

## **Kyocera Corporation Telephone Conference Call (October. 30, 2006)**

P1/ President, Makoto Kawamura

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### **President, Makoto Kawamura**

I will discuss consolidated financial results for the six months ended September 30, 2006 (the first half). Please take a look at the table on page 7 of the financial results handout.

Before we look at financial results, I will explain the impact of the sale of shares in Kyocera Leasing Co., Ltd. ("Kyocera Leasing") as shown in the table at the bottom (Note 1).

As you all know, Kyocera sold its shares in Kyocera Leasing, a subsidiary of the Company engaged in the financing business, in August 2006.

In accordance with U.S. accounting standards, business results and profits on sales for Kyocera Leasing for the first half have been recorded as income from discontinued operations. As a result, net sales decreased by ¥3,020 million, profit from operations decreased by ¥1,585 million and income before income taxes decreased by ¥1,806 million from the results in the first half of the year ended September 30, 2005 (the previous first half), as already announced. There was no impact on net income in the first half.

On the balance sheet, total liabilities, minority interests and stockholders' equity decreased by ¥125.0 billion, including ¥109.0 billion in debt, due to the sale of shares in Kyocera Leasing.

### **<Consolidated Results for 1H FY3/2007>**

The components business and equipment business recorded increases in sales and profits compared with the previous first half. Component demand increased amid a favorable market environment, while aggressive new product launches were conducted in the equipment business.

Consolidated net sales for the first half increased by 13.5% to ¥615.4 billion.

Profit from operations increased by 87.0% to ¥63.1 billion, and income from continuing operations before income taxes stood at ¥72.4 billion, up 63.3%. Both of these financial indicators posted 10.3% and 11.8%, respectively, in terms of profit margins.

Net income was ¥53.5 billion, up 2.2 times compared with the previous first half. The income from continuing operations before income taxes ratio was 8.7%. In addition to the increase in income from continuing operations before income taxes, ¥5.2 billion resulting from the sale of shares in Kyocera Leasing was recorded as income from discontinued operations and approximately ¥4.3 billion was included in the amount appropriated for taxes due to the retraction

of certain punishments related to transfer pricing taxation. For details, please refer to “(3) Implemented management measures and significant decision 4)” on page 8 of the financial results handout.

These increases in sales and profits can be attributed to the favorable business environment spurred by increased production of electronics equipment. In addition, positive effects from the reinforcement of the “Amoeba Management system,” which is key to Kyocera operations, have started to emerge. We cut costs within production and sales divisions, etc., and devised creative ways to improve productivity. As a result, we have boosted our ability to achieve the targets we set, “executional excellence.” We believe our results reflect these factors.

Let’s turn to average exchange rates for the first half as shown two lines from the bottom of the table on page 7 of the financial results handout. The yen depreciated ¥6 against the U.S. dollar, to ¥115, and ¥10 yen against the Euro, to ¥146, compared with the average exchange rates in the previous first half. As a result, net sales and income from continuing operations before income taxes after translation into yen were pushed up by ¥21.8 billion and ¥8.2 billion, respectively.

That concludes my summary of consolidated financial results. Please turn to the consolidated financial results on page 1 of the “Supplemental Information” to see a graph comparing first half results with past results.

Kyocera posted a record high for net sales in a first half period.

In addition, the income from continuing operations before income taxes ratio grew relative to the second half of the previous fiscal year. Profitability has been steadily improving, as you can see in the graph.

Next, I will explain results by reporting segment. Page 9 of the financial results handout shows net sales and operating profits by reporting segment and look at the table of operating profit by reporting segment.

Kyocera achieved an operating profit ratio of 15.6% in the components business as a whole for the first half. Of particular note was the improvement in profit of around 2 times compared with the previous first half in the Electronic Device Group, shown in the fourth line from the top of the table. In the equipment business, there was a turnaround from an operating loss of ¥200 million in the previous first half to operating profit of ¥13.6 billion this first half.

I will now touch on results by reporting segment.

