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High-tech Sector

KDDI(9433 TSE) to Help CWC in Rehabilitation

Crossway Communication's receiver in bankruptcy selected KDDI for the first right to negotiate for the acquisition of the company. Crossway Communications, a company specializing in data communications, recently filed for protection from creditors under the Corporate Reorganization Law. KDDI hopes that CWC's 460 major corporate clients will help it strengthen its own position in data communications. The company was established in 1998 and major shareholders are IJ, Toyota and Sony.

Govt. Approves IP Telephone Service by NTT (9432 TSE)

The government has given the go ahead to NTT East and NTT West to start their IP telephone service. The companies plan to launch the service by the end of the month. The authorization limits the service to the corporate sector. The government also gave the right to the NTT firms to set long distance and international telephone rates. New common carriers are strongly opposed, claiming that it could suggest a move toward the merger of the two companies.

NTT(9432 TSE), Vodafone Trying to Increase 3G Market Share

With the market for 3G mobile phones overwhelmingly dominated by KDDI (91.9% share), the other two carriers, NTT and Vodafone, have been left far behind. KDDI managed to capture dominant share because it chose the cdmaOne system since this would allow its 3G phones to share its existing ground station network, giving its 3G phones an instant nationwide coverage. On the other hand, the two other carriers chose the W-CDMA system, which required a completely new ground station network. As a result the population coverage of NTT's 3G phones was only 60% at the start. It will be raised close to 100% by March 2004. This was the major factor that gave KDDI the opportunity to dominate the 3G market.



Outlook for Mobile Phone Shipments

Total domestic shipments of mobile phones in fiscal 2003 (the year ending March 2004), are projected at 44.1 million units, up 2.3% from the previous year, by Yano Research Institute, a think-tank. NEC is expected to have the leading market share estimated at 19.2%, unchanged from the previous fiscal year, followed by Matsushita with a share of 18.7%, up from 16.9% in fiscal 2002. The third ranked company will be Sharp with a share of 12.4%, up from 11.7%. In fourth place is Toshiba, which will see its market share slip by 0.2% to 9.5%.

E-Commerce Market Expanding

Alongside the spread of the Internet, the e-commerce market is also expanding and is likely to reach ¥12.6 trillion in 2007, up from an estimated ¥2.6 trillion in 2002. Among the many players in the market, Yahoo and Rakuten stand out as the leaders and are locked in a fierce battle for the leadership position. Yahoo is the clear leader in sales (¥15.5 billion/month) despite a relatively small number of stores in its virtual mall. Rakuten has 7,000 stores but sales of only ¥4.1 billion.

Competition Heats Up in PC Server Market

Hewlett-Packard is cutting prices of its PC servers in the Japanese market by up to 22% and extending the guarantee period from one to three years in an attempt to capture the leadership position in the market this year. Prices on options will be cut by up to 50%. The company had the fourth largest market share (14.4%) in Japan in 2002. At present, NEC has the largest market share, followed by Dell.

Korean Suppliers Poised to Dominate the Global Plasma Display Market

South Korean companies are investing heavily in PDP panel production facilities to increase production capacity. Upon completion of the current investment plans, S. Korea's PDP production capacity will top that of Japan. S. Korea is already the world's largest supplier of DRAMs and TFT panels.

Govt. to Start Field Testing IC Tags

The government plans to start field-testing wireless tags using the 950-mega Hertz band. Commercial use could start by the end of fiscal 2004, the year ending March 2005. The 950-mega hertz band has been selected since it extends the distance over which the IC tag can be sensed. The ISO recently approved the Japanese system.

Modular Mounter Market Rebounding

The modular mounter market, after peaking at ¥500 billion, has been sluggish for the past two years. But now, led by strong demand in Asian markets, total shipment volume is expected to recover to ¥300 billion. Particularly strong growth will come from China, where installations will increase 20% from the previous year to 2,000 units, making China the world's largest market for modular mounters and accounting for 40% the global demand.



Corporate PC Demand Reviving

The replacement demand for computers used at corporations and public agencies is reviving as a new round of replacement cycle gets underway. Most such computers are leased and the former lease cycle is coming to an end. The collection of personal computers for which lease periods are expiring is increasing at an annual rate of 20% and is expected to top 7 million units this year. Most of the machines install the Microsoft 98 operating system.

