providing Universal Service (Telecommunications Business Law Article 7)

Telecommunications carriers that provide universal service (telecommunications service defined by the Ministry of Internal Affairs and Communications (MIC) ministerial ordinance as a service that is **essential to the life of every person** and thus **should be available throughout the entire country**) must endeavor to provide that service in an **appropriate, fair, and stable manner**.

Scope of the Universal Service

- (1) **Subscriber line access**
- (2) **Public telephones service**
- (3) **Emergency calls service** (Police, Fire department, Coast guard)

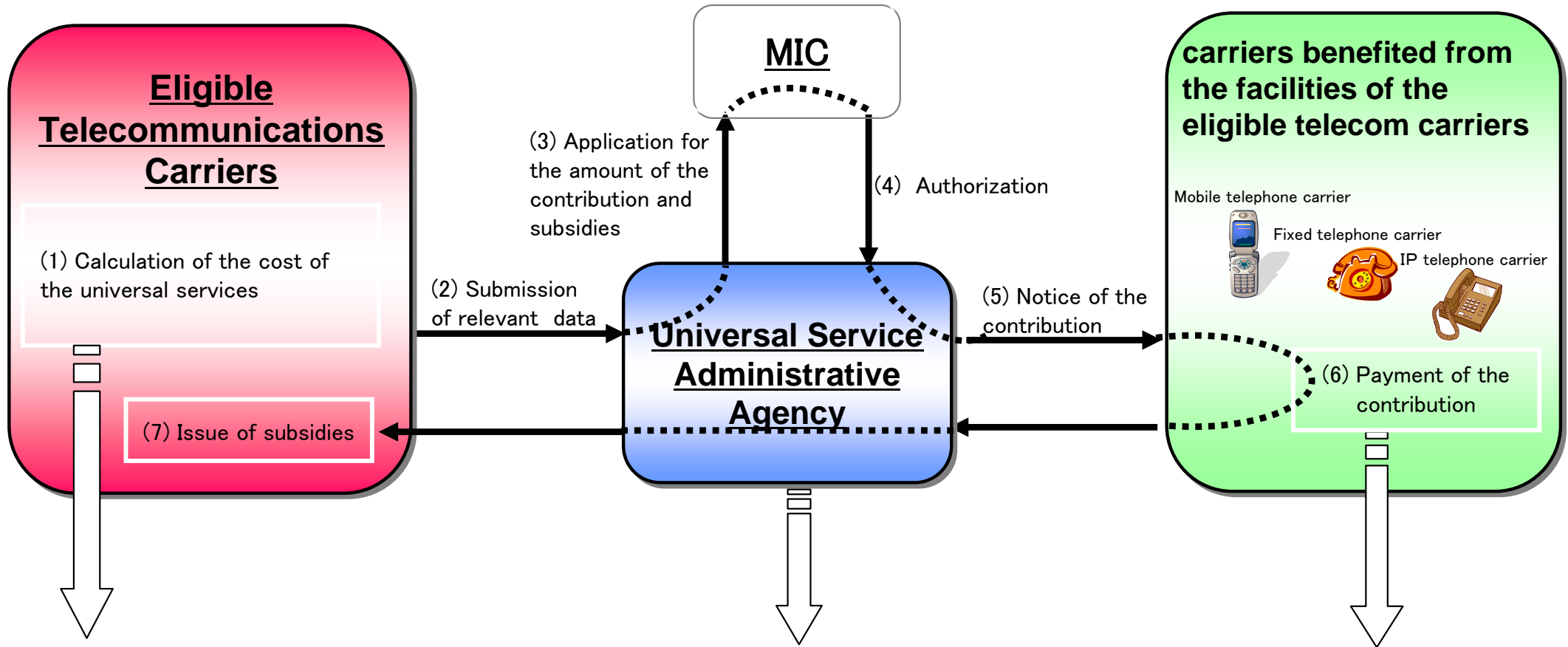


Telecommunications Business Law

Article 107: Support organizations will provide the following functions.

1. . . . where the amount of costs for providing universal telecommunications services ... is deemed to exceed the amount of revenues gained from universal telecommunications services ... provide supports as part of financial compensation for said estimated amount exceeding costs.
2. ...

Universal Service Fund System: Telecommunications carriers benefited from the facilities of the eligible telecommunications carriers contribute to the cost of the universal services.



