

## Kyocera Corporation Financial Presentation (October 29, 2010)

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### **<Today's Presentation>**

I will give a summary of financial results for the six months ended September 30, 2010 ("the first half") and the second quarter (July 1 through September 30, 2010), as well as financial forecasts for the year ending March 31, 2011 ("fiscal 2011").

First, I will summarize financial results for the first half.

### **<P1: Financial Results of H1 FY3/2011 – Comparison with H1 FY3/2010>**

As you can see at the bottom of this slide, average exchange rates for the first half were ¥89 to the U.S. dollar, marking appreciation of ¥6 from ¥95, and ¥114 to the Euro, marking appreciation of ¥19 from ¥133, compared with the six months ended September 30, 2009 ("the previous first half"). As a result of the yen's appreciation, net sales and pre-tax income for the first half were down by approximately ¥32.0 billion and ¥14.0 billion, respectively, compared with the previous first half.

Despite the impact of the yen's appreciation, net sales increased by more than 30% compared with the previous first half to ¥637.4 billion, due to brisk component demand and vigorous new product introductions in the Equipment Business. Profitability was also up substantially. In particular, the positive effects of efforts to boost profitability in each business, such as reducing costs and raising productivity, emerged to a large degree as production expanded, and as a result, profit from operations, pre-tax income and net income all increased significantly relative to the previous first half.

Capital expenditures increased approximately 2.4 times compared with the previous

first half, due to investments to increase production capacity mainly in the Semiconductor Parts Group and the solar energy business.

**<P2: Sales by Reporting Segment – Six months ended September 30, 2010>**

On page 2 of the handout, you can see sales by reporting segment. Sales in the Components Business amounted to ¥344.0 billion, up 40.4%, and sales in the Equipment Business amounted to ¥239.3 billion, up 25.3%, compared with the previous first half.

**<P3: Operating Profit by Reporting Segment – Six months ended September 30, 2010>**

Operating profit by reporting segment are shown on page 3. Operating profit increased substantially in both the Components Business and the Equipment Business, increasing ¥56.1 billion to ¥61.7 billion, and ¥15.4 billion to ¥16.3 billion, respectively. Overall operating profit increased around 10 times to ¥82.6 billion.

**<P4: Summary of H1 FY3/2011 Results – Comparison with H1 FY3/2010>**

This slide provides a summary of financial results for the first half. In spite of the yen's appreciation compared with the previous first half, both sales and profit increased in every reporting segment for the first half.

First, sales and profit were up in the Components Business, due to the favorable business environment and an expansion of production capacity. In particular, component demand increased for digital consumer equipment and industrial machinery as well as in automotive related markets. Demand for solar energy systems also grew, supported by subsidy policies in Japan and overseas.

Kyocera pushed ahead with the establishment of a system enabling increased production of ceramic packages for digital consumer equipment and of solar cells and modules to meet this strong demand.

As a result, the operating profit ratio in the Components Business for the first half was 17.9%, marking a significant improvement over the previous first half.

In the Equipment Business, sales and profit were up substantially in the Telecommunications Equipment Group. Kyocera augmented its line-up by aggressively launching new mobile phone handsets in Japan and overseas, which led to the increase in sales. Coupled with this sales growth, the positive effects of structural reforms implemented in the previous fiscal year emerged in the form of improved profitability in the mobile phone handset business overseas in particular. As a result, operating profit in the Telecommunications Equipment Group returned to positive figures with ¥1.9 billion, an improvement of ¥9.4 billion from an operating loss of ¥7.5 billion in the previous first half.

#### **<P5: Six-Month Business Trends>**

This graph shows six month sales and pre-tax income results.

Net sales in the first half fell short of the level posted in the first half of fiscal 2009 (ended March 31, 2009), which was prior to the financial crisis. Pre-tax income exceeded the first half of fiscal 2009 level, however, and the pre-tax income ratio improved to 14.0%.

That concludes my presentation of financial results for the first half.

#### **<P6: Financial Results of Q2 FY3/2011 – Comparison with Q1 FY3/2011>**

Next, I will compare results for the second quarter with those of the first quarter (three months ended June 30, 2010). Sales increased steadily in the Components Business in the second quarter compared with the first quarter despite the yen's appreciation, which resulted in an increase in profit from operations. Pre-tax income decreased, however, due to a decline in interest income of approximately ¥4.0 billion that was posted in the first quarter. Excluding this amount of interest income, pre-tax income for the second quarter was up from the first quarter.

Net income increased over the first quarter, due to the recording of deferred tax assets in line with an improvement in results at an overseas subsidiary.

Finally, let's look at the impact of the yen's appreciation, as shown at the bottom of this slide. Compared with the first quarter, the yen appreciated ¥6 against both the U.S. dollar and Euro, and as a result, sales and pre-tax income were down by approximately ¥11.0 billion and ¥3.5 billion, respectively.

