



Vol . 237

## *High-tech Sector*

Week ended May 6, 2007

### **LINUX Increasing Market Share in Japan**

Although Windows remains the runaway leader in operating systems, LINUX is gradually increasing its market share. Its market share rose from around 5% in 2005 to 15% in 2006.

### **IT Service Sector Set for Healthy Growth in 2007**

Japan's IT service industry has expanded steadily for the past 11 years to 14.5 trillion yen in 2006. The industry expanded an estimated 5% in 2006. JISA, the IT service sector's trade association forecasts a 4.5% increase in 2007 to 15.7 trillion yen. With the Japanese version of the SOX Act due to come in effect in April 2008, about 50,000 Japanese companies are strengthening their internal control systems. This has proven to be an excellent business opportunity for IT service companies.

### **Japan's IT Outsourcing Sector to Expand Steadily**

Japan's IT outsourcing service sales in 2006 were 2.4 trillion yen, up 7.4% from the previous year and topping the two-trillion-yen mark for the first time, according to Yano Economic Research Institute. Sales are expected to grow at an average annual rate of 7% through 2010 and reach 2.6 trillion yen. Business Process Outsourcing will be strongest growth area, where demand is expected to increase at an average annual rate of 28.1%.

### **Japan's Chip Resistor Manufacturers Boost Production**

Japan's chip resistor manufacturers are increasing production both at home and abroad to meet growing global demand. Japan's chip resistor production in volume increased 18.9% in 2006. It was up 16.2% in value. While production in January-February was at high levels, the growth rate slowed to 6.3%. Japanese chip resistor manufacturers have huge production capacities overseas, where they mass produce conventional chip resistors. They produce mostly advanced chips (0603 size) in Japan.

### **First-quarter Industrial Robot Shipments Favorable**

Domestic shipments of industrial robots in the first quarter of 2007 were up 11.7% year-on-year to 61,081 million yen, according to the Robot Industry Association of Japan. Shipments to the electrical and electronics sector rose 10.9% and those to the automotive sector were up 21.4%. Shipments to the construction and metal processing industries increased 32.4%. However, exports were down 3.9% to 82,081 million yen. As a result, the total growth rate was 2.2%.

### **Demand for Surface Mounting Machines Surges in China**

Demand for Surface Mounting Machines (SMT) in China has been growing at an average

annual rate of 20% from 2000. Imports in 2006 were 10,351 units, topping the 10,000-unit mark for the first time. Japan was the dominant supplier, shipping 8,067 units in 2006. Other major suppliers of SMTs to China are South Korea and Germany.

### **Number of 300-mm Fab Lines to Increase Rapidly**

The number of 300-mm Fab Lines is expected to increase from the current 53 lines to 74 lines by 2010, according to a recent survey by a leading Japanese industrial daily. The current winners in the highly competitive semiconductor market, Toshiba (Stock code: 6502) and Elpida Memory (Stock code: 6665) are actively building 300-mm lines. Industry experts expect the 300-mm line to become the standard line by 2010, when the planned lines will be fully operational.

### **Global Electronic Component Shipments Up In February**

Global shipments of electronic components in February rose 4.7% year-on-year to 376.8 billion yen, according to JEITA, a trade body. This was the 24<sup>th</sup> month of consecutive year-on-year growth in monthly shipments. Shipments from Japan were up 10%. Shipments of switches increased 24% while those of capacitors rose 9%.

### **Crystal Device Output Records Strong Gains in FY2006**

Production of crystal devices in Japan in Fiscal 2006, the year ended March 2007, rose 18% in volume to 8.1 billion pieces. The value of production was up 13.7% to 262.5 billion yen, according to QIAJ, the association of crystal device manufacturers in Japan. Japan's crystal device manufacturers expect the good times to continue in FY2007.

### **Earnings Roundup**

#### **Appliance Manufacturers Post Strong Profit**

Of the six consumer electronics manufacturers that released their results for the fiscal year ended, three, Toshiba (Stock code: 6502), Fujitsu (Stock code: 6702) and Sharp (Stock code: 6753) reported record net income on a consolidated basis. Strong demand for digital consumer appliances and information technology products has been attributed as reasons for increased profit. However, digital home appliance manufacturers released modest earnings forecasts for the current fiscal year, fearing a slump in retail prices and increases in prices of crude oil and other essential materials. Matsushita Electric Industrial (Stock code: 6752) posted 217.1 billion yen in consolidated net income, up 40% from the previous fiscal year due to robust sales of flat panel TVs and digital cameras. Sharp posted a consolidated net profit of 101.7 billion on sales of 3.12 trillion yen. Sharp is the leading supplier of LCD panels and has a strong position in cell phones. Toshiba enjoyed a record consolidated net income of 137.4 billion due, partly, to higher sales of semiconductor chips. Fujitsu booked a record net income of 102.4 billion, helped by sales of its shareholdings in IT-related firms. Mitsubishi Electric posted 233 billion yen in net income on strong sales of industrial equipment.

#### **Profits Surge in India's IT Service Sector**

The combined sales of the four leading IT service firms of India, namely TCS, Wipro, Infosys and Satyam, in the fiscal year ended March 2007 increased 41% year-on-year to approximately 524 billion rupees (1.6 trillion yen) and their net income was up 44.9%. Their combined employment increased 42.3% to 265,148 employees and exports represented 31.3 billion of total sales. The four are bullish on prospects for the current fiscal year.

### **Initial Public Offerings**

<http://www.tokyoipo.com/top/en/index.php?id=&seqid=>

No new initial public offerings were approved during the week.

### Basic Electronics Industry Statistics

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
<b>Mar</b>	101.4	109.7	81.4	103.4	3,440	1,549	20,718	2,305	9,447	8,967	4,103	225
<b>Apr</b>	106.9	110.1	86.9	101.6	2,244	1,698	15,977	2,308	5,655	8,014	3,586	214
<b>May</b>	105.6	113.5	85.6	98.6	2,118	1,585	15,650	2,300	5,218	8,132	3,681	205
<b>June</b>	109.6	115.6	86.7	116.7	2,523	1,902	17,173	2,370	6,292	8,810	3,780	227
<b>July</b>	107.7	113.7	84.2	99.4	2,353	1,627	16,169	2,005	5,552	8,613	3,794	256
<b>Aug</b>	114.3	116.8	81.9	71.8	2,306	1,271	15,894	1,990	5,286	8,618	3,918	208
<b>Sept</b>	109.8	115.5	81.5	85.8	2,849	1,456	18,072	2,472	6,461	9,139	4,022	203
<b>Oct</b>	113.2	118.7	83.4	80.5	2,474	1,500	17,032	2,897	5,311	8,823	3,904	218
<b>Nov</b>	112.9	118.2	85.0	82.9	2,507	1,545	17,643	2,939	5,972	8,731	3,823	238
<b>Dec</b>	111.6	116.0	83.6	85.4	2,568	1,771	16,809	2,468	6,005	8,337	3,544	306
<b>Jan</b>	110.8	116.8	82.9	76.4	2,327	1,342	15,193	1,657	5,335	8,201	3,626	257
<b>Feb</b>	109.7#	116.3#	82.8#									178
<b>YoY</b>	1.4	3.6	1.2	-5.8	5.9	4.0	1.5	-5.3	-1.6	5.1	3.0	-1.7

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