July 30, 2007

The 40th Survey of Trends in Business Activities of Foreign Affiliates (Summary)

Trends in foreign affiliates in Japan in FY 2005

〇Sales marked a record high.

〇The number of newly established foreign affiliates decreased.

〇Capital investment marked a record high.

〇The ratio of R&D expenses to sales maintained a high level.

〇Compared to all incorporated enterprises, foreign affiliates maintained their superiority in indices such as the ratio of ordinary profit to sales, return on equity, etc.

Key points of the current survey:

〇Sales marked a record high.

・Sales increased by 9.0% compared to the previous fiscal year, marking a record high. Sales for the manufacturing sector and the non-manufacturing sector increased by 4.1% and by 16.0% from the previous fiscal year, respectively. A notable increase was seen in the wholesale trade industry.

・The direct balance of trade saw an excess of imports for the second consecutive year. An excess of exports continued to be observed in the manufacturing sector, but the excess has been diminishing rapidly.

〇The number of newly established foreign affiliates decreased, while that of enterprises withdrawing leveled off.

・There were 122 newly established/funded foreign affiliates, a decrease of 17 compared to the previous fiscal year. The number decreased in the manufacturing sector (down by 18 affiliates), while it increased by one in the non-manufacturing sector. The non-manufacturing sector accounted for more than 80%, and the number was largest at 35 in the wholesale trade industry. Increases were observed in both European and Asian affiliates, while there were decreases in US affiliates.

・The number of enterprises withdrawing was 106, remaining flat from the previous fiscal year. Decreases were observed in the manufacturing sector, while there were increases in the non-manufacturing sector.

<u>○Capital investment marked a record high.</u>

・Capital investment marked a record high, increasing by 11.0% compared to the previous fiscal year (limited to enterprises that responded in both the previous fiscal year and the current year: up by 1.0%). Capital investment increased by 7.6% in the manufacturing sector, up for the third consecutive year. Capital investment in the non-manufacturing sector also increased, up by 18.3%, which was an increase for the first time in three years. There were significant increases in the information and communication equipment industry and the information and communications industry.

<u>○The ratio of R&D expenses to sales maintained a high level.</u>

・R&D expenses decreased by 0.3% compared to the previous fiscal year. The ratio of R&D expenses to sales for the manufacturing sector decreased by 0.2 points to 5.0%, down for the first time in three years, but maintained a high level.

<u>○Employment increased in the non-manufacturing sector.</u>

・Employment increased by 4.3% compared to the previous fiscal year. Employment in the non-manufacturing sector showed an increase of 10.9%, but that in the manufacturing sector decreased by 3.6%. There were increases in the wholesale trade industry and the service industry.

・The ratios of part-timers and temporary workers both showed increases.

<u>○Ordinary profit marked a record high. Compared to all incorporated enterprises, foreign affiliates continued to maintain their superiority in indices such as the ratio of ordinary profit to sales, etc.</u>

・Ordinary profit marked a record high, showing increases in both the manufacturing sector (up by 25.6% and the non-manufacturing sector (up by 13.3%).

・Compared to all incorporated enterprises, foreign affiliates maintained their superiority in indices such as the ratio of ordinary profit to sales, return on equity (ROE), etc.

Enterprise Statistics Office
Research and Statistics Department
Economic and Industrial Policy Bureau

Trade and Investment Facilitation Division
Trade and Economic Cooperation Bureau

Ministry of Economy, Trade and Industry

Outline of the Survey

1. Survey target

The survey covers those enterprises (excluding the financial/insurance and real estate industries) which met the following conditions as of the end of March 2006.

(1) Enterprises in which foreign investors hold more than one-third of the stocks or shares

(2) Enterprises invested in by holding companies in which foreign investors hold more than one third of the stocks or shares, and in which the combined direct and indirect investment ratios held by foreign investors exceeds one-third.

2. Date

The survey was conducted on July 1, 2006, in connection with the business results for FY 2005 and the end of FY 2005.

3. Number of respondents

Respondents: 2,758 (2,656 in the previous survey)

Response ratio: 61.3% (59.5% in the previous survey)

Instructions for Use

1. Note on survey results

(1) Only valid answers are compiled. Therefore, the number of respondents varies per item.

(2) When comparing the results of the current survey with previous surveys, it is necessary to note the differences in the response ratio and the number of foreign affiliates covered, as some enterprises that fell out of the scope of previous surveys were included in the scope of the current survey and vice versa.

2. Classification of industries

The classification of industries and classification of each enterprise by industry is in compliance with the Japan Standard Industrial Classification.

3. Definition of regions

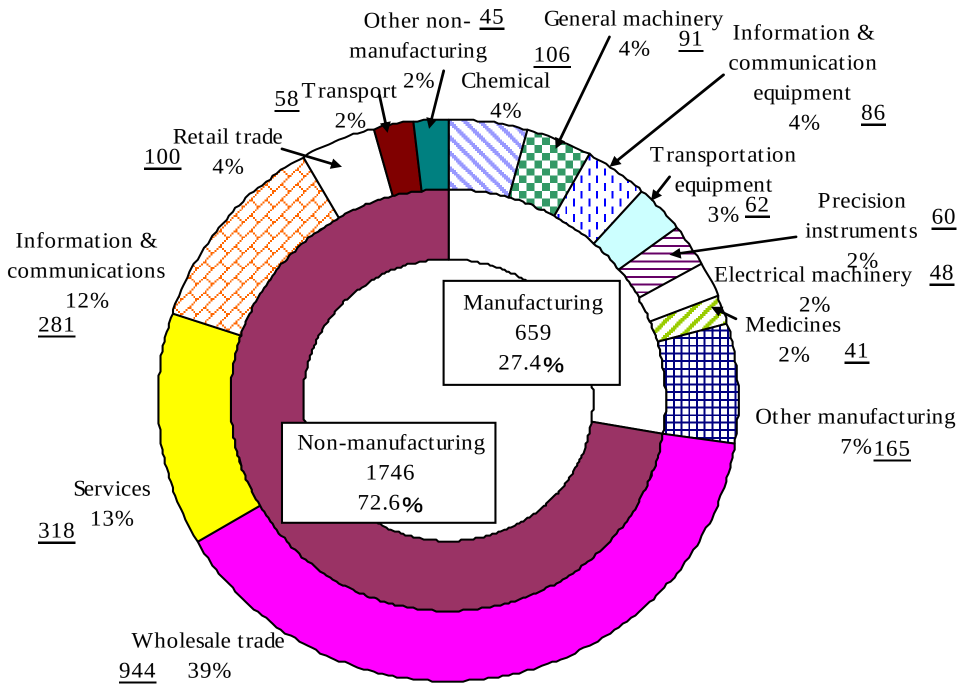
Unless otherwise specified, for the purpose of this survey, nationality refers to the country or region where the foreign investor is located.

