Chapter 2

Current Status of Information and Communications

Section 1
Telecommunications Business

1. Telecommunications market

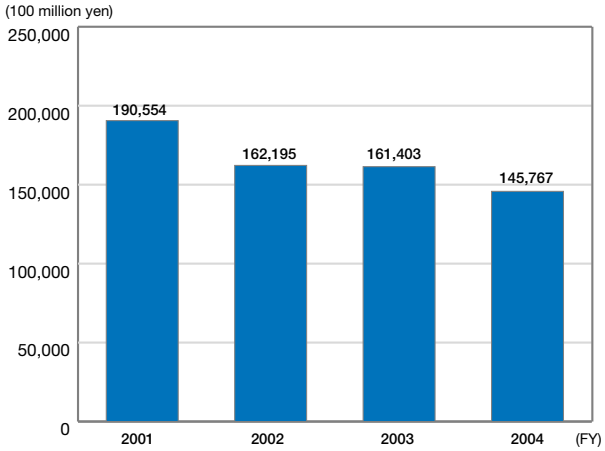
Sales of Japan's telecommunication business reached 14.5767 trillion yen in 2004 (a 9.7 decrease from the previous fiscal year) **(Graph 2-1)**. Since the sales of mobile communications overtook that of fixed communications in 2001, mobile communications account for 60% of the total sales within the telecommunications business **(Graph 2-2)**.

2. Telecommunications Service

The number of subscribers to fixed communications (subscription telephone and ISDN) shows a slight downward trend or has remained at the same level, whereas that of subscribers to IP phone and mobile communications (cellular phones and PHS) is on an upward trend.

At the end of fiscal year 2006, the number of mobile communications subscriptions (101.70 million subscriptions) became 1.8 times that of fixed communications subscriptions (55.15 million subscriptions). The total number for IP telephone use at the end of FY2006 was 14.33 million **(Graph 2-3)**.

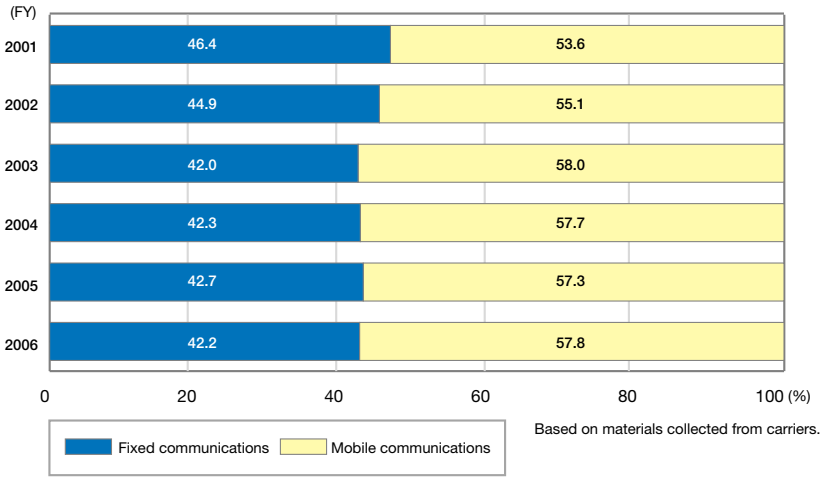
Graph 2-1 Changes in the sales of telecommunications business



* It should be noted that the sales are calculated by accumulating sales of all the respondents in that year, and the number of respondents varies in each year.

Based on "Basic Survey on Communications Industries," MIC

Graph 2-2 Sales ratio between fixed communications and mobile communications in major telecommunications carriers



Based on materials collected from carriers.

