

Basic Policy for the Calculation of Interconnection Charges for Optical Subscriber Lines

1 . Fundamental Approach

· Interconnection charges are levied on customers to recover costs relating to facilities customers actually use, and our fundamental approach is to calculate the charges on an actual cost method. At present, however, actual costs are roughly ¥9,000 (total for NTT East and NTT West in the fiscal year ended March 31, 2007), far exceeding current interconnection charges (roughly ¥5,000).

Nevertheless, because optical services are now in a rapid growth stage, and because we would like to ensure that optical broadband is used by even more customers, in the current review of optical interconnection charges we will employ the future cost method for the three-year period from FY2008 through FY2010, and NTT East and NTT West will separately calculate charges based on the current interconnection charge rules.

With respect to demand for B FLET'S, by the end of FY2010, 11.4 million subscriptions (a total of 20 million for NTT East and NTT West combined) are forecasted. Interconnection charges from the fiscal year ending March 31, 2009 to the fiscal year ending March 31, 2011 are forecasted to be ¥4,713, a reduction of roughly ¥360 from the current levels (¥5,074).

We intend to switch to the charges on an actual cost method as soon as feasible thereafter.

2 . Main Assumptions

(1) Demand

- As for demands for B FLET'S, 11.4 million subscribers are forecasted by the end of the fiscal year ending March 31, 2011, and it is assumed that accommodation of core cables into devices will be carried out efficiently.
- The number of dark fiber core cables depends on the business strategies of interconnection service providers, which are matters that we can not estimate. Thus we are assuming that the proportion of dark fiber core cables to B FLET'S core cables will remain the same as recent levels (roughly 20%).

(2) Investment

- The optical fiber service area will be expanded through the end of the fiscal year ending March 31, 2011 (1,120 buildings at the end of the fiscal year ending March 31, 2009 to 1,600 buildings at the end of the fiscal year ending March 31, 2011), and it is forecasted that investment will be made to the necessary extent for the deployment of the minimum amount of cables for the number of core cables required in such areas.

(3) Expenses

- Depreciation costs are based on the projections of years of service life below. An annual efficiency improvement rate based on the results of the fiscal year ending March 31, 2009 (roughly 3%) has been factored into the facility preservation costs.