Main Points

(1) Distribution

- The number of foreign affiliates at the end of March, 2006 was 2,405, of which 659 companies were in the manufacturing sector and 1,746 companies were in the non-manufacturing sector. The percentages in the manufacturing sector and the non-manufacturing sector out of all industries were 27.4% (down by 2.2 points compared to the previous fiscal year) and 72.6% (up by 2.2 points respectively (Fig. 1-1).
- By industry, foreign affiliates in the wholesale trade numbered the highest, at 944 companies (39.3%), followed by those in the service industry, the information and communications industry, and the chemical industry (Fig. 1-1).
- By nationality, European companies came to 1,033 (accounting for 43.0%; remaining flat from the previous fiscal year), US companies came to 851 (35.4%; down by 1.4 points), and Asian companies came to 388 (16.1%, up by 1.6 points (Table 1-1).
- By function (Note 1), 50% of the companies in the manufacturing sector have R&D facilities, and companies in the non-manufacturing sector have an average of 6.7 business and sales offices (Fig. 1-2).

Figure 1-1 Distribution of Foreign Affiliates by Industry



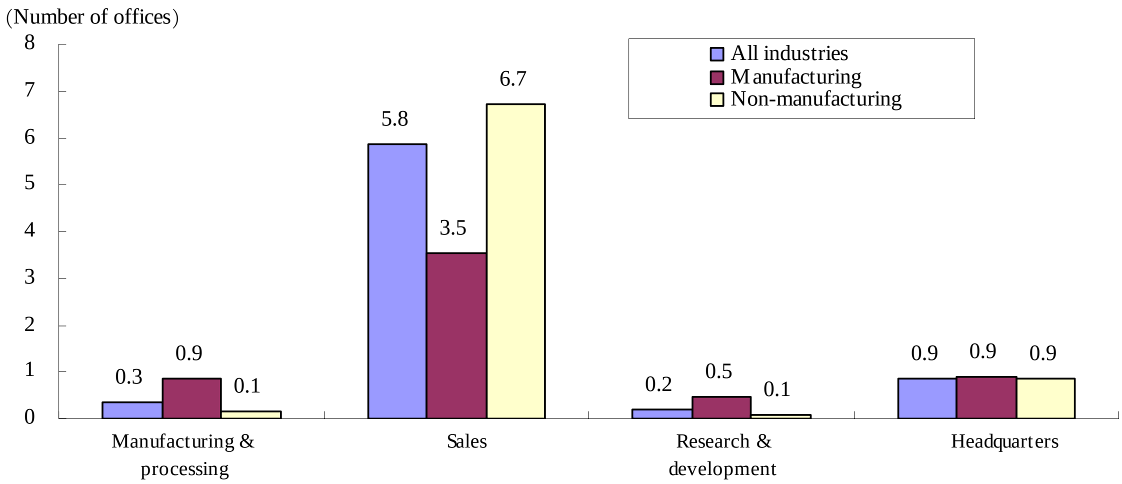
(Note 1): When one office has multiple functions, each function is counted.

Table 1-1 No. of Foreign Affiliates by Nationality

(Companies, %)

	Number of foreign affiliates	Distribution ratio (%)	Difference from the previous year
Total	2,405	100.0	–
US	851	35.4	-1.4
Asian	388	16.1	1.6
Chinese	145	6.0	0.4
European	1,033	43.0	0.0
Others	133	5.5	-0.2

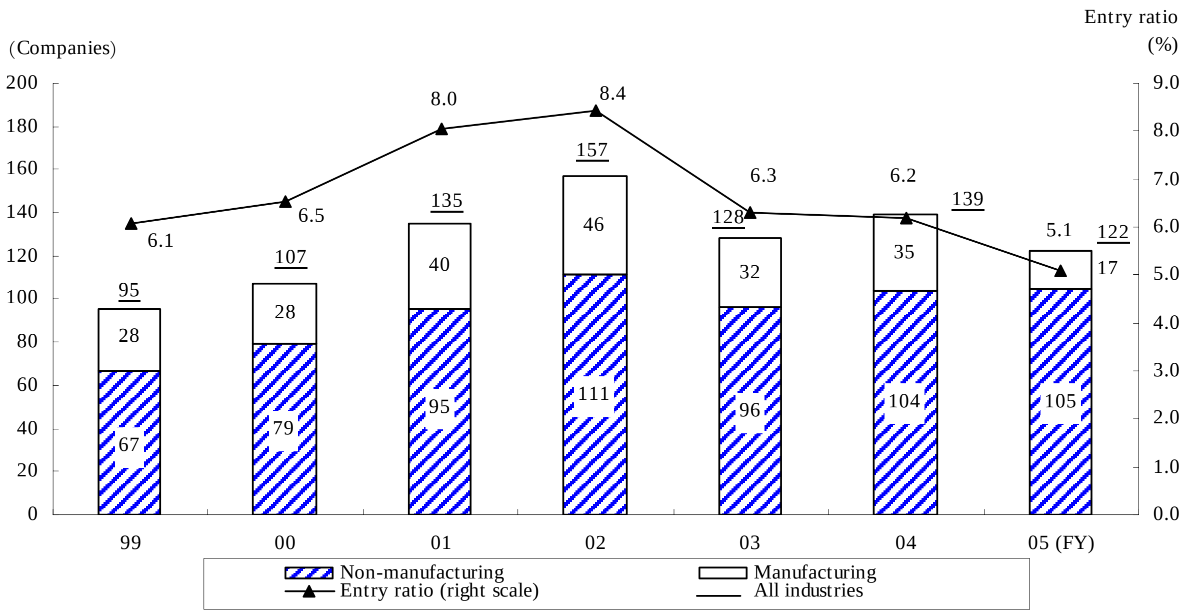
Figure 1-2 No. of Offices of Foreign Affiliates in Japan by Function (Average per Enterprise)



(2) Newly established and newly funded foreign affiliates

- The number of newly established/funded foreign affiliates was 122, a decrease of 17 companies compared to the previous fiscal year. Of these companies, 17 (a decrease of 18, and accounting for 13.9% of the total) were in the manufacturing sector and 105 (an increase of one, 86.1%) were in the non-manufacturing sector. The entry ratio (Note 2) decreased by 1.1 points compared to the previous fiscal year, to 5.1% (Fig. 2-1).
- By industry, in the non-manufacturing sector, 35 new entries were in the wholesale trade industry (a decrease of six compared to the previous fiscal year), and 33 were in the service industry (an increase of nine. In the manufacturing sector, there were no new entries in the information and communication equipment industry or the transportation equipment industry, which showed decreases of nine and four, respectively (Fig 2-2).
- By capital, the share of new entries was biggest for companies with capital of 50 million yen or less (89 companies), at 73.0%. In contrast, large companies with capital of over 1 billion yen were limited to three, or 2.4% (Table 2-1).
- By nationality, there were increases in both European companies (43 affiliates, up by seven compared to the previous fiscal year) and Asian companies (43 affiliates, up by four) (Table 2-2).
- Of the reasons that foreign investors' stocks surpassed one-third of the total capital, 81.8% related to the establishment of new companies. In particular, the ratio of establishment of new affiliates by a single company has increased (Table 2-3).

