Financial Presentation for the Six Months Ended September 30, 2019

(Held on November 1, 2019)

Speech by Hideo Tanimoto, President and Representative Director

< 1. (Inner cover) Financial Results for the Six Months Ended September 30, 2019 >

< 2. Financial Results for H1 of FY3/2020 >

Sales revenue in the six months ended September 30, 2019 (“the first half”) was 799.1 billion yen, almost unchanged from the six months ended September 30, 2018 (“the previous first half”). Sales in the Components Business declined due mainly to lower sales in the Electronic Devices Group despite an increase in sales in the Communications Group and contribution from M&A activities in the Industrial & Automotive Components Group. Operating profit decreased by 22.3 billion yen to 60.3 billion yen and profit before income taxes decreased by 20.5 billion yen to 85.2 billion yen. Although profit growth in the Equipment & Systems Business was not enough to offset profit decline in the Components Business, we maintained the profit before income taxes ratio in the double-digit range.

Capital expenditures remained almost unchanged, while depreciation charge increased by 4.8 billion yen, mainly in the Components Business, due to continued investment from the year ended March 31, 2019 (“the previous fiscal year”). R&D expenses increased by 3.3 billion yen due to the establishment of the Minatomirai Research Center and other activities.

Average exchange rates for the first half were 109 yen to the U.S. dollar, marking appreciation of 1 yen, and 121 yen to the Euro, marking appreciation of 9 yen, on a year-on-year basis. This had the effect of decreasing sales revenue and profit before income taxes by approximately 18.5 billion yen and 6.5 billion yen, respectively.

< 3. Summary of Financial Results for H1 of FY3/2020 >

As a summary of the first half, there are two main points.

The first is the decrease in demand for components due to the worsening macroeconomic situation, which is shown on the left. In the Industrial & Automotive Components Group, although sales revenue increased due to the acquisition of SouthernCarlson, Inc. in the industrial tools business, demand for semiconductor processing equipment parts and automotive parts declined significantly. In the Electronic Devices Group, AVX Corporation (“AVX”) was particularly affected by inventory adjustments in the market.

The second is that the effects of the structural reforms implemented up to the previous fiscal year improved the profitability of our challenging businesses. Despite a decrease in sales revenue in the Semiconductor Components Group, we were able to achieve a profit increase because the organic materials business returned to profitability. The Communications Group has posted profit for 5 consecutive quarters since the second quarter of the previous fiscal year due to improvements in the telecommunications equipment business. The Life & Environment Group is making a loss as a segment, but the profitability of the solar energy business is improving and segment loss has been reduced.

< 4. Sales Revenue by Reporting Segment for H1 of FY3/2020 - Compared with H1 of FY3/2019 - >

As a result, sales revenue decreased for the Semiconductor Components Group and Electronic Devices Group but increased for the Industrial & Automotive Components Group and Communications Group.

< 5. Business Profit (Loss) by Reporting Segment for H1 of FY3/2020
- Compared with H1 of FY3/2019- >

As for profit, while the profitability of the Communications Group improved significantly, business profit decreased in the Industrial & Automotive Components Group and the Electronic Devices Group.
Next, I will explain the performance of each reporting segment.

< 6. Performance by Reporting Segment for H1 of FY3/2020 (1)>

Sales revenue in the Industrial & Automotive Components Group increased due to M&A activities in the industrial tools business. Annual sales of SouthernCarlson, Inc., which we acquired, are approximately 60 billion yen, and four months' worth of sales of that company were contributed in the first half. Profits decreased, however. In addition to a decline in sales of fine ceramic parts for semiconductor processing equipment and automotive parts, the factors behind this decrease were capital expenditures outlaid to meet medium- and long-term production increases and M&A activities, which led to higher depreciation costs.

Next, in the Semiconductor Components Group at the bottom of the slide, demand for optical communications packages in the ceramic package business recovered, while demand for crystal and SAW devices packages declined due to the slowdown in the Chinese economy and other factors, resulting in a decline in sales revenue in the segment as a whole. In contrast, business profit increased despite a decrease in sales revenue as the organic materials business returned to profitability as a result of structural reforms implemented in the previous fiscal year.

< 7. Performance by Reporting Segment for H1 of FY3/2020 (2)>

In the Electronic Devices Group shown at the top of the slide, AVX experienced declines in sales and profits, primarily due to continued inventory adjustments in the market and a slowdown in the global economy caused by trade friction between the United States and China.

The Communications Group at the bottom of the slide showed an increase mainly due to sales growth of handsets for the Japanese market. In addition to rising sales, cost reductions contributed to a substantial increase in profits.

< 8. Performance by Reporting Segment for H1 of FY3/2020 (3) >

In the Document Solutions Group shown at the top of the slide, although M&A activities conducted in the previous fiscal year contributed to results in the first half, since approximately 90% of sales were for overseas markets, the impact of the stronger yen was significant, and thus sales were flat and profits declined. Despite a decrease in profit, we maintained a double-digit profit margin thanks to efforts to improve productivity by automating production processes and reducing costs.

In the Life & Environment Group at the bottom of the slide, sales revenue increased due in part to the contribution of M&A activities conducted in the medical devices business in the previous fiscal year. Although business loss was posted, due mainly to an increase in R&D expenses for storage batteries among other items, the solar energy business saw an improvement in profitability due to the effects of the structural reforms implemented up to the previous fiscal year and ongoing cost reductions, leading to a reduction in overall segment loss.