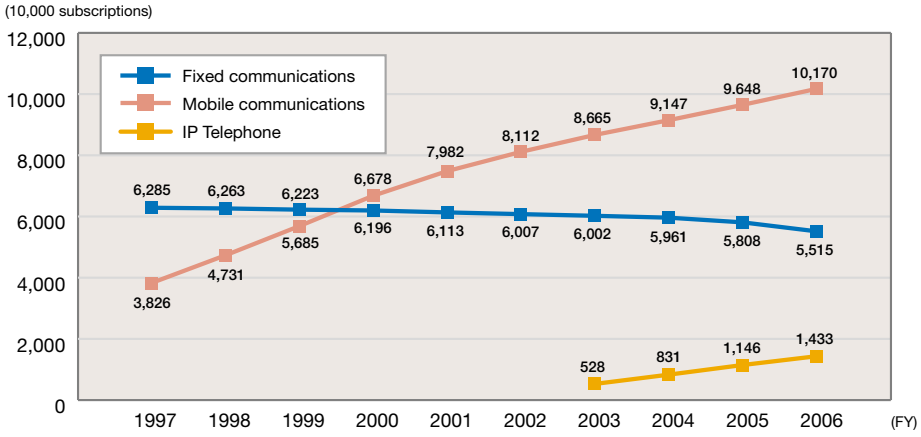
3. Status of use of telecommunications service

For fixed communications, total call time per day per subscription in FY2005 was 4 minutes, 47 seconds for subscription telephones, 16 minutes, 17 seconds for ISDN, and 3 minutes, 30 seconds for IP telephone. For mobile communications, it was 3 minutes, 12 seconds for cellular phones and 5 minutes, 5 seconds for PHS **(Graph 2-4)**.

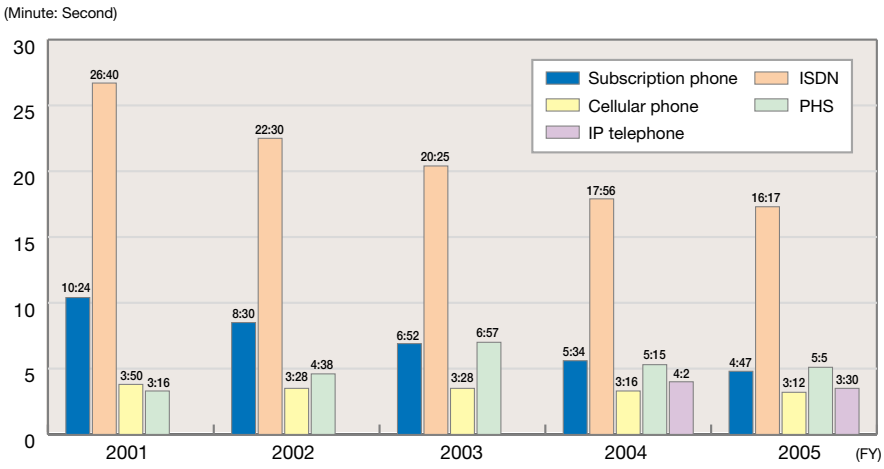
4. Telecommunications rate

The standard local call rate is approximately 8 yen per 3 minutes, a 20% decrease compared to the standard rate in 1985. For long distance calls, the rate lowered by one-tenth compared to that in 1985 (as of the end of March 2006). In practice, various fee structures and a wide selection of discount services make the standard even lower.

Graph 2-3
Changes in the number of subscriptions to fixed communications and mobile communications



Graph 2-4 Changes in the call time per day per subscription (unit: minute)



* The survey on IP telephone began in FY2004, and thus the Graphs for FY2003 or before do not include those for IP telephone.

Based on "Status of Domestic Use of Telecommunications in Terms of Traffic" MIC

Section 2
Broadcasting Business

1. Broadcasters

Broadcasting in Japan is provided by NHK which runs on receiving fees, and commercial broadcasters which run on advertising revenues and pay-TV revenues. In addition, the University of the Air provides broadcasting for educational purposes.

The total sales of broadcasters, including revenues from broadcasting business and those from non-broadcasting business, showed an increase for the third consecutive year, reflecting the growth in the number of pay-TV subscribers to exceed 4 trillion for the first time, marking 4.0152 trillion yen in FY2005 (up 1.1% from the previous fiscal year). Of these sales, while NHK's business income decreased slightly to 674.9 billion yen and sales of terrestrial commercial broadcasters remained at the same level at 2.6138 trillion yen, satellite commercial broadcasters and cable television broadcasters saw a sales increase to reach 341.4 billion yen and 385 billion yen, respectively **(Graph 2-5)**.

