

## **Kyocera Corporation Telephone Conference Call (July 27, 2006)**

P1/ President, Makoto Kawamura

P3/ Executive Officer and General Manager of Financial and Accounting Corporate Group, Shoichi Aoki

President, Makoto Kawamura

I will discuss consolidated financial results for the three months ended June 30, 2006 (the first quarter). Please turn to page 4 of the financial results handout.

### **<Consolidated Results for Q1 FY3/2007 >**

Kyocera Group posted outstanding performance in the first quarter both in sales and profits. The components business and equipment business recorded increases in sales and profits compared with the first quarter of the year ended March 31, 2006 (the previous first quarter). Consolidated net sales for the first quarter increased by 10.4% to ¥292.7 billion compared with the previous first quarter. Profit from operations stood at ¥30.6 billion, up 2.15 times compared with the previous first quarter. Income before income taxes was ¥36.9 billion, up 2.15 times, and net income was ¥20.1 billion, up 2.33 times compared with the previous first quarter.

The yen depreciated 7 yen against the U.S. dollar, to 115 yen, and 8 yen against the Euro, to 144 yen, compared with the average exchange rates in the previous first quarter.

The continued depreciation of the yen, particularly against the U.S. dollar and the Euro, meant that net sales and income before income taxes after translation into yen were pushed up by ¥10.9 billion and ¥3.6 billion, respectively.

With regard to the market environment in the first quarter, although there were production adjustments for certain mobile phone handsets, production of digital consumer products such as digital home appliances expanded and related component demand remained high. Prices for components such as electronic devices dropped around 5~10% compared with the previous first quarter. Kyocera worked to make the most of the favorable business environment in the first quarter and raised its pre-tax income ratio to over 15% in all segments of the components business by releasing new products and improving productivity. These efforts contributed to significant business expansion.

Please turn to page 5 of the financial results handout and I will explain the results by reporting segment.

Performance in the components business was strong, with all four components segments posting more than double-digit-percentage growth in sales compared with the previous first quarter.

In the Fine Ceramic Parts Group, demand for components used in semiconductor fabrication equipment increased considerably and sales of sapphire substrates for LEDs increased steadily.

In the Semiconductor Parts Group, demand for surface mount device packages for electronic components and for ceramic packages for CCD and CMOS image sensors used in digital consumer equipment was very strong.

Sales of solar systems and cutting tools in the Applied Ceramic Products Group continued to be robust, as they were in the previous fiscal period.

The Electronic Device Group recorded strong sales particularly of capacitors, crystal devices and connectors.

Sales in the Telecommunications Equipment Group grew amid solid sales of new models of mobile phone handsets and PHS handsets in Japan.

Sales in the Information Equipment Group increased, especially overseas, compared with the previous first quarter, due to aggressive sales promotion activities.

The Optical Equipment Group, on the other hand, posted a decrease in sales due to the downsizing of the camera business.

As a result, consolidated net sales increased by 10.4% compared with the previous first quarter.

In terms of profits, in addition to the positive impact of increased sales, the benefits of enhanced productivity and cost reductions emerged as a result of strengthening Amoeba Management at Kyocera Corporation. In the group companies, profits at AVX Corporation grew more than 3 times compared with the previous first quarter, thereby making a major contribution to overall profitability.

The components business achieved a significant increase in profits and recorded an operating profit ratio of 16.6%. This result marks the highest operating profit ratio to date since Kyocera started disclosing financial results on a quarterly basis in the fiscal year ended March 2004. The operating profit ratios for the four reporting segments of the components business were: Fine Ceramic Parts Group 18.4%; Semiconductor Parts Group 15.3%; Applied Ceramic Products Group 20.4%; and Electronic Device Group 15.0%.

In the equipment business, the Telecommunications Equipment Group registered an improvement in profits due to sales growth in mobile phone and PHS handsets in Japan, while efforts were made to reduce operating loss at KWC Corp. (KWC). As a result, overall loss in the Telecommunications Equipment Group was reduced by ¥3.6 billion compared with the previous first quarter.

The Optical Equipment Group reduced its operating loss by ¥1.3 billion compared with the previous first quarter.

The Information Equipment Group recorded increased profits by ¥1.0 billion compared with the

previous first quarter owing to the positive effect of higher sales and enhanced productivity coupled with the benefits of yen depreciation against the Euro and the U.S. dollar. The operating profit ratio improved to 14.4%.

As a result, consolidated operating profit was ¥33.0 billion, up 2.1 times compared with the previous first quarter.

Profit from the Corporate included an increase in dividends from KDDI Corp. and gain on sale of investment in securities. As a result, profit from the Corporate increased by ¥3.1 billion, compared with the previous first quarter, to ¥4.3 billion.

Taking into account equity in losses of affiliates and unconsolidated subsidiaries and adjustments and eliminations, consolidated income before income taxes amounted to ¥36.9 billion, up 2.1 times compared with the previous first quarter.

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

I will discuss consolidated financial forecasts for the year ending March 31, 2007, so please turn to page 10 of the financial results handout.

Performance in the first quarter progressed steadily in line with the full-year consolidated forecasts announced in April 2006. As you can see in this table, we have changed our exchange rate forecasts based on actual rates in the first quarter, although there is no change to full-year forecasts.

Kyocera projects component demand to continue to be strong in the second quarter and onward. In such a positive market environment, we aim to drive greater growth of sales and profits in the components business, especially in the organic package business. In the equipment business, we aim to expand sales and profits by boosting profitability at KWC and by launching a series of new products in the Telecommunications Equipment Group and the Information Equipment Group in a timely manner.

