



Vol. 242

High-tech Sector

Week ended July 29, 2007

Japanese Companies Stepping up R&D

According to a recent survey by a leading Japanese economy daily, major Japanese companies plan to increase their R&D budgets in fiscal 2007 by an average of 6.3% compared with the previous fiscal year to 11.8 trillion yen. The increase is led by the auto industry which plans to spend three trillion yen on research and development. Major electronics firms, such as Canon (Stock code: 7751) plans to increase R&D by 17.6% to 360 billion yen. Sharp (Stock code: 6753) will increase R&D expenditures by 6.93%. NTT (Stock code: 9432) will spend an extra 10.29% compared to the previous fiscal year.

Crystal Device Production Favorable

Japan's production of crystal devices in the first quarter of the current fiscal year ended June 2007 rose 5.6% year-on-year to 65,964 million yen. The output in unit terms was up 11% compared to the same period a year earlier. Production value in June was up 5% YoY and volume rose 8.9%. Production growth is being driven by strong demand from the digital consumer electronics, mobile phones, wireless communications, in addition to the automobile sector.

June Personal Computer Shipments up Sharply

Total shipments of personal computers, including desktops and notebooks, were 749,000 units, valued at 94 billion yen. Desktops accounted for 270,000 units and notebooks 479,000. In terms of value, desktops represented 31.7 billion and notebooks 62.3 billion. Shipments of PCs with built-in terrestrial broadcast tuners totaled 31,000 units. The increase in shipments, according to JEITA, shows a growing interest in purchasing PCs with the latest operating system.

Color TV Shipments Rise in June – LCD Capturing More Market Share

Shipments of color televisions in June totaled 704,000 units, up 6.5% from the same month a year earlier to 704,000 units. LCD TVs accounted for 82% of the total shipments, with PDP representing 11.9% and CRT 6.1%. Shipments of LCD TVs rose 26.7% to 577,000 units. Of the total LCD TV shipments, those of models smaller than the 29" type were up 48.0% and those of 30-36" types increased 38.2%. Shipments of models larger than 37" increased 70.2%, clearly indicating a shift toward larger sizes.

Global Car Navigation Market to Triple in Size by 2012

The global car navigation systems market will triple by 2012 compared to 2006, according to I Suppli, a high-tech market research firm. The research firm forecasts car navigation system shipments in 2012 at 650 million units, a three-fold increase from 180 million units in 2006. Demand is expected to shift from car embedded systems to personal navigation devices, or PNDs. Leading suppliers to the PND market Tom-Tom and GARMIN are likely to experience

strong growth as they benefit from the above trends.

HDD Market Set for Stable Growth

Shipments of hard disk drives in 2006 totaled 435 million units and the figure is expected to rise an estimated 10% in 2007 to 480 million units, according to a report by Gartner, a high-tech market research firm. The leading supplier in 2007 was Seagate with a market share of 37%. It was followed by Western D, with a share of 20%. Toshiba GS was the third largest vendor with a market share of 16%. The market is expected to expand to 700 million units by 2011, when more than 300 million units will be for non-PC applications.

Optical Devices Market to Rebound in 2008

The optical devices market has recently been sluggish. The market, estimated at 640 billion yen in 2006, recorded a second consecutive year of decline, mainly because prices of LDs for optical disks are on the skids. But new applications, such as back lights for televisions and next-generation DVDs, are emerging and are expected to lead the market to a renewed growth phase starting in 2008. Japanese manufacturers almost completely dominate the market for LDs used for optical disks. Lasers for telecommunication applications should see the highest growth as 10G-related demand starts to emerge in earnest. Demand for lasers for optical disks will also see a rebound in 2008. Demand for LEDs, will, however, remain sluggish.

MEMS Market Set for Solid Growth

Demand for the MEMS service in Japan is expected to rise to 1.1 trillion yen in 2011, a substantial increase from 439 billion yen recorded in 2005, according to Micro Machine Center, a high-tech think-tank. The growth will continue through 2015, when the market will have grown to an estimated 2.4 trillion yen. Demand growth is attributed to an expanding range of manufacturers (video game machines, mobile phones, HDDs, etc.) using the MEMS service. In the past MEMS services were largely restricted to the automotive sector. Major customer sectors in 2015 will be IT, consumer electronics, precision instruments, etc., in addition to the automotive sector.

Earnings Roundup

Hoya's (7741 TSE1) First-quarter Profit Down on Weak Prices

Hoya Corporation's (Stock code: 7741) consolidated net income for the first quarter (April-June) of the current fiscal year declined 21% year-on-year to 17.1 billion yen despite a sales gain of 5.6% to 97.78 billion yen. The profit decline is due mainly to fierce competition caused by lower panel prices at LCD manufacturers and a delay in introducing new HDD-used glass disk products. The sluggish performance is likely to continue in the second quarter, with net income expected to decline 11% year-on-year, although sales are likely to be moderately higher, rising 2.0%.