Sales in the Fine Ceramic Parts Group increased by 16.0% compared with the previous first half due primarily to an increase in demand for components used in semiconductor fabrication equipment led by the recovery in the semiconductor market. Operating profit was up 53.4%.

Consequently, the operating profit ratio reached 19.1%.

Sales in the Semiconductor Parts Group increased by 19.4% compared with the previous first half due to burgeoning demand for ceramic packages used in digital consumer equipment such as mobile phone handsets. Operating profit in this segment increased by 63.9%, and the operating profit ratio was 15.7%.

The Applied Ceramic Products Group posted an increase in sales but a decrease in profits compared with the previous first half. Sales grew 15.0% on account of solid performance in the solar energy business and the cutting tool business. Operating profit from cutting tools and medical materials increased in the first half as compared with the previous first half, while operating profit from the solar energy business decreased due to costs for repair of defects in a portion of the products sold overseas up to fiscal 2004. Kyocera provides long-term warranties for such products, and accordingly set aside a reservation in the amount of ¥3.9 billion in the first half for warranty costs. As a result, operating profit from this reporting segment as a whole decreased as compared with the previous first half.

Kyocera believes that demand of solar energy products will grow continuously, and we will seek further expansion of our solar business.

I will now explain the results for the Electronic Device Group, the final segment in the components business.

Demand for capacitors, crystal related products and connectors, among others, increased due to an increase in production of digital consumer equipment. Overall segment sales increased by 11.6% compared with the previous first half due in particular to increased profitability at AVX Corporation, a U.S. subsidiary. Operating profit grew a considerable 93.1%, while the operating profit ratio was 15.4%.

That concludes my explanation of results for the components business. Let's look at results for the equipment business.

The Telecommunications Equipment Group posted favourable sales of new models of mobile phone handsets in the domestic market, while Kyocera Wireless Corp., the performance of which was slow in the first quarter, achieved a substantial improvement in profitability in the second quarter. As a result, sales in this segment increased by 28.7% compared with the previous first half. Meanwhile, operating loss was greatly reduced from ¥9.4 billion in the previous first half to ¥1.0 billion.

Sales and profits in the Information Equipment Group increased 5.2% and 17.0%, respectively, compared with the previous first half due to robust sales of digital multifunctional products and printers overseas and the positive effect of the yen's depreciation against the Euro and the U.S.

dollar. The operating profit ratio was 12.4%.

Sales in the Optical Equipment Group decreased by 28.7% compared with the previous first half due mainly to the downsizing of the camera equipment business. Operating loss was reduced by ¥3.1 billion, to ¥0.9 billion, relative to ¥4.0 billion in the previous first half, due to a decrease in costs for structural reforms.

Sales and profits in "Others" increased by 8.6% and 17.6%, respectively, compared with the previous first half due to sales growth in the telecommunications servicing business of Kyocera Communication Systems Co., Ltd. and in the electronic device materials business at Kyocera Chemical Corporation. The operating profit ratio was 6.2%.

In the last part of my explanation of first half results, I will explain "Corporate" and "Equity in earnings (losses) of affiliates and unconsolidated subsidiaries."

With respect to "Corporate", shown as the fourth line item from the bottom of the table, profit decreased by 42.0% compared with the previous first half. The main reason for such decrease was the absence of gain on sale of investment in Taito Corporation, which was posted in the previous first half.

Taking into account equity in earnings (losses) of affiliates and unconsolidated subsidiaries and adjustments and eliminations, consolidated income from continuing operations before income taxes amounted to ¥72.4 billion, up 63.3% compared with the previous first half.

#### **<Consolidated Forecasts for the Year Ending March 31, 2007>**

Finally, I will discuss consolidated financial forecasts for the year ending March 31, 2007, so please turn to page 16 of the financial results handout.

In addition to the results announcement today, I will present revisions to consolidated financial forecasts for the fiscal year ending March 31, 2007, as shown in the table on this page.

The economic outlook for the second half remains uncertain due to rising costs for materials such as crude oil and precious metals, and to concerns over a slowdown in the U.S. economy. Nonetheless, in the electronic equipment industry, demand for components for digital consumer equipment is projected to remain high due to the release of new next-generation game consoles and new digital consumer products for the Christmas selling season, and to the introduction of MNP (Mobile Number Portability) services for mobile phone markets in Japan, which has driven replacement demand for mobile phones.

