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High-tech Sector

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Government Planning to Introduce Mobile IP Phones

The government is planning to introduce mobile IP phones in 2007 when it will award licenses to start the service to three or four carriers. It could well start another telephone rate war since IP phone rates will be relatively lower than current rates. Licenses may be given to existing carriers and some new entrants.

KDDI (9433 TSE1) and TEPCO (9501 TSE1) to Merge Their Telecommunications Businesses

KDDI (Stock code: 9433) and Tokyo Electric Power (Stock code: 9501) reached an agreement on October 13 to merge their telecommunications businesses. Under the agreement, KDDI will acquire PoweredCom, TEPCO'S telecommunication services subsidiary. The agreement also calls for TEPCO to acquire a 4% capital stake in KDDI. The acquisition should better position KDDI to compete with NTT.

Domestic Mobile Phone Shipments Drop in August

Domestic Shipments of mobile phones in August fell 2.3% year-on-year to 3.18 million. Shipments of 2G phones plunged 41.1% to 0.75 million. However, shipments of 3G phones rose 17.6% to 2.27 million. Shipments of 3G phones accounted for more than 70% of all shipments for three months in a row. Mobile phone subscriber growth slipped by 36.2% from the previous month to 296,900. The diffusion rate of mobile phones has reached 73.5%.

Machinery Orders Up in August

Machinery orders in August rose 8.2% compared to the previous month to ¥1.09 trillion, according to the statistics released by the Cabinet Office. Machinery orders, a closely watched leading indicator of private sector capital investment, were above the one trillion yen level for three months in a row. Private sector capital investment is expected to stay strong through the first quarter of 2006 since machinery orders indicate investment trends six to nine months ahead.

Silicon Wafer Shipment Outlook

Shipments of silicon wafers in 2005 are expected to increase 2% from the previous fiscal year to 6.3 billion square inches, according to SEMI, a trade body. The previous forecast saw shipments rising by 4.5% year-on-year. Nevertheless, shipments will be at a record high level, surpassing the previous high recorded in 2004. Shipments in 2006 are projected to increase 7% to 6.8 billion square inches. A 6% increase is projected for 2007.

Shipments of Electronic Components Increase in July

Global shipments of electronic components in July increased 5% to 342.0 billion yen, according

to JEITA, the electronic sector's trade association. Shipments in Japan were up 1% to 143.4 billion, the association said. Shipments of passive parts fell 3% to ¥110 billion while those of connector parts were up ¥92.5 billion. Transformer part shipments rose 10% to ¥90.7 billion.

Bluetooth-related Device Demand Surges

Demand for devices related to Bluetooth networks is expanding rapidly in Europe and S. Korea.

In Europe, demand is increasing as Bluetooth is being increasingly used in hands-free systems for mobile phones in cars.

SUMCO (3436 TSE) to Double 300mm Silicon Wafer Production

SUMCO, a joint venture of Mitsubishi Materials Corporation (Stock code: 5711) and Sumitomo Metal Industries Ltd. (5405), plan to double the production of 300-mm wafers by April 2009 to 0.7 million/month. The company will invest ¥130 billion to raise production capacity to meet increasing demand for 300-mm wafers as semiconductor manufacturers are switching to this larger size wafer. SUMCO's global share is estimated at 22.6%, the second largest after Shin-Etsu Handotai.

Connector Manufacturers Stepping Up Production of Miniature Connectors

Japan's connector manufacturers are starting mass production of miniature memory card connectors as specifications are standardized for micro SD cards, memory sticks, compact flash memory cards, MMC micro cards and xD picture cards. Demand for SD memory cards is expected to increase 20% in 2005 compared with the previous-year level. Total memory card demand is expected to increase 5% in 2005 to 65,000 thousand cards.

Digital Single-lens Reflex Camera Demand Rising

Demand for digital single-lens reflex cameras is expected to increase to 600,000 units in 2005, up from 370,000 units in 2004, according to a survey of manufacturers by a leading industrial daily. An expanding customer base, driven by falling prices, is boosting sales.

Demand for Crystal Devices Rebounds

Underpinned by rising demand, production of crystal devices in August rose 2.1% year-on-year to 574 million crystal devices valued at ¥18.9 billion, down 4.1%, according to QIAJ, a trade body of crystal device manufacturers.

Portable Music Player Demand Set for Strong Growth

Demand for portable music players will show strong growth through 2009, rising from 224 million units in 2004 to 945 million units in 2009, according to IDC, a high-tech market research firm. IDC defines portable music players as all portable devices installing software capable of compressing and replaying music. The company also sees storage capacity of flash players rising from 1GB in 2004 to 16GB in 2007.

Consumer Electronics Shipments Up in August

Shipments of consumer electronic devices in August increased 5.9% year-on-year to ¥177.1 billion, the first such gain in two months. Shipments of video devices were also up, rising 2.8%. Shipments of audio devices rose 19.9%. This was the fourth consecutive year-on-year gain in monthly shipments and the second double-digit gain in a row. Shipments of flat-panel televisions rose sharply, lifted by a 46.3% increase in LCD televisions and a 4.4% gain in PDP televisions.

Initial Public Offerings (For detailed information, go to:

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

Sumco (3436 TSE)

Sumco Corporation, a Japanese silicon wafer manufacturer, will go public on the Tokyo Stock Exchange on November 16. No decision has been made on whether to list the shares on the first or the second section. It will be the biggest public offering so far this year. The company will offer 19.2 million newly issued shares. Daiwa Securities SMBC, one of the lead underwriters of the initial public offerings, also has a green shoe option allowing it to offer an additional 4.38 million shares in the event of exceptional demand. The tentative price range will be announced on October 23. Sumco expects to net ¥56.20 billion from the IPO. The company plans to use the proceeds for capital expenditure to increase production capacity of 300-mm wafers

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)
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
Sept	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	252
Dec	99.0	106.0	79.1	78.3	2,250	1,422	15,471	2,022	6,046	7,403	3,306	330
Jan	101.0	107.2	79.3	71.4	2,098	1,169	14,138	1,509	5,549	7,080	3,135	301
Feb	96.5	102.3	80.5	87.5	2,310	1,424	15,537	1,823	6,497	7,216	3,249	204
Mar	93.1	98.5	80.9	99.7	3,392	1,534	19,039	2,191	8,688	8,160	3,636	234
Apr	101.8	106.0	85.3	103.6	2,136	1,707	14,671	2,087	5,449	7,135	3,178	214
May	101.3	106.2	85.7	103.3	1,977	1,723	13,948	1,969	4,965	7,014	3,226	208
YoY	2.1	3.9	8.0	-3.1	2.0	-10.0	-8.7	-3.3	-7.7	-10.8	-12.4	-5.4

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