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High-tech Sector

Week ended Apr. 10, 2005

March Mobile Phone Sales

In March NTT DoCoMo subscriber base grew by 482,000, topping 436,100 subscribers at KDDI. Vodafone lost a net 7,400 during the month. NTT DoCoMo has been benefiting from the popularity of its FOMA700i series of 3G cell phones. Vodafone has been affected because of its late introduction of 3G phones. Industry-wide net gains in fiscal 2004 totaled 5.12 million subscribers, the lowest level since 1995. The market is showing signs of maturity as the number of mobile phone subscribers reached 87 million.

February Machinery Orders

Machinery orders in February were up 4.2% from the same month a year earlier to ¥335,437 million. Overseas orders fell 34.3% to ¥81.2 billion but domestic orders rose 28.3% to ¥14.5 billion. Orders for tanks more than doubled to ¥2,916 million. Orders for metal working machines were 3.6 times higher, rising to ¥21,547 million. Asia represented 61.4% of all export orders, followed by Europe with 10.3% and North America with 9.9%.

NEC (6701 TSE1) and Sun Sign a Comprehensive Collaboration Agreement

Japan's NEC and the U. S. based Sun Microsystems have signed a comprehensive business collaboration agreement. The two companies will cooperate in the development of technology to fuse IT and the Internet and also cooperate in the system integration business in Japan and other markets. NEC is also partnering with HP, a Sun Microsystems competitor, while Sun is partnering with Fujitsu, an NEC competitor. These developments are likely to alter the power balance in the computer industry.

Smart Chip IC Card Market Set for Solid Growth

Demand for smart chip IC cards is poised for explosive growth. According to a recent market study released by Yano Economic Research Institute, Japan's smart chip IC card market is expected to grow 24% in fiscal 2005, the year ending March 2006. Demand is expected to grow in tandem with the growth in applications to different manufacturing and service sectors, reaching 83 million cards in fiscal 2010. Demand in fiscal 2004 is estimated at 17.8 million cards, up some 11% from the previous fiscal year.



Japan's Online Games Market Growing

Japan's online game market rose to an estimated ¥57.8 billion as of the end of fiscal 2004, according to a survey by the Online Game Forum, a trade body. The number of online gamers as of the end of March 2005 was 19.42 million. The number of service providers was 68 and the number of game titles available was 211. The maximum number of gamers was in the 23 to 29 age bracket, representing 26% of all gamers.

Rear Projection TV Shipments Surge

Japanese manufacturers of rear projection televisions have drawn up bullish plans for 2005, expecting shipments to increase tenfold from the previous fiscal year. Shipments of rear projection televisions in fiscal 2004 totaled 2,000 units.

Demand for Passive Parts to Stay Firm in 2005

In the electronics sector, demand for passive parts in 2005 is likely to increase to ¥902.9 billion, up from an estimated ¥895.2 billion in 2004. While the new fiscal year started off with strong pressure on prices, the picture is expected to improve in the second half as demand revives and the share of value-added parts in total sales edges up, according to JEITA, a trade body.

Earnings Roundup**Keyence (6861 TSE1) to Post Solid Earnings Gain**

Keyence is expected to see its consolidated operating income in the fiscal year ending March 2006 to increase 15% to ¥85,000 million on estimated sales of ¥160,000 million, an increase of 14% from the fiscal year ended March 2005. With an operating income margin of 53%, the company is one of the more profitable electronics firms in Japan. Its high profitability is attributed to strong demand for its factory automation sensors both at home and abroad.

Earnings Outlook for IT Service Firms – A mixed Picture

The outlook for financial results for the fiscal year ended March 2005 is expected to separate winners from losers in this sector as productivity has become an increasingly important factor affecting business performance. Twelve major firms, including Nomura Research Institute, Hitachi Software, Sumisho Joho Systems, JFE Systems and Asahi Joho Service, have revised their March 2005 forecasts downward. Others have left their forecasts unchanged. However, the sector may be on the verge of pulling out of the worst as their customers are expected to hike IT budgets for the first time in four years. Moreover, there are some bright spots. IT outsourcing is increasing and is expected to grow at an annual rate of 8.2% through 2008. Then there is strong demand for security-related services, including systems for protecting the privacy of personal information. Interest in obtaining ISMS/P mark accreditation is increasing and demand for related services is likely to grow at an annual rate of 30%.



Major Electronics Firms to Report Strong Profit

Japan's major electronics firms are expected to report strong profit growth in the current fiscal year ending March 2006. Mitsubishi Electric expects operating income growth of 8% from the estimated level for fiscal 2004 to ¥130 billion. NEC is likely to double its operating income in the current fiscal year.

Elpida (6665 TSE1) Slashes Fiscal 2004 Forecast

Elpida Memory said Friday that it now expects to report net profit of 8.1 billion, down from the ¥12-¥16 billion in profit it had forecast earlier. Group sales are now expected to come in at ¥207 billion, down from the previous forecast which put sales at ¥211 to 214 billion.

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

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

No new initial public offerings were approved during the week.

Basic Electronics Industry Statistics

	Prod	Shp.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
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	2,250	1,422	15,471	2,022	6,046	7,403	3,306	329
Jan.	101.0	107.2	79.3	71.8	2,098							302
YoY	-1.5	1.7	-2.7	-5.9	5.1	-7.3	-11.5	-11.7	-14.1	-9.3	-8.1	10.5

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