In light of this business environment outlook and of our first half results, we project that sales and profits for the fiscal year ending March 31, 2007 will surpass our initial forecasts which was announced in April 2006.

We have also made revisions to forecasts for each reporting segment. In the components business, we seek to further increase market share through the launch of high-value-added products and by cultivating new markets. In the equipment business, we aim to bring new products to market in a timely fashion. In both businesses, our objective is to expand both sales and profitability.

We were able to achieve a substantial increase in profits in the first half due to increased sales and improved productivity as well as the positive effects from our structural reforms and the depreciation of the yen. Going forward, we will not rest on our laurels, but rather work to reinforce the “Amoeba Management System” across the Group in order to continuously enhance performance.

Executive Officer and General Manager of Corporate Financial and Accounting Group, Shoichi Aoki

#### <Consolidated Statements of Income>

I will now begin with a summary of the Consolidated Statements of Income, so please turn to page 22 of the financial results handout. As President Kawamura already discussed, figures for the previous first half and full year have been retroactively reclassified in line with the sale of Kyocera Leasing Co., Ltd. ("Kyocera Leasing").

Net sales in the first half, the first line item, amounted to ¥615.4 billion, up 13.5% compared with the previous first half, on the back of burgeoning components demand coupled with aggressive new product launches in the equipment business.

Cost of sales stood at ¥429.7 billion, an increase of 9.9% from the previous first half in line with the increase in sales. The cost of sales ratio improved by 2.3 percentage points from 72.1% in the previous first half to 69.8%, due to an improvement in productivity.

Selling, general and administrative expenses (SG&A expenses) increased by ¥5 billion over the previous first half, to ¥122.6 billion. The primary reasons for this increase were increases in sales promotion costs and software development costs.

As a result, profit from operations for the first half amounted to ¥63.1 billion, with a profit ratio of 10.3%. This result was a significant increase of ¥29.4 billion, or 87.0%, compared with ¥33.8 billion in the previous first half.

With respect to other income and expenses, interest and dividend income totalled ¥6.8 billion, up ¥2.9 billion compared with the previous first half. This increase was due primarily to an increase in dividends from KDDI Corporation ("KDDI") and in interest income in Kyocera Corporation and a U.S. subsidiary.

Adding gain on sale of investment in securities, net, in the amount of ¥3.3 billion, total other income amounted to ¥9.3 billion. This was a decrease of ¥1.3 billion from the previous first half

due to the absence of ¥6.9 billion in gain on sale of shares in Taito Corporation that was recorded as gain on sale of investment in an affiliate in the previous first half.

Accordingly, income from continuing operations before income taxes and minority interests for the first half totaled ¥72.4 billion and the profit ratio was 11.8%. As with profit from operations, income from continuing operations before income taxes and minority interests recorded a significant increase of 63.3% compared with the previous first half.

Income taxes, in the amount of ¥21.0 billion, includes refunded tax in the amount of ¥4.3 billion in line with the retraction of a portion of the punishment relating to transfer pricing taxation.

Subtracting minority interests in the amount of ¥3.1 billion from income before income taxes, and adding in ¥5.2 billion in net income from discontinued operations that is gain on sale of shares in Kyocera Leasing, we are left with net income for the first half in the amount of ¥53.5 billion, marking a considerable improvement of approximately 2.2 times, or up 120.9%, over the previous first half. The profit ratio was 8.7%.

That concludes my presentation on the Consolidated Statements of Income. I will now explain the Consolidated Balance Sheets, so please turn back two pages to page 20.

### <Consolidated Balance Sheets>

First, let's look at assets. I will explain by making comparisons with the previous fiscal year-end figures.

Consolidated total assets, shown at the bottom, amounted to ¥1,951.7 billion as of the end of the first half, up ¥20.2 billion from ¥1,931.5 billion as of March 31, 2006.

Figures as of the end of March 31, 2006 included total assets of Kyocera Leasing in the amount of ¥125.1 billion.