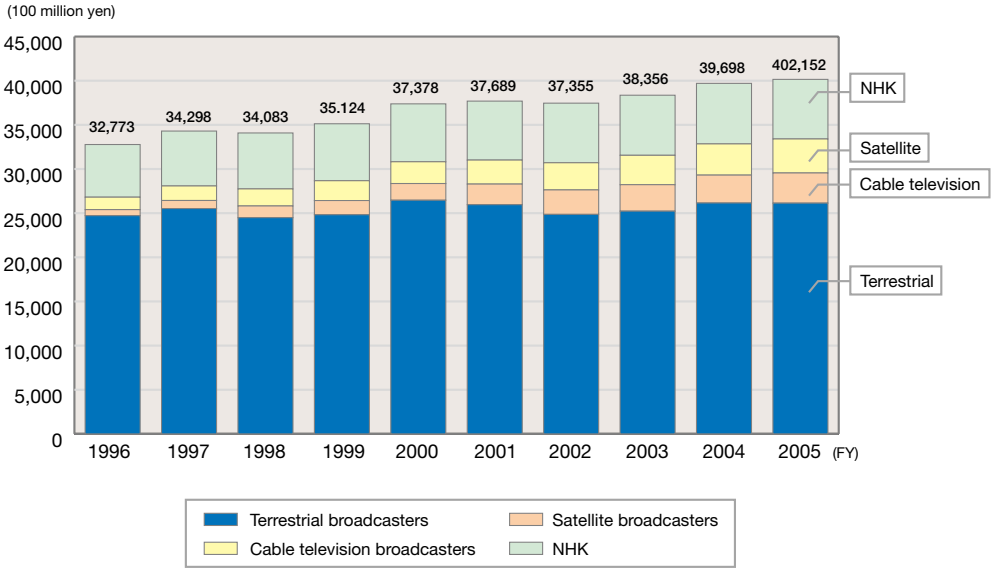
2. Provision of broadcasting services

Looking at the breakdown of the number of commercial broadcasters at the end of FY2006, terrestrial commercial broadcasters numbered 400, of which 240 provide community broadcasting. Satellite commercial broadcasters numbered 127, of which 53 provide broadcasting on telecommunications services. The number of cable television broadcasters (cable television broadcasters with authorized facilities to broadcast their own programs) was 530, and the number of cable television broadcasters that provide broadcasting on telecommunications services was 17.

3. Status of broadcasting media use

Annual expenditure for broadcasting services (sum of NHK receiving fees, cable television receiving fees and other receiving fees) per household in 2006 was 20,241 yen (up 4.1 from the previous year), according to the "Annual Report on Family Income and Expenditure Survey" conducted in 2006 by the Ministry of Internal Affairs and Communications.

Graph 2-5 Changes in the market size of broadcasting industries (Sum of sales)



Section 3
Status of Radio Use

1. Number of radio stations

The number of radio stations (excluding the radio stations for PHS handsets and cordless phones that do not require licensing) at the end of FY2006 was 102.8 million stations (down 1.4% from the previous year). Out of which, land mobile stations for cellular phone handsets were 100.59 million stations (down 1.5% from the previous year). The percentage of the land mobile stations accounted for a high level of 97.8% of all the radio stations **(Graph 2-6)**.

