



Week ended Mar. 7, 2004

Vol . 107

High-tech Sector

KDDI (9433 TSE) Keeps the Lead in Cell Phone, February Subscription

The total number of subscribers to mobile phones in February increased 0.5% from January to 80.05 million. KDDI maintained the top position for five months in a row, reporting a 273,800 net increase in subscribers. The second ranked NTT DoCommo, reported an 84,000 increase. System wise, KDDI's W-CDMA and CDMA2000 1x systems continued to dominate the market. NTT came in far second, but the introduction of new models resulted in the increase of subscribers to its 3G FOMA phones 2.3 -fold to 307,000. The total numbers of 3G cell phones topped 15 million for the first time, of which, KDDI terminals contributed 12.7 million.

NTT (9432 TSE) to Offer Optical IP Telephone Service to Consumers

NTT East and NTT West are planning to offer an optical IP telephone service to consumers in a bid to compete with KDDI, which started the service in October 2003. NTT offers this service to its corporate clients but had been reluctant to offer it to individuals, fearing a drop in revenue in its conventional fixed-line service.

Devices Production Up in Sept.-Dec. Quarter

Production of mobile communications devices in the September – December quarter rose 16.7% year-on-year to ¥763.1 billion. Cell phones, including PHS phones, accounted for ¥542.2 billion, up 31.0% from the same period a year earlier and representing 71% of the total output. Multi-functional high-performance models (such as mega-pixel models) helped to enhance the demand and slowed price declines.

Japan's MCU Producers to Boost Production in 2004

MCU (micro control unit) manufacturers in Japan are expected to boost production, by at least 20% in 2004. Production of the 32-bit type is expected to see predominantly sharp gains, rising 25%-30% from the previous year. Production growth is being driven, by rising demand for use in digital home electronic appliances, and in the automotive sector. Output of the 16-bit type MCU should rise around 20%, according to estimates. Major producers are Renesas, NEC electronics, Matsushita Electrical Industrial, Fujitsu and Toshiba. The monthly production capacity, in Japan (major manufacturers) is estimated at 228 million units/month.



New System Slashes LSI Development Cost

A new semiconductor production equipment system, developed jointly by Toshiba and I-Beam will enable small multiple lot production of LSIs. By eliminating the mask, the new system will make it possible to economically make changes in LSI designs. The new system is anticipated to be in demand for the manufacture of LSIs for digital consumer appliances.

China's IC Design Service Market Grows

Output of China's semiconductor industry in 2003 increased 41% year-on-year to 207.4 billion Yuan. The semiconductor design sector experienced particularly strong growth, with demand doubling from the previous year to 4.5 billion Yuan. Although middle and low-end products still account for the bulk of development, the sector is rapidly moving into high-end products.

Optical Devices Market Set for Growth in 2004

The Optical Industry Technology Promotion Association, forecasts an increase of 15% to ¥8.15 trillion in the output of optical devices in fiscal 2004, the year ending March 2005. Production of optical equipment and devices is likely to be up 13.0% to ¥4.6 trillion and those of optical device components, should see a 17.8% increase to ¥3.4 trillion. In the display devices, production of EL devices is likely to increase 72.1% and that of LCD displays is projected to rise 59.8%. In the communications sector, production of optical LAN and wireless LAN-related devices will increase an estimated 64.1%.

Competition Heats Up in Flat Panel Televisions

Personal computer display monitor manufacturers are aggressively entering the flat panel television market as profit margins are coming under increasing pressure in their traditional market. LCD panel manufacturers are leveraging the technologies; they developed for LCD monitors for personal computers to enter the flat panel television market. As a result, high prices in the flat panel TV sector are expected to come down, and pressure earnings, at traditional consumer electric products suppliers.

Japan's Robot Market Set for Healthy Growth

According to the Ministry of Economy, Trade and Industry, demand for robots is expected to increase to ¥7.2 trillion in 2025, up from an estimated ¥4.8 trillion in 2003. Of the total, ¥3.3 trillion will be accounted for household chores robots and ¥90 billion for robots used in medical and healthcare applications. Robot maintenance and support services will generate an additional ¥2.4 trillion.

Capacitor Output Rebounds

Production of capacitors in 2004 is projected to increase 12.6% year-on-year in volume to 405.6 billion pieces and 1.7% in value to ¥491.6 billion. Ceramic capacitors account for 47.7% of the market, with aluminum-catalyst capacitors representing 31.1%. Demand from the consumer electronics sector and mounting applications in the automotive sector are expected sustains steady growth for the foreseeable future.



Domestic Capital Investment Rebounds

Japan's manufacturers are increasing capital investment in order to increase production in Japan. The number of new sites acquired for production plants in Japan in 2003 increased 20% from the previous year to top 1,000 sites, according to the Ministry of Economy, Trade and Industry. Although the trend toward offshore production, particularly in China, remains strong, Japan's manufacturers seem to prefer domestic facilities for cutting-edge technology products, such as digital consumer products.

