

Outline of Q&A on Financial Presentation
for the Six Months ended September 30, 2011
(held on October 28, 2011)

Growth Strategy

Q: Please tell us the initiatives and policies you will implement to accelerate growth going forward.

A: Although sales have fluctuated somewhat over the past 10 years, they have remained broadly flat. That doesn't mean we haven't nurtured any new businesses, however. Compared with 10 years ago, sales in the solar energy business have increased by around ¥100 billion. In contrast, other businesses, in particular, the Telecommunications Equipment Group haven't grown. A future challenge is to drive growth in the Telecommunications Equipment Group and in new products by expanding business along with existing energy-related products, including solar energy business.

In energy-related business, a fuel cell incorporating Kyocera's ceramic parts will be released in the second half. Although there are small volumes at present, these products are popular enough for the limit on subsidies to be reached quickly, which means we can expect the subsidy system to roll over to the following fiscal year as well. We aim to develop products with systems that combine solar cells and fuel cells, and products that incorporate LED lighting with the objective of expanding businesses.

We aim to expand telecommunication equipment business through the products that we displayed at "CEATEC." The first of these products was a cartilage conduction device using piezoelectric material. The other was a tactile stimulation device. Leveraging these products, we seek to develop and expand terminals that have a unique feel.

Fine Ceramic Parts Group

Q: Sales in the Fine Ceramic Parts Group for the second half are forecast to remain roughly unchanged compared with the first half, so why is the operating profit ratio projected to decrease 5 percentage points?

A: The main reason is a worsening product mix. Although sales of sapphire substrates for LEDs are projected to increase, demand for semiconductor fabrication equipment parts is forecast to decline. The impact of the yen's appreciation is also a factor.

Semiconductor Parts Group

Q: What factors are behind the forecast decline in operating profit for the Semiconductor Parts Group in the second half compared with the first half?

A: The operating profit ratio for the Semiconductor Parts Group in the first half was over 20%, but this included profit in line with production of LED lighting (sales of LED lighting are recorded in "Others"). While there aren't any special factors in the second half leading to this forecast, demand for digital consumer equipment is not expected to grow, so we don't project an increase in sales. Production at equipment manufacturers in usual years peaks around now for the Christmas selling season before dropping off. This fiscal year, we don't expect component demand to pick up for this selling season. In addition, growth in organic packages for application specific integrated circuits (ASICs) used in high-end servers is lower than expected.

Q: Is operating profit projected to decrease significantly in the second half due to the fact that demand for LED lighting was high in the first half, which pushed up profit?

A: A decline in sales for the entire reporting segment is the biggest reason for the decline of operating profit. In addition to this, demand for LED lighting was high in the first half. In the second half, sales and profit from not only ceramic packages but also organic packages is forecast to decrease.

Applied Ceramic Products Group

Q: Please tell us regional sales trends and product prices in solar energy business as well as Kyocera's measures to improve profitability.

A: Kyocera's key markets are Europe, the United States and Japan, with the Japanese market now increasing its proportion. Previously, overseas markets accounted for 70% of business with the Japanese market at 30%. Around the end of the previous fiscal year, the ratio was around 50-50. In the first half of this fiscal year, the Japanese market made up 55% of the total, with overseas markets making up around 45%.

Going forward, we expect the proportion of business in Japan to increase further with the enforcement of the Renewable Energy Law in July 2012. This bill is expected to boost orders and sales as early as the end of this fiscal year, or more definitively, from January next year, when the legislation is finalized. In any case, the proportion of business in Japan will increase.

As a measure to boost profitability, we will continue to reduce material costs, which will include centralized purchasing, and to improve conversion efficiency.

Q: What percentage price decrease can Kyocera handle?

A: We don't think about it in those terms. Prices dropped around 20% in the first half and if you consider the exchange rate, this amounts to close to 30% in real terms. But we still managed. The yen is not expected to weaken going forward, just as the market environment in Europe is not expected to improve all of a sudden. As we project prices to drop in double-digit terms, we will work to comprehensively reduce costs in line with market prices in order to generate profit.

Q: Please tell us shipment volumes, future capital expenditures plans and inventory valuation for the solar energy business.

A: Our initial production plan of 800MW for the fiscal year has been revised downward due to a sudden decline in the European market and stagnation in demand for public and industrial sectors in Japan. Consequently, our initial capital expenditures plans have been revised downward. Even if we do our best to increase share in the second half, we expect production volume for the fiscal year to decline by more than 10% relative to our initial plan.

We conducted an impairment of inventory in the interim period. Currently, we are cutting back on production somewhat and reducing inventory. If prices drop further in the future, it is possible that we will have to execute another impairment.

Q: Will you continue investment toward your production plan of 1GW in solar energy business for next fiscal year?

A: We are not planning to target 800MW, which we fail to achieve this fiscal year. Next fiscal year, we expect the Japanese market to be buoyant. When the details of the aforementioned legislation are finalized in January 2012 and the purchase period and prices become clear, potential return on investment will be clear, and we will start moving.

We are holding capital expenditures down at the moment and will make a decision on future investment once we know exact figures in the bill.

Telecommunications Equipment Group

Q: What are the reasons for the improvement in profitability in the first half?

A: We have been taking measures over the years in overseas business in the areas of production, sales and development. We used to launch numerous low-end handsets, however, prices dropped in the low-end sector with the entry of Chinese and Taiwanese manufacturers, making it more difficult to generate profit.

We cut down the number of low-end models for the overseas market in the first half, which was one of the reasons we were able to generate profit.

Q: What's the difference in the effect of structural reforms on profit in the Telecommunications Equipment Group between the first half and the second half?

A: Several hundred million yen. The key factor behind the difference between the first half and second half is the effect of new products. We are planning to expand our smartphone range in addition to the two models for au and Softbank Mobile.

Q: What made you decide to introduce handsets for Softbank Mobile?

A: Basically because we formed a close bond with Softbank Mobile when that company started providing support to Willcom.

Information Equipment Group

Q: Please tell us the reasons for lower sales while profit remained unchanged compared with initial projections for the Information Equipment Group.

A: In addition to the impact of the yen's appreciation, Kyocera's key customers are government and corporate offices, so we are easily affected by economic fluctuations.

Productivity has been improving annually at our Chinese factories while we have increased sales of toner in line with an increase in the proportion of color models, which has boosted profit levels. This is one reason for the increase in profitability. The reasons for the expected decline in the operating profit ratio in the second half include an increase in sales promotion costs, but not a decline in operating profit from the business itself such as a worsening cost structure. The impact of the yen's appreciation also played a part.

Dividend Policy

Q: You revised the dividend forecast downward. Please tell us your concrete policy regarding dividend payout ratio.

A: We reduced dividend amount this time in accord with our dividend policy. We aim for a payout ratio of 20~25%, and with an annual dividend of ¥120, the payout ratio will be 25.3%.

Purpose for Funds

Q: Are you considering using funds for M&A?

A: We are naturally considering this. With the yen being so strong, M&A overseas has become a distinct possibility in particular. Kyocera has conducted M&A every year since I became President. Although not major projects, we acquired the LCD business of Sony Mobile Display as well as Unimerco, and conducted M&A to secure dealers in the Information Equipment Group. We are looking into other possible M&A at the moment.

Our cash position has declined slightly due to capital investment and payments for M&A. If the opportunity arises, we will definitely look into further M&A going forward.