Kyocera Corporation Financial Presentation

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<Slide: Today's Presentation>

Today I will explain our financial results for the six months ended September 30, 2008 ("the first half") and our forecasts for the year ending March 31, 2009 ("fiscal 2009").

<Slide 1: Consolidated Financial Results – Six months ended September 30, 2008>

This slide shows consolidated financial results for the first half.

Net sales increased while profits decreased in the first half compared with the six months ended September 30, 2007 ("the previous first half"). Please refer to the next slide for details.

<Slide 2: Financial Summary of the First Half>

Net sales for the first half increased by 3.5% compared with the previous first half due to the addition of sales from the mobile phone handset business of SANYO Electric Co., Ltd. ("SANYO") and an increase in sales in the solar energy business.

Pre-tax income for the first half decreased by 9.2% compared with the previous first half. The four points on this slide outline the primary reasons for this decrease. The first reason is the impact of yen appreciation. The yen has appreciated by ¥13 against the U.S. dollar compared with the previous first half, which pushed down pre-tax income by ¥5.7 billion. Second, profit in the Electronic Device Group decreased by 71.2% compared with the previous first half due to a decline in sales caused by weak component demand and intensified price competition. Third, profit decreased in the Information Equipment Group due to weak demand triggered by the economic slowdown in the United States. The fourth point concerns one-time losses and gains recorded in the first half. In one-time losses, we recorded ¥2.3 billion as impairment loss on production equipment in the Electronic Device Group on account of a revision of the business plan for organic light emitting diode displays. In one-time gains, we recorded ¥10.6 billion as gain on sale of real estate in the “Others” segment.

That concludes my presentation of the financial results outline for the first half.
Next, I will explain our financial forecasts for fiscal 2009.

<Slide 3: Consolidated Financial Forecast – Year ending March 31, 2009>

We forecast consolidated net sales of ¥1,240 billion, a decrease of ¥236 billion from the initial projections. Consolidated pre-tax income is forecast to be ¥94 billion, a decrease of ¥71 billion as compared with the initial projections.

Please look at the next slide for details of these adjustments.

<Slide 4: Factors Behind Revision of Forecasts – Year ending March 31, 2009>

The four points shown here are the primary factors behind the revision of financial forecasts.

The first factor concerns the global economic recession. In the global economy, turmoil in financial markets has impacted the real economy, making the business downturn even more pronounced in each country. Due to sluggish growth in demand for high-value-added equipment as a result of low expectations for the Christmas selling season in Europe and the United States, we forecast component demand to be extremely low in the six months ending March 31, 2009 (the "second half") as compared with normal years.
In addition, we forecast demand for printers and MFPs in the U.S. and Europe to be also sluggish.

Second, we have changed assumed exchange rates. Given the rapid appreciation of the yen since entering the second half, we have adjusted assumed exchange rates for the second half to ¥95 to the U.S. dollar and ¥120 to the Euro, and for the full year of fiscal 2009 to ¥101 and ¥141, respectively. These adjustments are expected to push down net sales and pre-tax income by ¥39.2 billion and ¥16.7 billion, respectively, for fiscal 2009 compared with the previous forecast released in April 2008.

The third factor relates to a decrease in sales in the Telecommunications Equipment Group. Sales in the Telecommunication Equipment Group for the second half will decrease as compared with the first half due to a decline in demand for mobile phone handsets in Japan as a result of the contraction in the Japanese market and due to slow sales resulting from fierce competition in overseas markets.

The fourth factor relates to deterioration in the business environment for the Electronic Device Group. We do not expect recovery in component demand in the second half due to the forecast of slow sales in the Christmas selling season. We also forecast greater price declines than we originally expected. For instance, we originally expected a decline in prices of ceramic capacitors of approximately 15% on a full year basis by the end of fiscal 2009 from the end of the previous fiscal year ended March 31, 2008(“fiscal 2008”). However, as of the end of the first half a decline of approximately 15% has been already recorded for some ceramic capacitors compared with the end of fiscal 2008, and in light of the current situation, we accordingly now forecast a decline in prices of more than 20% on an annual basis.

On the next slide, I will explain the management challenges requiring our attention in the second half in order to achieve second half forecasts in spite of the extremely harsh business environment.

<Slide 5: Management Challenges in the Second Half>

First, we will secure orders with a focus on buoyant businesses. Although we do not expect recovery in demand from the electronics market over the short term due to the sluggish economy worldwide, we will strive to secure orders and expand sales particularly in the solar energy business where demand has been increasing as the alternative energy resources even in the current harsh economical environment.

Second, we will reinforce our corporate structure by working harder than ever to comprehensively reduce costs. Although we have been striving continuously to cut costs, we must recognize the fact that costs have risen in line with brisk orders over the past three years. Given the situation in fiscal 2009, we will be more sensitive to costs and pay further attention to cost management. Among others we focus principally on the following three areas for this purpose.

