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High-tech Sector

Week ended Feb. 29, 2004

Tokyo Electric Power(9501 TSE) Acquires Fusion Communications

PoweredCom, Tokyo Electric Power's telecom subsidiary and the fourth largest telecom carrier in Japan, exchanged its fixed-line telephone business for a controlling interest in Fusion Communications, the sixth largest telecom operator in Japan. PoweredCom, plans to leverage Fusion's technology in IP telephones, to strengthen its position to compete effectively against NTT, the largest carrier in Japan.

China Becomes World's Largest Cell Phone Producer

With production of cell phones rising to 160 million units in 2003, China retained its position as the second largest producer for the second consecutive year in a row. Accounting for about a third of the global production, cell phone is becoming a major export item for China.

Competition Between Mobile Telecom Firms to Intensify

Starting 2006, mobile phone users will be able to change their service provider, without changing their telephone number. A change in the cell phone number is a strong constraint on users, preventing them from switching carriers. With this hurdle out of the way, competition is bound to intensify and push down telephone rates even further.

European Carriers to Launch 3G Services

European telecom carriers are planning to aggressively launch 3G services, starting in the second half of 2004. This will prove to be a golden opportunity for Japan's 3G phone manufacturers, as Europe will be using the W-CDMA standard, the same as in Japan. NEC has already supplied 3 million units to the Hutchison Group. Sharp is supplying its one million-pixel model to Vodafone. But well-established suppliers like Nokia and Samsung are likely to give strong competition to the Japanese suppliers.

VoIP Equipment Demand Set for Slid Growth

According to Infonetics Research, a U. S. based market research firm, the global market for VoIP equipment is expected to grow at an annual average rate of 42% between 2003 and 2007 and reach US\$5 billion in 2007.



IT Investment Set to Rise for the First Time in Three Years

According to a recent survey of IT system users by the JUAS, the DI (the percentage of users planning to hike IT investment – the percentage of users planning to slash IT investment) of investment sentiment rose from 9 in 2002 to 13 in 2004. In 2003, IT system users, on an average, spent 64.5% of the total IT budget, on maintenance and operation and 35.5% on new systems. This year IT system users, plan to increase expenditure on new systems to 42.0% and only 58.0% on operation and maintenance. According to JUAS, this will be the first gain in the three years.

Memory Market Set to Grow

The global DRAM market in 2004 is expected to increase 27% from the previous fiscal year to US\$22 billion. Output of flash memories should rise 39% to US\$15.4 billion, according to iSuppli Corporation, a U. S. high-tech market research firm.

Automotive Semiconductor Market Set to Grow

The automotive semiconductor market is expected to grow at annual rates between 5-10% through 2009. Demand for all types of automotive semiconductors is expected to grow, with those for security and safety applications showing the strongest growth. This means that focus will be on airbag, steering, body control and ABS system applications. A 6%~ 7% average growth is expected in Japan.

SPE Orders Surge in January

Total orders for Japanese-made semiconductor production equipment, including exports, in January increased 2.1-fold from the same month a year ago to ¥138.3 billion, according to SEAJ. Monthly orders have been doubling from the same month in the previous year for four months in a row. However, orders were largely unchanged from the previous month, up only 0.4%. But orders for semiconductor testers were up 42.8% from the previous month. Orders in the Japanese markets increased 54.3% to ¥60.8 billion. Monthly order levels seem to have peaked in the domestic market as orders hovered between ¥65-¥70 billion in the last quarter of 2003.

Consumer Electronics Shipments Up in January

Shipments of consumer electronic items in January were up 4.1% year-on-year to ¥122.9 billion, according to JEITA, the electronic sector's trade body. This was the second consecutive year-on-year increase in monthly shipments. Monthly shipments of video equipment rose (Y-o-Y basis) for the seventh month in a row. On the contrary, shipments of CRT televisions have been declining incessantly for 20 months.



PC Market Shares – Dell Ups Market Share:

NEC was the largest PC supplier in Japan with a market share of 21.2% in 2003. However, its market share slipped 0.3 percentage points from the previous year. Fujitsu followed it with a market share of 19.8%, losing 0.2 percentage points. Dell was the only apparent winner, with an increase of 2% market share to 9%. PC shipments to the corporate sector were up 12% to record 7.51 million units, although total shipments rose only 2.8% to 12.81 million units, according to IDC Japan. Demand rose in the corporate sector as the replacement cycle for PCs installed in 1999 got underway. Moreover, the diffusion rate of PCs in the small- to medium-size company sector is still relatively low in Japan. Demand from this sector should emphasize corporate demand.

