



**Week ended Feb. 22, 2004**

**Vol . 105**

## *High-tech Sector*

### *NTT DoCoMo (9437 TSE) to Procure Mobile Phones from Nokia*

NKK DoCoMo has reached an agreement with Nokia for the latter to supply economically priced third-generation mobile phones (FOMA brand). NTT DoCoMo hopes that the low-price models will help it increase its market share, which lags far behind KDDI. This is the first time NTT DoCoMo will be purchasing mobile phones from a foreign supplier. Nokia phones are likely to be 30% cheaper than comparable local models.

### *NTT DoCoMo (9437 TSE) Changes Strategy Overseas*

With Cingular set to acquire AT&T Wireless, NTT is being forced to change its overseas business strategy. Many of its overseas investments, mainly capital tie-ups, have turned sour, and now NTT DoCoMo is expected to sell its capital stake in AT&T Wireless. In a change of strategy, the company now plans to focus on forming technical alliances to promote its 3G standard worldwide. The change in strategy will raise the question of what to do with the massive amounts of cash it generates from its domestic business.

### *Output of Electronic Devices Surges in 2003*

Output of electronic devices in value terms in the first ten months of 2003 was up 9.8% year-on-year, with display tubes, variable resistors, optical diodes and LCD devices chalking up particularly strong gains. Production of small and medium-size LCD devices (active type) rose 71.9% and that of flash memories was up 82.2%. Output of memories was up 17.4% and production of optical diodes rose 33.0%. The basic trend seems to have continued in 2004, although concrete data will not be available for some time.

### *SPE Orders Surge in January*

Orders (including export orders) for Japanese-made semiconductor production equipment in January rose 2.4-fold from the same month a year earlier to ¥142.3 billion, according to SEAJ, the sector's trade association. Sales, including exports, were up 79.3% to ¥102.8 billion. The BB ratio fell by 0.24 points from the previous month to 1.38. This important business trend indicator has stayed above the one level for nine months in a row. According to SPE manufacturers, inquiries from semiconductor manufacturers still continue to pour in.



***IT System Manufacturers Add More Consultants***

IT equipment manufacturers are hiring more consultants. The Fujitsu group plans to increase the number of consultants by more than 35% to 1,350 over the next two years. Hitachi plans to beef up the ranks of its consultants to 1,000. IT support services are expected to grow at an annual average rate of 5.9% through 2007 to eight trillion yen.

***PC Server Shipments Rise in 2003 – Dell Captures More Market Share***

Shipments of servers in 2003 rose 10.1% compared to 2002 to a record 345,200 units, according to Multimedia Research Center, a high-tech think tank. Total shipments rose by more than 30,000 units as demand grew from the small and medium-size business sector. The average server price fell by 16.5%. NEC led the market with a share estimated at 24.1%. But it was Dell that made spectacular gains, with its server sales growing at double the market rate and pushing up its market share to 18.2% to become the second largest supplier in Japan and displacing Fujitsu from that spot. HP Japan was ranked fourth.

***Japanese Firms Developing More Powerful LSI's for Mobile Phones***

Japanese firms are locked in fierce competition to develop mobile phone LSIs with speeds comparable to those of personal computer models of the nineties. They are working hard on developing low power consumption ICs for mobile phones. The new LSIs and ICs are likely to be commercialized in two to three years, according to Hitachi and NEC.

***Japan Still Retains Strong Position in Electronic Components***

Japan's firms had a market share of 26.4% of the global market. Their share of LCD panels is 36.9%. They also lead in lithium-ion batteries with a global market share of 80.3%. They supply roughly half of all HDD drive units. Japanese firms also account for 79.8% of all ceramic capacitors.

***Taiwanese IT-related Firms Set for Solid Growth in 2004***

Fourteen Taiwanese IT-related firms are likely to be reporting sales of more than NT\$100 billion each in 2004. These include five notebook PC manufacturers and two semiconductor manufacturers, in addition to LCD and flat-panel TV producers. Hon Hai, an EMS service provider, expects to see sales in 2004 jump from NT\$327 billion to NT\$420 billion. QUANTA, a notebook PC and mobile phone producer, should see sales rise from NT\$292 billion to NT\$380 billion. Motherboard and notebook PC manufacturer, AUSTek, is set to boost sales from NT\$200 billion to NT\$300 billion in 2004. Another strong performer is likely to be LITE-On, an EMS service firm. The company is likely to see its sales jump from NT\$107 billion in 2003 to NT\$140 billion in 2004.