**<P7: Sales by Reporting Segment – Three months ended September 30, 2010>**

**<P8: Operating Profit by Reporting Segment – Three months ended September 30, 2010>**

Pages 7 and 8 show sales and operating profit by reporting segment, respectively, for the second quarter compared with the first quarter. Although sales and profit increased in the Components Business compared with the first quarter, sales and profit decreased in the Equipment Business, due to a decline in sales and profit in the Telecommunications Equipment Group.

Next, I will present a summary of the second quarter in comparison with the first quarter on page 9.

**<P9: Summary of Q2 FY3/2011 Results – Comparison with Q1 FY3/2011>**

First, sales and profit increased in the Components Business, due to continued high demand from the first quarter. Sales of components for digital consumer equipment and industrial machinery as well as in automotive related markets increased. Sales were also up in the solar energy business, due to an expansion of demand in Japan and overseas. All reporting segments of the Components Business achieved an operating profit ratio of over 15% in the second quarter, due to the increase in sales and enhanced productivity.

The second point of the summary refers to the decline in sales and profit in the

Telecommunications Equipment Group.

The second quarter coincided with the end of the cycle for new handset introductions, so sales mainly consisted of former models. Combined with this, the impact of the yen's appreciation resulted in a decrease in sales and profit compared with the first quarter.

In light of a proposed reorganization plan for WILLCOM, Inc. ("WILLCOM") submitted on October 14, 2010, Kyocera recognized an additional bad debt loss of approximately ¥0.7 billion on account receivables from WILLCOM in the second quarter. These factors caused profit to decrease in the Telecommunications Equipment Group in the second quarter relative to the first quarter.

That concludes my presentation of results for the second quarter.

Next, I will explain consolidated financial forecasts for fiscal 2011.

**<P10: Financial Forecast for the Year Ending March 31, 2011>**

In light of first half results and demand projections from the third quarter onward, Kyocera revised financial forecasts for fiscal 2011 announced in April, as shown on this slide. We revised both sales and profit forecasts up significantly from previous forecasts. Kyocera forecasts net sales of ¥1,260.0 billion, an increase of ¥60.0 billion, and pre-tax income of ¥160.0 billion, an increase of ¥28.0 billion, compared with previous forecasts.

The yen is expected to continue appreciating in the second half as well, with average exchange rates for the fiscal year revised to ¥85 and ¥112 against the U.S. dollar and Euro, respectively. Net sales and pre-tax income will be down by approximately ¥80.0 billion and ¥30.0 billion, respectively, compared with the previous fiscal year, due to this change in exchange rates.

You can see revisions to financial forecasts for each reporting segment on pages 11 and 12.

**<P11: Sales Forecast by Reporting Segment – Year ending March 31, 2011>**

As you can see on page 11, the Information Equipment Group was the only reporting segment where the sales forecast was revised down from previous forecasts.

**<P12: Operating Profit Forecast by Reporting Segment – Year ending March 31, 2011>**

As you can see on page 12, forecasts for operating profit have not been revised down in any reporting segment relative to previous forecasts, but revised up in almost all reporting segments.

Next, I will explain factors behind the revisions to financial forecasts on page 13.

**<P13: Factors behind Revisions to Forecasts for FY3/2011>**

The first factor refers to the fact that the business environment for the Components Business was more favorable than previously forecast. Demand for sophisticated digital consumer equipment such as smartphones increased while production recovered beyond expectations in industrial equipment and automotive markets. As a result, in the Components Business, sales and operating profit forecasts have been revised up ¥42.0 billion and ¥21.5 billion, respectively, relative to previous forecasts.

The second point concerns the increase in sales in the Telecommunications Equipment Group of the Equipment Business. In particular, sales in the Equipment Business are forecast to exceed the previous forecast by ¥21.0 billion, due to brisk sales of mobile phone handsets in the first half.

In addition, operating profit is expected to exceed the previous forecast by ¥2.4 billion, due to enhanced profitability in the Information Equipment Group.

Next, I will explain second half initiatives in each reporting segment aimed at achieving these financial forecasts for fiscal 2011.

**<P14: Second Half Initiatives by Reporting Segment – Fine Ceramic Parts Group>**

First, let's look at the Fine Ceramic Parts Group. Component demand for digital consumer equipment is forecast to be weak in the second half compared with the first half. In contrast, demand for automotive related parts used in environmentally responsive engines in Europe is projected to increase further in the second half.

In this reporting segment, Kyocera will strive to expand sales of parts for semiconductor fabrication equipment and parts for environmentally responsive engines such as piezoelectric stacks and glow plugs, and to improve profitability by enhancing productivity in each business.

As you can see in the graph at left, sales in the second half are expected to be down slightly from the first half, due in part to the yen's appreciation, while operating profit is expected to increase.

