



**Week ended Aug. 24, 2003**

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## *High-tech Sector*

### ***Japan's Pay Television Market to Grow***

Japan's pay television and multi-channel broadcasting market is at a turning point as market deregulation brings in more competition. But unlike the terrestrial broadcasting market, the pay television market has plenty of room for growth. The diffusion rate of pay television in Japan is only 20% compared with about 70% in the U. S.

### ***Japan's Telecom Sector Ripe for Another Round of Restructuring***

With Vodafone selling Nippon Telecom to Ripplewood and NTT announcing its willingness to support IJ, Japan's telecom sector is likely to enter another round of restructuring. Tokyo Electric Power group, having lost the battle for Nippon Telecom, must now search for another alternative. NTT could benefit from the recent changes as the Tokyo Electric Power group will find it more difficult to compete effectively with NTT. Although Ripplewood plans to build Nippon Telecom into a viable competitor for NTT it will be sometime before this can be realized.

### ***IP Telephone Market Set for Explosive Growth***

According to a recent report by Yano Economic Research Institute, Japan's IP telephone market is on the verge of explosive growth. The number of IP lines is expected to increase to some 30 million by 2007, up from less than 10 million in 2003. Telecom equipment manufacturers are stepping up production of IP equipment in expectations of heightened demand.

### ***NTT (9432 TSE) to Strengthen Its IP Telephone Business***

NTT is expected to strengthen its IP business that could grow into one of the core operations at the company in the longer run, now that it seems to have decided to restructure IJ. IJ is known for its strong technological position in IP telephones.



***Japan's Semiconductor  
Manufacturers Step Up Research  
in 65nm Design Rule***

With the 90nm design rule semiconductor about to enter the production stage, Japan's semiconductor manufacturers are shifting their R&D focus to the 65nm design rule semiconductor, with the aim of starting commercial production in 2006. In Japan Sony and Toshiba seem to have about a years lead in technology in this area.

***Japan's Semiconductor  
Producers Want Higher Duties on  
Hynix Semiconductors***

Japanese and Taiwanese semiconductor manufacturers have respectively asked their governments to impose higher import duties on semiconductors manufactured by Hynix Semiconductor, Inc. of South Korea. They claim that loans from S. Korean government-affiliated banks that the company has received amount to subsidies and demand higher duties to offset the advantage. The U. S. has decided to raise import duties on Hynix semiconductors for the same reason. If the Japanese and Taiwanese governments move to raise duties, it will pose a severe setback for Hynix, which is now reconstructing its business. The company had an estimated 13% share of the global DRAM market in 2002.

***Rush to build 300-mm Wafer  
Facilities***

Japanese semiconductor producers are actively investing in 300-mm wafer size facilities. Toshiba is building a 300-mm wafer plant in Oita and Sony plans to build one in Nagasaki. Matsushita Electric, Seiko Epson and the Hitachi-Mitsubishi joint venture Lunescence Technology are expected to follow suit.

***Japan's IC Card Market Set for  
Growth***

Japan's IC card market is expected to reach ¥84,000 million in 2010, according to a report released by Yano Research Institute, a local think tank. According to the report Japan's IC card market in 2003 will increase 91% from the previous fiscal year to 66 million cards, valued at some ¥29 billion. By application, demand growth will be driven by the financial industry, which accounts for about half of total demand.

***Server Manufacturers to Step Up  
Sales in Second Half***

Affected by a slowdown in corporate IT investment, Japan's server market has been sluggish. Prices have been coming down and shipments have slowed. However, server manufacturers are turning bullish again. NEC expects to see server shipments increase by a double-digit figure in the second half of the current fiscal year. NEC reports that shipments of both small and large servers are running ahead of plans since June.



***Electronic Component Demand Looks Up in July-August***

Electronic components and control devices demand seems to be accelerating after turning around in the April-June quarter, according to a recent survey by a leading industry daily. More than half the component manufacturers polled expect profit to increase about 15%.

***Earnings Roundup***

***Mabuchi Ships More Motors (6592 TSE) in the First Quarter***

Mabuchi Motors said it shipped 8.68 million motors in the first half of 2003, up 5.7% compared with the same period a year earlier. Strong demand from the auto sector, combined with growing demand from the consumer electronics sector is driving shipment growth. The company plans to ship a record 1.8 billion motors in 2003.

***Rakuten (4755 JQ) Reports Interim Strong Ordinary Income***

Rakuten, a cybermall operator, reported interim (first half ended June 2003) consolidated ordinary income of ¥1,687 million, an increase of 2.1 times from the same period a year earlier. Consolidated net sales were up 87% to ¥7,751 million. Orders increased 1.6 times to 486 million, pushing up sales and commissions. In the April-June quarter, operating income was up 75% on a sales gain of 74%.

***Internet Ads Rebound***

All five major net ad firms reported strong growth in billings for the April-June quarter, with sales growing by anywhere between 30% to 112%. With sales up 112%, DAC reported the strongest sales. Operating income was up 186% at CCI and 126% at MagClick. The gains came despite sluggish billings in conventional media. The Internet ad market is expected to grow 20% this year and reach the ¥100 billion mark for the first time.



**Basic Electronics Industry Statistics**

	Prod.	Ship.	Inv.	Capacity utilization.	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	El. devices
Jan.	90.9	95.2	83.9	72.0	1,953	1,255	14,010	1,302	5,837	6,871
Feb.	88.8	92.8	81.6	85.2	2,091	1,439	15,026	1,420	6,573	7,033
Mar.	88.6	88.7	84.4	107.7	3,155	1,691	19,029	1,748	9,561	7,720
Apr.	86.6	92.6	82.7	96.2	1,788	1,677	14,103	1,783	5,261	7,059
May	92.0	96.2	81.1	97.0	1,857	1,707	14,721	1,952	5,501	7,269
June	92.6	96.2	81.1	115.9						
YoY	5.5	6.8	-6.7	2.7	2.6	-8.9	0.5	18.7	-3.8	0.1

*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*

