



**Outline of Q&A on Conference Call for the Nine Months Ended December 31, 2017**

**(Held on February 1, 2018)**

**[Components, General]**

Q: Orders of electronic devices increased strongly in the three months ended December 31, 2017 (“the third quarter”). Is there an increasing backlog of orders at AVX Corporation (“AVX”)?

A: Orders have increased linearly from the first quarter (April 1 to June 30, 2017) to the third quarter. Orders for smartphone components are decreasing in the three months ended March 31, 2018 (“the fourth quarter”) within the expected range due to seasonal demand. Orders for the automotive sector have not declined.

Q: I believe there is a shortage in supply of multilayer ceramic capacitors (“MLCC”). Has Kyocera received an increase in orders for parts that are in short supply?

A: Overall, there is a shortage of supply for a lot of parts.

Q: Is there a shortage in supply of automotive parts?

A: In addition to the automotive sector, there is a shortage in parts for general industrial machinery. Demand is down slightly for smartphone components, but remains strong in other areas.

Q: Kyocera is forecasting decreases in sales and profit for the Component Business in the fourth quarter relative to the third quarter, which seems rather surprising. Can you explain the background to this?

A: There will not be a major decline in results for industrial and automotive components in the fourth quarter. In the Electronic Devices Group, smartphone components are expected to be down. Performance in the Electronic Devices Group in the third quarter was almost better than ever, so we will likely see a decline in the fourth quarter.

**[Parts for semiconductor processing equipment (“SPE”)]**

Q: With regard to the outlook for key businesses in the year ending March 31, 2019 (“next fiscal year”), how do you see demand for SPE parts? To what extent will production capacity increase next fiscal year following construction of the new building at the Kokubu Plant?

A: Demand for SPE parts has been solid from customers. We commenced construction of the new building at the Kokubu Plant some time ago. In addition to utilizing the Yohkaichi Plant, we plan to bolster capacity in North America as well. We are projecting production for next fiscal year to increase by 1.5-fold at the least relative to the year ending March 31, 2018 (“this fiscal year”).

Q: When will the new building at the Kokubu Plant start contributing to results?

A: We are targeting the second half of next fiscal year.

Q: Will production volume be increased gradually rather than all at once in the second half of next fiscal year?

A: That's right. Solar production facilities will be transferred from the Yohkaichi Plant as well and we will make use of the space that becomes available in stages.

Q: How will the supply/demand situation look once you have increased capacity?

A: Users have actually requested us to produce about double already.

### **[Telecommunications equipment business]**

Q: Can you tell us your forecast for sales and profit for the telecommunications equipment business in the fourth quarter? At the financial results presentation for the three months ended September 30, 2017 ("the second quarter"), you stated that you were willing to make major decisions going forward. What is your thinking now?

A: In the fourth quarter, sales are projected to decrease for North America, making profitability difficult. We plan to downsize this business in North America going forward. Results are expected to continue as before for the Japanese market. We will push ahead with research and development for telecommunications modules for the Internet of Things ("IoT"), automotive and general industrial machinery sectors and will transfer 160 engineers from the telecommunications equipment business to the Corporate R&D Group in a major change of direction. We have no intention of downsizing the domestic business on account of the relationships we have with carriers.

### **[Document Solutions Group]**

Q: It seems that the document business is getting more competitive. Can you tell us your forecast shipment volume and sales growth for next fiscal year?

A: Sales volume this fiscal year is forecast to increase by around 15% for MFPs and around 5% for printers. We hope to drive around 10% growth next fiscal year.

Q: What sort of contribution is the new toner factory in Mie prefecture making now that production is underway?

A: It is making a significant contribution on a profit front in particular.

### **[Solar energy business]**

Q: Are one-time costs included in third and fourth quarter performance? Also, what is your outlook for the business environment? What measures will you adopt to secure sales going forward?

A: Although previous business model in the solar energy market was based on selling electric power, the feed-in-tariff ("FIT") rate is being reduced and is expected to drop further next fiscal year.

Although this is expected to make business more difficult, we remain committed to renewable energy. Moving forward, we will shift our business model from one focused on selling electric power to one focused on self-consumption. Storage batteries are required in order to use power generated from sunlight 24 hours a day. Kyocera has more than 30 years experience in solar energy business and the life span of our storage batteries is around 10 years. We are currently pushing ahead with development of storage batteries with a view to market release in around two years from now. Although the situation may be tough until then, we plan to shift to self-consumption type business when we launch these storage batteries.

In terms of restructuring, we will consolidate cell production at the Yohkaichi Plant into the Yasu Plant. At the Yohkaichi Plant, we will produce SPE parts, where supply and demand is tight. The cost of the transfer has been estimated at several billion yen but this will not be outlaid to any large extent in the fourth quarter of this fiscal year. We expect that the cost will be incurred in the next fiscal year.

Q: When do you think the solar energy business will become profitable again?

A: We are forecasting profitability from the second half of next fiscal year since we plan to complete the factory consolidation in the first half of next fiscal year.

Q: If demand for panels decreases, I believe it will be difficult to achieve profitability without making extra effort in other areas. Will the investment of several billion yen be sufficient to achieve profitability?

A: In addition to the Yohkaichi Plant, we produce panels at the Yasu Plant as well. Through a review of production system and consolidation of the two factories into one, we will be able to reduce costs by decreasing headcount in the solar energy business. Although production volume will decrease by 20% overall, the use of new equipment at the Yasu Plant instead of the older facilities at the Yohkaichi Plant will help boost productivity. We will also work to reduce costs through a review of manufacturing process.