Figure 2-1 No. of Newly Established and Newly Funded Foreign Affiliates



(Note 2): Entry ratio = No. of newly established and newly funded foreign affiliates/No. of foreign affiliates

Figure 2-2 No. of Newly Established and Newly Funded Foreign Affiliates by Industry

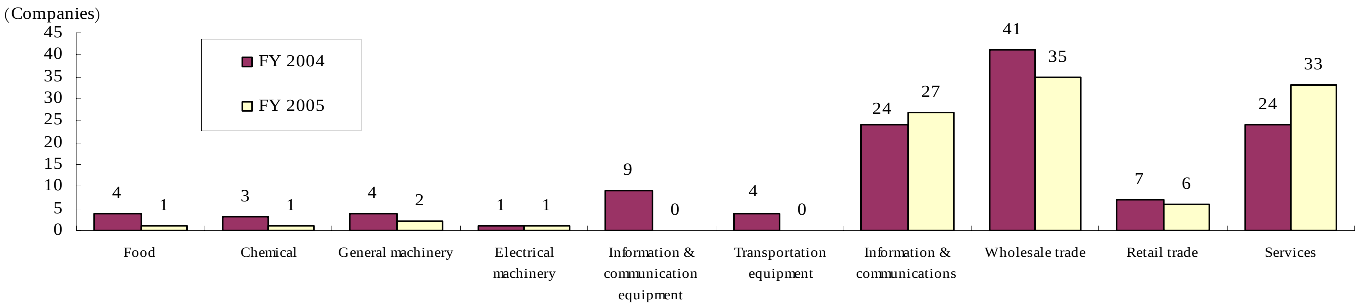


Table 2-1 No. of Newly Established and Newly Funded Foreign Affiliates by Capital

(Companies, %)

	Total	50 million yen or less	Over 50 million to 100 million yen or less	Over 100 million to 300 million yen or less	Over 300 million to 1 billion yen or less	Over 1 billion to 10 billion yen or less	Over 10 billion yen
All industries	122	89	15	8	7	2	1
Distribution ratio	100.0	73.0	12.3	6.6	5.7	1.6	0.8

Table 2-2 No. of Newly Established and Newly Funded Foreign Affiliates by Nationality

(Companies)

	01	02	03	04	05 (FY)
Total	135	157	128	139	122
US	45	54	48	47	29
European	44	70	32	36	43
Asian	30	28	33	39	43
Others	16	5	15	17	7

Table 2-3 Reasons Foreign Capital Surpassed One-Third of Total Capital

(%)

	Distribution ratio		
	FY 2004	FY 2005	Difference from the previous year
Total	100.0	100.0	-
Newly established	78.4	81.8	3.4
By a single company	(66.9)	(72.7)	5.8
Acquisition (including merger/capital increase)	17.3	13.2	-4.1
Other	4.3	5.0	0.7

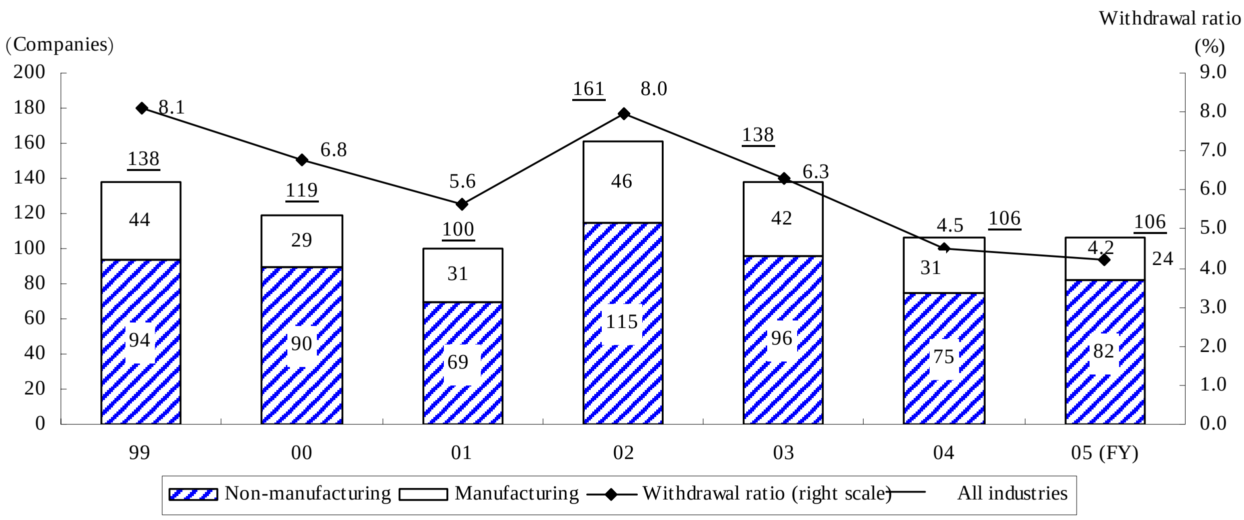
(3) Withdrawal

・The number of companies withdrawing (Note 3) was 106, remaining flat compared to the previous fiscal year. Of those companies, 24 (a decrease of seven, and accounting for 22.6% of the total) were from the manufacturing sector and 82 (an increase of seven, 77.4%) were from the non-manufacturing sector. The ratio of companies withdrawing (Note 4) decreased to 4.2% (Fig. 3-1).

・By industry, in the non-manufacturing sector, withdrawals were notable in the wholesale trade sector (33 companies, an increase of seven compared to the previous fiscal year) and the service industry (22 companies, an increase of four). In the manufacturing sector, there was a notable decrease in the chemical industry (one company, a decrease of six) (Fig. 3-2).

・By capital, the percentage of companies withdrawing was biggest for those with capital of 50 million yen or less at 42.5% (45 companies). In contrast, large companies with capital of over 1 billion yen came to 17, or 16.1% (Table 3-1).

Figure 3-1 No. of Companies Withdrawing



(Note 3): Withdrawal includes "liquidation" and "reduction in controlling share (controlling share held by foreign companies drops to one-third of the total or less)."

