

## Kyocera Corporation Investor Meeting (August 4, 2005)

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Slide 13 / Executive Officer, Mobile Communication Equipment Div., Yasuyuki Yamamoto

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### President and COO, Makoto Kawamura

#### **<Slide 1: Forward-Looking Statements>**

Please take note of the explanation regarding forward-looking statements on this slide in connection with the information to be presented today.

#### **<Slide 2: Consolidated Financial Highlights – Three Months Ended June 30, 2005>**

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 was high. Furthermore, component prices have fallen, in typical examples such as general passive components, approximately 15% as compared with the previous first quarter, which made severe market environment.

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

Free cash flow for the first quarter was a negative amount of ¥14.7 billion (-¥14.7 billion). While net income leveled out at ¥8.6 billion, capital expenditures in the first quarter amounted to ¥27.0 billion, a major portion of which was spent on proactive business investment, especially in the organic package and solar energy businesses, and the year-end dividend paid out in the first quarter amounted to ¥9.5 billion due to an increase of 20 yen per share compared with the previous year-end dividend.

R&D expenses amounted to ¥14.5 billion, up 4.2% compared with the three months ended June 30, 2004 (the previous first quarter). Development costs for color products in the Information Equipment Group were the main cause of such increase.

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.

**<Slide 3: Market Environment and Management Developments – Three Months Ended June 30, 2005>**

Key management developments for the first quarter are summarized in the following three points. First, sales and profit growth in the Applied Ceramic Products Group exceeded targets set at the start of the fiscal year due mainly to the strong performance of the solar energy business.

Second, Kyocera Wireless Corp. (KWC), a U.S. subsidiary, is now undergoing structural reforms and handset production has been contracted to an outside entity.

Third, in June 2005, Kyocera implemented a new executive officer system to enhance Kyocera Group's management structure under a global consolidation system, and accordingly, appointed Yasuo Nishiguchi as CEO, Masahiro Umemura as CFO and myself as COO. At the same time, Kyocera also introduced a new corporate business group system, and the executive officers leading each such business group will be responsible for each product line on a consolidated global basis.

**<Slide 4: Business Situation in 1Q FY3/'06>**

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 increase 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.

We are confident that these three factors to be improved in the second quarter and after.

**<Slide 5: Consolidated Sales by Operating Segment – Three Months Ended June 30, 2005>**

This slide shows sales by operating segment for the first quarter.

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.

Sales of the components business decreased compared with the previous first quarter despite an increase in sales of the Applied Ceramic Products Group.

In the equipment business, the Information Equipment Group posted higher sales compared with the previous first quarter due to sales growth in Europe and the United States. The Telecommunications Equipment Group registered a decline in sales, however, and sales of the Optical Equipment Group also decreased due to substantial downsizing of the camera business as part of structural reform efforts.

As a growth at Kyocera Communications Systems Co., Ltd., sales in Others increased compared with the previous first quarter.

**<Slide 6: Consolidated Operating Profit by Operating Segment – Three Months Ended June 30, 2005>**

Declining revenue and component price erosion led to a decrease in operating profit of the components business excluding the Applied Ceramic Products Group in the first quarter.

In the equipment business, operating profit declined in the Telecommunications Equipment Group due mainly to declining revenues from KWC and PHS-related products for overseas markets. Profit also declined in the Information Equipment Group due to the negative impact of product price cuts coupled with rising development costs for color MFPs and printers that are scheduled for release in the second half of the fiscal year. The positive effects of structural reforms to downsize the camera business in the Optical Equipment Group are beginning to emerge, however, resulting in a decline in losses from this Group.

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

**<Slide 7: Consolidated Financial Forecast>**

We have not changed our full-year forecast of net sales and profits which was released in April 2005 except for diluted EPS and assumed exchange rates.

We forecast full-year consolidated net sales in the amount of ¥1,240.0 billion for fiscal 2006, up 5.0%. We also forecast consolidated profit from operations in the amount of ¥124.0 billion, up 22.8%, consolidated income before income taxes in the amount of ¥135.0 billion, up 25.5%, and consolidated net income of ¥81.0 billion, up 76.4%, compared with fiscal 2005.

**<Slide 8: Consolidated Financial Forecast Assumptions – Year Ending March 31, 2006>**

Regarding shipment volume forecast for key electronics equipment and general electronic components prices, we have not changed our forecast which we announced at the start of the current fiscal year (Fiscal 2006).

Taking into consideration the exchange rates in the first quarter, we have revised our assumed exchange rates for the second quarter onward. Accordingly, our assumed full-year exchange rates are 106 yen to the U.S. dollar and 129 yen to the euro.

Based on these assumptions, we expect consolidated net sales to be adversely affected by approximately ¥16.4 billion and income before income taxes to be adversely affected by approximately ¥6.0 billion after translation into yen compared with the previous fiscal year.

**<Slide 9: Key Electronic Shipment Volume and Component Price Forecast>**

As you can see on this slide, we expect steady growth in shipment volume of key electronic

equipment in calendar year 2005 compared with 2004.