(4) Service Life

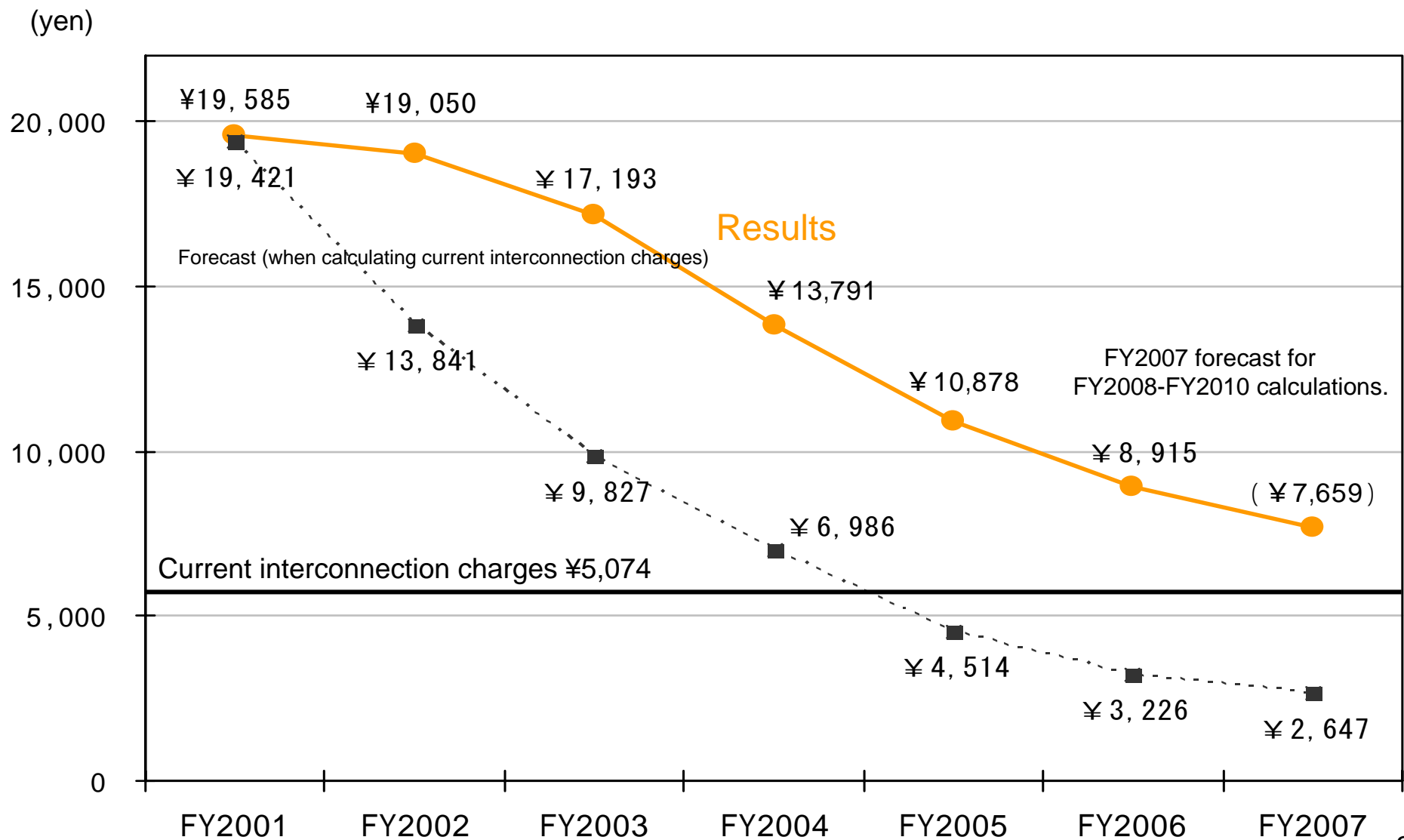
- Optical fiber service life is reviewed considering such factors as how the fiber is being used.
Currently 10 years Underground cables, 21 years; aerial cables, 15 years; undersea cables, 13 years

3 . Adjustment of disparities between results and forecasts

- The future costs method that we have now employed is a method of calculation based on certain forecasts. Because actual costs and demand will be impacted by factors such as future developments in service and technology, economic conditions, consumer trends, as well as the business strategies of interconnection service providers, it is expected that structurally, deviations from the forecasts will arise.