NEC (6701 TSE) Expects PC Sales to Rise in 2004

NEC, Japan's largest personal computer vendor, expects sales in fiscal 2004, the year ending March 2005 to increase 5% from fiscal 2003. The expected sales growth will come from a stronger demand from the corporate sector, according to the company.

January Machine Tool Orders Up Strongly

Machine tool orders in January rose 29.0% from the same month a year ago to ¥82,300 million, according to the Japan Machine Tool Manufacturers Association. This is the first time in 34 months that machine tool orders have recovered the ¥80,000 million level, the association said.

Mori Seiki (6141 TSE) to Raise Machine Tool Prices

Mori Seiki will raise prices of its machine tools by approximately ¥100,000 per unit in order to pass on the 10% increase it agreed to offer to its parts suppliers. Machine tool manufacturers have been reluctant to raise prices. Instead they have been concentrating on boosting sales to absorb higher production costs.

Earnings Roundup

Listed Firms Headed for Record Profit

The combined consolidated ordinary income of listed firms (excluding financials) for the current fiscal year ending March 2004 is expected to increase 21.1% from the previous fiscal year to ¥19,191 billion, according to a survey by, Japan's leading economic daily, The Nihon Keizai Shimbun. The ordinary income record is being renewed for the first time in three years. Consolidated net income is likely to be up 78.4%. The manufacturing sector is expected to fare even better, with consolidated ordinary income up, an estimated 25.1%. Net income is expected to rise 66.4%. The non-manufacturing sector is expected to report a 15% gain in consolidated ordinary income. Consolidated net income in the non-manufacturing sector is expected to increase 103.8%. Strong demand for digital consumer appliances, rising car exports and booming exports to China are driving profit and sales.

NTT (9432 TSE) Announces FY2004 Business Plans

NTT East and West expect sales in the fiscal year ending March 2005 to decline 4.2% from the estimated sales for the current fiscal year ending March 2004 to ¥4.3 trillion, as their IP telephone service is unlikely to offset the setbacks in their fixed line services. But both firms will continue to invest heavily, spending an estimated ¥280,000 million (a 17% year-on-year increase) for their optical fiber networks in a bid to transform their business structure. They expect revenue from IP phone services to grow by ¥151,000 million but is insufficient to offset the decline in fixed line services, which is estimated at ¥307,000 million.



Murata Manufacturing (6981 TSE) to Report Higher-than-expected Profit

Murata Manufacturing, Japan's leading capacitor manufacturer revised its March 2004 business forecasts. The company now expects consolidated operating income to rise to ¥60,000 million, a ¥3,000 million upward revision to its previous forecast, which envisioned an operating loss. Sales are likely; to marginally top the previous forecast, that witnessed a 3% Y-o-Y increase to ¥405,000 million.

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

Tsukui Corporation (2398 JASDAQ)

Tsukui Corporation is a nursing care service provider, with services centering on home nursing care and nursing care through nursing care facilities. Funds raised through the planned IPO will be used to build nursing care facilities.

Mitsui & Associates Telepark (3738 TSE)

Cell phone marketing and cell phone subscription solicitation are the principal activities of the company.

Alpha Co., Ltd. (3434 TSE)

The company manufactures and markets key locks for a variety of applications, including automobiles, homes, and industrial machinery.

Golf Digest Online (3319 TSE Mothers)

Golf Digest Online provides a range of golf related services online. These include purchase and sale of golfing equipment, a golf club reservation service and the distribution of golf-related news.



Basic Electronics Industry Statistics

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Semicon (Production)	Electronic devices	Consumer electronics (sales)
Jan.	90.9	95.2	83.9	72.0	1,953	1,255	14,010	1,302	5,837	3,140	6,871	336
Feb.	88.8	92.8	81.6	85.2	2,091	1,439	15,026	1,420	6,573	3,192	7,033	234
Mar.	88.6	88.7	84.4	107.7	3,155	1,691	19,029	1,748	9,561	3,456	7,720	266
Apr.	86.6	92.6	82.7	96.2	1,788	1,677	14,103	1,783	5,261	3,171	7,059	216
May	92.0	96.2	81.1	97.0	1,857	1,707	14,721	1,952	5,501	3,307	7,269	205
June	92.6	96.2	81.1	115.9	2,003	2,039	16,003	1,954	6,481	3,449	7,569	229
July	91.3	90.4	92.6	106.4	2,023	1,924	15,859	1,823	6,206	3,545	7,830	247
Aug.	91.2	95.8	87.0	60.5	1,771	1,165	14,332	1,577	5,593	3,388	7,362	230
Sept	94.1	96.4	82.7	74.3	2,495	1,313	18,078	2,314	7,335	3,761	8,430	209
Oct.	98.6	104.9	80.8	75.2	2,005	1,397	16,942	2,473	6,100	3,698	8,370	228
Nov.	99.4	99.8	81.8	74.1	1,913	1,465	16,360	2,310	5,897	3,611	8,153	244
Dec.	100.2	102.4	81.3	80.9	2,123	1,529	17,484	2,289	7,034	3,596	8,160	321
YoY	11.5	11.4	-4.1	2.7	-2.4	4.6	16.0	28.4	6.5	14.2	15.6	-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