Meanwhile, component prices are forecast to decline by 10-15% for fiscal 2006 compared with fiscal 2005. We expect only moderate price declines from the second quarter as a result of expanding component demand.

#### **<Slide 10: Consolidated Financial Forecast by Operating Segment>**

This slide shows full-year forecasts for net sales, in the upper half, and pre-tax income, in the lower half, for each operating segment. There is no change from the forecasts given at the start of the fiscal year.

We forecast an increase of ¥59.3 billion in net sales for the entire Kyocera Group compared with the previous fiscal year. Of this amount, we project sales from the components business to increase by ¥37.4 billion and sales from the equipment business to increase by ¥7.2 billion. We expect the sales from the Applied Ceramic Products Group in the components business and the Telecommunications Equipment Group in the equipment business will substantially increase, respectively.

At the bottom of this slide, you can see that we forecast an increase of ¥27.5 billion in pre-tax income for the entire Kyocera Group compared with the previous fiscal year. Despite a projected loss of ¥500 million in pre-tax income in the components business, we anticipate a significant increase of ¥29.1 billion in pre-tax income in the equipment business. In particular, we forecast significant improvement in profits in the Telecommunications Equipment Group and Optical Equipment Group, both of which recorded material losses in the previous fiscal year.

#### **<Slide 11: Kyocera Group Management Strategies>**

Finally, I will touch on my future management policy to realize the Kyocera Group's goal of becoming "a creative company that continues to grow in the 21st century."

First, we will pursue increased customer satisfaction. A fundamental element of our business is to anticipate customer needs swiftly and reflect them in product development. We will also work to comprehensively improve quality, price, delivery and service, which are basic elements of the business.

Second, we will promote globalization. Kyocera's basic stance towards business development is to conduct business in areas where there is demand. We will further advance globalization in development, production and sales with a view to future growth of markets.

Third, we will strive to be a highly profitable enterprise. In order to increase profits for shareholders and all other stakeholders, as well as to contribute to the development of society, we believe Kyocera Group must continue to generate high levels of profit. We will keep working to do

this.

Fourth, we will develop and maintain our corporate culture. Our corporate philosophy forms a key part of our corporate culture. By developing and sharing such corporate philosophy throughout Kyocera Group, we can stimulate corporate growth. We will strive to maintain the unbroken tradition of our corporate philosophy by passing it down to all members of Kyocera Group.

We will conduct our management based on these four strategies, with the objective of achieving ¥1,240.0 billion in consolidated net sales, ¥135.0 billion in consolidated pre-tax income and a pre-tax income ratio of 10.9% for the current fiscal year.

**<Slide 12: Management Challenges for FY3/'06>**

Following speakers are going to explain our two major management challenges to achieve our fiscal forecast.

Executive Officer, Mobile Telecommunications Equipment Business Div., Yasuyuki Yamamoto

**<Slide 13: Boost Profitability of Telecommunications Equipment Group>**

I am Yasuyuki Yamamoto of the mobile telecommunications equipment business division. First, I would like to express my sincerest gratitude for the support you have given us. The topic of my presentation is boosting improvement of profitability of the Telecommunications Equipment Group in the fiscal year ending March 31, 2006.

Operating profit for the full-year is forecast at to be ¥7.0 billion.

As we posted recorded a first quarter operating loss in the amount of ¥6.4 billion, we must make a major improvement from the second quarter onward in order to achieve our full-year target.

To realize greater profitability, we will promote various initiatives at KWC, and in the business of domestic mobile communications equipment and PHS related products, as you can see on this slide.

Today, I will focus on efforts to raise profitability at KWC.

**<Slide 14: Enhance Profitability of KWC (1)>**

KWC faces two major challenges. The first is to conduct basic cost structure reform, including the reduction of fixed costs, especially personnel costs, to lower the break-even point. The second challenge is to expand sales through constant and timely new product launches.

KWC has established a new business structure to overcome these challenges.

**<Slide 15: Enhance Profitability of KWC (2) – Establish New Business Structure>**

I will now give details of KWC's new business structure.

KWC boasts records annual handset sales of over 10 million units of handsets, predominantly mainly in the North American market. It is necessary to launch a variety of new products in a constant and timely fashion in order to boost sales. Strengthening development capabilities is absolutely essential for this purpose. KWC We are is in the midst of creating a new group development structure organization within the group to increase the speed and efficiency of development.

First, KWI, a subsidiary in India, has been given the overall responsibility for software development for handsets. Meanwhile, KTRC, an R&D base in the United States, will handle undertake the development of key devices and core technologies. Based on this, KWC and Kyocera will develop and commercialize next-generation models.

Leveraging off these next-generation models, KWI, Flextronics International Ltd. and Asian ODMs will develop and commercialize familiar popular models with enhanced cost competitiveness.

KWC plans to transfer its entire handset manufacturing operations to Flextronics by September this year, a move as a result of which we will culminate in a significant achieve reduction in costs.

#### **<Slide 16: Enhance Profitability of KWC (3) – Restructuring KWC by Shifting to Asia>**

Going forward, KWC will shift manufacturing and development operations as well as its supply chain to Asia. This will help reduce manufacturing and development costs, while facilitating the timely market release launching of new products.

