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High-tech Sector

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NTT (9432 TSE1) Plans to Double Subscribers to FTTH Service

NTT plans to double the number of subscribers to its FTTH service to 3.5 million in the current fiscal year. Longer-term plans envision signing up about half of all fixed-line phone subscribers for its FTTH service. The two NTT firms (NTT East and NTT West) plan to invest ¥250 billion in fiscal 2005.

KDDI (9433 TSE1) Continues to be Front Runner in 3G – Also Challenging NTT (9432 TSE1) in Other Services

In the first round of market share battle, KDDI has come out a winner in 3G phones, capturing a market share of 63% and leaving NTT DoCoMo with a share of just 34.6%. KDDI's total mobile phone market share (2G + 3G) was 22.1% (18.92 million) against NTT DoCoMo's 56.1% (48.09 million). In the second round, KDDI will focus on luring away NTT DoCoMo's 2G customers when number portability is introduced. Much of mobile phone sales comes from replacement demand since the market is already mature.

U. S. Firms Increase Market Shares in Japan

Dell and HP increased their market share in Japan by aggressively cutting prices although shipments slowed in 2004. Dell increased its PC market share by 1.5 percentage points to 11.2%, reaching the double-digit level for the first time. IBM raised its share by 0.6 percentage points to 7.3%. HP Japan saw its share rise to 6.2%. On the other hand, Sony slipped to the seventh position in the ranking. The first and the second ranked were NEC and Fujitsu. The market shares of Japanese vendors dropped mainly because they shifted their policies from one based on market share to one focused on profitability to avoid head-on competition with foreign vendors.

U. S. Firms Also Do Well in the Server Market

The combined share of the three leading American firms (Dell, IBM Japan, and HP Japan) in 2004 in the Japanese market topped 50% for the first time, according to the MM Research Center, a high-tech think tank. While NEC retained the leading position in the ranking, Fujitsu slipped from number three to four. Server shipments in 2004 rose 18.7% compared with the previous year to 409,000 units. The value of shipments rose 4% to ¥180 billion. Nec's share slipped by two percentage points to 22.1% and Fujitsu saw its share drop to 15.3%, a 1.8 percentage point drop.



White Goods Selling Well

Sales of white goods have been strong since last summer and prices also seem to have stopped dropping. Of particular note is strong sales of value-added products such as IH cooking heaters, shipments of which are expected to increase from 550,000 units in fiscal 2004 to 620,000 units in fiscal 2005. Shipments of washing machines with built-in dryers are likely to increase from 910,000 units to 1.05 million units during the same period. Overall demand for main consumer home appliances such as refrigerators and washing machines, should stay strong for the next two to three years as the replacement cycle peaks during this period.

Sun Microsystems "Solaris 10" Free Downloads

Sun started free downloads of its Unix-based server Solaris 10 from February 1. Downloads in the first 19 days totaled 540,000. Sun switched to an open source policy in an attempt to counter the increasing popularity of Linux. The company plans to start providing source codes from the second quarter of 2005. Sun has a large market share in UNIX-based operating systems but it is concerned that the increasing popularity of Linux may hurt its core server and middleware business.

Encryption Technology Demand Growing

Demand for encryption software is growing as corporations are getting more concerned about privacy of information. The market for encryption software is expected to increase to half a million licenses as of the end of November 2004 to about 1.8 million licenses by 2010. In terms of value, the market should expand from about ¥3 billion to ¥16 billion during the same period. Hitachi Software is the largest vendor, with a market share estimated at 40.9%. Other major vendors are Fujitsu BSC (11.8%), Pointsec Mobile (10.9%) and Controlgreek (9.1%).

Nanotec Market Set for Rapid Expansion

The market for nanotech products is will expand to some 27 trillion yen by 2010. About half of the demand will come from IT and the electronics sector, with materials and process technology accounting for 32.6%. Measuring, processing and simulation will represent about 7.8%.

Demand for IT Support Services Growing

In stark contrast to the hardware support service market (expected to shrink by 4.8% to ¥1.1 trillion in 2005), Japan's IT management service market in 2005 is expected to expand 9.2% year-on-year to ¥2.8 trillion, according to Gartner, a high-tech market research firm. Demand for process management services is projected to increase 5.6% to ¥97 million. The decline in hardware support services is mainly because open servers have pushed down service charges. The key to success in IT management support services will be the ability to bring down total cost of ownership.