Number of New Plant Projects Increase

The protracted slowdown in plant construction that started in 1989 seems to be coming to an end. A total of 432 facilities, up 12.5% from the same period a year earlier, with an area of 552 hectares were completed in the first six months of 2003. Manufacturers seem to be recognizing the advantages of domestic manufacturing facilities. Incentives provided by local governments are also a factor in the recovery.

Electronic Component and Device Exports Rise in July

Exports of electronic components and devices, underpinned by strong sales of consumer electronics worldwide, rose 10.1% year-on-year to ¥749.3 billion in July, according to government statistics. Exports of components were up in all categories. Of particular note was the 13.6% increase in exports of micro switches. In electronic devices, exports of semiconductor elements were up 16.9% and ICs 9.1%.

Sales of Japanese-made SPE Rise in August

Sales of Japanese-made semiconductor production equipment rose 27% year-on-year to ¥77,300 million, according to SEAJ, the sector's trade association. Sales in the Japanese market were up 78% to ¥52,100 million. Sales of Japanese-made SPEs have been strong for the past three months, suggesting that SPE manufacturers should report strong interim earnings. The BB ratio was 1.24 for Japanese-made SPE and 1.03 for the Japanese market.

DSC Market Continues to Show Strong Growth

The Camera and Audio Products Association revised its annual shipments forecast for fiscal 2003 to 37.5 million units from 34 million units projected earlier. Growth is being fueled by picture quality improvements and addition of new functions, the association pointed out. Although demand in Japan seems to be slowing somewhat, exports to the European and U. S. markets are still showing solid growth. Digital camera producers are raising production to meet demand. Sanyo plans to increase output in fiscal 2003 to 12 million units, up from 6.5 million units in fiscal 2002. Sony also plans to nearly double output to 10 million units. Other major manufacturers, including Canon, and Fuji Film, have also drawn up bullish production plans.



Earnings Roundup**Sharp to Post Record High
Interim Sales and Profit**

Sharp, in the interim period ended September 2003 is likely to report consolidated operating income of ¥58,000 million, up 18.6% year-on-year on a sales gain of 12.2% to ¥1.05 trillion. Ordinary income is likely to be up 35.6% to ¥52,000 million and net profit is expected to increase 17.9% to ¥27,000 million. All figures are record highs. Sharp's strong position in LCD color televisions, and camera-equipped mobile phones and favorable sales of LCD panels, ICs and other electronic devices boosted sales and profit. Sharp is widely expected to revise its full year earnings forecasts.

**Interim Profit Up at Ushio
Electric(6925 TSE)**

Ushio Electric is likely to report a 32% year-on-year increase in its consolidated interim ordinary income to ¥7,500 million, some ¥800 million higher than previous forecasts on a sales gain of 6% to ¥46,000 million, exceeding the previous forecast by ¥1,000 million.

Basic Electronics Industry Statistics

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	El. devices	Semicon (Production)	Consumer electronics (sales)
Jan.	90.9	95.2	83.9	72.0	1,953	1,255	14,010	1,302	5,837	6,871	3,140	336
Feb.	88.8	92.8	81.6	85.2	2,091	1,439	15,026	1,420	6,573	7,033	3,192	234
Mar.	88.6	88.7	84.4	107.7	3,155	1,691	19,029	1,748	9,561	7,720	3,456	266
Apr.	86.6	92.6	82.7	96.2	1,788	1,677	14,103	1,783	5,261	7,059	3,171	216
May	92.0	96.2	81.1	97.0	1,857	1,707	14,721	1,952	5,501	7,269	3,307	205
June	92.6	96.2	81.1	115.9	2,003	2,039	16,003	1,954	6,481	7,569	3,449	229
July	91.3	90.4	92.6	106.4	2,023	1,924	15,859	1,823	6,206	7,830	3,545	247
YoY	4.0	0.3	-6.6	-3.6	0.5	-4.9	-1.2	2.7	-1.2	-2.1	-2.6	-32.7

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