#### **<Slide 17: Enhance Profitability of KWC (4) – Lower Break-Even Point>**

The upper part of this slide graphs the break-even point based on handset volume. The lower part of the this slide shows the schedule relating to the production shift. Based on a March 2005 standard of 100, which was after production was shifted from San Diego to Mexico, we anticipate successfully lowering managed to lower the break-even point by almost 20% by at the end of the first half of fiscal 2006,. With when the plans to completion of the production shift to Flextronics during the fiscals expected.1 year, we Through further cost structure reforms, we project that the break-even point will become even lower by the end of fiscal 2006. Through further cost structure reforms, our immediate aim target is to lower the break-even point by more than 30% compared with the end of March 2005.

Apart from the reduction in production costs due to the production shift, we will continue striving to convert make fixed costs into variable costs. Specifically, we will reduce headcount in San Diego before the end of September 2005 by over 40% from the 2,500 employees as of the end of September 2004. We will look into other means to further reduce such number costs alsin the future.

**<Slide 18: Enhance Profitability of KWC (5) – Strengthen Development Capability>**

KWI has been given full control of mobile handset software development for Kyocera Group. Accordingly as such, KWI will work to bolster its development system to realize a constant stream of new products that meet customer needs. Since its inception incorporation, KWI has been conducting aggressive recruiting activities. The number of employees had risen had increased to over 300 by June this year.

Kyocera plans to channel make further investments in into this company strategic areas which need bolstering, especially to strengthen its software development capabilities.

**<Slide 19: Enhance Profitability of KWC (6) – Product Roadmap>**

Through the creation of a new business structure, including the enhancement of the its development system, KWC will be able to introduce many new products to the market from July this year, as you can see on this slide. The company KWC plans to release new models in line with toward the Christmas season, ranging from low-end to high-end models.

**<Slide 20: Enhance Profitability of KWC (7) – Aggressively Launch New Products>**

Two distinct patterns will be employed as product release strategies. First, we will minimize development costs and increase profits for by creating model series within existing products series. Second, we will improve our the product mix by launching new products in a timely manner. We will work in order to support our maintain an average selling price (ASP) and ensure secure profits. KWC did not release any new products during the first quarter, but plans to expand the proportion of new product sales to 35% in the second quarter, as shown here, in accord with the business structure and roadmap mentioned earlier. By the fourth quarter, KWC aims to increase this figure to more than 80%.

**<Slide 21: Enhance Profitability of KWC (8) – Expand Sales by Launching New Products>**

KWC aims to increase quarterly shipment volume, as you can see in this graph, by aggressively expanding its lineup and introducing new products to the market. Based on a first quarter standard of 100, the company it will seek to boost increase shipment volume by 34% in the second quarter, and by more than double in the third quarter due to the Christmas selling season. KWC expects demand to drop off in the fourth quarter as often happens due to the colder weather due to her seasonal effects, however, with shipment volume in this period the fourth quarter is forecast to be roughly on par the same as that of the with second quarter levels. The positive effects of cost structure reforms will ensure that the company KWC posts a profit even in the fourth quarter.

Through the aforementioned initiatives, we are confident that we can quickly boost improve

profitability at KWC. We will continue to promote reforms from the second half onward to create a structure that maximizes profit-making potential can create profit constantly.

**<Slide 22: Boost Profitability of Telecommunications Equipment Group>**

Let's look at the domestic mobile handset business. A key challenge in Japan is to increase the market share at KDDI Group through the timely introduction of new products. The specific target is 20% market share. We will partially utilize ODMs as we enhance expand our product range.

Finally, let's look at PHS related products. We seek to cultivate markets in Australia and South Africa where iBurst™ services isare underway. In Japan, we are gradually boosting new subscriptions on the back of supported by the flat-rate voice plans introduced by Willcom Inc. Shipments of Kyocera's browser phones are also showing strong growth. In the second half, we will release new products compatible with high-speed data transmission services to expand business. General Manager Jinno will explain the strategy of the PHS related business later.

Executive Officer, Electronic Components Business Div., Osamu Nomoto, Manageing

**<Slide 23: Improve Profit Margins of Electronic Device Group>**

Kyocera Group management shares the principle of "maximizing sales and minimizing expenses." This is an extremely simple concept, holding that the basis of management is to expand sales and contain costs in order to generate the highest possible profits.

In the Electronic Device Group, we will strive to enhance our product lineup and increase market share as means to maximizing sales. We will also work to cultivate new markets in furtherance of this goal.

Specifically, in order to expand our product lineup, we will launch high-value-added capacitors and crystal-related components. Further, we will promote development of new products, such as miniature, high capacity capacitors.

In terms of cultivating new markets, we will work to increase our customer base in the high-growth-potential Asian market. For this purpose, we will expand the application of high frequency modules, thermal printheads and capacitors.

To minimize expenses we will boost productivity. We will expand production at our bases in China, especially of key components such as ceramic capacitors and LEDs.

We will continue our ongoing efforts to develop new production systems with 100% yield ratios for capacitors, crystal-related components and other items, and will further improve profit margins in this way.

