Kyocera Corporation Telephone Conference Call (July 28, 2005)

P1/ President and COO, Makoto Kawamura

P7/ Executive Officer and General Manager of Financial and Accounting Corporate Group, Shoichi Aoki

President and COO, Makoto Kawamura

I would also like to thank you for taking the time out of your busy schedules to participate in this conference call today.

I will begin with an explanation of consolidated financial results for the three months ended June 30, 2005 (the first quarter of the fiscal year ending March 31, 2006) as announced.

I will take questions at the end of the address.

<Business Results for the First Quarter, Financial Condition and Prospects>

I will begin with the consolidated financial results of the first quarter. Please turn to page 4 of the financial results handout.

In the electronics industry, production activity, which had slowed since last summer, rebounded moderately in the first quarter. As a result, component demand has been increasing steadily. Nevertheless, component demand in the first quarter did not catch up with the buoyant levels recorded during the three months ended June 30, 2004 (the previous first quarter) when demand for digital consumes equipment such as mobile phone handsets and PCs was high. Furthermore, component prices have fallen approximately 15% as compared with the previous first quarter when prices remained relatively stable on the impetus of strong demand.

Due to this severe market environment, consolidated net sales and profits in the first quarter decreased compared with the previous first quarter.

Consolidated net sales amounted to ¥265.1 billion, down 9.6% compared with the previous first quarter. I will explain this in more detail when I present results for each operating segment.

Profit from operations decreased by 58.9% to ¥14.3 billion and income before income taxes decreased by 54.8% to ¥17.2 billion compared with the previous first quarter. As a result, net income dropped 60.9% to ¥8.6 billion, while diluted earnings per share amounted to ¥45.88.

The average exchange rates for the first quarter were 108 yen to the U.S. dollar and 136 yen to the Euro. This represented appreciation of 2 yen against the U.S. dollar and depreciation of 4 yen against the Euro. The negative impact of the rising yen against the dollar was more than enough to offset the positive impact of the weakness of the yen against the Euro. As a result, net sales after translation into yen were pushed down by approximately ¥0.4 billion compared with the previous first quarter. Conversely, with respect to income before income taxes the positive impact of the weakness of the yen against the Euro compensated for the strength of the yen against the dollar, and as a result, income before income taxes after translation into yen reflected a positive impact of approximately ¥0.5 billion.

Next, I will discuss results by consolidated Reporting segment on page 6 of the financial results handout.

<Consolidated Results by Reporting Segment>

Kyocera’s reporting previously classified its operations into four segments, namely, Fine Ceramics Group, Electronic Device Group, Equipment Group and Others. In consideration of the current scale of each product line and in order to further clarify the nature of the business and increase the efficiency of management and administration in each reporting segment, thereby also contributing to improved disclosure, Kyocera has changed its classification to eight reporting segments. Consolidated results for the three months ended June 30, 2004 have been restated in line with such change.

In addition, "Consumer-Related Products” has been renamed the “Applied Ceramic Products Group” and “Optical Instruments” has been renamed the “Optical Equipment Group.”

[Fine Ceramic Parts Group]

Net sales and operating profit in this segment amounted to ¥15.9 billion and ¥1.9 billion, respectively, both down from the previous first quarter.

In contrast to the robust semiconductor fabrication equipment market in the previous first quarter, the current downturn has led to a decline in demand for ceramic parts for semiconductor fabrication equipment, which are key products in this segment. Sales of sapphire substrates for LCD projectors also declined due to slumping sales volume of LCD projectors and component price erosion. As a result, sales and operating profit in this segment decreased compared with the previous first quarter.

[Semiconductor Parts Group]

Net sales and operating profit in this segment amounted to ¥29.7 billion and ¥3.4 billion, respectively, both down from the previous first quarter.

A slowdown in the digital consumer products market, notably mobile phone handsets, led to lower sales of ceramic packages such as SMD packages. Nonetheless, in the organic package business, demand for flip chip packages for servers and routers, and for micro cards for portable music players, grew steadily.

[Applied Ceramic Products Group]

Net sales in this segment amounted to ¥27.0 billion, while operating profit amounted to ¥4.9 billion. Amid a general downturn in the components business, this segment posted significant increases in both sales and profits.