That concludes my presentation of first half performance. Next, I will explain forecasts for the year ending March 31, 2020 (“this fiscal year”).

< 9. (Inner cover) 2. Financial Forecast for the Year Ending March 31, 2020 >

< 10. Financial Forecasts for FY3/2020 >

Although full-year financial forecasts have not been revised on the whole relative to the April forecast, we have revised segment forecasts based on the first half results and forecast for the six months ending March 31, 2020 (“the second half”).

< 11. Sales Revenue Forecast by Reporting Segment for FY3/2020 >

This slide shows sales revenue forecasts by reporting segment. We revised forecasts upward in the Industrial & Automotive Components Group, Communications Group, and Life & Environment Group and revised forecasts downward in the Semiconductor Components Group, Electronic Devices Group and Document Solutions Group.

< 12. Business Profit (Loss) by Reporting Segment for FY3/2020>

Profit forecasts were revised downward in the Industrial & Automotive Components Group and Electronic Devices Group and revised upward in the Communications Group. The forecast for Corporate and others was revised as well.

< 13. Major Factors for Revisions to Forecasts by Reporting Segment
- Compared with the Previous Forecast - >

The following is a summary of the major changes in the forecast by business segment.
The sales revenue forecast for the Industrial & Automotive Components Group has been revised upward due to M&A activities in the industrial tools business and the fine ceramic parts business. Conversely, the business profit forecast has been revised downward. This is due to the fact that sales of existing businesses, which have relatively higher margins, were lower than expected compared to the estimate at the beginning of the fiscal year because of the impact of the economic slowdown in China and other factors.

For the Electronic Devices Group, forecasts for both sales revenue and business profit were revised downward due to longer than expected inventory adjustments in the market for AVX.

Forecasts in the Communications Group have been revised upward based on first half results and the outlook for the second half.

Although we revised forecasts downward significantly in the Components Business, we will continue to seize opportunities to win orders and strive to reduce costs to achieve our full-year forecasts. That concludes my explanation of forecasts.

< 14. Initiatives for Medium- and Long-Term Business Expansion>

I will now explain our efforts for medium- and long-term business expansion. The first initiative concerns 5G related business and the second concerns environment and energy business.

< 15. 5G Related Business >

Although we expect full-scale demand for 5G-related products next fiscal year and beyond, we are already seeing an upturn in demand for infrastructure components.
In MLCC business shown on the left of the slide, Kyocera has been focusing on small and high-capacitance products, and as such, smartphones have been the main growth driver of orders to date. New orders for 5G base stations have started to increase this fiscal year, however. The percentage of sales to base stations is expected to increase significantly this fiscal year.

Demand for ceramic packages for optical communications networks has been solid this fiscal year despite undergoing adjustments for the past year or so.

In addition to these existing products, we will expand the business of ceramic filters for 5G base stations. As you can see on the right side of the slide, we will establish Kyocera Ube RF Tech Corporation in December

2019. This will enable us to mass-produce filters by combining the filter design technology of Ube Industries, Ltd. and the dielectric ceramics manufacturing capabilities of Kyocera. We will also look to expand sales through our global sales network.

< 16. Expand Environment and Energy Business (1) >

I will now explain the expansion of our environmental and energy businesses.
With the advent of an age characterized by the self-consumption of renewable energy, Kyocera is transforming its business operations from "selling products" to "providing services".

We have established a new business model that reduces the burden of initial investment and began providing services for individual users and power service providers in October this year.
By taking advantage of Kyocera’s exceptional credibility and providing long-term services, we will promote the introduction of renewable energy and contribute to the realization of a low-carbon society.

< 17. Expand Environment and Energy Business (2) >

We have also developed new products to support the self-consumption of renewable energy in individual houses and condominiums.
The new battery on the left, Enerrezza, has a longer life, higher safety, and lower cost than products that use existing electrolytes thanks to the use of clay type electrodes. Sales will start in January 2020, and mass production is scheduled for autumn next year.

ENE・FARM mini, the world's smallest SOFC fuel cell system on the right, offers greater installation flexibility. Since it can be installed in a small space with a depth of 50cm, we believe that it will be possible to stimulate demand in condominiums, where installation was previously difficult.

In addition to solar power generating systems, one of Kyocera's strengths, we will work to expand our new battery and fuel cell product lineups.

Kyocera intends to make the most effective use of our resources in environment and energy markets going forward. We will also actively collaborate with external organizations to develop this business as a pillar of our operations.

< 18. Cash Dividends per Share Increased for the Fourth Consecutive Year>

Finally, I will explain dividends.
We will pay an interim dividend of 80 yen per share, an increase of 20 yen compared with the previous interim dividend. We plan to pay an annual dividend of 160 yen per share, up 40 yen year on year, on a base excluding the commemorative dividend. This forecast remains unchanged from the initial forecast.

Including the forecast for this fiscal year, this will be the fourth consecutive year dividends have increased. We will continue to strive to expand results and improve shareholder returns going forward.

Cautionary statement

This is an English translation of the Japanese original. The translation is prepared for the reference and convenience solely for those who do not use Japanese. In the event of any discrepancy between this translation and the Japanese original, the latter shall prevail.

Except for historical information contained herein, the matters set forth in this document are forward–looking statements that involve risks and uncertainties including, but not limited to, product demand, competition, regulatory approvals, the effect of economic conditions and technological difficulties, and other risks detailed in the cautionary statements with respect to forward–looking statements on the company's website.