Price erosion with respect to existing components was even more pronounced than expected in the

first quarter, leading to declining sales and, therefore, profits. A key challenge is to create a business structure whereby sales gains from new products can compensate for component price erosion.

Now I will present some thoughts on new product development and the future direction of key passive components, namely multi-layer ceramic capacitors (MLCCs), crystal related components and modules.

#### **<Slide 24: Trends in Digital Electronic Equipment and Development of MLCCs>**

First, let's look at Kyocera capacitors.

This slide shows future direction of digital electronic equipment and the properties required in MLCCs for these products. The vertical axis represents data processing speed while the horizontal axis represents device mobility. Lower voltage coupled with higher current and frequency help to increase data processing speed. We are pressing ahead with the commercialization of high-capacitance and low-inductance capacitors required for these circuits.

Need is also growing for enhanced device mobility through wireless capability and miniaturization for all types of equipment.

Kyocera seeks to develop ultra-small capacitors to meet these needs.

Core technologies required therefore include those needed to increase the number of layers, reduce thickness, enhance precision and increase laminating speed. In addition to striving to advance these technologies to realize greater capacitance and miniaturization, we will expand production through new production methods aimed at boosting productivity. These moves are expected to drive an increase in production volume and, concomitantly, profitability.

#### **<Slide 25: New MLCCs Order Forecast for FY3/06>**

This slide depicts the quarterly order forecast for new products released in the past two years by the ceramic capacitor business of the parent company. Figures are based on a standard of 100 for the first quarter results of the current fiscal year. Due to the introduction of new products from the second quarter onward, orders are projected to almost double in the fourth quarter. We are aiming for new product orders to comprise around 20% of the total in terms of value over the full year.

#### **<Slide 26: Roadmap for Key Crystal Related Components>**

This slide shows our roadmap for key crystal-related components. The upper section comprises products that we are currently mass producing, while the bottom two lines portray our roadmap for new products.

TCXOs for mobile phone handsets in the upper section are shown in yellow, while the roadmap for consumer-use crystal units is shown in white.

In terms of TCXOs for mobile phone handsets, we are working to expand sales of 3.2x2.5mm products for the GPS market. We are also striving to reduce the size of TCXOs for this market, and plan to release a 2.5x2.0mm TCXO this fiscal year.

We are also working to reduce the size of consumer-use crystal units, shown in white, and intend to launch even smaller products this fiscal year, including a 2.0x1.6mm version. By doing so, we expect to increase sales of these items.

We will launch new products this year, such as SAW devices for terrestrial digital mobile broadcasting and ultra high frequency devices – incorporating piezoelectric thin-film technology – for use in digital mobile equipment with wireless LAN capability, and expand the business.

### **<Slide 27: Roadmap for High Frequency Modules>**

This slide shows the roadmap for Kyocera's modules. The upper section depicts future trends for mobile equipment, the middle section illustrates the development of Kyocera products, and the bottom section shows module structure trends.

In the module business, we will focus on the high frequency module field, especially products with mobile applications. At present, key advancements in mobile equipment are being made in mobile phone handsets, PDAs and game consoles in particular, the functions of which are becoming increasingly sophisticated. Kyocera aims to aggressively develop its line of modules for the mobile phone handsets market.

As one example, we introduced an ultra small Bluetooth module as shown in the middle section. This move propelled greater market share. We expect to see significant business growth in the second half of this fiscal year derived from orders for Bluetooth modules from large mobile phone handset manufacturers.

In the future, not only Bluetooth, but other functions such as WLAN (wireless LAN), HDD and GPS will be added to mobile phone handsets. We will promote product development to meet these needs.

In addition to the technologies for the ceramic materials themselves, Kyocera possesses a variety of elemental technologies for the development of electronic components, substrate materials and the modules, such as connectors, that use these materials. We are not only engaged in the component business, but are also a manufacturer of mobile handsets. Accordingly, we can quickly grasp user needs and reflect them in our components, enabling us to release new products to the market in a timely fashion.

That concludes my presentation of Electronic Device Group developments. Going forward, we will continue to pursue group synergies with AVX by promoting cooperation in development, production and sales.

Chairman and CEO, Yasuo Nishiguchi

**<Slide 28: Kyocera Group Mid to Long-term Strategy>**

As I have mentioned on numerous other occasions in conferences of this type, Kyocera Group aims to be a “creative company that continues to grow in the 21st century.”

Our objective is to maintain a high level of profitability in a number of core businesses in order to generate stable and sustainable growth for Kyocera Group despite changes in the business environment. Based on this idea, we have set a target of a pre-tax income ratio of over 15% in our various businesses areas. I have already discussed this matter elsewhere as well.

Unfortunately, Kyocera Group’s business has not attained this goal of stable, continued growth. Profitability varies from business to business, as they are very susceptible market conditions. Accordingly, under the new management system implemented in June 2005, we will strive to realize the Kyocera Group goal of "high-value-added diversification" as far as possible and within the shortest possible time period.

**<Slide 29: New Management System>**

Commencing in June this year, Kyocera Group has introduced the offices of CEO, CFO and COO . As CEO, my role is to formulate and execute mid- and long-term management policy and strategy for Kyocera Group.