Rising environmental awareness has driven increased demand for solar energy products, particularly in the European market. In addition, robust production activity in the automotive industry has spurred increased sales of cutting tools. As a result, both net sales and operating profit in this segment increased significantly compared with the previous first quarter.

[Electronic Device Group]

Net sales and operating profit in this segment amounted to ¥60.8 billion and ¥4.5 billion, respectively, both down from the previous first quarter.

Despite steady growth in sales of thin-film products such as thermal printheads, sales of capacitors and timing devices for digital consumer products, especially mobile phones, as well as connectors, slumped. As a result, sales in this segment decreased compared with the previous first quarter.

Operating profit in this segment also decreased due to declining net sales coupled with component price erosion.

[Telecommunications Equipment Group]

Net sales in this segment amounted to ¥45.8 billion, while an operating loss of ¥6.4 billion was recorded. Both net sales and operating profit decreased as compared with the previous first quarter.

Sales in the mobile phone handset business declined due to stagnant sales of existing product models and progressing structural reforms at KWC aimed at improvement of profitability, as announced in May this year. Sales in the Japanese market increased, however, thanks to contributions from new product models.

In its PHS-related business, Kyocera posted increased sales of PHS handsets to WILLCOM, Inc., which has already introduced new services such as fixed voice charges in Japan. Despite this, sales of PHS handsets and base stations for the Chinese market decreased materially due to continued capital investment restrictions placed on PHS carrier companies.

[Information Equipment Group]

Net sales and operating profit in this segment amounted to ¥57.9 billion and ¥7.7 billion, respectively.

Kyocera enjoyed growth in sales of page printers and digital multifunctional products in Europe, resulting in higher segment sales compared with the previous first quarter.

Operating profit declined, however, due to the impact of product price cuts caused by intensifying competition and increasing development costs for new products, notably for color multifunctional products and printers scheduled for release in the second half of the fiscal year.

[Optical Equipment Group]

Net sales in this segment decreased compared with the previous first quarter to ¥4.4 billion due to significant downsizing of the camera business from the previous fiscal year. Kyocera also recorded an operating loss of ¥1.8 yen, however, this was still a ¥ 0.3 billion improvement compared with the previous first quarter due to the positive effect of structural reform.

[Others]

Net sales and operating profit in this segment amounted to ¥28.2 billion and ¥1.3 billion, respectively.

Kyocera Communication Systems Co., Ltd. posted solid growth in its telecommunications engineering business. In addition, sales from a subsidiary newly consolidated with Kyocera Group in the previous fiscal year were included from the start of this fiscal period. Consequently, sales in this segment increased.

Operating profit in this segment decreased compared with the previous first quarter due mainly to a decline in sales at Kyocera Chemical Corporation.

Total operating profit in the first quarter amounted to ¥15.4 billion, a decrease of 54.5% compared with the previous first quarter. Kyocera does not announce quarterly financial forecasts, but this result is down slightly from estimates given at the start of the fiscal period. The reasons for this is summarized in the following three points.

First, operating loss at KWC has increased. The increased loss was attributable mainly to the fact that we concentrated our marketing efforts on existing products models in the first quarter and to selling price erosion. From July, KWC has been launching new models by using original design manufacturers as well as new models developed by Kyocera Group. KWC plans to introduce six new models in the second quarter alone, which will contribute to increased total sales.

KWC plans to transfer its entire handset manufacturing operation to Flextronics International Ltd. by September this year, as a result of which we expect another operating loss at KWC in the second quarter. From the third quarter onward, however, we project a turnaround to profit, and seek to break even on a full-year basis.

Second, a weak recovery in component demand for digital consumer products has meant that component prices have fallen further than anticipated. Consequently, sales of electronic components and connectors at the parent company declined. Meanwhile, a downturn in the digital camera market has driven profit from crystal related components down below expectations. Nevertheless, we expect production to increase at major mobile phone handset manufacturers from the second quarter onward. We therefore project an increase in demand for our components in accord with such increase.