Earnings Roundup**Internet Ad Firms Report Solid Profit Growth**

Benefiting from a rapidly expanding market Internet ad agencies reported strong fourth-quarter billings and profit gains, with Opto doubling its revenue. Five of the six listed Internet ad firms (excluding Cyber Agent) reported operating income gains exceeding 50%. Cyber Agent reported a 32% drop in operating income due mainly to up-front expenses related to its new business. The customer base, so far largely limited to the finance and telecommunications sector, expanded to automobiles and other sectors, pushing up ad billings. The Internet ad market is expanding at an annual rate of 30% as major advertisers channel more money into Internet advertising, which is coming into a its own as a separate advertising media.

Initial Public Offerings News (For detailed information, go to:

<http://www.tokyoipo.com/top/en/index.php?id=&seqid=>)

Riskmonster (3768 Hercules)

Riskmonster Co., Ltd., an Internet-based credit analysis and information service firm, will list on the Hercules market of the Osaka Securities Exchange on March 23. The company will offer 2,550 shares in its initial public offering. Of those, 2,000 are newly issued shares and 550 are shares currently held in private. The tentative price range will be announced on March 3. The fixed offering price will be will be announced on March 11. Shinko Securities is the lead underwriter of the offer.

Kyodo Public Relations (2436 JASDAQ)

Kyodo Public Relations Co., Ltd., a public relations consultancy, will list on the JASDAQ Securities Exchange on March 25. The company will offer 300,000 shares in its initial public offering. Of those, 120,000 are newly issued shares and 180,000 are shares currently held in private. The tentative price range will be announced on March 7. The fixed offering price will be will be announced on March 16. Funds raised through the IPO will be used for repaying debt. Nikko Citigroup is the lead underwriter of the offer.

Effector Cell (4567 NSE Centrex)

Effector Cell Inc., a pharmaceuticals research firm focusing on the development of drugs to treat cancer and allergies by suppressing the activity of effector cells, will list on the Nagoya Stock Exchange on March 8. The company will offer 19,500 shares in its initial public offering. Of those, 10,000 are newly issued shares and 9,500 are shares currently held in private. The tentative price range will be announced on March 8. The fixed offering price will be will be announced on March 17. Live Door Securities is the lead underwriter of the offer.



Basic Electronics Industry Statistics

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
Jan.	102.5	105.4	81.5	76.1	1,996	1,396	15,531	1,517	6,073	7,941	3,629	273
Feb.	95.7	99.0	80.1	84.9	2,153	1,554	16,577	1,812	6,774	8,022	3,575	195
Mar.	94.2	95.1	81.2	108.1	3,233	1,744	20,681	2,337	9,428	8,916	4,021	241
Apr.	102.0	107.2	85.1	100.8	2,060	1,792	15,745	2,079	5,535	8,132	3,604	224
May	105.7	107.6	84.3	95.1	1,961	1,728	15,549	1,969	5,434	8,145	3,750	219
June	102.0	107.4	82.1	112.9	2,287	2,013	17,641	2,362	6,525	8,754	3,938	248
July	102.1	106.4	81.0	114.0	2,226	2,005	16,722	2,165	6,057	8,499	3,847	296
Aug	108.4	108.8	82.0	79.2	2,101	1,435	15,383	1,860	5,455	8,068	3,761	237
Sep.	98.2	101.4	82.4	84.5	2,604	1,447	18,193	2,251	7,487	8,455	3,712	217
Oct.	99.9	106.1	81.5	74.9	2,116	1,419	15,088	2,369	5,014	7,705	3,721	253
Nov	102.3	107.1	81.8	81.0	2,223	1,553	15,872	2,496	5,625	7,751	3,674	251
Dec.	99.0	106.0	79.1	78.3								329
YoY	-1.2	3.5	-2.7	-4.2	16.3	6.0	-3.1	7.9	-4.8	-4.9	1.7	2.3

Base year 2000 = 100 (seasonally adjusted); 100 million yen, YoY: Year-on-year percentage change

Source: Ministry of Economy, Trade and Industry, Japan Electronics Industry Association and other trade associations