Masahiro Umemura, Kyocera’s CFO, is responsible for designing and executing a financial strategy for Kyocera Group that ensures the effective implementation of these management strategies. Makoto Kawamura, Kyocera COO, is in charge of business execution to achieve the yearly management plans of Kyocera Group. My goal as CEO is to realize diversification in our valuable businesses by executing strategies in cooperation with the CFO, the COO and the top managers of our various businesses.

I will explain the current status of Kyocera Group’s business portfolio, with reference to management strategies to improve the value of each business.

**<Slide 30: Kyocera Group Business Portfolio (1)>**

This slide depicts the strategic businesses that are believed to support the future development of Kyocera Group. The vertical axis shows mid-term market growth, while the horizontal axis shows global market share of Kyocera Group. The market growth ratio of 2% is taken from the average of the real and forecast Japanese GDP in real terms from 2004 to 2006. Businesses that generate less than 2% growth are deemed low growth, while those that exceed 5% are deemed high growth.

The horizontal axis of global market share is divided into three sectors. Businesses in the “High”

sector represent those in the top three in worldwide market share; those delineated as “Mid” are placed between fourth and sixth; and those delineated as “Low” are placed seventh or below, or are new businesses.

Based on these criteria, we have mapped Kyocera Group's current major businesses, as shown on this slide.

As you can see, Kyocera Group's strategic businesses all fall into under the categories of businesses with growth ratios greater than 2% growth. These businesses represent approximately 80% of Kyocera Group sales.

With respect to businesses that fall into the “Low” category, we may withdraw from these businesses as we did from the camera business. Going forward, we will execute a policy of selection and concentration for businesses such as these.

Next, I will explain Kyocera Group's future business strategies in each of these sectors.

#### **<Slide 31: Kyocera Group Business Portfolio (2)>**

First, I will discuss the strategy for businesses that generate high growth and high global market share, appearing in the top right column.

Businesses in this sector include fine ceramic parts, ceramic packages, solar cells and modules, PHS-related products and components for optical communications.

The basic strategy for these businesses is to maintain high market share and pursue further improvement of profitability. To achieve these goals, we will conduct aggressive investment in R&D aimed at enhancing technological expertise and product appeal.

Later, Junichi Jinno will give a specific example of a PHS-related product in this sector.

#### **<Slide 32: Kyocera Group Business Portfolio (3)>**

Next, let's look at businesses with high global market share but with growth ratios lower than 5%.

Businesses in this sector include crystal products and thermal printheads.

In the businesses in this sector, we will make investment to maintain and improve profitability and focus on investment efficiency in operating our businesses.

#### **<Slide 33: Thermal Printheads Business Strategy>**

I will focus on the thermal printheads business as an example. Sales of thermal printheads for the fiscal year ended March 31, 2005 amounted to approximately ¥20.0 billion. This is a very large sales volume for a single component business. Furthermore, Kyocera has commanded top market share in this area for over 20 years.

We now seek to improve the profit ratio of this business by promoting a shift in production activity,

in particular to China.

To improve production yield rates, we will strive to improve productivity by utilizing our production technology development center.

Previously, thermal printheads were mainly used in thermal facsimile machines. Now, they have a variety of applications, including bar-code printers, card printers and digital photo printers. By developing new markets ahead of competitors, we have secured new sources of profit.

Moving ahead, we aim to expand the application of existing products belonging in this sector to maintain stable profits with little investment. By doing so, we can maximize investment efficiency.

#### <Slide 34: Kyocera Group Business Portfolio (4)>

Next, I will explain the businesses that show high growth with medium market share. Kyocera businesses belonging to this sector include high-pixel camera modules, the business of which was established last year, automotive components and CDMA handsets.

In this sector, we will aggressively promote business expansion aimed at becoming a market leader. We will also work to boost market share while focusing on profitability.

#### <Slide 35: Automotive Components Business Strategy>

Let's look at automotive components as an example of a business in this sector.

Recognizing the automotive market to be a future high-growth market, we established an automotive components project team a few years ago. We have long been providing this market with individual products such as ceramic engine products and ceramic heaters, etc. Now, we have gathered technological resources from across Kyocera Group and have integrated the technological expertise and competitive advantages gained from a wide variety of materials, components, devices and equipment. This has enabled us to comprehensively drive our automotive components business expansion.

In addition, we will focus on increasing profitability through the development of high-value-added products. In particular, we are seeking to expand sales of products that solve the environmental challenges of automobiles, which is key to the cultivation of new markets, taking advantage of the ceramic technologies in which Kyocera has expertise.

Specifically, we will concentrate on the market for diesel vehicles, which is currently growing steadily in Europe. We are striving to expand products such as piezo actuators for diesel engines that make high-pressure fuel injection possible, while precisely controlling fuel delivery. This helps to reduce harmful substances in diesel engine emissions. We are also promoting sales of small, low-power-consumption ceramic glow plugs that can effectively reduce the emission of white smoke when starting a diesel engine.