Third, PHS related business has slumped in China. Stagnation in the Chinese market, which began in last summer, has persisted longer than expected. Despite this, orders in the first quarter surpassed initial targets. We anticipate that sales will increase from the second quarter. In addition, evaluation loss of materials for PHS related products also played a part in the decline in profit in the first quarter.

That concludes my explanation of financial results for the first quarter.

<Full-Year Financial Forecasts for the Year Ending March 31, 2006 >

Finally, I will touch on the full-year consolidated financial forecast. Please turn to page 12 of the handout.

As you can see here, we have revised the assumed exchange rates for the year ending March 31, 2006. We forecast the yen to appreciate 2 yen against the U.S. dollar to 106 yen, and to appreciate 6 yen against the Euro to 129 yen, compared with the previous fiscal year. Based on these assumptions, we expect consolidated net sales to be pushed down by approximately ¥16.4 billion and income before income taxes to be pushed down by approximately ¥6.0 billion after translation into yen compared with the previous fiscal year.

However, the impact of these revisions to the assumed exchange rates will not be substantial. Accordingly, there is no change to the full-year forecasts for sales and profits announced previously.

The electronic equipment market recovered slightly in the first quarter. We expect an increase in production activity for digital consumer products such as digital home appliances from the second quarter, and full-scale production is expected from the second half of the fiscal year and onward. In line with this, we forecast a full-scale recovery in component demand from the second half. We also forecast only moderate declines in component prices.

In full consideration of this market outlook, Kyocera will promote a strategy of “high-value-added diversification” as a means to boosting profitability across the group.

In the components business, we will strive to raise productivity to even higher levels. To achieve this goal, we will make the most of production reforms to create an ultra-streamlined system with an internal integrated production line in Japan.

We will also continue to conduct aggressive investment to expand production capacity and launch new businesses. Specifically, we will further expand the solar energy business to cater to growing worldwide demand through a global quadripartite production framework in Japan, China, Mexico and the Czech Republic. In addition to striving to expand sales of ceramic packages and organic packages for mobile phone handsets, digital cameras and flat-screen TVs, we will pursue the mass-production of organic packages for the next-generation microprocessors used in digital consumer products by making the most effective use of the new factory we have built in Ayabe City, Kyoto.

In the equipment business, we will complete structural reforms at KWC, and we expect revenue from KWC to contribute to profits from the second half of the fiscal year. We will also aim to expand profits by introducing new mobile phone handsets and PHS handsets in the second half.

Through these initiatives, we intend to achieve our full-year forecast for the fiscal period ending March 31, 2006.

Executive Officer and General Manager of Financial and Accounting Corporate 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 17 of the consolidated financial results handout.

Net sales, the first line item, decreased by 9.6% to ¥265.1 billion compared with the previous first quarter.

Moving down to the fourth line item, you can see that selling, general and administrative expenses (SG&A expenses) increased by ¥6.2 billion over the previous first quarter to ¥59.1 billion. The main reasons for this increase were an increase in personnel costs due to the presence of a domestic subsidiary newly consolidated with Kyocera Group, R&D expenses and higher software related costs.

As a result, profit from operations for the first quarter amounted to ¥14.3 billion, with a profit ratio of 5.4%. This result was down ¥20.5 billion, or 58.9%, compared with the previous first quarter.

Next, let’s look at other income and expenses. Interest and dividend income totaled ¥3.2 billion, up ¥1.1 billion compared with the previous first quarter. This was due primarily to an increase in dividends from KDDI.

Skipping one line item, you can see that we recorded a foreign currency transaction loss of ¥0.5 billion. The rise of the yen against the euro was the principal factor in the change from a gain in the previous first quarter to a loss in the current first quarter.

In the next line item, equity in earnings of affiliates and unconsolidated subsidiaries recorded a gain of ¥0.5 billion, up ¥0.3 billion from the previous first quarter.

Total other income amounted to ¥2.9 billion, down ¥0.4 billion compared with the previous first quarter.

As a result, income before income taxes totaled ¥17.2 billion, with a profit ratio of 6.5%, down by 54.8% compared with the previous first quarter, as was mentioned at the start of President Kawamura's presentation.