1Q Profit Rises at KDDI (9433 TSE1)

KDDI's (Stock code: 9433) consolidated operating income for the April-June quarter was up 16.0% year-on-year to 140.9 billion yen as sales climbed 6% to 844 billion yen. Net income rose 9% to 82.4 billion yen. The company's customer base expanded by 520,000 subscribers. Of the total 192,000 were subscribers switching from other carriers following the introduction of the number portability system. However, revenue per user declined by 6% to 6,430 per month.

Fujitsu (6702 TSE1) Posts Net 1Q Loss

Fujitsu (Stock code: 6702) reported a consolidated net loss of 14.7 billion yen for the first quarter due mainly to its sluggish semiconductor business. Operating profit fell 80% to 2.9 billion yen. Accounting changes increased the decline, which would otherwise have been 62%. However, sales were up 6% to 1.16 trillion yen on strong orders from the financial sector. On the other hand shipments of chips for digital appliances and other applications were weak. The

extraordinary gain of 9.8 billion yen on the sale of Japan Cable and other investment securities failed to offset the loss.

Fanuc (6954 TSE1) Reports Strong Profit Gains in 1Q

Fanuc (Stock code: 6954) a 22% year-on-year gain to 50.67 billion yen in consolidated net income for the first quarter. Operating income rose 18% to 45.16 billion as sales climbed 12% to 108.18 billion. Despite the strong performance and record-high orders in June, the company did not revise its full-year forecasts.

FujiFilm (4901 TSE1) Reports Record-high 1Q Net Income

FujiFilm Holdings (Stock code: 4901) consolidated net income for the first quarter increased more than eightfold to 40.9 billion yen as sales rose 5% to 688.2 billion yen. Operating income increased nearly fourfold to 59.8 billion in the absence of restructuring charges that affected earnings last year. The earnings gains came largely from restructuring to cut costs and strong sales of high value-added products such as camera lenses for cell phones and strong sales of multifunction color copiers in Asia.

Initial Public Offerings

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

China Boqi Environmental (1412 TSE)

China Boqi Environmental Solutions Technology (Holding) Co., Ltd., an engineering firm specializing in the design, construction and installation of environmental protection systems, will list on the Tokyo Stock Exchange on August 9. The company will be first mainland Chinese firm to list on a Japanese stock exchange not intended for start-ups. The company will offer 80,000 shares to the public in its initial public offering. Of those, 40,000 are shares currently held in private. Daiwa Securities SMBC, the lead underwriter of the offer, has a green shoe option to offer an additional 18,000 shares in case of exceptional demand. The company expects to raise 12 billion yen through the initial public offering. The payment date is August 7. The company has left its earnings forecast for the current fiscal year unchanged.

Basic Electronics Industry Statistics

	Prod	Shp.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
June	109.6	115.6	86.7	116.7	2,523	1,902	17,173	2,370	6,292	8,810	3,780	227
July	107.7	113.7	84.2	99.4	2,353	1,627	16,169	2,005	5,552	8,613	3,794	256
Aug	114.3	116.8	81.9	71.8	2,306	1,271	15,894	1,990	5,286	8,618	3,918	208
Sept	109.8	115.5	81.5	85.8	2,849	1,456	18,072	2,472	6,461	9,139	4,022	203
Oct	113.2	118.7	83.4	80.5	2,474	1,500	17,032	2,897	5,311	8,823	3,904	218
Nov	112.9	118.2	85.0	82.9	2,507	1,545	17,643	2,939	5,972	8,731	3,823	238
Dec	111.6	116.0	83.6	85.4	2,568	1,771	16,809	2,468	6,005	8,337	3,544	306
Jan	110.8	116.8	82.9	76.3	2,327	1,342	15,193	1,657	5,335	8,201	3,626	257
Feb	110.4	117.4	84.0	84.1	2,507	1,463	16,648	2,070	6,535	8,043	3,539	177
Mar	102.6	112.3	78.9	94.7	3,487	1,550	19,984	2,448	8,513	9,023	4,053	214
Apr	108.9	114.8	78.3	96.5	2,410	1,739	15,644	2,552	5,024	8,068	3,592	205
May	110.3	117.3	77.2	101.5	2,359	1,624	15,402	2,427	4,781	8,195	3,722	198
YoY	4.5	3.3	-10.0	2.5	11.1	2.9	-1.6	5.6	-8.6	0.8	1.1	-3.9

Base year 2000 = 100 (seasonally adjusted); 100 million yen, YoY: Year-on-year percentage change* preliminary

Source: Ministry of Economy, Trade and Industry, Japan Electronics Industry Association and other trade associations