Amid global concern regarding environmental issues, we expect the popularity of diesel engines to increase even in countries where they are not commonly used. As a result, we are projecting high sales growth in this area in the future.

To increase market share, we will focus on the Chinese market as one of strategic importance. To this end, we are pushing forward with the creation of production and sales bases there.

**<Slide 36: Kyocera Group Business Portfolio (5)>**

Now I will discuss the strategy for new businesses and businesses with low market share but with high growth potential.

This sector includes organic packages, color MFPs and printers, medical and dental implants, organic EL displays and fuel cells.

For these businesses, we are placing first priority on gaining market share and investing heavily to achieve this, sometimes using external management resources.

Furthermore, we will tolerate declining profitability over the short-term and work hard to expand market share to capture these markets.

Later, Mr. Kouji Mae from Kyocera SLC Technologies Corporation will explain the strategy for the organic package business as an example of the businesses in this sector.

**<Slide 37: Kyocera Group Business Portfolio (6)>**

The final sector shows businesses with less than 5% annual growth and that do not make the top three in terms of market share.

Here, we are working to expand both market share and profitability immediately. We are currently investing in these business areas to realize higher market share.

The main products in this sector include cutting tools, connectors, ceramic capacitors, monochrome MFPs and printers, and STN LCDs for industrial use, although global market share of each product differs somewhat.

I will explain cutting tools as an example.

**<Slide 38: Cutting Tools Business Strategy>**

In the cutting tools business, we have focused on development of broad product lines using our materials technology to expand market share and boost profit ratio.

We have targeted the Asian market, and in particular China, as the key market. We are therefore working to strengthen production and sales bases there.

We have invested this fiscal year in the creation of a new integrated production line covering the production of materials within Kyocera Group, in order to enhance production capability and to

reduce costs.

For further cost reduction, we have exploited our global production network and supply chain management.

We aim to maximize synergies with Kyocera Tycom, a subsidiary engaged in manufacture of micro drills, in order to expand our business in IT-related markets.

**<Slide 39: Kyocera Group Business Portfolio (7)>**

We will implement aggressive investment in the product groups circled in red to establish new ultra-streamlined production lines aimed at raising productivity.

We plan to make investments in a total amount of ¥100.0 billion this fiscal year, mainly in these businesses.

**<Slide 40: Details of Strategic Capital Investment for FY3/06>**

The investment programs shown here are all progressing as scheduled. Through the creation of highly productive integrated production lines and ultra-streamlined production lines, we seek to enhance productivity across Kyocera Group.

This investment will push down pre-tax income by ¥6.0 billion compared with the previous fiscal year ended March 31, 2005. It is, however, projected that these investment programs will generate a pre-tax income increase of approximately ¥15.0 billion in fiscal 2008 compared with the previous fiscal year.

**<Slide 41: Kyocera Group Mid- to Long-term Strategy>**

I was newly appointed as CEO in June this year, so I am responsible for management of Kyocera Group. I strongly believe that we must achieve higher levels of growth for Kyocera Group to achieve optimum returns for our 85,000 shareholders and stakeholders.

I will conduct management from a fresh perspective and ensure that Kyocera Group continues to grow under a policy of “high-value-added diversification.” We are working vigorously to achieve a pre-tax income ratio of more than 15%.

I ask for your continued support and guidance.

That concludes my presentation. Thank you very much for your attention.

Executive Officer, Communication Systems Equipment Business Div., Junichi Jinno

**<Slide 42: Evolution of Communication Systems Equipment Business Division>**

This slide is divided into three sections. The top shows the PHS-related products business including Japanese and overseas markets, the middle shows Wireless Local Loop (WLL) and EV-DO base stations, and the bottom shows the iBurst™, with each displaying evolution over time.

This business division started out developing and supplying PHS base stations and handsets to Willcom, Inc, the former DDI Pocket. Leveraging accumulated experience gained in the PHS business in Japanese market, we successfully initiated our PHS business in China and Taiwan.

After that, we developed the WLL system, based on PHS protocols, and provided systems for WLL services such as big projects in the Philippines, the UAE, Ethiopia and Thailand (TOT).

In addition, we have been making efforts to implement practical use of the iBurst™ system to capture potential demand for wireless broadband data services.

Today, I am happy to explain developments in our PHS business in Japan and China and in our iBurst™ system business.

**<Slide 42: Initiatives in Japanese PHS Market>**

This slide shows changes in our product lineup for the Japanese market and Willcom, Inc.

In the handset section, the AH-K3001V (affectionately known as “Kyo-Pon”) continues to sell well after its release in May last year. This handset has redefined the concept of the traditional business model of mobile phone handset. We are now devoting energy towards the development of more highly sophisticated models.

In concept phones, we continue to focus on highly targeted areas. We are planning a variety of diverse models with very appealing features, including the Kid’s Phone and the Jacket Phone that incorporate features unique to PHS.

Next, let’s look at base stations. As you can see on the bottom right of this slide, we have completed the commercialization of a high performance base station with Kyocera’s Adaptive Array Antenna technology. Shipment and installation activities for this product commenced last month.

At the same time, we are pressing ahead with R&D into system architecture and elemental technology for use in next-generation PHS services.

