

Acquisition of the Glass Substrates Business for Magnetic Disks by HOYA CORPORATION from Nippon Sheet Glass Co., Ltd.

February 18, 2004

The Japan Fair Trade Commission

The Japan Fair Trade Commission (hereinafter referred to as "JFTC"), having been notified by HOYA CORPORATION (hereinafter referred to as "HOYA") of its plan to acquire the business concerned with the manufacture and sale of glass substrates for magnetic disks (hereinafter referred to as "glass substrates") from Nippon Sheet Glass Co., Ltd. (hereinafter referred to as "Nippon Sheet Glass"), conducted an examination.

The JFTC has decided not to take any measures concerning the planned acquisition based on the result of its examination and the judgment that it would not pose problems with respect to the provisions of the Antimonopoly Act on the premise that parties concerned is to take measures, as programmed in the notification.

1. Outline of the Acquisition

HOYA intends to acquire from Nippon Sheet Glass the business concerned with the manufacture and sale of glass substrates as of March 1, 2004, upon withdrawal of Nippon Sheet Glass from the business.

2. Glass Substrates

Glass substrates are disks made of plain glass plates. They are ground and polished, and coated with magnetic materials for use as magnetic disks incorporated in hard disk drives (hereinafter referred to as "HDDs").

There are two kinds of glass substrates, chemically strengthened glass disks and crystalline glass disks, and the parties are manufacturing and selling only the former.

They are used in mobile or portable devices¹ or stationary devices², depending mainly on the application of the HDDs on which they are mounted.

Mobile or portable devices use only glass substrates, whereas stationary devices use either glass substrates or substrates made of aluminum (hereinafter referred to as “aluminum substrates”).

3. Evaluation with respect to the Antimonopoly Act

(1) Particular Field of Trade

The parties are both manufacturing and selling only the chemically strengthened glass disks. As mentioned above, mobile or portable devices use only glass substrates. The two types of glass substrates, chemically strengthened glass disks that the parties produce and sell, and crystalline glass disks, are both adopted in a similar manner by users. Therefore, the JFTC found that the entire business of the manufacture and sales of glass substrates for mobile or portable devices, consisting of both chemically strengthened glass disks and crystalline glass disks, was defined as a particular field of trade.

Stationary devices use either glass substrates or aluminum substrates, both being adopted in a similar manner by users. Therefore, the JFTC found that the entire business of the manufacture and sales of substrates for stationary devices, consisting of glass substrates and aluminum substrates, was defined as a particular field of trade.

The national markets for both fields of trade were defined as the .geographic market.

(2) Focus of the Examination

Of the fields of trade defined in 3 (1) above, glass substrates for mobile or portable devices have been focused on in the examination due to potential effects on competition based on the share of sales quantity and ranking after the acquisition and so forth.

(3) Market Conditions

The size of the domestic market for glass substrates for mobile or portable devices was approximately 10 billion yen for FY 2002.

¹ Applications for mobile or portable devices, such as laptop personal computers (hereinafter referred to as “PC”), assume that the devices may be carried around when the embedded HDD(s) are in operation.

² Applications for stationary devices, such as desktop PCs and servers, assume that the devices may not to be carried around when the embedded HDD(s) are in operation.

After the acquisition, the combined share of the sales quantities and the ranking of the parties will be approximately 50% and No. 1, for glass substrates market for mobile or portable devices.

Rank	Company	Share
1	Nippon Sheet Glass	approx. 40%
2	Company A	approx. 35%
3	Company B	approx. 15%
4	HOYA	approx. 10%
Total		100%
(1)	Combined share of the parties	approx. 50%

(Source: JFTC. Data based on the result of the examination)

(4) Considerations for Decision

A. Existence of strong competitors

Even after the acquisition, there will be competitors in the market, including the one with a share of approximately 35% and the one with a share of over 10%, who are considered to have sufficient supply capacities.

B. Bargaining power of users in price negotiation

Trading of glass substrates between the manufacturers and their users, mainly makers of HDDs, is generally not based on long-term contracts. Whenever a new model of HDDs is introduced, users, in practice, have an opportunity to change suppliers of glass substrates. In addition to the ease of change in suppliers, users adopt the basic procurement policy of splitting HDDs orders among multiple suppliers with a view to ensuring and promoting stable and inexpensive procurement. Consequently, users of glass substrates are in a strong bargaining position to adjust the procurement of glass substrates according to the transaction price of each vendor.

C. Competitive pressure from downstream markets

Competition is fierce in the PC market, an end product of glass substrates, and there has been a drastic decline in the selling price of PCs.

In the wake of severe competition in the end market, manufacturers of glass substrates have been facing strong pricing pressure from makers

of HDDs, reflecting the significant downward pricing pressure from makers of PCs. The sales prices of glass substrates have actually been on a consistent downward trend as a result of substantial competition from downstream markets.

D. Withdrawal from the market

Nippon Sheet Glass has decided to withdraw from the glass substrates business. There are apparently few manufacturers of glass substrates, who may be able to acquire the business from Nippon Sheet Glass within a short period of time, whose potential acquisition would exert less of an influence on the competitive situation of the market (increase of share), as compared to HOYA.

E. Matters that might influence coordinated interaction of competitors

Coordinated pricing behavior among the manufacturers of glass substrates may be difficult due to the fact that users' bargaining power in price negotiations is strong and that there is strong pricing pressure from downstream markets.

In addition, considering that technological innovation of glass substrates has been rapid and that its product life-cycle is relatively short and because of substantial possibilities for sales increase through price reductions, there is only an insignificant amount of incentive for coordinated interaction by makers of glass substrates.

4. Measures Pertaining to the Acquisition Submitted by the Parties and their Effects

(1) During the process of the examination conducted by the JFTC, HOYA submitted a plan of measures to be taken pertaining to the acquisition, which explicitly states as follows;

- A. The provisions, built into the original agreement between HOYA and Nippon Sheet Glass for the transfer of the glass substrates business, to the effect that Nippon Sheet Glass shall not manufacture plain glass plates, a material for glass substrates, directly or indirectly for the sale to persons other than HOYA, shall be deleted from the agreement by the date of acquisition at the latest, and
- B. In the event of any request for grant of patent licensing concerning the business by other business entities, the parties shall make it a policy not to decline such a request but to grant the corresponding license on

fair conditions. Any proposed agreement for granting of license currently under negotiation shall be concluded by September 30, 2004.

- (2) If the said measures are implemented, the measure stated in 4(1) A above will enable Nippon Sheet Glass to manufacture plain glass plates for the sale to persons other than HOYA. This would facilitate its entry into the field of business concerning the manufacture and sale of glass substrates in the future. Any business entity, if it is granted license based on the measure stipulated in 4(1) B above, would be able to start a business concerning the manufacture and sale of chemically strengthened glass substrates. Consequently, these measures may offer users a wider range of alternative suppliers to choose from.

5. Conclusion

In light of the considerations explained in 3(4) above as well as the measures to be taken pertaining to the acquisition that are specified in the plan submitted by the parties, the JFTC has concluded that the planned acquisition may not be substantially to restrain competition in the particular field of trade defined herein.