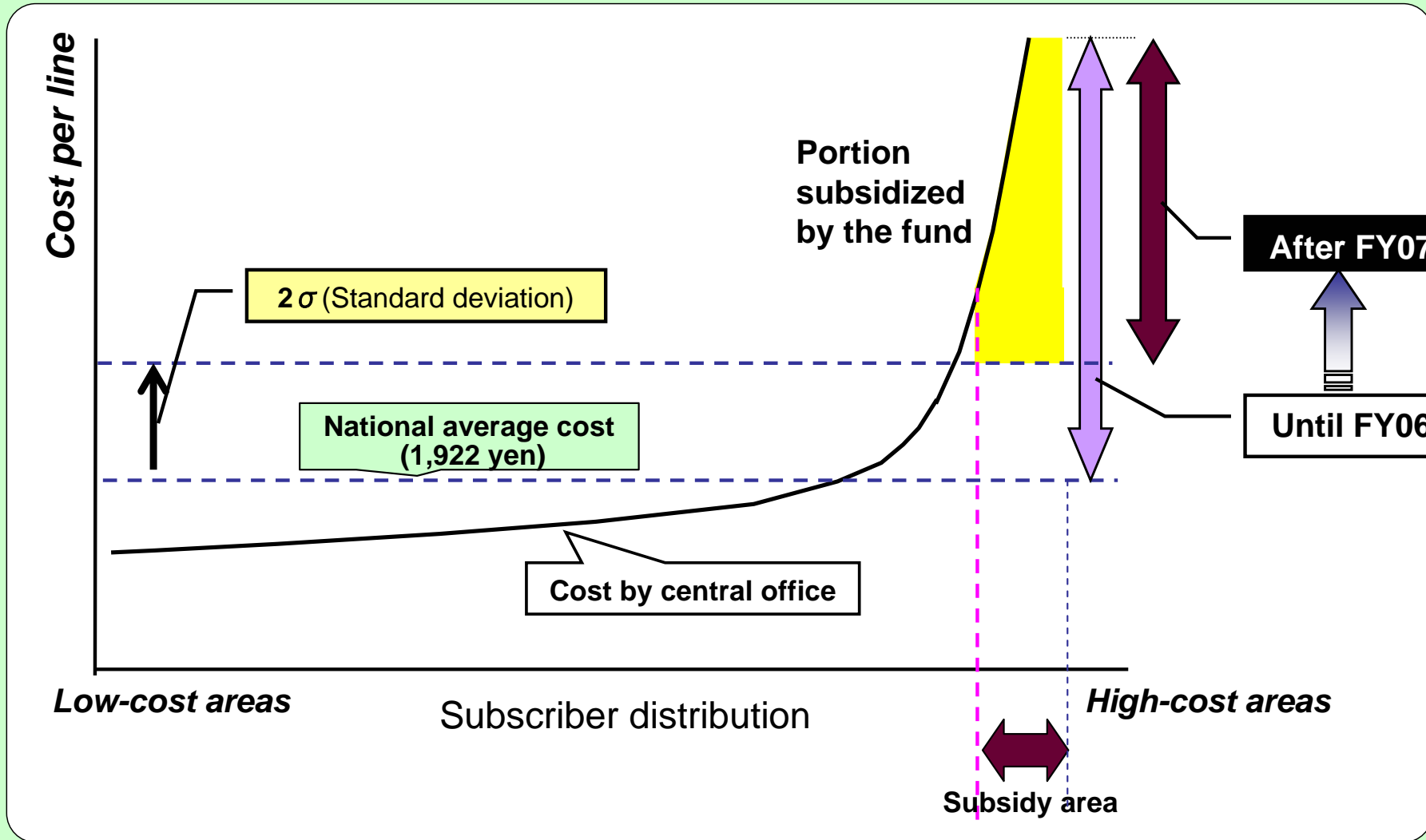
- **Benchmark methodology**
- Subject of the cost calculation: Cost of the high cost lines (top 4.9%)

- Calculation of the contribution and subsidies
- Collections of the contribution and issue of subsidies

- **Numbers-based methodology**
- Receive contribution from telecommunications carriers that have revenues exceeding 1bn yen

Benchmark Method

- The compensation amount is calculated as the difference between the basic cost of the top 4.9% of access lines by cost, minus the average cost nationwide. (The basic cost is calculated based on the total element long-run incremental cost method (note) in order to eliminate the inefficiency of NTT East/West.)



Note: The total element long-run incremental cost method is a method for calculating carrier network costs based not on the actual current costs but on the estimated cost of a network built using today's cheapest and most efficient equipment and technology and carrying the same number of subscribers and the same amount of traffic.

Compensation for NTT East and West

Compensation

For both
NTT East and NTT West

Approx. 15.2 billion yen

(NTT East: 7.6 billion yen
NTT West: 7.6 billion yen)

Support cost

Approx. ¥15.3 billion

Approx. 179.21 million numbers

$\div 12 =$
months

Provider's burden per number
(Unit price per number)

¥7 /month

Providers pay the contribution calculated as the unit price per number times the amount of telecommunications numbers

I. Background of USF review

- Transition to IP-enabled Network
- Possibility of structural separation of “network” and “service”
- Further integration of market in accordance with growing broadband and IP networks

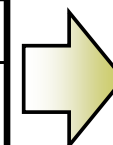
II. Timeframe of USF review

- PHASE 1: Until the beginning of 2010’s (mixture of PSTN & IP networks)
- PHASE 2: After the beginning of 2010’s (towards & completion of full-IP networks)

III. Scope of USF

【PHASE 1】

0AB~J IP Telephony	Quality of service equivalent to subscriber lines Problems remaining in security/trust level & affordability etc.
050~ IP Telephony	Problems remaining in QoS, security, affordability etc.
Mobile Phone	Less than 100% of population coverage (99.7%) Still complement to fixed-line services
Broadband services	Need to reconsider when it is accessible & available to everyone



**Fixed-line telephone
remains as
universal service**

【PHASE 2】

“Universal Access”

Situation in which services of a certain level of quality are available via broadband access networks regardless of category of communications services