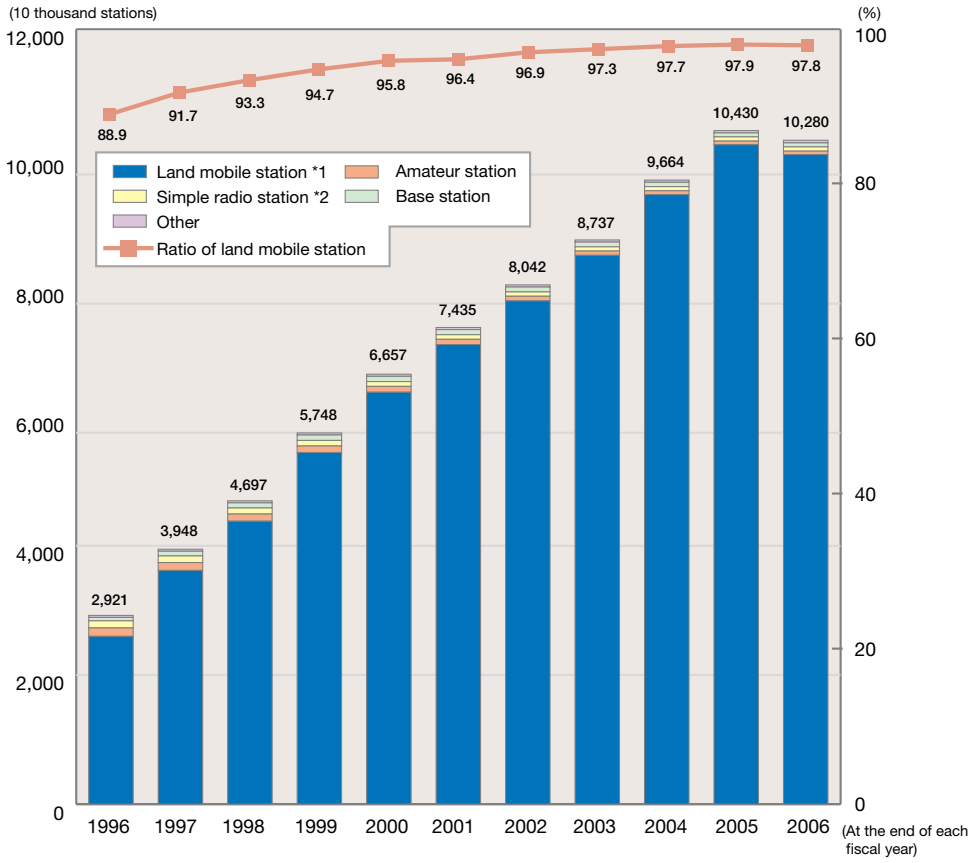
2. Telecommunications satellite

There are two types of telecommunications satellite which are geostationary satellite and orbiting satellite. Utilizing their advantages, such as extensiveness, broadcastability, and disaster-resistance capacity, they are used in addition to company telephone lines, communications to mountain areas and remote islands where it is difficult to use terrestrial communications, and mobile communication services for ships and aircraft, used for ensuring communication means in emergency situations. Some telecommunication satellites are used for CS broadcasts.

3. Broadcasting satellite

All broadcasting satellites are geostationary satellites which are used for broadcasting satellite (BS) and communications satellite broadcasting (CS broadcasts) depending on differences in the output power of the satellite transponders.

Graph 2-6 Changes in the number of radio stations



*1. Land mobile station: Radio station that is used when transiting on land or while stopping at unspecified locations (cellular phone handsets, etc.)
*2. Simple radio station: Radio station that conducts simple radio communications (personal radio communication, etc.)

Section 4
Trend of the Contents Market

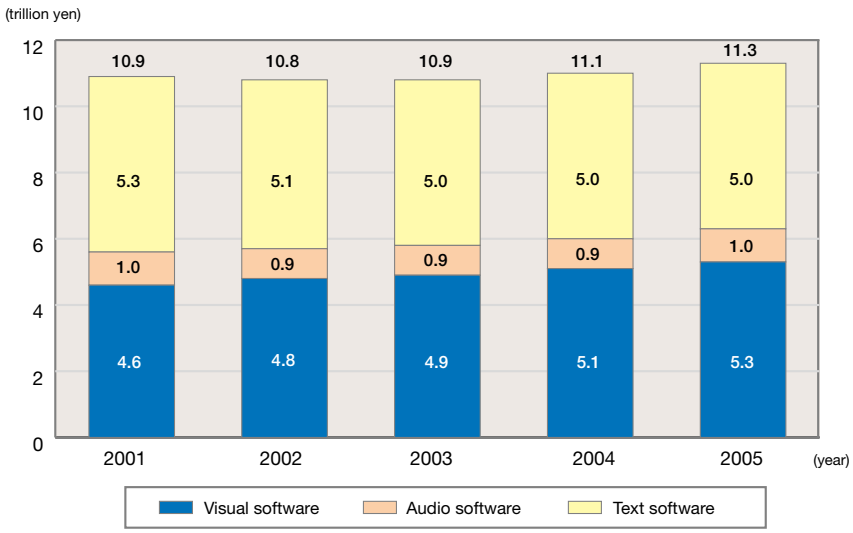
1. Contents market size

The size of the contents market in 2005 was estimated at approximately 11.3000 trillion yen (up 2.1% from the previous year) with an annual growth of about 2% since 2003. The size of the visual contents market was 5.3 trillion yen, audio contents market 1.0 trillion yen, and text contents market 5.0 trillion yen. The percentage of visual contents is gradually increasing while that for text contents is in comparison on a decline. **(Graph 2-7)**