### *ETC Expanding Rapidly in Japan*

The number of vehicles installing ETC terminals in Japan reached 2.27 million as of the end of January. The two-million-unit mark was reached quickly, in less than three years. It took 10 years for car navigation systems to reach this level. Now the ETS system has reached the mass popularization stage. The private sector is also tying up with the government to launch DSRC application systems, which is a part of ITS (integrated traffic system).

### *Bankruptcies Decline in the Electrical Sector*

Bankruptcies fell 14.5% in the electrical machinery sector in January. Forty-one companies went bankrupt leaving behind unpaid debts of ¥7.56 billion, down 4.8% compared to the same month a year earlier. Of the total, 10 were manufacturing firms, 21 wholesalers, and 10 retailers.

### *Earnings Roundup*

#### *Electronic Component Manufacturers to Report Strong Profit*

Japan's seven electronic component manufacturers, except Murata Manufacturing, are poised to report strong profit in the current fiscal year ending March 2004. In addition to Alps, Kyocera, and TDK, Nitto Denko also revised their earnings forecasts upward. All are benefiting from strong demand for components for digital consumer appliances. TDK is expected to see its consolidated net income rise by 3.4-fold to ¥41 billion. Kyocera expects to report a 55% gain in consolidated net income to ¥64 billion. Nitto Denko is likely to report a 72% jump in consolidated net income.

#### *Rakuten (4755 JASDAQ) to Double Dividend*

Rakuten, a major web mall operator will double its dividend to ¥250 per common share for the accounting year ended Dec. 2003, although the company reported a net loss. Consolidated net sales rose 83% year-on-year to slightly more than ¥18.8 million. Operating income jumped 86% to ¥4.75 billion. The company is expected to more than double its operating income in 2004.

#### *GMO's (9449 JASDAQ) Net Income to Increase Sharply*

Consolidated net income for the year ended December 2003 at Global Media Online, an Internet service provider, rose five times from the previous year to ¥1.4 billion. Ordinary income was up 93% to ¥1.94 billion. Sales rose 27% to ¥14.6 billion as demand increased for domain name registrations and rental servers.

#### *Net Profit Up 9-fold at Magclick (4784 Hercules)*

Consolidated net income for the year ended December 2003 rose 8.9-fold from the previous year to ¥230 million on sales of ¥4.31 billion. Management plans to double the dividend to ¥3 per common share. The company stepped up marketing to small and medium-size companies. Overall market growth also helped.



***Sales Skyrocket at Japan's Semiconductor Traders***

The combined sales of Japan's 33 major semiconductor traders in fiscal 2003, the year ending March 2004, are likely to increase 17% year-on-year, to ¥2.79 trillion. Among the top performers will be Vitec, with sales expected to rise 30% from the previous fiscal year. Kaga Denshi should report a 38% increase in sales. Sanko Semiconductor is expected to report a 47% increase in sales. On the other hand, Sanshin Electric is likely to suffer a 27% drop in total sales. Sales at Ryoyo Electron will be mostly unchanged from the previous fiscal year.

***Initial Public Offerings News (For detailed information, go to: <http://www.ipotokyo.com>)***

***Megane Super (3318 JASDAQ)***

The company operates a chain of optical stores.

***Tokyo Nissan Computer Systems (3316 JASDAQ)***

The company is an IT solutions provider and its services extend from system design to installation and operation. In addition, the company also markets system equipment.

***Ardepro (8925 TSE Mothers)***

Ardepro is a real estate services firm, with activities covering the full range of real estate business from real estate purchase/sales intermediation, rental agency services to real estate management.

***Risa Partners (8924 TSE Mothers)***

Major activities of the firm include a due-diligence service, asset management, real estate investment, corporate advisory services and management of real estate and business revitalization funds.

***Flying Garden (3317 JASDAQ)***

Flying Garden operates a chain of suburban family restaurants.



**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
Aug.	91.2	95.8	87.0	60.5	1,771	1,165	14,332	1,577	5,593	7,362	3,388	230
Sept	94.1	96.4	82.7	74.3	2,495	1,313	18,078	2,314	7,335	8,430	3,761	209
Oct.	98.6	104.9	80.8	75.2	2,005	1,397	16,942	2,473	6,100	8,370	3,698	228
Nov.	99.4	99.8	81.8	74.1	1,913	1,465	16,360	2,310	5,897	8,153	3,611	244
Dec.	100.2	102.4	81.3	80.9								321
YoY	11.5	11.4	-4.1	2.7	-4.4	-5.3	8.0	6.4	6.5	9.7	8.5	-17.0

*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*