**<P15: Second Half Initiatives by Reporting Segment – Semiconductor Parts Group>**

In the Semiconductor Parts Group, solid demand is projected for sophisticated digital consumer equipment such as smartphones in the second half. However, Kyocera also expects certain customers to conduct production adjustments in the server related market.

Based on these market outlook, sales and operating profit for the second half in this reporting segment are forecast to fall below the first half, due in part to the impact of the yen's appreciation.

In terms of second half initiatives, we will work to expand sales of ceramic packages mainly for crystal and SAW devices used in mobile phone handsets, and to increase sales by expanding production capacity. Other efforts will focus on continuing to increase sales of organic packages for application specific integrated circuits (ASICs) as production adjustments in server related areas are expected to be temporary.

**<P16: Second Half Initiatives by Reporting Segment – Applied Ceramic Products Group>**

In the Applied Ceramic Products Group, demand is forecast to increase in the solar energy business in Japan and overseas for both home and industrial use. Product selling prices are expected to decline on the other hand.

Based on this market outlook, sales in the second half for this reporting segment are forecast to increase relative to the first half, whereas operating profit is forecast to decline, due in part to the impact of the yen's appreciation.

The key second half initiative will be to continue expanding production capacity for solar cells toward the target of 600MW during fiscal 2011. Kyocera is scheduled to complete construction of a new factory building at a plant for solar modules in Tianjin, China during the second half.

We will continue striving to increase the efficiency of solar cells as well as improve productivity.

**<P17: Second Half Initiatives by Reporting Segment – Electronic Device Group>**

In the Electronic Device Group, although we expect solid demand for smartphones in the second half as well, we also project production adjustments for conventional mobile phone handsets, personal computers and flat panel TVs.

As you can see in the graph at left, sales and operating profit in this reporting segment for the second half are forecast to decrease relative to the first half, due in part to the impact of the yen's appreciation.

In the second half, we will focus on expanding sales of small, high-capacitance capacitors and TCXOs for smartphones and continue to cultivate the Chinese market.

**<P18: Second Half Initiatives by Reporting Segment – Telecommunications Equipment Group>**

In the Telecommunications Equipment Group, although demand for smartphones is projected to expand in the United States, demand for mobile phone handsets is projected to weaken in Japan. However, demand for PHS handsets is expected to recover in Japan in the second half, due to the reorganization of WILLCOM.

In the U.S. market, sales were strong of the smartphone "Zio" with touchscreen released in the second quarter. Kyocera plans to employ multiple carriers for this smartphone in the second half.

In the Japanese market, despite expectations of a tough business environment, we will work to expand sales of new handsets as in the first half to capture replacement demand from CDMA1x handsets to WIN handsets.

In PHS-related business, we will expand sales in line with business expansion based on a new sponsor.

As in the graph at left, we are forecasting a decline in sales in this reporting segment in the second half compared with the first half, due primarily to a decrease in sales in the Japanese market. Operating profit is forecast to increase compared with the first half, due to the effect of new product introductions.

**<P19: Second Half Initiatives by Reporting Segment – Information Equipment Group>**

In the Information Equipment Group, Kyocera forecasts demand for MFPs and low-priced printers to increase in emerging countries in addition to expected moderate recovery in information technology investment in developed countries.

With regard to second half initiatives, Kyocera plans to augment its line-up for developed countries mainly with high-value-added digital MFPs, including mid- and high-speed models as well as color models. We will launch a higher number of new models in the second half than the first half.

We will also work to expand sales of A4-capable MFPs and low-priced printers in emerging markets as a means to increase segment sales.

Sales in the second half are forecast to increase compared with the first half as a result. However, operating profit is forecast to decrease compared with the first half, due to a decline in selling prices and the impact of the yen's appreciation.

**<P20: Second Half Initiatives by Reporting Segment – Others>**

Finally, in Others, we forecast an increase in sales and a decrease in profit in the second half compared with the first half. At Kyocera Communication Systems Co., Ltd., although demand for information and communication technology (“ICT”) business is projected to increase, fierce price competition is also expected.

Intense competition is also projected in the telecommunications engineering business.

In the second half, we will strive to expand sales in the ICT business and to secure business opportunities through base station related investment by WILLCOM.

**<P21: Achieve FY3/2011 Forecasts>**

Kyocera will push ahead with the initiatives just described in each business and work to achieve the forecasts of ¥1,260.0 billion for net sales and ¥160.0 billion for pre-tax income for fiscal 2011.

As you can see in this graph, despite the significant impact of the yen's appreciation on sales and profit, Kyocera projects that results for fiscal 2011 can recover to levels posted in fiscal 2007 (ended March 31, 2007), which was prior to the financial crisis.

We aim to further expand sales in order to improve the performance of the Kyocera Group going forward.