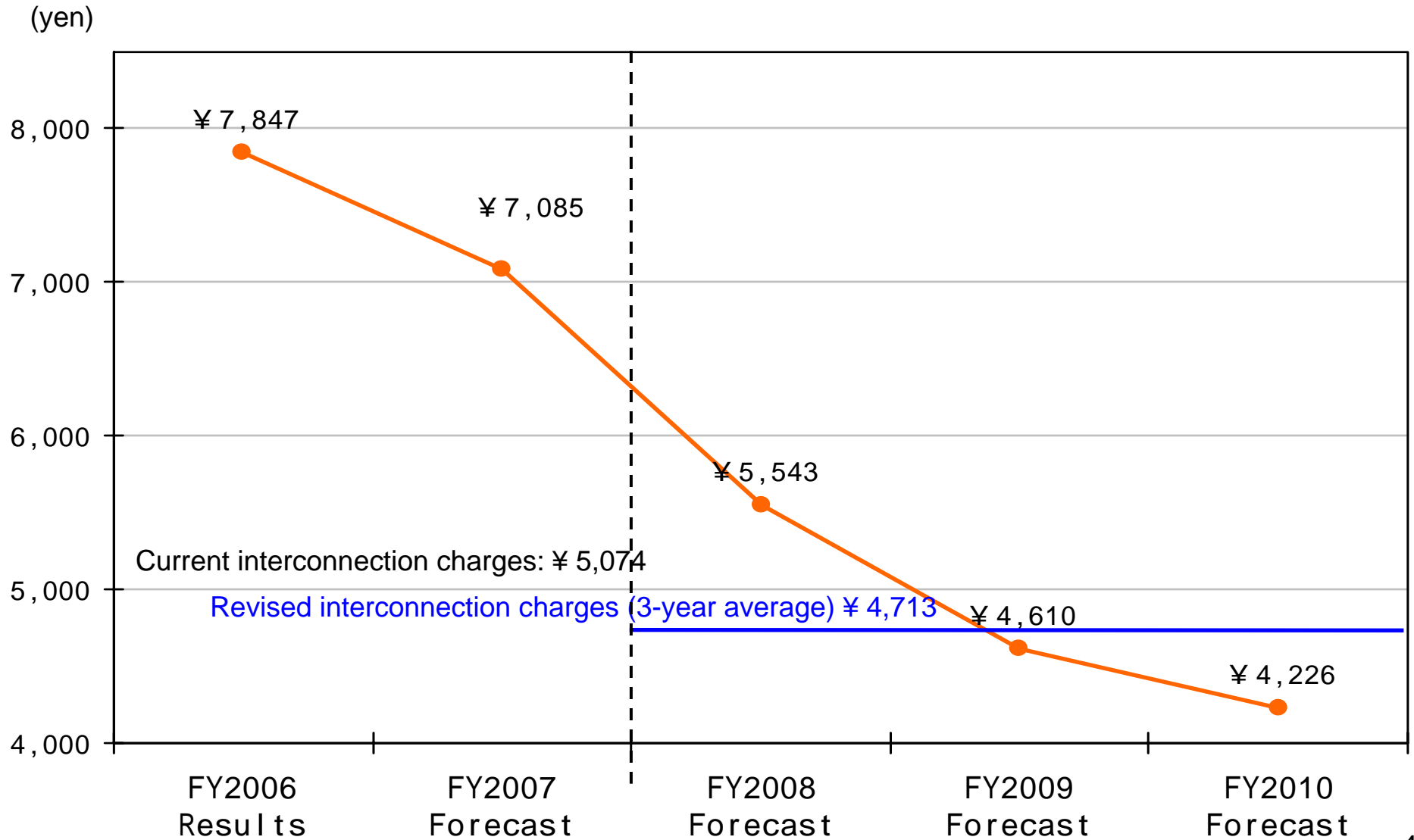
Therefore, when employing the future costs method, it is essential to make adjustments for the risk that cost recovery may become excessive or insufficient due to the foregoing. In this interconnection charges review, adjustments of any excess or shortfall in the calculation period between the fiscal year ending March 31, 2009 and the fiscal year ending March 31, 2011 will be added to interconnection charge costs in subsequent years.

Costs per one-core cables of optical subscriber lines (NTT East and NTT West combined) (FY2001 - FY2007)



*Note: "FY" in this material indicates the fiscal year ending March of the succeeding year.

Cost forecasts per one-core cables of subscriber optical fiber lines (NTT East) (FY2008 - FY2010)

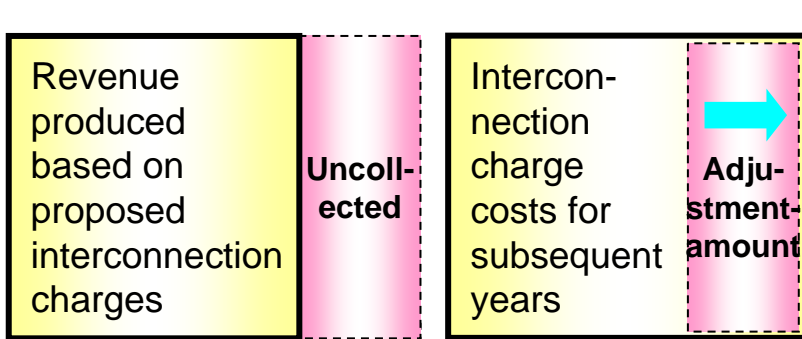


An Example of Interconnection Charge Adjustments

If adjustments for the 3-year calculation period are made in the following year:

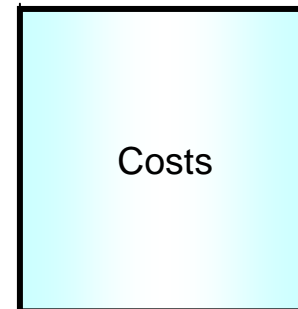
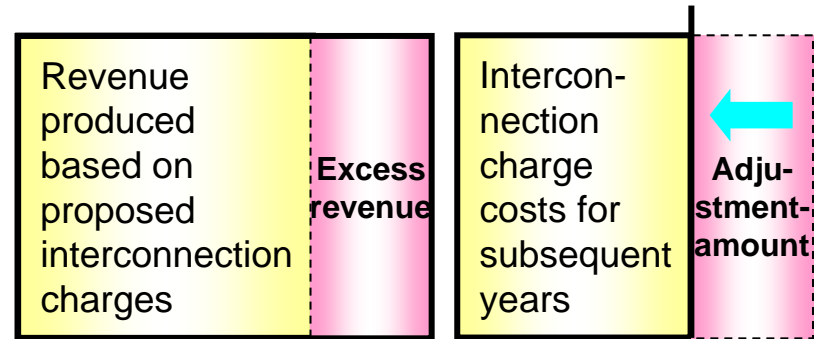
If uncollected (Actual > Prediction)

FY2008 - FY2010 Subsequent years



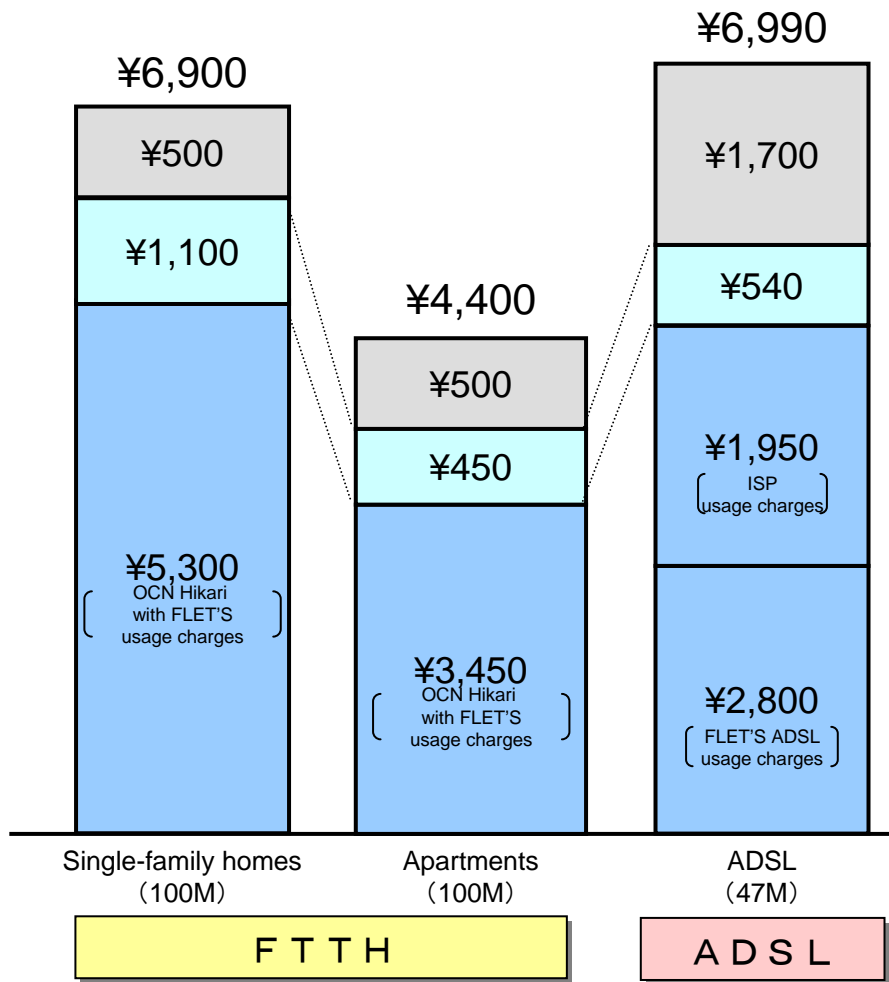
If collected in excess (Actual < Prediction)