Total current assets amounted to ¥951.1 billion, an increase of ¥30.5 billion as compared with the previous fiscal year end.

Total non-current assets amounted to ¥1,000.6 billion, a decrease of ¥10.3 billion as compared with the previous fiscal year end.

Let's look at current assets. Cash and cash equivalents decreased by ¥37.1 billion as compared with the previous fiscal year end, to ¥263.8 billion. Cash out from the payment of dividends and the purchase of negotiable certificates of deposit and long-term fixed deposits were the primary factors behind the decrease, more than off-setting cash in from the sale of shares in Kyocera Leasing at Kyocera Corporation.

Short-term investments increased by ¥40.8 billion as compared with the previous fiscal year end, to ¥128.7 billion. This increase was due primarily to the purchase of negotiable certificates of deposit, as I just mentioned.

Previously, Kyocera included the short-term loan receivables of Kyocera Leasing in short-term finance receivables, three lines items below. As Kyocera Leasing has been excluded from the scope of consolidation due to the sale of its shares, the amount outstanding has disappeared.

Skipping one line item, inventories amounted to ¥220.9 billion, an increase of ¥30.3 billion from the end of March 2006. The primary reasons for this increase were an increase in inventories at Kyocera Mita Group due to the introduction of new products, and an increase in raw materials and work in process in the Telecommunications Equipment Group at Kyocera Corporation in line with an increase in production.

Next, let's look at non-current assets. Investments and advances totaled ¥629.8 billion, an increase of ¥69.1 billion. The primary reason for this increase was an increase in the market value of KDDI shares held by Kyocera Corporation included in securities and other investments, and the purchase of long-term fixed deposits, as mentioned earlier.

In long-term finance receivables, the amount outstanding has disappeared due to the sale of Kyocera Leasing.

Property, plant and equipment, net of depreciation, increased by ¥1.9 billion.

Consolidated capital expenditures for the first half totaled ¥37.2 billion and depreciation totaled ¥33.7 billion. That concludes my explanation of assets.

Let's move on one page to page 21 and I will explain total liabilities, minority interests and stockholders' equity.

Total liabilities decreased by ¥68.4 billion compared with the end of March 2006, to ¥509.1 billion. Minority interests in subsidiaries, one line item below, in the amount of ¥69.1 billion, which consists primarily of interests in AVX Corporation held by shareholders other than Kyocera Corporation, increased by ¥4.1 billion.

Total stockholders' equity increased by ¥84.5 billion to ¥1,373.6 billion. I will explain the reason for this increase later.

Total current liabilities decreased by ¥64.4 billion to ¥314.2 billion.

Short-term borrowings decreased by ¥77.9 billion compared with the end of March 2006, to ¥12.9 billion, due mainly to the sale of Kyocera Leasing.

Current portion of long-term debt decreased for the same reason just mentioned.

Non-current liabilities decreased by ¥4.0 billion compared with March 31, 2006, to ¥194.9 billion.

Looking at a breakdown of this decrease, the decrease in long-term debt, the next line item, was due to the sale of Kyocera Leasing.

Skipping one line item, deferred income taxes were ¥149.1 billion, up ¥23.4 billion from the end of March 2006. This increase was due to an increase in income tax liabilities in line with an

increase in the market value of KDDI shares.

Next, let's look at stockholders' equity.

Retained earnings increased by ¥44.1 billion to ¥1,011.7 billion after deducting cash dividends in the amount of ¥9.4 billion paid during the first half from net income of ¥53.5 billion.

Accumulated other comprehensive income increased by ¥38.3 billion to ¥111.2 billion. The breakdown of this increase is shown in the footnotes. Net unrealized gains on securities increased by ¥32.2 billion compared with the end of March 31, 2006 to ¥114.8 billion due primarily to a rise in the market value of KDDI shares.

As a result, the stockholders' equity ratio was 70.4% at the end of the first half, up 3.7 percentage points from 66.7% at the end of March 2006. The main reason for this increase was the significant decrease in liabilities due to the sale of Kyocera Leasing.