Q: Will you be able to keep the decrease in production volume to around 20% next fiscal year? Don't you think demand may decline by more than that?

A: Even if it does, I'm confident that it won't drop by half.

Q: Is it optimal for Kyocera to handle production of cells and modules on its own when the price of panels declines?

A: The price of panels has decreased this year and is expected to decrease next year as well. We are aware that it has become difficult to generate profit with panels alone. Kyocera will leverage years of experience and review manufacturing process so as to be able to keep pace with other manufacturers in terms of price. We intend to create a total self-consumption type model that includes panels, storage batteries and solid oxide fuel cells ("SOFCs") and a business model that steers away from price wars. This will take around two years to achieve.

### **[Management strategy]**

Q: Where will the president put his energy going forward? By focusing on businesses that are less than profitable, will the ability to conduct strategic management be compromised?

A: We will increase R&D personnel with a view to next fiscal year. We have earmarked ¥80 billion for capital expenditure this fiscal year, but this figure will probably rise. We plan to further increase capital expenditure and bolster efforts next fiscal year.

Q: I would like to ask about management challenges for next fiscal year. What are the key areas to be addressed aside from the solar energy business and telecommunications equipment business?

A: We are steadily advancing preparations for the solar energy and telecommunications equipment businesses, as mentioned earlier. There are no other major areas that need to be addressed.

Q: Will you be able to resolve current issues through the measures you are executing now?

A: In addition to these, we will increase R&D and accelerate new product development. With regard to capital expenditure, we have already announced construction of a new building at the Kokubu Plant and intend to make significant investments in other areas too.

Q: Has the use of internal resources for restructuring these past few years borne fruit this fiscal year?

A: A major achievement has been the electronic device division. We integrated operations for crystal components, connectors and power modules into one structure at Kyocera Corporation. Another key achievement is the fact that we have substantially expanded sales and profit on the back of the structural reforms and favorable market conditions.

Q: The restructuring has no doubt led to various synergies in sales, production, technology and other areas. Can you tell us specifically the advantages it has provided?

A: We expect to generate technological synergies going forward. We have made big strides on a sales front already by consolidating previously separate structures into one organization. Before,

each structure had an administrative division, but the consolidation has streamlined operations and contributed to profit.

Q: What has the effect been on sales and administrative divisions? When do you expect to realize technological synergies?

A: The effect has actually been better than expected this fiscal year. We hope to generate technological synergies from next fiscal year.

Q: In industrial and automotive components, the industry itself is expected to change significantly going forward. What do you want to achieve in this business domain? It might be difficult to respond to changes simply by expanding at the business unit level. What positioning do you intend to take as a company?

A: To give an example, we have automotive parts within the Semiconductor Components Group. Although we are seeing growth in the automotive market itself, we are aware that we will not see growth simply by marketing extensions of existing components on their own. Instead, we aim to promote R&D that transcends divisional boundaries and this is the area we are strengthening significantly.

Q: What sort of resources do you have in-house and what can you expect to achieve with these resources?

A: In terms of energy related products, for example, we are mass-producing SOFCs and developing storage batteries in addition to our solar energy business. We have also been developing software for our HEMS (“Home Energy Management System”) using AI and development is now being conducted at a separate headquarters. We will create an organization within the Corporate R&D Group in which we can manage energy related operations as a whole and conduct research there to see what we can realize.

Q: Is this general management approach aimed at ensuring development is conducted in a functional manner?

A: Each division works to maximize the properties of a material, and we will not change this. However, a simple extension of this will limit the sales we can make to around ¥2 trillion. With that in mind, we are approaching R&D from a broader perspective.

## **[R&D]**

Q: What sort of achievements are you expecting to see next fiscal year from your R&D efforts?

A: Next fiscal year, we will launch products have developed jointly with Toshiba Materials over the past while. We will gradually release energy management related products but it may take another two years to complete the set of long-life storage batteries and solar power generation

system.

Q: Rather than operate separately, wouldn't it be better for AVX and Kyocera to integrate on some levels?

A: We would like to integrate in various areas. In addition to AVX, we would also like to collaborate at a high level with development teams from Kyocera Document Solutions Inc. and Kyocera Communication Systems Co., Ltd.

Q: Have you taken any concrete steps toward achieving this?

A: To begin with, we have created an apparatus to look into the matter and we are eager to move ahead with an examination of possibilities.

#### **[M&A]**

Q: To what extent will the five companies acquired this fiscal year contribute to results for the term?

A: We are projecting contribution of around ¥40 billion in sales for the fiscal year.

Q: To what extent will they contribute to profit?

A: They won't contribute that much this fiscal year due to acquisition costs.

Q: Around how much will this fiscal year's acquisitions contribute to profit next fiscal year?

A: Around ¥5 billion.

Q: Which companies are expected to make the biggest contributions?

A: We expect the two companies to make large contributions, namely SENCO Holdings, Inc. and automotive sensors business of TT Electronics PLC, which was acquired by AVX.

#### **[One-time costs]**

Q: Can you tell us if there were any one-time costs for this quarter?

A: There were no one-time costs aside from the tax expenses primarily resulting from the tax law revisions in the United States, which affected net income attributable to Kyocera Corporation's shareholders.

#### **Cautionary statement**

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