FY2008 - FY2010 Subsequent years

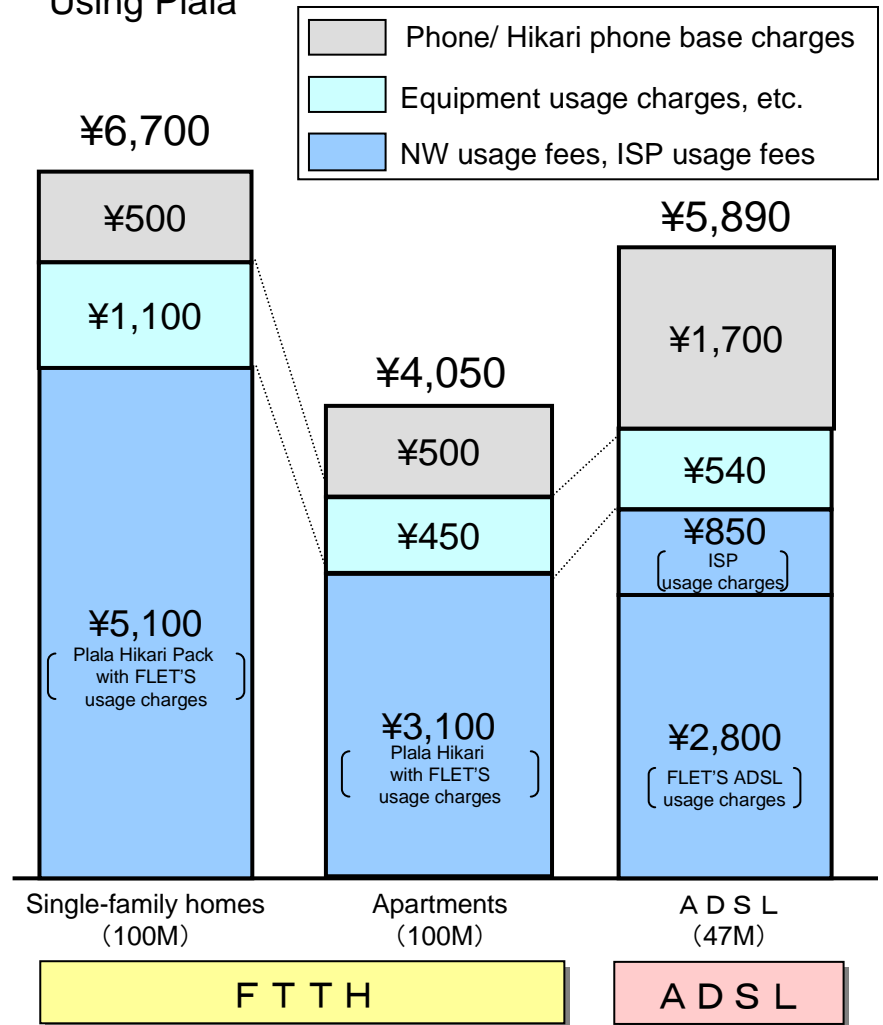


■ FTTH charges for apartments, in which 40-50% of Japanese households live, are lower than ADSL.
 ■ Costs are roughly the same for FTTH and ADSL for single-family homes.