(Note 4): Ratio of companies withdrawing = No. of companies withdrawing/(No. of foreign affiliates+ No. of companies withdrawing) ×100

Figure 3-2 No. of Companies Withdrawing by Industry

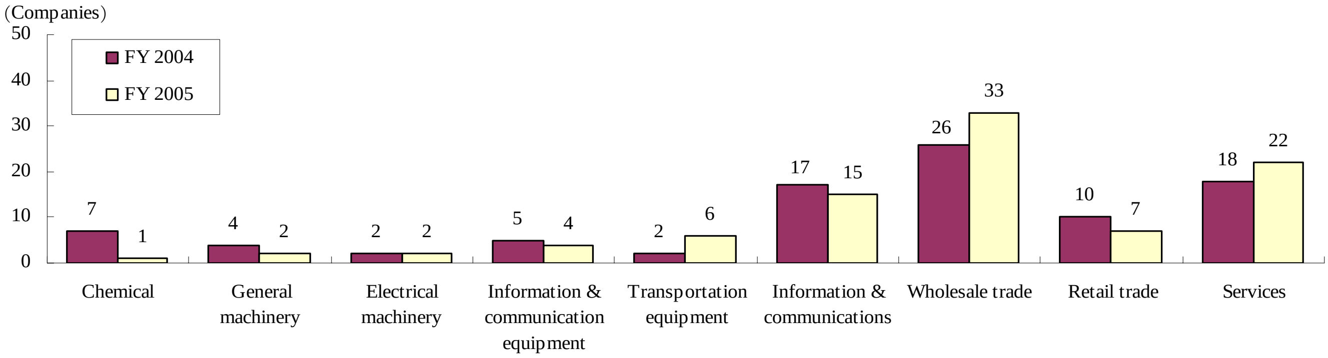


Table 3-1 No. of Companies Withdrawing by Capital

(Companies, %)

	Total	50 million yen or less	Over 50 million to 100 million yen or less	Over 100 million to 300 million yen or less	Over 300 million to 1 billion yen or less	Over 1 billion to 10 billion yen or less	Over 10 billion yen	Unknown
All industries	106	45	19	8	15	15	2	2
Distribution ratio	100.0	42.5	17.9	7.5	14.2	14.2	1.9	1.9

(4) Sales/Imports and exports

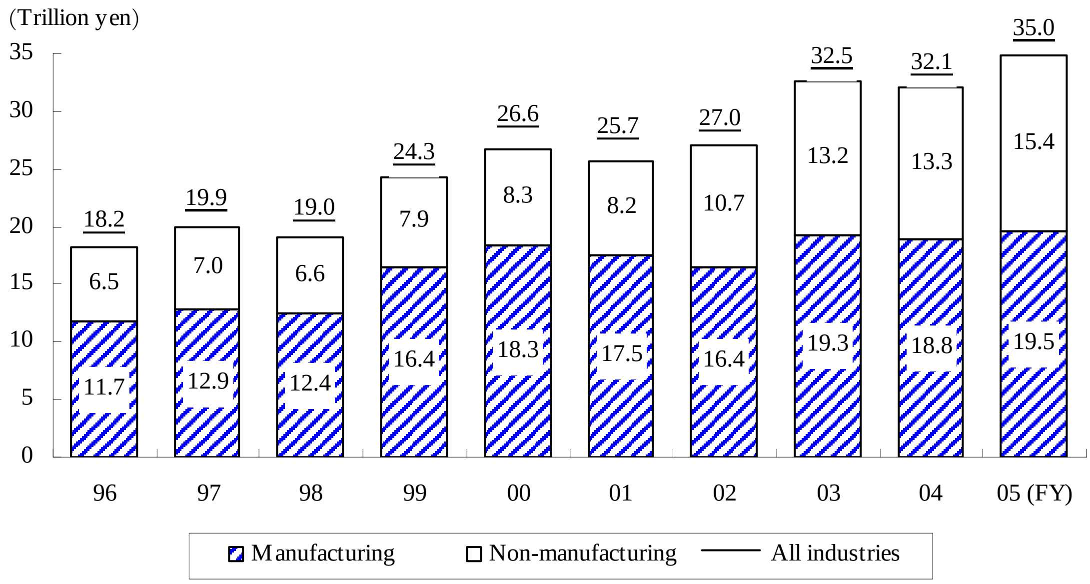
・Sales increased by 9.0% compared to the previous fiscal year, to 35.0 trillion yen, marking a record high (limited to enterprises that responded in both the previous fiscal year and the current year: up by 8.6%). The manufacturing sector posted a figure of 19.5 trillion yen, up by 4.1%, and the non-manufacturing sector posted a figure of 15.4 trillion yen, up by 16.0% (Fig. 4-1).

・By industry, in the manufacturing sector, the transportation equipment industry saw a decrease of 3.3% to 7.6 trillion yen, due to the influence of companies not falling within the scope of the survey. In the non-manufacturing sector, the wholesale trade industry saw an increase of 6.8% to 9.4 trillion yen. The information and communications industry also saw a significant increase of 62.0% to 2.4 trillion yen, due to the integration of some companies in the previous fiscal year (Fig. 4-2).

・The ratio of foreign affiliates to all incorporated enterprises [Note 5] decreased in the manufacturing industry (4.5%), down for the second consecutive year. That in the non-manufacturing industry (1.4%) increased from a decline in the previous fiscal year (Fig. 4-3).

・The direct balance of trade showed an excess of imports for the second consecutive year, due to an increase in prices of resources. In the manufacturing sector, the direct balance of trade continued to show an excess of exports. However, the excess has been diminishing rapidly (Fig. 4-4).

Figure 4-1 Sales



[Note 5]: Ratio of foreign affiliates to all incorporated enterprises = Sales of foreign affiliates/Sales of all incorporated enterprises×100