**<Slide 44: Initiatives in Chinese PHS Market>**

Here, I will introduce Kyocera’s challenges in the PHS market in China.

First, I will explain our strategy for PHS engines in the top of the slide. A PHS engine refers to a module that integrates the functions required for terminals, such as RF circuitry, baseband circuitry and customized software programming, into one package. Kyocera has been operating its PHS

engine business for around two years now and has already achieved total shipments of 17 million units.

These engines have been receiving wide acclaim from local handset vendors for enabling the simple development of a variety of different models.

Let's turn to PHS base stations. On this slide, you can see the key models created by Kyocera. Demand for base stations has dropped off since last year and shipment volume is around 2,000 units per month on average. But because the granting of 3G licenses still seems some way off, demand has increased slightly in recent times.

Let's turn our attention to the bottom right of this slide and the introduction of packet communications. We have been striving to gain a foothold in this market for the past two years, and it now looks like our base stations will be employed in the telegraphy stations of Qingdao and Quanzhou. Once this occurs, we can expect demand to expand across mainland China at a rapid pace.

#### **<Slide 45: Strategy in Chinese PHS Market>**

This slide shows Kyocera's strategy in the Chinese PHS market.

Up until recently, this market has focused on low-priced handsets predominantly centered on voice communication. Along with the changing times, however, the popularity of SMS has started to take off. This has seen the emergence of a new culture based on information exchange via PHS handsets. In other words, the need for additional services utilizing data communication is growing quickly.

In accord with this trend, Kyocera has enhanced its lineup to include packet-capable engines, handsets, packet servers and packet-exclusive base stations. As you can see in the diagram, we are currently conducting aggressive marketing activities in these areas.

As a result, rather than competition solely based on price, we have turned our attention to a strategy of launching new high-value-added products. Through this endeavor, we will expand our share in the Chinese market and boost profitability.

#### **<Slide 46: iBurst™ equipment>**

Here, I will introduce iBurst™ systems that provide wireless broadband services.

As you can see on this slide, the iBurst™ system is cutting-edge protocol that features high data rate and high bandwidth efficiency, and is IP and VoIP network adaptable.

You can see in the middle of the slide some photos of iBurst™ base stations and user terminals and, on the right, installation situations.

**<Slide 47: iBurst™ vs Other Systems>**

This slide shows the positioning of the iBurst™ system.

The vertical axis represents communication speed and the horizontal axis represents service area coverage. As you can see, mobile phones such as 3Gs command a wide service area with one base station, but can provide low communication speed. On the other hand, despite its high transmission speed, wireless LAN can only cover a small service area, which means it hasn't been accepted as a public system.

The iBurst™ system is positioned on the border of both systems and incorporates the strengths of both systems.

**<Slide 48: Development Progress of iBurst™ >**

This slide shows the global development of the iBurst™ system.

Zones depicted in red represent countries that have decided to install the iBurst™ system. Personal Broadband Australia of Australia and Wireless Broadband Solutions in South Africa have commenced services already. Datacell in Azerbaijan and Infinit Stream in Ghana are pushing ahead with preparations for the commencement of service.

Areas shown in aqua blue, namely the UK, Ireland, Lebanon and the US, have commenced trials of the system. Bandwidth frequency was allocated in Japan in December last year for the purpose of test runs. Trials are currently underway in the Yokohama area.

Areas shown in yellow on the map represent places around the world where carriers have initiated business negotiations regarding the system. These places include some nations in Africa, Russia, India and parts of South East Asia. Major capital investment is required to set up the telecommunications infrastructure for the system in these areas, and accordingly, securing contracts will not be easy. Nonetheless, we will make the most of all such opportunities.

**<Slide 49: Development Progress of iBurst™ - PBA, WBS>**

This slide shows how iBurst™ services are going in Australia and South Africa.

PBA provides service to four main cities in Australia, starting with Sydney, and is extending its service to include the suburbs as well. Initially, the service was only offered in central urban areas, but the number of subscriptions has been increasing substantially as the service is extended to the suburbs. The number of desktop type terminals in particular is increasing, and it is clear that many users want to use wireless ADSL services.

The situation of WBS in South Africa is similar to that of PBA.

**<Slide 50: Sales forecast of Communication Systems Equipment Business>**

Finally, let's look at a summary of the communication systems equipment business. This graph plots fiscal 2005 full-year results against fiscal 2006 forecasts.

First, our domestic PHS business has been propped up by the rapid proliferation of flat-rate voice services introduced by Willcom. As a result, handset demand has been far greater than initially anticipated. Including sophisticated PHS base stations, sales are expected to increase considerably compared with the previous year.

In contrast, our PHS business in China is highly susceptible to policy changes by the central government, and, accordingly, the situation is difficult forecast. Because expectations are low for large PHS base station orders, we plan to turn our attention towards our handset business, especially pushing PHS engines. The proliferation of packet services mentioned earlier is key to the future development of this business.

Finally, let's look at the iBurst™ system business. Although it takes time to launch a new business, the number of customers is increasing, and, as a result, we are forecasting an increase in revenue compared with the previous year. The two most important challenges facing the iBurst™ business here in Japan are obtaining allocation of frequency bandwidth and getting the system actually up and running.