2. Status of contents use

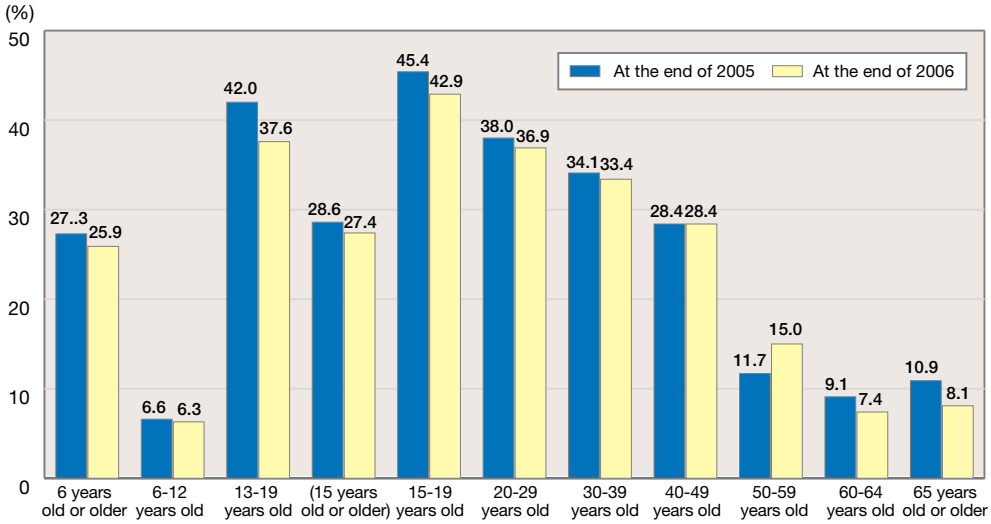
The percentage of people who purchased digital contents through the Internet using PCs or cellular phones in the past year was 25.9% (down 1.4% from the previous year) **(Graph 2-8)**. According to the percentage for PCs and cellular phones, 11.7% of the Internet users using PCs purchased contents while 26.5% of those people using cellular phones purchased contents.

Graph 2-7 Changes in sales of contents



Source: "Survey on Production and Distribution of Media Software," Institute for Information and Communications Policy

Graph 2-8 Number of people who purchased digital contents through the Internet



Based on "Communications Usage Trend Survey in 2006 (Households)," MIC

Section 5
R&D

1. Research in information communication industry

In FY2005, the total science and technology research funds (the sum of research funds for companies, nonprofit organizations, public institutions, and universities) in Japan came to 17.8452 trillion yen.

Out of the R&D spending for companies (12.7458 trillion yen) which constitute the majority, research funds spending by the information and communications industry (4.5713 trillion yen) accounted for 35.9%. The research funds for the information and communication equipment and tool industry make up the majority of research fund spending by the information and communications industry. **(Graph 2-9)**