Figure 4-2 Sales by Industry

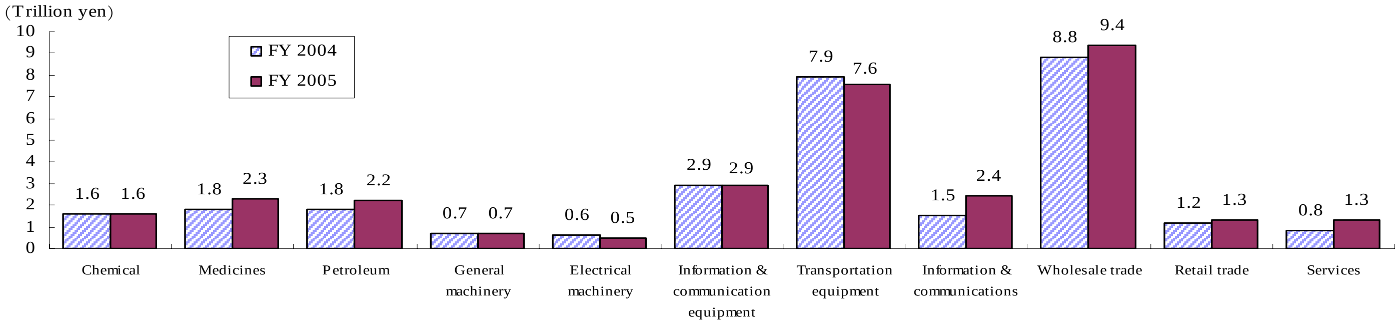


Figure 4-3 Ratio of Foreign Affiliates to All Incorporated Enterprises

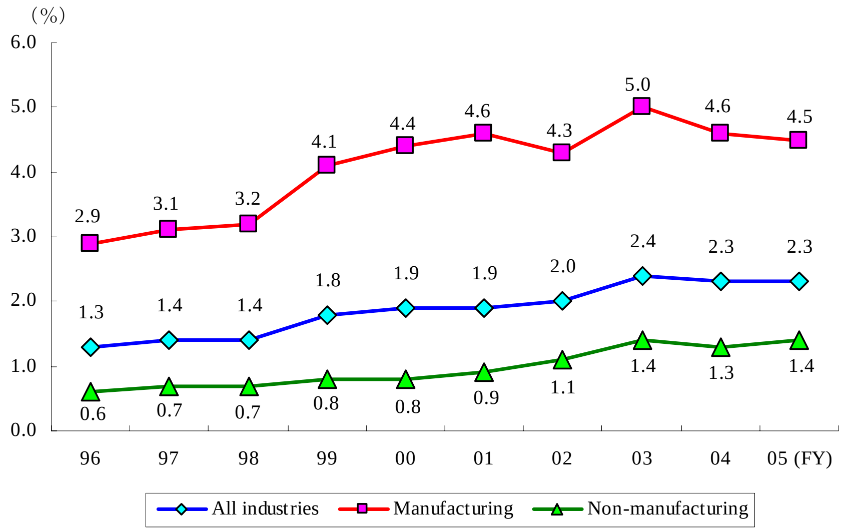
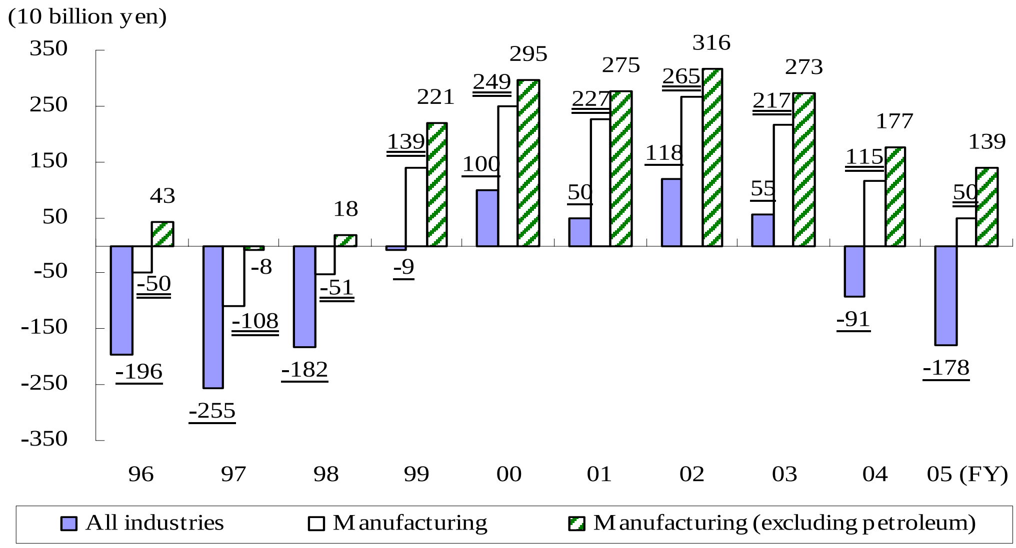


Figure 4-4 Direct Balance of Trade

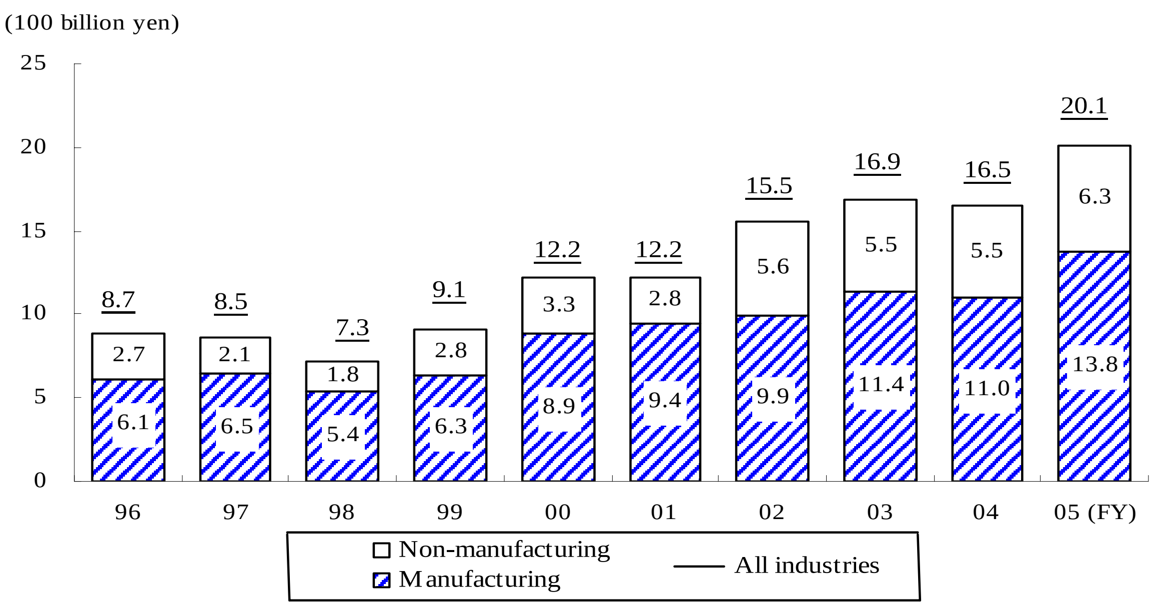


Source: All incorporated enterprises: “Financial Statement Statistics of Corporations by Industry” (Ministry of Finance)

(5) Profit

- Ordinary profit was 2008.4 billion yen, an increase of 21.5% from the previous fiscal year, marking a record high. Ordinary profit in the manufacturing sector and the non-manufacturing sector increased by 25.6% to 1382.2 billion yen and by 13.3% to 626.2 billion yen respectively (Fig. 5-1).
- Within the manufacturing sector, there were notable increases in the transportation equipment industry (up by 55.2%) and the pharmaceutical industry (up by 44.1%). Within the non-manufacturing sector, an increase of 10.2% was seen in the wholesale trade industry (Fig. 5-2).
- The ratio of ordinary profit to sales (Note 6) was 5.8%, up by 0.6 points from the previous fiscal year. This was 2.4 points higher than that for all incorporated enterprises overall (Fig. 5-3).