In the first such area, we will revise capital expenditure plans. In light of current demand trends we have revised the capital expenditure plans of the Electronic Device Group and the Telecommunication Equipment Group and reduced total projected full year capital expenditures from 84 million yen, as announced previously, to 78 billion yen. With respect to the Applied Ceramic Products Group, however, we expect an increase in capital expenditures of approximately 4 billion yen over the original projection, mainly for expansion of production capacity taking into consideration strong demand in the solar energy business. Despite the severe business environment, we will make aggressive allocation of management resources to the businesses on which we need to focus for future growth.

In the second such area, we are also reducing purchasing costs in all departments, including sales, production and administration, through further promotion of procurement from multiple suppliers and purchasing precisely required amounts when needed.

In the third such area, we will further improve productivity through a fundamental review of production processes, which we believe to be more necessary than ever in this difficult business environment. As a result of such efforts, we will be able to achieve cost reductions and strengthen our corporate structure in order to ensure growth when the market recovers.

In our third management challenge, we will strengthen business foundations. To be specific, we will promote rebuilding of the Telecommunications Equipment Group based on a medium-term perspective. The details of this will be explained later.

In addition, Kyocera Group as a whole continues its efforts to raise competitiveness by further strengthening development of new products and technologies that will quickly contribute to performance in preparation for market recovery.

<Slide 6: Consolidated Sales and Operating Profit Forecast by Reporting Segment – Year ending March 31, 2009 >

Let’s look at forecasts for each reporting segment for fiscal 2009. It is clear that swift improvement of profitability in the Telecommunications Equipment Group and the Electronic Device Group is key to propelling sustainable growth for Kyocera Group. I also believe it is necessary to improve the profit ratio by further expanding buoyant businesses, such as the solar energy business.

Next, I will comment on midterm initiatives in these businesses.

<Slide 7: Challenges in Telecommunications Equipment Group >

First, let’s look at the Telecommunications Equipment Group.

The market for mobile phone handsets has reached saturation point in Japan. This, along with a prolonged upgrade cycle, has led to weakening demand.

Meanwhile, the market for mobile phone handsets in North America is being led by handsets such as the smartphone and W-CDMA, areas that Kyocera has yet to break into. Coupled with this, we expect competition to intensify further among major communication carriers as Korean handset makers expand their market share. To improve profitability in the handset business amid these circumstances, we need to further develop new mobile phone handsets and reinforce measures to expand sales.

Kyocera acquired the mobile phone business of SANYO with these goals in mind. However, because the business integration just commenced in April, the two companies thus far have enjoyed the benefits of synergies only in certain areas. In order to realize further synergistic effects as quickly as possible, we will integrate development systems and strengthen sales systems earlier than initially planned.

Turning to the communication systems equipment business, new high-speed wireless communication services are scheduled to commence in Japan in the year ending March 31, 2010 ("fiscal 2010"), beginning with next-generation PHS and WiMAX services. We aim to reinforce development of next-generation base stations for these services as a means to create stable sales and profit bases for this business. To achieve this, we will strengthen ties with communication carriers and release sophisticated base stations and handsets to the market.

<Slide 8: Roadmap in Telecommunications Equipment Group>

In the Telecommunications Equipment Group, our aim is to strengthen business foundations over the next three years. To this end, we will create a new business structure for the mobile phone handsets business and translate new services into solid growth opportunities for the communication systems equipment business. Through these initiatives, we aim to realize an operating profit ratio of 5% the Telecommunication Equipment Group in the year ending March 31, 2012 ("fiscal 2012").

One initiative in the mobile phone handset business for fiscal 2009 concerns the joint purchasing of components and materials. After the business integration in April, we initiated joint purchasing of components and materials, and positive effects are already beginning to emerge. The percentage of materials procured has decreased by approximately 10% relative to the level immediately after the integration. We will work to further entrench this system of joint purchasing in fiscal 2009.

In addition to efforts to secure orders through continued launches of new products in Japan, we are looking at the creation of a new business structure, particularly in the overseas market. In the six months since the business integration, we have identified areas of specialty in the acquired business as well as the challenges we are currently facing. Using this knowledge, we aim to achieve an optimum business structure and an allocation of business resources in the most appropriate manner ahead of fiscal 2010.

We will implement concrete organizational rebuilding on a global basis in fiscal 2010, and promote the development of attractive products in line with a roadmap for business integration created based on the new business structure.

From fiscal 2011 onward, we will take advantage of the new business structure and strengthen the global deployment of products by leveraging highly sophisticated technological expertise to cultivate new customers and markets both in Japan and overseas.

In the communication systems equipment business, we are working to accelerate new product development, particularly for base stations, ahead of the introduction of next-generation high-speed wireless communication services. By launching new products steadily in line with the start of these new services, we aim to expand this business into a core business driving profit growth from fiscal 2010 onward.

<Slide 9: Challenges in Electronic Device Group>

Let's turn to the Electronic Device Group. Today I will comment on initiatives in the capacitor business.

Due to a shift in core demand in digital consumer equipment to low-priced products and to the impact of the worldwide economic slowdown that has driven a decline in sales of high-end models equipped with numerous components, demand for electronic components has decreased beyond expectations. Competition with component makers overseas has become fiercer as well, and component prices have declined rapidly. Profitability in the capacitor business has declined due to such changes in the business environment.