Using OCN



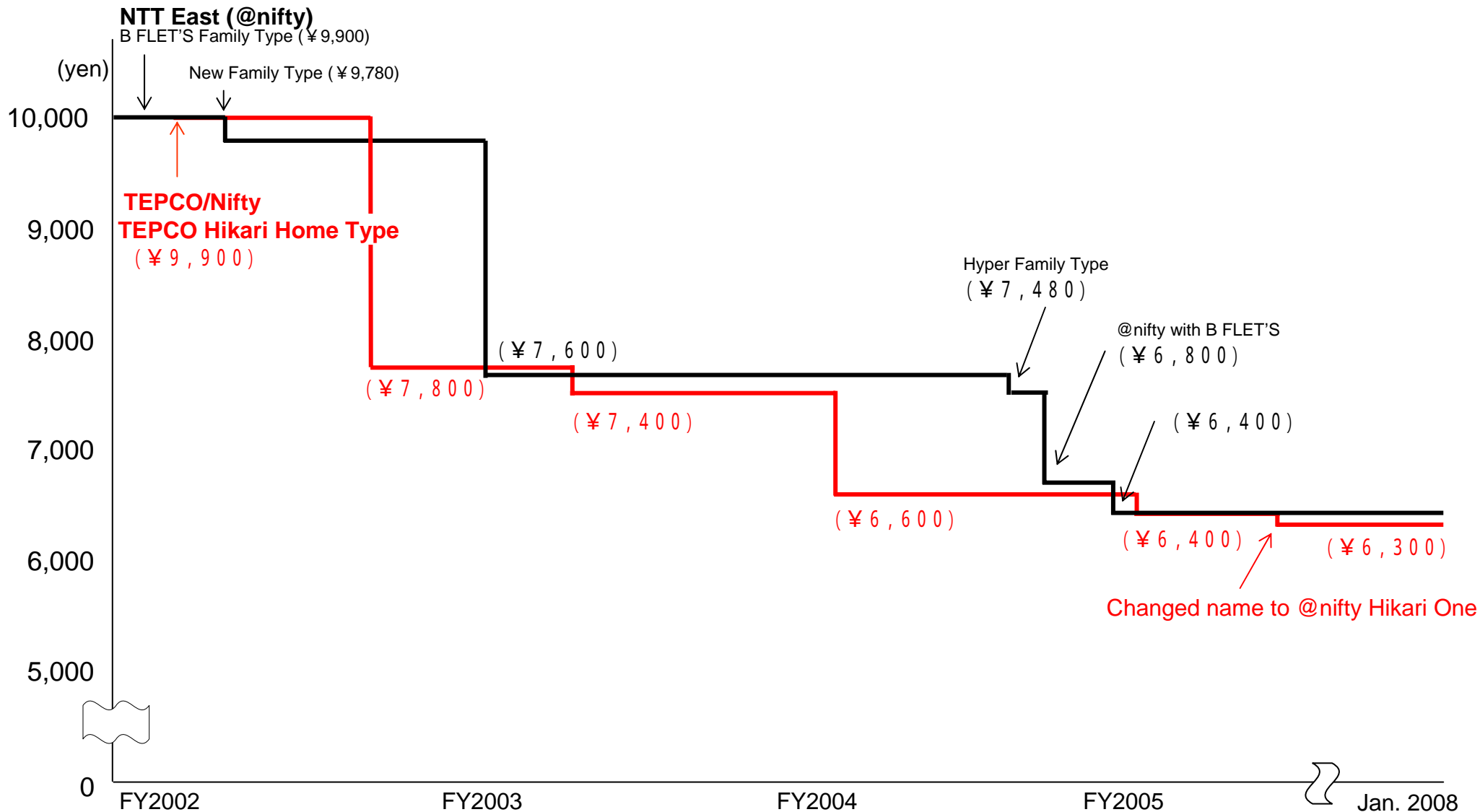
Using Plala



• For both single-family homes and apartments, FTTH is less expensive than ADSL.