Figure 5-1 Ordinary Profit



(Note 6): Ratio of ordinary profit to sales = Ordinary profit/Sales×100

Figure 5-2 Ordinary Profit by Industry

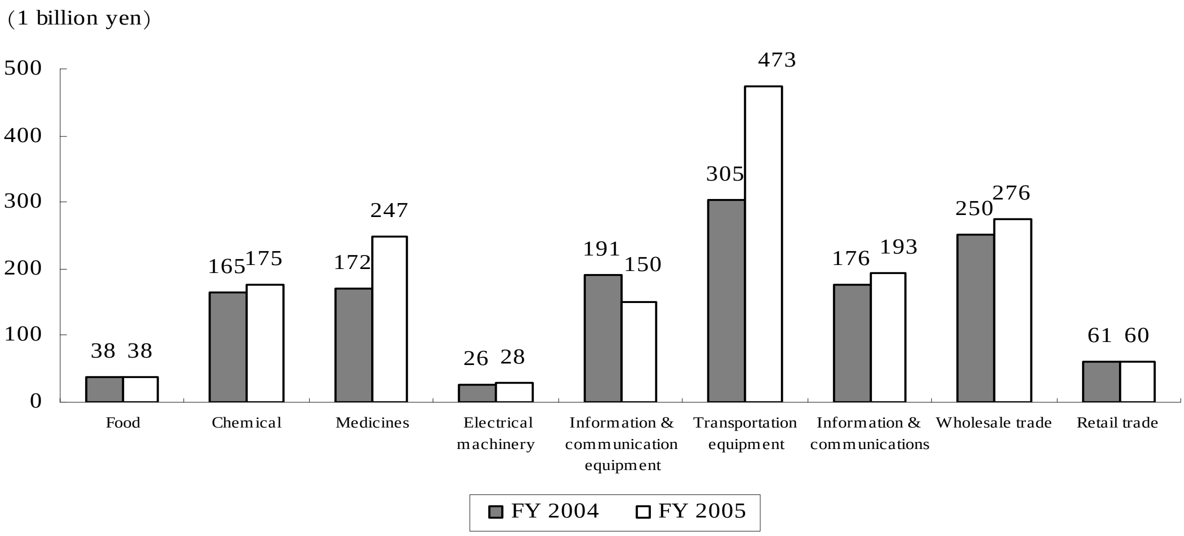
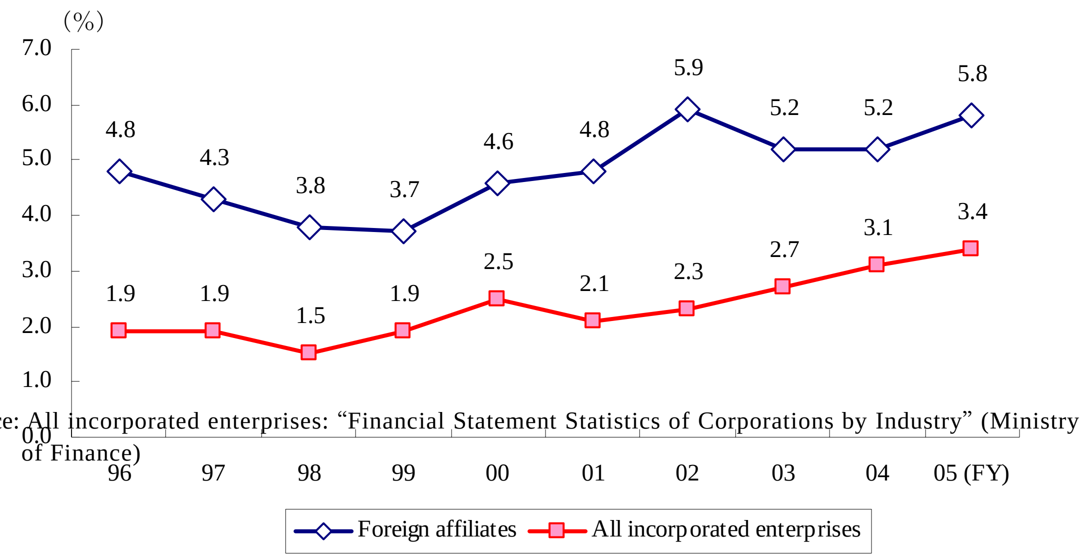


Figure 5-3 Ratio of Ordinary Profit to Sales

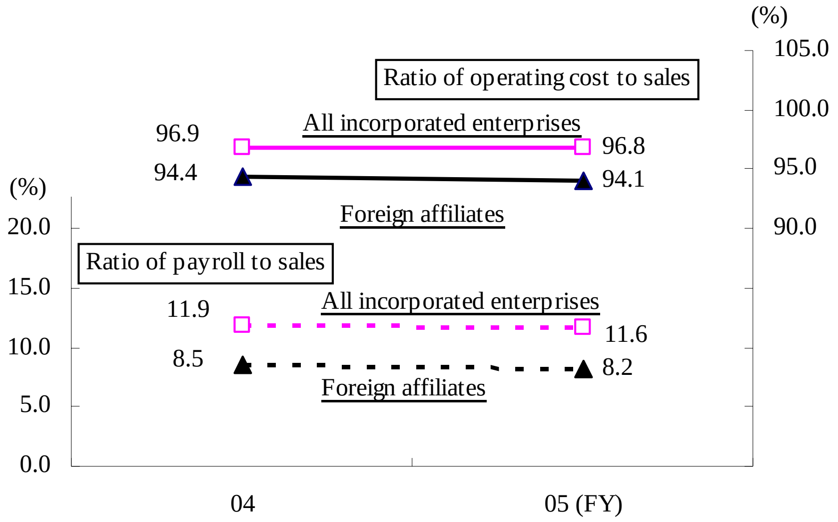


Source: All incorporated enterprises: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)

(6) Cost

- The ratio of operating cost to sales (Note 7) was 94.1%, decreasing by 0.3 points compared to the previous fiscal year. In comparison with all incorporated enterprises, foreign affiliates showed a figure 2.7 points lower.
- The ratio of payroll to sales decreased by 0.3 points to 8.2%, because the payroll growth rate was lower than that of sales. In comparison with all incorporated enterprises, foreign affiliates showed a figure 3.4 points lower (Fig. 6-1).

Figure 6-1 Ratio of Operating Cost to Sales and Ratio of Payroll to Sales



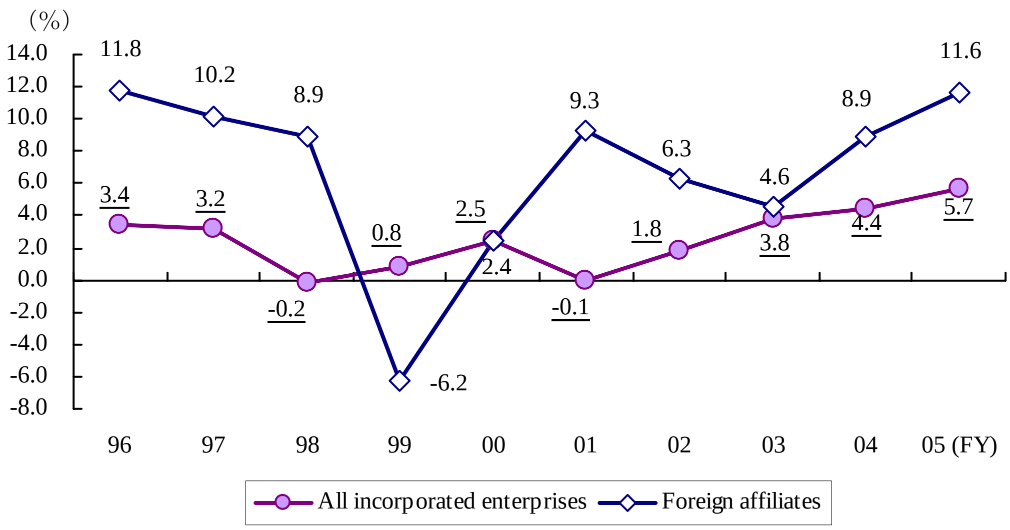
Source: All incorporated enterprises: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)

(Note 7): Ratio of operating cost to sales = (Cost of sales + Sales and administrative costs)/Sales×100

(7) Return on equity (ROE)

・Return on equity (ROE) (Note 8) increased by 2.7 points compared to the previous fiscal year, to 11.6%, a rise for the second consecutive year, due to the increase of current income after tax. In comparison with all incorporated enterprises, the ROE for foreign affiliates was 5.9 points higher, with the gap expanding (Fig. 7-1).