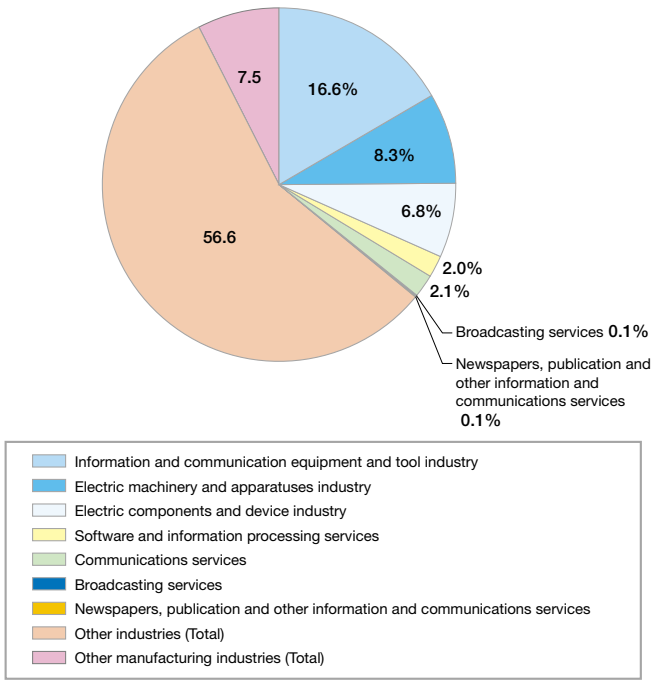
2. Technology trading

The breakdown of Japan's amount of technology trading (the amount of value received (or paid for) supply (export) of technology such as patents, know-how or technical guidance to or from (import) foreign countries) in 2005 was 2.0283 trillion yen (up 14.6% from the previous year) for the amount received for export of technology, out of which 17.8% of the total was for the information communication industry at 361.9 billion yen (up 16.9% from the previous year).

On the other hand, the amount paid for import of technology was 703.7 billion yen (up 24.0% from the previous year), out of which approximately 60% (59.7%) of the total was for the information communication industry at 420.0 billion yen (up 39.0% from the previous year). Although there is surplus in exports for the total amount of technology trading, there is surplus of imports for the information communication industry.

For the information communication industry, the information and communication equipment and tool industry accounts for a large percentage for both amount of technology export and amount of technology import.

Graph 2-9 Ratio of R&D spending for companies (FY2005)



* R&D spending in the information and communications technology industry refers to spending for the information and communication equipment and tool industry, electric machinery and apparatuses industry, electronic components and device industry, and information and communications services (software and information processing services, communications services, broadcasting services, newspapers, publication and other information and communications services).

Based on "2006 Research Investigation Report on Science and Technology," MIC

Section 6

Settlement of Dispute among Telecommunication Carriers

1. Overview

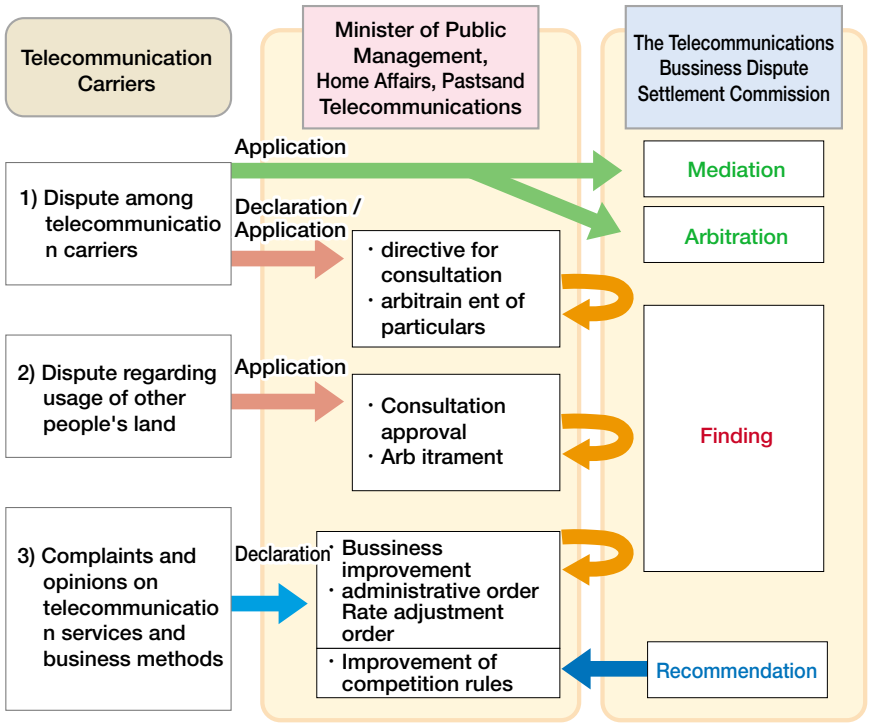
The Telecommunications Business Dispute Settlement Commission, established in November 2001, undertakes dispute resolution processes, such as mediation and arbitration in order to smoothly settle disputes between telecommunication carriers and at the same time, conducts deliberations on administrative dispositions by Ministry of Internal Affairs and Communications such as directives for consultations regarding connections, etc. **(Graph 2-10)**