If we subtract income taxes in the amount of ¥8.0 billion and minority interests (the next line item) in the amount of ¥0.6 billion from income before income taxes, we are left with net income for the first quarter of ¥8.6 billion. This result was down 60.9% compared with the previous first quarter. The profit ratio was 3.2%.

The income tax rate for the first quarter was 7.0% higher than the previous first quarter. This was due mainly to that a U.S. subsidiary, currently showing a loss, did not recognized deferred tax assets.

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 15 of the handout.

<Consolidated Balance Sheets>

First, let's look at assets. The figures in the left column are those as of the end of the current first quarter, the figures in the middle column are those as of the end of the previous fiscal year and the figures in the right column are those as of the end of the previous first quarter. I will explain by making comparisons with previous fiscal year-end figures.

Consolidated total assets, shown at the bottom, amounted to ¥1,741.9 billion as of the end of the current first quarter, down ¥3.6 billion from ¥1,745.5 billion as of the end of fiscal 2004.

Cash and cash equivalents, the first line item under current assets, decreased by ¥16.9 billion to ¥293.7 billion. This was due mainly to dividend payments and other cash payments such as additional taxes, and purchase of certificates of deposit by Kyocera Corporation.

Short-term investments increased by ¥33.4 billion to ¥68.4 billion. This was due primarily to the purchase of certificates of deposit by Kyocera Corporation just mentioned.

Skipping one line item, trade accounts receivable decreased by ¥15.7 billion to ¥185.6 billion in accord with lower sales.

Skipping two line items, inventories amounted to ¥207.5 billion, down ¥5.9 billion compared with the end of fiscal 2004. The primary factors responsible for this decrease were a reduction in raw material inventory related to telecommunications equipment at Kyocera Corporation and the sale of inventory in line with the sale of KWC's production operations.

Next, let's look at non-current assets. Total investments and advances, the item a little below the middle, decreased by ¥8.0 billion to ¥453.0 billion.

The main reason for this decrease was a decrease of ¥10.3 billion in securities and other investments, two lines below, caused by the decline in market value of KDDI shares held by Kyocera.Skipping one line item, property, plant and equipment, net of depreciation, increased by ¥12.0 billion. Main reasons for this increase were capital expenditures to increase production capacity of solar energy products at Kyocera Corporation and to construct the new plant at Ayabe at Kyocera SLC Technologies Corporation.

Consolidated capital expenditures for the first quarter totaled ¥27.0 billion and depreciation totaled ¥13.1 billion. That concludes my presentation of assets.

Let's move to page 16 and I will explain total liabilities, minority interests and stockholders' equity.

Total liabilities decreased by ¥1.1 billion compared with the end of fiscal 2004 to ¥509.1 billion.

Minority interests in subsidiaries, one line item below, which consist primarily of minority interests in AVX held by investors other than Kyocera Corporation, increased by ¥0.6 billion to ¥61.1 billion.

Total stockholders' equity, two lines from the bottom, decreased by ¥3.1 billion to ¥1,171.8 billion. I will explain the reason for this later.

Current liabilities, the first line item, increased by ¥3.5 billion to ¥347.8 billion.

Skipping three line items, other notes and accounts payable increased by ¥11.4 billion to ¥46.1 billion. This was due to new capital expenditures for property, plant and equipment, as I explained in my discussion of assets.

Skipping one line item, accrued income taxes decreased by ¥19.3 billion to ¥11.8 billion due to tax payments for income in the previous fiscal year.

Non-current liabilities, again skipping one line item, decreased by ¥4.6 billion compared with the end of fiscal 2004 to ¥161.3 billion.

Total stockholders' equity decreased by ¥3.1 billion to ¥1,171.8 billion.

Retained earnings decreased by ¥0.8 billion to ¥915.9 billion after deducting cash dividends in the amount of ¥9.4 billion paid in the first quarter from net income for the first quarter in the amount of ¥8.6 billion.

Accumulated other comprehensive income decreased by ¥2.3 billion to ¥9.5 billion. The breakdown of such decrease is as shown in the footnotes. Net unrealized gains on securities recorded a loss in the amount of ¥5.4 billion due to the decline in KDDI share prices.

As a result, the equity capital ratio was 67.3%, which was unchanged from the end of fiscal 2004.