Figure 7-1 Return on Equity



Source: All incorporated enterprises: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)

(Note 8): Return on equity (ROE) = Current income after tax/Shareholders' equity × 100

(8) Capital investment/Research and development

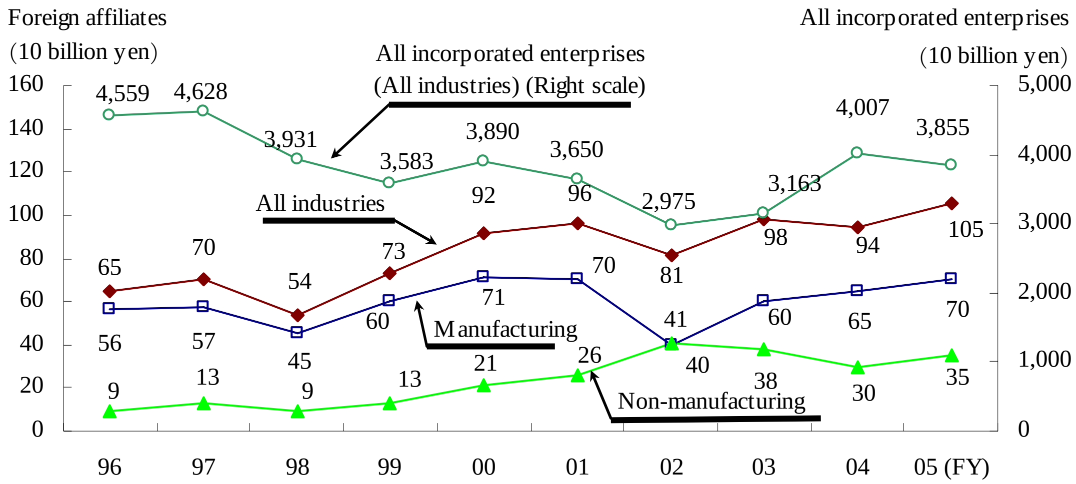
・Capital investment increased by 11.0% compared to the previous fiscal year, to 1047.7 billion yen, marking a record high (limited to enterprises that responded in both the previous fiscal year and the current year: up by 1.0%). Capital investment in the manufacturing sector increased by 7.6% to 697.6 billion yen, up for the third consecutive year. Capital investment in the non-manufacturing industry also increased by 18.3%, to 350.1 billion yen, up for the first time in three years (Fig. 8-1).

・The rate of foreign affiliates among all incorporated enterprises increased by 0.3 points from the previous fiscal year to 2.7%.

・By industry, in the manufacturing sector, the information and communication equipment industry saw an increase of 29.9%, while the transportation equipment industry saw a decrease of 12.4%. In the non-manufacturing sector, the information and communications industry saw an increase of 63.7%, while there were decreases in the service industry (down by 56.9%) and the retail trade industry (down by 17.5%) (Fig. 8-2).

・Research and development expenses decreased to 776.5 billion yen, down by 0.3% compared to the previous fiscal year (limited to enterprises that responded in both the previous fiscal year and the current year: up by 3.7%). The ratio of R&D expenses to sales (Note 9) in the manufacturing sector decreased by 0.2 points to 5.0%, a decrease for the first time in three years, but maintained a high level (Fig. 8-3 and Fig. 8-4)

Figure 8-1 Capital Investment



Source: All incorporated enterprises: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)

(Note 9): Ratio of R&D expenses to sales = R&D expenses/Sales × 100

Figure 8-2 Capital Investment by Industry

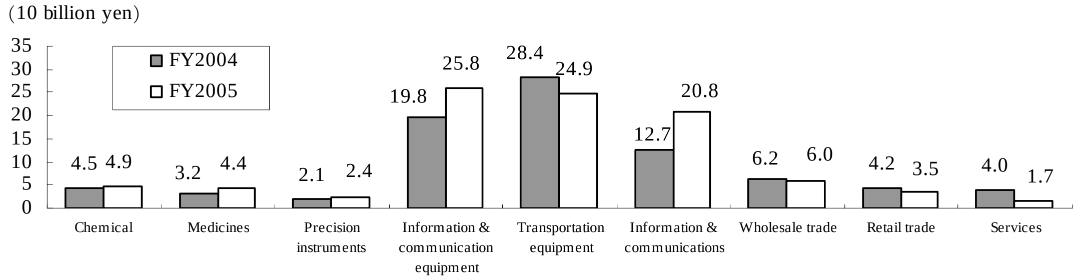


Figure 8-3 R&D Expenses

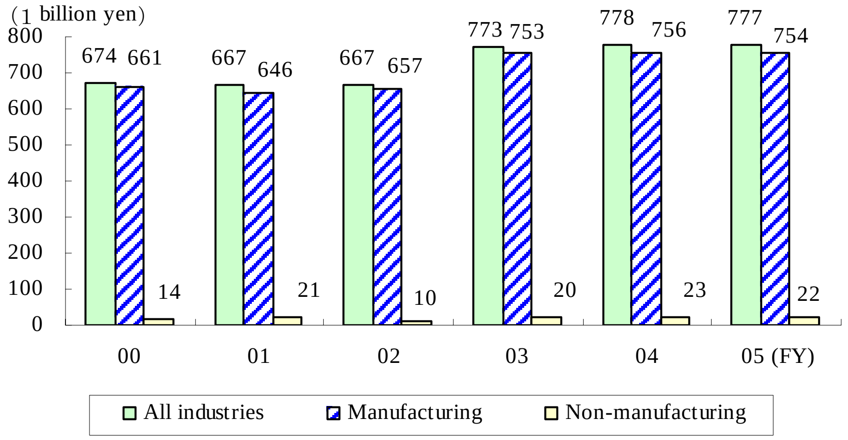
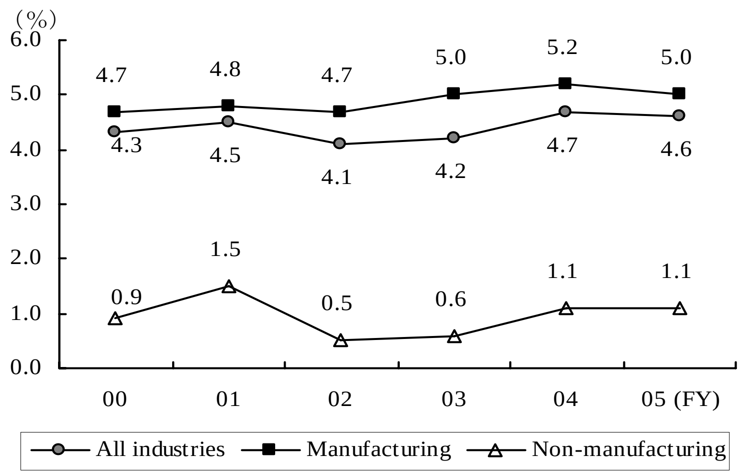