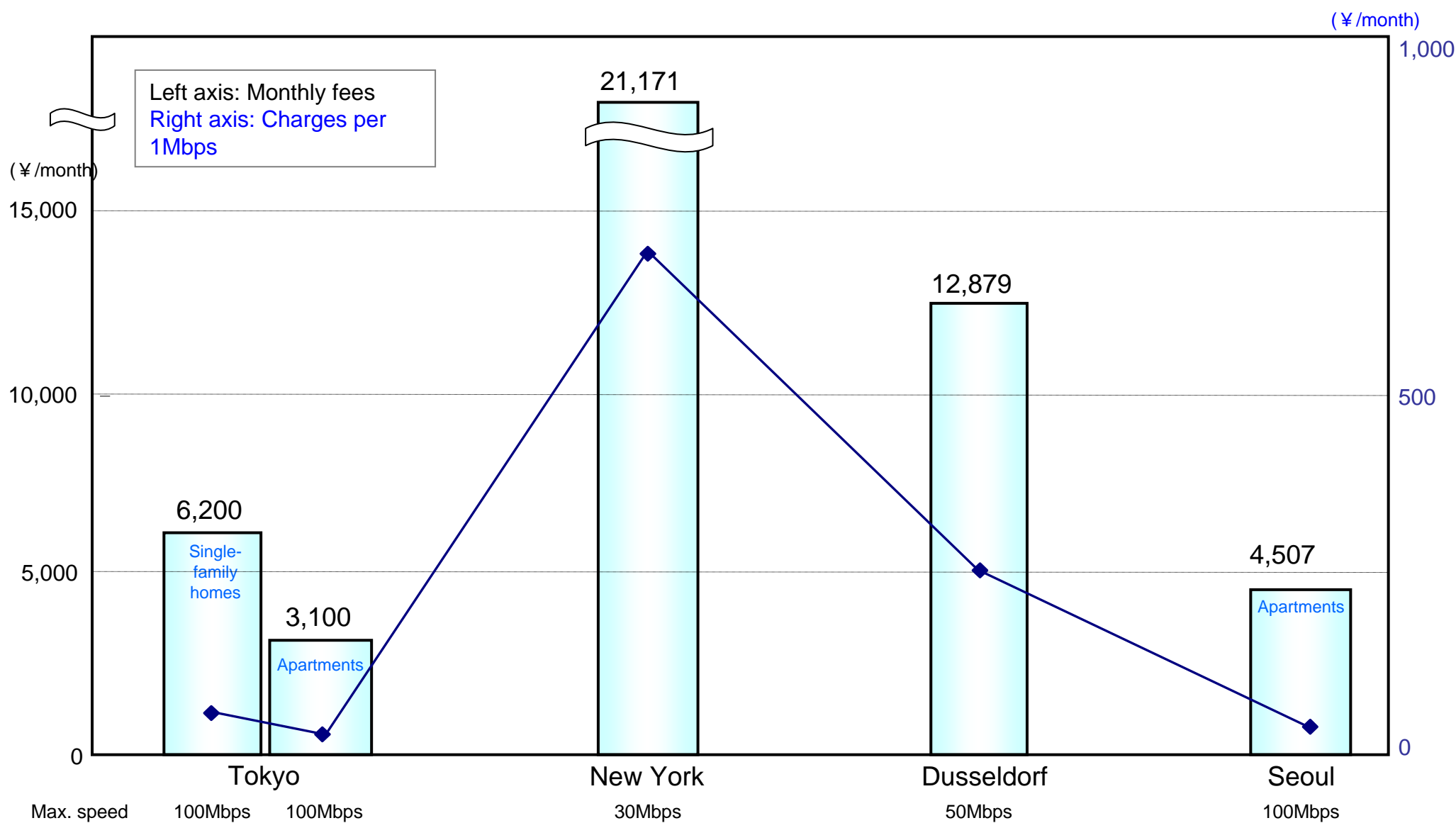
• For single-family homes, the difference between FTTH and ADSL is roughly ¥800/month.
 • For apartments, FTTH is less expensive.

Monthly charges for optical services for single-family homes



Note: As customers select services based on the cost including the access and ISP fees, total amounts including ISP fees, wire use fees, and terminal device fees are noted above.

(Reference 3) Optical Internet fees are low compared to those in other cities



Source: Ministry of Internal Affairs and Communications
"Survey on Difference between Domestic and Foreign Prices for Telecommunication Services (2006)"