2. Dispute settlements

The Telecommunications Business Dispute Settlement Commission received and resolved 56 cases as of the end of 2006 and made two recommendations to Ministry of Internal Affairs and Communications

The Commission received 16 cases for mediation in 2006, out of which, mediation procedures were begun for 14 cases but subsequently the applicants withdrew their applications. (As for the remaining two cases, since one party informed that they would not accept mediation, it was decided not to carry forward mediation on April 5, 2007.) Further, there weren't any cases for arbitration or deliberation cases sent from Ministry of Internal Affairs and Communications to the Telecommunications Business Dispute Settlement Commission in 2006).

Graph 2-10 Outline of the Telecommunications Business Dispute Settlement Commission



Section 7
Postal Service

1. Post office network

As of the end of fiscal 2006, 24,574 post offices (down 0.2% from the previous fiscal year) offered mail-handling facilities.

By type, there were 1,294 ordinary post offices (a decrease of 10 from the previous fiscal year), 18,924 special post offices (an increase of 7 from the previous fiscal year), and 4,356 postal agencies (a decrease of 54 from the previous fiscal year). Dividing ordinary and special post offices by collection-delivery facility and non-collection-delivery facility, there were 3,661 collection and delivery post offices (a decrease of 1,034 from the previous fiscal year) and 16,557 non-collection and delivery post offices (an increase of 1,031 from the previous fiscal year).

2. Volume of postal items

A total of 24.67724 billion (down 0.6% from the previous fiscal year) domestic and international postal items were processed in fiscal 2006.

3. Finances of postal service

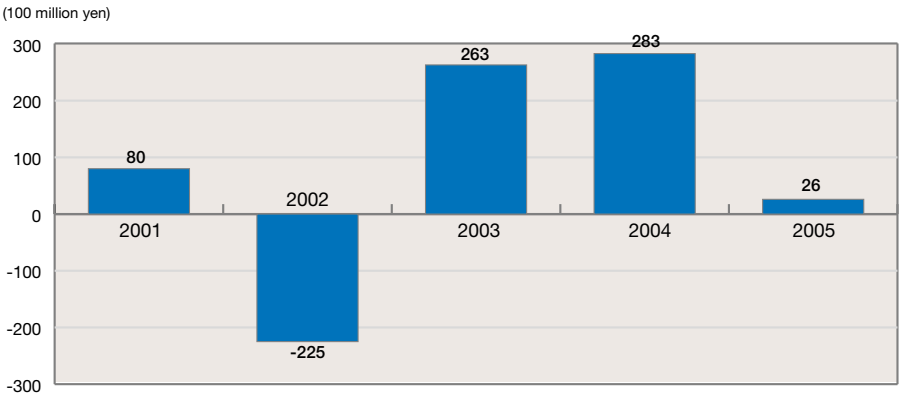
In fiscal 2005, amid rapid progress of ICT and increased competition, postal services recorded a surplus of 2.6 billion yen due to its effort for cost reductions such as reduction of fund procurement cost **(Graph 2-11)**.

4. Correspondence delivery business

Following the implementation of the Law Concerning Correspondence Delivery by Private-Sector Operators (Act No. 99 of 2002) in April 2003, although no entry has been made to the general correspondence delivery business, the number of new entrants to the special correspondence delivery business has seen a steady growth, with a total of 213 new entrants as of the end of FY2006

Sales of special correspondence delivery operators have been increasing steadily, marking 1.2 billion yen at the end of FY2005.

Graph 2-11 Changes in earnings performance of postal service



* Care should be given when comparing the Graphs in FY2002 and those of FY2003 or thereafter, since the accounting method was changed to the method based on the business accounting principle following the public corporatization of Japan Post.