President of KYOCERA SLC Technologies Corporation, Kouji Mae

**<Slide 51: Trend of Market Drivers and Business Vision>**

The organic packages business up until now has focused on expanding business in the markets for servers/routers and mobile phones.

In addition to these areas, we are now aggressively working to develop products for digital entertainment equipment, especially game consoles, which form part of the ubiquitous network market that utilizes optical broadband.

Sophisticated organic flip chip packages are required in high-performance semiconductors used in this digital entertainment equipment.

I will now touch on challenges in the organic packages business.

**<Slide 52: Market Needs and Strategic Products>**

This slide shows market needs and therefore market drivers for each device and our strategic products.

The vertical axis represents high-speed data processing needs and the horizontal axis represents needs for smaller and slimmer products. In the case of digital entertainment equipment, demand is

high for large images and high-speed processing ability, while in portable AV equipment, demand is high for smaller and slimmer devices.

At the same time, there is a growing need for network equipment that can send and receive data with other equipment anywhere, anytime, heralding the start of a ubiquitous network society.

One of the key components of these devices is the sophisticated multifunctional semiconductor, and our flip chip packages, SiP substrates and micro cards are essential elements in these semiconductors.

#### **<Slide 53: Greater Sophistication in Organic Packages>**

This slide shows the increasing level of sophistication in organic packages.

The vertical axis represents via density of packages, while the horizontal axis represents line pitch.

Compared with GPUs and MPUs for PCs, organic packages for multi-pin ASICs for servers and routers requires relatively higher via density and smaller line pitch. Packages for next-generation game consoles have an even higher via density and smaller line pitch.

This means that the need for greater sophistication in flip chip packages is growing.

#### **<Slide 54: Market Strategy for Next-Generation Game Consoles>**

Next, let's look at the market strategy for next-generation game consoles.

The graph shows the market scale forecast for existing and next-generation game consoles.

Next-generation game consoles will be launched to the market from the end of this year, and we expect dynamic growth in these products to far outstrip the existing models in 2007.

Commencing with the design and testing stages, we have been developing packages for sophisticated semiconductors in cooperation with semiconductor designers, manufactures and packaging makers such as IBM.

We aim to strengthen our relationship with such companies in this growing market. We will devote our efforts to establishing mass-production of flip chip packages. This sector is set to become a driving force in the organic packages business.

#### **<Slide 55: Trends in Entertainment Equipment Market >**

This slide shows projected market trends for digital entertainment equipment in terms of unit volume.

Significant growth is expected in digital TVs, DVD recorders, STBs (set-top boxes for digital tuners etc.) and game console related products. Total unit volume will increase by 19% in 2005 as compared with the previous calendar year. We expect the growth rate to be between 20-30% annually thereafter.

Sophisticated semiconductors are used in these devices, and we confidently expect demand for flip chip packages to increase.

**<Slide 56: Production Site Strategy>**

Let's turn to the strategy for our production sites. We will concentrate on mass-production items at the new plant in Ayabe, Kyoto, which commenced operation on June 20. Meanwhile, we will focus on design, technology development, customer interface and the production of various items at existing plants in Kagoshima and Yasu.

**<Slide 57: Outline of New Plant (Ayabe)>**

This slide shows an outline of our new plant in Ayabe, Kyoto.

Total floor space is 151,600 square meters. The building has three floors, each 140m X 60m, and a total site area of 25,200 square meters.

Based on completely new ideas, the new plant makes possible a shortening of the production process. Its production line has state-of-art production and maintenance facilities.

**<Slide 58: Future of Organic Packages>**

Next, I will discuss future developments of the organic packages business.

Semiconductor chip density is expected to increase in the future. As mentioned earlier, the via density of organic packages is expected to increase, and this trend will continue in the further.

Going forward, as present package production technologies become insufficient to meet this demand, we will need to develop new, innovative technologies in order to cultivate future markets.

To achieve this goal, we will:

Identify market needs early on and propose new ideas to the market;

Ascertain market direction through close contact with many users; and

Anticipate future market trends and perfect product and production technology development as required.

**<Slide 59: High Density Semiconductor Backend Wiring>**

This slide shows the line width of existing semiconductor chips and packages.

Through KST's R&D, we are working to develop a new package that enables high-density wiring to fill the gap between the wiring rules of semiconductor chips and packages. To this end, we aim to create new technologies that boost the functionality of semiconductors with low conductivity wiring by incorporating outside layer wiring on semiconductor chips.

**<Slide 60: Targets of KYOCERA SLC Technologies Corp.>**

Finally, KST aims to make an important contribution to the progress toward the ubiquitous network society as a specialist in developing high-density organic packages and substrates.

We will also look to dramatically boost production capacity by strengthening production lines at the new plant in Ayabe and existing plants in Kagoshima and Yasu. The aim of this move is to further drive growth in Kyocera Group.

That concludes my presentation on organic package business developments.

Thank you very much for your attention.

\* iBurst<sup>TM</sup> is a trademark of ArrayComm, Inc.