



Kyocera Corporation

Outline of Q&A on Conference Call for the Three Months Ended June 30, 2018

(Held on July 31, 2018)

【Financial Result for the Three Months Ended June 30, 2018 –General–】

Q: Can you tell us which businesses exceeded expectations and which fell short of expectations in terms of results for the three months ended June 30, 2018 (“the first quarter”)? Also, please tell us if the outlook for the three months ending September 30, 2018 (“the second quarter”) has changed for any businesses since the beginning of the fiscal year.

A: In the first quarter, performance in the Industrial & Automotive Components Group, Electronic Devices Group and Document Solutions Group exceeded expectations. The Communications Group did not perform particularly well, but results were within the scope of expectation. Results in the Life & Environment Group and the ceramic package business under the Semiconductor Components Group fell short of projections.

We expect results to remain strong in the Industrial & Automotive Components Group, Electronic Devices Group and Document Solutions Group in the second quarter. Recovery is going to be difficult in the Semiconductor Components Group due to expected inventory adjustments in part of the data center market. The telecommunications equipment business is forecast to return to profitability in the second half of the fiscal year (the six months ending March 31, 2019) due to the effect of new products. Conditions will remain tough for the solar energy business in the second half even though we expect to complete consolidation of production sites in the first half (the six months ending September 30, 2018), since demand has dropped more than expected.

Q: Why was operating profit higher than business profit in the first quarter even though it tends to be lower in typical years?

A: We recorded approximately 800 million yen in gain on sale of a factory. This amount was included in operating profit, but not as business profit since it was booked under “Corporate and others.”

【Semiconductor Processing Equipment (SPE) Parts】

Q: Can you tell us if inventory adjustments are being undertaken for parts used in SPE? Also, can you touch on market trends in the first quarter and demand trends for the second quarter?

A: Certain users of parts for new equipment have entered an adjustment phase. This does not apply to all users, however. There is no change to the fact that full production is necessary, particularly

on account of the high demand for consumables and the number of order backlog we are yet to process.

【Multilayer Ceramic Capacitors (MLCCs)】

Q: Are plans to increase production for MLCCs progressing as expected?

A: Although delivery of certain items of equipment will take a little longer, we anticipated this when making preparations, so everything is in fact going according to plan.

Q: Do you intend to increase production capacity of MLCCs incrementally each quarter, or will you increase production all at once in a certain quarter?

A: We plan to install key equipment in the second quarter and this will make a partial contribution to production in the third quarter (the three months ending December 31, 2018).

Q: By how much will production volume of MLCCs increase?

A: It will grow by around 30%.

Q: Can you tell us about your pricing strategy for MLCCs?

A: Since most of Kyocera's MLCCs command a relatively high unit price owing to compact design and state-of-the-art technology, there is no need to raise prices right away. We may raise the price of some old products, however.

Q: I believe it's difficult to manage the MLCC business because of major fluctuations caused by production conditions for products such as smartphones. Where will you target for this business going forward?

A: It's true that demand for Kyocera's MLCCs fluctuates significantly in the market since most are for smartphones. We will expand our target to include 5G base stations in addition to smartphones and aim to avoid uneven production as we move forward.

【Communications Group】

Q: Will you focus on Japan in your business for communications modules used in connected vehicles, or will you target overseas as well? Also, what will KYOCERA Communication Systems Co., Ltd. (KCCS) do in an effort to start constructing a 5G communications network in Japan?

A: We will concentrate on the Japanese market in our communications module business, and we don't have any plans to actively pursue the international market. In Japan, we can work together with KDDI Corporation as well as automakers, which gives us access to a wealth of information to help us push forward. This is not the case overseas. As such, we will strive to provide planned volume for users in Japan.

With 5G, the technology will require the construction of a high number of small base stations due to the use of high-frequency bands. KCCS is actively making preparations for this trend.

In addition to expanding production of MLCCs for 5G base stations, we are also working at the research level in areas of comparative capability, notably RF modules and antennas.

Q: For this business to succeed, is it a precondition that you need a wide range of resources covering base station business, communications module technology, and relationships with telecommunications carriers and automakers?

A: Yes, that's right. Since communications modules themselves do not contain high added value, it's not a really attractive business unless you incorporate peripheral domains.

【Solar Energy Business】

Q: It seems that the business environment has become tougher since the start of the fiscal year. What measures are you taking to combat this, such as additional structural reforms? Also, what sort of progress is being made in the consolidation of production sites and development of new production method?

A: We are currently at a cyclical drop-off period amid a shift to a self-consumption type model in part due to the impending conclusion of the feed-in-tariff (FIT) system for residential use in 2019. In the commercial sector, we are anticipating movement as we head toward 2030, the target year under COP21. We are examining possible frameworks for self-consumption in the commercial sector, including potential collaboration with other companies. We are progressing in line with plans with the consolidation of operations from the Yohkaichi Plant into the Yasu Plant, targeting completion during the first half of the fiscal year. Progress is also being made in the development of a new production method. Although it's true that demand has fallen, we are not looking at conducting any major structural reforms beyond this. We will push ahead swiftly with measures aimed at self-consumption though, following the conclusion of the FIT system.

Q: How is pricing in the solar energy business relative to expectations?

A: Prices are within our scope of expectation at this point in time. Going forward, we hope that Chinese manufacturers don't cause a sudden drop in prices.

【Impact of Changes in Accounting Standards and Estimates】

Q: Can you tell us the impact of the change in depreciation method from declining-balance method to straight-line method from the first quarter in terms of results for the first quarter and projections for the full year?

A: The change in depreciation method added approximately 3 billion yen to operating profit in the first quarter. For the full year, we are projecting the change to add around 15 billion yen. On the

other hand, pension expenses will increase by approximately 5 billion yen for the year, and as a result, we will see an increase of roughly 10 billion yen on a full-year basis in total.

Cautionary statement

This is an English translation of the Japanese original. The translation is prepared solely for the reference and convenience of foreigners. In the event of any discrepancy between this translation and the Japanese original, the latter shall prevail.

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