Section 8
Trends Abroad

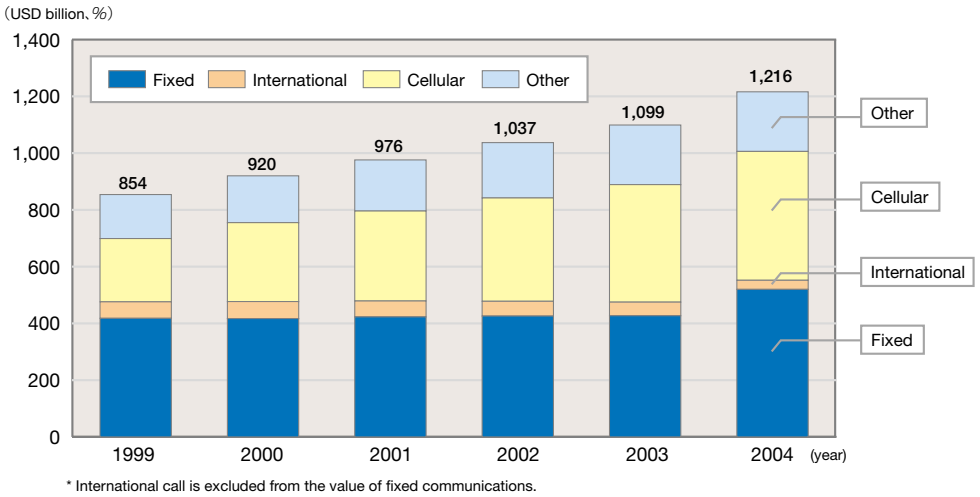
1. Information and communications market abroad

In 2004, total sales of telecommunications services worldwide reached 1.2160 trillion yen (up 10.6 from the previous year), showing a constant growth **(Graph 2-12)**.

2. Diffusion of telephones and the Internet

The number of subscribers to cellular phones has been on the increase, having been continuously exceeding the number of subscribers to fixed phones since 2002. The number of Internet users has also been on the rise, reaching 965 million in 2005 (up 11.8% from the previous year) **(Graph 2-13)**.

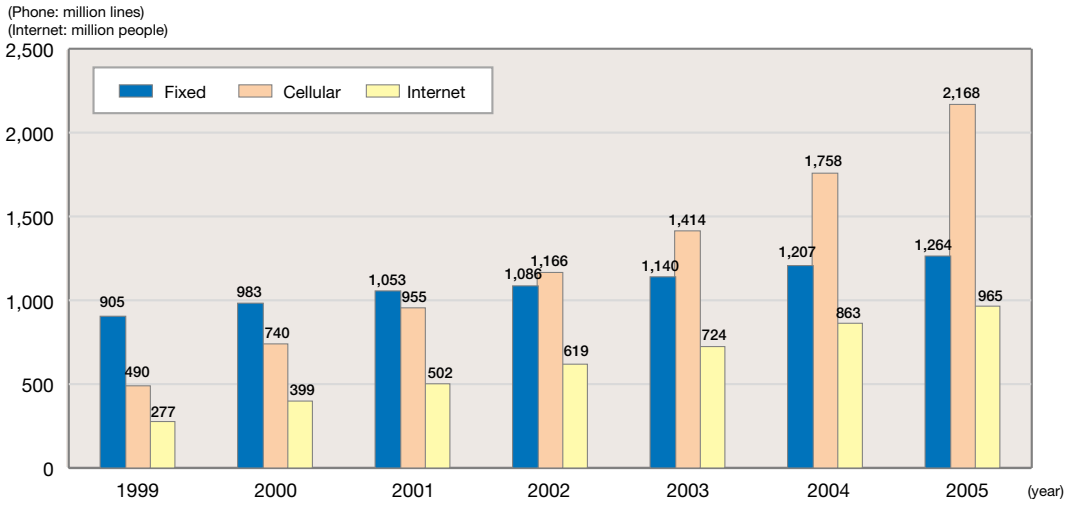
Graph 2-12 Sales of telecommunications services



* International call is excluded from the value of fixed communications.

Based on the ITU website.

Graph 2-13 Numbers of subscriptions to fixed phones and cellular phones, and number of internet users



Based on the ITU website.