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 13 of the financial results handout.

Net sales in the first quarter, the first line item, amounted to ¥292.7 billion, up 10.4% compared with the previous first quarter, on the back of burgeoning components demand.

Cost of sales stood at ¥200.6 billion, an increase of 4.6% from the previous first quarter in line with the increase in sales. The cost of sales ratio improved by 3.8 percentage points from 72.3%

in the previous first quarter to 68.5%, due to an improvement in productivity.

Selling, general and administrative expenses (SG&A expenses) increased by ¥2.4 billion over the previous first quarter, to ¥61.5 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 quarter amounted to ¥30.6 billion, with a profit ratio of 10.5%. This result was an increase of ¥16.4 billion, or 114.5%, compared with ¥14.3 billion in the previous first quarter.

In other income and expenses, interest and dividend income totaled ¥4.6 billion, up ¥1.4 billion compared with the previous first quarter. This was due primarily to an increase in dividends from KDDI Corp. and in interest income in a U.S. subsidiary.

Adding gain on sale of investment securities, net, in the amount of ¥1.8 billion, total other income amounted to ¥6.3 billion, an increase of ¥3.4 billion compared with the previous first quarter.

Accordingly, income before income taxes for the first quarter totaled ¥36.9 billion and the profit ratio was 12.6%. Income before income taxes recorded a significant increase of 114.5% compared with the previous first quarter.

Subtracting income taxes in the amount of ¥15.5 billion and minority interests of ¥1.4 billion from income before income taxes, we are left with net income for the first quarter in the amount of ¥20.1 billion, marking a considerable improvement of 133.3% over the previous first quarter. The profit ratio was 6.9%.

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 11.

### <Consolidated Balance Sheets>

First, let's look at assets. The figures in the left column are those as of the end of the 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 ¥1,973.8 billion as of the end of the first quarter, up ¥42.3 billion from ¥1,931.5 billion as of the end of March 2006.

Total current assets amounted to ¥933.7 billion, an increase of ¥13.0 billion as compared with the previous fiscal year end.

Total non-current assets amounted to ¥1,040.1 billion, an increase of ¥29.3 billion as compared with the previous fiscal year end.

Let's look at current assets. Cash and cash equivalents decreased by ¥34.2 billion as compared with the previous fiscal year end, to ¥266.6 billion. This was due mainly to payments of dividends

and income taxes, and the purchase of negotiable certificates of deposit at Kyocera Corporation. Short-term investments increased by ¥42.0 billion as compared with the previous fiscal year end, to ¥129.9 billion. This was due primarily to the purchase of negotiable certificates of deposit, as I just mentioned.

Inventories amounted to ¥203.0 billion, an increase of ¥12.5 billion from the end of March 2006. The primary reasons for this were an increase in raw materials and work in process in the Telecommunications Equipment Group at Kyocera Corporation in line with an increase in production, and an increase in inventories at Kyocera Mita Group due to the introduction of new models.

Now, let's look at non-current assets. Investments and advances totaled ¥589.2 billion, an increase of ¥28.5 billion. The primary reason for this was an increase in the market value of KDDI shares held by Kyocera Corporation included in securities and other investments.

Property, plant and equipment, at cost increased by ¥0.6 billion.

Consolidated capital expenditures for the first quarter totaled ¥16.7 billion and depreciation totaled ¥14.4 billion. That concludes my explanation of assets.

Let's move on to page 12 and I will explain total liabilities, minority interests and stockholders' equity.

Total liabilities increased by ¥11.3 billion compared with the end of March 2006, to ¥588.8 billion. Minority interests in subsidiaries, one line item below, in the amount of ¥65.5 billion, which consist primarily of interests in AVX Corporation held by shareholders other than Kyocera Corporation, increased by ¥0.6 billion.

Total stockholders' equity increased by ¥30.4 billion to ¥1,319.5 billion. I will explain the reason for this later.

Total current liabilities increased by ¥1.8 billion to ¥380.4 billion.

Short-term borrowings increased by ¥8.2 billion to ¥99.1 billion compared with the end of March 2006, due mainly to borrowings for financing purposes in line with an increase in business loans extended by Kyocera Leasing Co., Ltd.

Accrued income taxes amounted to ¥17.8 billion, a decrease of ¥9.9 billion due to the payment of income taxes on earnings in the previous fiscal year.

Non-current liabilities increased by ¥9.5 billion compared with the end of March 2006 to ¥208.4 billion.

The main reason for this was an increase of ¥15.3 billion in deferred income taxes to ¥141.0 billion due to an increase in income tax liabilities in line with an increase in the market value of KDDI shares.

Total stockholders' equity increased by ¥30.4 billion to ¥1,319.5 billion.

Retained earnings increased by ¥10.7 billion to ¥978.3 billion after deducting cash dividends in the amount of ¥9.4 billion paid during the first quarter from net income of ¥20.1 billion.

Accumulated other comprehensive income increased by ¥18.3 billion to ¥91.3 billion. The breakdown of this increase is shown in the footnotes. Net unrealized gains on securities increased by ¥21.6 billion compared with the end of March 2006 to ¥104.3 billion due primarily to a rise in the market value of KDDI shares.

As a result, the stockholders' equity ratio was 66.9% at the end of the first quarter.

That concludes my brief presentation of the Consolidated Balance Sheets.