Consumer Electronics Sales Up in January

Sales of consumer electronic items in January rose 2.5% from the same month a year ago to ¥171.4 billion at NEBA, the association of 35 large consumer electronics chains. Sales of televisions rose 13.1% and those of DVDs were up 59.8%. On the contrary, VTR sales plunged 22.6% and sales of video cameras fell 6.5%. With 10.4% up, refrigerators and washing machines were among the major gainers. Personal computer sales slipped 2.4% and digital cameras lost momentum, with sales up only 3.9%.

Lithium-ion Battery Prices Rise

Effective from the coming spring, major manufacturers, including Sony and Sanyo, of lithium-ion batteries, used in mobile electronic devices such as cell phones and personal computers, will raise prices by 8-10%. This is the first time that lithium-ion battery prices are being raised. Suppliers quote higher raw material prices to justify the planned price markups.

HDD Finding More Applications

Hard disk drives, so far largely used in personal computers, are finding a rapidly growing range of applications from automobiles and portable AV devices to digital cameras. All these applications require large data storage capabilities. As a result, the global HDD market will be an estimated US\$26 billion in 2006.

Industrial Machinery Orders to Stay Strong in Fiscal 2004

Orders for industrial machinery in fiscal 2003 will increase an estimated 13.5% from the previous fiscal year to ¥5.09 trillion, according to the Japan Industrial Machinery Association. This will be the first year-on-year gain in three years, the association said. The trend is expected to continue into fiscal 2004, when domestic orders are likely to decline 3.5% to ¥3.02 trillion. But overseas orders are likely to be up 50.4% to ¥2.1 trillion.

Machine Tool Orders Up in January

Machine tool orders in January rose 29% from the same month a year ago to ¥62.3 billion.



Earnings Roundup

Fourth Quarter Billings Up at Internet Ad Firms

Billings at six of the eight major Internet ad agencies rose in the fourth quarter of 2003 as major customers stepped up web advertising. Aggressive marketing by Internet Ad agencies was also a factor, in driving sales. The trend seems to have continued into 2004 also, and Internet ad agencies are expected to report solid billing growth in the first quarter. Cyber Agent (4751 Jasdaq), the largest of the eight, reported 64% year-on-year increase in billings. Septeni (4293 Jasdaq), an independent (not belonging to any major corporate group) Ad agency, reported a 21% increase in billings. DAC, a Hakuodo-affiliated firm, saw billing more than double. On the other hand, Value Click Japan (4759 Mothers) and Double Click (4741 Hercules) suffered revenue declines. Growth in web advertising is expected to accelerate as major companies have started to use this media in earnest.

Corporate Profit Rebounds

According to a recent survey by a leading economic daily, the combined ordinary income of firms listed on Japan's stock markets (excluding the three new markets) in the first nine months of fiscal 2003, the year ending March 2004, rose 32% from the same period a year earlier. Electrical equipment manufacturers saw their profits rise, as demand for digital consumer appliances rose sharply. Machinery and automobile manufacturers reported earning growth on the back of strong external demand. The combined ordinary income of listed firms is expected to increase 41.4% for the full fiscal year ending March 2004.

Citizen Watch (7762 TSE1) to Report Strong Profit Growth

Citizen Watch is now expected to see its consolidated ordinary income for the current fiscal year ending March 2004 to increase 52% from the previous fiscal year to ¥32 billion on a sales gain of 10% to ¥367 billion. Net profit is likely to be up 2.8-fold to ¥16.5 billion. The company revised its current year forecast upward on February 26.

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

Osaka Securities Exchange (8697 Hercules)

The Osaka Securities Exchange will debut on the Hercules market on April 1. This will be the first time since the Second World War that a securities exchange has become a public company, listing its shares on a stock market in Japan.

Approval Withdrawn for Pharmarise (2796 Mothers)

Authorities have withdrawn the approval for listing Pharmarise.



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 | 2,123 | 1,529 | 17,484 | 2,289 | 7,034 | 8,160 | 3,596 | 321 |
| YoY | 11.5 | 11.4 | -4.1 | 2.7 | -2.4 | 4.6 | 16.0 | 28.4 | 6.5 | 13.0 | 14.2 | -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