Amid these circumstances, the first challenge is how to secure orders. Other challenges include boosting price competitiveness in order to cope with sudden component price erosion, and ensuring profit for the business as a whole by expanding our line-up of highly profitable products. I will now explain Kyocera's efforts to meet these challenges.

<Slide 10: Strategy in Capacitor Business>

In the capacitor business, our ability to roll out products in core markets is essential to secure orders above a certain level. This slide shows product distribution in the MLCC (multi-layered ceramic capacitor) market. The horizontal axis represents MLCC size and the vertical axis represents capacitance. The area shown in aqua depicts the products Kyocera is developing. The market is heading in the direction of the arrow, that is, towards miniaturization. The area under the diagonal lines shows the active part of the market where demand is strong. Kyocera will deploy business activities primarily in the areas shown in green.

Kyocera has a competitive advantage in compact MLCCs that feature high-precision layered manufacturing technology for dielectric layer. Currently, we command relatively high share in the market for compact MLCCs, shown as the area of comparative technical strength for Kyocera. We will continue deploying products in this area going forward.

We will also strengthen the development of higher capacitance products among these compact products. Kyocera has fallen behind the competition in terms of technology for high capacitance products for the past several years. Cognizant of this fact, we have worked to develop technology to compete on equal terms with our competitors. Promising prospects have emerged in new technologies recently. By marketing new products based on these new technologies going forward, we will move into this area of high-capacitance products.

The competition already has a range of products in the traditional domain for high-capacitance MLCCs, however, so even if we enter this sector now, it will be difficult to grab an advantage. Accordingly, we aim to secure share by launching products, with optimum timing as new markets are created, in areas that we can strengthen through new technologies, as shown in the diagram.

We will secure market share above a certain level in these core market areas, which are forecast to grow, and we will work hard to obtain orders to achieve these targets.

Competition will be fierce in these core markets, however, and price competitiveness will be essential. Accordingly, we are promoting the implementation of low-cost production technology to quickly strengthen cost competitiveness. Moreover, we will expand the line-up of highly profitable products to secure profit for the business as a whole.

Strategies to achieve this include an expansion of product line-up that leverages Kyocera’s strengths. We have a competitive edge in dielectric material technology, and we are currently devising products using new materials that we have already finished developing. As an example, we are developing compact, high-capacitance capacitors with outstanding electrical strength for use in on-board power supply systems. We will also develop compact, high-capacitance products with excellent temperature properties by employing dielectric materials that are still under development.

We also seek to develop high-value-added products that leverage our unique technology. We aim to expand our line of low-inductance capacitors developed jointly with AVX, a group company. In addition, we will expand our line of compact, low-cost capacitors incorporating AVX's new terminal electrode formation technology. We will also develop ultra-thin capacitors that can be inserted between ball grid arrays in packages for MPUs. Although the markets for these products are not large, we forecast a double-digit profit ratio for them, and expect them to make a positive contribution to profitability in the business as a whole.

Through these initiatives, we aim to increase sales and enhance profitability in the capacitor business.

<Slide 11: Trend of Operating Profit in Applied Ceramic Products Group>

Finally, I will explain expansion of the solar energy business.

The graphs on this slide show the trend in operating profit accounted for by the Applied Ceramic Products Group, which includes the solar energy business. The solar energy business has contributed significantly to the segment's steady improvement in operating profit. Going forward, we will further expand the solar energy business and develop it as a growth driver for Kyocera Group.

The next slide shows our production plan for solar cells.

<Slide 12: Future Development of Solar Energy Business>

Demand for solar energy is expected to continue rising worldwide. On the other hand, we project price erosion in solar cells in line with revisions to subsidy systems. This leads to concern regarding decreasing profitability despite the expected business expansion. We have taken advantage of our strong financial basis, however, and successfully secured long-term silicon material contracts with suppliers. Thus, we will be able to expand our production volume steadily and expect an increase in sales accordingly.

Also, we are working to reduce production costs and improve conversion efficiency by comprehensively enhancing processes through an integrated production system. Through these efforts, we are trying to mitigate the impact on profitability arising from price erosion. We will make further efforts to expand this business pursuant to our basic strategy of maintaining and increasing profitability by improving conversion efficiency.

We plan to achieve an annual production volume of 650MW in fiscal 2012, which is more than double current levels, on the back of a stable material supply. We also plan to increase conversion efficiency by 1% relative to current levels of 16.5% through the mass-production of new back contact solar cells that feature an extended area for natural light from the fiscal 2010. Furthermore, we aim to achieve conversion efficiency of 18.7% in the future.

<Slide 13: Kyocera Group Initiatives>

The current business environment surrounding the electronics industry makes it difficult to grow sales in short-term perspective due to weakening demand and ongoing uncertainty regarding demand improvement. Amid such circumstances, Kyocera will work on initiatives for fiscal 2009 and the medium-term to achieve high growth ahead of our competitors once demand recovers.

That concludes my presentation. I look forward to your continued support.