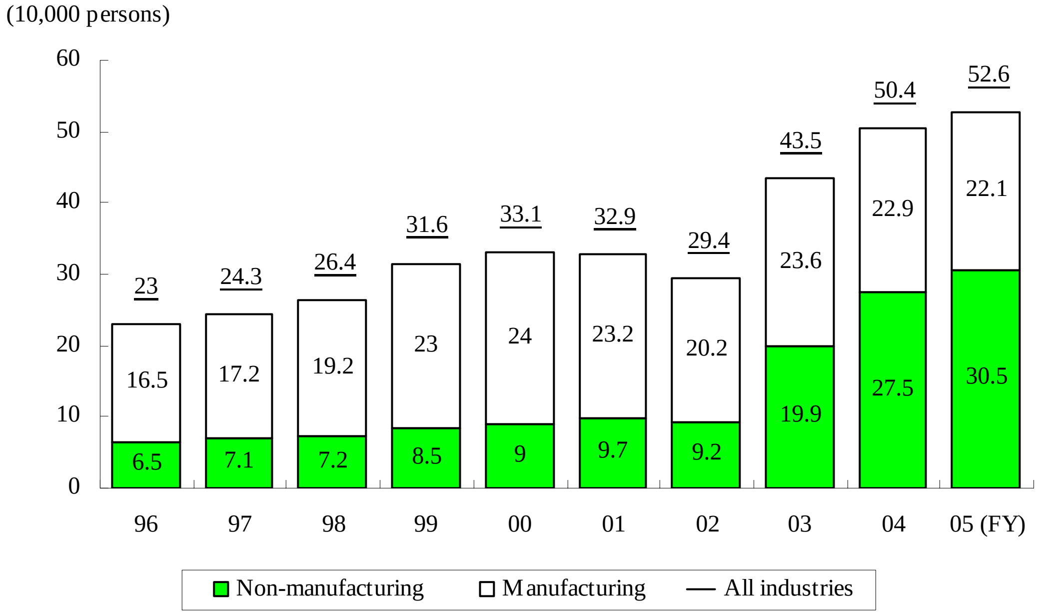
Figure 8-4 Ratio of R&D Expenses to Sales



(9) Employment

- The number of employees increased to 526,000, a 4.3% increase compared to the previous fiscal year (limited to enterprises that responded in both the previous fiscal year and the current year: up by 4.9%). The manufacturing sector showed a 3.6% decrease, to 221,000, while the non-manufacturing sector showed a 10.9% increase, to 305,000 (Fig. 9-1).
- By industry, in the manufacturing sector, the number of employees in the transportation equipment industry decreased by 6.9%, to 83,000, and that in the information and communication equipment industry also decreased by 4.9%, to 36,000. Within the non-manufacturing sector, there was an increase of 6.6%, to 52,000, in the wholesale trade industry and an increase of 24.4%, to 33,000 in the service industry (Fig. 9-2).
- The ratio of part-timers [Note 10] increased by 1.8 points compared to the previous fiscal year, to 35.2%. The ratio of temporary workers [Note 11] increased by 0.2 points to 5.9%.

Figure 9-1 No. of Employees



[Note10]: Ratio of part-timers = No. of part-timers/(No. of full-time workers + No. of part timers) × 100

[Note10]: Ratio of temporary workers = No. of accepted (dispatched) temporary workers/(No. of regular workers + No. of accepted (dispatched) temporary workers) × 100

Figure 9-2 No. of Employees by Industry

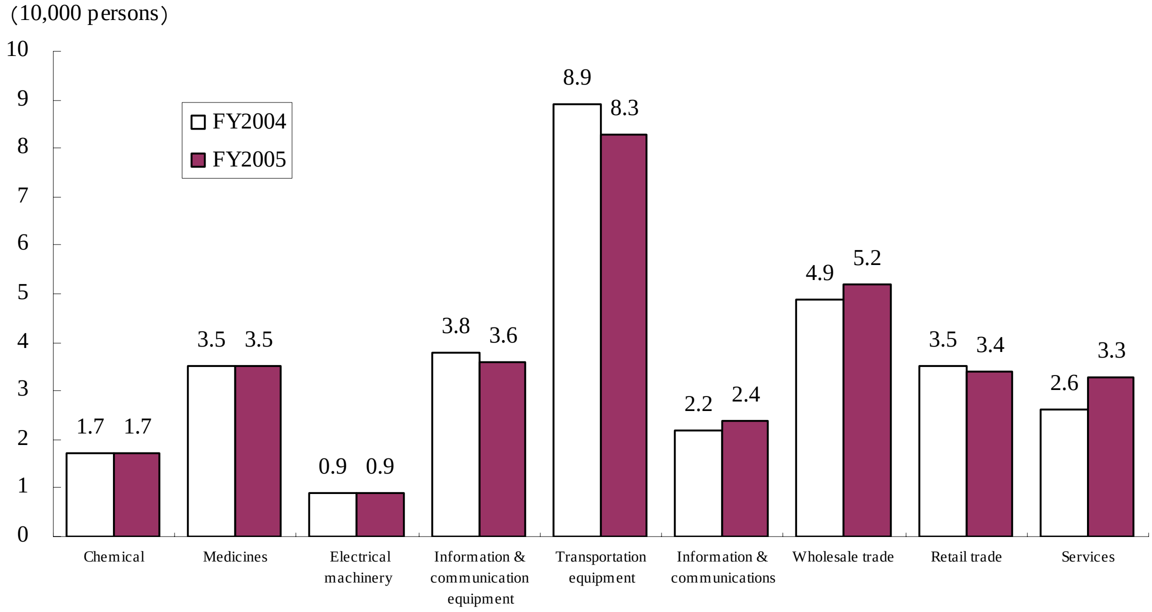


Table 9-1 Ratio of Part-timers and Ratio of Temporary Workers

(%)

	Ratio of part-timers			Ratio of temporary workers		
	FY 2004	FY 2005	Y-Y	FY 2004	FY 2005	Y-Y
All industries	33.4	35.2	1.8	5.7	5.9	0.2
Manufacturing	4.0	4.5	0.5	7.5	8.2	0.7
Non-manufacturing	57.9	57.6	-0.3	4.1	4.1	0.0